

# Cafe De Coral (341 HK)

## Still a mixed bag right now

We believe 1) traffic limitation imposed by HK government, 2) significant operating leverage and 3) potential cut in dividends remain the major overhangs. However, potential staff cost subsidies and strong recovery in China will be major catalysts. All in all, we maintain HOLD and trimmed TP to HK\$ 15.98, based on 19x FY3/21E P/E (down from 21x), vs its 5 years avg. of 21x.

- **We forecast a 16%/ 5% YoY drop in HK sales in 2H20E/ 1H21E** due to: 1) HK social event in 2019, 2) traffic curbing measures to counter COVID-19 and 3) drop in institutional catering sales because of school and university suspensions. We expect **sales growth to resume at 23% in 2H21E** due to: 1) end of epidemic and 2) HK government stimulus to take effect.
- **Significant margin pressure in 2H20E and 1H21E.** As more promotion were introduced in 2H20E/ 1H21E, GP margin will be under pressure. Also, operating leverage will be huge since most of the rental costs are fixed and staffing policies are rather prudent (we expect no major layoffs but only reduction of average working hours). **There also exists potential downside risk like further extension of traffic limitation by government.**
- **But there is also a significant upside risk in 2H21E.** If the labour cost subsidies can be finalized, it would be significant due to CDC's labour intensive nature (~7,500/ ~6,500 full-time/ part time staff in Hong Kong). The subsidies can be as high as ~HK\$ 400mn if 50% of the staffs are entitled to the policy, but we only factored ~HK\$100mn in FY21E due to uncertainty.
- **We forecast 20% YoY sales decline in China sales in 2H20E** due to virus outbreak **and growth to resume at 12%/ 27% in 1H21E/ 2H21E**, thanks to: 1) consumption boost by vast amount of vouchers given by Chinese local governments and 2) strong ramp up of delivery business enabled by Meituan.
- **Dividend policy should likely be changed.** We believe it is less likely for CDC to maintain its FY20E dividend policy, because: 1) less operating cash flow can be expected (net profit to be revised down by 48%) and 2) limited cash balance (~HK\$ 552mn reported in 1H20 report), noted that HK\$ 492mn was paid as dividend in FY19. We only expect a 30% payout ratio and 1% FY20E yield now.
- **Maintain HOLD and cut TP to HK\$ 15.98.** We cut our EPS by 48%/ 3%/ 3% in FY20E/ 21E/ 22E, to factor in the impacts by virus outbreak and meaningful operating leverage (high fixed staffs and rental costs). We maintain HOLD and cut TP to HK\$ 15.98 based on 19x FY3/21E (down from 21x). The counter is trading at 17x FY3/21E and 1% FY20E yield, not too attractive.

### Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,427.4	8,493.9	7,862.6	8,596.2	9,103.8
YoY growth (%)	6.7	0.8	(7.4)	9.3	5.9
Net income (HK\$ mn)	458.1	590.3	230.9	489.3	556.0
EPS (HK\$)	0.79	1.02	0.40	0.84	0.96
YoY growth (%)	(9.4)	28.7	(60.9)	111.9	13.6
Consensus EPS (HK\$)	n/a	n/a	0.66	0.88	0.99
P/E (x)	18.5	14.4	36.8	17.4	15.3
P/B (x)	2.4	2.5	2.6	2.3	2.3
Yield (%)	8.0	5.8	0.8	5.2	5.9
ROE (%)	13.0	16.9	6.9	14.2	15.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Maintain)

Target Price	HK\$15.98
(Previous TP	HK\$18.26)
Up/Downside	9.3%
Current Price	HK\$14.62

### China Catering Sector

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

### Stock Data

Mkt Cap (HK\$ mn)	8,563
Avg 3 mths t/o (HK\$ mn)	23.01
52w High/Low (HK\$)	26.90/12.60
Total Issued Shares (mn)	585.7
Source: Bloomberg	

### Shareholding Structure

Lo Tak Shing	15.76%
Lo Hoi Chun	11.61%
Lo Hoi Kwong	11.00%
Invesco Hong Kong Ltd.	5.01%
Free float	56.62%

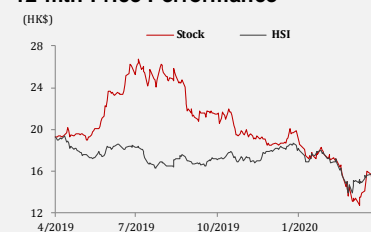
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.6%	-4.0%
3-mth	-23.5%	-9.3%
6-mth	-32.0%	-23.8%
12-mth	-24.4%	-5.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

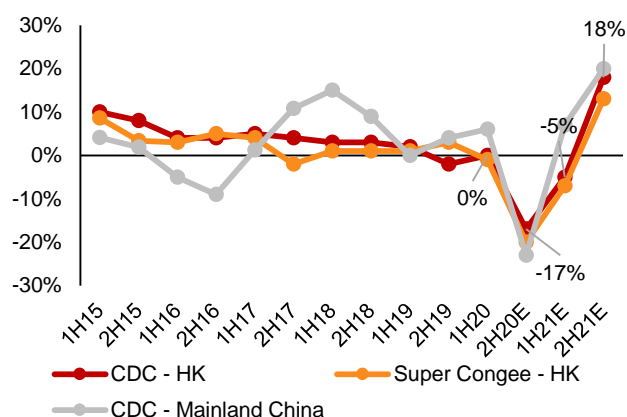
### Auditor: PricewaterhouseCoopers

### Related Reports

1. Café de Coral (341 HK, HOLD) – 1H20 result inline but pressure may sustain - 27 Nov 2019
2. Café de Coral (341 HK, HOLD) - No immunity and limited visibility - 11 Nov 2019
3. Café de Coral (341 HK, BUY) - Ready for store expansion - 17 Jun 2019

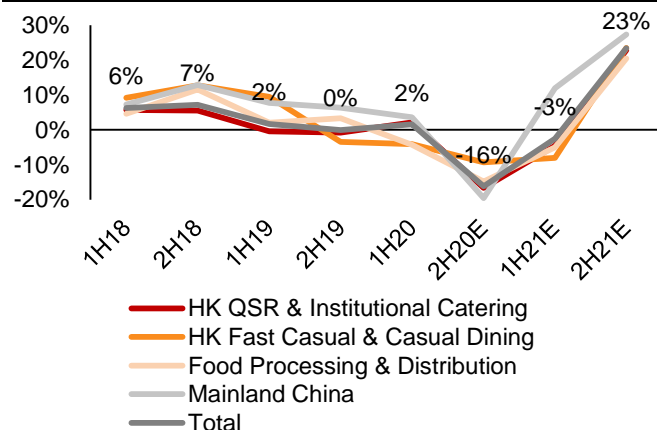
## Focus Charts

Figure 1: SSSG, by brand and region



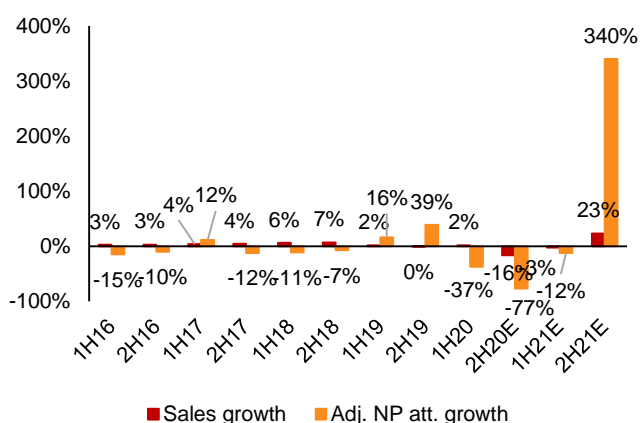
Source: Company data, CMBIS estimates

Figure 2: Sales growth, by segment and region



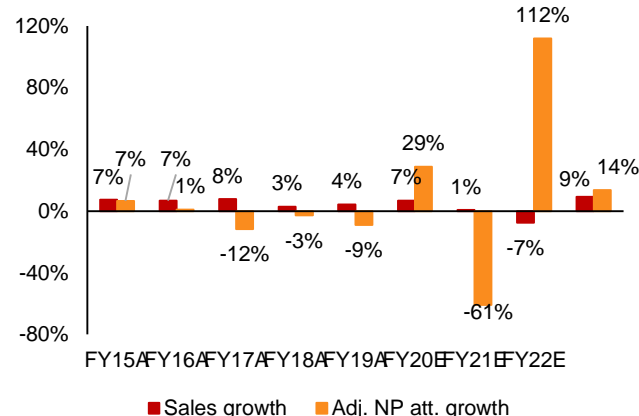
Source: Company data, CMBIS estimates

Figure 3: Sales/ net profit att. growth, half year



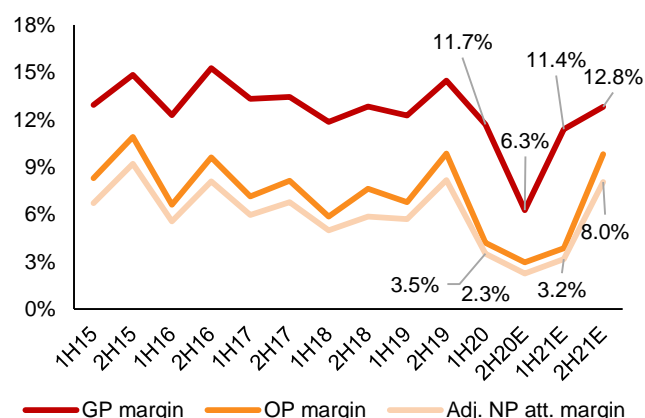
Source: Company data, CMBIS estimates

Figure 4: Sales/ net profit att. growth, full year



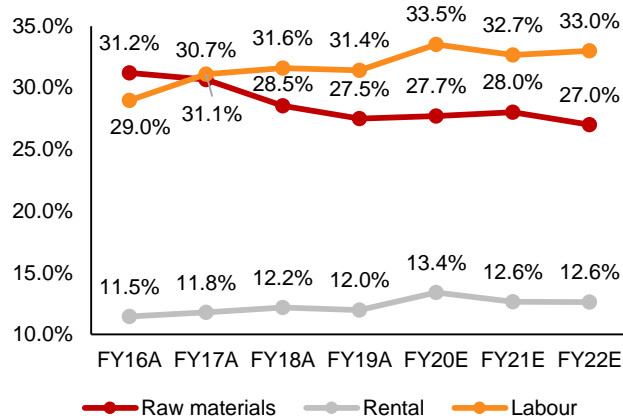
Source: Company data, CMBIS estimates

Figure 5: GP, OP, NP att. margin

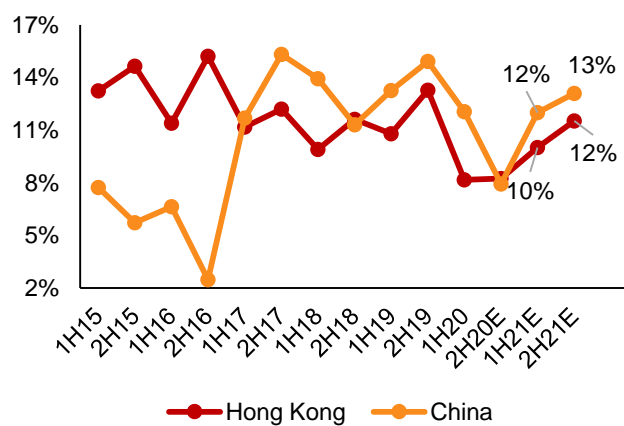


Source: Company data, CMBIS estimates

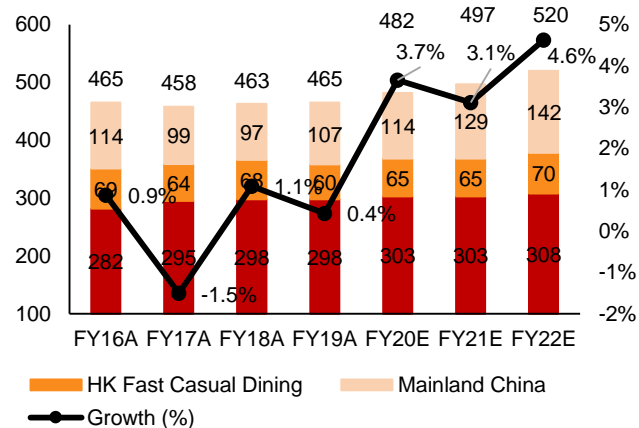
Figure 6: Opex breakdown, % of sales, by category



Source: Company data, CMBIS estimates

**Figure 7: Restaurant level EBIT margin by region**

Source: Company data, CMBIS estimates

**Figure 8: Number of stores and growth (HK/ China)**

Source: Company data, CMBIS estimates

Figure 9: Results preview - half year

HK\$ mn	1H19	2H19	1H20	2H20E	1H19 YoY	2H19 YoY	1H20 YoY	2H20E YoY
Hong Kong	3,608	3,734	3,652	3,148	1%	-1%	1%	-16%
China	591	561	612	451	8%	6%	4%	-20%
<b>Total revenue</b>	<b>4,199</b>	<b>4,295</b>	<b>4,264</b>	<b>3,599</b>	<b>2%</b>	<b>0%</b>	<b>2%</b>	<b>-16%</b>
COGS	(3,683)	(3,673)	(3,765)	(3,373)	1%	-2%	2%	-8%
<b>Gross profit</b>	<b>515</b>	<b>622</b>	<b>499</b>	<b>226</b>	<b>5%</b>	<b>13%</b>	<b>-3%</b>	<b>-64%</b>
Other income and gains	9	9	(4)	4	-175%	-701%	-139%	-53%
Administrative expenses	(240)	(208)	(317)	(123)	2%	-7%	32%	-41%
<b>Operating profit</b>	<b>284</b>	<b>423</b>	<b>179</b>	<b>107</b>	<b>17%</b>	<b>29%</b>	<b>-37%</b>	<b>-75%</b>
Share of results of Assos	0	0	0	0	n/a	n/a	n/a	n/a
Non-operating items	0	0	0	0	n/a	n/a	n/a	n/a
Net finance income	8	7	9	2	23%	32%	19%	-77%
<b>Profit before tax</b>	<b>292</b>	<b>430</b>	<b>188</b>	<b>109</b>	<b>18%</b>	<b>29%</b>	<b>-36%</b>	<b>-75%</b>
Income tax	(52)	(78)	(38)	(28)	23%	-2%	-27%	-65%
Minority interest	1	1	1	(0)	122%	12%	-31%	-117%
<b>Net profit att.</b>	<b>239</b>	<b>351</b>	<b>150</b>	<b>81</b>	<b>16%</b>	<b>39%</b>	<b>-37%</b>	<b>-77%</b>
FV change on investment properties	0	20	0	5				
Loss on disposal of other PP&E	(3)	(9)	(8)	(0)				
Impairment loss of PP&E	0	(4)	(8)	(1)				
Share-based compensation expenses	(13)	14	(13)	0				
<b>Adj. pre-tax profit</b>	<b>308</b>	<b>408</b>	<b>218</b>	<b>104</b>	<b>4%</b>	<b>17%</b>	<b>-29%</b>	<b>-74%</b>
<b>GP margin</b>	<b>12.3%</b>	<b>14.5%</b>	<b>11.7%</b>	<b>6.3%</b>	<b>0.4ppt</b>	<b>1.6ppt</b>	<b>-0.6ppt</b>	<b>-8.2ppt</b>
<b>OP margin</b>	<b>6.8%</b>	<b>9.8%</b>	<b>4.2%</b>	<b>3.0%</b>	<b>0.9ppt</b>	<b>2.2ppt</b>	<b>-2.6ppt</b>	<b>-6.9ppt</b>
<b>NP att. margin</b>	<b>5.7%</b>	<b>8.2%</b>	<b>3.5%</b>	<b>2.3%</b>	<b>0.7ppt</b>	<b>2.3ppt</b>	<b>-2.2ppt</b>	<b>-5.9ppt</b>
<b>Adj. pre-tax margin</b>	<b>7.3%</b>	<b>9.5%</b>	<b>5.1%</b>	<b>2.9%</b>	<b>0.2ppt</b>	<b>1.4ppt</b>	<b>-2.2ppt</b>	<b>-6.6ppt</b>

Source: Company data, CMBIS estimates

**Figure 10: Results preview - full year**

HK\$ mn	FY18	FY19	FY20E	FY21E	FY19 YoY	FY20E YoY	FY21E YoY
Hong Kong	7,351	7,342	6,799	7,336	0%	-7%	8%
China	1,076	1,152	1,063	1,260	7%	-8%	19%
<b>Total revenue</b>	<b>8,427</b>	<b>8,494</b>	<b>7,863</b>	<b>8,596</b>	<b>1%</b>	<b>-7%</b>	<b>9%</b>
COGS	(7,385)	(7,357)	(7,138)	(7,553)	0%	-3%	6%
<b>Gross profit</b>	<b>1,042</b>	<b>1,137</b>	<b>725</b>	<b>1,043</b>	<b>9%</b>	<b>-36%</b>	<b>44%</b>
Other income and gains	(14)	18	0	1	-229%	-98%	78%
Administrative expenses	(459)	(448)	(439)	(448)	-2%	-2%	2%
<b>Operating profit</b>	<b>570</b>	<b>707</b>	<b>286</b>	<b>596</b>	<b>24%</b>	<b>-60%</b>	<b>108%</b>
Share of results of Assos	0	0	0	0	n/a	n/a	n/a
Non-operating items	0	0	0	0	n/a	n/a	n/a
Net finance income	12	15	11	9	27%	-26%	-20%
<b>Profit before tax</b>	<b>581</b>	<b>722</b>	<b>297</b>	<b>604</b>	<b>24%</b>	<b>-59%</b>	<b>104%</b>
Income tax	(122)	(130)	(65)	(115)	6%	-50%	76%
Minority interest	1	2	0	0	47%	-76%	-46%
<b>Net profit att.</b>	<b>458</b>	<b>590</b>	<b>231</b>	<b>489</b>	<b>29%</b>	<b>-61%</b>	<b>112%</b>
FV change on investment properties	19	20	5	5			
Loss on disposal of other PP&E	(21)	(11)	(9)	(9)			
Impairment loss of PP&E	(33)	(4)	(9)	(8)			
Share-based compensation expenses	(26)	1	(13)	(14)			
<b>Adj. pre-tax profit</b>	<b>643</b>	<b>716</b>	<b>322</b>	<b>630</b>	<b>11%</b>	<b>-55%</b>	<b>96%</b>
<b>GP margin</b>	<b>12.4%</b>	<b>13.4%</b>	<b>9.2%</b>	<b>12.1%</b>	<b>1ppt</b>	<b>-4.2ppt</b>	<b>2.9ppt</b>
<b>OP margin</b>	<b>6.8%</b>	<b>8.3%</b>	<b>3.6%</b>	<b>6.9%</b>	<b>1.6ppt</b>	<b>-4.7ppt</b>	<b>3.3ppt</b>
<b>NP att. margin</b>	<b>5.4%</b>	<b>6.9%</b>	<b>2.9%</b>	<b>5.7%</b>	<b>1.5ppt</b>	<b>-4ppt</b>	<b>2.8ppt</b>
<b>Adj. pre-tax margin</b>	<b>7.6%</b>	<b>8.4%</b>	<b>4.1%</b>	<b>7.3%</b>	<b>0.8ppt</b>	<b>-4.3ppt</b>	<b>3.2ppt</b>

Source: Company data, CMBIS estimates

## Earnings revision

Figure 11: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,863	8,596	9,104	8,605	9,123	9,729	-8.6%	-5.8%	-6.4%
Gross profit	725	1,043	1,124	998	1,086	1,179	-27.4%	-4.0%	-4.7%
EBIT	286	596	669	530	610	691	-46.1%	-2.3%	-3.3%
Net profit att.	231	489	556	441	506	573	-47.6%	-3.3%	-3.0%
Diluted EPS (RMB)	0.40	0.84	0.96	0.76	0.87	0.98	-47.6%	-3.3%	-3.0%
Gross margin	9.2%	12.1%	12.3%	11.6%	11.9%	12.1%	-2.4ppt	0.2ppt	0.2ppt
EBIT margin	3.6%	6.9%	7.3%	6.2%	6.7%	7.1%	-2.5ppt	0.2ppt	0.2ppt
Net profit att. margin	2.9%	5.7%	6.1%	5.1%	5.5%	5.9%	-2.2ppt	0.1ppt	0.2ppt

Source: Company data, CMBIS estimates

Figure 12: CMBIS estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,863	8,596	9,104	8,116	8,548	9,228	-3.1%	0.6%	-1.3%
Gross profit	725	1,043	1,124	795	1,013	1,218	-8.9%	3.0%	-7.7%
EBIT	286	596	669	492	612	707	-41.9%	-2.7%	-5.4%
Net profit att.	231	489	556	343	510	589	-32.7%	-4.1%	-5.6%
Adjusted Net Profit	0.40	0.84	0.96	0.66	0.88	0.99	-39.4%	-4.4%	-3.5%
Diluted EPS (RMB)	9.2%	12.1%	12.3%	9.8%	11.9%	13.2%	-0.6ppt	0.3ppt	-0.9ppt
Gross margin	3.6%	6.9%	7.3%	6.1%	7.2%	7.7%	-2.4ppt	-0.2ppt	-0.3ppt
EBIT margin	2.9%	5.7%	6.1%	4.2%	6.0%	6.4%	-1.3ppt	-0.3ppt	-0.3ppt

Source: Company data, CMBIS estimates

## Valuation

Figure 13: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
Company	Ticker	Ratin g	(LC)	(LC)	side	(HK\$ mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Restaurants and Food Ingredients															
Cafe De Coral	341 HK	HOLD	15.98	14.62	9%	8,563	Mar-19	36.8	17.4	2.6	2.3	16.9	(7.2)	0.8	
Haidilao Int'l	6862 HK	BUY	36.16	32.70	11%	173,310	Dec-19	87.4	36.2	13.1	10.0	24.4	2.7	0.3	
Jiumaojiu Int'l	9922 HK	BUY	11.44	9.36	22%	12,949	Dec-19	88.2	27.0	4.7	4.0	101.4	2.2	0.4	
XBXB Catering	520 HK	NR	n/a	6.83	n/a	7,387	Dec-19	34.1	12.3	2.7	2.3	12.5	1.2	1.6	
Yihai Int'l	1579 HK	NR	n/a	61.45	n/a	64,332	Dec-19	60.3	44.7	16.6	12.6	31.1	2.1	0.4	
Yum China	YUMC US	NR	n/a	44.44	n/a	129,535	Dec-19	55.4	22.2	5.2	4.4	24.0	8.9	0.9	
Gourmet Master	2723 TT	NR	n/a	84.00	n/a	3,897	Dec-19	18.7	14.0	1.4	1.3	9.0	1.8	3.0	
								Avg.	54.4	24.8	6.6	5.3	31.3	1.7	1.1
								Med.	55.4	22.2	4.7	4.0	24.0	2.1	0.8
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	n/a	17.24	n/a	2,233	Mar-19	11.9	20.5	3.2	2.9	18.3	8.4	2.4	
Tai Hing	6811 HK	NR	n/a	1.36	n/a	1,360	Dec-19	12.4	9.1	2.6	2.4	11.5	0.4	2.4	
Hop Hing	47 HK	NR	n/a	0.07	n/a	705	Dec-19	n/a	n/a	n/a	n/a	18.8	n/a	n/a	
Tsui Wah	1314 HK	NR	n/a	0.37	n/a	515	Mar-19	n/a	n/a	n/a	n/a	(5.2)	n/a	n/a	
Ajisen China	538 HK	NR	n/a	1.63	n/a	1,779	Dec-19	8.3	n/a	n/a	n/a	4.8	n/a	6.7	
Tao Heung	573 HK	NR	n/a	0.98	n/a	996	Dec-19	n/a	n/a	n/a	n/a	7.6	n/a	n/a	
Tang Palace	1181 HK	NR	n/a	0.83	n/a	893	Dec-19	5.4	n/a	n/a	n/a	19.8	n/a	n/a	
								Avg.	9.5	14.8	2.9	2.7	10.8	4.4	3.9
								Med.	10.1	14.8	2.9	2.7	11.5	4.4	2.4
Leading Greater China Restaurants and Food Ingredients															
Yum! Brands	YUM US	NR	n/a	81.20	n/a	189,359	Dec-19	27.0	21.3	n/a	n/a	n/a	(77.1)	2.2	
Mcdonald'S	MCD US	NR	n/a	177.58	n/a	1,023,272	Dec-19	29.3	21.8	n/a	n/a	n/a	8.4	2.8	
Starbucks Corp	SBUX US	NR	n/a	72.72	n/a	661,482	Sep-19	44.8	25.6	n/a	n/a	n/a	15.3	2.3	
Rest. Brands	QSR US	NR	n/a	42.37	n/a	153,283	Dec-19	19.9	15.2	5.8	5.5	31.4	2.6	4.9	
Chipotle Mexican	CMG US	NR	n/a	786.69	n/a	169,586	Dec-19	92.1	41.8	12.3	10.1	21.4	3.6	0.0	
Darden Rest.	DRI US	NR	n/a	63.32	n/a	63,736	May-19	28.4	22.0	3.5	3.1	27.3	(10.2)	4.0	
Domino'S Pizza	DPZ US	NR	n/a	365.22	n/a	110,462	Dec-19	35.6	31.2	n/a	n/a	n/a	3.4	0.8	
Dunkin' Brands	DNKN US	NR	n/a	55.97	n/a	35,605	Dec-19	22.9	18.2	n/a	n/a	n/a	5.6	2.7	
Wendy'S Co	WEN US	NR	n/a	17.42	n/a	30,051	Dec-19	45.1	27.6	7.9	9.5	23.5	5.0	2.7	
Shake Shack	SHAK US	NR	n/a	47.10	n/a	14,958	Dec-19	n/a	193.0	5.2	4.9	7.6	n/a	0.0	
Wingstop	WING US	NR	n/a	107.47	n/a	24,640	Dec-19	128.9	101.0	n/a	n/a	n/a	5.2	0.4	
Jollibee Foods	JFC PM	NR	n/a	134.00	n/a	22,506	Dec-19	32.2	22.8	2.3	2.1	12.9	10.2	1.3	
								Avg.	46.0	45.1	6.2	5.9	20.7	(2.5)	2.0
								Med.	32.2	24.2	5.5	5.2	22.5	5.0	2.3
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	7.71	n/a	33,302	Dec-19	21.0	19.4	2.2	2.2	10.2	3.6	4.6	
Tingyi	322 HK	NR	n/a	13.84	n/a	77,833	Dec-19	23.3	21.4	3.6	3.5	17.0	13.7	3.9	
Want Want China	151 HK	NR	n/a	5.48	n/a	68,035	Mar-19	16.5	15.5	3.8	3.5	27.2	3.8	4.4	
China Mengniu	2319 HK	NR	n/a	27.10	n/a	106,658	Dec-19	26.4	19.2	3.0	2.7	15.1	2.2	0.9	
Vitasoy	345 HK	NR	n/a	27.55	n/a	29,307	Mar-19	53.4	45.5	8.9	8.3	23.0	11.0	1.3	
Tsingtao Brewery	168 HK	NR	n/a	43.80	n/a	64,321	Dec-19	29.8	23.6	2.7	2.5	10.0	2.8	1.3	
CR Beer	291 HK	NR	n/a	35.90	n/a	116,466	Dec-19	44.3	29.9	5.0	4.5	6.8	0.9	0.8	
Budweiser Brew	1876 HK	NR	n/a	21.45	n/a	284,071	Dec-19	40.1	29.4	3.5	3.2	9.0	3.1	0.9	
Dali Foods	3799 HK	NR	n/a	4.76	n/a	65,184	Dec-19	15.1	13.8	3.5	3.2	24.2	2.8	4.6	
								Avg.	30.0	24.2	4.0	3.7	15.8	4.9	2.5
								Med.	26.4	21.4	3.5	3.2	15.1	3.1	1.3

Source: Bloomberg, CMBIS estimates

## Assumptions

Figure 14: CMBIS estimates vs consensus

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales by segment (HK\$ mn)</b>					
HK QSR & Institutional Catering	6,302	6,264	5,799	6,265	6,536
HK Fast Casual & Casual Dining	882	906	846	905	982
Food Processing & Distribution	167	172	155	167	175
Mainland China	1,076	1,152	1,063	1,260	1,411
Total	8,427	8,494	7,863	8,596	9,104
<b>Growth (%)</b>					
HK QSR & Institutional Catering	6%	-1%	-7%	8%	4%
HK Fast Casual & Casual Dining	11%	3%	-7%	7%	8%
Food Processing & Distribution	8%	3%	-10%	8%	5%
Mainland China	10%	7%	-8%	19%	12%
Total	7%	1%	-7%	9%	6%
<b>GP margin</b>	12.4%	13.4%	9.2%	12.1%	12.3%
<b>Costs breakdown</b>					
Costs of raw materials	28.5%	27.5%	27.7%	28.0%	27.0%
Depreciation	4.0%	4.1%	4.8%	4.7%	4.7%
Operating lease rentals	12.2%	12.0%	13.4%	12.6%	12.6%
Employee benefit expenses	31.3%	31.4%	33.3%	32.5%	32.8%
<b>OP margin</b>	6.8%	8.3%	3.6%	6.9%	7.3%
Effective tax rate	21.0%	18.0%	22.0%	19.0%	18.0%
NP att. margins	5.4%	6.9%	2.9%	5.7%	6.1%
<b>NP att. growth (%)</b>	-9.1%	28.9%	-60.9%	111.9%	13.6%
<b>Sales network by region</b>					
HK QSR & Institutional Catering	298	298	303	303	308
HK Fast Casual Dining	68	60	65	65	70
Mainland China	97	107	114	129	142
Total	463	465	482	497	520
<b>SSSG by segment</b>					
HK Café de Coral	3.0%	0.0%	-8.5%	6.5%	3.5%
HK Super Super Congee & Noodles	1.0%	2.0%	-10.5%	3.0%	2.5%
Mainland China Café de Coral	12.0%	2.0%	-8.5%	13.5%	6.5%

Source: Company data, CMBIS estimates



## Financial Summary

Income statement						Cash flow summary					
YE 31 Mar (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Mar (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>8,427</b>	<b>8,494</b>	<b>7,863</b>	<b>8,596</b>	<b>9,104</b>	<b>EBIT</b>	<b>570</b>	<b>707</b>	<b>286</b>	<b>596</b>	<b>669</b>
HK QSR & Institutional Catering	6,302	6,264	5,799	6,265	6,536	D & A	344	356	379	407	430
HK Fast Casual & Casual Dining	882	906	846	905	982	Change in working capital	36	23	(71)	32	22
Food Processing & Distribution	167	172	155	167	175	Income tax paid	(103)	(116)	(65)	(115)	(122)
Mainland China	1,076	1,152	1,063	1,260	1,411	Others	46	(18)	9	9	10
<b>Cost of goods sold</b>	<b>(7,385)</b>	<b>(7,357)</b>	<b>(7,138)</b>	<b>(7,553)</b>	<b>(7,980)</b>	<b>Net cash from operating CF</b>	<b>893</b>	<b>952</b>	<b>538</b>	<b>930</b>	<b>1,009</b>
<b>Gross profit</b>	<b>1,042</b>	<b>1,137</b>	<b>725</b>	<b>1,043</b>	<b>1,124</b>	Capex & investments	(433)	(277)	(444)	(461)	(488)
<b>Other income</b>	<b>(14)</b>	<b>18</b>	<b>0</b>	<b>1</b>	<b>1</b>	Associated companies	-	-	-	-	-
<b>Operating expenses</b>	<b>(459)</b>	<b>(448)</b>	<b>(439)</b>	<b>(448)</b>	<b>(456)</b>	Interest received	12	15	11	9	9
D & A	-	-	-	-	-	Others	(35)	63	-	-	-
Staff costs	-	-	-	-	-	<b>Net cash from investing CF</b>	<b>(457)</b>	<b>(199)</b>	<b>(433)</b>	<b>(452)</b>	<b>(479)</b>
S & D costs (ex-staff, D&A)	-	-	-	-	-	Equity raised	8	-	-	-	-
Admin exp. (ex-staff, D&A)	(459)	(448)	(439)	(448)	(456)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(471)	(680)	(396)	(151)	(454)
<b>EBIT</b>	<b>570</b>	<b>707</b>	<b>286</b>	<b>596</b>	<b>669</b>	Others	(3)	(11)	-	-	-
Finance costs, net	12	15	11	9	9	<b>Net cash from financing CF</b>	<b>(466)</b>	<b>(691)</b>	<b>(396)</b>	<b>(151)</b>	<b>(454)</b>
JVs & associates	-	-	-	-	-	<b>Net change in cash</b>	<b>(30)</b>	<b>63</b>	<b>(291)</b>	<b>327</b>	<b>76</b>
Exceptional	-	-	-	-	-	Beginning cash balance	790	801	836	545	872
<b>Pre-tax profit</b>	<b>581</b>	<b>722</b>	<b>297</b>	<b>604</b>	<b>678</b>	Exchange difference	41	(29)	-	-	-
Income tax	(122)	(130)	(65)	(115)	(122)	<b>Cash at the end of the year</b>	<b>801</b>	<b>836</b>	<b>545</b>	<b>872</b>	<b>948</b>
Less: Minority interests	1	2	0	0	0						
<b>Net profit</b>	<b>458</b>	<b>590</b>	<b>231</b>	<b>489</b>	<b>556</b>						

Balance sheet						Key ratios					
YE 31 Mar (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>3,242</b>	<b>3,102</b>	<b>3,171</b>	<b>3,228</b>	<b>3,291</b>	<b>Sales mix (%)</b>					
Fixed asset	2,021	1,923	1,994	2,055	2,122	HK QSR & Institutional Catering	74.8	73.7	73.8	72.9	71.8
Intangible assets & goodwill	4	2	3	3	2	HK Fast Casual & Casual Dining	10.5	10.7	10.8	10.5	10.8
Prepaid lease payments	79	75	73	70	68	Food Processing & Distribution	2.0	2.0	2.0	1.9	1.9
Interest in joint ventures	-	-	-	-	-	Mainland China	12.8	13.6	13.5	14.7	15.5
Other non-current assets	1,137	1,103	1,100	1,100	1,100	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>1,374</b>	<b>1,392</b>	<b>1,071</b>	<b>1,437</b>	<b>1,544</b>	<b>P&amp;L ratios (%)</b>					
Cash and cash equivalents	824	857	567	894	970	Gross margin	12.4	13.4	9.2	12.1	12.3
Inventories	234	241	235	248	262	Operating margin	6.8	8.3	3.6	6.9	7.3
Trade and other receivables	191	165	151	165	175	Pre-tax margin	6.9	8.5	3.8	7.0	7.5
Prepayments	121	127	118	129	137	Net margin	5.4	6.9	2.9	5.7	6.1
Other current assets	3	1	1	1	1	Effective tax rate	21.0	18.0	22.0	19.0	18.0
<b>Current liabilities</b>	<b>956</b>	<b>984</b>	<b>883</b>	<b>955</b>	<b>1,008</b>	<b>Balance sheet ratios</b>					
Bank loans	-	-	-	-	-	Current ratio (x)	0.7	0.7	0.8	0.7	0.7
Trade payables	207	220	215	228	240	Quick ratio (x)	1.2	1.2	0.9	1.2	1.3
Accruals & other payables	707	725	629	688	728	Cash ratio (x)	86.2	87.1	64.1	93.6	96.2
Tax payables	41	39	39	39	39	Inventory turnover days	12	12	12	12	12
others	-	-	-	-	-	Trade receivables days	8	7	7	7	7
<b>Non-current liabilities</b>	<b>87</b>	<b>88</b>	<b>88</b>	<b>88</b>	<b>88</b>	Trade payables days	10	11	11	11	11
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	-	-	-	-	-
Deferred income	35	45	45	45	45	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	34	29	29	29	29	<b>Returns (%)</b>					
Others	19	13	13	13	13	ROE	12.8	17.3	7.1	13.5	14.9
<b>Minority Interest</b>	<b>4</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>7</b>	ROA	9.9	13.1	5.4	10.5	11.5
<b>Total net assets</b>	<b>3,570</b>	<b>3,415</b>	<b>3,263</b>	<b>3,615</b>	<b>3,732</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>3,570</b>	<b>3,415</b>	<b>3,263</b>	<b>3,615</b>	<b>3,732</b>	EPS (HK\$)	0.79	1.01	0.40	0.84	0.96
						DPS (HK\$)	1.17	0.85	0.12	0.76	0.86
						BVPS (HK\$)	6.15	5.88	5.62	6.23	6.43

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

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

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.