

COMPANY UPDATE

Haidilao International Holding (6862 HK)

1H23 Profit Alert: Surprise In Net Profit Margin

Haidilao's share price surged 12.17% yesterday in reaction to the surprise earnings guidance for 1H23, on top of the better market sentiment with the government boosting local consumption. The company expects net profit margin to arrive at 11.7% (+11.2ppt yoy) in 1H23, higher than consensus estimate of 7.5% for 2023. We turn more upbeat on the company as we see improving internal operating efficiency, with the Woodpecker plan bearing fruit earlier than expected. Upgrade to BUY. Target price: HK\$26.00.

WHAT'S NEW

- Haidilao International Holding Ltd (Haidilao) published its 1H23 profit alert announcement on 30 Jul 23.

STOCK IMPACT

- Revenue up >23.7% yoy in 1H23.** In 1H23, revenue from ongoing operations (in the Mainland China, Hong Kong, Macau, and Taiwan regions) was not less than Rmb18.8b, up by >23.7% yoy. Revenue was in line with our and consensus estimates, accounting for 44% of consensus estimate for 2023.
- Profitability stronger than anticipated.** Net profit was not less than Rmb2.2b in 1H23 (vs 1H22's Rmb72m), exceeding our and consensus' expectations and accounting for 69% of consensus' full-year estimate. The implied net profit margin of 11.7% (+11.2ppt yoy) in 1H23 was higher than consensus' estimate of 7.5% for 2023, mainly attributable to the increase in table turnover rate and enhanced restaurant operation efficiency as internal management and operations improved.
- The overall table turnover rate in 1H23 is estimated at ~3.5x**, which is much higher than its table turnover threshold for store profit to break even at 2-3x per day (vs ~3x pre-pandemic). Haidilao's same-store table turnover rate grew at >25% yoy in Jun 23 and 30% yoy in May 23, higher than its overall table turnover growth rate of 20% in Jun 23 and 25% in May 23.
- Continuing to focus on improving profitability in 2023.** In 1H23, we estimate that Haidilao opened mid-single-digit new Haidilao stores (vs 4 as of end-1Q23), which we are quite comfortable with as the company is focusing on improving profitability in 2023 via digitalisation, product standardisation and management process enhancement.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	39,097	31,039	42,432	48,213	54,978
EBITDA	4,049	5,003	7,392	8,858	10,209
Operating profit	666	2,239	5,472	6,378	7,597
Net profit (rep./act.)	(3,250)	1,638	4,015	4,823	5,762
Net profit (adj.)	(3,250)	1,638	4,015	4,823	5,762
EPS (sen)	(61.2)	30.3	72.0	86.5	103.4
PE (x)	n.m.	66.1	27.8	23.1	19.4
P/B (x)	14.1	15.0	10.2	7.8	6.0
EV/EBITDA (x)	26.6	21.5	14.6	12.2	10.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(8.3)	5.3	9.5	10.0	10.5
Net debt/(cash) to equity (%)	115.4	43.8	(34.6)	(51.8)	(76.3)
Interest cover (x)	6.9	10.6	21.8	44.3	50.7
ROE (%)	n.a.	21.3	43.8	38.1	35.0
Consensus net profit	-	-	3,276	4,271	5,025
UOBKH/Consensus (x)	-	-	1.23	1.13	1.15

Source: Haidilao, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

BUY

(Upgraded)

Share Price	HK\$21.85
Target Price	HK\$26.00
Upside	+19.0%
(Previous TP)	HK\$23.00

COMPANY DESCRIPTION

Haidilao operates hotpot restaurants in Mainland China, HK, Taiwan, Singapore, US, South Korea and Japan. It also taps into condiment sales and delivery business.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	6862 HK
Shares issued (m):	5,574.0
Market cap (HK\$m):	121,791.9
Market cap (US\$m):	15,609.9
3-mth avg daily t'over (US\$m):	30.0

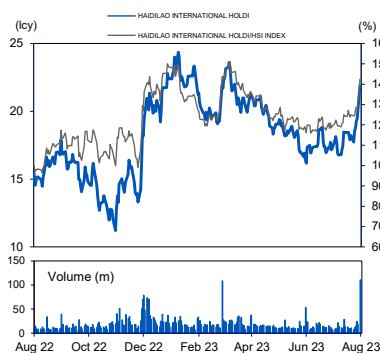
Price Performance (%)

52-week high/low	HK\$24.35/HK\$11.21			
1mth	3mth	6mth	1yr	YTD
26.7	14.6	2.8	45.1	(2.5)

Major Shareholders

NP United	32.33
ZY NP Ltd.	20.61
-	-
FY23 NAV/Share (Rmb)	1.96
FY23 Net Debt/Share (Rmb)	0.68

PRICE CHART



Source: Bloomberg

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EARNINGS REVISION/RISK

- **Earnings revision.** We trim our revenue forecasts for 2023/24 by 3%/10% given the slowing table turnover growth mom. However, we raise our earnings estimates for 2023/24 by 52%/28% due to better operating leverage and staff cost efficiency.
- **Risks are:** a) slowing table turnover growth, and b) higher-than-expected staff cost expense.

VALUATION/RECOMMENDATION

- **Upgrade to BUY and lift target price to HK\$26.00.** We turn positive on the company's prospects with its improved operating efficiency and recovery in table turnover rate, as well as calculated store openings which have mostly brought in incremental earnings to the company. Our target price of HK\$26.00 implies 32.5x 2023F PE and 27.0x 2024F PE.

MONTHLY OPERATING FIGURES

	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23
Monthly new store opening	2	0	-	-	0	1
YTD new store opening	-	-	4	low-single-digit	-	-
Overall table turnover rate (mom chg %)	-	flat mom	-8%	rose slightly	similar to Jan 23's table turnover rate	rose mom
Overall table turnover rate (yoy chg %)	flat yoy	slightly lower yoy	30%	>40%	25%	20%
Same-store table turnover rate (yoy chg %)	largely recovered to Jan 22's level	-	30%	-	30%	>25%

Source: Haidilao, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	31,038.6	42,432.3	48,212.9	54,978.1
EBITDA	5,002.8	7,391.6	8,858.0	10,208.6
Deprec. & amort.	2,763.6	1,920.0	2,480.0	2,611.2
EBIT	2,239.2	5,471.6	6,378.0	7,597.4
Total other non-operating income	286.9	0.0	0.0	0.0
Associate contributions	65.4	65.4	65.4	65.4
Net interest income/(expense)	(473.9)	(339.4)	(199.9)	(201.5)
Pre-tax profit	2,117.6	5,197.6	6,243.6	7,461.3
Tax	(480.3)	(1,179.0)	(1,416.2)	(1,693.7)
Minorities	1.2	(3.6)	(4.3)	(5.2)
Net profit	1,638.5	4,015.1	4,823.0	5,762.4
Net profit (adj.)	1,638.5	4,015.1	4,823.0	5,762.4

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	6,152.3	8,287.9	7,504.2	9,846.6
Pre-tax profit	1,913.8	5,197.6	6,243.6	7,461.3
Tax	(352.7)	(1,179.0)	(1,416.2)	(1,693.7)
Deprec. & amort.	2,763.6	1,920.0	2,480.0	2,611.2
Associates	93.6	(65.4)	(65.4)	(65.4)
Working capital changes	515.0	2,213.7	292.0	1,645.8
Other operating cashflows	1,218.9	201.0	(29.8)	(112.6)
Investing	(756.9)	1,637.8	(2,278.8)	(1,346.4)
Capex (growth)	(825.1)	(480.0)	(2,480.0)	(1,632.0)
Investments	(604.3)	0.0	0.0	0.0
Others	672.4	2,117.8	201.2	285.6
Financing	(4,987.5)	(7,602.0)	(1,848.2)	(1,437.3)
Dividend payments	0.0	(549.8)	(1,347.3)	(1,618.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	1,171.9	576.0	2,728.0	1,795.2
Loan repayment	(4,833.2)	(7,288.8)	(3,029.1)	(1,412.6)
Others/interest paid	(1,326.3)	(339.4)	(199.9)	(201.5)
Net cash inflow (outflow)	407.9	2,323.7	3,377.2	7,062.9
Beginning cash & cash equivalent	5,766.8	6,621.2	8,944.9	12,322.1
Changes due to forex impact	446.6	0.0	0.0	0.0
Ending cash & cash equivalent	6,621.2	8,944.9	12,322.1	19,385.0

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	5,644.8	4,204.8	4,204.8	3,225.6
Other LT assets	5,287.8	5,381.7	5,475.5	5,569.4
Cash/ST investment	6,621.2	8,944.9	12,322.1	19,385.0
Other current assets	3,885.4	5,742.5	6,417.6	7,109.4
Total assets	21,439.2	24,273.8	28,420.0	35,289.4
ST debt	3,303.8	3,029.1	1,412.6	2,279.4
Other current liabilities	3,928.3	7,999.1	8,966.2	11,303.9
LT debt	6,574.1	2,143.8	3,459.2	2,975.0
Other LT liabilities	176.9	176.9	176.9	176.9
Shareholders' equity	7,443.2	10,908.4	14,384.2	18,528.2
Minority interest	12.9	16.5	20.9	26.1
Total liabilities & equity	21,439.2	24,273.8	28,420.0	35,289.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.1	17.4	18.4	18.6
Pre-tax margin	6.8	12.2	13.0	13.6
Net margin	5.3	9.5	10.0	10.5
ROA	6.6	17.6	18.3	18.1
ROE	21.3	43.8	38.1	35.0
Growth				
Turnover	(20.6)	36.7	13.6	14.0
EBITDA	23.5	47.8	19.8	15.2
Pre-tax profit	n.a.	145.4	20.1	19.5
Net profit	n.a.	145.0	20.1	19.5
Net profit (adj.)	n.a.	145.0	20.1	19.5
EPS	n.a.	138.1	20.1	19.5
Leverage				
Debt to total capital	57.0	32.1	25.3	22.1
Debt to equity	132.7	47.4	33.9	28.4
Net debt/(cash) to equity	43.8	(34.6)	(51.8)	(76.3)
Interest cover (x)	10.6	21.8	44.3	50.7

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