

Securities Analysis

Hop Hing (47 HK)

2018 outlook remains positive, a bargain in the sector

- ❖ **Hop Hing is a leading QSR play in North China.** Hop Hing ("HH") is a leading Quick service restaurants (QSR) player in the Northeast region of China. It operates 2 licensed brands "Yoshinoya/吉野家" & "Dairy Queen/冰雪皇后", and others self-owned brands such as "Chatting/茶叮叮", "Uncle Fong/芳叔", with 502 stores in total, as at 3Q17.
- ❖ **3Q SSSG remained quick, thanks to both industry recovery, robust orders from O2O/ delivery, and self-driven positives.** Hop Hing recently reported a 4.0% SSSG in 3Q17, similar to 5.0%/ 4.7% in 2Q17/1Q17, still a positive, in our view, since the high base has started in 3Q16. Industry is trending up, as SSSG from Ajisen and Yum China, both experienced acceleration in 2Q17 and 3Q17 (HH led the turnaround by over 2 quarters), benefited largely from the popularizing of O2O/ delivery orders in China, where this segment's growth was 23.1% in 2017, according to iiMedia Research (in line with HH's numbers in 1H17). Comparatively, GP margin for delivery is lower than group's average, due to the delivery charges paid to the drivers, however, it can compensate this expenses, by lifting the restaurants' overall efficiency (e.g. sales per area), resulting in a similar EBIT margin, on top of that, HH operates its own team of drivers, aids its profitability too. Apart from that, there are various self-driven positives as well, like 1) launches of stars products with higher ASPs and margins in 2H16, such as Japanese-style hotpot, 2 favours in 1 drinks, Ice-cream cake, etc, and 2) continual upgrades of store into 3rd/4th generation formats of "Yoshinoya", now covers over 40% of total by 1H17, which have a more stylish hall and a more efficient kitchen designs for both eat in and delivery.
- ❖ **Business in Northeast China begins to mature, both sales growth and store addition are accelerating.** Growth for Northeast China (excluding Beijing, Tianjin and Hebei) had resumed to 2.3%, in 1H17 from -1.8%/-4.0% in FY16/FY15, coupled with speed up in openings, as at 9M17, stores growth for Northeast China surged to 14%, while that for Beijing, Tianjin and Hebei was just 3.9%, implying that the fundamentals become more positives and fit for more network expansions. Groups' stores growth in FY17E, in our view, could accelerate to 9% (to 512, vs 470 in FY16), from just 3.3% growth in FY16, this will certainly help sales growth in FY18E to speed up.
- ❖ **One of the most under rated play in the sector with decent growth in FY17E-18E, at only 13x FY17E PE and 4% yield.** We foresee a stable GP margin, thanks to stable raw materials costs, and continual OP margin improvements from operating leverage, and rental savings from switching to smaller sized stores (as businesses now shift to delivery), we foresee a 38%/ 16% net profit growth for FY17E/18E, hence company's current 13x/11x FY17E/18E PE is highly attractive, and presents a great bargain, in our view, as it is one of the lowest in the sector, comparing to Yum China (YUMC US)'s 28x, XBBB (520 HK)'s 25x, and Ajisen (538 HK)'s 17x, etc, let alone to mention its 3.9% FY17E yield.

Earnings summary

(YE Dec 31)	FY14A	FY15A	FY16A
Turnover (HKD mn)	2,158	2,050	2,091
Net Income (HKD mn)	35	66	125
Adjusted EPS (HKD)	0.353	0.656	1.253
EPS CHG (%)	152.5	85.6	91.1
PE (x)	34.5	17.8	10.6
PB (x)	2.9	2.7	2.7
Yield (%)	2.1	2.1	1.8
ROE (%)	8.4	15.1	26.2
Net gearing (%)	Net Cash	Net Cash	Net Cash

Source: Company, CMBIS



Not rated

Current Price HK\$0.231

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China Catering Sector

Mkt. Cap. (HK\$m)	2,326
Avg. 3mths t/o (HK\$m)	2.05
52W High/Low (HK\$)	0.295/0.128
Total Issued Shares (mn)	10,070.4

Source: Bloomberg

Shareholding Structure

Hung Family	35.54%
Arisaig partners (Asia)	9.74%
Free Float	54.72%

Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	5.5%	1.6%
3-mth	2.2%	-1.6%
6-mth	-7.6%	-20.2%

Source: Bloomberg

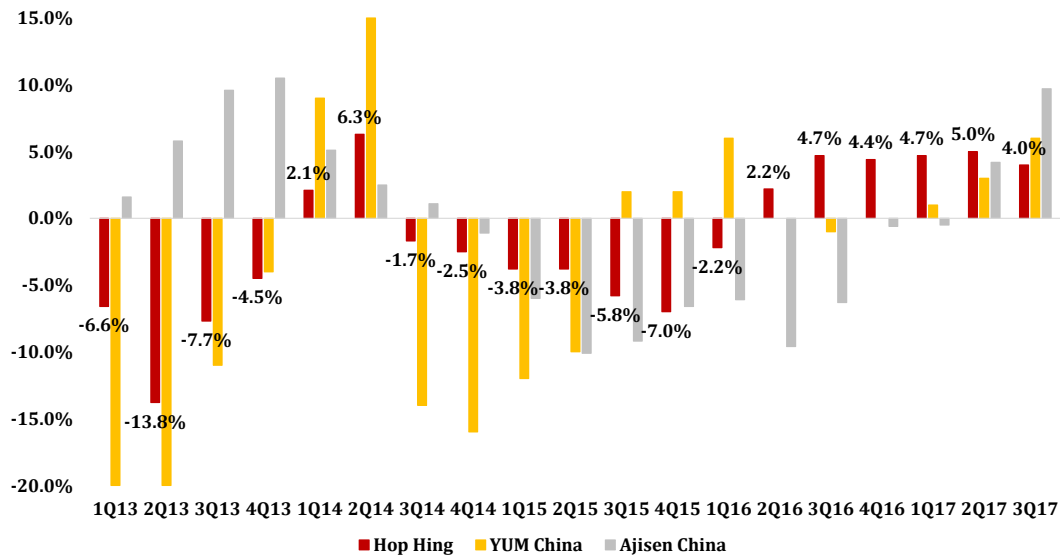
12-mth price performance



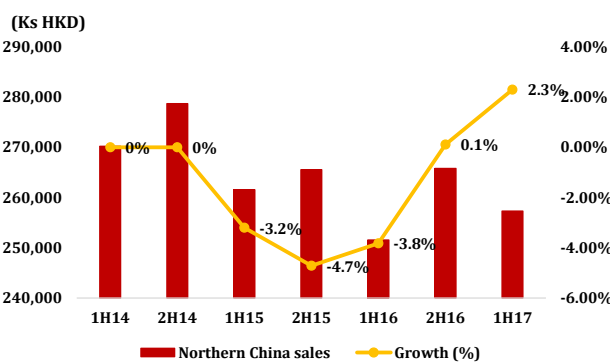
Source: Bloomberg

Auditor: Ernst & Young

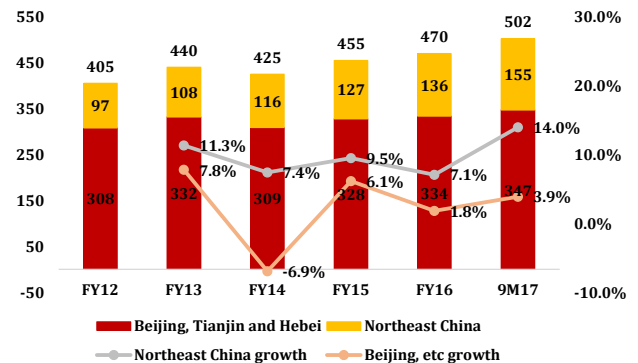
Web-site: www.hophing.com

Figure 1: Same Store Sales Growth, by Hop Hing, Ajisen China and Yum China

Source: Company data, CMBIS

Figure 2: Northern China sales and growth

Source: Company data, CMBIS

Figure 3: Store counts and growth, by region

Source: Company data, CMBIS

Figure 4: Free hot pot promotion when customers buy two 2 favours in 1 drinks


买双格杯免费吃火锅活动推广期2017年7月10日-2017年8月13日，仅限在京津冀火锅售卖餐厅，单笔订单正价购买2杯双格杯(柠檬可乐+柠檬七喜除外)后，即赠芝士竹轮元气锅单锅一份。火锅仅限在京津冀、辽黑吉蒙部分餐厅14点起售卖。售卖火锅餐厅名单请至【吉野家】微信号菜单栏【最新活动】-【活动门店】中查看。火锅不适用于外带及外送服务。

缤纷混搭随心配活动推广期2017年7月10日-2017年9月3日，双格杯数量有限售完为止。吉野家团扇数量总计597200把，送完即止。扫描包装内二维码即可领取价值50元微信卡券一套。

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Source: CMBIS

Figure 5: Peers Comparison

					PER (x)				EPS Growth(%)			PBR (x)				ROE(%)	3yrs PEG(x)	Yield (%)	YTD performance (%)
	Price	Mkt cap	Year																
Company	Ticker	HK\$	HK\$ mn	End	FY0	FY1	FY2	5yrs avg.	FY1	FY2	FY3	FY0	FY1	FY2	5yrs avg.	FY0	FY1	FY1	
H-shares Restaurants																			
Hop Hing Group Holdings Ltd	47 HK	0.23	2,326	31/12/2016	18.4	13.3	11.3	22.6	37.4	16.5	14.4	4.3	4.3	3.3	4.0	34.7	1.1	3.8	72.4
Fairwood Holdings Ltd	52 HK	31.10	3,977	31/3/2017	19.3	18.2	16.3	17.4	5.6	12.0	(3.1)	5.5	6.0	5.7	4.5	29.5	3.9	4.3	11.6
Cafe De Coral Holdings Ltd	341 HK	23.75	13,904	31/3/2017	27.2	25.7	23.2	25.4	6.1	10.8	3.6	4.0	4.0	3.9	4.0	14.3	3.8	3.6	(5.6)
Xiabuxiabu Catering Managemge	520 HK	12.08	12,954	31/12/2016	26.1	25.2	20.2	n/a	18.8	24.7	16.3	6.0	5.5	4.4	n/a	24.8	1.3	1.4	125.0
Ajisen China Holdings Ltd	538 HK	3.73	4,071	31/12/2016	33.4	17.4	15.9	26.4	(70.1)	9.4	20.2	1.0	1.0	1.0	1.9	3.1	(0.6)	4.0	18.0
Tao Heung	573 HK	1.44	1,464	31/12/2016	11.6	n/a	n/a	15.7	0.0	0.0	0.0	0.9	n/a	n/a	2.2	7.2	n/a	n/a	(24.4)
Future Bright Holdings Ltd	703 HK	0.74	514	31/12/2016	n/a	n/a	n/a	n/a	0.0	0.0	0.0	0.5	n/a	n/a	1.5	(0.3)	n/a	n/a	(7.2)
Tsui Wah Holdings Ltd	1314 HK	1.18	1,665	31/3/2017	18.4	15.7	13.1	29.1	17.0	20.0	22.2	1.4	1.2	1.0	3.4	7.8	0.8	5.1	(7.6)
Gourmet Master Co Ltd	2723 TT	342.50	14,448	31/12/2016	27.9	26.3	22.7	34.0	30.5	15.8	22.6	5.9	5.6	5.0	4.2	23.8	1.2	1.6	53.8
Yum China Holdings Inc	YUMC US	40.29	120,769	31/12/2016	27.1	28.2	24.8	n/a	5.5	13.8	12.1	5.4	5.5	4.8	n/a	23.6	2.7	0.5	54.2
Average					23.3	21.3	18.4	24.4	5.1	12.3	10.8	3.5	4.1	3.6	3.2	16.9	1.8	3.0	29.0
Adjusted average					23.5	21.4	18.6	24.2	8.8	13.1	11.1	3.6	4.3	3.7	3.3	16.9	1.2	3.1	20.8

					PER (x)				EPS Growth(%)			PBR (x)				ROE(%)	3yrs PEG(x)	Yield (%)	YTD performance (%)
Company	Ticker	Price	Mkt cap	Year	FY0	FY1	FY2	5yrs avg.	FY1	FY2	FY3	FY0	FY1	FY2	5yrs avg.	FY0	FY1	FY1	
A-shares Restaurants																			
China Qianjude Group Co Lt-A	002186 CH	20.46	7,446	31/12/2016	44.0	41.5	38.4	45.0	9.5	8.1	8.8	4.4	n/a	n/a	5.1	10.3	4.7	1.0	(7.0)
Guangzhou Restaurant Group-A	603043 CH	24.51	11,682	31/12/2016	32.5	32.5	26.8	n/a	2.2	21.2	24.7	9.2	7.2	6.5	n/a	29.7	2.1	2.2	n/a
Average					38.3	37.0	32.6	45.0	5.8	14.7	16.7	6.8	7.2	6.5	5.1	20.0	3.4	1.6	(7.0)
Adjusted average					38.3	37.0	32.6	45.0	5.8	14.7	16.7	6.8	7.2	6.5	5.1	20.0	3.4	1.6	(7.0)

					PER (x)				EPS Growth(%)			PBR (x)				ROE(%)	3yrs PEG(x)	Yield (%)	YTD performance (%)
	Price	Mkt cap	Year				5yrs avg.							5yrs avg.					
Company	Ticker	Local	HK\$ mn	End	FY0	FY1	FY2		FY1	FY2	FY3	FY0	FY1	FY2		FY0	FY1	FY1	
International Restaurants																			
Yum! Brands Inc	YUM US	74.69	200,815	31/12/2016	23.1	26.6	23.3	24.6	(31.3)	14.0	15.3	n/a	n/a	n/a	n/a	n/a	(7.9)	1.7	17.9
Mcdonald'S Corp	MCD US	166.9	1,054,524	31/12/2016	26.2	25.4	23.8	19.7	20.1	6.7	8.2	n/a	n/a	n/a	n/a	n/a	2.2	2.3	37.1
Starbucks Corp	SBUX US	55.07	620,760	2/10/2016	26.3	26.7	23.5	31.1	8.4	14.0	15.9	13.6	13.0	11.5	11.9	50.1	2.1	1.8	(0.8)
Restaurant Brands Intern	QSR US	64.91	235,014	31/12/2016	38.7	33.3	24.8	n/a	32.4	34.5	11.8	7.2	10.3	8.1	N/A	18.2	1.3	1.2	36.2
Papa John'S Intl Inc	PZZA US	62.24	17,007	30/12/2016	23.0	22.2	19.5	28.3	2.1	13.8	5.9	n/a	n/a	n/a	n/a	n/a	3.1	1.4	(27.3)
Yoshinoya Holdings Co Ltd	9861 JP	1885.00	8,386	28/2/2017	126.0	57.8	56.2	n/a	63.4	2.6	17.9	2.1	2.1	2.1	1.6	1.7	2.3	1.1	17.5
Mos Food Services Inc	8153 JP	3460.00	7,566	31/3/2017	35.9	n/a	n/a	53.1	0.0	0.0	0.0	2.3	n/a	n/a	1.8	6.5	n/a	n/a	(1.4)
Average					42.8	32.0	28.5	31.4	13.6	12.2	10.7	6.3	8.5	7.2	5.1	19.1	0.5	1.6	11.3
Adjusted average					30.1	28.0	23.8	28.0	12.6	10.2	11.4	6.3	8.5	7.2	5.1	19.1	2.2	1.5	13.9

Source: Bloomberg, CMBIS estimates

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