



Rating
Buy

Asia
Hong Kong

Consumer
Retail / Wholesale Trade

Company
Chow Tai Fook

Reuters 1929.HK Bloomberg 1929 HK Exchange HSI Ticker 1929

Date
15 January 2018

Results

Price at 8 Jan 2018 (HKD)	8.52
Price target - 12mth (HKD)	10.40
52-week range (HKD)	9.41 - 6.18
HANG SENG INDEX	30,815

Chow Tai Fook 3Q18 operational updates

SSSg in line with 3Q guidance and FY18 full year target

CTF reported 5% SSSg for both China and Hong Kong in 3QFY18, in line with previous guidance of MSD-HSD SSSg for both markets in 3QFY18. The results strengthen management's expectation of HSD SSSg for full year FY18. To recap, CTF reported 11%/15% SSSg in 1Q/2QFY18 in Mainland China and 5%/12% in 1Q/2QFY18 in Hong Kong.

By product, similar to in 1HFY18, **gold sales remained strong** in both markets driven by an increase in gold price (+5% yoy) and average weight. **For gem-set, HK recorded very strong 22% sales SSSg**, a figure that is at an at least 2-year high (as the company only started to disclose HK/China SSSg separately by product in FY17). The much better-than-expected increase in gem-set SSSg was mainly driven by a **DD growth in volume and LSD improvement in ASP**. In China, it reported -1% gem-set sales SSSg, the same as in 2QFY18, but saw a noticeable yoy increase in ASP (from HK\$6,600 in 3QFY17 to HK\$7,300 in 3QFY17).

Store openings accelerated in China (higher than management guidance in 1HFY18 results announcement) and positive signs of HK domestic recovery

By market, **Mainland** sales growth was driven by growth in gold products sales. Sales of gem-set and Platinum/Karat gold products decreased slightly from 2Q FY18. E-commerce in the jewellery business in Mainland China continued to expand with 57% yoy growth in the third quarter accompanied by a volume increase of 20%.

The company **opened 74 stores during 3Q18 in Mainland**, bringing the YTD total store openings to 186, **exceeding management's guidance** of 140-150 total store openings in FY18 (including HK, where we expect the company to close 4 stores by the end of FY18). We consider the acceleration in store opening to be a positive sign of **the company's confidence towards China retail sales sentiment**.

In Hong Kong, sales contribution from Mainland tourists in Hong Kong stores decreased to 42% in 3QFY18, compared to 45% in 3QFY17. This is thought to be a result of CTF's strategy of **focusing on new store opening in residential areas** instead of in tourism spots. Its variety of new store formats, which mainly target local consumers, especially younger ones, also helps. The trend, together with the increase in gem-set SSSg, **further testifies to the domestic recovery of HK retail sales**.

Deutsche Bank view

Valuation & Risks

Anne Ling

Research Analyst

+852-2203 6177

Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.7	-6.4	37.9
HANG SENG INDEX	7.9	8.6	37.3

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	13.2
Net debt/equity (%)	19.5
Book value/share (HKD)	2.95
Price/book (x)	2.9
Net interest cover (x)	92.4
Operating profit margin (%)	10.2

Source: Deutsche Bank



We think CTF's SSS trend is in line with market expectation and guidance. Our SSS estimate of 8% for both HK and China for FY18 are reasonable, in our view. New store openings were better than we expected and most of the growth came from franchising. In our model, we expect only net opening of 165 stores in China for FY18. Our FY19/20 store opening assumptions are unchanged. We maintain Buy on CTF as we think the domestic consumption trend is picking up, reflected in the strong ~20%+ increase in gem-set sales for the quarter. While we think the increase might have included some pent-up demand, we expect gem-set sales to remain positive for the next few quarters.

Forecasts and ratios					
Year End Mar 31	2016A	2017A	2018E	2019E	2020E
Sales (HKDm)	56,591.5	51,245.5	56,020.0	62,671.7	69,410.1
EBITDA (HKDm)	4,942.7	5,353.0	6,625.3	7,711.3	8,748.1
Reported NPAT (HKDm)	2,941.4	3,055.3	4,041.2	4,747.3	5,471.0
Reported EPS FD(HKD)	0.29	0.31	0.40	0.47	0.55
DB EPS FD(HKD)	0.29	0.31	0.40	0.47	0.55
DB EPS growth (%)	-46.1	3.9	32.3	17.5	15.2
PER (x)	23.1	19.6	21.1	17.9	15.6
EV/EBITDA (x)	14.1	11.6	13.8	11.6	10.1
DPS (net) (HKD)	0.80	0.51	0.27	0.32	0.37
Yield (net) (%)	11.8	8.5	3.2	3.7	4.3
Source: Deutsche Bank estimates, company data					



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Chow Tai Fook	1929.HK	8.48 (HKD) 12 Jan 2018	NA

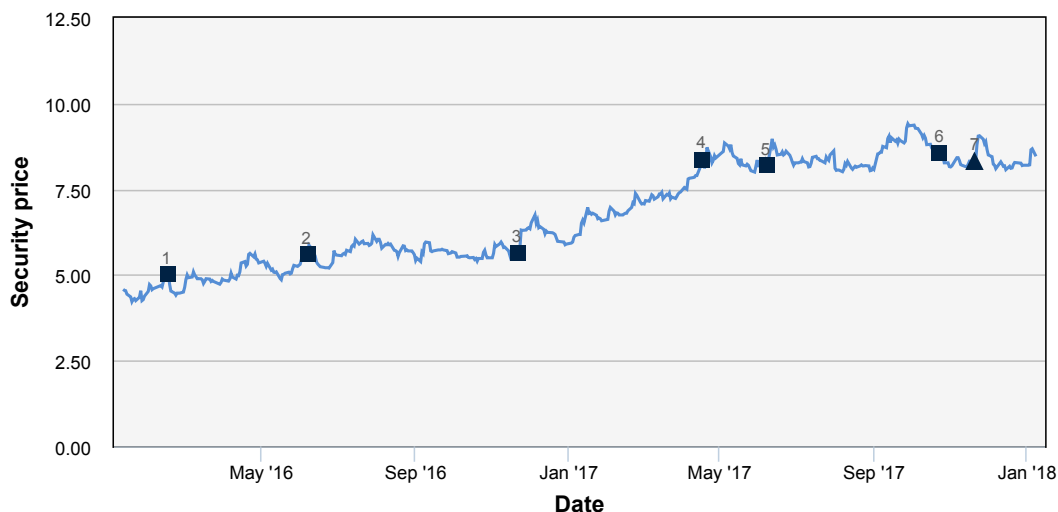
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Historical recommendations and target price. Chow Tai Fook (1929.HK)

(as of 01/08/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1. 02/17/2016	Hold, Target Price Change HKD 5,69 Anne Ling	5. 06/08/2017	Hold, Target Price Change HKD 8,64 Anne Ling
2. 06/07/2016	Hold, Target Price Change HKD 5,39 Anne Ling	6. 10/24/2017	Hold, Target Price Change HKD 8,30 Anne Ling
3. 11/22/2016	Hold, Target Price Change HKD 5,41 Anne Ling	7. 11/21/2017	Upgraded to Buy, Target Price Change HKD 10,40 Anne Ling
4. 04/18/2017	Hold, Target Price Change HKD 7,75 Anne Ling		



Equity Rating Key

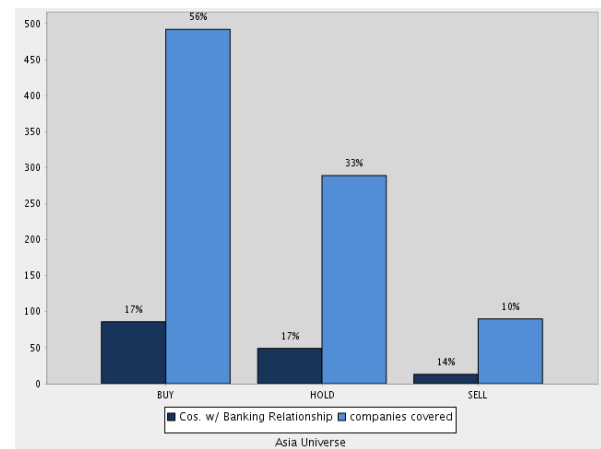
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
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Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
