

SECTOR UPDATE

Consumer – China

Duty-free Sales Affected By The Pandemic; Upbeat On Haitian

We expect limited impact from the weakening of the renminbi (<1.5% on 1% renminbi depreciation to US\$) to consumer names' 2023 net profit. The lacklustre duty-free sales in Haikou and Sanya during the holidays were mainly due to sporadic COVID-19 cases, static management, and nucleic acid testing for all residents and tourists. We foresee short-term trading opportunities for Haitian on the recent debate over product quality, which may facilitate product upgrade in the condiment sector. Maintain OVERWEIGHT.

WHAT'S NEW

- **Duty-free (maintain OVERWEIGHT).** Last week, the daily average number of flights in Sanya Phoenix Airport improved to 115 (+14% wow), while that of Haikou Meilan Airport was 253 (-14.1% wow), recovering to 64.4% of the level seen nine weeks ago.

Hainan's Haikou city was put under "temporary static management" on 6 Oct 22 (7am to 10 pm) after discovering a new COVID-19 case during quarantine control. Some areas of Haitang District in Sanya were also under lockdown since 3 Oct 22 (2pm). According to Hainan's Department of Commerce, the ten offshore duty-free stores had 269,500 customer visits for 1-7 Oct 22, generating daily sales of over Rmb150m (vs Rmb272.5m in 1-6 Oct 21). CDF Haikou International Duty-Free Mall will officially launch on 28 Oct 22. The mall will feature more than 800 brands; some shops will be the brand's first or exclusive shop in China.

- **Sportswear (maintain OVERWEIGHT).** In Sep 22, prices of cotton and polyester filament yarn (PFY) saw -0.9%/+2.2% mom changes. Nike's 1QFY23 revenue in China fell 16.4% yoy (+6.1% qoq) to US\$1,656m, while EBIT margin shrank to 32.7% (-2.7ppt yoy; -1.3ppt qoq). Pousheng's Aug 22 operating revenue was Rmb1,499m (+7% yoy).

Anta's International Integrated Operation Center signing ceremony was held in Suzhou. The project, which total investment exceeds Rmb1b, is expected to commence construction in 2023 and put into use in 2025. The project is positioned to integrate import distribution, sales settlement, digitalize operation, intelligent warehousing to optimise business processes.

- **Baijiu (maintain OVERWEIGHT).** Last week, wholesale prices of boxed/ unboxed Feitian Moutai averaged Rmb3,040/Rmb2,733 per bottle. Wholesale prices of Wuliangye averaged Rmb980 per bottle, while wholesale prices of Qinghua 20/30 averaged Rmb359/Rmb810 per bottle. Last week, the i-Moutai app released 0.14m of Moutai products (for subscription) and the overall success rate of 44.2m bid entries was 0.31%. As of 8 Oct 22, cumulative sales of products for subscription on i-Moutai app totalled Rmb8.6b. On 2 Oct 22, i-Moutai announced that its offline delivery service is available in over 1,700 stores across 31 provinces, and cumulative visits topped 5.7m consumers.

PEER COMPARISON

Company	Ticker	Rec	Price @ 7 Oct 22 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2022F (%)	Div. yield 2022F (%)
							2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (x)	2023F (x)		
CTGDF	601888 CH	BUY	198.25	269.00	35.7	57,346.61	43.3	28.9	11.4	8.6	26.0	18.1	27.1	0.7
Li Ning	2331 HK	BUY	66.80	98.10	46.9	22,288.22	32.8	26.2	6.3	5.3	21.1	17.2	20.7	1.0
Anta Sports	2020 HK	BUY	90.75	130.00	43.3	31,370.87	26.8	20.7	6.5	5.3	15.7	12.7	26	1.4
Shenzhou	2313 HK	BUY	65.40	130.00	98.8	12,523.66	18.2	13.5	2.7	2.4	14.8	10.9	15.5	2.6
Moutai	600519 CH	BUY	1872.50	2580.00	37.8	330,559.79	37.5	32.1	10.4	8.8	23.8	20.5	30.3	1.4
Wuliangye	000858 CH	BUY	169.23	265.00	56.6	92,312.22	24.4	20.3	5.8	4.9	16.5	13.6	25.2	2.2
Fenjiu	600809 CH	BUY	302.89	345.00	13.9	51,932.72	48.9	36.1	17.9	13.3	34.4	25.6	42.1	0.8
CR Beer	291 HK	BUY	58.70	73.00	24.4	24,259.00	38.3	31.4	6.2	5.5	27.1	21.5	17	1.2
Tsingtao Brewery	168 HK	BUY	77.95	85.20	9.3	17,090.40	29.2	24.8	3.8	3.5	23.3	19.7	13.4	1.7
Bud APAC	1876 HK	BUY	21.70	29.00	33.6	36,609.14	31.7	28.1	3.1	2.9	13.9	12.5	10.1	0.5
Foshan Haitian	603288 CH	BUY	82.82	97.00	17.1	53,931.92	52.7	44.0	14.0	11.7	42.4	35.2	28.6	1.0
Jonjee Hi-Tech	600872 CH	BUY	31.88	44.50	39.6	3,518.57	32.0	28.3	5.6	4.9	24.1	21.0	19.1	1.0
Haidilao	6862 HK	HOLD	16.40	17.00	3.7	11,645.04	91.6	32.4	9.3	7.4	39.9	22.2	10.7	0.4
Jiumaojiu	9922 HK	BUY	15.30	20.00	30.7	2,833.68	59.6	29.0	6.8	5.6	22.4	11.9	11.9	0.4

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
CTGDF	601888 CH	BUY	198.25	269.00
Li Ning	2331 HK	BUY	66.80	98.10
Moutai	600519 CH	BUY	1872.50	2580.00
CR Beer	291 HK	BUY	58.70	73.00

Source: UOB Kay Hian

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Moutai ice-cream added two offline flagship stores in Chongqing and Fujian on 29 Sep 22 and 30 Sep 22. Moutai's 30,000-tonne technical transformation project is expected to be completed by end of 2022. Currently, the production facilities in Xinzhai area are completed and part of the factory was put into use. Annual production capacity of the non-Moutai series will expand to 56,000 tonnes upon project completion. Tmall Supermarket will deepen cooperation with the marketing arm of the non-Moutai series, which aims to improve consumer demand and consumption experience. The sales value of Moutai Prince on JD's platform grew 10.5% yoy in 9M22, with over 20m visits and over 0.8m registered members.

On 30 Sep 22, Wuliangye announced positive sales growth in 14 of its marketing districts in 9M22. According to the news, Fenjiu's registered capital has increased from Rmb872m to Rmb1.22b with additional business scope of health foods' production, packaging and decoration printing, as well as production of plastic packaging containers. On 22 Sep 22, Moutai, Wuliangye and Fenjiu were selected for the 2022 Top500 Asian Brand by the World Brand Lab.

- **Beer (maintain OVERWEIGHT).** In Sep 22, aluminium prices were down 0.2% mom. In late-Sep 22, market prices of glass/corrugated paper saw changes of +0.3%/-0.6% compared with prices in mid-Sep 22. On 28 Sep 22, Tsingtao Beer announced that it will cancel and repurchase at most 122,003 restricted A-shares held by 14 personnel.

CR Beer will launch a new business model, Joy Brew, which aims to integrate the operations of brands, channels, marketing, and fans. CR Beer's Jinan project, with an annual production capacity of 1m kiloliters, is expected to commence operation in 2024. It will be CR Beer's sixth factory with more than 1m kiloliters production capacity.

- **Condiment (maintain MARKET WEIGHT).** In Sep 22, polyethylene terephthalate (PET) prices dropped 4.2% mom. Prices of soybean rose 0.3% mom, while sugar prices were down 1.2% mom. According to the e-commerce data research platform, Xuan Jing, Haitian ranked first/fifth with Rmb34.9m/Rmb13.21m sales value on JD's/Tiktok's platform in Aug 22/Jul 22. Haitian ranked 335th in 2022 Top500 Asian Brand. In response to the "double standards" controversy, Haitian clarified that the internal control standards for products of the same quality at home and overseas are consistent.

- **Catering (maintain MARKET WEIGHT).** In Sep 22, wholesale prices of beef/lamb/pork saw changes of +0.6%/+0.6%/+6.0% mom. Average prices of vegetables increased 9.1% mom. Prices of soybean oil/vegetable oil saw changes of -3.1%/-1.9% mom.

According to Shanghai Restaurants Association in Sep 22, the catering industry in Shanghai has recovered to 80-90% of normal levels. It is reported that prices of self-service condiment in some of Haidilao stores hiked to Rmb11 per person. Jiumaojiu decided to terminate the 26% stake acquisition in Guangzhou IFC Mall's project developer, and Chairman Mr Guan will take over as the purchaser.

ESSENTIALS

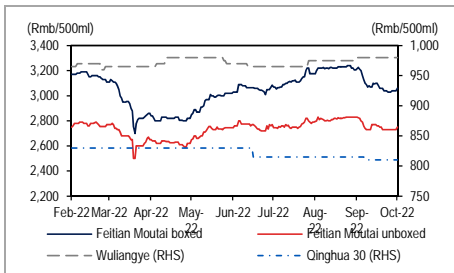
- **Limited impact from weakening of renminbi.** In recent weeks, the continuous weakening of the renminbi raised concerns over companies' performance in 2023. We estimate 1% depreciation of renminbi to US\$ would reduce China Tourism Group Duty Free's (CTGDF) 2023 net profit by less than 1.5% due to: a) a certain level of procurement being settled in renminbi, b) the contract terms for exchange rate risks sharing between CTGDF and the suppliers, and c) existing US\$ at hand (estimate of around 11% of COGS). For sportswear, we estimate 1% depreciation of renminbi to US\$ would reduce 2023 net profit by about 0.4% for Li Ning and Anta (about 30% of Descent's procurement and about 50% of Kolon's procurement are settled in US\$). In contrast, Shenzhou's 2023 net profit could be lifted by about 1.4%. For beer, the potential negative impact to 2023 net profit for CR Beer, Tsingtao Brewery, and Bud APAC would be about 0.5% or below.

VALUATION/RECOMMENDATION

- **Duty-free sales affected by pandemic; upbeat on Haitian.** We attribute the relatively lacklustre duty-free sales during the holidays in Hainan mainly to: a) sporadic COVID-19

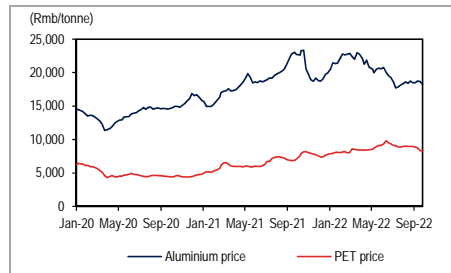
cases, b) temporary static management, and c) nucleic acid testing for all residents and tourists in Haikou and Sanya. We think these factors have impacted the continuation of traffic flow recovery in Hainan. Despite this, we remain upbeat on the duty-free sector's future development and suggest monitoring duty-free sales and the possible changes in the pandemic containment policy. Regarding the recent debate over Haitian's so-called double-standards for its products in China and overseas markets, we believe Haitian's products are of high quality in both the domestic and overseas markets. The event may affect Haitian's sales in the 2C channel in the near term and would likely facilitate product upgrade in the condiment sector. We expect potential short-term trading opportunities if Haitian's share price was significantly dragged by the event.

BAIJU WHOLESALE PRICES



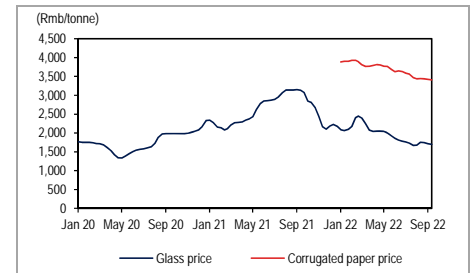
Source: Jinri Jiujia, UOB Kay Hian

PRICES OF ALUMINIUM AND PET



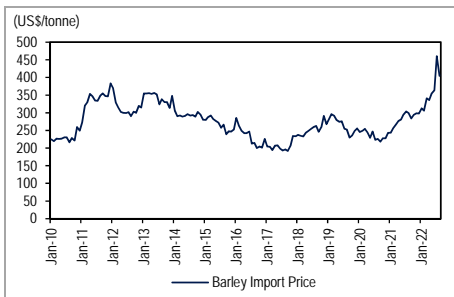
Source: WIND, UOB Kay Hian

PRICES OF GLASS AND CORRUGATED PAPER



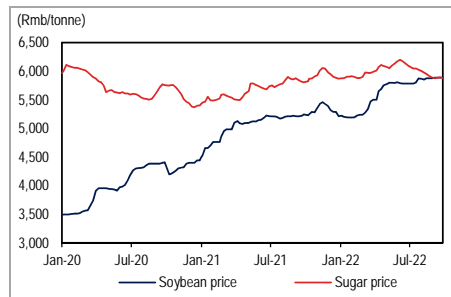
Source: WIND, UOB Kay Hian

PRICES OF IMPORTED BARLEY



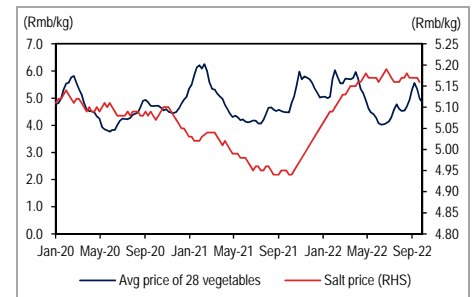
Source: China Custom, WIND, UOB Kay Hian

PRICES OF SOYBEAN AND SUGAR



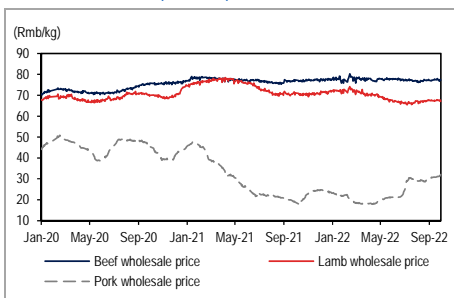
Source: Wind, UOB Kay Hian

PRICES OF SALT AND VEGETABLES



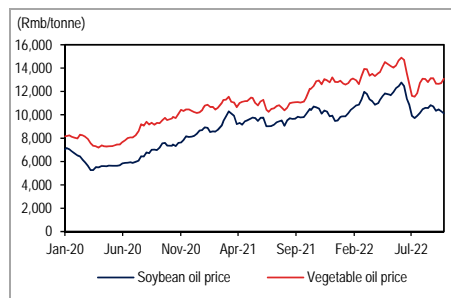
Source: WIND, UOB Kay Hian

PRICES OF BEEF, LAMB, AND PORK



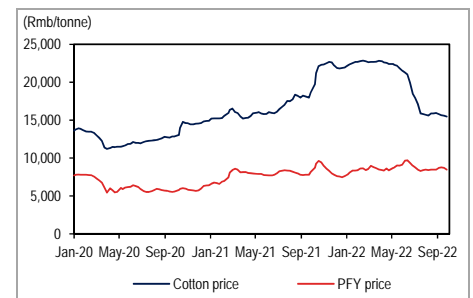
Source: WIND, UOB Kay Hian

PRICES OF SOYBEAN OIL AND VEGETABLE OIL



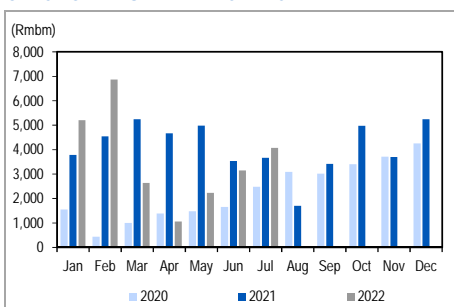
Source: WIND, UOB Kay Hian

PRICES OF COTTON AND PFY



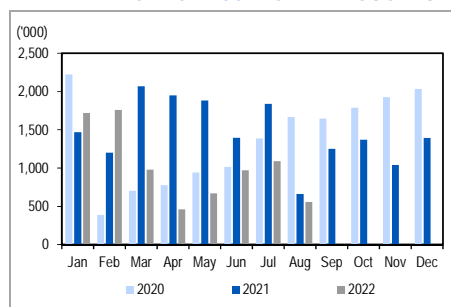
Source: WIND, UOB Kay Hian

OFFSHORE DUTY-FREE SALES IN HAINAN



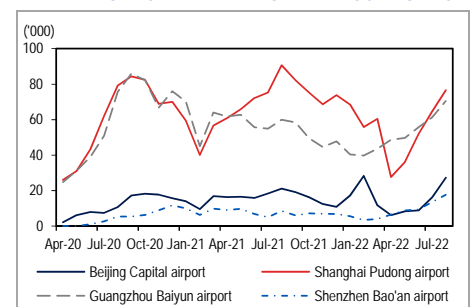
Source: Haikou Custom, UOB Kay Hian

MEILAN AIRPORT'S PASSENGER THROUGHPUT



Source: Haikou Meilan Airport, UOB Kay Hian

KEY AIRPORTS' INTERNATIONAL PASSENGERS



Source: Respective companies, UOB Kay Hian

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