

Berjaya Food (BFD MK)

Defending sales momentum

Maintain HOLD with unchanged TP of MYR0.65

Consumer sentiment is expected to remain subdued with down-trading and sales volume slowdown concerns afflicting the overall retail industry. BFD may experience similar sales trend in the near-term but its strong brand equity and beverage product innovations could partially buffer the weaker sales and keep store footfall steady. We keep our earnings estimates, HOLD call and TP of MYR0.65 (based on 13x CY24E PER, mean) unchanged.

Mitigating softer spending with store expansion plans

We believe that consumer sentiment has remained subdued in 1QFY24 with tighter consumer spending and down-trading trends emerging as a result of broad-based food inflationary pressure. To combat this, we observe more frequent promotional activities and new seasonal beverage options at BStarbucks to drive store footfall. BFD targets to open c.40 to 45 new stores in FY24 (FY23: +39 stores [+37 BStarbucks, +2 KRR Malaysia]). Our model has imputed for +40 new stores p.a.

Ongoing cost management

Recall that c.60% of BFD's raw materials (eg. coffee, syrups, packaging) is purchased from *Starbucks International*. Although spot commodity ASPs (i.e. coffee) have been on a downtrend, meaningful cost decreases in raw materials for BFD are unlikely to be reflected so quickly in the bottomline due to its inventory cost phasing cycle and unfavourable USD/MYR currency. That said, milk cost has also been decreasing and we believe that milk cost savings could flow through at a faster pace given that milk is sourced locally.

Investing in labour and digitalisation

In FY24, the group will focus on converting several manually operated systems to digital ones (incl. SAP softwares) for better group efficiencies in the long-run. BFD has earmarked c.MYR15m capex for these digital investments. Separately, with recent changes in the Employment Act which increases overtime salary for employees, permanent staff shift hours have decreased. Hence, BFD may need to recruit additional part-time staff to replenish the hours-worked by its permanent staff previously.

FYE Jun (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	998	1,116	1,158	1,256	1,356
EBITDA	337	312	311	295	298
Core net profit	130	107	90	96	107
Core EPS (sen)	7.2	5.9	5.0	5.3	5.9
Core EPS growth (%)	143.0	(17.7)	(15.2)	5.7	11.8
Net DPS (sen)	1.1	3.5	2.0	2.0	2.0
Core P/E (x)	11.5	10.3	13.8	13.1	11.7
P/BV (x)	3.1	2.2	2.3	2.1	1.8
Net dividend yield (%)	1.3	5.7	2.9	2.9	2.9
ROAE (%)	29.0	21.1	17.4	16.6	16.6
ROAA (%)	10.3	7.7	6.1	6.1	6.5
EV/EBITDA (x)	4.9	4.1	4.4	4.3	3.9
Net gearing (%) (incl perps)	34.5	39.4	13.9	net cash	net cash
Consensus net profit	-	-	95	102	109
MIBG vs. Consensus (%)	-	-	(4.8)	(6.3)	(1.9)

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HOLD

Share Price	MYR 0.70
12m Price Target	MYR 0.65 (-3%)
Previous Price Target	MYR 0.65

Company Description

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

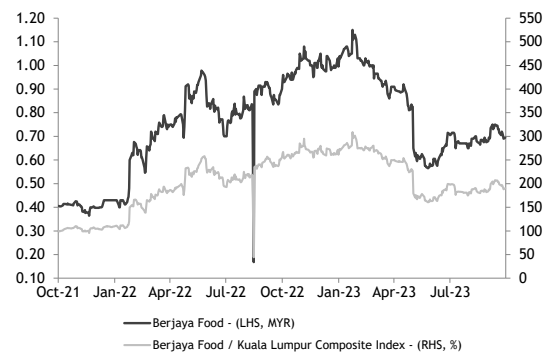
Statistics

52w high/low (MYR)	1.15/0.57
3m avg turnover (USDm)	0.5
Free float (%)	39.9
Issued shares (m)	1,948
Market capitalisation	MYR1.4B USD286M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(3)	(21)
Relative to index (%)	4	(5)	(24)

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

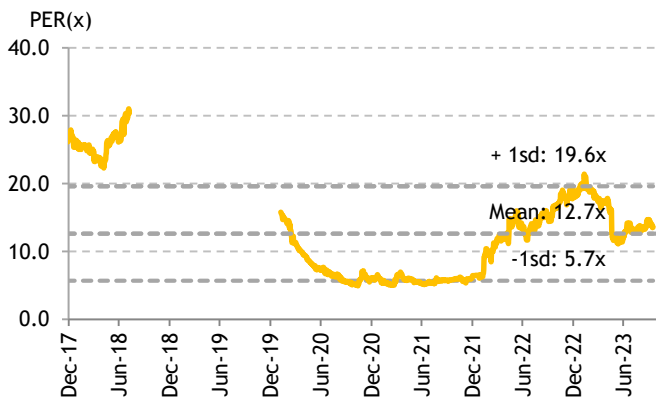
- In 2022, BFD had a total workforce of 6,133 employees, of which c.53% are female.
- Careful evaluation of tenders is conducted within BFD's procurement processes to ensure compliance with labour laws, Good Manufacturing Practices and other relevant regulations. Its food products are also certified 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.

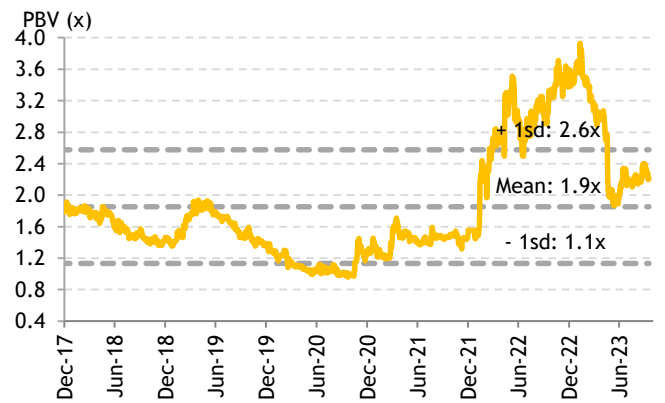
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven 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	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	7.8	15.4	13.8	13.1	11.7
Core P/E (x)	11.5	10.3	13.8	13.1	11.7
P/BV (x)	3.1	2.2	2.3	2.1	1.8
P/NTA (x)	57.6	44.6	12.9	7.9	5.4
Net dividend yield (%)	1.3	5.7	2.9	2.9	2.9
FCF yield (%)	17.0	16.6	11.8	10.7	10.7
EV/EBITDA (x)	4.9	4.1	4.4	4.3	3.9
EV/EBIT (x)	7.7	7.1	8.2	7.4	6.2
INCOME STATEMENT (MYR m)					
Revenue	997.7	1,116.0	1,157.5	1,256.2	1,356.2
EBITDA	337.4	311.6	311.2	294.9	298.2
Depreciation	(120.5)	(127.3)	(143.6)	(121.5)	(108.9)
Amortisation	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
EBIT	214.5	181.9	165.1	171.1	187.0
Net interest income / (exp)	(26.3)	(25.1)	(26.8)	(24.9)	(23.4)
Associates & JV	0.0	(0.4)	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	188.3	156.5	138.3	146.2	163.5
Income tax	(65.3)	(55.3)	(47.9)	(50.6)	(56.6)
Minorities	2.1	2.2	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	125.1	103.4	90.4	95.6	106.9
Core net profit	129.7	106.7	90.4	95.6	106.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	39.0	48.7	160.6	258.4	355.7
Accounts receivable	28.9	33.5	33.2	34.3	35.1
Inventory	51.8	59.3	61.5	66.5	71.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	294.4	332.3	281.0	251.8	235.3
Intangible assets	459.7	468.6	451.0	448.6	446.3
Investment in Associates & JVs	0.0	4.7	4.7	4.7	4.7
Other assets	457.9	487.0	537.6	537.6	537.6
Total assets	1,331.7	1,433.9	1,529.5	1,601.9	1,686.4
ST interest bearing debt	110.5	185.8	185.8	185.8	185.8
Accounts payable	134.9	151.2	156.8	169.6	183.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	95.0	55.0	55.0	55.0	55.0
Other liabilities	508.0	554.0	554.0	554.0	554.0
Total Liabilities	848.9	946.1	951.8	964.6	978.2
Shareholders Equity	485.7	493.2	547.6	607.2	678.1
Minority Interest	(2.8)	(5.3)	30.1	30.1	30.1
Total shareholder equity	482.8	487.8	577.7	637.3	708.2
Total liabilities and equity	1,331.7	1,433.9	1,529.5	1,601.9	1,686.4
CASH FLOW (MYR m)					
Pretax profit	188.3	156.5	138.3	146.2	163.5
Depreciation & amortisation	122.9	129.7	146.0	123.8	111.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(66.6)	95.0	3.8	6.7	7.4
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	(63.5)	(53.1)	(47.9)	(50.6)	(56.6)
Cash flow from operations	318.8	255.1	240.2	226.1	225.5
Capex	(64.9)	(73.0)	(92.3)	(92.3)	(92.3)
Free cash flow	253.8	182.1	147.9	133.8	133.2
Dividends paid	(16.2)	(81.8)	(36.0)	(36.0)	(36.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(80.0)	33.6	0.0	0.0	0.0
Other invest/financing cash flow	(146.8)	(129.5)	0.0	0.0	0.0
Effect of exch rate changes	0.2	1.0	0.0	0.0	0.0
Net cash flow	11.1	5.5	111.9	97.8	97.2

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	39.1	11.8	3.7	8.5	8.0
EBITDA growth	46.6	(7.7)	(0.1)	(5.2)	1.1
EBIT growth	105.0	(15.2)	(9.2)	3.6	9.3
Pretax growth	151.7	(16.9)	(11.6)	5.7	11.8
Reported net profit growth	165.1	(17.3)	(12.6)	5.7	11.8
Core net profit growth	143.0	(17.7)	(15.2)	5.7	11.8
Profitability ratios (%)					
EBITDA margin	33.8	27.9	26.9	23.5	22.0
EBIT margin	21.5	16.3	14.3	13.6	13.8
Pretax profit margin	18.9	14.0	11.9	11.6	12.1
Payout ratio	15.8	60.9	39.8	37.6	33.7
DuPont analysis					
Net profit margin (%)	12.5	9.3	7.8	7.6	7.9
Revenue/Assets (x)	0.7	0.8	0.8	0.8	0.8
Assets/Equity (x)	2.7	2.9	2.8	2.6	2.5
ROAE (%)	29.0	21.1	17.4	16.6	16.6
ROAA (%)	10.3	7.7	6.1	6.1	6.5
Liquidity & Efficiency					
Cash conversion cycle	(41.6)	(41.9)	(41.2)	(40.0)	(40.6)
Days receivable outstanding	9.3	10.1	10.4	9.7	9.2
Days inventory outstanding	37.1	33.0	33.3	32.1	32.2
Days payables outstanding	88.0	84.9	84.9	81.8	82.0
Dividend cover (x)	6.3	1.6	2.5	2.7	3.0
Current ratio (x)	0.4	0.3	0.5	0.7	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.5	1.6	1.7	1.7
Net gearing (%) (incl perps)	34.5	39.4	13.9	net cash	net cash
Net gearing (%) (excl. perps)	34.5	39.4	13.9	net cash	net cash
Net interest cover (x)	8.2	7.3	6.2	6.9	8.0
Debt/EBITDA (x)	0.6	0.8	0.8	0.8	0.8
Capex/revenue (%)	6.5	6.5	8.0	7.3	6.8
Net debt/ (net cash)	166.5	192.1	80.2	(17.6)	(114.9)

Source: Company; Maybank IBG Research

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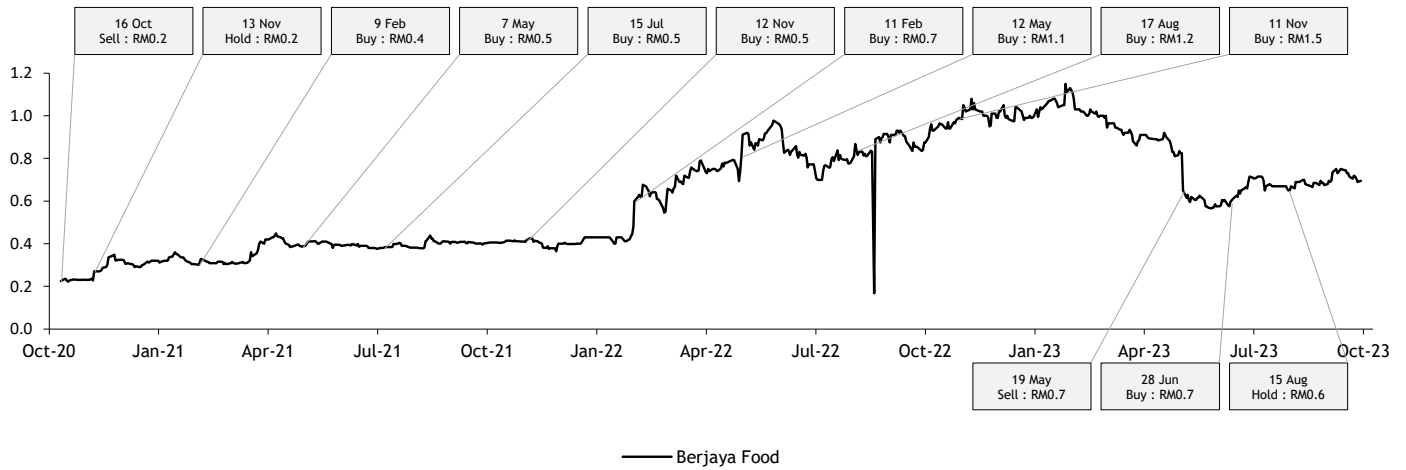
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Historical recommendations and target price: Berjaya Food (BFD MK)



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