



## Company Report: Chow Tai Fook Jewellery (01929 HK)

公司报告: 周大福珠宝 (01929 HK)

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# Jewellery Market Challenges Remain, Maintain "Sell"

珠宝市场依然面临挑战, 维持“卖出”评级

- **The FY2015 annual results of the Company were lower than market consensus and our expectation.** Total revenue declined by 17.0% yoy to HKD 64.3 billion, while net profit attributable to shareholders dropped by 25.0% yoy to HKD 5.5 billion.
- **We expect the Company to continue to record negative SSSG in FY2016 due to unfavorable operating environments.** We expect mainland tourists arriving in Hong Kong to start to slow down or even decline in 2015 and mainland jewellery markets are also confronting unfavorable operating environments.
- **We expect the Company to slowdown its expansion speed in Mainland China due to unfavorable operating environments.** We expect the Company to continue expanding its jewellery retail network in the next three years in Mainland China, but at a lower speed.
- **We expect the gross margin of the Company to maintain at the level of about 30% in the next 3 years.**
- **Revise down TP to HK\$ 6.27 and maintain "Sell".**
- 公司 2015 财年年度业绩低于市场一致预期和我们的估计。公司收入同比下降 17.0% 至 643 亿港元, 股东净利同比下跌 25.0% 至 55 亿港元。
- 由于不利的经营环境, 我们预计公司在 2016 财年将继续录得负的同店销售增长。我们预计大陆访港旅客数量在 2015 年开始放缓甚至出现下降, 且大陆珠宝市场也面临不利的经营环境。
- 由于不利的经营环境, 我们预计公司将会放缓在大陆的扩张速度。我们预计公司在未来 3 年将会继续在大陆扩张其珠宝零售网络, 但速度将会放缓。
- 我们预计公司未来 3 年的毛利率将保持在 30% 左右的水平。
- 下调目标价至 6.27 港元并维持“卖出”评级。

Rating:

**Sell**

Maintained

评级:

卖出 (维持)

6-18m TP 目标价:

**HK\$6.27**

Revised from 原目标价:

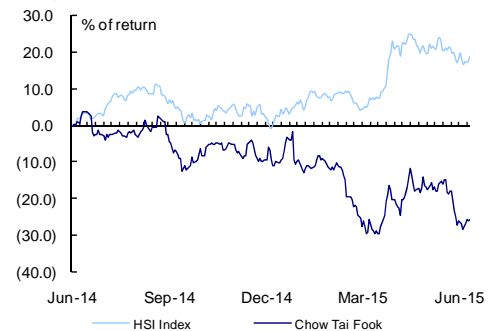
HK\$6.50

Share price 股价:

HK\$8.330

### Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(9.3)	3.7	(27.2)
Rel. % to HS index 相对恒指变动 %	(6.0)	(7.4)	(43.9)
Avg. share price(HK\$) 平均股价 (港元)	8.7	8.9	10.0

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入 (HKD m)	Net Profit 股东净利 (HKD m)	EPS 每股净利 (HKD)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (HKD)	PBR 市净率 (x)	DPS 每股股息 (HKD)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	77,407	7,272	0.727	32.0	12.0	3.845	2.3	0.360	4.1	20.7
2015A	64,277	5,456	0.546	(25.0)	16.0	4.054	2.2	0.273	3.1	14.2
2016F	55,305	4,823	0.482	(11.6)	18.1	4.331	2.0	0.241	2.8	11.9
2017F	60,730	5,799	0.580	20.2	15.0	4.631	1.9	0.290	3.3	13.4
2018F	68,123	6,432	0.643	10.9	13.6	4.963	1.8	0.322	3.7	13.9

Shares in issue (m) 总股数 (m)	10,000.0	Major shareholder 大股东	Cheng Family 89.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	83,300.0	Free float (%) 自由流通比率 (%)	10.7
3 month average vol. 3 个月平均成交股数 ('000)	7,345.0	FY16 Net gearing (%) FY16 净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低	12.220 / 7.720	FY16 Est. NAV (HK\$) FY16 每股估值 (港元)	10.8

Source: the Company, Guotai Junan International.

**The FY2015 annual results of the Company were lower than market consensus and our expectation.** Total revenue declined by 17.0% yoy to HKD 64.3 billion, while net profit attributable to shareholders dropped by 25.0% yoy to HKD 5.5 billion. The drop of total revenue and net profit was mainly attributed to the unfavorable operating environments of Hong Kong and Mainland China. The slowdown of macro economy of China, the anti-corruption movement of government and the hostile behavior of some local Hong Kong residents toward Mainland tourists combined to weigh on jewellery consumptions. As a result, the Mainland and HK/Macau jewellery POS of the Company recorded a SSSG of -16.1% and -32.8%, respectively, in FY2015. However, the product structure of the Company improved a lot in FY2015 and the sale of gem-set jewellery and gold products accounted for 27.0% and 67.7%, respectively, of total retail sale. As a result, the gross margin of the Company was lifted to 29.7% in FY2014, comparing to 27.3% a year ago. Chow Tai Fook added 180 net jewellery POS in FY2015 and has a total of 2,257 POS as of 31 March 2015.

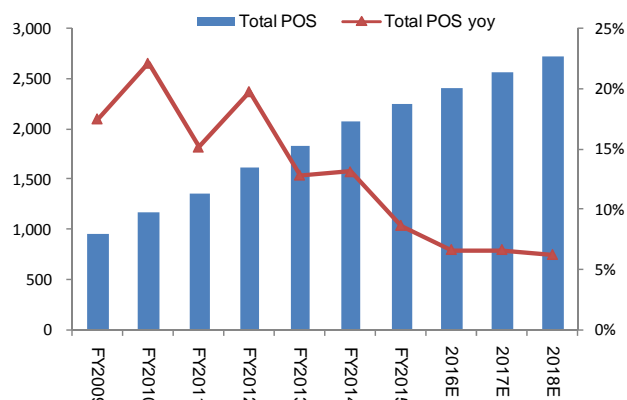
**We expect the Company to continue to record negative SSSG in FY2016 due to unfavorable operating environments.**

The operating environments of jewellery companies are not expected to improve in FY2016. The operating environments of jewellery companies, especially for those rely heavily on Hong Kong markets are expected to deteriorate in FY2016 for several reasons: firstly, mainland tour groups arriving Hong Kong, which are the main consumers of jewellery, are expected to drop in FY2016. According to Hong Kong tourism association, mainland tour groups arriving Hong Kong dropped by about 30% in March, mainly due to lower-than-expected tourism experiences and the recent anti-parallel movements of some local extremists, and we expect such trend to persist in FY2016; secondly, the slowdown of macro economy of China and the anti-corruption policy of Mainland government is expected to persist which will also adversely impact jewellery retail demands of Mainland consumers; thirdly, the tighten of free travel policy of Shenzhen citizens will significantly reduce free travel tourists, which also have negative impact on jewellery retail sales of Hong Kong market. We expect mainland tourists arriving Hong Kong to start to slow down or even decline in 2015. Besides, mainland jewellery markets, which are expected to contribute most of the sales growth in FY2016 are also confronting unfavorable operating environments. Hence, we expect the Company to continue to record negative SSSG in FY2016 due to tough business environments.

**We expect the Company to slowdown its expansion speed in Mainland China due to unfavorable operating environments.**

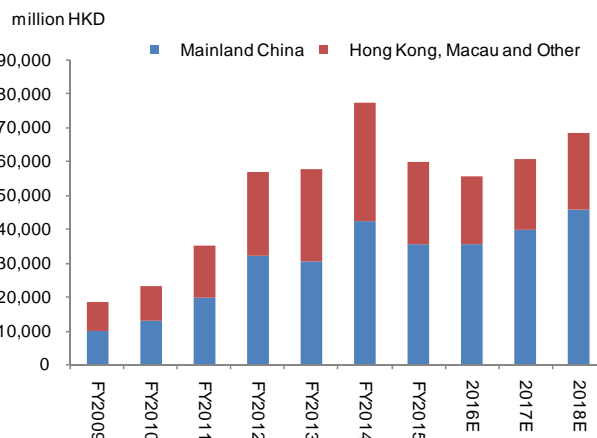
The jewellery retail networks of the Company have expanded rapidly in recent years and the Company added a net average of about 200 new POS each year from 2008 to 2014. The Company opened 241 new POS in FY2015 and has a total of 2,257 POS as of date 31 March 2015 (excluding the jewellery POS operated by Hearts on Fire). However, the expansion started to slowdown since 4<sup>th</sup> quarter FY2015 due to unfavorable operating environments. We expect the Company to maintain expanding its jewellery retail network in the next three years in Mainland China, but at a lower speed. We expect the Company to add about 160 new jewellery POS in the next 3 years.

**Figure 1 Total Jewellery POS of Chow Tai Fook**



Source: the Company, Guotai Junan International.

**Figure 2 Revenue Breakdown by Geography**



Source: the Company, Guotai Junan International.

**We expect the gross margin of the Company to maintain at the level of about 30% in the next 3 years.** Gross margin of the Company improved a lot in FY2015 due to the improvement of product mix. Total revenue contributed by gold products increased significantly in FY2014 due to “Gold Rush”, but the gross margin of gold products is usually much lower than that of gem-set jewellery. Total revenue contributed by gem-set jewellery in FY2015 was 27.0%, up about 6 ppts comparing to that of FY2014. We expect the improvement of product mix of the Company to persist in the next 3 years and the gross margin of the Company is also expected to improve and maintain at the level of about 30%.

**Revise down TP to HK\$ 6.27 and maintain “Sell”.** Chow Tai Fook is the largest jewellery retailer in the Greater China market with strong brand. Chow Tai Fook has a wider POS coverage than that of Hong Kong jewellery retailers, and a comparable retail network as that of major Mainland jewellery retailers. We expect the Company to maintain expanding its jewellery retail networks, but at a lower speed due to unfavorable operating environments. We expect operating environments of the Company to deteriorate in FY2016 as mainland tour groups arriving Hong Kong are expected to drop and the slowdown of China economy. Hence, we expect the Company to record negative SSSG of HK/Macau and mainland jewellery POS. We expect the gross margin of the Company to improve due to the improvement of product mix and maintain at the level of about 30%. We expect total revenue and profit of the Company to continue to decline in FY2016. Hence, we revise down TP to HK\$ 6.27, which is equivalent to 13.0x FY16 PE and maintain “Sell”.

**Table 1 Chow Tai Fook's Peer Comparison**

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				14A	15F	16F	17F	14A	15F	16F	17F	15F
Chow Tai Fook Jewellery Grou	1929 HK	HKD	8.33	11.5	15.3	14.3	12.7	2.2	2.1	1.9	1.8	14.2
Luk Fook Holdings Intl Ltd	590 HK	HKD	22.20	7.0	8.3	8.1	7.4	1.7	1.5	1.4	1.2	19.3
Chow Sang Sang Hldg	116 HK	HKD	16.28	10.2	9.9	8.9	8.0	1.3	1.2	1.1	1.0	12.7
Hengdeli Holdings Ltd	3389 HK	HKD	1.52	11.5	10.9	9.2	7.7	1.0	0.9	0.8	0.8	8.6
Emperor Watch & Jewellery	887 HK	HKD	0.34	16.8	11.6	9.3	14.0	0.5	0.5	0.5	0.4	4.0
Simple Average				11.4	11.2	10.0	9.9	1.3	1.2	1.1	1.0	11.7
Weighted Average				10.9	13.6	12.7	11.4	2.0	1.9	1.7	1.6	14.1
Lao Feng Xiang Co Ltd-A	600612 CH	CNY	56.88	31.7	26.4	21.2	16.8	7.5	5.3	4.3	3.2	22.8
Shanghai Yuyuan Tourist-A	600655 CH	CNY	19.54	28.0	25.7	22.9	19.3	3.7	3.2	2.8	2.3	12.5
Zhejiang Ming Jewelry Co-A	002574 CH	CNY	23.00	60.5	n.a.	n.a.	n.a.	4.0	n.a.	n.a.	n.a.	n.a.
Simple Average				40.1	26.0	22.0	18.0	5.1	4.2	3.6	2.7	17.7
Weighted Average				35.4	26.0	22.1	18.1	5.3	4.2	3.5	2.7	17.4
Tiffany & Co	TIF US	USD	92.47	65.1	24.7	21.9	19.4	4.4	4.2	3.9	3.5	17.4
Cie Financiere Richemon-Reg	CFR VX	CHF	77.50	17.0	27.8	18.6	17.5	3.0	2.9	2.8	2.5	10.1
Swatch Group Ag/The-Br	UHR VX	CHF	369.20	14.5	14.9	13.6	12.4	1.8	1.7	1.6	1.5	11.8
Simple Average				32.2	22.4	18.0	16.4	3.1	3.0	2.7	2.5	13.1
Weighted Average				23.3	23.9	17.7	16.4	2.9	2.8	2.6	2.4	11.6

Source: Bloomberg, Guotai Junan International.



### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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