

Haidilao (6862 HK)

Growth is likely to resume in 2H20E

Maintain BUY but trimmed TP to HK\$ 37.90, based on 45x FY21E P/E unchanged. We expect HDL's traffic to normalize in 2H20E and its expansion plan to remain intact in FY20E, as the industry is still far from saturated.

- **FY19 NP was 5%/4% below CMBIS/ BBG's est..** Haidilao's FY19 net profit grew by 42% YoY to RMB 2.3bn, 5%/4% below CMBIS/ BBG's est.. We attributed the miss to: 1) lower-than-expected GP margin in 2H19 (at 57.4% vs CMBIS est. of 59.3%), dragged by more promotions to ramp up new stores and raw material prices pressure in 4Q19 and 2) lower-than-expected OP margin, due to beat in restaurant openings (added 302 vs CMBIS est. of 282).
- **Restaurant suspension is over and table turn is picking up well, we forecast growth to normalize in 2H20E.** Management cited that traffic had been recovering well, where table turnover reached ~2x in late Mar (3x/ 1x for 1st/ 2nd batches of restaurants resumed business since 14 Mar/ 21 Mar 2020). We find these numbers positive due to the limited opening hours (only open during daytime vs 24 hours in the past). We also expect traffic to normalize and generate sales/ net profit growth of 23%/ 27% in 2H20E.
- **Table turnover holds up well in both new and old restaurants.** Even with 302 new stores in FY19 (65% YoY growth), table turnover held up well in both new/ existing stores, at 4.1x/ 4.9x in FY19 (vs 4.5x/ 5.2x in FY18). We believe canalization exists but is not very significant. Management is confident that there is still room to grow as many cities (e.g. Beijing and Guangzhou) still have table turnover of above 5x, implying 2-3 hours waiting time during peak hours, which may bring adverse customer experience.
- **Stores opening plan in FY20E should be maintained.** We find it likely for the Company to keep its expansion plan as it still has ~300 rental contracts signed (with stores not yet being opened). **We maintained our new openings estimates of 286/ 288/ 238, and total stores will reach 1,054/ 1,342/ 1,580 in FY20E/ 21E/ 22E, implying a 27% CAGR.**
- **Rising raw material price is a concern but may be offset by menu price adjustments and more efficient supply chain.** Raw material prices in FY20E is a risk that we should be aware. But we believe the Company will deal with it by ASP adjustments and boosting supply chain efficiency.
- **Maintain BUY and trimmed TP to HK\$ 37.90.** We revised down our FY20E/ 21E EPS by 8.5%/ 9.2%, to factor in 1) more days of store suspensions and 2) lower-than-expected GP margin. We also cut TP to HK\$ 37.90 but maintain BUY, based on 45x FY21E P/E (unchanged), implying a 2.3x 3 years PEG. Current valuation is not demanding, at 38x FY21E P/E or 1.7x PEG (vs int'l catering/ consumer staple peers median of 2.7x/ 2.3x).

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,969	26,556	31,635	42,020	49,184
YoY growth (%)	59.5	56.5	19.1	32.8	17.0
Net income (RMB mn)	1,646	2,345	2,496	3,748	4,510
EPS (RMB)	0.31	0.44	0.47	0.71	0.85
YoY growth (%)	60.2	42.4	6.4	50.2	20.3
Consensus EPS	n/a	n/a	0.69	0.90	n/a
P/E (x)	86.3	60.6	56.9	37.9	31.5
P/B (x)	16.5	13.4	10.5	8.1	6.3
Yield (%)	0.4	0.2	0.3	0.4	0.5
ROE (%)	33.9	24.4	20.7	24.1	22.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$37.90
(Previous TP)	HK\$39.83)
Up/Downside	+18.8%
Current Price	HK\$30.45

China Catering Sector

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Stock Data

Mkt Cap (HK\$ mn)	161,385
Avg 3 mths t/o (HK\$ mn)	120.58
52w High/Low (HK\$)	38.7/25.03
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%

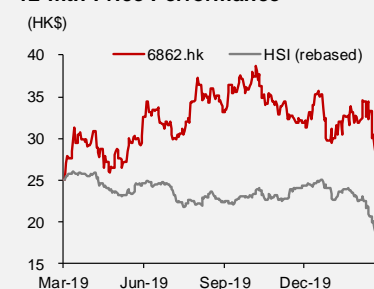
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.6%	7.1%
3-mth	-4.7%	15.2%
6-mth	-8.0%	2.2%
12-mth	30.8%	60.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Haidilao (6862 HK) - Well-positioned to withstand sector downturn – 13 Feb 2020
2. Haidilao (6862 HK) - Quick stores ramp up despite faster expansion – 21 Aug 2019
3. China catering sector - Sequential improvements likely in 2019 - 12 Apr 2019

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	31,635	42,020	49,184	33,364	44,782	n/a	-5.2%	-6.2%	n/a
Gross profit	18,415	24,502	28,728	19,755	26,560	n/a	-6.8%	-7.7%	n/a
EBIT	3,540	5,146	6,002	3,766	5,589	n/a	-6.0%	-7.9%	n/a
Reported Net profit	2,496	3,748	4,510	2,728	4,128	n/a	-8.5%	-9.2%	n/a
Diluted EPS (RMB)	0.471	0.707	0.851	0.515	0.779	n/a	-8.5%	-9.2%	n/a
Gross margin	58.2%	58.3%	58.4%	59.2%	59.3%	n/a	-1ppt	-1ppt	n/a
EBIT margin	11.2%	12.2%	12.2%	11.3%	12.5%	n/a	-0.1ppt	-0.2ppt	n/a
Net profit att. margin	7.9%	8.9%	9.2%	8.2%	9.2%	n/a	-0.3ppt	-0.3ppt	n/a

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	31,635	42,020	49,184	38,151	50,990	n/a	-17.1%	-17.6%	n/a
Gross profit	18,415	24,502	28,728	22,471	30,120	n/a	-18.1%	-18.7%	n/a
EBIT	3,540	5,146	6,002	4,803	6,546	n/a	-26.3%	-21.4%	n/a
Net profit att.	2,496	3,748	4,510	3,611	4,701	n/a	-30.9%	-20.3%	n/a
Diluted EPS (RMB)	0.471	0.707	0.851	0.688	0.904	n/a	-31.6%	-21.8%	n/a
Gross margin	58.2%	58.3%	58.4%	58.9%	59.1%	n/a	-0.7ppt	-0.8ppt	n/a
EBIT margin	11.2%	12.2%	12.2%	12.6%	12.8%	n/a	-1.4ppt	-0.6ppt	n/a
Net profit att. margin	7.9%	8.9%	9.2%	9.5%	9.2%	n/a	-1.6ppt	-0.3ppt	n/a

Source: Company data, CMBIS estimates

Results summary

Figure 3: Result preview – Full Year

	FY17	FY18	FY19	FY20E	FY21E	FY18 YoY	FY19 YoY	FY20E YoY	FY21E YoY	FY18E CMBI	FY19E CMBIS	Actual vs CMBIS
Revenue	10,637	16,969	26,556	31,635	42,020	60%	56%	19%	33%	17,408	26,123	2%
COGS	(4,313)	(6,935)	(11,239)	(13,221)	(17,518)					(7,083)	(10,629)	
Gross profit	6,324	10,034	15,317	18,415	24,502	59%	53%	20%	33%	10,325	15,493	-1%
GP margins	59.5%	59.1%	57.7%	58.2%	58.3%					59.3%	59.3%	
Other income & gains	91	104	263	305	401					81	223	18%
Staff costs	(3,120)	(5,016)	(7,993)	(9,720)	(12,614)	61%	59%	22%	30%	(5,303)	(7,787)	3%
Staff costs / sales	-29.3%	-29.6%	-30.1%	-30.7%	-30.0%					-30.5%	-29.8%	
Property rent & related exp.	(415)	(685)	(240)	(348)	(448)	65%	-65%	45%	29%	(670)	(225)	7%
Property rent & related exp. / sales	-3.9%	-4.0%	-0.9%	-1.1%	-1.1%					-3.9%	-0.9%	
Utilities exp.	(349)	(595)	(912)	(1,170)	(1,555)	71%	53%	28%	33%	(592)	(967)	-6%
Utilities exp. / sales	-3.3%	-3.5%	-3.4%	-3.7%	-3.7%					-3.4%	-3.7%	
Depreciation & amortization	(360)	(689)	(1,891)	(2,283)	(2,899)	92%	174%	21%	27%	(627)	(1,071)	77%
Depreciation & amortization / sales	-3.4%	-4.1%	-7.1%	-7.2%	-6.9%					-3.6%	-4.1%	
Travelling & related exp.	(120)	(159)	(220)	(221)	(420)	33%	38%	1%	90%	(191)	(261)	-16%
Travelling & related exp. / sales	-1.1%	-0.9%	-0.8%	-0.7%	-1.0%					-1.1%	-1.0%	
Other opex	(445)	(746)	(1,000)	(1,265)	(1,555)	68%	34%	27%	23%	(818)	(1,829)	-45%
Operating profit (EBIT)	1,607	2,248	3,324	3,712	5,412	40%	48%	12%	46%	2,202	3,577	-7%
OP margins	15.1%	13.2%	12.5%	11.7%	12.9%					12.7%	13.7%	
Other items	26	18	95	(6)	(8)					3	0	
Net finance income	(9)	(31)	(237)	(257)	(257)					(11)	(226)	5%
Net finance income / sales	-0.1%	-0.2%	-0.9%	-0.8%	-0.6%					-0.1%	-0.9%	
Profit after financing costs	1,625	2,234	3,182	3,448	5,146					2,194	3,351	
Associated coms	0	0	0	0	0					0	0	
Jointly controlled coms	0	28	65	8	9					7	26	
Pre-tax profit	1,625	2,262	3,247	3,456	5,156	39%	44%	6%	49%	2,201	3,377	-4%
Tax	(431)	(613)	(900)	(951)	(1,392)					(583)	(895)	
Tax / sales	-4.0%	-3.6%	-3.4%	-3.0%	-3.3%					-3.4%	-3.4%	
Effective tax rate	-26.5%	-27.1%	-27.7%	-27.5%	-27.0%					-26.5%	-26.5%	
Minority interests	166	3	2	10	15					7	10	
Net profit att.	1,028	1,646	2,345	2,496	3,748	60%	42%	6%	50%	1,611	2,472	-5%
NP margins	9.7%	9.7%	8.8%	7.9%	8.9%					9.3%	9.5%	
Listing fees	0	86	0	0	0					53	0	
Adjusted Net profit att.	1,028	1,732	2,345	2,496	3,748	68%	35%	6%	50%	1,665	2,472	-5%
Adjusted NP att. margins	9.7%	10.2%	8.8%	7.9%	8.9%					9.6%	9.5%	
Sales by channels (Rmb mn)												
China - T1 cities	2,959	4,036	6,482	7,281	9,345	36%	61%	12%	28%	3,811	6,373	2%
China - T2 cities	5,231	7,795	11,143	12,556	16,408	49%	43%	13%	31%	8,631	10,636	5%
China - T3 and below	1,518	3,379	5,779	7,682	10,861	123%	71%	33%	41%	3,391	6,217	-7%
Outside PRC	703	1,323	2,274	2,913	3,884	88%	72%	28%	33%	1,125	2,029	12%
Net of Customer loyalty program	(24)	(40)	(68)	(71)	(75)	70%	67%	5%	5%	(36)	(40)	67%
Delivery business	219	324	449	602	758	48%	39%	34%	26%	380	523	-14%
Sales of condiment products and food ii	30	154	498	672	840	409%	222%	35%	25%	106	386	29%
Total	10,637	16,969	26,556	31,635	42,020	60%	56%	19%	33%	17,408	26,123	2%

Source: Company data, CMBIS estimates

Figure 4: Operating numbers - Full Year

	FY17	FY18	FY19	FY20E	FY21E	FY18 YoY	FY19 YoY	FY20E YoY	FY21E YoY	FY18E CMBI	FY19E CMBIS	Actual vs CMBIS
Sales per store (Rmb mn)												
China - T1 cities	46	38	34	29	30	-16%	-10%	-15%	3%	42	34	0%
China - T2 cities	44	38	34	28	30	-14%	-11%	-15%	5%	39	35	-3%
China - T3 and below	22	29	30	26	28	31%	3%	-12%	5%	25	30	-1%
Outside PRC	37	37	44	43	45	-1%	19%	-2%	5%	36	42	3%
All Restaurants	38	35	33	29	30	-7%	-6%	-14%	5%	36	34	-1%
Total number of restaurants												
China - T1 cities	65	106	190	250	310	63%	79%	32%	24%	90	186	2%
China - T2 cities	120	207	332	442	552	73%	60%	33%	25%	220	307	8%
China - T3 and below	69	117	194	294	394	70%	66%	52%	34%	134	207	-6%
Outside PRC	19	36	52	68	86	89%	44%	31%	26%	31	48	8%
Total	273	466	768	1,054	1,342	71%	65%	37%	27%	475	748	3%
Average spending per guest (Rmb)												
China - T1 cities	98	106	110	115	119	8%	4%	4%	3%	101	111	-1%
China - T2 cities	93	95	99	104	109	2%	5%	5%	4%	96	100	0%
China - T3 and below	95	92	95	98	100	-3%	3%	3%	2%	96	99	-5%
Outside PRC	180	199	185	189	195	11%	-7%	2%	3%	144	199	-7%
Total	98	101	105	114	118	3%	4%	8%	3%	102	110	-5%
Total guest served (mn)												
China - T1 cities	30	38	59	63	78	26%	55%	8%	24%	38	57	2%
China - T2 cities	57	82	112	120	150	46%	36%	7%	25%	90	107	5%
China - T3 and below	16	37	61	79	108	128%	66%	29%	38%	35	62	-3%
Outside PRC	4	7	12	15	20	70%	85%	26%	29%	8	10	21%
Total	107	164	244	278	357	53%	49%	14%	29%	170	237	3%
Table turnover rate (times/ day)												
China - T1 cities	4.8	5.1	4.7	3.9	3.9	6%	-8%	-17%	0%	5.1	4.8	-2%
China - T2 cities	5.2	5.3	4.9	4.1	4.0	2%	-8%	-17%	-1%	5.3	5.0	-3%
China - T3 and below	4.7	4.8	4.7	4.1	4.2	2%	-2%	-13%	1%	4.9	4.7	1%
Outside PRC	4.4	3.8	4.1	3.8	3.9	-14%	8%	-7%	2%	5.4	4.0	3%
Total	5.0	5.0	4.8	3.9	3.9	0%	-4%	-19%	0%	5.1	4.6	4%
Same store sales growth (%)												
China - T1 cities	12.7%	11.7%	-0.2%	-12.0%	4.0%					10.1%	-1.0%	
China - T2 cities	14.5%	4.3%	-1.9%	-12.0%	3.0%					6.0%	0.0%	
China - T3 and below	16.3%	10.6%	8.3%	-10.0%	4.0%					6.6%	5.0%	
Outside PRC	12.8%	-8.5%	11.9%	-5.0%	5.0%					3.2%	5.0%	
Total	14.0%	6.2%	1.6%	-10.4%	3.6%					7.2%	1.3%	

Source: Company data, CMBIS estimates

Figure 5: Result preview – Half Year

	1H17	2H17	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19E yoy	2H19E CMBI	Actual vs CMBI
Revenue	4,756	5,881	7,343	9,626	11,695	14,861	54%	64%	59%	54%	14,428	3%
COGS	(1,949)	(2,364)	(3,066)	(3,869)	(4,903)	(6,336)					(5,727)	
Gross profit	2,807	3,517	4,276	5,758	6,792	8,524	52%	64%	59%	48%	8,701	-2%
GP margins	59.0%	59.8%	58.2%	59.8%	58.1%	57.4%					60.3%	
Other income & gains	40	51	27	77	119	144					104	39%
Staff costs	(1,391)	(1,729)	(2,203)	(2,814)	(3,652)	(4,341)	58%	63%	66%	54%	(4,135)	5%
Staff costs / sales	-29.2%	-29.4%	-30.0%	-29.2%	-31.2%	-29.2%					-28.7%	
Property rent & related exp.	(179)	(236)	(272)	(413)	(96)	(144)	52%	75%	-65%	-65%	(129)	12%
Property rent & related exp. / sales	-3.8%	-4.0%	-3.7%	-4.3%	-0.8%	-1.0%					-0.9%	
Utilities exp.	(149)	(200)	(255)	(340)	(439)	(472)	71%	70%	72%	39%	(527)	-10%
Utilities exp. / sales	-3.1%	-3.4%	-3.5%	-3.5%	-3.8%	-3.2%					-3.7%	
Depreciation & amortization	(163)	(197)	(294)	(396)	(830)	(1,061)	80%	101%	183%	168%	(241)	340%
Depreciation & amortization / sales	-3.4%	-3.3%	-4.0%	-4.1%	-7.1%	-7.1%					-1.7%	
Travelling & related exp.	(48)	(72)	(72)	(87)	(94)	(126)	51%	22%	30%	44%	(167)	-25%
Travelling & related exp. / sales	-1.0%	-1.2%	-1.0%	-0.9%	-0.8%	-0.8%					-1.2%	
Other opex	(161)	(284)	(322)	(424)	(462)	(539)	100%	49%	43%	27%	(1,367)	-61%
Operating profit (EBIT)	756	851	886	1,362	1,338	1,986	17%	60%	51%	46%	2,239	-11%
OP margins	15.9%	14.5%	12.1%	14.1%	11.4%	13.4%					15.5%	
Other items	8	18	19	(1)	(3)	98					3	
Net finance income	(6)	(2)	(9)	(22)	(102)	(135)					(124)	9%
Net finance income / sales	-0.1%	0.0%	-0.1%	-0.2%	-0.9%	-0.9%					-0.9%	
Profit after financing costs	758	867	896	1,338	1,233	1,949					2,118	
Associated coms	0	0	5	22	18	47					8	
Jointly controlled coms	0	0	0	0	0	0					0	
Pre-tax profit	758	867	901	1,361	1,251	1,996	19%	57%	39%	47%	2,126	-6%
Tax	(205)	(226)	(254)	(359)	(339)	(561)					(556)	
Tax / sales	-4.3%	-3.8%	-3.5%	-3.7%	-2.9%	-3.8%					-3.9%	
Effective tax rate	-27.0%	-26.1%	-28.1%	-26.4%	-27.1%	-28.1%					-26.2%	
Minority interests	128	38	1	2	1	1					9	
Net profit att.	425	603	646	1,000	911	1,433	52%	66%	41%	43%	1,561	-8%
NP margins	8.9%	10.3%	8.8%	10.4%	7.8%	9.6%					10.8%	
Listing fees	0	0	21	65	0	0					0	
Adjusted Net profit att.	425	603	667	1,065	911	1,433	57%	77%	37%	35%	1,561	-8%
Adjusted NP att. margins	8.9%	10.3%	9.1%	11.1%	7.8%	9.6%					10.8%	
Sales by channels (Rmb mn)												
China - T1 cities	1,427	1,532	1,800	2,235	2,865	3,617	26%	46%	59%	62%	3,508	3%
China - T2 cities	2,340	2,891	3,468	4,327	5,024	6,118	48%	50%	45%	41%	5,611	9%
China - T3 and below	636	882	1,401	1,977	2,532	3,247	120%	124%	81%	64%	3,685	-12%
Outside PRC	273	431	532	790	960	1,314	95%	83%	80%	66%	1,069	23%
Net of Customer loyalty program	(29)	5	(50)	9	(50)	(18)	71%	77%	1%	-295%	9	-289%
Delivery business	98	121	133	190	188	261	36%	57%	41%	37%	335	-22%
Sales of condiment products and food i	12	19	57	97	175	322	391%	420%	206%	232%	210	53%
Total	4,756	5,881	7,343	9,626	11,695	14,861	54%	64%	59%	54%	14,428	3%

Source: Company data, CMBIS estimates

Figure 6: Operating numbers – Half Year

	1H17	2H17	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19E yoy	2H19E CMBI	Actual vs CMBI
Sales per store (Rmb mn)												
China - T1 cities	25	24	23	21	20	19	-8%	-11%	-15%	-10%	19	1%
China - T2 cities	25	24	23	21	20	18	-8%	-13%	-14%	-12%	18	1%
China - T3 and below	16	13	16	17	17	17	1%	32%	4%	-1%	18	-6%
Outside PRC	23	23	21	22	22	25	-6%	-3%	5%	15%	22	13%
All Restaurants	23	21	21	20	19	19	-8%	-5%	-9%	-7%	19	0%
Total number of restaurants												
China - T1 cities	57	65	78	106	146	190	37%	63%	87%	79%	186	2%
China - T2 cities	95	120	153	207	257	332	61%	73%	68%	60%	307	8%
China - T3 and below	39	69	85	117	147	194	118%	70%	73%	66%	207	-6%
Outside PRC	12	19	25	36	43	52	108%	89%	72%	44%	48	8%
Total	203	273	341	466	593	768	68%	71%	74%	65%	748	3%
											60.5%	
Average spending per guest (Rmb)												
China - T1 cities	101	96	106	106	110	110	5%	11%	4%	4%	112	-1%
China - T2 cities	91	94	94	95	98	100	4%	1%	4%	5%	101	0%
China - T3 and below	91	97	92	92	95	95	1%	-5%	3%	3%	103	-8%
Outside PRC	212	166	196	201	186	185	-7%	21%	-5%	-8%	214	-13%
Total	97	101	100	105	104	110	3%	4%	4%	5%	113	-2%
Total guest served (mn)												
China - T1 cities	14	16	17	21	26	33	21%	31%	53%	56%	31	4%
China - T2 cities	26	31	37	45	51	61	43%	48%	39%	34%	56	9%
China - T3 and below	7	9	15	21	27	34	119%	135%	75%	60%	36	-4%
Outside PRC	1	3	3	4	5	7	108%	51%	92%	80%	5	42%
Total	48	58	72	92	109	135	49%	57%	52%	47%	128	6%
Table turnover rate (times/ day)												
China - T1 cities	4.7	4.9	4.9	5.3	4.8	4.6	4%	8%	-2%	-13%	4.8	-5%
China - T2 cities	5.2	5.2	5.1	5.5	5.0	4.8	-2%	5%	-2%	-12%	5.1	-5%
China - T3 and below	4.7	4.7	4.6	5.0	4.7	4.7	-2%	6%	2%	-6%	4.6	2%
Outside PRC	4.4	4.4	3.7	3.9	3.9	4.3	-16%	-12%	5%	10%	4.1	5%
Total	5.0	5.0	4.9	5.1	4.8	4.8	-2%	2%	-2%	-6%	4.4	8%
Same store sales growth (%)												
China - T1 cities			12.2%	11.3%	3.3%	-3.4%						-4.9%
China - T2 cities			4.2%	4.4%	1.9%	-5.3%						-1.7%
China - T3 and below			6.3%	14.5%	12.5%	4.5%						-1.8%
Outside PRC			-2.8%	-13.6%	9.7%	13.9%						0.8%
Total			6.4%	6.0%	4.7%	-1.2%						-1.8%

Source: Company data, CMBIS estimates

Valuation

Figure 7: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$ mn)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Restaurants and Food Ingredients															
Haidilao	6862 HK	BUY	36.16	30.45	19%	161,385	Dec-19	56.9	37.9	10.5	8.1	24.4	2.3	0.3	
Cafe De Coral	341 HK	HOLD	18.26	13.20	38%	7,731	Mar-19	19.2	16.2	2.3	2.3	16.5	(7.4)	5.3	
Jiumaojiu	9922 HK	BUY	10.82	7.93	36%	10,970	Dec-18	51.7	37.1	3.8	3.5	36.3	n/a	0.6	
Xiabuxiabu	520 HK	NR	n/a	6.01	n/a	6,500	Dec-18	14.8	14.5	2.4	2.2	18.9	2.3	3.0	
Yihai	1579 HK	NR	n/a	56.75	n/a	59,412	Dec-19	54.9	41.3	15.3	11.6	31.1	1.8	0.5	
Yum China	YUMC US	NR	n/a	45.05	n/a	131,249	Dec-19	58.2	22.5	5.3	4.5	24.0	9.8	0.9	
Gourmet Master	2723 TT	NR	n/a	74.60	n/a	3,438	Dec-19	15.2	11.8	1.2	1.1	10.5	1.5	3.4	
								Avg.	38.7	25.9	5.8	4.8	23.1	1.7	2.0
								Med.	51.7	22.5	3.8	3.5	24.0	2.0	0.9
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	n/a	15.12	n/a	1,959	Mar-19	8.9	12.8	2.5	2.4	18.3	(6.1)	5.8	
Hop Hing	47 HK	NR	n/a	0.07	n/a	705	Dec-18	n/a	n/a	n/a	n/a	17.6	n/a	n/a	
Tsui Wah	1314 HK	NR	n/a	0.33	n/a	459	Mar-19	n/a	n/a	n/a	n/a	(5.2)	n/a	n/a	
Ajisen China	538 HK	NR	n/a	1.87	n/a	2,041	Dec-18	8.5	8.7	n/a	n/a	17.1	(0.4)	5.6	
Tao Heung	573 HK	NR	n/a	1.03	n/a	1,047	Dec-19	n/a	n/a	n/a	n/a	7.6	n/a	n/a	
Tang Palace	1181 HK	NR	n/a	0.80	n/a	861	Dec-18	5.2	4.9	n/a	n/a	25.4	n/a	n/a	
								Avg.	7.5	8.8	2.5	2.4	13.5	(3.3)	5.7
								Med.	8.5	8.7	2.5	2.4	17.3	(3.3)	5.7
Leading Greater China Restaurants and Food Ingredients															
Yum! Brands	YUM US	NR	n/a	75.75	n/a	176,665	Dec-19	20.5	17.4	n/a	n/a	n/a	5.3	2.5	
Mcdonald'S	MCD US	NR	n/a	167.35	n/a	967,166	Dec-19	20.6	18.5	n/a	n/a	n/a	3.1	3.0	
Starbucks	SBUX US	NR	n/a	69.90	n/a	636,052	Sep-19	26.2	21.2	n/a	n/a	n/a	4.5	2.4	
Rest. Brands	QSR US	NR	n/a	43.63	n/a	156,426	Dec-19	15.4	13.7	6.1	5.8	31.4	1.5	4.8	
Wingstop	WING US	NR	n/a	75.35	n/a	17,208	Dec-19	89.6	69.0	n/a	n/a	n/a	3.8	0.6	
Shake Shack	SHAK US	NR	n/a	45.13	n/a	13,144	Dec-19	179.8	87.0	5.6	5.1	7.6	(19.1)	0.0	
Chipotle Mexican	CMG US	NR	n/a	661.10	n/a	142,321	Dec-19	39.5	29.6	9.3	7.6	22.4	1.4	0.0	
Darden Rest.	DRI US	NR	n/a	60.56	n/a	57,050	May-19	19.2	16.5	3.4	3.1	27.3	13.2	4.5	
Domino'S Pizza	DPZ US	NR	n/a	338.51	n/a	102,419	Dec-19	31.0	27.6	n/a	n/a	n/a	2.5	0.9	
Dunkin' Brands	DNKN US	NR	n/a	54.23	n/a	34,718	Dec-19	17.7	15.9	n/a	n/a	n/a	2.7	2.8	
Wendy'S	WEN US	NR	n/a	13.95	n/a	24,121	Dec-19	24.9	19.0	7.1	8.4	23.5	1.9	3.2	
Jollibee Foods	JFC PM	NR	n/a	102.20	n/a	17,142	Dec-19	19.4	15.4	1.8	1.6	12.9	2.6	1.9	
								Avg.	42.0	29.2	5.5	5.3	20.8	2.0	2.2
								Med.	22.7	18.8	5.8	5.4	23.0	2.7	2.4
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	7.08	n/a	30,581	Dec-19	19.2	17.6	2.0	2.0	10.2	3.5	5.0	
Tingyi	322 HK	NR	n/a	12.30	n/a	69,173	Dec-19	20.7	18.9	3.2	3.0	17.0	10.4	4.3	
Want Want China	151 HK	NR	n/a	5.43	n/a	67,414	Mar-19	16.2	15.2	3.7	3.5	27.2	3.0	4.6	
China Mengniu	2319 HK	NR	n/a	26.60	n/a	104,689	Dec-19	24.3	18.8	3.0	2.7	15.1	1.9	1.0	
Vitasoy	345 HK	NR	n/a	27.30	n/a	29,041	Mar-19	43.8	36.9	8.5	7.9	23.0	4.9	1.5	
Tsingtao Brewery	168 HK	NR	n/a	40.00	n/a	59,851	Dec-18	27.0	25.3	2.6	2.5	9.9	1.7	1.7	
CR Beer	291 HK	NR	n/a	35.60	n/a	115,493	Dec-19	41.7	29.7	5.0	4.5	6.8	0.9	0.9	
Dali Foods	3799 HK	NR	n/a	5.17	n/a	70,799	Dec-18	16.5	15.3	3.9	3.7	24.5	4.3	4.5	
								Avg.	26.2	22.2	4.0	3.7	16.7	3.8	2.9
								Med.	22.5	18.9	3.5	3.3	16.0	3.2	3.0

Source: Bloomberg, CMBIS estimates, average and median may not be applicable due to difference of fiscal year as at 27Mar2020 for different companies

Assumptions

Figure 8: Haidilao key assumptions

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Sales by segment (Rmb bn)					
China T1 cities	4,036	6,482	7,281	9,345	10,744
China T2 cities	7,795	11,143	12,556	16,408	18,992
China T3 and below	3,379	5,779	7,682	10,861	12,790
Outside PRC	1,323	2,274	2,913	3,884	4,861
Net of customer loyalty prm.	(40)	(68)	(71)	(75)	(78)
Delivery business	324	449	602	758	909
Condiment & food ingredients	154	498	672	840	966
Total	16,969	26,556	31,635	42,020	49,184
Sales growth by segment (YoY %)					
China T1 cities	36.4%	60.6%	12.3%	28.3%	15.0%
China T2 cities	49.0%	42.9%	12.7%	30.7%	15.8%
China T3 and below	122.5%	71.0%	32.9%	41.4%	17.8%
Outside PRC	88.0%	71.9%	28.1%	33.3%	25.1%
Net of customer loyalty prm.	69.6%	67.3%	5.0%	5.0%	5.0%
Delivery business	47.9%	38.6%	34.3%	25.8%	20.0%
Condiment & food ingredients	409.0%	222.5%	35.0%	25.0%	15.0%
Total	59.5%	56.5%	19.1%	32.8%	17.0%
Number of restaurants					
China T1 cities	106	190	250	310	360
China T2 cities	207	332	442	552	652
China T3 and below	117	194	294	394	464
Outside PRC	36	52	68	86	104
Total	466	768	1,054	1,342	1,580
Number of restaurants growth (YoY %)					
China T1 cities	63.1%	79.2%	31.6%	24.0%	16.1%
China T2 cities	72.5%	60.4%	33.1%	24.9%	18.1%
China T3 and below	69.6%	65.8%	51.5%	34.0%	17.8%
Outside PRC	89.5%	44.4%	30.8%	26.5%	20.9%
Total	70.7%	64.8%	37.2%	27.3%	17.7%
Sales per restaurants (Rmb m n)					
China T1 cities	38	34	29	30	30
China T2 cities	38	35	28	30	29
China T3 and below	29	30	26	28	28
Outside PRC	37	44	43	45	47
Total	35	33	29	30	30
Sales per restaurants growth (YoY %)					
China T1 cities	-16.4%	-10.0%	-15.0%	3.5%	-1.0%
China T2 cities	-13.6%	-8.0%	-18.0%	4.6%	-2.0%
China T3 and below	31.2%	4.0%	-13.0%	5.5%	0.0%
Outside PRC	-0.8%	19.0%	-2.0%	5.4%	3.5%
Total	-7.0%	-5.8%	-13.6%	4.6%	-0.6%
Average spending per guest (Rmb)					
China T1 cities	106.1	110.1	115.1	119	123
China T2 cities	94.8	99.4	104.4	109	114
China T3 and below	92.1	94.9	97.7	100	103
Outside PRC	199.3	185.3	189.0	195	201
Overall	101.1	105.2	114.0	118	122
Average spending per guest growth (YoY %)					
China T1 cities	7.9%	3.8%	4.5%	3.5%	3.5%
China T2 cities	2.4%	4.9%	5.0%	4.5%	4.5%
China T3 and below	-2.5%	3.0%	3.0%	2.5%	2.5%
Outside PRC	11.0%	-7.0%	2.0%	3.0%	3.0%
Overall	3.5%	4.1%	8.3%	3.2%	3.9%
GP margins					
Staff costs/ sales	59.1%	57.7%	58.2%	58.3%	58.4%
Property rent and related expenses/ sales	-29.6%	-30.1%	-30.7%	-30.0%	-30.2%
Utilities expenses / sales	-4.0%	-0.9%	-1.1%	-1.1%	-1.1%
Depreciation and amortization/ sales	-3.5%	-3.4%	-3.7%	-3.7%	-3.7%
Travelling and related expenses/ sales	-4.1%	-7.1%	-7.2%	-6.9%	
Other expenses/ sales	-0.9%	-0.8%	-0.7%	-1.0%	
Effective tax rate	-4.4%	-3.8%	-4.0%	-3.7%	
	-27.1%	-27.7%	-27.5%	-27.0%	-26.5%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,969	26,556	31,635	42,020	49,184
China & loyalty program	15,169	23,336	27,448	36,539	42,448
Overseas	1,323	2,274	2,913	3,884	4,861
Delivery business	324	449	602	758	909
Condiment & food	154	498	672	840	966
Cost of goods sold	(6,935)	(11,239)	(13,221)	(17,518)	(20,456)
Gross profit	10,034	15,317	18,415	24,502	28,728
Other income	66	119	133	134	157
Operating expenses	(7,891)	(12,256)	(15,008)	(19,490)	(22,883)
D & A	(689)	(1,891)	(2,283)	(2,899)	(3,390)
Staff costs	(5,016)	(7,993)	(9,720)	(12,614)	(14,876)
S & D costs (ex-staff, D&A)	(685)	(240)	(348)	(448)	(535)
Admin exp. (ex-staff, D&A)	(595)	(912)	(1,170)	(1,555)	(1,820)
Other operating expenses	(906)	(1,220)	(1,487)	(1,975)	(2,262)
EBIT	2,209	3,180	3,540	5,146	6,002
Finance costs, net	7	(93)	(85)	9	159
JVs & associates	28	65	8	9	10
Exceptional	18	95	(6)	(8)	(10)
Pre-tax profit	2,262	3,247	3,456	5,156	6,161
Income tax	(613)	(900)	(951)	(1,392)	(1,633)
Less: Minority interests	3	2	10	15	18
Net profit	1,646	2,345	2,496	3,748	4,510

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	2,209	3,180	3,540	5,146	6,002
D & A	689	1,891	2,283	2,899	3,390
Change in working capital	34	(140)	(137)	10	6
Income tax paid	(583)	(900)	(951)	(1,392)	(1,633)
Others	39	143	172	266	416
Net cash from operating	2,388	4,175	4,907	6,928	8,182
Capex & investments	(2,512)	(3,187)	(2,373)	(2,311)	(2,115)
Associated companies	-	-	-	-	-
Interest received	22	-	-	-	-
Others	(1,377)	(2,426)	(103)	(361)	(208)
Net cash from investing	(3,867)	(5,613)	(2,475)	(2,672)	(2,323)
Equity raised	6,632	-	-	-	-
Net change in bank loans	53	191	-	-	-
Dividend paid	(461)	(584)	(349)	(371)	(558)
Others	(885)	(65)	(257)	(257)	(257)
Net cash from financing	5,339	(458)	(606)	(629)	(815)
Net change in cash	3,861	(1,897)	1,826	3,628	5,044
Beginning cash balance	282	4,119	2,222	4,048	7,676
Exchange difference	(24)	-	-	-	-
Cash at the end of the year	4,119	2,222	4,048	7,676	12,719

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	6,209	13,414	14,312	14,837	14,895
Fixed asset	4,000	7,690	8,628	9,191	9,286
Intangible assets & goodwill	52	204	156	109	62
Prepaid lease payments	1,953	274	274	274	274
Interest in joint ventures	100	226	234	244	253
Other non-current assets	104	5,019	5,019	5,019	5,019
Current assets	5,736	7,200	9,326	13,973	19,718
Cash and cash equivalents	4,119	2,222	4,048	7,676	12,719
Inventories	457	1,200	1,087	1,440	1,681
Trade receivables	150	204	347	460	539
Prepayments	695	1,412	1,682	2,234	2,615
Other current assets	315	2,163	2,163	2,163	2,163
Current liabilities	3,306	5,664	5,827	6,856	7,563
Bank loans	410	122	122	122	122
Trade payables	729	1,406	1,268	1,680	1,962
Accruals & other payables	906	1,577	1,879	2,495	2,921
Tax payables	161	224	224	224	224
Others	1,099	2,334	2,334	2,334	2,334
Non-current liabilities	9	4,324	4,324	4,324	4,324
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	2	47	47	47	47
Others	7	4,277	4,277	4,277	4,277
Minority Interest	5	3	20	44	72
Total net assets	8,625	10,623	13,467	17,587	22,654
Shareholders' equity	8,625	10,623	13,467	17,587	22,654

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
China & loyalty program	89.4	87.9	86.8	87.0	86.3
Overseas	7.8	8.6	9.2	9.2	9.9
Delivery business	1.9	1.7	1.9	1.8	1.8
Condiment & food	0.9	1.9	2.1	2.0	2.0
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	59.1	57.7	58.2	58.3	58.4
Operating margin	13.0	12.0	11.2	12.2	12.2
Pre-tax margin	13.3	12.2	10.9	12.3	12.5
Net margin	9.7	8.8	7.9	8.9	9.2
Effective tax rate	27.4	28.3	27.5	27.0	26.5
Balance sheet ratios					
Current ratio (x)	2.5	2.7	2.7	2.7	2.7
Quick ratio (x)	2.2	2.5	2.4	2.4	2.4
Cash ratio (x)	1.2	0.4	0.7	1.1	1.7
Inventory turnover days	15	27	30	30	30
Trade receivables days	3	2	4	4	4
Trade payables days	24	35	35	35	35
Total debt / equity ratio (%)	12	11	9	7	5
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	19.1	22.1	18.5	21.3	19.9
ROA	13.8	11.4	10.6	13.0	13.0
Per share					
EPS (RMB)	0.31	0.44	0.47	0.71	0.85
DPS (RMB)	0.11	0.07	0.07	0.11	0.13
BVPS (RMB)	1.63	2.00	2.54	3.32	4.27

Source: Company data, CMBIS estimates

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OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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