

China

Overweight (no change)

Highlighted companies

Anta Sports

ADD, TP HK\$134.0, HK\$91.0 close

We reiterate our Add rating, as we see long-term positive growth potential to improve store efficiency and margins. A positive catalyst would be better retail sales growth in 4Q23F. Key risks are: 1) weak macro, which would impact sportswear demand, 2) intense competition, and 3) higher A&P spending.

Kweichow Moutai

ADD, TP Rmb2,266, Rmb1,726 close

Kweichow Moutai is our top pick in the baijiu sector, given its strong brand name and market position, which we believe will make it more resilient amid economic cycles. A key potential catalyst is stronger-than-expected sales growth in 2H23F. Key downside risks are: 1) a weaker economy, which would impact premium baijiu demand, and 2) intensifying competition, which would impact its Series product sales.

Trip.com

ADD, TP HK\$435.0, HK\$258.8 close

We reiterate our Add rating as we believe Trip.com has ample room to grow its top line and margins, driven by stronger travel demand and improved efficiency (recently launched AI tools). A key positive catalyst would be a better outbound travel recovery. Key risks: 1) less consumption trade, impacting travel demand; 2) higher S&D expenses; and 3) more intense competition.

Summary valuation metrics

P/E (x)	Dec-23F	Dec-24F	Dec-25F
Anta Sports	24.88	21.29	18.20
Kweichow Moutai	29.50	25.27	22.00
Trip.com	19.38	15.95	13.58

P/BV (x)	Dec-23F	Dec-24F	Dec-25F
Anta Sports	5.79	4.84	4.06
Kweichow Moutai	9.09	7.58	6.37
Trip.com	1.28	1.17	1.06

Dividend Yield	Dec-23F	Dec-24F	Dec-25F
Anta Sports	1.25%	1.46%	1.70%
Kweichow Moutai	1.76%	2.05%	2.36%
Trip.com	0.00%	0.00%	0.00%

Analysts

Lei Yang

T (86) 21 6162 9676
E yanglei@chinastock.com.hk

Constance Zhang

T (86) 13584188036
E ConstanceZhang@chinastock.com.hk

Consumer Staples - Overall

Better consumption recovery in Sep

- Sep 23 social retail sales rose 5.5% yoy (Aug 23: +4.6% yoy) to Rmb4.0bn, beating Wind consensus of 4.9% yoy, indicating a better consumption recovery.
- Catering services continued to lead overall consumption at 13.8% yoy in Sep 23 vs. product sales growth of 4.6% yoy, up 1.4% pts and 0.9% pt mom, respectively.
- Reiterate Add for China's consumer sector. Our top picks are Moutai, Trip.com, Anta and Haidilao.

Better consumption recovery in Sep, beating Wind expectations

On 18 Oct, China's National Bureau of Statistics (NBS) released the nation's retail sales statistics for Sep 23. Social retail sales were up 5.5% yoy in Sep (vs. +4.6% yoy in Aug), beating Wind consensus expectations of 4.9% yoy. Catering services continued to lead the overall consumption recovery, growing 13.8% yoy in Sep (vs. 12.4% yoy in Aug), driven by the Mid-Autumn Festival holiday and part of the National Day holiday (Sep 29–Oct 6). Retail sales of physical goods rose 4.6% yoy (vs. 3.7% yoy in Aug), up 0.9% pts mom. By category, the leading retail sales performers in Sep yoy were tobacco & alcohol (+23.1%), driven by gatherings (family, weddings, etc.) during the long holiday in late Sep, followed by sports equipment (+10.7%), clothes & textiles (+9.9%), oil & gas (+8.9%), food (+8.3%), beverages (+8.0%), gold & jewelry (+7.7%), autos (+2.8%) and cosmetics (+1.6%). Categories continuing to lag behind were home appliances (-2.3%), construction materials (-8.2%) and office stationary (-13.6%), due mainly to the weak property market.

Services expected to lead the overall consumption recovery in 4Q23F

Catering services continued to lead the overall consumption recovery at 13.8% yoy growth in Sep vs. 4.6% yoy growth for product sales. We expect the catering segment to continue to deliver solid sales growth in 4Q23F, driven by strong pent-up demand for travel during the Mid-Autumn Festival and National Day holidays (double holiday) in Sep–Oct. Haidilao said in the meeting that its table-turnover rate improved to over 5x yoy during the double holiday, recovering to 90% of the same period in 2019, up 25% yoy. Although the table turn over reduced by 10% in Sep vs Jul/Aug, due to the seasonal impact, the Sep table turnover rate still grew by 25% yoy for Haidilao. Jiumaojiu said in the meeting that the Tai Er brand double-holiday table-turnover rate improved to 5.1x, and that same store sales were up 3% yoy, recovering to 82% of that in the same period in 2019. While for Sep, Tai Er's same store sales grew by 4% yoy, back to 75% of the 2019 level.

Stable online consumption in Sep driven by 'everyday low prices'

China's online sales of goods grew 6.6% yoy in Sep 23 (vs. 7.6% yoy in Jul), accounting for 30% of total retail sales in Sep 23 (Aug 23: 30%), indicating stable online consumption, driven by everyday low price offerings. We believe China's online consumption in Oct–Nov will be robust, driven by the upcoming Double 11 online festival, from 20 Oct to 11 Nov. Most online platforms aim to offer the lowest price offerings and subsidy programmes to generate more user traffic. In 9M23, online sales of food, clothing and household products rose 10.4%, 9.6% and 8.5% yoy.

Reiterate Overweight for China's consumer sector

We reiterate our Overweight rating for China's consumer sector due to the low base in 2022, the normalisation of offline traffic, and strong pent-up travel demand. We believe that services will continue to lead overall consumption growth and that product sales will catch up in 4Q23F, due largely to the low base effect. We believe the overall valuation for China's consumer sector is still attractive. The MSCI China Consumer Staples Index 12M forward P/E is 18.6x, below its average P/E of 22.2x since 2015. A key potential catalyst is better-than-expected travel and consumption data in 4Q23F. Downside risks include: 1) weak macro, leading to weak consumption sentiment, 2) fluctuating raw material prices, which could lead to GPM pressure, and 3) intense competition, which would dilute margins.

Figure 1: China's Consumer Confidence Index remained weak in Aug



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Better consumption recovery in Sep

Figure 1: China monthly retail sales yoy

yoy	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Jul 2023	Aug 2023	Sep 2023
National retail sales	2.5%	-0.5%	-5.9%	-1.8%	3.5%	3.5%	10.6%	18.4%	12.7%	3.1%	2.5%	4.6%	5.5%
Retail sales: excl. auto	1.2%	-0.9%	-6.1%	-2.6%	5.0%	5.0%	10.5%	16.5%	11.5%	3.7%	3.0%	5.1%	5.9%
Company above certain size	6.1%	-0.5%	-5.8%	-1.3%	2.1%	2.1%	10.1%	19.0%	12.5%	2.3%	0.3%	3.1%	5.2%
Urban	2.5%	-0.6%	-6.0%	-1.8%	3.4%	3.4%	10.7%	18.6%	12.7%	3.0%	2.3%	4.4%	5.4%
Rural	2.3%	0.2%	-5.2%	-1.3%	4.5%	4.5%	10.0%	17.3%	12.8%	4.2%	3.8%	6.3%	6.3%
Catering	-1.7%	-8.1%	-8.4%	-14.1%	9.2%	9.2%	26.3%	43.8%	35.1%	16.1%	15.8%	12.4%	13.8%
Company above certain size	0.1%	-7.7%	-7.5%	-17.8%	10.2%	10.2%	37.2%	44.6%	31.4%	15.4%	10.9%	10.4%	12.8%
Retail sales: goods	3.0%	0.5%	-5.6%	-0.1%	2.9%	2.9%	9.1%	15.9%	10.5%	1.7%	1.0%	3.7%	4.6%
Company above certain size	6.6%	0.0%	-5.7%	-0.2%	1.5%	1.5%	8.5%	17.3%	11.1%	1.4%	-0.5%	2.5%	4.7%
Food	8.5%	8.3%	3.9%	10.5%	9.0%	9.0%	4.4%	1.0%	-0.7%	5.4%	5.5%	4.5%	8.3%
Beverage	4.9%	4.1%	-6.2%	5.5%	5.2%	5.2%	-5.1%	-3.4%	-0.7%	3.6%	3.1%	0.8%	8.0%
Tobacco & alcohol	-8.8%	-0.7%	-2.0%	-7.3%	6.1%	6.1%	9.0%	14.9%	8.6%	9.6%	7.2%	4.3%	23.1%
Clothes & textile	-0.5%	-7.5%	-15.6%	-12.5%	5.4%	5.4%	17.7%	32.4%	17.6%	6.9%	2.3%	4.5%	9.9%
Cosmetics	-3.1%	-3.7%	-4.6%	-19.3%	3.8%	3.8%	9.6%	24.3%	11.7%	4.8%	-4.1%	9.7%	1.6%
Gold & jewellery	1.9%	-2.7%	-7.0%	-18.4%	5.9%	5.9%	37.4%	44.7%	24.4%	7.8%	-10.0%	7.2%	7.7%
Household products	5.6%	-2.2%	-9.1%	-9.2%	-1.9%	-1.9%	7.7%	10.1%	9.4%	-2.2%	-1.0%	1.5%	0.7%
Home appliances	-6.1%	-14.1%	-17.3%	-13.1%	-1.9%	-1.9%	-1.4%	4.7%	0.1%	4.5%	-5.5%	-2.9%	-2.3%
Medicine	9.3%	8.9%	8.3%	39.8%	19.3%	19.3%	11.7%	3.7%	7.1%	6.6%	3.7%	3.7%	4.5%
Office stationary	8.7%	-2.1%	-1.7%	-0.3%	-1.1%	-1.1%	-1.9%	-4.9%	-1.2%	-9.9%	-13.1%	-8.4%	-13.6%
Furniture	-7.3%	-6.6%	-4.0%	-5.8%	5.2%	5.2%	3.5%	3.4%	5.0%	1.2%	0.1%	4.8%	0.5%
Telecommunication	5.8%	-8.9%	-17.6%	-4.5%	-8.2%	-8.2%	1.8%	14.6%	27.4%	6.6%	3.0%	8.5%	0.4%
Oil and gas	10.2%	0.9%	-1.6%	-2.9%	10.9%	10.9%	9.2%	13.5%	4.1%	-2.2%	-0.6%	6.0%	8.9%
Auto	14.2%	3.9%	-4.2%	4.6%	-9.4%	-9.4%	11.5%	38.0%	24.2%	-1.1%	-1.5%	1.1%	2.8%
Construction material	-8.1%	-8.7%	-10.0%	-8.9%	-0.9%	-0.9%	-4.7%	-11.2%	-14.6%	-6.8%	-11.2%	-11.4%	-8.2%
Online retail sales: goods	14.5%	22.1%	3.9%	15.6%	6.7%	6.7%	16.5%	22.3%	10.8%	6.7%	6.6%	7.6%	6.6%

SOURCES: CGIS RESEARCH, COMPANY DATA, NBS

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Distribution of stock ratings and investment banking clients for quarter ended on 30 Sep 2023		
634 companies under coverage for quarter ended on 30 Sep 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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