Oversea retains slow and steady business strategy

- **Restaurant** operator adopts cautious approach due to slowdown in consumer spending
- **Says** it will stick to restaurant business as its principal activity and not embark aggressively on manufacturing

by **Ng Wai Mun**

OVERSEA Enterprise Bhd insists on adopting a cautious approach to new investments and expansion of its restaurants, considering the current state of the economy.

While its safe approach is understandable in light of the recent slowdown in consumer spending and its impact on the food and beverage sector, some minority shareholders believe its business strategy should be more aggressive.

"Uncertainties are one reason behind adopting the cautious approach," executive director Yu Tack Tein says.

He stresses that Oversea is in business for the long haul, and "slow and steady augurs well for it".

Moving forward, Yu says the company prefers seeking equity joint-venture (JV) partners for its expansion plans than to wholly own new ventures.

He says new equity owners would primarily be "silent partners" who are not in the food industry.

The company's preference for the JV option, he says, is something Oversea has been doing for some time.

"The success of our JV investments depends on getting the right partners," he says, adding that both parties need to share a similar vision and outlook for business to work.

However, the strategy is a source of contention among some of its minority shareholders.

"Since it was adopted, the results have worsened. The company should think out of the box and try other ways to maximise profits," a shareholder tells *FocusM*.

However, Yu says: "There is not much we can say to pacify them on using the same strategy over the years.

"We will continue to do what is best for the company and its shareholders."

Falling revenue

The restaurant division's revenue of RM9.8 mil for Q2 FY18 ended September is the lowest second-quarter figure in the last four financial years. The division accounts for just over 50% of Oversea's total revenue.

This is largely due to seasonal factors where the group generates additional sales from its manufacturing division, which produces mooncakes for the annual mid-autumn festival.

On the declining restaurant revenue, Yu says the company is in a "challenging market" and has been impacted by the economic slowdown.

"But we are not the only ones affected. Other restaurants have been hit as well."

Yu says the situation was aggravated by the closure of its outlet in Hotel Armada, Petaling Jaya, in July last year. This meant it did not contribute to the company's Q2 revenue.

The management had decided to relocate the restaurant in Hotel Armada due to the unfavourable tenancy renewal terms and conditions.

It also says the outlet's sales had been dropping due to major changes in the traffic flow to the area, which inconvenienced customers.

William Capital Plt chief investment officer William Ng says Oversea's business model depended very much on festivals and seasons.

He says that the company had tried other strategies, but they were not very successful.

Restaurant business

Yu reiterates that Oversea will remain a traditional restaurant operator despite suggestions it should switch to manufacturing as the principal activity.

The manufacturing revenue is almost on par with the restaurant division's and records better earnings. Comparatively, the restaurant division's losses are dragging down profits.

In Q2 FY18, the manufacturing division's revenue was RM9.3 mil. "It basically comes from the sale of mooncakes and that is very festive," Yu says.

He says any intention to expand and emphasise on manufacturing requires an appropriate product to mass produce.

"Product sales must be sustainable throughout the year as well," he stresses.

While the shareholder concurs, he says it is not that manufacturing sales is rising, but restaurant sales are fast declining and in fact, revenue from the former has been flat.

Ng further says the manufacturing division should take over as the company's main growth driver, but doing so will require it to have more non-seasonal products.

Oversea will be opening another restaurant at Genting Highlands Resort in Q2. A traditional Chinese restaurant, it will come under the "Restoran Oversea" brand and have 10,000 sq ft of space.

It costs the company some RM3-RM4 mil for renovation and working capital to open each new outlet. With RM15 mil cash in hand, funding the opening of new outlets should not pose a problem for the company.

"The Genting outlet will not follow the 'dim sum cum steamboat' format of our latest restaurant in Jalan Imbi, Kuala Lumpur," Yu says.

Opportunities

The new restaurant serving dim sum and steamboat should not be seen as a permanent departure from its usual *modus operandi*.

Yu says there was "a window of opportunity" in the Jalan Imbi area where it is targeting the Gen Y crowd that generally likes steamboat.

Additionally, Oversea already operates a Chinese restaurant a few doors away. As such, it doesn't make business sense to operate two restaurants of the same type in the same vicinity, he says.

On the future of the dim sum concept restaurants, Yu says: "It is still in the infant stage and fine-tuning will continue.

"The concept is essentially a spin-off of our traditional restaurants' extensive menus.

"Oversea is also exploring other concepts, but the company will adopt a cautious approach before committing itself," he says.

At present, Oversea operates three dim sum restaurants, five Grand Theme Chinese restaurants, and a cafe serving a mixture of Hong Kong, local and Western cuisine.

Yu says there are various factors to consider before a final decision is made on closing outlets, regardless of whether they are performing or otherwise.

"It need not necessarily be down to tenancy issues only," he says, referring to the now-closed Hotel Armada outlet.

He says restaurant operators do not merely look at the profit and loss accounts. "What is just as important is for the business to continue bringing in positive cash-flow," says Yu.

Restaurants have also shut its doors due to a lack of skilled workers, especially experienced chefs, and he says this is a major obstacle to opening new outlets.

While a steamboat restaurant does not require many experienced chefs, Yu says staff shortage was not a major reason why the dim sum cum steamboat restaurant was opened in the first place. FocusM

JONATHAN LOI/FOCUSM

Overseas spends some RM3-RM4 mil to open each new restaurant

DD HOE/FOCUSM

Revenue from its manufacturing division which makes mooncakes, is seasonal

Overseas Enterprise Bhd

TRADING SERVICES

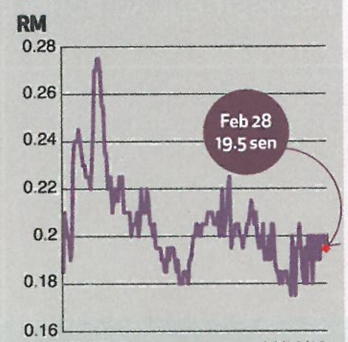
KEY BOARD MEMBERS AND MANAGEMENT
Yu Soo Chye @ Yee Soo Chye (chairman/group MD)
Yu Tack Tein (executive director)

MAJOR SHAREHOLDERS
Yu Soo Chye @ Yee Soo Chye
34.1%
Lee Lim & Sons Sdn Bhd
21.0%

MARKET CAP (Feb 28)
RM47.3m
Share price (Feb 28)
19.5 sen
52-week high (April 3, 2017)
28 sen
52-week low (Feb 28, 2017)
17 sen

FINANCIAL RESULTS
(HY ended Sept 30, 2017)
Revenue
RM31m
Net loss
RM0.25m

One-year price chart



Source: Bloomberg