

SECTOR UPDATE

Catering – China

Snap Lockdowns Hinder The Catering Sector's Recovery

The performances of Jiumaojiu and Haidilao improved progressively throughout May 22 while we admit the recovery pace for the upcoming months remains unpredictable given the snap lockdowns and frequent mass testing that hinder restaurant operations and dampen consumers' dining-out interest. Jiumaojiu's sale of the Double Eggs brand reflects management's timely decision to cut losses, although any impact should be minimal. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Continuous yoy decline in May 22 further dragged catering's RSV in 5M22.** Retail sales value (RSV) of catering services in May 22 contracted 21.1% yoy, while that of large-sized enterprises (annual revenue: >Rmb2m) shrank 20.8% yoy. This further exacerbated the decline in 5M22's catering retail sales to -8.5% yoy (vs 4M22: -5.1% yoy), while that of large-sized catering companies shrank 9.1% yoy (4M22: -5.6% yoy).
- **Gradual improvements throughout May 22 for Jiumaojiu...** Tai Er/Jiu Mao Jiu's same-store sales (SSS) shrank 39%/19% yoy in May 22 (representing 61%/81% of May 21 levels), implying a modest SSS rebound throughout the month as SSS during the Labour Day holidays (30 Apr-4 May) declined by a greater 43%/27% yoy (representing 57%/73% of the year-ago levels). Nevertheless, Tai Er's May 22 SSS should decline only 25% yoy notwithstanding areas seriously affected by virus curbs.
- **...and Haidilao.** Haidilao's same-store table turnover rate fell 10% yoy in May 22 (representing 90% of the May 21 level) despite rising mom. On an aggregate basis, Haidilao's overall table turnover rate recorded flattish growth in May 22, as the more-than-double overall table turnover rate yoy outside of Mainland China offset the 10% yoy decline in Mainland China. The figure (+20% yoy) improved further during the period around the Dragon Boat Festival (29 May-8 Jun).
- **Average wholesale prices for lamb, pork and vegetables are trending down.** Wholesale prices of beef/lamb/pork remained stable at -0.1%/-0.5%/0.1% wow in the third week of Jun 22, while wholesale prices of beef were slightly up by 0.7% yoy and that of lamb/pork shrank 11.0%/8.0% yoy. The average wholesale prices for 28 types of vegetables monitored by the Ministry of Agriculture and Rural Affairs edged up 0.5% wow but declined 2.4% yoy in the third week of Jun 22.
- **Jiumaojiu announced the disposal of its Double Eggs brand.** On 17 Jun 22, Jiumaojiu announced that its indirect wholly-owned subsidiary will dispose of 80.85% equity interest in Guangzhou Pin Xin Yue Gu Enterprise Management Co to Ms Chen Rui with a cash consideration of Rmb509,400. The consideration was determined after taking into account the fact that the Double Eggs brand was loss-making in 2021.

PEER COMPARISON

Company	Ticker	Rec	Price @ 21 Jun 22 (HK\$)	Target Price (HK\$)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	EV/EBITDA 2022F (x)	EV/EBITDA 2023F (x)	ROE 2022F (%)	Div. yield 2022F (%)
Haidilao	6862 HK	HOLD	15.52	14.80	-4.6	11,020.2	51.5	28.7	7.9	6.4	29.5	19.5	16.6	0.6
Jiumaojiu	9922 HK	BUY	18.16	20.50	12.9	3,362.3	43.2	26.8	6.4	5.3	19.1	12.5	15.8	0.5

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

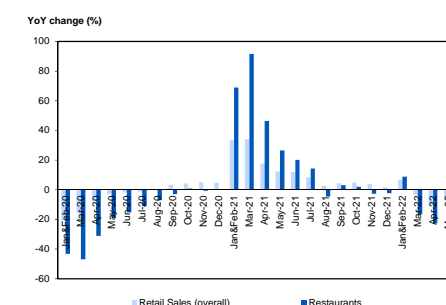
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SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Haidilao	6862 HK	HOLD	15.52	14.80
Jiumaojiu	9922 HK	BUY	18.16	20.50

Source: UOB Kay Hian

OVERALL AND CATERING RSV GROWTH



Source: Wind, UOB Kay Hian

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ESSENTIALS

• **Unpredictable snap lockdowns may hamper dining-out interest.** Despite the lifting of the lockdown in Shanghai on 1 Jun 22, people would still need to show a negative PCR test result that was taken in the last 72 hours to enter public places, which include malls and restaurants, while areas with the tiniest hint of infection risk would be closed. The strict measures are also seen in some cities of Beijing and Shenzhen recently. Immediate lockdowns and frequent mass testing would dampen consumers' interest in dining out, posing more downside risk to restaurant service providers.

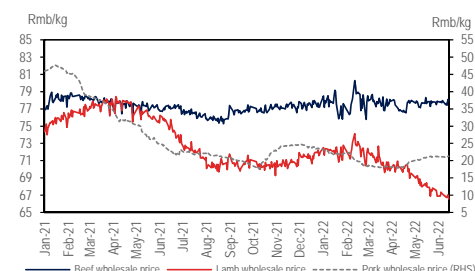
• **Jiumaojiu's disposal of Double Eggs brand a positive move.** We are supportive of the company's timely decision to cut losses on the Double Eggs brand amid the ongoing uncertainty caused by the virus curbs. Management previously stated that the company has more than enough brands and does not aim to establish new ones. After the disposal, its eight self-operated and 17 franchised Double Eggs restaurants (as of 31 Dec 21) will no longer be consolidated into the group's financial statement. Its revenue generated from the Double Eggs brand accounted for 0.6%/0.4% of total revenue in 2020/21 and the brand was disclosed to be loss-making in 2021. Thus, the negative impact to top-line is immaterial, while the positive impact on bottom line (from disposing of its eight self-operated restaurants) should be minimal as well.

VALUATION/RECOMMENDATION

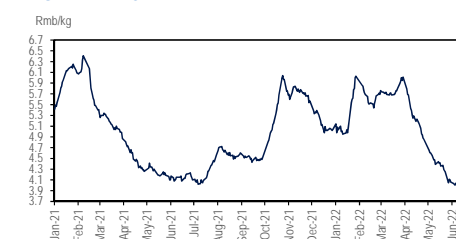
• **Maintain MARKET WEIGHT.** We reiterate that catering services will record a slower recovery in sales value than overall retail. Although the SSS performance of the companies under our coverage saw a gradual recovery throughout May 22 which will likely continue in Jun 22, the recovery pace remains unpredictable due to: a) China's tough zero-COVID measures; and b) the nuanced changes in consumer habits, which may be transitory, from the year during the peak of the pandemic.

• **Our top pick is Jiumaojiu** given its commitment to building a supply chain base and our confidence in the management team to make the correct decisions in uncertain times. Its Song Hotpot has been progressing well and may be the next growth driver after its Tai Er brand, when the COVID-19 situation in China eases. We maintain BUY on Jiumaojiu (9922 HK/BUY) with an unchanged target price of HK\$20.50, and keep our HOLD rating on Haidilao (6862 HK/HOLD) with an unchanged target price of HK\$14.80.

WHOLESALE PRICES OF BEEF/LAMB/PORK



WHOLESALE PRICES FOR 28 TYPES OF VEGETABLES



DAILY NEW COVID-19 CASES IN MAINLAND CHINA

