Chills Best Chinese Drink IPO\_Offline audio

[00:00:00] Welcome back to Chills with TFC. I'm your host, Reggie ak, your Chief Financial Coconut. And today we are gonna talk about, uh, recently quite hot air, exciting topics, which is all these big Chinese beverage companies getting listed in the market. Uh, everything from to Luckin to ji, like, what's going on, right?

And what is the investment opportunity? Uh, is it a hype train that you show up? On or is there a long term kind of business, you know, value that we can write alongside? So, uh, that's the question today, and I'm very glad to be joined in studio with Kha and Willi. You know, for our audience that don't know you, would you like to introduce yourself?

My name is Kha. Uh, I'm an entrepreneur. I'm also a affiliate lecturer with, uh, SMU, as well as for a Chinese private education provider and a very prolific writer on S-A-M-P-C-N-A. All the, all the big things. And that's why I asked him on, because he has a lot of things to say about some of these companies, you know, and the broad trends, uh, China markets in general, and, uh, some [00:01:00] of these business structures highlight these things.

Right? And of course, a great friend of the show, Willie, for all, I dunno, you, you wanna introduce yourself. My name is Willie King. I am the writer and founder of a financial blog. Called dividend titan.com. So I write about US, China, Hong Kong, and Singapore dividend stocks I've been writing about for the last five years.

So we have about roughly 30,000 readers reading my blog every month and you know, I'm glad to be back on the show. Reggie, thanks so much for inviting. No, you're doing great. Really broadly speaking, we were focused on the three, uh, major beverage IPO slide, which essentially is lucky in and shaji, uh, from China in recent times.

Okay. I'm sure there will be others. You know, they're not within our consideration. But, uh, we use them as a basis to discuss, okay, what's going on? And the broad idea. So maybe for a start, uh, you can help us get a lay of the land, right? Like what's going on with all these, uh, big beverage companies? 'cause most of us are just consumers, right?

Like, and, and potential investors are, right? So objectively these things are growing, you know, a bit like a, [00:02:00] a bit like a virus, you know, they're like just. Popping up everywhere. So what's the, what's the read of the, the land? Maybe I'll just lay out the, the, the background and some of the, uh, stats around some of this, uh, company and also slightly explain, uh, the differences between, uh, all three of them.

Sure. Uh, and I think today, I mean, for, for the sake of, uh, summarizing it into stereotypes, I'll actually focuses on, uh, uh, tji. Uh, Isha and, uh, locking coffee. Okay. Because, uh, they, they occupy different brand positioning as well. So for Isha, there is, uh, 46 to 47,000 stores. Wow. Right. And China and over the world.

I think the biggest brands around the biggest, uh. F and B brand there. They have more outlets than, uh, McDonald's for locking coffee. It's somewhere around 23,000, uh, as of end of December. I mean, they are always growing, so by now it could have been quite [00:03:00] different. Uh, as for, I think there are numbers stands around 6,400, uh, with about.

20, uh, overseas, uh, as of end of last year. But again, they are, they are opening very quickly. Uh, and I think there were reports saying that by Jan 27, they will open 18 in Singapore. So again, in terms of numbers, they're quite different in terms of. Positioning is also quite different. Uh, for Ji there are beverage cells at about 18 to 20 r and b in China, uh, I'm not sure how much they they cost in Singapore.

Maybe you would if frequent them. No, I don't as much. In Singapore, there isn't that much outlet, but I think in Malaysia they had a lot more lacking. I think the, the cost in China is about 12 to 13. RB per couple me share it's a daily nine 90 promo. For the early, you mean in Singapore or early in Lockin.

For the Lucky coffee in China once you download the app. So this is, I think, a big part of the discussion, which is how they develop your consumer behavior very, you know, very seriously. Once I download the app, the [00:04:00] first car of coffee is, are 99 cents, then the next week or two, right? Every day is nine point 90, say nine 90, America, no, let's go.

Right? You know, and P. So at some point it becomes like a, eh. What's, what's happening, what's on the app now? What, what's what's next? Right? So that kind of consumer habit is really developed, you know, when I, when I stayed there, you know, the only time it it breaks is when I leave. Yeah. You know, so, exactly.

So it's, it's very, very interesting and I think for Isha, the average cup is five to six r and b. So again, they occupy very different positioning and the, the store format. Uh, the kind of things they have in the store is also vastly different. Take for example, I'm, I'm in, uh, locking coffee. There are 23,000 stores, uh, almost every corner.

They have it. Their store format are very simple. They don't have much sitting area. Usually two tables is the max. You get in a lockin outlet. It's mainly serves takeaway, uh, even delivery in, in China, which is a big thing for ji. It's not, it, it's, it tends to be a lot more. Grander on the [00:05:00] other extreme, nine Starbucks, which is, you might even have two levels.

Two stories. So that's the difference. And for Meisha it is really, most of the time it's really just a counter. So, so you can see the, the, the different format they occupy, the different pricing and positioning they, they occupy. And even, uh, in terms of. Give we purchase promotion. It's very different for, they have, uh, very, very elaborate gifts in China.

They work with, uh, collaborate with Forbidden City, collaborate with the van gov. So they have very, very elaborate give, they use blind box, which is a big thing in China for locking. They do have some collaboration, but it's not as elaborate and then means you don't, don't really have that. It's no budget.

Yeah. And they don't have, uh, endorsement as well for endorsement. You can see, uh, Ji have, uh, which is the tennis player, right, recently, which is also very big among the youngsters locking coffee. Uh, Louis Faye, which I'm sure you're probably very familiar, they work with, uh. Uh, black Myth Ong as well, uh, for collaborations.

[00:06:00] So again, and, and of course Misha is the big Giants Stone. Yeah, yeah, yeah. Fair. So I think, I think the idea here is everybody is occupying a different lane, but objectively they have all dominated their lane. I. Yes. A few years ago there were other competitors. You know, like when I, when I was in Chen, there were like all these other different brands.

Melo Coffee, you know, they're still around as with many other brands that are not the dominant players. Right. But these three has essentially consolidated their category, you know, and I, I mean, there are always copycats. Copycats are coming in, you know, like I think was trying to like compete with, right.

And even. Starbucks for a period of time, tried to compete lock in, but I think they're pulled out from the market in China, at least in that format. Mm. You know, and, uh, CJI has other competitors. It's a very interesting development over the course of the past five, 10 years, you know, and now you see these players and they're listed.

Then now with the more capital they're gonna do so much more. Right. Uh, but what is your read really on, on these three brands and the overall, you know, consumer beverage market in China? I think, I've [00:07:00] gotta agree with Hong Kong about this, right? If you look at how the three brands are. China is 1.3 billion population.

It's the world's second largest economy. And to be able to compete in China itself, the domestic market, you know, you really have to be at the top of your A game. I personally don't think that the idea of total addressable market works in China. Why? Because. Each segment, even within the f and b sector, or you're talking about, um, f and b area here, like some of these drinks, you can't really dominate the entire market.

You have to actually niche, and I fully agree here, if you look at lock-in charge and niche lock-in is they're talking about efficiency. Productivity. You know, I want to get coffee straight away and then I take and go, you look at me, she, I want something cheap. I want something affordable. So somewhat more of an affordable luxury kind of, uh, approach.

And that's where they are really focused on. That's why you can find like really cheap, um, bubble tea, for instance, ice cream cone, so and so forth. And then lastly, charge you, if you see the way they position [00:08:00] themself, they are looking for more up market premiumized kind of drinks. So they're targeting very niche.

Segment, and I think this is the way the Chinese market is being played because market is so big, you can't just throw a net and target everyone. So in this day and age, I think it's more on like trying to focus down on that and coming from an investor point of view. If I'll be looking at Chinese companies or Chinese businesses, that's my first step going down the rabbit hole.

What is the, the big question I ask myself is, instead of. Attacking the total adjustable market, which is very common for consultants, private equity businesses, venture capital. I'll ask myself what sort of differentiation and what sort of niche are they really attacking? And then I go out from there.

Mm-hmm. So that's how I see the market today, essentially. They all have their own niche. I think our, our audience as uh, consumers, I'm sure every tribe these few brands are, they have already left China and all over the world, especially in this part of the world. So people have a general sense, but how would you [00:09:00] evaluate.

Them as a business. Is it, is it similar to how, you know, we usually evaluate like restaurants, quick service, you know, like Starbucks, we get that there, there are the standard, uh, you know, things to look out for. Same store sales, margins, you know, those things. Right? So like how would you evaluate, you know, specifically these three brands and are there certain parameters to look out for apart from the traditional approach of looking, you know, the financial ratios, we are looking at your revenues, your net profits, your free cash flow, looking at the same store sales, like what.

Reggie have mentioned, I think a lot of it also comes down to the ability to scale efficiently. So profit margins are something which I look very, very closely at. Number one FMB sector in China. If you look from an analyst point of view, raise thin margins. Very difficult to to compete with. So I wanna look at whether the profit margins of these businesses, especially from the prospects, I'll look at them, whether they're able to maintain.

They are gross margins and their net margins year on year if they're able to maintain their steady margins and [00:10:00] even grow it. I think this is something which is interesting because more often than not, if you notice for these three players, right, they are in what I call a growth stage. So they're growing fast.

Sometimes you might not see. A, an economic mode which appears yet. So this can be quite tricky because people might think that they might be growing fast and they have very good margins, but they miss the idea that they're just in a growth stage. So what happens if things start to slow down? If things start to slow down?

That's where the real challenge is. Are they able to maintain that margins? So that's where I would focus, um, my attention on, and on top of that, also looking at the, uh, geography of the, this entire sector. China is huge. You know, you have multiple tier cities, right from the tier one, tier three, and then you know, you have four and five.

Where are they actually positioning themselves in terms of their stores and like what you've mentioned, you know, you have tens of thousands of stores. Where are they? Located and you can get a sense, uh, if you start reading the prospects, the industry outlook in the prospectus page, you can understand [00:11:00] roughly where their product differentiation or their differentiation is.

So it's more of the quality than the quantity factor of this. Quantitative factors, which I am looking at. It's interesting you mentioned about this location. So I think there are also things that you can't really find from perspectives. You really gotta visit on the ground. So if you realize if you go to China, um, hanji actually occupies some of the.

Most biggest mall, the top malls primary estate, very primary estate, uh, where the rental is act actually very expensive. The mouth of the walking street, you know, like the to street right there will be there. Yeah. Yeah. And then like Isha will be at the back. Isha tends to be a, um, in Chinese they call it Bway, so they're always in the third tier mall, 30th, second, third cities.

In the first tier one, there'll always be, uh, not, not very, uh, obvious location. Like in Singapore you have it. And, uh. Cl gre, which is nobody would even know wears it, right? Nobody will walk there for it. Right. Reading some of these prospects [00:12:00] right there, any particular things stand out for you? You know, across the different brands?

So if you look at all three, right? I think what really stands out among all the three is actually me and their operating model. So it's a bit different from, let's say, Luckin. So Luckin has a somewhat. Closer match of Starbucks where they do a mix of, uh, operator led malls. That means they operate themselves and then they also have a partnership stores, which they probably get people to buy into their stores or lead as a franchise.

Me actually is pretty interesting 'cause if we realize they have been a fairly profitable business, when they listed themselves, this was despite the fact that they have much lower average selling prices. 'cause typically if you look at stores, they tend to have very high operating costs, but yet Meisha, you know, it's still a very decent business.

And the reason why is because their business model targets the franchisees rather than the end consumers. So this means they're able to scale up and grow very, very quickly. You just notice in their financial statements, most of their revenues are actually sold to franchises. So it's a very [00:13:00] franchisee led model.

Now if you give one example, McDonald's is slightly more than half franchisee and then smaller portions is uh, operating an operator led model. And McDonald's has did come out and say that they are trying to shift towards a franchise model because they can low reduce their operating costs, they can increase their margins.

Me share right from the start. I think what they're very good at is they have identified all these different operating models in the US over the last few decades and they have. Come out with a model where they say, okay, instead of selling to the end consumers who will consume our beverages, I'm gonna just sell to the franchisee.

So the marketing, the approach they do is actually targeted more at the franchise. And I think this is what really stands out for me. She, the focus here is a bit different as compared to JI and Lain, of course, if you see Ji the way they, they position themselves from the perspectives, I think it's a very clear cut way of looking at, um, the Starbucks model where they're looking at.

More premium kind of drinks, the margins tend to be slightly higher, and that's where [00:14:00] the, uh, focus is when you look at their prospects. I think it's absolutely right. So for, uh, locking their revenue is 35 billion rein B and they only have 24,000. So not only they, they have 24,000 stores and you compare missions about 48,000.

But they are revenues all about 2020 over billion. So you can see the difference. What Lockin reports is basically revenue, which is basically the, the sales of the cups. But what mission reports is basically what they sell to the franchisee. So they sell about 9 billion cups a year. And oh, this 9 billion cups, each cup is about $6, so it's about 15 billion.

But what happens is what you see in the end is that the report, the perspectives that they have is actually shows the revenue that they sell to the franchisee and not to the end consumers. Whereas in a lot of the perspectives of the. Other players, what you see in the revenue is the total sales of the cups.

And I think this is a tricky thing here because as investors, right, you want to understand whether the [00:15:00] products which you sell has some form of addiction with the consumers, right? You want a business where you know that the consumers will come back, you know, over and over again, right? So if you're looking at me as model, I think what I find it sometimes difficult to understand is, okay, it seems like there's actually two different segments here.

Number one, you want to make sure that the customers. Like your drinks, they like your pricing, your product mix, so and so forth. So that's one you have to focus on. On the other hand, you also have to think about your own revenue model when you're selling your franchises to make money. Like what you have mentioned, can I actually still appeal to these franchisees who take on my licenses?

So that's. Another customers, which I need to think about. You know, when I started off as an analyst, the first question I was taught in finance is, where's the source of money? Where's the source of revenue really coming from? So is it gonna be coming from the end consumers in this case for Isha, or is it going to be coming from the franchisees?

'cause if that's the case, then Isha actually struggles with. Two different customer segments here, which they need to fulfill. The way I look at it is actually a healthier model because you have to understand China is a very, very big market. [00:16:00] So what happens is you need to allow the franchisees to actually adjust it according to what they think is right.

It's a decentralized model if you think of it. So basically what Misha does is every franchisees will do whatever is required. They'll buy the right amount of cereal, whatever, and, and adjust accordingly. The different tastes and preferences. And if you look at it. If mis share can still make over 10% profit based on what they sell to franchisee versus say 10% based on what is sold at the much higher value to the consumers, then it is a much healthier model because the franchises still have margins to make.

That is how I see it. Okay, interesting. Interesting. So what makes this. Good franchise because now, now we realize that, okay, even amongst the brands that we've highlighted, there is a two. And to be fair, it's not new. These are ho kind of f and b chain business model. So I one directly operated one franchise operator.

So what makes me share's franchise so powerful? You know, because there's so many franchises. I go to a franchise, there's so many. Why the [00:17:00] Misre franchise, you know, in itself is, is moving so well from your reit. I think I would fall back on the McDonald's model. If you see the products itself, McDonald's doesn't really produce the best hamburgers out there.

If you eat their burgers, you know, it, it, it's, it's normal. Right? And it's not hot or, you know, it's just a, a simple cheeseburger. But yet they have been selling this, you know, year after year. I. Product taste isn't really the most important for Meisha and I don't think that's where the true focus is. And I think they're really smart to focus not on that.

That's why they're able to price everything cheap and low 'cause they know that they might not have the best quality. I think where Mehari stands out and like what you've mentioned on a decentralized model, is they have a very strong system. So the backend system probably is very strong the way they actually systemize their stores, who they write down from the training, opening up the stores where they are strategically located.

'cause it's not easy, right? Like charge. You might put your stores easily in shopping malls for Isha, where are you gonna put it? You know, it has to be somewhere where quote [00:18:00] unquote, it could be a Heartland area in China. But if you see Singapore, right, Isha is probably not found in any of the shopping malls.

You know, you cannot talk hundred range. Usually it's in the heartland areas. Yeah. So you're talking about under the HDB estates. For instance, and there are actually a couple of few here, and they're targeting people like your students for instance, so you can't really put in the shopping mall. So I think the way they focus on, I think it's the system which they have, number one, they have a pretty good way of identifying the location where they want to locate at away from the competitors.

They probably have a very strong supply chain model being able to source their raw materials. The input cost is actually very, very low in, in order to do this. Because in order to appeal to franchisees, first of all, they need to actually appeal to the franchisees telling them that, Hey. The operating cost or the startup capital for mission is actually low, and that is something which has to be a restaurant selling point.

Let's talk a little bit about supply chain, right? Because China's quite crazy with this, uh, right? I, I remember eight, nine years ago when I was there, you know, thinking of whether I wanna stay there. Uh, you and I [00:19:00] had no coffee plantation. Now the un coffee plantation is like huge, you know? And then I, and I do believe it's driven by this mega trend, right?

So the, with this mega coffee drinking trend, then you need a steady supply to keep up with the growth, right? So then you start to see a whole supply chain get built up, you know, next to the Pooler tea, right? So that's like a very interesting phenomenon when I look at some of this business growth, right?

Because it, it's not just about what is at the top. Mm-hmm. The supply chain at the back is so crucial in scaling something like that. What is your read on the, on the supply chains of some of these companies? How good are they doing? Because if they don't deal this properly, it may curtail their growth.

Some 0.1 or two quarters of these problems are, could spell a downfall of a, of a brand. I mean, we've seen multiple companies that. We're growing really fast, but supply chain didn't keep up. Then a competitor comes in and scoop up the whole thing, you know, and, and, uh, they never get to come back ever. So, so any thoughts on supply chain?

So for these three [00:20:00] coffee makers, if you compare to the global brands, typically they outsource global brands tend to outsource their supply chain to a third party luckin, I believe. They, they have their own, um, supply chain. Backend. So they do own the backend supply chain singles with Isha as well. And I think this, I think singles will charge you.

Yeah, this gives you full control, number one, supply chain, number two, efficiency, and then you can control your cost better. And I think for me, this works really well, especially if your whole revenue model is in the backyard. You're just selling to customers in China itself. So that, that's helpful. And on top of that, you know, if you have.

Tariff, you have the trade war coming. Um, I don't think they will be affected. Factories or supply chain can be somewhere in nan Uh, it can be filled out in the west, which is much cheaper. And you know, China has a very strong logistic system, so that makes it pretty easy, uh, to control the cost, uh, in terms of transport, in terms of labor.

And now today, if you look at how the raw material is, right, this is basically a. Drink a tea drink with milk. So you don't really have very expensive [00:21:00] input cost. And I think this is where if you can control something which is mass market in raw materials, I think what's important is if you can control the cost itself, I think you have that really advantage.

It's a lot like, you know, your comparing yourself to a Costco or Walmart, they sell things which are very, they're just daily essentials, but they're able to control their costs so low that they can actually squeeze a profit margin of it and. They can be thriving, you know, year after year. I'll probably zoom out a little bit because I know that, for example, me, she actually uses quite a bit of, uh, China listed, uh, suppliers, uh, for fruits, for, for syrup, for many other things.

But I would like to actually zoom out a little bit to actually share. If you look at. Uh, Luckin. Luckin is predominantly coffee driven. Uh, they do have other drinks. Misher actually does all kinds of drinks, all kinds of fruits. Ji does tea, but they, they do have all kinds of tea as well. So from a risk perspective, I would say that.

Perhaps stocking is the most, uh, risky because if anything happens [00:22:00] to coffee, they'll get hit. Whereas for the other tool, if something happens to kiwi fruits or lemon or whatever, there's, there's plenty of different things, variations or, or tastes, uh, I mean cups to actually divert your supply chain tool.

Okay. Fair talking about this, right? I have a slightly different view, not, not that I'm going against you, but the, I have a question around product growth, right? And how are they gonna grow? What we call same ticket sales, right? Like how to grow the ticket volume to be higher luck in try. And I was very annoyed because they tried to sell all the desserts, all those other things to add on, uh, in checkout, right?

Yeah. You wanna add this? It's not nice. It's not, uh, the feeling is not good. Uh, they're trying to compare at a certain level of. Course, you know, and that's not what I go to lockin for. I want to hear how do y'all see their product development? How does it look like at this point? If there, there isn't, you can always just say there isn't, you know, how, how does it look like in terms of their efforts to grow, but basket [00:23:00] sale.

Yeah. Any thoughts on those front? Personally, I think this is a very individual thing. It's a very tastings thing. Uh, I mean, for food, I would think that these are offer referrals. Uh, I mean, I deliver for a company lock in or, or this food. Um. More or less peripheral. Um, but for drinks, who they're targeting is really the young people who are a lot more adaptable, uh, to all this small change in taste.

And in fact, because simply because some people actually don't drink coffee. So if you look at it from different anger, what they're trying to do is they're pulling people who drink juices to drink coffee rather than trying to change your coffee drinker into a. Mix or a juice drinker. Okay. I'm not so sure about that.

I don't, I'm not sure if people think I'm a juice drinker, then let me try with an espresso shot. I'm not sure about it. But either way, they are successful in developing those product line. Any thoughts? Yeah, I think it's very interesting Just to follow up from your point, right. Luckin is they do experiment with with different product mixes and you can see that's what Starbucks also.

Tried to do, you know, a couple of [00:24:00] years ago, and you know, right now they are also still, they're trying to sort of hi that off Luckin. If you see last year they did the HAI mixed with latte. So I think that there was something very unique. But I think what Luckin is doing is, uh, they are trying to appeal to, you know, the white collars who are willing to spend a bit of money to try different things and, you know, they, they are there people who have that innovative and creative mindset kind of customers.

I wanna try this coffee mix with juice or. Coffee mix with alcohol. I think this is something which Lakin tries to do. I, I think in terms of product mixers, if you see their products, which they're trying to do, coffee is still coffee, tea is duty. But what they're trying to do is they're trying to open up that mix and variety and it, it will happen for some of these very commoditized products.

It's not just coffee or drinks, right? If you look at pizza, for instance, Domino's Pizza, where they don't just have, you know, your Hawaiian, the much controversial Hawaiian health pizzas, but they do have things which are more suited for the locals, right? Commodity products. At the end of the day, you want to actually experiment with this.

[00:25:00] Why? Because you need to have a core product. And also at the same time, you need to have flavors of the month trends. And I think this, this comes very close in line with the business which they're operating, especially when you're selling something, which can be, you know. Pretty much a trivial kind of product where it can be highly competitive away in a very competitive environment in China.

Is there a red flag here if, let's say the product mix get too far from their core competency, right? So let's say today suddenly there's a cake shelf in Lockin, you know, and then they start to sell, become like a Starbucks, right? And don't, don't just do coffee, they also do the dessert side of things, right?

So would that be a red flag for you as an investor? Yeah, I mean, certainly. And if you can see, that's what Starbucks. Unintentionally fell into where they've overexpanded all their different product mixes for coffee. You can see even for apparel company, luxury companies at one point, for instance, coach, they expanded into the mass market and found themself deep in trouble when they started to cut prices.

It's really, you know, following that, [00:26:00] the law of, uh, capitalism when it comes to products, right? If you overextend yourself too much, you might lose. Your niche or your competitive advantage. And coming back to the initial point where we are talking about niches and the focus where you've mentioned like each of these three beverages are different in their own ways, as long as they, they can stay in their own lane and not diverge too much from the norm, I think they should be okay in the long run.

So as an investor, at this point in time, it will be a red flag. You don't want to see them go too far off their niche. I think it's okay to have. Few, you know, okay, it is okay to try out these products, but it cannot be the core revenues. At the end of the day. They still have to stick to, you know, their bread and butter or whatever core products which they're selling.

To be fair, that is not in the prospectus. They're not trying to say, oh, we're gonna open up a you management. Never say, uh, we're gonna open a whole new category. No, that's none of that. I just want to be clear with all of you, because the. Is a general tendency for a lot of these brands that are doing very well in their core product to accidentally or, you know, like, uh, to [00:27:00] aggressively expand into other verticals and then course their downfall, right?

So I think there's a, there's the element that I think we should all highlight, especially in consumer brands, you know, uh, like this if, let's say as an investor or as an analyst, I think one way to ob observe this is actually reading some of the management transcripts. When they're talking about, you know, expanding and they're trying to go into new markets, I think it's good to keep a lid on where they're really expanding to and what they're really doing.

And sometimes after reading a few of these, sometimes you get that kind of, uh, little intuition that, hey, you know, is there something wrong or is there something odd If they are expanding. Elsewhere or something different. Let's move the conversation further, right? So I think for a lot of these brands that they sell commodity, they're essentially selling commodity products, right?

But they package it in a brand form, right? So from your read on the situation, how many percent of Rev should go back to investing in marketing and brand building and net of everything, right? What is a healthy margin that these companies should hold? Of course, we all don't wanna see the margins come down, right?

Because. If the net margins [00:28:00] come down, you be like, oh, these are problems, something's going on. But what is a good, you know, as an investor, what is kind of like a good space that you want to see them stay within? And then what is the kind of reinvestment at the top in terms of brand building and, and, and all that, that you will, you would like to see?

Okay. I, I wouldn't go too deep into financials. I would say that, uh, all three companie. Again, vastly different. The top tier, the one that position themselves very highly. Obviously you have to spend a lot more on marketing, right? For me, she, I don't think that a lot needs to be spent on marketing because again, all this really depends on the kind of positioning you're putting yourself to.

And even without spending on, uh, marketing, uh, and looking at just the. Distributor level, they're already at more than 10% margin. So it's a extremely healthy, uh, profit margin. They're earning tar. If I'm not wrong, from the perspectives, their margin is about 8%, but that's all right because they are expansion.

So again, it also depends on not just what kind of brand position, whether you are expansion, expanding very aggressively because if you are expanding very aggressively. A lot of that money will be [00:29:00] reinvested into new stores. I would say that this one really, you need to be a bit more experienced to really look at the different models.

They are different, uh, business phase they are in to actually determine what is healthy there. There isn't a real demo level if you ask me. I think it really depends on the operating model. Um, if you're looking at companies which are selling a more premium product, typically I'll look at gross margins where they are at least about 40, 50%.

On, on the gross margin level businesses where the lower selling prices of coffee or products or tea then, or expect lower gross margins. Uh, having said that, I think where the focus is is not so much on the size of the profit margins, but whether they're actually able to maintain, uh, this margin levels for a long time to come.

I think this was. Important, the level or the magnitude of it. I really don't bother too much because if they're able to maintain that, it shows a sign of, uh, stability in the business. It shows that in the, in their own market, you know, they have actually achieved some form of competitive [00:30:00] advantage or some form of mo.

Before we go to the exciting question of which one is Billy's favorite, so we, before we go there, you know, to, what's your favorite stock, you know, maybe. Two more questions, right? One is on the tech enablement. I do think the Chinese companies essentially changed the way tech is done and, you know, used and experienced, you know, from a consumer level and also from an operational level.

The first time I bought a coffee on a app is lock-ins coffee, right? So, so, so that really changed everything. And over time is because he has all my data set, right? He will know what I. Buy when I buy, when I consider buying, and then they will send the prompts accordingly, you know? How do you see that as a business impact or, you know, like what is the advantage, you know, for, for some of these brands?

I don't think Misha does as much of that. In fact, I think Micha does not do much of that. But between charging and Lockin, they have very, uh, refined type of tech ecosystem, any. Thing to add on that front. I think a lot of it, they adopt this kind of model and they really improve on it. I mean, I have to fall back on some of these, um, US [00:31:00] businesses, uh, if you look at Domino's Pizza.

But what they really excel at is actually what you have just mentioned, like what Luckin and what JI is actually doing, and that's actually trying to build this customer base. Where they can identify customers buying behavior, buying patterns, how often they buy, which stores are doing very well, and they all have this data set, which they actually collect.

And these are all very, very powerful data which they can actually use because this, then they can identify the customer's trend, and that's the reason why, uh, companies like Domino's Pizza for instance, they have actually done very well in terms of their store expansion. I think that's what Lockin is actually trying to do.

So if you're talking about. Technology, u user enablement. I think that's one competitive advantage, which, uh, charge and lacking coffee have in terms of trying to focus on the customer's data. And I think this is where the trend is going for many of these businesses because as technology gets easier, you, you are able to actually use some of these tools.

To re track many of these, uh, customers, right down to the granular detail on what exactly they're buying, [00:32:00] what they're comfortable with, you know, who are their profile for businesses, you know, if these businesses can really take advantage of that, it's really here to stay because at the end of the day, f and b businesses, they're hit by very high operating costs and labor costs, right?

And one way to really stand out is you have to compete in other ways and. Analytics or you know, data is actually one big area, one big tool. And you know, if I to ask management, I would actually ask them in that direction on how they actually make use of some of these data for themselves. What I think is interesting is they have not pulled a Starbucks, you know, getting me to top buck.

They have not pulled that whole like, oh, you know, let's store some money on the app. You know, it could be, you know. Yeah, yeah. No, but that could be one of. Exactly. Strategies in the future, you know? And then you can create a float and then reinvest it, right? Essentially that's a, could potentially play out, but it's not, uh, you don't see it anywhere near, if you think about it, there's so many people using the app, right?

There's so many ways you can play around these days. A lot of businesses, you are not just selling to the customers, right? A lot of companies these [00:33:00] days, they're building ecosystems. So ecosystem slash community, I mean it's, this is something we should have heard for the recent years, right? It doesn't just appeal to services based business.

It also appeals to f and b businesses where you're trying to capture the market. Starbucks, launch the Starbucks card. They had the first iteration of an ecosystem, right. With the Starbucks cut. I think the next iteration is basically what you've just mentioned. Alright. Uh, having an an app and trying to get people to be on an app with the points.

And from what you said earlier on at the start of the show, you talk about, I. What's next for customers? People are excited to know what's next and that's what they're, they wanna do. But as with all companies, you know, uh, they have grown to a certain size and they are seeing competition locally. So we've seen this many times.

Our management will say internationalization, right? That's our method to the madness. Uh, we want to go out of China and expand into other parts of the world. Um, what is your read. Of their, the three brands success in other parts of the world today. Again, I think you have to look [00:34:00] at where they're targeting for mission and uh, lock-in.

It's pretty obvious in the Southeast Asia. I think to some lesser extent, T is also targeting Southeast Asia, and if Southeast Asia is the playground you want to go next, you have to ask yourself what is the affordability of. People in these places, which, which brand actually would do better. Right. Okay.

Fair. Any, any thoughts here? Internationalization beverages tend to be very local. A localized business. Yeah, exactly. So it appeals to the market which you are in. So it's pretty hard to scale sometimes going overseas. And the reason why is. A lot of these brands, they tend to cater to the local taste. And local customer behavior varies from one place to another.

I mean, in Singapore, per capita consumption is much higher. We uh, you know, we don't mind spending more, let's say on Starbucks or Nice Luxury coffee in China. You know, luxury downgrade. People might not want to do it. They might wanna spend a lot of money on that, but rather they wanna find what's the alternative.

So in this case, that's where the three [00:35:00] beverages really come in, and that's how. I would think, I don't think they might necessarily do very well overseas. But locally, I think, you know, they can fly because they know the customers very well. And you know, so far they have been expanding their stores.

There's long queues in some of their outlets as well. So I think this is one of the hallmark of a growing business and something which I. Could potentially be worth looking at. That is quite clear. So essentially from your worldview, uh, internationalization is like a tail bat, you know, that it, it, it may happen, you know, I mean, it's already happening, but it may not be the alpha, right?

Like yeah. Actually further optimization of, uh, product and experience and trying to maybe grow ticket, you know, uh, increase same-store sales locally in China, that those will still be your focus when you evaluate these companies. Is that a fair statement? It's a lot like, um. Alcoholic beverages, right? I mean, beers might appeal very well in some markets, but you know, it, they struggle to move in another market.

It's struggling to into other places. It's a very local taste, [00:36:00] you know, like what I've mentioned. And I think this is something which, uh, we have to understand, uh, when it comes to the f and b business or the beverage business. So having said that, to be able to scale beyond. The Shaws, it, it, it must have a very strong branding in the first place.

And I think while Ji Lain and Isha, they have established some form of brand, but this might actually take a while for it to really establish itself. Maybe I'll offer a little bit of, uh, concern view. Okay. So while you're right to say that drinks, uh, are very, uh, localized, but sugar is not localized.

Everybody loves sugar. So if you ask yourself, who is really selling sugar? And more, more selling sugar than selling other things. You actually have your answer. Yeah, yeah. Your answer very clear. Really like, I think by the 30 minimum people know what's your favorite brand already? Yeah. From, from a business point of view, I.

I mean, you look at it, they have 40,000, 46,000 stores worldwide. They already have a thousand over stores in offices, and you look at the, the pace [00:37:00] of internationalization of the other brand is definitely not as fast, if I can put it to just a keyword. What they're selling, right? Miche is selling affordability.

Lock-in is selling convenience. Achi is selling. Mm. So they are targeting very different thing. So is it a fair statement to say that amongst the three of them, your favorite company will be misher? For me? Definitely. Okay. Okay, great. And just a fun fact, because I'm quite active in the franchising space, I hope to see you at the next franchising.

Licensing fair. Uh, we're also doing some in Malaysia. So when is that? Keep it updated. I think it's in s. September, um, mid-September. So we'll stay tuned. We, we'll invite everybody to come for the fair. We we're organizing a three day live stream, very big six by six. Uh, we, we can do a lot of stuff, right? So stay tuned.

But the interesting part about Micha right, is I've not seen them at any franchising fair. They don't need to go to the fair. Mm. They're growing. A level at such a level. And I have friends who say, Hey, how about we call that? Ask them like, what is the franchise rates? That's how people, you know, walk in to look for them.

And they don't [00:38:00] need to go and say, Hey, uh, use us, you know, use us. Right. So I don't see them anywhere near the expo. They don't even need to go to expo to talk to you and convince you. Right. And I think one trick that they use, right, is they bring the upfront costs very low. Relative to everyone else. Most of your money that you franchise with them goes into the store building into the equipment and into the equipment building, which, which actually is quite simple, you know, from a, from a outfit stand.

I mean, we all see Micha. It's quite simple. It's just a few things to open back, put ice, bought water, you know, so it's like very simple outfit. So from a cost structure is very low to start. And they make a lot of money from the supply chain because they really sell one, one level of markup. When the Isha Parent company sells to you as a franchisee, right?

So it's a very interesting business and I've not seen them anywhere. So, uh, really everyone wants to know amongst a three of them. What's your favorite Isha? Actually, of all the three, what, what I've mentioned? Yes. Um, sugar, right? People love sugar. And this is something which [00:39:00] I've also always talk about when I write my blog, right?

Habit Forming Products and services. If you notice this for me, shared, they are very similar to Coca-Cola. As a business and Coca-Cola is, you know, sweet and syrup. And what's interesting is Coca-Cola is one of the few businesses which can scale overseas. Uh, why not? Because they have, you know, red Tasty Coke, but rather because they have actually systemized their whole business.

So a lot like me share what Coca-Cola did was they sell instead to consumers like ourselves. They sell to bottlers, they sell to restaurants. So they're largely B2B Mission also has that very similar. Footstep. So they sell to franchisees. Um, small business operators or small startups or people, mom and pop who wants to actually own, uh, own a store.

So I think that's where it sort of helps in terms of scale. Uh, what for me, I personally, I don't like about this, uh, business is the marketing. Towards the end consumer. It's a bit different here. So I think this is something we should be, I will actually be a [00:40:00] bit more careful about when I want to actually look at businesses like this, where they could be selling, you know, very strong revenues.

But the end customer I think is something which we have to think very carefully about. For instance, if you see Coca-Cola is history, right? They actually went into some trouble for a while trying to work with, uh, some of the bottlers and the distribution. Overseas. So I think the partnerships for some of them, for CocaCola actually struggled for a while before they actually find their footstep.

So they, they actually owned, uh, some of these distributors and bottlers for a while, and then after that they started to spin off many of these, uh, businesses. 'cause knowing that, uh, this are a very high operating cost business, when your model is slightly different, there could be missteps, which you might.

Potentially make, especially when it comes to the franchisee model. I mean, what if one day if, uh, franchisees realize that, you know, the stores are not as profitable as it would be, then what's gonna happen? So I think a lot also lies in the way. Uh, Miche must continuously have a very. Efficient [00:41:00] system or operating models so that it continues to appeal to people who want to actually take on the franchise.

At the end of the day, there is a terminal growth rate to these things, right? Same, same store sales coming down is a very clear signal that it has maxed up, it's footfall, and then. Business has to evolve, right? But it's not is, is, we are not, we are nowhere near there yet. But it's just, uh, as with evaluating any other kind of, uh, f and b brands, you know, lifestyle consumer brands, and, uh, especially in these type of like beverage quick service restaurants, I think these are all first principles, uh, that.

You all need to know that, especially when you are looking at investing, because often, uh, we think, ah, we like this thing that we can invest in there, but actually the business model at the back is quite complicated. So thanks for sharing. Uh, thanks for sharing. I think we had, we had a, we had a good chat, by the way.

Do you know that the maus community call it makes you. Oh, not miss you, mix you. Yeah. Yeah. So shout out to all your mixed you friends. You know, I hope at the end of this [00:42:00] discussion you realize, oh, actually that is the one I'm most interested in. And uh, we welcome the CEO next round. Okay. You can come. Yeah.

Any last things you wanna share your audience or where is the best place that they can connect with you? You know, uh, if they would like to further this discussion, I write on dividend titan.com. So if you ever like to know about. Dividend stocks, um, in Singapore, China, Hong Kong, and even in the us you know, you can.

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