

Yum China (9987 HK)

2022 Consumer corporate day takeaways

New products and margins are impressive in 3Q22. We believe YUMC can further consolidate the market, thanks to its 1) mass market focus, 2) improved per store economics and 3) inclusion in stock connect recently. Hence, we maintain BUY on YUMC and raise TP to HK\$ 465.05, based on 30x FY23E (unchanged), vs 5-year average of 23x, supported by 3-year adj. OP CAGR of 24%.

- We are now more positive about YUMC's long-term growth, supported by a better store economic.** We believe profitability of YUMC had improved structurally, driven by: 1) fairly successful products launched in recent years (beef burger, whole chicken, durian pizza, etc.), 2) more automations in stores and more efficient use of labour, 3) smaller-sized stores (50% of KFC new stores are smaller while 75% of Pizza Hut's new stores are either smaller or Satellite stores) and 4) less depreciation, as a result of lower capex, which dropped from RMB 2.5mn/ 1.7mn to RMB 2.0mn/ 1.6mn for KFC/ Pizza Hut. Hence, payback period for KFC/ Pizza Hut are very healthy at 2/ 3 years.
- Store opening plan in FY22E maintained.** Despite the delays in 2Q22 and the closures of COFFii & JOY, the Company had reiterated its 1000-1200 target in FY22E, including brands like Taco Bell and Lavazza.
- Remained cautiously optimistic about 4Q22E and FY23E.** We are certainly cautious about the Covid-19 conditions in Sep and Oct 2022, as 900 and 1400 stores are affected (vs just 400/ 400 stores in Jul/ Aug 2022), but the drag should not be too severe as 4Q22 is not the peak season. Moreover, the costs and inflation pressure (such beef, chicken, cooking oil, coffee beans are even staff costs) are all under well control. We also believe the store openings can still be fast in FY23E (with accelerated growth from Taco Bell and Lavazza).
- 3Q22 result recap.** Sales rose by 5% YoY to RMB 2.7bn and net profit surged by 100% YoY to RMB 208mn in 3Q22, in line with CMBI est. but 72% higher than BBG est. of NP. We attributed this beat to: 1) stronger than expected SSSG, led by well received new products and operating leverage, 2) highly resilient GP margin, aided by innovative products and costs control and 3) rental reliefs and less than expected staff costs inflation in 3Q22 (unlike last year). Therefore, restaurant level of OP margins for KFC/ Pizza Hut were at 20.6%/ 13.4% in 3Q22, vs 13.6%/ 8.2% in 3Q21, the highest level since 2018.
- Maintain BUY and raise TP to HK\$ 465.05, based on 30x FY23E P/E (unchanged).** We adjusted FY22E/ 23E/ 24E net profit estimates by -1%/ +3%/ +9%, to reflect: 1) better SSSG, 2) better GP margin and 3) better opex control. YUMC is trading at 26x FY23E P/E, still able to be justified, given a 24% adj. OP CAGR.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	8,263	9,853	9,987	11,636	13,131
YoY growth (%)	(5.8)	19.2	1.4	16.5	12.8
Net income (US\$ mn)	784	990	496	873	1,145
Diluted EPS (US\$)	1.89	2.27	1.14	2.00	2.62
YoY growth (%)	4.5	19.9	(49.9)	75.9	31.1
Consensus EPS (US\$)	n/a	n/a	1.05	1.87	2.30
P/E (x)	27.2	22.7	45.3	25.8	19.7
P/B (x)	3.3	2.7	2.6	2.4	2.2
Yield (%)	0.4	1.0	0.6	1.0	1.3
ROE (%)	16.3	13.8	6.2	10.2	12.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$465.05
(Previous TP)	HK\$450.06)
Up/Downside	16.4%
Current Price	HK\$399.40

China Catering Sector

Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	167,349
Avg 3 mths t/o (HK\$ mn)	274.99
52w High/Low (HK\$)	449.80/ 281.00
Total Issued Shares (mn)	419.0

Source: Bloomberg

Shareholding Structure

Primavera Capital	5.7%
BlackRock	7.6%
Invesco	9.8%
Management	0.2%
Free Float	76.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.3%	11.7%
3-mth	3.2%	29.0%
6-mth	27.5%	57.8%
12-mth	-12.0%	35.5%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Auditor: KPMG



Related Reports

- Yum China (9987 HK, BUY) – A strong beat as inflation remains controllable – 1 Aug 2022
- Yum China (9987 HK, BUY) – Turnaround shall begin despite costs pressure – 26 Jul 2022
- Yum China (9987 HK, HOLD) – Constructive efforts but still under pressure – 5 May 2022

Consumer corporate day takeaways:

- **SSSG.** +ve in Jul and Aug 2022 and -ve MSD in Sep 2022.
- **Number of stores affected by Covid-19 outbreaks.** About 400/ 400/ 900/ 1400 in Jul/ Aug/ Sep/ Oct 2022.
- **Reasons behind increases in ticket size in 2Q22.** For KFC, the rise was driven by more delivery/ takeaway, ASP for dine-in/ off-premises were at around RMB 30-40/ RMB 60-70. For Pizza Hut, it was driven by dine in, ASP for dine-in/ off-premises were at around RMB 120-130/ RMB 100.
- **Benefits from the innovative products.** Launched new products like whole chicken, which is a healthier dish and perfect for both dine-in or takeaway and its input costs are usually lower, and will consume less oil to cook. On top of beef burger, there are also a new chicken burger made of chicken breast, with lower costs and hence a lower ASP at RMB 9, highly value for money. This would make the menu less dependent on chicken and be more flexible to cope with the different kind of raw material inflations.
- **Store openings plan in FY22E.** The Company will maintain the store opening target of 1000-1200, which includes the closures of COFFii & JOY, openings of Taco Bell (target 100 by FY22E, have 51 in 3Q22) and Lavazza. 4Q is the peak season for new stores. The actual numbers will certainly be subject to Covid-19 outbreaks condition, but management has already considered the slowdown in 2Q22, ample spaces in the market and a health pipeline of new stores in many cities.
- **Update on Lavazza.** The target of 1,000 by FY25E will be adjusted if the Covid-19 outbreaks continue to worsen. The Company will continue to refine the store economics, product quality (e.g. coffee beans), open flagship stores to promote the branding and then standard and smaller sized stores for further expansion. Catering sales mix is at around 30% to 40%, should be more than a typical coffee shop.
- **Potential leverage from rental expenses.** Registered US\$ 13mn rental reliefs in 3Q22, but difficult to forecast in 4Q22E as those are negotiated one by one by its employees. But for the new rental contracts, the Company will tend to have more variable rental terms. In FY21, about 85% of the rental contracts have the part of variable rent, while in terms of amounts, 60%/ 40% of rental are fixed/ variable. The new stores can all be smaller, or in a less prime location (as long as it can cover the area with delivery). Size of the new stores was around 250 sq.m in 2018-2019, 200 sq.m in 2021 and lower than 200 sq.m in 1H22.
- **Potential cost from raw material inflations.** Management is seeing a price uptrend for beef, chicken, cooking oil, coffee beans etc. They would lock in the chicken prices for 1-2 quarters and coffee bean for 1-2 years. Thanks to product innovations, leverage of the supply chain, the commodity inflation should only be at LSD in FY22E.
- **Pressure from the staff costs had eased.** Salary inflation tends to be at around LSD to MSD, due to rise in min. wages which usually takes place during Jun-Jul. But it was only about 2% in FY22E, as the action was kind of delayed due to Covid-19 outbreaks.
- **Update on new retail products.** The Company registered about RMB 600mn sales in 9M22E, rising by about 50% YoY. The full year target is at RMB 1.0bn.

Earnings revision

Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,987	11,636	13,131	10,175	11,864	13,386	-1.8%	-1.9%	-1.9%
Gross profit	7,054	8,220	9,283	7,176	8,370	9,452	-1.7%	-1.8%	-1.8%
Operating Profit	681	1,106	1,457	688	1,070	1,337	-0.9%	3.3%	9.0%
Net profit	496	873	1,145	500	845	1,052	-0.8%	3.3%	8.8%
EPS (US\$ cents)	1.137	2.001	2.623	1.146	1.937	2.410	-0.8%	3.3%	8.8%
Gross margin	70.6%	70.6%	70.7%	70.5%	70.6%	70.6%	0.1ppt	0.1ppt	0.1ppt
EBIT margin	6.8%	9.5%	11.1%	6.8%	9.0%	10.0%	0.1ppt	0.5ppt	1.1ppt
Net profit att. margin	5.0%	7.5%	8.7%	4.9%	7.1%	7.9%	0.1ppt	0.4ppt	0.9ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,987	11,636	13,131	10,055	11,580	12,819	-0.7%	0.5%	2.4%
Gross profit	7,054	8,220	9,283	7,078	8,198	9,089	-0.3%	0.3%	2.1%
Operating Profit	681	1,106	1,457	630	1,042	1,266	8.1%	6.2%	15.1%
Net profit	496	873	1,145	446	787	967	11.3%	11.0%	18.4%
EPS (US\$ cents)	1.137	2.001	2.623	1.047	1.872	2.298	8.6%	6.9%	14.2%
Gross Margin	70.6%	70.6%	70.7%	70.4%	70.8%	70.9%	0.2ppt	-0.2ppt	-0.2ppt
Operating Margin	6.8%	9.5%	11.1%	6.3%	9.0%	9.9%	0.6ppt	0.5ppt	1.2ppt
Net Margin	5.0%	7.5%	8.7%	4.4%	6.8%	7.5%	0.5ppt	0.7ppt	1.2ppt

Source: Company data, CMBIGM estimates

Results Review

Figure 3: Results review – Quarterly

Half yearly (RMB mn)	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	1Q22 YoY	2Q22 YoY	3Q22 YoY	4Q22 E YoY	3Q22 CMBI	Act. vs CMBI
Revenue	2,554	2,291	2,668	2,128	2,685	2,506	4%	-13%	5%	9%	2,732	-2%
Food and paper	-743	-679	-792	-627	-787	-727					-792	
Gross profit	1,811	1,612	1,876	1,501	1,898	1,779	1%	-15%	5%	10%	1,940	-2%
GP margins	70.9%	70.4%	70.3%	70.5%	70.7%	71.0%					71.0%	
Other income & gains	10	628	-25	-24	-24	-7					-19	25%
Payroll & benefits	-591	-583	-667	-549	-603	-653	23%	2%	2%	12%	-626	-4%
Payroll & benefits/ sales	-23.1%	-25.4%	-25.0%	-25.8%	-22.5%	-26.0%					-22.9%	
Rent & other opex	-694	-669	-738	-605	-691	-735	14%	-7%	0%	10%	-730	-5%
Rent & other opex/ sales	-27.2%	-29.2%	-27.7%	-28.4%	-25.7%	-29.3%					-26.7%	
Admin expenses	-339	-310	-236	-210	-242	-244	-25%	-33%	-29%	-21%	-249	-3%
Admin exp / sales	-13.3%	-13.5%	-8.8%	-9.9%	-9.0%	-9.7%					-9.1%	
Other opex	-19	-45	-19	-32	-22	-47					-38	
Operating profit (EBIT)	178	633	191	81	316	93	-44%	-65%	78%	-85%	279	13%
OP margins	7.0%	27.6%	7.2%	3.8%	11.8%	3.7%					10.2%	
Investment gain (loss)	-39	-11	-37	19	-15	23					5	
Net finance income	16	13	12	14	25	11					14	83%
Net finance income / sales	0.6%	0.6%	0.4%	0.7%	0.9%	0.4%					0.5%	
Profit after financing costs	155	635	166	114	326	127					298	
Associated coms	0	0	0	0	0	0					0	
Jointly controlled coms	0	0	0	0	0	0					0	
Pre-tax profit	155	635	166	114	326	127	-52%	-56%	110%	-80%	298	9%
Tax	-44	-159	-56	-31	-97	-43					-95	
Tax / sales	-1.7%	-6.9%	-2.1%	-1.5%	-3.6%	-1.7%					-3.5%	
Effective tax rate	-28.4%	-25.0%	-33.7%	-27.2%	-29.8%	-34.0%					-32.0%	
Minority interests	7	1	10	0	21	-21					0	n/a
Net profit att.	104	475	100	83	208	105	-57%	-54%	100%	-78%	203	3%
NP margins	4.1%	20.7%	3.7%	3.9%	7.7%	4.2%					7.4%	
Sales												
KFC	1,801	1,636	2,017	1,594	2,017	1,793	10%	-8%	12%	10%	1,998	1.0%
Pizza hut	551	479	547	448	561	538	1%	-17%	2%	12%	595	-5.8%
Others	202	176	104	86	107	174	-43%	-52%	-47%	-1%	139	-23.2%
Total	2,554	2,291	2,668	2,128	2,685	2,506	4%	-13%	5%	9%	2,732	-1.7%
Restaurant OP margin by brand												
KFC	13.6%	8.6%	15.2%	13.4%	20.6%	12.0%					18.0%	2.6ppt
Pizza hut	8.2%	5.9%	10.7%	8.6%	13.4%	7.0%					13.0%	0.4ppt
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					0.0%	0ppt
Total	11.0%	6.8%	13.2%	11.5%	17.9%	8.4%					15.8%	2ppt

Source: Company data, CMBIGM estimates

Assumptions

Figure 4: CMBIGM's assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
KFC - dine in sales	4,152	4,818	4,580	5,014	5,224
KFC - delivery sales	1,623	2,185	2,841	3,636	4,545
PH - dine in sales	1,146	1,340	1,133	1,368	1,600
PH- delivery sales	642	769	961	1,106	1,216
Others	701	741	471	513	546
Total	8,263	9,853	9,987	11,636	13,131
Sales by segment growth (%)					
KFC - dine in sales	-15.5%	16.0%	-4.9%	9.5%	4.2%
KFC - delivery sales	43.7%	34.7%	30.0%	28.0%	25.0%
PH - dine in sales	-25.0%	17.0%	-15.4%	20.8%	16.9%
PH- delivery sales	21.7%	19.8%	25.0%	15.0%	10.0%
Others	2.8%	5.7%	-36.4%	8.8%	6.5%
Total	-5.8%	19.2%	1.4%	16.5%	12.8%
Sales network by brand					
KFC	7,166	8,168	9,138	10,078	10,918
Pizza Hut	2,355	2,590	2,880	3,220	3,560
Others	985	1,030	1,110	1,190	1,270
Total	10,506	11,788	13,128	14,488	15,748
Restaurant profit margin by brand					
KFC	15.8%	14.5%	14.8%	16.7%	18.3%
Pizza hut	10.5%	10.6%	9.0%	10.6%	11.6%
Others	-0.4%	-1.3%	-0.2%	-0.2%	0.4%
Total	14.8%	13.7%	12.9%	14.7%	16.1%
Costs breakdown					
Food and paper/ sales	28.3%	28.5%	29.4%	29.4%	29.3%
Payroll and employee benefits/ sales	20.9%	22.9%	24.7%	23.8%	23.3%
Rental and other operating expenses/ sales	26.9%	27.0%	27.7%	27.5%	27.0%
G & A expenses/ sales	5.8%	5.7%	6.0%	6.0%	5.8%
Franchisees expenses/ sales	7.7%	6.6%	3.0%	2.6%	2.3%
Effective tax rate	26.6%	26.5%	31.0%	25.0%	25.0%
NP att. margin	9.5%	10.0%	5.0%	7.5%	8.7%
NP att. growth (%)	10.0%	26.3%	-49.9%	75.9%	31.1%

Source: Company data, CMBIGM estimates

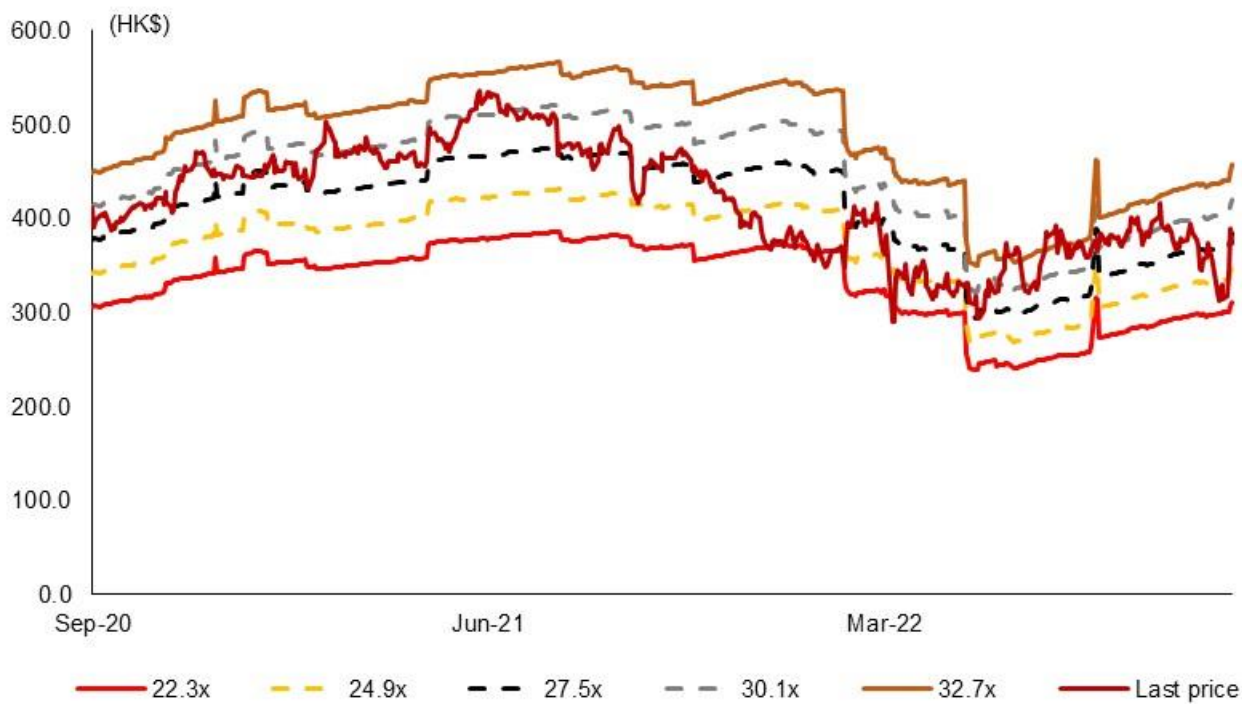
Valuation

Figure 5: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$mn)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Catering															
Yum China	9987 HK	BUY	465.05	399.40	16%	167,349	Dec-21	45.3	25.8	2.6	2.4	13.8	9.2	0.5	
Jiumaojiu	9922 HK	BUY	19.70	15.60	26%	22,681	Dec-21	72.1	29.9	6.1	5.1	6.7	1.8	0.3	
Haidilao	6862 HK	BUY	21.62	15.64	38%	87,177	Dec-21	143.9	32.3	9.4	7.5	(50.6)	(0.8)	0.2	
Nayuki	2150 HK	BUY	7.38	5.09	45%	8,730	Dec-21	n/a	35.2	1.8	1.7	n/a	n/a	0.0	
Helens	9869 HK	NR	n/a	10.94	n/a	13,860	Dec-21	n/a	26.5	4.5	3.9	(15.1)	n/a	0.0	
Tam Jai	2217 HK	NR	n/a	1.90	n/a	2,547	Mar-22	8.6	5.8	1.4	1.2	19.3	0.3	3.9	
Cafe De Coral	341 HK	BUY	15.69	10.18	54%	5,962	Mar-22	21.4	14.8	2.0	1.9	0.7	0.1	3.2	
Xiabuxiabu	520 HK	NR	n/a	5.48	n/a	5,952	Dec-21	n/a	22.3	3.1	2.8	(27.1)	n/a	1.0	
Yihai	1579 HK	BUY	108.52	18.48	487%	19,347	Dec-21	25.7	21.1	3.9	3.4	18.8	8.2	1.2	
Gourmet Master	2723 TT	NR	n/a	103.50	n/a	4,556	Dec-21	30.2	17.5	1.7	1.6	5.8	13.4	3.2	
								Avg.	49.6	23.1	3.7	3.1	(3.1)	4.6	1.4
								Med.	30.2	24.0	2.9	2.6	5.8	1.8	0.8
Other Greater China Catering															
Tai Hing	6811 HK	NR	n/a	0.82	n/a	824	Dec-21	63.1	6.3	82.0	74.5	1.4	3.7	9.0	
Ajisen China	538 HK	NR	n/a	0.70	n/a	764	Dec-21	6.5	n/a	n/a	n/a	(4.5)	n/a	7.8	
								Avg.	34.8	6.3	82.0	74.5	(1.6)	3.7	8.4
								Med.	34.8	6.3	n/a	n/a	1.4	n/a	8.4
International Catering															
Yum! Brands	YUM US	NR	n/a	121.78	n/a	272,008	Dec-21	27.2	23.6	n/a	n/a	n/a	7.4	1.9	
Mcdonald'S	MCD US	NR	n/a	274.62	n/a	1,585,995	Dec-21	27.7	26.3	n/a	n/a	n/a	6.4	2.1	
Starbucks Corp	SBUX US	NR	n/a	91.86	n/a	827,370	Oct-21	27.4	23.2	n/a	n/a	n/a	1.5	2.3	
Rest' Brands	QSR US	NR	n/a	60.76	n/a	214,351	Dec-21	19.5	19.8	8.9	8.3	39.7	2.5	3.6	
Chipotle	CMG US	NR	n/a	1397.6	n/a	304,118	Dec-21	41.8	32.4	16.0	14.4	34.9	1.3	0.0	
Darden	DRI US	NR	n/a	141.34	n/a	135,787	May-22	18.4	16.4	8.1	7.7	38.0	2.2	3.4	
Domino'S Pizza	DPZ US	NR	n/a	359.65	n/a	99,939	Jan-22	29.7	25.3	n/a	n/a	n/a	4.7	1.2	
Wendy'S Co	WEN US	NR	n/a	20.43	n/a	34,128	Jan-22	24.1	20.5	10.0	11.7	36.0	2.7	2.4	
Shake Shack	SHAK US	NR	n/a	47.02	n/a	15,557	Dec-21	n/a	n/a	4.9	4.9	(5.6)	n/a	n/a	
Wingstop Inc	WING US	NR	n/a	153.38	n/a	36,019	Dec-21	93.2	79.5	n/a	n/a	n/a	5.1	0.5	
Jollibee Foods	JFC PM	NR	n/a	229.00	n/a	34,442	Dec-21	36.4	28.2	3.7	3.4	14.0	2.2	1.1	
								Avg.	34.5	29.5	8.6	8.4	26.2	3.6	1.8
								Med.	27.6	24.5	8.5	8.0	35.4	2.6	2.0
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	6.29	n/a	27,169	Dec-21	19.3	15.5	1.9	1.9	9.9	5.9	5.8	
Tingyi	322 HK	NR	n/a	11.34	n/a	63,891	Dec-21	20.4	15.1	3.6	3.6	17.4	8.7	7.6	
Want Want	151 HK	NR	n/a	5.55	n/a	65,955	Mar-22	14.0	12.9	3.7	3.5	26.7	5.5	6.4	
China Mengniu*	2319 HK	BUY	57.00	30.05	90%	118,853	Dec-21	18.6	16.6	2.7	2.4	15.8	1.6	1.6	
Nongfu Spring*	9633 HK	BUY	53.00	42.35	25%	476,288	Dec-21	55.1	46.3	17.6	14.4	41.1	4.7	1.1	
Vitasoy	345 HK	NR	n/a	13.72	n/a	14,691	Mar-22	108.0	38.3	4.3	4.0	(4.6)	(0.4)	0.6	
Budweiser*	1876 HK	BUY	27.20	19.54	39%	258,776	Dec-21	32.3	28.0	2.8	2.8	10.1	2.4	1.1	
Tsingtao*	168 HK	BUY	86.00	66.55	29%	120,687	Dec-21	25.2	22.0	3.3	3.0	15.4	3.7	1.8	
CR Beer*	291 HK	BUY	71.00	46.15	54%	149,719	Dec-21	32.4	26.2	5.3	4.7	15.6	4.1	1.2	
Dali Foods	3799 HK	NR	n/a	3.59	n/a	49,162	Dec-21	13.0	11.6	2.2	2.0	18.5	22.9	3.9	
								Avg.	33.8	23.2	4.7	4.2	16.6	5.9	3.1
								Med.	22.8	19.3	3.5	3.2	15.7	4.4	1.7

Source: Bloomberg, Company data, CMBIGM estimates, *covered by Joseph Wong

Figure 6: P/E valuation band



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (USD mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	8,263	9,853	9,987	11,636	13,131
Company sales	7,396	8,961	9,461	11,093	12,574
Franchise fees and income	148	153	106	120	130
Fran. & uncol. affiliates sales	647	663	334	356	360
Other revenues	72	76	86	67	67
Cost of goods sold	(2,342)	(2,812)	(2,933)	(3,417)	(3,848)
Gross profit	5,921	7,041	7,054	8,220	9,283
Other net income	285	643	-80	23	39
Operating expenses	(5,245)	(6,298)	(6,293)	(7,137)	(7,866)
Staff costs	(1,730)	(2,258)	(2,472)	(2,771)	(3,062)
Admin	(591)	(663)	(719)	(826)	(906)
Property rent & related	(814)	(968)	(1,041)	(1,198)	(1,333)
D & A	(450)	(516)	(546)	(581)	(634)
Other operating expenses	(1,660)	(1,893)	(1,516)	(1,760)	(1,931)
EBIT	961	1,386	681	1,106	1,457
Finance costs, net	43	60	62	70	82
JV & associates	-	-	-	-	-
Exceptional	104	(54)	(10)	(12)	(13)
Pre-tax profit	1,108	1,392	733	1,164	1,526
Income tax	(295)	(369)	(227)	(291)	(382)
Less: Minority interests	29	33	10	0	0
Net profit	784	990	496	873	1,145

Cash flow summary

YE 31 Dec (USD mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	961	1,386	681	1,106	1,457
D&A	431	505	483	526	582
Change in working capital	69	43	(17)	115	103
Income tax paid	111	160	(227)	(291)	(382)
Others	(458)	(963)	307	210	121
Net cash from operating	1,114	1,131	1,227	1,665	1,881
Capex & investments	(419)	(689)	(749)	(756)	(788)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	(2,690)	(166)	-	-	-
Net cash from investing	(3,109)	(855)	(749)	(756)	(788)
Equity raised	2,187	(75)	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(95)	(203)	(208)	(119)	(210)
Others	(34)	(35)	-	-	-
Net cash from financing	2,058	(313)	(208)	(119)	(210)
Net change in cash	63	(37)	270	790	883
Beginning cash balance	1,046	1,158	1,136	1,406	2,195
Exchange difference	49	15	-	-	-
Cash at the end of the year	1,158	1,136	1,406	2,195	3,079

Balance sheet

YE 31 Dec (USD mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	5,939	8,507	8,518	8,597	8,751
Fixed asset	1,765	2,251	2,517	2,748	2,954
Intangible assets & goodwill	246	272	209	153	101
Prepaid lease payments	-	-	-	-	-
Interest in asso. & JV	85	292	292	292	292
Others	3,843	5,692	5,500	5,404	5,404
Current assets	4,936	4,716	5,007	5,919	6,912
Cash and cash equivalents	1,158	1,136	1,406	2,195	3,079
Inventories	398	432	433	504	568
Trade and other receivables	99	67	84	98	111
Prepayments	176	221	224	261	295
Others	3,105	2,860	2,860	2,860	2,860
Current liabilities	2,067	2,383	2,387	2,624	2,837
Borrowings	-	-	-	-	-
Trade payables	708	782	777	905	1,019
Accruals & other payables	514	650	659	768	866
Tax payables	72	51	51	51	51
Others	773	900	900	900	900
Non-current liabilities	2,337	2,918	2,918	2,918	2,918
Borrowings	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	-	-	-	-	-
Others	2,337	2,918	2,918	2,918	2,918
Minority Interest	-	-	-	-	-
Total net assets	6,471	7,922	8,220	8,973	9,908
Shareholders' equity	6,471	7,922	8,220	8,974	9,908

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Company sales	89.5	90.9	94.7	95.3	95.8
Franchise fees and income	1.8	1.6	1.1	1.0	1.0
Fran. & uncol. affiliates sales	7.8	6.7	3.3	3.1	2.7
Other revenues	0.9	0.8	0.9	0.6	0.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	71.7	71.5	70.6	70.6	70.7
Operating margin	11.6	14.1	6.8	9.5	11.1
Pre-tax margin	13.4	14.1	7.3	10.0	11.6
Net margin	9.5	10.0	5.0	7.5	8.7
Effective tax rate	26.6	26.5	31.0	25.0	25.0
Balance sheet ratios					
Current ratio (x)	2.4	2.0	2.1	2.3	2.4
Quick ratio (x)	2.2	1.8	1.9	2.1	2.2
Cash ratio (x)	0.6	0.5	0.6	0.8	1.1
Inventory turnover days	61	54	54	54	54
Trade receivables days	4	3	3	3	3
Trade payables days	104	97	97	97	97
Total debt / total equity ratio (%)	-	-	-	-	-
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	12.1	12.5	6.0	9.7	11.6
ROA	7.2	7.5	3.7	6.0	7.3
Per share					
EPS (USD)	1.89	2.27	1.14	2.00	2.62
DPS (USD)	0.23	0.50	0.28	0.50	0.66
BVPS (USD)	15.41	18.86	19.57	21.37	23.59

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.