

# Luckin Coffee (LKNKY US)

## Unbeatable costs, branding and R&D power

- **Luckin Coffee is the largest and fastest-growing coffee brand in China.** Founded in Jun 2017, Luckin Coffee mainly sells mid-priced (around RMB 10 to 20 per cup) coffee drinks. The company also emphasizes digital engagement, convenience, and competitive pricing. By 2023, it already has 16,248 stores (10,628 self-operated stores and 5,620 partnership stores) and generated an annual sales of RMB 24.9bn (plus a net profit of RMB 2.85bn), accounting for a remarkable market share of 21.7% in the chained cafe segment in China. As at 3Q24, it has become the largest coffee brand in China, in terms of sales (RMB 10.2bn) and number of stores (21,343).
- **The real competitive moat is the massive economies of scale.** We think competitive edge of Luckin Coffee lies in its economies of scale, enabling cost efficiency across procurement, production, and logistics. It offers better value-for-money compared to Starbucks and Cotti, with premium-quality beans and award-winning formulas. Continuous investments in supply chain improvements, like the Kunshan roasting facility, may further reduce per-cup costs (from RMB 5.3 to RMB 4.8) and boost margins.
- **Luckin Coffee offers high value for money and strong brand power.** Luckin Coffee stands out for its affordability (average price of RMB 16 per cup) and product quality (customer rating on Dianping.com was 4.13, better than average of 4.09, Cotti's 4.06 and Starbucks's 3.96). It also enjoys strong brand recognition, surpassing competitors like Starbucks and Cotti in popularity on platforms such as Baidu Index, Xiaohongshu, and Douyin.
- **Benefitted from strong R&D capabilities, it continues to launch hit products and we see ample room for expansion.** Luckin Coffee consistently delivers hit products thanks to its strong R&D capabilities and frequent new launches, e.g. the Jasmine Light Milk Tea, which saw strong sales in its first week of launch. It is also expanding its offerings to cater to diverse customer groups, by rolling out more beverage-based coffee products, entry into the tea drinks market, plus stores expansion in overseas (first in Singapore, then likely Malaysia and US), despite losses in short run.
- **We forecast a 29%/ 23% sales/ net profit CAGR during FY23-26E.** We think the major growth drivers are: 1) rapid store expansion, 2) costs reduction through raw material sourcing and supply chain investment, 3) stabilization in sales per store/ SSSG and the operating leverage (increases in ASP and purchasing frequency per customer) and 4) economies of scale (e.g. headquarters and other admin costs are relatively fixed).
- **We initiate BUY with TP of US\$ 33.80, based on 20x FY25E P/E.** We apply a 20x FY25E P/E for Luckin Coffee, which has a 9% discount to Greater China Catering peers' average of 22.0x (or a 15% premium over peers' median of 17.3x). We do think this premium can be reasonably justified by: 1) ample room for growth, 2) its massive business size, 3) its exceptional leadership in costs, brand equity and level of digitalization, 4) its relatively addictive, functional and staple product nature, and 5) its faster-than-peers sales and net profit CAGR, despite its relatively short history. The stock is currently trading at 14x FY25E P/E, which is fairly attractive, given its 29%/ 23% sales/ net profit CAGR.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,293	24,903	35,528	45,075	52,846
YoY growth (%)	66.9	87.3	42.7	26.9	17.2
EBITDA (RMB mn)	1,548.1	3,630.2	4,617.2	6,183.2	7,700.4
Net profit (RMB mn)	488.2	2,847.9	2,974.1	3,947.5	4,997.5
EPS (Reported) (RMB)	0.19	1.12	1.16	1.54	1.93
YoY growth (%)	(39.6)	479.6	3.4	32.1	26.0
P/E (x)	112.1	19.3	18.7	14.2	11.2
EV/EBITDA (x)	33.8	14.9	12.0	9.0	7.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	8.3	34.9	26.6	26.9	26.1

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Initiate)

Target Price **US\$33.80**  
Up/Downside **40.8%**  
Current Price **US\$24.00**

### China Consumer Discretionary

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walterwoo@cmbi.com.hk

### Stock Data

Mkt Cap (US\$ mn)	7,673.7
Avg 3 mths t/o (US\$ mn)	55.7
52w High/Low (US\$)	28.53/18.01
Total Issued Shares (mn)	2557.9

Source: FactSet

### Shareholding Structure

Centurium Capital	32.4%
Joy Capital	4.7%

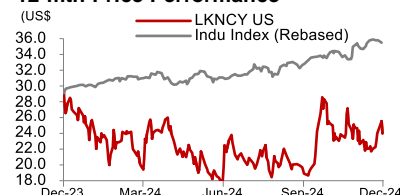
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-2.7%	-2.6%
3-mth	27.0%	17.3%
6-mth	21.5%	6.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

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## Investment Thesis

### ■ Luckin Coffee is the largest and fastest-growing coffee brand in China.

Luckin Coffee was established in Jun 2017 by Charles Zhengyao Lu and its first store was opened in Oct 2017 in Beijing. The brand mainly sells mid-priced (around RMB 10 to 20 per cup) coffee drinks. The company also emphasizes digital engagement, convenience, and competitive pricing, leveraging a mobile app for orders and payments and offering delivery or pick-up options through a network of compact, tech-enabled stores. It was also extremely fast-growing and had opened its 1,000th/ 2,000th/3,000th in just 11 months/ 14 months/ 21 months. Moreover, the company had managed to be listed in May 2019, in less than two years after it was founded. By 2023, it already has 16,248 stores (10,628 self-operated stores and 5,620 partnership stores) and had generated an annual sales of RMB 24.9bn (plus a net profit of RMB 2.85bn), accounting for a remarkable market share of 21.7% in the chained cafe segment in China. As at 3Q24, it has become the largest coffee brand in China (in terms of both sales and number of stores), with a store count of 21,343 (ahead of Starbucks China's 7,594) in Sep 2024 and has registered a sales of RMB 10.2bn (ahead of Starbucks China's RMB 5.5bn) in 3Q24.

### ■ The real competitive moat is the massive economies of scale.

Luckin Coffee's competitive edge lies in its economies of scale as China's largest and fastest-growing coffee chain, enabling cost efficiency across procurement, production, and logistics. It offers better value-for-money compared to Starbucks and Cotti, with premium-quality beans and award-winning formulas. Continuous investments in supply chain improvements, like the Kunshan roasting facility, reduce per-cup costs while boost margins. Additionally, its adoption of proprietary automated systems can enhance efficiency, lower costs, and support product diversification, solidifying its market leadership.

### ■ Luckin Coffee offers high value for money and strong brand power.

Luckin Coffee stands out for its affordability (average price of RMB 16 per cup) and product quality (customer rating on Dianping.com was 4.13, better than average of 4.09). It also enjoys strong brand recognition, surpassing competitors like Starbucks and Cotti in popularity on platforms such as Baidu, Xiaohongshu, and Douyin, and ranking consistently on the top of brand reputation lists. Its marketing strategies, including high-profile collaborations like the Moutai latte, emphasize high quality, value, and accessibility, further enhancing its brand image and securing long-term partnership with other leading brands.

### ■ Benefitted from strong R&D capabilities, the company continues to launch hit products and has significant expansion potential.

Luckin Coffee consistently delivers hit products thanks to its strong R&D capabilities and frequent new launches, such as the recent Jasmine Light Milk Tea, which saw strong sales in its first week of launch. The company is expanding its offerings to cater to diverse customer groups, including beverage-based coffee products and entry into the tea market, positioning itself for future growth. Luckin Coffee is focusing on expanding its footprint in Singapore, where it positions itself as an affordable alternative to Starbucks. Although its pricing and store-level sales seems to be good, operational costs have led to losses in the short term. The company's long-term success in overseas markets hinges on replicating its domestic advantages: cost leadership through supply chain optimization, store network expansion, and strong brand marketing, but these initiatives will require substantial investment and time to achieve.

### ■ The current demographic structure in China is favorable for the coffee market.

China's demographic trends are increasingly favorable for the coffee market. Firstly, we have to refer to the pattern that the older individuals tend to consume more coffee (while youngsters tend to consume more tea drinks), and as Chinese population continue to grow old, we believe the demand for coffee will burst. Secondly, Chinese consumers are becoming more health-conscious, which is favourable for coffee, thanks to its perceived health benefits compared to sugary tea drinks. This trend also aligns with consumption upgrades, transitioning from instant coffee to ready-to-drink and freshly brewed options, with growing popularity for Americanos and espressos among coffee types.

■ **Coffee is a staple product with high addictiveness.**

Coffee has high addictiveness, functional benefits. Consumers primarily purchase coffee for energy, psychological reliance, and socializing purposes, with consumption frequency increasing over time and income growth.

■ **Coffee penetration in China is still relatively low.**

China's coffee market still has low penetration. In 2022, China only consumed 290k tons of coffee beans, far below Japan's 430k tons and the US's 1.6mn tons, with per capita coffee consumption at only 11 cups annually compared to the global average of 75 cups. Similarly, there are only 75 coffee shops per million people in China, significantly lower than Taipei's 373 and San Francisco's 550. Moreover, as we mentioned before, the Chinese population may prefer coffee more than tea drinks as they grow old, plus the fact that number of coffee shops (160k) remains far fewer than tea shops (420k) in China, we do see rooms for potential growth.

■ **We forecast a 29%/ 23% sales/ net profit CAGR during FY23-26E.**

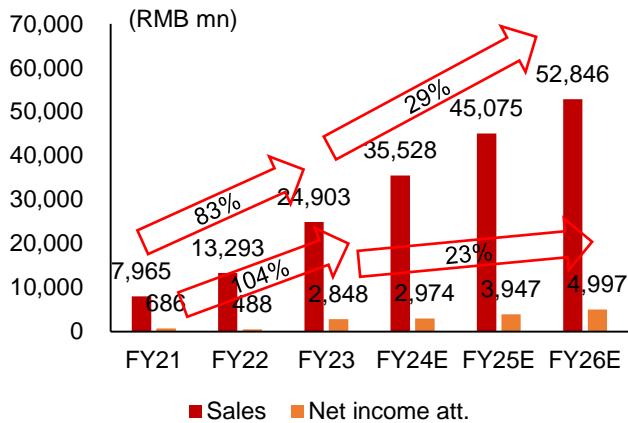
We believe the major growth drivers are: 1) rapid store expansion, 2) costs reduction through further investments in raw material sourcing and supply chain, 3) stabilization of sales per store/ SSSG (with ASP hikes and increased purchasing frequency per customer) and the associated operating leverage and 4) economics of scale (e.g. headquarter and other admin costs are relatively fixed).

■ **We initiate BUY with TP of US\$ 33.80, based on 20x FY25E P/E.**

We apply a 20x FY25E P/E for Luckin Coffee, which has a 9% discount to Greater China Catering peers' average of 22.0x (or a 15% premium over peers' median of 17.3x). We do think this premium can be reasonably justified by: 1) ample room for coffee industry to grow, 2) its massive business size (in terms of sales and number of stores), 3) its exceptional leadership in terms of production costs, brand equity and level of digitalization, 4) its relatively addictive, functional and staple product nature, and 5) its faster-than-peers sales and net profit CAGR, despite its relatively short history. The stock is currently trading at 14x FY25E P/E, which is fairly attractive, given its 29%/ 23% sales/ net profit CAGR.

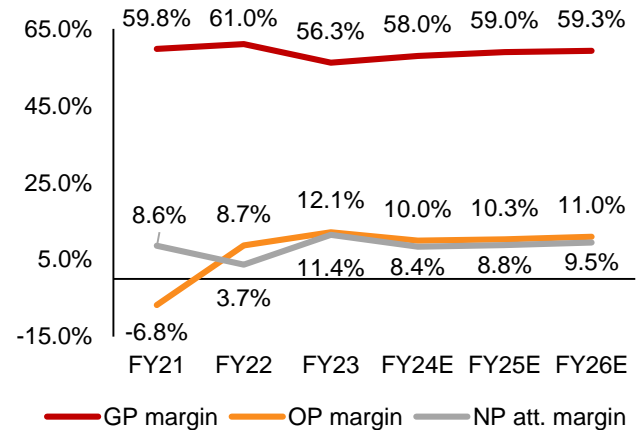
## Focus Charts and Tables

Figure 1: Sales, NP att. and CAGR



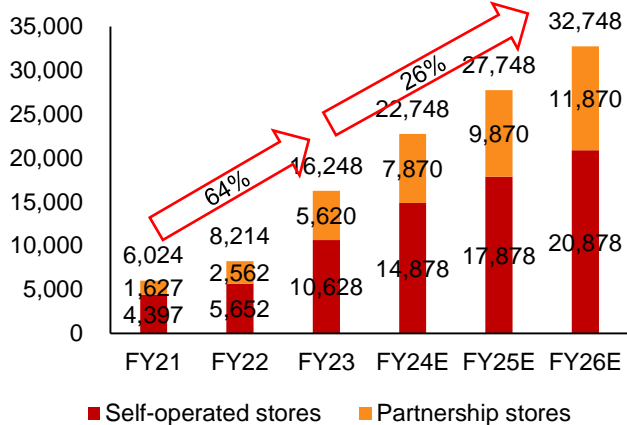
Source: Company data, CMBIGM estimates

Figure 2: GP, OP and NP att. margin



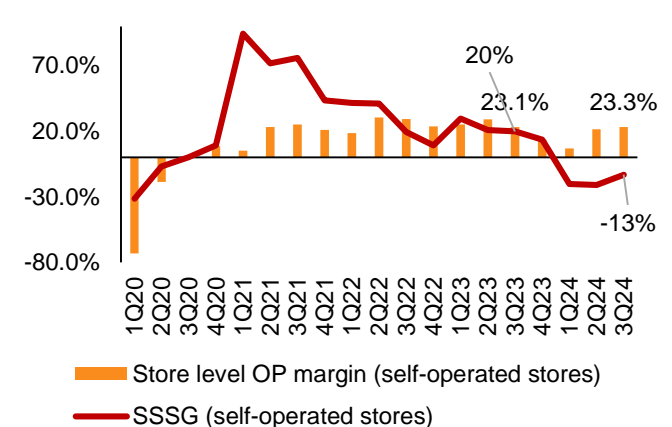
Source: Company data, CMBIGM estimates

Figure 3: Number of stores, by channel



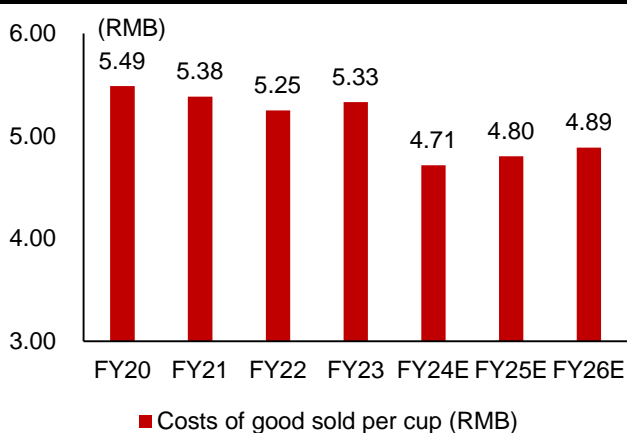
Source: Company data, CMBIGM estimates

Figure 4: Self-operated SSSG and store OP margin



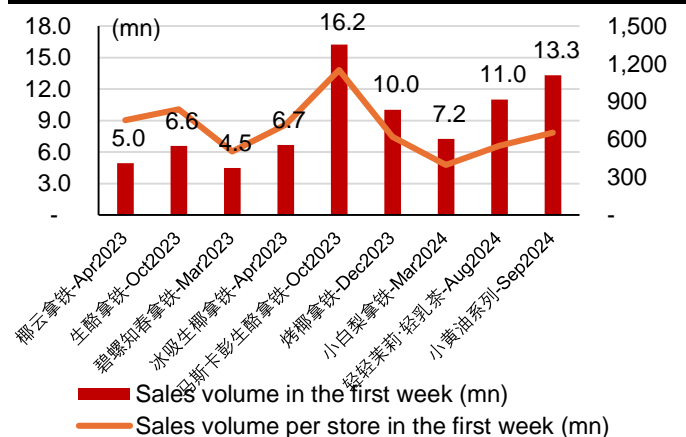
Source: Company data, CMBIGM estimates

Figure 5: Luckin Coffee's costs per cup



Source: Company data, CMBIGM estimates

Figure 6: Sales volume and sales volume per store (in the first week) of hot selling items



Source: Company data, CMBIGM estimates

## Company Background

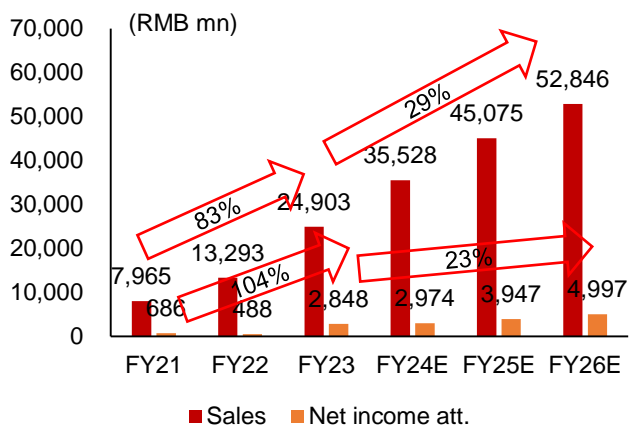
### Luckin Coffee is the largest and fastest-growing coffee brand in China.

Luckin Coffee was established in Jun 2017, by Charles Zhengyao Lu and its first store was opened in Oct 2017 in Beijing. The brand mainly sells mid-priced (around RMB 10 to 20 per cup) coffee drinks.

It was also extremely fast-growing and had opened its 1,000th/ 2,000th/3,000th in just 11 months/ 14 months/ 21 months. Moreover, it had managed to be listed in May 2019, in less than two years after it was founded.

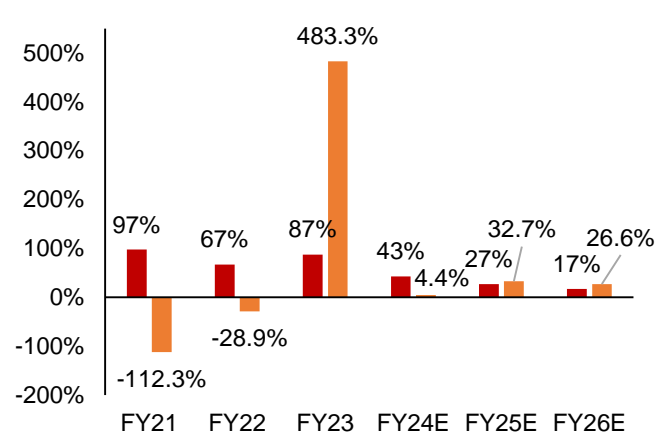
More importantly, it has revolutionized the country's coffee market with its technology-driven business model. Its mission is to make high-quality coffee more accessible and affordable to Chinese consumers. The company also emphasizes digital engagement, convenience, and competitive pricing, leveraging a mobile app for orders and payments and offering delivery or pick-up options through a network of compact, tech-enabled stores.

**Figure 7: Sales, NP att. and CAGR**



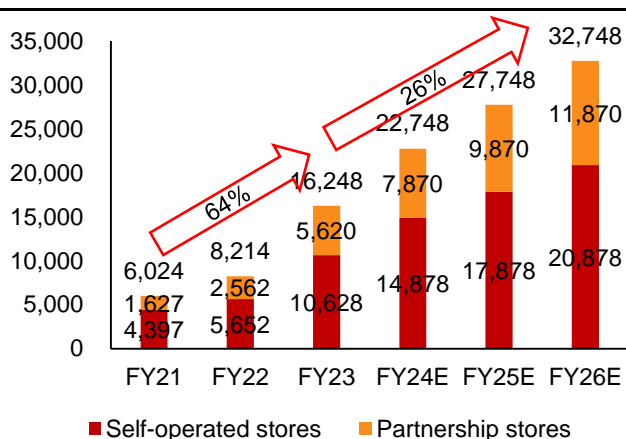
Source: Company data, CMBIGM estimates

**Figure 8: Sales and net profit growth**



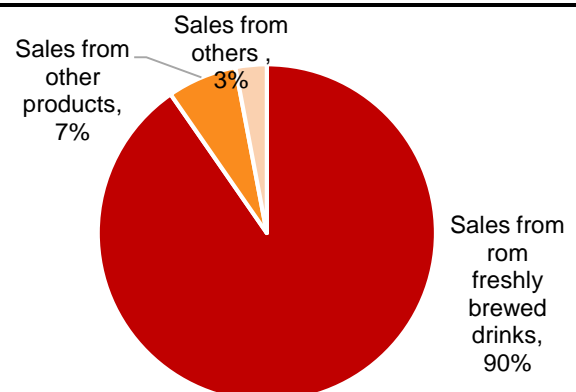
Source: Company data, CMBIGM estimates

**Figure 9: Number of stores, by channel**



Source: Company data, CMBIGM estimates

**Figure 10: Self-operated stores sales mix by product, FY23**



Source: Company data, CMBIGM estimates



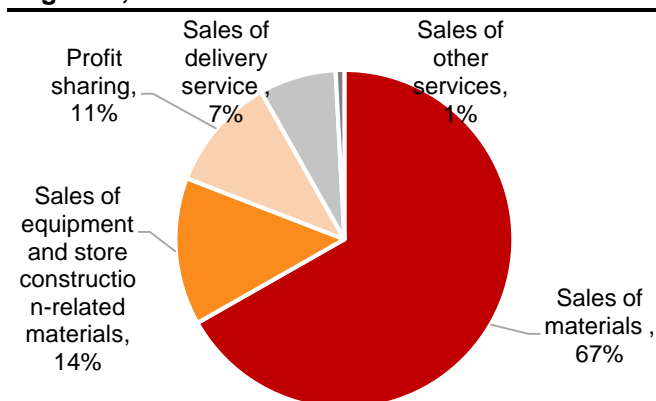
In April 2020, the company admitted to fabricating over US\$ 300mn in sales data, leading to significant fines, management shake-ups, delisting from NASDAQ, and financial restructuring.

But after the scandal and restructuring in 2020, Luckin Coffee has focused on rebuilding its brand and operations and managed to regain consumer trust since 2021, through innovative products, such as its popular coconut-flavored latte and Maotai-flavored latte, and its strong operational efficiency.

By 2023, it already has 16,248 stores (10,628 self-operated stores and 5,620 partnership stores) and had generated an annual sales of RMB 24.9bn (plus a net profit of RMB 2.85bn), accounting for a remarkable market share of 21.7% in the chained cafe segment in China.

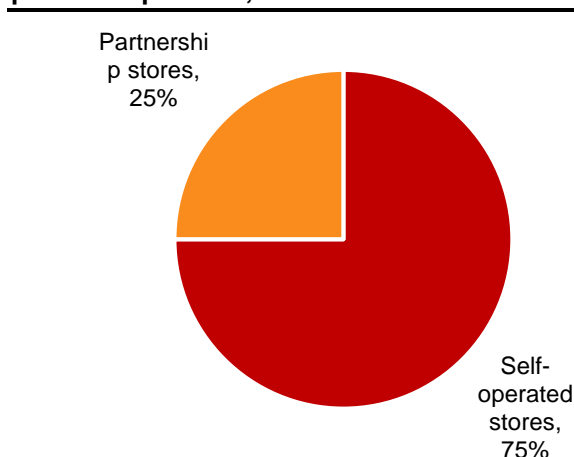
As at 3Q24, it has become the largest coffee brand in China (in terms of both sales and number of stores), with a store count of 21,343 (ahead of Starbucks China's 7,594) in Sep 2024 and has registered a sales of RMB 10.2bn (ahead of Starbucks China's RMB 5.5bn) in 3Q24.

**Figure 11: Self-operated stores sales mix by segment, FY23**



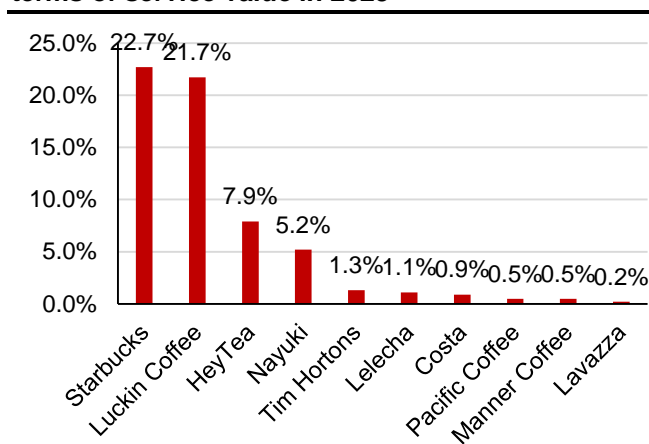
Source: Company data, CMBIGM estimates

**Figure 12: Sales mix by self-operated stores and partnership stores, FY23**



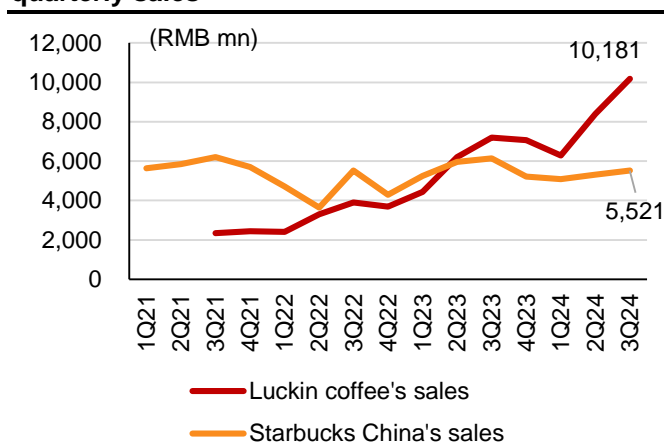
Source: Company data, CMBIGM estimates

**Figure 13: Market share in China chained cafes, in terms of service value in 2023**



Source: Company data, CMBIGM estimates

**Figure 14: Luckin Coffee and Starbucks China's quarterly sales**



Source: Company data, CMBIGM estimates

Figure 15: Luckin Coffee's mission, core values and vision



Source: Company data, CMBIGM estimates

Figure 16: Key milestones

Date	Key business milestones of Luckin Coffee
Jun-2017	Luckin Coffee was established.
Oct-2017	Officially launched operations and opened its first store at Galaxy Soho in Beijing.
Sep-2018	Reached the milestone of 1,000 stores.
Dec-2018	Reached the milestone of 2,000 stores.
May-2019	Listed on NASDAQ, achieving the fastest global IPO with a valuation of US\$ 4.2 bn.
Jul-2019	Reached the milestone of 3,000 stores.
Dec-2019	Eclipsed Starbucks as China's largest coffee chain.
Feb-2020	Muddy Waters Research accused Luckin Coffee of financial fraud.
Apr-2020	Admitted for the financial fraud, causing a sharp decline in stock price.
May-2020	Restructured the board and management, appointing Mr. Guo Jinyi as CEO and dismissing those involved in fraudulent transactions.
Jun-2020	Delisted from NASDAQ and subsequently entered the Pink Sheets market.
Sep-2020	Received a penalty of RMB 61 mn from the State Administration for Market Regulation.
Dec-2020	Reached a settlement with the SEC, agreeing to an \$180 million penalty.
Feb-2021	Filed for bankruptcy protection in the US and initiated a debt restructuring process.
Mar-2021	Released the Coconut Latte product, which quickly became a hit and improved metrics.
Apr-2021	Secured a \$250 mn capital injection agreement with Centurium Capital and Joy Capital.
May-2021	Reduced its registered capital by \$250 mn to facilitate the overseas debt restructuring.
Oct-2021	Entered into a \$175 mn settlement agreement with the plaintiffs in a US federal class-action lawsuit.
Jan-2022	Centurium Capital became the controlling stakeholder of the company, holding over 50% of the voting rights.
Feb-2022	Announced the full settlement of the \$180 mn SEC penalty.
Apr-2022	Completed debt restructuring and concluded proceedings under Chapter 15 of the Bankruptcy Code.
May-2022	Announced its first-ever quarterly profit in a public disclosure.
Dec-2022	Launched a new franchise partnership initiative, offering opportunities across 41 cities in 9 provinces.
Apr-2023	Launched the "9.9 Yuan Coffee" promotion to expand customer traffic.
Jun-2023	Exceeded 10,000 operational stores.
Mar-2024	Initiated the trial operation of Luckin Coffee's Green Coffee Bean Processing Plant in Yunnan, with the goal of producing world-class coffee beans.
Apr-2024	Opened the Luckin Coffee x Kweichow Moutai Theme Store, dedicated to excellence; the customer base for the Jiangxiang Flavored Latte surpassed 25 mn.

Source: Company data, CMBIGM



## Company's key positives and growth drivers

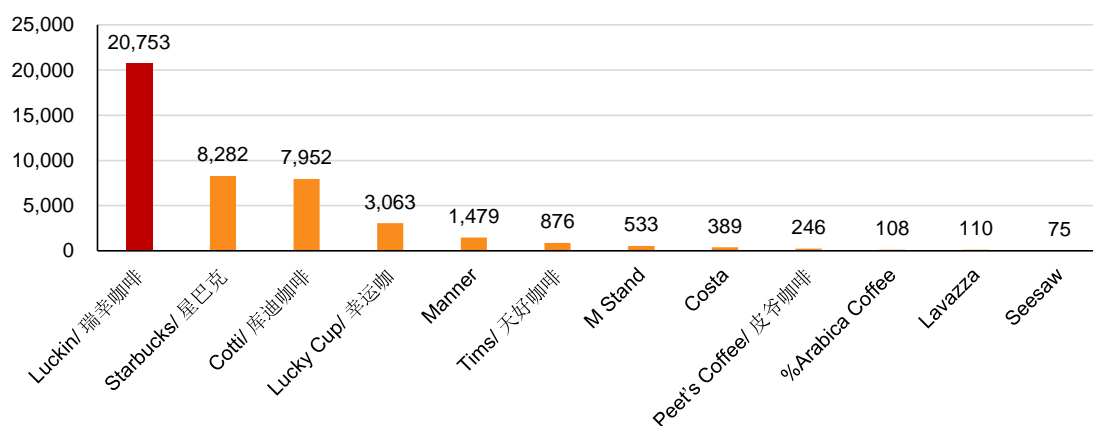
### 1) The real competitive moat is the massive economies of scale.

Luckin Coffee's competitive edge lies in its economies of scale, enabling cost efficiency across procurement, production, and logistics. It offers better value-for-money compared to Starbucks and Cotti, with premium-quality beans and award-winning formulations. Continuous investments in supply chain improvements reduce per-cup costs while boost margins. Additionally, its adoption of proprietary automated systems enhances efficiency, lowers costs, and supports product diversification, solidifying its market leadership.

#### ■ 1.1 Luckin Coffee is the largest and fastest-growing coffee brand in China

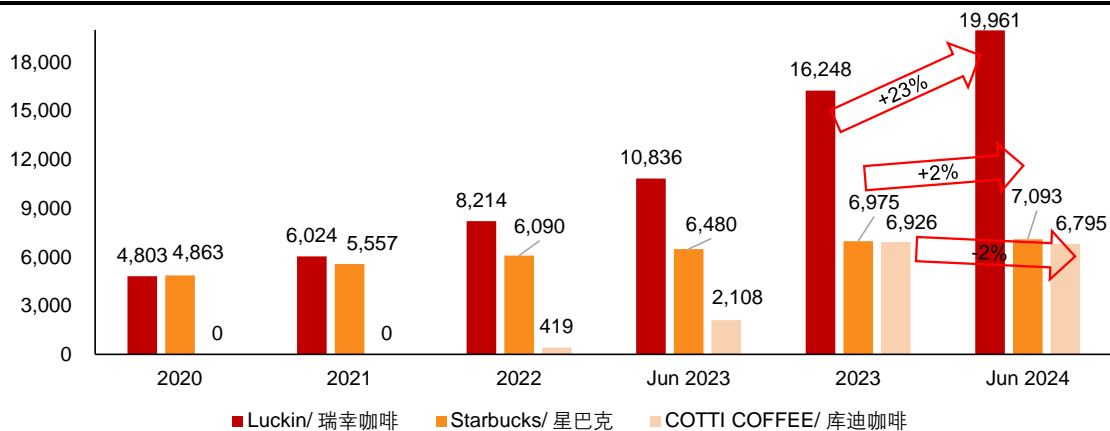
In less than seven years, Luckin Coffee has managed to become the largest coffee brand in China, with over 20,000 stores, more than double the second and third place on the list (Starbucks and Cotti both have around 8,000 stores), as at Oct 2024. Because of this, the company has significant advantages in various costs, including: 1) raw material procurement, 2) coffee bean and material processing, 3) transportation and warehousing, 4) shared corporate headquarters costs and 5) expenditures, such as R&D and advertising. More importantly, Luckin Coffee's rapid store expansion outpaces Starbucks and Cotti Coffee, which are growing more slowly, making this advantage increasingly significant in the future.

**Figure 17: Number of coffee shops, by brand in Oct 2024**



Source: <https://www.canyandata.com/>, Company data, CMBIGM estimates

**Figure 18: Number of coffee shops, by brands in recent years**

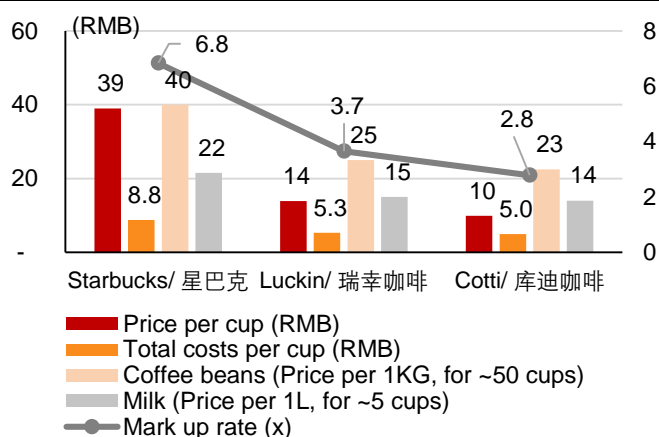


Source: <https://www.canyandata.com/>, Company data, CMBIGM estimates

## 1.2 Compared with Starbucks and Cotti Coffee, Luckin still has the edge

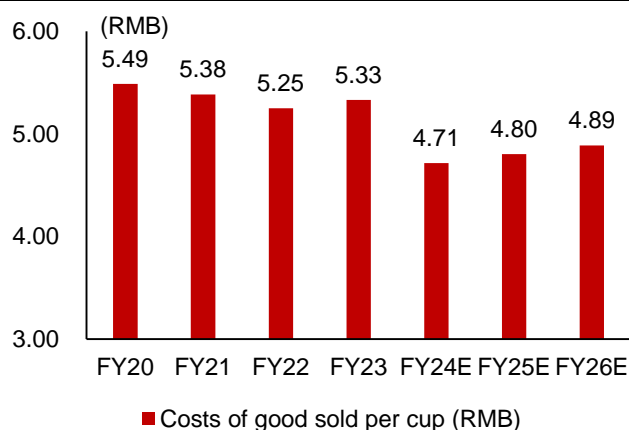
Luckin offers much better value for money than Starbucks. Based on our channel check and estimates, for a cup of coconut flavour latte, the costs per cup for Starbucks/ Luckin/ Cotti are roughly at RMB 8.8/ 5.3/ 5.0, which include the coffee beans, milk, packing materials, overheads, logistics and some part of the D&A expenses. It seems that Starbucks has better ingredients, due to its higher costs, however, because of its way higher selling price of RMB 39 per cup, the mark up ratio is actually as high as 6.8x. Therefore, Luckin, on the other hand, which only has a mark up ratio of 3.7x, should have a much better price to quality.

**Figure 19: Average prices per cup, different COGS per cup and mark up rate, by brand**



Source: www.dianping.com, Company data, CMBIGM estimates

**Figure 20: Luckin Coffee's costs per cup**



Source: Company data, CMBIGM estimates

**Figure 21: Scenario analysis: Cost of goods sold breakdown, by brand**

Brands	Starbucks/ 星巴克	Luckin/ 瑞幸咖啡	Cotti/ 库迪咖啡
Price per cup (RMB)	39.00	13.90	9.90
COGS	-8.78	-5.28	-4.95
Gross profit	30.23	8.62	4.95
GP margin	77.5%	62.0%	50.0%
<b>Costs per cup (RMB)</b>			
Plastic cup	0.55	0.45	0.45
Plastic bags and straw	0.40	0.30	0.30
Milk (Price per 1L, for ~5 cups)	4.30	3.00	2.80
Coffee beans (Price per 1KG, for ~50 cups)	0.80	0.50	0.45
Syrup	0.30	0.15	0.15
Ice	0.30	0.15	0.15
D&A of equipments (partial)	1.62	0.38	0.30
Storage fees	0.20	0.15	0.15
Logistic expenses	0.30	0.20	0.20
<b>Total costs per cup (RMB)</b>	<b>8.78</b>	<b>5.28</b>	<b>4.95</b>
<b>As % of price per cup</b>			
Plastic cup	1.4%	3.2%	4.5%
Plastic bags and straw	1.0%	2.2%	3.0%
Milk (Price per 1L, for ~5 cups)	11.0%	21.6%	28.3%
Coffee beans (Price per 1KG, for ~50 cups)	2.1%	3.6%	4.5%
Syrup	0.8%	1.1%	1.5%
Ice	0.8%	1.1%	1.5%
D&A of equipments	4.2%	2.7%	3.0%
Storage fees	0.5%	1.1%	1.5%
Logistic expenses	0.8%	1.4%	2.0%
<b>Total costs per cup</b>	<b>22.5%</b>	<b>38.0%</b>	<b>50.0%</b>

Source: Company data, CMBIGM estimates

**Figure 22: Self-operated store OP margin breakdown (CMBI estimates), by brand**

Brands	Starbucks/ 星巴克	Luckin/ 瑞幸咖啡	Cotti/ 库迪咖啡
Period	FY10/23	FY23	FY23
Annual GMV per store (RMB k)	3,433	2,294	1,344
<b>Monthly GMV per store (RMB k)</b>	<b>286</b>	<b>191</b>	<b>112</b>
Daily GMV per store (RMB k)	9.41	6.29	3.68
Store area - rough average	150	40	30
Sales per sq.m (RMB k)	1.91	4.78	3.73
<b>Average price per cup (RMB)</b>	<b>35</b>	<b>13.8</b>	<b>9.9</b>
<b>Daily cup volume</b>	<b>269</b>	<b>456</b>	<b>372</b>
<b>GP margin</b>	<b>75.0%</b>	<b>62.0%</b>	<b>51.0%</b>
Number of staff per store	10	6	4
Monthly salary per staff (RMB)	5,450	4,833	5,000
Staff costs (RMB k)	-654.0	-348.0	-240.0
as % of GMV	-19.1%	-15.2%	-17.9%
Monthly rent per sq.m. (RMB)	250	400	400
Rent expenses (RMB k)	-450.0	-192.0	-144.0
as % of GMV	-13.1%	-8.4%	-10.7%
Delivery service fees (RMB k)	-274.6	-183.6	-121.0
as % of GMV	-8.0%	-8.0%	-9.0%
D&A expenses (RMB k)	-150.0	-75.0	-30.0
as % of GMV	-4.4%	-3.3%	-2.2%
Other opex (RMB k)	-171.7	-114.7	-67.2
as % of GMV	-5.0%	-5.0%	-5.0%
Store level OP (RMB k)	874.5	509.3	83.3
<b>Store level OP margin</b>	<b>25.5%</b>	<b>22.2%</b>	<b>6.2%</b>
Capex (RMB k)	1,500	450	300
<b>Cash payback period</b>	<b>20.6</b>	<b>10.6</b>	<b>43.2</b>

Source: Company data, CMBIGM estimates

Cotti Coffee has similar production costs with Luckin Coffee, but Luckin Coffee stands out with higher-quality raw materials, premium coffee beans, award-winning IAC formulas, and consistent innovation in its coffee extraction process (e.g., upgrading from Espresso to Restrito). It is also the only Chinese coffee brand to win IAC gold awards for five consecutive years. Additionally, in our view, Cotti's reliance on sacrificing profit margins to attract traffic is unsustainable, as it leads to extended payback periods for franchisees, which could hinder store expansion.

**Figure 23: Luckin Coffee uses high quality and award winning coffee beans**



Source: Company data, CMBIGM

**Figure 24: Luckin Coffee's Little Black Cup-SOE Oiran Series 5.0**



Source: Company data, CMBIGM

### ■ 1.3 There is room to further reduce Luckin Coffee's per-cup costs.

Luckin Coffee has heavily invested in its supply chain over recent years, with roasting capacity nearing Starbucks China's level. Currently, It has two coffee bean processing and roasting plants in China, which enhance its supply chain advantages and cost control capabilities through independent processing and roasting:

1) Pingnan Plant (Fujian Province): It was put into production in April 2021, covering an area of 45k square meters, with a total investment of approximately RMB 300 mn and an annual production capacity of 15k tons of coffee beans. This is Luckin's first self-owned roasting facility, which mainly undertakes the processing and storage of coffee beans.

2) Kunshan Plant (Jiangsu Province): This newly built fully automatic coffee bean roasting production base has a total investment of approximately RMB 800 mn and is expected to be put into use in 2024. It covers an area of 53k square meters and will have an annual production capacity of 30k tons. The plant not only covers the roasting and storage of coffee beans, but also plans to expand its R&D capabilities to further optimize product innovation and supply chain efficiency.

Through these two plants, Luckin Coffee expects to be able to process 45k tons of coffee beans per year, enough to support the needs of its nearly 8,000 stores. This vertical integration model can reduce the cost of coffee bean procurement, processing and transportation, while ensure the stability of raw material quality.

We estimated that the coffee roasting facility in Kunshan can reduce per-cup costs by at least RMB 1–2, significantly boosting gross margins.

**Figure 25: Luckin's new processing plant and roasting plant**

#### Green Coffee Bean Processing Plant

 Located in Baoshan, Yunnan

 Capacity : 5,000 tons per year



- ✓ Water-efficient coffee cherry processing production lines
- ✓ Zero discharge of industrial sewage
- ✓ Significantly reduce exhaust gas emissions
- ✓ Train and convey the concepts of regenerative agriculture and sustainable productions

#### Luckin Coffee (Jiangsu) Roasting Plant

 Located in Kunshan, Jiangsu

 Capacity : 30,000 tons per year



- ✓ Sponge city design
- ✓ Solar photovoltaic power generation system
- ✓ Energy intelligent monitoring
- ✓ Regenerative Thermal Oxidizer (RTO)

Source: Company data, CMBIGM

Moreover, Luckin Coffee has also started the construction of the Innovation Production Center in Qingdao in Aug 2024, which has a total investment of approximately RMB 30 bn and is expected to be put into use in 2026. It covers an area of 50k square meters and will have an annual production capacity of 55k tons.

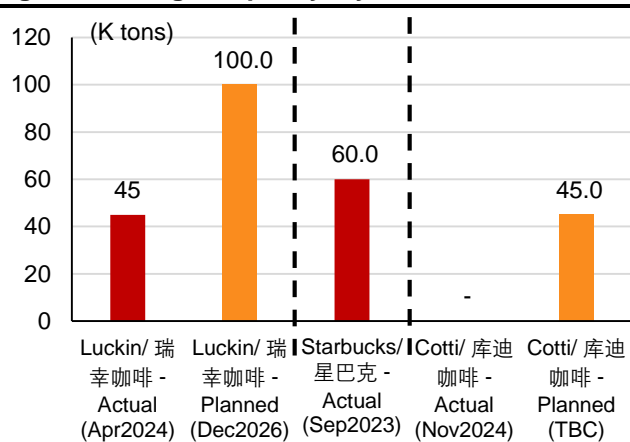
**Figure 26: Capacity expansion plan for Luckin Coffee**

Construction start date 动工日期	Production start date 投产日期	Function 生产基地的职能	Location 地点	Size 规模	Area 占地面积	Investment 总投资	Remarks 备注
2019年7月	2021年4月	咖啡烘焙基地	福建宁德	年产能1.5万吨	占地面积4.5万㎡	总投资2.1亿元	第一家全自动智慧型烘焙基地，采用全自动智能生产线布局，实现了从生豆处理、烘焙、包装、码垛到仓储的全自动化生产。
2022年12月	2024年4月	咖啡烘焙生产基地	苏州昆山	年烘焙产能3万吨	占地面积4.15万㎡	总投资1.2亿美元	是涵盖生豆仓储、分拨、烘焙、包装及销售于一体的智慧型咖啡烘焙生产基地
2023年8月	2024年3月	咖啡鲜果加工处理厂	云南保山	鲜果处理量5000吨	占地面积2.1万㎡	6000万元	瑞幸咖啡首个咖啡鲜果加工处理厂进入试运营阶段，该工厂引入巴西、哥伦比亚的微水鲜果处理生产线
2024年8月	2026年12月	咖啡创新生产中心	青岛市城阳区	预计年烘焙产能5.5万吨	总建筑面积约5万平方米	总投资约30亿元	瑞幸咖啡创新生产中心在青岛宣告动工，将配备全球领先的智能化设备，实现从生豆处理、咖啡豆烘焙、包装到仓储物流全流程自动化生产。

Source: Company data, CMBIGM

Despite rising coffee bean prices globally due to adverse weather conditions, Luckin's large-scale operations allow it to lock in raw material prices, giving it a relative cost advantage over competitors.

**Figure 27: Target capacity, by brand, in the mid-term**



Source: Company data, CMBIGM estimates

**Figure 28: Coffee bean prices soared to 27-year high**



Source: <https://www.abeeedata.com/>, CMBIGM estimates



#### ■ 1.4 Luckin plans to adopt more automated machinery for additional benefits

Luckin Coffee has started testing the "智能茶饮机" (Smart Tea Beverage Machine) in some stores. This machine, with 28 pipeline connections for ingredients like tea bases and fruit puree, aims to reduce labor costs and improve efficiency. Similar to other brands, Luckin is exploring automation to enhance its operational efficiency, addressing labor training and turnover issues. This strategy is expected to reduce the cost per cup while improve service speed and consistency, particularly in non-peak hours.

Moreover, many of these machines feature proprietary Luckin patents, providing a competitive edge in the market.

Going forward, more deployment of various intelligent beverage machines will enable Luckin to diversify its product offerings and introduce new flavors.

**Figure 29: Image of the new tea drink machines**



Source: <https://finance.sina.cn/>, CMBIGM



## 2) Luckin Coffee offers high value for money and strong brand power.

Luckin Coffee stands out for its affordability, with an average price of RMB 16 per cup, making it highly attractive to new coffee drinkers. It enjoys strong brand recognition, surpassing competitors like Starbucks and Cotti in popularity on platforms such as Baidu, Xiaohongshu, and Douyin, and ranking consistently on the top of brand reputation lists. Its marketing strategy, including high-profile collaborations like the Moutai latte, emphasizes high quality, value, and accessibility, further enhancing its brand image and securing long-term partnerships with other leading brands.

### ■ 2.1 Luckin Coffee's products are not just very affordable but highly satisfactory.

Currently, Luckin Coffee's average product price is about RMB 16, which is relatively low compared to mainstream coffee brands. This price point is particularly appealing to new coffee drinkers.

Based on customer satisfaction ratings on platforms like Dianping, Luckin ranks third among major coffee brands, significantly outperforming key competitors like Cotti Coffee, Starbucks, and others.

Apart from the product tastes itself, there are many other aspects that would determine the level of customers' satisfaction. One important example, in our view, is that Luckin Coffee would also set the "In-time" rate for its employees as the key KPI. This "in-time rate" refers to its efficiency in ensuring products are delivered to customers promptly. By maintaining high operational efficiency, the company ensures that products like brewed coffee and ready-to-drink beverages are available when customers need them, significantly reducing wait times and stockouts. This boosts customer satisfaction by meeting expectations for speed and reliability, especially in a fast-paced consumer environment. High in-time rates also contribute to positive brand perception, driving repeat purchases and reinforcing customer loyalty.

Another great example is Luckin Coffee's aim to guarantee its customer the 30-minute delivery time. Luckin's business model demands advanced algorithms. Its in-house team has developed an intelligent supply chain platform supported by data and algorithm technology, offering real-time feedback and intelligent decision-making. This system can analyze the sales status of each store in real time, drive autonomous replenishment, adjust inventory levels, and intelligently allocate orders based on store performance, ensuring the guaranteed 30-minute delivery window.

**Figure 30: Overall dianping customer ratings, by brand, average in tier-1 cities**

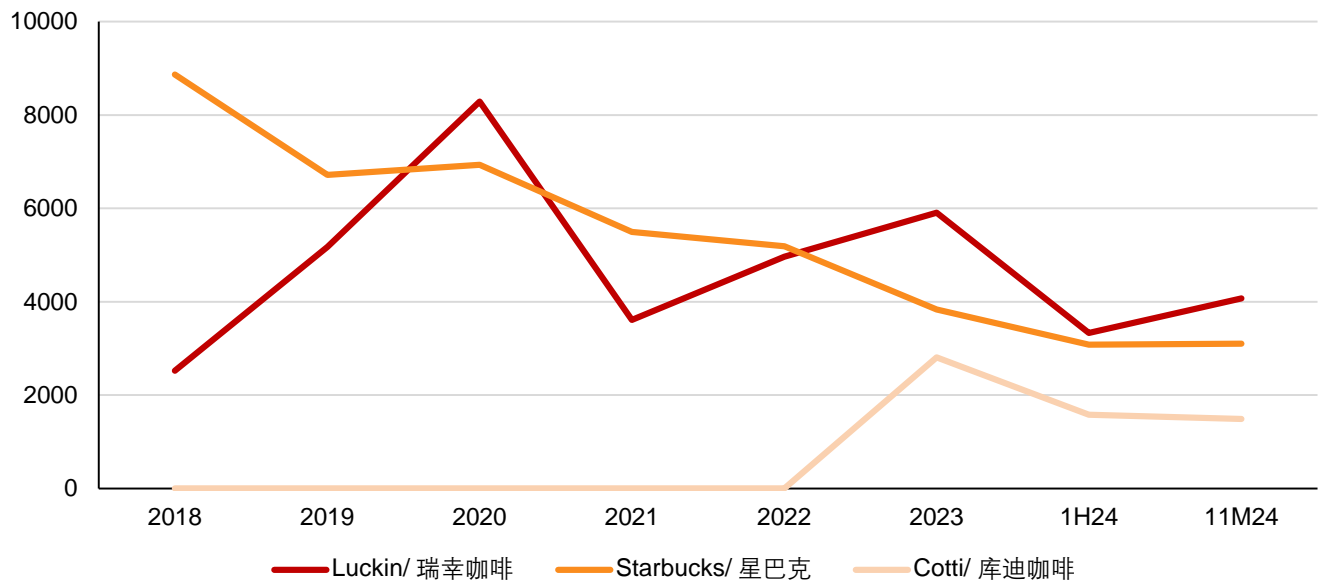
Brand	Taste	Environment	Services	Overall	Average selling price (RMB)
Lavazza	4.40	4.42	4.38	4.40	31.2
M Stand	4.12	4.16	4.12	4.13	37.2
Luckin/ 瑞幸咖啡	4.12	4.14	4.14	4.13	16.1
Tims/ 天好咖啡	4.11	4.15	4.12	4.13	26.2
Manner	4.13	4.05	4.06	4.08	21.8
Cotti/ 库迪咖啡	4.06	4.05	4.07	4.06	11.1
Starbucks/ 星巴克	3.94	4.03	3.93	3.96	42.2
Lucky Cup/ 幸运咖	3.84	3.80	3.83	3.82	8.2
<b>Average</b>	<b>4.09</b>	<b>4.10</b>	<b>4.08</b>	<b>4.09</b>	<b>24.2</b>

Source: www.dianping.com, Company data, CMBIGM estimates

## 2.2 Luckin possesses exceptional brand strength

According to Baidu Index, Luckin Coffee's brand popularity surpassed Starbucks as early as 2023. In 2024, while Starbucks and Cotti Coffee remained stable in popularity, Luckin continued to grow.

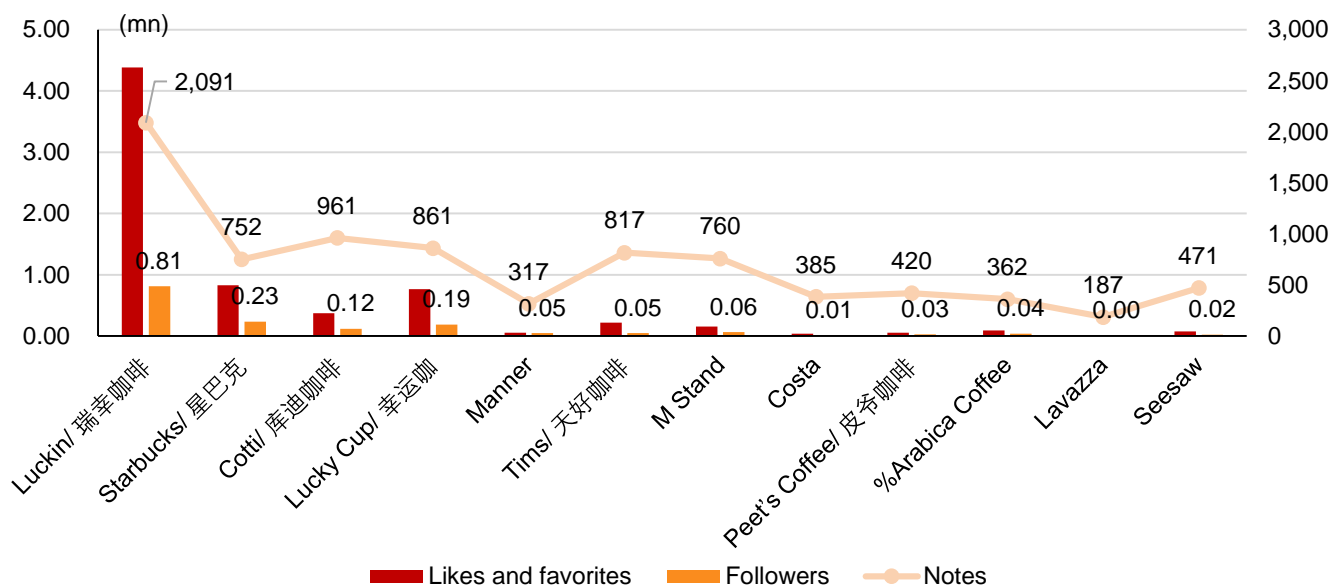
Figure 31: Baidu Index, by brand



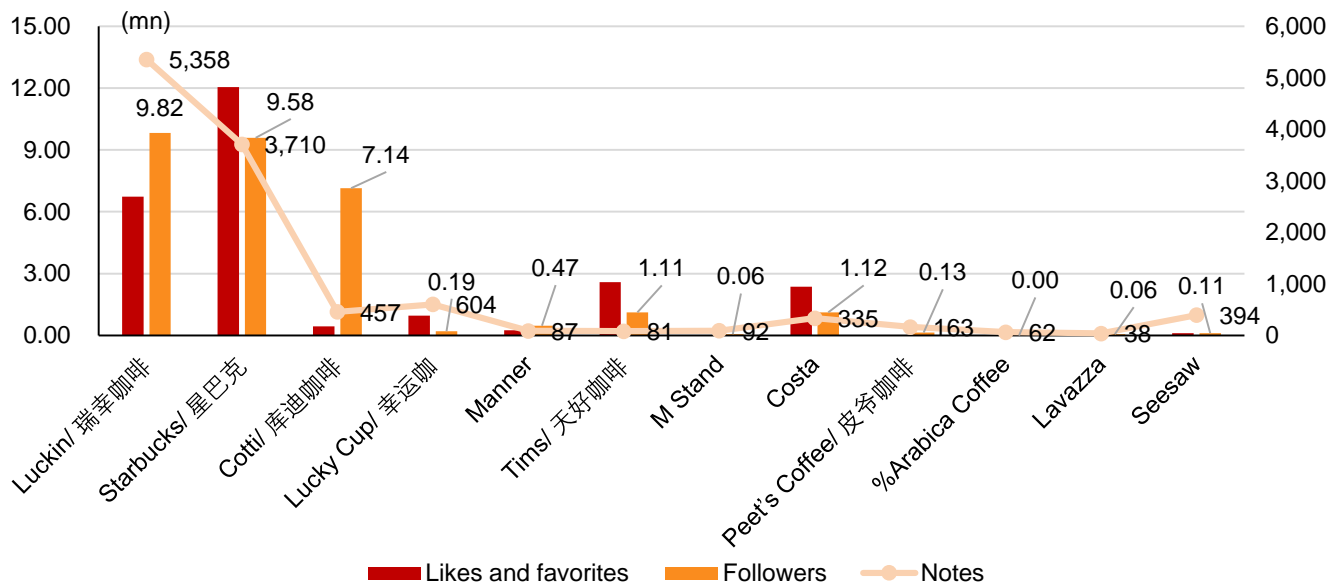
Source: Baidu Index, CMBIGM estimates

On platforms like Xiaohongshu and Douyin, Luckin ranks as the first or second most popular coffee brand. We are fairly impressed with number of notes about Luckin Coffee on these 2 platforms, which are 2.8x/ 1.4x vs Starbucks's and 2.2x/ 11.7x vs Cotti's.

Figure 32: Number of likes and favorites, followers and notes on Xiaohongshu (XHS)



Source: Xiaohongshu, CMBIGM estimates

**Figure 33: Number of likes and favorites, followers and notes on Douyin**

Source: Douyin, CMBIGM estimates

Based on the "Golden Signboard" List done by <https://www.yicai.com/>, Luckin has secured the top spot for four consecutive years, from 2021 to 2024, with scores far ahead of its closest competitors.

**Figure 34: Number of likes and favorites, followers and notes on Douyin**Source: <https://www.yicai.com/>, CMBIGM

### ■ 2.3 Luckin Coffee excels in marketing (including co-branding collaborations)

Luckin Coffee adheres to its core principles of high quality, value for money, and convenience. It consistently launches affordable yet highly valuable products.

A prime example is its collaboration with Maotai to create the “Sauce Latte.” Unlike other brands that also collaborated with Maotai and priced their products with rich premium (from 190% to 609%), Luckin Coffee maintained a low price point, with a premium of only 60%, allowing consumers to feel they were getting a great deal. This approach not only made the marketing campaign highly successful but also significantly boosted consumer goodwill toward Luckin Coffee.

**Figure 35: List of Maotai’s crossover products and the price premium over ordinary products**

日期 品牌	19-May-2022 蒙牛	29-Jul-2023 中街1946	16-Sep-2023 德芙	4-Sep-2023 瑞幸咖啡
	产品名称 图片 价格 (人民币)	产品名称 图片 价格 (人民币)	产品名称 图片 价格 (人民币)	产品名称 图片 价格 (人民币)
联名产品	茅台冰淇淋 (60g) 	茅台酒味小 巧冰淇淋 (50g) 	茅小凌- 酒心巧克力 (顆) 	酱香拿铁 
产品	蒙牛香草杯 冰淇淋 (70g ) 	中街1946经 典原味牛乳 冰酪 (50g) 	德芙精心之 选巧克力礼 盒(顆) 	生椰拿铁 
溢价	609%	190%	338%	60%

Source: <https://www.foodtalks.cn/>, Tmall, JD, CMBIGM

Looking ahead, we believe more brands will be eager to collaborate with Luckin, providing it with a wide range of partnership opportunities.

**Figure 36: List of Luckin Coffee's crossovers in 2023 and 2024**

Date 日期	Luckin Coffee's crossover events 瑞幸联名	Crossover products 联名产品
09-Jan-23	瑞幸x韩美林 (2008年福娃设计者)	新年瑞幸纸袋杯套
06-Feb-23	瑞幸x线条小狗	情人节限定联名带刺玫瑰拿铁、相思红豆拿铁
13-Feb-23	瑞幸x何广智脱口秀演员	情人节带刺玫瑰拿铁产品体验官
06-Mar-23	瑞幸x陆仙人超模	碧螺知春拿铁茶咖大秀
10-Apr-23	瑞幸x 哆啦A梦	冰吸生椰拿铁、联名纸袋贴纸
08-May-23	瑞幸520x五条人乐队	夏日青提拿铁
19-Jun-23	瑞幸x《镖人》	昆仑煮雪拿铁
10-Jul-23	瑞幸x鼓浪屿音乐节	联名纸袋杯套
07-Aug-23	瑞幸x橘子海乐队	闪光橙橙冰萃美式、闪光橙橙瑞纳冰
22-Aug-23	瑞幸x线条小狗	七夕联名黑凤梨拿铁、黑凤梨小铁
28-Aug-23	瑞幸x维多利亚的秘密	杯套
04-Sep-23	瑞幸x贵州茅台	酱香拿铁、联名杯套
09-Oct-23	瑞幸x猫和老鼠	马斯卡彭生酪拿铁
20-Nov-23	瑞幸x综艺《这！就是街舞》	联名贴纸
01-Jan-24	瑞幸x褚橙	褚橙拿铁
15-Jan-24	瑞幸x澳网	SOE 瑰夏
22-Jan-24	瑞幸x贵州茅台	龙年酱香巧克力
22-Jan-24	瑞幸x韩美林	贺岁红龙拿铁
04-Feb-24	瑞幸x元梦之星	联名款信用卡
12-Feb-24	瑞幸x华夏银行	联名款信用卡
19-Feb-24	瑞幸xUCCA	珞珈樱花拿铁、樱花小铁
26-Feb-24	瑞幸x三体沉浸式艺术展	联名款杯套
26-Feb-24	瑞幸x舞剧红楼梦	碧螺知春拿铁、茉莉花香拿铁
04-Mar-24	瑞幸x线条小狗	小白梨拿铁
18-Mar-24	瑞幸x中国邮政储蓄银行x中国银联	联名款信用卡
25-Mar-24	瑞幸x哥斯拉大战金刚2	联名款杯套
08-Apr-24	瑞幸x泡泡玛特Monsters	椰皇拿铁
28-Apr-24	瑞幸x芝麻街	冰镇杨梅瑞纳冰、夏日青提拿铁
13-May-24	瑞幸x大话西游	大话西瓜拿铁
03-Jun-24	瑞幸x猛兽派对	清咖柠檬茶
24-Jun-24	瑞幸x玫瑰的故事	黄玫瑰拿铁
08-Jul-24	瑞幸x大闹天宫	葡萄冰萃美式
22-Jul-24	瑞幸x艺术家任哲《在握》	单丛拿铁
05-Aug-24	瑞幸xLoopy	轻轻茉莉
19-Aug-24	瑞幸x黑神话 悟空	黑神话腾云美式
02-Sep-24	瑞幸x小刘鸭	联名款保温杯
02-Sep-24	瑞幸x几米	轻轻乌龙
19-Sep-24	瑞幸x潦草小狗	青苹果丝绒拿铁
30-Sep-24	瑞幸x黄油小熊	小黄油拿铁
18-Nov-24	瑞幸x猫和老鼠	新西兰生酪拿铁

Source: Company data, CMBIGM

### 3) Benefitted from strong R&D capabilities, the company continues to launch hit products and has significant expansion potential.

Luckin Coffee consistently delivers hit products thanks to its strong R&D capabilities and frequent new launches, such as the recent Jasmine Light Milk Tea, which saw strong sales in its first week of launch. The company is expanding its offerings to cater to diverse customer groups, including beverage-based coffee products and entry into the tea market, positioning itself for future growth. With ambition to grow globally, Luckin Coffee aims to replicate its domestic success overseas, focusing on robust supply chain management and effective branding strategies.

#### ■ 3.1 Luckin Coffee has launched many hit products in the past

Sales data shows that Luckin has consistently produced numerous best-sellers.

**Figure 37: List and image of Luckin's hot selling products**

14-Sep-2019 陨石拿铁 	13-Jul-2020 冰镇杨梅瑞纳冰 	7-Sep-2020 厚乳拿铁 	6-Apr-2021 生椰拿铁 	13-Sep-2021 丝绒拿铁 	
11-Apr-2022 椰云拿铁 	10-Oct-2022 生酪拿铁 	11-Mar-2023 橙C美式 	10-Apr-2023 冰吸生椰拿铁 	4-Sep-2023 酱香拿铁 	9-Oct-2023 马斯卡彭生酪拿铁 
15-Mar-2024 小白梨拿铁x线条小狗 	5-Aug-2024 轻轻茉莉·轻乳茶 	30-Sep-2024 小黄油系列(拿铁&美式) 			

Source: Company data, CMBIGM

**Figure 38: Track records of Luckin's hot selling products**

产品推出时间	瑞幸爆款	销量
14-Sep-2019	陨石拿铁	年销量过千万杯
13-Jul-2020	冰镇杨梅瑞纳冰	截止2022.7.17销量破420万杯
7-Sep-2020	厚乳拿铁	首日销量突破542万杯，销售额突破1亿元
6-Apr-2021	生椰拿铁	上线1周年突破1亿杯，上线3周年累积销售超过7亿杯，销售额突破百亿元
13-Sep-2021	丝绒拿铁	上线9天内销售突破270万杯
	丝绒家族系列产品	截止2024年9月，丝绒家族销量超过6亿杯
11-Apr-2022	椰云拿铁	首发日的单店销量超过130杯，总销量超过66万杯。上线第一周，单品销量突破495万杯，销售总额超过8100万元
10-Oct-2022	生酪拿铁	上线首日131万杯，一周销量659万杯
6-Mar-2023	碧螺知春拿铁	首周销量突破447万杯
11-Mar-2023	橙C美式	上线1周年销量突破1亿杯
10-Apr-2023	冰吸生椰拿铁	首周销量突破666万杯
4-Sep-2023	酱香拿铁	上线首日，销量突破542万杯，单品首日销售额突破1亿元，刷新瑞幸单品纪录
9-Oct-2023	马斯卡彭生酪拿铁	上市首周销量突破了1624万杯，上线后登上抖音团购带货榜第一名
4-Dec-2023	烤椰拿铁	首周销量突破1004万杯
15-Mar-2024	小白梨拿铁	上线一周销量突破724万杯
5-Aug-2024	轻轻茉莉·轻乳茶	首周销量突破1100万杯，首月销量突破4400万杯，刷新瑞幸单品记录
30-Sep-2024	小黄油系列	上线首周的销量就突破了1333万杯

Source: Baidu Index, CMBIGM



This success is largely attributed to its **Explosive Product Strategy**, supported by well-developed and systemic product development process, which involves four major phases: 1) Planning – 2) R&D – 3) Testing – 4) Launching.

### Phase 1: Planning

Luckin's product planning draws insights from both market and consumer data while also exploring innovations from raw materials and internal creativity. Market and consumer-driven planning accounts for 70%-80%, while creative and raw material-driven initiatives account for 20%-30%. The Product Analysis Team analyzes the underlying logic of what makes a product a hit from the consumer perspective. Meanwhile, the Menu Management Team ensures core offerings are maintained and identifies gaps in the menu.

### Phase 2: R&D

Luckin's R&D employs a "horse race" system, where 2-3 teams work on the same product concept. Small teams of 5-6 people independently handle the full product development cycle. The average R&D cycle is around two months—on par with industry standards—but each team might handle 5-6 projects simultaneously, making Luckin's R&D efficiency notably high.

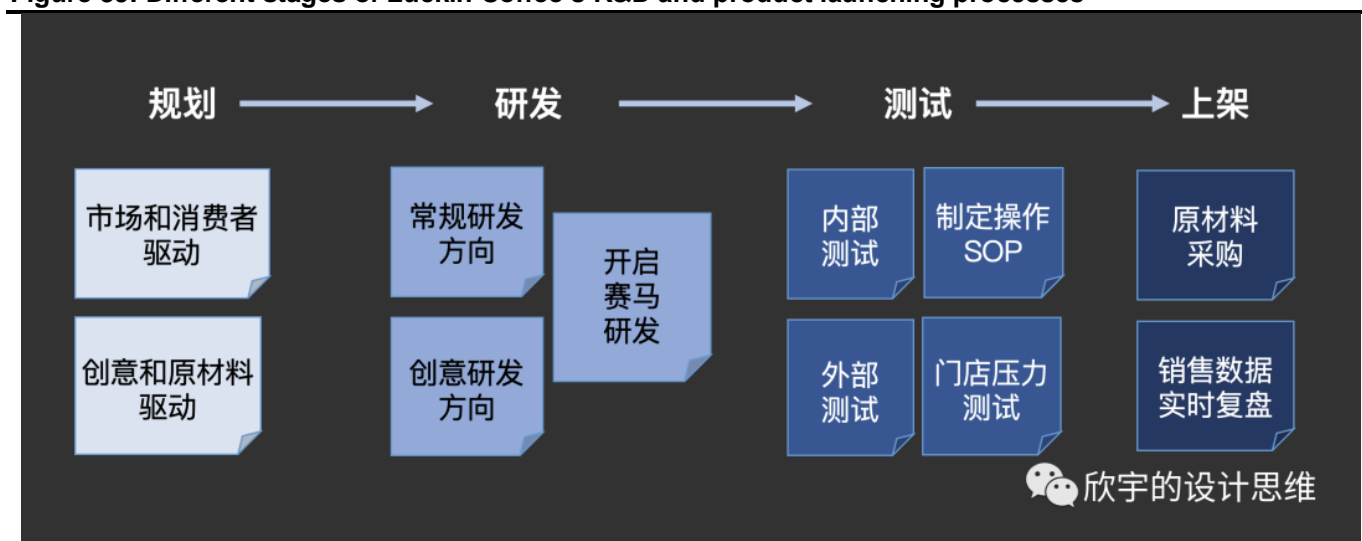
### Phase 3: Testing

During testing, products go through multiple rounds of quantitative evaluation, avoiding reliance on personal taste preferences. Each team produces 5-6 product samples weekly, with 2-3 selected for further evaluation. Weekly, 4-6 new products enter the internal testing phase. Products are scored quantitatively based on taste attributes (e.g., sweetness, sourness, bitterness) and sensory qualities (e.g., richness, balance, smoothness). Aggregate scores from all testers determine which products proceed to the next stage.

### Phase 4: Launching

Once a product passes testing, the R&D team creates standardized SOPs (Standard Operating Procedures) to ensure consistent production in stores. The optimization team reviews and adjusts the SOPs for practicality in stores. After launch, store supervisors conduct spot checks to ensure standardization and quality consistency.

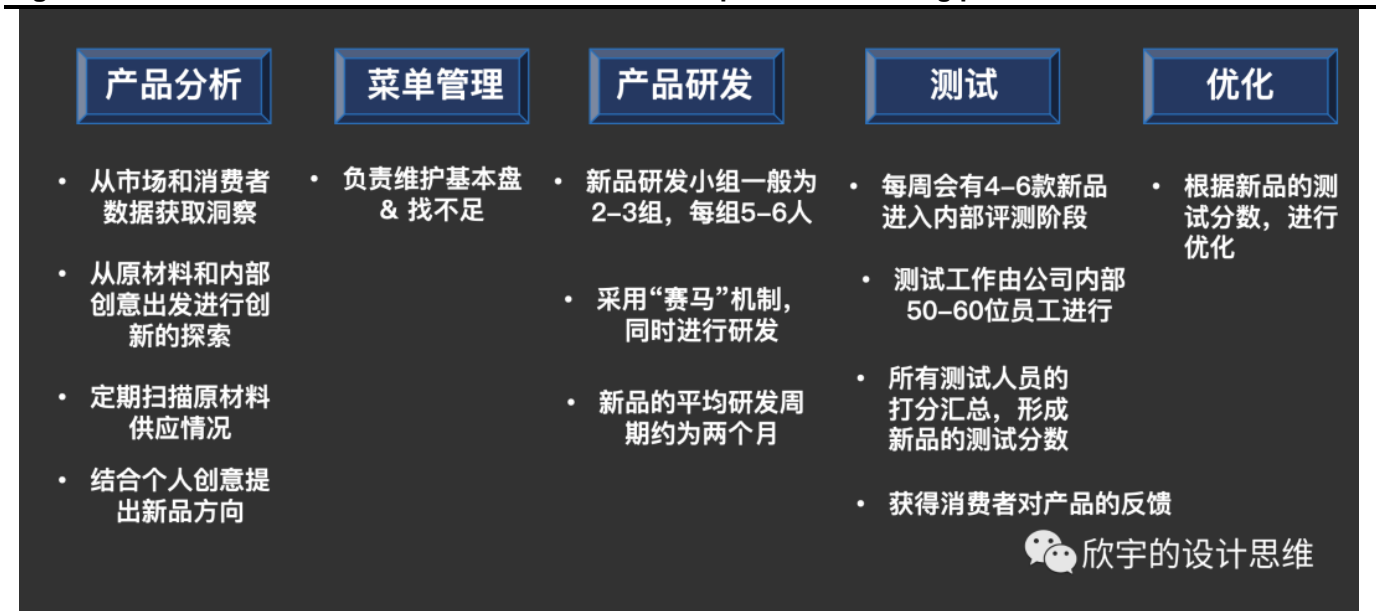
**Figure 39: Different stages of Luckin Coffee's R&D and product launching processes**



Source: Company data, CMBIGM

Another main reason behind its highly successful Explosive Product Strategy is its **Clear R&D Organizational Structure**. Luckin's R&D department has a unique structure, divided into five specialized teams: Product Analysis, Menu Management, Product R&D, Testing, and Optimization. These teams work independently but collaborate closely to ensure efficiency and innovation.

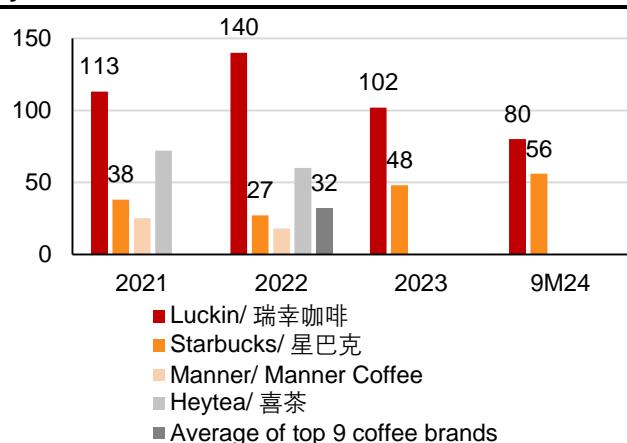
Figure 40: Different actions of Luckin Coffee's R&D and product launching process



Source: Company data, CMBIGM

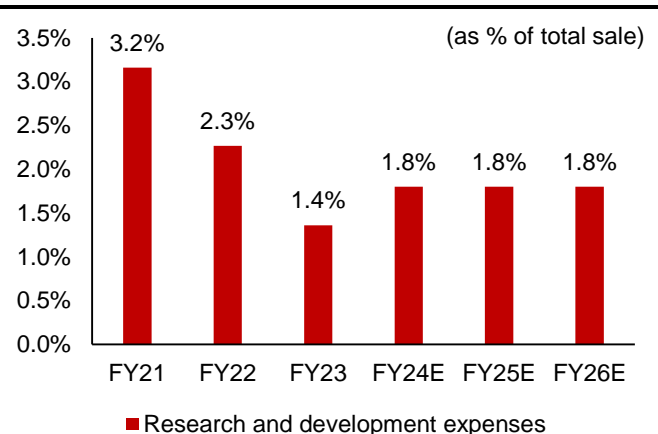
Additionally, the number of new products Luckin launches annually is significantly higher than other brands, increasing the likelihood of successful products.

Figure 41: Number of new SKUs in the recent years, by brand



Source: Company data, CMBIGM estimates

Figure 42: Luckin Coffee's R&D expenses, as % of total sales

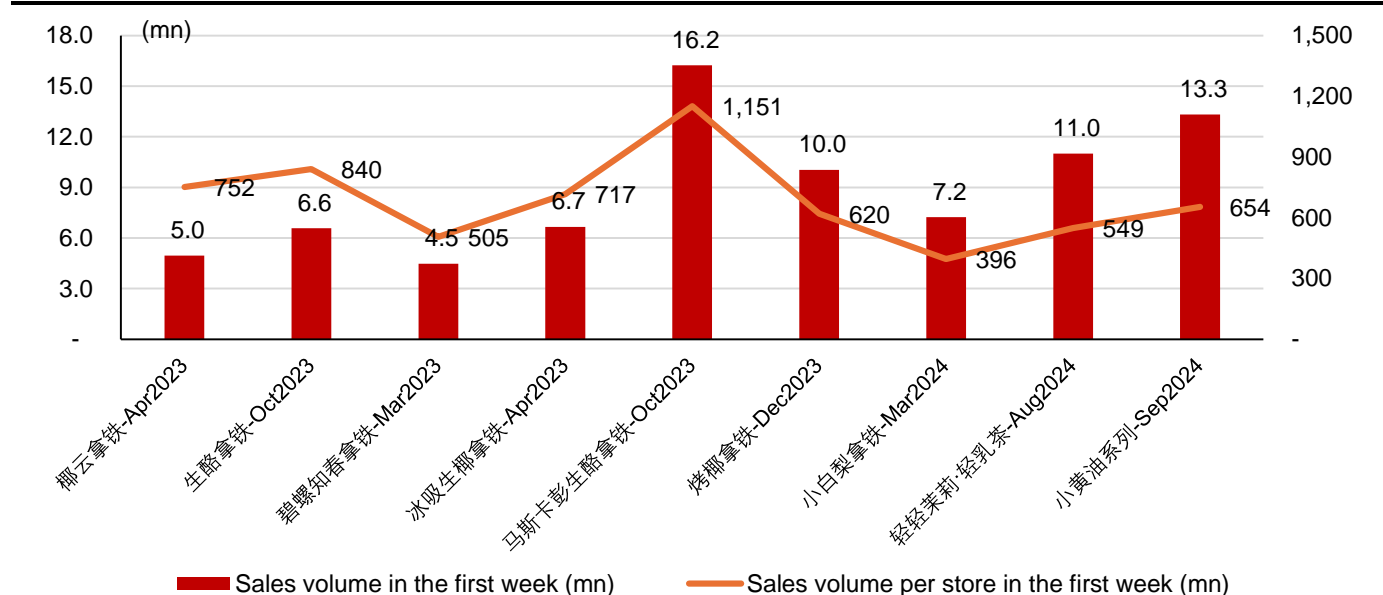


Source: Company data, CMBIGM estimates

### 3.2 Recently launched products have also performed well

For example, Luckin's "Light Jasmine Latte Tea" introduced in the past quarter achieved strong sales in its first week of launch.

**Figure 43: Sales volume (in the first week of launch) of Luckin Coffee's hot selling items**



Source: Company data, CMBIGM estimates

**Figure 44: Luckin's new tea drink product - Jasmine Light Milk Tea**



Source: Company data, CMBIGM

**Figure 45: Luckin Coffee Light Milk Tea Series has won the "2024 Quality Consumption Innovation Case"**

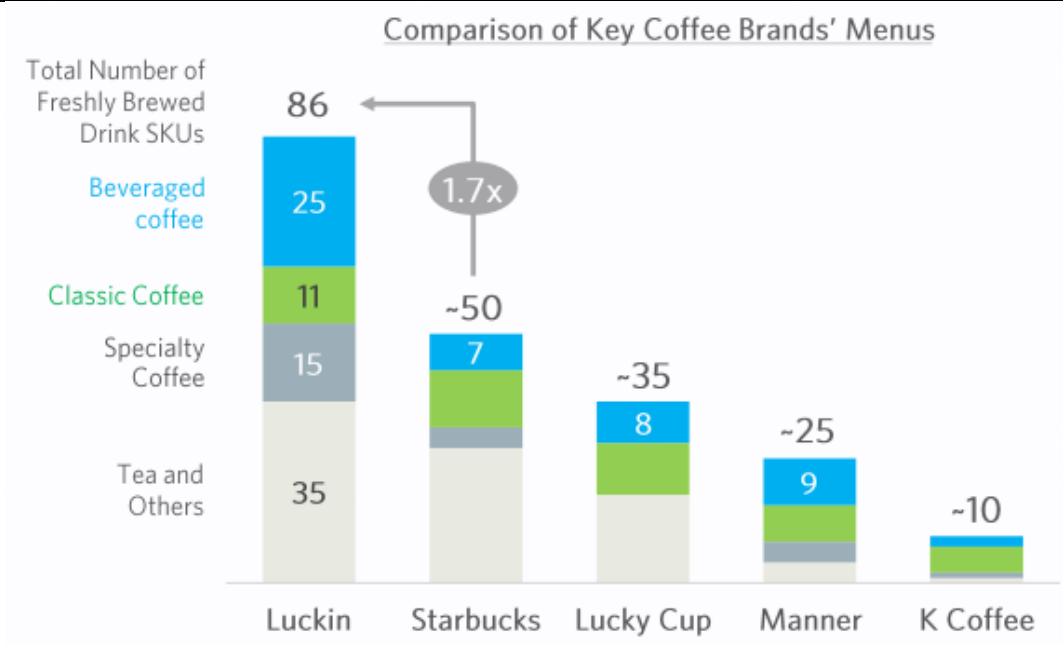


Source: Company data, CMBIGM

■ **3.3 Significant room for future expansion in product categories and geographies**  
On one hand, Luckin is actively expanding its customer base in China by introducing more coffee-based beverages, which has proven effective.

On the other hand, entering the tea beverage market and launching new categories could serve as another powerful growth engine.

**Figure 46: Number of SKUs and breakdown by different types, by brand, in Aug 2022**

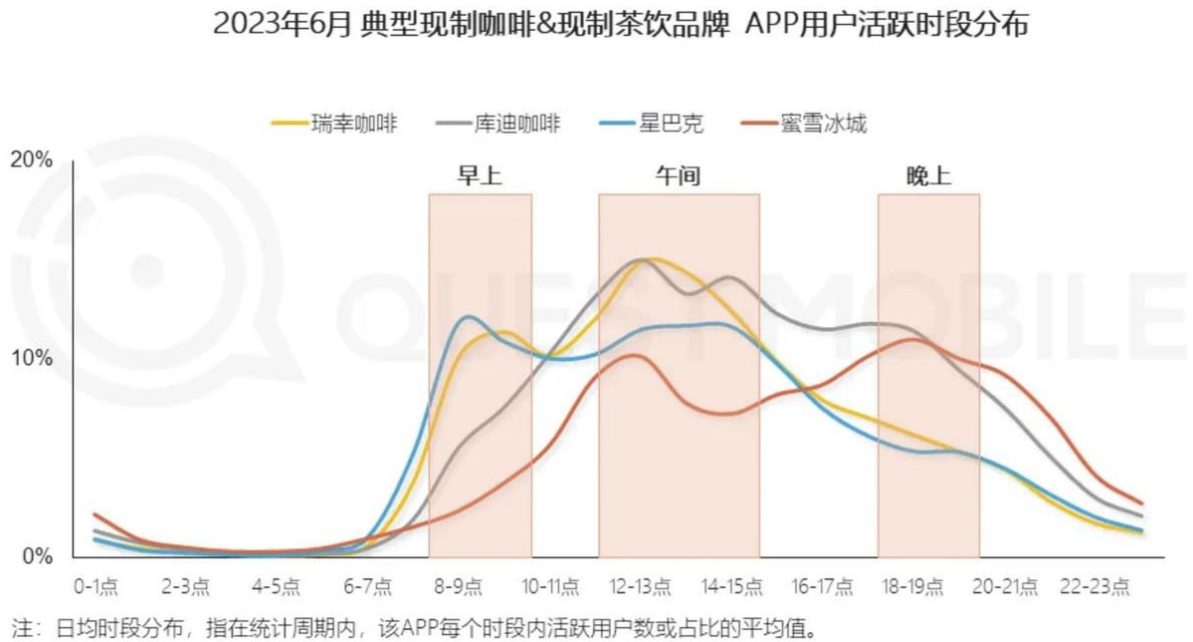


Source: Snowlake, CMBIGM

Coffee and tea target different consumer groups and consumption time periods, making tea an excellent avenue for new business development.

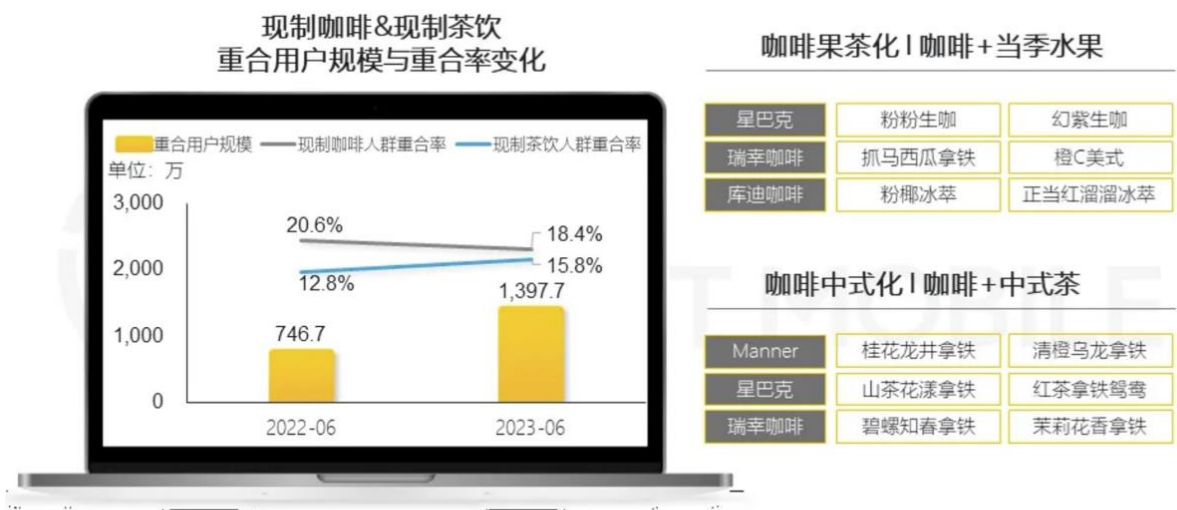
Luckin is expected to further invest and launch more tea-based products in 2025.

**Figure 47: Consumption time, by different tea drink and coffee brands, in Aug 2023**



Source: Questmobile, CMBIGM

**Figure 48: Size and % of customer base of tea drink and coffee that are overlapped, Jun 2022 and Jun 2023**



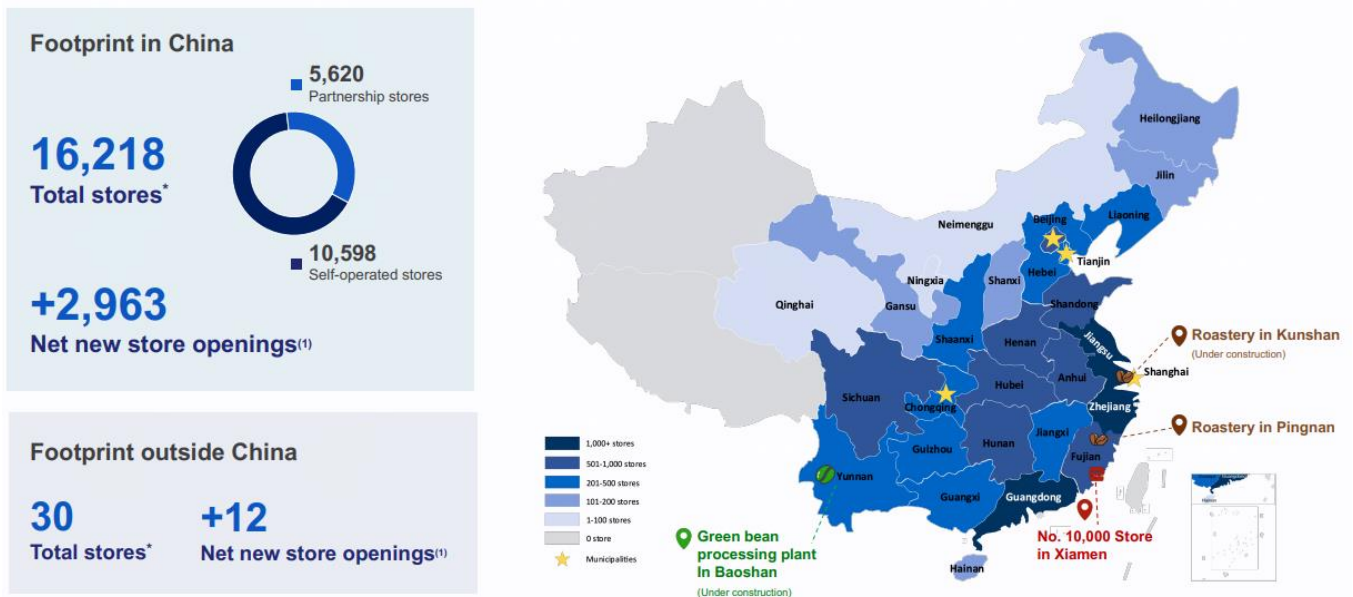
注：1、现制咖啡与现制茶饮重合用户，两个行业代表性品牌的APP、微信小程序、新媒体平台官号的去重活跃用户；2、现制咖啡人群重合率=现制咖啡与茶饮重合用户/现制咖啡用户规模；3、现制茶饮人群重合率=现制咖啡与茶饮重合用户/现制茶饮用户规模。  
Source: QuestMobile TRUTH 中国移动互联网数据库 2023年6月

Source: Questmobile, CMBIGM

### ■ 3.4 We believe Luckin has the potential to expand globally, but this requires more investments

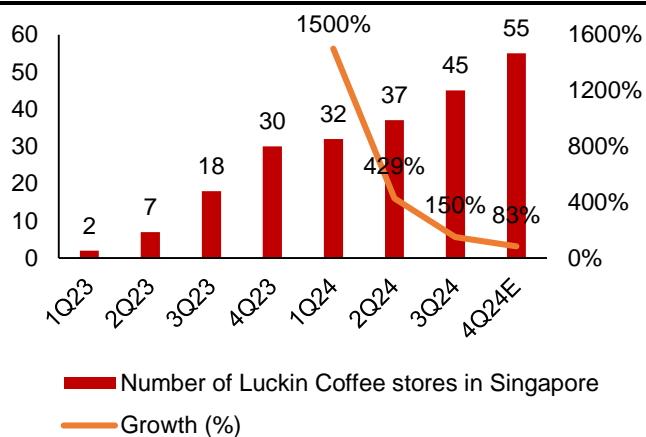
Luckin Coffee's current overseas expansion is primarily focused on Singapore, where it had 45 directly operated stores in 3Q24. In terms of product pricing, Luckin Coffee positions itself as more affordable than overseas brands like Starbucks. For example, a standard latte costs SG\$ 5.6 at Luckin Coffee compared to SG\$ 7.7 at Starbucks, reflecting a price discount of about 30%. This pricing gap is narrower than the discount offered in the domestic Chinese market.

**Figure 49: Luckin's current store locations, in 2023**



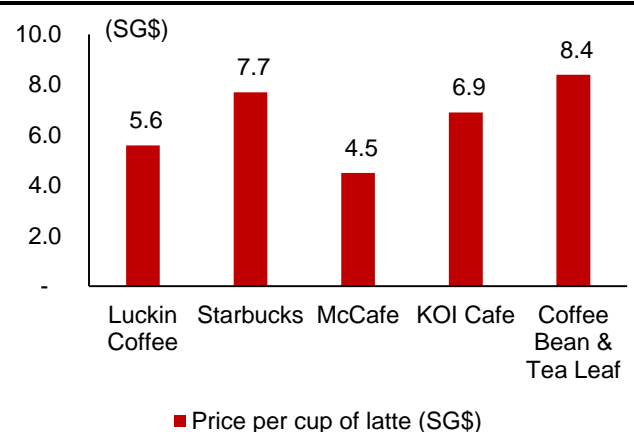
Source: Company data, CMBIGM

**Figure 50: Number of Luckin Coffee stores and growth in Singapore**



Source: Company data, CMBIGM estimates

**Figure 51: Price for a cup of latte in Singapore, by brand**

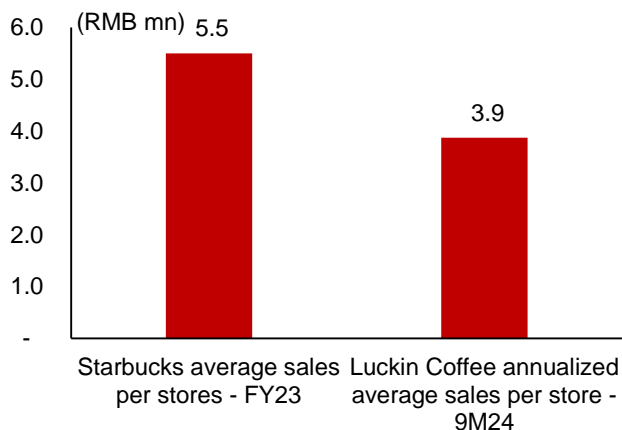


Source: Company data, CMBIGM estimates



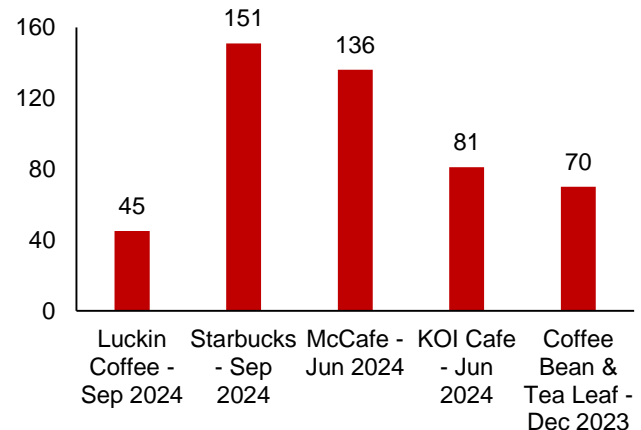
The company disclosed that its operations in Singapore generated revenue of over RMB 90mn in 9M24, based on our estimation. This may translate to an annualized average sales per store of about RMB 3.9mn (around US\$ 550k), which we think is already a decent sales performance, because, our estimates for Starbucks' average annual store sales in Singapore stand at RMB 5.5mn, meaning Luckin had already achieved about 70% of Starbucks' performance there. This is quite similar to the scenario in mainland China, where Luckin Coffee's average sales per store is RMB 2.3mn, vs Starbucks' RMB 3.4mn. However, due to headquarters and other operating costs, Luckin Coffee reported a loss of RMB 76 mn in Singapore during 9M24.

**Figure 52: Starbucks average sales per store vs Luckin Coffee's annualized average sales per store in Singapore**



Source: Company data, CMBIGM estimates

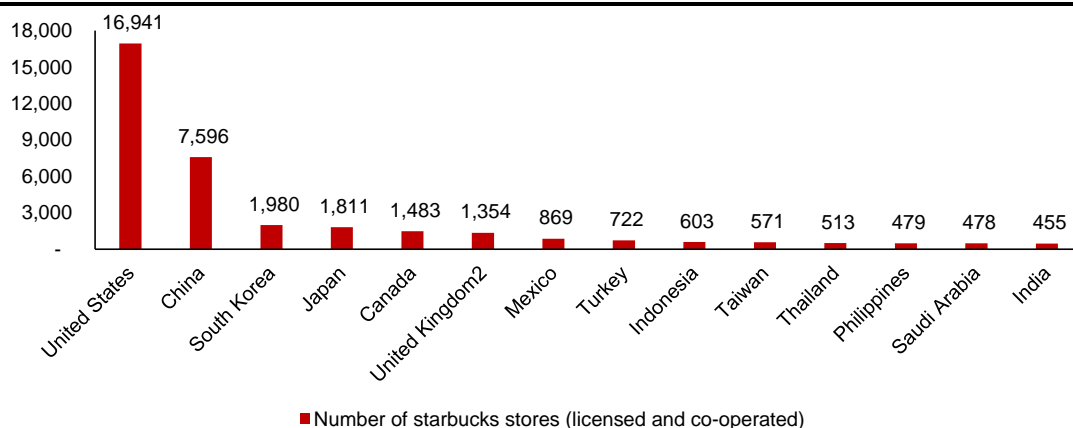
**Figure 53: Number of coffee shops in Singapore, by brand**



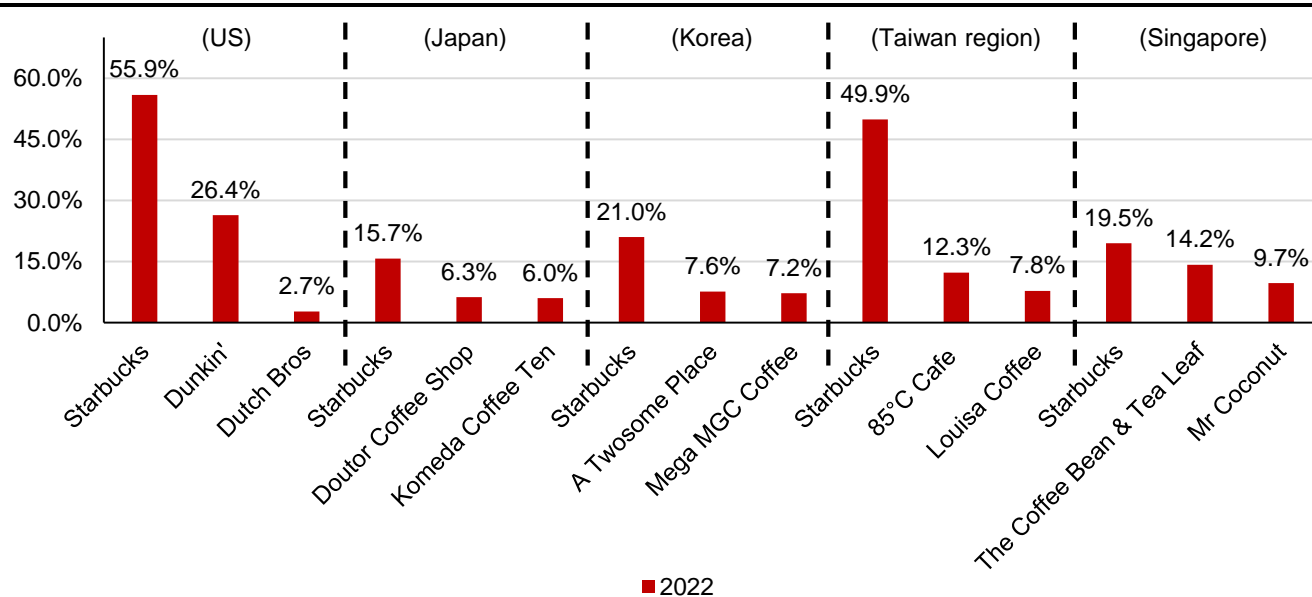
Source: Company data, CMBIGM estimates

But in the mid-to-long term, Luckin Coffee is seen as capable of competing effectively overseas, just as it has overtaken Starbucks in China through product innovation and digitalization. However, gaining more market share and achieving higher profitability overseas will require replicating key success factors from its domestic operations. These include: 1) establishing a strong supply chain for cost leadership, 2) opening more stores to achieve economies of scale, and 3) investing heavily in marketing to enhance brand strength. Such efforts will demand significant time and investments.

**Figure 54: Number of Starbucks' stores in different regions in Sep 2024**



Source: Company data, CMBIGM estimates

**Figure 55: Market share of the top 3 players in the coffee shops industry, by brand and regions, in 2022**


Source: Euromonitor, CMBIGM estimates

## Industry analysis and trends

### 1) The current demographic structure in China is favorable for the coffee market.

China's demographic trends are increasingly favorable for the coffee market. Firstly, we have to refer to the pattern that the older individuals tends to consume more coffee (while the youngster tends to consume more tea drinks), and as Chinese population continue to grow old, we believe the demand for coffee will burst. Secondly, the Chinese consumers are becoming more health-conscious, which is favourable for coffee, thanks to its perceived health benefits compared to sugary tea drinks. This trend aligns with consumption upgrades, transitioning from instant coffee to ready-to-drink and freshly brewed options, with growing popularity for Americanos and espressos among coffee types.

#### ■ 1.1 The aging population trend in China

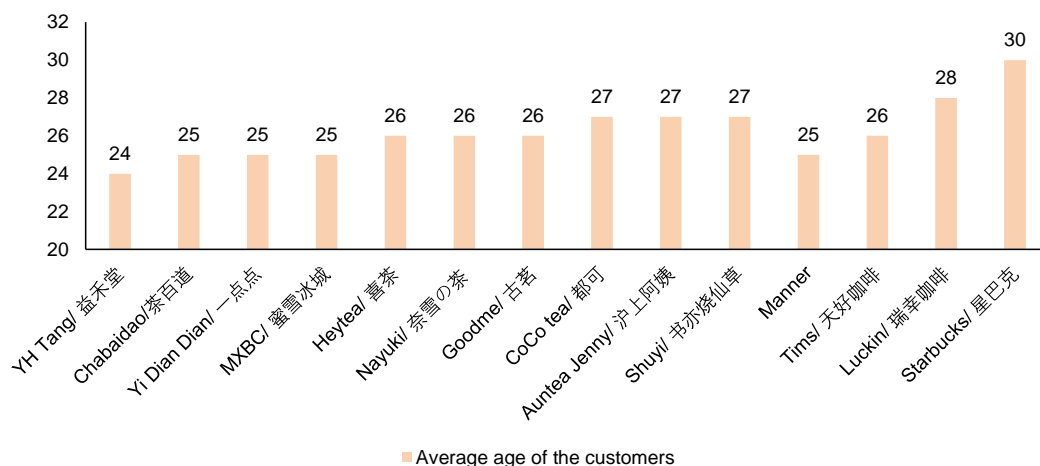
The median age of China's population has been steadily increasing. Younger individuals tend to prefer tea, while people who start working and grow older gradually shift towards coffee.

**Figure 56: % consumers who drink at least one cup of milk tea/ coffee per week, by different age group**



Source: DATA100, <https://36kr.com/>, Deloitte, CMBIGM estimates

**Figure 57: Average age for its major customers, by brand, in Jun 2022**



Source: Questmobile, CMBIGM estimates

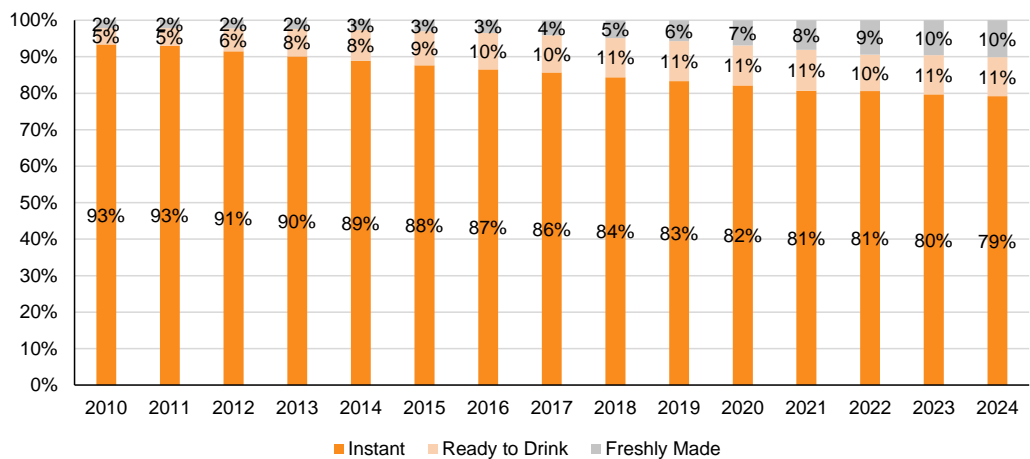
■ 1.2 Chinese consumers are becoming more health-conscious

Currently, Chinese consumers prioritize taste over health, but this trend is expected to change in the future. Coffee, being generally healthier than tea beverages, is likely to benefit from this shift.

Consumption is also upgrading—from instant coffee to ready-to-drink and freshly brewed coffee.

Consumers are increasingly opting for Americanos and espressos.

**Figure 58: % of coffee consumption, by different types of coffee**



Source: Euromonitor, CMBIGM estimates

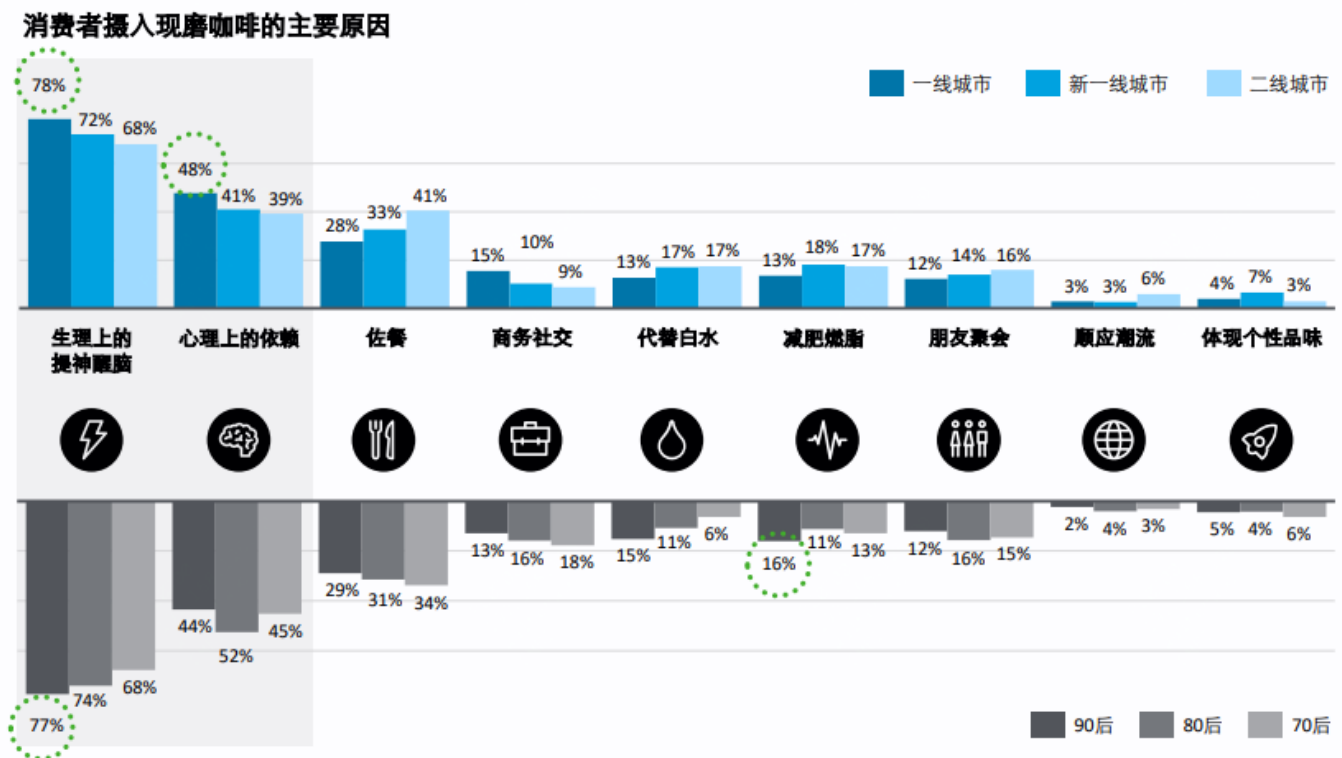
## 2) Coffee is a staple product which has high addictiveness.

Coffee has high addictiveness, functional benefits, and strong profitability. Consumers primarily purchase coffee for energy, psychological reliance, and socializing purposes, with consumption frequency increasing over time and income growth. Compared to tea, coffee offers higher repurchase rates due to its functionality and addictiveness.

### 2.1 Main reasons for purchasing coffee

According to a survey done by Deloitte, consumers commonly purchase coffee for reasons such as: staying awake and alert, psychological dependence, replenishing energy and sugar, and for business or social occasions.

Figure 59: Main reasons for purchasing coffee, by different consumer's locations and ages



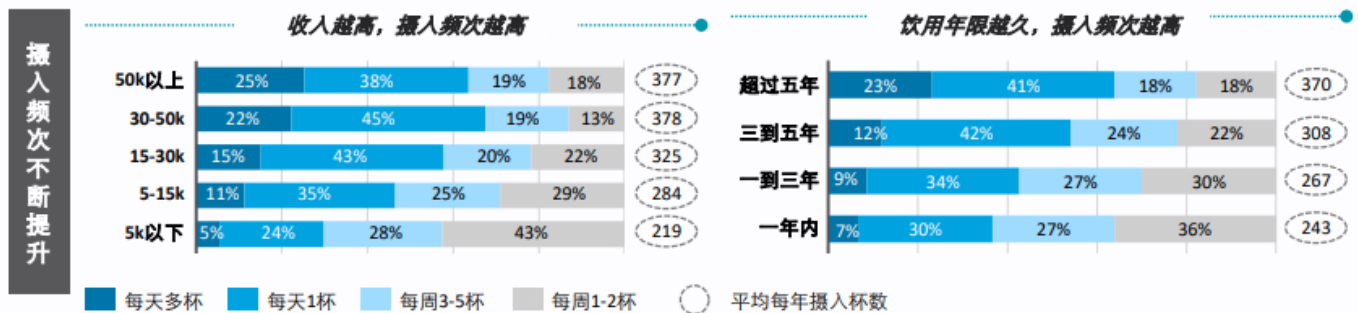
Source: Deloitte, CMBIGM

## 2.2 Consumption frequency will gradually increase

Over time, as people drink coffee for more years, their consumption frequency tends to rise. The same trend is observed in the US and Japan.

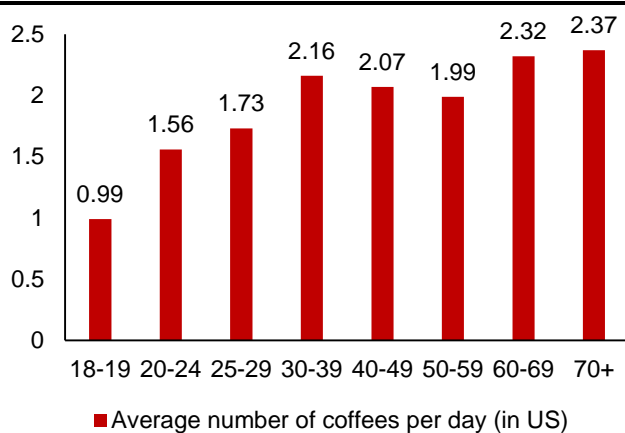
Moreover, wealthier individuals tend to consume coffee more frequently. Therefore, as per capita income increases and wealth effects emerge, coffee consumption is likely to grow further.

**Figure 60: Market size of China's cookware industry, by channel, 2018 to 2027E**



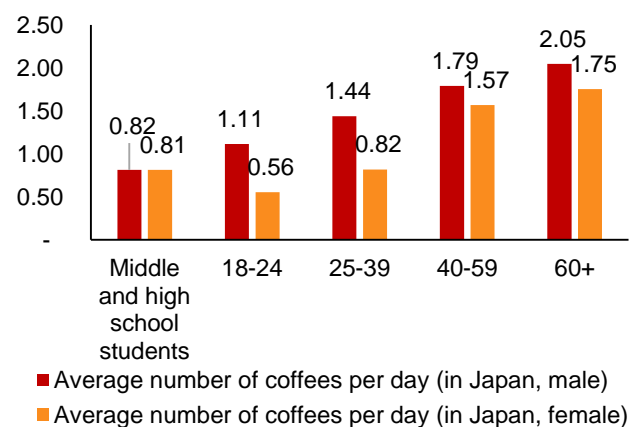
Source: Deloitte, CMBIGM estimates

**Figure 61: Average number of coffees consumed per person per week, in US, by different age group**



Source: National Coffee Association of US, CMBIGM estimates

**Figure 62: Average number of coffees consumed per person per week, in Japan, by different age group and gender**



Source: All Japan Coffee Association, CMBIGM estimates

Compared to tea beverages, coffee has both functionality and addictiveness, resulting in higher repurchase rates.



### 3) Coffee penetration in China is still relatively low.

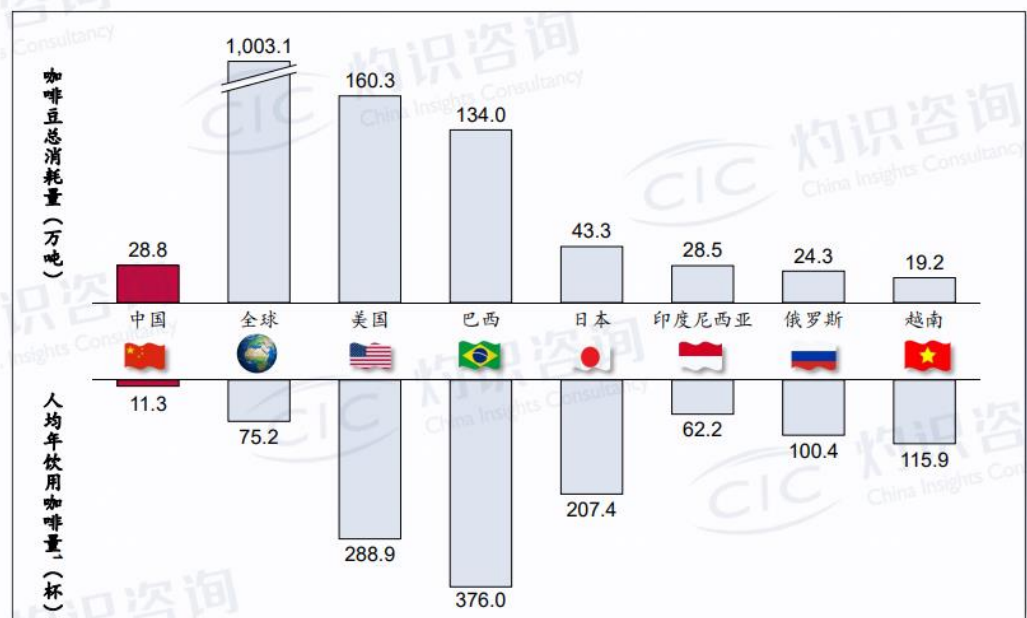
China's coffee market still has low penetration. In 2022, China consumed 290,000 tons of coffee beans, far below Japan's 430,000 tons and the US's 1.6 mn tons, with per capita coffee consumption at only 11 cups annually compared to the global average of 75 cups. Similarly, there are only 75 coffee shops per million people in China, significantly lower than Taipei's 373 and San Francisco's 550. However, rising incomes and urbanization indicate potential growth, especially as coffee shops (160,000) remain far fewer than tea shops (420,000) in China.

#### ■ 3.1 Coffee consumption volume comparison

First, comparing total consumption, in 2022, China's total coffee bean consumption was approximately 290,000 tons, still lower than Japan's 430,000 tons and the US' 1.6 mn tons.

Next, on a per capita basis, in 2022, the average Chinese consumer drank about 11 cups of coffee annually, far below the global average of 75 cups, Vietnam's 116 cups, Japan's 207 cups, and the United States' 289 cups.

**Figure 63: Coffee consumption and cups per person in China vs other regions/ countries, in 2022**



注：1. 假设每杯咖啡含14g咖啡粉

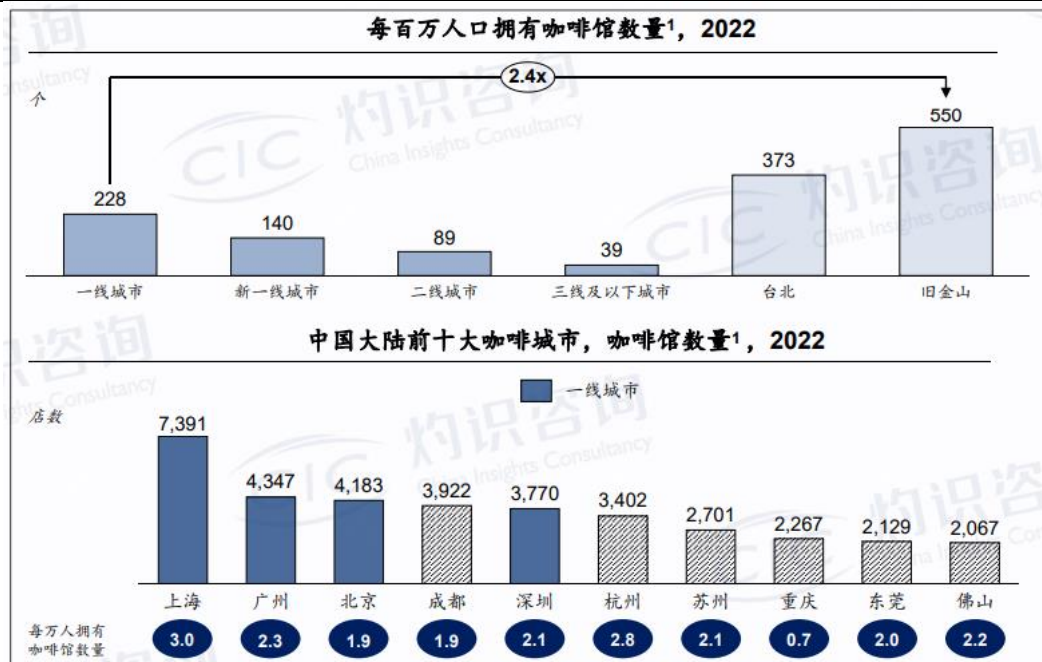
Source: CIC Report, CMBIGM

### ■ 3.2 Coffee shop density comparison per million people

In 2022, China had an average of only 75 coffee shops per million people, while the numbers for first-tier, new first-tier, second-tier, and third-tier or lower-tier cities were 228, 140, 89, and 39, respectively. These figures are still far below Taipei's 373 and San Francisco's 550 coffee shops per million people. With rising per capita income and urbanization in China, this number is expected to increase further.

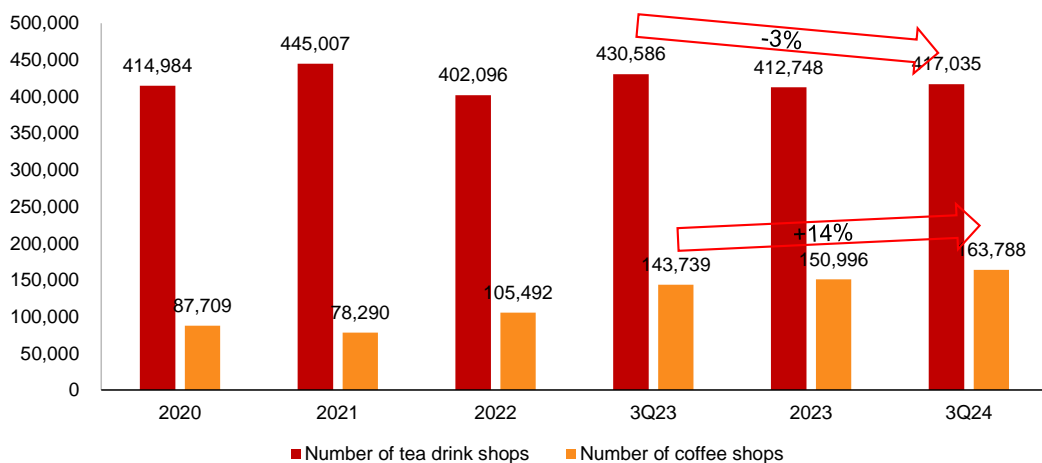
Additionally, in 3Q24, there were about 420,000 tea shops in China, compared to only 160,000 coffee shops.

**Figure 64: Number of coffee shops per 1mn population in China vs other regions/ countries, in 2022**



Source: CIC Report, CMBIGM

**Figure 65: Number of tea drink shops and coffee shops in China in recent years**



Source: <https://www.canyin88.com>, CMBIGM estimates

## Results preview

Figure 66: Results preview – Quarterly

Half yearly (RMB mn)	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	1Q24 YoY	2Q24 YoY	3Q24 YoY	4Q24 E YoY
<b>Revenue</b>	<b>7,200</b>	<b>7,065</b>	<b>6,278</b>	<b>8,403</b>	<b>10,181</b>	<b>10,667</b>	<b>42%</b>	<b>35%</b>	<b>41%</b>	<b>51%</b>
Food and paper	-3,167	-3,509	-2,944	-3,368	-3,955	-4,654				
Gross profit	4,033	3,555	3,334	5,034	6,225	6,013	<b>24%</b>	<b>35%</b>	<b>54%</b>	<b>69%</b>
<b>GP margins</b>	<b>56.0%</b>	<b>50.3%</b>	<b>53.1%</b>	<b>59.9%</b>	<b>61.1%</b>	<b>56.4%</b>				
Other income & gains	0	0	0	0	0	0				
Rental & other opex	-1,425	-1,702	-1,833	-2,050	-2,285	-2,295	<b>106%</b>	<b>79%</b>	<b>60%</b>	<b>35%</b>
<b>Store rental &amp; other opex/ sales</b>	<b>-19.8%</b>	<b>-24.1%</b>	<b>-29.2%</b>	<b>-24.4%</b>	<b>-22.4%</b>	<b>-21.5%</b>				
D & A expenses	-160	-208	-259	-289	-310	-213	<b>139%</b>	<b>126%</b>	<b>94%</b>	<b>2%</b>
<b>D &amp; A exp/ sales</b>	<b>-4.0%</b>	<b>-5.9%</b>	<b>-7.8%</b>	<b>-5.7%</b>	<b>-5.0%</b>	<b>-3.5%</b>				
Delivery expenses	-587	-467	-448	-607	-928	-824	<b>6%</b>	<b>14%</b>	<b>58%</b>	<b>76%</b>
<b>Delivery expenses/ sales</b>	<b>-8.2%</b>	<b>-6.6%</b>	<b>-7.1%</b>	<b>-7.2%</b>	<b>-9.1%</b>	<b>-7.7%</b>				
Sales & marketing expenses	-384	-399	-326	-433	-589	-607	<b>63%</b>	<b>42%</b>	<b>53%</b>	<b>52%</b>
<b>Sales &amp; marketing exp/ sales</b>	<b>-5.3%</b>	<b>-5.6%</b>	<b>-5.2%</b>	<b>-5.1%</b>	<b>-5.8%</b>	<b>-5.7%</b>				
Admin expenses	-481	-562	-557	-590	-637	-982	<b>54%</b>	<b>39%</b>	<b>32%</b>	<b>75%</b>
<b>Admin exp/ sales</b>	<b>-6.7%</b>	<b>-8.0%</b>	<b>-8.9%</b>	<b>-7.0%</b>	<b>-6.3%</b>	<b>-9.2%</b>				
Store preopening & other expenses	-30	-45	-29	-14	-13	-122	<b>82%</b>	<b>-24%</b>	<b>-55%</b>	<b>168%</b>
<b>Store preopening &amp; other exp/ sales</b>	<b>-0.7%</b>	<b>-1.3%</b>	<b>-0.9%</b>	<b>-0.3%</b>	<b>-0.2%</b>	<b>-2.0%</b>				
Other opex	-3	41	53	-1	94	33				
Operating profit (EBIT)	962	213	-65	1,051	1,557	1,003	<b>-110%</b>	<b>-10%</b>	<b>62%</b>	<b>372%</b>
<b>OP margins</b>	<b>13.4%</b>	<b>3.0%</b>	<b>-1.0%</b>	<b>12.5%</b>	<b>15.3%</b>	<b>9.4%</b>				
Investment gain (loss)	-88	21	-2	40	75	-42				
Net finance income	32	31	16	13	23	47				
<b>Net finance income / sales</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.4%</b>				
Profit after financing costs	905	265	-51	1,104	1,655	1,009				
Associated coms	0	0	0	0	0	0				
Jointly controlled coms	0	0	0	0	0	0				
Pre-tax profit	905	265	-51	1,104	1,655	1,009	<b>-107%</b>	<b>-10%</b>	<b>83%</b>	<b>281%</b>
Tax	83	31	-32	-233	-353	-125				
<b>Tax / sales</b>	<b>1.1%</b>	<b>0.4%</b>	<b>-0.5%</b>	<b>-2.8%</b>	<b>-3.5%</b>	<b>-1.2%</b>				
<b>Effective tax rate</b>	<b>9.1%</b>	<b>11.8%</b>	<b>63.0%</b>	<b>-21.1%</b>	<b>-21.3%</b>	<b>-12.4%</b>				
Minority interests	0	0	0	0	0	0				
<b>Net profit att.</b>	<b>988</b>	<b>296</b>	<b>-83</b>	<b>871</b>	<b>1,303</b>	<b>884</b>	<b>-115%</b>	<b>-13%</b>	<b>32%</b>	<b>198%</b>
<b>NP margins</b>	<b>13.7%</b>	<b>4.2%</b>	<b>-1.3%</b>	<b>10.4%</b>	<b>12.8%</b>	<b>8.3%</b>				

## Assumptions

Figure 67: Major assumptions

Major assumptions	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by channel (RMB mn)</b>						
Self-operated stores sales	6,659	10,224	18,677	27,214	34,250	39,713
Partnership stores sales	1,306	3,069	6,226	8,314	10,824	13,133
Total	7,965	13,293	24,903	35,528	45,075	52,846
<b>Store network by channel</b>						
Self-operated stores	4,397	5,652	10,628	14,878	17,878	20,878
Partnership stores	1,627	2,562	5,620	7,870	9,870	11,870
Total	6,024	8,214	16,248	22,748	27,748	32,748
<b>Sales per avg. store by channel (RMB mn)</b>						
Self-operated stores	1.6	2.0	2.3	2.1	2.1	2.0
Partnership stores	1.0	1.5	1.5	1.2	1.2	1.2
Total	1.5	1.9	2.0	1.8	1.8	1.7
<b>Sales per avg. store growth by channel</b>						
Self-operated stores	82%	27%	13%	-7%	-2%	-2%
Partnership stores	181%	40%	4%	-19%	-1%	-1%
Total	85%	27%	9%	-11%	-2%	-2%
<b>Number of cups per day by channel</b>						
Self-operated stores	296	359	456	457	431	416
Partnership stores	315	430	461	422	393	368
Total	301	380	458	445	418	399
<b>ASP (RMB)</b>						
Self-operated stores	14.8	15.5	13.8	12.8	13.3	13.5
Partnership stores	9.1	9.3	9.0	8.0	8.5	9.0
Total	13.4	13.5	12.2	11.2	11.7	12.0
SSSG (self-operated stores)	69.3%	20.6%	21.0%	-15.1%	2.0%	2.0%
Store level OP margin (self-operated stores)	20.0%	26.0%	22.2%	18.4%	18.4%	19.0%
<b>GP margins</b>	<b>59.8%</b>	<b>61.0%</b>	<b>56.3%</b>	<b>58.0%</b>	<b>59.0%</b>	<b>59.3%</b>
<b>Opex breakdown</b>						
Store rental/ sales	25.6%	21.3%	20.8%	23.8%	24.6%	24.8%
D&A expenses/ sales	5.8%	2.9%	2.4%	3.0%	3.5%	3.6%
Delivery expenses/ sales	10.3%	10.3%	8.1%	7.9%	7.7%	7.5%
Sales and marketing expenses/ sales	4.2%	4.3%	5.2%	5.5%	5.3%	5.1%
G&A expenses/ sales	15.9%	11.0%	7.3%	7.8%	7.3%	6.9%
Store preopening & other expenses/ sales	0.2%	0.3%	0.4%	0.5%	0.5%	0.5%
<b>OP margins</b>	<b>-6.8%</b>	<b>8.7%</b>	<b>12.1%</b>	<b>10.0%</b>	<b>10.3%</b>	<b>11.0%</b>
Effective tax rate	10.3%	-56.7%	-8.3%	-20.0%	-20.0%	-20.0%
<b>NP margins</b>	<b>8.6%</b>	<b>3.7%</b>	<b>11.4%</b>	<b>8.4%</b>	<b>8.8%</b>	<b>9.5%</b>
<b>NP growth (%)</b>	<b>-112.3%</b>	<b>-28.9%</b>	<b>483.3%</b>	<b>4.4%</b>	<b>32.7%</b>	<b>26.6%</b>

Source: Company data, CMBIGM estimates

## Financial Analysis

We forecast sales growth of 43%/ 27%/ 17% YoY in FY24E/ 25E/ 26E

■ We forecast sales to grow by 43% YoY in FY24E, mainly driven by store openings.

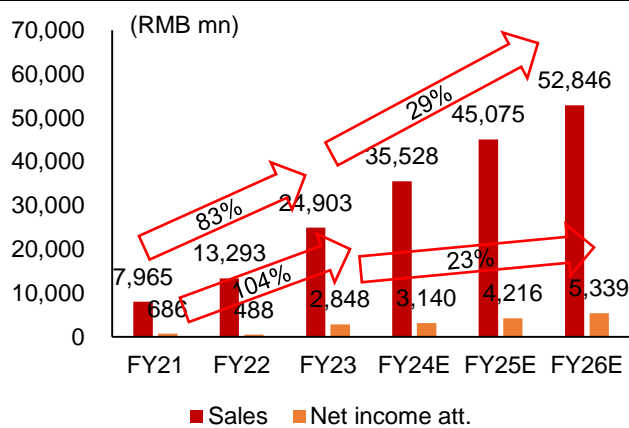
We project Luckin Coffee's sales to be at around RMB 35.5bn in FY24E, driven by:

- 1) 46%/ 34% growth for self-operated stores sales/ partnership stores sales, OR
- 2) 40% store counts growth and 2% increases in sales per store.

And the self-operated stores sales, in our view, should be driven by:

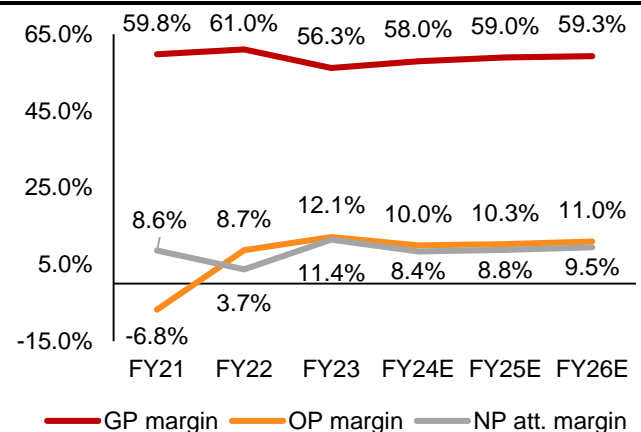
- 1) 40% store counts growth and 4% increases in sales per store, OR
- 2) 59% average number of stores and 11% decline in sales per average store (OR 15% drop in SSSG).

**Figure 68: Sales, net profit and CAGR**



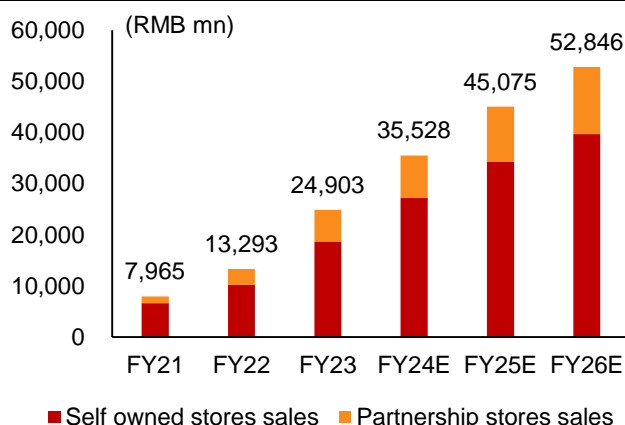
Source: Company data, CMBIGM estimates

**Figure 69: GP, OP and NP att. margin**



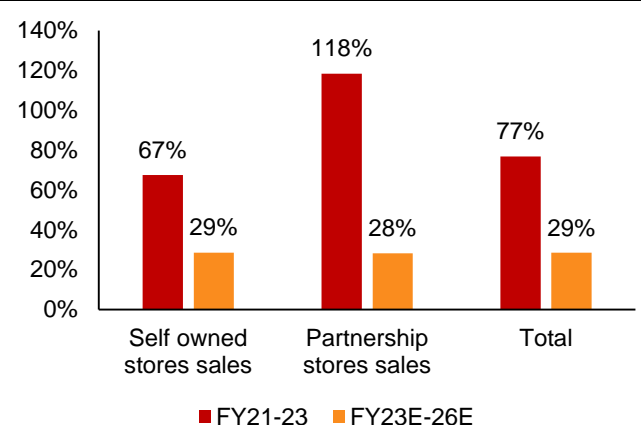
Source: Company data, CMBIGM estimates

**Figure 70: Sales by segment**



Source: Company data, CMBIGM estimates

**Figure 71: Sales CAGR by segment, during FY21-23 and FY23-26E**



Source: Company data, CMBIGM estimates



■ **We project a 29% sales CAGR during FY23-26E, assuming:**

1) 29%/ 28% sales CAGR for self-operated stores/ partnership stores, OR

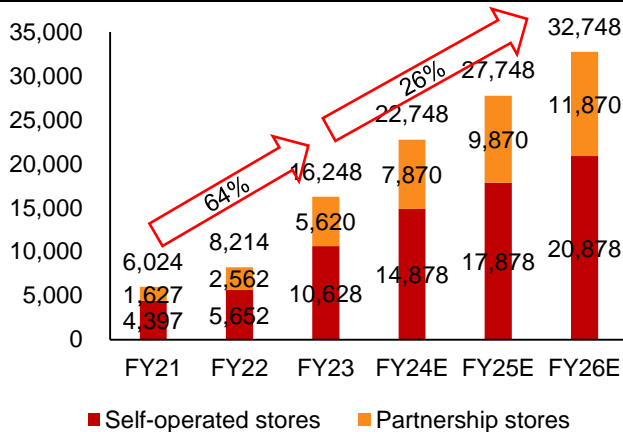
2) 26% store CAGR and 2% sales per store CAGR.

And for the self-operated stores business, we expect sales CAGR in the same period to be:

1) 25% store counts CAGR and 3% sales per store CAGR, OR

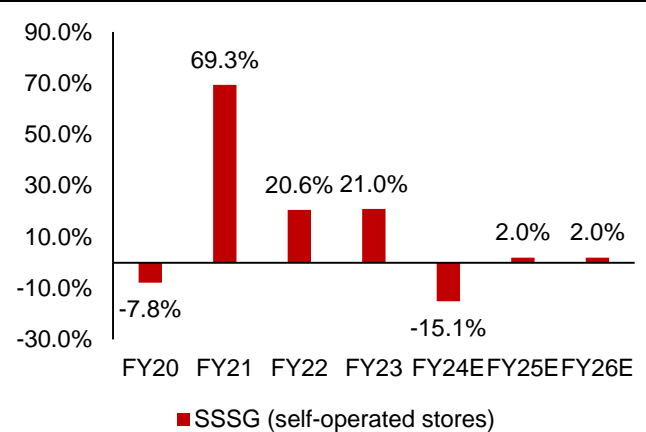
2) 35% average store counts CAGR and 4% drop in sales per average store CAGR (OR 4% SSS CAGR decline).

**Figure 72: Number of stores, by channel**



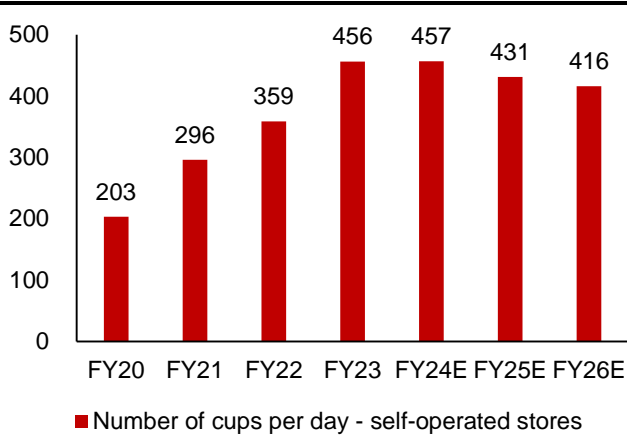
Source: Company data, CMBIGM estimates

**Figure 73: SSSG (Self-operated stores)**



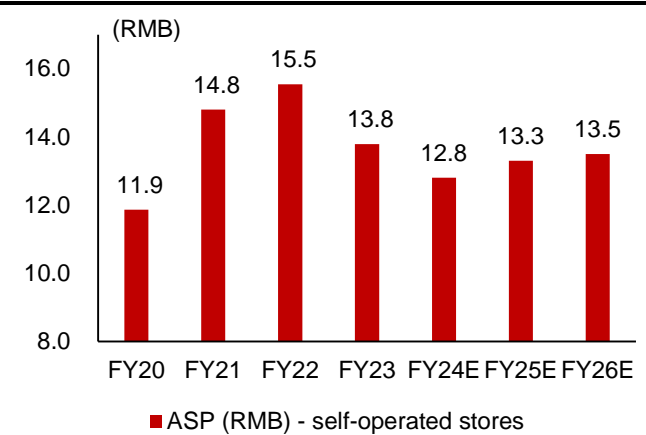
Source: Company data, CMBIGM estimates

**Figure 74: Number of cups per day (self-operated stores)**

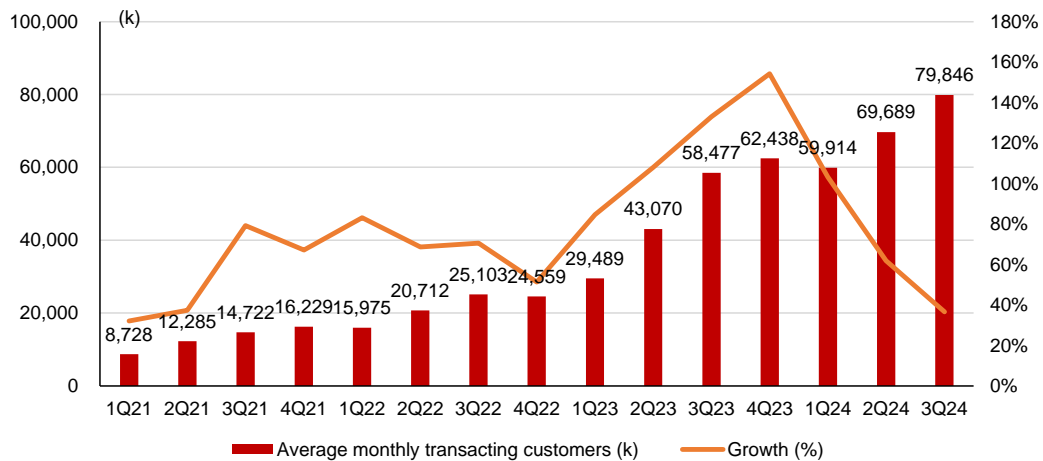


Source: Company data, CMBIGM estimates

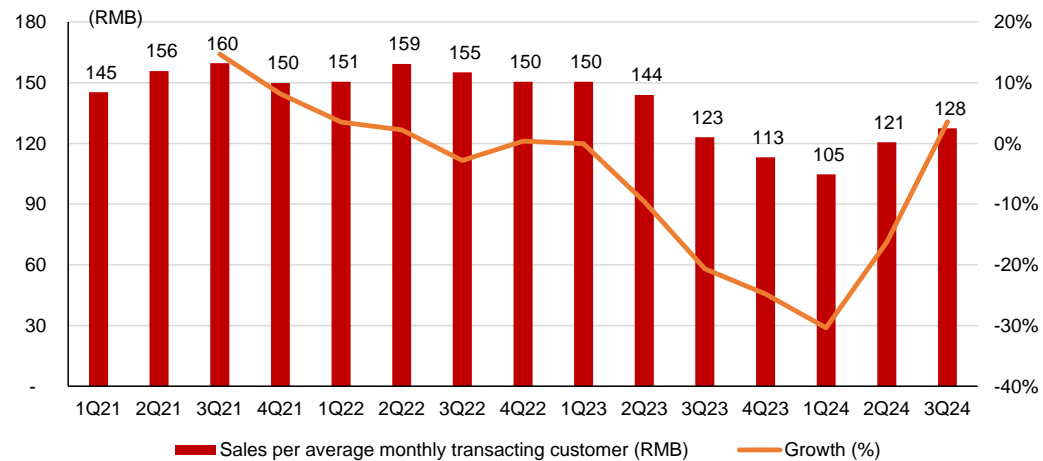
**Figure 75: ASP (self-operated stores)**



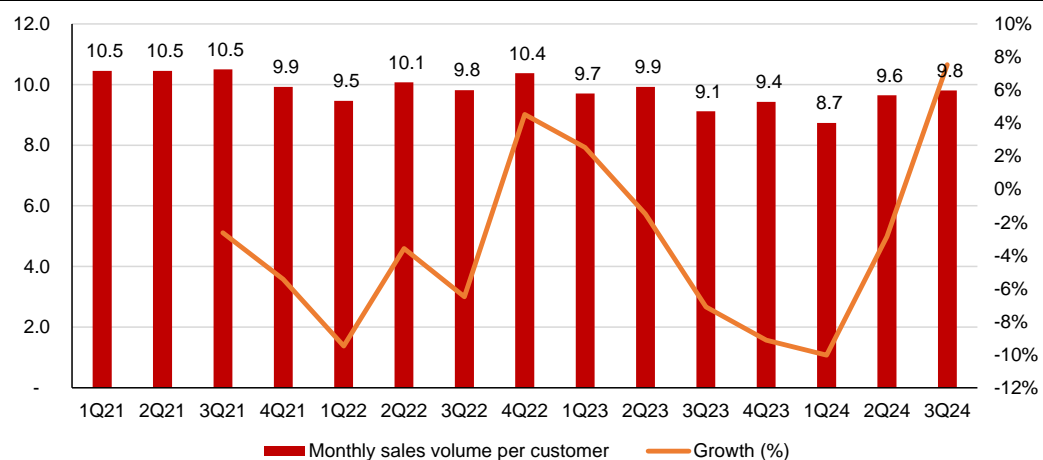
Source: Company data, CMBIGM estimates

**Figure 76: Average monthly transacting customers (k) and growth**

Source: Company data, CMBIGM estimates

**Figure 77: Sales per average monthly transacting customer (RMB) and growth**

Source: Company data, CMBIGM estimates

**Figure 78: Monthly sales volume per customer and growth**

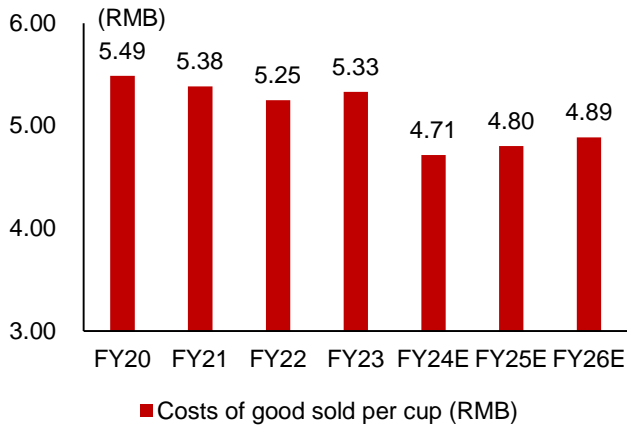
Source: Company data, CMBIGM estimates

## We forecast net profit growth of 4%/ 33%/ 27% in FY24E/ 25E/ 26E

- **GP margin may go up to around 58% in FY24E and then climb to 59%/ 59.3% in FY25E/ 26E, vs just 56.3% in FY23.**

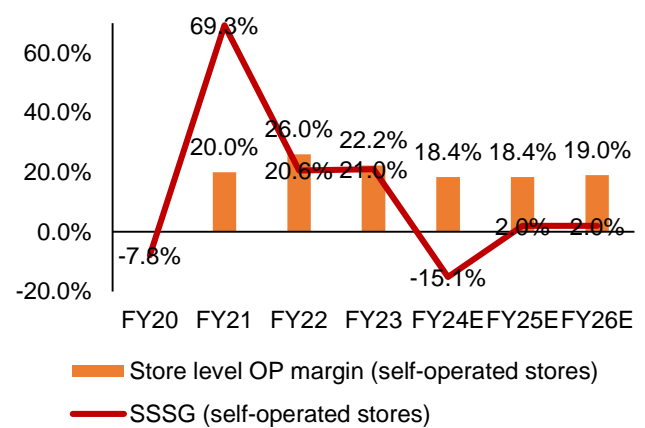
We do expect GP margin to increase to around 58% in FY24E, thanks to the adoption of new coffee roasting facilities, other economies of scales and reduced level of discounts and promotions. We do believe there is still ample room for further improvements.

**Figure 79: Luckin Coffee's costs per cup**



Source: Company data, CMBIGM estimates

**Figure 80: Self-operated SSSG and store OP margin**

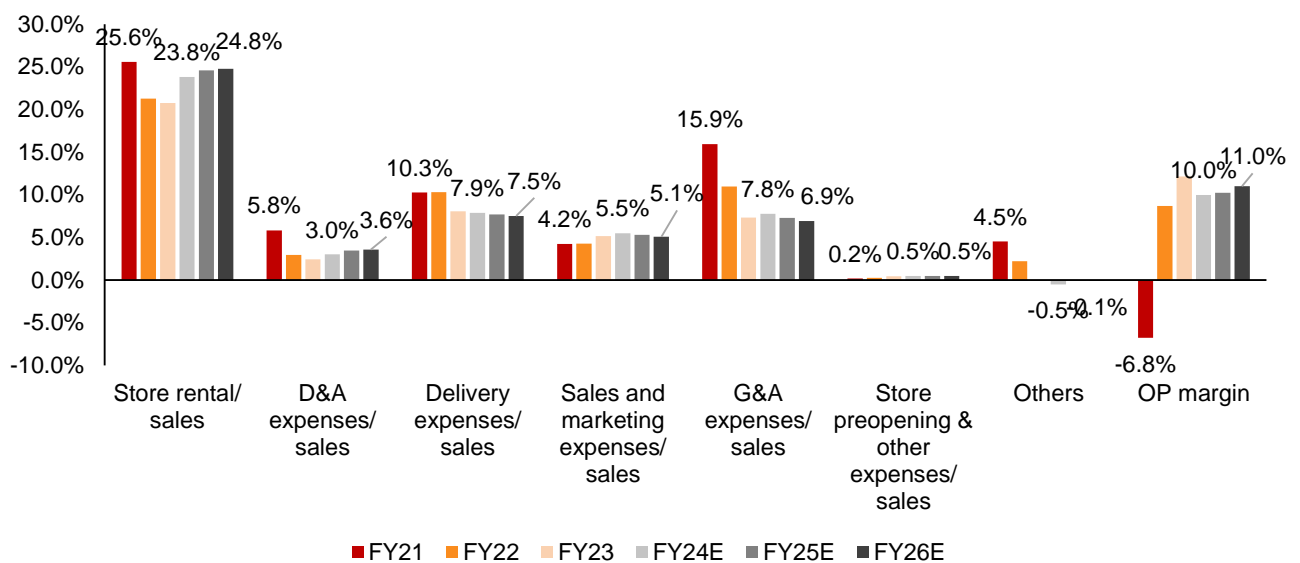


Source: Company data, CMBIGM estimates

- **NP margin will likely drop to just 8.4% in FY24E and then climb back to 8.8%/ 9.5% in FY25E/ 26E, vs 11.4% in FY23.**

We believe NP margin may fall to 8.4% in FY24E, mainly due to the operating leverage (-15% SSSG) and increased D&A expenses, but will gradually climb back in FY25E and 26E, thanks to better GP margin (through ASP increase, product innovations and optimization of supply chain and raw material sourcing), resumption of SSSG and operating leverage, economies of scale, as well as increased automation and technological advancements.

**Figure 81: Opex breakdown and OP margin**



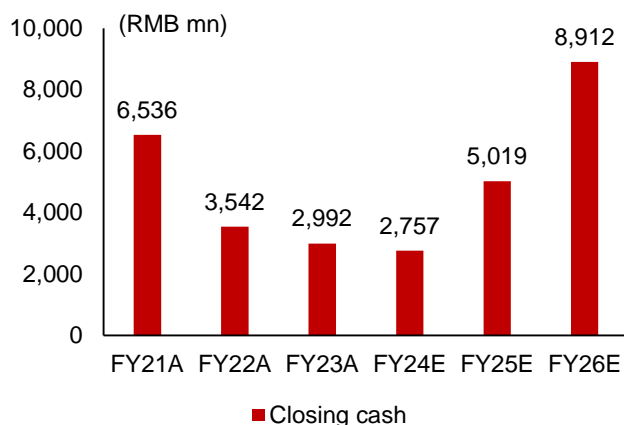
Source: Company data, CMBIGM estimates

## Balance sheet and cash flow

### ■ We believe the cash level may increase gradually, thanks to rapid net profit growth ahead.

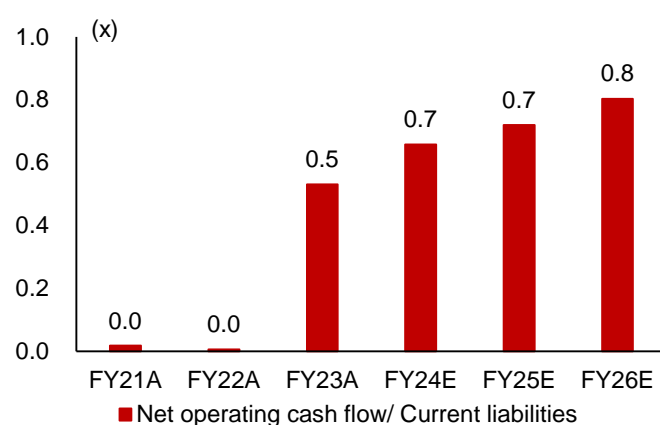
Luckin Coffee's net cash position has decreased from FY21 to FY23, mainly due to the speed-up in store expansion (so as the surge in capex) and its investments in supply chain (e.g. raw material processing factories and warehouses). Going forward, we do expect the investments to decline while net profit to improve further, and hence the cash level will gradually go up again.

**Figure 82: Closing cash balance**



Source: Company data, CMBIGM estimates

**Figure 83: Net operating cash flow ratio**

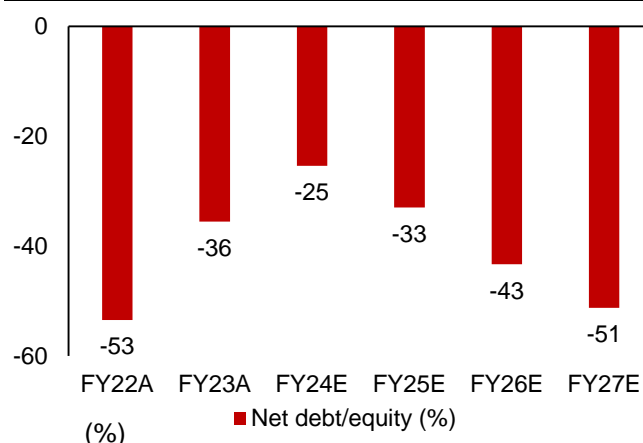


Source: Company data, CMBIGM estimates, net operating cash flow ratio = dividing net operating cash flow by current liabilities

### ■ We expect cash conversion cycle to stabilize at around 40 to 45 days.

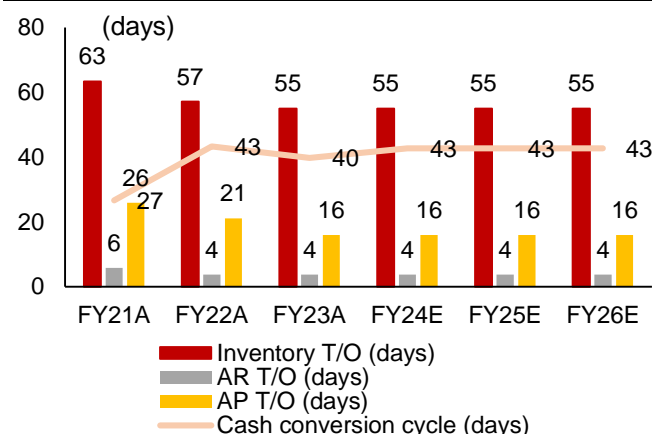
Luckin Coffee's receivable turnover days was at mid-single digit and we expect that to be stable in the future. The inventory turnover days decreased slightly from 63 days in FY21 to 55 days in FY23 because of optimization in supply chain operation and store level efficiency, we expect that to further improve over time in the future. The payable turnover days decreased from 26 days in FY21 to 21 days in FY23, and we do expect it to further go down, thanks to Luckin Coffee's aim to help the cash flow quality of its partners and suppliers.

**Figure 84: Total debt or (cash) to equity**



Source: Company data, CMBIGM estimates

**Figure 85: Working capital (days)**



Source: Company data, CMBIGM estimates

## Valuation

Figure 86: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(% )
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mnn)	End	FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E
Leading Greater China Catering														
Luckin Coffee	LKNCY US	BUY	33.80	24.00	41%	62,763	Dec-23	18.8	14.2	3.4	26.0	1.0	n/a	(12.0)
Baicha Baidao	2555 HK	NR	n/a	10.44	n/a	15,427	Dec-23	n/a	n/a	n/a	154.6	n/a	n/a	n/a
Nayuki	2150 HK	BUY	3.43	1.59	116%	2,711	Dec-23	148.2	n/a	0.6	0.3	6.8	0.0	(49.8)
Jiumaojiu	9922 HK	HOLD	2.64	3.91	-32%	5,515	Dec-23	24.0	14.4	1.3	9.1	(9.0)	1.8	(35.9)
Haidilao	6862 HK	BUY	15.94	16.94	-6%	94,424	Dec-23	19.0	16.8	5.4	45.4	3.0	4.2	16.5
Cafe De Coral	341 HK	BUY	9.30	7.90	18%	4,582	Mar-24	12.8	11.0	1.6	9.8	1.3	8.2	(12.3)
Dpc Dash	1405 HK	BUY	81.20	81.85	-1%	10,681	Dec-23	145.1	64.0	4.4	(1.9)	(0.5)	0.1	32.1
Yum China	9987 HK	BUY	451.11	380.60	19%	144,491	Dec-23	21.0	18.9	2.9	14.2	1.5	1.3	14.6
Yum China	YUMC US	BUY	38.07	49.07	-22%	144,866	Dec-23	21.1	19.0	2.9	14.2	1.5	1.3	15.6
Gourmet Master	2723 TT	NR	n/a	97.70	n/a	4,206	Dec-23	27.1	17.9	1.5	3.6	1.8	2.6	(3.7)
Avg.								48.6	22.0	2.7	27.5	0.8	2.4	(3.9)
Med.								21.1	17.3	2.9	12.0	1.5	1.5	(3.7)
International Catering														
Yum! Brands	YUM US	NR	n/a	138	n/a	299,962	Dec-23	25.2	22.8	n/a	n/a	4.5	1.9	5.8
Mcdonald's	MCD US	NR	n/a	301	n/a	1,675,773	Dec-23	25.6	23.9	n/a	n/a	4.9	2.2	1.4
Starbucks	SBUX US	NR	n/a	98	n/a	865,465	Sep-24	31.5	26.4	n/a	n/a	3.2	2.5	2.2
Rest. Brands	QSR US	NR	n/a	70	n/a	245,585	Dec-23	20.9	18.4	6.1	41.3	7.6	3.3	(10.4)
Chipotle Mex.	CMG US	NR	n/a	65	n/a	686,943	Dec-23	58.1	49.2	19.9	45.7	2.8	0.0	41.7
Darden Rest.	DRI US	NR	n/a	168	n/a	153,790	May-24	17.7	15.9	8.0	48.5	1.8	3.2	2.4
Domino's	DPZ US	NR	n/a	454	n/a	121,958	Dec-23	27.2	25.7	n/a	n/a	2.9	1.3	10.2
Wendy's	WEN US	NR	n/a	17	n/a	27,709	Dec-23	17.6	16.7	17.9	64.3	2.7	5.7	(10.3)
Shake Shack	SHAK US	NR	n/a	133	n/a	44,389	Dec-23	165.0	117.7	10.4	2.0	3.7	n/a	79.8
Wingstop	WING US	NR	n/a	328	n/a	74,465	Dec-23	89.3	72.4	n/a	n/a	2.7	0.3	27.8
Jollibee Foods	JFC PM	NR	n/a	264	n/a	39,580	Dec-23	28.1	23.5	3.0	12.4	1.5	1.2	5.0
Avg.								46.0	37.5	10.9	35.7	3.5	2.2	14.2
Med.								27.2	23.9	9.2	43.5	2.9	2.1	5.0

Source: Bloomberg, Company data, CMBIGM estimates

Note: data as at 11 Dec 2024

## Initiate BUY on Luckin with TP of US\$ 33.80 (based on 20x FY25E P/E).

Our primary valuation method for Luckin Coffee is the comparable Price to Earnings (P/E) method but we will also highlight the valuation by the Discounted Cash Flow (DCF) method.

**Figure 87: Basis for our valuation**

Target price (USD)	Valuation (RMB mn)	EV (RMB mn)	Target ratio (x) or (%)	Method	Implied EV/DA (x)	Implied EBITDA (x)	Implied P/E (x)	Implied PE to sales growth (x)	Implied 3 years CAGR (%)	Implied 3 years CAGR (%)	Sales (RMB mn, CMBI est.)	NP (RMB mn, CMBI est.)	EBITDA (RMB mn, CMBI est.)	NP att. (RMB mn, CMBI est.)	Debt (RMB mn, CMBI est.)	Cash (RMB mn, CMBI est.)	Remarks
					FY25 E	FY25 E	FY25 E	FY23-26E adj. NP CAGR	FY23 E vs FY23-26E adj. NP CAGR	FY23 E vs FY23-26E adj. NP CAGR	FY23-26E	FY23-26E	FY25 E	FY25 E	FY25 E	FY25 E	
33.80	78,949	73,466	20.0	FY25E P/E	1.8	11.9	20.0	0.70	0.97	29%	21%	45,075	6,183	3,947	0	5,484	At a 9% discount to Greater China peers' average of 22.0x, or a 15% premium over median of 17.3x, with a 6% premium vs Yum China

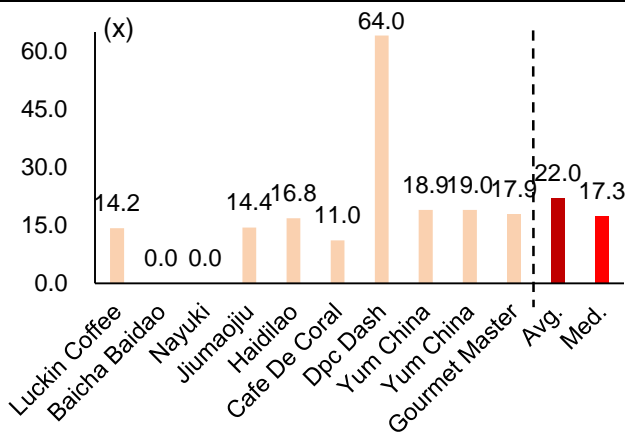
Source: Bloomberg, Company data, CMBIGM estimates

### ■ Initiate BUY with TP of US\$ 33.80, based on 20x FY25E P/E.

We apply a 20x FY25E P/E for Luckin Coffee, which is at a 9% discount to Greater China Catering peers' average of 22.0x (or a 15% premium over peers' median of 17.3x). We do think this premium can be reasonably justified by: 1) ample room for coffee industry to grow, 2) its massive business size (in terms of sales and number of stores), 3) its exceptional leadership (in terms of production costs and brand equity), 4) its relatively addictive, functional and staple product nature, and 5) its faster-than-peers sales and net profit CAGR, despite its relatively short history.

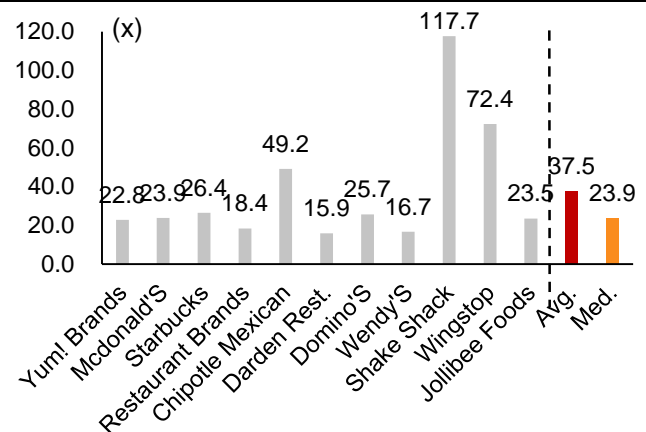
Noted that, based on the DCF method (8.3% WACC, 3% terminal growth), its valuation could be as high as US\$ 34.07, which is implying a 20.2x FY25E P/E, also at a 9% discount to its Greater China Catering peers' average of 22.0x.

**Figure 88: China peers valuation - Forward 2 yrs P/E**



Source: Bloomberg, Company data, CMBIGM estimates  
Note: date as at 11 Dec 2024

**Figure 89: Int'l peers valuation - Forward 2 yrs P/E**



Source: Bloomberg, Company data, CMBIGM estimates  
Note: date as at 11 Dec 2024



- We can also cross check valuation by the DCF method for Luckin, which is actually suggesting a 20.2x FY25E P/E.

Our DCF method is assuming:

- a 22% sales CAGR during FY23-28E
- a 24% EBITDA CAGR in FY23-28E
- a 15.7% EBITDA margin by FY28E (from 14.6% in FY23)
- a 8.3% WACC (lower than both Greater China peers' average of 12.4% but same as Int'l peers' average of 8.3%), based on 3% cost of debt, 13% risk premium, beta of 0.6x, 10.8% cost of equity, and optimal debt/ equity ratio of 30%/ 70%.
- 3.0% terminal growth.

Valuation can be as high as RMB 79,564mn, effectively implying a TP of US\$ 34.07 or 20.2x FY25E P/E, at a 9% discount to China peers' average of 22.0x, compared to the Company's 3-year sales CAGR of 29% and net profit CAGR of 23%, implying a PEG of 0.97x.

**Figure 90: Valuation - DCF method in US\$ mn**

DCF	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
EBITDA	-74	1,548	3,630	4,617	6,183	7,700	9,184	10,582	11,919
Chg in working cap	0	0	0	161	-89	-87	-78	-70	-62
Adjusted tax	68	-652	-259	-744	-987	-1,249	-1,531	-1,788	-2,012
Capex & product dev	-173	-782	-2,750	-4,441	-3,155	-2,907	-3,319	-3,716	-4,098
<b>Unleveraged FCF</b>	<b>-179</b>	<b>115</b>	<b>621</b>	<b>-406</b>	<b>1,952</b>	<b>3,458</b>	<b>4,257</b>	<b>5,008</b>	<b>5,747</b>
YoY%									
DCF 24E-28E				10,474					
PV (Terminal value)				65,634					
EV (End-24E)				76,109					
Cash from options/warrants conv				0					
Yer-end net cash/(debts)				3,456					
<b>Fully diluted equity value (End-24E, RMB mn)</b>				<b>79,564</b>					
Fully diluted no. of shares (m)				2,571					
<b>Fully diluted equity value (End-24E, USD mn)</b>				<b>10,947</b>					
Exchange rate				0.14					
<b>Fully diluted equity value/share (RMB)</b>				<b>4.26</b>					
<b>Price per ADS</b>				34.07					
Risk-free rate				3.0%					
Risk premium				13.0%					
Unleveraged industry beta				0.60					
Gearing				0.0%					
Tax				20.0%					
Beta				0.60					
Cost of equity				10.8%					
Cost of debt				3.0%					
Tax rate				20.0%					
After-tax cost of debt				2.4%					
Debt to total capital				30.0%					
<b>WACC</b>				<b>8.3%</b>					
Terminal growth				3.0%					
Terminal value (US\$ mn)				97,695					
FCF multiple (x)				19.5					

Source: Bloomberg, Company data, CMBIGM estimates

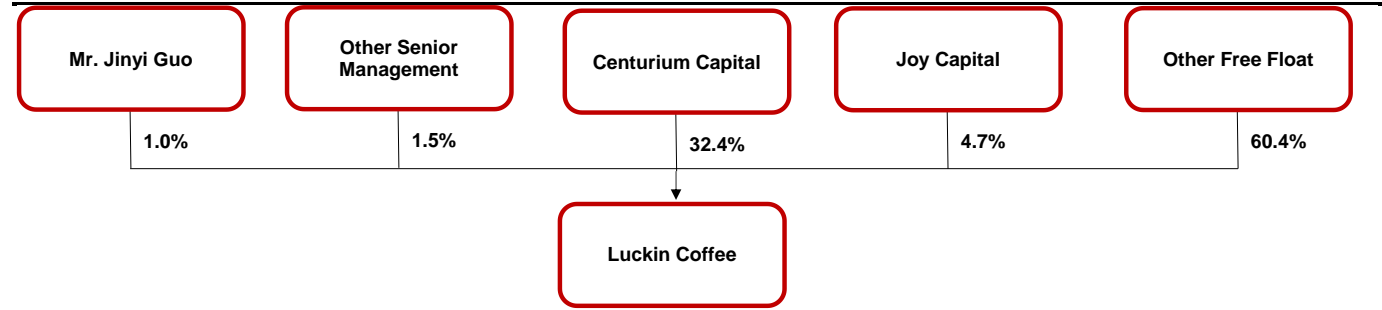
**Figure 91: Sensitivity test for the target price, in US\$**

		WACC (%)				
		7.3%	7.8%	8.3%	8.8%	9.3%
Terminal growth (%)	2.0%	35.28	32.06	29.36	27.06	25.09
	2.5%	38.49	34.67	31.51	28.86	26.61
	3.0%	42.44	37.81	34.07	30.97	28.37
	3.5%	47.44	41.70	37.16	33.48	30.45
	4.0%	53.97	46.61	40.97	36.51	32.91

Source: Bloomberg, Company data, CMBIGM estimates

Shareholding Structure

Figure 92: Luckin Coffee’s corporate structure after reorganization, by actual owners



Source: Company data, CMBIGM

## Management Profile

Figure 93: Luckin Coffee's management profile

Name	Age	Joined the group since	Date of appointment	Position	Responsibility
Mr. Jinyi Guo (郭谨一)	42 years old	Oct-17	Jul-20	Chairman and Chief Executive Officer	Responsible for the overall business development strategy of the company. Mr. Guo is one of the co-founders of the company and has been a director of the company since June 2018. He has been serving as Chairman of the Board and Chief Executive Officer since July 2020. From 2016 to 2017, Mr. Guo held multiple positions in UCAR. He worked in the Ministry of Transport from 2011 to 2016, and served as a research assistant at the China Academy of Transportation Sciences from 2009 to 2011.
Mr. Wenbao Cao (曹文宝)	54 years old	Jun-18	May-20	Director and Senior Vice President	Responsible for the company's operations, including store development, construction, operation and customer service. Mr. Cao has served as Director since May 2020 and Senior Vice President of the Company since June 2018. Before joining the Company, Mr. Cao had over 23 years of experience at McDonald's China and served in various positions, including vice president and North regional manager at McDonald's China.
Mr. Weihao Chen (陈伟豪)	44 years old	May-20	May-20	Director	Mr. Chen has been a partner and managing director of Centurium Capital since July 2019. From October 2011 to May 2019, Mr. Chen worked at a Warburg Pincus entity where his last held position was a managing director. Prior to that, Mr. Chen worked as a vice president at Crescent Advisors China (Shanghai) Co., Ltd. Mr. Chen also worked for Morgan Stanley Asia Limited in Hong Kong and Accenture Consulting Co Limited in China earlier in his career. Mr. Chen is currently a director of ANE (Cayman) Inc., a Hong Kong listed company and chairman of its ESG committee. Mr. Chen obtained his bachelor's degree in accounting from Fudan University in July 2002 and his MBA from the INSEAD Business School in 2006. Mr. Chen is a member of the Association of Chartered Certified Accountants.
Mr. Jun Liu (刘军)	54 years old	May-20	May-20	Director	Mr. Liu is a partner and managing director of Centurium Capital. Before joining Centurium Capital, Mr. Liu's work experience included serving as senior vice president of Warburg Pincus and executive director of Goldman Sachs, both of which are in Hong Kong. Mr. Liu served as assistant attorneys for the offices of Associattorney and CahillGordon & Reindel in New York City and Beijing O'Melveny & Myers. Mr. Liu graduated from the Beijing Institute of Foreign Affairs of China, Vanderbilt University and New York University. Mr. Liu is qualified to practice in China and New York State.
Mr. Shaoqiang Liu (刘绍强)	41 years old	May-20	May-20	Director	Mr. Liu has more than 15 years' work experience in banking, investment and management. Mr. Liu is currently a partner and managing director at Centurium Capital. Mr. Liu also served several board and senior executive roles in various companies. Mr. Liu holds an M.B.A. in Finance from China Europe International Business School, and a B.S. degree in Applied Mathematics from Fudan University. Mr. Liu is a CFA Charter holder.
Ms. Jing An (安静)	47 years old	Aug-22	Aug-22	Chief Financial Officer	Responsible for financial, accounting, and investment affairs. Prior to joining the Company, Ms. An served as chief financial officer of 58 Daojia Inc. from 2016 to 2022. Prior to joining 58 Daojia Inc., Ms. An worked at ChinaCache International Holdings Ltd. from 2013 to 2016, where her last position was chief financial officer. Ms. An has held senior corporate finance and management positions, including at Rekoo Media Ltd. from 2010 to 2012, Cooloft Technology Ltd. from 2007 to 2009 and eFriends Net Entertainment Ltd. from 2003 to 2006. Ms. An began her professional career at Pricewaterhouse Coopers in Beijing in 1998, where her last position was senior accountant. Ms. An received a master of science degree in management from the Stanford Graduate School of Business in 2010 and a bachelor's degree in economics with a major in accounting from Renmin University of China in 1998.
Mr. Fei Yang (杨飞)	46 years old	Oct-17	Jun-20	Chief Growth Officer	Responsible for sales growth, user operation and marketing. Mr. Yang is one of the co-founders of the Company and has been responsible for Luckin's brand creation since the inception of our Company. Mr. Yang has more than 20 years' experience in the areas of branding and digital marketing. He is also the author of The Flow-Pool Thinking, a popular book on sales and marketing in China.
Mr. Weiming Zhou (周伟明)	51 years old	Dec-19	Dec-19	Senior Vice President	Responsible for product since December 2019. Mr. Zhou has more than 20 years' work experience in catering and food sectors. Before joining the Company, Mr. Zhou served as senior director of Meituan (3690.HK), where he was in charge of catering and proprietary products. Prior to joining Meituan, Mr. Zhou served as a director of product development of Yum! Brands, where he was in charge of product development. Prior to that, Mr. Zhou served in various positions in Coca Cola and McCormick.
Ms. Tian Zang	36 years old	May-20	Oct-23	Senior Vice President	Responsible for HR matters and Project Management Office (PMO) of the President's Office. With the joint efforts of Ms. Zang and the rest of the Company's executives, the Company successfully reshaped and upgraded the HR management system to effectively support the rapid growth of the business. Prior to joining Luckin, Ms. Zang held various positions at UCAR Inc. from 2016 to 2020. Ms. Zang also worked as a teacher at the University of Science and Technology Beijing from 2013 to 2016.
Mr. Shan Jiang (姜山)	48 years old	Sep-20	Feb-21	Senior Vice President	Responsible for legal and compliance matters. Before joining the Company, Mr. Jiang served as Associate General Counsel of Airbnb, Inc. (NASDAQ: ABNB), where he was in charge of legal and compliance matters in China. Prior to joining Airbnb, Inc., Mr. Jiang has worked for Amazon.com, Inc. (NASDAQ: AMZN) and also for Davis Polk & Wardwell LLP, where he had experiences in major commercial transactions and capital markets. Mr. Jiang obtained a bachelor's degree from Peking University, a master's degree in computer science from Dartmouth College and a Juris Doctor degree from Columbia Law School.

Source: Company data, CMBIGM

## Key Risks

### ■ Economy-wise

- Weaker-than-expected economic growth and recovery
- Outbreak of diseases that may adversely reduce customer traffics

### ■ Industry-wise

- Level of competition intensifies, or competitors successfully catch up on product, service and brand equity
- Faster-than-expected increase in raw material costs
- Labour shortage or faster-than-expected increase in staff costs
- Unfavourable shift in consumer tastes

### ■ Company-wise

- Drop in consumer satisfaction, product or service quality.
- New product is not as popular as predicted
- Marketing is not as successful as planned
- Fail to keep up with store expansion plan
- Involvement in business fraud or other misconducts
- Involvement in lethal or other food safety scandals

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	7,965	13,293	24,903	35,528	45,075	52,846
Cost of goods sold	(3,199)	(5,179)	(10,892)	(14,922)	(18,481)	(21,508)
<b>Gross profit</b>	<b>4,767</b>	<b>8,114</b>	<b>14,011</b>	<b>20,606</b>	<b>26,594</b>	<b>31,338</b>
<b>Operating expenses</b>	<b>(5,306)</b>	<b>(6,958)</b>	<b>(10,985)</b>	<b>(17,060)</b>	<b>(21,971)</b>	<b>(25,525)</b>
Selling expense	(1,622)	(2,335)	(3,902)	(5,832)	(7,419)	(8,546)
Admin expense	(1,270)	(1,460)	(1,830)	(2,764)	(3,290)	(3,669)
Staff costs	(1,147)	(1,586)	(3,036)	(5,288)	(7,017)	(8,302)
Other rental related expenses	(678)	(900)	(1,482)	(2,252)	(2,892)	(3,421)
Others	(589)	(676)	(736)	(924)	(1,352)	(1,585)
<b>Operating profit</b>	<b>(414)</b>	<b>1,279</b>	<b>3,217</b>	<b>3,739</b>	<b>4,874</b>	<b>6,185</b>
Other income	22	38	83	92	120	149
Other gains/(losses)	1,059	(114)	(27)	71	180	211
<b>EBITDA</b>	<b>(74)</b>	<b>1,548</b>	<b>3,630</b>	<b>4,617</b>	<b>6,183</b>	<b>7,700</b>
<b>EBIT</b>	<b>543</b>	<b>1,080</b>	<b>3,082</b>	<b>3,709</b>	<b>4,924</b>	<b>6,173</b>
Interest income	102	85	109	100	131	223
<b>Pre-tax profit</b>	<b>623</b>	<b>1,127</b>	<b>3,107</b>	<b>3,718</b>	<b>4,934</b>	<b>6,247</b>
Income tax	64	(639)	(259)	(744)	(987)	(1,249)
<b>After tax profit</b>	<b>686</b>	<b>488</b>	<b>2,848</b>	<b>2,974</b>	<b>3,947</b>	<b>4,997</b>
Minority interest	(0)	(0)	0	0	0	0
<b>Net profit</b>	<b>686</b>	<b>488</b>	<b>2,848</b>	<b>2,974</b>	<b>3,947</b>	<b>4,997</b>
<b>Adjusted net profit</b>	<b>686</b>	<b>488</b>	<b>2,848</b>	<b>2,974</b>	<b>3,947</b>	<b>4,997</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>8,383</b>	<b>6,037</b>	<b>7,600</b>	<b>8,134</b>	<b>11,622</b>	<b>16,531</b>
Cash & equivalents	6,536	3,542	2,992	2,757	5,019	8,912
Restricted cash	0	0	100	100	100	100
Account receivables	210	211	295	361	458	536
Inventories	593	1,206	2,204	2,248	2,785	3,241
Prepayment	1,044	1,078	1,545	2,204	2,796	3,278
Other current assets	0	0	464	464	464	464
<b>Non-current assets</b>	<b>3,929</b>	<b>4,443</b>	<b>10,692</b>	<b>14,063</b>	<b>15,658</b>	<b>16,677</b>
PP&E	1,805	1,867	4,169	7,539	9,135	10,154
Right-of-use assets	1,238	2,004	5,187	5,187	5,187	5,187
Deferred income tax	703	208	350	350	350	350
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	183	363	986	986	986	986
<b>Total assets</b>	<b>12,312</b>	<b>10,480</b>	<b>18,292</b>	<b>22,197</b>	<b>27,280</b>	<b>33,208</b>
<b>Current liabilities</b>	<b>6,592</b>	<b>2,829</b>	<b>5,463</b>	<b>6,393</b>	<b>7,529</b>	<b>8,460</b>
Short-term borrowings	0	0	0	0	0	0
Account payables	1,616	1,817	3,372	4,302	5,438	6,369
Tax payable	0	0	0	0	0	0
Other current liabilities	4,378	131	240	240	240	240
Lease liabilities	598	881	1,851	1,851	1,851	1,851
<b>Non-current liabilities</b>	<b>575</b>	<b>1,024</b>	<b>3,115</b>	<b>3,115</b>	<b>3,115</b>	<b>3,115</b>
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	575	1,024	3,115	3,115	3,115	3,115
<b>Total liabilities</b>	<b>7,167</b>	<b>3,853</b>	<b>8,578</b>	<b>9,508</b>	<b>10,644</b>	<b>11,575</b>
Share capital	16,553	17,615	17,855	17,855	17,855	17,855
Retained earnings	(11,409)	(11,024)	(8,309)	(5,335)	(1,387)	3,610
Other reserves	3	36	168	168	168	168
<b>Total shareholders equity</b>	<b>5,146</b>	<b>6,627</b>	<b>9,714</b>	<b>12,689</b>	<b>16,636</b>	<b>21,634</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>12,312</b>	<b>10,480</b>	<b>18,292</b>	<b>22,197</b>	<b>27,280</b>	<b>33,208</b>

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	623	1,127	3,107	3,718	4,934	6,247
Depreciation & amortization	(696)	421	523	900	1,249	1,454
Tax paid	(64)	494	(142)	(744)	(987)	(1,249)
Change in working capital	0	0	0	161	(89)	(87)
Others	261	(2,023)	(588)	171	311	434
<b>Net cash from operations</b>	<b>123</b>	<b>20</b>	<b>2,900</b>	<b>4,206</b>	<b>5,418</b>	<b>6,799</b>
<b>Investing</b>						
Capital expenditure	(173)	(782)	(2,750)	(4,441)	(3,155)	(2,907)
Acquisition of subsidiaries/ investments	250	0	(100)	0	0	0
Net proceeds from disposal of short-term investments	1	3	2	0	0	0
Others	(78)	(19)	(599)	0	0	0
<b>Net cash from investing</b>	<b>0</b>	<b>(798)</b>	<b>(3,447)</b>	<b>(4,441)</b>	<b>(3,155)</b>	<b>(2,907)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	1,515	63	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	0	(2,340)	0	0	0	0
<b>Net cash from financing</b>	<b>1,515</b>	<b>(2,276)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,916	6,536	3,542	2,992	2,757	5,019
Exchange difference	(22)	77	7	0	0	0
Others	1,642	(3,071)	(558)	(235)	2,263	3,892
<b>Cash at the end of the year</b>	<b>6,536</b>	<b>3,542</b>	<b>2,992</b>	<b>2,757</b>	<b>5,019</b>	<b>8,912</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	97.5%	66.9%	87.3%	42.7%	26.9%	17.2%
Gross profit	133.9%	70.2%	72.7%	47.1%	29.1%	17.8%
Operating profit	na	na	151.5%	16.2%	30.4%	26.9%
EBITDA	na	na	134.5%	27.2%	33.9%	24.5%
EBIT	na	99.0%	185.4%	20.4%	32.7%	25.4%
Net profit	na	(28.9%)	483.3%	4.4%	32.7%	26.6%
Adj. net profit	na	(28.9%)	483.3%	4.4%	32.7%	26.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	59.8%	61.0%	56.3%	58.0%	59.0%	59.3%
Operating margin	(5.2%)	9.6%	12.9%	10.5%	10.8%	11.7%
EBITDA margin	(0.9%)	11.6%	14.6%	13.0%	13.7%	14.6%
Adj. net profit margin	8.6%	3.7%	11.4%	8.4%	8.8%	9.5%
Return on equity (ROE)	17.6%	8.3%	34.9%	26.6%	26.9%	26.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.6	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	1.3	2.1	1.4	1.3	1.5	2.0
Receivable turnover days	5.8	5.8	3.7	3.7	3.7	3.7
Inventory turnover days	49.6	63.4	57.1	55.0	55.0	55.0
Payable turnover days	28.7	25.9	21.0	16.0	16.0	16.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	67.7	112.1	19.3	18.7	14.2	11.2
P/E (diluted)	67.7	112.1	19.3	18.7	14.2	11.2
P/B	10.1	8.3	5.7	4.4	3.4	2.6
P/CFPS	376.3	2,761.2	19.0	13.2	10.3	8.3
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	45,467.0	52,303.8	54,006.4	55,553.9	55,831.7	56,110.9
EV/Sales	5.7	3.9	2.2	1.6	1.2	1.1
EV/EBIT	83.8	48.4	17.5	15.0	11.3	9.1
EV/EBITDA	(617.2)	33.8	14.9	12.0	9.0	7.3



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