

Haidilao (6862 HK)

Waiting for new initiatives to shine, with yields

Haidilao's 1H24 results were roughly inline, but the margin was soft, given the meaningful SSSG. Going into 2H24E, we can still see certain pressure like drags from macro environment, high base for SSSG and staff costs inflation etc. In our view, the extra upside could be from the acceleration in new stores opening, further plans to boost efficiency and new brands' development. Given the low valuation and attractive dividend, we maintain BUY.

■ **Cautiously optimistic about 2H24E, extra upside could be from new stores opening or new CEO's initiatives to push margins and multi-brands.** We have to give credit to Haidilao, as its SSS recovery rate had greatly outperformed the catering industry, thanks to its: superiority in customer services, members management, new product launches, marketing and advertising on social media, etc.. But going into 2H24E, we can see a number of challenges, such as the high base for SSSG (table turnover was actually flattish YoY in Jul 2024 while the ASP should be stable and therefore, we are now forecasting 0% to 5% SSSG in 2H24E) and hence limited the operating leverage (i.e. staff costs may stay high). This assumption is based on the already larger scale of advertising (e.g. crossover with IPs,) along with the new product launches in the autumn and winter seasons. We do expect benefits from 1H24 such as GP margin improvements and declining D&A expenses (as more and more restaurants have fully depreciated its original capex) to continue. And in our view, the additional upside (or segmental improvements) vs 1H24 could lay on: 1) potential acceleration in store numbers, where the Company is still targeting a MSD % increase (unlike a decline in 1H24), 2) further margin improvements from new initiatives to boost employee's creativity, motivation and costs savings, such as the sharing of store managers around stores, etc, 3) the "Red pomegranate" project, a multi-brand development strategy which is highly important for Haidilao's future growth. A new team was set up to optimize the incentive policies, encourage national leaders and provide the necessary resources to participate in new brand management. There are four brands under the incubation stage and its Yanqing Barbecue Shop brand already has a rough plan to open 400 to 500 stores in around three years.

■ **Maintain BUY but trim TP to HK\$ 15.94**, based on 16x FY24E P/E (cut from 20x to factor in the slowdown in net profit growth and sector de-rating). We fine-tuned our FY24E/ 25E/ 26E net profit forecasts by -7%/ -1%/ +4% to factor in higher staff costs, but better GP margins (from low input costs, more bulk or direct purchases, more higher margin new products etc.). The stock is trading at 15x FY24E P/E, not too demanding, especially when we also consider the 6% dividend yield.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	31,039	41,453	47,309	50,404	52,399
YoY growth (%)	(20.6)	33.6	14.1	6.5	4.0
Operating profit (RMB mn)	2,123.5	5,584.3	6,033.8	6,988.4	7,896.8
Net profit (RMB mn)	1,637.3	4,495.4	4,627.2	5,758.2	6,847.8
EPS (Reported) (RMB)	0.29	0.81	0.83	1.03	1.22
YoY growth (%)	na	174.6	2.4	24.4	18.9
P/E (x)	41.2	15.0	14.6	11.8	9.9
P/B (x)	9.1	5.9	3.3	2.2	1.6
Yield (%)	0.0	6.0	6.1	7.6	9.1
ROE (%)	21.3	47.4	29.2	22.9	19.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$15.94**
 (Previous TP) HK\$21.52)
Up/Downside **20.0%**
Current Price **HK\$13.28**

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	74,022.7
Avg 3 mths t/o (HK\$ mn)	185.3
52w High/Low (HK\$)	22.10/11.80
Total Issued Shares (mn)	5574.0

Source: FactSet

Shareholding Structure

Mr. Zhang Yong	60.4%
Mr. Shi Sean	9.4%

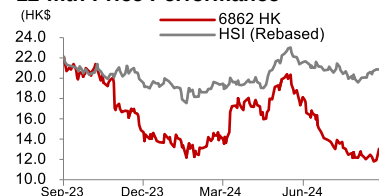
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.5%	6.1%
3-mth	-26.7%	-23.6%
6-mth	-7.1%	-12.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **1H24 results roughly inline.** Haidilao's sales increased by 14% YoY in 1H24, inline with BBG est. while net profit dropped by 10% YoY, missing BBG est. by 5%. Such a miss, in our view, is mainly due to higher-than-expected staff costs (labour shortage back in 1H23, while it was ample in 1H24), more than offsetting the benefits of a beat in GP margin (mainly driven by greater use of discounting coupons and the drop in ticket size given the recent tendency to trade down). SSSG was at about 15% in 1H24, which was driven by an around 27% increase in table turnover (to 4.2x, from 3.3x in 1H23) and a roughly 5% drop in ASP (to RMB 97.4, from RMB 102.9 in 1H23). Even though SSSG was strong, the operating leverage was limited, as staff costs and rent expenses were rather variable. On the other hand, GP margin could still manage to increase to 61% (from 59% in 1H23) while the ASP may fall, which was aided by the continuous decrease in procurement costs, improvement in supply chain efficiency, plus the changes in menu items. Noted that an interim DPS of HK\$ 0.391 was also declared in 1H24, representing a 95% payout ratio, which is about 2.9% of the current market cap (or 5.9% if we annualized).

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	47,309	50,404	52,399	47,018	50,125	52,135	0.6%	0.6%	0.5%
Gross profit	28,442	30,303	31,502	27,844	29,684	30,874	2.1%	2.1%	2.0%
EBIT	6,615	8,033	9,470	6,873	8,129	9,180	-3.8%	-1.2%	3.2%
Net profit att.	4,608	5,735	6,820	4,977	5,790	6,587	-7.4%	-1.0%	3.5%
Diluted EPS (RMB)	0.827	1.029	1.224	0.893	1.039	1.182	-7.4%	-1.0%	3.5%
Gross margin	60.1%	60.1%	60.1%	59.2%	59.2%	59.2%	0.9ppt	0.9ppt	0.9ppt
EBIT margin	14.0%	15.9%	18.1%	14.6%	16.2%	17.6%	-0.6ppt	-0.3ppt	0.5ppt
Net profit att. margin	9.7%	11.4%	13.0%	10.6%	11.6%	12.6%	-0.8ppt	-0.2ppt	0.4ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	47,309	50,404	52,399	45,905	49,448	53,264	3.1%	1.9%	-1.6%
Gross profit	28,442	30,303	31,502	27,476	29,555	31,853	3.5%	2.5%	-1.1%
EBIT	6,615	8,033	9,470	6,276	7,023	7,716	5.4%	14.4%	22.7%
Net profit att.	4,608	5,735	6,820	4,735	5,333	5,901	-2.7%	7.5%	15.6%
Diluted EPS (RMB)	0.827	1.029	1.224	0.863	0.967	1.068	-4.2%	6.4%	14.6%
Gross margin	60.1%	60.1%	60.1%	59.9%	59.8%	59.8%	0.3ppt	0.4ppt	0.3ppt
EBIT margin	14.0%	15.9%	18.1%	13.7%	14.2%	14.5%	0.3ppt	1.7ppt	3.6ppt
Net profit att. margin	9.7%	11.4%	13.0%	10.3%	10.8%	11.1%	-0.6ppt	0.6ppt	1.9ppt

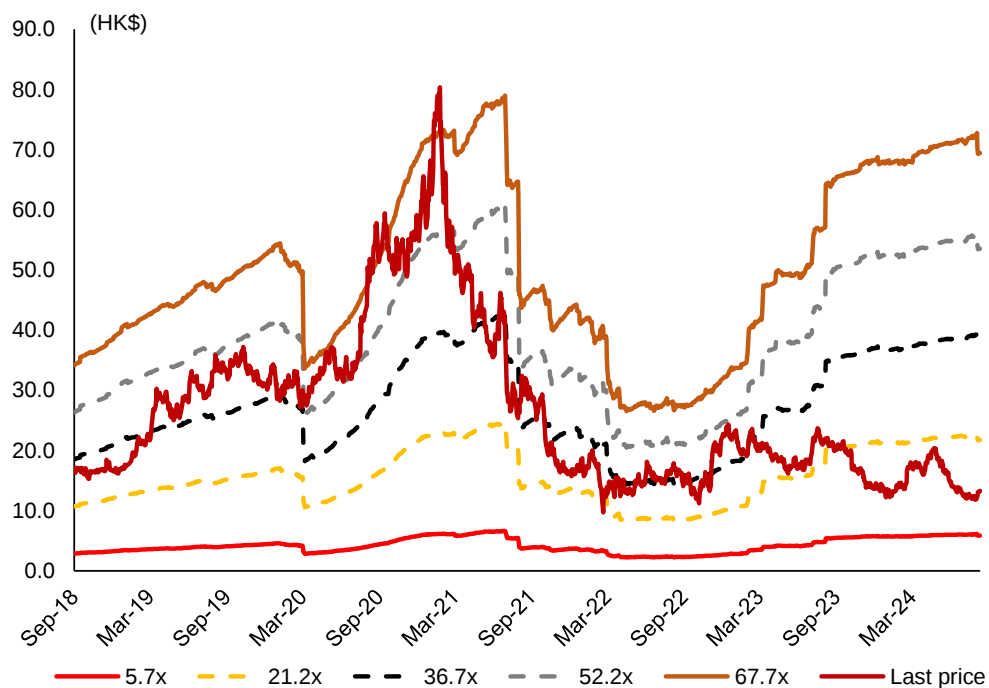
Source: Company data, CMBIGM estimates

Valuation

Figure 3: 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														
Haidilao	6862 HK	BUY	15.94	13.28	20%	74,023	Dec-23	13.3	10.7	3.0	29.1	0.9	6.8	(8.7)
Jiumaojiu	9922 HK	BUY	2.64	2.50	6%	3,526	Dec-23	10.2	7.1	0.8	8.8	1.4	3.7	(59.0)
Nayuki	2150 HK	BUY	3.43	1.39	147%	2,380	Dec-23	17.6	8.5	0.4	2.1	0.1	0.0	(56.2)
Cafe De Coral	341 HK	BUY	11.15	8.15	37%	4,727	Mar-24	12.7	10.7	1.6	13.3	0.7	8.5	(9.5)
Dpc Dash Ltd	1405 HK	BUY	81.20	69.75	16%	9,099	Dec-23	116.0	52.9	3.9	3.2	(0.4)	n/a	12.6
Xiabuxiabu	520 HK	BUY	4.89	0.95	415%	1,032	Dec-23	n/a	14.0	0.9	(24.4)	n/a	5.1	(60.8)
Super Hi	9658 HK	NR	n/a	12.34	n/a	8,025	Dec-23	38.6	19.8	2.9	8.6	1.4	0.0	18.7
Helens	9869 HK	NR	n/a	1.66	n/a	2,101	Dec-23	8.2	6.6	1.0	11.1	0.4	8.6	(52.1)
Tam Jai	2217 HK	NR	n/a	0.80	n/a	1,077	Mar-24	8.4	7.8	0.7	8.7	0.8	10.9	(36.5)
Yihai	1579 HK	NR	n/a	11.18	n/a	11,590	Dec-23	11.8	10.5	1.8	17.2	1.7	6.8	(9.8)
Yum China	9987 HK	BUY	294.91	268.80	10%	102,968	Dec-23	15.6	14.0	1.9	13.3	1.3	1.8	(19.1)
Yum China	YUMC US	BUY	38.07	33.88	12%	101,215	Dec-23	15.4	13.7	1.9	13.3	1.3	1.9	(20.1)
Gourmet Master	2723 TT	NR	n/a	81.90	n/a	3,584	Dec-23	18.7	14.1	1.2	8.2	1.2	4.2	(19.3)
Avg.								23.9	14.6	1.7	8.7	0.9	4.9	(24.6)
Med.								14.4	10.7	1.6	8.8	1.1	4.6	(19.3)
International Catering														
Yum! Brands	YUM US	NR	n/a	134.68	n/a	295,320	Dec-23	23.9	21.5	n/a	(20.8)	3.3	2.0	3.1
McDonald's	MCD US	NR	n/a	287.02	n/a	1,605,681	Dec-23	24.3	22.6	n/a	(168.5)	4.3	2.3	(3.2)
Starbucks	SBUX US	NR	n/a	93.93	n/a	830,116	Oct-23	26.3	23.7	n/a	(51.9)	3.6	2.4	(2.2)
Rest. Brands	QSR US	NR	n/a	68.58	n/a	246,021	Dec-23	20.1	17.6	5.6	31.2	4.9	3.4	(12.2)
Chipotle Mexican	WING US	NR	n/a	381.34	n/a	87,151	Dec-23	101.5	83.0	n/a	(25.0)	3.0	0.3	48.6
Darden Rest.	SHAK US	NR	n/a	98.25	n/a	32,782	Dec-23	136.6	95.8	7.4	6.3	3.3	n/a	32.6
Domino's	CMG US	NR	n/a	55.2	n/a	589,017	Dec-23	50.6	42.5	16.6	42.2	2.6	0.0	20.6
Wendy's	DRI US	NR	n/a	158.13	n/a	146,092	May-24	16.6	15.1	7.3	48.1	1.7	3.6	(3.8)
Shake Shack	DPZ US	NR	n/a	409.85	n/a	111,786	Dec-23	25.4	23.1	n/a	(14.4)	2.5	1.5	(0.6)
Wingstop	WEN US	NR	n/a	16.96	n/a	26,875	Dec-23	17.2	15.9	37.7	75.0	2.3	6.0	(13.0)
Jollibee Foods	JFC PM	NR	n/a	261.00	n/a	40,337	Dec-23	29.5	25.1	3.2	13.2	1.5	1.1	3.8
Avg.								42.9	35.1	13.0	(5.9)	3.0	2.3	6.7
Med.								25.4	23.1	7.4	6.3	3.0	2.2	(0.6)

Source: Bloomberg, Company data, CMBIGM estimates

Figure 4: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 5: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Number of restaurants					
China T1 cities	234	232	237	237	237
China T2 cities	538	538	553	563	573
China T3 and below	577	581	601	616	631
Outside PRC	22	23	33	38	43
Total	1,371	1,374	1,424	1,454	1,484
Number of restaurants growth (YoY %)					
China T1 cities	-5.6%	-0.9%	2.2%	0.0%	0.0%
China T2 cities	3.1%	0.0%	2.8%	1.8%	1.8%
China T3 and below	3.2%	0.7%	3.4%	2.5%	2.4%
Outside PRC	10.0%	4.5%	43.5%	15.2%	13.2%
Total	1.6%	0.2%	3.6%	2.1%	2.1%
Sales per restaurants (RMB mn)					
China T1 cities	22	31	32	33	33
China T2 cities	21	29	31	32	33
China T3 and below	20	26	30	31	32
Outside PRC	47	60	61	66	69
Total	21	29	32	33	34
Table turnover rate (times/ day)					
China T1 cities	3.0	3.8	4.0	4.2	4.3
China T2 cities	3.0	3.9	4.3	4.5	4.6
China T3 and below	2.9	3.6	4.2	4.4	4.5
Outside PRC	3.5	3.8	3.8	4.0	4.1
Total	3.0	3.8	4.2	4.4	4.5
Average spending per guest (RMB)					
China T1 cities	114.2	105.7	105.7	107.8	110.0
China T2 cities	104.3	98.3	98.3	100.3	102.3
China T3 and below	97.9	92.8	92.8	94.7	96.5
Outside PRC	197.4	202.8	202.8	206.9	211.0
Overall	104.9	99.1	104.4	107.0	109.6
Average spending per guest growth (YoY %)					
China T1 cities	2.1%	-7.4%	0.0%	2.0%	2.0%
China T2 cities	2.6%	-5.8%	0.0%	2.0%	2.0%
China T3 and below	2.3%	-5.2%	0.0%	2.0%	2.0%
Outside PRC	-2.6%	2.7%	0.0%	2.0%	2.0%
Overall	2.5%	-5.5%	5.4%	2.4%	2.4%
GP margins	58.4%	59.1%	60.1%	60.1%	60.1%
Staff costs/ sales	-33.0%	-31.5%	-33.6%	-33.3%	-33.1%
Rental expenses /sales	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
Utilities expenses/ sales	-3.4%	-3.3%	-3.3%	-3.3%	-3.3%
Depreciation and amortization/ sales	-8.2%	-5.3%	-4.5%	-3.8%	-2.7%
Depreciation of right-of-use assets/ sales	-2.5%	-1.8%	-1.5%	-1.5%	-1.5%
Travelling fees/ sales	-0.5%	-0.5%	-0.6%	-0.7%	-0.8%
Other opex/ sales	-4.4%	-3.9%	-3.8%	-3.6%	-3.6%
Effective tax rate	-22.7%	-22.9%	-26.0%	-25.0%	-25.0%
NP att. margin	5.3%	10.9%	9.7%	11.4%	13.0%
NP att. growth (%)	-150.4%	174.6%	2.4%	24.4%	18.9%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	39,097	31,039	41,453	47,309	50,404	52,399
Cost of goods sold	(17,243)	(12,906)	(16,946)	(18,867)	(20,101)	(20,897)
Gross profit	21,853	18,132	24,507	28,442	30,303	31,502
Operating expenses	(21,545)	(16,389)	(19,537)	(22,810)	(23,743)	(24,051)
Staff costs	(13,950)	(10,240)	(13,040)	(15,886)	(16,805)	(17,349)
Other rental related expenses	(297)	(274)	(362)	(413)	(440)	(457)
Others	(3,201)	(2,554)	(3,190)	(3,644)	(3,832)	(4,036)
Operating profit	638	2,123	5,584	6,034	6,988	7,897
Other income	330	380	614	402	428	445
Share of (losses)/profits of associates/JV	81	65	46	9	10	10
EBITDA	4,736	5,445	8,530	8,901	9,655	10,105
Depreciation	(3,193)	(2,560)	(2,215)	(2,143)	(1,911)	(1,421)
Depreciation of ROU assets	(904)	(761)	(731)	(725)	(756)	(788)
Interest income	28	116	327	581	1,044	1,573
Interest expense	(583)	(474)	(351)	(338)	(330)	(313)
Other income/expense	(3,235)	287	227	(33)	(35)	(37)
Pre-tax profit	(3,070)	2,118	5,833	6,253	7,678	9,130
Income tax	(178)	(480)	(1,338)	(1,626)	(1,919)	(2,283)
Minority interest	(2)	1	4	(19)	(23)	(27)
Net profit	(3,248)	1,637	4,495	4,627	5,758	6,848
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,406	10,507	14,907	25,349	37,114	50,390
Cash & equivalents	5,767	6,301	6,476	16,531	28,068	41,197
Account receivables	368	307	412	410	437	454
Inventories	1,456	1,142	1,075	1,234	1,315	1,367
Prepayment	2,768	1,650	1,617	1,845	1,966	2,044
ST bank deposits	722	421	2,045	2,045	2,045	2,045
Other current assets	325	686	3,283	3,283	3,283	3,283
Non-current assets	16,616	10,933	9,770	8,252	6,704	5,660
PP&E	9,315	5,645	3,921	2,418	875	(169)
Deferred income tax	526	601	617	617	617	617
Investment in JVs & assos	351	257	304	313	323	334
Intangibles	132	105	74	49	34	23
Other non-current assets	6,291	4,325	4,855	4,855	4,855	4,855
Total assets	28,021	21,439	24,677	33,600	43,818	56,050
Current liabilities	9,886	7,232	7,242	7,454	7,729	7,907
Short-term borrowings	3,560	2,341	619	619	619	619
Account payables	1,944	1,321	1,859	1,770	1,886	1,961
Tax payable	103	58	379	379	379	379
Other current liabilities	4,278	3,512	4,384	4,686	4,845	4,948
Non-current liabilities	10,221	6,764	5,909	5,960	6,019	6,083
Long-term borrowings	221	215	0	0	0	0
Other non-current liabilities	10,000	6,548	5,909	5,960	6,019	6,083
Total liabilities	20,107	13,996	13,150	13,415	13,748	13,990
Share capital	0	0	0	0	0	0
Retained earnings	0	0	0	12,808	23,706	36,667
Other reserves	7,914	7,443	11,526	7,378	6,363	5,386
Total shareholders equity	7,915	7,443	11,527	20,185	30,069	42,053
Minority interest	0	0	0	0	0	0
Total equity and liabilities	28,021	21,439	24,677	33,600	43,818	56,043

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(3,070)	2,118	5,833	6,253	7,678	9,130
Depreciation & amortization	3,193	2,560	2,215	2,143	1,911	1,421
Tax paid	(702)	(353)	(980)	(1,626)	(1,919)	(2,283)
Change in working capital	(328)	556	1,379	(173)	47	30
Others	4,713	1,272	553	8,463	8,653	10,673
Net cash from operations	3,806	6,152	9,000	15,059	16,369	18,972
Investing						
Capital expenditure	(4,430)	(825)	(452)	(615)	(353)	(367)
Acquisition of subsidiaries/ investments	82	720	(1,702)	0	0	0
Others	(605)	(652)	(3,156)	0	0	0
Net cash from investing	(4,953)	(757)	(5,311)	(615)	(353)	(367)
Financing						
Dividend paid	(93)	0	(554)	(4,050)	(4,149)	(5,163)
Net borrowings	(183)	(1,243)	(1,951)	0	0	0
Proceeds from share issues	1,919	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	2,668	(3,745)	(997)	(338)	(330)	(313)
Net cash from financing	4,311	(4,988)	(3,502)	(4,389)	(4,479)	(5,477)
Net change in cash						
Cash at the beginning of the year	2,683	5,767	6,301	6,476	16,531	28,068
Exchange difference	(80)	126	(13)	0	0	0
Others	3,164	408	188	10,056	11,537	13,129
Cash at the end of the year	5,767	6,301	6,476	16,531	28,068	41,197
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	36.6%	(20.6%)	33.6%	14.1%	6.5%	4.0%
Gross profit	33.6%	(17.0%)	35.2%	16.1%	6.5%	4.0%
Operating profit	(51.2%)	232.6%	163.0%	8.0%	15.8%	13.0%
EBITDA	9.0%	15.0%	56.7%	4.4%	8.5%	4.7%
Net profit	na	na	174.6%	2.9%	24.4%	18.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	55.9%	58.4%	59.1%	60.1%	60.1%	60.1%
Operating margin	1.6%	6.8%	13.5%	12.8%	13.9%	15.1%
EBITDA margin	12.1%	17.5%	20.6%	18.8%	19.2%	19.3%
Return on equity (ROE)	(35.8%)	21.3%	47.4%	29.2%	22.9%	19.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.2	1.5	2.1	3.4	4.8	6.4
Receivable turnover days	3.0	4.0	3.2	3.2	3.2	3.2
Inventory turnover days	27.6	36.7	23.9	23.9	23.9	23.9
Payable turnover days	37.3	46.2	34.3	34.3	34.3	34.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	41.2	15.0	14.6	11.8	9.9
P/E (diluted)	ns	41.2	15.0	14.6	11.8	9.9
P/B	8.5	9.1	5.9	3.3	2.2	1.6
P/CFPS	17.7	11.0	7.5	4.5	4.1	3.6
Div yield (%)	0.1	0.0	6.0	6.1	7.6	9.1

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

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