



Consumer Sector

Rating: Overweight

Key data

2012 ave. PE (x)	22.4
2013 ave. PE (x)	18.6
2013EPS growth(%)	16.8

Source: Bloomberg, ABCI Securities

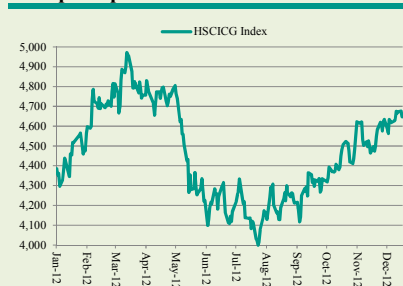
Share performance (%)

	Absolute	Relative*
1 month	4.1	-2.2
3 months	7.7	-1.5
6 months	8.3	-7.5

*Relative to HSI

Source: Bloomberg

YTD price performance



Source: Bloomberg

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Prefer market leaders with brilliant growth

As China's macro environment continues to exhibit healthy growth, we expect consumer sector starts to enter the recovery phase. Consumer staples are well-positioned to maintain growth momentum and we prefer leading names such as Hengan (1044 HK) and Vinda (3331 HK). Discretionary names will enjoy gradual rebound with stronger recovery of SSSG next year. We like Belle (1880 HK) and Intime (1833 HK).

Industry overview: China retail sales grew by CAGR of 19.4% from 2007 to 2011, higher than the disposable income growth of 12.2%. During the 18th National Congress, President Hu target to double disposable income for urban and rural residents by 2020 from 2010, representing a CAGR of 6.5%. We estimate a net increase of 198mn urban population in 2020, which account for 60% of total population in 2020. The continued urbanization and surging disposable income will be the key drivers of retail sales growth.

Stabilized retail sales growth: Total retail sales growth slowed down to 14.2% for the first 11 months of 2012 compared with 17.1% in 2011. In October and November, retail sales gradually rebounded to 14.5%YoY and 14.9%YoY (vs 13.2% YoY in August /14.2% YoY in September). The consumer confidence index, consumer expectation index and consumer satisfaction index significantly rebounded to above 100 in October and we expect domestic retail market to recover in 4Q12 and 1Q13.

Investment theme: The consumer index underperformed Hang Seng Index on year-to-date return. As the economy bottomed in 3Q12, we turn positive on consumer sector in 2013.

Due to capacity expansion, industry consolidation and stabilizing raw material cost, we estimate that both sales and EPS of consumer staples companies will enjoy a robust rebound in 2013. We prefer the industry leaders such as Hengan (1044 HK) and Vinda(3331 HK).

Consumer discretionary sector generally lags behind economic recovery by three to six months. We expect retailers' SSSG to recover next year, which favor Belle(1880 HK) and Intime(1833 HK).

Risk factors: Prolonged slowdown of China economy; rising rental and staff costs; intensified competition.

Valuation

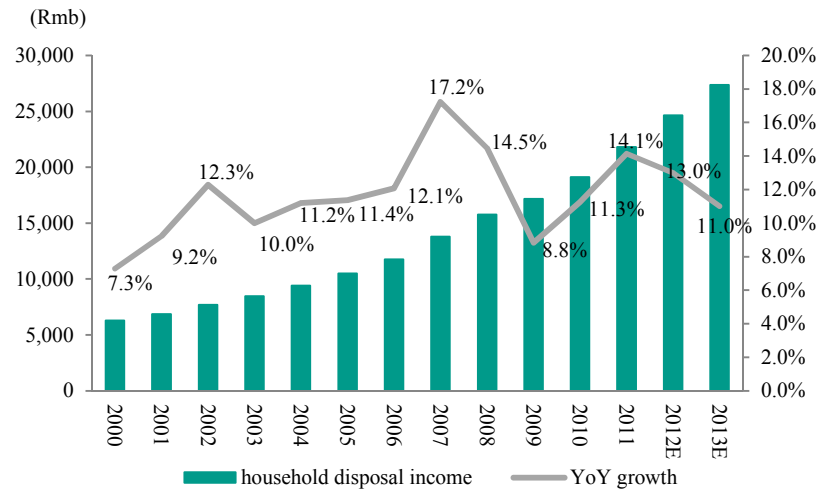
Company	Code	Price(HK\$)	Market cap(HK\$m)	2012PE	2013PE
Want Want	151 HK	10.54	139,420	33.2	26.7
Tingyi	322 HK	21.15	118,290	32.9	25.7
Hengan	1044 HK	68.80	84,557	24.3	20.1
Vinda	3331 HK	10.22	10,214	17.9	13.9
Golden Eagle	3308 HK	18.64	36,061	23.2	19.9
Intime	1833 HK	9.59	19,207	16.7	14.0
Belle	1880 HK	16.30	137,478	23.2	16.4
Daphne	210 HK	10.38	17,109	19.4	15.6

Source: Bloomberg, ABCI Securities



From 2000 to 2011, the household disposal income grew by CAGR of 12.0%. In the first 3 quarters of 2012, the household disposal income grew by 13.0%YoY. We estimate that the household disposal income will grow at 13% and 11% for 2012 and 2013 respectively.

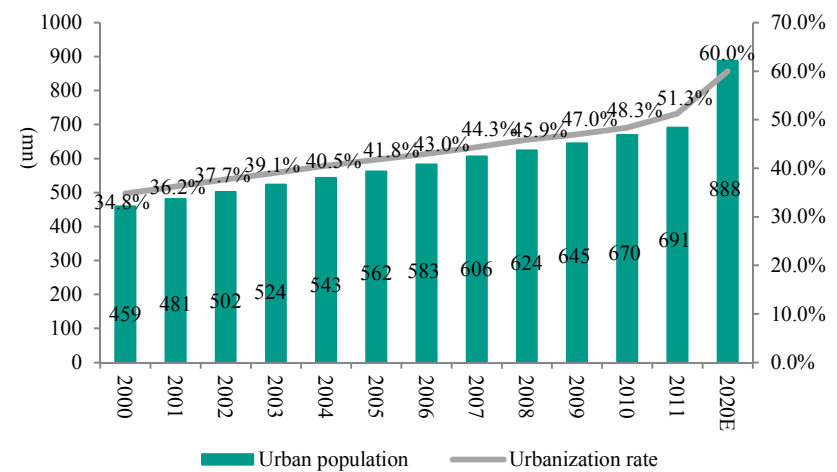
Chart 1: Household disposal income & YoY growth



Source: NBSC

In 2011, urban population reached 690mn, which accounted for 51.3% of total population. We estimate a net increase of 198mn urban population in 2020. The urbanization rate will increase to 60% in 2020 from 51.3% in 2011. The increasing urban population will enlarge the market size of retail industry in urban area.

Chart 2: Urban population & urbanization rate

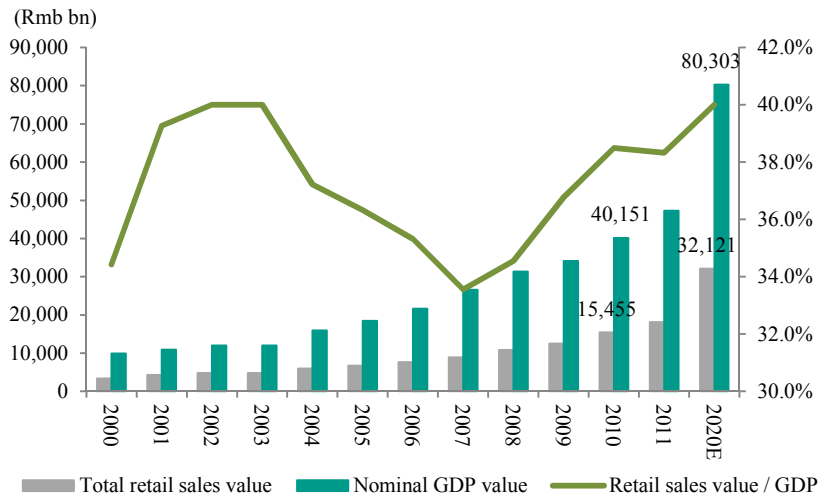


Source: NBSC



The Chinese government targets to double nominal GDP by 2020 from 2010. We estimate that the retail sales will grow by CAGR of 6.9% to Rmb32,121bn in 2020, representing 40% of GDP.

Chart 3: Total retail sales value vs Nominal GDP value



Source: NBSC, ABCI Securities

Retail sales grew by CAGR of 16.3% from 2000 to 2010, while disposable income grew by CAGR of 11.8% at the same period (Elasticity= 1.38). We estimate that retail sales will grow by CAGR of 6.9% from 2010-2020 compared with 6.5% of disposable income growth (Elasticity narrow to 1.05).

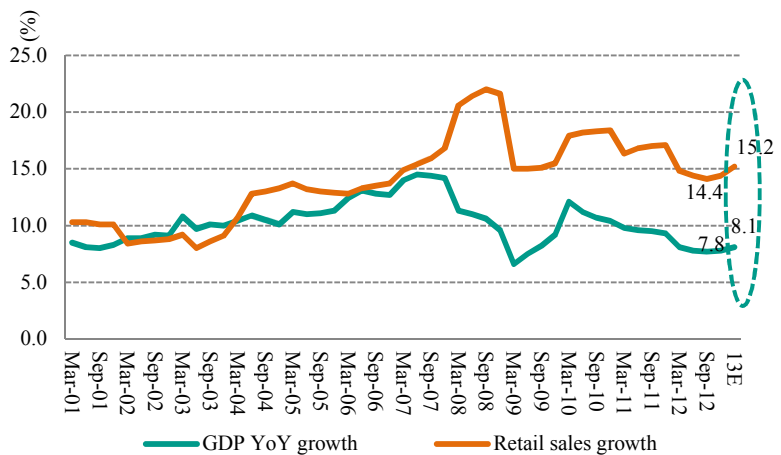
Chart 4: Disposable income growth vs Retail sales growth



Source: NBSC, ABCI Securities

As GDP growth troughed in the 3Q of 2012 and is expected to recover to 8.1% in 2013, we estimate that the retail sales growth to rebound to 15.2% in 2013 from 14.4% in 2012.

Chart 5: GDP growth vs retail sales growth

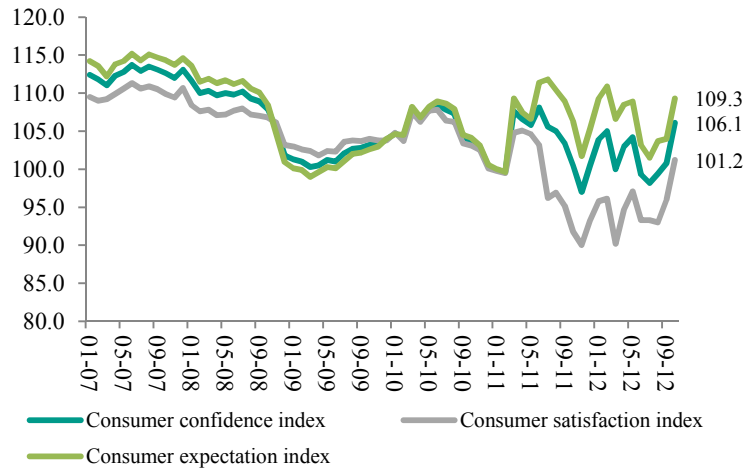


Source: NBSC, ABCI Securities



The consumer confidence index, consumer expectation index and consumer satisfaction index significantly rebounded to above 100 in Oct of 2012. We expect domestic retail market to recover in 4Q 2012.

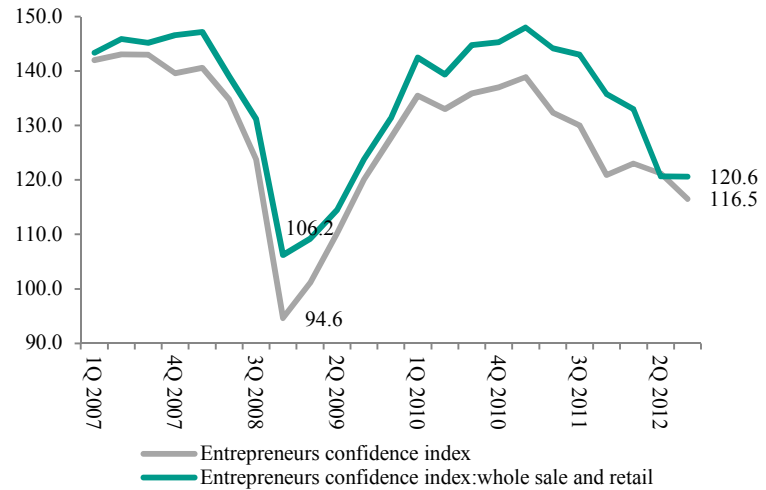
Chart 6: Consumer confidence index



Source: NBSC

Entrepreneurs confidence index dropped to 116.5 in the 3Q 2012 from 121.2 in 2Q, while entrepreneurs confidence index for wholesale and retail stabilized at 120.6 in 3Q from 120.7 in 2Q. We expect that wholesales & retail sector will recover in 2013.

Chart 7: Entrepreneurs confidence index



Source: NBSC

Table 1: Retail sales by sector

(%)	2007	2008	2009	2010	2011	2007-2011 CAGR	2012 1-11	Increase (drop)%
Total retail sales	16.8	21.6	15.5	18.4	17.1	17.9	14.2	-3.7ppt
F&B	25.9	20.9	14.0	24.5	25.3	22.1	17.8	-4.3ppt
Daily Use Articles	26.5	17.1	15.6	25.1	24.1	21.7	17.0	-4.7ppt
Clothing	25.5	24.8	18.8	25.8	24.2	23.8	18.2	-5.6ppt
Cosmetics	26.3	22.2	16.9	16.6	18.7	20.1	17.0	-3.1ppt
Gold & Jewellery	41.7	38.5	15.9	46.0	42.1	36.8	15.6	-21.2ppt
Communication appliances	8.8	1.4	-1.3	21.8	27.5	11.6	30.6	19.0ppt
Household Appliances	23.4	14.2	12.3	27.7	21.6	19.8	6.9	-12.9ppt

Source: NBSC

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Table 2: EPS growth and valuation

Company	Code	Price (HK\$)	Market cap (HK\$ mn)	2011	PE 2012	2013	2013 EPS Growth	2013 PEG*
Staples								
Want Want	151 HK	10.54	139,420	45.3	33.2	26.7	24.4%	1.09
Tingyi	322 HK	21.15	118,290	34.1	32.9	25.7	27.7%	0.93
Uni-President	220 HK	8.94	32,179	68.5	29.1	23.9	21.9%	1.09
Tsing Tao -H	168 HK	46.10	57,834	29.8	27.6	23.7	16.4%	1.44
China Resources	291 HK	28.05	67,362	27.3	32.3	26.8	20.6%	1.30
China Mengniu	2319 HK	20.70	36,602	18.0	19.9	15.7	26.9%	0.58
Hengan	1044 HK	68.80	84,557	32.6	24.3	20.1	21.2%	0.95
Vinda	3331 HK	10.22	10,214	24.0	17.9	13.9	28.8%	0.48
Ave.				35.0	27.1	22.1	23.5%	0.98
Discretionary								
Golden Eagle	3308 HK	18.64	36,061	24.1	23.2	19.9	16.9%	1.18
Intime	1833 HK	9.59	19,207	19.2	16.7	14.0	17.3%	0.81
Belle	1880 HK	16.30	137,478	26.0	23.2	16.4	25.8%	0.64
Daphne	210 HK	10.38	17,109	20.8	19.4	15.6	15.5%	1.01
C.Banner	1028 HK	2.93	5,860	16.4	15.9	13.6	9.5%	1.43
Chow Tai Fook	1929 HK	12.28	122,800	17.9	19.0	20.3	-5.9%	-
Chow Sang Sang	116 HK	17.92	12,130	11.1	12.0	9.5	7.9%	1.21
Luk Fook	590 HK	24.25	14,286	10.0	10.4	11.5	-6.9%	-
SA SA	178 HK	6.42	18,148	26.3	22.1	18.1	20.4%	0.89
Bonjour	653 HK	0.96	2,854	13.3	15.2	13.0	1.4%	9.40
Ave.				18.5	17.7	15.2	10.2%	2.07

Note*: PEG=2013PE/2013EPS Growth

Source: Bloomberg, ABCI Securities



Disclosures

Analyst Certification

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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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