

Xiabuxiabu Catering Management

Bloomberg: 520 HK Equity | Reuters: 0520.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Mar 2022

BUY

Last Traded Price (28 Mar 2022): HK\$3.74 (HSI : 21,685)
Price Target 12-mth: HK\$5.90 (58% upside) (Prev HK\$7.00)

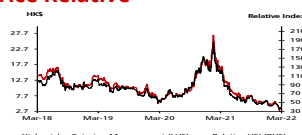
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What's New

- FY21 results in line with earlier profit warning; XBXB to record gross opening of 151 units in FY22
- 1Q22 foot traffic impacted by COVID-19, with 0.2x contraction in table turnover
- Earnings cut by 45%/16% in FY22/23F, TP cut to HK\$5.90 and retain BUY

Price Relative



Forecasts and Valuation

| FY Dec (RMBm) | 2020A | 2021A | 2022F | 2023F |
|--------------------------------|--------|--------|-------|-------|
| Turnover | 5,455 | 6,147 | 7,374 | 8,466 |
| EBITDA | 1,162 | 922 | 1,448 | 1,782 |
| Pre-tax Profit | 67 | (214) | 188 | 347 |
| Net Profit | 2 | (293) | 131 | 250 |
| Net Pft (Pre Ex) (core profit) | 2 | (293) | 131 | 250 |
| Net Profit Gth (Pre-ex) (%) | (99.4) | N/A | N/A | 91.2 |
| EPS (RMB) | 0.00 | (0.28) | 0.12 | 0.24 |
| EPS (HK\$) | 0.00 | (0.34) | 0.15 | 0.29 |
| Core EPS (RMB) | 0.00 | (0.28) | 0.12 | 0.24 |
| Core EPS (HK\$) | 0.00 | (0.34) | 0.15 | 0.29 |
| EPS Gth (%) | (99.4) | N/A | N/A | 91.2 |
| Core EPS Gth (%) | (99.4) | N/A | N/A | 91.2 |
| Diluted EPS (HK\$) | 0.00 | (0.34) | 0.15 | 0.29 |
| DPS (HK\$) | 0.03 | 0.03 | 0.06 | 0.12 |
| BV Per Share (HK\$) | 2.68 | 2.28 | 2.37 | 2.54 |
| PE (X) | 1760.7 | nm | 24.7 | 12.9 |
| CorePE (X) | 1760.7 | nm | 24.7 | 12.9 |
| P/Cash Flow (X) | 2.5 | nm | 4.1 | 6.2 |
| P/Free CF (X) | 3.7 | nm | 11.0 | 139.3 |
| EV/EBITDA (X) | 1.9 | 2.6 | 1.5 | 1.3 |
| Net Div Yield (%) | 0.9 | 0.9 | 1.6 | 3.1 |
| P/Book Value (X) | 1.4 | 1.6 | 1.6 | 1.5 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE(%) | 0.1 | (13.7) | 6.5 | 11.8 |
| Earnings Rev (%) | | | (45) | (16) |
| Consensus EPS (RMB) | | | 0.32 | 0.40 |
| Other Broker Recs: | | B:9 | S:2 | H:7 |

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Navigating through tough conditions

Investment Thesis

COVID-19 to impact 1Q22 spending, gradual recovery ahead. With weaker customer traffic with the resurgence of COVID-19, sales are expected to be impacted in 1Q22. We cut our earnings by 45%/16% in FY22/23F to account for weaker revenue per outlet. Our TP is cut to HK\$5.90.

Efforts to raise store productivity. XBXB and Coucou reported table turnover of 2.3x and 2.5x, respectively. The company looks for a gradual shift in its product mix towards Coucou, which had garnered better performance, now accounting for 38% of total sales (FY20: 31%), despite volatility in the COVID situation. We expect Coucou's contribution to rise to 45% of total sales by FY22F.

Cash position remains firm. As of Dec 21, the group held a net cash position of Rmb911m. We expect the group to sustain an average operating cash flow of c.Rmb900m to maintain operations.

Valuation:

We revise our earnings by 45%/16% in FY22/23F accordingly to account for lower revenue/outlet. Our TP is cut to HK\$5.90 pegged to a22x FY23F PE (previously: 21.9x FY22F), to account for the recovery in performance post closure of non-performing stores.

Where we differ:

Our earnings forecast is lower than consensus as the consensus numbers have yet to be fully revised. We are optimistic on a gradual recovery as COVID-19 situation will recover, and drive consumption spending higher.

Key Risks to Our View:

Resurgence of the COVID-19 pandemic, failure to garner strong reception for new brand, rising competition, and food safety concerns.

At A Glance

| | |
|---|-------------|
| Issued Capital (m shrs) | 1,086 |
| Mkt Cap (HK\$/US\$m) | 4,062 / 519 |
| Major Shareholders (%) | |
| Ho (Kuang-Chi) | 41.5 |
| General Atlantic LLC | 13.5 |
| Free Float (%) | 45.0 |
| 3m Avg. Daily Val. (US\$m) | 2.40 |
| GICS Industry: Consumer Discretionary / Consumer Services | |



Watchlist the stock on Insights Direct to receive prompt updates



Xiabuxiabu Catering Management

WHAT'S NEW

Closure of non-performing stores, with new store expansion reset

Xiabu Xiabu Catering Management's (XBXB) FY21 results came in line with its profit warning earlier. A net loss of Rmb293m was reported (FY20 net earnings: Rmb1.8m). Revenue rose 13% y-o-y. The group reported a net closure of 134 outlets (opening of 52 XBXB outlets & 43 Coucou outlets, offset by the closure of 229 XBXB outlets). As of Dec 21, the company operated 841 XBXB outlets across 132 cities mainly within Beijing, Tianjin, and Shanghai, and 183 Coucou restaurants in Beijing, Tianjin, Shanghai, and Hong Kong. The company announced a final DPS of RMB0.028/sh.

By brand performance, XBXB revenue rose 1% y-o-y to Rmb3,503m, driven by Tier 1 (+8%) and dragged by Tier 2 (-3%) and Tier 3 and below (-6%) performance. Average spending per customer stayed flat at Rmb62.5 (Tier 1/2/3: Rmb65.6/60/61). Table turnover stayed flat at 2.3x (Tier 1/2/3: 2.7x/2.2x/1.9x). SSSG reported a decline, at 8% y-o-y, with larger drags reported in Tier 3 and below cities (-19%), and Tier 2 cities (-13%). Tier 1 cities declined at a milder degree, at 0.3%.

Coucou revenue rose 40% y-o-y to Rmb2,359m, driven by Tier 1 (+32%), and Tier 2 (+43%), now accounting for 38% of sales (FY20: 31%). Average spending per customer rose 3% to Rmb140.6, with lift reported in Tier 1 cities of 5% y-o-y (Tier 1/2/3/outside China: Rmb145.6/129.7/129.6/276.7). Table turnover stayed flat at 2.5x (Tier 1/2/3/outside China: 2.8x/2.4x/2.4x/2.8x). SSSG reported a mild decline at 0.9% y-o-y, with a recovery reported in Tier 1 (+4.4%) and outside China (+21.4%).

Outlook. The company aims to open 68 Coucou outlets, and 83 XBXB outlets in FY22, with the expected closure of

16 units. The group aims to maintain its operating margin above 10%. In Jan-Mar, table turnover was mildly impacted, with a contraction of 0.2x reported. However, the resurgence of COVID-19 has impacted overall customer traffic in March. XBXB has a total of 396 units operating in Tier 1 cities (Beijing, Tianjin, Shanghai, etc.), equivalent to 47% of its total units. Of this, Tier 1 cities account for 47% and 84% of XBXB and Coucou sales, respectively. We revise our earnings by 45%/16% in FY22/23F accordingly to account for lower revenue/outlet. Our TP is cut to HK\$5.9, pegged to a 22x FY23F PE (previously: 21.9x FY22), to account for a gradual recovery in performance post closure of non-performing stores.

Company Background

Since its inception in 1998, Xiabuxiabu Catering Management (Xiabu) has been a leading Taiwanese-style fast-casual hotpot chain restaurant in China with c.1,024 outlets nationwide under its mass market brand "Xiabuxiabu" and premium brand "Coucou (湊湊)". The group operates under a wholly owned operating model supported by a fully integrated supply chain. In response to rising demand for delivery services, Xiabu has launched Xiabu Fresh (hotpot delivery) and XiabuXiaTang (instant hotpot meal). The group also holds a 40/60 joint venture with the founder that engages in food processing (condiments, soup-bases).

Xiabuxiabu Catering Management

Income Statement (RMB m)

| FY Dec | 2020A | 2021A | % cha v-a-v |
|----------------------------|--------------|--------------|----------------|
| Revenue | 5,455 | 6,147 | 12.7 |
| Cost of Goods Sold | (2,130) | (2,341) | 9.9 |
| Gross Profit | 3,325 | 3,806 | 14.5 |
| Other Opng (Exp)/Inc | (3,170) | (3,937) | 24.2 |
| Operating Profit | 155 | (131) | (184.3) |
| Other Non Opg (Exp)/Inc | 0 | 0 | nm |
| Associates & JV Inc | 0 | 0 | nm |
| Net Interest (Exp)/Inc | (88) | (83) | 6.5 |
| Exceptional Gain/(Loss) | 0 | 0 | nm |
| Pre-tax Profit | 67 | (214) | nm |
| Tax | (56) | (69) | 24.8 |
| Minority Interest | (10) | (10) | (4.5) |
| Net Profit | 2 | (293) | nm |
| Net Profit before Except. | 2 | (293) | nm |
| EBITDA | 1,162 | 922 | (20.6) |
| Margins & Ratio | | | |
| Gross Margins (%) | 61.0 | 61.9 | |
| Opg Profit Margin (%) | 2.9 | (2.1) | |
| Net Profit Margin (%) | 0.0 | (4.8) | |

Source: Company, DBS HK

Xiabuxiabu Catering Management

Income Statement (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 6,030 | 5,455 | 6,147 | 7,374 | 8,466 |
| Cost of Goods Sold | (2,225) | (2,130) | (2,341) | (2,839) | (3,217) |
| Gross Profit | 3,805 | 3,325 | 3,806 | 4,535 | 5,249 |
| Other Opng (Exp)/Inc | (3,217) | (3,170) | (3,937) | (4,267) | (4,821) |
| Operating Profit | 588 | 155 | (131) | 268 | 427 |
| Other Non Opng (Exp)/Inc | 0 | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 0 | 0 | 0 | 0 | 0 |
| Net Interest (Exp)/Inc | (85) | (88) | (83) | (80) | (80) |
| Dividend Income | 0 | 0 | 0 | 0 | 0 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 503 | 67 | (214) | 188 | 347 |
| Tax | (213) | (56) | (69) | (47) | (87) |
| Minority Interest | (3) | (10) | (10) | (10) | (10) |
| Preference Dividend | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 288 | 2 | (293) | 131 | 250 |
| EBITDA | 1,427 | 1,162 | 922 | 1,448 | 1,782 |
| Growth | | | | | |
| Revenue Gth (%) | 27.4 | (9.5) | 12.7 | 20.0 | 14.8 |
| EBITDA Gth (%) | 73.9 | (18.6) | (20.6) | 57.1 | 23.1 |
| Opg Profit Gth (%) | (1.9) | (73.6) | (184.3) | (304.4) | 59.4 |
| Net Profit Gth (%) | (37.7) | (99.4) | N/A | N/A | 91.2 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 63.1 | 61.0 | 61.9 | 61.5 | 62.0 |
| Opg Profit Margin (%) | 9.8 | 2.9 | (2.1) | 3.6 | 5.0 |
| Net Profit Margin (%) | 4.8 | 0.0 | (4.8) | 1.8 | 3.0 |
| ROAE (%) | 12.5 | 0.1 | (13.7) | 6.5 | 11.8 |
| ROA (%) | 6.5 | 0.0 | (5.5) | 2.5 | 4.2 |
| ROCE (%) | 11.0 | 0.7 | (3.7) | 6.1 | 9.4 |
| Div Payout Ratio (%) | 40.0 | 1,633.1 | N/A | 40.0 | 40.0 |
| Net Interest Cover (x) | 6.9 | 1.8 | NM | 3.4 | 5.3 |

Source: Company, DBS HK

Interim Income Statement (RMB m)

| FY Dec | 2H2019 | 1H2020 | 2H2020 | 1H2021 | 2H2021 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 3,318 | 1,922 | 3,533 | 3,047 | 3,100 |
| Cost of Goods Sold | (1,228) | (764) | (1,366) | (1,135) | (1,207) |
| Gross Profit | 2,089 | 1,158 | 2,167 | 1,912 | 1,894 |
| Other Oper. (Exp)/Inc | (1,762) | (1,420) | (1,740) | (1,917) | (2,010) |
| Operating Profit | 327 | (262) | 428 | (4) | (117) |
| Other Non Opng (Exp)/Inc | 0 | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 0 | 0 | 0 | 0 | 0 |
| Net Interest (Exp)/Inc | (50) | (49) | 0 | 0 | (98) |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 278 | (311) | 428 | (4) | (215) |
| Tax | (150) | 60 | (116) | 7 | (76) |
| Minority Interest | (4) | (3) | (7) | (3) | (7) |
| Net Profit | 124 | (254) | 305 | (1) | (298) |
| Growth | | | | | |
| Revenue Gth (%) | 27.4 | (29.1) | 6.5 | 58.5 | (12.3) |
| Opg Profit Gth (%) | 3.8 | (196.9) | 30.7 | (98.3) | (127.3) |
| Net Profit Gth (%) | (40.3) | N/A | 146.5 | 99.8 | N/A |
| Margins | | | | | |
| Gross Margins (%) | 63.0 | 60.2 | 61.3 | 62.8 | 61.1 |
| Opg Profit Margins (%) | 9.9 | (13.7) | 12.1 | (0.1) | (3.8) |
| Net Profit Margins (%) | 3.7 | (13.2) | 8.6 | 0.0 | (9.6) |

Source: Company, DBS HK

Xiabuxiabu Catering Management

Balance Sheet (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets | 3,389 | 3,268 | 2,691 | 3,041 | 3,391 |
| Invt in Associates & JVs | 0 | 0 | 0 | 0 | 0 |
| Other LT Assets | 230 | 294 | 264 | 264 | 264 |
| Cash & ST Invt | 785 | 1,097 | 936 | 1,189 | 1,124 |
| Inventory | 712 | 691 | 599 | 703 | 797 |
| Debtors | 378 | 392 | 395 | 420 | 482 |
| Other Current Assets | 131 | 38 | 66 | 66 | 66 |
| Total Assets | 5,626 | 5,780 | 4,951 | 5,683 | 6,124 |
| ST Debt | 0 | 20 | 76 | 76 | 76 |
| Creditors | 1,470 | 1,045 | 855 | 1,478 | 1,675 |
| Other Current Liab | 244 | 914 | 838 | 879 | 923 |
| LT Debt | 0 | 0 | 0 | 0 | 0 |
| Other LT Liabilities | 1,525 | 1,461 | 1,172 | 1,150 | 1,189 |
| Shareholder's Equity | 2,375 | 2,319 | 1,970 | 2,048 | 2,198 |
| Minority Interests | 11 | 21 | 42 | 52 | 62 |
| Total Cap. & Liab. | 5,626 | 5,780 | 4,951 | 5,683 | 6,124 |
| Non-Cash Wkg. Capital | (492) | (839) | (632) | (1,169) | (1,254) |
| Net Cash/(Debt) | 785 | 1,077 | 861 | 1,113 | 1,049 |
| Debtors Turn (avg days) | 20.8 | 20.8 | 20.8 | 20.8 | 20.8 |
| Creditors Turn (avg days) | 190.1 | 190.1 | 190.1 | 190.1 | 190.1 |
| Inventory Turn (avg days) | 90.4 | 90.4 | 90.4 | 90.4 | 90.4 |
| Asset Turnover (x) | 1.4 | 1.0 | 1.1 | 1.4 | 1.4 |
| Current Ratio (x) | 1.2 | 1.1 | 1.1 | 1.0 | 0.9 |
| Quick Ratio (x) | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH | CASH |
| Net Debt/Equity ex MI (X) | CASH | CASH | CASH | CASH | CASH |
| Capex to Debt (%) | N/A | 2,023.2 | 659.6 | 659.6 | 659.6 |
| Z-Score (X) | NA | NA | NA | NA | NA |

Source: Company, DBS HK

Cash Flow Statement (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Pre-Tax Profit | 503 | 67 | (214) | 188 | 347 |
| Dep. & Amort. | 837 | 1,004 | 150 | 150 | 150 |
| Tax Paid | (163) | (113) | (56) | (69) | (47) |
| Assoc. & JV Inc/(loss) | 0 | 0 | 0 | 0 | 0 |
| (Pft)/Loss on disposal of FAs | 0 | 0 | 0 | 0 | 0 |
| Chg in Wkg. Cap. | 100 | (324) | (130) | 495 | 41 |
| Other Operating CF | 534 | 1,592 | 109 | 132 | 134 |
| Net Operating CF | 1,022 | 1,270 | (242) | 793 | 523 |
| Capital Exp. (net) | (727) | (405) | (500) | (500) | (500) |
| Other Invt. (net) | 0 | 0 | 0 | 0 | 0 |
| Invt in Assoc. & JV | 0 | 0 | 0 | 0 | 0 |
| Div from Assoc & JV | 0 | 0 | 0 | 0 | 0 |
| Other Investing CF | (179) | 31 | 12 | 12 | 12 |
| Net Investing CF | (906) | (374) | (488) | (488) | (488) |
| Div Paid | (167) | (80) | (30) | (52) | (100) |
| Chg in Gross Debt | 0 | (749) | 599 | 0 | 0 |
| Capital Issues | 0 | 0 | 0 | 0 | 0 |
| Other Financing CF | (505) | 244 | 0 | 0 | 0 |
| Net Financing CF | (672) | (584) | 569 | (52) | (100) |
| Currency Adjustments | 0 | 0 | 0 | 0 | 0 |
| Chg in Cash | (556) | 312 | (161) | 253 | (65) |
| Opg CFPS (RMB) | 0.87 | 1.50 | (0.11) | 0.28 | 0.45 |
| Free CFPS (RMB) | 0.28 | 0.81 | (0.70) | 0.28 | 0.02 |

Source: Company, DBS HK

Xiabuxiabu Catering Management

Target Price & Ratings History



| S.No. | Date | Closing Price | 12-mth Target Price | Rating |
|-------|-----------|---------------|---------------------|--------|
| 1: | 26-May-21 | HK\$9.80 | HK\$9.80 | Hold |
| 2: | 14-Sep-21 | HK\$7.71 | HK\$11.10 | Buy |
| 3: | 9-Feb-22 | HK\$5.30 | HK\$7.00 | Buy |

Source: DBS HK

Analyst: *Alison Fok*
Mavis Hui
Alice Hui

Xiabuxiabu Catering Management

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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