

BreadTalk Group (BREAD SP)

Consumer Non-cyclical - Food & Beverage Products

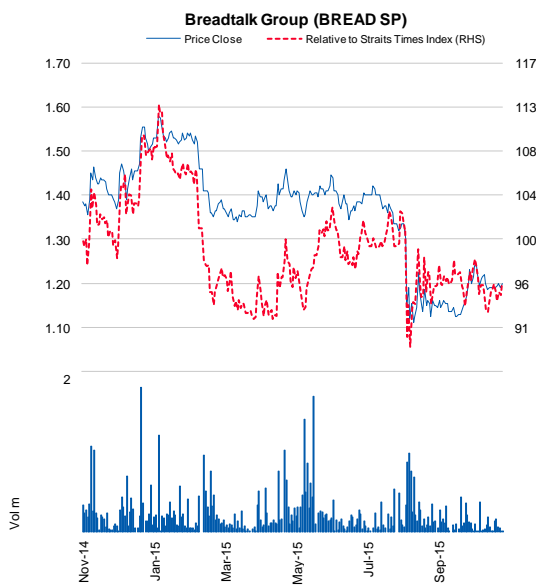
Market Cap: USD237m

Buy (Maintained)

 Target Price: **SGD1.65**

 Price: **SGD1.20**

Dragged down by China operations

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.20m/0.14m
Cons. Upside (%)	50.0
Upside (%)	37.5
52-wk Price low/high (SGD)	1.11 - 1.58
Free float (%)	36
Share outstanding (m)	282
Shareholders (%)	
George Quek	34.0
Katherine Lee	18.6
Primacy Investment	11.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.8)	0.0	(10.1)	(14.0)	(12.7)
Relative	(11.9)	0.0	(3.9)	(0.8)	(3.9)

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3Q15 results were below expectations, with the slowdown in China having a bigger negative impact than our earlier expectations. Profit was further exacerbated by start-up expenses from the opening of 3 new food courts during the quarter. EBITDA however, continues to grow and we believe the overall operations remain relatively resilient. We lowered our TP to SGD1.65 (38% upside, previously SGD1.90) and maintain our BUY recommendation.

- ◆ **Poor set of results, dragged down by China.** 3Q15 net profit came in at just SGD1.6m, significantly lower than last year while revenue growth was just 4.7% YoY, which is a weaker momentum compared to recent years. Bakery and Food Atrium businesses were significantly weaker in China (which accounts for almost half of the revenue in these divisions), due to the low customer footfall in malls. Profit was further dragged down by higher effective tax rates due to the overall loss in China.
- ◆ **Profit now mostly from Din Tai Fung restaurants.** With ongoing weakness in its other business divisions, we estimate that for 9M15, more than 80% of Group profit is contributed by the Din Tai Fung restaurants in Singapore. This continues to be a cash cow, and EBITDA for restaurant division was up 44% YoY in 3Q15. We expect further upside over the next twelve months as management close down more of the remaining 10 Ramen Play restaurants as their leases expires.
- ◆ **Short-term pains which will bear fruits in higher margins.** The company opened 3 new food courts in 3Q15, which resulted in start-up expenses and higher depreciation for the period. Going forward, management will focus on improving margins. This includes instilling higher discipline for new store openings and capex expenses, and consolidating unprofitable stores if necessary.
- ◆ **EBITDA still growing, medium-term investment case remains intact.** EBITDA was up 11% YoY, on better EBITDA margins. We believe overall operations remain relatively resilient despite market weakness. We now expect FY15F net profit to be significantly lower than FY14F and cut our FY16-FY17F earnings by 18/13%. We lowered our TP to SGD1.65, pegged to 7x FY16F EV/EBITDA.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	537	590	631	684	744
Reported net profit (SGDm)	13.6	12.2	10.6	15.7	20.1
Recurring net profit (SGDm)	13.6	12.2	10.6	15.7	20.1
Recurring net profit growth (%)	13.3	(10.3)	(13.1)	47.9	28.3
Recurring EPS (SGD)	0.05	0.04	0.04	0.06	0.07
DPS (SGD)	0.02	0.02	0.02	0.02	0.03
Recurring P/E (x)	24.8	27.7	31.9	21.6	16.8
P/B (x)	3.60	3.30	3.13	2.88	2.61
P/CF (x)	4.07	4.36	6.63	4.65	4.10
Dividend Yield (%)	1.5	1.3	1.5	1.9	2.4
EV/EBITDA (x)	6.88	5.92	5.41	4.62	3.78
Return on average equity (%)	15.4	12.4	10.1	13.9	16.3
Net debt to equity (%)	85.7	88.4	68.3	39.2	12.9
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Figure 1: 3Q15 Results Summary

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	Comments
Revenue	154.5	154.9	161.7	4.4	4.7	Growth from all divisions
EBITDA	17.4	18.0	19.4	7.7	11.0	Decline in Bakery division
<i>EBITDA Margin (%)</i>	<i>11.3</i>	<i>12.0</i>	<i>11.6</i>			
Depreciation & Amortisation	(10.1)	(12.7)	(11.8)	(7.5)	16.3	Higher depreciation partly due to new food courts
EBIT	7.3	5.3	7.6	44.7	3.7	Poor performance of Food Court division due to start-up expenses
<i>EBIT Margin (%)</i>	<i>4.7</i>	<i>5.9</i>	<i>5.9</i>			
Pretax profit	7.1	4.9	5.7	16.3	(20.1)	Higher effective tax rates due to China losses
<i>Pretax Margin (%)</i>	<i>2.7</i>	<i>2.1</i>	<i>3.2</i>			
PATMI	3.9	2.9	1.6	(45.7)	(60.0)	
Core Profit	3.9	2.9	1.6	(45.7)	(60.0)	
<i>Net Margin (%)</i>	<i>3.4</i>	<i>2.5</i>	<i>2.1</i>			

Source: Company, RHB

Figure 2: 3Q15 Segmental Results

FYE Dec (SGDm)	3Q14	3Q15	YoY (%)	Comments
Revenue	154	162	5.2	
Bakery	78	79	1.3	Includes closing down of several stores in China
Food Atrium	43	46	7.0	Weak customer footfalls in China
Restaurant	33	37	12.1	Strong SSSG at Din Tai Fung restaurants
EBITDA	32	19	(40.6)	
Bakery	7	4	(42.9)	Loss-making in China this quarter
Food Atrium	5	5	0.0	Weak customer footfalls in China
Restaurant	6	8	33.3	Better margins from customers

Source: Company, RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	537	590	631	684	744
Cost of sales	(252)	(279)	(297)	(321)	(350)
Gross profit	285	310	335	362	394
Gen & admin expenses	(64)	(71)	(78)	(81)	(86)
Selling expenses	(210)	(232)	(249)	(270)	(294)
Other operating costs	12	17	20	22	24
Operating profit	23	25	27	33	38
Operating EBITDA	62	71	76	83	93
Depreciation of fixed assets	(39)	(45)	(49)	(50)	(55)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
Operating EBIT	23	25	27	33	38
Net income from investments	1	(0)	(1)	1	1
Interest income	1	2	4	3	3
Interest expense	(3)	(4)	(5)	(4)	(3)
Pre-tax profit	22	23	24	32	39
Taxation	(6)	(7)	(8)	(10)	(12)
Minority interests	(3)	(4)	(6)	(6)	(7)
Profit after tax & minorities	14	12	11	16	20
Reported net profit	14	12	11	16	20
Recurring net profit	14	12	11	16	20

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	23	25	27	33	38
Depreciation & amortisation	39	46	49	50	55
Change in working capital	28	13	(15)	1	1
Other operating cash flow	2	2	-	-	-
Operating cash flow	92	86	61	84	95
Interest received	1	2	4	3	3
Interest paid	(3)	(4)	(5)	(4)	(3)
Tax paid	(8)	(7)	(8)	(10)	(12)
Cash flow from operations	83	77	51	73	82
Capex	(106)	(41)	(32)	(34)	(39)
Other new investments	(0)	(0)	(1)	(1)	(1)
Other investing cash flow	(18)	(35)	(1)	(1)	(1)
Cash flow from investing activities	(125)	(76)	(34)	(36)	(40)
Dividends paid	(4)	(5)	(5)	(7)	(8)
Increase in debt	72	29	7	(70)	(20)
Other financing cash flow	(1)	(1)	(1)	1	1
Cash flow from financing activities	68	22	2	(76)	(27)
Cash at beginning of period	64	79	95	118	79
Total cash generated	26	24	19	(39)	15
Forex effects	-	(1)	-	-	-
Implied cash at end of period	90	102	114	79	94

Source: Company data, RHB

Financial Exhibits

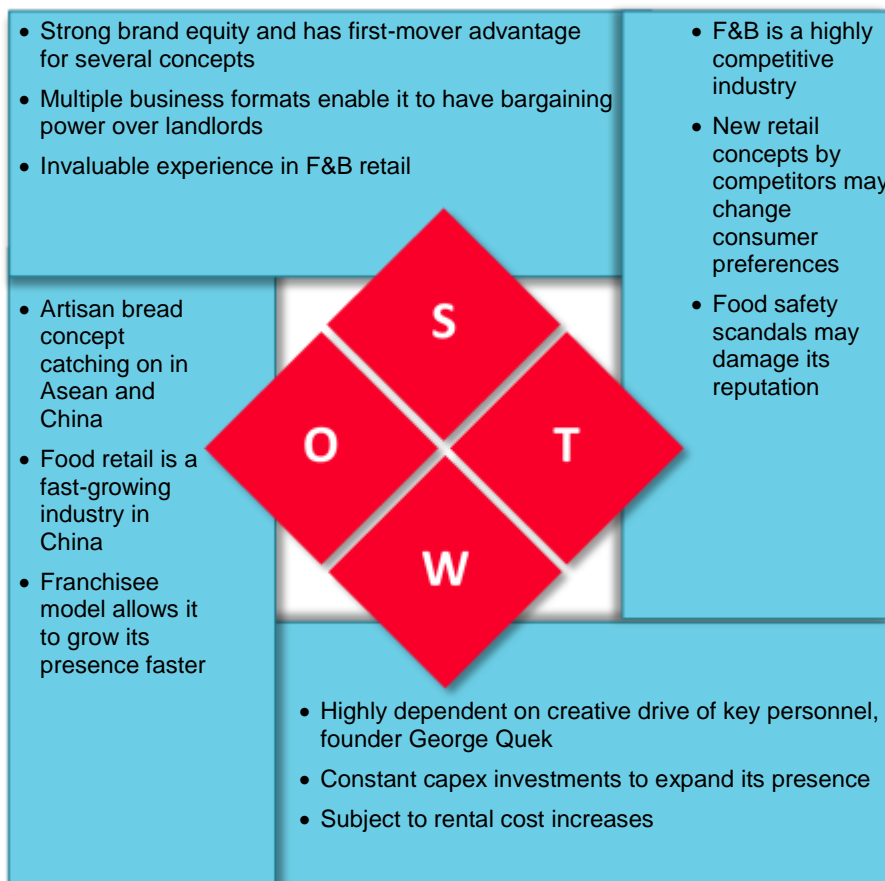
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	79	95	118	79	94
Inventories	10	11	11	11	12
Accounts receivable	51	55	61	66	71
Other current assets	10	7	5	6	7
Total current assets	150	169	194	162	185
Total investments	8	34	35	36	38
Tangible fixed assets	226	221	204	189	173
Intangible assets	8	8	8	8	8
Total other assets	77	85	85	85	85
Total non-current assets	318	347	331	317	303
Total assets	468	516	526	480	488
Short-term debt	30	76	75	15	15
Accounts payable	103	98	93	102	111
Other current liabilities	80	89	85	85	85
Total current liabilities	213	263	253	202	211
Total long-term debt	138	121	130	120	100
Other liabilities	13	16	15	15	16
Total non-current liabilities	151	137	145	135	116
Total liabilities	364	400	398	337	327
Other reserves	94	103	108	117	129
Shareholders' equity	94	103	108	117	129
Minority interests	10	13	19	25	32
Total equity	104	116	127	143	161
Total liabilities & equity	468	516	526	480	488

Source: Company data, RHB

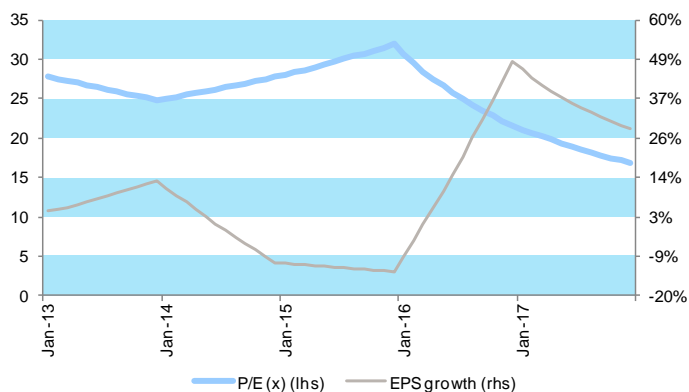
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	19.9	9.9	7.1	8.3	8.8
Operating profit growth (%)	23.1	8.7	7.1	23.5	15.9
Net profit growth (%)	13.3	(10.3)	(13.1)	47.9	28.3
EPS growth (%)	13.2	(10.4)	(13.1)	47.9	28.3
BVPS growth (%)	13.6	9.0	5.5	8.4	10.3
Operating margin (%)	4.3	4.2	4.2	4.8	5.1
Net profit margin (%)	2.5	2.1	1.7	2.3	2.7
Return on average assets (%)	3.3	2.5	2.0	3.1	4.2
Return on average equity (%)	15.4	12.4	10.1	13.9	16.3
Net debt to equity (%)	85.7	88.4	68.3	39.2	12.9
DPS	0.02	0.02	0.02	0.02	0.03
Recurrent cash flow per share	0.29	0.28	0.18	0.26	0.29

Source: Company data, RHB

SWOT Analysis

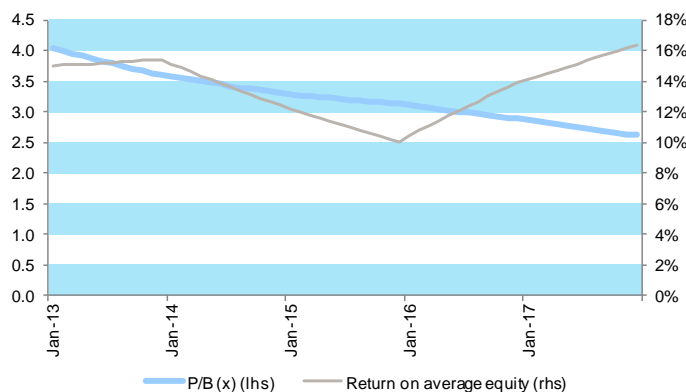


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

BreadTalk Group Limited operates bakery, food, and restaurant businesses in Asia and the Middle East. It operates through three segments: Bakery, Food Court, and Restaurant. As of December 31, 2013, the company operated 737 owned and franchised outlets, 41 restaurants, and 58 food courts under the BreadTalk, Toast Box, Thye Moh Chan, Food Republic, RamenPlay, The Icing Room, Din Tai Fung, and Carl's Jr. brands. BreadTalk Group Limited was founded in 2000.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-10	Buy	1.90	1.34
2015-05-15	Buy	1.80	1.41
2015-02-18	Buy	1.90	1.46
2014-12-11	Buy	1.90	1.45
2014-11-06	Buy	2.00	1.37
2014-09-08	Buy	2.00	1.40

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

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