

## Café de Coral

Bloomberg: 341 HK EQUITY | Reuters: 0341.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 May 2022

### BUY

Last Traded Price (29 Apr 2022): HK\$12.38 (HSI : 21,089)

Price Target 12-mth: HK\$15.50 (25% upside)

#### Analyst

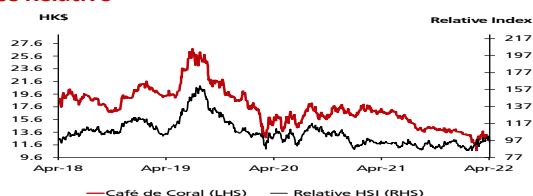
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#### What's New

- CdC releases profit warning with attributable net earnings of HK\$20m vs. FYMar21 of HK\$359m
- Dine-in restrictions during the fifth wave of COVID-19 in Hong Kong and lockdown restrictions in South China had severe impact on sales
- We cut our earnings by 92%/21% in FY22/23 to account for the loss in sales but maintain BUY as the worst should be over with earnings expected to see decent recovery from FY23 onwards

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$)	2021A	2022F	2023F	2024F
Turnover	6,714	7,126	7,895	8,830
EBITDA	839	461	652	930
Pre-tax Profit	391	28	202	452
Net Profit	359	21	159	356
Net Pft (Pre-Ex) (core profit)	359	21	159	356
Net Profit Gth (Pre-ex) (%)	387.7	(94.2)	667.6	123.9
EPS (HK\$)	0.62	0.04	0.27	0.62
Core EPS (HK\$)	0.62	0.04	0.27	0.62
EPS Gth (%)	388.3	(94.2)	667.6	123.9
Core EPS Gth (%)	388.3	(94.2)	667.6	123.9
Diluted EPS (HK\$)	0.62	0.04	0.27	0.62
DPS (HK\$)	0.38	0.02	0.19	0.43
BV Per Share (HK\$)	5.17	4.83	4.99	5.41
PE (X)	20.0	345.8	45.0	20.1
CorePE (X)	20.0	345.8	45.0	20.1
P/Cash Flow (X)	4.2	6.7	5.8	5.1
P/Free CF (X)	5.0	11.0	8.8	7.2
EV/EBITDA (X)	7.5	12.7	8.6	5.6
Net Div Yield (%)	3.1	0.2	1.5	3.4
P/Book Value (X)	2.4	2.6	2.5	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	12.6	0.7	5.5	11.7
Earnings Rev (%)		(92)	(21)	New
Consensus EPS (HK\$)		0.39	0.65	0.87
Other Broker Recs:		B:6	S:0	H:1

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

### Gradual reopening

#### Investment Thesis

**Omicron outbreak largely in the price.** With the latest Omicron outbreak, Café de Coral's (CdC) operations in Hong Kong (HK) have been impacted by pandemic-related restrictions, including the ban of dinner services, temporary halt in class schedules at schools, etc. While this means a delay in its recovery pace, CdC's leading position remains unchanged and its improved cost efficiency as well as its proactive strategy to boost takeaway and delivery sales should help to partly offset the impact.

**Well positioned to gain market share.** The prolonged impact from the pandemic has accelerated market consolidation in the eating out industry, as weaker players are phased out. With a leading market position and strong financials, CdC should be in a strong footing to not just survive the challenging environment, but to gain further market share.

**China expansion to continue.** The pandemic resurgence also impacted CdC's China business, with a slower pace of new store openings in 1HFY22. We expect some pick-up in 2HFY22, with 20+ new stores in pipeline vs. eight being opened in 1H21, despite near-term hiccups from the COVID resurgence. China should remain a solid growth driver with store expansion projected to continue.

#### Valuation:

We adjusted our FY22 earnings to reflect the impact from the longer-than-expected pandemic restrictions on its dining and institutional catering segment. With the earnings cut of 92%/21% in FY22/23 and introduction of FY24 earnings, we keep our TP unchanged at HK\$15.5, premised on an unchanged 25x FY24F PE (previously FY23F).

#### Where we differ:

Our earnings forecasts are slightly below the market consensus, as we are more prudent on the normalisation pace – our current forecast assumes sales recovery in FY23.

#### Key Risks to Our View:

Significant economic downturn, major resurgence of the pandemic, weakening/disruption in foot traffic, cost inflationary pressure, and food safety issues.

#### At A Glance

Issued Capital (m shrs)	580
Mkt Cap (HKm/US\$m)	7,180 / 915
Major Shareholders (%)	
Wandels Investment Ltd.	15.9
Lo (Hoi Kwong Sunny)	11.0
Mondrian Investment Partners Ltd.	7.0
Lo (Hoi Chun)	6.2
MMW Holding Corporation	5.4
Free Float (%)	54.5
3m Avg. Daily Val. (US\$m)	1.35
GICS Industry: Consumer Discretionary / Consumer Services	



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## Café de Coral

### WHAT'S NEW

#### Profit warning

Café de Coral (CdC) released a profit warning with attributable net earnings estimated at HK\$20m in FYMar22, versus net earnings in FYMar21 of HK\$359m, partly due to the difference in COVID-19 relief and subsidies booked. The Group recorded subsidies of HK\$128m, vs. FY21 of HK\$639m. This implies a loss of HK\$68m in 2H22, reversing 1H22 net earnings of HK\$96m.

Despite strong recoveries in Hong Kong and China in the first three quarters, the fifth wave of the COVID-19 pandemic brought about serious disruptions to the group's operations. Hong Kong faced heavy dine-in restrictions including a limitation to the number of diners per table and no dining services past 6pm. Coupled with the intermittent closure of shops due to infections in CdC's workforce during the period, CdC suffered a significant loss of shop operating days in Feb-Mar 22 and thereby loss of sales.

South China fast food business was also severely hit by the pandemic in Shenzhen and Zhuhai in Mar 22, which had impacted sales and outlet expansion progress.

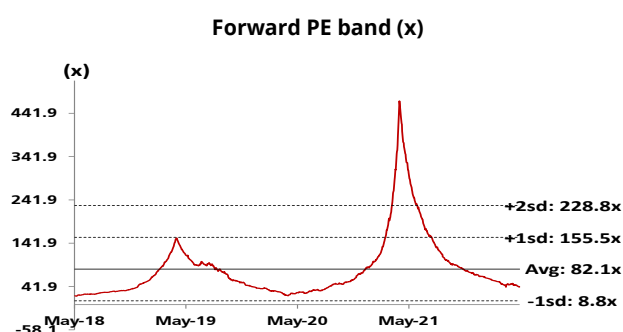
We revise our earnings accordingly, by 92%/21% in FY22/23, to account for the loss of sales, and gradual

recovery in Hong Kong and South China's economy. April operations have seen a gradual return of customers, with support from the launch of the first phase of consumption vouchers and the easing of dining restrictions. As workers and school gradually return to normal, we expect net earnings to achieve a recovery of HK\$159m/HK\$356m in FY23/24. We reiterate BUY on Café de Coral, with the TP unchanged at HK\$15.5, pegged for 25x FY24F PE (previously FY23F).

#### Company Background

Established in 1968, Cafe de Coral (CdC) is the largest Chinese fast food operator in Hong Kong. The company was listed on the HK Stock Exchange in 1986. Apart from running fast food restaurants under the Cafe de Coral brand name, the company has been diversifying its brand portfolio in both quick-service restaurants and specialty restaurants with brands including Super Super Congee & Noodles, Oliver's Super Sandwiches, Mixian Sense, Spaghetti House, Shanghai Lao Lao, etc. The company also offers institutional catering services under Asia Pacific Catering.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Café de Coral

### Key Assumptions

FY Mar	2020A	2021A	2022F	2023F	2024F
Food cost as % of sales	28.4	29.9	30.9	30.2	30.1
Staff cost as % of sales	33.9	35.2	33.7	33.2	33.1
Rental cost as % of sales	13.1	12.7	12.2	11.4	10.6

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
<b>Revenues (HK\$ m)</b>					
Hong Kong	6,873	5,514	5,862	6,542	7,393
PRC	1,090	1,200	1,264	1,354	1,437
<b>Total</b>	<b>7,963</b>	<b>6,714</b>	<b>7,126</b>	<b>7,895</b>	<b>8,830</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenue	7,963	6,714	7,126	7,895	8,830
Cost of Goods Sold	(7,232)	(6,339)	(6,685)	(7,166)	(7,823)
<b>Gross Profit</b>	<b>731</b>	<b>375</b>	<b>441</b>	<b>730</b>	<b>1,007</b>
Other Opng (Exp)/Inc	(522)	98	(336)	(455)	(471)
<b>Operating Profit</b>	<b>209</b>	<b>474</b>	<b>105</b>	<b>274</b>	<b>536</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(94)	(83)	(77)	(72)	(84)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>114</b>	<b>391</b>	<b>28</b>	<b>202</b>	<b>452</b>
Tax	(40)	(30)	(6)	(41)	(94)
Minority Interest	(1)	(1)	(2)	(2)	(2)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>74</b>	<b>359</b>	<b>21</b>	<b>159</b>	<b>356</b>
EBITDA	581	839	461	652	930
<b>Growth</b>					
Revenue Gth (%)	(6.2)	(15.7)	6.1	10.8	11.8
EBITDA Gth (%)	(49.7)	44.4	(45.1)	41.6	42.5
Opg Profit Gth (%)	(73.9)	126.9	(77.8)	160.8	95.3
Net Profit Gth (%)	(87.1)	387.7	(94.2)	667.6	123.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	9.2	5.6	6.2	9.2	11.4
Opg Profit Margin (%)	2.6	7.1	1.5	3.5	6.1
Net Profit Margin (%)	0.9	5.3	0.3	2.0	4.0
ROAE (%)	2.5	12.6	0.7	5.5	11.7
ROA (%)	1.1	5.4	0.3	2.2	5.0
ROCE (%)	2.7	8.5	1.5	4.3	8.6
Div Payout Ratio (%)	151.1	62.0	70.0	70.0	70.0
Net Interest Cover (x)	2.2	5.7	1.4	3.8	6.4

Source: Company, DBS HK

## Café de Coral

### Interim Income Statement (HK\$ m)

FY Mar	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	4,264	3,699	3,226	3,489	3,870
Cost of Goods Sold	(3,765)	(3,468)	(3,087)	(3,269)	(3,491)
<b>Gross Profit</b>	<b>499</b>	<b>232</b>	<b>138</b>	<b>220</b>	<b>379</b>
Other Oper. (Exp)/Inc	(263)	(258)	87	11	(242)
<b>Operating Profit</b>	<b>235</b>	<b>(27)</b>	<b>226</b>	<b>231</b>	<b>137</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(47)	(47)	(43)	(40)	(41)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>188</b>	<b>(74)</b>	<b>183</b>	<b>190</b>	<b>96</b>
Tax	(38)	(2)	(20)	(38)	(14)
Minority Interest	(1)	0	(1)	(1)	(1)
<b>Net Profit</b>	<b>150</b>	<b>(76)</b>	<b>162</b>	<b>152</b>	<b>81</b>

### Growth

Revenue Gth (%)	1.6	(13.9)	(24.3)	(5.7)	20.0
Opg Profit Gth (%)	(28.9)	(105.7)	(4.1)	(964.2)	(39.3)
Net Profit Gth (%)	(34.5)	N/A	8.4	N/A	(50.0)

### Margins

Gross Margins (%)	11.7	6.3	4.3	6.3	9.8
Opg Profit Margins (%)	5.5	(0.7)	7.0	6.6	3.5
Net Profit Margins (%)	3.5	(2.1)	5.0	4.4	2.1

Source: Company, DBS HK

### Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	2,194	2,062	2,129	2,173	2,201
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	3,152	2,577	2,286	2,070	1,911
Cash & ST Invts	347	2,094	2,488	2,269	2,681
Inventory	261	235	249	276	309
Debtors	167	103	109	121	135
Other Current Assets	101	84	87	93	101
<b>Total Assets</b>	<b>6,221</b>	<b>7,155</b>	<b>7,348</b>	<b>7,002</b>	<b>7,337</b>
ST Debt	0	180	180	180	180
Creditors	172	178	189	210	234
Other Current Liab	1,443	1,330	1,813	1,947	2,110
LT Debt	0	999	999	499	499
Other LT Liabilities	1,934	1,433	1,333	1,233	1,133
Shareholder's Equity	2,667	3,029	2,827	2,925	3,170
Minority Interests	5	6	8	9	11
<b>Total Cap. &amp; Liab.</b>	<b>6,221</b>	<b>7,155</b>	<b>7,348</b>	<b>7,002</b>	<b>7,337</b>
Non-Cash Wkg. Capital	(1,088)	(1,086)	(1,556)	(1,666)	(1,800)
Net Cash/(Debt)	347	914	1,308	1,589	2,002
Debtors Turn (avg days)	7.6	7.3	5.4	5.3	5.3
Creditors Turn (avg days)	10.4	10.7	10.6	10.7	10.9
Inventory Turn (avg days)	13.4	15.1	14.0	14.1	14.4
Asset Turnover (x)	1.2	1.0	1.0	1.1	1.2
Current Ratio (x)	0.5	1.5	1.3	1.2	1.3
Quick Ratio (x)	0.3	1.3	1.2	1.0	1.1
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	23.4	35.6	61.8	61.8
Z-Score (X)	3.4	3.6	3.6	3.6	NA

Source: Company, DBS HK

## Café de Coral

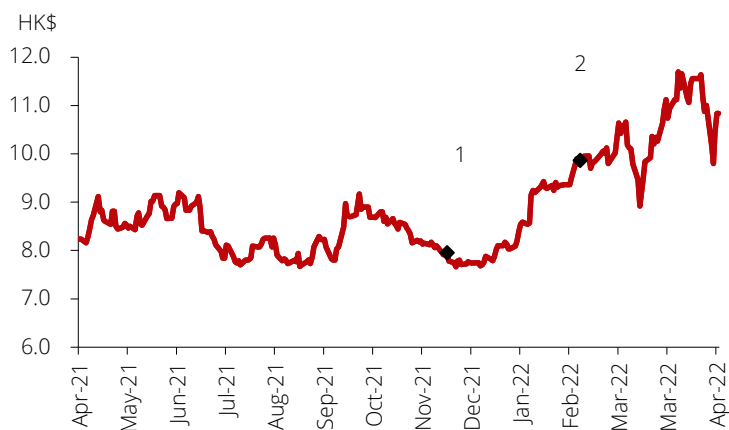
### Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	114	391	28	202	452
Dep. & Amort.	1,234	1,099	947	894	854
Tax Paid	(112)	(29)	(30)	(6)	(41)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg. Cap.	34	241	112	133	142
Other Operating CF	175	4	16	13	11
<b>Net Operating CF</b>	<b>1,445</b>	<b>1,705</b>	<b>1,073</b>	<b>1,237</b>	<b>1,417</b>
Capital Exp. (net)	(501)	(276)	(420)	(420)	(420)
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	18	11	0	0	0
<b>Net Investing CF</b>	<b>(483)</b>	<b>(265)</b>	<b>(420)</b>	<b>(420)</b>	<b>(420)</b>
Div Paid	(488)	(58)	(223)	(61)	(111)
Chg in Gross Debt	0	1,179	0	(500)	0
Capital Issues	(37)	(25)	0	0	0
Other Financing CF	(936)	(808)	(862)	(860)	(857)
<b>Net Financing CF</b>	<b>(1,461)</b>	<b>288</b>	<b>(1,085)</b>	<b>(1,421)</b>	<b>(969)</b>
Currency Adjustments	(12)	20	826	385	384
Chg in Cash	(511)	1,747	394	(219)	412
Opg CFPS (HK\$)	2.43	2.53	1.66	1.91	2.20
Free CFPS (HK\$)	1.63	2.47	1.13	1.41	1.72

Source: Company, DBS HK

**Café de Coral**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	25-Nov-21	HK\$13.76	HK\$18.00	Buy
2:	9-Feb-22	HK\$13.20	HK\$15.50	Buy

Source: DBS HK

Analyst: Alison Fok  
Alice Hui

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**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

Completed Date: 3 May 2022 09:29:38 (HKT)

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

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