



Key Data

Ave EPS growth (%)	-0.2
Ave PE	14.0
Ave. dividend yield(%)	3.72

Source: Company, Bloomberg, ABCI Securities

Sector performance (%)

	Absolute	Relative*
1-mth	8.2	4.5
3-mth	17.2	8.5
6-mth	-3.4	-2.7

Source: Bloomberg

*Relative to Hang Seng Index

Price performance



Source: Bloomberg

Analyst:

Name: Judy Hu
Tel: (852) 2147 8310
Email: judyhu@abci.com.hk

HK retail sector outlook

We are pessimistic for HK retailers as low-to-high end retailers are facing slow-down of top line growth and increase in operating costs. We are cautious with the retail sales growth in the 3Q and 4Q. Although cosmetic retailer like Sa Sa is expected to maintain solid sales growth compared with jewelry & watch retailers, its valuation is fully priced in.

Strong Mainland tourist volume growth but weak sales growth:

Although the number of Mainland tourists in the Golden Week reached 980,000, the spending for high-end goods was unlikely to benefit from the tourists volume growth. The retail sales growth for gold & jewelry retailers are still under pressure. Local cosmetic retailers like Sa Sa is expected to achieve double digit sales growth in the Golden Week. We are pessimistic for HK retailers as low-to-high end retailers are suffering from rising operating cost and margin squeeze. We are cautious with the retail sales growth in the 3Q and 4Q as the spending per capita will be lower due to weak purchasing power for short-haul visitors from Mainland China, which are the main driver for Mainland tourist growth.

As we tracked the retail sales growth data for Jul and Aug, HK retail sales grew by 4.5% YoY in Aug (+3.2% YoY by volume), the second consecutive month to maintain a low single digit since July. Retail sales growth of medicines and cosmetics increased by 17.4% YoY (+15.9% YoY by volume) in Aug compared with 12.3% YoY (+10.3% YoY by volume) in July, while sales growth of jewelry, watches and valuable gifts further dropped 3.4% YoY (-4.9% YoY by volume) in Aug compared with 1.2% YoY (-2.8% YoY by volume) in July. The number of Mainland tourists increased by 27.9% YoY in Aug with 42.4% YoY growth of short-haul tourists and 14.4% YoY growth of overnight tourists. We expect tourist growth to maintain solid while consumer spending would be very constrained in the next 2 quarters.

Valuation:

Although we believe the retail sales growth of cosmetic retailers like Sa Sa will outperform jewelry & watch retailers and overall market, its valuation has fully priced in. We maintain our target price of HK\$4.22, representing 15x PER and 12x PER for FY3/2013 and FY3/2014. As the sales growth continue to slow down, we believe market will revise down the EPS growth of jewelry & watch retailers for next financial year.

Risk factors: Better-than-expected/worse-than-expected growth of Mainland tourists to HK; rising rental/staff cost; possible downside revision of EPS growth for 2013.

Valuation

Yr ended Mar31	Code	Price (HK\$)	EPS growth(%)		PE	
			T	T+1	T	T+1
Chow Tai Fook	1929	10.02	8.7	24.3	14.3	11.5
Chow Sang Sang*	116	17.50	-3.4	24.3	11.2	9.0
Luk Fook	590	21.60	-9.1	19.8	10.2	8.5
Sa Sa	178	5.12	15.2	25.6	18.2	14.5
Bonjour*	653	1.00	-12.5	17.5	15.9	13.5

Source: Bloomberg, ABCI Securities estimates, * financial year ended Dec 31.

Disclosures

Analyst Certification

I, Hu Zhaoling, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011 (~15%)

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclosures of Interests

ABCI Securities Company Limited and/or its member companies ("ABCI") may pursue financial interests to the companies mentioned in the report.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183