

Chow Tai Fook (1929 HK)

Sales under ST pressure, fixed-price products to contribute more

Chow Tai Fook (CTF) reported 1QFY25 (calendar year 2Q24) operational data with a 20% YoY decline in total retail sales value (RSV). RSV in Mainland China/HK & Macau fell 18/28.8% YoY, with same-store sales growth (SSSG) down 26.4/30.8% YoY. The sluggish results were due to weak consumer spending and gold price volatility that intensified consumers' wait-and-see attitude. The Company maintains its guidance for flat revenue growth in FY25E. We forecast revenue growth of -2/5/4% for FY25/26/27E, with NP growing by 12/9/8%. We like the Company given 1) its brand advantage and leading position that is poised to benefit from increased industry consolidation, 2) GP margin improvement driven by higher proportion of fixed-price products and optimized channel strategies. We transfer coverage with a BUY rating, with a TP of HK\$ 14.54. Our TP represents 20x FY25E P/E, in line with the long-term average of comparable peers.

- 1QFY25 retail sales under pressure.** CTF reported a 20% YoY decline in RSV in 1QFY25 (calendar year 2Q24), driven by an 18.6% decrease in Mainland China and a 28.8% drop in Hong Kong & Macau. SSSG contracted by 26.4% and 30.8% YoY in Mainland China and Hong Kong & Macau, respectively. Such miss was primarily due to soft consumer sentiment and gold price volatility that dampen purchase decisions.
- Strong performance on fixed-price products to boost margins** Fixed-price products contribution surged 10ppt to 15.8% in 1QFY25 from 5.7% in 1Q FY24, outpacing the Company's projections. This was mainly attributable to ongoing product portfolio refinement and robust terminal feedback that boosted the performance of new "Rouge" collection. We anticipate that contribution from fixed-price products will remain high given upcoming product launches including a collaboration with the Forbidden City and upgraded "Rouge" collection. GP margin will be favourable since fixed-price products have higher margins.
- Channel optimization continues with enhanced online presence.** CTF closed a net of 95 stores (opened 89, shuttered 194) in 1QFY25 driven by a strategic slowdown in channel expansion aimed at replacing underperforming stores with more efficient ones to boost profitability. Online sales volume contribution in mainland China climbed to 13.8% in 1QFY25 (vs. 10% in 1QFY24). We believe the optimization measures and the increased online presence is helpful on navigating macroeconomic uncertainties.
- Transfer coverage with a BUY rating.** We transfer coverage with a BUY rating. Our TP is at HK\$ 14.54, representing 20x FY25E P/E, in line with the long-term average of comparable peers. **Key risks:** weak consumption, gold price volatility, and worse-than-expected new product sales.

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	94,684	108,713	106,501	111,338	116,222
YoY growth (%)	(4.3)	14.8	(2.0)	4.5	4.4
Net profit (HK\$ mn)	5,384.4	6,499.3	7,260.5	7,900.6	8,566.2
EPS (Reported) (HK\$)	0.54	0.65	0.73	0.79	0.86
Consensus EPS (HK\$)	na	na	0.75	0.80	0.87
P/E (x)	13.6	11.2	10.1	9.3	8.5
P/B (x)	2.3	2.8	2.7	2.6	2.4
Yield (%)	16.6	7.5	8.4	9.1	9.9
ROE (%)	16.3	22.4	27.5	28.3	29.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$14.54**

(Previous TP) HK\$18.6)

Current Price **HK\$7.32**

China Consumer

Miao ZHANG

(852) 3761 8910

zhangmiao@cmbi.com.hk

Bella LI

(852) 3757 6202

bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	73,200.0
Avg 3 mths t/o (HK\$ mn)	94.1
52w High/Low (HK\$)	13.54/7.28
Total Issued Shares (mn)	10000.0

Source: FactSet

Shareholding Structure

CTF Holding	72.4%
Yueford Corp	5.1%

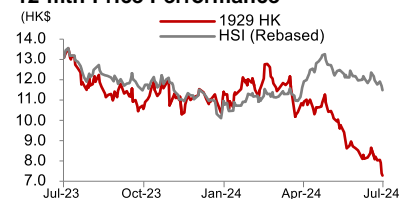
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.9%	-10.6%
3-mth	-33.0%	-30.5%
6-mth	-35.1%	-39.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

HKD mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	106,501	111,338	116,222	118,449	126,589	na	-10.1%	-12.0%	na
Gross profit	23,038	24,588	26,071	27,965	30,001	na	-17.6%	-18.0%	na
EBIT	10,292	11,152	12,046	13,375	14,408	na	-23.1%	-22.6%	na
Net profit	7,260	7,901	8,566	9,413	10,160	na	-22.9%	-22.2%	na
Gross margin	21.6%	22.1%	22.4%	23.6%	23.7%	na	-2ppt	-1.6ppt	na
EBIT margin	9.7%	10.0%	10.4%	11.3%	11.4%	na	-1.6ppt	-1.4ppt	na
Net margin	6.8%	7.1%	7.4%	7.9%	8.0%	na	-1.1ppt	-0.9ppt	na

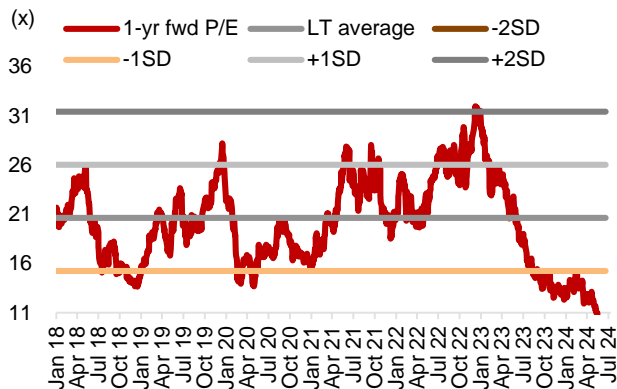
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HKD mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	106,501	111,338	116,222	104,959	111,022	117,385	1.5%	0.3%	-1.0%
Gross profit	23,038	24,588	26,071	23,721	25,035	26,646	-2.9%	-1.8%	-2.2%
EBIT	10,292	11,152	12,046	10,511	11,205	12,010	-2.1%	-0.5%	0.3%
Net profit	7,260	7,901	8,566	7,257	7,943	8,610	0.0%	-0.5%	-0.5%
Gross margin	21.6%	22.1%	22.4%	22.6%	22.6%	22.7%	-1ppt	-0.5ppt	-0.3ppt
EBIT margin	9.7%	10.0%	10.4%	10.0%	10.1%	10.2%	-0.4ppt	-0.1ppt	0.1ppt
Net margin	6.8%	7.1%	7.4%	6.9%	7.2%	7.3%	-0.1ppt	-0.1ppt	0ppt

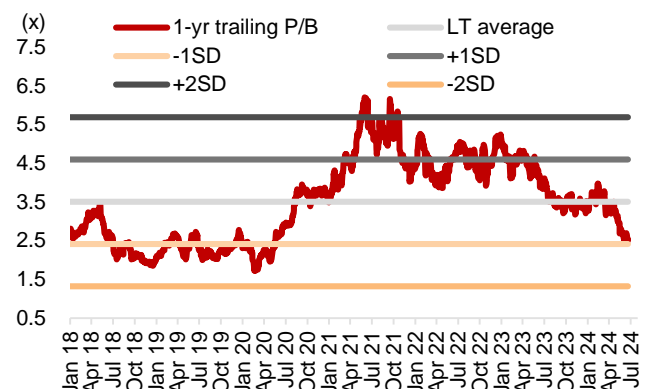
Source: Bloomberg, CMBIGM estimates

Figure 3: CTF - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CTF - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: Valuation comps (as of 26 July 2024)

Company	Ticker	Last Price (LC)	Mkt Cap (USD mn)	P/E (x)			P/B (x)			ROE (%)			Revenue Growth (%)			Net Profit Growth (%)			Gross Margin	Net Margin	OCF/Rev (%)	Payout ratio	Dividend Yield	
				24E	25E	26E	24E	25E	26E	24E	25E	26E	24E	25E	26E	24E	25E	26E					23A	23A
Chow Tai Fook	1929.HK	7.32	9,366	10.1 x	9.3 x	8.5 x	2.7 x	2.6 x	2.4 x	27.5	28.3	29.1	(2.0)	4.5	4.4	11.7	8.8	8.4	20.5	6.1	12.7	85%	7.5%	8.4%
L.F.X	600612.SH	52.65	3,083	10.7 x	9.4 x	8.4 x	2.0 x	1.8 x	1.5 x	19.5	19.2	18.8	12.2	12.0	10.7	16.2	14.0	12.4	8.3	4.2	10.1	46%	3.7%	4.3%
China Gold	600916.SH	8.80	2,074	12.3 x	10.5 x	9.1 x	1.8 x	1.7 x	1.5 x	15.1	16.2	17.1	17.6	13.1	11.3	23.4	17.3	14.8	4.1	1.7	2.8	78%	5.1%	4.7%
Chow Tai Seng	002867.SZ	11.92	1,833	8.8 x	7.7 x	6.9 x	1.8 x	1.6 x	1.4 x	20.5	20.7	20.4	20.6	16.1	14.1	13.4	13.8	11.5	18.1	8.1	0.9	79%	8.0%	6.6%
Laopu Gold	6181.HK	74.50	1,575	15.0 x	11.8 x	9.7 x	4.6 x	3.6 x	2.8 x	31.2	30.2	28.7	69.4	23.2	18.5	80.3	26.5	21.7	41.9	13.1	(0.9)	NA	NA	NA
Chow Sang Sang	0116.HK	6.59	572	3.6 x	3.2 x	2.9 x	0.3 x	0.3 x	0.3 x	9.8	10.5	10.9	10.9	10.4	13.7	22.7	13.7	10.6	26.4	4.0	8.6	40%	9.1%	11.1%
CHU	002345.SZ	4.18	521	8.8 x	7.4 x	6.4 x	1.0 x	0.9 x	0.8 x	10.7	11.9	12.7	19.1	17.2	15.5	26.1	19.0	16.1	26.1	5.6	10.6	66%	6.0%	6.4%
Average				11.0 x	9.5 x	8.5 x	2.5 x	2.2 x	1.9 x	21.0	22.2	22.4	12.5	8.9	10.1	22.2	13.5	9.4	18.6	6.0	8.8	68%	6.1%	2.5%

Source: Wind, CMBIGM

Note: CTF's fiscal year ends in Mar

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Revenue	98,938	94,684	108,713	106,501	111,338	116,222
Cost of goods sold	(76,598)	(73,513)	(86,428)	(83,463)	(86,750)	(90,151)
Gross profit	22,340	21,172	22,285	23,038	24,588	26,071
Operating expenses	(13,265)	(13,050)	(12,685)	(12,746)	(13,437)	(14,026)
Selling expense	(10,522)	(9,974)	(9,513)	(9,639)	(10,188)	(10,635)
Admin expense	(3,442)	(3,721)	(3,787)	(3,710)	(3,878)	(4,049)
Others	699	646	615	603	630	658
Operating profit	9,074	8,122	9,600	10,292	11,152	12,046
EBITDA	11,096	10,265	11,679	12,537	13,420	14,311
Depreciation	(1,148)	(1,272)	(1,351)	(1,351)	(1,351)	(1,351)
Goodwill amortisation	(57)	14	139	0	0	0
EBIT	9,891	9,008	10,468	11,186	12,069	12,960
Net Interest income/(expense)	(268)	(358)	(522)	(522)	(522)	(522)
Other income/expense	6	0	(20)	(20)	(20)	(20)
Others	171	(318)	(330)	0	0	0
Pre-tax profit	8,983	7,447	8,728	9,751	10,610	11,504
After tax profit	6,880	5,490	6,607	7,381	8,032	8,708
Minority interest	(168)	(105)	(108)	(121)	(131)	(142)
Net profit	6,712	5,384	6,499	7,260	7,901	8,566
Adjusted net profit	6,601	5,745	6,767	7,260	7,901	8,566
Gross dividends	5,000	12,188	5,496	6,140	6,681	7,244
Net dividends	5,000	12,188	5,496	6,140	6,681	7,244
BALANCE SHEET						
YE 31 Mar (HK\$ mn)						
Current assets	78,126	77,267	79,182	79,730	82,772	85,975
Cash & equivalents	14,942	11,695	7,695	15,863	18,726	19,387
Account receivables	5,914	6,192	6,825	6,686	6,990	7,296
Inventories	57,254	59,290	64,647	57,166	57,041	59,277
Other current assets	15	89	15	15	15	15
Non-current assets	9,617	10,074	9,637	9,391	9,123	8,858
PP&E	5,039	5,144	4,527	4,276	4,025	3,775
Right-of-use assets	1,679	1,696	1,782	1,788	1,770	1,755
Intangibles	109	66	25	25	25	25
Other non-current assets	2,785	3,167	3,303	3,303	3,303	3,303
Total assets	87,737	87,341	88,819	89,121	91,895	94,833
Current liabilities	49,629	51,022	57,520	56,260	57,413	58,606
Short-term borrowings	7,276	4,367	794	794	794	794
Account payables	25,166	30,089	30,530	29,269	30,422	31,615
Other current liabilities	1,467	1,480	1,709	1,709	1,709	1,709
Contract liabilities	15,721	15,086	24,488	24,488	24,488	24,488
Non-current liabilities	3,553	2,959	4,553	4,553	4,553	4,553
Long-term borrowings	1,799	1,789	1,488	3,342	3,342	3,342
Other non-current liabilities	1,754	1,170	3,065	1,211	1,211	1,211
Total liabilities	53,183	53,981	62,073	60,813	61,966	63,159
Share capital	15,499	15,499	15,499	15,499	15,499	15,499
Retained earnings	18,121	16,899	10,216	11,659	13,149	14,752
Total shareholders equity	33,619	32,397	25,715	27,157	28,647	30,251
Minority interest	935	962	1,031	1,151	1,282	1,425
Total equity and liabilities	87,737	87,341	88,819	89,121	91,895	94,833

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	8,983	7,447	8,728	9,751	10,610	11,504
Depreciation & amortization	2,022	2,143	2,079	2,245	2,268	2,265
Tax paid	(2,103)	(1,957)	(2,121)	(2,370)	(2,578)	(2,796)
Change in working capital	(5,101)	654	726	6,359	974	(1,350)
Others	10,137	1,779	4,424	0	0	0
Net cash from operations	13,938	10,066	13,836	15,985	11,274	9,624
Investing						
Capital expenditure	(1,531)	(1,937)	(957)	(1,100)	(1,100)	(1,100)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	372	154	241	0	0	0
Net cash from investing	(1,458)	(1,782)	(717)	(1,100)	(1,100)	(1,100)
Financing						
Dividend paid	(4,500)	(8,594)	(8,842)	(5,818)	(6,411)	(6,963)
Net borrowings	12,642	(3,216)	(1,749)	0	0	0
Others	(11,934)	1,105	(6,239)	(900)	(900)	(900)
Net cash from financing	(3,793)	(10,705)	(16,830)	(6,718)	(7,311)	(7,863)
Net change in cash						
Cash at the beginning of the year	6,032	14,942	11,695	7,695	15,863	18,726
Exchange difference	222	(826)	(289)	0	0	0
Cash at the end of the year	14,942	11,695	7,695	15,863	18,726	19,387
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Revenue	41.0%	(4.3%)	14.8%	(2.0%)	4.5%	4.4%
Gross profit	11.3%	(5.2%)	5.3%	3.4%	6.7%	6.0%
Operating profit	9.9%	(10.5%)	18.2%	7.2%	8.4%	8.0%
EBITDA	7.0%	(7.5%)	13.8%	7.3%	7.0%	6.6%
EBIT	6.5%	(8.9%)	16.2%	6.9%	7.9%	7.4%
Net profit	11.4%	(19.8%)	20.7%	11.7%	8.8%	8.4%
Adj. net profit	15.5%	(13.0%)	17.8%	7.3%	8.8%	8.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Gross profit margin	22.6%	22.4%	20.5%	21.6%	22.1%	22.4%
Operating margin	9.2%	8.6%	8.8%	9.7%	10.0%	10.4%
EBITDA margin	11.2%	10.8%	10.7%	11.8%	12.1%	12.3%
Adj. net profit margin	6.7%	6.1%	6.2%	6.8%	7.1%	7.4%
Return on equity (ROE)	20.9%	16.3%	22.4%	27.5%	28.3%	29.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Net debt to equity (x)	(0.2)	(0.2)	(0.2)	(0.4)	(0.5)	(0.5)
Current ratio (x)	1.6	1.5	1.4	1.4	1.4	1.5
Receivable turnover days	21.8	23.9	22.9	22.9	22.9	22.9
Inventory turnover days	238.9	289.3	261.7	250.0	240.0	240.0
Payable turnover days	101.0	137.2	128.0	128.0	128.0	128.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
P/E	10.9	13.6	11.2	10.1	9.3	8.5
P/E (diluted)	14.6	6.0	10.8	10.1	9.3	8.5
P/B	2.2	2.3	2.8	2.7	2.6	2.4
Div yield (%)	6.8	16.6	7.5	8.4	9.1	9.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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