

Hong Kong

ADD (no change)

Consensus ratings*: Buy 44 Hold 1 Sell 0

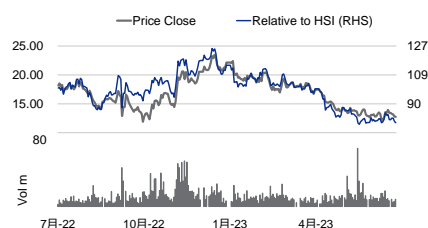
Current price: HK\$12.76
 Target price: HK\$25.00
 Previous target: HK\$25.00
 Up/downside: 95.9%
 CGI / Consensus: 20.0%

Reuters: 9922.HK
 Bloomberg: 9922 HK
 Market cap: US\$2,374m
 HK\$18,560m
 Average daily turnover: US\$20.19m
 HK\$158.2m
 Current shares o/s: 1,454m
 Free float: 46.2%

*Source: Bloomberg

Key changes in this note

No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.1	-25.8	-29.1
Relative (%)	-0.3	-20.8	-21.8

Major shareholders	% held
Guan Yihong	40.7

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Jiumaojiu

SSSG has slowed down a bit since May

- The catering recovery has slowed down since May. Tai Er's SSSG was 5% and 8% yoy in Jun and May, respectively, vs. 33% yoy in Apr.
- By end-Jun, the company had opened 46 Tai Er stores and 16 Song Hotpot stores.
- We expect the company's top line to grow by 42% and 30% yoy in 1H23F and 2H23F.
- We expect the OPM to improve to 13.5% and 13.7% in 1H23F and FY23F.
- Reiterate Add with an unchanged DCF-based TP of HK\$25.

SSSG recovery has slowed down a bit since May

The catering recovery has slowed down since May. Tai Er's SSSG was 5% and 8% yoy in Jun and May, respectively, vs. 33% yoy in Apr, and SSS were back to 81% and 80% of the 2019 level in Jun and May vs. 84% of the 2019 level in Apr. JMJ expects a better recovery in 2H23F, along with the recovery in offline traffic and travel volume. By the end of Jun, the company has opened 46 Tai Er stores and 16 Song Hotpot stores. The total number of Tai Er restaurants in operation reached 496 as at end-Jun. We expect the company to achieve its target of 120 new stores for the Tai Er brand and to exceed its target of 25 new stores for Song Hotpot. The Jun table turnover rate for Tai Er reached 4.2x (3.6x in Jun 2022) and that for Song Hotpot was 3.8x (3.9x in Jun 2022), both improving mom. Tai Er's ASP remained stable at Rmb75–76 per customer in 1H23F, and that for Song Hotpot was c.Rmb120 per customer, slightly lower than Rmb128 in FY22. We now expect the company's top line to grow by 42% and 30% yoy in 1H23F and 2H23F.

Continued OPM expansion

We expect the company's GPM to fall slightly yoy in 1H23F, since it lowered its selling prices for certain products in 2H22. For FY23F, we expect a flattish GPM yoy. Going forward, we expect GPM improvement from a higher contribution of self-feeding bass and improved operating efficiency. We also expect the OPM to improve to 13.5% and 13.7% in 1H23F and FY23F, driven by improved operating leverage and efficient management of rental and labour expenses. In terms of mid- to long-term OPM guidance, management aims to achieve 23% OPM for Tai Er when Tai Er reaches 1,000 stores, and 20% OPM for Song Hotpot when it reaches 300–500 stores. For the Jiumaojiu brand, the OPM should remain largely stable. We now expect the company to achieve 8.0% and 8.1% NPM for 1H23F and 2H23F, and net profit to grow by 274% and 786% yoy to Rmb216m and Rmb437m in 1H23F and FY23F.

Overseas expansion on track

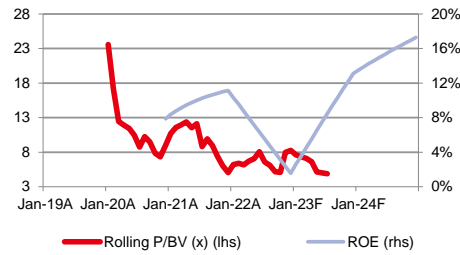
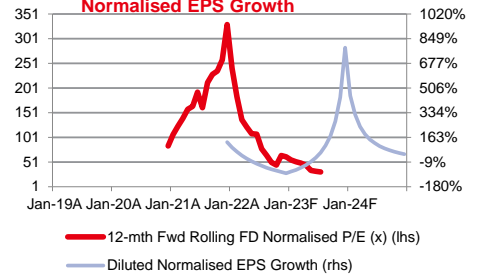
The Company aims to open 15 overseas Tai Er restaurants in FY23. It opened one in Malaysia in Feb and one in Singapore in Jun, and will open two in 3Q23F. The rest are expected to be opened in 4Q23. The capex per store in Singapore is roughly Rmb5m–6m and the operating profit is roughly 2–3x that of its stores in mainland China. In the mid-long term, the company aims to open 200–300 restaurants in overseas markets, including South East Asia, Hong Kong, Singapore, Japan, Korea, Canada and the US. The construction of the central kitchen in Guangdong province is on track to open in 2Q/3Q24F.

Reiterate Add with an unchanged DCF-based TP of HK\$25

We reiterate our Add rating, since we believe the company has large potential for new store openings in both the domestic and overseas markets. We expect the company to have Rmb40–50m in forex losses in 1H23F, because of Rmb depreciation. We use the DCF valuation method with WACC of 17.6% and a terminal growth rate of 3%. A positive catalyst would be higher-than-expected revenue growth. The key risks include 1) weaker top-line growth due to the sluggish macro economy, 2) lower margins due to cost pressure and competition, and 3) higher-than-expected forex losses.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	4,180	4,006	5,437	7,262	9,348
Operating EBITDA (Rmbm)	1,089	621	1,158	1,519	1,916
Net Profit (Rmbm)	339.9	49.3	436.6	639.9	868.7
Normalised EPS (Rmb)	0.23	0.03	0.30	0.44	0.60
Normalised EPS Growth	163%	(86%)	786%	47%	36%
FD Normalised P/E (x)	49.1	345.7	39.0	26.6	19.6
DPS (Rmb)	0.06	0.01	0.10	0.15	0.20
Dividend Yield	0.51%	0.08%	0.84%	1.24%	1.68%
EV/EBITDA (x)	14.44	25.73	13.34	9.63	7.08
P/FCFE (x)	51.69	NA	72.33	31.28	19.73
Net Gearing	(42.8%)	(33.7%)	(45.7%)	(61.1%)	(76.3%)
P/BV (x)	5.53	5.37	4.90	4.34	3.76
ROE	11.1%	1.6%	13.1%	17.3%	20.5%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			0.72	0.67	0.67

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth

Profit & Loss

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	4,180	4,006	5,437	7,262	9,348
Gross Profit	2,642	2,559	3,473	4,646	5,989
Operating EBITDA	1,089	621	1,158	1,519	1,916
Depreciation And Amortisation	-502	-347	-415	-482	-550
Operating EBIT	588	274	743	1,037	1,366
Financial Income/(Expense)	-75	-81	-100	-123	-147
Pretax Income/(Loss) from Assoc.	1	-3	-3	-3	-3
Non-Operating Income/(Expense)	-7	-95	-57	-57	-57
Profit Before Tax (pre-EI)	506	94	582	853	1,158
Exceptional Items					
Pre-tax Profit	506	94	582	853	1,158
Taxation	-134	-39	-146	-213	-290
Exceptional Income - post-tax					
Profit After Tax	372	56	437	640	869
Minority Interests	-32	-6	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	340	49	437	640	869
Normalised Net Profit	372	56	437	640	869
Fully Diluted Normalised Profit	340	49	437	640	869

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	1,089	621	1,158	1,519	1,916
Cash Flow from Invt. & Assoc.	-1	0	0	0	0
Change In Working Capital	-105	-54	94	132	155
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	82	-98	-60	-60	-60
Net Interest (Paid)/Received	-75	-81	-100	-123	-147
Tax Paid	-133	-39	-146	-213	-290
Cashflow From Operations	856	349	946	1,255	1,573
Capex	-333	-710	-710	-710	-710
Disposals Of FAs/subsidiaries	673	0	0	0	0
Acq. Of Subsidiaries/investments	-842	3	0	0	0
Other Investing Cashflow	11	0	0	0	0
Cash Flow From Investing	-490	-707	-710	-710	-710
Debt Raised/(repaid)	-43	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	-49	-13	-131	-192	-261
Preferred Dividends	-8	0	0	0	0
Other Financing Cashflow	-689	182	365	460	460
Cash Flow From Financing	-789	169	234	268	199
Total Cash Generated	-423	-189	469	813	1,063
Free Cashflow To Equity	323	-358	236	545	863
Free Cashflow To Firm	441	-277	336	668	1,011

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	1,344	1,109	1,633	2,446	3,509
Total Debtors	409	505	556	612	673
Inventories	71	118	130	143	157
Total Other Current Assets	736	852	852	852	852
Total Current Assets	2,559	2,585	3,172	4,053	5,191
Fixed Assets	2,016	2,308	2,599	2,824	2,983
Total Investments	334	164	164	164	164
Intangible Assets	18	25	28	30	31
Total Other Non-Current Assets	207	326	334	343	353
Total Non-current Assets	2,576	2,822	3,125	3,361	3,531
Short-term Debt	0	30	30	30	30
Current Portion of Long-Term Debt					
Total Creditors	766	907	1,185	1,518	1,882
Other Current Liabilities	38	17	17	17	17
Total Current Liabilities	805	955	1,232	1,566	1,930
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,114	1,207	1,514	1,850	2,187
Total Non-current Liabilities	1,114	1,207	1,514	1,850	2,187
Total Provisions	79	46	46	46	46
Total Liabilities	1,998	2,208	2,791	3,462	4,162
Shareholders' Equity	3,083	3,174	3,480	3,928	4,536
Minority Interests	55	25	25	25	25
Total Equity	3,138	3,199	3,505	3,953	4,561

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	54.0%	(4.2%)	35.7%	33.6%	28.7%
Operating EBITDA Growth	75.4%	(43.0%)	86.5%	31.2%	26.1%
Operating EBITDA Margin	26.1%	15.5%	21.3%	20.9%	20.5%
Net Cash Per Share (Rmb)	0.92	0.74	1.10	1.66	2.39
BVPS (Rmb)	2.12	2.18	2.39	2.70	3.12
Gross Interest Cover	7.80	3.37	7.40	8.41	9.27
Effective Tax Rate	26.4%	41.0%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	20.9%	26.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	30.66	41.66	35.63	29.42	25.07
Inventory Days	14.46	23.82	23.04	19.08	16.31
Accounts Payables Days	85.1	104.7	100.8	102.1	103.7
ROIC (%)	26.9%	10.3%	23.2%	31.5%	41.8%
ROCE (%)	18.7%	8.5%	21.9%	27.5%	31.8%
Return On Average Assets	9.0%	2.6%	9.2%	11.1%	12.6%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 30 Jun 2023		
632 companies under coverage for quarter ended on 30 Jun 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)

Jiumaojiu (9922 HK)

— Price Close



RECOMMENDATION FRAMEWORK

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Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

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Definition:

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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