

08 January 2015

Brahim's Holdings Berhad

Fairly Valued

By **Soong Wei Siang** | soongws@kenanga.com.my

	Rating	Fair Value
Last Price		RM1.33
Kenanga Consensus	Not Rated	RM1.30
	N.A.	N.A.

INVESTMENT MERIT

- Share price bashed down.** BRAHIM's share price retreated 56% from a high of RM2.70 to low of RM1.19 after a series of disappointing financial results and amid the concern of MAS restructuring exercise. Financially, 9M14 core PATAMI fell 27% to RM10.6m on the back of lower revenue (3.9%) amounting to RM274.5m. 9M14 net profit contribution from airlines catering segment (contributes 95% revenue) slumped 37.2% to RM34.5m, on the back of lower passenger volume following the recent air disasters as well as lower ASP/meal of MAS flights due to the cost reduction initiatives.
- Not the end of the world.** Although MAS flights accounted for >70% of the total airlines meals sales of BRAHIM, we do not expect a complete slump even if MAS decides to cut down its flights significantly as the demand-driven flights to certain destination will eventually be taken over by the other airlines in KLIA, where BRAHIM has a commanding market share of 99%. However, margins are projected to be narrowed as contracts with other airlines offer lower margins as compared to MAS'.
- Diversifying away from airline catering.** To recap, the Group has proposed to acquire Burger King (BK) Malaysia and Singapore franchise holder, Rancak Selera for a cash consideration of RM95m through 80:20 joint venture with Quantum Angel, headed by Dato Ahmad Zaki, the former Managing Director of KFC franchise. The Group is aiming to turn around the loss-making entities by leveraging on the Dato Ahmad Zaki's expertise as well as through various marketing and product strategies. We conservatively expect the Group to take 2-3 years to turn around the business.
- Moving upstream.** In another corporate exercise, BRAHIM has entered into a business joint venture (49:51) with Carpenter Beef Pty Ltd for the development of a Halal-compliant abattoir in Perth, Australia, which will incur a CAPEX of RM21.3m based on BRAHIM's stake. The move will provide the Group better control and cost efficiencies of raw material (beef) for both its airlines catering needs as well as for the BK should the deal materialises.
- More balanced mix.** We understand that the Group is aiming to reduce the dependency on the dominant airline catering business (95% revenue) to a more balanced mix of 50:50 with F&B business. Thus, we foresee the Group to seek for further acquisition opportunities in the F&B space moving forward. Gearing is expected to increase to 0.76x from 0.47x post BK and abattoir JV, but management still sees room to gear up at below the 1x level.
- Not Rated with FV of RM1.30,** based on 19x PER FY15 EPS of 6.83 sen, in line with its 3-year mean PER. We laud the Group's effort in focusing more on F&B business in order to reduce its exposure to the airlines catering business. However, we think that the contribution from BK will only arrive in a longer term considering the loss-making status it is in now. Meanwhile, higher finance costs will be incurred to fund the acquisitions as well as the CAPEX. We have yet to factor in the financial impact from the acquisitions before the deals are completed. At this juncture, the stock is fairly valued judging on the 7% earnings growth we project in FY15.

Stock Information

Stock Name	BRAHIM'S HOLDINGS BERHAD
CAT Code	9474
Industry	Food Service
Industry Sub-sector	Food-Catering
YTD stock price chg	0.76%
Market Cap (RM m)	314.26
Issued shares (m)	236.29
52-week range (Hi)	2.71
52-week range (Low)	1.16
3-mth avg daily vol:	554039.7
Free Float	17%
Beta	1.49
Altman's Z-score	3.61

Major Shareholders

BRAHIM INTL FRANCHIS	30.05%
LEMBAGA TABUNG HAJI	17.81%
IBH CAPITAL (LABUAN)	10.58%

Financials

FYE Dec (RM'm)	2013A	2014E	2015E
Revenue	394.8	367.1	385.1
EBIT	68.1	50.3	53.8
PATAMI	22.0	15.1	16.1
EPS (sen)	9.3	6.4	6.8
BV/Share (RM)	1.2	1.4	1.5
PER	14.3	20.8	19.5
Price/BV (x)	1.1	0.9	0.9
Net Gearing (x)	0.4	0.4	0.4
NDPS (sen)	0.3	0.0	0.0
Dividend Yield (%)	0.2%	0.0%	0.0%

Quarterly Financial Data

	1Q14	2Q14	3Q14
Revenue	92.5	92.3	89.7
Revenue Growth (QoQ)	-15.2%	-0.1%	-2.9%
EBIT	13.9	9.1	7.8
OP Margin	15.0%	9.8%	8.7%
Net Profit (NP)	4.2	1.6	1.0
EPS (sen)	1.76	0.66	0.43
EPS Growth (QoQ)	-67%	-62.4%	-35.3%

Peers Comparisons	PER (FY14E)	Div. Yld (%)	Mkt Cap (RM'm)
Dutch Lady	24.2	5.2	2720
Nestle	25.6	3.7	16157.1
OldTown	13.5	4.6	672
QI Resources	21.4	1.3	4068.6
Average	21.2	3.7	-
Brahim	20.8	-	314.3
FBMKLCI	15.3	3.3	982.5b

Daily Charting – Brahim's Holdings Berhad



Comment: BRAHIM'S share price is seen to be on a sideways trading pattern, with the share price closing below all its MA trend lines. Similarly, MACD indicator was inconclusive to paint a picture. Elsewhere, Stochastic indicator was heading towards the oversold region while RSI indicator was also giving neutral signal. We expect the share price to continue on its sideways trading amid thin trading volume, where we view that fresh catalyst is needed to attract interest and rally the share price.

About the stock:

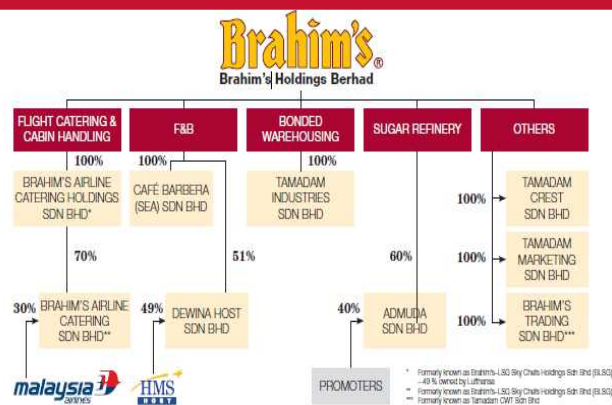
Name : Brahim's Holdings Berhad
Bursa Code : BRAHIM
CAT Code : 9474

Key Support & Resistance level

Resistance	: RM1.53 (R1)	RM1.75 (R2)	RM1.94 (R3)
Support	: RM1.16 (S1)	RM0.81 (S2)	RM0.58 (S3)
Outlook	: Neutral		

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- Brahim's Holdings Berhad** is a holding company. The Company's core business is airport-centric, focusing on the provision of in-flight catering and restaurant operations. Brahim through its subsidiary holds a concession with Malaysia Airlines System Berhad (MAS) for the provision of in-flight catering and related services.

BUSINESS SEGMENTS

- In-flight catering services** – Serves over 36 international airlines including MAS, Air Asia X, Vietnam Airlines, Cathay Pacific and more.
- Restaurant operations** – Operates F&B outlets in KLIA and KLIA2.
- Warehousing and logistics** – Operates a bonded warehouse on 12134 acres on a sub-lease KTM land in North Port.



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