

Issuer: Tung Lok Restaurants (2000) Ltd

Security: Tung Lok Restaurants (2000) Ltd

Meeting details:

Date: 31 July 2017

Time: 11.00 a.m.

Venue: Orchard Parade Hotel, 1 Tanglin Road, Level 2, Antica Ballroom, Singapore 247905

Company Description

Tung Lok Restaurants (2000) Ltd, an investment holding company, owns, operates, and manages restaurants in Singapore, Indonesia, and the People's Republic of China. It is also involved in the central kitchen support function business, as well as management consulting, catering, and franchise businesses. In addition, the company offers home-delivery services for various ready-to-eat dishes and dim sum through its online store homefiesta.tunglok.com. As of March 31, 2016, the company operated a total of 45 outlets. Tung Lok Restaurants (2000) Ltd was founded in 1980 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=540)

Q1. The group reported revenue of \$85.1 million in FY2017, a small dip from the revenue of \$86.1 million in 2016. Profit in 2017 was \$485,600 (net profit margin of less than 1%). In the Chairman’s Statement (page 14 of the annual report), the Executive Chairman has mentioned that “profit margin is expected to remain under pressure amidst rising operating costs (in particular manpower and rental) and stiff competition”.

The group reported gross profit margin of 71.9% in FY17 but only captured less than 1% in net profit margin for shareholders. The group’s revenue and some of the cost items/expenses are shown in the table below.

	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$
Revenue	81,545,239	77,920,965	84,985,261	86,064,974	85,059,907
Gross profit	58,367,674	56,144,729	60,783,745	62,131,257	61,176,012
Gross profit margin	71.6%	72.1%	71.5%	72.2%	71.9%
Rental expense	12,095,651	12,635,135	12,842,757	12,867,331	13,448,558
As a percentage of revenue	14.8%	16.2%	15.1%	15.0%	15.8%
Staff costs	25,489,883	26,270,692	26,810,292	26,858,371	26,591,435
As a percentage of revenue	31.3%	33.7%	31.5%	31.2%	31.3%
Others	2,583,963	2,835,784	2,335,135	2,743,555	2,775,197
Profit/(loss) for the year	(3,608,083)	(9,955,668)	(552,767)	981,698	485,600
Profit margin	(4.4%)	(12.8%)	(0.7%)	1.1%	0.6%

(Source: Company annual reports)

- a) **Given that staff cost is the largest component of costs, how does the group plan to pro-actively manage its staff costs? How effective has been the group’s productivity and efficiency drive? Does management have a target for the group’s staff costs?**
- b) **In 2017, rental expense has increased slightly to 15.8%. How can the group leverage its scale to obtain better rental rates and to secure good locations for its restaurants?**
- c) **The “Others” component in “Other operating expenses” (Note 6 – page 78) has increased slightly to \$2.78 million in 2017. Can management provide a further breakdown of the \$2.78 million?**

Q2. The group’s core operations (before tax and share of profit of joint venture & associates) reported a small profit in 2016 but slipped into a small loss in 2017. The operating results of the group is shown in the Historical financial summary (page 17, reproduced below).

OPERATING RESULTS FOR THE GROUP

SS'000	FY2013	FY2014	FY2015	FY2016	FY2017
Turnover	81,545	77,921	84,985	86,065	85,060
(Loss)/Profit before tax and share of profit of joint venture & associates	(4,515)	(10,287)	(1,733)	14	(286)
Share of profit of joint venture & associates	190	256	724	286	601
Taxation	717	75	456	682	171
(Loss)/Profit after taxation but before non-controlling interests	(3,608)	(9,956)	(553)	982	486
(Loss)/Profit attributable to the owners of the company	(3,169)	(6,777)	574	611	422

(Source: Company Annual Report)

- a) Has the board considered a review of the core operations to evaluate the group's business model and performance, and to explore the group's options to improve profitability?**

As at 31 March 2017, the group operates a total of 45 outlets of which 26 outlets are directly owned, 8 are held by the associates and 11 under management.

- b) Can management help shareholders understand how differently the associates operate as compared to the group's core operations?**
- c) Are there plans to scale up the joint venture which is in the business of manufacturing and sale of various food products?**

Q3. The group is in a net cash position of \$11.7 million (page 34) with total equity of \$15.9 million as at 31 March 2017. The group's gearing ratio improved to 0.21 times as at 31 March 2017 from 0.26 times as at 31 March 2016. Net cash flows from operations were \$2.3 million in 2017, \$4.5 million in 2016, \$1.1 million in 2015 and \$0.3 million in 2014.

The unutilised net proceeds from the 2014 Rights Issue amounted to \$3.3 million as at 31 March 2017 (page 46).

In Note 34 (page 112 – Capital risk management policies and objectives), it was stated that the group aims to maximise the return to stakeholders through the optimisation of the debt and equity balance and that the “key discipline adopted is to widen the margin between the return on capital employed and the cost of that capital”.

- a) Can the board help shareholders understand what is the group's optimal/targeted capital structure?**
- b) Given that the business is cash flow generative and that net proceeds from the 2014 Rights Issue remain, has the board deliberated on resuming paying dividends/capital reduction?**