

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

3 Mar 2016

OldTown Berhad (OTB MK) : BUY

Mkt. Cap: US\$168m | **3m Avg. Daily Val:** US\$0.20m

Last Traded Price : RM1.55

Price Target : RM1.70 (10% upside)

Shariah Compliant: Yes

Analyst

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Fear not the hike in flour prices

- Higher prices for the 25kg-bag of wheat flour
- Expect negligible impact on earnings
- Maintain BUY with RM1.70 TP

Effective today (3 March), the government has removed the subsidy for the 25kg-bag of wheat flour, increasing the price of a 25kg-bag of flour from RM33.75 to RM42.00

However, the Government will maintain the subsidised price of RM1.35 for the 1kg-bag of wheat flour.

Comment: We understand that noodle and bread-related products constitute about 25% of Oldtown's food-based product mix. The group manufactures its own noodles, while sources bread related products from third parties.

We understand that the increase in the price of flour will have an insignificant impact on the group's earnings given its low weighting in the group's cost of production.

Furthermore, the group has completed merging its two central kitchens located in Ipoh, Perak and in Puchong, Selangor respectively in Nov 2015 to the latter location. We gather that the production cost arising from the merger has improved >30% and will be more than sufficient to offset the impact of the increase in flour price. The full benefits of the merger exercise will be shown in its upcoming 4QFY16 results.

As the higher price for the 25kg-bag of wheat flour will have a negligible impact on the group's earnings, we are maintaining our earnings forecasts.

Maintain BUY with RM1.70 TP, pegged to an unchanged 12-month forward PE of 14x, which is close to -1SD below its average forward PE.

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

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

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