

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Haidilao International (6862 HK)

Business improving; potential re-opening of restaurants

- Business improving; Shenzhen/Chengdu not material to revenues
- Potentially re-opening some restaurants
- Maintain BUY and TP of HKD 21.2

Operations continued to improve

During our recent NDR with Haidilao, mgmt. said that the table turnover rates have continued to improve from 2Q22. The table turnover rates improved by 120% yoy in June, 115% yoy in July and a mom improvement in August. In the first 3 days of the Duan Wu (dragon boat) festival, the overall table turnover improved yoy. HDL also said that its total exposure to Shenzhen and Chengdu is not large, so the resurgence of COVID in these areas should not have a material impact on revenues.

Optimization of staff costs

HDL explained it was able to maximize staff efficiency in 1H22 (where staff costs decreased by 17.6% yoy) through 1) allowing restaurant managers to staff according to off-peak hour needs rather than peak hour needs; 2) use more outsourced staff which increases staffing flexibility; and 3) some positions which existed more for preparing staff for the opening of new restaurants were eliminated or consolidated as HDL is not currently in expansion mode. HDL's said its staff efficiency is now 20% higher than pre-COVID levels and the average pay per staff is also higher.

Cautiously considering re-opening of restaurants

With the optimization of staff costs, the break-even turnover rate is now under 3.0x. HDL can consider re-opening of some of the restaurants closed at the end of FY21. Of the c. 300 closed restaurants, about 100 is on the potential re-opening short-list. However, HDL stresses that the re-openings are not yet determined. The opening of these restaurants (if at all) will be determined on the individual restaurant basis and is subject to the potential of the restaurant location, leases and potential cannibalism of business of nearby HDL restaurants. The capex of re-opening a restaurant will have to be much lower than that of opening a new restaurant (c. RMB10,000/sqm). Also, HDL will only open them in phases in order to minimize the impact on the P&L and to consider the potential staffing situation.

Maintain BUY and TP of HKD 21.2

We believe that the worst has passed for HDL and 2H22 should be profitable. We maintain our TP of HKD21.2 and our BUY rating. **Key catalysts:** Better-than-expected table turnover. **Key downside risks:** Prolonged large scale COVID-19 lockdowns in China.

Financials

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenue	28,614	41,112	42,030	54,524	62,586
yoy	7.8%	43.7%	2.2%	29.7%	14.8%
Attributable net profit	309	-4,163	891	3,604	5,495
yoy	-86.8%	-1446%	n.a.	304.5%	52.5%
EPS (RMB)	0.06	(0.78)	0.16	0.67	1.01
P/E	266.2x	n.a.	94.4x	23.3x	15.3x
ROE	3.0%	-45.8%	10.8%	32.3%	38.3%

Sources: Company data, CMS (HK) estimates; share price as of Sept 13, 2022

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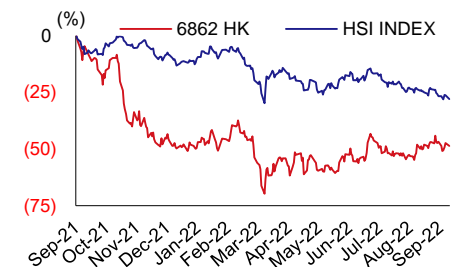
WHAT'S NEW

Haidilao explains its strategy of optimizing staff costs and possible re-opening of restaurants

BUY

Previous	BUY
Price (Sept 13, 2022)	HKD 17.50
12-month Target Price (Potential up/downside)	HKD21.2 (+21.1%)
Previous	HKD 21.2

Price Performance



Source: Bloomberg; share price as of Sept 13, 2022

%	1m	6m	12m
6862 HK	6.7	52.4	(45.5)
HSI	(6.5)	(3.4)	(26.0)

Sector: Consumer

Hang Seng Index (Sept 13, 2022)	19,327
HSCEI (Sept 13, 2022)	6,633

Key Data

52-week range (HKD)	10.08 – 31.75
Market cap (HKD mn)	94,647
Avg. daily volume (mn)	17.7
BVPS (RMB)	1.58

Shareholding Structure

ZY NP Ltd.	32.3%
SYH NP Ltd.	20.6%
LHY NP Ltd.	7.4%
SP NP Ltd.	6.0%
Others	6.7%
Free float	27.0%

Source: Bloomberg

Related Research

1. Haidilao International (6862 HK) - Results in line with profit alert, 2H22 should be profitable (BUY) (Aug 31, 2022)

Figure 1: Target price and valuation table

Stock price (HKD)	17.50
HKD to RMB	0.89
Price date	9/13/2022

	FY21	FY22E	FY23E	FY24E
EPS (RMB)	(0.78)	0.16	0.67	1.01
P/E	n.a.	94.4x	23.3x	15.3x

Target price calculations

Fwd 12-month EPS	0.54
Target P/E	34.6x
Target Price (HKD)	21.2
Upside	21.1%

Sources: Company data, Bloomberg, CMS (HK) estimates

Financial statement

Balance Sheet

RMB mn	2020	2021	2022E	2023E	2024E
PP&E	12,064	9,315	6,465	4,711	4,445
Right of use assets	7,565	5,819	5,478	4,414	4,112
Goodwill	62	85	85	85	85
Investment in associate/JV	301	351	378	378	378
Other non-current assets	942	1,046	974	981	996
Non-current assets	20,934	16,616	13,380	10,569	10,017
Inventories	1,154	1,456	1,503	1,832	1,892
Receivables and prepayments	2,205	3,135	3,208	3,375	3,484
Financial assets at FVTPL	4	673	946	946	946
Deposits	0	0	0	0	0
Bank Balances and Cash	2,921	5,805	6,484	16,607	18,474
Other current assets	309	336	414	414	414
Current assets	6,593	11,406	12,556	23,174	25,209
Total assets	27,527	28,021	25,936	33,743	35,226
Account Payable	3,831	3,697	4,051	4,937	5,096
Due to Related Parties	387	386	106	106	106
Bank Borrowings	3,721	3,560	1,000	1,500	1,500
Other current liabilities	1,928	2,243	2,018	2,673	2,681
Current liabilities	9,868	9,886	7,175	9,217	9,384
Deferred Tax Liabilities	21	31	10	24	25
Lease Liabilities	7,004	6,045	5,932	6,452	6,606
Bank Borrowing	268	221	225	225	225
Other Borrowing	62	40	28	28	28
Provision and other liabilities	66	3870	4013	4026	4028
Non-current liabilities	7,422	10,207	10,209	10,755	10,912
Total liabilities	17,290	20,093	17,384	19,972	20,296
Share Capital	0	0	0	0	0
Reserves	10,234	7,914	8,538	13,754	14,912
Non-controlling interests	3	14	14	17	18
Total equity	10,237	7,929	8,552	13,771	14,930
Total equity and liabilities	27,527	28,021	25,936	33,743	35,226

Cashflow Statement

RMB mn	2020	2021E	2022E	2023E	2024E
Profit before tax	735	-3,976	1,454	3,986	7,429
Finance Costs	446	645	491	472	478
Interest Income	-41	-33	-22	-22	-22
Shares of profit of associate/JV	-75	-81	-62	-70	-70
D&A	3,034	4,548	4,028	4,215	3,001
Changes in OWC	-704	-328	-537	-119	151
Income tax paid and others	-473	3,032	-534	-807	-1,783
CF from operating activities	2,921	3,806	4,818	7,656	9,184
Capital expenditure	-6,070	-4,430	-40	-870	-1,500
Investments	-81	-675	0	0	0
Others	1,460	152	69	72	58
CF from investing activities	-4,691	-4,953	29	-798	-1,442
Dividend paid	-703	-93	-271	-271	-1,649
Equity financing	0	1,919	0	0	0
Debt financing (repaid)	3,868	-206	-2,178	-1,023	0
Others	-825	2,691	-1,719	-770	-476
CF from financing activities	2,340	4,311	-4,167	-2,065	-2,125
Net cash flow	570	3,164	680	4,793	5,617

Profit & Loss

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	28,614	41,112	42,030	54,524	62,586
Raw materials cost	-12,261	-17,977	-17,782	-23,173	-26,599
Staff Costs	-9,677	-14,875	-14,241	-16,902	-19,402
Property rentals	-236	-339	-408	-426	-468
Utilities	-978	-1,457	-1,445	-1,908	-2,191
Travel and others	-1,438	-2,100	-2,322	-3,053	-3,505
EBITDA	4,024	4,364	5,833	9,061	10,422
D&A	-3,034	-4,548	-4,028	-4,224	-3,001
EBIT	990	-184	1,805	4,837	7,420
Finance costs	-446	-645	-491	-450	-478
Other income/expenses	191	-3,147	140	487	487
Profit before tax	735	-3,976	1,454	4,873	7,429
Income tax expense	-426	-185	-563	-1,267	-1,932
Net profit	310	-4,161	891	3,606	5,497
Non-controlling interest	0	-2	0	-2	-2
Attributable net profit	309	-4,163	891	3,604	5,495
Diluted EPS (RMB)	0.06	-0.78	0.16	0.67	1.01
DPS (RMB)	0.02	0.02	0.05	0.20	0.30

Financial Ratio

	2020	2021	2022E	2023E	2024E
yoY growth rate					
Revenue	7.8%	43.7%	2.2%	29.7%	14.8%
EBITDA	-18.8%	8.5%	33.7%	55.3%	15.0%
Operating profit	-67.7%	-118.6%	n.a.	167.9%	53.4%
Net profit	-86.8%	-1446%	n.a.	304.5%	52.5%
EPS	-86.8%	-1443%	n.a.	304.5%	52.5%
Profitability					
EBITDA margin	14.1%	10.6%	13.9%	16.6%	16.7%
EBIT margin	3.5%	-0.4%	4.3%	8.9%	11.9%
Net margin	1.1%	-10.1%	2.1%	6.6%	8.8%
Liquidity					
AR days	24.4	23.7	27.5	22.0	20.0
Inventory days	35.0	26.5	30.4	26.3	25.6
AP days	44.5	35.8	39.5	33.3	32.4
Cash conversion cycle	14.9	14.4	18.4	15.0	13.1
Cash flow & leverage					
Free cash low	-3,323	-402	4,557	6,806	7,143
Net debt to equity	11.3%	-24.7%	-61.2%	-107.9%	-112.0%
Dividend payout ratio	30.0%	-2.2%	30.0%	30.0%	30.0%
Dividend yield	0.1%	0.1%	0.3%	1.3%	2.0%
Return analysis					
ROE	3.0%	-45.8%	10.8%	32.3%	38.3%
Asset turnover	1.2	1.5	1.6	1.8	1.8
Net margin	1.1%	-10.1%	2.1%	6.6%	8.8%
Financial leverage	2.3	3.1	3.3	2.7	2.4
ROIC	1.3%	-15.0%	3.3%	12.1%	15.9%
Valuation ratios					
P/E	266.2x	n.a.	94.4x	23.3x	15.3x
P/B	8.0x	10.4x	9.8x	6.1x	5.6x

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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