Koufu Group Limited

Date: 5 March 2021

BUY
(Maintained)

Target Price: S$0.770
(+17.6%)

VL6.SI
Price: S$0.655 (as at 4 March 2021)



Share price	1M	3M	6M	1Y
Koufu Group Limited	-1.5%	0.0%	-2.2%	-7.7%
Straits Times Index	+3.8%	+6.2%	+20.1%	-0.3%

Market Capitalisation	S$363.3 million
Current Price	S$0.655
Shares Outstanding	554.6 million
Free Float	22.7%
Major Shareholder	Jun Yuan Holdings Pte. Ltd. 77.2%[1]
Recommendation of other brokers	3 Buy 1 Add

Source: Company data, Bloomberg, SAC Capital

Analyst
Lim Li Jun Tracy +65 6232 3239
tlim@saccapital.com.sg

Analyst
Lam Wang Kwan +65 6232 3237
lamwk@saccapital.com.sg

Earnings rebound in FY2021

FY2020 results impacted by Covid-19. Revenue fell 19.0% to S$192.4 million due to 1) rental and property tax rebate received that were passed on to its stall tenants (4.6% pt); 2) lower recoverable expenses incurred (2.9% pt); 3) lower variable rental income from mall and outlet management with lower footfall (4.2% pt); 4) restrictions on dine-in and lower footfall, which impacted F&B retail business (7.3% pt). Net profit fell by a larger 64.3% to S$7.3 million as the business model entails a high proportion of fixed costs.

Revenue in 2HFY20 was 16.2% higher than 1HFY20 as Singapore exited the lockdown in June 2020, with some easing of mobility restrictions. Net profit in 2HFY20 was 2.9x higher than 1HFY20. We expect continued earnings recovery in FY2021 as restrictions further eased at end 2020.

Integrated facility to commence operations in Q2 2021. The integrated facility will add kitchen capacity, consolidate all food preparation and processing activities under one roof, and Koufu would be able to extend the cloud kitchen concept to other food operators. 25% of the space will be leased out for rental income.

Recovery in 2021. We expect 2HFY20 recovery momentum to sustain in 2021, as it emerged from the COVID-induced trough in Q2FY20. We expect recovery in 2021 due to: 1) the easing of dine-in restrictions; 2) consolidation of loss-making outlets and better use of funds for expansion in Singapore and partnerships overseas, 3) synergies from Deli Asia; and 4) scheduled commencement of operations of the integrated facility in Q2 2021.

Maintain BUY, but at lower fair value of S$0.77. Our DCF-derived target price translates into a FY21E P/E of 17.9x. We lower our FY21E earnings estimates to reflect slower recovery of tourist traffic at Macau and delay in return of office crowd to the F&B outlets in Singapore. But FY21E earnings is still expected to bounce back, led by the opening of the integrated facility, new outlets and contributions from Deli Asia. It has net cash of S$66 million as at end 2020. Our target price implies a 17.6% upside to the last traded price.

Key Risks: Uneven recovery path due to Covid-19.

Key Financials

Year ended 31 Dec	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Revenue (S$'000)	237,507	192,375	224,752	245,929	251,948
% Growth	6.1%	-19.0%	16.8%	9.4%	2.4%
Profit before tax (S$'000)	33,958	11,597	28,736	35,662	37,895
Profit before tax margin (%)	14.3%	6.0%	12.8%	14.5%	15.0%
Profit attributable to owners (S$'000)	27,688	9,880	23,851	29,599	31,453
EPS (Singapore cents)	4.99	1.78	4.30	5.34	5.67
P/E (x)	13.1	37.7	15.2	12.3	11.6
P/B (x)	3.5	3.6	3.3	2.9	2.6
Net Debt/Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Singapore Financial Reporting Standards (International) ("**SFRS(I)**") SFRS 16 has been implemented in FY2019.*

Investment Highlights

(S$'000)	Revenue	Net Profit
2HFY20	103,409	7,345
1HFY20	88,966	2,535
2HFY19	121,647	13,575
1HFY19	115,860	14,113

Source: Company Data, SAC Capital

Business Overview:

Koufu is an established Singapore household name known for its chain of food courts and coffee shops under management, offering food options to the mass market. Since 2002, Koufu has expanded quickly over the years by opening numerous outlets and launching new food and beverage brands and established presence into Malaysia, Indonesia and Macau.



Artist's impression of the completed integrated facility

FY2020 net profit fell with revenue

Koufu saw a 19.0% decline in revenue from S$237.5 million in FY2019 to S$192.4 million in FY2020 mainly from the outlet and mall business segment, largely due to a decrease in fixed rental income. The decline in F&B retail segment was due to lower footfall, especially at tourist spots and near offices. Net profit declined by a larger 64.3% from S$13.6 million to S$7.3 million due to the high degree of operating leverage. The decline in revenue was partly due to Koufu passing down the rental rebate and property tax rebate and cash grants from government of about S$8.8 million that it received from landlords to its stall tenants. On the other hand, it received about S$1.9 million for wage support from the government. As a result, despite taking a substantial hit, net profit remained positive.

The brunt of the Covid-19 impact was borne in 1HFY20, during the circuit breaker period when the Group saw significantly lower footfall, which led to suspension of operations of some outlets. Comparing 2HFY20 to 1HFY20, Koufu saw a 16.2% increase in revenue and 2.9x increase in net profit. We expect the recovery to continue going forward as operations resume, although it will be met with uneven recovery across locations.

Koufu Group's completed acquisition of Deli Asia Group (Deli Asia, DeliSnacks, Dough Culture and Dough Heritage) for $22.04 million in 2020 allowed them to capture the takeaway market. Post acquisition, from the period of 31 July 2020 to 31 December 2020, revenue contribution from Deli Asia was S$5.6 million.

Integrated facility expected to commence operations in Q2 2021

The Group's integrated facility, located at Woodlands will comprise a larger central kitchen, its corporate headquarters, training centre and the R&D centre. It serves to expand central procurement, preparation, processing and distribution functions. The new facility will bring the Group's processing facilities under one roof. The integrated facility can better support all F&B outlets and self-operated F&B stalls. We expect Koufu to enjoy lower rental costs.

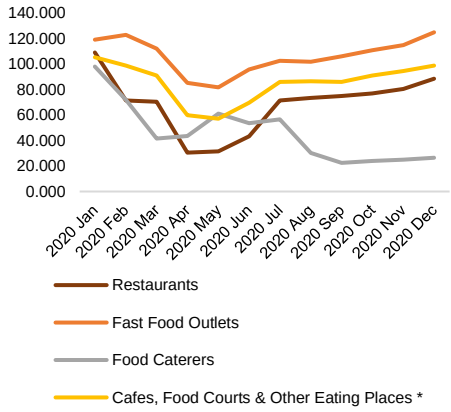
It expects a GFA of 20,000 sqm, more than 5 times larger than their current central kitchens and corporate headquarters, with a price tag of S$43.0 million, including renovation costs and capital expenditure. With the facility, Koufu can better provide support for all F&B Outlets and self-operated F&B stalls. 25% of total GFA will be rented out to their stallholders to build their own central kitchen. Koufu will be occupying the remaining 75%.

Once the integrated facility is completed, it will also house the production facilities and warehouse of Deli Asia. This will consolidate its food preparation and processing with Koufu's central kitchens to optimise economies of scale and operating synergies.

Overseas Footprint

Koufu sold off 55% stake in Supertea Indonesia, but is continuing the Master Licensing agreement in order to streamline operations. In the Philippines, R&B Tea is sold at 122 Shakey's Pizza and Peri Peri outlets. Koufu opened one new food court and one R&B Tea kiosk in Macau. Koufu aims to continue to tap on their network to look for partners to expand their brands overseas, such as R&B Tea into Thailand.

F&B Services Index



Source: SingStat

Focus will be on recovery in 2021

As Singapore exited the circuit breaker after June 2020, dine-out activity has picked up. Restaurant, fast food and food courts are seeing sales rising, inching towards pre-Covid levels, at the expense of food caterers. We expect the F&B sales to continue to improve in 2021 with the vaccine rollout and development. Although dining activity in Singapore is picking up especially in the heartlands, office and tertiary education areas are still taking a hit. Koufu's overseas operations face an uneven recovery, with Macau still seeing slow improvements with the absence of tourists.

We believe that Koufu will continue to recover in 2021, seeing that Q2 2020 bore the brunt of the impact of Covid-19. We expect recovery in 2021 due to: 1) the easing of restrictions; 2) consolidation of loss-making outlets and better use of funds for expansion in Singapore and partnerships overseas, 3) synergies from Deli Asia; and 4) scheduled commencement of operations of the integrated facility in Q2 2021 to add kitchen capacity and allows the extension of cloud kitchen concept to other food operators.

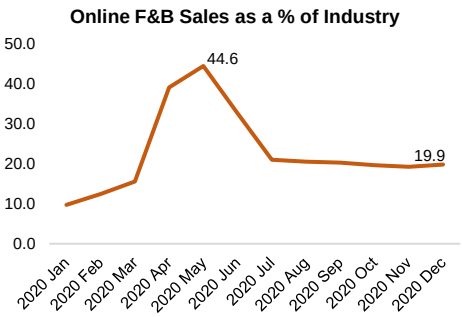
We continue to believe that Koufu's strong balance sheet will help tide them through now and in the future. As at 31 December 2020, Koufu has net cash of S$65.7 million. This makes up 64.9% of net assets.

Maintain BUY Rating at a lower target price of S$0.77

We maintain a BUY rating on Koufu but lower fair value to S$0.77 (from S$0.80). Our DCF-derived target price translates into a FY21E P/E of 17.9x. We lower our FY21E earnings estimates as Macau recovery may lag with low tourist traffic, and F&B outlets at Singapore office districts and tertiary education areas are still operating at sub-normal levels. Despite that, we believe that the integrated facility, new outlets and Deli Asia synergies are catalysts for the share price. Our target price implies a 17.6% upside to the last traded price.

Other Developments

Technological initiatives



Source: SingStat



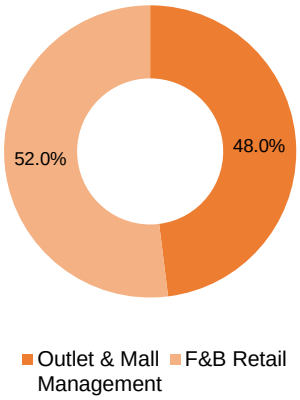
Source: Apple Store

Fuelled by the pandemic, Singapore's online F&B sales picked up significantly to account for a record 44.6% of total F&B sales in May 2020 during the circuit breaker period, from 8.1% a year ago. Although there was some easing to 19.9% in December 2020 as Singapore moved to Phase 2 and subsequently to Phase 3, the overall online F&B sales in Singapore is on an uptrend and could be here to stay for good. The group has doubled down on efforts to improve its "Koufu Eat" mobile app to facilitate food deliveries. Koufu believes that this will help mitigate the impact from the cap on dine-in group size to no more than eight, and the reduction in seating capacity at eating places.

In addition, Koufu rolled out smart tray return robots, NETS payment terminals across all food courts and started using automated traditional coffee-making machine at some outlets.

Business Segments

Revenue Breakdown by Business Segment (FY2020)



Source: Company Data, SAC Capital

As at 31 December 2020, Koufu operates a multitude of brands at various locations, including 48 food courts, 18 coffee shops, 1 commercial mall, 74 F&B stalls, 57 F&B stores, 36 F&B kiosks, 4 full-service restaurants and 7 quick-service restaurants in Singapore. In addition, Koufu operates 3 food courts, 5 F&B stalls and 2 F&B kiosks in Macau, 7 F&B stores in Indonesia, 1 F&B kiosk in Malaysia, and 122 stores that serve R&B Tea in the Philippines through a co-branding with Shakey's Pizza.

The Group's operations are mainly classified under 2 complementary business segments, namely outlet & mall management, and F&B retail.

Outlet & Mall Management

The Group signs on leases averaging 3 to 4 years with property owners. These comprise food courts, coffee shops, hawker centre and commercial malls. As the master leaseholder, it then leases out food outlet premises to tenants for a term of 2 to 3 years. The group also provides cleaning and utilities services, and manages third party food courts.

The tenants at the food courts pay a fixed monthly rent, or a variable rent based on the stall's gross turnover. The tenants at the coffee shops pay a fixed monthly rental.

F&B Retail

This covers direct food retailing to consumers at the self-run F&B stalls, the majority of which are beverage stalls located in Koufu's own food courts, coffee shops and hawker centre. Also included in this segment are Koufu's kiosks, Quick Service Restaurants and Full-Service Restaurants.



Income Statement

(S$'000)	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Revenue	237,507	192,375	224,752	245,929	251,948
Other income	5,723	15,336	10,074	7,099	7,099
Cost of inventories consumed	(36,917)	(33,930)	(40,234)	(43,258)	(44,123)
Staff costs	(39,901)	(35,995)	(40,455)	(41,808)	(42,831)
Depreciation of PPE and Investment Properties	(76,551)	(76,175)	(80,911)	(81,157)	(81,883)
Property rentals and related expenses	(42,520)	(31,723)	(26,970)	(27,052)	(27,714)
Distribution and selling expenses	(806)	(1,228)	(1,412)	(1,497)	(1,527)
Administrative expenses	(5,011)	(5,448)	(6,365)	(6,965)	(7,135)
Other operating expense	(3,957)	(5,238)	(5,410)	(11,345)	(11,574)
Results from operating activities	**37,320**	**16,073**	**33,068**	**39,947**	**42,260**
Finance income	851	422	566	613	534
Finance costs	(4,433)	(4,898)	(4,898)	(4,898)	(4,898)
Share of profit of associates and partnership, net of tax	220	-	-	-	-
Profit before tax	**33,958**	**11,597**	**28,736**	**35,662**	**37,895**
Tax expense	(6,122)	(1,958)	(4,885)	(6,063)	(6,442)
Profit for the year	27,836	9,639	23,851	29,599	31,453
Profit attributable to:					
Owners of the Company	27,688	9,880	23,851	29,599	31,453
Non-controlling interest	148	(241)	-	-	-
Profit for the year	**27,836**	**9,639**	**23,851**	**29,599**	**31,453**

Ratios

	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Adoption of SFRS 16 Leases increased lease liability in FY2019					
Profitability (%)					
Profit/(loss) before tax margin	14.3%	6.0%	12.8%	14.5%	15.0%
Profit/(loss) after tax margin	11.7%	5.0%	10.6%	12.0%	12.5%
Liquidity (x)					
Current ratio	0.9	0.9	0.9	0.9	0.9
Quick ratio	0.9	0.9	0.8	0.9	0.9
Interest coverage ratio	8.7	3.4	6.9	8.3	8.7
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	1.5	1.9	1.6	1.5	1.4
P/E	13.1	37.7	15.2	12.3	11.6
Core P/E at target price	15.3	44.3	17.9	14.4	13.6
P/B	3.5	3.6	3.3	2.9	2.6
P/NTA	3.5	4.3	3.8	3.3	2.9
Cash Conversion Cycle					
Trade receivable days	31	63	38	36	38
Inventory days	14	19	15	15	16
Trade payable days	75	93	91	89	91
CCC days	-29	-11	-39	-38	-37

Balance Sheet

(S$'000)	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Property, plant and equipment	209,989	191,095	207,797	221,505	236,243
Intangible assets	150	15,983	15,712	15,441	15,170
Investment properties	19,867	14,940	14,330	13,720	13,110
Other investments	1,600	1,600	1,600	1,600	1,600
Deferred tax assets	455	1,897	-	-	-
Trade and other receivables	10,434	13,178	11,634	12,084	13,278
Total non-current assets	**242,495**	**238,693**	**251,073**	**264,350**	**279,401**
Inventories	1,435	1,810	1,606	1,776	1,882
Trade and other receivables	9,955	19,961	11,634	12,084	13,278
Time deposits	4,600	3,057	3,057	3,057	3,057
Cash and cash equivalents	90,396	76,352	90,646	95,773	99,191
Total current assets	**106,386**	**102,922**	**108,685**	**114,432**	**119,151**
Total assets	**348,881**	**341,615**	**359,758**	**378,782**	**398,552**
Trade and other payables	41,179	43,964	50,034	53,014	54,763
Lease liabilities	63,250	64,701	65,995	67,315	68,661
Loans and borrowings	605	2,672	2,138	1,710	1,368
Current tax liabilities	6,019	3,484	4,752	4,118	4,435
Provision for reinstatement	1,524	1,584	1,554	1,569	1,562
Total current liabilities	**112,577**	**116,405**	**124,472**	**127,726**	**130,788**
Trade and other payables	7,369	5,206	6,082	7,106	8,302
Lease liabilities	117,631	102,927	104,986	107,085	109,227
Loans and borrowings	4,113	11,046	8,837	7,069	5,656
Deferred tax liabilities	81	762	-	-	-
Provision for reinstatement	4,096	4,003	4,050	4,026	4,038
Total non-current liabilities	**133,290**	**123,944**	**123,954**	**125,287**	**127,222**
Total liabilities	**245,867**	**240,349**	**248,426**	**253,013**	**258,010**
Share capital	44,961	44,961	44,961	44,961	44,961
Foreign currency translation reserve	(389)	(340)	(340)	(340)	(340)
Treasury shares	(240)	(350)	(350)	(350)	(350)
Retained earnings	57,953	56,741	66,807	81,243	96,017
Equity attributable to owners of the Company	102,285	101,012	111,078	125,514	140,288
Non-controlling interest	729	254	254	254	254
Total equity	**103,014**	**101,266**	**111,332**	**125,768**	**140,542**
Total equity and liabilities	**348,881**	**341,615**	**359,758**	**378,781**	**398,552**

Cash Flows Statement

(S$'000)	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Profit for the year	**27,836**	**9,639**	**23,851**	**29,599**	**31,453**
Depreciation of PPE and Investment Properties	76,551	76,175	80,911	81,157	81,883
Finance cost	4,433	4,898	4,898	4,898	4,898
Finance income	(851)	(422)	(566)	(613)	(534)
Tax expense	6,122	1,958	4,885	6,063	6,442
Others	1,194	5,229	271	271	271
Change in working capital	881	(18,188)	17,021	2,934	449
Tax paid	(6,063)	(6,310)	(4,885)	(6,063)	(6,442)
Net cash generated from operating activities	**110,103**	**72,979**	**126,386**	**118,246**	**118,421**
Net investment in associates	221	1	-	-	-
Interest received	793	361	566	613	534
Proceeds from disposals	513	19	-	-	-
Purchases	(26,969)	(15,754)	(26,464)	(26,710)	(27,436)
Others	31,535	(14,194)	-	-	-
Net cash from / (used in) investing activities	**6,093**	**(29,567)**	**(25,898)**	**(26,097)**	**(26,902)**
Net borrowings	(6,002)	8,780	-	-	-
Interest paid	(4,301)	(4,478)	(4,898)	(4,898)	(4,898)
Dividends paid	(12,210)	(11,412)	(14,105)	(15,483)	(16,999)
Lease payments	(64,447)	(50,884)	(64,447)	(64,447)	(64,447)
Others	204	436	(2,744)	(2,195)	(1,756)
Net cash (used in) / from financing activities	**(86,756)**	**(57,558)**	**(86,193)**	**(87,023)**	**(88,100)**
Net increase/(decrease) in cash and cash equivalents	**29,440**	**(14,146)**	**14,294**	**5,127**	**3,418**
Effect of exchange rate fluctuations on cash held	(23)	102	-	-	-
Cash and cash equivalents	**90,396**	**76,352**	**90,646**	**95,773**	**99,191**

*Financial figures have not been adjusted to Singapore Financial Reporting Standards (International) ("**SFRS(I)**") and may not be comparable to the latest company financials*

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited ("**SAC Capital**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report ("**Other Services**"). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	**Quantum of position**
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	**Date of Business Relation**
Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

(i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);

(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.