

Chow Tai Fook (1929 HK)

Another solid quarter

After market close yesterday, CTF announced its 1QFY24 operating data. Benefiting from a recovered tourist flow, both China and HK/ Macau saw solid SSSG growth as expected, along with the continuous ASP ramp-up. During the conference call, management reiterated its full-year/ 3-year target of a MSD SSSG with moderate new store expansion. Enhancing store efficiency tops management's agenda amid a faltering consumption sentiment.

- **Our view.** We think the SSSG has come in slightly above market expectation and hence there were repeat questions from investors about whether management will raise its full-year guidance on it. While we cannot fully rule out such possibility, we think management has prudently taken into account the high base effect from 2QFY23, and sales growth for the first few days of July this year has turned negative as expected. This is despite the base effect should gradually fade away into August and September. Overall, we see scope for mid-teen revenue growth this year.
- **COP continued to leap.** There was no official disclosure on COP margins for the quarter. That said, management mentioned, during the call, that the COP for the quarter has improved and is on track to the guidance given (a 0.5pp expansion), thanks to a 0.1-0.3pp increase in GPM and well executed cost control initiatives.
- **Impact from the faltering consumption sentiment.** Management expected overall sales momentum could recover to 70-80% of pre-pandemic level, saw further room of recovery next year. To HK stores, a weakening RMB could be a drag but this is yet to be an apparent one. There were signs of consumption trade-down, in which buying interest rotated from high margin gem-set to gold SKUs.
- **Valuation.** We adjusted our forecast for the actual FY23 results, and hence the change. We also introduce our FY26E forecasts. Our TP is based on an updated 24.2x (from previous 23.0x) end-FY24E P/E which still represents +1sd above LT average since 2018.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	98,938	94,684	110,193	124,871	139,508
YoY growth (%)	41.0	(4.3)	16.4	13.3	11.7
Net profit (HK\$ mn)	6,712.3	5,384.4	7,740.2	9,314.2	10,617.7
EPS (Reported) (HK\$)	0.67	0.54	0.77	0.93	1.06
Consensus EPS (HK\$)	na	na	0.79	0.90	1.02
P/E (x)	22.3	27.7	17.5	14.6	12.8
P/B (x)	4.4	4.6	4.4	4.0	3.6
Yield (%)	3.3	8.2	4.3	5.2	5.9
ROE (%)	20.9	16.3	24.4	28.6	29.8
Net gearing (%)	(17.5)	(17.1)	(10.4)	(9.7)	(11.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.73
(Previous TP)	HK\$20.73)
Up/Downside	38.1%
Current Price	HK\$13.56

China Consumer

Joseph WONG

(852) 3900 0838

josephwong@cmbi.com.hk

Bella Li

(852) 3757 6202

bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	135,600.0
Avg 3 mths t/o (HK\$ mn)	89.4
52w High/Low (HK\$)	17.60/13.06
Total Issued Shares (mn)	10000.0
Source: FactSet	

Shareholding Structure

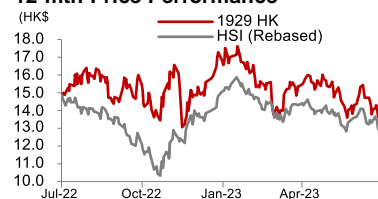
CTF Holding	72.4%
Yueford Corp	5.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-5.2%	-0.5%
3-mth	-11.6%	-2.7%
6-mth	-20.0%	-7.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revisions

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	110,193	124,871	139,508	113,464	129,685	n.a	-2.9%	-3.7%	na
Gross Profit	25,297	29,369	33,063	26,961	31,561	n.a	-6.2%	-6.9%	na
EBIT	11,062	13,239	15,041	11,991	14,450	n.a	-7.7%	-8.4%	na
Net profit	7,740	9,314	10,618	8,785	10,623	n.a	-11.9%	-12.3%	na
Gross Margin	23.0%	23.5%	23.7%	23.8%	24.3%	n.a	-0.8ppt	-0.8ppt	na
EBIT Margin	10.0%	10.6%	10.8%	10.6%	11.1%	n.a	-0.5ppt	-0.5ppt	na
Net margin	7.0%	7.5%	7.6%	7.7%	8.2%	n.a	-0.7ppt	-0.7ppt	na

Figure 2 : CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	110,193	124,871	139,508	111,683	124,550	137,445	-1.3%	0.3%	1.5%
Gross Profit	25,297	29,369	33,063	26,025	29,348	32,746	-2.8%	0.1%	1.0%
EBIT	11,062	13,239	15,041	10,922	12,678	14,329	1.3%	4.4%	5.0%
Net profit	7,740	9,314	10,618	7,655	8,909	10,054	1.1%	4.5%	5.6%
Gross Margin	23.0%	23.5%	23.7%	23.3%	23.6%	23.8%	-0.3ppt	0ppt	-0.1ppt
EBIT Margin	10.0%	10.6%	10.8%	9.8%	10.2%	10.4%	0.3ppt	0.4ppt	0.4ppt
Net margin	7.0%	7.5%	7.6%	6.9%	7.2%	7.3%	0.2ppt	0.3ppt	0.3ppt

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Revenue	70,164	98,938	94,684	110,193	124,871	139,508
Cost of goods sold	(50,089)	(76,598)	(73,513)	(84,896)	(95,502)	(106,445)
Gross profit	20,075	22,340	21,172	25,297	29,369	33,063
Operating expenses	(11,821)	(13,265)	(13,050)	(14,235)	(16,131)	(18,022)
Selling expense	(8,635)	(10,522)	(9,974)	(11,240)	(12,737)	(14,230)
Admin expense	(3,214)	(3,442)	(3,721)	(3,747)	(4,246)	(4,743)
Others	28	699	646	752	852	952
Operating profit	8,254	9,074	8,122	11,062	13,239	15,041
EBITDA	10,369	11,096	10,265	12,316	14,492	16,295
Depreciation	(1,024)	(1,148)	(1,272)	(1,272)	(1,272)	(1,272)
Goodwill amortisation	(57)	(57)	14	0	0	0
EBIT	9,287	9,891	9,008	11,044	13,220	15,023
Net Interest income/(expense)	(295)	(268)	(358)	(358)	(358)	(358)
Other income/expense	5	6	0	0	0	0
Others	431	171	(318)	0	0	0
Pre-tax profit	8,395	8,983	7,447	10,705	12,881	14,684
After tax profit	6,176	6,880	5,490	7,891	9,496	10,825
Minority interest	(150)	(168)	(105)	(151)	(182)	(207)
Net profit	6,026	6,712	5,384	7,740	9,314	10,618
Adjusted net profit	5,714	6,601	5,745	7,740	9,314	10,618
Gross dividends	4,000	5,000	12,200	5,805	6,986	7,963
Net dividends	4,000	5,000	12,200	5,805	6,986	7,963
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Current assets	55,243	78,126	77,267	76,851	82,815	89,156
Cash & equivalents	6,032	14,942	11,695	9,081	9,147	9,953
Account receivables	6,180	5,914	6,192	7,206	8,166	9,123
Inventories	43,011	57,254	59,290	60,474	65,412	69,991
Other current assets	19	15	89	89	89	89
Non-current assets	9,065	9,612	10,074	11,195	12,317	13,439
PP&E	4,615	5,039	5,144	6,248	7,351	8,455
Right-of-use assets	1,793	1,679	1,696	1,714	1,732	1,751
Intangibles	158	109	66	66	66	66
Other non-current assets	2,500	2,785	3,167	3,167	3,167	3,167
Total assets	64,308	87,737	87,341	88,046	95,132	102,595
Current liabilities	29,142	49,629	51,022	52,838	56,824	60,937
Short-term borrowings	4,619	7,276	4,367	4,367	4,367	4,367
Account payables	17,240	25,166	30,089	31,906	35,891	40,004
Other current liabilities	1,558	1,467	1,480	1,480	1,480	1,480
Contract liabilities	5,725	15,721	15,086	15,086	15,086	15,086
Non-current liabilities	3,598	3,553	2,959	2,959	2,959	2,959
Long-term borrowings	898	1,799	1,789	1,488	1,488	1,488
Other non-current liabilities	2,701	1,754	1,170	1,471	1,471	1,471
Total liabilities	32,741	53,183	53,981	55,798	59,783	63,896
Share capital	15,499	15,499	15,499	15,499	15,499	15,499
Retained earnings	15,268	18,121	16,899	15,636	18,555	21,698
Total shareholders equity	30,767	33,619	32,397	31,135	34,054	37,197
Minority interest	801	935	962	1,113	1,295	1,503
Total equity and liabilities	64,308	87,737	87,341	88,046	95,132	102,595

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	8,395	8,983	7,447	10,705	12,881	14,684
Depreciation & amortization	2,115	2,022	2,143	1,254	1,254	1,253
Tax paid	(2,219)	(2,103)	(1,957)	(2,813)	(3,385)	(3,859)
Change in working capital	2,874	(5,101)	643	(381)	(1,912)	(1,423)
Others	(689)	10,137	1,791	0	0	0
Net cash from operations	10,476	13,938	10,066	8,764	8,837	10,655
Investing						
Capital expenditure	(839)	(1,531)	(1,982)	(1,982)	(1,982)	(1,982)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(241)	372	200	(393)	(393)	(393)
Net cash from investing	(693)	(1,458)	(1,782)	(2,375)	(2,375)	(2,375)
Financing						
Dividend paid	(3,200)	(4,500)	(8,600)	(9,003)	(6,395)	(7,474)
Net borrowings	(10,568)	12,642	(3,216)	0	0	0
Others	2,580	(11,934)	1,111	0	0	0
Net cash from financing	(11,188)	(3,793)	(10,705)	(9,003)	(6,395)	(7,474)
Net change in cash						
Cash at the beginning of the year	7,219	6,032	14,942	11,695	9,081	9,147
Exchange difference	217	222	(826)	0	0	0
Cash at the end of the year	6,032	14,942	11,695	9,081	9,147	9,953
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	23.6%	41.0%	(4.3%)	16.4%	13.3%	11.7%
Gross profit	24.7%	11.3%	(5.2%)	19.5%	16.1%	12.6%
Operating profit	70.9%	9.9%	(10.5%)	36.2%	19.7%	13.6%
EBITDA	44.0%	7.0%	(7.5%)	20.0%	17.7%	12.4%
EBIT	50.6%	6.5%	(8.9%)	22.6%	19.7%	13.6%
Net profit	107.7%	11.4%	(19.8%)	43.8%	20.3%	14.0%
Adj. net profit	80.7%	15.5%	(13.0%)	34.7%	20.3%	14.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	28.6%	22.6%	22.4%	23.0%	23.5%	23.7%
Operating margin	11.8%	9.2%	8.6%	10.0%	10.6%	10.8%
EBITDA margin	14.8%	11.2%	10.8%	11.2%	11.6%	11.7%
Adj. net profit margin	8.1%	6.7%	6.1%	7.0%	7.5%	7.6%
Return on equity (ROE)	21.1%	20.9%	16.3%	24.4%	28.6%	29.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Net debt to equity (x)	(0.0)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Current ratio (x)	1.9	1.6	1.5	1.5	1.5	1.5
Receivable turnover days	32.2	21.8	23.9	23.9	23.9	23.9
Inventory turnover days	311.7	238.9	289.3	260.0	250.0	240.0
Payable turnover days	108.1	101.0	137.2	137.2	137.2	137.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	14.8	22.3	27.7	17.5	14.6	12.8
P/E (diluted)	22.2	29.9	12.2	23.4	19.4	17.0
P/B	2.9	4.4	4.6	4.4	4.0	3.6
Div yield (%)	4.5	3.3	8.2	4.3	5.2	5.9

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 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 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.