

DPC Dash (1405 HK)

Value, delivery and new markets-driven growth

We initiate coverage on DPC Dash with BUY and TP based on a 2.3x FY24E P/S, and put it as our sector top pick. We forecast 36% sales CAGR in FY22-25E and 0%/ 3% adj. NP margin in FY24E/25E, driven by rapid store expansion and store ramp-up in new growth markets. Moreover, Domino's Pizza has managed to capture the No.1 or No. 2 spot in Japan, South Korea and the Taiwan region, hence for the mainland China, we do expect it to surpass Champion Pizza (with over 2,200 stores) in long run. Current valuation of 1.8x FY24E is not demanding.

- **DPC Dash is the sole distributor of Domino's Pizza and the 3rd largest Pizza brand in China.** It had 588 restaurants, and generated RMB2.0bn sales (around 5.3% market share) and RMB223mn net losses in FY22. The real growth came after 2017, with a new management team plus a more localized, technology and delivery-centric strategy and expansion to new markets, driving stores/ sales CAGRs as fast as 30%/ 34% during FY19 to FY22.
- **Excellent tastes with great value.** We believe Domino's is highly competitive in China, supported by its cheaper price (roughly 20% discounts to Pizza Hut's) and better tastes, services and environment (customer rating from dianping.com was at 4.4 vs Pizza Hut's 4.1 and peers' average of 4.2).
- **A delivery expert with more delicious pizza, better growth and margin.** The 30mins delivery promise (90% orders were delivered within 24 mins by its own riders) not only provides customers with more tasty products but also generates a faster SSSG (3-years average was 14% vs Pizza Hut's 4%) and a higher margin (smaller store size, cheaper rent and lower D&A expenses).
- **New growth markets are not just successful, but also sources of future SSSG and store expansion.** Daily sales per store in new growth markets was only at RMB11.3K (vs Beijing and Shanghai's RMB13K) in 1H23 and we do expect a catch-up to RMB12.4K by FY25E (SSSG could stay fast as delivery sales mix was still low at 48% in 1H23). Also, we think potential store counts can be huge based on: 1) mind shares, 2) Pizza Hut's city penetration, and 3) store density and rank in Japan, South Korea and the Taiwan region.
- **We forecast 36% sales CAGR, adj. NP break even in FY24E and a 3% NP att. margin in FY25E.** Key drivers are: 1) expansion to new growth markets, 2) ramping up of new stores and operating leverage, 3) a drop in rental and staff to sales ratio by expanding to lower-tier cities and 4) a fall in headquarters costs ratio through economies of scale.
- **Initiate with BUY and TP of HK\$75.51, based on 2.3x FY24E P/S, around 6% discounts to the average of other listed Domino's Pizza distributors (2.5x FY24E P/S).** We do think DPC Dash deserves a premium valuation over catering industry average of 1.5x FY24E P/S or Domino's Pizza Group (DOM LN)'s 2.1x and Domino's Pizza Enterprises' (DMP US)'s 1.7x, supported by: 1) faster sales CAGR, 2) a more sizable addressable market in China and 3) a faster growth environment as the development stage in China is still early.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,611	2,021	2,898	3,782	5,042
YoY growth (%)	45.9	25.4	43.4	30.5	33.3
Net income (RMB mn)	-471	-223	-30	-23	130
Diluted EPS (RMB)	(5.419)	(2.338)	(0.261)	(0.180)	0.998
YoY growth (%)	74.6	(60.6)	(88.7)	(31.2)	(654.6)
Consensus EPS (RMB)			(0.828)	(0.085)	1.060
P/E (x)	(9.1)	(23.0)	(204.0)	(296.3)	53.4
P/S (x)	2.7	2.5	2.1	1.8	1.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	1.6	8.9	11.9	(3.3)	17.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price	HK\$75.51
Up/Downside	+25.2%
Current Price	HK\$60.30

China Catering Sector

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Stock Data

Mkt Cap (HK\$ mn)	7,840
Avg 3 mths t/o (HK\$ mn)	12.49
52w High/Low (HK\$)	77.3/ 42.0
Total Issued Shares (mn)	130.0

Source: Bloomberg

Shareholding Structure

Good taste Ltd.	33.5%
Domino's Pizza, Inc.	14.1%
Directors & other connected	47.6%
Free Float	15.0%

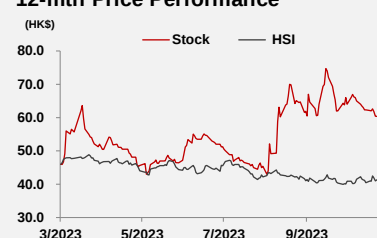
Source: Bloomberg, HKEx

Share Performance

	Absolute	Relative
1-mth	-1.6%	-4.7%
3-mth	33.3%	33.8%
6-mth	26.7%	40.6%
12-mth	n/a	n/a

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

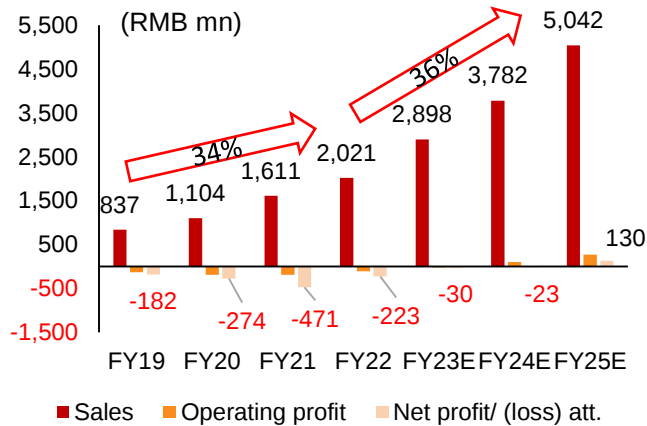
Auditor: PricewaterhouseCoopers

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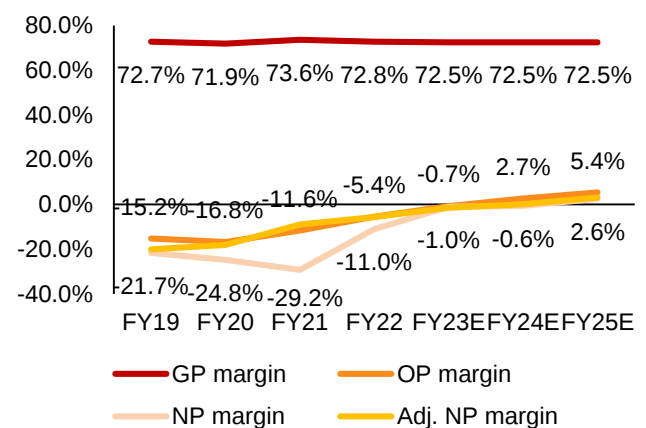
Focus Charts and Tables

Figure 1: Sales, operating income and NP att.



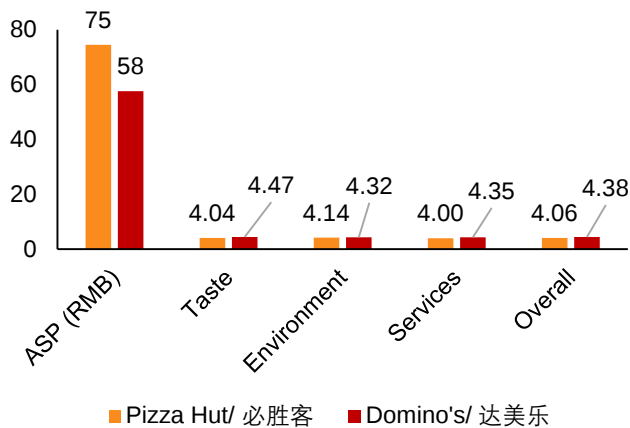
Source: Company data, CMBIGM estimates

Figure 2: GP/ OP/ NP att./ adj. NP margin



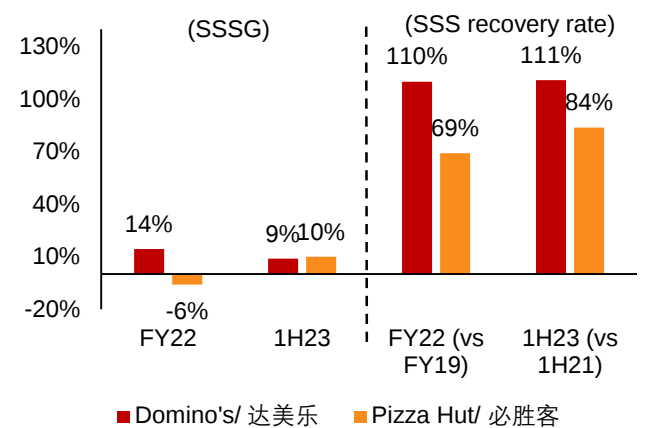
Source: Company data, CMBIGM estimates

Figure 3: Customer rating and ASP, by brand



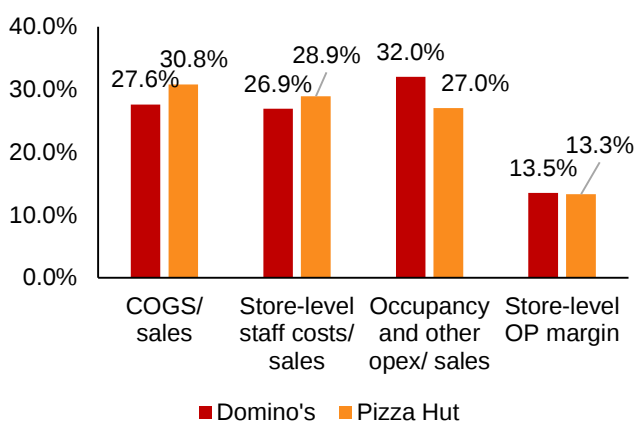
Source: dianping.com, company data, CMBIGM estimates

Figure 4: SSSG and SSS recovery, by brand



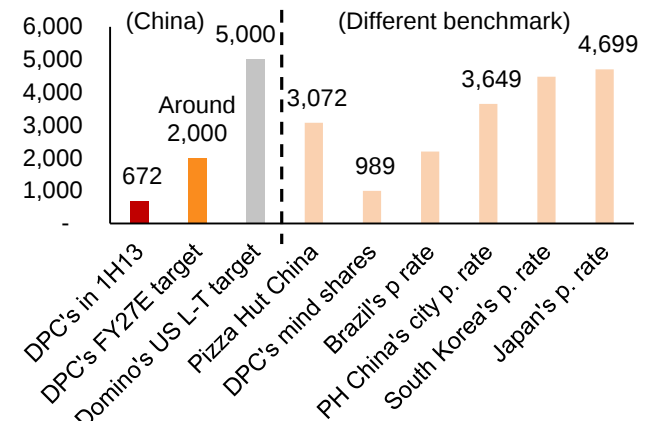
Source: Company data, CMBIGM estimates

Figure 5: Opex & store OP margin, by brand, in 1H23



Source: Company data, CMBIGM estimates, *accounting standard for DPC Dash is IFRS while Yum China is US GAAP, hence the margins might not be fully comparable

Figure 6: Domino's potential store counts, in 1H23



Source: Frost & Sullivan, survey by Pizza Hut and Yicai / 《经典势能·西式休闲餐饮趋势白皮书》, company data, CMBIGM estimates

Company Overview

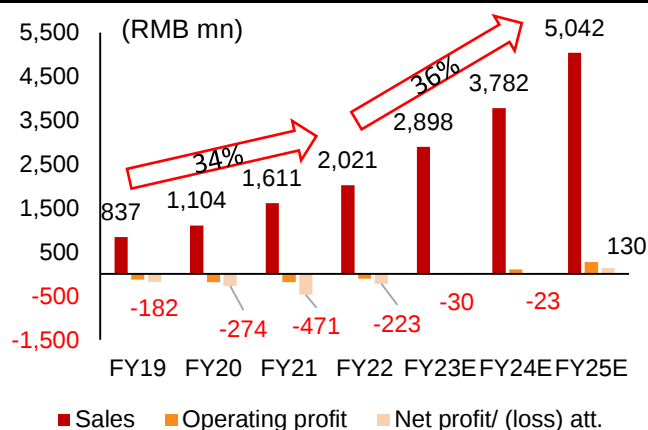
DPC Dash is the sole distributor of Domino's Pizza and the 3rd largest pizza brand in China.

DPC Dash (1405 HK), or "DPC", is the sole distributor of the Domino's brand in the US, which is also the 3rd largest pizza brand in China in terms of market share (about 5.3%) in 2022. Moreover, it had 588 restaurants in China, and generated RMB2.0bn sales and RMB223mn net losses during the year (due to the ramp-up of new growth markets).

Compared to peers like Pizza Hut, DPC is focusing more on delivery (sales mix was as high as 72%, vs Pizza Hut's 43% in FY22) and its price point is much more affordable (ASP is at RMB52, vs Pizza Hut's RMB75), according to Dianping.com.

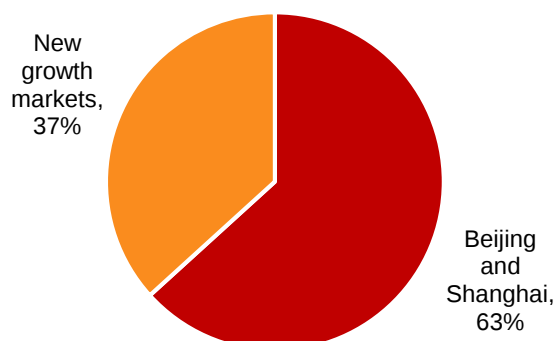
It was also named one of the 2023 Top 10 Most Favorite Brands in the food and beverage industry for Generation Z by China's *National Business Daily*.

Figure 7: Sales, operating income and NP att.



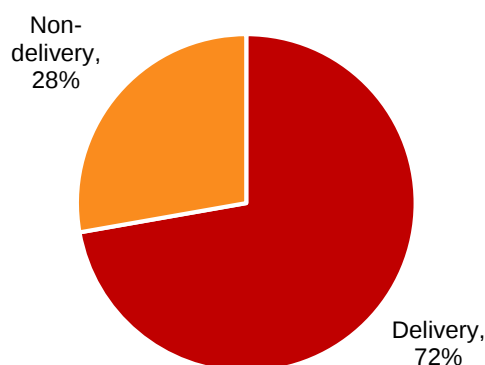
Source: Company data, CMBIGM estimates

Figure 8: Sales mix by region, in FY22



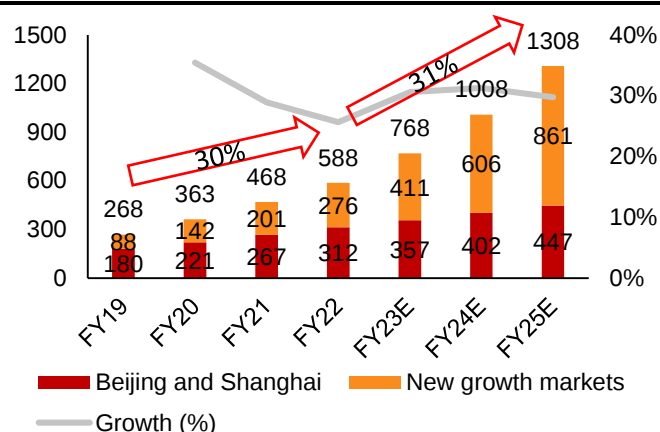
Source: Company data, CMBIGM

Figure 9: Sales mix by delivery/ non-delivery, in FY22



Source: Company data, CMBIGM

Figure 10: Number of stores by region and growth



Source: Company data, CMBIGM estimates

Pizza Hut entered the China market in 1992 and Domino's followed suit five years later in 1997. Initially, the license of Domino's China was initially owned by PizzaVest, a Taiwanese company that held the exclusive rights to operate in Beijing, Tianjin, Shanghai, Jiangsu Province and Zhejiang Province. But in 2010, DPC acquired PizzaVest, the distributor for Beijing, Tianjin, Shanghai, Jiangsu and Zhejiang markets. In 2017, DPC renewed the Master Franchise Agreement to have the rights to do business in the entire Mainland China, Hong Kong and Macau. The initial term was 10 years, which may be renewed at DPC's option for two additional 10-year terms, subject to the fulfillment of certain conditions.

From 2010 to 2017, the number of Domino's restaurants was less than 100, as the Company focused on Beijing and Shanghai. Since 2017, we think the most critical change/reform has taken place due to a shift of management, with Aileen Wang Yi joining the Company as CEO. She had worked for McDonald's (MCD US) for eight years before joining and her rich industry experience has substantially helped the growth of DPC.

Since then, with a greater level of localization (management, menu, etc.), a more delivery and technology-centric model and a rapid network expansion, DPC has experienced a massive jump in growth rate, with its store/sales CAGRs as high as 30%/34% during FY19 to FY22.

Figure 11: Market details for Top 5 Pizza brands in China, in 2022

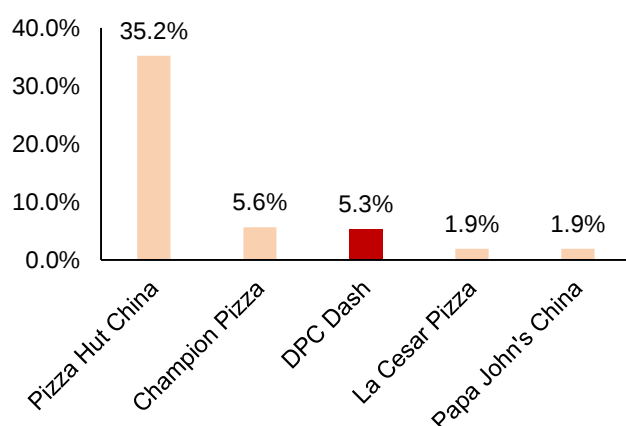
Ranking	Company	Sales (RMB bn)	Market share	Delivery sales (RMB bn)	Market share	Number of restaurants
1	Pizza Hut China	13.2	35.2%	5.7	26.1%	~2,900
2	Champion Pizza	2.1	5.6%	1.5	6.9%	~2,200
3	DPC Dash	2.0	5.3%	1.5	6.9%	588
4	La Cesar Pizza	0.7	1.9%	0.5	2.3%	~175
5	Papa John's China	0.7	1.9%	0.5	2.3%	~265
Top 5		18.7	49.9%	9.7	44.5%	
Others		18.8	50.1%	12.1	55.5%	
Total		37.5	100.0%	21.8	100.0%	

Source: Frost & Sullivan, company data, CMBIGM estimates

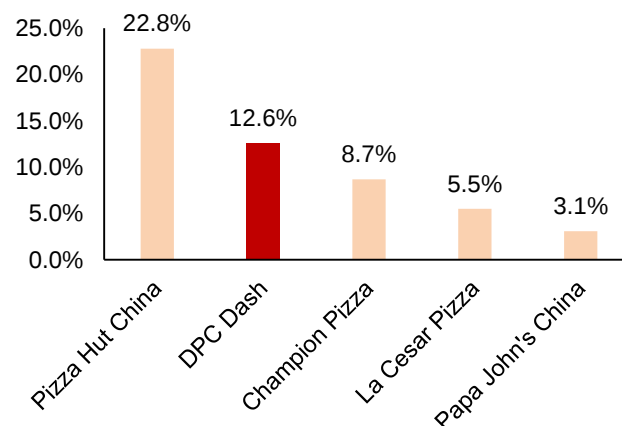
Figure 12: Market details for Top 5 Pizza brands in China's tier 1 cities, in 2022

Ranking	Company	Sales (RMB bn)	Market share	Delivery sales (RMB bn)	Market share
1	Pizza Hut China	2.9	22.8%	1.3	15.7%
2	DPC Dash	1.6	12.6%	1.2	14.5%
3	Champion Pizza	1.1	8.7%	0.9	10.8%
4	La Cesar Pizza	0.7	5.5%	0.5	6.0%
5	Papa John's China	0.4	3.1%	0.3	3.6%
Top 5		6.7	52.8%	4.2	50.6%
Others		6.0	47.2%	4.1	49.4%
Total		12.7	100.0%	8.3	100.0%

Source: Frost & Sullivan, company data, CMBIGM estimates

Figure 13: Market share of Top 5 pizza brands in China, in 2022


Source: Frost & Sullivan, company data, CMBIGM estimates

Figure 14: Market share of Top 5 pizza brands in China's tier 1 cities, in 2022


Source: Frost & Sullivan, company data, CMBIGM estimates

DPC's largest shareholder is James Leslie Marshall, a British citizen, the INED as well as Vice Chairman. He owns about 34% of total shares, through the Company "Good Taste". The second largest shareholder is actually its brand owner Domino's Pizza (DPZ US), which holds about 14% of the stakes.

DPC Dash (1405 HK) would usually pay Domino's Pizza (DPZ US) in three ways, namely:

- 1) one-off license fees for the entire brand in China (last contract renewal was in 2017, added Hong Kong and Macau markets, with fees already paid in 2021);
- 2) store opening fees (or store franchise fees) for new stores (an one-off payment when a new store is opened, max. payment is USD10K);
- 3) continual royalty fees (3% of sales for all stores in the mainland China, Hong Kong and Macau), according to the Master Franchise Agreement;
- 4) fees for the POS and payment system (about USD3K per store per year).

Figure 15: DPC Dash's milestones

Year	Key business milestones of DPC Dash
2010	·Acquired Pizzavest China Ltd, which was entitled to operate Domino's Pizza in Beijing, Tianjin, Shanghai, Jiangsu Province and Zhejiang Province in Dec
2016	·Expanded to Hangzhou and opened the first Domino's Pizza store outside Shanghai and Beijing
2017	·Aileen Wang joined us as CEO in May, strengthening the Company's senior leadership ·The Company renewed the Master Franchise Agreement with Domino's International, under which the franchise area was extended to the entire China mainland, the HKSAR and Macau SAR of China in Jun ·Dash DPZ China Ltd, or DPZ China held 100% equity interests in Pizzavest China Ltd., which was Domino's Pizza's master franchisee in mainland China. Before Jul, DPZ China was majority-owned by the Company. In Jul 2017, the Company issued additional shares to the minority shareholder to acquire the remaining equity interests in DPZ China. DPZ China became a wholly-owned subsidiary of the Company afterwards.
2018	·Expanded into the Shenzhen and Guangzhou in Aug and Nov, representing two of the largest markets in southern China
2020	·Received an investment from Domino's Pizza LLC, a subsidiary of Domino's Pizza, Inc., for an aggregate amount of approx. US\$40mn
2021	·Received an additional investment from Domino's Pizza LLC for an aggregate amount of approx US\$40mn in Jan ·Received an investment from Domino's Pizza LLC, D1 SPV Master Holdco I (HK) Limited and SMALLCAP World Fund, Inc. for an aggregate amount of approx US\$50mn
2023	·Listed in the Hong Kong stock exchange (SEHK:1405)

Source: Company data, CMBIGM estimates

Company's key positives and growth drivers

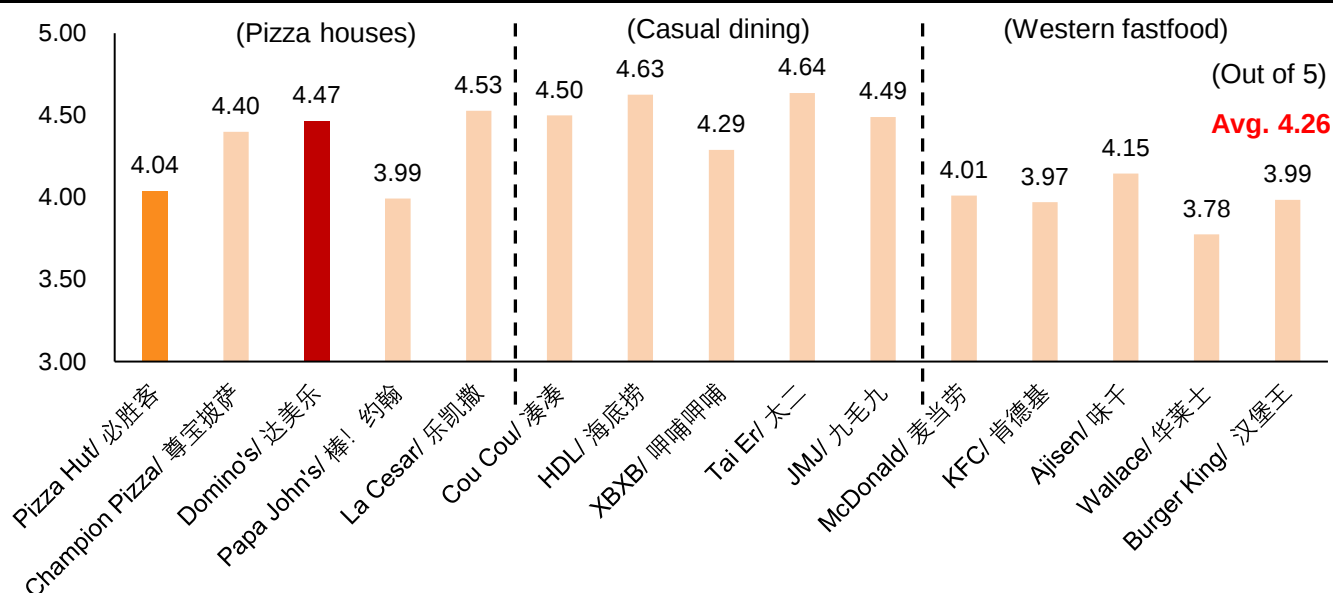
1) Excellent tastes with great value.

We believe Domino's is highly competitive in China, supported by its superior price to quality ratio (cheaper than Pizza Hut but both flavours and services are better, thanks to the fresh and hand-tossed dough). Moreover, the excellent innovation and localization in menu items are another key.

■ 1.1 Better tastes and services than other brands (esp. vs Pizza Hut).

First of all, as a catering brand, taste of the food is the most important factor, in order to attract and retain customers. Based on the score we collected from Dianping.com in the tier-1 cities, Domino's China is clearly leading its peers on taste, with a score of 4.47 (out of 5) vs peers' average of 4.26. And if we compare it only with other pizza brands, it is the second highest, just after La Cesar's score of 4.53, but still much higher than its largest competitor Pizza Hut's 4.04. In general, we think Domino's China's food (including both pizzas and other items) does taste better than many of its peers, because of: 1) the fresh and hand-tossed dough (made in the central kitchen but delivered fresh to the stores), 2) the fillings in the crusts, 3) the cheese to sauce ratio, and 4) its toppings.

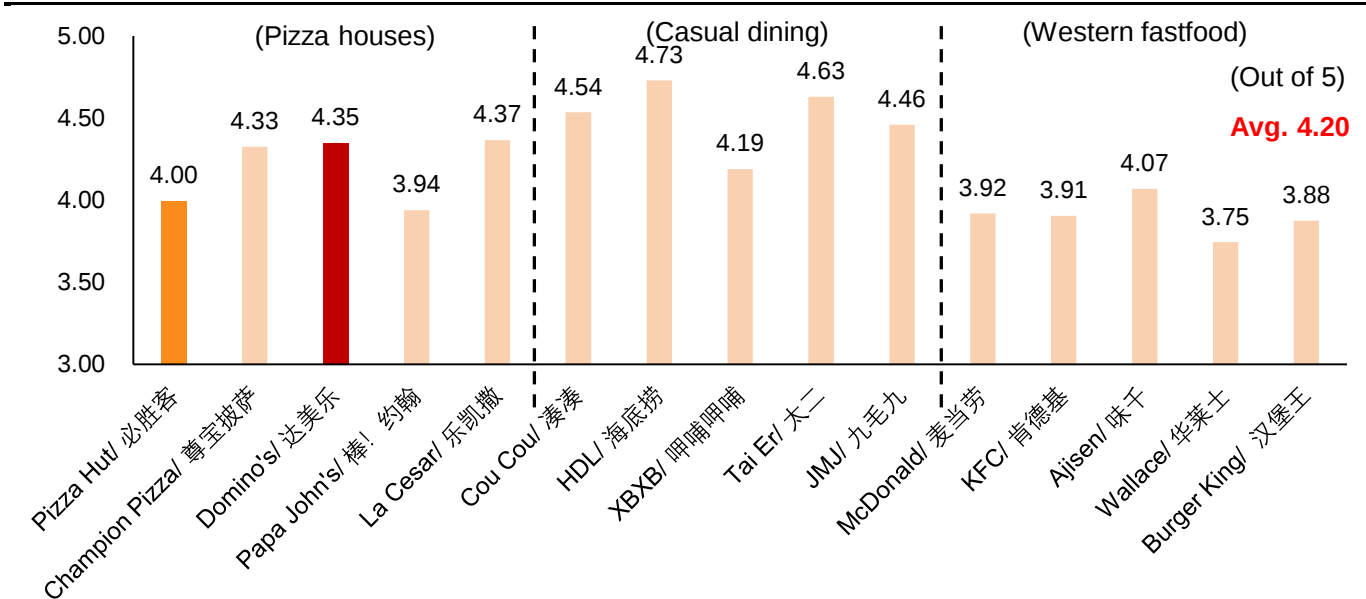
Figure 16: Dianping customer rating on taste, by various catering brand



Source: dianping.com, CMBIGM estimates

And in terms of service quality, we can also tell that Domino's China is rather outstanding, given its score from dianping.com about service was at 4.35, very similar to La Cesar's 4.37 and Champion Pizza's 4.33, but still far better than Pizza Hut's 4.00.

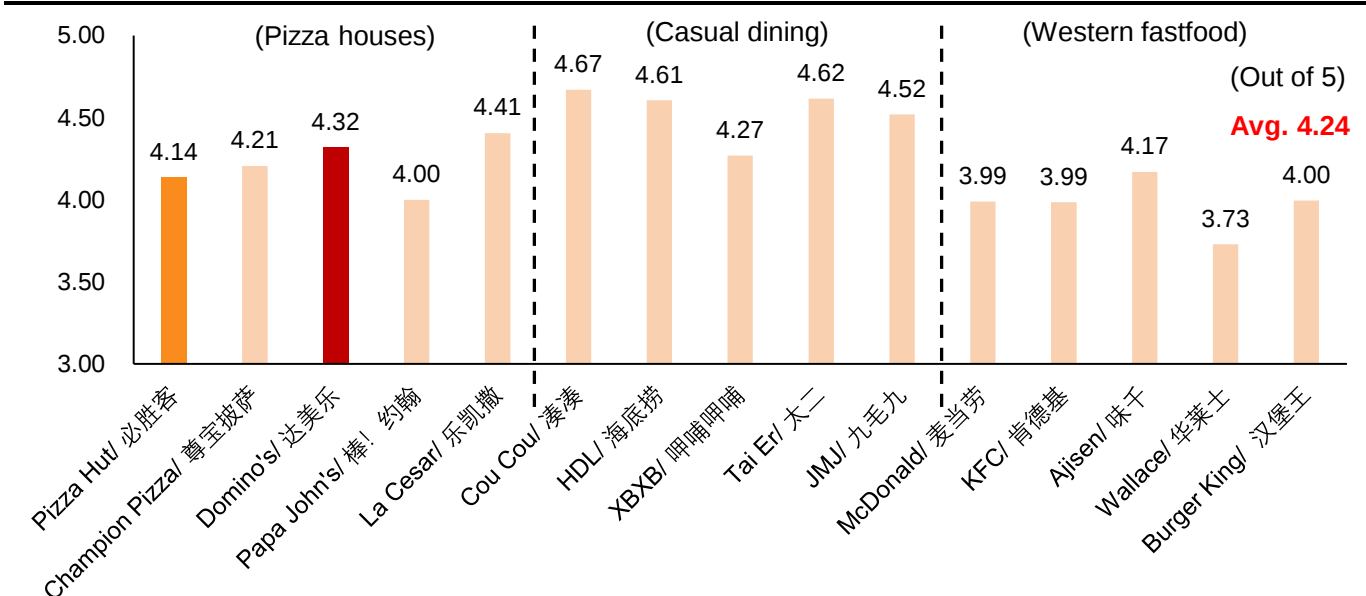
Figure 17: Dianping customer rating on service, by various catering brand



Source: dianping.com, CMBIGM estimates

Regarding its store environment (the interior designs and store decorations, etc.), Domino's is above average, but its margin of leadership is slightly lower. Based on the scores from dianping.com, its store environment was rated at 4.32, slightly behind La Cesar's 4.41, but still better than Pizza Hut's 4.14 and higher than peers' average of 4.24.

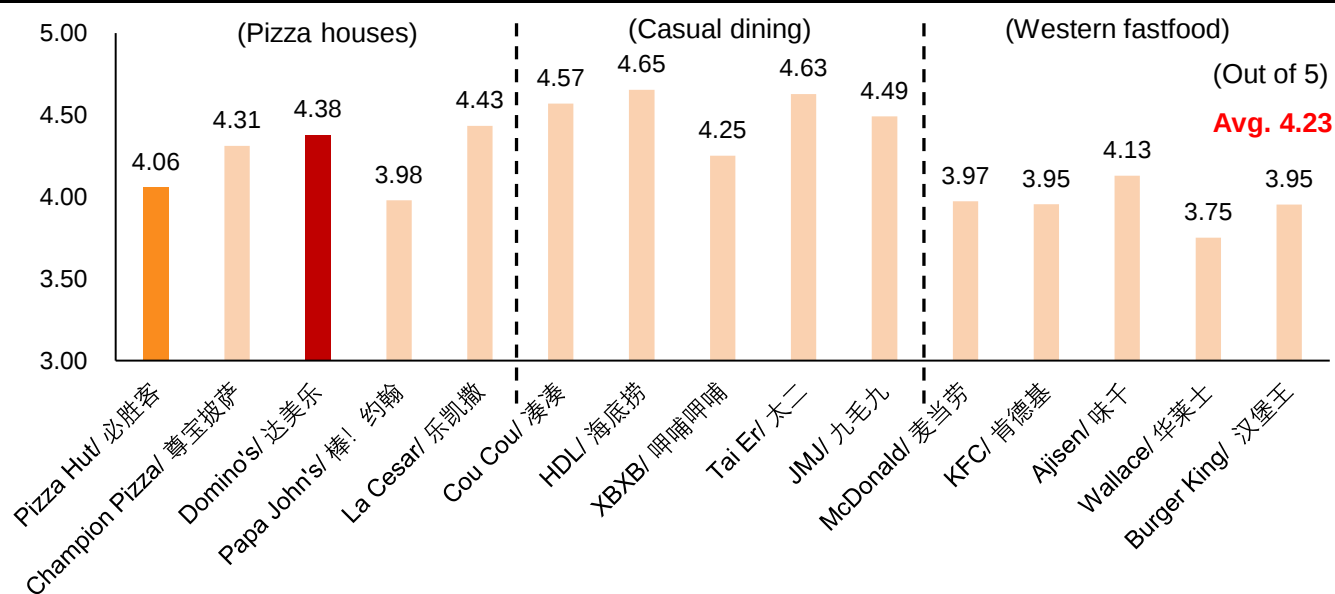
Figure 18: Dianping customer rating on environment, by various catering brand



Source: dianping.com, CMBIGM estimates

All in All, Domino's overall dianping score was at 4.38, which is higher than the peers' average of 4.23 and much better than Pizza Hut's 4.06.

Figure 19: Overall dianping customer rating, by various catering brand



Source: dianping.com, CMBIGM estimates

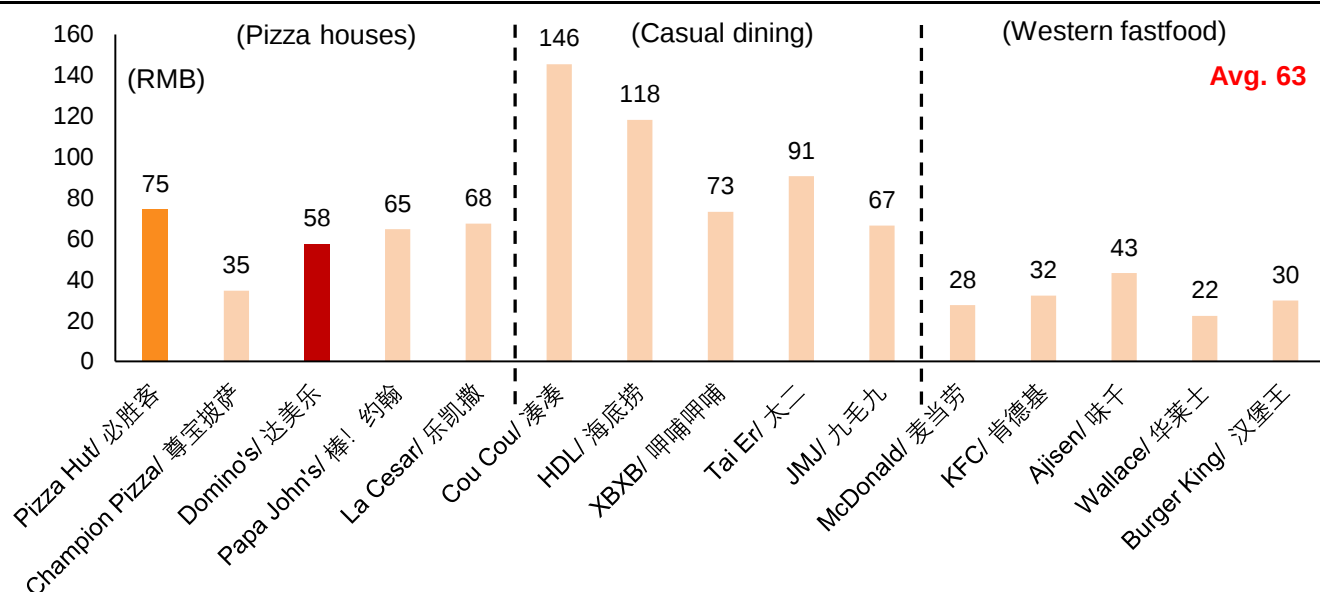
■ **1.2 The ASP is low, which is particularly good amid the current trend of consumption trade down.**

Another key advantage that Domino's China has, is its affordable price point, where its ASP, based on dianping.com, is at just RMB 58, about 10% to 20% lower than most of its peers (Papa John is at RMB65, La Cesar is at RMB68 and Pizza Hut is at RMB75).

Even though Champion Pizza's ASP is at about RMB35, its overall dianping score is also lower vs Domino's China's.

Moreover, thanks to Domino's self-developed rider team, it will not have extra charges for the delivery, while other brands like Pizza Hut could charge another RMB9 per order.

Figure 20: ASP, by various catering brand



Source: dianping.com, CMBIGM estimates

■ 1.3 Domino's China's menu is highly localized and innovative.

Domino's China has invested heavily in product R&D and continued to introduce exciting and innovative dishes. From 2018 to 1H23, Domino's China launched over 130 new SKUs, which is around three new items per month, ranging from crusts, pasta and rice, sides, snacks, soup to desserts and drinks.

In terms of frequency, it tends to release a batch of new products every 6 to 8 weeks.

On the other hand, the excellent performance by Domino's China in recent years is also attributed to its dedication to localization, in our view. Currently, apart from the items with globally-renowned tastes, around 1/3 of its SKUs are based on or inspired by the Chinese culture or styles, such as the salted egg and chicken pizza/金沙咸蛋黃嫩雞比薩, the durian pizza/果肉榴蓮比薩, the crayfish and chicken pizza/小龙虾酥香嫩雞比薩 and the teriyaki beef and potato pizza/照燒風味土豆牛肉比薩.

Figure 21: Some of the popular pizza styles at Domino's China



Source: Company data, CMBIGM estimates

Figure 22: Some of the popular non-pizza items at Domino's China


Source: Company data, CMBIGM estimates

2) A delivery expert with more delicious pizza, better growth and margin.

Domino's focus on delivery business and its 30mins delivery promise to customers have not only provided them with more tasty products (hence its ability to gain more market share) and ensure higher customer satisfaction, but also generated a faster SSSG (riding on the adoption of all kinds of delivery) and a higher margin (thanks to smaller store size, cheaper rent and lower D&A expenses).

■ 2.1 It focuses more on delivery (the 30mins promise and high delivery sales mix) and hence its pizzas taste better.

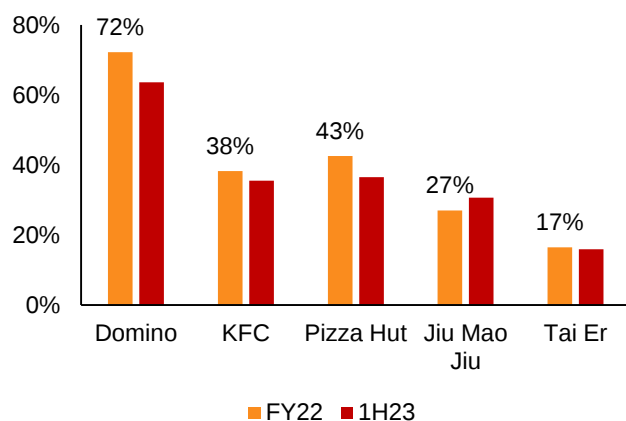
Domino's China is mainly focusing on the delivery business, where its sales mix was as high as 70% in FY22 (vs Pizza Hut's 50% and peers 'average of 30%).

The store design (all the work flow) prioritize delivery and they even hire their own rider team, instead of just relying on 3rd-party companies such as Meituan and Ele.me.

And thanks to all that, their orders can be completed in a more efficient way and fulfil Domino's delivery guarantee (coupons or gifts for customers if their pizzas do not arrive in 30 or less minutes).

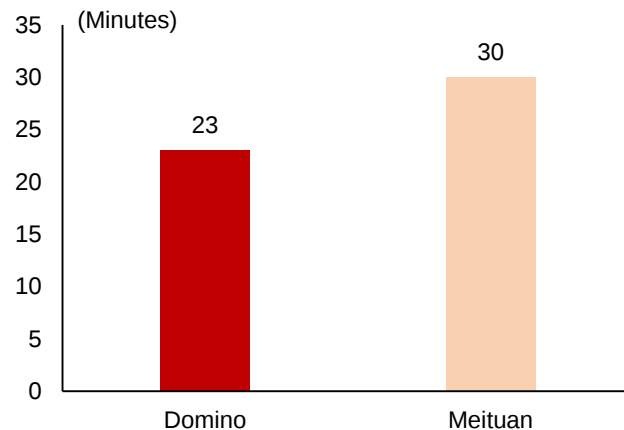
While it usually takes about 30 minutes for a Meituan rider to deliver food to customers, Domino's China could finish that in a much shorter time. Based on audit in FY21/1H22, it took just around 23 to 24 minutes on average, and the completion ratio was high, at 90% or above.

Figure 23: Delivery sales mix, by various catering brand



Source: Company data, CMBIGM estimates

Figure 24: Average order fulfilment time, by platform



Source: Frost & Sullivan, company data, CMBIGM estimates

■ 2.2 Delivery sales growth has been and remained fast even after the pandemic.

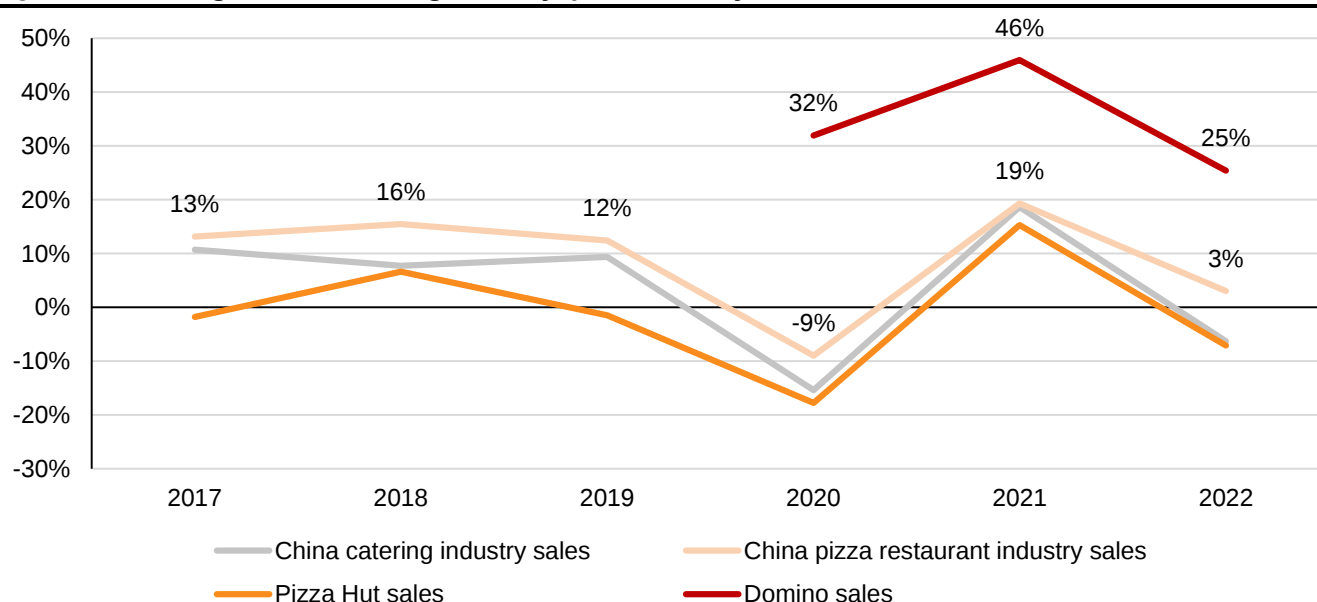
During the pandemic, the catering industry's dine-in business was adversely affected while the delivery business remained resilient (or sometimes more robust).

Therefore, companies like Domino's China, which has delivery sales mix as high as 70%, have benefited substantially. During FY19 to FY22, its average SSSG was as fast as 14%, much higher than Pizza Hut's 4%.

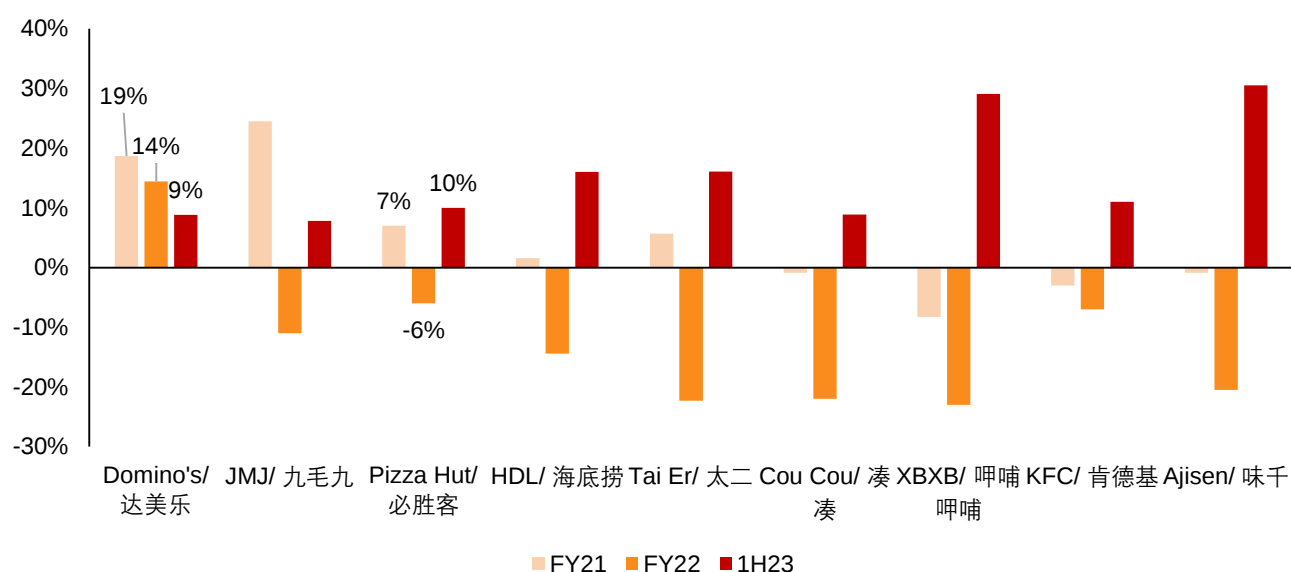
After the pandemic, investors initially think delivery business for catering brands could reasonably retreat when the offline traffic recover. However, based on the trends YTD in 2023, the delivery sales growth has stayed at a very fast rate (at 35% YoY), we tend to believe that the consumer stickiness is high, and thanks to the convenience and affordable costs, such habit could sustain and further develop in the near future.

Therefore, Domino's SSSG was at 9% in 1H23, may not be as fast as its peers (Pizza Hut at 10% and peer's average at 15%), which is still an impressive number, give all the high bases in the past few years.

Figure 25: Sales growth of catering industry, pizza industry, Domino's and Pizza Hut

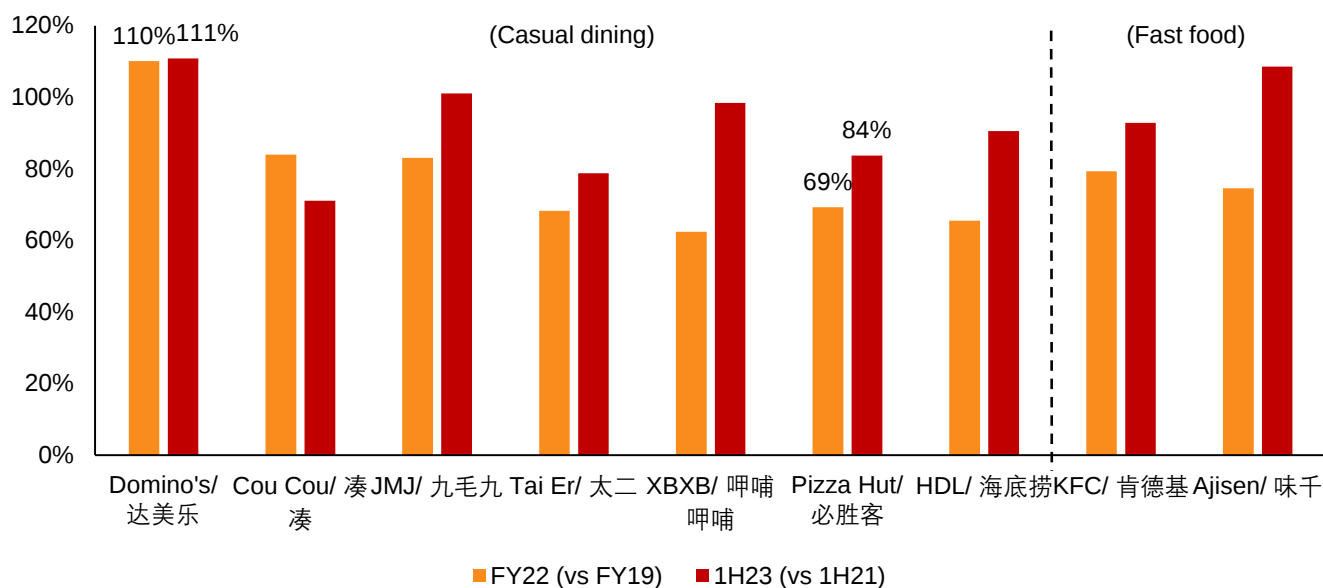


Source: Frost & Sullivan, company data, NBS, CMBIGM estimates

Figure 26: SSSG, by various catering brand

Source: Company data, CMBIGM estimates

In fact, if we look at the SSS recovery rate, Domino's China is extremely leading with a 110% in FY22 (vs FY19) and a 111% in 1H23 (vs 1H21), far higher than all its peers.

Figure 27: Sales per store recovery rate (FY22 vs FY19 and 1H23 vs 1H21), by various catering brand

Source: Company data, CMBIGM estimates

■ **2.3 The store economics is decent, highly standardized with a high margin, and the breakeven period is short (vs the catering industry and Pizza Hut).**

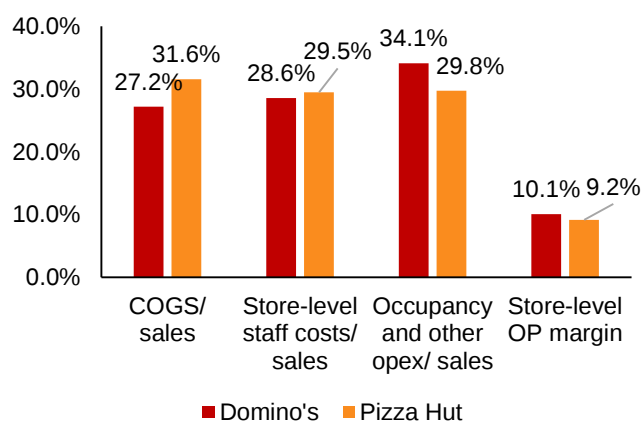
We do see quite a few critical advantages for DPC Dash to expand in China.

Industry-wise: Firstly, it is a western cuisine, which is far more standardized (vs a typical Chinese cuisine); the tastes and dishes can reach a large customer base in China (unlike many Chinese cuisines, where flavors vary region by region and this could somewhat limit the number of target customers). Moreover, more efforts are required for Chinese cuisines in terms of food preparation, because a higher level of cooking skills is needed for the chefs and fewer ingredients can be pre-made or prepared from the central kitchen. Also, in terms of management and business model, services are less needed for western cuisines and hence less training is needed for the staff.

Company-wise: We believe the store economics for Domino's China could perform better than Pizza Hut's and the reasons are manifold. Firstly, given its delivery focus, SSSG was faster in the past few years and perhaps in the near future, thanks to the ramp-up of the delivery industry and change in consumer behaviour under the pandemic. Secondly, the stores are smaller and are usually in a less prime location; Domino's China's typical store area is at about 120 sq.m (vs Pizza Hut's 200 to 300 sq.m) and many of them are not located inside a shopping mall, hence the rental expenses (in terms of concessionaire rate) are lower than (or at least at par with) Pizza Hut's. Also, the D&A expenses will also be lower. Thirdly, the number of staffs needed is roughly between 20 to 30 (5 to 10 employees are full-time and the rest are part-time), which is also less than Pizza Hut's.

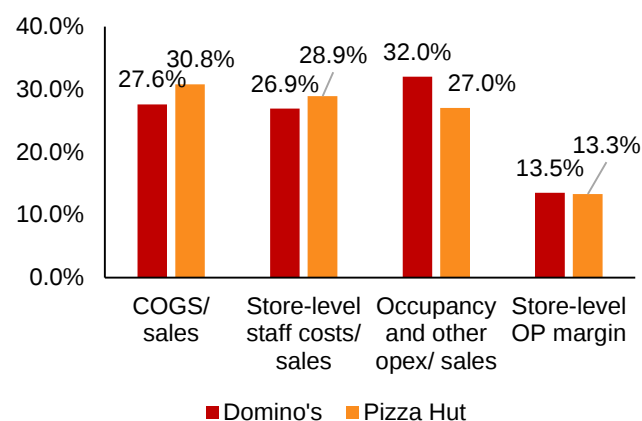
In fact, in FY22 and 1H23, the store-level OP margins for Domino's China were at 10.1% and 13.5%, which are both higher than Pizza Hut's 9.2% and 13.3%.

Figure 28: Opex & store OPM, by brand in FY22



Source: Company data, CMBIGM estimates, *accounting standard for DPC Dash is IFRS while Yum China is US GAAP, hence the margins might not be fully comparable

Figure 29: Opex & store OPM, by brand in 1H23

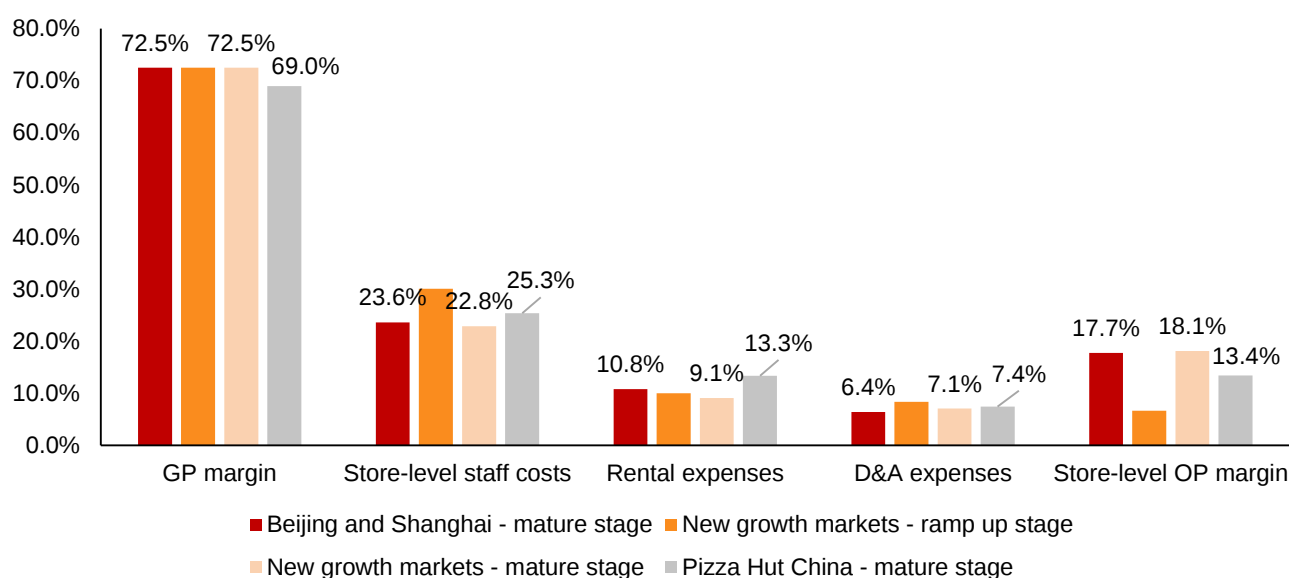


Source: Company data, CMBIGM estimates, *accounting standard for DPC Dash is IFRS while Yum China is US GAAP, hence the margins might not be fully comparable.

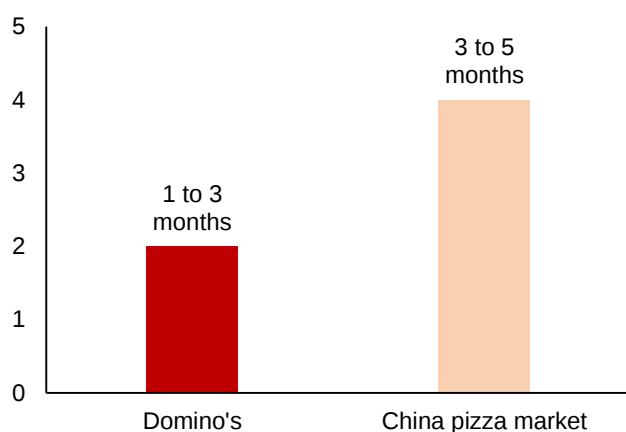
Figure 30: Domino's per store economics, vs Pizza Hut (CMBI est.)

	Domino's			Pizza Hut
	Beijing and Shanghai - mature stage	New growth markets - ramp up stage	New growth markets - mature stage	Pizza Hut China - mature stage
Sales				
Number of operating days	360	360	360	360
Daily sales per store (RMB)	13,000	10,000	11,000	15,000
Staff costs				
Number of staffs per store	25	30	25	30
Monthly salary per staff (RMB)	3,680	3,003	3,016	3,417
Rental expenses				
Area per store (sq.m.)	120	120	120	200
Monthly rent per sq.m (RMB)	350	250	250	270
Capex and D&A				
Capex per store (RMB mn)	1.5	1.5	1.4	2.5
Capex per sq.m (RMB)	12,500	12,500	11,667	12,500
Per store economics (CMBI est.)				
Sales (RMB mn)	4.7	3.6	4.0	5.4
COGS	(1.3)	(1.0)	(1.1)	(1.7)
Gross profit	3.4	2.6	2.9	3.7
Store-level staff costs	(1.1)	(1.1)	(0.9)	(1.2)
Lease-related cost	(0.5)	(0.4)	(0.4)	(0.6)
Depreciation & Amortization	(0.3)	(0.3)	(0.3)	(0.5)
Advertising & promotion expenses	(0.2)	(0.2)	(0.2)	(0.2)
Operation and maintenance cost	(0.3)	(0.2)	(0.2)	(0.2)
Other cost	(0.2)	(0.2)	(0.2)	(0.1)
Delivery costs	0.0	0.0	0.0	0.0
Utilities expenses	0.0	0.0	0.0	0.0
Logistic and storage fees	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Store-level Operating profit	0.8	0.2	0.7	0.8
As % of total sales				
COGS/ sales	-27.5%	-27.5%	-27.5%	-31.0%
GP margin	72.5%	72.5%	72.5%	69.0%
Store-level staff costs/ sales	-23.6%	-30.0%	-22.8%	-22.8%
Lease-related cost/ sales	-10.8%	-10.0%	-9.1%	-12.0%
Depreciation & Amortization /sales	-6.4%	-8.3%	-7.1%	-9.3%
Advertising & promotion expenses/ sales	-4.5%	-6.0%	-5.3%	-4.0%
Operation and maintenance cost/ sales	-5.5%	-6.5%	-5.8%	-3.0%
Other cost/ sales	-4.0%	-5.0%	-4.3%	-2.5%
Delivery costs/sales	0.0%	0.0%	0.0%	0.0%
Utilities expenses/ sales	0.0%	0.0%	0.0%	0.0%
Logistic and storage fees/ sales	0.0%	0.0%	0.0%	0.0%
Other expenses/ sales	0.0%	0.0%	0.0%	0.0%
Store-level OP margin	17.7%	6.6%	18.1%	15.5%

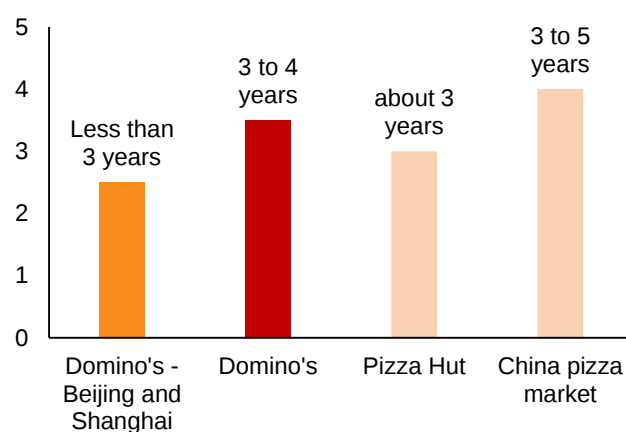
Source: Company data, CMBIGM estimates, *accounting standard for DPC Dash is IFRS while Yum China is US GAAP, hence the margins might not be fully comparable

Figure 31: Domino's costs and margin, vs Pizza Hut (CMBI est.)

Source: Company data, CMBIGM estimates, *accounting standard for DPC Dash is IFRS while Yum China is US GAAP, hence the margins might not be fully comparable

Figure 32: Average initial breakeven period

Source: Frost & Sullivan, company data, CMBIGM estimates

Figure 33: Cash investment payback period

Source: Frost & Sullivan, company data, CMBIGM estimates

3) Domino's new growth markets are not just successful, but also the sources of future SSSG and store expansion.

We see ample room for growth from the new growth markets. On one hand, sales per store and SSSG can still rise and become a growth driver for the group. But on the other hand, the potential number of restaurants can still be enormous if we refer to: 1) mind shares of Domino's, 2) Pizza Hut's city penetration, 3) the Domino's store density in Japan and South Korea. In fact, Domino's US's target is as high as 5,000 stores for Domino's China.

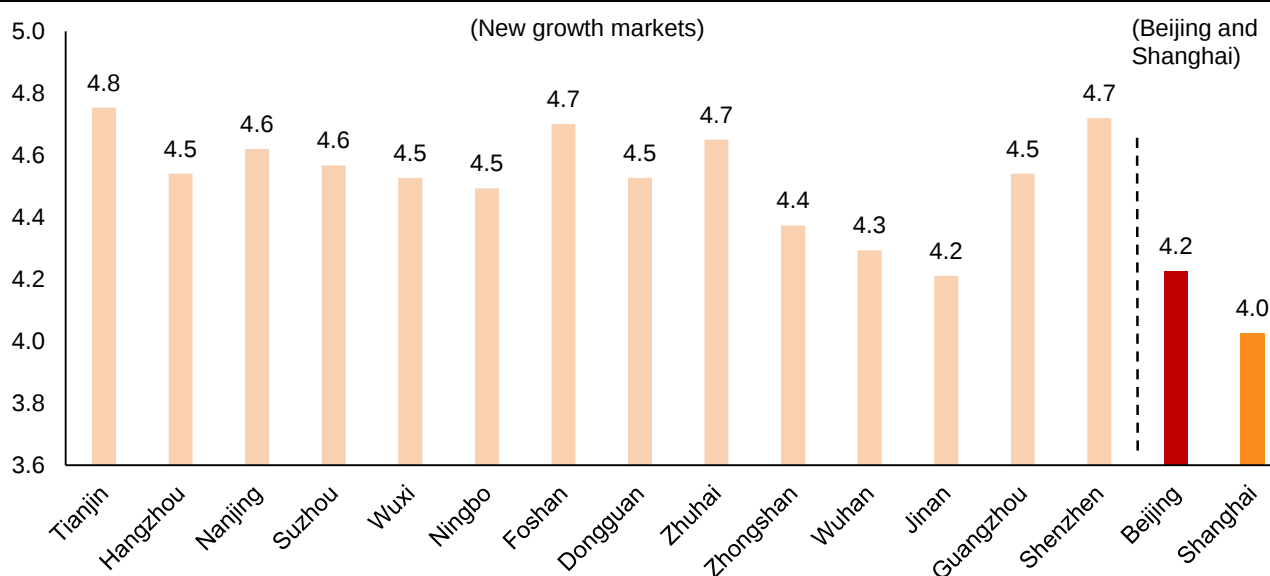
■ 3.1 Domino's has performed well in the new markets.

One of the key upside drivers for DPC Dash is the expansion to new growth markets (cities outside Beijing and Shanghai) and we think the progress so far has been very good.

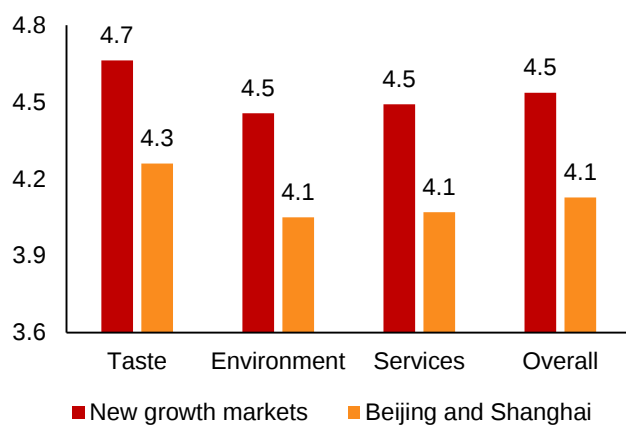
According to dianping.com, the customer ratings for Domino's Beijing and Shanghai are at 4.2 and 4.4, which are not too bad compared to the peers' average of 4.2. However, the score for Domino's China in the new growth markets and cities are far better. For example, the score can go up to 4.8 in Tianjin and 4.7 in Foshan, Zhuhai and Shenzhen. We can also tell its leadership is all-round, as the scores on dianping.com for Taste/ Environment/ Services are at 4.7/ 4.5/ 4.5 in the new growth markets, much better than the 4.3/ 4.1/ 4.1 in Beijing and Shanghai markets.

In fact, the average SSSG was faster in the new growth markets during FY19 to FY22, at 27%, compared to 11% for Beijing and Shanghai.

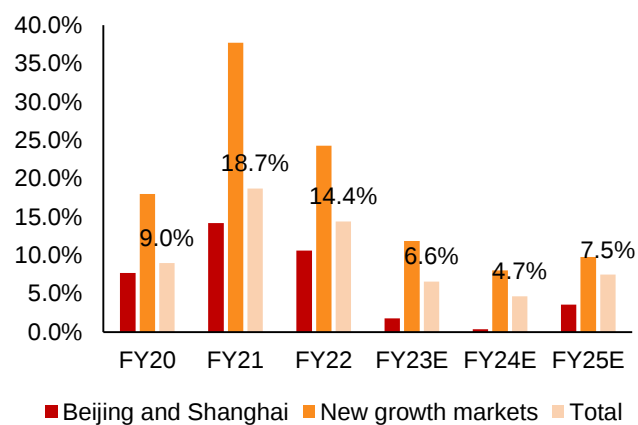
Figure 34: Domino's dianping customer rating, by cities



Source: dianping.com, CMBIGM estimates

Figure 35: Domino's dianping customer rating, by region

Source: dianping.com, CMBIGM estimates

Figure 36: Domino's SSSG, by region

Source: Company data, CMBIGM estimates

■ 3.2 The room for growth is huge, not just in sales per store and margins, but also in store expansion.

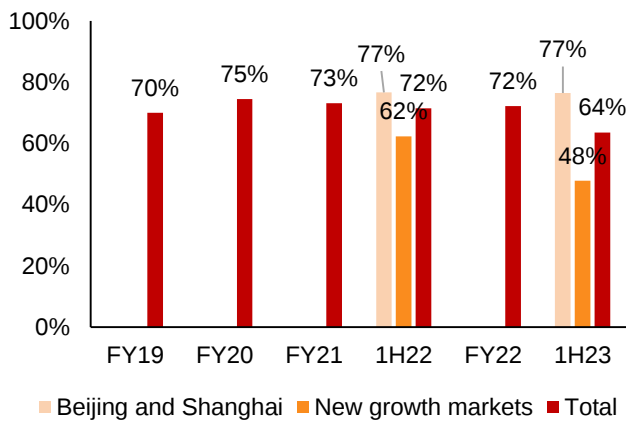
More importantly, we think the growth potential is massive in China, in terms of both sales per store and store network expansion.

On one hand, we stay conservative about sales per store growth in Beijing and Shanghai, because of the high bases in the last few years and the potential drag from opening more satellite stores (increases in store density). On the other hand, we expect sales per store to increase in the new growth markets, driven by normal ramp-up of new stores, excellent popularity received as well as the launch of more delivery business (the delivery sales mix in the new growth markets was rather low at 48% in 1H23, solely due to heavy demand and workload from dine-in business).

Actually the daily sales per store for new growth markets had surged by 30% YoY to around RMB 11K in 1H23, from just RMB 8.7K in 1H22. Going forward, we expect that to reach RMB 12K-13K in the future (close to the RMB 13-14K in Beijing and Shanghai).

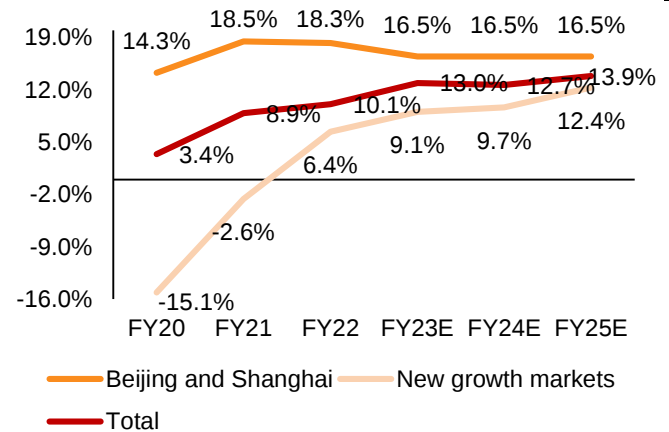
Also the store-level OP margin for new growth markets may also climb to about 12% by FY25E, while that for Beijing and Shanghai could remain stable at around 16% from FY23E to FY25E.

Figure 37: Delivery sales mix, by region



Source: Company data, CMBIGM estimates

Figure 38: Domino's store-level OPM, by region



Source: Company data, CMBIGM estimates

In terms of store expansion, we see huge room for that.

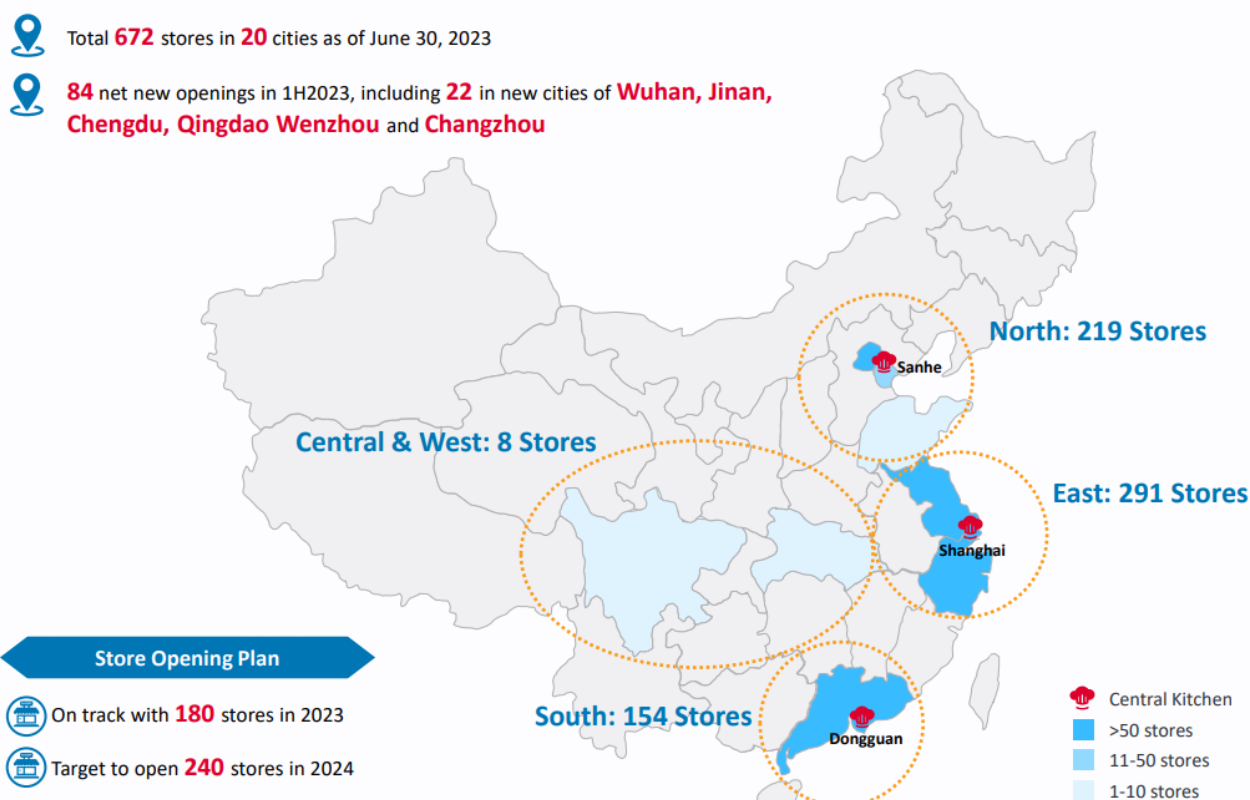
Firstly, Domino's had only penetrated into 20 cities by 1H23, while Pizza Hut had already opened stores in over 650 cities. If Domino's can penetrate into the same number of cities, we estimate the total store number could reach as high as 3,600 in China.

Secondly, according to a survey done by Pizza Hut and Yicai/《经典势能·西式休闲餐饮趋势白皮书》, 21% of respondents had thought of Domino's as the first pizza brand in their mind (vs 66% for Pizza Hut), which is not low at all in our view. Thanks to such a high mindshare, theoretically speaking, we believe the store number for Domino's should reach at least 1/3 of Pizza Hut's (and that is around 1,000), and therefore the current number of 672 (as at 1H23) is still underpenetrated.

Thirdly, if we refer to tier-1 cities, Domino's store numbers are at about 60% to 80% of that of Pizza Hut's. And in tier-2 or below cities, that penetration is clearly much lower and we see substantial potential there. If we apply such ratio to the entire China, Domino's store count can reach 2,150.

Also, in the long run, Domino's Pizza (DPZ US) do expect Domino's China's store count to potentially reach 5,000.

Figure 39: Domino's store network overview in 1H23



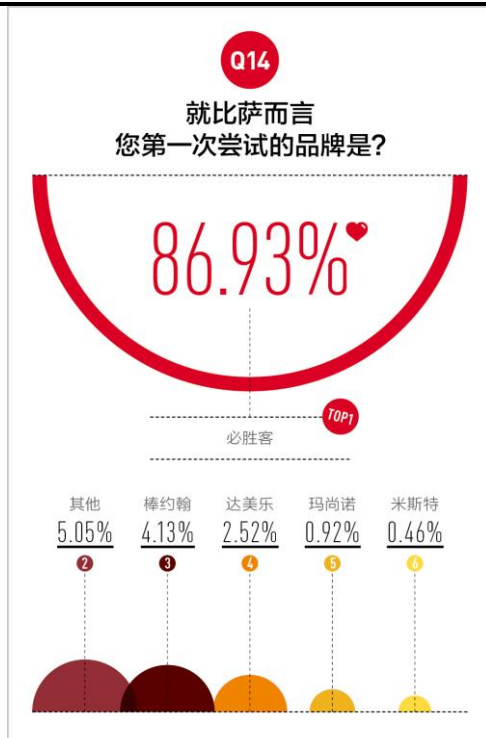
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Source: Company information

Note: North Region includes Beijing, Tianjin, Qingdao and Jinan; East Region includes Shanghai, Hangzhou, Ningbo, Nanjing, Suzhou, Wuxi, Wenzhou and Changzhou; South Region includes Shenzhen, Guangzhou, Dongguan, Foshan, Zhuhai and Zhongshan; Central West Region includes Chengdu and Wuhan

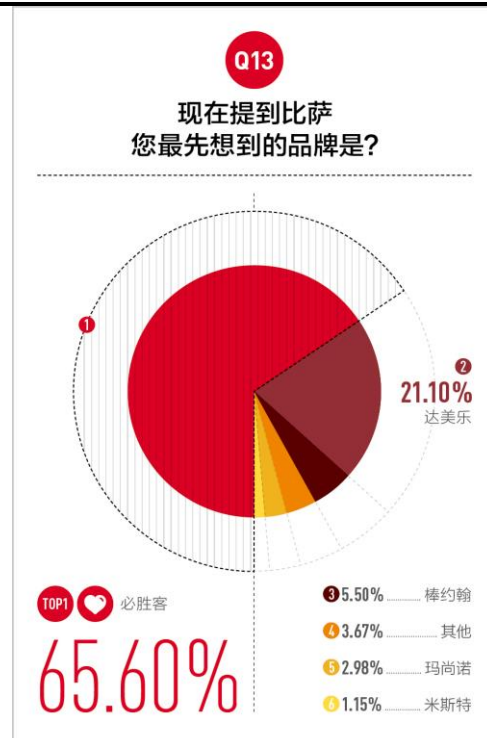
Source: Company data, CMBIGM estimates

Figure 40: What is the first Pizza brand you try?



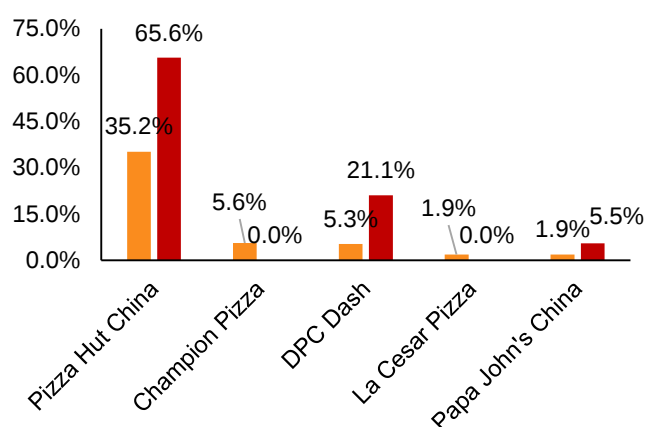
Source: Survey done by Pizza Hut and Yicai/《经典势能·西式休闲餐饮趋势白皮书》, CMBIGM

Figure 41: Which brand did you think of on Pizza?



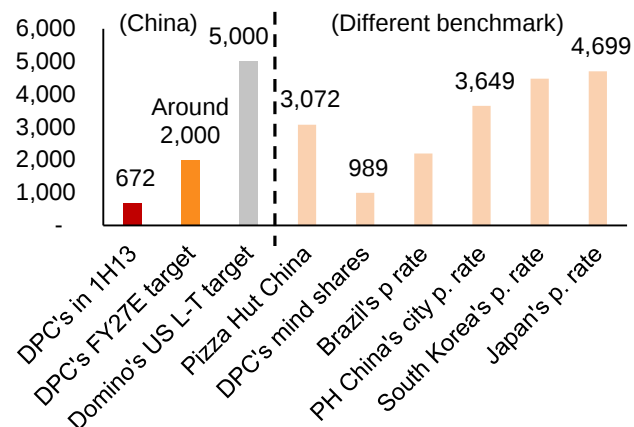
Source: Survey done by Pizza Hut and Yicai/《经典势能·西式休闲餐饮趋势白皮书》, CMBIGM

Figure 42: Mind shares and market shares, by brand, in 2022



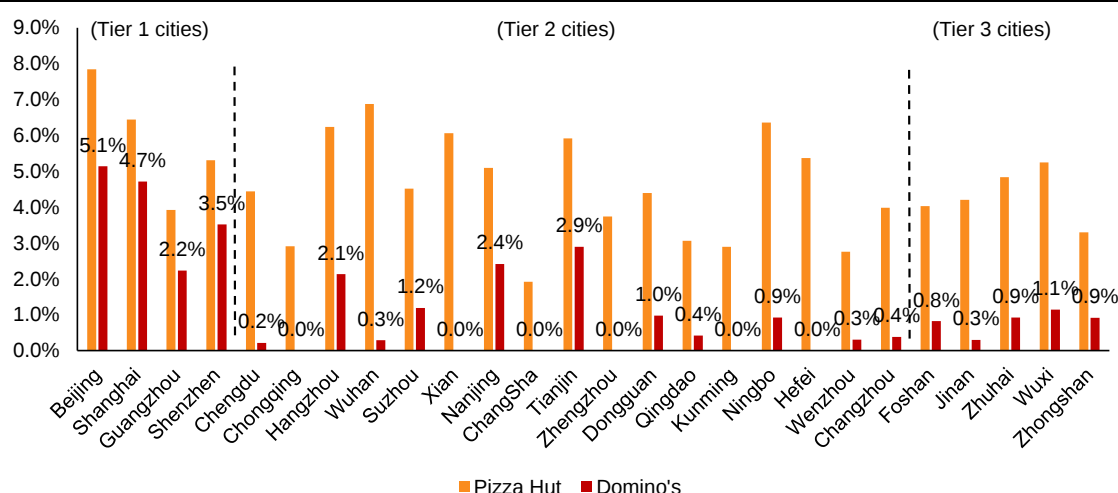
Source: Frost & Sullivan, CMBIGM

Figure 43: Domino's potential store counts, in 1H23



Source: Frost & Sullivan, survey done by Pizza Hut and Yicai/《经典势能·西式休闲餐饮趋势白皮书》, company data, CMBIGM estimates

Figure 44: Number of Domino's and Pizza Hut stores/ total number of restaurants that are selling pizza



Source: dianping.com, CMBIGM estimates

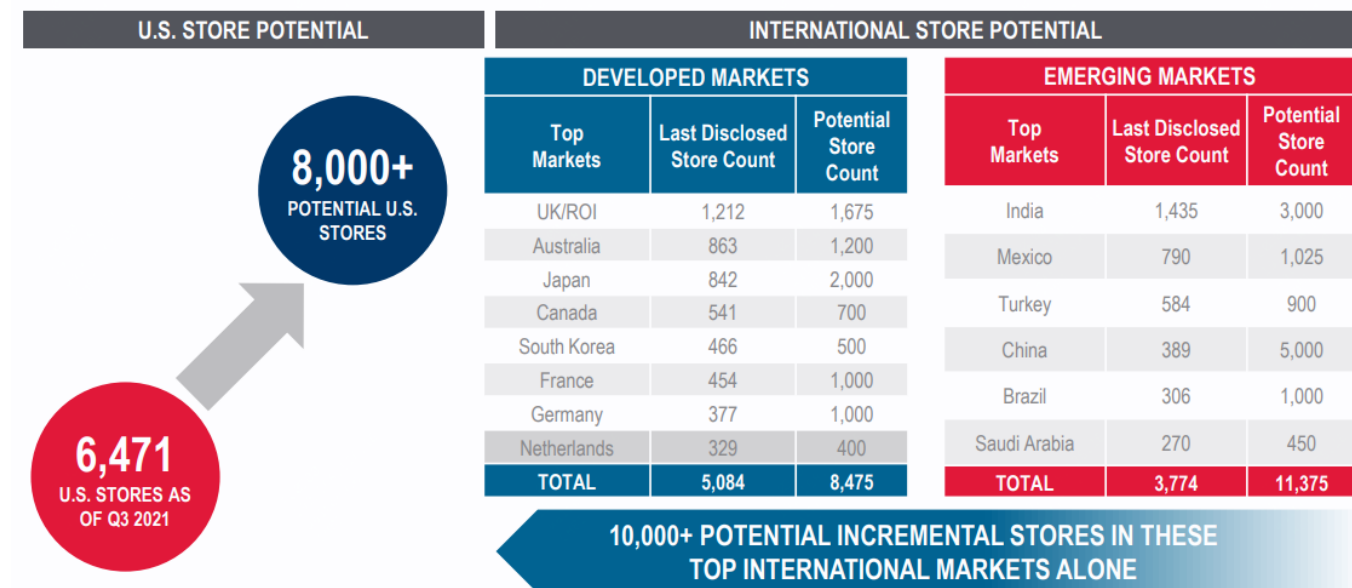
Figure 45: Store count of Domino's and Pizza Hut by city, and % in total number of restaurants that are selling pizza

Region	Cities	Number of Pizza Hut	Number of Domino's	Domino's/ Pizza Hut	Number of merchants selling Pizza	Pizza Hut's market shares	Domino's market shares
T1 cities	Beijing	247	162	66%	3,151	8%	5%
	Shanghai	231	169	73%	3,586	6%	5%
	Guangzhou	93	53	57%	2,371	4%	2%
	Shenzhen	110	73	66%	2,074	5%	4%
T2 cities	Chengdu	84	4	5%	1,893	4%	0%
	Chongqing	49	0	0%	1,685	3%	0%
	Hangzhou	114	39	34%	1,829	6%	2%
	Wuhan	95	4	4%	1,382	7%	0%
	Suzhou	76	20	26%	1,684	5%	1%
	Xian	74	0	0%	1,221	6%	0%
	Nanjing	76	36	47%	1,491	5%	2%
	Changsha	19	0	0%	988	2%	0%
	Tianjin	96	47	49%	1,622	6%	3%
	Zhengzhou	44	0	0%	1,177	4%	0%
	Dongguan	45	10	22%	1,024	4%	1%
	Qingdao	51	7	14%	1,664	3%	0%
	Kunming	23	0	0%	794	3%	0%
	Ningbo	76	11	14%	1,196	6%	1%
	Hefei	46	0	0%	857	5%	0%
	Wenzhou	27	3	11%	978	3%	0%
	Changzhou	31	3	10%	778	4%	0%
Tier 3 cities	Foshan	44	9	20%	1,093	4%	1%
	Jinan	42	3	7%	999	4%	0%
	Zhuhai	21	4	19%	434	5%	1%
	Wuxi	46	10	22%	877	5%	1%
	Zhongshan	18	5	28%	546	3%	1%
	Total	1,878	672	36%	37,394	5%	2%

Source: dianping.com, CMBIGM estimates

Figure 46: Domino's Pizza (DPZ US) estimates about its potential in US and overseas markets.

Leveraging Significant Runway For Future Growth & Scale



Source: Company data, CMBIGM estimates

■ 3.3 Domino's is successful in many overseas regions like Japan, South Korea and the Taiwan region.

We can also refer to overseas markets such as Japan, South Korea or even the the Taiwan region.

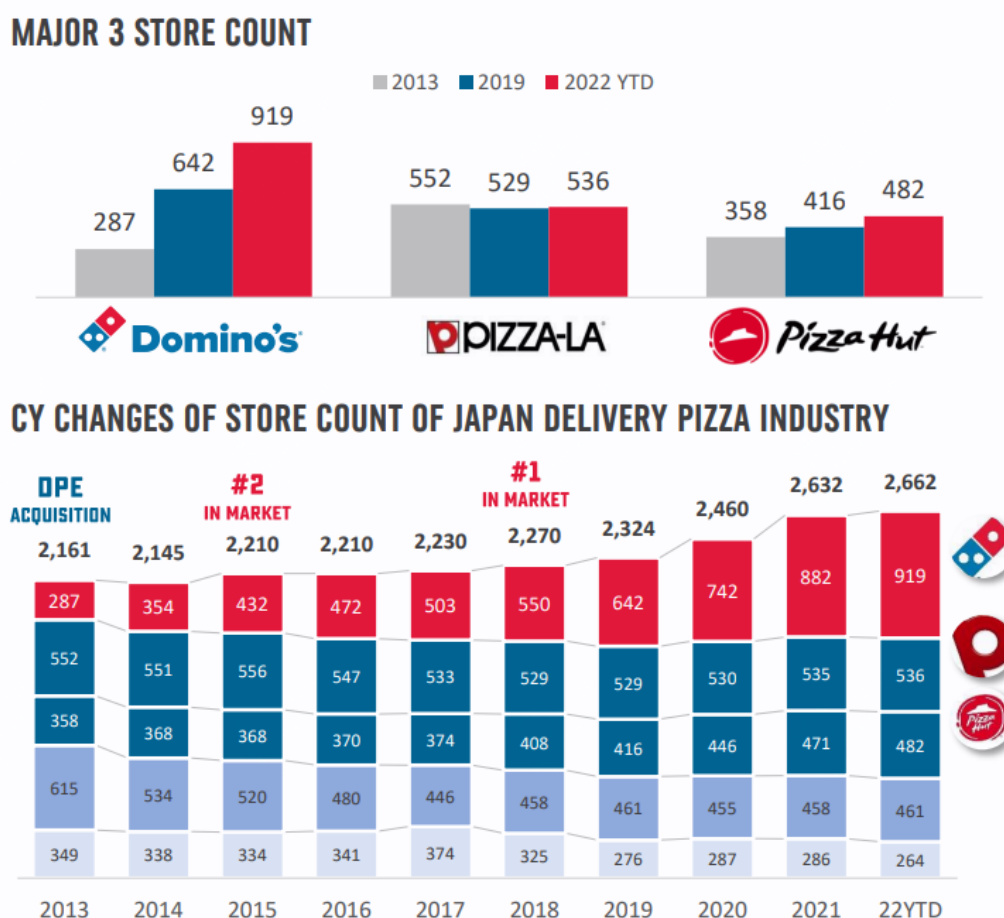
Domino's development in Japan was not all plain sailing, and there were also ups and downs in the process. Domino's entered Japan in 1985, but there were only 179 stores back in 2010. In 2013, the time Domino's Pizza Enterprises (DPE) acquired 75% stakes from Bain Capital, the number of stores was 259, and Domino's was only the third largest Pizza brand in Japan.

Since then, DPE has leveraged its operational, franchising and marketing expertise to unlock the region's potential, including: 1) a localized strategy to provide a truly Japanese customer experience, 2) adding value-focused offerings while retaining and renewing the pizzas for premium occasions, 3) implementing a dynamic online ordering system, 4) growing and developing its own staff, and 5) expanding and strengthening its franchisees network (more than 50% of stores are owned and operated by local franchisees).

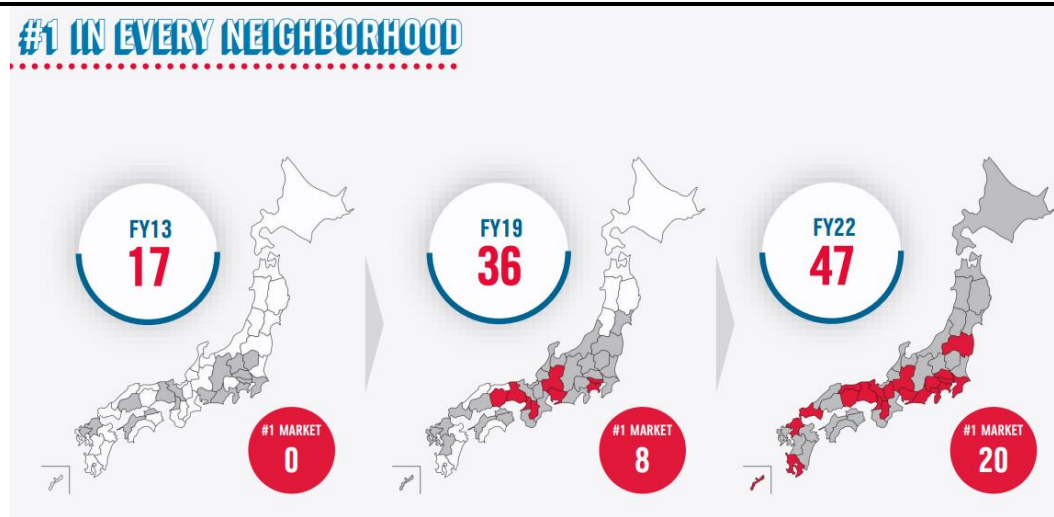
In 2017, DPE acquired the remaining 25% minority stake from Bain Capital and gained a 100% ownership. In 2018, Domino's became the largest pizza chain in Japan and had 550 stores. By Oct 2023, DPE had opened 1,000 Domino's stores in Japan and is aiming for 2,000 in the future.

In the future, it will continue to reach more customers on different dining occasions, as well as building profits through lowering the cost of delivery.

Figure 47: Number of stores for Domino's Japan and its peers, 2013 to 2021



Source: Company data, CMBIGM estimates

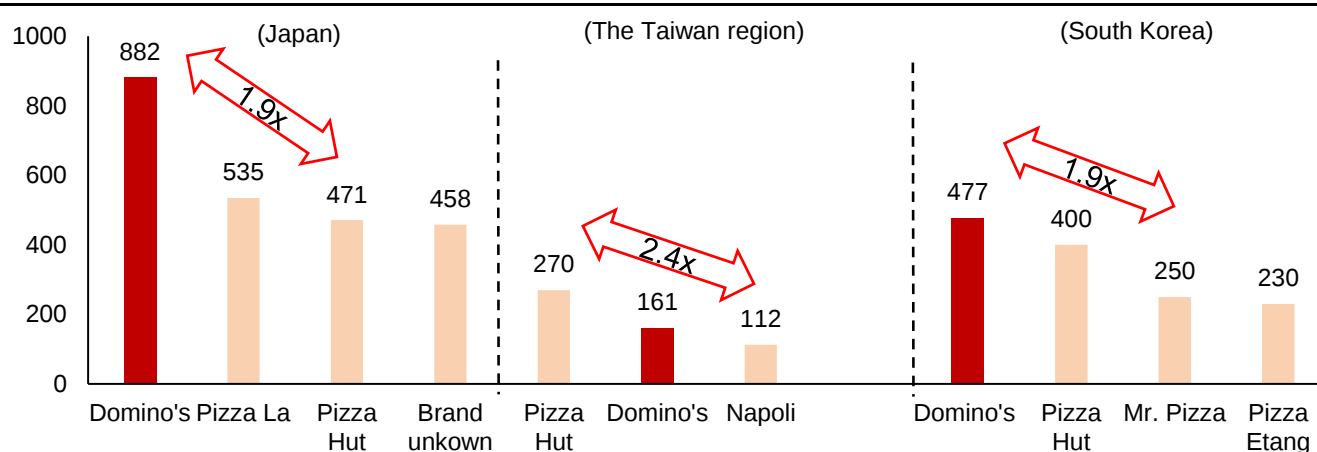
Figure 48: Number of provinces that Domino's Japan has entered and has a No.1 position


Source: Company data, CMBIGM estimates

Compared to Domino's Japan, Domino's the Taiwan region and South Korea were not as successful and the expansion was not as fast in the past decade.

However, both are still leading in the pizza industry respectively, and we can see Domino's was still the 2nd largest pizza chain in the Taiwan region as well as the largest pizza chain in South Korea in 2021.

Also, in terms of business size, the difference between the No.1 brand vs the No.3 brand in the industry are roughly at 1.9x to 2.4x in Japan, the Taiwan region and South Korea. If we apply the same ratio (DPC Dash was ranked No.3 currently, after Champion Pizza's 2,150 and Pizza hut's 2,600 in 2021), the theoretical store number for Domino's in China could be as high as 1,100 to 1,400. There are still lots of room for further expansion, in our view.

Figure 49: Number of stores for different leading pizza brands, by region, in 2022


Source: Company data, CMBIGM estimates

Industry Analysis

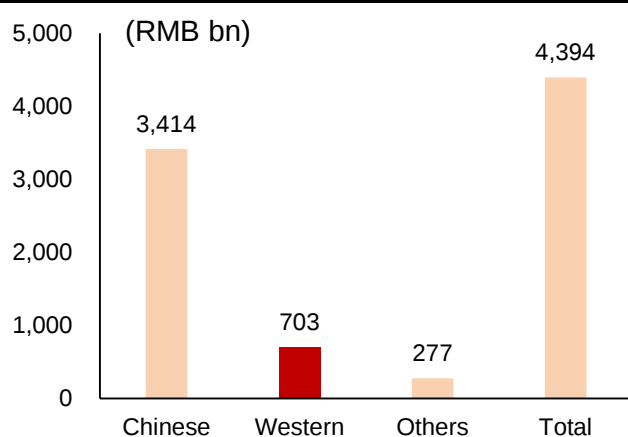
1) Western cuisines sales could grow as fast as Chinese cuisines.

Western cuisine is the second largest sub-segment in the catering industry and the share is even higher in the quick-service restaurant or “QSR” industry. According to Frost & Sullivan, the industry sales CAGR for Chinese/western QSR is likely to be 12% in 2022-2027E, driven by further urbanization and consumption upgrade in China.

■ 1.1 Western cuisine is the second largest sub-segment in catering and western QSR sales CAGR could be 12% in 2022 to 2027E.

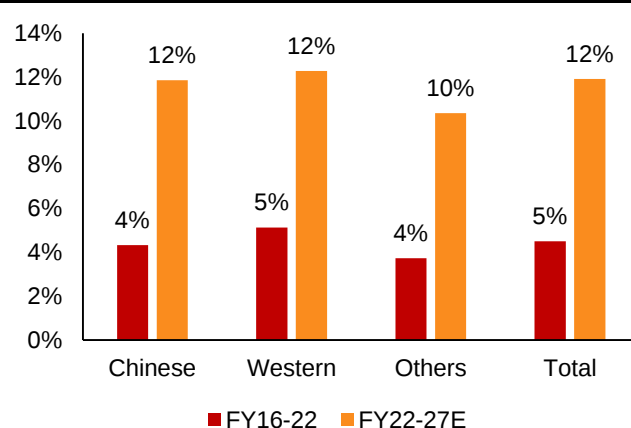
China’s catering industry is enormous, where the annual sales was roughly at RMB4,394bn in 2022, according to NBS, which is one of the largest sub-sectors in the consumer sector. And apart from the Chinese cuisine, which is clearly the mainstream, the western cuisine is the second largest sub-segment, which had annual sales of RMB703bn and accounted for around 16% of the total in 2022.

Figure 50: China catering industry sales in 2022



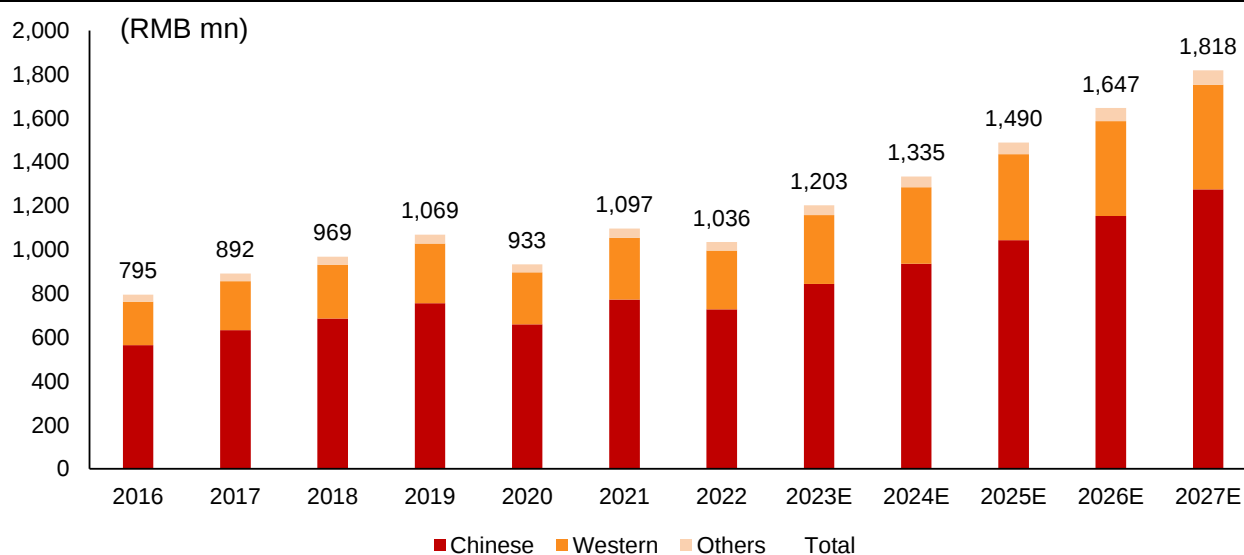
Source: Frost & Sullivan, CMBIGM estimates

Figure 51: China QSR sales CAGR, by segment



Source: Company data, CMBIGM estimates

In the QSR segment, western cuisine would account for an even larger share, at about 26% of total sales, thanks to its more standardized nature. Based on Frost & Sullivan, the western QSR industry sales was at about RMB268bn in 2022 and would grow by a 12% CAGR during 2022 to 2027E (at the same rate vs Chinese cuisine), thanks to urbanization and consumption upgrade in China, where consumers in lower-tier cities tend to follow the tastes of those in higher-tier cities (western cuisines are more popular there).

Figure 52: China QSR industry sales, by Chinese, western and other cuisines

Source: Frost & Sullivan, CMBIGM estimates

2) The pizza category is niche in China but growth rate could be fast.

Despite its long history, the pizza industry is still a niche market in China. However, in the past few years, it has managed to grow faster than the entire catering sector, with pizza's market share up from 0.6% in 2016 to 0.9% in 2022. Based on Frost & Sullivan, the pizza industry sales CAGR could be as fast as 16% in 2022 to 2027E, driven by more technological advancement, further penetration of delivery, and more localization and active adaption (e.g. more one-person meals or more healthy options).

■ 2.1 Pizza industry is still a niche market in China but sales CAGR could still be fast at 16% in 2022 to 2027E.

China's pizza industry is still small, where the annual sales were only at RMB38bn in 2022, accounting for less than 1% of total catering sales. However, it was growing faster than the entire sector during 2016 to 2022, and its market share rose from 0.6% to 0.9% respectively.

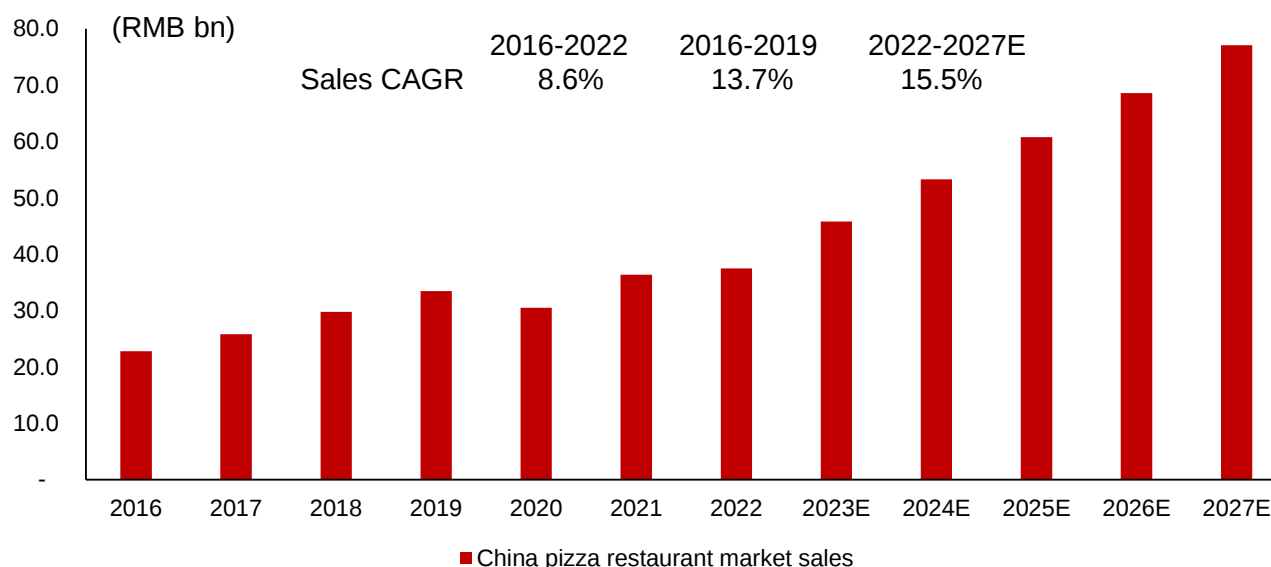
We believe it will continue to outperform the industry, because of:

1) technological innovation and advancement (esp. in cold chain logistics and pre-made food production), that will further optimize the performance and costs of pizza products (as they are mostly made of dough (flour, yeast, water, salt and oil), cheese and prepared meat);

2) further penetration of the delivery services, since pizza is relatively inexpensive, large in portion size, easy to share and clean, and takes time to cool down, it is often a great option for delivery;

3) more localization and active adaption such as rolling out products that are more affordable or suitable for different occasions, or more variety of tastes for different target customers.

Figure 53: China pizza market industry sales, 2016-2027E

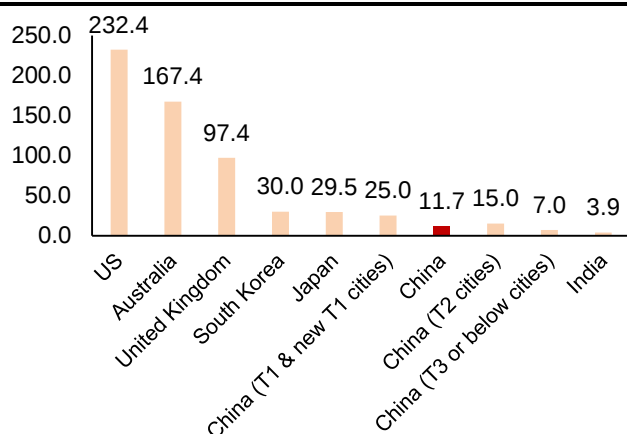


Source: Frost & Sullivan, CMBIGM estimates

More importantly, we are positive about China in the long term, as the density of pizza restaurants is very low at the moment. According to Frost & Sullivan, in 2022, there were only 12 pizza restaurants per mn population in China, way less than around 30 stores per mn population in South Korea and Japan.

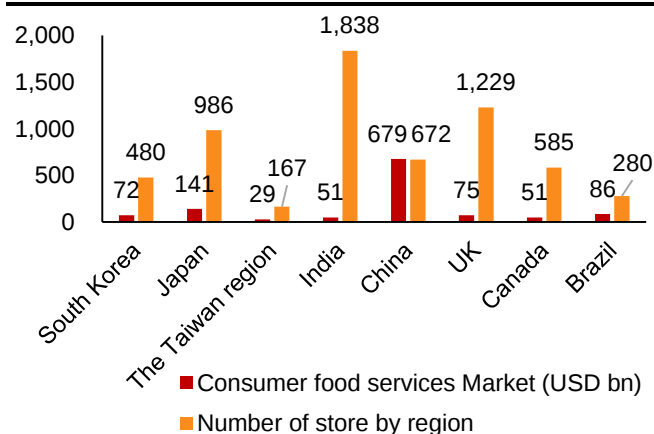
The size of consumer food service sector in China is about 5x/ 9x that of South Korea/ Japan; however, the number of Domino's stores in China was at 672, only similar to the 480/ 986 in South Korea/ Japan. Therefore, we believe the room for growth is huge.

Figure 54: Pizza stores per mn population, by region, in 2022



Source: Frost & Sullivan, CMBIGM estimates

Figure 55: Consumer food service market in 2022 and number of Domino's stores in 3Q23, by region



Source: Frost & Sullivan, company data, CMBIGM estimates

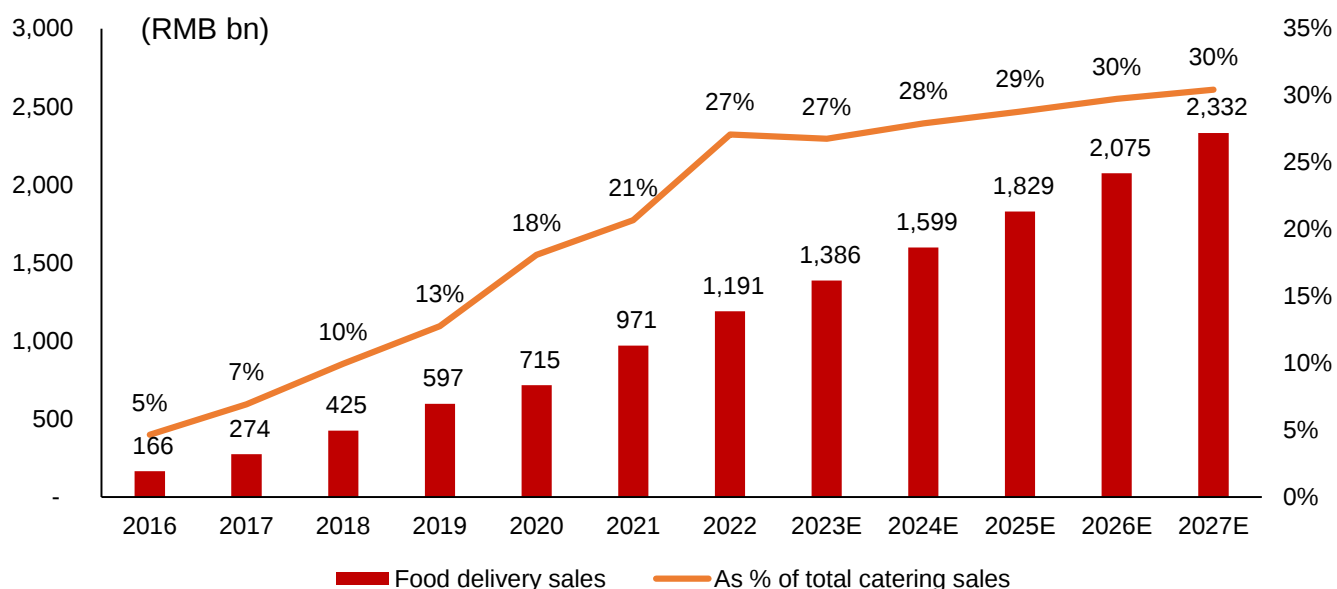
3) Food delivery sales growth could still be fast in China (esp. Pizza).

According to Frost & Sullivan, the food delivery industry is still underpenetrated in China, hence the industry sales CAGR could still be fast at 14% in 2022 to 2027E, driven by: 1) consumption upgrades, 2) a lower preference for home cooking, and 3) more efficiency gains for the riders. For the pizza industry, the delivery sales mix is way higher due to its specific industry nature. And the mix could be stable in 2023E to 2025E and rising again in 2026E to 2027E.

■ 3.1 Food delivery sales mix could still go up but that of pizza delivery sales may remain stable in near term.

According to Frost & Sullivan, China's food delivery sales were roughly at RMB1,191bn in 2022, contributing about 27% of the total catering sales. The sales CAGR was fast at 34% during 2017 to 2022, and in our view, thanks to: 1) consumption upgrades, 2) higher preferences from the 90s and 00s, 2) smaller family size ahead (which lead to less demand for home cooking) and 3) riders' efficiency gains (likely through various technological advancement). The food delivery sales should stay strong with a 14% sales CAGR in 2022 to 2027E.

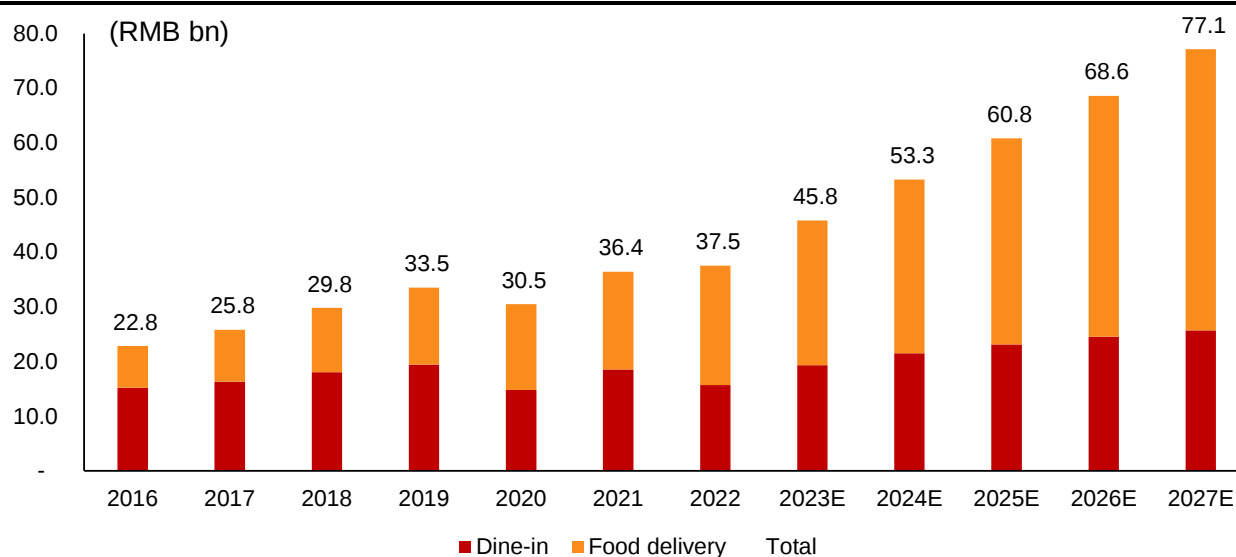
Figure 56: Market size of China's food delivery industry and its % of total catering sales



Source: Frost & Sullivan, CMBIGM estimates

For Pizza industry, delivery mix is way higher, at 58%, thanks to the specific industry nature. Going forward, this ratio may remain stable for a few years (as dine-in or offline traffic resume after the pandemic) but should continue to go up after that, in our view.

Figure 57: Market size of China's pizza industry, by channel (dine-in/ delivery)



Source: Frost & Sullivan, CMBIGM estimates

Assumptions

Figure 58: CMBIGM's assumptions

Major assumptions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (RMB mn)						
Beijing and Shanghai	869	1,147	1,279	1,518	1,665	1,862
New growth markets	235	464	742	1,380	2,117	3,181
Total	1,104	1,611	2,021	2,898	3,782	5,042
Sales growth by segment (%)						
Beijing and Shanghai	23.8%	32.0%	11.5%	18.8%	9.6%	11.8%
New growth markets	74.6%	97.7%	59.8%	85.9%	53.4%	50.3%
Total	32.0%	45.9%	25.4%	43.4%	30.5%	33.3%
Average daily sales per store by market (RMB)						
Beijing and Shanghai	12,122	12,781	13,576	12,889	13,148	13,014
New growth markets	6,002	7,617	9,009	11,192	11,643	12,112
All markets	9,962	10,692	11,445	12,021	12,261	12,430
Sales growth by dine-in and delivery (%)						
Delivery	40.3%	43.5%	23.7%	30.0%	33.0%	33.0%
Non-delivery	12.4%	53.1%	30.2%	78.4%	25.7%	34.0%
Total	32.0%	45.9%	25.4%	43.4%	30.5%	33.3%
Sales network by segment						
Beijing and Shanghai	221	267	312	357	402	447
New growth markets	142	201	276	411	606	861
Total	363	468	588	768	1,008	1,308
Restaurant profit margin by segment						
Beijing and Shanghai	14.3%	18.5%	18.3%	16.5%	16.5%	16.5%
New growth markets	-15.1%	-2.6%	6.4%	9.1%	9.7%	12.4%
Total	3.4%	8.9%	10.1%	13.0%	12.7%	13.9%
Costs breakdown						
Staff costs/ sales	42.5%	43.7%	38.8%	37.5%	36.4%	35.2%
Rental and related expenses/ sales	12.4%	11.2%	10.7%	9.8%	9.8%	9.8%
D&A of other assets/ sales	10.6%	8.8%	8.3%	6.7%	6.1%	5.5%
Utilities expenses/ sales	4.9%	4.4%	4.1%	3.6%	3.5%	3.4%
A&P expenses/ sales	7.8%	7.6%	5.8%	5.8%	5.6%	5.4%
Other expenses/ sales	12.0%	9.9%	12.5%	10.7%	9.2%	8.7%
Effective tax rate	-2.4%	1.5%	-10.8%	-5515.2%	444.2%	21.4%
NP att. margin	-24.8%	-29.2%	-11.0%	-1.0%	-0.6%	2.6%
Adj. NP margin	-18.1%	-8.9%	-5.6%	-1.5%	0.0%	3.2%
Adj. NP growth (%)	18.8%	-28.3%	-20.6%	-62.2%	-104.0%	9051.5%

Source: Company data, CMBIGM estimates

Earnings forecasts

Figure 59: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,898	3,782	5,042	2,789	3,710	4,877	3.9%	1.9%	3.4%
Gross profit	2,101	2,742	3,656	2,036	2,708	3,560	3.2%	1.2%	2.7%
EBIT	-21	104	270	-97	57	199	-78.2%	81.4%	35.7%
Net profit att.	-30	-23	130	-113	-21	107	-73.8%	10.1%	21.8%
Diluted EPS (RMB)	(0.261)	(0.180)	0.998	(0.828)	(0.085)	1.060	-68.4%	113.0%	-5.8%
Gross margin	72.5%	72.5%	72.5%	73.0%	73.0%	73.0%	-0.5ppt	-0.5ppt	-0.5ppt
EBIT margin	-0.7%	2.7%	5.4%	-3.5%	1.5%	4.1%	2.7ppt	1.2ppt	1.3ppt
Net profit att. margin	-1.0%	-0.6%	2.6%	-4.0%	-0.6%	2.2%	3ppt	0ppt	0.4ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Analysis

We forecast sales growth of 43%/ 30%/ 33% YoY in FY23E/ 24E/ 25E.

■ We expect sales to grow by 43% YoY in FY23E, due to network expansion and SSSG.

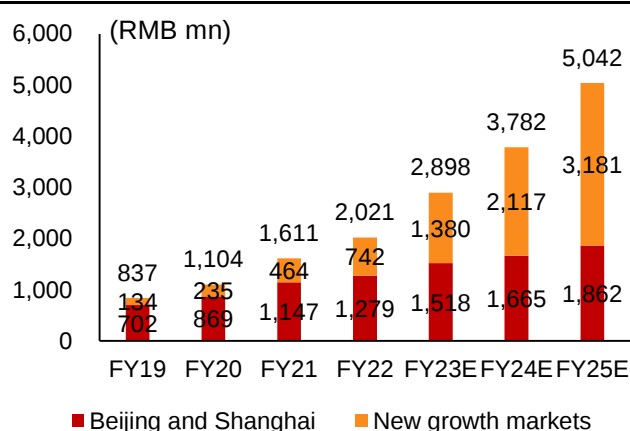
We project DPC Dash's sales to reach RMB 2.9bn in FY23E, up by 43% YoY, thanks to:

1) 31% increase in store number and 2) 10% sales per store growth, OR

1) 19% sales growth in Beijing and Shanghai and 2) 86% sales growth in the new growth markets, OR

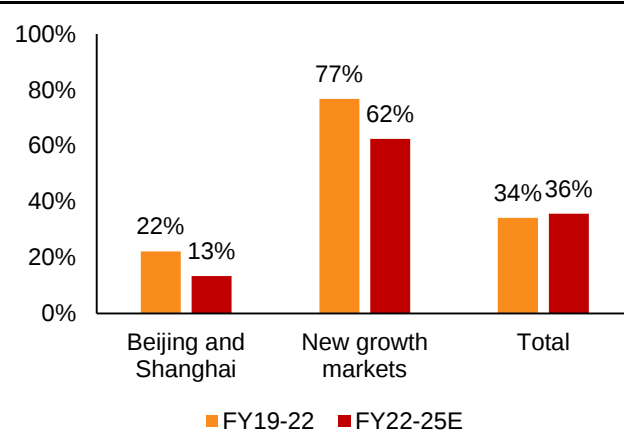
1) 30% delivery sales growth and 2) 78% non-delivery (dine-in + takeaways) sales growth.

Figure 60: Sales by region



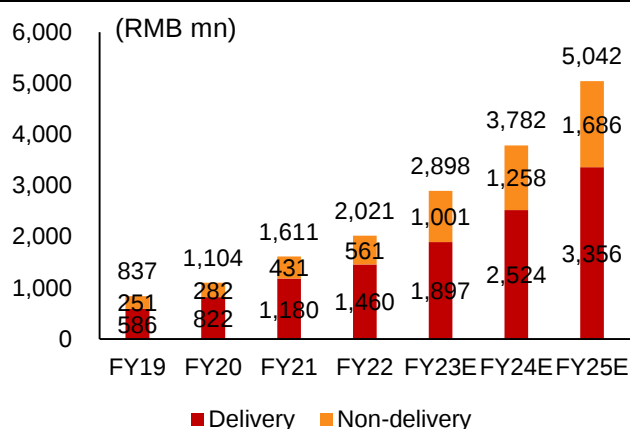
Source: Company data, CMBIGM estimates

Figure 61: Sales CAGR by region



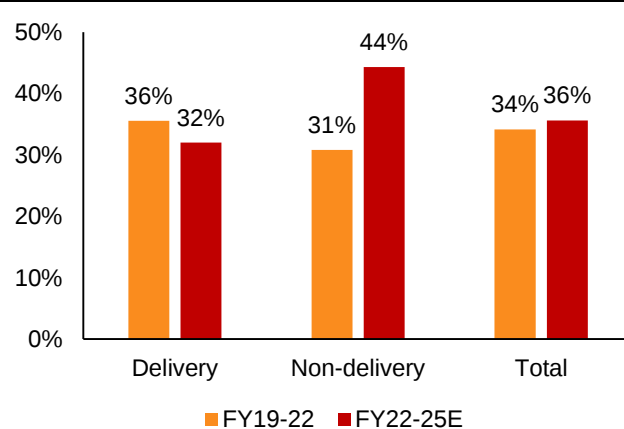
Source: Company data, CMBIGM estimates

Figure 62: Sales by channel



Source: Company data, CMBIGM estimates

Figure 63: Sales CAGR by channel



Source: Company data, CMBIGM estimates

■ **We also project 36% sales CAGR in FY22-25E.**

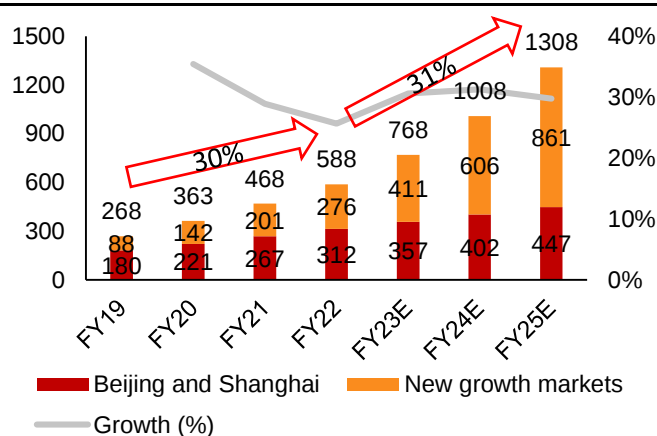
We also expect DPC Dash's sales CAGR to be at about 36% during FY22-25E, assuming:

1) 30% store count CAGR and 2) just 4% sales per store CAGR, OR

1) 13% sales CAGR in Beijing and Shanghai and 2) 62% sales CAGR in the new growth markets, OR

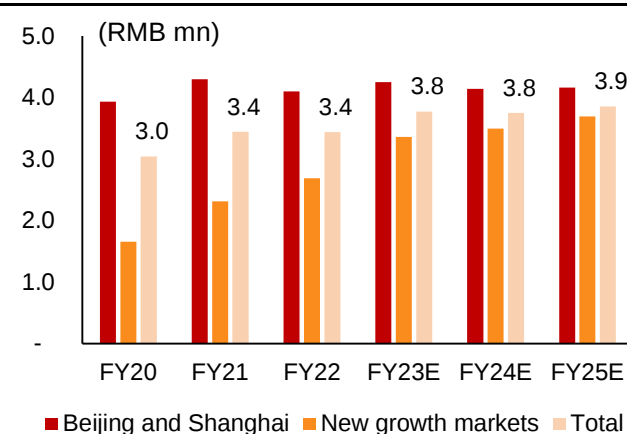
1) 32% delivery sales CAGR and 2) 44% non-delivery (dine-in + takeaways) sales CAGR.

Figure 64: Number of stores, by region



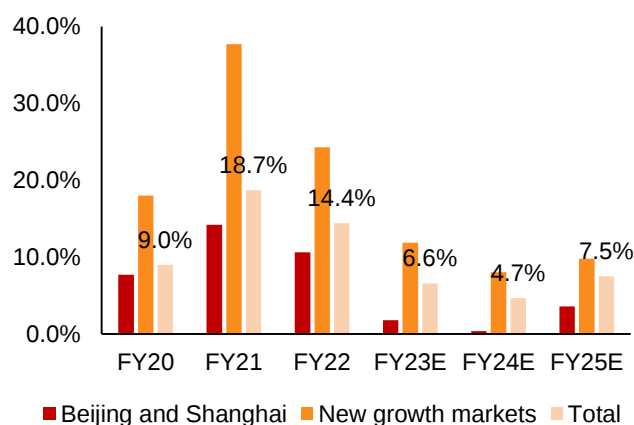
Source: Company data, CMBIGM estimates

Figure 65: Sales per store, by region



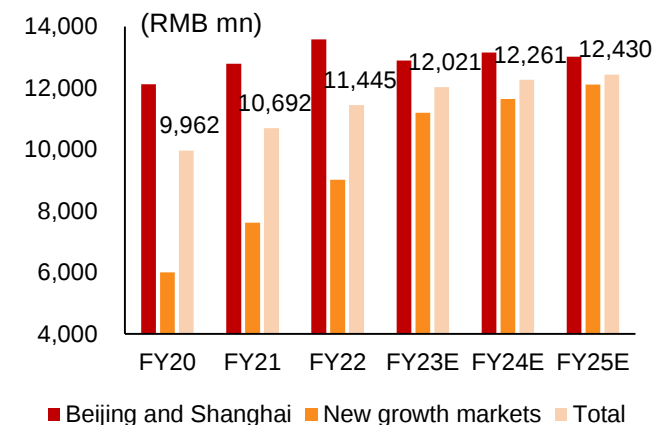
Source: Company data, CMBIGM estimates

Figure 66: Same store sales growth (%)



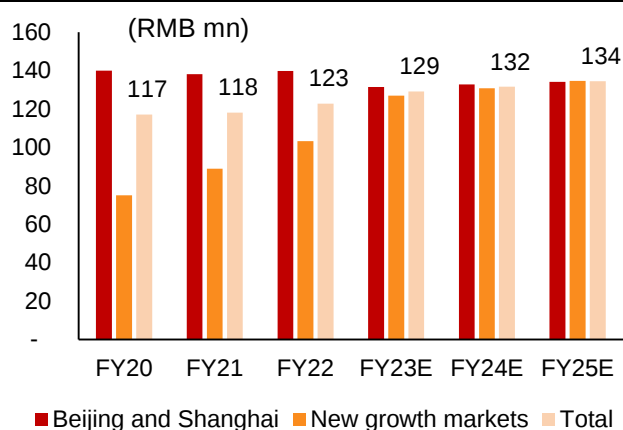
Source: Company data, CMBIGM estimates

Figure 67: Average daily sales per store, by region



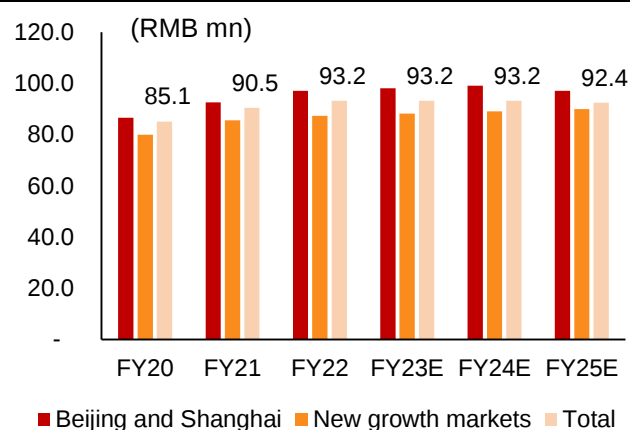
Source: Company data, CMBIGM estimates

Figure 68: Average daily orders, by region



Source: Company data, CMBIGM estimates

Figure 69: Average sales value per order, by region



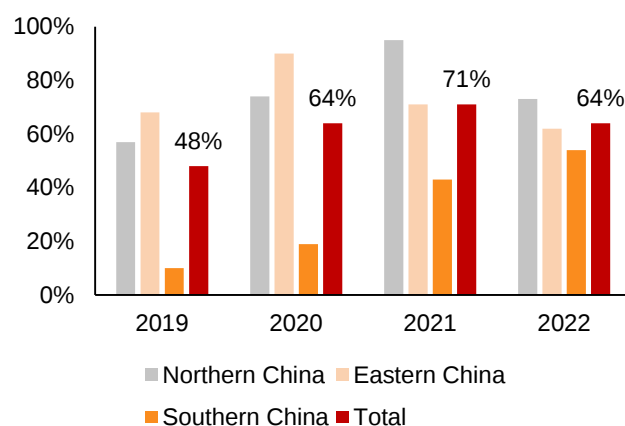
Source: Company data, CMBIGM estimates

Figure 70: Locations of its central kitchens

Central kitchen name	Covered regions
Northern China (Sanhe)	includes Beijing, Tianjin, Qingdao and Jinan
Eastern China (Shanghai)	includes Shanghai, Hangzhou, Ningbo, Nanjing, Suzhou, Wuxi, Wenzhou and Changzhou
Southern China (Dongguan)	includes Shenzhen, Guangzhou, Dongguan, Foshan, Zhuhai and Zhongshan;

Source: Company data, CMBIGM estimates

Figure 71: Utilization rates of its central kitchens



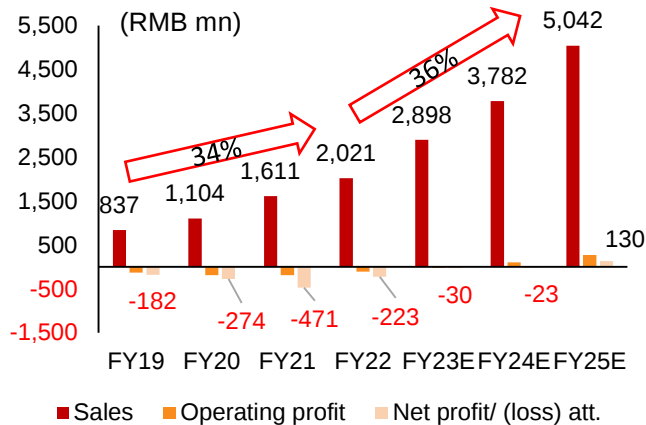
Source: Company data, CMBIGM estimates

We expect a mild loss in FY23E, a (adj. NP) breakeven in FY24E and an adj. NP margin of ~3% in FY25E.

■ **GP margin should likely remain stable throughout FY22-25E.**

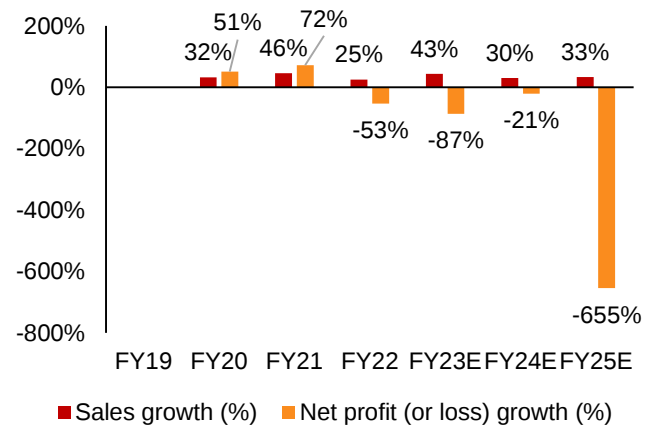
We forecast the company's GP margin to stay at about 72.5% in FY23E-FY25E because the average sales per order is likely to remain stable at about RMB93 (we think it is not quite realistic to raise prices under the current economic conditions). And the potential benefits from the higher utilization of central kitchens might be offset by the increases in promotions and marketing expenses to draw foot traffic.

Figure 72: Sales, OP and NP att.



Source: Company data, CMBIGM estimates

Figure 73: Sales and NP att. growth (%)

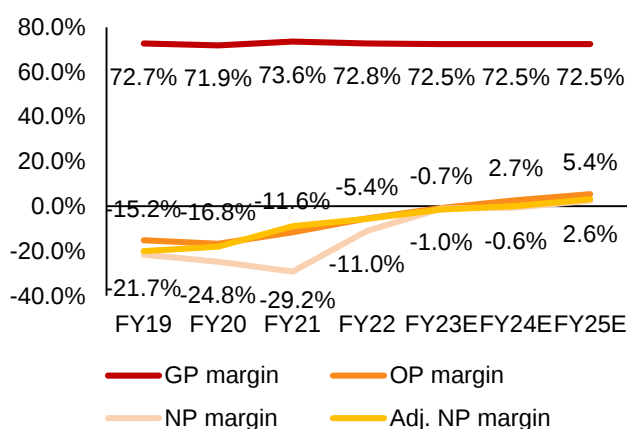


Source: Company data, CMBIGM estimates

■ **OP margin should improve in FY23E, be stable in FY24E, rise again in FY25E.**

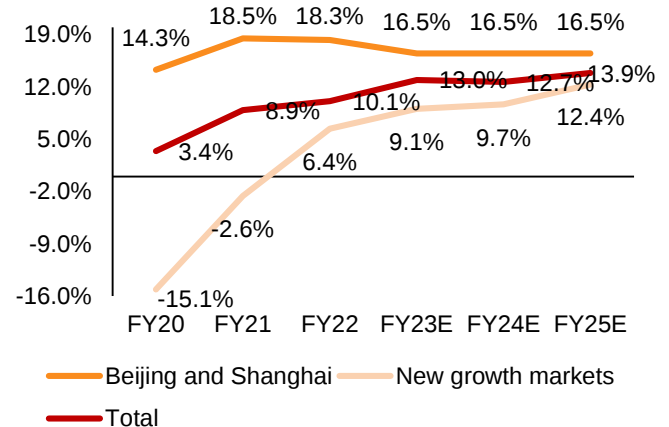
However, we do expect the OP margin to improve by 4.7ppt/ 3.5ppt/ 2.6ppt to about -0.7%/ 2.7%/ 5.4% in FY23E/ 24E/ 25E, driven by: 1) store-level operating leverage (through SSSG and ramp-up of new restaurants), 2) an improving new/old store mix, 3) drops in average rental and relatively slow increases in per-head salary (thanks to more expansion to lower-tier cities, 4) economies of scale or the fall in headquarters costs as a % of sales (as many costs such as amortization of intangible assets, headquarter staff, utilities and consultancy fees are all relatively fixed), etc. All in all, we forecast the adj. NP margin to be at about -1.5%/ 0.0%/ 3.2% in FY23E/ 24E/ 25E. Note that it may take about 3 years for the effective tax rate to return to a normal rate.

Figure 74: GP/ OP/ NP att./ Adj. NP margin

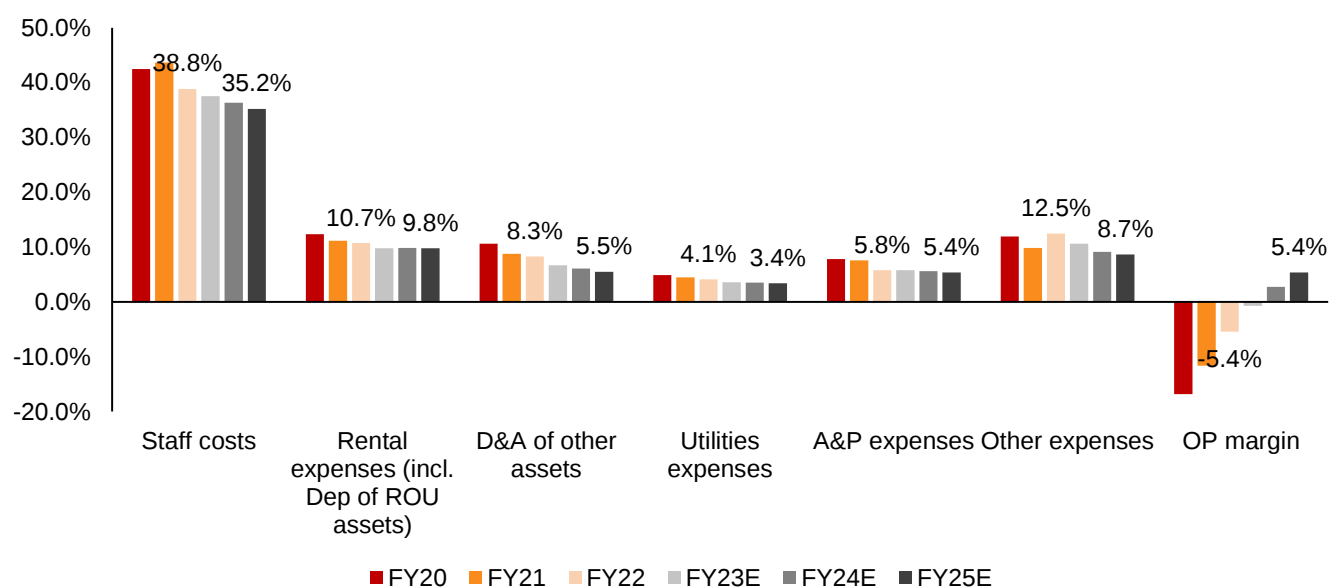


Source: Company data, CMBIGM estimates

Figure 75: Domino's store-level OPM, by region



Source: Company data, CMBIGM estimates

Figure 76: Opex, as % of total sales

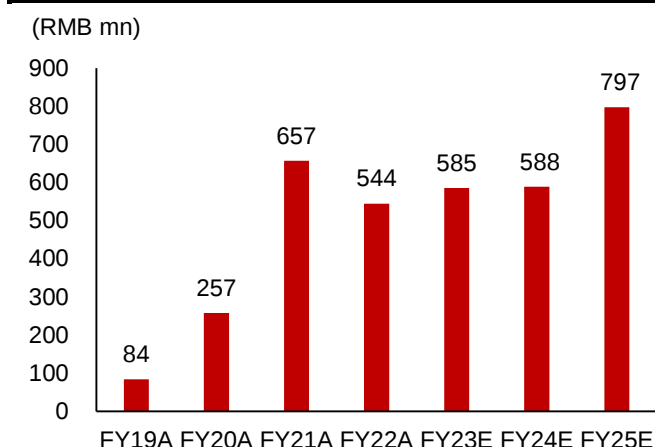
Source: Company data, CMBIGM estimates

Balance sheet and cash flow

■ DPC Dash's cash flow was stable, as rapid new store expansion was supported by equity financing, but we expect that to mildly improve in FY23E to FY25E.

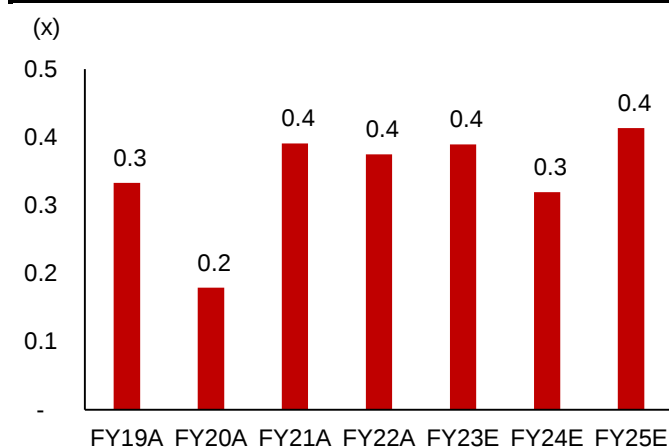
DPC Dash's cash position climbed from RMB84mn only in FY19 to about RMB544mn in FY22, mainly due to several rounds of financings in FY20 and FY21, hence the Company can continue to open more new stores despite that group-level breakeven was not achieved. Going forward, thanks to the IPO in Mar 2023 and further improvements in operating and net profit margins, we believe chance of more external financing is low and its cash level could gradually increase as time goes by.

Figure 77: Closing cash balance



Source: Company data, CMBIGM estimates

Figure 78: Net operating cash flow ratio



Source: Company data, CMBIGM estimates

Note: Net operating cash flow ratio = net operating cash flow divided by current liabilities

■ DPC Dash's cash conversion cycle was stable, as the increase in inventory was offset by the climb in payable days. We expect CCC be at about -50 in FY22-25E.

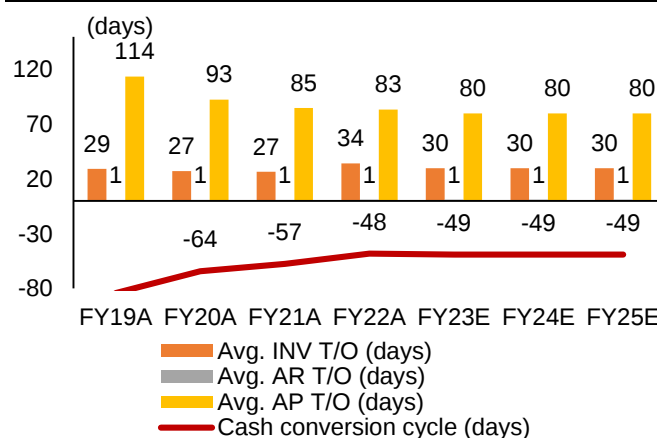
Inventory days has been stable at about 27 to 29 days in FY19 to FY21, but slightly increased to 34 days in FY22, mainly due to the increase in safety stocks, raw materials as well as consumables, but we expect that to normalize from FY23E and onwards. However, the payable days were falling from 114 days in FY19 to just 83 days in FY22, as the Company made more prepayments for certain raw materials on better price terms to reduce procurement costs; we thus expect that to go slightly further down and then stabilize in the near future. In addition, we expect DPC Dash's net gearing to improve in FY22 to FY25E.

Figure 79: Net debt or (cash) to equity



Source: Company data, CMBIGM estimates

Figure 80: Working capital (days)



Source: Company data, CMBIGM estimates

Valuation

Figure 81: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E
Leading Greater China Catering														
DPC Dash	1405 HK	BUY	75.51	60.30	25%	7,840	Dec-22	(204.0)	(296.3)	9.9	8.9	1.2	0.0	n/a
Nayuki	2150 HK	BUY	7.53	3.81	98%	6,535	Dec-22	29.3	13.2	1.1	(9.7)	(0.1)	0.1	(49.4)
Jiumaojiu	9922 HK	BUY	15.46	8.54	81%	12,422	Dec-22	20.9	13.1	2.5	6.6	0.1	1.0	(59.0)
Haidilao	6862 HK	BUY	24.76	16.98	46%	94,647	Dec-22	19.2	16.7	5.5	46.0	0.3	1.3	(24.2)
Cafe De Coral	341 HK	BUY	12.32	10.08	22%	5,904	Mar-23	17.9	13.2	1.9	3.9	0.3	5.8	(32.3)
Xiabuxiabu	520 HK	BUY	4.89	3.29	49%	3,574	Dec-22	27.6	11.2	1.9	(4.7)	(0.1)	1.7	(62.7)
Helens	9869 HK	NR	n/a	5.40	n/a	6,841	Dec-22	20.0	16.0	2.6	(68.1)	(0.1)	1.0	(62.9)
Yihai	1579 HK	NR	n/a	14.04	n/a	14,555	Dec-22	14.7	13.0	2.2	20.5	1.3	2.0	(48.6)
Yum China	9987 HK	BUY	435.82	354.40	23%	146,599	Dec-22	23.1	19.9	2.5	12.1	0.6	1.2	(19.3)
Yum China	YUMC US	BUY	78.66	45.18	74%	145,723	Dec-22	23.0	19.8	2.5	12.1	0.6	1.2	(17.3)
Gourmet Master	2723 TT	NR	n/a	103.50	n/a	4,614	Dec-22	19.7	15.2	1.5	7.9	0.4	4.1	(31.7)
Avg.								1.0	(13.2)	3.1	3.2	0.4	1.8	(40.8)
Med.								20.0	13.2	2.5	7.9	0.3	1.2	(40.5)
International Catering														
Yum! Brands	YUM US	NR	n/a	129	n/a	281,817	Dec-22	24.2	22.1	n/a	n/a	2.0	1.9	0.7
McDonald's	MCD US	NR	n/a	282	n/a	1,594,514	Dec-22	24.0	22.6	n/a	n/a	1.4	2.2	7.0
Starbucks	SBUX US	NR	n/a	103	n/a	916,808	Oct-23	25.0	21.5	n/a	n/a	1.6	2.2	4.3
Rest. Brands	QSR US	NR	n/a	70	n/a	253,098	Dec-22	21.8	20.7	6.6	34.9	4.3	3.1	8.8
Chipotle	CMG US	NR	n/a	2219	n/a	474,838	Dec-22	50.3	41.9	17.2	44.9	2.0	0.0	59.9
Darden Rest.	DRI US	NR	n/a	156	n/a	146,789	May-23	17.8	16.2	7.8	46.7	1.9	3.4	13.1
Domino's	DPZ US	NR	n/a	369	n/a	100,493	Jan-23	25.5	23.5	n/a	n/a	2.2	1.3	6.7
Wendy's Co	WEN US	NR	n/a	19	n/a	31,056	Jan-23	19.4	17.3	28.2	51.0	1.4	5.2	(14.7)
Shake Shack	SHAK US	NR	n/a	62	n/a	20,553	Dec-22	180	133	5.6	0.6	(0.9)	n/a	50.0
Wingstop	WING US	NR	n/a	235	n/a	53,864	Dec-22	99	84	n/a	n/a	4.1	0.4	70.7
Jubilant Food.	JUBI IN	NR	n/a	540	n/a	33,326	Mar-23	90	63	13.1	17.7	3.8	0.3	5.6
Domino's Group	DOM LN	NR	n/a	363	n/a	14,196	Dec-22	20	18	n/a	n/a	3.0	2.9	23.9
Domino's Ent.	DMP AU	NR	n/a	53	n/a	24,214	Jul-23	32	25	7.4	8.6	0.4	2.4	(20.4)
Alsea Sab De	ALSEA* MM	NR	n/a	61	n/a	22,229	Dec-22	22.5	16.7	4.1	28.3	0.6	0.0	64.2
Avg.								46.5	37.5	11.3	29.1	2.0	1.9	20.0
Med.								24.6	22.3	7.6	31.6	1.9	2.2	7.9
H-shares Consumer staples														
UPC	220 HK	NR	n/a	5.53	n/a	23,886	Dec-22	14.5	13.0	1.7	11.8	1.0	6.8	(29.2)
Tingyi	322 HK	NR	n/a	10.34	n/a	58,259	Dec-22	15.3	12.7	3.8	21.7	0.8	6.6	(23.3)
Want Want	151 HK	NR	n/a	4.70	n/a	55,765	Mar-23	12.9	11.9	2.9	21.6	1.4	6.2	(10.0)
China Mengniu	2319 HK	BUY	36.50	26.35	39%	103,672	Dec-22	16.1	13.9	1.9	11.3	1.4	1.9	(24.5)
Vitasoy Intl	345 HK	NR	n/a	9.25	n/a	9,924	Mar-23	67.0	35.3	3.0	2.1	0.6	1.0	(42.4)
Nongfu Spring	9633 HK	BUY	56.90	45.95	24%	516,775	Dec-22	45.9	39.4	14.8	45.6	3.1	1.7	4.2
Budweiser	1876 HK	HOLD	16.90	15.50	9%	205,273	Dec-22	26.5	22.1	2.2	8.3	1.8	1.7	(36.9)
Tsingtao Beer	168 HK	BUY	82.10	55.00	49%	95,568	Dec-22	15.8	13.5	2.2	16.0	1.2	3.4	(28.1)
CR Beer	291 HK	BUY	73.10	39.80	84%	129,118	Dec-22	22.1	18.3	3.3	17.9	1.2	1.8	(27.0)
Avg.								26.2	20.0	4.0	17.4	1.4	3.4	(24.1)
Med.								16.1	13.9	2.9	16.0	1.2	1.9	(27.0)

Source: Bloomberg, company data, CMBIGM estimates

Initiate on DPC Dash with BUY and a TP of HK\$75.51, based on 2.3x FY24E P/S.

We initiate coverage on DPC Dash with a BUY rating and a target price of HK\$75.51, based on a 2.3x FY24E P/S, which: 1) is around 6% discounts to the average of the major Domino's distributors around the globe (2.5x FY24E P/S, including Jubilant Foodworks (JUBI IN)'s 5.4x, Domino's Pizza Group (DOM LN)'s 2.1x, Domino's Pizza Enterprises (DMP AU)'s 1.7x and Alsea Sab De Cv (ALSEA* MM)'s 0.6x), OR 2) has an about 50% premium over the catering industry average (1.5x FY24E P/S).

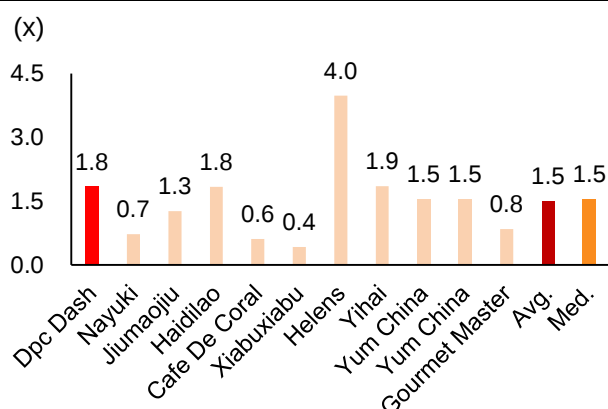
We believe the P/S method is relevant to value DPC Dash, because:

- 1) we think the Domino's brand will be successful in China in the mid to long term,
- 2) it will secure a reasonably high market shares in the Pizza industry (or even the QSR industry),
- 3) it will deliver rapid sales CAGR in the future,
- 4) its operating cash flow is likely to cover all the capex needed for new store expansion, and the group level breakeven should be achieved in the coming years.

We think DPC deserves a premium valuation to other Domino's distributors like Domino's Pizza Group (DOM LN) and Domino's Pizza Enterprises (DMP AU), supported by:

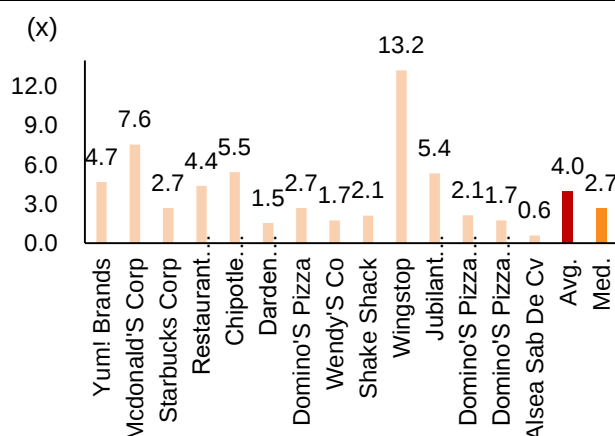
- 1) a much faster sales CAGR, at 37%, vs Domino's Pizza Group (DOM LN) and Domino's Pizza Enterprises (DMP AU)'s 7%,
- 2) an extremely sizable and fast-growing addressable market in China (while the organic growth tends to be slower in those more developed regions such as the UK, Japan and the Taiwan region),
- 3) different stages of development: DPC Dash is still in the early stage of expansion in China and the sales CAGR is likely to stay fast (unlike Domino's Pizza Group (DOM LN) and Domino's Pizza Enterprises (DMP AU) that have been operating in Australia, Japan and UK regions for quite a long time already. In fact, Domino's Pizza Enterprises' (DMP AU) P/S valuation did surge in 2016, a few years after it entered and accelerated its development in the Japan market.

Figure 82: China peers valuation - Forward 2 yrs P/S



Source: Company data, CMBIGM estimates

Figure 83: Int'l peers valuation - Forward 2 yrs P/S



Source: Company data, CMBIGM estimates

We also compare it to the industry's average of 1.5x FY24E P/S, and we think a premium valuation should also be justified, because of:

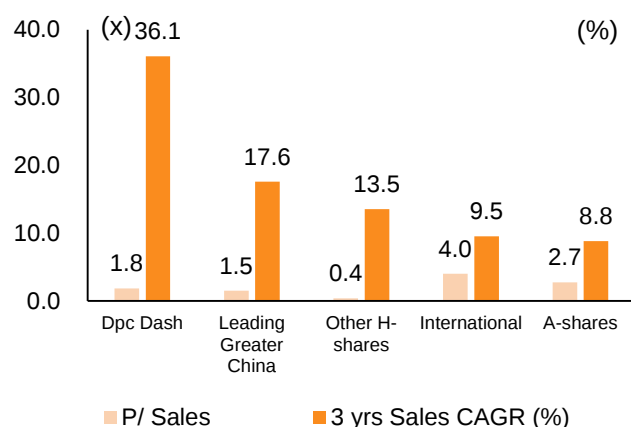
- 1) a much faster sales CAGR, at 37%, vs the industry average of 18%,
- 2) a renowned and reliable brand (partly thanks to parent company's global presence, long history, and track record),
- 3) its QSR nature and highly standardized business model (which are often more long-lasting and has a higher margin).

When compared it to Yum China's (YUMC US)'s 1.5x FY24E P/S, we believe DPC Dash should enjoy a higher valuation, thanks to:

- 1) a much faster sales CAGR, at 37%, vs Yum China's 13%,
- 2) a more superior per-store economics vs Pizza Hut (faster SSSG, lower costs and higher store-level OP margin),
- 3) greater room for growth in China.

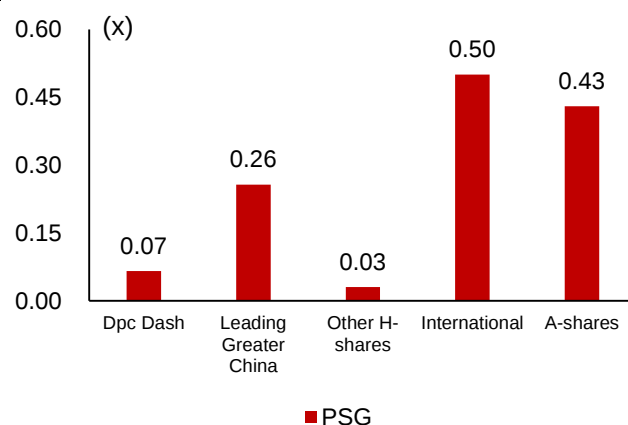
But still, there are some discounting factors such as the relatively low NP margin at the moment.

Figure 84: P/S and 3 yrs sales CAGR, by sub-sector



Source: Bloomberg, company data, CMBIGM estimates

Figure 85: PSG, by sub-sector



Source: Bloomberg, company data, CMBIGM estimates

Figure 86: Valuation – forward 2 years P/S band

Source: Bloomberg, company data, CMBIGM estimates

■ DCF method derives a valuation of HK\$75.42 per share (~2.3x FY24E P/S).

We also crosscheck our valuation estimates using the DCF method, deriving a valuation of HK\$75.42 per share, based on a 10.7% WACC and 3.0% terminal growth. This valuation also implies a 2.3x FY24E P/S and is reasonably close to our target price of HK\$75.51, based on 2.3x FY24E P/S.

Figure 87: Valuation - DCF method in HK\$mn

DCF	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	-48	56	170	332	544	799	1,076	1,454
Chg in working cap	39	-32	210	193	275	305	337	388
Adjusted tax	6	-13	-51	-51	-54	-45	-119	-251
Capex & product dev	-171	-195	-275	-321	-378	-419	-439	-439
Unleveraged FCF	-173	-185	54	152	387	640	854	1,152
YoY%								
DCF (23E-27E)			1,400					
PV (Terminal value)			6,926					
EV (End-23E)			8,326					
Cash from options/warrants conv			0					
Year-end net cash/(debts)			344					
Fully diluted equity value (End-23E)			8,670					
Fully diluted no. of shares (m)			130					
Minority interests (End-23E)			0					
Market cap (End-23E)			8,670					
Exchange rate			1.13					
Fully diluted equity value/share (HK\$)			75.42					
Risk-free rate			3.0%					
Risk premium			13.0%					
Beta			0.70					
Cost of equity			12.1%					
Cost of debt			3.0%					
Tax rate			17.5%					
After-tax cost of debt			2.5%					
Debt to total capital			15.0%					
WACC			10.7%					
Terminal growth			3.0%					

Source: Bloomberg, company data, CMBIGM estimates

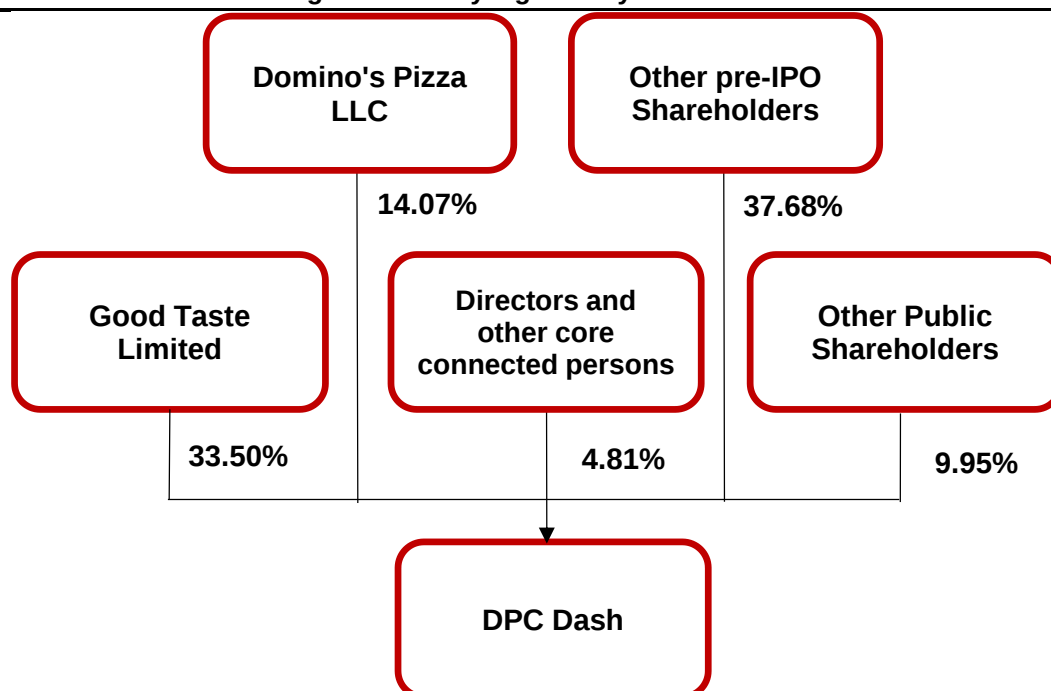
Figure 88: Sensitivity test for the target price, in HK\$

	Terminal growth (%)	WACC (%)						
		9.2%	9.7%	10.2%	10.7%	11.2%	11.7%	12.2%
1.5%		79.40	73.93	69.10	64.82	60.99	57.54	54.43
2.0%		84.18	78.04	72.68	67.94	63.74	59.98	56.60
2.5%		89.67	82.73	76.72	71.45	66.81	62.68	59.00
3.0%		96.06	88.13	81.32	75.42	70.26	65.70	61.65
3.5%		103.57	94.40	86.62	79.94	74.15	69.08	64.61
4.0%		112.54	101.78	92.78	85.14	78.59	72.91	67.94
4.5%		123.44	110.59	100.02	91.19	83.70	77.27	71.70

Source: Bloomberg, company data, CMBIGM estimates

Shareholding Structure

Figure 89: DPC Dash's shareholding structure by legal entity



Source: Company data, HKEX, CMBIGM estimates

Management Profile

Figure 90: DPC Dash's management profile

Name	Age	Joined the group since	Date of appointment	Position	Responsibility
Ms. Yi Wang (王怡)	45 years old	May-17	Jun-21	Executive Director and Chief Executive Officer	Responsible for the Company's overall strategic planning and business direction. Ms. Wang has extensive experience in management in the food and beverage industry. She joined the Group as chief executive officer in May 2017 and became an executive Director of the Company in May 2021. Prior to joining the Group, she served in several management roles at McDonald's China for approximately eight years. Her last position at McDonald's China was Vice President of Franchising responsible for developing the franchising system and overseeing franchisee performance from Jan 2015 to May 2017. She received her master's degree in economics from Vanderbilt University in Jun 2004 and her bachelor's degree in world economics from Fudan University in Jun 2000.
Mr. Frank Paul Krasovec	79 years old	Apr-08	Jun-08	Non-executive Director and chairman	Responsible for managing and communicating the Board's decisions with the CEO. Mr. Krasovec is one of the Company's co-founders and has been chairman since the Company's inception. He is a successful entrepreneur who has founded highly successful companies in multiple industries, including media/telecommunications, promotional products, energy products and services and real estate development and management. In addition, he has helped build and monetize numerous investments in the real estate, venture capital, and food and beverage industries. He serves as the CEO of Norwood Investments, which oversees all of his personal investments, including those in the Company and the major active investments listed above.
Mr. James Leslie Marshall	56 years old	Apr-19	Apr-19	Non-executive Director and deputy chairman	Responsible for providing strategic advice to the Company. Mr. Marshall has over 20 years of experience in senior management positions and operations management in the shipping industry. He is the founder and CEO of Berge Bulk Limited, which is one of the world's leading dry bulk shipping companies. Since Jan 2010, Mr. Marshall has served as the chairman of the Marshall Foundation, which supports community and energy efficiency projects, as well as philanthropic ventures in lesser developed communities in Asia and Africa. Mr. Marshall currently holds directorships in several private enterprises, including various operating subsidiaries of Berge Bulk Limited as well as Good Taste Limited, one of the Controlling Shareholders.
Mr. Jun Zhong (鍾軍)	50 years old	Sep-18	Sep-18	Chief operating officer	Responsible for overseeing the operation and R&D of the Company. Prior to joining the Company, Mr. Zhong had a rich set of experience in the consumer products industry. Between Sep 2016 and Jul 2018, he served as the COO of Urban Revivo, a retailer engages in the business of fast affordable fashion for women, men and teenagers' apparel. Between Dec 2015 and Aug 2016, he served as the COO of Guangzhou Qianqianshi Crafts Co., Ltd., a company that focuses on merchandizing self-brand cosmetics and accessories in China. Between Jun 2010 and May 2015, he served as the general manager of McDonald's China's Guangzhou market. He received his bachelor's degree in computer sciences from Shenzhen University in Jul 1993.
Ms. Ting Wu (吳婷)	46 years old	Dec-20	Dec-20	Chief financial officer	Responsible for overseeing the financial operations and capital management of The Company. Ms Wu has also been appointed as one of the joint company secretaries with effect from Mar 26, 2022. She has extensive experience in leading major capital markets transactions and advising both sellers and buyers in M&A transactions. Prior to joining the Group, she served as the CFO of Mogu Inc. (NYSE: MOGU) from Apr 2018 to Mar 2020. In addition, she had over 10 years' experience in the banking industry. She served as the managing director at the M&A division of CITIC CLSA from Jul 2017 to Apr 2018 and the director in global investment banking at BofA Securities, from Jun 2012 to May 2016. She also served as the vice president of Asia industrial team at Citigroup Investment Banking from Jun 2010 to Jun 2012. She received her master's degree with honours in finance from University of Melbourne in March 2003 and her bachelor's degree in economics from Shanghai International Studies University in Jun 1999.
Mr. Xinyi Xu (徐歆奕)	47 years old	Nov-17	Nov-17	Chief performance officer	Responsible for overseeing the financial, legal and supply chain operations of the Company. Mr. Xu previously served as the financial director at Coca-Cola Bottling Investments Group China from Sep 2007 to Apr 2017. Between Jan 2004 and Aug 2007, he served as the financial and administration director at Lagardere China. Between Mar 2002 and Jan 2004, he served as the financial manager at Whirlpool (China) Co., Ltd. (SSE: 600983). Prior to his management experience, he was a senior financial analyst at Honeywell (China) Co., Ltd., a diversified technology manufacturing enterprise, from Mar 2000 to Dec 2001. He also served as a financial analyst at Shanghai KFC Co., Ltd. from Jul 1998 to Apr 2000. He is a CPA awarded by the Chinese Institute of CPA in Jun 2001. He received his bachelor's degree in economics from Shanghai University in Jun 1998.
Ms. Yujing Wang (王毓瑋)	43 years old	Jun-15	Jun-15	Chief marketing officer	Responsible for overseeing the brand marketing and product development of the Company. Ms. Wang had almost 20 years' experience in marketing. Prior to joining the Company, she served as the director of marketing brand management and client relationship management at Estee Lauder Shanghai Commercial Co., Ltd. from Sep 2014 to Mar 2015. Between Sep 2013 to Aug 2014, she served as the director of marketing at Solaris Children Care (Shanghai) Company Limited, an infants' feeding and caring accessories company. Before that, she also accumulated significant food retailer experience by serving as a senior director of the marketing department at McDonald's China from Feb 2009 to Sep 2013. She received her bachelor's degree in biochemical engineering from East China University of Science and Technology in Jul 2001.
Mr. Zohar Ziv	70 years old	Apr-08	Nov-08	Non-executive Director and co-founder	Responsible for provide strategic advice to the Board. Mr. Ziv is an active director, advisor and investor with over 25 years of extensive executive management experience across various industries. He served as a director of Shoes For Crews, a market leader in safety footwear to foodservice, hospitality, healthcare and industrial employees, from Feb 2016 to Feb 2022. He joined Deckers, the footwear designer and maker parent company of the UGG, Teva, Sanuk, Hoka One One, and Ahnu brands in Mar 2006 as its CFO and executive VP of finance and administration, and was promoted to COO in Dec 2007 until his retirement in Jan 2015. Between Feb 2004 to Dec 2005, he was the CFO of EMAK Worldwide, Inc. (Nasdaq: EMAK), a global marketing services firm. He received his certificate of CPA awarded by University of Illinois in Jun 1987.
Mr. Matthew James Ridgwell	58 years old	Apr-19	Apr-19	Non-executive Director	Responsible for provide strategic advice to the Board. Mr. Ridgwell has over 30 years of experience in senior management positions across a variety of sectors. Since 2013 he has been providing investment advice to various entities, including Good Taste Limited, the Controlling Shareholder. From 1988 to 1997, he worked for the Swire Group, mostly in shipping, as a general manager in Taiwan, Japan, New Zealand, and Hong Kong. From 1999 to 2010, he was based in Belgium where he co-founded MAC Telecom and Clearwire Belgium, wireless telecommunications companies, which were subsequently sold to entities controlled by Craig McCaw. From 2008 to 2012, he was the co-owner of Trä AB KG List, a manufacturing business in Sweden. He currently holds directorships in several private enterprises. From Apr 2014 until 2022, he also held a variety of directorships of entities controlled by the CPPIB. He received his MBA degree from the IMD in Dec 1998.
Mr. Arthur Patrick D'Elia	45 years old	Apr-23	Apr-23	Non-executive Director	Responsible for provide strategic advice to the Board. Mr. D'Elia has served as executive VP - international for Domino's Pizza, Inc. since May 1, 2022. He is responsible for overseeing the Domino's business in more than 90 countries around the world. He previously served as Domino's executive VP - chief marketing officer from Jul 2020 to Apr 2022, after working as senior VP - chief marketing officer since Feb 2020. He joined Domino's in Jan 2018 as senior VP - chief brand and innovation officer. Prior to Domino's, he served as chief marketing officer for Danone Dairy's business unit which serviced the United Kingdom, Ireland, Belgium, the Netherlands and Luxembourg. He joined Dannon U.S. (a subsidiary of Danone) in 2010 as director of marketing for its children's brands.

Source: Company data, CMBIGM

Key Risks

- Weaker-than-expected economic growth and recovery;
- Outbreak of viruses or other illnesses that may have a material adverse effect on the business;
- Changes in consumer tastes in China, making the pizza category less popular;
- Slower-than-expected store expansion, or the ceiling of the store numbers in Beijing and Shanghai are lower-than-expected;
- Weaker-than-expected popularity among customers in cities in the new growth markets;
- Level of competition intensifies (e.g. price war occurs), or the company fails to remain competitive in product, service, brand and quality;
- Greater-than-expected increases in raw material costs;
- Labour shortage or faster-than-expected increases in labour costs;
- Involvement in fraud or other misconduct committed by employees or third parties.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,611	2,021	2,898	3,782	5,042
Beijing and Shanghai	1,147	1,279	1,518	1,665	1,862
New growth markets	464	742	1,380	2,117	3,181
Others	-	-	-	-	-
Cost of goods sold	(426)	(550)	(797)	(1,040)	(1,387)
Gross profit	1,186	1,471	2,101	2,742	3,656
Other net income	4	42	23	30	40
Operating expenses	(1,378)	(1,622)	(2,146)	(2,668)	(3,426)
Staff costs	(703)	(785)	(1,087)	(1,375)	(1,775)
Rental & depre. of ROU	(162)	(191)	(223)	(290)	(384)
Rental expenses	(18)	(26)	(60)	(82)	(110)
D & A expenses	(142)	(168)	(194)	(231)	(277)
Other operating expenses	(352)	(452)	(581)	(690)	(880)
EBIT	(187)	(109)	(21)	104	270
Finance costs, net	(88)	(78)	(84)	(82)	(85)
JV & associates	-	-	-	-	-
Exceptional	(203)	(13)	104	(15)	(20)
Pre-tax profit	(478)	(201)	(1)	7	165
Income tax	7	(22)	(29)	(30)	(35)
Less: Minority interests	-	-	-	-	-
Net profit	(471)	(223)	(30)	(23)	130
Adj. Net profit	(143)	(114)	(43)	2	159

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(187)	(109)	(21)	104	270
D&A	304	359	417	521	661
Change in working capital	39	(32)	210	193	275
Income tax paid	(6)	(35)	(29)	(30)	(35)
Others	183	116	(174)	(378)	(496)
Net cash from operating	332	298	403	409	675
Capex & investments	(171)	(195)	(275)	(321)	(378)
Associated companies	-	-	-	-	-
Interest received	2	3	-	-	-
Others	(13)	(15)	-	-	-
Net cash from investing	(182)	(207)	(275)	(321)	(378)
Equity raised	317	-	-	-	-
Change of Debts	(30)	20	-	-	-
Dividend paid	-	-	-	-	-
Others	(44)	(245)	(87)	(85)	(88)
Net cash from financing	243	(225)	(87)	(85)	(88)
Net change in cash	393	(134)	41	3	209
Beginning cash balance	257	657	544	585	588
Exchange difference	6	21	-	-	-
Cash at the end of the year	657	544	585	588	797

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	2,379	2,581	2,720	2,886	3,083
Fixed asset	427	496	640	810	1,011
Intangible assets & goodwill	1,892	2,007	2,002	1,998	1,994
Prepaid lease payments	31	40	40	40	40
Interest in asso. & JV	-	-	-	-	-
Others	29	37	37	37	37
Current assets	784	689	760	815	1,100
Cash and cash equivalents	657	544	585	588	797
Inventories	37	67	66	85	114
Trade and other receivables	5	8	9	12	16
Prepayments	84	69	99	129	173
Others	2	0	0	0	0
Current liabilities	849	795	1,035	1,281	1,632
Borrowings	180	-	-	-	-
Trade payables	125	127	175	228	304
Accruals & other payables	358	441	632	825	1,100
Tax payables	22	17	17	17	17
Others	164	211	211	211	211
Non-current liabilities	1,356	1,721	1,721	1,721	1,721
Borrowings	-	200	200	200	200
Deferred income	-	-	-	-	-
Deferred tax	-	-	-	-	-
Others	1,356	1,521	1,521	1,521	1,521
Minority Interest	-	-	-	-	-
Total net assets	958	753	724	700	830
Shareholders' equity	958	753	724	700	830

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Beijing and Shanghai	71.2	63.3	52.4	44.0	36.9
New growth markets	28.8	36.7	47.6	56.0	63.1
Others	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	73.6	72.8	72.5	72.5	72.5
Operating margin	(11.6)	(5.4)	(0.7)	2.7	5.4
Pre-tax margin	(29.7)	(9.9)	(0.0)	0.2	3.3
Net margin	(29.2)	(11.0)	(1.0)	(0.6)	2.6
Effective tax rate	1.5	(10.8)	(5,515.2)	444.2	21.4
Balance sheet ratios					
Current ratio (x)	0.9	0.9	0.7	0.6	0.7
Quick ratio (x)	0.9	0.8	0.7	0.6	0.6
Cash ratio (x)	0.8	0.7	0.6	0.5	0.5
Inventory turnover days	27	34	30	30	30
Trade receivables days	1	1	1	1	1
Trade payables days	85	83	80	80	80
Total debt / total equity ratio (%)	19	27	28	29	24
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	(49.2)	(29.6)	(4.1)	(3.3)	15.7
ROA	(14.9)	(6.8)	(0.8)	(0.6)	3.1
Per share					
EPS (RMB)	(5.42)	(2.34)	(0.26)	(0.18)	1.00
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	11.02	7.91	5.57	5.39	6.39

Source: Company data, CMBIGM estimates

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NOT RATED	: Stock is not rated by CMBIGM
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