農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

6 August 2012

Equity Focus

Sa Sa (178 HK) – Sell

Specialty Stores Industry

Key Data

Share price (HK$)	4.65
Target price(HK$)	4.22
Downside potential(%)	10.2
52Wk H/L(HK$)	3.87 / 6.83
Issued shares (mn)	2819
Market cap (HK$mn)	13,121
30-day avg vol (HK$mn)	21.5
Major shareholder (%):	
Kwok Siu Ming (Chairman)	65.65

Source: Company, Bloomberg, ABCI Securities

Revenue composition by region in FY3/12 (%)

HK & Macau	79.5
Mainland China	4.6
Other markets	11.3
Sa Sa.com(online business)	4.6

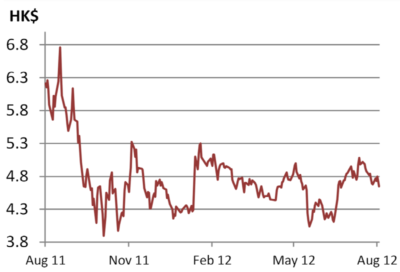
Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(4.4)	(4.2)
3-mth	(2.9)	4.0
6-mth	(7.8)	(2.9)

Source: Bloomberg
**Relative to Hang Seng Index*

1 year price performance



Source: Bloomberg

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Previous report
Date: 31 July 2012
Rating: Sell

Overall, local apparel retailers and luxury goods achieved low double digits retail sales value growth for 1H 2012 while retail sales of cosmetics and medicines outperformed overall retail market. Fund has switched to cosmetic retailers from jewellery & watches retailers given cosmetic retailers are trading at higher PER compared jewellery & watches retailers. However, we maintain our Sell rating of Sa Sa (TP:HK$4.22) given its high valuation and slow EPS growth this year.

Mix retail sales performance: Retail sales in HK grew by 11.0% yoy (above market survey of 9.1%) in June, while HK retail sales grew by 13.1%yoy (+9.0%yoy by volume) for 1H12. Retail sales growth of clothing, footwear and allied products recovered to 11.6%yoy (8.4%yoy by volume) in June from single digit in April and May. Retail sales of clothing, footwear and allied products grew by 11.5%yoy (+7.0%yoy by volume) for 1H12. Retail sales of jewellery, watches and other valuable goods grew by 3.1%yoy (-3.1%yoy by volume) in June. Retail sales of jewellery, watches and other valuable goods grew by 11.8%yoy (+3.2%yoy by volume) for 1H12. Sales volume of jewellery, watches and other valuable goods dropped 3.4%yoy and 3.1%yoy in May and June respectively, signaling weak demand for luxury goods. Retail sales of medicines and cosmetics grew by 19.1%yoy (+18.5%yoy by volume) and 17.0%yoy (+15.4%yoy by volume) in June and 1H12 respectively.

Our comment: In view of the latest statistics, we are pessimistic on half-year business performances of local luxury goods retailers such as Luk Fook(590) and Chow Tai Fook(1929). Fund has switched to cosmetic retailers from jewellery & watches retailers given the former are trading at ave. 15.3x PER compared with ave PER of 11.5x for jewellery & watches retailers.

Although we like cosmetics product retailer Sa Sa, its price is higher than our fair valuation. We maintain our target price of HK$4.22, representing 15x PER for FY3/2013.

Risk factors: Time lag in the slowdown of retail sales growth in different consumer goods segment; inelastic staff and rental costs.

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales (HK$ mn)	4,901	6,405	7,673	9,284	11,067
Chg (YoY)	19.2%	30.7%	19.8%	21.0%	19.2%
Net Income (HK$ mn)	509	690	794	997	1,208
Chg (YoY)	33.4%	35.4%	15.1%	25.6%	21.3%
FD EPS (HK$)	0.180	0.244	0.281	0.353	0.427
Chg (YoY)	33.4%	35.4%	15.1%	25.6%	21.3%
PER (x)	-	19.06	16.56	13.19	10.88

Source: Company, Bloomberg, ABCI Securities estimates

Exhibit1: HK retail sales growth

	2011		1H 2012	
	value growth	volume growth	value growth	volume growth
HK retail sales	24.9%	18.4%	13.1%	9.0%
Clothing,footwear and allied products	28.0%	19.3%	11.5%	7.0%
Jewellery, watches and other valuable goods	46.6%	32.1%	11.8%	3.2%
Medicines and cosmetics	21.5%	18.5%	17.0%	15.4%

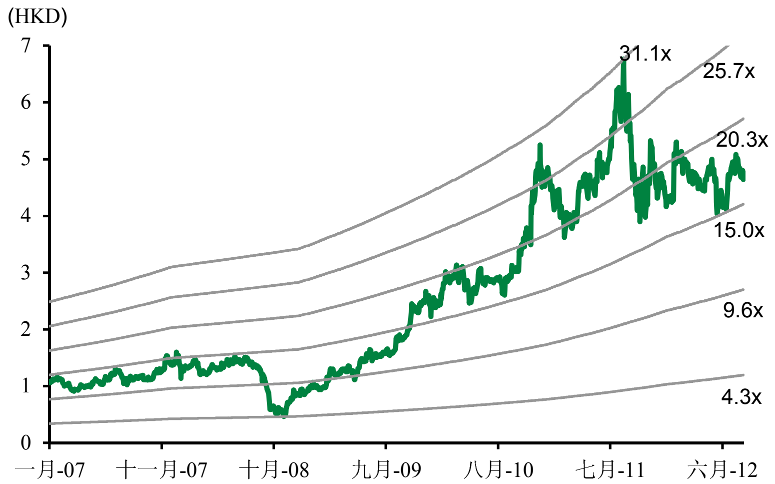
Source: Bloomberg, ABCI Securities estimates

Exhibit 2: HK retail sales growth

		Mkt cap	Price	PER		EPS growth	
Code	Name	(HK$mn)	(HK$)	T*	T+1	T	T+1
Beauty products retailers							
653	Bonjour	3,385	1.13	15.69	14.13	22.8%	11.2%
178	Sa Sa	13,121	4.65	19.06	16.55	35.6%	15.2%
HK retailers							
709	Giordano	8,171	5.31	11.02	9.89	33.9%	11.4%
999	I.T	4,053	3.30	8.51	7.50	21.3%	13.4%
589	Ports	4,252	7.54	10.04	9.43	-9.5%	6.5%
1929	Chow Tai Fook	88,900	8.89	12.88	12.35	72.5%	4.3%
116	Chow Sang Sang	10,479	15.48	9.59	8.60	39.2%	11.5%
3389	Hengdeli	8,961	2.04	11.03	12.00	42.3%	-8.1%
590	Luk Fook	10,474	17.78	7.32	8.35	42.1%	-12.3%
398	Oriental	1,318	2.31	6.24	5.78	27.6%	8.1%
Average				11.14	10.46		

Source: Bloomberg, ABCI Securities estimates, T* represents Current financial year

Exhibit3: PE chart of Sa Sa



Source: Bloomberg, ABCI Securities estimates

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