

Cafe De Coral (341 HK)

The first results beat in a long while

We have updated with the management after its positive 1H24 results (ASP hike and strong GP margin expansion) and turned slightly more positive about the company's outlook. While management's 3-year target is still roughly intact (HSD pre-tax/ net profit margin by FY25E or no later than FY26E), our estimate is more prudent (5.9% pre-tax/ 5% net profit margin in FY25E). Therefore, together with its undemanding valuation (13x FY25E P/E and 8% FY25E yield), we maintain our BUY rating and raise TP to HK\$14.82. The new TP is based on 18x FY25E P/E (down from 23x), at par with its 5-year average.

■ **1H24 results were better than expected, driven mainly by GP margin expansion.** In 1H24, sales/net profit increased by 11%/ 84% YoY to RMB 4.3bn/ 200mn and NP margin was at 4.6%, ahead of CMBI est. of 10% sales growth and 3% NP margin in FY24E. Group sales growth was roughly inline, but in fact that was a mixture of: 1) ordinary growth from CDC (SSSG and SSS recovery rate were only at 5% and ~88%), 2) strong growth from Super congee (SSSG and SSS recovery rate were at 8% and ~101%), 3) a strong rebound from institutional catering business (jumped by 21% YoY), and 4) healthy recovery from CDC mainland China (SSSG and SSS recovery rate were at 11% and ~100%). However, the major positive surprise was from GP margin expansion, to 12% in 1H24, far better than CMBI est. of 10% in FY24E, boosted by: 1) ASP hikes for CDC (by 8% to ~HKD 42.5), 2) fading out of discounts and coupons, and 3) a shift in product mix (rolled out more high-value items like steaks or high-margin items like curry rice). Dividend payout in 1H24 was at 44%, down from 54% in 1H23, however, we still think CDC could be generous in terms of dividend and expect a 90% payout in FY24E, implying a 6% dividend yield.

■ **Outlook for sales growth in FY24E is still conservative.** While SSSG recovery rate continued to trend up in 1H24 (vs 2H23), we are still fairly conservative and expect a mild improvement in 2H24E and onwards (breakfast and lunch time had recovered much better than the supper time), because of the headwinds like: 1) weak local economic growth and 2) consumption trade-down and 3) a rise in outbound tourism (HKers going north to mainland China or overseas). In fact, CDC's market shares in the fast food industry fell slightly to 25.9% in 1H24 (from 26.6% in 2H23), because of external competition from other low-end fast food restaurants.

■ **Maintain BUY and raise TP to HK\$14.82.** We revise up our net profit estimates by 33%/ 54%/ 47% in FY24E/ 25E/ 26E, to factor in: 1) higher-than-expected GP margin and 2) the stronger-than-expected operating leverage. We maintain BUY and lift TP to HK\$14.82, based on 18x FY3/25E (down from 23x). The stock is trading at just 13x and has finally become attractive, compared to its 5-year average of 18x, in our view.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	7,509	8,024	8,788	9,516	10,259
YoY growth (%)	11.8	6.9	9.5	8.3	7.8
Operating profit (HK\$ mn)	131	204	439	613	750
Net profit (HK\$ mn)	22.9	111.2	344.6	480.7	583.9
EPS (Reported) (HK\$)	0.04	0.19	0.59	0.82	1.00
YoY growth (%)	(94.1)	419.0	211.2	39.5	21.5
P/E (x)	291.0	56.1	18.0	12.9	10.6
P/B (x)	2.2	2.2	2.1	2.0	1.9
Yield (%)	1.9	3.2	5.0	7.7	9.4
ROE (%)	0.8	4.0	12.1	16.1	18.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$14.82
(Previous TP)	HK\$12.32
Up/Downside	54.4%
Current Price	HK\$9.60

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Stock Data

Mkt Cap (HK\$ mn)	5,622.7
Avg 3 mths t/o (HK\$ mn)	7.6
52w High/Low (HK\$)	15.18/7.93
Total Issued Shares (mn)	585.7

Source: FactSet

Shareholding Structure

Lo Tak Shing	16.1%
Lo Hoi Kwong	11.0%

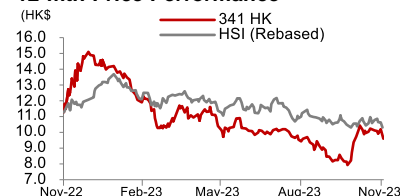
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.5%	-2.1%
3-mth	1.1%	9.0%
6-mth	-1.2%	5.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **However, we are now more positive about the FY25E target and expect it to be achieved earlier than expected.** Management had reiterated their target of HSD pre-tax margin and NP margin by FY25E after the results. However, given the robust 1H24 results, we have turned slightly more positive and now forecast a 3.9%/ 5.0% NP margin in FY25E/ 26E (revised up from 3.0%/ 3.5%). The GP margin expansion in 1H24 was supported by successful price hikes and various efforts to drive efficiency improvements (e.g. menu innovation, strategic sourcing, greater use of the mobile app and kiosks orderings, and deployment of in-store robots to lower labour costs and improve customer experience). We do expect the adoption rate of the above initiatives to go up in the near future.
- **Store expansion plan remained unchanged.** Management has maintained its guidance of 20/25 gross openings and 5/20 net openings in HK/mainland China in FY24E. And we do expect the store expansion in China to speed up in 2H24E, in order to meet such target.

Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,788	9,516	10,259	8,809	9,424	10,119	-0.2%	1.0%	1.4%
Gross profit	970	1,160	1,333	857	972	1,125	13.2%	19.4%	18.5%
EBIT	439	613	750	336	418	537	30.9%	46.4%	39.5%
Net profit att.	343	479	582	258	312	395	33.1%	53.7%	47.4%
Diluted EPS (HK\$)	0.59	0.82	1.00	0.44	0.54	0.68	33.1%	53.7%	47.4%
Gross margin	11.0%	12.2%	13.0%	9.7%	10.3%	11.1%	1.3ppt	1.9ppt	1.9ppt
EBIT margin	5.0%	6.4%	7.3%	3.8%	4.4%	5.3%	1.2ppt	2ppt	2ppt
Net profit att. margin	3.9%	5.0%	5.7%	2.9%	3.3%	3.9%	1ppt	1.7ppt	1.8ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,788	9,516	10,259	8,987	9,719	10,495	-2.2%	-2.1%	-2.2%
Gross profit	970	1,160	1,333	1,065	1,283	1,438	-8.9%	-9.6%	-7.3%
EBIT	439	613	750	508	674	765	-13.5%	-9.1%	-1.9%
Net profit att.	343	479	582	353	475	569	-2.8%	0.8%	2.3%
Diluted EPS (HK\$)	0.59	0.82	1.00	0.56	0.77	0.95	4.7%	7.5%	5.0%
Gross margin	11.0%	12.2%	13.0%	11.9%	13.2%	13.7%	-0.8ppt	-1ppt	-0.7ppt
EBIT margin	5.0%	6.4%	7.3%	5.7%	6.9%	7.3%	-0.7ppt	-0.5ppt	0ppt
Net profit att. margin	3.9%	5.0%	5.7%	3.9%	4.9%	5.4%	0ppt	0.1ppt	0.3ppt

Source: Company data, Bloomberg, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	5,259	5,672	6,091	6,540	6,958
HK Fast Casual & Casual Dining	771	858	944	1,038	1,142
Food Processing & Distribution	148	170	170	179	188
Mainland China	1,332	1,324	1,584	1,759	1,972
Total	7,509	8,024	8,788	9,516	10,259
Growth (%)					
HK QSR & Institutional Catering	11%	8%	7%	7%	6%
HK Fast Casual & Casual Dining	24%	11%	10%	10%	10%
Food Processing & Distribution	5%	15%	0%	5%	5%
Mainland China	11%	-1%	20%	11%	12%
Total	12%	7%	10%	8%	8%
GP margin	7.3%	8.8%	11.0%	12.2%	13.0%
Costs breakdown					
Costs of raw materials	30.0%	28.8%	27.8%	27.6%	27.6%
Depreciation	4.8%	4.7%	4.6%	4.5%	4.5%
Operating lease rentals	11.9%	11.5%	11.2%	11.2%	11.3%
Employee benefit expenses	34.0%	33.4%	33.1%	32.3%	31.9%
OP margin	1.7%	2.5%	5.0%	6.4%	7.3%
Effective tax rate	55.0%	22.9%	15.0%	15.0%	15.0%
NP att. margins	0.3%	1.4%	3.9%	5.0%	5.7%
NP att. growth (%)	-94.1%	420.2%	211.2%	39.5%	21.5%
Sales network by region					
HK QSR & Institutional Catering	301	310	317	324	331
HK Fast Casual Dining	63	66	69	72	77
Mainland China	136	153	173	193	218
Total	500	529	559	589	626
SSSG by segment					
HK Café de Coral	6.0%	1.0%	4.5%	5.0%	4.0%
HK Super Super Congee & Noodles	13.0%	2.0%	8.0%	2.0%	2.0%
Mainland China Café de Coral	-1.0%	-4.0%	10.5%	3.0%	3.0%

Source: Company data, CMBIGM estimates

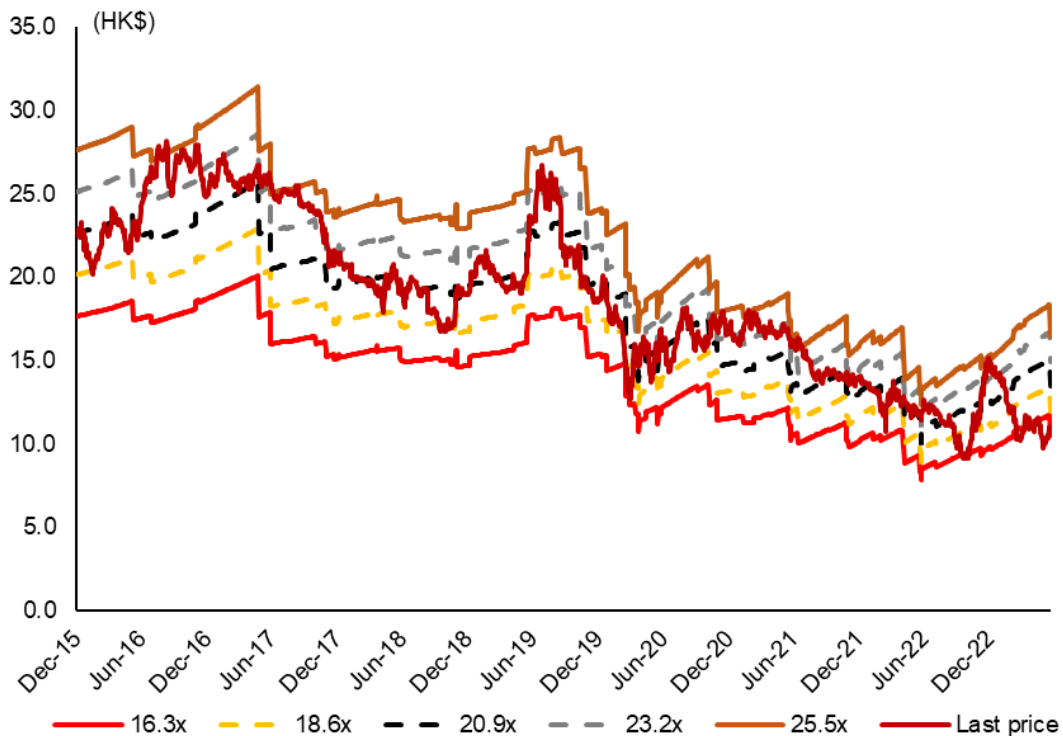
Valuation

Figure 4: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$ mn)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per. (%)	
								FY1E	FY2E	FY1E	FY1E	FY1E	FY1E	FY1E	
Leading Greater China Restaurants and Food Ingredients															
Cafe De Coral	341 HK	BUY	14.82	9.60	54%	5,623	Mar-23	18.0	12.9	2.0	3.9	0.2	4.5	(35.6)	
Haidilao	6862 HK	BUY	24.76	15.54	59%	86,620	Dec-22	17.6	15.3	5.1	46.0	0.3	1.4	(30.6)	
Jiumaojiu	9922 HK	BUY	15.46	7.89	96%	11,476	Dec-22	19.3	12.1	2.3	6.6	0.1	1.1	(62.2)	
Nayuki	2150 HK	BUY	7.53	3.48	116%	5,969	Dec-22	26.7	12.0	1.0	(9.7)	(0.1)	0.1	(53.8)	
Helens	9869 HK	NR	n/a	4.65	n/a	5,891	Dec-22	16.9	13.5	2.2	(68.1)	(0.1)	1.2	(68.1)	
Xiabuxiabu	520 HK	BUY	4.89	2.92	67%	3,172	Dec-22	24.5	9.9	1.7	(4.7)	(0.1)	1.9	(66.9)	
Tam Jai	2217 HK	NR	n/a	1.26	n/a	1,690	Mar-23	11.5	9.7	1.2	9.1	0.9	4.4	(52.1)	
Yihai	1579 HK	NR	n/a	13.00	n/a	13,477	Dec-22	13.6	12.0	2.0	20.5	1.2	2.1	(52.4)	
Yum China	9987 HK	BUY	435.82	330.20	32%	135,319	Dec-22	21.5	18.6	2.3	12.1	0.6	1.3	(24.8)	
Gourmet Master	2723 TT	NR	n/a	100.00	n/a	4,495	Dec-22	19.1	14.7	1.4	7.9	0.4	4.2	(34.0)	
								Avg.	18.9	13.1	2.1	2.4	0.3	2.2	(48.0)
								Med.	18.5	12.5	2.0	7.2	0.3	1.7	(52.3)
International Restaurants and Food Ingredients															
Yum! Brands	YUM US	NR	n/a	125.52	n/a	274,779	Dec-22	23.6	21.5	n/a	n/a	1.9	1.9	(2.0)	
Mcdonald's	MCD US	NR	n/a	280.38	n/a	1,588,270	Dec-22	23.8	22.4	n/a	n/a	1.4	2.2	6.4	
Starbucks Corp	SBUX US	NR	n/a	99.85	n/a	886,397	Oct-23	24.1	20.7	n/a	n/a	1.5	2.3	0.7	
Rest. Brands	QSR US	NR	n/a	69.66	n/a	250,322	Dec-22	21.6	20.5	6.5	34.9	4.3	3.2	7.7	
Chipotle Mexican	CMG US	NR	n/a	2189.1	n/a	469,202	Dec-22	49.6	41.3	17.0	44.9	2.0	0.0	57.8	
Darden Rest.	DRI US	NR	n/a	155.73	n/a	146,327	May-23	17.7	16.1	7.8	46.7	1.8	3.4	12.6	
Domino's Pizza	DPZ US	NR	n/a	388.86	n/a	105,929	Jan-23	26.9	24.7	n/a	n/a	2.4	1.2	12.3	
Wendy's Co	WEN US	NR	n/a	18.79	n/a	30,267	Jan-23	18.9	16.8	27.5	51.0	1.3	5.3	(17.0)	
Shake Shack	SHAK US	NR	n/a	60.37	n/a	19,944	Dec-22	173.5	127.6	5.5	0.6	(0.9)	n/a	45.4	
Wingstop	WING US	NR	n/a	238.62	n/a	54,816	Dec-22	100.0	84.6	n/a	n/a	4.1	0.3	73.4	
Jollibee Foods	JFC PM	NR	n/a	226.60	n/a	35,704	Dec-22	30.4	27.3	2.9	9.1	1.8	1.2	(1.5)	
								Avg.	46.4	38.5	11.2	31.2	2.0	2.1	17.8
								Med.	24.1	22.4	7.1	39.9	1.8	2.1	7.7
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	5.00	n/a	21,597	Dec-22	13.1	11.7	1.5	11.8	0.9	7.6	(36.0)	
Tingyi	322 HK	NR	n/a	9.83	n/a	55,386	Dec-22	14.6	12.1	3.6	21.7	0.8	6.9	(27.1)	
Want Want China	151 HK	NR	n/a	4.57	n/a	54,223	Mar-23	12.7	11.8	2.9	25.0	1.4	5.8	(12.5)	
China Mengniu*	2319 HK	BUY	36.50	24.50	49%	96,393	Dec-22	14.9	12.8	1.8	11.3	1.3	2.0	(29.8)	
Vitasoy	345 HK	NR	n/a	8.50	n/a	9,119	Mar-23	72.0	35.4	2.8	2.1	0.7	0.9	(47.1)	
Nongfu Spring*	9633 HK	BUY	56.90	44.60	28%	501,592	Dec-22	44.4	38.2	14.3	45.6	3.0	1.8	1.1	
Tsingtao Brewery*	168 HK	BUY	88.90	51.60	72%	91,661	Dec-22	14.8	12.6	2.1	16.0	1.1	3.7	(32.6)	
CR Beer*	291 HK	BUY	73.10	35.20	108%	114,195	Dec-22	19.6	16.1	2.9	17.9	1.1	2.0	(35.5)	
Budweiser Brew*	1876 HK	HOLD	18.60	13.82	35%	183,024	Dec-22	23.6	19.7	2.0	8.3	1.6	1.9	(43.7)	
								Avg.	25.5	18.9	3.8	17.7	1.3	3.6	(29.2)
								Med.	14.9	12.8	2.8	16.0	1.1	2.0	(32.6)

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

Figure 5: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Revenue	6,714	7,509	8,024	8,788	9,516	10,259
Cost of goods sold	(6,339)	(6,961)	(7,321)	(7,818)	(8,356)	(8,926)
Gross profit	375	548	703	970	1,160	1,333
Operating expenses	98	(417)	(499)	(530)	(547)	(583)
Admin expense	(463)	(459)	(486)	(517)	(533)	(570)
Others	561	42	(13)	(14)	(14)	(14)
Operating profit	474	131	204	439	613	750
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	825	493	582	845	1,045	1,212
Depreciation	(351)	(362)	(378)	(403)	(430)	(460)
Depreciation of ROU assets	(14)	(14)	(14)	(14)	(14)	(14)
Other amortisation	(0)	(0)	(0)	(3)	(3)	(3)
Interest income	(83)	(80)	(60)	(34)	(47)	(63)
Pre-tax profit	391	51	144	405	566	687
Income tax	(30)	(28)	(33)	(61)	(85)	(103)
Minority interest	1	2	1	1	2	2
Net profit	361	23	111	345	481	584

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Current assets	2,516	2,152	2,128	2,237	2,398	2,532
Cash & equivalents	2,073	1,586	1,672	1,776	1,904	2,002
Account receivables	103	200	138	120	130	141
Inventories	235	304	268	286	306	327
Prepayment	51	55	45	49	53	57
ST bank deposits	21	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	33	8	5	5	5	5
Non-current assets	4,639	4,720	5,048	5,149	5,253	5,370
PP&E	1,519	1,586	1,618	1,710	1,816	1,936
Deferred income tax	71	68	63	10	10	10
Intangibles	1	1	1	2	1	1
Other non-current assets	3,048	3,065	3,366	3,428	3,426	3,423
Total assets	7,155	6,872	7,175	7,386	7,651	7,902
Current liabilities	1,688	1,726	2,780	2,871	2,960	3,052
Account payables	178	167	226	241	258	275
Tax payable	8	14	14	14	14	14
Other current liabilities	1,502	1,544	2,539	2,616	2,688	2,762
Non-current liabilities	2,432	2,319	1,603	1,603	1,603	1,603
Other non-current liabilities	2,432	2,319	1,603	1,603	1,603	1,603
Total liabilities	4,120	4,045	4,383	4,475	4,564	4,655
Share capital	59	59	59	59	59	59
Capital surplus	621	621	621	621	621	621
Retained earnings	1,982	1,755	1,680	1,772	1,917	2,044
Other reserves	368	384	424	450	479	509
Total shareholders equity	3,029	2,819	2,784	2,902	3,076	3,233
Minority interest	6	8	8	10	11	13
Total equity and liabilities	7,155	6,872	7,175	7,386	7,651	7,902

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	391	51	144	405	566	687
Depreciation & amortization	1,099	1,110	1,177	406	433	462
Tax paid	(29)	9	(28)	(61)	(85)	(103)
Change in working capital	70	(166)	278	87	55	56
Others	162	160	127	65	80	99
Net cash from operations	1,693	1,164	1,699	902	1,049	1,201
Investing						
Capital expenditure	(278)	(492)	(462)	(506)	(547)	(590)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	5	36	54	889	889	873
Net cash from investing	(273)	(456)	(407)	384	341	282
Financing						
Dividend paid	(58)	(221)	(163)	(252)	(333)	(455)
Net borrowings	1,179	(100)	(100)	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(25)	(26)	0	0	0	0
Others	(808)	(860)	(930)	(930)	(930)	(930)
Net cash from financing	288	(1,207)	(1,193)	(1,181)	(1,263)	(1,385)
Net change in cash						
Cash at the beginning of the year	345	2,073	1,586	1,684	1,789	1,916
Exchange difference	20	11	0	0	0	0
Others	1,708	(498)	99	104	127	99
Cash at the end of the year	2,073	1,586	1,684	1,789	1,916	2,015
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	(15.7%)	11.8%	6.9%	9.5%	8.3%	7.8%
Gross profit	(48.7%)	46.0%	28.3%	38.0%	19.6%	15.0%
Operating profit	126.9%	(72.3%)	55.4%	115.6%	39.4%	22.4%
EBITDA	45.5%	(40.2%)	18.0%	45.2%	23.7%	15.9%
Net profit	384.7%	(93.7%)	386.6%	210.0%	39.5%	21.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	5.6%	7.3%	8.8%	11.0%	12.2%	13.0%
Operating margin	7.1%	1.7%	2.5%	5.0%	6.4%	7.3%
EBITDA margin	12.3%	6.6%	7.3%	9.6%	11.0%	11.8%
Return on equity (ROE)	12.7%	0.8%	4.0%	12.1%	16.1%	18.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Current ratio (x)	1.5	1.2	0.8	0.8	0.8	0.8
Receivable turnover days	5.6	9.7	6.3	5.0	5.0	5.0
Inventory turnover days	13.5	15.9	13.4	13.4	13.4	13.4
Payable turnover days	10.3	8.8	11.3	11.3	11.3	11.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	17.2	291.0	56.1	18.0	12.9	10.6
P/E (diluted)	17.2	291.0	56.1	18.0	12.9	10.6
P/B	2.0	2.2	2.2	2.1	2.0	1.9
P/CFPS	5.6	7.3	4.1	6.2	5.3	4.6
Div yield (%)	2.3	1.9	3.2	5.0	7.7	9.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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