

Sasa (178.HK)

Overall sales in January stabilized, boosting sales of traditional high-end brands

Hong Kong | Consumer | Company report

4 February 2019

Investment Summary

Sasa's retail and wholesale turnover decreased by 2.8% during Q3 in HK and Macau markets, while same store sales dropped by 3.7%, compared to the increase of 9.6% and 7.1% respectively in Q2. Negative growth was recorded in both retail sales and same store sales in the region in November and December. The total turnover of Sasa during the period recorded a 2.2% decrease, while 9 months ended 31st December 2018 recorded an increase of 9.2%, but missing the whole-year growth target of double digit.

Consumer sentiment in HK and Macau markets remained sluggish due to the weaknesses in RMB exchange rate and stock market under the continued shadow of the Sino-US trade war. In addition, the new E-commerce Law passed by the Chinese government in August 2018 came into force early this year and made Daigou traders more cautious in running their businesses. These all contributed to the sluggish sales performance of Q3. Sasa's sales performance in Q3 underperformed its peers, mainly due to the slowdown in sales of low-margin trendy products due. At the same time, the sales of traditional high-end brands had been ignored. According to the statistics released by the Census and Statistics Department, retail sales in last November recorded only 1.4% increase. The growth rate of medicine and cosmetics category slowed down from 15.2% in October, but still reached 10.1% and continued to outperform other categories.

In HK and Macau markets, Sasa's average sales per transaction of local consumers and mainland tourists decreased by 0.2% and 6.1% y.o.y. respectively which resulted in a 2.6% decline in total. The transaction volume of mainland tourists increased by 5.8% while that of local customers decreased by 5.2%, leading to a slight growth of 0.4% in the overall transaction volume. The decrease of average sales per transaction was reflected on GPM. GPM was continued facing pressure in January and is expected to be below the 40% target for the full year.

Sasa has recently adjusted the commission system and the display of goods, hoping to accelerate the sales of traditional high-end brands. In addition, it will also strengthen promotional efforts to gain more brick-and-mortar customers to partially offset the short-term impact from Daigou reduction. It will also optimise product offerings and launch new products on a timely basis to cater for rapidly changing consumer preferences. According to the information provided by the management team, the sales performance in the first week of January has stabilized. By the end of the month, the overall sales is flat y.o.y. It hopes the sales growth in the next two years to remain in the range of 3 to 10%.

We are still optimistic about Sasa's medium and long-term business development and performance, but expected it will face challenges in the short-term, mainly due to the continued weak market sentiment and the higher base in the fourth quarter of last year. However, the series of cost control measures that it is implementing, including the control of rental costs, is believed to help offset some of the impact on operating profit due to the pressure on GPM.

According to the management team, there is still upward pressure on rental rates of shopping malls, but not for shops on streets. If the street shops that have recently renewed their contracts do not have a 10-20% reduction, it will not sign. In addition, it will speed up sales and save storage costs through inventory management and product display, and enhance digitalization and development of information technology to improve operational efficiency and shopping experience. We lower the target price of Sasa to 3.2, the target price-earnings ratio is 20 times(Closing price at 31 January 2019)

Accumulate

CMP HKD2.98

(Closing price at 31 January 2019)

TARGET HKD3.20 (+5.84%)

COMPANY DATA

O/S SHARES (MN)	3040
MARKET CAP (HKDMN)	9225
52 - WK LO/HI (HKD)	2.54/5.78

SHARE HOLDING PATTERN, %

Kowk Siu Ming	64.23%
---------------	--------

PRICE PERFORMANCE, %

	1M	6M	1Y
Sasa	0.67	-39.23	-13.26
HSI	7.5	-2.29	-16.82

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	7551	8018	8739	9438
Net Profit	327	440	488	559
EPS, HKD	0.11	0.15	0.16	0.18
PER, x	26.70	20.37	18.90	16.49
BVPS, HKD	0.76	0.83	0.91	1.04
P/BV, x	3.93	3.61	3.27	2.87
ROE, %	14.72%	17.73%	17.28%	17.39%

Source: Company, Phillip Securities Est.

Research Analyst
Tracy Ku (2277 6516)
 tracyku@phillip.com.hk

Business Overview

Mainland business has found development direction E-commerce platform promotes integration with offline business

Since the launch of the HK Section of the Express Railway Link, Sasa's stores located in the HK West Kowloon station and the neighbouring Tsim Sha Tsui district have been reporting satisfactory sales performance. In contrast, the management team noted that the increased influx of Mainland tourists via the Hong Kong-Zhuhai-Macau Bridge were mainly sightseeing trippers with limited purchasing power and barely contributed to Sasa's overall sales in Hong Kong market. Nevertheless, the team believes the two mega infrastructure projects will attract more mainland travellers with higher consumption when they are gradually consummated.

The team remains optimistic towards the outlook of HK and Macau markets in the middle to long run under the favourable development of the Greater Bay Area. It still plans to increase the number of retail outlets in the Greater Bay Area to 180. However, considering the current market conditions, it is cautious of expanding. As of the end of December 2018, it operated a total of 119 retail stores in HK and Macau, 54 in Mainland China, and 272 in total including Singapore and Malaysia.

Sasa's retail and wholesale turnover in other markets outside HK and Macau (including Mainland China, Singapore, Malaysia and E-commerce) increased by 1.3% in Q3. For Mainland business, the management team stated that the current adjustment of the shops and staff is near completion. Compared with the strategy of diversified products in HK, there will be more products targeting mass market. As for the e-commerce business, 90% of the customers are from Mainland. The company will continue to promote the integration of online and offline businesses.

Figure: Store network by market

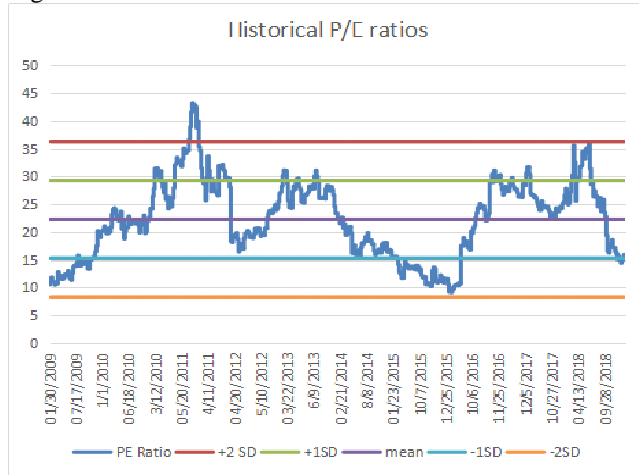
Market (Continuing operations)	As of 31 Dec 2018	As at 31 Dec 2017	As at 30 Sept 2018
Hong Kong & Macau	119	119	120
Mainland China	54	56	54
Singapore	21	19	22
Malaysia	78	75	77
Total	272	269	273

Source: Company, Phillip Securities

Valuation and Risk

We give Sasa Accumulate rating, the target price-earnings ratio is 20 times, and the target price is lowered to HKD3.2. Potential risks include huge market or currency rate fluctuations that heavily hit consumer sentiments of Chinese tourists and visitors, huge drop of the number Chinese tourists and visitors, and local consumption not as strong as expected. (Closing price at 31 January 2019)

Figure: Historical P/E ratios



Source: Bloomberg, Phillip Securities

Financials

FYE	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratios					
Price to Earnings (P/E)	26.70	20.37	18.90	16.49	14.54
Price to Book (P/B)	3.93	3.61	3.27	2.87	2.52
Per Share Data (HKD)					
EPS	0.11	0.15	0.16	0.18	0.20
Book Value Per Share	0.76	0.83	0.91	1.04	1.18
Dividend Per Share	0.17	0.18	0.11	0.13	0.14
Growth (%)					
Revenue	NA	6.18%	9.00%	8.00%	7.00%
Operating Income	NA	33.46%	5.04%	14.89%	13.64%
Net Profit	NA	34.71%	10.92%	14.59%	13.40%
Margins (%)					
Gross Profit Margin	41.59%	42.08%	39.00%	39.50%	40.00%
Operating Profit Margin	5.45%	6.85%	6.60%	7.02%	7.45%
Net Profit Margin	4.33%	5.49%	5.59%	5.93%	6.28%
Key Ratios					
ROE (%)	14.72%	17.73%	17.28%	17.39%	17.33%
ROA (%)	11.15%	12.30%	12.00%	12.07%	12.03%
Income Statement (HKD,Mn)					
Revenue	7551	8018	8739	9438	10099
-Cost of Goods Sold	-4411	-4644	-5331	-5710	-6059
Gross Income	3141	3374	3408	3728	4040
-Operation Expenses	-2833	-2924	-2925	-3159	-3380
Operating Income	411	549	576	662	753
Pretax Income	421	561	588	674	764
Net Profit	327	440	488	559	634

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 31 January 2019)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock’s risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd (“Phillip Securities”). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient’s own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm’s Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited (“PSHK”) believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product’s risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005