

Cafe De Coral (341 HK)

Disappointing results salvaged by flat dividend

1H25 results were inline with profit warning, but still much weaker than we previously expected. As we see no material improvements in economic environment and consumer behaviours, we may only expect flattish to small SSSG and profit growth in 2H24E and FY25E. We maintain BUY ONLY because of its relatively high dividend yield (~7%) and defensive business nature.

■ **Our outlook for 2H25E is now fairly prudent (where the store opening plan also slowed down).** In the near term, management did mentioned a decent rebound in Oct 2024 but also a rather soft Nov 2024. However, as we are very prudent about the upcoming Dec 2024, and still expecting a potentially 10%+ drop in retail sales (so as the catering sales), our outlook for Oct-Dec 2024 is still very prudent. Therefore, we do concur with management's conservative view of rather flattish SSSG in 2H24E. For margins, we think the room for ASP hike is limited (given such a promotional environment and the consumers are increasingly costs conscious) and therefore greater leverage on food costs may seem unrealistic. While the staff costs may still be rigid, we have seen the rental terms become more negotiable nowadays. Therefore, certain operating leverage may still be achievable in 2H25E. All in all, we are now forecasting 0% sales growth and 11% net profit growth in 2H25E (and hence -1% sales growth and -13% net profit drop in FY25E). Noted that the management is targeting to open about 6/ 10 new stores in HK/ mainland, hence we will update the net new stores forecast to ~5/ 10 respectively.

■ **Highly likely to remain in a defensive mode in FY26E.** Firstly, based on our current forecast, the macro environment in Hong Kong may still be lingering, as the GDP growth may just be at 2.5% in 2025E (same as 2024) and property prices may still be weak, etc. Secondly, both the recovery rates for CDC and fast food industry are still low (CDC/ Super congee's SSS recovery were still low at 86%/ 100% in 1H25, compared to 88%/ 99% in 2H24 while HK's catering sales recovery rate was still low at 92%/ 93%/ 92% in Jul-Sep 2024/ Apr-Jun 2024/ Jan-Mar 2024). Thirdly, the room for ASP hike could be unclear and limited. Therefore, our view for sales growth and margin improvement may not be particularly positive.

■ **Maintain BUY but trim TP to HK\$ 9.30.** We revise down our FY25E/ 26E/ 27E net profit forecasts by 24%/ 25%/ 27%, in order to factor in: 1) weaker-than-expected SSSG, 2) greater-than-expected operating leverage, and 3) slower-than-expected store expansion. We maintain BUY ONLY because of its relatively high dividend yield (at around 7% if the absolute amount of dividend can be maintained vs last year) and its defensive nature under the suppressed economic environment in both HK and mainland China. The stock is trading at 14x FY26E P/E. Our new TP is based on 16x FY26E P/E (rolled over from 17x FY25E P/E).

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	8,024	8,691	8,637	9,006	9,424
YoY growth (%)	6.9	8.3	(0.6)	4.3	4.6
Operating profit (HK\$ mn)	203.8	452.8	426.3	484.8	539.6
Net profit (HK\$ mn)	111.2	333.2	290.7	340.8	387.4
EPS (Reported) (HK\$)	0.19	0.57	0.50	0.58	0.66
YoY growth (%)	419.0	199.4	(12.8)	17.2	13.7
P/E (x)	41.5	13.9	15.9	13.6	11.9
P/B (x)	1.6	1.6	1.6	1.6	1.5
Yield (%)	4.9	6.6	6.9	8.1	9.2
ROE (%)	4.0	11.7	10.0	11.7	13.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$9.30**
 (Previous TP **HK\$11.15**)
Up/Downside **18.0%**
Current Price **HK\$7.88**

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	4,615.3
Avg 3 mths t/o (HK\$ mn)	11.0
52w High/Low (HK\$)	9.85/7.42
Total Issued Shares (mn)	585.7

Source: FactSet

Shareholding Structure

Lo Tak Shing	16.1%
Lo Hoi Kwong	11.0%

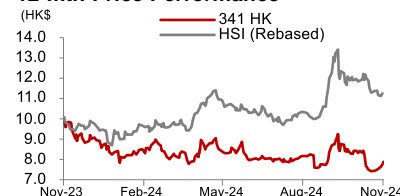
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.5%	-0.6%
3-mth	-3.0%	-11.3%
6-mth	-5.6%	-8.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

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■ **1H25 was once again under pressure, but was salvaged by the flattish dividend.** CDC (341 HK) reported its 1H25 results. Sales dropped by 1% YoY to RMB 42.6bn, while net profit was 28% lower than last year at RMB 144mn, both were inline with the previously announced profit warning. However, these numbers were still rather disappointing, compared to our expectation of positive sales and net profit growth. We attributed the depressed results to: 1) economic pressure (slow GDP growth, negative wealth effect with the backdrop of ongoing stress in property market, etc.), 2) changes in spending behavior (Hong Kong people travelling more abroad or to mainland China, decreased demand for dining out, esp. supper) and 3) weak demand for fast casual restaurants. In terms of margin, we believe the operating deleverage was mainly due to the sluggish SSSG (-2% for CDC HK, -1% for Super Congee HK and -8% for CDC mainland China) and rather fixed rental expense structure (while the food costs and staff costs were quite under control). We do appreciate CDC's outperformance over Fairwood (NP to fall by 50% to 60% in 1H25) and Tam Jai (SSS had fallen by 4%/ 11% in HK/ mainland China and NP had dropped by 56% in 1H25). However, compared to fast food industry sales growth of 8.2% in Hong Kong during Apr-Sep 2024, CDC did lose some market share. However, despite all these negatives, there is still one bright spot in 1H25 results, which is the proposed dividend paid, which is the same amount vs last year. If this amount can be maintained for FY25E, the forward yield could still be at around 7%.

Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	8,637	9,006	9,424	9,062	9,693	10,400	-4.7%	-7.1%	-9.4%
Gross profit	949	1,027	1,095	1,109	1,235	1,361	-14.4%	-16.8%	-19.6%
EBIT	426	485	540	569	661	761	-25.0%	-26.7%	-29.1%
Net profit att.	288	338	384	381	452	528	-24.4%	-25.3%	-27.2%
Diluted EPS (HK\$)	0.50	0.58	0.66	0.66	0.78	0.91	-24.4%	-25.3%	-27.2%
Gross margin	11.0%	11.4%	11.6%	12.2%	12.7%	13.1%	-1.2ppt	-1.3ppt	-1.5ppt
EBIT margin	4.9%	5.4%	5.7%	6.3%	6.8%	7.3%	-1.3ppt	-1.4ppt	-1.6ppt
Net profit att. margin	3.3%	3.8%	4.1%	4.2%	4.7%	5.1%	-0.9ppt	-0.9ppt	-1ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	8,637	9,006	9,424	9,015	9,495	9,924	-4.2%	-5.2%	-5.0%
Gross profit	949	1,027	1,095	1,073	1,159	1,300	-11.5%	-11.4%	-15.8%
EBIT	426	485	540	538	611	724	-20.7%	-20.6%	-25.5%
Net profit att.	288	338	384	381	446	554	-24.4%	-24.2%	-30.7%
Diluted EPS (HK\$)	0.50	0.58	0.66	0.64	0.76	0.84	-23.1%	-23.6%	-21.4%
Gross margin	11.0%	11.4%	11.6%	11.9%	12.2%	13.1%	-0.9ppt	-0.8ppt	-1.5ppt
EBIT margin	4.9%	5.4%	5.7%	6.0%	6.4%	7.3%	-1ppt	-1ppt	-1.6ppt
Net profit att. margin	3.3%	3.8%	4.1%	4.2%	4.7%	5.6%	-0.9ppt	-0.9ppt	-1.5ppt

Source: Company data, Bloomberg, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY23A	FY24A	FY25E	FY26E	FY27E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	5,672	6,158	6,185	6,350	6,572
HK Fast Casual & Casual Dining	858	879	818	883	936
Food Processing & Distribution	170	139	132	139	146
Mainland China	1,324	1,515	1,502	1,634	1,770
Total	8,024	8,691	8,637	9,006	9,424
Growth (%)					
HK QSR & Institutional Catering	8%	9%	0%	3%	3%
HK Fast Casual & Casual Dining	11%	2%	-7%	8%	6%
Food Processing & Distribution	15%	-18%	-5%	5%	5%
Mainland China	-1%	14%	-1%	9%	8%
Total	7%	8%	-1%	4%	5%
GP margin	8.8%	11.4%	11.0%	11.4%	11.6%
Costs breakdown					
Costs of raw materials	28.8%	27.4%	27.0%	27.0%	27.0%
Depreciation	4.7%	4.3%	4.8%	4.8%	4.8%
Operating lease rentals	11.5%	11.4%	11.6%	11.8%	11.9%
Employee benefit expenses	33.4%	33.1%	33.9%	33.6%	33.3%
OP margin	2.5%	5.2%	4.9%	5.4%	5.7%
Effective tax rate	22.9%	14.5%	14.5%	14.5%	14.5%
NP att. margins	1.4%	3.8%	3.3%	3.8%	4.1%
NP att. growth (%)	420.2%	199.5%	-12.8%	17.2%	13.7%
Sales network by region					
HK QSR & Institutional Catering	310	318	323	328	333
HK Fast Casual Dining	66	62	60	62	64
Mainland China	153	171	181	196	211
Total	529	551	564	586	608
SSSG by segment					
HK Café de Coral	1.0%	3.0%	-1.5%	2.0%	2.0%
HK Super Super Congee & Noodles	2.0%	6.0%	0.5%	2.0%	2.0%
Mainland China Café de Coral	-4.0%	11.0%	-5.0%	3.0%	3.0%

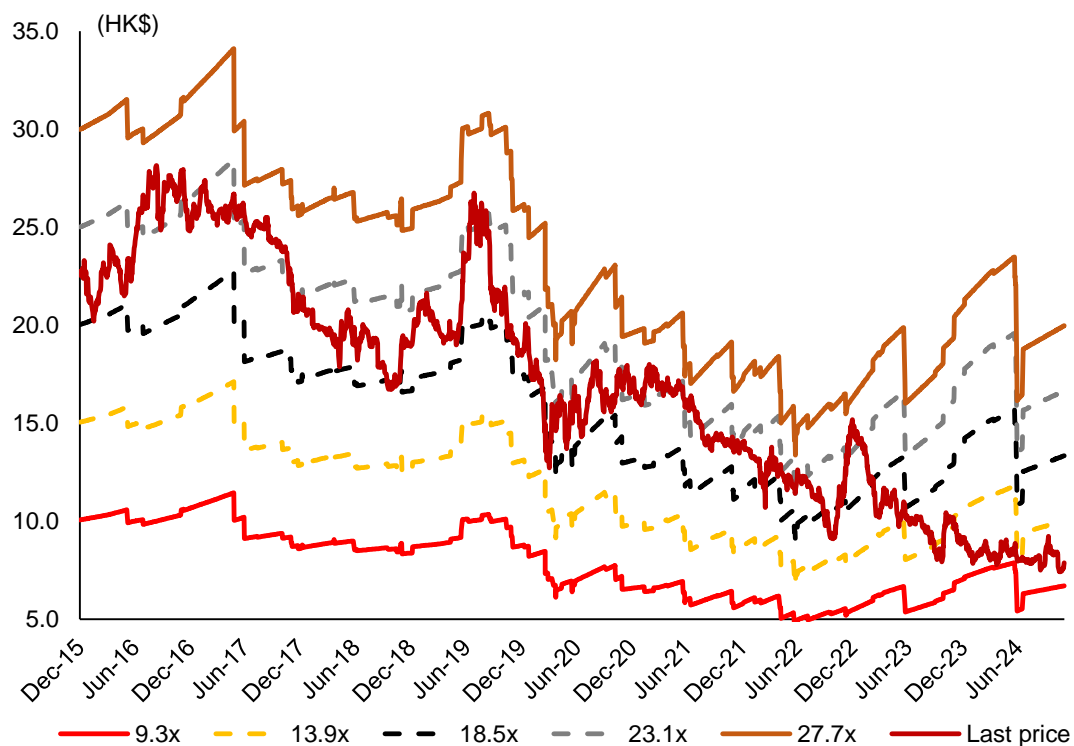
Source: Company data, CMBIGM estimates

Valuation

Figure 4: Peers' valuation

			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	FY1E	FY1E	FY1E	FY1E	FY1E
Leading Greater China Restaurants and Food Ingredients														
Cafe De Coral	341 HK	BUY	9.30	7.88	18%	4,570	Mar-24	15.9	13.6	1.6	11.6	3.1	6.9	(12.5)
Haidilao	6862 HK	BUY	15.94	14.88	7%	82,941	Dec-23	16.6	14.7	5.9	45.4	2.5	4.7	2.3
Jiumaojiu	9922 HK	HOLD	2.64	3.21	-18%	4,528	Dec-23	19.7	11.8	1.2	9.1	(7.4)	2.2	(47.4)
Nayuki	2150 HK	BUY	3.43	1.42	142%	2,421	Dec-23	n/a	n/a	0.5	0.3	n/a	0.0	(55.2)
Dpc	1405 HK	BUY	81.20	77.25	5%	10,080	Dec-23	136.7	59.3	4.4	(1.9)	(0.4)	0.1	24.7
Helens	9869 HK	NR	n/a	2.50	n/a	3,164	Dec-23	14.3	11.0	1.8	9.9	0.9	10.3	(19.6)
Xiabuxiabu	520 HK	BUY	4.89	0.84	482%	912	Dec-23	n/a	86.9	0.9	(40.7)	n/a	4.3	(65.3)
Tam Jai	2217 HK	NR	n/a	0.78	n/a	1,050	Mar-24	8.0	8.3	0.7	7.8	1.1	10.0	(38.1)
Yihai	1579 HK	NR	n/a	13.46	n/a	13,954	Dec-23	15.0	13.4	2.4	18.4	3.1	5.8	8.5
Yum China	9987 HK	BUY	451.11	359.80	25%	136,733	Dec-23	20.1	18.0	2.8	14.2	1.5	1.4	8.3
Gourmet Master	2723 TT	NR	n/a	93.70	n/a	4,035	Dec-23	26.0	17.1	1.5	3.6	1.7	2.7	(7.7)
Avg.								30.3	25.4	2.2	7.1	0.7	4.4	(18.4)
Med.								16.6	14.1	1.6	9.1	1.5	4.3	(12.5)
International Restaurants and Food Ingredients														
Yum! Brands	YUM US	NR	n/a	139.33	n/a	302,643	Dec-23	25.4	23.0	n/a	n/a	4.6	1.9	6.6
Mcdonald's	MCD US	NR	n/a	295.08	n/a	1,645,879	Dec-23	25.1	23.5	n/a	n/a	4.8	2.3	(0.5)
Starbucks Corp	SBUX US	NR	n/a	101.51	n/a	895,807	Sep-24	32.7	27.4	n/a	n/a	3.4	2.4	5.7
Rest. Brands	QSR US	NR	n/a	70.18	n/a	247,714	Dec-23	21.1	18.6	6.5	41.3	7.7	3.3	(10.2)
Chipotle Mexican	CMG US	NR	n/a	62.1	n/a	658,078	Dec-23	55.6	47.3	23.0	45.7	2.8	0.0	35.7
Darden Rest.	DRI US	NR	n/a	174.98	n/a	160,029	May-24	18.4	16.5	9.0	48.5	1.9	3.1	6.5
Domino's Pizza	DPZ US	NR	n/a	472.34	n/a	126,954	Dec-23	28.3	26.8	n/a	n/a	3.0	1.3	14.6
Wendy's Co	WEN US	NR	n/a	18.53	n/a	29,400	Dec-23	18.6	17.7	14.8	64.3	2.9	5.4	(4.9)
Shake Shack	SHAK US	NR	n/a	132.35	n/a	44,119	Dec-23	163.8	116.9	11.6	2.0	3.7	n/a	78.6
Wingstop	WING US	NR	n/a	331.27	n/a	75,321	Dec-23	90.2	72.5	n/a	n/a	2.7	0.3	29.1
Jollibee Foods	JFC PM	NR	n/a	261.20	n/a	38,890	Dec-23	27.8	23.3	3.1	12.4	1.5	1.2	3.9
Avg.								46.1	37.6	11.4	35.7	3.5	2.1	15.0
Med.								27.8	23.5	10.3	43.5	3.0	2.1	6.5

Source: Bloomberg, CMBIGM estimates

Figure 5: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Revenue	7,509	8,024	8,691	8,637	9,006	9,424
Cost of goods sold	(6,961)	(7,321)	(7,702)	(7,687)	(7,979)	(8,329)
Gross profit	548	703	989	949	1,027	1,095
Operating expenses	(417)	(499)	(536)	(523)	(542)	(555)
Admin expense	(459)	(486)	(503)	(499)	(518)	(532)
Others	42	(13)	(33)	(24)	(24)	(24)
Operating profit	131	204	453	426	485	540
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	493	582	826	843	918	991
Depreciation	(362)	(378)	(373)	(414)	(431)	(449)
Depreciation of ROU assets	(15)	(17)	(21)	(21)	(21)	(21)
Other amortisation	(0)	(0)	(0)	(3)	(3)	(2)
Interest income	(80)	(60)	(63)	(86)	(86)	(87)
Pre-tax profit	51	144	390	340	399	453
Income tax	(28)	(33)	(56)	(49)	(58)	(66)
Minority interest	2	1	3	2	3	3
Net profit	23	111	333	291	341	387

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Current assets	2,152	2,128	1,707	872	137	(597)
Cash & equivalents	1,586	1,672	1,261	428	(326)	(1,080)
Account receivables	200	138	153	152	158	165
Inventories	304	268	230	230	239	249
Prepayment	55	45	63	62	65	68
ST bank deposits	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	8	5	1	1	1	1
Non-current assets	4,720	5,048	4,807	4,695	4,579	4,462
PP&E	1,586	1,618	1,553	1,437	1,324	1,210
Deferred income tax	68	63	66	10	10	10
Intangibles	1	1	1	1	1	1
Other non-current assets	3,065	3,366	3,187	3,246	3,244	3,242
Total assets	6,872	7,175	6,514	5,567	4,716	3,866
Current liabilities	1,726	2,780	1,908	1,903	1,945	1,993
Account payables	167	226	211	210	218	228
Tax payable	14	14	39	39	39	39
Other current liabilities	1,544	2,539	1,658	1,653	1,688	1,726
Non-current liabilities	2,319	1,603	1,695	1,695	1,695	1,695
Other non-current liabilities	2,319	1,603	1,695	1,695	1,695	1,695
Total liabilities	4,045	4,383	3,603	3,598	3,640	3,688
Share capital	59	59	59	59	59	59
Capital surplus	621	621	621	621	621	621
Retained earnings	1,755	1,680	1,746	1,706	1,713	1,712
Other reserves	384	424	474	500	527	555
Total shareholders equity	2,819	2,784	2,900	2,886	2,919	2,947
Minority interest	8	8	11	13	16	19
Total equity and liabilities	6,872	7,175	6,514	6,497	6,575	6,654

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	51	144	390	340	399	453
Depreciation & amortization	1,110	1,177	716	417	434	451
Tax paid	9	(28)	(56)	(49)	(58)	(66)
Change in working capital	(166)	278	(4)	(4)	24	27
Others	160	127	100	117	118	120
Net cash from operations	1,164	1,699	1,146	821	917	985
Investing						
Capital expenditure	(492)	(462)	(318)	(316)	(329)	(345)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	36	42	(57)	(80)	(80)	(80)
Net cash from investing	(456)	(420)	(375)	(396)	(410)	(425)
Financing						
Dividend paid	(221)	(163)	(252)	(328)	(331)	(385)
Net borrowings	(100)	(100)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(26)	0	0	0	0	0
Others	(860)	(930)	(930)	(930)	(930)	(930)
Net cash from financing	(1,207)	(1,193)	(1,181)	(1,258)	(1,261)	(1,314)
Net change in cash						
Cash at the beginning of the year	2,073	1,586	1,672	1,261	428	(326)
Exchange difference	11	0	0	0	0	0
Others	(498)	86	(411)	(833)	(754)	(754)
Cash at the end of the year	1,586	1,672	1,261	428	(326)	(1,080)
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Revenue	11.8%	6.9%	8.3%	(0.6%)	4.3%	4.6%
Gross profit	46.0%	28.3%	40.8%	(4.0%)	8.1%	6.6%
Operating profit	(72.3%)	55.4%	122.1%	(5.8%)	13.7%	11.3%
EBITDA	(40.2%)	18.0%	42.0%	2.1%	8.9%	7.9%
Net profit	(93.7%)	386.6%	199.7%	(12.8%)	17.2%	13.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Gross profit margin	7.3%	8.8%	11.4%	11.0%	11.4%	11.6%
Operating margin	1.7%	2.5%	5.2%	4.9%	5.4%	5.7%
EBITDA margin	6.6%	7.3%	9.5%	9.8%	10.2%	10.5%
Return on equity (ROE)	0.8%	4.0%	11.7%	10.0%	11.7%	13.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Current ratio (x)	1.2	0.8	0.9	0.5	0.1	(0.3)
Receivable turnover days	9.7	6.3	6.4	6.4	6.4	6.4
Inventory turnover days	15.9	13.4	10.9	10.9	10.9	10.9
Payable turnover days	8.8	11.3	10.0	10.0	10.0	10.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
P/E	215.5	41.5	13.9	15.9	13.6	11.9
P/E (diluted)	215.5	41.5	13.9	15.9	13.6	11.9
P/B	1.6	1.6	1.6	1.6	1.6	1.5
P/CFPS	3.9	2.7	4.0	5.6	5.0	4.7
Div yield (%)	3.6	4.9	6.6	6.9	8.1	9.2

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

Disclosures & Disclaimers

Analyst Certification

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