

Koufu Group Ltd (KOUFU SP)

Ready to serve

BUY

Share Price SGD 0.63
12m Price Target SGD 0.78 (+24%)

Proxy to further reopening; Initiate BUY

We initiate coverage on Koufu with BUY and TP of SGD0.78, based on 18x FY22E P/E, in line with its local peers. We see the Group as one of the key beneficiaries of Singapore's reopening as the island transits towards Covid resilience. We are forecasting FY21/22/23E earnings to rise by 77.5%/40.6%/22.4%, driven by improvement in footfall at its food outlets, as well as contributions from new stores and its snacks & dough business (acquired in Jul'20). Moreover, Koufu has a robust balance sheet with net cash of SGD68.8m (c.20% of market cap).

Footfall to improve as Covid-19 curbs ease

Despite the government's cautious approach, Singapore remains firmly on the path of reopening, as it extends quarantine-free travel to more countries, with almost 85% of the population fully vaccinated. Hence, we believe footfall at its outlets (1H21: 65% of pre-Covid level) will improve once the restrictions are gradually eased. The Group is also actively increasing the delivery coverage of its Koufu Eat app to include more areas of Singapore to broaden its addressable market.

Network expansion to boost organic growth

To reinforce its presence, Koufu recently opened a food court at Outram Community Hospital. It also secured leases for a Dough Culture kiosk at Jurong East MRT Station and a Grove QSR at Northshore Plaza in 4Q21. The Group aims to set up at least 20 outlets by FY23E to further expand the Grove brand. We expect these new stores to contribute positively to its organic growth when they open.

Integrated facility to enhance operating efficiency

Koufu's new integrated facility in Woodlands has obtained Temporary Occupation Permit in Apr'21 and it expects to commence operations progressively in 4Q21. About 75% of the 20,000 sqm GFA will be used for its own operational purposes including a cloud kitchen, while the rest has been fully sublet to third-party operators. With greater economies of scale, management believes this will further enhance its supply chains, operating efficiency and margins over the longer term.

| FYE Dec (SGD m) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue | 238 | 192 | 207 | 229 | 246 |
| EBITDA | 116 | 93 | 98 | 106 | 112 |
| Core net profit | 28 | 10 | 17 | 24 | 29 |
| Core EPS (cts) | 5.0 | 1.7 | 3.1 | 4.3 | 5.3 |
| Core EPS growth (%) | 14.0 | (65.1) | 77.5 | 40.6 | 22.4 |
| Net DPS (cts) | 2.5 | 1.2 | 2.0 | 2.5 | 3.0 |
| Core P/E (x) | 15.5 | 39.5 | 20.4 | 14.5 | 11.9 |
| P/BV (x) | 4.2 | 3.8 | 3.3 | 3.0 | 2.7 |
| Net dividend yield (%) | 3.2 | 1.8 | 3.2 | 4.0 | 4.8 |
| ROAE (%) | 31.1 | 10.5 | 16.5 | 21.5 | 23.8 |
| ROAA (%) | 10.9 | 2.8 | 5.0 | 6.8 | 7.9 |
| EV/EBITDA (x) | 3.0 | 3.4 | 2.8 | 2.3 | 2.0 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit | - | - | 19 | 25 | 30 |
| MKE vs. Consensus (%) | - | - | (11.7) | (4.5) | (1.0) |

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Company Description

Established in 2002, Koufu is one of the largest operators of coffee shops and food courts in Singapore, with a presence in Macau.

Statistics

| | |
|------------------------|----------------------|
| 52w high/low (SGD) | 0.70/0.63 |
| 3m avg turnover (USDm) | 0.1 |
| Free float (%) | 22.5 |
| Issued shares (m) | 555 |
| Market capitalisation | SGD349.8M USD258M |

Major shareholders:

| | |
|---------------------------|-------|
| Jun Yuan Holdings Pte Ltd | 77.2% |
|---------------------------|-------|

Price Performance



| | | | |
|-----------------------|-----|-----|------|
| | -1M | -3M | -12M |
| Absolute (%) | (3) | (5) | (2) |
| Relative to index (%) | (4) | (5) | (20) |

Source: FactSet

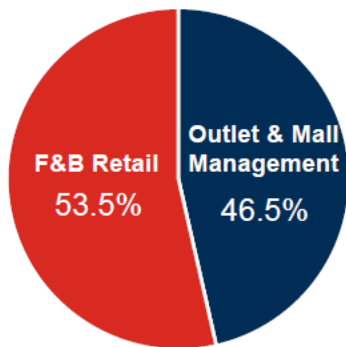
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MKE
OPPORTUNITY+

Value Proposition

- Koufu is one of the most established and largest operators and managers of food courts and coffee shops in Singapore, with a presence in Macau.
- Its multi-brand business model and network of F&B outlets comprises a portfolio of distinct brands, each focusing on different types of cuisine and dining experiences at various price points.
- The completion of its integrated facility will enable greater efficiency and economies of scale with increased automation of the operations
- Prudent M&As and overseas expansion to further diversify its revenue stream.

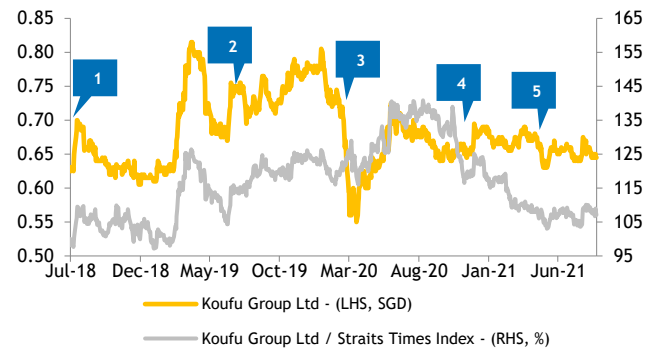
Complementary businesses



Source: Company

Price Drivers

Historical share price trend



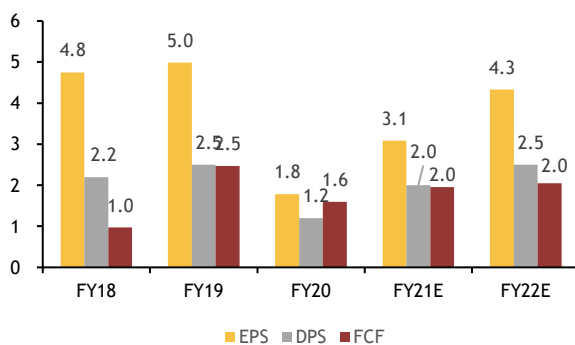
Source: Company, Maybank Kim Eng

1. Listed on the mainboard of the SGX-ST on 18 July 2018.
2. Converted JV partnership to Master License agreement for the expansion of R&B Tea in Indonesia.
3. Acquires traditional fried food and dough products group, Deli Asia for SGD22m.
4. Inked Master Franchise agreement to expand SuperTea and R&B Tea brands to the Philippines.
5. Achieved TOP for its integrated facility at Woodlands and expects to commence operations progressively in 2H21.

Financial Metrics

- Projected capex for one food court is around SGD2m with targeted payback period of three years, implying a ROI of above 30%.
- For F&B outlet, the cost outlay is much lower at SGD50-80k and has a payback period of six months to one year. The group typically finance its capex with its internal resources.
- While the group has not committed to any fixed dividend policy, it intends to distribute at least 50% of its net profits as dividends.
- Strong balance sheet with net cash position due to its cashflow-generative business.

EPS, DPS and FCF



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Stronger-than-expected revenue from same-store sales growth and outlet expansion.
- Completion of the integrated facility to support recurring rental income and margins.
- Easing of Covid-19 restrictions to drive footfalls in the malls and tertiary institutions.

Downside

- Lower-than-expected margins due to rising operating costs, such as rental and staff expenses.
- Near-term start-up costs from the commencement of integrated facility in 4Q21.
- Spike in community infection cases may lead to further tightening measures.



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| | |
|--------------------------------------------|-----------|
| Risk Rating & Score¹ | Not Rated |
| Score Momentum² | na |
| Last Updated | na |
| Controversy Score³ | na |

Business Model & Industry Issues

- Being in the F&B industry, the key priority for Koufu is to meet the high standards of cleanliness, hygiene and food quality as well as regulatory requirements. However, this will involve the co-operation and support of tenants of its food courts, which are integral players to the reputation and success of its business.
- In FY20, the Group achieved zero major food safety incidents across Koufu’s outlets. Nevertheless, there was a non-compliance case relating to housekeeping, which resulted in a fine by the National Environment Agency.
- The business is labour intensive, and it relies heavily on foreign workers. This may give rise to social issues such as poor living condition in dormitories, low integration into the wider society and overcrowding on public transport, etc.

Material E issues

- The core of Koufu's energy consumption can be attributed to its three food processing plants that supply pre-cooked and cooked food items to the Group’s food court and self-operated F&B outlets.
- To reduce energy consumption and consequently greenhouse gas emission, it has upgraded to energy efficient equipment at its new integrated facility, which will commence operations in 4Q21.
- Longer term, Koufu also aims to minimise environmental impact by managing its energy usage through innovation and technologies that promote efficiency.
- In FY20, the group's fuel and electricity consumption was 14.99 TJ.

Material S issues

- Koufu engages a significant number of workers who are not employees to support its operations, comprising largely cleaning services and tenant operations. It engaged 491 cleaners and 2,014 workers of tenants in FY20, a decrease of 14.5% from 574 cleaners and an increase of 2.3% from 1,968 workers of tenants in FY19.
- Since 2020, the Group has started working with 343 suppliers, 99% of which are locally-based. It diversifies risks from supply chain disruptions by ensuring at least two suppliers for high-volume ingredients.

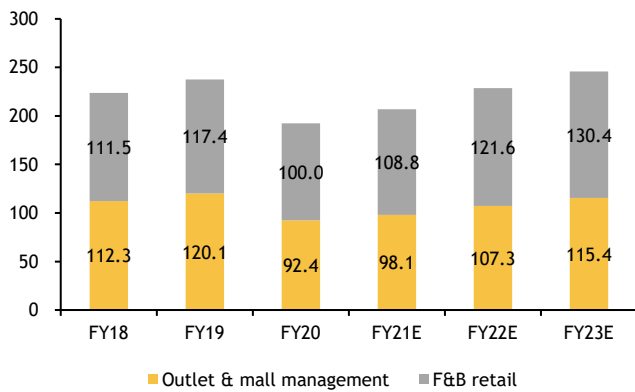
Key G metrics and issues

- The board has five directors, including the Executive Chairman and CEO, one Executive Director and three independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board has remained the same since Koufu’s IPO in Jul’18, and is made up of one female director and four male directors with an age ranging from 50 to 70 years.
- Jun Yuan Holdings (controlled by the founder and his wife) has 77.18% deemed stake in the company.
- Key management/ directors’ compensation accounted for about 4%/2% of total employee compensation in 2020.
- The external auditor is KPMG LLP.
- In FY20, Koufu met its target of zero confirmed cases of corruption and cases involving non-monetary sanctions, while it also did not have any cases brought through dispute resolution mechanisms over the past two years.
- But the Group has received two fines of SGD1,000 each from Ministry of Manpower and Singapore Food Agency for non-compliance on safe-distancing measures at its office and food court respectively.
- It has since taken additional measures to ensure safe distancing is adhered to at its office and food operations, increased cleaning frequency of high touch points and limit the need for employees to return to the office.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

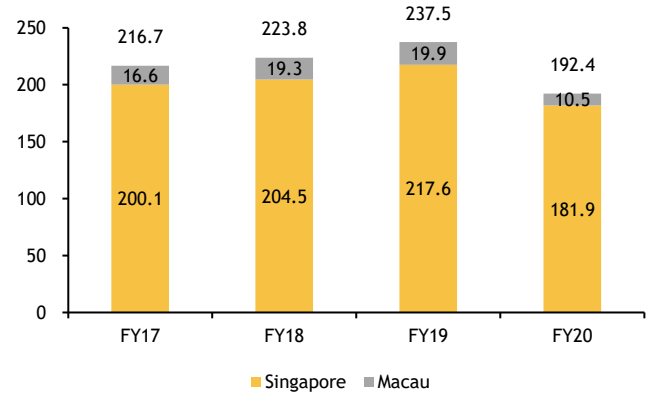
Focus charts

Fig 1: Revenue by business segments



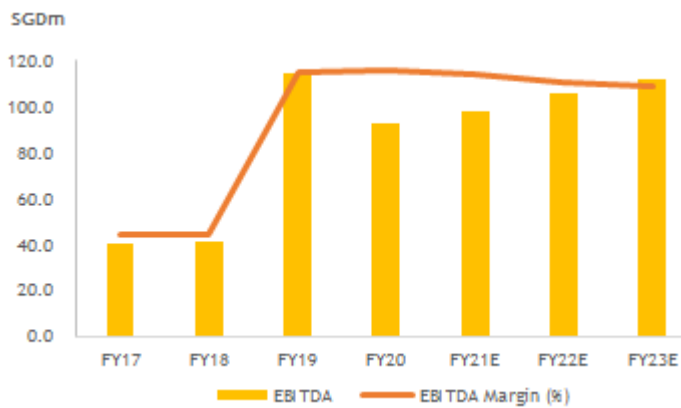
Source: Company data, Maybank Kim Eng

Fig 2: Revenue by geography



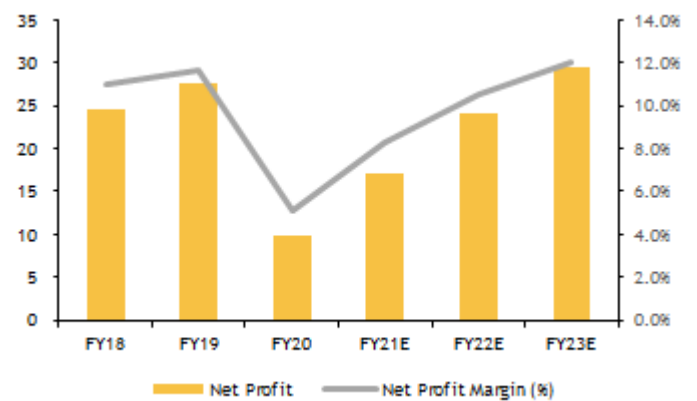
Source: Company data, Maybank Kim Eng

Fig 3: EBITDA and margin



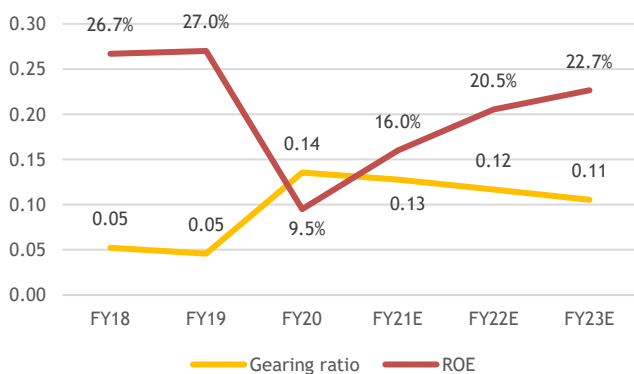
Source: Company data, Maybank Kim Eng

Fig 4: Net profit and net profit margin



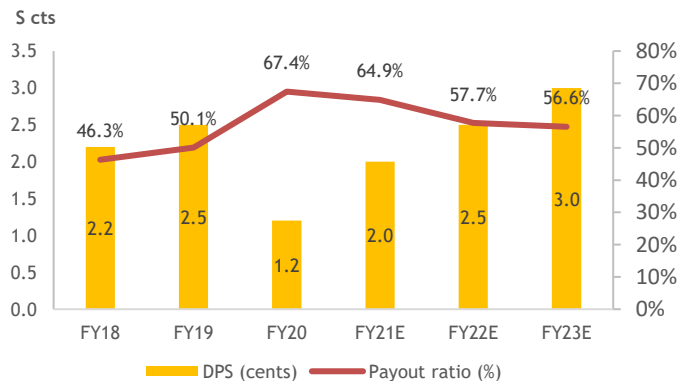
Source: Company data, Maybank Kim Eng

Fig 5: ROE and gearing ratio



Source: Company data, Maybank Kim Eng

Fig 6: DPS and payout ratio



Source: Company data, Maybank Kim Eng

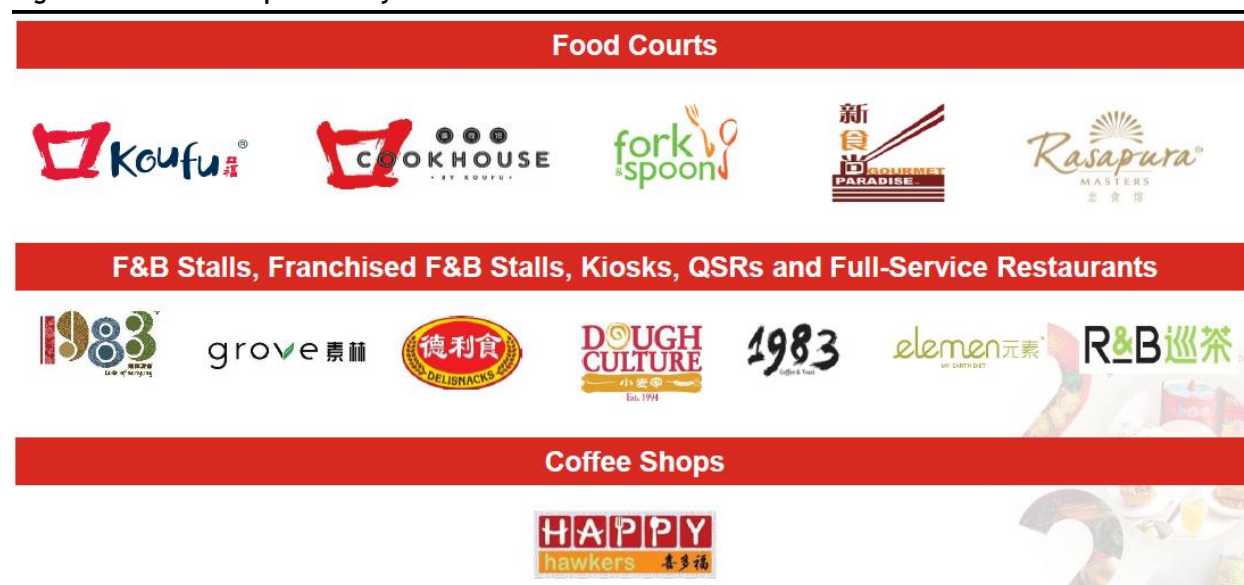
1. Investment thesis

1.1 Multi-brand platform and network

Armed with a portfolio of 14 complementary brands, Koufu is able to reach out to different market segments at differentiated price points, to expand its market share and capture business growth in each target segment. The F&B menu offerings at each of these outlets are tailored to suit the demographics and profile of customers at each location. Its food courts and coffee shops are mainly located at neighbourhood areas with sizeable catchment, such as near residential areas, public transport hubs, departmental stores, cinemas, supermarkets and tertiary institutions.

In Jul'20, it added two new brands, Delisnacks and Dough Culture, through an accretive acquisition of Deli Asia for SGD22m (or 9.2x implied FY19 P/E). This highly synergistic deal effectively fast-tracks the Group's revenue diversification and network expansion in complementary dim sum, snacks and dough products, as well as strengthens its supply chain with the expansion of its production and manufacturing capabilities.

Fig 7: Portfolio of complementary brands



Source: Company

Food courts and coffee shops













The Group operates its food courts and coffee shops under different revenue models. Most of the stall operators of its food courts are charged a fixed monthly fee or a variable monthly fee pegged to gross turnover, whichever is higher. The monthly fee varies according to the location of the food court or the mix of stall operators at that particular food court or the type of F&B products sold by the stall operators.

Most of the stall operators in its coffee shops and hawker centre are charged a fixed monthly fee or rent respectively. The stall operators of its food courts, coffee shops and hawker centre are also charged other fees, which, depending on the particular food court, coffee shop or hawker centre the F&B stall is located in, may include miscellaneous charges, cleaning fees, outdoor refreshment area fees, conservancy and service charges, maintenance fees, POS system rental, insurance premium contributions, administrative fees and advertisement and promotion fees.

As for the mall, Punggol Plaza, rent is collected based on a fixed rent for each tenant, while the wet market operator is charged a fixed licence fee. In addition, its tenants and the wet market operator pay service charges, advertising and promotion fees and maintenance fees.

Based on the total number of F&B stalls in the food courts and coffee shops that the group operates and/or manages, it has consistently achieved an average occupancy rate of more than 90%.

Fig 8: Various price ranges catering to different market segments

| Average Meal Cost | Brands | F&B Outlets |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| \$20 - \$50 |  | Full-service restaurants |
| \$5 - \$15 |    | Food courts and quick-service restaurants |
| \$4 - \$12 |    | Food courts, F&B kiosks and quick-service restaurants |
| \$3 - \$8 |     | Food courts and F&B kiosks |
| \$2 - \$5 |  | Coffee shops and hawker centre |

Source: Company

F&B retail business

Revenue from its F&B retail business is generated from the sale of F&B products through its: (a) self-operated F&B stalls at its food courts, coffee shops and hawker centre as well as third-party food courts; (b) F&B kiosks; (c) QSRs; and (d) full-service restaurants.

Self-operated F&B stalls: Its self-operated F&B stalls are mostly located within its food courts and coffee shops in Singapore and Macau and in the Jurong West hawker centre and market. Koufu operates the drinks stall in all its food courts and coffee shops, and in one food court managed by it for a third party.

F&B kiosks: Its F&B kiosks serve food and beverages mainly for take-away customers. It operates three F&B kiosks in Singapore and one F&B kiosk in Macau serving tea under the R&B Tea and Superteau brands. It is looking to consolidate the outlets to improve profit margin.

Quick-service restaurants: The Group first launched new concept F&B outlets in 2013 under its 1983 Coffee & Toast brands as QSRs. These are conveniently located in education institutions, hospitals and Changi Airport. It also established QSRs under its Grove brand, which is focused on bringing affordable meatless cuisine to a wider group of consumers.

Full-service restaurants: Its full-service restaurants, which usually have a gross floor area of 200-250 sqm, provide customers with a full dining experience with table service. Currently, its full-service restaurants operate

under its Elemen brand, which is a dining concept focused on a modern interpretation of natural and meatless cuisine.

1.2 Network expansion to boost growth

Backed by its strong balance sheet and net cash position, the Group continues to expand and strengthen its presence with new F&B outlets in Singapore and overseas. For 1H21, it opened one food court with one self-operated F&B stall at Sun Plaza, two R&B Tea kiosks at Fusionopolis and Sun Plaza, three Dough Culture kiosks at Sing Post Centre, Sun Plaza and Oasis Terrace. Another two new food courts at Marina Square, NTU and one food court shop at its new Koufu Headquarters were opened in 3Q21.

To widen its footprint in Singapore, Koufu recently set up a new food court at Outram Community Hospital, as well as a R&B tea kiosk at Sinopec Petrol Station in Woodlands Ave 5. According to management, a Dough Culture kiosk at Jurong East MRT Station and a QSR restaurant at Northshore Plaza will also open in 4Q21.

Going forward, its local expansion plans will focus on new housing estates, hospitals, malls and tertiary education institutions. Meanwhile, management is actively looking for JV partners to bring R&B Tea brand to Thailand and Malaysia, even as it progressively introduces other F&B Retail brands, such as Elemen into various markets.

1.3 New integrated facility to deliver scale

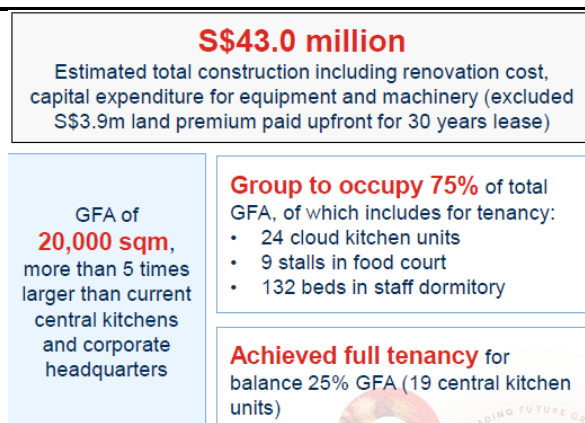
Koufu obtained a Temporary Occupation Permit (TOP) in Apr'21 and it expects to progressively commence operations from the integrated facility starting in 4Q21. It will occupy 75% of the 20,000 sqm GFA, while the remaining 25% has already secured full tenancy for all the 19 central kitchen units to generate recurring income for the Group.

Fig 9: Koufu's new integrated facility at 1 Woodlands Height



Source: Company

Fig 10: Koufu will commence operations in 4Q21



Source: Company

The Group will use the space at the facility to operate a food court, a cloud kitchen and a staff dormitory. It will also receive rental income from the tenancy of the nine stalls in the coffee shop, 24 cloud kitchen spaces and 132 beds in the staff dormitory.

The Group seeks to further improve its productivity through increased automation of its operations and researching food preparation processes. We think this could help to boost productivity and allow Koufu to attain higher cost efficiency. This larger central kitchen will also better support all of its F&B retail business, as well as future expansion via increased production capability. This will also help to enter new markets through the supply of frozen or par-fried dim sum snacks and dough products to third-party businesses, including supermarkets and exports to overseas markets.

Koufu will combine and commence the production of the bakery products, dim sum snacks and the dough products in the integrated facility in 4Q21, which is of a larger production capacity to cater to its revenue diversification and network expansion. The group believes its supply chain and logistics can be strengthened with the broadening and expansion of the production manufacturing capabilities to achieve higher productivity and product margins.

1.4 Expands digital F&B to capture growing demand

Notably, the pandemic has accelerated the growth of e-commerce, including making orders through mobile apps and cashless payments, effectively normalising such activities. In fact, Koufu is one of the first food court operators in Singapore to implement the NETS unified payment system across all its outlets.

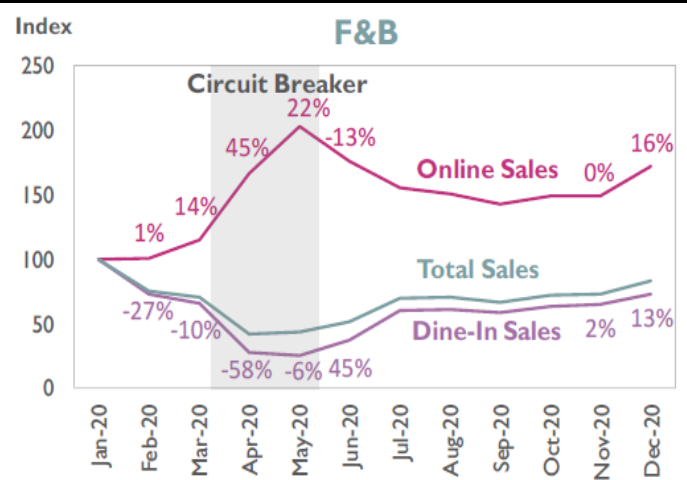
Since the start of the pandemic, management has seen a constant and steady shift towards people utilising food delivery services. Koufu has partnered with the major food delivery players in the industry, to expand the reach of its food. As a food court and coffee shop manager, it negotiates on behalf of its stall tenants with the food delivery partners for the best terms, conditions and rates.

Fig 11: Koufu Eat app



Source: Company

Fig 12: Rising online F&B sales



Source: Singapore Department of Statistics

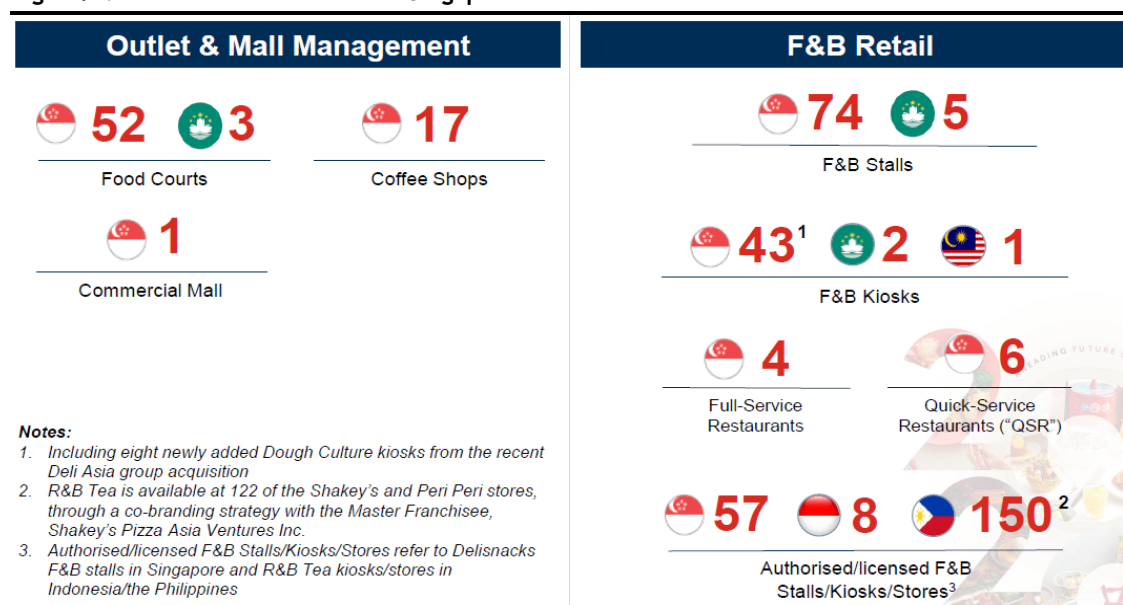
It has already launched a delivery service option on the Koufu Eat app to certain areas of Singapore by partnering with these delivery vendors, and it's looking to gradually increase the delivery coverage to include more parts of the island. Apart from delivery services, the Koufu Eat app has also gained traction during this period by catering to customers who prefer to use the "click and collect" option, which offers increased convenience.

2. Corporate information

Established in 2002 and listed on the main board of the SGX-ST since July 2018, Koufu is one of the most established and largest operators and managers of food courts and coffee shops in Singapore, with a presence in Macau. Koufu's business comprises two business segments - Outlet & Mall Management and F&B Retail.

Under the Outlet & Mall Management business, Koufu operates and/or manages food courts, coffee shops, a hawker centre and a commercial mall. Under the F&B Retail business, it has self-operated F&B stalls located within its food courts and coffee shops or within third-party food courts as well as F&B kiosks, quick-service restaurants and full-service restaurants, amongst others.

Fig 13: Number of Koufu outlets in Singapore and overseas



Source: Company

3. Industry and competition

Dining out is an integral part of daily life given a rising trend of dual-income families in Singapore. And as more Singaporeans are working long hours, having meals outside the home is a necessity for many, as well as a form of enjoyment. Most choose to eat at hawker centres, coffee shops or food courts rather than restaurants, due to convenience, a wider range of options and affordability.

Fig 14: F&B sales growth in Singapore in Aug'21

| Industry | Year-on-year change (%) | Month-on-month change (%) |
|--------------------------------------------|-------------------------|---------------------------|
| Total | ▼ -6.7 | ▼ -2.1 |
| Restaurants | ▼ -24.5 | ▲ 0.4 |
| Fast food outlets | ▲ 8.7 | ▼ -4.7 |
| Food caterers | ▲ 0.1 | ▼ -3.0 |
| Cafes, food courts and other eating places | ▲ 3.1 | ▼ -2.5 |

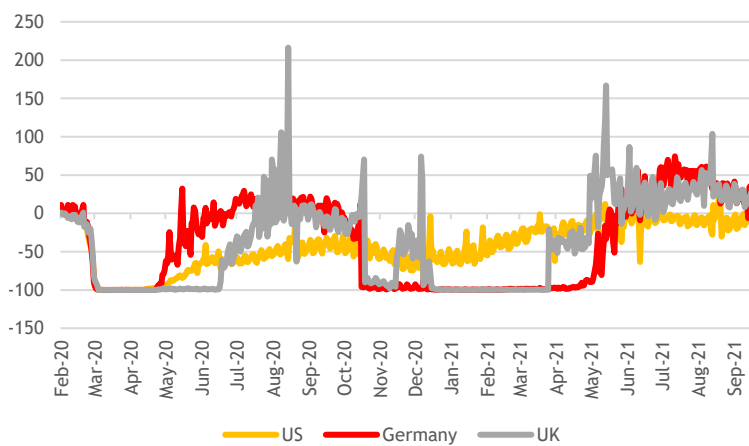
Source: Singapore Department of Statistics

However, the local F&B industry is also highly competitive due to relatively low barriers to entry. While indirect F&B competitors are aplenty, there are only a handful of large chain operators such as Food Junction, Food Republic (under BreadTalk) and NTUC Foodfare (for food courts), and Broadway, Chang Cheng, Kim San Leng and S-11 (for coffee shops). Only Koufu, Kimly and Kopitiam operate both types of food outlets.

While the Group strives to differentiate itself based on factors such as the location of its F&B outlets, quality & price of its food, customer service and overall dining experience, it also recognizes there is a growing demand for online food ordering and delivery services amid Covid-19.

Hence, Koufu has forged partnerships with third-party food delivery companies at its outlets to tap this growing market trend, providing the group with a new channel to reach out to a wider customer base and capture additional sales.

Fig 15: No. of seated diners in restaurants (% change from 2019 base)



Source: CEIC

Although the recent tightening of safe management measures with dine-in group sizes capping at 2 pax (from 27 Sep to 24 Oct) could adversely impact the F&B players in the near-term, this should potentially revert back to the mean once the measures are eased, as seen in the US and other European countries (Fig 15).

Moreover, we think that Koufu is relatively more resilient compared to the rest as c.45% of its food outlets are located in the heartlands, partially mitigating lower footfall for those near offices, downtown areas, tertiary institutions and tourist hotspots.

With over 80% of the population already fully inoculated, we believe the government will continue with its reopening plan despite its more calibrated approach. In fact, Singapore will soon extend its Vaccinated Travel Lanes to nine more countries including those in Europe, South Korea, Canada and the US.

4. Financial analysis

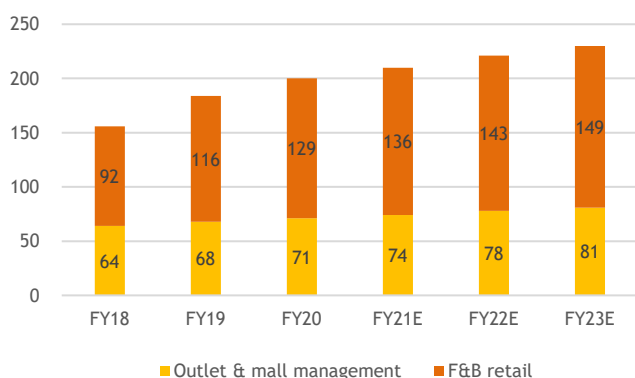
Outlet & Mall Management

Whilst the Group's revenue from the outlet & mall management segment comprises largely fixed rental income from stall tenants, a portion of the Group's revenue is also directly linked to the performance of stallholders in certain food outlets, where a component of the fee is variable in nature and pegged to the gross turnover of the stall in question.

The Group's variable fee income from stallholders is correlated to footfall, which is being impacted by Covid-19 and tightening measures. At the same time, Koufu has been actively sourcing new tenants to replace outgoing stallholders as it closely monitors the occupancy rate.

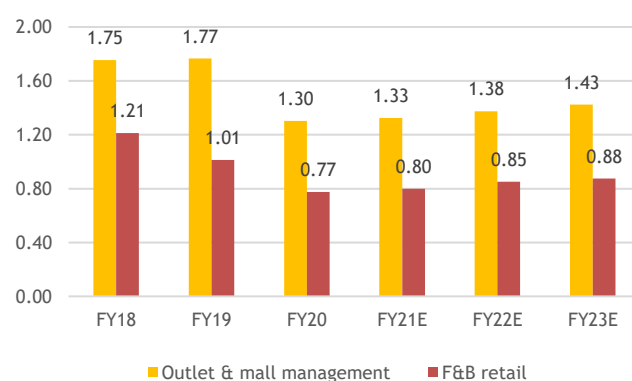
We think the government is likely to relax the restrictions for F&B establishments after this stabilisation phase ends in 24 Oct. As such, we expect an increase in rental and related income from stall tenants, led by more outlet openings and higher same-store-sales growth on improving footfall going forward.

Fig 16: Total outlet/stall count forecast



Source: Company, Maybank Kim Eng

Fig 17: Average sales per outlet/stall (SGD'm)



Source: Company, Maybank Kim Eng

F&B retail

Even though the Group's food outlets remain operational for takeaway and delivery, certain food courts have nonetheless been impacted by significantly lower footfall near offices, down-town areas, tourist hotspots and in tertiary institutions where staff and students have transitioned to home-based learning. It will closely monitor the situation to determine if any food outlets need to be suspended to reduce operating costs during this period.

Learning from the experience gained in launching delivery services during the Circuit Breaker last year, the Group is more prepared this time round with improved capabilities by using various delivery platforms as well as its own Koufu Eat app. In our forecast, we also factored in the full contribution from its snacks & dough products business (1H21: SGD5.9m), which was acquired in Jul'20.

Expects slower recovery in overseas markets

All its food courts at the University of Macau, Nova City and Cotai Sands remain operational, but at a much lower revenue level compared to pre-Covid. That said, the impact has been mitigated to an extent by the rental waivers and rebates passed down by the landlords. Similarly, any waivers and rebates received have been passed down to stallholders.

In view of Macau's recent Covid-19 outbreak, the authorities are again stepping up travel restrictions from mainland Chinese visitors. Nevertheless, the Group expects its business operations to slowly improve once measures are relaxed to allow for more Mainland Chinese visitors under the quarantine-free travel arrangements, particularly the low-risk areas of China.

On 30 Dec 2020, the Group appointed PT Super Tea Indonesia (Super Tea Indonesia) as its master licensee following the sale of its stake in Super Tea Indonesia as part of Koufu's move to streamline operations. Koufu operates eight licensed R&B Tea outlets in Jakarta, Indonesia.

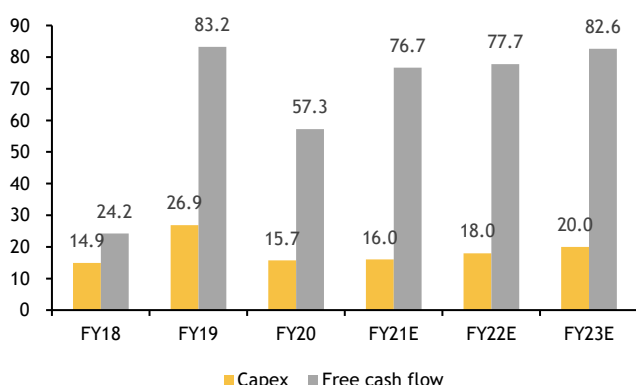
In the Philippines, the master franchisor has rolled out selected R&B Tea drinks to 150 of their Shakey's and Peri Peri stores since 2020 and has opened its first standalone R&B Tea outlet last month. Business in both Indonesia and the Philippines has been affected by the pandemic and restrictions imposed in the respective countries, but somewhat mitigated by strong delivery sales.

Balance sheet and cash flow

Given its F&B retail sales are made on cash terms, Koufu's business is highly cash-generative and has a strong operating cash flow with a healthy balance sheet. This allows the Group to continually look for accretive M&A opportunities to further diversify its revenue stream.

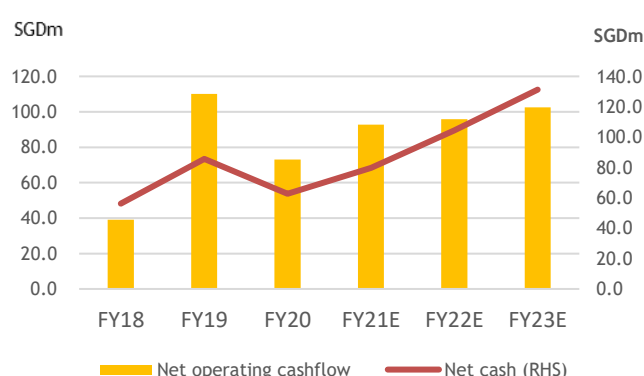
In Jul'20, it added two new brands, Delisnacks and Dough Culture, through an accretive acquisition of Deli Asia for SGD22m (or 9.2x implied FY19 P/E). These food products are complementary to the dim sum that Koufu is selling at its food courts and coffee shops. In fact, Deli Asia is one of the biggest suppliers of fried food and dough products to the Group.

Fig 18: Capex and FCF



Source: Company, Maybank Kim Eng

Fig 19: Net operating cashflow and net cash



Source: Company, Maybank Kim Eng

5. Valuation

We are initiating coverage on Koufu with a BUY and 12-month TP of SGD0.78, pegged at 18x FY22E P/E, which is in line with its SGX-listed peers' average. Backed by its robust cash flow-generative business, the group is currently in a net cash position of SGD68.8m (12.4¢/share).

Koufu's ROE fell to only 9.5% in FY20 from 26-27% in FY18/19 as it was significantly impacted during the Circuit Breaker period (7 Apr - 1 Jun 2020) due to lower footfalls at its food courts, especially those located in malls, tertiary institutions and near offices.

On the other hand, Kimly's coffee shops are mostly in the heartland areas, which strongly benefit the group as people are stuck at home during lockdown. However, this also suggests Koufu gets to ride the recovery wave as Singapore forges ahead with its reopening plans, in line with our thesis.

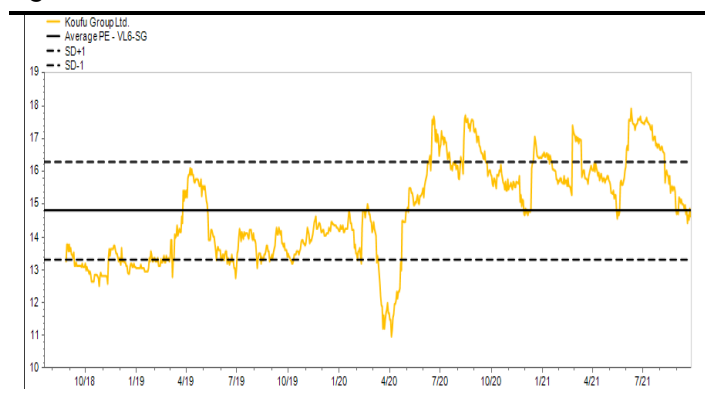
While it has not committed to a fixed dividend policy, the Group intends to distribute at least 50% of core net profit as dividends, which would imply a decent FY21E yield of 3.1%. Underpinned by its relatively resilient business, we see the stock as a stable defensive play amid current market volatility.

Fig 20: Peers comparison

| Company | BBG Code | MKE Rec | MKE TP (LC) | Price (LC) | FYE mm/dd | Market Cap USDm | P/E (x) | | | | EV/EBITDA (x) | P/B (x) | ROE (%) |
|-----------------------------|----------|---------|-------------|------------|-----------|-----------------|-------------|-------------|-------------|-------------|---------------|------------|------------|
| | | | | | | | Actual | FY1 | FY2 | FY3 | | | |
| Koufu Group | KOUFU SP | BUY | 0.78 | 0.63 | 12/31 | 258 | 35.4 | 20.4 | 14.5 | 11.9 | 4.6 | 3.3 | 9.5 |
| Local peers | | | | | | | | | | | | | |
| Kimly | KMLY SP | NR | - | 0.38 | 09/30 | 345 | 17.2 | 19.1 | 17.4 | 15.9 | 13.9 | 2.8 | 22.9 |
| Jumbo Group | JUMBO SP | NR | - | 0.30 | 09/30 | 143 | - | - | - | - | -235.9 | 3.4 | -13.2 |
| ABR | ABR SP | NR | - | 0.47 | 12/31 | 69 | 15.7 | - | - | - | 6.0 | 1.4 | 6.2 |
| Old Chang Kee | OCK SP | NR | - | 0.70 | 03/31 | 63 | 9.8 | - | - | - | 5.4 | 2.5 | 29.1 |
| Japan Foods Holding | JFOOD SP | NR | - | 0.40 | 03/31 | 52 | - | 25.8 | 18.6 | 15.7 | 9.3 | 1.8 | 11.2 |
| No Signboard Holdings | NSB SP | NR | - | 0.04 | 09/30 | 13 | - | - | - | - | -3.5 | 1.8 | -82.9 |
| Tung Lok Restaurants | TUNG SP | NR | - | 0.15 | 03/31 | 30 | 39.7 | - | - | - | 2.5 | 2.9 | 7.7 |
| Soup Restaurant Group | SOUP SP | NR | - | 0.09 | 12/31 | 19 | 28.4 | - | - | - | 6.6 | 3.0 | 8.6 |
| Katrina Group | KTG SP | NR | - | 0.09 | 12/31 | 15 | - | - | - | - | 4.1 | - | - |
| Sakae | SAKAE SP | NR | - | 0.12 | 06/30 | 13 | 7.4 | - | - | - | 15.8 | 0.4 | 4.6 |
| Average (excl Koufu) | | | | | | | 19.7 | 22.5 | 18.0 | 15.8 | -17.6 | 2.2 | 0.0 |

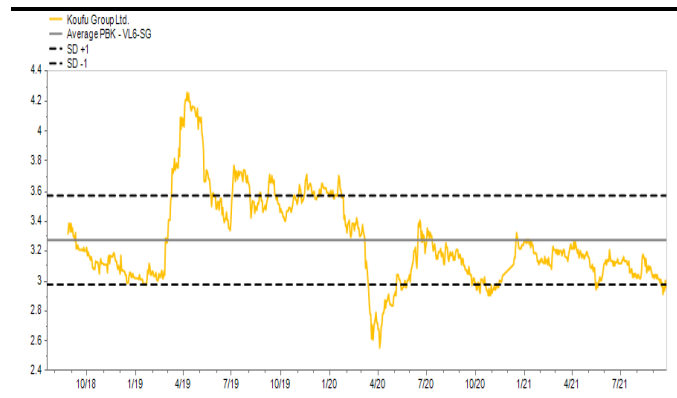
Source: FactSet, Bloomberg

Fig 21: 12-month forward P/E band



Source: Factset

Fig 22: 12-month forward P/B band



Source: Factset

6. Risks

Rising rental expenses

Koufu leases nearly all of the premises of its F&B outlets in Singapore and Macau on a short to medium tenure of 3-4 years. The group generally commences renewal negotiations with the landlord about six months prior to expiry of each lease and there is no certainty it will be able to renew leases or lease new premises on favourable terms.

Dependent on foreign labour

The business is labour intensive, and relies on skilled and experienced personnel for its operations. The group also employs a large number of foreigners and is therefore subject to foreign labour quotas and levies. Any changes in such policies and regulations by Ministry of Manpower may result in labour shortages and impact its operating costs.

Keen competition

The F&B industry is highly competitive and vulnerable to changing market trends and consumer preferences. It is essential that its food courts, coffee shops and hawker centre maintain operators that can offer customers a variety of F&B offerings and consistency in the quality of food and services. Any failure may result in lower occupancy rates for its outlets.

Food quality

Food contamination and tampering is a risk inherent to F&B operations. The ingredients used in its operations include fresh seafood, meat and vegetables, which are procured from various suppliers. These fresh foods are highly perishable and susceptible to contamination if not properly stored or packed. They may also be contaminated during the food preparation process as a result of lapses in food handling hygiene or lack of cleanliness of its F&B outlets, self-operated F&B stalls and/or central kitchens.

7. Key Management

Mr Pang Lim, Executive Chairman & Chief Executive Officer

Pang Lim is one of Koufu's founding shareholders and was appointed to the board in 1996. He has over 30 years of experience in the F&B and food service management industries. He continues to be instrumental to the Group's success and growth. Mr Pang is responsible for the overall management and operation of the Group, setting and executing the strategic directions and expansion plans for the growth and development of Koufu, including sourcing investment opportunities to promote and drive the Group's business advancement. Mr Pang's deep industry experience and business leadership have been widely recognised; he was awarded the Entrepreneur of the Year Award by the Rotary Club of Singapore and the Association of Small & Medium Enterprises in 2004.

Mdm Ng Hoon Tien, Executive Director

Ng Hoon Tien is one of the Group's founding shareholders and was appointed to the board in 2002. She brings with her over 18 years of experience in the F&B and food service management industries. As Koufu's Executive Director, Mdm Ng is responsible for the oversight of the group's operations. She also assists the Executive Chairman and CEO in the formulation and implementation of the Group's business strategies and F&B operations.

Ms Chua Sher Lin, Chief Financial Officer

Chua Sher Lin joined the Group in 2005 and was appointed Chief Financial Officer in Sep 2015. She is responsible for corporate finance, financial management, mergers and acquisitions, investments and investor relations of the Group. Ms Chua also oversees the finance, human resource and information technology departments and is actively involved in formulating policies and strategies for the Group. Prior to joining Koufu, she was the Finance Manager at Goldin Enterprise Pte Ltd and was a Senior Corporate Tax Consultant with KPMG. Ms Chua is a Chartered Accountant in Singapore, a member of the Institute of Chartered Accountants Singapore and also a member of the Association of Chartered Certified Accountants.

| FYE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 14.5 | 38.7 | 20.4 | 14.5 | 11.9 |
| Core P/E (x) | 15.5 | 39.5 | 20.4 | 14.5 | 11.9 |
| P/BV (x) | 4.2 | 3.8 | 3.3 | 3.0 | 2.7 |
| P/NTA (x) | 4.2 | 3.8 | 3.3 | 3.0 | 2.7 |
| Net dividend yield (%) | 3.2 | 1.8 | 3.2 | 4.0 | 4.8 |
| FCF yield (%) | 19.0 | 15.9 | 21.9 | 22.2 | 23.6 |
| EV/EBITDA (x) | 3.0 | 3.4 | 2.8 | 2.3 | 2.0 |
| EV/EBIT (x) | 9.2 | 19.8 | 11.3 | 7.6 | 5.7 |
| INCOME STATEMENT (SGD m) | | | | | |
| Revenue | 237.5 | 192.4 | 206.9 | 228.8 | 245.8 |
| EBITDA | 115.9 | 93.2 | 98.0 | 105.8 | 111.7 |
| Depreciation | (76.6) | (76.2) | (74.0) | (73.5) | (73.0) |
| Amortisation | (2.0) | (1.0) | 0.0 | 0.0 | 0.0 |
| EBIT | 37.3 | 16.1 | 24.0 | 32.3 | 38.7 |
| Net interest income / (exp) | (3.6) | (4.5) | (3.2) | (3.0) | (2.8) |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 33.7 | 11.6 | 20.9 | 29.3 | 35.9 |
| Income tax | (6.1) | (2.0) | (3.8) | (5.3) | (6.5) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 27.6 | 9.6 | 17.1 | 24.1 | 29.4 |
| Core net profit | 27.6 | 9.6 | 17.1 | 24.1 | 29.4 |
| Preferred Dividends | (2.0) | (1.0) | 0.0 | 0.0 | 0.0 |
| BALANCE SHEET (SGD m) | | | | | |
| Cash & Short Term Investments | 90.4 | 76.4 | 93.4 | 118.1 | 145.0 |
| Accounts receivable | 10.0 | 20.0 | 20.7 | 20.6 | 19.7 |
| Inventory | 1.4 | 1.8 | 1.9 | 2.0 | 2.2 |
| Property, Plant & Equip (net) | 210.0 | 191.1 | 180.0 | 170.0 | 160.0 |
| Intangible assets | 0.2 | 16.0 | 16.0 | 16.0 | 16.0 |
| Investment in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 37.0 | 36.4 | 36.4 | 36.4 | 36.4 |
| Total assets | 348.9 | 341.6 | 348.3 | 363.1 | 379.2 |
| ST interest bearing debt | 0.6 | 2.7 | 2.7 | 2.7 | 2.7 |
| Accounts payable | 41.2 | 44.0 | 44.4 | 48.6 | 51.6 |
| Insurance contract liabilities | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 |
| LT interest bearing debt | 4.1 | 11.0 | 11.0 | 11.0 | 11.0 |
| Other liabilities | 198.0 | 181.0 | 181.0 | 182.0 | 182.0 |
| Total Liabilities | 245.9 | 240.3 | 241.1 | 245.6 | 248.9 |
| Shareholders Equity | 102.3 | 101.0 | 107.0 | 117.2 | 130.0 |
| Minority Interest | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 |
| Total shareholder equity | 103.0 | 101.3 | 107.3 | 117.5 | 130.2 |
| Total liabilities and equity | 348.9 | 341.6 | 348.3 | 363.1 | 379.2 |
| CASH FLOW (SGD m) | | | | | |
| Pretax profit | 33.7 | 11.6 | 20.9 | 29.3 | 35.9 |
| Depreciation & amortisation | 78.6 | 77.2 | 74.0 | 73.5 | 73.0 |
| Adj net interest (income)/exp | 3.6 | 4.5 | 3.2 | 3.0 | 2.8 |
| Change in working capital | 0.9 | (18.2) | (1.6) | (4.8) | (2.6) |
| Cash taxes paid | (6.1) | (2.0) | (3.8) | (5.3) | (6.5) |
| Other operating cash flow | 0.7 | 7.4 | 3.2 | 3.2 | 3.0 |
| Cash flow from operations | 108.0 | 76.3 | 92.7 | 95.7 | 102.6 |
| Capex | (26.9) | (15.7) | (16.0) | (18.0) | (20.0) |
| Free cash flow | 81.1 | 60.6 | 76.7 | 77.7 | 82.6 |
| Dividends paid | (12.2) | (11.1) | (11.1) | (13.9) | (16.7) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (64.4) | (50.9) | (45.0) | (35.9) | (36.1) |
| Other invest/financing cash flow | (4.3) | (4.5) | (3.5) | (3.3) | (3.0) |
| Effect of exch rate changes | (2.0) | (1.0) | 0.0 | 0.0 | 0.0 |
| Net cash flow | (1.8) | (6.8) | 17.1 | 24.7 | 26.9 |

| FYE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------------------------|----------|----------|----------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 6.1 | (19.0) | 7.5 | 10.6 | 7.4 |
| EBITDA growth | 164.0 | (19.5) | 5.1 | 7.9 | 5.5 |
| EBIT growth | 28.5 | (56.9) | 49.4 | 34.4 | 19.7 |
| Pretax growth | 15.6 | (65.6) | 80.0 | 40.6 | 22.4 |
| Reported net profit growth | 14.0 | (65.1) | 77.5 | 40.6 | 22.4 |
| Core net profit growth | 14.0 | (65.1) | 77.5 | 40.6 | 22.4 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 48.8 | 48.5 | 47.4 | 46.2 | 45.4 |
| EBIT margin | 15.7 | 8.4 | 11.6 | 14.1 | 15.7 |
| Pretax profit margin | 14.2 | 6.0 | 10.1 | 12.8 | 14.6 |
| Payout ratio | 50.3 | 69.1 | 64.9 | 57.7 | 56.6 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 11.6 | 5.0 | 8.3 | 10.5 | 12.0 |
| Revenue/Assets (x) | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Assets/Equity (x) | 3.4 | 3.4 | 3.3 | 3.1 | 2.9 |
| ROAE (%) | 31.1 | 10.5 | 16.5 | 21.5 | 23.8 |
| ROAA (%) | 10.9 | 2.8 | 5.0 | 6.8 | 7.9 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | (83.9) | (72.9) | (64.0) | (67.5) | (74.8) |
| Days receivable outstanding | 15.2 | 28.0 | 35.4 | 32.5 | 29.5 |
| Days inventory outstanding | 3.2 | 4.0 | 4.3 | 4.3 | 4.5 |
| Days payables outstanding | 102.3 | 104.9 | 103.7 | 104.3 | 108.8 |
| Dividend cover (x) | 2.0 | 1.4 | 1.5 | 1.7 | 1.8 |
| Current ratio (x) | 0.9 | 0.9 | 1.0 | 1.2 | 1.4 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Net gearing (%) (excl. perps) | net cash | net cash | net cash | net cash | net cash |
| Net interest cover (x) | 10.4 | 3.6 | 7.6 | 10.9 | 14.1 |
| Debt/EBITDA (x) | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Capex/revenue (%) | 11.3 | 8.2 | 7.7 | 7.9 | 8.1 |
| Net debt/ (net cash) | (85.7) | (62.6) | (79.7) | (104.4) | (131.3) |

Source: Company; Maybank

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