

Company Report

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

Jiumaojiu International (9922 HK)

Share price has discounted negative effects of COVID

- COVID policies affecting existing operations
- Tweaking our EPS forecasts
- Maintain BUY; New TP of HKD 24.1

COVID policies affecting existing operations...

Unsurprisingly, JMJ's operations were negatively affected by the rebound in COVID. For Oct, the SSS for Tai'er and Jiu Mao Jiu restaurants declined by 24% yoy and 17% yoy respectively. We suspect the Nov numbers are unlikely to improve. Up to Nov 30, Tai'er had 51 restaurants that had stopped operations while another 88 were limited to takeaway services only (at the end of 1H22, Tai'er had 384 restaurants). Up to Nov 25, Jiu Mao Jiu had 13 restaurants that had stopped operations while another 29 were limited to takeaway services (77 restaurants at the end of 1H22). However, these numbers can fluctuate greatly from day to day due to different COVID restriction policies in different cities.

...as well as new openings

Also due to COVID restrictions, the number of new restaurant openings have also slowed. This is not due to a change in JMJ's strategy but is mainly due to COVID restrictions impeding renovation workers and materials. As such, some 5-10 new restaurants, originally planned to be opened in 2H22 may slip into 1H23.

Tai'er cuts some menu prices

Tai'er had cut prices for some of its menu items by RMB1-2 and offered some promotional meals in order to attract customers. Recent average spending per customer would be c. RMB74, compared to the average spending per customer of RMB78 in 1H22.

No longer buying offices at Guangzhou IFC Mall

JMJ terminated its Sep 29 agreement to acquire 26% of a company that holds the rights to develop Guangzhou IFC Mall, after investors voiced concerns over risks to the property market. The Chairman and controlling shareholder has stepped in to take the agreement in JMJ's place.

Maintain BUY; New TP of HKD 24.1

We tweak our FY22E/23E/24E EPS forecasts by -4.1%, +1.7% and +4.1% respectively, to reflect the COVID related effects and the termination of the property purchase. As we believe that investors have basically discounted the effects of COVID on FY22 earnings, we use our target multiple of 43.5x (unchanged) on our FY23 EPS (previous 2H22+1H23 EPS) to arrive at a new TP of HKD24.1 (previous HKD17.6). Maintain BUY.

Key catalysts: Better-than-expected table turnover. **Key risks:** Prolonged large-scale COVID-19 lockdowns in China, lower-than-expected margins.

Financials

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenue	2,715	4,180	4,696	8,080	11,669
yoy growth	1.0%	54.0%	12.4%	72.1%	44.4%
Attributable net profit	124	340	266	728	1,102
Diluted EPS (RMB)	0.09	0.23	0.18	0.50	0.76
yoy growth	-43.8%	155.6%	-20.3%	173.1%	51.4%
P/E	198.6x	77.7x	97.4x	35.7x	23.6x
ROE	7.9%	11.1%	8.4%	20.3%	25.1%
Net debt (cash)/ equity	-58.8%	-42.8%	-69.7%	-76.1%	-90.5%

Sources: Company data, CMS (HK) estimates; share price as of Dec 2, 2022

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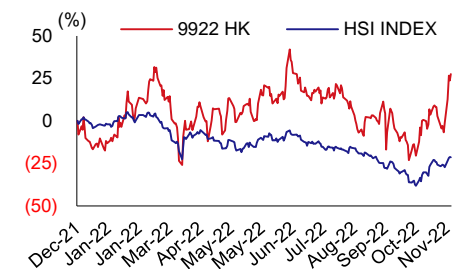
WHAT'S NEW

Tweaking our EPS forecasts but increase of TP to HKD24.1. We maintain BUY

BUY

Previous	BUY
Price	HKD 19.74
12-month Target Price (Potential up/downside)	HKD24.1 (+21.9%)
Previous	HKD 17.6

Price Performance



Source: Bloomberg; share price as of Dec 2, 2022

%	1m	6m	12m
9922 HK	32.7	10.9	32.0
HSI	18.0	(11.4)	(21.5)

Sector: Consumer

Hang Seng Index (Dec 2, 2022)	18,675
HSCEI (Dec 2, 2022)	6,369

Key Data

52-week range (HKD)	10.82 - 22.6
Market cap (HKD mn)	28,700
Avg. daily volume (mn)	8.81
BVPS (RMB)	2.45

Shareholding Structure

Guan Yihong	40.65%
MX J LIMITED	4.98%
Others	8.18%
No. of shares outstanding (mn)	1,453
Free float	46.19%

Source: Bloomberg

Related Research

- Jiumaojiu International (9922 HK) – 1H22 net profit inline. Business recovering in Jul/Aug (BUY) (August 24, 2022)
- Jiumaojiu International (9922 HK) - Market sell-off is an over-reaction. Maintain BUY (BUY) (September 30, 2022)

Figure 1: Estimates change table

Unit: RMB mn	2022E			2023E			2024E		
	Original	New	diff %	Original	New	diff %	Original	New	diff %
Revenue	4,850	4,696	-3.2%	8,245	8,080	-2.0%	11,712	11,669	-0.4%
Taier	3,826	3,672	-4.0%	6,631	6,492	-2.1%	9,305	9,307	0.0%
JMJ	701	701	0.0%	778	778	0.0%	927	927	0.0%
Others	323	323	0.0%	835	810	-3.0%	1,481	1,435	-3.1%
Gross profit	3,197	3,098	-3.1%	5,395	5,283	-2.1%	7,651	7,617	-0.4%
GPM	65.9%	66.0%	0.0ppt	65.4%	65.4%	0.0ppt	65.3%	65.3%	-0.1ppt
Restaurant profit	1,605	1,554	-3.2%	2,838	2,778	-2.1%	4,019	3,998	-0.5%
Restaurant margin	33.1%	33.1%	0.0ppt	34.4%	34.4%	0.0ppt	34.3%	34.3%	0.0ppt
Attributable net profit	278	266	-4.1%	716	728	1.7%	1,059	1,102	4.1%
NPM	5.7%	5.7%	-0.1ppt	8.7%	9.0%	0.3ppt	9.0%	9.4%	0.4ppt
EPS (basic), RMB	0.19	0.18	-4.1%	0.49	0.50	1.7%	0.73	0.76	4.1%

Sources: Company data, CMS (HK) estimates

Figure 2: Target price and valuation table

Stock price (HKD)	19.74	Price date	12/2/2022
HKD/RMB	0.91		
	FY22E	FY23E	FY24E
EPS (RMB)	0.18	0.50	0.76
P/E	97.4x	35.7x	23.6x
yoy growth	-20.3%	173.1%	51.4%
PEG	-4.8x	0.2x	0.5x
Target price calculation			
Target P/E	43.5x		
Fwd 12-month EPS (RMB)	0.50		
Target price (HKD)	24.1		
Upside	21.9%		

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

Financial Statement

Balance Sheet

RMB mn	2020	2021	2022E	2023E	2024E
PP&E	445	572	548	723	801
Right of use assets	1,216	1,444	1,382	1,543	1,586
Investment in associate/JV	3	13	11	11	11
Deferred Tax tax	87	82	91	91	91
Other non-current assets	194	464	295	304	312
Non-current assets	1,945	2,576	2,327	2,672	2,801
Inventories	51	71	84	140	195
Receivables and prepayments	293	409	488	814	1,137
Other current assets	673	738	222	222	222
Bank Balances and Cash	1,844	1,342	2,310	3,077	4,601
Current assets	2,862	2,559	3,104	4,253	6,155
Total assets	4,806	5,135	5,431	6,925	8,957
Trade & other payable	348	370	351	437	730
Lease liabilities	317	391	443	603	768
Bank loan	43	0	20	20	20
Other current liabilities	41	44	117	209	299
Current liabilities	749	805	932	1,268	1,817
Lease Liabilities	967	1,114	1,180	1,604	2,045
Bank Borrowing	-	-	-	-	-
Deferred tax liabilities	27	32	32	32	32
Other non-current liabilities	3	47	2	2	2
Non-current liabilities	997	1,193	1,214	1,639	2,080
Total liabilities	1,746	1,998	2,146	2,907	3,897
Share Capital	0	0	0	0	0
Reserves	3,017	3,083	3,244	3,917	4,867
Non-controlling interests	44	55	41	101	193
Total equity	3,060	3,138	3,285	4,018	5,060
Total equity and liabilities	4,806	5,135	5,431	6,925	8,957

Cashflow Statement

RMB mn	2020	2021	2022E	2023E	2024E
Profit before tax	177	506	441	1,160	1,755
Net finance Costs	35	61	80	103	0
Shares of profit of associate/JV	8	-1	0	0	0
D&A	354	502	841	978	1,233
Changes in OWC	28	-105	-111	-296	-85
Others	-19	27	0	0	0
Income tax paid and others	-12	-133	-79	-280	-471
CF from operating activities	571	856	1,172	1,665	2,433
Capital expenditure	-281	-343	-987	-1,311	-1,351
Proceeds from asset disposal	0	49	0	0	0
Withdrawal/payment of deposits over 3 months	-673	-63	0	0	0
Others	-129	-134	2	0	0
CF from investing activities	-1,084	-490	-984	-1,311	-1,351
Dividend paid	-58	-56	-71	-56	-152
Equity financing	2,885	0	0	0	0
Debt financing (repaid)	-178	-43	20	0	0
Others	-283	-689	-37	0	0
CF from financing activities	2,365	-789	-87	-56	-152
Net cash flow	1,852	-423	100	298	930

Profit & Loss

RMB mn	2020	2021	2022E	2023E	2024E
Revenue	2,715	4,180	4,696	8,080	11,669
Other revenue	84	64	42	31	32
Raw material costs	-1,046	-1,537	-1,641	-2,828	-4,084
Staff costs	-748	-1,057	-1,285	-2,061	-2,976
Rental costs	-50	-97	-103	-178	-257
D&A costs	-354	-502	-594	-852	-1,156
Utilities expenses	-95	-132	-155	-267	-386
Other expenses	-232	-331	-411	-664	-954
Operating profit	275	588	549	1,263	1,889
Finance costs	-67	-75	-80	-103	-133
Shares of results of JV/associates	-8	1	-2	0	0
Other net income/(losses)	-22	-7	-27	0	0
Profit before tax	177	506	441	1,160	1,755
Income tax expense	-39	-134	-152	-371	-562
Net profit	138	372	288	789	1,194
Non-controlling interest	14	32	22	61	92
Attributable net profit	124	340	266	728	1,102
Diluted EPS (RMB)	0.09	0.23	0.18	0.50	0.76
Dividend per share (HKD)	0.04	0.06	0.04	0.12	0.17

Financial Ratio

	2020	2021	2022E	2023E	2024E
yoy growth rate					
Revenue	1.0%	54.0%	12.4%	72.1%	44.4%
Gross Profit	2.3%	54.4%	14.4%	70.6%	44.2%
Operating profit	-22.4%	113.9%	-6.5%	129.8%	49.5%
Net profit	-24.5%	174.0%	-21.7%	173.5%	51.4%
EPS	-43.8%	155.6%	-20.3%	173.1%	51.4%
Profitability					
Gross margin	64.6%	64.8%	66.0%	65.4%	65.3%
Operating margin	10.1%	14.1%	11.7%	15.6%	16.2%
Net margin	4.6%	8.1%	5.7%	9.0%	9.4%
Liquidity					
AR days	15.1	15.3	17.4	14.7	15.3
Inventory days	11.0	7.2	8.6	7.2	7.5
AP days	57.9	42.6	40.1	25.4	26.1
Cash conversion cycle	-31.8	-20.0	-14.1	-3.5	-3.3
Cash flow & leverage					
Free cash low	322	494	104	229	1,081
Net debt to equity	-58.8%	-42.8%	-69.7%	-76.1%	-90.5%
Dividend payout ratio	39.3%	20.9%	20.9%	20.9%	20.9%
Dividend yield	0.2%	0.3%	0.2%	0.6%	0.9%
Return analysis					
ROE	7.9%	11.1%	8.4%	20.3%	25.1%
Asset turnover	0.8	0.8	0.9	1.3	1.5
Net margin	4.6%	8.1%	5.7%	9.0%	9.4%
Financial leverage	2.1	1.6	1.7	1.7	1.8
ROA	2.6%	6.6%	4.9%	10.5%	12.3%
Valuation ratios					
P/E	198.6x	77.7x	97.4x	35.7x	23.6x
P/B	8.1x	8.3x	7.9x	6.5x	5.1x

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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