

Old Chang Kee Ltd.

A strong finish, marking the inflection point



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SINGAPORE | CONSUMER | FY18 RESULTS

31 May 2018

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.76
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.98
TOTAL RETURN	35.1%

COMPANY DATA

BLOOMBERG CODE:	OCK SP
O/S SHARES (MN):	21
MARKET CAP (USD mn / SGD mn):	68 / 92
52 - WK HI/LO (SGD):	0.86 / 0.73
3M Average Daily T/O (mn):	0.01

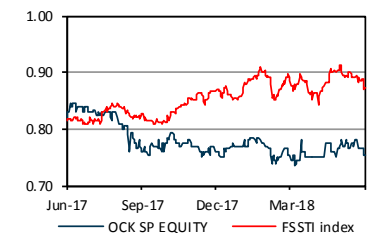
MAJOR SHAREHOLDERS (%)

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	(19)	-	(3.2)
STIRETURN	(3.84)	(0.55)	11.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 17	FY 18 e	FY 19 e	FY 19 e
Revenue (SGD mn)	78.3	85.5	90.6	94.3
Gross (SGD mn)	49.6	52.2	57.1	59.9
EBITDA (SGD mn)	10.3	10.7	11.9	13.2
NPAT, adj.	1.7	4.0	5.3	6.5
EPS (Cents)	1.44	3.32	4.33	5.31
PER, adj. (x)	59.1	22.9	17.4	14.2
P/B (x)	3.8	3.2	3.1	2.9
DPS (Cents)	3.0	3.0	4.0	4.0
Div Yield (%)	4%	4%	5%	5%
ROE (%)	6%	14%	18%	21%

Source: Company Data, PSR est.

Valuation Method

DCF (WACC:7.4%; Terminal g: 1.0%)

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- FY18 Revenue grew 9.1% YoY, driven by product innovations and in line with our expectation
- FY18 Earnings beat our FY18e estimate by 13% on higher operating leverage and lower than expected start-up costs from its UK JV
- Growth momentum to extend into FY19e, while gains from the expanded factory capacity and new factory equipment should start to roll in more significantly
- Final dividend of 1.50 cents, unchanged from last year
- Maintained **BUY** with unchanged DCF-derived **TP of S\$0.98**

Results at a glance

S\$ mn	FY18	FY17	YoY (%)	4Q18	4Q17	YoY (%)	Comments
Revenue	85.5	78.3	9.1%	21.3	19.2	10.5%	Contributions from new outlets and higher sales in existing outlets <i>No. of outlets in SG +1 YoY to 90</i>
Gross profit	52.2	49.6	5.3%	13.4	12.1	10.4%	Higher raw material costs and change in product mix <i>Gross margin -2.2pp to 61.1%</i>
EBITDA	10.7	10.3	4.3%	3.4	2.0	72.9%	Higher operating expenses in line with revenue growth <i>EBITDA margin -0.6pp to 12.5%</i>
Net profit	4.0	1.7	131.2%	1.4	-2.1	n.m	S\$0.08mn start-up losses from UK JV in FY18
Net profit, adj.	4.3	4.9	-12.0%	1.4	1.0	34.4%	Excluding exceptional items; FY17 incurred S\$3mn revaluation deficit for SG and MY factory buildings
DPS (cents)	3.00	3.00		1.50	1.50		

Source: Company, PSR

The Positive

- FY18 Revenue growth is the strongest in the past 5 years, mainly from underlying sales growth.** Sales from retail outlets were up 9.2% YoY, driven by the +8.0% YoY average sales per store; and to a lesser extent, by the net one additional store count during FY18.

In addition, puff sales were up 3.3% YoY, and remained as the major revenue contributor (c.30% of the FY18 Revenue). We believe these figures are a testament to the Group's successful product innovation.

- 4Q18 Gross margin returned to c.63%; which should be sustainable.** Gross margin has been depressed for the past 3 quarters. Average selling prices have been revised to pass on the higher raw material costs to consumers in Apr-18. It also benefit from a more favourable input prices arising from bulk purchasing, on the back of expanded factory space.

The Negative

- UK joint venture incurred S\$0.08mn of start-up costs prior to opening.** The Group is on-track to open its first flagship outlet in Covent Garden - London, United Kingdom in Jun-18.

Outlook

Positive outlook as growth momentum extend into FY19e. 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 FY19e sales growth expectation to 6.0% YoY from 4.1%. We also introduce FY20 estimates in this report. Core net profit is estimated grow by 21.6%/22.8% in FY19/20e as the Group continues to ramp up its product innovation effort while deriving better operating efficiencies from its new factory facilities and equipment.

OCK is currently trading at 19% discount to its peers average of 28.1x. Our TP implies a FY19/FY20e PER of 22.6x and 18.5x, respectively.

We like the stock as we expect OCK to:

- (a) Continue to pay out more than 90% of its earnings in FY19e, supported by an increasing free cash flows. We expect FY19e dividend to increase by 1.0 cents to 4.0 cents as free cash flows improve from S\$1.6mn in FY18 to S\$5.2mn.
- (b) Enjoy a high ROE of 18.0% in FY19e.

**Figure 1:
Comparables**

Bloomberg Ticker	Company	FYE	Mkt Cap (SGD mn)	EV (SGD mn)	Gorss Margin	Operating Margin	Net Margin	P/E TTM	P/E FY1	P/B	Div Yield (%)	Div Yield FY1 (%)	Net D/E (%)	ROE (%)	
OCK SP	Old Chang Kee Ltd	03/2018	92	92	63	3.7	4.7	22.7	18.4	3.5	4.0	5.3	Net Cash	1.9	
Market Cap Weighted Average (Ex. OCK)						42	7.3	4.9	28.1	15.7	2.2	2.9	1.4	3.9	7.9
QAF SP	QAF Ltd	12/2017	549	536	46	4.3	3.8	27.0	N/A	1.0	5.2	N/A	Net Cash	3.8	
BREAD SP	BreadTalk Group Ltd	12/2017	527	587	56	7.3	3.6	42.7	28.3	2.9	3.7	2.1	18.2	7.6	
DELFI SP	Delfi Ltd	12/2017	837	819	34	10.0	5.8	26.0	23.8	2.9	1.8	2.2	Net Cash	11.4	
FEH SP	Food Empire Holdings Ltd	12/2017	347	334	38	10.8	5.2	17.2	12.1	1.5	0.9	1.4	Net Cash	8.9	
ABR SP	ABR Holdings Ltd	12/2017	163	111	44	6.3	5.3	28.0	N/A	1.6	3.1	N/A	Net Cash	5.8	
CSFG SP	China Star Food Group Ltd	03/2018	20	10	40	7.4	7.1	5.4	N/A	0.2	N/A	N/A	Net Cash	-8.2	
SMOON SP	Sunmoon Food Co Ltd	03/2017	43	27	3	-29.9	9.7	N/A	N/A	1.0	N/A	N/A	Net Cash	N/A	

Source: Bloomberg

Financials

Income Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	73.9	78.3	85.5	90.6	94.3
Gross Profit	46.6	49.6	52.2	57.1	59.9
EBITDA	10.4	10.3	10.7	11.9	13.2
Depreciation & Amortisation	4.1	4.6	5.1	5.3	5.3
EBIT	6.3	2.5	5.3	6.5	7.8
Net Finance Inc/(Exp)	(0.2)	(0.1)	(0.2)	(0.1)	(0.0)
Associates & JVs	-	-	(0.1)	(0.1)	(0.0)
Profit before tax	6.1	2.4	5.0	6.3	7.8
Taxation	(1.1)	(0.7)	(1.0)	(1.1)	(1.3)
Net profit, reported	5.0	1.7	4.0	5.3	6.5
Net profit, adj.	5.0	4.9	4.3	5.3	6.5

Per share data (SGD Cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	4.10	1.44	3.32	4.33	5.31
DPS	6.00	3.00	3.00	4.00	4.00
BVPS	28.52	22.55	23.40	24.73	26.04

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	6.1	2.4	5.0	6.3	7.8
Adjustments	4.5	8.1	5.5	5.5	5.4
WC changes	1.4	(0.5)	0.2	0.3	0.2
Cash generated from ops	12.0	10.0	10.7	12.2	13.3
Others	(1.4)	(0.5)	(1.0)	(1.1)	(1.3)
Cashflow from ops	10.6	9.6	9.6	11.1	12.0
CFI					
CAPEX, net	(7.1)	(8.3)	(8.1)	(5.9)	(6.2)
Others	0.0	0.1	(0.5)	0.1	0.1
Cashflow from investments	(7.1)	(8.2)	(8.6)	(5.9)	(6.1)
CFF					
Loans, net of repayments	(0.4)	2.2	0.1	(2.1)	(1.7)
Dividends	(3.6)	(7.3)	(3.6)	(3.6)	(4.9)
Others	(0.2)	(0.2)	(0.3)	(0.2)	(0.1)
Cashflow from financing	(4.3)	(5.2)	(3.8)	(5.9)	(6.6)
Net change in cash	(0.7)	(3.9)	(2.8)	(0.7)	(0.7)
CCE, end	19.4	15.6	12.8	12.1	11.3

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Balance Sheet

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	28.9	27.6	32.6	33.2	34.1
Associates & JVs	-	-	0.5	0.4	0.4
Others	-	-	-	-	-
Total non-current assets	31.3	30.2	35.8	36.4	37.2
Accounts receivables	0.2	0.3	0.3	0.2	0.3
Cash	19.4	15.6	12.8	12.1	11.3
Inventories	0.7	0.7	1.2	0.8	0.8
Others	2.9	4.0	2.2	2.2	2.2
Total current assets	23.1	20.5	16.5	15.4	14.7
Total Assets	54.5	50.7	52.3	51.7	51.8

LIABILITIES

Accounts payables	7.1	8.3	7.9	7.8	8.0
Short term loans	1.1	4.3	1.6	1.6	1.6
Others	2.8	3.6	3.3	3.3	3.3
Total current liabilities	10.9	16.2	12.8	12.7	12.9
Long term loans	7.3	6.2	9.7	7.6	5.9
Others	1.7	1.0	1.5	1.5	1.5
Total non-current liabilities	8.9	7.2	11.1	9.0	7.3
Total Liabilities	19.9	23.3	23.9	21.7	20.2

EQUITY

Shareholder Equity	34.6	27.4	28.4	30.0	31.6
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Valuation Ratios

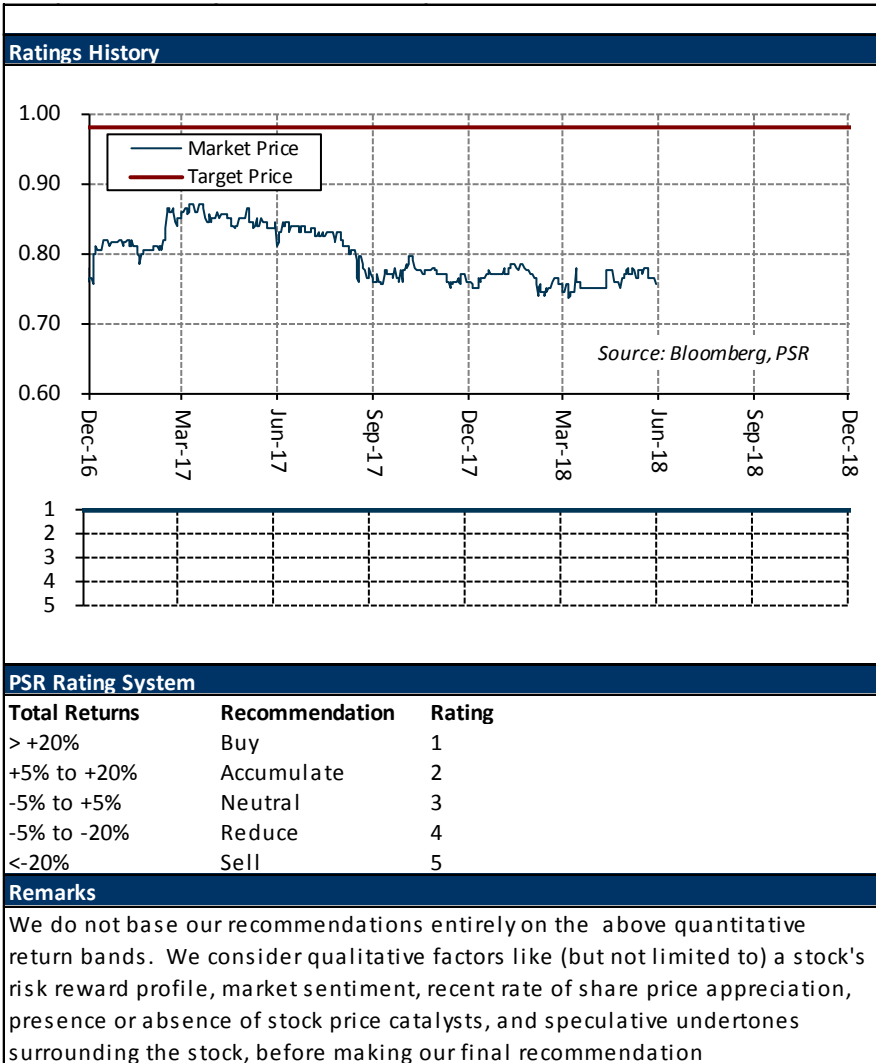
Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	16.2	59.1	22.9	17.4	14.2
P/B (X)	2.3	3.8	3.2	3.1	2.9
EV/EBITDA (X), adj.	7.7	10.1	8.6	7.7	7.0
Dividend Yield (%)	7.9%	4.0%	4.0%	5.3%	5.3%

Growth & Margins (%)

Growth					
Revenue	3.1%	6.1%	9.1%	6.0%	4.1%
EBITDA	-2.7%	-1.6%	4.3%	10.9%	11.1%
EBIT	-7.9%	-59.6%	110.2%	23.0%	20.0%
Net profit, adj.	-7.1%	-1.7%	-12.0%	21.6%	22.8%
Margins					
EBITDA margin	14.1%	13.1%	12.5%	13.1%	14.0%
EBIT margin	8.5%	3.2%	6.2%	7.2%	8.3%
Net profit, adj. margin	6.8%	6.3%	5.1%	5.8%	6.8%

Key Ratios

ROE (%)	14.6%	5.6%	14.5%	18.0%	20.9%
ROA (%)	9.3%	3.3%	7.8%	10.1%	12.5%
Net Debt/(Cash)	(11.1)	(5.0)	(1.5)	(2.9)	(3.9)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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