

Jumbo Group Ltd (JUMBO SP)

Importing Tsui Wah Brand

BUY

Share Price SGD 0.55
 12m Price Target SGD 0.70 (+28%)
 Previous Price Target SGD 0.70

Bringing an established brand into Singapore

Jumbo has entered into a 49% joint venture with Tsui Wah (1314 HK; Unrated) to set up a HK-style “Cha Chuan Teng” in Singapore. The brand is well-known in HK and China, with 70 outlets as of Jan 2018. This JV will be its first entry into the ASEAN market. The JV will open one outlet in mid-2018 to test the market before planning on further expansion. We think this is a long-term positive as it adds another scalable brand into Jumbo’s portfolio and could leverage its established network in Singapore. However, we trim our FY18E EPS by 3% for additional start-up costs (no other revisions). Maintain BUY and DCF-based TP of SGD0.70 (WACC 9%).

Partnering with a well-known brand in HK and China

The JV vehicle has signed a franchise agreement of 10 years for the right to use the “Tsui Wah” brand name in Singapore. Jumbo will inject SGD245k of capital into the JV vehicle. This addition will be Jumbo’s sixth F&B brand in Singapore. The brand is a highly regarded F&B chain in HK and China that currently operates 32 outlets in HK, 35 outlets in China and 3 outlets in Macau. Jumbo plans to capitalise on the potential of the HK-style “Cha Chuan Teng” market in Singapore to broaden its local customer base.

LT positive but expect near-term start-up costs

We view this JV positively as it enables Jumbo to tap into the growth potential of an established brand and leverage its own existing network of 15 restaurant outlets in Singapore. Based on our back of the envelope calculation from Tsui Wah’s FY17 annual report, each outlet generates around SGD0.24m in earnings per year. Jumbo’s 49% share is equivalent of SGD0.12m or 0.6% of FY19E EPS. We trim our FY18E EPS by 3% to account for additional start-up costs, including staff training, rental and marketing costs. Also, the new restaurant is only expected to contribute to revenue around 4Q18.

FYE Sep (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	137	145	164	189	208
EBITDA	22	22	26	30	33
Core net profit	16	14	17	20	22
Core EPS (cts)	2.4	2.3	2.6	3.1	3.5
Core EPS growth (%)	32.0	(6.7)	16.0	18.9	11.7
Net DPS (cts)	1.7	1.7	1.8	2.2	2.4
Core P/E (x)	22.7	24.4	21.0	17.7	15.8
P/BV (x)	5.4	5.4	5.0	4.6	4.3
Net dividend yield (%)	3.1	3.1	3.3	4.0	4.4
ROAE (%)	25.5	22.3	24.8	27.2	28.0
ROAA (%)	18.3	17.1	19.1	20.6	20.9
EV/EBITDA (x)	15.0	14.5	11.4	10.4	9.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	16	18	21
MKE vs. Consensus (%)	-	-	5.0	9.1	8.2

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Company Description

F&B retailer in Singapore and China, most famous for its chilli crabs and JUMBO Seafood brand. Has five other brands in its stable.

Statistics

52w high/low (SGD)	0.73/0.54
3m avg turnover (USDm)	0.4
Free float (%)	18.2
Issued shares (m)	641
Market capitalisation	SGD352.8M USD268M

Major shareholders:

JBO Holdings Pte Ltd.	57.9%
SIM CHYE HOCK	10.0%
TAN GEE JIAN	6.6%

Price Performance



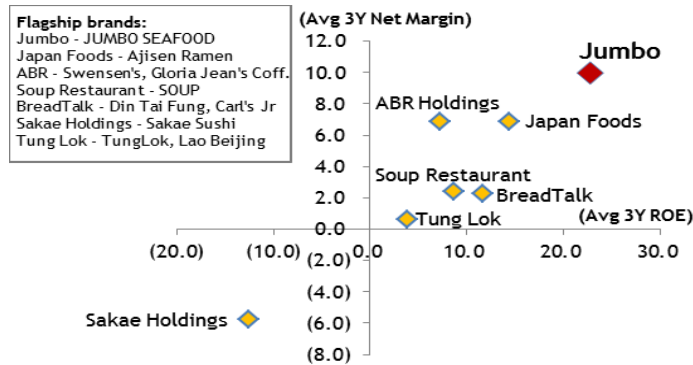
	-1M	-3M	-12M
Absolute (%)	(4)	(4)	(20)
Relative to index (%)	(7)	(5)	(28)

Source: FactSet

Value Proposition

- Restaurant operator popular in Singapore and China, given its reasonable prices and consistent taste.
- Iconic dishes, outlets in ideal locations, strong brands and effective front-and-back-end operations provide high, defensible net margins.
- Branding hinges on signature seafood, such as chilli crab. Helps it stand out in crowded markets, especially when expanding overseas.
- Low-cash-cost business financed by suppliers' credit. High FCF generation supports expansion plus dividends.
- FY17 ROIC of 21% vs WACC of 9%.

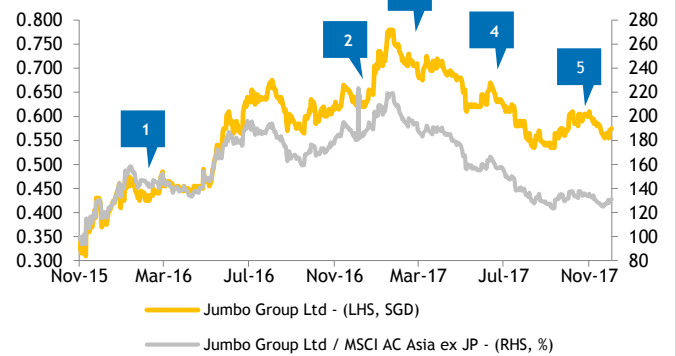
How Jumbo stacks up in profitability & returns



Source: Bloomberg, Maybank Kim Eng

Price Drivers

Historical share price trend



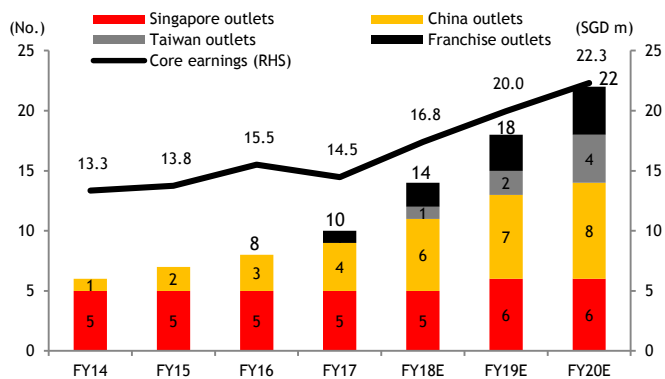
Source: Company, Maybank Kim Eng

1. Stock consolidated after surging from the IPO price of SGD0.25 as market awaited further developments of newly-opened China stores.
2. Stock broke out of consolidation following 1Q16 results, which highlighted the promising performance of its premium IFC Mall outlet in Shanghai.
3. Stock peaked in 2Q16 and retreated ahead of expected seasonal weakness in 3Q16.
4. Continued to retreat as growth flattened out on lack of new outlets.
5. Stock surged after the announcement of expansion to Taiwan but consolidated after a lacklustre 4Q17.

Financial Metrics

- More new Jumbo seafood outlets overseas to power top and bottom lines. We assume 4-5 new outlets pa for FY18-20E, including new Ng Ah Sio Bak Kut Teh outlets.
- Jumbo seafood should continue to anchor revenue and earnings.
- Strong FCF comes from cash business, with little inventory requirements and low capex for new outlets.
- Dividend payout of 70-75% in FY16-17 exceeded earlier guidance of at least 30%. We expect 70% or so, backed by robust FCF.

No. of Jumbo Seafood outlets and potential earnings growth



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- Better-than-expected Singapore and China sales, especially from new outlets.
- Lower-than-expected food and staff costs that could lead to better-than-expected margins.
- Expectations of higher dividends or articulation of a dividend policy.
- Expansion success, especially in overseas markets, such as China, Taiwan and Vietnam.

Downside

- Any changes in China's food-safety laws that could affect China's imports of mud crabs.
- Shortage of critical ingredients for its signature dishes: crabs, other seafood.
- Epidemics or health scares that can damage its reputation, e.g. mass food poisoning, salmonella.
- Poor execution of expansion, including major delays in opening of and longer-than-expected breakeven for new outlets.

FYE 30 Sep	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	20.8	28.5	21.0	17.7	15.8
Core P/E (x)	22.7	24.4	21.0	17.7	15.8
P/BV (x)	5.4	5.4	5.0	4.6	4.3
P/NTA (x)	5.5	5.5	5.1	4.7	4.3
Net dividend yield (%)	3.1	3.1	3.3	4.0	4.4
FCF yield (%)	3.5	1.6	5.0	0.7	6.1
EV/EBITDA (x)	15.0	14.5	11.4	10.4	9.3
EV/EBIT (x)	18.0	18.3	14.0	12.5	11.0
INCOME STATEMENT (SGD m)					
Revenue	136.8	145.1	163.7	189.4	208.2
Gross profit	86.5	91.9	104.1	120.6	133.0
EBITDA	21.6	22.1	26.2	30.1	33.3
Depreciation	(3.5)	(4.6)	(4.8)	(5.0)	(5.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	18.1	17.5	21.4	25.1	27.9
Net interest income / (exp)	0.2	0.2	0.2	0.2	0.2
Associates & JV	0.1	0.1	(0.3)	0.4	0.8
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	18.4	17.8	21.2	25.7	28.9
Income tax	(2.7)	(2.8)	(3.5)	(4.1)	(4.6)
Minorities	(0.2)	(0.6)	(1.0)	(1.6)	(2.0)
Perpetual securities	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	15.5	14.5	16.8	20.0	22.3
Core net profit	15.5	14.5	16.8	20.0	22.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	59.3	51.3	57.3	45.9	52.0
Accounts receivable	6.0	9.0	8.5	9.9	10.8
Inventory	1.1	1.5	1.6	1.9	2.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	18.0	19.4	22.7	42.1	45.0
Intangible assets	0.8	0.8	0.8	0.8	0.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.1	1.3	1.3	1.3	1.3
Total assets	86.2	83.2	92.2	101.9	111.9
ST interest bearing debt	0.1	0.0	0.0	0.0	0.0
Accounts payable	14.5	10.1	13.1	15.1	16.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.5	0.0	0.0	0.0	0.0
Other liabilities	5.0	5.0	5.0	5.0	5.0
Total Liabilities	19.7	14.8	17.7	19.7	21.2
Shareholders Equity	64.8	65.3	70.3	76.3	83.0
Minority Interest	1.7	3.2	4.2	5.8	7.8
Total shareholder equity	66.5	68.5	74.5	82.1	90.8
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	86.2	83.2	92.2	101.9	111.9
CASH FLOW (SGD m)					
Pretax profit	18.4	17.8	21.2	25.7	28.9
Depreciation & amortisation	3.5	4.6	4.8	5.0	5.3
Adj net interest (income)/exp	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Change in working capital	(0.1)	(7.8)	3.3	0.4	0.2
Cash taxes paid	(1.6)	(3.0)	(3.5)	(4.1)	(4.6)
Other operating cash flow	(0.3)	0.1	0.4	(0.4)	(0.8)
Cash flow from operations	19.9	11.6	26.3	26.6	29.1
Capex	(7.9)	(5.9)	(8.3)	(24.4)	(8.2)
Free cash flow	12.3	5.7	17.8	2.6	21.6
Dividends paid	(50.8)	(14.1)	(11.8)	(14.0)	(15.6)
Equity raised / (purchased)	38.8	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(0.1)	(0.6)	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(8.6)	(4.9)	(8.6)	(24.0)	(7.4)
Effect of exch rate changes	0.0	(0.0)	0.0	0.0	0.0
Net cash flow	(0.8)	(8.0)	6.0	(11.4)	6.0

FYE 30 Sep	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	11.4	6.1	12.8	15.7	9.9
EBITDA growth	16.9	2.3	18.6	14.9	10.5
EBIT growth	20.3	(3.0)	22.0	17.4	11.4
Pretax growth	21.8	(3.4)	19.2	21.0	12.5
Reported net profit growth	21.6	(6.7)	16.0	18.9	11.7
Core net profit growth	32.0	(6.7)	16.0	18.9	11.7
Profitability ratios (%)					
EBITDA margin	15.8	15.2	16.0	15.9	16.0
EBIT margin	13.2	12.1	13.1	13.2	13.4
Pretax profit margin	13.5	12.3	13.0	13.6	13.9
Payout ratio	70.3	75.3	70.0	70.0	70.0
DuPont analysis					
Net profit margin (%)	11.3	10.0	10.3	10.5	10.7
Revenue/Assets (x)	1.6	1.7	1.8	1.9	1.9
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	25.5	22.3	24.8	27.2	28.0
ROAA (%)	18.3	17.1	19.1	20.6	20.9
Liquidity & Efficiency					
Cash conversion cycle	(78.4)	(55.9)	(41.2)	(46.9)	(48.1)
Days receivable outstanding	16.6	18.7	19.3	17.5	17.9
Days inventory outstanding	7.6	8.7	9.4	9.2	9.5
Days payables outstanding	102.7	83.3	69.9	73.6	75.5
Dividend cover (x)	1.4	1.3	1.4	1.4	1.4
Current ratio (x)	3.5	4.3	3.9	3.0	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	4.4	5.6	5.2	5.2	5.3
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)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	5.8	4.1	5.0	12.9	3.9
Net debt/ (net cash)	(58.7)	(51.3)	(57.3)	(45.9)	(52.0)

Source: Company; Maybank

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• Technical Analysis

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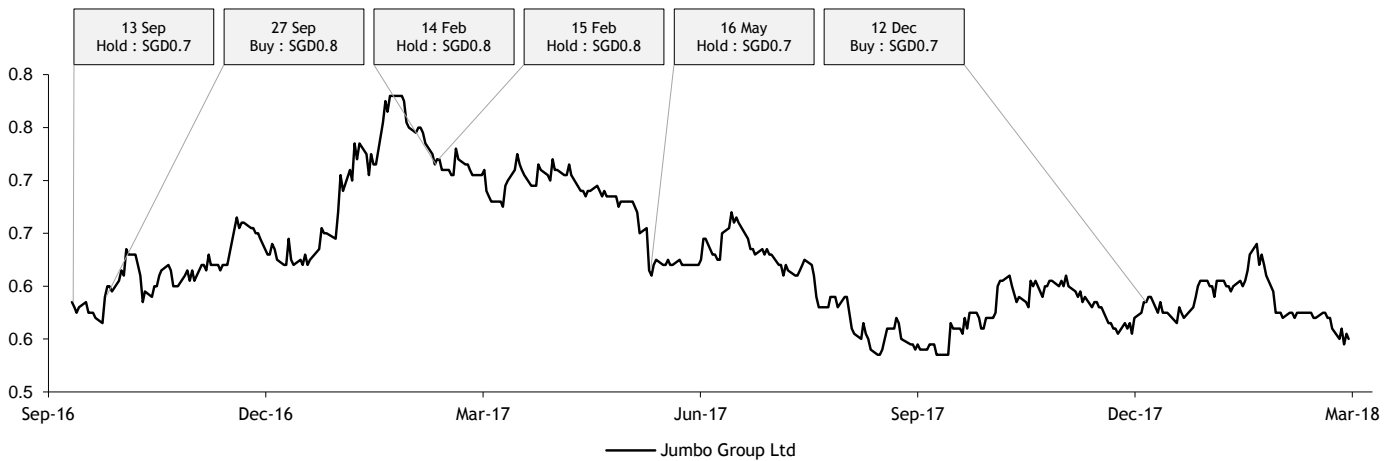
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Historical recommendations and target price: Jumbo Group Ltd (JUMBO SP)



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