



COMMENT

Sa Sa International Holdings (0178.HK) HK\$3.92

Equity Research

Partnership with Tencent on payments has limited earnings impact

News

Sa Sa announced a partnership with Tenpay (Tencent's mobile payment solution), to allow customers to pay via Wechat in their Hong Kong physical stores. Sa Sa shares reacted positively to the news, up 6% on June 18.

Analysis

Overall, the Tencent partnership has offered another payment option, thereby increasing convenience to mainland customers shopping in Sa Sa's HK stores. However, our thesis on Sa Sa remains unchanged as we see limited EPS impact to the partnership given:

- (1) We do not expect the partnership alone to be able to reverse two of Sa Sa's structural challenges - a weak HK tourist outlook and weakness in higher margin private label brands. Sa Sa's Apr-May SSSG was -4%, a further slowdown from -1% in the Jan-May quarter.
- (2) With a revenue pie which is not growing, any incremental business would have to come from gaining market share. However, we note that Bonjour, the second largest cosmetics retailer in HK with 41 stores, has already partnered with Alipay in Jan 2014, offering a similar payment solution for mainland tourists. We note that Alipay is the largest mobile payment platform in China with more than 270mn active users. This is 2.7X Tenpay's c.100mn users bundled with bank accounts. Chow Tai Fook is also partnering with Alipay.

That said, the upside risk is any potential collaborations with Tencent on Sa Sa's online operations. There was no indication on this in the announcement, but it is worth closely monitoring.

Implications

Our **Sell** rating, TP and earnings estimates remain unchanged. Sa Sa is set to report earnings on June 25, and we expect 2H FY3/15E EPS to decrease 15% yoy, which should weigh on share price performance. Sa Sa currently trades at 16X FY3/16E and FY3/17E P/E.

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Asia Pacific Sell List

Coverage View: Neutral

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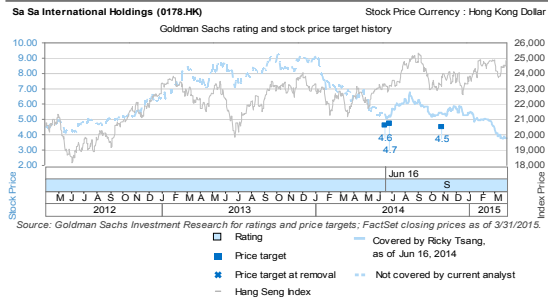
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