

Haidilao (6862 HK)

Well-positioned to withstand sector downturn

Maintain BUY and raised TP to HK\$ 39.83, based on 45x FY21E P/E, (rolled over from 47x FY20E P/E). We believe HDL's fundamental remains intact and one-off impact by coronavirus (22% FY20E NP cut) had been fairly digested by 16% share price correction (from peak in Jan to trough in Feb 2020).

- **Still a BUY and why? 1) Short-lived impact and 2) long term positives driven by consolidation.** HDL was certainly impacted by the outbreak of coronavirus in China, and sizable losses was generated since its suspension of restaurant operation on 26 Jan 2020. However, we believe the Company's competitiveness should not be affected and growth shall resume soon once the situation is settled. On the positive side, HDL should benefit from industry consolidation, as: 1) consumers' awareness of hygiene increases, 2) smaller players exit or slow down expansion due to tightening cash flow.
- **According to our scenario analysis, 15/ 30/ 60/ 90 days of restaurant closures would result in 11%/ 22%/ 41%/ 57% cut in FY20E net profit.** Temporarily closing all stores in mainland China to guarantee the safety of all its staffs and customers, is a responsible decision in our view. However, revenue impact and increased associated fixed costs would lead to severe operating deleverage. Based on our analysis, daily sales could be ~RMB 97mn a day in 1Q20E, and 15/ 30/ 60/ 90 days of suspension would imply 4%/ 8%/ 12%/ 15% cut in FY20E sales. On the cost side, we estimate the fixed/ variable costs to account for 48%/ 52% of FY20E opex, with reference that 55%/ 60%/ 90% of staff/ rental/ D&A costs are fixed and 95%/ 80% of utilities/ travelling & other expenses are variable. Hence, 15/ 30/ 60/ 90 days of store suspension could translate to 11%/ 22%/ 41%/ 57% cut in FY20E net profit. **We have factored in a 30-day case in our model.**
- **Potential CNY inventory write-off may partly be offset by cost savings from store opening delay.** On one hand, there could be some raw materials prepared for CNY season in HDL restaurants, implying 2-3 inventory days (CMBI est. ~RMB 100mn) to be written off, but this loss may be partially offset by delay of store openings in FY20E (CMBI est. ~RMB 10-15mn may be saved if opening of 50 stores are delayed by 2-3 months in FY20E).
- **Maintain BUY and raised TP to HK\$ 39.83.** We maintain BUY and raised TP to HK\$ 39.83, based on 45x FY21E P/E (rolled over from 47x FY20E P/E), implying a 2.4x 3 years PEG. Current valuation is not demanding, at 37x FY21E P/E or 1.7x PEG (vs int'l catering/ consumer staple peers median of 3.0x/ 2.6x). We revised down our FY19E/ 20E/ 21E EPS by 6.1%/ 26.8%/ 17.3%, to factor in 1) lower table turnover as density of stores increases and 2) losses due to store closures during this virus season.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	10,637	16,969	26,123	33,364	44,782
YoY growth (%)	36.2	59.5	53.9	27.7	34.2
Net income (RMB mn)	1,028	1,646	2,472	2,728	4,128
EPS (RMB)	0.194	0.311	0.466	0.515	0.779
YoY growth (%)	n/a	60.2	50.2	10.4	51.3
P/E (x)	140.8	92.9	61.9	56.1	37.1
P/B (x)	132.7	17.7	13.2	10.3	7.8
Yield (%)	0.5	0.3	0.3	0.4	0.5
ROE (%)	95.1	33.9	24.5	20.7	24.1
Net gearing (%)	112.8	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$39.83
(Previous TP	HK\$37.56)
Up/Downside	+21.4%
Current Price	HK\$32.80

China Catering Sector

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Stock Data

Mkt Cap (HK\$ mn)	173,840
Avg 3 mths t/o (HK\$ mn)	207.90
52w High/Low (HK\$)	39.0/19.52
Total Issued Shares (mn)	5,300.0

Source: Bloomberg

Shareholding Structure

Mr. Zhang Yong	44.02%
Ms. Shu Ping	13.66%
Mr. Shi Yong Hong	13.66%
Ms. Li Hai Yan	13.66%
Other management	7.00%
Free Float	8.00%

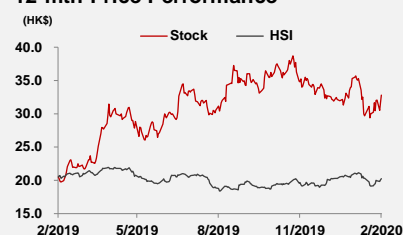
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.2%	-6.8%
3-mth	-9.2%	-11.3%
6-mth	3.8%	-2.4%
12-mth	56.9%	60.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Haidilao (6862 HK) - Quick stores ramp up despite faster expansion – 21 Aug 2019
2. China catering sector - Sequential improvements likely in 2019 - 12 Apr 2019
3. Haidilao (6862 HK) - Premium company deserves premium valuation - 10 Apr 2019

Focus Charts

Figure 1: Impact on sales due to temporary store closures

Period	FY20E
Sales (RMB mn)	36,409

Period	1H20E	2H20E
Sales (RMB mn)	15,656	20,753
As % of FY20E sales	43%	57%

Period	1Q20E	2Q20E	3Q20E	4Q20E
Sales (RMB mn)	8,738	6,918	10,923	9,830
As % of FY20E sales	24%	19%	30%	27%

Period	Jan20	Feb20	Mar20	Apr20	May20	Jun20	Jul20	Aug20	Sep20	Oct20	Nov20	Dec20
Monthly sales in FY20E (RMB mn)	3,277	2,913	2,549	2,185	2,185	2,549	3,641	4,005	3,277	2,913	3,277	3,641
As % of FY20E sales	9.0%	8.0%	7.0%	6.0%	6.0%	7.0%	10.0%	11.0%	9.0%	8.0%	9.0%	10.0%
Number of days in each month	31	29	31	30	31	30	31	31	30	31	30	31
Daily sales for each month (RMB mn)	106	100	82	73	70	85	117	129	109	94	109	117

Days of store closures (since 26-Jan-2020)	15	30	45	60	75	90
Total sales impact	1,538	3,045	4,369	5,602	6,751	7,843
Downward revision of FY20E sales	-4.2%	-8.4%	-12.0%	-15.4%	-18.5%	-21.5%
Downward revision of 1Q20E sales	-17.6%	-34.8%	-50.0%	-64.1%		

Source: Company data, CMBIS estimates

Figure 2: Impact on overall financials due to temporary store closures

Before virus			After virus			
Days of restaurant closures			15 days	30 days	60 days	90 days
Period	FY19E	FY20E	FY20E	FY20E	FY20E	FY20E
Sales	26,123	36,409	34,871	33,364	30,807	28,566
COGS	(10,629)	(14,851)	(14,224)	(13,610)	(12,566)	(11,652)
Gross profit	15,493	21,558	20,647	19,755	18,240	16,914
GP margin	59.3%	59.2%	59.2%	59.2%	59.2%	59.2%
Other income (incl. interest income)	223	307	297	297	297	297
Staff costs	(7,787)	(10,966)				
Property rent and related expenses	(225)	(326)				
Utilities expenses	(967)	(1,347)				
Depreciation and amortization	(1,071)	(1,464)				
Travelling and related expenses	(261)	(364)				
Other expenses	(1,829)	(2,439)				
Opex - Fixed	(5,848)	(8,172)	(8,172)	(8,172)	(8,172)	(8,172)
As % of sales	-22.4%	-22.4%	-23.4%	-24.5%	-26.5%	-28.6%
Opex - Variable	(6,291)	(8,734)	(8,326)	(7,966)	(7,356)	(6,821)
As % of sales	-24.1%	-24.0%	-23.9%	-23.9%	-23.9%	-23.9%
Operating income	3,577	4,959	4,445	3,913	3,009	2,218
Finance costs	(226)	(188)	(188)	(188)	(188)	(188)
JVs & ASSOs & exceptional	26	2	2	2	2	2
Pre-tax profit	3,377	4,773	4,259	3,727	2,823	2,031
Income tax	(895)	(1,265)	(1,129)	(988)	(748)	(538)
Effective tax rate	-26.5%	-26.5%	-26.5%	-26.5%	-26.5%	-26.5%
Minority interests	(10)	(14)	(13)	(11)	(8)	(6)
Net profit att.	2,472	3,493	3,117	2,728	2,066	1,487

Growth (YoY)	FY19E	FY20E	FY20E	FY20E	FY20E	FY20E
Sales		39%	33%	28%	18%	9%
Operating income		39%	24%	9%	-16%	-38%
Net profit att.		41%	26%	10%	-16%	-40%

Revisions	FY19E	FY20E	FY20E	FY20E	FY20E	FY20E
Sales			-4%	-8%	-15%	-22%
Operating profit			-10%	-21%	-39%	-55%
Net profit att.			-11%	-22%	-41%	-57%

Source: Company data, CMBIS estimates

Figure 3: Costs mix by fixed or variable items

Opex breakdown	Fixed %	Variable
Staff costs	55%	45%
Property rent and related expenses	60%	40%
Utilities expenses	5%	95%
Depreciation and amortization	90%	10%
Travelling and related expenses	20%	80%
Other expenses	20%	80%
Overall Opex - FY20E	48%	52%

Source: Company data, CMBIS estimates

Figure 4: Impact on financials by stores openings delay

Savings from new store openings delay	Base case	Bear case 1	Bear case 2	Base case
Period	FY19E	FY20E	FY20E	FY20E
Number of restaurants (at year end, in PRC)				
Tier 1 cities	186	246	226	236
Tier 2 cities	307	427	387	407
Tier 3 and below	207	307	267	287
Total	700	980	880	930
New stores (in PRC)	270	280	180	230
Average losses per new store (RMB mn)	(0.75)	(0.70)	(0.70)	(0.70)
Total new store losses (RMB mn)	(203)	(196)	(126)	(161)
As % of sales	-0.8%	-0.5%	-0.3%	-0.4%
As % of net profit	-8.2%	-5.6%	-3.6%	-4.6%
Savings in losses (RMB mn)			70	35

Source: Company data, CMBIS estimates

Figure 5: China catering peers' performance

Fiscal Year	1Q17	2Q17	3Q17	17 (4 mont)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	1Q20E	2Q20E
KFC China SSSG Dec	1%	4%	7%	7%	5%	0%	1%	3%	5%	5%	3%	3%	-30%	
KFC China System Sales Growth Dec	3%	8%	11%	11%	9%	5%	6%	9%	11%	12%	10%	10%		
Pizza Hut China SSSG Dec	2%	0%	0%	1%	-5%	-4%	-5%	-4%	1%	1%	1%	0%	-20%	
Pizza Hut China System Sales GrovDec	9%	7%	7%	6%	-1%	-1%	-2%	-2%	3%	4%	3%	1%		
YUM China SSSG Dec	1%	3%	6%	5%	3%	-1%	-1%	1%	4%	4%	2%	2%	-25%	
YUM China System Sales Growth Dec	4%	7%	10%	9%*	6%	3%	4%	6%	9%	10%	8%	8%		
McDonalds China SSSG Dec	#	3.8%	7.0%	6.2%	4.0%	4.7%	2.4%	4.6%	4.8%	6.0%	7.9%	8.1%	6.6%	-15.0%
McDonalds High Growth Market SSG Dec														
McDonalds Int'l development license Dec														
Hop Hing China SSSG Dec	#	4.7%	5%*	4.0%	4.4%*	1.8%	1.6%*	0.1%	-2.0%	2.6%	-1.2%	0.6%	1.0%	-15.0%
Ajisen China SSSG Dec	#	-0.5%	4.2%	9.7%	5.3%	0.6%	-1.8%	-6.3%	-2.5%	5.1%				
Ajisen Hong Kong SSSG Dec	#	-5.1%	-4.6%	-9.0%	-7.9%	-4.3%	-10.8%	-6.9%	-5.2%	-18.8%				
Ajisen Group SSSG											4.8%	6.9%	6.8%	-40.0%
Ajisen Group's Fast Casual Restaur Dec										7.2%	6.4%	9.9%	11.2%	-35.0%
XBXB SSSG Dec	#	7.2%		9.8%		7.3%		-2.7%		-1.9%		-1.5%		-12.0%
Haidilao SSSG Dec						6.4%		6.0%		4.7%		-1.8%		-8.0%
Tai Hing China SSSG Dec			-6.8%				2.1%							
Tai Hing Hong Kong SSSG Dec			0.8%				4.2%							
Tai Hing Group SSSG Dec			-1.4%				5.1%	1.4%						

Source: Company data, CMBIS estimates

Results preview

Figure 6: Result preview – Full Year

	FY17	FY18	FY19E	FY20E	FY21E	FY17 yoy	FY18 yoy	FY19E yoy	FY20E yoy	FY21E yoy
Revenue	10,637	16,969	26,123	33,364	44,782	36%	60%	54%	28%	34%
COGS	(4,313)	(6,935)	(10,629)	(13,609)	(18,222)					
Gross profit	6,324	10,034	15,493	19,755	26,560	37%	59%	54%	28%	34%
GP margins	59.5%	59.1%	59.3%	59.2%	59.3%					
Other income & gains	91	104	223	287	369					
Staff costs	(3,120)	(5,016)	(7,787)	(10,521)	(13,913)	53%	61%	55%	35%	32%
Staff costs / sales	-29.3%	-29.6%	-29.8%	-31.5%	-31.1%					
Property rent & related exp.	(415)	(685)	(225)	(326)	(425)	39%	65%	-67%	45%	30%
Property rent & related exp. / sales	-3.9%	-4.0%	-0.9%	-1.0%	-0.9%					
Utilities exp.	(349)	(595)	(967)	(1,234)	(1,657)	33%	71%	63%	28%	34%
Utilities exp. / sales	-3.3%	-3.5%	-3.7%	-3.7%	-3.7%					
Depreciation & amortization	(360)	(689)	(1,071)	(1,448)	(1,781)	26%	92%	55%	35%	23%
Depreciation & amortization / sales	-3.4%	-4.1%	-4.1%	-4.3%	-4.0%					
Travelling & related exp.	(120)	(159)	(261)	(334)	(448)	42%	33%	64%	28%	34%
Travelling & related exp. / sales	-1.1%	-0.9%	-1.0%	-1.0%	-1.0%					
Other opex	(445)	(746)	(1,829)	(2,267)	(2,891)	19%	68%	145%	24%	28%
Operating profit (EBIT)	1,607	2,248	3,577	3,913	5,814	20%	40%	59%	9%	49%
OP margins	15.1%	13.2%	13.7%	11.7%	13.0%					
Other items	26	18	0	(7)	(9)					
Net finance income	(9)	(31)	(226)	(188)	(176)					
Net finance income / sales	-0.1%	-0.2%	-0.9%	-0.6%	-0.4%					
Profit after financing costs	1,625	2,234	3,351	3,718	5,629					
Associated coms	0	0	0	0	0					
Jointly controlled coms	0	28	26	8	10					
Pre-tax profit	1,625	2,262	3,377	3,727	5,640	21%	39%	49%	10%	51%
Tax	(431)	(613)	(895)	(988)	(1,494)					
Tax / sales	-4.0%	-3.6%	-3.4%	-3.0%	-3.3%					
Effective tax rate	-26.5%	-27.1%	-26.5%	-26.5%	-26.5%					
Minority interests	166	3	10	11	17					
Net profit att.	1,028	1,646	2,472	2,728	4,128	40%	60%	50%	10%	51%
NP margins	9.7%	9.7%	9.5%	8.2%	9.2%					
Listing fees	0	86	0	0	0					
Adjusted Net profit att.	1,028	1,732	2,472	2,728	4,128	40%	68%	43%	10%	51%
Adjusted NP att. margins	9.7%	10.2%	9.5%	8.2%	9.2%					
Sales by channels (Rmb mn)										
China - T1 cities	2,959	4,036	6,373	7,755	9,984	9%	36%	58%	22%	29%
China - T2 cities	5,231	7,795	10,636	13,056	17,500	39%	49%	36%	23%	34%
China - T3 and below	1,518	3,379	6,217	8,667	12,122	107%	123%	84%	39%	40%
Outside PRC	703	1,323	2,029	2,659	3,573	60%	88%	53%	31%	34%
Net of Customer loyalty program	(24)	(40)	(40)	(43)	(45)	-12%	70%	0%	5%	5%
Delivery business	219	324	523	749	997	50%	48%	62%	43%	33%
Sales of condiment products and food i	30	154	386	521	651	17%	409%	150%	35%	25%
Total	10,637	16,969	26,123	33,364	44,782	36%	60%	54%	28%	34%

Source: Company data, CMBIS estimates

Figure 7: Operating numbers - Half Year

	FY17	FY18	FY19E	FY20E	FY21E	FY17 yoy	FY18 yoy	FY19E yoy	FY20E yoy	FY21E yoy
Sales per store (Rmb mn)										
China - T1 cities	46	38	34	32	33	-8%	-16%	-10%	-8%	3%
China - T2 cities	44	38	35	31	32	-4%	-14%	-8%	-12%	5%
China - T3 and below	22	29	30	28	30	-13%	31%	4%	-6%	5%
Outside PRC	37	37	42	42	44	-24%	-1%	15%	-2%	5%
All Restaurants	38	35	34	31	32	-12%	-7%	-5%	-9%	5%
Total number of restaurants										
China - T1 cities	65	106	186	246	306	18%	63%	75%	32%	24%
China - T2 cities	120	207	307	427	547	45%	73%	48%	39%	28%
China - T3 and below	69	117	207	307	407	138%	70%	77%	48%	33%
Outside PRC	19	36	48	64	82	111%	89%	33%	33%	28%
Total	273	466	748	1,044	1,342	55%	71%	61%	40%	29%
Average spending per guest (Rmb)										
China - T1 cities	98	106	111	116	120	3%	8%	4%	4%	3%
China - T2 cities	93	95	100	105	109	5%	2%	5%	5%	4%
China - T3 and below	95	92	99	102	105	2%	-3%	8%	3%	2%
Outside PRC	180	199	199	203	209	-17%	11%	0%	2%	3%
Total	98	101	110	115	119	3%	3%	9%	5%	3%
Total guest served (mn)										
China - T1 cities	30	38	57	67	83	6%	26%	51%	16%	24%
China - T2 cities	57	82	107	125	160	32%	46%	30%	17%	28%
China - T3 and below	16	37	62	85	115	104%	128%	70%	35%	36%
Outside PRC	4	7	10	13	17	95%	70%	53%	29%	30%
Total	107	164	237	290	376	31%	53%	45%	22%	30%
Table turnover rate (times/ day)										
China - T1 cities	4.8	5.1	4.8	4.3	4.3	12%	6%	-6%	-12%	0%
China - T2 cities	5.2	5.3	5.0	4.4	4.4	8%	2%	-5%	-12%	-2%
China - T3 and below	4.7	4.8	4.7	4.3	4.3	9%	2%	-3%	-8%	1%
Outside PRC	4.4	3.8	4.0	3.9	4.0	-8%	-14%	5%	-2%	2%
Total	5.0	5.0	4.6	4.1	4.2	11%	0%	-8%	-10%	0%
Same store sales growth (%)										
China - T1 cities	12.7%	11.7%	-1.0%	-7.0%	4.0%					
China - T2 cities	14.5%	4.3%	0.0%	-7.0%	3.0%					
China - T3 and below	16.3%	10.6%	5.0%	-5.0%	4.0%					
Outside PRC	12.8%	-8.5%	5.0%	0.0%	5.0%					
Total	14.0%	6.2%	1.3%	-5.7%	3.5%					

Source: Company data, CMBIS estimates

Earnings revision

Figure 8: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	26,123	33,364	44,782	27,351	37,024	46,421	-4.5%	-9.9%	-3.5%
Gross profit	15,493	19,755	26,560	16,222	21,922	27,532	-4.5%	-9.9%	-3.5%
EBIT	3,464	3,766	5,589	3,667	5,102	6,708	-5.6%	-26.2%	-16.7%
Reported Net profit	2,472	2,728	4,128	2,632	3,727	4,989	-6.1%	-26.8%	-17.2%
Diluted EPS (RMB)	0.466	0.515	0.779	0.497	0.703	0.941	-6.1%	-26.8%	-17.2%
Gross margin	59.3%	59.2%	59.3%	59.3%	59.2%	59.3%	0ppt	0ppt	0ppt
EBIT margin	13.3%	11.3%	12.5%	13.4%	13.8%	14.4%	-0.1ppt	-2.5ppt	-2ppt
Net profit att. margin	9.5%	8.2%	9.2%	9.6%	10.1%	10.7%	-0.2ppt	-1.9ppt	-1.5ppt

Source: Company data, CMBIS estimates

Figure 9: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	26,123	33,364	44,782	27,277	39,659	51,576	-4.2%	-15.9%	-13.2%
Gross profit	15,493	19,755	26,560	16,077	23,388	30,476	-3.6%	-15.5%	-12.8%
EBIT	3,464	3,766	5,589	3,477	5,107	6,671	-0.4%	-26.3%	-16.2%
Net profit att.	2,472	2,728	4,128	2,493	3,647	4,820	-0.8%	-25.2%	-14.4%
Diluted EPS (RMB)	0.466	0.515	0.779	0.480	0.703	0.916	-2.8%	-26.8%	-14.9%
Gross margin	59.3%	59.2%	59.3%	58.9%	59.0%	59.1%	0.4ppt	0.2ppt	0.2ppt
EBIT margin	13.3%	11.3%	12.5%	12.7%	12.9%	12.9%	0.5ppt	-1.6ppt	-0.5ppt
Net profit att. margin	9.5%	8.2%	9.2%	9.1%	9.2%	9.3%	0.3ppt	-1ppt	-0.1ppt

Source: Company data, CMBIS estimates

Valuation

Figure 10: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$ mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Restaurants and Food Ingredients															
Haidilao	6862 HK	BUY	39.83	32.80	21%	173,840	Dec-18	61.9	56.1	13.2	10.3	33.9	1.7	0.3	
Cafe De Coral	341 HK	HOLD	18.26	17.86	2%	10,461	Mar-19	24.6	20.6	3.1	3.1	16.5	(18.8)	4.1	
Xiabuxiabu	520 HK	NR	n/a	8.56	n/a	9,258	Dec-18	19.6	15.2	3.3	3.1	18.9	2.0	2.2	
Yihai	1579 HK	NR	n/a	50.90	n/a	53,287	Dec-18	63.4	46.9	17.7	13.4	32.0	2.1	0.4	
Yum China	YUMC US	NR	n/a	43.81	n/a	127,974	Dec-19	46.2	22.1	5.1	4.4	24.0	7.6	1.0	
Gourmet Master	2723 TT	NR	n/a	102.50	n/a	4,776	Dec-18	17.6	15.0	1.7	1.6	10.5	(3.7)	3.5	
								Avg.	41.8	31.0	7.4	6.0	24.6	(1.5)	1.9
								Med.	46.2	22.1	4.2	3.7	24.0	1.8	1.6
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	n/a	19.04	n/a	2,466	Mar-19	11.2	16.1	3.2	3.0	18.3	(7.7)	4.6	
Hop Hing	47 HK	NR	n/a	0.09	n/a	947	Dec-18	n/a	n/a	n/a	n/a	17.6	n/a	n/a	
Tsui Wah	1314 HK	NR	n/a	0.41	n/a	572	Mar-19	n/a	n/a	n/a	n/a	(5.2)	n/a	n/a	
Ajisen China	538 HK	NR	n/a	2.17	n/a	2,369	Dec-18	10.6	10.8	n/a	n/a	17.1	(0.5)	4.9	
Tao Heung	573 HK	NR	n/a	1.22	n/a	1,240	Dec-18	n/a	n/a	n/a	n/a	8.1	n/a	n/a	
Tang Palace	1181 HK	NR	n/a	0.95	n/a	1,022	Dec-18	6.1	5.7	n/a	n/a	25.4	n/a	n/a	
								Avg.	9.3	10.9	3.2	3.0	13.5	(4.1)	4.8
								Med.	10.6	10.8	3.2	3.0	17.3	(4.1)	4.8
Leading Greater China Restaurants and Food Ingredients															
Yum! Brands	YUM US	NR	n/a	104.05	n/a	244,497	Dec-19	26.3	23.2	n/a	n/a	n/a	4.8	1.8	
Mcdonald'S	MCD US	NR	n/a	215.73	n/a	1,262,173	Dec-19	25.3	23.4	n/a	n/a	n/a	3.1	2.4	
Starbucks	SBUX US	NR	n/a	87.51	n/a	797,947	Sep-19	29.2	25.5	n/a	n/a	n/a	3.4	1.9	
Rest. Brands	QSR US	NR	n/a	66.41	n/a	240,106	Dec-19	22.3	20.5	9.0	8.3	31.4	1.7	3.2	
Wingstop	WING US	NR	n/a	97.00	n/a	22,196	Dec-18	127.6	107.2	n/a	n/a	n/a	9.2	0.4	
Shake Shack	SHAK US	NR	n/a	72.96	n/a	21,268	Dec-18	111.6	119.4	9.9	8.8	8.1	10.5	n/a	
Chipotle Mexican	CMG US	NR	n/a	890.75	n/a	192,158	Dec-19	48.5	38.7	12.0	9.7	22.4	1.6	0.0	
Darden Rest.	DRI US	NR	n/a	122.23	n/a	115,385	May-19	19.1	18.0	6.0	5.4	27.7	2.5	2.9	
Domino'S Pizza	DPZ US	NR	n/a	275.75	n/a	87,620	Dec-18	29.3	25.9	n/a	n/a	n/a	2.5	0.9	
Dunkin' Brands	DNKN US	NR	n/a	75.80	n/a	48,780	Dec-19	23.5	21.7	n/a	n/a	n/a	2.9	2.1	
Wendy'S	WEN US	NR	n/a	22.48	n/a	40,177	Dec-18	37.8	35.0	9.4	11.9	18.0	(1.5)	1.8	
Jollibee Foods	JFC PM	NR	n/a	192.00	n/a	32,360	Dec-18	35.5	31.6	4.0	3.7	13.7	812.4	1.1	
								Avg.	44.7	40.9	8.4	8.0	20.2	71.1	1.7
								Med.	29.2	25.7	9.2	8.6	20.2	3.0	1.8
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	8.51	n/a	36,758	Dec-18	24.2	22.1	2.4	2.4	10.1	1.7	4.1	
Tingyi	322 HK	NR	n/a	14.76	n/a	83,007	Dec-18	27.7	24.7	3.6	3.5	14.2	3.7	3.1	
Want Want China	151 HK	BUY	7.70	6.38	21%	79,209	Mar-19	18.5	17.5	4.3	4.0	27.2	3.4	4.0	
China Mengniu	2319 HK	BUY	37.00	30.20	23%	118,857	Dec-18	22.1	23.1	3.7	3.2	14.2	1.2	1.0	
Vitasoy	345 HK	NR	n/a	30.30	n/a	32,232	Mar-19	45.2	39.1	9.3	8.6	23.0	4.4	1.4	
Tsingtao Brewery	168 HK	NR	n/a	43.75	n/a	64,121	Dec-18	28.9	25.0	2.8	2.6	9.9	1.7	1.5	
CR Beer	291 HK	NR	n/a	38.50	n/a	124,901	Dec-18	52.4	35.1	5.5	5.0	6.7	0.9	0.6	
Dali Foods	3799 HK	NR	n/a	5.45	n/a	74,633	Dec-18	17.0	15.6	4.0	3.8	24.5	3.4	4.6	
								Avg.	29.5	25.3	4.5	4.1	16.2	2.5	2.5
								Med.	25.9	23.9	3.8	3.6	14.2	2.6	2.3

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 11: Haidilao key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (Rmb bn)					
China T1 cities	2,959	4,036	6,373	7,755	9,984
China T2 cities	5,231	7,795	10,636	13,056	17,500
China T3 and below	1,518	3,379	6,217	8,667	12,122
Outside PRC	703	1,323	2,029	2,659	3,573
Net of customer loyalty prm.	(24)	(40)	(40)	(43)	(45)
Delivery business	219	324	523	749	997
Condiment & food ingredients	30	154	386	521	651
Total	10,637	16,969	26,123	33,364	44,782
Sales growth by segment (YoY %)					
China T1 cities	9.0%	36.4%	57.9%	21.7%	28.7%
China T2 cities	38.5%	49.0%	36.4%	22.8%	34.0%
China T3 and below	107.0%	122.5%	84.0%	39.4%	39.9%
Outside PRC	60.2%	88.0%	53.4%	31.1%	34.4%
Net of customer loyalty prm.	-12.5%	69.6%	0.0%	5.0%	5.0%
Delivery business	49.7%	47.9%	61.7%	43.2%	33.1%
Condiment & food ingredients	16.7%	409.0%	150.0%	35.0%	25.0%
Total	36.2%	59.5%	53.9%	27.7%	34.2%
Number of restaurants					
China T1 cities	65	106	186	246	306
China T2 cities	120	207	307	427	547
China T3 and below	69	117	207	307	407
Outside PRC	19	36	48	64	82
Total	273	466	748	1,044	1,342
Number of restaurants growth (YoY %)					
China T1 cities	18.2%	63.1%	75.5%	32.3%	24.4%
China T2 cities	44.6%	72.5%	48.3%	39.1%	28.1%
China T3 and below	137.9%	69.6%	76.9%	48.3%	32.6%
Outside PRC	111.1%	89.5%	33.3%	33.3%	28.1%
Total	55.1%	70.7%	60.5%	39.6%	28.5%
Sales per restaurants (Rmb mn)					
China T1 cities	46	38	34	32	33
China T2 cities	44	38	35	31	32
China T3 and below	22	29	30	28	30
Outside PRC	37	37	42	42	44
Total	38	35	34	31	32
Sales per restaurants growth (YoY %)					
China T1 cities	-7.7%	-16.4%	-10.0%	-8.0%	3.5%
China T2 cities	-4.2%	-13.6%	-8.0%	-11.7%	4.6%
China T3 and below	-13.0%	31.2%	4.0%	-6.0%	5.5%
Outside PRC	-24.1%	-0.8%	15.0%	-1.7%	4.9%
Total	-12.3%	-7.0%	-4.7%	-8.8%	4.6%
Average spending per guest (Rmb)					
China T1 cities	98.3	106.1	110.9	115.9	120
China T2 cities	92.6	94.8	99.5	104.5	109
China T3 and below	94.5	92.1	99.5	102.5	105
Outside PRC	179.6	199.3	199.3	203.3	209
Overall	97.7	101.1	110.2	115.2	119
Average spending per guest growth (YoY %)					
China T1 cities	3.1%	7.9%	4.5%	4.5%	3.5%
China T2 cities	4.6%	2.4%	5.0%	5.0%	4.5%
China T3 and below	1.8%	-2.5%	8.0%	3.0%	2.5%
Outside PRC	-16.6%	11.0%	0.0%	2.0%	3.0%
Overall	3.4%	3.5%	9.0%	4.6%	3.4%
GP margins					
Staff costs/ sales	-29.3%	-29.6%	-29.8%	-31.5%	-31.1%
Property rent and related expenses/ sales	-3.9%	-4.0%	-0.9%	-1.0%	-0.9%
Utilities expenses / sales	-3.3%	-3.5%	-3.7%	-3.7%	-3.7%
Depreciation and amortization/ sales	-3.4%	-4.1%	-4.1%	-4.3%	-4.0%
Travelling and related expenses/ sales	-1.1%	-0.9%	-1.0%	-1.0%	-1.0%
Other expenses/ sales	-4.2%	-4.4%	-7.0%	-6.8%	-6.5%
Effective tax rate	-26.5%	-27.1%	-26.5%	-26.5%	-26.5%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	10,637	16,969	26,123	33,364	44,782
China & loyalty program	9,685	15,169	23,185	29,435	39,561
Overseas	703	1,323	2,029	2,659	3,573
Delivery business	219	324	523	749	997
Condiment & food	30	154	386	521	651
Cost of goods sold	(4,313)	(6,935)	(10,629)	(13,609)	(18,222)
Gross profit	6,324	10,034	15,493	19,755	26,560
Other income	86	66	110	140	143
Operating expenses	(4,808)	(7,891)	(12,139)	(16,128)	(21,114)
D & A	(360)	(689)	(1,071)	(1,448)	(1,781)
Staff costs	(3,120)	(5,016)	(7,787)	(10,521)	(13,913)
S & D costs (ex-staff, D&A)	(415)	(685)	(225)	(326)	(425)
Admin exp. (ex-staff, D&A)	(349)	(595)	(967)	(1,234)	(1,657)
Other operating expenses	(565)	(906)	(2,090)	(2,600)	(3,339)
EBIT	1,602	2,209	3,464	3,766	5,589
Finance costs, net	(4)	7	(113)	(41)	50
JVs & associates	0	28	26	8	10
Exceptional	26	18	-	(7)	(9)
Pre-tax profit	1,625	2,262	3,377	3,727	5,640
Income tax	(431)	(613)	(895)	(988)	(1,494)
Less: Minority interests	166	3	10	11	17
Net profit	1,028	1,646	2,472	2,728	4,128

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	1,602	2,209	3,464	3,766	5,589
D & A	360	689	1,071	1,448	1,781
Change in working capital	(110)	34	(75)	73	112
Income tax paid	(468)	(583)	(895)	(988)	(1,494)
Others	16	39	113	147	225
Net cash from operating	1,400	2,388	3,678	4,446	6,213
Capex & investments	(1,243)	(2,512)	(3,135)	(2,502)	(2,463)
Associated companies	(4)	-	-	-	-
Interest received	1	22	-	-	-
Others	(319)	(1,377)	-	-	-
Net cash from investing	(1,565)	(3,867)	(3,135)	(2,502)	(2,463)
Equity raised	0	6,632	-	-	-
Net change in bank loans	(221)	53	(200)	(100)	-
Dividend paid	-	(461)	456	494	546
Others	326	(885)	(226)	(188)	(176)
Net cash from financing	105	5,339	30	206	370
Net change in cash	(60)	3,861	573	2,150	4,119
Beginning cash balance	407	282	4,119	4,692	6,842
Exchange difference	(65)	(24)	-	-	-
Cash at the end of the year	282	4,119	4,692	6,842	10,961

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	2,274	6,209	8,298	9,361	10,054
Fixed asset	2,085	4,000	6,076	7,142	7,835
Intangible assets & goodwill	11	52	39	28	17
Prepaid lease payments	121	1,953	1,953	1,953	1,953
Interest in joint ventures	4	100	126	134	144
Other non-current assets	53	104	104	104	104
Current assets	1,462	5,736	6,726	9,353	14,223
Cash and cash equivalents	282	4,119	4,692	6,842	10,961
Inventories	95	457	291	373	499
Trade and other	173	150	358	457	613
Prepayments	325	695	1,070	1,367	1,834
Other current assets	587	315	315	315	315
Current liabilities	2,618	3,306	3,448	3,898	4,761
Bank loans	348	410	410	410	410
Trade payables	169	729	582	746	998
Accruals & other payables	511	906	1,395	1,782	2,392
Tax payables	80	161	161	161	161
Others	1,511	1,099	899	799	799
Non-current liabilities	27	9	9	9	9
Bank loans	9	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	13	2	2	2	2
Others	4	7	7	7	7
Minority Interest	2	5	15	33	58
Total net assets	1,089	8,625	11,553	14,775	19,449
Shareholders' equity	1,091	8,630	11,567	14,808	19,507

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
China & loyalty program	91.0	89.4	88.8	88.2	88.3
Overseas	6.6	7.8	7.8	8.0	8.0
Delivery business	2.1	1.9	2.0	2.2	2.2
Condiment & food	0.3	0.9	1.5	1.6	1.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	59.5	59.1	59.3	59.2	59.3
Operating margin	15.1	13.0	13.3	11.3	12.5
Pre-tax margin	15.3	13.3	12.9	11.2	12.6
Net margin	9.7	9.7	9.5	8.2	9.2
Effective tax rate	26.5	27.4	26.5	26.5	26.5
Balance sheet ratios					
Current ratio (x)	3.2	2.5	2.7	2.7	2.7
Quick ratio (x)	2.9	2.2	2.5	2.4	2.4
Cash ratio (x)	0.1	1.2	1.4	1.8	2.3
Inventory turnover days	6	15	10	10	10
Trade receivables days	4	3	5	5	5
Trade payables days	12	24	20	20	20
Total debt / total equity	143	12	7	5	4
Net debt / equity ratio (%)	113	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	94.2	19.1	21.4	18.4	21.2
ROA	27.5	13.8	16.5	14.6	17.0
Per share					
EPS (RMB)	0.19	0.31	0.47	0.51	0.78
DPS (RMB)	0.14	0.09	0.09	0.10	0.16
BVPS (RMB)	0.21	1.63	2.18	2.79	3.68

Source: Company data, CMBIS estimates

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