Oriental Kopi Holdings Berhad

Initiate with **BUY**

(0338 | KOPI MK) Ace| Consumer

Brewing Explosive Growth

Target Price: RM0.83

KEY INVESTMENT HIGHLIGHTS

- **We initiate coverage on Oriental Kopi with BUY call and TP of RM0.83**
- **A strong, owner-operated brand**
- **Expansion plans with limitless potential**
- **A high-margin FMCG goldmine**
- **Opportunities in international expansion, riding the wave of tourism recovery**

RETURN STATISTICS	
IPO Price (RM)	0.44
Expected share price return (%)	+88.0%
Expected dividend yield (%)	+2.8%

INVESTMENT STATISTICS			
FYE Sep	2025F	2026F	2027F
Revenue	418.2	547.5	613.0
EBITDA	107.4	142.5	168.1
Profit before tax (PBT)	83.7	110.3	131.0
Core PATAMI	62.8	82.7	98.3
EPS (sen)	3.1	4.1	4.9
DPS (sen)	0.9	1.2	1.5
Dividend Yield (%)	2.1	2.8	3.3

KEY STATISTICS	
Issue shares (m)	2,000.0
Market Capitalisation (RM'm)	880.0
Top Shareholders (%)	
United Gomax	73.4

Company Background

Oriental Kopi (KOPI), established in December 2020, has grown rapidly and become a prominent player in Malaysia's F&B industry. The company operates two main segments: café chain operations and the distribution and retail of packaged food products. In just four years, KOPI has established 19 outlets across Malaysia and one joint-venture outlet in Singapore. With its focus on familiar local cuisines in high-traffic mall-based locations, KOPI has achieved a remarkable FY22-24 profit CAGR of 112%, underscoring its strong growth and market appeal.

Executive Summary

We initiate coverage on KOPI with a BUY call and TP of RM0.83 based on 20x PE of FY26F earnings, representing a 20.5% premium to its domestic peers. This valuation premium is justified by the company's robust growth trajectory, aggressive expansion plans, and strong profitability. Since its inception in 2020, Oriental Kopi has positioned itself as a leading player in Malaysia's F&B industry, leveraging its owner-operated business model to ensure consistent quality and build strong customer loyalty. Its growth strategy includes the addition of 14 new outlets, establishing a central kitchen by FY26F, expanding its high-margin FMCG segment and pursue regional growth. These initiatives, coupled with its ability to capitalize on Malaysia's tourism recovery and rising consumer spending trends, underpin its long-term growth potential.

From a financial perspective, we forecast KOPI to achieve a strong FY24–FY27F revenue CAGR of 30%, driven by the addition of 14 new café outlets and significant growth in its FMCG segment. Core net profit is expected to grow at an even stronger CAGR of 32%, supported by operational efficiencies from the central kitchen and higher-margin FMCG products. The company is committed to a 30% dividend payout policy, offering decent yields of 2.1% and 2.8% in FY25F and FY26F, respectively.

Key Investment Thesis

i. Strong Market Position in the F&B Industry
ii. Rampant Expansion Plan with Limitless Potential
iii. FMCG Segment - A High-Margin Goldmine
iv. Opportunities in International Expansion
v. Riding the Wave of Tourism Recovery
vi. Halal Certification to Broaden Appeal
vii. Capitalizing On the Post-Covid Dine-Out Trend

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INVESTMENT THESIS

1. Strong Market Position in the F&B Industry

Rapid expansion and prime locations. KOPI is not just a player in Malaysia's bustling F&B sector—it is a burgeoning titan. In a mere four years since its inception in December 2020, the company has carved out a dominant presence, with 19 strategically positioned outlets across the country, including high-traffic, prestige locations such as KLIA2, TRX, KLCC, Mid Valley, and Sunway Pyramid, along with a joint-venture outlet in Singapore. These premier locations not only ensure high visibility but also attract a diverse customer base, ranging from local patrons to international tourists. The brand's outlets frequently experience long queues during peak hours, which we interpret as a strong indicator of its enduring popularity and customer loyalty—far from being just a fleeting trend or hype. Management has also highlighted operational efficiencies, with fast table turnovers averaging 45–60 minutes and an average ticket size of RM30–40 per pax. Each café, with seating capacities of 120–150, showcases a high degree of throughput, further reinforcing KOPI's robust market presence and operational excellence.

Exhibit 1: Crowd of Oriental Kopi café

Sources: Online, Oriental Kopi, MIDFR

Quality over franchising. What sets KOPI apart from its competitors is its fully owner-operated business model, prioritizing quality and consistency over rapid franchising. This approach allows for stringent control over food and service standards, ensuring a uniform dining experience that fosters strong customer trust and loyalty. By avoiding the pitfalls of franchise-led growth, such as inconsistent quality that has hindered its competitors, KOPI has solidified its reputation for excellence. Further enhancing its operations is the central kitchen model, where semi-finished products are prepared centrally and finalized at outlets, ensuring consistency across all locations while optimizing efficiency. This centralized system not only streamlines operations but also enables economies of scale, granting the company greater control over quality, inventory, and costs, reinforcing its position as a standout player in Malaysia's F&B sector.

A brand synonymous with authenticity. KOPI's dedication to preserving and showcasing Malaysia's vibrant culinary heritage lies at the heart of its success. Its menu highlights authentic local flavors that resonate deeply with the country's diverse ethnic groups, creating a strong connection with its patrons. The standout "Oriental Kopi Trio"—egg tarts, polo buns, and coffee—has become synonymous with the brand, driving exceptional customer loyalty and repeat visits. These signature items not only appeal to nostalgia but also embody the brand's dedication to quality and tradition. Complementing its dine-in experience, KOPI has strategically diversified its revenue streams with in-house branded packaged foods and delivery services. This diversification enhances resilience, enabling steady growth by catering to both on-the-go consumers and those seeking convenience. By blending authenticity with adaptability, KOPI has carved a distinct niche in Malaysia's competitive F&B landscape.

Exhibit 2: Oriental Signature

Sources: Oriental Kopi, MIDFR

Scalable and modular operations for rapid expansion. KOPI's growth strategy is built on its scalable and modular business model, with plans to establish 14 additional wholly owned cafés between 2024 and 2026 across key states in Malaysia, including Klang Valley, Negeri Sembilan, Penang, Johor, Malacca, Pahang, Sabah, and Sarawak. By targeting urban and suburban areas with high population densities, the company aims to maximize footfall and brand exposure, solidifying its presence in both established and emerging markets. This deliberate site selection ensures accessibility for a diverse customer base while aligning with the brand's premium positioning.

Central kitchen as a game-changer for expansion. The upcoming central kitchen, slated to begin operations by 2026, will be a critical component of KOPI's expansion strategy. This facility will streamline operations, ensuring strict quality control across multiple outlets while optimizing kitchen layouts to increase seating capacity and enhance the overall dine-in experience. With the capacity to support up to 40 outlets, the central kitchen will enable KOPI to scale rapidly while maintaining consistency in its product offerings. This operational efficiency will drive further growth, allowing the company to expand its footprint while upholding the premium quality that has made Oriental Kopi a household name in Malaysia.

Short payback period with a big impact. One of the most striking features of KOPI's business model is its low capital expenditure (CapEx) requirement for new outlets—typically between RM2.5m and RM2.8m. With such low initial investment costs, new outlets are able to achieve a payback period of just 10-12 months on average. We believe this short payback period is a testament to the strength of KOPI's business model, allowing the company to rapidly reinvest profits in further expansion. While still in its early stages, the company has demonstrated impressive Same Café Sales Growth (SCSG) at outlets that have been operational for at least 12 months, particularly in Johor. This strong performance underscores the potential for continued growth and profitability as KOPI expands its footprint in both existing and new markets.

Exhibit 3: Oriental Kopi's Same Cafés Sales Growth

Same Café Sales Growth	FY21	FY22	FY23	FY24
Johor			41.3%	30.9%
Selangor				-13.0%
Kuala Lumpur				3.7%
Number of cafés included in the calculation			**2**	**5**

Sources: Oriental Kopi, MIDFR

3. FMCG Segment - A High-Margin Goldmine

A profitable diversification. KOPI's expansion into the FMCG space through in-store sales and the distribution and retail of packaged foods has proven to be a masterstroke, offering a high-margin alternative to its core café business. With a gross profit margin of 51.9% for FMCG products compared to 29.1% for the café chain, this move not only boosts profitability but also diversifies KOPI's revenue streams, reducing dependence on its café business. The FMCG segment has already grown from 2.7% of total revenue in FY21 to 17.1% in FY24, underscoring the massive potential of this area. To further enhance its FMCG portfolio, the company plans to launch a new range of Oriental packaged foods, including beverages such as "Cham" (a blend of tea and coffee) and cookies. While FMCG export sales remain modest, primarily relying on indirect distribution channels through resellers in markets such as Hong Kong, KOPI plans to ramp up its export efforts. The company intends to secure additional resellers in international markets and actively participate in more F&B exhibitions to drive global brand recognition. As KOPI continues to innovate and expand its FMCG offerings, it is poised to capture a larger share of the Malaysian market and further solidify its financial position.

Expansion of specialty retail stores. To further strengthen its FMCG presence, KOPI plans to open four specialty retail stores in key locations, including the central region and Johor, between 2025 and 2026. These stores will serve as dedicated outlets for its packaged food offerings, increasing accessibility and product visibility. Positioned in high-traffic areas, these specialty stores aim to attract not only local consumers but also tourists seeking packaged foods as souvenirs. This strategy capitalizes on the growing trend of gifting artisanal and high-quality food products, enhancing the brand's appeal across diverse customer segments.

Exhibit 4: Oriental Kopi's specialty retail store for brands of packaged foods in Johor

Sources: Oriental Kopi, MIDFR

Omnichannel distribution strategy. KOPI's omnichannel distribution strategy combines direct and indirect channels to maximize market reach and brand visibility. Through its direct distribution channel, KOPI sells products to end-consumers via dine-in and takeaway sales, online platforms like Shopee, Lazada, as well as its own e-commerce site, providing a seamless and premium customer experience. Simultaneously, its indirect distribution channel leverages resellers such as supermarkets, minimarkets, hypermarkets, and health and beauty stores to broaden its presence, especially in underrepresented areas. This approach has driven staggering revenue growth from indirect distribution, with a CAGR of 532.9%, from RM0.04m in FY21 to RM10.1m in FY24. By integrating physical and digital channels, KOPI ensures sustainable growth while solidifying its position as a trusted and recognizable brand in Malaysia's FMCG market.

Exhibit 4: Oriental Kopi's brands of packaged foods products sold in supermarkets

Sources: Oriental Kopi, MIDFR

4. Opportunities in International Expansion

Flexible models for global markets. In addition to domestic expansion, KOPI is setting its sights on international growth, beginning with Singapore. The company launched its first overseas café at Bugis Junction in November 2024 through a joint venture with Paradise Group, with plans to open two more cafés by 2025. Beyond Singapore, KOPI is actively exploring opportunities in other foreign markets. Its flexible approach—offering joint venture (JV) owner-operator, master franchisee, and franchisee models—enables the company to adapt to diverse market conditions and consumer preferences. By leveraging local partnerships and maintaining its commitment to quality and authenticity, KOPI is well-positioned to establish its presence globally while staying true to its Malaysian roots.

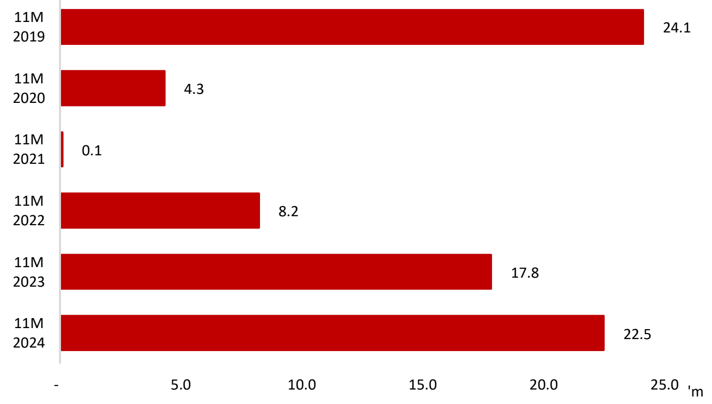
Tapping into the global packaged food market. Beyond its café operations, KOPI is strategically expanding its FMCG segment through the export of packaged food products. With key international markets like Singapore, Hong Kong, and other regions in Asia identified as prime targets, the company is set to capture significant growth. KOPI has already secured its first export order in Hong Kong and is actively pursuing further distribution agreements. By adopting an indirect distribution channel strategy, which includes resellers, wholesalers, and retailers, KOPI plans to introduce its premium Malaysian offerings to a broader audience. To drive this expansion, KOPI is utilizing IPO proceeds, allocating RM1.5m for marketing efforts in Singapore and RM4m for other Asian markets, including Hong Kong, over the next few years. We expect that this expansion into the FMCG market not only diversifies the company's revenue streams but also strengthens its profitability, given the higher margins associated with its packaged food products.

Replicating domestic success on a global scale. Leveraging its strong brand equity and efficient operational models, KOPI is well-positioned to replicate its domestic success internationally. The company's ability to deliver consistent and premium dining experience, combined with its flexible expansion strategies, makes it an appealing option for foreign markets. As the brand continues to expand globally, its authentic Malaysian offerings, along with its reputation for quality, we expect that it will resonate with international consumers, positioning KOPI for sustainable growth across multiple regions.

5. Riding the Wave of Tourism Recovery

Tourism surge fuels growth potential. We opine the ongoing recovery of Malaysia's tourism sector presents a significant opportunity for KOPI. With tourist arrivals reaching 22.5m in the first 11 months of 2024, a 26% increase compared to the same period in 2023. This milestone is particularly noteworthy as the 11MCY24 figure has already surpassed the total tourist arrivals for 2023 (20.1m). Tourist growth has been driven by easing visa restrictions and increased arrivals from key markets such as China and India. Notably, Chinese tourist arrivals have surged by an impressive +132.7%yoy, and Indian arrivals have increased by 50.8%, fueled by visa-free entry policies. This increase in foot traffic is translating into higher consumer spending, with total receipts exceeding pre-pandemic levels, reflecting a promising outlook for businesses catering to tourists. The positive trend is expected to gain further momentum in 2025, bolstered by government-led initiatives such as global tourism promotions, infrastructure upgrades, and enhanced connectivity. The government's ambitious targets—31.4m visitors generating RM125.5b in tourism revenue for 2025, and 35.6m visitors with RM147.1b in revenue for Visit Malaysia Year 2026—underscore the sector's immense growth potential. This booming tourism sector is a boon for the F&B and hospitality industries, positioning KOPI to capture the increasing demand from both local and international visitors.

Exhibit 5: Tourist Arrivals to Malaysia (11M2019 – 11M20224)



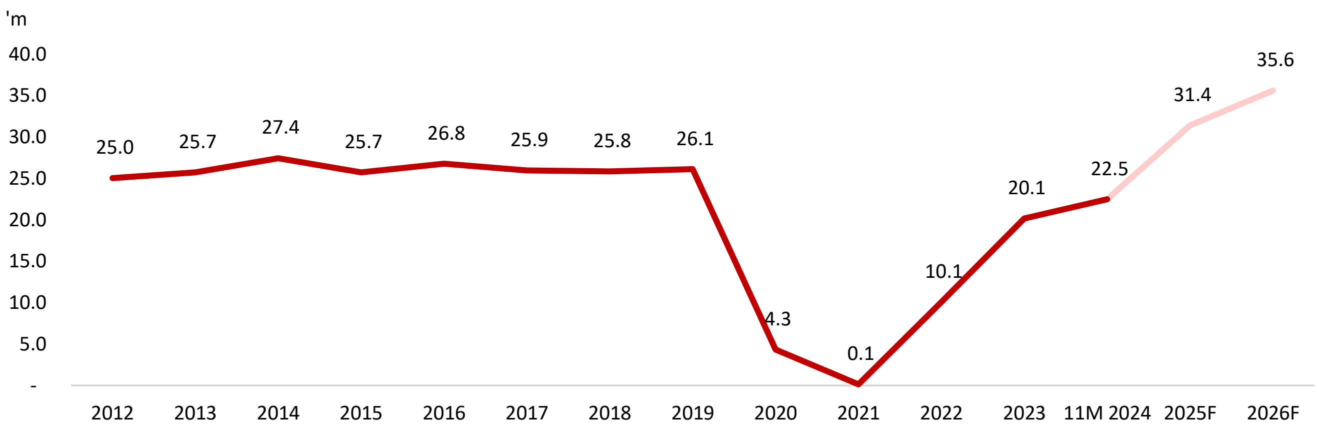
Sources: Tourism Malaysia, MIDFR

Exhibit 6: Top Tourist Arrivals by Countries (Jan to Nov 2024)

	Tourist arrival	Growth YoY (%)
Singapore	8,048,898	10.70
Indonesia	3,269,113	18.40
China	3,038,314	132.70
Thailand	1,497,564	5.10
Brunei	1,014,643	71.70
India	1,009,114	50.80

Sources: Tourism Malaysia, MIDFR

Exhibit 7: Tourist Arrivals to Malaysia (2012-2026F)



Sources: Tourism Malaysia, MIDFR

Capturing the tourism market with authentic offerings. KOPI is uniquely positioned to benefit from this tourism boom. Prime locations in high-traffic areas, including KLIA2 and TRX, ensure visibility and accessibility for international visitors seeking authentic Malaysian culinary experiences. The brand's signature menu and consistent popularity among locals and tourists alike make it a preferred choice. Additionally, KOPI's FMCG offerings, such as packaged food items, provide travelers with convenient, Malaysian-themed souvenirs, further boosting revenue streams. With its strategic focus on quality, authenticity, and diversified offerings, KOPI is well-equipped to seize the opportunities presented by the tourism resurgence.

6. Halal Certification to Broaden Appeal

Halal certification to enhance market reach. Halal certification is a key strategic priority for KOPI, enhancing its market reach and appeal to a broader customer base. As of December 2024, 13 of its outlets have achieved halal certification, with plans to extend this certification to all remaining locations. This commitment strengthens the brand's position in Malaysia's diverse F&B market, particularly within the large Muslim demographic. By aligning with Malaysia's status as a global halal hub, KOPI is positioned to leverage this certification as a competitive advantage, reinforcing its reputation for quality and inclusivity.

Resolving non-shariah status. KOPI's current non-shariah compliant status is a temporary issue rooted in technicalities that are actively being resolved. With ongoing efforts to secure halal certification for its remaining outlets, the company is on track to fully comply with the "5% benchmark rule," achieving comprehensive alignment with halal standards. Notably, all of KOPI's FMCG packaged food products are already halal-certified, underscoring the brand's commitment to inclusivity and quality.

7. Capitalizing On the Post-Covid Dine-Out Trend

Shifts in consumer behavior. The post-COVID era has ushered in a significant shift in consumer behavior, with more people embracing dine-out experiences as social gatherings and outside dining regain prominence. This trend has created a prime opportunity for café chains like KOPI, which is well-positioned to capture the increasing demand. In addition to its café operations, KOPI is expanding its FMCG segment, benefiting from the rising consumer demand for convenience and quality. Packaged food products, especially ready-to-eat or ready-to-cook options, are gaining traction among urban consumers. By offering its signature flavors both in-store and through retail products, KOPI has effectively positioned itself as a versatile brand, catering to the evolving preferences of modern consumers and ensuring sustained growth in both the dine-out and retail markets.

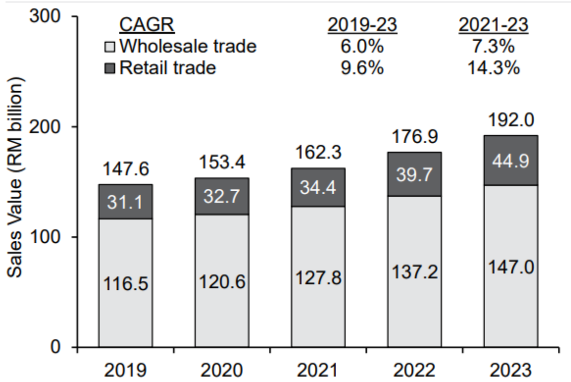
Exhibit 8: Average monthly household consumption expenditure on restaurants and cafés

	Malaysia (RM/month)	Kuala Lumpur (RM/month)	Selangor (RM/month)	Johor (RM/month)
2019	604	1,024	866	626
2022	732	1,316	1,174	622
CAGR (2019-2022)	**6.6%**	**8.7%**	**10.7%**	**-0.2%**

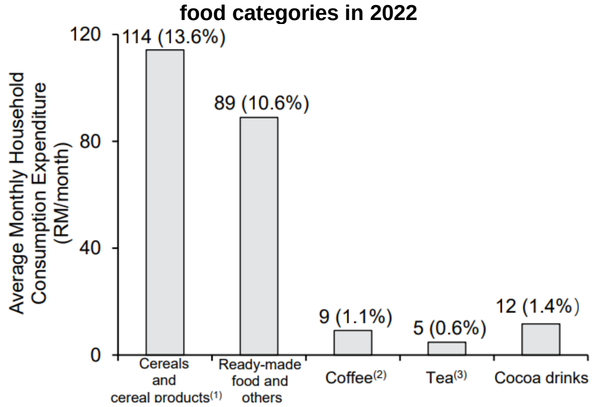
Sources: DOSM, Oriental Kopi, MIDFR

Exhibit 9: Performance of the distribution and retailing of consumer-branded packaged foods industry

Sales value of the distributive trade of food, beverages and tobacco



Average monthly household consumption expenditure on selected food categories in 2022

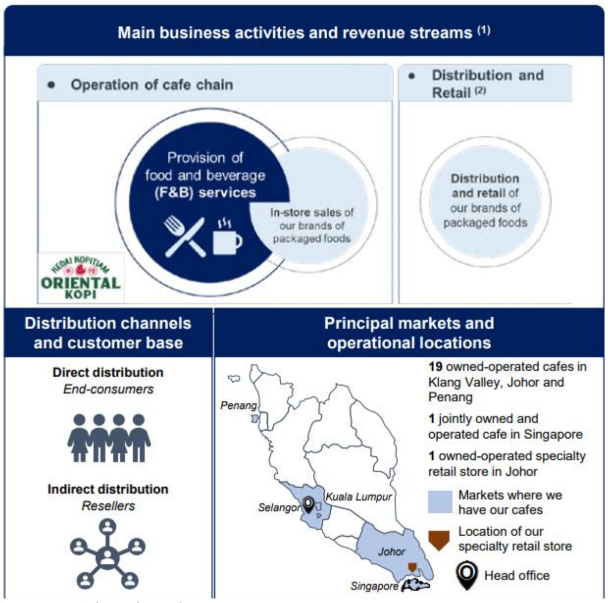


Sources: DOSM, Oriental Kopi, MIDFR

COMPANY BACKGROUND

Establishment and rapid growth. Founded in December 2020, KOPI has emerged as a prominent player in Malaysia's food and beverage (F&B) landscape. Specializing in the operation of café chains and the distribution of branded packaged foods, KOPI has rapidly expanded its footprint across Malaysia by blending high-quality, traditional Malaysian cuisine with a modern dining experience. This innovative approach has propelled the company to the forefront of the industry, earning widespread recognition for its commitment to excellence and culinary authenticity.

Exhibit 10: Oriental Kopi's Business Overview



Sources: Oriental Kopi, MIDFR

Exhibit 11: Oriental Kopi's Corporate Milestones

Sources: Oriental Kopi, MIDFR

Café chain operations. KOPI's café chain is the cornerstone of its business, driving the majority of its revenue (94% of revenue contribution in FY24). As of Dec 2024, the company operates 19 wholly-owned café outlets strategically located in high-traffic areas across Malaysia, including the Klang Valley, Johor, and Penang. These outlets are prominently situated in key commercial hubs such as KLIA2, TRX, KLCC, Mid Valley, and Sunway Pyramid, maximizing visibility and ensuring a steady stream of customer footfall. Operating under the renowned "Oriental Kopi" brand, these cafés offer a curated Malaysian menu featuring local favorites, snacks, pastries, desserts, and an array of hot and cold beverages. With a customer-centric approach, the cafés cater to dine-in patrons, takeaway customers, and delivery orders facilitated by third-party platforms like GrabFood.

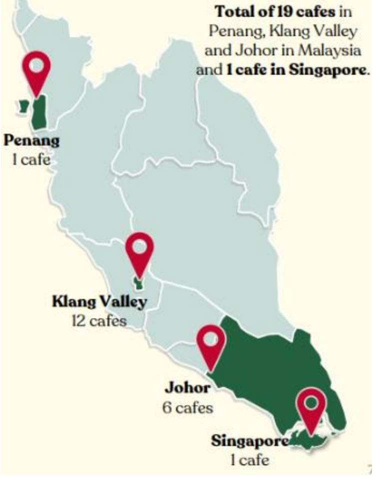
Distribution and retail of packaged foods. Beyond its café operations, KOPI has successfully diversified into the distribution and retail of in-house branded packaged foods. This segment includes a wide array of products such as coffee, tea, spreads, and cooking pastes, all crafted to meet the highest quality standards. These items are distributed through a multi-channel strategy that encompasses in-store sales, partnerships with resellers such as wholesalers and supermarkets, and a robust online presence via platforms like Shopee and Lazada. In April 2024, KOPI further expanded its retail capabilities by launching its first specialty store in Johor, offering its full range of branded packaged foods alongside ready-to-eat items like egg tarts. This diversification not only broadens the company's revenue streams but also enhances brand visibility and consumer accessibility.

Exhibit 12: Brands of packaged foods

Sources: Oriental Kopi, MIDFR

Successful entry into Singapore. KOPI's expansion into Singapore marks a significant milestone in its regional growth strategy. Through a joint venture with Paradise Group, a leading F&B operator in Singapore, KOPI launched its first café in Bugis Junction in November 2024 under Paradise Oriental Pte Ltd, with KOPI holding a 30% stake. The partnership has allowed the company to leverage Paradise Group's expertise in operating restaurants, ensuring a smooth entry into the market. Building on this success, KOPI plans to open two additional outlets in Singapore by 2025, with RM3m funded internally and the remaining RM7m financed by Paradise Group. This bold venture not only amplifies KOPI's geographical reach but also cements its brand as a beacon of Malaysian culinary heritage in the regional market, paving the way for ambitious international growth in the years ahead.

Exhibit 13: Footprint of Oriental Kopi Café Chain

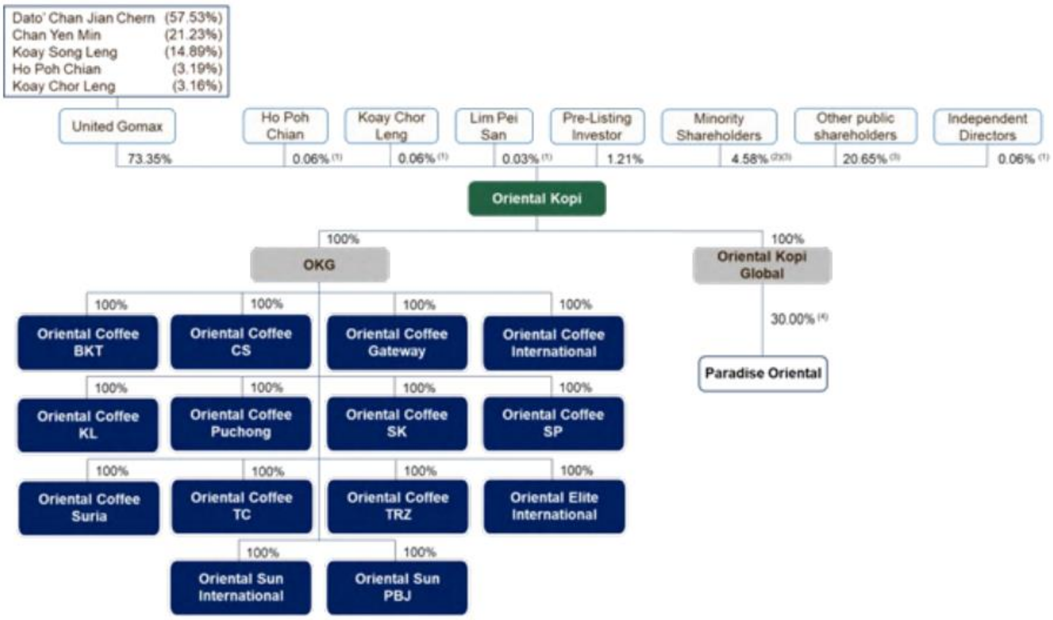


Sources: Oriental Kopi, MIDFR

Pioneering inclusivity through Halal certification. KOPI exemplifies its unwavering commitment to inclusivity and excellence by championing comprehensive Halal certification across its operations. As of December 2024, 13 of its café outlets hold Halal certification, with plans to extend this milestone to all existing outlets by 2QCY25. The company's dedication goes beyond its cafés, encompassing its entire portfolio of 26 packaged food SKUs, including coffee, tea, spreads, pastries, cooking pastes, and seasonal specialties like mooncakes, all of which are meticulously certified Halal. This resolute focus on Halal compliance enables KOPI to resonate deeply with the Muslim community, broadening its customer base and solidifying its appeal across Malaysia's diverse demographic landscape. Notably, Halal-certified cafés and packaged foods contributed an impressive 88.2% to the company's total revenue in FY24, underscoring the significant impact of this initiative.

Dynamic and strong leadership team. KOPI is powered by a dynamic and highly capable management team that exemplifies both youthful energy and strategic vision. At the helm is Group Managing Director Dato' Chan Jian Chern, age 42, who founded the first Oriental Kopi café in Johor in 2020 with a mission to celebrate authentic Malaysian cuisine. His entrepreneurial acumen has transformed the brand into a thriving business with 20 outlets nationwide, earning him Malaysia's Top Entrepreneur of the Year Award in 2016. He is supported by an equally impressive team, including Executive Director Ms. Chan Yen Min, aged 33, who oversees finance, procurement, human resources, and administration, and Mr. Koay Song Leng, aged 34, who manages retail operations, kitchen processes, and logistics. Together, this team's blend of youthful dynamism, strategic foresight, and operational expertise has positioned KOPI as a trailblazer in Malaysia's F&B industry, driving its rapid growth and regional ambitions.

Exhibit 14: Group Structure Post Listing



Sources: Oriental Kopi, MIDFR

SWOT ANALYSIS

Strengths	Weakness
• Strong brand recognition • Diverse Revenue Streams • Aggressive expansion plan • Halal Certification Cafe	• Rising Operational Costs • Limited international presence
Opportunities	**Threat**
• Regional Expansion • FMCG Growth Potential • Rising Consumer Spending and increase dining out trends • Rising tourists arrivals	• Supply Chain Disruptions • Economic uncertainty • Low barrier to entry • Intense competition

KEY RISKS

Competitive pressure in the F&B industry. We view Oriental Kopi as a well-established and growing player in Malaysia's F&B sector, supported by its strong brand equity and unique offerings. However, the industry remains highly competitive, with low barriers to entry and a saturated market that includes both direct competitors and alternative F&B formats such as quick-service restaurants and traditional eateries. As such, failure to consistently innovate or differentiate its offerings could lead to intensified price competition, impacting the company's market share and profitability.

Shifts in consumer preferences and behavior. KOPI operates in the dynamic F&B industry, where evolving consumer preferences and behavior significantly influence demand. Trends such as increasing health consciousness, the growing popularity of plant-based diets, and shifts toward convenience-focused dining experiences could impact the company's product offerings and overall appeal. Additionally, maintaining brand relevance is crucial in an industry driven by social media trends and consumer expectations for innovation. Any failure to adapt to these changes or align its menu and packaged foods with emerging preferences may erode customer loyalty and market share.

Execution risks in expansion plans. We believe KOPI's aggressive growth strategy, which includes opening 14 new cafés by FY26F and expanding its FMCG segment, is pivotal to its long-term success. However, the execution of these plans is subject to risks such as delays in securing suitable locations, or regulatory hurdles. As such, any significant delays or setbacks in the execution of its expansion strategy could slow revenue growth and adversely affect its market position and financial performance.

Vulnerability to inflationary pressures. We note that KOPI operates in a cost-sensitive environment where inflationary pressures pose significant challenges. Between 2021 and 2023, the CPI for food and non-alcoholic beverages rose at a CAGR of 5.3%, with food-away-from-home costs increasing at 6.7%. Additionally, coffee bean prices have reached record highs, with Arabica and Robusta beans trading at USD6.72/kg and USD4.98/kg, respectively, as of November 2024. As such, the company's margins may face pressure if it is unable to pass on these cost increases to customers through timely price adjustments, potentially affecting its profitability.

Dependence on third-party suppliers. KOPI relies entirely on third-party suppliers for ingredients used in its café operations and packaged food products. While this arrangement has supported its scalability, any disruptions—such as regulatory non-compliance, insolvency, or logistical delays—could impact the availability of key ingredients. As such, any prolonged supply issues may lead to operational interruptions or inconsistencies in product quality, adversely affecting customer satisfaction and revenue. Although the company can source alternative suppliers, transitioning could incur higher costs or delays, adding further risk to its operations.

Operational risks and workforce dependency. KOPI's operations are reliant on a stable and skilled workforce, with labor costs accounting for 18.4% of total costs in FY24. As such, the company is exposed to risks such as labor shortages, stricter employment regulations, or wage inflation, which could increase operating expenses and impact service quality. Additionally, unforeseen operational challenges, such as power disruptions or supply chain inefficiencies, could disrupt business continuity and adversely affect financial performance.

IPO DETAILS

Based on the IPO price of RM0.44 per share, KOPI is set to raise gross proceeds of RM183.4m through its listing on the ACE Market of Bursa Malaysia. The proceeds from IPO will primarily be utilized for (i) the development of a new head office, central kitchen, and warehouse in Selangor to centralize operations and enhance efficiency; (ii) the expansion of its network of café outlets, including 14 new cafés to be established by FY26F in high-growth areas such as Johor, Penang, and Sabah; (iii) the growth of its packaged foods segment, focusing on increasing production and distribution capabilities; (iv) marketing activities in foreign markets to enhance brand visibility and support regional expansion; (v) working capital to ensure financial flexibility; and (vi) defraying fees and expenses related to the IPO and listing process.

Exhibit 15: Utilisation of IPO proceeds

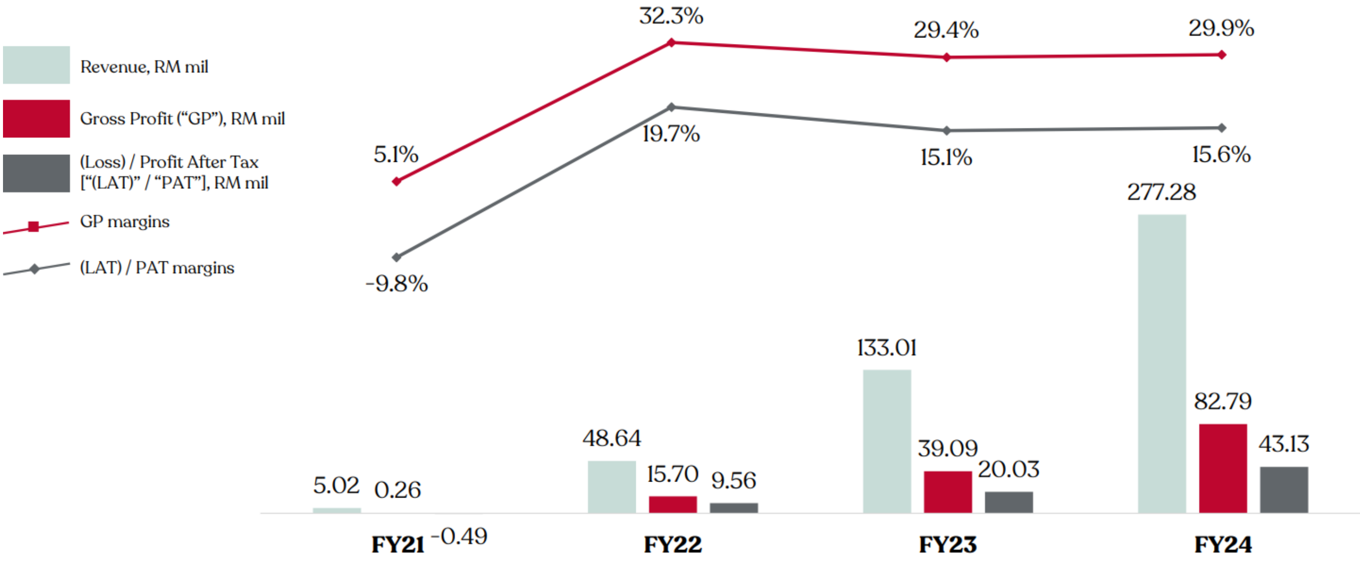
Utilisation Of Proceeds	RM (m)	% of proceeds
Set up of new head office, central kitchen and warehouse	53.7	29.2
Expansion of cafes in various states within Malaysia	36.4	19.8
Expansion of our brands of packaged foods segment	5.0	2.7
Marketing activities in foreign countries	5.5	3.0
Working capital	75.8	41.2
Estimated listing expenses	7.6	4.1
	183.4	

Sources: Oriental Kopi, MIDFR

FINANCIALS OVERVIEW

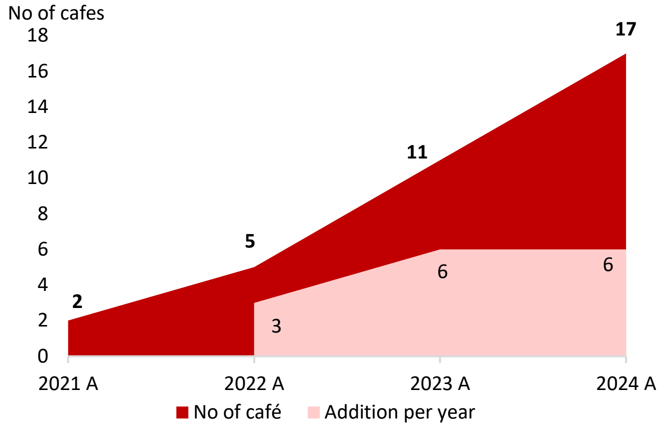
Exceptional revenue and core net profit growth through strategic expansion. KOPI has demonstrated stellar revenue growth over the past three years (FY21–24), achieving a remarkable 3-year CAGR of 281%. This explosive growth was fueled by the company's aggressive expansion strategy, which saw its café count surge from just 2 outlets at the end of FY21 to 17 by FY24, representing an impressive three-year CAGR of 104%. Further bolstering this growth was the rising brand equity of KOPI's packaged foods segment, which posted a phenomenal 3-year CAGR of 505%, though it accounted for 4% of total revenue in FY24. This growth translated into an impressive core net profit, which surged to a 2-year CAGR of 112% to RM43.1m in FY24, underscoring the company's ability to scale profitably through operational efficiencies and economies of scale.

Exhibit 16: Revenue and PAT grow trend



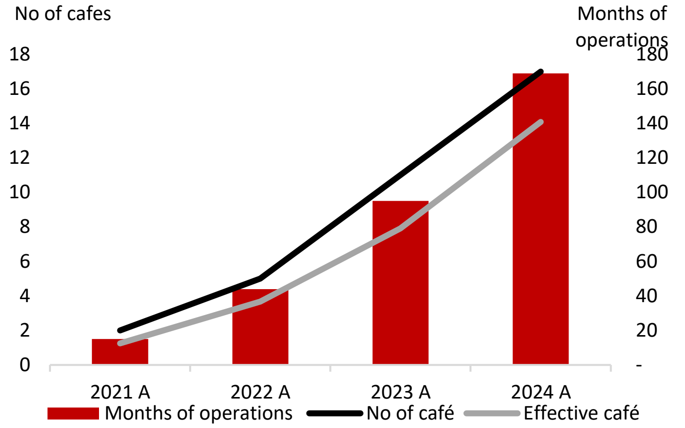
Note: *FY21 consists of 9 months operations.*
Sources: Oriental Kopi, MIDFR

Exhibit 17: KOPI's café counts (FY21- FY24)



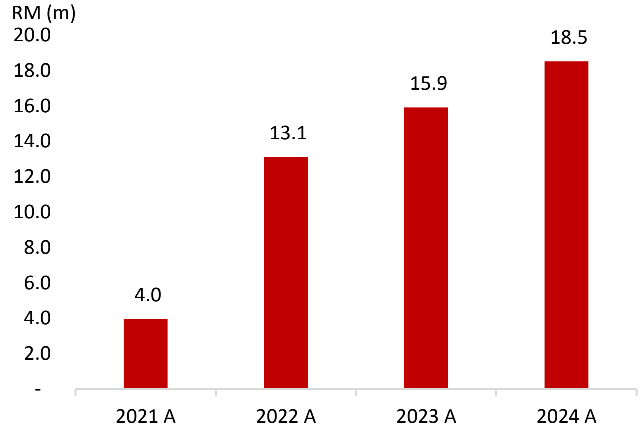
Sources: Oriental Kopi, MIDFR

Exhibit 18: KOPI's effective café counts and months of operations (FY21- FY24)



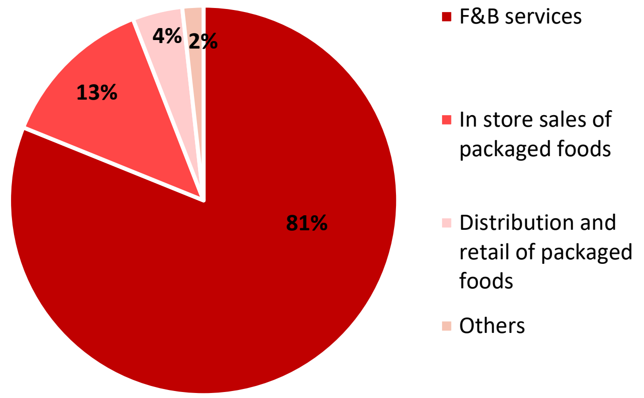
Sources: Oriental Kopi, MIDFR
**Effective café = No of café/ number of operations*

Exhibit 19: Average revenue per effective café grow trend



Sources: Oriental Kopi, MIDFR

Exhibit 20: Revenue Breakdown in FY24



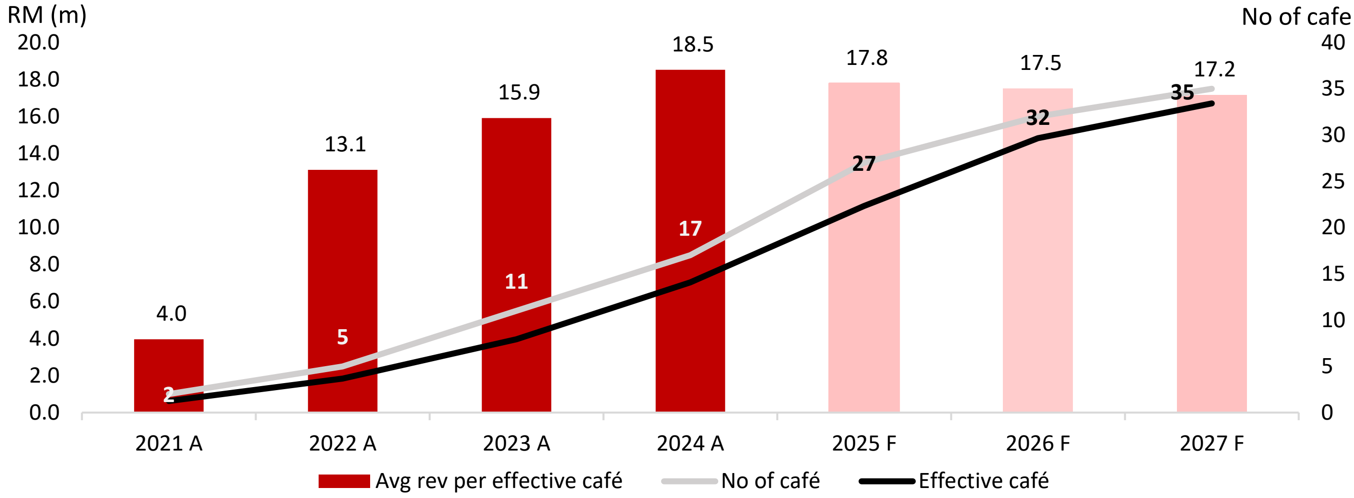
Sources: Oriental Kopi, MIDFR

Resilient and stable gross profit margin. KOPI has maintained resilient and stable gross profit margins despite rising costs and operational challenges. GP margins ranged between 29% and 32% over FY22–FY24. Margins peaked at 32.3% in FY22 due to operational efficiencies and strategic price revisions but dipped to 29% in FY23, impacted by higher raw material and labor costs tied to café expansion. By FY24, GP margins stabilized at 29.9%, supported by higher-margin contributions from packaged foods and targeted price adjustments. Core net profit margins followed a similar trend, slipping from 19.7% in FY22 to 15.1% in FY23 due to cost pressures, before recovering to 15.6% in FY24, reflecting KOPI's ability to manage costs effectively while sustaining profitability.

Impressive FY24 results. KOPI delivered a stellar performance in FY24, with revenue skyrocketing by +108.5%yoy to RM277.3m. This growth was underpinned by the addition of six new cafés, bringing the total to 17, packaged food distribution to resellers further enhanced topline performance. The GP margin improved by +0.5ppts to 29.9%, supported by higher margin packaged foods and strategic price adjustments to offset rising costs, including halal compliance expenses. As a result, core earnings soared +115.4%yoy to RM43.1m, underscoring KOPI's ability to thrive amidst challenging market conditions while capitalizing on growth opportunities.

Financial forecast- strong expansion plan to anchor growth. We forecast a robust FY24–FY27F revenue CAGR of 30%, underpinned by KOPI's ambitious expansion strategy and steady growth in retail FMCG sales. While the larger outlet base may lead to a slight moderation in average revenue per effective café, the addition of 14 new café outlets by FY26F, strategically located in high-density urban and suburban areas, is expected to drive significant revenue growth. The packaged food division will also play a pivotal role, with the launch of new SKUs such as "Cham" (a blend of tea and coffee) and premium cookies, capturing consumer interest and boosting FMCG sales. Further enhancing its retail presence, KOPI plans to establish four specialty stores in central Malaysia and Johor between 2025 and 2026, solidifying its market position and strengthening brand visibility.

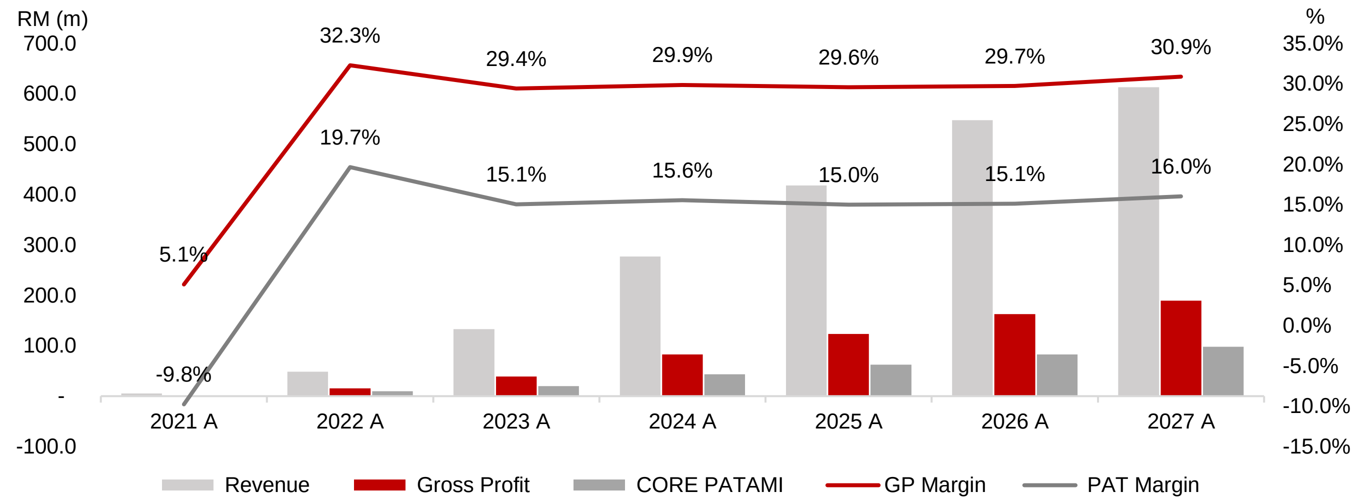
Exhibit 21: No of café and average revenue per effective café grow trend



Sources: Oriental Kopi, MIDFR

Profitability boosted by operational efficiencies. Aligned with the projected revenue growth, we anticipate a core net profit CAGR of 32% from FY24 to FY27F. This remarkable profitability trajectory will be driven by several strategic initiatives: the establishment of a central kitchen to streamline operations and optimize cost structures, increasing contributions from higher-margin FMCG products, and biannual pricing reviews to ensure adaptability to cost fluctuations, safeguarding margins. While the expansion of café outlets will inevitably lead to higher operating and staffing costs, KOPI's strong operating leverage and the maturing performance of existing outlets are expected to stabilize and support net margins, further reinforcing its profitability trajectory.

Exhibit 22: Revenue and PAT Trend



Sources: Oriental Kopi, MIDFR

Dividend Policy. KOPI remains steadfast in its commitment to a 30% dividend payout policy, underpinned by strong free cash flow generation and a solid balance sheet with a net cash position. Based on projected earnings for FY25F and FY26F, KOPI offer dividend yields of 2.1% and 2.8%, respectively.

VALUATION

We initiate coverage on Oriental Kopi with BUY call and target price of RM0.83. Our TP is based on FY26F EPS of 4.1 sen and a PE multiple of 20x. This valuation represents a 20.5% premium to the domestic peers' simple average FY26F PE of 16.6x. While the weighted average FY26F PE of domestic peers stands at 23.5x, this figure is skewed by large-cap players such as Mr DIY and 99 Speed Smart, which command significantly higher valuations due to their market dominance and scale. Excluding these outliers, most peers within the sector trade in the 10x–14x range, making KOPI's valuation premium reasonable in the context of its strong growth potential. Comparatively, KOPI's valuation is aligned with regional F&B players trading at a weighted average FY26F PE of 19x, reflecting its similar café and restaurant business model.

Premium valuation justified by growth potential. We believe KOPI's valuation premium is well-supported by its robust growth strategy and market potential. The company plans to expand its network aggressively, targeting the establishment of 14 additional café outlets by FY26F, which will significantly enhance its market presence and revenue base. Beyond its café operations, KOPI is poised to benefit from its high-margin packaged food segment, which provides a complementary and scalable revenue stream, further boosting profitability. The valuation premium is also comparable to that of OldTown, Malaysia's leading F&B café operator, which was delisted in 2017 at a PE multiple of 23.6x.

PEERS COMPARISON

Stocks	TP (RM)	Price @	Mkt. Cap (RM'm)	EPS		PER (x)		DPS		Dividend Yield	
		21-Jan-24		FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Oriental Kopi	0.83	0.44	880.0	3.1	4.1	14.0	10.6	0.9	1.2	2.1	2.8
Local Peers											
Aeon Co M	1.67	1.53	2,148.1	10.8	11.2	14.2	13.6	4.3	4.5	2.8	2.9
Padini Holdings	2.19	2.02	1,992.0	15.2	16.1	13.3	12.6	12.0	12.0	5.9	5.9
MyNews	NA	0.66	495.2	3.4	4.6	19.4	14.3	1.0	1.5	1.5	2.3
SDS Group	NA	1.18	483.4	11.0	12.0	10.7	9.8	2.3	2.5	1.9	2.1
Mr DIY	NA	1.75	16,562.4	7.4	8.3	23.6	21.1	4.4	5.0	2.5	2.9
99 Speed Smart	NA	2.30	19,320.0	7.2	8.1	31.9	28.4	4.1	4.6	1.8	2.0
Weighted Average				**7.9**	**8.7**	**26.4**	**23.5**	**4.6**	**5.1**	**2.3**	**2.6**
Simple Average				**9.2**	**10.0**	**18.9**	**16.6**	**4.7**	**5.0**	**2.8**	**3.0**
Regional Peers											
Krispy Kreme Inc	US	38.41	6,529.4	119.4	195.4	32.2	19.7	71.9	85.4	1.9	2.2
Jollibee Foods Corp	Philippines	18.91	21,160.5	85.8	100.7	22.0	18.8	27.5	30.8	1.5	1.6
After You Pcl	Thailand	1.25	1,022.0	5.6	6.3	22.4	19.9	4.9	5.4	3.9	4.3
Central Plaza Hotel Pcl	Thailand	3.91	5,277.7	17.2	20.7	22.7	18.9	7.8	8.7	2.0	2.2
Weighted Average				**79.2**	**103.6**	**24.1**	**19.0**	**32.3**	**37.1**	**1.7**	**1.9**
Simple Average				**57.0**	**80.8**	**24.8**	**19.3**	**28.0**	**32.6**	**2.3**	**2.6**

Sources: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	133.0	277.3	418.2	547.5	613.0
Cost of Sales	(93.9)	(194.5)	(294.6)	(384.9)	(423.8)
Gross Profit	**39.1**	**82.8**	**123.7**	**162.6**	**189.2**
Other Income	0.2	0.6	0.9	1.2	1.3
Selling and Distribution expenses	(5.0)	(10.7)	(17.6)	(23.0)	(25.7)
Administrative expenses	(5.1)	(12.7)	(20.1)	(26.3)	(29.4)
EBITDA	**39.5**	**79.2**	**107.4**	**142.5**	**168.1**
EBIT	29.0	59.9	86.5	114.0	134.7
Profit before tax (PBT)	27.5	57.5	83.7	110.3	131.0
Income tax expense	(7.4)	(14.4)	(20.9)	(27.6)	(32.8)
Profit after tax (PAT)	20.0	43.1	62.8	82.7	98.3
Core PATAMI	20.0	43.1	62.8	82.7	98.3
EPS (sen)	1.0	2.2	3.1	4.1	4.9
DPS (sen)	0.4	0.2	0.9	1.2	1.5

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
Property, plant and equipment	18.6	31.0	48.4	69.1	88.6
Right of use assets	55.8	69.4	86.2	84.8	77.7
Total Non-current assets	**74.4**	**101.6**	**135.8**	**155.2**	**167.5**
Inventories	2.1	6.9	(6.5)	(8.4)	(9.3)
ST - Trade and other receivables	9.0	13.3	14.8	16.0	16.6
Cash and cash equivalents	24.8	59.0	270.9	308.1	357.8
Total current assets	**36.3**	**79.8**	**279.8**	**316.3**	**365.7**
Total Assets	**110.7**	**181.5**	**415.6**	**471.5**	**533.3**
Total Equities	**34.0**	**53.5**	**281.4**	**339.3**	**408.1**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**49.6**	**61.9**	**76.2**	**76.0**	**71.0**
ST Trade and other payables	9.9	39.8	28.3	26.5	25.8
ST Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	**27.2**	**66.1**	**58.0**	**56.2**	**54.2**
Total Liabilities	**76.7**	**128.0**	**134.2**	**132.2**	**125.2**

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
Pretax profit	27.5	57.5	83.7	110.3	131.0
Cash flow from operations	35.5	68.1	84.1	110.2	131.1
Cash flow from investing	(12.2)	(17.2)	(25.1)	(32.9)	(36.8)
Cash flow from financing	(11.8)	(16.7)	152.9	(40.1)	(44.7)
Net cash flow	11.5	34.2	211.9	37.3	49.7
Cash and cash equivalents (Opening)	13.3	24.8	59.0	270.9	308.1
Cash and cash equivalents (Closing)	24.8	59.0	270.9	308.1	357.8

Growth & Margin (%)	2023A	2024A	2025F	2026F	2027F
Revenue Growth (%)	173.4	108.5	50.8	30.9	12.0
Gross Profit Growth (%)	148.9	111.8	49.4	31.5	16.3
EBITDA Growth (%)	150.2	100.7	35.7	32.6	18.0
Core PATAMI Growth (%)	109.5	115.4	45.5	31.8	18.8
Gross Profit Margin (%)	29.4	29.9	29.6	29.7	30.9
EBIT Margin (%)	21.8	21.6	20.7	20.8	22.0
Core PATANCI Margin (%)	15.1	15.6	15.0	15.1	16.0

Key Metrics	2023A	2024A	2025F	2026F	2027F
Effective tax rate (%)	27.1	25.0	25.0	25.0	25.0
Dividend Yield (%)	0.9	0.3	2.1	2.8	3.3
PER (x)	43.9	20.4	14.0	10.6	9.0
Inventories Turnover (Days)	5.7	8.5	8.0	8.0	8.0
Receivable Turnover (Days)	4.2	3.4	3.4	3.4	3.4
Payable Turnover (Days)	5.0	7.2	7.2	7.2	7.2
P/BV (x)	25.9	16.4	3.1	2.6	2.2
Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology