

# Chow Tai Fook Jewellery (01929)

China SSS growth returned to positive in June

Resurgence of COVID remains near-term risk

Consumer | Luxury Retail Brand

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## China SSS growth returned to positive in June

Chow Tai Fook Jewellery (CTF) announce certain unaudited key operational data of the Group for the three months ended 30 June 2022 (1QFY2023), with both Mainland China and Hong Kong and Macau recorded negative SSSG. Retail Sales Value (RSV) decreased 3.7% YoY, due to the resurgence of the pandemic and a high base of comparison.

1QFY2023, by region, Mainland China RSV recorded -2.8% YoY, with contribution to group RSV 89.9%. Same Store Sales (SSS) dropped by 19.3% YoY and SSS volume growth decreased by 22.8% YoY. Yet, sequential improvement was seen with June SSSG returned to positive. In Hong Kong and Macau, RSV dropped by 11%, contribution to group RSV 10.1%. SSS declined by 6.4% and SSS volume growth decreased by 8.4%. Hong Kong's SSSG was 7.3% in the Quarter, estimated to be driven by consumer coupons. Macau registered a negative SSS of 34.3% as tourist traffic reduced due to the pandemic in the Mainland.

In the Mainland, SSS of gem-set, platinum and k-gold jewellery category dropped by 17.2%, while its RSV decreased 6.3% during the Quarter. SSS of gem-set, platinum and k-gold jewellery category in Hong Kong and Macau declined by 18.4% during the Quarter. Same Store Average Selling Price ("ASP") trend of gem-set jewellery was stable in both markets during the Quarter. In the Mainland, Same Store ASP remained at HK\$7,300 (1QFY2022: HK\$7,300) while that of Hong Kong and Macau increased to HK\$16,500 (1QFY2022: HK\$14,000).

Gold jewellery and products category includes those selling by weight and at fixed price, while the average international gold price in the Quarter was 3.0% higher when compared to the same period last year. In the Mainland, SSS of the product category decreased by 17.0% during the Quarter, yet its ASP was lifted to HK\$5,600 (1QFY2022: HK\$5,200). In Hong Kong and Macau, SSS of the product category slightly increased by 1.0% and ASP was HK\$6,100 (1QFY2022: HK\$6,000).

## Expansion strategy by leveraging franchisees, domestic consumption is recovering

With continues retail expansion strategy leveraging franchisees' local knowledge, RSV of the franchised portion in CHOW TAI FOOK JEWELLERY increased by 9.4% YoY and its contribution to the RSV of CHOW TAI FOOK JEWELLERY increased to 63.8% (1QFY2022: 57.6%) in the Mainland during the quarter. Smart retail (includes RSV contributed from e-commerce and smart retail applications. Major e-commerce platforms included Chow Tai Fook eShop, Tmall, JD.com, Vipshop; Smart retail applications refer to the use of digital tools, such as CloudSales 365, Cloud Kiosk, Smart Tray, etc) RSV in Mainland China decreased by 23.9% YoY yet its volume recorded an increase of 6.7% in the First Quarter. However, its contribution to Mainland China's RSV was 7.5% in the Quarter of which 1.6% was contributed by smart retail applications.

## Neutral

CMP HKD15.50

(Closing price as of 1 September)

Target HKD 15.52(-0.1%)

### COMPANY DATA

O/S SHARES (MN) :	10000.000
MARKET CAP (HKD MN) :	155000.0
52 - WK HI/LO (HKD):	18.04/11.72

### SHARE HOLDING PATTERN, %

Chow Tai Fook Capital	72.39%
Cheng Yu Wai	5.07%

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

HKD mn	FY21	FY22E	FY23E	FY24E
Revenue	70,164	98,938	108,360	126,602
Net profit	6,026	6,712	7,920	9,226
Reported EPS	0.60	0.67	0.79	0.92
P/E ratio, x	25.7	23.1	19.6	16.8
Dividend Yield, %	2.6%	3.2%	3.6%	4.2%

Source: Company reports, Phillip Securities Est.

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During the quarter, Chow Tai Fook added a net of 312 POS in Mainland China, including 338 net POS openings of CHOW TAI FOOK JEWELLERY (24 self-operated stores and 314 franchised stores). As at 30 June 2022, 74.7% of our CHOW TAI FOOK JEWELLERY POS in the Mainland were in franchised format. In Hong Kong & Macau of China and other markets, the group closed 1 MONOLOGUE POS in Hong Kong while opened 1 CHOW TAI FOOK JEWELLERY POS in other markets. As at 30 June 2022, the group had 5,931 CHOW TAI FOOK JEWELLERY POS and 283 POS for other brands in total.

According to the data released by the National Bureau of Statistics of China, the growth rate of total retail sales of consumer goods turned positive in June, from a YoY decline of 6.7% in May to a YoY increase of 3.1%. The growth rate of retail sales of most goods picked up in June; among them, the gold and silver jewelry category grew by 8.1%, significantly better than the -15.5% in the previous month.

### Investment Thesis

Despite the restrictions eased in China, management pointed out that SSS in China have started to improve month-over-month recently, but the resurgence of COVID variant will remain a near-term risk. We expect FY2023-FY2024 EPS to be HKD0.79 and HKD0.92 respectively, with PT of HKD15.52, implies a FY2023E P/E of 19.6x (~2-yrs historical average). Our investment rating is "Neutral".

### Risk factors

1) Resurgence of COVID in Mainland China; 2) Sharp fluctuations in FX and gold price; 3) Economic recovery momentum slower-than-expected, consumer confidence weak; and 4) higher-than-expected operating costs.

## Financial

### Consolidated Statement of Profit or Loss

Mar Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	56,751	70,164	98,938	108,360	126,602
COGS	(40,655)	(50,089)	(76,598)	(78,392)	(91,063)
<b>Gross Profit</b>	16,096	20,075	22,340	29,969	35,539
Selling and distribution costs	(8,690)	(8,635)	(10,522)	(13,817)	(16,562)
Administrative expenses	(2,867)	(3,214)	(3,442)	(4,884)	(6,034)
Other gains and losses	(147)	431	171	191	223
Other income	437	692	793	695	813
Other expenses	(146)	(664)	(95)	(470)	(549)
Financial cost, net	(482)	(295)	(268)	(442)	(508)
Share of Associates/ JV	3.5	4.6	5.8	4.6	5.0
<b>Profit before tax</b>	4,205	8,395	8,983	11,246	12,928
Income tax	(1,221)	(2,219)	(2,103)	(3,128)	(3,471)
Minority interest	82.1	149.7	167.6	198	230
<b>Shareholders Net profit</b>	2,901	6,026	6,712	7,920	9,226
<b>Reported EPS</b>	0.29	0.60	0.67	0.79	0.92
<b>DPS (HKD)</b>	0.24	0.40	0.50	0.55	0.65
<b>Payout ratio</b>	83%	66%	74%	70%	70%

### Key Financial Data

Mar Y/E	FY20	FY21	FY22	FY23E	FY24E
<b>Valuation Ratio</b>					
P/S ratio, x	2.7	2.2	1.6	1.4	1.2
P/E ratio, x	53.4	25.7	23.1	19.6	16.8
Dividend Yield, %	1.5%	2.6%	3.2%	3.6%	4.2%

### Per share data (RMB)

EPS	0.29	0.60	0.67	0.79	0.92
BVPS	2.63	3.08	3.36	3.67	4.06
DPS (HKD)	0.24	0.40	0.50	0.55	0.65

### Growth & Margin

<b>Growth</b>					
Revenue Growth	-14.9%	23.6%	41.0%	9.5%	16.8%
Gross Profit Growth	-13.5%	24.7%	11.3%	34.1%	18.6%
Net Profit Growth	-36.3%	107.0%	11.4%	18.0%	16.5%
<b>Margin</b>					
Gross Profit Margin	28.4%	28.6%	22.6%	27.7%	28.1%
Net Profit Margin	5.1%	8.6%	6.8%	7.3%	7.3%

### Key Ratios

ROE	10.2%	21.1%	20.9%	22.5%	23.8%
ROA	4.6%	9.3%	8.8%	8.7%	9.5%

### Consolidated Statement of Financial Position

Mar Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non Current Asset</b>					
PP&E	4,641	4,615	5,039	5,054	5,069
Right-of-use assets	2,288	1,793	1,679	1,944	2,388
Others	3,109	2,658	2,894	2,894	2,894
<b>Total Non Current Assets</b>	10,038	9,065	9,612	9,892	10,351
<b>Current Asset</b>					
Inventories	42,538	43,011	57,254	54,732	56,208
Trade and other receivables	5,341	6,180	5,914	7,760	10,971
Bank balance and cash	7,219	6,032	14,942	21,864	22,837
Others	107	19	15	15	15
<b>Total Current Assets</b>	55,205	55,243	78,126	84,371	90,032
<b>Total Assets</b>	65,243	64,308	87,737	94,263	100,384
<b>Current Liabilities</b>					
Payables	12,430	17,240	25,166	25,888	26,163
Short term borrowings	22,710	11,114	23,664	10,005	12,698
Other current Liabilities	487	788	800	16,651	15,502
<b>Total current Liabilities</b>	35,627	29,142	49,629	52,544	54,363
<b>Non Current Liabilities</b>					
Long-term debt	898	1,799	1,789	2,092	2,391
Others	1,728	1,800	1,764	1,954	2,044
<b>Total Non-Current Liabilities</b>	2,626	3,598	3,553	4,046	4,436
<b>Equity</b>					
Shareholders' equity	26,343	30,767	33,619	36,737	40,650
Non-controlling interests	648	801	935	935	935
<b>Total equity</b>	26,991	31,568	34,555	37,673	41,585
<b>Total Liabilities and Equity</b>	65,243	64,308	87,737	94,263	100,384

### Consolidated Statement of Cash Flow

Mar Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>CFO</b>					
Profit before income tax	4,205	8,395	8,983	11,246	12,928
D&A add-back	2,370	2,119	2,026	1,830	1,667
Others	1,858	1,107	1,017	863	791
Net (inc)/dec working capital	2,084	300	4,062	1,399	(4,413)
Tax	(2,153)	(1,444)	(2,150)	(2,878)	(3,321)
<b>Net cash flow from operating activities</b>	8,364	10,476	13,938	12,460	7,651
<b>CFI</b>					
Purchase of PP&E and Investment	(973)	(839)	(1,532)	(997)	(954)
Others	(52)	147	74	137	221
<b>Net cash flow from investing activities</b>	(1,025)	(693)	(1,458)	(860)	(733)
<b>CFF</b>					
Net Borrowings	431	(6,836)	2,151	1,959	1,453
Others	(8,083)	(4,352)	(5,943)	(6,637)	(7,399)
<b>Net cash flows from financing activities</b>	(7,653)	(11,188)	(3,793)	(4,678)	(5,946)
<b>Net Change in Cash</b>	(421)	(1,187)	8,910	6,922	973
<b>Cash and CE at Y/E</b>	7,219	6,032	14,942	21,864	22,837

Current Price as of: Sep 1

Source: PSHK Est.

**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

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