

China

Overweight (no change)

Highlighted companies

Li Ning Company

ADD, TP HK\$113.0, HK\$64.4 close

We reiterate our Add rating for Li Ning to reflect its large potential to deliver strong sales growth and margin improvement from product structure upgrades. We believe it will use its advanced technology to continue to launch successful new products and expand its online sales. Downside risks include any quality issues and Covid volatility reducing outdoor activities and sportswear demand.

Proya Cosmetics

ADD, TP Rmb189.0, Rmb159.6 close

We reiterate our Add rating for Proya, due to its strong R&D capability to launch new star products and further develop its self-live broadcasting activities. A key positive catalyst is higher than-expected sales growth in 2H22F. And the key risks are weaker cosmetics demand and increasing selling and marketing expenses.

Tsingtao Brewery

ADD, TP HK\$96.20, HK\$72.70 close

We reiterate our Add rating, since we believe Tsingtao still has large room to implement its premiumization strategy and improve its margins. Positive catalysts would be stronger than-expected revenue growth and distribution expenses control. A risk is higher-than-expected raw material cost pressure.

Summary valuation metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Li Ning Company	32.82	26.86	22.55
Proya Cosmetics	51.88	47.35	37.94
Tsingtao Brewery	27.01	24.28	20.90
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Li Ning Company	5.97	5.16	4.44
Proya Cosmetics	13.03	10.77	8.86
Tsingtao Brewery	3.58	3.30	3.02
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Li Ning Company	0.91%	1.11%	1.32%
Proya Cosmetics	0.50%	0.63%	0.79%
Tsingtao Brewery	1.76%	1.96%	2.28%

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Consumer Discretionary - Overall

Marginal recovery in consumption data in Aug

- We saw a marginal recovery in the consumption data in Aug, owing to the low base last year and the positive impact of government stimulus policies.
- However, due to the recent Covid volatility since late Aug, we remain cautious about Sep consumption data and expect a gradual recovery in 4Q22F.
- We expect the government to release more stimulus policies in 2H22F, mainly from the supply side to boost demand.
- We reiterate Overweight for the consumer sector; our top picks are Moutai, Tsingtao, Yili, Proya and Lining.

Most categories saw improvement in August

China retail sales grew by 5.4% yoy in Aug vs. 2.7% yoy in Jul and 3.1% in Jun. Excluding autos, retail sales grew by 4.3% in Aug vs. 1.9% in Jul and 1.8% in Jun. Most categories saw an improving trend in Aug, except for cosmetics, home furniture, telecommunications, and construction materials, which declined 6.4%, 8.1%, 4.6% and 9.1% yoy, respectively, impacted partially by the weak property sector. Auto and jewelry sales grew fast at 15.9% and 7.2% yoy in Aug. Consumer staples showed resilient growth, with grain & food, beverages, tobacco & alcohol, and household product sales growing by 8.1%, 5.8%, 8.0% and 3.6% yoy in Aug. China retail sales grew by 0.5% yoy in 8M22 vs. a decline of 0.2% yoy for 7M22. By channel, online retail sales of goods grew by 12.8% yoy in Aug vs. 10.1% in Jul, while offline retail sales of goods grew by 2.3% yoy in Aug vs. 0.9% yoy in Jul. Online retail sales of goods grew by 9.2% yoy for 8M22 vs. 8.6% yoy for 7M22, while offline retail sales of goods saw a decline of 1.8% yoy for 8M22 vs. 2.3% yoy for 7M22, indicating that the online channel continues to take share from offline channels. We expect the upcoming Double 11 online shopping festival to further boost online sales growth.

Catering services starting to see an improving trend

China retail sales of catering services returned to positive territory at 8.4% yoy in Aug vs. a decline of 22.7%, 21.1% and 4.0% from April to June. Catering services were severely affected by the Covid lockdowns in 2Q22. We expect a better recovery trend for catering services in 2H22F, given the easing Covid lockdown measures compared to 1H22 and the low base in 2H21, which should also benefit catering-related sectors, like condiments. Along with the ending of the lockdowns in Chengdu and Sanya on Sep 15, we expect catering services and domestic consumption to gradually recover in 4Q22F.

Continued pressure on the tourism sector

Covid resurgences continued to impact tourism sentiment during the Mid-autumn Festival. China reported an average of 234 Covid cases during the Mid-autumn Festival (Sep 12–14), with covid resurgences occurring in many cities; some cities in Sichuan, Hainan, Tibet and Guizhou are still under lockdowns. Foot traffic was down 16.7% yoy to 73.4mn people for this year's Mid-autumn Festival, recovering to 72.6% of the level in 2019. Total sales reached Rmb28.7bn, down 22.8% yoy, recovering to 60.6% of the level in 2019. The travel data for this year's Mid-autumn Festival was weaker than that during the Dragon Boat Festival, but better than that on the Qingming and May Labor Day holidays. In 2H22F, we expect some travel recovery for the upcoming Oct National Day Holidays, given the current easing of Covid lockdown measures. According to Ctrip, pre-bookings for National Day Holiday week were up 64% wow, and booking numbers are gradually improving from the Mid-autumn Festival to the National Day Holidays, with daily booking numbers growing by 30%.

Reiterate Overweight for the China consumer sector

We reiterate Overweight for the China consumer sector, since we expect to see a gradual consumption recovery in 4Q22F. We also expect to see a further relaxation of Covid-related policies in 1H23F, which should further boost domestic consumption. Our top picks are Moutai, Tsingtao Brewery, Yili, Proya and Lining. The key risks are a resurgence in Covid cases in 4Q22F, which will impact consumer sentiment and demand, and higher-than-expected raw material prices.

Figure 1: 2022 holiday traffic data

	Qing Ming	Labor Day Holiday	Dragon Boat Festival	Mid-autumn Festival
Traffic (mn ppl)	75.4	160.0	79.6	73.4
yoy	-26.2%	-30.2%	-10.7%	-16.7%
Recovery level vs. 2019	68.0%	66.8%	86.8%	72.6%
Sales (Rmb bn)	18.8	64.7	25.8	28.7
yoy	-30.9%	-42.9%	-12.2%	-22.8%
Recovery level vs. 2019	39.2%	44.0%	65.6%	60.6%

SOURCES: CGIS RESEARCH, MINISTRY OF CULTURE AND TOURISM,

Marginal recovery in consumption data in Aug

Figure 2: Monthly retail sales yoy growth

Yoy	2021-1	2021-2	2021-3	2021-4	2021-5	2021-6	2021-7	2021-8	2021-9	2021-10	2021-11	2021-12	2022-01	2022-02	2022-03	2022-04	2022-05	2022-06	2022-07	2022-08
National retail sales	33.8%	33.8%	34.2%	17.7%	12.4%	12.1%	8.5%	2.5%	4.4%	4.9%	3.9%	1.7%	6.7%	6.7%	-3.5%	-11.1%	-6.7%	3.1%	2.7%	5.4%
Retail sales: excl. auto	30.4%	30.4%	32.5%	17.9%	13.2%	13.1%	9.7%	3.6%	6.4%	6.7%	5.4%	3.0%	7.0%	7.0%	-3.0%	-8.4%	-5.6%	1.8%	1.9%	4.3%
Company above certain size	43.9%	43.9%	38.6%	18.5%	12.7%	13.2%	8.5%	0.5%	2.8%	4.6%	4.2%	1.6%	9.1%	9.1%	-1.4%	-14.0%	-6.5%	8.1%	6.8%	9.3%
Urban	34.9%	34.9%	34.0%	17.6%	12.3%	12.0%	8.4%	2.3%	4.2%	4.8%	3.7%	1.5%	6.7%	6.7%	-3.6%	-11.3%	-6.7%	3.1%	2.7%	5.5%
Rural	26.7%	26.7%	34.9%	17.8%	13.2%	12.5%	8.8%	3.4%	5.4%	5.6%	4.8%	2.8%	7.1%	7.1%	-3.3%	-9.8%	-6.3%	2.7%	2.6%	5.0%
Catering	68.9%	68.9%	91.6%	46.4%	26.6%	20.2%	14.3%	-4.5%	3.1%	2.0%	-2.7%	-2.2%	8.9%	8.9%	-16.4%	-22.7%	-21.1%	-4.0%	-1.5%	8.4%
Company above certain size	61.8%	61.8%	115.2%	60.3%	40.8%	28.6%	20.7%	-4.2%	5.5%	4.0%	-0.3%	-0.1%	10.1%	10.1%	-15.6%	-24.0%	-20.8%	-2.2%	-1.2%	12.9%
Retail sales: goods	30.7%	30.7%	29.9%	15.1%	10.9%	11.2%	7.8%	3.3%	4.5%	5.2%	4.8%	2.3%	6.5%	6.5%	-2.1%	-9.7%	-5.0%	3.9%	3.2%	5.1%
Company above certain size	42.9%	42.9%	35.6%	16.4%	11.1%	12.3%	7.7%	0.8%	2.7%	4.7%	4.5%	1.7%	9.1%	9.1%	-0.4%	-13.3%	-5.3%	8.8%	7.5%	9.1%
Food	10.9%	10.9%	8.3%	6.5%	10.6%	15.6%	11.3%	9.5%	9.2%	9.9%	14.8%	11.3%	7.9%	7.9%	12.5%	10.0%	12.3%	9.0%	6.2%	8.1%
Beverage	36.9%	36.9%	33.3%	22.3%	19.0%	29.1%	20.8%	11.8%	10.1%	8.8%	15.5%	12.6%	11.4%	11.4%	12.6%	6.0%	7.7%	1.9%	3.0%	5.8%
Tobacco & alcohol	43.9%	43.9%	47.4%	26.2%	15.6%	18.2%	15.1%	14.4%	16.0%	14.3%	13.3%	7.0%	13.6%	13.6%	7.2%	-7.0%	3.8%	5.1%	7.7%	8.0%
Clothes & textile	47.6%	47.6%	69.1%	31.2%	12.3%	12.8%	7.5%	-6.0%	-4.8%	-3.3%	-0.5%	-2.3%	4.8%	4.8%	-12.7%	-22.8%	-16.2%	1.2%	0.8%	5.1%
Cosmetics	40.7%	40.7%	42.5%	17.8%	14.6%	13.5%	2.8%	0.0%	3.9%	7.2%	8.2%	2.5%	7.0%	7.0%	-6.3%	-22.3%	-11.0%	8.1%	0.7%	-6.4%
Gold & jewellery	98.7%	98.7%	83.2%	48.3%	31.5%	26.0%	14.3%	7.4%	20.1%	12.6%	5.7%	-0.2%	19.5%	19.5%	-17.9%	-26.7%	-15.5%	4.1%	22.1%	7.2%
Household products	34.6%	34.6%	30.7%	17.2%	13.0%	14.0%	13.1%	-0.2%	0.5%	3.5%	8.6%	18.8%	10.7%	10.7%	-0.8%	-10.2%	-6.7%	4.3%	0.7%	3.6%
Home appliances	43.2%	43.2%	38.9%	6.1%	3.1%	8.9%	8.2%	-5.0%	6.6%	9.5%	6.6%	-6.0%	12.7%	12.7%	-4.3%	-8.1%	-10.6%	3.2%	7.1%	3.4%
Medicine	16.9%	16.9%	11.5%	8.0%	7.3%	8.5%	8.6%	10.2%	8.6%	5.6%	9.3%	9.4%	7.5%	7.5%	11.9%	7.9%	10.8%	11.9%	7.8%	9.1%
Office stationary	38.3%	38.3%	22.2%	6.7%	13.1%	25.9%	14.8%	20.4%	22.6%	11.5%	18.1%	7.4%	11.1%	11.1%	9.8%	-4.8%	-3.3%	8.9%	11.5%	6.2%
Furniture	58.7%	58.7%	42.8%	21.7%	12.6%	13.4%	11.0%	6.7%	3.4%	2.4%	6.1%	-3.1%	-6.0%	-6.0%	-8.8%	-14.0%	-12.2%	-6.6%	-6.3%	-8.1%
Telecommunication	53.1%	53.1%	23.5%	14.2%	8.8%	15.9%	0.1%	-14.9%	22.8%	34.8%	0.3%	0.3%	4.8%	4.8%	3.1%	-21.8%	-7.7%	6.6%	4.9%	-4.6%
Oil and gas	21.9%	21.9%	26.4%	18.3%	20.3%	21.9%	22.7%	13.1%	17.3%	29.3%	25.9%	16.6%	25.6%	25.6%	10.5%	4.7%	8.3%	14.7%	14.2%	17.1%
Auto	77.6%	77.6%	48.7%	16.1%	6.3%	4.5%	-1.8%	-7.4%	-11.8%	-11.5%	-9.0%	-7.4%	3.9%	3.9%	-7.5%	-31.6%	-16.0%	13.9%	9.7%	15.9%
Construction material	52.8%	52.8%	43.9%	30.8%	20.3%	19.1%	11.6%	13.5%	13.3%	12.0%	14.1%	7.5%	6.2%	6.2%	0.4%	-11.7%	-7.8%	-4.9%	-7.8%	-9.1%
Online retail sales: goods	28.3%	28.3%	18.5%	6.8%	7.7%	11.7%	4.4%	7.6%	11.2%	8.7%	7.4%	1.9%	13.6%	13.6%	2.7%	-1.0%	14.3%	8.2%	10.1%	12.8%

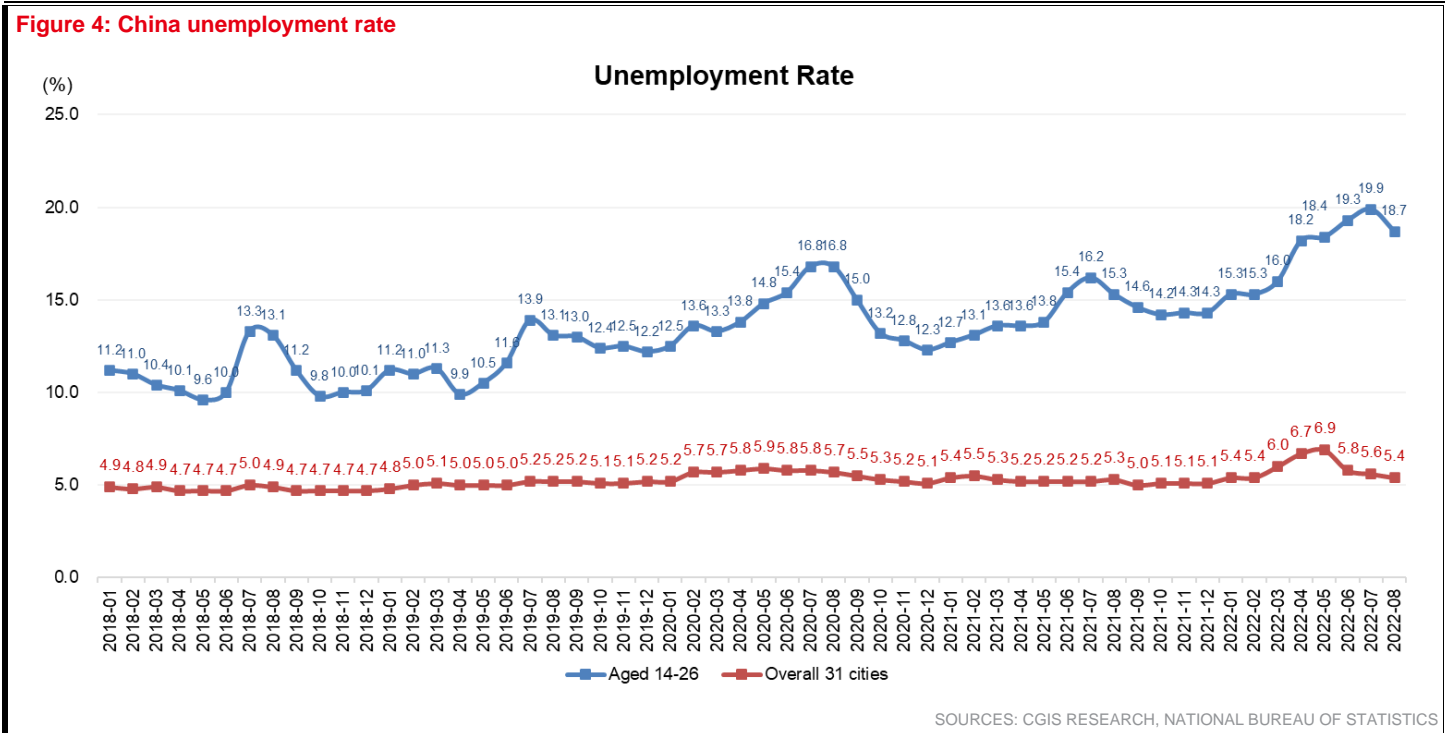
SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 3: Monthly retail sales value

(Rmb bn)	2021-1	2021-2	2021-3	2021-4	2021-5	2021-6	2021-7	2021-8	2021-9	2021-10	2021-11	2021-12	2022-01	2022-02	2022-03	2022-04	2022-05	2022-06	2022-07	2022-08
National retail sales	3,487	3,487	3,548	3,315	3,595	3,759	3,493	3,440	3,683	4,045	4,104	4,127	3,721	3,721	3,423	2,948	3,355	3,874	3,587	3,626
Retail sales: excl. auto	3,154	3,154	3,155	2,947	3,226	3,372	3,158	3,112	3,330	3,706	3,727	3,662	3,365	3,365	3,056	2,692	3,036	3,419	3,205	3,228
Company above certain size	1,219	1,219	1,370	1,259	1,321	1,489	1,243	1,234	1,390	1,387	1,603	1,670	1,362	1,362	1,363	1,101	1,271	1,654	1,374	1,402
Urban	3,028	3,028	3,079	2,889	3,131	3,255	3,038	2,995	3,146	3,509	3,534	3,524	3,230	3,230	2,970	2,564	2,921	3,357	3,121	3,159
Rural	459	459	469	427	463	503	455	445	537	536	571	603	492	492	453	385	434	517	467	467
Catering	354	354	351	338	382	392	375	346	383	446	484	484	386	386	294	261	301	377	369	375
Company above certain size	73	73	82	82	92	90	90	79	90	98	88	99	86	86	73	65	79	95	96	97
Retail sales: goods	3,133	3,133	3,197	2,978	3,213	3,366	3,117	3,094	3,300	3,599	3,620	3,643	3,335	3,335	3,130	2,687	3,054	3,498	3,218	3,251
Company above certain size	1,146	1,146	1,288	1,178	1,229	1,399	1,153	1,156	1,300	1,289	1,515	1,572	1,276	1,276	1,290	1,036	1,193	1,560	1,278	1,305
Food	141	141	131	121	127	142	125	129	151	142	155	166	155	155	148	136	146	158	137	144
Beverage	22	22	21	21	22	28	23	23	26	23	26	25	24	24	24	22	24	29	24	26
Tobacco & alcohol	43	43	35	33	33	39	33	35	49	39	43	53	51	51	38	31	35	43	37	40
Clothes & textile	113	113	113	103	113	117	95	90	106	123	148	149	119	119	96	79	96	120	96	96
Cosmetics	28	28	37	27	32	38	24	29	32	31	57	34	31	31	35	21	29	42	25	29
Gold & jewellery	27	27	26	22	26	24	20	25	26	25	27	29	32	32	21	16	22	26	25	27
Household products	55	55	61	55	59	69	55	56	58	58	78	77	62	62	61	50	56	74	57	60
Home appliances	58	58	78	64	75	111	74	68	74	74	111	93	66	66	75	59	68	116	81	72
Medicine	44	44	49	47	46	50	46	46	51	48	55	60	47	47	55	51	52	58	50	52
Office stationary	26	26	31	27	27	43	30	35	40	32	50	42	29	29	36	27	28	49	35	38
Furniture	11	11	14	13	13	16	14	14	15	15	17	18	11	11	13	11	12	15	13	13
Telecommunication	50	50	46	43	41	66	39	41	51	63	83	56	55	55	49	35	39	72	43	41
Oil and gas	137	137	174	164	174	182	175	168	184	200	194	204	174	174	194	174	192	212	203	200
Auto	333	333	393	369	369	387	335	328	354	340	378	465	356	356	367	257	319	455	382	398
Construction material	11	11	16	16	16	18	16	16	18	18	20	22	12	12	16	14	16	18	15	16
Online retail sales: goods	721	721	866	771	860	1,089	787	821	870	994	1,308	999	819	819	889	763	983	1,178	866	926
Offline retail sales: goods	2,412	2,412	2,332	2,207	2,353	2,278	2,331	2,273	2,430	2,606	2,312	2,644	2,517	2,517	2,241	1,924	2,070	2,320	2,352	2,325

SOURCES: CGIS RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 4: China unemployment rate



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643 companies under coverage for quarter ended on 30 Jun 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

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