

Cafe De Coral (341 HK)

More time is needed for industry turnaround

CDC's FY25 results were below our expectation, especially the dividend. Since recent figures are still under pressure (SSS still falling in Apr and May 2025), and the industry environment is not quite favourable for CDC (HK people travelling more to overseas and mainland China, rising competition from two/three-dish rice, limited room for ASP hike etc.), plus CDC's FY26E yield is not so attractive, we downgrade the rating to HOLD. The stock is currently trading at 17x FY26E P/E and 6% FY26 yield.

- **SSS trend is still under pressure, for both Hong Kong and mainland China.** SSS was still falling in Hong Kong, where the magnitude has intensified in 2H25 (vs 1H25) and such a negative trend has sustained into Apr/ May/ Jun 2025, even the drop should have narrowed slightly during the 5-1 Golden week holidays, due to stronger inbound tourism from mainland China. Going forward, we remain fairly prudent, because the recovery rate (vs 2019) is still trending down in 2H25 and onwards. The trends are kind of similar in mainland China. We are now forecasting 0% SSSG for both CDC HK/ mainland China in FY26E (cut from 2%/ 3% previously).
- **Outlook for FY26E is also rather subdued.** The Company has already put in more efforts on boosting the customer traffic, by: 1) expanding the product categories in different dining sessions (e.g. selling more bread products during breakfast or more two/ three-dish rice during the afternoon tea session in around 60 stores), 2) introducing more value products (e.g. HK\$ 30 for 250g BBQ pork, HK\$ 59 for one roasted baby duck), and 3) further promoting its membership programmes (number of members reached over 2mn, one of the largest platforms in Hong Kong already). However, we do think CDC's sales growth may still be constrained by the unfavourable industry environment, including: 1) Hong Kong people continued to travel more aboard or to mainland China, and 2) rising competition from the two/three-dish rice (number of shops has gone up to more than 600 in Hong Kong, from less than 400 a few years ago).
- **Meaningful margin improvement is still difficult.** In terms of margin, we do see some upside potential in FY26E and onwards, thanks to the savings in rental expenses (average base rent for the contracts renewed lately has dropped by 17% (as high as 30% for some sites). But the level of improvements might be little as there are still so many limiting factors. For example: 1) raising ASP is not so appropriate (around HK\$ 43 in FY25) amid the competitive environment, 2) minimum wage in Hong Kong has been raised again lately to HK\$ 42 per hour, effective since May 2025, and 3) losses associated with store closures and property price revaluation are still likely to occur.

Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (HK\$ mn)	8,691	8,568	8,654	8,842	9,139
YoY growth (%)	8.3	(1.4)	1.0	2.2	3.4
Operating profit (HK\$ mn)	452.8	324.9	374.1	448.1	562.3
Net profit (HK\$ mn)	333.2	235.1	237.9	299.4	394.9
EPS (Reported) (HK\$)	0.57	0.40	0.41	0.51	0.68
YoY growth (%)	199.4	(29.1)	1.2	25.9	31.9
P/E (x)	12.1	17.0	16.8	13.4	10.1
P/B (x)	1.4	1.4	1.4	1.3	1.3
Yield (%)	7.6	5.8	5.9	7.5	9.9
ROE (%)	11.7	8.2	8.3	10.3	13.3

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price	HK\$6.52
(Previous TP)	HK\$9.30
Up/Downside	(5.0%)
Current Price	HK\$6.87

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	4,023.8
Avg 3 mths t/o (HK\$ mn)	5.3
52w High/Low (HK\$)	9.24/6.87
Total Issued Shares (mn)	585.7

Source: FactSet

Shareholding Structure

Lo Tak Shing	16.1%
Lo Hoi Kwong	11.0%

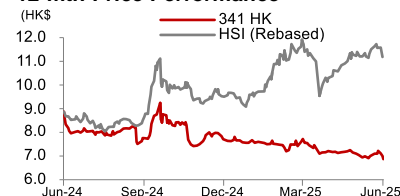
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.2%	-2.8%
3-mth	-11.0%	-5.1%
6-mth	-11.4%	-24.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **Store expansion may be slow in FY26E as well.** The management is targeting a net increase of flattish/ 10 to 15 CDC stores in Hong Kong/ mainland China markets in FY26E, after 0/ 13 net new stores respectively in FY25.
- **Downgrade to HOLD and cut TP to HK\$ 6.52.** We revise down our FY26E/ 27E net profit forecasts by 30%/ 23% to factor in: 1) slower store expansion, 2) negative SSSG and operating leverage, 3) weaker-than-expected mainland China businesses and 4) higher-than-expected impairment and fair value losses. With a tough industry outlook in Hong Kong and a more conservative dividend policy, we downgrade CDC to HOLD, as its current valuation of 17x FY26E P/E and 6% FY26E yield appears to be quite high already.
- **FY25 results missed, especially the dividend.** CDC's sales declined by 1.4% YoY to HK\$ 8.6bn, roughly inline with CMBI estimates, while net profit dropped by 25% YoY to HK\$ 233mn, missing CMBI estimates by about 19%. The miss was mainly due to: 1) worse-than-expected SSSG (-3%/ -2%/ -8% for CDC HK/ Super Congee/ CDC mainland China, vs CMBI estimates of -1.5%/ +0.5%/ -5%) and the associated operating leverage and 2) higher-than-expected other losses (store closures and property value related, about HK\$ 73mn, vs CMBI estimates of HK\$ 23mn). Investors might have certain expectation because of the: 1) deteriorating macro environment in Hong Kong and 2) profit warnings by Fairwood (NP to fall by no more than 30%) and Tam Jai (NP to drop by 33%). However, the dividend payout was lower than expected, at 100% (vs CMBI est. of 110%), esp. for 2H25 (dividend amount fell by 40%+ YoY in 2H25, after a flattish 1H25).

Earnings revision

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	8,654	8,842	9,139	9,006	9,424	n/a	-3.9%	-6.2%	n/a
Gross profit	937	1,000	1,126	1,027	1,095	n/a	-8.7%	-8.6%	n/a
EBIT	374	448	562	485	540	n/a	-22.8%	-17.0%	n/a
Net profit att.	235	296	391	338	384	n/a	-30.3%	-22.8%	n/a
Diluted EPS (HK\$)	0.41	0.51	0.68	0.58	0.66	n/a	-29.8%	-22.3%	n/a
Gross margin	10.8%	11.3%	12.3%	11.4%	11.6%	n/a	-0.6ppt	-0.3ppt	n/a
EBIT margin	4.3%	5.1%	6.2%	5.4%	5.7%	n/a	-1.1ppt	-0.7ppt	n/a
Net profit att. margin	2.7%	3.4%	4.3%	3.8%	4.1%	n/a	-1ppt	-0.7ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	8,654	8,842	9,139	8,885	9,218	9,856	-2.6%	-4.1%	-7.3%
Gross profit	937	1,000	1,126	977	1,023	1,094	-4.1%	-2.2%	2.9%
EBIT	374	448	562	485	540	603	-22.9%	-17.0%	-6.8%
Net profit att.	235	296	391	341	352	441	-30.9%	-15.7%	-11.4%
Diluted EPS (HK\$)	0.41	0.51	0.68	0.53	0.60	0.75	-23.1%	-13.7%	-9.7%
Gross margin	10.8%	11.3%	12.3%	11.0%	11.1%	11.1%	-0.2ppt	0.2ppt	1.2ppt
EBIT margin	4.3%	5.1%	6.2%	5.5%	5.9%	6.1%	-1.1ppt	-0.8ppt	0ppt
Net profit att. margin	2.7%	3.4%	4.3%	3.8%	3.8%	4.5%	-1.1ppt	-0.5ppt	-0.2ppt

Source: Company data, Bloomberg, CMBIGM estimates

Assumptions

Figure 3: Major assumptions

Major assumptions	FY24A	FY25A	FY26E	FY27E	FY28E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	6,158	6,121	6,080	6,111	6,221
HK Fast Casual & Casual Dining	879	823	864	916	980
Food Processing & Distribution	139	129	129	135	142
Mainland China	1,515	1,495	1,581	1,680	1,796
Total	8,691	8,568	8,654	8,842	9,139
Growth (%)					
HK QSR & Institutional Catering	9%	-1%	-1%	1%	2%
HK Fast Casual & Casual Dining	2%	-6%	5%	6%	7%
Food Processing & Distribution	-18%	-7%	0%	5%	5%
Mainland China	14%	-1%	6%	6%	7%
Total	8%	-1%	1%	2%	3%
GP margin	11.4%	10.4%	10.8%	11.3%	12.3%
Costs breakdown					
Costs of raw materials	27.4%	27.2%	27.2%	27.2%	27.2%
Depreciation	4.3%	4.2%	4.5%	4.6%	4.6%
Operating lease rentals	11.4%	11.6%	11.2%	10.9%	10.5%
Employee benefit expenses	33.1%	33.9%	34.0%	33.8%	33.3%
OP margin	5.2%	3.8%	4.3%	5.1%	6.2%
Effective tax rate	14.5%	12.1%	12.1%	12.1%	12.1%
NP att. margins	3.8%	2.7%	2.7%	3.4%	4.3%
NP att. growth (%)	199.5%	-29.6%	1.2%	25.9%	31.9%
Sales network by region					
HK QSR & Institutional Catering	318	322	322	322	322
HK Fast Casual Dining	62	58	58	60	62
Mainland China	171	184	199	214	229
Total	551	564	579	596	613
SSSG by segment					
HK Café de Coral	3.0%	-3.0%	0.0%	1.0%	2.0%
HK Super Super Congee & Noodles	6.0%	-2.0%	0.0%	1.0%	2.0%
Mainland China Café de Coral	11.0%	-8.0%	0.0%	1.0%	2.0%

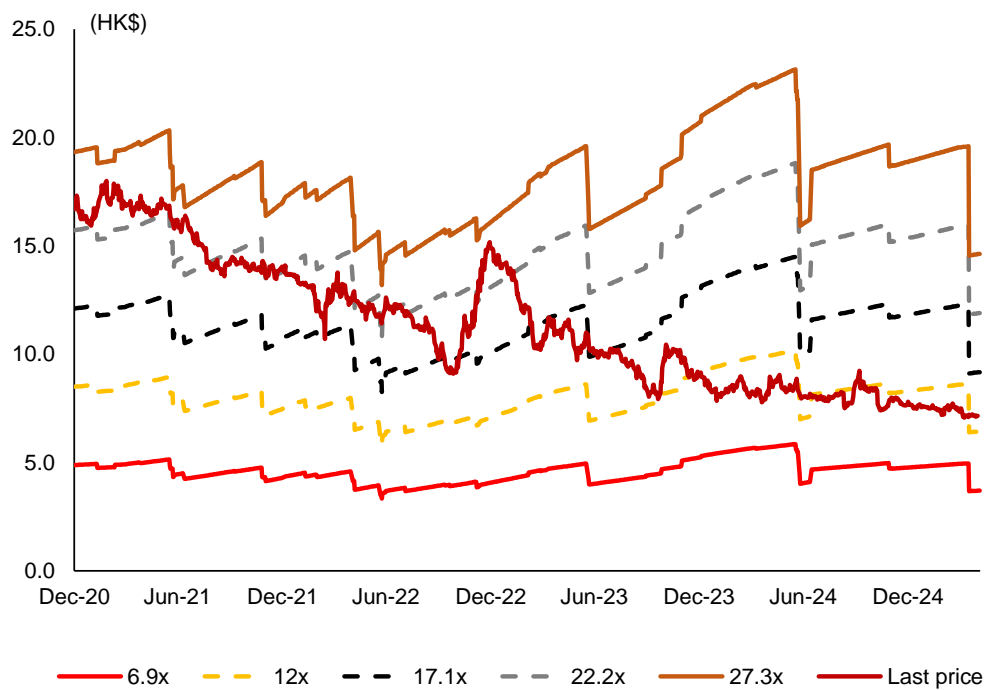
Source: Company data, CMBIGM estimates

Valuation

Figure 4: Peers' valuation

Greater China Restaurants and Food Ingredients														
			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per. (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$ mn)	End	FY1E	FY2E	FY1E	FY1E	FY1E	FY1E	FY1E
Leading Greater China Restaurants and Food Ingredients														
Cafe De Coral	341 HK	HOLD	6.52	6.87	-5%	3,985	Mar-25	17.0	16.8	1.4	11.6	(5.1)	5.8	(12.0)
Haidilao	6862 HK	BUY	20.20	14.44	40%	80,489	Dec-24	13.9	12.7	5.9	42.9	1.5	6.1	(9.2)
Jiumaojiu	9922 HK	HOLD	2.99	2.41	24%	3,368	Dec-24	17.9	12.0	0.9	1.7	0.2	3.0	(29.2)
Mixue	2097 HK	NR	n/a	493.80	n/a	187,456	Dec-24	32.4	27.2	8.1	34.8	1.9	0.6	n/a
Guming	1364 HK	NR	n/a	22.65	n/a	53,866	Dec-24	25.0	20.8	10.2	111.6	1.4	4.3	n/a
Baicha Baidao	2555 HK	NR	n/a	9.15	n/a	13,520	Dec-24	15.2	13.2	2.8	n/a	0.5	5.1	(16.0)
Dpc Dash	1405 HK	BUY	118.57	95.10	25%	12,447	Dec-24	73.4	43.6	4.9	2.5	0.8	0.0	21.9
Xiaocaiyuan	999 HK	NR	n/a	8.69	n/a	10,224	Dec-24	13.4	11.3	3.3	38.9	0.9	3.9	(4.8)
Nayuki	2150 HK	BUY	3.43	1.16	196%	1,978	Dec-24	n/a	n/a	0.5	(21.0)	n/a	0.0	(14.7)
Super Hi	9658 HK	NR	n/a	14.76	n/a	9,598	Dec-24	26.1	21.9	3.0	n/a	0.7	0.0	(32.9)
Helens	9869 HK	NR	n/a	1.34	n/a	1,696	Dec-24	4.7	7.7	1.8	(5.3)	(0.0)	14.7	(43.1)
Xiabuxiabu	520 HK	BUY	4.89	0.69	609%	749	Dec-24	n/a	n/a	1.2	(40.6)	n/a	4.7	(31.0)
Gourmet Master	2723 TT	NR	n/a	86.60	n/a	4,126	Dec-24	17.5	13.7	1.3	5.6	0.5	4.9	(10.5)
Yum China	9987 HK	BUY	418.25	333.40	25%	123,850	Dec-24	16.8	14.8	2.8	15.7	1.4	2.2	(10.9)
Yum China	YUMC US	BUY	53.53	42.76	25%	124,691	Dec-24	16.9	14.9	2.8	15.7	1.4	2.1	(11.2)
Avg.								22.3	17.7	3.4	16.5	0.5	3.8	(15.7)
Med.								17.0	14.8	2.8	11.6	0.8	3.9	(12.0)
International Restaurants and Food Ingredients														
Yum! Brands	YUM US	NR	n/a	138.36	n/a	301,901	Dec-24	22.9	20.6	n/a	n/a	1.8	2.1	3.1
Mcdonald's	MCD US	NR	n/a	289.63	n/a	1,625,674	Dec-24	23.6	21.8	n/a	n/a	2.8	2.5	(0.1)
Starbucks Corp	SBUX US	NR	n/a	92.28	n/a	823,195	Sep-24	37.4	30.7	n/a	n/a	14.0	2.7	1.1
Rest. Brands	QSR US	NR	n/a	66.09	n/a	235,680	Dec-24	18.0	16.4	6.0	31.2	1.7	3.8	1.4
Chipotle Mexican	CMG US	NR	n/a	51.8	n/a	548,189	Dec-24	42.7	35.7	17.5	45.6	2.8	0.0	(14.0)
Darden Rest.	DRI US	NR	n/a	222.75	n/a	204,628	May-24	23.4	20.7	11.7	48.1	2.2	2.5	19.3
Domino's Pizza	DPZ US	NR	n/a	446.77	n/a	120,088	Dec-24	25.2	23.1	n/a	n/a	3.1	1.6	6.4
Wendy's Co	WEN US	NR	n/a	11.33	n/a	17,079	Dec-24	11.9	10.8	29.5	90.4	1.8	6.1	(30.5)
Shake Shack	SHAK US	NR	n/a	128.52	n/a	43,045	Dec-24	97.5	76.9	10.1	2.7	0.9	n/a	(1.0)
Wingstop	WING US	NR	n/a	350.32	n/a	76,732	Dec-24	89.3	70.8	n/a	n/a	4.5	0.3	23.3
Jollibee Foods	JFC PM	NR	n/a	227.60	n/a	34,912	Dec-24	22.9	18.9	3.2	13.8	1.2	1.5	(15.4)
Avg.								37.7	31.5	13.0	38.6	3.4	2.3	(0.6)
Med.								23.6	21.8	10.9	38.4	2.2	2.3	1.1

Source: Bloomberg, CMBIGM estimates

Figure 5: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (HK\$ mn)						
Revenue	8,024	8,691	8,568	8,654	8,842	9,139
Cost of goods sold	(7,321)	(7,702)	(7,676)	(7,716)	(7,842)	(8,014)
Gross profit	703	989	893	937	1,000	1,126
Operating expenses	(499)	(536)	(568)	(563)	(552)	(563)
Admin expense	(486)	(503)	(494)	(501)	(501)	(512)
Others	(13)	(33)	(73)	(62)	(52)	(52)
Operating profit	204	453	325	374	448	562
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	582	826	683	767	856	986
Depreciation	(378)	(373)	(358)	(391)	(406)	(421)
Depreciation of ROU assets	(17)	(21)	(21)	(21)	(21)	(21)
Other amortisation	(0)	(0)	(0)	(3)	(2)	(2)
Interest income	(60)	(63)	(57)	(104)	(108)	(113)
Pre-tax profit	144	390	267	271	341	449
Income tax	(33)	(56)	(32)	(33)	(41)	(54)
Minority interest	1	3	2	2	3	4
Net profit	111	333	235	238	299	395

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (HK\$ mn)						
Current assets	2,128	1,707	1,706	1,834	2,020	2,244
Cash & equivalents	1,672	1,261	1,263	1,389	1,566	1,778
Account receivables	138	153	150	152	155	160
Inventories	268	230	229	231	234	240
Prepayment	45	63	62	63	64	66
ST bank deposits	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	5	1	1	1	1	1
Non-current assets	5,048	4,807	4,737	4,648	4,550	4,449
PP&E	1,618	1,553	1,479	1,392	1,298	1,198
Deferred income tax	63	66	10	10	10	10
Intangibles	1	1	1	1	1	1
Other non-current assets	3,366	3,187	3,246	3,244	3,242	3,239
Total assets	7,175	6,514	6,442	6,482	6,570	6,693
Current liabilities	2,780	1,908	1,896	1,905	1,926	1,958
Account payables	226	211	210	211	215	219
Tax payable	14	39	39	39	39	39
Other current liabilities	2,539	1,658	1,647	1,655	1,672	1,700
Non-current liabilities	1,603	1,695	1,695	1,695	1,695	1,695
Other non-current liabilities	1,603	1,695	1,695	1,695	1,695	1,695
Total liabilities	4,383	3,603	3,591	3,600	3,621	3,653
Share capital	59	59	59	59	59	59
Capital surplus	621	621	621	621	621	621
Retained earnings	1,680	1,746	1,646	1,648	1,686	1,746
Other reserves	424	474	512	538	565	592
Total shareholders equity	2,784	2,900	2,838	2,866	2,931	3,017
Minority interest	8	11	13	15	18	22
Total equity and liabilities	7,175	6,514	6,442	6,482	6,570	6,693

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	144	390	267	271	341	449
Depreciation & amortization	1,177	1,200	1,169	1,205	1,219	1,235
Tax paid	(28)	(31)	(32)	(33)	(41)	(54)
Change in working capital	278	(1)	(8)	6	12	20
Others	127	106	103	134	139	145
Net cash from operations	1,699	1,663	1,498	1,582	1,670	1,795
Investing						
Capital expenditure	(462)	(316)	(312)	(315)	(322)	(333)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	54	53	105	48	44	39
Net cash from investing	(407)	(263)	(206)	(267)	(278)	(294)
Financing						
Dividend paid	(163)	(251)	(333)	(233)	(258)	(332)
Net borrowings	(100)	(595)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(930)	(957)	(957)	(957)	(957)	(957)
Net cash from financing	(1,193)	(1,802)	(1,290)	(1,190)	(1,215)	(1,289)
Net change in cash						
Cash at the beginning of the year	1,586	1,672	1,261	1,263	1,389	1,566
Exchange difference	(12)	(9)	0	0	0	0
Others	99	(402)	2	125	177	212
Cash at the end of the year	1,672	1,261	1,263	1,389	1,566	1,778
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Revenue	6.9%	8.3%	(1.4%)	1.0%	2.2%	3.4%
Gross profit	28.3%	40.8%	(9.8%)	5.0%	6.7%	12.5%
Operating profit	55.4%	122.1%	(28.3%)	15.2%	19.8%	25.5%
EBITDA	18.0%	42.0%	(17.4%)	12.4%	11.6%	15.1%
Net profit	386.6%	199.7%	(29.4%)	1.2%	25.9%	31.9%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Gross profit margin	8.8%	11.4%	10.4%	10.8%	11.3%	12.3%
Operating margin	2.5%	5.2%	3.8%	4.3%	5.1%	6.2%
EBITDA margin	7.3%	9.5%	8.0%	8.9%	9.7%	10.8%
Return on equity (ROE)	4.0%	11.7%	8.2%	8.3%	10.3%	13.3%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Current ratio (x)	0.8	0.9	0.9	1.0	1.0	1.1
Receivable turnover days	6.3	6.4	6.4	6.4	6.4	6.4
Inventory turnover days	13.4	10.9	10.9	10.9	10.9	10.9
Payable turnover days	11.3	10.0	10.0	10.0	10.0	10.0
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
P/E	36.2	12.1	17.0	16.8	13.4	10.1
P/E (diluted)	36.2	12.1	17.0	16.8	13.4	10.1
P/B	1.4	1.4	1.4	1.4	1.3	1.3
P/CFPS	2.4	2.4	2.6	2.5	2.4	2.2
Div yield (%)	5.6	7.6	5.8	5.9	7.5	9.9

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

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