

JPM-pp1

Asia Pacific Equity Research

03 March 2015

# Sa Sa International Holdings Limited

## (178 HK)

Neutral

Price: HK\$4.37

02 Mar 2015

Price Target: HK\$5.50

PT End Date: 31 Mar 2016

4QFY15-to-date sales better than expected, CNY sales weaker than expected

Sa Sa has reported 4QFY15-to-date and Chinese New Year sales. 4QFY15-to-date SSSG is +7%. This is an improvement relative to the -3% SSSG reported for 3Q FY15 and was higher than JPMf of +4%. Nevertheless, the company did report -7% SSSG over Chinese New Year, which was lower than internal company expectations.

- **Slightly-stronger-than-expected 4QFY15-to-date.** Sa Sa reported HK/Macau retail sales growth of +3% and SSSG of +7% for 4QFY15-to-date (from 1-Jan-15 to 28-Feb-15). Sales attributable to Mainland Chinese customers grew 6% yoy with the number of transactions increasing by 23% and average sales per transaction decreasing by 14%. This is an improvement relative to the -1% retail sales growth and -3% SSSG reported for 3Q FY15. We were forecasting +1.5% retail sales growth and +4.4% SSSG for 4Q FY15. The company noted that the extended festive shopping season did benefit overall sales performance for January and February.
- **Weak sales over Chinese New Year.** Nonetheless, Sa Sa reported -10% retail sales growth and -7% SSSG during the first seven days of the 2015 Chinese New Year period relative to the first seven days of the 2014 Chinese New Year period. The company stated: (1) Sales over Chinese New Year fell short of internal company expectations; (2) Number of transactions attributable to Mainland tourists grew by 5% despite a decrease in visitor arrivals to HK, offset by a 15% decrease in average ticket size; (3) Overall, sales to Mainland customers dropped 11%.
- **Retain Neutral.** Given the company's slightly-stronger-than-expected 4QFY15-to-date performance, we leave our earnings forecasts unchanged. Since the start of Chinese New Year, Sa Sa's share price has fallen ~12% (vs roughly flat for the Hang Seng Index). We believe this has mainly been driven by expectations of a weak Chinese New Year. While Chinese New Year numbers were indeed weak, we believe the share price should rally on the back of improved 4QFY15-to-date sales relative to 3Q FY15. We continue to see limited catalysts for Sa Sa and retain our Neutral rating until some more positive short-term catalysts can be identified.

Table 1: Sa Sa – HK/Macau SSSG

YE Mar.	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15TD
SSSG	14.1%	17.3%	12.6%	16.2%	17.0%	11.1%	15.8%	8.2%	1.9%	9.8%	-2.7%	7.0%

Source: Company reports. March year end. Figures prior to 4Q15 excluding impact of deferred income adjustment.

### Investment Thesis

Although we remain positive on the Chinese tourism story for HK over the longer term, we believe there are sales and gross margin headwinds in the short term. We retain our Neutral rating until some more positive short-term catalysts can be identified.

### Valuation

Our Mar-16 PT of HK\$5.50 is based on a P/E of 15x our earnings forecasts for the year ending Mar-17. Our target P/E is at a discount to the historical five-year average P/E for Sa Sa, to reflect the risk of de-rating given slowing earnings momentum and the risk of consensus earnings forecast reductions.

### Risks to Rating and Price Target

Upside risks to our rating and price target include: 1) any upturn in Mainland Chinese tourism in Hong Kong; 2) any upturn in customer purchasing behaviour within Sa Sa stores; 3) lower-than-expected operating expenses; and 4) better-than-expected company execution at the store level.

Downside risks to our rating and price target include: 1) a downturn in the retail environment in Hong Kong and Macau; 2) a downturn in Mainland Chinese visitors into Hong Kong and Macau; 3) lower-than-expected gross margins through increased price reinvestment or promotional activity; 4) weakness in in-store execution; 5) changes in government regulations that affect the price difference of cosmetic products between Mainland China and Hong Kong; and 6) higher-than-expected rental and staff cost pressure.

## Specialty Retailing

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
25-Jun-08	OW	1.65	2.05
26-Sep-08	N	1.23	1.30
27-Nov-08	N	0.61	0.77
25-Jun-09	N	1.38	1.43
28-Nov-09	N	2.22	2.10
25-Jun-10	UW	3.07	2.45
25-Nov-10	N	4.53	4.45
17-Jun-11	OW	4.76	5.60
15-Jul-11	OW	5.57	6.50
02-Sep-11	N	5.91	6.50
12-Oct-11	N	4.83	5.00
02-Jul-12	N	4.95	5.30
15-Sep-12	OW	5.08	5.50
15-Nov-12	OW	5.94	6.83
20-Jun-13	OW	7.73	8.10
08-Nov-13	OW	8.30	9.40
18-Nov-13	OW	8.65	9.80
24-Jan-14	OW	7.45	9.40
08-May-14	N	6.22	6.80
26-Jun-14	N	5.30	5.60
18-Nov-14	N	5.56	6.00
12-Jan-15	N	5.28	5.50

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