

# Berjaya Food (BFD MK)

## Onwards and upwards

### Maintain BUY with unchanged TP of MYR1.50

BFD is navigating through heavier cost pressures in FY23 with internal cost efficiencies and product price adjustments at BStarbucks. With this, FY23 group operating margins may ease YoY but strong sales momentum, driven by resilient demand, should keep BFD's earnings on its positive trajectory in the near-term. Our earnings estimates, TP of MYR1.50 (20x FY23E PER, about mean) and BUY call are maintained.

### Strong demand continues

Based on channel checks, BStarbucks demand in 2QFY23 has been tracking internal expectations with the Dec quarter being a seasonally strong earnings contributor driven by festive sales and high store footfall. At present, c.75% of revenue comes from in-store sales while delivery and drive-thru window sales account for c.12% and c.13% respectively.

### Mitigating cost pressures with price adjustments

The group is facing additional cost pressures arising from higher raw material costs (milk) and unfavourable USD/MYR currency exchange (c.50% of raw materials are purchased in USD). Note that BFD's milk costs are in MYR. To mitigate this, BFD has raised product prices for all its beverage items in BStarbucks by MYR1/item (effective Nov 2022) which translates to a 5%-10% increase in permanent beverage product ASPs. On average, beverage sales attributed to c.67% of BStarbucks revenue.

### No changes to earnings estimates

BFD's outlook is positive based on its resilient product demand and unhindered ability to grow its store network amid weak consumer sentiment. That said, we believe that its recent price adjustments will only partially buffer cost increases from raw materials and the stronger USD currency as BFD tries to strike a balance between maintaining consumer affordability and defending group operating margins. Our model has assumed for higher costs to weaken FY23 EBIT margins by 2ppts YoY.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	717	998	1,162	1,249	1,328
EBITDA	230	337	361	356	351
Core net profit	53	130	136	141	147
Core EPS (sen)	3.0	7.2	7.6	7.8	8.2
Core EPS growth (%)	nm	143.0	4.8	3.5	4.3
Net DPS (sen)	0.6	1.1	2.0	2.0	2.0
Core P/E (x)	13.2	11.5	13.4	12.9	12.4
P/BV (x)	1.9	3.1	3.1	2.6	2.3
Net dividend yield (%)	1.5	1.3	2.0	2.0	2.0
ROAE (%)	13.3	29.0	25.4	22.1	19.7
ROAA (%)	4.4	10.3	9.8	9.3	9.0
EV/EBITDA (x)	4.2	4.9	5.1	4.8	4.5
Net gearing (%) (incl perps)	69.0	34.5	5.0	net cash	net cash
Consensus net profit	-	-	130	137	147
MKE vs. Consensus (%)	-	-	4.2	2.9	(0.0)

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# BUY

Share Price	MYR 1.01
12m Price Target	MYR 1.50 (+51%)
Previous Price Target	MYR 1.50

### Company Description

Berjaya Food engages in the development and operation of the Starbucks, Kenny Rogers Roasters and Jollibean Foods café and restaurant chains.

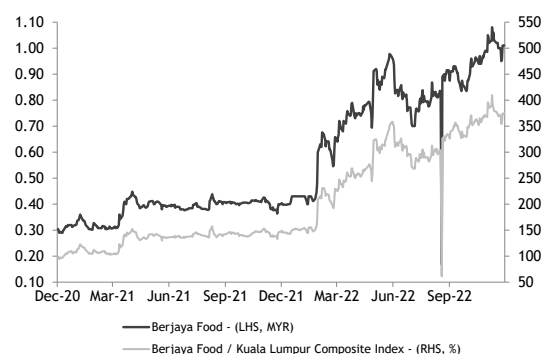
### Statistics

52w high/low (MYR)	1.08/0.17
3m avg turnover (USDm)	0.7
Free float (%)	26.8
Issued shares (m)	1,948
Market capitalisation	MYR2.0B USD445M

### Major shareholders:

Berjaya Corp. Bhd.	42.6%
UBS A/G London	5.3%
Norges Bank	5.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	10	153
Relative to index (%)	1	12	154

Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

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Risk Rating & Score <sup>1</sup>	NA
Score Momentum <sup>2</sup>	NA
Last Updated	NA
Controversy Score <sup>3</sup>	NA

## Business Model & Industry Issues

- BFD's main environmental concerns revolve around the usage of single-use paper and plastic packaging and, to a lesser extent, its carbon footprint through electricity consumption.
- We highlight that BFD has limited authority in making permanent changes towards sustainably sourced product packaging (eg. paper cups, plastic lids) as *Starbucks Coffee International* has full control over the "Starbucks" brand image globally.
- Nevertheless, BFD has implemented various in-store policies surrounding its last mile sales which are aimed at reducing its environmental impact (eg. biodegradable plastic bags, LED lights).
- Overall, BFD is exposed to manageable ESG risks, in our view. Its ESG measures are consistent with its' F&B retail industry peers but it also has similar gaps with regards concrete sustainability targets that the group hopes to achieve in the long run.

## Material E issues

- To minimise single-use packaging, BFD successfully implemented its "Bring Your Own Tumbler" programme, where a MYR2 discount is given to customers who bring their personal Starbucks tumbler to purchase beverages at all BStarbucks stores. In FY22, 803,217 customers participated in this initiative, reflecting a 8% YoY increase.
- Kenny Rogers Roasters' (BRoasters) stores also introduced reusable containers/bags for sale (i.care Boxes & i.care Bags) which offers a special discount to customers who return with the aforementioned items on new orders.
- All BRoasters and Jollibean stores use biodegradable plastic bags for takeaways while BStarbucks has launched a variety of reusable merchandises to reduce the group's overall contribution to plastic wastage.
- For BStarbucks, 70% of stores have switched to LED lightings and c.20% of stores have converted to inverter air-conditioners. LED lights will be installed in all BRoasters stores as and when its stores are refurbished going forward.

## Material S issues

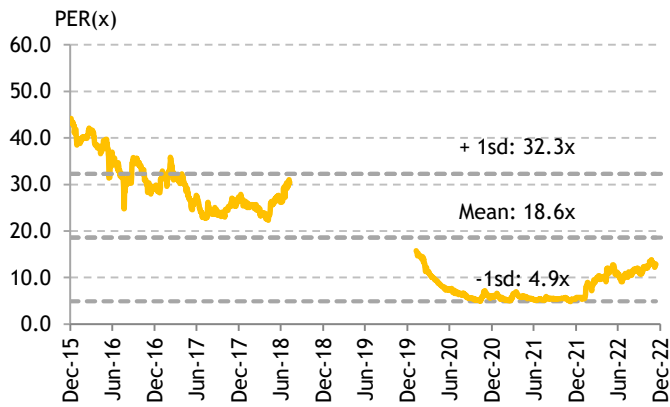
- In 2022, BFD had a total workforce of 6,133 employees, of which c.53% are female.
- Careful evaluation of tenders is conducted within BFD's procurement processes to ensure compliance with labour laws, Good Manufacturing Practices and other relevant regulations. Its food products are also certified Halal where all suppliers are required to furnish proper certifications from JAKIM before they are onboarded.
- Opened the first Starbucks Signing Store in 2016 to provide career opportunities for the deaf community while raising awareness for employees with disabilities in the workplace.
- Collaborates with not-for-profit organisations (eg. The Lost Food Project, Friends to Mankind) to distribute essential food items and books to underprivileged homes.

## Key G metrics and issues

- BFD's BOD comprises 6 directors - 3 independent non-executive directors, 2 non-independent non-executive directors and the CEO.
- At 50%, the group has complied with the Malaysian Code on Corporate Governance requirement to have at least half of its BOD members to be independent directors.
- At present, it has 2 female Directors which represents 33% of the BOD.
- BFD requires annual shareholder's approval for independent directors that have served on the board for more than 9 cumulative years.
- In 2022, 2 independent directors have served on the BOD for >9 years. As both members still satisfy the independence criteria set out in the Listing Requirements, BFD has sought for shareholder's approval to retain both members as independent directors at their recent AGM.
- The positions of chairman and CEO are held by separate individuals.
- BFD is audited by Ernst & Young PLT.
- The group CEO's remuneration was MYR2.2m in FY22, representing 1.2% of the group's pre-tax profit.
- BFD does not disclose detailed remuneration packages of its senior management for confidentiality reasons.
- Through its holding company, Berjaya Corporation, BFD fully owns the Starbucks franchise in Malaysia and Kenny Rogers Roasters franchise worldwide.
- Royalty expenses accounted for c.5.3% of BFD's group revenue in FY22.
- BFD's significant related party transactions mainly relate to its sale of bottled beverages to 7-Eleven convenience stores, rental of premises at Berjaya Times Square shopping mall and provisions of leasing and hire purchase facilities.

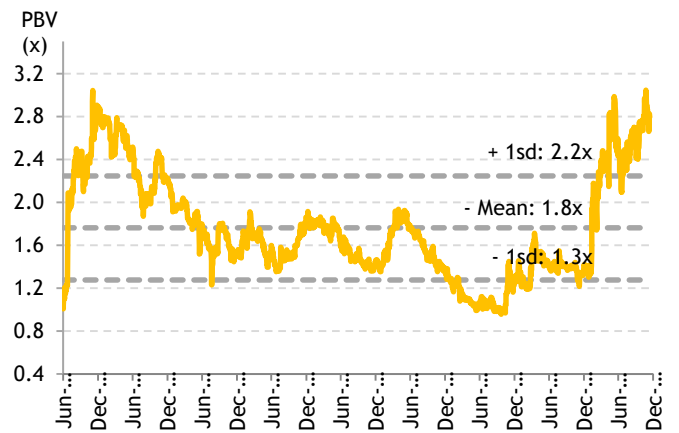
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**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. <sup>3</sup>**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).

**Fig 1: Forward PER**



Source: Maybank IBG Research

**Fig 2: Forward PBV**



Source: Maybank IBG Research

### Risk statement

There are several risk factors for our earnings estimates, price target, and rating for BFD. Changes in sales volume, product pricing, operating expenses and interest costs may lead to lower earnings for BFD.

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	11.6	7.8	13.4	12.9	12.4
Core P/E (x)	13.2	11.5	13.4	12.9	12.4
P/BV (x)	1.9	3.1	3.1	2.6	2.3
P/NTA (x)	(8.5)	57.6	13.8	7.6	5.2
Net dividend yield (%)	1.5	1.3	2.0	2.0	2.0
FCF yield (%)	20.2	17.0	9.3	9.8	8.6
EV/EBITDA (x)	4.2	4.9	5.1	4.8	4.5
EV/EBIT (x)	9.2	7.7	8.1	7.3	6.6

**INCOME STATEMENT (MYR m)**

Revenue	717.3	997.7	1,161.7	1,249.1	1,328.5
EBITDA	230.2	337.4	361.3	356.1	351.2
Depreciation	(122.8)	(120.5)	(132.5)	(121.6)	(109.1)
Amortisation	(2.8)	(2.4)	(2.4)	(2.3)	(2.3)
EBIT	104.6	214.5	226.5	232.2	239.8
Net interest income / (exp)	(29.9)	(26.3)	(26.7)	(25.3)	(24.0)
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	74.8	188.3	199.8	206.9	215.8
Income tax	(29.0)	(65.3)	(63.9)	(66.2)	(69.1)
Minorities	1.4	2.1	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	47.2	125.1	135.9	140.7	146.8
Core net profit	53.4	129.7	135.9	140.7	146.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	27.7	39.0	176.4	318.5	439.5
Accounts receivable	22.7	28.9	32.0	32.7	33.0
Inventory	46.0	51.8	57.2	61.5	65.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	269.0	294.4	270.2	242.5	241.4
Intangible assets	458.1	459.7	453.4	451.1	448.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	354.1	457.9	457.9	457.9	457.9
<b>Total assets</b>	<b>1,177.7</b>	<b>1,331.7</b>	<b>1,447.1</b>	<b>1,564.2</b>	<b>1,685.6</b>
ST interest bearing debt	169.9	110.5	110.5	110.5	110.5
Accounts payable	97.1	134.9	148.8	160.0	169.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	116.3	95.0	95.0	95.0	95.0
Other liabilities	420.0	508.0	510.0	511.0	512.0
<b>Total Liabilities</b>	<b>802.9</b>	<b>848.9</b>	<b>864.4</b>	<b>876.9</b>	<b>887.5</b>
Shareholders Equity	375.8	485.7	585.5	690.2	801.0
Minority Interest	(1.0)	(2.8)	(2.8)	(2.8)	(2.8)
<b>Total shareholder equity</b>	<b>374.7</b>	<b>482.8</b>	<b>582.7</b>	<b>687.4</b>	<b>798.1</b>
<b>Total liabilities and equity</b>	<b>1,177.7</b>	<b>1,331.7</b>	<b>1,447.1</b>	<b>1,564.2</b>	<b>1,685.6</b>

**CASH FLOW (MYR m)**

Pretax profit	74.8	188.3	199.8	206.9	215.8
Depreciation & amortisation	125.6	122.9	134.8	123.9	111.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(46.7)	(66.6)	7.0	7.5	6.7
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	(27.7)	(63.5)	(63.9)	(66.2)	(69.1)
Cash flow from operations	187.0	318.8	277.7	272.1	264.9
Capex	(45.5)	(64.9)	(108.3)	(93.9)	(108.0)
Free cash flow	141.5	253.8	169.4	178.1	156.9
Dividends paid	(7.1)	(16.2)	(36.0)	(36.0)	(36.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(28.3)	(80.0)	0.0	0.0	0.0
Other invest/financing cash flow	(106.1)	(146.8)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.2	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.0</b>	<b>11.1</b>	<b>133.5</b>	<b>142.2</b>	<b>120.9</b>

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	13.3	39.1	16.4	7.5	6.4
EBITDA growth	59.8	46.6	7.1	(1.4)	(1.4)
EBIT growth	303.2	105.0	5.6	2.5	3.3
Pretax growth	nm	151.7	6.1	3.5	4.3
Reported net profit growth	nm	165.1	8.6	3.5	4.3
Core net profit growth	nm	143.0	4.8	3.5	4.3
<b>Profitability ratios (%)</b>					
EBITDA margin	32.1	33.8	31.1	28.5	26.4
EBIT margin	14.6	21.5	19.5	18.6	18.0
Pretax profit margin	10.4	18.9	17.2	16.6	16.2
Payout ratio	22.9	15.8	26.5	25.6	24.5
<b>DuPont analysis</b>					
Net profit margin (%)	6.6	12.5	11.7	11.3	11.0
Revenue/Assets (x)	0.6	0.7	0.8	0.8	0.8
Assets/Equity (x)	3.1	2.7	2.5	2.3	2.1
ROAE (%)	13.3	29.0	25.4	22.1	19.7
ROAA (%)	4.4	10.3	9.8	9.3	9.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(58.9)	(41.6)	(43.5)	(43.2)	(43.2)
Days receivable outstanding	11.3	9.3	9.4	9.3	8.9
Days inventory outstanding	45.4	37.1	33.0	32.8	32.5
Days payables outstanding	115.6	88.0	85.9	85.4	84.6
Dividend cover (x)	4.4	6.3	3.8	3.9	4.1
Current ratio (x)	0.3	0.4	0.8	1.1	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.6	1.7	1.8	1.9
Net gearing (%) (incl perps)	69.0	34.5	5.0	net cash	net cash
Net gearing (%) (excl. perps)	69.0	34.5	5.0	net cash	net cash
Net interest cover (x)	3.5	8.2	8.5	9.2	10.0
Debt/EBITDA (x)	1.2	0.6	0.6	0.6	0.6
Capex/revenue (%)	6.3	6.5	9.3	7.5	8.1
Net debt/ (net cash)	258.5	166.5	29.1	(113.0)	(234.0)

Source: Company; Maybank IBG Research

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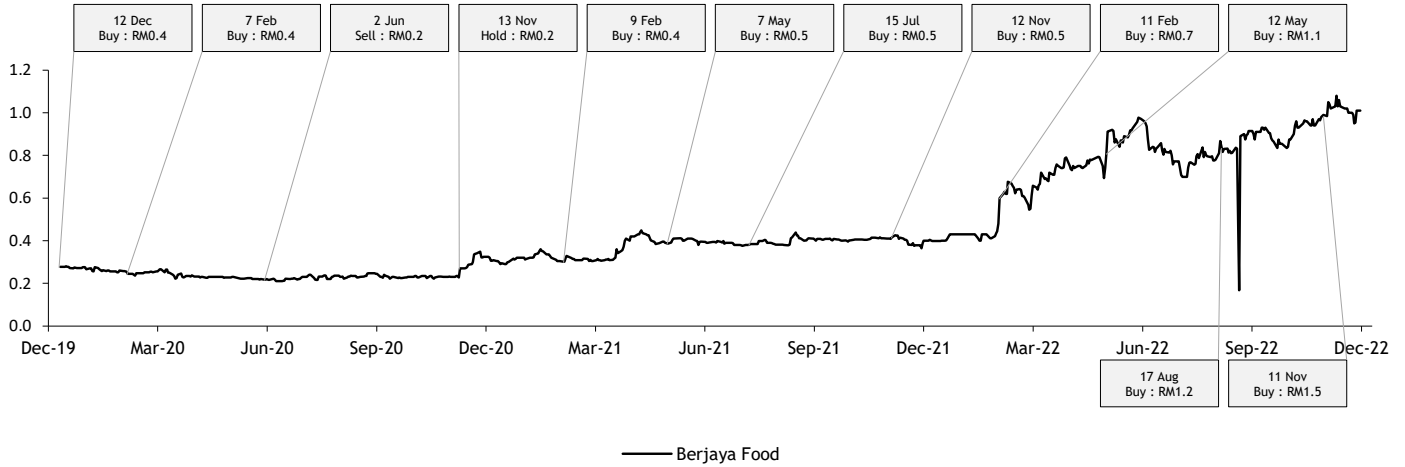
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Historical recommendations and target price: Berjaya Food (BFD MK)



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