

# Xiabu Xiabu Catering (520 HK)

## Much needed reforms to bring XBXB nationwide

Initiate BUY on Xiabu Xiabu Catering and put it as our sector top pick. We forecast 20%/ 53% of sales/ restaurant level OP CAGR in FY21-24E vs 9%/ -15% in FY18-21, driven by improvements in: 1) internal communication, 2) incentive system, 3) sources sharing and synergies, and 4) price to quality and store decoration, etc. Noted that our FY23E-24E net profit est. are about 60% higher the BBG est.

- A leading multi-brand restaurant group covering all price ranges.** Xiabu Xiabu Catering is the 2nd largest hotpot restaurant group in China, with ~1.2% market shares in 2021. It has three brands (Xiabu Xiabu (“XBXB”), Cou Cou and Shao Hot). As at FY21, it had 841 XBXB/ 183 Cou Cou restaurants and generated RMB 6.15bn sales and RMB 0.29bn net loss.
- Reforms to better communicate, motivate staffs and unlock synergies.** After the Chairman took back in charge in mid-2021, many reforms were made: 1) simplification of management layers, 2) set-up of duo-headquarters, 3) resources consolidation between two brands, and 4) formed a new incentive system to rightly align interests between staffs, customers and the group.
- Return of values, to refine costs & margins and become a nationwide brand.** In Shanghai, as more value-for-money combo meals are added, more store interior design are revamped, its customer rating from dianping.com had surged to 4.4 for new stores (vs 3.9 for old stores). We believe this success can be replicated elsewhere and turn XBXB into a nationwide brand. Moreover, thanks to: 1) closures of loss making stores, 2) higher productivity with bettered incentives, 3) more synergies yielded and 4) lower capex and D&A expenses, we believe its OP margin at restaurant level for XBXB/ Cou Cou can reach 17%/ 13% in FY23E, fairly close to the level in FY19. In fact, XBXB’s SSSG was the fastest among all listed brands, at 24% YoY, during 2023 CNY.
- Room of expansion is still large for both old and new brands.** We see huge room for XBXB to tap into the eastern and southern China, and for Cou Cou to expand to lower tier cities and overseas. We forecast a number of 1,246 XBXB and 444 Cou Cou stores by FY25E, implying 10% and 25% CAGR during FY21-25E, only 83% and 85% of company’s target of 1,500 and 520. Note that we have not factored in much from the new brand Shao Hot.
- We forecast 20% sales and 140% OP CAGR in FY21-24E.** Key drivers are: 1) increases in store counts, 2) seat turnover improvement, 3) more savings on staff costs, rental, D&A expenses, and 4) operating leverage.
- Initiate BUY with TP of HK\$ 11.61, based on SOTP valuation (23x/ 35x for XBXB/ Cou Cou), also implied a 28x FY23E P/E, ~4% discount to industry average.** We find XBXB attractive, given a 20%/ 53% sales/ restaurant level OP CAGR in FY21-24E, driven by various reforms and recovery. It is trading at 19x FY23E P/E and 1.1x FY23E P/S (vs peers’ average of 29x and 2.0x).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,455	6,147	5,814	8,431	10,507
YoY growth (%)	(9.5)	12.7	(5.4)	45.0	24.6
Net income (RMB mn)	2	-293	-189	408	697
Diluted EPS (RMB)	0.002	(0.273)	(0.174)	0.376	0.641
YoY growth (%)	(99.3)	n/a	n/a	n/a	70.7
Consensus EPS (RMB)	n/a	n/a	(0.174)	0.217	0.403
P/E (x)	3,910.4	n/a	n/a	18.8	11.0
P/B (x)	3.1	3.5	4.1	3.2	2.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	n/a	1.6	8.9	11.9	24.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Initiation)

Target Price	HK\$11.61
Up/Downside	+46.6%
Current Price	HK\$7.92

### China Catering Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	8,603
Avg 3 mths t/o (HK\$ mn)	172.03
52w High/Low (HK\$)	10.26/2.81
Total Issued Shares (mn)	1086.2

Source: Bloomberg

#### Shareholding Structure

Mr. Ho Kuang Chi	41.8%
CICC	13.5%
Goldman Sachs	5.0%
Free Float	39.7%

Source: Bloomberg, HKEx

#### Share Performance

	Absolute	Relative
1-mth	-6.7%	-2.6%
3-mth	11.6%	-1.6%
6-mth	154.6%	145.1%
12-mth	41.3%	65.4%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

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## Investment Thesis

### ■ A leading multi-brand restaurant group covering all price ranges.

XBXB Catering is the 2nd largest hotpot restaurant group in China, with roughly 1.2% market shares in 2021, based on Frost & Sullivan and CMBI est. It has three brands (XBXB, Cou Cou and Shao Hot) which focus on fast-food style hotpot, mid to high end Taiwanese hotpot and mid to high end Taiwanese barbeque. As at FY21, it had 841 XBBX/ 183 Cou Cou restaurants and generated RMB 6.15bn sales and RMB 0.29bn net losses.

### ■ Reforms to better communicate, motivate staffs and unlock synergies.

XBXB's seat turnover were already dropping, from 3.4x in FY16 to 2.6x in FY19, even before the COVID-19, we believe it was due to: 1) ineffective internal communication, 2) over competition and lack of synergies between XBBX and Cou Cou, 3) lack of incentive of employees and 4) undesirable location of new stores. However, after the Chairman took back in charge in mid-2021, he has introduced various reforms, including 1) simplification of management layers, 2) set-up of duo-headquarters, 3) resources consolidation between two brands, and 4) establishment of new incentive system to rightly align interests between staffs, customers and the group. These strategies, in our view, would effectively help the XBBX Catering to identify and meet the consumer demand, and react to the market in a more agile, efficient and productive way.

### ■ Return of values, to refine costs & margins and become a nationwide brand.

We believe one key reason for XBBX's underperforming in Shanghai was due to its inaccurate brand positioning as it was pushing too hard on premiumization, hence leading to decline in price to quality and pushing off customers. However, in its latest reform, it has closed down over 200 unproductive stores, improved the menu with more value for money combo meals across the country, and refined the interior design for many of its stores. If we take Shanghai as an example, the average customer rating from dianping.com had surged to over 4.4 for new stores (opened during 2020 to 2022), from around 3.9 for its old stores. We believe this success story may be copied to other places in China and turn XBBX into a nationwide brand. Moreover, thanks to: 1) less loss making stores, 2) higher productivity driven by a bettered incentive system, 3) more synergies yielded and 4) lower D&A expanses with lower capex, we believe its OP margin at restaurant level for XBBX/ Cou Cou can reach 17%/ 13% in FY23E, even higher than the level in FY19.

### ■ Room of expansion is still large for both old and new brands

Thanks to XBBX's recent success in Shanghai, we believe its price to quality ratio and store design are competitive enough for a more aggressive expansion into eastern and southern China, and the simplification of management layers can also allow greater flexibility and more localization. Therefore, we now forecast 1,246 stores for XBBX by FY25E, implying a 10% CAGR (still below management's target of 1,500). Similarly, for Cou Cou, we believe its expansion will reaccelerate after COVID-19 in both mainland china and overseas, hence we believe there will be 444 stores by FY25E, implying a 25% CAGR (vs management guidance of 520).

### ■ Both hotpot & barbeque industry should outperform post COVID-19 but growth potential is bigger for barbeque.

Hotpot is the largest type of Chinese cuisine in China and it was hit hard during COVID-19. Nevertheless, we expect it to outperform afterward. Even though Chinese Barbeque is only ranked no.6 in terms of market size in China, we believe it has excellent potential, thanks to its highly standardized nature, low market concentration (Chinese Barbeque's CR5 is only at 1.5% while hotpot's CR5 is at about 10.9%) and rapid growth (5%/ 11% sales CAGR during FY19-22/ FY22-25E).

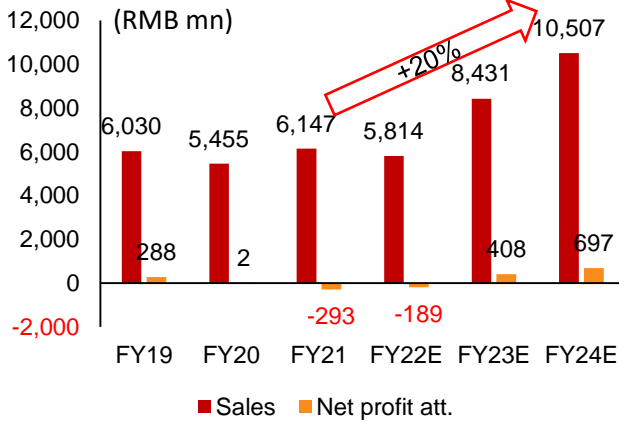
- **Initiate BUY with TP of HK\$ 11.61, based on SOTP valuation (23x/ 35x FY23E P/E for XBXB/ Cou Cou) and implying a 28x FY23E P/E, about 4% discount to industry average.**

We find XBXB attractive and believe a potential re-rating is likely, given a 20%/ 53% sales/ restaurant OP CAGR during FY21-24E, which is far better than 9%/ -15% CAGR during FY18-21, thanks to various reforms and post COVID-19 recovery. It is trading at 19x FY23E P/E and 1.1x FY23E P/S, far lower than industry's average of 29x and 2.0x.

- **Catalysts:** 1) outstanding monthly SSSG and recovery, 2) better than expected FY23 outlook and guidance, 3) better than expected XBXB's transformation, 4) faster than expected store expansion, 5) excellent reception of the new Shao Hot stores in other regions.
- **Risks:** 1) weaker than expected economic growth and recovery, 2) slower than expected XBXB's transformation, 3) greater than expected industry competition or price war, 4) greater than expected raw material inflations, 5) labour shortage or stronger than expected wages inflation, 6) involvements of lethal or severe food safety scandal, 7) departure of critical management, 8) outbreak of disease that may affect customer traffic.

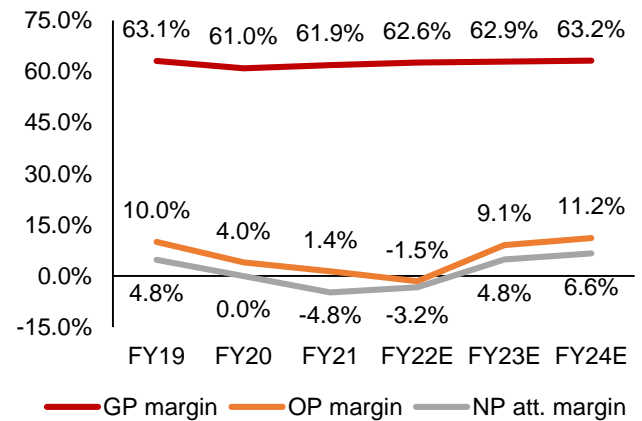
## Focus Charts and Tables

Figure 1: Sales and net profit att. (yearly)



Source: Company data, CMBIGM estimates

Figure 2: GP/ OP/ NP att. margin (yearly)



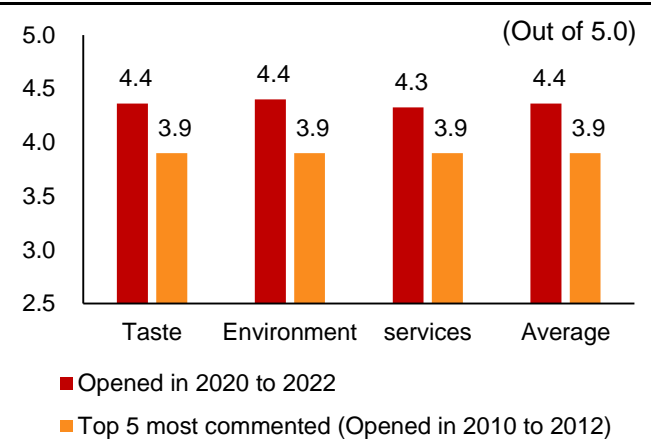
Source: Company data, CMBIGM estimates

Figure 3: KPI and return (before vs after reforms)

Roles		Before/ 改革前 (2020)	After/ 改革后 (2021后)
Store manager/店長	Major KPIs	1. Sales	1. Sales 2. Operating profit 3. Customer satisfaction
	Return	1. Salary 2. Bonus	1. Salary 2. Bonus 3. Profit sharing
Senior management/ 高管和区域總經理	Major KPIs	1. Sales	1. Sales 2. Operating profit 3. Customer satisfaction
	Return	1. Salary 2. Bonus	1. Salary 2. Bonus 3. Profit sharing 4. Share options

Source: Company data, CMBIGM estimates

Figure 4: XBXB's customer rating in SH improved



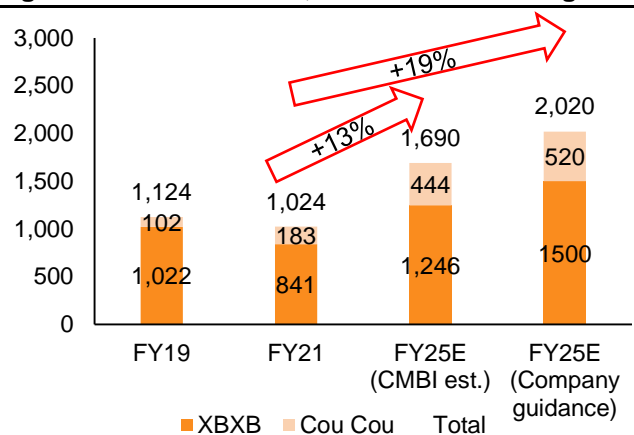
Source: dianping.com, CMBIGM estimates

Figure 5: Sensitivity test (seat turn vs OP margin)

XBXB					
Seat turnover (x)	1.5	2.0	2.5	3.0	3.5
Staff costs/ sales	-34%	-25%	-20%	-17%	-15%
Rental expenses/ sales	-17%	-13%	-10%	-8%	-7%
Rest. OP margin	-3%	11%	20%	26%	30%
Cou Cou					
Seat turnover (x)	2.0	2.5	3.0	3.5	4.0
Staff costs/ sales	-36%	-29%	-24%	-21%	-18%
Rental expenses/ sales	-12%	-9%	-8%	-7%	-6%
Rest. OP margin	-3%	8%	16%	21%	25%

Source: CMBIGM estimates

Figure 6: Store numbers, CMBI est. vs LT-target



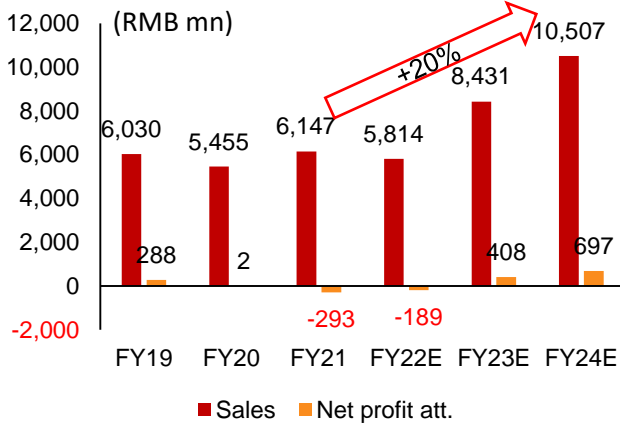
Source: Company data, CMBIGM estimates

## Company Overview

### A leading multi-brand restaurant group covering all price ranges.

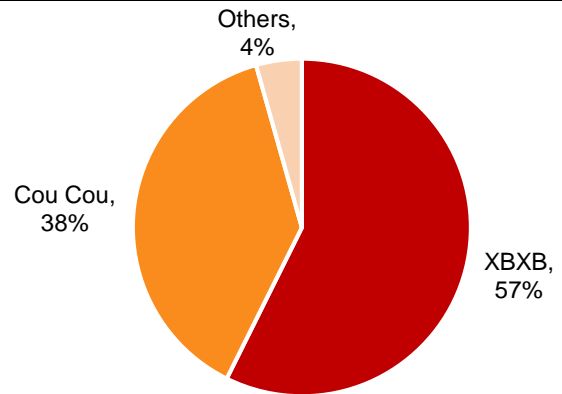
Xiabu Xiabu Catering is one of the leaders in the catering as well as Hotpot industry in China. Xiabu Xiabu (“XBXB”)/ 呷哺呷哺 brand was founded by Mr. Ho Kuang Chi in 1998. It focuses on fast food style hotpot, especially an easy pot for one person/ 一人一鍋. The Cou Cou/ 湊湊 brand was founded in 2016, serving mid to high-end Taiwanese Hotpot, which is perfect for gatherings and have tea drinks/ 休憩茶憩, as it tends to pair with a small teahouse called Tea Mi Tea/ 茶米茶. Lately, the Shao Hot/ 趁燒 brand was founded in 2022, which sells mid to high-end Taiwanese barbeque. As at FY21, it had 841 XBBX/ 183 Cou Cou restaurants and generated RMB6.15bn sales and RMB0.29bn net loss. The Company also has one Shao Hot restaurant in FY22E. It was listed in 2014 and currently has two headquarters (Beijing and Shanghai) since FY21.

**Figure 7: Sales and net profit att. (yearly)**



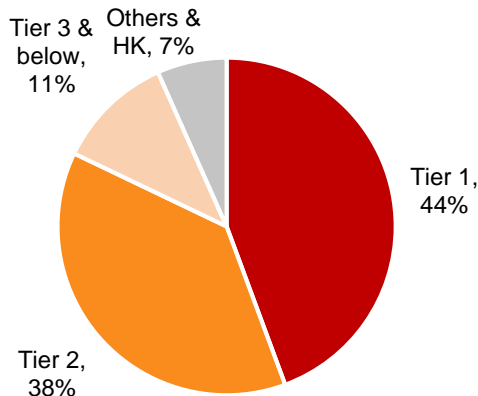
Source: Company data, CMBIGM estimates

**Figure 8: Sales mix by brand, FY21**



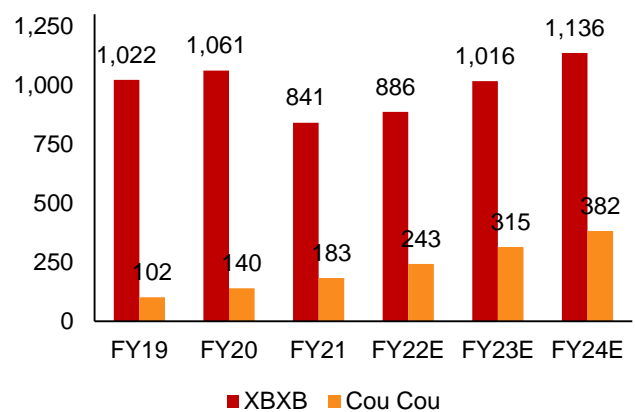
Source: Company data, CMBIGM estimates

**Figure 9: Sales mix by tier city and HK, FY21**






Source: Company data, CMBIGM estimates

**Figure 10: Number of restaurant by brand**



Source: Company data, CMBIGM estimates

Figure 11: Brand details, as at FY21 (FY22E for Shao Hot)

Brands	Xiabu Xiabu	Cou Cou	Shao Hot
Logo			
Year Found	1998	2016	2022
Theme cuisines	Fast food style hot pot	Mid to high-end Taiwanese hot pot	Mid to high-end Taiwanese barbecue
Average spending per customer (RMB)	50 - 70	130 - 150	~250
Number of restaurants, as at FY21	841	183	1 (as at FY22E)
FY21 Sales (RMB mn)	3,525	2,354	n/a
FY21 SSSG	-8.3%	-0.9%	n/a
Sales mix	China T1 (47%) China T2 (34%) China T3 and below (19%)	China T1 (46%) China T2 (48%) China T3 and below (1%) Hong Kong (5%)	n/a

Source: Company data, CMBIGM estimates

### ■ Xiabu Xiabu Catering is the second largest restaurant group in the hotpot industry in China

Xiabu Xiabu Catering is ranked number 2 Hotpot enterprise in China, by China Hospitality Association/中国饭店协会 in its 《2021 Annual Report of China's Catering Industry/ 2021 中国餐饮业年度报告》. Also, based on Frost & Sullivan and CMBI est., XBXB is the 2nd largest hotpot restaurant group in terms of sales in China, with roughly 1.2% market shares in 2021.

Figure 12: Leading enterprises in the China hotpot industry

编号	企业名称	代表品牌	领跑指数
1	四川海底捞餐饮股份有限公司	海底捞火锅	98.6
2	呷哺呷哺餐饮管理有限公司	呷哺呷哺	98.4
3	重庆德庄饮食连锁有限公司	德庄火锅	97.9
4	重庆朝天门餐饮控股集团有限公司	朝天门火锅	97.8
5	四川小龙坎控股集团有限公司	小龙坎火锅	96.6
6	江苏七欣天餐饮管理连锁有限公司	七欣天品蟹轩	96.3
7	巴奴毛肚火锅有限公司	巴奴毛肚火锅	96.0
8	上海左庭右院企业管理有限公司	左庭右院鲜牛肉火锅	95.8
9	捞王(上海)餐饮管理有限公司	捞王锅物料理	95.2
10	四川至膳食品牌管理有限公司	谭鸭血老火锅	95.0

Source: China Hospitality Association, CMBIGM estimates

**Figure 13: Xiabu Xiabu Catering's Milestones**

Year	Key business milestones of XBXB
1998	XBXB commenced fast casual bar-style hotpot operations.
1999	Established the first restaurant in Beijing.
2001	Expanded the restaurant network to Tianjin.
2008	<ul style="list-style-type: none"> <li>·The Company and Xiabu Hong Kong were established in May.</li> <li>·Established the Company's operating subsidiary, Xiabu Beijing in Sep.</li> <li>·Received a RMB144 million investment from Actis in Nov.</li> </ul>
2009	<ul style="list-style-type: none"> <li>·Adopted the Company's Pre-IPO Share Incentive Plan in Aug.</li> <li>·Opened the Company's 100th restaurant outlet in Dec.</li> <li>·The Company was named as one to the Top-100 Catering Companies in China.</li> </ul>
2010	<ul style="list-style-type: none"> <li>·Established the Company's other operating subsidiary, Xiabu Shanghai in June.</li> <li>·Further restaurant network expansion to Shanghai in Sep, after Xiabu Shanghai was established.</li> </ul>
2011	<ul style="list-style-type: none"> <li>·Further expanded restaurant network to Hebei and Shenyang in Sep.</li> <li>·Opened the Company's 200th restaurant outlet in Sep.</li> </ul>
2012	<ul style="list-style-type: none"> <li>·Opened the Company's 300th restaurant outlet in Sep.</li> <li>·GASF acquired all the Company's shares held by Actis in Dec.</li> </ul>
2013	<ul style="list-style-type: none"> <li>·Received investment from MagiCapital Group through acquisition of shares from GASF and direct subscription from the Company in Mar.</li> <li>·Further expanded restaurant network to Shandong Province in Oct.</li> </ul>
2014	<ul style="list-style-type: none"> <li>·Further expanded restaurant network to Shanxi and Henan Province. The Company's restaurant network covered 25 cities over nine provinces and centrally administered municipalities in China.</li> <li>·Listed in the Hong Kong Stock Exchange in Dec (Stock Code: 520 HK).</li> </ul>
2015	Provide delivery services Xiabu Xiaoxian ("呷哺小鮮").
2016	<p>Established another hotpot brand, Coucou ("湊湊"). The first store was set up in Beijing in Jun.</p> <ul style="list-style-type: none"> <li>·Established delivery brand Xiazhu Xiatang ("呷煮呷燙").</li> </ul>
2017	<ul style="list-style-type: none"> <li>·Provided seasoning goods and brands.</li> <li>·Established another tea brand, Chamicha ("茶米茶") in Nov. Cooperated with Chamicha to provide "Hotpot + Tea" services to customers.</li> </ul>
2019	<p>Established another hotpot brand under XiabuXiabu, "inxiabuxiabu", as a higher-end brand compared to XiabuXiabu.</p> <ul style="list-style-type: none"> <li>·Opened 1200 restaurants in December.</li> </ul>
2020	<ul style="list-style-type: none"> <li>·Provided a brand new theme "light-pot" in new branches.</li> <li>·Added delivery services for Xiabu to respond to COVID-19 pandemic, named "xiazhuxiashuan" (呷煮呷涮).</li> </ul>
2022	Established another brand, Shaohot ("趁燒"). The first store was opened in Shanghai.

Source: Company data, CMBIGM estimates

## Company's key positives and growth drivers

### 1) Reforms to better communicate, motivate staffs and unlock synergies

We believe the issues XBXB Catering has (e.g. ineffective communication, over competition between brands, lack of motivation and sentiment from its employees, wrongly priced products and wrongly placed stores) have all been addressed accordingly with the new reforms.

#### ■ 1.1 Reforming the management system to drive better internal communication

XBXB was highly successful for its one-person hotpot, esp. in the Beijing area, and it is still undoubtedly the number 2 (after Haidilao) in the Hotpot industry in China in terms of store number and sales. However, regardless of COVID-19, its performance (esp. the seat turnover) was not as good as it was in the past. We believe that was due a number of reasons, such as:

- 1) Ineffective internal communication, where the issues found in the front line cannot be solved easily, as the messages were not effectively passed on to the top management or to the middle and back office. A good example is the premiumization of XBXB which caused the loss of original customer base;
- 2) Over competition between the two brands (XBXB and Cou Cou). Since their interests were not aligned, many internal conflicts occurred and dragged the performance of many employees, hence resulting in duplication of resources;
- 3) Employees are not pro-active enough, as they are not rightly motivated and care less about the interests of the Company and customers;
- 4) Locations of new stores are not as good, which had resulted in lower than expected customer traffic and slower regional expansion.

**Figure 14: Previous issues and five new reforms to fix them**

#	Previous issues	5 new reforms/ 5大战略	Actions
1	Lack of communications, between local and headquarters, hence top management was not well informed about the issues in the frontline	Reforming the culture of the enterprise/ 企业文化重塑	1. Cutting the reporting line from 5 layers to just 3 layers 2. Setting up the duo-headquarters model (Beijing + Shanghai)
2	Interest were not aligned between the brands, hence the synergies were not strong	Consolidating resources within the group/ 集团资源整合	1. Promoting top management from Cou Cou to head XBXB 2. Centralizing the store opening (i.e. rental negotiation) and product R&D processes 3. Sharing resources like supply chain, membership system and talent development
3	Employees are not pro-active enough to go the extre miles, interest between employees, company and customers were not aligned	Reviewing the compensation and incentive system/ 薪酬激励计划	1. Introducing a new compensation and incentive system (new KPI and return), drive the employees to become more costs conscious
4	Same as above	Introducing the partnership system/ 合伙人制度	Currently suspended
5	XBXB was pushing too hard to become a mid to high-end brand, hence driven down the price to quality ratio and pushed off customers	The XBXB brand will return to its mission statement/ 呷哺品牌回归初心	1. To bring back the value for money for customers (price and portion, etc.) 2. To revamp the restaurants and make it more modern and not over fancy

Source: Company data, CMBIGM estimates

Therefore, when Founder & Chairman Mr. Ho took back in charge of CEO in 2021, he introduced five new strategies to fix these issues, and the first step is to reform the management structure.

1) Simplifying the management layers from 5 tiers to 3 tiers. Each regional manager could have more decision-making power about the direction and development of his own region. Restaurant managers can also speak to the head of other department directly. More direct communication is very helpful in solving some operational issues; and

2) Implementation of duo-headquarters (adding Shanghai as headquarters on top of Beijing). As the Company targets to put more focus and resources on Shanghai, the addition of Shanghai headquarters helps strengthening the management of business in eastern China and the expansion to southern China.

**Figure 15: Management layers (before vs after reforms)**

Reporting units	Before reforms	Reporting units	After (since 2021)
Headquarters/ 总部	1.General Manager/ 市场总经理	Headquarters/ 总部	1.负责人
Regional Management Centre/ 区域管理中心	2.Director of operations/ 营运总监	Regional Management Centre/ 区域管理中心	2.Regional manager/ 区域经理
Operations district (large)/ 营运大区	3.District (large) manager/ 大区经理		
Operations district (small)/ 营运小区	4.District (small)/ 小区经理		
Restaurants/ 餐厅	5.Restaurant managers/ 餐厅经理	Restaurants/ 餐厅	3.Restaurant managers/ 餐厅经理

Source: Company data, CMBIGM estimates

**Figure 16: Images of the newly opened/ revamped XBXB stores in Shanghai**



Source: dianping.com CMBIGM estimates

### ■ 1.2 Consolidating the resources within the group to unlock more synergies.

The second step to reform is to bring out more synergies between XBXB and Cou Cou. Because of legacy issues, the management system are independent between these two brands, which has led to over competition and minimal synergies.

Therefore, after the departure of CEOs of these two brands, Mr. Ho had set up two new COOs (to replace the CEOs) for XBXB and Cou Cou. Since these two new COOs (Mr. Bai and Mr. Yeung) worked in Cou Cou and XBXB long enough and certainly talented, we believe they are able to bring the best out of these two brands. We believe merging the XBXB and Cou Cou teams can bring out many meaningful synergies, such as: 1) better location and better rental terms, by combing XBXB and Cou Cou's store expansion and contract negotiations with the landlords, 2) merging the product R&D teams, and leverage the successful track records of Cou Cou, to improve the new product quality for XBXB, 3) more sharing in the supply chain (suppliers, logistics, etc.) so to gain more options, variety and drive down the input costs, and 4) consolidating the memberships between all brands, to boost the potential cross-selling.

**Figure 17: List of potential synergies**

Area/ 领域	Benefits/ 利好
Store expansion/ 开发选址	Centralizing the rental negotiations for both XBXB and Cou Cou, hence able to drive down rental rates and secure better locations 打通两个品牌选址和租金谈判，从而能够降低租金并确保更好的位置
Product R&D/ 产品研发	Centralizing the product R&D between two brands and leverage on Cou Cou's highly successful track records and experience 打通两个品牌产品研发，将凑凑经验应用于呷哺呷哺品牌
Supply chain/ 供应链	Can reduce costs and improve efficiency by sharing the supply chain between two brands (in terms of raw material suppliers, logistics, etc.) 在食材采购、供应链配合、供应商筛选等方面产生了较大的协同效应
Membership service/ 会员服务	Launched the new membership system, which is fit for all brands under the XBXB group, enabling the sharing and transfer of points and gifts. 在8月底上线了多品牌会员系统，消费者一键注册可同时成为呷哺呷哺、凑凑、茶米茶、呷哺食品、趁烧等多个品牌的会员，可以积分通兑、储值礼包共享和转增
Staff training/ 人员培养	Will invest more on talent development, including improving the service level, employees retention and cultivation of more management trainees, etc. 将加大人才发展投入，包括提升服务水平、留住员工、培养更多管理培训生等。

Source: Company data, CMBIGM estimates

### ■ 1.3 Reforming the incentive system to bring out the potential of the employees.

The third step is to introduce the new incentive scheme. Whether it was the sluggish same store sales growth, or decline in per store seat turnover (perhaps due to loss of customer base as XBXB becomes less value for money), or failure to expand to other regions (Shanghai had been loss making for a long period of time and store opening in southern China was slow) which dragged the Company's performance, the employees of XBXB, in our view, are generally not motivated enough in the past. Logically speaking, these employees tend to care less about customers' satisfaction, as their compensation is not aligned with that.

However, that should be very different in the future as XBXB introduced a new incentive scheme, which is slightly similar to that at Haidilao, where the KPIs for most of the employees (from the top management, to store managers and to the average staffs) will be revised by adding more new factors (such as operating profits, as well as customer satisfactions) on top of the original sales and operational targets. This should help aligning interests between employees, the Company and customers and the employees should be motivated to behave more like an owner of the stores, to pro-actively solve problems and care more about costs and profits.

**Figure 18: List of management (before vs after reforms)**

Period/ 时期	Before/ 改革前 (2020)	After/ 改革后 (2021后)
Chairman/ 主席	Mr. Ho Kuang-Chi/ 贺光启	Mr. Ho Kuang-Chi/ 贺光启
CEO	Ms. Zhao Yi/ 赵怡	Mr. Ho Kuang-Chi/ 贺光启
CFO	Ms. Yu Xiaofang/ 于小芳	Mr. Feng Huihuang/ 冯辉煌
XBXB CEO	Ms. Zhao Yi/ 赵怡	n/a
XBXB COO	n/a	Mr. Bai Yang/ 白杨
Cou Cou CEO	Mr. Zhang Zhenwei/ 张振纬	n/a
Cou Cou COO	n/a	Mr. Zhao Muquan/ 赵木铨

Source: Company data, CMBIGM estimates

**Figure 19: New KPI and rewards (before vs after reforms)**

Roles		Before/ 改革前 (2020)	After/ 改革后 (2021后)
Store manager/ 店長	Major KPIs	1. Sales	1. Sales 2. Operating profit 3. Customer satisfaction
	Return	1. Salary 2. Bonus	1. Salary 2. Bonus 3. Profit sharing
Senior management/ 高管和区域總經理	Major KPIs	1. Sales	1. Sales 2. Operating profit 3. Customer satisfaction
	Return	1. Salary 2. Bonus	1. Salary 2. Bonus 3. Profit sharing 4. Share options

Source: Company data, CMBIGM estimates

## 2) Return of values, refine costs & margins and become a nationwide brand

Supported by our observation in the Shanghai market, where the dianping customer rating had improved significantly in all areas, we do believe XBXB's value for money and modern and fast food style seatings are back again. If the performance of these new stores can be replicated elsewhere, XBXB's margin could soon far exceed its pre-COVID-19 level and could eventually become a nation-wide brand.

### 2.1 Bringing back the value for money.

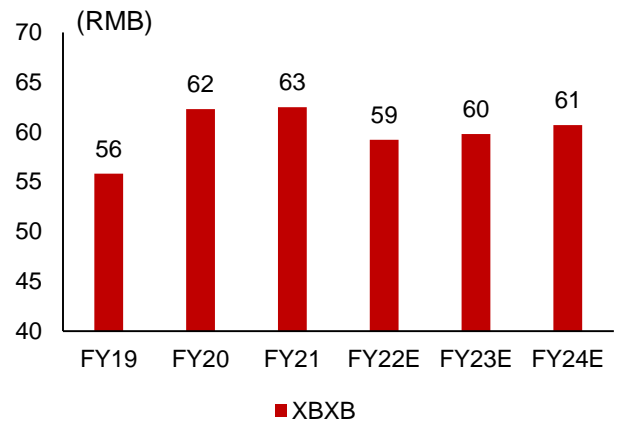
The fourth step of the reform is to bring back the core competency of XBXB, which is to make its product more value for money, like it was in past. This would include increasing the portion, offering more cheaper priced combo meals (usually priced at about RMB 60 per person), and launching more delicious new products, etc. We believe this is the right strategy for XBXB and would drive up its per store customer traffic (i.e. the seat turnover).

Figure 20: Image of the combo meal



Source: dianping.com, CMBIGM estimates

Figure 21: XBXB's avg. spending per person (ASP)



Source: Company data, CMBIGM estimates

Figure 22: Examples of combo meals (for one person or for two people)

20元单人餐   78元单人餐   159元双人餐   126元双人餐   20元单人餐   78元单人餐

呷哺呷哺 (壹方天地店)

### 呷哺人气草原羔羊肉套餐

免预约 随时退 过期自动退 半年销量 377

**套餐**

- 呷哺人气草原羔羊肉套餐 (1份) ¥79

**备注**

- 锅底: 印度风味咖喱锅、珍鲜菌汤锅、浓郁麻辣锅3选1
- 调料: 呷哺调料1份

¥78 9.9折 ~~¥79~~   [立即抢购](#)

呷哺呷哺 (壹方天地店)

### 超值人气双人餐

会员专享 免预约 随时退 半年销量 3066

该团购所属门店中当前有商户暂停营业, 具体请查看...

**锅底**

- 田园番茄锅 (1份) ¥9
- 浓郁麻辣锅 (1份) ¥12

**肉类**

- 珍饈牛上脑 (1份) ¥36
- 人气草原羔羊肉 商家招牌 (1份) ¥33

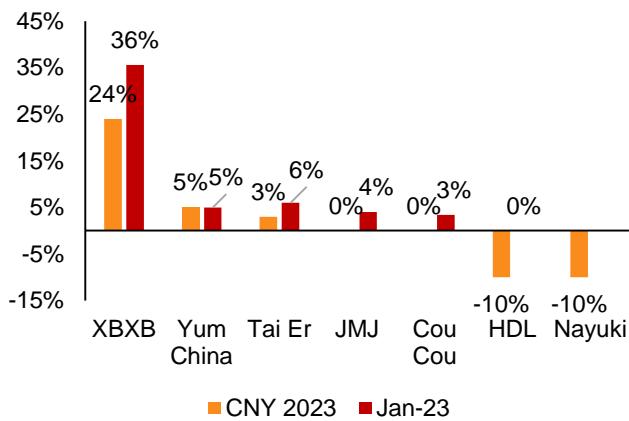
**主食 2选1**

¥126 7.5折 ~~¥168~~   [立即抢购](#)

Source: dianping.com, CMBIGM

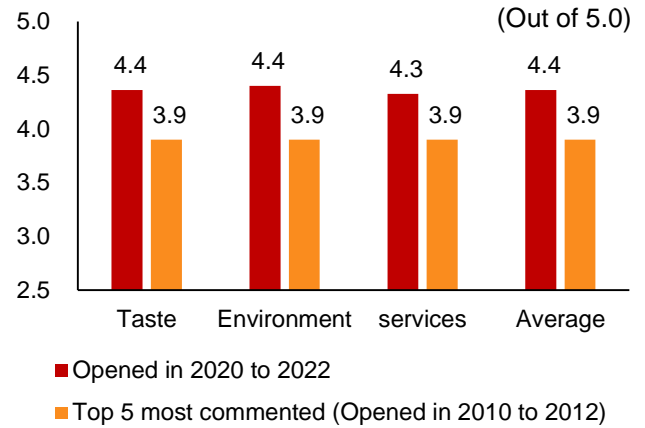
In fact, we can use the XBBB in Shanghai as a good example. We have collected the data about XBBB's stores in Shanghai and identified that the customer rating from dianping.com is much higher for the newly opened stores (from 2020 to 2022), at about 4.4 (out of 5.0), compared to those older stores (opened in 2010 to 2012 and still exist currently) at around only 3.9. Actually, it is an all-round beat as the scores for all segments (ranging from taste, environment to services) have improved significantly.

**Figure 23: YoY SSSG by brand during CNY 23 and in Jan 23**



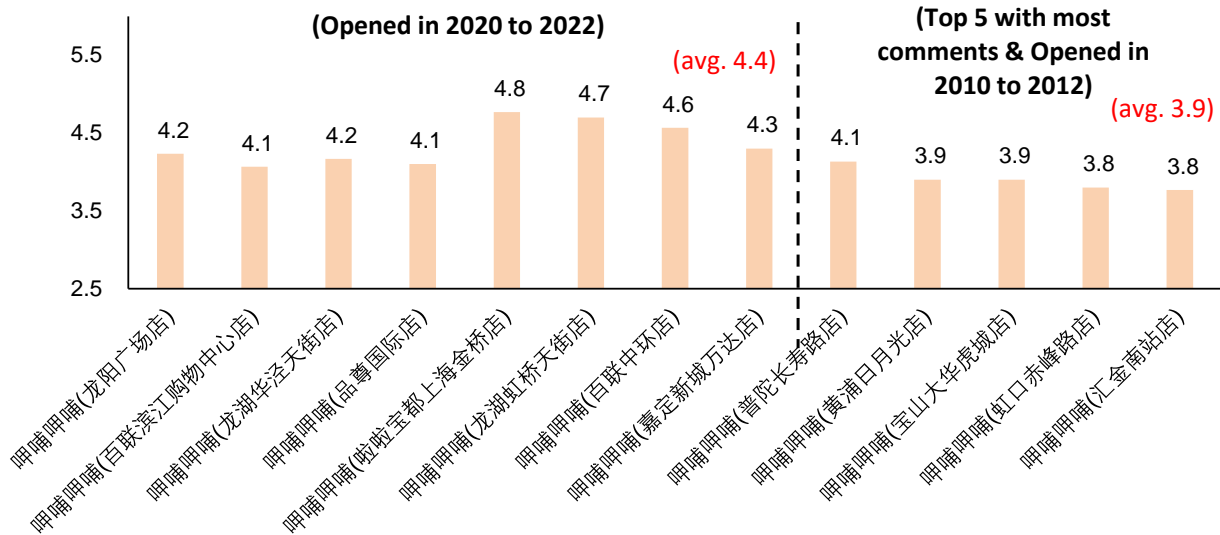
Source: Company data, CMBIGM estimates

**Figure 24: Dianping customer rating for new stores in Shanghai is higher for new stores (vs old stores)**



Source: dianping.com, CMBIGM estimates

**Figure 25: Dianping customer rating for new stores in Shanghai has improved in 2020-2022, by store age**



Source: dianping.com, CMBIGM estimates

■ **2.2 Back to the fast food style interior designs and decoration**

Since the launch and the success of Cou Cou in 2016, XBXB had twisted its development strategy and tried to become more high-end and more gathering-friendly. This is evidenced by its surge in ASP in the past years (from around RMB 48 in 2017 to RMB 63 in 2021, vs only around RMB 40 to RMB 48 during 2013 to 2017).

In terms of store format and interior design, XBXB restaurants in Shanghai, at the time, are more like the low-end version of Cou Cou. Those restaurants tend to have more 2 to 4 people tables for gatherings, but this premiumization was soon proven ineffective.

To make things right again, XBXB is now going back to the basics (bringing back its easy hotpot for one and its value for money), therefore we can see its new restaurants in Shanghai tend to have more solo seats and bar-stools, the interior design and decoration are less overly fancy and less spacious (which is inline with many other fast food shops), but more modern (brighter lighting) and clean.

**Figure 26: New store's interior design 1**



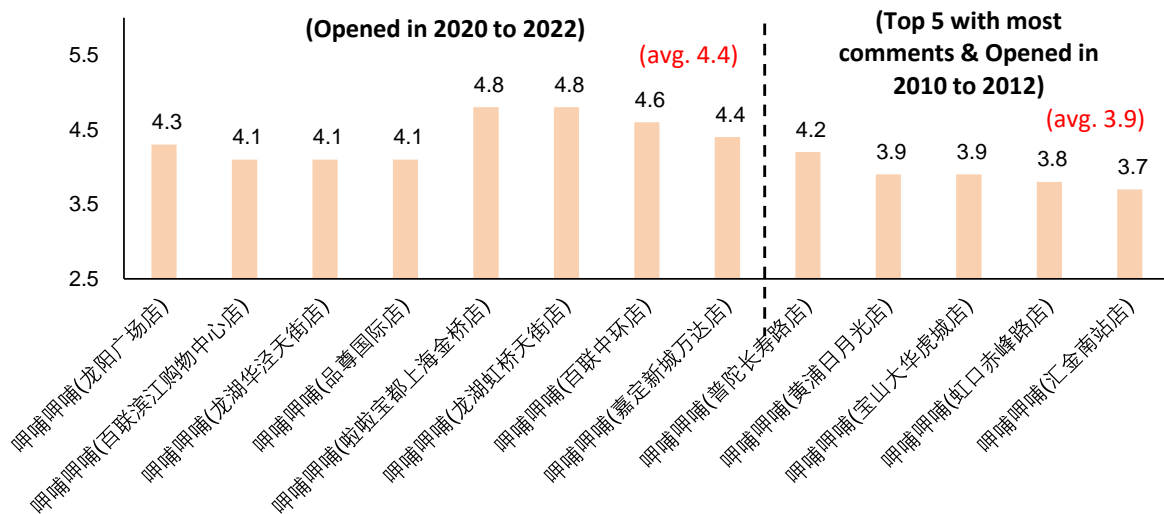
Source: dianping.com, CMBIGM

**Figure 27: New store's interior design 2**



Source: dianping.com, CMBIGM

**Figure 28: Dianping customer rating on environment in Shanghai, by store age**

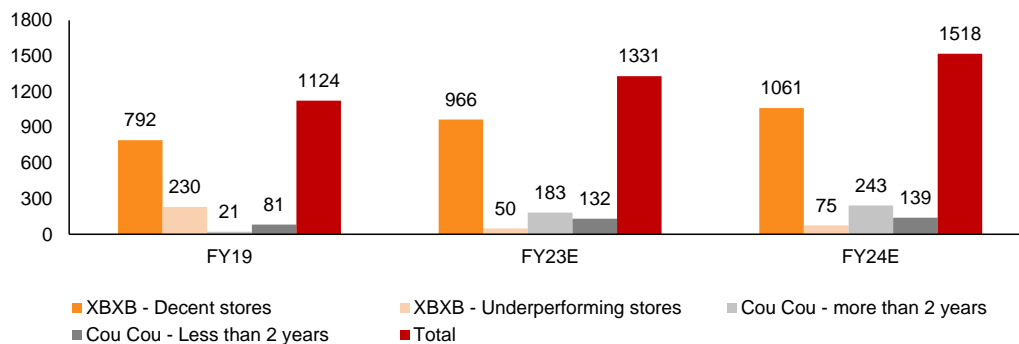


Source: dianping.com, CMBIGM estimates

■ **2.3 Decent room for margin improvement (less loss making stores, new incentive system, synergies between brands, lower capex)**

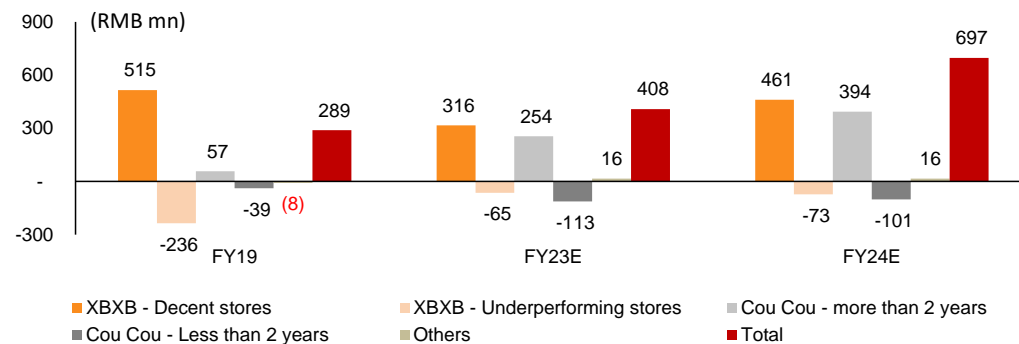
We believe the room for margin improvement is enormous for the Company, thanks to a multiple of drivers. 1) Closures of many under-performing stores. The Company recorded profit of around RMB 300mn back in 2019, but it has also included many stores with low productivity which generated around RMB 200mn loss per year. After the closures in 2021, such drags should no longer exist. On top of that, XBBB has adopted a new store location picking system since Oct 2022, which assesses the demographics and psychographics in the areas of potential expansion, hence it is able to find the right location with the right customer traffic, therefore the risks of having losses-making stores going forward should reduce significantly.

**Figure 29: Number of stores, by type in FY19, FY23E and FY24E**



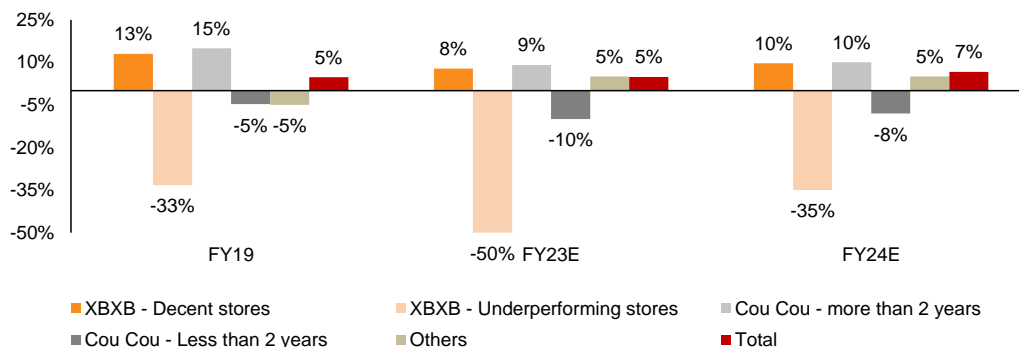
Source: CMBIGM estimates

**Figure 30: Net profit (CMBI est.), by type in FY19, FY23E and FY24E**



Source: CMBIGM estimates

**Figure 31: Net profit margin (CMBI est.), by type FY19, FY23E and FY24E**



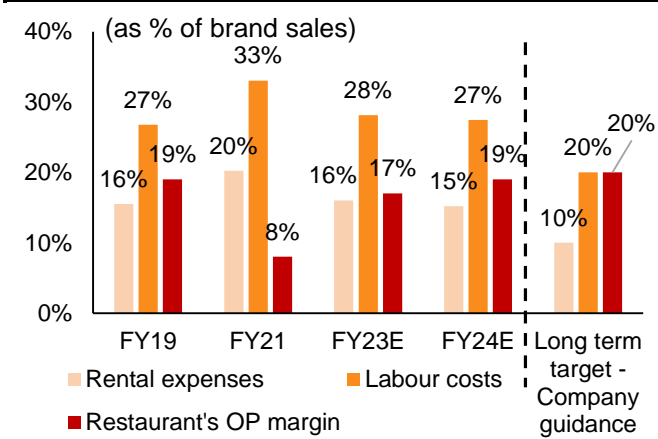
Source: CMBIGM estimates

2) Introduction of the new incentive system. Staff costs could increase accordingly, but the overall store productivity will certainly be raised too. However, without doubts, it will lead to more cost savings and greater operating leverage, hence the operating margin will go up as well.

3) Merging of the two brands. Once the similar functions between XBXB and Cou Cou are combined and resources are shared, many synergies can be yielded. For examples, as the bargaining power increases (esp. when the industry consolidation has accelerated in the past few years given the pandemic), the rental expenses ratio and the costs of raw materials can all be driven down in the future.

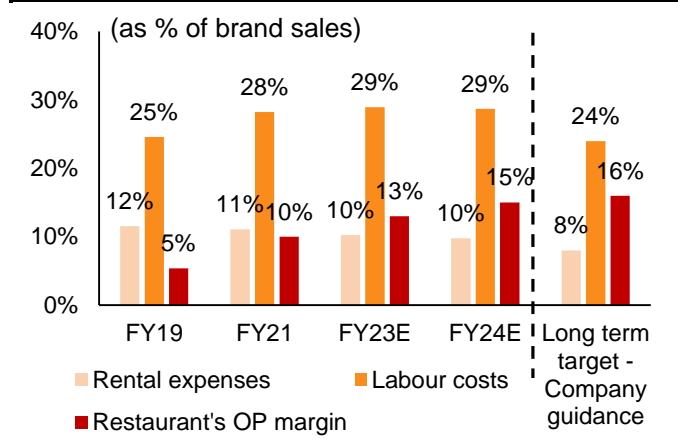
4) Normalization of the furnishment and decoration expenses. We believe the depreciation and amortization expenses per restaurant can be driven down by standardizing and refining the capex, where the spending per sq m can be cut to about RMB 4,500/ RMB 7,000 (from RMB 8,000/ RMB 10,000 in the past) for both XBXB and Cou Cou.

**Figure 32: XBXB’s current expenses and margin level (vs long term target)**



Source: Company data, CMBIGM estimates

**Figure 33: Cou Cou’s current expenses and margin level (vs long term target)**



Source: Company data, CMBIGM estimates

Note that the breakeven seat turnover for XBXB and Cou Cou are at about 1.5x and 2.0x in FY22E, according to CMBI estimates, but we will not be surprised to see more room for improvements in the future (e.g. in FY23E-25E).

**Figure 34: Sensitivity test of per store economics for XBXB and Cou Cou (from 1.5x to 4.0x seat turnover)**

Sensitivity for brands	XBXB					Cou Cou				
<b>Sales (traffic and ASP)</b>										
Number of table (CMBI est.)	54					30				
Seats turnover	1.5	2.0	2.5	3.0	3.5	2.0	2.5	3.0	3.5	4.0
Average spending per guest (RMB)	60					140				
<b>Staff costs</b>										
Number of staff per store	23					38				
Monthly salary per staff (RMB)	3,500					8,000				
<b>Rental expenses</b>										
Store area (Sq.m.)	120					400				
Monthly rent per sq.m (RMB)	330					250				
<b>Capex (and D&amp;A)</b>										
Capex per store (mn)	1.0					4.0				
Capex per sq.m (RMB)	8,333					10,000				
<b>Per store economic (CMBI est.)</b>										
Sales	2.9	3.8	4.8	5.7	6.7	10.1	12.7	15.2	17.8	20.3
COGS	(1.0)	(1.4)	(1.7)	(2.1)	(2.4)	(4.0)	(4.9)	(5.9)	(6.9)	(7.9)
Gross profit	1.8	2.4	3.0	3.6	4.3	6.2	7.7	9.3	10.8	12.4
Staff costs	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(3.6)	(3.6)	(3.6)	(3.6)	(3.6)
Rental expenses	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
D & A expenses	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Utilities expenses	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
Other expenses	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)
Operating profit	(0.1)	0.4	0.9	1.5	2.0	(0.3)	1.1	2.4	3.8	5.1
Finance costs	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Pre-tax profit	(0.1)	0.4	0.9	1.4	1.9	(0.4)	0.9	2.3	3.6	4.9
Tax	0.0	(0.1)	(0.2)	(0.4)	(0.5)	0.0	(0.2)	(0.6)	(0.9)	(1.2)
Net profit	(0.1)	0.3	0.7	1.1	1.4	(0.4)	0.7	1.7	2.7	3.7
<b>As % of total sales</b>										
GP margin	64.0%	64.0%	64.0%	64.0%	64.0%	61.0%	61.0%	61.0%	61.0%	61.0%
Staff costs	-33.9%	-25.4%	-20.3%	-16.9%	-14.5%	-36.0%	-28.8%	-24.0%	-20.6%	-18.0%
Rental expenses	-16.7%	-12.5%	-10.0%	-8.3%	-7.1%	-11.8%	-9.5%	-7.9%	-6.8%	-5.9%
D & A expenses	-7.0%	-5.3%	-4.2%	-3.5%	-3.0%	-7.9%	-6.3%	-5.3%	-4.5%	-3.9%
Utilities expenses	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%
Other expenses	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-4.5%	-4.5%	-4.5%	-4.5%	-4.5%
OP margin	-3.1%	11.3%	20.0%	25.7%	29.8%	-2.7%	8.5%	15.9%	21.2%	25.2%
Finance costs	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Pre-tax margin	-4.1%	10.3%	19.0%	24.7%	28.8%	-3.7%	7.5%	14.9%	20.2%	24.2%
Tax	0.0%	-25.0%	-25.0%	-25.0%	-25.0%	0.0%	-25.0%	-25.0%	-25.0%	-25.0%
NP margin	-4.1%	7.7%	14.2%	18.5%	21.6%	-3.7%	5.6%	11.2%	15.1%	18.1%

Source: Company data, CMBIGM estimates

### 3) Room of expansion is still large for both old and new brands

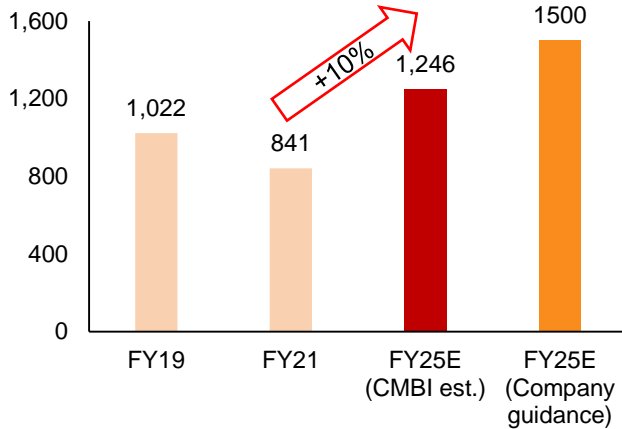
We believe the addressable market is large for hotpot and barbeque, and Haidilao has already proved that about 1500 stores for a single brand is possible. With a fairly low penetration rate for XBXB in the eastern and southern China and for Cou Cou in the lower tier cities and overseas, we still think the room for growth is ample.

#### ■ 3.1 XBXB will further penetrate the market in eastern China and expand to southern China

XBXB has introduced the set-up of duo-headquarters (Beijing + Shanghai) since 2021, this, in our view, could better leverage the Company's resources to develop the Shanghai market, as well as the areas nearby. In fact, we have already seen the positive being yielded in FY22E, where seat turnover for those stores in Shanghai can be much higher (CMBI est. 5 to 10x for some popular stores) than before (CMBI est. 1x to 2x only).

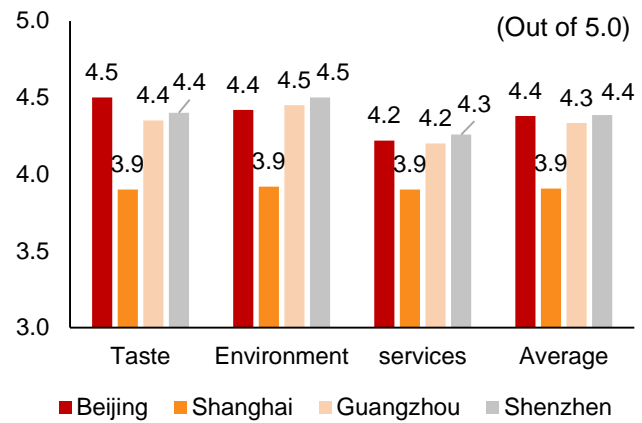
As the management layers were simplified and the local management has been given greater flexibility in terms of development strategy, we believe the Company will have more localization in the future, which is fairly positive for its expansion in southern China.

**Figure 35: Number of stores and 2025 target for XBXB**



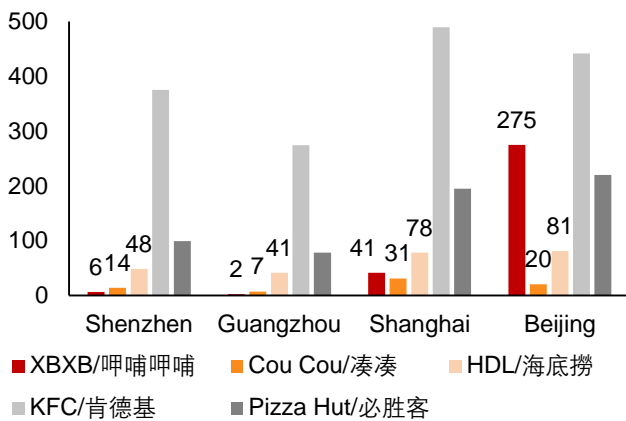
Source: Company data, CMBIGM estimates

**Figure 36: Dianping customer ratings in Shanghai is likely to catch up**



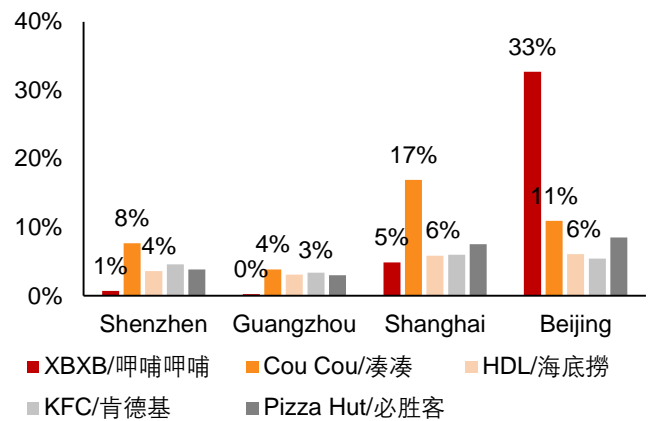
Source: dianping.com, Company data, CMBIGM estimates

**Figure 37: XBXB and Cou Cou's area mix (SZ/ GZ/ SH and BJ), vs HDL, KFC and Pizza Hut**



Source: dianping.com, CMBIGM estimates

**Figure 38: XBXB and Cou Cou's number of stores in tier 1 cities, as % of total, vs HDL, KFC and Pizza Hut**



Source: dianping.com, CMBIGM estimates

Also, the Company is now targeting to have ~1,500 XBXB stores by the FY25E, implying a 16% CAGR during FY21-25E, and we are more conservative and assume only 1,246 stores at that time, implying a 10% CAGR.

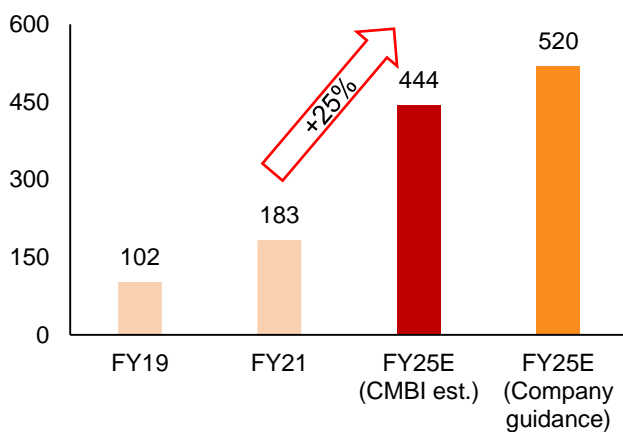
Noted that XBXB has already opened its first store in Singapore in Jan and will open new stores in Taiwan and Malaysia in FY23E. We believe the overseas expansion could be another new growth driver in the long run.

■ **3.2 Cou Cou shall reaccelerate its store openings and further expand overseas.**

Cou Cou is already a successful brand name nation-wide, but its stores are slightly more skewed to Southern and Eastern China. We believe it will continue to strengthen its existence in Northern China.

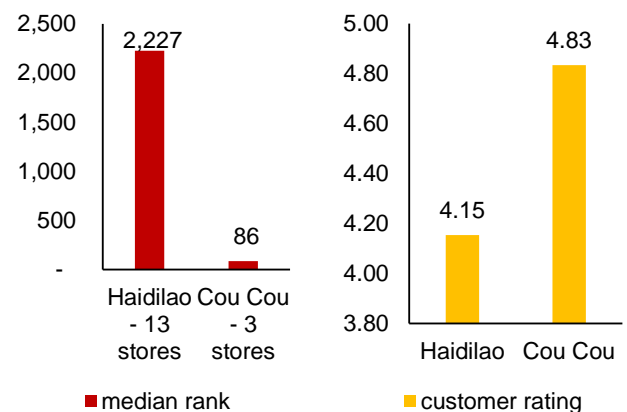
Also, the Company is now targeting to have ~520 Cou Cou stores by the FY25E, implying a 30% CAGR during FY21-25E, and we are more conservative and assume only 444 stores at that time, implying a 25% CAGR.

**Figure 39: Number of stores and 2025 target for Cou Cou**



Source: Company data, CMBIGM estimates

**Figure 40: 4 Median ranking of stores and customer rating in Singapore, Haidilao vs Cou Cou**



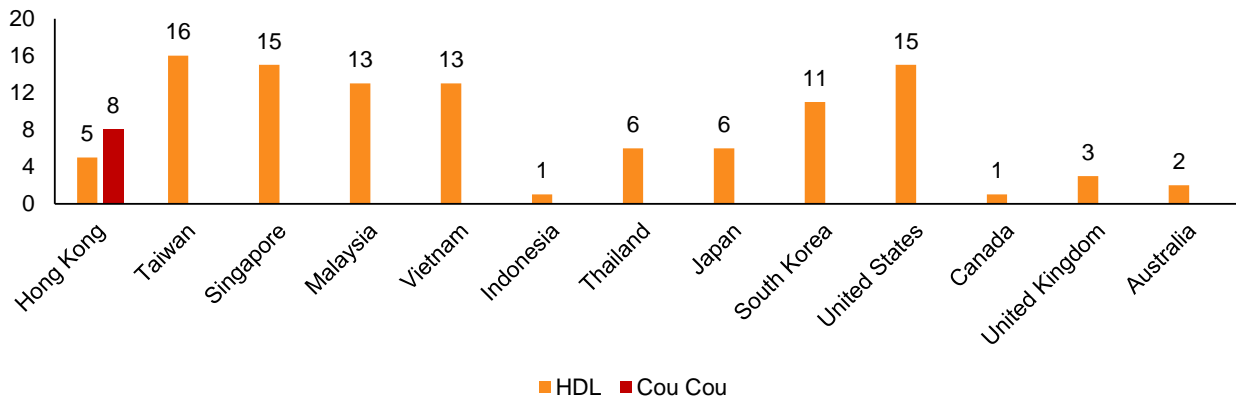
Source: en.tripadvisor.com.hk, CMBIGM estimates

Moreover, we believe its expansion in overseas can be fairly encouraging, because the potential market is quite sizable, where Haidilao already has over 100 stores outside Greater China but Cou Cou only has about 12 at the moment (9 in Hong Kong, 3 in Singapore). In fact, Cou Cou has been proven successful given its excellent performance in Hong Kong, where it has about 8 stores (more than Haidilao's 5 stores) in FY21 and the customer rating from openrice.com is fairly similar to Haidilao.

In addition, Cou Cou has also landed Singapore since early 2022 and already has three stores over there. Similar to Hong Kong, the performance of those are much better than the Haidilao's (evidenced by higher customer rating at 4.83 (out of 5), vs Haidilao's 4.15 and those 3 stores are ranked at 84/ 85/ 145 (out of all 10,010 restaurants in Singapore posted on tripadvisor)), vs median rank of 2,227 for Haidilao's 13 stores.

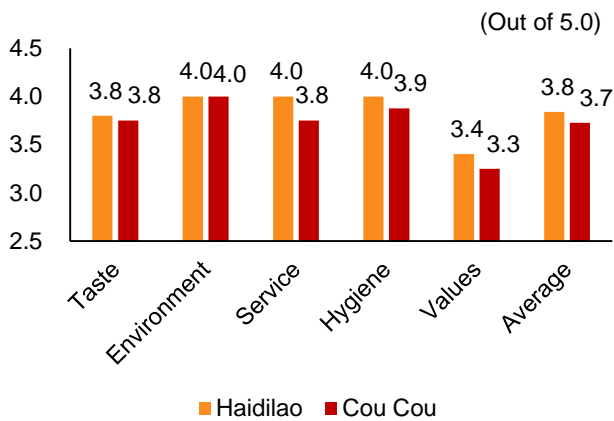
We believe it will expand to Taiwan and Malaysia in FY23E as well.

**Figure 41: Cou Cou's number of stores in Hong Kong and overseas (vs Haidilao), FY21**



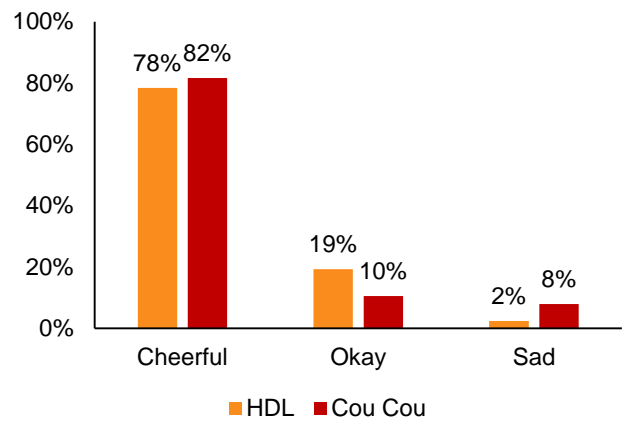
Source: openrice.com, Company data, CMBIGM estimates

**Figure 42: Openrice customer rating in Hong Kong (Cou Cou vs Haidilao)**



Source: openrice.com, CMBIGM estimates

**Figure 43: Openrice customer satisfaction mix in Hong Kong (Cou Cou vs Haidilao)**



Source: openrice.com, CMBIGM estimates

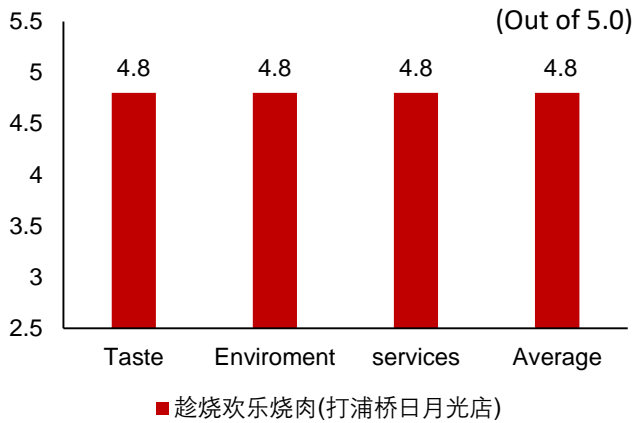
■ **3.3 Shao Hot could be a big thing, thanks to its excellent reception and sizable but fragmented barbeque market in China.**

We are quite optimistic about Shao Hot’s development, because of its competitiveness and fairly sizable but fast-growing industry. According to NCBD, the Chinese barbeque market is quite sizable in China, which has about RMB 150bn sales in FY20 and ranked as number 6 in terms of Chinese cuisine in China, even greater than other cuisines like Beijing/Northwestern and Anhui etc.. The growth rate was fast too, and it has been growing by 11% CAGR during FY15-21.

The first store of Shao Hot was opened in Shanghai, which has a store size of about 300 sq.m, having about 100 seats in total, and the ASP is at about RMB 200 to 250.

Based on our estimates, the seat turnover of Shao Hot’s first store in Shanghai is about 3x to 5x (depending on weekdays or weekends), and daily sales/ monthly sales could be as high as RMB 120K/ RMB 2.5mn, which is fairly impressive, considering the suppressed consumption power, esp. under the COVID-19 and economic downturn in 2H22E.

**Figure 44: Dianping customer rating is outstanding for first store of Shao Hot in Shanghai**



Source: dianping.com, CMBIGM estimates

**Figure 45: Store image of Shao Hot 1**



Source: dianping.com, CMBIGM

We believe the Company is aiming to open about 20 new Shao Hot stores in FY23E, which are likely to be in tier 1 cities (Beijing, Guangzhou and Shenzhen), and in the long run like five years, we believe the Company is targeting to open more than 100 stores.

We do think Shao Hot could become a decent growth driver for the Company, because: 1) it can leverage on XBXB and Cou Cou’s existing supply chain, hence the input costs are cheap, 2) there are many opportunities for cross-selling, where the members or fans for other brands would easily become its customers, thanks to various advertising and promotions.

Figure 46: Store image of Shao Hot 2



Source: winshang.com, CMBIGM

Figure 47: Store image of Shao Hot 3



Source: winshang.com, CMBIGM

## Industry Analysis

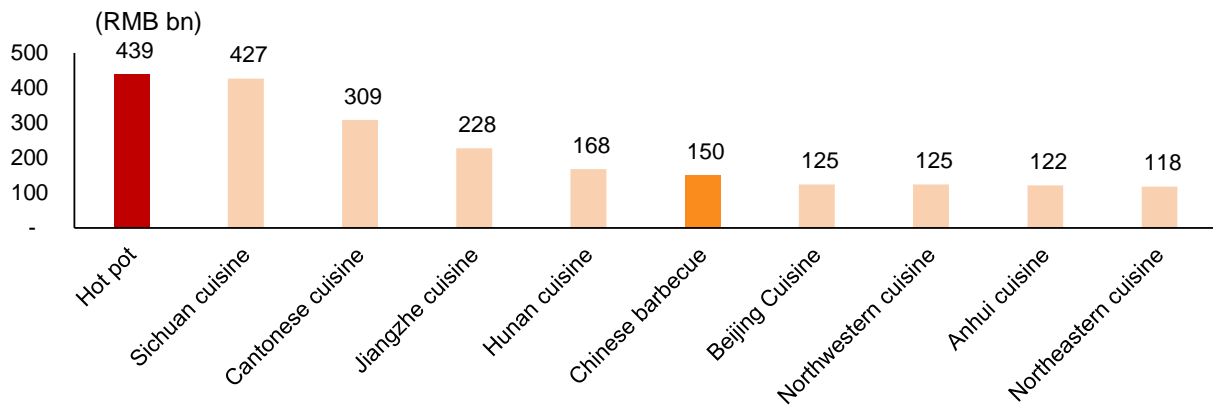
### 1) Hotpot & barbeque industry are not only sizable but also fast-growing.

Hotpot and Chinese barbeque industry is the largest and the 6th largest type of Chinese cuisine in China. Hotpot sales growth was slower during the pandemic and growth should accelerate onwards. Barbeque sales growth had outperform during the pandemic and we do expect its growth to surge after that.

#### ■ 1.1 Market size of Hotpot and Chinese barbeque are ranked no.1 and no.6 in China.

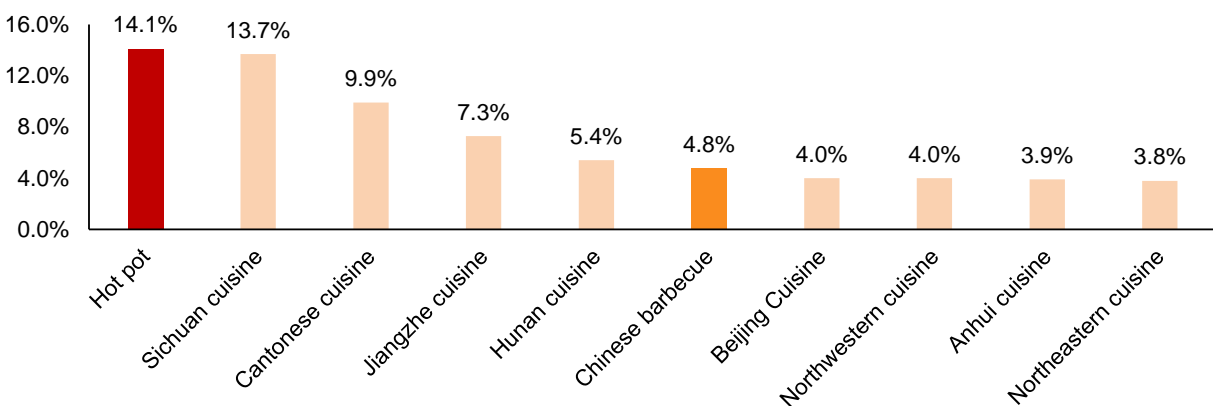
Firstly, catering industry sales was around RMB 3,953bn in 2020, within that, Chinese cuisine accounted for roughly 79% at about RMB 3,117bn, based on data from NBS and Frost & Sullivan. Secondly, hotpot and Chinese barbeque ranked no.1/ no.6 in terms of industry size, and generated about RMB 440mn/ RMB 150mn, contributing about 14%/ 5% of total Chinese cuisine industry sales in 2020, according to Frost & Sullivan. Noted that, the size of barbeque industry is slightly larger than that of Chinese barbeque, due to the inclusion of other overseas styles barbeque.

**Figure 48: Market size of different types of Chinese cuisine in China in 2020**



Source: Frost & Sullivan, CMBIGM estimates

**Figure 49: Market shares of different types of Chinese cuisine in China in 2020**



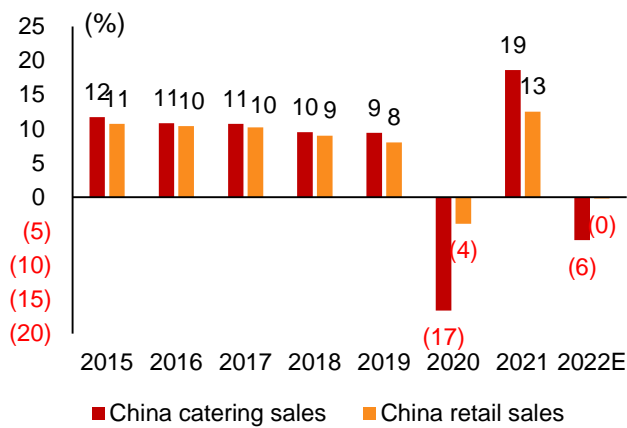
Source: Frost & Sullivan, CMBIGM estimates

■ **1.2 We do expect catering sales growth to outpace the retail sales growth, hotpot and barbeque industry sales should be even faster.**

Catering sales used to be growing at a faster rate than the retail sales, from FY16 to FY19, catering sales CAGR was at 9%, compared to just retail sales CAGR of only 7%.

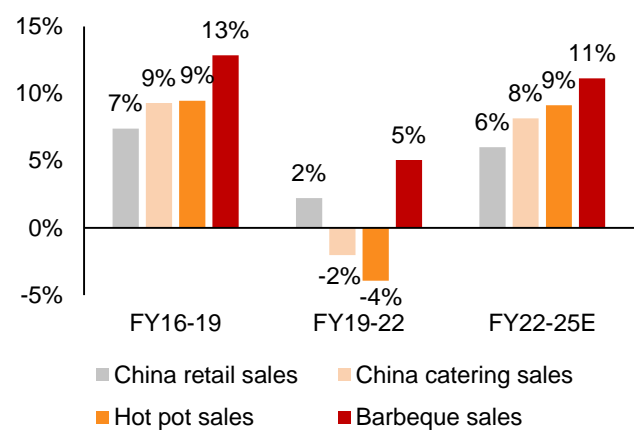
In our view, that was due to: 1) continual increases in the interest to dine-out, driven by higher employment of women, increase of single families and lack of time for cooking at home, 2) rising household income and hence rising demand for a better living standard and consumer experience, 3) rapid revolution of the food delivery industry, where ordering was much easier than ever before in the past few years.

**Figure 50: China retail and catering sales growth**



Source: NBS, CMBIGM estimates

**Figure 51: China retail, catering, hotpot and barbeque sales CAGR**

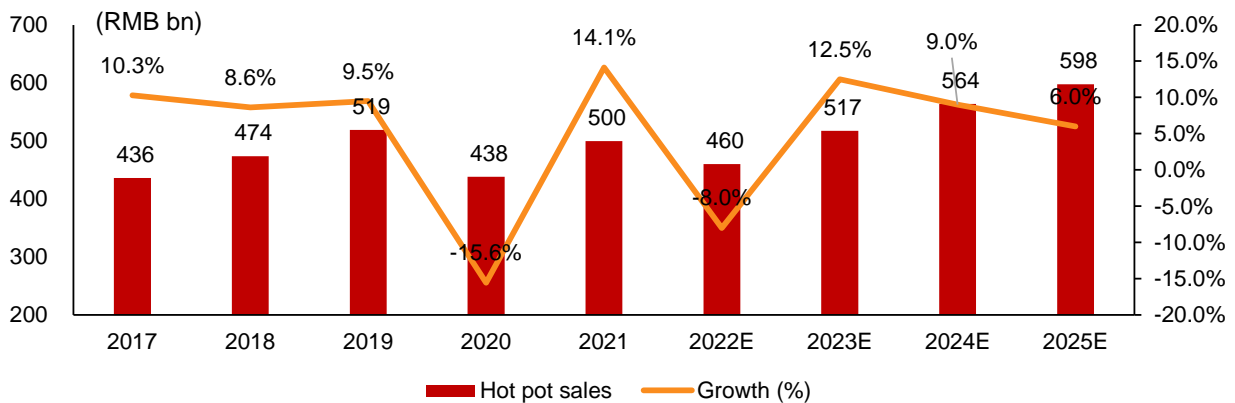


Source: NBS, Frost & Sullivan, NCBD, CMBIGM estimates

For the hotpot industry, sales CAGR was at about 9% during FY16 to FY19, at par with the catering industry. However, due to the COVID-19 outbreaks, hotpot sales CAGR had fallen to -4% during FY19 to FY22E, according Frost & Sullivan, as the market was very tough, with lots of store being temporality suspended, plus the very limited demand and supply for hotpot delivery.

But going forward in FY22E to FY25E, we believe not only hotpot sales CAGR can accelerate to 9% in FY22E to FY25E, but also be faster than the catering sales CAGR of 8%, as it was suffering more during the COVID-19.

**Figure 52: Hotpot industry in China's sales and growth**

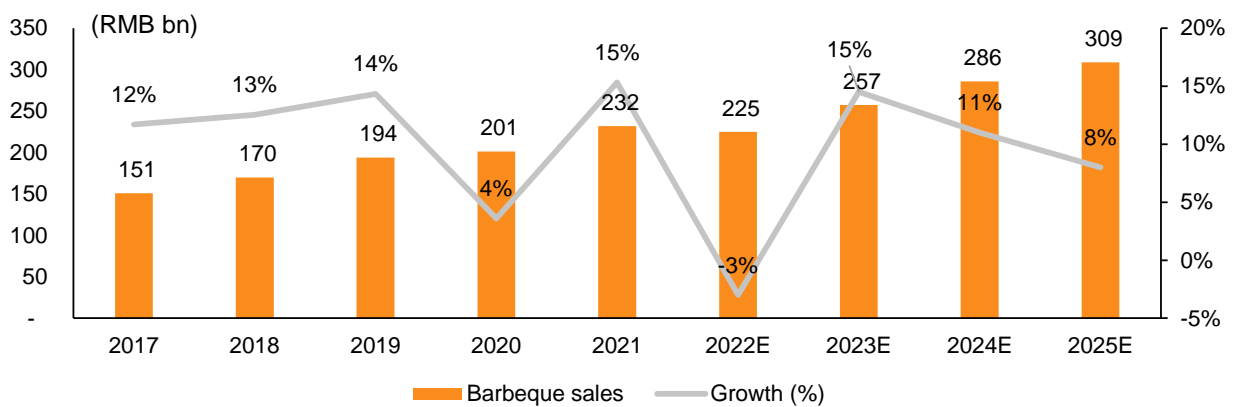


Source: Frost & Sullivan, CMBIGM estimates

For the barbecue industry, sales CAGR was at around 13% during FY16 to FY19, way faster than the entire catering sector, and we believe that was a result of increases in supply and demand. On the supply side, the barbecue business has a nature of: 1) high standardization, 2) less dependent on chef, which is somewhat similar to the hotpot business. On top of that, the capex per store required tends to be much lower. On the demand side, the faster growth is driven by: 1) increase in purchasing power by the young consumers, 2) higher interest from the younger consumers for different kinds of gatherings or night market and last but not least, 3) great variety of food choices.

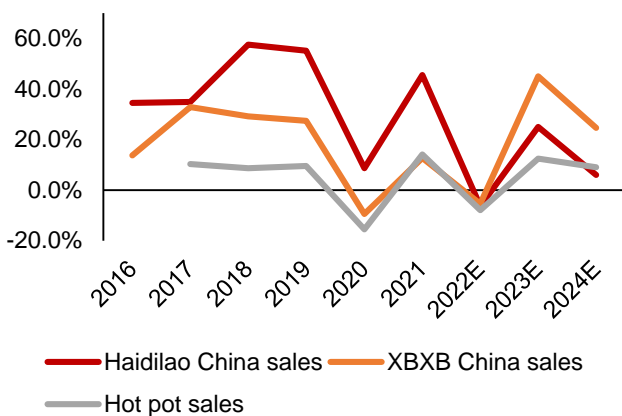
Sales from barbecue was impressive, still managed to grow by 5% CAGR, even during FY19-22E, thanks to rising demand for dine-in in the outdoor area. Going forward, we believe its sales CAGR would continue to be fast, at 11%, compared to catering sales CAGR of just 8%.

**Figure 53: Barbeque industry in China's sales and growth**



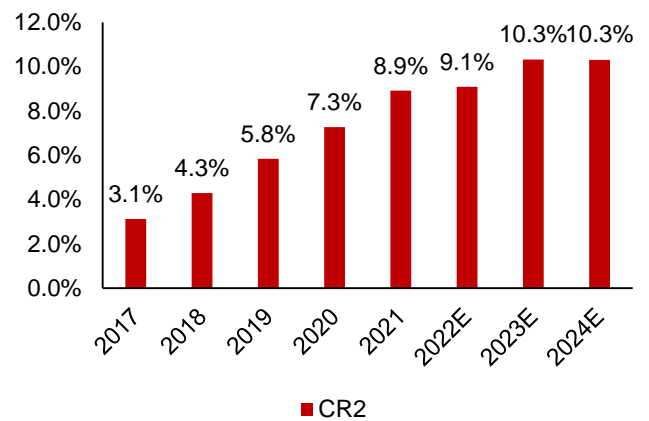
Source: NCBD, CMBIGM estimates

**Figure 54: Hotpot industry, Haidilao and XBXB's sales growth**



Source: Frost & Sullivan, Company data, CMBIGM estimates

**Figure 55: Market shares of Haidilao and XBXB combined**



Source: Frost & Sullivan, Company data, CMBIGM estimates

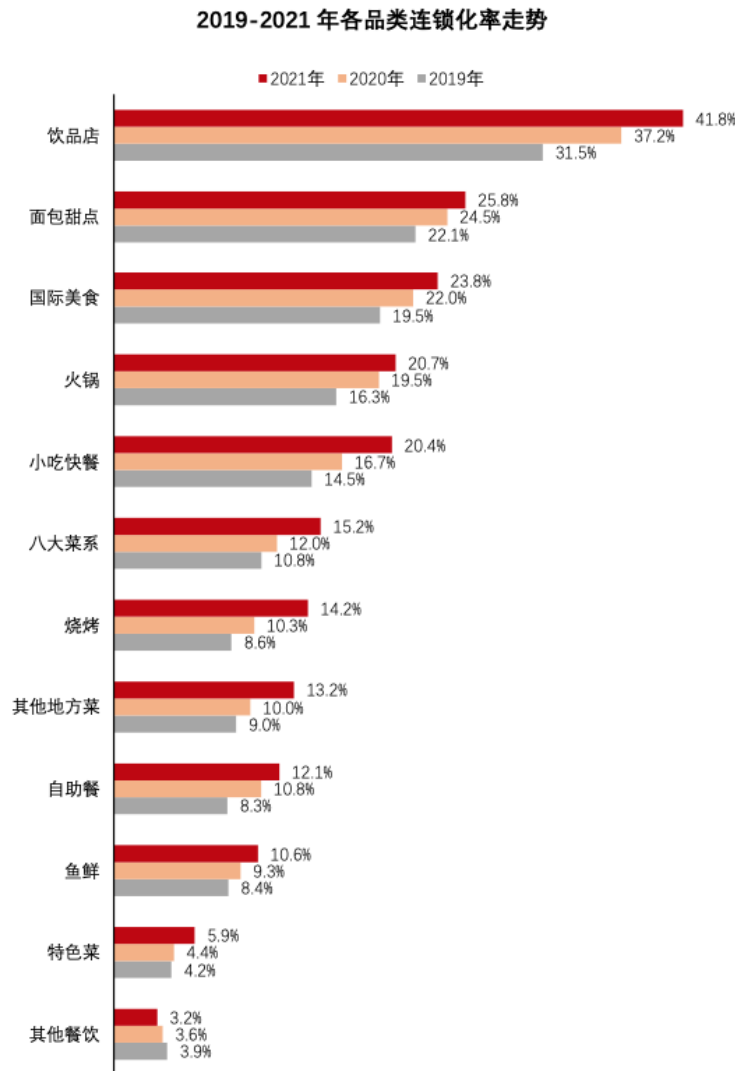
**2) Catering sector is still fragmented but it is consolidating quick.**

Chain restaurant penetration rate is still low for China (at ~18%) vs other more developed regions (global average is at 34%), hotpot's rate is higher than industry average while barbeque is lower. The pandemic during FY20-22E had led to a much faster industry consolidation, and we believe the concentration will continue to climb quick.

**■ 2.1 We believe the chain restaurant penetration rate is still low for China, while barbeque is much lower than hotpot**

According to Euromonitor, the chain restaurant penetration rate is still fairly low in China, at about 18% in 2021, compared to the world's average of 34%, 59% in the US and 58% in Japan. In the same vein, the chain restaurant penetration rate was only at 17% in 2021, based on the research from Meituan University of Catering, but surged from 13% in 2019, indicating the speed-up of industry consolidation during the pandemic.

**Figure 56: Chain restaurant penetration rate in China, by category**

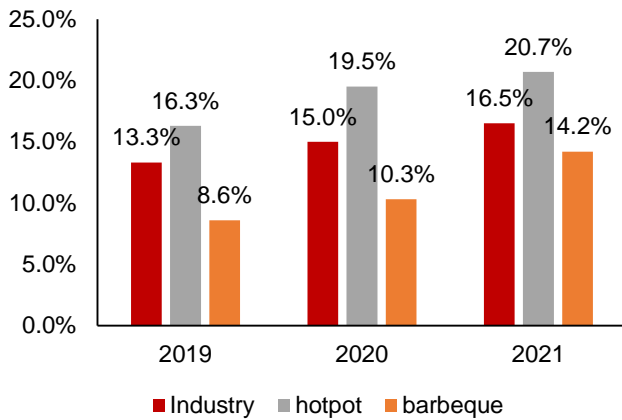


Source: Meituan University of Catering, CMBIGM estimates

For hotpot industry, the chain restaurant penetration rate is at about 21%, higher than the industry average, perhaps due to the higher level of standardization within the catering sector. The subsegment also experienced accelerated industry consolidation, because of the aggressive store expansion by leaders like Haidilao and XBBB and the tough business condition during the COVID-19 outbreaks in the past few years.

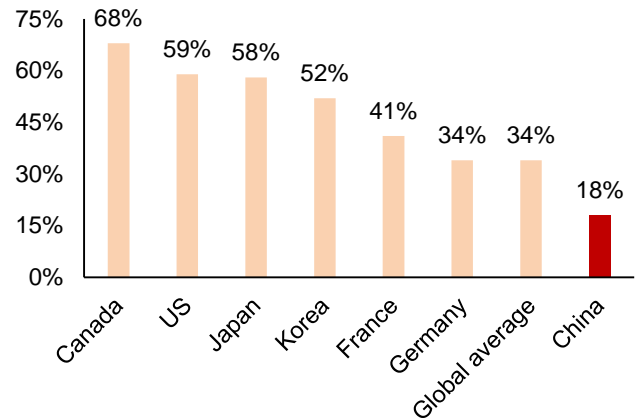
For barbeque industry, the chain restaurant penetration rate is at around 14% in 2021, still lower than the industry average, perhaps due to the lack of industry leaders and relatively low entry barriers. But in fact, in the past few years, the barbeque industry's chain restaurant penetration had already increased a lot, in our view, which was due to rising demand and supply mentioned previously.

**Figure 57: Chain restaurant penetration rate in China, industry vs hotpot, barbeque**



Source: Meituan University of Catering, CMBIGM estimates

**Figure 58: Chain restaurant penetration rate, by region**

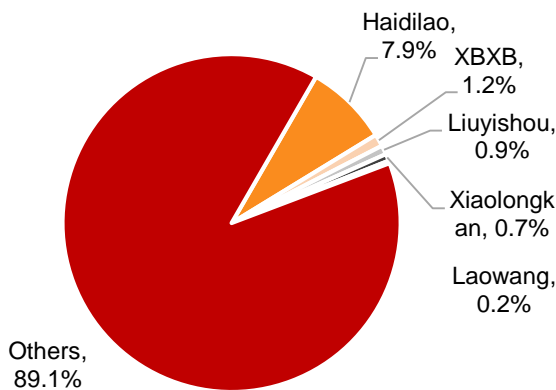


Source: Euromonitor, CMBIGM estimates

■ **2.2 Both hotpot and barbeque industry are still highly fragmented, but there is no dominant leader for barbeque industry**

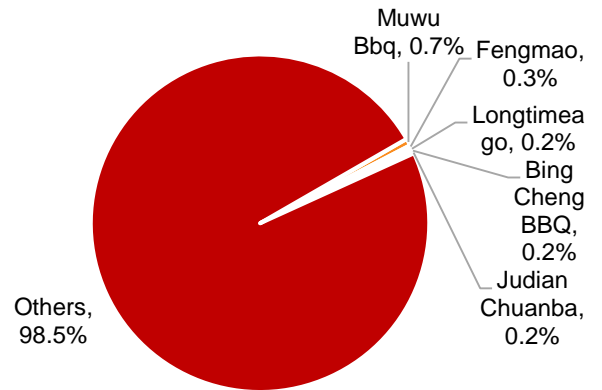
Based on Frost & Sullivan, NBCD, our research and estimation, the market shares for the top 5 players in total (CR5) in 2021 were roughly at 11% for hotpot and less than 2% for barbeque. And this estimation, in our view, is well supported by any set of data, which is the mix of stores, operated by large chain restaurants (i.e. brands that have 100 or more stores). According to [www.canyin88.com](http://www.canyin88.com) and [www.watchn.com](http://www.watchn.com), 15% of stores are operated by large chain restaurants for the entire catering industry in China, while that of hotpot and barbeque are at 16% and 7%. Therefore, we do believe there are ample room for more industry consolidations for hotpot and especially for barbeque.

**Figure 59: Hotpot industry’s market share, by leaders and others, 2021**



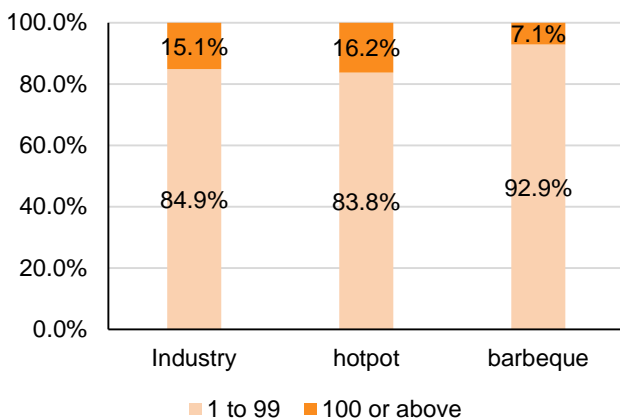
Source: Frost & Sullivan, Company data, CMBIGM estimates

**Figure 60: Barbeque industry’s market share, by leaders and others, 2021**



Source: NBCD, Company data, CMBIGM estimates

**Figure 61: Mix of stores, by large restaurant chains (with more than 100 stores) and smaller restaurant chains or non-chain restaurants**



Source: [www.canyin88.com](http://www.canyin88.com), [www.watchn.com](http://www.watchn.com), CMBIGM estimates

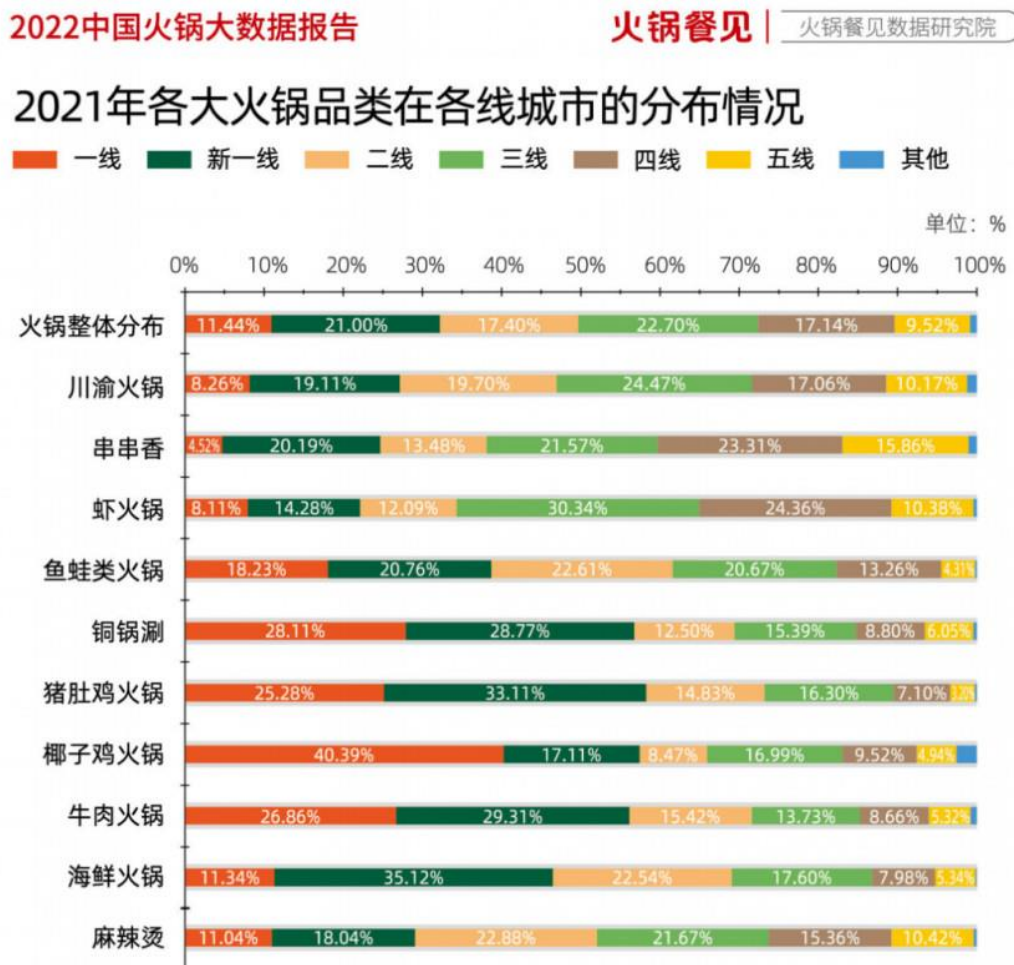
### 3) Room for growth is still enormous in the lower tier cities

One of the main growth driver for leading catering brand going forward is the expansion into the lower tier cities, where number of stores located in tier 3 or below cities is accounting for about 50% of total stores in China, if we take hotpot industry as an example.

■ **3.1 The lower tier cities exposure is still low for many listed brands, even for Haidilao.**

We believe the leading brands can still grow faster than the industry average, by expanding more into the lower tier cities, because the exposure is still low and the market shares are still less concentrated than the higher tier cities.

**Figure 62: Mix of stores, by tier cities and types of hotpot**

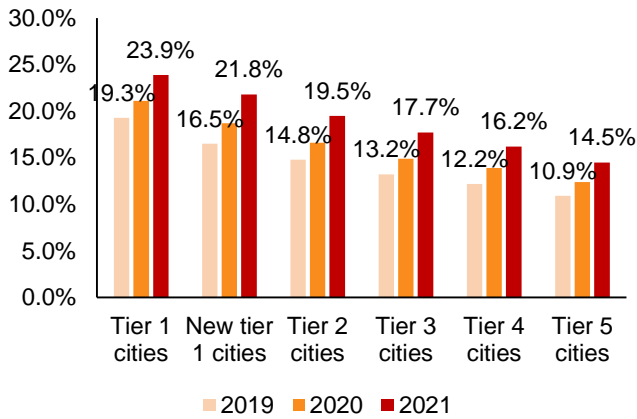


Source: huoguocanjian.com, CMBIGM estimates

For example, the mix of stores located in tier 1 cities, for the entire hotpot industry, is only at 11%, but it is as high as 18% and 39% for Haidilao and XBXB. Similarly, the mix of stores in tier 3 or below cities is only at 21% for the hotpot industry but it is as low as 41% and 21% for Haidilao and XBXB in 2021.

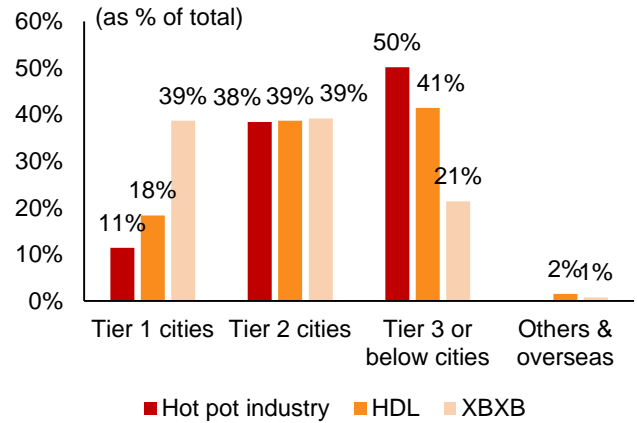
Moreover, the chain restaurant penetration rates are at 18%/ 16%/ 15% in the tier 3/ tier 4/ tier 5 cities, which are lower than the 24%/ 22%/ 20% in the tier 1/ new tier 1/ tier 2 cities, certainly indicating greater growth potential, in our view.

**Figure 63: Chain restaurant penetration rate, by tier cities and years**



Source: Meituan, CMBIGM estimates

**Figure 64: Mix of stores, by tier cities and brands**



Source: huoguocanjian.com, Company data, CMBIGM estimates

■ **3.2 Profit margins tend to be higher in lower tier cities.**

We believe the net profit margin is higher in the lower tier cities, thanks to slightly lower ASP (vs that in the tier 1 cities) but the much lower rental expenses and staff costs.

## Assumptions

Figure 65: CMBIGM' assumptions

Major assumptions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by brand (RMB mn)</b>						
XBXB	4,671	3,502	3,525	2,833	4,193	4,991
Cou Cou	1,196	1,689	2,354	2,685	3,928	5,190
Total	5,867	5,191	5,878	5,518	8,120	10,181
<b>Sales growth by brand (%)</b>						
XBXB	15%	-25%	1%	-20%	48%	19%
Cou Cou	120%	41%	39%	14%	46%	32%
Total	27%	-12%	13%	-6%	47%	25%
<b>Number of restaurants</b>						
XBXB	1,022	1,061	841	886	1,016	1,136
Cou Cou	102	140	183	243	315	382
Total	1,124	1,201	1,024	1,129	1,331	1,518
<b>Number of restaurants growth (%)</b>						
XBXB	15%	4%	-21%	5%	15%	12%
Cou Cou	113%	37%	31%	33%	30%	21%
Total	20%	7%	-15%	10%	18%	14%
<b>Seat turnover (x)</b>						
XBXB	2.3	2.3	1.7	2.2	2.4	2.4
Cou Cou	2.9	2.5	2.5	2.1	2.5	2.7
<b>ASP (RMB)</b>						
XBXB	56	62	63	59	60	61
Cou Cou	132	137	141	139	141	144
<b>Sales per store (RMB mn)</b>						
XBXB	4.6	3.3	4.2	3.2	4.1	4.4
Cou Cou	11.8	12.1	12.9	11.0	12.5	13.6
<b>Sales per store growth (%)</b>						
XBXB		-29%	28%	-24%	29%	7%
Cou Cou		2%	7%	-14%	13%	9%
GP margins	61.0%	61.9%	62.6%	62.9%	63.2%	63.2%
Staff costs	-27.1%	-29.8%	-32.1%	-27.5%	-27.2%	-26.9%
Rental and related expenses	-4.0%	-4.8%	-5.0%	-4.7%	-4.5%	-4.5%
Depreciation of ROU assets	-10.9%	-9.5%	-9.5%	-6.7%	-6.3%	-6.5%
D & A of other assets	-7.5%	-7.6%	-7.9%	-5.5%	-4.6%	-4.1%
Utilities expenses	-3.5%	-3.3%	-3.5%	-3.5%	-3.5%	-3.5%
Other expenses	-7.0%	-7.2%	-7.0%	-6.8%	-6.7%	-6.7%
Effective tax rate	-83%	33%	-25%	-24%	-23%	-23%
NP att. margin	0%	-5%	-3%	5%	7%	7%
NP att. growth (%)	-99%	n/a	n/a	n/a	71%	29%

Source: Company data, CMBIGM estimates

## Earnings revision

Figure 66: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,814	8,181	10,485	n/a	n/a	n/a	0.0%	0.0%	0.0%
Gross profit	3,639	5,162	6,648	n/a	n/a	n/a	0.0%	0.0%	0.0%
EBIT	-87	738	1,254	n/a	n/a	n/a	0.0%	0.0%	0.0%
Net profit att.	-189	406	774	n/a	n/a	n/a	0.0%	0.0%	0.0%
Diluted EPS (RMB)	(0.174)	0.374	0.712	n/a	n/a	n/a	0.0%	0.0%	0.0%
Gross margin	62.6%	63.1%	63.4%	n/a	n/a	n/a	0ppt	0ppt	0ppt
EBIT margin	-1.5%	9.0%	12.0%	n/a	n/a	n/a	0ppt	0ppt	0ppt
Net profit att. margin	-3.2%	5.0%	7.4%	n/a	n/a	n/a	0ppt	0ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 67: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,814	8,431	10,507	5,496	7,491	9,360	5.8%	12.5%	12.3%
Gross profit	3,639	5,303	6,641	3,453	4,566	5,708	5.4%	16.1%	16.3%
EBIT	-87	764	1,176	-123	396	672	-29.2%	92.6%	75.0%
Net profit att.	-189	408	697	-188	251	427	0.3%	62.6%	63.3%
Diluted EPS (RMB)	(0.174)	0.376	0.641	(0.174)	0.217	0.403	0.0%	72.9%	59.0%
Gross margin	62.6%	62.9%	63.2%	62.8%	60.9%	61.0%	-0.2ppt	2ppt	2.2ppt
EBIT margin	-1.5%	9.1%	11.2%	-2.2%	5.3%	7.2%	0.7ppt	3.8ppt	4ppt
Net profit att. margin	-3.2%	4.8%	6.6%	-3.4%	3.4%	4.6%	0.2ppt	1.5ppt	2.1ppt

Source: Company data, CMBIGM estimates

## Financial Analysis

We forecast sales growth of -5%/ 45%/ 25% YoY in FY22E/ 23E/ 24E

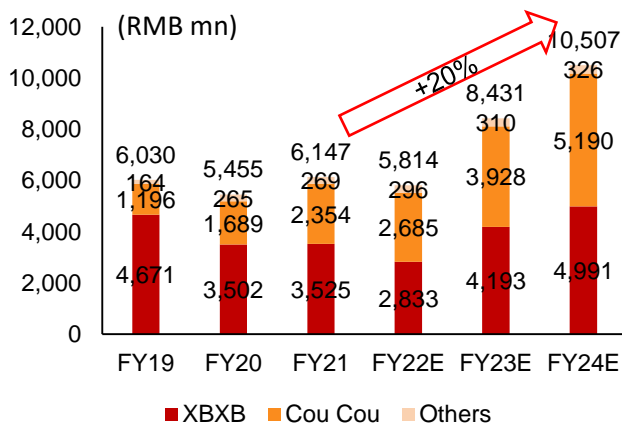
■ **We expect sales to decline by 5% YoY in FY22E, due to drags by pandemic.**

We project XBBB Catering’s sales to reach RMB 5.8bn in FY22E, dropped by 5.4% YoY, because of: 1) 20% sales decline for XBBB and 14% sales growth for Cou Cou, OR 2) 10% growth in store numbers but 14% drop in sales per store, OR 3) 5% XBBB store increases and 24% drop in sales per store AND 33% Cou Cou store increases and 14% drop in sales per store.

■ **We also project a 20% sales CAGR in FY22E-24E.**

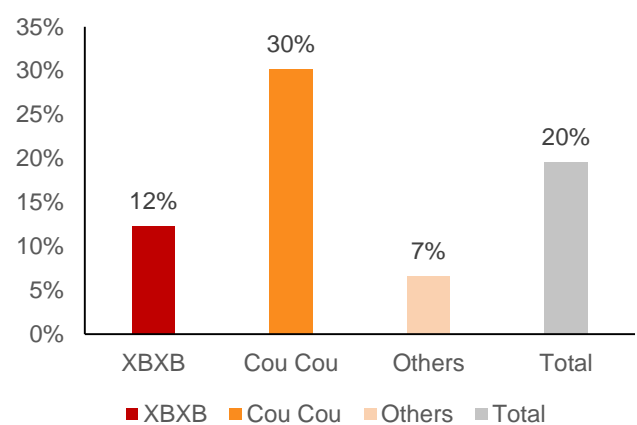
We also expect XBBB Catering’s sales CAGR to be at around 20% during FY22E-24E, assuming: 1) 12% sales CAGR for XBBB and 30% sales CAGR for Cou Cou, OR 2) 14% store CAGR and 5% sales per store CAGR, OR 3) 11% store CAGR for XBBB and 1% sales per store CAGR, AND 28% store CAGR for Cou Cou and 2% sales per store CAGR.

**Figure 68: Sales by brand**



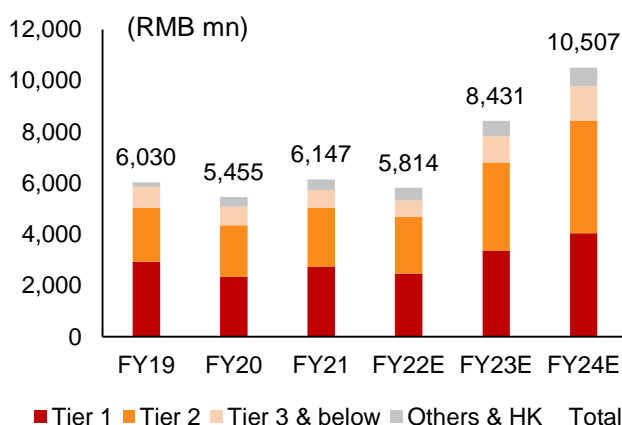
Source: Company data, CMBIGM estimates

**Figure 69: Sales CAGR by brand, FY21-24E**



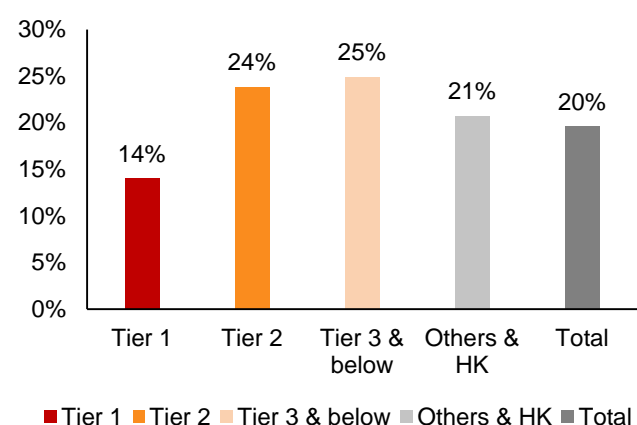
Source: Company data, CMBIGM estimates

**Figure 70: Sales by tier city**



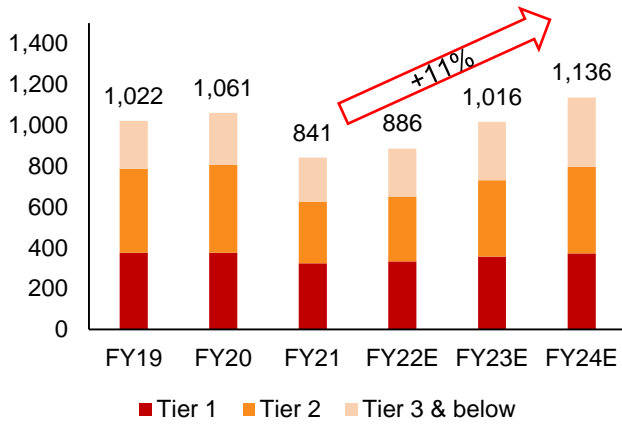
Source: Company data, CMBIGM estimates

**Figure 71: Sales CAGR by tier city, FY21-24E**



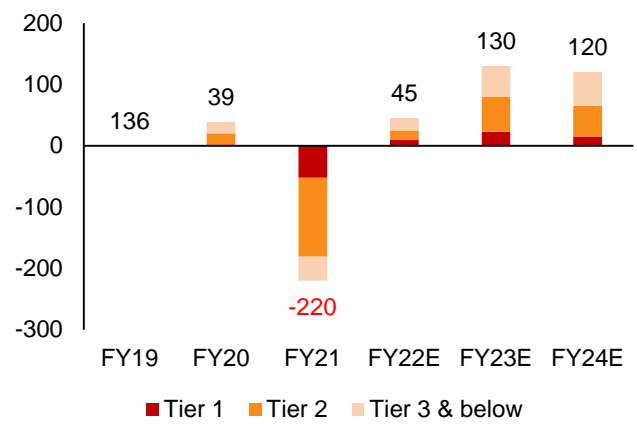
Source: Company data, CMBIGM estimates

Figure 72: XBXB's number of stores, by tier city



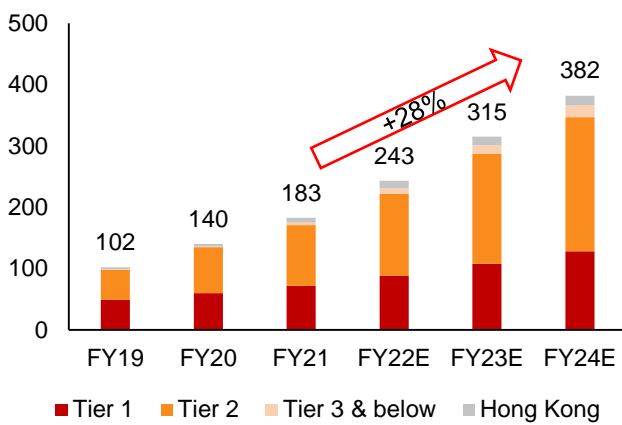
Source: Company data, CMBIGM estimates

Figure 73: XBXB's new stores, by tier city



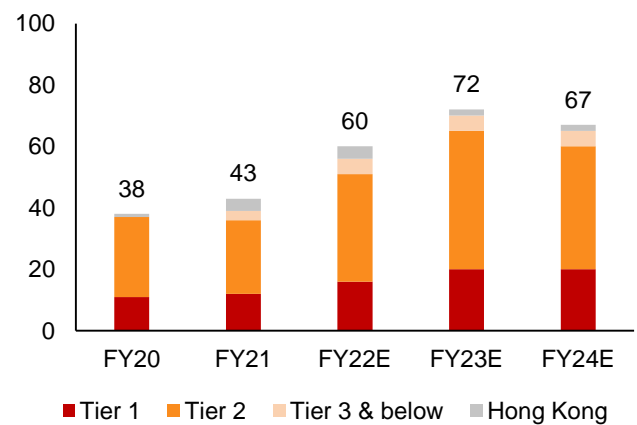
Source: Company data, CMBIGM estimates

Figure 74: Cou Cou's number of stores, by tier city



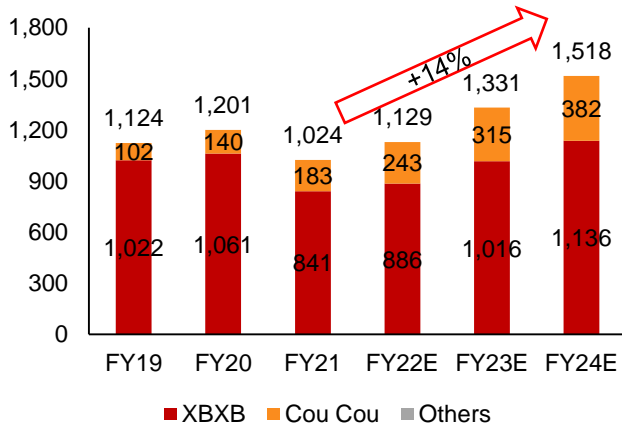
Source: Company data, CMBIGM estimates

Figure 75: Cou Cou's new stores, by tier city



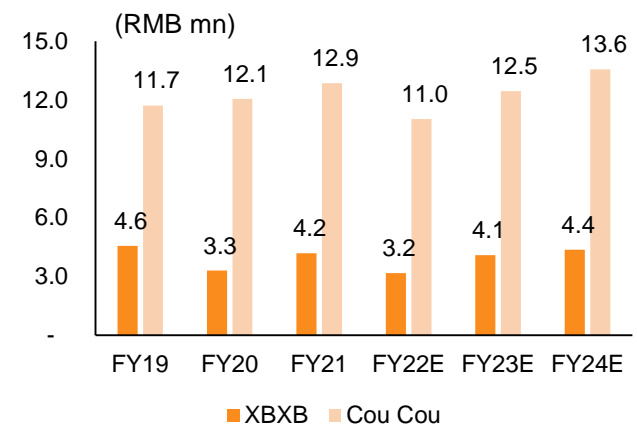
Source: Company data, CMBIGM estimates

Figure 76: Total number of stores, by brand



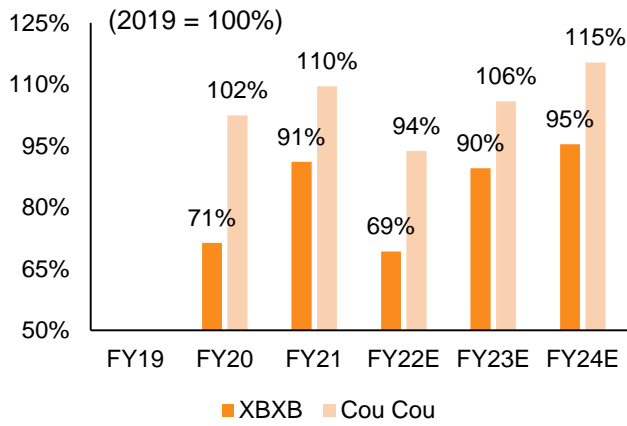
Source: Company data, CMBIGM estimates

Figure 77: Sales per store, by brand



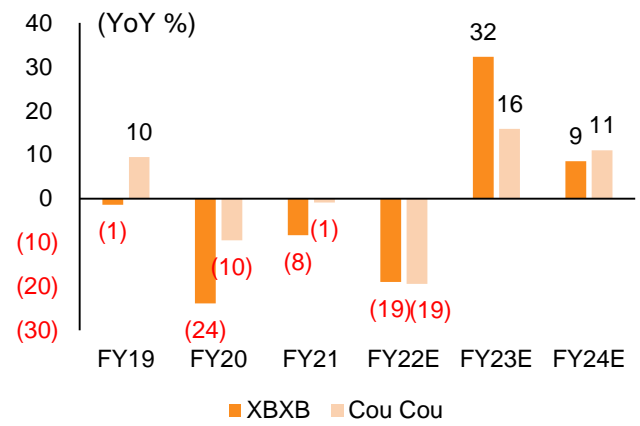
Source: Company data, CMBIGM estimates

**Figure 78: Sales per store recovery rate, by brand**



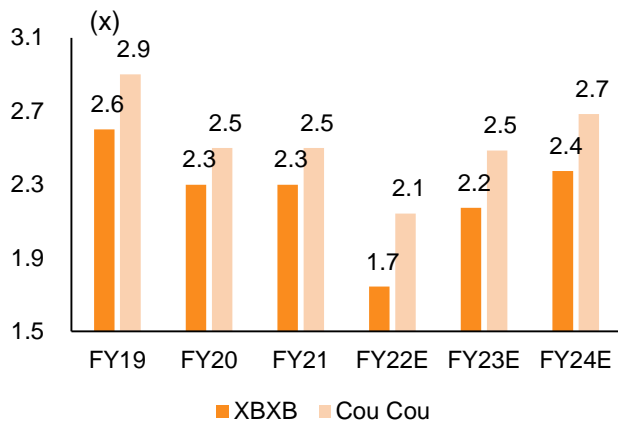
Source: Company data, CMBIGM estimates

**Figure 79: SSSG, by brand**



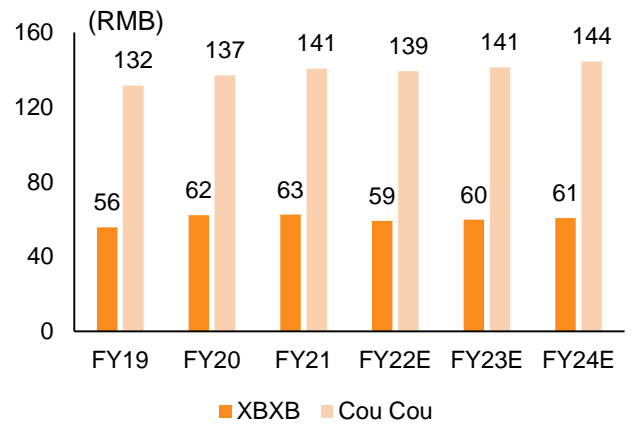
Source: Company data, CMBIGM estimates

**Figure 80: Seat turnover, by brand**



Source: Company data, CMBIGM estimates

**Figure 81: ASP, by brand**



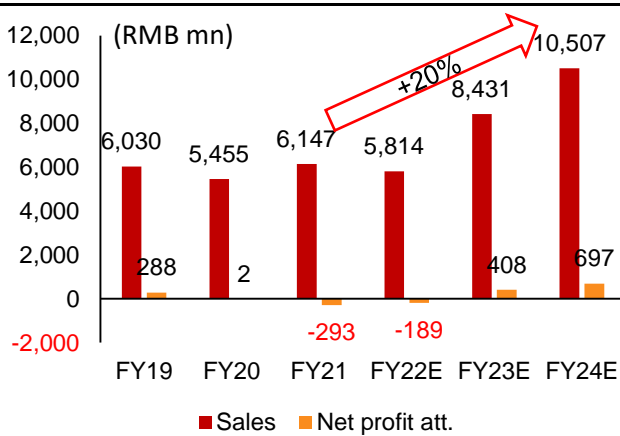
Source: Company data, CMBIGM estimates

## We forecast np att. to return in FY23E and a 71% YoY growth in FY24E

### ■ GP margin shall gradually improve throughout FY22E-24E.

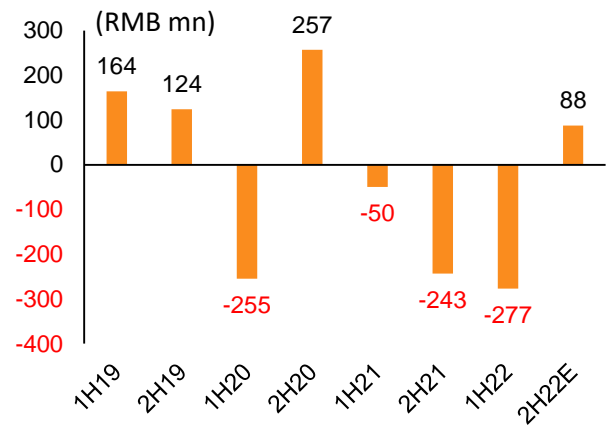
We expect GP margin to expand gradually from 61.9% in FY21 to about 62.6% in FY22E and eventually to 62.9% in FY24E, thanks to: 1) greater use of its lamb-processing factory for other meat internally and 2) more synergies yield from supply chain and resources sharing between XBBX and Cou Cou.

**Figure 82: Sales and net profit att. (yearly)**



Source: Company data, CMBIGM estimates

**Figure 83: Net profits / losses (half yearly), already return to profit in 2H22E, even with the pandemic**

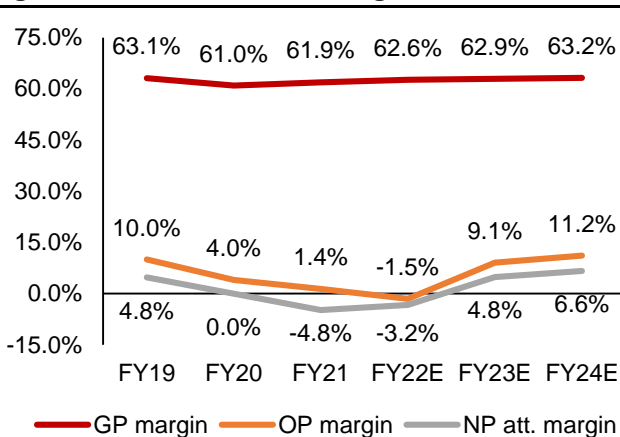


Source: Company data, CMBIGM estimates

### ■ OP margin may fall to -1.5% in FY22E but rebound strongly in FY23E-24E.

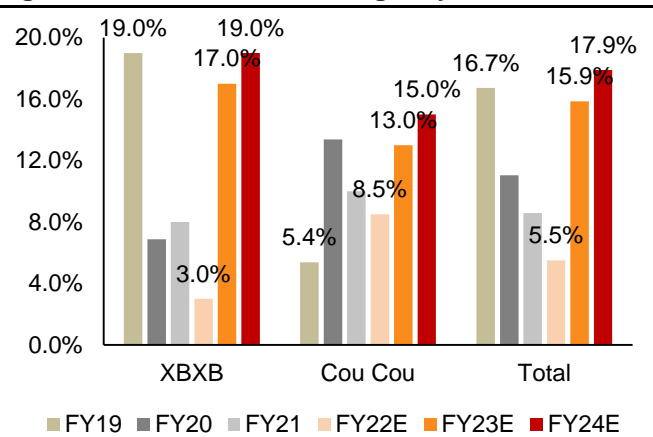
We expect the OP margin to drop to by 1.5% in FY22E, due to significant operating deleverage, as many stores were temporarily closed during the lock downs in 2Q22 and 4Q22. We believe the OP margin can pick up fast and reach 9.1% in FY23E and 11.2% in FY24E, even higher than that in FY19, thanks to: 1) operating leverage as seat turnover continue to improve boosted by the upgrades in menu items, 2) lower rental expenses as the bargaining power would increase after more sharing between XBBX and Cou Cou (the depressing retail environment also dragged down the rental fees too), 3) increase in store staff productivity after the implementation of profit sharing scheme and 4) lower D&A expenses with lowered capex.

**Figure 84: GP/ OP/ NP att. margin**



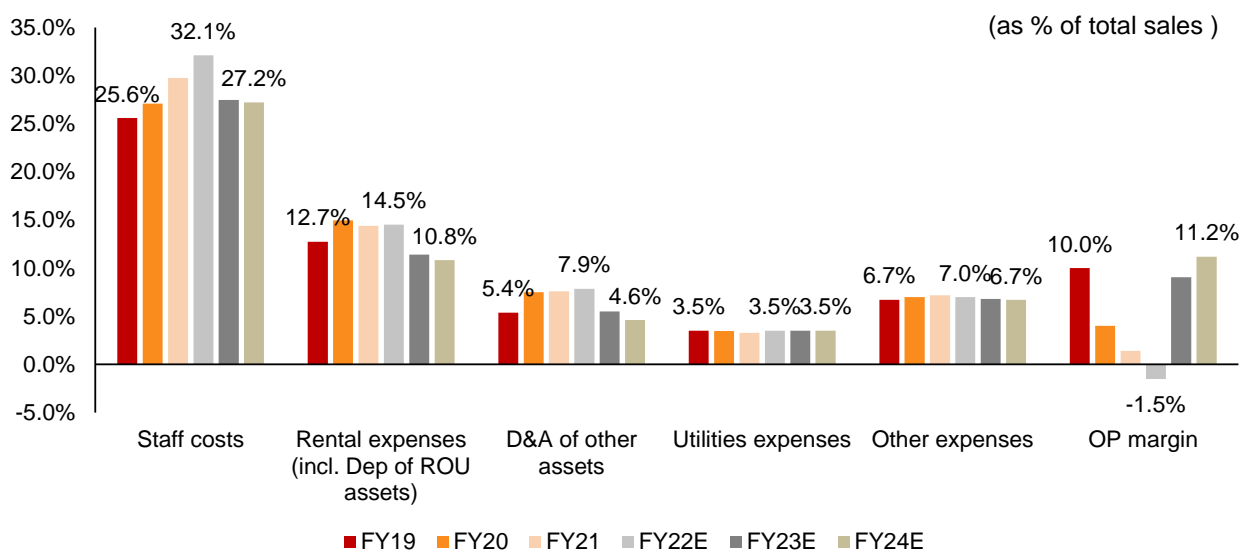
Source: Company data, CMBIGM estimates

**Figure 85: Restaurant OP margin by brand**



Source: Company data, CMBIGM estimates

**Figure 86: Opex breakdown and OP margin**



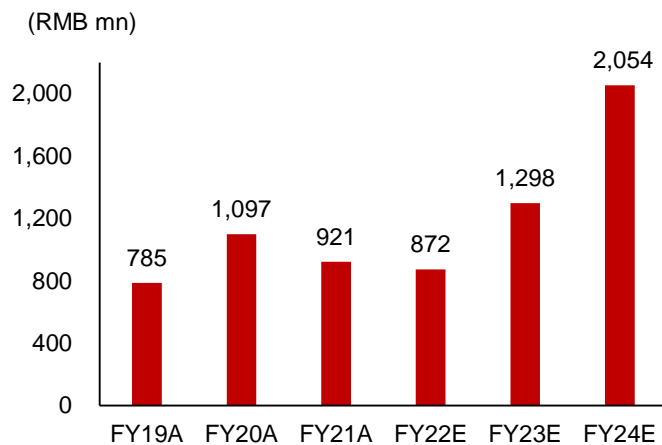
Source: Company data, CMBIGM estimates

## Balance sheet and Cash flow

### ■ XBBX Catering's cash flow from operation has been strong but was recently affected by COVID-19. We expect that to improve significantly in FY23E-24E.

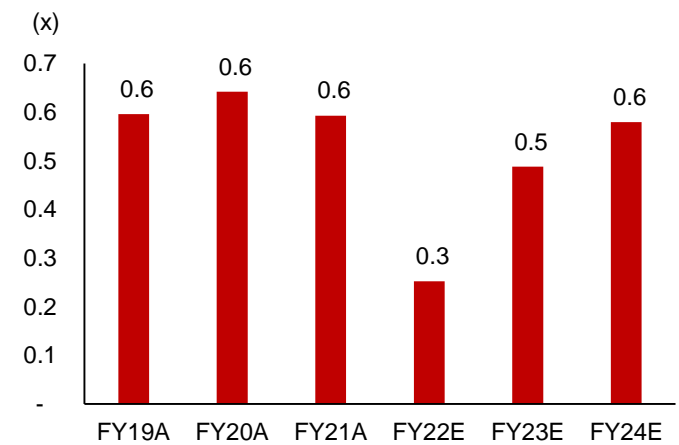
The Company's cash flow has always been strong, due to its higher than peers OP margin level (because of its fast food style hotpot business nature). While the operating cash flow remained positive, it was declining, but since the pace of store expansion also slowed, change in free cash flow was limited, hence cash level remained high during FY20-22E.

**Figure 87: Closing cash balance**



Source: Company data, CMBIGM estimates

**Figure 88: Net operating cash flow ratio**



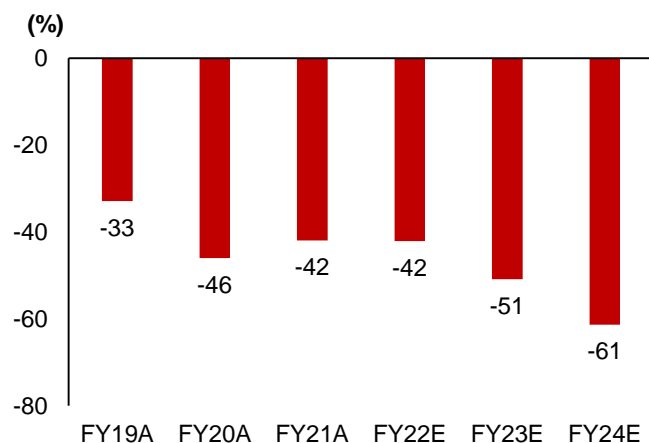
Source: Company data, CMBIGM estimates

Note: Net operating cash flow ratio = dividing net operating cash flow divided by current liabilities

### ■ XBBX Catering's cash conversion cycle had been lengthen due to higher inventory, but should be stabilizing at about 80 days in FY22E-24E.

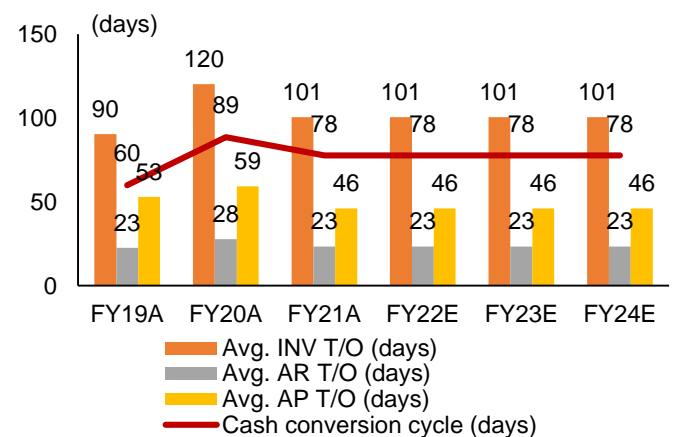
Inventory days had surged from 90 days in FY19 to 120 days in FY20, because of lower than expected sales, we do expect that to normalize to about 100 days in FY22E and onwards. The Company normally has a 60 days credit terms to its suppliers. Payable days was also lengthened from 53 days in FY19 to 59 days in FY20, due to pandemic, but had gone down to 46 days in FY21, perhaps due to increased supports to its long-term supply chain partners during the tough macro environment. We expect the CCC to go down to ~80 days in FY22E and remain stable onwards, as things normalize post pandemic.

**Figure 89: Net debt or (cash) to equity**



Source: Company data, CMBIGM estimates

**Figure 90: Working capital (days)**



Source: Company data, CMBIGM estimates

## Valuation

Figure 91: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)	
								FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E	
<b>Leading Greater China Catering</b>															
Xiabuxiabu	520 HK	BUY	11.61	7.92	47%	8,603	Dec-21	(40.7)	18.8	4.1	n/a	0.2	0.0	(10.8)	
Jiumaojiu	9922 HK	BUY	19.70	20.25	-3%	29,454	Dec-21	96.7	36.9	7.6	6.7	2.2	0.2	(2.9)	
Haidilao	6862 HK	BUY	21.62	19.70	10%	109,808	Dec-21	217.8	41.1	11.3	(50.6)	(1.1)	0.1	(12.1)	
Helens	9869 HK	NR	n/a	14.88	n/a	18,851	Dec-21	n/a	37.9	5.8	(15.1)	n/a	0.0	0.4	
Cafe De Coral	341 HK	BUY	15.12	12.82	18%	7,509	Mar-22	34.0	19.4	2.6	1.7	0.2	2.0	(14.0)	
Tam Jai	2217 HK	NR	n/a	2.41	n/a	3,231	Mar-22	17.2	10.5	2.1	19.3	0.9	1.7	(8.4)	
Yihai	1579 HK	NR	n/a	24.55	n/a	25,701	Dec-21	32.1	26.5	4.9	18.8	5.8	1.0	(11.1)	
Yum China	9987 HK	BUY	554.60	472.20	17%	197,608	Dec-22	31.3	25.5	3.4	6.5	0.8	0.9	7.6	
Gourmet Master	2723 TT	NR	n/a	160.00	n/a	7,462	Dec-21	53.9	27.6	2.6	4.9	9.6	1.8	5.6	
								<b>Avg.</b>	<b>55.3</b>	<b>29.1</b>	<b>4.6</b>	<b>(1.0)</b>	<b>2.3</b>	<b>0.8</b>	<b>(6.4)</b>
								<b>Med.</b>	<b>33.1</b>	<b>27.0</b>	<b>3.8</b>	<b>5.7</b>	<b>0.9</b>	<b>0.5</b>	<b>(9.6)</b>
<b>International Catering</b>															
Yum! Brands	YUM US	NR	n/a	132	n/a	289,392	Dec-22	25.5	22.3	n/a	n/a	1.8	1.8	2.8	
Mcdonald's	MCD US	NR	n/a	267	n/a	1,532,496	Dec-22	25.2	22.9	n/a	n/a	1.7	2.3	1.1	
Starbucks	SBUX US	NR	n/a	109	n/a	983,336	Oct-22	32.1	26.9	n/a	n/a	1.7	2.0	9.9	
Rest. Brands	QSR US	NR	n/a	66	n/a	234,343	Dec-21	21.8	19.8	9.4	42.6	4.7	3.4	2.2	
Chipotle Mexican	CMG US	NR	n/a	1657	n/a	359,167	Dec-22	39.6	32.5	16.8	38.5	1.6	0.0	19.4	
Darden Rest.	DRI US	NR	n/a	147	n/a	140,108	May-22	18.8	16.9	8.3	39.8	2.2	3.3	6.0	
Domino's	DPZ US	NR	n/a	360	n/a	100,060	Jan-22	29.7	25.4	n/a	n/a	5.1	1.2	4.0	
Wendy's	WEN US	NR	n/a	23	n/a	38,393	Jan-22	27.1	23.0	10.3	38.4	2.9	2.2	1.5	
Shake Shack	SHAK US	NR	n/a	59	n/a	19,418	Dec-21	n/a	n/a	6.1	(5.6)	n/a	n/a	41.3	
Wingstop	WING US	NR	n/a	174	n/a	40,959	Dec-21	106	90.5	n/a	n/a	5.8	0.4	26.7	
Jollibee Foods	JFC PM	NR	n/a	239	n/a	38,254	Dec-21	28.6	28.4	3.9	18.0	1.4	1.0	3.7	
								<b>Avg.</b>	<b>35.4</b>	<b>30.9</b>	<b>9.1</b>	<b>28.6</b>	<b>2.9</b>	<b>1.8</b>	<b>10.8</b>
								<b>Med.</b>	<b>27.9</b>	<b>24.2</b>	<b>8.8</b>	<b>38.5</b>	<b>2.0</b>	<b>1.9</b>	<b>4.0</b>
<b>H-shares Consumer Staples</b>															
UPC	220 HK	NR	n/a	7.27	n/a	31,402	Dec-21	21.9	17.1	2.1	9.9	3.9	5.0	(6.9)	
Tingyi	322 HK	NR	n/a	13.04	n/a	73,470	Dec-21	23.2	16.8	4.0	17.4	4.6	6.8	(5.4)	
Want Want*	151 HK	NR	n/a	5.06	n/a	60,132	Mar-22	13.7	12.4	3.1	25.6	20.9	5.9	(3.1)	
China Mengniu*	2319 HK	NR	n/a	37.05	n/a	146,541	Dec-21	22.2	19.8	3.1	15.8	1.7	1.3	4.7	
Vitasoy	345 HK	NR	n/a	17.42	n/a	18,653	Mar-22	154.2	66.2	5.5	(1.5)	(0.6)	0.1	8.5	
Nongfu Spring*	9633 HK	NR	n/a	43.80	n/a	492,595	Dec-21	54.3	45.4	17.3	41.1	3.8	1.1	(0.7)	
Budweiser*	1876 HK	NR	n/a	23.55	n/a	311,882	Dec-21	40.0	33.7	3.4	10.1	3.0	0.9	(4.1)	
Tsingtao*	168 HK	NR	n/a	78.80	n/a	139,750	Dec-21	28.0	24.4	3.7	15.4	2.9	1.7	2.2	
CR Beer*	291 HK	NR	n/a	59.55	n/a	193,191	Dec-21	39.8	31.9	6.5	15.6	3.8	1.0	9.2	
Dali Foods	3799 HK	NR	n/a	3.43	n/a	46,971	Dec-21	12.2	10.9	2.0	18.5	6.9	4.1	(3.7)	
								<b>Avg.</b>	<b>40.9</b>	<b>27.9</b>	<b>5.1</b>	<b>16.8</b>	<b>5.1</b>	<b>2.8</b>	<b>0.1</b>
								<b>Med.</b>	<b>25.6</b>	<b>22.1</b>	<b>3.6</b>	<b>15.7</b>	<b>3.8</b>	<b>1.5</b>	<b>(1.9)</b>

Source: Bloomberg, Company data, CMBIGM estimates, \*covered by another analyst – Joseph Wong

## Initiate BUY on Xiabu Xiabu Catering with a TP of HK\$ 11.61, based on SOTP valuation (implying a 28x FY23E group level P/E).

We initiate BUY on Xiabu Xiabu Catering with a BUY rating and a target price of HK\$ 12.5, based on a sum of the parts valuation, which has assumed a 23x FY23E P/E for XBXB and a 35x FY23E P/E for Cou Cou, given its: 1) leadership in hotpot, in terms of revenue and store counts, 2) nationwide brand popularity and customer satisfaction (esp. for Cou Cou) and 3) faster than industry sales and net profit CAGR.

**Figure 92: Sum of the parts (“SOTP”) valuation**

Sum of the parts valuation	Targeted price per share (HK\$)	Targeted market cap (HK\$ mn)	Targeted market cap (RMB mn)	Target ratio (x)	Valuation method	FY23E sales (RMB mn)	3 years sales CAGR	FY23E net profit (RMB mn)	Remarks
XBXB	5.96	6,480	5,786	23	FY23E P/E	4,193	12%	252	Based on 12% FY21-24E sales CAGR
Cou Cou	5.65	6,143	5,485	35	FY23E P/E	4,238	28%	157	Based on 28% FY21-24E sales CAGR
<b>Total</b>	<b>11.61</b>	<b>12,622</b>	<b>11,271</b>	<b>28</b>		<b>8,431</b>	<b>20%</b>	<b>408</b>	
Number of shares (mn)	1,087								
CNYHKD fx rate	1.120								
Current price (HKD)	7.92								
Upside (%)	46.6%								

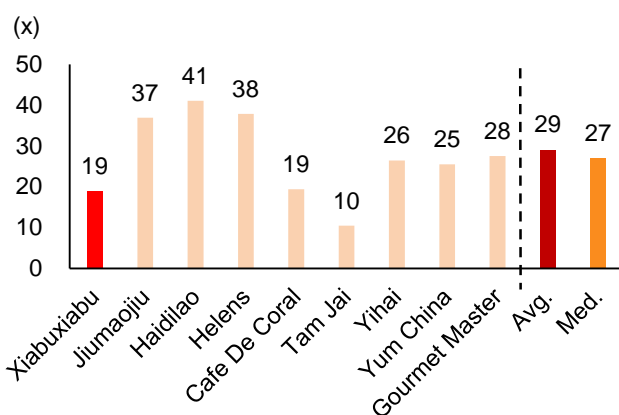
Source: Bloomberg, Company data, CMBIGM estimates

For the Greater China catering industry, it is trading at about 29x FY23E P/E on average while the 3-year (FY21-24E) sales CAGR is at about 19%.

For XBXB, we are currently assigning a 23x FY23E P/E, which has about 20% discount to industry average of 29x, due to: 1) slightly slower than industry sales growth and 2) a relatively less solid track record in the past. But in the near future, we would not be surprised to see further re-rating as the brand becomes more successful nationwide and the sales CAGR accelerates.

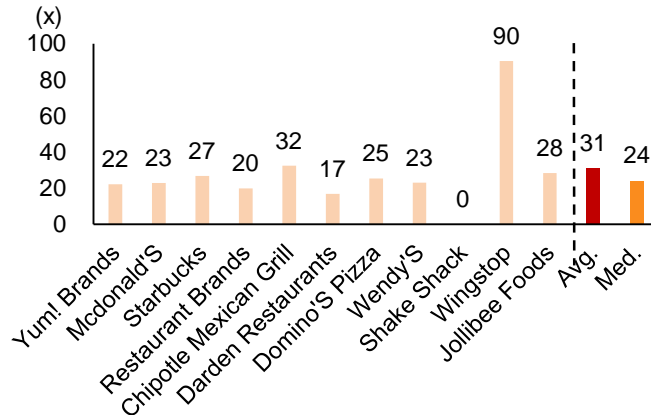
For Cou Cou, we believe a 35x FY23E P/E, a 22% premium to the industry average, could be well-justified, as it has already been proven popular across the country and has one of the best customer satisfactions, where its scores on dianping.com are one of the highest among the listed brands.

**Figure 93: China peers valuation - Forward 2 yrs P/E**



Source: Company data, CMBIGM estimates

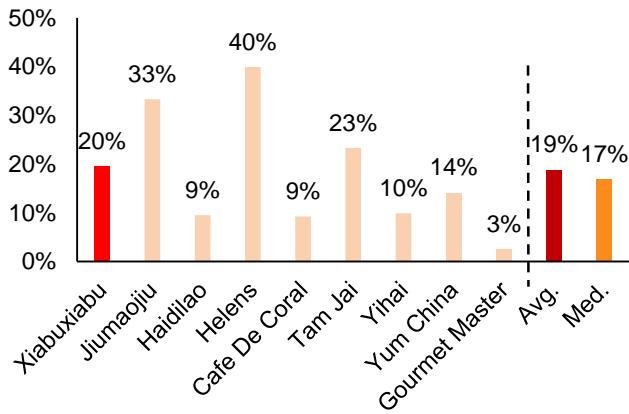
**Figure 94: Int'l peers valuation - Forward 2 yrs P/E**



Source: Company data, CMBIGM estimates

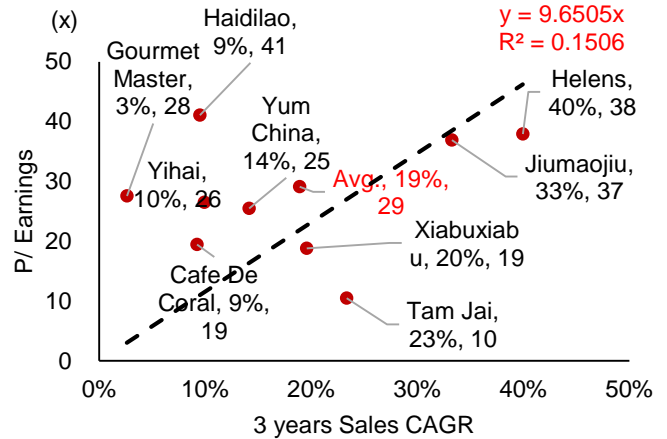
As a whole, the TP of HK\$ 11.61 is also implying a 28x FY23E P/E, which, in our view, is not demanding at all given the 20%/ 53% sales/ restaurant operating profit CAGR. The counter is now trading at just 19x FY23E P/E, which still has a deep discount of 33% to the industry average of 29x, and that is attractive to us, given XBBB's far faster than industry's sales and net profit growth.

**Figure 95: China peers' 3 yrs sales CAGR, during FY0 to FY3E**



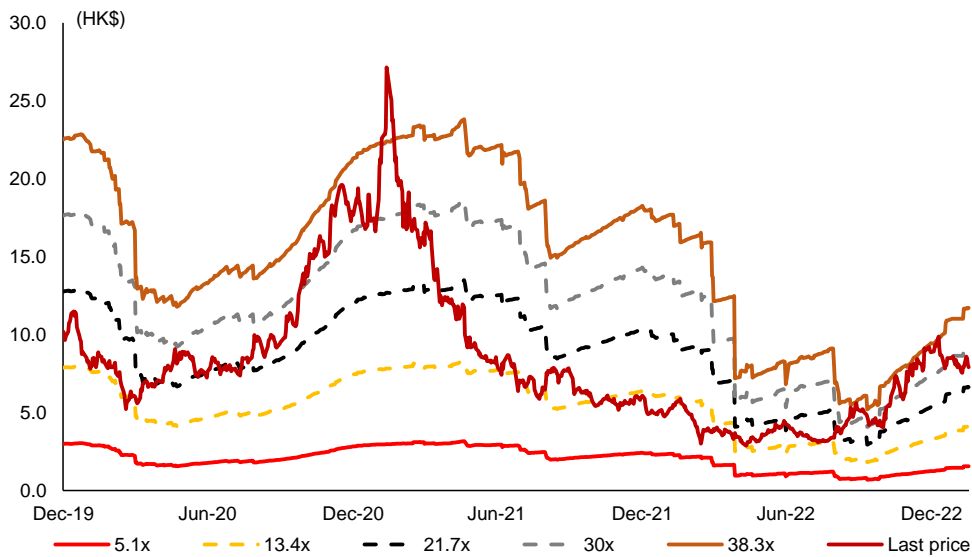
Source: Bloomberg, Company data, CMBIGM estimates

**Figure 96: China peers' forward 2yrs P/E vs 3 yrs sales CAGR**



Source: Bloomberg, Company data, CMBIGM estimates

**Figure 97: Valuation – Forward blended 12 months P/E band**



Source: Bloomberg, Company data, CMBIGM estimates

■ DCF method derives a valuation of HK\$ 12.23 per share (~29x FY23E P/E).

We also crosscheck our valuation estimates using the DCF method, deriving a valuation of HK\$ 12.34 per share, based on a 11.8% WACC and 2.0% terminal growth. This valuation implies a 29.0x FY23E P/E and is reasonably close to our target price of HK\$ 11.61, based on 28x FY23E P/E.

Figure 98: Valuation - DCF method in HK\$ mn

DCF	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
EBITDA	617	541	360	1,216	1,643	1,958	2,262
Chg in working cap	28	12	14	-52	-39	-39	-39
Adjusted tax	-137	-39	39	-159	-242	-305	-366
Capex & product dev	-410	-444	-407	-506	-525	-495	-428
<b>Unleveraged FCF</b>	<b>98</b>	<b>70</b>	<b>6</b>	<b>499</b>	<b>837</b>	<b>1,120</b>	<b>1,429</b>
YoY%							
DCF (22E-26E)			2,536				
PV (Terminal value)			8,486				
EV (End-22E)			11,023				
Cash from options/w arrants conv			0				
Yer-end net cash/(debts)			845				
<b>Fully diluted equity value (End-22E)</b>			<b>11,867</b>				
Fully diluted no. of shares (m)			1,086				
Minority interests (End-22E)			42				
<b>Market cap (End-22E)</b>			<b>11,826</b>				
Exchange rate			1.12				
<b>Fully diluted equity value/share (HK\$)</b>			<b>12.23</b>				
Risk-free rate			3.0%				
Risk premium			15.0%				
Beta			0.70				
Cost of equity			13.5%				
Cost of debt			3.0%				
Tax rate			23.0%				
After-tax cost of debt			2.3%				
Debt to total capital			15.0%				
<b>WACC</b>			<b>11.8%</b>				
<b>Terminal growth</b>			<b>2.0%</b>				

Source: Bloomberg, Company data, CMBIGM estimates

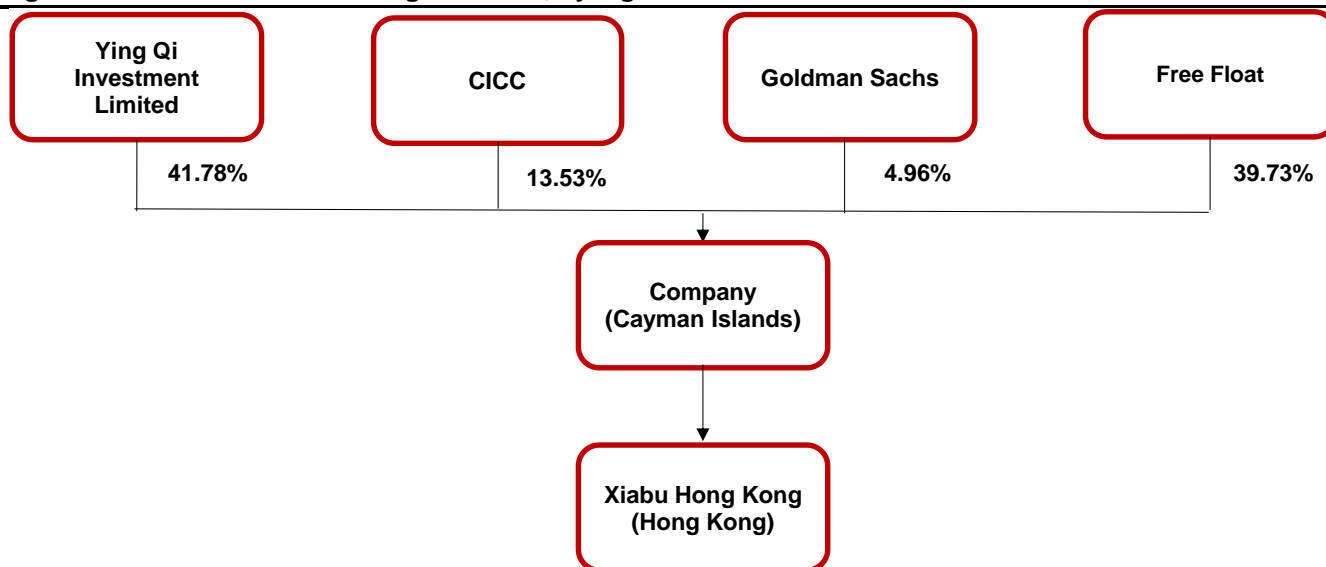
Figure 99: Sensitivity test for the target price, in HK\$

Terminal growth (%)	WACC (%)						
	10.3%	10.8%	11.3%	11.8%	12.3%	12.8%	13.3%
0.5%	12.84	12.15	11.53	10.96	10.45	9.97	9.54
1.0%	13.39	12.64	11.96	11.35	10.79	10.28	9.82
1.5%	13.99	13.17	12.43	11.77	11.17	10.62	10.12
2.0%	14.67	13.76	12.96	12.23	11.58	10.99	10.46
2.5%	15.43	14.43	13.54	12.75	12.04	11.40	10.82
3.0%	16.30	15.18	14.19	13.32	12.54	11.85	11.22
3.5%	17.30	16.03	14.93	13.96	13.11	12.35	11.66

Source: Bloomberg, Company data, CMBIGM estimates

## Shareholding Structure

Figure 100: XBXB's shareholding structure, by legal entities



Source: Company data, HKEX, CMBIGM estimates

## Management Profile

Figure 101: XBxB's management profile

Name	Age	Joined the group since	Date of appointment	Position	Responsibility
<b>Mr. Ho Kuang-Chi</b> (賀光啟)	59 years old	Founder	May-21	Chairman, Executive Director, Chief Executive Officer	Responsible for formulating the overall development strategies and business plans of the Company. He is also a director of the subsidiaries of the Company. He has over 20 years of experiences in the food and beverage industry. After the company was founded in 1998, he continues to oversee the management of the Company's operations and business. He is currently a member of the remuneration committee and the chairman of the nomination committee.
<b>Mr. Feng Louis</b> (馮輝耀)	57 years old	Nov-21	Nov-21	Vice President of Finance	Responsible for financial management of the Company. He possesses years of experience in financial management and corporate management. Before joining the Company, he served in several enterprises, including as deputy general manager of the general manager office of Shanghai Yashi Catering Management Co. Ltd., a subsidiary of Bon Matin Paris Group, and as financial controller of Shanghai Cimic Tile Co., Ltd. (SZSE: 002162). He currently serves as supervisors in Shanghai Yashi Catering Management Co. Ltd., Shanghai Maiya Food Co. Ltd., Xinyi Food (Chengdu) Co., Ltd and Chengdda Catering Management (Sichuan) Co. Ltd.
<b>Mr. Bai Yang</b> (白楊)	n/a	n/a	Apr-21	Chief Operating Officer of XBxB brand	Responsible for formulating overall operations of XBxB brand. He has over 10 years of working experience in the Company. When he first joined the Company, he first worked as a manager of the brand. Before being the COO of XBxB brand, he worked as the regional general manager of central China district.
<b>Mr. Zhao Shuquan</b> (趙木栓)	51 years old	Jan-12	Apr-21	Chief Operating Officer of Coucou brand	Responsible for formulating overall operations of Coucou brand. He joined the Company back in 2012 as director for R&D, responsible for R&D management of all sub-brand products of the Company. Since 2015, he is responsible for planning and R&D of the new brand, Coucou, positioning it as a new brand with differentiated operations in the mid-to-high-end market. He was also employed by Wowprime Corp. as the R&D director back in 1999-2009. He has over 20 years of experience in the catering service industry. He also won the "National Gold Award for Outstanding Catering Professionals" in Nov 2021.
<b>Ms. Tan Shuhua</b> (譚淑華)	n/a	Dec-20	Dec-20	Company Secretary	Ms. Tan has worked for many listed companies and an international accounting firm in Hong Kong, and has over 20 years of experience in company secretarial, financial management, project administration and audit work. He is the director of corporate services for a limited company established in Hong Kong. Ms. Tan is a member of the Hong Kong Institute of Accountants, a senior member of the Institute of Chartered Accountants in England and Wales, and an approved risk assessment planner by the Association of Commercial Risk Assessment Professionals.
<b>Ms. Chen Su-Yin</b> (陳素英)	58 years old	Dec-12	Dec-12	Non-executive Director	As the spouse of Mr. Ho, she is primarily responsible for providing strategic advices and guidance on the business development of the Company. She is also a director of each of the subsidiaries of the Company. She continued to provide guidance on range and variety of food offered, enhancement of food flavours and development of dipping sauces. The hot and spicy soup base was awarded "Beijing Specialty Cuisine" by Beijing Cuisine Association.
<b>Ms. Li Jie</b> (李潔)	41 years old	Jun-18	Nov-22	Non-executive Director	Primarily responsible for providing strategic advices and guidance on the business development of the Company. She is currently an Operating Principal at General Atlantic, focuses on providing financial and analytical expertise to the portfolio companies in China. She currently serves as a board member of Today Inc. and Little Golden Star Education Group Holdings Limited. She previously served as a non-executive director of Tenfu Holdings Company Limited (SEHK: 6868) from Aug 2018 to Mar 2020. She has 10 years financial due diligence expertise with PricewaterhouseCoopers Transaction Services in China and Australia.
<b>Mr. Hon Ping Cho Terence</b> (韓炳祖)	63 years old	Nov-14	Nov-14	Independent Non-executive Director	Providing independent opinion and judgement to the Board. He has over 35 years of experience in accounting, treasury and financial management. He is currently an independent non-executive director of 361 Degrees International Limited (SEHK: 1361), Daphne International Holdings Limited (SEHK: 210) and SinoMab Bioscience Limited (SEHK: 3681). He is also a fellow member of the Association of Chartered Certified Accountant, member of the CPA and member of the Institute of Chartered Accountants in England and Wales.
<b>Ms. Cheung Sze Man</b> (張詩敏)	52 years old	Nov-14	Nov-14	Independent Non-executive Director	Providing independent opinion and judgement to the Board. She has accumulated audit experience and has substantial experiences in corporate finance, accounting and human resource management by holding senior positions in private and public listed companies. She served as executive director of China Ocean Shipbuilding Industry Group Limited (SEHK: 651) from Nov 2006 to Nov 2007, ITC Properties Group Limited (SEHK: 199) from May 2004 to 2005, independent non-executive director of 21 Holdings Limited (SEHK: 1003) from Nov 2011 to Apr 2014. She was also a member of the HK CPA and CPA Australia. She also obtained her MBA degree from the University of Bradford in Jul 2012.
<b>Mr. Kot Man Tat</b> (高文達)	50 years old	Apr-22	Apr-22	Independent Non-executive Director	Providing independent opinion and judgement to the Board. He has over 20 years' experience in accounting and financial management. He has been the chief financial officer of Joy Spreader Intermative Tech. Ltd. (SEHK: 6988) from May 2021. He was the supervisor of Xiabuxiabu Food Co., Ltd, a 60%-owned subsidiary of the Company from May 2017 to Mar 2022, the supervisor of Coucou (Tianjin) Catering Management Co., Ltd, a wholly-owned subsidiary of the Company from May 2018 to Mar 2022, the supervisor of Guang Qi (Tianjin) Commercial Management Limited, a company wholly owned by Mr. Ho Kuang-Chi from Dec 2017 to Mar 2022, the supervisor of Tea Mi Tea Catering Management Co., Ltd, a company wholly-owned by Mr Ho Kuang-Chi from Jul 2018 to Mar 2022.

Source: Company data, CMBIGM

## Key Risks

- Weaker than expected economic growth and recovery
- Outbreak of viruses or other illnesses that may have material adverse effect on the business
- Level of competition intensifies, or fail to remain competitive in product, service, branding quality
- Slower than expected positive yield from the XBXB transformation
- Failure to keep up with store expansion plan, or new store performance is as good as expected
- Greater than expected increase in raw material costs
- Labour shortage or faster than expected increase in labour costs
- Involvement in lethal or other severe food safety scandal
- Involvement in fraud or other misconduct committed by employees or third parties

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>5,455</b>	<b>6,147</b>	<b>5,814</b>	<b>8,431</b>	<b>10,507</b>	<b>Net income</b>	<b>219</b>	<b>86</b>	<b>(87)</b>	<b>764</b>	<b>1,176</b>
Xiabu Xiabu	3,502	3,525	2,833	4,193	4,991	D&A	409	467	457	464	485
Cou Cou	1,689	2,354	2,685	3,928	5,190	Change in working capital	28	12	14	(52)	(39)
Others	265	269	296	310	326	Income tax paid	(113)	(58)	61	(132)	(212)
						Others	727	542	(0)	(16)	59
<b>Cost of goods sold</b>	<b>(2,130)</b>	<b>(2,341)</b>	<b>(2,174)</b>	<b>(3,128)</b>	<b>(3,867)</b>	<b>Net cash from operating</b>	<b>1,270</b>	<b>1,049</b>	<b>444</b>	<b>1,027</b>	<b>1,469</b>
<b>Gross profit</b>	<b>3,325</b>	<b>3,806</b>	<b>3,639</b>	<b>5,303</b>	<b>6,641</b>	Capex & investments	(405)	(439)	(407)	(506)	(525)
<b>Other net income</b>	<b>171</b>	<b>104</b>	<b>51</b>	<b>72</b>	<b>93</b>	Associated companies	-	-	-	-	-
						Interest received	2	4	-	-	-
<b>Operating expenses</b>	<b>(3,277)</b>	<b>(3,824)</b>	<b>(3,778)</b>	<b>(4,611)</b>	<b>(5,557)</b>	Others	28	(104)	-	-	-
Staff costs	(1,478)	(1,830)	(1,867)	(2,316)	(2,861)	<b>Net cash from investing</b>	<b>(374)</b>	<b>(539)</b>	<b>(407)</b>	<b>(506)</b>	<b>(525)</b>
Admin	(597)	(586)	(553)	(566)	(667)	Equity raised	8	(6)	-	-	-
Property rent & related	(220)	(298)	(291)	(396)	(473)	Change of Debts	20	56	-	-	-
D & A	(409)	(467)	(457)	(464)	(485)	Dividend paid	(80)	(60)	-	-	-
Other operating expenses	(573)	(643)	(610)	(868)	(1,072)	Others	(515)	(673)	(85)	(112)	(128)
<b>EBIT</b>	<b>219</b>	<b>86</b>	<b>(87)</b>	<b>764</b>	<b>1,176</b>	<b>Net cash from financing</b>	<b>(566)</b>	<b>(683)</b>	<b>(85)</b>	<b>(112)</b>	<b>(128)</b>
Finance costs, net	(98)	(93)	(85)	(112)	(128)	<b>Net change in cash</b>	<b>330</b>	<b>(174)</b>	<b>(48)</b>	<b>409</b>	<b>815</b>
JV & associates	-	-	-	-	-	Beginning cash balance	785	1,097	921	868	1,247
Exceptional	(54)	(207)	(70)	(101)	(126)	Exchange difference	(18)	(3)	-	-	-
<b>Pre-tax profit</b>	<b>67</b>	<b>(214)</b>	<b>(242)</b>	<b>551</b>	<b>922</b>	<b>Cash at the end of the year</b>	<b>1,097</b>	<b>921</b>	<b>872</b>	<b>1,276</b>	<b>2,062</b>
Income tax	(56)	(69)	61	(132)	(212)						
Less: Minority interests	10	10	7	10	13						
<b>Net profit</b>	<b>2</b>	<b>(293)</b>	<b>(189)</b>	<b>408</b>	<b>697</b>						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>3,562</b>	<b>2,955</b>	<b>2,905</b>	<b>2,947</b>	<b>2,988</b>	<b>Sales mix (%)</b>					
Fixed asset	1,297	1,053	1,003	1,046	1,087	Xiabu Xiabu	64.2	57.3	48.7	49.7	47.5
Intangible assets & goodwill	2	2	2	2	1	Cou Cou	31.0	38.3	46.2	46.6	49.4
Prepaid lease payments	170	170	170	170	170	Others	4.9	4.4	5.1	3.7	3.1
Interest in asso. & JV	0	49	49	49	49	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Others	2,094	1,681	1,681	1,681	1,681	<b>P&amp;L ratios (%)</b>					
<b>Current assets</b>	<b>2,218</b>	<b>1,996</b>	<b>1,925</b>	<b>2,781</b>	<b>3,873</b>	Gross margin	61.0	61.9	62.6	62.9	63.2
Cash and cash equivalents	1,097	921	872	1,298	2,054	Operating margin	4.0	1.4	(1.5)	9.1	11.2
Inventories	691	599	599	862	1,065	Pre-tax margin	1.2	(3.5)	(4.2)	6.5	8.8
Trade and other receivables	392	395	372	539	672	Net margin	0.0	(4.8)	(3.2)	4.8	6.6
Prepayments	0	0	0	0	0	Effective tax rate	82.9	(32.5)	25.0	24.0	23.0
Others	38	82	82	82	82	<b>Balance sheet ratios</b>					
<b>Current liabilities</b>	<b>1,979</b>	<b>1,768</b>	<b>1,759</b>	<b>2,137</b>	<b>2,434</b>	Current ratio (x)	1.1	1.1	1.1	1.3	1.6
Borrowings	20	76	76	76	76	Quick ratio (x)	0.8	0.8	0.8	0.9	1.2
Trade payables	341	251	275	395	489	Cash ratio (x)	0.6	0.5	0.5	0.6	0.8
Accruals & other payables	704	604	571	828	1,032	Inventory turnover days	120	101	101	101	101
Tax payables	0	0	0	0	0	Trade receivables days	28	23	23	23	23
Others	914	838	838	838	838	Trade payables days	59	46	46	46	46
<b>Non-current liabilities</b>	<b>1,461</b>	<b>1,172</b>	<b>1,172</b>	<b>1,172</b>	<b>1,172</b>	Total debt / total equity ratio (%)	1	4	4	3	2
Borrowings	0	0	0	0	0	Net debt / equity ratio (%)	Net	Net	Net	Net	Net
Deferred income	0	0	0	0	0	<b>Returns (%)</b>					
Deferred tax	0	0	0	0	0	ROE	0.1	(14.6)	(10.0)	17.0	21.6
Others	1,461	1,172	1,172	1,172	1,172	ROA	0.0	(5.9)	(3.9)	7.1	10.2
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>17</b>	<b>30</b>	<b>Per share</b>					
<b>Total net assets</b>	<b>2,340</b>	<b>2,011</b>	<b>1,892</b>	<b>2,402</b>	<b>3,225</b>	EPS (RMB)	0.00	(0.27)	(0.17)	0.37	0.71
<b>Shareholders' equity</b>	<b>2,340</b>	<b>2,011</b>	<b>1,892</b>	<b>2,402</b>	<b>3,225</b>	DPS (RMB)	-	-	-	-	-
						BVPS (RMB)	2.16	1.85	1.74	2.21	2.97

Source: Company data, CMBIGM estimates

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