

Danny Chan
+60 (3) 9207 7611
danny.chan@my.oskgroup.com

BUY

Fair Value

RM2.60

Previous

RM2.60

Price

RM1.93

CONSUMER /FOOD

Oldtown Bhd produces and sells white coffee products to the households and food service industries. The company also provides milk tea and roasted coffee powder.

Stock Statistics

Bloomberg Ticker	OTB MK
Share Capital (m)	330.0
Market Cap	636.9
52 week H L Price	2.33 1.03
3mth Avg Vol (000)	999.6
YTD Returns	60.8
Beta (x)	-
Shariah Compliant	YES

Major Shareholders (%)

Oldtown International	50.1
Neobalano Carpus	10.0

Share Performance (%)

Month	Absolute	Relative
1m	-3.0	1.9
3m	-10.3	-7.2
6m	37.2	32.4
12m	87.3	66.8

6-month Share Price Performance


Company Update

Oldtown

A Safe Shelter

We learnt from Oldtown's analyst briefing yesterday that its expansion plans are well on track. The company's new factory, slated for completion at year-end, should begin production by 1Q13, immediately boosting its production capacity by 20%-30% next year. In this report, we also set out the findings of our recent survey of Oldtown's kiosk outlet in KLCC and newly-designed signature outlet in Mid Valley. All in, we are positive on its prospects and value Oldtown at RM2.60, pegged to a 15x CY13 EPS. That said, we strongly believe that the stock may re-rate to 17x-18x forward earnings, powered by its growing overseas business.

Good turnout. Oldtown's briefing yesterday was attended by about 40 fund managers and analysts. The company was represented by Mr. Lee Siew Heng (Group Managing Director), Mr. Clarence D'Silva (COO for F&B) and Mr. Alex Chuah (COO for FMCG).

Aggressive in domestic market. Management said it intends to more aggressively roll out its outlets in Malaysia, targeting to open 30 to 40 outlets on home ground. While we think that such a goal is possible, we are leaving our outlet rollout forecast unchanged as securing such a number of locations at one go may prove challenging. Management is also targeting a revamp of its outlets, which has historically bolstered sales by as much as 10 % to 15% on average.

International expansion intact. The expansion of the company's international F&B and FMCG businesses are making good progress. In the FMCG business, it recently appointed a prominent distributor, DKSH, as sole distribution agent to expand its distribution network in Taiwan and Thailand. As both ventures are still at their infancy, we still think that next year's export sales growth will largely be driven by exports to China as its distributors would most likely stock up on inventory to fill up their shelves at distribution channels such as Walmart, Carefour and Jusco (*Please see our previous report to read about our visit to Oldtown's outlets and distribution channels in China*). This expansion in the international market will be backed by the planned capacity expansion at its new factory, which will commence operation in early 2013.

Maintain BUY. All in all, we reiterate our BUY recommendation on Oldtown, premised on its consistent top- and bottom-lines growth. We value the stock at RM2.60, pegged to 15x CY13 EPS, but opine that it could re-rate to 17x-18x on forward earnings next year if the company is able to translate its overseas expansion strategy into profits.

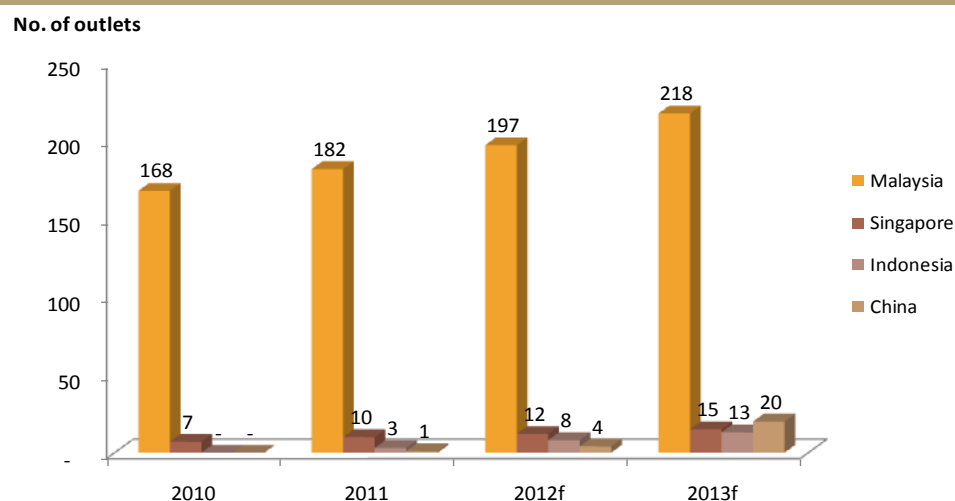
FYE Mar (RMm)	FYE Dec 09	FYE Dec 10	FYE Dec 11	15-mth FYE13	FY14
Revenue	193.7	255.1	285.5	460.3	443.2
Net Profit	30.2	33.1	31.0	57.3	59.8
% chg y-o-y	47.9	9.6	-6.4	84.7	4.5
Consensus	-	-	-	44.0	51.5
EPS	9.2	10.0	9.4	17.4	18.1
DPS	0.0	0.0	6.0	8.7	9.1
Dividend yield (%)	-	-	3.1	4.5	4.7
ROE (%)	-	17.6	14.3	22.5	21.0
ROA (%)	-	13.0	11.1	17.4	15.9
PER* (x)	21.1	19.2	20.5	11.1	10.6
BV/share	-	0.57	0.66	0.77	0.86
P/BV (x)	-	3.4	2.9	2.5	2.2
EV/EBITDA (x)	-	12.0	10.2	7.1	6.9

*15-mth FYE13 PE ratio is computed based on CY13 EPS

KEY HIGHLIGHTS

Aggressive mode in domestic market. Management said it intends to roll out more outlets in Malaysia and is targeting for 30 to 40 new outlets on home ground. While we think that it is possible to open this many outlets next year, we are leaving our outlet rollout forecast unchanged as such a feat may prove challenging, especially when it has to secure many locations at one go. Management also said it intends to revamp its outlets (an exercise that may cost RM100-200k per outlet, to be borne by the outlet owner) as a revamp has historically buoyed sales by as much as 10-15% on average.

Figure 1: Oldtown outlets by country



Source: Company, OSK Research

International expansion intact. The international expansion of Oldtown's F&B and FMCG are well in progress. In its FMCG business, the group recently appointed a prominent distributor, DKSH, as its sole distribution agent to expand its distribution network in Taiwan and Thailand. As both ventures are still at their infancy, we still think that next year's export sales growth will largely be driven by exports to China as its distributors would most likely stock up inventory to fill up the shelves of distribution channels such as Walmart, Carefour and Jusco. This expansion in the overseas markets will be supported by the capacity expansion from its new factory.

Outlet rollout in China to pick up once central kitchen is up. To date, the group has opened four outlets in Guangdong in China. It intends to have a total of 32 outlets in China by 2015. While rollout has been slow this year, we understand from management that the pace will be accelerated upon completion of Oldtown's food processing centre next year. We do not view the slower rollout of outlets as negative as it would have been better to put in the infrastructure to ensure that the group can support a large number of new outlets before it opens more new outlets. We forecast that the group would open 15 to 20 new outlets in China next year alone.

Competition in China to intensify in 1Q13. In May this year, Oldtown's strongest competitor, PappaRich, signed a joint-venture (JV) agreement with Tang Palace (1181 HK, BUY FV HKD2.30) to introduce the brand in China, Hong Kong and Macau. PappaRich will own a 30% equity stake in the JV while Tang Palace will own the remaining 70%. While concrete details on this venture are currently not available, we understand that PappaRich will open its first outlet in a central business district in Shanghai in 1Q13. Overall, we still think that PappaRich's entry into China may turn out to be positive for Oldtown as it would enhance awareness of Malaysian cuisine in the China market. Also, this would ensure that Oldtown expands its outlets at a faster pace in order to stay ahead of its competitors in China.

Figure 2: Map of Shanghai, China

Source: www.letstravelradio.com

75% of outlets now certified *halal*. As at end-October, 147 Oldtown have received halal certification from the Department of Islamic Development Malaysia (JAKIM). Management guided that all outlets should be fully certified halal by 1Q13, after which it would embark on aggressive marketing to promote its halal status and expand in the Muslim market. Management has engaged a market research company to conduct surveys so that it can roll out its targeted marketing campaigns once the entire group gets full halal certification. We understand that management intends to target young Muslim families in the urban areas who are educated and tech-savvy.

Good response to 1st kiosk outlet in KLCC. We visited the first kiosk in KLCC during lunch time recently. For the benefit of those who are not familiar with Malaysia, KLCC is Malaysia's premier shopping destination located at the foot of the Twin Towers at the heart of Kuala Lumpur city centre. Oldtown's management is poised to launch kiosk outlets targeting working adults aged 20 to 40 years. While we are unable to quantify our observations, we saw an encouraging lunch crowd, which reinforces our view that the concept can be replicated in countries with high mall rental rates such as Hong Kong or any other major capital city in the developed nations.

Figure 3: Oldtown's kiosk outlet in KLCC

Source: OSK Research

Figure 4: The lunch crowd at Oldtown's kiosk outlet in KLCC

Source: OSK Research

Too soon to put a number to earnings contribution. We gather that management will trade cautiously during the pilot period by monitoring and reviewing the progress of the kiosk outlet. The challenge lies in the small space occupied by the kiosk, which has to sell products which could be easily stored and prepared. As the success of this new venture is too soon to call, we are not incorporating any earnings from the kiosk outlets into our financial model as yet.

Signature outlets to encapsulate 'traditional meets modern' concept. Besides the kiosk outlet at KLCC, the group also officially opened its first newly-designed signature outlet in Mid Valley Megamall yesterday. We visited the outlet, which is located on the third floor near the convention centre, and understand that it is relatively smaller in size but embodies the 'tradition meets modern' concept. We also took a closer look at the newly revamped concept on the 3rd floor of Mid Valley mall, which is testament to the mall management's efforts to attract the crowd (especially families based on the new tenant mix), to the third floor. This will bode well for Oldtown's new outlet. The notable tenants in this new section include Muji, Daiso, Adidas and Pet Wonderland and Oldtown rivals such as Ipoh Chicken Rice Shop and Bulgogi Brothers.

Figure 5: Oldtown's latest signature outlet in Mid Valley's 3rd floor

Source: OSK Research

Figure 6: An all-new signature outlet with a different concept



Source: OSK Research

Figure 7: A view of Mid Valley's revamped concept on its 3rd floor



Source: OSK Research

New factory to be ready by year-end. In its press release, management said construction on its new factory in Ipoh is making good progress, and will be ready by the end of this year. It will commence production in 1Q13.

Figure 8: The factory building



Source: Company

Figure 9: The factory building



Source: Company

Figure 10: The warehouse



Source: Company

Figure 11: The warehouse



Source: Company

Figure 12: Canteen and recreation centre



Source: Company

Figure 13: Canteen and recreation centre



Source: Company

Figure 14: The administration block



Source: Company

Figure 15: The administration block

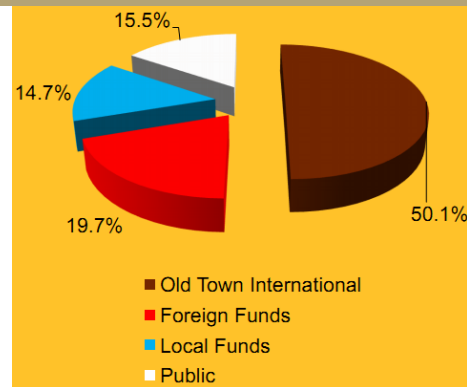


Source: Company

SHAREHOLDING ANALYSIS

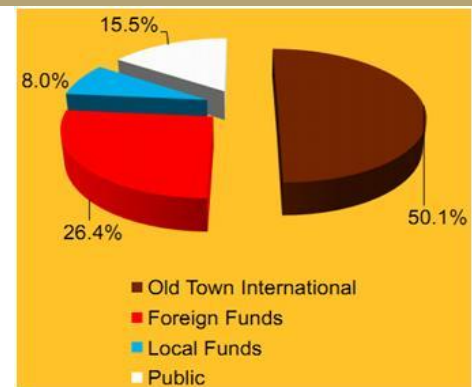
Swing in institutional shareholding structure. We noticed a big swing in the group's institutional shareholding structure compared to two months ago as there are now more foreign institutional investors holding the company's shares (26.4% vs 19.7% two months ago) vs local funds (8.0% against 14.7% two months ago).

Figure 16: Shareholding structure as at 7 Sep 2012



Source: Company

Figure 17: Shareholding structure as at 23 Nov 2012



Source: Company

Figure 18: Shareholding structure as at 7 Sep 2012

No	Name of Shareholder	No. of Shares	
1	Old Town International Sdn. Bhd.	165,345,000	50.10%
2	Neobalano Carpus Ltd	33,000,000	10.00%
3	Public Smallcap Fund	13,219,800	4.01%
4	Bong Yam Keng	10,045,500	3.04%
5	Employees Provident Fund Board	6,315,300	1.91%
6	Lee Siew Heng	5,000,000	1.52%
7	Fidelity Funds Malaysia	3,571,300	1.08%
8	Kumpulan Wang Persaraan (Diperbadankan)	3,306,000	1.00%
9	CIMB-Principal Small Cap Fund	3,215,100	0.97%
10	Charles Schwab	2,953,200	0.89%
11	Matthews Asia Pacific Fund	2,624,200	0.80%
12	Kumpulan Sentiasa Cemerlang Sdn Bhd	2,620,000	0.79%
13	Deutsche Bank AG London (Prime Brokerage)	2,593,800	0.79%
14	Baring Pacific Fund	2,500,000	0.76%
15	Manulife Insurance (Malaysia) Berhad	2,465,100	0.75%
16	Matthews Asia Small Companies Fund	2,332,300	0.71%
17	Manulife Insurance (Malaysia) Berhad	2,016,000	0.61%
18	Driehaus Emerging Market Small Cap Growth Fund	1,868,800	0.57%
19	American International Assurance Berhad	1,691,100	0.51%
20	Hong Leong Growth Fund	1,603,100	0.49%
Total		268,285,600	81.30%

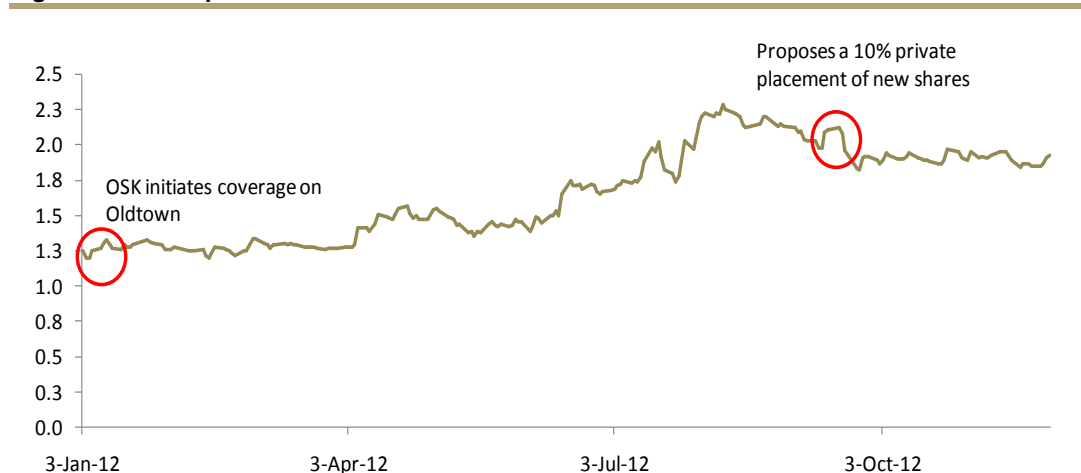
Source: Company

Figure 19: Shareholding structure as at 23 Nov 2012

No	Name of Shareholder	No. of Shares	
1	Old Town International Sdn. Bhd.	165,345,000	50.10%
2	Neobalano Carpus Ltd	33,000,000	10.00%
3	Public Smallcap Fund	10,497,200	3.18%
4	Bong Yam Keng	9,988,300	3.03%
5	Svenska Handelsbanken Stockholm Swenden	5,600,000	1.70%
6	Lee Siew Heng	5,000,000	1.52%
7	RBC Investor Services Trust Account	4,824,800	1.46%
8	JPMorgan Chase Bank, National Association (Norges BK)	4,085,000	1.24%
9	Matthews Asia Pacific Fund	3,740,500	1.13%
10	Citibank NA (Charles Schwab)	3,294,600	1.00%
11	Baring Pacific Fund	3,185,200	0.97%
12	Kumpulan Sentiasa Cemerlang Sdn Bhd	3,038,000	0.92%
13	Matthews Asia Small Companies Fund	2,966,200	0.90%
14	Thornburg Developing World Fund	2,749,300	0.83%
15	Driehaus Emerging Market Small Cap Growth Fund	2,403,000	0.73%
16	Axiom Micro Cap Equity Fund	2,326,300	0.70%
17	Fidelity Funds Malaysia	2,026,600	0.61%
18	ABN AMRO Multi-Manager Funds	1,594,900	0.48%
19	Caceis Bank Luxembourg	1,509,100	0.46%
20	Hong Leong Penny Stock Fund	1,500,000	0.45%
Total		268,674,000	81.42%

Source: Company

Change in institutional shareholding likely due to the proposed corporate exercise. Oldtown had proposed to place out some 33m shares (10% of its share capital) to raise funds from the equity market to beef up its balance sheet. Based on our findings, we understand that most local funds were lukewarm on the group's proposed private placement as this would dilute their equity stake. But as they sold off their shares, foreign institutional investors probably took the opportunity to accumulate Oldtown shares as its share price weakened. This may explain the price consolidation in the stock in the past few months, as shown in Figure 20,. Nonetheless, we still think that the exercise is positive for the group over the long run as the global economic outlook is turning murky and management has been able to raise funds.

Figure 20: Share price movement

Source: OSK Research

Why raise funds when there is net cash of RM64.4m sitting in the balance sheet? To a question, management believes that the economic outlook in the next two years may be gloomy amid the global economic uncertainties. As such, it intended is to raise funds for future expansion while the market is still positive. We gather that the new funds would be used to expand its F&B business in other provinces in China under a wholly-owned model, which will involve capital expenditure. Management also mooted the possibility of expanding its F&B business to the Middle East if it can secure a solid local partner.

Fair value to be trimmed to RM2.40 if new shares are issued. Based on our projections, our FV would be trimmed to RM2.40 if management decides to pursue the proposed placement. This still leaves some price upside on the stock.

Table 1: Income statement analysis assuming proposed corporate exercise goes ahead

Income Statement	
Current earnings projection in FYE14 (RMm)	59.8
Cash proceeds from placement of 33m new shares at RM2.00 (RMm)	66.0
<i>Note: The issue price of the new share are theoretical</i>	
Additional interest income based on 3% interest per annum (RMm)	2.0
New earnings projection in FYE14 (RMm)	61.8
Previous share base (m shares)	330.0
New share base (m shares)	363.0
Previous CY13 EPS (RMsen) – based on 330m share base	17.2
New CY13 EPS (RMsen) – based on 363m share base	16.0
Previous fair value (RM)	2.60
New fair value (RM)	2.40

Source: OSK Research

VALUATION & COMPARISONS

Cheap vs local and regional competitors. Oldtown is trading at a 28.4% discount to its local peers (in terms of CY13 PE ratio) and a steep 50.0% discount to its global peers (in terms of CY13 PE). We think on a PER basis, Oldtown still looks cheap – at 13.9x CY13 EPS, considering its ROE of 22.5%. We deem our valuation fair as it is supported by recent major acquisitions and privatization exercises in the Malaysian consumer sector, where deals generally price food & beverage players at a PE of 15x-25x.

Table 2: A comparison with local peers (as at 29 Nov 2012)

Name	Bloomberg Ticker	Market Cap (RMm)	FY1 P/E (x)	FY2 P/E (x)	FY1 EV/EBITDA (x)	FY1 P/B (x)	FY1 ROE (%)	FY1 Dividend Yield (%)
Berjaya Food	BFD MK	320.3	18.1	13.0	21.1	2.1	20.0	3.7
QSR Brands	QSR MK	2,039.0	16.2	14.6	7.1	1.9	12.8	1.6
KFC	KFC MK	3,141.3	20.0	16.9	9.8	2.9	13.2	1.2
AVERAGE			18.1	14.8	12.7	2.3	15.3	2.2
Oldtown			13.9	10.6	7.1	2.5	22.5	4.5
Premium/(discount) against peers (%)			(23.2)	(28.4)	(44.1)	8.7	47.1	104.5

Note 1: Peer data are based on Bloomberg consensus while Oldtown's data are based on OSK's estimates

Note 2: Oldtown's FY1 P/E is based on annualized FYE13 EPS

Source: Bloomberg, OSK Research Estimates

Table 3: Comparison of regional and international peers (as at 29 Nov 2012)

Name	Bloomberg Ticker	Market Cap (RMm)	FY1 P/E (x)	FY2 P/E (x)	FY1 EV/EBITDA (x)	FY1 P/B (x)	FY1 ROE (%)	FY1 Dividend Yield (%)
Regional								
Breadtalk Group	BREAD SP	142.6	14.4	14.1	4.0	2.0	14.8	2.7
Jollibee Group	JFC PM	2,669.9	30.4	26.7	15.1	5.1	17.7	1.4
Ajisen China Holdings	538 HK	965.7	50.5	32.3	17.3	2.4	5.3	1.1
Café De Coral	341 HK	1,687.0	24.6	22.3	12.9	3.9	16.3	3.2
Oishi Group	OISHI TB	909.3	28.4	19.0	18.3	8.1	29.8	1.7
International								
Dunkin Brands	DNKN US	3,345.1	24.9	21.0	15.5	7.9	27.3	1.9
Starbucks	SBUX US	38,491.5	23.9	19.6	12.2	6.5	28.9	1.7
McDonalds	MCD US	86,864.1	16.3	14.9	9.8	6.2	38.4	3.3
AVERAGE			26.7	21.2	13.1	5.3	22.3	2.1
Oldtown	OTB MK	228.1	13.9	10.6	7.1	2.5	22.5	4.5
Premium/(discount) against peers (%)			(47.9)	(50.0)	(45.8)	(52.8)	0.9	114.3

Note 1: Peer data are based on Bloomberg consensus while Oldtown's data are based on OSK's estimates

Note 2: Oldtown's FY1 P/E is based on annualized FYE13 EPS

Source: Bloomberg, OSK Research Estimates

Maintain BUY. We reiterate our BUY recommendation on Oldtown, premised on the group's consistent top- and bottom-line growth. We value the stock at RM2.60, pegged to 15x CY13 EPS, but opine that the stock could rerate to 17x - 18x forward earnings next year if the group can translate its overseas expansion strategy into profits.

EARNINGS FORECAST

FYE Mar (RMm)	FYE Dec 09	FYE Dec 10	FYE Dec 11	15-mth FYE13	FY14
Turnover	193.7	255.1	285.5	460.3	443.2
EBITDA	48.9	57.5	68.1	97.9	100.6
PBT	40.2	43.3	51.9	76.3	79.8
Net Profit	30.2	31.7	40.2	57.3	59.8
Core Net Profit	30.2	33.1	31.0	57.3	59.8
Core EPS (sen)	9.2	10.0	9.4	17.4	18.1
Net DPS (sen)	0.0	0.0	6.0	8.7	9.1
Margin					
EBITDA	25.3	22.5	23.8	21.3	22.7
PBT	20.7	17.0	18.2	16.6	18.0
Net Profit	15.6	12.4	14.1	12.4	13.5
Core Net Profit	15.6	13.0	10.9	12.4	13.5
ROE	-	16.8	18.5	22.5	18.7
Core ROE	-	17.6	14.3	22.5	21.0
ROA	-	12.4	14.4	17.4	15.9
Core ROA	-	13.0	11.1	17.4	15.9
Balance Sheet					
Fixed Assets	-	167.5	119.6	149.5	160.0
Current Assets	-	87.7	158.6	179.0	215.4
Total Assets	-	255.2	278.1	328.5	375.3
Current Liabilities	-	49.3	42.4	49.0	50.2
Net Current Assets	-	38.4	116.1	130.1	165.2
LT Liabilities	-	17.7	18.4	25.4	40.1
Shareholders Funds	-	188.2	217.3	253.9	284.8
Net Gearing (%)	-	Net Cash	Net Cash	Net Cash	Net Cash

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Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
PT OSK Nusantara Securities Indonesia Plaza CIMB Niaga, 14 th Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	OSK Indochina Securities Limited No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
OSK Securities (Thailand) PCL 10 th Floor ,Sathorn Square Office Tower, 98, North Sathorn Road,Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		