

China Consumer Sector

Growing optimism on China's consumer retail market in 2017

Company	Ticker	Rec	Mkt. cap. (HKD bn)	Last Price			Up/ dn (%)	PER (x)		PBR (x) Dividend		ROIC (%)
				Cur	(HKD)	PT (HKD)		1-yr fwd	2-yr fwd	1-yr fwd	yield (%)	
JNBY	3306 HK	BUY	3.1	HKD	6.0	8.5	42.1	8.0	6.7	2.6	7.6	49.1
I.T LTD	999 HK	NR	3.9	HKD	3.2	n.a.	n.a.	9.7	7.8	1.3	4.0	8.2
Shanghai La Chapelle	6116 HK	NR	4.6	HKD	9.3	n.a.	n.a.	6.5	6.3	1.2	4.3	15.5
Koradior	3709 HK	NR	3.9	HKD	7.9	n.a.	n.a.	12.3	11.1	3.8	n.a.	22.6
China Lilang	1234 HK	NR	6.3	HKD	5.2	n.a.	n.a.	10.3	9.8	1.8	5.6	13.9
Cosmo Lady	2298 HK	NR	6.8	HKD	3.2	n.a.	n.a.	15.8	13.9	1.9	2.0	8.3
Pou Sheng	3813 HK	NR	7.9	HKD	1.5	n.a.	n.a.	11.4	9.1	n.a.	n.a.	n.a.
ANTA Sports	2020 HK	NR	61.6	HKD	23.0	n.a.	n.a.	18.4	15.9	5.2	3.0	22.1
Li Ning	2331 HK	NR	11.6	HKD	5.4	n.a.	n.a.	21.3	14.6	2.3	n.a.	5.4

Source: Company, Bloomberg, CSCI Research estimates

- China's non-manufacturing PMI continued to accelerate in May-17 to 54.5 from 54.0 in Apr, versus flat growth for the manufacturing PMI of 51.2 (see Figure 1).
- The above trend lends support to our view earlier in Mar-17, whereby we expect to see a better environment for China's consumer retail sector in 2017, driven by a solid recovery in core demand as we have seen China's CPI growth has started to be spurred by the non-food price index since Feb-17.
- The retail price indices for garment, furniture, cosmetics, medicines, books, magazines & electronic publications continued to climb in Apr from their bottom levels in Jan-17. On the contrary, the decline of retail food prices widened further in Apr. Hence, we expect an enhanced environment for China's retail industry (ex-food & beverages) in 2017. In stock picks, we reiterate our BUY rating on JNBY (3306 HK).

China's non-manufacturing PMI continued to accelerate in May-17. China's non-manufacturing PMI grew from 54.0 in Apr to 54.5 in May. The indices of retail trade, transport via railway, air transport, post, telecommunications, broadcasting, television and satellite transmission services were positioned in the high levels of over 59.0. On the contrary, the indices of transport via road, loading/unloading, portage & storage, capital market services and real estate services are below the threshold level. However, the manufacturing PMI was flat in May-17 at 51.2 level (see Figure 1). This suggests business activity growth was primarily driven by expansions from non-manufacturing sector.

We are more optimistic on the China consumer retail sector in 2017. China's CPI growth has continued to be driven by non-food indices since Feb-17. We believe such increase indicates a recovery in core demand, as rising raw material input costs can be successfully transferred into retail prices. Hence, the non-food price index has remained on an upsurge, edging up from 2.2% in Feb to 2.4% in Apr, especially the services price index, which continued to rise from 2.4% in Feb to 2.9% in Apr. On the contrary, the food price index has dropped for three consecutive months. We looked further into the retail price indices, which showed a similar trend, with rising prices arising from garment, furniture, cosmetics, medicines, books, magazines & electronic publications (see Figure 5), whilst retail prices for food have continued to drop (see Figure 6).

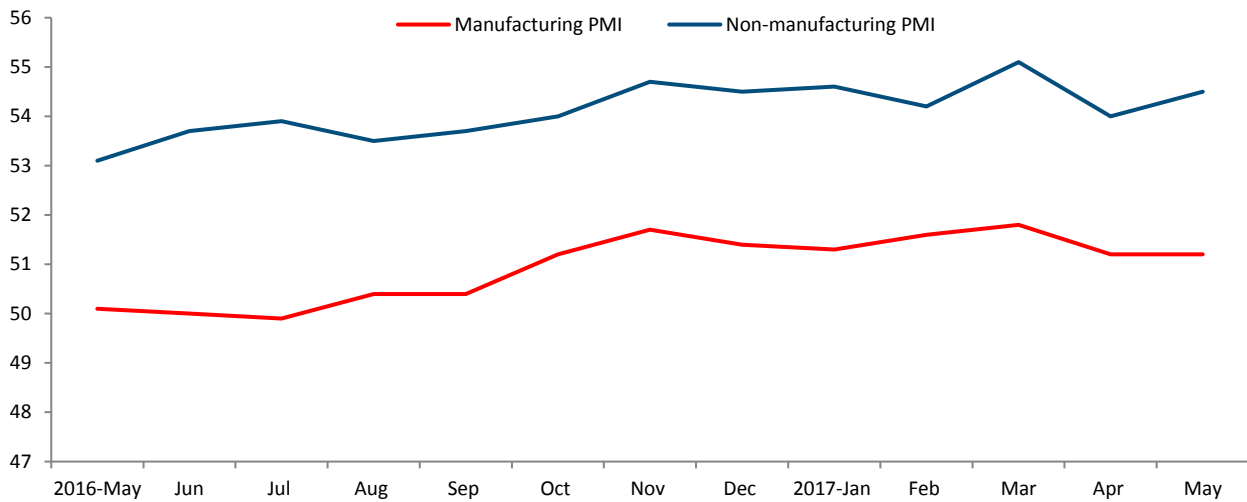
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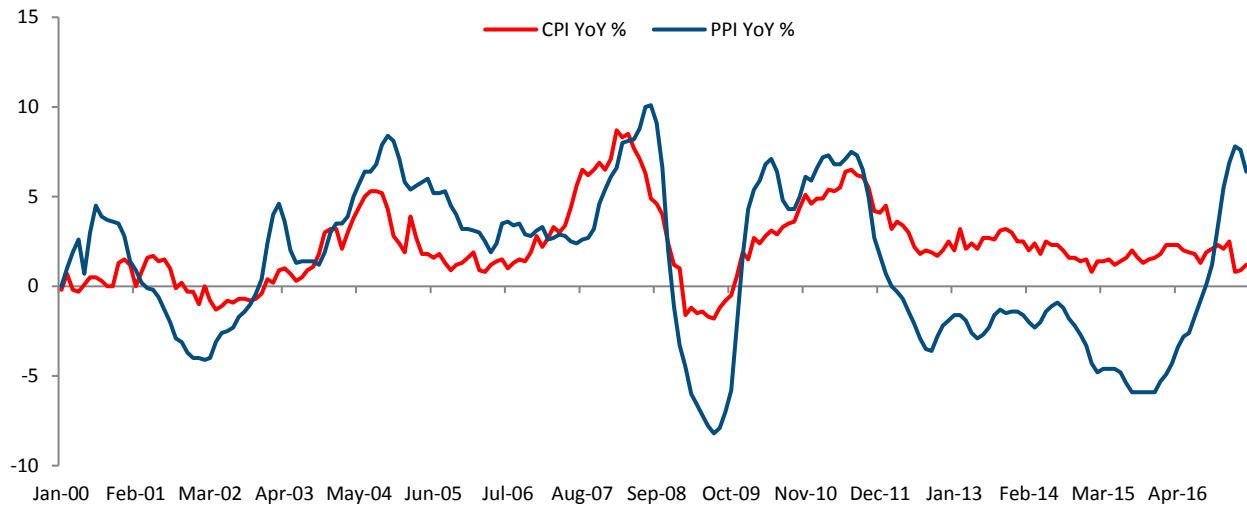
Reiterate our cautious view on China consumer staples. For China's consumer staples, we reiterate our view that we expect margin pressure to aggravate in 2017, though such pressure will alleviate towards the end of this year. Recent data PPI and CPI data reinforced such view, as the food price index has declined for three consecutive months since Feb, whereas the PPI has continued to rise over the same period. Nevertheless, the pace of PPI increase has started to decelerate (see Figure 2).

Figure 1: China PMI – Manufacturing Vs Non-manufacturing

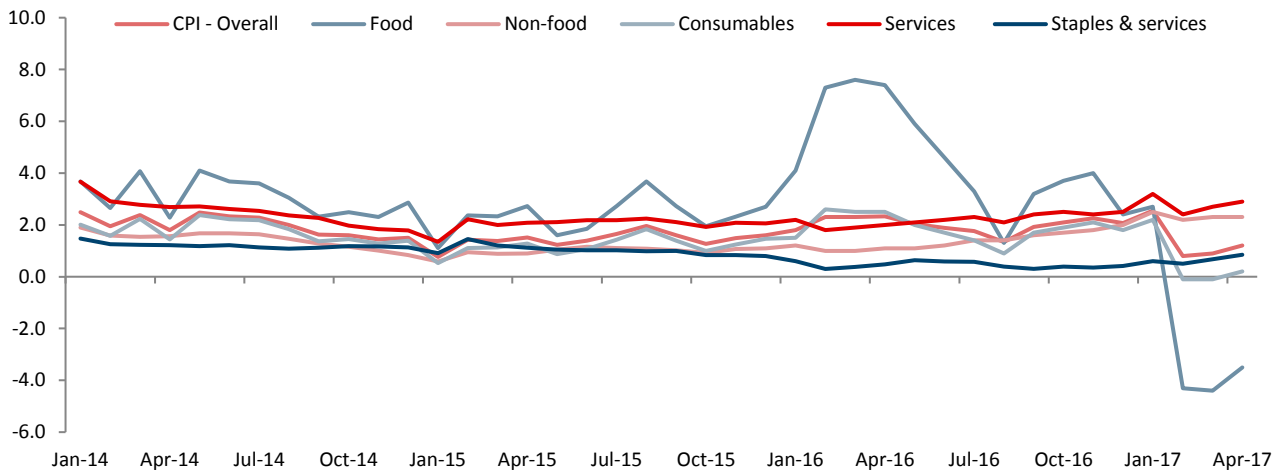


Source: NBSC, CSCI Research

Figure 2: China's PPI versus CPI (YoY %)



Source: Bloomberg, CSCI Research

Figure 3: Graphical illustration – China CPI breakdown (YoY %)


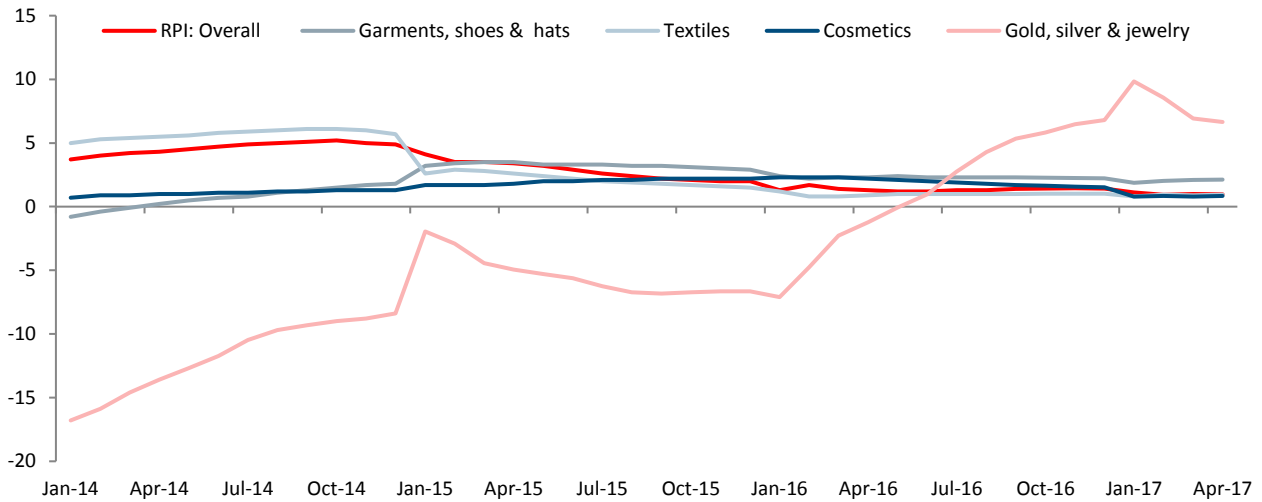
Source: WIND, CSCI Research

Figure 4: China's CPI breakdown by sub-indices, (YoY % monthly)

	CPI - Overall	Food	Non-food	Consumables	Services	Staples & services
2014/01	2.49	3.67	1.89	2.01	3.67	1.47
2014/02	1.95	2.65	1.59	1.57	2.91	1.25
2014/03	2.38	4.07	1.55	2.23	2.78	1.23
2014/04	1.80	2.29	1.56	1.44	2.69	1.22
2014/05	2.48	4.10	1.68	2.38	2.71	1.19
2014/06	2.34	3.68	1.67	2.22	2.62	1.21
2014/07	2.29	3.60	1.64	2.18	2.54	1.13
2014/08	1.99	3.05	1.47	1.84	2.36	1.09
2014/09	1.63	2.32	1.28	1.36	2.27	1.12
2014/10	1.60	2.50	1.16	1.45	1.97	1.18
2014/11	1.44	2.31	1.01	1.28	1.84	1.17
2014/12	1.51	2.86	0.83	1.39	1.79	1.13
2015/01	0.76	1.11	0.59	0.53	1.35	0.91
2015/02	1.43	2.37	0.95	1.11	2.22	1.46
2015/03	1.38	2.33	0.89	1.13	1.99	1.20
2015/04	1.51	2.73	0.89	1.28	2.08	1.13
2015/05	1.23	1.60	1.05	0.87	2.11	1.04
2015/06	1.39	1.85	1.16	1.07	2.18	1.02
2015/07	1.65	2.73	1.11	1.43	2.18	1.02
2015/08	1.96	3.68	1.09	1.84	2.24	0.98
2015/09	1.60	2.72	1.02	1.39	2.11	1.00
2015/10	1.27	1.94	0.93	1.00	1.92	0.84
2015/11	1.49	2.32	1.06	1.24	2.09	0.83
2015/12	1.60	2.70	1.10	1.47	2.05	0.80
2016/01	1.80	4.10	1.20	1.50	2.20	0.60
2016/02	2.30	7.30	1.00	2.60	1.80	0.30
2016/03	2.30	7.60	1.00	2.50	1.90	0.38
2016/04	2.33	7.40	1.10	2.50	2.00	0.48
2016/05	2.04	5.90	1.10	2.00	2.10	0.64
2016/06	1.88	4.60	1.20	1.70	2.20	0.59
2016/07	1.77	3.30	1.40	1.40	2.30	0.57
2016/08	1.34	1.30	1.40	0.90	2.10	0.39
2016/09	1.92	3.20	1.60	1.70	2.40	0.30
2016/10	2.10	3.70	1.70	1.90	2.50	0.39
2016/11	2.25	4.00	1.80	2.10	2.40	0.35
2016/12	2.08	2.40	2.00	1.80	2.50	0.41
2017/01	2.55	2.70	2.50	2.20	3.20	0.60
2017/02	0.80	-4.30	2.20	-0.10	2.40	0.50
2017/03	0.90	-4.40	2.30	-0.10	2.70	0.67
2017/04	1.20	-3.50	2.30	0.20	2.90	0.85

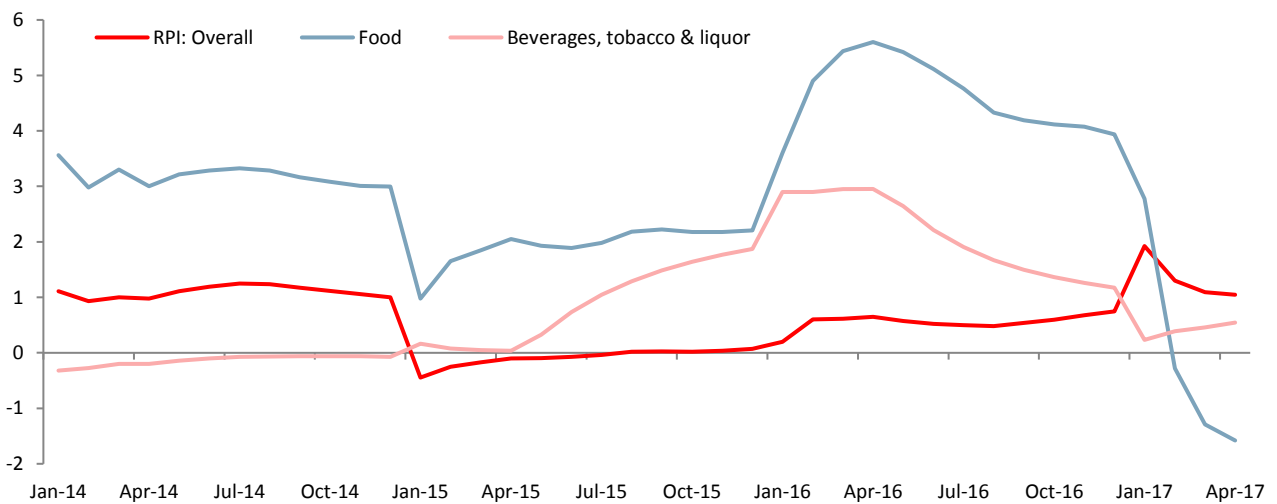
Source: WIND, CSCI Research

Figure 5: China Retail Price Indices (Non-food), (YoY %)



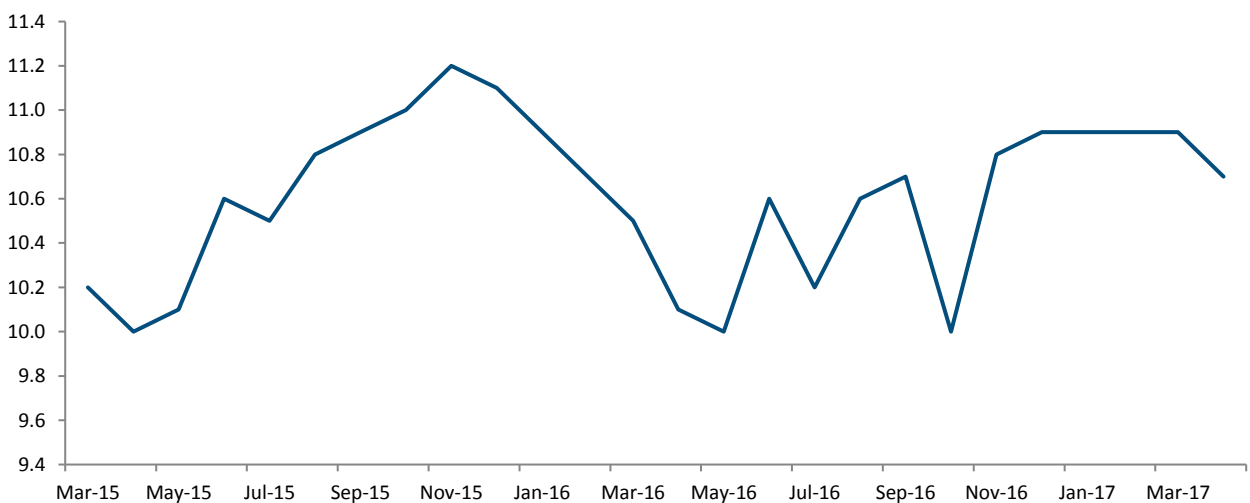
Source: WIND, CSCI Research

Figure 6: China Retail Price Indices (Food), (YoY %)



Source: WIND, CSCI Research

Figure 7: China retail sales (YoY %)



Source: Bloomberg, CSCI Research

Figure 8: China's Retail Price Index Breakdown (YTD YoY %)

		Retail Price Index Breakdown (YTD YoY %)																
		Overall	Food	Beverages, tobacco & liquor	Garments, shoes & hats	Textiles	Household appliances	Cultural & office appliances	Articles for daily use	Sports & recreational articles	Transportation & communications	Furniture	Cosmetics	Gold, silver & jewelry	Medicines	Books, magazines & electronic publications	Fuels	Building materials
2013	Jan	1.30	2.80	1.90	2.40	1.20	-1.90	-1.90	1.50	1.10	-3.40	0.90	2.30	2.00	0.90	1.50	3.00	-0.20
	Feb	1.70	4.50	1.70	2.20	0.80	-2.00	-1.90	1.30	1.00	-3.30	0.90	2.30	0.30	0.90	1.40	2.30	0.00
	Mar	1.40	3.90	1.60	2.30	0.80	-2.00	-1.80	1.30	1.00	-3.30	1.00	2.30	-0.50	0.90	1.40	1.40	0.00
	Apr	1.30	3.90	1.50	2.30	0.90	-1.90	-1.70	1.20	1.00	-3.30	1.00	2.20	-1.40	0.90	1.40	-0.10	0.00
	May	1.20	3.80	1.30	2.40	1.00	-1.90	-1.60	1.10	1.00	-3.20	1.10	2.10	-2.00	0.90	1.50	-0.90	0.10
	Jun	1.20	4.00	1.20	2.30	1.00	-1.90	-1.60	1.10	0.90	-3.10	1.10	2.00	-2.80	0.90	1.50	-0.80	0.10
	Jul	1.30	4.20	1.10	2.30	1.00	-1.90	-1.50	1.00	0.90	-3.10	1.10	1.90	-3.80	1.00	1.50	-0.40	0.20
	Aug	1.30	4.20	1.00	2.30	1.00	-1.80	-1.50	1.00	0.80	-3.00	1.10	1.80	-4.60	1.00	1.40	-0.10	0.20
	Sep	1.40	4.40	0.90	2.30	1.00	-1.80	-1.50	0.90	0.80	-2.90	1.10	1.70	-5.50	1.10	1.40	0.00	0.30
	Oct	1.43	4.67	0.81	2.28	1.02	-1.77	-1.42	0.90	0.74	-2.85	1.18	1.65	-6.51	1.19	1.33	-0.13	0.37
	Nov	1.45	4.79	0.74	2.24	1.02	-1.75	-1.39	0.87	0.71	-2.78	1.19	1.58	-7.32	1.26	1.30	-0.22	0.42
	Dec	1.43	4.72	0.68	2.22	1.01	-1.73	-1.37	0.84	0.69	-2.71	1.23	1.52	-8.15	1.33	1.28	-0.12	0.49
2014	Jan	1.11	3.56	-0.32	1.86	0.80	-1.62	-1.20	0.54	0.56	-1.86	1.52	0.80	-16.79	2.23	1.23	0.95	1.03
	Feb	0.93	2.98	-0.27	2.01	0.94	-1.58	-1.24	0.59	0.49	-1.87	1.55	0.84	-15.88	2.19	1.18	0.51	0.92
	Mar	1.00	3.30	-0.20	2.10	0.90	-1.60	-1.30	0.60	0.50	-1.80	1.60	0.80	-14.60	2.10	1.20	0.30	0.80
	Apr	0.98	3.00	-0.20	2.12	0.93	-1.57	-1.27	0.59	0.51	-1.75	1.59	0.83	-13.59	2.08	1.15	0.46	0.76
	May	1.11	3.22	-0.14	2.18	0.96	-1.55	-1.27	0.57	0.51	-1.67	1.59	0.83	-12.68	2.02	1.14	0.97	0.70
	Jun	1.19	3.29	-0.10	2.25	0.98	-1.53	-1.25	0.57	0.54	-1.58	1.60	0.82	-11.72	1.96	1.13	1.37	0.66
	Jul	1.25	3.32	-0.07	2.30	0.97	-1.53	-1.24	0.55	0.53	-1.52	1.58	0.81	-10.46	1.89	1.12	1.61	0.63
	Aug	1.24	3.28	-0.07	2.34	0.96	-1.54	-1.20	0.54	0.53	-1.49	1.56	0.80	-9.70	1.85	1.11	1.48	0.59
	Sep	1.17	3.17	-0.06	2.35	0.96	-1.53	-1.16	0.54	0.53	-1.45	1.53	0.78	-9.31	1.80	1.12	1.05	0.54
	Oct	1.12	3.08	-0.06	2.35	0.93	-1.53	-1.12	0.53	0.53	-1.43	1.52	0.78	-8.99	1.75	1.12	0.61	0.49
	Nov	1.06	3.01	-0.06	2.39	0.91	-1.51	-1.08	0.53	0.54	-1.39	1.51	0.77	-8.78	1.73	1.13	0.02	0.44
	Dec	1.00	3.00	-0.07	2.42	0.90	-1.49	-1.03	0.53	0.54	-1.37	1.49	0.76	-8.38	1.71	1.13	-0.80	0.38
2015	Jan	-0.45	0.98	0.16	3.01	0.94	-1.04	-0.34	0.55	0.48	-1.20	1.34	0.70	-1.96	1.77	2.60	-13.80	-0.39
	Feb	-0.25	1.65	0.08	3.02	0.90	-1.08	-0.33	0.54	0.54	-1.21	1.25	0.74	-2.91	1.80	2.61	-13.98	-0.48
	Mar	-0.17	1.85	0.05	3.05	0.92	-1.07	-0.34	0.59	0.58	-1.21	1.20	0.75	-4.43	1.83	2.62	-13.51	-0.49
	Apr	-0.10	2.05	0.04	3.00	0.83	-1.07	-0.35	0.61	0.57	-1.22	1.16	0.73	-4.95	1.86	2.63	-13.29	-0.54
	May	-0.10	1.93	0.32	2.97	0.74	-1.08	-0.36	0.62	0.57	-1.24	1.16	0.69	-5.29	1.90	2.63	-12.80	-0.56
	Jun	-0.07	1.89	0.74	2.96	0.71	-1.09	-0.37	0.63	0.57	-1.31	1.16	0.68	-5.63	2.00	2.62	-12.53	-0.60
	Jul	-0.04	1.98	1.05	2.97	0.68	-1.10	-0.38	0.63	0.58	-1.38	1.17	0.66	-6.26	2.10	2.64	-12.53	-0.66
	Aug	0.02	2.18	1.29	2.96	0.67	-1.10	-0.38	0.63	0.58	-1.46	1.16	0.66	-6.72	2.18	2.65	-12.71	-0.72
	Sep	0.03	2.22	1.49	2.95	0.65	-1.10	-0.37	0.62	0.58	-1.55	1.15	0.64	-6.82	2.25	2.63	-12.87	-0.77
	Oct	0.02	2.18	1.64	2.90	0.63	-1.09	-0.37	0.61	0.57	-1.61	1.13	0.62	-6.72	2.33	2.62	-12.83	-0.81
	Nov	0.04	2.18	1.77	2.84	0.61	-1.10	-0.37	0.60	0.56	-1.68	1.12	0.62	-6.65	2.39	2.60	-12.61	-0.87
	Dec	0.07	2.21	1.87	2.77	0.59	-1.12	-0.37	0.59	0.55	-1.73	1.10	0.61	-6.65	2.44	2.58	-12.33	-0.93
2016	Jan	0.20	3.60	2.90	1.90	0.40	-1.30	-0.90	0.30	0.20	-2.60	0.80	0.40	-7.10	2.30	1.30	-5.40	0.00
	Feb	0.60	4.90	2.90	1.80	0.50	-1.40	-0.80	0.30	0.30	-2.55	0.83	0.42	-4.76	2.38	1.32	-5.11	-0.02
	Mar	0.62	5.44	2.95	1.71	0.47	-1.42	-0.76	0.24	0.30	-2.55	0.83	0.45	-2.29	2.50	1.25	-6.14	-0.03
	Apr	0.65	5.60	2.95	1.62	0.49	-1.48	-0.77	0.24	0.31	-2.51	0.85	0.55	-1.23	2.68	1.20	-6.47	-0.02
	May	0.58	5.42	2.64	1.55	0.52	-1.54	-0.79	0.24	0.33	-2.53	0.85	0.65	-0.07	2.85	1.17	-6.85	0.02
	Jun	0.52	5.11	2.21	1.48	0.52	-1.62	-0.82	0.24	0.35	-2.47	0.83	0.72	0.95	3.04	1.16	-6.72	0.05
	Jul	0.50	4.76	1.91	1.43	0.48	-1.67	-0.84	0.24	0.37	-2.43	0.78	0.81	2.76	3.22	1.14	-6.44	0.07
	Aug	0.48	4.33	1.67	1.41	0.47	-1.72	-0.88	0.24	0.38	-2.38	0.74	0.88	4.28	3.40	1.15	-6.00	0.10
	Sep	0.54	4.19	1.50	1.39	0.47	-1.77	-0.94	0.23	0.40	-2.34	0.70	0.94	5.34	3.56	1.20	-5.27	0.13
	Oct	0.60	4.11	1.36	1.38	0.50	-1.80	-0.99	0.21	0.41	-2.31	0.66	0.99	5.81	3.69	1.25	-4.60	0.17
	Nov	0.68	4.08	1.26	1.38	0.51	-1.84	-1.02	0.20	0.42	-2.26	0.65	1.04	6.47	3.88	1.28	-3.87	0.23
	Dec	0.75	3.94	1.17	1.34	0.50	-1.85	-1.07	0.19	0.43	-2.21	0.66	1.07	6.79	4.05	1.31	-2.96	0.30
2017	Jan	1.92	2.78	0.23	0.82	0.17	-1.74	-1.33	0.13	0.56	-1.54	0.72	1.37	9.84	5.70	1.37	11.63	1.26
	Feb	1.30	-0.28	0.39	0.89	0.15	-1.47	-1.32	0.19	0.51	-1.55	0.81	1.40	8.55	5.75	1.39	12.05	1.29
	Mar	1.09	-1.29	0.46	0.95	0.13	-1.28	-1.23	0.24	0.52	-1.59	0.93	1.40	6.92	5.80	1.43	12.20	1.41
	Apr	1.05	-1.58	0.54	1.00	0.15	-1.09	-1.12	0.27	0.51	-1.59	1.05	1.40	6.65	5.82	1.45	12.02	1.51

Source: WIND, CSCR Research



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

Disclosure of Interests

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