

Issuer Profile: BreadTalk Group Ltd (“BGL”)

Neutral (5)



Negative (6)

Ticker:

BREAD

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Issuer Profile Recommendation

- **We downgrade BGL to Negative (6) Issuer Profile** due to lacklustre results, challenging outlook, uncertainty over strategic directions with changes in key management and technical breach of its financial covenant.
- BGL reported PBT losses of SGD6.2mn in 4Q2019. Even after excluding the one-offs (impairment, write-offs, fair value adjustment, exchange difference), we estimate that loss before tax would still be a negative at SGD3.5mn. This is mainly due to weaker results from the Bakery Division which faces profitability decline in Singapore, consolidation of loss-making Thailand Bakery business and widening operating losses in China and Hong Kong.
- Meanwhile, the outlook is challenging with COVID-19 adding to the pressure and we believe may reduce traffic to most of BGL’s F&B outlets (including Din Tai Fung, which has been a major contributor to BGL). If [BGL remains aggressive in expansion](#), significant capex and start-up costs could be incurred which could further weigh on margins.
- Thus far, BGL has seen its ex-CEO Mr Chu Heng Hwee resign in Aug 2019 and CFO Mr Chan Ying Jian resigning in Jan 2020. No replacement has been announced yet.
- BGL is also in technical breach of its financial covenant with consolidated tangible net worth falling to SGD53.3mn, which is below the threshold of SGD75mn.

Bond Recommendation

- Despite the downgrade in credit profile and technical breach of the financial covenant, the bigger driver for BREAD 4% '23s will be the outcome of a voluntary conditional cash offer. The consortium (comprising the co-founders and Thailand-based Minor International PCL with a market cap of ~USD4.3bn) leading this offer is intending to privatise the company.
- We think there is a good chance that BGL will be eventually privatised as (1) the consortium already holds a very sizeable stake of 70.53% while (2) the offer price of SGD0.77 per share is 19.4% higher than the prior closing share price of SGD0.645.
- In the event of a privatisation, holders of BREAD 4% '23s may put back the bond at par plus accrued interest.
- We are not too concerned over the technical breach (shortfall of SGD21.7mn in book value equity) given the privatisation attempt (which requires ~SGD128mn to take out the minorities) which should trigger the delisting put and also because BGL is evaluating options (e.g. waivers, amendments) in relation to the breach.
- As such, we are **Neutral on BREAD 4% '23s** around 99 cash price and look to exercise the delisting put (should the privatisation take place) if the bond continues to trade below par.

Bond	Outstanding Amount	Maturity	Ask Yield	Spread
BREAD 4% '23	SGD100mn	17/01/2023	4.30%	296bps

Indicative prices as at 25 Feb 2020 Source: Bloomberg

Background

- Listed on the SGX in 2003 with a market cap of SGD363mn, BreadTalk Group Ltd (“BGL”) is a household F&B brand owner. Prominent brands include BreadTalk, Toast Box and Food Republic. As a franchisee, BGL operates Din Tai Fung (“DTF”), Song Fa Bak Kut Teh (“Song Fa”), Wu Pao Chun Bakery, Nayuki and TaiGai. BGL has expanded beyond Singapore.
- As of end-Dec 2019, BGL operates 415 outlets in China, Singapore, Thailand and other parts of Asia and Middle East. BGL is also the franchisor to 622 bakeries. BGL is majority owned by co-founders George Quek (35.86%) and Katherine Lee (20.49%).

Recent Write-ups on BREAD from OCBC Credit Research

- [Asian Credit Daily \(25 Feb 2020\)](#)
- [Asian Credit Daily \(31 Jan 2020\)](#)
- [Singapore Outlook 2020 \(03 Jan 2020\)](#)

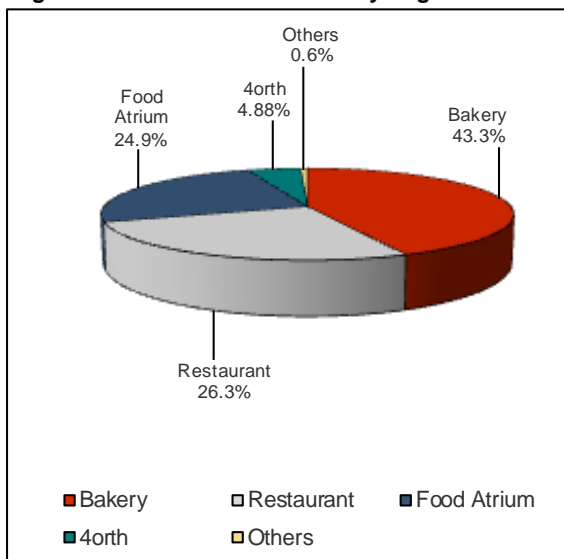
BreadTalk Group Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	599.7	609.8	664.9
EBITDA	51.2	47.4	164.8
EBIT	10.8	6.1	-15.9
Gross interest expense	5.4	9.2	22.1
Profit Before Tax	41.0	31.1	7.1
Net profit	29.9	19.7	-3.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	141.2	185.0	157.6
Total assets	551.6	608.9	1,257.2
Short term debt	19.2	97.8	498.7
Gross debt	183.3	226.4	835.5
Net debt	42.1	41.5	677.9
Shareholders' equity	154.9	162.7	183.0
Cash Flow (SGD'mn)			
CFO	77.6	65.6	170.8
Capex	30.2	47.9	46.7
Acquisitions	20.0	0.5	88.1
Disposals	30.8	20.0	4.9
Dividend	20.3	11.3	11.3
Interest paid	-5.4	-9.2	-22.1
Free Cash Flow (FCF)	47.4	17.7	124.1
Key Ratios			
EBITDA margin (%)	8.5	7.8	24.8
Net margin (%)	5.0	3.2	-0.6
Gross debt to EBITDA (x)	3.58	4.78	5.07
Net debt to EBITDA (x)	0.82	0.87	4.11
Gross Debt to Equity (x)	1.18	1.39	4.57
Net Debt to Equity (x)	0.27	0.25	3.70
Gross debt/total assets (x)	0.33	0.37	0.66
Net debt/total assets (x)	0.08	0.07	0.54
Cash/current borrowings (x)	2.46	1.89	0.32
EBITDA/Total Interest (x)	9.5	5.1	7.5

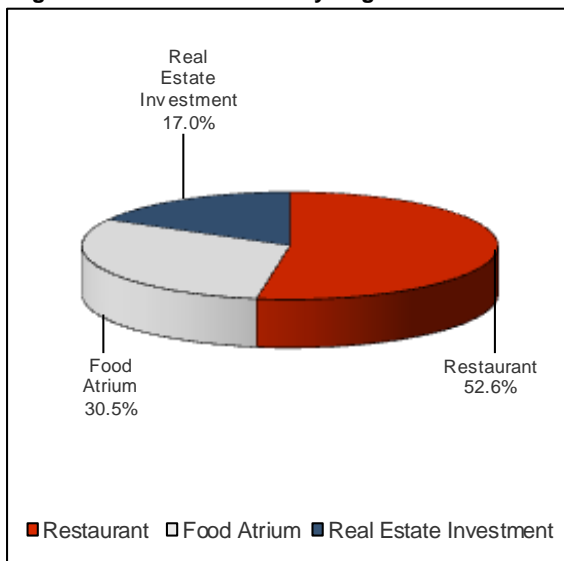
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company

Figure 2: PBT breakdown by Segment - FY2019



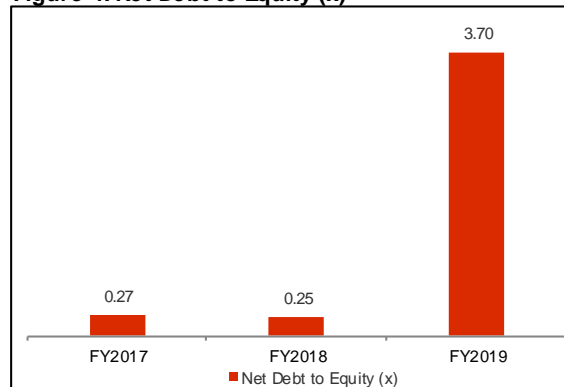
Source: Company | Excludes Bakery, 4orth and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/12/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	117.6	14.1%
Unsecured	381.2	45.6%
	498.8	59.7%
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	336.8	40.3%
	336.8	40.3%
Total	835.6	100.0%

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight (“OW”) – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral (“N”) – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight (“UW”) – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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