Yee Kee Group Inc.

(YKGI SP/ YK9.SI)

Well positioned in Singapore, with potential to scale overseas

Tang Kai Jie/ 65 6202 1192/ kaijie.tang@kgi.com

- Yew Kee Group (YKGI) is an F&B Company in Singapore that has an established track record of more than 30 years.
- The group has a very diverse portfolio of F&B brands within the Singapore Market. Aside from that, the Group also retails food products online.
- Key drivers. Short-term: Growing demand for F&B products and services in Singapore due to a growing population and higher disposable income; Good brand position in Singapore's F&B Market Mass market segment. Long-term: Re-opening of borders to allow the Group to expand their business overseas.

IPO Price	S$0.20
Shares for public offer	53,750,000
Shares for placement	82,750,000
Initial market cap	S$85.0mn
Trading commence	Mon, 6 Feb 2023

Company Background. YKGI engages in 3 different business segments within the F&B industry, namely F&B operations, food court management, and franchising in Singapore.

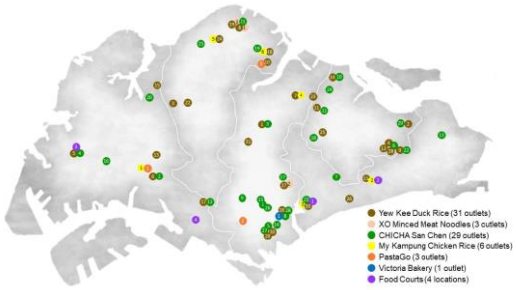
- **F&B Operations:** Operations of Food Outlets supported by a central kitchen. Able to achieve cost savings through economies of scale.
- **Food Court Management:** Leasing of food courts and in turn sub-lease stalls to individual Food Court Tenants
- **Franchising and sub-franchising:** The identification of brands, engaging in negotiations with the franchisor, and entry into a master franchise agreement.

Retail Presence. With the mission of serving quality food to people from all walks of life, the group today manages a diverse portfolio of brands both Non-Halal and Halal. The Group operates the following brands in its portfolio through 77 retail outlets across Singapore:

- Yew Kee Duck Rice (31 outlets)
- CHICHA San Chen (29 tea shops)
- My Kampung Chicken Rice (6 outlets)
- XO Minced Meat Noodles (3 outlets)
- PastaGo (3 outlets)
- My Kampung food court (2 locations)
- Fine Food food court (2 locations)
- Victoria Bakery (1 outlet)

The procurement, processing, and preparation of key ingredients and products for Yew Kee Duck Rice and XO Minced Meat Noodles food outlets, as well as its CHICHA San Chen tea shops, are carried out by a central kitchen.

Figure 1: YKGI's retail presence in the Singapore Market



Source: YKGI

Financial Highlights and Analysis. The group's revenue rose slightly to S$56.2mn in FY22, from S$56.1mn in FY21 and S$39.0mn in FY20. PBT margin and NPM fell YoY, amidst harsh macroeconomic environment of high-interest rate and high inflation rate environment.

Table 1: Key Financial Highlights

(S$'000)	FY2020	YoY Change	FY2021	YoY Change	FY2022
Revenue	38,992	43.9%	56,111	0.2%	56,207
Profit Before Tax (PBT)	5,660	69.1%	9,573	-50.7%	4,718
PBT Margin	14.5%		17.1%		8.4%
Profit After Tax (PAT)	5,038	79.9%	9,062	-52.3%	4,321
Net Profit Margin (NPM)	12.9%		16.2%		7.7%

Source: Company, KGI Research

In 2022, YKGI's F&B Operations Business segment was the Group's biggest revenue driver, growing 14.8% YoY, with more stores being in operation in FY2022, in line with the company's business strategy to expand its F&B Operations Business. The revenue decrease in Franchise Business Segment was mainly attributed to the decrease in online sales and store sales located in the Heartland as Covid-19 Safe Management Measures ease, and more people are returning to the office or traveling overseas.

Table 2: Breakdown of Revenue by Business Segment

	FY2020		FY2021		FY2022	
	(S$'000)	%	(S$'000)	%	(S$'000)	%
Food Court Business	4,923	12.6%	5,100	9.1%	6,761	12.0%
F&B Operatjons Business	19,826	50.8%	24,327	43.4%	27,926	49.7%
Franchise Business	14,243	36.5%	26,684	47.6%	21,520	38.3%
Total	38,992		56,111		56,207	

Source: Company, KGI Research

Table 3: YKGI's Business Segment Change YoY

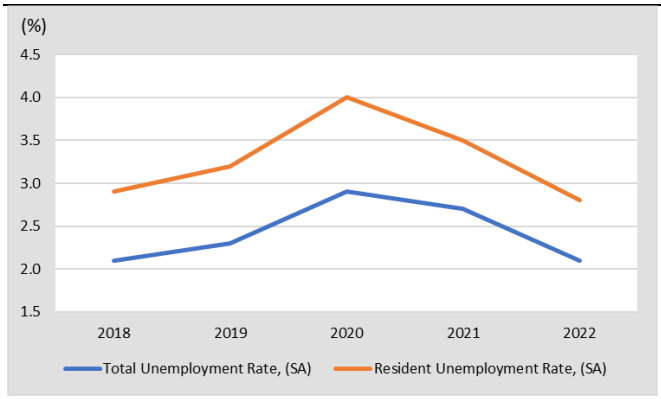
(S$'000)	Change (YoY)	% Change (YoY)
Food Court Business	1,661	32.6%
F&B Operatjons Business	3,599	14.8%
Franchise Business	(5,164)	-19.4%

Source: Company, KGI Research

Market Outlook

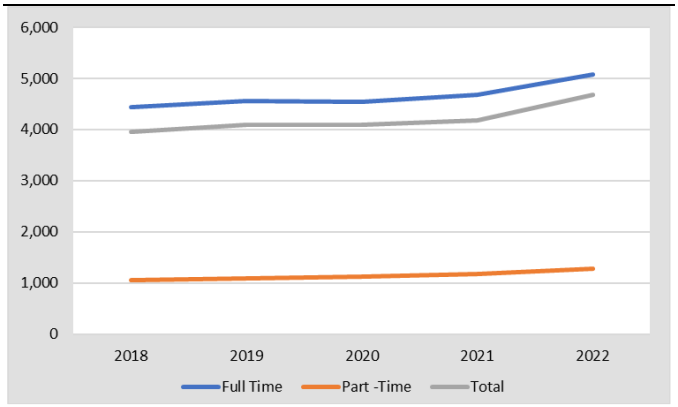
Growing demand for F&B products and services. The projected growth in Singapore's population to 6.9 million by 2030 will translate into higher demand for F&B products and services. Singapore 2022's unemployment rate at 2.1% has also reached below pre-pandemic levels. The gross monthly income of workers in Singapore has also been steadily rising over the past 5 years. This could translate to an increase in monthly F&B expenditure by Singapore consumers. YKGI will be able to ride on this higher demand through the expansion of its portfolio of F&B business and operations.

Figure 2: Unemployment Rate Aged 15 Years And Over, End June, Annual, Seasonally Adjusted



Source: Ministry of Manpower & Singapore Department of Statistics, KGI Research

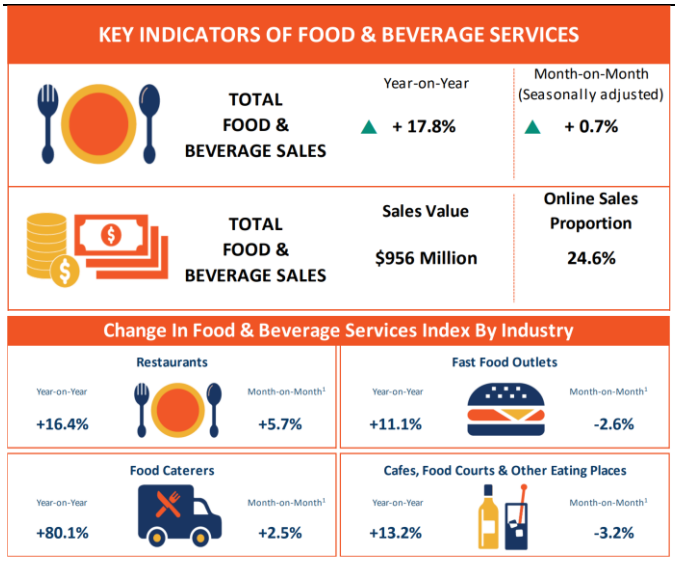
Figure 3: Gross Monthly Income From Work, Annual



Source: Manpower Research & Statistics Department, Ministry of Manpower, KGI Research

According to Singstats, Sales of food & beverage (F&B) services grew by 17.8% YoY in March 2023 following the 21.6% YoY increase in February 2023. This growth is mainly attributed to the easing of COVID-19 Safe Management Measures as Singapore emerge from the pandemic. Looking forward, Singapore's F&B industry is bound to grow more steadily in 2023 as Covid-19 measures are eased and employees are returning to the office as well.

Figure 4: Food & Beverage Service Index Key Highlights



Source: Singapore Department of Statistics

Expanding Global Bubble Tea Market. The global bubble tea market is also expected to grow with a CAGR of 7.9% from US$2.7bn in 2022 to US$5.04bn in 2030, according to Verified Market Research. With Singapore being fourth in Bubble Tea spending in Southeast Asia, the trend of higher consumption of bubble tea in the Singapore market presents attractive prospects for the Group with regard to its plans to expand its CHICHA San Chen franchise business given the popularity of bubble tea with consumers in Singapore.

Figure 5: Bubble Tea Spending in Southeast Asia



Source: Mustsharenews, Momentum Works, qlub, Temasek Polytechnic

New trends within the F&B industry. The F&B industry within Singapore was hard hit by the Covid-19 pandemic, with the government imposing many restrictions on dining-in and lockdowns, and is still on route to recovery to pre-pandemic

levels. This has brought along many changes within the F&B industry, including transforming F&B services with technology in order to make business operations more efficient and profitable. It is thus important for YKGI to constantly adapt and upgrade itself alongside these market trends to maintain a competitive edge within the industry.

Company Outlook

Diving deeper into the Singapore market. The group is open and constantly on the lookout for acquisition opportunities of companies that already have an established brand and market presence offering complementary food products but remain focused on streamlining the business of its current brands, becoming more established within the Singapore market, and slowly expanding their current brands overseas. A high focus is placed on finding the right location to open new outlets to drive revenue for the Group.

Expanding the business overseas. The group aims to expand its CHICHA San Chen into Macau as its initial focus and Yew Kee Duck Rice into other countries within Southeast Asia within the next 5 years. The company is already in talks with landlords from Macau for potential outlets of CHICHA San Chen to be established, leveraging on the Group's Chief Operating Office market knowledge in Macau.

In the near term, it is important for YKGI to assess opportunities to expand its brands deeper within Singapore's markets to continue to drive revenue for the company. In the mid-term, the easing of international travel restrictions put some light on the Group to expand its business overseas but is still dependent on how fast the China economy recovers to the pre-pandemic level.

Competitors. The F&B industry in Singapore is highly competitive and has relatively low entry barriers. YKGI competes on various factors, such as pricing and quality of food products and services, particularly in the price-sensitive hawker and food court segments, as well as the location of each F&B outlet to drive revenue.

Local competitors include Old Chang Kee, ABR Holdings in the area of F&B operations that have multiple brand offerings, Food Republic and Kopitiam in the area of food court management, and Koi, Gong Cha, and Li Ho in the area of franchising and sub-franchising of their CHICHA San Chen tea shops.

Risks

- A global economic downturn
- Higher interest & inflation rates
- Supply Chain Disruption
- Technological Disruption
- Dependency on the Labour Market
- Dependency on their Central Kitchen
- Changing consumer habits
- Increasing rental prices
- Reputational Damage from Franchising
- Franchise Business with CHICHA San Chen is largely dependent on the contract, which will end in 10 years from 2019

Table 4: Peer Comparisons

Company	Country	Bloomberg Ticker	Price (Lcl Curr)	Mkt Cap (S$m)	P/E (x) (hist)	P/E (x) (fwd)	P/B (x)	ROE (%)	ROA (%)	EV/EBITDA (x) (ttm)	Dvd Yld (%)	OPM (%)	NPM (%)
YKGI	Singapore	YKGI SP	0.135 SGD	57.4	11.2	-	10.2	87.5	14.7	5.0	-	9.6	7.6
ABR	Singapore	ABR SP	0.47 SGD	94.5	38.9	-	1.0	3.4	1.6	5.4	2.1	3.1	2.4
Del Monte	Singapore	DELM SP	0.23 SGD	447.1	4.1	3.5	0.8	19.8	4.0	5.9	9.8	11.4	4.3
OTS Holdings Limited	Singapore	OTS SP	0.134 SGD	28.7	159.5	-	1.0	4.4	0.5	9.0	1.6	6.2	3.3
Old Chang Kee	Singapore	OCK SP	0.63 SGD	76.5	15.5	-	2.0	16.1	7.5	3.4	3.2	8.8	7.3
Lian Hwa Food Corp	Taiwan	1231 TT	94.0 NT	21,077.9	24.6	-	4.1	18.0	8.8	16.8	1.4	10.9	8.1
Standard Food Corp	Taiwan	1227 TT	40.5 NT	37,106.9	30.3	-	2.1	6.8	4.3	16.6	4.7	5.0	4.2
Samyang Food Co Ltd	Korea	003230 KS	117400 KW	884,376.0	11.0	10.4	1.9	18.9	9.5	9.0	1.2	9.9	8.8
Simple Average					36.9	6.9	2.9	21.9	6.4	8.9	3.4	8.1	5.7

Source: YKGI, Bloomberg, KGI Research

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