



by Ng Wai Mun

**OVERSEA** Enterprise Bhd's improved financial results for its latest quarter bear testimony to its sustained resilience despite the slowing

economy.

A research manager attributes the better performance to the company's stringent cost control and effective marketing over the past few years amid slowing consumer spending.

For Q1 ended June (FY17), revenue rose 4% to RM12.2 mil with pre-tax loss trimmed to RM1.2 mil from RM1.9 mil a year ago. The research manager says the company had suffered pre-tax losses for Q1 in the past few years.

However, she says Oversea's financials for FY16 ended March do not paint a true picture of the restaurant chain's improved performance, which had been bogged down by accounting provisions.

"Officially the company recorded a (RM2.1 mil pre-tax) loss but operating profit was over RM1 mil. The profit was also due to the company's painstaking cost control which saw its (operating) margin increase from 1.3% to 1.8%," she adds.

She points out that revenue growth for Q1FY17 is commendable despite another quarter of pre-tax loss.

"The 4% sales growth may not be much to some, but this is the first time in four to five years that the company managed such high growth for its first quarter. Being an operator of upmarket Chinese restaurants, one would imagine the revenue growth amid slowdown in consumer spending would be more negatively affected than cafes, but surprisingly, the company overcame that.

"Cafes and fast-food outlets (for the six months ended March), on average, recorded sales growth of 1% to 9%. So it is considered good for Oversea's restaurants to achieve 2% to 3% sales growth."

#### Boost from mooncake business

Oversea's Q1FY17 sales were boosted by improved revenue contribution from its manufacturing segment, which rose to RM1.7 mil from RM852,000 a year ago.

The improvement was due to higher sales recognition from exports of mooncakes. The company's mooncake output exceeds one million pieces per year.

On its prospects, the company says it is looking for new opportunities to widen its earnings base to provide growth in the longer term. These include pursuing opportunities of manufacturing non-seasonal products to increase plant utilisation.

The research manager is bullish on Oversea's outlook, particularly its restaurant business. She points out that when more outlets are opened, growth rate will make a quantum leap.

However, she plays down sales contribution from the recent mooncake festival as sales of mooncakes contribute only 10% to 15% of total revenue.

Oversea's management declined to be interviewed for this article.

William Capital LLP chief investment officer William Ng holds a more conservative view of the company's prospects, saying outlook will be stable but warns of declining profit margin.

"If there are no new outlets opening (in the near future) then growth will be dictated by festival-related sales like mooncakes. Also, the company needs to target corporate sales rather than retail."



DDHOE/FocusM

In FY16, sales of mooncakes and other baked products raked in RM9.2 mil revenue for Oversea

He dismisses suggestions that the company's mooncake business which is carried out over a short period is more disruptive than good compared with its restaurant operation. "It's not disruptive but a good advantage as it is an additional source of income," he says.

In FY16, sales of mooncakes and other baked products raked in revenue of RM9.2 mil, slightly down from FY15's RM10 mil.

Ng believes the management should look beyond the restaurant business. "More related food segments will be good and don't just limit the options to the restaurant business.

"During last year's annual general meeting, I suggested that the company venture into the halal restaurant and vegetarian food businesses as these markets are bigger, with high growth potential."

This, he explains, is because South-east Asia is home to about 18% of the world's Muslim population of about 1.6-1.7 billion. The region's halal market is valued at US\$93 bil (RM378 bil) per annum.

However, the research manager disagrees with Ng on the adverse impact of higher minimum wage, saying it does not affect Oversea as most, if not all, of its employees earn more than the minimum wage.

The Minimum Wages Order 2016 took effect on July 1 with minimum wage set at RM1,000 per month for Peninsular Malaysia, and RM920 for Sabah, Sarawak and Labuan. If the revised minimum wage has an impact on Oversea's bottom line, this will be reflected in its wage bill from Q2FY17.

#### Restaurant receipt growth is global

PwC's September 2016 report entitled "The packaged food and drink sector in Southeast Asia" reveals consumer spending in restaurants in Malaysia is expected to grow at a compound annual growth rate (CAGR) of 7% from 2015-2020. This exceeds both Thailand and Singapore's projected CAGR of 6% and 5% respectively.

While the research manager sees the 7% growth as substantial, she does not think Oversea's 4% revenue growth in Q1 lagged behind in this food sector. "This trend of retail sector contracting while restaurants are flourishing is not only confined to Malaysia. It is a worldwide [phenomenon] and that also benefits Oversea as it also has restaurants outside Malaysia."

Since 2012, Oversea has been operating a café offering Ipoh authentic cuisines in Hong Kong via its wholly-owned subsidiary Ipoh Group Ltd. Since last year, the company also runs a bakery called Alter Ego 1892 in Taipei City, Taiwan via its wholly-owned subsidiary Taiwan Haewaytian Ltd.

For the first half of last year, total restaurant receipts in Hong Kong increased 2.5% year-on-year in value but decreased 0.9% in terms of volume, according to Hong Kong's Census and Statistics Department.

Oversea was incorporated in September 1994 as a private limited company under the name Restoran Oversea Corporation Sdn Bhd. It later changed name to Oversea Enterprise Sdn Bhd, and converted to a public company and assumed its present name in November 2009. The company has seven outlets in the Klang Valley and Ipoh. [FocusM](#)

## Oversea still resilient despite slowdown

Restaurant chain's better financial results for Q1 due to stringent cost control and effective marketing



Ng expresses concern about the company's costing as labour cost has increased with the revised minimum wage policy coupled with the continuing effects of the Goods and Services Tax and other issues. "Also, the overall spending power of customers has deteriorated," he says.

### OVERSEA ENTERPRISE BHD

#### KEY BOARD MEMBERS AND MANAGEMENT

Yu Soo Chye @ Yee Soo Chye (chairman/group MD)  
Yu Tack Tein, Lee Seng Fan (executive directors)

#### MAJOR SHAREHOLDERS

Yu Soo Chye @ Yee Soo Chye 34.3%  
Lee Lim & Sons Sdn Bhd 21.1%

MARKET CAP (Sept 22) RM48.2m  
SHARE PRICE (Sept 22) 20 sen  
52-WEEK HIGH (Dec 11, 2015) 24 sen  
52-WEEK LOW (Oct 7, 2015) 14 sen

#### FINANCIAL RESULTS (Q1 ended June 30, 2016)

Revenue RM12.2m  
Net loss RM1.2m