OldTown Berhad

FMCG to Anchor Growth

By Soong Wei Siang / soongws@kenanga.com.my

OUTPERFORM ↔

Price: RM1.66
Target Price: RM1.79 ↔

We attended OLDTOWN's 4Q16 result briefing and came away feeling comforted as its recent results have justified our positive call on the company. Its Café Chain (CC) business is gradually recovering from the weak sentiment while still challenging. Nonetheless, Manufacturing of Beverage (MB) division is expected to be the growth anchor of the Group. All in, we reiterate our Outperform rating with unchanged TP of RM1.79 on its healthy earnings growth ahead.

Recovering but challenging prospect ahead. To recap, OLDTOWN's CC division recorded core PBT of RM23.4m in FY16 (-21.4% YoY). After a dismal start to FY16, the division has shown improvement in both sales and profit as the strategy deployed has managed to reduce the negative impact of weak consumer sentiment. Moving forward, the Group has lined up several marketing strategy in order to retain its customers while also planning to capitalise on the Ramadhan festival to drive sales. Although we laud the management effort to keep up the momentum, we still think that the retail-based CC business may face a challenging FY17 in view of the lacklustre sentiment and competitive business landscape.

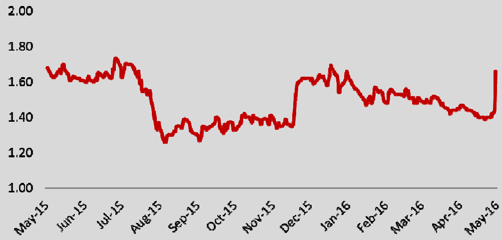
On strong foothold. Things were rosier in the MB division with FY16 PBT surging 24.8% to RM47.5m on the back of 10.4% revenue growth. Management attributed the solid performance to better operating efficiency, additional contribution from the consolidation of trading and distribution arm in Hong Kong/China and favourable forex. Moving forward, management expects the robust demand to continue to drive the division, as it is looking to build on the strong export momentum (sales +13%) by allocating more resources to Taiwan and Indonesia. We view the division to be the pillar anchoring the Group's growth in the near term on the back of its strong brand name and market share as well as the resilient demand of FMCG products.

Reiterate OUTPERFORM with unchanged Target Price of RM1.79. Post briefing, we made no changes to our earnings forecasts. We also maintain our TP of RM1.79, based on 14.1X PER FY17E which is close to -0.5 SD over its 3-year mean PER to reflect the risk in the CC division.

Against the odds. Despite the concerns over CC business, OLDTOWN has managed to record profit growth for the 5th consecutive year which is commendable considering FY16 growth was achieved on the back of a difficult business environment.

We believe the track record and the management's commitment to grow the business have been overlooked as the stock is currently trading below -1SD over 3-year mean. We think the low valuation is unjustified as we forecast the Group to sustain its earnings growth in the next two years (4%-8%) while the decent dividend yield (>4%) supported by the sturdy balance sheet (net cash of RM153.5m or 34.0 sen/share) and its strong operating cash flow should also provide assurance to investors.

Share Price Performance



KLCI	1,637.19
YTD KLCI chg	-3.3%
YTD stock price chg	4.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OTB MK Equity
Market Cap (RM m)	749.4
Issued shares	451.5
52-week range (H)	1.78
52-week range (L)	1.26
3-mth avg daily vol:	240,813
Free Float	35%
Beta	0.7

Major Shareholders

OLD TOWN INTERNATION	43.7%
FRANKLIN RESOURCES	11.3%
MAWER INVESTMENT MAN	10.0%

Summary Earnings Table

FY Mar (RM m)	2016	2017E	2018E
Turnover	393	432	467
EBIT	68	75	81
PBT	68	76	82
Net Profit (NP)	**52**	**57**	**62**
Core NP	**55**	**57**	**62**
Consensus (CNP)	-	56	61
Earnings Revision	-	-	-
Core EPS (sen)	12.2	12.7	13.7
C.EPS growth (%)	8%	4%	8%
NDPS (sen)	9.0	6.5	7.0
BV/Share (RM)	0.80	0.86	0.93
Core PER (x)	13.6	13.1	12.1
Price/BV (x)	2.1	1.9	1.8
Net Gearing (x)	N.C.	N.C.	N.C.
Dividend Yield	5.4%	3.9%	4.2%

Income Statement

FY Mar (RM m)	2014	2015	2016	2017E	2018E
Revenue	390.2	397.7	393.4	432.0	467.1
EBITDA	84.9	79.7	84.7	97.3	104.6
Depreciation	-19.6	-18.9	-16.7	-22.4	-24.0
EBIT	65.2	60.8	67.9	74.9	80.6
Interest Expense	-1.4	-0.9	-0.9	-0.5	-0.3
Exceptional	0.0	-3.5	0.0	0.0	0.0
PBT	66.4	64.2	68.2	75.9	81.9
Taxation	-16.0	-15.1	-15.9	-16.7	-18.0
Minority Interest	-1.4	-1.6	0.0	-1.9	-2.0
Net Profit	48.9	47.5	52.3	57.3	61.9
Core Net Profit	48.9	51.0	55.3	57.3	61.9

Balance Sheet

FY Mar (RM m)	2014	2015	2016	2017E	2018E
Fixed Assets	87.2	119.2	122.1	109.7	119.0
Intangibles	23.7	23.7	20.2	18.8	18.8
Other FA	130.1	97.4	116.3	147.0	154.8
Inventories	15.4	22.5	30.1	25.5	28.5
Receivables	53.2	34.4	45.6	63.0	67.5
Other CA	35.6	27.1	47.9	17.5	17.5
Cash	136.8	156.3	135.0	169.4	179.1
Total Assets	389.3	424.1	437.1	449.6	476.0
Payables	59.8	17.2	25.2	56.3	58.7
ST Borrowings	4.9	3.9	3.7	3.8	0.0
Other ST Liab.	2.8	40.6	47.6	8.2	8.2
LT Borrowings	24.4	20.4	15.8	12.1	10.0
Other LT Liab.	4.2	7.7	8.0	7.1	7.1
Minority Int.	0.3	5.0	3.8	0.0	1.9
Net Assets	**293.0**	**329.3**	**333.1**	**362.1**	**390.1**
Share Capital	406.6	457.2	457.2	463.2	463.2
Reserves	-113.6	-127.9	-124.1	-101.1	-73.2
Equity	**293.0**	**329.3**	**333.1**	**362.1**	**390.1**

Cashflow Statement

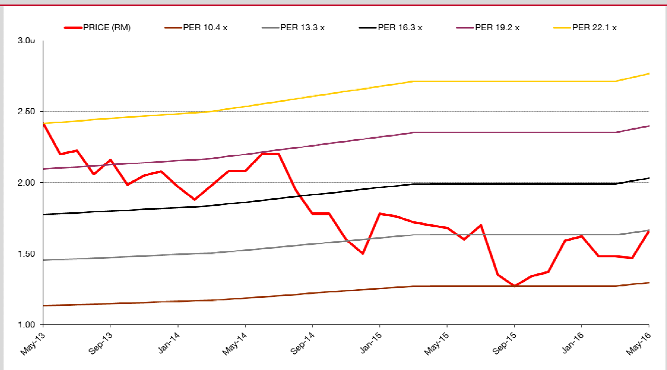
FY Mar (RM m)	2014	2015	2016	2017E	2018E
Operating CF	53.8	68.8	65.7	61.7	75.6
Investing CF	-65.0	10.4	-33.6	6.5	-18.0
Financing CF	64.7	-22.5	-53.5	-32.8	-34.3
Change In Cash	53.6	56.6	-21.3	35.4	23.4
Free CF	7.1	51.4	54.2	43.7	57.6

Financial Data & Ratios

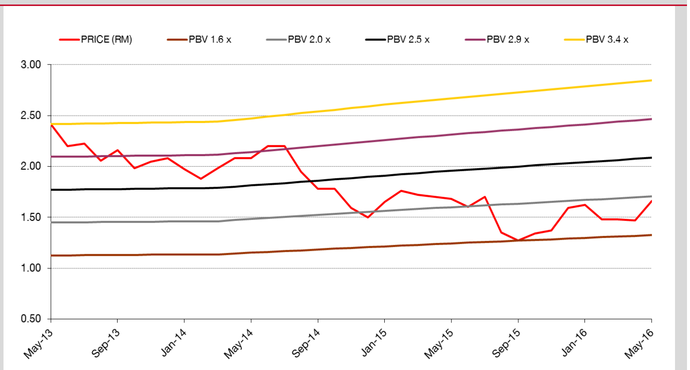
FY Mar (RM m)	2014	2015	2016	2017E	2018E
Growth (%)					
Revenue	17.1%	1.9%	-1.1%	9.8%	8.1%
EBITDA	10.1%	-6.1%	6.2%	14.9%	7.5%
EBIT	7.6%	-6.7%	11.6%	10.4%	7.5%
PBT	10.7%	-3.3%	6.3%	11.3%	7.9%
NP	9.6%	-3.0%	10.1%	9.6%	7.9%
CNP	9.6%	4.2%	8.4%	3.7%	7.9%
Profitability (%)					
EBITDA Margin	21.8%	20.0%	21.5%	22.5%	22.4%
EBIT Margin	16.7%	15.3%	17.3%	17.3%	17.2%
PBT Margin	17.0%	16.1%	17.3%	17.6%	17.5%
Core Net Margin	12.5%	12.8%	14.1%	13.3%	13.2%
Eff. Tax Rate	24.2%	23.5%	23.4%	22.0%	22.0%
ROE	14.9%	15.3%	15.3%	14.7%	14.7%
ROA	11.5%	11.7%	12.3%	12.0%	12.2%
DuPont A'lysis					
Net margin (%)	12.5%	12.8%	14.1%	13.3%	13.2%
Asset T/over (x)	0.9	0.9	0.9	0.9	0.9
Leverage Fac. (x)	1.3	1.3	1.2	1.2	1.2
ROE (%)	14.9%	15.3%	15.3%	14.7%	14.7%
Leverage					
Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
Net Debt/(Cash)	(132)	(115)	(154)	(169)	(203)
Net Debt/Eq. (x)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)
Valuations					
Core EPS (sen)	10.8	11.3	12.2	12.7	13.7
NDPS (sen)	6.0	5.9	9.0	6.5	7.0
BV/share (RM)	0.7	0.8	0.8	0.9	0.9
Core PER (x)	15.3	14.7	13.6	13.1	12.1
Div. Yield (%)	3.6	3.5	5.4	3.9	4.2
PBV (x)	2.3	2.2	2.1	1.9	1.8
EV/EBITDA (x)	7.4	8.1	7.2	6.1	5.3

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Net Profit (RMm)			1Y Fwd Growth	2Y Fwd Growth	Target Price	Rating
	(RM)	(RMm)	Historical	1Y Fwd	2Y FWd			(x)	Historical	1Y Fwd	2Y FWd	(%)	(%)	(RM)	
RETAIL															
AEON	2.75	3,861.0	28.9	27.2	25.8	1.5%	7.4%	2.12	133.4	142.1	149.6	6.5%	5.3%	2.46	Underperform
AMWAY	8.95	1,471.3	23.0	18.5	17.2	4.6%	37.2%	7.16	63.9	79.2	84.7	23.9%	6.9%	9.84	Market Perform
HAIO	2.57	496.6	16.7	14.6	13.0	5.1%	14.1%	1.95	30.1	34.4	38.7	14.4%	12.5%	2.55	Market Perform
PADINI	2.41	1,585.6	19.8	12.8	11.2	5.8%	26.3%	3.91	80.2	123.9	141.0	54.5%	13.8%	2.78	Outperform
PARKSON	0.87	910.3	11.7	34.6	16.6	2.9%	-2.0%	0.36	80.7	27.0	56.4	-66.5%	108.9%	0.82	Underperform
F&B															
DLADY	56.00	3,584.0	25.4	22.8	21.4	4.3%	89.7%	22.76	141.0	157.2	167.5	11.5%	6.6%	59.20	Outperform
NESTLE	75.52	17,709.4	30.0	26.5	24.9	3.5%	69.1%	25.01	590.7	668.2	711.1	13.1%	6.4%	82.10	Outperform
OLDTOWN	1.66	749.4	13.6	13.1	12.1	3.9%	15.3%	2.08	55.3	57.4	61.9	3.7%	7.9%	1.79	Outperform
QL	4.40	5,491.3	29.3	26.5	24.3	1.1%	13.6%	3.85	187.5	207.4	225.7	10.6%	8.8%	4.16	Underperform
SIN															
BAT	50.94	14,544.9	16.0	18.6	18.8	5.3%	162.0%	26.67	910.1	780.1	775.6	-14.3%	-0.6%	48.70	Underperform
CARLSBG	13.26	4,079.1	17.9	16.8	15.9	5.8%	66.7%	11.91	228.5	242.6	257.3	6.2%	6.0%	14.70	Outperform
GAB	15.00	4,531.5	21.2	17.5	16.0	6.7%	74.5%	12.00	214.2	259.5	283.7	21.2%	9.3%	16.90	Outperform

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my

Chan Ken Yew
Head of Research