



Old Chang Kee Ltd.

Strong sales on product innovations

SINGAPORE | CONSUMER | 3Q18 RESULTS

- Strong 9M18 revenue met 78% of our full year FY18e expectation
- Earnings missed on costs pressure and assets write off, forming 64% of FY18e estimate
- Investment thesis remains intact: Expanded factory space and factory equipment to provide new capacity to boost product innovations and enhance margins from 3Q18 onwards
- Maintained **Buy** with unchanged DCF-derived **TP of S\$0.98**

Results at a glance

S\$ mn	3Q18	3Q17	YoY (%)	Comments
Revenue	22.2	20.3	9.6%	Contributions from new outlets and increased sales in existing outlets <i>No. of outlets in SG +4 YoY to 92</i>
Gross profit	13.4	12.9	3.7%	Higher raw material costs <i>Gross margin -3.4pp to 60.4%</i>
EBITDA	2.8	2.9	-0.8%	Higher operating expenses in line with revenue growth <i>EBITDA margin -1.3pp to 12.8%</i>
Net profit	1.2	1.4	-9.3%	+10.6% YoY if ex. S\$0.02mn start-up losses in UK, and one-off non-cash items of S\$0.17mn

Source: Company, PSR

The positives

- Revenue set to grow at high single digit percentage in FY18e.** 9M18 Revenue growth accelerated to 8.7% YoY from 8.2% in 1H18. Strong momentum from retail outlets (+8.7% YoY) in 3Q18, driven by contribution from new outlets and higher same store sales growth. In addition to a retail sales recovery backdrop, the strong sales also reflected the Group's continues effort to innovate new products to stimulate demand.
- Inorganic growth via new stores.** Total store count in Singapore increased to 92 outlets as at end-3Q18 from 88 outlets a year ago. 7 new stores were opened (two stores in Changi Airport Terminal 4, and one store each in SingPost Centre, Ang Mo Kio MRT, Suntec City Mall, and Northpoint City). It has also closed two underperforming stores (at One KM Mall and Bedok Point) upon their lease expiration.

The negatives

- Margins pressure from**
 - Higher raw material costs.** Higher prices for chicken meat (+1.2% YoY) and cooking oil (+2.3% YoY) during the period. (Source: CEIC)
 - Change in product mix.** Puff has the highest margin. However, puff sales were down 5.8% YoY, mainly due to its promotion of "buy any 4 items and free 1 puff" in Nov-17. The promotion, which allowed purchase of lower margin items with a higher margin product free, has ceased in Dec-17. We expect the Group to review its pricing and promotional strategies in conjunction with the impending GST hike.
 - One-off non-cash assets write off due to two outlet closures in 3Q18.** S\$0.253mn was written off due to the outlet closures. This was partially offset by S\$0.06mn gain on disposal of property, plant and equipment.
 - Start-up costs amounted to S\$0.07mn in 9M18.** The Group's first flagship outlet in central London, United Kingdom is on track to open in 2018. With only one store, we do not expect it contribute significantly to the Group's bottom line in near term, and could take a longer than usual period to breakeven compared to a new store in Singapore, where it has strong presence in.

15 February 2018

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.75
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 0.98
TOTAL RETURN	35.6%

COMPANY DATA

BLOOMBERG CODE:	OCK SP
O/S SHARES (MN):	21
MARKET CAP (USD mn / SGD mn):	69 / 90
52 - WK HI/LO (SGD):	0.88 / 0.73
3M Average Daily T/O (mn):	0.02

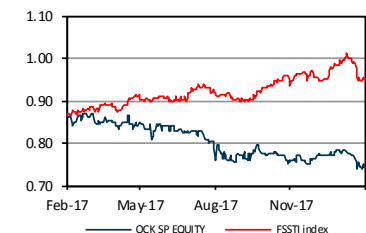
MAJOR SHAREHOLDERS (%)

HAN KEEN JUAN	58.6%
GOODVIEW PROPERTIES PTE LTD	11.7%
LIM TAO-E WILLIAM	7.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(5.1)	(0.0)	(10.0)
STIRETURN	(3.8)	0.50	14.36

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	73.9	78.3	84.0	87.4
Gross (SGD mn)	46.6	49.6	51.7	55.1
EBITDA (SGD mn)	10.4	10.3	9.5	11.2
NPAT, adj.	5.0	1.7	3.6	4.9
EPS (Cents)	4.10	144	2.94	4.05
PER, adj. (x)	16.2	59.1	25.4	18.4
P/B (x)	2.3	3.8	3.3	3.2
DPS (Cents)	6.0	3.0	3.0	4.0
Div Yield (%)	8%	4%	4%	5%
ROE (%)	15%	6%	13%	18%

Source: Company Data, PSR est.

Valuation Method

DCF (WACC:6.7%; Terminal g: 1.0%)

Soh Lin Sin (+65 6212 1847)

Investment Analyst

sohls@phillip.com.sg

Outlook

Near term headwinds but positive on long-term outlook. New stores opening and product innovations will continue to drive topline growth. The new factory will increase production capacity (in terms of variety and volume) to fuel their expansion strategy, and improve its margins via (a) enhanced manufacturing efficiencies and (b) cost savings from bulk purchasing.

Maintained Buy with unchanged DCF-derived TP of S\$0.98

We have increased our FY18e sales growth expectation to 7.2% YoY from 4.2%. However, we have also trimmed our FY18e/19e gross margins by 20bps/5bps to 61.5%/63.0% respectively. Our investment thesis remains intact – successful integration with the adjacent new factory would be the inflection point for OCK.

Financials

Income Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	71.6	73.9	78.3	84.0	87.4
Gross Profit	44.7	46.6	49.6	51.7	55.1
EBITDA	10.7	10.4	10.3	9.5	11.2
Depreciation & Amortisation	3.8	4.1	4.6	4.9	5.1
EBIT	6.8	6.3	2.5	4.5	6.0
Net Finance Inc/(Exp)	(0.1)	(0.2)	(0.1)	(0.1)	(0.0)
Associates & JVs	-	-	-	(0.1)	(0.1)
Profit before tax	6.7	6.1	2.4	4.3	5.9
Taxation	(1.4)	(1.1)	(0.7)	(0.7)	(1.0)
Net profit, reported	5.3	5.0	1.7	3.6	4.9
Net profit, adj.	5.4	5.0	4.9	3.6	4.9

Per share data (SGD Cents)

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	4.35	4.10	1.44	2.94	4.05
DPS	3.00	6.00	3.00	3.00	4.00
BVPS	27.43	28.52	22.55	22.49	23.54

Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	6.7	6.1	2.4	4.3	5.9
Adjustments	4.2	4.5	8.1	5.2	5.3
WC changes	(1.8)	1.4	(0.5)	0.4	(0.0)
Cash generated from ops	9.1	12.0	10.0	9.8	11.2
Others	(1.6)	(1.4)	(0.5)	(0.7)	(1.0)
Cashflow from ops	7.5	10.6	9.6	9.1	10.2
CFI					
CAPEX, net	(8.3)	(7.1)	(8.3)	(5.5)	(5.7)
Others	0.0	0.0	0.1	(0.5)	0.0
Cashflow from investments	(8.2)	(7.1)	(8.2)	(6.0)	(5.7)
CFF					
Loans, net of repayments	4.3	(0.4)	2.2	0.0	(2.1)
Dividends	(3.6)	(3.6)	(7.3)	(3.6)	(3.6)
Others	(0.1)	(0.2)	(0.2)	(0.2)	(0.1)
Cashflow from financing	0.5	(4.3)	(5.2)	(3.8)	(5.8)
Net change in cash	(0.2)	(0.7)	(3.9)	(0.6)	(1.3)
CCE, end	20.1	19.4	15.6	14.9	13.6

Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	26.4	28.9	27.6	28.2	28.8
Associates & JVs	-	-	-	0.4	0.3
Others	-	-	-	-	-
Total non-current assets	28.4	31.3	30.2	31.2	31.7
Accounts receivables	0.1	0.2	0.3	0.2	0.2
Cash	20.1	19.4	15.6	14.9	13.6
Inventories	0.5	0.7	0.7	0.8	0.8
Others	-	2.9	4.0	4.0	4.0
Total current assets	23.6	23.1	20.5	19.9	18.6
Total Assets	52.1	54.5	50.7	51.1	50.3
LIABILITIES					
Accounts payables	5.4	7.1	8.3	8.7	8.7
Short term loans	1.0	1.1	4.3	4.3	4.3
Others	-	2.8	3.6	3.6	3.6
Total current liabilities	10.0	10.9	16.2	16.6	16.6
Long term loans	7.7	7.3	6.2	6.2	4.2
Others	-	1.7	1.0	1.0	1.0
Total non-current liabilities	8.8	8.9	7.2	7.2	5.1
Total Liabilities	18.8	19.9	23.3	23.8	21.7
EQUITY					
Shareholder Equity	33.3	34.6	27.4	27.3	28.6

Valuation Ratios

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	18.4	16.2	59.1	25.4	18.4
P/B (X)	2.9	2.3	3.8	3.3	3.2
EV/EBITDA (X), adj.	9.1	7.7	10.1	9.5	8.1
Dividend Yield (%)	3.8%	8.1%	4.0%	4.0%	5.4%

Growth & Margins (%)

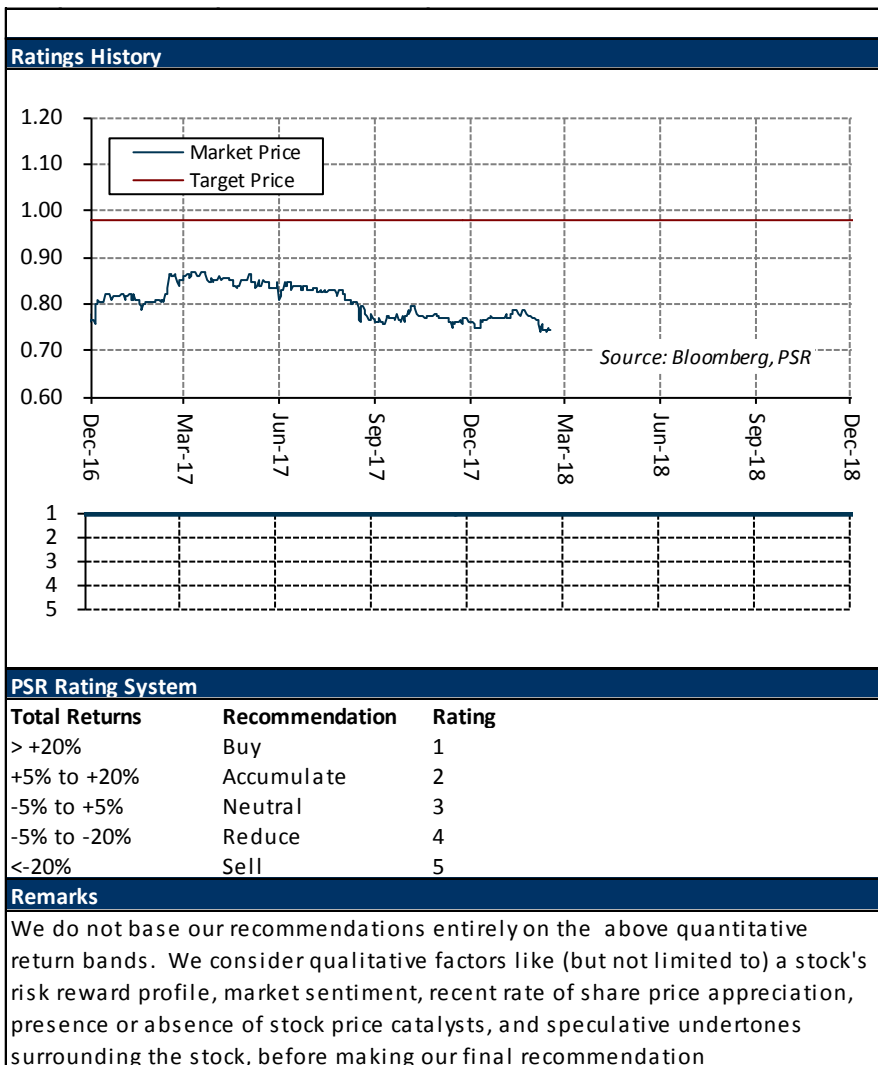
Growth					
Revenue	4.0%	3.1%	6.1%	7.2%	4.1%
EBITDA	-4.7%	-2.7%	-1.6%	-7.6%	17.9%
EBIT	-6.6%	-7.9%	-59.6%	79.7%	33.0%
Net profit, adj.	-12.2%	-7.1%	-1.7%	-27.4%	37.9%
Margins					
EBITDA margin	15.0%	14.1%	13.1%	11.3%	12.8%
EBIT margin	9.5%	8.5%	3.2%	5.4%	6.9%
Net profit, adj. margin	7.4%	6.8%	6.3%	4.2%	5.6%

Key Ratios

ROE (%)	16.3%	14.6%	5.6%	13.0%	17.6%
ROA (%)	10.7%	9.3%	3.3%	7.0%	9.7%
Net Debt/(Cash)	(11.4)	(11.1)	(5.0)	(4.3)	(5.1)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow - richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited
2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

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