

Oldtown Bhd (BUY ↔ , EPS ↑)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

23 February 2017

Price Target: RM2.36

Share Price: RM2.03

FMCG - Far More China Growth
Results

- **Above expectations** – 9M17 PATAMI of RM42.4m (+48% yoy) came in above our but in-line with consensus expectations, accounting for 82% and 73% of full year estimates, respectively.

Dividend

- Declared a dividend of 3 sen

Deviations

- Higher than expected FMCG export sales which grew 35% yoy buoyed by strong growth in China.

Highlights

- **Qoq:** PATAMI grew 73% qoq to RM19.1m mainly due to seasonality and stronger than expected FMCG export sales, particularly in China. Double 11 day in China on 11/11 is annually the biggest sales event on Taobao and Tmall e-commerce portals in China.
- **Yoy:** 9M17 core PATAMI rose 48.0% yoy to RM42.4m due to higher FMCG export sales as the group continues to increase its market share in a lucrative China market as well as benefiting from weaker Ringgit in 9M17 vs. SPLY.
- **Café outlet:** Café operations showed marginal growth despite the number of outlets reducing to 234 in 9M17 from 245 in 9M16. Encouragingly, domestic outlets showed a 3% same-store-sales growth. Additionally, outlet openings in China and Hong Kong have also added to revenue.
- **FMCG:** 9M17 revenue grew 19.6% yoy to RM146m buoyed by strong export sales which grew 35% yoy. FMCG export sales currently account for 65% of total FMCG sales vs 57% in SPLY. The group recorded strong 9M17 yoy growth in China (+43%), SEA ex-Malaysia (+14%) & Others (+31%) while domestic sales slumped marginally by 1%. China (45% of total FMCG sales) has now eclipsed Malaysia (35%) as the FMCG segment's biggest sales contributor.
- We expect OldTown to continue to make headway in Asia (ASEAN, China and Taiwan) to exploit the region's enormous potential and growing middle class amongst the urban population.

Risks

- Relatively elastic demand.
- Rising raw material prices.
- Occurrence of Ringgit strengthening would impact exports.

Forecasts

- We upgrade FY17/18/19 PATAMI by 10%/12%/8% to account for accelerating contributions from China FMCG export sales.

Rating
(BUY ↔; TP 2.36)

- While Oldtown's domestic café and FMCG sales remain stagnant, FMCG exports are accelerating at a rapid pace which will provide significant revenue contributions for the group going forward.

Valuation

- Maintain our **BUY** call with a higher TP of **RM2.36** based on a P/E multiple of 17x on FY18 EPS after adjusting for our EPS upgrade.

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KLCI	1,708.1
Expected share price return	16.3%
Expected dividend return	3.0%
Expected total return	19.3%

Share Price

Information

Bloomberg Ticker	OTB MK
Bursa Code	5201
Issued Shares (m)	451
Market cap (RM m)	916
3-mth avg. volume ('000)	427
SC Shariah-Compliant	No

Price Performance	1M	3M	12M
Absolute	8.0	1.5	33.8
Relative	5.2	-3.2	31.2

Major shareholders

Oldtown Intl.	43.7
Franklin Resources	9.8
Mawer Investment Management	9.5

Summary Earnings Table

FYE Mar (RMm)	FY16A	FY17E	FY18F	FY19F
Revenue	393.4	416.9	456.5	495.5
Pre-tax Profit	68.2	74.9	82.4	91.7
PATAMI	52.3	56.9	62.5	69.6
EPS	11.7	12.6	13.9	15.4
P/E (x)	17.1	15.9	14.4	13.0
P/BV (x)	2.5	2.3	2.1	2.0
Gross DPS (sen)	6.0	6.0	6.9	7.7
Div yield (%)	3.0	3.0	3.5	3.9
ROE (%)	14.4	14.6	14.8	15.2
Net Gearing	Net	Net	Net	Net
	Cash	Cash	Cash	Cash
BVPS (RM)	0.8	0.9	0.9	1.0
HLIB				

Figure 1: Results vs. Consensus and HLIB Estimates

FYE 31 Mar (RMm)	9M17	FY17 HLIB Est.	% of HLIB Est.	FY17 Consensus	% of FY17 Consensus
Revenue	318.2	401.2	79.3	420.5	75.7
Core PATAMI	42.4	51.3	82.6	57.8	73.3

Figure 2: Quarterly Results Comparison

FYE 31 Mar (RMm)	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	Comments
Revenue	102.2	99.5	115.8	16.3%	13.3%	
Café chain	49.4	48.8	49.3	1.0%	-0.2%	
FMCG	52.8	50.7	66.5	31.1%	25.9%	Double 11 Day in China boosted FMCG export sales
Costs	-80.8	-79.0	-80.1	1.4%	-0.9%	
EBITDA	21.4	20.5	35.7	73.7%	67.0%	
Depreciation	-3.3	-3.5	-3.4	-2.4%	4.0%	
Amortisation	-0.9	-0.9	-0.9	0.0%	0.0%	
EBIT	17.2	16.1	31.4	94.3%	82.5%	
Interest Income	0.3	0.3	0.3	10.8%	-5.5%	
Interest expense	-0.2	-0.2	-0.2	-19.4%	-34.7%	
Share of associates	0.1	0.0	0.0	850.0%	-63.5%	
PBT	17.4	16.3	31.6	94.2%	81.9%	
Café chain	6.5	4.5	6.0	32.8%	-7.6%	
FMCG	10.9	12.1	23.9	98.4%	119.5%	Significant rise in export sales, particularly China, which now makes up 45% of total FMCG sales.
Others	-0.1	-0.4	1.6	-547.3%	-1946.5%	
Taxation	-6.2	-3.8	-7.4	96.6%	19.3%	
PAT	11.1	12.5	24.1	93.5%	117.1%	
<i>Tax rate (%)</i>	36.0	23.3	23.6	1.2%	-34.4%	
Minority Interest	0.0	0.2	0.2	45.1%	-752.8%	
PATAMI	11.1	12.6	24.4	92.9%	120.0%	
Core PATAMI	10.4	11.0	19.1	73.3%	83.7%	
EPS	2.5	2.8	5.4			
Core EPS	2.3	2.4	4.2			

Company, HLIB

Figure 3: Cumulative Results Comparison

FYE 31 Mar (RMm)	9M16	9M17	YoY(%)	Comments
Revenue	288.9	318.2	10.2%	
Café chain	142.9	143.6	0.5%	Marginal Café outlet revenue growth despite lower number of outlets
FMCG	146.0	174.6	19.6%	Strong growth in FMCG export segment
Costs	(229.2)	(238.0)	3.8%	
EBITDA	59.7	80.3	34.5%	
Depreciation	(9.8)	(10.3)	4.6%	
Amortisation	(2.8)	(2.8)	0.0%	
EBIT	47.1	67.2	42.8%	
Interest Income	1.1	0.9	-20.5%	
Interest expense	(0.7)	(0.5)	-26.8%	
Share of associates	0.1	(0.0)	-102.6%	
PBT	47.6	67.6	42.1%	
Café chain	16.4	14.9	-9.0%	
FMCG	30.6	51.5	68.1%	
Others	0.5	1.2	117.3%	
Taxation	(13.3)	(17.3)	30.0%	
PAT	34.3	50.3	46.8%	
<i>Tax rate (%)</i>	<i>28.0</i>	<i>25.6</i>	-8.5%	
MI	(0.3)	0.6	-267.3%	
PATAMI	33.9	50.9	50.0%	
Core PATAMI	28.7	42.4	48.0%	After removing non-core items
EPS	7.6	11.3		
Core EPS	6.2	9.3		

Figure 4: Peer Comparison Table

Company	FYE	Price (Lcl Crncy)	Market Cap (m)		FCF/Share		P/E (x)		P/B (x)		ROE (%)		EV/EBITDA		EBITDA Margin (%)	DY (%)	N. Gearing (x)	
			(Lcl)	(US\$)	(Lcl)	(US¢)	2016	2017	2016	2017	2016	2017	2016	2017				
Oldtown Bhd	Mar	MYR	2.03	916.5	205.8	11.4	2.6	16.0	14.4	2.3	2.2	15.0	15.4	8.1	7.5	21%	3.2%	Net Cash
Local																		
BFood	Apr	MYR	1.63	608.1	136.5	(4.2)	(0.9)	23.3	18.5	1.5	1.5	6.3	7.9	9.6	8.3	14%	2.1%	0.5
Regional																		
Breadtalk Super Group	Dec	SGD	1.32	369.9	260.9	9.7	6.8	22.3	16.2	2.5	2.2	12.2	14.8	4.8	4.4	15%	1.9%	0.7 Net Cash
Ajisen China	Dec	SGD	1.29	1,431.8	1,009.9	4.7	3.3	30.6	27.9	2.6	2.5	8.6	9.0	15.4	14.8	17%	1.7%	Cash Net
Cafe de Coral	Dec	HKD	3.10	3,383.8	436.0	26.7	3.4	15.3	14.9	0.8	0.9	6.5	6.0	5.4	5.2	17%	5.5%	Cash Net
Gourmet Master	Dec	HKD	26.30	15,375.9	1,981.3	76.4	9.8	26.3	22.7	4.5	4.3	18.1	20.0	14.0	12.2	13%	3.0%	Cash Net
Oishi Group	Dec	TWD	293.50	43,489.7	1,410.8	819.4	26.6	25.7	21.4	4.9	4.2	20.9	22.0	11.6	9.7	15%	1.2%	Cash Net
Jollibee Food	Mar	THB	130.00	24,375.0	696.2	871.1	24.9	19.1	17.7	n/a	n/a	25.7	24.4	13.5	12.7	14%	2.8%	0.4 Net Cash
	Dec	PHP	201.80	216,951.9	4,317.1	799.7	15.9	35.9	31.7	6.3	5.6	18.4	18.8	19.7	17.1	9%	1.0%	Cash
Average						372.5	13.0	25.0	21.8	3.6	3.3	15.8	16.5	12.1	10.9	14%	2.4%	
International																		
Dunkin' Brands	Dec	USD	54.93	5,050.1	5,050.1	283.9	283.9	23.1	20.6	(38.3)	(14.7)	(99.3)	(111.7)	14.9	14.0	56%	2.4%	Net Cash
McDonald's	Dec	USD	57.54	83,858.8	83,858.8	215.1	215.1	27.0	23.5	13.1	11.9	45.9	55.8	14.9	13.2	25%	1.7%	0.2
Average		USD	128.04	106,330.0	106,330.0	569.0	569.0	20.8	19.4	(26.5)	(17.6)	124.8	N/A	13.4	13.1	44%	3.0%	2.3
Total Average						356.0	356.0	23.6	21.2	(17.2)	(6.8)	23.8	(27.9)	14.4	13.4	42%	2.4%	

Bloomberg; HLIB

Financial Projections for Oldtown Bhd (TP: RM2.36)

Income statement						Quarterly financial summary					
FYE 31 Mar (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F	FYE 31 Mar (RMm)	3Q16	4Q16	1Q17	2Q17	3Q17
Revenue	397.7	393.4	416.9	456.5	495.5	Revenue	102.2	104.5	102.9	99.5	115.8
EBITDA	83.1	85.1	87.5	93.6	101.6	Costs	(80.8)	(79.7)	(78.8)	(79.0)	(80.1)
Dep. & Amort.	(18.9)	(16.9)	-14.8	-14.0	-13.3	EBITDA	21.4	24.8	24.0	20.5	35.7
Interest income	1.5	1.4	3.9	4.5	5.1	Depreciation	(3.3)	(3.4)	(3.4)	(3.5)	(3.4)
Interest expense	(1.1)	(0.9)	-1.7	-1.7	-1.7	Amortisation	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Other	0.4	0.5	0.0	0.0	0.0	Operating Profit	17.2	20.4	19.7	16.1	31.4
Pretax profit	64.2	68.2	74.9	82.4	91.7	Int Inc/(Exp)	0.1	0.1	0.1	0.1	0.2
Taxation	(15.1)	(15.9)	-18.0	-19.8	-22.0	Associates	0.1	0.1	0.0	0.0	0.0
Minorities	1.6	0.0	0.1	0.1	0.1	PBT	17.4	20.6	19.8	16.3	31.6
Net profit	49.1	52.3	56.9	62.5	69.6	Tax	(6.2)	(2.6)	(6.1)	(3.8)	(7.4)
W. Average shares	447.8	448.1	451.5	451.5	451.5	PAT	11.1	18.1	13.7	12.5	24.1
Basic EPS (sen)	10.6	11.7	12.6	13.9	15.4	MI	(0.0)	(0.3)	0.2	0.2	0.2
						PATAMI	11.1	18.4	13.9	12.6	24.4
						EPS	2.45	4.07	3.07	2.80	5.39

Balance sheet						Valuation ratios					
FYE 31 Mar (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F	FYE 31 Mar (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
PPE	108.7	109.7	112.6	116.3	120.6	EPS (sen)	10.6	11.7	12.6	13.9	15.4
Other LT Assets	69.8	64.4	62.6	61.0	59.4	PER (x)	18.9	17.1	15.9	14.4	13.0
Total ST Assets	258.6	275.5	309.1	343.9	381.1	Gross DPS (sen)	6.0	6.0	6.3	6.9	7.7
Working capital	27.8	32.3	30.9	33.6	36.5	Gross DY (%)	3.0	3.0	3.1	3.5	3.9
Receivables	61.7	63.0	62.3	68.2	74.0	Book/share (RM)	0.8	0.8	0.9	0.9	1.0
Payables	64.1	56.3	53.6	59.1	64.1	P/Book (x)	2.7	2.5	2.3	2.1	2.0
Inventory	30.1	25.5	22.2	24.5	26.6	FCF/share (sen)	7.42	15.21	14.64	12.82	14.19
Net Cash	115.7	153.5	194.0	220.7	250.0	FCF yield (%)	3.7	7.6	7.3	6.4	7.1
Cash	135.0	169.4	207.1	233.7	263.0	ROE (%)	14.1	14.4	14.6	14.8	15.2
ST Debt	3.6	3.8	1.5	1.5	1.5	Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
LT Debt	15.7	12.1	11.5	11.5	11.5	EPS (sen)	10.6	11.7	12.6	13.9	15.4
Shareholders' funds	336.9	362.1	390.6	422.0	456.8						

Cashflow						Other Ratios & Assumption Metrics					
FYE 31 Mar (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F	FYE 31 Mar (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Net Profit	49.1	52.3	56.9	62.5	69.6	Other Ratios (%)					
Dep. & Amort.	18.9	16.9	14.8	14.0	13.3	Revenue growth	1.9%	-1.1%	6.0%	9.5%	8.5%
Tax	(15.1)	(15.9)	(18.0)	(19.8)	(22.0)	Net Profit growth	0.3%	6.5%	8.8%	10.0%	11.3%
Other Operating Cashflows	12.3	8.4	28.4	17.1	19.2	EBITDA margin	21%	22%	21%	21%	21%
Operating cashflow	65.2	61.7	82.1	73.9	80.1	Net Profit margin	12%	13%	14%	14%	14%
Purchase of PPE	(11.6)	(10.6)	(16.0)	(16.0)	(16.0)						
Other Investing Cashflows	(20.4)	17.0	0.0	0.0	0.0	Assumption Metrics			FY17E	FY18F	FY19F
Investing Cashflow	(32.0)	6.5	(16.0)	(16.0)	(16.0)	No. of outlets			245	253	255
Dividends	(30.4)	(26.8)	(28.4)	(31.3)	(34.8)	Revenue/outlet (RMm)			823	823	823
Other Financing Cashflows	(26.1)	(6.0)	0.0	0.0	0.0						
Financing cashflow	(56.4)	(32.8)	(28.4)	(31.3)	(34.8)						
FCF	33.2	68.2	66.1	57.9	64.1						

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.