



# Japan Foods Holding Ltd

## (JFOOD SP/JPFD.SP)

### Emerging stronger and primed for expansion

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- **Surviving the pandemic.** FY2021's revenue declined 25% YoY to S\$51mn from S\$68.4mn in FY2020. Despite the weaker top line, net profit rose 256% YoY to S\$3.6mn, from S\$1.0mn in FY2020. The increase in profit was attributable to other income rising to S\$10.9mn from S\$606k in the prior year due to government grants and rental concessions given to businesses in light of Covid.
- **Never giving up.** JFOODS operated 50 restaurants in Singapore as of end-March 2021, a decline from 59 as of end-March 2020. This drop was mainly due to the impact of Covid-19, in which the dip in dine-ins caused many restaurants to close. The break of dawn brings new opportunities, which the group has taken advantage of to expand into areas such as Halal-certified restaurants.
- **Upgrade to OUTPERFORM and higher TP of S\$0.65.** For many who survived, we expect them to thrive. JFOODS is in a favourable position to grow and expand its market share given its flexible business model. We particularly like its ability to rotate among its restaurant brands and constantly bring in new concepts, supported by its rock-solid balance sheet. We thus upgrade to OUTPERFORM and raise our TP to S\$0.65.

#### Financials & Key Operating Statistics

YE Mar SGD mn	2020	2021	2022F	2023F	2024F
Revenue	68.4	51.0	62.8	68.5	70.5
Gross Profit	57.8	43.2	53.3	58.2	59.9
PATMI	1.0	3.6	2.0	4.0	5.4
Core PATMI	1.4	(6.9)	1.9	4.0	5.3
Core EPS (SG cents)	0.8	(4.0)	1.1	2.3	3.1
Core EPS grth (%)	26.5	NA	NA	103.9	33.6
Core P/E (x)	68.3	20.9	35.5	17.5	13.2
DPS (SG cents)	1.3	2.5	2.0	2.2	2.3
Div Yield (%)	3.1	5.7	4.9	5.4	5.7
Gross Margin (%)	84.4	84.7	85.0	85.0	85.0
Net Margin (%)	1.5	7.1	3.2	5.9	7.6
ROE (%)	3.2	11.2	6.1	12.7	16.3

Source: Company Data, KGI Research

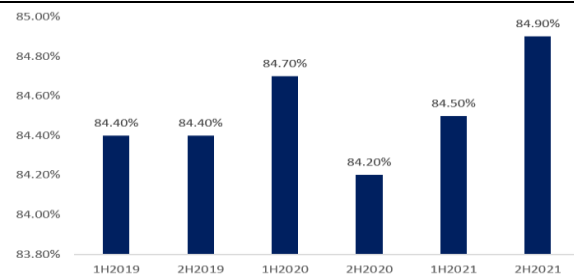
**Financial performance FY2021.** FY2021's revenue decreased 25% YoY from S\$68mn in FY2020 to S\$51mn in FY2021. This decline was mainly from the 49% YoY dip in 1H FY21's revenue due to the Covid-19 pandemic, which started in 1Q2020 and escalated in April 2020. The government implemented circuit breaker measures, resulting in a significant dip in dine-in sales as only takeaways were allowed.

**Recovery from the depths.** When Singapore implemented the circuit breaker last year, JFOODS only operated 13 restaurants catering to takeaways, which increased to 30 restaurants in May 2020. As Covid-19 restrictions started to ease in June 2020 and December 2020, where a maximum of 5 pax and 8 pax were allowed for dine-ins, respectively, we saw that 2H FY21's sales increased by 75% on a sequential basis. Revenue recovered in the later part of the year to almost reach pre-pandemic levels, with sales of S\$32.4mn in 2H FY21 compared to S\$32.3mn in 2H FY20. Gross profit margins remained constant despite the pandemic, ranging from 84.20% to 84.90% from FY2019 to FY2021.

#### OUTPERFORM - Upgrade

Price as of 29 Jun 21 (SGD)	0.41	<b>Performance (Absolute)</b>	
12M TP (\$)	0.65	1 Month (%)	2.5
Previous TP (\$)	0.46	3 Month (%)	28.6
Upside, inc div (%)	65.4	12 Month (%)	-
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	71		
Issued Shares (mn)	174		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	24.1%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Takahashi Kenichi	70.6%	18-Nov-19	N \$0.46
Eugene Wong	5.5%	22-May-19	N \$0.55
		1-Feb-19	N \$0.57

Figure 1: Gross profit margins trend (Semi-annual)



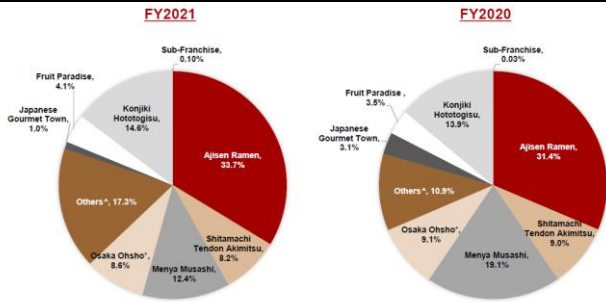
Source: Company data, KGI Research

**Time of refreshment and a new milestone.** JFOODS operated a total of 50 restaurants as of end-FY2021, a drop from 59 as of end-FY2020. There were 2 new brands opened in FY2021, being "Tokyo Shokudo" and "Ichiro Ramen". The group continued to operate under the remaining 14 brands, of which, "Ajisen Ramen" (14 restaurants), "Konjiki Hototogisu" (8 restaurants) and "Menya Musashi" (6 restaurants) made up the highest number of restaurants under its portfolio. In a new milestone, JFOODS opened its first-ever Halal-certified restaurants under the "Tokyo Shokudo" brand, which we expect to offer high growth potential.

**Valuation & Action:** We upgrade JFOODS to **OUTPERFORM** and raise our TP to S\$0.65. The worst is behind, and we expect better days ahead. JFOOD's business model remains resilient and adaptable. The group has a sizeable cash balance of S\$23mn (33% of its current market capitalisation), supported by strong free cash flows averaging S\$1m per quarter. JFOODS declared a **1.75 Sing cents final dividend** for FY2021, which is 7x higher than FY2020. This increase brings the full-year dividend to 2.50 Sing cents compared to 1.25 Sing cents in FY2020. The implied dividend yield is an attractive 5%.

**Risks:** Circuit breaker or lockdowns due to rising Covid-19 cases. Rising food costs due to inflationary pressures.

Figure 2: Revenue per brand



Notes:  
 \*Includes 1 "Kotajiru Nabe" brand restaurant, which is a brand extension of the "Osaka Ohsho" brand  
 ^ Includes the impact of JFH Rewards where reward points known as JS earned by members (net of expired points of approximately S\$0.7 million) amounting to S\$0.7 million was deducted from the corresponding revenue recognised in FY2021 in accordance with the relevant accounting standard (as compared to S\$1.4 million in FY2020).

Source: Company data, KGI Research

**Reinvigorating restaurant portfolio.** The group debuted a new concept with Minor Food Group (Singapore), launching its first pizza restaurant, "Pizzakaya" at Vivocity in November 2020 and opened a new outlet in JEM in December 2020. The restaurant serves hand-stretched Japanese-style pizza. In addition to "Pizzakaya", the group has further plans to open more novel brands in 2021, kickstarting with "Café Kuriko", a Japanese Mont Blanc speciality store that opened in February 2021.



Figure 3: Outlets per brand

Restaurants	As at 31 Mar 2021	As at 31 Mar 2020
Ajisen Ramen	14	16
Konjiki Hototogisu	8	8
Menya Musashi	6	9
Osaka Ohsho	4	5
Shitamachi Tendon Akitmitsu	3	6
Shoryo Ramen	2	2
Tokyo Shokudo	2	0
Yonehachi	2	2
Afuri	2	2
Curry Is Drink	1	1
Fruit Paradise	1	2
Ichiro Ramen	1	0
Kagurazaka Saryo	1	2
Kazokutei	1	1
Menzo Butao	1	2
New ManLee Bak Kut The	1	1
	50	59

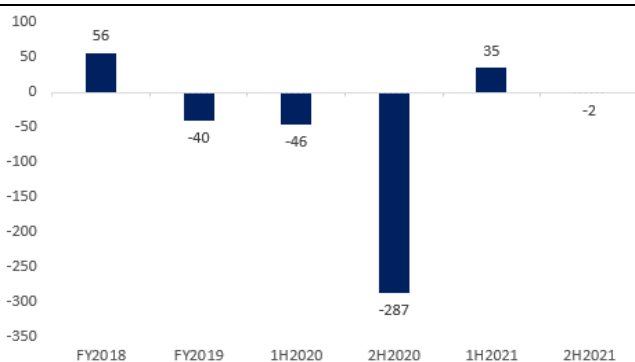
Source: Company data, KGI Research



**Overseas associates.** JFOODS recognised its first profitable quarter (2Q21) from its associate companies operating in Hong Kong under the "Hototogisu" brand and China operating under the "Menya Musashi" brand, after four consecutive quarterly losses. However, there were losses incurred for its other associate companies operating in Hong Kong and Indonesia under the "Menya Musashi" brand. In total, JFOOD's share of profit in FY2021 was S\$33k, a turnaround from a loss of S\$0.3mn in FY2020.

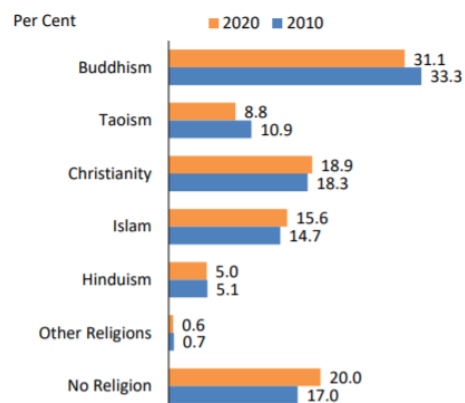
**Riding the halal trend.** In Singapore's multi-ethnic and multi-religious society, there is a rising trend in the percentage of Muslims in Singapore, signalling a greater demand for halal food, which JFOODS is tapping on. From 2010 to 2020, the number of Muslims increased by 6%, the second largest growth in a religious group. In addition, the 2019/2020 State of the Global Islamic Economy report has forecasted the spend on halal food and beverages to reach US\$1.9 trillion by 2023, while the value of the global halal food market is expected to grow at a CAGR of 6.3% to reach US\$1.97 trillion in 2024. Riding on this trend, the group has opened two new restaurants under the brand "Tokyo Shokudo", the first-ever Halal certified concept outlet by JFOODS. The group has plans to open another four more halal outlets by the end of 2021, bringing the total number of outlets to 6. With the growing population in Singapore and the rise in the number of Muslims, we expect JFOODS' halal arm to take off in the coming years and boost both the top and bottom line.

Figure 4: Contribution from associated companies



Source: Company data, KGI Research

Figure 5: Resident Population Aged 15 Years and Over by Religion



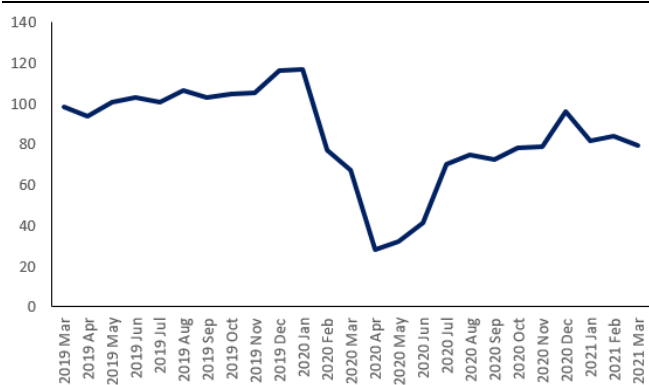
Source: Department of Statistics, Singapore

**First joint venture expansion into Tokyo.** The group and Minor Food Group (Singapore) (MS) had established a joint venture to conduct the business of franchising and operating existing restaurant brands owned by the group and MS in Japan, Thailand and China. However, the Covid-19 pandemic had disrupted the progress of store openings in Japan and commencement of business is expected to be delayed until the pandemic situation has stabilised. Japan's Covid-19 cases have been gradually decreasing, from a peak of 6,460 cases (7 day average) in mid-May 2021 to 1,806 cases (7 day average) in mid-June 2021. Vaccination rates have also ramped up. Once JFOODS can operate in Japan and a new revenue stream is established, we foresee growth in the medium term.

**Industry analysis.** We note that the Singapore Restaurant Index was stable from March 2019 to January 2020, ranging from 90 to 120. It was, in fact, on an upward trend. However, from February 2020 onwards, the index declined 34% to a low of around 30 in April 2020. This decline was in line with the government's lockdown measures, which started in April, whereby only takeaways were allowed. Hence, all restaurant sales were affected as customers could no longer dine in.

**Complete recovery may still take one year at least.** The index subsequently picked up from May 2020 onwards due to easing restrictions and has continued to recover steadily. However, comparing YoY, we see that the index for 2020 and 2021 is still lower than pre-Covid levels in 2019. This trend is within our expectations as we do not expect a recovery to pre-Covid sales for the restaurant industry as a whole due to uncertainties and general concerns over Covid-19, as well as some form of restrictions on dining in (e.g., safe distancing measures).

**Figure 6: Singapore Restaurant Index (At Constant Prices)**



Source: Department of Statistics, Ministry of Trade & Industry, KGI Research

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