

### SECTOR UPDATE

## Consumer – China

Optimistic Despite Near-term Bumps

Despite a bumpy road in the near term and a potential slowdown in the growth of residents' income, we are upbeat on sectors with relatively high growth potential. While we still prefer the duty-free sector the most, we also like: a) sportswear for the revival of domestic brands, b) high-end baijiu for the ongoing market size expansion, and c) beer for the ongoing premiumisation. Maintain **OVERWEIGHT** on China's consumer sector.

### WHAT'S NEW

- Updates on residents' income.** Disposable income per capita of national residents rose 4.7% yoy in 1H22 (+6.3% yoy in 1Q22), and that of urban/rural residents hiked 3.6%/5.8% yoy (+5.4%/+7.0% yoy in 1Q22). The median numbers for national/urban/rural residents' disposable income per capita were up 4.5%/3.8%/5.7% yoy in 1H22 (+6.1%/+5.7%/+6.2% yoy in 1Q22). By source, wages, operating income and assets income rose 4.7%/3.2%/5.2% yoy in 1H22 (+6.6%/+5.4%/+6.1% yoy in 1Q22). Expenditure per capita of national residents rose 2.5% yoy (+6.9% yoy in 1Q22) and accounted for 63.7% (61.8% in 1Q22) of income in 1H22, while that of urban/rural residents rose 0.8%/5.6% (+5.7%/+8.6% yoy in 1Q22) and accounted for 58.7%/80.5% (57.3%/75.9% in 1Q22) of income. Expenditure per capita on apparel/food, tobacco, and liquor recorded -2.3%/+4.2% yoy changes (+3.6%/+4.9% yoy in 1Q22) in 1H22.
- Updates on retail sales value (RSV).** National RSV recorded +3.1%/-0.7% yoy changes in June/1H22 (-6.7%/-1.5% yoy in May/5M22). Merchandise RSV recorded +3.9%/+0.1% yoy changes in June/1H22 (-5.0%/-0.7% yoy in May/5M22). RSV of tobacco and liquor rose 5.1%/6.7% yoy in June/1H22 (+3.8%/+7.1% yoy in May/5M22). RSV of clothing, shoes, hats, knits and textiles recorded +1.2%/-6.5% yoy changes (-16.2%/-8.1% yoy in May/5M22) in 1H22. Catering RSV dipped 4.0%/7.7% yoy in June/1H22 (-21.1%/-8.5% yoy in May/5M22).
- Duty-free.** In the last week, Haikou Meilan Airport's estimated passenger throughput per day declined 35% wow to ~28,700 due to the seven-day temporary control measures starting from 9 Jul 22 in Haikou. The average daily number of flights in Sanya Phoenix Airport rose 0.7% wow. International passenger throughput of Beijing Capital Airport and Shenzhen Bao'an Airport rose 5.8% and 4.5% mom respectively in Jun 22.

According to media reports, Global Duty-free Plaza in Hainan recorded 120% yoy rise in duty-free sales, 10% yoy increase in duty-free shopping visits, and 155% yoy jump in duty-free shopping units in 2Q22. Recently, DFS Group obtained the franchising rights of duty-paid fashion goods, watch, and jewellery in T3 of Chongqing Jiangbei Airport. On 11 Jul 22, Sanya started to distribute government consumption vouchers for offshore duty-free sales and home appliance consumption for tourists and residents.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 18 Jul 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	206.58	278.00	34.6	59,857.3	39.9	27.8	11.0	8.4	22.7	17.1	30.4	0.8
Li Ning	2331 HK	BUY	68.2	96.00	40.8	22,743.4	32.3	26.0	6.4	5.5	20.4	16.8	20.6	0.9
Anta Sports	2020 HK	BUY	94.5	139.00	47.1	32,667.2	26.6	20.7	6.7	5.4	14.9	12.1	27.1	1.3
Shenzhou	2313 HK	BUY	86.95	152.00	74.8	16,650.3	21.0	16.8	3.5	3.1	14.8	12.1	17.6	2.4
Moutai	600519 CH	BUY	1,951.66	2,430.00	24.5	363,927.6	39.8	34.3	11.0	9.3	25.3	21.9	29.8	1.3
Wuliangye	000858 CH	BUY	187.33	276.00	47.3	107,937.4	26.3	22.0	6.3	5.4	17.8	14.8	25.9	1.9
Fenjiu	600809 CH	BUY	287.3	350.00	21.8	52,032.5	45.3	34.3	16.8	12.5	31.8	24.3	42.9	0.9
CR Beer	291 HK	BUY	52.7	72.00	36.6	21,779.4	35.2	28.5	5.6	4.9	18.9	15.7	16.6	1.1
Tsingtao Brewery	168 HK	HOLD	75.1	79.80	6.3	16,409.5	29.3	24.8	3.7	3.4	18.0	15.1	12.9	1.6
Bud APAC	1876 HK	BUY	22.45	28.80	28.3	37,874.4	33.0	29.1	3.2	3.0	14.5	13.0	10.1	1.3
Foshan Haitian	603288 CH	BUY	84.48	95.10	12.6	58,117.3	54.1	45.8	14.3	12.0	42.9	36.2	28.5	0.9
Jonjee Hi-Tech	600872 CH	HOLD	31.46	28.80	-8.5	3,720.4	34.7	29.1	5.6	4.9	24.5	20.4	17.5	0.9
Haidilao	6862 HK	HOLD	16.06	14.80	-7.8	11,403.6	56.2	31.3	8.6	7.0	27.7	21.1	16.6	0.5
Jiumaojiu	9922 HK	BUY	17.76	20.50	15.4	3,289.3	44.2	27.3	6.5	5.4	18.7	12.8	15.8	0.4

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

(Maintained)

### SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
CTGDF	601888 CH	BUY	206.58	278.00
Li Ning	2331 HK	BUY	68.20	96.00
Moutai	600519 CH	BUY	1,951.66	2,430.00
CR Beer	291 HK	BUY	52.70	72.00

Source: UOB Kay Hian

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- **Sportswear.** In the last week, prices of cotton and polyester filament yarn (PFY) declined 4.4% and 3.4% wow. According to media reports, Li Ning (one of the only two foreign companies to enter the Russian market in 2022) plans to open 15-20 retail stores in Moscow and St. Petersburg, and cooperate with local sport goods' online platforms.

Solid sales performance. Anta brand products' retail sales saw a mid-single-digit yoy decrease in 2Q22 but a mid-single-digit yoy growth in 1H22. Retail sales of Fila brand products saw a high-single-digit yoy drop and a low-single-digit yoy drop in 1Q22/1H22 respectively. Retail sales of Anta Sports' other brands products grew 20%-25% and 30%-35% yoy in 2Q22/1H22 respectively. Xtep International announced that its net profit would hike more than 35% yoy in 1H22. Its retail sell-through saw mid-teens/20%-25% yoy growth in 2Q22/1H22. Sales of Fast Retailing Co. hiked 10.3% yoy in the third fiscal quarter (ended 31 May 22).

- **Baijiu.** During the last week, average wholesale prices of boxed/unboxed Feitian Moutai were at around Rmb3,070/Rmb2,750 per bottle, and average wholesale prices of boxed/unboxed Feitian Moutai (43 degree) were at around Rmb1,075/Rmb1,020 per bottle. The average wholesale prices of Wuliangye and Classic Wuliangye were Rmb965 and Rmb1,610 per bottle, while average wholesale prices of Qinghua 20/30 were Rmb360/Rmb815 per bottle. National baijiu price index was down by 0.01% in early-Jul 22 vs in late-Jun 22, of which the price indexes for renowned baijiu/localised baijiu/base liquor changed by +0.07%/-0.18%/0.00% respectively.

In the last week, i-Moutai app released 0.15m of Moutai products (for subscription) and the overall successful rate of 58m bid entries was 0.25%. The number of registered customers reached 19m, and the daily active customers reached 4m. As of 15 July, the cumulative sales of the products for subscription in i-Moutai app had reached Rmb5.0b.

On 12 Jul 22, Moutai Group announced a voluntary transfer of 82% of Xi Jiu's shares to state-owned Assets Supervision and Administration Commission of Guizhou Province. Kweichow Moutai announced that it had achieved half of its full-year target by end-Jun 22.

According to Weijiu's survey on premium baijiu products priced at about Rmb1,000 per bottle, Wuliangye, Guojiao 1573, and Qinghua 30 recorded double-digit sales growth in 1H22, with channel inventory standing at around two months of shipments. Sales of premium strong-aromatic products, represented by Qinghualang and Junpin Xijiu, saw a slowdown in growth, with channel inventory standing at about three months of shipments.

- **Beer.** In the last week, aluminium price declined 4.4% wow. Prices of corrugated paper and glass dropped 1.3%/1.1% in early-Jul 22 vs that in late-Jun 22. CR Snow Brewery (Hulunbuir) Co listed its baijiu assets at Rmb1.45m for transfer in the national public resources trading platform, with the price reduced for a second time.
- **Condiment.** In the last week, although prices of sugar and PET were down 0.1%/0.6% wow, soybean price was flat wow. Import soybean price hiked 24.6% yoy in 1H22 and rose 4.7% mom in Jun 22.
- **Catering.** In the last week, the average price of vegetables rose 5.8% wow, and the wholesale prices of beef/lamb/pork recorded +0.3%/+0.6%/+8.7% wow changes. Prices of soybean oil/vegetable oil dipped 1.9%/0.8% wow. According to media reports, there were 333 financing cases with a total financing amount of over Rmb21b in the new-style catering segment in 1H22.

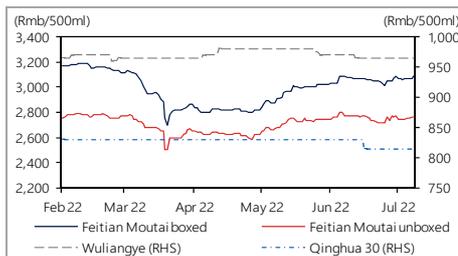
### ESSENTIALS

- **Remain optimistic despite a bumpy road in the near term.** In the past two weeks, daily pandemic cases have rebounded, but the situation has been kept under control. We appreciate that the government has made efforts to prevent the spread of the pandemic at an early stage, and the pandemic containment policy has not been stricter. We think the government will have room to implement relatively relaxed containment policies as long as the pandemic remains under control.

### VALUATION/RECOMMENDATION

- **Upbeat on segments with high growth potential.** We do not expect a rapid growth across the whole consumer sector as the growth in residents' income would likely slow down in future due to the pandemic. However, we are upbeat on sectors with relatively high growth potential. While we still prefer duty-free the most, we also like: a) sportswear, as it has the strongest growth potential in the textile & garment industry amid the ongoing revival of domestic sportswear brands; b) high-end baijiu, for the inelastic demand and ongoing market size expansion; and c) beer, for the ongoing premiumisation trend.

### BAJIU WHOLESALE PRICES



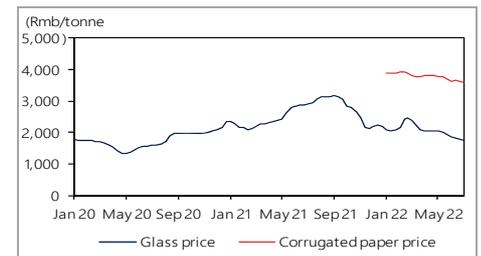
Source: Jinri Jiujiu, UOB Kay Hian

### PRICES OF ALUMINIUM AND PET



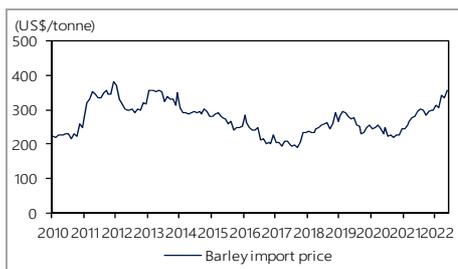
Source: WIND, UOB Kay Hian

### PRICES OF GLASS AND CORRUGATED PAPER



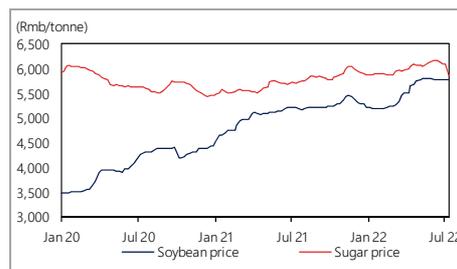
Source: WIND, UOB Kay Hian

### PRICE OF IMPORT BARLEY



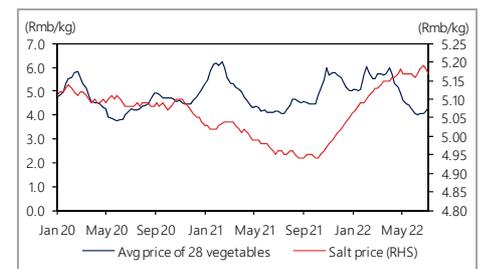
Source: China Custom, WIND, UOB Kay Hian

### PRICES OF SOYBEAN AND SUGAR



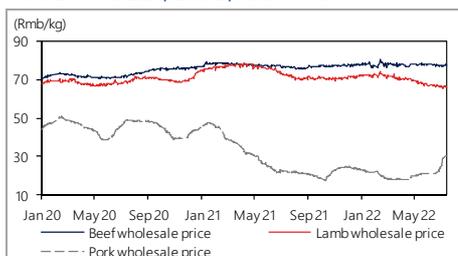
Source: Wind, UOB Kay Hian

### PRICES OF SALT AND VEGETABLES



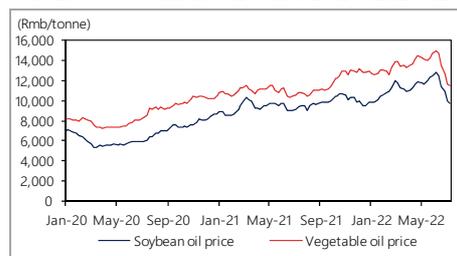
Source: WIND, UOB Kay Hian

### PRICES OF BEEF, LAMB, AND PORK



Source: WIND, UOB Kay Hian

### PRICES OF SOYBEAN OIL AND VEGETABLE OIL



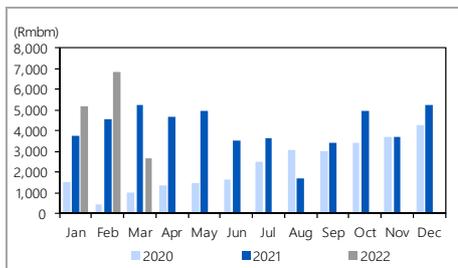
Source: WIND, UOB Kay Hian

### PRICES OF COTTON AND PFY



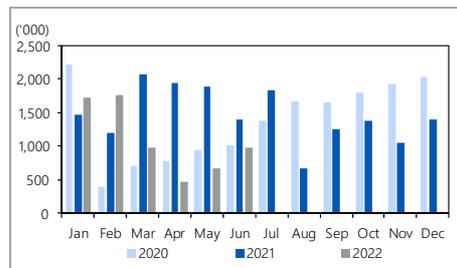
Source: WIND, UOB Kay Hian

### 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 PASSENGER



Source: Respective companies, UOB Kay Hian

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