



Company Report: Café de Coral (00341 HK)

公司报告：大家乐 (00341 HK)

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8 August 2017

A Leader in the Hong Kong Fast Food Market, "Accumulate"

香港快餐业的领导者，首予“收集”评级

- **Café de Coral was founded in 1968 and is the largest catering company listed on the Hong Kong stock market.** The Company is principally engaged in operating quick-service restaurant (QSR) and casual restaurant chains and have diversified into institutional catering and food processing business. Its operations cover 359 operating units in Hong Kong and over 99 outlets in mainland China as at 31 March, 2017.
- **A market leader in the Hong Kong fast-food industry.** After almost half a century of development, the Company is firmly established as a market leader in the fast-food industry. During FY2013 to FY2017, the Company's Hong Kong QSR & institutional catering business has maintained strong growth with a CAGR of 7.5%, higher than the industry growth rate due to rigid demand from customers and a long lasting reputation in the mass market. Café de Coral operates diversified fast casual & casual restaurants, which has maintained a high growth rate, however, performance has been unstable. Overall, the mainland Chinese catering industry recorded strong growth over the last five years, but performance of Café de Coral in the market has been unsatisfactory.
- Regardless of fluctuations in the global macro economy, we believe that the Company can still maintain its profitability due to its solid customer base and stable demand for healthy fast food. The Company is working towards a full-service catering group, and we have seen its growth potential in the fast casual and casual dining market. Moreover, Café de Coral has rewarded shareholders generously with high payout ratios and will maintain the high rate. **As a result, we initiate with "Accumulate" rating for Café de Coral and set TP at HK\$26.50, which represents 27.9x/ 25.7x/ 24.8x FY2018/ FY2019/ FY2020 PER. We suggest that investors accumulate shares during price dips.**
- **大家乐是香港上市的最大餐饮公司，创建于 1968 年。**公司主要从事经营速食餐饮和休闲餐饮连锁，并扩大经营范围至机构餐饮和食品加工业务。截止 2017 年 3 月 31 日，其经营范围包括在香港地区 359 家门店，中国大陆 99 家门店。
- **香港快餐业的领导者。**在经过半个世纪的发展之后，公司在快餐行业有着坚固的市场领导地位。因为大家乐客户的需求非常稳定和在大众餐饮市场持久的声誉，2013 财年至 2017 财年公司的香港速食餐饮及机构饮食业务保持着强劲的增长，年复合增长率达 7.5%，高于行业平均增长率。公司经营着不同种类的快速休闲及休闲餐饮餐厅，保持着高速增长但表现不是很稳定。过去五年中国大陆餐饮行业整体保持高速增长，但大家乐在大陆市场的表现不是很让人满意。
- 不管宏观经济如何波动，因为其稳固的客户基础和中式健康快餐稳定的需求，我们相信公司仍然能保持其盈利能力。公司正朝着全面服务的餐饮集团努力而且我们看到了其在快速休闲及休闲餐饮市场的潜力。而且，大家乐已经通过高派息率慷慨地回报股东，且将来仍然会维持该比例。因此我们首予公司“收集”评级，目标价为 26.50 港元，相当于 27.9 倍 2018 财年市盈率、25.7 倍 2019 财年市盈率及 24.8 倍 2020 财年市盈率。我们建议投资者逢低收集。

Rating:

Accumulate

Initial

评级:

收集 (首次研究)

6-18m TP 目标价:

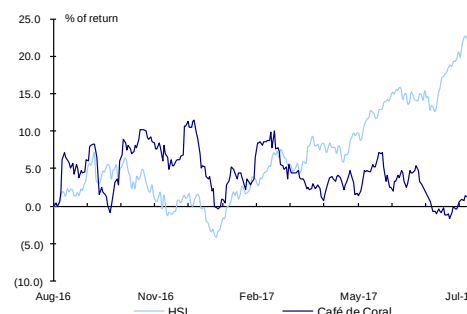
HK\$26.50

Share price 股价:

HK\$25.150

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	1.6	(1.8)	(2.0)
Rel. % to HS index 相对恒指变动 %	(7.7)	(14.4)	(25.1)
Avg. share price(HK\$) 平均股价 (港元)	24.9	25.5	26.0

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
03/31	(HK\$ m)	(HK\$ m)	(HK\$)	(△%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
FY16A	7,567	518	0.900	(11.8)	27.9	6.063	4.1	1.174	4.7	14.4
FY17A	7,895	504	0.870	(3.3)	28.9	5.971	4.2	0.810	3.2	14.3
FY18F	8,355	555	0.949	9.1	26.5	6.068	4.1	0.810	3.2	15.8
FY19F	8,856	603	1.030	8.5	24.4	6.293	4.0	0.820	3.3	16.6
FY20F	9,294	625	1.067	3.7	23.6	6.514	3.9	0.830	3.3	16.7

Shares in issue (m) 总股数 (m)	585.3	Major shareholder 大股东	Lo family 43.6%
Market cap. (HK\$ m) 市值 (HK\$ m)	14,721.2	Free float (%) 自由流通比率 (%)	56.4
3 month average vol. 3 个月平均成交股数 ('000)	523.9	FY18 Net gearing (%) FY18 净负债/股东资金 (%)	Net Cash
52 Weeks high/low (HK\$) 52 周高/低	28.000 / 24.500	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)	27.2

Source: the Company, Guotai Junan International.

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Company Analysis

Company Profile

Café de Coral ("CDC" or "the Company") is one of Asia's largest publicly listed restaurants/ catering groups. The Company is principally engaged in operating quick-service restaurants (QSR) and fast casual & casual restaurant chains and has diversified into institutional catering and food processing business. Café de Coral has successfully transformed from a tiny, home-grown enterprise into a giant, diversified multi-national corporation. After almost half a century of development, the Company is now firmly established as a market leader in the fast-food industry. Its operations cover 359 operating units in Hong Kong and over 99 outlets in Mainland China as at 31 March, 2017. In Hong Kong, Café de Coral is the undisputed market leader in the fast-food sector, servicing some 300,000 customers daily with both Chinese and western food at low prices. In mainland China, Café de Coral has successfully spread its restaurants across all major Pearl River Delta cities and is well accepted by local customers.

Milestone

The Company was founded in October 1968 by Lo Tang-seong (罗腾祥) and Lo Hoi Luk (罗开睦), with the first Café de Coral restaurant opening in the Causeway Bay district of Hong Kong in 1969. In 1979, the Company established a food processing plant in a move to lower costs and ensure consistency. CDC was listed on the Hong Kong Stock Exchange in July 1986, the first local catering industry to do so at that time. In 1990, it entered the institutional catering market with the launch of *Asia Pacific Catering*. In 1991, the Company acquired *The Spaghetti House*, a popular chain that served Hong Kong-style Italian food. CDC opened its first restaurant outside Hong Kong in Shenzhen in 1992. In 1996, CDC launched into food processing business by acquiring *Scanfoods*. CDC started another quick-service restaurant chain called *Super Super Congee & Noodle* in 1998. In October 2001, the Company was appointed as one of the top 200 constituents of the Hong Kong Hang Seng Composite Index Series. In 2003, CDC acquired *Oliver's Super Sandwiches*. In 2011, the Company opened a large central food processing centre in Guangzhou, supplying semi-manufactured food to its restaurants located in the Pearl River Delta region. The Company acquired *Manchu Wok*, a Chinese fast food chain in North America in 2000, and then sold it in 2014.

Table 1: History and Key Milestones of Café de Coral

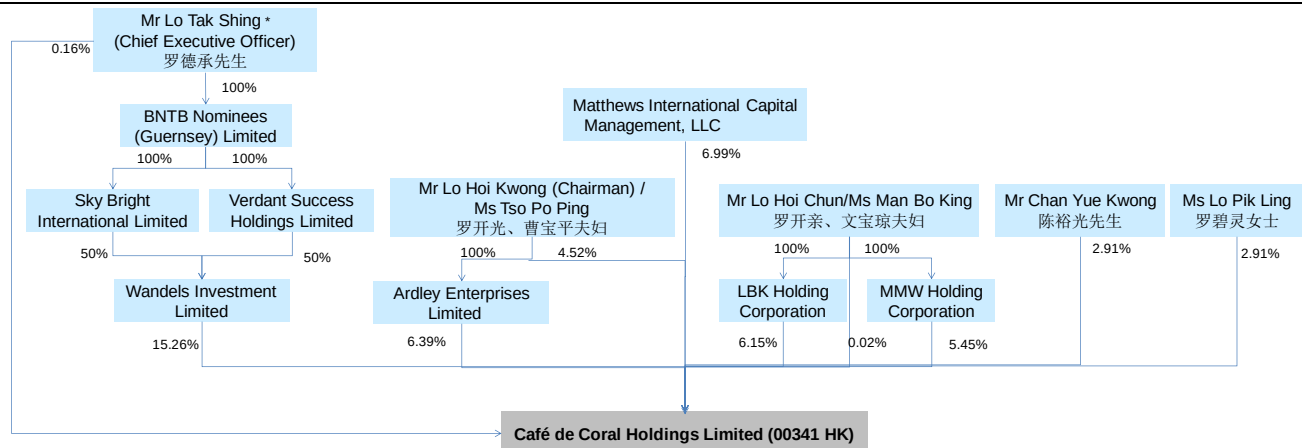
Time	Key milestones
1968	Café de Coral was established by Lo Tang-seong (罗腾祥) and Law Hoi Luk (罗开睦).
1969	The Company opened its first Café de Coral restaurant in Causeway Bay
1977	The Company started promoting its restaurants through TV commercials.
1979	The Company established its first food processing plant to lower costs and ensure consistency
1986	Café de Coral went public.
1988	The Company opened its 50th Café de Coral restaurant.
1990	The Company entered the institutional catering business with the launch of <i>Asia Pacific Catering</i> .
1991	The Company acquired <i>The Spaghetti House</i> , a popular chain that served HK-style Italian food.
1992	The Company opened its 100th restaurant
1992	The Company opened its first restaurant outside Hong Kong in the nearby city of Shenzhen
1996	The Company acquired <i>Scanfoods</i> , a ham processing and food distribution business.
1998	The Company started another restaurant quick-service chain called <i>Super Super Congee & Noodle</i> .
1999	The Company entered the student catering business with the introduction of the Luncheon Star brand.
2000	The Company started to acquire <i>Manchu Wok</i> , a Chinese fast food chain in North America.
2001	The Company was appointed as one of the top 200 constituents of the Hang Seng Composite Index Series.
2003	The Company acquired <i>Oliver's Super Sandwiches</i> which makes snacks, salads and selected hot dishes
2011	The Company opened a large central food processing centre in Guangzhou.
2013	The Company launched a new central food processing centre in Tai Po, Hong Kong.
2014	The Company sold <i>Manchu Wok</i> for HKD54.4 million.
2016	The Company purchased property on Orion Court, No.23 Mau Tan Street

Source: the Company, Guotai Junan International.

Shareholder Structure

As at 31 March, 2017, the shareholder structure of CDC illustrated below:

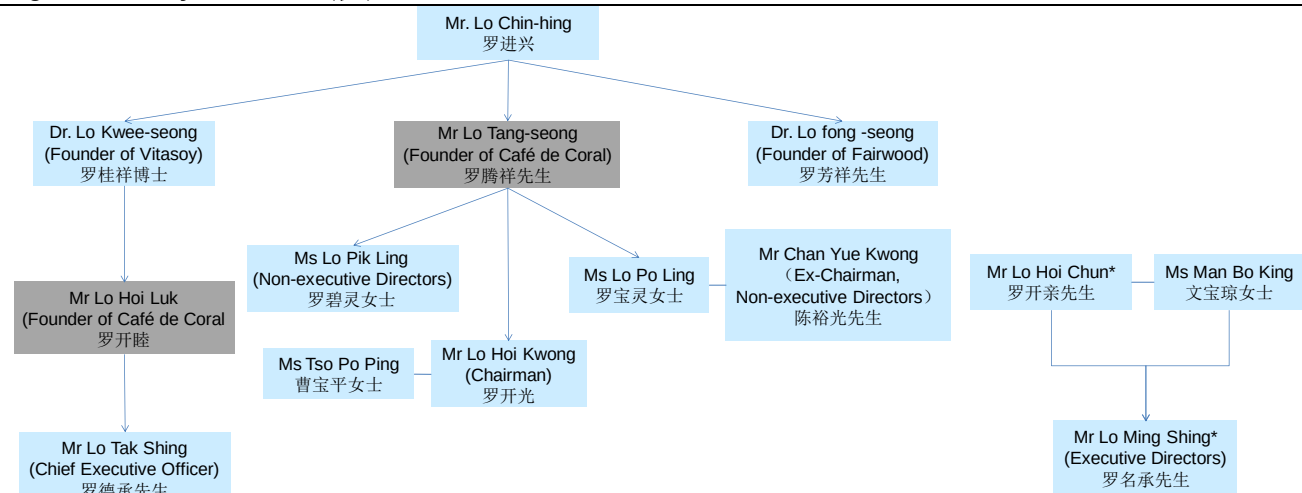
Figure-1: Shareholder structure of Café de Coral as at 31 March, 2017



Source: the Company, Guotai Junan International.

*Mr Lo Tak Shing, being a Director of the Company, was deemed to be interested in these shares by virtue of him being a beneficiary of one of BNTB Nominees (Guernsey) Limited.

Figure-2: Family Tree of Lo (罗)



Source: the Company, Wikipedia, Guotai Junan International.

* Mr Lo Hoi Chun is a relative of Mr Lo Tang-seong, Mr Lo Hoi Luk, Mr Lo Hoi Kwong, Mr Lo Tak Shing, Peter, Ms Lo Pik Ling, and Mr Chan Yue Kwong

Management

On 1 April, 2016, Mr. Lo Hoi Kwong (罗开光) retired as the Chief Executive Officer and was elected by the Board to succeed Mr. Chan Yue Kwong (陈裕光) as the Chairman of the Company. At the same time, Mr. Lo Tak Shing (罗德承) was appointed as Chief Executive Officer to replace Mr. Lo Hoi Kwong. Mr. Lo Hoi Kwong, son of the founder (Mr Lo Tang-seong, 罗腾祥) of CDC, holds a Master's Degree in Chemical Engineering from Stanford University. He joined the Group in 1982 and has been an executive director since 1990. He was the managing director of the Company from December, 1997 to March, 2012 and was appointed the Chief Executive Officer on 1 April, 2012. Mr. Lo Tak Shing, son of the founder (Mr Lo Hoi Luk, 罗开睦) of CDC, holds a Master's Degree in Medical Physics from the University of Surrey and a Doctorate's Degree in Medical Physics from the University of London. He joined the Group in 1996 and has been an Executive Director since 1998. He was appointed as Deputy Chief Executive Officer in September 2015 and was appointed as Chief Executive Officer on 1 April, 2016.

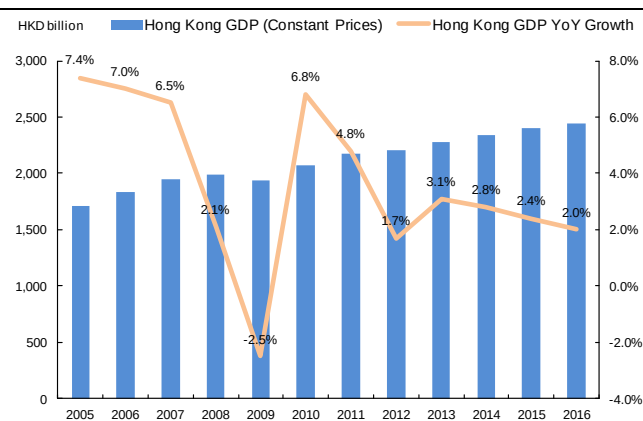
Industry Analysis

Hong Kong Catering Business Analysis

The Macroeconomic Environment in Hong Kong

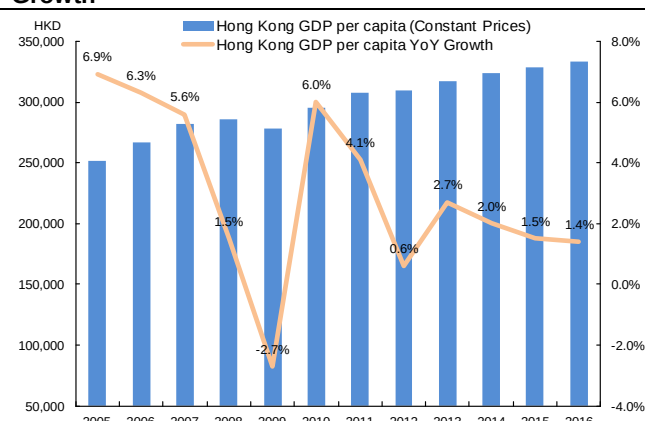
Hong Kong's economy has rebounded strongly. Hong Kong recorded modest and stable growth from 2013 to 2016 where the GDP (in constant prices) grew from HKD2,279 billion in 2013 to HKD2,448 billion in 2016, with a CAGR of 2.4% and GDP (Constant Prices) per capita growing from HK\$317,512 in 2013 to HK\$333,601 in 2016, with a CAGR of 1.7%. In 2H15, economic growth in Hong Kong significantly slowed down due to a severe external environment, hitting a two-year low in 1Q16. However, due to an improved global economy, resumption of visitor arrivals, resilient domestic demand and positive business sentiment, Hong Kong's economic growth has been notably recovering since 2Q16. In 1Q17, partly benefitting from a low base in 1Q16, Hong Kong's GDP grew 4.3% YoY, the strongest growth rate since 2Q11, and further grew by 0.7% in a seasonally adjusted QoQ comparison, after three consecutive quarters of rapid growth. Amid the strengthening of global demand conditions, revival in visitor arrivals and favorable employment and income conditions, forecasted real GDP growth could reach 2%-3% for 2017.

Figure 3: Hong Kong Annual GDP & YoY Growth



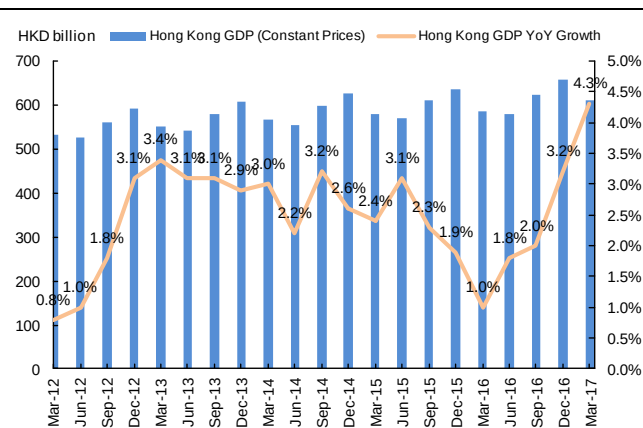
Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Figure 4: Hong Kong Annual GDP per capita & YoY Growth



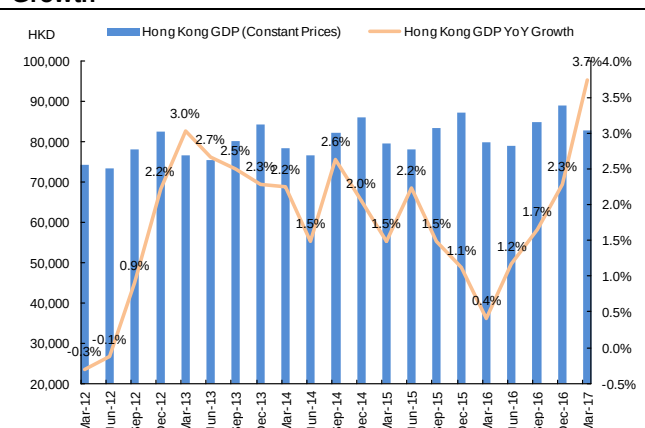
Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Figure 5: Hong Kong Quarterly GDP & YoY Growth



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

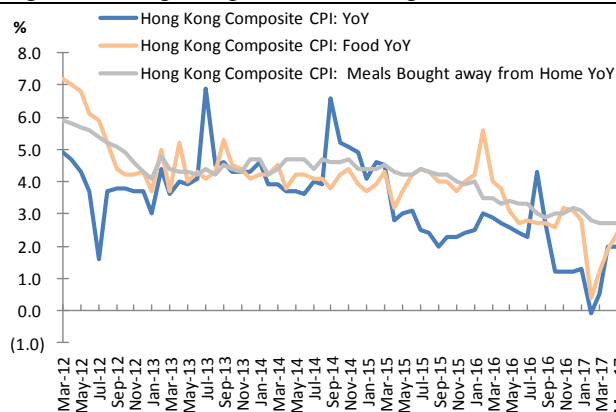
Figure 6: Hong Kong Quarterly GDP per capita & YoY Growth



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

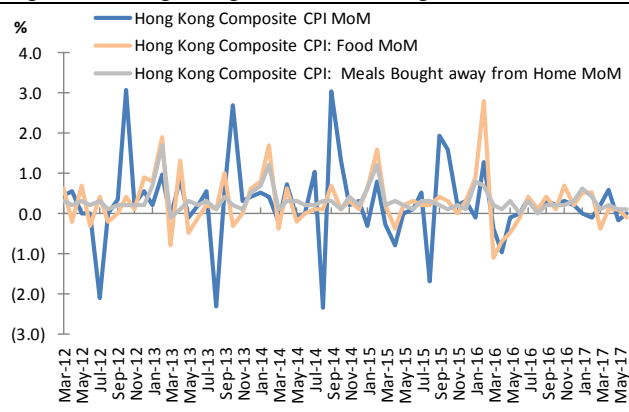
Inflation has remained moderate. Hong Kong CPI in Jun 2017 recorded a 1.9% YoY increase, down 0.1 ppt from 2.0% in May 2017. Since Hong Kong CPI hit a 17-month high in Aug 2016, the YoY change in CPI has gradually slowed down and has remained at low levels as external price pressure has stayed low. In last five years, the prices of Hong Kong food and meals bought away from home mostly increase faster than the overall consumer price index. A government spokesman suggested that inflation risks should remain contained in the near term, given low global inflation and moderate rises in local costs. The coming adjustment in U.S. interest rates may add further downward pressure on CPI. The market expects inflation to be between 2.0% and 2.4% in 2017 and 2018.

Figure 7: Hong Kong CPI YoY Change



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

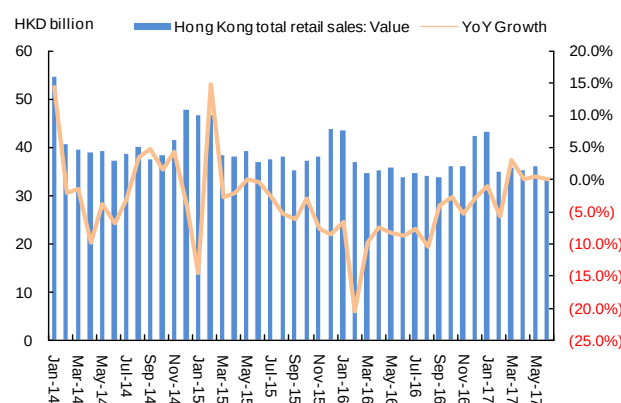
Figure 8: Hong Kong CPI MoM Change



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

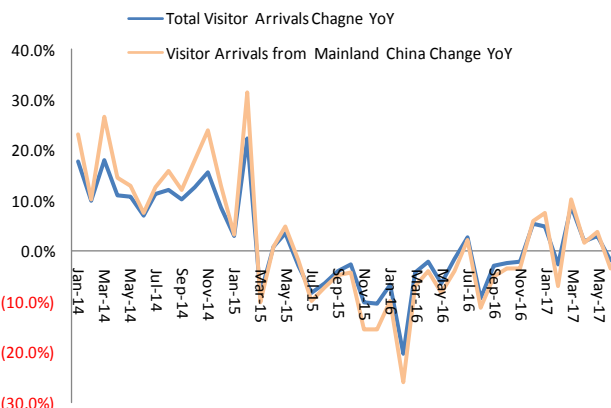
Total retail sales in Hong Kong improved due to increased visitor arrivals from mainland China. Hong Kong's retail sales resumed 3.0% YoY growth in March 2017 after 24 months of decline. In April-June, 2017, Hong Kong's total retail sales maintained moderate growth, mainly attributable to recovery in inbound tourism and resilience towards local consumption. Since March, 2015, the number of visitors from mainland China started to fall because of aversive attitudes from select residents in Hong Kong towards mainland visitors and the new policy aimed at limiting the frequency of Shenzhen residents traveling to Hong Kong. Furthermore, as the RMB to HKD exchange rate had been depreciating since 2015, the purchasing power of mainland visitors was damaged. However, due to the political conflicts between China and South Korea and Taiwan, arrivals from mainland China have recovered, since March 2017 as more tourists changed their destinations from South Korea and Taiwan to Hong Kong. Although total visitor arrivals slightly declined 1.9% YoY in June 2017, we expect Hong Kong total retail sales to maintain improvement in 2H17 thanks to a rebound of the RMB to HKD exchange rate.

Figure 9: Hong Kong Total Retail Sales



Source: the Company, Guotai Junan International.

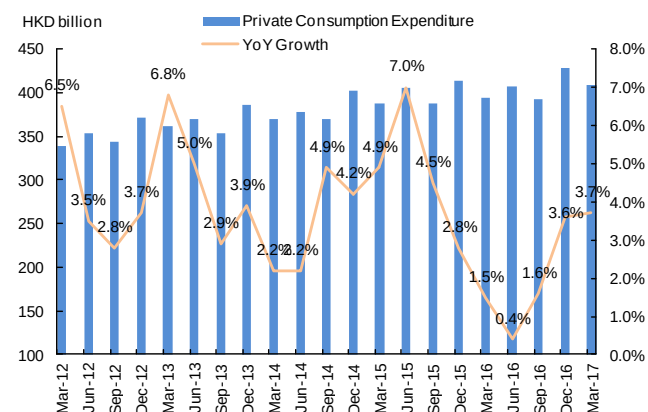
Figure 10: Total Visitor Arrivals and Visitor Arrivals from Mainland China YoY Change



Source: the Company, Guotai Junan International.

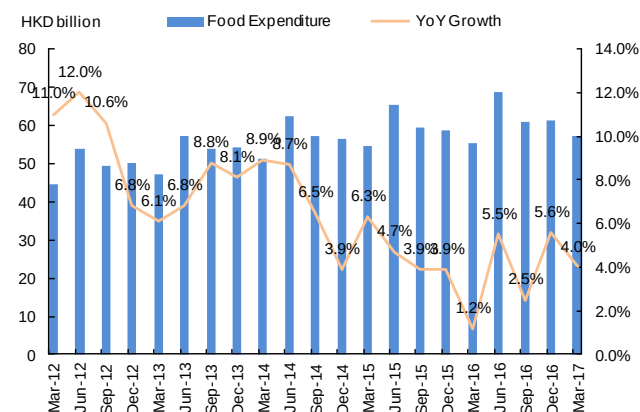
Private consumption has been recovering since 3Q16 and food demand has remained strong. Benefitting from improving consumer confidence, the recovery of the economy and rising income, private consumption has regained moderate growth since 3Q16. Private consumption growth recorded 3.7% YoY in 1Q17, up 0.1 ppt from 3.6% YoY growth in 4Q16. Hong Kong food expenditure growth recorded a notable hike in 4Q16 with a 5.6% YoY increase, and slightly lowered to a rise of 4.0% YoY in 1Q17. In last five years, Hong Kong food expenditure growth rates were mostly higher than the private consumption expenditure growth rate due to the resilient demand for food and rises in food prices. According to the Census and Statistics Department of Hong Kong, household expenditure on food in general was approximately 27.3% of total expenditure for 2016. **Furthermore, meals bought away from home represents 65.0% of food expenditure and about 17.7% in total expenditure.**

Figure 11: Quarterly Private Consumption Expenditure & YoY Growth



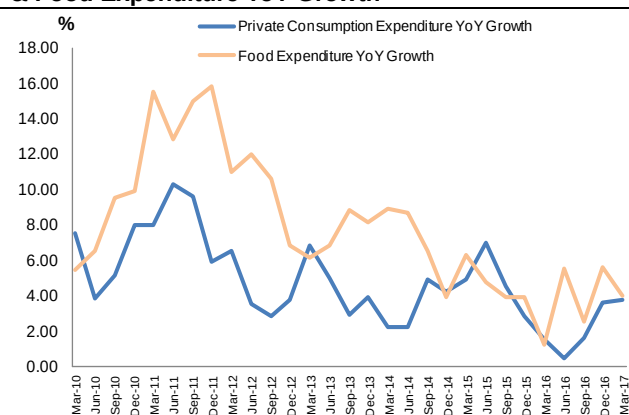
Source: the Company, Guotai Junan International.

Figure 12: Quarterly Food expenditure & YoY Growth



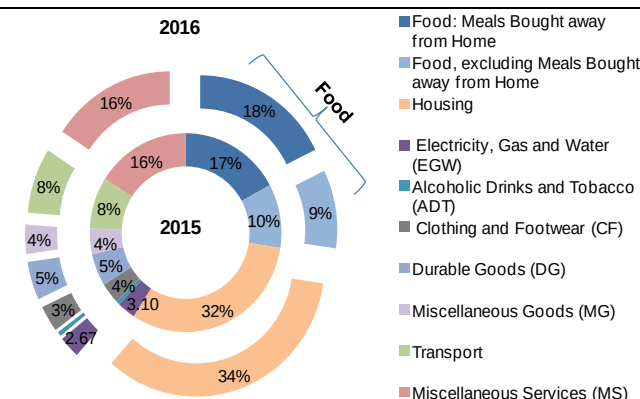
Source: the Company, Guotai Junan International.

Figure 13: Quarterly Private Consumption Expenditure & Food Expenditure YoY Growth



Source: the Company, Guotai Junan International.

Figure 14: Household Expenditure Weighting

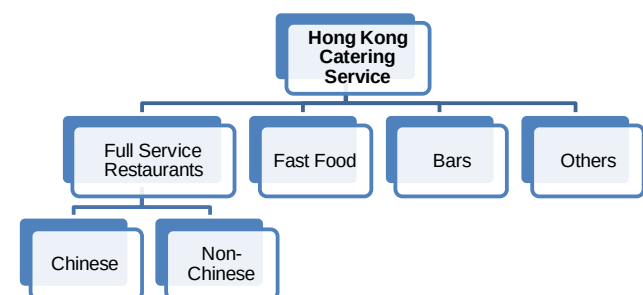


Source: the Company, Guotai Junan International.

Overview of the Catering Service category in Hong Kong

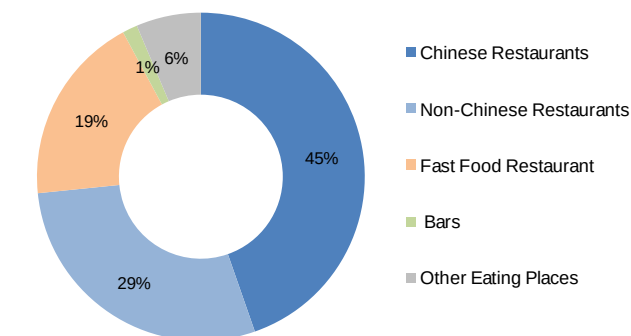
Hong Kong residents prefer to dine out. Because of high pressure from work and relatively small cooking areas at home, in addition to local culinary culture, residents in Hong Kong tend to dine out. In Hong Kong, nearly 65% of food budget was spent on meals bought away from home, and the ratio is the highest among major cities across the world. The high expenditure on dining out stimulated the development of the catering service category in Hong Kong. Now Hong Kong is a well-known culinary capital of the world and popular tourist destination with a wide variety of food choices. Lots of tourists are attracted to Hong Kong by its food. In turn, tourism has also stimulated the food service industry to develop rapidly in the past.

Figure 15: Catering Service Categories in Hong Kong



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Figure 16: 2016 Proportion of Restaurant Receipts in the catering category in Hong Kong

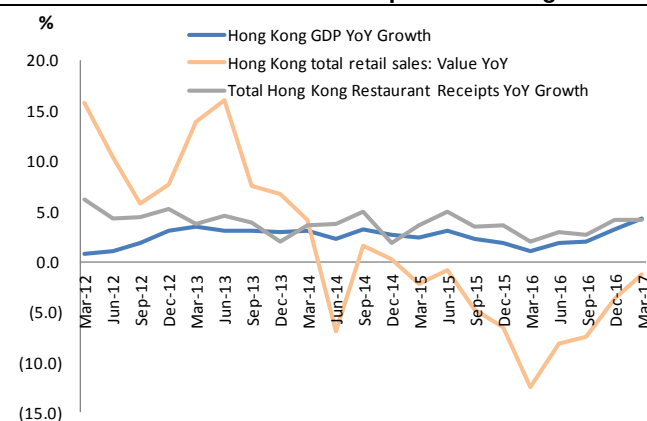


Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Hong Kong's catering industry has maintained stable growth. Total Hong Kong restaurant receipts grew from HKD93.7 billion in 2012 to HKD107.4 billion in 2016, with a CAGR of 3.5%. In 1H17, total Hong Kong restaurant receipts maintained

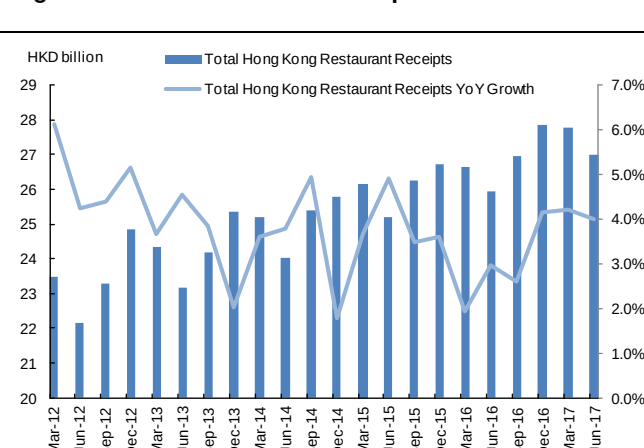
steady growth, up 4.1% YoY. Total Hong Kong quarterly restaurant receipts has generally increased as a faster pace than Hong Kong's quarterly economic growth in the last five years and has not been dragged down by the gloomy performance of total retail sales. Growth of the catering category in Hong Kong was mainly driven by strong demand from local residents. The performance of Hong Kong catering business showed resilience to economic downward pressure.

Figure 17: Hong Kong GDP, Hong Kong Total Retail Sales and Total Restaurant Receipts YoY Changes



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

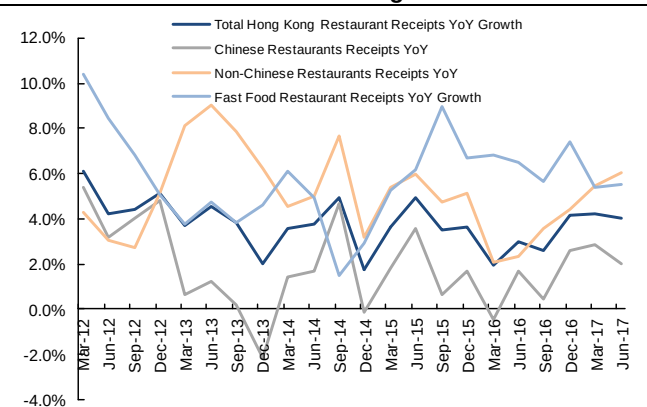
Figure 18: Total Restaurant Receipts & YoY Growth



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

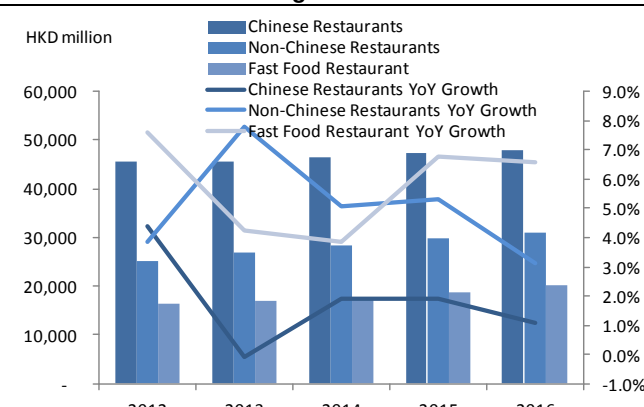
Fast food restaurants have performed well. Restaurants receipts for Hong Kong's fast-food industry grew from HKD16.3 billion in 2012 to HKD20.1 billion in 2016, with a CAGR of 5.4%, a higher rate of growth than total restaurant receipts. In 1H17, fast food restaurant receipts maintained healthy growth, up 5.4% YoY. In last five years, Hong Kong's fast food restaurant receipts mostly marked a higher growth rate than Hong Kong's economic growth as well as total restaurant receipts growth. Fast food business performed better compared to casual restaurants and fancy restaurants during economic recession since consumers were inclined to cut expenses on luxury consumption when income is reduced. Fast food restaurants generate stable cash flow throughout the economic cycle.

Figure 19: Restaurant Receipts for Total Restaurants, Chinese Restaurants, Non-Chinese Restaurants and Fast Food Restaurants YoY Change



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

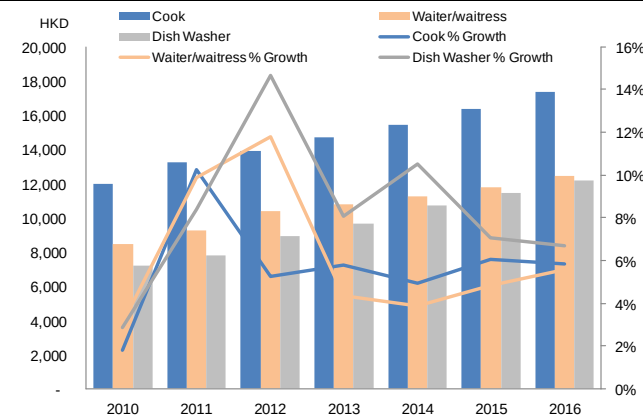
Figure 20: Restaurant Receipts for Chinese Restaurants, Non-Chinese Restaurants and Fast Food Restaurants & YoY Change



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

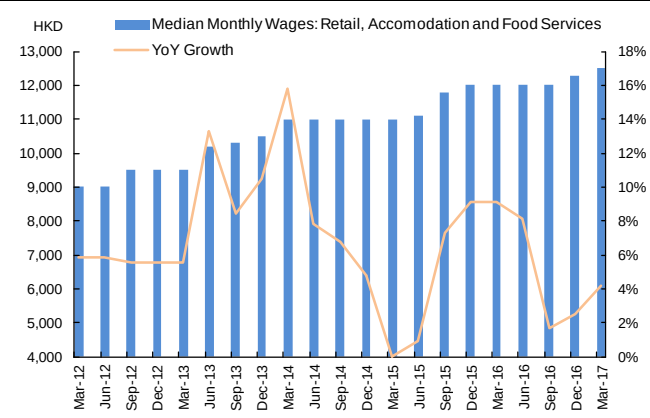
Increasing employee compensation hampers the profitability of restaurants. Affected by a tight supply of labour, the compensation of employees in restaurants has risen significantly in recent years. The CAGR between 2012-2016 of average monthly wages of cooks, waiters and kitchen staff recorded 5.6%, 4.6% and 4.2%, respectively, higher than the CAGR of total Hong Kong restaurant receipts. The statutory minimum wage (SMW) come into force since on 1 May, 2011. The SMW rate was raised from \$30 per hour to HKD32.5 per hour on 1 May, 2015, and was further raised to HKD34.5 per hour on 1 May, 2017. Although most restaurants, including CDC, pay their employees more than the government's basic requirement, the increase in SMW will still reduce bargaining power of restaurants. However, the gloomy retails condition in 2016 has slowed the rising momentum of Hong Kong monthly wages. In the long term, rising labour costs will still present major pressure on restaurants' profitability due to limited labour supply.

Figure 21: Monthly Wages of Restaurant Staff



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Figure 22: Hong Kong Median Monthly Wages: Retail, Accommodation and Food Services



Source: Census and Statistics Department of Hong Kong, Guotai Junan International.

Upward pressure on retail rental has been eased since 2015 but may pick up in 2017. Between 2012-2014, rapid growth of rental prices significantly affected the profit margin of restaurants; the increase in earnings was largely consumed by real estate costs. In 2015, after experiencing several years of rental rate hikes, Hong Kong's retail rental prices declined for the first time, given the macroeconomic downturn. In 2016, monthly retail rent in Hong Kong island declined 6.9% YoY, to HKD1,501/sq.m, hitting levels seen in 2013. However, as the retail sales in Hong Kong recovered, retail rent also rebounded significantly in 1H17.

Table-2: 2010-2016 Average Private Retail Rent in Hong Kong

	Hong Kong Island		Kowloon		New Territories	
HKD / sq.m per month		% YoY		% YoY		% YoY
2010	1 239	14.8%	1,172	9.2%	942	10.2%
2011	1 296	4.6%	1,243	6.1%	1 038	10.2%
2012	1 465	13.0%	1,443	16.1%	1 161	11.8%
2013	1 549	5.7%	1,482	2.7%	1 176	1.3%
2014	1 628	5.1%	1,534	3.5%	1 250	6.3%
2015	1 612	-1.0%	1,519	-1.0%	1 284	2.7%
2016	1 501	-6.9%	1 338	-11.9%	1 300	1.2%

Source: Rating and Valuation Department of the Government of Hong Kong.

Table-3: 1M16-5M17 Average Private Retail Rent in Hong Kong

	Hong Kong Island		Kowloon		New Territories	
HKD / sq.m per month		% MoM		% MoM		% MoM
2016-01	1,516	0.1%	1,174	-17.6%	1,143	-6.7%
2016-02	1,464	-3.4%	1,286	9.5%	1,223	7.0%
2016-03	1,701	16.2%	1,448	12.6%	1,330	8.7%
2016-04	1,518	-10.8%	1,332	-8.0%	1,276	-4.1%
2016-05	1,474	-2.9%	1,333	0.1%	1,326	3.9%
2016-06	1,432	-2.8%	1,289	-3.3%	1,448	9.2%
2016-07	1,714	19.7%	1,186	-8.0%	1,290	-10.9%
2016-08	1,402	-18.2%	1,296	9.3%	1,336	3.6%
2016-09	1,446	3.1%	1,547	19.4%	1,242	-7.0%
2016-10	1,414	-2.2%	1,307	-15.5%	1,259	1.4%
2016-11	1,453	2.8%	1,576	20.6%	1,256	-0.2%
2016-12	1,409	-3.0%	1,226	-22.2%	1,389	10.6%
2017-01	1,398	-0.8%	1,229	0.2%	1,171	-15.7%
2017-02	1,546	10.6%	1,355	10.3%	1,277	9.1%
2017-03	1,503	-2.8%	1,517	12.0%	1,435	12.4%
2017-04	1,515	0.8%	1,353	-10.8%	1,418	-1.2%
2017-05	1,646*	8.6%	2,099*	55.1%	1,521*	7.3%

Source: Rating and Valuation Department of the Government of Hong Kong.

*: Changes in average rents and prices between different periods may be due to variations in the characteristics of the different properties being analyzed, and should not be taken as necessarily indicating a general change in value over the period.

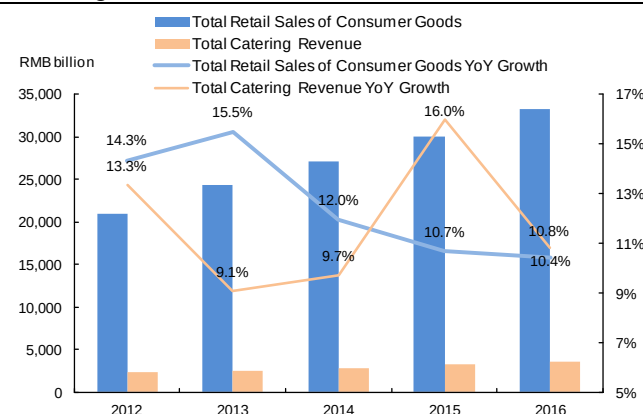
Overall demand for catering is stable in Hong Kong and the growing momentum will be maintained. As Hong Kong's economy is recovering and mainland visitor arrivals are returning, the performance of the catering category is expected

maintain stable growth driven by improved inbound tourism and strong local consumption demand. During economic recession, fast food restaurants can record a higher growth rate since fast food can feed people at lower prices. But during prosperous periods, fancy restaurants usually generate excess return. We believe catering business in Hong Kong can achieve a higher growth rate than GDP growth due to persistent local demand and attractiveness to tourists. However, increasing labor costs and rental expenses will have a negative impact on the profitability of restaurants.

Mainland China Catering Business Analysis

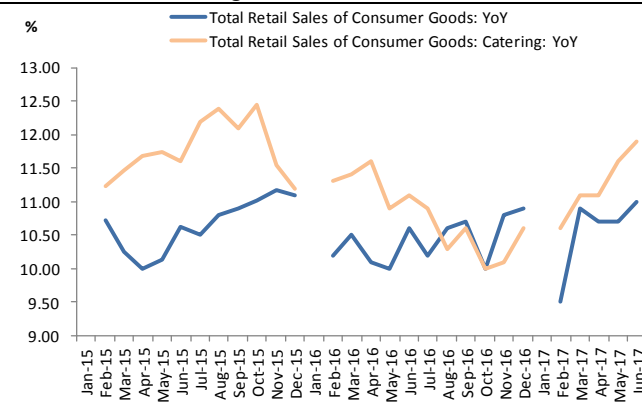
Overall, mainland China's catering category achieved higher growth than total retail sales over the last two years. In 2013, mainland China's catering category, especially above designated size, met strong headwinds due to an unprecedented anti-corruption movement. As a result, the growth rate of catering revenue lagged behind total retail sales in China during 2013-2014, but the catering industry rebounded strongly and achieved better results than total retail sales in 2015 and 2016, benefitting from strong demand from the mass market and recovery of premium restaurants. The CAGR during 2012-2016 of total catering revenue, catering revenue above designated size and catering revenue below designated size was 11.4%, 4.3% and 14.5%, respectively. Catering business has shown resilience to the rise of ecommerce compared to other offline retail businesses, and has become a critical entrance for consumer traffic for shopping malls. As of 30 June, 2017, the YTD revenue of total catering, catering above designated size and catering below designated size was RMB1,855 billion, RMB453 billion and RMB 1,401 billion, up YoY by 11.2%, 8.4% and 12.4%, respectively. Mass catering has become the main player in the market as it accounts for 75% of total catering revenue and has been recording strong growth rate in recent years.

Figure 23: Annually Total Retail Sales and Total Catering Revenue



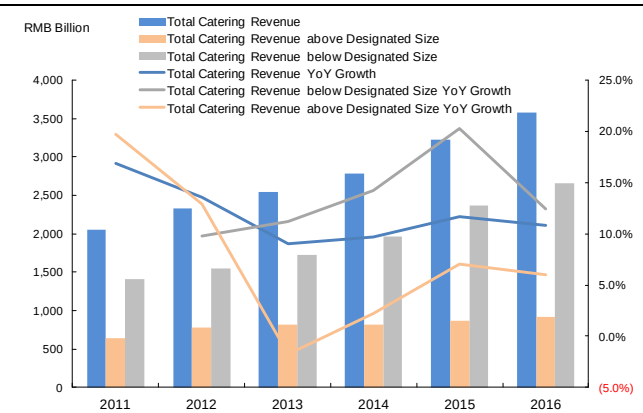
Source: National Bureau of Statistics, Guotai Junan International.

Figure 24: Monthly Total Retail Sales and Total Catering Revenue YoY Change



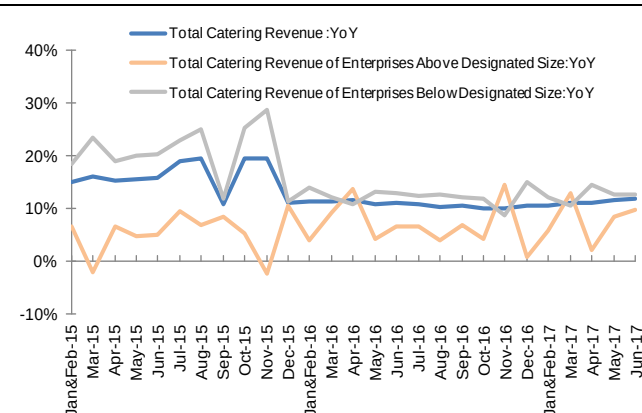
Source: National Bureau of Statistics, Guotai Junan International.

Figure 25: Total Catering Revenue & YoY Growth and Total Catering Revenue above Designated Size & YoY Growth and Total Catering Revenue below Designated Size & YoY Growth



Source: National Bureau of Statistics, Guotai Junan International.

Figure 26: Monthly Total Catering Revenue & Total Catering Revenue above Designated Size & Total Catering Revenue below Designated Size YoY Growth

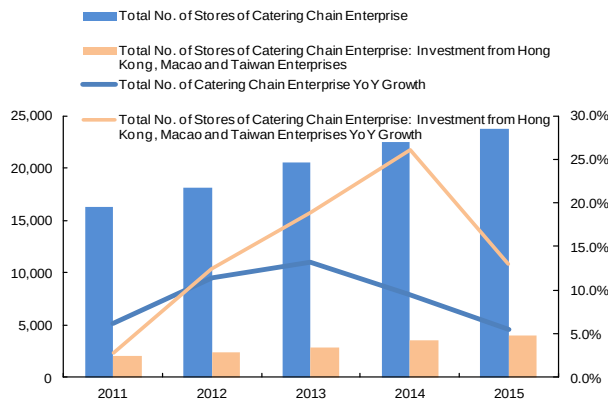


Source: National Bureau of Statistics, Guotai Junan International.

Number of stores and revenue of catering chain enterprises have both notably grown since 2011. A chain store is one of a group of shops, located in different places which share the same brand and standard business management method. The CAGR of number of stores of total chain restaurants and chain restaurants invested by Hong Kong/ Macao/ Taiwan enterprises were 9.9% and 17.5% during 2011-2015, respectively. The CAGR of revenue of total chain restaurants and chain

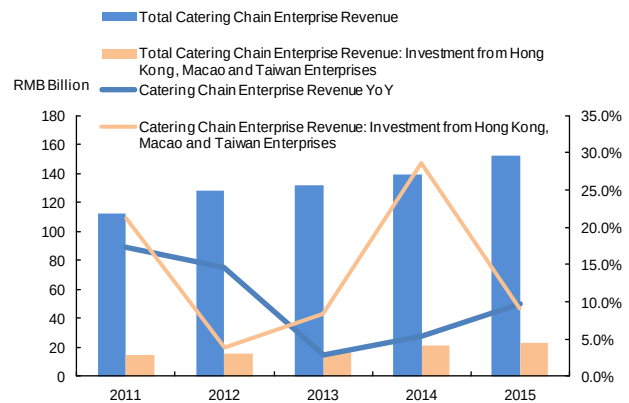
restaurants invested by Hong Kong/ Macao/ Taiwan enterprises were 8.0% and 12.1% during 2011-2015. The growth rate of number of stores and revenue of catering chain enterprise invested by Hong Kong/ Macao/Taiwan's enterprises were both higher than total chain restaurants. The size of catering chain enterprises from Hong Kong/ Macao/ Taiwan is generally larger than domestic catering chain enterprises. In 2015, the growth of foreign catering chain enterprises like McDonald's and KFC sharply ceased as consumers neglected unhealthy fast food. But Hong Kong/ Macao/Taiwan catering chain enterprises have maintained strong growth since they mainly operate relatively healthy Chinese fast food restaurants.

Figure 27: Total No. of Catering Chains & YoY Growth and Total No. of stores: Investment from Hong Kong, Macao and Taiwan



Source: National Bureau of Statistics, Guotai Junan International.

Figure 28: Total Catering Chain Revenue & YoY Growth and Total Catering Chain Revenue: Investment from Hong Kong, Macao and Taiwan & YoY Growth



Source: National Bureau of Statistics, Guotai Junan International.

Chinese culinary culture is diversified and consumer taste is evolving. In China, different geographical areas preserve different ways of cooking and preferences in taste. The graph below shows 14 different types of regional cuisines in mainland China, but eight of them are major regional cuisines, which shows the variety within Chinese food culture and is an advantage for catering businesses. However, it is also a disadvantage for a chain catering business to attract customers in different geographical areas. Customer tastes and the popularity of food changes frequently, for example, ten years ago, Cantonese food was very popular, but was gradually surpassed by Chuan (川) food as the taste of customers as they turned to hot food. Five years ago, Chuan hot pot occupied most hot pot restaurants, but then was out of favor due to the rise of Chaoshan (潮汕) hot pot. In 2016, boiled fish with pickled cabbage became the most popular food in China and witnessed fast growth.

Figure 29: Map of Chinese Regional Cuisines



Source: Google search image, Guotai Junan International.

Healthy food is becoming popular; Fashion star restaurants are booming. Last year witnessed the rise of healthy food categories represented by salads. Compared with 2015, salad consumption increased 5-fold YoY in 2016. Salad consumption growth also benefitted from the popularity of O2O take-away consumption. China's take-away category has maintained relatively high growth since 2011, especially after the rise of O2O. The market size in 2016 reached RMB166 billion, with an increase of 33.0% YoY. Since 2016 till now, fashion star restaurants, such as Ludingji (禄鼎记) and Gelaoguan (哥老官), are experiencing strong growth and attract lots of mainstream media attention. The average waiting time for Ludingji and Gelaoguan is 2 hours. The eye-catching effect and consumers' compulsion to interact has influenced media companies to focus on these fashion star restaurants. The rise of fashion star restaurants indicates that innovation and marketing for the survival of a restaurant is essential and operating in first-tier cities is a shortcut to winning exposure rate. Nevertheless, excellent products are still fundamental to a restaurant's long-term survival.

Competition within the catering category in China is more intensive than in Hong Kong but the potential is huge. In mainland China, online and offline integration is accelerating, "Internet + Catering" has covered the whole process from semi-finished product distribution and online ordering to social sharing. The catering industry, as a rare form of offline retail business maintaining high growth, continues to attract entrepreneurs and capital. As taste and attention of consumers change at an unprecedented rate, innovative pressure for all restaurants are equal, including international western-style fast-food chains and traditional Chinese restaurants. According to the "To Promote 100 million Non-urban registered Population Settle in Cities Program" issued by the State Council in September 2016, more than 100 million rural residents are expected to settle in cities by 2020, which means the customer base for the catering category will enlarge as new urban residents form new consumption behavior. We believe that the potential of catering business in China is huge, supported by the unfolding of urbanization development and the rise in disposable income of Chinese consumers.

Business Analysis

CDC is mainly engaged in five business segments: **Hong Kong QSR, Institutional Catering, Hong Kong fast casual & casual dining, mainland China QSR and food processing and distribution.** The Company's Hong Kong catering business contributed approximately 85.2% and 87.6% of total sales in FY2016 and FY2017. Its core business, QSR and institutional catering, contributed 74.4% and 75.6% of total sales in FY2016 and FY2017. Fast casual and casual dining contributed 9.4% and 10.1% in FY2016 and FY2017. Mainland China QSR contributed 14.2% and 12.4% to the Company's sales in FY2016 and FY2017. After disposing of North American business, the Company's total operating units declined from 594 to 491 in FY2015. During FY2015 to FY2017, CDC's operating units remained at around 458-465. The increase in Hong Kong QSR and institutional catering units offset the drop in mainland China QSR units.

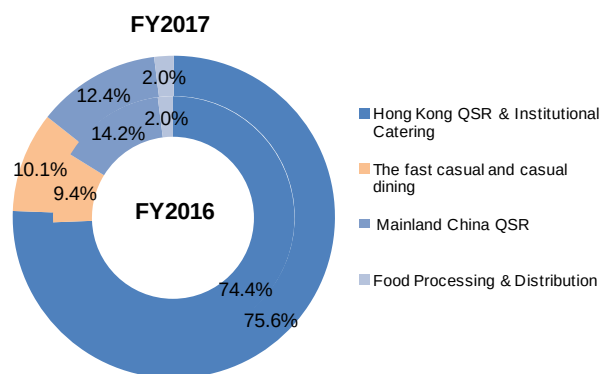
Figure-30: Business Structure



Source: the Company, Guotai Junan International.

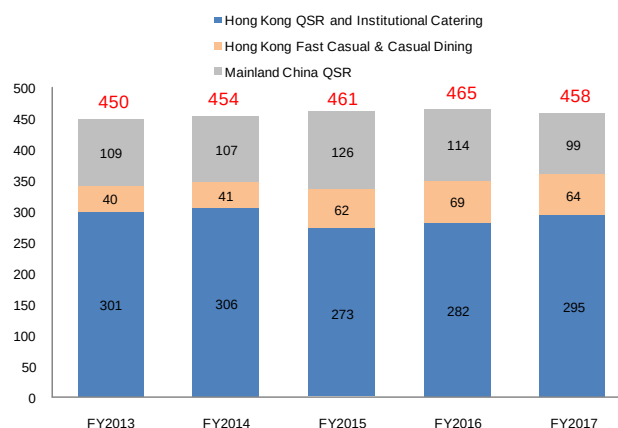
Note: Before 2015, Oliver's Super Sandwiches, Mixian Sense, and Shanghai LaoLao were classified in the Hong Kong QSR sector.

Figure 31: Sales Distribution of Café de Coral



Source: the Company, Guotai Junan International.

Figure 32: Operating Units of Café de Coral



Source: the Company, Guotai Junan International.

Note 1: Before 2015, Oliver's Super Sandwiches, Mixian Sense, and Shanghai LaoLao were classified in the Hong Kong QSR sector.

Note 2: The numbers in red represent total operating units of Café de Coral excluding North American QSR.

Catering Services of Café de Coral in Hong Kong

Hong Kong QSR and institutional catering combined contributed 74.4% and 75.6% sales to CDC in FY2016 and FY2017. Hong Kong QSR business includes *Café de Coral fast food* and *Super Super Congee & Noodles*. The former offers traditional Chinese dishes to Western cuisine at a friendly price and the latter serves an extensive array of congee and noodle dishes and other popular Chinese dishes. As at 31 March, 2017, the Company operated over 166 *Café de Coral fast food* restaurants and 50 *Super Super Congee & Noodles* restaurants in Hong Kong. Institutional catering business includes two brands: *Asia Pacific Catering* and *Luncheon Star*. *Asia Pacific Catering* targets institutional clients such as universities and hospitals. The number of institutional catering operating units declined from 83 as at 31 March, 2016, to 79 as at 31 March, 2017.

Figure 33: Café de Coral Fast Food



Source: the Company.

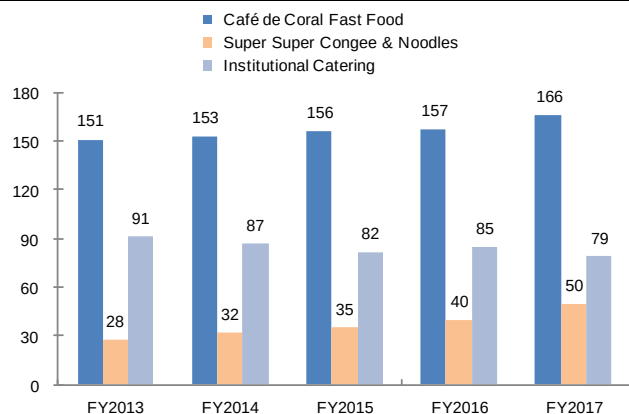
Figure 34: Super Super Congee & Noodles



Source: Google search image.

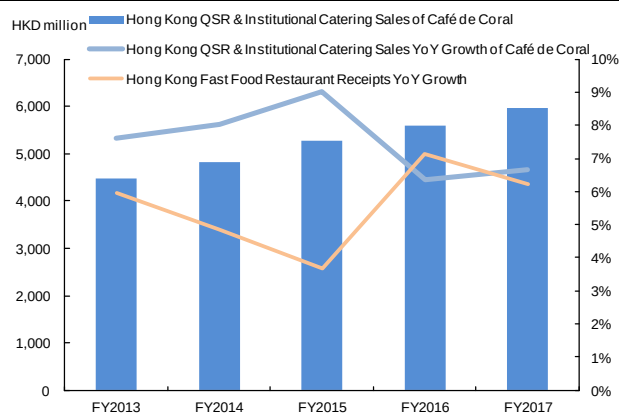
The market leader in the fast-food industry. During FY2013 to FY2017, the Company's Hong Kong QSR & Institutional catering maintained strong growth momentum with a CAGR of 7.5%, higher than the industry growth rate. In FY2017 the Company recorded 6.7% YoY growth in Hong Kong QSR and Institutional catering business. The performance of core quick service restaurants (QSR) and institutional catering businesses over the last five years was solid due to rigid demand from customers and a long lasting reputation in the mass market. In addition, in Hong Kong, *Café de Coral fast food* has become a canteen for ordinary people. In other words, dining in *Café de coral* has become a habit for some Hong Kong residents. Same store sales of its Hong Kong QSR and Institutional catering restaurants maintained strong growth in recent years. SSSG of *Café de Coral fast food* reached approximately 4% YoY both in FY16 and FY17, but SSSG of *Super Super Congee & Noodles* slowed from 4% in FY2016 to 1.0% in FY2017. The expansion of the Company in the Hong Kong QSR market has been steady, with new restaurants being added every year, and the number of *Super Super Congee & Noodles* restaurants increasing faster than *Café de Coral fast food*. In the coming months, the Company is going to open 12 more *Café de Coral fast food* outlets and 4 more *Super Super Congee & Noodles* shops.

Figure 35: Outlet Numbers of Café de Coral QSR and Institutional Catering in Hong Kong



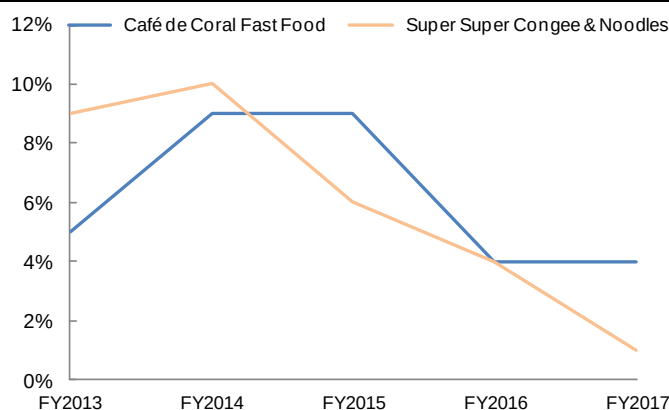
Source: Census and Statistics Department of Hong Kong, the Company, Guotai Junan International.

Figure 36: Café de Coral QSR Sales and Growth, and Hong Kong Fast Food Restaurant Receipts



Source: Census and Statistics Department of Hong Kong, the Company, Guotai Junan International.

Figure 37: Same Store Sales Growths of Café de Coral and Super Super Congee & Noodles



Source: the Company, Guotai Junan International.

Diversified operations in fast casual business and casual dining business. In fast casual & casual dining business segments, the Company operates about 64 operating units under several different brands, such as *Oliver's Super Sandwiches*, which serves wholesome sandwiches and tasty baked potatoes, *The Spaghetti House* which serves pasta and specially designed POP UP Pizza, *Mixian Sense* which provides Mixian (米线) and a selection of Yunnan and Sichuan dishes, *360 Series* which provides a wide variety of coffee, drinks and waffles and *Shanghai LaoLao* which serves gourmet Shanghai cuisine and specializes in steamed pork dumplings filled with soup. CDC also operates some Japanese and Korean restaurants. **Fast casual and casual dining business contributed 9.4% and 10.1% to the Company's sales in FY2016 and FY2017, respectively.**

Figure 38: Oliver's Super Sandwiches



Source: the Company.

Figure 39: The Spaghetti House



Source: Google search image.

Figure 40: Mixian Sense



Source: Google search image.

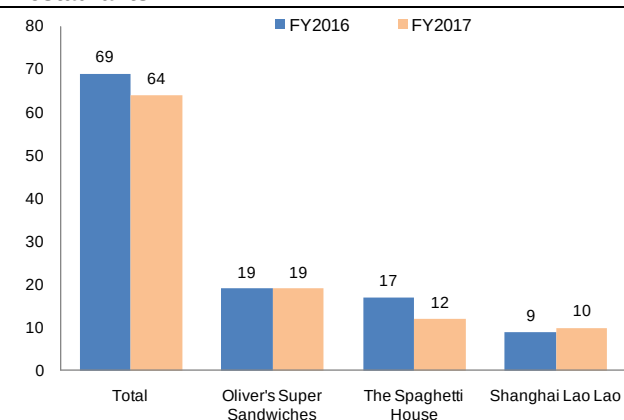
Figure 41: Shanghai LaoLao



Source: Google search image.

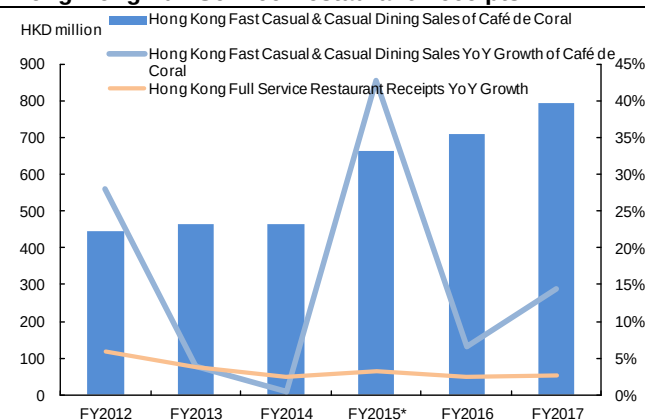
Fast casual & casual dining of CDC achieved remarkable growth, but performance was unstable. During FY2012 to FY2017, the CAGR of the Company's fast casual & casual dining was 14.4%. In FY2017 the Company achieved 12.0% YoY increase in the segment. Over the past few years, the Company's fast casual & casual dining brands have grown in competitiveness, strength and market standing. Compared to the fast food sector, fast casual & casual dining category is relatively lucrative, but competition is rather intense for two reasons: first, fast casual & casual dining restaurants run as a place for people to get together on weekends. Compared to limited options of fast food restaurants around work places for consumers to choose in weekdays, the choice of full service restaurants is broadened geographically. Second, the consumer base for fast casual & casual dining restaurants is relatively unstable as consumers are likely to try new fast casual & casual dining restaurants frequently based on comments of friends or authorities' recommendations. Therefore, casual restaurants are exposed to the risk of losing consumers to new restaurants and the changing catering environment also puts pressure on them to create new dishes. The performance of CDC fluctuated in the fast casual & casual dining category over the last five years as substitution rate of its restaurants was high and the pace of opening new restaurants was different every year.

Figure 42: Hong Kong Fast Casual & Casual Dining Restaurants



Source: the Company, Guotai Junan International.

Figure 43: Café de Coral Fast Casual & YoY Growth and Hong Kong Full Service Restaurant Receipts



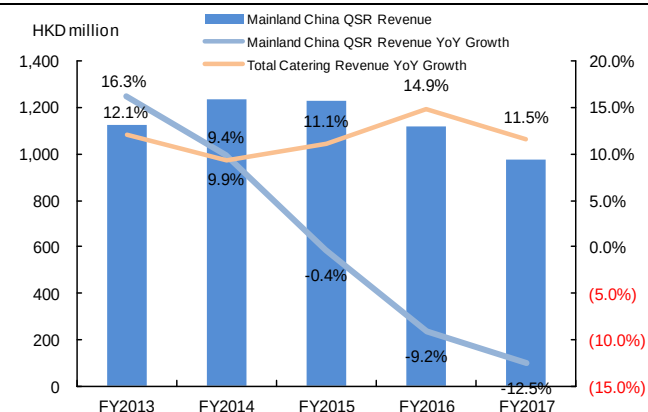
Source: Census and Statistics Department of Hong Kong, the Company Guotai Junan International.
Note: Before 2015, Oliver's Super Sandwiches, Mixian Sense, and Shanghai LaoLao were classified in Hong Kong QSR sector.

Catering Services of Café de Coral in Mainland China

99 units of QSR are in operation in mainland China as at 31 March, 2017. CDC mainly operates *Café de Coral fast food* in mainland China. CDC's mainland QSR operations are mostly located in Guangdong province and Shanghai because Guangdong has similarities in culture and language, as well as close proximity to Hong Kong, and Shanghai being the most developed city in China, famous for its diversified restaurants. CDC in mainland China mostly serves the same dishes as *Café de Coral fast food* in Hong Kong. CDC's China QSR operations are in a way comparable to Hong Kong as it mainly targets middle-class consumers via fast casual restaurants by providing quality food and a leisurely dining experience. The average price per meal in *Café de Coral fast food* in China is higher than western fast food chains like McDonald's and KFC and other Chinese fast food chains, but is lower than full service restaurants, so its competitors are from both sides. In addition, the stores of *Café de Coral fast food* in China are mostly located in medium-sized shopping malls, relatively far away from working districts, so the main customer base for *Café de Coral fast food* in China is from the shoppers of malls rather than office workers as it is in Hong Kong.

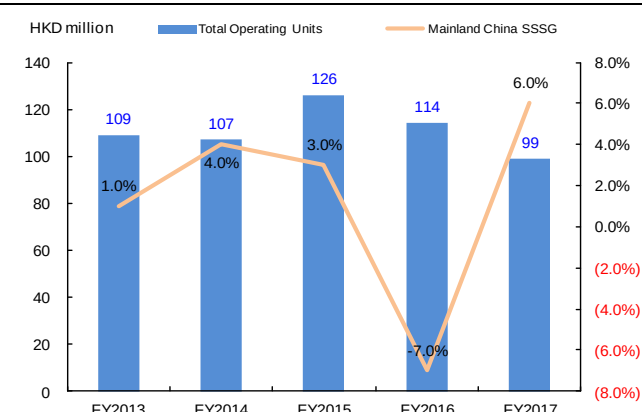
Results in mainland China are not satisfactory. Mainland China QSR revenue experienced high growth in FY2012 and FY2013, but growth rate slumped remarkably after FY2014. In FY2016 and FY2017, the Company recorded YoY decline of 9.2% and 12.5% in China QSR, respectively. SSSG remained at low single digits during FY2013-FY2015, and then slumped to -7.0% in FY2016. SSSG in mainland China improved significantly in FY2017, up 6.0% YoY, but overall revenue retreated as the Company closed down non-performing outlets in eastern and southern China, while strengthening the performance and operational efficiency of profitable ones. Pressure from competition for mainland China QSR is more intense than in Hong Kong as its customer base is relatively solid in Hong Kong and the loyalty of customers in China has not formed. We expect its operation in China will still be tough in the following years, and its improvement depends on localization and reaction to consumer tastes and market preferences.

Figure 44: Mainland China QSR Revenue & YoY Growth



Source: the Company, Guotai Junan International.

Figure 45: Total Operating Units and SSSG in Mainland China



Source: the Company, Guotai Junan International.

Food processing & Distribution business

The Company's food processing and distribution business only contributed 2.0% to sales in FY2016 and FY2017. This segment mainly includes Scanfoods, Hong Kong central food processing center and mainland China central food processing centre. Scanfoods is principally engaged in the production, distribution and sale of ham and sausage products. The new Hong Kong central food processing centre started operations in April 2013 in Tai Po, which could provide processed food to about 300 units. The mainland China central food processing centre commenced operation in 2011 in Guangzhou, supporting Café de Coral's southern China business.

Figure-46: Food Processing and Distribution Centers



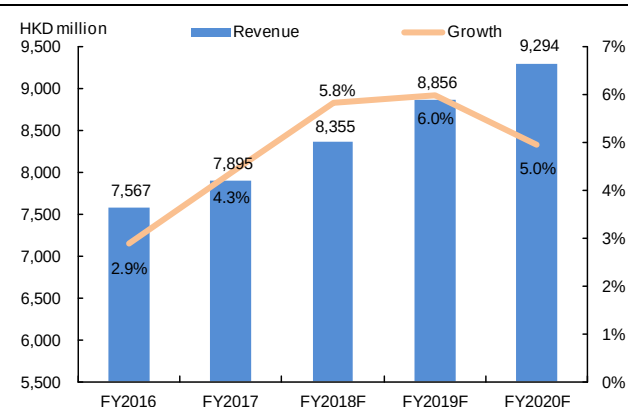
Source: the Company.

Financial Analysis

Revenue

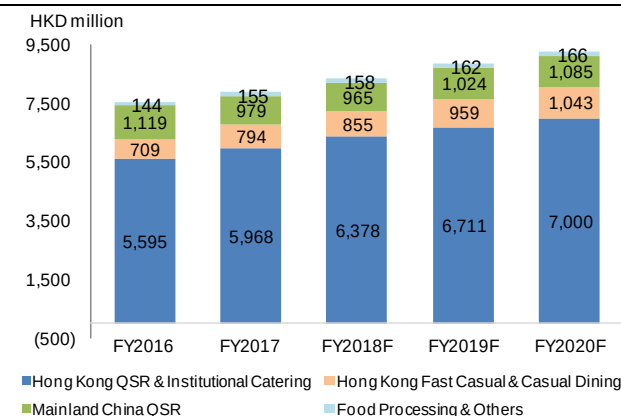
Revenue grew at a CAGR of 5.4% from FY2013 to FY2017 and 3-Year revenue CAGR in FY2017-FY2019 is expected to reach 5.6%. The main driver of sales growth was and will continue to be the Hong Kong catering sector. We expect sales growth of Hong Kong QSR and institutional catering to average at 5.5% and fast casual and casual dining to average at 9.5% over next three years. The demand for Hong Kong QSR and institutional catering of Café de Coral is solid in Hong Kong and more new restaurant openings are expected to drive growth of its Hong Kong QSR and institutional catering business. The market for its Hong Kong fast casual and casual dining restaurants is huge but competition is also intense, so CDC is going to further diversify its business in this lucrative sector and cultivate more profitable restaurants. Mainland China QSR is still caught in a dilemma, but the potential is great. The Company needs to find the right direction to operate its business and catch the trend of consumption in the mainland China market. The Company's revenue growth slowed down in FY2016, up 2.9% YoY but regained momentum in FY2017 with 4.3% YoY growth. We expect the Company's revenue in FY2018-FY2020 to reach HKD8,355 million, HKD8,856 million, and HKD9,294 million, up YoY by 5.8%, 6.0%, and 5.0%, respectively.

Figure 47: Historical & Forecast Revenues of Café de Coral



Source: the Company, Guotai Junan International.

Figure 48: Composition of Revenue of Café de Coral

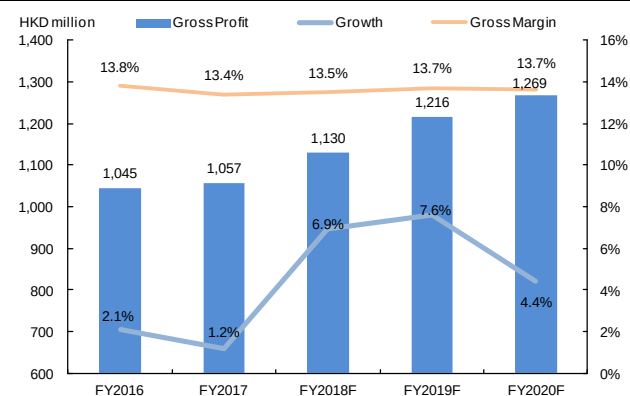


Source: the Company, Guotai Junan International.

Gross profit & Operating Profit

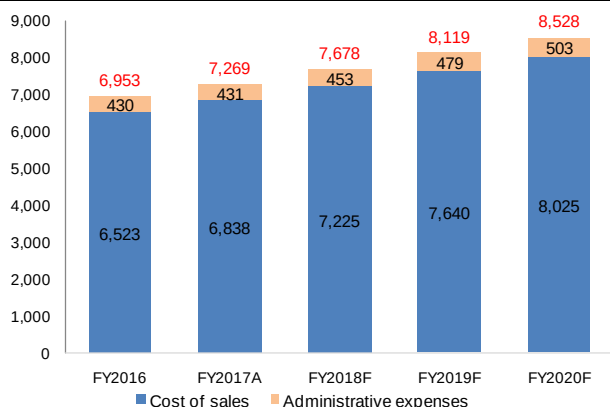
3-Year gross profit CAGR in FY2017-FY2020 is expected to reach 6.3%. Cost of sales contributed 94.1% to total expense in FY2017 and the rest was administrative expenses. Raw materials and compensation contributed the greatest portion of total expense of CDC. Nearly half of raw food materials of CDC are from mainland China where food prices fell, driven by the sharp decline in pork and fresh vegetable prices in 1H17, but is expected to remain stable in 2H17. Staff costs have notably increased over the last three years due to the rapid growth of average Hong Kong monthly wages. Gross profit growth slowed down during FY2015 to FY2017 due to a slowdown in revenue growth rate and a rise in expenses, and even recorded -8.2% YoY decline in 2HFY17. Gross margin moderately declined over the last five years but is expected to slightly improve in FY18, benefitting from low food prices and the launch of premium dishes. We expect its gross profit in FY2018-FY2020 to reach HKD1,130 million, HKD1,216 million, and HKD1,269 million, up YoY by 6.9%, 7.6%, and 4.4%.

Figure 49: Historical & Forecast Gross Profit of Café de Coral



Source: the Company, Guotai Junan International.

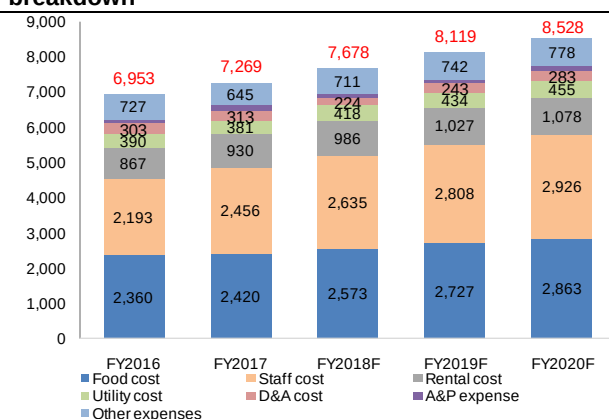
Figure 50: Café de Coral's Total Expense Breakdown by Cost of sales and Administrative Expense



Source: the Company, Guotai Junan International.

Note: The numbers in red represent total expense of the Company.

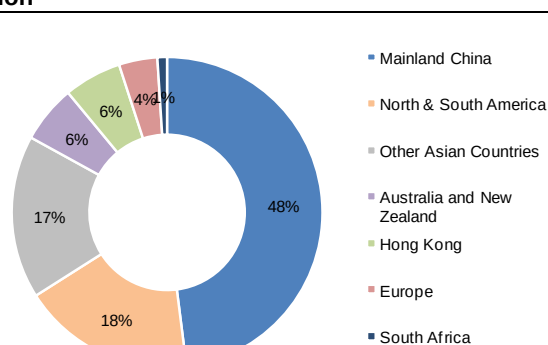
Figure 51: Café de Coral's Expense by Nature breakdown



Source: the Company, Guotai Junan International.

Note: The numbers in red represent total expense of the Company.

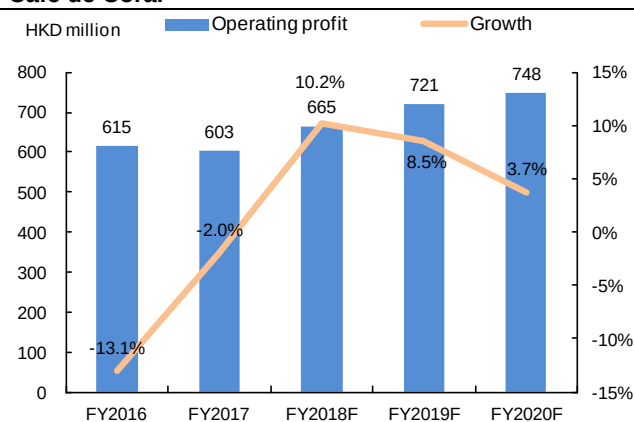
Figure 52: Café de Coral's Food Origin by Geographical Region



Source: the Company, Guotai Junan International.

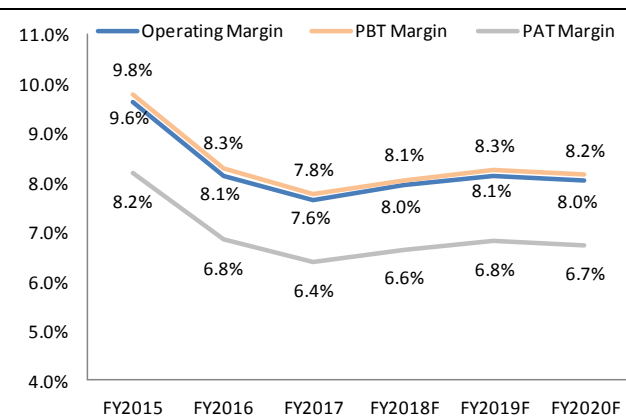
3-Year operating profit CAGR in FY2017-FY2020 is expected to reach 7.4%. The Company's operating profit declined at a CAGR of -1.6% from FY2013 to FY2017. The Company's operating margin remained at 9.6% in FY2015, but went down to 8.1% in FY2016 and 7.8% in FY2017 due to the rapid growth in expenses. Due to the rise in operational scale and improvement of gross margin, we expect its operating margin to slightly recover in FY2018-FY2020. We expect its operating profit in FY18-FY20 to reach HKD665 million, HKD721 million, and HKD748 million, up YoY by 10.2%, 8.5%, and 3.7%.

Figure 53: Historical & Forecast Operating Profit of Café de Coral



Source: the Company, Guotai Junan International.

Figure 54 : Margin Analysis of Café de Coral



Source: the Company, Guotai Junan International.

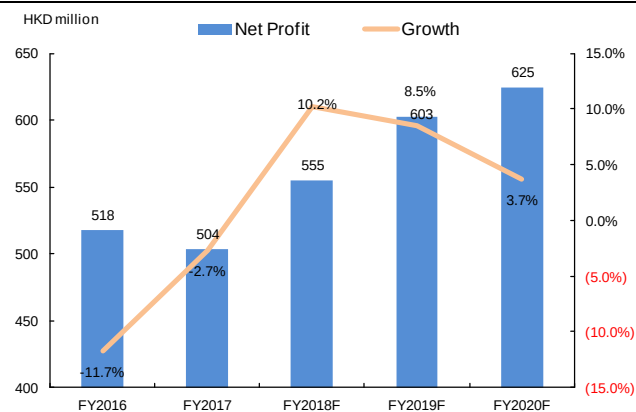
Net profit

Net profit is expected to grow at a CAGR of 7.4% from FY2017 to FY2020. Café de Coral's net profit has continuously declined over the last five years, and even recorded decreases in growth of 11.7% YoY and 2.7% YoY in FY2016 and FY2017. CDC has enhanced its operational foundation and improved profitability by closing non-performing stores and refining its

products and services. We expect net margin to improve in FY2018-FY2020 to 6.6%/ 6.8%/ 6.7%. We estimate CDC's net profit in FY18-FY20 to reach HKD555 million, HKD603 million, and HKD625 million, up YoY by 10.2%, 8.5%, and 3.7%, respectively, while the forecast EPS for the period is HKD 0.949/ HKD 1.030/ HKD 1.067, respectively.

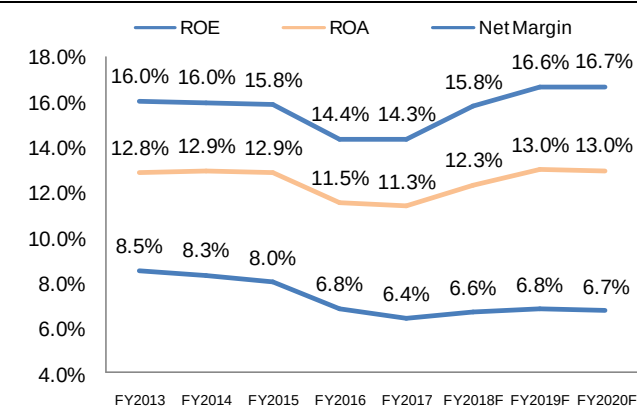
ROE and ROA fell in FY2016-FY2017 and is expected to rise slightly in FY2018. The Company's ROE and ROA remained around 16% and 13% over the last five years, but slightly slumped to 14.4% and 11.5% in FY2016, affected by a fall in net margin. In our forecast model, without special dividend and issuance of new shares factored in, the ROE and ROA will return to their normal levels, in which, ROE will average at 16.4% whilst ROA will average at 12.7% from FY2018 to FY2020.

Figure 55: Historical and Forecast Net Profit of Café de Coral



Source: the Company, Guotai Junan International.

Figure 56: ROE and ROA of Café de Coral

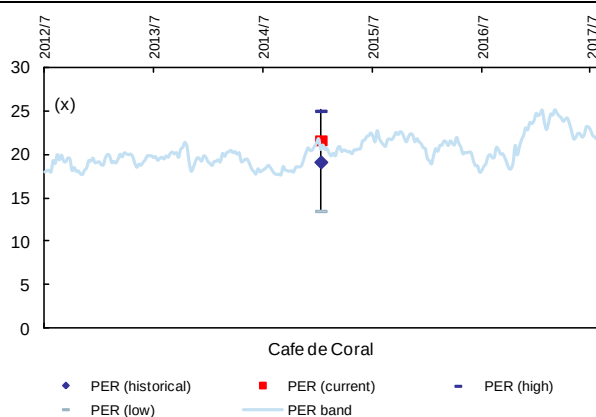


Source: the Company, Guotai Junan International.

Valuation

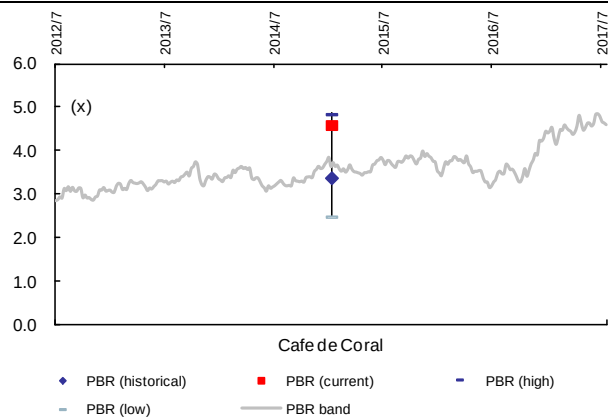
Initiate with TP of HK\$26.50 and “Accumulate” investment rating. CDC is the largest listed fast food company in Hong Kong, with a solid market share and strong cash flow. We believe the Company's fast food business can maintain its position in the Hong Kong market, which is a cash cow for the Company. On the other hand, diversified operations in the Hong Kong fast casual and casual dining category may enable the Company to cultivate new successful brands. The potential of the mainland fast food market for CDC is huge as customer demand for healthy Chinese fast food is rising, but the Company truly needs to act promptly to adapt the latest trends of China's fast moving catering market. Compared to other listed catering companies in the Hong Kong market, CDC traded at a premium valuation due to its leading market share and strong competitiveness. No matter how the global macro economy fluctuates, we believe that the Company can still maintain its profitability due to its solid customer base and stable demand for healthy fast food. The Company is working towards a full-service catering group, and we have seen its growth potential in the fast casual and casual dining market. Moreover, the Company recorded high payout ratios (77.2%/ 130.5%/ 94.1% in FY15/ FY16/ FY17) and has rewarded shareholders generously; we expect that the Company will maintain a high payout rate. As a result, we initiate with “Accumulate” investment rating for CDC and set TP at HK\$26.50, which represents 27.9x/ 25.7x/ 24.8x FY2018/ FY2019/ FY2020 PER. We suggest that investors accumulate shares during price dips.

Figure-57: PER Curve (next year) for Café de Coral



Source: the Company, Guotai Junan International.

Figure-58: PBR Curve (current year) for Café de Coral



Source: the Company, Guotai Junan International.

Table 4: Peers Comparison

Table 4.1 Peers Comparison											
Company	Ticker	\$	Share Price	Market Cap (HKD mn)	PER (x)			PBR (x)	ROE (%)	Gross Margin	Operating Margin (%)
					2017	2018	2019	2017	2017	2017	2017
HK - Listed companies											
Café De Coral Holdings	341 HK	HKD	25.150	14,721	28.9	26.3	23.7	4.2	14.3	13.4	7.5
Xiabuxiabu Catering	520 HK	HKD	7.960	8,509	17.0	14.8	12.7	3.7	23.3	64.4	15.4
Fairwood Holdings Ltd	52 HK	HKD	32.700	4,177	20.3	20.3	19.0	5.8	29.5	15.5	9.7
Ajisen China Holdings Ltd	538 HK	HKD	3.370	3,678	16.3	15.0	12.6	1.0	6.1	71.6	10.7
Li Bao Ge Group Ltd	8102 HK	HKD	1.190	1,679	18.6	15.9	12.8	1.4	7.8	71.5	5.3
Simple Average					20.2	18.5	16.2	3.2	16.2	47.3	9.7
Weighted Average					22.8	20.8	18.4	3.8	17.3	36.4	10.1
China - Listed companies											
Guangzhou Restaurant	603043 CH	CNY	22.140	10,409	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Quanjude Group	002186 CH	CNY	19.290	6,925	38.7	36.2	33.3	n.a.	10	61.5	10.9
Xi'An Catering	000721 CH	CNY	7.320	4,251	197.8	318.3	488.0	n.a.	2.8	38.9	3.3
Simple Average					118.3	177.2	260.6	n.a.	6.4	50.2	7.1
Weighted Average					51.4	74.3	106.8	n.a.	3.8	27.4	4.1
USA - Listed companies											
Mcdonald'S Corp	MCD US	USD	154.970	987,844	23.8	22.3	20.6	n.a.	n.a.	46.5	39.1
Starbucks Corp	SBUX US	USD	55.630	628,191	27.0	23.5	20.1	13.4	43.7	60.1	19.8
Restaurant Brands Intern	QSR US	USD	62.160	224,399	33.2	24.5	21.9	10.3	39.1	23.3	40.8
Yum! Brands Inc	YUM US	USD	74.990	204,228	26.6	23.5	20.3	-3.7	40.0	49.4	29.9
Chipotle Mexican Grill Inc	CMG US	USD	339.450	75,691	43.9	30.8	23.9	6.6	15.3	18.3	7.8
Simple Average					30.9	24.9	21.4	6.6	34.6	39.5	27.5
Weighted Average					26.6	23.2	20.6	4.9	40.4	47.3	31.5

Source: Bloomberg.

Note: 1. * is outlier which is excluded from valuation.

2. For those companies with financial year ended other than 12/31, their PER and PBR are adjusted to calendar year and ROE, GM as well as OM of FY18 are shown in 2017 in table for comparison.

3. Different companies have various method to calculate gross margin.

Financial Statement

Income Statement					
Year end Mar (HK\$ m)	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	7,567	7,895	8,355	8,856	9,294
Cost of sales	(6,523)	(6,838)	(7,225)	(7,640)	(8,025)
Gross Profit	1,045	1,057	1,130	1,216	1,269
Other income/gains	1	(23)	(12)	(15)	(18)
Administrative expenses	(430)	(431)	(453)	(479)	(503)
Operating Profit	615	603	665	721	748
Interest income, net	13	10	9	10	10
Share of an associate	0	0	0	0	0
Profit before tax	628	613	673	731	758
Income tax	(110)	(109)	(118)	(128)	(133)
Profit after tax	518	504	556	603	625
Loss from discontinued operation	0	0	0	0	0
Minority interests	0	(0)	(0)	(0)	(0)
Net Profit	518	504	555	603	625
EPS (HK\$)	0.900	0.870	0.949	1.030	1.067
DPS (HK\$)	1.174	0.810	0.810	0.820	0.830

Cash Flow Statement					
Year end Mar (HK\$ m)	FY16A	FY17A	FY18F	FY19F	FY20F
Profit before income tax	628	613	673	731	758
Depreciation of PP&E	299	309	221	239	280
Change in working capital	(36)	2	44	1	34
Others	(110)	(48)	(102)	(119)	(116)
Operating cash flow	781	876	836	852	955
Purchase of PP&E	(360)	(596)	(350)	(360)	(360)
Others	181	3	42	20	21
Investing cash flow	(179)	(593)	(308)	(340)	(339)
Shares issued	29	26	22	0	0
Share repurchased	(37)	(17)	(2)	(2)	(2)
Dividends paid	(456)	(670)	(474)	(474)	(480)
Financing cash flow	(463)	(662)	(454)	(476)	(482)
Change in cash and cash equivalents	139	(379)	74	36	133
Foreign exchange effect	(9)	(18)	0	0	0
Cash balance at beginning	1,057	1,187	790	864	900
Cash balance at year end	1,187	790	864	900	1,034

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Mar (HK\$ m)	FY16A	FY17A	FY18F	FY19F	FY20F
PP&E	1,729	1,944	2,035	2,120	2,161
Others	1,052	1,217	1,157	1,175	1,172
Non-current assets	2,781	3,161	3,193	3,295	3,333
Inventories	215	240	250	269	275
Trade receivables	87	97	159	108	172
Cash & cash equivalents	1,187	790	864	900	1,034
Others	175	148	132	135	128
Current assets	1,664	1,276	1,405	1,412	1,609
Provision	52	46	50	55	61
Others	49	54	58	62	67
Non-current liabilities	101	100	108	117	127
Trade payables	214	211	283	236	309
Others	588	635	650	667	688
Current liabilities	802	846	933	902	998
Shareholders' equity	3,542	3,491	3,556	3,688	3,817
BPS (HK\$)	6.063	5.971	6.068	6.293	6.514

Financial Ratios					
	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue Growth (%)	2.9	4.3	5.8	6.0	5.0
Gross Profit Growth (%)	2.1	1.2	6.9	7.6	4.4
Operating Profit Growth (%)	(13.1)	(2.0)	10.2	8.5	3.7
Net Profit Growth (%)	(11.7)	(2.7)	10.2	8.5	3.7
Gross Margin (%)	13.8	13.4	13.5	13.7	13.7
Operating Margin (%)	8.1	7.6	8.0	8.1	8.0
Net Margin (%)	6.8	6.4	6.6	6.8	6.7
ROA (%)	11.5	11.3	12.3	13.0	13.0
ROE (%)	14.4	14.3	15.8	16.6	16.7
Inventory turnover days	10.7	10.5	10.7	10.7	10.7
Receivable turnover days	5.6	4.3	5.6	5.5	5.5
Payable turnover days	10.6	10.3	10.8	10.7	10.7
Cash conversion cycle	5.7	4.5	5.5	5.5	5.5
Current Ratio (x)	2.1	1.5	1.5	1.6	1.6
Quick Ratio (x)	1.8	1.2	1.2	1.3	1.3
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Net interest cover (x)	Net Incomer	Net Incomer	Net Incomer	Net Incomer	Net Incomer
Payout ratio (%)	130.5	94.1	85.4	79.6	77.8

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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