

# Haidilao (6862 HK)

## Reforms on track, but hindered by pandemic

Maintain HOLD and revised down TP to HK\$ 16.85, based on unchanged 36x FY22E P/E due to macro headwinds in 1Q22E. We are confident on the reform to yield better product and services quality and hence traffic but the process could be gradual. The stock is trading at 38x FY22E P/E, still higher than 5-year historical average of 32x and China peers' average of 27x, vs its 9% FY19-23E NP CAGR.

- Further improved in 4Q21 and Jan 2022, but we are still cautious.** We believe HDL's table turnover recovery rate were at ~90%/ 85%/ 90%/ 100% in Oct/ Nov/ Dec 2021/ early Jan 2022 (vs year ago) which seems to be improving, but we attribute it mainly to low base and store closures. In fact, based on our est., recovery rate (vs 2019) were at ~80%/ 70%/ 69%/ 77%, still under pressure.
- We expect the reforms to be positive but gradual.** Since 3Q21, HDL had introduced various reforms: 1) restored its large regions management system, where the lead managers will supervise all the restaurants, its human resources and pricing strategy, which aim to improve table turnover, services quality and efficiency, 2) re-opened its training centre (prev. known as HDL university) to enhance its employees' knowledge about restaurant operation, as well as HDL's corporate culture and values, 3) consolidated the product development and launches, by centralizing R&D in headquarters, sharing its testing process with millions of HDL members and reducing SKUs but focusing on 1-2 launches per year with large scale marketing, to achieve a higher success rate. Therefore, we believe customer satisfaction will improve quarter by quarter, but traffic recovery will be gradual.
- We forecast only ~35/ 75 net new stores and limited store closure related expenses in FY22E/ 23E.** We believe HDL will permanently/ temporary close ~240/ ~60 stores and register most of the expenses (depreciation, write off and impairment) in FY21E. We also expect the reoccurring costs (labour and rental) to be controllable in FY22E, because the excessive staffs can be digested within months given HDL's high staff turnover ratio while the rental expenses should be forgone, thanks to its friendly relationship with many shopping mall brands. We forecast only ~35/ 75 net new stores in FY22E/ 23E.
- Our base case for FY22E/ 23E.** After a 73%/ 67% recovery rate (vs 2019) in 1H21/ 2H21E, we now model 75%/ 79%, which implies a 3.3x/ 3.8x table turnover and hence 4.7%/ 6.6% net profit margin in FY22E/ 23E.
- Maintain HOLD and cut TP to HK\$ 16.85.** We cut our FY21E/ 22E/ 23E EPS by 105%/ 8%/ 21% to factor in 1) store closures expenses, 2) lower table turnover, and 3) slower store expansion. We cut TP to HK\$16.85 based on unchanged 36x FY22E P/E. It is trading at 38x FY22E P/E, vs China peers average of 27x and 9% FY19-23E NP CAGR, which is not too attractive.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	26,556	28,614	37,958	44,133	50,187
YoY growth (%)	56.5	7.8	32.7	16.3	13.7
Net income (RMB mn)	2,345	309	(56)	2,059	3,317
EPS (RMB)	0.44	0.06	(0.01)	0.39	0.63
YoY growth (%)	42.4	(86.8)	(118.0)	n/a	61.1
Consensus EPS	n/a	n/a	0.04	0.49	0.75
P/E (x)	35.8	254.2	n/a	37.6	23.4
P/B (x)	7.9	7.7	7.1	6.0	4.6
Yield (%)	0.4	0.9	(0.0)	0.8	1.3
ROE (%)	22.1	3.0	(0.5)	15.9	19.7
Net gearing (%)	Net cash	16.1	15.1	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Maintain)

Target Price	HK\$16.85
(Previous TP)	HK\$18.30)
Up/Downside	-4.4%
Current Price	HK\$17.62

### China Catering Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	114,912
Avg 3 mths t/o (HK\$ mn)	400.40
52w High/Low (HK\$)	85.80/19.38
Total Issued Shares (mn)	5,459.0

Source: Bloomberg

#### Shareholding Structure

Mr. Zhang Yong	42.83%
Ms. Shu Ping	13.29%
Mr. Shi Yong Hong	13.29%
Ms. Li Hai Yan	13.29%
Other management	7.00%
Free Float	10.30%

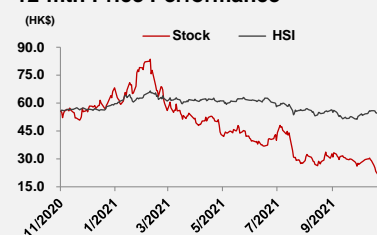
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-19.3%	-22.3%
3-mth	-23.9%	-19.9%
6-mth	-52.6%	-45.5%
12-mth	-62.7%	-61.5%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Deloitte Touche Tohmatsu

#### Related Reports

- Haidilao (6862 HK, HOLD) - Another step taken but headwind is still there – 9 Nov 2021
- Haidilao (6862 HK, BUY) - Awaiting positives to come after reforms – 31 Aug 2021
- Haidilao (6862 HK, BUY) - Profit missed but all eyes on future reforms – 27 Jul 2021

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	37,958	44,133	50,187	42,356	49,334	60,365	-10.4%	-10.5%	-16.9%
Gross profit	22,057	25,778	29,314	24,613	28,816	35,259	-10.4%	-10.5%	-16.9%
EBIT	579	3,420	5,042	2,399	3,684	6,291	-75.9%	-7.2%	-19.9%
Net profit att.	(56)	2,059	3,317	1,265	2,236	4,193	-104.4%	-7.9%	-20.9%
Diluted EPS (RMB)	(0.011)	0.388	0.626	0.239	0.422	0.791	-104.4%	-7.9%	-20.9%
Gross margin	58.1%	58.4%	58.4%	58.1%	58.4%	58.4%	0ppt	0ppt	0ppt
EBIT margin	1.5%	7.7%	10.0%	5.7%	7.5%	10.4%	-4.1ppt	0.3ppt	-0.4ppt
Net profit att. margin	-0.1%	4.7%	6.6%	3.0%	4.5%	6.9%	-3.1ppt	0.1ppt	-0.3ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	37,958	44,133	50,187	41,540	52,685	62,459	-8.6%	-16.2%	-19.6%
Gross profit	22,057	25,778	29,314	23,856	30,443	36,265	-7.5%	-15.3%	-19.2%
EBIT	579	3,420	5,042	803	3,703	5,587	-28.0%	-7.6%	-9.8%
Net profit att.	(56)	2,059	3,317	229	2,685	4,274	N/A	-23.3%	-22.4%
Diluted EPS (RMB)	(0.011)	0.388	0.626	0.044	0.487	0.746	N/A	-20.3%	-16.1%
Gross margin	58.1%	58.4%	58.4%	57.4%	57.8%	58.1%	0.7ppt	0.6ppt	0.3ppt
EBIT margin	1.5%	7.7%	10.0%	1.9%	7.0%	8.9%	-0.4ppt	0.7ppt	1.1ppt
Net profit att. margin	-0.1%	4.7%	6.6%	0.6%	5.1%	6.8%	-0.7ppt	-0.4ppt	-0.2ppt

Source: Company data, CMBIS estimates

## Results preview

Figure 3: Result preview – Half Year

	1H20	2H20	1H21	2H21E	1H19 YoY	2H19 YoY	1H20 YoY	2H20E YoY
Revenue	9,761	18,854	20,094	17,863	-17%	27%	106%	-5%
COGS	(4,348)	(7,913)	(8,502)	(7,398)				
Gross profit	5,412	10,940	11,592	10,465	-20%	28%	114%	-4%
<b>GP margins</b>	<b>55.5%</b>	<b>58.0%</b>	<b>57.7%</b>	<b>58.6%</b>				
Other income & gains	180	180	195	131				
Staff costs	(4,074)	(5,602)	(7,162)	(6,261)	12%	29%	76%	12%
<b>Staff costs / sales</b>	<b>-41.7%</b>	<b>-29.7%</b>	<b>-35.6%</b>	<b>-35.1%</b>				
Property rent & related exp.	(88)	(148)	(199)	(153)	-8%	3%	125%	3%
<b>Property rent &amp; related exp. / sales</b>	<b>-0.9%</b>	<b>-0.8%</b>	<b>-1.0%</b>	<b>-0.9%</b>				
Utilities exp.	(360)	(618)	(693)	(635)	-18%	31%	93%	3%
<b>Utilities exp. / sales</b>	<b>-3.7%</b>	<b>-3.3%</b>	<b>-3.4%</b>	<b>-3.6%</b>				
Depreciation & amortization	(1,297)	(1,737)	(2,169)	(2,062)	56%	64%	67%	19%
<b>Depreciation &amp; amortization / sales</b>	<b>-13.3%</b>	<b>-9.2%</b>	<b>-10.8%</b>	<b>-11.5%</b>				
Travelling & related exp.	(79)	(107)	(119)	(185)	-16%	-15%	50%	73%
<b>Travelling &amp; related exp. / sales</b>	<b>-0.8%</b>	<b>-0.6%</b>	<b>-0.6%</b>	<b>-1.0%</b>				
Other opex	(511)	(741)	(801)	(1,325)	11%	38%	57%	79%
Operating profit (EBIT)	-816	2,167	644	-25	-161%	9%	-179%	-101%
<b>OP margins</b>	<b>-8.4%</b>	<b>11.5%</b>	<b>3.2%</b>	<b>-0.1%</b>				
Other items	33	(278)	(85)	59				
Net finance income	(183)	(263)	(304)	(375)				
<b>Net finance income / sales</b>	<b>-1.9%</b>	<b>-1.4%</b>	<b>-1.5%</b>	<b>-2.1%</b>				
Profit after financing costs	-966	1,627	255	-341				
Associated coms	42	33	40	(31)				
Jointly controlled coms	0	0	0	0				
Pre-tax profit	-924	1,660	295	-372	-174%	-17%	-132%	-122%
Tax	(40)	(386)	(198)	219				
<b>Tax / sales</b>	<b>-0.4%</b>	<b>-2.0%</b>	<b>-1.0%</b>	<b>1.2%</b>				
<b>Effective tax rate</b>	<b>4.3%</b>	<b>-23.2%</b>	<b>-67.3%</b>	<b>-59.0%</b>				
Minority interests	0	0	2	(2)				
<b>Net profit att.</b>	<b>(965)</b>	<b>1,274</b>	<b>95</b>	<b>(150)</b>	<b>-206%</b>	<b>-11%</b>	<b>-110%</b>	<b>-112%</b>
<b>NP margins</b>	<b>-9.9%</b>	<b>6.8%</b>	<b>0.5%</b>	<b>-0.8%</b>				

Source: Company data, CMBIS estimates

Figure 4: Result preview – Full Year

	FY20	FY21E	FY22E	FY20 YoY	FY21E YoY	FY22E YoY
<b>Revenue</b>	<b>28,614</b>	<b>37,958</b>	<b>44,133</b>	<b>8%</b>	<b>33%</b>	<b>16%</b>
COGS	(12,261)	(15,901)	(18,355)			
Gross profit	16,353	22,057	25,778	7%	35%	17%
<b>GP margins</b>	<b>57.1%</b>	<b>58.1%</b>	<b>58.4%</b>			
Other income & gains	361	326	402			
Staff costs	(9,677)	(13,423)	(14,106)	21%	39%	5%
<b>Staff costs / sales</b>	<b>-33.8%</b>	<b>-35.4%</b>	<b>-32.0%</b>			
Property rent & related exp.	(236)	(351)	(384)	-2%	49%	9%
<b>Property rent &amp; related exp. / sales</b>	<b>-0.8%</b>	<b>-0.9%</b>	<b>-0.9%</b>			
Utilities exp.	(978)	(1,329)	(1,545)	7%	36%	16%
<b>Utilities exp. / sales</b>	<b>-3.4%</b>	<b>-3.5%</b>	<b>-3.5%</b>			
Depreciation & amortization	(3,034)	(4,231)	(4,315)	60%	39%	2%
<b>Depreciation &amp; amortization / sales</b>	<b>-10.6%</b>	<b>-11.1%</b>	<b>-9.8%</b>			
Travelling & related exp.	(186)	(304)	(353)	-15%	63%	16%
<b>Travelling &amp; related exp. / sales</b>	<b>-0.7%</b>	<b>-0.8%</b>	<b>-0.8%</b>			
Other opex	(1,252)	(2,126)	(1,986)	25%	70%	-7%
Operating profit (EBIT)	1,351	620	3,491	-59%	-54%	463%
<b>OP margins</b>	<b>4.7%</b>	<b>1.6%</b>	<b>7.9%</b>			
Other items	(245)	(27)	(31)			
Net finance income	(446)	(678)	(656)			
<b>Net finance income / sales</b>	<b>-1.6%</b>	<b>-1.8%</b>	<b>-1.5%</b>			
Profit after financing costs	660	-85	2,804			
Associated coms	0	0	0			
Jointly controlled coms	75	9	9			
Pre-tax profit	735	-77	2,813	-77%	-110%	n/a
Tax	(426)	21	(745)			
<b>Tax / sales</b>	<b>-1.5%</b>	<b>0.1%</b>	<b>-1.7%</b>			
<b>Effective tax rate</b>	<b>-57.9%</b>	<b>-27.0%</b>	<b>-26.5%</b>			
Minority interests	0	(0)	8			
<b>Net profit att.</b>	<b>309</b>	<b>(56)</b>	<b>2,059</b>	<b>-87%</b>	<b>-118%</b>	<b>n/a</b>
<b>NP margins</b>	<b>1.1%</b>	<b>-0.1%</b>	<b>4.7%</b>			

Source: Company data, CMBIS estimates

## Assumptions

Figure 5: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Number of restaurants</b>					
China T1 cities	190	255	275	280	295
China T2 cities	332	499	524	534	549
China T3 and below	194	451	476	486	506
Outside PRC	52	93	101	111	136
Total	768	1,298	1,376	1,411	1,486
<b>Number of restaurants growth (YoY %)</b>					
China T1 cities	79.2%	34.2%	7.8%	1.8%	5.4%
China T2 cities	60.4%	50.3%	5.0%	1.9%	2.8%
China T3 and below	65.8%	132.5%	5.5%	2.1%	4.1%
Outside PRC	44.4%	78.8%	8.6%	9.9%	22.5%
Total	64.8%	69.0%	6.0%	2.5%	5.3%
<b>Sales per restaurants (RMB mn)</b>					
China T1 cities	34	23	29	33	35
China T2 cities	34	23	29	32	35
China T3 and below	30	18	23	27	29
Outside PRC	44	24	28	32	34
Total	33	21	27	30	33
<b>Sales per restaurants growth (YoY %)</b>					
China T1 cities	-10.4%	-31.8%	25.0%	13.0%	8.0%
China T2 cities	-10.9%	-32.7%	27.0%	13.0%	8.0%
China T3 and below	3.2%	-39.4%	29.0%	15.0%	8.0%
Outside PRC	19.0%	-45.3%	15.8%	14.2%	8.5%
Total	-5.8%	-36.6%	26.3%	13.6%	8.1%
<b>Average spending per guest (RMB)</b>					
China T1 cities	110	116	115	117	120
China T2 cities	99	106	105	108	111
China T3 and below	95	100	99	101	103
Outside PRC	185	193	189	193	194
Overall	105	110	112	114	118
<b>Average spending per guest growth (YoY %)</b>					
China T1 cities	3.8%	5.5%	-1.0%	2.0%	2.0%
China T2 cities	4.9%	6.3%	-1.0%	3.0%	3.0%
China T3 and below	3.0%	5.6%	-1.0%	2.0%	2.0%
Outside PRC	-7.0%	3.9%	-2.0%	2.0%	1.0%
Overall	4.1%	4.7%	1.5%	2.4%	2.9%
<b>GP margins</b>					
Staff costs/ sales	57.7%	57.1%	58.1%	58.4%	58.4%
Property rent and related expenses/ sales	-30.1%	-33.8%	-35.4%	-32.0%	-30.3%
Utilities expenses / sales	-0.9%	-0.8%	-0.9%	-0.9%	-0.8%
Depreciation and amortization/ sales	-3.4%	-3.4%	-3.5%	-3.5%	-3.5%
Travelling and related expenses/ sales	-7.1%	-10.6%	-11.1%	-9.8%	-9.1%
Other expenses/ sales	-0.8%	-0.7%	-0.8%	-0.8%	-0.8%
Effective tax rate	-3.8%	-4.4%	-5.6%	-4.5%	-4.6%
	-27.7%	-57.9%	-27.0%	-26.5%	-26.5%

Source: Company data, CMBIS estimates

## Valuation

Figure 6: Peers' valuation

Company	Ticker	Rating	12m TP	Price	Up/Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE	3yrs	Yield	
			(LC)	(LC)	side			(HK\$ mn)	End	FY1E	FY2E	FY1E	FY2E	(%)	PEG (x)
<b>Leading Greater China Restaurants and Food Ingredients</b>															
Haidilao	6862 HK	HOLD	16.85	17.62	-4%	98,214	Dec-20	n/a	37.6	7.1	6.0	(0.5)	(11.5)	0.9	
Jiumaojiu	9922 HK	BUY	19.67	16.12	22%	23,429	Dec-20	46.1	28.6	5.6	4.8	12.6	0.5	0.5	
Nayuki	2150 HK	HOLD	7.83	7.95	-2%	13,635	Dec-20	n/a	45.8	2.8	2.9	(12.4)	n/a	n/a	
Cafe De Coral	341 HK	BUY	19.05	13.60	40%	7,966	Mar-21	31.4	19.6	2.6	2.4	7.9	2.4	1.7	
Xiabuxiabu	520 HK	NR	n/a	4.89	n/a	5,310	Dec-20	32.0	10.9	1.8	1.6	6.5	0.1	1.7	
Helens	9869 HK	NR	n/a	19.70	n/a	24,958	Dec-20	242.4	36.1	14.2	9.3	2.0	n/a	0.0	
Tam Jai	2217 HK	NR	n/a	3.05	n/a	4,088	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Yihai	1579 HK	BUY	108.52	34.30	216%	35,909	Dec-20	31.9	26.4	7.1	5.8	23.6	2.0	0.8	
Yum China	9987 HK	HOLD	438.86	352.00	25%	150,701	Dec-20	29.6	21.8	2.9	2.6	10.2	3.8	1.0	
Gourmet Master	2723 TT	NR	n/a	104.50	n/a	5,279	Dec-20	16.1	15.0	1.6	1.6	10.1	1.0	3.8	
								<b>Avg.</b>	<b>61.4</b>	<b>26.9</b>	<b>5.1</b>	<b>4.1</b>	<b>6.7</b>	<b>(0.3)</b>	<b>1.3</b>
								<b>Med.</b>	<b>31.9</b>	<b>26.4</b>	<b>2.9</b>	<b>2.9</b>	<b>7.9</b>	<b>1.0</b>	<b>1.0</b>
<b>Other H-shares Restaurants and Food Ingredients</b>															
Fairwood	52 HK	NR	n/a	15.54	n/a	2,013	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Tai Hing	6811 HK	NR	n/a	1.29	n/a	1,295	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Hop Hing	47 HK	NR	n/a	0.08	n/a	796	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Ajisen China	538 HK	NR	n/a	1.27	n/a	1,386	Dec-20	15.4	10.4	n/a	n/a	2.3	n/a	4.8	
Tao Heung	573 HK	NR	n/a	0.89	n/a	903	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
								<b>Avg.</b>	<b>15.4</b>	<b>10.4</b>	<b>n/a</b>	<b>n/a</b>	<b>2.3</b>	<b>n/a</b>	<b>4.8</b>
								<b>Med.</b>	<b>15.4</b>	<b>10.4</b>	<b>n/a</b>	<b>n/a</b>	<b>2.3</b>	<b>n/a</b>	<b>4.8</b>
<b>Leading Greater China Restaurants and Food Ingredients</b>															
Yum	YUM US	NR	n/a	122.05	n/a	278,545	Dec-20	26.9	24.6	n/a	n/a	(22.0)	1.2	1.6	
Mcdonald'S	MCD US	NR	n/a	250.68	n/a	1,458,395	Dec-20	26.6	24.8	n/a	n/a	(145.9)	1.3	2.1	
Starbucks	SBUX US	NR	n/a	97.01	n/a	886,096	Oct-21	28.2	24.3	n/a	n/a	(60.6)	3.2	2.0	
Rest. Brands	QSR US	NR	n/a	54.50	n/a	195,653	Dec-20	19.7	18.0	8.0	11.2	33.3	0.7	3.9	
Wingstop	WING US	NR	n/a	147.72	n/a	34,302	Dec-20	104.0	79.1	n/a	n/a	(13.8)	2.5	0.4	
Shake Shack	SHAK US	NR	n/a	64.63	n/a	21,165	Dec-20	n/a	534.1	6.6	6.5	(1.6)	n/a	n/a	
Chipotle Mexican	CMG US	NR	n/a	1368.4	n/a	299,749	Dec-20	54.4	41.6	16.7	14.1	31.6	1.1	0.0	
Darden Rest.	DRI US	NR	n/a	137.50	n/a	136,731	May-21	18.1	16.2	6.9	6.5	35.7	0.7	3.2	
Domino'S Pizza	DPZ US	NR	n/a	436.36	n/a	123,618	Jan-21	32.0	28.6	n/a	n/a	(13.7)	2.8	0.9	
Wendy'S	WEN US	NR	n/a	22.25	n/a	38,220	Jan-21	27.5	25.1	10.0	11.6	32.2	1.1	1.9	
Jollibee Foods	JFC PM	NR	n/a	232.00	n/a	39,112	Dec-20	82.9	44.2	4.6	4.2	5.2	(0.4)	0.6	
								<b>Avg.</b>	<b>42.0</b>	<b>78.2</b>	<b>8.8</b>	<b>9.0</b>	<b>(10.9)</b>	<b>1.4</b>	<b>1.7</b>
								<b>Med.</b>	<b>27.8</b>	<b>25.1</b>	<b>7.5</b>	<b>8.9</b>	<b>(1.6)</b>	<b>1.2</b>	<b>1.8</b>
<b>H-shares Consumer Staples</b>															
UPC	220 HK	NR	n/a	7.31	n/a	31,574	Dec-20	17.4	15.3	1.9	1.8	10.7	2.2	5.9	
Tingyi	322 HK	NR	n/a	16.16	n/a	90,997	Dec-20	19.5	17.2	3.5	3.5	18.2	2.4	6.5	
Want Want China	151 HK	NR	n/a	7.75	n/a	92,221	Mar-21	17.6	16.5	4.5	4.3	27.3	1.9	3.6	
China Mengniu	2319 HK	NR	n/a	46.65	n/a	184,416	Dec-20	28.3	23.4	4.0	3.5	14.3	0.9	0.9	
Vitasoy	345 HK	NR	n/a	16.16	n/a	17,291	Mar-21	122.4	36.1	5.0	4.6	4.0	127.3	0.1	
Tsingtao Brewery	168 HK	NR	n/a	71.85	n/a	129,143	Dec-20	27.5	24.8	3.5	3.3	13.3	1.3	1.6	
CR Beer	291 HK	NR	n/a	58.85	n/a	190,920	Dec-20	36.7	34.3	6.4	5.8	18.3	0.9	1.1	
Dali Foods	3799 HK	NR	n/a	4.74	n/a	64,910	Dec-20	13.5	12.6	2.8	2.5	21.2	1.5	3.8	
								<b>Avg.</b>	<b>35.4</b>	<b>22.5</b>	<b>4.0</b>	<b>3.7</b>	<b>15.9</b>	<b>17.3</b>	<b>3.0</b>
								<b>Med.</b>	<b>23.5</b>	<b>20.3</b>	<b>3.8</b>	<b>3.5</b>	<b>16.3</b>	<b>1.7</b>	<b>2.6</b>

Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>26,556</b>	<b>28,614</b>	<b>37,958</b>	<b>44,133</b>	<b>50,187</b>
China & loyalty program	23,336	25,228	33,947	39,309	44,060
Overseas	2,274	2,226	2,799	3,512	4,669
Delivery business	449	718	660	676	726
Condiment & food	498	442	553	636	731
<b>Cost of goods sold</b>	<b>(11,239)</b>	<b>(12,261)</b>	<b>(15,901)</b>	<b>(18,355)</b>	<b>(20,873)</b>
<b>Gross profit</b>	<b>15,317</b>	<b>16,353</b>	<b>22,057</b>	<b>25,778</b>	<b>29,314</b>
<b>Other income</b>	<b>119</b>	<b>320</b>	<b>285</b>	<b>331</b>	<b>376</b>
<b>Operating expenses</b>	<b>(12,256)</b>	<b>(15,363)</b>	<b>(21,763)</b>	<b>(22,689)</b>	<b>(24,648)</b>
D & A	(1,891)	(3,034)	(4,231)	(4,315)	(4,552)
Staff costs	(7,993)	(9,677)	(13,423)	(14,106)	(15,211)
S & D costs (ex-staff, D&A)	(240)	(236)	(351)	(384)	(420)
Admin exp. (ex-staff, D&A)	(912)	(978)	(1,329)	(1,545)	(1,757)
Other operating expenses	(1,220)	(1,438)	(2,429)	(2,339)	(2,710)
<b>EBIT</b>	<b>3,180</b>	<b>1,310</b>	<b>579</b>	<b>3,420</b>	<b>5,042</b>
Finance costs, net	(93)	(404)	(637)	(585)	(485)
JVs & associates	65	75	9	9	10
Exceptional	95	(245)	(27)	(31)	(35)
<b>Pre-tax profit</b>	<b>3,247</b>	<b>735</b>	<b>(77)</b>	<b>2,813</b>	<b>4,531</b>
Income tax	(900)	(426)	21	(745)	(1,201)
Less: Minority interests	2	0	(0)	8	14
<b>Net profit</b>	<b>2,345</b>	<b>309</b>	<b>(56)</b>	<b>2,059</b>	<b>3,317</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>EBIT</b>	<b>3,180</b>	<b>1,310</b>	<b>579</b>	<b>3,420</b>	<b>5,042</b>
D & A	1,891	3,034	4,231	4,315	4,552
Change in working capital	368	(704)	45	81	82
Income tax paid	(874)	(657)	21	(745)	(1,201)
Others	15	(61)	(71)	(1,286)	(121)
<b>Net cash from operating</b>	<b>4,580</b>	<b>2,921</b>	<b>4,805</b>	<b>5,784</b>	<b>8,353</b>
Capex & investments	(4,881)	(6,070)	(3,416)	(1,103)	(753)
Associated companies	-	-	-	-	-
Interest received	70	113	-	-	-
Others	(215)	1,265	-	-	-
<b>Net cash from investing</b>	<b>(5,026)</b>	<b>(4,691)</b>	<b>(3,416)</b>	<b>(1,103)</b>	<b>(753)</b>
Equity raised	-	-	-	-	-
Net change in bank loans	(291)	3,891	-	-	-
Dividend paid	(473)	(703)	(703)	17	(618)
Others	(726)	(848)	(678)	(656)	(634)
<b>Net cash from financing</b>	<b>(1,490)</b>	<b>2,340</b>	<b>(1,382)</b>	<b>(640)</b>	<b>(1,252)</b>
<b>Net change in cash</b>	<b>(1,936)</b>	<b>570</b>	<b>7</b>	<b>4,041</b>	<b>6,348</b>
Beginning cash balance	4,119	2,222	2,683	2,690	6,731
Exchange difference	39	(109)	-	-	-
<b>Cash at the end of the year</b>	<b>2,222</b>	<b>2,683</b>	<b>2,690</b>	<b>6,731</b>	<b>13,079</b>
	<b>3,180</b>	<b>1,310</b>	<b>579</b>	<b>3,420</b>	<b>5,042</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>13,414</b>	<b>20,934</b>	<b>21,646</b>	<b>19,767</b>	<b>17,484</b>
Fixed asset	7,690	12,064	12,795	10,935	8,665
Intangible assets & goodwill	112	92	64	36	13
Prepaid lease payments	274	357	357	357	357
Interest in joint ventures	226	301	310	319	329
Other non-current assets	5,112	8,120	8,120	8,120	8,120
<b>Current assets</b>	<b>7,200</b>	<b>6,593</b>	<b>7,645</b>	<b>12,390</b>	<b>19,439</b>
Cash and cash equivalents	2,222	2,683	2,690	6,731	13,079
Inventories	1,200	1,154	1,526	1,762	2,004
Trade receivables	204	275	318	369	420
Prepayments	1,412	1,930	2,560	2,977	3,385
Other current assets	2,163	551	551	551	551
<b>Current liabilities</b>	<b>5,664</b>	<b>9,868</b>	<b>10,958</b>	<b>11,742</b>	<b>12,525</b>
Bank loans	122	3,721	3,721	3,721	3,721
Trade payables	1,406	1,583	1,938	2,237	2,544
Accruals & other payables	1,577	2,249	2,983	3,468	3,944
Tax payables	224	201	201	201	201
Others	2,334	2,114	2,114	2,114	2,114
<b>Non-current liabilities</b>	<b>4,324</b>	<b>7,422</b>	<b>7,422</b>	<b>7,422</b>	<b>7,422</b>
Bank loans	-	268	268	268	268
Deferred income	-	-	-	-	-
Deferred tax	47	21	21	21	21
Others	4,277	7,132	7,132	7,132	7,132
<b>Minority Interest</b>	<b>3</b>	<b>3</b>	<b>30</b>	<b>69</b>	<b>118</b>
<b>Total net assets</b>	<b>10,623</b>	<b>10,234</b>	<b>10,882</b>	<b>12,924</b>	<b>16,858</b>
<b>Shareholders' equity</b>	<b>10,623</b>	<b>10,234</b>	<b>10,882</b>	<b>12,924</b>	<b>16,858</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
China & loyalty program	87.9	88.2	89.4	89.1	87.8
Overseas	8.6	7.8	7.4	8.0	9.3
Delivery business	1.7	2.5	1.7	1.5	1.4
Condiment & food	1.9	1.5	1.5	1.4	1.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	57.7	57.1	58.1	58.4	58.4
Operating margin	12.0	4.6	1.5	7.7	10.0
Pre-tax margin	12.2	2.6	(0.2)	6.4	9.0
Net margin	8.8	1.1	(0.1)	4.7	6.6
Effective tax rate	28.3	64.5	27.0	26.5	26.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.3	0.7	0.7	1.1	1.6
Quick ratio (x)	1.1	0.6	0.6	0.9	1.4
Cash ratio (x)	0.4	0.3	0.2	0.6	1.0
Inventory turnover days	27	35	35	35	35
Trade receivables days	2	3	3	3	3
Trade payables days	35	44	44	44	44
Total debt / equity ratio (%)	11	43	40	34	26
Net debt / equity ratio (%)	Net cash	16	15	Net cash	Net cash
<b>Returns (%)</b>					
ROE	22.1	3.0	(0.5)	15.9	19.7
ROA	11.4	1.1	(0.2)	6.4	9.0
<b>Per share</b>					
EPS (RMB)	0.44	0.06	-0.01	0.39	0.63
DPS (RMB)	0.07	0.13	-0.00	0.12	0.19
BVPS (RMB)	2.00	1.93	2.05	2.44	3.18

Source: Company data, CMBIS estimates

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