



# HK/China Consumer

April 2023

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# HK / China – our coverage



Company Name	Code	Price Ratings (lc/ys)	TP (lc/ys)	Upside (%)	Mkt Cap US\$m	PIE (x) 2023E	2024E	PIB (x) 2023E	2024E	ROE (%) 2023E	2024E	EPS Growth (%) 2023E	2024E	PEG 2024E	Div yield 2023E	2024E	
<b>Specialty Retailers/Luxury</b>																	
CTG Duty Free	801888 CH	183.24	OP	253.00	38%	54,927	40.5	27.5	6.8	5.8	18.0	22.7	62.3	47.1	0.8	0.8	1.1
CTG Duty Free (H)	1880 HK	194.10	OP	287.00	48%	54,928	37.6	25.5	6.3	5.4	18.0	22.7	62.3	47.1	0.5	0.8	1.2
Chow Tai Fook	1929 HK	15.58	UP	11.80	-24%	19,848	21.7	19.8	4.6	4.4	20.8	21.6	7.0	9.3	2.1	3.5	3.9
Prada	1913 HK	55.85	OP	78.00	37%	18,140	25.8	19.8	4.8	4.4	17.8	20.9	NA	30.1	0.7	2.2	3.1
Samsonite International	1910 HK	24.25	OP	37.00	53%	4,559	13.9	12.0	4.3	3.4	27.1	24.7	-7.8	16.1	0.7	0.0	0.0
Luk Fook	590 HK	25.10	OP	28.00	12%	1,877	9.9	8.7	1.2	1.2	12.1	13.2	13.0	14.3	0.6	4.8	5.5
<b>Auto dealership</b>																	
Better Life	8909 HK	2.98	OP	7.90	165%	238	3.6	2.8	0.5	0.4	14.2	15.9	34.0	30.4	0.1	0.0	0.0
Zhongsheng	981 HK	38.70	OP	60.00	55%	11,841	9.7	8.4	1.8	1.6	17.7	17.9	12.2	15.5	0.5	3.1	3.7
MeiDong	1268 HK	16.94	OP	22.00	30%	2,904	16.1	12.0	4.2	3.4	23.6	25.8	47.1	33.7	0.4	3.3	4.3
Yongda	3669 HK	5.58	OP	9.50	70%	1,390	4.9	4.1	0.7	0.6	13.1	14.1	21.3	19.0	0.2	7.5	9.0
<b>Sportswear</b>																	
Anita Sports	2020 HK	114.00	OP	147.00	29%	39,409	28.6	24.0	6.8	5.6	24.9	25.3	23.4	19.3	1.2	2.0	2.5
Li Ning	2331 HK	61.90	OP	78.00	26%	20,787	29.6	24.4	5.1	4.4	18.3	19.3	17.7	21.6	1.1	1.0	1.3
Topsports	6110 HK	7.18	OP	7.30	2%	5,672	20.3	15.3	4.0	3.5	18.8	24.4	NA	32.9	0.5	3.4	4.6
<b>Cosmetics</b>																	
Proya	803805 CH	181.85	OP	195.00	7%	7,501	49.7	38.6	12.0	9.7	26.7	27.8	36.3	28.7	1.3	0.6	0.8
L'Occitane	973 HK	19.60	OP	31.40	60%	3,686	15.3	12.4	2.4	2.0	16.4	17.6	-8.6	23.1	0.5	1.7	1.7
Shanghai Jahwa	600315 CH	30.00	Neutral	28.00	-7%	2,963	30.0	25.4	2.6	2.4	9.0	9.9	28.5	18.1	1.4	1.1	0.0
Imniek	300898 CH	558.75	OP	622.00	11%	17,587	69.3	47.0	17.2	13.8	27.1	32.6	47.2	47.8	1.0	0.7	1.0
Botanee	300957 CH	128.23	OP	195.00	52%	7,902	40.4	30.1	8.2	6.8	22.1	24.8	41.3	34.3	0.9	0.7	1.0
Bloomage Biotech	688363 CH	113.40	UP	98.00	-14%	7,937	53.6	44.1	7.2	6.4	14.4	15.3	19.5	21.4	2.1	0.7	0.8
Marubi	803983 CH	38.15	Neutral	26.00	-32%	2,228	48.8	47.1	4.4	4.1	9.3	9.0	17.8	3.7	12.9	0.7	0.7
Amorepacific	090430 KS	136.80	OP	124.00	-9%	6,178	37.7	32.0	1.6	1.5	5.0	5.6	82.5	17.7	1.8	0.5	0.8
LG H&I	051900 KS	600.00	UP	1,080.00	80%	7,292	18.5	15.4	1.5	1.4	9.7	10.7	29.7	20.0	0.8	0.6	1.4
<b>Home appliance</b>																	
Midea Group	000333 CH	53.81	OP	91.00	69%	54,765	11.9	10.3	2.3	2.0	20.2	20.5	24.8	16.0	0.6	3.5	4.1
Haier Smart Home (H-Share)	6890 HK	24.70	OP	41.50	68%	30,190	12.2	10.4	1.9	1.7	17.0	17.8	13.3	17.3	0.6	3.4	3.9
Haier Smart Home	800890 CH	22.68	OP	38.50	61%	30,190	14.1	12.1	2.0	1.8	15.4	16.0	10.2	16.8	0.7	3.2	3.8
Gree	000651 CH	36.75	OP	49.00	33%	30,106	7.4	6.9	1.7	1.6	24.0	24.2	8.6	8.1	0.8	10.3	11.1
JS Global	1691 HK	8.08	UP	5.30	-34%	3,588	8.3	7.7	1.5	1.4	19.5	18.7	17.9	7.4	1.0	5.7	5.7
Hangzhou Robam	002508 CH	28.38	Neutral	25.00	-12%	3,916	13.6	11.7	2.4	2.2	18.9	19.6	9.2	15.9	0.7	2.3	5.8
<b>Home improvement</b>																	
Techtronic	669 HK	84.85	OP	98.00	15%	19,833	16.9	14.2	3.8	3.3	21.0	21.8	8.7	19.2	0.7	2.4	2.8
Man Wah	1999 HK	6.47	OP	11.40	78%	3,232	11.0	9.1	2.2	2.0	18.7	20.3	7.6	20.6	0.4	4.8	5.4
<b>OEM</b>																	
Shenzhen	2313 HK	82.40	Neutral	82.00	0%	15,779	22.8	18.1	3.3	3.0	14.9	17.5	4.2	26.3	0.7	2.5	3.1
Feng Tay	9910 TT	193.00	Neutral	160.00	-19%	5,582	20.8	19.7	6.5	5.8	32.8	31.1	8.2	5.7	3.4	3.0	3.2
Eclat Textile	1478 TT	495.00	Neutral	432.00	-10%	4,455	24.4	20.9	5.2	4.7	21.7	23.7	-9.5	16.6	1.3	2.8	3.3
Yue Yuen	551 HK	11.06	OP	14.10	27%	2,271	8.5	7.0	0.5	0.5	6.3	7.5	NA	21.1	0.3	8.9	9.6
Stella Intnl	1838 HK	8.38	OP	11.80	52%	846	7.0	6.2	0.7	0.7	11.2	11.3	-18.6	12.6	0.5	10.6	11.0
<b>Restaurant and supply chain</b>																	
Haitian	603288 CH	76.54	Neutral	62.70	-18%	51,599	48.8	39.5	11.3	9.5	25.0	26.2	17.0	23.6	1.7	0.9	1.0
YUM China	YUMC US	83.39	UP	44.00	-31%	26,509	32.0	31.1	3.9	3.6	12.6	12.1	75.7	3.1	10.2	1.0	1.1
Yum China (H)	9987 HK	493.6	UP	345.00	-30%	26,296	249.6	242.2	30.2	27.9	12.6	12.1	75.7	3.1	79.2	1.0	1.1
Haidilao	6862 HK	21.25	UP	19.00	-11%	15,089	46.5	40.6	10.5	8.3	25.4	22.9	32.2	14.7	2.8	0.0	0.0
Angel Yeast	600298 CH	41.75	OP	50.00	20%	5,278	23.2	18.3	3.4	3.1	16.0	18.0	39.1	26.6	0.7	1.5	1.8
Fuling Zhacai	002507 CH	25.33	OP	45.00	78%	3,271	22.3	18.8	2.6	2.4	12.4	13.4	12.8	18.8	1.0	1.9	2.2
Jiumaojiu	9822 HK	18.68	OP	23.00	23%	3,461	40.8	25.3	6.3	5.1	16.8	22.2	1082.8	61.1	0.4	0.0	0.0
Yihai	1579 HK	23.05	OP	28.00	21%	3,074	21.6	18.5	4.6	3.9	19.5	19.5	23.6	16.5	1.1	1.1	1.2
Café de Coral	341 HK	10.40	OP	12.10	16%	776	23.0	15.4	2.1	1.9	9.1	13.0	1136.9	48.8	0.3	1.8	1.8
Xiabu Xiabu	520 HK	7.16	Neutral	7.00	-2%	991	28.0	18.9	3.9	3.3	15.0	19.0	NA	48.5	0.4	0.0	0.0
<b>Education</b>																	
EDU	EDU US	38.61	OP	51.00	34%	6,561	35.0	18.8	1.8	1.7	4.9	8.6	NA	86.3	0.2	0.0	0.0
New Oriental (H)	9901 HK	30.60	OP	40.00	34%	6,624	27.7	14.9	1.4	1.3	4.9	8.6	NA	86.3	0.2	0.0	0.0
Readboy	2385 HK	7.88	OP	7.70	1%	344	22.4	18.1	2.9	2.6	12.3	13.7	182.4	23.5	0.8	1.0	1.3
TAL	TAL US	6.41	OP	9.00	40%	4,159	NA	18.3	1.0	1.0	-0.1	5.4	NA	NA	NA	0.0	0.0
China Education Group	839 HK	7.56	OP	13.90	84%	2,457	8.5	7.3	1.1	1.1	13.8	14.4	9.7	16.0	0.5	6.3	7.3
Youdao	DAO US	8.50	OP	10.00	18%	1,071	NA	107.7	NA	NA	16.4	-0.6	NA	NA	NA	0.0	0.0
Cathay Media	1981 HK	1.05	OP	1.50	49%	221	5.5	4.4	0.5	0.5	9.2	10.8	-10.3	26.1	0.2	6.2	16.2
<b>Hong Kong China Consumer Discretionary - Average</b>						<b>28.8</b>	<b>25.2</b>	<b>4.5</b>	<b>3.9</b>	<b>16.4</b>	<b>17.5</b>	<b>76.1</b>	<b>25.1</b>		<b>2.4</b>	<b>3.0</b>	

Note: Prices as of 31<sup>st</sup> March, 2023

Source: Bloomberg, Company data, Macquarie Research, April 2023

## HK / China – our coverage



Company Name	Code	Price (lcy/sh)	Rating	TP (lcy/sh)	Upside (%)	Mkt Cap US\$m	P/E (x)		P/B (x)		ROE (%)		EPS Growth (%)		PEG 2024E	Div yield		
							2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E		2023E	2024E	
<b>Grocery retailers</b>																		
President Chain Store	2912 TT	269.50	OP	296.00	10%	9,190	25.0	21.7	7.9	7.3	32.9	34.9	20.9	15.0	1.4	3.6	3.0	
Yonghui	601933 CH	3.44	OP	6.40	86%	4,542	21.4	15.9	2.8	2.7	13.0	17.3	890.0	34.6	0.5	0.3	0.4	
Sun Art	6808 HK	3.15	OP	3.50	11%	3,828	126.0	43.7	1.1	1.0	0.9	2.4	NA	188.3	NA	0.0	0.0	
Taiwan Familymart	5903 TT	218.50	OP	233.00	7%	1,600	22.2	19.1	6.2	5.6	29.3	37.0	19.3	16.5	1.2	3.6	4.2	
<b>Consumer staples</b>																		
Moutai	600519 CH	1820.00	OP	2218.00	23%	332,613	31.2	25.7	11.6	9.6	33.6	33.7	17.0	21.3	1.2	1.4	1.7	
Wuliangye	000858 CH	197.00	OP	222.00	14%	111,247	26.1	22.6	6.7	5.9	24.0	24.2	11.0	15.7	1.4	1.7	1.9	
Yanghe	002304 CH	165.46	OP	181.00	9%	36,275	24.5	19.4	5.3	4.8	20.4	23.1	9.9	26.3	0.7	0.0	0.0	
Dudweiser APAC	1078 IJK	23.95	OP	29.00	22%	40,406	35.9	29.6	29.4	27.4	10.1	11.3	23.0	21.2	1.4	1.2	1.4	
Tsingtao H	168 HK	85.70	Neutral	73.00	-13%	19,594	35.6	31.9	4.6	4.5	11.2	12.1	-10.4	11.5	2.8	1.8	1.8	
CRB	291 HK	63.00	UP	49.00	-21%	26,037	35.1	29.0	7.6	6.7	17.8	19.0	5.8	21.0	1.4	1.1	1.4	
Shuanghui	000895 CH	25.94	OP	35.00	35%	13,075	15.8	15.3	4.1	3.7	24.6	23.0	1.2	3.0	5.0	3.9	4.0	
WH Group	288 HK	4.88	OP	8.80	88%	7,649	5.8	5.3	0.8	0.7	13.2	13.0	-0.3	8.4	0.6	6.7	6.8	
Wens	300498 CH	20.47	Neutral	20.00	-2%	19,518	14.2	14.3	3.5	2.4	24.3	19.9	NA	NA	-21.7	1.4	2.1	
Juawei	603517 CH	43.81	Neutral	41.30	-6%	4,023	36.1	19.7	4.3	2.3	12.6	13.7	135.1	83.3	0.2	1.1	1.4	
Zhou Hei Ya	1458 HK	3.71	OP	4.80	29%	1,126	41.1	25.5	1.8	1.8	4.6	7.1	666.5	61.5	0.4	0.5	0.8	
Uni-President Enterprises	1216 TT	71.90	Neutral	69.00	-4%	13,400	19.9	17.8	3.4	3.2	16.6	17.6	9.7	11.8	1.5	3.8	3.6	
Uni-President China	220 HK	7.92	OP	12.30	55%	4,358	17.0	14.3	2.3	2.2	13.3	15.3	44.5	18.4	0.8	6.0	7.1	
Want Want China	151 HK	5.05	OP	6.20	23%	7,644	15.9	13.4	3.2	3.5	20.8	24.2	-20.8	19.4	0.7	3.1	3.8	
Tingyi	322 HK	13.08	OP	18.00	38%	9,388	17.9	15.0	4.8	5.4	28.4	34.8	36.4	19.4	0.8	7.9	5.7	
Dali Foods	3799 HK	3.28	Neutral	3.40	4%	5,722	11.5	10.4	2.1	1.9	17.4	17.7	12.9	10.5	1.0	4.4	4.9	
Nongfu Spring	9633 HK	45.15	UP	31.00	-31%	64,687	43.4	36.9	18.5	16.7	40.3	42.9	25.6	17.6	2.1	2.1	2.5	
Vitasoy	345 HK	15.20	OP	17.80	17%	2,074	80.0	39.7	4.4	4.2	5.4	10.0	-212.0	101.5	0.4	0.0	0.0	
Hengan	1044 HK	38.30	OP	62.00	71%	5,374	13.3	9.7	1.9	1.8	15.6	19.4	64.7	37.0	0.3	4.5	0.0	
Vinda	3331 HK	18.98	OP	28.60	51%	2,909	30.5	13.3	1.7	1.6	6.2	13.3	6.1	129.3	0.1	1.6	2.2	
<b>Dairy &amp; Infant formula and supply chain</b>																		
Inner Mongolia Yili Industries	600887 CH	29.12	OP	41.50	43%	27,109	17.2	14.3	3.1	2.9	19.8	21.6	12.1	20.3	0.7	3.5	4.0	
China Mengniu	2319 HK	32.20	OP	46.20	43%	16,213	18.0	15.5	2.8	2.5	14.6	15.2	17.2	16.3	0.9	1.7	1.9	
China Modern Dairy	1117 HK	1.01	OP	1.65	63%	1,018	3.1	2.3	0.6	0.6	19.1	23.0	16.3	33.7	0.1	3.5	0.0	
Health & Happiness	1112 HK	13.14	OP	16.00	22%	1,081	8.7	6.9	1.2	1.1	13.2	15.2	39.3	25.5	0.3	7.1	9.0	
Greatview	468 HK	1.61	OP	2.20	37%	274	9.2	8.6	0.7	0.6	7.5	7.5	11.8	7.7	1.1	0.0	0.0	
<b>HK China Consumer Staple - Average</b>							<b>28.6</b>	<b>19.8</b>	<b>6.2</b>	<b>5.4</b>	<b>17.6</b>	<b>21.1</b>	<b>64.9</b>	<b>36.2</b>		<b>2.6</b>	<b>2.6</b>	

Note: Prices as of 31<sup>st</sup> March, 2023

Source: Bloomberg, Company data, Macquarie Research, April 2023



## Consumption polarization within a weak recovery

- Post reopening, we saw consumer behaviour respond in the following forms:
  - Weak and uneven recovery. Unemployment and lack of consumer confidence are the issues.
  - The trend of consumption polarization is very obvious, and companies are pursuing “value for money” product strategies to woo the general public.
- Sector performance, however, has diverged:
  - Restaurants and beer have recovered quickest as their channels reopened. We think that restaurants will need to watch out for the threat posed by HMR (home meal replacement, or ready to eat, ready to cook products). Beer continues the premiumization trend and we think will see easing cost pressure in 2H23.
  - Baijiu is seeing market consolidation, as well-known brands continue to gain share while sub-premium brands are destocked. We think that recovery will hinge on the 3Q23 Mid-Autumn Festival.
  - Travel is the only sector in which we are seeing the release of pent-up demand (revenge consumption). We expect Hainan, Hong Kong and Macau to be the destinations that benefit most from this.
  - Sales of big-ticket items such as autos and gold jewellery is slower than we had expected. We think that gold price will be the swing factor to drive demand for the latter.
  - We think that consumer staple names are poised to benefit from cost deflation. Instant noodles (palm oil) were the first to see GPM expansion first, followed by beverage (PET price), milk (raw milk/WMP) and tissues (wood pulp). Dairy demand is disappointing due to lacklustre sales of yogurt drinks and IMF growth. Industry growth is moderating.
  - ASF outbreak won't impact the hog cycle but watch for sow inventory movement, which peaked in Dec 2022 at 43.9m heads, and declined in January and February 2023 to 43.43m heads, 6% above the supply balance level.



## Consumption polarization under weak consumption

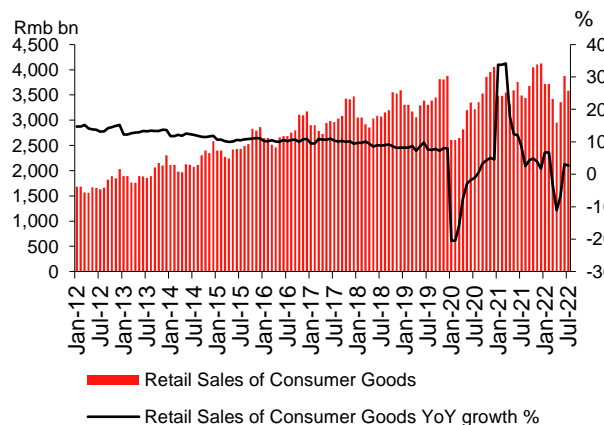
- Based on the consumption polarization trend, we suggest investors take a bar-bell strategy to position themselves in the premium/luxury/high-end segments and staples to capture mass-market consumption
- Top buys:
  - **Samsonite:** Tumi/Samsonite are premium brands, and we think Asian markets will drive top-line growth and EBITDA margin expansion. We think valuation is undemanding at 15x 2023E PER.
  - **Prada:** Global luxury demand remains robust, with double-digit growth for 2023. Prada is gaining market share through product innovation and category expansion.
  - **CTG Duty Free:** Hainan is taking share from HK as a Chinese luxury shopping destination, and the category mix is moving towards luxury categories. Downtown duty-free policy relaxation and the opening of high-end luxury brand stores would be catalysts for further growth.
  - **Meidong:** High exposure to >Rmb500k autos, so will see less impact from auto price war. New car sales margin has bottomed, in our view.
  - **EDU:** AST regulation is supportive, and we think the new non-academic business should turn around soon; East Buy is becoming profitable faster than we had expected.
  - **Moutai:** Sustainable mid-teens growth from channel reforms (in favour of direct retail channels) and product mix. Management paid special dividend in 2022 to reward shareholders.
  - **Wuliangye:** Demand picked up after Lunar New Year due to demand from business gatherings, and the wholesale price recovered to Rmb960/unit vs Rmb930/unit before Lunar New Year.
  - **BUD APAC:** We think that volume and ASP will see sequential improvement, and that GPM is poised to expand as unit costs ease.
  - **Tingyi:** Strong leverage from palm oil price decline with stable revenue growth; we think that the special dividend can be sustained.
- We remain cautious on Haitian (603288 CH), YUMC (YUMC US), CRB (291 HK), Tsingtao Brewery (168 HK), Nongfu Spring (9633 HK), Chow Tai Fook (1929 HK), Haidilao (6862 HK), JS Global (1691 HK), Bloomage (688262 CH), Shenzhou (2313 HK).



# Weak consumption recovery: lack of confidence

- ➔ China retail sales growth turned around to +3.5% YoY in 2M23 from the -1.8% YoY recorded in December.
- ➔ China's youth unemployment rate (16-24 years old) remains elevated, at over 18% at Feb 2023, vs 5 year historical average at around ~15%
- ➔ The number of graduates from higher education institutions is set to reach a record high of 11.58m for 2023. According to Intelligence Research, an increasing number of students are pursuing graduate school entrance exams, government official exams and/or entrepreneurial endeavours, while the number of graduates entering the job market or pursuing further study overseas are decreasing.
- ➔ China resident deposit rate hit a new high of 46.5% in Feb 2023

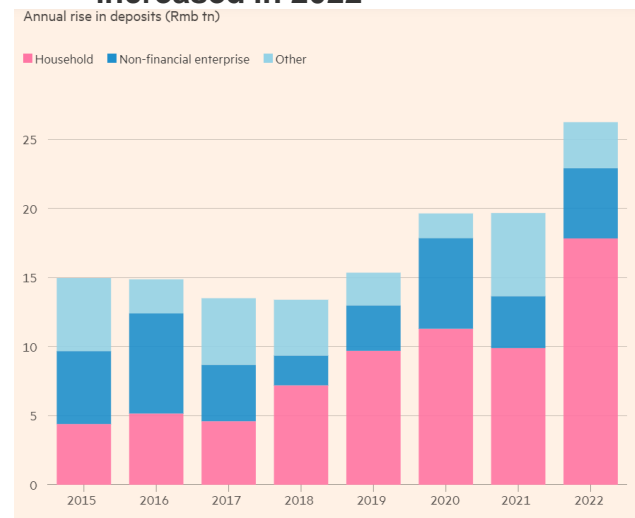
**China retail sales grew by 3.5% YoY in 2M23**



**China youth unemployment rate**



**China household deposit increased in 2022**



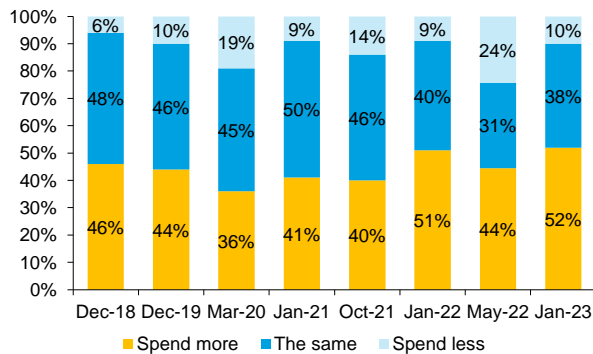
Source: National Bureau of Statistics, Intelligence Research, People's Bank of China, Financial Times, Macquarie Research, April 2023



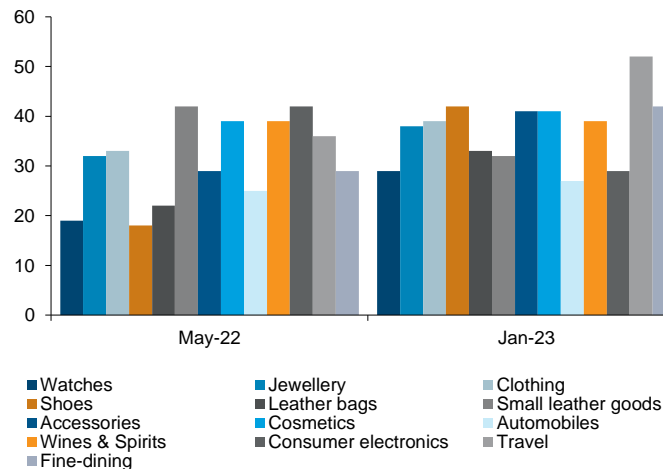
# Luxury consumption remains resilient

- ➔ After reopen, the intention of spending more on luxury goods reached unprecedented highs among Mainland China luxury consumers since 2019.
- ➔ Experience type of shopping: footwear, travel and fine dining are the top three categories in which consumers are willing to increase their spending. Consumers are less willing to increase their spending on big-ticket items such as consumer electronics and autos.

**China luxury consumer spending willingness rebounded strongly in Jan 23**



**“Willingness to spend more” changes in different categories**



**High-end autos less impacted by price war (auto sales breakdown by price point)**

Price	2018	2019	2020	2021	2022	2023
>400K	1%	2%	2%	2%	3%	5%
300k~400k	5%	6%	7%	7%	7%	9%
200k~300k	10%	11%	15%	17%	18%	16%
150k~200k	14%	15%	15%	15%	17%	13%
100k~150k	30%	33%	33%	32%	33%	34%
50k~100k	38%	33%	28%	23%	19%	19%
<50k	1%	0%	1%	4%	4%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: CSG Research, China Passenger Car Association, Macquarie Research, April 2023

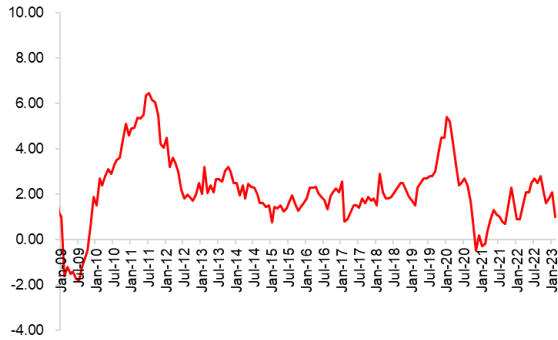


# Raw materials prices have eased but remain elevated



➔ Prices of raw materials such as raw milk, palm oil and PET have trended softer since July, but remain high relative to historical levels.

**China CPI YoY**



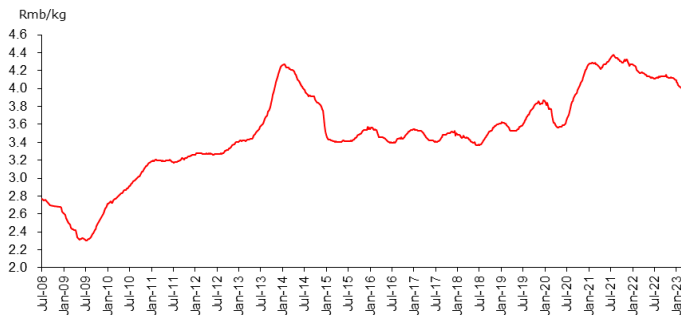
**Imported barley price**



**Pulp future price**



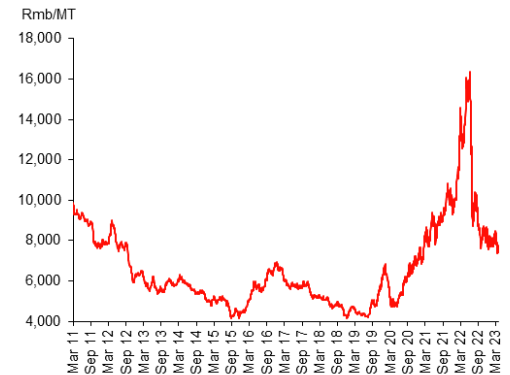
**China raw milk price**



**PET price**



**Malaysia palm oil price**





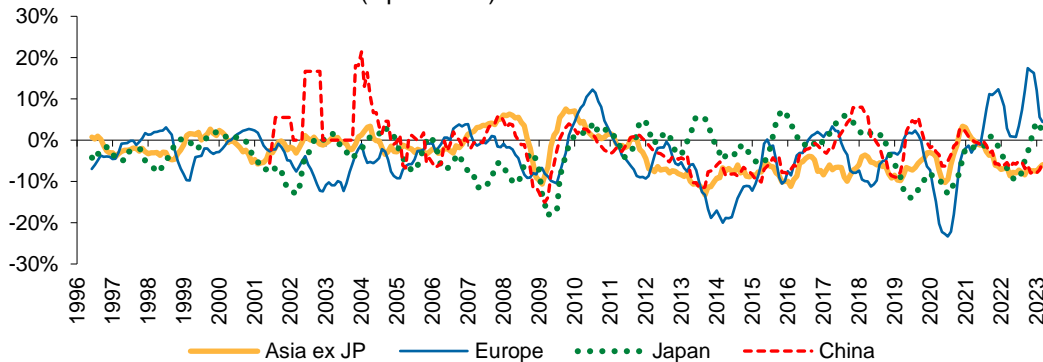


# Earnings revision cycle is moving down

- ➔ We are more comfortable with upward revisions to Consumer staples **consensus** estimates, as raw material costs decline.
- ➔ Consumer discretionary **consensus** earnings revisions are almost finished, having been picking up since 4Q22. We expect discretionary **consensus** earnings revisions are likely to move up and down in the coming quarters, due to the trade-off between top-line recovery and GPM pressure from inventory clearance and A&P expense.

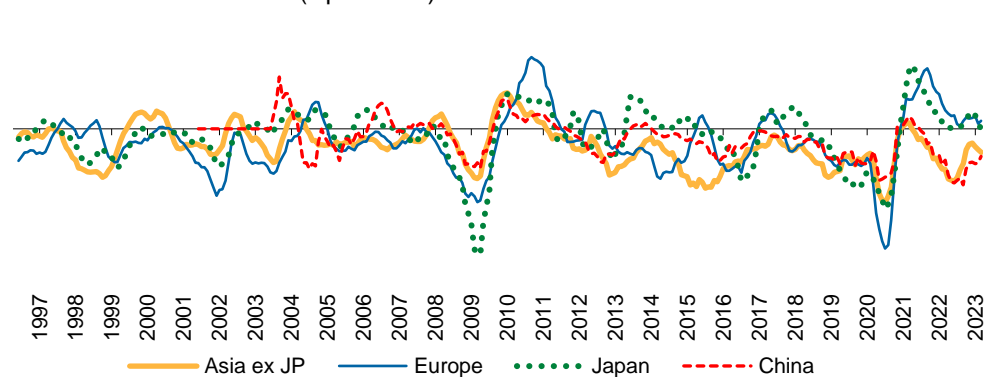
## Consumer staple earnings downward revision

Staples - 6 Month Moving Average - FY1 Earnings Revisions (Up - Down) / Total Estimates



## Consumer discretionary earnings downward revision

Discretionary - 6 Month Average - FY1 Earnings Revision (Up - Down) / Total Estimates



Source: Refinitiv, Macquarie Research, April 2023



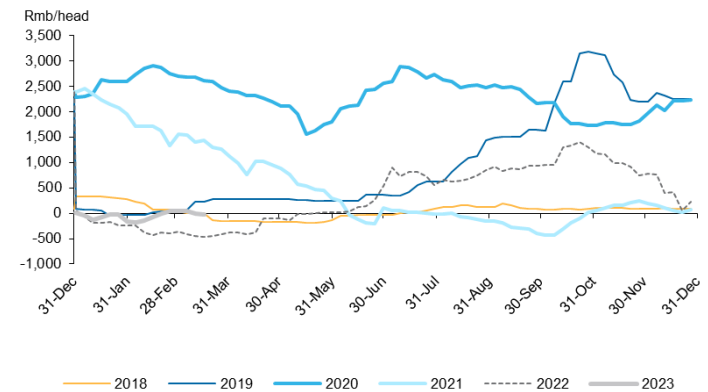
# China hog price is trending down

➔ The China hog price peaked at >Rmb37/kg in Oct 22 and is now Rmb21.38/kg, up 13% YoY but down 2.2% MoM. We expect that hog prices will trend down throughout 1H23. China sow inventories have declined for the past two consecutive months already. If the trend continues, it would be a leading indicator for a hog price reversal in 2H23.

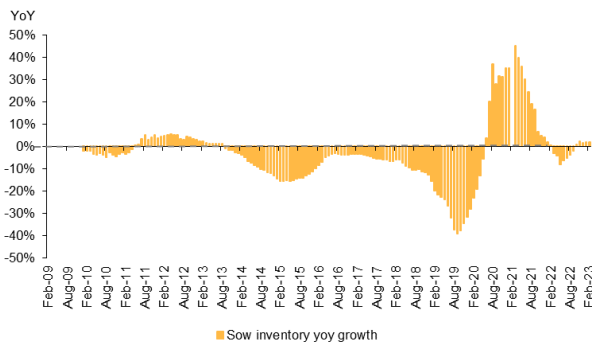
## Hog supply & demand model

Pork supply and demand model (m tons/ heads)	2018	2019	2020	2021	2022	2023E
<b>Supply</b>						
<b>Livestock and hog production</b>						
Hog stock	428.2	310.4	406.5	449.2	452.6	1,851.7
Reproductive sow stock (year-end)	29.9	20.5	41.6	43.3	43.9	43.0
Slaughtering volume	242.5	180.3	149.8	264.9	285.4	299.6
Hog production	693.8	544.2	527.0	671.3	700.0	709.8
<b>Pork</b>						
Domestic pork production	54.0	42.6	41.1	53.0	55.4	56.2
Avg. meat yield	0.1	0.1	0.1	0.1	0.1	0.1
Implied meat/ hog (ton)	0.7	0.7	0.7	0.7	0.7	0.7
Imported pork	0.1	0.1	0.1	0.1	0.1	0.1
Imported pork	1.2	2.0	4.3	3.7	1.8	1.9
<b>Total pork supply</b>	<b>55.2</b>	<b>44.5</b>	<b>45.4</b>	<b>56.7</b>	<b>57.2</b>	<b>58.1</b>
<b>Demand</b>						
Consumption	55.4	44.8	41.5	51.7	52.5	54.1
<b>Oversupply/ (shortage)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>3.9</b>	<b>4.9</b>	<b>4.7</b>	<b>4.0</b>

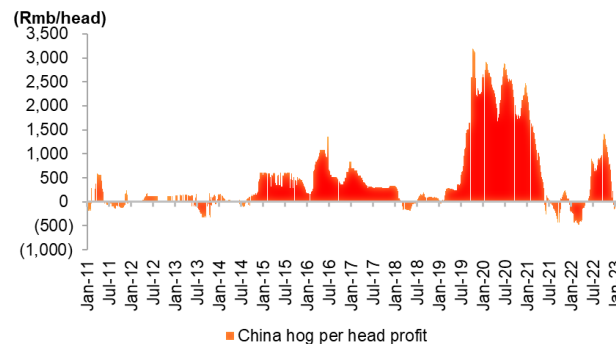
## Hog production profit remains weak for 2023 to-date



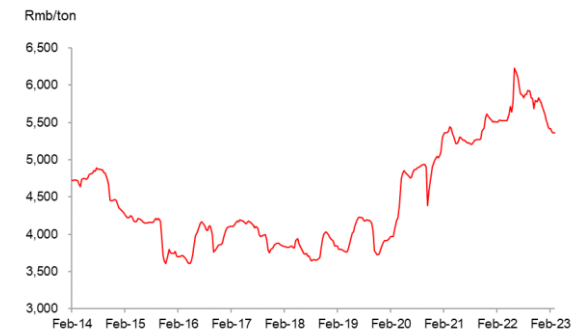
## China sow inventory YoY



## China hog-per-head profit



## Soy bean price



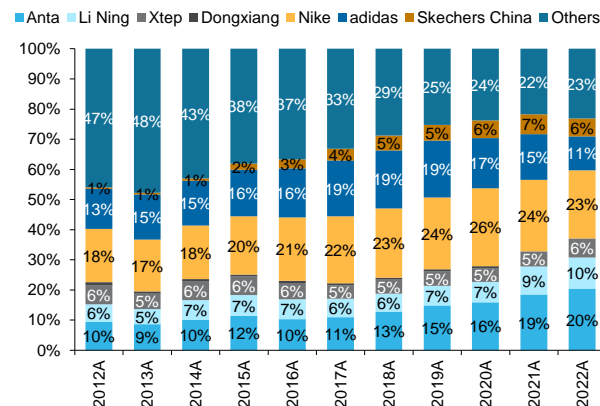


## Domestic sportswear retail sales to improve from 2Q23

- ➔ Retail sales have started seeing a recovery in March as comparison base starts to ease. Most of the domestic brands have pointed to retail sales growth accelerating for the first two months.
- ➔ Domestic brands have generally seen inventory levels declining from the end-2022 levels due to controls on procurement and better-than-expected retail sales in January. We believe inventory levels should keep improving towards mid-year as brands prioritise tightening inventory in 1H23.
- ➔ Li Ning has currently maintained lowest inventory at just above 4 months while Anta and FILA brands have managed to reduce inventory from 6x and 7x, respectively, to <5x. Xtep also saw inventory fall below 5 months vs 5.5 months earlier.
- ➔ For textiles and footwear suppliers, the order book visibility has remained low in 1Q23, and we see a negative impact on the utilization rate in 1H23 for OEMs in general.
- ➔ US retailers are still in the process of destocking inventory and we continue to prefer domestic brands over OEMs with Anta as our top pick while maintaining Neutral on Shenzhou, Eclat and Feng Tay.

Retail sales growth for domestic brands						
Retail sales YoY growth	Li Ning brand	Anta brand	other brands	FILA	Xtep	361
1Q/19	low-20s +ve	Low teens growth	35% +ve	70%	>20%	L.S.D. +ve
2Q/19	low-20s +ve	Mid teens growth	40% +ve	60%	>20%	L.S.D. +ve
3Q/19	low-30s +ve	Mid teens growth	30-35% +ve	50-55%	~20%	L.S.D. +ve
4Q/19	mid-30s +ve	High teens growth	25-30% +ve	50-55%	>20%	L.S.D. +ve
1Q/20	High-teens -ve	20-25% -ve	high single digit -ve	mid single digit -ve	20-25% -ve	25-30% -ve
2Q/20	Mid-single digit -ve	low single digit -ve	25-30% +ve	low teens growth	Low single digit -ve	Low teens -ve
3Q/20	Mid-single digit +ve	low single digit +ve	50-55% +ve	20-25% +ve	Mid-single digit +ve	H.S.D -ve
4Q/20	Mid-teens +ve	low single digit +ve	55-60% +ve	25-30% +ve	High-single digit +ve	L.S.D. +ve
1Q/21	high-80s +ve	40-45% +ve	115-120% +ve	75-80% +ve	mid-50s +ve	High teens +ve
2Q/21	Low-90s +ve	35-40% +ve	70-75% +ve	30-35% +ve	30-35% +ve	15-20% +ve
3Q/21	Low-40s +ve	Low teens +ve	35-40% +ve	mid-single digit +ve	Mid-teens +ve	low teens +ve
4Q/21	low-30s +ve	Mid teens +ve	30-35% +ve	high-single digit +ve	20-25% +ve	high teens +ve
1Q/22	high-20s +ve	High teens +ve	40-45%	mid-single digit +ve	30-35% +ve	high teens +ve
2Q/22	high-single digit -ve	mid single digit -ve	20-25%	high-single digit -ve	Mid-teens +ve	low teens +ve
3Q/22	Mid-teens +ve	mid single digit +ve	40-45%	low teens +ve	20-25% +ve	mid teens +ve
4Q/22	Low-teens -ve	high single digit -ve	low teens +ve	low teens -ve	High single digit -ve	Flat YoY

Domestic brands taking market share



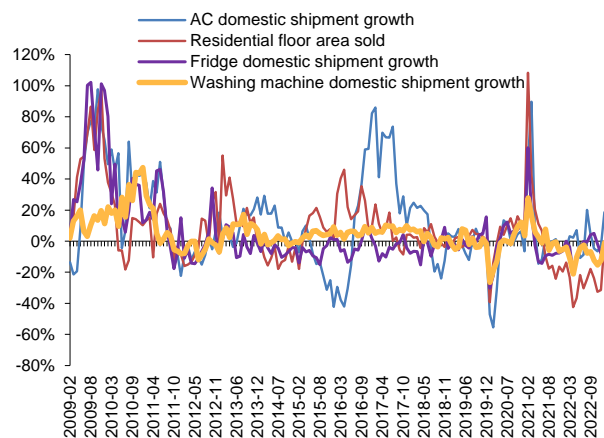
Source: Company data, Macquarie Research, April 2023



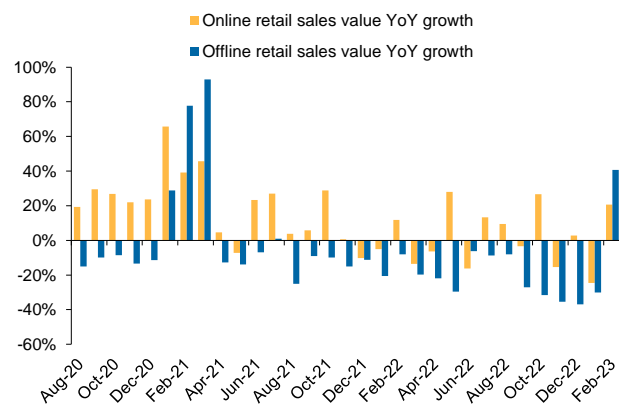
## Loosening of property market tightening and consumption stimulus

- ➔ According to AVC data, online retail sales value for first two months declined 6.0% (Dec 22: +2.9% YoY), compared with the offline channel's 6.9% YoY decline (Dec 22: -36.9% YoY). This represents sequential improvement driven by February growth. Pent-up demand could be driving the current improvement, in our view.
- ➔ By retail sales volume, 2M23 online declined by 12.9% YoY (Dec 22: +1.1% YoY) vs offline decline of 10.4% YoY (Dec 22: -33.1% YoY). This still roughly implies a mid-single digit retail price increase for the overall industry given elevated raw material costs.
- ➔ Following Chinese government change in stance towards property market, existing home prices increased in Feb-23, first time since Sep 2021. House completions for 2M23 also rose 8% YoY as developers prioritise the completion of the existing projects over the start of new ones. Property sales of top 100 developers grew 3% YoY in 1Q23, according to CRIC.
- ➔ The Chinese gov't continues to encourage local governments to launch appliance replacement and rural penetration stimulus even though no sizable stimulus has been launched at the moment.

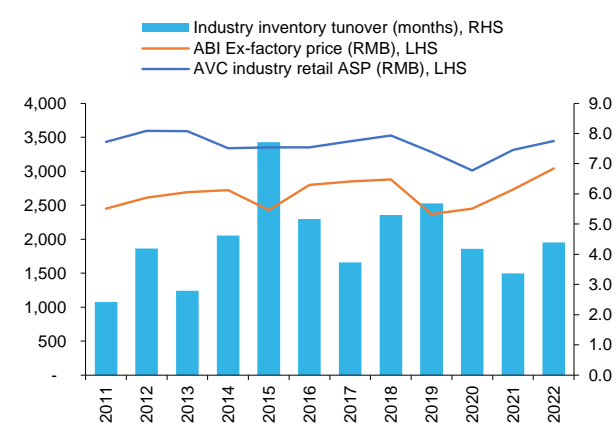
**White goods domestic shipments see less volatility than property sales decline**



**Online retail sales grew 21% in while offline retail sales grew 40% YoY in February**



**AC inventory has likely increased on offline traffic disruption from COVID outbreak in 4Q22**

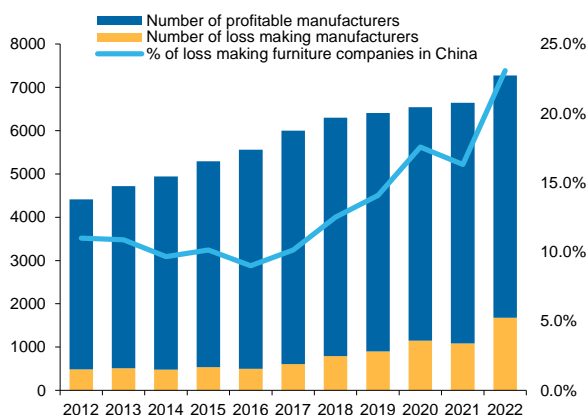


# Home furnishings: Strong emerge stronger

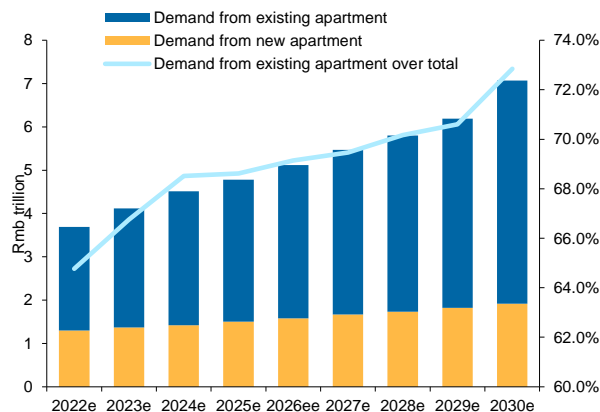


- ➔ We expect both upholstery and customised furniture will enjoy an increase in demand amid improving completions and increased consumer sentiment towards home renovations post lifting of Covid curbs.
- ➔ Home furnishing industry is still a highly fragmented market where leaders such as Oppein Home, Jason Furniture and Man Wah account for just 7% of the industry’s market share nationally. We believe these leaders are likely to be better positioned amid market consolidation thanks to economies of scale, reinvestment to drive channel expansion, and brand marketing.
- ➔ In recent years, most leading home furnishing companies have expanded their category offerings through industry partnerships and organic growth to increase ticket size and consumer wallet share in the renovation budget.
- ➔ Export business could still see short term pressure given inventory destocking by retailers in western markets.
- ➔ We like Jason Furniture and Oppein Home and recently upgraded Man Wah to Outperform.

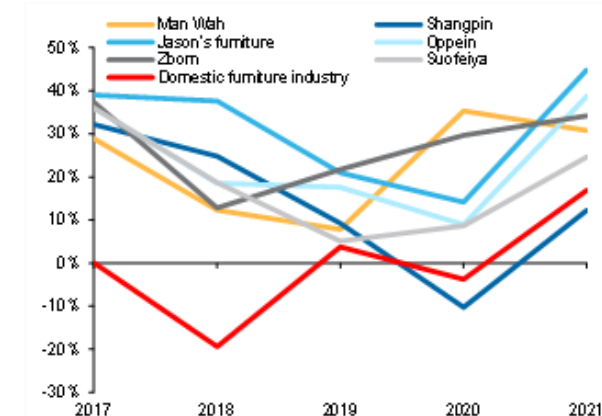
**% of loss-making furniture manufacturer increased significantly in 2022**



**Home furnishing sales will be increasingly contributed by existing apartments**



**Top players have a higher revenue growth rate than the overall domestic furniture market**



Source: NBS, Beike research institute, company data, Macquarie Research, April 2023

## China restaurants: recovery underway



- After China moved the infection peak last December, restaurants began to recover, albeit recovery has been uneven and choppy across different city tiers. Initially, higher tier cities recorded faster recovery compared to lower tier cities. Consumption trade down remains evident with mass-end segment leading the way YTD.
- We favour chain operators with strong balance sheets and disciplined store expansion strategies.

### Sales recovery

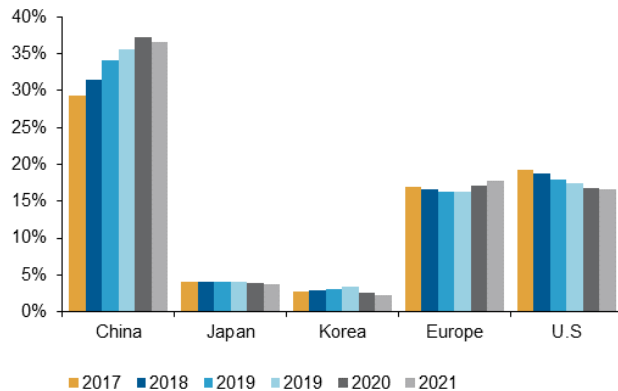
	<b>Haidilao</b>	<b>Jiumaojiu</b>	<b>Tai Er</b>	<b>Xiabu Xiabu</b>	<b>Cou Cou</b>	<b>Helens</b>	<b>Nayuki</b>
YoY %	6862 HK	9922 HK	9922 HK	520 HK	520 HK	9869 HK	2150 HK
Jan-22	same store flat overall +6%	-12%	-3%	<-20%	<-20%	-20%	-10%
Feb-22	same store slightly down overall slightly up	-15%	-20%	-20%	-20%	-10%	-20%
Mar-22	same store <-30% overall <-20%	-20%	-40%	-20%	-40%	-34%	n.a
Apr-22	same store -25% overall -20%	-26%	-48%	-40%	-28%	-40%	-45%
May-22	same store -10% overall China -10%; overall flat	-19%	-39% or -25% if excluding temp suspended stores	-40%	-35%	-38%	-40%
Jun-22	same store (China only) flat, overall up 20%	40%	-10%	-30%	-18%	-23%	-25%
Jul-22	SS +4%, overall (China only) +10%, overall up 15%	0%	-15%	-25%	-11%	-18%	-30%
Aug-22	SS +10%, overall (China only) +20%, overall up 20%	-1%	-10%	0%	0%	-9%	-5%
Sep-22	SS -5%, overall (China only) slightly up, overall up 10%	-8%	-18%	-17%	-15%	-17%	-10%
Oct-22	SS >-20%, overall (China only) down 20%, overall down 15%	-17%	-24%	-24%	-16%	-20%	-20%
Nov-22	SS -20%, overall (China only) down 20%, overall down 12%	-32%	-22%	-27%	-20%	-30%	-30%
Dec-22	SS -30%, overall down 25%	-15%	-32%	-56%	-41%	-37%	-45%
Jan-23	SS flat, overall flat	4%	6%	36%	3%	-4%	-10%
Feb-23	SS down single digit, overall slightly down	-9%	-3%	7%	-10%	7%	0%

Source: Company data, Macquarie Research, April 2023

## Cosmetics: Prefer skincare over colour cosmetics plays

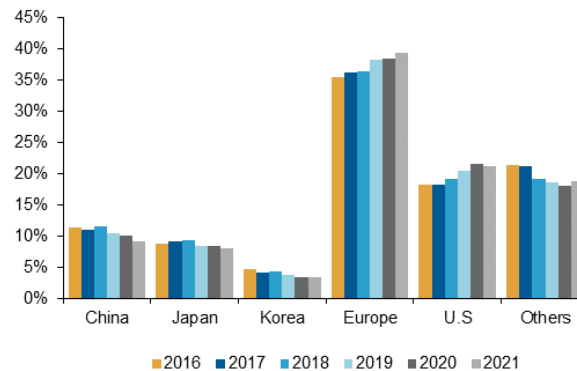
- China's cosmetics industry is poised to see high single digit 21-26E sales CAGR, driven by structural channel shift and demographics change. We view skincare brands as beneficiaries of an aging society and resilient under common prosperity.
- Millennials and Gen-Z consumers care more about products over brands and are more interested in local brands. This bodes well for our positive view on Proya, which is well positioned to gain share ahead.
- Skincare brands outperformed over colour cosmetics brands throughout 2022. Since reopening, we are seeing color cosmetics making a comeback. Consumption polarization is evident where domestic brands dominate the mass end segment while international brands have the upper hand in premium segment.

### Domestic brands dominate the mass segment



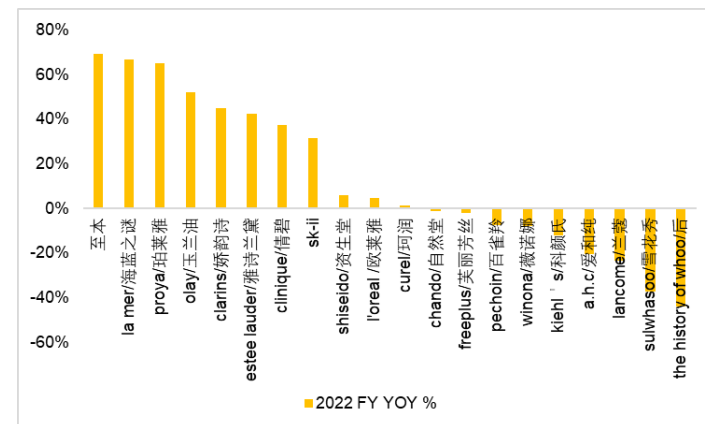
Source: Euromonitor, Macquarie Research, April 2023

### European and U.S brands dominant in premium segment



Source: Euromonitor, Macquarie Research, April 2023

### Domestic brands outperformance continues



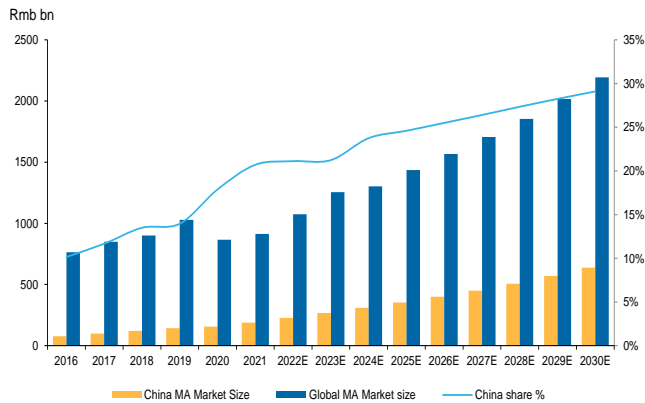
Source: Tmall, Macquarie Research, April 2023



## Medical aesthetics: Domestic brands gaining share

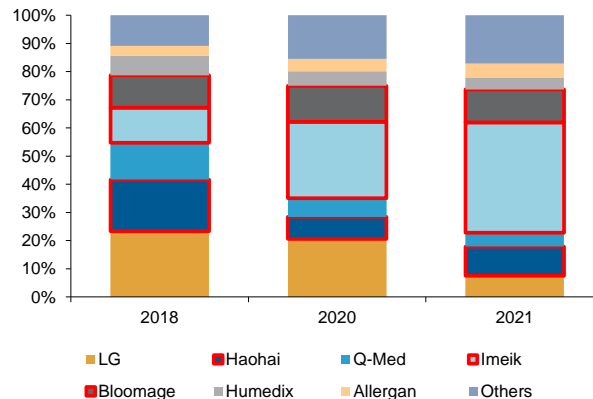
- ➔ The global medical aesthetics market has entered a stage of stable development, with single-digit YoY sales growth, while China still enjoys double-digit growth on rising penetration rates and higher beauty awareness.
- ➔ Domestic brands are gaining market share in the MA injection sector in China. Imeik has become the largest market player in China's hyaluronic acid (HA) dermal filler market since 2020 in terms of sales volume. Demand is rebounding strongly post reopening with limited new regulations rolled out YTD.

**China to account for 29% of global MA market by 2030**



Source: Frost& Sullivan, Macquarie Research, April 2023

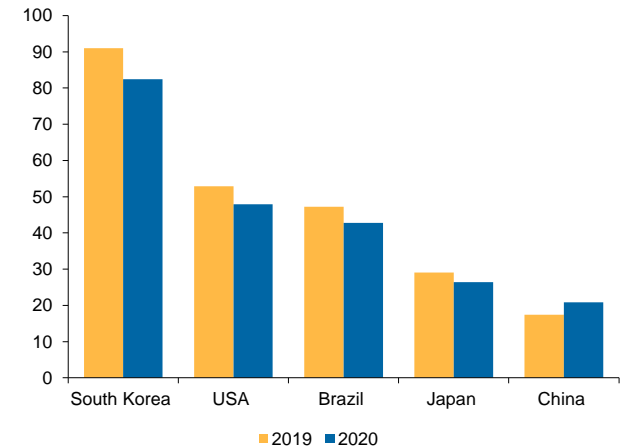
**Domestic brands rising in MA injection market in China**



Source: Frost& Sullivan, Macquarie Research, April 2023

Note: based on sales volume

**China still has low MA penetration rate**



Source: Frost& Sullivan, Macquarie Research, April 2023

Note: penetration rate refers to MA procedures done per thousand people

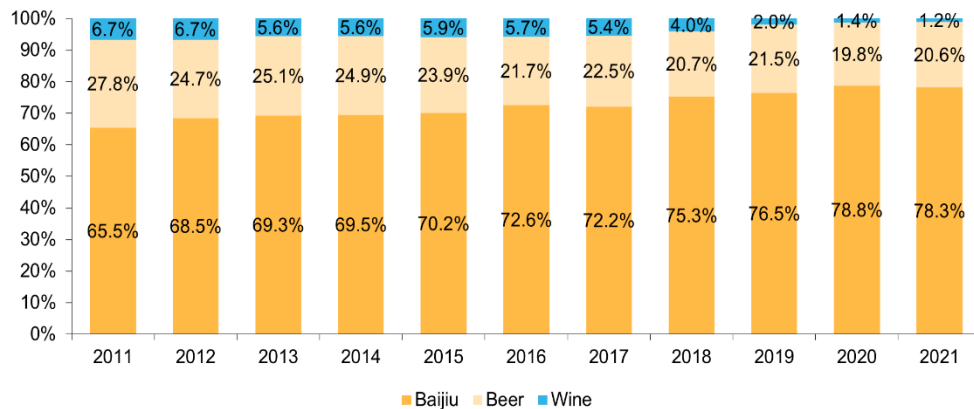


# China alcoholic beverage industry outlook

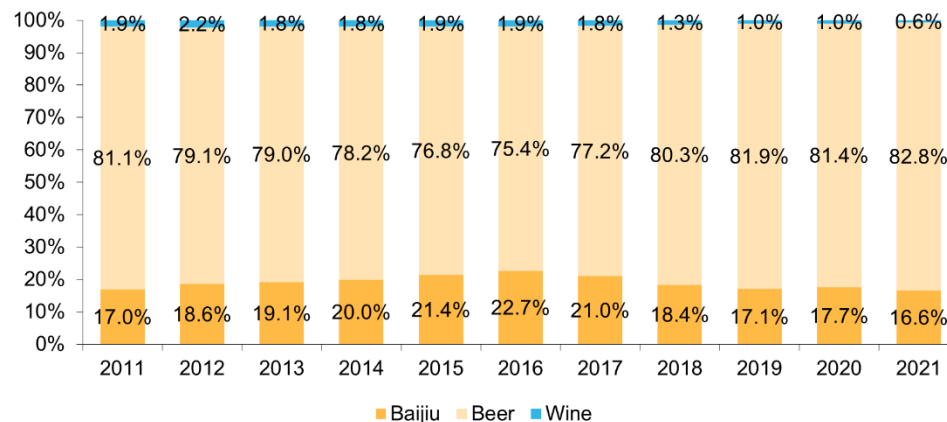


- ➔ Baijiu industry accounted for ~78% share of China alcoholic beverages revenue in 2021. Consumers have shown a tendency to drink less but drink higher-quality products. We believe listed baijiu companies can tap into this trend with stronger branding, and they can also benefit from the increasing industry consolidation to gain share from others.
- ➔ Beer still owns the lion’s share in terms of volume. However, at >80% the volume upside is limited, while premiumization remains the key growth driver. Producers are upgrading products and revising prices to realize premiumization.
- ➔ Wine value and volume share continues to fall. Imports of foreign brands were hindered by the pandemic, while recognition for domestic brands remains relatively low.

**Value share of alcoholic beverage industry**



**Volume share of alcoholic beverage industry**



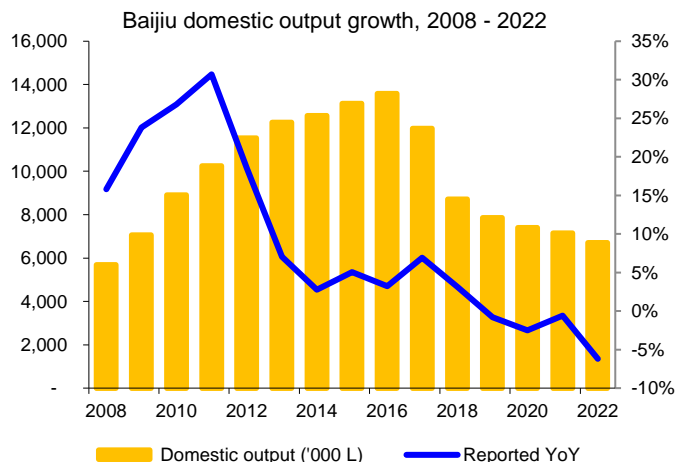
Source: National Bureau of Statistic, China Alcoholic Drinks Association, General administration of custom PRC, Macquarie Research, April 2023

# Alcoholic consumption among young generation

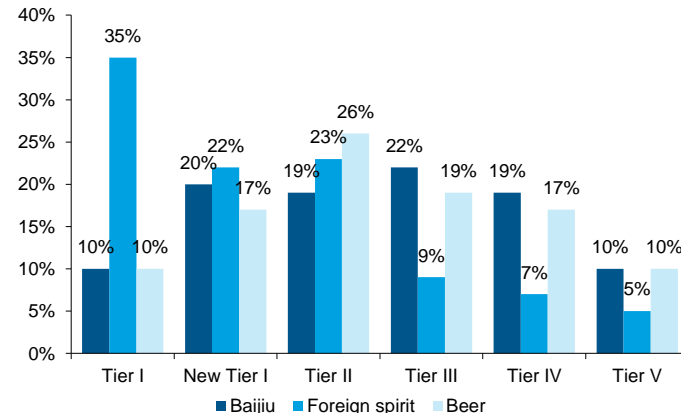
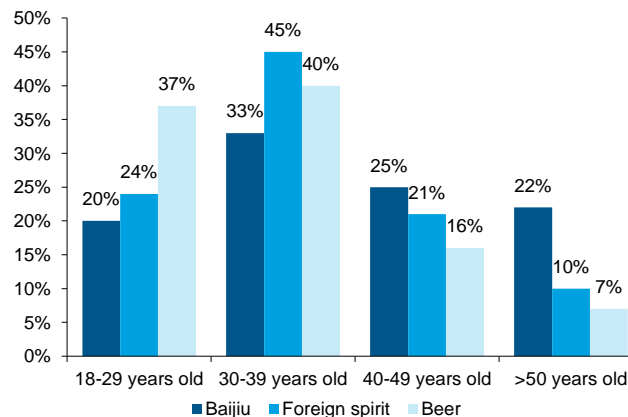


- ➔ Baijiu consumption volume peaked in 2016 at 13.54m tons and then kept the volume declining trend. The baijiu premiumization trend is pushed and pulled by both brands (value driven strategy) and consumers (asking for high quality baijiu drinking).
- ➔ Baijiu consumption is the most popular among the age group of 30-39 years old, while the young generation (18-29 years old) accounts for 20% of baijiu consumption. Gen Zs are pursuing the individuality and whisky is getting popular.
- ➔ Foreign spirit is the most popular in the higher tier cities, while baijiu is the most popular in Tier III cities.

Value share of alcoholic beverage industry



Baijiu is the most popular alcohol among the age of 30-39 and Tier III cities



Source: Wind, Tencent Digital Survey, April 2023

## Baijiu industry consolidation more obvious

- ➔ Baijiu industry continues to see consolidation with value share of 19 listed companies up to 51% in 2021 from 25% in 2011. Pandemic further facilitated the consolidation of the nationwide brands, while sub premium brands are in destocking phases.
- ➔ During 2011-21, Moutai and Wuliangye gained 13% and 6% market share, respectively. The two companies accounted for 48% and 22% of listed companies' NP in 2021 given their ultra-premium positioning. Fen Wine is a dark horse in the sub-premium segment with 2.7% market share growth over the past decade (update to 2022).

Market share by value (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Change between 2011 and 2021
Kweichow Moutai	4.9%	5.9%	6.2%	6.1%	6.0%	6.6%	10.8%	14.4%	15.8%	16.8%	18.1%	13.2%
Wuliangye Yibin	5.4%	6.1%	4.9%	4.0%	3.9%	4.0%	5.3%	7.5%	8.9%	9.8%	11.0%	5.5%
Jiangsu Yanghe	3.4%	3.9%	3.0%	2.8%	2.8%	2.8%	3.5%	4.5%	4.1%	3.6%	4.2%	0.8%
Beijing Shunxin Agriculture	2.0%	1.9%	1.8%	1.8%	1.7%	1.8%	2.1%	2.3%	2.7%	2.7%	2.5%	0.4%
Luzhou Laojiao	2.2%	2.6%	2.1%	1.0%	1.2%	1.4%	1.8%	2.4%	2.8%	2.9%	3.4%	1.2%
Anhui Gujing Distillery	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.2%	1.6%	1.9%	1.8%	2.2%	1.3%
Shanxi Xinghuacun Fen Wine	1.2%	1.5%	1.2%	0.7%	0.7%	0.7%	1.1%	1.7%	2.1%	2.4%	3.3%	2.1%
Anhui Kouzi Distillery	0.6%	0.6%	0.5%	0.4%	0.5%	0.5%	0.6%	0.8%	0.8%	0.7%	0.8%	0.3%
Sichuan Swellfun	0.4%	0.4%	0.1%	0.1%	0.2%	0.2%	0.4%	0.5%	0.6%	0.5%	0.8%	0.4%
Anhui Yingjia Distillery	0.8%	0.8%	0.7%	0.6%	0.5%	0.5%	0.6%	0.7%	0.7%	0.6%	0.8%	0.0%
Jiangsu King's Luck	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.5%	0.7%	0.9%	0.9%	1.1%	0.5%
Hebei Hengshui Laobaigan Liquor	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.7%	0.7%	0.6%	0.7%	0.3%
Xinjiang Yilite	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.3%	0.3%	0.0%
Shede spirits	0.3%	0.4%	0.3%	0.3%	0.2%	0.2%	0.3%	0.4%	0.5%	0.5%	0.8%	0.5%
Jinhui Liquor	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.1%
Qinghai Huzhu Barley Wine	0.2%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%	0.2%	0.1%	0.2%	0.0%
Anhui Golden Seed Winery	0.5%	0.5%	0.4%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	-0.3%
Jiugui Liquor	0.3%	0.4%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.6%	0.3%
Huangtai	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Sum of top 3</b>	<b>13.7%</b>	<b>15.9%</b>	<b>14.1%</b>	<b>12.9%</b>	<b>12.8%</b>	<b>13.4%</b>	<b>19.7%</b>	<b>26.4%</b>	<b>28.9%</b>	<b>30.2%</b>	<b>33.3%</b>	<b>19.6%</b>
<b>Sum of 19 baijiu listcos</b>	<b>24.6%</b>	<b>27.6%</b>	<b>24.0%</b>	<b>20.8%</b>	<b>20.9%</b>	<b>21.5%</b>	<b>29.9%</b>	<b>39.6%</b>	<b>43.9%</b>	<b>44.9%</b>	<b>51.2%</b>	<b>26.6%</b>
<b>Baijiu industry</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

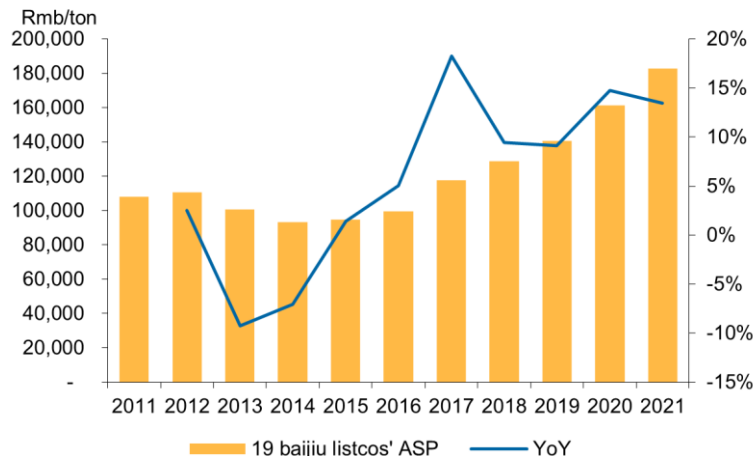
Source: Company data, Wind, Macquarie Research, April 2023



## Can consumption upgrade holding up? (1/2)

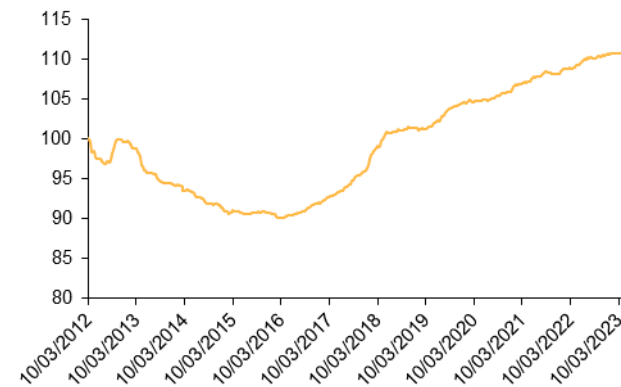
- ➔ Given rising health consciousness and an aging population, China consumers tend to prefer better-quality baijiu but drink less of it.
- ➔ China baijiu wholesale price index bottomed in 2015 after the gov't's anti-corruption campaign and has been on upward trend till now, supported by rising private consumption and price hikes. Since 2020, a new round of price hikes in the industry have led to firming baijiu prices.
- ➔ Nineteen baijiu listed companies' ASP CAGR reached 12% over 2018-2021, while the top-3 baijiu listcos' ASP CAGR was higher at 15% during the same period.
- ➔ In 2022, sales value of baijiu industry was up 10% to Rmb663bn, while industry profit was up 30% to Rmb220bn.

**19 baijiu listcos' ASP CAGR reached 12% during 2018-2021**



Source: Wind, Company data, Macquarie Research, April 2023

**Baijiu wholesale price index (Feb 2012 as basis = 100)**



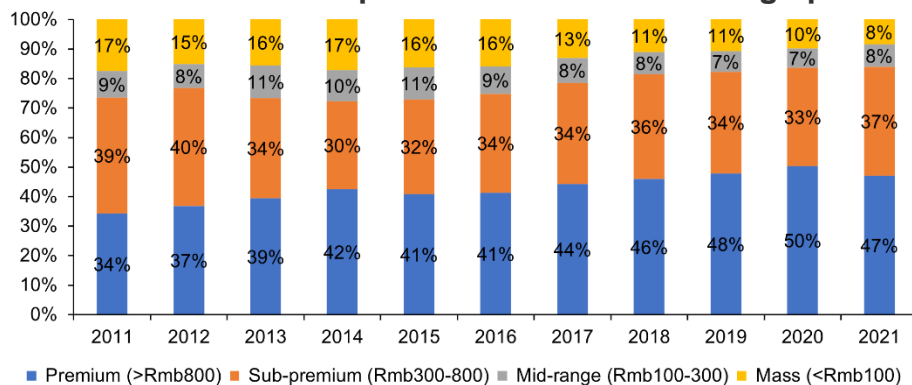
Source: China Alcoholic Drinks Association, Macquarie Research, April 2023



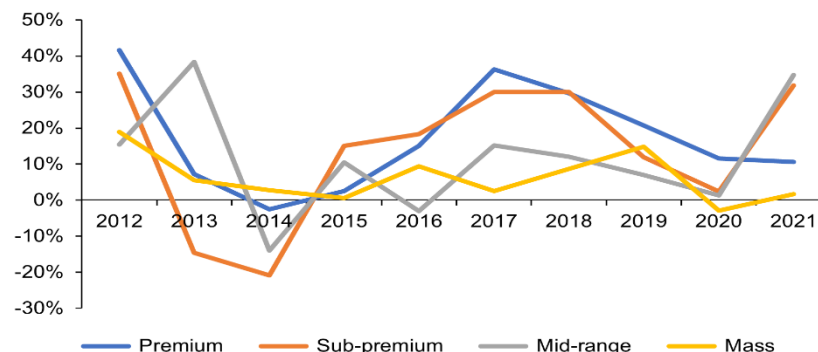
## Can consumption upgrade holding up? (2/2)

- We divided 19 baijiu companies into four groups based on their end-market price point: >Rmb800/bottle for premium, Rmb300-800 for sub-premium, Rmb100-300 for mid-end, <Rmb100 for mass-end.
- During 2011-21, revenue share of premium baijiu kept trending up. The exception was 2021 when sub-premium listed players saw more rapid growth and took share from premium baijiu. We believe this was mainly due to wide-scale price hikes among sub-premium and mid-end baijiu players.
- Revenue share of sub-premium segment declined during 2013-15 due to the govt's anti-corruption campaign. It showed a pick-up trend after 2016 but has not yet returned to pre-2013 levels.
- The premiumization trend is likely to continue in 2023, with the unleashing of pent-up gifting, business, and other social gathering demand.

**Baijiu sales value breakdown: share of premium and sub-premium has been trending up**



**YoY sales value growth by segment**



Note: based on data of a total of nineteen listed companies and unlisted companies.

1) Premium: Moutai, Wuliangye; 2) Sub-premium: Moutai (series), Fen Wine, Laojiao, Yanghe, Gujing, Shede, Jinshiyuan, Jiuguijiu, Swellfun, Kouzijiao; 3) Mid-end: Wuliangye (mid-end), Fen Wine (mid-end), Laojiao (mid-end), Yingjia, Jinhui; 4) Mass-end: Shaoxing Yellow Rice Wine, Shunxin, Laobaigan, Huangtai, Yilite, Golden Seed, Qinghai Huzhu Barley Wine

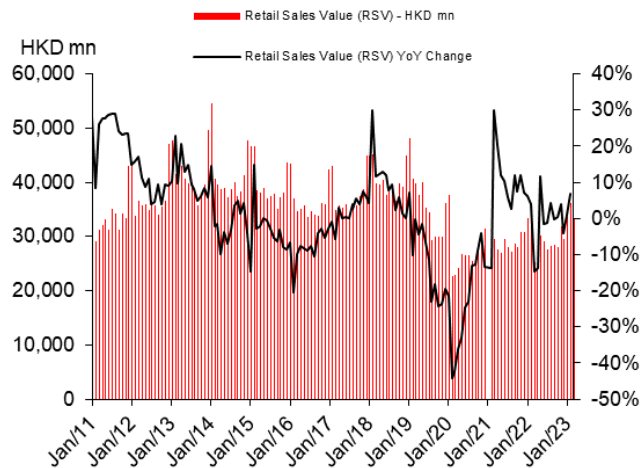
Source: Company data, Macquarie Research, April 2023

# Hong Kong Retail sales: Significant increase in tourists

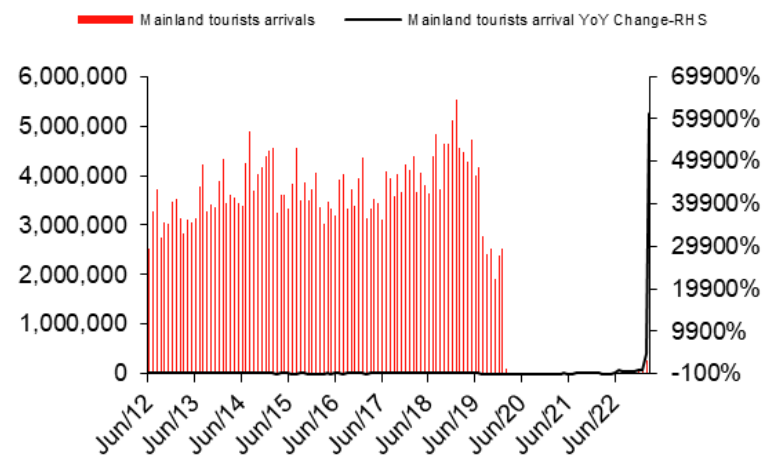


- Hong Kong retail sales grew 31.3% YoY in February. Jewellery and watches led the pack in YoY improvement. By major product categories, Jewellery, watches and valuable gifts has increased 62.6% YoY in January and February combined, followed by other consumer goods (+13.7% YoY),
- Limited impact of consumption vouchers in 2023. Hong Kong government has announced another round of consumption vouchers totalling HK\$5,000. We believe that with half the size of consumption voucher (HK\$10,000) in 2022, the impact of the stimulus would be limited.
- Significant increase in inbound travel continued. Hong Kong tourist arrivals continued to increase from 499k in January to 1.5m in February, a 193% MoM increase, amounting to 26% of tourist level in February 2019. Mainland tourists as a % of total increased from 56% in January to 76% in February 2023, returning close to pre-Covid levels.

**Hong Kong retail sales**



**Mainland tourist arrivals to Hong Kong**



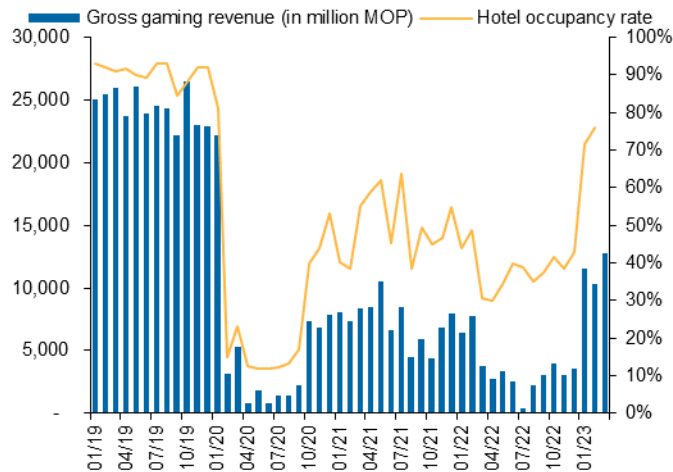
Source: Census and Statistics Department, Macquarie Research, April 2023

Source: Hong Kong Tourism Board, Macquarie Research, April 2023

# Macau: Significant recovery in tourist arrivals

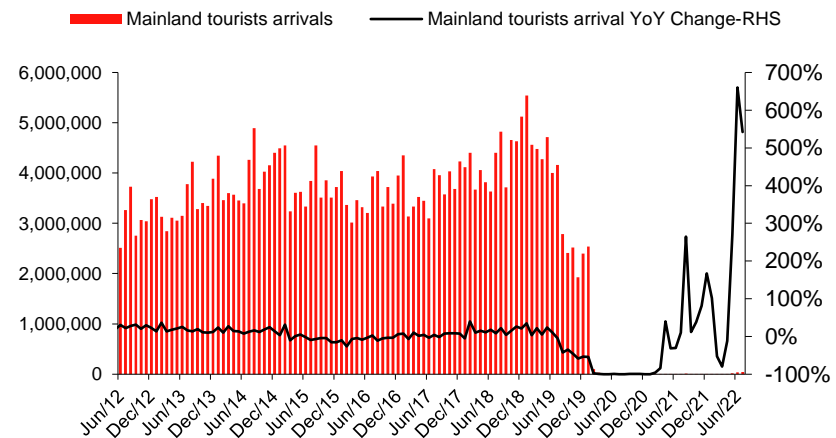
- ➔ Macau saw significant increase in tourism arrivals. Macau has relaxed its inbound and transit rules effective from January 8. The reopening measures are met with a significant increase in tourist arrivals, with mainland and non-mainland tourists increasing by 64.8% YoY and 1175% YoY respectively in February. Hotel occupancy rate improved 5ppt MoM to 76% in February 2023, still below February 2019’s occupancy rate of 92%. Macau’s gross gaming revenue in March reached MOP12.7 bn, increasing 247% YoY and reaching 49% of 2019 levels.
- ➔ More operators have opened foreigner-only gambling zones, mostly recently Galaxy Macau has opened one at the end of March. This presents a new growth engine for operators with a better margin because under the new gaming law, casino gross gaming revenue generated from foreign players are subject to 5 percentage points less in tax burden.

**GGR and Hotel Occupancy rate saw rebound**



Source: Census and Statistics Department, Macquarie Research, April 2023

**Total visitors rebounding**

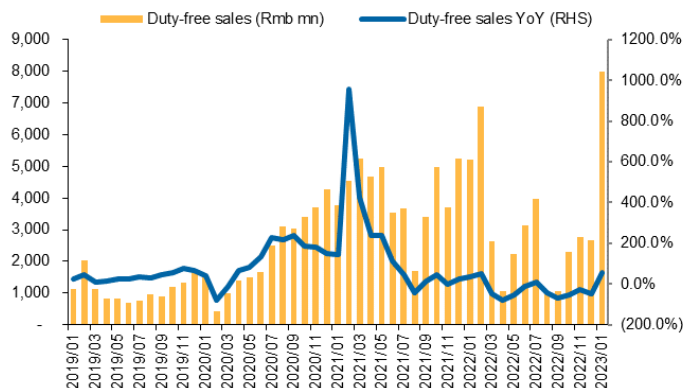


Source: Hong Kong Tourism Board, Macquarie Research, April 2023

# Hainan: duty-free market still on the boom

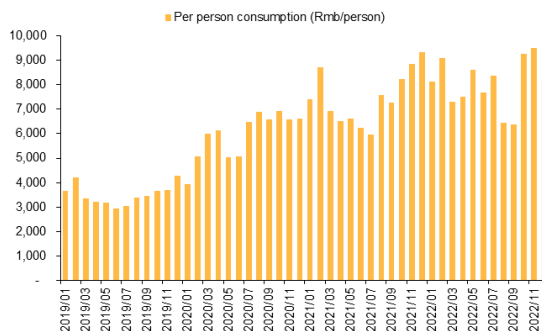
- ➔ Hainan tourism traffic grew by 13.3% YoY for 2M2023. According to Haikou Meilan Airport, March average daily flight passenger traffic remained strong at ~70k, which is close to a CNY level, representing ~95% of 2019 level.
- ➔ Hainan duty-free sales grew by 45% YoY to Rmb8bn in January 2023, according to the Hainan Department of Commerce. Hainan government set duty free sales target of Rmb8bn for 2023, a target we believe is achievable given the strong sales momentum post reopening and resilient luxury demand.
- ➔ The duty free market competition is easing as the promotional discount has narrowed from 32% at the peak to 20-25% now. Duty free operators appear to be leveraging different brands/timing to avoid head-to-head competition, and as inventories have been reduced since Covid controls eased.

**Hainan duty free sales**



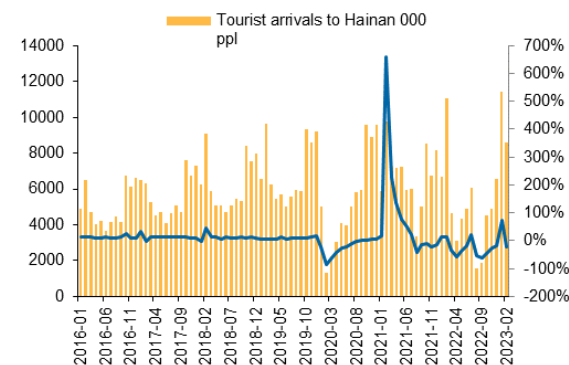
Source: Census and Statistics Department, Macquarie Research, April 2023

**Per customer spending still rising up**



Source: Hong Kong Tourism Board, Macquarie Research, April 2023

**Hainan tourism traffic**



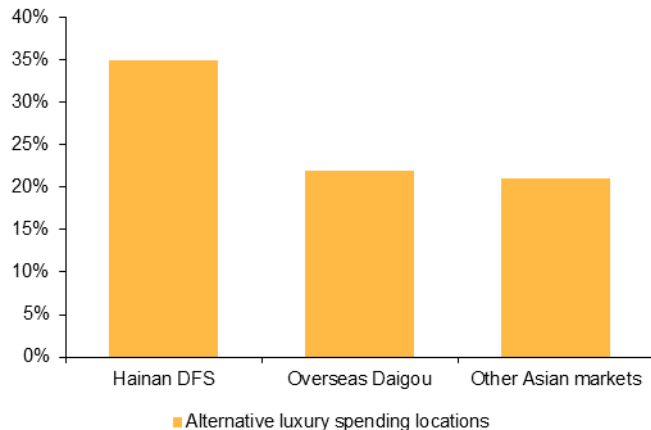




## Hainan and Macau sharing the luxury consumption

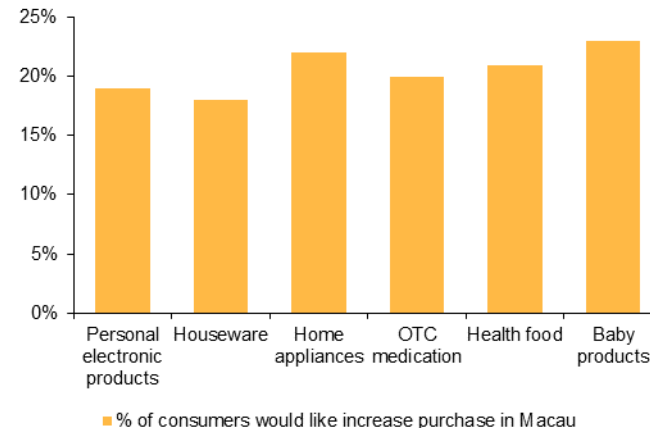
- McKinsey's report shows 14% of luxury consumers from Great Bay Area is planning to decrease their luxury spending in Hong Kong, and 35% of them choose Hainan as their top choice for luxury shopping. Hong Kong has fallen behind in a few critical areas such as digital experience and service quality. Mainland travellers are increasingly accustomed to a seamless omnichannel shopping experience.
- Macau is also becoming more and more popular among luxury consumers, especially when buying personal electronic products, houseware, home appliances, and baby products.

**35% of consumers choose Hainan as top destination for luxury shopping**



Source: McKinsey, Macquarie Research, April 2023

**Macau is becoming more and more popular as shopping destination**



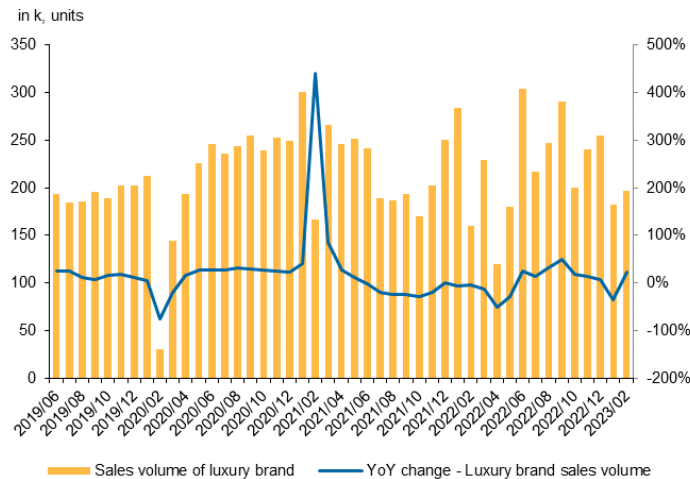
Source: McKinsey, Macquarie Research, April 2023

# Auto dealership: after sales recovers first



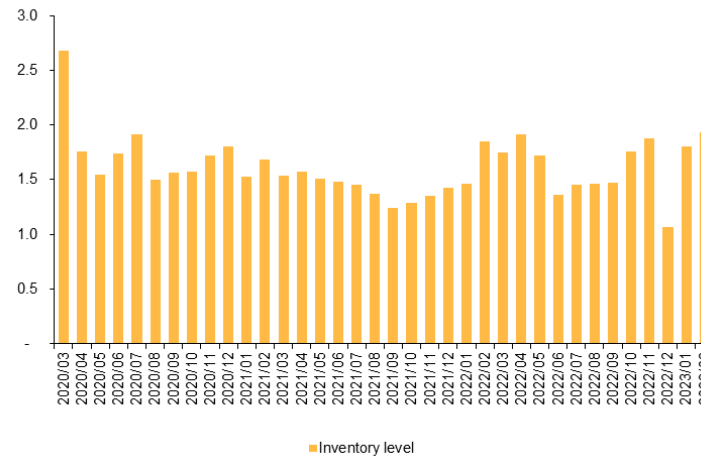
- ➔ Benefiting from improved mobility post lifting of social distancing measures, auto dealerships are seeing a quick rebound for after-sales business for 2M23.
- ➔ Though new car sales business is still under transitional period due to early CNY and slow season, the foot traffic has been sequentially improving month by month. CPCA reported average daily automobile retail sales volume has turned positive since mid-March, and we expect to see a stronger sales recovery to start in 2Q23, driven by new models roll-out, peak season and a low base effect.
- ➔ According to CPCA. The ICE premiumization trend is very obvious as >Rmb400k per unit models contribution increase to 5.1% 2M23 vs 2.7% in 2022.

**China luxury automobile sales**



Source: CPCA, Macquarie Research, April 2023

**China auto dealership inventory level**



Source: Insurance data, Macquarie Research, April 2023

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### Recommendation definitions

#### Macquarie – Asia and USA

Outperform – expected return >10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

#### Macquarie – Australia/New Zealand

Outperform – expected return >10%  
 Neutral – expected return from 0% to 10%  
 Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

### Volatility index definition\*

This is calculated from the volatility of historic price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30-40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25-30% in a year.

**Low** – stock should be expected to move up or down at least 15-25% in a year.

\* Applicable to select stocks in Asia/Australia/NZ

**Recommendation** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

### Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit /efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit /average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

### Recommendation proportions – For quarter ending 31 March 2023

	AU/NZ	Asia	USA	
Outperform	56.13%	64.77%	64.49%	(for global coverage by Macquarie, 2.51% of stocks followed are investment banking clients)
Neutral	37.74%	23.98%	32.71%	(for global coverage by Macquarie, 1.83% of stocks followed are investment banking clients)
Underperform	6.13%	11.26%	2.80%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

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