Chagee

Takeaways from post-2Q NDR: Domestic SSS turning + overseas guardrails set + 13% TSR optionality; OW

Overweight

CHA, CHA US
Price (09 Sep 26):$12.45
Price Target (Jun-27):$16.60

Consumer

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Chagee has stood out in our China consumer coverage as a turnaround story that is relatively detached from the weak consumption backdrop, driven by the unwinding of the price war and meaningful self-help through product innovation. The share price has rebounded 36% from the trough of US$9.16 (including ~US$6/ share net cash) in Apr-2026 (vs. China FMD peers at -17% on average). In 8M26, the market has been reluctant to re-engage from the "left side" of the turnaround - we think that's now changing (see 2Q26 note). We upgraded Chagee to Overweight in Apr-2026 as we saw a China SSS recovery around the corner. With Rmb6.8bn of cash on hand (~3x annual earnings), a US$150mn buyback (c.7% annualized return), and a potential regular cash dividend from 2H26 (JPMe: 50% payout, ~6% yield), we continue to see attractive risk/reward. Our recent expert call (takeaway note in collaboration with the JPM ASEAN team) and recent management discussions further reaffirm our constructive thesis (detailed Q&As from page 3). Reiterate Overweight.

- **"Brand-first" and consistent through cycles.** We see Chagee as fundamentally different from many peers - a "real brand" with clear positioning and values, and an explicit ambition to build a global tea brand and bring "Eastern tea" to the world. Its strategy has been disciplined and brand-first: management chose not to participate in the 2025 delivery subsidy/price war to protect brand equity, even at the cost of near-term share loss and a post-IPO de-rating. With the price war fading this year and execution refocused, we believe the business is back on track, with a stronger organization coming out of the down-cycle.
- **SSS inflection window is approaching, supported by high-frequency innovation**. Domestic SSS trends are clearly improving (July down LSD, August near flat). Management highlighted that Aug-2025 was the peak base with materially easier comps ahead. They see a credible chance for Sep-2026 to turn positive and 4Q26 should also see positive SSS. Product cadence accelerated meaningfully from Dec-2025: 2Q26 saw 17 new SKUs, averaging 1-2 launches per week, and management expects this cadence to continue through Jul-Sep. Launches span tea lattes, fruit-flavored tea beverages, and "Geelato", aimed at enriching the mix, driving offline traffic, reactivating members, and lifting repeat purchase. The forward plan is to sustain ~2-4 new drinks per month, with 1H27 R&D and supply chain already being prepared.
- **Overseas growth now comes with clearer quantified guardrails and early traction in select markets.** Management framed overseas as still in scaling mode with front-loaded fixed costs, but guided to FY26 overseas loss ≤Rmb400mn, with a goal to narrow losses over the next two years and reach overseas breakeven by FY28. South Korea has expanded from three stores (May-2026) to eight, with average volumes >1,000 cups/day, supporting a potential second growth curve if unit economics hold. As a premium tea brand, we think Chagee is better positioned to penetrate developed markets, though deep localization will take time. Overall, we see Chagee as one of the few Chinese tea brands with a credible Starbucks-like global scaling path - and ~8x P/E offers downside protection with attractive asymmetry, in our view.

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Post-result NDR group call takeaways

Below is a summary of our 10 September 2026 post-result NDR group call with Chagee's management. Please note that questions are condensed and answers paraphrased (not verbatim quotations).

Business Update

- 2026 is a year of adjustment and stabilization for Chagee, with fundamentals continuing to recover. Chagee resumed a faster product launch cadence in December 2025 and introduced 17 new products in 2Q26, averaging one to two launches per week, the fastest quarterly pace in its history. The company maintained this cadence from July to September. The launches span tea lattes, fruit teas and "geelato", and are intended to broaden the product portfolio, drive offline traffic, reactivate members and improve repurchase. All new products have performed in line with expectations.
- Organizational restructuring and cost-efficiency initiatives have been underway since 2025, with improved execution reflected in both 1Q26 and 2Q26. Administrative and marketing expense ratios both improved meaningfully. Marketing spending has become more focused and targeted: the company has discontinued low-efficiency collaborations and endorsements that do not fit its brand positioning or strategy, and redirected resources toward new product launches and brand-aligned campaigns.
- Domestic same-store sales continued to improve, with the decline narrowing to LSD in July 2026 and sales approaching flattish yoy growth in August. Given that August 2025 represented the highest base in 2H25 while the base declined materially from September to December, together with continued product launches and localized marketing, same-store sales could turn positive in 3Q26. If not, a quarterly return to positive growth will happen in 4Q26.
- Overseas expansion is progressing steadily, with a focus on new markets entered in 2025, including Indonesia and Thailand. In Korea, Chagee opened its first three stores in May 2026 and now has eight, with cup volume ahead of expectations; Singapore continues to deliver high cup sales. Chagee has 10 stores in the US, and the current priority is to validate the unit economics. If the California stores meet expectations, the company may then consider entering cities such as New York. Over the medium to long term, overseas markets are expected to make a meaningful contribution to store count, GMV and profit.

Q&A

Q1 What is the outlook for same-store sales in September, 3Q26 and 4Q26?

- Average monthly GMV per store was approximately Rmb420-430k in August 2025, the highest level in 2H25, before declining to approximately Rmb320-350k from September to December. With the easing base and continued new product launches, September 2026 has a reasonable chance of delivering positive same-store sales growth.
- If positive growth in September is sufficient to offset the decline in July, same-store sales can turn positive in 3Q26. If not, a quarterly return to positive growth will happen in 4Q26.

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- Supported by new products and localized marketing, management remains confident that average monthly GMV per store can recover to above Rmb330k in 4Q26, even with potential weather disruptions.

Q2 What are the key priorities in product development, and what is the expected launch cadence?

- Product development will remain centered on tea-based beverages, with continued refreshes of specialty teas, tea lattes, lime teas and other categories and SKUs. The company plans to maintain a cadence of approximately two to four new beverage launches per month. Product development and supply-chain preparations for 1H27 are already underway.
- The company will also pilot light meals, freshly prepared snacks and other offerings suited to dine-in consumption, with the aim of driving offline traffic and beverage sales. It is not currently considering coffee or fresh fruits-based products, and prefers new offerings that can be highly automated and prepared efficiently.

Q3 What is the positioning and strategic value of the tea egg pilot?

- The tea eggs are prepared using Chagee's own milk-tea leaves and are differentiated in pricing and positioning from conventional breakfast tea eggs. They are currently being piloted only in selected directly operated stores, with no explicit GMV contribution target. Their main value lies in creating a distinctive marketing topic, driving store visits and generating synergies with the core tea beverage offering.

Q4 What are the store coverage, unit performance, equipment investment and rollout plans for "geelato"?

- Gelato is currently available in approximately 200 stores, primarily directly operated locations. Average sales are approximately 80-100 cups per day, contributing to around 20% of GMV in participating stores; high-traffic locations such as Wukang Road store in Shanghai can sell as many as 300-400 cups per day.
- The company is localizing equipment procurement to reduce the gelato machine capex to approximately Rmb35-40k. Payback during peak season is within 12 months and can be as short as approximately eight months. The goal is to shorten this further to less than six months, thereby increasing franchisee participation.
- As seasonal demand in northern China weakens after the onset of autumn, the company will continue refining the profitability model through existing stores rather than pursuing a rapid rollout at this stage.

Q5 How are new user acquisition, member reactivation and repurchase recovering?

- Since 1Q26, and particularly in 2Q26, the shares of new and active users have continued to rise, with clear improvements in both existing-user repurchase and new-user growth.
- Quarterly repurchases among existing users exceeded 40% in 2Q26, broadly returning to a normal level. The historical peak was approximately 70%, but supply was severely constrained at that time; conversely, 2025 was affected by the food-delivery price war and market-share losses. Neither period represents a steady state. If the current level can be sustained through the end-2026, it may be regarded as a steady state.
- There is currently little difference in repurchase rates between new and existing

users, although data for customers acquired since the beginning of the year remain incomplete. Highly engaged users who purchase more than 10 times per month have a repurchase rate of over 70%.

Q6 How are the low-caffeine products performing, what are the capacity constraints, and what is the rollout plan?

- The low-caffeine products are performing well. Taking Bo Ya Jasmine Green Milk Tea as an example, the original caffeinated version currently contributes more than 30% of sales, while the low-caffeine version contributes approximately 9% and peaked at over 10%. Their combined contribution remains stable at 40%-45%. Two of the three best-selling products are low-caffeine variants.
- Low-caffeine products currently cover approximately one-third of stores. The production process involves caffeine adsorption, reinfusion of the tea liquor and redrying, and capacity constraints in these processing steps have prevented a full rollout. The company plans to expand capacity and make low-caffeine products a key focus going forward.

Q7 How is the South Korea business performing, and what is its long-term potential?

- Chagee currently has eight stores in South Korea and plans to reach approximately 10-20 by end-2026. Average cup sales remain above 1,000 cups per store per day, with the best-performing store at approximately 1,500 cups, similar to the company's performance when it first entered Singapore in early 2024. The company will not pursue aggressive store openings in the first year.
- South Korea has a high population density and great purchasing power, while Starbucks and Gong cha each operate hundreds of stores in the market. Its long-term potential is expected to exceed that of Singapore, where Chagee estimates a long-term ceiling of approximately 100 stores. Starbucks' local footprint can serve as a reference point for the potential scale of each market.

Q8 What is the outlook for overseas losses and breakeven, and what is the US store-opening strategy?

- The overseas business remains in a rapid expansion phase and requires substantial investment in mid and back offices. FY26 overseas losses are expected to remain below Rmb400mn. The company aims to narrow its losses over the next two years and, ideally, achieve overall overseas breakeven in FY28.
- The three US stores opened in 2025 have already reached store-level breakeven, while new stores continue to be optimized, with a particular focus on labor productivity. The company expects to open slightly more than 20 stores per year, targeting store-level payback in approximately 1.5 years and corporate-level payback in approximately three years. It will enter high-traffic markets such as New York only after validating the store UE model in California. Given that site selection, fit-out, training and compliance take longer in the US than in Asia, expansion will remain prudent.

Q9 Which new overseas markets and store-opening plans are being considered over the next one to two years?

- The company will pursue asset-light trials in selected new Southeast Asian markets through a master-franchise model and has already signed an agreement in Brunei. It

may also explore Australia and New Zealand, while the Middle East remains at an early research stage. Over the next one to two years, the priority will remain deepening its presence in the eight countries it has already entered.

- The plan to add approximately 200 net new overseas stores in FY26 remains unchanged. The FY27 opening plan may be similar to or slightly higher than FY26, but the budget will be updated closer to year-end after assessing losses and operating conditions in both domestic and overseas markets.

Q10 How are responsibilities divided within the core management team, and what are the priorities for cost control and marketing spending?

- The core decision-making team comprises four executives: founder and CEO Mr. Junjie Zhang, Global COO Mr. Dengfeng Yin, Overseas CEO Mr. Mian Lu and CFO Aaron Huang. Strategic matters are decided jointly by the four. The company also has three committees covering product development, marketing and supply chain. Mr. Zhang oversees strategy, products and branding; Mr. Lu is responsible for overseas expansion; Mr. Yin oversees domestic and overseas operations; and CFO is responsible for mid and back offices and compliance.
- Cost-efficiency initiatives drove a meaningful decline in SG&A expenses in 1H26. The company will continue to control expense ratios in 2H26, and G&A in particular will not return to its previous high level. Sales and marketing spending will become more targeted, with fewer large-scale collaborations or endorsements and greater emphasis on campaigns and in-store materials launched alongside new products, such as the Disney Princess and Hello Kitty series.

Q11 How is the overseas team organized, and how localized is it?

- Unlike the country-agent or regional-agent models commonly used in the industry, Chagee builds the organization before scaling the store network. The Singapore team has more than 200 employees, while the total overseas team comprises approximately 400-500 people. The company directly manages branding, operations, product development and pricing to maintain tighter control. Mid- and back-office costs are high (front-loaded) before the store network reaches scale, but should be better absorbed once the overseas footprint exceeds 1,000 stores.
- Each country has a local GM who builds a local team. For example, the company first deployed HR personnel to Singapore and then recruited a local GM; GMs in several markets came from established MNCs (e.g. McDonald's, Starbucks, etc.). The US team has approximately 40 employees and operates more like a start-up. Cross-cultural integration has been broadly smooth thus far.

Q12 What is the impact of headquarters streamlining and social-insurance compliance?

- The IT team has been relocated from Shanghai to Nanjing and streamlined to approximately 100 employees, with some functions outsourced. The current headcount of slightly over 2,000 across headquarters and branch offices is sufficient to support business development.
- Mid and back office employees' social insurance were already fully covered. The primary incremental requirement relates to full-time employees at directly operated stores, with an additional monthly cost of approximately Rmb300 per employee. This began in 1H26 and is expected to be completed by year-end. The impact on the profitability of the directly operated business is expected to be below 1% of GMV.

Q13 What is the positioning of specialty stores and non-beverage merchandise?

- The Aranya Imagine store, pet-friendly stores and potential future workshop-format stores primarily serve brand-marketing and mid-to-premium image-building purposes. Only a limited number are typically opened, and the standard store format will not change materially. The Imagine store may operate for only one quarter, with the related investment regarded as marketing expense.
- Silent stores perform broadly in line with conventional stores and are intended primarily to create employment opportunities for people with hearing impairments. The company continues to open them in both China and Singapore, and they are not merely marketing projects.
- Merchandise such as tumblers and bags currently makes a limited revenue contribution and is primarily used to stimulate beverage purchases rather than operate as a standalone core category. Certain items are available only with the purchase of two beverages, and their effectiveness can be assessed by monitoring the contribution from new products launched during the same period. The ROI of items such as stickers is more difficult to quantify directly.

Q14 What is the progress on buying back franchised stores, and how profitable are franchisees?

- Chagee took back 100-200 franchised stores in 1H26, primarily transactions that were substantially agreed by end-2025 but had not completed the process. Fewer buybacks are expected in 2H26. As cup volume and profitability recover, franchisees will be less willing to exit than they were in 2H25.
- Franchisee store-level margins currently remain at DD%. Although below the peak level of more than 20% back in 2023, the payback period is still approximately 1.5-2 years, indicating healthy unit economics.

Q15 Which regions will drive future store openings, and what is the capex for a franchised store?

- The company deliberately slowed store openings this year to stabilize same-store sales, but franchisee applications remain in the pipeline. New stores will increasingly target the eastern coastal region and its more affluent lower-tier cities, where the company entered relatively late and penetration remains low.
- Initial capex previously exceeded Rmb1mn per store due to requirements for flagship stores. With the rollout of such stores largely complete, capex for a typical 80sqm store has declined to approximately Rmb600-700k. The company continues to offer a 'third place' experience, but initial investment will no longer routinely exceed Rmb1mn.

Q16 How does the current franchise revenue-sharing mechanism work, and how might it change?

- Following the adjustment at the beginning of the year, the headline revenue share is 17% of GMV, while mark-ups on raw materials have been reduced substantially. The company also provides franchisees with protection against discounting. For example, if a beverage is sold at a 12% discount, the franchisee bears maximum 10% and the company bears the additional 2% discount, with the latter deducted from the 17% revenue share. The company's effective take rate is therefore approximately 15% of GMV.

- The discount protection is not intended to be permanent, as excessive discounting would be difficult for the company to absorb. Management may discuss removing the protection with franchisees in 2H26. The business model will continue to adapt to market conditions, and franchisees may need to bear a greater share of discounts when third-party platforms run more promotions, as they did in July and August.

Q17 What is the strategy toward food-delivery platforms, and what is the current order-channel mix?

- Food-delivery competition in FY26 is less intense than in FY25. The company will participate selectively in campaigns that offer reasonable ROI and require limited brand-funded subsidies, such as Shangou buy-one-get-one promotion in August and the Qwen platform campaign in February. It will avoid low-return campaigns and deep price cuts that would make subsequent price normalization difficult.
- Third-party platforms currently account for approximately 50%-60% of orders, a level sustained since the 2025 food-delivery price war. Previously, third-party platforms and Chagee's own mini-program accounted for approximately 40% and 60%, respectively. Even though the brand has participated cautiously in subsidies, consumers tend to check platform discounts first. If dine-in or pickup prices are lower or comparable, traffic should theoretically migrate back over time. Products such as gelato are also intended to drive offline store visits.

Q18 What are the FY26 earnings targets and the outlook for FY27?

- Management maintains its targets set at the beginning of the year and expects both FY26 revenue and profit to be broadly flat versus FY25. The FY27 budget will not be formulated until 4Q26. As operations have not yet fully reached a steady state, management plans to observe another quarter before providing a medium-term outlook once store performance has stabilized.
- The current objective remains stabilized in FY26 rather than overcommitting to an inflection point. If the business stabilizes this year, the lower base, together with the existing store-opening and new-product strategies, should increase the likelihood of a return to positive same-store sales and overall growth in FY27.

Q19 What are the plans for dividends, share repurchases and the use of repurchased shares?

- Share repurchases are ongoing, with approximately US$30mn deployed to date. The FY26 target is to repurchase at least US$100mn (out of total $150mn). In principle, the repurchased shares are intended to be canceled, although a portion may be retained for share-based incentives, subject to confirmation with the compliance team.
- A dividend proposal is being formulated. Subject to board approval, this will be disclosed as soon as practicable in 2H26, potentially around the 3Q26 results release, although no specific date can yet be provided. The payout ratio could be 50% or higher, with the final arrangement subject to the formal announcement.

Q20 Could the founder sell shares to fund tax obligations related to the overseas trust arrangement?

- The company currently has no share-sale plans. Market estimates of the relevant tax liability could be inaccurate, and the management is not aware of the final number as of now. If the tax is ultimately payable, management will handle the matter in

compliance with applicable laws and regulations, without the need to raise funds through a share sale.

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Investment Thesis, Valuation and Risks

Chagee *(Overweight; Price Target: $16.60)*

Investment Thesis

Chagee is a leading premium tea drinks brand, founded in 2017. By 2025, Chagee's network had expanded to 7.5k teahouses, including 7.2k in China and 374 stores in overseas markets. Chagee's 2Q26 results reinforce our view that 2026 is a stabilization year - and the start of the next growth cycle. Management is focused on building a more durable foundation via faster product innovation, operational upgrades, and tighter execution. Total GMV reached Rmb7.7bn, with overseas GMV up 114% YoY and domestic SSS declines narrowing. Margin resilience was supported by cost discipline, better marketing efficiency, and a leaner organization. New launches and category expansion (gelato, tea blends, lemon milk) are lifting engagement and supporting a gradual SSSG recovery - Jul/Aug trends point towards a return to positive growth. Chagee may also step up shareholder returns by introducing a regular cash dividend plan from 2H26. Assuming a 50% payout ratio (7.2% yield), total return (buyback+div) could reach ~15%. Risk/reward is attractive. Overweight.

Valuation

Our Jun-2027 price target is US$16.6, based on 10x 2027E P/E, around 0.5STD below its historical P/E mean. The stock has been trading at a 12x 12-month rolling P/E on average since listing (Mar 2025). The 2Q and 3Q25 results miss and guidance cut during 2025 triggered a de-rating cycle from over 20x to the current ~7-8x 12-month rolling P/E on consensus EPS. The current P/E looks attractive to us compared with Chagee's China consumer peers.

Risks to Rating and Price Target

Key downside risks to our rating and price target include: 1) rapid changes in consumer tastes and loss of active consumers; 2) price hikes of key ingredients that could squeeze margins; 3) failure to localize products, adapt marketing strategies and effectively gain users in new markets; and 4) reputational risks.

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