

INITIATE COVERAGE

**Oriental Kopi Holdings (KOPI MK)**

Rising To The Top, One Pastry At A Time

**Oriental Kopi's fully-owned cafes ensure unmatched quality that is backed by award-winning product offerings. As the company is listing at an early-stage life-cycle and has only 20 outlets nationwide, it offers explosive multiyear growth opportunities with its true regional potential still untapped. Increased scale, a planned central kitchen and inroads into a rising proportion of FMCG sales could enhance profitability as well. Initiate coverage with BUY and target price of RM0.88.**

INITIATE COVERAGE

- **Proof is in the coffee, tarts and more.** Oriental Kopi's fully-owned cafes emphasise quality and consistency, avoiding a franchise model to maintain control over products and services. Learning from predecessors' mediocre success with a franchise model, Oriental Kopi remains dedicated to high standards in a competitive market. The brand stands out with its award-winning F&B offerings, including its signature coffee, egg tarts, and polo buns, which have earned various accolades. A strong recipe creation team, led by Head Chef and shareholder, Ho Poh Chian, ensures menu innovation and consistent quality across all outlets.
- **Hitting the sweet spot with customers.** With an impressive average Google rating of 4.3 stars across its 20 outlets, Oriental Kopi enjoys widespread customer approval. Its expansion is supported by menu standardisation, in-house tastings, and a focus on locally-inspired dishes. The ongoing process to certify its stores halal should aid their aim for shariah compliance by May 25, and enhance their appeal to a broader demographic. This strategic move, coupled with its focus on customer satisfaction, positions Oriental Kopi to expand its reach.
- **Poised for tremendous growth off a low base,** Oriental Kopi's growth strategy is driven by its F&B cafe operations and FMCG segment. The cafe segment, still in its infancy stage of its life-cycle, plans to open 12 additional outlets by FY25-26, bringing its total to 32. Despite a seemingly low store count addition, it would represent a significant 44% and 23% growth (two-year CAGR: 33.3%) over FY25-26.
- **Icing on the cake – FMCG growth.** Meanwhile the FMCG segment will undergo a widening of distribution channels, including its own cafes, online platforms, and wholesalers. Oriental Kopi targets to have five specialty retail stores that only sell its FMCG products by FY26, vs one at the moment. Consequently, FMCG revenue share is projected to reach 19% by FY27 from 7% in FY22.

Click [here](#) for Blue Top dated 22 Jan 25

KEY FINANCIALS

Year to 30 Sep (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	133.0	277.3	394.3	509.7	614.7
EBITDA	32.6	67.2	88.7	128.2	161.8
Operating profit	29.0	59.3	79.4	110.0	133.4
Net profit (rep./act.)	20.0	43.1	63.0	83.3	101.8
Net profit (adj.)	20.0	43.1	63.0	83.3	101.8
EPS (sen)	1.0	2.2	3.2	4.2	5.1
PE (x)	43.9	20.4	14.0	10.6	8.6
P/B (x)	25.9	16.4	3.0	2.5	2.1
EV/EBITDA (x)	26.2	12.2	7.1	4.6	3.0
Dividend yield (%)	1.3	2.4	2.1	2.8	3.5
Net margin (%)	15.1	15.6	16.0	16.3	16.6
Net debt/(cash) to equity (%)	(74.3)	(111.0)	(92.4)	(95.6)	(110.8)
Interest cover (x)	16.6	17.6	14.5	42.6	56.0
ROE (%)	77.6	79.4	25.5	23.1	24.0
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Oriental Kopi, Bloomberg, UOB Kay Hian

BUY

Share Price	RM0.44
Target Price	RM0.88
Upside	+100.0%

COMPANY DESCRIPTION

Malaysia's current largest homegrown public-listed cafe chain that offers local cuisine and Halal-certified packaged food products.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	KOPI MK
Shares issued (m):	2,000
Market cap (RMm):	880.0
Market cap (US\$m):	196.6
3-mth avg daily t'over (US\$m):	n.a.

Price Performance (%)

52-week high/low					n.a.
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Major Shareholders

Dato' Chan Jian Chern	42.2
Chan Yen Min	15.6
Koay Song Leng	10.9

FY25 NAV/Share (RM)	0.15
FY25 Net Cash/Share (RM)	0.12

ANALYST(S)

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### STOCK IMPACT

- **Recipes for margin expansion as well.** Oriental Kopi stands out with its industry-leading PAT margin of 15.6%, surpassing peers' averages, driven by its high-quality offerings and economies of scale. With a planned central kitchen by FY26 to boost consistency, efficiency, and labour cost savings, margins are set to improve further. The facility will support up to 40 outlets, ensuring optimal utilisation upon completion. Additionally, its FMCG segment, boasting a superior 54.6% gross margin, is expected to grow from 17% of revenue in FY24 to 19% by FY27. This combination of operational efficiencies and FMCG growth positions Oriental Kopi for sustained margin expansion and profitability.

### EARNINGS REVISION/RISK

- **Oriental Kopi is projected to achieve a 30.4% CAGR in revenue over FY25-27**, driven by F&B outlet expansion, specialty retail store openings for FMCG products, increased distributors, and widening sales channels, with robust growth across all business segments nationwide.
- **Net profit CAGR of 33.1%.** Overall net margins should outpace gross margins given the significant economies of scale derived from Oriental Kopi's three-year revenue CAGR of 30.4% and its favourable revenue mix skewed towards FMCG sales. As a result, we forecast margins improving to 16.0%/16.0%/16.6% over FY25-27 respectively from 15.6% in FY24. Consequently, we expect net earnings growth (33.1% CAGR in FY25-27) to slightly outpace revenue growth.
- **Key growth catalysts.** Key catalysts for Oriental Kopi include: a) the execution of medium-term domestic expansion, b) the ability to replicate its successes regionally beyond Singapore, and c) growing its margin-accretive FMCG sales. In turn, margin-accretive FMCG sales could see exponential growth and thus provide an uplift to overall margins.

### VALUATION/RECOMMENDATION

- **Initiate coverage with a BUY call and a target price of RM0.88** pegged to 25.9x 2025F PE. Despite its smaller market cap, Oriental Kopi's three-year earnings CAGR of 33.1% far exceeds peers' 11.4-13.7%. With only 20 outlets vs OldTown's peak of 200, the company's early-stage growth potential justifies a premium valuation. Trading near the market cap-weighted average of 25.9x 2025F PE, Oriental Kopi offers a compelling investment opportunity given its robust expansion plans and superior growth trajectory.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Sustainability.</b> Oriental Kopi demonstrates a commitment to circular economy principles by incorporating biodegradable materials and reducing the reliance on single-use plastics in its packaged foods. These efforts align with sustainable resource management goals.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Inclusivity.</b> By pursuing halal certification for its cafes and packaged foods, Oriental Kopi supports cultural inclusivity and addresses the needs of diverse religious and cultural groups, ensuring broader community engagement.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Board independence.</b> The board includes a majority of Independent Non-Executive Directors (INED), as recommended by the Malaysian Code on Corporate Governance (MCCG). At least 50% of the board comprises INEDs, ensuring independence in decision-making and governance.</li> <li>- <b>Board diversity.</b> The board is composed of individuals with diverse skills, knowledge, and experiences. This diversity extends to age, gender, and cultural backgrounds. Women represent 30% of the board, meeting MCCG recommendations for gender inclusivity.</li> </ul> </li> </ul>
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### TOP-LINE GROWTH AND KEY DRIVERS

	FY23	FY24	FY25F	FY26F
Revenue	133	277	394	510
Growth (%)	173	108	42	29
Cafe outlets				
Malaysia	11	18	26	32
Singapore	0	0	3	5
Total	11	18	29	37
Growth (%)	120	64	61	28
Specialty cafes	0	1	3	5

Source: Oriental Kopi, UOB Kay Hian

### MARGINS HAVE POTENTIAL TO BE ENHANCED

	FY23	FY24	FY25F	FY26F
Gross Margins				
F&B (%)	26.6	25.2	25.0	25.0
FMCG (%)	55.7	53.4	53.4	53.4
Blended (%)	29.4	29.9	30.1	30.3
Overall PAT (%)	15.1	15.6	16.0	16.3

Source: Oriental Kopi, UOB Kay Hian

### PERFORMANCE OF F&B SERVICE OUTLETS IN MALAYSIA (2023)

	Sales (RMm)	Gross margin (%)	Net margin (%)
Starbucks*	1009.1	48.3	11.8
OldTown	582.8	19.9	5.6
Coffee Bean & Tea Leaf*	292.3	64.0	-7.5
<b>Oriental Kopi</b>	<b>277.3</b>	<b>29.9</b>	<b>15.6</b>
Secret Recipe	204.0	55.6	4.1
ZUS Coffee	204.1	49.6	5.0
Black Canyon	81.4	65.4	5.5
Dome	52.1	73.4	5.2
Hometown Hainan Coffee	51.2	66.5	9.6
SanFran Coffee	37.0	67.2	-7.4
Ali, Muthu & Ah Hock	36.9	53.7	-6.6
Tea Garden, Kuu	35.7	34.9	14.0
Good Taste	23.0	49.3	13.1
Average	222.1	53.1	5.2

\* Malaysia operations

Source: Vital Factor Consulting, respective companies

### GOOGLE RATINGS OF COMPARABLE F&B OUTLETS

	No of outlets	Average reviews
<b>Oriental Kopi</b>	<b>20</b>	<b>4.3</b>
Hometown Hainan Coffee	20	4.3
Village Park	1	4.3
Nasi Lemak Burung Hantu	7	4.1
Ali, Muthu and Ah Hock	16	3.4
Bungkus Kaw Kaw	64	3.5

Source: Google

### PROFIT & LOSS

Year to 30 Sep (RMm)	2024	2025F	2026F	2027F
Net turnover	277.3	394.3	509.7	614.7
EBITDA	67.2	88.7	128.2	161.8
Deprec. & amort.	19.3	26.6	41.3	56.3
EBIT	59.3	79.4	110.0	133.4
Total other non-operating income	1.5	1.6	2.0	2.4
Associate contributions	(0.1)	1.3	1.7	2.3
Net interest income/(expense)	(3.3)	(5.8)	(2.6)	(2.4)
<b>Pre-tax profit</b>	<b>57.5</b>	<b>76.4</b>	<b>111.1</b>	<b>135.8</b>
Tax	(14.4)	(21.0)	(27.8)	(34.0)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>43.1</b>	<b>63.0</b>	<b>83.3</b>	<b>101.8</b>
Net profit (adj.)	43.1	63.0	83.3	101.8

### CASH FLOW

Year to 30 Sep (RMm)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>68.1</b>	<b>78.6</b>	<b>117.5</b>	<b>148.9</b>
Pre-tax profit	57.5	84.0	111.1	135.8
Tax	0.0	(21.0)	(27.8)	(34.0)
Deprec. & amort.	19.3	26.6	41.3	56.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	0.2	(9.3)	2.8	2.5
Other operating cashflows	(8.9)	(1.6)	(9.9)	(11.7)
<b>Investing</b>	<b>(17.2)</b>	<b>(40.1)</b>	<b>(45.0)</b>	<b>(6.2)</b>
Capex (growth)	(17.1)	(41.7)	(54.9)	(17.9)
Investments	0	0	0	0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(0.1)	1.6	9.9	11.7
<b>Financing</b>	<b>(16.7)</b>	<b>151.8</b>	<b>(30.9)</b>	<b>(36.0)</b>
Dividend payments	(3.0)	(18.9)	(25.0)	(30.5)
Issue of shares	0.4	184.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(14.1)	(13.3)	(5.9)	(5.4)
<b>Net cash inflow (outflow)</b>	<b>34.2</b>	<b>190.4</b>	<b>41.7</b>	<b>106.8</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>25.2</b>	<b>59.4</b>	<b>249.8</b>	<b>291.6</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>59.4</b>	<b>249.8</b>	<b>291.6</b>	<b>398.3</b>

### BALANCE SHEET

Year to 30 Sep (RMm)	2024	2025F	2026F	2027F
Fixed assets	100.4	147.5	197.1	182.7
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	79.6	274.8	323.8	437.2
Other current assets	0.2	0.2	0.2	0.2
<b>Total assets</b>	<b>181.5</b>	<b>432.8</b>	<b>531.4</b>	<b>630.4</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	66.1	64.8	78.3	90.9
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	61.9	75.2	102.0	117.2
Shareholders' equity	53.5	292.7	351.1	422.3
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>181.5</b>	<b>432.8</b>	<b>531.4</b>	<b>630.4</b>

### KEY METRICS

Year to 30 Sep (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	24.2	22.5	25.2	26.3
Pre-tax margin	20.7	19.4	21.8	22.1
Net margin	15.6	16.0	16.3	16.6
ROA	13.6	12.2	16.2	16.0
ROE	24.9	19.6	25.9	26.3
<b>Growth</b>				
Turnover	108.5	42.2	29.3	20.6
EBITDA	99.2	34.7	42.8	25.4
Pre-tax profit	109.5	32.9	45.4	22.2
Net profit	115.4	46.1	32.2	22.2
Net profit (adj.)	115.4	46.1	32.2	22.2
EPS	115.4	46.1	32.2	22.2
<b>Leverage</b>				
Debt to total capital	17.6	14.5	42.6	56.0
Debt to equity	4.6	5.8	1.9	0.7
Net debt/(cash) to equity	6.4	7.5	3.4	0.8
Interest cover (x)	(74.3)	(111.0)	(92.4)	(95.6)

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