

LAOPU GOLD (6181.HK)

Relying on the advantages in heritage gold field, profitability has been greatly improved

China | Gold |

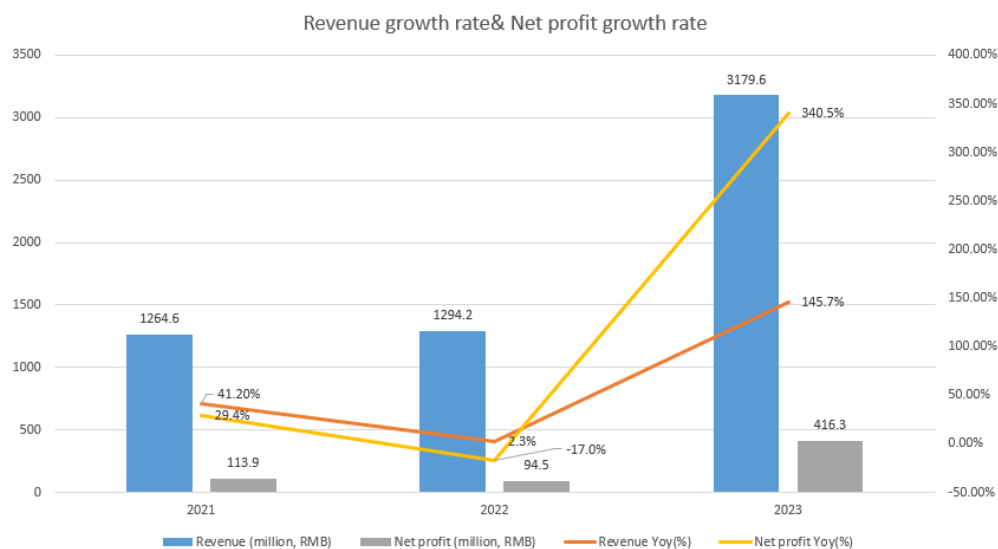
Overview

Laopu Gold (6181.HK) is the top heritage gold jewelry brand in China. Based on data of Frost & Sullivan, Laopu Gold was the first brand in the industry to introduce diamond-inlaid pure gold jewelry, leading trends for the industry. As of June 30, 2024, it ranked first in terms of coverage rate of the top ten high-end shopping malls among all gold jewelry brands in the PRC and ranked first in terms of single-store sales among all gold jewelry brands in the PRC.

2024H1 Performance review

In the first half of 2024, the company's revenue was 3.52 billion yuan (RMB, the same below) with a year-on-year increase of 148.3%, of which store revenue was 3.13 billion yuan and online platform revenue was 391 million yuan, proving that the company's product sales were still mainly through store channels. The company's gross profit was 1.46 billion yuan with a year-on-year increase of 146.4%, and the gross profit margin was 41.3%. The company's gross profit margin is relatively stable, and it was above 40% in the past three years. The substantial growth in revenue and gross profit benefited from a variety of factors, including the continued expansion of the company's brand influence, which brought about the growth of existing stores revenue, including the overall revenue growth of online and offline stores, the continuous optimization, promotion and iteration of the company's brand products, and the upgrading of consumer concepts, consumers started to prefer high-quality heritage gold products with classic cultural connotations and product value and the company actively expanded stores to generate incremental revenue contributions. As of June 30, 2024, the company had opened 33 self-operated stores in 14 cities with six new stores compared with last year. The company's net profit was 589 million yuan with a year-on-year increase of 198.8%. EPS was 4.11 yuan with a year-on-year increase of 185.4%.

Chart 1: Revenue growth rate & Net profit growth rate



Resources : Annual Report · PSHK

Industry Analysis

Data from the China Gold Association showed that in the first three quarters of 2024, the national gold consumption was 741.732 tons with a year-on-year decrease of 11.18%, including 400.038 tons of gold jewelry with a year-on-year decrease of 27.53%, mainly

03 Feb 2025

Accumulate

CMP HK\$407.6

(Closing price as of 27 Jan))

Target 458.32HKD (+12.4%)

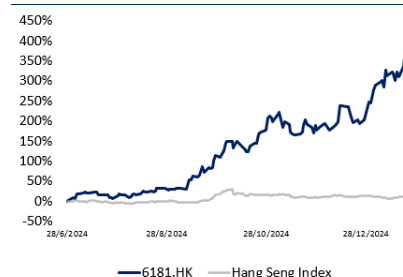
COMPANY DATA

O/S SHARES (MN) :	168
MARKET CAP (HKD bn) :	60.11
52 - WK HI/LO (HKD):	432.8/60.95

SHARE HOLDING PATTERN, %

Beijing Hongqiao Jinji Consulting Co., Ltd	33.32%
Gaoming Xu	18.97%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB thousand	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1294220	3179564	7242983	9721476	12598536
Net profit	94529	416302	1077357	1493582	1933032
Diluted EPS (RMB)	0.09	3.03	7.12	8.97	10.57
P/E ratio, x	548.7	125.5	53.3	42.4	36.0

Source: Company reports, Phillip Securities Est.

Analyst

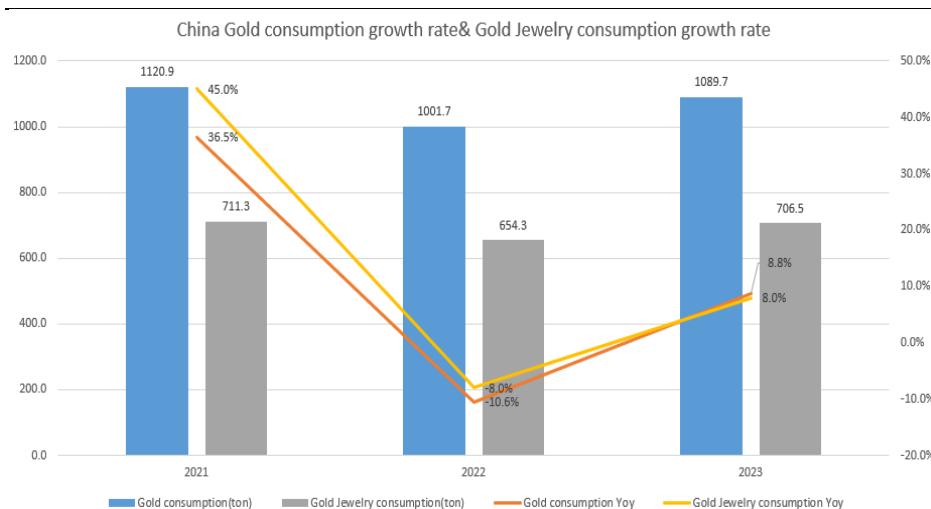
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because the price of gold had been rising for a long time which caused people to reduce their consumption on gold jewelry, but e-commerce such as live commerce and instant retail continued to be popular. The rapid development of the trend had driven the growth of consumption of small-weight gold jewelry. China's gold consumption in 2024 was 985.31 tons with a year-on-year decrease of 9.58%. Among them, gold jewelry consumption was 532.02 tons with a year-on-year decrease of 24.69%.

Data from the China Jewelry and Jadeite Association showed that the scale of China's heritage gold market increased from 13 billion yuan in 2018 to 157.3 billion yuan in 2023, with a five-year CAGR of 64.6%. According to Frost & Sullivan, the market size is expected to reach approximately RMB 421.4 billion by 2028, with a compound annual growth rate of 21.8%, proving that the heritage gold market has great development potential.

Chart 2: China Gold consumption growth rate& Gold jewelry consumption growth rate



Resources : China Gold Association · PSHK

Analysis of company's competitive advantages

Gem-set jewelry had great profit margin

The proportion of the company's gem-set jewelry in operating income had increased year by year, from 47.7% in 2021 to 56% in 2023, and 61% in the first half of 2024; the gross profit margin in 2023 was 45.8%, which was higher than that of pure gold jewelry mainly because the gem-set jewelry were fixed products with high brand premium. The design and craftsmanship of these products were generally more complicated and complex, and they have higher pricing space. The average selling price of the company's gem-set jewelry in 2023 was 1,043 yuan/gram with a year-on-year increase of 14.1%. In the future, the proportion of the company's revenue from gem-set jewelry is expected to increase further.

Operating stores in a self-operated mode can achieve higher profit margin

The company operates its stores in a self-operated mode, and address of the stores are generally concentrated in high-end business districts in first-tier and new first-tier cities. Compared with the ordinary franchise mode, self-operated mode allows the company to retain the ownership of the product selling in the retail counters, as well as recruit and manage the employees by themselves. In addition, the self-operated mode usually leads to higher profit margin, which helps the company achieve higher profit income.

A production mode that mainly relies on self-production and processing, supplemented by outsourced processing

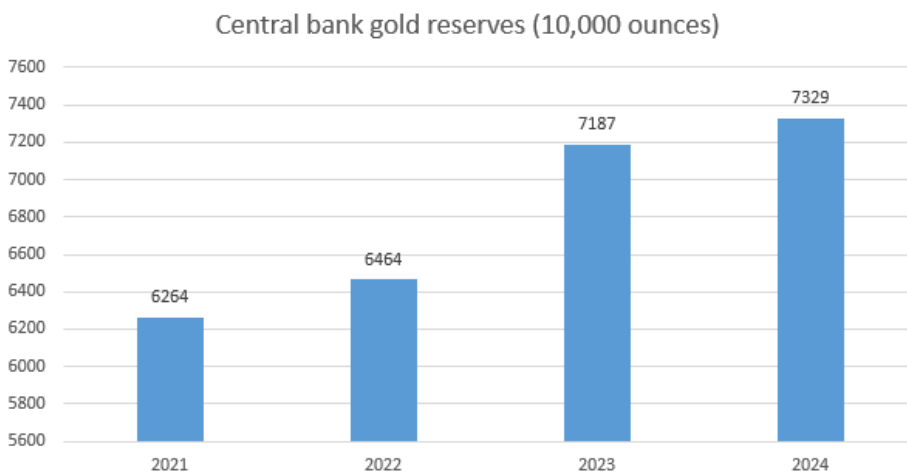
The company began internal production and processing of gold jewelry in 2018. In 2023, the company's self-production ratio was 59%. Compared with other companies,

the company's self-production ratio was higher, which helped to ensure the quality of the company's products.

Investment Thesis

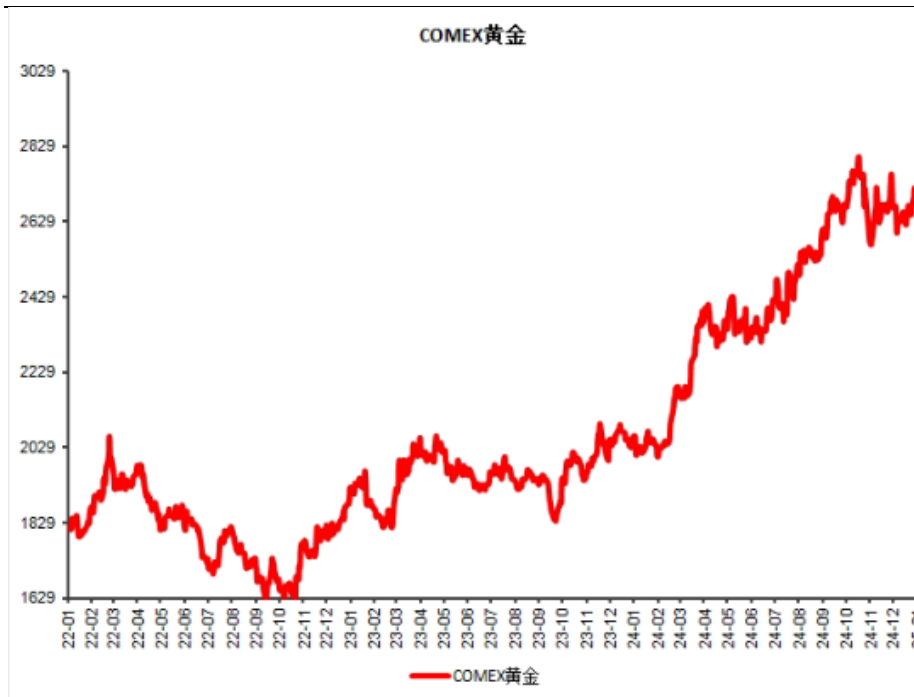
In recent years, with the escalation of geopolitical conflicts and the uncertain global economic outlook, the price of gold has been rising, gold is becoming the first choice for safe-haven assets. Central banks of various countries have been increasing their gold reserves. In recent years, China's gold reserves have been increasing, the latest data from the People's Bank of China showed that in December 2024, China increased its gold holdings by 10.26 tons. As of the end of December 2024, China's gold reserves were 2,279.57 tons. Due to the uncertainty about how Trump will govern after taking office, coupled with the risk of rising inflation, we expect gold to remain strong in the short term.

Chart 3: Central bank gold reserves



Resources : People's Bank of China · PSHK

Chart 4: Price of Comex Gold



Resources : Wind · PSHK

According to the World Gold Council's "2024 China Gold Jewelry Retail Market Insights", gold jewelry remains the main part of China's jewelry retail, with young consumers aged from 18 to 34 contributing more than one-third of sales. Gold's value-preserving properties have become more prominent, and it has become a common investment practice among all generations. Young people have also begun to invest in gold, but the difference is that young people are more concerned about the style and craftsmanship of gold jewelry. As a leading enterprise in heritage gold, Laopu Gold is positioned as a high-end brand. Its products have certain differentiated characteristics. Its profitability had increased significantly in the past two years and it had entered a period of performance growth. We are optimistic about the company's future development in the field of heritage gold. The company continues to expand circle of the core business districts in the mainland and seize the opportunities in Hong Kong, Macao and overseas markets, the numbers of stores are expected to continue to increase and contribute to revenue growth.

We predict that the company's revenue will be 7.24 billion yuan, 9.72 billion yuan and 12.60 billion yuan respectively in 2024-2026. EPS will be 7.12/8.97/10.57 yuan, corresponding to the P/E of 53.3x/42.4x/36.0x. The company is given a P/E of 60 times in 2024, with a short-term target price of HK\$458.32, and our investment rating is "Accumulate". (Current price as of Jan 27)

Risk factors

Gold price fluctuations, intensified industry competition, macroeconomic recovery is weaker than expected, and store expansion is weaker than expected.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB thousand	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	1294220	3179564	7242983	9721476	12598536
Cost of sales	-752082	-1847607	-4249274	-5679489	-7360327
Gross profit	542138	1331957	2993709	4041987	5238209
Other income and gains	4277	2650	3445	4479	5822
Selling and distribution expenses	-297177	-579347	-1231307	-1604044	-2078758
Administrative expenses	-94117	-167571	-256429	-344177	-446036
Research and development expenses	-8525	-10720	-24420	-32776	-42476
Other expenses, net	-2853	-5318	-9277	-12451	-16136
Finance costs	-16973	-18182	-36215	-29588	-38345
Profit before tax	126770	553469	1439506	2023429	2622279
Income tax expense	-32241	-137167	-362149	-531847	-689247
Profit for the year	94529	416302	1077357	1491582	1933032
Profit for the year attributable to					
–Owners of the Company	94529	416302	1077357	1491582	1933032
EPS(RMB)	0.69	3.03	7.12	8.97	10.57
Weighted shares outstanding	136500	137462	151208	166329	182962

Key Financial Data

Dec Y/E	FY22	FY23	FY24E	FY25E	FY26E
Valuation Ratio					
P/E ratio	548.7	125.5	53.3	42.4	36.0
Per share data(RMB)					
EPS	0.69	3.03	7.12	8.97	10.57
BVPS	6.37	11.02	22.58	29.46	37.31
Growth & Margin					
Growth					
Revenue Growth	2.3%	145.7%	127.8%	34.2%	29.6%
Gross Profit Growth	4.1%	145.7%	124.8%	35.0%	29.6%
Net Profit Growth	-17.0%	340.4%	158.8%	38.4%	29.6%
Margin					
Gross Profit Margin	41.9%	41.9%	41.3%	41.6%	41.6%
Net Profit Margin	7.3%	13.1%	14.9%	15.3%	15.3%
Key Ratios					
ROE	10.9%	27.5%	31.6%	30.4%	28.3%
ROA	7.3%	19.3%	26.2%	26.4%	25.3%

Consolidated Statement of Financial Position

Dec Y/E, RMB thousand	FY22	FY23	FY24E	FY25E	FY26E
Current assets					
Inventories	806836	1267932	2497149	2948936	3826598
Accounts receivable	100266	376325	714227	749504	1147417
Cash and Deposit	60282	69838	445341	1510231	2247525
Others	37598	61741	101387	111526	122678
Total current assets	1004982	1775836	3758104	5320196	7344218
Non-current assets					
PPE	52674	57549	62875	69223	76212
Others	233556	325162	287502	249848	207350
Total current assets	286230	382711	350378	319071	283562
Total Assets	1291212	2158547	4108482	5639267	7627780
Current liabilities					
Accounts and bills payables	5105	57662	72259	84026	98257
Bank borrowings	136231	127754	149524	163868	190018
Others	150045	288728	303514	321978	342288
Total current liabilities	291381	474144	525296	569872	630564
Non-current liabilities					
Bank borrowings	2184	2418	2418	2418	2418
Others	128078	166569	166900	167326	167875
Total non-current liabilities	130262	168987	169318	169744	170293
Total liabilities	421643	643131	694614	739616	800857
Equity attributable to equity holders of the Company	869569	1515416	3413868	4899652	6826924
Total equity	869569	1515416	3413868	4899652	6826924
Total liabilities and equity	1291212	2158547	4108482	5639267	7627780

Consolidated Statement of Cash Flow

Dec Y/E, RMB thousand	FY22	FY23	FY24E	FY25E	FY26E
CFO	148498	-29196	-363280	1158395	805911
Profit before income tax expense	126770	553469	1439506	2023429	2622279
Change in working capital	-32399	-688989	-1552522	-475297	-1261343
Others	54127	106324	-250263	-389738	-555024
CFI	-34583	-59218	-65867	-72463	-50663
Purchase of PP&E	-34603	-59541	-66061	-72667	-50867
Others	20	323	194	204	204
CFF	-79268	98973	804649	-21043	-17954
New bank and other borrowings	183410	127037	190556	152444	121956
Others	-262678	-28064	614094	-173487	-139910
Net increase in cash and cash equivalents	34647	10559	375503	1064890	737294
Cash and cash equivalents at 31 December	60282	69838	445341	1510231	2247525

Current Price as of: 27 Jan

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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