

COMPANY NOTE

Target Change

China | Consumer | Restaurants

14 May 2015

Jefferies

Café de Coral (341 HK) Limited Earnings Upside on Cost Pressures; Maintain Hold

Key Takeaway

Our recent communication with management suggests that CDC continues to maintain a healthy SSSG but faces rising cost pressure as we expected. We like its strong operations, execution and multi-brand model, but see limited near-term earnings upside due to cost pressure. We maintain our earnings estimates, roll over valuation and raise PT to HKD28 from HKD26. Maintain Hold.

Business and management update. 1) CDC had a total of 461 restaurants as of March 2015, of which 335 were in Hong Kong (vs. 331 in Mar 2014) and 126 in mainland China/overseas (vs. 123 in March 2014). 2) Management targets opening (gross, before store closures) 30 stores in Hong Kong and c20 in mainland China). It intends to slow down expansion in mainland China to focus on improving its operations and profitability. 3) The company will continue the multi-brand strategy and intends to expand the store network of new brands. 4) SSSG in Hong Kong maintained at mid-high single digit in recent months, vs. c10% SSSG in Apr.14-Sep.14. 5) It incurred higher staff cost in 2HFY15 (Oct.14-Mar.15) due to additional hires to improve operations in both mainland China and Hong Kong. 6) It also raised wages for frontline staff by c8% in May 2015, in line with the increase in minimum wage requirement in Hong Kong.

Our views. We like CDC's strong operations, execution and multi-brand model. Its mass market positioning in Hong Kong and largely local customer base should help it withstand a slowing retail market in Hong Kong, led by slowdown in tourist spending. However, we expect rising cost pressure to weigh on its margin, and see limited earnings upside in the near term.

Earnings outlook. We maintain our earning forecasts. We expect sales to reach HKD7.5bn (+7.3% yoy) in FY15e and HKD8bn (+7.7% yoy) in FY16e. We expect net profit to grow 1.7% yoy to HKD591m in FY15e (7.9% net margin), and grow 15.3% yoy to HKD682m (8.4% net margin) in FY16e. Our earning forecasts are in line with consensus.

Valuation/Risks

We roll over valuation and raise PT to HKD28 from HKD26, based on 23x 12M forward PE (unchanged). Maintain Hold. CDC trades at 24x 12m forward PE vs the historical median of 23x and at a premium to Greater China restaurants (21x). The stock has outperformed the HSI by 2% in the past month but has underperformed by 10% in the past 3 month. **Risks:** Intensifying competition; deceleration in SSSG; sharp staff/rental cost hike. **Catalysts:** strong SSSG; slowdown in staff/rental cost hike; lower-than-expected margin pressure.

HKD	Prev.	2014A	Prev.	2015E	Prev.	2016E	Prev.	2017E
Rev. (MM)	--	6,990.5	--	7,499.7	--	8,076.9	--	8,782.1
Net Profit	--	581.2	--	591.2	--	681.7	--	774.4
Chg (% YoY)	--	7.6%	--	1.7%	--	15.3%	--	13.6%
BV/Share	--	6.50	--	6.80	--	7.20	--	7.60
P/B	--	4.5x	--	4.3x	--	4.0x	--	3.8x
Dividend	--	0.68	--	0.73	--	0.85	--	0.96
Div. Yield	--	2.33%	--	2.50%	--	2.92%	--	3.29%

EPS

FY Mar	--	1.01	--	1.02	--	1.18	--	1.34
FY P/E	--	28.9x	--	28.6x	--	24.7x	--	21.8x

HOLD

Price target HK\$28.00
(from HK\$26.00)
Price HK\$29.15

Bloomberg: 341 HK
Reuters: 341.HK

Financial Summary

Book Value (MM):	HK\$3,729.4
Book Value/Share:	HK\$6.50
Net Debt (MM):	(HK\$1,035.1)
Return on Avg. Equity:	16.0%
Net Debt/Capital:	(27.7)%
Long-Term Debt (MM):	HK\$0.0
Cash & ST Invest. (MM):	HK\$1,043.2

Market Data

52 Week Range:	HK\$30.40 - HK\$24.10
Total Entprs. Value (MM):	HK\$15,793.2
Market Cap. (MM):	HK\$16,828.3
Insider Ownership:	30.0%
Institutional Ownership:	51.3%
Shares Out. (MM):	577.3
Float (MM):	341.5
Avg. Daily Vol.:	350,745

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Price Performance

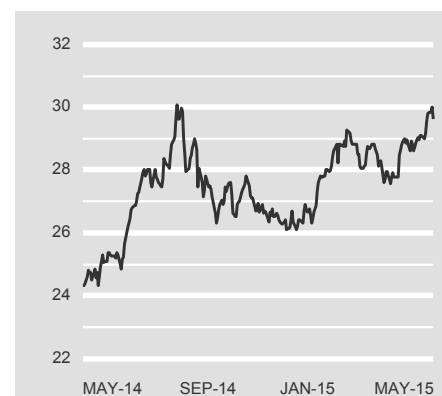


Chart 1: Derivation of fair value based on PE method

PE valuation	
12m forward EPS (HKD)	1.2
PE multiple target (X)	23
Price target (HKD)	28.0
Current market price (HKD/share)	29.4
Up/down-side	-4.6%
Dividend yield	2.5%
Total return	-2.1%

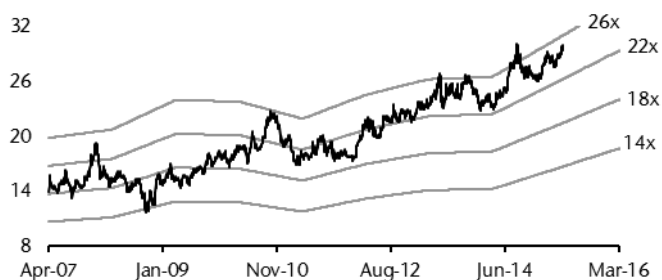
Source: Company data, Jefferies

Chart 2: PE based fair value sensitivity analysis

12-m forward PE	PE (x)	Fair price (HKD)
- Historical peak	27.8	33.4
- Historical trough	18.8	22.6
- Historical Median	23.1	27.8
- Greater China restaurants average	20.6	24.8
- US restaurants average	26.5	31.9
- Europe/other regions restaurants average	20.8	25.0

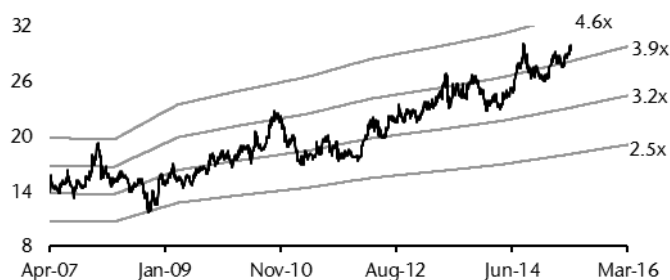
Source: Company data, Jefferies

Chart 3: 1-yr forward PE band



Source: Bloomberg, Jefferies

Chart 4: 1-yr forward PB band



Source: Bloomberg, Jefferies

Chart 5: Valuation comparison of restaurant companies

Companies	Bloomberg Ticker	Pricing ccy	JEF Rating	Price May 14	JEF PT	Mcap (USDm)	EV/EBITDA (x)		P/B (x)		P/E (x)		PEG (x)		ROA (%)		ROE (%)		CAGR2014-16e		Dividend yield		Net gearing 2014
							2015e	2016e	2015e	2016e	2015e	2016e	2015e	2016e	2015e	2016e	2015e	2016e	EPS	EBITDA	2015e	2016e	
HK/China Restaurants																							
Tsui Wah	1314 HK	HKD	Hold	2.6	2.9	474	10.8	8.7	2.8	2.6	19.6	16.0	1.0	0.7	11.5	12.8	15.0	16.9	21.4	22.3	3.1	3.8	-44.9
Café de Coral	341 HK	HKD	Hold	29.4	28.0	2,207	14.5	13.0	4.2	3.9	25.6	22.7	2.2	1.7	13.6	14.4	16.7	17.8	12.5	10.7	2.8	3.2	-27.5
Ajisen	538 HK	HKD	Hold	4.5	4.2	639	4.8	4.3	1.4	1.4	17.7	16.7	14.0	2.7	6.6	6.8	7.9	8.1	3.7	3.2	3.7	3.9	-51.5
China Quanjude-A	002186 CH	CNY	NC	25.4	NC	1,263	NA	NA	5.5	5.1	51.5	45.6	3.2	3.5	NA	NA	11.0	11.7	14.6	9.1	NA	NA	-46.7
Gourmet master	2723 TT	TWD	NC	165.5	NC	765	8.6	6.7	3.2	2.8	26.0	18.5	0.4	0.5	9.1	10.9	13.1	16.1	NA	NA	1.4	2.2	-37.2
Wowprime	2727 TT	TWD	NC	268.0	NC	676	8.2	6.8	4.2	3.7	24.0	19.9	1.1	1.0	8.3	8.7	18.9	20.5	21.3	14.1	3.2	4.0	-50.9
Xiabu xiabu catering	520 HK	HKD	NC	4.8	NC	660	7.4	6.0	2.8	2.4	17.5	14.5	0.6	0.7	NA	NA	17.5	NA	25.3	32.7	1.9	2.2	-88.1
Tao Heung	573 HK	HKD	NC	3.5	NC	459	NA	NA	NA	NA	12.0	NA	0.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	-7.9
Xiao Nan Guo	3666 HK	HKD	NC	1.1	NC	200	4.0	2.7	1.5	1.3	17.1	10.6	NA	NA	5.2	7.5	9.2	13.6	NA	50.8	0.8	3.0	-
Hop Hing	47 HK	HKD	NC	0.2	NC	221	8.6	4.7	3.8	3.2	34.2	15.5	0.8	0.1	5.8	11.3	11.7	22.0	NA	19.2	1.2	1.8	-
Mean (excl. outliers)							8.3	6.6	3.0	2.7	22.7	16.8	2.9	1.5	8.6	10.3	13.5	15.8	16.5	20.3	2.3	3.0	-44.3
US Restaurants																							
Starbucks	SBUX US	USD	Buy	49.6	57.0	74,410	16.1	14.1	10.6	9.3	30.2	25.7	2.0	1.5	27.8	27.9	37.5	38.9	NA	NA	1.3	1.5	3.9
Jack in the Box	JACK US	USD	Buy	91.8	107.0	3,494	13.8	12.9	18.1	29.8	29.8	26.1	1.0	1.8	9.4	NA	36.7	114.9	21.7	10.9	0.8	1.2	192.8
McDonald's	MCD US	USD	Hold	97.4	91.0	93,311	12.4	11.8	9.6	10.0	20.5	18.8	NA	2.0	13.4	14.1	38.7	52.9	3.5	-2.3	3.5	3.8	100.5
YUM! Brands	YUM US	USD	Hold	89.9	76.0	38,873	13.9	12.5	22.8	19.5	25.7	22.1	0.5	1.4	19.4	21.4	92.8	79.3	30.9	20.4	1.8	2.0	171.5
Chipotle Mexican Grill	CMG US	USD	Hold	635.3	700.0	19,725	18.7	15.8	8.0	6.7	36.5	30.6	1.7	1.6	19.5	19.9	23.5	23.8	20.2	20.7	0.0	0.0	-37.7
Darden	DRI US	USD	Hold	62.8	63.0	7,895	10.6	9.6	3.6	3.4	23.2	20.2	1.6	1.4	5.9	7.6	17.3	21.1	14.7	14.1	3.7	3.9	123.2
Domino's Pizza	DPZ US	USD	Hold	108.7	103.0	5,998	NA	NA	NA	NA	31.6	27.4	1.9	1.8	28.8	30.7	NA	NA	15.8	11.9	1.1	1.3	-
Bloomin's Brands	BLMN US	USD	Hold	21.8	25.0	2,708	8.2	7.3	4.2	3.4	17.1	14.8	0.2	0.9	5.0	NA	28.1	27.8	42.2	16.0	1.1	1.2	197.9
Papa John's	PZZA US	USD	Hold	64.8	60.0	2,577	NA	NA	NA	NA	31.2	27.1	1.9	1.8	NA	NA	NA	NA	16.0	11.2	0.9	0.9	196.1
Wendy's	WEN US	USD	NC	11.1	NC	4,044	15.4	16.8	3.5	3.7	32.8	30.0	12.0	3.2	3.1	3.9	6.5	5.1	6.0	-4.2	2.1	2.3	68.8
Mean (excl. outliers)							13.6	12.6	10.1	10.7	27.9	24.3	2.5	1.7	15.0	17.9	35.1	45.5	17.7	10.5	1.6	1.8	113.0
Europe/Other regions Restaurants																							
Autogrill Spa	AGL IM	EUR	Buy	8.2	11.00	2,356	7.0	6.4	4.1	3.7	36.2	26.6	0.3	0.7	2.0	2.0	11.1	13.7	75.8	12.0	0.7	1.2	146.6
Mitchells & Butlers	MAB LN	GBp	Buy	447.7	460.0	2,907	4.2	3.9	1.3	1.2	11.8	10.6	0.3	0.9	3.2	3.5	11.7	11.8	27.4	11.1	0.4	1.9	165.8
Wetherspoon	JDW LN	GBp	Buy	791.5	850.0	1,512	3.4	3.3	3.2	2.7	15.8	14.1	0.6	1.2	4.8	5.1	22.8	21.7	18.9	5.2	1.6	1.6	245.0
Marston'S Plc	MARS LN	GBp	Buy	163.4	180.0	1,475	5.9	5.8	1.2	1.1	12.5	11.4	NA	1.2	2.8	3.0	9.4	9.9	NA	37.6	4.3	4.6	157.9
Restaurant Group	RTN LN	GBp	Hold	719.5	685.0	2,273	0.4	0.3	5.1	4.5	21.3	18.9	17.3	1.5	14.9	14.9	24.6	24.2	6.8	7.9	2.4	2.7	17.1
Jollibee Foods	JFC PM	PHP	NC	211.4	NC	5,057	18.1	15.2	7.7	6.8	35.6	30.5	2.1	1.8	12.1	13.4	23.6	24.5	16.9	25.1	1.2	1.5	-2.2
Minor International	MINT TB	THB	NC	29.8	NC	3,925	15.2	13.3	4.0	3.5	23.6	20.3	0.9	1.2	7.5	8.1	18.4	18.8	21.1	33.6	1.4	1.7	95.6
Plenus Co Ltd	9945 JP	JPY	NC	2,432.0	NC	906	NA	NA	1.4	1.4	20.3	18.4	4.3	1.8	6.9	7.6	7.0	7.6	7.4	5.4	2.5	2.7	-39.9
Doutor Nichires	3087 JP	JPY	NC	2,281.0	NC	969	NA	NA	1.2	1.1	20.0	19.4	2.0	6.0	4.6	4.9	5.8	6.2	6.6	6.8	1.2	1.3	-33.2
Mean (excl. outliers)							7.8	6.9	3.2	2.9	21.9	18.9	3.5	1.8	6.5	6.9	14.9	15.4	22.6	16.1	1.7	2.1	83.6
Mean All (excl. outliers)							10.0	8.8	5.3	5.3	23.9	19.9	2.9	1.6	10.4	11.3	20.6	25.1	19.1	15.4	1.9	2.3	54.4

Source: Bloomberg, Jefferies estimates

Note: Average calculation excludes outliers

Appendix: Financial Summary

Chart 6: Income Statement (HKD m, FY end March)

	FY12	FY13	FY14	FY15e	FY16e	FY17e
Sales	5,956	6,394	6,990	7,500	8,077	8,782
Cost of inventories	-1,990	-2,090	-2,274	-2,454	-2,641	-2,871
Restaurant operating costs	-3,153	-3,396	-3,698	-3,933	-4,230	-4,593
Gross profit	814	908	1,019	1,112	1,206	1,318
Other gains	63	61	19	28	58	58
Admin expenses	-318	-329	-359	-442	-460	-465
Operating profit	559	641	680	698	804	911
Depreciation & Amortization	244	257	274	300	318	333
EBITDA	803	897	953	998	1,122	1,244
Finance income – net	9	11	13	15	15	17
Profit from associates and JVs	0	-10	-4	-6	-2	1
Profit before tax	568	641	689	707	817	929
Tax	-91	-100	-107	-114	-134	-153
Profit after tax	477	541	582	592	683	776
Minority interests	0	-1	-1	-1	-1	-1
Net profit	477	540	581	591	682	774

EPS and DPS

EPS (HKD/share)	0.84	0.94	1.01	1.02	1.18	1.34
Diluted EPS (HKD/share)	0.84	0.94	1.00	1.01	1.17	1.33
DPS (HKD/share)	0.62	0.90	0.68	0.73	0.85	0.96

yoy growth

Sales	11.7%	7.3%	9.3%	7.3%	7.7%	8.7%
Gross profit	1.2%	11.6%	12.2%	9.1%	8.4%	9.3%
Operating profit	-8.4%	14.7%	6.1%	2.7%	15.1%	13.4%
Net profit	-7.2%	13.1%	7.6%	1.7%	15.3%	13.6%
EPS	-7.8%	11.8%	6.9%	1.0%	15.2%	13.6%

Key ratios

Gross margin (%)	13.7%	14.2%	14.6%	14.8%	14.9%	15.0%
Operating margin (%)	9.4%	10.0%	9.7%	9.3%	9.9%	10.4%
EBITDA margin (%)	13.5%	14.0%	13.6%	13.3%	13.9%	14.2%
Net margin (%)	8.0%	8.4%	8.3%	7.9%	8.4%	8.8%
ROE (%)	15.0%	15.8%	16.0%	15.9%	16.9%	18.0%
ROA (%)	12.2%	12.7%	12.9%	12.8%	13.7%	14.6%
ROCE (%)	15.0%	15.8%	16.0%	15.9%	16.9%	18.0%

Source: Company data, Jefferies estimates

Chart 7: Balance sheet (HKD m, FY end March)

	FY12	FY13	FY14	FY15e	FY16e	FY17e
Inventories	172	205	212	229	246	267
Trade receivables	35	38	39	41	45	48
Other receivables	39	110	41	44	48	52
Prepayments and deposits	99	125	107	115	124	134
Financial assets	55	56	8	8	8	8
Time deposits	31	31	31	31	31	31
Cash & cash equivalents	854	773	1,004	1,040	1,172	1,332
Total current assets	1,286	1,337	1,442	1,507	1,673	1,873
Property, plant and equipment	1,483	1,672	1,720	1,848	1,936	2,020
Leasehold land and land use rights	97	94	91	88	86	83
Intangible assets	173	112	48	42	36	32
Investments in associates & JVs	30	36	21	15	13	14
Investment property	326	385	440	485	530	575
Available-for-sale financial assets	418	451	523	523	523	523
Fair valued financial assets	15	33	8	8	8	8
Non-current prepayments and deposits	230	269	249	271	288	311
Deferred tax assets	18	24	27	30	35	40
Non-current assets	2,788	3,077	3,126	3,310	3,453	3,603
Total assets	4,074	4,414	4,568	4,817	5,126	5,476
Trade payables	171	179	209	225	243	264
Other payables and accruals	535	563	535	574	618	672
Tax payable	33	43	31	33	38	44
Current liability	739	785	774	832	899	980
Provision for long service payments	10	20	23	24	25	26
Deferred tax liabilities	33	32	30	30	30	30
Retirement benefit liabilities	12	26	7	7	7	7
Total long-term liabilities	55	77	61	62	63	64
Shareholders' equity	3,278	3,549	3,729	3,919	4,159	4,426
Minority interests	1	2	3	4	5	6
Total Equity	3,279	3,552	3,733	3,923	4,164	4,432
Liability+equity	4,074	4,414	4,568	4,817	5,126	5,476
Key ratios						
Net debt/equity (%)	-27.0%	-22.6%	-27.7%	-27.3%	-28.9%	-30.8%
BV/share (HKD)	5.8	6.2	6.5	6.8	7.2	7.6

Source: Company data, Jefferies estimates

Chart 8: Cash flow statement (HKD m, FY end March)

	FY12	FY13	FY14	FY15e	FY16e	FY17e
Cash from operating activities						
Profit before tax	568	641	689	707	817	929
Depreciation & amortization	244	257	274	300	318	333
Other adjustments	-62	-53	-26	-67	-71	-76
Changes in working capital	68	-53	17	4	13	13
Cash generated by operating activities	818	792	953	943	1,076	1,199
Tax paid	-91	-97	-123	-116	-133	-153
Net cash from operating activities	728	695	830	827	944	1,046
Cash flow from investing activities						
Purchase of PPE	-543	-491	-312	-432	-412	-424
Disposal of PPE	4	7	72	14	14	15
Dividend from associates/listed investment	16	14	13	13	13	13
Interest received	9	10	12	15	15	17
Others	59	-27	91	0	0	0
Net cash from investing activities	-455	-488	-123	-390	-369	-379
Cash flow from financing activities						
Share issuance/others	79	62	44	0	0	0
Dividends paid to shareholders	-492	-355	-518	-402	-442	-507
Net cash from financing activities	-414	-293	-475	-402	-442	-507

Source: Company data, Jefferies estimates

Company Description

Café de Coral is a leading restaurant operator in Hong Kong, with presence in Southern China and Eastern China, as well as North America. It operates several brands cater for different sub-market, such as Café de Coral, The Spaghetti House, Oliver's Super Sandwiches, Manchu Wok and Super Super Congee and Noodle.

Analyst Certification:

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Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

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Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Jefferies Franchise Picks

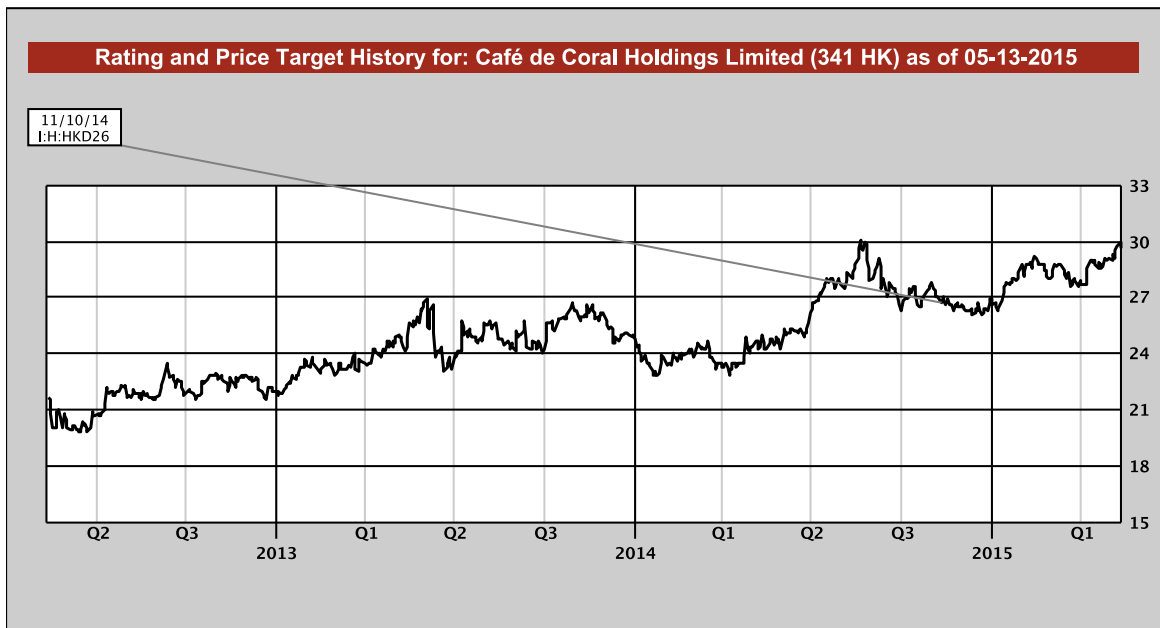
Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it triggers a stop loss. Stocks having 120 day volatility in the bottom quartile of S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

Risks which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

- Ajisen (China) Holdings Limited (538 HK: HK\$4.63, HOLD)
- Autogrill (AGL IM: €8.15, BUY)
- Bloomin' Brands (BLMN: \$21.84, HOLD)
- Café de Coral Holdings Limited (341 HK: HK\$29.15, HOLD)
- Chipotle Mexican Grill (CMG: \$635.32, HOLD)
- Darden Restaurants, Inc. (DRI: \$62.76, HOLD)
- Domino's Pizza, Inc. (DPZ: \$108.68, HOLD)
- Jack in the Box, Inc. (JACK: \$91.78, BUY)
- JD Wetherspoon (JDW LN: p791.50, HOLD)
- Marston's (MARS LN: p163.40, BUY)
- McDonald's Corp (MCD: \$97.35, HOLD)
- Mitchells & Butlers (MAB LN: p447.70, BUY)
- Papa John's International, Inc. (PZZA: \$64.78, HOLD)
- Starbucks Corp. (SBUX: \$49.59, BUY)
- The Restaurant Group (RTN LN: p719.50, HOLD)
- Tsui Wah Holdings Limited (1314 HK: HK\$2.60, HOLD)
- YUM! Brands Inc. (YUM: \$89.90, HOLD)



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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1067	51.37%	290	27.18%
HOLD	840	40.44%	160	19.05%
UNDERPERFORM	170	8.18%	11	6.47%

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