

DPC Dash (1405 HK)

Our view on placement by Domino's Pizza

What is new? Sales of shares by the 2nd largest shareholder of DPC Dash (1405 HK). Domino's Pizza (DPZ US), the 2nd largest shareholder of DPC Dash (1405 HK), has sold 10mn shares (about 7.66% of total shares issued), at the price of HK\$ 65.0 per share, with a 12.8% discount to last closing price of HK\$ 74.55. After this trade, Domino's Pizza's ownership in DPC Dash will be reduced from around 18.1mn shares (13.87% of the total) to about 8.1mn shares (6.21% of the total). Noted that it will have a 90 days' lock-up period afterward.

■ **Our view: While the long-term interest is still here, it is reasonable for Domino's Pizza to take profit, but we believe fundamentals are intact and the liquidity boost is more important.**

■ **1) Investors might be worried, but we do think it is totally reasonable for Domino's Pizza to take profit.** According to our estimates, the cost of investment for them was at around US\$ 90mn (back in May 2020, Jan 2021 and Dec 2021), and based on the price of HK\$ 65.0, the value of those shares will now be at around US\$ 151mn; hence it has already recorded a 68% gain over the past 3 to 4 years, which is about US\$ 16.5mn per year.

■ **2) In fact, Domino's Pizza is still profiting a lot from the partnership.** Based on DPC's annual report and our estimates, DPC paid RMB 103.7mn (around US\$ 14.6mn) in FY23 as aggregate fees under the master franchise agreement to Domino's Pizza, which consists of (i) store opening fees (US\$ 10k per new store), (ii) continual royalty fees (3% of fees per year) and (iii) fees for the POS and payment system (US\$ 3k per existing store). Such payments may grow to about US\$ 21mn/ 28mn in FY25E/ 26E (CMBI est.), still higher than the average capital gains per year mentioned above.

■ **3) The liquidity was quite an issue and now is likely resolved.** If we assume the pre-IPO investors, directors and other connected persons did not sold many shares after the IPO, the remaining mix of the free-float shares is just at about 10%, which is rather low, in our view, and so does its average daily trading value in the past 6 months (at about HK\$ 16.4mn). Therefore, after this placement, the free float could potentially be boosted by 77%, and this is a profound step for enrolling more professional investors.

■ **4) The fundamentals of DPC Dash remain very solid.** SSSG in 3Q24 continued to be positive. This is astonishing in our view given the high base last year (SSSG was likely 10%+) and has outpaced many of its peers. Also, as at 3Q24, 210 new stores were added in 9M24 and store number reached 978. Total net new stores (including stores under construction and contract signed) is now very close to 100% of the FY24E target of 240, and we are still confident for the Company to achieve their target of 300-350 new stores per year in FY25E-26E. However, more importantly, the total number of loyalty program members reached 21.7mn by 3Q24, increased by over 100% YoY, which is highly encouraging for the future business, in our view.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	2,021	3,051	4,268	5,654	7,339
YoY growth (%)	25.4	51.0	39.9	32.5	29.8
Operating profit (RMB mn)	(109.2)	(42.6)	155.5	298.9	518.2
Net profit (RMB mn)	(222.6)	(26.6)	53.1	185.5	402.7
EPS (Reported) (RMB cents)	(233.78)	(23.57)	40.75	142.40	309.18
YoY growth (%)	na	na	na	249.5	117.1
P/E (x)	ns	ns	155.1	44.4	20.4
P/B (x)	8.0	3.9	3.8	3.5	3.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(26.0)	(1.9)	2.5	8.3	15.9
Net gearing (%)	26.6	9.5	9.3	8.6	7.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$81.20
Up/Downside 17.7%
Current Price HK\$69.00

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	8,967.9
Avg 3 mths t/o (HK\$ mn)	12.4
52w High/Low (HK\$)	79.95/48.85
Total Issued Shares (mn)	130.0

Source: FactSet

Shareholding Structure

Ocean Investments Limited	33.5%
Domino's Pizza, Inc.	6.2%

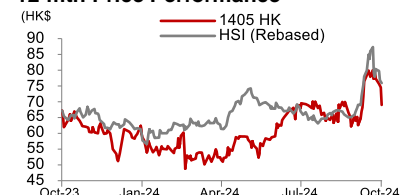
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.8%	-5.2%
3-mth	-0.7%	-12.3%
6-mth	33.3%	7.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Earnings forecasts

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,268	5,654	7,339	4,268	5,654	7,339	0.0%	0.0%	0.0%
Gross profit	3,097	4,103	5,326	3,097	4,103	5,326	0.0%	0.0%	0.0%
EBIT	156	299	518	156	299	518	0.0%	0.0%	0.0%
Net profit att.	53	185	403	53	185	403	0.0%	0.0%	0.0%
Diluted EPS (RMB)	0.407	1.424	3.092	0.407	1.424	3.092	0.0%	0.0%	0.0%
Gross margin	72.6%	72.6%	72.6%	72.6%	72.6%	72.6%	0ppt	0ppt	0ppt
EBIT margin	3.6%	5.3%	7.1%	3.6%	5.3%	7.1%	0ppt	0ppt	0ppt
Net profit att. margin	1.2%	3.3%	5.5%	1.2%	3.3%	5.5%	0ppt	0ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,268	5,654	7,339	4,143	5,330	6,772	3.0%	6.1%	8.4%
Gross profit	3,097	4,103	5,326	3,007	3,874	4,917	3.0%	5.9%	8.3%
EBIT	156	299	518	92	230	381	68.7%	29.8%	36.0%
Net profit att.	53	185	403	92	154	267	-42.3%	20.1%	50.8%
Diluted EPS (RMB)	0.407	1.424	3.092	0.535	1.145	2.091	-23.8%	24.3%	47.9%
Gross margin	72.6%	72.6%	72.6%	72.6%	72.7%	72.6%	0ppt	-0.1ppt	0ppt
EBIT margin	3.6%	5.3%	7.1%	2.2%	4.3%	5.6%	1.4ppt	1ppt	1.4ppt
Net profit att. margin	1.2%	3.3%	5.5%	2.2%	2.9%	3.9%	-1ppt	0.4ppt	1.5ppt

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 3: CMBIGM's assumptions

Major assumptions	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (RMB mn)						
Beijing and Shanghai	1,147	1,279	1,545	1,688	1,841	2,014
New growth markets	464	742	1,506	2,580	3,813	5,324
Total	1,611	2,021	3,051	4,268	5,654	7,339
Sales growth by segment (%)						
Beijing and Shanghai	32.0%	11.5%	20.8%	9.3%	9.1%	9.4%
New growth markets	97.7%	59.8%	102.9%	71.3%	47.8%	39.6%
Total	45.9%	25.4%	51.0%	39.9%	32.5%	29.8%
Average daily sales per store by market (RMB)						
Beijing and Shanghai	12,781	13,576	12,881	12,497	12,496	12,621
New growth markets	7,617	9,009	12,285	13,378	13,646	13,919
All markets	10,692	11,445	12,580	13,015	13,249	13,537
Sales growth by dine-in and delivery (%)						
Delivery	43.5%	23.7%	23.9%	25.0%	33.0%	30.0%
Non-delivery	53.1%	30.2%	121.4%	61.6%	31.9%	29.6%
Total	45.9%	25.4%	51.0%	39.9%	32.5%	29.8%
Sales network by segment						
Beijing and Shanghai	267	312	351	386	421	456
New growth markets	201	276	417	622	887	1,177
Total	468	588	768	1,008	1,308	1,633
Restaurant profit margin by segment						
Beijing and Shanghai	18.5%	18.3%	15.5%	15.2%	15.0%	15.0%
New growth markets	-2.6%	6.4%	12.0%	13.3%	13.1%	13.6%
Total	8.9%	10.1%	13.8%	14.1%	13.7%	14.0%
Costs breakdown						
Staff costs/ sales	43.7%	38.8%	38.6%	36.1%	35.4%	33.9%
Rental and related expenses/ sales	11.2%	10.7%	10.1%	9.3%	9.4%	9.5%
D&A of other assets/ sales	8.8%	8.3%	6.9%	6.5%	6.0%	5.6%
Utilities expenses/ sales	4.4%	4.1%	3.8%	3.7%	3.6%	3.6%
A&P expenses/ sales	7.6%	5.8%	5.2%	5.0%	4.9%	4.9%
Other expenses/ sales	9.9%	12.5%	10.5%	9.4%	9.0%	9.0%
Effective tax rate	1.5%	-10.8%	1269.4%	39.2%	17.6%	10.0%
NP att. margin	-29.2%	-11.0%	-0.9%	1.2%	3.3%	5.5%
Adj. NP margin	-8.9%	-5.6%	0.3%	2.7%	4.1%	5.9%
Adj. NP growth (%)	-28.3%	-20.6%	-107.7%	1235.6%	96.6%	89.2%

Source: Company data, CMBIGM estimates

Valuation

Figure 4: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E
Leading Greater China Catering														
DPC Dash	1405 HK	BUY	81.20	69.00	18%	9,003	Dec-23	153.9	44.0	3.5	11.9	(0.5)	0.0	11.4
Nayuki	2150 HK	BUY	3.43	1.39	147%	2,370	Dec-23	n/a	n/a	0.5	0.3	n/a	0.0	(56.2)
Jiumaojiu	9922 HK	HOLD	3.59	3.22	11%	4,542	Dec-23	18.9	12.6	1.0	9.1	(19.8)	2.4	(47.2)
Haidilao	6862 HK	BUY	15.94	14.76	8%	82,272	Dec-23	16.3	14.5	4.9	45.4	2.3	5.0	1.5
Cafe De Coral	341 HK	BUY	11.15	8.37	33%	4,855	Mar-24	13.0	11.0	1.6	11.6	0.7	8.3	(7.1)
Xiabuxiabu	520 HK	BUY	4.89	0.96	409%	1,043	Dec-23	n/a	97.7	1.0	(40.7)	n/a	3.9	(60.4)
Helens	9869 HK	NR	n/a	2.15	n/a	2,721	Dec-23	14.7	11.7	1.6	9.9	0.9	18.3	(30.8)
Yihai	1579 HK	NR	n/a	13.28	n/a	13,767	Dec-23	14.6	13.0	2.2	18.4	2.7	6.0	7.1
Yum China	9987 HK	BUY	294.90	337.00	-12%	128,531	Dec-23	19.5	17.4	2.4	13.6	1.6	1.5	1.4
Yum China	YUMC US	BUY	38.07	43.32	-12%	128,436	Dec-23	19.5	17.4	2.4	13.6	1.6	1.5	2.1
Gourmet Master	2723 TT	NR	n/a	89.00	n/a	3,873	Dec-23	23.8	16.3	1.4	4.5	1.6	3.0	(12.3)
Avg.								32.7	25.6	2.1	8.9	(1.0)	4.5	(17.3)
Med.								18.9	15.4	1.6	11.6	1.6	3.0	(7.1)
International Catering														
Yum! Brands	YUM US	NR	n/a	133	n/a	290,224	Dec-23	23.6	21.2	n/a	n/a	3.3	2.0	1.6
McDonald's	MCD US	NR	n/a	313	n/a	1,746,489	Dec-23	26.5	24.6	n/a	n/a	4.7	2.1	5.6
Starbucks	SBUX US	NR	n/a	96	n/a	844,973	Oct-23	27.0	24.7	n/a	n/a	4.0	2.4	(0.1)
Rest. Brands	QSR US	NR	n/a	71	n/a	249,559	Dec-23	20.9	18.3	5.8	42.9	5.8	3.3	(8.9)
Chipotle	CMG US	NR	n/a	59	n/a	625,138	Dec-23	53.6	45.1	17.6	43.5	2.7	0.0	28.4
Darden Rest.	DRI US	NR	n/a	163	n/a	148,801	May-24	17.1	15.4	7.7	48.5	1.8	3.3	(0.9)
Domino's	DPZ US	NR	n/a	425	n/a	114,025	Dec-23	25.4	24.1	n/a	n/a	2.7	1.4	3.0
Wendy's Co	WEN US	NR	n/a	20	n/a	31,025	Dec-23	19.9	18.4	43.3	60.7	2.8	5.2	0.8
Shake Shack	SHAK US	NR	n/a	109	n/a	36,103	Dec-23	149	104	8.3	6.1	3.4	n/a	46.4
Wingstop	WING US	NR	n/a	373	n/a	85,047	Dec-23	99	80	n/a	n/a	2.8	0.3	45.5
Jubilant Food.	JUBI IN	NR	n/a	612	n/a	37,391	Mar-24	113	75	13.6	19.0	5.8	0.3	8.4
Domino's Group	DOM LN	NR	n/a	302	n/a	12,064	Dec-23	15	13	n/a	n/a	(12.0)	3.7	(19.8)
Domino's Ent.	DMP AU	NR	n/a	37	n/a	18,014	Jun-24	26	21	4.9	17.0	1.0	3.1	(36.5)
Alsea Sab De	ALSEA* MM	NR	n/a	54	n/a	17,264	Dec-23	19.5	12.4	4.3	35.4	1.6	2.2	(15.1)
Avg.								45.3	35.5	13.2	34.1	2.2	2.3	4.2
Med.								25.5	22.7	8.0	39.2	2.8	2.2	1.2

Source: Bloomberg, company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	1,611	2,021	3,051	4,268	5,654	7,339
Cost of goods sold	(426)	(550)	(837)	(1,171)	(1,551)	(2,013)
Gross profit	1,186	1,471	2,214	3,097	4,103	5,326
Operating expenses	(1,378)	(1,622)	(2,291)	(2,984)	(3,861)	(4,881)
Selling expense	(264)	(285)	(370)	(492)	(618)	(773)
Admin expense	(72)	(83)	(115)	(156)	(201)	(262)
Staff costs	(703)	(785)	(1,179)	(1,542)	(2,001)	(2,491)
Other rental related expenses	(180)	(216)	(308)	(395)	(531)	(694)
Others	(159)	(253)	(320)	(399)	(509)	(660)
Operating profit	(187)	(109)	(43)	156	299	518
Other income	4	42	34	43	57	73
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	(46)	59	168	434	639	931
Depreciation	(142)	(168)	(210)	(278)	(340)	(412)
Other amortisation	0	0	0	0	0	0
Interest income	2	3	16	21	24	31
Interest expense	(90)	(82)	(71)	(73)	(76)	(73)
Other income/expense	(203)	(13)	100	(17)	(23)	(29)
Pre-tax profit	(478)	(201)	2	87	225	447
Income tax	7	(22)	(29)	(34)	(40)	(45)
Minority interest	0	0	0	0	0	0
Net profit	(471)	(223)	(27)	53	185	403

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	784	689	1,215	1,361	1,657	2,223
Cash & equivalents	657	544	587	661	869	1,329
Account receivables	5	8	10	13	17	22
Inventories	37	67	73	98	130	169
Prepayment	84	69	113	158	209	271
ST bank deposits	2	0	432	432	432	432
Other current assets	0	0	0	0	0	0
Non-current assets	2,379	2,581	2,931	3,108	3,321	3,551
PP&E	427	496	626	809	1,025	1,259
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	1,254	1,242	1,229	1,223	1,219	1,215
Other non-current assets	698	842	1,077	1,077	1,077	1,077
Total assets	3,163	3,270	4,146	4,469	4,978	5,773
Current liabilities	849	795	1,017	1,287	1,611	2,003
Short-term borrowings	180	0	0	0	0	0
Account payables	125	127	154	196	260	338
Tax payable	22	17	18	18	18	18
Other current liabilities	523	652	845	1,073	1,333	1,648
Non-current liabilities	1,356	1,721	1,030	1,030	1,030	1,030
Long-term borrowings	0	200	200	200	200	200
Other non-current liabilities	1,356	1,521	830	830	830	830
Total liabilities	2,205	2,516	2,047	2,317	2,640	3,033
Share capital	1,782	1,804	3,132	3,132	3,132	3,132
Retained earnings	(869)	(1,091)	(1,122)	(1,069)	(884)	(481)
Other reserves	44	40	89	89	89	89
Total shareholders equity	958	753	2,099	2,152	2,338	2,740
Minority interest	0	0	0	0	0	0
Total equity and liabilities	3,163	3,270	4,146	4,469	4,978	5,773

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(478)	(201)	2	87	225	447
Depreciation & amortization	142	168	210	278	340	412
Tax paid	(6)	(35)	(44)	(34)	(40)	(45)
Change in working capital	39	(32)	18	198	236	287
Others	636	398	349	(23)	(58)	(98)
Net cash from operations	332	298	536	506	704	1,004
Investing						
Capital expenditure	(171)	(195)	(288)	(360)	(420)	(472)
Acquisition of subsidiaries/ investments	(14)	(15)	(29)	0	0	0
Others	3	3	(416)	0	0	0
Net cash from investing	(182)	(207)	(732)	(360)	(420)	(472)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	(30)	20	0	0	0	0
Proceeds from share issues	317	0	549	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(44)	(245)	(332)	(73)	(76)	(73)
Net cash from financing	243	(225)	217	(73)	(76)	(73)
Net change in cash						
Cash at the beginning of the year	257	657	544	587	661	869
Exchange difference	6	21	22	0	0	0
Others	393	(134)	21	74	209	460
Cash at the end of the year	657	544	587	661	869	1,329
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	45.9%	25.4%	51.0%	39.9%	32.5%	29.8%
Gross profit	49.4%	24.1%	50.5%	39.9%	32.5%	29.8%
Operating profit	na	na	na	na	92.2%	73.4%
EBITDA	na	na	184.6%	158.6%	47.4%	45.6%
Net profit	na	na	na	na	249.5%	117.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	73.6%	72.8%	72.6%	72.6%	72.6%	72.6%
Operating margin	(11.6%)	(5.4%)	(1.4%)	3.6%	5.3%	7.1%
EBITDA margin	(2.8%)	2.9%	5.5%	10.2%	11.3%	12.7%
Return on equity (ROE)	(46.4%)	(26.0%)	(1.9%)	2.5%	8.3%	15.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.2	0.3	0.1	0.1	0.1	0.1
Current ratio (x)	0.9	0.9	1.2	1.1	1.0	1.1
Receivable turnover days	4.6	8.3	9.8	12.6	16.7	21.7
Inventory turnover days	26.7	34.3	30.6	30.6	30.6	30.6
Payable turnover days	85.1	83.5	61.2	61.2	61.2	61.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	155.1	44.4	20.4
P/E (diluted)	ns	ns	ns	155.1	44.4	20.4
P/B	5.7	8.0	3.9	3.8	3.5	3.0
P/CFPS	16.5	20.2	13.3	16.3	11.7	8.2
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	5,518.7	6,226.6	8,148.7	8,075.1	7,866.3	7,406.6
EV/Sales	3.4	3.1	2.7	1.9	1.4	1.0
EV/EBITDA	(120.8)	105.7	48.6	18.6	12.3	8.0

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

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Analyst Certification

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