

Haidilao (6862 HK)

The worst should be gone as reforms continue

Upgrade to BUY and revised up TP to HK\$ 21.56, based on 42x FY22E P/E (up from 36x due to better fundamentals and investor sentiment). We are now more confident on the reforms to drive product and service quality improvement, and therefore table turnover should have bottomed out even the pandemic may continue. The stock is trading at 36x FY22E P/E, slightly higher than 5-year historical average of 32x and China peers' average of 25x, vs its 10% FY19-23E NP CAGR.

- Traffic improved in Jan-Feb 2022 and we expect that to continue in FY22E.** We estimate table turnover to be 3.2x in FY21E and believe that had improved in Jan-Feb 2022, thanks to both industry reasons (e.g. more precise anti-pandemic measures, consumers become more familiar and less worried) and company growth drivers (closures of about 300 non-performing stores, launches of better quality products, upgrades in staff training, upgrade of branding and store images to lure younger customers, etc.)
- More high-quality new products but ASP to remain stable.** About 180-200 SKUs were launched per year in FY20-21E. We expect the SKUs to be more concentrated in FY22E with special menus catered for different seasons, themes and festivals. The new products released in Dec 2021 had so far received great receptions and positively impacted foot traffic. On the other hand, we expect ASP to remain stable and costs inflation could be absorbed through menu adjustment (replacing overseas by domestic ingredients, more seasonal products, etc.).
- Better training and motivation system for the staffs.** We are optimistic to see a better overall service quality in FY22E and onwards, as many of HDL's staffs were given additional coaching and practices. Moreover, the incentive system in FY22E should also be refined, promoting a less stressful and more rewarding working environment that could bring the best out of its employees.
- We lift our base case for FY22E/ 23E.** With the reasons above, we model a same store sales recovery rate (vs 2019) of 82%/ 93% implying a 3.6x/ 4.0x table turnover and hence 4.7%/ 6.6% net profit margin in FY22E/ 23E.
- Upgrade to BUY and raised TP to HK\$ 21.56.** We cut our FY21E EPS to factor in the profit warning but lifted FY22E/ 23E EPS by 10%/ 4% to factor in :1) higher table turnover and 2) better staff productivity. We raised TP to HK\$21.56 based on 42x FY22E P/E (up from 36x). It is trading at 36x FY22E P/E, vs China peers average of 25x and 10% FY19-23E NP CAGR.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	26,556	28,614	40,187	47,133	52,667
YoY growth (%)	56.5	7.8	40.4	17.3	11.7
Net income (RMB mn)	2,345	309	(3,897)	2,258	3,459
EPS (RMB)	0.44	0.06	(0.74)	0.43	0.65
YoY growth (%)	42.4	(86.8)	(1,360.0)	n/a	53.2
Consensus EPS	n/a	n/a	(0.20)	0.43	0.67
P/E (x)	37.5	266.3	(20.8)	36.0	23.5
P/B (x)	8.3	8.0	9.0	7.2	5.3
Yield (%)	0.4	0.9	0.0	0.8	1.3
ROE (%)	22.1	3.0	(43.4)	20.1	22.5
Net gearing (%)	Net cash	16.1	40.1	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price	HK\$21.56
(Previous TP)	HK\$16.85)
Up/Downside	16.8%
Current Price	HK\$18.46

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Stock Data

Mkt Cap (HK\$ mn)	102,896
Avg 3 mths t/o (HK\$ mn)	248.62
52w High/Low (HK\$)	70.35/15.86
Total Issued Shares (mn)	5,574.0

Source: Bloomberg

Shareholding Structure

Mr. Zhang Yong	57.44%
Ms. Shu Ping	7.37%
Mr. Shi Yong Hong	7.79%
Ms. Li Hai Yan	6.03%
Other management	7.00%
Free Float	14.37%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.8%	11.8%
3-mth	2.2%	8.1%
6-mth	-32.5%	-24.7%
12-mth	-71.0%	-63.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

- Haidilao (6862 HK, HOLD) - Reforms on track, but hindered by pandemic – 27 Jan 2022
- Haidilao (6862 HK, HOLD) - Another step taken but headwind is still there – 9 Nov 2021

- **Industry remains competitive but HDL is still leading by miles.** Even though hotpot was a hard-hit category during pandemic, we believe the tier 1 players (e.g. HDL, XBXB, Cou Cou, Banu) should have gained more market shares as many smaller players are forced out of businesses. And the advantages of HDL, such as its management system and supply chain are still non-replicable.
- **The miss in adj. net losses was limited.** HDL issued a profit warning and expects its net losses in FY21E to be RMB 3.8bn to 4.5bn. If we exclude one-off disposal, impairment losses, the adj. net losses will be ~RMB 500mn and was mainly due to: 1) closures of 300 stores and 2) long-lasting pandemic in China and overseas. However, the adj. NP margin will be -1.3%, only 1ppt greater than CMBI est. of -0.3%.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	40,187	47,133	52,667	37,958	44,133	50,187	5.9%	6.8%	4.9%
Gross profit	23,353	27,530	30,762	22,057	25,778	29,314	5.9%	6.8%	4.9%
EBIT	(3,318)	3,720	5,258	579	3,420	5,042	-673.4%	8.8%	4.3%
Net profit att.	(3,897)	2,258	3,459	(56)	2,059	3,317	6887.9%	9.7%	4.3%
Diluted EPS (RMB)	(0.735)	0.426	0.653	(0.011)	0.388	0.626	6887.9%	9.7%	4.3%
Gross margin	58.1%	58.4%	58.4%	58.1%	58.4%	58.4%	0ppt	0ppt	0ppt
EBIT margin	-8.3%	7.9%	10.0%	1.5%	7.7%	10.0%	-9.8ppt	0.1ppt	-0.1ppt
Net profit att. margin	-9.7%	4.8%	6.6%	-0.1%	4.7%	6.6%	-9.5ppt	0.1ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	40,187	47,133	52,667	41,540	52,685	62,459	-3.3%	-10.5%	-15.7%
Gross profit	23,353	27,530	30,762	23,856	30,443	36,265	-2.1%	-9.6%	-15.2%
EBIT	(3,318)	3,720	5,258	803	3,703	5,587	-513.0%	0.5%	-5.9%
Net profit att.	(3,897)	2,258	3,459	229	2,685	4,274	-1804.7%	-15.9%	-19.1%
Diluted EPS (RMB)	(0.735)	0.426	0.653	0.044	0.487	0.746	-1758.9%	-12.5%	-12.5%
Gross margin	58.1%	58.4%	58.4%	57.4%	57.8%	58.1%	0.7ppt	0.6ppt	0.3ppt
EBIT margin	-8.3%	7.9%	10.0%	1.9%	7.0%	8.9%	-10.2ppt	0.9ppt	1ppt
Net profit att. margin	-9.7%	4.8%	6.6%	0.6%	5.1%	6.8%	-10.2ppt	-0.3ppt	-0.3ppt

Source: Company data, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Number of restaurants					
China T1 cities	190	255	275	280	285
China T2 cities	332	499	524	529	539
China T3 and below	194	451	476	486	496
Outside PRC	52	93	101	111	136
Total	768	1,298	1,376	1,406	1,456
Number of restaurants growth (YoY %)					
China T1 cities	79.2%	34.2%	7.8%	1.8%	1.8%
China T2 cities	60.4%	50.3%	5.0%	1.0%	1.9%
China T3 and below	65.8%	132.5%	5.5%	2.1%	2.1%
Outside PRC	44.4%	78.8%	8.6%	9.9%	22.5%
Total	64.8%	69.0%	6.0%	2.2%	3.6%
Sales per restaurants (RMB mn)					
China T1 cities	34	23	31	36	38
China T2 cities	34	23	30	35	38
China T3 and below	30	18	25	29	31
Outside PRC	44	24	28	32	35
Total	33	21	28	33	35
Sales per restaurants growth (YoY %)					
China T1 cities	-10.4%	-31.8%	34.0%	14.0%	8.0%
China T2 cities	-10.9%	-32.7%	35.0%	15.0%	8.0%
China T3 and below	3.2%	-39.4%	37.0%	16.5%	8.0%
Outside PRC	19.0%	-45.3%	16.6%	14.2%	8.5%
Total	-5.8%	-36.6%	33.9%	15.1%	7.9%
Average spending per guest (RMB)					
China T1 cities	110	116	115	116	119
China T2 cities	99	106	105	107	110
China T3 and below	95	100	99	100	102
Outside PRC	185	193	189	191	193
Overall	105	110	111	113	116
Average spending per guest growth (YoY %)					
China T1 cities	3.8%	5.5%	-1.0%	1.0%	2.0%
China T2 cities	4.9%	6.3%	-1.0%	2.0%	3.0%
China T3 and below	3.0%	5.6%	-1.0%	1.0%	2.0%
Outside PRC	-7.0%	3.9%	-2.0%	1.0%	1.0%
Overall	4.1%	4.7%	1.2%	1.3%	2.9%
GP margins	57.7%	57.1%	58.1%	58.4%	58.4%
Staff costs/ sales	-30.1%	-33.8%	-33.4%	-31.3%	-29.7%
Rental expenses /sales	-0.9%	-0.8%	-0.7%	-0.7%	-0.7%
Utilities expenses/ sales	-3.4%	-3.4%	-3.5%	-3.5%	-3.5%
Depreciation and amortization/ sales	-4.7%	-7.5%	-7.0%	-6.6%	-5.9%
Depreciation of right-of-use assets/ sales	-2.4%	-3.1%	-4.4%	-4.0%	-3.8%
Travelling fees/ sales	-0.8%	-0.7%	-0.8%	-0.8%	-0.8%
Other opex/ sales	-3.8%	-4.4%	-17.3%	-4.7%	-4.8%
Effective tax rate	-27.7%	-57.9%	-2.0%	-26.5%	-26.5%

Source: Company data, CMBIGM estimates

Valuation

Figure 4: 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)
Leading Greater China Restaurants and Food Ingredients															
Haidilao	6862 HK	BUY	21.56	18.46	17%	102,896	Dec-20	n/a	36.0	9.0	7.2	(40.6)	(0.2)	0.9	
Jiumaojiu	9922 HK	BUY	19.67	18.36	7%	26,685	Dec-20	55.4	34.5	6.4	5.4	11.9	0.6	0.5	
Nayuki	2150 HK	HOLD	7.83	6.35	23%	10,891	Dec-20	n/a	40.1	2.2	2.1	(28.1)	n/a	n/a	
Cafe De Coral	341 HK	BUY	19.05	12.80	49%	7,497	Mar-21	32.2	19.2	2.4	2.3	7.7	2.5	1.7	
Xiabuxiabu	520 HK	NR	n/a	5.11	n/a	5,549	Dec-20	36.9	12.8	1.9	1.7	5.0	0.1	1.3	
Helens	9869 HK	NR	n/a	17.18	n/a	21,765	Dec-20	198.5	31.4	11.6	7.9	(0.3)	n/a	0.0	
Tam Jai	2217 HK	NR	n/a	2.65	n/a	3,552	Mar-21	12.9	10.0	2.1	1.8	21.1	1.9	5.4	
Yihai	1579 HK	BUY	108.52	32.50	234%	34,024	Dec-20	30.2	25.1	6.7	5.5	23.5	1.9	0.9	
Yum China	9987 HK	HOLD	343.43	396.80	-13%	169,830	Dec-21	29.6	23.5	2.8	2.5	9.6	54.9	1.0	
Gourmet Master	2723 TT	NR	n/a	113.00	n/a	5,674	Dec-20	17.4	16.2	1.7	1.7	10.1	1.1	3.5	
								Avg.	51.6	24.9	4.7	3.8	2.0	7.8	1.7
								Med.	31.2	24.3	2.6	2.4	8.7	1.5	1.0
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	n/a	15.30	n/a	1,982	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Tai Hing	6811 HK	NR	n/a	1.24	n/a	1,244	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Ajisen China	538 HK	NR	n/a	1.26	n/a	1,375	Dec-20	15.2	10.3	n/a	n/a	2.3	n/a	4.9	
Tao Heung	573 HK	NR	n/a	0.85	n/a	862	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
								Avg.	15.2	10.3	n/a	n/a	2.3	n/a	4.9
								Med.	15.2	10.3	n/a	n/a	2.3	n/a	4.9
Leading Greater China Restaurants and Food Ingredients															
Yum	YUM US	NR	n/a	123.72	n/a	279,189	Dec-21	25.2	22.3	n/a	n/a	(16.0)	4.4	1.8	
Mcdonald'S	MCD US	NR	n/a	249.45	n/a	1,448,451	Dec-21	24.6	22.4	n/a	n/a	(192.0)	4.4	2.2	
Starbucks	SBUX US	NR	n/a	92.58	n/a	831,607	Oct-21	27.7	23.7	n/a	n/a	(54.1)	3.6	2.1	
Rest. Brands	QSR US	NR	n/a	57.01	n/a	202,339	Dec-21	19.0	17.0	10.7	11.5	35.8	1.7	3.8	
Wingstop	WING US	NR	n/a	140.08	n/a	32,639	Dec-21	79.0	63.7	n/a	n/a	(18.8)	3.6	0.5	
Shake Shack	SHAK US	NR	n/a	71.97	n/a	23,641	Dec-21	n/a	257.0	7.1	7.0	(2.2)	n/a	n/a	
Chipotle Mexican	CMG US	NR	n/a	1497.0	n/a	327,691	Dec-21	47.4	36.1	15.7	12.6	34.1	1.6	n/a	
Darden Rest.	DRI US	NR	n/a	145.08	n/a	144,700	May-21	19.1	17.1	7.3	6.8	35.7	0.8	3.0	
Domino'S Pizza	DPZ US	NR	n/a	429.98	n/a	122,175	Jan-21	31.5	28.2	n/a	n/a	(13.7)	2.8	0.9	
Wendy'S	WEN US	NR	n/a	22.72	n/a	39,145	Jan-21	28.0	25.5	10.2	11.8	32.2	1.1	1.9	
Jollibee Foods	JFC PM	NR	n/a	236.00	n/a	39,833	Dec-21	43.5	31.6	3.8	3.7	9.4	2.5	0.9	
								Avg.	34.5	49.5	9.1	8.9	(13.6)	2.6	1.9
								Med.	27.9	25.5	8.7	9.3	(2.2)	2.7	1.9
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	8.26	n/a	35,678	Dec-20	19.6	17.3	2.1	2.1	10.7	2.5	5.2	
Tingyi	322 HK	NR	n/a	17.26	n/a	97,199	Dec-20	20.8	18.3	3.8	3.7	18.2	2.5	6.1	
Want Want China	151 HK	NR	n/a	8.05	n/a	95,791	Mar-21	18.1	17.0	4.7	4.4	27.4	1.9	3.5	
China Mengniu	2319 HK	NR	n/a	49.00	n/a	193,710	Dec-20	29.7	24.6	4.2	3.7	14.4	0.9	1.0	
Vitasoy	345 HK	NR	n/a	14.46	n/a	15,472	Mar-21	n/a	40.4	4.7	4.2	(0.2)	n/a	0.1	
Tsingtao Brewery	168 HK	NR	n/a	74.45	n/a	130,818	Dec-20	28.6	25.9	3.7	3.4	13.4	1.4	1.6	
CR Beer	291 HK	NR	n/a	61.20	n/a	198,544	Dec-20	36.8	35.4	6.6	5.9	18.6	0.9	1.1	
Dali Foods	3799 HK	NR	n/a	4.09	n/a	56,009	Dec-20	11.8	11.1	2.4	2.2	20.9	1.5	4.4	
								Avg.	23.6	23.7	4.0	3.7	15.4	1.7	2.9
								Med.	20.8	21.4	4.0	3.7	16.3	1.5	2.5

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	26,556	28,614	40,187	47,133	52,667
China & loyalty program	23,336	25,228	36,157	42,287	46,522
Overseas	2,274	2,226	2,818	3,537	4,702
Delivery business	449	718	660	674	712
Condiment & food	498	442	553	636	731
Cost of goods sold	(11,239)	(12,261)	(16,835)	(19,603)	(21,904)
Gross profit	15,317	16,353	23,353	27,530	30,762
Other income	119	320	301	495	395
Operating expenses	(12,256)	(15,363)	(26,971)	(24,306)	(25,900)
D & A	(1,891)	(3,034)	(4,600)	(4,977)	(5,123)
Staff costs	(7,993)	(9,677)	(13,423)	(14,747)	(15,629)
Property rent & related	(240)	(236)	(268)	(339)	(355)
Utilities expenses	(912)	(978)	(1,407)	(1,650)	(1,843)
Other operating expenses	(1,220)	(1,438)	(7,274)	(2,592)	(2,949)
EBIT	3,180	1,310	(3,318)	3,720	5,258
Finance costs, net	(93)	(404)	(652)	(611)	(506)
JVs & associates	65	75	9	9	11
Exceptional	95	(245)	(28)	(33)	(37)
Pre-tax profit	3,247	735	(3,989)	3,085	4,726
Income tax	(900)	(426)	80	(818)	(1,252)
Less: Minority interests	2	0	(12)	9	14
Net profit	2,345	309	(3,897)	2,258	3,459

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	3,180	1,310	(3,318)	3,720	5,258
D & A	1,253	2,146	2,832	3,092	3,122
Change in working capital	368	(704)	75	91	75
Income tax paid	(874)	(657)	80	(818)	(1,252)
Others	653	827	1,433	45	1,484
Net cash from operating	4,580	2,921	1,103	6,130	8,686
Capex & investments	(4,881)	(6,070)	(3,617)	(943)	(790)
Associated companies	-	-	-	-	-
Interest received	70	113	-	-	-
Others	(215)	1,265	-	-	-
Net cash from investing	(5,026)	(4,691)	(3,617)	(943)	(790)
Equity raised	-	-	1,940	-	-
Net change in bank loans	(291)	3,891	-	-	-
Dividend paid	(473)	(703)	(703)	-	(678)
Others	(726)	(848)	(678)	(656)	(634)
Net cash from financing	(1,490)	2,340	558	(656)	(1,312)
Net change in cash	(1,936)	570	(1,956)	4,531	6,584
Beginning cash balance	4,119	2,222	2,683	727	5,259
Exchange difference	39	(109)	-	-	-
Cash at the end of the year	2,222	2,683	727	5,259	11,842

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	13,414	20,934	21,728	19,588	17,267
Fixed asset	7,690	12,064	12,876	10,755	8,446
Intangible assets & goodwill	112	92	64	36	13
Prepaid lease payments	274	357	357	357	357
Interest in joint ventures	226	301	310	320	330
Other non-current assets	5,112	8,120	8,120	8,120	8,120
Current assets	7,200	6,593	5,941	11,265	18,489
Cash and cash equivalents	2,222	2,683	727	5,259	11,842
Inventories	1,200	1,154	1,616	1,882	2,103
Trade receivables	204	275	336	394	441
Prepayments	1,412	1,930	2,711	3,179	3,553
Other current assets	2,163	551	551	551	551
Current liabilities	5,664	9,868	11,247	12,130	12,845
Bank loans	122	3,721	3,721	3,721	3,721
Trade payables	1,406	1,583	2,052	2,389	2,670
Accruals & other payables	1,577	2,249	3,158	3,704	4,139
Tax payables	224	201	201	201	201
Others	2,334	2,114	2,114	2,114	2,114
Non-current liabilities	4,324	7,422	7,422	7,422	7,422
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
Minority Interest	3	3	19	62	113
Total net assets	10,623	10,234	8,980	11,239	15,376
Shareholders' equity	10,623	10,234	8,980	11,239	15,376

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
China & loyalty program	87.9	88.2	90.0	89.7	88.3
Overseas	8.6	7.8	7.0	7.5	8.9
Delivery business	1.7	2.5	1.6	1.4	1.4
Condiment & food	1.9	1.5	1.4	1.3	1.4
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	57.7	57.1	58.1	58.4	58.4
Operating margin	12.0	4.6	(8.3)	7.9	10.0
Pre-tax margin	12.2	2.6	(9.9)	6.5	9.0
Net margin	8.8	1.1	(9.7)	4.8	6.6
Effective tax rate	28.3	64.5	2.0	26.5	26.5
Balance sheet ratios					
Current ratio (x)	1.3	0.7	0.5	0.9	1.4
Quick ratio (x)	1.1	0.6	0.4	0.8	1.3
Cash ratio (x)	0.4	0.3	0.1	0.4	0.9
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	49	39	28
Net debt / equity ratio (%)	Net cash	16	40	Net cash	Net cash
Returns (%)					
ROE	22.1	3.0	(43.4)	20.1	22.5
ROA	11.4	1.1	(14.1)	7.3	9.7
Per share					
EPS (RMB)	0.44	0.06	-0.74	0.43	0.65
DPS (RMB)	0.07	0.13	-	0.13	0.20
BVPS (RMB)	2.00	1.93	1.69	2.12	2.90

Source: Company data, CMBIGM estimates

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