

Chow Tai Fook (1929 HK)

1H earnings missed, 2H still under pressure

Chow Tai Fook (CTF) reported 1HFY25 (6 months ended Sep 2024) results with revenue down 20.4% YoY, in line with Bloomberg consensus estimates. NP dropped 44.4% YoY, 20% below consensus mainly due to weak consumer sentiment and fair value loss of gold loan due to gold price hikes. CTF announced a share buyback plan of HK\$ 2bn on top of HK\$ 0.2 per share dividend. Considering possible continued weakening of consumer sentiment and gold price fluctuation, we cut NP forecasts by 20-30%, projecting NP growth of -23.3%/28.1%/6.8% in FY25/26/27E. Accordingly, we cut our TP by 31% to HK\$10.0, representing 20x FY25E P/E.

- **1HFY25 revenue in line, NP missed.** The company reported 1HFY25 (6 months ended Sep 2024) results. Revenue dropped 20.4% YoY to HK\$ 39.4bn, in line with consensus, due to weak consumer sentiment and intensified wait-and-see stance due to gold price hikes. Net profit plunged 44.4% YoY to HK\$ 2.5bn, 20% below consensus. This was stemmed from combined impacts of GP margin boost and gold loan value loss: 1) GP margin rose 6 ppts to 31.6%, aided by higher gold prices and fixed-price product contribution to sales doubling to 14.2%. 2) Gold loan fair value loss was at HK\$ 3.1bn (approx. 20%+ price rise for nearly 30,000kg gold loans, CMBI est.).
- **Cut full-year estimates.** The company provided comprehensive guidance projecting a mid-teen revenue slump for FY25E, with OP margin up 1.5-3 ppts as GP margin improvement will be partly offset by SG&A ratio hike (operating leverage). We cut revenue forecasts by 15 - 20%, expecting it to change by -16.2%/ -2.4%/ +3.2% YoY in FY25/26/27E respectively. Given the uncertainty in the international environment currently which may lead to continued fluctuations in gold prices, we expect fair value loss of gold loan to persist in 2H. Thus, we cut our net profit projections by 20-30%, estimating the bottom line to change by -23.2%/ +28.1%/ +6.8% YoY, amounting to HK\$ 5.0/6.3/6.8 bn in FY25/26/27E respectively.
- **The company remains committed to shareholder returns**, declaring a dividend of HK\$ 0.2 per share in 1HFY25 (vs. HK\$0.25 per share in 1HFY24), given the significant decline in NP. The payout ratio increased from 55% in 1HFY24 to 79% in 1HFY25. Additionally, CTF announced a share buyback plan of up to HK\$ 2bn, and funding will come from 1) higher 2HFY25 operating cash flow, and 2) cash released from inventory reductions.
- **Maintain BUY with TP cut by 31% to HK\$ 10.0 given lower NP forecasts.** Our **new TP** represents 20x FY25E P/E, in line with the long-term average of comparable peers. **Key risks:** weak consumption, gold price volatility, and worse-than-expected new product sales.

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	94,684	108,713	91,057	88,852	91,725
YoY growth (%)	(4.3)	14.8	(16.2)	(2.4)	3.2
Net profit (HK\$ mn)	5,384.4	6,499.3	4,994.5	6,396.0	6,828.9
EPS (Reported) (HK\$)	0.54	0.65	0.50	0.64	0.68
Consensus EPS (HK\$)	na	na	0.75	0.80	0.87
P/E (x)	13.6	11.3	14.7	11.4	10.7
P/B (x)	2.3	2.8	2.8	2.6	2.5
Yield (%)	16.6	7.5	5.5	7.0	7.5
ROE (%)	16.3	22.4	19.3	23.8	23.9
Net gearing (%)	(17.1)	(21.1)	(63.8)	(77.0)	(76.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$10.00
(Previous TP)	HK\$14.54)
Up/Downside	36.4%
Current Price	HK\$7.33

China Consumer

Miao ZHANG

(852) 3761 8910

zhangmiao@cmbi.com.hk

Bella LI

(852) 3757 6202

bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	73,300.0
Avg 3 mths t/o (HK\$ mn)	89.5
52w High/Low (HK\$)	12.82/5.86
Total Issued Shares (mn)	10000.0
Source: FactSet	

Shareholding Structure

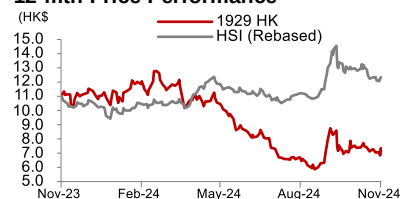
CTF Holding	72.4%
Yueford Corp	5.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.2%	3.8%
3-mth	10.7%	1.0%
6-mth	-29.9%	-32.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	91,057	88,852	91,725	106,501	111,338	116,222	-14.5%	-20.2%	-21.1%
Gross profit	22,834	22,634	23,635	23,038	24,588	26,071	-0.9%	-7.9%	-9.3%
EBIT	9,600	9,631	10,212	10,292	11,152	12,046	-6.7%	-13.6%	-15.2%
Net profit	4,994	6,396	6,829	7,260	7,901	8,566	-31.2%	-19.0%	-20.3%
Gross margin	25.1%	25.5%	25.8%	21.6%	22.1%	22.4%	3.4ppt	3.4ppt	3.3ppt
EBIT margin	10.5%	10.8%	11.1%	9.7%	10.0%	10.4%	0.9ppt	0.8ppt	0.8ppt
Net margin	5.5%	7.2%	7.4%	6.8%	7.1%	7.4%	-1.3ppt	0.1ppt	0.1ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	91,057	88,852	91,725	95,991	101,384	106,579	-5.1%	-12.4%	-13.9%
Gross profit	22,834	22,634	23,635	21,505	23,032	24,423	6.2%	-1.7%	-3.2%
EBIT	9,600	9,631	10,212	9,339	10,454	11,269	2.8%	-7.9%	-9.4%
Net profit	4,994	6,396	6,829	6,253	7,128	7,782	-20.1%	-10.3%	-12.2%
Gross margin	25.1%	25.5%	25.8%	22.6%	22.6%	22.7%	2.5ppt	2.9ppt	3.1ppt
EBIT margin	10.5%	10.8%	11.1%	9.7%	10.3%	10.6%	0.8ppt	0.5ppt	0.6ppt
Net margin	5.5%	7.2%	7.4%	6.5%	7.0%	7.3%	-1ppt	0.2ppt	0.1ppt

Source: Bloomberg, CMBIGM estimates

Figure 3 : Valuation comps (as of 27 Nov 2024)

Company	Ticker	Last Price	Mkt Cap	PIE (x)			PIB (x)			ROE(%)			Revenue Growth (%)			Net Profit Growth (%)			Gross Margin	Net Margin	OCFRev(%)	Payout ratio	Dividend Yield	
		(LC)		24E	25E	26E	24E	25E	26E	24E	25E	26E	24E	25E	26E	24E	25E	26E	23A	23A	23A	23A	23A	24E
Chow Tai Fook	1929.HK	7.33	9,408	14.7 x	11.4 x	10.7 x	2.8 x	2.6 x	2.5 x	19.3	23.8	23.9	(16.2)	(2.4)	3.2	(23.2)	28.1	6.8	20.5	6.1	12.7	85%	7.5%	5.5%
Laopu Gold	6181.HK	201.80	4,366	30.2 x	22.5 x	18.0 x	9.2 x	6.7 x	5.0 x	37.0	33.3	30.4	117.3	32.7	23.6	149.7	34.3	24.8	41.9	13.1	(0.9)	NA	NA	0.9%
LFX	600612.SH	50.55	2,939	12.5 x	11.3 x	10.3 x	2.1 x	1.8 x	1.6 x	16.8	16.5	16.3	(7.8)	8.9	8.4	(4.7)	10.6	9.9	8.3	4.2	10.1	46%	3.9%	3.7%
China Gold	600916.SH	8.73	2,038	14.1 x	12.3 x	11.0 x	1.9 x	1.8 x	1.7 x	13.4	14.4	15.3	12.4	11.9	10.7	6.9	14.2	12.5	4.1	1.7	2.8	78%	5.2%	4.8%
Chow Tai Seng	002867.SZ	12.60	1,918	12.0 x	10.5 x	9.4 x	2.0 x	1.9 x	1.7 x	16.9	17.8	18.3	(6.3)	12.1	11.5	(12.8)	14.2	12.5	18.1	8.1	0.9	79%	7.5%	5.4%
CHU	002345.SZ	5.43	670	13.1 x	11.1 x	9.6 x	1.3 x	1.2 x	1.1 x	9.7	10.7	11.5	11.5	15.0	14.0	10.6	17.6	15.5	26.1	5.6	10.6	66%	4.6%	4.5%
Chow Sang Sang	0116.HK	6.41	558	6.2 x	5.2 x	0.0 x	0.3 x	0.3 x	0.0 x	5.7	6.5	0.0	(11.3)	7.6	0.0	(29.4)	19.1	(100.0)	26.4	4.0	8.6	40%	9.4%	6.4%
Average				16.9 x	13.5 x	11.7 x	3.7 x	3.1 x	2.6 x	21.1	22.5	21.9	16.0	9.5	9.6	19.5	24.5	9.2	22.7	6.9	7.2	62%	5.4%	4.3%

Source: Wind, CMBIGM

Note: CTF's fiscal year ends in Mar

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Revenue	98,938	94,684	108,713	91,057	88,852	91,725
Cost of goods sold	(76,598)	(73,513)	(86,428)	(68,223)	(66,219)	(68,090)
Gross profit	22,340	21,172	22,285	22,834	22,634	23,635
Operating expenses	(13,265)	(13,050)	(12,685)	(13,234)	(13,003)	(13,423)
Selling expense	(10,522)	(9,974)	(9,513)	(9,561)	(9,418)	(9,723)
Admin expense	(3,442)	(3,721)	(3,787)	(4,189)	(4,087)	(4,219)
Others	699	646	615	515	503	519
Operating profit	9,074	8,122	9,600	9,600	9,631	10,212
EBITDA	11,096	10,265	11,679	11,845	11,899	12,478
Depreciation	(1,148)	(1,272)	(1,351)	(1,351)	(1,351)	(1,351)
Goodwill amortisation	(57)	14	139	0	0	0
EBIT	9,891	9,008	10,468	10,494	10,549	11,127
Net Interest income/(expense)	(268)	(358)	(522)	(522)	(522)	(522)
Other income/expense	6	0	(20)	(20)	(20)	(20)
Others	171	(318)	(330)	(2,351)	(500)	(500)
Pre-tax profit	8,983	7,447	8,728	6,707	8,590	9,171
After tax profit	6,880	5,490	6,607	5,077	6,502	6,942
Minority interest	(168)	(105)	(108)	(83)	(106)	(113)
Net profit	6,712	5,384	6,499	4,994	6,396	6,829
Adjusted net profit	6,601	5,745	6,767	4,994	6,396	6,829
Gross dividends	5,000	12,188	5,496	3,996	5,117	5,463
Net dividends	5,000	12,188	5,496	3,996	5,117	5,463

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Current assets	78,126	77,267	79,182	73,154	74,665	77,239
Cash & equivalents	14,942	11,695	7,695	20,694	25,531	26,694
Account receivables	5,914	6,192	6,825	5,717	5,578	5,759
Inventories	57,254	59,290	64,647	46,728	43,541	44,771
Other current assets	15	89	15	15	15	15
Non-current assets	9,612	10,074	9,637	9,391	9,123	8,858
PP&E	5,039	5,144	4,527	4,276	4,025	3,775
Right-of-use assets	1,679	1,696	1,782	1,788	1,770	1,755
Intangibles	109	66	25	25	25	25
Other non-current assets	2,785	3,167	3,303	3,303	3,303	3,303
Total assets	87,737	87,341	88,819	82,546	83,789	86,097
Current liabilities	49,629	51,022	57,520	50,916	50,213	50,869
Short-term borrowings	7,276	4,367	794	794	794	794
Account payables	25,166	30,089	30,530	23,925	23,222	23,878
Other current liabilities	1,467	1,480	1,709	1,709	1,709	1,709
Contract liabilities	15,721	15,086	24,488	24,488	24,488	24,488
Non-current liabilities	3,553	2,959	4,553	4,553	4,553	4,553
Long-term borrowings	1,799	1,789	1,488	3,342	3,342	3,342
Other non-current liabilities	1,754	1,170	3,065	1,211	1,211	1,211
Total liabilities	53,183	53,981	62,073	55,469	54,766	55,422
Share capital	15,499	15,499	15,499	15,499	15,499	15,499
Retained earnings	18,121	16,899	10,216	10,465	12,305	13,844
Total shareholders equity	33,619	32,397	25,715	25,964	27,803	29,342
Minority interest	935	962	1,031	1,114	1,220	1,333
Total equity and liabilities	87,737	87,341	88,819	82,546	83,789	86,097

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	8,983	7,447	8,728	6,707	8,590	9,171
Depreciation & amortization	2,022	2,143	2,079	2,245	2,268	2,265
Tax paid	(2,103)	(1,957)	(2,121)	(1,630)	(2,087)	(2,229)
Change in working capital	(5,101)	654	726	12,423	2,623	(755)
Others	10,137	1,779	4,424	0	0	0
Net cash from operations	13,938	10,066	13,836	19,745	11,393	8,453
Investing						
Capital expenditure	(1,531)	(1,937)	(957)	(1,100)	(1,100)	(1,100)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	372	154	241	0	0	0
Net cash from investing	(1,458)	(1,782)	(717)	(1,100)	(1,100)	(1,100)
Financing						
Dividend paid	(4,500)	(8,594)	(8,842)	(4,746)	(4,556)	(5,290)
Net borrowings	12,642	(3,216)	(1,749)	0	0	0
Others	(11,934)	1,105	(6,239)	(900)	(900)	(900)
Net cash from financing	(3,793)	(10,705)	(16,830)	(5,646)	(5,456)	(6,190)
Net change in cash						
Cash at the beginning of the year	6,032	14,942	11,695	7,695	20,694	25,531
Exchange difference	222	(826)	(289)	0	0	0
Cash at the end of the year	14,942	11,695	7,695	20,694	25,531	26,694

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.