July 22, 2026

TH INTERNATIONAL LIMITED
(NasdaqCM: THCH)

TH International Ltd. (Tims China) is the exclusive master franchisee of Tim Hortons coffee shops for Restaurant Brands International Inc. (RBI) in mainland China, Hong Kong, and Macau. Tims China offers freshly brewed coffee, tea, and other beverages; freshly baked goods; and meals and sides. The company launched its first coffee shop in China in February 2019 and has grown to more than 1,000 stores. The company utilizes an operating model that includes company-owned stores and franchise-operated locations.

COMPANY HIGHLIGHTS

* **Net Store Growth to Resume**: As of March 31, 2026, there were 1,026 Tims China locations across 93 cities in China. Over the past few years, net store growth has moderated, as the company has pruned underperforming company-owned stores while adding new stores from subfranchisees under the “asset light” operating model. Many of these are in high-traffic special channels, including high-speed railway stations, airports, highway rest areas, and hospitals, which we expect will carry more favorable economics. We expect the rate of net store growth to return and accelerate across 2H26, as THCH completes its store closure plan, and we expect it to open approximately 150-200 new locations annually over the coming years.
* **Differentiated Product Offering**: We think Tims China is well positioned to fill the role of a differentiated player in the market by providing strong value for the money compared with premium players, while offering a locally adapted, freshly prepared food menu. In 2025, Tims China launched 178 new products, (around 100 in 2024), across food and beverage categories. We view favorably its expansion of food orders to more than 50% of transactions and note that food has comprised approximately one-third of its total revenues.
* **Investment Phase Largely Completed**: THCH has completed much of its investment toward building an infrastructure, including a scalable supply chain

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PRICE CHART

KEY STATISTICS

Key Stock Statistics	
Recent price (7/21/26)	$1.76
Fair Value Estimate	$2.50
52 week high/low	$3.25/$1.24
Shares outstanding (M)	32.5
Market cap ($)	$57.2
Dividend	NA
Yield	NA

Sector Overview	
Sector	Consumer Discretionary
Sector % of S&P 500	9.3%

Financials (as of 3/31/26, RMB)	
Cash & Mkt Securities (M)	111.4
Debt (M)	1,580.0
Working Capital (M)	-722.6
Current Ratio	0.3
Total Debt/Equity (%)	NM
Payout ratio	NA
Revenue (M, TTM)	1,272.2
Net Income (M)	NM
Net Margin (%)	NM

Risk	
Beta	0.50
Inst. ownership	61%

Valuation	
P/E forward EPS	NA
Price/Sales (TTM)	0.3
Price/Book (TTM)	NM

Top Holders
Cartesian Capital Group LLC
Tencent Holdings Limited
HongShan Capital Advisors Limited

Management	
Chairman	Mr. Yongchen Lu
CEO	Mr. Kwok Wah Cheung
CFO	Mr. Dong Li
Company website	https://ir.timschina.com

and technology system that can support an efficient and economically optimized target footprint. As of March 31, 2026, the company had renovated 760 stores (close to 75% of its total location footprint) to a made-to-order format, allowing guests to see their fresh food being prepared in open kitchens. In our view, Tims China is managing variable costs across multiple categories, which should support THCH's goal of reaching corporate-level adjusted EBITDA breakeven as soon as the second half of 2027.

* **Loyalty Program's Continuing Strong Growth**: As of March 31, 2026, Tims China had 35.9 million registered loyalty club members and has been growing the number at 30-40% annually. We see this growth having a "multiplier effect" for future revenue growth and see room for additional growth among its registered customer base as the company continues to scale its operations.
* **Balance Sheet:** As of March 31, 2026, THCH had RMB111.4 million ($16.2 million) in cash and deposits. Net debt was RMB1.47 billion ($213 million), around 75% of which is in the form of convertible notes. THCH recently refinanced $89.9 million in senior notes to be due in 2029 and announced new funding for $55 million in June 2026, to be available in several tranches, which we see supporting the long-term expansion strategy.
* **Fair Value**: Based on our enterprise value (EV)/revenue analysis, we see a fair value of $2.50 per share.

COMPANY/INDUSTRY BACKGROUND

THCH is the master franchisee and licensed operator of Tim Hortons coffee shops, one of the largest coffee and tea restaurant chains in the world, in mainland China, Hong Kong, and Macau. The company opened its first coffee shop in February 2019 and had 1,026 total stores in 93 cities as of March 31, 2026, consisting of both company-owned and -operated (541) and franchised (485) stores. We see THCH as well positioned for growth, as the only international coffee brand that can offer subfranchising opportunities to individuals in China.

Over the past few years, THCH has been pruning underperforming company-owned stores while opening most of its new locations under its franchise model. As a result, the percentage of company-operated stores declined to 53% as of March 31, 2026, compared with 56% a year earlier. Over the past 12 months, THCH saw net store openings of two locations, resulting from the closure of 28 company-operated stores and the opening of 30 subfranchised locations.

We expect net location expansion to accelerate in 2H26, as THCH completes its pruning program. We see the company focusing on the densification of established areas, complementing its entering of new cities across China. Over the next few years, we expect THCH to open 150-200 locations annually, mostly subfranchised, though we see potential for new financings to enable strategic investment into company-owned stores as well. Overall, we think stronger performance of the retained company-owned stores, which feature enhanced store unit economics and solid contribution margins, should improve operating margins over time.

We view the subfranchise strategy favorably, given the limited capital investment required and the enhanced profitability due to scalability and higher margins. We see favorable economics for small-format stores, with capital expenditures of RMB450,000-RMB500,000 (around $63,000-$70,000), store contribution margins in the mid-to-high teens, and a payback period around two years. While its recent operating results have been constrained by the realigning of its company-owned and -operated store footprint, the subfranchise segment saw revenue growth and profit growth in 1Q26.

Following 1Q26, THCH cited more than 10,500 franchisee applications received, which we see suggesting robust demand. Locations opened to date have featured smaller footprints with open kitchens. We expect many new store locations in high-traffic areas and special channels, including high-speed railway stations, airports, highway rest areas, and hospitals, which should carry more favorable economics to THCH. The company has partnered with leading franchise groups in the convenience store and real estate sectors, which we expect will reduce execution risk and promote location success.

The company has also supported the subfranchise model by launching a roadshow program to communicate its brand strength, operational standards, and unit economic model to prospective franchise partners. At the same time, the company has introduced upgraded franchise support policies, including multistore incentives, high revenue rebates, and opening support packages, further enhancing franchise attractiveness.

In our view, underpinning the opportunity for THCH is a market that is undergoing a generational shift in consumer preferences to coffee drinking from what was historically only a tea-drinking culture. According to the International Coffee Organization, China's coffee consumption has grown at a compound annual growth rate of 21% since 2010-11, which compares favorably to the average annual growth rate for the world of 1.8%. In its "China Coffee Industry Report 2024," the World Federation of Chinese Catering Industry cited coffee consumption in China that has more than doubled (167%

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PEER COMPARISON

Company	Ticker	Recent Price ($)	52-Week High ($)	52-Week Low ($)	Mkt. Cap ($MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1-yr EPS Growth (%)	P/E Ratio	Beta	Yield (%)
TH INTERNATIONAL LTD	**NASDAQ: THCH**	**1.76**	**3.25**	**1.24**	**57**	**-40**	**NM**	**NM**	**NM**	**0.50**	**NA**
STARBUCKS CORP	NASDAQ: SBUX	104.45	109.23	77.99	119042	16	3	NM	64.1	0.97	2.4
LUCKIN COFFEE INC	OTCPK: LKNCY	31.97	43.64	27.22	9153	-11	43	21	19.4	-0.33	NA

growth) over the past decade, with demand outpacing domestic supply, spurring 20% growth in coffee imports in 2023.

Despite this growth, we see the market as still being in its early stages of development and offering white space for future growth. We are encouraged by initiatives of the Chinese government. In October 2022, coffee cultivation and production were included in the government's Catalogue of Encouraged Industries for Foreign Investment.

As of July 2026, Starbucks Corp. had approximately 8,000 locations in China. Over the past decade, Luckin Coffee Inc. has surpassed Starbucks, citing more than 30,000 stores. Cotti Coffee currently has close to 16,000 locations, as it executes on an aggressive franchisee-driven expansion strategy.

Since 2024, however, the industry has seen pricing pressures, as the local players, including Luckin and Cotti, have sacrificed margin for revenue and unit growth expansion. We expect this pricing trend to be transient in nature, given the impact on corporate profitability, but see potential for this to accelerate the overall customer expansion of the category.

Under this scenario, we see Tims China's product differentiation — driven by a higher level of orders including food items compared with its peers, while Starbucks has signaled simplifying their menus — to drive customer adoption and market share growth. Despite the pricing challenges in the market, we note that THCH has seen system sales growth and same-store sales growth for company-owned stores as recently as 3Q25.

In our view, the pricing environment for the industry has compounded general weakness in China's macroeconomy, which has been increasingly volatile since the COVID-19 pandemic and has led to a period of deflation amid soft consumer spending and housing market weakness.

We are encouraged by recent stimulus efforts by the Chinese government supporting expanding consumption and boosting growth through enhancing demand, rather than through reducing oversupply in many sectors. In 2025, government stimulus policies were introduced that were positively received by economists and that we think have improved the consumer sector's market outlook and investor sentiment. We think such actions could help to normalize coffee market trends and provide a longer-term tailwind to THCH's growth strategy.

In June 2024, Tims China sold its Popeyes restaurant business to RBI, which had licensed the brand in China in early 2023. Since opening its first store in August 2023, THCH had opened 14 locations. Despite our positive long-term demand outlook for the Popeyes brand in China, we see the decision to divest as financially prudent, given signals of increased competition in the local market and the company's prioritization on driving profitability in the core Tims China business.

INVESTMENT THESIS

We think Tims China is well positioned to fill the role of a differentiated player in the market by providing strong value for the money compared with premium players, while offering a locally adapted, freshly prepared food menu.

In May 2025, Tims China was included in the 2025 China Restaurant Franchise Brand Top 100 list by the China Chain-Store & Franchise Association and was cited for excellence in franchise system development, operational management, and sustainable growth.

We view positively that THCH's supply chain focuses on sourcing fresh ingredients from local suppliers that have a Global Food Safety Initiative certificate, a widely recognized food safety standard. In addition, we think the near-shore and local sourcing of its coffee beans should support stability in its supply chain (where coffee beans are the only category still imported from outside China), as well as its ability to more effectively contain operating costs, including food and packaging (an expense line item that totals approximately 30% of its revenues).

In our view, the company has completed much of its investment toward building an infrastructure that can support the current and future footprint, including a scalable supply chain and technology system that can support an efficient and economically optimized target footprint.

While the Tims China brand was established primarily through the opening of a base of larger-scale company-owned stores, the company has been pruning underperforming stores. We estimate that it has closed around 200 of its lowest-performing company-owned stores since 4Q23, as a period of overexpansion has contributed to an economic slowdown in China.

A majority of these closed locations were in large commercial complexes, including department stores and within residential or office buildings, which carried higher rent and operating cost burdens. Once the company completes its footprint realignment, we expect most of the remaining stores to be profitable and think that new locations will have more favorable formats, which should support improving operating margins and EBITDA profitability.

In our view, freshly prepared food on the menu represents another area of differentiation compared with peers. We see THCH benefiting from investments in developing locally relevant and product-tested menus, which we believe have been key for Western brands to achieve success in China. These menus focus on innovation to drive store traffic and repurchases.

In our view, THCH's Coffee Plus Fresh Food strategy represents a differentiation to its peers and helps it to mitigate pricing pressures across the category. In 2025, the company introduced 178 new products, continuing a recent trend of at least 100 new products annually, spanning food (96) and beverage (82) categories.

To that end, we are encouraged by recently completed renovations of more than 760 locations (close to 75% of its total location footprint) that enable customers to see their made-to-order, fresh food being prepared in open kitchens. We also see the variety of store formats enabling smaller locations with varied food and seating options, in contrast to chains such as Starbucks, which is largely concentrated in larger-store footprints. Since late 2023, more than 50% of transactions have contained a food item, and food has accounted for approximately one-third of its revenues. We see this supporting THCH's goal to increase its average revenue per transaction.

Recent new offerings have included low-sugar, high-fiber, and plant-based options, focused on healthy and fresh products, retained nutrition, and flavor. Tims China also launched bagel options with fewer than 400 calories, as well as beverage offerings with "Five Zeros" — containing no nondairy creamers, coffee whiteners, hydrogenated vegetable oils, trans fats, or instant tea powders. The company has also introduced seasonal beverages for both the coffee and noncoffee categories, to directly compete for tea drinkers' wallet share, aimed at capturing incremental share among targeted younger consumers. In 1Q26, customers under the age of 30 accounted for nearly half of its total membership base.

In our view, Tims China has leveraged its strong information technology and customer relationship management capabilities, which are prominently featured across the digital ecosystem, to facilitate this trend for increased digital ordering and marketing on vertical service platforms, including Taobao Shangou and Tmall, and social media platforms, including WeChat, Weibo, Xiaohongshu and TikTok.

The company recently hired a new chief marketing officer to support these functions and utilized key influencers and cultural icons for targeted promotions to elevate brand awareness and drive engagement. Over the past two years, Tims China has partnered with panda Meng Lan and Gen Z celebrity Lars Huang, respectively, which generated millions of media exposures. In September 2025, the annual Bagel Festival saw double-digit same-store sales growth, driving positive same-store sales growth for 3Q25, outperforming the broader market. In our view, the hiring of the new marketing leadership, combined with the recent financing, should allow THCH to boost marketing investments to support same-store growth moving forward.

As of March 31, 2026, Tims China had 35.9 million registered loyalty club members, expanding by 43% year over year. This program has been growing by 30%-40% annually over the past few years. This compares with just 2 million loyalty club members at the end of 2020. We see this club growth having a "multiplier effect" for future revenue growth and see room for additional growth among its registered customer base as the company continues to scale its operations. Tims China has also leveraged the use of mobile and digital technologies to support its growth. Since 2020, digital ordering has increased from 64% of all transactions to as high as 90%.

Last, we view positively THCH's commitment to global corporate sustainability under its "Tims for Good" platform. The company promotes responsible sourcing through its Coffee for Communities program, which provides direct training and support to coffee farmers. It has also opened a Green Innovation Lab Store in Shenzhen, centered around the concept of coffee ground recycling, using composite boards made from coffee grounds and straw fibers throughout its seating, wall décor, condiment stations, and booth areas.

In December 2025, Tims China launched an innovative ecofriendly straw codeveloped with Tencent Holdings Ltd.'s CarbonXmade program under a carbon capture utilization technology, which captures industrial carbon dioxide emissions and converts them into polypropylene carbonate polyols and ultimately into a biodegradable material that meets Chinese regulatory requirements. The product has been introduced in stores across Beijing, Shanghai, and Shenzhen. Previously, Tims China has launched initiatives including "Bring Your Own Cup — Save RMB 8" to limit the use of disposable materials.

RECENT DEVELOPMENTS

Tims China shares trade on the Nasdaq Capital Market under the symbol "THCH." In 2025, the shares declined by 30%, compared with a 17% increase for the S&P 500. Year-to-date in 2026, the shares have declined 29%, compared with a 10% rise for the S&P 500.

In June 2026, THCH reported 1Q26 results, which saw a 14.6% decline in total revenues (14.2% decline in system sales) and a 13.2% decline in same-store sales, as the company continued to close underperforming company-owned and -operated stores and navigate the challenge of higher delivery costs, which began in the second half of 2025, impacted by aggressive delivery aggregator subsides. This widened the adjusted corporate EBITDA margin to negative 11.8% in 1Q26, compared to negative 9.8% in the same period in 2025. Revenue from its subfranchise business increased by 7.7% year over year and generated profit growth of 14% in 1Q2026, amid an expanding subfranchise footprint. Net loss per share for the quarter was RMB3.38, compared with a net loss per share of RMB1.78 in the same period in 2025.

In June 2026, THCH's board appointed Kwok Wah Cheung as its CEO. Concurrently, Yongchen Lu stepped down as CEO and assumed the role of chairman, while previous Chairman Peter Yu left that position but remains a director.

In June 2026, THCH entered into a definitive agreement with Tim Hortons Restaurants International GmbH, a subsidiary of parent company Restaurant Brands International, for the issuance of up to $55 million in senior secured convertible notes. These proceeds were consolidated to form a single series with the existing $89.9 million in notes, issued in December 2025 and due in 2029. The transaction will be executed in four separate tranches, with the initial $15.8 million in 3Q26 and the final tranche expected in 1Q27, subject to customary and other closing conditions.

EARNINGS & GROWTH ANALYSIS

In 2025, THCH generated total system sales of RMB1.57 billion, a 7.6% increase compared with 2024, despite the transient challenges related to its store-pruning program. On a same-store basis, transactions increased by 2.7% in 2025, but sales growth declined by 2.4% due to higher discounts on its delivery business to mitigate intensified competition due to aggregator platform dynamics.

These unfavorable trends have accelerated into 2026, as 1Q26 same-store transactions declined 8.3% and average ticket size declined 4.8%, contributing to negative 13.2% system-wide sales growth. Although THCH has cited improving trends in 2Q26, we expect the recovery to take several quarters, as the company implements strategies from its new CEO and marketing leadership.

We expect subfranchised stores to continue to gain share as a percentage of THCH's total store footprint, though we see potential for new company-owned stores resulting from its recent financing. Still, we see company-owned stores contributing 78% of revenues in 2026 and 2027, compared with 81% in 2025. We view positively the focus on new store openings in attractive, high-traffic locations, while also closing higher-rent and less-profitable company-owned stores.

We forecast that THCH will post revenues of RMB1.17 billion ($164 million at recent exchange rates) for 2026 and RMB1.38 billion ($194 million) for 2027, which would represent declines of

11% and 18%, respectively. We expect revenue growth to begin to stabilize in 2H26.

In our view, Tims China is managing variable costs well across multiple categories, expanding gross margins due to supply chain optimization, economies of scale, and an improved product mix. As a result, food and packaging costs, its primary cost driver, declined to 28.4% as a percentage of revenue from company-owned and -operated stores in 1Q26 from 30.4% in the prior-year period. In addition, rental and property management fees have declined (16.2% in 1Q26) due to the lower company-owned and -operated store count.

Last, marketing expenses declined 43.7% in 1Q26 to 3.8% of revenue from 5.8% in the prior-year period. Despite our view of marketing leverage as THCH expands its digital capabilities and loyalty programs, we see potential for the company to expand marketing efforts after a recent financing and the installation of new company leadership.

On the negative side, THCH has faced higher costs related to delivery, rising to 13.2% of revenue in 1Q26, up from a prior range of 10%-12% of revenues. This has been due to a subsidies war among delivery aggregators including Meituan, Alibaba Group Holding Ltd.'s Taobao Shangou, and JD.com Inc.'s JD Takeaway. We expect the company to develop new pricing structures to control costs amid increasing demand for delivery and takeaway services.

For 2026, we expect operating expenses to comprise 100% of company-owned store revenues, comparable to 2025, but expect this figure to decline to 96% of revenues in 2027.

Given our view of firming fundamentals, we expect Tims China to realize improvements in its EBITDA margins, both at the in-store level and corporate-wide. At the store level, adjusted EBITDA margin reached an all-time high of 13.3% in 3Q24 but fell to 7% for 2025 (7.4% for the full year in 2024). We forecast a store-level adjusted EBITDA margin of 5.4% for 2026, expanding to 8.3% in 2027. We see potential for this margin to reach the midteens over the coming years, supported by increasing and more frequent consumption and the inclusion of higher-priced foods to drive higher average ticket prices.

On a corporate level, the adjusted EBITDA margin was negative 5.9% in 2025, compared with negative 6.9% in 2024. We project a corporate adjusted EBITDA margin of negative 5% for the full year 2026, narrowing to close to negative 2% for 2027, with potential to reach quarterly breakeven in 2H27. That said, we expect the extent of these corporate-level improvements to be reliant on THCH's forward marketing strategy, for which we assume 5% of revenues in 2026 and 6% in 2027.

We project a net loss per share of RMB8.16 ($1.19) in 2026, around 40% narrower than in 2025. We project a net loss per share of RMB6.26 ($0.94) in 2027. We note that THCH's results tend to be volatile due to changes in the value of its convertible notes. Both estimates reflect a recent renminbi-to-dollar exchange rate of 0.15. On an adjusted basis, we forecast a net loss per share of RMB6.33 ($0.95) in 2026 and RMB5.51 ($0.83) in 2027.

FINANCIAL STRENGTH & DIVIDENDS

Our financial strength rating for Tims China is Low. As of March 31, 2026, the company had cash and deposits of RMB111.4 million ($16.2 million), down from RMB129.7 million at the end of 2025. It had a negative working capital position of RMB722.6 million ($101.2 million), which translates into a current ratio near 0.3. THCH had approximately RMB1.58 billion ($229 million) in debt, approximately 75% of which is in convertible notes. When factoring in its cash and deposits, net debt was RMB1.47 billion ($213 million).

We note that the company has received financing support from its controlling shareholder, Cartesian Capital Group LLC, and its brand owner, RBI, underscoring their strategic focus in China, the world's largest market outside of North America.

In June 2026, THCH entered into a definitive agreement with RBI subsidiary Tim Hortons Restaurants International GmbH for the issuance of up to $55 million in senior secured convertible notes. These proceeds were consolidated to form a single series with the existing $89.9 million in notes, issued in December 2025 and due in 2029. The transaction will be executed in four separate tranches, with the initial $15.8 million in 3Q26 and the final tranche expected in 1Q27, subject to customary and other closing conditions.

We think this new capital will enable strategic investments, including the opening of new company-owned stores as well as new marketing initiatives to support a recovery in top-line growth. The December 2025 issuance enabled the repayment of the $69.9 million of notes that were to come due in 2026. Additionally, THCH amended its existing 2024 unsecured convertible notes that had been due in 2027, extending their maturity to 2029.

In June 2024, Tims China secured $60.7 million in aggregate operating capital funding from Cartesian Capital Group and RBI. As part of the transaction, Tims China sold its Popeyes business to RBI. We note that the divestiture of the Popeyes business, which was at an early stage and would have required significant operating capital over the coming years, helped to stabilize THCH's balance sheet.

Net cash used in operating activities in 2025 was RMB12.7 million ($1.8 million), which is nearly 70% narrower than the RMB39.7 million in 2024. In 2025, net cash used by investing activities was RMB62.8 million ($9.0 million), wider than the RMB8.0 million in 2024, due to higher capital expenditures. Net cash provided by financing activities was RMB21.7 million ($3.1 million) in 2025, compared with net cash provided by financing activities in 2024 of RMB26.0 million.

THCH does not pay a dividend, and we do not expect the company to initiate such a program in the foreseeable future.

MANAGEMENT

In June 2026, THCH's board appointed Kwok Wah Cheung as its CEO, as part of a succession planning process. Concurrently, Yongchen Lu stepped down as CEO and assumed the role of chairman, while previous Chairman Peter Yu stepped down from the chairman role but remains a director.

Mr. Cheung has spent more than 25 years as an executive in the consumer sector in China, most recently serving as CEO of Zhejiang Supor Co., a leading Chinese manufacturer of cookware and household appliances. He previously served as executive director of China Feihe Ltd., chairman and CEO of Nestle's greater China region, and global president of Wyeth Nutrition.

Mr. Lu had been THCH's CEO since its 2018 inception and has been a director since September 2022. Mr. Lu served as the CFO of Burger King China from November 2012 to April 2018 and previously was China representative for Cartesian Capital Group, a global private equity firm.

As of March 2026, affiliates of Cartesian Capital Group owned 48.6% of the outstanding ordinary shares.

As of December 2025, THCH's board of directors consisted of eight members, five of which are classified as independent. In June 2026, THCH added Lucas Alperi Suarez to replace Rafael Odorizzi on the board, both of whom served on behalf of RBI.

RISKS

Risks to an investment in THCH include intense competition and the potential for pricing dynamics impacting sales and margins in China's coffee shop and food and beverage industries; sensitivity of inflation rates to the prices of commodity inputs to its products, labor, and transportation; reliance on continued favorable macroeconomic trends toward consumer discretionary spending on the out-of-home coffee and food categories; the need to continually develop new products that are accepted by its customers; and disruptions to its supply chain and technology systems, though we note that THCH has established a largely local supply chain. We also anticipate equity dilution over the coming years as convertible notes, which account for approximately 75% of the company's debt, are converted to common shares. We also see Tims China requiring additional operating capital before achieving sustainable profitability.

VALUATION

With a recent market capitalization below $60 million, representing a forward price-to-sales multiple around 0.3-times, we do not see THCH's valuation accurately reflecting its long-term growth potential in China's coffee market.

In our view, the valuation has been pressured by declining top-line revenues due to the pruning of underperforming stores and market dynamics in China's coffee market that have resulted in volatile same-store sales trends. That said, we expect total store growth to expand more meaningfully over the rest of 2026, as THCH completes its store closure plan and benefits from more favorable store economic dynamics from remaining locations due to a shift toward smaller locations with open kitchens, as well as an increase in the percentage of subfranchised locations among total location counts. We think this should promote a clearer path to profitability.

We also think the expansion of its loyalty programs and robust franchise interest, with more than 10,500 applications received, are underappreciated by investors. Further, we think the recent infusion of new capital should accelerate new store expansion off of an operating base that saw a significant narrowing in cash outflows from operations in 2025, compared with 2024. We think improving store-level and corporate-level adjusted EBITDA margins will be key priorities for the company over the next couple of years, and this would likely improve investor sentiment over time.

We value THCH in comparison with the leading public coffee companies operating in China. Primary players Starbucks (EV/2027 consensus revenue of 3.5-times) and Luckin Coffee (0.9-times) average 2.2-times as a group.

Although we expect THCH to grow at an attractive rate moving forward as it implements its subfranchise model with a prioritization on profitability, we value the company at a discount to this average, given the balance sheet overhang, top line volatility, and relatively moderate footprint expansion outlook.

Given our view that 2026 is likely to represent a transition year, we are using 2027 as the base year for our valuation. We apply a discount to the peer multiple of 1.5-times our 2027 revenue estimate of RMB1.38 billion. After adjusting for net debt and discounting back one period at 15%, we arrive at a fair value of $2.50 per share, approximately 40% above current levels.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

(MIL, RMB)	2022	2023	2024	2025	Q1 2026	Q2 2026E	Q3 2026E	Q4 2026E	2026E	Q1 2027E	Q2 2027E	Q3 2027E	Q4 2027E	2027E
Revenue	1011.1	1575.8	1391.2	1316.2	256.7	286.3	311.8	316.7	1171.5	289.0	336.3	375.0	379.7	1380.0
Operating Costs	1602.8	2277.0	1740.2	1633.5					1386.9					1565.1
Operating Income	-591.7	-701.2	-348.1	-317.4					-215.3					-185.1
Other Expense	163.5	171.6	109.2	118.0					-50.2					-20.0
Pretax Income	-755.2	-872.8	-458.3	-435.8					-265.5					-205.9
Tax Rate (%)	NA	NA	NA	NA					NA					NA
Net Income Attributable to THCH	-753.1	-876.2	-409.0	-435.8					-266.1					-205.5
Weighted Diluted Shares	25.6	30.5	32.5	32.5					32.6					33.0
EPS (RMB)	-28.99	-28.41	-12.70	-13.36	-3.38	-1.69	-1.59	-1.50	-8.16	-1.95	-1.61	-1.28	-1.42	-6.26
EPS (USD)	-4.06	-3.98	-1.78	-1.91	-0.47	-0.25	-0.24	-0.23	-1.19	-0.29	-0.24	-0.19	-0.21	-0.94
Dividend	NA	NA	NA	NA					NA					NA
Growth Rates (%)														
Revenue	57	56%	-12%	-5%					-11%					18%
Operating Income	NM	NM	NM	NM					NM					NM
Net Income	NM	NM	NM	NM					NM					NM
EPS	NM	NM	NM	NM					NM					NM
Valuation Analysis														
Price ($): High	52.75	33.6	9.05	3.80					NA					NA
Price ($):Low	12.70	7.15	2.78	1.95					NA					NA
PE: High	NA	NA	NA	NA					NA					NA
PE: Low	NA	NA	NA	NA					NA					NA
PS: High	NA	NA	NA	NA					NA					NA
PS: Low	NA	NA	NA	NA					NA					NA
Yield: High	NA	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA	NA					NA					NA
Financial & Risk Analysis (MIL, RMB)														
Cash/Restricted & Securities	614.9	227.0	184.2	129.7					NA					NA
Working Capital	-521.5	-937.2	-1118.8	-675.6					NA					NA
Current Ratio	0.6	0.3	0.3	0.3					NA					NA
LTDebt/Equity (%)	NA	NA	NA	NA					NA					NA
Total Debt/Equity (%)	NA	NA	NA	NA					NA					NA
Ratio Analysis														
Store Level Adjusted EBITDA	-4.3%	4.9%	7.4%	7.0%					5.3%					8.5%
Corporate Adjusted EBITDA	-31.4%	-15.6%	-6.9%	-5.9%					-5.2%					-2.3%
Adusted EPS (RMB)	-17.59	-13.50	-8.79	-7.30	-2.04	-1.51	-1.43	-1.35	-6.33	-1.70	-1.45	-1.11	-1.25	-5.51
Return on Assets (%)	NM	NM	NM	NM					NM					NM
Return on Equity (%)	NM	NM	NM	NM					NM					NM
Op Inc/Int Exp	NM	NM	NM	NM					NM					NM
Div Payout	NA	NA	NA	NA					NA					NA

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