ALLIANCE RESEARCH
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Company Update

Oldtown — Buy

Consumer | Bloomberg Ticker: OTB MK | Bursa Code: 5201

Analyst
Ian Wan
ianwwk@alliancefg.com
+603 2604 3919

12-month upside potential

Previous target price	3.03
Revised target price	2.99
Current price (as at 6 Dec)	2.45
Capital upside (%)	22.1
Net dividends (%)	3.1
Total return (%)	25.2

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	888.3
Shares outstanding (m)	362.6
Free float (%)	47.7
52-week high / low (RM)	3.30 / 1.98
3-mth avg volume ('000)	749.4
3-mth avg turnover (RM m)	1.9

Share price performance

	1M	3M	6M
Absolute (%)	-0.4	-3.2	-25.8
Relative (%)	-1.7	-6.4	-27.3

Share price chart

Source: Bloomberg

Major shareholders

	%
Oldtown International	44.6
Mawer International	7.0

FMCG on high gear

Following last week analyst briefing cum plant visit, we remain positive on Oldtown's growth prospect, underpinned by its FMCG segment. Nonetheless, we lower our expectation on café chain expansion which led us to cut our earnings by 3%-12% for FY14-FY16, following intensifying domestic competition from specialty café outlets. Post adjustments, we foresee earnings to grow by 15.3% and 19.4% for FY15 and FY16 respectively. Hence, we reiterate our BUY call on Oldtown, with slightly lower TP of RM2.99, based on 18x 12-month forward P/E. Our revised TP implies 22.1% capital upside with net yield of 3.1%.

Key takeaway from analyst briefing cum plant visit

- Last Thursday, Oldtown held a plant visit followed by 2QFY14 analyst briefing at its newly completed corporate HQ and factory at Tasek Industrial Park, Ipoh. The visit was well attended by about 60 analysts and fund managers.
- Before the briefing started, we were led on a walkabout by Oldtown's factory manager to see the new FMCG plant, warehouse, as well as the new administration office. From the plant tour, we observed that there is about 30% land unutilised in its 9-acre integrated industrial complex, which management reserves for future expansion. Overall, we were impressed by the well planned new corporate HQ cum factory, which was constructed with green features that conserve energy usage.
- During the briefing, management revealed that poor F&B profitability in 2QFY14 (revenue grew 2.4% y-o-y but PBT contracted from RM8.2m in in 2QCY13 to RM4.4m) was mainly due to (1) seasonally higher A&P expenditures (RM1.6m) due to Halal food marketing campaign, (2) higher labour cost (RM0.5m), (3) one-off Singapore A&P cost (RM0.5m), and (4) loss of service charges as management pilot runs some of its outlets on semi self-service mode.
- Going forward, we anticipate profit margin for F&B to recover as the group has raised its selling price by 5-6% in Oct 2013. Nonetheless, the outlook of Oldtown's local F&B division remains challenging, given intensifying domestic competition from specialty café outlets in Klang Valley, in our view. On a positive note, we could see more progress on its F&B expansion in China in 2014 as the group plans to accelerate its expansion plan via an outsourced supplier agreement.
- On the other hand, we remain bullish on Oldtown's FMCG segment as we foresee huge potential in the untapped instant coffee market in Asia, particularly China. Over the past few years, Oldtown has laid its foundation to build its distribution network across the Asia Pacific region. With new capacity kicking in, management aims to achieve 20% volume growth per annum going forward.
- On Oldtown's latest shareholding structure, foreign funds' holdings has declined from 40% in Sept 2013 to 35.7% as at 29 Nov 2013.

Cut earnings by 3.1%, 8.8% and 12.4% for FY14-FY16

- As we anticipate challenging outlook for local F&B, we lower our expectation on café chain expansion which led us to cut our earnings by 3.1%, 8.8% and 12.4% for FY14, FY15 and FY16 respectively. Post adjustments, we foresee earnings to grow by 15.3% and 19.4% for FY15 and FY16 respectively.

Reiterate BUY call on Oldtown with lower TP of RM2.99 (-1.3%)

- Nonetheless, we believe strong FMCG growth will continue to cushion the slowdown from its F&B division. Hence, we reiterate our BUY call on Oldtown with a slightly lower TP of RM2.99 (-1.3%), based on 12-month forward P/E of 18x (roll forward from Sept 13-Aug 14 to Jan 14-Dec 14).
- We remain positive on Oldtown's long term prospect in Asia, particularly the China market which we anticipate the FMCG division to grow strongly, underpinned by (1) the significant increase in capacity, and (2) huge untapped coffee market in China.

SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 31 March	CY11A	FY13*	FY14F	FY15F	FY16F
Revenue (RM m)	285.4	422.1	386.4	433.4	484.4
EBITDA (RM m)	57.9	96.9	89.4	103.0	118.0
EBIT (RM m)	44.1	76.2	70.8	85.3	0.2
Pretax profit (RM m)	52.0	74.9	71.7	87.5	104.7
Reported net profit (RM m)	40.2	55.5	54.1	62.4	74.5
Core net profit (RM m)	33.1	57.7	54.1	62.4	74.5
EPS (sen)	12.2	16.5	14.9	17.2	20.5
Core EPS (sen)	10.0	17.1	14.9	17.2	20.5
Alliance / Consensus (%)			104.1	100.1	97.0
Core EPS growth (%)	1.0	N/A	N/A	15.3	19.4
P/E (x)	24.4	14.3	16.4	14.3	11.9
EV/EBITDA (x)	8.0	5.6	5.8	4.7	3.9
ROE (%)	15.2	18.9	16.3	17.2	19.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net DPS (sen)	6.5	9.0	7.5	8.5	10.5
Net dividend yield (%)	2.7	3.7	3.1	3.5	4.3
BV/share (RM)	0.66	0.84	0.91	1.00	1.10
P/B (x)	3.7	2.9	2.7	2.4	2.2

** FY03/13 consists of 15-months result as the group changed its FYE from Dec to March.*

Source: Alliance Research, Bloomberg

Figure 2 : Earnings revision

	Previous EPS Sen	Revised EPS Sen	Change %
FY14F	15.4	14.9	-3.1
FY15F	18.8	17.2	-8.8
FY16F	23.4	20.5	-12.4

Source: Alliance Research

Figure 3 : Peer comparison

Company	Call	Currency	Target price	Share price	Mkt Cap (USD m)	EPS Growth (%) CY13	EPS Growth (%) CY14	P/E (x) CY13	P/E (x) CY14	P/BV (x) CY13	P/BV (x) CY14	ROE (%) CY13	ROE (%) CY14	Net Dividend Yield (%) CY13	Net Dividend Yield (%) CY14
Oldtown	Buy	RM	2.99	2.45	276.6	6.4	13.8	16.8	14.7	2.9	2.5	16.7	17.0	3.0	3.4
Berjaya Food	NR	RM	NR	1.64	134.9	17.4	14.3	18.6	16.2	2.3	2.1	17.4	18.0	2.2	2.9
Jollibee Foods	NR	PHP	NR	170.00	4,075.2	20.0	16.7	39.7	34.0	7.7	6.7	20.6	21.4	1.0	1.2
Café De Coral	NR	HKD	NR	25.35	1,884.8	13.5	14.6	24.3	21.2	4.0	3.9	17.2	18.7	3.0	3.5
Super Group	NR	SGD	NR	3.39	1,511.5	6.3	16.6	22.5	19.3	4.2	3.8	22.2	21.1	2.6	2.6
Bread Talk	NR	SGD	NR	0.90	202.3	9.3	14.9	19.1	16.7	N/A	N/A	15.0	15.4	N/A	N/A
Gourmet Master	NR	TWD	NR	208.00	991.8	-18.8	54.7	33.6	21.7	N/A	N/A	11.4	17.2	2.2	2.7
Average					**9,077.1**	**11.4**	**20.3**	**31.5**	**26.3**	**5.9**	**5.2**	**18.9**	**20.0**	**1.9**	**2.2**

Source: Alliance Research, Bloomberg *Share price date: 6 Dec 2013*

FMCG, fast moving forward

Plant visit cum analyst briefing at Ipoh

Plant visit cum analyst briefing well attended by about 60 analysts and fund managers

Last Thursday, Oldtown held a plant visit followed by 2QFY14 analyst briefing at its newly completed corporate HQ and factory at Tasek Industrial Park, Ipoh, which was well attended by about 60 analysts and fund managers. The company was represented by Mr. Lee Siew Heng (Group Managing Director), Mr. Alex Chuah (COO of FMCG segment) and Mr. Clarence Leon D'Silva (COO of F&B segment).

Plant tour headed by factory manager

Before the briefing started, we were led on a walkabout by Oldtown's factory manager to see the new FMCG plant, warehouse, as well as the new administration office. From the plant tour, we observed that there is about 30% land unutilised in its 9-acre integrated industrial complex, which management reserves for future expansion. Overall, we were impressed by the well planned new corporate HQ cum factory, which was constructed with green features that conserve energy usage.

Figure 4 : Oldtown's new HQ in Ipoh

Source: Company

Figure 5 : Main lobby of administration office

Source: Company

Figure 6 : Automated 6-lane packaging machines

Source: Company

Figure 7 : Finished goods warehouse

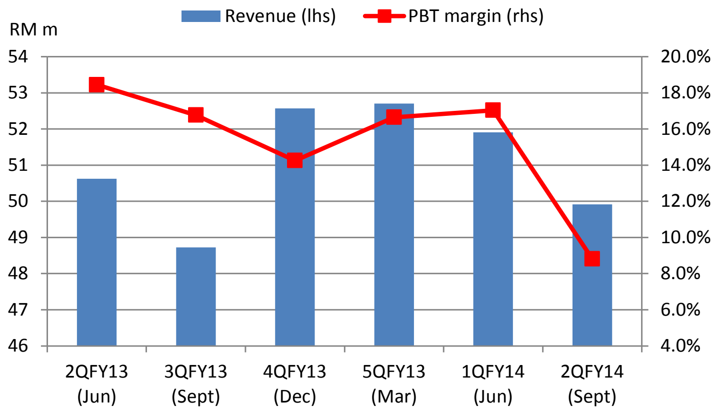
Source: Company

Analysis on 2QFY14 results

Poor F&B profitability is expected to recover in 2HFY14

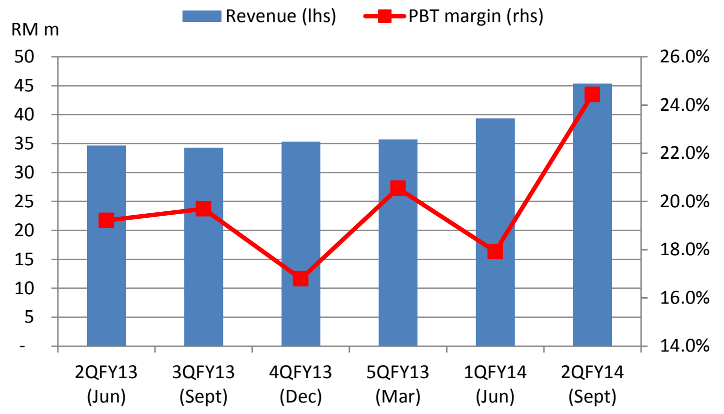
To recap, Oldtown's 2QFY14 core net profit grew by 6.1% y-o-y but contracted by 4.4% q-o-q mainly driven by strong performance of its FMCG segment which was partially offset by poor profitability in its F&B segment. During the briefing, management revealed that poor F&B profitability in 2QFY14 was mainly due to (1) seasonally higher A&P expenditures (additional RM1.6m) due to Halal food marketing campaign, (2) higher labour cost (additional RM0.5m) due to higher overtime claims, (3) one-off Singapore A&P cost (additional RM0.5m), and (4) loss of service charges as management pilot runs some of its outlets on semi self-service mode. Going forward, F&B PBT margin is expected to revert to its historical average following its recent price adjustment of 5%-6% in Oct 2013.

Figure 8 : Historical F&B revenue and PBT margin



Source: Company data, Alliance Research

Figure 9 : Historical FMCG revenue and PBT margin

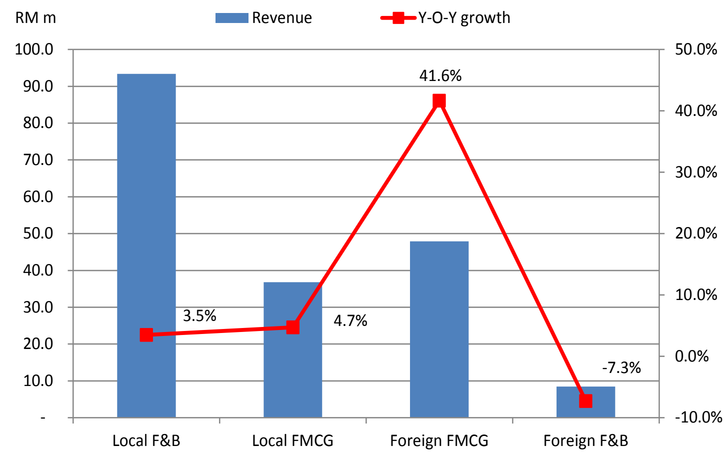


Source: Company data, Alliance Research

Overseas FMCG sales is the top performer among 4 of its subsegments

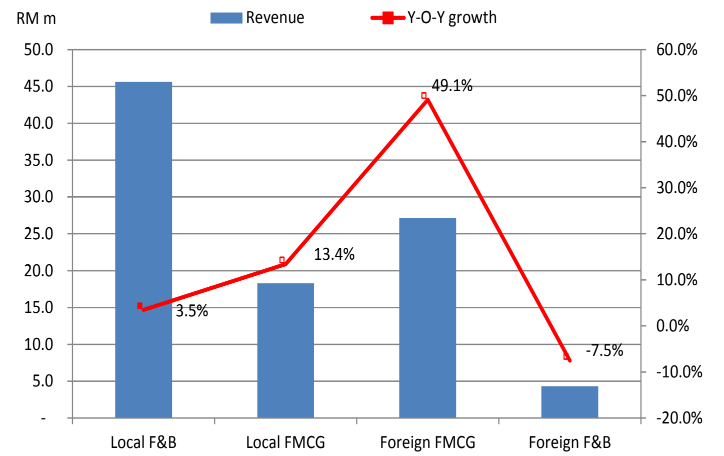
Overseas FMCG sales continue its strong growth trajectory for the second consecutive quarters, underpinned by enlarged production capacity following the full commissioning of its new factory in July 2013. We believe the growth momentum for this segment will underpin the group's overall earnings growth going forward. On the flip side, F&B revenue growth remains slow with particularly poor performance from foreign F&B which recorded -7.3% and -7.5% y-o-y growth for 1HFY14 and 2QFY14 respectively. We attribute the negative revenue growth for foreign F&B to reduced outlets (from 9 outlets in 1HFY13 to 8 outlets in 1HFY14) in Singapore. Management attributed the outlet closure to relocation upon the expiry of tenancy agreement. This outlet has been reopened on 14 Oct 2013 at Yee Tee Point.

Figure 10 : Oldtown's 1HFY14 performance by segment



Source: Company data, Alliance Research

Figure 11 : Oldtown's 2QFY14 performance by segment



Source: Company data, Alliance Research

Local F&B sets to recover with 5-6% price adjustment in Oct 2013

Local F&B expansion dragged by 9 closures YTD

For local F&B, Oldtown has opened 14 outlets in the first nine months of 2013, on track to hit the lower band of its full year guidance of 20-30 new outlets in 2013. Nonetheless, the net addition was only 5 YTD as 9 existing outlets were closed during the year. While management attributed the closures to (1) outlet relocation, (2) change of traffic flow in the outlet location, and (3) expiration of tenancy agreement, we believe intensifying competition is also one of the reasons for some of the closures. In fact, we observed the rising trend of specialty café outlets mushrooming in Klang Valley over the past few months. Without the change of business strategy, we are concern if Oldtown could achieve meaningful revenue and earnings growth for this division.

Figure 12 : Oldtown's café chain breakdown

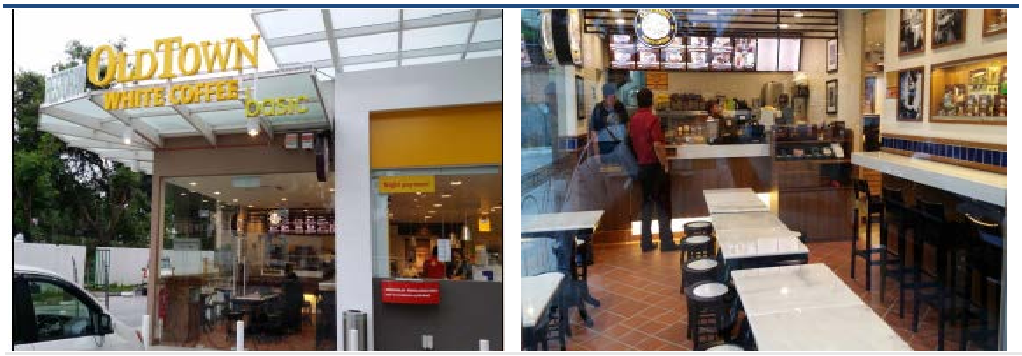
	1QFY13	2QFY13	3QFY13	4QFY13	5QFY13	1QFY14	2QFY14	FY14(F)	FY15 (F)	FY16 (F)
Net addition of outlets		**5**	**4**	**10**	**2**	**3**	**2**	**10**	**23**	**23**
Malaysia		3	2	6	2	3	-	5	8	8
Singapore		1	-	1	(2)	-	-	2	-	-
Indonesia		1	1	2	2	-	2	3	5	5
China		-	1	1	-	-	-	-	10	10
Total # of café outlets	**201**	**206**	**210**	**220**	**222**	**225**	**227**	**237**	**260**	**283**
Malaysia	186	189	191	197	199	202	202	207	215	223
Singapore	8	9	9	10	8	8	8	10	10	10
Indonesia	5	6	7	9	11	11	13	16	21	26
China	2	2	3	4	4	4	4	4	14	24
Café ownership breakdown	**201**	**206**	**210**	**220**	**222**	**225**	**227**	**237**	**260**	**283**
Fully-owned Café Outlets	81	80	81	84	83	83	84	87	89	92
Partly-owned Café Outlets	18	19	20	20	19	20	21	22	22	22
Kiosk					1	1	2	4	9	14
Franchised	97	101	102	106	107	109	107	108	108	108
Licensed (Master franchise- Indonesia & China)	5	6	7	10	12	12	13	16	32	47

Source: Company data, Alliance Research

Plans are in place to cushion the impact of intense competition in local F&B

Fortunately, management acknowledged the trend of fast-changing consumer demand in the F&B segment. As such, the group plans to (1) focus on second & third-tier cities for local F&B expansion, (2) expand its café chain via Oldtown kiosk at petrol stations, and (3) exploring opportunity to introduce a brand new upper-class café, Oldtown Signature E to capture the upper-end market in Klang Valley. Among these 3 strategies, upper-end market penetration is something new which we believe it is feasible as we had a good experience at its first Oldtown Signature E during our lunch in Ipoh. Overall, we opine that the ambience and food prices in Signature E are good and competitive while food menu needs to be fine-tuned before the commercial roll out of the new café outlet in Klang Valley.

Figure 13 : Oldtown Kiosk outlet at Shell Station @ NKVE



Source: Company slides

Figure 14 : First Oldtown Signature E in Ipoh

Source: Alliance Research

China F&B expansion could take off in 2014

Could see more progress on its F&B expansion in 2014…

In China, we could see more progress on its F&B expansion in 2014 as the group plans to accelerate its expansion plan via an outsourced supplier agreement. To recap, Oldtown's F&B expansion in China has hit a snag due to the delay of setting up central kitchen in China. Management attributes the delay to increasingly stringent requirements to obtain relevant approvals and operating license following the exposure of a few food safety issues in China. Nonetheless, Oldtown has made some progress by appointing a local licensed food processing centre, April Eight (Guangzhou) Ltd to produce the core paste and sauces for Oldtown café outlets in Guangdong Province.

…via the appointment of April Eight as its outsourced supplier of pastes and sources for all Oldtown café outlets in Guangdong Province

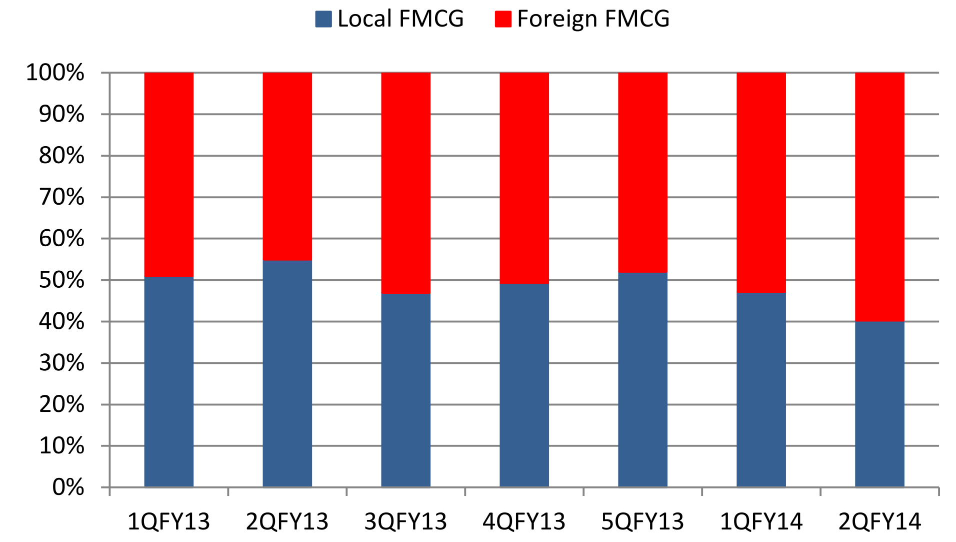
According to management, April Eight is a wholly-owned subsidiary of Join Dream HK Co Ltd with production facility based in Baiyun District of Guangzhou. Presently, the company produces up to 300,000 ready-to-consume food packets annually, to support its ramen restaurant chain in China. Going forward, we could see more collaboration between Oldtown and April Eight to underpin the former's ambitious expansion plan in China (18 outlets by end 2014). Nonetheless, we take a prudence stance by lowering our number of outlets projection for China from 6 and 14 outlets to 4 and 9 outlets for FY14 and FY15 respectively. As at Sept 2013, Oldtown owns 4 outlets in China via its master licensee.

FMCG, the STAR for the group

On the positive note, FMCG prospect remains promising

On the other hand, we remain bullish on Oldtown's FMCG segment as we foresee huge potential in the untapped instant coffee market in Asia, particularly China. Over the past few years, Oldtown has laid its foundation to build its distribution network across the Asia Pacific region. With new capacity kicking in, management aims to achieve 20% volume growth per annum going forward. As at 2QFY14, export accounts for 60% of its total FMCG revenue while utilisation rate remains low at 41%. With export sales made up more than 50% of its FMCG sales in 1HFY14, management revealed that Oldtown could now apply for the permit to purchase sugar under the international price for its export products. We understand that the price is 20% lower than the domestic subsidized price, which will be more than enough to cushion the impact of sugar subsidies reduction recently.

Figure 15 : Oldtown's FMCG sales by market



Source: Company slides

Plenty of room for margin improvement in FMCG

To recap, 2QFY14 FMCG revenue grew by 32.4% y-o-y and 15.4% q-o-q, underpinned by sales volume growth of 20.6% y-o-y and 15.8% q-o-q. This led to significant PBT margin expansion from 17% in 1QFY14 to 25%, after stripping out the contribution from its HK/China marketing and distribution arm, ACL which it acquired in May 2013. Apart from top line growth, we noted that there is plenty of room for bottom line expansion via the improvement of production efficiency. For instance, we noted that packing lines are still very labour intensive which management agrees that this could be automated in future to reduce labour cost, once utilisation hits a critical mass. In addition, we understand that with larger volume, packaging material cost could be further reduced. Last but not least, we noted that there is extra floor space in the factory for future expansion where the company will only need to incur machine and equipment costs in the future.

Figure 16 : Penetration into China major cities

CHINA – DISTRIBUTION CHANNEL PENETRATION TARGET

PENETRATION 2011 – 2012 (Tier 1 Cities)	PENETRATION 2013 – 2014 (Tier 2 Cities)
Shanghai Beijing Guangzhou Shenzhen	Tianjin Shenyang Suzhou Hangzhou Dalian Qingdao Dongguan Nanjing Foshan Wuhan Xiamen Chengdu Chongqing Wuxi Changzhou

Source: Company slides

Figure 17 : Oldtown's existing presence in China

No	Name	Population Size (million)	Nominal GDP per Capita (RMB)
Tier One City			
1	Shanghai	14.2	135,240
2	Beijing	12.8	127,000
3	Guangzhou	8.1	152,510
4	Shenzhen	10.5	109,910
Tier Two City			
1	Tianjin	10.0	113,470
2	Hangzhou	7.0	100,890
3	Qingdao	7.7	86,320
4	Chengdu	11.6	58,920
5	Chongqing	33.3	30,000

Source: Company slides

More aggressive A&P activities via new and conventional media channel

On advertising and marketing strategy, Oldtown aims to ride on social media, Weibo for brand building and reach out to its target consumer group in China. As such, the group launched its Weibo fans page on 29 Oct 2013 to plan more active communication and interaction with its fans. Since then, Oldtown Weibo has accumulated more than 93k fans which are good for potential e-commerce sales in the future. Oldtown will also continue its brand awareness marketing campaign via the conventional way. Starting from 27 Nov 2013 to 25 Dec 2013, Oldtown will entrench its brand value via the "True White Coffee" brand positioning campaign in HK MTR stations. To recap, Oldtown is the market leader in instant white coffee segment in HK.

Figure 18 : Oldtown launched its official Weibo homepage in China last month

Source: Weibo

Figure 19 : Oldtown's advertisement at HK MTR

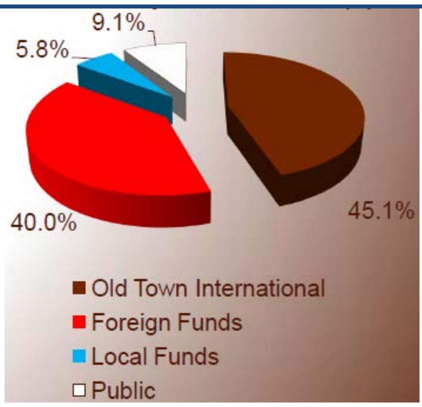
Source: Company slides

Foreign funds holdings declined from 40% to 35.7%

Foreign shareholding retreated from 40% in Sept to 36%

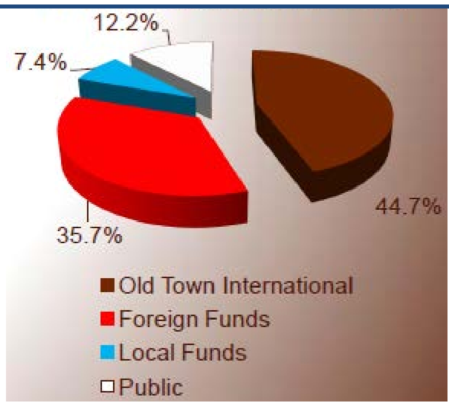
On Oldtown's latest shareholding structure, foreign funds' holdings has declined from 40% in Sept 2013 to 35.7% as at 29 Nov 2013. Among the top foreign funds, we understand that Creador (Neobalano Carpus) has totally exited from Oldtown as a shareholder. On the other hand, we observed 3 new names have emerged as the top 20 shareholders of Oldtown, they are JP Morgan Chase Bank National Association (U.S.A), Goh Sing Bong, and KWAP.

Figure 20 : Shareholder structure as at 5 Sept 2013



Source: Company

Figure 21 : Shareholder structure as at 29 Nov 2013



Source: Company

Figure 22 : Top 20 shareholders control more than 74.5% of Oldtown

Name of shareholders	As at 5-Sep-13 (Mil shares)	As at 29-Nov-13 (Mil shares)	Changes (Mil shares)	As at 5-Sep-13 (% of outstanding shares)	As at 5-Dec-13 (% of outstanding shares)
1 Oldtown International SB*	163.7	162.0	(1.7)	45.1%	44.6%
2 Mawer International (RBC Investor Services Trust)	25.9	25.3	(0.6)	7.1%	7.0%
3 Artisan International Small Cap Fund	12.8	13.5	0.8	3.5%	3.7%
4 Matthews Asia Pacific Fund	7.9	7.9	-	2.2%	2.2%
5 JP Morgan Chase Bank, National Association (U.S.A)	N/A	6.6	N/A	N/A	1.8%
6 Matthews Asia Small Companies Fund	5.7	5.7	-	1.6%	1.6%
7 Svenska Handelsbanken Stockholm Swenden	5.6	5.6	-	1.5%	1.5%
8 JP Morgan Chase Bank, National Association (Norges BK)	6.7	5.6	(1.1)	1.8%	1.5%
9 Lee Siew Heng- Group Managing Director	5.0	5.0	-	1.4%	1.4%
10 ABN AMRO Multi-Manager Funds	3.8	3.8	-	1.0%	1.0%
11 Kumpulan Sentiasa Cemerlang	3.3	3.8	0.5	0.9%	1.0%
12 Public Smallcap Fund	5.5	3.5	(2.0)	1.5%	1.0%
13 Lockheed Martin Corporation Master Retirement Trust	3.3	3.3	-	0.9%	0.9%
14 Goh Sing Bong	N/A	3.1	N/A	N/A	0.9%
15 Citibank NA (Charles Schwab)	3.1	3.0	(0.1)	0.9%	0.8%
16 BL Emerging Markets	2.9	2.9	-	0.8%	0.8%
17 Fullerton Lux Funds	2.6	2.6	-	0.7%	0.7%
18 HNC Opportunities Master Fund	2.5	2.5	-	0.7%	0.7%
19 KWAP	N/A	2.5	N/A	N/A	0.7%
20 Hong Leong Assurance Bhd	2.4	2.4	-	0.7%	0.7%
21 Neobalano Carpus Ltd/ Creador	3.8	-	(3.8)	1.0%	0.0%
22 Thornburg Developing World Fund	5.2	N/A	N/A	1.4%	N/A
23 The Bank of New York Mellon	3.5	N/A	N/A	1.0%	N/A
Total				75.8%	74.5%

Source: Company data

EARNINGS REVIEW

Lower our expectation on café chain expansion

As we anticipate challenging outlook for local F&B, we lower our expectation on café chain expansion which led us to cut our earnings by 3.1%, 8.8% and 12.4% for FY14, FY15 and FY16 respectively. Post adjustments, we foresee earnings to grow by 15.3% and 19.3% for FY15 and FY16 respectively.

Figure 23 : Earnings revision

	Previous EPS Sen	Revised EPS Sen	Change %
FY14F	15.4	14.9	-3.1
FY15F	18.8	17.2	-8.8
FY16F	23.4	20.5	-12.4

Source: Alliance Research

VALUATION AND RECOMMENDATION

Reiterate our BUY call on Oldtown, valuation is attractive as compared to peers

Nonetheless, we believe strong FMCG growth will continue to cushion the slowdown from its F&B division. Hence, we reiterate our BUY call on Oldtown with a slightly lower TP of RM2.99 (-1.3%), based on 12-month forward P/E of 18x (roll forward from Sept 13-Aug 14 to Jan 14-Dec 14). We believe that 18x P/E is a fair valuation for Oldtown, as it is 30% cheaper than regional peers who are trading at an average P/E of 26.3x for FY14. Furthermore, Oldtown is cheaper than the local peer, Berjaya Food, which is trading at 16.2x FY14 P/E.

Again, we like Oldtown on 3 investment angles i.e. (1) strong 3-year earnings CAGR of 18% driven by its FMCG segment, (2) extremely scarce investment alternatives to ride on the rising coffee consumption in China, and, (3) tremendous earnings potential from the untapped coffee market in China, as well as Halal food market in Malaysia.

Figure 24 : Peer comparison

Company	Call	Currency	Target price	Share price	Mkt Cap (USD m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
						CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Oldtown	Buy	RM	2.99	2.45	276.6	6.4	13.8	16.8	14.7	2.9	2.5	16.7	17.0	3.0	3.4
Berjaya Food	NR	RM	NR	1.64	134.9	17.4	14.3	18.6	16.2	2.3	2.1	17.4	18.0	2.2	2.9
Jollibee Foods	NR	PHP	NR	170.00	4,075.2	20.0	16.7	39.7	34.0	7.7	6.7	20.6	21.4	1.0	1.2
Café De Coral	NR	HKD	NR	25.35	1,884.8	13.5	14.6	24.3	21.2	4.0	3.9	17.2	18.7	3.0	3.5
Super Group	NR	SGD	NR	3.39	1,511.5	6.3	16.6	22.5	19.3	4.2	3.8	22.2	21.1	2.6	2.6
Bread Talk Gourmet	NR	SGD	NR	0.90	202.3	9.3	14.9	19.1	16.7	N/A	N/A	15.0	15.4	N/A	N/A
Master	NR	TWD	NR	208.00	991.8	-18.8	54.7	33.6	21.7	N/A	N/A	11.4	17.2	2.2	2.7
Average					**9,077.1**	**11.4**	**20.3**	**31.5**	**26.3**	**5.9**	**5.2**	**18.9**	**20.0**	**1.9**	**2.2**

Source: Alliance Research, Bloomberg *Share price date: 12 Sep 2013*

Key risks

- Intensified competition arising from the entrance of specialty coffee outlets.
- Costs pressure due to labour wages, rent and coffee bean.
- Slower than expected expansion plan.
- Global economic slowdown, which could hurt the F&B industry as a whole.

Oldtown

Financial Summary

Price Date: 06 December 2013

Balance Sheet

FY 31 March (RM m)	2011A	2013A	2014F	2015F	2016F
PPE	66.8	116.2	112.9	105.6	96.7
Intangible Assets	47.7	42.8	40.4	38.0	35.7
Inventories	16.4	14.2	17.4	19.3	21.3
Receivables	29.1	37.0	37.1	41.6	46.5
Other assets	32.5	91.6	50.7	53.2	56.0
Deposit, bank and cash	85.6	86.2	155.9	196.3	243.5
Total Assets	**278.2**	**388.0**	**414.3**	**454.0**	**499.6**
LT borrowings	13.3	26.1	26.1	26.1	26.1
ST borrowings	2.4	8.4	-	-	-
Payables	34.6	40.0	45.3	50.2	55.4
Other liabilities	10.5	6.4	6.4	6.4	6.4
Liabilities	**60.9**	**81.0**	**77.8**	**82.7**	**88.0**
Share capital	330.0	363.0	363.0	363.0	363.0
Reserves	(112.9)	(58.1)	(31.3)	0.2	36.6
Shareholders' equity	**217.1**	**304.9**	**331.7**	**363.2**	**399.6**
Minority interest	0.2	2.2	4.8	8.0	12.0
Total Equity	**217.3**	**307.0**	**336.5**	**371.2**	**411.6**
Total Equity and Liabilities	**278.2**	**388.0**	**414.3**	**454.0**	**499.6**

Cash Flow Statement

FY 31 March (RM m)	2011A	2013A	2014F	2015F	2016F
Pretax profit	52.0	74.9	71.7	87.5	104.7
Depreciation & amortisation	13.8	20.7	18.6	17.7	16.3
Change in working capital	(5.4)	(1.5)	(2.1)	(3.4)	(3.8)
Net interest received / (paid)	(1.0)	(2.5)	(2.1)	(3.0)	(3.7)
Tax paid	(11.3)	(23.6)	(15.1)	(21.9)	(26.2)
Others	(7.5)	2.1	(0.5)	(0.6)	(0.6)
Operating Cash Flow	**40.6**	**70.2**	**70.6**	**76.3**	**86.6**
Capex	(22.4)	(124.0)	32.6	(8.0)	(5.0)
Others	(5.2)	4.2	2.1	3.0	3.7
Investing Cash Flow	**(27.6)**	**(119.8)**	**34.7**	**(5.0)**	**(1.3)**
Issuance of shares	79.2	64.2	-	-	-
Changes in borrowings	(8.2)	18.8	(8.4)	-	-
Dividend paid	(8.3)	(33.1)	(27.2)	(30.9)	(38.1)
Others	(2.7)	0.0	-	-	-
Financing Cash Flow	**60.0**	**50.0**	**(35.6)**	**(30.9)**	**(38.1)**
Net cash flow	73.0	0.4	69.6	40.4	47.2
Forex	(0.1)	0.1	-	-	-
Beginning cash	10.3	83.2	83.7	153.3	193.7
Ending cash	**83.2**	**83.7**	**153.3**	**193.7**	**240.9**

** FY13 consists of 15 months results as the group changed its FYE from Dec to March.*

Income Statement

FY 31 March (RM m)	2011A	2013A	2014F	2015F	2016F
Revenue	**285.4**	**422.1**	**386.4**	**433.4**	**484.4**
EBITDA	**57.9**	**96.9**	**89.4**	**103.0**	**118.0**
Depreciation & amortisation	(13.8)	(20.7)	(18.6)	(17.7)	(16.3)
Net interest expense	(0.7)	1.1	0.4	1.6	2.3
Share of associates	(0.7)	0.5	0.5	0.6	0.6
Exceptional items	9.2	(2.9)	-	-	-
Pretax profit	52.0	74.9	71.7	87.5	104.7
Taxation	(11.7)	(19.4)	(15.1)	(21.9)	(26.2)
Minority interest	(0.0)	(0.1)	(2.6)	(3.2)	(4.0)
Net profit	40.2	55.5	54.1	62.4	74.5
Core net profit	33.1	57.7	54.1	62.4	74.5

Key Statistics & Ratios

FY 31 March	2011A	2013A	2014F	2015F	2016F
Growth					
Revenue	11.9%	N/A	N/A	12.2%	11.8%
EBITDA	5.5%	N/A	N/A	15.2%	14.5%
Pretax profit	19.8%	N/A	N/A	21.9%	19.6%
Net profit	26.7%	N/A	N/A	15.3%	19.4%
Core EPS	1.0%	N/A	N/A	15.3%	19.4%
Profitability					
EBITDA margin	20.3%	23.0%	23.1%	23.8%	24.4%
Net profit margin	14.1%	13.2%	14.0%	14.4%	15.4%
Effective tax rate	22.6%	25.8%	21.0%	25.0%	25.0%
Return on assets	12.4%	17.3%	13.5%	14.4%	15.6%
Return on equity	15.2%	18.9%	16.3%	17.2%	19.5%
Leverage					
Total debt / total assets (x)	0.06	0.09	0.06	0.06	0.05
Total debt / equity (x)	0.07	0.11	0.08	0.07	0.07
Net debt / equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash

Key Drivers

FY 31 March	2011A	2013A	2014F	2015F	2016F
Total # of cafe outlets	196	222	237	260	283
Growth (%)		13.3%	6.8%	9.7%	8.8%
Sales volume of FMCG (k kg)	7,032	10,568	9,600	11,520	13,824
Growth (%)		50.3%	N/A	20.0%	20.0%
Avg revenue per outlet (RM k)	903.9	909.3	889.1	856.2	817.9
Growth (%)		0.6%	-2.2%	-3.7%	-4.5%
Avg ASP per kg (FMCG)	16.39	16.93	18.30	18.30	18.30
Growth (%)		3.3%	8.1%	0.0%	0.0%

Valuation

FY 31 March	2011A	2013A	2014F	2015F	2016F
EPS (sen)	12.2	16.5	14.9	17.2	20.5
Core EPS (sen)	10.0	17.1	14.9	17.2	20.5
P/E (x)	24.4	14.3	16.4	14.3	11.9
EV/EBITDA (x)	8.0	5.6	5.8	4.7	3.9
Net DPS (sen)	6.5	9.0	7.5	8.5	10.5
Net dividend yield	2.7%	3.7%	3.1%	3.5%	4.3%
BV per share (RM)	0.66	0.84	0.91	1.00	1.10
P/BV (x)	3.7	2.9	2.7	2.4	2.2

DISCLOSURE

Stock rating definitions

Strong buy	- High conviction buy with expected 12-month total return (including dividends) of 30% or more
Buy	- Expected 12-month total return of 15% or more
Neutral	- Expected 12-month total return between -15% and 15%
Sell	- Expected 12-month total return of -15% or less
Trading buy	- Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

Overweight	- Industry expected to outperform the market over the next 12 months
Neutral	- Industry expected to perform in-line with the market over the next 12 months
Underweight	- Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation
EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax
PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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ALLIANCE RESEARCH SDN BHD (290395-D)
Level 19, Menara Multi-Purpose
Capital Square
8, Jalan Munshi Abdullah
50100 Kuala Lumpur, Malaysia
Tel: +60 (3) 2604 3333
Fax: +60 (3) 2604 3921
Email: allianceresearch@alliancefg.com

Bernard Ching
Executive Director / Head of Research