

Chow Sang Sang (116 HK)

Buy: China overtaking HK & Macau to drive turnaround

Buy

Target price (HKD)	21.00
Share price (HKD)	16.60
Upside/Downside (%)	26.5

Dec	2014 a	2015 e	2016 e
HSBC EPS	1.59	1.70	1.79
HSBC PE	10.4	9.8	9.3
Performance	1M	3M	12M
Absolute (%)	-18.6	-17.0	-13.7
Relative^ (%)	-17.3	-20.9	-22.9

27 March 2015

Lina Yan*

Analyst
+852 2822 4344
linayyan@hsbc.com.hk

The Hongkong and Shanghai Banking Corporation Limited

Erwan Rambourg*

Analyst
+852 2996 6572
erwanrambourg@hsbc.com.hk
The Hongkong and Shanghai Banking Corporation Limited

Vishal Goel*

Associate
Bangalore

View HSBC Global Research at:
<http://www.research.hsbc.com>

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

- ▶ **Weak December derailed recovery in HK & Macau; 2014 net profit was 6% below our estimate**
- ▶ **China and gem-set sales key growth drivers; we expect 2015 net profit to grow 8.5%, even after cutting our estimate by 18%**
- ▶ **We establish a Buy rating with a fair value target price of HKD21 (previous HKD25)**

2H 2014 was stronger than 1H 2014, but December was weak in line with rest of sector.

CSS retail sales began stabilizing in 2H 2014, down only 3.7% y-o-y, versus 24.5% y-o-y drop in 1H 2014. However, the improving trend was disrupted in December, with an unexpected slowdown in HK and Macau sales due to a drop off in mainland shoppers.

Adjusted operating profit, net of hedging gains/losses, declined at a similar rate to sales, an improvement on the 18% drop in 1H 2014, but short of our expectation of 3% growth. The pace of GPM expansion also slowed in 2H 2014 (up 2ppt y-o-y in 2H 2014 and up 5.6ppt for the full year) as the mix improvement was less pronounced in 2H 2014. Full year adjusted operating profit fell 11% on a 15% decline in jewellery retail sales. 2014 net profit also fell 11% to RMB1,082m, 6% short of our estimate. The final dividend was HKD49cents for a full-year pay-out of 38%, flat y-o-y.

HK and Macau weak, but China taking over as growth driver. YTD, HK and Macau showed negative low teens same store sales growth (SSSG). By contrast, China showed double-digit SSSG YTD. China has become the main growth engine, with its contribution to total retail sales up to 41% in 2014 from 37% in 2013, and we expect the company to grow at an 11% CAGR over 2013-17e in China vs. only a 4% CAGR in HK and Macau.

We cut our 2015 profit estimate by 18%, and now expect 8.5% growth. With the HK & Macau outlook weakening, we revise down SSSG to negative 3% from positive 5%. Together with a slower pace in new store openings in China, we lower our retail revenue forecast by 9%, and now expect 7% growth in 2015 (3% in HK & Macau; 11% in PRC). We expect the GPM to continue to improve as gem-sets outperform gold jewellery in 2015, leading to 9% y-o-y growth in gross profit. We expect total SGA to grow 8% in 2015 with rentals up 13%. As a result, we expect 8% growth in operating profit. Our 2015 net profit forecast of RMB1,174m is 8% below what we believe to be stale consensus.

We establish a Buy rating with a fair value target price of HKD21 (versus our previous 12 month forward target price of HKD25). The target price change is driven by earnings cuts and our Gordon growth model derived target PE being cut to 12.2x from 13.2x on a lower 12M- forward ROE of 12.8% (was 14.6%). The share price has fallen 20% over the past 3 months on the weak outlook for HK & Macau retail. However, we expect profit growth to turn around in 2015 driven by mainland and gem-set growth, even after we have revised down our earnings estimates due to weak sales in HK & Macau.

Index^	HANG SENG INDEX	Enterprise value (HKDm)	11154
Index level	24,497	Free float (%)	100
RIC	0116.HK	Market cap (USDm)	1,449
Bloomberg	116 HK	Market cap (HKDm)	11,237

Source: HSBC

Source: HSBC

Extel Survey 2015 runs from March 23rd through to April 30th.
If you value our service and insight please vote for HSBC at
www.extelsurveys.com/quickvote

Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (HKDm)				
Revenue	19,246	20,640	21,816	23,112
EBITDA	1,502	1,625	1,712	1,806
Depreciation & amortisation	-185	-207	-222	-241
Operating profit/EBIT	1,317	1,419	1,490	1,565
Net interest	35	26	35	48
PBT	1,362	1,478	1,559	1,646
HSBC PBT	1,355	1,447	1,527	1,615
Taxation	-277	-300	-317	-335
Net profit	1,082	1,174	1,238	1,308
HSBC net profit	1,076	1,149	1,213	1,283

Cash flow summary (HKDm)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Cash flow from operations	477	807	914	976
Capex	-158	-200	-200	-200
Cash flow from investment	-127	-132	-119	-103
Dividends	-413	-448	-472	-499
Change in net debt	396	-184	-276	-325
FCF equity	441	532	725	798

Balance sheet summary (HKDm)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	774	759	737	696
Current assets	10,029	11,029	12,035	13,127
Cash & others	1,009	1,348	1,809	2,336
Total assets	12,242	13,194	14,167	15,206
Operating liabilities	1,180	1,272	1,316	1,365
Gross debt	2,255	2,409	2,594	2,796
Net debt	1,246	1,062	785	460
Shareholders funds	8,647	9,348	10,089	10,873
Invested capital	8,614	9,168	9,648	10,123

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	-23.5	7.2	5.7	5.9
EBITDA	-5.2	8.2	5.3	5.5
Operating profit	-7.0	7.7	5.0	5.0
PBT	-9.9	8.5	5.5	5.6
HSBC EPS	-6.9	6.8	5.6	5.7

Ratios (%)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Revenue/IC (x)	2.3	2.3	2.3	2.3
ROIC	12.7	12.7	12.6	12.6
ROE	13.0	12.8	12.5	12.2
ROA	9.4	9.5	9.3	9.2
EBITDA margin	7.8	7.9	7.8	7.8
Operating profit margin	6.8	6.9	6.8	6.8
EBITDA/net interest (x)				
Net debt/equity	14.4	11.4	7.8	4.2
Net debt/EBITDA (x)	0.8	0.7	0.5	0.3
CF from operations/net debt	38.2	76.0	116.4	212.0

Per share data (HKD)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EPS reported (fully diluted)	1.60	1.73	1.83	1.93
HSBC EPS (fully diluted)	1.59	1.70	1.79	1.90
DPS	0.61	0.66	0.70	0.74
Book value	12.77	13.81	14.90	16.06

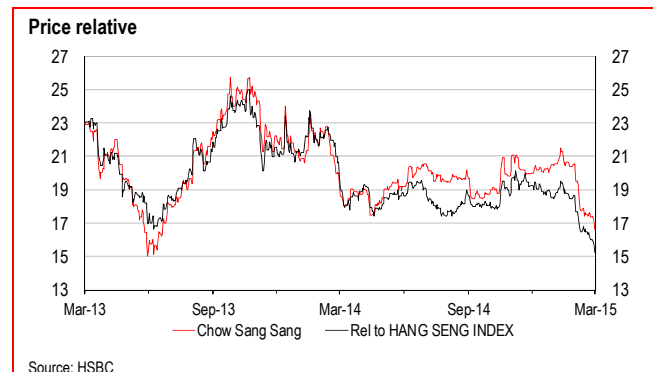
Key forecast drivers

Year to	12/2014a	12/2015e	12/2016e	12/2017e
SSSG - HK & Macau	-23	-3	3	3
SSSG - PRC	-12	6	6	5
Average # of POS growth - HK &	3	0	0	0
Average # of POS growth - PRC	13	8	9	10
Jewelery retail GPM	24	25	25	24
Rental to sales cost ratio	5	5	5	6

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	0.6	0.5	0.5	0.5
EV/EBITDA	7.5	6.9	6.4	5.9
EV/IC	1.3	1.2	1.1	1.0
PE*	10.4	9.8	9.3	8.8
P/Book value	1.3	1.2	1.1	1.0
FCF yield (%)	4.4	5.3	7.2	7.9
Dividend yield (%)	3.7	4.0	4.2	4.4

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 26 Mar 2015

China overtaking HK & Macau to drive turnaround

- ▶ Weak Dec disrupted the recovery trend in HK & Macau; 2014 profit 6% below our estimate
- ▶ PRC & gem-set sales are the key drivers of growth; we expect 2016 profit to grow 8.5% after we cut our estimate by 18%
- ▶ Establish Buy rating with fair value target price of HKD21

Earnings revisions

We expect retail revenue to grow 7% in 2015 (3% in HK & Macau; 11% in China), after we cut our revenue forecast by 9%. The cut is mainly driven by a cut in our SSSG forecast for HK & Macau and the a reduction in the number of new store openings in China. We cut our SSSG forecast for HK & Macau to negative 3% from positive 5% due to poor visitation growth from PRC to HK & Macau. We still expect gem-sets to continue to outperform gold jewellery in 2015, leading to an improvement in GPM and 9% y-o-y growth in gross profit. We expect total SGA to grow 8% in 2015, with rentals up 13% y-o-y. As a result, we expect operating profit to grow 8% in 2015. We have lowered our 2015 net profit forecast by 18% to RMB1,174m, 8% below the consensus forecast, which we believe is stale.

We now expect a 6.7% CAGR in retail revenue during 2014-2017e and a 6.5% CAGR in net profit. In our view, China and gem-sets should become key growth drivers, increasing at an 11% and 12% CAGR, respectively, vs. a 4% CAGR in HK & Macau retail revenue and a 10% CAGR in gold sales.

Chow Sang Sang: Earnings revisions

HKDm	2H14e	2H14a	% Diff	2014e	2014a	% Diff	2015e - old	2015e - new	% Diff	2016e - old	2016e - new	% Diff	2017e
Sales	10,622	9,913	-6.7%	19,955	19,246	-3.6%	22,151	20,640	-6.8%	24,231	21,816	-10.0%	23,112
- Jewellery retail	9,543	8,718	-8.6%	17,757	16,933	-4.6%	19,947	18,121	-9.2%	22,019	19,297	-12.4%	20,593
- Other businesses	1,079	1,195	10.8%	2,197	2,313	5.3%	2,204	2,519	14.3%	2,211	2,519	13.9%	2,519
Gross profit	2,247	2,122	-5.6%	4,420	4,295	-2.8%	4,987	4,682	-6.1%	5,533	4,963	-10.3%	5,262
Total operating expenses	(1,515)	(1,530)	1.0%	(2,994)	(3,009)	0.5%	(3,310)	(3,263)	-1.4%	(3,619)	(3,473)	-4.0%	(3,697)
- Staff	(696)	(617)	-11.3%	(1,262)	(1,183)	-6.3%	(1,356)	(1,255)	-7.4%	(1,449)	(1,310)	-9.6%	(1,367)
- Rental	(416)	(450)	8.0%	(813)	(847)	4.1%	(944)	(960)	1.7%	(1,080)	(1,060)	-1.8%	(1,157)
- Depr & Amort	(98)	(94)	-4.9%	(190)	(185)	-2.5%	(212)	(207)	-2.8%	(235)	(222)	-5.4%	(241)
EBIT	745	609	-18.2%	1,453	1,317	-9.3%	1,704	1,419	-16.8%	1,942	1,490	-23.3%	1,565
Other gains, net	0	38		(62)	(23)	-62.1%	0	0		0	0	#DIV/0!	0
Non-operating	0	31		0	31		0	31		0	31	#DIV/0!	31
Finance costs	15	17	10.4%	34	35	4.7%	68	26	-62.2%	78	35	-55.3%	48
PBT	763	699	-8.4%	1,426	1,362	-4.5%	1,774	1,478	-16.7%	2,022	1,559	-22.9%	1,646
Net profit	627	562	-10.3%	1,147	1,082	-5.7%	1,427	1,174	-17.7%	1,626	1,238	-23.9%	1,308
Key drivers:			Ppt Diff			Ppt Diff			Ppt Diff			Ppt Diff	
SSSG - HK & Macau	0.1%	-14.0%	-14.14%	-15.9%	-23.0%	-7.07%	5.0%	-3.1%	-8.12%	5.0%	3.0%	-2.00%	3.1%
SSSG - PRC	1.3%	-4.0%	-5.31%	-9.3%	-12.0%	-2.66%	8.6%	6.0%	-2.58%	8.6%	5.7%	-2.94%	5.0%
Growth in average # of POS - HK & Macau	-0.8%	0.0%	0.83%	1.7%	2.5%	0.84%	0.0%	0.0%	0.00%	1.7%	0.0%	-1.65%	0.0%
Growth in average # of POS - PRC	7.6%	6.9%	-0.69%	9.1%	8.4%	-0.70%	9.6%	8.3%	-1.39%	8.8%	9.0%	0.17%	9.6%
Staff costs to Revenue ratio	6.5%	6.2%	-0.33%	6.3%	6.1%	-0.18%	6.1%	6.1%	-0.04%	6.0%	6.0%	0.02%	5.9%
Rental costs to Retail revenue ratio	4.4%	5.2%	0.80%	4.6%	5.0%	0.42%	4.7%	5.3%	0.57%	4.9%	5.5%	0.59%	5.6%
Key ratios:													
Gross margin	21.2%	21.4%	0.25%	22.3%			22.5%	22.7%		22.8%	22.7%		22.8%
Retail Gross margin	24.8%	23.3%	-1.47%	24.1%			24.9%	24.6%		25.1%	24.6%		24.5%
Operating margin	7.0%	6.1%	-0.87%	6.8%			7.7%	6.9%		8.0%	6.8%		6.8%
Retail Operating margin	-6.6%	7.1%	13.77%	7.4%			8.3%	7.4%		8.6%	7.3%		7.2%
Net margin	5.9%	5.7%	-0.23%	5.6%			6.4%	5.7%		6.7%	5.7%		5.7%
Dividend payout ratio	0.0%	59.0%	58.97%	38.2%			34.0%	38.2%		34.0%	38.2%		38.2%
ROE				12.9%			15.3%	12.8%		15.8%	12.5%		12.2%

Source: Company Data. HSBC estimates

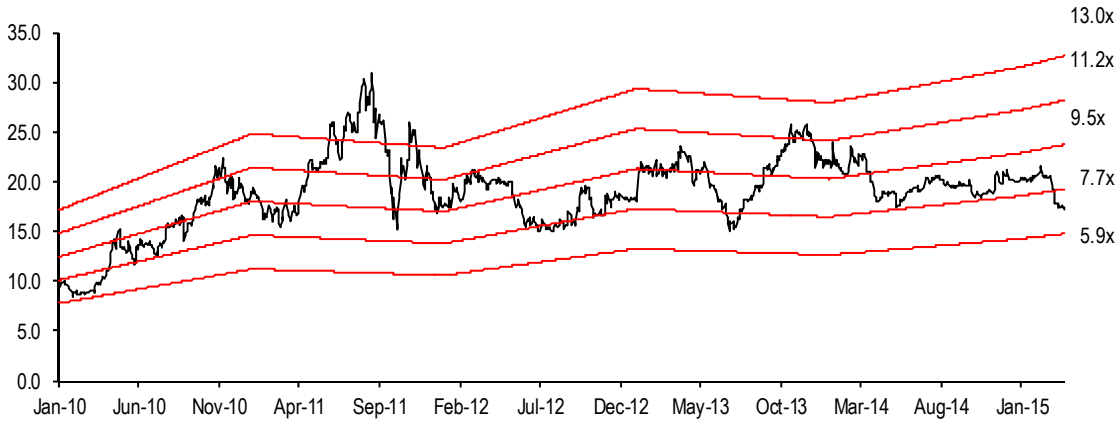
Valuation and risks

We establish a Buy rating with a fair value target price of HKD21 (versus our previous 12 month forward target price of HKD25). The 15.6% cut in our target price is driven by earnings cuts and our Gordon growth model derived target PE being cut to 12.2x from 13.2x on a lower 12M- forward ROE of 12.8% (was 14.6%). The lower 12M-forward ROE is due to a cut in our 2015 ROE forecast to 12.8% from 15.5%, which was partly offset by rolling forward by 6 months the 12M-forward ROE we use to December 2015 from June 2015.

Downside risks: weaker-than-expected SSSG in HK & Macau; slower-than-expected gem-set sales;

Catalysts: downward revision in HK & Macau rental; pick-up in local consumer sentiment in HK & Macau.

Chow Sang Sang PE Band Chart



Source: HSBC estimates, Thomson Reuters Datastream

Chow Sang Sang PB Band Chart vs ROE



Source: HSBC estimates, Thomson Reuters Datastream

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Lina Yan and Erwan Rambourg

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

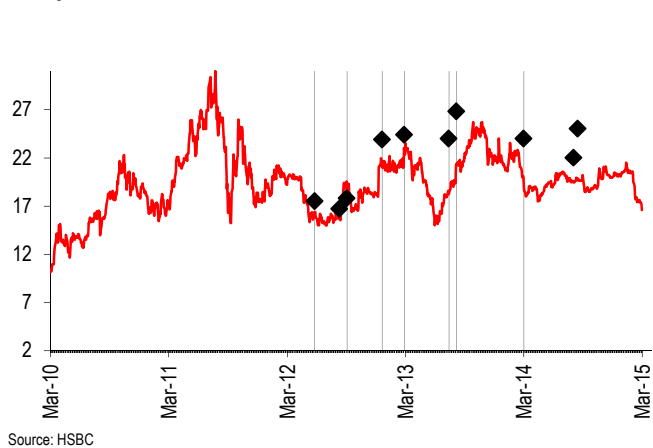
As of 27 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(29% of these provided with Investment Banking Services)
Hold	39%	(28% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

Chow Sang Sang (0116.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral (V)	19 June 2012
Neutral (V)	Underweight (V)	26 September 2012
Underweight (V)	Neutral (V)	13 January 2013
Neutral (V)	Neutral	22 March 2013
Neutral	Overweight	07 August 2013
Overweight	Overweight (V)	30 August 2013
Overweight (V)	Overweight	26 March 2014
Target Price	Value	Date
Price 1	17.50	19 June 2012
Price 2	16.70	03 September 2012
Price 3	17.80	26 September 2012
Price 4	23.90	13 January 2013
Price 5	24.40	22 March 2013
Price 6	24.00	07 August 2013
Price 7	26.80	30 August 2013
Price 8	24.00	26 March 2014
Price 9	22.00	27 August 2014
Price 10	25.00	09 September 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
CHOW SANG SANG	0116.HK	16.60	26-Mar-2015	6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 28 February 2015 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- 7 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

- 1 This report is dated as at 27 March 2015.
- 2 All market data included in this report are dated as at close 26 March 2015, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

** Legal entities as at 30 May 2014*

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central

Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: www.research.hsbc.com

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in the conduct of its Hong Kong regulated business for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571)) customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. All enquires by recipients in Hong Kong must be directed to your HSBC contact in Hong Kong. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. It may not be further distributed in whole or in part for any purpose. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).

© Copyright 2015, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited. MICA (P) 157/06/2014, MICA (P) 136/02/2015 and MICA (P) 041/01/2015

Global Consumer Brands & Retail Research Team

Europe

Consumer Brands & Retail

Antoine Belge
Head of Consumer Brands and Retail Equity Research
+33 1 56 52 43 47 antoine.belge@hsbc.com

Anne-Laure Jamain
Analyst
+44 207 991 6587 annelaure.jamain@hsbcib.com

David McCarthy
Head of Consumer Retail, Europe
+44 207 992 1326 david1.mccarthy@hsbcib.com

Andrew Porteous
Analyst
+44 20 7992 4647 andrew.porteous@hsbc.com

Jérôme Samuel
Analyst
+33 1 56 52 44 23 jerome.samuel@hsbc.com

Emmanuelle Vigneron
Analyst
+33 1 56 52 43 19 emmanuelle.vigneron@hsbc.com

Paul Rossington
Analyst
+44 20 7991 6734 paul.rossington@hsbcib.com

Graham Jones
Analyst
+44 20 7992 5347 graham.jones@hsbc.com

Damian McNeela
Analyst
+44 20 7992 4223 damian.mcneela@hsbc.com

CEEMEA

Consumer Brands & Retail

Bulent Yurdagul
Analyst
+90 212 3764612 bulentyurdagul@hsbc.com.tr

Jeanine Womersley
Analyst
+27 21 6741082 jeanine.womersley@za.hsbc.com

Specialist Sales

David Harrington
+44 20 7991 5389 david.harrington@hsbcib.com

Asia

Consumer Brands & Retail

Erwan Rambourg
Head of Consumer Brands and Retail Equity Research
+852 2996 6572 erwanrambourg@hsbc.com.hk

Christopher Leung
Analyst
+852 2996 6531 christopher.k.leung@hsbc.com.hk

Lina Yan
Analyst
+852 2822 4344 linayjyan@hsbc.com.hk

Catherine Chao
Analyst
+852 2996 6570 catherinefchao@hsbc.com.hk

Charlene Liu
+852 2822 4398 charlenerliu@hsbc.com.hk

Alice Chan
+852 2996 6535 aliceptchan@hsbc.com.hk

Karen Choi
Analyst
+822 3706 8781 karen.choi@kr.hsbc.com

Jena Han
Analyst
+822 3706 8772 jenahan@kr.hsbc.com

Permada (Mada) Darmono
Analyst
+65 6658 0613 permada.w.darmono@hsbc.com.sg

Ananita M Kusumaningsih
Analyst
+65 6658 0610 ananita.m.kusumaningsih@hsbc.com.sg

Thilan Wickramasinghe
Analyst
+65 6658 0609 thilanw@hsbc.com.sg

Amit Sachdeva
Analyst
+91 22 2268 1240 amit1sachdeva@hsbc.co.in

Chloe Wu
Analyst
+ 8862 6631 2866 chloe.c.wu@hsbc.com.tw

North & Latin America

Consumer & Retail

Richard Cathcart
Analyst
+55 11 2169 4429 richard.cathcart@hsbc.com

Ruben Couto
Associate
+ 55 11 2169 4615 ruben.c.couto@hsbc.com.br

Food & Beverage

Carlos Laboy
Global Head of Beverages Research
+1 212 525 6972 carlos.a.laboy@us.hsbc.com

James Watson, CFA
Analyst
+1 212 525 4905 james.c.watson@us.hsbc.com

Catherine Foster
Analyst
+55 11 3847 9348 catherine.foster@hsbc.com.br

Henry Nasser
Analyst
+55 11 2169 4424 henry.nasser@hsbc.com.br

Agricultural Products

Alexandre Falcao
Analyst
+55 11 3371 8203 alexander.p.falcao@hsbc.com.br

Ravi Jain
Analyst
+1 212 525 3442 ravijain@us.hsbc.com

Gustavo Gregori
Analyst
+55 11 3847 9881 gustavo.h.gregori@hsbc.com.br