

Cafe De Coral (341 HK)

Light at the end of the tunnel

We updated with management and believe SSS should return to growth and margin should further improve in 2H3/23E, despite the weak economic growth in HK and massive covid-19 outbreaks in GZ in Nov 2022. We maintain BUY but cut TP to HK\$ 15.12, based on 22x FY3/24E P/E (up from 20x), vs 5-year avg. of 20x, as we believe the worst has passed for HK retail industry.

- **Outperformed in HK and we are more positive about 2H3/23E.** CDC's HK market sales increased by 0.5% YoY (QSR sales up 0.5%) in 1H9/23, slowing down from a 4.8% growth in 2H22, but it still managed to outperform the HK catering sales decline of 1.8% (fast food sales down 0.7%). We attributed this to CDC's efforts on revamping its offerings and branding, through launching more new products (many plant-based SKUs) and social media marketing campaign (the "A Taste of Togetherness" had even won a Gold Effie at the 2022 Effie Awards Hong Kong). We estimate SSSG to be -ve HSD/ -ve MSD in Apr-Jun 2022/ Jul-Sep 2022, and could still be falling slightly in Oct-Dec 2022. But thanks to low base in Jan-Mar 2021, we believe SSSG in 2H3/23E can be growing by ~14%. Moreover, we also think the institutional catering business can further recover, as social distancing measures gradually lifted in the primary/ secondary schools and hospitals in the future.
- **We expect margins to continue climbing in 2H3/23E.** Even though the pace of sales recovery in 1H9/23 was slower than our expectation, margin improvement was fairly strong (esp. with the lockdown in HK in Apr 2022). We believe the trend should sustain into 2H3/23E, driven by: 1) another ASP hike (at least HK\$1, or 3-4% YoY growth) to about ~HK\$41 and 2) reduction in rental expenses per store (the result of a weak economy and rising vacancy for street level shops). On the other hand, a rise in min wages from HK\$37.5 to HK\$40 is highly likely in 2023, but we believe CDC would be able to compensate and retain their staffs fairly.
- **Store opening plan slowed down in 2H3/23E but should be at least flat in FY3/24E.** CDC opened 11/ 10 new stores in HK/ China in 1H23, and we now expect 15/ 15 net openings in 2H3/23E, after the company revised its gross opening target from 30-40/ 30-40 in HK/ mainland China to 20-30/ 20-30 in FY3/23E. We believe the new store numbers in FY3/24E should not be less than that in FY3/23E.
- **Maintain BUY and cut TP to HK\$ 15.12.** We cut our EPS estimates by 42%/ 12%/ 7% in FY23E/ 24E/ 25E, to factor in the operating leverage in 1H9/23 and slowdown in store expansion. We maintain BUY but cut TP to HK\$15.12 based on 22x FY3/24 P/E (up from 20x). It is trading at 19x FY3/24E P/E, which is not too demanding vs its 5-year avg of 20x, in our view.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	6,714.3	7,508.8	8,125.9	9,019.8	9,797.2
YoY growth (%)	(15.7)	11.8	8.2	11.0	8.6
Net income (HK\$ mn)	359.1	21.2	231.6	398.7	485.1
EPS (HK\$)	0.62	0.04	0.40	0.69	0.84
YoY growth (%)	387.7	(94.1)	991.7	72.2	21.7
Consensus EPS (HK\$)	N/A	N/A	0.48	0.69	0.89
P/E (x)	20.6	347.9	31.9	18.5	15.2
P/B (x)	2.4	2.6	2.5	2.3	2.1
Yield (%)	3.0	2.2	2.2	3.7	4.6
ROE (%)	12.6	0.7	8.0	13.0	14.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$15.12
(Previous TP	HK\$15.69)
Up/Downside	+18.9%
Current Price	HK\$12.72

China Catering Sector

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Stock Data

Mkt Cap (HK\$ mn)	7,450
Avg 3 mths t/o (HK\$ mn)	4.05
52w High/Low (HK\$)	14.12/9.04
Total Issued Shares (mn)	585.7
Source: Bloomberg	

Shareholding Structure

Lo Tak Shing	15.76%
Lo Hoi Chun	11.61%
Lo Hoi Kwong	11.00%
Invesco Hong Kong Ltd.	5.01%
Free float	56.62%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	18.6%	2.6%
3-mth	3.4%	7.7%
6-mth	-5.7%	6.4%
12-mth	-16.7%	6.1%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

1. Café de Coral (341 HK, BUY) – A prudent model for an ambitious 3-year plan - 24 Jun 2022
2. Café de Coral (341 HK, BUY) – China to grow fast and HK to turn positive - 21 Jun 2021
3. China Catering (Outperform) – Leaders to benefit even more during recovery - 12 Mar 2021

- **Resilient growth and decent margins in the China; we stay cautiously optimistic about 2H3/23E, despite the GZ outbreaks in Nov 2022.** CDC's China market sales was still growing by 1.6% in 1H9/23, much faster than China catering sales of 7% drop in same period. Even with a SSS decline of 5%, the EBIT margin still increased to 11.3% in 1H9/23 (vs 9.8% in 1H9/22), thanks to the ramp-up of new stores in southern China in recent years. GZ's SSS tanked by more than 50% in Nov 2022, but with the recent social distancing measures refinement, we are cautiously positive on a turnaround in traffic in 2H3/23E.

Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,126	9,020	9,797	8,975	9,862	10,610	-9.5%	-8.5%	-7.7%
Gross profit	717	1,054	1,211	1,044	1,218	1,345	-31.3%	-13.5%	-10.0%
EBIT	287	540	657	582	661	748	-50.6%	-18.2%	-12.1%
Net profit att.	232	399	485	397	455	521	-41.7%	-12.4%	-6.9%
Diluted EPS (HK\$)	0.40	0.69	0.84	0.68	0.78	0.90	-41.7%	-12.4%	-6.9%
Gross margin	8.8%	11.7%	12.4%	11.6%	12.4%	12.7%	-2.8ppt	-0.7ppt	-0.3ppt
EBIT margin	3.5%	6.0%	6.7%	6.5%	6.7%	7.0%	-2.9ppt	-0.7ppt	-0.3ppt
Net profit att. margin	2.9%	4.4%	5.0%	4.4%	4.6%	4.9%	-1.6ppt	-0.2ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,126	9,020	9,797	8,193	8,979	9,836	-0.8%	0.5%	-0.4%
Gross profit	717	1,054	1,211	814	1,057	1,254	-12.0%	-0.2%	-3.4%
EBIT	287	540	657	396	567	697	-27.4%	-4.8%	-5.6%
Net profit att.	232	399	485	255	393	517	-9.0%	1.4%	-6.1%
Diluted EPS (HK\$)	0.40	0.69	0.84	0.48	0.69	0.89	-16.0%	-0.4%	-5.5%
Gross margin	8.8%	11.7%	12.4%	9.9%	11.8%	12.8%	-1.1ppt	-0.1ppt	-0.4ppt
EBIT margin	3.5%	6.0%	6.7%	4.8%	6.3%	7.1%	-1.3ppt	-0.3ppt	-0.4ppt
Net profit att. margin	2.9%	4.4%	5.0%	3.1%	4.4%	5.3%	-0.3ppt	0ppt	-0.3ppt

Source: Company data, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	4,751	5,259	5,559	6,123	6,595
HK Fast Casual & Casual Dining	622	771	925	1,017	1,119
Food Processing & Distribution	141	148	178	195	205
Mainland China	1,200	1,332	1,465	1,684	1,878
Total	6,714	7,509	8,126	9,020	9,797
Growth (%)					
HK QSR & Institutional Catering	-20%	11%	6%	10%	8%
HK Fast Casual & Casual Dining	-20%	24%	20%	10%	10%
Food Processing & Distribution	-9%	5%	20%	10%	5%
Mainland China	10%	11%	10%	15%	12%
Total	-16%	12%	8%	11%	9%
GP margin	5.6%	7.3%	8.8%	11.7%	12.4%
Costs breakdown					
Costs of raw materials	29.9%	30.0%	29.5%	29.3%	29.3%
Depreciation	5.2%	4.8%	4.7%	4.5%	4.3%
Operating lease rentals	13.2%	11.9%	11.4%	11.1%	11.1%
Employee benefit expenses	34.7%	34.0%	33.5%	31.7%	31.5%
OP margin	7.1%	1.7%	3.5%	6.0%	6.7%
Effective tax rate	7.7%	55.0%	16.0%	16.0%	16.0%
NP att. margins	5.3%	0.3%	2.9%	4.4%	5.0%
NP att. growth (%)	387.7%	-94.1%	991.7%	72.2%	21.7%
Sales network by region					
HK QSR & Institutional Catering	292	301	311	321	331
HK Fast Casual Dining	60	63	68	73	78
Mainland China	122	136	151	166	191
Total	474	500	530	560	600
SSSG by segment					
HK Café de Coral	-14.0%	6.0%	4.0%	6.0%	4.0%
HK Super Super Congee & Noodles	-11.0%	13.0%	4.0%	4.0%	3.0%
Mainland China Café de Coral	2.0%	-1.0%	0.0%	5.0%	3.0%

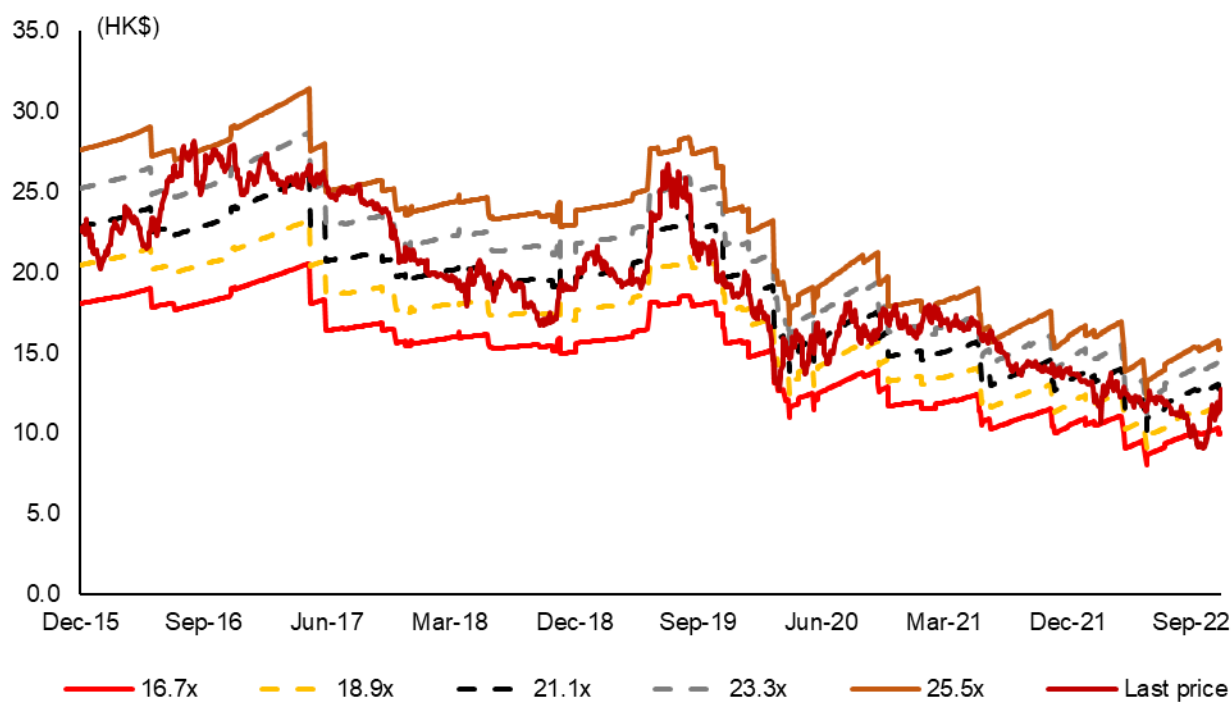
Source: Company data, CMBIGM estimates

Valuation

Figure 4: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$ mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Restaurants and Food Ingredients															
Cafe De Coral	341 HK	BUY	15.12	12.72	19%	7,450	Mar-22	31.9	18.5	2.5	2.3	12.6	95.8	2.2	
Haidilao Int'l	6862 HK	BUY	21.62	21.80	-1%	121,513	Dec-21	212.4	45.2	12.8	10.2	(50.6)	(1.1)	0.0	
Jiumaojiu Int'l	9922 HK	BUY	19.70	20.60	-4%	29,950	Dec-21	94.2	38.6	7.9	6.6	6.7	2.3	0.2	
Nayuki Holdings	2150 HK	BUY	7.38	7.20	2%	12,349	Dec-21	n/a	53.3	2.4	2.3	n/a	n/a	0.0	
Helens Int'l	9869 HK	NR	n/a	15.44	n/a	19,561	Dec-21	n/a	38.9	6.2	5.4	(15.1)	n/a	0.0	
XBXB Catering	520 HK	NR	n/a	8.06	n/a	8,754	Dec-21	n/a	32.7	4.5	4.1	(27.1)	n/a	0.7	
Yihai Int'l	1579 HK	NR	n/a	27.25	n/a	28,528	Dec-21	36.7	30.3	5.6	4.8	18.8	9.5	0.8	
Yum China	9987 HK	BUY	465.05	444.20	5%	185,871	Dec-21	50.8	30.2	3.2	3.0	13.3	(339.9)	0.8	
Gourmet Master	2723 TT	NR	n/a	136.50	n/a	6,261	Dec-21	45.5	24.2	2.1	2.0	4.9	15.3	2.1	
								Avg.	78.6	34.8	5.3	4.5	(4.6)	(36.3)	0.8
								Med.	48.2	32.7	4.5	4.1	5.8	5.9	0.7
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	n/a	11.32	n/a	1,467	Mar-22	n/a	n/a	n/a	n/a	4.5	n/a	n/a	
Tai Hing	6811 HK	NR	n/a	1.00	n/a	1,005	Dec-21	76.9	7.7	100.0	90.9	1.4	4.5	7.4	
Ajisen China	538 HK	NR	n/a	0.72	n/a	786	Dec-21	6.5	n/a	n/a	n/a	(4.5)	n/a	7.7	
Tao Heung	573 HK	NR	n/a	0.81	n/a	822	Dec-21	n/a	n/a	n/a	n/a	(7.0)	n/a	n/a	
								Avg.	41.7	7.7	100.0	90.9	(1.4)	4.5	7.6
								Med.	41.7	7.7	100.0	90.9	(1.6)	4.5	7.6
International Restaurants and Food Ingredients															
Yum! Brands	YUM US	NR	n/a	130.75	n/a	286,112	Dec-21	29.3	25.6	n/a	n/a	n/a	8.9	1.7	
Mcdonald'S	MCD US	NR	n/a	272.18	n/a	1,548,591	Dec-21	27.5	26.0	n/a	n/a	n/a	7.1	2.1	
Starbucks Corp	SBUX US	NR	n/a	103.89	n/a	926,330	Oct-22	30.5	25.9	n/a	n/a	n/a	1.7	2.1	
Rest. Brands	QSR US	NR	n/a	66.15	n/a	231,152	Dec-21	21.0	21.7	9.7	9.0	39.7	2.9	3.3	
Chipotle Mexican	CMG US	NR	n/a	1580.2	n/a	340,292	Dec-21	47.3	36.7	18.1	15.8	34.9	1.5	0.0	
Darden Rest.	DRI US	NR	n/a	143.77	n/a	136,688	May-22	18.7	16.7	8.2	7.8	38.0	2.3	3.4	
Domino'S Pizza	DPZ US	NR	n/a	384.27	n/a	105,670	Jan-22	31.7	27.1	n/a	n/a	n/a	5.3	1.1	
Wendy'S Co	WEN US	NR	n/a	22.99	n/a	38,045	Jan-22	27.2	23.5	10.1	11.6	38.4	3.1	2.2	
Shake Shack	SHAK US	NR	n/a	51.15	n/a	16,748	Dec-21	n/a	n/a	5.3	5.2	(5.6)	n/a	n/a	
Wingstop	WING US	NR	n/a	161.15	n/a	37,451	Dec-21	97.7	83.2	n/a	n/a	n/a	5.4	0.4	
Jollibee Foods	JFC PM	NR	n/a	236.40	n/a	36,706	Dec-21	35.9	28.9	3.8	3.5	18.0	2.0	1.1	
								Avg.	36.7	31.5	9.2	8.8	27.2	4.0	1.7
								Med.	29.9	26.0	8.9	8.4	36.4	3.0	1.9
H-shares Consumer Staples															
UPC	220 HK	NR	N/A	6.31	N/A	27,255	Dec-21	15.9	13.9	1.7	1.7	10.9	2.3	6.8	
Tingyi	322 HK	NR	N/A	12.60	N/A	70,971	Dec-21	17.0	14.2	3.5	3.5	19.1	2.1	7.2	
Want Want China	151 HK	NR	N/A	7.34	N/A	87,343	Mar-21	17.7	16.2	4.6	4.3	29.5	2.3	3.7	
China Mengniu*	2319 HK	BUY	57.00	37.00	54%	146,314	Dec-21	20.8	17.4	3.0	2.6	14.4	1.2	1.3	
Vitasoy	345 HK	NR	N/A	13.48	N/A	14,424	Mar-21	N/A	36.1	4.4	4.0	(2.6)	N/A	0.1	
Nongfu Spring	9633 HK	NR	N/A	43.70	N/A	491,471	Dec-21	55.6	45.8	16.9	14.0	39.5	4.3	1.2	
Tsingtao Brewery*	168 HK	BUY	86.00	71.05	21%	123,932	Dec-21	26.3	22.4	3.4	3.1	14.2	3.3	1.7	
CR Beer*	291 HK	BUY	71.00	52.70	35%	170,968	Dec-21	35.7	28.5	5.6	5.0	20.1	3.7	1.1	
Budweiser Brew*	1876 HK	BUY	28.00	21.15	32%	280,098	Dec-21	32.5	27.2	3.1	2.8	8.8	1.9	1.1	
Dali Foods	3799 HK	NR	N/A	4.04	N/A	55,324	Dec-21	12.4	11.4	2.3	2.1	20.3	1.8	4.1	
								Avg.	26.0	23.3	4.8	4.3	17.4	2.5	2.8
								Med.	20.8	19.9	3.5	3.3	16.8	2.3	1.5

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

Figure 5: P/E valuation band

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E	YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	6,714	7,509	8,126	9,020	9,797	EBIT	474	131	287	540	657
HK QSR & Institutional Catering	4,751	5,259	5,559	6,123	6,595	D & A	351	362	386	405	426
HK Fast Casual & Casual Dining	622	771	925	1,017	1,119	Change in working capital	70	(158)	80	93	40
Food Processing & Distribution	141	148	178	195	205	Income tax paid	(29)	(28)	(45)	(77)	(94)
Mainland China	1,200	1,332	1,465	1,684	1,878	Others	827	24	26	29	31
Cost of goods sold	(6,339)	(6,961)	(7,409)	(7,966)	(8,586)	Net cash from operating CF	1,693	331	735	990	1,061
Gross profit	375	548	717	1,054	1,211	Capex & investments	(273)	(305)	(330)	(367)	(399)
Other income	561	42	44	-5	-5	Associated companies	-	-	-	-	-
Operating expenses	(463)	(459)	(473)	(508)	(548)	Interest received	8	(80)	(8)	(60)	(73)
D & A	-	-	-	-	-	Others	(9)	804	808	808	808
Staff costs	-	-	-	-	-	Net cash from investing CF	(273)	419	469	381	336
S & D costs (ex-staff, D&A)	-	-	-	-	-	Equity raised	-	-	-	-	-
Admin exp. (ex-staff, D&A)	(463)	(459)	(473)	(508)	(548)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(58)	(223)	(164)	(165)	(292)
EBIT	474	131	287	540	657	Others	(834)	(808)	(808)	(808)	(808)
Finance costs, net	(83)	(80)	(8)	(60)	(73)	Net cash from financing CF	(891)	(1,031)	(972)	(973)	(1,101)
JVs & associates	-	-	-	-	-	Net change in cash	528	(281)	233	398	296
Exceptional	-	-	-	-	-	Beginning cash balance	345	2,073	1,792	2,025	2,423
Pre-tax profit	391	51	279	480	584	Exchange difference	20	-	-	-	-
Income tax	(30)	(28)	(45)	(77)	(94)	Cash at the end of the year	893	1,792	2,025	2,423	2,718
Less: Minority interests	1	2	3	5	6						
Net profit	359	21	232	399	485						

Balance sheet						Key ratios					
YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E	YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	4,639	4,573	4,515	4,476	4,448	Sales mix (%)					
Fixed asset	1,519	1,445	1,390	1,354	1,328	HK QSR & Institutional Catering	70.8	70.0	68.4	67.9	67.3
Intangible assets & goodwill	1	2	2	2	1	HK Fast Casual & Casual Dining	9.3	10.3	11.4	11.3	11.4
Prepaid lease payments	-	68	65	62	60	Food Processing & Distribution	2.1	2.0	2.2	2.2	2.1
Interest in joint ventures	-	-	-	-	-	Mainland China	17.9	17.7	18.0	18.7	19.2
Other non-current assets	3,119	3,058	3,058	3,058	3,058	Total	100.0	100.0	100.0	100.0	100.0
Current assets	2,516	2,422	2,640	3,040	3,381	P&L ratios (%)					
Cash and cash equivalents	2,073	1,792	2,025	2,423	2,718	Gross margin	5.6	7.3	8.8	11.7	12.4
Inventories	235	305	325	349	376	Operating margin	7.1	1.7	3.5	6.0	6.7
Trade and other receivables	103	195	156	124	134	Pre-tax margin	5.8	0.7	3.4	5.3	6.0
Prepayments	51	75	81	90	98	Net margin	5.3	0.3	2.9	4.4	5.0
Other current assets	54	54	54	54	54	Effective tax rate	7.7	55.0	16.0	16.0	16.0
Current liabilities	1,688	1,717	1,783	1,877	1,963	Balance sheet ratios					
Bank loans	-	-	-	-	-	Current ratio (x)	0.7	0.7	0.7	0.6	0.6
Trade payables	178	172	183	196	212	Quick ratio (x)	1.4	1.2	1.3	1.4	1.5
Accruals & other payables	640	676	731	812	882	Cash ratio (x)	122.8	104.4	113.5	129.0	138.5
Tax payables	8	8	8	8	8	Inventory turnover days	14	16	16	16	16
others	862	862	862	862	862	Trade receivables days	6	10	7	5	5
Non-current liabilities	2,432	2,432	2,432	2,432	2,432	Trade payables days	10	9	9	9	9
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	-	-	-	-	-
Deferred income	31	31	31	31	31	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	33	33	33	33	33	Returns (%)					
Others	2,368	2,368	2,368	2,368	2,368	ROE	11.9	0.7	7.9	12.5	14.2
Minority Interest	6	8	10	15	21	ROA	5.0	0.3	3.2	5.3	6.2
Total net assets	3,029	2,838	2,930	3,191	3,413	Per share					
Shareholders' equity	3,029	2,838	2,930	3,191	3,413	EPS (HK\$)	0.62	0.04	0.40	0.69	0.84
						DPS (HK\$)	0.38	0.28	0.28	0.48	0.59
						BVPS (HK\$)	5.22	4.90	5.07	5.52	5.92

Source: Company data, CMBIGM estimates

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