

## YKGI Limited (YK9.SI)

**NON RATED**



### Driving growth from overseas expansion

Research Analyst

Gerald Wong, CFA  
gerald@growbeansprout.com

- YKGI, the company behind Yew Kee Duck Rice and Chicha Sanchen, is set to list on the Catalist board of the Singapore Exchange (SGX) on 6 February 2023. The company intends to use the IPO proceeds to open new outlets in Singapore and drive expansion overseas.
- YKGI's revenue grew strongly from 2019-21 driven by its Franchise business. Management of YKGI expects revenue to grow further in FY22 with the opening of new outlets and improved performance of its existing portfolio.
- YKGI generated a higher net margin of peers, but management expects cost pressures from higher food ingredient and manpower expenses.
- Based on its listing price, YKGI would trade at a price-to-earnings (P/E) of about 11x, inline with the P/E of Kimly and Japan Foods.

## What happened?

YKGI is set to list on the Catalist board of the Singapore Exchange (SGX) on 6 February 2023.

YKGI owns a portfolio of eight food and beverage (F&B) brands, including Yew Kee Duck Rice, XO Minced Meat Noodles and My Kampung Chicken Rice.

The company operates them through 77 retail outlets in Singapore which consists of 43 food outlets and four food courts. The company is also the exclusive franchisee of all 30 CHICHA San Chen tea shops in Singapore.

Figure 1: YKGI owns a portfolio of eight food and beverage (F&B) brands



Source: Company data

## Our view

### Revenue expected to grow in FY2022

YKGI saw a sharp increase in revenue from \$36.6 million in FY19 to S\$56.1 million in FY21, driven by new store openings and an increase in its sales following the easing of Covid-19 restriction measures in Singapore.

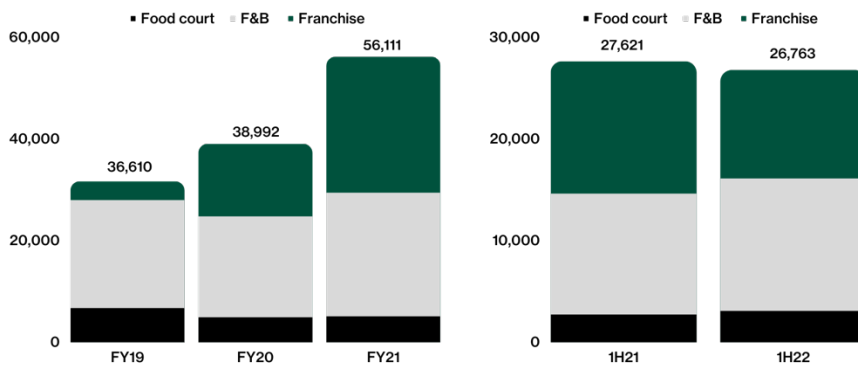
In 2021, its F&B operations and Franchise businesses each contributed more than 40% of its group revenue. Its Food Court business would make up less than 10% of group sales.

Notably, the bulk of the increase in revenue between 2019 and 2021 was driven by the franchise business. Due to the strong performance of Chicha Sanchen, the franchise revenue grew from S\$3.7 million in 2019 to S\$26.7 million in 2021.

On the other hand, the revenue from the other two divisions has stayed relatively stable during this period.

## YKGI's revenue grew strongly from 2019 to 2021

Group revenue (S\$ '000)



Source: YKGI

However, YKGI's revenue fell by 3% in the first half of 2022 compared to the previous year, as revenue in the Franchise business started to taper off.

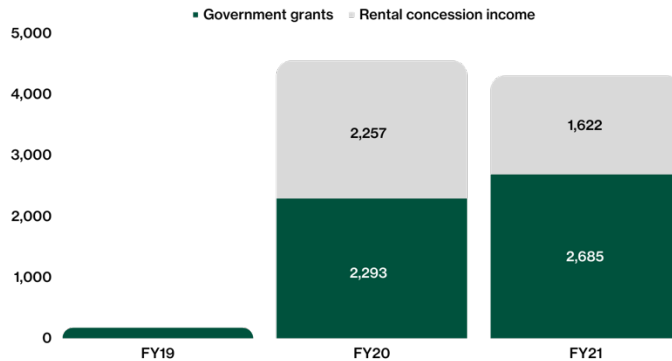
Management of YKGI expects an increase in revenue in 2022 compared to the previous year, which means that we should see a pickup in revenue in the second half of 2022. This is due to the opening of new food outlets and improved performance in its existing food outlets.

## Higher net margin than peers

YKGI's net profit grew to S\$8.9 million in 2021 from just S\$1.0 million in 2019, in tandem with the growth in its revenue over this period. However, its net profit fell to S\$2.4 million in the first half of 2022 with the decline in revenue.

## Profit supported by government grants

Other income (S\$ '000)

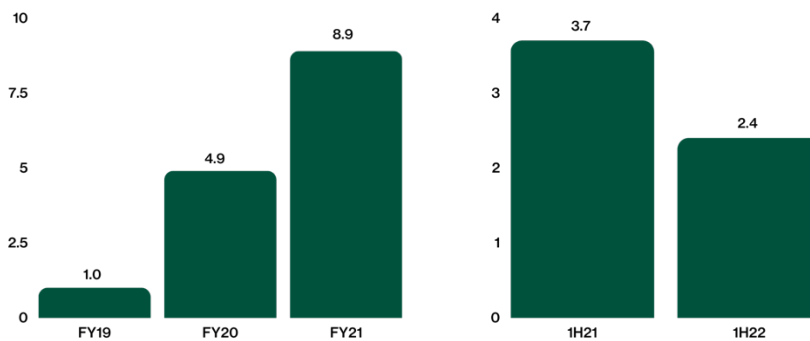


Source: YKGI

The company remained profitable throughout the Covid-19 pandemic, as it was able to adapt its F&B offerings for takeaway or delivery. Net profit during this period was also supported by government grants and rental concession income, which amounted to more than S\$4 million per year in 2020 and 2021.

## YKGI's profit declined in the first half of 2022

Net profit (S\$ million)



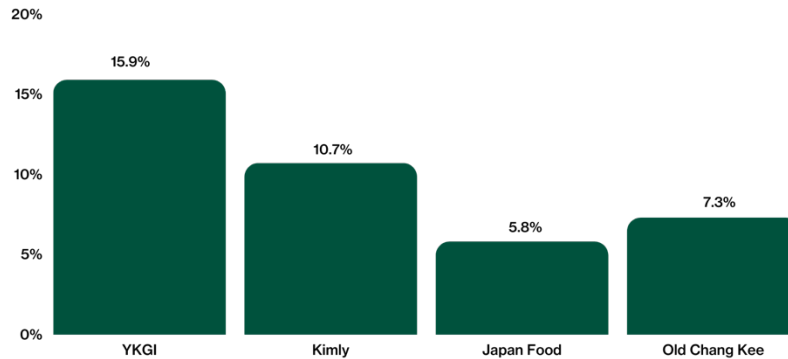
Source: YKGI

YKGI generates a higher margin compared to peers, likely due to the higher profit margin for the franchise business of Chicha Sanchen. YKGI generated a net profit margin of 9.0% in 1H22 and 15.9% in 2021, above the net margin of Japan Food (5.8%) and Old Chang Kee (7.3%) in their last reported fiscal year.

The net profit margin of YKGI would be similar to that of Koufu, which was in the range of 11-12% in 2016 to 2019. Like YKGI, Koufu operated the R&B bubble tea franchise.

## YKGI's net margin is above peers

Net margin (last fiscal year)



Source: Company data

### Driving growth through overseas expansion

The initial public offering (IPO) involves 82.8 million shares sold at S\$0.20 each through a private placement, raising gross proceeds of about S\$16.6 million. The company intends to use the IPO proceeds to open new outlets in Singapore and drive expansion overseas. For example, management plans to open more Yew Kee Duck Rice and Chicha San Chen outlets in new markets across Southeast Asia.

Going forward, management expects the company to face inflationary pressures with an increase in the cost of food ingredients and utilities. Manpower costs are also expected to rise with the foreign worker crunch in Singapore.

To offset these cost pressures, management of YKGI is looking at various initiatives to drive operational efficiencies. The company intends to expand and upgrade its central kitchen and warehouse to raise its capacity, thereby increasing the amount of key ingredients that can be processed.

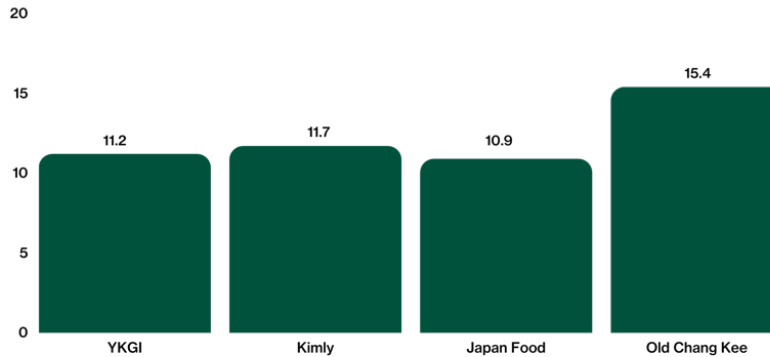
### What would Beansprout do?

Based on the listing price of S\$0.20, YKGI would have a market cap of about S\$85 million. This would be quite close to the market cap of Japan Foods and Old Chang Kee, which are similar F&B companies listed on the SGX.

Based on its net profit in the last twelve months (LTM) and listing price, YKGI would trade at a price-to-earnings (P/E) of about 11.2x. This would be inline with the P/E of Kimly and Japan Foods, and slightly below the P/E of Old Chang Kee.

## YKGI's P/E valuation inline with peers

P/E ratio (last 12 months)



Source: Bloomberg. Price as of 3 Feb 2023

Note: YKGI P/E valuation based on listing price and reported FY21 earnings

## Financial summary

Current price (S\$)	0.20	No of shares (m)	425	
Rating	Not Rated	Free float (%)	19.5%	
Market cap (S\$m)	85	Major shareholder	Seah Boon Lock (76.7%)	
Year end Dec	FY20	FY21	1H21	1H22
Revenue (S\$'000)	38,992	56,111	27,621	26,763
EBITDA (S\$'000)	5,660	9,573	4,023	2,598
Net profit (S\$'000)	5,038	9,062	3,812	2,408
EBITDA margin (%)	14.52%	17.1%	14.57%	9.7%
Net margin (%)	12.92%	16.2%	13.80%	9.0%

## Disclosure Appendix

### Analyst Certification and Disclosures

The analyst(s) named in this report certifies that (i) all views expressed in this report accurately reflect the personal views of the analyst(s) with regard to any and all of the subject securities and companies mentioned in this report and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst herein. The analyst(s) named in this report (or their associates) does not have a financial interest in the corporation(s) mentioned in this report.

An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

### Company Disclosure

Global Wealth Technology Pte Ltd ("Beansprout"), or any of its directors and shareholders, does not have any financial interest in the corporation(s) mentioned in this report.

### Disclaimer

This report is provided by Beansprout for the use of intended recipients only and may not be reproduced, in whole or in part, or delivered or transmitted to any other person without our prior written consent. By accepting this report, the recipient agrees to be bound by the terms and limitations set out herein.

You acknowledge that this document is provided for general information purposes only. Nothing in this document shall be construed as a recommendation to purchase, sell, or hold any security or other investment, or to pursue any investment style or strategy. Nothing in this document shall be construed as advice that purports to be tailored to your needs or the needs of any person or company receiving the advice. The information in this document is intended for general circulation only and does not constitute investment advice. Nothing in this document is published with regard to the specific investment objectives, financial situation and particular needs of any person who may receive the information.

Nothing in this document shall be construed as, or form part of, any offer for sale or subscription of or solicitation or invitation of any offer to buy or subscribe for any securities. The data and information made available in this document are of a general nature and do not purport, and shall not in any way be deemed, to constitute an offer or provision of any professional or expert advice, including without limitation any financial, investment, legal, accounting or tax advice, and shall not be relied upon by you in that regard. You should at all times consult a qualified expert or professional adviser to obtain advice and independent verification of the information and data contained herein before acting on it. Any financial or investment information in this document are intended to be for your general information only. You should not rely upon such information in making any particular investment or other decision which should only be made after consulting with a fully qualified financial adviser. Such information do not nor are they intended to constitute any form of financial or investment advice, opinion or recommendation about any investment product, or any inducement or invitation relating to any of the products listed or referred to. Any arrangement made between you and a third party named on or linked to from these pages is at your sole risk and responsibility.

You acknowledge that Beansprout is under no obligation to exercise editorial control over, and to review, edit or amend any data, information, materials or contents of any content in this document. You agree that all statements, offers, information, opinions, materials, content in this document should be used, accepted and relied upon only with care and discretion and at your own risk, and Beansprout shall not be responsible for any loss, damage or liability incurred by you arising from such use or reliance.

This document (including all information and materials contained in this document) is provided "as is". Although the material in this document is based upon information that Beansprout considers reliable and endeavours to keep current, Beansprout does not assure that this material is accurate, current or complete and is not providing any warranties or representations regarding the material contained in this document. All opinions contained herein constitute the views of the analyst(s) named in this report, they are subject to change without notice and are not intended to provide the sole basis of any evaluation of the subject securities and companies mentioned in this report. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permissible pursuant to applicable law, Beansprout disclaims all warranties and/or representations of any kind with regard to this document, including but not limited to any implied warranties of merchantability, non-infringement of third-party rights, or fitness for a particular purpose.

Beansprout does not warrant, either expressly or impliedly, the accuracy or completeness of the information, text, graphics, links or other items contained in this document. Neither Beansprout nor any of its affiliates, directors, employees or other representatives will be liable for any damages, losses or liabilities of any kind arising out of or in connection with the use of this document. To the best of Beansprout's knowledge, this document does not contain and is not based on any non-public, material information. The information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction where such distribution or use would be contrary to law or regulation, or which would subject Beansprout to any registration requirement within such jurisdiction or country. Beansprout is not licensed or regulated by any authority in any jurisdiction or country to provide the information in this document.

As a condition of your use of this document, you agree to indemnify, defend and hold harmless Beansprout and its affiliates, and their respective officers, directors, employees, members, managing members, managers, agents, representatives, successors and assigns from and against any and all actions, causes of action, claims, charges, cost, demands, expenses and damages (including attorneys' fees and expenses), losses and liabilities or other expenses of any kind that arise directly or indirectly out of or from, arising out of or in connection with violation of these terms, use of this document, violation of the rights of any third party, acts, omissions or negligence of third parties, their directors, employees or agents. To the extent permitted by law, Beansprout shall not be liable to you, any other person, or organization, for any direct, indirect, special, punitive, exemplary, incidental or consequential damages, whether in contract, tort (including negligence), or otherwise, arising in any way from, or in connection with, the use of this document and/or its content. This includes, without limitation, liability for any act or omission in reliance on the information in this document. Beansprout expressly disclaims and excludes all warranties, conditions, representations and terms not expressly set out in this User Agreement, whether express, implied or statutory, with regard to this document and its content, including any implied warranties or representations about the accuracy or completeness of this document and the content, suitability and general availability, or whether it is free from error.

If these terms or any part of them is understood to be illegal, invalid or otherwise unenforceable under the laws of any state or country in which these terms are intended to be effective, then to the extent that they are illegal, invalid or unenforceable, they shall in that state or

country be treated as severed and deleted from these terms and the remaining terms shall survive and remain fully intact and in effect and will continue to be binding and enforceable in that state or country.

These terms, as well as any claims arising from or related thereto, are governed by the laws of Singapore without reference to the principles of conflicts of laws thereof. You agree to submit to the personal and exclusive jurisdiction of the courts of Singapore with respect to all disputes arising out of or related to this Agreement. Beansprout and you each hereby irrevocably consent to the jurisdiction of such courts, and each Party hereby waives any claim or defence that such forum is not convenient or proper.

© 2023 Global Wealth Technology Pte Ltd