

# Chow Tai Fook (1929 HK)

## 1H earnings missed, 2H still under pressure

Chow Tai Fook (CTF) reported 1HFY25 (6 months ended Sep 2024) results with revenue down 20.4% YoY, in line with Bloomberg consensus estimates. NP dropped 44.4% YoY, 20% below consensus mainly due to weak consumer sentiment and fair value loss of gold loan due to gold price hikes. CTF announced a share buyback plan of HK\$ 2bn on top of HK\$ 0.2 per share dividend. Considering possible continued weakening of consumer sentiment and gold price fluctuation, we cut NP forecasts by 20-30%, projecting NP growth of -23.3%/28.1%/6.8% in FY25/26/27E. Accordingly, we cut our TP by 31% to HK\$10.0, representing 20x FY25E P/E.

- 1HFY25 revenue in line, NP missed.** The company reported 1HFY25 (6 months ended Sep 2024) results. Revenue dropped 20.4% YoY to HK\$ 39.4bn, in line with consensus, due to weak consumer sentiment and intensified wait-and-see stance due to gold price hikes. Net profit plunged 44.4% YoY to HK\$ 2.5bn, 20% below consensus. This was stemmed from combined impacts of GP margin boost and gold loan value loss: 1) GP margin rose 6 pts to 31.6%, aided by higher gold prices and fixed-price product contribution to sales doubling to 14.2%. 2) Gold loan fair value loss was at HK\$ 3.1bn (approx. 20%+ price rise for nearly 30,000kg gold loans, CMBI est.).
- Cut full-year estimates.** The company provided comprehensive guidance projecting a mid-teen revenue slump for FY25E, with OP margin up 1.5-3 pts as GP margin improvement will be partly offset by SG&A ratio hike (operating leverage). We cut revenue forecasts by 15 - 20%, expecting it to change by -16.2%/ -2.4%/ +3.2% YoY in FY25/26/27E respectively. Given the uncertainty in the international environment currently which may lead to continued fluctuations in gold prices, we expect fair value loss of gold loan to persist in 2H. Thus, we cut our net profit projections by 20-30%, estimating the bottom line to change by -23.2%/ +28.1%/ +6.8% YoY, amounting to HK\$ 5.0/6.3/6.8 bn in FY25/26/27E respectively.
- The company remains committed to shareholder returns, declaring a dividend of HK\$ 0.2 per share in 1HFY25 (vs. HK\$0.25 per share in 1HFY24), given the significant decline in NP. The payout ratio increased from 55% in 1HFY24 to 79% in 1HFY25. Additionally, CTF announced a share buyback plan of up to HK\$ 2bn, and funding will come from 1) higher 2HFY25 operating cash flow, and 2) cash released from inventory reductions.**
- Maintain BUY with TP cut by 31% to HK\$ 10.0 given lower NP forecasts.** Our **new TP** represents 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	91,057	88,852	91,725
YoY growth (%)	(4.3)	14.8	(16.2)	(2.4)	3.2
Net profit (HK\$ mn)	5,384.4	6,499.3	4,994.5	6,396.0	6,828.9
EPS (Reported) (HK\$)	0.54	0.65	0.50	0.64	0.68
Consensus EPS (HK\$)	na	na	0.75	0.80	0.87
P/E (x)	13.6	11.3	14.7	11.4	10.7
P/B (x)	2.3	2.8	2.8	2.6	2.5
Yield (%)	16.6	7.5	5.5	7.0	7.5
ROE (%)	16.3	22.4	19.3	23.8	23.9
Net gearing (%)	(17.1)	(21.1)	(63.8)	(77.0)	(76.9)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$10.00</b>
(Previous TP)	HK\$14.54)
<b>Up/Downside</b>	<b>36.4%</b>
<b>Current Price</b>	<b>HK\$7.33</b>

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#### Stock Data

Mkt Cap (HK\$ mn)	73,300.0
Avg 3 mths t/o (HK\$ mn)	89.5
52w High/Low (HK\$)	12.82/5.86
Total Issued Shares (mn)	10000.0

Source: FactSet

#### Shareholding Structure

CTF Holding	72.4%
Yueford Corp	5.1%

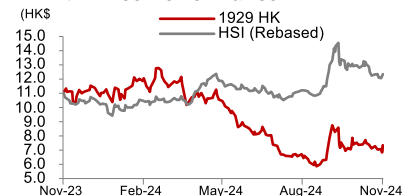
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-1.2%	3.8%
3-mth	10.7%	1.0%
6-mth	-29.9%	-32.7%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

HK\$ mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	91,057	88,852	91,725	106,501	111,338	116,222	-14.5%	-20.2%	-21.1%
Gross profit	22,834	22,634	23,635	23,038	24,588	26,071	-0.9%	-7.9%	-9.3%
EBIT	9,600	9,631	10,212	10,292	11,152	12,046	-6.7%	-13.6%	-15.2%
Net profit	4,994	6,396	6,829	7,260	7,901	8,566	-31.2%	-19.0%	-20.3%
Gross margin	25.1%	25.5%	25.8%	21.6%	22.1%	22.4%	3.4ppt	3.4ppt	3.3ppt
EBIT margin	10.5%	10.8%	11.1%	9.7%	10.0%	10.4%	0.9ppt	0.8ppt	0.8ppt
Net margin	5.5%	7.2%	7.4%	6.8%	7.1%	7.4%	-1.3ppt	0.1ppt	0.1ppt

Source: CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	91,057	88,852	91,725	95,991	101,384	106,579	-5.1%	-12.4%	-13.9%
Gross profit	22,834	22,634	23,635	21,505	23,032	24,423	6.2%	-1.7%	-3.2%
EBIT	9,600	9,631	10,212	9,339	10,454	11,269	2.8%	-7.9%	-9.4%
Net profit	4,994	6,396	6,829	6,253	7,128	7,782	-20.1%	-10.3%	-12.2%
Gross margin	25.1%	25.5%	25.8%	22.6%	22.6%	22.7%	2.5ppt	2.9ppt	3.1ppt
EBIT margin	10.5%	10.8%	11.1%	9.7%	10.3%	10.6%	0.8ppt	0.5ppt	0.6ppt
Net margin	5.5%	7.2%	7.4%	6.5%	7.0%	7.3%	-1ppt	0.2ppt	0.1ppt

Source: Bloomberg, CMBIGM estimates

**Figure 3 : Valuation comps (as of 27 Nov 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	23A	23A	23A	24E
Chow Tai Fook	1929.HK	7.33	9,408	14.7 x	11.4 x	10.7 x	2.8 x	2.6 x	2.5 x	19.3	23.8	23.9	(16.2)	(2.4)	3.2	(23.2)	28.1	6.8	20.5	6.1	12.7	85%	7.5%	5.5%
Laopu Gold	6181.HK	201.80	4,366	30.2 x	22.5 x	18.0 x	9.2 x	6.7 x	5.0 x	37.0	33.3	30.4	117.3	32.7	23.6	149.7	34.3	24.8	41.9	13.1	(0.9)	NA	NA	0.9%
L.F.X	600612.SH	50.55	2,939	12.5 x	11.3 x	10.3 x	2.1 x	1.8 x	1.6 x	16.8	16.5	16.3	(7.8)	8.9	8.4	(4.7)	10.6	9.9	8.3	4.2	10.1	46%	3.9%	3.7%
China Gold	600916.SH	8.73	2,038	14.1 x	12.3 x	11.0 x	1.9 x	1.8 x	1.7 x	13.4	14.4	15.3	12.4	11.9	10.7	6.9	14.2	12.5	4.1	1.7	2.8	78%	5.2%	4.8%
Chow Tai Seng	002867.SZ	12.60	1,918	12.0 x	10.5 x	9.4 x	2.0 x	1.9 x	1.7 x	16.9	17.8	18.3	(6.3)	12.1	11.5	(12.8)	14.2	12.5	18.1	8.1	0.9	79%	7.5%	5.4%
CHU	002345.SZ	5.43	670	13.1 x	11.1 x	9.6 x	1.3 x	1.2 x	1.1 x	9.7	10.7	11.5	11.5	15.0	14.0	10.6	17.6	15.5	26.1	5.6	10.6	66%	4.6%	4.5%
Chow Sang Sang	0116.HK	6.41	558	6.2 x	5.2 x	0.0 x	0.3 x	0.3 x	0.0 x	5.7	6.5	0.0	(11.3)	7.6	0.0	(29.4)	19.1	(100.0)	26.4	4.0	8.6	40%	9.4%	6.4%
<b>Average</b>				<b>16.9 x</b>	<b>13.5 x</b>	<b>11.7 x</b>	<b>3.7 x</b>	<b>3.1 x</b>	<b>2.6 x</b>	<b>21.1</b>	<b>22.5</b>	<b>21.9</b>	<b>16.0</b>	<b>9.5</b>	<b>9.6</b>	<b>19.5</b>	<b>24.5</b>	<b>9.2</b>	<b>22.7</b>	<b>6.9</b>	<b>7.2</b>	<b>62%</b>	<b>5.4%</b>	<b>4.3%</b>

Source: Wind, CMBIGM

Note: CTF's fiscal year ends in Mar

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Mar (HK\$ mn)</b>						
Revenue	98,938	94,684	108,713	91,057	88,852	91,725
Cost of goods sold	(76,598)	(73,513)	(86,428)	(68,223)	(66,219)	(68,090)
<b>Gross profit</b>	<b>22,340</b>	<b>21,172</b>	<b>22,285</b>	<b>22,834</b>	<b>22,634</b>	<b>23,635</b>
<b>Operating expenses</b>	<b>(13,265)</b>	<b>(13,050)</b>	<b>(12,685)</b>	<b>(13,234)</b>	<b>(13,003)</b>	<b>(13,423)</b>
Selling expense	(10,522)	(9,974)	(9,513)	(9,561)	(9,418)	(9,723)
Admin expense	(3,442)	(3,721)	(3,787)	(4,189)	(4,087)	(4,219)
Others	699	646	615	515	503	519
<b>Operating profit</b>	<b>9,074</b>	<b>8,122</b>	<b>9,600</b>	<b>9,600</b>	<b>9,631</b>	<b>10,212</b>
<b>EBITDA</b>	<b>11,096</b>	<b>10,265</b>	<b>11,679</b>	<b>11,845</b>	<b>11,899</b>	<b>12,478</b>
Depreciation	(1,148)	(1,272)	(1,351)	(1,351)	(1,351)	(1,351)
Goodwill amortisation	(57)	14	139	0	0	0
<b>EBIT</b>	<b>9,891</b>	<b>9,008</b>	<b>10,468</b>	<b>10,494</b>	<b>10,549</b>	<b>11,127</b>
<b>Net Interest income/(expense)</b>	<b>(268)</b>	<b>(358)</b>	<b>(522)</b>	<b>(522)</b>	<b>(522)</b>	<b>(522)</b>
Other income/expense	6	0	(20)	(20)	(20)	(20)
Others	171	(318)	(330)	(2,351)	(500)	(500)
<b>Pre-tax profit</b>	<b>8,983</b>	<b>7,447</b>	<b>8,728</b>	<b>6,707</b>	<b>8,590</b>	<b>9,171</b>
<b>After tax profit</b>	<b>6,880</b>	<b>5,490</b>	<b>6,607</b>	<b>5,077</b>	<b>6,502</b>	<b>6,942</b>
Minority interest	(168)	(105)	(108)	(83)	(106)	(113)
<b>Net profit</b>	<b>6,712</b>	<b>5,384</b>	<b>6,499</b>	<b>4,994</b>	<b>6,396</b>	<b>6,829</b>
<b>Adjusted net profit</b>	<b>6,601</b>	<b>5,745</b>	<b>6,767</b>	<b>4,994</b>	<b>6,396</b>	<b>6,829</b>
Gross dividends	5,000	12,188	5,496	3,996	5,117	5,463
Net dividends	5,000	12,188	5,496	3,996	5,117	5,463
<b>BALANCE SHEET</b>						
<b>YE 31 Mar (HK\$ mn)</b>						
<b>Current assets</b>	<b>78,126</b>	<b>77,267</b>	<b>79,182</b>	<b>73,154</b>	<b>74,665</b>	<b>77,239</b>
Cash & equivalents	14,942	11,695	7,695	20,694	25,531	26,694
Account receivables	5,914	6,192	6,825	5,717	5,578	5,759
Inventories	57,254	59,290	64,647	46,728	43,541	44,771
Other current assets	15	89	15	15	15	15
<b>Non-current assets</b>	<b>9,617</b>	<b>10,074</b>	<b>9,637</b>	<b>9,391</b>	<b>9,123</b>	<b>8,858</b>
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
<b>Total assets</b>	<b>87,737</b>	<b>87,341</b>	<b>88,819</b>	<b>82,546</b>	<b>83,789</b>	<b>86,097</b>
<b>Current liabilities</b>	<b>49,629</b>	<b>51,022</b>	<b>57,520</b>	<b>50,916</b>	<b>50,213</b>	<b>50,869</b>
Short-term borrowings	7,276	4,367	794	794	794	794
Account payables	25,166	30,089	30,530	23,925	23,222	23,878
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
<b>Non-current liabilities</b>	<b>3,553</b>	<b>2,959</b>	<b>4,553</b>	<b>4,553</b>	<b>4,553</b>	<b>4,553</b>
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
<b>Total liabilities</b>	<b>53,183</b>	<b>53,981</b>	<b>62,073</b>	<b>55,469</b>	<b>54,766</b>	<b>55,422</b>
Share capital	15,499	15,499	15,499	15,499	15,499	15,499
Retained earnings	18,121	16,899	10,216	10,465	12,305	13,844
<b>Total shareholders equity</b>	<b>33,619</b>	<b>32,397</b>	<b>25,715</b>	<b>25,964</b>	<b>27,803</b>	<b>29,342</b>
Minority interest	935	962	1,031	1,114	1,220	1,333
<b>Total equity and liabilities</b>	<b>87,737</b>	<b>87,341</b>	<b>88,819</b>	<b>82,546</b>	<b>83,789</b>	<b>86,097</b>

<b>CASH FLOW</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Mar (HK\$ mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>8,983</b>	<b>7,447</b>	<b>8,728</b>	<b>6,707</b>	<b>8,590</b>	<b>9,171</b>
Depreciation & amortization	2,022	2,143	2,079	2,245	2,268	2,265
Tax paid	(2,103)	(1,957)	(2,121)	(1,630)	(2,087)	(2,229)
Change in working capital	(5,101)	654	726	12,423	2,623	(755)
Others	10,137	1,779	4,424	0	0	0
<b>Net cash from operations</b>	<b>13,938</b>	<b>10,066</b>	<b>13,836</b>	<b>19,745</b>	<b>11,393</b>	<b>8,453</b>
<b>Investing</b>						
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
<b>Net cash from investing</b>	<b>(1,458)</b>	<b>(1,782)</b>	<b>(717)</b>	<b>(1,100)</b>	<b>(1,100)</b>	<b>(1,100)</b>
<b>Financing</b>						
Dividend paid	(4,500)	(8,594)	(8,842)	(4,746)	(4,556)	(5,290)
Net borrowings	12,642	(3,216)	(1,749)	0	0	0
Others	(11,934)	1,105	(6,239)	(900)	(900)	(900)
<b>Net cash from financing</b>	<b>(3,793)</b>	<b>(10,705)</b>	<b>(16,830)</b>	<b>(5,646)</b>	<b>(5,456)</b>	<b>(6,190)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,032	14,942	11,695	7,695	20,694	25,531
Exchange difference	222	(826)	(289)	0	0	0
<b>Cash at the end of the year</b>	<b>14,942</b>	<b>11,695</b>	<b>7,695</b>	<b>20,694</b>	<b>25,531</b>	<b>26,694</b>

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

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