

# Hong Kong Retail

## Stabilized in Nov 2019 and likely to bottom

**We have turned more positive on HK retail sector.** Decent risk reward has raised as we expect 2020 outlook to turn better, supported by 1) better tourist flow, 2) lower chance for RMB depreciation, potential rental costs easing and 3) attractive valuation.

- **HK retail sales down 24% YoY in Nov 2019, similar to Oct 2019.** HK retail sales fell by 23.6% YoY in Nov 2019, one of the largest drop in HK history, but did improve mildly from -24.4% YoY in Oct 2019, in-line with BBG est. of -24.6% but slightly worse than CMBI's est. of -21.0%. We believe the decline was a result of: 1) deterioration of tourists flow and 2) suppressed HK local demand due to recent social unrest.
- **Demand from both tourists and locals remained weak.** Visitors to HK continued to tank by 56% in Nov 2019, implying no recovery from 44%/ 34% YoY decline in Oct/ Sep. By tourists and locals, the negative trend continued with sales decline of 36% and 18% in Nov 2019 (vs 36% and 19% in Oct). In terms of category, jewelry, department stores, medicine & cosmetics and clothing & footwear are still among the worst, with sales decline by 44%, 33%, 33% and 32%. All were worsened (except clothing) vs last month. On the other hand, category like F&B, auto & parts and supermarket, are the only few with improvement to -11%, -12% and 3% (vs -12%, -19% and +1% in Oct).
- **Retail sales growth may stabilize and turnaround in 2020E.** We now expect HK retail sales to at least stabilize with 22%/ 18% YoY decline in Dec 2019/ Jan 2020 (vs 24% drop in Nov 2019), thanks to slightly better tourists flow during Christmas (-53% YoY) and New year (-29% YoY), plus the earlier CNY timing in 2020. We also expect low chance of further RMB depreciation in 2020 (RMBHKD is at 1.11 in Dec 2019), since it is close to the lowest level in last 9 years and a potential trade deal may be signed between US and China soon. Furthermore we now expect retail sales to drop less in 2Q20E and turn positive in Aug 2020E, mainly due to low base, and forecast retail sales to drop by 10.1% in 2020E (vs -11.3% in 2019E), by monthly seasonality.
- **Rental costs may drop further in 2020E.** According to HK Rating and Valuation Department, private retail rents started to fall since Jul 2019 and by 6% on average in Oct 2019. We think street level rental fees could retreat more and retailers can save more by closing or relocating stores in FY20E.
- **Actionable ideas: Lifestyle (1212 HK), CDC (341 HK), I.T (999 HK) and SaSa (178 HK).** In terms of valuation, we find lifestyle (1212 HK), CDC (341 HK) and I.T (999 HK) undemanding, as these are all trading at 1.s.d below historical P/E mean. According to CMBI est. and Bloomberg, I.T (999 HK) Lifestyle (1212 HK) CSS (116 HK), CTF (1929 HK), CDC (341 HK), SaSa (178 HK) now have 8%, 7%, 6%, 5%, 5% and 4% forward 2 years dividend yield. In terms of ability to maintain a fixed amount of dividend (even with short-term NP volatility), we would prefer SaSa (178 HK), I.T. (999 HK) and CDC (341 HK). In terms of rental costs savings, we do like SaSa (178 HK) and luxury retailers such as Oriental Watches (398 HK) due to their plan to adjust rental costs by closing down or relocating stores in tourists area. We expect rental income pressure for landlords like Wharf REIC (1997 HK), and hence may drag future earnings growth.

## MARKET PERFORM (Maintain)

### Hong Kong Retail Sector

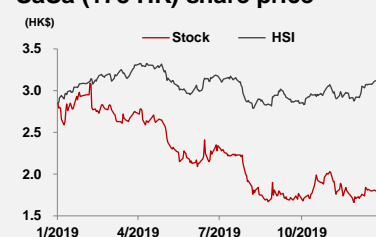
**Walter Woo**  
 (852) 3761 8776  
 walterwoo@cmbi.com.hk

#### Lifestyle (1212 HK) share price



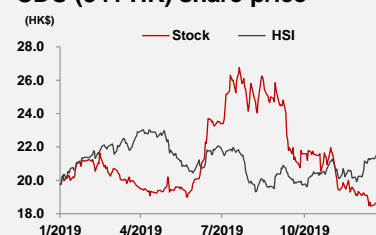
Source: Bloomberg

#### SaSa (178 HK) share price



Source: Bloomberg

#### CDC (341 HK) share price



Source: Bloomberg

#### I.T (999 HK) share price



Source: Bloomberg

## Focus Charts

Figure 1: Hong Kong retail sales overview

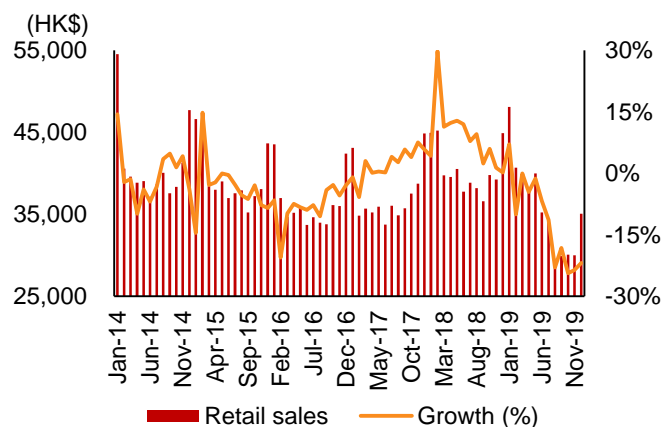
	Growth (yoy%)	% of 2018 total	2018	1Q19	2Q19	3Q19	Sep-19	Oct-19	Nov-19
<b>HK retail sales</b>		100.0%	8.8%	-1.1%	-4.2%	-17.5%	-18.2%	-24.4%	-23.6%
<b>Tourists from Mainland China</b>			14.8%	19.7%	12.9%	-27.7%	-35.0%	-45.9%	-58.4%
<b>Tourists from Other Places</b>			0.6%	6.5%	4.5%	-19.1%	-31.2%	-35.6%	-47.3%
<b>Total tourist</b>			11.4%	16.8%	10.9%	-26.0%	-34.2%	-43.7%	-55.9%
<b>Sales by types of consumers*</b>									
Locals		68.2%	7.7%	-0.2%	-2.2%	-11.7%	-13.5%	-19.0%	-18.4%
Tourists#		31.8%	11.2%	-3.0%	-8.5%	-29.6%	-29.0%	-35.9%	-36.2%
<b>Sales by category</b>									
<b>F&amp;B</b>		9%	4.7%	0.3%	0.9%	-6.5%	-14.4%	-11.8%	-11.0%
Freshs & others		8%	5.4%	1.2%	1.8%	-4.9%	-14.2%	-10.9%	-9.6%
Alcoholic & tobacco		1%	0.4%	-5.4%	-5.2%	-17.7%	-16.2%	-19.5%	-21.4%
<b>Supermarkets</b>		11%	1.2%	2.0%	0.6%	0.1%	-2.6%	0.5%	2.6%
<b>Fuel</b>		2%	8.6%	1.2%	-0.2%	1.8%	5.2%	4.4%	11.2%
<b>Clothing &amp; footwear</b>		13%	6.7%	-2.4%	-4.5%	-22.6%	-24.5%	-37.3%	-31.8%
<b>Durables</b>		15%	7.0%	-10.9%	-10.6%	-10.3%	-4.1%	-16.7%	-16.7%
Auto & parts		3%	7.6%	2.5%	-5.6%	-11.7%	-14.5%	-19.0%	-11.9%
Electronics		6%	17.2%	-18.2%	-14.7%	-10.3%	-0.5%	-16.9%	-18.6%
Furnitures		2%	4.6%	3.7%	-0.2%	-7.7%	-6.3%	-8.8%	-12.2%
Other durables		4%	-5.0%	-18.2%	-14.7%	-10.3%	-0.5%	-16.9%	-18.6%
<b>Department stores</b>		11%	9.5%	4.6%	-2.8%	-22.3%	-26.3%	-31.0%	-32.9%
<b>Jewelry &amp; watches</b>		18%	13.7%	-2.5%	-10.4%	-37.3%	-40.2%	-43.0%	-43.5%
<b>Others goods</b>		22%	13.0%	3.0%	-0.6%	-16.9%	-18.1%	-27.0%	-26.4%
Medicines & cosmetics		10%	14.4%	2.1%	-3.3%	-22.3%	-21.6%	-33.2%	-33.4%
Others		11%	11.8%	3.7%	1.8%	-11.8%	-14.8%	-21.4%	-19.9%

Source: Census and Statistic Department, CMBIS estimates

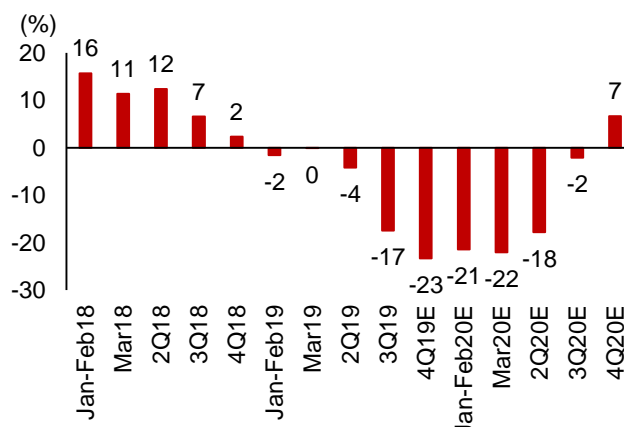
Figure 2: Peers Valuation

Company	Ticker	Price HK\$	Mkt cap HK\$ mn	Year End	PER (x)				PBR (x)				Yield (%)	Net gearing	YTD perf. (%)
					FY0	FY1	FY2	5yrs avg.	FY0	FY1	FY2	5yrs avg.	FY2	FY0	
<b>HK retail</b>															
Chow Tai Fook Jewellery Grou	1929 HK	7.68	76,800	Mar-19	18.4	16.8	14.6	19.1	2.9	2.5	2.3	2.2	5.2	33.2	3.1
Luk Fook Holdings Intl Ltd	590 HK	22.75	13,357	Mar-19	10.1	12.0	10.1	11.1	1.3	1.2	1.1	1.5	4.8	2.1	1.3
Chow Sang Sang Hldg	116 HK	10.20	6,910	Dec-18	6.8	7.0	6.6	11.2	0.6	0.6	0.6	1.1	5.9	5.9	5.3
Emperor Watch & Jewellery	887 HK	0.16	1,058	Dec-18	4.7	n/a	n/a	n/a	0.2	n/a	n/a	0.5	n/a	11.9	(0.6)
Oriental Watch Holdings	398 HK	2.06	1,175	Mar-19	8.7	n/a	n/a	n/a	0.6	n/a	n/a	0.4	n/a	(46.1)	(0.5)
Lifestyle Intl Hldgs Ltd	1212 HK	8.88	13,337	Dec-18	6.4	7.7	8.1	10.4	3.6	3.9	3.6	4.6	7.2	388.1	(0.7)
Sa Sa International Hldgs	178 HK	1.75	5,431	Mar-19	23.4	194.4	24.0	18.9	2.2	2.3	2.2	4.0	4.1	(45.9)	(0.6)
International Housewares Ret	1373 HK	1.90	1,372	Apr-19	11.5	10.0	9.0	13.9	1.9	n/a	n/a	1.8	n/a	(43.8)	3.3
Convenience Retail Asia Ltd	831 HK	3.40	2,593	Dec-18	13.1	n/a	n/a	19.7	4.0	n/a	n/a	3.9	n/a	(73.5)	(2.9)
I.T Ltd	999 HK	2.00	2,392	Feb-19	9.3	6.9	5.6	10.5	0.8	0.6	0.6	1.1	7.7	(16.8)	7.0
Giordano International Ltd	709 HK	2.39	3,773	Dec-18	9.7	13.3	11.7	13.4	1.4	1.4	1.4	2.1	9.2	(33.8)	1.7
Hongkong & Shanghai Hotels	45 HK	8.39	13,713	Dec-18	15.8	27.5	25.8	15.7	0.4	n/a	n/a	0.4	1.8	15.0	0.5
Shangri-La Asia Ltd	69 HK	8.17	29,294	Dec-18	24.2	18.4	18.1	32.6	0.6	0.6	0.6	0.8	3.0	62.1	0.4
Cafe De Coral Holdings Ltd	341 HK	18.68	10,941	Mar-19	21.6	22.5	19.7	25.1	3.8	3.2	3.2	3.8	4.7	(25.1)	1.2
Tai Hing Group Holdings Ltd	6811 HK	1.61	1,610	Dec-18	n/a	10.3	7.8	n/a	n/a	1.4	1.3	n/a	5.1	80.4	(1.8)
Fairwood Holdings Ltd	52 HK	19.96	2,585	Mar-19	18.8	11.7	16.9	18.3	3.5	3.3	3.2	4.9	4.8	(66.8)	0.4
Wharf Real Estate Investment	1997 HK	46.65	141,640	Dec-18	9.5	14.0	13.8	n/a	0.6	0.6	0.6	n/a	4.7	17.6	(1.9)
Link Reit	823 HK	81.75	170,541	Mar-19	9.7	28.3	26.4	6.0	0.9	0.9	0.9	0.9	3.8	11.4	(0.9)
<b>Average</b>					<b>13.0</b>	<b>26.7</b>	<b>14.6</b>	<b>16.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>2.1</b>	<b>5.1</b>	<b>15.3</b>	<b>0.8</b>
<b>Median</b>					<b>10.1</b>	<b>13.3</b>	<b>13.8</b>	<b>14.8</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.6</b>	<b>4.8</b>	<b>4.0</b>	<b>0.4</b>

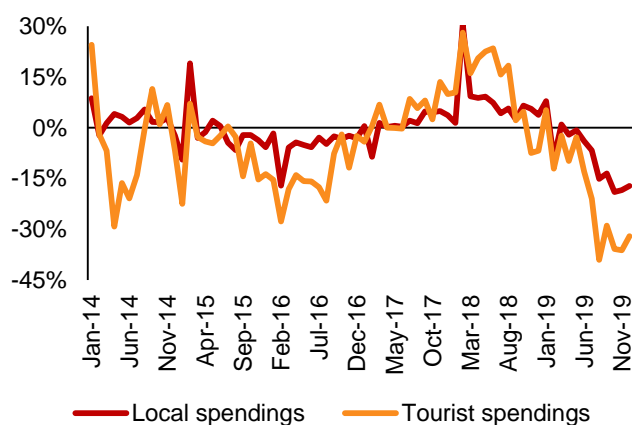
Source: Bloomberg, CMBIS estimates

**Figure 3: HK retail sales and growth**

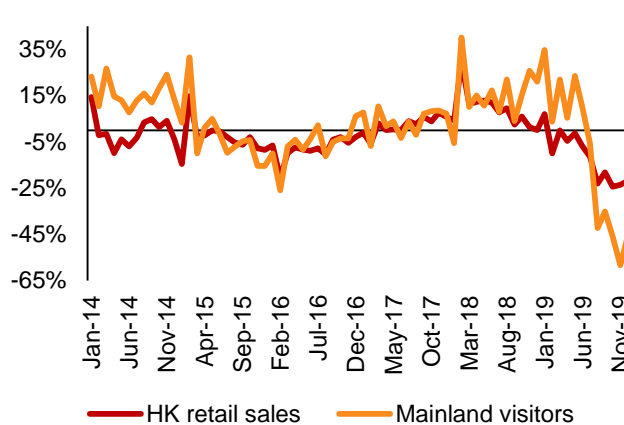
Source: HK Census and Statistics Department, CMBIS estimates

**Figure 4: CMBI HK retail sales growth forecasts**

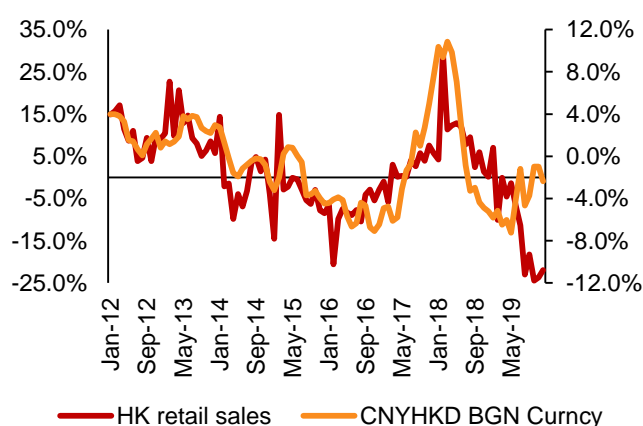
Source: HK Census and Statistics Department, CMBIS estimates

**Figure 5: HK retail sales growth by locals/ tourists**

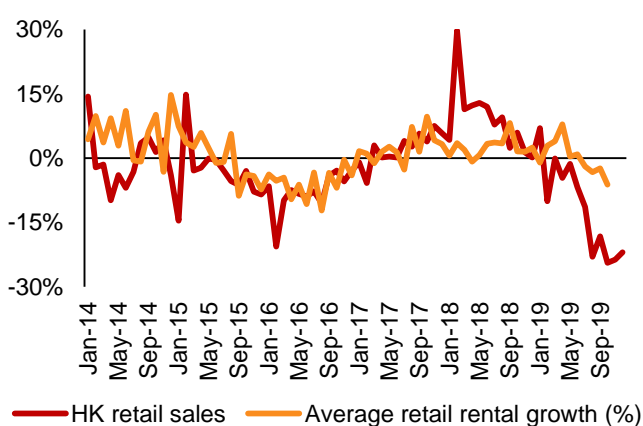
Source: HK Census and Statistics Department, CMBIS estimates

**Figure 6: HK retail sales and tourists growth**

Source: HK Census and Statistics Department, CMBIS estimates

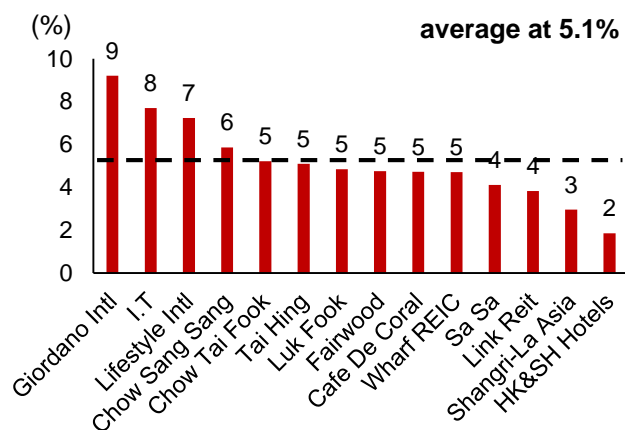
**Figure 7: HK retail sales and CNYHKD growth**

Source: HK Census and Statistics Department, Bloomberg, CMBIS estimates

**Figure 8: HK retail sales and avg. rental growth**

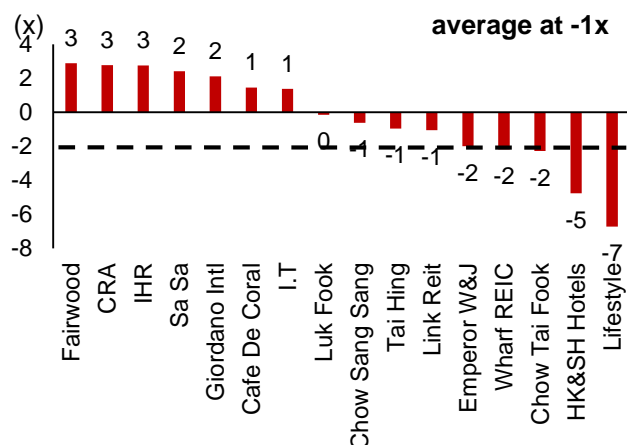
Source: HK Census and Statistics Department, HK Rating and Valuation Department, CMBIS estimates

Figure 9: Peers comparison – FY2 yield



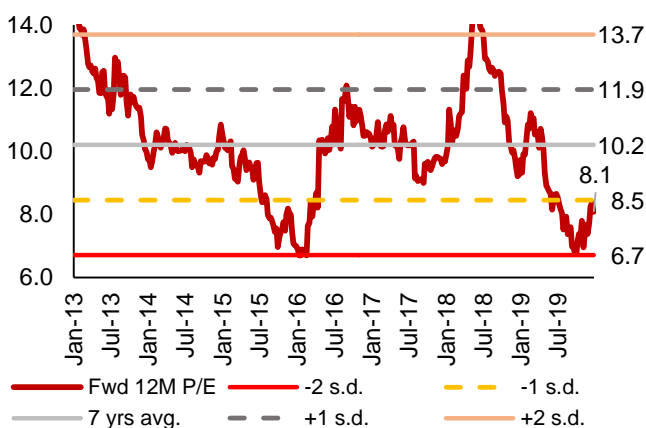
Source: Bloomberg, CMBIS estimates

Figure 10: Peers comparison – Net Cash (Debt)/ NP



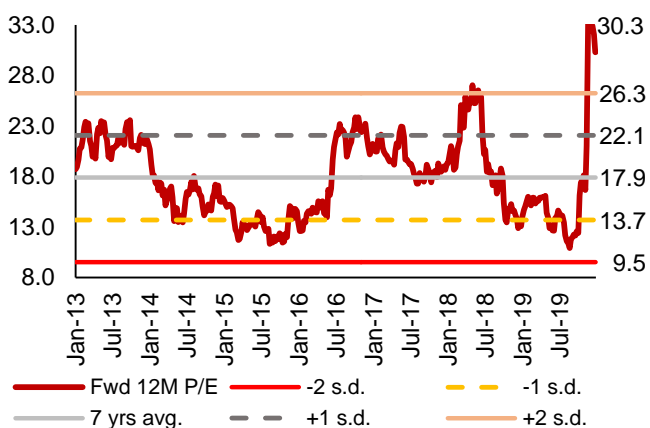
Source: Bloomberg, CMBIS estimates

Figure 11: Lifestyle (1212 HK) P/E



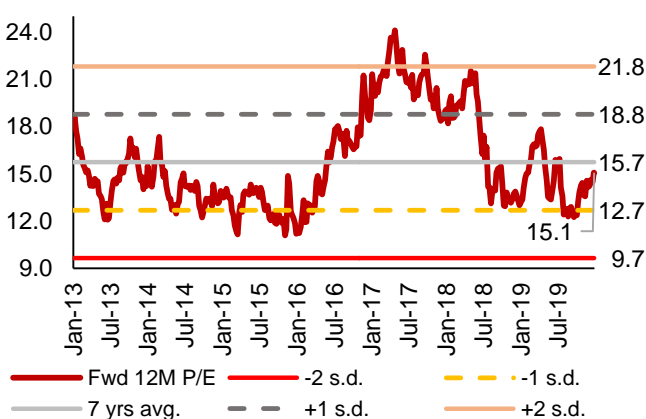
Source: Bloomberg, CMBIS estimates

Figure 12: SaSa (178 HK) P/E



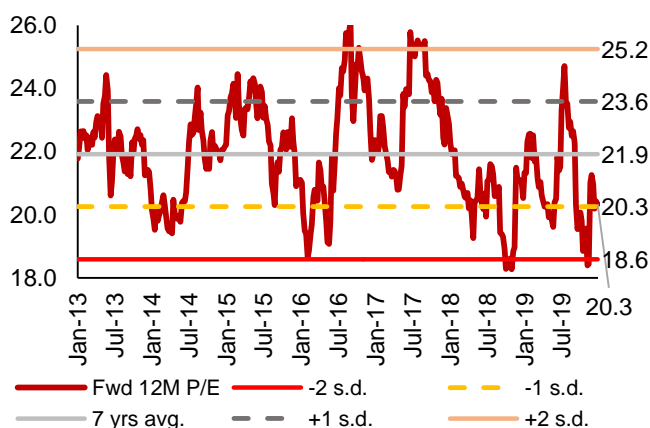
Source: Bloomberg, CMBIS estimates

Figure 13: Chow Tai Fook (1929 HK) P/E



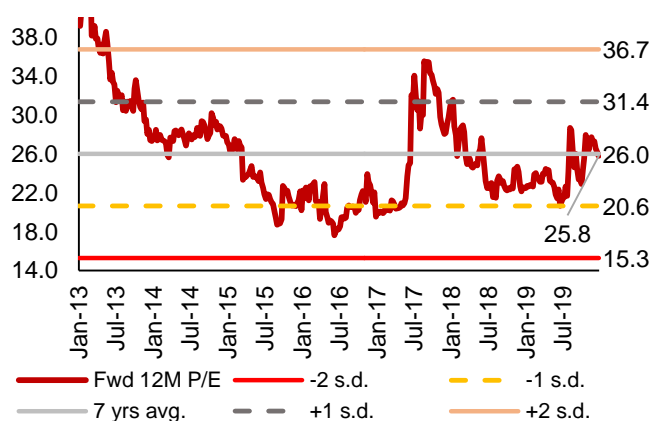
Source: Bloomberg, CMBIS estimates

Figure 14: Cafe De Coral (341 HK) P/E



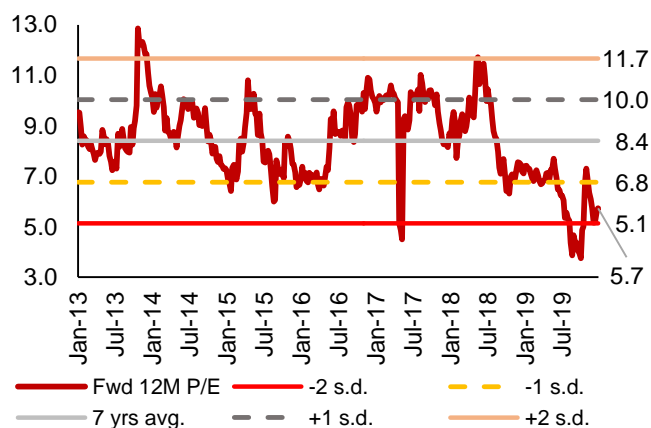
Source: Bloomberg, CMBIS estimates

Figure 15: HK&amp;SH Hotel (45 HK) P/E



Source: Bloomberg, CMBIS estimates

Figure 16: I.T (999 HK) P/E



Source: Bloomberg, CMBIS estimates

Figure 17: Monthly forecast for HK retail sales, based on 4Q19E numbers and monthly seasonality

Retail sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
2020E	39,230	30,506	30,990	31,279	31,558	30,006	31,340	30,930	29,484	31,247	31,882	38,301	386,752
2019E	48,084	40,667	39,728	37,731	39,974	35,206	34,428	29,396	29,912	30,059	29,970	35,065	430,220
2018	44,929	45,199	39,751	39,540	40,513	37,770	38,849	38,169	36,569	39,771	39,248	44,914	485,222
2017	43,112	34,820	35,691	35,206	35,898	33,723	36,035	34,849	35,708	37,525	38,718	44,840	446,125
2016	43,538	36,963	34,650	35,156	35,759	33,673	34,645	33,947	33,758	36,117	36,000	42,391	436,597
2015	46,598	46,546	38,424	37,977	39,013	36,974	37,556	37,918	35,200	37,186	38,073	43,658	475,123
2014	54,530	40,551	39,568	38,839	39,035	37,130	38,666	40,057	37,556	38,323	41,294	47,713	493,262
2013	47,667	41,443	40,160	43,083	40,626	39,887	39,951	38,711	35,831	37,783	39,629	49,686	494,457
2012	43,152	33,777	36,571	35,712	35,991	34,781	36,544	35,827	34,110	35,534	36,518	46,999	445,516
2011	37,555	29,209	31,227	32,052	33,104	31,329	35,182	34,259	31,177	34,207	33,369	43,063	405,733

Growth (YoY %)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
2020E	-18.4%	-25.0%	-22.0%	-17.1%	-21.1%	-14.8%	-9.0%	5.2%	-1.4%	4.0%	6.4%	9.2%	-10.1%
2019E	7.0%	-10.0%	-0.1%	-4.6%	-1.3%	-6.8%	-11.4%	-23.0%	-18.2%	-24.4%	-23.6%	-21.9%	-11.3%
2018	4.2%	29.8%	11.4%	12.3%	12.9%	12.0%	7.8%	9.5%	2.4%	6.0%	1.4%	0.2%	8.8%
2017	-1.0%	-5.8%	3.0%	0.1%	0.4%	0.1%	4.0%	2.7%	5.8%	3.9%	7.5%	5.8%	2.2%
2016	-6.6%	-20.6%	-9.8%	-7.4%	-8.3%	-8.9%	-7.8%	-10.5%	-4.1%	-2.9%	-5.4%	-2.9%	-8.1%
2015	-14.5%	14.8%	-2.9%	-2.2%	-0.1%	-0.4%	-2.9%	-5.3%	-6.3%	-3.0%	-7.8%	-8.5%	-3.7%
2014	14.4%	-2.2%	-1.5%	-9.9%	-3.9%	-6.9%	-3.2%	3.5%	4.8%	1.4%	4.2%	-4.0%	-0.2%
2013	10.5%	22.7%	9.8%	20.6%	12.9%	14.7%	9.3%	8.0%	5.0%	6.3%	8.5%	5.7%	11.0%
2012	14.9%	15.6%	17.1%	11.4%	8.7%	11.0%	3.9%	4.6%	9.4%	3.9%	9.4%	9.1%	9.8%
2011													

As % of annual sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
2020E	10.1%	7.9%	8.0%	8.1%	8.2%	7.8%	8.1%	8.0%	7.6%	8.1%	8.2%	9.9%	100.0%
2019E	11.2%	9.5%	9.2%	8.8%	9.3%	8.2%	8.0%	6.8%	7.0%	7.0%	7.0%	8.2%	100.0%
2018	9.3%	9.3%	8.2%	8.1%	8.3%	7.8%	8.0%	7.9%	7.5%	8.2%	8.1%	9.3%	100.0%
2017	9.7%	7.8%	8.0%	7.9%	8.0%	7.6%	8.1%	7.8%	8.0%	8.4%	8.7%	10.1%	100.0%
2016	10.0%	8.5%	7.9%	8.1%	8.2%	7.7%	7.9%	7.8%	7.7%	8.3%	8.2%	9.7%	100.0%
2015	9.8%	9.8%	8.1%	8.0%	8.2%	7.8%	7.9%	8.0%	7.4%	7.8%	8.0%	9.2%	100.0%
2014	11.1%	8.2%	8.0%	7.9%	7.9%	7.5%	7.8%	8.1%	7.6%	7.8%	8.4%	9.7%	100.0%
2013	9.6%	8.4%	8.1%	8.7%	8.2%	8.1%	8.1%	7.8%	7.2%	7.6%	8.0%	10.0%	100.0%
2012	9.7%	7.6%	8.2%	8.0%	8.1%	7.8%	8.2%	8.0%	7.7%	8.0%	8.2%	10.5%	100.0%
2011	9.3%	7.2%	7.7%	7.9%	8.2%	7.7%	8.7%	8.4%	7.7%	8.4%	8.2%	10.6%	100.0%
Average of 2011-2018	9.8%	8.3%	8.0%	8.1%	8.1%	7.7%	8.1%	8.0%	7.6%	8.1%	8.2%	9.9%	100.0%

Source: HK Census and Statistics Department, CMBIS estimates



# 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.

## CMBIS Ratings

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

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

## CMB International Securities Limited

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

**CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.