

Sasa(178.HK)

Hong Kong's political situation affecting the market sentiment. Rent costs to be expected being further controlled.

Hong Kong | Consumer | Company report

8 July 2019

Investment Summary

Sasa's FY2018 full-year revenue increased by 4.5% y.o.y., but fell by 5% in 2H of the year. The Hong Kong and Macau market fell by 5.8%, while same-store sales fell by 7.3%, compared with 18.5% in 1H. According to the management team, in the first month of FY2019 (April), the Hong Kong and Macao market continued to have a significant decline in revenue. In May, the decline was less than 4%. During June 1st to 8th before the mass demonstration, the decline was over 3% which was similar to May. During the large-scale demonstrations and conflicts from June 9 to 16, the number of mainland tourists dropped significantly, and the decline in revenue expanded to nearly 20%.

At the same time, consumer sentiment was affected by RMB depreciation due to the Sino-US trade war as well as a decline in both the stock and property markets, which began in late June 2018. The average sales per transaction decreased by 3.0% in 2H. During the year, a number of pharmacies selling skincare and cosmetic products aggressively opened new stores in tourist hot spots, which intensified competition. The result was that growth in the number of transactions by Mainland customers dropped from 21.8% in 1H to 1.0% in 2H. The number of transactions by local customers also changed from positive growth in the first half to a decline of 7.0% in 2H. The launch of the HK Section of the Express Railway Link and the Hong Kong-Zhuhai-Macau Bridge did not contribute to greater traffic in its retail stores. Nevertheless, the company believes that the two mega infrastructure projects will eventually drive the economic development of the Greater Bay Area and boost the consumption power of both local customers and tourists. It will continue to seize the opportunities offered by the region's vast economic potential.

In Q1 of FY2018, sales from trendy products in HK and Macau markets outperformed those of house brand products. This resulted in a drop in the house brand mix from 39.8% to 35.8% in 1H. The house brand mix in 2H improved to 37.3% while GPM declined to 40.8%. Thanked for the decrease in rent and staff costs as a percentage of revenue, which led to a slight expansion in operating profit margin. We expect that due to the keen market competition, this year's GPM will be subject to pressure of 1 to 2 ppt, and the proportion of rent to income is expected to fall further. Last year, the ratio was 11.8%. According to the management team, instead of focusing on GPM, this year it will focus more on improving sales. It will decide the pace of new store opening on the rent situation. The new stores will probably be street shops, and it is expected to help increase the market share. The company is improving its product portfolio. Facing the keen market competition, it will target more expensive big-name skin care products sales, and has grown very well so far. And the health food business is also believed can help deal with the competition.

Turnover of the e-commerce business increased by 2.2%, of which Mainland China contributed over 90% of sales in the segment, demonstrating a growth rate of 10.6% over the previous year. Third party platforms were the key contributor to the sales of this segment, accounting for nearly 60% of sales. Excluding non-recurring expenses, losses from online operations narrowed from HK\$29.6 million in the previous year to HK\$24.8 million. The company began operating an online store on HKTVmall in Hong Kong at the beginning of 2019, and collaboration with other third-party platforms is under consideration.

Turnover for the mainland China operations slightly decreased by 1.9% , while SSS in local currency terms dipped by 1.1%. The company has improved sales of own brand products and organised marketing promotion activities to stimulate sales, prompting overall sales and same store sales to rebound in Q4. We lower the target price of Sasa to 2.5, the target price-earnings ratio is 16 times(Closing price at 4 July 2019)

Accumulate

CMP HKD2.28

(Closing price at 4 July 2019)

TARGET HKD2.5 (+8.1%)

COMPANY DATA

O/S SHARES (MN)	:	3095
MARKET CAP (HKDMN)	:	7058
52 - WK LO/HI (HKD):		2.06/4.74

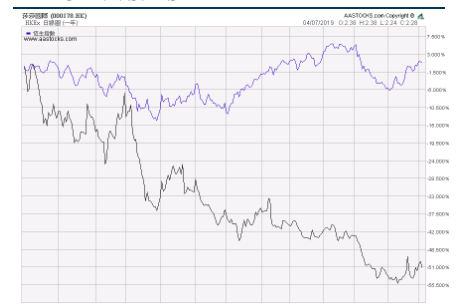
SHARE HOLDING PATTERN , %

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

PRICE PERFORMANCE , %

	1M	6M	1Y
Sasa	6.54	-18.86	-50.91
HSI	7.6	12.4	1.96

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY17	FY18	FY19E	FY20E
Net Sales	8018	8376	8711	9016
Net Profit	440	471	487	538
EPS, HKD	0.15	0.15	0.16	0.17
PER, x	15.59	14.82	14.50	13.12
BVPS, HKD	0.83	0.81	0.80	0.79
P/BV, x	2.76	2.81	2.86	2.88
ROE, %	17.73%	18.93%	19.73%	21.99%

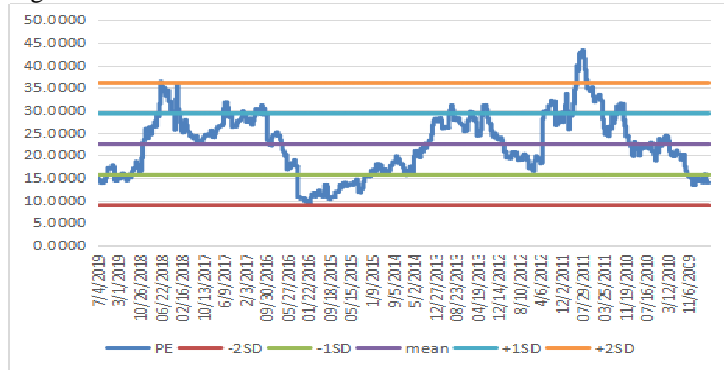
Source: Company, Phillip Securities Est.

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

Valuation and Risk

We give Sasa Accumulate rating, the target price-earnings ratio is 16 times, and the target price is lowered to HKD2.5. Potential risks include HK’s political environment getting worse which heavily hit consumer sentiments of Chinese tourists and visitors, and local consumption not as strong as expected. (Closing price at 4 July 2019)

Figure: Historical P/E ratios



Source: Bloomberg, Phillip Securities

Financials

FYE	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Valuation Ratios					
Price to Earnings (P/E)	15.59	14.82	14.50	13.12	11.96
Price to Book (P/B)	2.76	2.81	2.86	2.88	2.91
Per Share Data (HKD)					
EPS	0.15	0.15	0.16	0.17	0.19
Book Value Per Share	0.83	0.81	0.80	0.79	0.78
Dividend Per Share	0.18	0.16	0.16	0.18	0.20
Growth (%)					
Revenue	6.18%	4.47%	4.00%	3.50%	3.00%
Operating Income	33.46%	-1.10%	3.24%	10.90%	9.97%
Net Profit	34.71%	6.96%	3.41%	10.51%	9.65%
Margins (%)					
Gross Profit Margin	42.08%	40.81%	39.31%	39.81%	40.31%
Operating Profit Margin	6.85%	6.48%	6.43%	6.89%	7.36%
Net Profit Margin	5.49%	5.62%	5.59%	5.97%	6.35%
Key Ratios					
ROE (%)	17.73%	18.93%	19.73%	21.99%	24.34%
ROA (%)	12.30%	13.82%	14.40%	16.05%	17.77%
Income Statement (HKD,Mn)					
Revenue	8018	8376	8711	9016	9286
- Cost of Goods Sold	-4644	-4958	-5287	-5427	-5543
Gross Income	3374	3418	3424	3589	3743
-Operation Expenses	-2924	-2978	-2967	-3070	-3162
Operating Income	549	543	560	621	683
Pretax Income	561	563	581	642	704
Net Profit	440	471	487	538	590

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 4 July 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 $\pm 5\%$ 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