

COMPANY UPDATE

Kimly (KMLY SP)

Margin Squeeze As Costs Bite; Tapping The Growing Halal Market

Higher wages and ingredient costs continue to pressure Kimly's margins, as the ability to pass on costs is limited given consumer price sensitivity in the food retail division. Additionally, the outlet management division faces limited upside as charging higher rent may drive tenants out. Kimly maintains its focus on profitability and expanding its halal footprint. Its net cash position has also improved to S\$72m (+34% yoy), providing a buffer against inflationary pressures. Maintain HOLD with a target price of S\$0.35.

WHAT'S NEW

- Rising costs continue to crimp margins.** Singapore's F&B industry continues to battle high operating costs, from pricier ingredients and higher wages. According to a study by SingStat in May 24, supply chain disruptions from the COVID-19 pandemic were exacerbated by other events like the Russia-Ukraine war, leading to higher input costs. Additionally, the Progressive Wage Model for F&B employees came into effect from 1 Mar 23 (start-2HFY23). Kimly has implemented a company-wide salary adjustment, resulting in 6% yoy higher labour costs in 1HFY24. With lesser ability to pass on costs to keep prices affordable for the public, continued cost pressures are likely to weigh down Kimly's food retail division contributions (+0.9% yoy) and overall margins, in our view.
- Limited upside for outlet management as higher rent may drive tenants out.** In 1HFY24, Kimly saw a 3.5% yoy increase in revenue from this division, benefitting from five new coffeeshops across FY23 and 1HFY24 and more utilities services provided. This was largely offset by management agreement terminations for four coffeeshops and a coffeeshop closure over the same period. Stalls are operating in a high-cost environment, with rental and ingredient cost hikes in recent years. Should Kimly further increase rent, stallholders may find it challenging to pass it onto their price-sensitive consumers and be forced to exit the coffeeshops. To maintain its strong occupancy rate of 99.2% as at end-FY23, Kimly is likely to make minimal changes to rent.
- Cash war chest, higher interim dividend declared.** Kimly continued to improve its balance sheet, boasting a healthy net cash position of S\$72.1m at end-1HFY24 (end-FY23: S\$71.4m, end-1HFY23: S\$53.9m). Armed with a strong balance sheet and operating cashflows due to its cash-generative business, management proposed an interim dividend of 1 S cent/share, 78.6% yoy higher than that in 1HFY23. Assuming that final dividend is unchanged from last year, this will lead to a total FY24 dividend of 2.12 S cents/share, translating to an attractive 7% FY24 dividend yield. To recap, Kimly has maintained its policy of paying out more than 55-60% of annual earnings to date.

KEY FINANCIALS

Year to 30 Sep (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	318	314	317	331	348
EBITDA	53	55	51	54	56
Operating profit	47	49	46	48	50
Net profit (rep./act.)	33	36	35	37	39
Net profit (adj.)	33	36	35	37	39
EPS (S\$ cent)	2.7	2.9	2.8	3.0	3.2
PE (x)	11.6	10.8	10.9	10.3	9.8
P/B (x)	2.4	2.2	2.1	1.9	1.7
EV/EBITDA (x)	5.9	5.8	6.1	5.9	5.6
Dividend yield (%)	5.4	5.4	6.8	5.8	6.1
Net margin (%)	10.5	11.4	11.2	11.3	11.3
Net debt/(cash) to equity (%)	(33.6)	(40.4)	(40.3)	(47.4)	(53.4)
Interest cover (x)	13.8	25.4	20.9	21.8	22.8
ROE (%)	22.6	21.2	19.4	18.9	18.3
Consensus net profit	-	-	36	37	40
UOBKH/Consensus (x)	-	-	0.99	1.00	0.99

Source: Kimly, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.31
Target Price	S\$0.35
Upside	+12.9%
(Previous TP)	S\$0.36)

COMPANY DESCRIPTION

Kimly operates and manages coffee shops and food courts. The company offers prepared foods and drinks for on-premise consumption. Kimly serves customers in Singapore.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	KMLY SP
Shares issued (m):	1,241.4
Market cap (S\$m):	384.8
Market cap (US\$m):	286.3
3-mth avg daily t'over (US\$m):	0.1

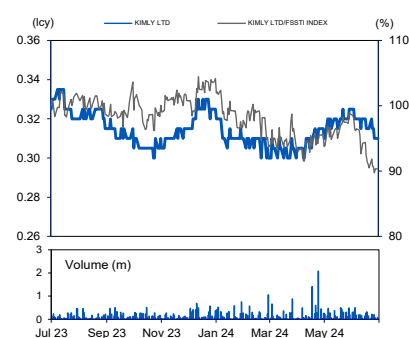
Price Performance (%)

52-week high/low	S\$0.335/S\$0.300			
1mth	3mth	6mth	1yr	YTD
(3.1)	1.6	(4.6)	(7.5)	(3.1)

Major Shareholders

	%
Lim Hee Liat	41.6
Peh Oon Kee	8.6
Ng Lay Beng	6.0
FY24 NAV/Share (S\$)	0.15
FY24 Net Cash/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Pursuing expansion in the halal market.** Singapore's Muslim population has been steadily increasing with 14% being Muslims as of 2022, while the number of halal-certified eating establishments has doubled over the past decade to over 5,000. This presents a significant opportunity for Kimly to cater to the growing demand for halal food. Management has reiterated its focus on expanding its halal footprint. To recap, Kimly opened seven Tenderfresh halal restaurants, stalls and kiosks, one halal coffeeshop, Kedai Kopi in FY23, and a fifth Tenderbest Makkik Tuckshop in Feb 24.

EARNINGS REVISION/RISK

- **We adjust our FY24/25/26 revenue estimates downward by 3%/4%/4% to S\$317m/331m/348m respectively (S\$328m/345m/362m previously)** due to lower-than-expected footprint expansion and higher-than-expected labour costs during the period. To recap, Kimly has net zero change in number of food stalls and kiosks, net increase of one coffeeshop and two restaurant openings in 1HFY24, vs net increase of seven food stalls, a new restaurant and a new kiosk in FY23.
- **We also lower our FY24-26 gross profit margin estimates from 30-31% to 28-29% to account for sustained higher input costs.** Our new FY24/25/26 PATMI forecasts are S\$35.4m (S\$36.9m previously), S\$37.3m (S\$40.5m previously) and S\$39.4m (S\$44.2m previously) respectively.

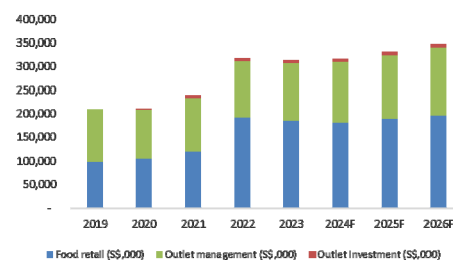
VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower PE-based target price of S\$0.35 (S\$0.36 previously),** pegged to 12x (-0.5SD below mean) FY24F PE due to increasing costs from inflationary pressures.

SHARE PRICE CATALYST

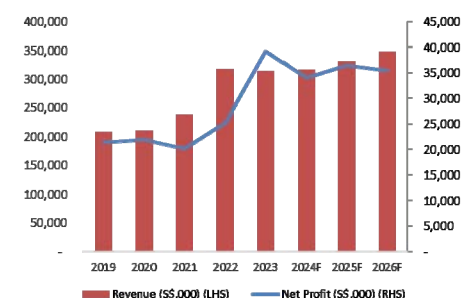
- Higher-than-expected outlet expansion.
- Earnings-accretive M&As.

ANNUAL SEGMENTAL REVENUE



Source: Kimly, UOB Kay Hian

ANNUAL REVENUE AND NET PROFIT



Source: Kimly, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	313.9	316.8	331.2	348.0
EBITDA	54.6	51.5	53.8	56.2
Deprec. & amort.	6.0	5.8	5.8	5.7
EBIT	48.6	45.6	48.0	50.5
Net interest income/(expense)	(2.1)	(2.5)	(2.5)	(2.5)
Pre-tax profit	46.5	43.1	45.6	48.0
Tax	(7.9)	(5.0)	(5.5)	(5.8)
Minorities	(2.8)	(2.8)	(2.8)	(2.8)
Net profit	35.8	35.4	37.3	39.4
Net profit (adj.)	35.8	35.4	37.3	39.4

CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	82.8	80.8	88.1	90.3
Pre-tax profit	46.5	43.1	45.6	48.0
Tax	(7.9)	(5.0)	(5.5)	(5.8)
Deprec. & amort.	6.0	5.8	5.8	5.7
Associates	0.0	0.0	0.0	0.0
Working capital changes	(94.8)	(94.6)	(91.4)	(93.7)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	133.2	131.3	133.7	136.1
Investing	(0.9)	(5.1)	(5.3)	(5.6)
Capex (growth)	(5.0)	(5.1)	(5.3)	(5.6)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	3.9	0.0	0.0	0.0
Financing	(70.5)	(71.2)	(61.1)	(62.4)
Dividend payments	(20.9)	(26.5)	(22.4)	(23.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Others/interest paid	(49.7)	(44.7)	(38.8)	(38.8)
Net cash inflow (outflow)	11.4	4.4	21.7	22.3
Beginning cash & cash equivalent	77.6	89.1	93.5	115.2
Ending cash & cash equivalent	89.1	93.5	115.2	137.5

BALANCE SHEET

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Fixed assets	145.6	142.7	140.0	137.7
Other LT assets	83.2	82.2	81.3	80.3
Cash/ST investment	89.1	93.5	115.2	137.5
Other current assets	16.0	21.6	22.6	23.7
Total assets	333.8	340.0	359.1	379.3
ST debt	0.8	0.8	0.8	0.8
Other current liabilities	89.0	87.7	88.9	90.4
LT debt	16.9	16.9	16.9	16.9
Other LT liabilities	44.6	40.4	40.5	40.6
Shareholders' equity	176.5	188.2	205.9	224.5
Minority interest	6.1	6.1	6.1	6.1
Total liabilities & equity	333.8	340.0	359.1	379.3

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	17.4	16.2	16.2	16.1
Pre-tax margin	14.8	13.6	13.8	13.8
Net margin	11.4	11.2	11.3	11.3
ROA	10.4	10.5	10.7	10.7
ROE	21.2	19.4	18.9	18.3
Growth				
Turnover	(1.2)	0.9	4.6	5.1
EBITDA	3.0	(5.8)	4.6	4.5
Pre-tax profit	7.6	(7.2)	5.6	5.3
Net profit	7.3	(1.1)	5.4	5.7
Net profit (adj.)	7.3	(1.1)	5.4	5.7
EPS	7.5	(1.1)	5.4	5.7
Leverage				
Debt to total capital	8.8	8.3	7.7	7.1
Debt to equity	10.0	9.4	8.6	7.9
Net debt/(cash) to equity	(40.4)	(40.3)	(47.4)	(53.4)
Interest cover (x)	25.4	20.9	21.8	22.8

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