

Nayuki Holdings Limited (2150 HK)

A prestigious teahouse brand in the making

- Nayuki Holding is a leading and premium modern teahouse chain in China.** Nayuki brand is ranked No.2 by sales in premium teahouse/ tea industry in China, capturing 18.9%/ 0.7% market shares in 2020. It mainly sells tea drinks and baked goods in an upscale space with modern design to reflect a warm, comfortable and relaxing ambiance. Despite Nayuki brand's short history (founded in 2015), it has 491 stores and generated RMB 2,871mn sales in FY20, with a 78%/ 68% store/ sales CAGR in FY18-20. It also owns the Tai Gai brand, with 64 stores and RMB 153mn sales in FY20. Initial losses were made for brand building and market expansion in the early years but store-level operating margin of its mature stores is already industry leading.
- A prestigious brand made of top notch products and environment.** We believe Nayuki is highly competitive, evidenced by its industry leading customer rating on dianping.com (4.5 out of 5.0) and per store dine-in daily sales volume (CMBI est. of 4.3x seat turnover in FY20), even with its premium price point (average sales per order at RMB 43.0). Powered by its R&D strength and supply chain capability, superior teahouse design and services, meaningful A&P Investments and successful penetrations into top shopping malls (28 out of 50), we are confident in its future store coverage expansion.
- PRO stores to unlock customer coverage and boost efficiency.** We concur with management's PRO store strategy to deliver a more convenient dining experience with more SKUs and tap into wider customer groups, hence opening up room for store expansion and overall margin levels. In our model, we expect net number of Nayuki's teahouses to increase by 296/ 346/ 381 to 787/ 1,133/ 1,514 (+60%/ 44%/ 34%) in FY21E/ 22E/ 23E, of which ~70% are PRO stores. We also estimated the market capacity of Nayuki store in China to be ~2,939/ ~9,709 in FY21E/ if we benchmark Nayuki Shenzhen's density.
- Realizing profitability thru digitalization and rising mature store mix.** We expect its adj. NPM to catch up in mid-term (6.2% in FY22E), driven by: 1) low store closure rate, 2) better than peers' store level OP margin, 3) industry leading breakeven and payback period, 4) gradual decline of new store mix, 5) increase in PRO store mix and 6) use of digitalization in customer analytics, in-store crew scheduling, in-store and warehouse inventory management, etc.
- We forecast 41%/ 180% sales/ adjusted net profit att. CAGR in FY20-23E.** We project 41% sales CAGR in FY20-23E to be driven by: +46% Nayuki store CAGR, -2% sales per store CAGR and +10% Tai Gai & other sales CAGR.
- Initiated BUY with TP of HK\$ 16.68.** We value Nayuki based on the DCF method and apply a 8.1% WACC and 3.5% terminal growth, implying also a 3.6x FY22E P/S, at a 10% discount to JMJ Int'l's 4.0x and a 18% discount to Starbucks' 4.4x, but a 59% premium over China peers' average of 2.3x, due to faster than industry sales CAGR during FY20-23E. It is trading at 2.1x FY22E P/S and 35x FY22E P/E, vs China peers' average of 2.3x and 25x.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,087	2,502	3,057	4,804	6,620	8,601
YoY growth (%)	n/a	130.2	22.2	57.1	37.8	29.9
EBITDA (RMB mn)	39	143	227	372	826	1,169
NP att. (RMB mn)	(66)	(39)	(202)	58	372	555
Adj. NP (RMB mn)	(53)	(11)	26	118	398	572
Adj. EPS (RMB)	n/a	n/a	n/a	0.069	0.232	0.333
YoY growth (%)	n/a	n/a	n/a	360.5	237.2	43.7
Adjusted P/E (x)	n/a	n/a	n/a	117.6	34.9	24.3
P/S (x)	n/a	n/a	n/a	2.9	2.1	1.6
ROE (%)	n/a	n/a	n/a	1.5	8.7	11.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	HK\$16.68
Up/Downside	+71.1%
Current Price	HK\$9.75

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Stock Data

Mkt Cap (HK\$ mn)	16,722
Avg 3 mths t/o (HK\$ mn)	n/a
52w High/Low (HK\$)	18.98/9.10
Total Issued Shares (mn)	1,715.1

Source: Bloomberg

Shareholding Structure

Mr. Zhao Lin & Ms. Peng Xin	56.98%
Tiantu Capital	11.09%
Employee incentive platform	5.35%
PAGAC Nebula	5.28%
Shenzhen Capital Group	2.82%
Free Float	18.47%

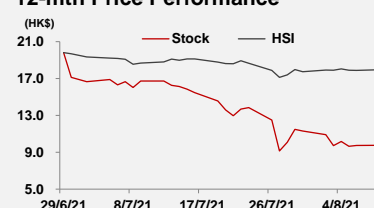
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-39.3%	-37.0%
3-mth	n/a	n/a
6-mth	n/a	n/a
12-mth	n/a	n/a

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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Investment Thesis

■ **Nayuki Holding is a top and booming premium modern teahouse chain in China**
 Nayuki brand is ranked No.2 by sales in premium teahouse/ tea industry in China with 18.9%/ 0.7% market shares in 2020. It mainly sells tea drinks and baked goods in an upscale space with modern design to reflect a warm, comfortable and relaxing ambiance. Despite Nayuki brand's short history (founded in 2015), it has 491 stores and generated RMB 2,871mn sales in FY20, with a 78%/ 68% store/ sales CAGR in FY18-20. It also owns the Tai Gai brand, with 64 stores and RMB 153mn sales in FY20. Initial losses were made for brand building and market coverage expansion in the early years but store-level operating profit margin of its mature stores is already industry leading.

■ **A prestigious brand made of top notch products and environment.**

Nayuki is highly competitive, evidenced by its industry leading customer rating on dianping.com (4.5 out of 5.0) and per store non-delivery daily sales volume (CMBI est. of 4.3x seat turnover in FY20), even with its premium price point (average sales per order at RMB 43.0). Powered by its R&D strength, supply chain capability, superior teahouse design, services and successful penetrations into top shopping malls (28 out of 50), we are confident about its further expansion of store coverage.

■ **PRO stores to unlock customer coverage and boost efficiency.**

We concur with management's PRO store strategy to deliver a more convenient dining experience with more SKUs and tap into wider customer groups, hence opening up room for store expansion and profitability. We forecast net number of Nayuki's teahouses to be 296/ 346/ 381 to 787/ 1,133/ 1,514 (+60%/ 44%/ 34%) in FY21E/ 22E/ 23E, of which ~70% are PRO stores. We also estimated the market capacity of Nayuki store in China to be ~2,939/ ~9,709 in FY21E/ if we benchmark with Nayuki's density in Shenzhen.

■ **Realizing profitability thru digitalization and rising mature stores mix.**

We expect its adj. net profit margin to catch up in mid-term (6.2% in FY22E), evidenced by: 1) extremely low store closure rate, 2) better than peers' store level OP margin, 3) industry leading breakeven and payback period, 4) gradual decline of new stores mix, 5) increase in PRO stores mix and 6) use of digitalization in customer analytics, in-store crew scheduling, in-store and warehouse inventory management, etc.

■ **We forecast 41%/ 180% sales/ adjusted net profit att. CAGR in FY20-23E.**

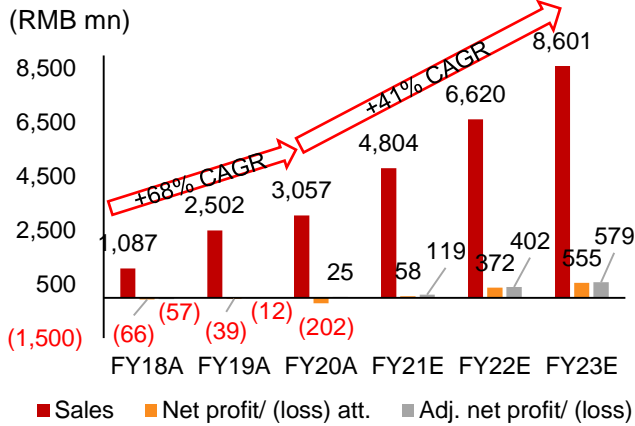
We project 41% sales CAGR to be driven by: 46% Nayuki store CAGR, -2% sales per store CAGR and 10% Tai Gai & other sales CAGR. We also expect Nayuki's net profit CAGR to be 180%, driven by: 1) normalization of GP margin (to rebound in FY21E after COVID-19 and stay stable in FY22E-23E, as higher PRO store mix to offset the raw material costs pressure, 2) greater sales from PRO stores, 3) digitalization of various functions (e.g. in-store crew scheduling, etc.) and 4) economies of scale from relatively flattish other opex (e.g. headquarters costs, logistic, storage and others). We also expect adj. NP margin to reach 2.5%/ 6.1%/ 6.7% in FY21E/ 22E/ 23E, from -5.2%/ -0.5%/ +0.8% in FY18/ 19/ 20.

■ **We initiate BUY with TP of HK\$ 16.68.**

We value Nayuki based on the DCF method and apply a 8.1% WACC and 3.5% terminal growth, implying also a 3.6x FY22E P/S, which has a 10% discount to JMJ Int'l's 4.0x and a 18% discount to Starbucks' 4.4x, but a 59% premium over China peers' average of 2.3x, due to faster than industry sales CAGR during FY20-23E. It is currently trading at 2.1x FY22E P/S and 35x FY22E P/E, fairly attractive compared to China peers' average of 2.3x and 25x. Cross-checking with PSG, it is trading at 0.07x while our TP is implying a 0.11x PSG, similar to leading China peers' 0.11x and much lower than global peers' 0.52x.

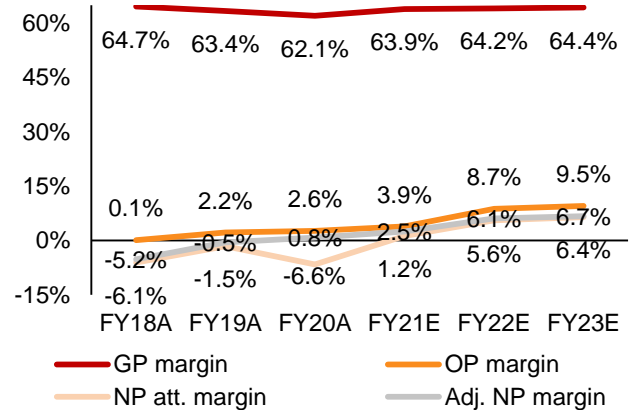
Focus Charts and Tables

Figure 1: Sales, net profit att. and adj. net profit



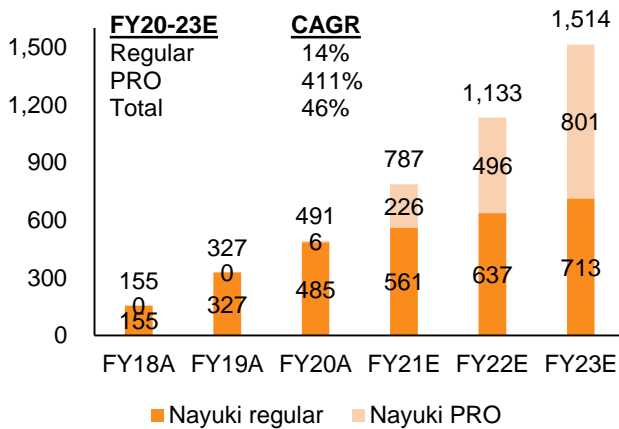
Source: Company data, CMBIS estimates

Figure 2: GP, OP, NP att. and adj. NP margin



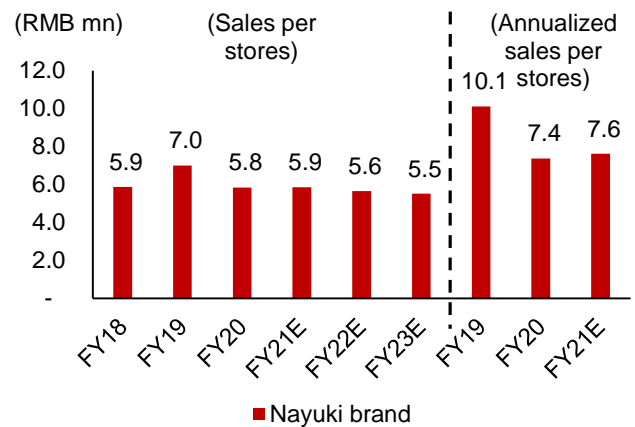
Source: Company data, CMBIS estimates

Figure 3: Number of Nayuki stores, by type



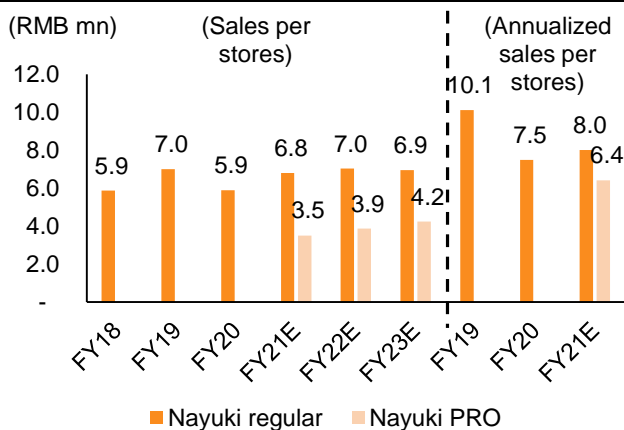
Source: www.dianping.com, Company data, CMBIS estimates

Figure 4: Sales per store, Nayuki brand



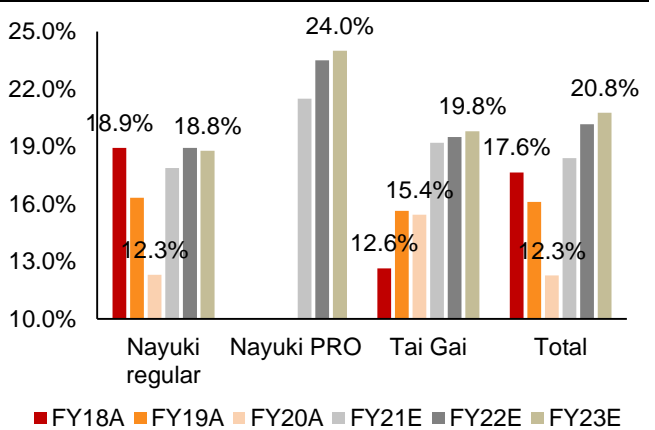
Source: Company data, CMBIS estimates

Figure 5: Sales per store, Nayuki regular vs PRO



Source: Company data, CMBIS estimates

Figure 6: Restaurant level OP margin, by brand



Source: Bloomberg, CMBIS estimates

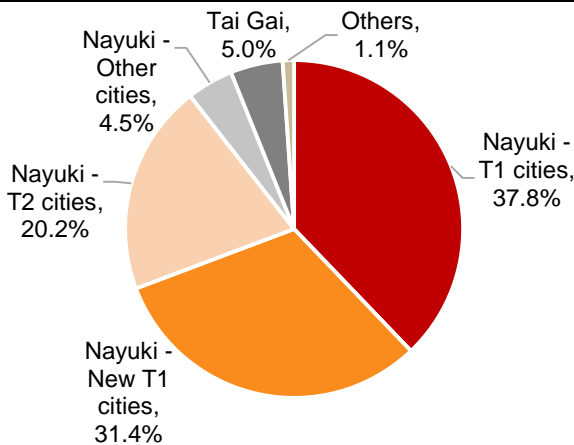
Company Background

Nayuki is a leading and booming premium teahouse chain in China

Nayuki holdings was founded by Ms. Peng Xin and Mr. Zhao Lin in 2015, with the desire to re-invigorate the Chinese tea drinking experience, making products fresher, better tasting and more accessible for customers around the world. Nayuki is a premium teahouse selling mainly tea drinks and baked goods in an upscale social space "with modern design, to reflect a "warm, comfortable and relaxing ambiance/ 轻松, 温暖, 分享" feeling. Its philosophy on customer experience is similar to Starbucks' "The Third Place Principle/ 第三空间", which aims to provide the community a third place in between office and home, rather than Heytea's style of "zen, minimalism and aesthetics/ 禅意, 极简, 美学".

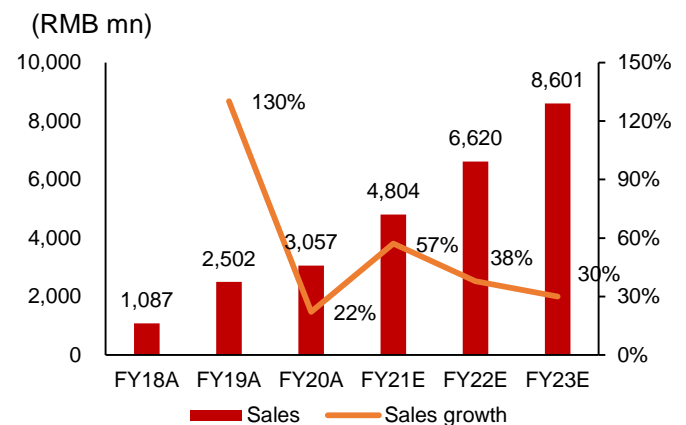
It is the first chain in China to introduce the concept of "pairing freshly-made tea drinks with handcrafted freshly baked goods/ 一杯好茶, 一口软欧包, 在奈雪遇见两种美好" and make freshly brewed tea drinks with fresh fruits. Its core menu is made up of 25 tea drinks (e.g. fresh fruit teas, milk teas and pure teas) and 25 baked goods, and the average sales per order was RMB 43 in FY20 (ASP for tea drinks/ baked goods were RMB 27/ 23 in Feb 2021, according to dianping.com).

Figure 7: Group revenue by brand, FY20



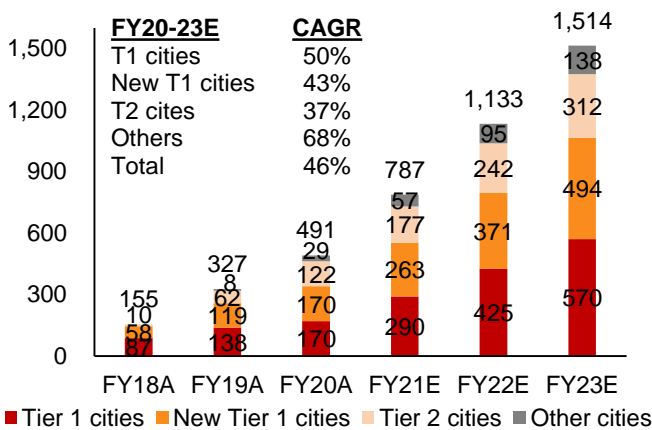
Source: Company data, CMBIS estimates

Figure 8: Group sales and sales growth, FY18-23E



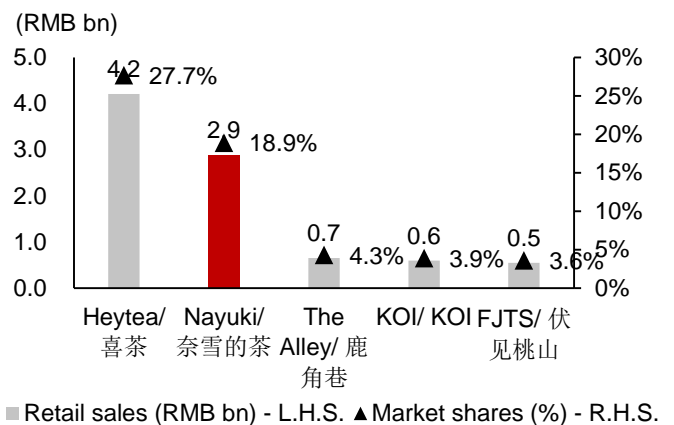
Source: Company data, CMBIS estimates

Figure 9: Number of Nayuki stores, by tier city



Source: Company data, CMBIS estimates

Figure 10: Market shares, by sales & share, in 2020



Source: CIC report, CMBIS estimates

According to CIC report, Nayuki is the second largest brand in Mainland China, with 18.9% market shares in the premium teahouse industry in 2020. Nayuki holdings is also one of the fastest growing teahouse groups with 78%/ 68% store/ sales CAGR during FY18-20, even with drags from COVID-19. It has 489/ 64 Nayuki/ Tai Gai branded stores in Mainland China and generated RMB 2,871mn/ 153mn sales in FY20.

Figure 11: Details of top 5 brands in premium teahouses (including freshly-made tea and cross-selling products) industry in Mainland China in 2020

Ranking	Company	Approximate Retail Sales Value (RMB bn)	Market Shares (%)	Store numbers	Directly operated stores (% of total)	Number of covered cities	ASP for tea product (RMB)	Average sales value per order (RMB)
1	Heytea/ 喜茶	4.2	27.7%	690	600 (100%)	58	25.0	40.0
2	Nayuki/ 奈雪的茶	2.9	18.9%	489	489 (100%)	66	26.0	43.0
3	The Alley/ 鹿角巷	0.7	4.3%	187	187 (100%)	17	21.0	35.0
4	KOI/ KOI	0.6	3.9%	61	61 (100%)	13	24.0	40.0
5	FJTS/ 伏见桃山	0.5	3.6%	200	100 (50%)	60	21.0	29.0
Sum of top 5		8.9	58.4%	1,627.0				
Others		6.3	41.6%					
Total		15.2		3,200.0				

Source: CIC report, Company data, CMBIS estimates

Figure 12: Store image of Nayuki regular



Source: www.dianping.com, Company data, CMBIS

Figure 13: Store image of Nayuki Fantasy Factory



Source: www.dianping.com, Company data, CMBIS

Figure 14: Store image of Nayuki PRO



Source: www.dianping.com, Company data, CMBIS

Figure 15: Signature items of Nayuki



Source: www.dianping.com, Company data, CMBIS

Figure 16: Key milestones

Year	Key business milestones of Nayuki Holdings
2014	Shenzhen Pindao Management was established, which has been primarily engaged in the management and operation of our teahouse network in China.
2015	Opened our first Nayuki teahouse in Shenzhen.
2017	<ul style="list-style-type: none"> Completed the Series A round RMB70 million from Beijing Tiantu and Chengdu Tiantu, and also completed the Series A+ round RMB22 million onshore financing from Chengdu Tiantu and Mr. Cao Minghui in Shenzhen Pindao Management. We broadened our network of Nayuki teahouses beyond the Guangdong Province and into other major cities of China, such as Shanghai and Beijing. Our co-developed Alishan Mountain Dew Tea (阿里山初露) was awarded the first prize at the 2017 Taiwan Winter Tea Contest (2017年台灣冬茶比賽). HISTORY, REORGANIZATION AND CORPORATE STRUCTURE.
2018	<ul style="list-style-type: none"> Completed the Series B-1 round RMB300 million onshore financing from Tiantu Dongfeng, Tiantu Xingnan and Tiantu Xingpeng. Operated over 100 Nayuki teahouses and over 50 Tai Gai teahouses nationwide.
2019	<ul style="list-style-type: none"> Rolled out our Nayuki membership program. Opened our first Nayuki Fantasy Factory (奈雪夢工廠) in Shenzhen. Opened our first Nayuki teahouse on the Victoria Peak in Hong Kong. Contributed to the publication of the 2019 Whitepaper on Modern Tea Drink Consumption (2019新式茶飲消費白皮書). Received multiple business and industry awards over the course of 2019, including but not limited to the 2019 Annual Growth Award in China's Internet Consumption (2019中國互聯網消費商業力量年度增長力) by CBNDdata; and the 2019 Top Emerging Brand (2019新品牌之王) by 36Kr.com.
2020	<ul style="list-style-type: none"> Secured the Series B-2 financing RMB200 million from SCGC Investors and US\$5 million from HLC in the Company. Secured the Series C financing US\$100 million from PAGAC Nebula. Operating over 400 Nayuki teahouses. Opened our first Japanese Nayuki teahouse in Osaka, Japan. Opened our first two premium Nayuki PRO teahouses in Shenzhen. Received multiple business and industry awards over the course of 2020, including but not limited to the 2020 Top 10 Tea Drinks Brands in China Award (中國茶飲十大品牌) by the World Federation of Chinese Catering Industry (世界中餐業聯合會)
2021	<ul style="list-style-type: none"> Operating over 500 Nayuki teahouses. Had over 30 million members registered with our membership programs.

Source: Company data, CMBIS estimates

Company's key positives and growth drivers

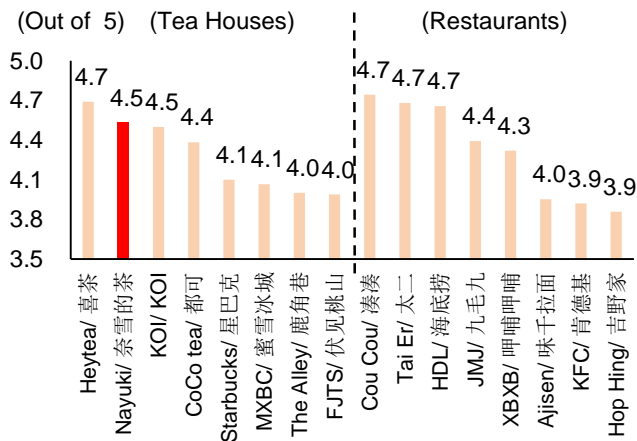
1) A prestigious brand made of top notch products and environment

We think Nayuki is highly competitive, in terms of product quality, services level and store environment, whether its competitor is Heytea or Starbucks.

■ 1.1 One of the most prestigious domestic teahouse brands to consumers.

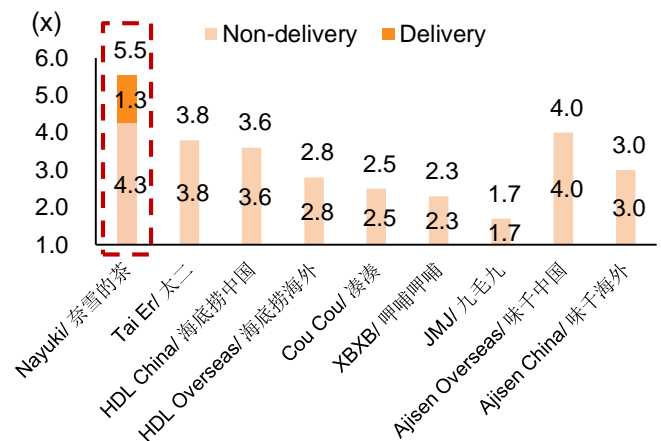
We believe Nayuki is highly competitive, thanks to its prestigious branding, excellent price to quality for its products and its comfortable dining environment, which is evidenced by its industry leading customer rating at dianping.com. It has an overall score of 4.5 out of 5 (only second to Heytea's 4.7 and far better than Starbucks and MXBC's 4.1) and that score is also comparable to those leading catering brands (Cou Cou, Haidilao and Tai Er's 4.7). This is in-line with the founder's goal to build a global teahouse brand loved by everyone, innovating the tea culture and promoting it to the whole world.

Figure 17: DianPing customer ratings, by brand



Source: www.dianping.com, Average score of restaurants in BJ, SH, SZ and GZ (max 30 restaurants counted per city, ranked by numbers of comment), Company data, CMBIS estimates, as at Mar2021

Figure 18: Seat turnover, by brand, FY20

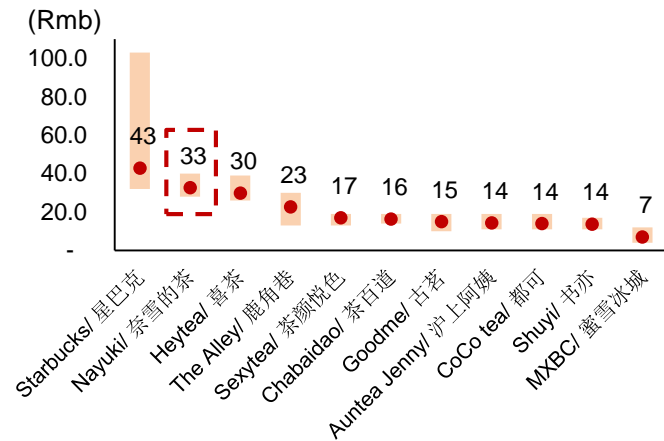


Source: Nayuki number was derived from daily orders and assumed 85 seats per store, table turn ratio used for Haidilao and Ajisen (Seat turn otherwise), data extracted from FY20 (last filing otherwise), Company data, CMBIS estimates

Another remarkable competitive edge for Nayuki is its premium and prestigious branding. It is not only being highly popular (with a leading daily store traffic) but has also successfully established a position of high-end pricing (ASP at RMB 33, slightly lower than Starbucks' RMB 43 but higher than Heytea's RMB 30 and way higher than Sexytea's RMB 17 and MXBC's RMB 7, according to data from dianping.com). This is not easy at all, especially for a domestic brand name in the consumer space, in our view.

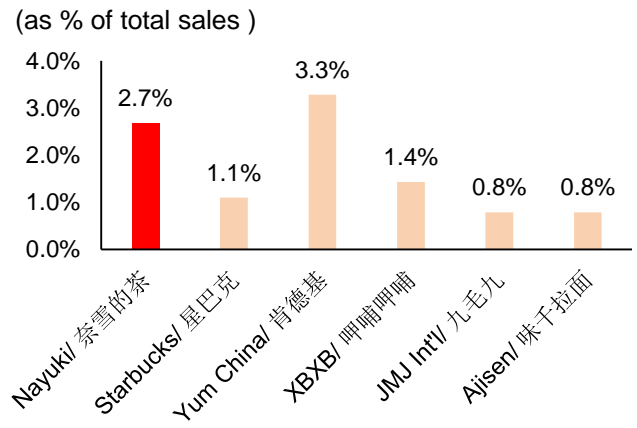
In order to raise brand recognition and acceptance from the modern consumers in China, Nayuki has been investing continuously, by utilizing tailored and creative branding and marketing strategies in different online and offline platforms, such as launching crossovers with other brands (e.g. Douyin, China Daily, Li Ning, Under Armour, Karl Lagerfeld, VOSS, Dove) and artists (e.g. CUPSEUM by Pepe Shimada, HEDOF by Rick Berkemans), as well as many other social media marketing campaigns. In FY20, Nayuki had spent ~2.7% of total sales terms of A&P spending, such industry leading investments, in our view, should be continue and be able to induce more solid supports from its customers in the future.

Figure 19: Price range and ASP, by brand



Source: www.dianping.com, Company data, CMBIS estimates, as at Mar2021

Figure 20: A&P expenses, by brand, FY20

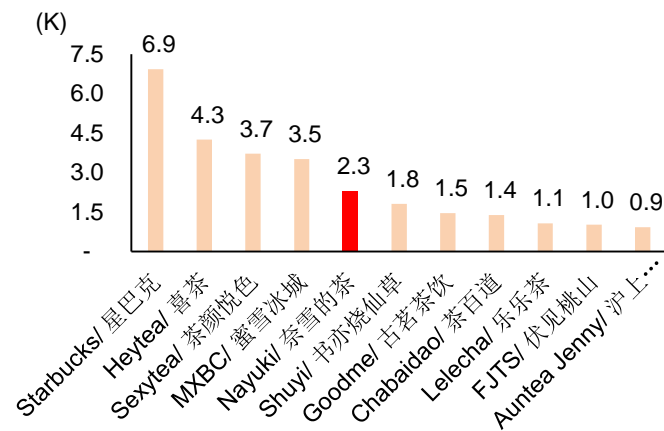


Source: Company data, CMBIS estimates

We can also tell that Nayuki has high influential brand power, based on its high number of Weibo fans of ~700K, very similar to Heytea's ~750K, as at Mar 2021. Its Baidu index score at 2,280 is rather leading in the teahouse brand industry and not too behind Starbucks' ~6,935, Heytea's ~4,252 and Haidilao's ~7,762, as at Mar 2021. Note that Nayuki only has a history of roughly 7 years and its achievements now are already very impressive.

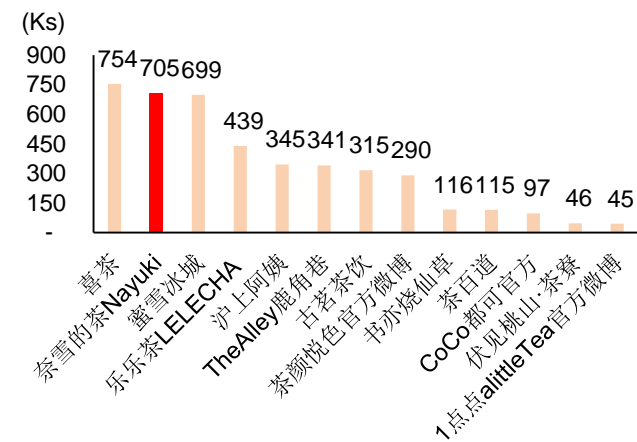
Also, in terms of mind share, 24% of customers recognize Nayuki as an industry leading tea drink brand, just behind Heytea but far more famous than the No.3-5, according to the Frost & Sullivan's survey in 2020.

Figure 21: Baidu Index, by brand



Source: Baidu Index, CMBIS estimates, as at Mar2021

Figure 22: Number of fans on Weibo, by brand



Source: Weibo, CMBIS estimates, as at Mar2021

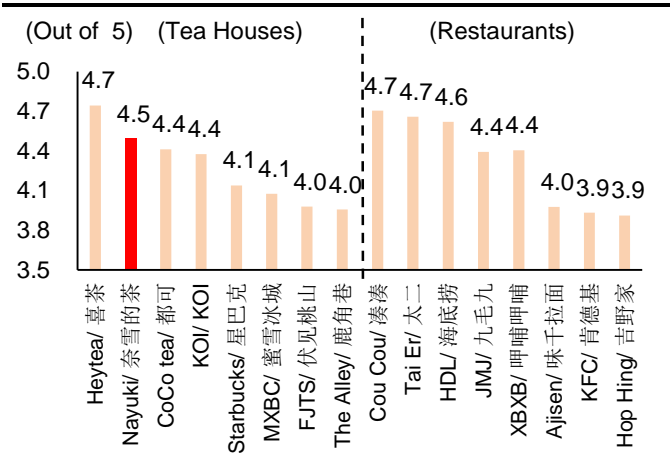
1.2 Top class price to quality, supported by R&D and supply chain capability.

On top of branding, Nayuki's product quality is also industry leading. According to dianping.com, customer rating, in terms of taste, Nayuki's products scored 4.5 out of 5 (slightly behind Heytea's 4.7, but far better than Starbucks' 4.1) as at Mar 2021. Again, this is also comparable to those leading brands (CouCou's 4.7, Tai Er's 4.7 and Haidilao's 4.6).

We believe such a high rating was the result of fine quality of products and its ingredients, evidenced by a high COGS at 37% of sales, compared to peer' average of 35% and Starbucks' 32%. According to 36kr's industry report in 2019, top 3 factors that customers would consider before purchasing are: 1) texture, 2) food safety, 3) variety of drinks, and these are clearly the focuses for premium brands like Nayuki.

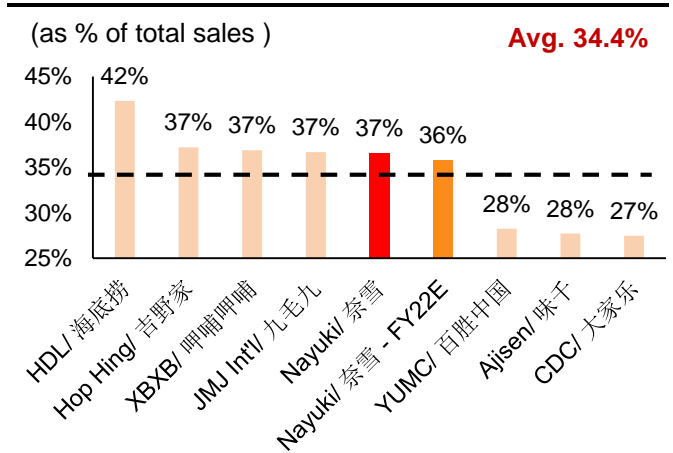
We believe consumers would have an increasing desire for a better lifestyle in the future (as the major consumer age group shifts to the 80s, 90s and 00s and the supply of premium products continues to increase in the market), and Nayuki is in a perfect position to gain bigger market shares in the future.

Figure 23: DianPing customer ratings - taste, by brand



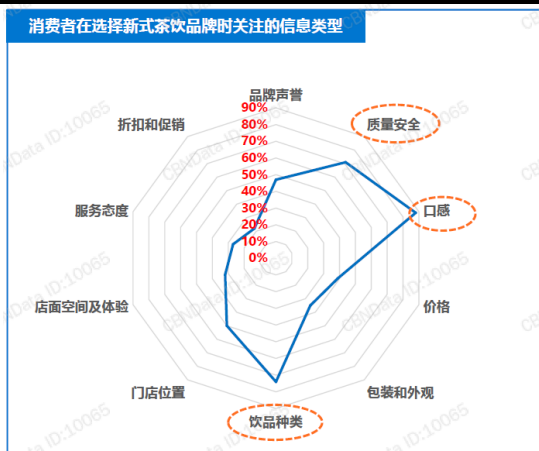
Source: www.dianping.com, Average score of restaurants in BJ, SH, SZ and GZ (max 30 restaurants counted per city, ranked by numbers of comment), Company data, CMBIS estimates, as at Mar2021

Figure 24: COGS, by group, FY19



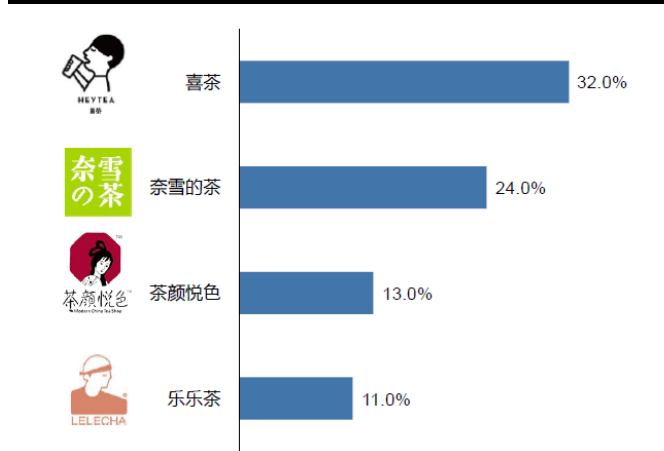
Source: Company data, CMBIS estimates

Figure 25: Factors influencing the purchase, 2019



Source: 36kr/ 36 氪研究院, CMBIS estimates

Figure 26: Customer's mind shares, by brand, 2020



Source: Frost & Sullivan, CMBIS estimates

Moreover, apart from top-quality ingredients, Nayuki's innovation power is another key weapon for it to stay competitive. Nayuki is highly committed to innovation and will continue to update its menu and introduce new products, with a pace of about one new drink launched every week on average and had about 60 seasonal product launches since FY18. Note that this frequency of product launches is comparable to Heytea and should be fairly industry leading, in our view.

Figure 27: Nayuki's new SKUs introduced in 2020

	茶饮	烘焙	新零售
1月	春节限时特调酒单5款 (BlaBlaBar) 燃爆菌 (可选择加入饮料)		
3月	2020版霸气葡萄 奈雪清欢乌龙宝藏茶	大师手作吐司系列3款 咸蛋黄肉松青团包 红豆爆爆珠青团包 流沙芝麻青团包	宝藏奶茶DIY礼盒
4月	樱花宝藏茶 杨枝甘露宝藏茶 美式咖啡 (早餐搭配) 拿铁咖啡 (早餐搭配) 劲观音春茶 (早餐搭配) 金色山脉宝藏茶+0卡糖 霸气杨梅 霸气酸奶杨梅	马卡龙花生生日蛋糕 仙女塔生日蛋糕 蜜桃乌龙生日蛋糕 粉色心语生日蛋糕 蜜汁鸡腿肉三明治 黑椒植物肉三明治 土豆芝士蛋三明治	
5月	葡萄魔法棒 霸气荔枝 蓝水火焰 (BlaBlaBar) 抱抱杯包装 (包装)	脏脏家族新升级-脏脏王 脏脏家族新升级-抹茶王 大师手作经典蛋挞 手撕生吐司 黑糖核桃布里奥斯 三重爆浆芝士包 抹茶柚子干层	粽子礼盒2款 冻干水果酸奶块3款 冻干水果系列2款 宇治玉露冷泡茶
6月	升级金色山脉QQ宝藏茶 夏日微醺柠檬茶 (BlaBlaBar) 霸气芝士水蜜桃	北海道云朵吐司	噗吡鲜果汽泡茶4款 (包括荔枝汽泡茶) 金色山脉QQ奶茶 腊梅凝香冷泡茶 腊梅凝香铁罐茶礼盒 神仙爆汁宝藏粽子3款 噗吡柠檬汽泡茶 噗吡水蜜桃汽泡茶 创意美妆套 (化妆品)
7月	霸气桃桃莓 霸气车厘子 霸气芝士车厘子	水蜜桃大福 水蜜桃千层 水蜜桃泡芙 水蜜桃魔法棒	葡萄冰淇淋 奈雪xVOSS联名限量冷泡茶2款 快乐小圆饼2款
8月	霸气绿宝石瓜 霸气好椰		故宫月饼礼盒2款 栀白染夏茶礼盒 噗吡西柚汽泡茶新
9月	厚厚豆乳宝藏茶 微醺限定酒单3款 霸气红石榴 霸气酸奶红石榴 黑糖珠珠宝藏茶 葡萄冻撞撞宝藏查	螺蛳粉软欧包 千层CP 2款 藤椒鸭脖包 肉松麻薯吐司	薯条俱乐部 2口味 金桂知秋茶礼盒 葡萄撞撞小小瓶
10月	好大一瓶宝藏茶	梅菜花花 (奈雪梦工厂特供) 白芝麻双肠 (奈雪梦工厂特供) 黑芝麻培根 (奈雪梦工厂特供) 脆弱蛋挞	水果乌龙茶礼盒伏夏葡萄 抹茶红豆宝藏茶 (小小瓶)
11月	蜜桃撞撞宝藏茶 PRO 发布会奈雪咖啡 7款 奈雪PRO 燕麦咖啡	PRO 发布会杯子蛋糕 PRO 发布巴斯克乳酪蛋糕 PRO 发布红酱脆肠佛卡夏 PRO 发布厚芋泥卷卷 PRO mini软欧包	PRO 发布芋泥肉松罐子 可可麦芽宝藏杯
12月	霸气生日草莓 冰博克草莓撞撞宝藏茶 超厚芋泥宝藏茶	草莓千层 圣诞限定版草莓魔法棒	圣诞限定冻干酸奶 圣诞限定伏夏葡萄茶礼盒 谜之奈雪礼物盒零食 谜之腰果全家福盲盒装 福气素肉 一周好茶圣诞限量版

Source: Wechat official account, Weibo, CMBIS estimates

Another important move by Nayuki is the opening of the Fantasy Factory. It is a super large sized flagship store of 700 sq.m, which is not only aiming to promote a trendy and fashionable tea culture in China, but also working as a R&D centre for the brand. The store itself can cater for over 1,000 SKUs, which is able to conduct test launches for many of the new products, and can collect real-time customer feedback, which is highly helpful for improving product quality and boosting initial customer acceptance.

Figure 28: Nayuki's Fantasy Factory in Shenzhen



Source: Company data, CMBIS

On top of massive sales network and R&D capability, we believe Nayuki, as an industry leader with a larger scale, would have the later-mover advantage. That said, it is able to identify hot-selling products in the industry (even launched first by other competitors) and launch some similar products rapidly, in order to capture the trending consumer demand.

Figure 29: Dedication on supply chain and sourcing quality

Raw materials	Sourcing policy
Tea leaves	<p>Nayuki sources quality tea leaves directly from reputable third-party tea farms, rather than using tea powders. For example, we have entered into a multi-year partnership with a Taiwanese premium tea farm through its exclusive authorized agent, securing the supply of the award-winning Alishan Mountain Dew Tea.</p> <p>On-site visits to the tea farms to select fresh tea leaves are usual and those tea leaves will be further processed by manufacturing partners according to the Company's specifications.</p>
Fresh fruits	<p>As fresh fruits usually have shorter shelf lives, Nayuki directly collaborates with local farming communities to ensure freshness and flavor.</p> <p>Additionally, through the partnerships with reliable import traders with broad global footprints, Nayuki have access to imported fruits throughout a year. For example, cherries sourced from Chile, green grapes from Peru and grapefruits from Israel, among others, are ingeniously used in the assorted tea drinks to offer customers a consistently enjoyable and refreshing tea-drinking experience.</p>
Dairy products	<p>Nayuki only uses premium dairy products in our tea drinks and baked goods. In particular, we use imported cream for preparation of our handcrafted baked goods.</p> <p>To maintain its freshness and quality, fresh milk used in our products is delivered to our teahouses every two or three days.</p>
Fresh fruit juices	<p>Nayuki sources fresh fruit juices to our exacting flavor standards from selected third-party suppliers to concoct our freshly-made tea drinks.</p> <p>To better control the procurement costs and secure the desired flavor of our tea drinks, the Company started to directly partner with qualified juice factories in April 2020 to process quality fruits into fresh fruit juices catering to our specific demands.</p>

Source: Company data, CMBIS estimates

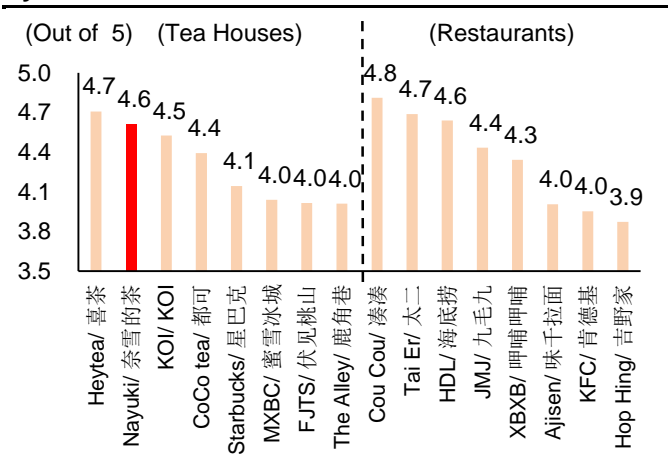
■ **1.3 Superior customer experience and teahouse design to capture social interaction demand.**

Store environment and services are also the key factors for overall customer satisfaction. We believe Nayuki is also among the best in the industry in these areas because of its management principle, where its founders deeply value the importance of customer experience and branding content, not only the price factor, discounting or promotions.

In order to cater for the social interaction demand of Chinese consumers, Nayuki’s teahouses are uniquely designed with artistic elements, spacious, modern furniture, decorations, lighting and background music, to reflect a warm, comfortable and relaxing ambiance that associated with the core Nayuki brand values. According to dianping.com, Nayuki has a very industry leading score of 4.6 out of 5, in terms of customer rating on restaurant’s environment, just slightly lower than Heytea’s 4.7 and way better than Starbucks’ 4.1 as at Mar 2021.

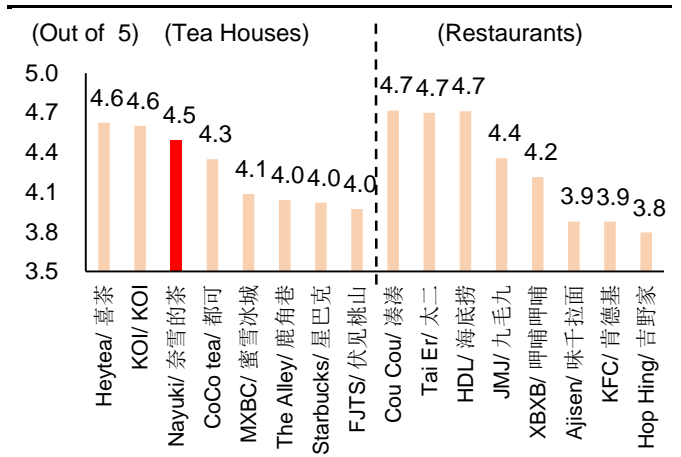
Similarly, Nayuki also scored 4.5 out of 5, in terms of customer rating on services, compared to Heytea’s 4.6 and Starbucks’ 4.0. We attribute this excellent score in the industry to the Company’s dedications on services level, which the customer satisfaction actually makes up 65% of its store’s KPI.

Figure 30: DianPing customer ratings – environment, by brand



Source: www.dianping.com, Average score of restaurants in BJ, SH, SZ and GZ (max 30 restaurants counted per city, ranked by numbers of comment), Company data, CMBIS estimates, as at Mar2021

Figure 31: DianPing customer ratings – services, by brand



Source: www.dianping.com, Average score of restaurants in BJ, SH, SZ and GZ (max 30 restaurants counted per city, ranked by numbers of comment), Company data, CMBIS estimates, as at Mar2021

Moreover, even though Nayuki was only founded in 2015, 3 years later than Heytea (back in 2012) and 16 years after first Starbucks store in China (back in 1999), its re-owned brand power has helped it to penetrate into 28 top shopping malls in China (ranked by GMV) out of 50, as at Dec 2020. According to our research and Baidu Map, Nayuki had already penetrated into 30 as at Mar 2021, similar to Heytea’s 32 and just behind Starbucks’ 45.

Since the number of beverage shops tends to be fairly limited in these prime, premium and upscale shopping malls, chances of other smaller brands to penetrate might become slim (Since Nayuki, Heytea and Starbucks already entered). In other words, the leading reputation and position in the industry that Nayuki has already established, would made it easier for it than other brands to open stores and better negotiate rental terms in other shopping malls in China onwards.

Figure 32: Penetrations in the top 50 shopping malls in China, Mar 2021

Rank	Names of the mall	2019 Sales	2020 sales	Nayuki/ 奈雪的茶	Heytea/ 喜茶	Starbucks/ 星巴克
1	北京SKP	153亿元	175亿元	0	0	0
2	南京德基广场	122.4亿元	156亿元	0	1	0
3	北京国贸商城	117亿元	160亿元	0	0	1
4	上海国金中心IFC	88亿元	110亿元	0	0	1
5	武汉武商摩尔城	95亿元	100亿元	1	1	0
6	上海环球港	98亿元	超100亿元	1	0	2
7	深圳万象城	90亿元	100-125亿元	0	1	1
8	上海恒隆广场	60亿元	约100亿元	0	0	2
9	西安赛格国际	85亿元	95-105亿元	2	1	1
10	成都IFS	68亿元	82.6亿元	1	1	2
11	杭州大厦	90亿元	80亿元	1	0	0
12	广州太古汇	59亿元	约80亿元	0	0	1
13	广州正佳广场	78亿元	75-85亿元	1	0	1
14	成都远洋太古里	66亿元	73亿元	0	0	2
15	长沙IFC	50亿元	近71亿元	2	1	2
16	郑州丹尼斯大卫城	61.5亿元	70.1亿元	1	1	1
17	三亚海棠湾	80亿元	70-100亿元	0	0	1
18	杭州滨湖银泰in77	52亿元	65亿元	1	2	2
19	宁波天一广场	55亿元	60-70亿元	1	0	4
20	沈阳万象城	55亿元	65亿元	1	1	1
21	南京中央商场新街口店	65亿元	55.4亿元	0	1	2
22	杭州武林银泰	55亿元	50-60亿元	0	0	1
23	广州天河城	58亿元	50-60亿元	0	1	1
24	杭州万象城	45亿元	51亿元	1	1	2
25	南宁万象城	46亿元	50亿元	1	1	1
26	深圳壹方城	45.3亿元	50亿元	1	1	2
27	北京世纪金源购物中心	64.5亿元	48.38亿元	0	1	3
28	北京朝阳大悦城	45亿元	45-55亿元	1	1	0
29	上海青浦百联奥特莱斯广场	49.6亿元	46.5亿元	0	0	1
30	杭州城西银泰城	46.59亿元	45-50亿元	1	1	2
31	南京新街口金鹰	35亿元	45亿元	1	0	1
32	深圳万象天地	38.5亿元	42-50亿元	1	0	1
33	北京西单大悦城	43亿元	40-48亿元	1	1	2
34	青岛海信广场	40.52	46.8亿元	0	1	1
35	上海五角场万达广场	50.4亿元	43亿元	1	1	3
36	上海港汇恒隆广场	25亿元	43亿元	0	1	3
37	南京新百中心店	48亿元	42.59亿元	0	0	1
38	厦门SM	35-40亿元	40亿元	1	1	2
39	深圳益田假日广场	37.5亿元	40.1亿元	1	1	1
40	深圳海雅缤纷城	35亿元	40亿元	1	1	2
41	上海环贸APM	36亿元	40亿元	0	1	2
42	深圳印力中心	35.5亿元	39.13亿元	1	1	1
43	深圳海岸城	36.6亿元	38.8亿元	1	1	2
44	重庆龙湖北城天街	32亿元	38亿元	1	1	2
45	北京三里屯太古里	43亿元	35.26亿元	0	1	1
46	北京朝阳合生汇	30.5亿元	35亿元	0	0	1
47	厦门万象城	25亿元	30-40亿元	1	1	1
48	重庆万象城	30亿元	34亿元	2	1	2
49	上海新天地	26亿元	30亿元	1	1	1
50	宁波鄞州万达广场	29.8亿元	30亿元	1	0	1
	Number of Stores			33	33	71
	Number of malls penetrated			30	32	45

Source: Shangretail/ 商智库, Baidu map, www.dianping.com, CMBIS estimates

2) PRO stores to unlock customer coverage and boost efficiency.

We believe the smaller sized PRO stores can provide a similar but still high quality dining experience for more customers in more suitable locations (e.g. office buildings and residential area) in China, generate higher efficiency and profit margins (vs regular stores).

■ 2.1 PRO store aims to provide more SKUs, be more efficient and cover a greater customer base.

In Nov 2020, Nayuki had launched a new teahouse format Nayuki PRO, with the goal to bring Nayuki closer to the customer's everyday life.

The Nayuki PRO store has:

- 1) a better store design, such as separating the ordering and pickup area, to provide a faster meal ordering and food preparation process,
- 2) longer opening hours, from 8:30 to 21:30, including the breakfast timing,
- 3) widened SKUs, adding more choices of coffee, desserts, gifts and other retail product,
- 4) a reduced size, as on-site baking area is removed and baked goods will be made and delivered from central kitchens.

Figure 33: Better functions



Source: Wechat official account, Company data, CMBIS

Figure 34: More SKUs



Source: Wechat official account, Company data, CMBIS

And the Company will be able to:

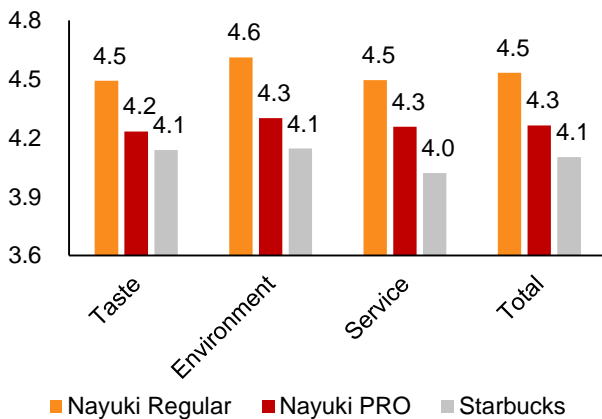
- 1) achieve a broader customer reach, by opening more stores in office buildings, centres of residential neighbourhoods, because suitable locations to open a PRO stores are much easier to find, than the regular stores, as they do not have on-site baking area (increase total store numbers),
- 2) sell more types of SKUs, not just selling tea drinks and baked goods, but also more coffee and desserts offerings, as well as greater variety of gifts and other retail products (increase ASP by products cross-selling and items per ticket),
- 3) reduce rental, staff and D&A expenses, as the store size can be reduced to 80-200 sq m, vs regular store's 180-250 sq m, the average number of staffs may be lessened to 10-15, vs regular store's 20-25 and the capex per store will only be RMB 1.25m, much less than regular store's RMB 1.85mn (driving up profit margin).

■ **2.2 Competitive sales per sq sm and margin with no compromise of customer rating.**

Even though there are not many Nayuki PRO stores available right now (14 Nayuki stores, as at Feb 2021), the Company targets to open a lot more in the coming years (at least 70% of new stores will be in Nayuki PRO format). Therefore, whether or not this store format can become successful will be highly critical for Nayuki’s future growth.

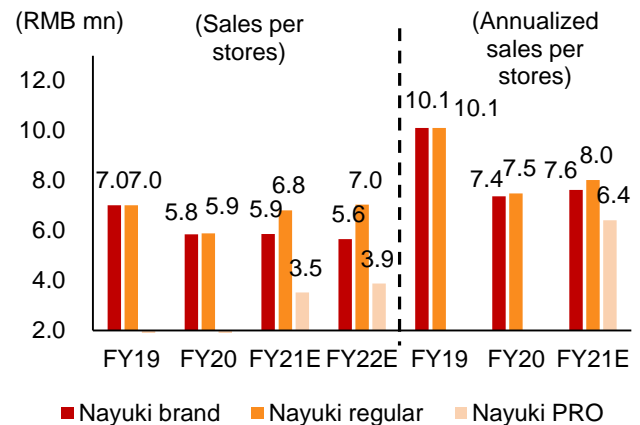
And the feedback so far, based on customer rating on dianping.com, is rather positive. For the current 14 stores under our observation, as at Feb 2021, the scores on taste/ environment/ services are still rather high at 4.2/ 4.3/ 4.3, which are still better than Starbucks’, just slightly below Nayuki regular’s and stayed industry leading.

Figure 35: Customer rating for PRO vs regular store



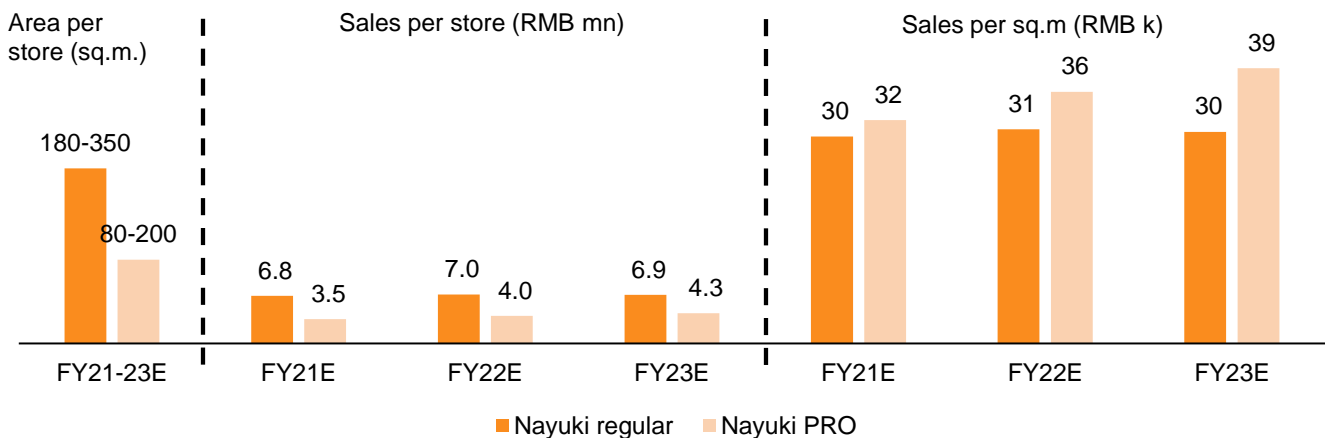
Source: www.dianping.com, Company data, CMBIS estimates, as at Mar2021

Figure 36: Sales per store, by brand segment



Source: Company data, CMBIS estimates

Figure 37: Sales area, sales per store and sales per sq.m, by Nayuki PRO and regular store



Source: Company data, CMBIS estimates

Figure 38: Comparison between Nayuki PRO and Nayuki regular store

Store format	Nayuki Regular	Nayuki PRO
Locations		
Targeted locations	High-end shopping malls	1) High-end shopping malls 2) Office buildings 3) Centre of residential areas
Number of stores (as at Feb 2021)	493	14
Future expansion plans	Targeting ~30% of ~300/ 350 new stores in FY21E/ 22E	Targeting ~70% of ~300/ 350 new stores in FY21E/ 22E
Operations		
Opening hours	10:00 - 22:00	08:30 - 21:30
Area	180-350 sq.m	80-200 sq.m
Store functions	Spacious dining area with on-site bakery section	Spacious dining area without on-site bakery section
SKUs	1) Tea drinks 2) Baked goods 3) Snacks 4) Gift and retail products	1) Tea drinks 2) Baked goods 3) Coffee, 4) Snacks (more choices) 5) Gift and retail products (more choices)
Number of staffs	20-25	10-15
Capex per store	RMB 1.85mn	RMB 1.25mn
Financials (CMBI est.)		
Orders per store per day	600-700	360-420
Average sales value per person	RMB 40-45	RMB 45-50
Sales per store per year	RMB 9.0-11.0mn	RMB 5.4-6.6mn
GP margin	62-63%	63%-65%
Staff costs, as % of sales	20%	17%
Rental expenses, as % of sales	15%	10%
Store level OP margin	15%-25%	25%-35%

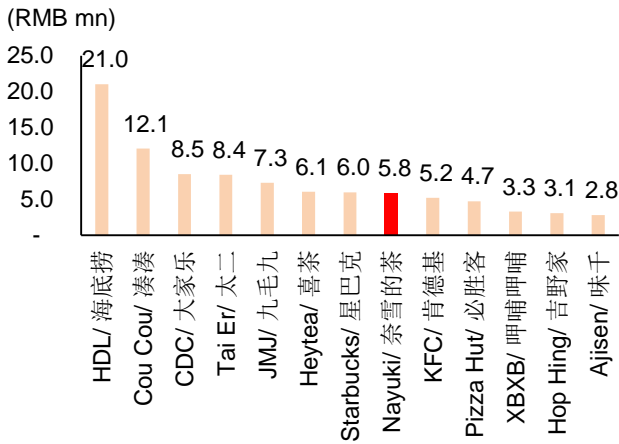
Source: www.dianping.com, Company data, CMBIS estimates

Even though Nayuki PRO's sales per store may be lower than Nayuki regular's, due to:
1) fewer prime locations available for expansion and penetration into more office buildings and residential areas (where the daily traffic may be lower) and

2) rapid increase in store numbers (potential cannibalization from both new Nayuki PRO and regular stores).

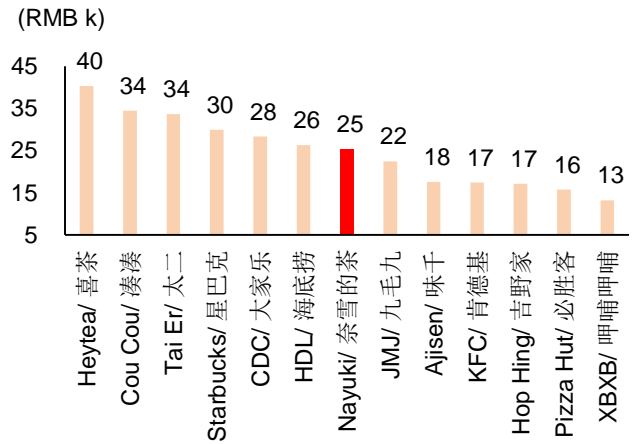
But we still believe Nayuki PRO's overall sales per sq m could still lead the peers, thanks to the reductions in store area, savings in rent and smaller size of capex.

Figure 39: Sales per restaurant, by brand, FY20



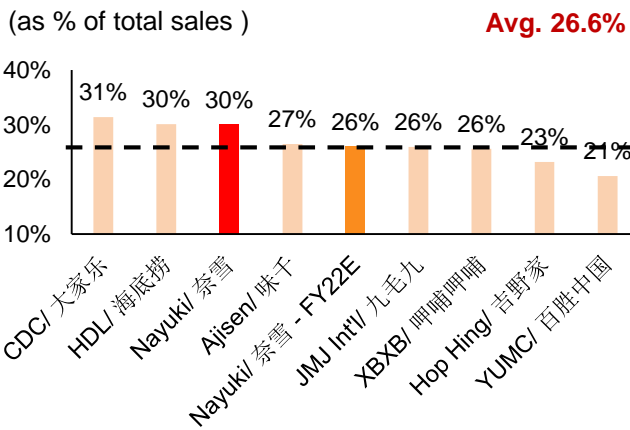
Source: Company data, CMBIS estimates

Figure 40: Sales per sq m per year, by brand, FY20



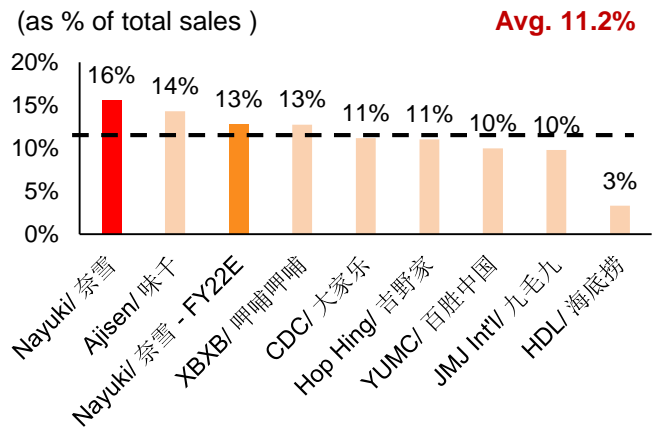
Source: Company data, CMBIS estimates

Figure 41: Labour costs, by brand FY19



Source: Company data, CMBIS estimates

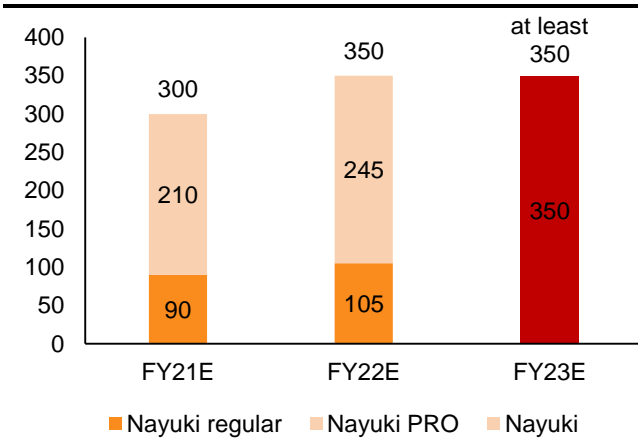
Figure 42: Rental costs, by brand, FY19



Source: Company data, CMBIS estimates

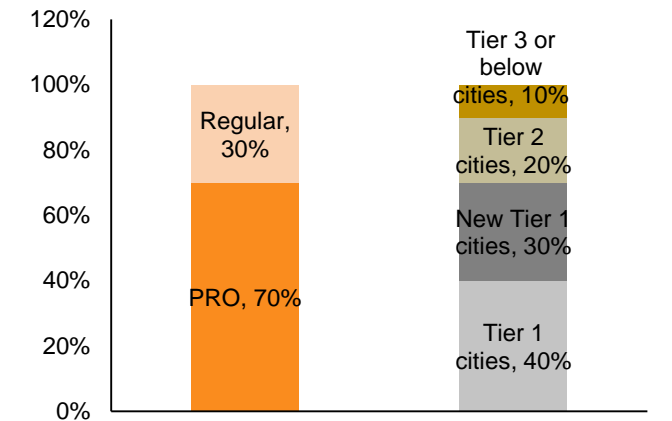
■ **2.3 Nayuki has ample room for expansion, but also for PRO stores particularly.**
We believe there exist loads of room for Nayuki to expand its current store network, and the potential would be even bigger for the PRO format stores.

Figure 43: Store opening target



Source: Company data, CMBIS estimates

Figure 44: Store opening mix target in FY21E-22E, by types and city



Source: Company data, CMBIS estimates

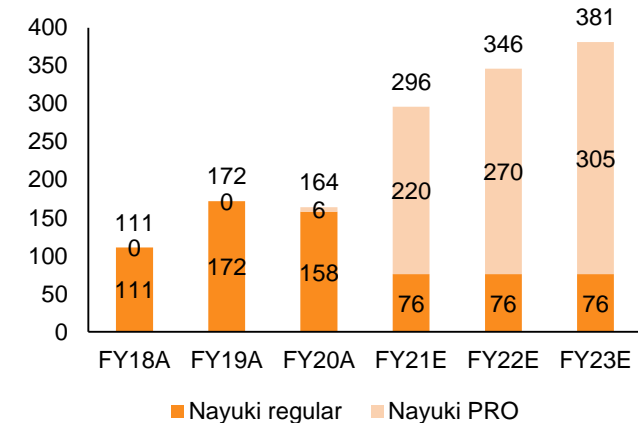
1) There is certainly room for more tea shops in China, as the penetration is still low, only ~240 stores per 1mn population, which is still below Hong Kong's ~470 and Taiwan's ~770, or even Shenzhen's ~1,230 and Guangzhou's ~1,290.

2) Even though the coffee market sales in China (~RMB 69bn) was lower than the tea market sales (~RMB 413bn) in 2019, Starbucks was able to have ~4,700 stores and generated ~RMB 28.0bn sales in FY20, which is already 10x higher than Nayuki's ~490 stores and Nayuki's ~RMB 2.9bn sales in FY20. But still, Starbucks is expanding rapidly in FY21E with a new store target of 600 (~13% YoY growth).

3) The room for expansion can be unlocked by the PRO stores, thanks to its lower opening requirement, as it would not need a large size kitchen that can equip an on-site bakery.

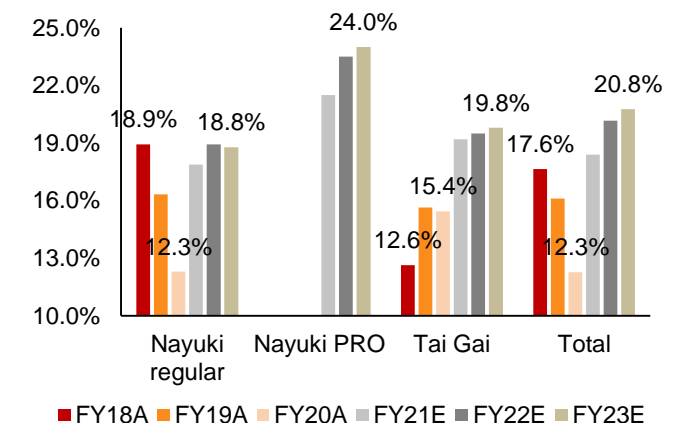
4) Most of the Nayuki stores are currently at high-end shopping malls, while the presence in office buildings and residential area is limited. Given a lower capex and breakeven threshold for the Nayuki PRO stores (vs Nayuki regular), the room for expansion is further widened, in our view.

Figure 45: Number of net new stores, by types



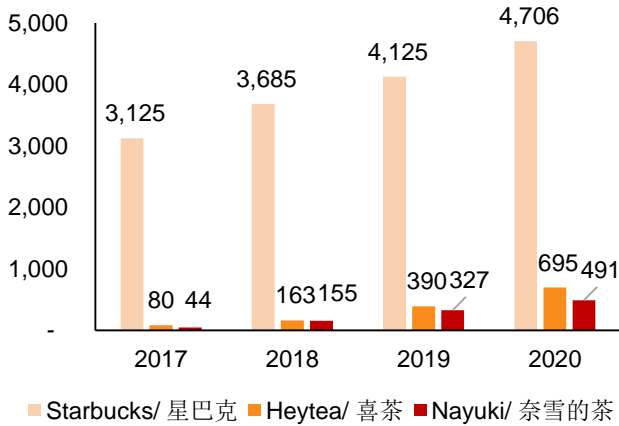
Source: www.dianping.com, Company data, CMBIS estimates

Figure 46: Nayuki regular vs PRO store OP margins



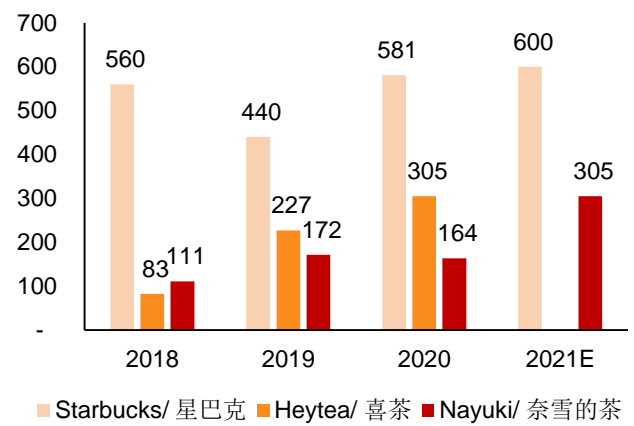
Source: Company data, CMBIS estimates

Figure 47: Number of stores, vs competitors



Source: Company data, CMBIS estimates

Figure 48: Number of new stores, vs competitors



Source: Company data, CMBIS estimates, based on Starbucks' FY21E guidance

There are also potential to expand overseas, given the size of population that has a habit of tea drinking, no matter they are Chinese, Asian or even European. Taking Starbucks as a reference, number of stores in Singapore/ Hong Kong/ Japan are as high as 147/ 179/ 1,464 in FY20. Nayuki opened a store in Osaka, Japan in 2019, which has a rather positive customer feedback. Nayuki has also opened its first store in Hong Kong, at the peak in HK Island, which was rather successful, as it was profit making in 2020, even with headwinds like COVID-19. We do expect the Company to further expand overseas and there are potentially new stores in New York, TST in Hong Kong, etc.

Figure 49: Nayuki store in Japan, opened in 2020



Source: Company data, CMBIS

Figure 50: Nayuki store in HK, opened in 2019



Source: Company data, CMBIS

■ **3.3 Plenty of room for expansion, we expect 796/ 1,141/ 1,516 stores in FY21E/ 22E/ 23E.**

Before assessing the potential market capacity for Nayuki (in terms of store numbers), we would like to emphasize that sales from premium teahouse in FY20 was RMB 12.9bn, which is only 19% of total sales from freshly-made tea drink shops and only 0.33% of total China catering sales. Hence, there is ample room for growth in the future.

Our estimates of the potential store coverage for Nayuki (including both regular and PRO stores) are based on different types of methods: 1) Peer comparison, 2) City penetration, 3) Baidu Index density and 4) Stores per population and purchasing power.

Figure 51: 2,939 teashops – Our estimates for market capacity of Nayuki in China in FY21E

Method	Est. number of teashops	Basis for calculation
1 By Peers comparison	2,696	Using those more established peers as reference, and adjusting for price point.
2 By City penetration and store density	2,724	Using number of city penetrated by peers as reference as well as its store density per city, and apply a reasonable ratio for the brand.
3 By Baidu index popularity	1,520	Using Baidu search index's score over number of stores for its key competitor and apply it to the brand.
4 By purchasing power and population	4,817	Using GDP per store of Tier cities and population per store of Tier cities as reference, then adjusting for income per capita of different cities and plug in a reasonable ratio for the entire China.
Average	2,939	

Source: Company data, CMBIS estimates

Method 1: ~2,696 stores based on industry average based on peers comparison.

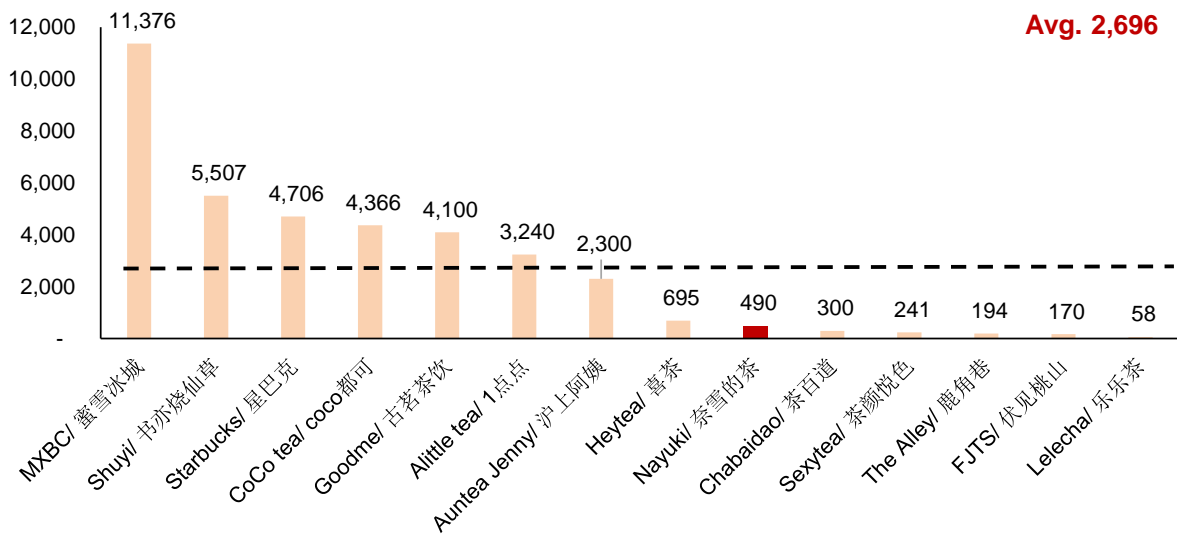
Firstly, we may refer to low-end pricing peers (with ASP of ~RMB 7.0) like MXBC, whose store number can reach as high as 11,000. If we adjust for Nayuki’s ASP of ~RMB 33, the potential number of stores for Nayuki may reach ~2,400.

Secondly, we may also refer to peers with positioning and pricing (e.g. Starbucks, with ASP of ~RMB43) and adjusted for purchasing power, then a fair number can be as high as ~6,100.

Thirdly, if we take the beverage brand peers as a group, the average would be at ~2,700.

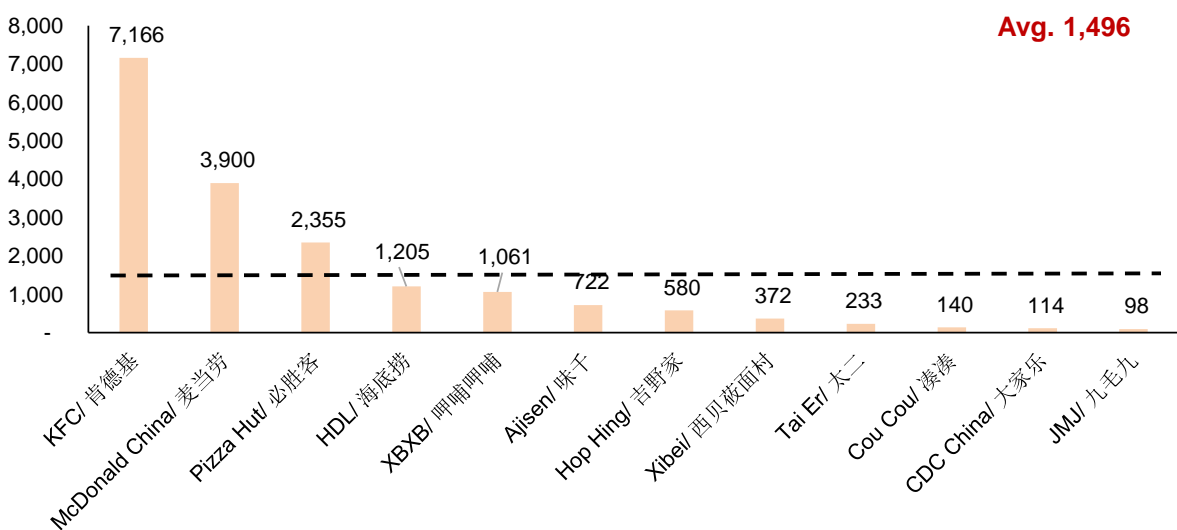
If compared to the major restaurant brand peers with a mid to high-end positioning (ASP ranging from RMB 40-130), the average would be ~1,500.

Figure 52: Store number comparison – beverage brands, as at 2020



Source: Company data, CMBIS estimates

Figure 53: Store number comparison – restaurant brands, as at 2020

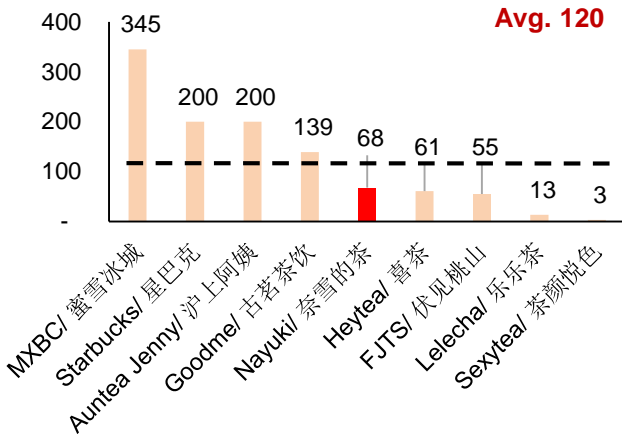


Source: Company data, CMBIS estimates

Method 2: ~2,724 based on city penetration (120) and store density per city (22.7).

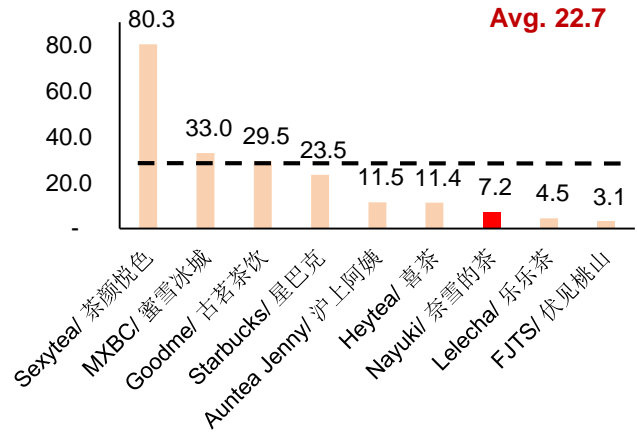
If we look at stores per city, the average for beverage brands is 23, and if we plug in the average number of cities penetrated, at 120, we could deduce to a potential of 2,700-2,800. In addition, if we believe density rate can be similar to Heytea's 11 or Starbucks' 23, then based on a 200 cities coverage, the potential store numbers can even reach 2,200 or 4,600 respectively.

Figure 54: Cities penetrated, by brand, FY20



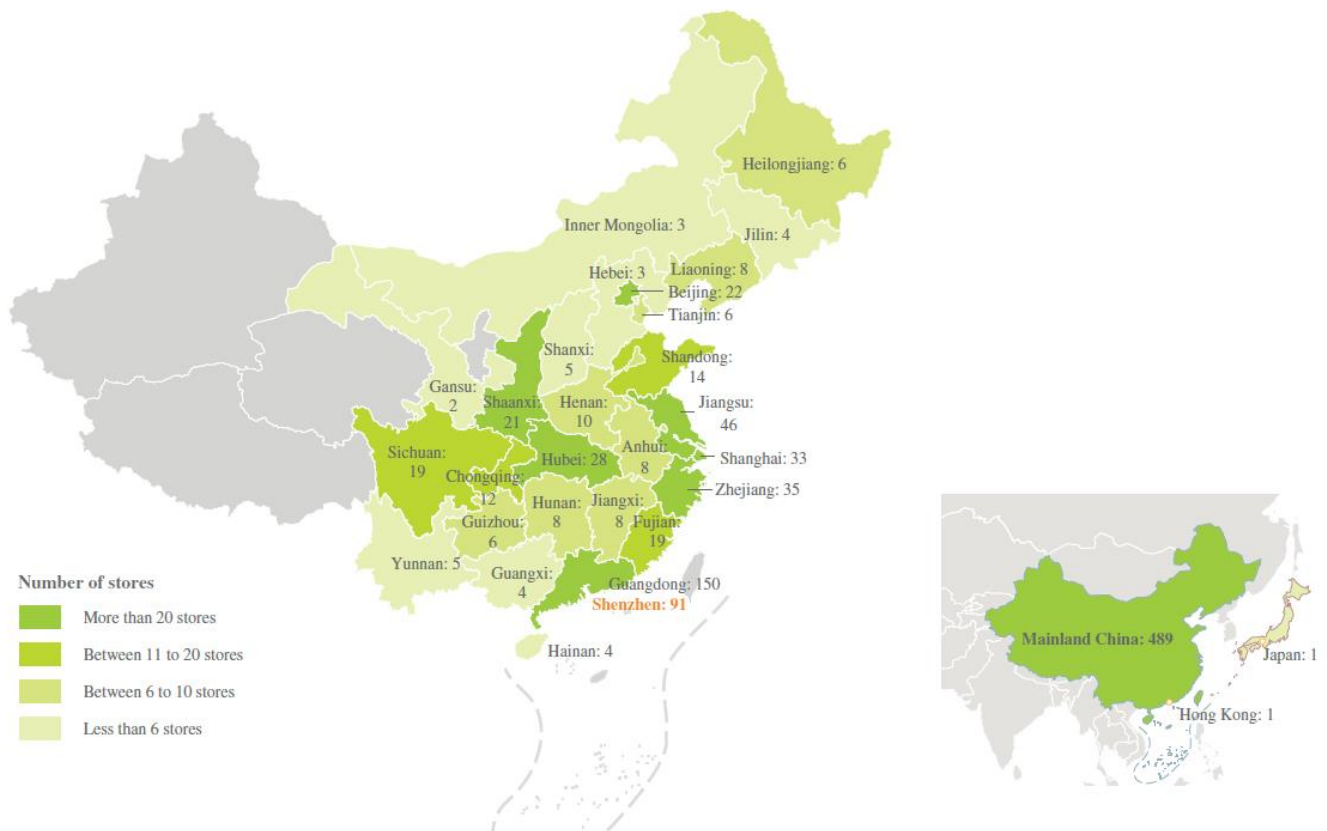
Source: Company data, CMBIS estimates

Figure 55: Stores per city, by brand, FY20



Source: Company data, CMBIS estimates

Figure 56: Nayuki's stores network , by region



Source: Company data, CMBIS

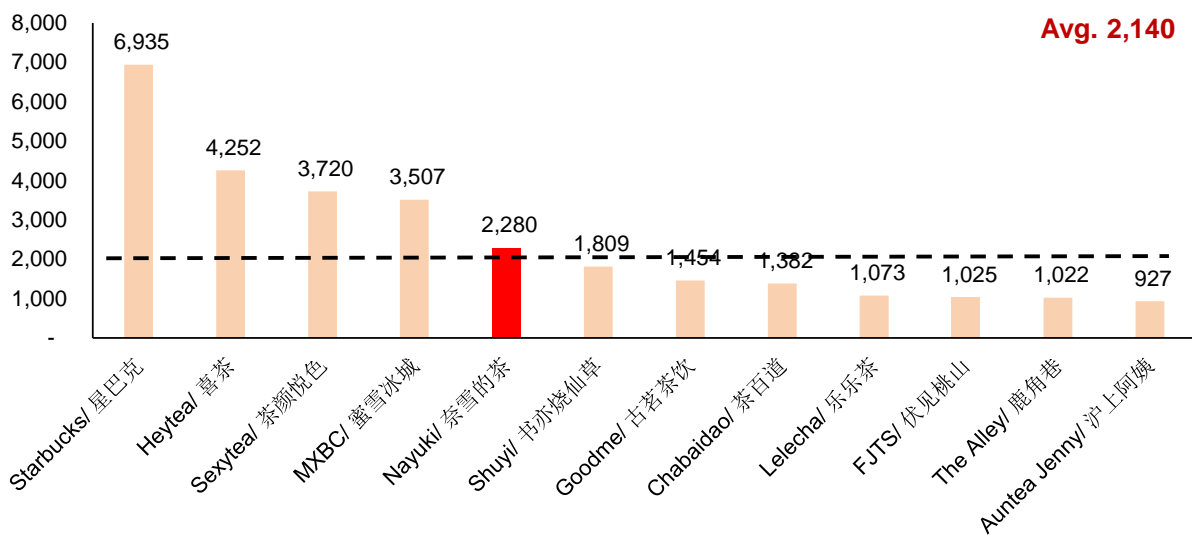
Method 3: ~1,520 based on Baidu Index.

We might also look at the store potential based on brand popularity (in terms of Baidu Index). If we compare the Baidu Index with the number of stores for different brands in China, we do find a positive correlation between the two.

For a normal beverage brand, the average ratio for Baidu Index over number of stores is ~4.5. Based on Nayuki's score of 2,280, the store potential deduced is ~506, however, we believe this number can still go up, as it step up investments on branding. If we refer to Starbucks' 1.5x, which is more reasonable, the store potential for Nayuki should be ~1,520.

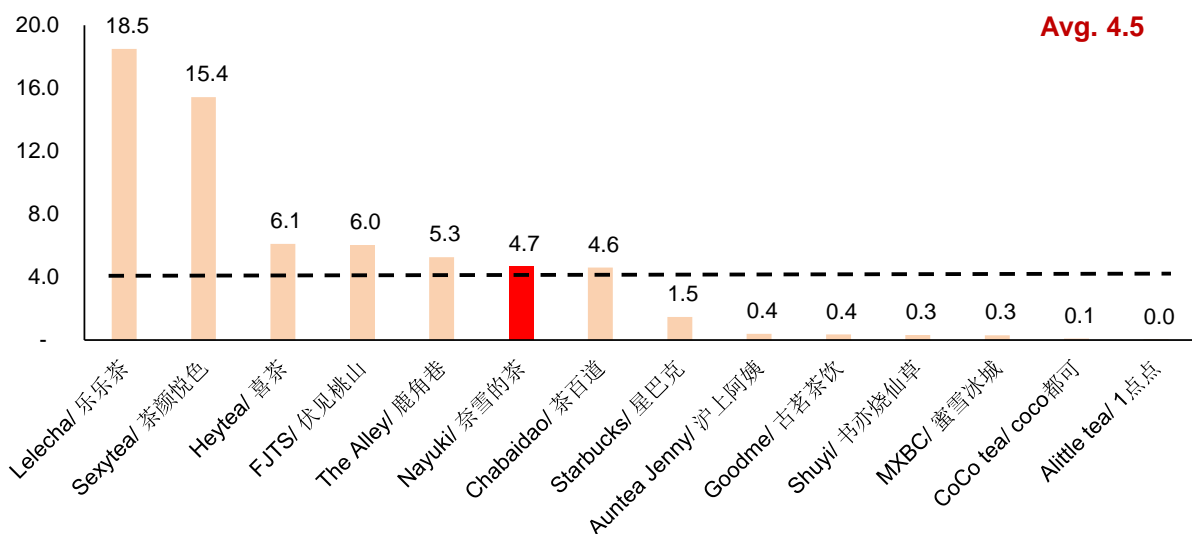
For a normal restaurant brand, the average ratio for Baidu Index over number of stores is ~2.6. This implies the ratio for Nayuki of ~4.7 is rather high, meaning it is still underpenetrated. Based on 2.6x and a similar Baidu Index for Nayuki, the store potential should be ~900.

Figure 57: Baidu index, by beverage brand, as at Mar 2021



Source: Baidu Index, Company data, CMBIS estimates

Figure 58: Ratio between Baidu index and number of stores, by beverage brand, as at Mar 2021



Source: Baidu Index, Company data, CMBIS estimates

Nayuki will have 3,269/ 9,709/ 9,865/ 42,268 stores if we benchmark Nayuki China tier 1 cities/ Nayuki Shenzhen/ Starbucks tier 2 cities/ Sexytea Changsha.

We can also test the market potential (max number of stores) for Nayuki, based on the store density in different regions.

We believe the current number of stores in China (490 in FY20) is greatly underpenetrated for Nayuki, because:

1) Nayuki store density in the entire China is only 0.3 stores per 1mn population, which is lower than Heytea's 0.5 and Starbucks' 3.3;

2) Store density in tier 1 cities in China is also low, only at 2.3 stores per 1mn population, vs Heytea's 4.7 and Starbucks' 21.3. We may also refer to the density for developed area such as Starbucks Japan's 11.6, Taiwan's 21.1, Hong Kong's 23.8 and South Korea's 28.7;

3) Penetration within all four tier 1 cities is not that even as well, e.g. Nayuki already has a density of 6.8 stores in Shenzhen, compared to just 1.6/1.4/ 1.0 in Guangzhou/ Shanghai/ Beijing. Such a difference also applies to Starbucks, as its density is 32.0 in Shanghai, compared to just 16.1/ 13.4/ 18.0 in Shenzhen/ Guangzhou/ Beijing, all implying more room for potential growth;

4) One of the impressive examples is Sexytea in Changsha, where Sexytea's store density reaches 29.5 stores per 1mn population. We may adjust slightly at RMB 17 due to its lower ASP, comparing to Nayuki's 33, but still this kind of penetration is simply astonishing.

Figure 59: Store density (per 1 mn population) in FY20, by region

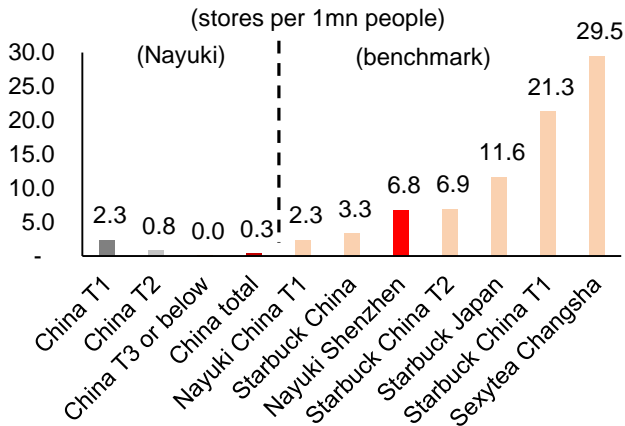
	Number of stores			Population (mn)	Stores per 1mn population		
	Nayuki	Heytea	Starbucks		Nayuki	Heytea	Starbucks
Shenzhen	91	114	216	13.4	6.8	8.5	16.1
Guangzhou	24	71	205	15.3	1.6	4.6	13.4
Shanghai	33	101	777	24.3	1.4	4.2	32.0
Beijing	22	65	387	21.5	1.0	3.0	18.0
China T1	170	351	1,585	74.6	2.3	4.7	21.3
China T2	292	304	2,578	374.7	0.8	0.8	6.9
China T3 or below	28	40	543	984.5	0.0	0.0	0.6
China	490	695	4,706	1,433.8	0.3	0.5	3.3
South Korea			1,468	51.2			28.7
Singapore			147	5.8			25.3
Hong Kong			179	7.5			23.8
Taiwan			501	23.8			21.1
Japan			1,464	126.5			11.6
Malaysia			316	31.9			9.9
Thailand			405	69.6			5.8
Philippines			396	108.1			3.7
Indonesia			458	270.6			1.7
Vietnam			46	96.5			0.5
USA			15,328	329.1			46.6
Canada			1,603	37.4			42.8
UK			1,025	67.5			15.2
France			177	65.1			2.7
Germany			157	83.5			1.9
Russia			131	145.9			0.9
Brazil			119	211.0			0.6
India			132	1,366.4			0.1

Source: www.dianping.com, www.openrice.com, NBS, Company data, CMBIS estimates

All in all, if we benchmark the store density of Nayuki tier 1 cities/ Nayuki Shenzhen/ Starbucks tier 2 cities/ Sexytea Changsha, the potential number of stores can reach ~3,269/ 9,709/ 9,865/ 43,268 for Nayuki in China.

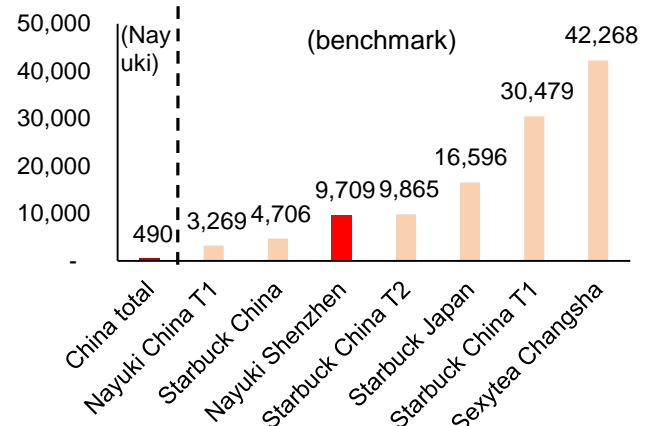
We may take Nayuki Shenzhen as reference and then adjust for the income level. Annual income per capita in Shenzhen was RMB 64,878, while that in China was RMB 32,189 in 2020. Then the potential size of store numbers for Nayuki in China should be at ~4,817.

Figure 60: Store density, by brand and region



Source: www.dianping.com, NBS, Company data, CMBIS estimates

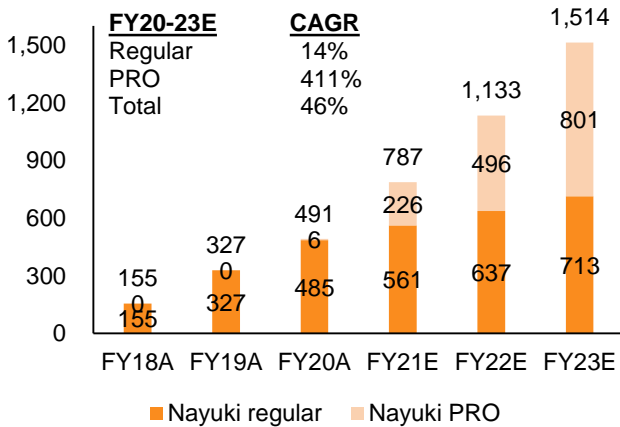
Figure 61: Potential stores for Nayuki in China



Source: www.dianping.com, NBS, Company data, CMBIS estimates

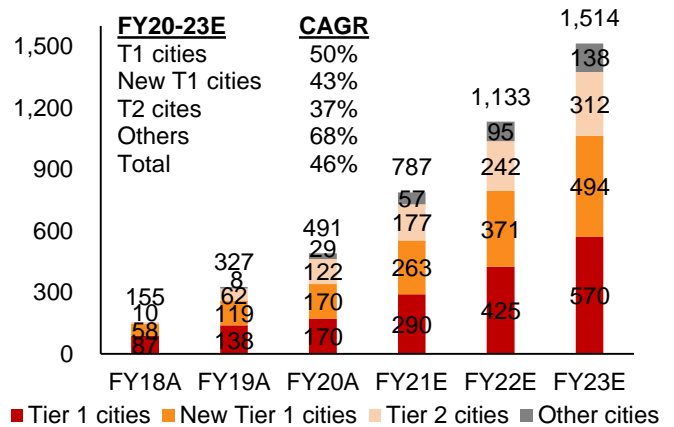
We believe there is plenty of room for expansion and expect 787/ 1,133/ 1,514 net stores in FY21E/ 22E/ 23E.

Figure 62: Number of Nayuki stores, by type



Source: www.dianping.com, Company data, CMBIS estimates

Figure 63: Number of Nayuki stores, by tier city



Source: Company data, CMBIS estimates

3) Realizing profitability thru digitalization and more mature stores.

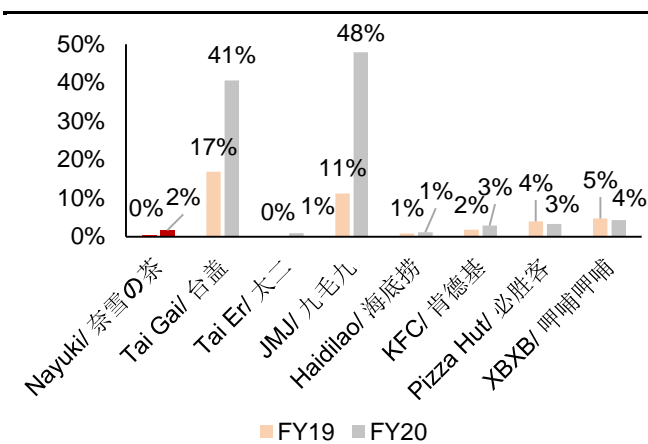
We believe the primary target for Nayuki is to expand market coverage and customer's mind share, and therefore profit realization may come at the later stage of development. Therefore we are not worried about its profitability in FY20 as its store level OP margin is rather industry leading.

■ **3.1 Profitability should be gradually realized, even with more stores onwards.**

Despite the fact that Nayuki has been stuck in loss-making in the past few years, we believe its profitability can be reasonably high in mid-to-long term, with the following reasons:

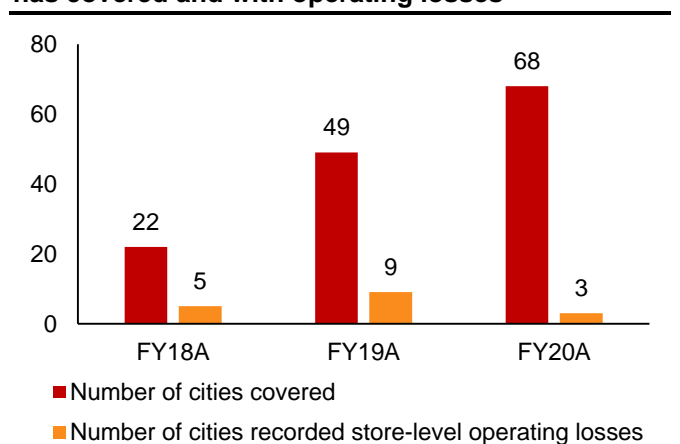
1) minimal rate of gross store closure, Nayuki's gross store closed was only 0%/ 2% in FY19/ 20, which is fairly low and in-line with 0%/ 1% for Tai Er and 1%/ 1% for Haidilao, and much better than KFC's 2%/ 3% and XBBX's 5%/ 4%.

Figure 64: Number of store closures, as % of total



Source: Company data, CMBIS estimates

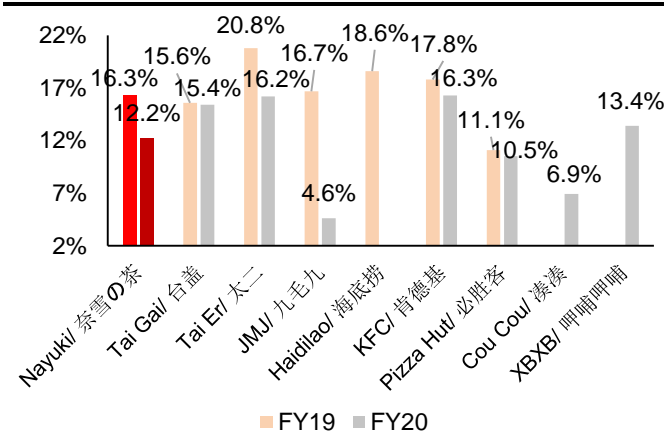
Figure 65: Number of cities that the Nayuki brand has covered and with operating losses



Source: Company data, CMBIS estimates

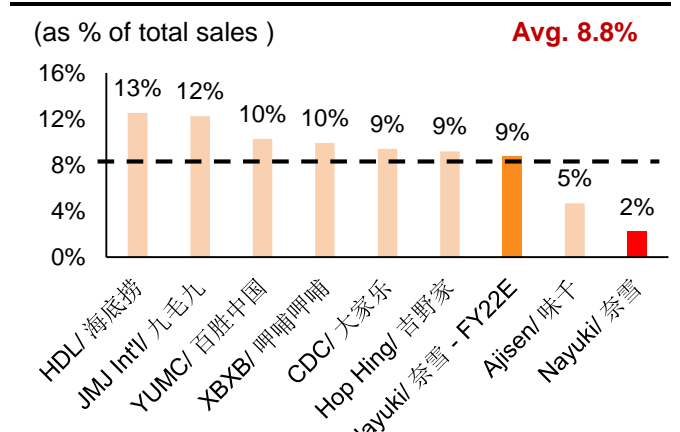
2) its store level operating profit margin is high at 12.2% in FY20 (even with the drags by COVID-19), which is not too low vs Tai Er's 16.2% and KFC's 16.3%.

Figure 66: Restaurant level OP margin, by brand



Source: Company data, CMBIS estimates

Figure 67: Group level OP margin, by brand, FY19



Source: Company data, CMBIS estimates

3) payback period is short, as it takes only ~11 months to achieve, not as fast as Tai Er's ~7 months, but fairly comparable to Haidilao's ~7-13 months and much faster than KFC's 24 months and Pizza Hut's ~36-48 months. Its breakeven period is not too long, at ~3 months, a bit longer than Tai Er's ~1 month, but similar to Haidilao, KFC and Pizza Hut's ~1-3 months.

Figure 68: Operational breakeven and Cash investment payback period, by brand

Brand	Nayuki/ 奈雪の茶	Nayuki/ 奈雪の茶	Tai Er/ 太二	JMJ/ 九毛九	Haidilao/ 海底捞	KFC/ 肯德基	Pizza Hut/ 必胜客
Period	FY20	FY20	At IPO	At IPO	At IPO	FY20	FY20
P&L breakeven period (months)	~4	~3	~1	~1	~1-3	~1-3	~1-3
Cash payback period (months)	~15.5	~10.6	~7	~22	~6-13	~24	~36-48
Remarks	All new stores	Stores opened in 2018	All new stores	All new stores	All new stores	All new stores	All new stores

Source: Company data, Jiumaojiu's IPO prospectus, Haidilao's IPO prospectus, CMBIS estimates

4) the Company is still at the rapid growing stage with the aim to take more market shares, therefore the % of new stores is still very high.

5) Nayuki is still at the investment stage that brand building is critical, and therefore more resources are used to make its store more spacious and better designed and decorated.

As Nayuki becomes larger in scale, we believe economies of scale will kick in as its headquarter costs should be fairly fixed. Also, as the new stores mix continues to narrow, its operating margin will gradually improve going forward.

■ 3.2 There exists room for more savings in operating expenses.

Sales per store may gradually drop, but overall margin will trend up, owing to:

1) roll-out of PRO stores with OP margin of 25-35%, which is roughly 10ppt higher than regular stores, thanks to smaller store size and staff number,

2) staff level per store now is higher than normal (~20 per store currently, ~14 full-time and ~6 part-time, by CMBI est.) due to over staffing, as many store managers are hiring more than enough employees at their existing stores, as reserved manpower for near-term store opening opportunities,

3) cost savings by digitalization, such as the roll out of smart in-store crew scheduling system, which can automatically streamline staff shifts and order assignments based on sales patterns at each teahouse, as well as smart inventory planning, which can automate the inventory ordering and management.

■ **3.3 Digitalization can boost operational efficiency, customer experience and member management.**

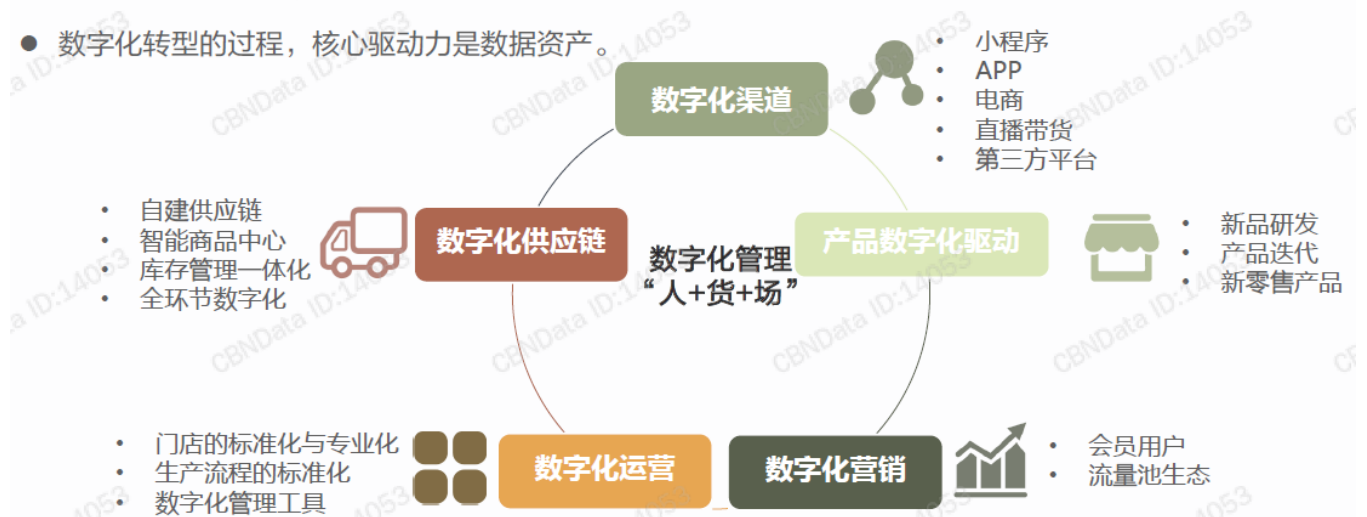
Seasoned management team with top focus on technology. We believe IT exposure for one of the founders, Ms. Peng, in her early career had shown her the importance of technology advancements in the modern day business. We believe, catering sector, in general, is not that sophisticated in technology. Therefore being able to be digitalized early (vs peers) would firmly boost Nayuki’s overall competitiveness.

Nayuki has hired nine seasoned industry veterans with average industry experience of ~10 years from their prior employments at technology giants in China and overseas, such as Amazon, Alibaba, JD.com and Tencent. Their deep foresight on the evolving demand for technology support in the food and beverage industry, combined with a relentless focus on innovation and digital transformation, should contribute positively to the Company’s long-term success.

Figure 69: Potential benefits from the digitalization for teahouse industry

新式茶饮数字化：以数字化管理为核心，进行全链路数字化搭建

- 对于新式茶饮企业来说，最大的挑战就是如何在快速变化的不确定环境中做决策，因此数字化“盔甲”成为“刚需装备”；
- 数字化转型的过程，核心驱动力是数据资产。



Source: Frost & Sullivan, CMBIS

Introduction of “Teacore”. In Oct 2020, Nayuki rolled out its proprietary integrated information platform “Teacore”, which would help consolidating and understanding massive operational data accumulated from various technology systems, and helping its employees to make better business decisions, such as:

- 1) customer analytics, to innovate and improve for specific demands,
- 2) in-store crew scheduling, used in PRO stores first and gradually applies to others,
- 3) in-store and warehouse inventory management, will be implemented by FY21E and
- 4) effective integration of key know-hows and smart devices that can streamline the food preparing process and ensure a consistent level of quality and flavour in the products.

Figure 70: Potential benefits from the digitalization for Heytea



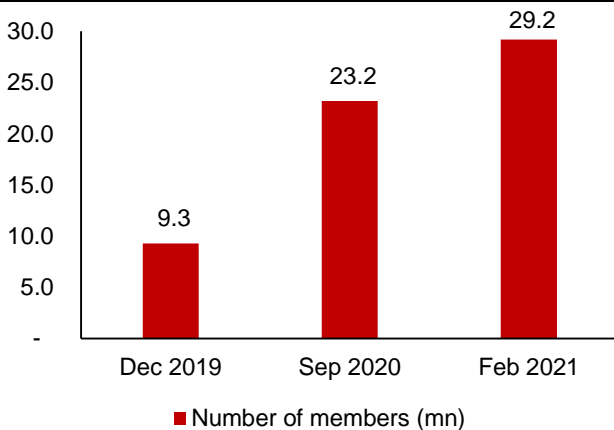
Source: Frost & Sullivan, CMBIS

Dedicated membership programs to boost number of members and increase customer stickiness. Nayuki rolled out its membership program since FY19 with the aims to better understand its customers and make better business strategies.

Together with the digitalization, it will collect relevant transaction data and consumption behaviours. Then the Company can develop personalized marketing and provide more tailor made products and customer experience to the members.

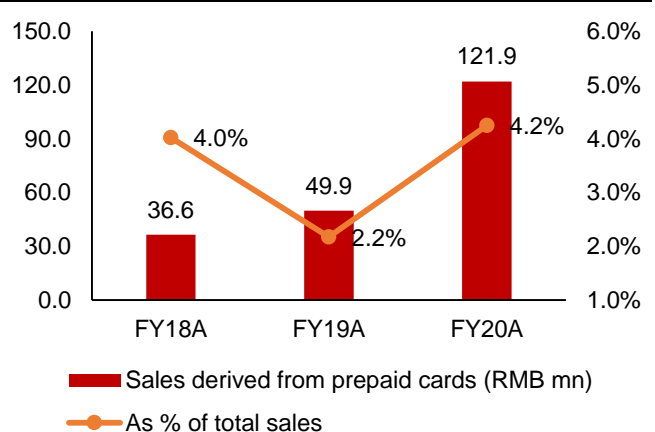
For example, based on the members' spending in the most recent 6 months, the members will be split in tiers, and members ranked from 2rd tier to 6th tier would be able to enjoy various privileges and benefits, such as birthday discounts, privileges to try out new products and rewarded free coupons. We expect these measures will incentivize repeat purchases and increase customer loyalty.

Figure 71: Number of members



Source: Company data, CMBIS estimates

Figure 72: Sales derived from prepaid cards



Source: Company data, CMBIS estimates

Industry Analysis

1) Speedy growth to continue as addressable market size is huge.

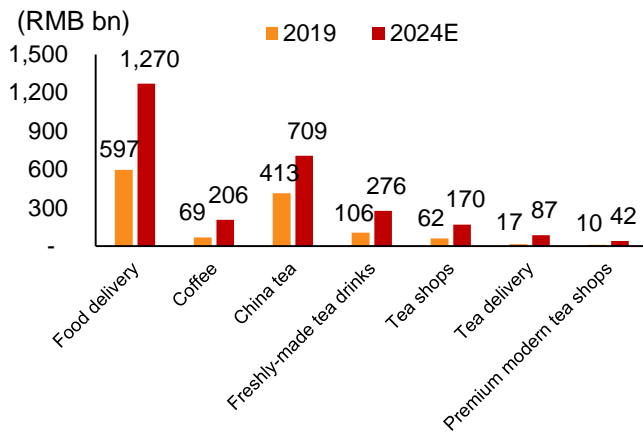
We are confident that freshly made teahouse industry sales growth will remain fast, supported by greater supply of tasty products as well as rising income and social interaction demand.

■ **1.1 Tea market is larger than coffee's already, but it is still growing very fast, esp. the freshly made tea.**

According to the CIC report, tea market sales in China were about RMB 413bn in 2020, which is a larger sized market than coffee, at about RMB 69bn in 2020.

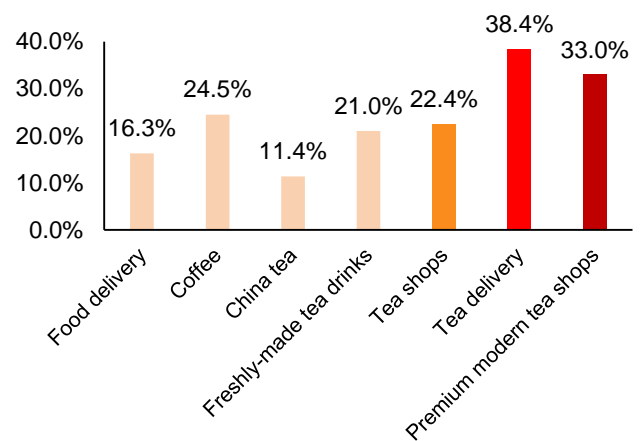
While China coffee sales grew fast with 25% CAGR during 2014-2019, the China tea sales grew at a slightly slower rate, at 10% CAGR during 2015-2020. However, if we only focus on freshly made tea, the sales CAGR was impressively fast at 22% during 2015-2020.

Figure 73: Sales, by segment, 2019 vs 2024E



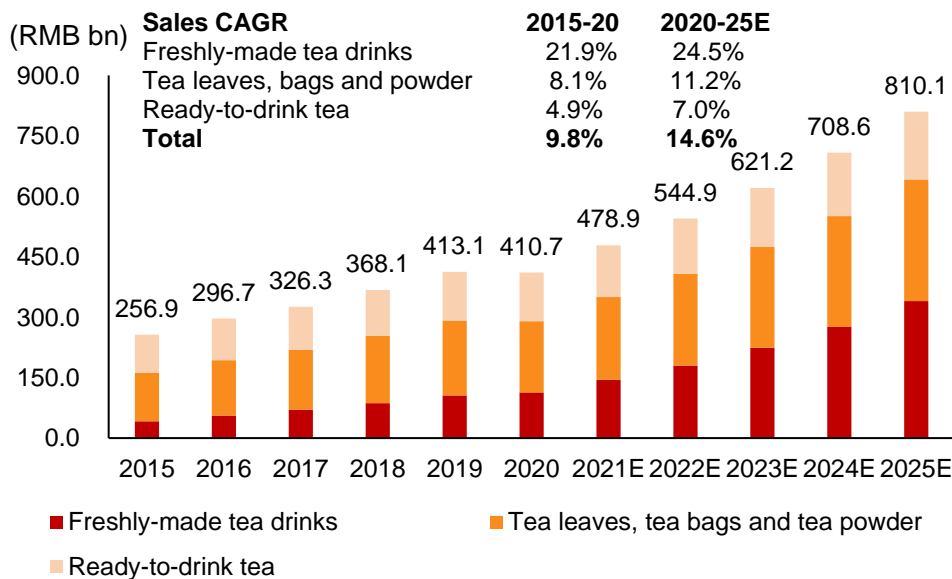
Source: Frost & Sullivan, CIC report, CMBIS estimates

Figure 74: Sales CAGR, by segment, 2019-2024E



Source: Frost & Sullivan, CIC report, CMBIS estimates

Figure 75: China tea market sales, by segment



Source: NBS, CIC report, CMBIS estimates

Based on CIC report, these coffee and freshly-made tea drinks market sales are expected to grow by 25%/ 21% CAGR to RMB 206/ 276bn during 2019-2024E.

We concur with this view, because:

- 1) China market is still underpenetrated vs HK and Taiwan,
- 2) demand for social interaction will continue to climb as income grows and main consumer group shifts to 90s and 00s,
- 3) supply (in terms of store network, product variety and quality) will continue to improve.

■ **1.2 Supply side improvements were the major driver.**

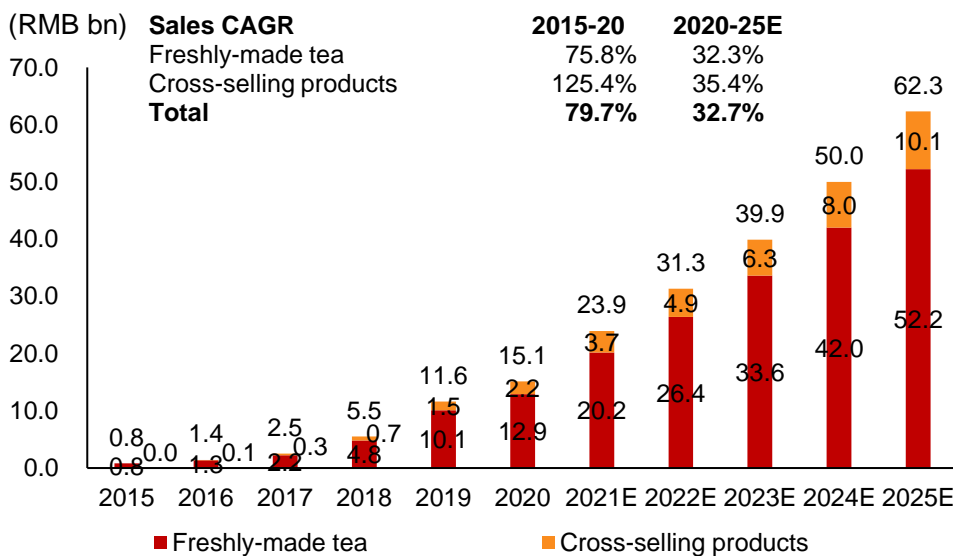
One main reason for the surge in freshly made tea consumption in China, on top of increased supply and improved convenience, is the upgrade of products, which consists of 1) use of more tea types, 2) use of more ingredients (e.g. invention of Cheesy tea) and 3) use of more drinks types (e.g. soda water, premium fruit tea, etc.) Standardization of productions (e.g. more SOPs) and use of digitalization (on sourcing and ordering, etc.) also boosted store operational efficiency and made the supply chain more mature and capable.

Figure 76: Tea industry sales breakdown, 2020



Source: CIC report, CMBIS

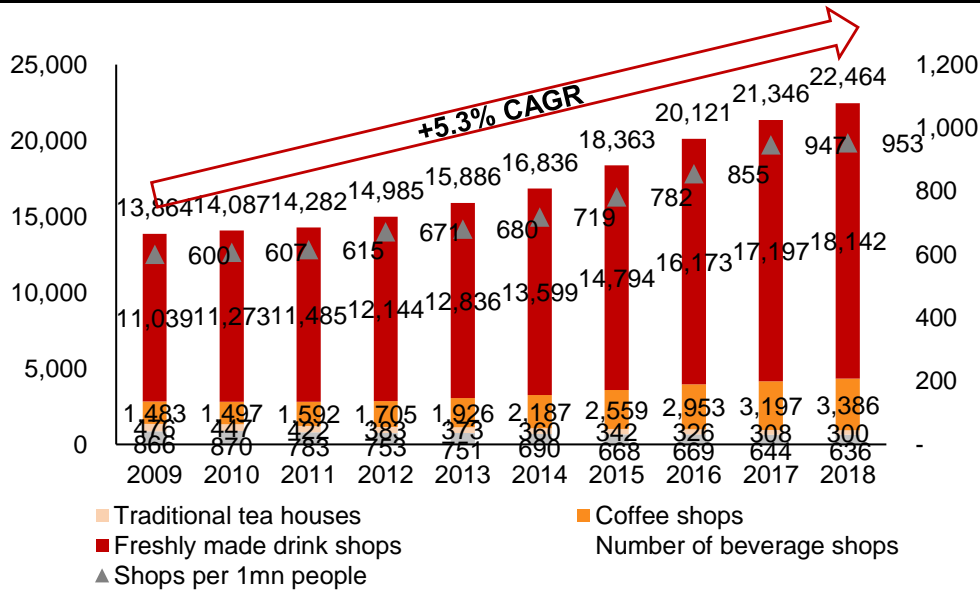
Figure 77: China premium modern teahouses sales, by segment



Source: NBS, CIC report, CMBIS estimates

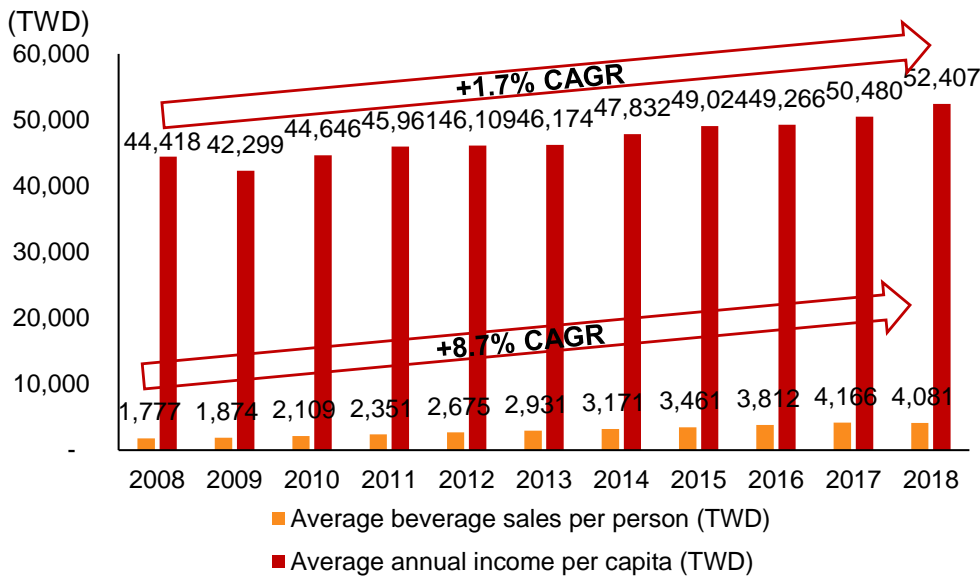
We may take Taiwan as an example, where its consumption per capita (sales per capita and number of stores per 1mn population) was growing fast (8.7% and 5.3% CAGR) in the past 10 years, while its income per capita was relatively flattish (grew by 1.7% CAGR only) during the same period, indicating the increase in demand may be driven by other factors, such as product innovations and increased store network, in our view.

Figure 78: Number of beverage shops in the Taiwan region



Source: Taiwan Ministry of Economic Affairs, CMBIS estimates

Figure 79: Beverage sales per person and income per capita in Taiwan

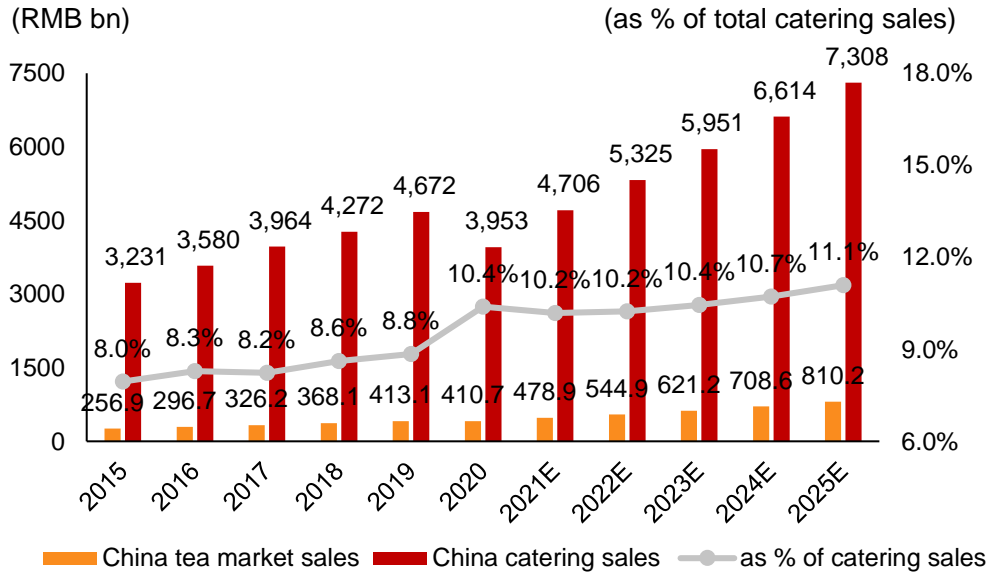


Source: National Statistics, R.O.C. (Taiwan), CMBIS estimates

■ **1.3 Demand side is still growing fast given the small size of freshly-made tea sales.**

Freshly-made tea sales will grow fast at 25% CAGR during 2019-24E, but the premium segment will grow at an even faster rate, at 33%, according to CIC report.

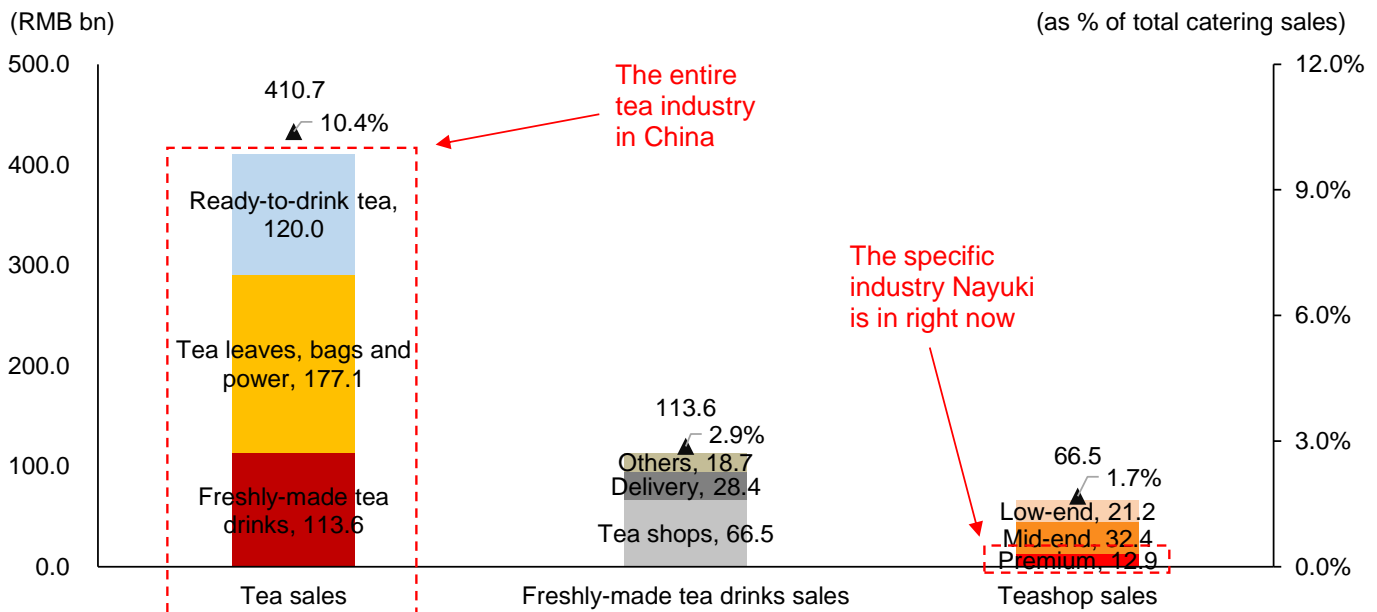
Figure 80: Catering and tea house sales in China



Source: NBS, CIC report, CMBIS estimates

Industry concentration (combined market shares) for Heytea and Nayuki in the premium teahouse industry may be massive, at 46.6%. Therefore it seems that the growth potential is low. However, in fact the premium segment only accounted for a very small part in the entire freshly-made tea/ tea product/ catering industry. Hence we are confident on the potential room for growth in the near future.

Figure 81: China tea industry sales breakdown, 2020



Source: CIC report, CMBIS estimates

2) Still underpenetrated vs HK and Taiwan, esp. for leading brands.

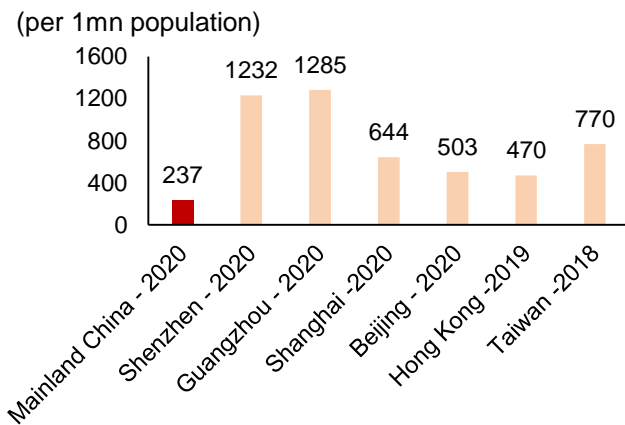
We believe Mainland China market can gradually catch up vs Hong Kong and Taiwan market, or even grow beyond their penetration level, thanks to enhanced overall experience (better products, more stores, more convenience, etc.)

■ 2.1 Mainland China market is still under supply, in terms of store per 1mn population.

We have gathered data from Taiwan and Hong Kong’s economics and statistic department and deduced a beverage houses density.

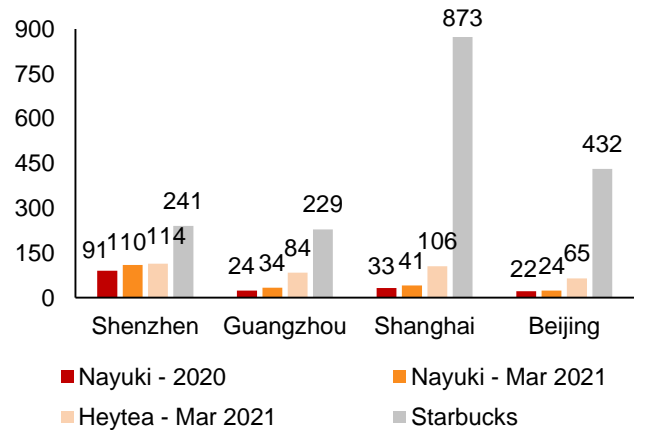
China as a whole, is still low vs Hong Kong and Taiwan. For Shenzhen and Guangzhou, the store density has already surpassed that level, but we believe the number is still low, and should be able to grow further.

Figure 82: Number of beverage house per 1mn population in major cities



Source: Dianping.com, NBS, Taiwan Ministry of Economic Affairs, Hong Kong Census and Statistic Department, CMBIS estimates

Figure 83: Number of beverage houses in major cities

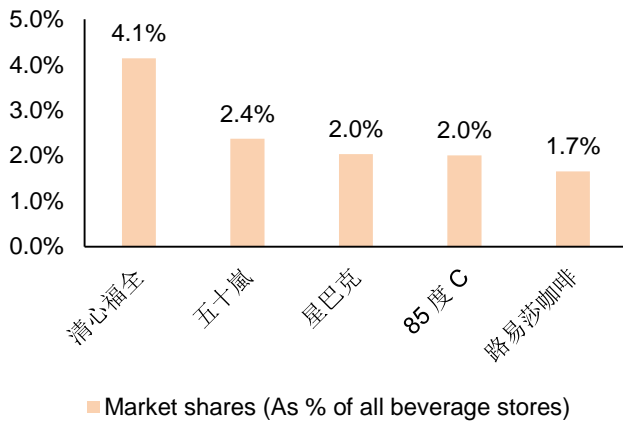


Source: Dianping.com, Company data, CMBIS estimates

■ **2.2 China market is still highly fragmented, leaders can gain lots of shares.**

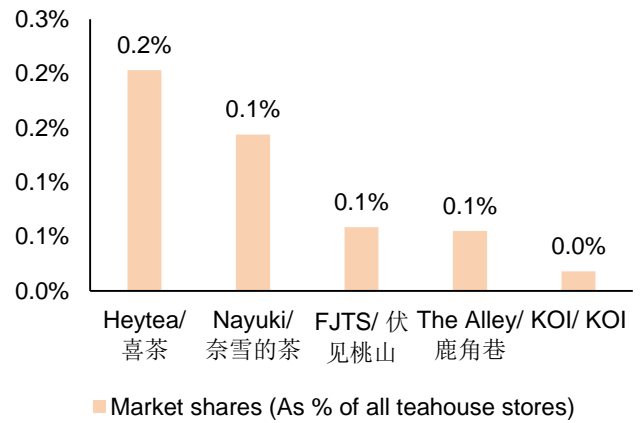
If we use Taiwan as an example, the leading brands can make up about 3% to 4% market shares in terms of store number, while Heytea and Nayuki's market shares are still very small, at 0.1% to 0.2%. If we take Starbucks' market shares (2.0%) in the beverage industry in Taiwan region as a reference, the current market shares of Heytea and Nayuki (0.2% and 0.1%) in China can become by 10-20x larger as the market become more and more concentrated.

Figure 84: Leader's market shares, in terms of number of stores, in Taiwan



Source: Dianping.com, NBS, Taiwan Ministry of Economic Affairs, Hong Kong Census and Statistic Department, CMBIS estimates

Figure 85: Leader's market shares, in terms of number of stores, in mainland China



Source: CIC report, Company data, CMBIS estimates

3) Premium, delivery and domestic fashion demand shall outperform.

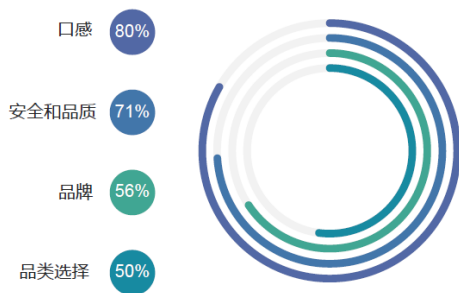
As a result of rising income per capita, advancement of technology, and improved competitiveness of domestic brands, we expect premium segment, food and beverage delivery and domestic brand sales to outperform in the entire catering sector.

■ 3.1 Premium segment is still small, but potential is huge.

Because 80s, 90s and 00s are the major customers for freshly-made tea drinks, the overall spending may further increase as their purchasing power continues to grow (esp. for those 90s). Moreover, these groups of customers value the product quality (texture, food safety and branding) higher when they make their purchases, which would fuel the sales of leading premium teahouse brands. On the other hand, these customer groups also favour shopping malls more. As shopping malls gain more market shares, in terms of foot traffic, the leading premium teahouse brands (which are located mostly in shopping malls) are going to benefit.

Figure 86: key factors before a purchase

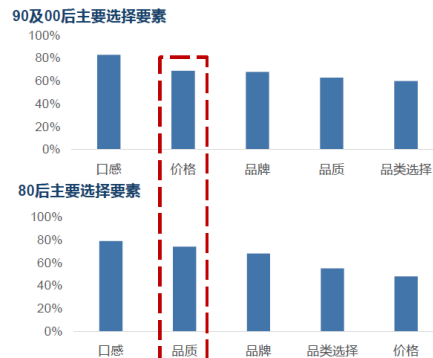
• 整体上，口感、安全和品质，以及品牌选择是消费者最关注的三大要素，其中口感依然是消费者最为看重的要素



Source: Frost & Sullivan, CMBIS

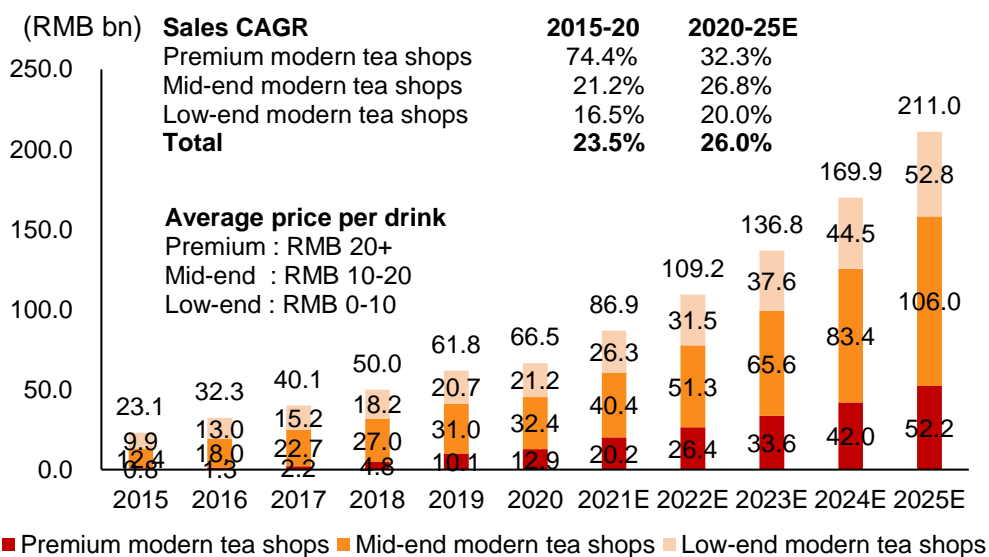
Figure 87: 80s are more willing to pay for quality

• 80后和90后消费者同样把口感列为第一要素，但是90和00后消费者对于价格较为敏感，80后相对更加关心产品的品质



Source: Frost & Sullivan, CMBIS

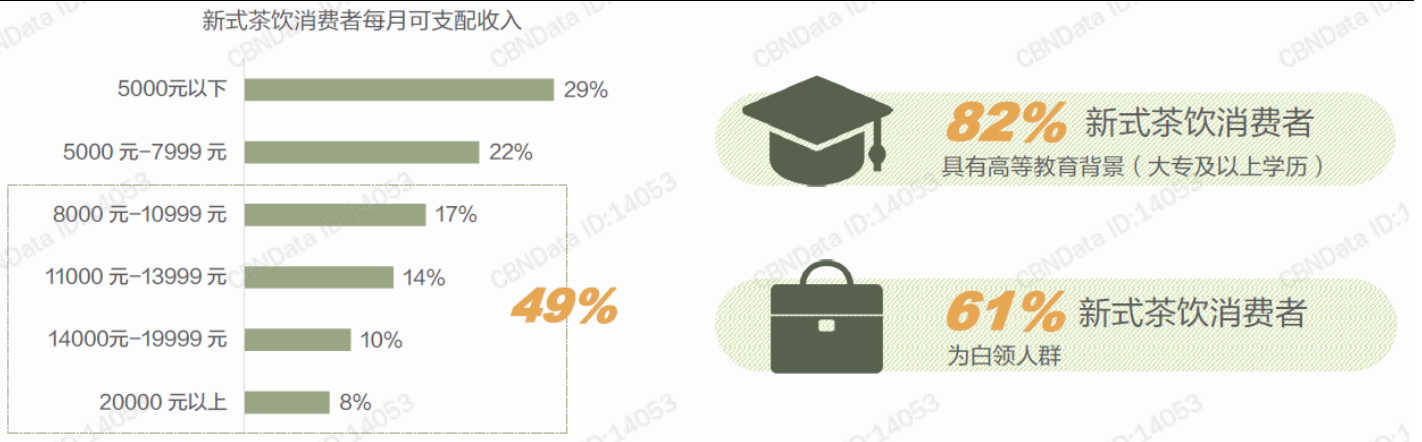
Figure 88: Premium segment will take more market shares



Source: CIC report, CMBIS estimates

According to CBN data, about 50% of freshly-made tea customers have an average income of around RMB 7,000-8,000 per month. Thanks to economic and income per capita growth, we believe more 80s, 90s and 00s will reach this income level and the premium tea drinks can become more affordable, hence driving up the overall industry sales.

Figure 89: Freshly-made tea customer mix, by income group and educational level, 2020

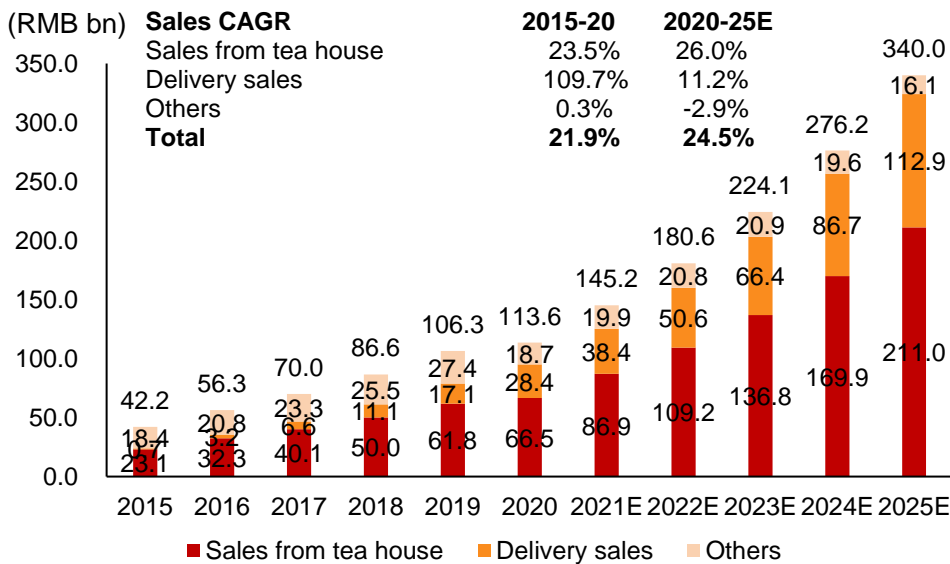


Source: CBN Data, Company data, CMBIS

3.2 Delivery demand to climb as conveniences improve through digitalization.

Thanks to technology advancement, the use of mobile phones and third-party ordering system, Wechat and Alipay mini programs and APP have become more universal, and the consumption also becomes more convenient. As a result, we believe the delivery sales can continue to grow at a rapid speed, at 11% CAGR during FY20-25E.

Figure 90: Freshly-made tea drinks sales, by delivery and from tea house.



Source: CIC report, CMBIS estimates

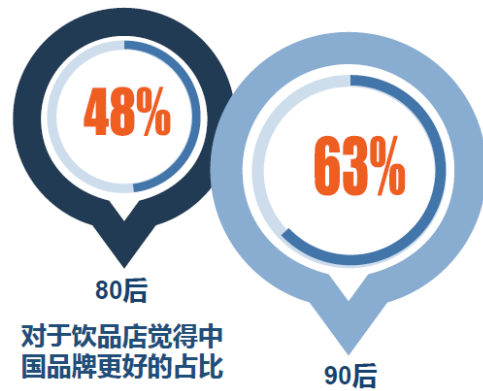
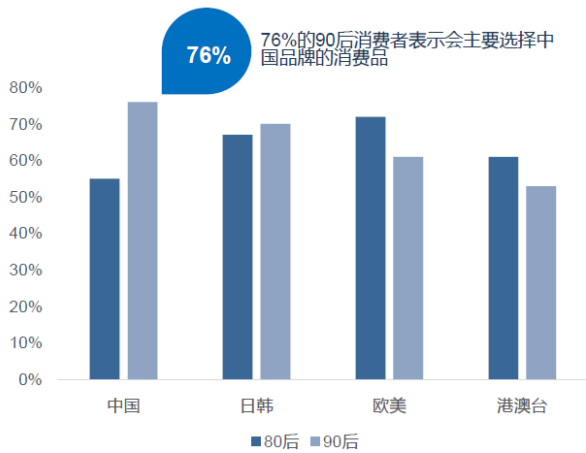
■ **3.3 Domestic brands are likely to gain more market share, customer acceptance is rising as the quality gradually improves.**

Thanks to the increased dedication on improving product quality and innovations, investments on brand value and more successful marketing (as the domestic brands are often more localized), domestic brands are having a strong catch up, compared to the foreign brands. The 80s, 90s and 00s are at the same time more attracted by domestic brands, where such a tendency is stronger for 90s than the 80s.

Figure 91: Preference over domestic vs foreign, by consumer age group

• 对于消费品的品牌偏好呈现出年轻消费者对中国品牌的偏好程度更高的特点

• 对于茶饮品牌的选择，同样呈现出年轻消费者对中国品牌的偏好程度越来越高的趋势，63%的90后消费者更偏向中国品牌











Q: 您对于消费品牌的选择，会主要考虑哪里品牌（多选）？对于饮品店（咖啡、果汁、茶饮），您是否觉得中国品牌更好？

Source: Frost & Sullivan, CMBIS









Peers' Comparison

Figure 92: Peers Comparison 1

Name	Nayuki/ 奈雪の茶	Jiumaojiu International/ 九毛九	Haidilao/ 海底捞	XBXB/ 呷哺呷哺	Yum China/ 肯德基+必胜客	Ajisen/ 味千	Cafe de Coral/ 大家乐	Hop Hing/ 吉野家
Ticker		9922 HK	6862 HK	520 HK	YUMC US	538 HK	341 HK	47 HK
Fiscal Year end	FY20	FY20	FY20	FY20	FY20	FY20	FY20	FY20
Year end	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Dec
Market Cap (HK\$m) at 21 Apr 2021	n/a	45,056	267,120	13,133	191,481	1,441	9,863	463
Year founded	2015	1995	1994	1998	1987	1996	1968	2007
Major brand (s)								
Major cuisine	Premium modern	Northwestern/ Sichuan	Sichuan	Taiwan	American	Japanese	Hong Kong	Japanese
Major products	Freshly-made tea/ Baked goods	Shanxi noodles/ Sauerkraut fish	Hot pot	Fast casual - Hot pot	Fast food - Fried Chicken/ Pizza	Fast food - Ramen	Fast food	Fast food - Beef rice
Primary market	Southern China	Southern China	China	Beijing	China	Shanghai	Hong Kong	Northern China
Headquarters	Shenzhen	Guangzhou	Singapore	Beijing	Shanghai	Shanghai	Hong Kong	Beijing
Sales mix breakdown	Nayuki (94%) Tai Gai (5%) Others (1%)	Jiu Mao Jiu (26%) Tai Er (72%) Other brands (2%)	China T1 (21%) China T2 (39%) China T3 and below (28%) Outside PRC (8%) Others (4%)	Beijing (33%) Shanghai (4%) Tianjin (6%) Other regions (34%) Cou Cou (20%) Others (3%)	KFC (70%) Pizza Hut (21%) Others (9%)	Hong Kong (7%) Mainland China (86%) Others (7%)	Hong Kong QSR (75%) Hong Kong Casual Dining (10%) Mainland China (14%) Others (1%)	Yoshinoya (85%) Dairy Queen (11%) Others (4%)
Number of restaurants								
FY20								
- Self-operated	555	349	1,298	1,021	8,190	722	470	580
- Franchised	0	32	0	0	2,316	0	0	0
Total	555	381	1,298	1,021	10,506	722	470	580
- Mainland China	490 (Nayuki)	233 (Tai Er)	1,205	1,061 (XBXB)	7,166 (KFC)	697	114	390 (Yoshinoya) 190 (Dairy Queen & others)
	64 (Tai Gai)	148 (Jiumaojiu & others)		139 (Cou Cou)	3,340 (Pizza Hut & others)			
- Overseas/ HK	1 (Nayuki)	0	93	1 (Cou Cou)		25	356	0
Total	555	381	1,298	1,201	10,506	722	470	580
Number of seats/ store (CMBI est.)	~ 50 - 120	~ 100 - 200	~ 300 - 500	~ 100 - 200	~ 100 - 200	~ 50 - 100	~ 100 - 200	~ 50 - 100
Total floor area (Sq m, CMBI est.)	94,300	73,385	614,400	303,480	2,760,000	127,840	139,500	107,460
Avg floor area/ store (Sq m, CMBI est.)	230	285	800	270	300	160	300	180
Sales / store/ year (Rmb mn, CMBI est.)	5.5	7.1	22.0	4.5	5.1	2.5	15.5	2.7
Sales / store/ sqm/ year (Rmb, CMBI est.)	19,597	24,748	25,574	18,596	19,395	22,205	51,509	20,142
FY20								
ASP (Rmb)	43.0 (Nayuki)	60 (JMJ)	110.1	62.3 (XBXB)	43 (KFC)	46.5	35.0	n/a
	27.6 (Tai Gai)	79 (Tai Er)		126.6 (Cou Cou)	108 (Pizza Hut)			
SSSG	-21.5% (Nayuki)	-34.0% (JMJ)	-17.7%	-23.9% (XBXB)	-8.0% (KFC)	-29.7%	-5.0%	-23.0% (Yoshinoya) -27.1% (Dairy Queen & others)
	-12.0% (Tai Gai)	-9.3% (Tai Er)		-9.5% (Cou Cou)	-14.0% (Pizza Hut)			
FY19								
ASP (Rmb)	43.1 (Nayuki)	58 (JMJ)	105.2	55.8 (XBXB)	37 (KFC)	48.0	38.5	n/a
	29.6 (Tai Gai)	75 (Tai Er)		131.5 (Cou Cou)	113 (Pizza Hut)			
SSSG	-4.0% (Nayuki)	0.2% (JMJ)	1.6%	-1.4% (XBXB)	4.0% (KFC)	7.0%	2.0%	1.3% (Yoshinoya) 1.9% (Dairy Queen & others)
	-10.7% (Tai Gai)	4.1% (JMJ)		+9.5% (Cou Cou)	1.0% (Pizza Hut)			

Source: Bloomberg, Company data, CMBIS estimates

Figure 93: Peers Comparison 2

Name	Nayuki/ 奈雪的茶	Jiumaojiu International/ 九毛九	Haidilao/ 海底捞	XBXB/ 呷哺呷哺	Yum China/ 肯德基+必胜客	Ajisen/ 味千	Cafe de Coral/ 大家乐	Hop Hing/ 吉野家
Ticker		9922 HK	6862 HK	520 HK	YUMC US	538 HK	341 HK	47 HK
Fiscal Year end	FY20	FY20	FY20	FY20	FY20	FY20	FY20	FY20
Year end	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Dec
Market Cap (HK\$m) at 21 Apr 2021	n/a	45,056	267,120	13,133	191,481	1,441	9,863	463
Year founded	2015	1995	1994	1998	1987	1996	1968	2007
Major brand (s)								
Operating numbers								
FY20								
Sales (Local mn)	3,057.2	2,714.8	28,614.3	5,455.2	8,263.0	1,820.6	7,963.1	1,590.3
Sales (RMB mn)	3,057.2	2,714.8	28,614.3	5,455.2	53,930.4	1,820.6	7,275.6	1,590.3
OPEX as % of sales								
COGS (mainly food)	-37.9%	-38.5%	-42.9%	-39.0%	-28.3%	-28.3%	-28.4%	-40.6%
Labour	-30.1%	-27.5%	-33.8%	-27.1%	-20.9%	-26.2%	-33.9%	-24.5%
Rental	-14.8%	-10.8%	-4.0%	-15.0%	-9.8%	-18.0%	-11.9%	-11.7%
D&A	-5.0%	-4.1%	-7.5%	-7.5%	-4.9%	-8.9%	-4.5%	-5.7%
Fuel and utilities	-2.2%	-3.5%	-3.4%	-3.5%	0.0%	-4.6%	-4.8%	0.0%
Others	-14.1%	-9.7%	-5.0%	-7.0%	-27.8%	-24.6%	-13.4%	-22.9%
Total	-66.2%	-55.6%	-53.7%	-60.1%	-63.5%	-82.3%	-68.5%	-64.8%
GP margin	62.1%	61.5%	57.1%	61.0%	71.7%	71.7%	71.6%	59.4%
EBIT margin	2.6%	9.0%	4.7%	4.0%	11.6%	-2.1%	2.6%	-2.9%
Pre-tax margin	-6.2%	6.5%	2.6%	1.2%	13.4%	-5.4%	1.4%	-5.9%
NP att. margin	-6.6%	4.6%	1.1%	0.0%	9.5%	-4.3%	0.9%	-5.2%
FY19								
OPEX as % of sales								
COGS (mainly food)	-36.6%	-36.7%	-42.3%	-36.9%	-28.2%	-27.7%	-27.5%	-37.2%
Labour	-30.0%	-25.9%	-30.1%	-25.6%	-20.6%	-26.5%	-31.4%	-23.2%
Rental	-15.5%	-9.8%	-3.3%	-12.7%	-10.0%	-14.3%	-11.2%	-11.0%
D&A	-3.7%	-3.6%	-4.7%	-5.4%	-4.9%	-5.9%	-4.0%	-4.4%
Fuel and utilities	-2.1%	-4.0%	-3.4%	-3.5%	n/a	-4.7%	-4.7%	n/a
Others	-10.1%	-8.2%	-4.6%	-6.8%	-26.7%	-21.2%	-12.0%	-15.9%
Total	-61.4%	-51.5%	-46.2%	-54.1%	-62.2%	-72.7%	-63.3%	-54.4%
GP margin	63.4%	63.3%	57.7%	63.1%	71.8%	72.3%	72.5%	62.8%
EBIT margin	2.2%	12.2%	12.5%	9.9%	10.3%	4.7%	9.4%	9.2%
Pre-tax margin	-1.7%	9.6%	12.2%	8.3%	11.4%	9.0%	8.2%	7.2%
NP att. margin	-1.5%	6.1%	8.8%	4.8%	8.1%	6.1%	6.7%	5.0%
Growth								
FY20								
Sales growth	22.2%	1.0%	7.8%	-9.5%	-5.8%	-29.0%	-6.2%	-24.4%
Pre-tax profit growth	345.3%	-31.9%	-77.4%	-86.6%	10.5%	-142.4%	-83.7%	-161.7%
Net profit att. growth	423.7%	-24.5%	-86.8%	-99.4%	10.0%	-149.8%	-87.1%	-178.7%
FY19								
Sales growth	130.2%	42.0%	56.5%	27.4%	5.6%	7.9%	7.8%	5.0%
Pre-tax profit growth	-9.9%	148.3%	43.6%	-17.4%	5.6%	-65.7%	20.5%	-0.2%
Net profit att. growth	-41.6%	136.1%	42.4%	-37.7%	0.7%	-71.6%	24.4%	0.6%
Investment/ capex per store (RMB mn)	~1.85 (Nayuki)	~2.5 (Jiumaojiu)	~10.0 (Haidilao)	~1.5 (XBXB)	~3.5 (KFC)	~1.5 (Ajisen)	~5.0 (CDC)	~1.5 (Yoshinoya)
	~1.25 (Nayuki PRO)	~2.0 (Tai Er)		~6.0 (Cou Cou)	~4.5 (Pizza Hut)			
Total debt to equity (%)	(66.8)	14.7	19.4	84.8	-	25.4	-	182.3
ROA (%)	(6.1)	3.8	2.7	0.0	13.0	(1.6)	2.8	(4.8)
ROE (%)	n/a	2.6	1.1	0.1	8.1	(2.4)	1.2	(17.5)
Inventory days	28.5	16.0	30.0	84.7	50.0	93.7	13.2	77.6
Receivable days	0.1	2.8	4.0	3.0	4.0	4.9	7.6	5.2
Payable days	67.3	30.0	35.0	50.9	90.0	108.8	8.7	72.5
Cash Conversion Cycle (days)	(38.8)	(11.2)	(1.0)	36.8	(36.0)	(10.2)	12.1	10.4

Source: Bloomberg, Company data, CMBIS estimates

Assumptions

Figure 94: Major assumptions 1

Major assumptions	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by brand (RMB mn)						
Nayuki	910	2,291	2,871	4,611	6,401	8,354
Tai Gai	156	185	153	158	181	205
Others	22	25	33	35	38	42
Total	1,087	2,502	3,057	4,804	6,620	8,601
Sales growth by brand segment						
Nayuki		151.9%	25.3%	60.6%	38.8%	30.5%
Tai Gai		18.9%	-17.4%	3.4%	14.5%	13.3%
Others		15.3%	34.1%	5.0%	10.0%	10.0%
Total		130.2%	22.2%	57.1%	37.8%	29.9%
Sales by tier city, Tai Gai & others (RMB mn)						
Tier 1 cities	578	1,028	1,157	1,765	2,441	3,222
New Tier 1 cities	285	859	961	1,583	2,100	2,729
Tier 2 cities	47	379	617	1,000	1,374	1,689
Other cities	0	25	136	263	486	714
Tai Gai and others	177	210	186	193	220	248
Total	1,087	2,502	3,057	4,804	6,620	8,601
Sales by tier city, Tai Gai & others growth						
Tier 1 cities		77.8%	12.5%	52.6%	38.3%	32.0%
New Tier 1 cities		201.8%	11.8%	64.8%	32.7%	29.9%
Tier 2 cities		715.5%	62.7%	62.1%	37.4%	22.9%
Other cities			445.2%	92.8%	84.9%	47.0%
Tai Gai and others		18.5%	-11.3%	3.7%	13.7%	12.7%
Total		130.2%	22.2%	57.1%	37.8%	29.9%
Sales by channel (RMB mn)						
In-store cashier & others	1,001	1,745	961	791	856	941
WeChat/ Alipay & Nayuki app	-	317	1,222	3,005	4,605	6,331
3rd party online ordering platforms	86	439	874	1,008	1,159	1,329
Total	1,087	2,502	3,057	4,804	6,620	8,601
Sales by channel growth						
In-store cashier & others		74.3%	-45.0%	-17.7%	8.3%	9.9%
WeChat/ Alipay & Nayuki app			285.3%	145.8%	53.2%	37.5%
3rd party online ordering platforms		412.6%	99.2%	15.3%	15.0%	14.7%
Total		130.2%	22.2%	57.1%	37.8%	29.9%

Source: Company data, CMBIS estimates

Figure 95: Major assumptions 2

Major assumptions	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Nayuki brands' sales per store (RMB mn)						
Tier 1 cities	6.6	7.5	6.8	6.1	5.7	5.7
New Tier 1 cities	4.9	7.2	5.7	6.0	5.7	5.5
Tier 2 cities	4.7	6.1	5.1	5.7	5.7	5.4
Other cities	0.0	3.1	4.7	4.6	5.1	5.2
Total	5.9	7.0	5.8	5.9	5.6	5.5
Nayuki brand's average sales per order (RMB)						
Tier 1 cities	41.7	42.5	44.2	44.0	44.6	45.0
New Tier 1 cities	44.6	42.7	42.5	43.5	44.2	44.6
Tier 2 cities	48.7	45.5	41.5	45.0	45.8	46.4
Other cities	-	47.5	43.7	45.5	46.1	46.8
Total	42.9	43.1	43.0	44.1	44.9	45.3
Nayuki brand's average orders per day						
Tier 1 cities	694	608	471	477	444	419
New Tier 1 cities	739	642	455	477	442	412
Tier 2 cities	949	754	470	473	413	389
Other cities	-	785	604	471	427	381
Total	716	642	470	474	435	407
Nayuki brand's store network						
Tier 1 cities	87	138	170	290	425	570
New Tier 1 cities	58	119	170	263	371	494
Tier 2 cities	10	62	122	177	242	312
Other cities	-	8	29	57	95	138
Total	155	327	491	787	1,133	1,514
GP margins	64.7%	63.4%	62.1%	63.9%	64.2%	64.4%
Opex breakdown						
Staff costs	-31.3%	-30.0%	-30.1%	-27.8%	-26.0%	-25.8%
Depreciation of right-of-use assets	-11.1%	-10.5%	-11.5%	-10.7%	-9.7%	-9.2%
Other rentals & related expenses	-6.7%	-5.1%	-3.3%	-3.5%	-3.1%	-2.8%
D & A of other assets	-3.7%	-3.7%	-5.0%	-4.7%	-4.7%	-4.8%
Advertising & promotion expenses	-3.6%	-2.7%	-2.7%	-2.5%	-2.5%	-2.5%
Delivery service fees	-1.0%	-2.6%	-5.5%	-4.3%	-3.8%	-4.1%
Utilities expenses	-2.2%	-2.1%	-2.2%	-2.2%	-2.1%	-2.1%
Logistic and storage fees	-1.1%	-1.6%	-1.9%	-1.7%	-1.6%	-1.5%
EBIT margins	0.1%	2.2%	2.6%	3.9%	8.7%	9.5%
Effective tax rate	-47.1%	7.1%	-6.9%	15.0%	15.0%	15.0%
NP att. margins	-6.1%	-1.5%	-6.6%	1.2%	5.6%	6.4%
NP att. growth (%)		-41.6%	423.7%	-128.9%	536.2%	49.3%
Adj. NP margins	-5.2%	-0.5%	0.8%	2.5%	6.1%	6.7%
Adj. NP growth (%)		-79.3%	-309.4%	383.2%	238.9%	43.8%

Source: Company data, CMBIS estimates

Financial Analysis

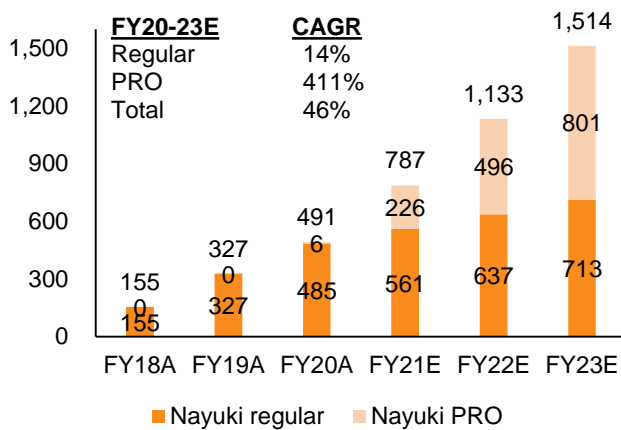
We forecast sales growth of 57%/ 38%/ 30% YoY in FY21E/ 21E/ 23E

- We forecast sales growth to reach 57% YoY in FY21E, driven by store expansion, for both Nayuki regular and PRO stores and mostly in tier 1 and new tier 1 cities.

We project Nayuki holdings' sales to reach RMB 4,804mn in FY21E, driven by:

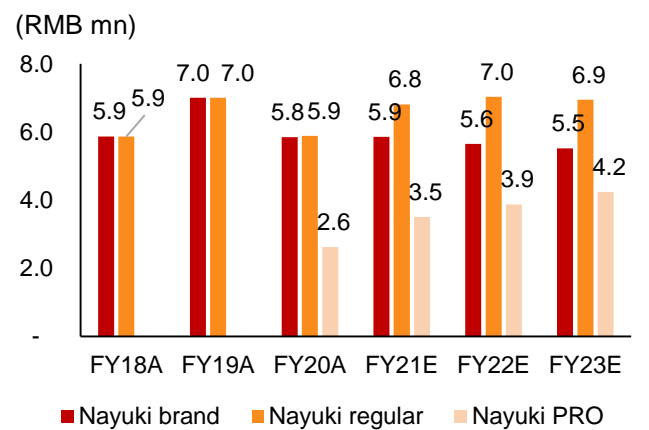
- 1) 61% sales growth for Nayuki brand and 4% sales growth for Tai Gai and others, OR
- 2) 60% number of Nayuki stores growth, 0% sales per store growth (due to low base in FY20) and 4% sales growth for Tai Gai and others, OR
- 3) 53%/ 65%/ 62%/ 93% sales growth in Tier 1/ new Tier 1/ Tier 2/ other cities for Nayuki brand and 4% sales growth for Tai Gai and others, OR
- 4) -19% in-store cashier & other sales growth, 146% Wechat/ Alipay mini-programs and Nayuki APP sales growth and 15% third-party online ordering platform sales growth.

Figure 96: Number of Nayuki stores, by type



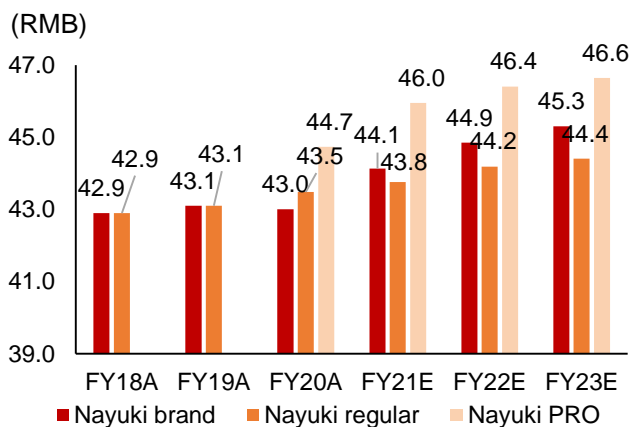
Source: www.dianping.com, Company data, CMBIS estimates

Figure 97: Nayuki sales per store, by type



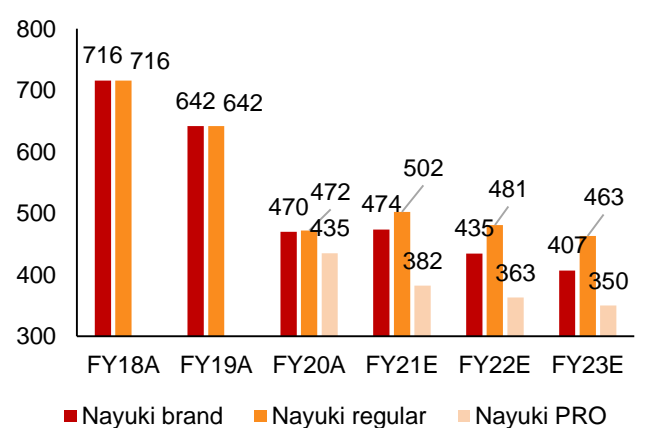
Source: Company data, CMBIS estimates, *Nayuki PRO's number in FY20A was an estimate

Figure 98: Nayuki avg. sales per order, by type



Source: Company data, CMBIS estimates, *Nayuki PRO's number in FY20A was an estimate

Figure 99: Nayuki avg. daily orders per store, by type



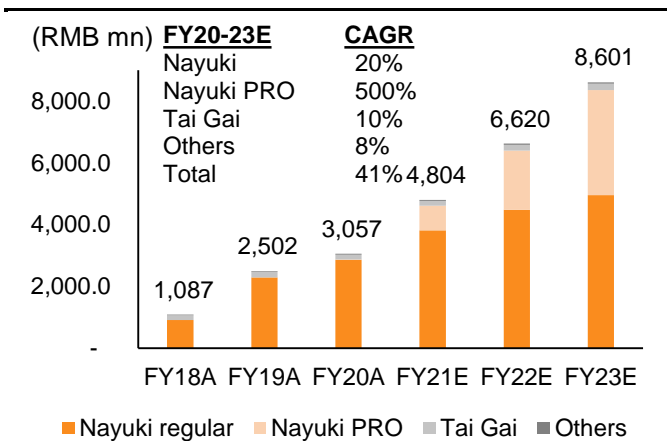
Source: Company data, CMBIS estimates, *Nayuki PRO's number in FY20A was an estimate

■ We project Nayuki holding's sales to grow by 41% CAGR in FY20-23E, assuming:

- 1) 43% sales CAGR for Nayuki brand and 10% sales CAGR for Tai Gai & others, OR
- 2) 46% number of Nayuki stores CAGR and -2% sales per store CAGR (due to higher PRO stores mix) and 10% sales CAGR for Tai Gai & others, OR
- 3) 41%/ 42%/ 40%/ 74% sales CAGR in Tier 1/ new Tier 1/ Tier 2/ other cities and 10% sales CAGR for Tai Gai & others, OR
- 4) -1% in-store cashier sales CAGR, 73% Wechat/ Alipay mini-programs and Nayuki APP sales CAGR and 15% third-party online ordering platform sales CAGR.

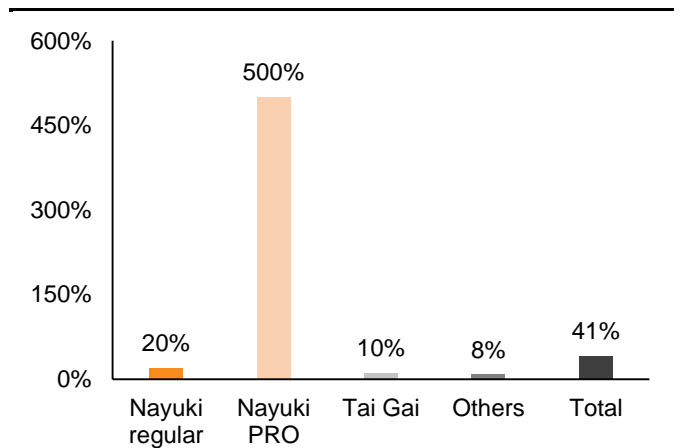
We believe sales per store will be fairly stable in FY20-23E, driven by: 1) increase in average operating days and 2) higher sales mix from lower tier and PRO stores.

Figure 100: Sales by brand segment



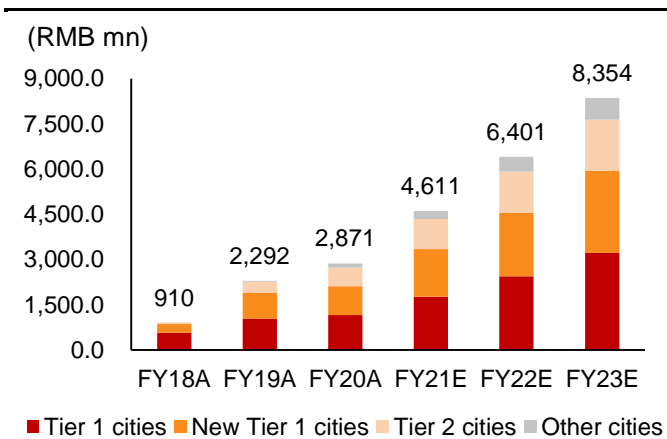
Source: Company data, CMBIS estimates, *Nayuki PRO's number in FY20A was an estimate

Figure 101: Sales CAGR by brand segment, FY20-23E



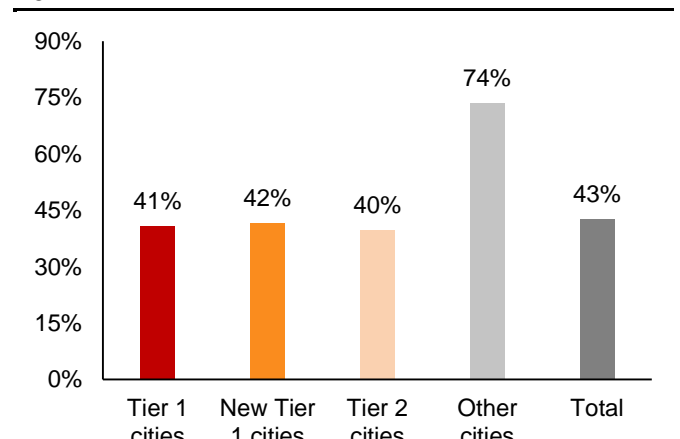
Source: Company data, CMBIS estimates, *Nayuki PRO's number in FY20A was an estimate

Figure 102: Nayuki's sales by tier city



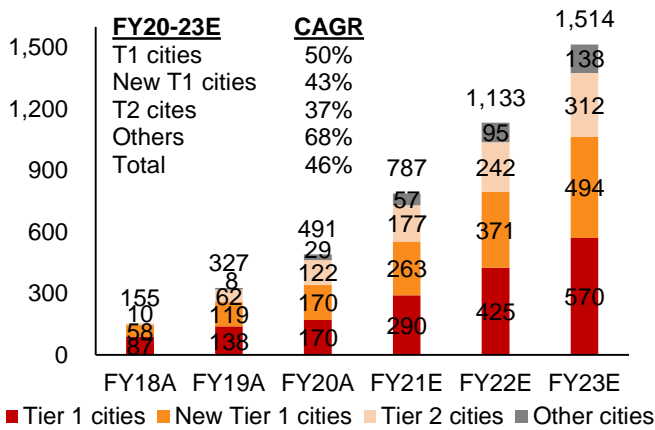
Source: Company data, CMBIS estimates

Figure 103: Nayuki's sales CAGR by tier city, FY20-23E



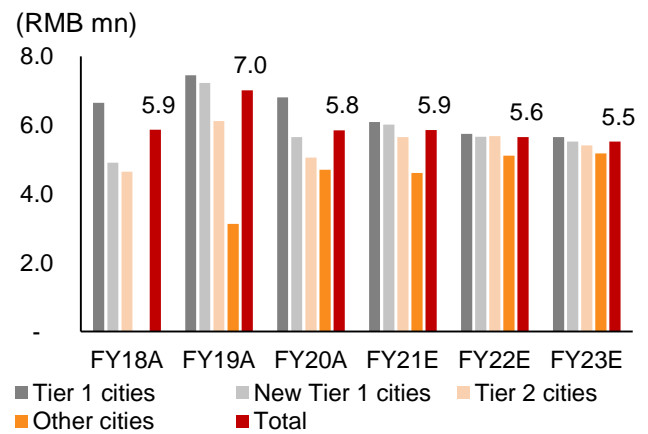
Source: Company data, CMBIS estimates

Figure 104: Number of Nayuki stores, by tier city



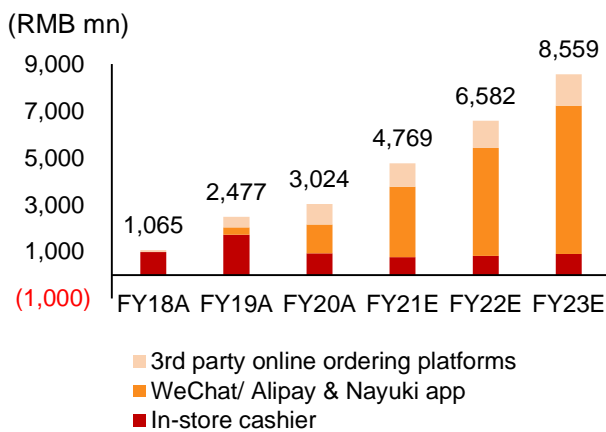
Source: Company data, CMBIS estimates

Figure 105: Sales per Nayuki store by tier city



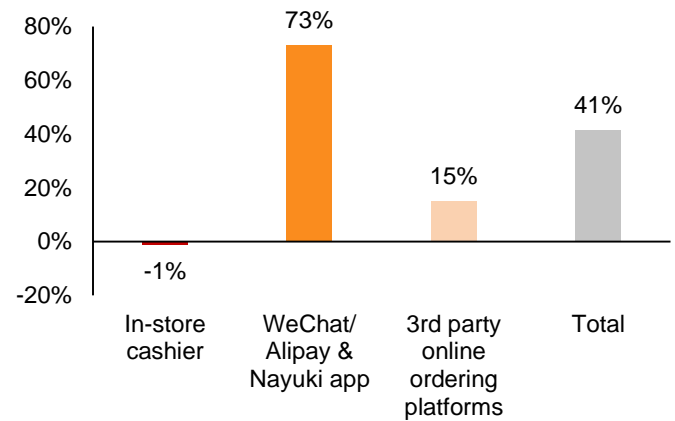
Source: Company data, CMBIS estimates

Figure 106: Nayuki and Tai Gai sales by channel



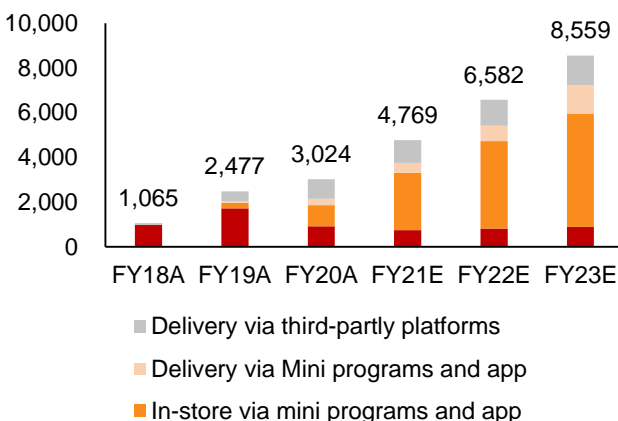
Source: Company data, CMBIS estimates

Figure 107: Nayuki and Tai Gai sales CAGR by channel, FY20-23E



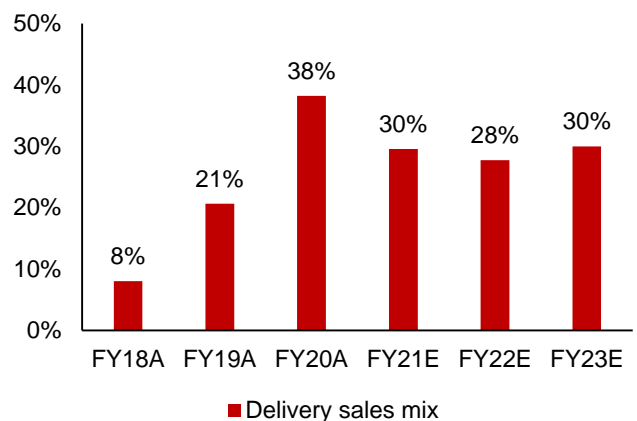
Source: Company data, CMBIS estimates

Figure 108: Nayuki and Tai Gai sales by in-stores and delivery



Source: Company data, CMBIS estimates

Figure 109: Nayuki and Tai Gai delivery sales contribution



Source: Company data, CMBIS estimates

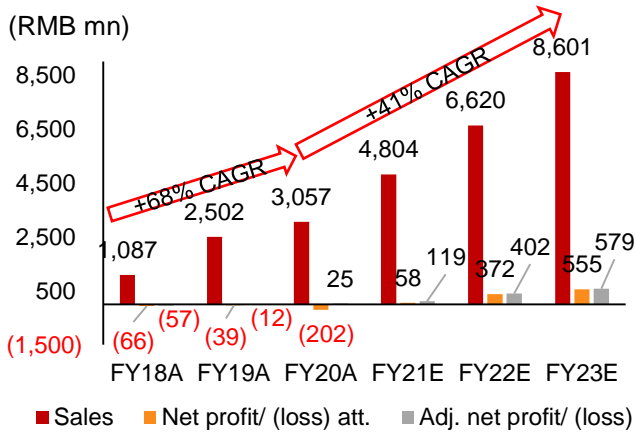
We forecast adj. NP growth of 383%/ 239%/ 44% YoY in FY21E/ 22E/ 23E

■ GP margin will rebound slightly in FY21E.

We expect GP margin to go up by 1.9ppt to 63.9% in FY21E (from 62.1% in FY20), due to:

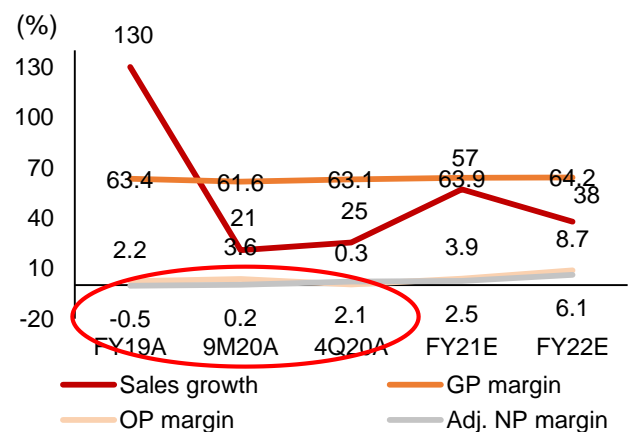
- 1) no more drags from COVID-19, and lower cost of goods sold as it was inflated in FY20, RMB 96mn worth of uncreditable VAT was included as costs of raw materials in FY20, as part of one-off VAT exemptions,
- 2) increased efforts to source major ingredients directly from their regions of origin and enhanced collaborations with suppliers to secure more competitive raw material prices.

Figure 110: Sales, NP att. and adj. NP



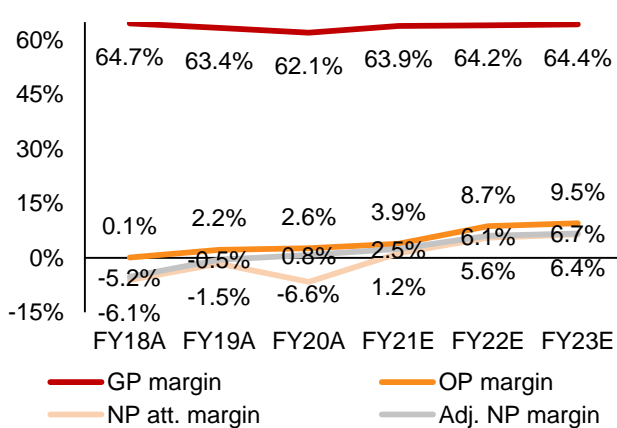
Source: Company data, CMBIS estimates

Figure 111: Sales growth and margins



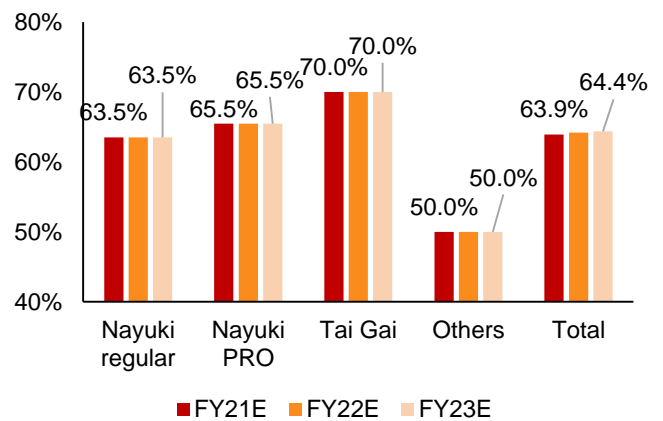
Source: Company data, CMBIS estimates

Figure 112: GP/ OP/ NP att./ adj. NP att. margin



Source: Company data, CMBIS estimates

Figure 113: GP margin, by segment (CMBI est.)



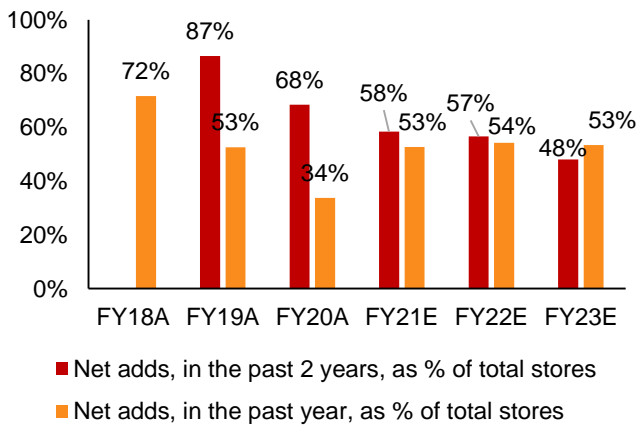
Source: *group-level operating income minus store-level operating income, Company data, CMBIS estimates

■ **GP margin should gradually increase in FY22E and onwards.**

We expect GP margin to rise to 64.2%/ 64.4% in FY22E/ 23E, thanks to:

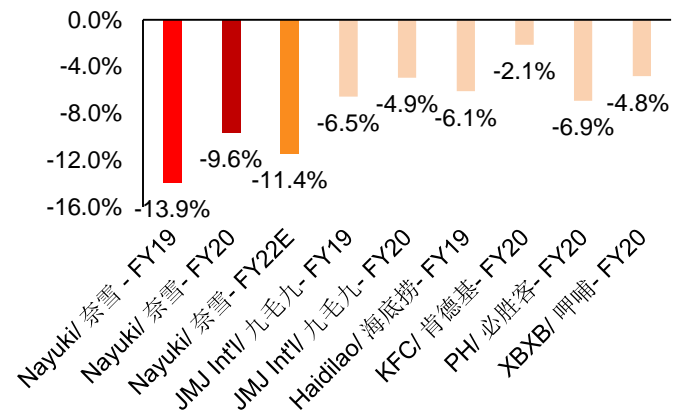
- 1) more centralized and direct sourcing of raw materials, to cope with input price inflations,
- 2) increased sales mix from PRO stores, coffees and pre-made bakery goods,
- 3) roll-out of the propriety integrated information platform “Teacore”, where one of the benefits is the smart in-store and warehouse inventory management, which is able to reduce waste of raw materials,
- 4) economies of scales, as store numbers doubled/ tripled in FY22E/23E, vs FY20.

Figure 114: New stores mix continued to decline



Source: Company data, CMBIS estimates

Figure 115: Headquarters cost*, by brand



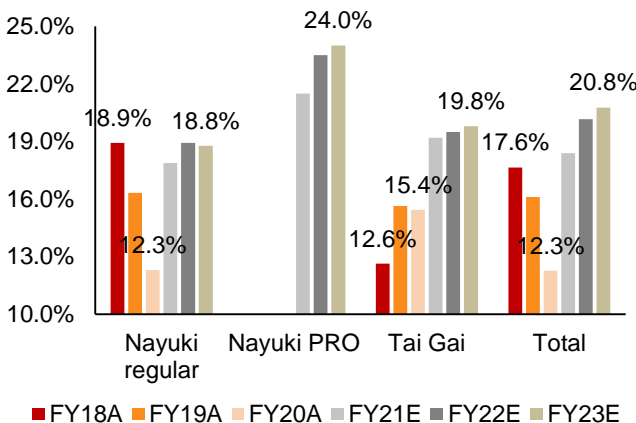
Source: *group-level operating income minus store-level operating income, Company data, CMBIS estimates

■ **OP margin will surge in FY21E.**

We expect sizable other income in FY20 (mostly one-off VAT exemptions, of about RMB 200mn) and the losses in 1H20 (business disruption due to COVID-19) will no longer exist in FY21E. More importantly, we believe opex to improve meaningfully in FY21E, thanks to:

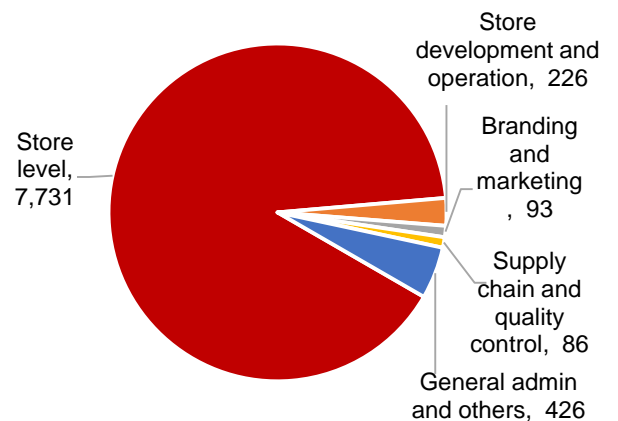
- 1) sales per store growth, as ramp up of many stores were dragged by COVID-19 in FY20,
- 2) increase in Nayuki PRO store mix, which often has a lower rent and staff costs due to reduced store area and number of staffs,
- 3) digitalization on in-store crew scheduling, should be rolled out to all stores by FY21E.

Figure 116: Restaurant level OP margins, by brand



Source: Company data, CMBIS estimates

Figure 117: Number of staff, by function



Source: Company data, CMBIS estimates, as at Feb 2021

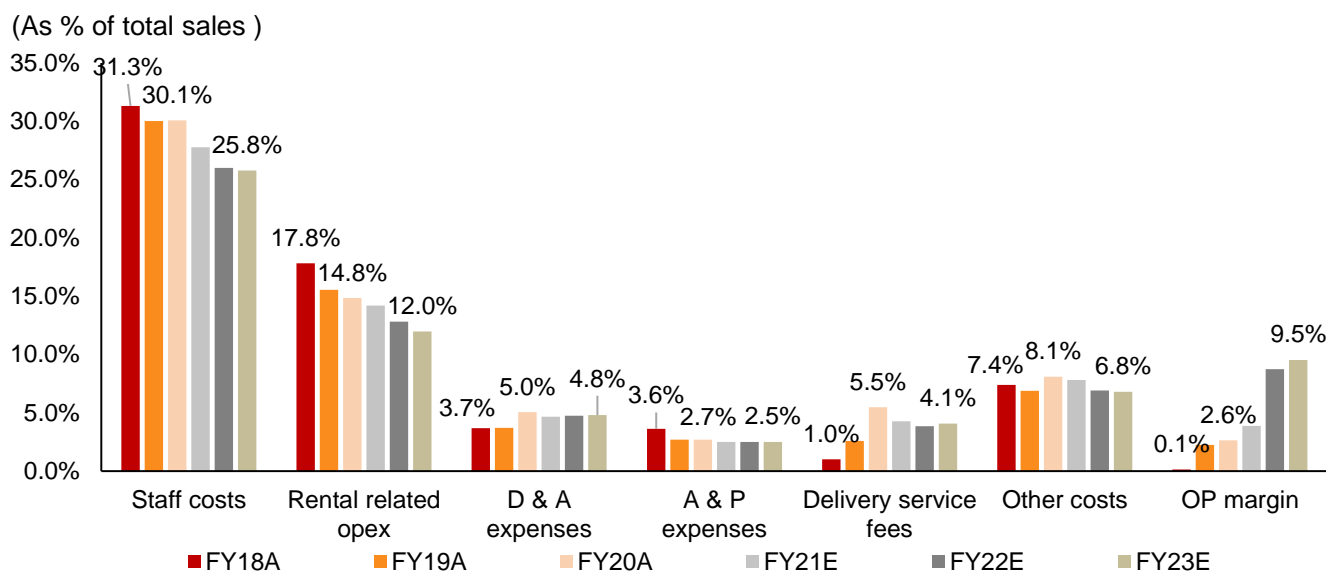
■ **OP margin will continue to surge in FY22E and in FY23E.**

We forecast OP margin to increase to 8.7% in FY22E and 9.5% in FY23E, boosted by:

- 1) decline in new store mix (or increase in average operating days),
- 2) less initial losses incurred for a new area or city penetration, as the coverage of tier-1 and new tier-1 cities becomes more mature,
- 3) increase in Nayuki PRO store mix, whose sales per sq m and OP margin are much higher than the Nayuki regular stores,
- 4) certain part of opex to stay relatively flattish, which are mostly within the headquarters costs, logistics and storage cost and others.

We expect labour costs (as % sales) to fall from 30.1% in FY20 to 27.8%/ 26.0%/ 25.8% in FY21E/ 22E/ 23E and rental expenses (as % of sales) to drop from 14.8% in FY20 to 14.2%/ 12.8%/ 12.0% in FY21E/ 22E/ 23E, noted that interest costs on lease liabilities is excluded.

Figure 118: Opex breakdown and OP margin



Source: Company data, CMBIS estimates

■ **Breakeven should occur in FY21E, and NP att. margin will reach 1.2%/ 5.6%/ 6.5% in FY21E/ 22E/ 23E and Adj. NP att. margin will reach 2.5%/ 6.0%/ 6.6% in FY21E/ 22E/ 23E.**

If adjusted for fair value losses of financial liabilities, associated with series C investments, the Company would achieved profit making in FY20, and we believe net profit will normalize in FY21E and further improve in FY22E-23E, thanks to:

- 1) sales CAGR of 41% in FY20-23E, driven by stores expansion,
- 2) mild but stable increases in GP margin from rising mix of Nayuki PRO stores and coffee products, more centralized sourcing and digitalized supply chain management,
- 3) meaningful leverage in opex, from expansion of Nayuki PRO stores, economies of scale, etc.

Figure 119: Income Statement, full year

Fiscal Year, Dec YE (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	1,087	2,502	3,057	4,804	6,620	8,601
Raw materials & consumables used	(384)	(916)	(1,159)	(1,732)	(2,371)	(3,064)
Gross profit	703	1,586	1,898	3,072	4,249	5,537
Other income	3	6	206	53	86	91
Staff costs	(340)	(751)	(919)	(1,334)	(1,721)	(2,216)
Depreciation of right-of-use assets	(120)	(261)	(353)	(512)	(643)	(787)
Other rentals & related expenses	(73)	(127)	(101)	(169)	(205)	(241)
D & A of other assets	(40)	(93)	(154)	(223)	(313)	(414)
Advertising & promotion expenses	(39)	(67)	(82)	(120)	(166)	(215)
Delivery service fees	(11)	(64)	(167)	(204)	(253)	(350)
Utilities expenses	(24)	(52)	(67)	(106)	(139)	(181)
Logistic & storage fees	(12)	(40)	(57)	(82)	(106)	(129)
Other expenses	(45)	(80)	(124)	(187)	(212)	(275)
EBIT	1	56	80	186	578	820
Share of (losses)/profits of associates	0	0	0	0	0	0
Other net (losses)/income	(3)	(2)	(140)	(14)	(7)	(9)
Finance costs	(46)	(96)	(130)	(102)	(129)	(151)
Pre-tax income	(47)	(43)	(190)	70	442	660
Income tax	(22)	3	(13)	(10)	(66)	(99)
Net profit/ (loss)	(70)	(40)	(203)	59	376	561
Minority interest	(4)	(1)	(1)	1	4	7
Net profit/ (loss) att.	(66)	(39)	(202)	58	372	555
Fair value changes of financial liabilities	0	0	133	0	0	0
Professional service fees	0	0	11	24	0	0
Equity-settled share-based payment expenses	0	0	45	34	26	17
Interest on redeemable capital contribution	13	28	38	2	0	0
Adj. net profit/ (loss)	(57)	(12)	25	119	402	579
Margin Analysis						
GP margin	64.7%	63.4%	62.1%	63.9%	64.2%	64.4%
Staff costs/ sales	-31.3%	-30.0%	-30.1%	-27.8%	-26.0%	-25.8%
Depreciation of right-of-use assets/ sales	-11.1%	-10.5%	-11.5%	-10.7%	-9.7%	-9.2%
Other rentals & related expenses/ sales	-6.7%	-5.1%	-3.3%	-3.5%	-3.1%	-2.8%
D & A of other assets/ sales	-3.7%	-3.7%	-5.0%	-4.7%	-4.7%	-4.8%
Delivery service fees/ sales	-1.0%	-2.6%	-5.5%	-4.3%	-3.8%	-4.1%
EBIT margin	0.1%	2.2%	2.6%	3.9%	8.7%	9.5%
NP att. margin	-6.1%	-1.5%	-6.6%	1.2%	5.6%	6.4%
Adjusted NP margin	-5.2%	-0.5%	0.8%	2.5%	6.1%	6.7%
Growth Analysis (YoY)						
Sales	-	130.2%	22.2%	57.1%	37.8%	29.9%
Gross profit	-	125.6%	19.7%	61.9%	38.3%	30.3%
EBIT	-	3916.7%	44.2%	132.0%	210.2%	41.9%
Net profit att.	-	n/a	n/a	n/a	536.2%	49.3%
Adjusted Net profit	-	n/a	n/a	383.2%	238.9%	43.8%

Source: Company data, CMBIS estimates

Figure 120: Income Statement, full year

Fiscal Year, Dec YE (RMB mn)	9M19A	4Q19	9M20A	4Q20
Sales	1,750	752	2,115	943
Raw materials & consumables used	(626)	(290)	(811)	(348)
Gross profit	1,124	462	1,303	594
Other income	4	1	139	67
Staff costs	(507)	(244)	(604)	(315)
Depreciation of right-of-use assets	(181)	(81)	(256)	(97)
Other rentals & related expenses	(92)	(35)	(67)	(34)
D & A of other assets	(60)	(32)	(110)	(44)
Advertising & promotion expenses	(49)	(19)	(50)	(33)
Delivery service fees	(39)	(25)	(117)	(50)
Utilities expenses	(36)	(15)	(48)	(19)
Logistic & storage fees	(28)	(12)	(40)	(17)
Other expenses	(47)	(33)	(74)	(50)
EBIT	89	(33)	77	3
Share of (losses)/profits of associates	0	0	0	0
Other net (losses)/income	(3)	1	(7)	(134)
Finance costs	(68)	(29)	(91)	(39)
Pre-tax income	18	(61)	(21)	(169)
Income tax	(22)	25	(7)	(6)
Net profit/ (loss)	(4)	(36)	(28)	(176)
Minority interest	(1)	(0)	(1)	0
Net profit/ (loss) att.	(3)	(36)	(26)	(176)
Fair value changes of financial liabilities	0	0	0	133
Professional service fees	0	0	3	8
Equity-settled share-based payment expenses	0	0	6	39
Interest on redeemable capital contribution	21	7	22	16
Adj. net profit/ (loss)	17	(29)	4	20
Margin Analysis				
GP margin	64.2%	61.4%	61.6%	63.1%
Staff costs/ sales	-29.0%	-32.4%	-28.6%	-33.4%
Depreciation of right-of-use assets/ sales	-10.3%	-10.7%	-12.1%	-10.3%
Other rentals & related expenses/ sales	-5.3%	-4.7%	-3.1%	-3.6%
D & A of other assets/ sales	-3.4%	-4.3%	-5.2%	-4.7%
Delivery service fees/ sales	-2.3%	-3.3%	-5.5%	-5.3%
EBIT margin	5.1%	-4.4%	3.6%	0.3%
NP att. margin	-0.2%	-4.7%	-1.2%	-18.6%
Adjusted NP margin	1.0%	-3.8%	0.2%	2.1%
Growth Analysis (YoY)				
Sales			20.8%	25.4%
Gross profit			15.9%	28.8%
EBIT			-13.0%	-109.9%
Net profit att.			n/a	395.2%
Adjusted Net profit			-73.4%	n/a

Source: Company data, CMBIS estimates

Figure 121: Balance Sheet

Fiscal Year, Dec YE (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
NON-CURRENT ASSETS						
Fixed assets	254	451	587	796	980	1,099
Right-of-use assets	727	1,170	1,240	1,240	1,240	1,240
Intangible assets (Incl. product dev. costs)	0	1	1	1	1	1
Associates & jointly controlled companies	0	0	0	0	0	0
L-T deposits, prepayments & other receivables	16	4	2	2	2	2
Others	62	130	154	154	154	154
Non-current assets	1,059	1,756	1,984	2,193	2,377	2,496
CURRENT ASSETS						
Inventories	38	78	103	119	162	210
Accts & bills receivable	2	1	1	1	2	2
Prepayments & deposits	0	0	0	0	0	0
Due from related parties	0	1	0	0	0	0
Pledge deposit & Fixed deposits	0	0	0	0	0	0
Other current assets	59	135	724	264	364	473
Cash	186	81	502	5,313	5,562	6,108
Current assets	285	295	1,330	5,698	6,091	6,794
CURRENT LIABILITIES						
Trade payable	104	202	226	299	390	504
Tax	14	7	21	21	21	21
Accruals & other payables	108	167	258	360	463	602
Bank loans	2	55	283	283	283	283
Finance leases	167	292	365	365	365	365
Other current liabilities	455	505	1,575	1,575	1,575	1,575
Current liabilities	850	1,226	2,728	2,904	3,098	3,350
NON-CURRENT LIABILITIES						
Bank loans	0	0	0	100	100	100
Provisions	7	11	14	14	14	14
Other non-current liabilities	596	963	996	996	996	996
Non-current liabilities	603	974	1,010	1,110	1,110	1,110
SHAREHOLDER'S EQUITY						
Minority interest	0	0	0	1	5	12
Shareholder's equity	(110)	(149)	(424)	3,876	4,255	4,818
DEBT ANALYSIS						
Total debt	2	55	284	384	384	384
Total equity	(110)	(149)	(424)	3,877	4,260	4,830
D/E ratio	-1.4%	-36.5%	-66.8%	9.9%	9.0%	7.9%
D/A ratio	0.1%	2.7%	8.6%	4.9%	4.5%	4.1%
Net debt	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

Figure 122: Cash Flow Statement

Fiscal Year, Dec YE (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
CASH FLOW						
Operating cash flow	201	416	574	1,018	874	1,230
Capex	(209)	(290)	(243)	(432)	(497)	(533)
Investment	0	0	0	0	0	0
Acquisition of intangible assets	0	(1)	(0)	0	0	0
Sale of assets	0	1	31	0	0	0
Others	(0)	(1)	(31)	0	0	0
Investing cash flow	(209)	(291)	(244)	(432)	(497)	(533)
Net change in bank loans	2	53	222	100	0	0
Net change in other non-curr liabilities	(108)	(267)	(119)	0	0	0
Issue of shares	300	0	0	4,228	0	0
Others	(12)	(15)	(11)	(102)	(129)	(151)
Financing cash flow	181	(229)	92	4,226	(129)	(151)
Exchange rate or other adjustments	0	(0)	(2)	0	0	0
Cash at period end	186	81	502	5,313	5,562	6,108
WORKING CAPITAL TURNOVER						
Inventory days	18	23	28	25	25	25
Trade receivable days	0	0	0	0	0	0
Trade payable days	49	61	67	63	60	60
Cash conversion cycle (days)	(31)	(38)	(39)	(38)	(35)	(35)

Source: Company data, CMBIS estimates

Balance sheet and Cash flow

■ Cash flow is improving, and gearing will become healthier.

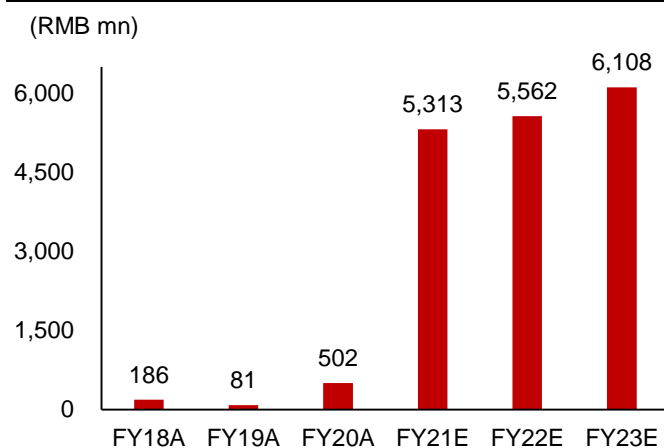
Operating cash flow is gradually improving, thanks to rapid sales and EBITDA growth, even with the drags by COVID-19 in FY20.

Net cash position was not particularly rich in FY18-20, where the cash needed for expansion capex, was mostly supported by equity financing and bank borrowings.

However, as the Company will turn into profit making since FY21E, we believe the operating cash flow can support the capex of further store expansion in FY21E-23E.

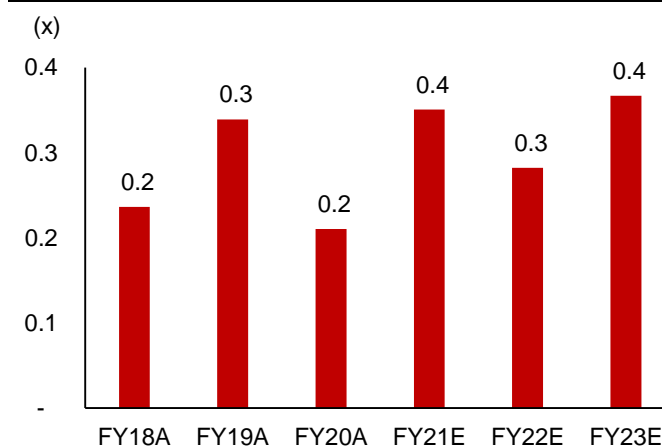
Therefore, the net cash level will continue to improve and the gearing will also become healthier as the Company gradually repays its loans in FY21E-23E.

Figure 123: Closing cash balance



Source: Company data, CMBIS estimates

Figure 124: Net operating cash flow ratio



Source: Company data, CMBIS estimates, Net operating cash flow ratio = dividing net operating cash flow by current liabilities

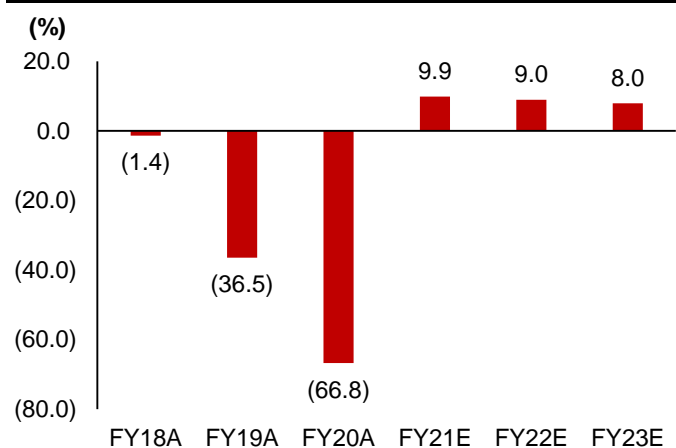
■ **We expect Cash conversion cycle (CCC) to normalize to ~ negative 38 days in FY21E and onwards.**

Inventory days dropped in 2019 was due to the increased local sourcing. Inventory days increased in 2020 due to the outbreak of COVID-19, when the Company had increased overall raw material purchases to support the community. Going forward in 2021E-23E, we expect inventory days to stay relatively stable, as a result of increased digitalization (more smart orderings will reduce inventory level) and increased investments on central kitchens, self-owned warehouses and other facilities (increase overall inventory level).

Payable days dropped in 2019 as Nayuki increased its payment settlements to its suppliers. Payable days increased in 2020, due to the lengthened supply cycle during the COVID-19 outbreak, and therefore the payable days also lengthened.

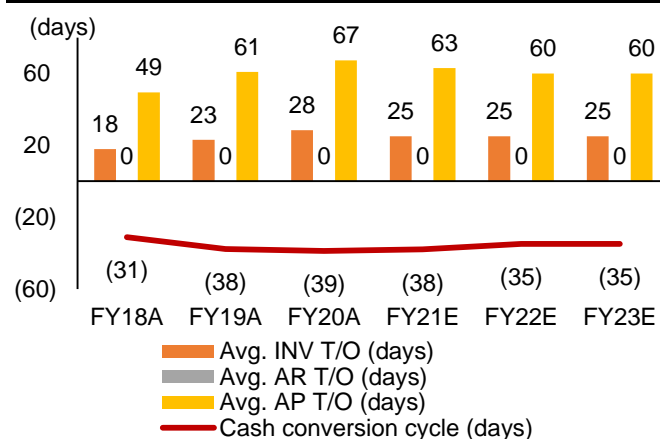
Receivable days are always low, as majority of the customers are retail customers and this is likely to continue in the foreseeable future.

Figure 125: Total debt or (cash) to equity



Source: Company data, CMBIS estimates, *there were negative equity in FY18-20A

Figure 126: Working capital (days)



Source: Company data, CMBIS estimates

Valuation

Figure 127: Peers valuation

Company	Ticker	Rating	12M TP HK\$/ LC	Price HK\$/ LC	Up/do wn- side (%)	Mkt cap HK\$ mn	Year End	PER (x)		PBR (x)		ROE (%)	3yrs PEG(x)	Yield (%)	YTD perform ance (%)	
								FY1	FY2	FY1	FY2					FY0
Leading Greater China Catering and Food Ingredients																
Nayuki Holdings	2150 HK	BUY	16.88	9.75	73%	16,722	Dec-20	117.6	34.9	3.6	3.3	n/a	(0.5)	0.0	n/a	
Jiumaoju Int'l	9922 HK	BUY	30.74	23.90	29%	34,736	Dec-20	59.7	38.1	8.1	6.7	7.9	0.5	0.4	1.3	
Haidilao Int'l	6862 HK	BUY	40.11	29.10	38%	158,857	Dec-20	40.4	25.3	9.9	7.2	3.0	0.2	0.7	(51.3)	
Cafe De Coral	341 HK	BUY	19.05	15.04	27%	8,809	Mar-21	24.5	19.3	2.7	2.6	12.6	1.9	2.4	(9.9)	
Xiabuxiabu	520 HK	NR	n/a	6.96	n/a	7,555	Dec-20	17.6	11.2	2.5	2.0	0.1	0.0	1.9	(60.5)	
Yihai Int'l	1579 HK	BUY	108.52	50.05	117%	52,397	Dec-20	38.3	30.1	9.9	7.7	30.0	1.4	0.7	(56.3)	
Yum China	9987 HK	BUY	597.92	480.20	25%	202,109	Dec-20	31.5	26.7	3.8	3.4	20.5	3.2	0.8	8.0	
Gourmet Master	2723 TT	NR	n/a	132.00	n/a	6,646	Dec-20	19.4	17.2	2.0	1.8	11.4	1.0	3.0	(6.4)	
Avg.							Avg.	43.6	25.3	5.3	4.3	12.2	1.0	1.2	(25.0)	
Med.							Med.	34.9	26.0	3.7	3.3	11.4	0.8	0.7	(9.9)	
Other Greater China Catering and Food Ingredients																
Tenfu	6868 HK	NR	n/a	5.20	n/a	5,710	Dec-20	n/a	n/a	n/a	n/a	17.7	n/a	n/a	(14.5)	
Sunjuice	1256 TT	NR	n/a	453.50	n/a	4,293	Dec-20	n/a	n/a	n/a	n/a	40.0	n/a	n/a	54.3	
Fairwood	52 HK	NR	n/a	17.42	n/a	2,257	Mar-21	n/a	n/a	n/a	n/a	20.5	n/a	n/a	(1.6)	
Tai Hing Group	6811 HK	NR	n/a	1.83	n/a	1,837	Dec-20	10.5	8.9	1.6	1.5	11.6	0.3	6.3	24.5	
Hop Hing Group	47 HK	NR	n/a	0.05	n/a	473	Dec-20	n/a	n/a	n/a	n/a	(17.5)	n/a	n/a	(4.1)	
Ajisen China	538 HK	NR	n/a	1.36	n/a	1,484	Dec-20	n/a	n/a	n/a	n/a	(2.4)	n/a	n/a	3.8	
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	23.2	
Avg.							Avg.	10.5	8.9	1.6	1.5	9.5	0.3	6.3	12.2	
Med.							Med.	10.5	8.9	1.6	1.5	11.6	0.3	6.3	3.8	
Greater China Catering and Food Ingredients																
								Avg.	30.2	22.1	5.0	4.1	10.8	1.1	2.0	(6.4)
								Med.	28.0	22.3	3.2	3.0	11.5	0.8	1.4	(2.8)
International Catering and Food Ingredients																
Yum! Brands	YUM US	NR	n/a	134	n/a	308,393	Dec-20	29.6	27.1	n/a	n/a	n/a	1.3	1.5	23.5	
Mcdonald'S Corp	MCD US	NR	n/a	236	n/a	1,373,169	Dec-20	26.2	24.0	n/a	n/a	n/a	1.4	2.2	10.1	
Starbucks Corp	SBUX US	NR	n/a	119	n/a	1,092,472	Sep-20	36.9	32.1	n/a	n/a	n/a	0.5	1.6	11.3	
Restaurant Brands	QSR US	NR	n/a	64	n/a	229,550	Dec-20	22.9	20.0	8.9	9.7	27.8	0.7	3.3	4.1	
Chipotle Mexican Grill	CMG US	NR	n/a	1887	n/a	412,633	Dec-20	74.2	56.9	23.3	19.3	30.2	1.5	0.0	36.1	
Darden Restaurants	DRI US	NR	n/a	145	n/a	147,259	May-21	19.3	17.3	6.3	5.7	24.5	0.8	3.0	21.5	
Domino'S Pizza	DPZ US	NR	n/a	533	n/a	153,004	Jan-21	39.1	33.9	n/a	n/a	n/a	3.2	0.7	39.1	
Wendy'S Co	WEN US	NR	n/a	22	n/a	38,297	Jan-21	30.1	26.2	9.1	10.4	29.8	1.3	1.8	1.4	
Shake Shack	SHAK US	NR	n/a	90	n/a	29,577	Dec-20	n/a	256.7	9.5	9.0	(5.2)	n/a	n/a	6.6	
Wingstop	WING US	NR	n/a	177	n/a	40,904	Dec-20	118.1	92.4	n/a	n/a	n/a	2.7	0.4	33.3	
Avg.							Avg.	44.1	58.7	11.4	10.8	21.4	1.5	1.6	18.7	
Med.							Med.	30.1	29.6	9.1	9.7	27.8	1.3	1.6	16.4	
A-shares Greater China Catering and Food Ingredients																
Foshan Haitian Flavouring	603288 CH	NR	n/a	121.06	n/a	612,667	Dec-20	66.7	53.2	19.9	16.0	33.5	2.8	0.8	(21.5)	
Fujian Sunner	002299 CH	NR	n/a	20.18	n/a	30,169	Dec-20	20.3	11.7	2.5	2.3	9.9	1.2	1.9	(24.0)	
Angel Yeast	600298 CH	NR	n/a	49	n/a	48,998	Dec-20	26.4	22.8	5.6	4.8	25.0	1.6	1.2	(4.1)	
Meihua Holdings Group	600873 CH	NR	n/a	6.09	n/a	22,671	Dec-20	11.8	10.2	2.0	1.9	15.0	0.4	7.1	30.7	
Guangzhou Restaurant	603043 CH	NR	n/a	22.20	n/a	15,085	Dec-20	21.7	17.9	4.2	3.6	20.8	0.9	1.8	(19.8)	
Xiangpiaopiao Food	603711 CH	NR	n/a	15.30	n/a	7,655	Dec-20	16.0	13.9	2.0	1.8	16.7	1.0	n/a	(27.6)	
China Quanjude	002186 CH	NR	n/a	9.16	n/a	3,395	Dec-20	130.9	43.6	n/a	n/a	(17.3)	(0.7)	n/a	(9.1)	
Avg.							Avg.	42.0	24.8	6.0	5.1	14.8	1.0	2.6	(10.8)	
Med.							Med.	21.7	17.9	3.4	2.9	16.7	1.0	1.8	(19.8)	
H-shares Consumer Staples																
Uni-President China	220 HK	NR	n/a	7.99	n/a	34,511	Dec-20	16.8	15.4	2.1	2.0	11.8	1.5	5.8	1.3	
Tingyi (Cayman Isln)	322 HK	NR	n/a	14.44	n/a	81,256	Dec-20	17.5	15.9	3.1	3.0	20.0	2.5	5.9	12.4	
Want Want China	151 HK	NR	n/a	5.26	n/a	63,073	Mar-21	12.5	11.7	3.3	3.0	27.6	1.8	5.2	(6.2)	
China Mengniu Dairy	2319 HK	NR	n/a	44.10	n/a	174,125	Dec-20	28.2	23.3	3.9	3.4	11.4	0.9	0.9	(5.1)	
Vitasoy Intl Holdings	345 HK	NR	n/a	19.28	n/a	20,580	Mar-21	42.7	32.3	5.6	5.1	16.3	4.3	1.5	(36.2)	
Nongfu Spring	9633 HK	NR	n/a	41.75	n/a	469,540	Dec-20	62.3	53.2	19.4	15.4	41.6	3.2	0.6	(24.0)	
Budweiser Brewing	1876 HK	NR	n/a	21.40	n/a	283,409	Dec-20	37.7	31.2	3.2	3.0	8.3	1.0	1.1	(16.4)	
Tsingtao Brewery	168 HK	NR	n/a	65.10	n/a	116,962	Dec-20	26.4	23.1	3.3	3.1	13.0	1.3	1.5	(19.8)	
China Resources Beer	291 HK	NR	n/a	62.05	n/a	201,301	Dec-20	44.7	36.3	7.0	6.3	10.2	1.1	0.9	(13.1)	
Dali Foods Group	3799 HK	NR	n/a	4.34	n/a	59,432	Dec-20	12.3	11.3	2.5	2.3	22.8	1.4	4.4	(2.0)	
Avg.							Avg.	30.1	25.4	5.3	4.7	18.3	1.9	2.8	(10.9)	
Med.							Med.	27.3	23.2	3.3	3.1	14.6	1.5	1.5	(9.7)	

Source: Bloomberg, Company data, CMBIS estimates, as at 9 Aug 2021

Figure 128: Peers valuation

Company	Ticker	Rating	Market Cap	EV	EV/EBITDA			3 yrs EBITDA	P/S			3 yrs Sales CAGR (%)	PSG
			HK\$ mn	HK\$ mn	FY1	FY2	FY3	FY1	FY1	FY2	FY3	FY1	FY1
Leading Greater China Catering and Food Ingredients													
Nayuki Holdings	2150 HK	BUY	16,722	19,423	43.3	19.5	13.8	73.5	2.9	2.1	1.6	41.8	0.07
Jiumaoju Int'l	9922 HK	BUY	34,736	34,175	25.9	17.3	12.0	67.1	5.7	4.0	2.9	57.3	0.10
Haidilao Int'l	6862 HK	BUY	158,857	169,804	17.2	11.8	9.6	53.5	2.6	1.9	1.6	46.3	0.06
Cafe De Coral	341 HK	BUY	8,809	9,951	12.0	10.3	10.0	(14.0)	1.1	1.0	0.9	12.1	0.09
Xiabuxiabu	520 HK	NR	7,555	8,635	5.0	3.9	3.4	25.8	0.8	0.7	0.5	31.1	0.03
Yihai Int'l	1579 HK	BUY	52,397	50,219	25.0	19.6	15.7	27.7	6.2	5.0	4.0	29.8	0.21
Yum China	9987 HK	BUY	202,109	189,069	14.7	12.8	11.7	3.5	2.5	2.3	2.1	15.1	0.17
Gourmet Master	2723 TT	NR	6,646	6,577	4.7	4.3	4.0	8.2	1.1	1.1	1.0	7.6	0.15
Avg.			60,979	60,981	18.5	12.4	10.0	30.7	2.9	2.3	1.8	30.1	0.11
Med.			25,729	26,799	15.9	12.3	10.8	26.8	2.6	2.0	1.6	30.5	0.09
Other Greater China Catering and Food Ingredients													
Tenfu	6868 HK	NR	5,710	6,274	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sunjuice	1256 TT	NR	4,293	4,069	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fairwood	52 HK	NR	2,257	2,853	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tai Hing Group	6811 HK	NR	1,837	2,943	6.9	6.0	5.3	(8.5)	0.5	0.4	0.4	17.8	0.0
Hop Hing Group	47 HK	NR	473	835	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ajisen China	538 HK	NR	1,484	477	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tao Heung	573 HK	NR	1,027	1,494	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Avg.			2,440	2,707	6.9	6.0	5.3	(8.5)	0.5	0.4	0.4	17.8	0.03
Med.			1,837	2,853	6.9	6.0	5.3	(8.5)	0.5	0.4	0.4	17.8	0.03
Greater China Catering and Food Ingredients													
			34,871	34,813	13.9	10.8	9.0	20.4	2.6	2.0	1.7	27.1	0.10
			6,178	6,426	13.3	11.0	9.8	17.0	1.8	1.5	1.3	23.8	0.09
International Catering and Food Ingredients													
Yum! Brands	YUM US	NR	308,393	393,257	21.3	20.1	18.5	16.7	6.0	5.7	5.3	9.9	0.61
Mcdonald's Corp	MCD US	NR	1,373,169	1,732,075	18.9	17.7	16.6	8.4	7.7	7.3	7.0	9.8	0.79
Starbucks Corp	SBUX US	NR	1,092,472	1,237,019	24.3	21.4	19.4	21.0	4.8	4.4	4.0	14.1	0.34
Restaurant Brands	QSR US	NR	229,550	324,836	18.4	16.5	15.4	27.4	5.1	4.8	4.5	9.4	0.54
Chipotle Mexican Grill	CMG US	NR	412,633	430,942	46.4	36.3	29.8	29.5	7.1	6.2	5.5	17.0	0.41
Darden Restaurants	DRI US	NR	147,259	182,519	15.0	13.9	13.2	8.8	2.0	1.9	1.8	14.0	0.14
Domino's Pizza	DPZ US	NR	153,004	191,987	27.3	25.1	23.1	8.6	4.4	4.1	3.8	8.0	0.55
Wendy's Co	WEN US	NR	38,297	64,195	17.9	16.9	15.6	2.8	2.7	2.6	2.5	4.7	0.57
Shake Shack	SHAK US	NR	29,577	31,619	72.0	38.5	28.7	41.8	5.1	3.9	3.2	31.0	0.17
Wingstop	WING US	NR	40,904	44,214	66.2	53.8	46.2	22.3	17.8	15.1	13.2	17.1	1.04
Avg.			382,526	463,266	32.8	26.0	22.7	18.7	6.3	5.6	5.1	13.5	0.52
Med.			191,277	258,411	22.8	20.7	18.9	18.8	5.1	4.6	4.3	11.9	0.55
A-shares Greater China Catering and Food Ingredients													
Foshan Haitian Flavouring	603288 CH	NR	588,025	562,928	52.0	44.1	37.5	19.7	18.6	15.9	13.7	18.6	1.00
Fujian Sunner	002299 CH	NR	28,774	33,241	11.3	7.8	5.9	15.4	1.5	1.2	1.0	21.5	0.07
Angel Yeast	600298 CH	NR	48,144	51,641	18.5	16.3	14.5	12.4	3.9	3.5	3.1	16.1	0.24
Meihua Holdings Group	600873 CH	NR	22,180	27,357	7.2	7.0	6.9	9.1	0.9	0.8	0.8	14.3	0.07
Guangzhou Restaurant	603043 CH	NR	14,820	13,368	14.7	12.5	10.6	21.6	3.0	2.5	2.2	22.1	0.13
Xiangpiaopiao Food	603711 CH	NR	7,540	6,333	9.4	8.1	7.0	11.8	1.4	1.2	1.0	19.7	0.1
China Quanjude	002186 CH	NR	3,377	3,159	n/a	n/a	n/a	n/a	2.1	1.8	1.6	33.6	0.1
Avg.			101,837	99,718	18.8	16.0	13.7	15.0	4.5	3.8	3.4	20.9	0.23
Med.			22,180	27,357	13.0	10.3	8.8	13.9	2.1	1.8	1.6	19.7	0.07
H-shares Consumer Staples													
Uni-President China	220 HK	NR	34,555	31,659	7.5	7.1	6.6	7.8	1.2	1.1	1.0	9.1	0.13
Tingyi (Cayman Isl)	322 HK	NR	81,931	77,472	6.9	6.6	6.2	6.7	1.0	0.9	0.9	7.1	0.14
Want Want China	151 HK	NR	63,073	56,020	7.1	6.8	6.4	4.3	2.3	2.2	2.1	6.4	0.35
China Mengniu Dairy	2319 HK	NR	175,112	179,639	20.1	17.1	14.9	23.7	1.7	1.5	1.3	15.5	0.11
Vitasoy Intl Holdings	345 HK	NR	22,896	22,602	16.4	14.4	13.0	9.7	2.7	2.5	2.2	11.2	0.25
Nongfu Spring	9633 HK	NR	466,728	458,829	37.0	32.3	28.1	16.8	14.1	12.0	10.4	20.4	0.69
Budweiser Brewing	1876 HK	NR	282,747	274,382	16.4	14.9	13.5	18.9	5.4	5.0	4.7	11.4	0.48
Tsingtao Brewery	168 HK	NR	115,041	93,081	17.9	15.7	14.0	14.8	3.1	3.0	2.8	9.8	0.32
China Resources Beer	291 HK	NR	191,893	186,808	23.6	19.5	16.7	27.3	4.5	4.2	3.9	11.6	0.39
Dali Foods Group	3799 HK	NR	57,515	43,430	6.4	5.9	5.5	9.6	2.1	2.0	1.9	9.0	0.24
Avg.			149,149	142,392	15.9	14.0	12.5	14.0	3.8	3.4	3.1	11.2	0.31
Med.			98,486	85,276	16.4	14.7	13.3	12.2	2.5	2.3	2.1	10.5	0.28

Source: Bloomberg, Company data, CMBIS estimates, as at 9 Aug 2021

Initiate BUY with TP of HK\$ 16.68 using Discounted Cash Flow (DCF) method, which also implies a 3.6x FY22E P/S

As Nayuki is still at its early stage of development, its profit level may not be decent enough, due to the significant investments on branding and store network expansion.

However, thanks to Nayuki's rare high-end branding and prominent popularity, we expect net profit to reach breakeven in FY21E (so as the free cash flow). Therefore DCF would be a more reasonable valuation methodology to capture its mid to long term growth potential, in our view.

Also, because Nayuki is highly competitive, in terms of product quality, services and store environment, as well as efficiency and technology, we think it would be able to maintain its meaningful market shares and further enjoy rapid growth in premium teahouse industry in the near future. As a result, P/S valuation can also be a reasonable reference, as market shares becomes more relevant.

Therefore, we believe Discounted Cash Flow (DCF) is the most appropriate methods to value Nayuki and Price to Sales (P/S) is also a reasonable reference.

We value Nayuki based on the DCF method and apply a 8.1% WACC and 3.5% terminal growth, implying also a 3.6x FY22E P/S, which has a 10% discount to JMJ Int'l's 4.0x and a 18% discount to Starbucks' 4.4x, but a 59% premium over China peers' average of 2.3x, due to faster than industry sales CAGR during FY20-23E.

It is currently trading at 2.1x FY22E P/S and 35x FY22E P/E, very attractive, compared to China peers' average of 2.3x and 25x.

Moreover, cross-checking with PSG, Nayuki is trading only at 0.07x PSG, while our TP is implying a 0.11x PSG, similar to leading China peers' 0.11x and much lower than global peers' 0.52x.

■ Our TP is based on DCF method (8.1% WACC and 3.5% terminal growth), which also implies a 3.6x FY22E P/S.

Reasons for using the DCF method:

- 1) We believe Nayuki will be successful in the mid to long term, supported by its leadership in branding, products and store environment,
- 2) It is still undergoing its early stage of development, but it is very fast growing (by store expansion) and has huge room for growth,
- 3) It will reach net profit breakeven and cash flow will be strong in the later stage of development, as its mature stores are profitable, where a strong cash flow is very popular and not surprising in the catering industry.

Our DCF method assumes

- 33% sales CAGR in FY20-25E
- 55% EBITDA CAGR in FY20-25E
- 15.6% EBITDA margin in FY25 (from 7.4% in FY20)
- 8.1% WACC (Lower than International peers avg. of 9.8% and Greater China leading peers avg. of 13.5%), based on 3.0% costs of debt, 10.0% risk premium, Beta of 0.7x, 10.0% cost of equity, Optimal debt/ equity ratio of 25%/ 75%.
- 3.5% terminal growth.

Figure 129: DCF-based valuation

DCF	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E
EBITDA	39	143	227	372	826	1,169	1,634	2,012
Chg in working cap	43	29	(9)	619	50	96	107	101
Adjusted tax	(1)	(4)	(4)	(26)	(86)	(122)	(179)	(229)
Capex & product dev	(209)	(290)	(243)	(432)	(497)	(533)	(541)	(517)
Unleveraged FCF	(128)	(121)	(30)	533	293	610	1,021	1,367
YoY%								
DCF (21E-25E)				2,897				
PV (Terminal value)				20,634				
EV (End-21E)				23,531				
Cash from options/w arrants conv				0				
Yer-end net cash/(debts)				218				
Fully diluted equity value (End-21E)				23,749				
Fully diluted no. of shares (m)				1,715				
Minority interests (End-21E)				0				
Market cap (End-21E)				23,749				
Exchange rate				1.20				
Fully diluted equity value/share (HK\$)				16.68				
Risk-free rate				3.0%				
Risk premium				10.0%				
Beta				0.70				
Cost of equity				10.0%				
Cost of debt				3.0%				
Tax rate				15.0%				
After-tax cost of debt				2.5%				
Debt to total capital				25.0%				
WACC				8.1%				
Terminal growth				3.5%				
FY22E EV/EBITDA				28.8				
FY22E adj. P/E				59.7				
FY22E P/S				3.6				

Source: Bloomberg, Company data, CMBIS estimates

Figure 130: DCF-based valuation - sensitivity test

Terminal growth (%)	WACC (%)						
	6.6%	7.1%	7.6%	8.1%	8.6%	9.1%	9.6%
2.0%	17.61	15.76	14.25	12.98	11.91	10.99	10.19
2.5%	19.54	17.29	15.48	14.00	12.76	11.70	10.80
3.0%	22.01	19.19	16.98	15.21	13.75	12.53	11.50
3.5%	25.26	21.61	18.85	16.68	14.94	13.51	12.32
4.0%	29.75	24.81	21.23	18.51	16.39	14.68	13.28
4.5%	36.34	29.21	24.36	20.85	18.19	16.10	14.42
5.0%	46.95	35.68	28.68	23.92	20.48	17.87	15.82

Source: Bloomberg, Company data, CMBIS estimates

■ It is trading at 2.1x FY22E P/S while our TP is implying a 3.6x.

We believe the P/S method can also be relevant, because:

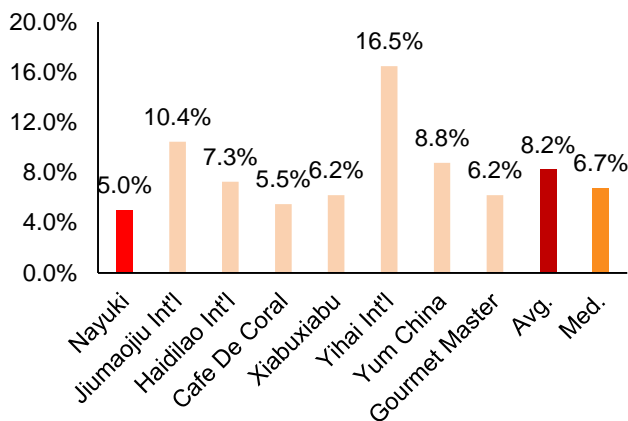
- 1) We believe Nayuki will be very successful in the mid to long term,
- 2) It will secure a reasonable high market shares in the teahouse industry,
- 3) It will deliver rapid sales CAGR (for both Nayuki and its industry) in the future,
- 4) It has a very low level of receivable days (mostly retail customers) which made its even less susceptible to accounting differences,
- 5) Its level of debt is fairly low and will become even lower given rapid growth ahead.

We think Nayuki's should deserve a premium on P/S ratio, thanks to:

- 1) Its faster than leading China peers' sales CAGR
- 2) Solid brand equity among the customers and significant market shares in the premium teahouse segment.

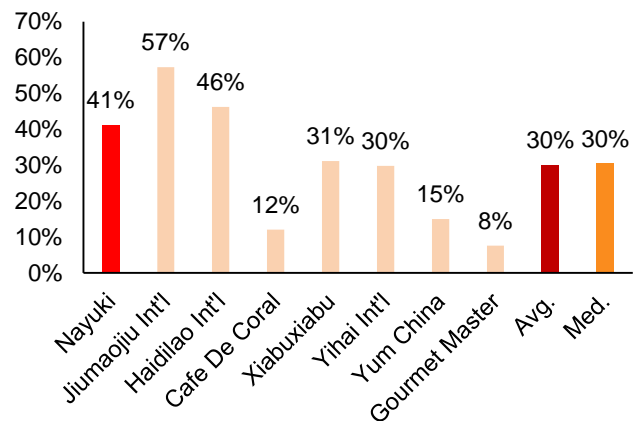
But there could be some discounting factors, such as its relatively low NP margin, vs leading China peers.

Figure 131: China catering leaders sector FY2E NP margin



Source: Bloomberg, CMBIS estimates

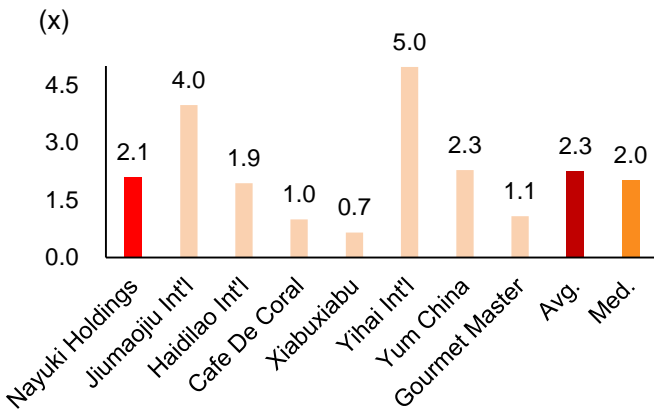
Figure 132: China catering sector FY0-3E sales CAGR



Source: Bloomberg, Company data, CMBIS estimates

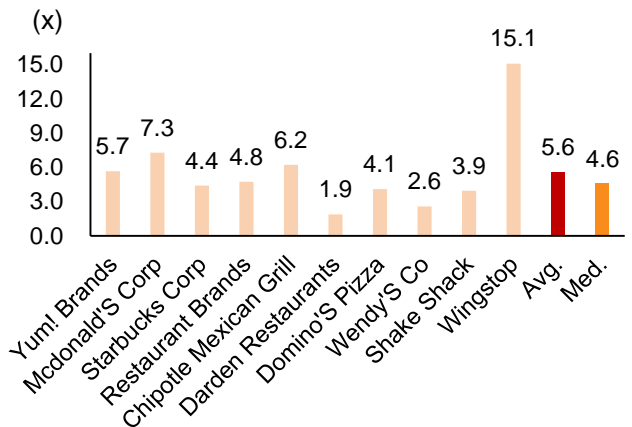
Therefore, we think Nayuki's current valuation of 2.1x FY22E P/S is attractive, because it is at a discount to China peers average of 2.3x, while its sales growth is much faster than peers (at 41% sales CAGR vs China peers' 30%).

Figure 133: China catering leaders sector FY2E P/S



Source: Bloomberg, CMBIS estimates

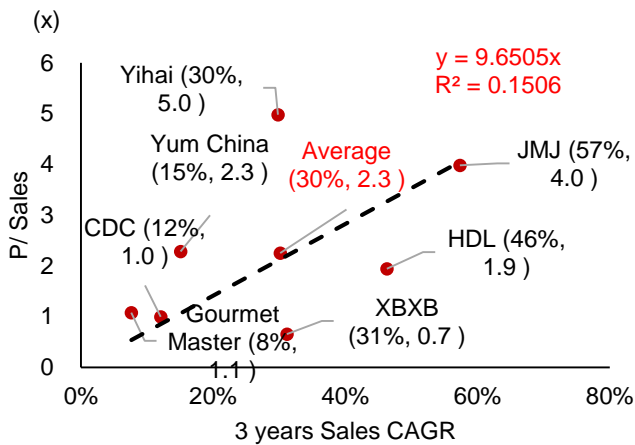
Figure 134: Global catering peers sector FY2E P/S



Source: Bloomberg, CMBIS estimates

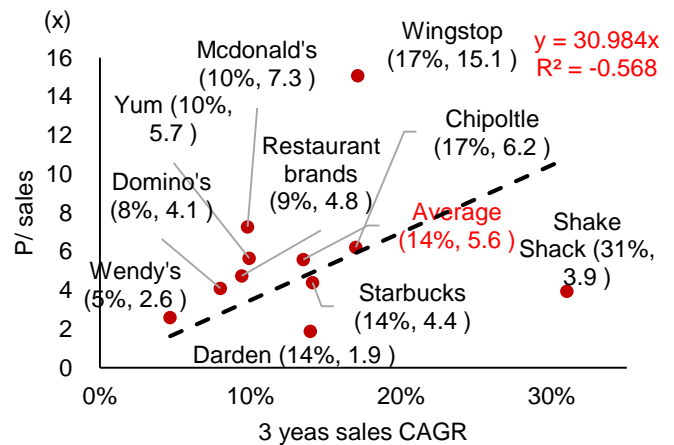
Our TP is implying a 3.6x FY22E P/S, which in our view is not demanding at all, while comparing to JMJ Int'l's 4.0x and Starbucks's 4.4x, as it has a 9% and a 17% discounts. Moreover, Nayuki can even arguably have a premium over Starbucks, because Starbucks also included other regions which have relatively slower growth than China.

Figure 135: Leading Chinese peers Sales CAGR vs P/S



Source: Bloomberg, Company data, CMBIS estimates

Figure 136: Global peers Sales CAGR vs P/S

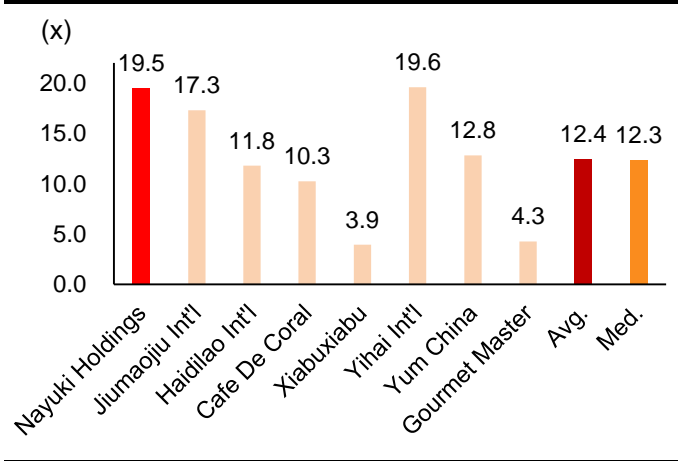


Source: Bloomberg, Company data, CMBIS estimates

■ It is trading at 19.5x FY22E EV/ EBITDA, while our TP is implying a 29.1x.

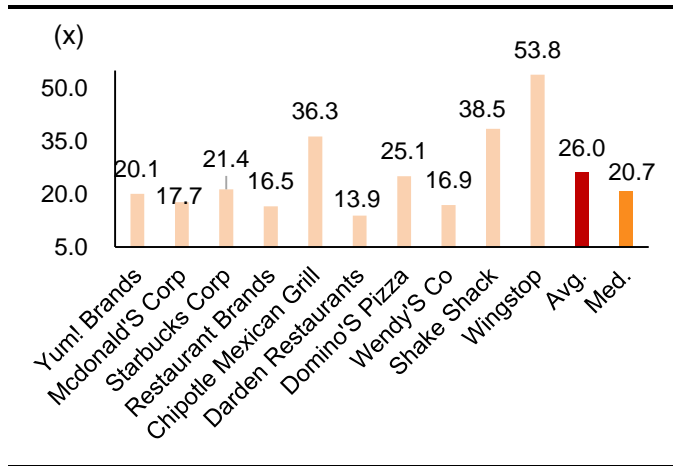
Nayuki is trading at a 19.5x FY22E EV/ EBITDA, much higher than China peers average of 12.4x, but we think that is still totally justifiable given its much faster than peers EBITDA growth (at 73% EBITDA CAGR vs China peers' 31%), also higher than HDL's 11.8x, JMJ Int'l's 17.3x, but lower than Starbucks's 21.4x, Shake Shack's 38.5x and Wingstop's 53.8x, all of which enjoy very rapid sales and EBITDA CAGR in FY20-23E. Our TP is implying a 29.1x FY22E EV/ EBITDA.

Figure 137: China catering leaders sector FY2E EV/ EBITDA



Source: Bloomberg, CMBIS estimates

Figure 138: Global catering sector FY2E EV/ EBITDA



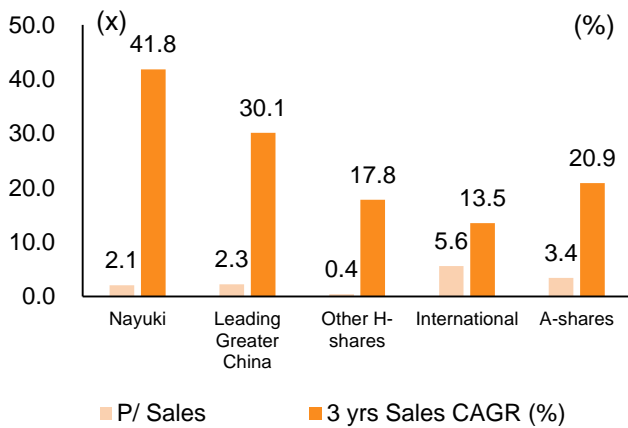
Source: Bloomberg, CMBIS estimates

■ It is trading at 0.07x Price to sales growth (PSG), while our TP is implying a 0.11x.

We may also cross check with Price to Sales growth (PSG) method, Nayuki is currently trading at 0.07x PSG, which is fairly attractive, thanks to impressive sales growth ahead.

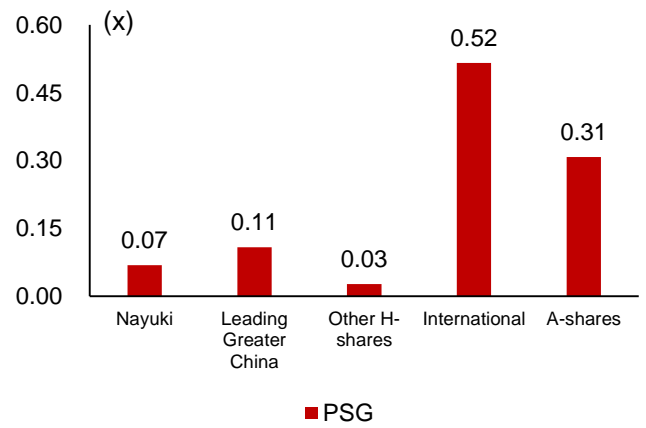
Our TP (~3.6x FY22E P/S) is implying a 0.11x (based on ~4.5x FY21E P/S and FY20-23E sales CAGR of 41%), which is not demanding, as it is similar to leading Greater China catering peers' 0.11x but much lower than International peers' 0.52x.

Figure 139: Average FY2E P/S and 3 years sales CAGR, by sector



Source: Bloomberg, CMBIS estimates

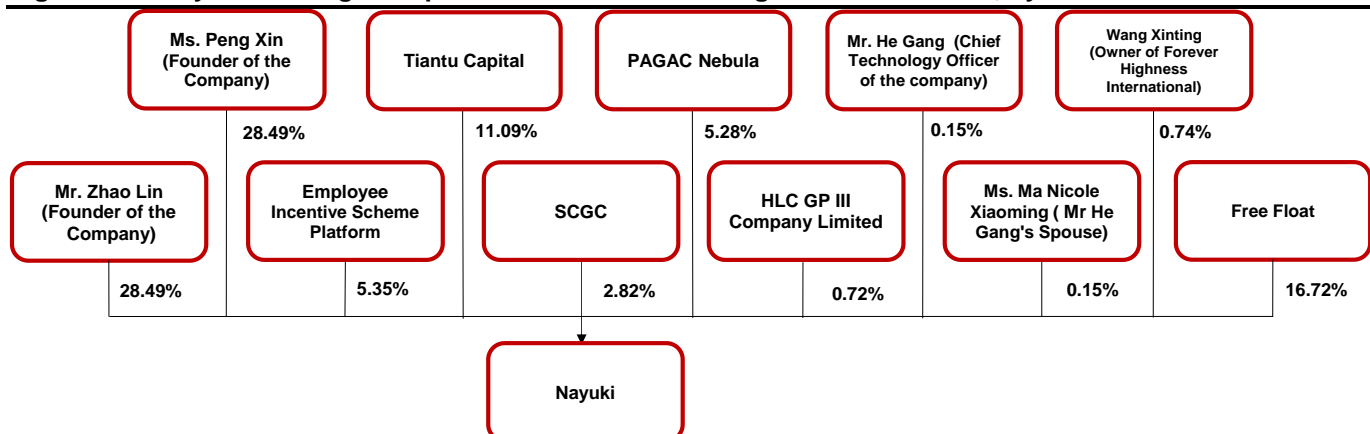
Figure 140: Average PSG (3 years sales CAGR and FY1E P/S), by sector



Source: Bloomberg, CMBIS estimates

Shareholding Structure

Figure 141: Nayuki Holdings' corporate structure after reorganization and IPO, by actual owners



Source: Company data, CMBIS estimates

Management Profile

Figure 142: Nayuki Holdings management profile

Name	Age	Joined the group since	Date of appointment	Position	Responsibility
Mr. Zhao Lin (趙林)	41 years old	Founder	Jun-20	Chairman, Executive Director, Chief Executive Officer	Responsible for overall strategic planning and business direction of our Group and overseeing management of our business. He used to work at BK foods (Shenzhen) Co., Ltd. (漢堡王食品(深圳)有限公司) from 2010 - 2011. He also served as the development manager of Meixin Food (Shenzhen) Co., Ltd. (美心食品(深圳)有限公司) from May 2011 - Jan 2016.
Ms. Peng Xin (彭心)	33 years old	Founder	Sep-19	Executive Director, General Manager	Responsible for overseeing product development, quality control and overall marketing strategy of our Group. She served as the deputy secretary general of Pearl Club of Kingdee Software (China) Co., Ltd. (金蝶軟體(中國)有限公司) from Aug 2010 - Oct 2012, the director of Shenzhen Linxin Culture Communication Co., Ltd. (深圳市林心文化傳播有限公司) from Jul 2018 and the director of Shenzhen Xinlin Culture Communication Co., Ltd. (深圳市林心文化傳播有限公司) from Aug 2017. Ms. Peng is the spouse of Mr. Zhao Lin, our Chairman of the Board, executive Director and Chief Executive Officer.
Mr. He Gang (何剛)	45 years old	Jun-20	Feb-21	Chief Technology Officer	Responsible for the digitalization strategy and overseeing management of information technology of our Group. He served as chief technology officer of Luckin Coffee Inc. (NASDAQ Ticker: LK), from Sep 2019 to April 2020; and vice president of JD.com, Inc. (NASDAQ Ticker: JD) and the Hong Kong Stock Exchange (stock code: 9618.HK), from Apr 2012 - Jul 2019.
Mr. Chen E (陳鄂)	37 years old	Jan-21	Feb-21	Chief Marketing Officer	Responsible for the branding, marketing and promotion of the business of our Group. He worked at Guangdong Jinri Toutiao Technology Co., Ltd. (廣東今日頭條科技有限公司) from Nov 2018 - Dec 2020 and was mainly responsible for the commercialization operation in the department of domestic sales business platform.
Ms. Chen Shengyu (陳聖鈺)	43 years old	Sep-21	Feb-21	Senior Human Resources Director	Responsible for the management of human resources and administrative matters. She served as human resources director of Guangzhou Jiumaojiu Restaurant Management Co., Ltd. (廣州九毛九餐飲管理有限公司) from Apr 2014 - Dec 2016. Ms. Chen served as a human resources supervisor of Guangdong Sanyuan McDonald's Food Co., Ltd. (廣東三元麥當勞食品有限責任公司) from Jun 2004 - Aug 2009 and a human resources manager from Aug 2009 - Apr 2014.
Mr. Shen Hao (申昊)	32 years old	Jul-19	Feb-21	Co-Chief Financial Officer, General Counsel and Board Secretary	Responsible for the capital market and legal matters of our Group. Prior to joining our Group, Mr. Shen worked at SZ DJI Technology Co., Ltd. (深圳市大疆創新科技有限公司) from Jun 2013 - Jun 2019, where he served as legal manager and head of legal department from Jun 2013 - Jun 2016 and the head of legal department and corporate development department from Jul 2016 - Jun 2019. He also served as a director of Victor Hasselblad AB from Nov 2017 - May 2019 and a director of Koenigsegg AB from May 2017 - May 2019.
Mr. Liang Feiyang (梁飛揚)	38 years old	Oct-19	Feb-21	Co-Chief Financial Officer	Responsible for overseeing financial operations and capital management of our Group. Mr. Liang worked at Meten Education (Shenzhen) Co., Ltd. (美聯教育(深圳)有限公司) from Oct 2011 - Aug 2019, where he lastly served as co-financial officer.
Mr. Deng Bin (鄧彬)	39 years old	Aug-16	Jun-20	Executive Director, Chief Operation Officer	Responsible for overseeing operations of our Group. He served as senior division manager of Genki Sushi Catering Service & Management (Shenzhen) Limited (元氣壽司餐飲服務管理(深圳)有限公司) from March 2009 - March 2016 and later, an operation manager from Apr 2016 - Jun 2016.
Mr. Pan Pan (潘攀)	41 years old	Feb-17	Oct-20	Non-executive Director	Providing professional strategic advice to the Board. Mr. Pan has been the non-executive director of Zhou Hei Ya International Holdings Company Limited (周黑鴨國際控股有限公司) (stock code: 145.HK) since June 2016; and the director of TVZone Media Co., Ltd. (中廣天擇傳媒股份有限公司) (stock code: 603721.SH), since October 2013. Mr. Pan has served as the director of Hunan Chayue Cultural Industry Development Group Co., Ltd. (湖南茶悅文化產業發展有限公司, formerly known as Hunan Chayue Catering Management Co., Ltd. since 2019). Mr. Pan has been with Tiantu Capital Management Center LLP (深圳天圖資本管理中心(有限合夥)) since March 2014 and he is currently a managing partner in charge of the venture capital division.
Mr. Shao Gang (邵鋼)	49 years old	Jun-20	Jun-20	Non-executive Director	Providing professional strategic advice to the Board. Mr. Shao has served as the director and vice president of Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司) since August 2016, where he served as the general manager of the property management branch from Jan 2013 - Jun 2014 and director of executive office from Jul 2008 - Jan 2013. He also served as the chairman of the board of directors of Hotland Innovation Asset Management Co., Ltd. (紅土創新基金管理有限公司) from Sep 2016 - Sep 2019 and the director from Jun 2014 - Sep 2019.
Mr. Wong Tak Wai (黃德煒)	44 years old	Dec-20	Dec-20	Non-executive Director	Providing professional strategic advice to the Board. He currently serves as a managing director of PAG (formerly known as Pacific Alliance Group) since Mar 2011. Mr. Wong has been a non-executive director of Yingde Gases Group Company Limited (stock code: 2168.HK). He also served as an independent director of Tencent Music Entertainment Group (NYSE Ticker: TME), from Jul 2016 - Sep 2020.
Mr. Chen Qunsheng (陳群生)	43 years old	-	-	Independent Non-executive Director	Providing independent opinion and judgement to the Board. Mr. Chen served as the executive director of Shanghai Xintiandi Commercial Management Co., Ltd. (上海新天地商業管理有限公司) (stock code: 272.HK) from Oct 2017 - Jun 2020. Mr. Chen served as the deputy general manager of strategic management department of China Resources Land Limited (stock code: 1109.HK) from Jun 2015 - Dec 2015, and the deputy general manager of commercial property business from Jan 2016 - Sep 2017.
Mr. Liu Yiwei (劉異偉)	48 years old	-	-	Independent Non-executive Director	Providing independent opinion and judgement to the Board. Mr. Liu has served as the director and deputy general manager of Shenzhen Yingtai Investment Management Co., Ltd. (深圳盈泰投資管理有限公司) since Jan 2008 and the director of Langold Real Estate Co., Ltd. (南國置業股份有限公司) (stock code: 002305.SZ), since Aug 2014.
Ms. Zhang Rui (張蕊)	58 years old	-	-	Independent Non-executive Director	Providing independent opinion and judgement to the Board. Ms. Zhang has been an independent director of Shenzhen Aisidi Co., Ltd. (深圳市愛施德股份有限公司) (stock code: 002416.SZ), since Oct 2019. Ms. Zhang has been an independent director of Jiangxi Fushine Pharmaceutical Co., Ltd. (江西富祥藥業股份有限公司) (stock code: 300497.SZ), since March 2019. Ms. Zhang has been an independent director of Changhong Huayi Compressor Co., Ltd. (長虹華意壓縮機股份有限公司) (stock code: 000404.SZ), since Apr 2016. Ms. Zhang has been an independent non-executive director of Jiangxi Bank Co., Ltd. (江西銀行股份有限公司) (stock code: 1916.HK), since March 2016. Ms. Zhang has been with Jiangxi University of Finance and Economics (江西財經大學, formerly known as Jiangxi Institute of Finance and Economics (江西財經學院)), where she served as a teacher in department of finance and accounting, the head of the teaching and research section for auditing of department of finance and accounting, a deputy head of department of finance and accounting, the dean of faculty of accounting and a director of research and development center for accounting development.

Source: Company data, CMBIS

Key Risks

- **Outbreak of diseases that might adversely reduce customer traffics**
- **Involvement in lethal or other severe food safety scandal**
- **Unfavourable shift in consumer tastes, for examples, disliking beverage with excessive sugar**
- **Level of competition intensifies, or competitors successfully catch up on product, service and brand quality**
- **Limited track record due to short time of operation**
- **Failure to keep up with store expansion plan or new stores' popularity is not as good as expected**
- **Involvement in fraud or other misconduct committed by employees or third parties**
- **Faster-than-expected increase in raw material costs**
- **Labour shortage or faster-than-expected increase in staff costs**
- **Chance of further capital support required**

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,087	2,502	3,057	4,975	6,782	8,844
Nayuki	910	2,291	2,871	4,782	6,562	8,597
Tai Gai	156	185	153	158	181	205
Others	22	25	33	35	38	42
Cost of goods sold	(384)	(916)	(1,159)	(1,794)	(2,430)	(3,151)
Gross profit	703	1,586	1,898	3,181	4,352	5,693
Other income	3	6	206	46	65	73
Operating expenses	(704)	(1,536)	(2,024)	(2,992)	(3,811)	(4,884)
Staff costs	(340)	(751)	(919)	(1,334)	(1,721)	(2,216)
Rental & ROUA depre.	(194)	(389)	(453)	(716)	(878)	(1,069)
D & A expenses	(40)	(93)	(154)	(225)	(317)	(421)
Utilities expenses	(39)	(67)	(82)	(124)	(170)	(221)
Other opex	(91)	(236)	(415)	(592)	(724)	(958)
EBIT	1	56	80	235	606	882
Finance costs	(46)	(96)	(130)	(107)	(133)	(156)
JVs & associates	-	-	-	-	-	-
Exceptional	(3)	(2)	(140)	(15)	(7)	(9)
Pre-tax profit	(47)	(43)	(190)	113	466	717
Income tax	(22)	3	(13)	(17)	(70)	(108)
Less: Minority interests	(4)	(1)	(1)	1	5	7
Net profit att.	(66)	(39)	(202)	95	392	603
Adj. net profit	(57)	(12)	25	158	424	627

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	1,059	1,756	1,984	2,207	2,398	2,526
Fixed asset	254	451	587	810	1,001	1,129
Intangible assets & goodwill	0	1	1	1	1	1
Prepaid lease payments	16	4	2	2	2	2
Interest in joint ventures	0	0	0	0	0	0
Other non-current assets	789	1,300	1,394	1,394	1,394	1,394
Current assets	285	295	1,330	5,745	6,148	6,902
Cash and cash equivalents	186	81	502	5,347	5,607	6,197
Inventories	38	78	103	123	166	216
Trade and other receivables	2	1	1	1	2	2
Prepayments	0	1	0	0	0	0
Other current assets	59	135	724	274	373	486
Current liabilities	850	1,226	2,728	2,927	3,118	3,381
Bank loans	2	55	283	283	283	283
Trade payables	104	202	226	310	399	518
Accruals & other payables	108	167	258	373	475	619
Tax payables	14	7	21	21	21	21
others	622	796	1,940	1,940	1,940	1,940
Non-current liabilities	603	974	1,010	1,110	1,110	1,110
Bank loans	0	0	0	100	100	100
Deferred income	0	0	0	0	0	0
Deferred tax	1	1	4	4	4	4
Others	603	973	1,006	1,006	1,006	1,006
Minority Interest	0	0	0	1	6	13
Total net assets	(110)	(149)	(424)	3,913	4,312	4,923
Shareholders' equity	(110)	(149)	(424)	3,913	4,312	4,923

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	1	56	80	235	606	882
D & A	40	93	154	225	317	421
Change in working capital	43	29	(9)	629	48	100
Income tax paid	(8)	(30)	6	(17)	(70)	(108)
Others	125	269	343	-	-	-
Operating cash flow	201	416	574	1,072	902	1,295
Capex & investments	(209)	(291)	(243)	(448)	(509)	(548)
Associated companies	-	-	-	-	-	-
Interest received	-	-	-	-	-	-
Others	0	(0)	(0)	-	-	-
Investing cash flow	(209)	(291)	(244)	(448)	(509)	(548)
Equity raised	300	-	-	4,228	-	-
Net change in bank loans	2	53	222	100	-	-
Dividend paid	-	-	-	-	-	-
Others	(121)	(282)	(130)	(107)	(133)	(156)
Financing cash flow	181	(229)	92	4,221	(133)	(156)
Net change in cash	172	(104)	422	4,845	260	590
Beginning cash balance	13	186	81	502	5,347	5,607
Exchange difference	-	(0)	(2)	-	-	-
Cash at the end of the year	186	81	502	5,347	5,607	6,197

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)						
Nayuki	83.7	91.6	93.9	96.1	96.8	97.2
Tai Gai	14.3	7.4	5.0	3.2	2.7	2.3
Others	2.0	1.0	1.1	0.7	0.6	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)						
Gross margin	64.7	63.4	62.1	63.9	64.2	64.4
EBIT margin	0.1	2.2	2.6	4.7	8.9	10.0
Pre-tax margin	(4.4)	(1.7)	(6.2)	2.3	6.9	8.1
Net margin	(6.1)	(1.5)	(6.6)	1.9	5.8	6.8
Effective tax rate	(47.1)	7.1	(6.9)	15.0	15.0	15.0
Adj. net margin	(5.2)	(0.5)	0.8	3.2	6.2	7.1
Balance sheet ratios						
Current ratio (x)	0.3	0.2	0.5	2.0	2.0	2.0
Quick ratio (x)	0.3	0.2	0.4	1.9	1.9	2.0
Cash ratio (x)	0.2	0.1	0.2	1.8	1.8	1.8
Inventory turnover days	18	23	28	25	25	25
Trade receivables days	0	0	0	0	0	0
Trade payables days	49	61	67	63	60	60
Total debt / total equity ratio (%)	(1)	(36)	(67)	10	9	8
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)						
ROE	n/a	n/a	n/a	2.4	9.1	12.2
ROA	(4.9)	(1.9)	(6.1)	1.2	4.6	6.4
Per share						
EPS (RMB)	(0.03)	(0.01)	0.02	0.09	0.24	0.36
DPS (RMB)	-	-	-	-	-	-
BVPS (RMB)	(0.06)	(0.09)	(0.25)	2.28	2.51	2.87

Appendix

Figure 143: Same store sales data

Period	FY18	FY19	FY19	FY20
Number of same stores				
Tier 1 cities		40		90
New Tier 1 cities		9		56
Tier 2 cities		-		13
Other cities		-		-
Total		49		159
Same store sales (RMB mn)				
Tier 1 cities	454.5	438.8	886.8	742.7
New Tier 1 cities	128.5	120.7	590.6	446.5
Tier 2 cities	-	-	188.9	119.3
Other cities	-	-	-	-
Total	583.0	559.5	1,666.3	1,308.5
SSSG (%)				
Tier 1 cities		-3.5%		-16.2%
New Tier 1 cities		-6.1%		-24.4%
Tier 2 cities				-36.8%
Other cities				
Total		-4.0%		-21.5%
Sales per store (RMB mn)				
Tier 1 cities	11.4	11.0	9.9	8.3
New Tier 1 cities	14.3	13.4	10.5	8.0
Tier 2 cities			14.5	9.2
Other cities				
Total	11.9	11.4	10.5	8.2
Same store profit (RMB mn)				
Tier 1 cities	110.0	110.0	167.3	93.0
New Tier 1 cities	35.3	31.4	127.0	61.1
Tier 2 cities	-	-	55.4	22.7
Other cities	-	-	-	-
Total	145.3	141.4	349.7	176.8
Same store profit margin (%)				
Tier 1 cities	24.2%	25.1%	18.9%	12.5%
New Tier 1 cities	27.5%	26.0%	21.5%	13.7%
Tier 2 cities	-	-	29.3%	19.0%
Other cities	-	-	-	-
Total	24.9%	25.3%	21.0%	13.5%

Source: Company data, CMBIS estimates

Figure 144: Examples of SKUs for Nayuki



Source: Company data, CMBIS estimates

Figure 145: Launch timetable for key SKUs for both Nayuki and Heytea



Source: Company data, CMBIS estimates

Figure 146: Top 10 best-selling drinks during Nov 2020 - Apr 2021, brands with ASP above RMB 20

10个品牌热销产品统计.1

品牌/价格	热销产品					销量TOP10产品均价
奈雪的茶	霸气芝士草莓	霸气芝士葡萄	霸气橙子	霸气芝士芒果	提拉米苏豪华宝藏茶	27.3元
	32元	28元	25元	30元	28元	
	黑糖珍珠宝藏茶	霸气西柚	霸气玉油柑	霸气杨梅	多料椰椰杨枝甘露宝藏茶	
	21元	22元	29元	30元	28元	
喜茶	多肉葡萄	多肉芒芒甘露	芝士莓莓	芝士芒芒	生打椰椰奶冻	27元
	29元	27元	32元	32元	25元	
	满杯红柚	芝士莓莓桃	烤黑糖波波牛乳	烤黑糖波波牛乳茶	芋泥波波牛乳	
	25元	31元	21元	22元	27元	
乐乐茶	草莓桃子酪酪	葡萄酪酪	杨枝甘露冰冰茶	旺旺巧克力脏脏茶	车厘子草莓酪酪	26.8元
	30元	28元	27元	28元	33元	
	白桃抹茶酪酪	厚豆乳鲜奶茶	经典芝士蛋糕脏脏茶	黑糖波霸脏脏茶	草莓酪酪	
	22元	25元	25元	21元	29元	

Source: 微信公众号咖门(KamenClub), CMBIS estimates

Figure 147: Top 10 best-selling drinks during Nov 2020 - Apr 2021, brands with ASP between RMB 10 - 20

10个品牌热销产品统计.2

品牌/价格	热销产品					销量TOP10产品均价
沪上阿姨	杨枝甘露	杨枝甘露清爽版	多肉葡萄金砖	芝士葡萄奶盖	手酿草莓酸奶	16.7元
	19元	19元	18元	19元	19元	
	蜜桃蜜柚	草莓蜜桃茶	血糯米奶茶	厚芋泥波波奶茶	复古蛋糕奶茶	
	14元	17元	12元	15元	15元	
茶百道	杨枝甘露	豆乳玉麒麟	招牌芋圆奶茶	桂花酒酿奶茶	超级杯水果茶	15.9元
	18元	14元	13元	13元	22元	
	血糯米奶茶	葡萄冻冻	芋泥啵啵奶茶	醉步上道	生椰大满贯	
	14元	15元	16元	18元	16元	
CoCo都可	奶茶三兄弟	鲜百香双响炮	珍珠奶茶	红果小妹妹	鲜芋牛奶西米露	15.4元
	11元	17元	10元	18元	15元	
	梦幻星空葡萄	杨枝甘露	茉香奶茶	莓莓果茶	法式奶霜红茶	
	22元	20元	13元	13元	15元	
古茗	杨枝甘露	芝士多肉葡萄	芋泥青稞牛奶	芝士莓莓	芝士乌龙	14.9元
	17元	19元	16元	20元	15元	
	大叔奶茶	阿华田咖啡冰	百香双重奏	招牌柠檬茶	大叔烤奶	
	11元	17元	10元	12元	12元	

Source: 微信公众号咖门(KamenClub), CMBIS estimates

Figure 148: Top 10 best-selling drinks during Nov 2020 - Apr 2021, brands with ASP below RMB 10

10个品牌热销产品统计.3

品牌/价格	热销产品					销量TOP10产品均价
益禾堂	益禾烤奶	益杯烧仙草	珑珠奶茶	禾风奶绿	蜜桃乌龙	11.3元
	8元	10元	9元	8元	11元	
	龙眼椰椰	西瓜嘟嘟	葡萄啵啵	芝士莓莓	翠峰茉莉	
	16元	13元	14元	19元	5元	
甜啦啦	无敌全套奶茶	原味冰淇淋	水蜜桃晶球	酸奶摇摇茶	冰鲜柠檬水	7.2元
	8元	3元	7元	7元	4元	
	一桶水果茶	百香果大满贯	冰淇淋杨枝甘露	无敌烧仙草	黑糖珍珠奶茶	
	10元	8元	10元	8元	7元	
蜜雪冰城	新鲜冰淇淋	黑糖珍珠大圣代	满杯百香果	蜜桃四季春	港式杨枝甘露	5.8元
	2元	6元	7元	6元	8元	
	三拼霸霸奶茶	草莓摇摇奶昔	冰鲜柠檬水	珍珠奶茶	外婆烧仙草	
	6元	6元	4元	6元	7元	

Source: 微信公众号咖门(KamenClub), CMBIS estimates

Figure 149: Nayuki's R&D and product development steps

Steps	Key product development and innovation process.
Step 1	<p>Identifying market trends for product innovation and improvement. To make our product offerings increasingly appealing to our customers, we identify the latest market trends based on our market research, customer data insights gained from our vast customer base, and advanced analyses of customer consumption patterns and scenarios, industry trends and competitive products.</p>
Step 2	<p>Product planning. We make product innovation and improvement plans on a regular basis, and frequently review and adjust such plans catering to the latest customer preferences.</p>
Step 3	<p>Identifying and sourcing quality ingredients. We source quality ingredients for all of our products. We only use premium tea leaves, including award-winning ones, fresh milk rather than tea powders and creamers to make our tea drinks. The seasonal fruits we use in our products are carefully sourced from reputable suppliers to ensure their freshness and taste. We seek to source our major ingredients directly from their regions of origin to ensure consistent quality and competitive pricing. We work closely with a selected group of reputable suppliers who provide us with dedicated supply chain resources to make our key ingredients based on our unique specifications.</p>
Step 4	<p>Test blending. We creatively pair different fruits and juices with a selection of premium Chinese tea base. For example, based on a fragrant jasmine tippy tea, our popular classic tea drink Supreme Cheese Strawberry Tea is mixed with freshly-blended strawberries topped with a delicious layer of our signature cheese crown. We tirelessly test blending to our exacting flavor standards.</p>
Step 5	<p>Pre-launch sample testing. Before we launch a new product, we conduct rigorous internal sample testing to collect feedbacks and refine our recipes accordingly. From time to time, we also test our new products at Nayuki Fantasy Factory and other Nayuki teahouses to collect real-time customer feedbacks. We believe this exercise largely helps us to improve product quality and achieve initial customer acceptance.</p>
Step 6	<p>Packaging and branding planning. We leverage our in-house experts' insights in branding and marketing to design a holistic promotion plan for a new product candidate, which typically covers product positioning, packaging design and online and offline marketing channels.</p>
Step 7	<p>Pre-marketing. Upon the product promotion plan is finalized, we kick start our pre-marketing activities through an effective network of marketing channels tailored to our new products.</p>

Source: Company data, CMBIS estimates

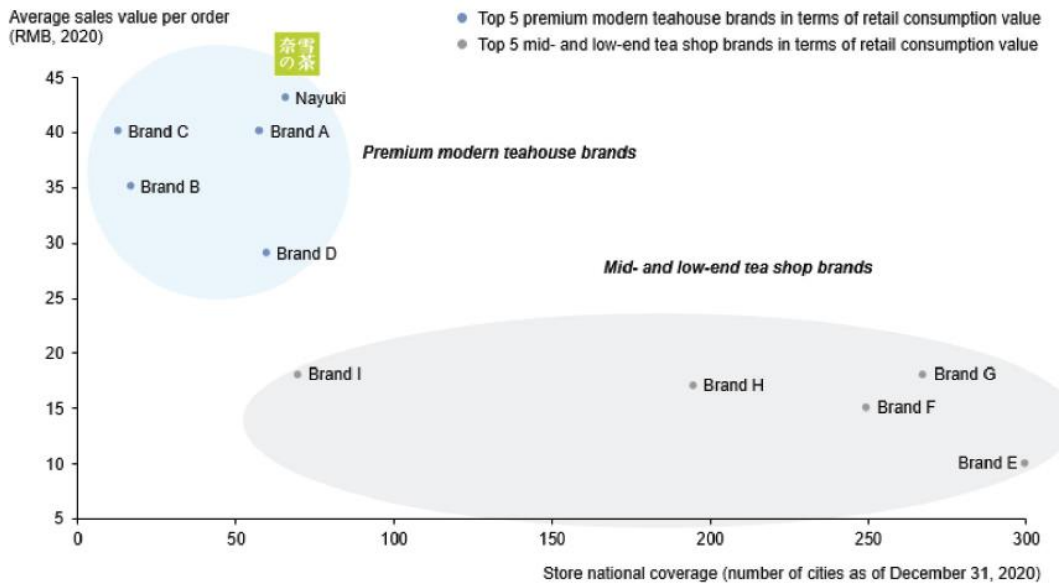
Figure 150: Nayuki's teahouse Performance Assessment System

Performance Indexes	Index Weight	Details of Evaluation
Customer Satisfaction	65%	<p>Customer reviews: Nayuki teahouses are ranked based on customer reviews received on Wexin/WeChat and Alipay mini programs and other online ordering platforms. Top-ranked Nayuki teahouses amass higher points.</p> <p>Order preparation time: Nayuki teahouses with shorter average order preparation time are credited with higher points.</p> <p>Internal audit: A Nayuki teahouse's points may be deducted if it failed to pass the internal audit team's regular audits.</p>
Sales Target Achievement	20%	<p>Sales target achievement: Comparing a Nayuki teahouse's actual monthly sales against its sales target and credit points of different levels to that Nayuki teahouse based on its ranking.</p>
In-store Staff Management	20%	<p>Staff retention: Nayuki teahouses with a higher monthly staff retention rate receive higher points.</p> <p>Staff efficiency: Comparing a Nayuki teahouse's monthly sales against the total work hours of its in-store staff, and Nayuki teahouses with higher staff efficiency receive higher points.</p> <p>Number of in-store staff: Nayuki teahouses with the number of in-store staff closer to the target determined by the management are credited with higher points.</p> <p>Staff development: Pay close attention to staff development in the Nayuki teahouses, and the points a Nayuki teahouse can get under the instore staff management index are also associated with the promotion and development of its in-store staff, especially the newly recruited.</p>
Cost Control and Management	15%	<p>Cost control and management: Comparing a Nayuki teahouse's use of materials, including raw materials and packaging materials, as well as raw materials waste against its monthly operating profit and credit points of different levels to that Nayuki teahouse based on its ranking.</p>

All of our Nayuki teahouses are evaluated on a **monthly basis**. Based on their overall performance, Nayuki teahouses are **graded under three classes**, which the **highest class/ middle class/ bottom ranked** represents **30%/ 50%/ 20%** of total Nayuki teahouses.

Source: Company data, CMBIS estimates








Figure 151: Market position analysis of premium modern teahouses and other tea shops, Mainland China, 2020



Source: CIC report, CMBIS estimates

Figure 152: Brands details and positioning

中国新茶饮市场主要市场参与者商业发展及特点概览
2020

							
成立年份	2012	2015	2015	2016	2015	2011 (进入大陆市场年份)	2017
18-20年店铺增长率 (%)	~82%	~70%	~49%	~45%	~145%	~40%	~176%
覆盖中国大陆城市数量	58	61	3	13	24	21	55
平均客单价 (元/单)	52-56	45-50	30-35	40-45	32-35	35-40	28-32
杯均单价 (元/杯)	25-30	22-26	15-20	20-25	16-22	18-22	18-24

注：以上数据均截至2020年12月，不包含境外门店，门店数据来自各品牌公众号，公开资料整理，可能会与品牌实际统计数据略有差异。

Source: Frost & Sullivan, CMBIS estimates

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