

Hong Kong
ADD (no change)

Consensus ratings*: Buy 23 Hold 5 Sell 3

Current price:	HK\$9.94
Target price:	HK\$18.60
Previous target:	HK\$29.70
Up/downside:	87.1%
CGI / Consensus:	-8.4%
Reuters:	1579.HK
Bloomberg:	1579 HK
Market cap:	US\$1,318m
	HK\$10,305m
Average daily turnover:	US\$6.86m
	HK\$53.59m
Current shares o/s:	980.3m
Free float:	49.9%

*Source: Bloomberg

Key changes in this note

- FY23F EPS reduced by 5.8%.
- FY24F EPS reduced by 11.2%.
- FY25F EPS reduced by 13.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-11.3	-23.3	-65.6
Relative (%)	-2.8	-10.4	-33.5

Major shareholders	% held
Sean Shi	17.0
ZYSP Trust	31.1

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Yihai

Weak third-party sales likely in 4Q23F

- We expect double-digit yoy growth for related-party sales (with Haidilao) in 2H23F, driven by a low base in FY22 and good recovery in Haidilao's table turn-over rate.
- We also expect third-party sales to drop yoy in 2H23F due to late launch of new products and a relatively high base in 2H22.
- We expect related-party sales growth to remain solid and third-party sales growth to pick up in FY24F, driven by the B2B channel and lower tier market expansion.
- Reiterate Add with a lower DCF-based TP of HK\$18.6, as we believe Yihai has ample room to expand its third-party sales channels and launch new products.

A double-digit yoy decline in third-party sales likely in 4Q23F

Management said, during our Consumption Corporate Day on 16 Jan 2024, that third-party sales were weak in 4Q23F and likely dipped by the double-digits yoy due to a high base in 4Q22, which partially offset the mid-single-digit yoy sales growth in 3Q23. Management saw a sales recovery in the condiment segment in 3Q23, driven by the relaunch of products (i.e. beef tallow). However, the weak macroeconomics and high base in 4Q23 dragged down overall third-party sales growth. The convenient food segment was the biggest drag for sales growth in 2H23F, due to a high base in 2H22. Management expects the convenient food segment sales to decline by double-digit yoy in FY23F. Overall, we estimate third-party sales to decline by 7% yoy in FY23F (1H23: -14.8% yoy; 2H23F: -1.9% yoy).

Related-party sales to Haidilao remained strong in 2H23F

Haidilao's (6862 HK, Add, TP: HK\$30, CP: HK\$12.8) table turnover rate has continued to recover in 2H23F. We estimate Haidilao's table turnover rate rose to 80% of 2019's level in FY23F, i.e. 4.8x table turnover rate in FY19. We expect Yihai's sales to Haidilao (at 34% of its sales in 1H23) to stay strong in 2H23F. Management said related-party sales rose in the double-digits yoy in 2H23F. We expect related-party sales growth to be robust at 21.4% yoy in 2H23F vs. 34.6% yoy in 1H23. Yihai reduced its selling prices to Haidilao by the single digits in Sep 23 due to lower raw material prices, which would lower Yihai's related-party GPM. Management said in the meeting that the company aims to maintain a GPM of 15% with its related party, ie Haidilao, from FY23 onwards (from c.25% average in the past 5 years). We expect Yihai's overall GPM to widen by 0.8% pt yoy to 31% in FY23F (1H23: 30.5%, 2H23F: 31.4%). We expect 2H23F to see hoh higher GPM, driven by: 1) lower raw material costs, and 2) better product mix, since 2H is the high season for hotpot.

Expanding into B2B distribution channel and online channel

Management said in the Consumption Corporate Day meeting that it plans to grow its B2B channel sales from c.Rmb100m in FY23F to Rmb200m-300m in FY24F, through cooperation with smaller catering brands and restaurant chain brands. The company used to pay less attention to its online channel, but management said that it would focus on managing the online channels from FY24F onwards. Since Yihai's Thailand plant has started operating since Apr 2023, we believe that overseas expansion would be a revenue growth driver in the next 3-5 years, by: 1) providing more tailor-made products for local markets, 2) penetrating more local distribution channels, and 3) supplying more condiment products to Super Hi (9658 HK, Not Rated), as Super Hi's restaurants expand overseas.

Reiterate Add, with a lower DCF-based TP of HK\$18.6

We cut our FY23-25F EPS forecasts by 5.8-13.0%, reflecting lower-than-expected third party sales growth. Hence, we derive a lower DCF-based TP of HK\$18.6 (WACC: 10.7%, terminal growth rate: 3%). We reiterate our Add rating as we believe that Yihai has potential to improve its margins, supported by third-party sales recovery and increasing in-house production ratio. Better revenue growth in 1H24F is a potential re-rating catalyst. Key downside risks are: 1) a slower recovery in third-party sales, 2) weaker sales to Haidilao, and 3) higher raw material prices.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	5,943	6,147	6,203	6,639	7,055
Operating EBITDA (Rmbm)	979	979	1,075	1,164	1,287
Net Profit (Rmbm)	766.3	742.0	839.5	895.7	985.7
Normalised EPS (Rmb)	0.78	0.76	0.86	0.91	1.01
Normalised EPS Growth	(13.4%)	(3.2%)	13.1%	6.7%	10.0%
FD Normalised P/E (x)	11.71	12.09	10.68	10.01	9.10
DPS (Rmb)	0.25	0.23	0.34	0.37	0.50
Dividend Yield	2.72%	2.50%	3.75%	4.00%	5.50%
EV/EBITDA (x)	7.86	7.46	7.16	6.42	5.57
P/FCFE (x)	NA	31.46	43.00	15.31	11.21
Net Gearing	(38.3%)	(41.4%)	(29.0%)	(29.7%)	(31.8%)
P/BV (x)	2.36	2.08	1.82	1.61	1.46
ROE	22.0%	18.3%	18.2%	17.1%	16.9%
CGI/consensus EPS (x)			0.98	0.92	0.89
% Change In Normalised EPS Estimates			(5.8%)	(11.2%)	(13.0%)
Normalised EPS/consensus EPS (x)			0.98	0.92	0.89

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Weak third-party sales likely in 4Q23F

Figure 1: Earnings revision

Earnings revision	FY23F			FY24F			FY25F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	7,144	6,203	-13.2%	8,148	6,639	-18.5%	9,278	7,055	-24.0%
Gross margin (%)	30.9%	31.0%	0.1% pts	31.4%	30.8%	-0.5% pts	31.8%	31.3%	-0.5% pts
Operating margin (%)	17.1%	17.3%	0.3% pts	17.6%	17.5%	-0.1% pts	18.1%	18.2%	0.1% pts
Net income	891	840	-5.8%	1,009	896	-11.2%	1,133	986	-13.0%
EPS	0.91	0.86	-5.8%	1.03	0.91	-11.2%	1.16	1.01	-13.0%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

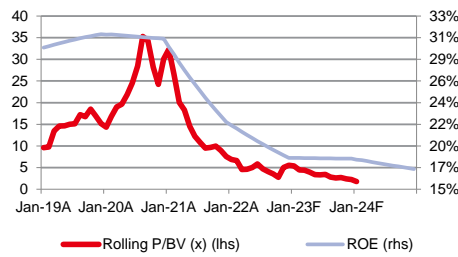
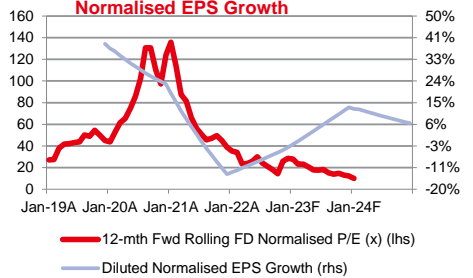
Figure 2: DCF valuation (Rmb m)

	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Sales	6,147	6,203	6,639	7,055	8,819	11,024	13,229	15,875	19,049	22,859
Growth (% YoY)	3%	1%	7%	6%	25%	25%	20%	20%	20%	20%
Operating Income (EBIT)	1,142	1,305	1,394	1,812	2,265	2,831	3,398	4,077	4,893	5,871
Depreciation & Amortisation	116	147	174	200	250	313	375	450	540	648
Changes in Net Working Capital	197	(282)	(10)	(10)	(12)	(16)	(19)	(22)	(27)	(32)
Capital Expenditure	(572)	(434)	(418)	(400)	(500)	(625)	(750)	(900)	(1,080)	(1,296)
Free Cash Flow	557	363	742	1,602	2,003	2,503	3,004	3,605	4,326	5,191
PV FCF	557	360	665	1,297	1,465	1,654	1,794	1,945	2,109	2,287

Fair value		DCF valuation assumptions	
Sum of PV FCF (Enterprise Value)	14,391	Cost of debt	3.0%
Less: Net Debt	(1,881)	Borrowing cost	4%
Equity Value - RMB mn	16,271	Tax rate	25%
Shares outstanding	980	Cost of equity	12.6%
Per Share Value - Rmb	17	Risk-free rate (HK)	2.5%
HK\$/Rmb	0.89	Beta	1.1
Per Share Value - HK\$	18.60	Equity risk premium	9.0%
		Long-Term Debt / Total Cap.	20%
		WACC	10.7%
		Terminal Growth	3.0%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

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	5,943	6,147	6,203	6,639	7,055
Gross Profit	1,924	1,854	1,926	2,048	2,205
Operating EBITDA	979	979	1,075	1,164	1,287
Depreciation And Amortisation	0	0	0	0	0
Operating EBIT	979	979	1,075	1,164	1,287
Financial Income/(Expense)	23	24	50	50	50
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	168	138	180	180	180
Profit Before Tax (pre-EI)	1,170	1,142	1,305	1,394	1,517
Exceptional Items					
Pre-tax Profit	1,170	1,142	1,305	1,394	1,517
Taxation	-313	-326	-373	-398	-433
Exceptional Income - post-tax					
Profit After Tax	858	816	932	996	1,084
Minority Interests	-91	-74	-92	-100	-98
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	766	742	840	896	986
Normalised Net Profit	858	816	932	996	1,084
Fully Diluted Normalised Profit	766	742	840	896	986

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	979	979	1,075	1,164	1,287
Cash Flow from Inv. & Assoc.					
Change In Working Capital					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-141	191	-258	21	8
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	839	1,171	817	1,185	1,294
Capex	0	0	0	0	0
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-1,047	-886	-608	-600	-494
Cash Flow From Investing	-1,047	-886	-608	-600	-494
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	-70	-345	-602	-358	-495
Cash Flow From Financing	-70	-345	-602	-358	-495
Total Cash Generated	-279	-60	-393	227	305
Free Cashflow To Equity	-208	285	209	586	800
Free Cashflow To Firm	-208	285	209	586	800

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	1,574	1,881	1,487	1,715	2,020
Total Debtors	237	156	375	395	414
Inventories	395	387	397	426	450
Total Other Current Assets	190	688	688	688	688
Total Current Assets	2,395	3,111	2,947	3,224	3,573
Fixed Assets	1,283	1,669	2,026	2,270	2,470
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	1,327	771	1,119	1,275	1,349
Total Non-current Assets	2,610	2,440	3,145	3,545	3,819
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	294	396	325	349	368
Other Current Liabilities	439	464	481	498	511
Total Current Liabilities	733	860	806	846	879
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	163	154	154	154	154
Total Non-current Liabilities	163	154	154	154	154
Total Provisions	0	0	0	0	0
Total Liabilities	896	1,014	961	1,001	1,034
Shareholders' Equity	3,806	4,320	4,916	5,554	6,144
Minority Interests	303	217	217	217	217
Total Equity	4,109	4,537	5,133	5,771	6,362

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	10.9%	3.4%	0.9%	7.0%	6.3%
Operating EBITDA Growth	(21.4%)	0.0%	9.7%	8.3%	10.6%
Operating EBITDA Margin	16.5%	15.9%	17.3%	17.5%	18.2%
Net Cash Per Share (Rmb)	1.61	1.92	1.52	1.75	2.06
BVPS (Rmb)	3.88	4.41	5.01	5.67	6.27
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	26.7%	28.6%	28.6%	28.6%	28.6%
Net Dividend Payout Ratio	31.8%	30.3%	40.0%	40.0%	50.0%
Accounts Receivables Days	13.12	11.64	15.60	21.23	20.95
Inventory Days	36.39	33.28	33.48	32.83	33.00
Accounts Payables Days	26.05	29.35	30.77	26.85	26.99
ROIC (%)	67.0%	36.3%	38.2%	30.6%	30.6%
ROCE (%)	26.8%	23.2%	23.3%	22.3%	22.0%
Return On Average Assets	18.2%	15.0%	15.1%	14.7%	14.6%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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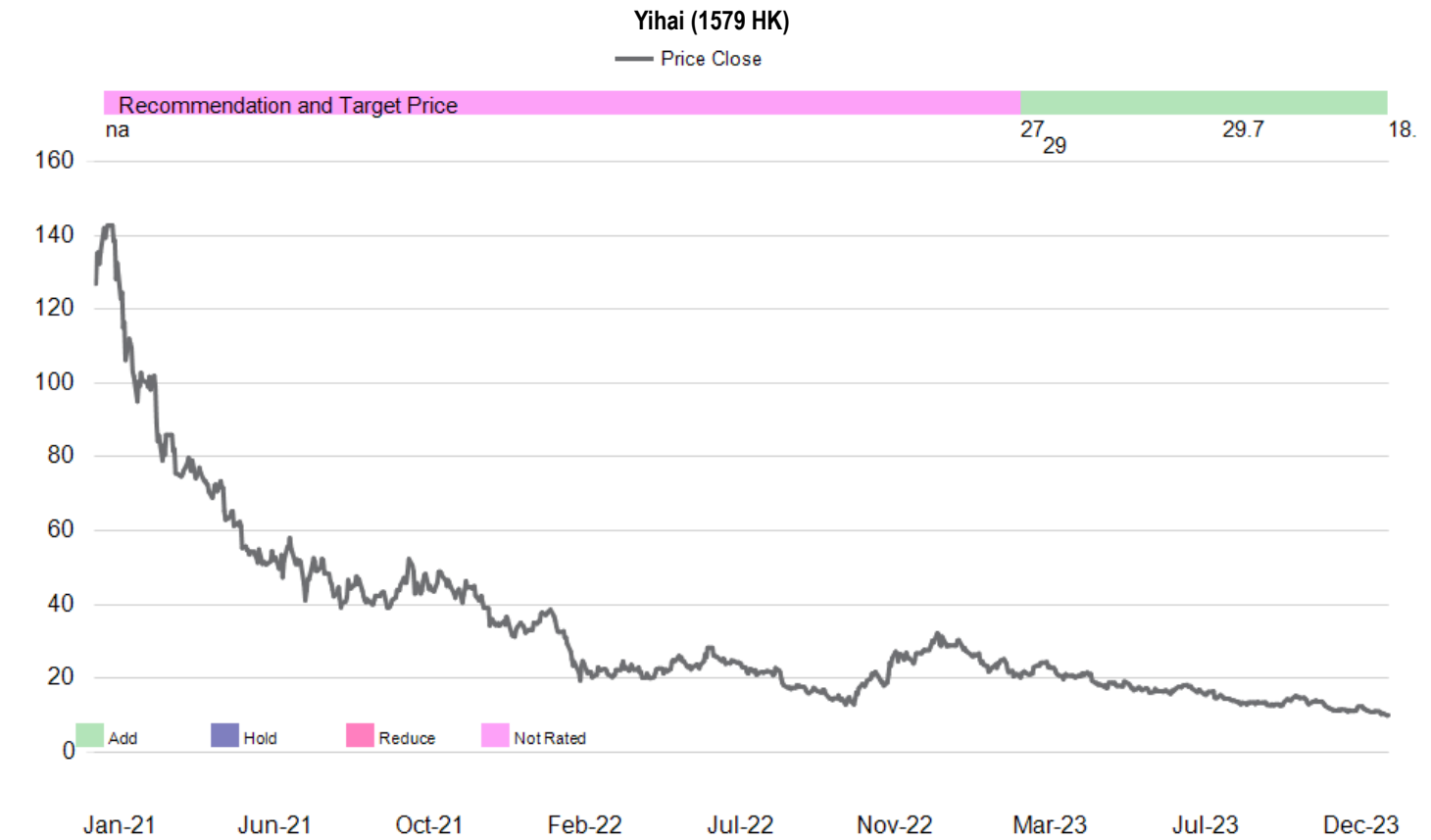
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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2023		
636 companies under coverage for quarter ended on 31 Dec 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
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.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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