

28 February 2018 | 3QFY18 Results Review

Oldtown Berhad

Weak 3QFY18 performance

Accept Offer
Fair Value: RM3.18

INVESTMENT HIGHLIGHTS

- 3QFY18 earnings dropped by -52.2%yoy to RM11.4m
- This met ours but lagged consensus expectations
- Café chain operation turned to a loss while Manufacturing of beverages segment's performance dropped
- Maintain recommendation to accept cash offer

Met ours but lagged consensus expectations. Oldtown's 3QFY18 earnings dropped by -52.2%yoy to RM11.6m which brings its cumulative 9MFY18 earnings to RM43.6m. This met our expectations but lagged consensus estimates, accounting for 72.6% and 63.2% of full year FY18 earnings forecasts respectively. The cumulative earnings for 9MFY18 dropped by -14.5%yoy due to the: (i) café chain operation taking a loss for the first time since the company's listing; and (ii) the dwindling performance of the manufacturing of beverages' segment.

Café chain operation turned to a loss. The café chain operation's 9MFY18 revenue dropped by -2.7%yoy to RM139.7m while the profit before tax (PBT) dropped at a similar quantum of -2.6%yoy to RM14.5m. The segment's decline in revenue against last year was due to the fewer number of outlets in operation domestically as a result of the group's restructuring effort to close non-profitable outlets. As of 31 December 2017, there are 192 outlets in Malaysia in comparison to 198 outlets in operation in FY16. Nevertheless, the recovery in PBT is slower than expected due to the increase in operating expenses such as staffing costs.

Manufacturing of beverages' performance dropped. Despite the increase in 9MFY18 revenue of +13.7%yoy to RM198.4, PBT has dropped by -14.0%yoy to RM44.3m. The increase in revenue is mainly due to the strong growth in revenue of both local and export sales by +17%yoy and +12%yoy. Currently, export accounted for 64% of the total segment revenue. Nevertheless, PBT declined due to the: (i) higher material and operating expenses and; (ii) foreign exchange loss of RM9.09m.

RETURN STATS

Price (27 th February 2018)	RM3.15
Fair Value	RM3.18
Expected Share Price Return	+0.0%
Expected Dividend Yield	+2.2%
Expected Total Return	+2.2%

STOCK INFO

KLCI	1,871.46
Bursa / Bloomberg	5201 / OTB MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	463.24
Market cap. (RM'm)	1,463.84m
Price over NA	3.03
52-wk price Range	RM2.30-RM3.42
Beta (against KLCI)	0.64
3-mth Avg Daily Vol	1.16m
3-mth Avg Daily Value	RM3.85m
Major Shareholders (%)	
Jacobs Douwe Egberts	45.39
Mawer Investment	7.52
Franklin Resources	5.94

Proposed takeover offer at RM3.18 per share. Oldtown has received a conditional cash offer for all its issued ordinary shares by Jacobs Douwe Egberts Holdings Asia NL. B.V., an indirect wholly-owned subsidiary of Jacobs Douwe Egberts B.V. (JDE) at RM3.18 per share. JDE is based in the Netherlands and primarily involves in manufacturing and distribution of consumer packaged coffee products worldwide with annual revenue of €5b. JDE intends to delist and privatise Oldtown upon completion of the takeover.

We maintain our recommendation for shareholders to Accept the offer at RM3.18 per share. JDE's valuation of RM3.18 per share represents an attractive premium of 22.31% over our last TP of RM2.60 per share which premised on FY19 EPS of 13sen pegged to FY19 forward PE of 20x.

Oldtown is currently facing a tougher outlook going forward due to the: (i) challenging outlook for its café outlet operation with the reduction in the number of local outlets and; (ii) tapering growth of the manufacturing of beverages' segment in light of the stronger Ringgit as this will have a stronger downside impact on export sales than the benefit gain from a lower raw material costs. Going forward, Oldtown will look to leverage on JDE's deep global expertise in addressing the challenges and build a highly successful partnership with them. Hence, we recommend that shareholders to **Accept** the offer.



INVESTMENT STATISTICS

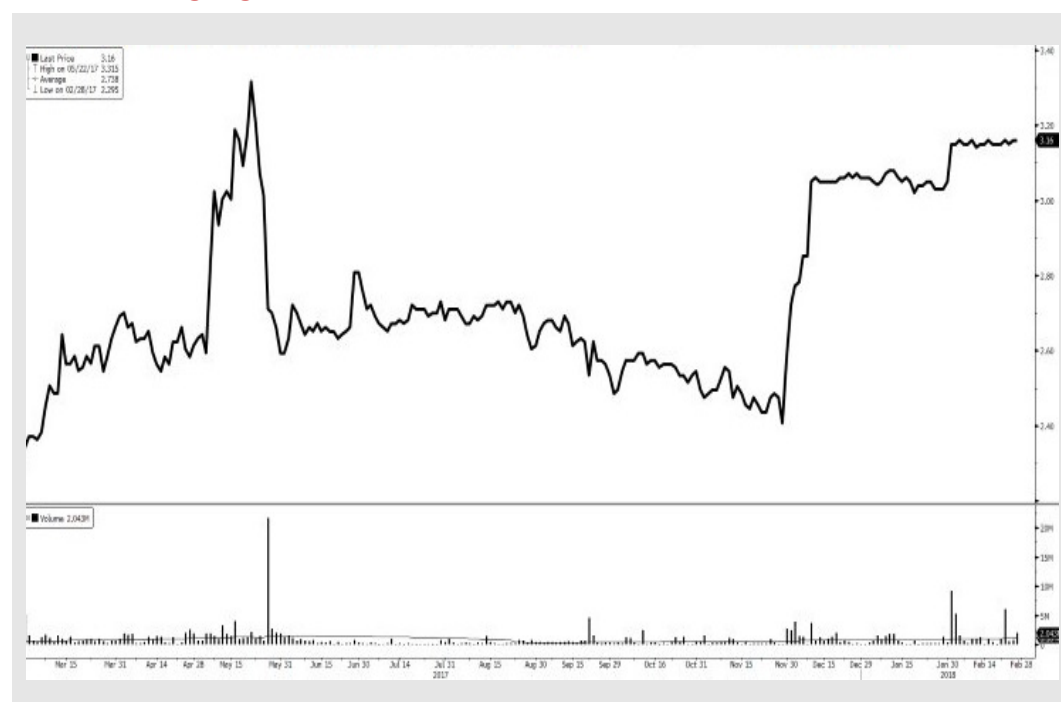
FYE Mac (RMm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	397.7	393.4	425.2	431.9	442.3
PBT	64.2	68.2	80.2	78.0	78.3
PAT	49.1	52.3	60.0	60.1	60.2
PATANCI	47.5	52.3	60.0	60.1	60.2
PBT margin (%)	16.1	17.3	18.9	18.1	17.7
PAT margin (%)	12.3	13.3	14.1	13.9	13.6
PATANCI margin (%)	11.9	13.3	14.1	13.9	13.6
EPS (sen)	10.5	11.6	13.3	13.0	13.0
EPS growth (%)	(3.0)	10.1	14.8	(2.4)	0.2
Dividend/share (sen)	6.0	9.0	8.0	7.0	7.0
Payout ratio (%)	57.0	77.7	60.2	54.0	53.8
Dividend yield (%)	1.9	2.9	2.5	2.2	2.2
PER (x)	29.9	27.2	23.7	24.3	24.2

Source: MIDFR, Company

3QFY18 Results Review

FYE Mac (RMm)	Quarterly results					Cumulative results		
	3QFY18	2QFY18	2QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	114.6	114.2	115.8	(1.0)	0.4	338.2	318.2	6.3
PBT	16.0	20.4	31.6	(49.3)	(21.5)	58.3	67.6	(13.8)
Taxation	(4.6)	(5.4)	(7.4)	(38.4)	(15.0)	(15.3)	(17.3)	(11.7)
PAT	11.4	15.0	24.1	(52.7)	(23.9)	43.0	50.3	(14.5)
Non-controlling interests	(0.2)	(0.2)	(0.2)	n.a.	n.a.	(0.6)	(0.6)	10.3
PATANCI	11.6	15.2	24.4	(52.2)	(23.5)	43.6	50.9	(14.2)
Basic EPS (sen)	2.5	3.3	5.4	(53.4)	(23.5)	9.4	11.3	(16.5)
Fully Diluted EPS (sen)	2.5	3.3	5.4	(53.4)	(23.5)	9.4	11.3	(16.5)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	14.0	17.9	27.3	(13.3)	(3.9)	17.2	21.2	(4.0)
PAT margin (%)	10.0	13.1	20.8	(10.9)	(3.2)	12.7	15.8	(3.1)
PATANCI margin (%)	10.1	13.3	21.0	(10.9)	(3.2)	12.9	16.0	(3.1)
Effective tax rate (%)	28.7	26.5	23.6	5.1	2.2	26.2	25.6	0.6
Segmentation								
Revenue (RMm)								
Operation of Café Chain	47.7	46.4	49.3	(3.2)	2.9	139.7	143.6	(2.7)
Manufacturing of Beverages	66.9	67.8	66.5	0.6	(1.3)	198.4	174.6	13.7
	114.6	114.2	115.8	(1.0)	0.4	338.2	318.2	6.3
Operating profit (RMm)								
Operation of Café Chain	4.6	3.4	6.0	(23.4)	34.3	14.5	14.9	(2.6)
Manufacturing of Beverages	11.6	17.2	23.9	(51.7)	(32.9)	44.3	51.5	(14.0)
Other gain and losses	(0.2)	0.0	1.6	(111.5)	n.a.	(0.5)	1.2	(145.3)
	16.0	20.7	31.6	(49.3)	(22.6)	58.3	67.6	(13.8)
Operating profit margin (%)								
				<i>+ / (-) ppts</i>				
Operation of Café Chain	9.7	7.4	12.2	(2.6)	2.3	10.4	10.4	0.0
Manufacturing of Beverages	17.3	25.4	36.0	(18.7)	(8.1)	22.3	29.5	(7.2)

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.