

# 周大福 [1929.HK]

## 受制于人民币贬值及不明朗的前景 - 予「持有」评级

尽管19财年上半年(2018年4月至9月)收入和核心营业利润同比增长超过20%，但公司的19财年中中期每股盈利出人意料地疲弱，仅为0.19港元，同比只增长8.8%。这是由于人民币贬值导致汇兑净亏损达到3.26亿港元(18财年上半年：汇兑收益1.11亿港元)，这亏损高于预期。与同业一样，由于贸易战打击了中国消费者情绪，周大福19财年第三季度的同店销售增长也偏弱。这预示着2018年10月至12月的经营数据也难以有起色。在现时偏弱的市况中，我们认为周大福凭着较佳的产品组合、定位更针对大众市场，以及采用多品牌战略，其业务表现可能会优于同业。不过，除非未来两个季度公布的季度数据显示业务喘稳，否则投资者可能仍保持观望。我们将19/20财年的每股盈利预测下调约15%至0.41港元/0.47港元，以反映销售前景疲弱及人民币贬值的影响。我们将目标价下调至6.10港元，19财年目标市盈率从17倍下调至15倍。降级至持有。

### 投资亮点

- **净汇兑损失高于预期，拖累上半年盈利增长。**在2019财年上半年，周大福收入同比增长20.0%至297.03亿港元，符合之前公布的季度销售数据，期内公司香港/中国内地的零售额增长率超过20%/10%。核心营业利润同比增长24.7%至29.98亿港元。然而，如果考虑人民币贬值引致的3.26亿港元汇兑损失，则净利润同比仅增长8.8%至19.36亿港元。这应该令市场失望。
- **管理层重申其谨慎指引。**早在2018年6月，周大福管理层给予了相当谨慎的指导：19财年香港地区全年同店销售增长率为中高单位数，而中国内地则为低单位数。在这一次业绩之中，由于2019财年三季度上旬(2018年10月至11月中旬)销售偏弱，公司重申了这一指引。香港的同店销售增长持平，而中国内地则录得中高单位数降幅。虽然这表现优于同业(例如六福)，但表现仍不算亮丽，而这数据也引证了中国内地高端产品的销售表现疲弱。
- **利润率可能会继续受压。**虽然19财年上半年毛利率大约持平在28.7%(18财年上半年：28.9%)，但我们注意到19/20财年可能会出现轻微压力，主要原因是现在黄金产品占销售额的比例较高，令产品组合有所变化。销售及管理费用方面，我们认为短期内香港业务的租金成本不会出现压力，但由于新品牌(例如SOINLOVE和MONOLOGUE)会导致费用增加，或会限制公司节省销售及管理费用的成效。考虑到汇兑损失和销售增长平平，我们预计净利润率不会有太大的上行空间。
- **缺乏短期催化剂，盈利可见度有限。**我们认为19财年中中期业绩未能符合预期，高端奢侈品市场表现远低于市场预期。因此，我们将盈利预测下调约15%，以考虑人民币贬值和同店销售增长疲弱的影响。我们的最新目标价为6.10港元，目标19财年市盈率从17倍下调至15倍，以反映市况转差。在现时的市场情况下，加上周大福已经过去的派息举债，我们不预期公司会派发慷慨的股息。因此，我们将评级从买入下调至持有。我们观点的上行风险包括：(1) 市场情绪改善；(2) 成本控制成效好于预期；(3) 人民币回升。

截至3月底止年度	FY2016	FY2017	FY2018	FY2019E	FY2020E
收入(百万港元)	56,592	51,246	59,156	66,146	71,206
净利润(百万港元)	2,941	3,055	4,095	4,070	4,725
净利润率	5.2%	6.0%	6.9%	6.2%	6.6%
每股基本盈利(港元)	0.29	0.31	0.41	0.41	0.47
变动	-46%	4%	34%	-1%	16%
市盈率(倍)	22.6	21.7	16.2	16.3	14.0
股息收益率(%)	12.1%	7.7%	8.6%	4.6%	5.3%
市净率(倍)	1.9	2.0	1.9	2.0	1.9

来源：公司、中国银河国际证券研究部

中国消费行业  
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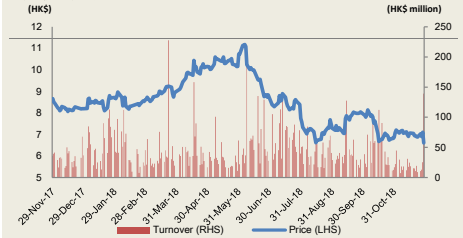
**持有**

(此前为买入)

收盘价：6.61港元 (2018年11月29日)

目标价：6.10港元 (-7.9%)

### 股價表現



来源：彭博

市值	84.96亿美元
已发行股数	100.00亿股
核数师	Deloitte
自由流通量	10.7%
52周交易区间	6.50-11.09港元
三个月日均成交量	566万港元
主要股东	CTF Holding (89.34%)

来源：公司、彭博

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# Chow Tai Fook Jewellery [1929.HK]

## Clouded by RMB Depreciation and Uncertain Outlook —HOLD

Despite reporting >20% YoY growth in revenue and core operating profit in 1H FY2019 (Apr-Sep 2018), CTF's FY19 interim EPS was surprisingly weak at HK0.19, up only 8.8% YoY. This was caused by a larger-than-expected net FX loss of HK\$326m due to RMB depreciation (1H FY18: FX gain of HK\$111m). Like its peers, CTF also reported weak early Q3 FY19 SSSG, as the trade war hit consumer sentiment in China. This confirms that the operating figures in Oct-Dec 2018 are unlikely to be impressive. In terms of business performance, we believe CTF could outperform its peers in this unfavourable market, given its product mix, more mass-market-friendly positioning, and multi-brand strategy. Still, investors are likely to stay on the sidelines before seeing any signs of stabilization in quarterly figures released in the next two quarters. We lower our EPS forecast by ~15% to HK\$0.41/0.47 for FY19E/20E to reflect the weaker sales outlook and RMB depreciation. We lower our TP to HK\$6.10 and lower our target FY2019E PER from 17x to 15x. Downgrade to HOLD.

### Investment Highlights

- 1H FY19 Profit Growth Hit by Larger-than-expected Net FX Loss.** In 1H FY2019, CTF's revenue was up 20.0% YoY to HK\$29,703. This was in line with the previously disclosed quarterly sales figures, with retail sales value growing >20% /10% in HK/mainland China. Core operating profit also grew by 24.7% YoY to HK\$2,989m. However, if the HK\$326m FX loss caused by RMB depreciation is taken into account, then net profit grew by only 8.8% YoY to HK\$1,936m. This should surprise the market on the lower side.
- Management Reiterated Its Cautious Guidance.** Back in Jun 2018, CTF's management gave rather prudent guidance, with FY19E full-year SSSG for HK to be in the mid-to-high single digits and that in mainland China to be in the low single digits. This time around they reiterated this guidance, as early-Q3FY19 (Oct to mid Nov 2018) showed some signs of weakness. SSSG in HK was flatish, while in mainland China it showed a mid-high single-digit drop. Although this was better than its peers' (e.g. Luk Fook), it is still unexciting, as CTF's figures confirmed weakness in the sales performance of high-end products in mainland China.
- Margins Are Likely to Remain Under Pressure.** While the 1HFY19 GPM remained at a similar level of 28.7% (1HFY18: 28.9%), we note that there may be slight pressure in FY19E/20E, caused mainly by the changing product mix, as now sales of gold products account for a higher portion of sales. For SG&A, we do not see pressure from rental costs in HK in the near term, but higher expenses due to newer brands (e.g. SOINLOVE and MONOLOGUE) may limit SG&A savings. When FX losses and unexciting sales growth are considered, we don't expect NPM to offer much upside.
- Lack of Near-term Catalysts and Earnings Visibility Clouded.** We consider the FY19 interim results a miss, and the high-end luxury market performance was much weaker than the market expected. We therefore lower our earnings forecast by ~15% to factor in the impact of RMB depreciation and weaker SSSG. Our latest TP is HK\$6.10, as we lower our target FY19E PER from 17x to 15x to reflect worse market conditions. Under these market conditions, we also do not expect CTF's upcoming dividends to be generous, as it already financed past dividends with debt. Hence, we lower our rating from BUY to HOLD. Upside risks to our view are: (1) better market sentiment; (2) better-than-expected cost control, and (3) favourable RMB exchange rate movement.

Year ended 31 March	FY2016	FY2017	FY2018	FY2019E	FY2020E
Turnover (HK\$m)	56,592	51,246	59,156	66,146	71,206
Net profit (HK\$m)	2,941	3,055	4,095	4,070	4,725
Net margin	5.2%	6.0%	6.9%	6.2%	6.6%
Basic EPS (HK\$)	0.29	0.31	0.41	0.41	0.47
Change	-46%	4%	34%	-1%	16%
PER (x)	22.6	21.7	16.2	16.3	14.0
Yield (%)	12.1%	7.7%	8.6%	4.6%	5.3%
PBR (x)	1.9	2.0	1.9	2.0	1.9

Sources: Company, CGIS Research

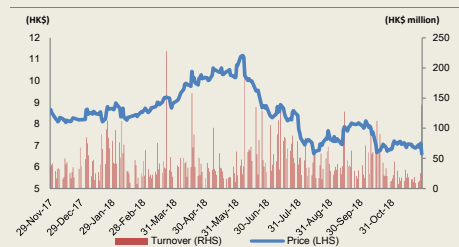
## China Consumer Sector Luxury HOLD

(Downgrade from BUY)

Close: HK6.61 (Nov 29, 2018)

Target Price: HK6.10 (-7.9%)

### Price Performance



Source: Bloomberg

Market Cap	US\$8,496m
Shares Outstanding	10,000m
Auditor	Deloitte
Free Float	10.7%
52W range	HK\$6.50-11.09
6M average daily T/O	US\$5.66m
Major Shareholding	CTF Holding (89.34%)

Sources: Company, Bloomberg

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## Key financials

Profit & loss (HK\$m)	FY2016	FY2017	FY2018	FY2019E	FY2020E	Cash flow (HK\$m)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Total revenue</b>	<b>56,592</b>	<b>51,246</b>	<b>59,156</b>	<b>66,146</b>	<b>71,206</b>	Net profit before tax	3,936	4,378	5,832	5,570	6,467
COGS	(40,950)	(36,283)	(42,943)	(48,301)	(51,981)	Depreciation and amortisation	915	868	885	1,191	1,282
<b>Gross profit</b>	<b>15,641</b>	<b>14,963</b>	<b>16,213</b>	<b>17,845</b>	<b>19,225</b>	Change in working capital	8,946	1,460	(3,018)	(3,181)	(2,894)
Other income	306	330	408	359	392	Other operating cash flow	100	(487)	(848)	(1,064)	(1,237)
Selling and distribution cost	(9,197)	(8,011)	(8,239)	(9,113)	(9,864)	<b>Operating cash flow</b>	<b>13,897</b>	<b>6,220</b>	<b>2,851</b>	<b>2,515</b>	<b>3,617</b>
Administrative expenses	(2,427)	(2,296)	(2,682)	(2,806)	(2,848)	CAPEX	(1,046)	(1,240)	(1,084)	(1,414)	(996)
Other operating expenses	(51)	(215)	(48)	(54)	(58)	Proceeds from disposals	20	6	13	-	-
<b>Operating profit</b>	<b>4,273</b>	<b>4,770</b>	<b>5,653</b>	<b>6,231</b>	<b>6,847</b>	Other investing cash flow	(18)	87	(506)	79	56
Net financial expenses	(88)	(97)	(163)	(328)	(380)	<b>Investing cash flow</b>	<b>(1,045)</b>	<b>(1,147)</b>	<b>(1,577)</b>	<b>(1,335)</b>	<b>(940)</b>
Other gains and losses	(249)	(295)	342	(334)	-	Net proceeds from borrowings	(969)	(4,135)	2,907	1,308	1,035
<b>Profit before tax</b>	<b>3,936</b>	<b>4,378</b>	<b>5,832</b>	<b>5,570</b>	<b>6,467</b>	Share issue	-	-	-	-	-
Tax expenses	(957)	(1,227)	(1,629)	(1,392)	(1,617)	Dividends paid	(6,582)	(5,148)	(4,260)	(4,376)	(3,298)
<b>Profit after tax</b>	<b>2,979</b>	<b>3,151</b>	<b>4,203</b>	<b>4,177</b>	<b>4,850</b>	Interest paid	(257)	(251)	(245)	(407)	(436)
Minority interests	(38)	(96)	(108)	(108)	(125)	Other financing cash flow	(200)	(238)	(155)	-	-
<b>Net profit</b>	<b>2,941</b>	<b>3,055</b>	<b>4,095</b>	<b>4,070</b>	<b>4,725</b>	<b>Financing cash flow</b>	<b>(8,008)</b>	<b>(9,771)</b>	<b>(1,753)</b>	<b>(3,475)</b>	<b>(2,699)</b>
Basic EPS (HK\$)	0.29	0.31	0.41	0.41	0.47	Forex adjustment	(321)	(392)	480	-	-
Diluted EPS (HK\$)	0.29	0.31	0.41	0.41	0.47	<b>Net change in cash</b>	<b>4,524</b>	<b>(5,090)</b>	<b>1</b>	<b>(2,295)</b>	<b>(21)</b>
Total DPS (HK\$)	0.80	0.51	0.57	0.31	0.35	<b>Free cash flow</b>	<b>12,036</b>	<b>4,670</b>	<b>1,503</b>	<b>2,109</b>	<b>4,135</b>

Balance sheet (HK\$m)	FY2016	FY2017	FY2018	FY2019E	FY2020E	Key ratios	FY2016	FY2017	FY2018	FY2019E	FY2020E
Cash and cash equivalents	13,001	7,943	7,944	5,649	5,628	Revenue growth	-12.0%	-9.4%	15.4%	11.8%	7.7%
Inventories	31,377	29,259	34,929	38,357	41,292	Gross profit growth	-18.0%	-4.3%	8.4%	10.1%	7.7%
Trade and other receivables	4,605	5,057	6,410	7,062	7,897	Operating profit growth	-38.4%	11.6%	18.5%	10.2%	9.9%
Other current assets	22	8	28	32	34	Net profit growth	-46.1%	3.9%	34.0%	-0.6%	16.1%
<b>Total current assets</b>	<b>49,005</b>	<b>42,269</b>	<b>49,312</b>	<b>51,100</b>	<b>54,852</b>	Gross margin	27.6%	29.2%	27.4%	27.0%	27.0%
Property, plant and equipment	4,750	4,666	5,341	5,564	5,278	Operating margin	7.6%	9.3%	9.6%	9.4%	9.6%
Prepaid land lease payments	212	185	190	190	190	Net margin	5.2%	6.0%	6.9%	6.2%	6.6%
Deposits paid	133	53	28	28	28	ROA	5.3%	6.2%	7.1%	6.8%	7.5%
Other non-current assets	1,577	2,230	2,700	2,687	2,732	ROE	8.4%	9.6%	12.3%	12.3%	13.7%
<b>Total assets</b>	<b>55,675</b>	<b>49,402</b>	<b>57,570</b>	<b>59,569</b>	<b>63,079</b>	Net debt to equity	Net Cash	Net Cash	Net Cash	14.2%	12.8%
ST borrowings	7,320	6,193	5,823	7,650	9,232	Quick ratio	0.9x	0.8x	0.7x	0.5x	0.5x
Trade and other payables	4,336	5,693	8,359	9,346	10,061	Current ratio	2.6x	2.7x	2.4x	2.1x	2.0x
Gold loan	6,513	3,216	5,335	5,917	6,370	Interest coverage ratio	48.3x	49.4x	34.6x	19.0x	18.0x
Other current liabilities	595	686	1,202	1,152	1,322	<b>Key assumptions</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019E</b>	<b>FY2020E</b>
<b>Total current liabilities</b>	<b>18,764</b>	<b>15,788</b>	<b>20,719</b>	<b>24,065</b>	<b>26,985</b>	Jewellery POS	2,180	2,260	2,454	2,859	3,025
LT borrowings	600	600	2,100	1,000	-	Mainland China	2,057	2,125	2,324	2,724	2,889
Other non-current liabilities	562	512	653	604	643	HK, Macau and others	123	135	130	135	136
<b>Total liabilities</b>	<b>19,926</b>	<b>16,900</b>	<b>23,472</b>	<b>25,670</b>	<b>27,628</b>	Watch POS	125	121	110	110	110
Common stock	10,000	10,000	10,000	10,000	10,000	<b>Total POS</b>	<b>2,305</b>	<b>2,381</b>	<b>2,564</b>	<b>2,969</b>	<b>3,135</b>
Reserves	24,904	21,799	23,423	23,117	24,544	<b>SSSG</b>					
<b>Shareholders' equity</b>	<b>34,904</b>	<b>31,799</b>	<b>33,423</b>	<b>33,117</b>	<b>34,544</b>	Mainland China - Jewellery	-10%	-5%	0%	4%	3%
Minority interests	846	703	674	782	907	HK, Macau and others	-22%	-12%	10%	10%	3%
<b>Total equity &amp; liabilities</b>	<b>55,675</b>	<b>49,402</b>	<b>57,570</b>	<b>59,569</b>	<b>63,079</b>						
Net cash / (net debt)	5,081	1,151	21	(3,000)	(3,604)						
Basic BPS (HK\$)	3.57	3.25	3.41	3.39	3.55						

Sources: Company, Capital IQ, CGIS Research estimates

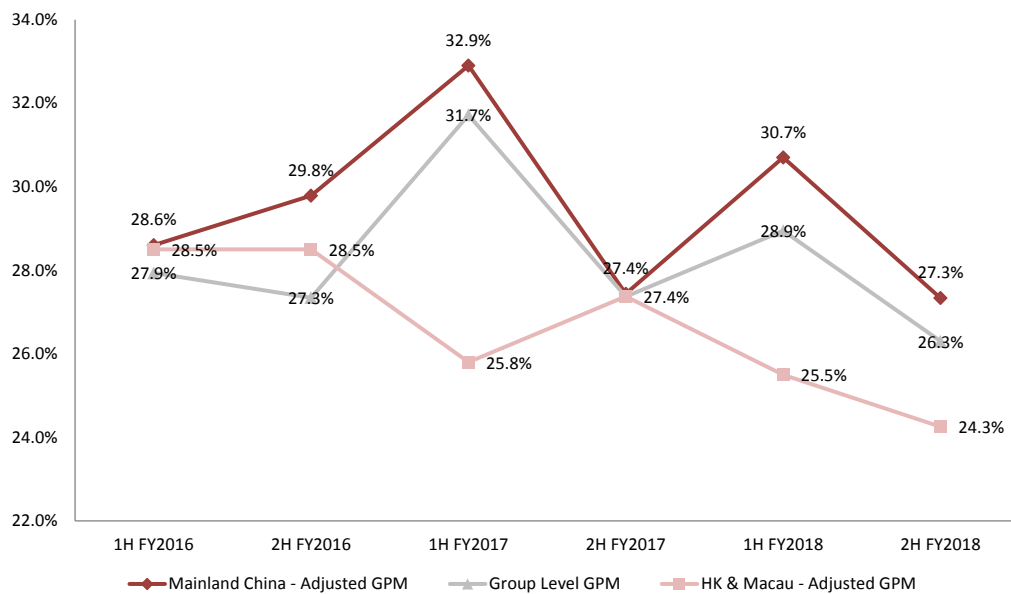
## FY2019 Interim Results Review

Figure 1: FY2019 Interim Results Review

Unit: HK\$m	1H FY18	1H FY19	YoY	Note
<b>Revenue</b>	<b>24,754.3</b>	<b>29,702.9</b>	<b>20.0%</b>	
Cost of goods sold	(17,588.6)	(21,174.4)	20.4%	
<b>Gross profit</b>	<b>7,165.7</b>	<b>8,528.5</b>	<b>19.0%</b>	Partially supported by a HK\$153m reversal on inventory impairment provision
Other income	186.1	167.2	-10.2%	
Selling and distribution costs	(3,683.1)	(4,111.0)	11.6%	
General and administrative expenses	(1,203.9)	(1,405.9)	16.8%	
Other gains and losses	111.0	(333.7)	N/A	Included HK\$326 net FX loss (1H FY 18: HK\$115m net FX gain)
Other expenses	(24.2)	(28.0)	15.7%	
Interest income	43.9	58.7	33.7%	
Finance costs	(91.6)	(153.9)	68.0%	Lifted by 113% YoY increase of bank interest cost to HK\$94m
<b>Profit before taxation</b>	<b>2,503.9</b>	<b>2,721.9</b>	<b>8.7%</b>	
Taxation	(674.7)	(728.1)	7.9%	
<b>Profit for the year</b>	<b>1,829.2</b>	<b>1,993.8</b>	<b>9.0%</b>	
<b>Profit for the year attributable to:</b>				
Shareholders of the Company	1,779.10	1,936.30	8.8%	
Non-controlling interests	50.1	57.5	14.8%	
<b>EPS (HK\$)</b>	<b>0.178</b>	<b>0.194</b>	<b>9.0%</b>	
Total DPS (HK\$)	0.12	0.15	25.0%	

Sources: Company, CGIS Research

Figure 2: Adjusted Gross Margin Trend (Excluding Unrealized Hedging Gain/Loss)



Sources: Company, CGIS Research estimates

**Figure 3: CTF's Performance Breakdown by Geography**

Unit: HK\$ million	1H FY2017	2H FY2017	1H FY2018	2H FY2018	1H FY2019
<b>Revenue</b>					
Mainland China	12,851	18,168	14,944	21,861	18,022
HK, Macau and Others	8,675	11,551	9,810	12,542	11,681
<b>Total</b>	<b>21,526</b>	<b>29,719</b>	<b>24,754</b>	<b>34,402</b>	<b>29,703</b>
YoY - Mainland China	-22.9%	6.8%	16.3%	20.3%	20.6%
YoY - HK, Macau and Others	-24.3%	0.8%	13.1%	8.6%	19.1%
<b>Adjusted Gross Profit (Excluding Unrealized Hedging Gain/Loss)</b>					
Mainland China	4,228	4,985	4,588	5,975	5,352
HK, Macau and Others	2,238	3,162	2,502	3,042	2,979
<b>Total</b>	<b>6,466</b>	<b>8,147</b>	<b>7,089</b>	<b>9,017</b>	<b>8,331</b>
YoY - Mainland China	-11.3%	-1.6%	8.5%	19.9%	16.7%
YoY - HK, Macau and Others	-31.5%	-3.2%	11.8%	-3.8%	19.1%
<b>Core Operating Profit Margin</b>					
Mainland China	32.9%	27.4%	30.7%	27.3%	29.7%
HK, Macau and Others	25.8%	27.4%	25.5%	24.3%	25.5%
<b>Total</b>	<b>30.0%</b>	<b>27.4%</b>	<b>28.6%</b>	<b>26.2%</b>	<b>28.0%</b>
<b>Core Operating Profit</b>					
Mainland China	1,549	2,026	1,853	2,414	2,062
HK, Macau and Others	159	915	543	796	926
<b>Total</b>	<b>1,708</b>	<b>2,942</b>	<b>2,396</b>	<b>3,211</b>	<b>2,989</b>
YoY - Mainland China	-2.1%	13.7%	19.6%	19.1%	11.3%
YoY - HK, Macau and Others	-81.1%	8.2%	242.2%	-13.0%	70.5%
<b>Core Operating Profit Margin</b>					
Mainland China	12.1%	11.2%	12.4%	11.0%	11.4%
HK, Macau and Others	1.8%	7.9%	5.5%	6.3%	7.9%
<b>Total</b>	<b>7.9%</b>	<b>9.9%</b>	<b>9.7%</b>	<b>9.3%</b>	<b>10.1%</b>

Sources: Company, CGIS Research

**Figure 4: CTF's SSSG Quarterly Performance**

Period	2Q FY2017	3Q FY2017	4Q FY2017	1Q FY2018	2Q FY2018	3Q FY2018	4Q FY2018	1Q FY2019	2Q FY2019
Date	07/01/2016	10/01/2016	01/01/2017	04/01/2017	07/01/2017	10/01/2017	01/01/2018	04/01/2018	07/01/2018
	-	-	-	-	-	-	-	-	-
	09/30/2016	12/31/2016	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018	06/30/2018	09/30/2018
Mainland China - SSSG	-22%	4%	12%	11%	9%	5%	7%	4%	6%
Hong Kong and Macau -SSSG	-30%	-2%	4%	5%	13%	5%	17%	26%	23%
Mainland China - RSV YoY Growth	-17%	7%	16%	17%	15%	12%	13%	11%	15%
Hong Kong and Macau -RSV YoY Growth	-33%	-6%	1%	7%	12%	0%	11%	21%	25%

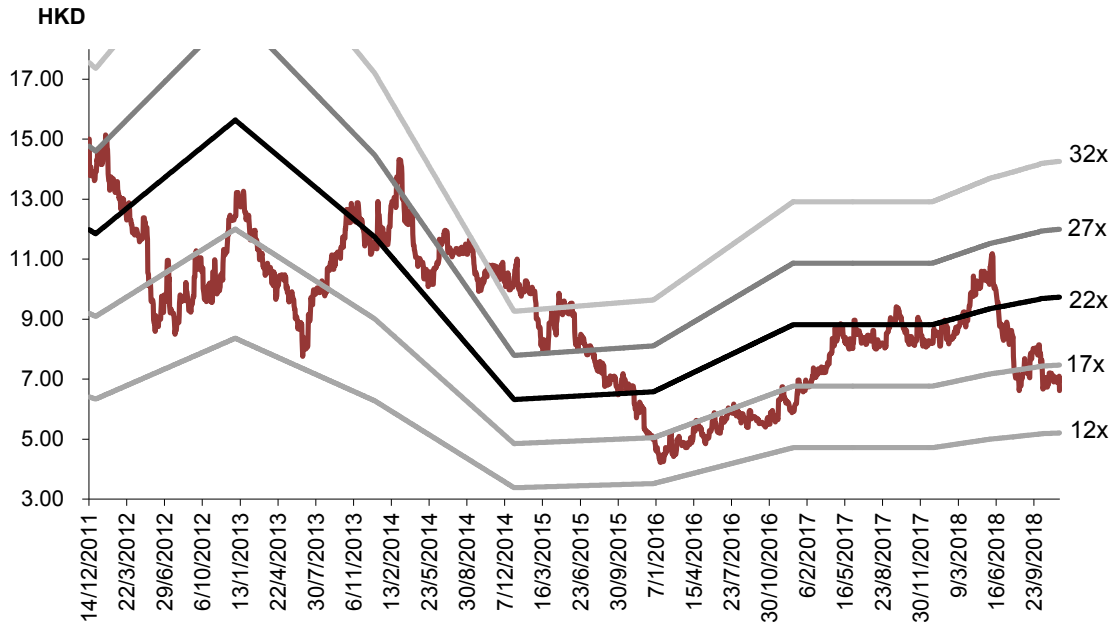
Sources: Company, CGIS Research

**Figure 5: CTF's POS (As at 31 Sept 2018) - We Expect CTF's FY19 Target to Open 400+ POS to be Achievable**

POS by brand	Chow Tai Fook Jewellery	CTF Watch	Hearts On Fire	Monologue	SOINLOVE	T MARK	Total
Mainland China	2,537	107	6	16	15	1	<b>2,682</b>
Hong Kong & Others	123	1	15	-	-	1	<b>140</b>

Sources: Company, CGIS Research

Figure 6: PER Band of CTF



Sources: Bloomberg, CGIS Research



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