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Brahim's diversifies further with 7-Eleven tie-up

By Esther Lee / The Edge Malaysia | May 11, 2016 : 6:00 PM MYT

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BRAHIM's Holdings Bhd's latest tie-up with Bursa Malaysia-listed convenience store operator 7-Eleven Malaysia Holdi Bhd marks another step by the former to reduce its reliance on the aviation sector. Ideally, it hopes to increase the revenue contribution from its non-airline business to 30%, from 10%.

Recall that about a year ago, the group aborted plans to purchase the fast food chain Burger King franchise in Malaysi and Singapore after shareholders voted against the acquisition.

The memorandum of understanding (MoU), signed two weeks ago between Brahim's' 51%-owned Brahim's SATS Foo Services Sdn Bhd and 7-Eleven Malaysia, will see the former crafting ready-to-eat meals to be sold at 7-Eleven outlets locally.

The MoU adds that 7-Eleven Malaysia will provide a centralised distribution centre for Brahim's SATS to deliver the products manufactured and arrange for delivery.

However, the cost that both parties will incur has not been disclosed so far, except that it will be "funded on terms to b mutually agreed upon by the respective parties".

Market observers say there is a big market for ready-to-eat meals that has been left largely untapped so far. "Urbanite want quick but nourishing meals at affordable prices, especially during the weekdays. Even Japanese-based Family M is coming into the market soon. Brahim's already has the existing infrastructure to embark on this and its new partner SATS Ltd, which has experience in non-airline catering, will help greatly with the execution," says one of them.

At the end of last year, Brahim's accepted Singapore-listed SATS Ltd's offer to acquire a 49% stake in Brahim's Airline Catering Holdings Sdn Bhd for RM218 million cash. The acquisition was done by SATS Ltd's wholly-owned subsidiary SATS Investments Pte Ltd, an integrated food services company providing catering for both the aviation and non-aviat industries.

SATS Ltd has a presence in 44 airports in 12 countries.

The ready-to-eat meals will carry the 7-Eleven brand, and Brahim's SATS' involvement will only be noticeable as the manufacturer on the product packaging.

According to Hong Leong Investment Bank (HLIB) research, the sole research house covering the stock, the initial pha aims to see Brahim's SATS supplying to around 20 7-Eleven outlets in the Klang Valley and Penang.

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People familiar with Brahim's expect the ready-to-eat meals to gain traction quickly, given 7-Eleven's extensive coverage and high crowd density.

HLIB Research, which is positive on Brahim's' ongoing initiative to diversify from airline catering, expects Brahim's SATS to be able to cater for at least 100 7-Eleven stores by the end of Brahim's' financial year ending Dec 31, 2016.

A hundred 7-Eleven outlets would only be equivalent to 5% of the existing stores. 7-Eleven currently has 1,944 stores throughout Malaysia and plans to add another 200 this year. HLIB says 35% of its stores are located in the Klang Valley.

The research house estimates that Brahim's SATS venture into 7-Eleven stores could generate potential revenue of RM800,000 to RM1.3 million for the financial year ending Dec 31, 2016.

"Whilst contribution of this supply deal is still immaterial at this juncture, there is tremendous potential for Brahim's SATS and 7-Eleven to scale this partnership to cater for existing stores in the urban areas. Our back-of-the envelope calculation implies that this venture could potentially add 3% to 9% to Brahim's' future annual revenue," HLIB Research.

Brahim's was in the red for three consecutive quarters in 2015. However, its net loss for the financial year ended Dec 31, 2015, shrank significantly to RM15.73 million from RM33.59 million in the previous year.

Troubles for Brahim's started with the restructuring of Malaysia Airlines, aimed at bringing the ailing national air carrier back to profitability. The restructuring plan included the renegotiation of the airline's supply contract. Brahim's' 70%-owned subsidiary Brahim's Airline Catering Sdn Bhd was the exclusive in-flight caterer for the airline.

Subsequently, through a series of long-drawn-out negotiations, Brahim's Airline Catering signed a settlement agreement with Malaysia Airlines Bhd (MAB), which saw a write-off of RM74 million in FY2014 for Brahim's.

Since trouble started brewing at MAB, Brahim's has been looking to diversify into other areas of the food supply chain. More than 90% of the group's revenue is derived from its in-flight catering and related services.

Ideally, it is looking to derive about 30% of its revenue from its non-airline catering business, according to those familiar with Brahim's. The group is also looking to keep its in-flight catering and related services as its core business and has plans to expand into overseas airports for halal meals with its new partner SATS Ltd.

"The targets are the Middle East airports requiring the halal element of Brahim's' products and also other Asian airports where SATS does not have a presence yet," say an industry observer.

Brahim's' share price has shed 8% since the beginning of the year, from RM1.04 on Jan 4 to 95 sen last Thursday, for a market capitalisation of RM223.3 million.