

# Cafe De Coral (341 HK)

## No immunity and limited visibility

**SUMMARY.** 1H20E NP may fall by 33% YoY on weak sentiment and operating deleverage in HK, even though a rather robust China sales. We believe those negatives to likely linger in 2H20E, hence we downgrade to HOLD and cut TP to HK\$ 19.05, based on 21x FY21E P/E (from 24x FY20E), vs its 5 yrs avg. of 21x.

- **1H20E (ending Sep 2019) NP att. to decline by 30%+ YoY.** We expect sales/ NP att. to fall by 1%/ 33% in 1H20E (1/3 profit decline suggested in profit warning), vs 0%/ +39% in 2H19, due to: 1) sales decline in HK, esp. for the casual dining segment, by as a result of social unrest (temporary store closures and weak consumer sentiments) during Jul-Sep 2019, 2) operating deleverage as a great portion of rental, labour and other opex are fixed, 3) relatively robust sales growth in China, boosted by faster store expansion. We expect CDC's HK SSSG to fall by 6% in 1H20E (from -2% in 2H19), and HK fast casual and casual dining sales to drop by 5% in 1H20E (from -3% in 2H19). We also expect GP margin to fall to 10.5%, by 1.8 ppt in 1H20E (vs 12.3% in 1H19) due to higher discounts/ promotion given, to lure traffic.
- **HK catering sales plummeted by 12% in 3Q19, fast food was resilient, but still, not immune.** Hong Kong catering sales declined by 13%/ 13%/ 9% in Sep/ Aug/ Jul 2019, far worse than 0% in 2Q19. Fast food sales still managed to grow by 2% in 3Q19, while Bars/ Chinese and Non-Chinese restaurant sales were down by 18%/ 18% and 13%. But we are not surprised as the HK retail was substantially impacted by recent social unrest which began in late Jun 2019, almost no sub-sectors was immune.
- **Outlook is still uncertain for HK (better for China), but store expansion may continue.** Social unrest had sustained into Nov2019, the negatives, in our view may linger into 2H20E. We now estimate sales growth in FY20E to be -1.4%/ -3.0%/ 4.0%/ 12.5% for HK QSR & Institutional Catering/ HK Fast Casual & Casual Dining/ Food Processing & Distribution/ Mainland China, and overall NP att. to fall by 18% in FY20E. However, this may be good for store expansions as rental pressure may ease, hence positive for longer term growth.
- **Downgrade to HOLD and cut TP to HK\$ 19.05.** We revise down our EPS by 25.2%/ 24.7%/ 25.4% in FY20E/ 21E/ 22E, to factor in: 1) highly disappointing SSSG in HK (both fast food and fast casual), 2) significant operating deleverage and 3) relatively resilient China sales and expansion. We downgrade the Company to HOLD and cut TP to HK\$ 19.05 based on 21x FY3/21E (rolled over from 24x FY20E), as we find the outlook highly uncertain plus a not so attractive valuation. The counter is trading at 24x FY3/21E (1.s.d above 21x - the 5 years average P/E) and only at 4% yield.

### Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,427.4	8,493.9	8,527.7	9,023.5	9,627.9
YoY growth (%)	6.7	0.8	0.4	5.8	6.7
Net income (HK\$ mn)	458.1	590.3	482.4	527.7	572.6
EPS (HK\$)	0.788	1.015	0.829	0.907	0.984
YoY growth (%)	(9.4)	28.7	(18.3)	9.4	8.5
P/E (x)	27.2	21.1	25.8	23.6	21.7
P/B (x)	3.5	3.6	3.6	3.5	3.5
Yield (%)	5.5	4.0	3.5	3.8	4.1
ROE (%)	13.0	16.9	14.1	15.2	16.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**HOLD (Down)**

Target Price **HK\$19.05**  
 (Previous TP **HK\$26.61**)  
 Current Price **HK\$21.40**  
 Up/Downside **-11.0%**

### China Catering Sector

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### Stock Data

Mkt Cap (HK\$ mn)	12,534
Avg 3 mths t/o (HK\$ mn)	22.98
52w High/Low (HK\$)	26.90/16.86
Total Issued Shares (mn)	585.5
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%

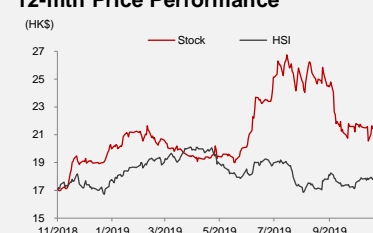
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.9%	-8.0%
3-mth	-16.2%	-21.4%
6-mth	10.9%	13.5%
12-mth	26.8%	17.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

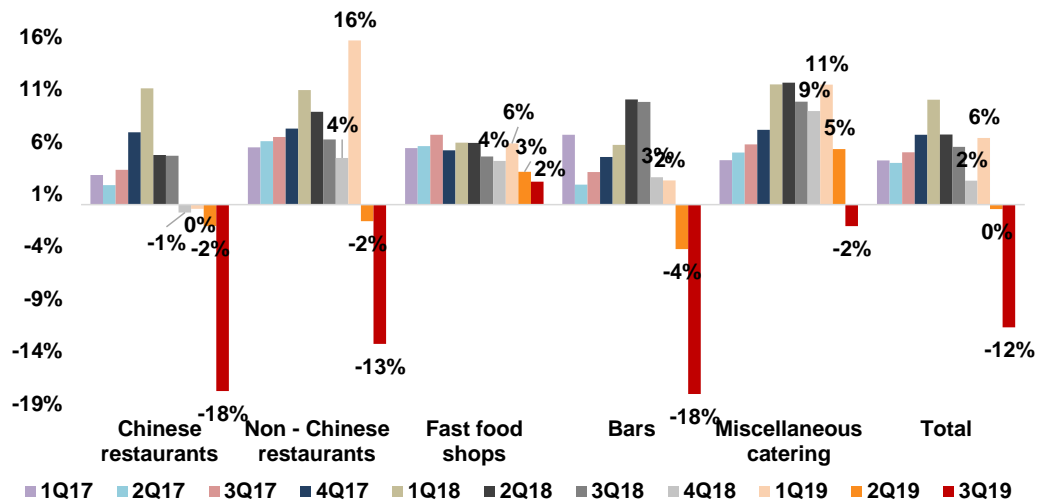
**Auditor: PricewaterhouseCoopers**

### Related Reports

1. Café de Coral (341 HK) - Ready for store expansion - 17 Jun 2019
2. Café de Coral (341 HK) - Fast food business has proven resilient - 15 May 2019
3. China Catering Sector - Sequential improvements likely in 2019 - 12 Apr 2019

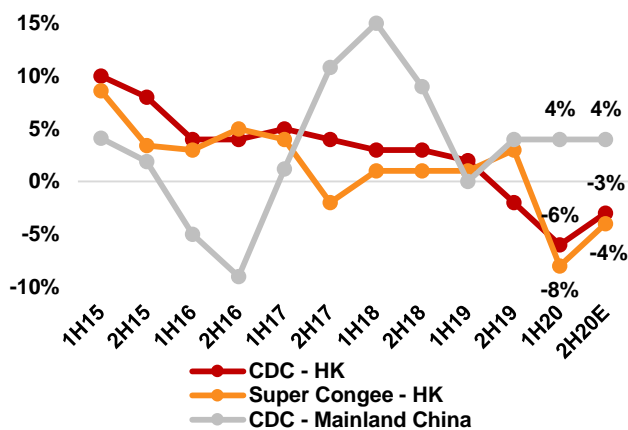
## Focus Charts

Figure 1: Hong Kong catering sales, by types of restaurant



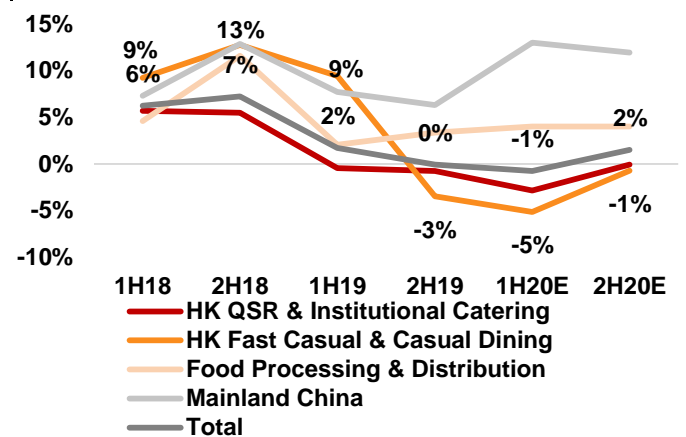
Source: Census and Statistic Department, CMBIS estimates

Figure 2: SSSG, by brand and region



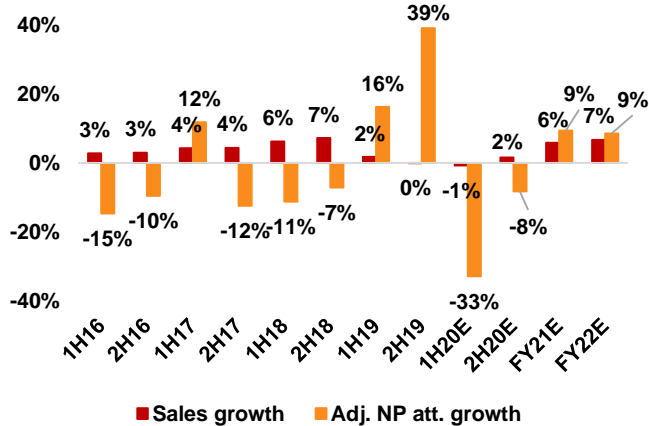
Source: Company data, CMBIS estimates

Figure 3: Sales growth, by segment and region



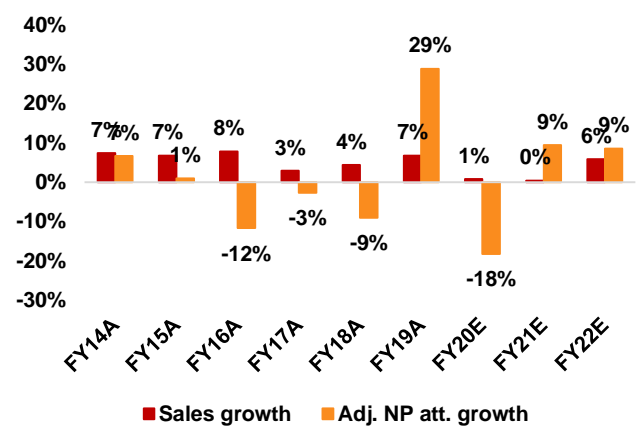
Source: Company data, CMBIS estimates

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



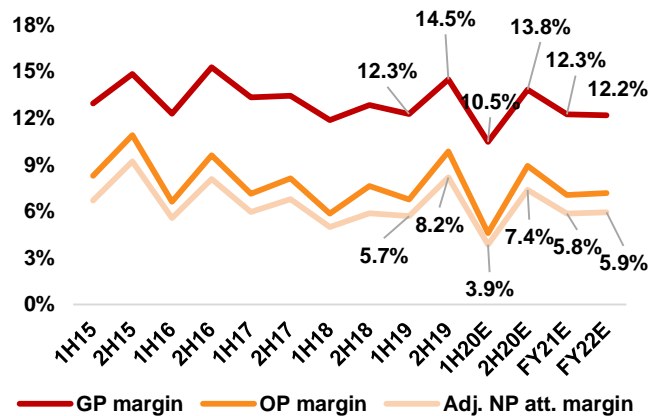
Source: Company data, CMBIS estimates

Figure 5: Sales/ net profit att. growth, full year



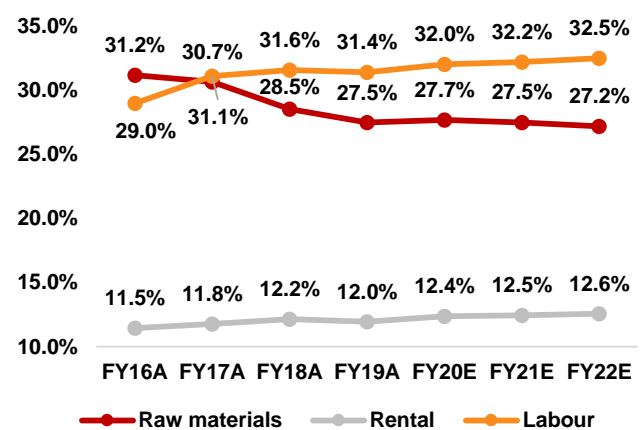
Source: Company data, CMBIS estimates

Figure 6: GP, OP, NP att. margin



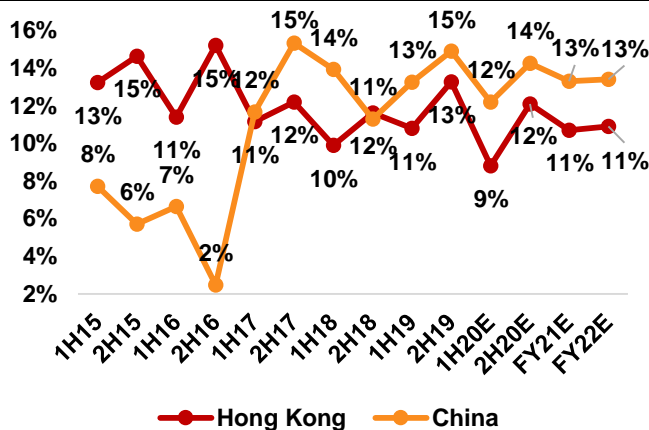
Source: Company data, CMBIS estimates

Figure 7: Opex breakdown, % of sales, by category



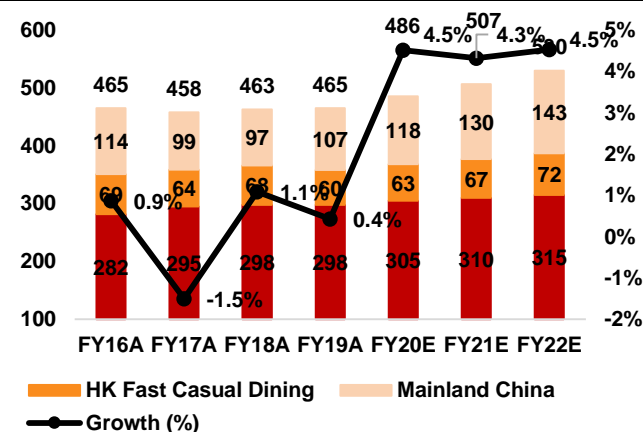
Source: Company data, CMBIS estimates

Figure 8: Restaurant level EBIT margin by region



Source: Company data, CMBIS estimates

Figure 9: Number of stores, HK and China



Source: Company data, CMBIS estimates

Figure 10: Result preview - half year

HK\$ mn	1H19	2H19	1H20E	2H20E	1H19 YoY	2H19 YoY	1H20E YoY	2H20E YoY
Hong Kong	3,608	3,734	3,500	3,732	1%	-1%	-3%	0%
China	591	561	667	628	8%	6%	13%	12%
<b>Total revenue</b>	<b>4,199</b>	<b>4,295</b>	<b>4,167</b>	<b>4,361</b>	<b>2%</b>	<b>0%</b>	<b>-1%</b>	<b>2%</b>
COGS	(3,683)	(3,673)	(3,731)	(3,758)	1%	-2%	1%	2%
<b>Gross profit</b>	<b>515</b>	<b>622</b>	<b>437</b>	<b>603</b>	<b>5%</b>	<b>13%</b>	<b>-15%</b>	<b>-3%</b>
Other income and gains	9	9	2	1	-175%	-701%	-82%	-88%
Administrative expenses	(240)	(208)	(247)	(214)	2%	-7%	3%	3%
<b>Operating profit</b>	<b>284</b>	<b>423</b>	<b>192</b>	<b>389</b>	<b>17%</b>	<b>29%</b>	<b>-33%</b>	<b>-8%</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	4	3	23%	32%	-47%	-50%
<b>Profit before tax</b>	<b>292</b>	<b>430</b>	<b>196</b>	<b>393</b>	<b>18%</b>	<b>29%</b>	<b>-33%</b>	<b>-9%</b>
Income tax	(52)	(78)	(35)	(71)	23%	-2%	-32%	-9%
Minority interest	1	1	0	0	122%	12%	-91%	-83%
<b>Net profit att.</b>	<b>239</b>	<b>351</b>	<b>160</b>	<b>322</b>	<b>16%</b>	<b>39%</b>	<b>-33%</b>	<b>-8%</b>
FV change on investment properties	0	20	0	5				
Loss on disposal of other PP&E	(3)	(9)	(4)	(4)				
Impairment loss of PP&E	0	(4)	(4)	(3)				
Share-based compensation expenses	(13)	14	0	0				
<b>Adj. pre-tax profit</b>	<b>308</b>	<b>408</b>	<b>203</b>	<b>395</b>	<b>4%</b>	<b>17%</b>	<b>-34%</b>	<b>-3%</b>
<b>GP margin</b>	<b>12.3%</b>	<b>14.5%</b>	<b>10.5%</b>	<b>13.8%</b>	<b>0.4ppt</b>	<b>1.6ppt</b>	<b>-1.8ppt</b>	<b>-0.7ppt</b>
<b>OP margin</b>	<b>6.8%</b>	<b>9.8%</b>	<b>4.6%</b>	<b>8.9%</b>	<b>0.9ppt</b>	<b>2.2ppt</b>	<b>-2.2ppt</b>	<b>-0.9ppt</b>
<b>NP att. margin</b>	<b>5.7%</b>	<b>8.2%</b>	<b>3.9%</b>	<b>7.4%</b>	<b>0.7ppt</b>	<b>2.3ppt</b>	<b>-1.8ppt</b>	<b>-0.8ppt</b>
<b>Adj. pre-tax margin</b>	<b>7.3%</b>	<b>9.5%</b>	<b>4.9%</b>	<b>9.1%</b>	<b>0.2ppt</b>	<b>1.4ppt</b>	<b>-2.5ppt</b>	<b>-0.4ppt</b>

Source: Company data, CMBIS estimates

**Figure 11: Result preview - full year**

HK\$ mn	FY18	FY19	FY20E	FY19 YoY	FY20E YoY
Hong Kong	7,351	7,342	7,232	0%	-2%
China	1,076	1,152	1,296	7%	13%
<b>Total revenue</b>	<b>8,427</b>	<b>8,494</b>	<b>8,528</b>	<b>1%</b>	<b>0%</b>
COGS	(7,385)	(7,357)	(7,488)	0%	2%
<b>Gross profit</b>	<b>1,042</b>	<b>1,137</b>	<b>1,039</b>	<b>9%</b>	<b>-9%</b>
Other income and gains	(14)	18	3	-229%	-85%
Administrative expenses	(459)	(448)	(461)	-2%	3%
<b>Operating profit</b>	<b>570</b>	<b>707</b>	<b>581</b>	<b>24%</b>	<b>-18%</b>
Share of results of Assos	0	0	0	n/a	n/a
Non-operating items	0	0	0	n/a	n/a
Net finance income	12	15	8	27%	-48%
<b>Profit before tax</b>	<b>581</b>	<b>722</b>	<b>589</b>	<b>24%</b>	<b>-18%</b>
Income tax	(122)	(130)	(106)	6%	-18%
Minority interest	1	2	0	47%	-87%
<b>Net profit att.</b>	<b>458</b>	<b>590</b>	<b>482</b>	<b>29%</b>	<b>-18%</b>
FV change on investment properties	19	20	5		
Loss on disposal of other PP&E	(21)	(11)	(8)		
Impairment loss of PP&E	(33)	(4)	(7)		
Share-based compensation expenses	(26)	1	0		
<b>Adj. pre-tax profit</b>	<b>643</b>	<b>716</b>	<b>598</b>	<b>11%</b>	<b>-16%</b>
<b>GP margin</b>	<b>12.4%</b>	<b>13.4%</b>	<b>12.2%</b>	<b>1ppt</b>	<b>-1.2ppt</b>
<b>OP margin</b>	<b>6.8%</b>	<b>8.3%</b>	<b>6.8%</b>	<b>1.6ppt</b>	<b>-1.5ppt</b>
<b>NP att. margin</b>	<b>5.4%</b>	<b>6.9%</b>	<b>5.7%</b>	<b>1.5ppt</b>	<b>-1.3ppt</b>
<b>Adj. pre-tax margin</b>	<b>7.6%</b>	<b>8.4%</b>	<b>7.0%</b>	<b>0.8ppt</b>	<b>-1.4ppt</b>

Source: Company data, CMBIS estimates

## Earnings revision

Figure 12: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,528	9,024	9,628	8,837	9,410	10,044	(3.5)	(4.1)	(4.1)
Gross profit	1,039	1,106	1,173	1,227	1,317	1,419	(15.3)	(16.0)	(17.4)
EBIT	581	637	691	778	846	928	(25.3)	(24.8)	(25.5)
Reported Net profit	482	528	573	645	700	767	(25.2)	(24.7)	(25.4)
Diluted EPS (RMB)	0.829	0.907	0.984	1.109	1.204	1.319	(25.2)	(24.7)	(25.4)
Gross margin	12.2%	12.3%	12.2%	13.9%	14.0%	14.1%	-1.7ppt	-1.7ppt	-1.9ppt
EBIT margin	6.8%	7.1%	7.2%	8.8%	9.0%	9.2%	-2ppt	-1.9ppt	-2.1ppt
Net profit att. margin	5.7%	5.8%	5.9%	7.3%	7.4%	7.6%	-1.6ppt	-1.6ppt	-1.7ppt

Source: Company data, CMBIS estimates

Figure 13: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,528	9,024	9,628	8,900	9,543	9,990	-4.2%	-5.4%	-3.6%
Gross profit	1,039	1,106	1,173	1,184	1,304	1,375	-12.2%	-15.2%	-14.7%
EBIT	581	637	691	739	800	863	-21.4%	-20.4%	-19.9%
Net profit att.	482	528	573	621	669	717	-22.3%	-21.1%	-20.1%
Adjusted Net Profit	0.829	0.907	0.984	1.077	1.157	1.240	-23.0%	-21.6%	-20.6%
Diluted EPS (RMB)	12.2%	12.3%	12.2%	13.3%	13.7%	13.8%	-1.1ppt	-1.4ppt	-1.6ppt
Gross margin	6.8%	7.1%	7.2%	8.3%	8.4%	8.6%	-1.5ppt	-1.3ppt	-1.5ppt
EBIT margin	5.7%	5.8%	5.9%	7.0%	7.0%	7.2%	-1.3ppt	-1.2ppt	-1.2ppt

Source: Company data, CMBIS estimates

## Valuation

Figure 14: 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															
Cafe De Coral	341 HK	HOLD	19.96	21.40	-7%	12,534	Mar-19	19.0	17.5	3.4	3.3	16.9	2.1	4.7	
Haidilao Int'l	6862 HK	BUY	37.56	36.25	4%	192,125	Dec-18	66.5	46.0	15.5	12.2	36.9	1.8	0.3	
XBXB Catering	520 HK	NR	n/a	10.48	n/a	11,326	Dec-18	21.7	17.1	4.0	3.5	18.9	1.7	1.9	
Yihai Int'l	1579 HK	NR	n/a	53.95	n/a	56,480	Dec-18	68.2	50.1	18.7	14.1	32.0	2.2	0.5	
Yum China	YUMC US	NR	n/a	43.85	n/a	128,992	Dec-18	24.9	22.8	5.1	4.3	23.2	4.4	1.1	
Gourmet Master	2723 TT	NR	n/a	140.00	n/a	6,492	Dec-18	20.4	15.6	2.3	2.2	10.5	3.7	2.8	
								Avg.	36.8	28.2	8.2	6.6	23.1	2.6	1.9
								Med.	23.3	20.2	4.5	3.9	21.1	2.2	1.5
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	n/a	21.50	n/a	2,785	Mar-19	11.3	14.1	3.4	3.2	23.4	n/a	5.8	
Tai Hing	6811 HK	NR	n/a	1.76	n/a	1,760	Dec-18	11.2	8.5	2.3	1.4	108.2	n/a	3.4	
Hop Hing	47 HK	NR	n/a	0.11	n/a	1,108	Dec-18	n/a	n/a	n/a	n/a	17.6	n/a	n/a	
Tsui Wah	1314 HK	NR	n/a	0.48	n/a	677	Mar-19	9.6	6.9	0.5	0.4	0.4	n/a	12.5	
Ajisen China	538 HK	NR	n/a	2.23	n/a	2,434	Dec-18	11.1	10.5	n/a	n/a	17.1	(0.5)	4.8	
Tao Heung	573 HK	NR	n/a	1.31	n/a	1,332	Dec-18	n/a	n/a	n/a	n/a	8.1	n/a	n/a	
Tang Palace	1181 HK	NR	n/a	1.08	n/a	1,160	Dec-18	7.4	6.4	n/a	n/a	25.4	n/a	n/a	
								Avg.	10.1	9.3	2.1	1.7	28.6	(0.5)	6.6
								Med.	11.1	8.5	2.3	1.4	17.6	(0.5)	5.3
Leading Greater China Restaurants and Food Ingredients															
Yum! Brands	YUM US	NR	n/a	98.90	n/a	234,088	Dec-18	26.3	23.7	n/a	n/a	n/a	(22.7)	1.7	
Mcdonald'S	MCD US	NR	n/a	193.61	n/a	1,141,008	Dec-18	24.7	22.8	n/a	20.6	n/a	4.1	2.5	
Starbucks Corp	SBUX US	NR	n/a	81.77	n/a	758,015	Sep-19	26.8	23.9	n/a	n/a	n/a	2.9	2.1	
Rest. Brands	QSR US	NR	n/a	66.54	n/a	241,919	Dec-18	24.6	22.4	10.3	9.6	28.2	2.6	3.0	
Chipotle Mexican	CMG US	NR	n/a	731.62	n/a	159,136	Dec-18	52.7	40.9	12.7	10.8	20.3	1.0	0.0	
Darden Rest.	DRI US	NR	n/a	114.91	n/a	110,247	May-19	17.9	16.9	1.3	1.0	30.8	2.1	3.1	
Domino'S Pizza	DPZ US	NR	n/a	280.66	n/a	89,830	Dec-18	29.8	26.4	n/a	n/a	n/a	2.5	0.9	
Dunkin' Brands	DNKN US	NR	n/a	73.42	n/a	47,597	Dec-18	23.6	22.4	n/a	n/a	n/a	2.8	2.1	
Wendy'S Co	WEN US	NR	n/a	20.65	n/a	37,175	Dec-18	34.8	31.9	8.8	10.9	18.0	(1.4)	2.0	
Shake Shack	SHAK US	NR	n/a	62.06	n/a	18,222	Dec-18	94.9	98.4	8.4	7.5	8.1	6.1	n/a	
Wingstop	WING US	NR	n/a	75.98	n/a	17,512	Dec-18	99.1	83.0	n/a	n/a	n/a	6.2	0.5	
Jollibee Foods	JFC PM	NR	n/a	228.00	n/a	38,680	Dec-18	38.0	32.0	4.7	4.3	14.7	7.4	1.0	
								Avg.	41.1	37.0	7.7	9.2	20.0	1.1	1.7
								Med.	28.3	25.1	8.6	9.6	19.1	2.7	2.0
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	7.86	n/a	33,950	Dec-18	22.1	20.3	2.2	2.2	10.1	1.6	4.3	
Tingyi	322 HK	NR	n/a	11.86	n/a	66,693	Dec-18	22.6	20.5	2.9	2.8	12.9	3.5	3.5	
Want Want China	151 HK	NR	n/a	6.71	n/a	83,306	Mar-19	19.7	18.9	4.5	4.2	23.3	4.4	3.6	
China Mengniu	2319 HK	NR	n/a	30.15	n/a	118,629	Dec-18	22.8	22.8	3.5	3.2	14.2	1.2	1.0	
Vitasoy	345 HK	NR	n/a	33.70	n/a	35,849	Mar-19	45.2	38.0	10.2	9.2	22.9	2.8	1.4	
Tsingtao Brewery	168 HK	NR	n/a	47.45	n/a	69,185	Dec-18	31.1	26.7	3.0	2.8	9.9	1.7	1.4	
CR Beer	291 HK	NR	n/a	41.95	n/a	136,093	Dec-18	52.0	37.2	6.0	5.4	6.7	0.9	0.7	
Budweiser Brew	1876 HK	NR	n/a	28.55	n/a	378,099	Dec-18	50.0	37.6	3.9	3.6	9.4	n/a	1.2	
Dali Foods	3799 HK	NR	n/a	5.40	n/a	73,948	Dec-18	16.7	15.4	3.9	3.7	24.5	3.0	4.5	
								Avg.	31.4	26.4	4.5	4.1	14.9	2.4	2.4
								Med.	22.8	22.8	3.9	3.6	12.9	2.3	1.4

Source: Bloomberg, CMBIS estimates

## Assumption

**Figure 15: CMBI 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	6,174	6,494	6,869
HK Fast Casual & Casual Dining	882	906	879	923	1,001
Food Processing & Distribution	167	172	179	188	197
Mainland China	1,076	1,152	1,296	1,419	1,561
Total	8,427	8,494	8,528	9,024	9,628
<b>Growth (%)</b>					
HK QSR & Institutional Catering	6%	-1%	-1%	5%	6%
HK Fast Casual & Casual Dining	11%	3%	-3%	5%	9%
Food Processing & Distribution	8%	3%	4%	5%	5%
Mainland China	10%	7%	12%	10%	10%
Total	7%	1%	0%	6%	7%
<b>GP margin</b>	12.4%	13.4%	12.2%	12.3%	12.2%
<b>Costs breakdown</b>					
Costs of raw materials	28.5%	27.5%	27.7%	27.5%	27.2%
Depreciation	4.0%	4.1%	4.4%	4.5%	4.5%
Operating lease rentals	12.2%	12.0%	12.4%	12.5%	12.6%
Employee benefit expenses	31.3%	31.4%	32.0%	32.2%	32.5%
<b>OP margin</b>	6.8%	8.3%	6.8%	7.1%	7.2%
Effective tax rate	21.0%	18.0%	18.0%	18.0%	18.0%
NP att. margins	5.4%	6.9%	5.7%	5.8%	5.9%
<b>NP att. growth(%)</b>	-9.1%	28.9%	-18.3%	9.4%	8.5%
<b>Sales network by region</b>					
HK QSR & Institutional Catering	298	298	305	310	315
HK Fast Casual Dining	68	60	63	67	72
Mainland China	97	107	118	130	143
Total	463	465	486	507	530
<b>SSSG by segment</b>					
HK Café de Coral	3.0%	0.0%	-4.5%	2.5%	3.5%
HK Super Super Congee & Noodles	1.0%	2.0%	-6.0%	3.0%	3.0%
Mainland China Café de Coral	12.0%	2.0%	4.0%	4.5%	4.5%

Source: Company data, CMBIS estimates



## Financial Summary

### Income statement

YE Mar 31 (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>8,427</b>	<b>8,494</b>	<b>8,528</b>	<b>9,024</b>	<b>9,628</b>
HK QSR & Institutional Catering	6,302	6,264	6,174	6,494	6,869
HK Fast Casual & Casual Dining	882	906	879	923	1,001
Food Processing & Distribution	167	172	179	188	197
Mainland China	1,076	1,152	1,296	1,419	1,561
<b>Cost of goods sold</b>	<b>(7,385)</b>	<b>(7,357)</b>	<b>(7,488)</b>	<b>(7,918)</b>	<b>(8,455)</b>
<b>Gross profit</b>	<b>1,042</b>	<b>1,137</b>	<b>1,039</b>	<b>1,106</b>	<b>1,173</b>
<b>Other income</b>	<b>(14)</b>	<b>18</b>	<b>3</b>	<b>1</b>	<b>1</b>
<b>Operating expenses</b>	<b>(459)</b>	<b>(448)</b>	<b>(461)</b>	<b>(470)</b>	<b>(483)</b>
D & A	-	-	-	-	-
Staff costs	-	-	-	-	-
S & D costs (ex-staff, D&A)	-	-	-	-	-
Admin exp. (ex-staff, D&A)	(459)	(448)	(461)	(470)	(483)
Other operating expenses	-	-	-	-	-
<b>EBIT</b>	<b>570</b>	<b>707</b>	<b>581</b>	<b>637</b>	<b>691</b>
Finance costs, net	12	15	8	7	7
JVs & associates	-	-	-	-	-
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>581</b>	<b>722</b>	<b>589</b>	<b>644</b>	<b>699</b>
Income tax	(122)	(130)	(106)	(116)	(126)
Less: Minority interests	1	2	0	0	0
<b>Net profit</b>	<b>458</b>	<b>590</b>	<b>482</b>	<b>528</b>	<b>573</b>

### Cash flow summary

YE Mar 31 (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>570</b>	<b>707</b>	<b>581</b>	<b>637</b>	<b>691</b>
D & A	344	356	380	410	434
Change in working capital	36	23	(41)	22	26
Income tax paid	(103)	(116)	(106)	(116)	(126)
Others	46	(18)	(5)	(4)	(4)
<b>Net cash from operating CF</b>	<b>893</b>	<b>952</b>	<b>809</b>	<b>948</b>	<b>1,022</b>
Capex & investments	(433)	(277)	(482)	(484)	(517)
Associated companies	-	-	-	-	-
Interest received	12	15	8	7	7
Others	(35)	63	-	-	-
<b>Net cash from investing CF</b>	<b>(457)</b>	<b>(199)</b>	<b>(475)</b>	<b>(477)</b>	<b>(510)</b>
Equity raised	8	-	-	-	-
Net change in bank loans	-	-	-	-	-
Dividend paid	(471)	(680)	(476)	(443)	(484)
Others	(3)	(11)	-	-	-
<b>Net cash from financing CF</b>	<b>(466)</b>	<b>(691)</b>	<b>(476)</b>	<b>(443)</b>	<b>(484)</b>
<b>Net change in cash</b>	<b>(30)</b>	<b>63</b>	<b>(142)</b>	<b>28</b>	<b>28</b>
Beginning cash balance	790	801	836	693	721
Exchange difference	41	(29)	-	-	-
<b>Cash at the end of the year</b>	<b>801</b>	<b>836</b>	<b>693</b>	<b>721</b>	<b>749</b>

### Balance sheet

YE Mar 31 (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>3,242</b>	<b>3,102</b>	<b>3,210</b>	<b>3,288</b>	<b>3,375</b>
Fixed asset	2,021	1,923	2,034	2,115	2,206
Intangible assets & goodwill	4	2	3	3	2
Prepaid lease payments	79	75	73	70	68
Interest in joint ventures	-	-	-	-	-
Other non-current assets	1,137	1,103	1,100	1,100	1,100
<b>Current assets</b>	<b>1,374</b>	<b>1,392</b>	<b>1,254</b>	<b>1,313</b>	<b>1,379</b>
Cash and cash equivalents	824	857	715	743	771
Inventories	234	241	246	260	278
Trade and other	191	165	164	173	185
Prepayments	121	127	128	135	144
Other current assets	3	1	1	1	1
<b>Current liabilities</b>	<b>956</b>	<b>984</b>	<b>947</b>	<b>1,000</b>	<b>1,064</b>
Bank loans	-	-	-	-	-
Trade payables	207	220	226	239	255
Accruals & other payables	707	725	682	722	770
Tax payables	41	39	39	39	39
Others	-	-	-	-	-
<b>Non-current liabilities</b>	<b>87</b>	<b>88</b>	<b>88</b>	<b>88</b>	<b>88</b>
Bank loans	-	-	-	-	-
Deferred income	35	45	45	45	45
Deferred tax	34	29	29	29	29
Others	19	13	13	13	13
<b>Minority Interest</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>
<b>Total net assets</b>	<b>3,570</b>	<b>3,415</b>	<b>3,422</b>	<b>3,506</b>	<b>3,595</b>
<b>Shareholders' equity</b>	<b>3,570</b>	<b>3,415</b>	<b>3,422</b>	<b>3,506</b>	<b>3,595</b>

### Key ratios

YE Mar 31	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
HK QSR & Institutional Catering	74.8	73.7	72.4	72.0	71.3
HK Fast Casual & Casual Dining	10.5	10.7	10.3	10.2	10.4
Food Processing & Distribution	2.0	2.0	2.1	2.1	2.0
Mainland China	12.8	13.6	15.2	15.7	16.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	12.4	13.4	12.2	12.3	12.2
Operating margin	6.8	8.3	6.8	7.1	7.2
Pre-tax margin	6.9	8.5	6.9	7.1	7.3
Net margin	5.4	6.9	5.7	5.8	5.9
Effective tax rate	21.0	18.0	18.0	18.0	18.0
<b>Balance sheet ratios</b>					
Current ratio (x)	0.7	0.7	0.8	0.8	0.8
Quick ratio (x)	1.2	1.2	1.1	1.1	1.0
Cash ratio (x)	86.2	87.1	75.5	74.3	72.5
Inventory turnover days	12	12	12	12	12
Trade receivables days	8	7	7	7	7
Trade payables days	10	11	11	11	11
Total debt / total equity	-	-	-	-	-
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	12.8	17.3	14.1	15.1	15.9
ROA	9.9	13.1	10.8	11.5	12.0
<b>Per share</b>					
EPS (HK\$)	0.79	1.01	0.83	0.91	0.98
DPS (HK\$)	1.17	0.85	0.75	0.82	0.89
BVPS (HK\$)	6.15	5.88	5.89	6.04	6.19

Source: Company data, CMBIS estimates

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