HongLeong Investment Bank

24 June 2021
Company Update

HLIB Research
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Syifaa' Mahsuri Ismail
syifaa@hlib.hongleong.com.my
(603) 2083 1710

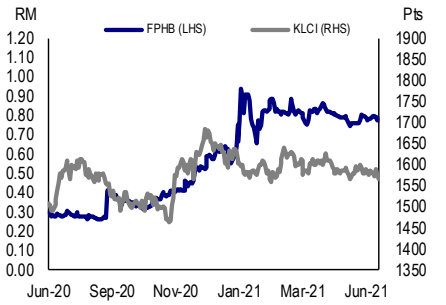
BUY (Maintain)

Target Price:	**RM1.05**
Previously:	**RM1.10**
Current Price:	**RM0.775**

Capital upside	35.5%
Dividend yield	2.6%
Expected total return	38.1%

Sector coverage: Consumer
Company description: FocusP owns and operates eye care centres and F&B bakery chain 'Komugi'.

Share price



Historical return (%)	1M	3M	12M
Absolute	3.3	-4.9	158.3
Relative	3.8	-2.6	148.1

Stock information

Bloomberg ticker	FPHB MK
Bursa code	0157
Issued shares (m)	330
Market capitalisation (RM m)	256
3-mth average volume ('000)	544
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Liang Liaw Choon	40.6%
Perbadanan Nasional	15.0%
Goh Poi Eng	13.5%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	11.3	12.8	15.8
EPS – core (sen)	3.4	3.9	4.8
P/E (x)	22.5	19.9	16.2

Focus Point

Look beyond the immediate aftermath

Despite the near term uncertainties we remain upbeat about the group's longer term prospects. We are comforted to know that optical sales in community malls are still doing pretty decent that help to cushion the sales decline in tourist-centric malls. CK2 is currently running at c.30% utilisation rate (better than previous guidance of 30% by year end) and we expect the utilisation rate to improve to 70% based on increased orders from existing customers as well as new clients coming on board. The group is currently in advance discussion with a convenience chain store in Singapore and Tea customer. We cut our FY21/FY22 forecast by -9% and -4%, respectively to reflect near term FMCO hiccups. Reiterate BUY, with lower TP of RM1.05 (from RM1.10) based on 22x PE pegged to FY22 EPS.

We held a conference call with FocusP and despite the near term uncertainties we remain upbeat about the group's longer term prospects.

2Q21 outlook with FMCO impact. We understand that April sustained strong sales momentum after March 2021 chalked in record high sales for both the optical and F&B segments. However with the recent FMCO, the lower foot traffic in retail areas are impacting FocusP's optical division. Despite that, we are comforted to know that sales in community malls are still doing pretty decently to help to cushion the sales decline in tourist-centric malls (i.e. KLCC, Genting, Pavilion etc).

Faster-than-expected ramp up for second central kitchen (CK2). Management shared that CK2 is currently running at 20-30% utilisation rate, better than previous guidance of 30% by year end. We understand that this is driven by Customer S' encouraging order to supply to their café outlets in West Malaysia (c.250 outlets). FocusP is in discussion to increase the number of SKUs and expanding their supply to Customer S's East Malaysia outlets. By year-end, we estimate FocusP's CK2 to have a utilisation rate of 70% based on increased orders from existing customers as well as new clients coming on board. We gather that CK2 will be able to generate up to ~RM5m sales per month from corporate sales at maximum capacity and FocusP expects ISO22000 certification for CK2 to be granted by end 3Q21.

Further catalyst for F&B segment. Additionally, FocusP recently secured DDD to supply 9 products (from 3 SKUs previously). We opine that this could have the potential of being one of FocusP biggest corporate clients in light of DDD's blooming interests from the public. We understand that the number of SKUs is expected to increase once DDD's new Tropicana Gardens Mall outlet is set to open (scheduled for Aug 21). Additionally, the group is currently in advance discussion with a convenience chain store in Singapore and Tea customer.

Outlook. Crucially, FocusP's largest client continues to increase order volumes (10 SKUs currently) as it is aggressively opening more outlets. As for Komugi, the new SS2 street shop outlet chalked in decent sales of c.RM150k in its initial months of operation. We are positive on the strategy of moving towards street shop concept as they will ease the accessibility in residential area while lower rental rates could boost Komugi's contribution. Furthermore, contribution from online third-party platform Grab has shown to be encouraging, with a leap of >100% sales increase QoQ. Judging from the previous MCO trends, management is hopeful that sales will pick up fast upon relaxation of movement restrictions. We remain confident with FocusP scalable business model as we reckon that both optical and F&B segments are able to ramp up fully once operating condition normalizes.

Forecast. We lower our FY21/FY22 forecast by -9% and -4% respectively, to account for the near term hiccup in light of the FMCO restrictions.

Maintain **BUY,** with lower TP of **RM1.05 (from RM1.10)** based on unchanged 22x PE pegged to FY22 EPS. Increasing F&B corporate sales and ramping up of CK2 should see profitability of the F&B division accelerate. Furthermore, we reckon the possibility of securing new F&B corporate clients is likely given the popularity of their current product offerings.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	191.0	159.6	181.4	207.9	231.9
EBITDA	**26.8**	**27.4**	**28.4**	**32.6**	**36.6**
Operating profit	20.6	21.2	21.6	25.5	29.2
Finance cost	-5.7	-5.6	-2.8	-2.8	-2.8
Associate & JV	0.3	0.0	0.3	0.3	0.3
PBT	**15.2**	**15.6**	**19.1**	**22.9**	**26.7**
Tax	-5.3	-5.0	-6.3	-7.2	-8.3
PAT	9.9	10.6	12.8	15.8	18.3
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported PATAMI	**9.9**	**10.6**	**12.8**	**15.8**	**18.3**
Exceptionals	1.0	0.7	0.0	0.0	0.0
Core PATAMI	**10.9**	**11.3**	**12.8**	**15.8**	**18.3**
HLIB/Consensus			99.5%	104.5%	118.2%

Quarterly financial summary

FYE Dec	1Q20	2Q20	3Q20	4Q20	1Q21
Revenue	39.6	26.8	49.5	43.7	42.5
EBITDA	**13.8**	**5.5**	**16.8**	**20.2**	**14.1**
Operating profit	4.1	-1.4	8.8	9.1	5.7
Finance cost	-2.1	-0.7	-2.0	-1.3	-1.1
Associate & JV	0.0	0.0	0.0	0.0	0.0
PBT	**2.5**	**-2.0**	**7.1**	**8.1**	**4.7**
Tax	-0.7	0.1	-1.8	-2.6	-1.5
PAT	1.8	-1.9	5.3	5.4	3.2
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported PATAMI	**1.8**	**-1.9**	**5.3**	**5.4**	**0.0**
Exceptionals	0.3	0.1	0.1	0.3	0.0
Core PATAMI	**2.1**	**-1.9**	**5.4**	**5.7**	**3.2**

Balance sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	13.7	17.9	22.5	25.8	32.8
Receivables	34.1	35.7	35.4	40.6	45.3
Inventories	49.8	44.9	51.8	59.4	66.3
PPE	34.4	32.9	30.1	27.0	23.6
Right-of-use assets	78.0	59.6	59.6	59.6	59.6
Others	1.2	1.1	1.4	1.7	2.0
Assets	**211.0**	**192.2**	**200.9**	**214.2**	**229.6**
Payables	33.7	30.6	33.0	37.8	42.2
Debt	27.7	23.9	23.9	23.9	23.9
Others	4.0	3.9	3.9	3.9	3.9
Liabilities	**149.0**	**123.9**	**126.3**	**131.1**	**135.5**
Shareholder's equity	62.1	68.3	74.5	83.1	94.1
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	**62.1**	**68.3**	**74.5**	**83.1**	**94.1**

Valuation Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	3.3	3.4	3.9	4.8	5.6
P/E (x)	23.4	22.5	19.9	16.2	14.0
EV/EBITDA (x)	9.8	9.6	9.2	8.0	7.2
DPS (sen)	1.3	1.3	2.0	2.2	2.2
Dividend yield	1.6%	1.7%	2.6%	2.8%	2.8%
BVPS (RM)	0.19	0.21	0.23	0.25	0.29
P/B (x)	4.1	3.7	3.4	3.1	2.7
EBITDA margin	14.0%	17.1%	15.7%	15.7%	15.8%
Operating margin	10.8%	13.3%	11.9%	12.2%	12.6%
PBT margin	8.0%	9.8%	10.5%	11.0%	11.5%
Net margin	5.7%	7.1%	7.1%	7.6%	7.9%
ROE	17.6%	16.6%	17.2%	19.0%	19.5%
ROA	5.2%	5.9%	6.4%	7.4%	8.0%
Net gearing	22.6%	8.7%	1.9%	Cash	Cash

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
PBT	15.2	15.6	19.1	22.9	26.7
D&A	6.2	6.1	6.8	7.1	7.4
Working capital	5.7	5.0	-4.2	-8.0	-7.2
Taxation	-6.7	-4.8	-6.3	-7.2	-8.3
Others	0.0	5.6	-1.1	2.5	2.5
CFO	**20.5**	**27.5**	**14.3**	**17.4**	**21.1**
Capex	-4.2	-3.0	-4.0	-4.0	-4.0
Others	0.5	0.1	0.0	0.0	0.0
CFI	**-3.7**	**-2.9**	**-4.0**	**-4.0**	**-4.0**
Changes in debt	-1.5	0.3	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-4.1	-4.4	-6.6	-7.3	-7.3
Others	-1.3	-1.2	-2.8	-2.8	-2.8
CFF	**-6.9**	**-5.3**	**-9.4**	**-10.1**	**-10.1**
Net cash flow	**6.7**	**3.9**	**0.9**	**3.4**	**7.0**
Forex	0.0	0.0	0.0	0.0	0.0
Others	-5.5	0.3	3.6	0.0	0.0
Beginning cash	**12.5**	**13.7**	**17.9**	**22.5**	**25.8**
Ending cash	**13.7**	**17.9**	**22.5**	**25.8**	**32.8**

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Hong Leong Investment Bank Berhad (10209-W)
Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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