

Equities

Hong Kong/China

Initial Coverage

**Company Report**

# Future Bright (703 HK)

1 March 2013

## Embrace the next boom in Macau

We initiate coverage on Future Bright (FB), a leading mid- to high-end restaurant chain in Macau, at Buy. As the leading restaurant operator in Macau, we believe FB is well positioned to capture the next boom of Macau tourism industry after massive completion of Cotai projects in 2015-17. The stock, which is now trading at 9.8x 2013E PE, provides investors with great margin of safety from the valuation perspective.

- Event:** We initiate coverage on FB at Buy with a target price of HK\$2.90, implying a 2013E PE of 12.9x (0.77x PEG) vs an average 2013E PE of 15.9x (1.43x PEG) for its peers on Bloomberg consensus. Our target price are derived from SOTP valuation. FB is our top pick in China restaurant space, given its high profitability and leading position in Macau booming catering industry.
- Why we like the company?** We like FB for 3 reasons: 1) we believe it is well positioned in Macau fast growing tourism industry, supported by massive Cotai projects in 2015-17; 2) good proxy to bet on Macau gaming sector but with lower valuation and less sensitive to VIP sector which is vulnerable to the anti-corruption policy in China; and 3) diversified and stable revenue stream from industrial catering after the completion of centralized kitchen in 2015.
- Forecasts:** We forecast FB to post an 2011-14 revenue CAGR of 16% and deliver 2011-14 normalized operating profit and earnings CAGRs of 19% and 18% respectively. We expect 1) store expansion; 2) same store sales growth; and 3) positive rental reversion; to be positive earnings drivers.
- Valuation:** On our estimates, FB currently trades at 9.8x 2013E PE vs a sector average of 15.8x on Bloomberg consensus and delivers 12.9% 2013E FCF yield. Key downside risks to our SOTP target price include: 1) intensifying competition; 2) food safety issues; and 3) key personnel risk. Key upside risks include: 1) better-than-expected growth in Macau tourism industry; and 2) shorter ramp-up period for its new stores.

### Investment Summary

FY-end Dec	2010	2011E	2012E	2013E	2014E
Turnover (HK\$ m)	376	546	646	787	862
Growth (%)	59.8	45.4	18.2	21.8	9.5
Net Profit (HK\$ m)	41	90	246	141	153
Growth (%)	128.1	119.8	174.5	(42.6)	8.1
Adj. EPS (HK\$ cents)	8.61	16.18	19.23	22.44	24.26
Growth (%)	nm	87.8	18.9	16.7	8.1
PER (x)	nm	13.7	11.5	9.8	9.1
OCF/Share (HK\$ cents)	22.66	29.80	28.83	40.35	34.87
P/B (x)	4.9	4.1	2.3	2.0	1.7
EV/EBITDA (x)	15.1	8.2	4.0	5.4	5.0
DPS (HK\$ cents)	1.50	3.00	5.95	7.30	7.98
Yield (%)	0.7	1.4	2.7	3.3	3.6

Source: Company data, CER estimate

China / Consumer / Restaurant

**BUY**

Share Price	Target Price	Upside / Downside
HK\$2.21	HK\$2.90	31 %

(as of 28 Feb 2013)

### Equity Research

 (852) 2860 1101  
 research@ebsecn.hk

52 Range (HK\$)	0.48-2.26
DVD yield %	2.69

### Latest Key Data

FF no of shares (m)	343
FF (%)	54.54
FF market cap (HK\$ m)	758
12M daily turnover (HK\$ m)	5.33
12M volatility (%)	50.27
12M Hi/Lo	0.48-2.26
PEG FY13E (x)	0.6
RoE FY13	21.51
P/B FY13E (x)	2.0
Net debt/equity FY13 (%)	NC

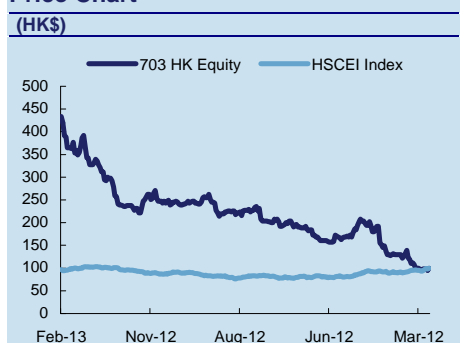
### Performance (%)

	1M	YTD	12M
Absolute	26.3	81.1	333.3
Relative to HSCEI	32.0	81.1	336.6

### Major Shareholders (%)

Chan Chak Mo	45.42
Free float	54.54

### Price Chart



Source: Bloomberg, CER estimates

## Ready for the Next Boom in Macau?

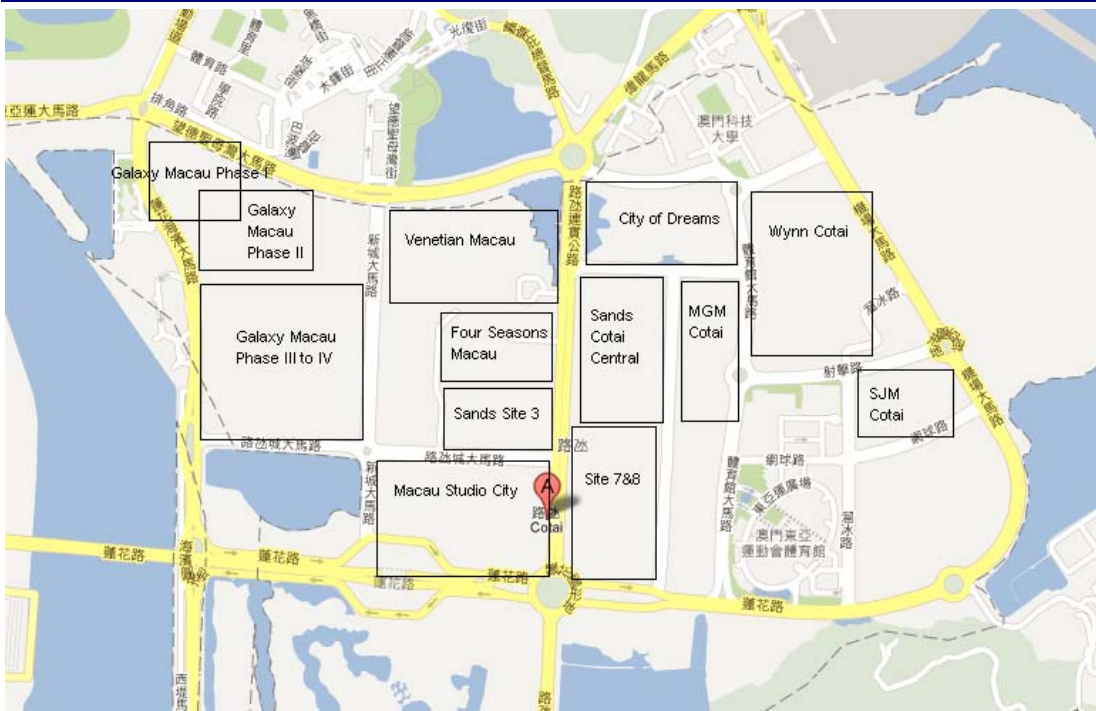
### Macau, Next International Entertainment Center

China's 12th Five-Year Plan positions Macau as the "World Tourism and Leisure Center". We believe Macau's tourism industry will be well supported by the new development projects in Cotai and strong support from the PRC government.

The existing projects on the pipeline include Sands Site 3, Galaxy Macau Phase 2, Wynn Cotai, Macau Studio City, SJM Cotai and MGM Cotai. As the Macau government strives to diversify the city's economy, we expect Cotai projects will include more non-gaming facilities, which means more retail area, hotel rooms and entertainment venue will be provided.

We believe Macau tourism industry will have structural changes after the completion of Cotai projects in 2015-17. We will find Macau an integrated entertainment resort center, instead of a pure casino area.

### Map of Cotai Macau



Source: Google map

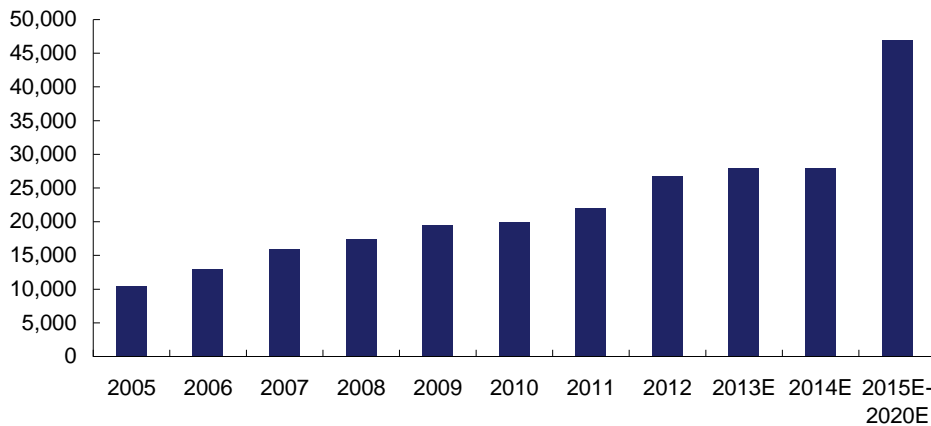
### More hotel room supply means more overnight visitors

The availability of quality hotel rooms in Macau is one of the bottlenecks for growing visitor volumes and mass revenue. We believe the bottleneck should be considerably relieved if more Cotai projects are completed after 2015, and the proportion of overnight visitors will increase given that visitors can find hotel rooms more easily.

Once the shortage of hotel room is solved, more visitors will be encouraged to stay overnight and non-gaming spending will increase substantially. FB as the leading restaurant operators will be one of the direct beneficiaries of the change in Macau, in our view.

As at Dec 2012, Macau has around 27000 hotel rooms. We expect substantial number of hotel completion in 2015/16/17 and about 20280 hotel rooms can be added at the end of 2017.

Figure 1: Macau hotel room

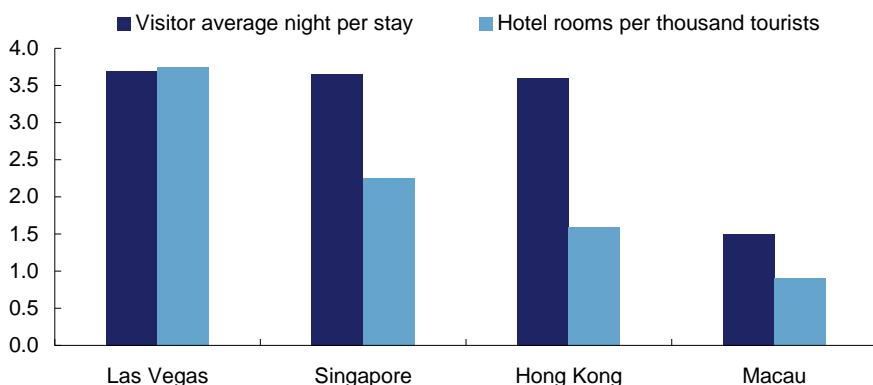


Source: Company data, CER estimate

### FB benefits from more overnight visitors

In 2011, Las Vegas had about 4 hotel rooms per thousand tourists (Singapore: 2.2; Hong Kong 1.6). However, there were only 0.9 rooms in Macau. The average length of stay of visitor in Macau is about 1 day (3.5 days in Las Vegas, Singapore and Hong Kong). We forecast a rise of average nights per stay in Macau after the completion of hotel projects. As the result, more food and catering outlets to cater for tourists are required.

Figure 2: FB benefits from more overnight tourists



Source: CEIC

### More infrastructure attract more traffic

Infrastructure development, including Hong Kong-Zhuhai-Macau bridge, Taipa ferry terminal Guangzhou-Zhuhai mass transit, can help boost Macau tourism industry if tourists find that the city is easily accessible. We expect significant improvement of transportation infrastructure in 2013, after the full completion of the Guangzhou-Zhuhai mass transit and Taipa ferry terminal.

#### Hong Kong-Zhuhai-Macau bridge

Hong Kong-Zhuhai-Macau bridge is estimated to be completed in 2015-16. Total capex for the project is more than US\$11bn. After the completion of Hong Kong-Zhuhai-Macau bridge, visitors can travel from Hong Kong International Airport to Macau in half an hour. We believe Macau tourism industry can benefit from Hong Kong International Airport which is one of the busiest airports in the world and it can help improve the international exposure of Macau tourism industry.

Map of Hong Kong-Zhuhai-Macau bridge



Source: HK Transport and Housing Bureau

**Permanent Taipa ferry terminal**

Permanent Taipa ferry terminal is estimated to be completed in 2Q13. After the completion of the project, the capacity of ferry terminal service in Macau can be increased from 11m to 15m people per year. The ferry terminal is located in Cotai and will help build a Las Vegas liked resort area.

**Guangzhou-Zhuhai mass transit**

The Guangzhou-Zhuhai Intercity Railway was opened in 2011 and the Zhuhai section which connect the Zhuhai North station and the Gongbei border gate was completed in 2012. The intercity railway enables visitors travel from Guangzhou to Macau less than 1 hour and 20 minutes at a fare similar to bus fare (Rmb70-90 per ride).



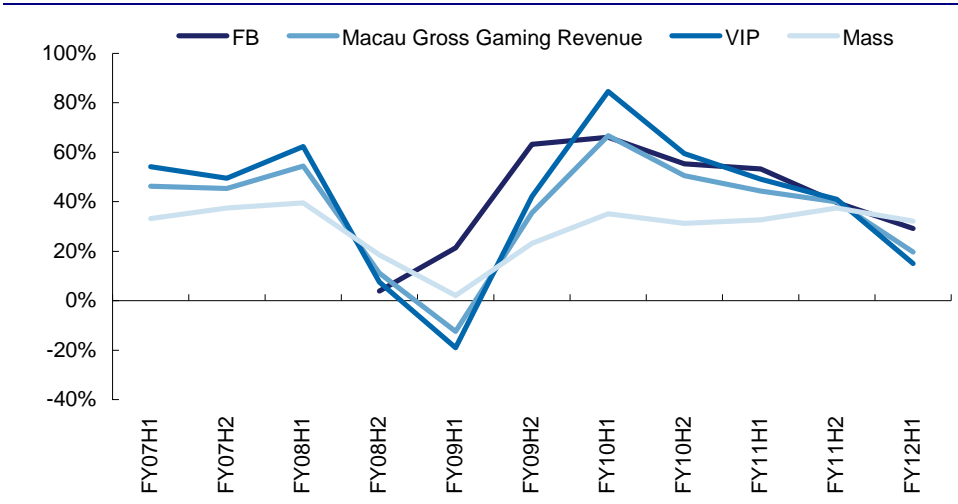
## FB VS Gaming Stock

We believe FB and gaming stocks in Macau are close players in terms of operational performance. FB has strong correlation with Macau gross gaming revenue growth over the past 5 years. We suggest investors who are interested in Macau gaming sector should take a closer look of FB as its valuation is about 40% discount to gaming sector average. We think FB is a good alternative to get exposure to the Macau gaming sector.

More importantly, FB is less sensitive to VIP sector which is vulnerable to the anti-corruption policy. New leaders in China will take power at Communist Party congress soon. We see strong determination of fighting corruption from China new leaders and expect VIP sector will be negatively influenced.

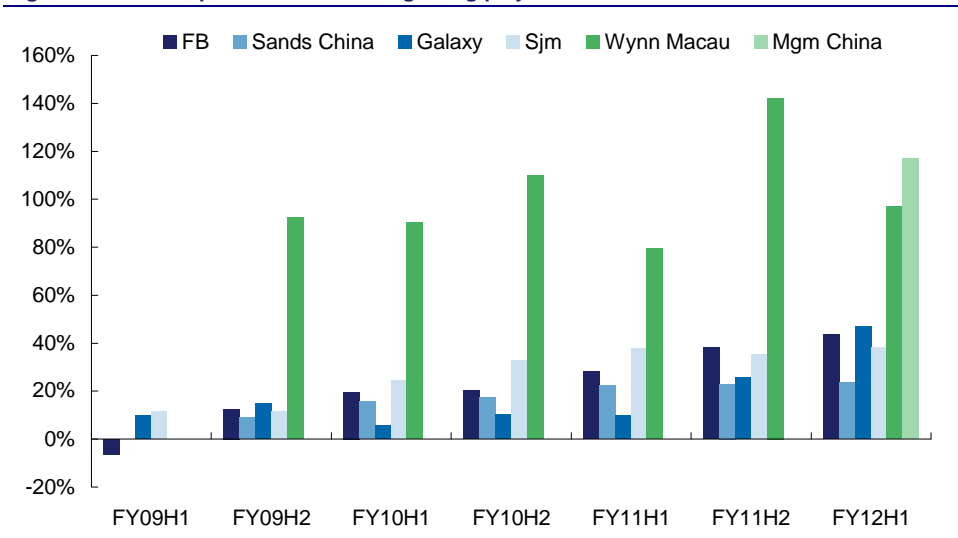
In CNY, tourist arrivals to Macau jumped by >20% (China tourists: >30%). Our channel checks indicate that the gaming revenue grew robustly during the holiday, especially in mass gaming. We believe FB can benefit from the strong tourist arrivals from China and has moderate impact from clampdown on corruption.

Figure 3: FB's revenue growth vs Macau gaming growth



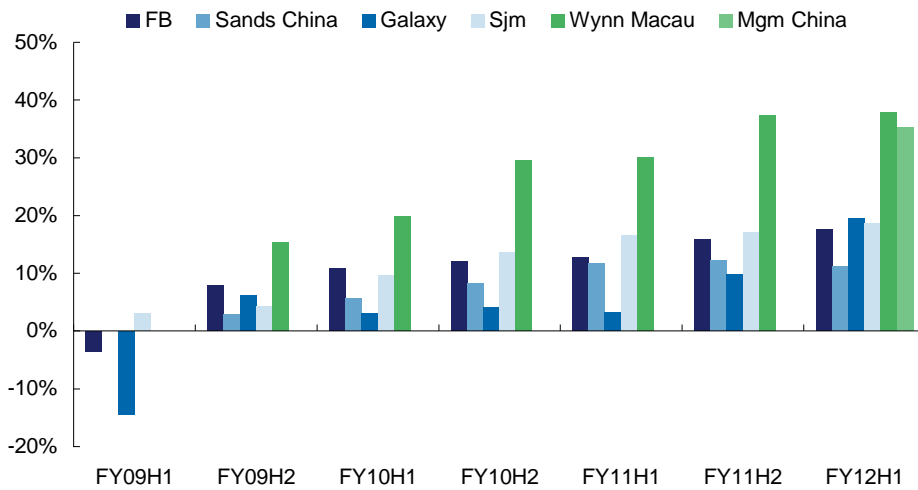
Source: Company data, CER estimate

Figure 4: ROE comparison with Macau gaming players



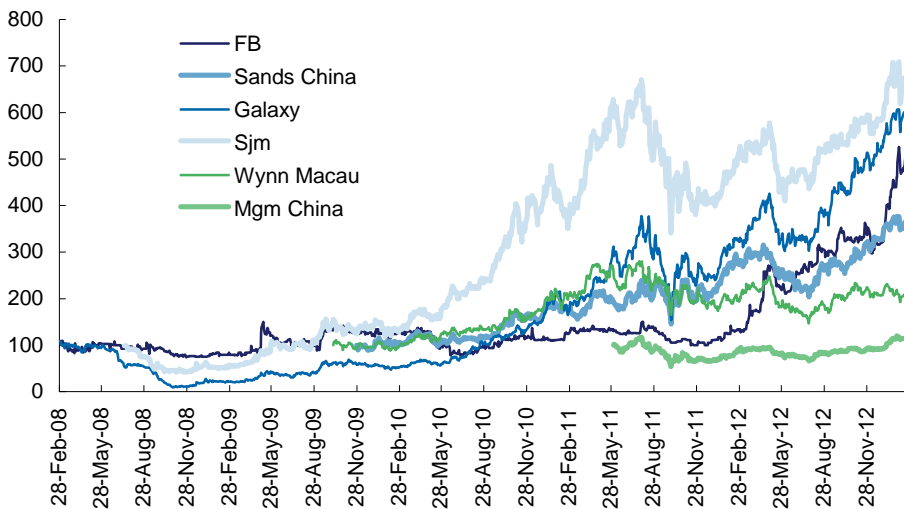
Source: Company data

Figure 5: ROA comparison with Macau gaming players



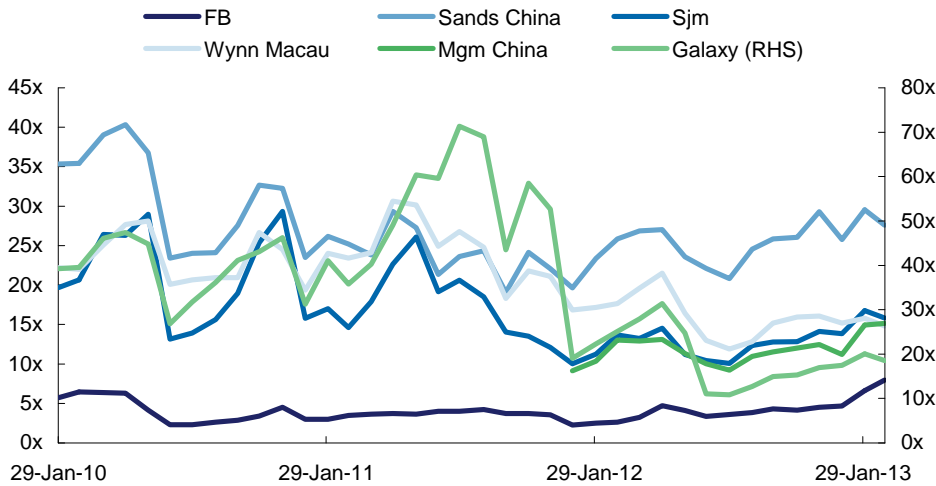
Source: Company data

Figure 6: Price Chart (FB vs Macau gaming players) (HKD)



Source: Company data, Bloomberg

Figure 7: 12-month historical EV/EBIT band (FB vs Macau gaming players)



Source: Company data, Bloomberg

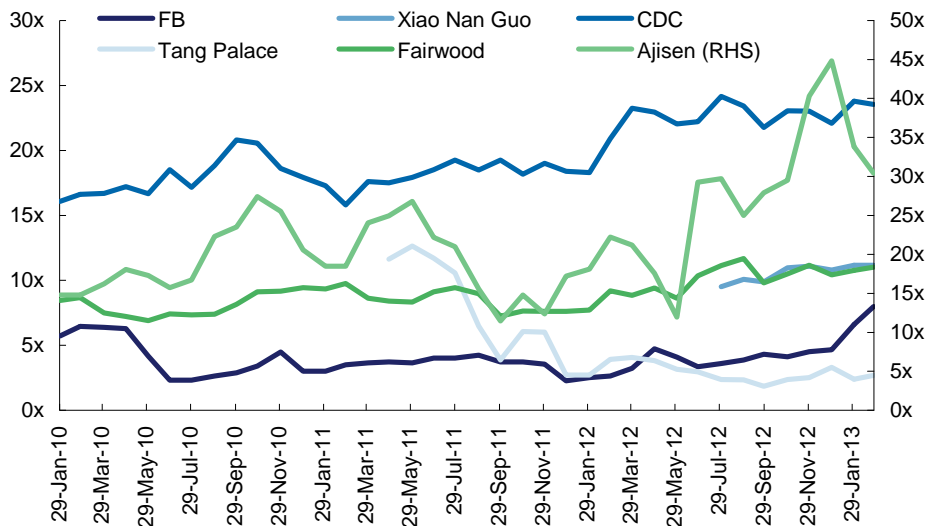
## FB VS Listed China Restaurants

Table 1: China restaurants peer comparisons

	FB			Xiao Nan Guo			Tang Palace		
	FY09	FY10	FY11	FY09	FY10	FY11	FY09	FY10	FY11
<b>Network</b>									
Number of stores	16	28	33	27	36	58	15	20	25
<b>P&amp;L (Rmb mn, except FB is in HK\$m)</b>									
Sales	235	376	546	659	872	1,089	450	607	746
COGS	74	114	162	234	297	361	194	260	306
GP (excluding direct Operating expenses)	161	262	384	425	575	727	256	346	440
SG&A (including direct Operating expenses)	144	202	268	340	468	610	180	244	312
OP (adjusted)	17	60	117	85	107	117	76	102	128
NP	28	59	113	72	96	107	31	47	51
<b>YoY Change (%)</b>									
Sales (%)	43	60	45	11	32	25	14	35	23
OP (%)	(198)	244	94	(14)	25	9	27	35	26
NP (%)	(422)	108	92	(13)	33	11	23	50	9
<b>Margins (%)</b>									
GPM (excluding direct Operating expenses) (%)	68	70	70	65	66	67	57	57	59
SG&A (including direct Operating expenses) (%)	61	54	49	52	54	56	40	40	42
Labor (%)	32	27	25	22	24	24	22	22	23
Rent (%)	12	11	11	14	14	15	7	7	8
D&A (%)	6	6	5	4	4	5	5	5	4
Others (%)	11	10	8	11	12	12	6	6	6
OPM (%)	7	16	21	13	12	11	17	17	17
NPM (%)	12	16	21	11	11	10	7	8	7

Source: Company data

Figure 8: 12-month historical EV/EBIT band (FB vs other restaurant players)



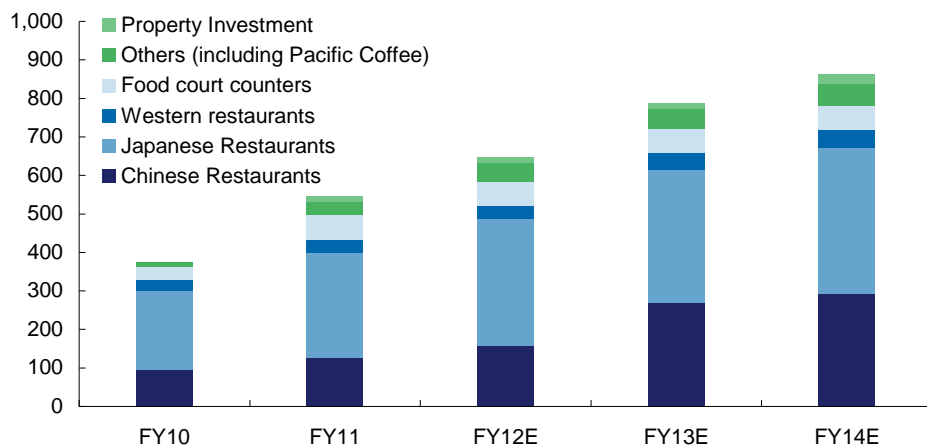
Source: Company data, Bloomberg

## Revenue Analysis

We forecast revenue CAGR of 16% in 2011-2014 supported by: 1) store expansion; 2) improving operating efficiency; and 3) positive rental reversion.

**Figure 9: Revenue breakdown**

(HK\$ m)



Source: Company data, CER estimate

## Store expansion

In 2012, FB opened 6 stores and increased total floor area by 23%. We believe store expansion would be the main driver for revenue growth in the future. We expect 7/5 store opening in 2013/14 and the floor area would be increased by 30/14% respectively.

FB added 3/2/0 Japanese restaurants in 2010/11/12. There are total 11 Japanese restaurants, 8 stores under the name of "Edo Japanese Restaurant", as at Dec 2012. We believe the store opening of Japanese restaurant will slow down in 2013 given the aggressive expansion (+184% floor area) from 2009 to 2012. We forecast only 0/2 Japanese restaurants will be opened in 2013/14.

On the contrary, store opening of Chinese restaurant will accelerate. As a result, FB can maintain total floor area CAGR of around 43% from 2011 to 2014. It is expected that 4/2 Chinese restaurant will be added in 2013/14.

In 2008, FB entered into a franchise agreement with "Pacific Coffee" to open and operate coffee shops in Macau and it makes royalty payments to the franchiser based on fixed percentage of the turnover. As at Dec 2012, the company operates 7 "Pacific Coffee" stores and we forecast 2 new store opening each year over the next two year. However, the revenue contribution from "Pacific Coffee" is limited, in our view.

**Table 2: Number of stores**

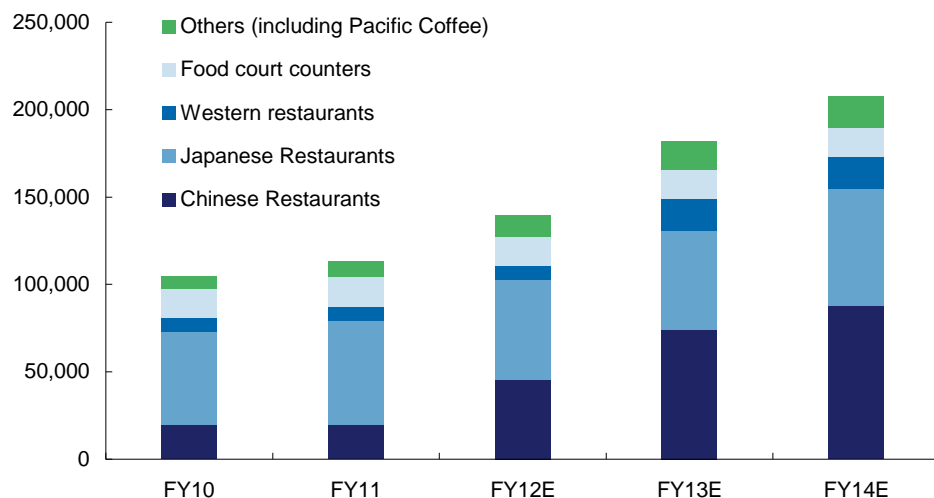
	FY10	FY11	FY12E	FY13E	FY14E
Chinese Restaurants	5	5	7	11	13
Japanese Restaurants	9	11	11	11	13
Western restaurants	2	2	2	3	3
Food court counters	10	10	10	10	10
Others (including Pacific Coffee)	3	6	10	12	13
<b>Total</b>	<b>29</b>	<b>34</b>	<b>40</b>	<b>47</b>	<b>52</b>
Additional		5	6	7	5

Source: Company data, CER estimate



Figure 10: Store size breakdown

(Sq ft)



Source: Company data, CER estimate

Table 3: Expansion pipeline in 2013

	Location	Store size (Sq ft)
<b>Chinese Restaurants</b>		
Macanese style restaurant	Macau International Airport	6243
Good Fortune Cantonese Kitchen	Macau International Airport	2024
Hundreds Taste Kitchen	University of Macau	12,841
Fortune Inn Restaurant	University of Macau	7,287
<b>Western restaurants</b>		
MADEIRA Portuguese Restaurant	University of Macau	9,774
Pacific Coffee	University of Macau	4080

Source: Company data

## Sales per sq.ft. growth

Rising sales per sq.ft. demonstrates management ability to improve operation efficiency. Although FB's Japanese restaurant was negatively influenced by Fukushima Daiichi nuclear disaster in 2011, the sales per sq.ft. in that year still grew about 18%.

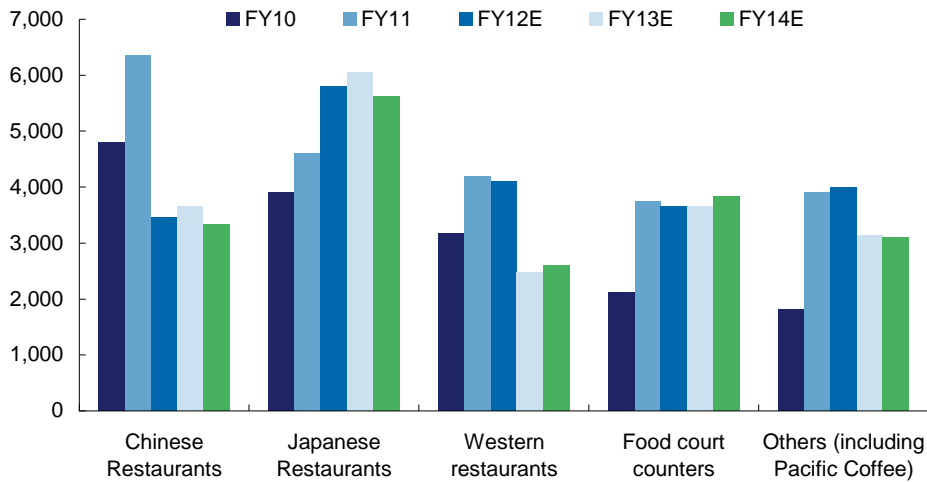
FB's sales per sq.ft. has gradually increased in 2011. We believe the growth is mainly supported by rising contribution from younger stores and higher ticket size. We expect negative growth of sales per sq.ft. from 2012 to 2014 on expectation of more store opening during the period.

Table 4: Ticket size

	Ticket size (HK\$)
High-end Japanese restaurant	800-1000
Medium-end Japanese restaurant	300-500
Food court counters	100
456 Modern Shanghai Cuisine	300-500
Shiki Hot Pot Restaurant	300-500
Shiki Hot Pot Restaurant (Including Japanese food)	500-800

Source: Company data, CER estimate

Figure 11: Sales per sq.ft. breakdown  
(HK\$)



Source: Company data, CER estimate

## New revenue stream from industry catering

In 2011, FB acquired the land of 2,719 sq.m. in the Macau zone of Parque Industrial Transfronteirico Zhuhai at a bargain price. The land will be used for the industrial building of five stores with a total gross floor area of 9,391 for the purpose of central food processing center. And the expected capex for the food center is about HK\$70m over the next two years and it will be completed in 2015. The center will aim to support existing restaurant and canteen. We expect the company will have more cooperation with local casinos and provide meal service for their staff canteen.

We expect the center will improve profit margin for the existing canteen service and open a new revenue stream under the name of "Industry Catering" to support casinos' staff canteen.

FB has been operating Macau UST's canteen. The GP margin is about 24%. We believe the margin can be further improved after the completion of the food center. We forecast industry catering will generate extra HKD100m revenue from supporting casinos' staff canteen in 2015 and GP margin is about 40%.

## Investment Property

FB acquired a 6-storey commercial building in Macau with the acquisition price of HK\$262.8m. The property generates about HK\$14m rental income each year and yields around 5.3%. The existing lease contract will be renewed in 2014 and we expect around 70% rental reversion rate on the new contract. The company will book around HK\$125m investment property's revaluation gain given the strong rental reversion rate.

Debt financing cost of the company is around 3.75%, which is 1.55% lower than the gross rental yield of the property. The property can diversify FB's revenue stream and the company can benefit from the asset appreciation given its prime tourist location, in our view.

### FB's investment property in Macau



Source: Google map

### FB's investment property photo

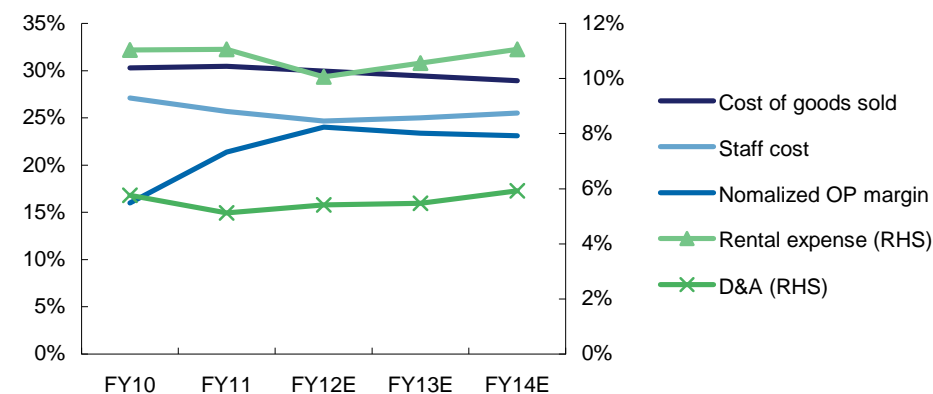


Source: Company's website

## Margin Outlook

Normalized operating margin (excluding other gains and loss) has been on the rise over the past few years thanks to ASP hikes, product upgrading, operating leverage and better sourcing control. As new store ramp up period is about 9-12 months, we expect such margin will decline slightly in 2013/14 on the expectation of margin erosion during the ramp-up period of the new stores. We forecast normalized operating margin down 64/28 bps in 2013/14.

Figure 12: Cost structure and OP margin



Source: Company data, CER estimate

### Cost of goods sold

FB signed the memorandum of agreement with Kansai Food Export Committee. As the result, the company can directly source from suppliers in The Kansai region of Japan. The closer relationship between FB and Japanese food suppliers means more competitive import price, higher product diversity and better upstream food product control, in our view.

We expect cost of goods sold as the % of revenue decline 50bps each year over next three years thanks to economics of scale and the closer relationship with the suppliers.

### Staff cost

FB employed around 900 staff in Macau, China and Hong Kong. The company signed agreement with concerned China labour department and imported workers directly from China. The ratio between local and foreign workers is 50:50. In order to import one foreign worker from China, FB has to recruit one local worker so as to fulfil the local law. Wage for a foreign worker is around HK\$6.5k per month, compared with HK\$8k per month for local worker. It is expected about 3.5% wage hike over the next three years. We expect staff cost as the % of revenue to surge 33/50bps in 2013/14 due to the new store opening.

### Rental expense

FB pays turnover rent to landlord. The average turnover rental rate is about 11% over the past 4 years. The company has about 5 years (+2 years renewal option) tenancy duration for its existing restaurants. Around five rental contracts need to be renewed in 2015. We believe the long tenancy duration contract can secure good locations for FB's restaurants. We expect rental expense as the % of revenue to remain at similar level from 2012 to 2014.

## Cash Flow Analysis

### Capex

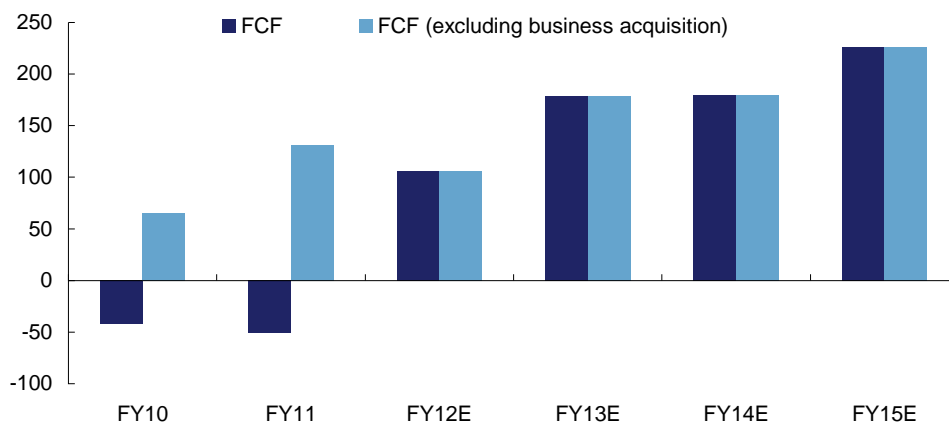
The capex for opening a high end restaurant is around HK\$10m with HK\$5m for mid end. FB has the franchise agreement with “Pacific Coffee” to open stores in Macau. Each store cost less than HK\$1m.

The development cost of the food center is about HK\$70m over the next two years. And the total capex for the company is around HK\$75/75/40m in 2012/13/14.

### FCF

FB generated strong operating cash flow over the past three years. Excluding the acquisition cost of investment property, FCF grew with 69% CAGR from 2009 to 2011. We believe the company will still enjoy strong cash flow thanks to its asset light model. We forecast average HK\$155m FCF from 2012 to 2014 and 12.9% 2013 FCF yield.

**Figure 13: FCF**  
(HKD m)



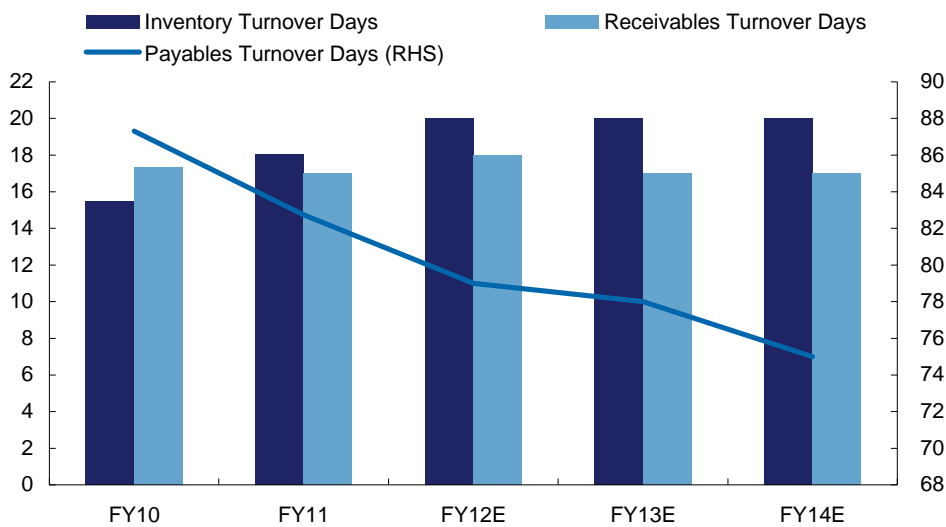
Source: Company data, CER estimate

### Working Capital

Thanks to cash basis business model, restaurant has low working capital pressure. Inventory and AR turnover days are about 18 days in 2011 and AP turnover days are about 82 days. We forecast AP turnover days to decrease to 75 in 2014 whilst inventory turnover days to increase slightly to 20 days as the result of more store openings. AR turnover days is expected to remain stable at similar level under our forecast horizon. We don't expect working capital pressure in the future.



Figure 14: Working Capital chart



Source: Company data, CER estimate

## Financing cash flow

The company placed 75m shares at HK\$1.2 (representing a discount of approximately 11.11% to the previous closing price) in Nov 2012, raising about HK\$86.25m. HK\$34m and HK\$30m would be used for developing the central food processing center and opening new stores respectively. After the private placement, we believe operating cash flow should be sufficient to finance store expansion for the next 3 years. We forecast the company will turn to net cash position in 2012 given the strong operating cash flow.

## Valuation

We value FB at HK\$2.9 per share (an upside potential of 31%) based on sum-of-the-parts valuation. Our target price implies 12.9x 2013E PE and 12.0x 2014E P/E, over 13.7% FY11-14E EPS CAGR.

Our FCFE valuation for FB's restaurant operations is HK\$2.32 per share and it is derived from 15% WACC, 1.7 beta and 3% terminal growth rate. We value FB's investment properties at HK\$300m and it is derived from 7% cap. ratio. Our estimated value of the investment properties is 25% discount to the book value.

Table 5: Sum-of-the-parts valuation

	HK\$ m	HK\$/share	% of GAV	Method
Restaurant operations	1,459	2.32	83%	DCF
Investment properties (Cap. rate: 7%;)	300	0.48	17%	Cap. rate
Gross as set value	1,759	2.80	100%	
Net cash	52	0.08		
Other asset	38	0.06		
MI	(20)	(0.03)		
NAV	1,829	2.90		
Share price		2.21		
Potential upside/(downside)		31%		

Source: CER estimate

Table 6: Peers Comp

Name	Ticker	Price	CCY	PE (x)		PEG (x)		EV/EBIT (x)		Dividend yield (%)		EBIT margin (%)		ROAE (%)	
				CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
<b>HK Restaurant</b>															
FB	703 HK	2.21	HKD	9.8	9.1	0.6	1.1	6.5	6.1	3.3	3.6	26.4	25.8	14.0	13.9
Xiao Nan Guo Res	3666 HK	1.44	HKD	10.8	8.6	0.8	0.3	8.3	6.6	2.4	2.6	11.6	10.8	9.6	10.9
Ajisen China Hol	538 HK	5.6	HKD	29.2	21.2	0.5	0.6	15.3	10.7	1.6	2.4	8.1	10.0	5.0	6.5
Cafe De Coral	341 HK	23.15	HKD	22.9	20.0	2.6	1.3	18.0	15.8	3.3	3.7	9.8	9.9	13.3	14.2
Tang Palace Hldg	1181 HK	1.55	HKD	7.0	5.4	0.2	0.2	3.2	2.6	7.2	9.6	7.9	8.1	na	na
Fairwood Hldgs	52 HK	16.94	HKD	15.4	14.6	3.9	2.5	na	na	4.3	4.5	na	na	na	na
<b>Average</b>				<b>15.9</b>	<b>13.1</b>	<b>1.4</b>	<b>1.0</b>	<b>10.3</b>	<b>8.4</b>	<b>3.7</b>	<b>4.4</b>	<b>12.8</b>	<b>12.9</b>	<b>10.5</b>	<b>11.4</b>
<b>International Restaurant</b>															
Yum! Brands Inc	YUM US	65.38	USD	21.1	17.5	na	0.8	14.7	12.3	2.1	2.4	15.7	16.9	17.2	19.7
Mcdonalds Corp	MCD US	95.73	USD	16.5	15.1	2.0	1.6	11.9	11.1	3.3	3.6	31.3	31.6	17.5	18.0
Starbucks Corp	SBUX US	54.57	USD	23.7	20.0	1.0	1.1	15.4	13.0	1.6	1.9	16.4	17.5	21.1	23.5
Compass Group	CPG LN	799.5	GBP	16.9	15.4	2.3	1.5	12.4	11.6	3.0	3.3	7.1	7.3	9.3	na
<b>Average</b>				<b>19.6</b>	<b>17.0</b>	<b>1.8</b>	<b>1.3</b>	<b>13.6</b>	<b>12.0</b>	<b>2.5</b>	<b>2.8</b>	<b>17.6</b>	<b>18.3</b>	<b>16.3</b>	<b>20.4</b>
<b>Gaming</b>															
Sands China Ltd	1928 HK	36.95	HKD	20.2	15.9	0.4	0.6	19.5	15.9	4.0	4.6	24.3	25.9	17.4	19.5
Galaxy Entertain	27 HK	32.55	HKD	15.9	13.5	1.0	0.7	15.2	13.1	na	na	14.6	15.3	19.1	19.0
Sjm Holdings Ltd	880 HK	19.38	HKD	14.4	13.0	1.5	1.2	12.0	10.8	5.1	5.6	8.4	8.6	19.3	19.6
Wynn Macau Ltd	1128 HK	20.45	HKD	15.0	13.5	2.0	1.3	14.0	12.7	4.7	4.8	23.6	24.1	32.7	28.6
Melco Crown Ente	6883 HK	49.9	HKD	20.2	16.2	na	0.7	20.3	18.6	na	na	13.7	13.6	6.5	7.6
Mgm China Holdin	2282 HK	18.74	HKD	14.8	13.1	2.3	1.1	13.5	12.1	4.2	4.0	21.0	21.4	31.2	39.7
<b>Average</b>				<b>16.7</b>	<b>14.2</b>	<b>1.4</b>	<b>0.9</b>	<b>15.8</b>	<b>13.9</b>	<b>4.5</b>	<b>4.7</b>	<b>17.6</b>	<b>18.2</b>	<b>21.0</b>	<b>22.3</b>

Source: Company data, Bloomberg, CER estimate

## Key Risk Factors

### Execution risk of expansion

FB's revenue growth is mainly supported by store expansion. We expect ramp-up period is about 1 year. The longer-than-expected ramp-up period and lower traffic flow will hurt FB's operations. Underperformance of new store will further erode FB's profit margin in the future. Unexpected close down of stores will incur extra impairment loss.

### Food safety

FB relies on third party food suppliers. Food safety problem is the big concern to run a restaurant business. Food safety issue may severely affect the reputation of the company and the damage is hardly repaired.

### Fail to renew rental contract

FB may fail to renew existing rental contract or renew at unfavorable turnover rental rate. Most of the stores are located at good location in Macau casinos. Although the company has average 5 year (+2 year renewal option) tendency duration, we still see the risk that FB will lose the advantageous in casinos or face higher turnover rental rate required by landlord.

### Diminishing participation from the biggest shareholder

With more than five years successful track record of operating restaurant, we believe good quality of service and close relationship with landlord are keys to succeed. However, we still believe Mr Chan, the biggest shareholder, has significant influence on its underlying business. Diminishing shareholding interest from Mr Chan will have negative impact on its stock price and operation.

### Competition

The restaurant industry in Macau is very competitive. New entrants may intensify competition. As a result, FB may see shortage of labour, good store location, high quality food ingredients and so on due to more crowded business environment.

### Labour shortage

FB paid around HK\$8k per month to the worker recruited locally. The dealer in Macau receive about HK\$15k per month. Macau corporate in general faces labour shortage given the attractive compensation package provided by casinos. FB's expansion plan may be delayed by the labour shortage and operation will be hurt.

### Cost inflation

Food cost, rental expense and labour cost are three main costs to operate a restaurant. ASP may not be adjusted quickly to protect FB's profit margin in the case of a sudden cost surge.

**COMPANY DESCRIPTION**

Future Bright (FB) is a leading mid- to high-end restaurant chain in Macau. As at Dec 2012, FB operates 40 stores, mainly located in major hotel. These include 11 Japanese restaurants, 7 Chinese restaurants, 2 Western restaurants and 7 Pacific Coffee (franchise). FB targets tourists from Mainland China who are price insensitive. As a result, it enables FB to have strong pricing power to transfer cost pressure to its customer. In 2011, FB acquired an investment property in Macau prime tourist location. We believe the property can diversify FB's revenue stream and FB will benefit from the asset appreciation.

**Profit & Loss (Consolidated)**

FY-end Dec (HK\$ m)	2010	2011	2012E	2013E	2014E
<b>Sales</b>	<b>376</b>	<b>546</b>	<b>646</b>	<b>787</b>	<b>862</b>
<b>Cost of sales</b>	<b>(114)</b>	<b>(162)</b>	<b>(189)</b>	<b>(227)</b>	<b>(242)</b>
Direct Operating Expenses	(133)	(186)	(222)	(273)	(306)
<b>Gross profit</b>	<b>129</b>	<b>199</b>	<b>235</b>	<b>286</b>	<b>314</b>
<b>Other income</b>	<b>14</b>	<b>26</b>	<b>148</b>	<b>23</b>	<b>23</b>
<b>Operating expenses</b>	<b>(69)</b>	<b>(82)</b>	<b>(80)</b>	<b>(102)</b>	<b>(115)</b>
<b>Operating profit</b>	<b>74</b>	<b>143</b>	<b>304</b>	<b>207</b>	<b>222</b>
Finance cost, net	(2)	(9)	(9)	(7)	(6)
Share of P/L of asso. & JCE	(6)	(5)	-	-	-
<b>Pre-tax profit</b>	<b>67</b>	<b>130</b>	<b>295</b>	<b>200</b>	<b>217</b>
Tax	(8)	(17)	(22)	(24)	(26)
Minorities	(18)	(24)	(27)	(35)	(38)
<b>Net profit</b>	<b>41</b>	<b>90</b>	<b>246</b>	<b>141</b>	<b>153</b>
EBITDA	90	166	339	250	274
EBIT	69	138	304	207	222
Adj. EPS (HK\$ cents)	9	16	19	22	24
DPS (HK\$ cents)	2	3	6	7	8

Source: Company, CER estimates

**Cash Flow (Consolidated)**

FY-end Dec (HK\$ m)	2010	2011	2012E	2013E	2014E
<b>Operating cash flow</b>	<b>107</b>	<b>165</b>	<b>181</b>	<b>254</b>	<b>219</b>
Net profit	41	90	246	141	153
Depreciation & amortization	22	28	35	43	51
Change in working capital	9	3	(11)	27	(28)
Others	36	45	(89)	42	44
<b>Investment cash flow</b>	<b>(147)</b>	<b>(235)</b>	<b>(75)</b>	<b>(75)</b>	<b>(40)</b>
Net Capex	(149)	(216)	(75)	(75)	(40)
Disposal	-	-	-	-	-
Change in LT investment	-	-	-	-	-
Change in other assets	2	(19)	-	-	-
<b>Free Cash Flow</b>	<b>(40)</b>	<b>(70)</b>	<b>106</b>	<b>179</b>	<b>179</b>
<b>Financing cash flow</b>	<b>104</b>	<b>110</b>	<b>(28)</b>	<b>(99)</b>	<b>(108)</b>
Change in share capital	37	-	86	-	-
Net change in debt	80	145	(61)	(30)	(30)
Dividend paid	(12)	(27)	(44)	(62)	(73)
Others	(2)	(9)	(9)	(7)	(6)
<b>Net cash flow</b>	<b>64</b>	<b>40</b>	<b>78</b>	<b>80</b>	<b>71</b>

Source: Company, CER estimates

**Balance Sheet (Consolidated)**

FY-end Dec (HK\$ m)	2010	2011	2012E	2013E	2014E
<b>Total assets</b>	<b>429</b>	<b>694</b>	<b>949</b>	<b>1,069</b>	<b>1,133</b>
<b>Current assets</b>	<b>257</b>	<b>248</b>	<b>337</b>	<b>425</b>	<b>500</b>
Cash & ST investments	122	161	240	320	391
Marketable securities & ST inv	10	20	20	20	20
Account & notes receivable	21	30	34	39	41
Inventories	15	19	26	29	31
Others	89	18	18	18	18
<b>Non-current assets</b>	<b>172</b>	<b>446</b>	<b>611</b>	<b>643</b>	<b>632</b>
LT investments	-	-	-	-	-
Net fixed assets	90	90	130	161	150
Others	82	357	482	482	482
<b>Total liabilities</b>	<b>208</b>	<b>386</b>	<b>325</b>	<b>330</b>	<b>276</b>
<b>Current liabilities</b>	<b>120</b>	<b>177</b>	<b>161</b>	<b>196</b>	<b>172</b>
Account payable	69	89	89	125	100
ST borrowings	20	45	28	28	28
Others	31	44	44	44	44
<b>Non-current liabilities</b>	<b>88</b>	<b>209</b>	<b>164</b>	<b>134</b>	<b>104</b>
Long-term debts	79	204	160	130	100
Others	9	4	4	4	4
<b>Total equities</b>	<b>221</b>	<b>308</b>	<b>624</b>	<b>738</b>	<b>856</b>
Shareholders' equity	214	297	604	708	815
Minority shareholders	7	12	20	30	42
<b>Total liabilities + Total equities</b>	<b>429</b>	<b>694</b>	<b>949</b>	<b>1,069</b>	<b>1,133</b>
Net cash / (debt)	22	(88)	52	162	263
Working capital	(32)	(40)	(29)	(57)	(28)
Total capital employed	198	396	572	577	594
Shareholders' equity + Minorities	221	308	624	738	856
Net gearing (%)	NC	29	NC	NC	NC

Source: Company, CER estimates

**Financial Summary**

FY-end 31 Dec	2010	2011	2012E	2013E	2014E
<b>Growth (%)</b>					
Revenue	60	45	18	22	10
EBITDA	92	84	104	(26)	9
EBIT	111	102	119	(32)	7
Net profit	128	120	174	(43)	8
Adj. EPS	nm	88	19	17	8
<b>Margins (%)</b>					
Gross	34	36	36	36	36
EBITDA	24	30	52	32	32
EBIT	18	25	47	26	26
Net	11	16	38	18	18
<b>Others (%)</b>					
Effective tax rate	12	13	7	12	12
Payout ratio	19	19	30	30	30
RoCE	46	47	63	36	38
Average RoE	23	35	55	22	20
Average RoA	12	16	30	14	14
Interest cover (x)	45	16	35	30	39

Source: Company, CER estimates

## Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

### Analyst Certification

The research analyst(s) primarily responsible for the preparation of this report hereby certify that –

- (1) All of the views expressed in this report accurately reflect his or her or their personal views about the subject company or companies and its/theirs securities;
- (2) No part of his or her or their compensation was/were, is/are or will be directly or indirectly, related to the specific recommendations or views expressed in this report or any specific investment banking function;
- (3) He/she/they are not directly supervised by, and do not directly report to, investment banking functions;
- (4) He/she/they has/have not breach the quiet period restriction of dealing in the securities covered in this report;
- (5) He/she/they is/are not an officer and do(es) not hold any directorship in the company or companies this report covered.

### Disclosure

Our firm does not have financial interests (including stock holding) that equal 1% or more of the market capitalization of the listed company under review at the date this report is published; does not have investment banking relationship with the listed company under review within the past 12 months; and does not have market-making activities in the stock. None of our staff is an officer of the listed company.

### Disclaimer

This report has been prepared by China Everbright Research Ltd. China Everbright Research Limited does not guarantee, either expressed or implied, the completeness, reliability and accuracy of the materials contained in the report.

This report has been prepared for general reference and no part of this report is to be constructed as an offer, invitation, advertisement or inducement whatsoever, or form to buy or sell any securities or financial instruments whether referred to herein or otherwise. Opinions in this report are subject to change by the original writer without notice. China Everbright Research Limited does not accept any liability whatsoever, directly, indirectly, consequential or incidental that may arise from the use of or reliance on the contents of this report.

China Everbright Research Limited and its affiliates and their respective associates, directors, employees or officers may from time to time have long or short positions in securities, warrants, futures, options, derivatives or any other interests and/or underwriting commitments in the securities or financial instruments referred to in this report.

Reports by China Everbright Research Limited do not have regard to the specific investment objectives, financial situation, risk tolerance or the particular needs of any investor. Before enter into any investment contract, individual should exercise judgment or seek for professional advice when necessary. The information contained herein is believed to be reliable. Its completeness and accuracy are, however, not guaranteed.

All copyrights are reserved by China Everbright Research Limited, this report or any part of its contents must not be reproduced in whole or in part without the prior written approval of China Everbright Research Limited.

China Everbright Research Limited is licensed by the Securities and Futures Commission (SFC) and is governed under the rules and regulations of the SFC and the Securities and Futures Ordinances and its subsidiary legislation.

Address: 17/F., Far East Finance Center, No. 16 Harcourt Road, Hong Kong.  
Contact No.: (852) 2860-1101