

China Consumer Sector

Strong recovery and sustainability during CNY

■ **Remarkable recovery vs 4Q22, improving spending power and excellent sustainability.** We believe the data points during the 2023 Chinese New Year are better than our expectation and meaningfully encouraging for the consumer sector, because: 1) the base was high in 2022, as the number of COVID-19 cases were very limited during Jan-Feb 2022 and the number of passenger journeys already grew by 31% YoY,

2) the improvement is significant vs 4Q22, supported by the 89%/ 73% recovery rate of domestic tourism volume/ spending during this CNY, better than 61%/ 44% in the 10-1 holidays and any level in the entire 2022 year,

3) incremental increase in spending power, where the spending per tourist actually rose by 6% YoY, the first increase since 2021,

4) the sustainability was fairly decent, as we have seen a daily basis gradual improvement in terms of growth rate for both number of passenger journeys and box office, also indicating a better purchasing power and sentiment.

■ **Domestic tourism/ spending during CNY had recovered to 89%/ 73% of 2019 level, better than any level in 2022.** During the 2023 Chinese New Year, domestic tourism volume increased by 23% YoY to 308mn, and reached 89% of the level in 2019, which is far better than the 43%/ 61%/ 73% in New Year Eve/ National Day Holidays/ Mid-autumn festival and this is the highest level since 1H21. The domestic tourism spending increased by 30% YoY to RMB 375.8bn, recovered to about 73% of the level in 2019, and also improved nicely compared to 35%/ 44%/ 61% in New Year Eve/ National Day Holidays/ Mid-autumn festival, way better than any time in the entire 2022, based on data from Ministry of Culture and Tourism/文化和旅游局.

■ **Tourism/ Catering/ Sportswear and apparel shall outperform.** According to the VAT invoice data by State Administration of Taxation/国家税务总局增值税发票数据, the consumption related sales grew by 12.2% YoY, and increased by 12.4% YoY compared to 2019 level. In terms of categories, growth rates for grain, oil and food/ furniture/ metal hardware/ cultural and stationery/ tourism related services were 32%/ 15%/ 9%/ 21%/ 130% YoY.

■ **Passenger journeys reached 2.5bn during CNY, rose by 75% YoY, also recovered to 54% of 2019 level.** Referring to data from Ministry of Transport (交通运输部), the number of passenger journeys during the 2023 Chinese New Year (first 7 days, from 22 to 28 Jan 2023) was about 2.5bn, increased by 75% YoY, only recovered to around 54% of the level in 2019, but it is already the best level since 2020. Moreover, both the recovery rate and growth rate were weaker before CNY Eve and improved on a daily basis after that. Noted that this trend was also seen in the Baidu Migration Index (百度迁移指数), where the recovery rate before/ after the CNY Eve were 116%/ 125%.

■ **Retail sales in Wanda shopping malls increased by 29% YoY.** Based on data from the 480 Wanda shopping malls across the country, during the 2023 Chinese New Year (from CNY Eve to 6th day), sales were about RMB 12.7bn, increased by 29% YoY, with a 160mn passenger visits (which is about 115% of the 2019 level).

■ **Movie box office increased by 12% YoY.** According to real-time data from the Beacon Professional Edition (灯塔专业版), the total box office during the 2023 Chinese New Year exceeded RMB 67.5bn, increased by 12% YoY and the number of viewers was around 129mn, while the ticket size was about RMB 52.7, similar to that in last year.

OUTPERFORM
(Maintain)

China Consumer Discretionary Sector

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Yum China (9987 HK) share price



XBXB (520 HK) share price



Anta (2020 HK) share price



Xtep (1368 HK) share price



- **For Catering sector (outperform).** Based on various nationwide and cities level data, we can see the retail sales in Beijing/ Shanghai were roughly flat (about 98%/ 100%) vs last year and the catering sales were generally better (grew by 5%/ 6% YoY). Based on our estimates, we believe not all the catering brands can register positive SSSG during this festival, but should at least have a similar level to New Year Eve and much better than that in 4Q22. According to management, Haidilao's SSS recovery rate (vs last year) was about 90% during the 2023 CNY, similar to the 93% in New Year Eve and much better than the 75%/ 88%/ 85% in Dec/ Nov/ Oct 2022. While some other brands like XBXB/ Nayuki performed extremely well, by registering 126%/ 600% YoY growth nationwide/ in some cities. Anyhow, we are more positive about the sector in 2023, as we believe the SSSG trend can further improve with the low base for the rest of the year and the earnings growth can recover meaningfully, driven by better store economics and cost base (the breakeven table/seat turnover rate had gone further down since 2H22).

Top pick: Yum China (9987 HK, BUY) = CDC (341 HK, BUY) > XBXB (520 HK, NR) > Jiumaojiu (9922 HK, BUY) > Nayuki (2150 HK, BUY) > Haidilao (6862 HK, BUY).

- **For Sportswear and apparel sector (outperform).** Based on our estimates, we believe the sportswear and apparel sales should have grown at a faster rate than the overall retail sales, supported by the strong YoY tourists and passenger growth as well as the excellent weather. Noted that the temperature in Beijing/ Shanghai/ Shenzhen were 4-5 degrees colder during the CNY (22 to 28 Jan 2022, vs last year) and 1-2 degrees colder during Jan 2023 (vs last year).

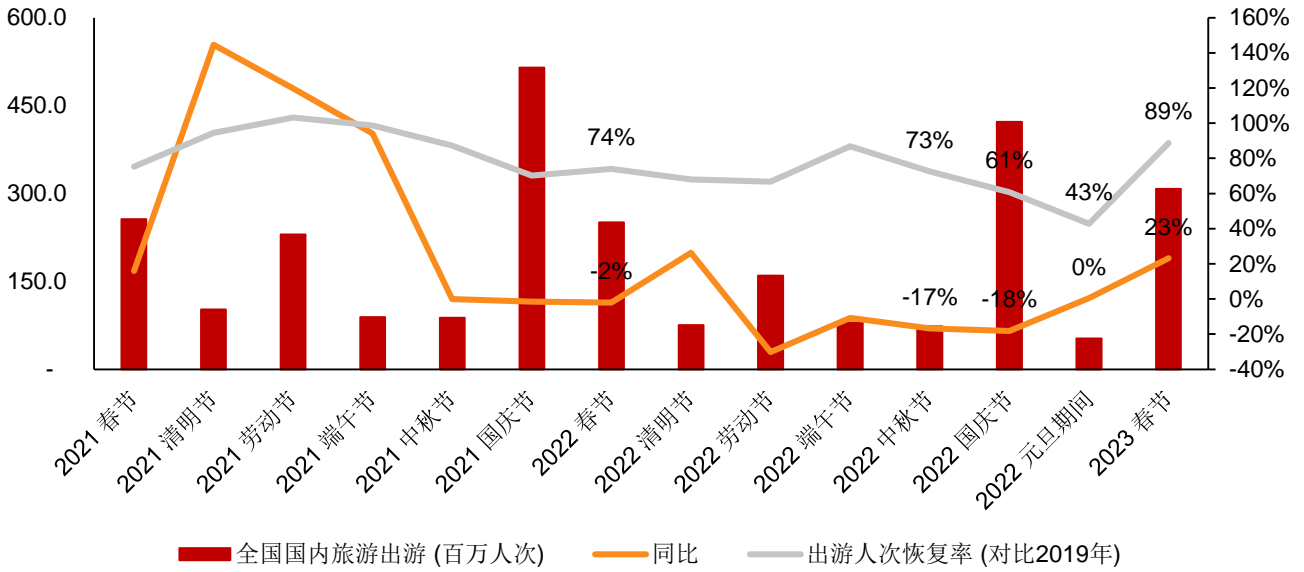
Top pick: Anta (2020 HK, BUY) > Xtep (1368 HK, BUY) > Topsports (6110 HK, NR) = Li Ning (2331 HK, BUY) > Pou Sheng (3813 HK, NR).

- **For Home appliance sector (market-perform).** Based on our estimates, we believe the home appliances sales growth could be fairly inline with the retail sales growth during this CNY Holidays, aided by various consumption vouchers issued in many cities, but offset by a slightly lower stay home demand (as many consumers are dining out or travelling more this year). However, thanks to the greater interest of returning home in 2023, we believe the sales of small appliances could be much better, esp. for products like robot vacuum, air fryer, water purifiers, etc.

Top pick: Haier (6690 HK, BUY) = Gree (000651 CH, NR) > Joyoung (002242 CH, NR) > JS global (1691 HK, BUY) = Vesync (2148 HK, BUY) > Midea (000333 CH).

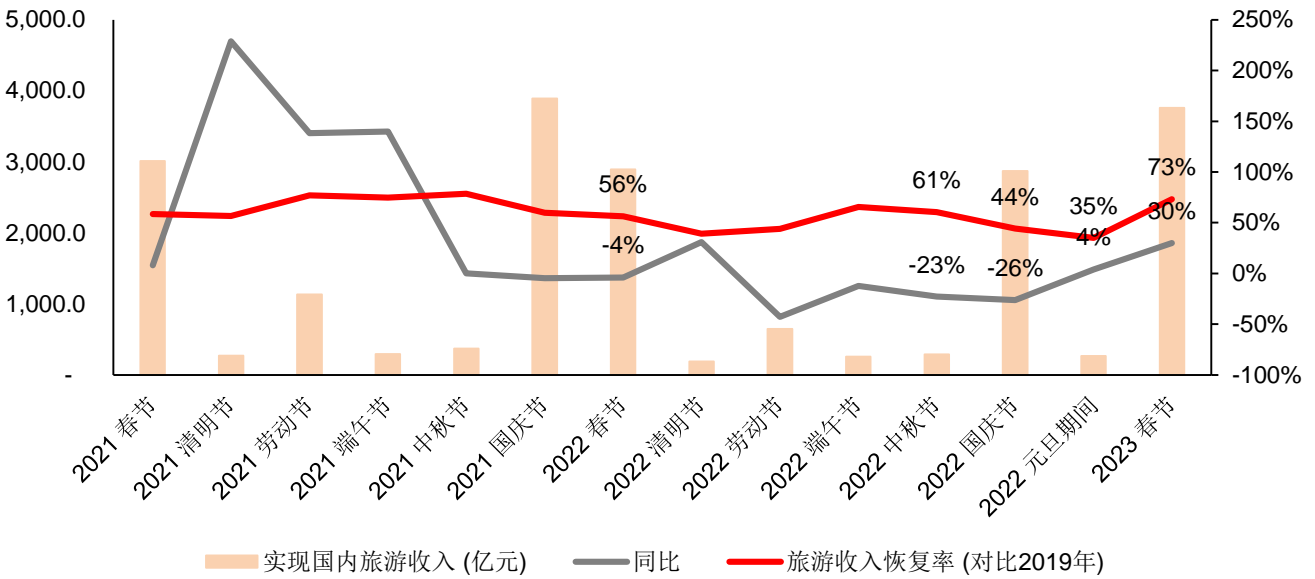
Focus Charts

Figure 1: Domestic tourism volume, growth and recovery rate (vs 2019) in different holidays



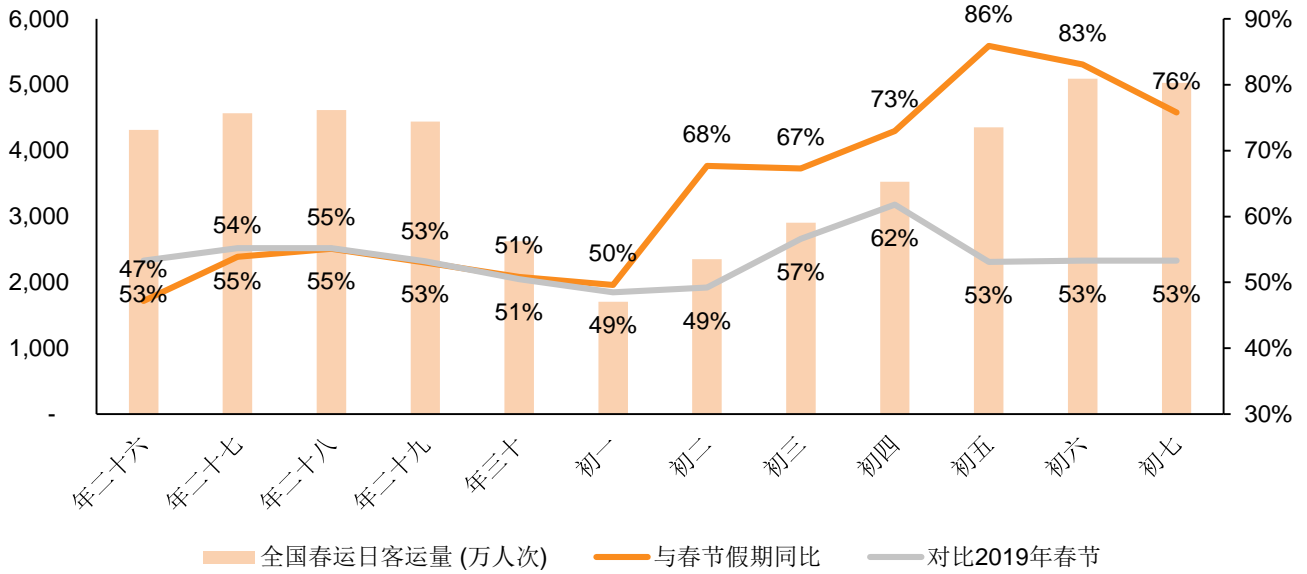
Source: Ministry of Culture and Tourism/ 文化和旅游部, CMBIGM estimates

Figure 2: Domestic tourism spending, growth and recovery rate (vs 2019) in different holidays



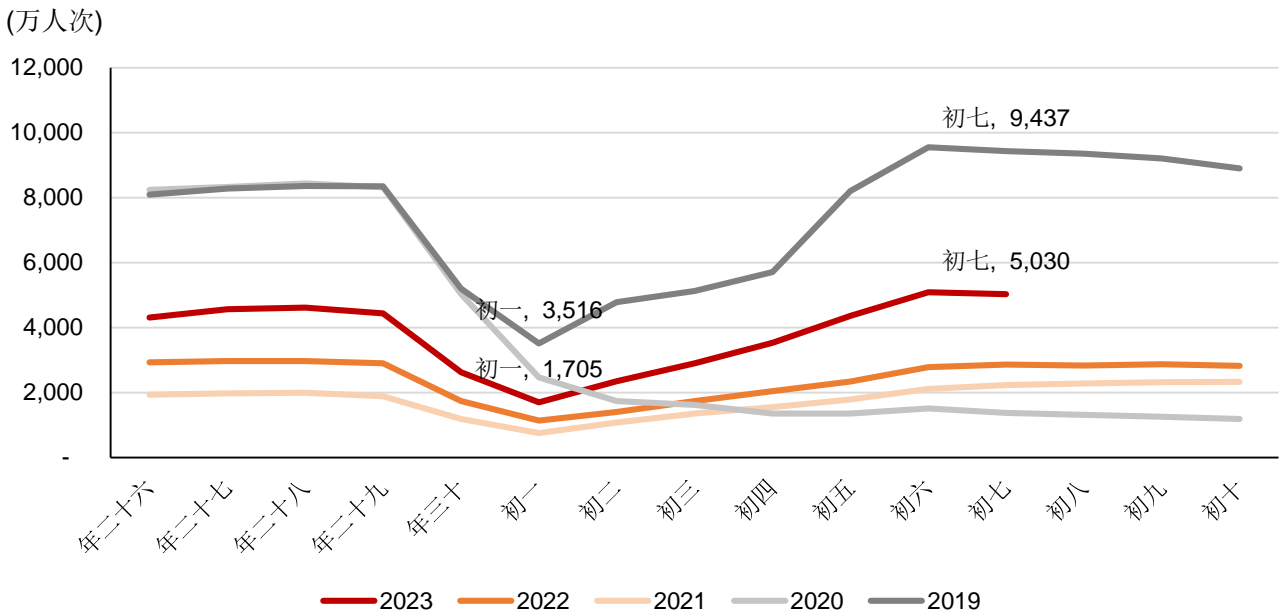
Source: Ministry of Culture and Tourism/ 文化和旅游部, CMBIGM estimates

Figure 3: Number of passenger journeys, growth and recovery rate (vs 2019) during the 2023 Chinese New Year



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

Figure 4: Daily number of passenger journeys during the Chinese New Year Holidays, by years



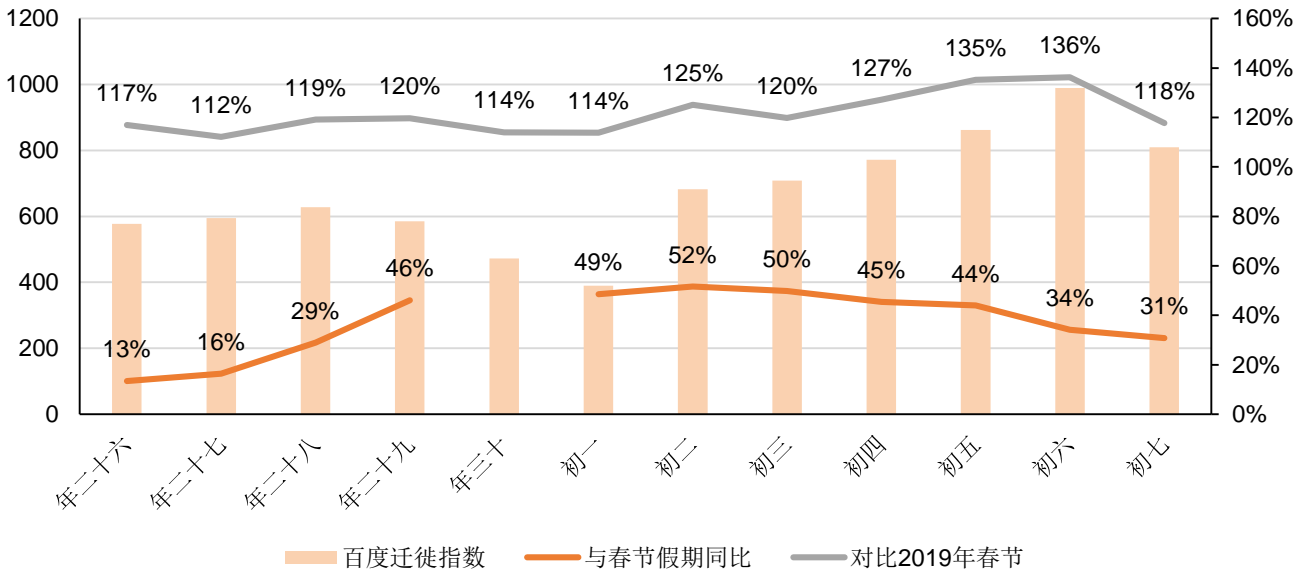
Source: Ministry of Transport/ 交通运输部, CMBIGM estimates

Figure 5: Baidu Migration Index during the Chinese New Year, by years



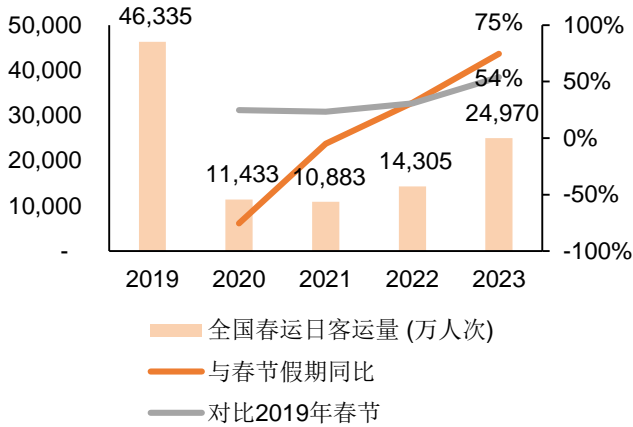
Source: Baidu/ 百度迁移指数, CMBIGM estimates

Figure 6: Baidu Migration Index, growth and recovery rate (vs 2019) during the 2023 Chinese New Year



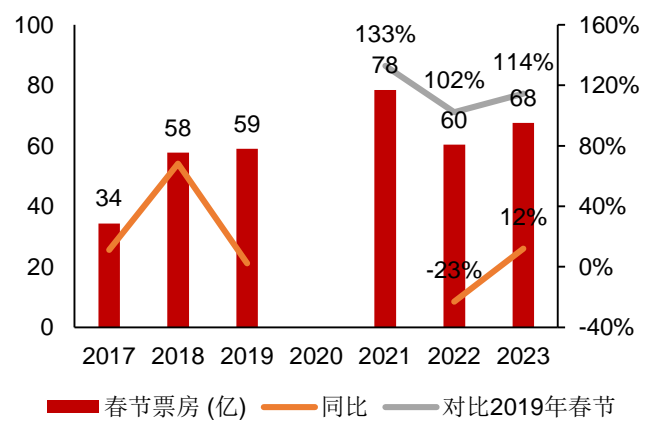
Source: Baidu/ 百度迁移指数, CMBIGM estimates

Figure 7: Number of passenger journeys, growth and recovery rate (vs 2019)



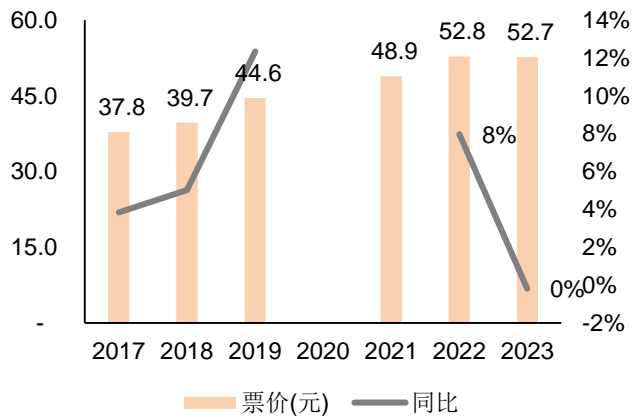
Source: Ministry of Transport/ 交通运输部, CMBIGM estimates

Figure 8: Movie box office, growth and recovery rate (vs 2019)



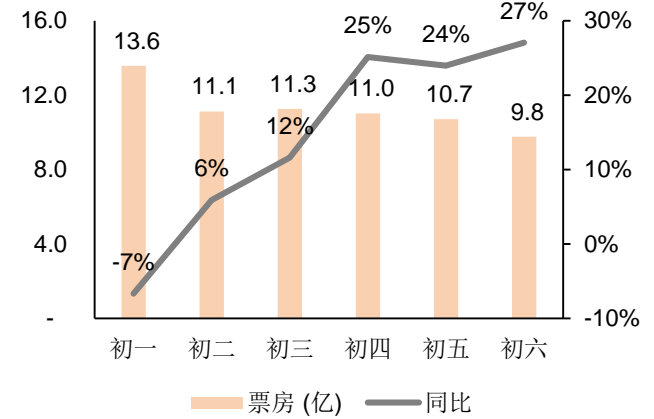
Source: Beacon Professional Edition/ 灯塔专业版, CMBIGM estimates

Figure 9: Ticket size and growth

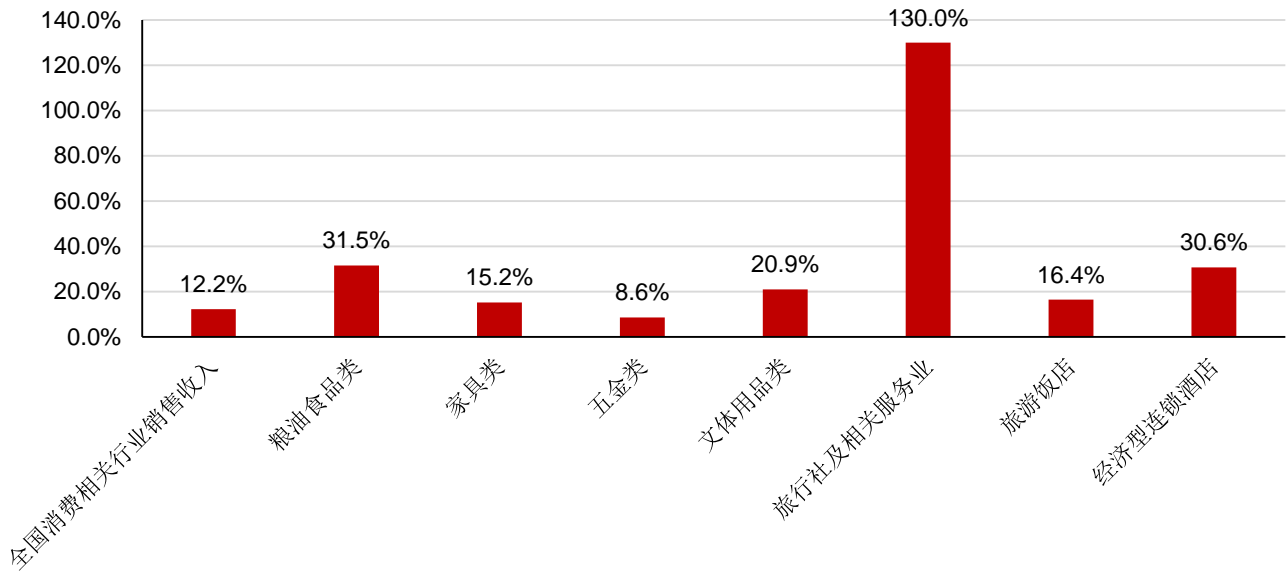


Source: Beacon Professional Edition/ 灯塔专业版, CMBIGM estimates

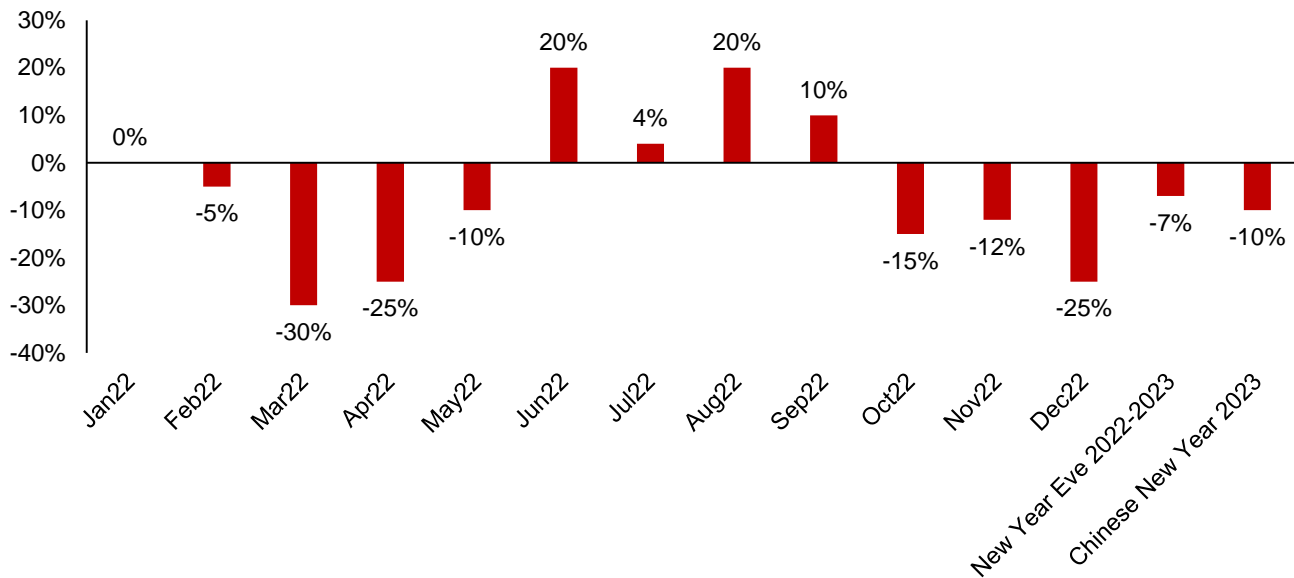
Figure 10: Daily movie box office and growth



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

Figure 11: The consumption related sales growth, based on the VAT invoice data, by sub-sectors


Source: State Administration of Taxation/ 国家税务总局增值税发票数据, CMBIGM estimates

Figure 12: Haidilao's SSSG during Jan 2022 to Chinese New Year 2023


Source: Company data, CMBIGM estimates

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