

Berjaya Food (BFD MK)

Bottoming out

U/G to BUY with unchanged TP of MYR0.72

Sales momentum is expected to be lacklustre in 4QFY23 due to seasonally weaker sales during Ramadan. However, lower coffee ASPs in 4QFY23 may partially offset slower sales momentum in sequential quarters. Product demand for BStarbucks remains strong, but meaningful earnings improvement will have to be attained through stringent cost management. We maintain our earnings estimates but lower FY24E-FY25E DPS estimates to 2sen p.a. (from 3.5sen p.a.). With 29% upside to our unchanged TP of MYR0.72 (based on 13x CY24 PER, mean), we U/G BFD to BUY.

Seasonally weaker sales during the Ramadan month

4QFY23 sales volume should be seasonally softer QoQ given the Ramadan period (22 Mar - 20 Apr 2023) where sales typically decline c.20%-30% MoM. Store footfall has been stable but slight down-trading trends are emerging as the number of smaller-sized beverage orders increase (eg. downsizing to Grande-sized drinks from Venti).

Raw material costs expected to ease QoQ

BFD is required to purchase 60% of its raw materials from Starbucks International and raw material ASPs (coffee, flavored syrups, packaging materials) are adjusted on a quarterly basis in USD. BFD does not do any forex hedging. Management has shared that its coffee ASPs have softened in 4QFY23 and believes that raw material costs peaked in 3QFY23. BFD's largest raw material component is coffee, followed by milk, which is sourced locally. Separately, after its MYR1/beverage price hike in Nov 2022, the group does not plan to raise product prices any further for now given subdued consumer sentiment.

Store opening plans are intact

BFD plans to open another c.14 BStarbucks stores in 4QFY23 to bring total BStarbucks stores to 393 stores in FY23. With demand remaining stable, the group believes it can open another 40 to 45 BStarbucks stores in FY24 along with 5 Paris Baguette (PB) stores p.a.. There are 2 PB stores presently located in Pavilion KL & Bukit Jalil. BFD is required to open at least 25 BStarbucks stores p.a. based on its agreement with Starbucks International.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	717	998	1,104	1,144	1,265
EBITDA	230	337	304	301	318
Core net profit	53	130	96	98	107
Core EPS (sen)	3.0	7.2	5.4	5.5	5.9
Core EPS growth (%)	nm	143.0	(25.7)	2.0	8.7
Net DPS (sen)	0.6	1.1	3.5	2.0	2.0
Core P/E (x)	13.2	11.5	10.7	10.5	9.7
P/BV (x)	1.9	3.1	2.0	1.8	1.6
Net dividend yield (%)	1.5	1.3	6.1	3.5	3.5
ROAE (%)	13.3	29.0	19.2	17.9	17.3
ROAA (%)	4.4	10.3	7.1	7.0	7.2
EV/EBITDA (x)	4.2	4.9	3.8	3.6	3.2
Net gearing (%) (incl perps)	69.0	34.5	21.9	9.7	0.2
Consensus net profit	-	-	104	115	125
MIBG vs. Consensus (%)	-	-	(7.1)	(14.2)	(14.3)

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BUY

[Prior:SELL]

Share Price MYR 0.58
12m Price Target MYR 0.72 (+29%)
Previous Price Target MYR 0.72

Company Description

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

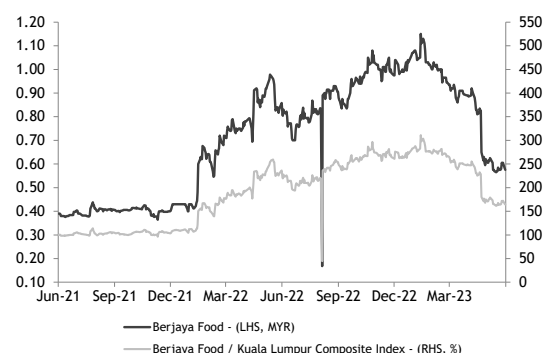
Statistics

52w high/low (MYR) 1.15/0.17
3m avg turnover (USDm) 1.4
Free float (%) 28.7
Issued shares (m) 1,948
Market capitalisation MYR1.1B
USD240M

Major shareholders:

Berjaya Corp. Bhd. 50.8%
Albizia Capital 5.0%
SOCO 4.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(39)	(33)
Relative to index (%)	(6)	(38)	(31)

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³	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 an 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 airconditioners. LED lights will be installed in all BRoasters stores as and when its stores are refurbished going forward.

Material S issues

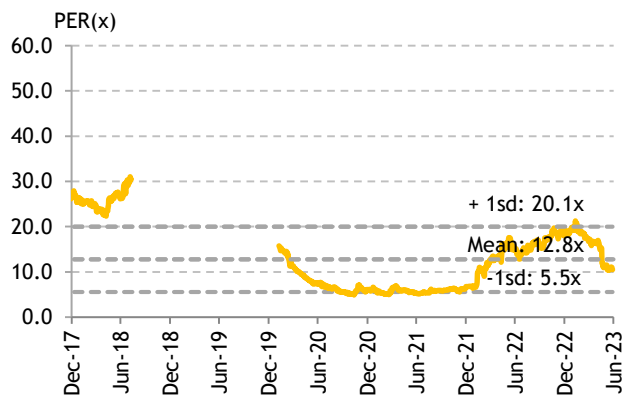
- In 2022, BFD had a total workforce of 6,133 employees, of which c.53% are female.
- Careful evaluation of tenders is conducted within BFD's procurement processes to ensure compliance with labour laws, Good Manufacturing Practices and other relevant regulations. Its food products are also certified Halal where all suppliers are required to furnish proper certifications from JAKIM before they are on-boarded.
- 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.

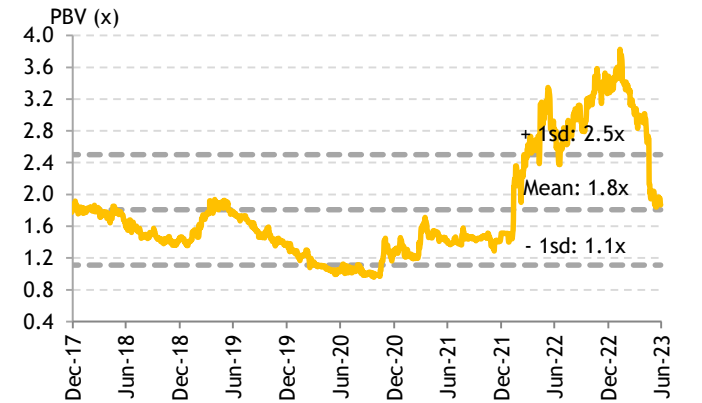
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven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

Fig 1: Forward PER



Source: Company, Maybank IBG Research

Fig 2: Forward PBV



Source: Company, 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
Key Metrics					
P/E (reported) (x)	11.6	7.8	10.7	10.5	9.7
Core P/E (x)	13.2	11.5	10.7	10.5	9.7
P/BV (x)	1.9	3.1	2.0	1.8	1.6
P/NTA (x)	(8.5)	57.6	15.8	7.9	5.1
Net dividend yield (%)	1.5	1.3	6.1	3.5	3.5
FCF yield (%)	20.2	17.0	10.9	8.9	8.8
EV/EBITDA (x)	4.2	4.9	3.8	3.6	3.2
EV/EBIT (x)	9.2	7.7	6.8	6.4	5.7
INCOME STATEMENT (MYR m)					
Revenue	717.3	997.7	1,103.6	1,144.0	1,265.1
EBITDA	230.2	337.4	303.8	301.2	318.0
Depreciation	(122.8)	(120.5)	(132.5)	(127.6)	(133.1)
Amortisation	(2.8)	(2.4)	(2.4)	(2.3)	(2.3)
EBIT	104.6	214.5	169.0	171.3	182.6
Net interest income / (exp)	(29.9)	(26.3)	(27.4)	(26.8)	(25.5)
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	141.6	144.5	157.1
Income tax	(29.0)	(65.3)	(45.3)	(46.2)	(50.3)
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	96.3	98.3	106.8
Core net profit	53.4	129.7	96.3	98.3	106.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	27.7	39.0	92.7	149.3	204.2
Accounts receivable	22.7	28.9	30.4	30.0	31.4
Inventory	46.0	51.8	54.3	56.3	62.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	269.0	294.4	283.5	295.7	323.4
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
Total assets	1,177.7	1,331.7	1,372.2	1,440.3	1,527.7
ST interest bearing debt	169.9	110.5	110.5	110.5	110.5
Accounts payable	97.1	134.9	141.4	146.6	161.5
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	509.0	510.0	512.0
Total Liabilities	802.9	848.9	856.1	861.9	878.5
Shareholders Equity	375.8	485.7	519.0	581.2	652.1
Minority Interest	(1.0)	(2.8)	(2.8)	(2.8)	(2.8)
Total shareholder equity	374.7	482.8	516.1	578.4	649.2
Total liabilities and equity	1,177.7	1,331.7	1,372.2	1,440.3	1,527.7
CASH FLOW (MYR m)					
Pretax profit	74.8	188.3	141.6	144.5	157.1
Depreciation & amortisation	125.6	122.9	134.8	129.9	135.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(46.7)	(66.6)	3.2	4.2	9.5
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	(27.7)	(63.5)	(45.3)	(46.2)	(50.3)
Cash flow from operations	187.0	318.8	234.3	232.4	251.7
Capex	(45.5)	(64.9)	(121.6)	(139.8)	(160.8)
Free cash flow	141.5	253.8	112.7	92.6	90.9
Dividends paid	(7.1)	(16.2)	(63.0)	(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
Net cash flow	0.0	11.1	49.8	56.6	54.9

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	13.3	39.1	10.6	3.7	10.6
EBITDA growth	59.8	46.6	(10.0)	(0.8)	5.6
EBIT growth	303.2	105.0	(21.2)	1.4	6.6
Pretax growth	nm	151.7	(24.8)	2.0	8.7
Reported net profit growth	nm	165.1	(23.0)	2.0	8.7
Core net profit growth	nm	143.0	(25.7)	2.0	8.7
Profitability ratios (%)					
EBITDA margin	32.1	33.8	27.5	26.3	25.1
EBIT margin	14.6	21.5	15.3	15.0	14.4
Pretax profit margin	10.4	18.9	12.8	12.6	12.4
Payout ratio	22.9	15.8	65.4	36.6	33.7
DuPont analysis					
Net profit margin (%)	6.6	12.5	8.7	8.6	8.4
Revenue/Assets (x)	0.6	0.7	0.8	0.8	0.8
Assets/Equity (x)	3.1	2.7	2.6	2.5	2.3
ROAE (%)	13.3	29.0	19.2	17.9	17.3
ROAA (%)	4.4	10.3	7.1	7.0	7.2
Liquidity & Efficiency					
Cash conversion cycle	(58.9)	(41.6)	(40.5)	(40.6)	(39.1)
Days receivable outstanding	11.3	9.3	9.7	9.5	8.7
Days inventory outstanding	45.4	37.1	31.3	31.3	29.9
Days payables outstanding	115.6	88.0	81.4	81.3	77.7
Dividend cover (x)	4.4	6.3	1.5	2.7	3.0
Current ratio (x)	0.3	0.4	0.6	0.7	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.6	1.7	1.7
Net gearing (%) (incl perps)	69.0	34.5	21.9	9.7	0.2
Net gearing (%) (excl. perps)	69.0	34.5	21.9	9.7	0.2
Net interest cover (x)	3.5	8.2	6.2	6.4	7.2
Debt/EBITDA (x)	1.2	0.6	0.7	0.7	0.6
Capex/revenue (%)	6.3	6.5	11.0	12.2	12.7
Net debt/ (net cash)	258.5	166.5	112.8	56.2	1.3

Source: Company; Maybank IBG Research

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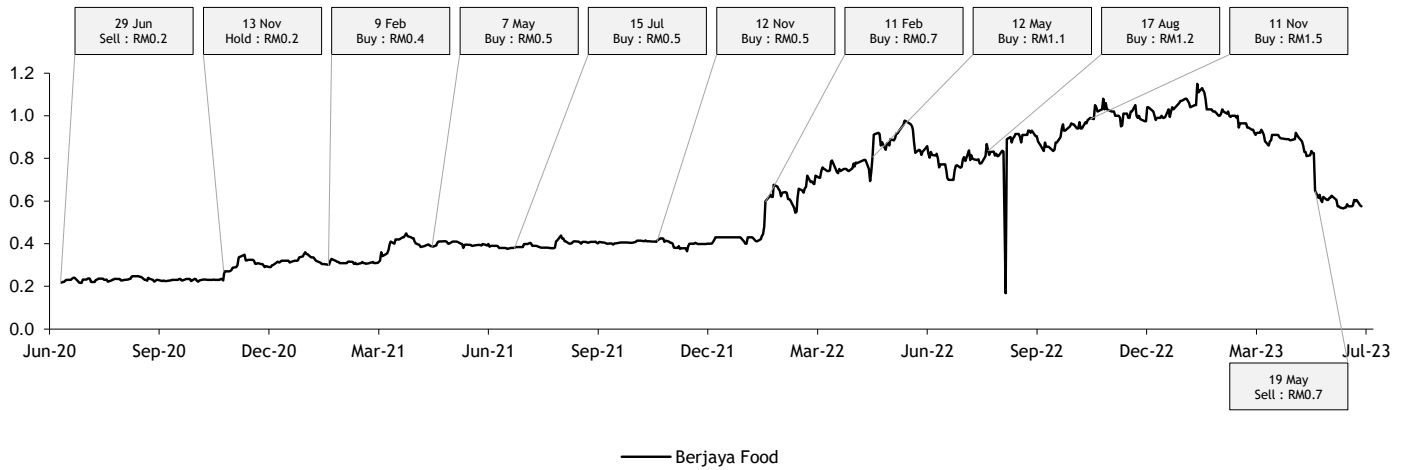
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Historical recommendations and target price: Berjaya Food (BFD MK)



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