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Berjaya Food Berhad: An Investment and Financial Decision-Making Insight

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Abstract: BJFood, also known as Berjaya Food Berhad, is a Malaysian venture capital firm that develops and operates chain restaurants, cafes and retail outlets. It was established as a public limited company on December 3, 2009, and it debuted on Bursa Malaysia's Main Market on March 8, 2011. The food and beverage industries have survived the COVID-19 Pandemic, which happened in the first quarter of 2020. This study evaluates the investment attractiveness of BJFood using financial ratio analysis, investment decisions, profitability performance, long and short-term financing decisions, share and risk assessments. BJFood's working capital condition is sound based on its operating cash flow. BJFood should consider selling of its part in Jollibean's franchise and looking at other foreign franchise to expand into because the food company is a lucrative market to venture into.

Keywords: BJFood; Financial Analysis; Food Industry

I. Investment Decisions and Profitability Performance Analysis

Performance is a level of success obtained by a person in conducting the tasks assigned to him based on experience and sincerity(Horngren, Bhimani,, Datar, & Foster, 2002). According to Hafsah(2015), the measurement of financial performance based on financial reports is frequently done utilizing various performance measurement methods. Analyzing a company's financial reports is one method for determining its financial performance(Maisharoh & Riyanto, 2020). Financial performance evaluation is a periodic determination of the operational success of an organization, portion of an organization, and also the financial part based on previously specified targets, standards, and criteria(Folan & Browne, 2005). Financial performance is crucial for firms to recognize and analyze to what extent the company's success rate is dependent on the financial activities that have been undertaken(Maditinos, Chatzoudes, Tsairidis, & Theriou, 2011).

Profitability is defined as a company's, business', or endeavor's capacity to report productivity, profits, and economic benefits year after year(Tkachenko, Kwilinski, Kaminska, Tkachenko, & Puzyrova, 2019). In other words, profitability is the ability to make economic profit from the effort put in to generate profit, rather than just keeping the business running.

Table 1: Revenue and Profit for BJFood from 2018-2022

Fiscal Year	Revenue	Net Profit
30/4/2018	639.7 M	1.18M
30/6/2019	676.3 M	20.89M
30/6/2020	632.9 M	-19.58M
30/6/2021	717.3 M	47.11M
30/6/2022	997.7 M	122.74M

(Berjaya Food Sdn Bhd, 2018; Berjaya Food Sdn Bhd, 2019; Berjaya Food Sdn Bhd, 2020; Berjaya Food Sdn Bhd, 2021; Berjaya Food Sdn Bhd, 2022)

Table 1 illustrates BJFood's revenue and profit over the last five years. Overall revenue has been increasing since 2018, although it has taken a temporary dip owing to COVID-19 in 2020. It climbed dramatically to RM717.3M in 2021 from RM632.9M the previous year. The revenue has increased by over RM1 billion since the fiscal year ended on June 30, 2022. One of the most interesting facts is that even though in 2020 the revenue is at RM632.9M, BJFood still exhibits a loss of RM19.58M. This is more likely due to inability to operate as a result of total nationwide lockdown.

According to Lasher(2016), Return on Equity is a ratio that quantifies the return on capital invested by investors. According to Hanafi and Halim(2018), the Return on Equity is a ratio that gauges a company's potential to generate profit from the perspective of its shareholders. Although this ratio evaluates profit from the standpoint of shareholders, it does not account for dividends or capital gains. According to contemporary studies, the Return on Stock Ratio (NPE) is a measure of business success that calculates how much net profit can be made from the company's equity.

Table 2: RoE for BJFood from 2018-2022

Return on Equity (BJFood 2018-2022)			
Fiscal Year	**Net Income (Million)**	**Equity (Million)**	**Return On Equity**
30/4/2018	RM1.18	RM388.90	0.30%
30/6/2019	RM20.89	RM376.60	5.55%
30/6/2020	-RM19.58	RM350.20	-5.59%
30/6/2021	RM47.11	RM354.40	13.29%
30/6/2022	RM122.70	RM430.70	28.49%

Source: Author's calculation and compilation

According to Table 2 The most recent twelve-month return on for Berjaya Food Berhad is 28.5 percent while its return on common equity averaged 8.4 percent from April 2018 to 2022. From fiscal years ending in April 2018 through 2022, Berjaya Food Berhad earned a median return on equity of 5.5 percent. Furthermore, its return on common equity peaked at 28.5 percent in June 2022, looking back five years. Berjaya Food Berhad's return on equity fell to -5.6 percent in June 2020, a five-year low while its return on equity fell in 2018 (0.3 percent, -89.5 percent) and 2020 (-5.6 percent, -200.8 percent) before rising in 2019 (5.5 percent, +1,735.9 percent), 2021 (13.3 percent, -337.8 percent), and 2022 (28.5 percent, +114.3 percent).

Return on assets, or ROA for short, is a specialized metric that aids in the definition, measurement, and calculation of a company's profitability in terms of total assets owned. In other words, the asset return ratio is a basic tool that allows investors to analyze and contrast different firms based on the funds invested in assets as well as net income(Naknok, 2022). This is a simple but effective instrument that helps investors evaluate a company's profitability. This makes it possible to compare and contrast business performance over a period of time. ROA can be used either to explore a single company or to compare two different organizations over the same period to highlight the more efficient and productive company. When comparing between companies, it is critical that they are the same size and in the same industry. Different asset return ratios are typically associated with different sectors. The same is true when comparing two distinct enterprises of varying sizes, because some organizations employ a greater number of assets while earning a higher net income(Bachtijeva, 2022).

Table 3: RoA for BJFood from 2018-2022

Return on Asset (BJFood 2018-2022)			
Fiscal Year	**Net Income (Million)**	**Avg Assets (Million)**	**Return On Assets**
30/4/2018	RM0.22	RM802	0.03%
30/6/2019	RM20.72	RM833.30	2.49%
30/6/2020	-RM20.09	RM1,041	-1.93%
30/6/2021	RM45.73	RM1,203	3.80%
30/6/2022	RM120.80	RM1,255	9.63%

Source: Author's calculation and compilation

According to Table 3 the most recent twelve-month return on assets for Berjaya Food Berhad is 9.6 percent. From April 2018 until 2022, Berjaya Food Berhad's return on assets averaged 2.8 percent. Berjaya Food Berhad generated a median return on assets of 2.5 percent from fiscal years ending in April 2018 to 2022. Looking back five years, Berjaya Food Berhad's return on assets peaked at 9.6 percent in June 2022. In June 2020, Berjaya Food Berhad's return on assets plummeted to -1.9 percent, a five-year low.

Table 4: Profit Before Tax for BJFood Subsidiaries 2018-2021

Subsidiary	2018	2019	2020	2021
Berjaya Starbucks Sdn Bhd	RM58.7M	RM47M	RM9.2M	RM90.1M
Berjaya Food Supreme Sdn Bhd	B$134k	B$-122k	B$-124k	B$529k
Berjaya Food Trading Sdn Bhd	RM144k	RM211k	RM-1M	RM175k
Berjaya Roaster (M) Sdn Bhd	RM-6.7M	RM-7M	RM-12.2M	RM-4.4M
Jollibean Foods Pte Ltd	SGD-751k	SGD-750k	SGD-814k	SGD-695k
Ser Vegano Sdn Bhd	-	-	-	RM-552k

Compiled through annual reports from 2108-2021 (Berjaya Food Sdn Bhd, 2019; Berjaya Food Sdn Bhd, 2020; Berjaya Food Sdn Bhd, 2018; Berjaya Food Sdn Bhd, 2021)

Table 4 presents the profit before tax figures for several BJFood subsidiaries from 2108-2021. According to the data, only Berjaya Starbucks Sdn Bhd has consistently made money over the last four years. Subsidiaries such as Berjaya Roasters (M) Sdn Bhd and Jollibean Foods Pte Limited can be classified as bleeding subsidiaries for the past four years and if fact they have been continuing to bleed even before the periods in review. Due to the COVID-19 epidemic, subsidiaries such as Berjaya Food Trading Sdn Bhd and Berjaya Food Supreme Sdn Bhd may experience a drop in profit before tax in 2020.

Table 5: EPS, DPS and NPM for BJFood from 2018-2022

	30/6/2022	30/6/2021	30/6/2020	30/6/2019	30/6/2018
EPS	6.3	2.43	-0.97	1.36	0
DPS	1.02	0.55	0.36	0.74	0
NPM	0.18%	3.34%	-2.98%	6.6%	12.3%

Source: Author's calculation and compilation

Table 5 shows that for the past 2 years EPS and DPS are portraying an upward pattern. A higher EPS suggests more value since investors will pay more for a company's shares if they believe the company's profits are larger than its share price. EPS and DPS are both measures of a company's profitability, but the similarities stop there. EPS is a ratio that measures a company's profitability per share of its stock. DPS, on the other hand, estimates the portion of a company's earnings that is distributed to shareholders. NPM on the other hand is a mean of comparing net profit after tax with net sales. In addition, NPM is also used as a comparison of the company's performance in generating profits after deducting all costs plus taxes. Even though NPM for BJFood increases in 2021 compared to 2020, in 2022 it declines tremendously from 3.34% to 0.18%. The NPM for BJFood is an indicator of the company's overall efficiency. It can be seen as a sign of growth and control, with a focus on the return on inventories and other assets. In other words, it reflects BJFood's ability to earn from their business.

II. Capital Structure Review and Analysis

Increased public interest in the capital market must be balanced with knowledge in investing. One of them is by analyzing the company's capital structure because it involves crucial factors related to risk and the level of profit that will be obtained in investing. Potential investors will certainly prefer to invest in companies with high returns and low risks(Miraza & Muniruddin, 2017). Companies must constantly innovate, enhance product quality, and be able to appropriately manage money related to the company's capital structure. The company receives finance from both internal and external sources(Wirianata & Wijoyo, 2020).It is critical to develop a strategy for establishing the composition of the capital structure. If it is not carefully determined, it has the potential to become bankrupt due to the company's financial issues(Wiagustini, Ramantha, Sedana, & Rahyuda, 2017). If debt is employed in an excessively sizeable percentage, the fixed loads borne will increase, resulting in financial hazards such as failing to pay interest

payments and debt instalments. A company's capital structure, whether good or bad, can affect its financial performance and position, and hence its value; thus, capital structure is an important subject for companies to consider(Darsono, 2017).

The debt ratio is a financial measure that indicates the percentage of a company's assets that are provided by debt. It is the ratio of total debt to total assets(Siregar & Harahap, 2021). Miller and Modigliani's signalling theory in Brigham and Houston(2021) demonstrates the relationship between profitability and the usage of debt in businesses. The usage of a company's debt as assessed by the Debt to Asset Ratio (DAR) and the Debt-to-Equity Ratio (DER). The debt ratio is a ratio used to assess how far creditors go to supply financing. The greater this ratio, the riskier the company. The larger the payoff, the riskier the creditor. Debt to Equity Ratio (DER) A ratio that gauges how much of a company's debt is financed and the company's capacity to meet its commitments with the equity it possesses(Hertina, 2021). The higher the DER, the greater the proportion of total debt to total own capital, leading in a bigger impact on the company's burden on third parties (creditors). The growing load on creditors demonstrates that the company's funding supply is heavily reliant on third parties.

Table 6: DAR and DER Figures for 2018-2022

Fiscal Year	Total Debt (Millions)	Assets (Millions)	Avg Common Equity (Millions)	DAR	DER
30/4/2018	279.3	813.7	388.90	34.32%	71.82%
30/6/2019	288.6	856.9	376.60	33.68%	76.63%
30/6/2020	672.4	1229	350.20	54.71%	192.00%
30/6/2021	629.5	1178	354.40	53.44%	177.62%
30/6/2022	610.1	1332	430.70	45.80%	141.65%

Source: Author's calculation and compilation

According to Table 6, the current (2022) debt to asset ratio is 45.8%. The highest debt to asset ratio was exhibited in 2022 at 54.7%. On the other side of the coin, the debt-to-equity ratio for 2022 is 141.65% and the peak was in 2020 at 192%. Based on table 6, the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) for BJFood in the year of observation tend to rise from 2018 before falling until 2020. The increase in the company's debt implies that the situation is not good; it also suggests that the majority of the company's operating activities are financed by the company's debt. According to Brigham and Houston(2021), increasing the amount of debt as a source of funds raises the risk to the company's finances.

The pecking order theory suggests that the purpose of forming a corporation is to maximize shareholder welfare(Myers, 1984). This theory also describes how a firm decides on its capital structure strategy, which is organized in a hierarchy from lowest cost and no risk to highest risk. The funding sequence is retained earnings, debt, and share capital funding(Margana & Wiagustini, 2019).This theory also has the following assumptions: (1) Internal funds which are the result of operational activities in the form of retained earnings tend to be preferred by the company, (2) Adjustment of the target dividend payout ratio to investment opportunities will continue to be pursued with efforts to avoid significant changes in dividend payments. , (3) The dividend payment policy which tends to be difficult to modify, plus the fluctuations in profitability and investment opportunities that are difficult to predict, result in internal fund flows sometimes exceeding or less than investment needs, and (4) If external funding is needed by the company, first start with issuance of the safest securities, namely the issuance of debt, convertible bonds, if the funds are still insufficient the company will choose the latest additional alternative, namely the issuance of new shares(Nisfianti & Handayani, 2017).

On the other side of the coin, the notion of trade off explains the link or relationship between capital structure and business value(Modigliani & Miller, 1963). According to this hypothesis, businesses seek external financing in the form of debt. This is owing to the existence of tax relief from debt, which allows the company's worth to rise(Ibrahimy & Aidi, 2021). The debt interest expense can be deducted as a tax deduction, lowering the debt burden when compared to common stock or preferred stock(Brigham & Houston, 2019).According to the tradeoff theory, the capital structure will be optimal if there is a balance between advantages in the form of tax savings and sacrifices in the form of loan interest

charges, agency fees, and bankruptcy costs that emerge from the use of debt. However, excessive debt utilization where the sacrifice is larger than the benefits acquired can result in losses, so the corporation is no longer permitted to pursue a program of expanding debt(DeAngelo, 2021).

III. Working Capital

Capital structure and ownership structure are two financial corporate aspects that corporations frequently manage directly in order to earn profits. This section, on the other hand, will exclusively focus on the firm's working capital, which includes the use of process, management, and working capital management efficiency in conducting daily business activities to produce profit while enhancing the firm's performance. Working capital is an issue that must be addressed in the running of a business. As a result, in order to ensure that the firm's everyday operations function effectively, the firm must first define its working capital and comprehend its purpose and relevance.

Working capital is a short-term investment or money that is utilized to ensure the firm's smooth operation. Working capital management (WCM) is critical for managing and regulating working capital, which includes current assets and current liabilities, whereas working capital management efficiency (WCME) is the level at which working capital is managed to maximize profit. Proper working capital management is critical to the company's financial health and operational success as a business. The essence of good business management is the ability to use working capital management to maintain a balance between growth, profitability, and liquidity. Businesses use working capital in their daily operations; Working capital is the difference between the current assets of the business and the current liabilities or debts(Ismail, 2017). Working capital serves as a metric for how efficiently a company operates and how financially stable it is in the short term. The working capital ratio, which divides current assets by current liabilities, shows whether a company has enough cash flow to cover short-term debt and expenses(Saleem & Rehman, 2011).Current asset management seeks to improve corporate operations, whereas liability management improves the firm's ability to acquire future financing(Abidin, Ismail, & Zainuddin., 2000).

Nonetheless, as noted by Pass and Pike (1987) in the theory of risk and return, business management must be alert to the risk in highly liquid assets that will provide low earnings. As a result, the firm must always decide the ideal level of current assets in order to balance risk and profit. In addition, the management of the firm also needs to pay attention to financial resources, i.e. debt and equity so that it is always balanced in order to ensure the amount of loans used for financing working capital meets all financial obligations of the firm as explained in equilibrium theory by Kraus and Litzenberger (1973).

Previous academics have also conducted studies on the efficiency of working capital management in relation to corporate profits. Ramachandran and Janakiraman(2009) discovered a favorable association between working capital management efficiency and firm profitability in a study of enterprises listed on the Tehran stock exchange. The findings demonstrate that efficiently managed firm assets and debts can increase profits and, as a result, the firm's overall performance. However, Iftikhar(2013), Mohamad and Saad(2010), Gill and Biger(2013), and Ganesan(2007) discovered a negative link between business profitability and working capital management efficiency. Overall, the firm must implement proper strategies and policies to govern the use of assets and debt financing in order to avoid falling bankrupt.

Current Ratio (CR) is one of the liquidity ratios used to express the company's security guarantee against short-term lenders. If the ratio of current liabilities exceeds current assets, then the company will experience liquidation. Previous research by indicates that the Current Ratio (CR) has no meaningful influence on stock prices(Prianda, Sari, & Rambe, 2022; Saleem & Rehman, 2011; Simanullang & Simanullang, 2022). Another study by Shoiriyah et.al. (2020) found that only the Net variable Profit Margin (NPM) and Return on Investment (ROI) have a significant influence on stock prices, whereas the variable Current Ratio (CR) and Debt to Equity Ratio (DER) have no significant effect on stock prices. Because the current ratio (CR) is a key measure for measuring a company's capacity to fulfil its current obligation, and Net Profit Margin (NPM) is a ratio used to illustrate the company's ability to create net profit after tax, they are utilized to examine stock prices in this research. These two ratios can provide a better knowledge and are simple to understand in order to determine the company's stock price.

Table 7: Current ratio, Working Capital, and Working Capital Turnover 2018-2022

	2018	2019	2020	2021	2022
Current Asset	94.341	RM90.92	103.16	99.14	170.25
Current Liabilities	276.256	RM350.20	465.28	395.66	400.97
Current Ratio	0.34	0.26	0.22	0.25	0.42
Working Capital	-181.915	-259.28	-362.12	-296.52	-230.72
Net Sales	640	789	635	717	998
Working Capital Turnover	-3.52	-3.04	-1.75	-2.42	-4.33

Source: Author's calculation and compilation

Working capital is an absolute measure of the surplus or deficiency of current assets over current liabilities, whereas the current ratio is a relative measure of current assets over current liabilities. Comparisons can be conducted with previous year's current ratios, management targets, other businesses, or industry averages. According to Table 7, the current ratio for BJFood has been declining from 2018 to 2020, but it has begun to gain strength in 2021, and the current ratio for 2022 is double that of the previous year. BJFood has shown negative working capital turnover for the past five years and 2022 financial has shown a staggering figure at -4.33. According to Santoso C. E.(2013), working capital turnover is a ratio used to analyze the success of a company's work practices over a given period. Based on the calculation results, low working capital rotation signifies ineffective working capital management, and high capital turnover means effective enterprise working capital.

IV. Share Valuations Review and Analysis

Technical analysis is a way for studying market activity using price charts in order to predict and anticipate future stock price moves. Even more precisely, this theory thinks that everything that influences market movements (both fundamentals, political issues, natural disasters, and psychological factors of market players) is represented in market movements. In other words, the impact of these many elements can be observed in price fluctuations on the chart quite fast(Vartiainen, Masson, Breyer, Moser, & Román Medina, 2020). Another approach in conducting stock analysis is to use fundamental analysis. Fundamental analysis is analysis that aims to determine the company's performance through analysis of the company's financial statements, including financial statement analysis projected into future periods, i.e. by comparing financial statements company through internal and external, which company has a better performance will be chosen to invest(Amalia, Fadjriah, & Nugraha, 2020).

Stock prices are predicted based on discounted cash flows; stock price factors include the rate of return and expected cash flow. As a result, the variables that have an economic impact on rates of return and expected cash flows, such as gold and crude oil prices, as well as foreign currency rates, are undoubtedly predictable factors that influence a country's stock price behavior. After deducting debt payments, capital costs, and other expenses from net profit, free cash flow to equity (FCFE) or current free cash to equity (CFE) is the amount left for shareholders(Dimitriou, 2012). FCFE is used to calculate the value of the company's equity. FCFE is calculated by examining whether or not there is new debt FCFE is important to compute since it will aid in determining the worth of a firm(Prasetyo, 2011). FCFE is also used to analyze firm valuations, and cash flow independent of equity is utilized to evaluate shares from dividends in stock valuation. Even though the current stock price for BJFood is traded at 0.92 Sen per share, using the Discounted Cash Flow Model and 2 Stage Free Cash Flow to Equity (See Appendix 1), it is determined that the fair value for its stock is at RM1.19. Due to that, BJFOOD is trading below fair value by more than 20%. The selling price agreed upon by a willing buyer and seller is referred to as fair value. A stock's fair value is established by the market in which it is traded. When the financial accounts of a subsidiary firm are consolidated with the financial statements of a parent company, fair value indicates the worth of a company's assets and liabilities(Savić, 2019). Prices of undervalued stocks immediately recover to their original or intrinsic value, ensuring profits. It provides a chance to acquire shares in well-established or prospective firms at modest costs(Ong, Mohd-Rashid, & Taufil-Mohd, 2020).

V. Risk Assessment Review and Analysis

In reality, all investments include some degree of uncertainty or risk. Investors do not know for certain what will happen with their assets. Investors can predict how much profit (return) can be expected from the investment and how far the actual results will depart from the expected results. Investment decisions must consider not only the predicted return but also the level of risks(Sari, 2018; Prayudi & Ilhammi, 2015).

Investment risk can be high or low as a result of investing. The relationship is that the larger the likelihood of our investment receiving a poor yield or loss, the riskier our investment. Systematic risk is defined as risk that cannot be eliminated through diversification. The greater the systematic risk or beta, the greater the impact on the stock return. The relationship between risk and investment return is emphasized in capital market theory. Market risk and return have a straight and unidirectional relationship. This means that the higher the risk, the higher the reward(Dalimunthe, 2018; Anshari, 2016).

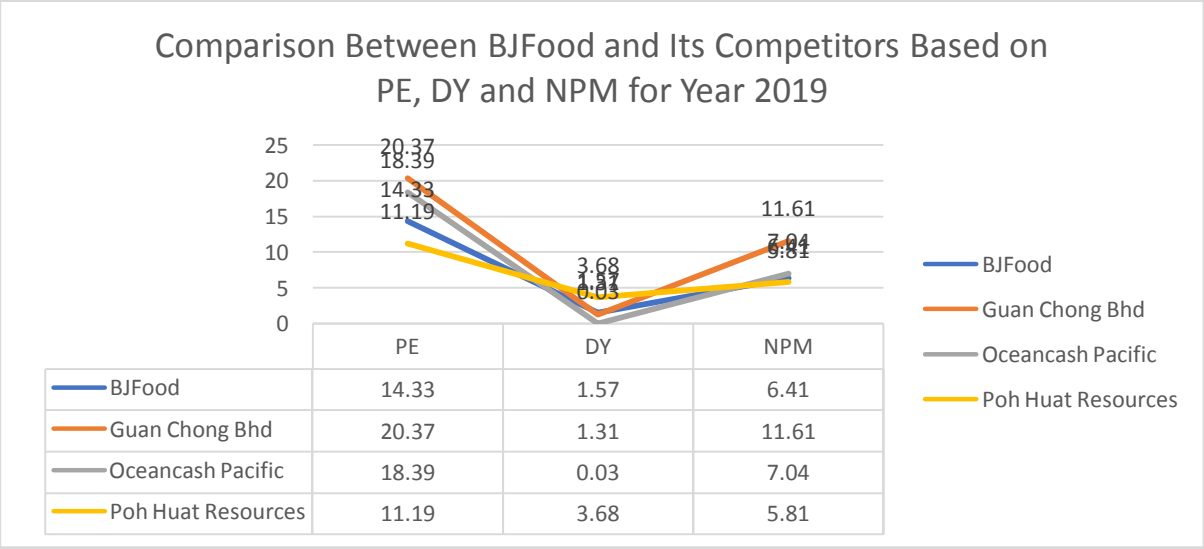
The COVID-19 is caused by an infectious virus. COVID-19 has caused various countries, including Malaysia, to declare states of emergency, impose travel restrictions, isolations, and close several institutions and companies. The ongoing COVID-19 pandemic although as it is entering the endemic phase, might have a significant and negative impact on BJFOOD's financial and business prospects. While the possible impact of the COVID-19 pandemic is difficult to determine at this time, weakening global and domestic economic circumstances and corporate sentiment might have a major negative influence on financial markets.

Another crucial factor is cash flow management. Unpaid debt totalling RM37.22 was the cause of a fast-food company, Paparich, in Malaysia being slammed by a financial tsunami and forced to close their doors in 2017(DagangNews.com, 2020). Agathisfour Sdn Bhd served the petition on Paparich Group Sdn Bhd due to the failure to repay the amount of loan provided to Paparich and its subsidiaries. According to court filings, Paparich and Agathisfour agreed in 2014 to purchase 4.47 million shares in Paparich Malaysia for RM24 million(DagangNews.com, 2020). In order not to fall into this trap, BJFood must focus more on cash flow management in order to avoid being inundated by issues originating from that matter.

One more risk to consider is the high employee turnover rate in the restaurant industry. The process of an employee planning to leave an existing employment or an employee's willingness to depart an organization is defined as the desire to resign(Fauzi, et al., 2020). An employee's advantages and skills cannot be found or duplicated by a new employee. As a result, it becomes necessary to maintain in today's increasingly harsh global competition, having a great employee is critical for businesses and organizations. Employee turnover has become a major concern for many firms, and it is attracting attention because it affects organizational performance. According to Fauzi et al.(2020) research, organizational culture, organizational commitment, and job happiness all have a major influence on workers' desire to stop in fast food restaurants. The fast-food sector must establish a complete human resource strategy and plans to retain qualified employees and reduce the turnover rate of fast-food restaurant workers.

VI. How Does BJFood Compare to Its Competitors?

Chart 1: Comparison Between BJFood and Its Competitors Based on PE, DY and NPM for Year 2021



	PE	DY	NPM
BJFood	14.33	1.57	6.41
Guan Chong Bhd	20.37	1.31	11.61
Oceancash Pacific	18.39	0.03	7.04
Poh Huat Resources	11.19	3.68	5.81

Source: (i3investor, 2022a; i3investor, 2022b; i3investor, 2022c; Berjaya Food Sdn Bhd, 2021)

Chart 1 compares BJFood's PE, DY, and NPM to competitors in the same market. It is critical for investors to remember that greater dividend yields do not always imply appealing investment opportunities because a firm's dividend yield

may rise as a result of a dropping stock price. The dividend yield is an indication of a stock's dividend-only performance. If the dividend is not increased or decreased, the yield will climb as the stock price falls. It will fall when the stock price rises, and vice versa. Because dividend yields fluctuate in relation to stock price, they can appear exceptionally high for stocks that are rapidly losing value. BJFood's DY is comparable to Guan Chong Berhad and Oceancash Pacific, but less than double that of Poh Huat Resources.

Regarding NPM, BJFood's NPM is lower than Guan Chong and Oceancash Pacific's NOM but slightly higher than Poh Huat Resources NPM. It is the ratio of a company's or business segment's net profits to revenues. A higher net profit margin indicates that a business is more efficient at transforming revenues into profit. Conversely, the price-to-earnings (P/E) ratio is a valuation ratio that compares a company's current share price to its per-share earnings. Compared to Guan Chong and Oceancash, BJFood has a lower PE, but it is slightly higher than Poh Huat Resources' PE.

VII. Conclusions and Recommendations

The food and beverage industries have survived the COVID-19 Pandemic, which happened in the first quarter of 2020. The food and beverage business are the best and has weathered the global economic downturn. This sector can survive by using fewer imported raw materials and more native raw materials. Shares in this category of food and beverage companies are more appealing to investors because the level of public consumption will expand in line with the demands of increasingly complicated human requirements, despite the fact that the food and beverage industry was unaffected by the global crisis. Furthermore, one of the most important consumer items is food and beverages, which is one of Malaysia's largest taxpayers.

Based on the data, Starbucks Malaysia is the driving reason behind BJFood's success. BJFood's prominence as a visible stock to trade in cannot be contested due to its exposure to this global brand. The result of Starbucks sales performance which continues to be strong, at the same time now contributes to a good record for BJFood by achieving a net profit in the fourth quarter of 2022 amounting to RM122.74 million(Berjaya Food Sdn Bhd, 2022). This record is stronger than the previous financial year's data, which recorded a net profit of around RM47.11 million. This good performance is not only driven by the strengthening of Starbucks cafes but also contributed by the increasing performance of Kenny Rogers. Another interesting fact is that BJFood has kept opening new Starbucks outletsat the rate of almost 10% a year for the past 5 years.

The user experience of using a product name will influence the process of developing a high-quality name. As a result, companies must improve the quality of their products in order to maintain their reputation. Starbucks has only employed high-quality raw ingredients since its inception. To ensure the highest and original coffee quality, the coffee beans are picked and processed utilizing innovative technology and care. Starbucks employees are also well-trained and adhere to a strong code of ethics, in addition to having clean equipment and business premises. This aligns with Starbucks' mission of producing the best coffee drinks possible utilizing coffee beans grown to the highest quality standards and ethical equipment. Starbucks only uses print media and the internet for marketing in Malaysia. This is because they understand and believe in the power of information technology. Looking at this development, BJFood still expects Starbucks' demand to continue to stabilize and soar in the 2023 financial year report.

Another critical issue is BJFood's cash flow profile. This company's working capital condition is soundly based on its operating cash flow. It is helped by the fact that BJFood has a minimal inventory because it deals with perishable goods and clients pay in cash. Apart from that, other that profiting from cash sales, BJFood also developed a prepaid membership card through its subsidiary Starbucks Malaysia, which added to its deferred income on the balance sheet. For example, Starbucks Malaysia's deferred income for 2019 is about RM70 million, which it can use to pay its suppliers before sales are made(Berjaya Food Sdn Bhd, 2019).

Overall, BJFood's cash flow is not an issue due to its major reliance on Starbucks, but it must gradually consider selling of its part in Jollibean's franchise and looking at other foreign franchise to expand into because the food company is a lucrative market to venture into. As a proposal, BJFood should consider adding established foreign franchises to their present portfolio because they are now relying significantly on the performance of their Starbucks outlets and their other brands are either surviving or losing money.

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Appendix1:SharePricevsFairValue

BelowarethedatasourcesinputsandcalculationusedtodeterminetheintrinsicvalueforBerjayaFoodBerhad.

Source https://simplywall.st/stocks/my/consumer-services/klse-bjfood/berjaya-food-berhad-shares

KLSE:BJFOODDiscountedCashFlowDataSources

DataPoint	Source	Value
ValuationModel		2StageFreeCashFlow to Equity
LeveredFreeCashFlow	Averageof5AnalystEstimates (S&PGlobal)	Seebelow
DiscountRate(CostofEquity)	Seebelow	10.10%
PerpetualGrowthRate	5-YearAverageofMYLong-TermGovtBondRate	3.60%

Animportantpartofadiscountedcashflowisthediscountrate,belowweexplainhowithasbeencalculated.

CalculationofDiscountRate/CostofEquityforKLSE:BJFOOD

DataPoint	Calculation/Source	Result
Risk-Free Rate	5-YearAverageofMYLong-TermGovtBond Rate	3.60%
EquityRiskPremium	S&PGlobal	5.40%
HospitalityUnleveredBeta	SimplyWallSt/S&PGlobal	1
Re-leveredBeta	=0.33+[(0.66*Unleveredbeta)*(1+(1-Taxrate)(Debt/MarketEquity))]	1.198
	=0.33+[(0.66*1.005)*(1+(1-24.0%)(38.01%))]	
LeveredBeta	LeveredBetalimitedto0.8to 2.0	1.198
DiscountRate/CostofEquity	"=CostofEquity=RiskFreeRate+(LeveredBeta * Equity Risk Premium)"	10.05%

DiscountedCashFlowCalculationforKLSE:BJFOODusing2StageFreeCashFlowtoEquity

The calculations below outline how an intrinsic value for Berjaya Food Berhad is arrived at by discounting future cash flows to theirpresent value using the 2-stage method.

We use analyst's estimates of cash flows going forward 10 years for the 1st stage, the 2nd stage assumes the

company grows at a stablerate into perpetuity.

KLSE:BJFOODDCF1stStage:Next10yearscashflowforecast

	LeveredFCF(MYR,Millions)	Source	Present Value Discounted (@ 10.05%)
2023	171.9	Analystx2	156.2
2024	179.1	Analystx2	147.87
2025	167.25	Analystx2	125.47
2026	161.66	Est@-3.34%	110.2
2027	159.59	Est@-1.28%	98.85
2028	159.87	Est@0.17%	89.98
2029	161.76	Est@1.19%	82.73
2030	164.83	Est@1.89%	76.59
2031	168.77	Est@2.39%	71.26
2032	173.39	Est@2.74%	66.52
Presentvalueofnext10yearscashflows			MYR1,025

KLSE:BJFOODDCF2ndStage:TerminalValue

	Calculation	Result
TerminalValue	FCF_{2032}×(1+g)÷(DiscountRate−g)	MYR2,760.67
	=MYR173.391x(1+3.55%)÷(10.05%-3.55%)	
PresentValueofTerminal	=TerminalValue÷$(1+r)^{10}$	MYR1,059.17
	MYR2,761÷$(1+10.05\%)^{10}$	

KLSE:BJFOOD Total Equity Value

	Calculation	Result
TotalEquityValue	=Presentvalueofnext10yearscashflows+TerminalValue	MYR2,084.17
	=MYR1,025+MYR1,059	
EquityValueperShare	"=TotalValue/SharesOutstanding"=Totalvalue / Shares Outstanding =MYR2,084/1,754	MYR1.19
(MYR)		
KLSE:BJFOODDiscounttoSharePrice		
	Calculation	**Result**
Valueper Share(MYR)	Fromabove.	MYR1.19
Current discount	**DiscounttosharepriceofMYR0.92**	**23.0%**