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CMB International Global Markets | Equity Research | Company Update



Chow Tai Fook (1929 HK)

Another solid quarter

After market close yesterday, CTF announced its 1QFY24 operating data. Benefiting from a recovered tourist flow, both China and HK/ Macau saw solid SSSG growth as expected, along with the continuous ASP ramp-up. During the conference call, management reiterated its full-year/ 3-year target of a MSD SSSG with moderate new store expansion. Enhancing store efficiency tops management's agenda amid a faltering consumption sentiment.

- **Our view.** We think the SSSG has come in slightly above market expectation and hence there were repeat questions from investors about whether management will raise its full-year guidance on it. While we cannot fully rule out such possibility, we think management has prudently taken into account the high base effect from 2QFY23, in which sales growth for the first few days of July this year has turned negative as expected. This is despite the base effect should gradually fade away into August and September. Overall, we scope for mid-teen revenue growth this year.
- **COP continued to leap.** There was no official disclosure on COP margins for the quarter. That said, management mentioned, during the call, that the COP for the quarter has improved and is on track to the guidance given (a 0.5pp expansion), thanks to a 0.1-0.3pp increase in GPM and well executed cost control initiatives.
- **Impact from the faltering consumption sentiment.** Management expected overall sales momentum could recover to 70-80% of pre-pandemic level, saw further room of recovery next year. To HK stores, a weakening RMB could be a drag but this is yet to be an apparent one. There were signs of consumption trade-down, in which buying interest rotated from high margin gem-set to gold SKUs.
- **Valuation.** We adjusted our forecast for the actual FY23 results, and hence the change. We also introduce our FY26E forecasts. Our TP is based on an updated 24.2x (from previous 23.0x) end-FY24E P/E which still represents +1sd above LT average since 2018.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	98,938	94,684	110,193	124,871	139,508
YoY growth (%)	41.0	(4.3)	16.4	13.3	11.7
Net profit (HK\$ mn)	6,712.3	5,384.4	7,740.2	9,314.2	10,617.7
EPS (Reported) (HK\$)	0.67	0.54	0.77	0.93	1.06
Consensus EPS (HK\$)	na	na	0.79	0.90	1.02
P/E (x)	22.3	27.7	17.5	14.6	12.8
P/B (x)	4.4	4.6	4.4	4.0	3.6
Yield (%)	3.3	8.2	4.3	5.2	5.9
ROE (%)	20.9	16.3	24.4	28.6	29.8
Net gearing (%)	(17.5)	(17.1)	(10.4)	(9.7)	(11.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.73
(Previous TP)	HK\$18.73)
Up/Downside	38.1%
Current Price	HK\$13.56

China Consumer

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Stock Data

Mkt Cap (HK\$ mn)	135,600.0
Avg 3 mths t/o (HK\$ mn)	89.4
52w High/Low (HK\$)	17.60/13.06
Total Issued Shares (mn)	10000.0
Source: FactSet	

Shareholding Structure

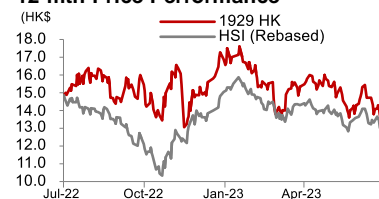
CTF Holding	72.4%
Yueford Corp	5.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-5.2%	-0.5%
3-mth	-11.6%	-2.7%
6-mth	-20.0%	-7.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Figure 1: Earnings revisions

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	110,193	124,871	139,508	113,464	129,685	n.a	-2.9%	-3.7%	na
Gross Profit	25,297	29,369	33,063	26,961	31,561	n.a	-6.2%	-6.9%	na
EBIT	11,062	13,239	15,041	11,991	14,450	n.a	-7.7%	-8.4%	na
Net profit	7,740	9,314	10,618	8,785	10,623	n.a	-11.9%	-12.3%	na
Gross Margin	23.0%	23.5%	23.7%	23.8%	24.3%	n.a	-0.8ppt	-0.8ppt	na
EBIT Margin	10.0%	10.6%	10.8%	10.6%	11.1%	n.a	-0.5ppt	-0.5ppt	na
Net margin	7.0%	7.5%	7.6%	7.7%	8.2%	n.a	-0.7ppt	-0.7ppt	na

Figure 2 : CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	110,193	124,871	139,508	111,683	124,550	137,445	-1.3%	0.3%	1.5%
Gross Profit	25,297	29,369	33,063	26,025	29,348	32,746	-2.8%	0.1%	1.0%
EBIT	11,062	13,239	15,041	10,922	12,678	14,329	1.3%	4.4%	5.0%
Net profit	7,740	9,314	10,618	7,655	8,909	10,054	1.1%	4.5%	5.6%
Gross Margin	23.0%	23.5%	23.7%	23.3%	23.6%	23.8%	-0.3ppt	0ppt	-0.1ppt
EBIT Margin	10.0%	10.6%	10.8%	9.8%	10.2%	10.4%	0.3ppt	0.4ppt	0.4ppt
Net margin	7.0%	7.5%	7.6%	6.9%	7.2%	7.3%	0.2ppt	0.3ppt	0.3ppt

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Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Revenue	70,164	98,938	94,684	110,193	124,871	139,508
Cost of goods sold	(50,089)	(76,598)	(73,513)	(84,896)	(95,502)	(106,445)
Gross profit	20,075	22,340	21,172	25,297	29,369	33,063
Operating expenses	(11,821)	(13,265)	(13,050)	(14,235)	(16,131)	(18,022)
Selling expense	(8,635)	(10,522)	(9,974)	(11,240)	(12,737)	(14,230)
Admin expense	(3,214)	(3,442)	(3,721)	(3,747)	(4,246)	(4,743)
Others	28	699	646	752	852	952
Operating profit	8,254	9,074	8,122	11,062	13,239	15,041
EBITDA	10,369	11,096	10,265	12,316	14,492	16,295
Depreciation	(1,024)	(1,148)	(1,272)	(1,272)	(1,272)	(1,272)
Goodwill amortisation	(57)	(57)	14	0	0	0
EBIT	9,287	9,891	9,008	11,044	13,220	15,023
Net Interest income/(expense)	(295)	(268)	(358)	(358)	(358)	(358)
Other income/expense	5	6	0	0	0	0
Others	431	171	(318)	0	0	0
Pre-tax profit	8,395	8,983	7,447	10,705	12,881	14,684
After tax profit	6,176	6,880	5,490	7,891	9,496	10,825
Minority interest	(150)	(168)	(105)	(151)	(182)	(207)
Net profit	6,026	6,712	5,384	7,740	9,314	10,618
Adjusted net profit	5,714	6,601	5,745	7,740	9,314	10,618
Gross dividends	4,000	5,000	12,200	5,805	6,986	7,963
Net dividends	4,000	5,000	12,200	5,805	6,986	7,963

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Current assets	55,243	78,126	77,267	76,851	82,815	89,156
Cash & equivalents	6,032	14,942	11,695	9,081	9,147	9,953
Account receivables	6,180	5,914	6,192	7,206	8,166	9,123
Inventories	43,011	57,254	59,290	60,474	65,412	69,991
Other current assets	19	15	89	89	89	89
Non-current assets	9,065	9,612	10,074	11,195	12,317	13,439
PP&E	4,615	5,039	5,144	6,248	7,351	8,455
Right-of-use assets	1,793	1,679	1,696	1,714	1,732	1,751
Intangibles	158	109	66	66	66	66
Other non-current assets	2,500	2,785	3,167	3,167	3,167	3,167
Total assets	64,308	87,737	87,341	88,046	95,132	102,595
Current liabilities	29,142	49,629	51,022	52,838	56,824	60,937
Short-term borrowings	4,619	7,276	4,367	4,367	4,367	4,367
Account payables	17,240	25,166	30,089	31,906	35,891	40,004
Other current liabilities	1,558	1,467	1,480	1,480	1,480	1,480
Contract liabilities	5,725	15,721	15,086	15,086	15,086	15,086
Non-current liabilities	3,598	3,553	2,959	2,959	2,959	2,959
Long-term borrowings	898	1,799	1,789	1,488	1,488	1,488
Other non-current liabilities	2,701	1,754	1,170	1,471	1,471	1,471
Total liabilities	32,741	53,183	53,981	55,798	59,783	63,896
Share capital	15,499	15,499	15,499	15,499	15,499	15,499
Retained earnings	15,268	18,121	16,899	15,636	18,555	21,698
Total shareholders equity	30,767	33,619	32,397	31,135	34,054	37,197
Minority interest	801	935	962	1,113	1,295	1,503
Total equity and liabilities	64,308	87,737	87,341	88,046	95,132	102,595

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CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	8,395	8,983	7,447	10,705	12,881	14,684
Depreciation & amortization	2,115	2,022	2,143	1,254	1,254	1,253
Tax paid	(2,219)	(2,103)	(1,957)	(2,813)	(3,385)	(3,859)
Change in working capital	2,874	(5,101)	643	(381)	(1,912)	(1,423)
Others	(689)	10,137	1,791	0	0	0
Net cash from operations	10,476	13,938	10,066	8,764	8,837	10,655
Investing						
Capital expenditure	(839)	(1,531)	(1,982)	(1,982)	(1,982)	(1,982)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(241)	372	200	(393)	(393)	(393)
Net cash from investing	(693)	(1,458)	(1,782)	(2,375)	(2,375)	(2,375)
Financing						
Dividend paid	(3,200)	(4,500)	(8,600)	(9,003)	(6,395)	(7,474)
Net borrowings	(10,568)	12,642	(3,216)	0	0	0
Others	2,580	(11,934)	1,111	0	0	0
Net cash from financing	(11,188)	(3,793)	(10,705)	(9,003)	(6,395)	(7,474)
Net change in cash						
Cash at the beginning of the year	7,219	6,032	14,942	11,695	9,081	9,147
Exchange difference	217	222	(826)	0	0	0
Cash at the end of the year	6,032	14,942	11,695	9,081	9,147	9,953
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	23.6%	41.0%	(4.3%)	16.4%	13.3%	11.7%
Gross profit	24.7%	11.3%	(5.2%)	19.5%	16.1%	12.6%
Operating profit	70.9%	9.9%	(10.5%)	36.2%	19.7%	13.6%
EBITDA	44.0%	7.0%	(7.5%)	20.0%	17.7%	12.4%
EBIT	50.6%	6.5%	(8.9%)	22.6%	19.7%	13.6%
Net profit	107.7%	11.4%	(19.8%)	43.8%	20.3%	14.0%
Adj. net profit	80.7%	15.5%	(13.0%)	34.7%	20.3%	14.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	28.6%	22.6%	22.4%	23.0%	23.5%	23.7%
Operating margin	11.8%	9.2%	8.6%	10.0%	10.6%	10.8%
EBITDA margin	14.8%	11.2%	10.8%	11.2%	11.6%	11.7%
Adj. net profit margin	8.1%	6.7%	6.1%	7.0%	7.5%	7.6%
Return on equity (ROE)	21.1%	20.9%	16.3%	24.4%	28.6%	29.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Net debt to equity (x)	(0.0)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Current ratio (x)	1.9	1.6	1.5	1.5	1.5	1.5
Receivable turnover days	32.2	21.8	23.9	23.9	23.9	23.9
Inventory turnover days	311.7	238.9	289.3	260.0	250.0	240.0
Payable turnover days	108.1	101.0	137.2	137.2	137.2	137.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	14.8	22.3	27.7	17.5	14.6	12.8
P/E (diluted)	22.2	29.9	12.2	23.4	19.4	17.0
P/B	2.9	4.4	4.6	4.4	4.0	3.6
Div yield (%)	4.5	3.3	8.2	4.3	5.2	5.9

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

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