

# Chow Tai Fook Jewellery (01929)

Resilient Business Performance in 1HFY2023,  
resume normalcy become a positive catalyst  
Consumer | Luxury Retail Brand

3 January 2023

## Resilient Business Performance in 1HFY2023

Chow Tai Fook Jewellery (CTF) revenue grew 5.3% to HK\$46,535mn in 1HFY2023. Revenue growth was driven by the steady expansion of retail network and robust demand for gold jewellery and products in the Mainland. Gross profit increased 1.6% to HK\$10,962mn. Adjusted gross profit margin declined to 22.4% from 23.5% in the same period last year, mainly attributable to a higher share of our wholesale business and gold jewellery and products. Core operating profit was down by 2.7% to 4,349mn due to the flourishing wholesale business and a higher contribution from gold jewellery and products. Profit attributable to shareholders decreased by 6.8% to HK\$3,336mn, mainly due to a net foreign exchange loss 268.9mn (1HFY2022: net gain of 46.6mn) arising from the weakening of RMB. EPS was HK\$0.33, with an interim dividend of HK\$0.22 per share in 1HFY2023, representing a payout ratio of approximately 66.0% (1HFY2022: 61.4%).

## MAINLAND CHINA MARKET

Revenue in the Mainland was up 6.2% to HK\$40,927mn in 1HFY2023. On a constant exchange rate basis, revenue increased by 9.3% in the period. Same Store Sales (SSS) dropped by 7.8% YoY (SSSG turned positive in 2QFY2023, and RSV increased by 28.0% YoY). SSS of gold jewellery and products was down 3.3% YoY. ASP of the product category increased to about HK\$5,500 during the period (1HFY2022: HK\$5,200). SSS of gem-set, platinum and k-gold jewellery dropped 13.9% during the period. Gem-set jewellery ASP climbed to approximately HK\$7,500 (1HFY2022: HK\$7,200).

As at 30 September 2022, there are 6,547 POS in Mainland China (4,929 franchised CHOW TAI FOOK JEWELLERY POS). Wholesale (mainly represents sales to franchisees and provision of services to franchisees) share in revenue expanded 630 basis points to 55.0% in the period. During the period, CTF opened a net of 933 CHOW TAI FOOK JEWELLERY POS in the Mainland (with approximately 90% of the net openings were franchised POS). RSV of franchised POS in the Mainland grew robustly by 29.2% YoY, and the growth was faster than that of the self-operated POS. E-commerce channel in the Mainland delivered an encouraging RSV growth of 15.1%. Its share to the RSV in the Mainland was steady at about 5.0%. In terms of retail sales volume, its share was about 13.0%. Its ASP was approximately HK\$1,800 during the period (1HFY2022:HK\$1,900).

## HONG KONG & MACAU OF CHINA AND OTHER MARKETS

Revenue in Hong Kong, Macau and other markets was down by 0.5% to HK\$5,608mn. Share to the Group's revenue amounted to 12.1%. Although retail revenue was improving in Hong Kong, wholesale revenue decreased by 25.1% mainly due to the pandemic-control measures in Hainan Province, which constrained the sales from duty-free business. SSSG increased by 1.3% YoY, while SSS volume growth was down by 8.7%. SSS of gold jewellery and products was up 6.1% in 1HFY2023, outperforming other product categories. ASP of the product category enjoyed an upward trend and reached about HK\$7,000. SSS of gem-set, platinum and k-gold jewellery dropped 6.9% in the period. Yet, on a quarterly basis, it rebounded to positive growth in the second quarter. ASP of gem-set jewellery also increased by about 18% to HK\$16,400. 89 POS in Hong Kong & Macau of China, closed a net of 3 POS. 43 POS in Other markets, while opened a net of 2 POS.

## Accumulate

CMP HKD15.80  
(Closing price as of 28 December)  
Target HKD 17.22(+9.0%)

### COMPANY DATA

O/S SHARES (MN) :	10000.000
MARKET CAP (HKD MN) :	158000.0
52 - WK HI/LO (HKD):	17.26/11.50

### 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	26.2	23.5	19.9	17.1
Dividend Yield, %	2.5%	3.2%	3.5%	4.1%

Source: Company reports, Phillip Securities Est.

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## Investment Thesis

Management expected that 3QFY2023 performance to continue subdued as it was in 1QFY2023, mainly due to the prolonged impact of COVID in mainland China, and guided a high single digit sales decline in mainland China during 2HFY2023. However, some new products would be launched in during peak periods of consumption in Q4, and expect to help stabilize the sales. Management guided SSS growth of low-single-digit to mid-single-digit in mainland China, and teens growth in Hong Kong & Macau in FY2024. As the company expected to focus on improving store efficiency and growth quality, the number of net store openings will slow down to 600 to 800, and it is expected that FY2024 sales growth will be low-to-mid-teens. In addition, the company targeted to increase the proportion of self-operated stores in next year (higher gross profit margin than franchised), and with the help of product upgrade (the launch of the new Wonderful Life Collection) and reduced discounts, it is expected that there would be continued improvement of the overall core operating profit margin. We expected that there would be signs of recovery month-over-month in mainland China SSS since restrictions were gradually relaxed. We maintain FY2023-FY2024 EPS to be HKD0.79 and HKD0.92 respectively (reported on September 5, 2022), but considering that the return to normalcy in the Mainland will be a relatively positive catalyst, we raise the PT to HKD17.22, implies a FY2023E P/E of 21.7x (one standard deviation above 2-yrs historical average). Our investment rating is upgraded from "Neutral" to "Accumulate".

## Risk factors

1) Resurgence of COVID in Mainland China bring prolonged impact; 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
<b>Revenue</b>	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	2.8	2.3	1.6	1.5	1.2
P/E ratio, x	54.5	26.2	23.5	19.9	17.1
Dividend Yield, %	1.5%	2.5%	3.2%	3.5%	4.1%

### 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>					
PPE	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)	(5,945)
<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: December 28

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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