



## DTS8 Coffee Company, Ltd. (OTCBB: BKCT, Target Price: \$0.67)

DTS8 is engaged in the roasting, marketing and sale of gourmet roasted coffee to customers in Shanghai and other parts of China. The company sells gourmet roasted coffee under the "DTS8 Coffee" and private label brands through distribution channels that reach consumers at restaurants, multi-location coffee shops and offices.

- 2QFY15 reported revenues were \$85.8k, up 21% compared to 2QFY14. Revenues for six months ended October 2014 increased 22% to \$174k
- Gross profit margin (GPM) was 39.7% for 2QFY15, down from 42% in 2QFY14. 6MFY15 GPM was 37% compared to 39% in 6MFY14.
- Net/Operating loss for 2QFY15 was \$205.7k compared to the net/operating loss of \$94.5k in 2QFY14.
- Adjusted EBITDA came in at \$109k for 2QFY15 compared to \$76k in 2QFY14.

### Performance Highlights

#### Robust growth in revenues

DTS8 reported a robust 22% growth in fresh roasted coffee revenues for 6MFY15 to \$174k, attributable to increase in sales volume to existing and new wholesale customers. Growth in sales volume was due to increased sales efforts, opening up of its first 'Café de la DON MANUEL' coffee café in October 2014, and continued favorable trends for coffee consumption in China. Gross margins dropped marginally to 37% in 6MFY15 compared to 39% in 6MFY14, due to increase in raw coffee prices during the period. Operating loss widened to \$206k for 6MFY15, primarily attributable to higher G&A and marketing expenses.

#### Continued expansion

DTS8 continues to pursue efforts for expanding the DTS8 gourmet coffee brands to penetrate and capture new market segments. Historically, the company's core business revenue has been derived from coffee wholesale in China. Hence, new growth will come largely from marketing to retail distribution channels, specialty gourmet coffee shops, and online, as well as to hotel, office and restaurant accounts. During the period ended October 31, 2014, DTS8 entered into a Trademark License Agreement with the Federación Nacional de Cafeteros del Colombia/ Colombian Coffee Growers Federation (FNC), pursuant to which FNC granted a license to use the triangular logo representing Juan Valdez® and his mule 'Conchita' to identify the Don Manuel brand as "100% Colombian coffee" in China. During the quarter, the company opened a sales office in Shanghai to assist with increased marketing of DTS8 coffee. In October 2014, the company's JV opened its first 'Café de la DON MANUEL' coffee café located at 150 East Jing Ling Road, Shanghai, China. The JV plans to open 5 more shops in the first quarter of calendar year 2015. In May 2014, DTS8 announced that DTS8 Coffee is served at the prestigious Morton's of Chicago Steakhouse in Shanghai, and in Feb 2014, the company entered the online coffee market by introducing its artisan roasted coffees for sale on numerous Chinese e-commerce websites.

#### Maintaining price target of \$0.67

We view DTS8 as an attractive play in the roasted coffee market in China and well positioned to capture a larger share of the booming coffee market there. Our price target remains \$0.67, representing an upside of 260% from the recent price of \$0.19.

### Stock Details (12/23/14)

OTCBB:	BKCT
Sector / Industry	Consumer goods/Coffee
<b>Price target</b>	<b>\$0.67</b>
Recent share price	\$0.19
Shares o/s (mn)	33.4
Market cap (in \$mn)	6.2
52-week high/low	\$ 0.59 / 0.07

Source: Bloomberg, SeeThruEquity Research

### Key Financial (\$mn, unless specified)

	FY14A	FY15E	FY16E
Revenues	0.3	0.9	2.3
EBITDA	(2.3)	(0.8)	(0.3)
EBIT	(2.3)	(0.8)	(0.3)
Net Income	(2.3)	(0.8)	(0.3)
EPS (\$)	(0.09)	(0.02)	(0.01)

Source: SeeThruEquity Research

### Key Ratios

	FY14A	FY15E	FY16E
Gross margin (%)	40.6	32.0	33.0
Operating margin (%)	(744.6)	(83.2)	(13.6)
EBITDA margin (%)	(738.1)	(81.4)	(12.8)
Net margin (%)	(744.6)	(83.2)	(13.6)
P/Revenue (x)	20.0	6.7	2.7
EV/EBITDA (x)	(2.7)	(8.1)	(20.6)
EV/Revenue (x)	19.9	6.6	2.6

Source: SeeThruEquity Research

### Share Price Performance (\$, LTM)



Source: Bloomberg

**Figure 1. Income Statement Summary**

<b>Figures in \$ unless specified</b>	<b>2QFY15</b>	<b>2QFY14</b>	<b>6MFY15</b>	<b>6MFY14</b>	<b>FY2014</b>	<b>FY2013</b>
<b>Revenues</b>	<b>85,776</b>	<b>70,880</b>	<b>173,839</b>	<b>142,235</b>	<b>310,003</b>	<b>253,790</b>
YoY growth	21%		22%		22%	
<b>Gross Profit</b>	<b>34,021</b>	<b>29,766</b>	<b>64,489</b>	<b>55,246</b>	<b>125,778</b>	<b>42,333</b>
YoY Growth	14%		17%		197%	
<b>Operating loss</b>	<b>205,682</b>	<b>-94,471</b>	<b>-439,471</b>	<b>-158,513</b>	<b>2,308,162</b>	<b>-615,871</b>
YoY growth	-118%		-177%		-275%	
<b>Net loss</b>	<b>205,682</b>	<b>-94,471</b>	<b>-439,471</b>	<b>-158,513</b>	<b>2,308,162</b>	<b>1,115,911</b>
YoY growth	-118%		-177%		-107%	
<b>EPS (\$)</b>	<b>-0.01</b>	<b>-0.004</b>	<b>-0.01</b>	<b>-0.006</b>	<b>-0.09</b>	<b>-0.07</b>
YoY growth	-74%		-129%		-26%	

Source: Company filings, SeeThruEquity Research

### **ADDITIONAL NOTES:**

#### **FNC license agreement and opening of first DON MANUEL shop highlight recent news:**

- On October 28, 2014, DTS8 announced a Trademark License Agreement with the Federación Nacional de Cafeteros del Colombia/Colombian Coffee Growers Federation (FNC), pursuant to which the company has been granted a license to use the triangular logo representing Juan Valdez® and his mule 'Conchita' to identify "Don Manuel brand as "100% Colombian coffee" in China.
- On October 22, 2014, the company's JV opened its first 'Café de la DON MANUEL' coffee café located at 150 East Jing Ling Road, Shanghai, China. The café will sell the 100% Colombian coffee imported and roasted by DTS8's master roaster at DTS8's coffee roasting facility in Huzhou, Zhejiang province, China. The JV plans to open 5 more shops in the first quarter of calendar year 2015.

#### **Maintaining price target of \$0.67:**

We are maintaining our price target of \$0.67 and view DTS8 as an attractive play in the rapidly growing coffee market in China. We are optimistic about DTS8's immediate prospects and project a 200% increase in revenues to \$900k in FY2015E over FY2014, which will be driven by robust coffee demand in China coupled with increasing marketing efforts and the expected opening of numerous retail coffee shops in calendar year 2015 as part of the company's JV with DON MANUEL.



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