



Key Data

Share price (HK\$)	4.99
Target price(HK\$)	4.22
Downside potential(%)	15.4
52Wk H/L(HK\$)	5.69 / 3.81
Issued shares (mn)	2,815
Market cap (HK\$mn)	14,081
30-day avg vol (HK\$mn)	20.5
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

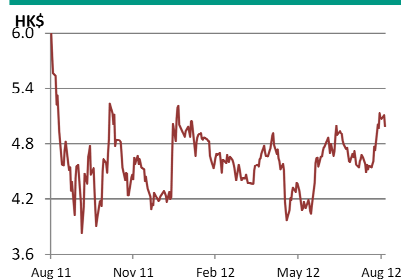
Share performance (%)

	Absolute	Relative*
1-mth	11.8	12.4
3-mth	24.6	16.3
6-mth	8.7	18.2

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 27 Aug2012
Rating: Sell

Sa Sa (178 HK) – Sell
Specialty Stores Industry

Retail sales growth in HK slowed down to 3.8%YoY in July from 11.0%YoY in Jun. We believe the decelerated growth is mainly due to weak consumption from the Mainland tourists. Moreover, we believe the stimulus effect for further loosening individual visit policy to Hong Kong is limited. We maintain our Sell rating of Sa Sa (TP:HK\$4.22) given its high valuation and slow EPS growth this year.

Retail sales growth further slowing down: Retail sales in HK grew by 3.8% YoY in July (+1.3%YoY by volume), while HK retail sales grew by 11.7% YoY (+7.8% YoY by volume) from Jan-Jul. Retail sales growth of medicines and cosmetics slowed to 12.3%YoY (+10.3% YoY by volume) in Jul compared with 19.1%YoY (+17.6% YoY by volume) in June.

Our comment: The Mainland tourists arrival to HK grew by 21.9%YoY in Jul. Same-day visitors increased by 36.9%YoY while overnight visitors increased by 8.5%YoY in Jul, indicating the Mainland tourist growth was driven by short-haul visitors instead of long-haul visitors. As we couldn't see obvious slowing down of tourist growth from Mainland, we believe the sharp slowdown of retail sales in July were due to weak purchasing power from short-haul Mainland tourists. Specialty chain store retailers such as Sa Sa need to revise their outlet opening strategy and product strategy to cope with the change in tourist composition. In the short-term, business risk of retailers is inevitably increasing.

Sa Sa's retail sales grew by 20.1%YoY and its HK & Macau retail sales grew by 18.7%YoY from 1 Jul to 19 Aug. Although we believe cosmetics products retailer Sa Sa will outperform its apparel and jewellery peers and overall market, 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: Better-than-expected/worse-than-expected growth of Mainland tourists to HK; rising rental/staff cost; intensified market competition; change of consumer preferences

Forecast and Valuation

FY ended Mar 31	FY11A	FY12A	FY13E	FY14E	FY15E
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
DPS (HK\$)	0.139	0.174	0.197	0.247	0.299
PER (x)	-	20.5	17.8	14.2	11.7
Dividend yield (%)	-	3.5	3.9	4.9	6.0
ROAE (%)	40.1	46.2	44.9	47.4	47.8

Source: Company, Bloomberg, ABCI Securities estimates

Exhibit1: HK retail sales growth

Chg (YoY)	1H 2012		Jan-Jul 2012		Jul 2012	
	value	volume	value	volume	value	volume
HK retail sales growth	13.1%	9.0%	11.7%	7.8%	3.8%	1.3%
Clothing, footwear and allied products	11.5%	7.0%	9.7%	5.6%	0.1%	(2.0%)
Jewellery, watches and other valuable goods	11.8%	3.2%	10.1%	2.2%	0.9%	(3.1%)
Medicines and cosmetics	17.0%	15.4%	16.3%	14.6%	12.3%	10.3%

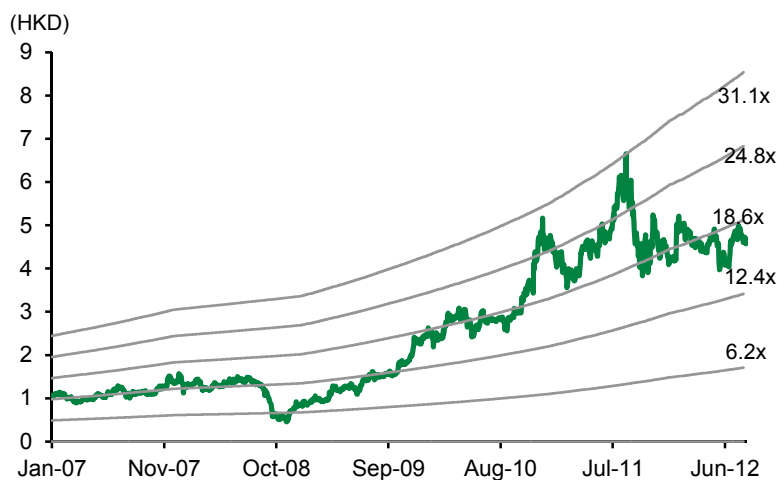
Source: Bloomberg, ABCI Securities estimates

Exhibit 2: Peer comparison

Code	Name	Mkt cap (HK\$m)	Price (HK\$)	PER		EPS growth	
				T*	T+1	T	T+1
Beauty products retailers							
653	Bonjour	3,024	1.01	14.0	16.0	22.8%	(12.5%)
178	Sa Sa	14,081	4.99	20.5	17.8	35.6%	15.2%
HK retailers							
709	Giordano	9,128	5.93	12.3	11.4	33.9%	7.9%
999	I.T	4,237	3.45	8.9	7.8	21.3%	13.4%
589	Ports	3,552	6.31	8.4	9.1	(9.5%)	(8.1%)
1929	Chow Tai Fook	93,800	9.38	13.6	13.2	72.5%	2.9%
116	Chow Sang Sang	10,844	16.02	9.9	10.0	39.2%	(0.9%)
3389	Hengdeli	9,005	2.05	11.1	10.8	42.3%	2.7%
590	Luk Fook	12,283	20.85	8.6	9.8	42.1%	(12.3%)
398	Oriental	1,290	2.26	7.8	6.1	(34.1%)	27.6%
Average				11.5	11.2		

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

Exhibit3: PE chart of Sa Sa



Source: Bloomberg, ABCI Securities estimates



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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.

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