

Cafe De Coral (341 HK)

A prudent model for an ambitious 3-year plan

We have updated with management and believe the worst should be over for HK (hopefully the same for mainland China). We expect recovery to continue, partly boosted by second round of consumption vouchers. Also, while raw material costs inflation is under control, there will also be leverage in staff and rental costs as sales pick up onward. We fine-tune our EPS estimates by 3%/ 2% in FY22E/ 23E. Maintain BUY but cut TP to HK\$ 15.69, based on 20x FY3/24E P/E (rolled over from 27x FY3/23E P/E), vs 5-year avg of 20x.

- The new 3-year plan: better margin in HK and more footprint in mainland China.** Management renewed their 3-year plan (FY23E-25E), with an aim to achieve a HSD pre-tax margin for its HK market and to more than double its store counts in mainland China, targeting 280 stores by FY25E (vs only 136 stores in FY22).
- Our model is rather conservative.** We are forecasting only a ~6% group level pre-tax margin (noted that margins are higher in China, in general, vs HK market) and 201 stores in mainland China by FY25E, which are only 80% of the HK margin target and 50% of China's new stores target CDC guided.
- HK market: Speedy recovery aided by consumption vouchers and more institutional catering contracts.** CDC SSS grew by 6% in FY22 and we estimated the recovery rate was at ~86% vs pre-Covid level. In fact, the performance could be far better without the massive Covid-19 outbreak during Jan-Mar 2022. Thanks to re-opening and consumption vouchers issued, recovery rate for CDC at daytime/ nighttime session improved to ~95%/ 80% in May 2022. We are now forecasting a recovery rate of 98% for CDC and 14% SSSG in FY23E. Even if off-premises sales mix will fall from ~45% in FY22 to just 30-35% in FY23E, we still think the dine-in traffic improvement can more than offset the cannibalization. We expect 10 net new stores in HK (gross target is 30-40) in FY23E. Cost-wise, we believe CDC is able to keep its cost structure under control (e.g. raised ASP by HK\$ 1 to HK\$ 39 in Dec 2022, more favorable rental terms during the renewals), and have certain operating leverage when sales rebound. **Moreover, we believe casual dining can recover even faster than the fast food and institutional catering sales can be fairly explosive** once the schooling and canteen services resume to normal (allowing all dine-in and open for public visitors), as CDC had signed many new service contacts.
- Maintain BUY and cut TP to HK\$ 15.69.** We cut our EPS estimates by 3%/ 2% in FY22E/ 23E, to factor in: 1) faster store openings in mainland China, 2) higher food costs and staff costs. We maintain BUY but cut TP to HK\$ 15.69 based on 20x FY3/24 P/E (rolled over from 27x FY3/23E). It is trading at 15x FY3/24E P/E, which is not too demanding, vs its 5-year avg of 20x, in our view.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	6,714.3	7,508.8	8,975.4	9,862.0	10,610.4
YoY growth (%)	(15.7)	11.8	19.5	9.9	7.6
Net income (HK\$ mn)	359.1	21.2	397.0	455.1	521.1
EPS (HK\$)	0.62	0.04	0.68	0.78	0.90
YoY growth (%)	387.7	(94.1)	1,771.6	14.6	14.5
Consensus EPS (HK\$)	N/A	N/A	0.52	0.78	N/A
P/E (x)	18.6	314.6	16.8	14.7	12.8
P/B (x)	2.2	2.3	2.1	2.0	1.9
Yield (%)	3.3	2.5	4.2	4.6	5.5
ROE (%)	11.9	0.7	12.8	13.8	14.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

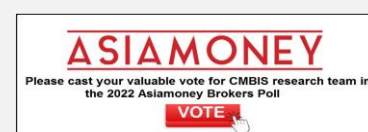
Target Price	HK\$15.69
(Previous TP)	HK\$19.05)
Up/Downside	36.4%
Current Price	HK\$11.50

China Catering Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,736
Avg 3 mths t/o (HK\$ mn)	8.29
52w High/Low (HK\$)	16.42/10.58
Total Issued Shares (mn)	585.7

Source: Bloomberg

Shareholding Structure

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

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.1%	-7.4%
3-mth	-10.6%	-6.9%
6-mth	-17.5%	-9.3%
12-mth	-28.6%	-3.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- Café de Coral (341 HK, BUY) – China to grow fast and HK to turn positive - 21 Jun 2021
- China Catering (Outperform) – Leaders to benefit even more during recovery - 12 Mar 2021

- Mainland China market: SSSG should resume and a rather aggressive new stores opening plan reiterated:** CDC China SSS declined by 1% in FY22, and we believe the recovery rate is at about 96% vs pre-Covid-19 level. Similarly, the performance was dragged by various Covid-19 outbreaks during Oct 2021 to Mar 2022 (including the Shenzhen lockdown). However, this recovery rate is already impressive since the listed peers average is only at ~80% during the same period (~83%/ 80%/ 79%/ 73%/ 71% for Tai Er/ JMJ/ Cou Cou/ HDL/ XBXB), esp. when we consider the weakened shopping mall foot traffic. Going forward, aided by improving product and marketing quality, we are forecasting a recovery rate of 107% and 11% SSSG in FY23E. **In terms of store expansion, we are expecting only ~20 net new stores per year (vs net new stores target of 50 per year) in FY23E-25E.**
- Result recap: net profit in line with profit warning and highly generous dividend proposed.** In FY3/22, sales increased by 12% YoY to HK\$ 7.5bn, in line with BBG est; while net profit dropped by 94%, in line with profit warning issued previously. This result was a mixture of: 1) a sizeable government subsidies of ~HK\$ 130mn, 2) ~RMB 80mn impairment losses and fair value changes of investment property and 3) fairly weak foot traffic during Jan-Mar 2022 and its subsequent operating deleverage. However, despite the powerless result, dividend proposed was at about ~HK\$ 164mn (vs HK\$ 223mn last year), implying a 773% payout ratio and a 4.2% FY3/23E dividend yield, at the current share price.

Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,975	9,862	10,610	8,392	9,029	N/A	7.0%	9.2%	N/A
Gross profit	1,044	1,218	1,345	1,089	1,188	N/A	-4.2%	2.5%	N/A
EBIT	582	661	748	624	689	N/A	-6.7%	-4.0%	N/A
Net profit att.	397	455	521	410	463	N/A	-3.3%	-1.8%	N/A
Diluted EPS (HK\$)	0.68	0.78	0.90	0.71	0.80	N/A	-3.0%	-1.5%	N/A
Gross margin	11.6%	12.4%	12.7%	13.0%	13.2%	N/A	-1.4ppt	-0.8ppt	N/A
EBIT margin	6.5%	6.7%	7.0%	7.4%	7.6%	N/A	-1ppt	-0.9ppt	N/A
Net profit att. margin	4.4%	4.6%	4.9%	4.9%	5.1%	N/A	-0.5ppt	-0.5ppt	N/A

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,975	9,862	10,610	8,298	9,036	N/A	8.2%	9.1%	N/A
Gross profit	1,044	1,218	1,345	860	1,093	N/A	21.3%	11.4%	N/A
EBIT	582	661	748	419	595	N/A	38.8%	11.1%	N/A
Net profit att.	397	455	521	387	501	N/A	2.7%	-9.2%	N/A
Diluted EPS (HK\$)	0.68	0.78	0.90	0.52	0.78	N/A	31.6%	0.1%	N/A
Gross margin	11.6%	12.4%	12.7%	10.4%	12.1%	N/A	1.3ppt	0.3ppt	N/A
EBIT margin	6.5%	6.7%	7.0%	5.1%	6.6%	N/A	1.4ppt	0.1ppt	N/A
Net profit att. margin	4.4%	4.6%	4.9%	4.7%	5.5%	N/A	-0.2ppt	-0.9ppt	N/A

Source: Company data, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	4,751	5,259	6,348	6,898	7,330
HK Fast Casual & Casual Dining	622	771	848	932	1,026
Food Processing & Distribution	141	148	156	163	171
Mainland China	1,200	1,332	1,625	1,868	2,083
Total	6,714	7,509	8,975	9,862	10,610
Growth (%)					
HK QSR & Institutional Catering	-20%	11%	21%	9%	6%
HK Fast Casual & Casual Dining	-20%	24%	10%	10%	10%
Food Processing & Distribution	-9%	5%	5%	5%	5%
Mainland China	10%	11%	22%	15%	12%
Total	-16%	12%	20%	10%	8%
GP margin	5.6%	7.3%	11.6%	12.4%	12.7%
Costs breakdown					
Costs of raw materials	29.9%	30.0%	30.0%	29.8%	29.8%
Depreciation	5.2%	4.8%	4.3%	4.1%	4.0%
Operating lease rentals	13.2%	11.9%	11.0%	10.8%	10.9%
Employee benefit expenses	34.7%	34.0%	31.5%	31.6%	31.6%
OP margin	7.1%	1.7%	6.5%	6.7%	7.0%
Effective tax rate	7.7%	55.0%	16.0%	16.0%	16.0%
NP att. margins	5.3%	0.3%	4.4%	4.6%	4.9%
NP att. growth (%)	387.7%	-94.1%	1771.6%	14.6%	14.5%
Sales network by region					
HK QSR & Institutional Catering	292	301	306	311	316
HK Fast Casual Dining	60	63	68	73	78
Mainland China	122	136	156	176	201
Total	474	500	530	560	595
SSSG by segment					
HK Café de Coral	-14.0%	6.0%	14.0%	6.0%	4.0%
HK Super Super Congee & Noodles	-11.0%	13.0%	11.0%	4.0%	3.0%
Mainland China Café de Coral	2.0%	-1.0%	11.0%	5.0%	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 (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Restaurants and Food Ingredients															
Cafe De Coral	341 HK	BUY	15.69	11.50	36%	6,736	Mar-22	314.6	16.8	2.3	2.1	12.6	37.9	2.5	
Haidilao Int'l	6862 HK	BUY	15.59	15.12	3%	84,279	Dec-21	51.7	26.6	7.9	6.3	(45.9)	(0.3)	0.4	
Jiumaoju Int'l	9922 HK	BUY	21.30	17.58	21%	25,551	Dec-21	45.0	26.8	6.0	4.9	11.1	0.9	0.5	
XBXB Catering	520 HK	NR	N/A	4.04	N/A	4,388	Dec-21	31.4	13.1	1.8	1.6	(13.7)	(0.1)	0.7	
Yihai Int'l	1579 HK	NR	N/A	22.70	N/A	23,765	Dec-21	23.8	20.1	4.2	3.6	21.6	2.0	1.2	
Yum China	9987 HK	HOLD	287.57	331.00	-13%	139,493	Dec-21	41.3	22.8	2.4	2.2	13.0	(23.3)	1.0	
Gourmet Master	2723 TT	NR	N/A	106.00	N/A	5,023	Dec-21	19.8	16.1	1.7	1.6	9.6	3.4	3.9	
								Avg.	75.4	20.3	3.7	3.2	1.2	2.9	1.5
								Med.	41.3	20.1	2.4	2.2	11.1	0.9	1.0
Other H-shares Restaurants and Food Ingredients															
Fairwood	52 HK	NR	N/A	13.70	N/A	1,775	Mar-21	N/A	N/A	N/A	N/A	19.1	N/A	N/A	
Tai Hing	6811 HK	NR	N/A	1.09	N/A	1,094	Dec-21	6.8	5.7	1.0	0.9	9.2	0.2	11.0	
Tsui Wah	1314 HK	NR	N/A	0.20	N/A	278	Mar-21	N/A	N/A	N/A	N/A	(12.4)	N/A	N/A	
Ajisen China	538 HK	NR	N/A	0.88	N/A	961	Dec-21	N/A	N/A	N/A	N/A	0.7	N/A	N/A	
Tao Heung	573 HK	NR	N/A	0.87	N/A	882	Dec-21	N/A	N/A	N/A	N/A	(1.4)	N/A	N/A	
Tang Palace	1181 HK	NR	N/A	0.55	N/A	592	Dec-21	N/A	N/A	N/A	N/A	9.8	N/A	N/A	
								Avg.	6.8	5.7	1.0	0.9	4.2	0.2	11.0
								Med.	6.8	5.7	1.0	0.9	4.9	0.2	11.0
LEADING GREATER CHINA RESTAURANTS AND FOOD INGREDIENTS															
Yum! Brands	YUM US	NR	N/A	111.46	N/A	249,469	Dec-21	23.8	20.6	N/A	N/A	N/A	4.9	2.0	
Mcdonald'S	MCD US	NR	N/A	243.06	N/A	1,410,855	Dec-21	25.0	22.6	N/A	N/A	N/A	4.8	2.3	
Starbucks Corp	SBUX US	NR	N/A	73.30	N/A	659,831	Oct-21	25.3	21.1	N/A	N/A	N/A	6.5	2.7	
Rest. Brands	QSR US	NR	N/A	47.97	N/A	170,066	Dec-21	16.2	14.6	8.1	8.5	36.1	1.4	4.5	
Chipotle Mexican	CMG US	NR	N/A	1254.0	N/A	275,217	Dec-21	39.0	29.4	13.7	11.2	32.3	1.2	0.0	
Darden Rest.	DRI US	NR	N/A	115.12	N/A	112,704	May-21	15.6	14.1	6.4	6.0	42.8	0.7	3.8	
Domino'S Pizza	DPZ US	NR	N/A	389.76	N/A	110,267	Jan-22	30.6	25.8	N/A	N/A	N/A	3.6	1.1	
Wendy'S Co	WEN US	NR	N/A	17.87	N/A	30,050	Jan-22	21.6	18.1	12.1	14.5	40.3	2.3	2.8	
Shake Shack	SHAK US	NR	N/A	39.13	N/A	12,939	Dec-21	n/a	237.2	4.1	4.0	(4.9)	N/A	N/A	
Wingstop	WING US	NR	N/A	73.92	N/A	17,334	Dec-21	47.9	39.2	N/A	N/A	N/A	2.7	1.0	
Jollibee Foods	JFC PM	NR	N/A	193.00	N/A	30,809	Dec-21	34.9	25.5	3.4	3.0	11.8	2.2	1.1	
								Avg.	28.0	42.6	8.0	7.9	26.4	3.0	2.1
								Med.	25.2	22.6	7.3	7.3	34.2	2.5	2.2
H-shares Consumer Staples															
UPC	220 HK	NR	N/A	6.31	N/A	27,255	Dec-21	15.9	13.9	1.7	1.7	10.9	2.3	6.8	
Tingyi	322 HK	NR	N/A	12.60	N/A	70,971	Dec-21	17.0	14.2	3.5	3.5	19.1	2.1	7.2	
Want Want China	151 HK	NR	N/A	7.34	N/A	87,343	Mar-21	17.7	16.2	4.6	4.3	29.5	2.3	3.7	
China Mengniu*	2319 HK	BUY	57.00	37.00	54%	146,314	Dec-21	20.8	17.4	3.0	2.6	14.4	1.2	1.3	
Vitasoy	345 HK	NR	N/A	13.48	N/A	14,424	Mar-21	N/A	36.1	4.4	4.0	(2.6)	N/A	0.1	
Nongfu Spring	9633 HK	NR	N/A	43.70	N/A	491,471	Dec-21	55.6	45.8	16.9	14.0	39.5	4.3	1.2	
Tsingtao Brewery*	168 HK	BUY	86.00	71.05	21%	123,932	Dec-21	26.3	22.4	3.4	3.1	14.2	3.3	1.7	
CR Beer*	291 HK	BUY	71.00	52.70	35%	170,968	Dec-21	35.7	28.5	5.6	5.0	20.1	3.7	1.1	
Budweiser Brew*	1876 HK	BUY	28.00	21.15	32%	280,098	Dec-21	32.5	27.2	3.1	2.8	8.8	1.9	1.1	
Dali Foods	3799 HK	NR	N/A	4.04	N/A	55,324	Dec-21	12.4	11.4	2.3	2.1	20.3	1.8	4.1	
								Avg.	26.0	23.3	4.8	4.3	17.4	2.5	2.8
								Med.	20.8	19.9	3.5	3.3	16.8	2.3	1.5

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

Financial Summary

Income statement						Cash flow summary					
YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E	YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	6,714	7,509	8,975	9,862	10,610	EBIT	474	131	582	661	748
HK QSR & Institutional Catering	4,751	5,259	6,348	6,898	7,330	D & A	351	362	387	408	431
HK Fast Casual & Casual Dining	622	771	848	932	1,026	Change in working capital	70	(158)	122	94	38
Food Processing & Distribution	141	148	156	163	171	Income tax paid	(29)	(28)	(79)	(90)	(103)
Mainland China	1,200	1,332	1,625	1,868	2,083	Others	827	24	29	31	34
Cost of goods sold	(6,339)	(6,961)	(7,932)	(8,644)	(9,265)	Net cash from operating CF	1,693	331	1,041	1,104	1,147
Gross profit	375	548	1,044	1,218	1,345	Capex & investments	(273)	(305)	(365)	(402)	(433)
Other income	561	42	45	(5)	(5)	Associated companies	-	-	-	-	-
Operating expenses	(463)	(459)	(506)	(552)	(591)	Interest received	8	(80)	(90)	(97)	(103)
D & A	-	-	-	-	-	Others	(9)	804	808	808	808
Staff costs	-	-	-	-	-	Net cash from investing CF	(273)	419	352	309	272
S & D costs (ex-staff, D&A)	-	-	-	-	-	Equity raised	-	-	-	-	-
Admin exp. (ex-staff, D&A)	(463)	(459)	(506)	(552)	(591)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(58)	(223)	(167)	(287)	(329)
EBIT	474	131	582	661	748	Others	(834)	(808)	(808)	(808)	(808)
Finance costs, net	(83)	(80)	(90)	(97)	(103)	Net cash from financing CF	(891)	(1,031)	(975)	(1,095)	(1,137)
JVs & associates	-	-	-	-	-	Net change in cash	528	(281)	419	318	282
Exceptional	-	-	-	-	-	Beginning cash balance	345	2,073	1,792	2,210	2,528
Pre-tax profit	391	51	492	563	645	Exchange difference	20	-	-	-	-
Income tax	(30)	(28)	(79)	(90)	(103)	Cash at the end of the year	893	1,792	2,210	2,528	2,810
Less: Minority interests	1	2	16	18	21						
Net profit	359	21	397	455	521						

Balance sheet						Key ratios					
YE 31 Mar (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E	YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	4,639	4,573	4,549	4,542	4,543	Sales mix (%)					
Fixed asset	1,519	1,445	1,424	1,420	1,424	HK QSR & Institutional Catering	70.8	70.0	70.7	69.9	69.1
Intangible assets & goodwill	1	2	2	2	1	HK Fast Casual & Casual Dining	9.3	10.3	9.4	9.5	9.7
Prepaid lease payments	-	68	65	62	60	Food Processing & Distribution	2.1	2.0	1.7	1.7	1.6
Interest in joint ventures	-	-	-	-	-	Mainland China	17.9	17.7	18.1	18.9	19.6
Other non-current assets	3,119	3,058	3,058	3,058	3,058	Total	100.0	100.0	100.0	100.0	100.0
Current assets	2,516	2,422	2,874	3,195	3,522	P&L ratios (%)					
Cash and cash equivalents	2,073	1,792	2,210	2,528	2,810	Gross margin	5.6	7.3	11.6	12.4	12.7
Inventories	235	305	348	379	406	Operating margin	7.1	1.7	6.5	6.7	7.0
Trade and other receivables	103	195	172	135	145	Pre-tax margin	5.8	0.7	5.5	5.7	6.1
Prepayments	51	75	90	99	106	Net margin	5.3	0.3	4.4	4.6	4.9
Other current assets	54	54	54	54	54	Effective tax rate	7.7	55.0	16.0	16.0	16.0
Current liabilities	1,688	1,717	1,873	1,970	2,053	Balance sheet ratios					
Bank loans	-	-	-	-	-	Current ratio (x)	0.7	0.7	0.7	0.6	0.6
Trade payables	178	172	196	213	228	Quick ratio (x)	1.4	1.2	1.3	1.4	1.5
Accruals & other payables	640	676	808	888	955	Cash ratio (x)	122.8	104.4	118.0	128.3	136.9
Tax payables	8	8	8	8	8	Inventory turnover days	14	16	16	16	16
others	862	862	862	862	862	Trade receivables days	6	10	7	5	5
Non-current liabilities	2,432	2,432	2,432	2,432	2,432	Trade payables days	10	9	9	9	9
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	-	-	-	-	-
Deferred income	31	31	31	31	31	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	33	33	33	33	33	Returns (%)					
Others	2,368	2,368	2,368	2,368	2,368	ROE	11.9	0.7	12.8	13.8	14.8
Minority Interest	6	8	23	42	62	ROA	5.0	0.3	5.3	5.9	6.5
Total net assets	3,029	2,838	3,095	3,293	3,517	Per share					
Shareholders' equity	3,029	2,838	3,095	3,293	3,517	EPS (HK\$)	0.62	0.04	0.68	0.78	0.90
						DPS (HK\$)	0.38	0.28	0.48	0.53	0.63
						BVPS (HK\$)	5.22	4.90	5.37	5.75	6.17

Source: Company data, CMBIGM estimates

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