

## Company Report

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

### Haidilao International (6862 HK)

#### Outlet restructuring stresses near term earnings

- 1H miss; HDL expects a MSD% growth in FY store openings
- Pursuit of store quality leads to deleveraging that stresses profits
- Maintain HOLD; when the stock trades at -1sd below average

#### 1H miss; near term pain from quality reorientation prevails

A net 31 store closure has put HDL's 1H sales/net profits 2%/7% below our expectations. The trajectory is likely to persist, in our view, due to an over-expansion since 2021, and a faltering ASP trend (1H24: -5.3% yoy to RMB97.4 vs 1H23: RMB102.9). This is despite a recovering table turnover (1H24: 4.2x vs 1H23 3.3x) and SSSG (1H24: 14.5% vs 1H23: 12.3%), which likely kicked-in at the cost of more aggressive promotion and mix change. We now look for a 70 gross openings in 2H (11 in 1H24), and this compares to a MSD% gross openings per guidance. While we view it positively, the current strategic shift to expansion quality (from merely store count expansion) would continue to weigh on near term earnings through operation deleveraging. Out of the results, HDL's 95%-payout interim dividend (1H23: nil) looks to be the only worth-noting positive, when compared to names we suggest avoiding such as [JMJ \(9922HK, SELL\)](#). With valuation already trading below -1sd below long term average, we maintain HOLD.

#### Key conference call takeaway

- HDL targets to expand the restaurant opening by MSD% in FY24
- July table turnover rate remained flat yoy
- More franchisee stores to be opened in 2H24

#### Key 1H results datapoint

- Overall table turnover rate in 1H grew to 4.2x (vs. 3.3x in 1H23)
- ASP declined by 5.3% yoy to RMB97.4 (vs. RMB102.9 in 1H23)
- 31 HDL restaurants were net closed in 1H, bringing the total store count to 1,343 by 1H24

#### Earnings change

- We adjust our 2024E estimates according to the results, and hence an 1%/8% cut in our revenue and net profits estimates.
- We cut our 2024-26E EBIT by 10-35% to reflect the deleveraging in operating costs amid a slower store expansion pace.

#### Valuation and risk

- Our refreshed TP of HKD12.4 (from previously HKD14.5) is based on 15.0x mid-25E P/E (from previously 16.5x end-24E) which still represents -1sd below mean.
- **Key catalysts:** Better-than-expected table turn/SSSG/ASP. **Key risks:** higher net store closure.

#### Financials

Year ended 31 Dec (RMB mn)	2022	2023	2024E	2025E	2026E
Revenue	31,039	41,453	46,217	50,846	55,989
yoy	-24.5%	33.6%	11.5%	10.0%	10.1%
Attributable net profit	1,374	4,499	4,292	4,336	4,547
yoy	-133.0%	227.3%	-4.6%	1.0%	4.9%
FDEPS (RMB)	0.25	0.83	0.79	0.80	0.84
P/E	47.7x	14.6x	15.3x	15.1x	14.4x

Sources: Company data, CMS (HK) estimates; share price as of Aug 27, 2024

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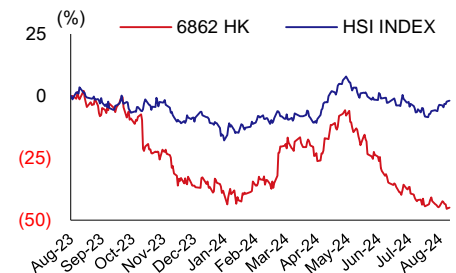
#### WHAT'S NEW

1H results miss. ASP declined by 5.3% yoy. Overall table turnover rate in 1H grew to 4.2x. HDL expects a MSD% growth in FY store openings. Maintain HOLD

### HOLD

Previous	HOLD
Price (Aug 27, 2024)	HKD12.34
12-month Target Price (Potential up/downside)	HKD12.4 (0.3%)
Previous	HKD 14.5

#### Price Performance



Source: Bloomberg; share price as of Aug 27, 2024

%	1m	6m	12m
6862 HK	(2.5)	(16.3)	(43.2)
HSI	5.0	6.5	(0.5)

#### Sector: Consumer

Hang Seng Index (Aug 27, 2024)	17,875
HSCEI (Aug 27, 2024)	6,306

#### Key Data

52-week range (HKD)	11.42 - 22.65
Market cap (HKD mn)	68,337
Avg. daily volume (mn)	12.61
BVPS (RMB)	2.27

#### Shareholding Structure

ZY NP Ltd.	32.33%
SYH NP Ltd.	20.61%
SP NP LTD	7.37%
LHY NP LTD	6.03%
Others	5,574
Free float	33.7%

Source: Bloomberg

#### Related Research

1. Yum China (YUMC US/9987 HK) - 2Q surprised on cost efficiency (BUY) (Aug 6, 2024)
2. Jiumaojiu International (9922 HK) - An inflection remains unseen; D/G to SELL (SELL) (Jul 22, 2024)

### Key conference call takeaway:

- Store opening guidance**  
 The management aims to expand the restaurant openings by MSD % in FY24, mainly consistent with the previously provided guidance of a single-digit expansion rate. The store opening pace in 2H will be significantly faster than in 1H.
- Recent performance update**  
 The overall table turnover rate in July remained flat yoy. However, excluding the impact of the difference in holiday days, the turnover rate showed a yoy improvement.
- Franchising business update**  
 Only 1 franchisee store opened in 1H24. The management expects more franchisee stores to be opened in 1H24.

### Key 2Q results data points:

The Group's 1H24 operating revenue grew by 13.8% yoy. Revenue from Haidilao restaurant operation grew by 13.8% yoy and accounted for 95% of total revenue, while delivery business and sales of condiment products and food ingredients accounted for 2.7% and 1.4% of total. Net profit increased by 10% yoy, affected by the net FX gain and loss and the termination of additional VAT deduction policy in Mainland China.

- Store count**  
 Store count in Mainland reduced by 31 during 1H24 to 1,320 stores. Including the business in Hong Kong, Macau, and Taiwan, the total number of stores recorded at 1,343 by 1H24.
- Overall **table turnover rate** improved from 3.3x in 1H23 to 4.2x in 1H24
  - Newly-opened restaurants: 4.6x
  - Other restaurants: 4.2x
- Average spending per guest** (in RMB) declined from 102.9 in 1H23 to 97.4 in 1H24, and if by city tier:
  - Tier 1 cities: 104.1, vs 110.3 in 1H23
  - Tier 2 cities: 96.8, vs 101.8 in 1H23
  - Tier 3 cities: 91.4, vs 96.1 in 1H23
  - Outside Mainland China: 197.7, vs 205.5 in 1H23
- Same store performance**
  - Number of same stores: 1,257 by the end of 1H24
  - Overall SSS grew by 15.3% yoy to RMB19.6bn
  - Average SSS per day grew to RMB86.1thousand from RMB75.2thousand
  - Average same store table turnover rate (times/day): 4.2, compared with 3.4 in 1H23
- Cost and expense**
  - The raw material cost ratio decreased from 40.7% to 39%, benefiting from the purchasing price of raw materials and consumables.
  - Labour cost as a % of revenue increased from 30.5% to 33.3%, mainly due to the increase in staff salary and benefit, and also some position supplements.
  - Rental expense increased by 5.3% yoy due to the increase in the variable lease payments resulting from revenue growth, but the cost-to-revenue ratio was flat.
  - D&A expense decreased by 11.1%, as some restaurants has been fully charged previously; D&A as a % of revenue also dropped, from 8% in 1H23 to 6.2% in 1H24, resulting from the less D&A expense and increase in revenue.
- The Group proposed an **Interim DPS of HKD0.391** (1H23: nil), representing a payout ratio of 95%

Figure 1: Key operational data

	2022	2023	1H24
<b>ASP (RMB)</b>			
Tier 1 City	114.2	105.7	104.1
Tier 2 City	104.3	98.3	96.8
Tier 3 City	97.9	92.8	91.4
Total PRC	103.2	97.3	95.7
HK, Macau and Taiwan	197.4	202.8	197.7
<b>Overall</b>	<b>104.9</b>	<b>99.1</b>	<b>97.4</b>
<b>Table turnover</b>			
Tier 1 City	3.0	3.8	4.0
Tier 2 City	3.0	3.9	4.3
Tier 3 City	2.9	3.6	4.1
Total PRC	2.9	3.8	4.2
HK, Macau and Taiwan	3.5	4.2	4.2
New restaurants	2.3	3.7	4.6
Existing restaurants	3.0	3.8	4.2
<b>Overall</b>	<b>3.0</b>	<b>3.8</b>	<b>4.2</b>
<b>Restaurant number</b>			
Tier 1 City	234	232	226
Tier 2 City	538	538	530
Tier 3 City	577	581	564
Total PRC	1,349	1,351	1,320
HK, Macau and Taiwan	22	23	23
<b>Total</b>	<b>1,371</b>	<b>1,374</b>	<b>1,343</b>

Sources: Company data, CMS (HK) estimates

Figure 2: Earnings revision summary

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
PRC ASP	97.2	90.5	84.8	97.4	91.9	85.6	-0.2%	-1.5%	-1.0%
Restaurant number	1,413	1,493	1,603	1,444	1,574	1,754	-2.1%	-5.1%	-8.6%
Revenue	46,217	50,846	55,989	46,815.0	52,320.0	60,592	-1.3%	-2.8%	-7.6%
EBITDA	8,333	8,647	8,964	8,987	10,364	12,178	-7.3%	-16.6%	-26.4%
EBIT	5,397	5,276	5,578	5,980	6,908	8,538	-9.8%	-23.6%	-34.7%
Net profit	4,292	4,336	4,547	4,840	5,874	7,106	-11.3%	-26.2%	-36.0%
EBITDA Margin	18.0%	17.0%	16.0%	19.2%	19.8%	20.1%	-1.2ppt	-2.8ppt	-4.1ppt
EBIT Margin	11.7%	10.4%	10.0%	12.8%	13.2%	14.1%	-1.1ppt	-2.8ppt	-4.1ppt
NPM	9.3%	8.5%	8.1%	10.3%	11.2%	11.7%	-1.1ppt	-2.7ppt	-3.6ppt

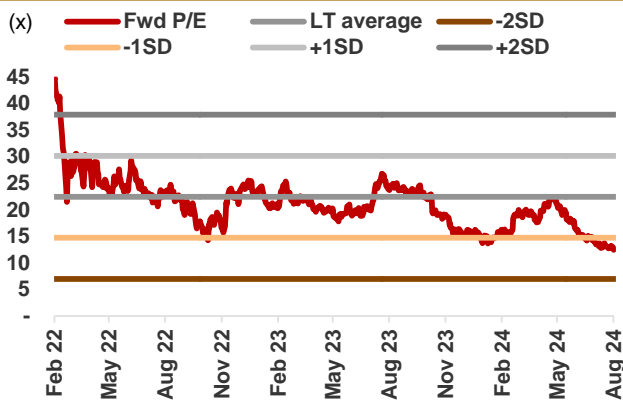
Sources: Company data, CMS (HK) estimates

Figure 3: CMS estimates vs. consensus

RMB mn	CMS			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	46,217	50,846	55,989	46,153	49,432	52,072	0.1%	2.9%	7.5%
EBITDA	8,333	8,647	8,964	8,869	9,594	9,909	-6.0%	-9.9%	-9.5%
EBIT	5,397	5,276	5,578	6,354	7,026	7,595	-15.1%	-24.9%	-26.6%
Net profit	4,292	4,336	4,547	4,907	5,476	5,852	-12.5%	-20.8%	-22.3%
EBITDA Margin	18.0%	17.0%	16.0%	19.2%	19.4%	19.0%	-1.2ppt	-2.4ppt	-3ppt
EBIT Margin	11.7%	10.4%	10.0%	13.8%	14.2%	14.6%	-2.1ppt	-3.8ppt	-4.6ppt
NPM	9.3%	8.5%	8.1%	10.6%	11.1%	11.2%	-1.3ppt	-2.5ppt	-3.1ppt

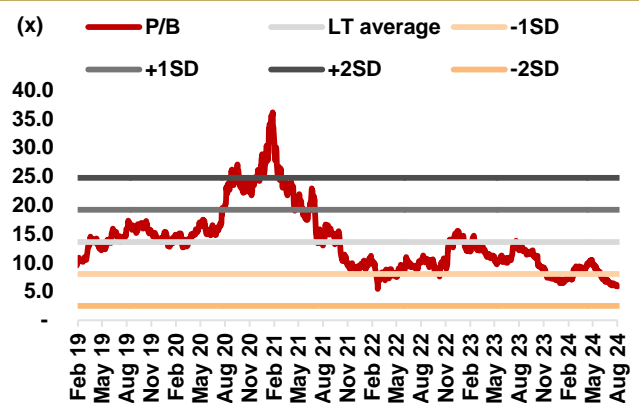
Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 4: Forward P/E



Sources: Bloomberg, CMS (HK)

Figure 5: Historical P/B



Sources: Bloomberg, CMS (HK)

## Financial statement

### Balance Sheet

RMB mn	2022	2023	2024E	2025E	2026E
PP&E	5,645	3,255	3,025	2,024	1,209
Right of use assets	3,866	3,208	3,209	2,377	1,843
Goodwill	85	85	85	85	85
Investment in associate/JV	257	220	220	220	220
Other non-current assets	1,080	1,914	1,908	1,908	1,905
<b>Non-current assets</b>	<b>10,933</b>	<b>8,683</b>	<b>8,448</b>	<b>6,614</b>	<b>5,262</b>
Inventories	1,142	819	1,102	1,251	1,429
Receivables and prepayments	1,957	1,481	2,019	2,234	2,491
Financial assets at FVTPL	408	1,163	1,163	1,163	1,163
Deposits	25	25	25	25	25
Bank Balances and Cash	6,621	11,682	7,416	13,860	17,607
Other current assets	354	1,521	1,521	1,521	1,521
<b>Current assets</b>	<b>10,507</b>	<b>16,690</b>	<b>13,246</b>	<b>20,054</b>	<b>24,235</b>
<b>Total assets</b>	<b>21,439</b>	<b>25,373</b>	<b>21,694</b>	<b>26,668</b>	<b>29,497</b>
Account Payable	2,798	3,469	4,345	4,931	5,633
Due to Related Parties	231	286	286	286	286
Bank Borrowings	2,341	294	294	1,500	1,500
Other current liabilities	1,863	6,368	1,840	1,952	2,110
<b>Current liabilities</b>	<b>7,232</b>	<b>10,418</b>	<b>6,765</b>	<b>8,669</b>	<b>9,529</b>
Deferred Tax Liabilities	158	119	18	18	20
Lease Liabilities	4,296	3,270	3,713	3,768	3,886
Bank Borrowing	215	-	-	-	-
Other Borrowing	17	0	0	0	0
Provision and other liabilities	2065	2026	2028	2028	2029
<b>Non-current liabilities</b>	<b>6,751</b>	<b>5,416</b>	<b>5,759</b>	<b>5,814</b>	<b>5,934</b>
<b>Total liabilities</b>	<b>13,983</b>	<b>15,834</b>	<b>12,524</b>	<b>14,483</b>	<b>15,463</b>
Share Capital	0	0	0	0	0
Reserves	7,443	9,553	10,515	13,540	15,399
Non-controlling interests	13	-14	-19	-29	-39
<b>Total equity</b>	<b>7,456</b>	<b>9,539</b>	<b>10,496</b>	<b>13,511</b>	<b>15,360</b>
<b>Total equity and liabilities</b>	<b>21,439</b>	<b>25,373</b>	<b>23,020</b>	<b>27,994</b>	<b>30,823</b>

### Cashflow Statement

RMB mn	2022	2023	2024E	2025E	2026E
Profit before tax	2,118	5,043	5,867	5,768	5,826
Finance Costs	474	420	264	305	323
Interest Income	-26	-36	-39	-39	-39
Shares of profit of associate/JV	-65	-54	-61	-57	-57
D&A	3,321	2,913	2,936	3,371	3,359
Changes in OWC	564	1,549	-37	322	195
Income tax paid and others	-474	-663	-1,780	-1,440	-1,450
<b>CF from operating activities</b>	<b>5,911</b>	<b>9,171</b>	<b>7,151</b>	<b>8,231</b>	<b>8,157</b>
Capital expenditure	-6,317	-2,084	-886	-1,460	-1,600
Investments	0	0	0	0	0
Others	382	-91	121	84	82
<b>CF from investing activities</b>	<b>-5,935</b>	<b>-2,175</b>	<b>-765</b>	<b>-1,376</b>	<b>-1,518</b>
Dividend paid	-550	38	-3,230	-1,301	-2,615
Equity financing	0	-401	-2,067	0	0
Debt financing (repaid)	-1,041	-1,924	-408	1,206	1
Others	-600	-753	-1,159	-315	-333
<b>CF from financing activities</b>	<b>-2,191</b>	<b>-3,040</b>	<b>-6,865</b>	<b>-411</b>	<b>-2,946</b>
<b>Net cash flow</b>	<b>-2,215</b>	<b>3,956</b>	<b>-479</b>	<b>6,444</b>	<b>3,693</b>

### Profit & Loss

RMB mn	2022	2023	2024E	2025E	2026E
<b>Revenues</b>	<b>31,039</b>	<b>41,453</b>	<b>46,217</b>	<b>50,846</b>	<b>55,989</b>
Raw materials cost	-12,906	-16,946	-18,154	-20,475	-22,853
Staff Costs	-10,240	-13,040	-15,563	-17,190	-19,113
Property rentals	-274	-362	-418	-435	-463
Utilities	-1,048	-1,374	-1,612	-1,733	-1,990
Travel and others	-1,506	-1,815	-2,138	-2,366	-2,606
<b>EBITDA</b>	<b>5,064</b>	<b>7,916</b>	<b>8,333</b>	<b>8,647</b>	<b>8,964</b>
D&A	-3,321	-2,945	-2,936	-3,371	-3,387
<b>EBIT</b>	<b>1,743</b>	<b>4,970</b>	<b>5,397</b>	<b>5,276</b>	<b>5,578</b>
Finance costs	-474	-351	-264	-305	-326
Other income/expenses	848	1,214	734	797	797
Profit before tax	<b>2,118</b>	<b>5,833</b>	<b>5,867</b>	<b>5,768</b>	<b>6,049</b>
Income tax expense	-480	-1,338	-1,585	-1,442	-1,512
<b>Net profit</b>	<b>1,637</b>	<b>4,495</b>	<b>4,282</b>	<b>4,326</b>	<b>4,537</b>
Non-controlling interest	1	4	10	10	10
<b>Attributable net profit</b>	<b>1,374</b>	<b>4,499</b>	<b>4,292</b>	<b>4,336</b>	<b>4,547</b>
Diluted EPS (RMB)	0.25	0.83	0.79	0.80	0.84
DPS (RMB)	0.10	0.75	0.60	0.24	0.48

### Financial Ratio

	2022	2023	2024E	2025E	2026E
<b>yoY growth rate</b>					
Revenue	-24.5%	33.6%	11.5%	10.0%	10.1%
EBITDA	16.0%	56.3%	5.3%	3.8%	3.7%
Operating profit	-1046.8%	185.1%	8.6%	-2.2%	5.7%
Net profit	-133.0%	227.3%	-4.6%	1.0%	4.9%
EPS	-132.4%	227.3%	-4.6%	1.0%	4.9%
<b>Profitability</b>					
EBITDA margin	16.3%	19.1%	18.0%	17.0%	16.0%
EBIT margin	5.6%	12.0%	11.7%	10.4%	10.0%
Net margin	4.4%	10.9%	9.3%	8.5%	8.1%
<b>Liquidity</b>					
AR days	29.9	15.1	13.8	15.3	15.4
Inventory days	36.7	21.1	19.3	21.0	21.4
AP days	46.2	30.1	34.3	36.9	37.6
Cash conversion cycle	20.5	6.2	-1.1	-0.6	-0.8
<b>Cash flow &amp; leverage</b>					
Free cash low	-1,084	6,208	5,953	6,190	6,138
Net debt to equity	-54.0%	-119.4%	-67.9%	0.0%	0.0%
Dividend payout ratio	40.0%	90.3%	75.2%	30.0%	30.0%
Dividend yield	1.0%	6.8%	5.3%	2.1%	4.3%
<b>Return analysis</b>					
ROE	21.3%	52.9%	42.7%	36.0%	31.4%
Asset turnover	1.3	1.8	2.0	2.1	2.0
Net margin	5.3%	10.8%	9.3%	8.5%	8.1%
Financial leverage	3.2	2.8	2.3	2.0	1.9
ROIC	6.6%	19.2%	18.2%	17.9%	16.2%
<b>Valuation ratios</b>					
P/E	47.7x	14.6x	15.3x	15.1x	14.4x
P/B	8.2x	6.4x	5.8x	4.5x	4.0x

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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