Wednesday, Mar 26, 2025

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Haidilao International (6862 HK)

A successful transformation; u/g to BUY

- **2H net profits was a solid beat on sound cost controls**
- **New-store tableturn tracks above existing-store an ongoing merit**
- **U/G to BUY; TP based on 19.0x end-25E P/E**

Transformation sustained by both sales and cost drivers

Haidilao's 2H net profits was a solid beat to us/consensus thanks to 1) a record high 63.2% GPM underpinned by input cost savings (Yihai's GPM of condiment sales to related party declined by 3.1ppt), and 2) lower staff costs because of the effective "twin-restaurant manager" model. We feel that the two are sound cost control measures that could structurally revamp HDL's profit margins outlook. On the revenue front, what caught our eye was a persistently higher table turn from new stores (vs exiting stores since 2H23) that proves HDL's profit reorientation strategy (from merely store opens) more successful than we expected. Considering also the merit of a stabilizing ASP (stable at cRMB97 for 1H & 2H24), we feel the soft SSSG and table turn trajectory (both still below 2019 level) might no longer be incremental negatives to trigger further de-rating. U/G to BUY.

Key conference call takeaway

- HDL targets to open more quality stores while maintaining its MSD% store expansion rate；and incorporating franchising store expansion into the overall store development strategy.
- 41 new restaurants have been signed as of Feb 2025, including 30 new stores and 11 relocations, with most in tier-3 cities or below
- Mgmt expects a relative stable average spending trend in FY25.
- Pomegranate Plan incubated 11 sub-brands/74 stores in FY24.

FY24 results snapshot

- Overall table turnover rate in FY24 grew to 4.1x (vs. 3.8x in FY23).
- ASP declined by 1.6% yoy to RMB97.5 (vs. RMB99.1 in FY23).
- HDL opened 62 new restaurants (59/3 self-operated /franchised), while 70 were closed/re-located, towards 1,368 at YE.

Earnings change

- We lower our 2025/26E revenue by 11%/13% to reflect the 2H24, along with an MSD% growth in total store count.
- We raise our 2025/26E EBITDA by 12%/18% respectively to reflect the effectiveness of cost initiatives.

Valuation and risk

- Our refreshed TP of HKD20.0 (from previously HKD12.4) is based on 19.0x roll forward end-25E P/E (from previously 15.0x mid-25E) which now represents average valuation since 2022 (from -1SD below mean). **Downside risk**: input cost inflation, price-war, deteriorating table turn.

Financials

Year ended 31 Dec (RMB mn)	2023	2024	2025E	2026E	2027E
Revenue	41,453	42,755	45,248	48,777	53,067
yoy	*33.6%*	*3.1%*	*5.8%*	*7.8%*	*8.8%*
Attributable net profit	4,499	4,708	5,384	6,029	6,654
yoy	*174.6%*	*4.6%*	*14.4%*	*12.0%*	*10.4%*
Diluted EPS (RMB)	0.83	0.87	0.99	1.11	1.23
P/E	19.8x	18.9x	16.5x	14.8x	13.4x

Sources: Company data, CMS (HK) estimates; share price as of Mar 25, 2025

Joseph Wong
+852 3189 6357
josephwong@cmschina.com.hk

Flynn Zheng
+852 3189 6751
flynnzheng@cmschina.com.hk

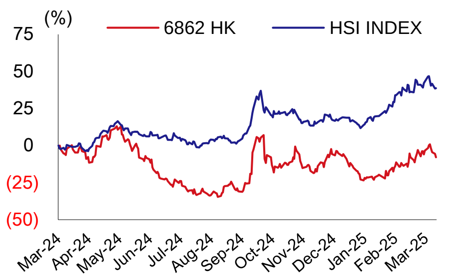
WHAT'S NEW

2H NP was a solid beat on effective cost initiatives. Consistent good new-store table turn proves successful transformation. U/G to BUY.

BUY

Previous	HOLD
Price (Mar 25, 2025)	HKD17.6
12-month Target Price (Potential up/downside)	HKD20.0 (13.6%)
Previous	HKD 12.4

Price Performance



Source: Bloomberg; share price as of Mar 25, 2025

%	1m	6m	12m
6862 HK	10.6	3.0	4.0
HSI	(1.7)	17.4	40.7

Sector: Consumer	
Hang Seng Index (Mar 25, 2025)	23,344
HSCEI (Mar 25, 2025)	8,616
Key Data	
52-week range (HKD)	11.42 - 20.9
Market cap (HKD mn)	92,528
Avg. daily volume (mn)	26.73
BVPS (RMB)	1.99
Shareholding Structure	
ZY NP Ltd.	32.33%
SYH NP Ltd.	20.61%
SP NP LTD	7.37%
LHY NP LTD	5.25%
Others	5,574
Free float	34.4%

Source: Bloomberg

Figure 1: Key operational data

	FY22	FY23	1H24	2H24
ASP (RMB)				
Tier 1 City	114.2	105.7	104.1	103.9
Tier 2 City	104.3	98.3	96.8	97.0
Tier 3 City	97.9	92.8	91.4	91.4
Total PRC	103.2	97.3	95.7	95.7
HK, Macau and Taiwan	197.4	202.8	197.7	201.6
Overall	**104.9**	**99.1**	**97.4**	**97.6**
Table turnover				
Tier 1 City	3.0	3.8	4.0	4.0
Tier 2 City	3.0	3.9	4.3	3.9
Tier 3 City	2.9	3.6	4.1	3.9
Total PRC	2.9	3.8	4.2	4.0
HK, Macau and Taiwan	3.5	4.2	4.2	4.4
New restaurants	2.3	3.7	4.6	4.2
Existing restaurants	3.0	3.8	4.2	4.0
Overall	**3.0**	**3.8**	**4.2**	**4.0**
Restaurant number				
Tier 1 City	234	232	226	220
Tier 2 City	538	538	530	531
Tier 3 City	577	581	564	581
Total PRC	1,349	1,351	1,320	1,332
HK, Macau and Taiwan	22	23	23	23
Total	**1,371**	**1,374**	**1,343**	**1,355**

Sources: Company data, CMS (HK)

Figure 2: Earnings revision summary

	New			Old			Diff (%)		
RMB mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	45,248	48,777	53,067	50,846	55,989	n.a	-11.0%	-12.9%	n.a
EBITDA	9,640	10,684	11,730	8,647	8,964	n.a	11.5%	19.2%	n.a
EBIT	6,934	7,769	8,560	5,276	5,578	n.a	31.4%	39.3%	n.a
Net profit	5,384	6,029	6,654	4,336	4,547	n.a	24.2%	32.6%	n.a
EBITDA Margin	21.3%	21.9%	22.1%	17.0%	16.0%	n.a	4.3ppt	5.9ppt	n.a
EBIT Margin	15.3%	15.9%	16.1%	10.4%	10.0%	n.a	4.9ppt	6ppt	n.a
NPM	11.9%	12.4%	12.5%	8.5%	8.1%	n.a	3.4ppt	4.2ppt	n.a

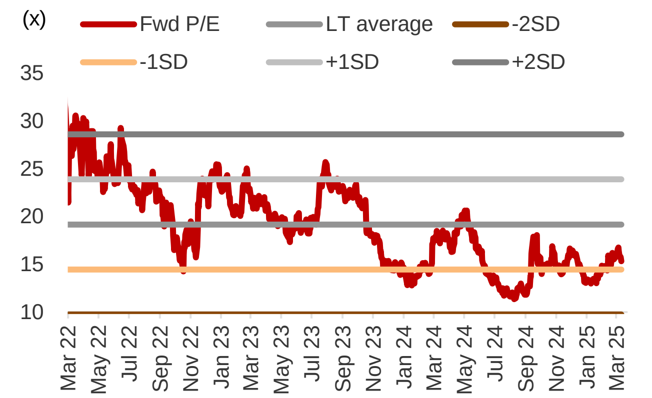
Sources: Company data, CMS (HK) estimates

Figure 3: CMS estimates vs. consensus

	CMS			Consensus			Diff (%)		
RMB mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	45,248	48,777	53,067	47,471	50,532	54,417	-4.7%	-3.5%	-2.5%
EBITDA	9,640	10,684	11,730	9,056	9,636	10,541	6.4%	10.9%	11.3%
EBIT	6,934	7,769	8,560	6,452	7,200	7,686	7.5%	7.9%	11.4%
Net profit	5,384	6,029	6,654	5,197	5,804	6,151	3.6%	3.9%	8.2%
EBITDA Margin	21.3%	21.9%	22.1%	19.1%	19.1%	19.4%	2.2ppt	2.8ppt	2.7ppt
EBIT Margin	15.3%	15.9%	16.1%	13.6%	14.2%	14.1%	1.7ppt	1.7ppt	2ppt
NPM	11.9%	12.4%	12.5%	10.9%	11.5%	11.3%	1ppt	0.9ppt	1.2ppt

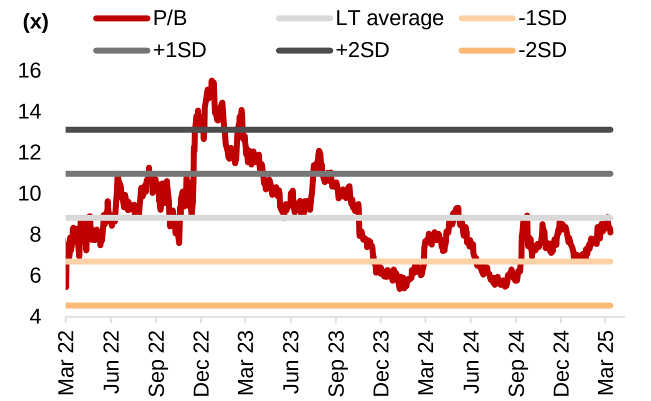
Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 4: Forward P/E



Sources: Bloomberg, CMS (HK) estimates

Figure 5: Historical P/B



Sources: Bloomberg, CMS (HK)

Financial statement

Balance Sheet

RMB mn	2023	2024	2025E	2026E	2027E
PP&E	3,921	3,320	5,410	8,633	12,133
Right of use assets	3,461	3,019	5,109	8,332	11,832
Goodwill	85	85	85	85	85
Investment in associate/JV	304	180	180	180	180
Other non-current assets	1,999	3,154	3,150	3,146	3,142
Non-current assets	**9,770**	**9,757**	**13,933**	**20,375**	**27,372**
Inventories	1,075	1,061	1,095	1,174	1,278
Receivables and prepayments	2,029	1,517	1,606	1,731	1,883
Financial assets at FVTPL	779	1,140	1,140	1,140	1,140
Deposits	26	70	70	70	70
Bank Balances and Cash	9,330	7,475	3,840	-2,161	-8,665
Other current assets	1,669	1,761	1,611	1,611	1,611
Current assets	**14,907**	**13,024**	**9,363**	**3,566**	**-2,683**
Total assets	**24,677**	**22,781**	**23,296**	**23,941**	**24,690**
Account Payable	3,994	4,043	4,278	4,612	5,018
Due to Related Parties	361	373	373	373	373
Bank Borrowings	619	98	98	98	98
Other current liabilities	2,269	2,590	2,590	2,590	2,590
Current liabilities	**7,242**	**7,104**	**7,340**	**7,673**	**8,079**
Deferred Tax Liabilities	210	106	106	106	106
Lease Liabilities	3,615	3,109	3,109	3,109	3,109
Bank Borrowing	0	0	0	0	0
Other Borrowing	0	0	0	0	0
Provision and other liabilities	2,093	2,045	2,045	2,045	2,045
Non-current liabilities	**5,918**	**5,260**	**5,260**	**5,260**	**5,260**
Total liabilities	**13,160**	**12,364**	**12,599**	**12,933**	**13,339**
Share Capital	0	0	0	0	0
Reserves	11,526	10,434	10,703	11,004	11,337
Non-controlling interests	-10	-16	-6	4	14
Total equity	**11,517**	**10,417**	**10,697**	**11,008**	**11,351**
Total equity and liabilities	**24,677**	**22,781**	**23,296**	**23,941**	**24,690**

Cashflow Statement

RMB mn	2023	2024	2025E	2026E	2027E
Profit before tax	5,833	6,624	7,574	8,483	9,363
Depreciation and amortization	-2,142	-2,511	-2,659	-2,868	-3,122
Change in working capital	0	574	113	129	150
Income tax	-980	-1,924	-2,200	-2,464	-2,719
Other cash flows from	6,289	3,372	150	0	0
CF from operating activities	**9,000**	**6,136**	**2,978**	**3,281**	**3,672**
Capital expenditure	-452	-938	-1,497	-3,554	-3,855
Interest received	206	0	0	0	0
Others	-2,530	-1,053	0	0	0
CF from investing activities	**-2,777**	**-1,991**	**-1,497**	**-3,554**	**-3,855**
Dividend paid	-554	-6,000	-5,115	-5,728	-6,321
Repayment of bank borrowings	1,054	0	0	0	0
New borrowing raised	0	0	0	0	0
Others	-4,002	0	0	0	0
CF from financing activities	**-3,502**	**-6,000**	**-5,115**	**-5,728**	**-6,321**
Net cash flow	**2,722**	**-1,855**	**-3,634**	**-6,001**	**-6,504**

Profit & Loss

RMB mn	2023	2024	2025E	2026E	2027E
Revenues	**41,453**	**42,755**	**45,248**	**48,777**	**53,067**
Raw materials cost	-16,946	-16,211	-16,742	-17,950	-19,529
Staff Costs	-13,040	-14,113	-14,660	-15,609	-16,875
Property rentals	-362	-426	-450	-485	-528
Utilities	-1,374	-1,466	-1,584	-1,707	-1,857
Travel and others	-1,815	-2,121	-2,172	-2,341	-2,547
EBITDA	**7,916**	**8,418**	**9,640**	**10,684**	**11,730**
D&A	-2,178	-2,535	-2,682	-2,892	-3,146
EBIT	**5,701**	**5,859**	**6,934**	**7,769**	**8,560**
Finance costs	-351	-275	-300	-300	-300
Other income/expenses	484	1,040	1,040	1,113	1,202
Profit before tax	**5,833**	**6,624**	**7,673**	**8,582**	**9,463**
Income tax expense	-1,338	-1,924	-2,200	-2,464	-2,719
Net profit	**4,495**	**4,700**	**5,474**	**6,118**	**6,743**
Non-controlling interest	4	8	10	10	10
Attributable net profit	**4,499**	**4,708**	**5,384**	**6,029**	**6,654**
Diluted EPS (RMB)	0.83	0.87	0.99	1.11	1.23
DPS (RMB)	0.75	1.11	0.94	1.06	1.17

Financial Ratio

	2023	2024	2025E	2026E	2027E
yoy growth rate					
Revenue	33.6%	3.1%	5.8%	7.8%	8.8%
EBITDA	56.3%	6.3%	14.5%	10.8%	9.8%
Operating profit	127.6%	2.8%	18.3%	12.0%	10.2%
Net profit	174.6%	4.6%	14.4%	12.0%	10.4%
EPS	174.6%	4.6%	14.4%	12.0%	10.4%
Profitability					
EBITDA margin	19.1%	19.7%	21.3%	21.9%	22.1%
EBIT margin	13.8%	13.7%	15.3%	15.9%	16.1%
Net margin	10.9%	11.0%	11.9%	12.4%	12.5%
Liquidity					
AR days	17.9	13.0	13.0	13.0	13.0
Inventory days	23.1	23.9	23.9	23.9	23.9
AP days	35.2	34.5	34.5	34.5	34.5
Cash conversion cycle	5.8	2.3	2.3	2.3	2.3
Cash flow & leverage					
Free cash low	8,548	5,197	1,481	-274	-183
Net debt to equity	212.9%	192.7%	197.7%	203.2%	209.4%
Dividend payout ratio	90.3%	127.4%	95.0%	95.0%	95.0%
Dividend yield	5.4%	7.9%	6.7%	7.6%	8.3%
Return analysis					
ROE	39.0%	45.1%	50.3%	54.8%	58.7%
Asset turnover	18.2%	20.7%	23.1%	25.2%	27.0%
Valuation ratios					
P/E	19.8x	18.9x	16.5x	14.8x	13.4x
P/B	6.1x	6.8x	6.6x	6.4x	6.2x

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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Hong Kong
China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong Kong
Tel: +852 3189 6888   Fax: +852 3101 0828