

CHINA
DEVELOPMENT
FINANCIAL

Japan Foods Holding Ltd

(JFOOD SP/JPFD.SP)

New store openings weigh on performance

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- 4Q19 net profit declined 44% YoY to S\$0.5mn, mainly due to higher expenses related to new store openings and losses from its associated companies.
- We maintain our **NEUTRAL** recommendation as the outlook in FY20 is expected to remain challenging on the back of heightened competition and underperformance of its overseas associates.
- Given a longer investment horizon, JFOOD remains an attractive investment. Its S\$22mn net cash position makes up 29% of its market capitalisation.

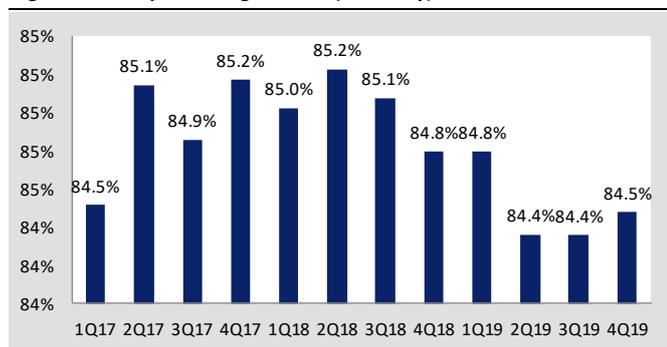
Financials & Key Operating Statistics

| YE Mar SGD mn | 2018 | 2019 | 2020F | 2021F | 2022F |
|---------------------|-------|-------|-------|-------|-------|
| Revenue | 67.8 | 68.1 | 70.9 | 70.9 | 73.6 |
| Gross Profit | 57.7 | 57.5 | 59.7 | 59.6 | 61.8 |
| PATMI | 5.8 | 3.3 | 4.8 | 5.3 | 5.7 |
| Core PATMI | 5.3 | 3.2 | 4.1 | 4.7 | 5.0 |
| Core EPS (SG cents) | 3.0 | 1.8 | 2.4 | 2.7 | 2.9 |
| Core EPS grth (%) | 175.6 | -39.4 | 29.8 | 13.1 | 6.6 |
| Core P/E (x) | 12.1 | 22.6 | 16.0 | 14.3 | 13.5 |
| DPS (SG cents) | 2.1 | 1.9 | 2.0 | 2.2 | 2.3 |
| Div Yield (%) | 5.3 | 4.4 | 4.5 | 5.0 | 5.2 |
| Gross Margin (%) | 85.0 | 84.5 | 84.2 | 84.0 | 84.0 |
| Net Margin (%) | 8.5 | 4.9 | 6.7 | 7.5 | 7.7 |
| ROE (%) | 17.9 | 9.8 | 13.7 | 14.6 | 14.7 |

Source: Company Data, KGI Research

Lowest quarterly profit since 4Q16; dividends cut. 4Q19 earnings declined 44% YoY to S\$0.5mn. The weak performance was due to new store opening expenses and losses from its overseas associates. Gross margins declined to 84.5% in 4Q19 compared to 84.8% in 4Q18 but was a slight QoQ improvement. The group has proposed a lower final dividend of 1.10 SG cents, down from 1.30 SG cents in FY18. Total dividend of 1.90 SG cents in FY19, including the 0.80 SG cents interim dividend, implies a decent 4.3% dividend yield based on its current share price.

Figure 1: Gross profit margins trend (Quarterly)



Source: Company data, KGI Research

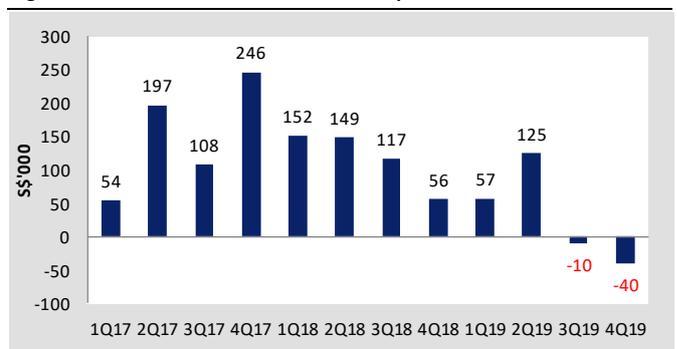
Flagship brand under pressure. JFOOD's Ajisen Ramen brand sales declined by 13% YoY for FY19 to \$23.4mn. Ajisen Ramen's contribution dropped to 34% of total revenues in FY19, down from 39% in FY18. On a positive note, the decline in Ajisen Ramen was offset by growth in its other brands such as Shitamachi Tendon Akimitsu and Konjiki Hototogisu.

NEUTRAL - Maintain

| | | | |
|-----------------------------|-------|---------------------------------|-----------|
| Price as of 21 May 19 (SGD) | 0.44 | Performance (Absolute) | |
| 12M TP (\$) | 0.55 | 1 Month (%) | -13.7 |
| Previous TP (\$) | 0.57 | 3 Month (%) | -2.2 |
| Upside, inc div (%) | 25.0 | 12 Month (%) | -5.4 |
| Trading data | | Perf. vs STI Index (Red) | |
| Mkt Cap (\$mn) | 76 | | |
| Issued Shares (mn) | 174 | | |
| Vol - 3M Daily avg (mn) | 0.0 | | |
| Val - 3M Daily avg (\$mn) | 0.0 | | |
| Free Float (%) | 23.7% | | |
| Major Shareholders | | Previous Recommendations | |
| Takahashi Kenichi | 70.6% | 1-Feb-19 | N \$0.57 |
| Eugene Wong | 5.5% | 12-Nov-18 | N \$0.56 |
| | | 16-Aug-18 | OP \$0.64 |

Drag from overseas associates. JFOOD recognised its second consecutive quarter of losses from its associated companies in Hong Kong and China operating under the Menya Musashi brand. It also had initial start-up losses from Indonesia.

Figure 2: Contribution from associated companies



Source: Company data, KGI Research

Valuation & Action: While our DCF-backed fair value of S\$0.55 offers a 25% upside potential, we maintain our NEUTRAL recommendation on JFOOD due to a lack of near-term upside catalysts and on a weak outlook over the next 3-4 quarters. Despite the challenging short-term outlook, JFOOD's business model remains resilient and adaptable even in the face of higher costs. The group maintains a sizeable cash balance of S\$22mn (29% of its current market capitalisation), supported by strong free cash flows averaging S\$1m per quarter.

Risks: Rising labour costs and rental expenses, lower consumer spending amid slower wage growth.

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Expanding its one-Michelin star brand. “Konjiki Hototogisu”, which is rated one-Michelin star, has continued to attract strong interest since opening its first restaurant in CHIJMES in July 2018. JFOOD has since opened another three outlets in Vivocity, Paragon and Changi Jewel.

Four pillars of growth. The group aims to have four main brands that will serve as key pillars of growth in the future. As of end-March 2019, the four brands that have five or more outlets include “Ajisen Ramen”, “Menya Musashi”, “Shitamachi Tendon Akimitsu” and “Osaka Ohsho”.

Figure 3: Konjiki Hototogisu-Award winning ramen restaurant at CHIJMES, famed for its chicken and pork broth



Source: Company data, KGI Research

“Shitamachi Tendon Akimitsu” has continued to receive positive reception since opening its first branch nine months ago. JFOODs now has seven restaurants under this brand, contributing around S\$4mn to revenues in FY2019.

Overseas associates. As at end-March 2018, JFOOD’s associated companies operated a total of 21 overseas outlets: 7 in HK, 12 in China and 1 in Indonesia, all under the Menya Musashi brand. It has only 1 remaining outlet under its Ajisen Ramen franchise in Malaysia.

Figure 4: Number of outlets in Japan Food’s Singapore network

| Restaurants | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Ajisen Ramen + Keika Ramer | 18 | 19 | 19 | 19 | 19 | 19 | 18 | 18 | 18 | 17 | 17 | 18 |
| Menya Musashi | 8 | 8 | 8 | 7 | 8 | 9 | 10 | 10 | 10 | 11 | 11 | 11 |
| Osaka Ohsho | 6 | 6 | 6 | 7 | 6 | 6 | 5 | 5 | 5 | 5 | 5 | 5 |
| Fruit Paradise | 4 | 4 | 4 | 4 | 3 | 3 | 3 | 2 | 2 | 1 | 1 | 2 |
| Kazokutei | 3 | 3 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Japanese Gourmet Town | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Shitamachi Tendon Akimitsu | | | | | 0 | 3 | 4 | 6 | 7 | 7 | 7 | 7 |
| Others | 9 | 9 | 9 | 9 | 6 | 6 | 6 | 6 | 7 | 10 | 11 | 10 |
| Food court outlets | | | | | | | | | | | | |
| Ajisen Ramen* | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Total | 50 | 51 | 51 | 50 | 45 | 49 | 49 | 50 | 51 | 53 | 54 | 55 |

Source: Company data, KGI Research

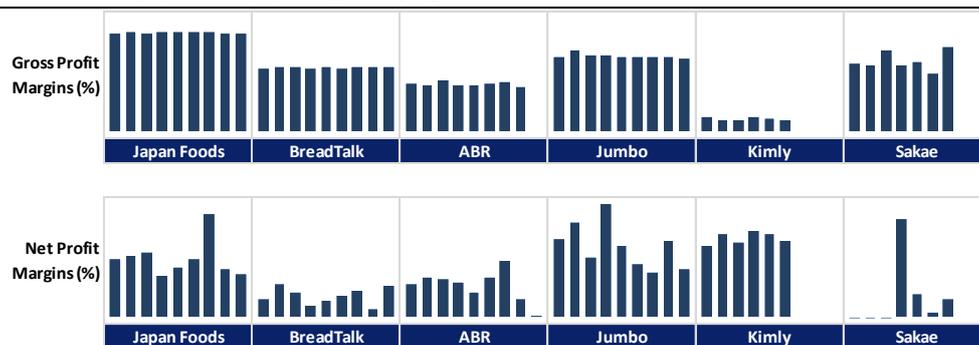
Industry analysis. A key trend among Singapore F&B companies is the cost pressure from rising rents and the tight labour market. The table below highlights the margins of SGX-listed F&B companies on a quarterly basis. On the consumer side, Singapore’s Restaurants Services index (Figure 6) weakened YoY and QoQ in March, which may indicate that weakness in the global economy is starting to filter to consumer spending in Singapore.

Figure 6: Singapore Restaurant Index (At Constant Prices)



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

Figure 5: Profit margin trends of Singapore F&B players (Quarterly Figures)



Source: Bloomberg, KGI Research

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|----------------------|-------------------------|---|
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