

# Cafe De Coral (341 HK)

## Gaining market share under a weak macro

FY24 results were decent. However, given such macro weakness (CDC has actually outperformed the industry), we have to trim our earnings forecast. But because of our high hope of the new management, CDC's defensive nature and its attractive dividend yield, we maintain BUY.

■ **HK market: While the industry recovery is slower than expected, CDC has outperformed, but we have become slightly more prudent about margins.** Under the current macro headwinds (high interest rates, ongoing stress in the property market, more Hongkongers travelling abroad or to mainland China), recovery of both HK retail sales and catering sales has been weaker than expected. However, in terms of segment, fast food is already the most resilient, which had a recovery rate of 102% during Jan-Feb 2024 (vs 2019), much higher than Chinese/ non-Chinese restaurants/ overall market's 75%/ 91%/ 87%. On top of that, CDC has also started to reclaim its market share in 2H24, vs 1H24, in our view, due to launches of more innovative products and better marketing. CDC's SSS recovery rate was still quite resilient, at 88% in FY24, but given all the macro headwinds (management did mention a negative SSSG in Apr-May 2024 and potential room for ASP increase may be limited), we are more prudent than before and expect a SSS recovery rate of only 88%/ 90% for 1H25E/ 2H25E (equivalent to 0%/ 2% SSSG, while acceleration into 2H25E is likely, thanks to boosts from HK government on rolling out more "mega events"). Noted that the weakness from casual dining could be offset by the robust growth from institutional catering (sales jumped by 18% in FY24 and more new clients were signed). For margins, we do think the initiatives are still there (ASP hikes, menu innovations, refined sourcing, greater use of mobile apps and kiosks orderings, etc.), but since more discounts could be offered to boost customer traffic and the level of operating leverage could be less, we are now slightly more conservative on its FY25E/ 26E margin target (HSD pre-tax margin and net profit margin).

■ **Mainland China market: Remarkable growth given the macro weakness.** Mainland China market sales increased by 15% YoY in FY24, driven by a highly impressive SSSG of 11% and store number growth of 12%. Moreover, its EBIT margin returned to double digits (at 12%) and much higher than HK market's 9%. SSS recovery rate already reached 102%, which is actually better than most of its listed peers (except DPC or HDL). We attribute such performance to its excellent tastes, cozy store environment and localized marketing, etc. Going forward, thanks to decent momentum of its new store SSSG and rapid store expansion (aiming for 20 new stores), we do expect its SSS recovery rate to further increase to 106% in FY25E (equivalent to 4% SSSG).

### Earnings Summary

| (YE 31 Mar)                | FY23A | FY24A | FY25E | FY26E | FY27E  |
|----------------------------|-------|-------|-------|-------|--------|
| Revenue (HK\$ mn)          | 8,024 | 8,691 | 9,062 | 9,693 | 10,400 |
| YoY growth (%)             | 6.9   | 8.3   | 4.3   | 7.0   | 7.3    |
| Operating profit (HK\$ mn) | 203.8 | 452.8 | 568.7 | 661.5 | 760.6  |
| Net profit (HK\$ mn)       | 111.2 | 333.2 | 384.6 | 456.0 | 532.1  |
| EPS (Reported) (HK\$)      | 0.19  | 0.57  | 0.66  | 0.78  | 0.91   |
| YoY growth (%)             | 419.0 | 199.4 | 15.4  | 18.5  | 16.7   |
| P/E (x)                    | 45.8  | 15.3  | 13.2  | 11.2  | 9.6    |
| P/B (x)                    | 1.8   | 1.7   | 1.7   | 1.7   | 1.6    |
| Yield (%)                  | 4.4   | 6.0   | 7.6   | 9.0   | 10.6   |
| ROE (%)                    | 4.0   | 11.7  | 13.1  | 15.2  | 17.3   |

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

|               |            |
|---------------|------------|
| Target Price  | HK\$11.15  |
| (Previous TP) | HK\$14.82) |
| Up/Downside   | 28.4%      |
| Current Price | HK\$8.68   |

### China Consumer Discretionary

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#### Stock Data

|                          |            |
|--------------------------|------------|
| Mkt Cap (HK\$ mn)        | 5,083.9    |
| Avg 3 mths t/o (HK\$ mn) | 8.4        |
| 52w High/Low (HK\$)      | 10.90/7.78 |
| 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 | -2.6%    | 6.2%     |
| 3-mth | -1.1%    | -7.8%    |
| 6-mth | -4.8%    | -10.9%   |

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

- FY24 results in line while dividend payout is a small beat.** CDC's sales increased by 8% YoY to HK\$ 8.7bn in FY24, slightly below CMBI est. of 10%, mainly due to slower-than-expected HK market SSSG (at 3% vs CMBI est. of 4.5%). Apart from that, net profit surged by 200% YoY to HK\$ 331mn, in line with previous positive profit alert, and such a strong rebound was a result of: 1) speed-up in SSSG, 2) meaningful GP margin expansion (ASP hiked to around HK\$ 43), 3) relatively stable labour costs and greater use of digitalization and automation, and 4) limited increase in rental expenses (up only around 3%). Noted that a final DPS of HK\$ 42 cents was declared, implying a payout ratio of 101% (slightly better than CMBI est. of 90%), hence the historical yield is now at around 7%. However, we do have to beware of the weakened trend in 2H24, as the SSSG started to slow down. In terms of segment, the sales growth of HK QSR/ casual dining/ institutional catering all slowed down to +5%/ -3%/ +16% in 2H24, from +9%/ +9%/ +21% in 1H24.
- Store expansion plan should be largely unchanged.** CDC had 4/ 18 net openings in HK/mainland China in FY24, roughly in line with guidance of 5/ 20. And we do expect a similar pace of store expansion (~5 to 10/ ~20 in HK/ mainland China) in FY25E.
- Maintain BUY but trim TP to HK\$ 11.15.** We revise down our FY25E/ 26E net profit forecasts by 20%/ 22%, to factor in: 1) slower-than-expected SSSG, 2) weaker-than-expected operating leverage, and 3) slightly higher-than-expected impairment losses. We maintain BUY and cut its TP to HK\$ 11.15, based on 17x FY25E P/E (trimmed from 18x). The stock is now trading at 13x FY25E P/E and has an 8% yield.

## Earnings revision

Figure 1: Earnings revision

| HK\$ mn                | New   |       |        | Old   |        |       | Diff (%) |         |       |
|------------------------|-------|-------|--------|-------|--------|-------|----------|---------|-------|
|                        | FY25E | FY26E | FY27E  | FY25E | FY26E  | FY27E | FY25E    | FY26E   | FY27E |
| Revenue                | 9,062 | 9,693 | 10,400 | 9,516 | 10,259 | n/a   | -4.8%    | -5.5%   | n/a   |
| Gross profit           | 1,109 | 1,235 | 1,361  | 1,160 | 1,333  | n/a   | -4.4%    | -7.4%   | n/a   |
| EBIT                   | 569   | 661   | 761    | 613   | 750    | n/a   | -7.2%    | -11.8%  | n/a   |
| Net profit att.        | 381   | 452   | 528    | 479   | 582    | n/a   | -20.4%   | -22.3%  | n/a   |
| Diluted EPS (HK\$)     | 0.66  | 0.78  | 0.91   | 0.82  | 1.00   | n/a   | -20.4%   | -22.3%  | n/a   |
| Gross margin           | 12.2% | 12.7% | 13.1%  | 12.2% | 13.0%  | n/a   | 0.1ppt   | -0.3ppt | n/a   |
| EBIT margin            | 6.3%  | 6.8%  | 7.3%   | 6.4%  | 7.3%   | n/a   | -0.2ppt  | -0.5ppt | n/a   |
| Net profit att. margin | 4.2%  | 4.7%  | 5.1%   | 5.0%  | 5.7%   | n/a   | -0.8ppt  | -1ppt   | n/a   |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| HK\$ mn                | CMBIGM |       |        | Consensus |        |       | Diff (%) |         |       |
|------------------------|--------|-------|--------|-----------|--------|-------|----------|---------|-------|
|                        | FY25E  | FY26E | FY27E  | FY25E     | FY26E  | FY27E | FY25E    | FY26E   | FY27E |
| Revenue                | 9,062  | 9,693 | 10,400 | 9,439     | 10,156 | n/a   | -4.0%    | -4.6%   | n/a   |
| Gross profit           | 1,109  | 1,235 | 1,361  | 1,191     | 1,285  | n/a   | -6.8%    | -3.9%   | n/a   |
| EBIT                   | 569    | 661   | 761    | 627       | 725    | n/a   | -9.2%    | -8.7%   | n/a   |
| Net profit att.        | 381    | 452   | 528    | 475       | 570    | n/a   | -19.7%   | -20.6%  | n/a   |
| Diluted EPS (HK\$)     | 0.66   | 0.78  | 0.91   | 0.81      | 0.98   | n/a   | -19.3%   | -20.4%  | n/a   |
| Gross margin           | 12.2%  | 12.7% | 13.1%  | 12.6%     | 12.7%  | n/a   | -0.4ppt  | 0.1ppt  | n/a   |
| EBIT margin            | 6.3%   | 6.8%  | 7.3%   | 6.6%      | 7.1%   | n/a   | -0.4ppt  | -0.3ppt | n/a   |
| Net profit att. margin | 4.2%   | 4.7%  | 5.1%   | 5.0%      | 5.6%   | n/a   | -0.8ppt  | -0.9ppt | n/a   |

Source: Company data, Bloomberg, CMBIGM estimates

## Assumptions

Figure 3: Major assumptions

| Major assumptions                 | FY23A  | FY24A  | FY25E | FY26E | FY27E  |
|-----------------------------------|--------|--------|-------|-------|--------|
| <b>Sales by segment (HK\$ mn)</b> |        |        |       |       |        |
| HK QSR & Institutional Catering   | 5,672  | 6,158  | 6,402 | 6,753 | 7,187  |
| HK Fast Casual & Casual Dining    | 858    | 879    | 835   | 902   | 956    |
| Food Processing & Distribution    | 170    | 139    | 125   | 132   | 138    |
| Mainland China                    | 1,324  | 1,515  | 1,700 | 1,907 | 2,119  |
| Total                             | 8,024  | 8,691  | 9,062 | 9,693 | 10,400 |
| <b>Growth (%)</b>                 |        |        |       |       |        |
| HK QSR & Institutional Catering   | 8%     | 9%     | 4%    | 5%    | 6%     |
| HK Fast Casual & Casual Dining    | 11%    | 2%     | -5%   | 8%    | 6%     |
| Food Processing & Distribution    | 15%    | -18%   | -10%  | 5%    | 5%     |
| Mainland China                    | -1%    | 14%    | 12%   | 12%   | 11%    |
| Total                             | 7%     | 8%     | 4%    | 7%    | 7%     |
| <b>GP margin</b>                  | 8.8%   | 11.4%  | 12.2% | 12.7% | 13.1%  |
| <b>Costs breakdown</b>            |        |        |       |       |        |
| Costs of raw materials            | 28.8%  | 27.4%  | 27.0% | 27.0% | 27.0%  |
| Depreciation                      | 4.7%   | 4.3%   | 4.6%  | 4.5%  | 4.3%   |
| Operating lease rentals           | 11.5%  | 11.4%  | 11.3% | 11.5% | 11.6%  |
| Employee benefit expenses         | 33.4%  | 33.1%  | 33.1% | 32.7% | 32.4%  |
| <b>OP margin</b>                  | 2.5%   | 5.2%   | 6.3%  | 6.8%  | 7.3%   |
| Effective tax rate                | 22.9%  | 14.5%  | 14.5% | 14.5% | 14.5%  |
| NP att. margins                   | 1.4%   | 3.8%   | 4.2%  | 4.7%  | 5.1%   |
| <b>NP att. growth (%)</b>         | 420.2% | 199.5% | 15.4% | 18.5% | 16.7%  |
| <b>Sales network by region</b>    |        |        |       |       |        |
| HK QSR & Institutional Catering   | 310    | 318    | 326   | 334   | 342    |
| HK Fast Casual Dining             | 66     | 62     | 62    | 67    | 72     |
| Mainland China                    | 153    | 171    | 191   | 216   | 241    |
| Total                             | 529    | 551    | 579   | 617   | 655    |
| <b>SSSG by segment</b>            |        |        |       |       |        |
| HK Café de Coral                  | 1.0%   | 3.0%   | 1.0%  | 3.0%  | 3.0%   |
| HK Super Super Congee & Noodles   | 2.0%   | 6.0%   | 2.5%  | 2.0%  | 2.0%   |
| Mainland China Café de Coral      | -4.0%  | 11.0%  | 4.0%  | 3.0%  | 3.0%   |

Source: Company data, CMBIGM estimates

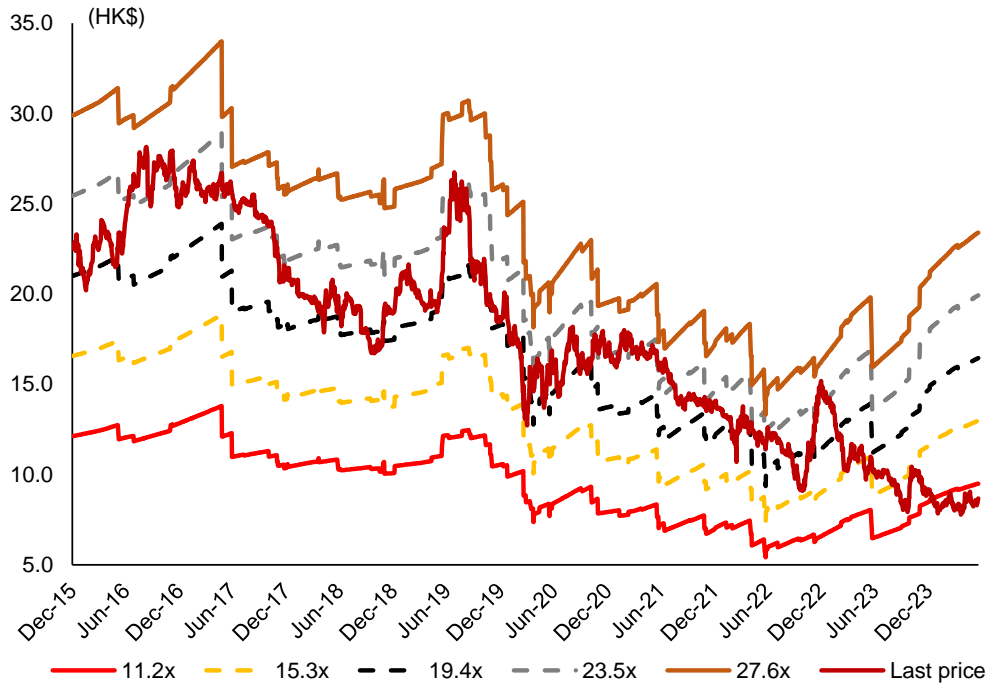
## Valuation

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         |               |
| <b>Leading Greater China Restaurants and Food Ingredients</b> |         |        |             |            |              |                    |          |             |             |             |             |              |            |              |               |
| Cafe De Coral   | 341 HK  | BUY    | 11.15       | 8.68       | 28%          | 5,084              | Mar-24   | 13.2        | 11.2        | 1.7         | 11.6        | 0.8          | 7.6        | (3.7)        |               |
| Haidilao  | 6862 HK | BUY    | 21.52       | 16.36      | 32%          | 91,191             | Dec-23   | 16.5        | 14.7        | 5.9         | 47.4        | 1.6          | 3.6        | 12.5         |               |
| Jiumaojiu   | 9922 HK | BUY    | 8.39        | 4.35       | 93%          | 6,249              | Dec-23   | 9.8         | 7.7         | 1.5         | 13.9        | 0.4          | 3.9        | (28.7)       |               |
| Nayuki  | 2150 HK | BUY    | 3.43        | 2.33       | 47%          | 3,996              | Dec-23   | 30.9        | 14.9        | 0.7         | 0.3         | 0.2          | 1.7        | (26.5)       |               |
| Dpc   | 1405 HK | BUY    | 73.05       | 59.05      | 24%          | 7,700              | Dec-23   | 138.9       | 53.6        | 3.6         | (1.9)       | (0.5)        | n/a        | (4.7)        |               |
| Helens  | 9869 HK | NR     | n/a         | 2.52       | n/a          | 3,189              | Dec-23   | 11.3        | 9.0         | 1.6         | 9.9         | 0.4          | 5.6        | (27.3)       |               |
| Xiabuxiabu  | 520 HK  | BUY    | 4.89        | 1.54       | 218%         | 1,673              | Dec-23   | 13.2        | 6.7         | 0.9         | (15.0)      | (0.1)        | 3.5        | (36.4)       |               |
| Tam Jai   | 2217 HK | NR     | n/a         | 1.06       | n/a          | 1,428              | Mar-24   | 11.2        | 10.3        | 1.5         | 7.8         | 1.1          | 8.2        | (15.9)       |               |
| Yihai   | 1579 HK | NR     | n/a         | 14.34      | n/a          | 14,866             | Dec-23   | 14.0        | 12.5        | 2.6         | 18.7        | 1.5          | 5.5        | 15.6         |               |
| Yum China   | 9987 HK | BUY    | 348.13      | 264.60     | 32%          | 102,660            | Dec-23   | 15.4        | 13.6        | 2.0         | 13.2        | 1.2          | 1.8        | (20.3)       |               |
| Gourmet Master  | 2723 TT | NR     | n/a         | 91.70      | n/a          | 3,983              | Dec-23   | 17.9        | 14.2        | 1.3         | 6.0         | 0.9          | 4.6        | (9.7)        |               |
|   |         |        |             |            |              |                    |          | <b>Avg.</b> | <b>26.6</b> | <b>15.3</b> | <b>2.1</b>  | <b>10.2</b>  | <b>0.7</b> | <b>4.6</b>   | <b>(13.2)</b> |
|   |         |        |             |            |              |                    |          | <b>Med.</b> | <b>14.0</b> | <b>12.5</b> | <b>1.6</b>  | <b>9.9</b>   | <b>0.8</b> | <b>4.2</b>   | <b>(15.9)</b> |
| <b>International Restaurants and Food Ingredients</b>         |         |        |             |            |              |                    |          |             |             |             |             |              |            |              |               |
| Yum! Brands   | YUM US  | NR     | n/a         | 136.79     | n/a          | 300,903            | Dec-23   | 24.1        | 21.5        | n/a         | n/a         | 3.0          | 1.9        | 4.7          |               |
| Mcdonald's  | MCD US  | NR     | n/a         | 253.58     | n/a          | 1,427,409          | Dec-23   | 20.8        | 19.1        | n/a         | n/a         | 2.9          | 2.7        | (14.5)       |               |
| Starbucks Corp  | SBUX US | NR     | n/a         | 79.65      | n/a          | 704,678            | Oct-23   | 22.2        | 19.5        | n/a         | n/a         | 2.7          | 2.9        | (17.0)       |               |
| Rest. Brands  | QSR US  | NR     | n/a         | 68.90      | n/a          | 247,080            | Dec-23   | 20.3        | 17.7        | 6.5         | 44.4        | 5.2          | 3.4        | (11.8)       |               |
| Chipotle Mexican  | CMG US  | NR     | n/a         | 3271.7     | n/a          | 701,909            | Dec-23   | 59.0        | 48.9        | 24.0        | 44.4        | 2.8          | 0.0        | 43.1         |               |
| Darden Rest.  | DRI US  | NR     | n/a         | 148.78     | n/a          | 138,704            | May-23   | 16.9        | 15.4        | 7.9         | 49.0        | 1.8          | 3.5        | (9.4)        |               |
| Domino's Pizza  | DPZ US  | NR     | n/a         | 521.41     | n/a          | 142,052            | Dec-23   | 32.8        | 28.9        | n/a         | n/a         | 3.0          | 1.1        | 26.5         |               |
| Wendy's Co  | WEN US  | NR     | n/a         | 16.68      | n/a          | 26,725             | Dec-23   | 16.7        | 15.3        | 12.7        | 57.9        | 2.0          | 6.1        | (14.4)       |               |
| Shake Shack   | SHAK US | NR     | n/a         | 89.00      | n/a          | 29,500             | Dec-23   | 121.3       | 88.6        | 7.5         | 5.7         | 3.0          | n/a        | 20.1         |               |
| Wingstop  | WING US | NR     | n/a         | 398.79     | n/a          | 91,482             | Dec-23   | 116.2       | 95.5        | n/a         | n/a         | 3.8          | 0.2        | 55.4         |               |
| Jollibee Foods  | JFC PM  | NR     | n/a         | 219.00     | n/a          | 32,689             | Dec-23   | 26.4        | 22.7        | 3.0         | 11.7        | 1.4          | 1.3        | (12.9)       |               |
|   |         |        |             |            |              |                    |          | <b>Avg.</b> | <b>43.3</b> | <b>35.7</b> | <b>10.3</b> | <b>35.5</b>  | <b>2.9</b> | <b>2.3</b>   | <b>6.3</b>    |
|   |         |        |             |            |              |                    |          | <b>Med.</b> | <b>24.1</b> | <b>21.5</b> | <b>7.7</b>  | <b>44.4</b>  | <b>2.9</b> | <b>2.3</b>   | <b>(9.4)</b>  |
| <b>H-shares Consumer Staples</b>                              |         |        |             |            |              |                    |          |             |             |             |             |              |            |              |               |
| UPC   | 220 HK  | NR     | n/a         | 7.44       | n/a          | 32,136             | Dec-23   | 16.7        | 15.2        | 2.2         | 12.6        | 2.0          | 6.1        | 34.1         |               |
| Tingyi  | 322 HK  | NR     | n/a         | 9.56       | n/a          | 53,864             | Dec-23   | 14.7        | 13.2        | 3.5         | 22.9        | 1.7          | 7.0        | 3.5          |               |
| Want Want China   | 151 HK  | NR     | n/a         | 4.40       | n/a          | 51,973             | Mar-23   | 12.5        | 11.6        | 2.9         | 25.0        | 1.7          | 5.3        | (6.8)        |               |
| China Mengniu   | 2319 HK | NR     | n/a         | 13.14      | n/a          | 51,710             | Dec-23   | 8.8         | 7.8         | 1.0         | 11.4        | 0.8          | 4.8        | (37.4)       |               |
| Vitasoy   | 345 HK  | NR     | n/a         | 6.52       | n/a          | 6,995              | Mar-23   | 60.4        | 28.0        | 2.3         | 2.1         | 0.6          | 1.0        | (16.2)       |               |
| Nongfu Spring   | 9633 HK | NR     | n/a         | 39.75      | n/a          | 447,047            | Dec-23   | 30.4        | 26.5        | 12.1        | 45.9        | 2.3          | 2.2        | (12.0)       |               |
| Tsingtao Brewery  | 168 HK  | NR     | n/a         | 54.80      | n/a          | 95,598             | Dec-23   | 14.0        | 12.5        | 2.4         | 15.7        | 1.2          | 4.4        | 4.6          |               |
| CR Beer   | 291 HK  | NR     | n/a         | 29.55      | n/a          | 95,865             | Dec-23   | 14.6        | 12.6        | 2.6         | 18.0        | 1.0          | 3.0        | (12.8)       |               |
| Budweiser Brew  | 1876 HK | NR     | n/a         | 9.13       | n/a          | 120,912            | Dec-23   | 15.0        | 13.1        | 1.4         | 7.9         | 1.0          | 4.6        | (37.6)       |               |
|   |         |        |             |            |              |                    |          | <b>Avg.</b> | <b>20.8</b> | <b>15.6</b> | <b>3.4</b>  | <b>17.9</b>  | <b>1.4</b> | <b>4.3</b>   | <b>(9.0)</b>  |
|   |         |        |             |            |              |                    |          | <b>Med.</b> | <b>14.7</b> | <b>13.1</b> | <b>2.4</b>  | <b>15.7</b>  | <b>1.2</b> | <b>4.6</b>   | <b>(12.0)</b> |

Source: Bloomberg, CMBIGM estimates

Figure 5: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

## Financial Summary

| INCOME STATEMENT                           | 2022A        | 2023A        | 2024A        | 2025E        | 2026E        | 2027E         |
|--|--------------|--------------|--------------|--------------|--------------|---------------|
| YE 31 Mar (HK\$ mn)                        |              |              |              |              |              |               |
| <b>Revenue</b>                             | <b>7,509</b> | <b>8,024</b> | <b>8,691</b> | <b>9,062</b> | <b>9,693</b> | <b>10,400</b> |
| Cost of goods sold                         | (6,961)      | (7,321)      | (7,702)      | (7,953)      | (8,459)      | (9,038)       |
| <b>Gross profit</b>                        | <b>548</b>   | <b>703</b>   | <b>989</b>   | <b>1,109</b> | <b>1,235</b> | <b>1,361</b>  |
| <b>Operating expenses</b>                  | <b>(417)</b> | <b>(499)</b> | <b>(536)</b> | <b>(540)</b> | <b>(573)</b> | <b>(601)</b>  |
| Admin expense                              | (459)        | (486)        | (503)        | (517)        | (550)        | (577)         |
| Others                                     | 42           | (13)         | (33)         | (24)         | (24)         | (24)          |
| <b>Operating profit</b>                    | <b>131</b>   | <b>204</b>   | <b>453</b>   | <b>569</b>   | <b>661</b>   | <b>761</b>    |
| Share of (losses)/profits of associates/JV | 0            | 0            | 0            | 0            | 0            | 0             |
| <b>EBITDA</b>                              | <b>493</b>   | <b>582</b>   | <b>826</b>   | <b>986</b>   | <b>1,097</b> | <b>1,215</b>  |
| Depreciation                               | (362)        | (378)        | (373)        | (415)        | (433)        | (452)         |
| Depreciation of ROU assets                 | (15)         | (17)         | (21)         | (21)         | (21)         | (21)          |
| Other amortisation                         | (0)          | (0)          | (0)          | (3)          | (3)          | (2)           |
| Interest income                            | (80)         | (60)         | (63)         | (119)        | (128)        | (139)         |
| <b>Pre-tax profit</b>                      | <b>51</b>    | <b>144</b>   | <b>390</b>   | <b>450</b>   | <b>533</b>   | <b>622</b>    |
| Income tax                                 | (28)         | (33)         | (56)         | (65)         | (77)         | (90)          |
| Minority interest                          | 2            | 1            | 3            | 3            | 4            | 4             |
| <b>Net profit</b>                          | <b>23</b>    | <b>111</b>   | <b>333</b>   | <b>385</b>   | <b>456</b>   | <b>532</b>    |
| BALANCE SHEET                              | 2022A        | 2023A        | 2024A        | 2025E        | 2026E        | 2027E         |
| YE 31 Mar (HK\$ mn)                        |              |              |              |              |              |               |
| <b>Current assets</b>                      | <b>2,152</b> | <b>2,128</b> | <b>1,707</b> | <b>1,911</b> | <b>2,156</b> | <b>2,408</b>  |
| Cash & equivalents                         | 1,586        | 1,672        | 1,261        | 1,448        | 1,662        | 1,879         |
| Account receivables                        | 200          | 138          | 153          | 159          | 170          | 182           |
| Inventories                                | 304          | 268          | 230          | 238          | 253          | 270           |
| Prepayment                                 | 55           | 45           | 63           | 65           | 70           | 75            |
| ST bank deposits                           | 0            | 0            | 0            | 0            | 0            | 0             |
| Financial assets at FVTPL                  | 0            | 0            | 0            | 0            | 0            | 0             |
| Other current assets                       | 8            | 5            | 1            | 1            | 1            | 1             |
| <b>Non-current assets</b>                  | <b>4,720</b> | <b>5,048</b> | <b>4,807</b> | <b>4,710</b> | <b>4,618</b> | <b>4,534</b>  |
| PP&E                                       | 1,586        | 1,618        | 1,553        | 1,452        | 1,363        | 1,281         |
| Deferred income tax                        | 68           | 63           | 66           | 10           | 10           | 10            |
| Intangibles                                | 1            | 1            | 1            | 1            | 1            | 1             |
| Other non-current assets                   | 3,065        | 3,366        | 3,187        | 3,246        | 3,244        | 3,242         |
| <b>Total assets</b>                        | <b>6,872</b> | <b>7,175</b> | <b>6,514</b> | <b>6,621</b> | <b>6,774</b> | <b>6,942</b>  |
| <b>Current liabilities</b>                 | <b>1,726</b> | <b>2,780</b> | <b>1,908</b> | <b>1,949</b> | <b>2,022</b> | <b>2,103</b>  |
| Account payables                           | 167          | 226          | 211          | 218          | 231          | 247           |
| Tax payable                                | 14           | 14           | 39           | 39           | 39           | 39            |
| Other current liabilities                  | 1,544        | 2,539        | 1,658        | 1,693        | 1,751        | 1,817         |
| <b>Non-current liabilities</b>             | <b>2,319</b> | <b>1,603</b> | <b>1,695</b> | <b>1,695</b> | <b>1,695</b> | <b>1,695</b>  |
| Other non-current liabilities              | 2,319        | 1,603        | 1,695        | 1,695        | 1,695        | 1,695         |
| <b>Total liabilities</b>                   | <b>4,045</b> | <b>4,383</b> | <b>3,603</b> | <b>3,645</b> | <b>3,717</b> | <b>3,798</b>  |
| Share capital                              | 59           | 59           | 59           | 59           | 59           | 59            |
| Capital surplus                            | 621          | 621          | 621          | 621          | 621          | 621           |
| Retained earnings                          | 1,755        | 1,680        | 1,746        | 1,782        | 1,830        | 1,881         |
| Other reserves                             | 384          | 424          | 474          | 501          | 530          | 561           |
| <b>Total shareholders equity</b>           | <b>2,819</b> | <b>2,784</b> | <b>2,900</b> | <b>2,962</b> | <b>3,040</b> | <b>3,122</b>  |
| Minority interest                          | 8            | 8            | 11           | 14           | 18           | 22            |
| <b>Total equity and liabilities</b>        | <b>6,872</b> | <b>7,175</b> | <b>6,514</b> | <b>6,621</b> | <b>6,774</b> | <b>6,942</b>  |

| <b>CASH FLOW</b>                                     | <b>2022A</b>   | <b>2023A</b>   | <b>2024A</b>   | <b>2025E</b>   | <b>2026E</b>   | <b>2027E</b>   |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>YE 31 Mar (HK\$ mn)</b>                           |                |                |                |                |                |                |
| <b>Operating</b>                                     |                |                |                |                |                |                |
| Profit before taxation                               | 51             | 144            | 390            | 450            | 533            | 622            |
| Depreciation & amortization                          | 1,110          | 1,177          | 373            | 418            | 435            | 454            |
| Tax paid   | 9              | (28)           | (56)           | (65)           | (77)           | (90)           |
| Change in working capital                            | (166)          | 278            | (4)            | 25             | 41             | 46             |
| Others   | 160            | 127            | 100            | 151            | 162            | 175            |
| <b>Net cash from operations</b>                      | <b>1,164</b>   | <b>1,699</b>   | <b>803</b>     | <b>978</b>     | <b>1,095</b>   | <b>1,207</b>   |
| <b>Investing</b>                                     |                |                |                |                |                |                |
| Capital expenditure                                  | (492)          | (462)          | (318)          | (332)          | (355)          | (380)          |
| 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   | 36             | 54             | 872            | 817            | 807            | 797            |
| <b>Net cash from investing</b>                       | <b>(456)</b>   | <b>(407)</b>   | <b>554</b>     | <b>485</b>     | <b>453</b>     | <b>417</b>     |
| <b>Financing</b>                                     |                |                |                |                |                |                |
| Dividend paid  | (221)          | (163)          | (252)          | (346)          | (404)          | (477)          |
| Net borrowings                                       | (100)          | (100)          | 0              | 0              | 0              | 0              |
| Proceeds from share issues                           | 0              | 0              | 0              | 0              | 0              | 0              |
| Share repurchases                                    | (26)           | 0              | 0              | 0              | 0              | 0              |
| Others   | (860)          | (930)          | (930)          | (930)          | (930)          | (930)          |
| <b>Net cash from financing</b>                       | <b>(1,207)</b> | <b>(1,193)</b> | <b>(1,181)</b> | <b>(1,276)</b> | <b>(1,333)</b> | <b>(1,406)</b> |
| <b>Net change in cash</b>                            |                |                |                |                |                |                |
| Cash at the beginning of the year                    | 2,073          | 1,586          | 1,684          | 1,860          | 2,047          | 2,261          |
| Exchange difference                                  | 11             | 0              | 0              | 0              | 0              | 0              |
| Others   | (498)          | 99             | 176            | 187            | 214            | 217            |
| <b>Cash at the end of the year</b>                   | <b>1,586</b>   | <b>1,684</b>   | <b>1,860</b>   | <b>2,047</b>   | <b>2,261</b>   | <b>2,479</b>   |
| <b>GROWTH</b>  | <b>2022A</b>   | <b>2023A</b>   | <b>2024A</b>   | <b>2025E</b>   | <b>2026E</b>   | <b>2027E</b>   |
| <b>YE 31 Mar</b>                                     |                |                |                |                |                |                |
| Revenue  | 11.8%          | 6.9%           | 8.3%           | 4.3%           | 7.0%           | 7.3%           |
| Gross profit   | 46.0%          | 28.3%          | 40.8%          | 12.1%          | 11.3%          | 10.2%          |
| Operating profit                                     | (72.3%)        | 55.4%          | 122.1%         | 25.6%          | 16.3%          | 15.0%          |
| EBITDA   | (40.2%)        | 18.0%          | 42.0%          | 19.4%          | 11.2%          | 10.8%          |
| Net profit   | (93.7%)        | 386.6%         | 199.7%         | 15.4%          | 18.5%          | 16.7%          |
| <b>PROFITABILITY</b>                                 | <b>2022A</b>   | <b>2023A</b>   | <b>2024A</b>   | <b>2025E</b>   | <b>2026E</b>   | <b>2027E</b>   |
| <b>YE 31 Mar</b>                                     |                |                |                |                |                |                |
| Gross profit margin                                  | 7.3%           | 8.8%           | 11.4%          | 12.2%          | 12.7%          | 13.1%          |
| Operating margin                                     | 1.7%           | 2.5%           | 5.2%           | 6.3%           | 6.8%           | 7.3%           |
| EBITDA margin  | 6.6%           | 7.3%           | 9.5%           | 10.9%          | 11.3%          | 11.7%          |
| Return on equity (ROE)                               | 0.8%           | 4.0%           | 11.7%          | 13.1%          | 15.2%          | 17.3%          |
| <b>GEARING/LIQUIDITY/ACTIVITIES</b>                  | <b>2022A</b>   | <b>2023A</b>   | <b>2024A</b>   | <b>2025E</b>   | <b>2026E</b>   | <b>2027E</b>   |
| <b>YE 31 Mar</b>                                     |                |                |                |                |                |                |
| Current ratio (x)                                    | 1.2            | 0.8            | 0.9            | 1.0            | 1.1            | 1.1            |
| Receivable turnover days                             | 9.7            | 6.3            | 6.4            | 6.4            | 6.4            | 6.4            |
| Inventory turnover days                              | 15.9           | 13.4           | 10.9           | 10.9           | 10.9           | 10.9           |
| Payable turnover days                                | 8.8            | 11.3           | 10.0           | 10.0           | 10.0           | 10.0           |
| <b>VALUATION</b>                                     | <b>2022A</b>   | <b>2023A</b>   | <b>2024A</b>   | <b>2025E</b>   | <b>2026E</b>   | <b>2027E</b>   |
| <b>YE 31 Mar</b>                                     |                |                |                |                |                |                |
| P/E  | 237.4          | 45.8           | 15.3           | 13.2           | 11.2           | 9.6            |
| P/E (diluted)  | 237.4          | 45.8           | 15.3           | 13.2           | 11.2           | 9.6            |
| P/B  | 1.8            | 1.8            | 1.7            | 1.7            | 1.7            | 1.6            |
| P/CFPS   | 4.3            | 3.0            | 6.3            | 5.2            | 4.6            | 4.2            |
| Div yield (%)  | 3.3            | 4.4            | 6.0            | 7.6            | 9.0            | 10.6           |

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

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