



Japan Foods Holding Ltd

(JFOOD SP/JPFD.SP)

BUY - Maintain

Price as of 13 Nov 2017	0.435
12M target price (S\$)	0.530
Previous target price (S\$)	0.530
Upside (%)	21.8

Trading data

Mkt Cap (S\$m) / (US\$m)	75 / 55
Issued Shares (m)	174
Ave Daily Traded (3-Month) Vol / Val	0.0m / \$0.0m
52 week lo / hi	\$0.37 / \$0.49
Free Float	23.1%

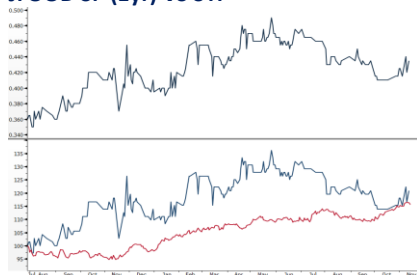
Major Shareholders

Kenichi Takahashi	66.4%
Eugene Wong	5.5%
Chau Mui Chan	4.7%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
4-Aug-17	BUY	0.430	0.530
26-May-17	BUY	0.480	0.530
17-Apr-17	BUY	0.450	0.560

JFOOD SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

Healthy margins and higher dividend payout

Event

Stable profit margins and higher dividend payout. 2Q18 net profit remained relatively stable at S\$1.3m. On a positive note for shareholders, Japan Foods declared a slightly higher dividend of 0.8 Singapore cents for 1H18 compared to 0.75 cents in the previous year, on the back of a strong net cash position of S\$20m as at end 2Q18. Gross profit margin remained at a healthy 85% in 1H18 despite a challenging operating environment in Singapore.

Impact

Rejuvenation of Ajisen Ramen brand. As part of the group's strategy to increase same-store sales at its most established brand, it launched a brand rejuvenation "Den By Ajisen Ramen" at three of its existing restaurants (Plaza Singapura, Hougang Mall, Square 2 Mall). So far, feedback has been positive as it has increased sales at those restaurants.

From one to four outlets in four months. Japan Foods added a new franchise restaurant brand, Shitamachi Tendon Akimitsu, which opened its first Singapore outlet in Plaza Singapura in July 2017. Since then, the group has opened three new outlets under this brand. The restaurant offers specialty tendon rice set that could complement menu offerings from other restaurant brands under Japan Foods, allowing a rejuvenation of menu for some of its 45 food outlets which could lead to sales improvement. Shitamachi Tendon has received positive reviews from food blogs and we can expect this newest addition to perform well ahead.

Valuation & Action

We maintain our target price at S\$0.530, based on our DCF valuation, and BUY recommendation on Japan Foods. Its business model remains resilient and adaptable even in the face of higher costs, mainly from rental and labour. We may potentially see upside catalyst from both organic growth and acquisitions, given its healthy balance sheet.

Risks

Rising labour costs and rental expenses, lower consumer spending amid slower wage growth; non-renewal of franchise agreements.

Financials & Key Operating Statistics

YE Mar SGD mn	2016	2017	2018F	2019F	2020F
Revenue	62.8	65.5	68.1	71.5	75.5
Gross Profit	52.9	55.6	57.8	60.6	64.0
PATMI	3.8	4.7	4.5	5.0	5.4
Core PATMI	3.2	4.1	3.9	4.3	4.7
Core EPS (SG cents)	1.8	2.3	2.3	2.5	2.7
Core EPS grth (%)	-24.1	27.2	-2.7	9.9	8.8
Core P/E (x)	18.5	16.3	16.4	15.1	14.0
DPS (SG cents)	2.0	2.0	2.2	2.2	2.3
Div Yield (%)	5.0	4.6	5.1	5.1	5.3
Gross Margin (%)	84.2	84.9	84.8	84.8	84.8
Net Margin (%)	6.0	7.1	6.7	6.9	7.1
ROE (%)	12.3	14.9	14.1	14.7	15.2

Source: Company Data, KGI Research

Results update – higher sales even with lower total restaurants

Japan Foods had reduced its total number of restaurants by two outlets in 2Q18 compared to 2Q17 – one from Fruit Paradise and the other under its New ManLee Bak Kut Teh restaurant. Despite the lower number of restaurants, Japan Foods managed to increase total revenue by 0.7% YoY to S\$16.8m, supported by increased same-store sales at its “Den By Ajisen Ramen” restaurants. The group aims to have four main brands that will serve as key pillars of growth in the future.

Figure 1: Number of outlets in Japan Food's Singapore network

Number of restaurants						
Restaurants	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Ajisen Ramen + Keika Ramer	18	19	19	19	19	19
Menya Musashi	8	8	8	7	8	9
Osaka Ohsho	6	6	6	7	6	6
Fruit Paradise	4	4	4	4	3	3
Kazokutei	3	3	3	2	1	1
Japanese Gourmet Town	1	1	1	1	1	1
Others	9	9	9	9	6	9
Food court outlets						
Ajisen Ramen*	1	1	1	1	1	1
Total	50	51	51	50	45	49

Source: Company data, KGI Research

Figure 2: Five soup bases to choose from at its "Den By Ajisen Ramen"



Source: Company presentation

YE 31 March

INCOME STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Revenue	62.8	65.5	68.1	71.5	75.5
Cost of Sales	(9.9)	(9.9)	(10.4)	(10.9)	(11.5)
Gross Profit	52.9	55.6	57.8	60.6	64.0
Operating Profit	4.1	5.1	4.7	5.2	5.7
Finance Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Share of JV/Associates' Results	0.6	0.6	0.6	0.6	0.6
Profit Before Tax	4.7	5.7	5.3	5.8	6.3
Income Tax Expenses	(0.9)	(1.0)	(0.8)	(0.9)	(1.0)
PATMI	3.8	4.7	4.5	5.0	5.4
Core PATMI	3.2	4.1	3.9	4.3	4.7
BALANCE SHEET (SGD mn)	2016A	2017A	2018F	2019F	2020F
Cash and Cash Equivalents	16.9	20.2	21.4	23.8	26.9
Trade and Other Receivables	0.9	0.7	0.7	0.8	0.8
Inventory	0.6	0.6	0.7	0.7	0.7
Other Current Assets	2.8	2.3	2.3	2.3	2.3
Total Current Assets	21.2	23.8	25.1	27.5	30.7
Property, Plant and Equipment	11.8	9.9	8.8	7.5	5.8
Other Non-Current Assets	5.9	7.1	7.7	8.3	8.9
Total Non-Current Assets	17.7	17.0	16.5	15.7	14.7
Total Assets	38.9	40.8	41.6	43.2	45.4
Borrowings (Current)	0.0	0.0	0.0	0.0	0.0
Trade and Other Payables	6.2	7.0	6.5	6.8	7.2
Other Current Liabilities	0.9	1.2	1.2	1.2	1.2
Total Current Liabilities	7.1	8.3	7.8	8.1	8.5
Borrowings (Non-current)	0.0	0.0	0.0	0.0	0.0
Other Non-Current Liabilities	0.9	0.9	0.9	0.9	0.9
Total Non-Current Liabilities	0.9	0.9	0.9	0.9	0.9
Shareholders' Equity	30.9	31.6	32.9	34.3	36.0
Total Equity	30.9	31.6	32.9	34.3	36.0
Total Liabilities and Equity	38.9	40.8	41.6	43.2	45.4
CASH FLOW STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Net Profit Before Tax	4.7	5.7	5.3	5.8	6.3
Depreciation	5.2	5.1	5.5	5.7	6.0
Other Non-Cash Adjustments	0.5	(0.1)	(0.3)	(0.4)	(0.4)
Changes in Working Capital	(0.5)	1.4	(0.6)	0.3	0.3
Taxes Paid	(0.3)	(0.7)	(0.8)	(0.9)	(1.0)
Cash from Operations	9.6	11.4	9.0	10.6	11.3
Capex	(4.8)	(3.5)	(4.4)	(4.4)	(4.4)
Other CFI	(0.2)	(0.5)	0.0	0.0	0.0
Cash from Investing	(5.0)	(4.0)	(4.4)	(4.4)	(4.4)
Dividends Paid	(3.5)	(3.5)	(3.5)	(3.8)	(3.8)
Borrowings Raised / (Repaid)	0.0	0.0	0.0	0.0	0.0
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other CFF	(0.3)	(0.9)	0.0	0.0	0.0
Cash from Financing	(3.8)	(4.3)	(3.5)	(3.8)	(3.8)
Net Increase in Cash and Cash Equiv.	0.9	3.1	1.2	2.4	3.1
Beginning Cash	14.2	15.1	18.1	19.3	21.7
Ending Cash (ex pledged deposits)	15.1	18.1	19.3	21.7	24.8
KEY RATIOS	2016A	2017A	2018F	2019F	2020F
Core EPS (SGD cents)	1.83	2.33	2.26	2.49	2.71
Core EPS Growth (%)	-24.1%	27.2%	-2.7%	9.9%	8.9%
DPS (SGD Cents)	2.00	2.00	2.20	2.20	2.30
Dividend Yield (%)	5.0%	4.6%	4.6%	4.6%	4.8%
Profitability (%)					
Gross Margin	84.2%	84.9%	84.8%	84.8%	84.8%
EBITDA Margin	14.9%	15.7%	15.0%	15.4%	15.6%
Net Margin	6.0%	7.1%	6.7%	6.9%	7.1%
ROIC	25.3%	29.4%	25.0%	29.2%	34.1%
ROE	12.3%	14.9%	14.1%	14.7%	15.2%
ROA	9.8%	11.7%	11.0%	11.7%	12.1%
Leverage (x)					
Total Debt/Equity	0.0	0.0	0.0	0.0	0.0
Net Cash/Equity	0.5	0.6	0.6	0.7	0.7

Source: Bloomberg, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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