

Cafe De Coral (341 HK)

Gaining market share under a weak macro

FY24 results were decent. However, given such macro weakness (CDC has actually outperformed the industry), we have to trim our earnings forecast. But because of our high hope of the new management, CDC's defensive nature and its attractive dividend yield, we maintain BUY.

■ **HK market:** While the industry recovery is slower than expected, CDC has outperformed, but we have become slightly more prudent about margins. Under the current macro headwinds (high interest rates, ongoing stress in the property market, more Hongkongers travelling abroad or to mainland China), recovery of both HK retail sales and catering sales has been weaker than expected. However, in terms of segment, fast food is already the most resilient, which had a recovery rate of 102% during Jan-Feb 2024 (vs 2019), much higher than Chinese/ non-Chinese restaurants/ overall market's 75%/ 91%/ 87%. On top of that, CDC has also started to reclaim its market share in 2H24, vs 1H24, in our view, due to launches of more innovative products and better marketing. CDC's SSS recovery rate was still quite resilient, at 88% in FY24, but given all the macro headwinds (management did mention a negative SSSG in Apr-May 2024 and potential room for ASP increase may be limited), we are more prudent than before and expect a SSS recovery rate of only 88%/ 90% for 1H25E/ 2H25E (equivalent to 0%/ 2% SSSG, while acceleration into 2H25E is likely, thanks to boosts from HK government on rolling out more "mega events"). Noted that the weakness from casual dining could be offset by the robust growth from institutional catering (sales jumped by 18% in FY24 and more new clients were signed). For margins, we do think the initiatives are still there (ASP hikes, menu innovations, refined sourcing, greater use of mobile apps and kiosks orderings, etc.), but since more discounts could be offered to boost customer traffic and the level of operating leverage could be less, we are now slightly more conservative on its FY25E/ 26E margin target (HSD pre-tax margin and net profit margin).

■ **Mainland China market:** Remarkable growth given the macro weakness. Mainland China market sales increased by 15% YoY in FY24, driven by a highly impressive SSSG of 11% and store number growth of 12%. Moreover, its EBIT margin returned to double digits (at 12%) and much higher than HK market's 9%. SSS recovery rate already reached 102%, which is actually better than most of its listed peers (except DPC or HDL). We attribute such performance to its excellent tastes, cozy store environment and localized marketing, etc. Going forward, thanks to decent momentum of its new store SSSG and rapid store expansion (aiming for 20 new stores), we do expect its SSS recovery rate to further increase to 106% in FY25E (equivalent to 4% SSSG).

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	8,024	8,691	9,062	9,693	10,400
YoY growth (%)	6.9	8.3	4.3	7.0	7.3
Operating profit (HK\$ mn)	203.8	452.8	568.7	661.5	760.6
Net profit (HK\$ mn)	111.2	333.2	384.6	456.0	532.1
EPS (Reported) (HK\$)	0.19	0.57	0.66	0.78	0.91
YoY growth (%)	419.0	199.4	15.4	18.5	16.7
P/E (x)	45.8	15.3	13.2	11.2	9.6
P/B (x)	1.8	1.7	1.7	1.7	1.6
Yield (%)	4.4	6.0	7.6	9.0	10.6
ROE (%)	4.0	11.7	13.1	15.2	17.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$11.15
(Previous TP)	HK\$14.82)
Up/Downside	28.4%
Current Price	HK\$8.68

China Consumer Discretionary

Walter WOO
(852) 3761 8776
walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	5,083.9
Avg 3 mths t/o (HK\$ mn)	8.4
52w High/Low (HK\$)	10.90/7.78
Total Issued Shares (mn)	585.7

Source: FactSet

Shareholding Structure

Lo Tak Shing	16.1%
Lo Hoi Kwong	11.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.6%	6.2%
3-mth	-1.1%	-7.8%
6-mth	-4.8%	-10.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **FY24 results in line while dividend payout is a small beat.** CDC's sales increased by 8% YoY to HK\$ 8.7bn in FY24, slightly below CMBI est. of 10%, mainly due to slower-than-expected HK market SSSG (at 3% vs CMBI est. of 4.5%). Apart from that, net profit surged by 200% YoY to HK\$ 331mn, in line with previous positive profit alert, and such a strong rebound was a result of: 1) speed-up in SSSG, 2) meaningful GP margin expansion (ASP hiked to around HK\$ 43), 3) relatively stable labour costs and greater use of digitalization and automation, and 4) limited increase in rental expenses (up only around 3%). Noted that a final DPS of HK\$ 42 cents was declared, implying a payout ratio of 101% (slightly better than CMBI est. of 90%), hence the historical yield is now at around 7%. However, we do have to beware of the weakened trend in 2H24, as the SSSG started to slow down. In terms of segment, the sales growth of HK QSR/ casual dining/ institutional catering all slowed down to +5%/ -3%/ +16% in 2H24, from +9%/ +9%/ +21% in 1H24.
- **Store expansion plan should be largely unchanged.** CDC had 4/ 18 net openings in HK/mainland China in FY24, roughly in line with guidance of 5/ 20. And we do expect a similar pace of store expansion (~5 to 10/ ~20 in HK/ mainland China) in FY25E.
- **Maintain BUY but trim TP to HK\$ 11.15.** We revise down our FY25E/ 26E net profit forecasts by 20%/ 22%, to factor in: 1) slower-than-expected SSSG, 2) weaker-than-expected operating leverage, and 3) slightly higher-than-expected impairment losses. We maintain BUY and cut its TP to HK\$ 11.15, based on 17x FY25E P/E (trimmed from 18x). The stock is now trading at 13x FY25E P/E and has an 8% yield.

Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,062	9,693	10,400	9,516	10,259	n/a	-4.8%	-5.5%	n/a
Gross profit	1,109	1,235	1,361	1,160	1,333	n/a	-4.4%	-7.4%	n/a
EBIT	569	661	761	613	750	n/a	-7.2%	-11.8%	n/a
Net profit att.	381	452	528	479	582	n/a	-20.4%	-22.3%	n/a
Diluted EPS (HK\$)	0.66	0.78	0.91	0.82	1.00	n/a	-20.4%	-22.3%	n/a
Gross margin	12.2%	12.7%	13.1%	12.2%	13.0%	n/a	0.1ppt	-0.3ppt	n/a
EBIT margin	6.3%	6.8%	7.3%	6.4%	7.3%	n/a	-0.2ppt	-0.5ppt	n/a
Net profit att. margin	4.2%	4.7%	5.1%	5.0%	5.7%	n/a	-0.8ppt	-1ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,062	9,693	10,400	9,439	10,156	n/a	-4.0%	-4.6%	n/a
Gross profit	1,109	1,235	1,361	1,191	1,285	n/a	-6.8%	-3.9%	n/a
EBIT	569	661	761	627	725	n/a	-9.2%	-8.7%	n/a
Net profit att.	381	452	528	475	570	n/a	-19.7%	-20.6%	n/a
Diluted EPS (HK\$)	0.66	0.78	0.91	0.81	0.98	n/a	-19.3%	-20.4%	n/a
Gross margin	12.2%	12.7%	13.1%	12.6%	12.7%	n/a	-0.4ppt	0.1ppt	n/a
EBIT margin	6.3%	6.8%	7.3%	6.6%	7.1%	n/a	-0.4ppt	-0.3ppt	n/a
Net profit att. margin	4.2%	4.7%	5.1%	5.0%	5.6%	n/a	-0.8ppt	-0.9ppt	n/a

Source: Company data, Bloomberg, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY23A	FY24A	FY25E	FY26E	FY27E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	5,672	6,158	6,402	6,753	7,187
HK Fast Casual & Casual Dining	858	879	835	902	956
Food Processing & Distribution	170	139	125	132	138
Mainland China	1,324	1,515	1,700	1,907	2,119
Total	8,024	8,691	9,062	9,693	10,400
Growth (%)					
HK QSR & Institutional Catering	8%	9%	4%	5%	6%
HK Fast Casual & Casual Dining	11%	2%	-5%	8%	6%
Food Processing & Distribution	15%	-18%	-10%	5%	5%
Mainland China	-1%	14%	12%	12%	11%
Total	7%	8%	4%	7%	7%
GP margin	8.8%	11.4%	12.2%	12.7%	13.1%
Costs breakdown					
Costs of raw materials	28.8%	27.4%	27.0%	27.0%	27.0%
Depreciation	4.7%	4.3%	4.6%	4.5%	4.3%
Operating lease rentals	11.5%	11.4%	11.3%	11.5%	11.6%
Employee benefit expenses	33.4%	33.1%	33.1%	32.7%	32.4%
OP margin	2.5%	5.2%	6.3%	6.8%	7.3%
Effective tax rate	22.9%	14.5%	14.5%	14.5%	14.5%
NP att. margins	1.4%	3.8%	4.2%	4.7%	5.1%
NP att. growth (%)	420.2%	199.5%	15.4%	18.5%	16.7%
Sales network by region					
HK QSR & Institutional Catering	310	318	326	334	342
HK Fast Casual Dining	66	62	62	67	72
Mainland China	153	171	191	216	241
Total	529	551	579	617	655
SSSG by segment					
HK Café de Coral	1.0%	3.0%	1.0%	3.0%	3.0%
HK Super Super Congee & Noodles	2.0%	6.0%	2.5%	2.0%	2.0%
Mainland China Café de Coral	-4.0%	11.0%	4.0%	3.0%	3.0%

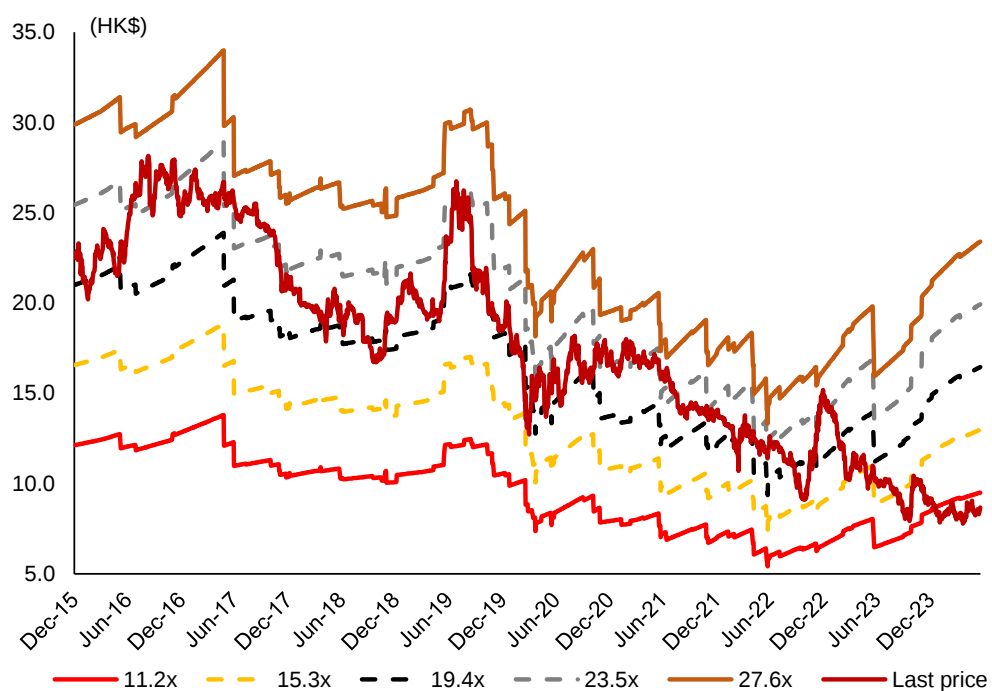
Source: Company data, CMBIGM estimates

Valuation

Figure 4: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$ mn)	Year End	P/E (x) FY1E	P/E (x) FY2E	P/B (x) FY1E	ROE (%) FY1E	3yrs PEG (x) FY1E	Yield (%) FY1E	YTD per. (%) FY1E
Leading Greater China Restaurants and Food Ingredients														
Cafe De Coral	341 HK	BUY	11.15	8.68	28%	5,084	Mar-24	13.2	11.2	1.7	11.6	0.8	7.6	(3.7)
Haidilao	6862 HK	BUY	21.52	16.36	32%	91,191	Dec-23	16.5	14.7	5.9	47.4	1.6	3.6	12.5
Jiumaojiu	9922 HK	BUY	8.39	4.35	93%	6,249	Dec-23	9.8	7.7	1.5	13.9	0.4	3.9	(28.7)
Nayuki	2150 HK	BUY	3.43	2.33	47%	3,996	Dec-23	30.9	14.9	0.7	0.3	0.2	1.7	(26.5)
Dpc	1405 HK	BUY	73.05	59.05	24%	7,700	Dec-23	138.9	53.6	3.6	(1.9)	(0.5)	n/a	(4.7)
Helens	9869 HK	NR	n/a	2.52	n/a	3,189	Dec-23	11.3	9.0	1.6	9.9	0.4	5.6	(27.3)
Xiabuxiabu	520 HK	BUY	4.89	1.54	218%	1,673	Dec-23	13.2	6.7	0.9	(15.0)	(0.1)	3.5	(36.4)
Tam Jai	2217 HK	NR	n/a	1.06	n/a	1,428	Mar-24	11.2	10.3	1.5	7.8	1.1	8.2	(15.9)
Yihai	1579 HK	NR	n/a	14.34	n/a	14,866	Dec-23	14.0	12.5	2.6	18.7	1.5	5.5	15.6
Yum China	9987 HK	BUY	348.13	264.60	32%	102,660	Dec-23	15.4	13.6	2.0	13.2	1.2	1.8	(20.3)
Gourmet Master	2723 TT	NR	n/a	91.70	n/a	3,983	Dec-23	17.9	14.2	1.3	6.0	0.9	4.6	(9.7)
Avg.								26.6	15.3	2.1	10.2	0.7	4.6	(13.2)
Med.								14.0	12.5	1.6	9.9	0.8	4.2	(15.9)
International Restaurants and Food Ingredients														
Yum! Brands	YUM US	NR	n/a	136.79	n/a	300,903	Dec-23	24.1	21.5	n/a	n/a	3.0	1.9	4.7
Mcdonald's	MCD US	NR	n/a	253.58	n/a	1,427,409	Dec-23	20.8	19.1	n/a	n/a	2.9	2.7	(14.5)
Starbucks Corp	SBUX US	NR	n/a	79.65	n/a	704,678	Oct-23	22.2	19.5	n/a	n/a	2.7	2.9	(17.0)
Rest. Brands	QSR US	NR	n/a	68.90	n/a	247,080	Dec-23	20.3	17.7	6.5	44.4	5.2	3.4	(11.8)
Chipotle Mexican	CMG US	NR	n/a	3271.7	n/a	701,909	Dec-23	59.0	48.9	24.0	44.4	2.8	0.0	43.1
Darden Rest.	DRI US	NR	n/a	148.78	n/a	138,704	May-23	16.9	15.4	7.9	49.0	1.8	3.5	(9.4)
Domino's Pizza	DPZ US	NR	n/a	521.41	n/a	142,052	Dec-23	32.8	28.9	n/a	n/a	3.0	1.1	26.5
Wendy's Co	WEN US	NR	n/a	16.68	n/a	26,725	Dec-23	16.7	15.3	12.7	57.9	2.0	6.1	(14.4)
Shake Shack	SHAK US	NR	n/a	89.00	n/a	29,500	Dec-23	121.3	88.6	7.5	5.7	3.0	n/a	20.1
Wingstop	WING US	NR	n/a	398.79	n/a	91,482	Dec-23	116.2	95.5	n/a	n/a	3.8	0.2	55.4
Jollibee Foods	JFC PM	NR	n/a	219.00	n/a	32,689	Dec-23	26.4	22.7	3.0	11.7	1.4	1.3	(12.9)
Avg.								43.3	35.7	10.3	35.5	2.9	2.3	6.3
Med.								24.1	21.5	7.7	44.4	2.9	2.3	(9.4)
H-shares Consumer Staples														
UPC	220 HK	NR	n/a	7.44	n/a	32,136	Dec-23	16.7	15.2	2.2	12.6	2.0	6.1	34.1
Tingyi	322 HK	NR	n/a	9.56	n/a	53,864	Dec-23	14.7	13.2	3.5	22.9	1.7	7.0	3.5
Want Want China	151 HK	NR	n/a	4.40	n/a	51,973	Mar-23	12.5	11.6	2.9	25.0	1.7	5.3	(6.8)
China Mengniu	2319 HK	NR	n/a	13.14	n/a	51,710	Dec-23	8.8	7.8	1.0	11.4	0.8	4.8	(37.4)
Vitasoy	345 HK	NR	n/a	6.52	n/a	6,995	Mar-23	60.4	28.0	2.3	2.1	0.6	1.0	(16.2)
Nongfu Spring	9633 HK	NR	n/a	39.75	n/a	447,047	Dec-23	30.4	26.5	12.1	45.9	2.3	2.2	(12.0)
Tsingtao Brewery	168 HK	NR	n/a	54.80	n/a	95,598	Dec-23	14.0	12.5	2.4	15.7	1.2	4.4	4.6
CR Beer	291 HK	NR	n/a	29.55	n/a	95,865	Dec-23	14.6	12.6	2.6	18.0	1.0	3.0	(12.8)
Budweiser Brew	1876 HK	NR	n/a	9.13	n/a	120,912	Dec-23	15.0	13.1	1.4	7.9	1.0	4.6	(37.6)
Avg.								20.8	15.6	3.4	17.9	1.4	4.3	(9.0)
Med.								14.7	13.1	2.4	15.7	1.2	4.6	(12.0)

Source: Bloomberg, CMBIGM estimates

Figure 5: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Revenue	7,509	8,024	8,691	9,062	9,693	10,400
Cost of goods sold	(6,961)	(7,321)	(7,702)	(7,953)	(8,459)	(9,038)
Gross profit	548	703	989	1,109	1,235	1,361
Operating expenses	(417)	(499)	(536)	(540)	(573)	(601)
Admin expense	(459)	(486)	(503)	(517)	(550)	(577)
Others	42	(13)	(33)	(24)	(24)	(24)
Operating profit	131	204	453	569	661	761
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	493	582	826	986	1,097	1,215
Depreciation	(362)	(378)	(373)	(415)	(433)	(452)
Depreciation of ROU assets	(15)	(17)	(21)	(21)	(21)	(21)
Other amortisation	(0)	(0)	(0)	(3)	(3)	(2)
Interest income	(80)	(60)	(63)	(119)	(128)	(139)
Pre-tax profit	51	144	390	450	533	622
Income tax	(28)	(33)	(56)	(65)	(77)	(90)
Minority interest	2	1	3	3	4	4
Net profit	23	111	333	385	456	532

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Current assets	2,152	2,128	1,707	1,911	2,156	2,408
Cash & equivalents	1,586	1,672	1,261	1,448	1,662	1,879
Account receivables	200	138	153	159	170	182
Inventories	304	268	230	238	253	270
Prepayment	55	45	63	65	70	75
ST bank deposits	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	8	5	1	1	1	1
Non-current assets	4,720	5,048	4,807	4,710	4,618	4,534
PP&E	1,586	1,618	1,553	1,452	1,363	1,281
Deferred income tax	68	63	66	10	10	10
Intangibles	1	1	1	1	1	1
Other non-current assets	3,065	3,366	3,187	3,246	3,244	3,242
Total assets	6,872	7,175	6,514	6,621	6,774	6,942
Current liabilities	1,726	2,780	1,908	1,949	2,022	2,103
Account payables	167	226	211	218	231	247
Tax payable	14	14	39	39	39	39
Other current liabilities	1,544	2,539	1,658	1,693	1,751	1,817
Non-current liabilities	2,319	1,603	1,695	1,695	1,695	1,695
Other non-current liabilities	2,319	1,603	1,695	1,695	1,695	1,695
Total liabilities	4,045	4,383	3,603	3,645	3,717	3,798
Share capital	59	59	59	59	59	59
Capital surplus	621	621	621	621	621	621
Retained earnings	1,755	1,680	1,746	1,782	1,830	1,881
Other reserves	384	424	474	501	530	561
Total shareholders equity	2,819	2,784	2,900	2,962	3,040	3,122
Minority interest	8	8	11	14	18	22
Total equity and liabilities	6,872	7,175	6,514	6,621	6,774	6,942

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	51	144	390	450	533	622
Depreciation & amortization	1,110	1,177	373	418	435	454
Tax paid	9	(28)	(56)	(65)	(77)	(90)
Change in working capital	(166)	278	(4)	25	41	46
Others	160	127	100	151	162	175
Net cash from operations	1,164	1,699	803	978	1,095	1,207
Investing						
Capital expenditure	(492)	(462)	(318)	(332)	(355)	(380)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	36	54	872	817	807	797
Net cash from investing	(456)	(407)	554	485	453	417
Financing						
Dividend paid	(221)	(163)	(252)	(346)	(404)	(477)
Net borrowings	(100)	(100)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(26)	0	0	0	0	0
Others	(860)	(930)	(930)	(930)	(930)	(930)
Net cash from financing	(1,207)	(1,193)	(1,181)	(1,276)	(1,333)	(1,406)
Net change in cash						
Cash at the beginning of the year	2,073	1,586	1,684	1,860	2,047	2,261
Exchange difference	11	0	0	0	0	0
Others	(498)	99	176	187	214	217
Cash at the end of the year	1,586	1,684	1,860	2,047	2,261	2,479
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Revenue	11.8%	6.9%	8.3%	4.3%	7.0%	7.3%
Gross profit	46.0%	28.3%	40.8%	12.1%	11.3%	10.2%
Operating profit	(72.3%)	55.4%	122.1%	25.6%	16.3%	15.0%
EBITDA	(40.2%)	18.0%	42.0%	19.4%	11.2%	10.8%
Net profit	(93.7%)	386.6%	199.7%	15.4%	18.5%	16.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Gross profit margin	7.3%	8.8%	11.4%	12.2%	12.7%	13.1%
Operating margin	1.7%	2.5%	5.2%	6.3%	6.8%	7.3%
EBITDA margin	6.6%	7.3%	9.5%	10.9%	11.3%	11.7%
Return on equity (ROE)	0.8%	4.0%	11.7%	13.1%	15.2%	17.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Current ratio (x)	1.2	0.8	0.9	1.0	1.1	1.1
Receivable turnover days	9.7	6.3	6.4	6.4	6.4	6.4
Inventory turnover days	15.9	13.4	10.9	10.9	10.9	10.9
Payable turnover days	8.8	11.3	10.0	10.0	10.0	10.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
P/E	237.4	45.8	15.3	13.2	11.2	9.6
P/E (diluted)	237.4	45.8	15.3	13.2	11.2	9.6
P/B	1.8	1.8	1.7	1.7	1.7	1.6
P/CFPS	4.3	3.0	6.3	5.2	4.6	4.2
Div yield (%)	3.3	4.4	6.0	7.6	9.0	10.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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