

Consumer Discretionary

Sequential improvement may support re-rating

Upgrade our rating to OUTPERFORM on the consumer discretionary sector. The foot traffic of the 2024 10-1 National Day holidays was strong (recovery rate has improved vs Mid-autumn and Dragon Boat Festival) but the spending power remained fairly weak. Even though the retail sales growth was still under pressure, a sequential improvement was observed compared with Sep 2024, and this should be able to support the further re-rating of the sector valuation. In terms of sub-sectors, we believe home appliances and apparel retail sales growth was better than expected while sectors like sportswear, catering and tourism were all just inline with our estimates. We upgrade our rating to OUTPERFORM on the consumer discretionary sector, as we do expect the fundamentals to bottom out and sector valuation to be re-rated (the room is still ample), driven by the rollout of various monetary and fiscal stimulus by the central government.

We prefer Haier Smart Home (600690 CH/6690 HK, BUY), Xtep (1368 HK, BUY), Anta (2020 HK, BUY), JNBY (3306 HK, BUY), Bosideng (3998 HK, BUY), Yum China (YUMC US/ 9987 HK, BUY), DPC Dash (1405 HK, BUY), and Atour (ATAT US, BUY).

■ **Number of average daily cross-regional passengers only exhibited small YoY growth, but its recovery rate (vs 2019) did sequentially improve.** Based on the data from the Ministry of Transport/ 交通运输部, during the 2024 10-1 National Day holidays (six days from 1 Oct to 6 Oct 2024), the average daily cross-regional passengers increased only by 3% YoY, which is a slowdown from 31%/ 9% YoY growth back in the Mid-autumn/ Dragon Boat Festival 2024. However, the recovery rate (vs 2019) had actually improved to 124% during the 10-1 National Day holidays, from 117%/ 116% respectively, hence, we believe the traffic during the holiday was still fairly healthy. In terms of forms of transportation, the growth rates were 7%/ 3%/ 10%/ 13% for railway/ road/ boat/ airline. Noted that the domestic tourism was still dragged by the strong increases in outbound tourism, evidenced by: 1) number of outbound air ticket sold has been doubled, according to Qunar and 2) 29%/ 38% growth in mainland visitors to Hong Kong/ Macau.

■ **We believe the spending per person during the 10-1 National Day holidays was fairly subdued.** In our view, the spending power was still quite weak, evidenced by: 1) the fairly weak movie box office (dropped by 22% to RMB 2.1bn, worsening from 1% YoY growth back in 5-1 Golden Week holidays) and drop in average movie ticket size (-4% to RMB 40.4, from 0% back in 5-1 golden week holidays), 2) the sequential decline in movie box office (YoY growth was as high as +36% on 1 Oct, but quickly worsened to -6% on 2 Oct and eventually to -19% on 6 Oct). In fact, a similar pattern was also found in the catering sector, 3) drop in hotel RevPAR (CMBI est. of -MSD) and drop in air ticket prices (about -20%, according to Trip.com), etc..

Valuation Table

			Mkt Cap	TP	Upside/	P/E (x)		P/B (x)		ROE (%)	
Name	Ticker	Rating	(US\$ mn)	(LC)	Downside	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Anta Sports	2020 HK	BUY	37,001.4	126.68	1%	19.9	17.0	3.9	3.4	0.2	0.2
Atour Lifestyle	ATAT US	BUY	11,795.7	29.42	1%	16.3	12.5	6.4	4.8	0.5	0.4
Bosideng	3998 HK	BUY	6,823.2	5.98	22%	13.4	11.3	3.2	2.9	0.3	0.3
DPC Dash	1405 HK	BUY	1,338.0	81.20	2%	50.7	23.4	4.0	3.4	0.1	0.2
Haier Smart Home	6690 HK	BUY	43,445.7	31.58	-12%	14.0	12.9	2.4	2.1	0.2	0.2
JNBY Design	3306 HK	BUY	1,186.3	17.61	-1%	9.1	8.1	3.6	3.3	0.4	0.4
Xtep	1368 HK	BUY	2,368.1	7.32	-4%	13.2	11.2	2.0	1.8	0.2	0.2
Yum China	YUMC US	BUY	19,381.0	38.07	-24%	19.7	15.5	2.0	1.7	0.1	0.1
Yum China	9987 HK	BUY	19,932.3	294.91	-26%	20.3	16.0	2.1	1.7	0.1	0.1

Source: Company data, CMBIGM estimates

**OUTPERFORM
(Up)**

China Consumer Discretionary Sector

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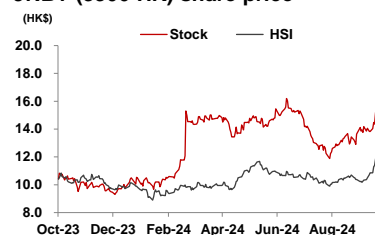
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Xtep (1368 HK) share price



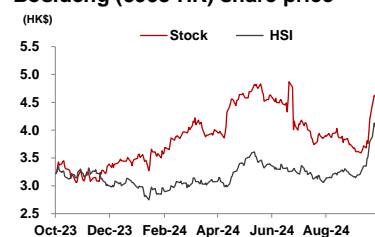
Source: Bloomberg, CMBIGM estimates

JNBY (3306 HK) share price



Source: Bloomberg, CMBIGM estimates

Bosideng (3998 HK) share price



Source: Bloomberg, CMBIGM estimates

Yum China (9987 HK) share price



Source: Bloomberg, CMBIGM estimates

■ **The overall retail sales growth was sluggish. However, the numbers did improve sequentially vs 3Q24 and it should further support the re-rating of sector valuation.** Even though the traffic and tourism data points in the tier one cities seem to be positive and healthy (Beijing: 21% YoY foot traffic growth was recorded in 60 key commercial districts, according to Beijing Ministry of Commerce/ Shanghai: 5% YoY all factors retail transaction value growth, according to Shanghai Ministry of Culture and Tourism/ Guangzhou: 9% YoY tourism spending growth, according to Guangzhou Ministry of Culture and Tourism), we are highly concerned about the mainland China retail sales growth during the 10-1 National Day holidays. We would not be surprised if the growth turned out to be negative, because the macro environment is certainly under pressure, esp. when catering/ tourism – hotel sector growth was all negative. However, optimistically speaking, almost all sectors (home appliances/ apparel/ sportswear/ catering/ tourism) under our coverage recorded a sequential improvement in Oct 2024 vs Sep 2024, which we believe the recent government stimulus has been proven effective in boosting consumer sentiment. We prefer sectors like home appliances, apparel as their growth during the 10-1 National Day holidays was better than expected while sectors like sportswear, catering and tourism were all inline with our estimates.

■ **Sportswear sector (maintain OUTPERFORM).** The industry average sales growth (CMBI est. of MSD) in Sep 2024 should have improved vs Aug 2024 (and also better than June and July 2024). Offline sales saw some improvement, mainly due to NBA stars visiting China, but online growth has slowed, as TikTok channel expansion begins to decelerate. All in all, the growth in Sep was in line with expectations. By brand, Anta, Xtep, and 361 Degrees have performed well, with estimated double-digit growth (including online and offline), while FILA and Adidas saw positive growth, with Li Ning and Nike lagged. Retail discounts deepened both YoY and MoM, as brands and distributors tried to reduce their inventory pressure. Based on our channel checks, the performance during the 10-1 National Day holidays, was still moderate and similar to that in Mid-Autumn Festival, but better than 3Q24. Looking ahead into 4Q24E, we do expect a mild turnaround with positive YoY growth, benefiting from government stimulus and a slightly lower base. However, profit margins will be affected by the deepening retail discounts.

We prefer Xtep (1368 HK, BUY) due to strong new product sales and the faster than industry growth, as well as Anta (2020 HK, BUY), which is benefiting from the Kyrie Irving tour in China and FILA's recent brand equity upgrades. We are cautiously optimistic about Li Ning (2331 HK, BUY), but less positive on Nike and its key supplier like Topsports (6110 HK, BUY), as its transition period may take quite a long while.

Preference: Xtep (1368 HK) > Anta (2020 HK, BUY) > 361 Degrees (1361 HK, BUY) > Li Ning (2331 HK, BUY) > Topsports (6110 HK, BUY).

■ **Home appliances sector (maintain OUTPERFORM).** Sales performance in Sep 2024 was quite strong, accelerated vs Aug 2024 and was significantly better than that in Jun and Jul 2024, exceeding the market expectations. By channel, online growth has outpaced offline, with over 50% and 10% increase respectively. By product category, air conditioners grew the fastest, followed by refrigerators, and then washing machines. The performance during the 10-1 National Day holidays in Oct 2024 remained very strong, with third-party data indicating online growth of 67%, mainly driven by the rollout of trade-in policies in more regions. The average price also increased significantly, and leading brands, with a higher proportion of first-tier energy-efficient products and their own promotional policies, have gained more market share. Oct 2024 production schedules also looked rather promising. We do see upside potential for both retail data and production in 4Q24E. Export growth in Sep 2024 also slightly exceeded the expectations. Air conditioners sales growth was the fastest and is still accelerating. While refrigerators sales growth was rather steady growth, the washing machine sales growth was a bit slow and showed a slight deceleration. However, average selling prices in the industry were also rising. For small home appliances, we remain cautious due to weak domestic demand, cost pressure (e.g., shipping fees), and limited flexibility to cope with potential tariffs in the future.

We currently prefer Haier Smart Home (600690 CH/6690 HK, BUY).

Preference: Haier Smart Home (600690 CH/6690 HK, BUY) > Vesync (2148 HK, BUY) > JS Global (1691 HK, BUY).

- **Apparel sector (maintain OUTPERFORM).** The industry average sales growth was positive in Sep 2024, improved slightly vs Jul and Aug 2024, primarily due to a lower base and accelerated sales through TikTok channels, which is inline with market expectations. In fact, when we consider the unfavorable weather (warmer than last year, with typhoons) and seasonality factors (this year's Mid-Autumn Festival was a single day, compared to last year's long holiday), the performance was rather decent, even though the retail discounts should have deepened YoY. Based on our channel check, we have seen sales growth improved in early Oct 2024 vs Sep 2024, helped by the policy support for consumption sector and cooler weather (compared to last year). However, we still remain cautious for 4Q24E, as the base from last year is not too low.

We prefer more stable and competitive brands with ongoing improvements in brand strength and product quality, and faster growth on TikTok channels, such as JNBY (3306 HK, BUY) and Bosideng (3998 HK, BUY).

Preference: JNBY (3306 HK, BUY) = Bosideng (3998 HK, BUY) > China Lilang (1234 HK, BUY).

- **Tourism - Hotel (Upgrade to OUTPERFORM).** We estimate that industry RevPAR in Sep 2024 to decline by about 10%, worse than Aug 2024 but similar to Jul 2024. Our early observations for the 10-1 National Day holidays has suggested a mild improvement vs Sep 2024, with RevPAR likely to fall by high single digits, mainly due to lower room rates, while occupancy rates remained flat or slightly declined. Although the economic environment and industry competition remain challenging, performance was slightly better than expected, mainly boosted by policy easing that stimulated demand. However, we do think the sustainability is still questionable and we should monitor the trend closely, as business has faded in the later days in the holidays (vs first few days), and the catering sector has shown a very similar pattern as well. For 4Q24E, with a lower base, RevPAR growth may turn positive, and if national stimulus policies continue, the RevPAR recovery rate (compared to 2019) may improve, supporting re-rating of valuation. Therefore, we upgrade our view to positive.

We favor Atour (ATAT US, BUY), as its retail business remains strong and its core hotel operations are improving.

Preference: Atour (ATAT US, BUY).

- **Catering sector (Upgrade to OUTPERFORM).** The industry average SSS should have declined in Aug 2024, narrowing compared to Jun and Jul 2024, but in Sep 2024 the decline has deepened again. The SSS for restaurant/tea drink brands may have dropped by more than 15%/20% (CMBI est.). The recovery rate (compared to 2019) also worsened slightly, falling short of market expectations, mainly due to the ending of the summer holidays, weak macroeconomic conditions, and intense competition. Price wars, consumption downgrades and the negative operating leverage from SSS declines are all pressuring the margins. The performance has slightly improved during the 10-1 National Day holidays, but we are still expecting more than 10%/ 15% SSS drop for restaurant/ tea drink brands, except a few brands, such as Haidilao, which has recorded 5% retail sales growth. Similarly, the sustainability remains an issue, as business tends to fade in the later days in the holidays (vs first few days). Looking ahead to 4Q24E, with national stimulus policies and a lower base, we expect the SSS declines to have mild improvement, so we upgrade our outlook to positive. If the improvement trend reverses, or government support weakens, the valuation may fall again sharply, so caution is needed here.

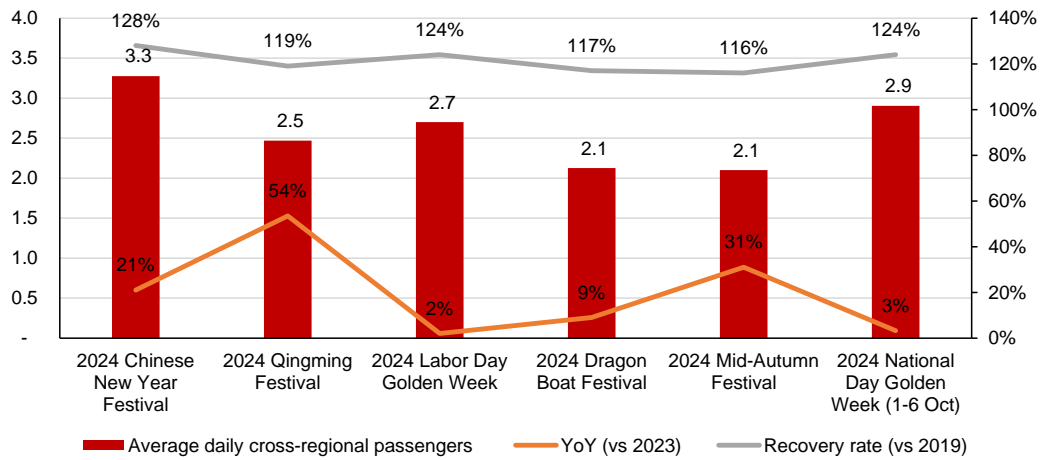
We favor Yum China (9987 HK, BUY) for its potential SSS improvement and rigid cost control in 3Q24E. We also prefer DPC Dash (1405 HK, BUY), as its new market performance remains strong, and suggest investors to keep eye on Café de Coral (341

HK, BUY), as the fast-food industry in Hong Kong tends to perform relatively well during economic downturn.

Preference: Yum China (9987 HK, BUY) > DPC Dash (1405 HK, BUY) = CDC (341 HK, BUY) > HDL (6862 HK, BUY) > JMJ (9922 HK, BUY) > Nayuki (2150 HK, BUY) > XBXB (520 HK, BUY).

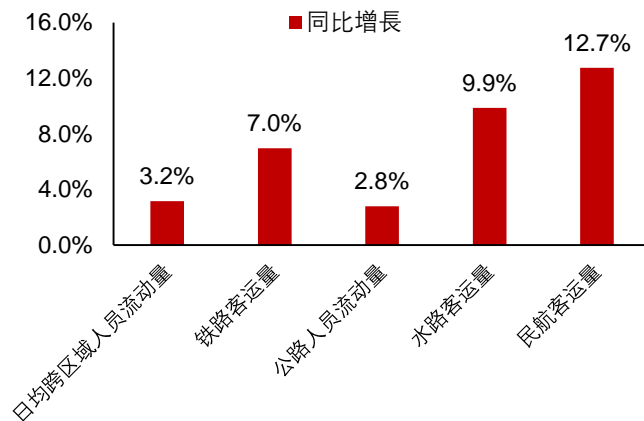
Focus Charts

Figure 1: Average daily cross-regional passengers, growth and recovery rate (vs 2019) in different holidays



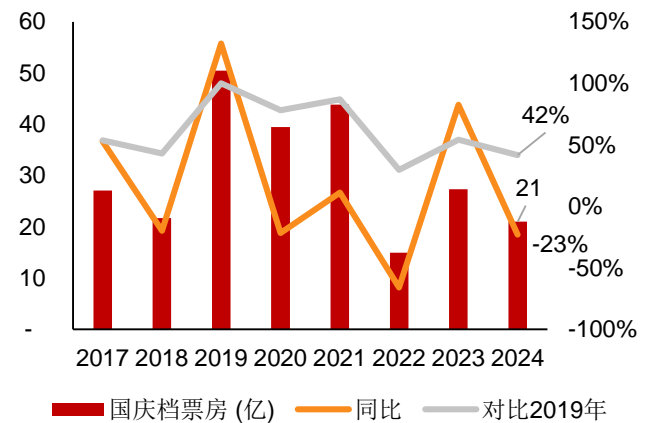
Source: Ministry of Transport/ 交通运输部, CMBIGM estimates

Figure 2: Average daily cross-regional passengers, growth, by forms of transportation



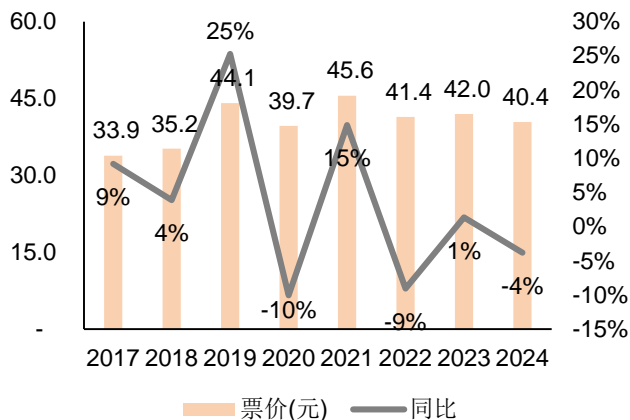
Source: Ministry of Transport/ 交通运输部, CMBIGM estimates

Figure 3: Movie box office, growth and recovery rate (vs 2019)



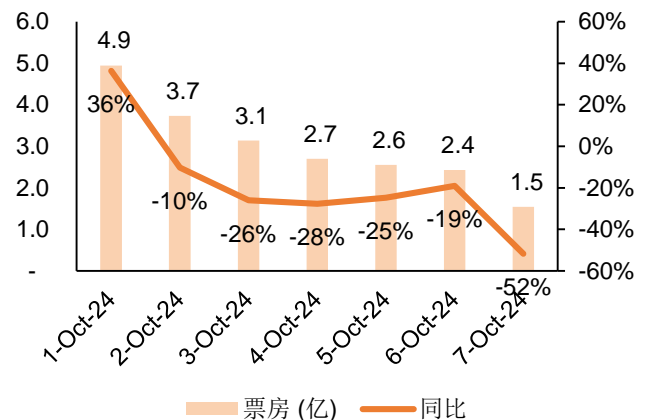
Source: Beacon Professional Edition/ 灯塔专业版, CMBIGM estimates

Figure 4: Ticket size and growth



Source: Beacon Professional Edition/ 灯塔专业版, CMBIGM estimates

Figure 5: Daily movie box office and growth



Source: Beacon Professional Edition/ 灯塔专业版, CMBIGM estimates

Figure 6: Key sales figures and details during the 10-1 National Day holidays

地区	行业	主要销售数据和信息	同比增长	增长率 (%) vs 2019	时间	来源
全国	客流量	预计全社会跨区域人员流动量将达到19.4亿人次，平均每天2.77亿人次	0.7%	19.4%	10月1日—7日	交通运输部
全国	旅游	各大景区、博物馆全国门票订单量	37.0%		10月1日	携程数据
全国	旅游	民宿预订量	55.0%		10月1日	携程数据
全国	旅游	外国游客到中国旅游订单量	60.0%		10月1日—4日	携程预订数据
全国	客流量	日均跨区域人员流动量	3.2%	24.1%	10月1日—6日	交通运输部
全国	客流量	铁路客运量	7.0%	27.8%	10月1日—6日	交通运输部
全国	客流量	公路人员流动量	2.8%	24.4%	10月1日—6日	交通运输部
全国	客流量	水路客运量	9.9%	-26.8%	10月1日—6日	交通运输部
全国	客流量	民航客运量	12.7%	22.0%	10月1日—6日	交通运输部
香港	旅游	98万内地访客入境香港	35.0%		10月1日—5日	入境事务处
香港	旅游	110万内地访客入境香港	24.0%		10月1日—6日	入境事务处
澳门	旅游	出入境人次升至逾350万，平均每日总出入境人次约为70万	19.0%		10月1日—5日	澳门治安警
澳门	旅游	各出入境口岸中以关闸人流最多，这段期间共有约185万人次出入境，但就较2019年同期下降近17%，因部分旅客分流到附近的青茂口岸	29.0%	-17.0%	10月1日—5日	澳门治安警
澳门	旅游	入境旅客超过79万人次，日均超15.85万人次			10月1日—5日	旅游局
全国	家电	国庆假期家电销售额	67.0%		10月1日—6日	京东数据
全国	家电	电视、空调、家用洗地机、洗碗机等产品销售额	80.0%		10月1日—6日	京东数据
全国	家电	数码产品中，电脑整机销售额	52.0%		10月1日—6日	京东数据
全国	家电	投影机销售额	63.0%		10月1日—6日	京东数据
全国	家电	游戏手柄销售额	43.0%		10月1日—6日	京东数据
全国	餐饮	餐饮堂食消费日均值	33.4%		10月1日—5日	美团数据
全国	餐饮	分消费时段来看，夜间时段消费	44.8%		10月1日—5日	美团数据
全国	生活服务	全国生活服务到店消费	41.2%		10月1日—6日	美团
全国	生活服务	游客日均消费	69.6%		10月1日—6日	美团
地区	行业	主要销售数据和信息	同比增长	增长率 (%) vs 2019	时间	来源
北京市	全行业	百货、超市、专业专卖店、餐饮和电商等业态企业实现销售额43.8亿元			10月1日—4日	北京市商务局
北京市	全行业	全市60个重点商圈客流量2696.9万人次	20.9%		10月1日—4日	信令和银联商务
北京市	服务行业	服务消费	12.0%		10月1日—4日	银联商务
北京市	旅游	外来游客旅游售票类消费	31.1%		10月1日—4日	银联商务
北京市	文化娱乐	文化娱乐类消费	34.1%		10月1日—4日	银联商务
江苏省	全行业	重点商贸流通企业累计实现销售额约20.6亿元	13.5%		10月1日—3日	商务厅
南京市	全行业	重点监测的131家商贸企业合计实现销售额8.6亿元	11.9%		10月1日—4日	商务厅
南京市	家电	苏宁易购南京分公司参加绿色节能家电以旧换新专项活动产品销售额	71.8%		10月1日—3日	苏宁易购
天津市	全行业	439家重点企业累计实现销售额16.4亿元	2.9%		10月1日—4日	商务厅
天津市	客流量	客流量也达到了1102.9万人次	10.8%		10月1日—4日	商务厅
河南省	家电	重点监测的零售企业家电销售额	31.0%		10月1日—4日	商务厅
河南省	汽车	重点监测的零售企业汽车销售额	14.2%		10月1日—4日	商务厅
四川省	家电	家电市场销售额6.2亿元，补贴金额达1.2亿元	80.0%		10月1日—4日	商务厅
四川省	家电	家电以旧换新销售14.3万台	90.0%		10月1日—4日	商务厅
四川省	家电	京东五星电器销售0.95亿元	161.0%		10月1日—4日	商务厅
四川省	家电	苏宁易购销售1.3亿元	78.0%		10月1日—4日	商务厅
新疆	餐饮	重点监测的餐饮企业销售额	9.4%		10月1日—4日	商务部

Source: Ministry of Transport/ 交通运输部, Ministry of Commerce/ 商务部, Ctrip data/ 携程数据, Meituan data/ 美团数据, JD data/ 京东数据, Suning/ 苏宁易购, Hong Kong Immigration Department/ 入境事务处, CMBIGM estimates

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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

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