

Cafe De Coral (341 HK)

China to grow fast and HK to turn positive

We believe the worst should be over for HK, and China will continue its powerful rebound, despite drags from mini COVID-19 outbreak in Guangdong. We are optimistic that CDC will benefit from the latest consumption voucher scheme. However, as both the raw material and rental costs were greater than we expected, we cut our EPS estimates by 33%/ 25% in FY22E/ 23E. Maintain BUY but cut TP to HK\$ 19.05, based on 27x FY3/23E P/E (up from 22x as we believe the recovery will drive re-rating), vs to its 5 years avg. of 20x.

- FY21 net profit in-line with positive profit alert, but GP margin was below expectation.** CDC's net profit grew by 388% YoY to HK\$ 359mn in FY21, in-line with its previous profit alert and CMBI est.. However, as the gov. subsidies were higher than expected at HK\$ 689mn (vs CMBI est. RMB 483mn), the impairment losses and cost of goods sold were also higher than expected, due to more than expected store closures and raw material costs.
- HK market: positive SSSG is likely to resume, but recovery of casual dining and institutional catering remain the key.** SSS decline had already narrowed to -7% in 2H21, from -20% in 1H21. We believe it is likely to rebound to ~10% growth in 1H22E, thanks to: 1) low base, 2) gradually easing in social distancing rules and 3) potential benefits from consumption vouchers. The voucher of HK\$ 5K per person will be distributed in Aug as the earliest, and the push can be empowered by promotions from Alipay, Wechat pay or many others. However, we believe sales of casual dining (certain brands already recovered to pre-COVID level) and institutional catering (relatively weak) will be the key for better recovery. We now forecast a 12%/ 14% YoY sales growth in 1H22E/ 2H22E, with a slight increase in net adds of 15 (CDC targets 20-30 gross adds) in FY22E, from a reduction of 4 in FY21, representing a 4% YoY growth.
- China market: Impressive recovery with accelerated store expansion plan.** SSSG rebounded significantly to 15% in 2H21, from -11% in 1H21, indicating a better-than-industry recovery. We attributed that to the excellent ramp up of new stores in recent years in the Greater Bay Area. We now forecast a 18%/ 24% YoY sales growth in 1H22E/ 2H22E, aided by net adds of 18 (CDC target 30-40 gross adds) in FY22E, from just 8 in FY21, representing a 15% YoY growth.
- Maintain BUY and cut TP to HK\$ 19.05.** We cut our EPS estimates by 33%/ 25% in FY22E/ 23E, to factor higher cost of goods sold and rental expenses. We maintain BUY but cut TP to HK\$ 19.05 based on 27x FY3/23E (up from 22x as we believe the recovery will drive re-rating). It is trading at 23x FY3/23E, which is not too demanding, vs its 5 years avg. of 20x, in our view.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	7,963.1	6,714.3	7,685.6	8,391.8	9,028.7
YoY growth (%)	(6.2)	(15.7)	14.5	9.2	7.6
Net income (HK\$ mn)	73.6	359.1	315.0	410.5	463.4
EPS (HK\$)	0.13	0.62	0.54	0.71	0.80
YoY growth (%)	(87.1)	387.7	(12.3)	30.3	12.9
Consensus EPS (HK\$)	n/a	n/a	0.65	0.85	0.89
P/E (x)	127.5	26.1	29.8	22.9	20.3
P/B (x)	3.5	3.1	3.0	2.8	2.6
Yield (%)	1.2	2.4	2.2	2.8	3.1
ROE (%)	2.8	12.0	10.1	12.3	13.0
Net gearing (%)	Net cash	17.9	12.1	4.8	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.05
(Previous TP)	HK\$20.69
Up/Downside	18.0%
Current Price	HK\$16.14

China Catering Sector

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Stock Data

Mkt Cap (HK\$ mn)	9,453
Avg 3 mths t/o (HK\$ mn)	23.02
52w High/Low (HK\$)	18.40/14.16
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%

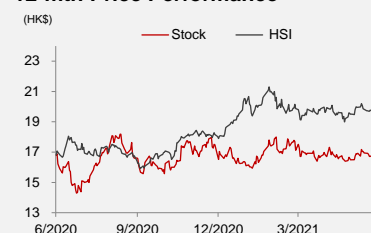
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.3%	-2.5%
3-mth	-5.0%	-4.4%
6-mth	-7.0%	-14.4%
12-mth	1.1%	-13.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- China Catering (Outperform) – Leaders to benefit even more during recovery - 12 Mar 2021
- Café de Coral (341 HK, BUY) – Industry pressure offset by wage subsidies - 5 Nov 2020

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Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,686	8,392	9,029	7,668	8,250	n/a	0.2%	1.7%	0.0%
Gross profit	943	1,089	1,188	1,107	1,229	n/a	-14.8%	-11.3%	0.0%
EBIT	501	624	689	682	781	n/a	-26.5%	-20.1%	0.0%
Net profit att.	315	410	463	467	547	n/a	-32.6%	-25.0%	0.0%
Diluted EPS (HK\$)	0.54	0.71	0.80	0.80	0.94	n/a	-32.6%	-25.0%	0.0%
Gross margin	12.3%	13.0%	13.2%	14.4%	14.9%	n/a	-2.2ppt	-1.9ppt	0ppt
EBIT margin	6.5%	7.4%	7.6%	8.9%	9.5%	n/a	-2.4ppt	-2ppt	0ppt
Net profit att. margin	4.1%	4.9%	5.1%	6.1%	6.6%	n/a	-2ppt	-1.7ppt	0ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

HK\$ mn	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,686	8,392	9,029	7,926	8,674	9,549	-3.0%	-3.3%	-5.4%
Gross profit	943	1,089	1,188	1,065	1,210	1,370	-11.4%	-10.0%	-13.3%
EBIT	501	624	689	517	652	666	-3.1%	-4.3%	3.4%
Net profit att.	315	410	463	349	483	549	-9.8%	-15.0%	-15.5%
Diluted EPS (HK\$)	0.54	0.71	0.80	0.65	0.85	0.89	-16.1%	-16.7%	-10.2%
Gross margin	12.3%	13.0%	13.2%	13.4%	14.0%	14.4%	-1.2ppt	-1ppt	-1.2ppt
EBIT margin	6.5%	7.4%	7.6%	6.5%	7.5%	7.0%	0ppt	-0.1ppt	0.7ppt
Net profit att. margin	4.1%	4.9%	5.1%	4.4%	5.6%	5.7%	-0.3ppt	-0.7ppt	-0.6ppt

Source: Company data, CMBIS estimates

Valuation

Figure 3: Peers' valuation

Company	Ticker	Rating	12m TP	Price	Up/Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE	3yrs	Yield
			(LC)	(LC)	side			(HK\$ mn)	End	FY1E	FY2E	FY1E	FY2E	(%)
Leading Greater China Restaurants and Food Ingredients														
Cafe De Coral	341 HK	BUY	19.05	16.14	18%	9,453	Mar-21	29.8	22.9	3.0	2.8	12.7	3.4	2.2
Haidilao Int'l	6862 HK	BUY	78.40	37.50	109%	198,750	Dec-20	39.1	27.1	11.7	8.4	3.0	0.2	0.7
Jiumaojiu Int'l	9922 HK	BUY	40.07	29.50	36%	42,876	Dec-20	71.0	45.9	9.8	8.2	7.9	0.6	0.3
XBXB Catering	520 HK	NR	n/a	8.31	n/a	9,020	Dec-20	15.3	12.3	2.7	2.3	0.1	0.0	2.1
Yihai Int'l	1579 HK	NR	n/a	51.00	n/a	53,392	Dec-20	37.7	29.4	10.0	7.8	30.0	1.3	0.7
Yum China	9987 HK	BUY	596.58	509.50	17%	214,295	Dec-20	32.2	27.7	4.0	3.6	20.2	3.3	0.8
Gourmet Master	2723 TT	NR	n/a	181.50	n/a	9,081	Dec-20	25.5	22.1	2.7	2.5	11.4	1.2	2.5
							Avg.	35.8	26.8	6.3	5.1	12.2	1.4	1.3
							Med.	32.2	27.1	4.0	3.6	11.4	1.2	0.8
Other H-shares Restaurants and Food Ingredients														
Fairwood	52 HK	NR	n/a	17.68	n/a	2,290	Mar-20	n/a	15.1	3.3	2.9	9.3	n/a	2.3
Tai Hing	6811 HK	NR	n/a	2.26	n/a	2,264	Dec-20	12.9	11.0	2.0	1.9	11.6	0.4	5.1
Hop Hing	47 HK	NR	n/a	0.05	n/a	514	Dec-20	n/a	n/a	n/a	n/a	(17.5)	n/a	n/a
Tsui Wah	1314 HK	NR	n/a	0.32	n/a	452	Mar-20	n/a	n/a	n/a	n/a	(43.8)	n/a	n/a
Ajisen China	538 HK	NR	n/a	1.63	n/a	1,779	Dec-20	n/a	n/a	n/a	n/a	(2.4)	n/a	n/a
Tao Heung	573 HK	NR	n/a	1.01	n/a	1,027	Dec-20	n/a	n/a	n/a	n/a	(3.6)	n/a	n/a
Tang Palace	1181 HK	NR	n/a	0.92	n/a	990	Dec-20	n/a	n/a	n/a	n/a	1.0	n/a	n/a
							Avg.	12.9	13.1	2.6	2.4	(6.5)	0.4	3.7
							Med.	12.9	13.1	2.6	2.4	(2.4)	0.4	3.7
Leading Greater China Restaurants and Food Ingredients														
Yum! Brands	YUM US	NR	n/a	114.64	n/a	265,158	Dec-20	27.2	24.4	n/a	n/a	n/a	1.4	1.7
Mcdonald'S	MCD US	NR	n/a	229.62	n/a	1,330,291	Dec-20	26.7	24.1	n/a	n/a	n/a	1.5	2.3
Starbucks Corp	SBUX US	NR	n/a	109.70	n/a	1,003,597	Sep-20	36.8	30.6	n/a	n/a	n/a	0.5	1.8
Rest. Brands	QSR US	NR	n/a	66.19	n/a	237,793	Dec-20	25.0	21.4	10.4	10.9	22.9	0.9	3.2
Chipotle Mexican	CMG US	NR	n/a	1399.6	n/a	305,911	Dec-20	57.2	43.4	16.6	13.7	21.6	1.3	0.0
Darden Rest.	DRI US	NR	n/a	130.10	n/a	132,167	May-20	32.3	18.1	6.2	5.8	(8.9)	(0.1)	1.2
Domino'S Pizza	DPZ US	NR	n/a	460.19	n/a	138,734	Jan-21	35.5	30.8	n/a	n/a	n/a	3.3	0.8
Wendy'S Co	WEN US	NR	n/a	23.10	n/a	39,701	Jan-21	31.3	27.3	9.4	10.8	29.8	1.4	1.7
Shake Shack	SHAK US	NR	n/a	94.39	n/a	30,799	Dec-20	n/a	210.2	9.5	8.9	(11.2)	n/a	n/a
Wingstop	WING US	NR	n/a	144.71	n/a	33,411	Dec-20	101.3	79.2	n/a	n/a	n/a	2.5	0.4
Jollibee Foods	JFC PM	NR	n/a	202.20	n/a	35,738	Dec-20	57.4	37.1	3.9	3.6	(12.7)	(0.3)	0.7
							Avg.	43.1	49.7	9.3	8.9	6.9	1.2	1.4
							Med.	33.9	30.6	9.5	9.8	6.3	1.3	1.5
H-shares Consumer Staples														
UPC	220 HK	NR	n/a	8.29	n/a	35,807	Dec-20	17.3	15.8	2.1	2.1	11.8	1.6	5.7
Tingyi	322 HK	NR	n/a	15.06	n/a	84,742	Dec-20	17.9	16.4	3.3	3.1	20.0	2.4	5.5
Want Want China	151 HK	NR	n/a	5.94	n/a	71,430	Mar-20	14.6	14.2	3.8	3.7	28.8	1.4	5.9
China Mengniu	2319 HK	NR	n/a	46.00	n/a	181,621	Dec-20	29.1	24.1	4.0	3.5	11.4	0.9	0.9
Vitasoy	345 HK	NR	n/a	27.85	n/a	29,728	Mar-21	41.8	36.3	7.6	6.8	16.3	1.8	1.5
Tsingtao Brewery	168 HK	NR	n/a	83.90	n/a	145,507	Dec-20	33.7	29.0	4.3	3.9	13.0	1.6	1.3
CR Beer	291 HK	NR	n/a	70.35	n/a	228,228	Dec-20	54.5	41.9	8.1	7.2	10.2	1.3	0.7
Budweiser Brew	1876 HK	NR	n/a	24.35	n/a	322,477	Dec-20	41.3	34.1	3.7	3.4	5.0	1.1	0.9
Dali Foods	3799 HK	NR	n/a	4.65	n/a	63,678	Dec-20	13.2	12.1	2.7	2.5	22.8	1.5	4.1
							Avg.	29.3	24.9	4.4	4.0	15.5	1.5	2.9
							Med.	29.1	24.1	3.8	3.5	13.0	1.5	1.5

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 4: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	5,939	4,751	5,401	5,813	6,133
HK Fast Casual & Casual Dining	779	622	684	753	828
Food Processing & Distribution	155	141	148	156	164
Mainland China	1,090	1,200	1,452	1,670	1,904
Total	7,963	6,714	7,686	8,392	9,029
Growth (%)					
HK QSR & Institutional Catering	-5%	-20%	14%	8%	6%
HK Fast Casual & Casual Dining	-14%	-20%	10%	10%	10%
Food Processing & Distribution	-10%	-9%	5%	5%	5%
Mainland China	-5%	10%	21%	15%	14%
Total	-6%	-16%	14%	9%	8%
GP margin	9.2%	5.6%	12.3%	13.0%	13.2%
Costs breakdown					
Costs of raw materials	28.4%	29.9%	28.7%	28.5%	28.3%
Depreciation	4.5%	5.2%	5.2%	5.0%	5.0%
Operating lease rentals	13.1%	13.2%	12.4%	12.2%	12.2%
Employee benefit expenses	33.6%	34.7%	31.4%	31.7%	32.0%
OP margin	2.6%	7.1%	6.5%	7.4%	7.6%
Effective tax rate	34.9%	7.7%	18.0%	17.0%	16.0%
NP att. margins	0.9%	5.3%	4.1%	4.9%	5.1%
NP att. growth (%)	-87.1%	387.7%	-12.3%	30.3%	12.9%
Sales network by region					
HK QSR & Institutional Catering	294	292	302	309	314
HK Fast Casual Dining	62	60	65	70	75
Mainland China	114	122	140	157	174
Total	470	474	507	536	563
SSSG by segment					
HK Café de Coral	-6.0%	-14.0%	11.5%	4.0%	3.0%
HK Super Super Congee & Noodles	-7.0%	-11.0%	9.5%	3.0%	2.0%
Mainland China Café de Coral	-5.0%	2.0%	8.0%	4.0%	4.0%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,963	6,714	7,686	8,392	9,029	EBIT	209	474	501	624	689
HK QSR & Institutional Catering	5,939	4,751	5,401	5,813	6,133	D & A	358	351	401	426	453
HK Fast Casual & Casual Dining	779	622	684	753	828	Change in working capital	(39)	(109)	43	28	25
Food Processing & Distribution	155	141	148	156	164	Income tax paid	(112)	(30)	(69)	(84)	(89)
Mainland China	1,090	1,200	1,452	1,670	1,904	Others	1,001	32	19	21	23
Cost of goods sold	(7,232)	(6,339)	(6,742)	(7,303)	(7,840)	Net cash from operating CF	1,417	719	893	1,014	1,100
Gross profit	731	375	943	1,089	1,188	Capex & investments	(489)	(366)	(410)	(449)	(484)
Other income	(41)	561	(4)	1	1	Associated companies	-	-	-	-	-
Operating expenses	(481)	(463)	(438)	(466)	(500)	Interest received	16	(83)	(115)	(128)	(135)
D & A	-	-	-	-	-	Others	38	(165)	933	933	933
Staff costs	-	-	-	-	-	Net cash from investing CF	(434)	(613)	407	356	313
S & D costs (ex-staff, D&A)	-	-	-	-	-	Equity raised	-	-	-	-	-
Admin exp. (ex-staff, D&A)	(481)	(463)	(438)	(466)	(500)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(488)	(59)	(209)	(218)	(274)
EBIT	209	474	501	624	689	Others	(973)	(933)	(933)	(933)	(933)
Finance costs, net	(94)	(83)	(115)	(128)	(135)	Net cash from financing CF	(1,461)	(991)	(1,142)	(1,151)	(1,207)
JVs & associates	-	-	-	-	-	Net change in cash	(478)	(886)	159	219	207
Exceptional	-	-	-	-	-	Beginning cash balance	836	345	(541)	(383)	(164)
Pre-tax profit	114	391	386	496	554	Exchange difference	(12)	-	-	-	-
Income tax	(40)	(30)	(69)	(84)	(89)	Cash at the end of the year	345	(541)	(383)	(164)	43
Less: Minority interests	1	1	1	1	2						
Net profit	74	359	315	410	463						

Balance sheet						Key ratios					
YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	5,346	6,459	6,473	6,501	6,537	Sales mix (%)					
Fixed asset	1,609	2,706	2,724	2,754	2,793	HK QSR & Institutional Catering	74.6	70.8	70.3	69.3	67.9
Intangible assets & goodwill	1	3	2	2	2	HK Fast Casual & Casual Dining	9.8	9.3	8.9	9.0	9.2
Prepaid lease payments	-	70	68	65	62	Food Processing & Distribution	1.9	2.1	1.9	1.9	1.8
Interest in joint ventures	-	-	-	-	-	Mainland China	13.7	17.9	18.9	19.9	21.1
Other non-current assets	3,736	3,680	3,680	3,680	3,680	Total	100.0	100.0	100.0	100.0	100.0
Current assets	875	(30)	178	442	691	P&L ratios (%)					
Cash and cash equivalents	345	(541)	(383)	(164)	43	Gross margin	9.2	5.6	12.3	13.0	13.2
Inventories	261	228	243	263	283	Operating margin	2.6	7.1	6.5	7.4	7.6
Trade and other receivables	167	140	161	175	189	Pre-tax margin	1.4	5.8	5.0	5.9	6.1
Prepayments	61	101	115	126	135	Net margin	0.9	5.3	4.1	4.9	5.1
Other current assets	41	41	41	41	41	Effective tax rate	34.9	7.7	18.0	17.0	16.0
Current liabilities	1,616	1,488	1,580	1,654	1,720	Balance sheet ratios					
Bank loans	-	-	-	-	-	Current ratio (x)	1.8	(49.3)	8.9	3.7	2.5
Trade payables	172	151	160	174	187	Quick ratio (x)	0.4	(0.2)	(0.0)	0.1	0.2
Accruals & other payables	675	569	652	712	766	Cash ratio (x)	21.4	(36.4)	(24.2)	(9.9)	2.5
Tax payables	13	13	13	13	13	Inventory turnover days	13	13	13	13	13
others	755	755	755	755	755	Trade receivables days	8	8	8	8	8
Non-current liabilities	1,934	1,934	1,934	1,934	1,934	Trade payables days	9	9	9	9	9
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	-	-	-	-	-
Deferred income	49	49	49	49	49	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	29	29	29	29	29	Returns (%)					
Others	1,856	1,856	1,856	1,856	1,856	ROE	2.8	12.0	10.1	12.3	13.0
Minority Interest	5	6	7	9	10	ROA	1.2	5.6	4.7	5.9	6.4
Total net assets	2,667	3,000	3,129	3,347	3,563	Per share					
Shareholders' equity	2,667	3,000	3,129	3,347	3,563	EPS (HK\$)	0.13	0.62	0.54	0.71	0.80
						DPS (HK\$)	0.19	0.38	0.35	0.46	0.50
						BVPS (HK\$)	4.59	5.17	5.39	5.77	6.14

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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