

Company Flash Note

Hong Kong

October 24, 2017 - 4:54 PM

ADD (no change)

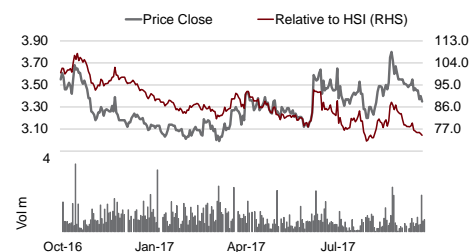
Consensus ratings*: Buy 2 Hold 2 Sell 1

Current price:	HK\$3.35
Target price:	HK\$4.00
Previous target:	HK\$4.00
Up/downside:	19.4%
CIMB / Consensus:	0.0%
Reuters:	0538.HK
Bloomberg:	538 HK
Market cap:	US\$468.6m
	HK\$3,657m
Average daily turnover:	US\$0.22m
	HK\$1.71m
Current shares o/s	1,092m
Free float:	48.0%

*Source: Bloomberg

Key financial forecasts

	Dec-17F	Dec-18F	Dec-19F
Net Profit (Rmbm)	223.7	236.2	263.1
Core EPS (Rmb)	0.20	0.22	0.24
Core EPS Growth	12.4%	5.6%	11.4%
FD Core P/E (x)	13.91	13.17	11.83
Recurring ROE	6.59%	6.78%	7.34%
P/BV (x)	0.91	0.88	0.86
DPS (Rmb)	0.12	0.13	0.14
Dividend Yield	4.31%	4.55%	5.07%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-10	-5.6	0.3
Relative (%)	-11.5	-11.6	-20.8

Major shareholders	% held
Poon Wai	46.8

Analyst(s)

ONG Khang ChuenT (852) 2539 1326
E kc.ong@cimb.com**Lei YANG, CFA**T (86) 21 5047 1771 x108
E lei.yang@cimb.com**Ajisen (China) Holdings Ltd****Remarkable SSSG recovery in 3Q17**

- Ajisen's PRC SSSG of +9.7% in 3Q17 marked a significant improvement over +1.6% in 2Q17; this should boost investor confidence, in our view.
- We forecast revenue growth of 5.7% in 2H17F on the back of continued strong SSSG recovery and 50 net store openings in 2H17F.
- Online takeaway business continues to grow well. Maintain Add and TP of HK\$4.00.

Solid SSSG recovery in 3Q17

- PRC same store sales growth (SSSG) was +9.7% in 3Q17, a significant improvement from +1.6% in 2Q17. While HK SSSG was weak at -9.0%, we attribute less importance to the HK number as stores in Hong Kong only account for c.5% of total stores.
- Management attributed the PRC recovery to 1) deceleration in store openings in the restaurant industry, 2) strong growth of Ajisen's online takeaway business, and 3) low base effect. Ajisen is on track to achieve its goal of 50 net store openings in 2H17F. With the solid SSSG recovery in 3Q17, we forecast Ajisen to record 2H17F revenue growth of 5.7% yoy (1H17: -2.5% yoy).

Online takeaway business riding on favourable policy changes

- In Feb 2017, China Food and Drug Administration (FDA) announced "Draft Measure for Oversight of Online Food Services", requiring caterers that sell online to have physical stores with a food operator permit under the same brand operating in the servicing area.
- We expect the increased regulation to force caterers without physical stores to exit the market, improving food safety assurance and supporting the healthy long-term development of the online takeaway industry. Since 2016, FDA has instructed online takeaway platforms to remove more than 60,000 store listings that do not have proper licences in Shanghai.
- Benefiting from the regulatory tailwind, Ajisen's online takeaway business continued its strong growth, and accounted for c.10% of total revenue in 3Q17 (1H17: 8.6%). We forecast Ajisen's online takeaway business to maintain triple-digit growth in 2H17F.

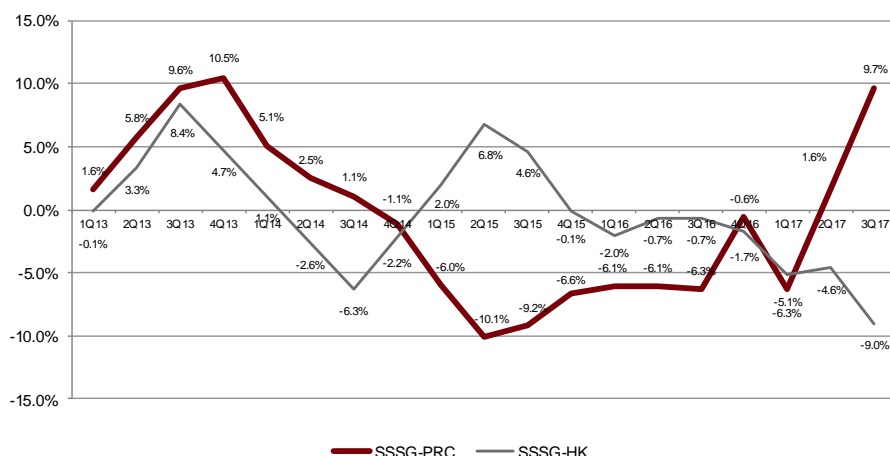
Margin expansion to continue

- We expect Ajisen's margin expansion to continue in 2H17F, and forecast OPM of 12.0% in FY17F (FY16: 10.2%). We believe this will be achieved through: 1) higher direct procurement ratio, 2) direct marketing through big data platform, 3) use of more part-time labour, and 4) shift to smaller format stores, partially offset by negative impact from store remodelling.

Maintain Add and DCF-based TP of HK\$4.00

- We maintain our Add call on the back of Ajisen's continued recovery in SSSG and undemanding valuation of 13.1x FY18F P/E. Potential near-term catalysts include further clarification on Ajisen's decision regarding its investment in Baidu Waimai, and another strong set of operational figures for 4Q17.
- Downside risks include weaker-than-expected SSSG recovery and potential missteps in its M&A strategy.

Figure 1: Ajisen's SSSG trend



SOURCES: CIMB, COMPANY REPORTS

Figure 2: Ajisen's peer comps

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)			3-year EPS	P/BV (x)		EV/EBITDA (x)		Dividend yield (x)	
			(LC\$)	(LC\$)	(US\$)	CY17F	CY18F	CY19F	CAGR (%)	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F
Ajisen China	538 HK	Add	3.35	4.00	469	13.9	13.1	11.8	9.0%	0.9	0.9	4.8	4.1	4.3%	4.6%
Yum China	YUMC US	Non Rated	42.15	na	16197	29.5	25.9	23.1	14.6%	5.8	5.0	12.3	11.1	0.5%	1.2%
Café de Coral	341 HK	Non Rated	24.15	na	1812	26.3	25.3	23.0	1.4%	4.5	4.1	13.4	13.0	3.0%	3.3%
Xiabu Xiabu	520 HK	Non Rated	10.78	na	1481	22.5	18.1	15.5	28.8%	4.9	4.0	12.7	10.3	1.6%	2.0%
Tsui Wah	1314 HK	Non Rated	1.21	na	219	18.6	16.1	13.4	-1.2%	1.2	1.2	6.5	6.9	4.0%	5.0%
Tang Palace	1181 HK	Non Rated	3.30	na	225	8.8	9.4	7.4	33.9%	3.6	3.5	4.5	4.0	10.7%	11.4%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	2,379	2,418	2,600	2,799
Gross Profit	1,712	1,765	1,901	2,046
Operating EBITDA	405	462	511	552
Depreciation And Amortisation	(163)	(172)	(181)	(191)
Operating EBIT	242	290	329	361
Financial Income/(Expense)	(10)	(10)	(10)	(10)
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	698	80	48	48
Profit Before Tax (pre-EI)	930	360	367	399
Exceptional Items				
Pre-tax Profit	930	360	367	399
Taxation	(157)	(108)	(103)	(108)
Exceptional Income - post-tax				
Profit After Tax	773	252	264	291
Minority Interests	(105)	(28)	(28)	(28)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	668	224	236	263
Recurring Net Profit	199	224	236	263
Fully Diluted Recurring Net Profit	199	224	236	263

Balance Sheet

(Rmbm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	1,314	1,462	1,652	1,864
Total Debtors	101	97	104	112
Inventories	82	77	82	88
Total Other Current Assets	1	1	1	1
Total Current Assets	1,498	1,637	1,840	2,066
Fixed Assets	932	880	819	748
Total Investments	474	474	474	474
Intangible Assets	13	13	13	13
Total Other Non-Current Assets	1,498	1,498	1,498	1,498
Total Non-current Assets	2,917	2,866	2,804	2,734
Short-term Debt	238	238	238	238
Current Portion of Long-Term Debt				
Total Creditors	321	290	310	332
Other Current Liabilities	52	52	52	52
Total Current Liabilities	611	580	599	622
Total Long-term Debt	57	57	57	57
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	57	57	57	57
Total Provisions	129	129	129	129
Total Liabilities	796	766	785	808
Shareholders' Equity	3,348	3,437	3,532	3,637
Minority Interests	271	299	327	355
Total Equity	3,619	3,737	3,859	3,992

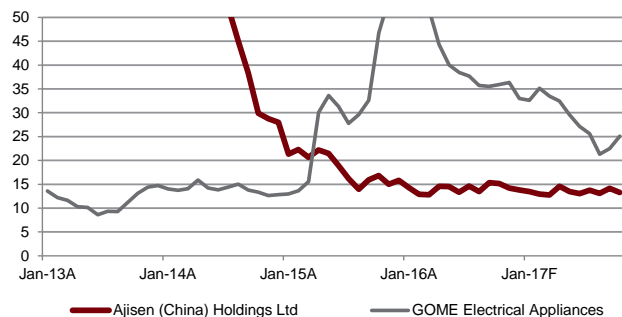
Cash Flow

(Rmbm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	405.2	461.5	510.5	551.9
Cash Flow from Inv. & Assoc.				
Change In Working Capital	28.7	(21.0)	6.9	8.1
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	73.9	69.6	37.6	37.6
Net Interest (Paid)/Received	(14.3)	10.4	10.4	10.4
Tax Paid	(86.5)	(107.9)	(102.7)	(107.7)
Cashflow From Operations	406.9	412.6	462.7	500.3
Capex	(114.1)	(120.0)	(120.0)	(120.0)
Disposals Of FAs/subsidiaries	3.7	0.0	0.0	0.0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	113.9	(10.4)	(10.4)	(10.4)
Cash Flow From Investing	3.5	(130.4)	(130.4)	(130.4)
Debt Raised/(repaid)	(300.1)	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(174.0)	(134.2)	(141.7)	(157.8)
Preferred Dividends				
Other Financing Cashflow	(4.1)	0.0	0.0	0.0
Cash Flow From Financing	(478.2)	(134.2)	(141.7)	(157.8)
Total Cash Generated	(67.7)	148.0	190.5	212.1
Free Cashflow To Equity	110.4	282.2	332.3	369.9
Free Cashflow To Firm	424.8	271.8	321.9	359.5

Key Ratios

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(6.52%)	1.65%	7.52%	7.63%
Operating EBITDA Growth	6.7%	13.9%	10.6%	8.1%
Operating EBITDA Margin	17.0%	19.1%	19.6%	19.7%
Net Cash Per Share (Rmb)	0.93	1.07	1.24	1.44
BVPS (Rmb)	3.07	3.15	3.24	3.33
Gross Interest Cover	25.11	45.31	51.46	56.42
Effective Tax Rate	16.9%	30.0%	28.0%	27.0%
Net Dividend Payout Ratio	16.1%	40.5%	41.8%	42.6%
Accounts Receivables Days	15.30	14.93	14.11	14.10
Inventory Days	48.72	44.46	41.46	41.36
Accounts Payables Days	150.9	144.2	130.5	130.2
ROIC (%)	13.9%	9.6%	11.1%	12.6%
ROCE (%)	6.4%	7.0%	7.7%	8.2%
Return On Average Assets	22.6%	8.2%	8.2%	8.6%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	0.0%	2.0%	1.0%	1.0%
Unit sales grth (% , main prod./serv.)	-8.1%	4.6%	4.1%	4.1%
No. of POS (main prod./serv)	615	671	682	707
SSS grth (% , main prod./serv)	-8.1%	2.0%	2.0%	2.0%
ASP (% chg, 2ndary prod./serv.)	0.2%	1.0%	1.0%	1.0%
Unit sales grth (% ,2ndary prod./serv)	0.0%	0.5%	1.0%	1.0%
No. of POS (2ndary prod./serv)	35	29	38	38
SSS grth (% , 2ndary prod./serv)	-1.3%	-5.0%	2.0%	2.0%

SOURCE: CIMB RESEARCH, COMPANY DATA

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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

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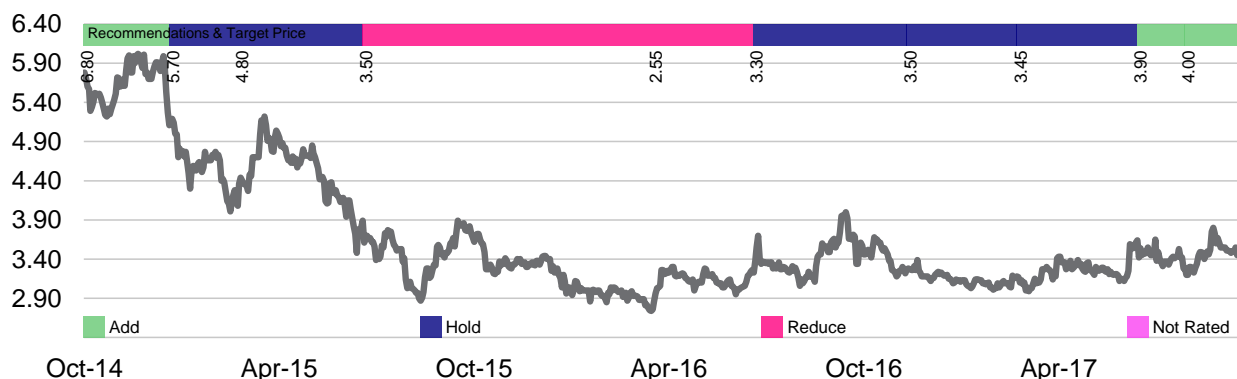
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2017		
1285 companies under coverage for quarter ended on 30 September 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

Spitzer Chart for stock being researched (2 year data)

Ajisen (China) Holdings Ltd (538 HK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BJCHI** – Good, Declared, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, n/a, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MACO** – Very Good, n/a, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PLAT** – Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPA** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TNR** – not available, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **TVO** – Very Good, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB 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.