

Company Report

China Merchants Securities (HK) Co. Ltd.
Hong Kong Equity Research

Sa Sa International (178 HK)

Comment on Lunar New Year sales

- January to February sales rebounded but unsustainable
- Policy risk could lead to further de-rating
- Maintain SELL based on reduced target FY15E PE

Jan+Feb HK and Macau sales grew 3% YoY, which we think is not sustainable

SSSG/sales dropped 7%/10% YoY during 2015 Chinese New Year (Feb19-25) vs 6%/11% in 2014, mainly because mainland customers had more choices for holiday travel, coupled with the persisting sluggishness of HK retail. 2015 CNY came later than usual (Feb 18 2015 vs Jan 31 2014) which created a longer shopping peak (Christmas to CNY), hence January to February SSSG registered 7%. A large store in Causeway Bay was closed in January due to rental pressure, thus leading to a mere 3% YoY growth of sales. Despite the sales rebound in peak season, the trend is not sustainable. As we expect sales growth to drop after CNY, we slightly revised down our profit forecast. Meanwhile, orders from mainland customers grew 23% in January to February but average ticket size dropped 14% with even wider declines compared with 3Q15 (-6.4%), reflecting the persisting product re-structuring pressure.

Policy risk may put further pressure on valuations

Regional anti-parallel goods traders' protests in HK may lead to further tightening of the individual visit scheme for mainland customers. If so, we may see even lower customer growth. We view this negative to HK cosmetic retailers' valuation. As the stock is not cheap, trading close to its historical average P/E valuation was 13.6x, we think there's still downside looking forward. Key risks: The individual visit scheme for mainland customers may be tightened and anti-parallel goods traders protests may expand.

Valuation/ Key risks

Our new TP HK\$3.89 was based on 12x2015P/E, 14% discount to its historical average-14x, while 16.5% premium to HK peers-10.3x2015P/E (higher valuation for consumer staples including cosmetics retailers). We revise down TP to HK\$3.89 and maintain SELL. Risk remains in continuous uptrend of HK and Macau sales.

Financials (March-Year End)

HK\$ mn	2013	2014	2015E	2016E	2017E
Revenue	7,670	8,756	9,251	9,932	10,787
Growth (%)	19.7%	14.2%	5.7%	7.4%	8.6%
Net profit	818	935	851	924	1,050
Growth (%)	19.7%	14.3%	-9.0%	8.5%	13.6%
EPS (HK\$)	0.29	0.33	0.30	0.32	0.37
DPS (HK\$)	0.21	0.24	0.24	0.24	0.24
P/E (x)	14.8	13.1	14.5	13.3	11.7
P/B (x)	6.2	5.3	4.9	4.5	4.0
ROE (%)	41.4%	40.2%	34.1%	33.9%	33.9%

Source: Company data, CMS (HK) estimates

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WHAT'S NEW

TP/estimate changes

SELL

Previous	Sell
Price	HK\$4.33
12-month Target Price (Potential up/downside)	HK\$3.89 (-10%)
Previous	HK\$4.6

Price Performance



Source: Bigdata

%	1m	6m	12m
178 HK	(12.4)	(27.9)	(38.3)
HSI	1.6	0.6	9.0

Retail	
Hang Seng Index	24703
HSCEI	11945

Key Data	
52-week range (HK\$)	4.31-7.22
Market cap (HK\$ mn)	12317
Avg. daily volume (mn)	6.28
BVPS (HK\$)	0.79

Shareholdings Structure	
Sunrise Height Incorporated	48.99%
Green Ravine Limited	14.18%
No. of shares outstanding (mn)	2845
Free float	35%

Related Research

1. Ongoing challenges and unattractive valuation 2015/1/13

公司报告

招商证券(香港)有限公司

莎莎国际 (178 HK)

春节销售数据点评

- 1-2月份零售数据反弹，但预计不可持续
- 政策风险有可能带来估值下调
- 基于更低的目标估值水平，维持公司卖出评级

1-2月份港澳零售额同比增加3%，但预计不可持续

2015年春节七天(2月19日到2月25日)同店/零售额同比下降7%和10%，比2014年春节七天数据同店/零售额增长6%/11%明显下滑，主要是受内地旅客近年来节日旅行选择地区更多，以及零售业整体不景气影响。而2015年春节较晚(2015年2月18日，至于2014年是1月31日)带来购物季节(从圣诞到春节时间段)长于往年，因此1-2月份同店增长7%，不过公司1月份因为租金压力关掉铜锣湾地区较大的一个门店，带来港澳零售额仅同比增加3%。我们认为旺季零售数据虽然反弹，但不可持续，预计节后销售增长数据将回落，我们微调公司收入和盈利预测。同时，1-2月份购物旺季公司的大陆旅客交易宗数增加23%，但每单交易金额下降14%，每单交易金额下降幅度相对于2015年财年3季度持续扩大(-6.4%)，表明产品结构调整压力仍在。

面临政策风险，将带来估值进一步下调

最近香港地区有区域性反对内地水货客的行动，将可能导致香港政府未来收紧大陆旅客自由行政策，如果政策实施，可能带来访港旅客增速进一步放缓。我们认为这将对化妆品零售估值带来不利影响。公司目前估值接近其历史平均估值水平13.6倍，我们认为未来有估值下调风险。核心风险：自由行政策收紧，反水货客运动程度进一步增大。

估值/风险提示

我们新的目标价3.89港元基于12x2015P/E，相对于公司历史平均估值14x折价14%，相对于香港同行估值10.3x2015P/E溢价16.5% (因为化妆品零售有必需品的性质)。我们下调公司目标价到3.89港元，仍然维持公司卖出评级。我们预测的风险在于港澳地区销售好于预期。

盈利预测及估值(三月份财政年度)

港币百万元	2013	2014	2015E	2016E	2017E
营业额	7,670	8,756	9,251	9,932	10,787
同比增长(%)	19.7%	14.2%	5.7%	7.4%	8.6%
净利润	818	935	851	924	1,050
同比增长(%)	19.7%	14.3%	-9.0%	8.5%	13.6%
每股盈利(港元)	0.29	0.33	0.30	0.32	0.37
每股股息(港元)	0.21	0.24	0.24	0.24	0.24
市盈率(X)	14.8	13.1	14.5	13.3	11.7
市净率(X)	6.2	5.3	4.9	4.5	4.0
ROE(%)	41.4%	40.2%	34.1%	33.9%	33.9%

资料来源：公司资料，招商证券(香港)预测

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最新变动

目标价/EPS下调

卖出

前次评级	卖出
股价	HK\$4.33
12个月目标价 (上涨/下跌空间)	HK\$ 3.89 (-10%)
前次目标价:	HK\$4.6

股价表现



资料来源：贝格数据

%	1m	6m	12m
178 HK	(12.4)	(27.9)	(38.3)
HSI	1.6	0.6	9.0

行业：零售

恒生指数	24703
国企指数	11945

重要数据

52周股价区间(港元)	4.31-7.22
港股市值(百万港元)	12317
日均成交量(百万股)	6.28
每股净资产(港元)	0.79

主要股东

Sunrise Height Incorporated	48.99%
Green Ravine Limited	14.18%
总股数(百万股)	2845
自由流通量	35%

相关报告

1. 经营面临挑战，估值不吸引，下调至卖出评级2015/01/13

Earnings estimates and valuation

We revised down 4Q retail sales growth rate to 2.5% (previous 4.5%). We fine tuned our sales and earnings forecast, but lower our target PE multiple from 14x to 12x as we are concerned that policy risk of controlling mainland travellers will have negative impact on future growth momentum. We arrived at a new TP HK\$3.89 (previous: HK\$4.6).

Figure 1: HK & Macau retail sales and SSS YoY growth and forecast

HK and Macau	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15E (Jan-Mar 2015)	2015E
Retail sales YoY growth	24.8%	17.0%	17.4%	13.9%	6.7%	13.4%	-1.1%	2.5%	5.4%
SSS YoY growth	17.0%	8.7%	15.8%	9.9%	2.7%	10.7%	-2.7%	6.0%	4.2%

Source: Company, CMS(HK) estimates

Figure 2: Earnings revisions

HK\$ mn	Actual	Revised	Old			Diff				
Revenue drivers	2014	2015E	2016E	2017E	2015E	2016E	2017E	2016E	2017E	2018E
HK&Macau	7,122	7,503	8,053	8,755	7,543	8,132	8,841	-0.5%	-1.0%	-1.0%
Mainland China	366	367	386	411	369	391	416	-0.5%	-1.3%	-1.3%
Singapore	261	248	260	272	248	260	272	0.0%	-0.1%	-0.1%
Malaysia	349	372	403	435	372	403	435	0.1%	0.0%	-0.1%
Taiwan	287	319	323	326	319	323	326	0.1%	-0.1%	-0.1%
Sasa.com	394	441	507	589	441	507	589	0.1%	0.1%	-0.1%
Turnover	8,756	9,251	9,932	10,787	9,292	10,016	10,879	-0.4%	-0.8%	-0.8%
Gross profit	4,073	4,126	4,420	4,876	4,145	4,457	4,917	-0.5%	-0.8%	-0.8%
Other sales	122	110	110	100	110	110	100	0.0%	0.0%	0.0%
Operating expenses	3,069	3,210	3,417	3,711	3,225	3,445	3,709	-0.5%	-0.8%	0.0%
Operating profit	1,114	1,026	1,113	1,265	1,030	1,122	1,307	-0.4%	-0.8%	-3.2%
Op margin	12.7%	11.1%	11.2%	11.7%	11.1%	11.2%	12.0%	0.0%	0.0%	-0.3%
Taxation	191	174	189	215	175	191	222	-0.3%	-0.9%	-3.1%
Net profit	935	851	924	1,050	855	931	1,085	-0.4%	-0.8%	-3.2%

Source: Company, CMS(HK) estimates

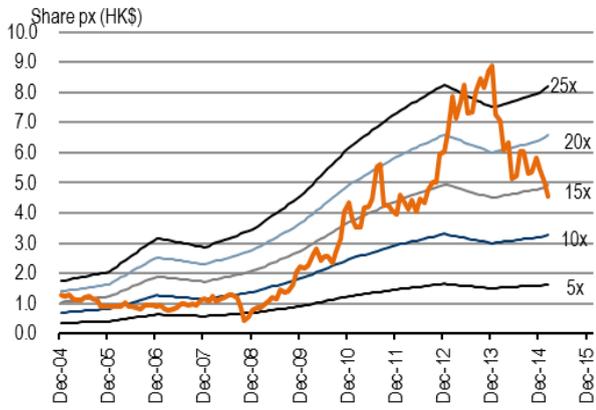
Figure 3: Peer valuation comparison

Company	Ticker	Mkt cap (US\$ m)	Share price	P/E (x)			P/B (x)		EV/EBITDA (x)	ROE	ROA	DPS
				13	14E	15E	14E	15E	14E	14E	14E	14E
				(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)
Sa Sa International	178 HK	1603.0	4.4	13.1	14.5	13.3	4.9	4.5	9.4	34	25.2	5.6
Bonjour Holdings	653 HK	320.6	0.7	8.8	10.4	10.4	4.6	3.8	7.1	53.4	18.5	5.1
Chow Tai Fook	1929 HK	11631.3	9.0	12.4	14.6	12.5	2.2	2.0	11.0	15.9	11.0	3.0
Luk Fook Holdings	590 HK	1876.3	24.7	7.8	8.9	8.0	1.7	1.5	6.5	20.1	16.2	4.5
Chow Sang Sang	116 HK	1681.2	19.3	10.7	11.5	10.0	1.5	1.4	9.6	13.7	10.1	3.2
Emperor Watch & Jewellery	887 HK	221.9	0.3	6.0	8.1	6.4	0.4	0.4	3.7	5.0	4.2	3.6
Hengdeli Holdings	3389 HK	894.6	1.5	17.5	14.6	11.8	1.2	1.1	7.6	8.2	4.1	2.1
Average				11.5	11.8	10.3	2.3	2.1	7.9			

Source: Bloomberg, CMS(HK) estimates for Sa Sa

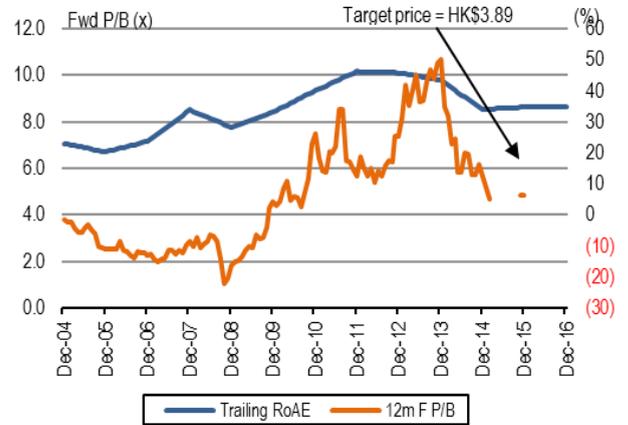
2014E refers to Sa Sa's fiscal year 2015

Figure 4: Forward PE band



Source: Bloomberg, CMS(HK)

Figure 5: Forward PB band



Source: Bloomberg, CMS(HK)

Financial Summary

Balance Sheet

HKD million	2013	2014	2015E	2016E	2017E
Current Assets	2234	2613	2925	3222	3653
Cash & equivalents	543	419	558	720	1007
Trading investments	0	0	0	0	0
ST bank deposits	209	571	571	571	571
Trade receivables	93	52	74	79	86
Other receivables	154	198	185	199	216
Inventories	1235	1373	1538	1654	1773
Other current assets	0	0	0	0	0
Non-current assets	563	624	613	605	602
Investment property	0	0	0	0	0
Property, Plant & Eqt.	343	405	394	386	382
Intangible assets	0	0	0	0	0
Other non-current assets	220	219	219	219	219
Total assets	2797	3237	3538	3827	4255
Current liabilities	792	857	987	1046	1105
Bank loans	0	80	80	80	80
Trade payables	411	392	436	469	502
Prepaid Accounts	317	302	333	358	384
Other liquid liabilities	63	84	139	139	139
Long term Liabilities	30	55	55	55	56
Loans	0	0	0	0	0
Others	30	55	55	55	56
Total Liabilities	822	912	1042	1101	1161
Issued capital	283	284	284	284	284
Capital reserves	1693	2041	2211	2442	2810
Others	0	0	0	0	0
Total equity and liabilities	2797	3237	3538	3827	4255
Current Assets	2234	2613	2925	3222	3653
Cash & equivalents	543	419	558	720	1007

Cashflow Statement

HKD million	2013	2014	2015E	2016E	2017E
Operating cash flow	846	759	926	1,014	1,131
Net profit	818	935	851	924	1,050
Deprec & Amort.	173	0	172	168	165
Finance costs	(8)	0	0	0	0
Working capital chg	0	0	0	0	1
Others	(44)	(138)	(164)	(116)	(120)
CF from IA	(93)	(38)	67	39	35
Capital expenditure	(357)	(160)	(160)	(160)	(161)
Other investments	(192)	(160)	(160)	(160)	(161)
Others	(166)	0	0	0	0
CF from FA	(509)	(668)	(681)	(693)	(682)
Borrowings	0	0	0	0	0
Share capital	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0
Dividends	(522)	(668)	(681)	(693)	(682)
Others	13	0	0	0	0
Net cash flow	(20)	(69)	85	161	288

Source: Company data, CMS (HK) estimates

Profit & Loss Statement

HKD million	2013	2014	2015E	2016E	2017E
Revenue	7,670	8,756	9,251	9,932	10,787
Other sales	3	7	0	0	0
COGS	4,111	4,683	5,125	5,512	5,911
consumption tax	0	0	0	0	0
Selling expenses	2,361	2,728	2,859	3,059	3,322
Administrative expenses	272	341	352	358	388
Financing costs	0	12	0	0	0
Profits and loss of JV	0	0	0	0	0
Other income	58	103	110	110	100
Op profit	987	1,114	1,026	1,113	1,265
Non-operating income	0	0	0	0	0
Associates	0	0	0	0	0
PBT	987	1,114	1,026	1,113	1,265
Taxation	169	191	174	189	215
PAT	818	935	851	924	1,050
Minority interests	0	0	0	0	0
Net profit	818	935	851	924	1,050
EPS (HKD)	0.29	0.33	0.30	0.32	0.37

Financial Ratios

	2013	2014	2015E	2016E	2017E
YoY growth rate					
Revenue	19.7%	14.2%	5.7%	7.4%	8.6%
Op profit	19.2%	12.8%	-7.9%	8.5%	13.6%
Net profit	19.7%	14.3%	-9.0%	8.5%	13.6%
Profitability					
Gross margin	46.4%	46.5%	44.6%	44.5%	44.5%
NP margin	10.7%	10.7%	9.2%	9.3%	9.7%
ROE	41.4%	40.2%	34.1%	33.9%	33.9%
ROIC	11.3%	11.5%	6.8%	8.5%	11.9%
Liquidity					
Debt to Asset	29.4%	28.2%	29.5%	28.8%	27.3%
Net Debt to Equity	Net cash				
Liquid ratio	2.8	3.0	3.0	3.1	3.3
Quick ratio	1.3	1.4	1.4	1.5	1.7
Operating efficiency					
Asset turnover(x)	2.7	2.7	2.6	2.6	2.5
Inventory turnover(x)	0.8	0.9	0.9	0.9	0.9
AR turnover(x)	33.9	35.2	36.3	37.0	37.2
AP turnover(x)	9.5	11.7	12.4	12.2	12.2
Per share ratios (HKD)					
EPS	0.29	0.33	0.30	0.32	0.37
CFPS	0.05	0.05	0.05	0.06	0.07
BVPS	0.71	0.82	0.88	0.96	1.09
DPS	0.21	0.24	0.24	0.24	0.24
Valuation ratios					
P/E	14.8	13.1	14.5	13.3	11.7
P/B	6.2	5.3	4.9	4.5	4.0
EV/EBITDA	10.6	11.0	10.2	9.4	8.3

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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