Sa Sa (178 HK) : BUY

Mkt. Cap: US$537m I **3m Avg. Daily Val:** US$1.3m

Last Traded Price (19 Jun 2020): HK$1.34

Price Target 12-mth: HK$1.68 (25.4% upside)

Analyst

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Bottoming out

- **FYMar20 results in line with expectations. While 1QFY21 was substantially affected by the COVID-19 pandemic, sales rebounded slightly m-o-m across markets with China achieving flattish sales by May**
- **Near-term margin pressure from stock clearance and operating deleverage could be inevitable, while the potential reopening of borders in phases, likely by 2QFY21 could start to scale-up operations again**
- **Given a sluggish 1QFY21, we cut FY21 earnings by c.HK$100m to a loss of HK$30m but maintain FY22 profit estimate of HK$260m. Maintain BUY with unchanged TP of HK$1.68**

Forecasts and Valuation

FY Mar (HK$ m)	2019A	2020A	2021F	2022F
Turnover	8,376	5,717	4,193	5,275
EBITDA	654	339	78	431
Pre-tax Profit	563	(562)	(36)	308
Net Profit*	472	(475)	(30)	260
Net Profit Gth (%)*	1.5	N/A	93.6	N/A
EPS (HK$)*	0.15	(0.15)	(0.01)	0.08
EPS Gth (%)*	(0.2)	N/A	93.6	N/A
Diluted EPS (HK$)*	0.15	(0.15)	(0.01)	0.08
DPS (HK$)	0.16	0.00	0.00	0.08
BV Per Share (HK$)	0.80	0.54	0.53	0.53
PE (X)	8.7	nm	nm	16.0
P/Cash Flow (X)	9.4	9.4	18.1	11.9
P/Free CF (X)	13.6	11.9	32.0	16.6
EV/EBITDA (X)	4.3	10.1	43.6	8.1
Net Div Yield (%)	11.9	0.0	0.0	6.3
P/Book Value (X)	1.7	2.5	2.5	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	19.0	(22.9)	(1.8)	15.9

(2020A: Excludied HK$41m provision from discontinued Singapore operations.)*

Earnings Rev (%):			(141)	Nil
Consensus EPS (HK$)			0.004	0.067
Other Broker Recs:		B: 1	S: 3	H: 8

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

What's New

Sa Sa reported FY20 final results for the year ended Mar 2020. The company registered a 29.9% y-o-y sales dip and swung to a net loss of HK$205m in FY20, which excluded HK$311m provision from (1) store asset impairment in accordance with new accounting standards, and (2) closure of Singapore retail operations, in line with expectations.

1QFY21 (1 Apr - 14 Jun 20) saw revenue declining by 69.5% y-o-y, as the outbreak of COVID-19 led to persistently sluggish consumer sentiment while the border shutdowns also affected tourist consumption that normally contributed to >60% of Sa Sa's group turnover. During the period, HK sales fell 75.9% (same-store sales (SSS): -72.6%); China sales dropped 15.3% (SSS: -1.2%), Malaysia sales declined by 48.9% (SSS: -5.6%), and e-commerce revenue also submerged by 22.7%. Perhaps the good news is that China achieved a flattish SSS by May, while HK/Macau also saw a slightly narrower SSS decline in May as compared to April, with further improvements in June so far vs. May. Malaysia should see a similar trend as it starts to reopen its store operations.

In view of the low visibility on border reopening, and more promotional discounts to entice local consumption and clear stocks (target at c.20% reduction in inventory level during FY21), we believe Sa Sa could become more prudent in its performance guidance. These could include a loss in 1H FY21, before turning profitable again by 2HFY21 that might inadequately offset 1H losses. As such, we cut our FY21 earnings estimates by c.HK$100m to a small loss of HK$30m, while maintaining our FY22 profit estimate of HK$260m. Currently, it is expected that China, Macau and Malaysia could come back faster than HK once borders reopen, given the lingering social issues that emerged in HK since mid-2019 could affect visitor arrivals. Any swifter-than-anticipated HK recovery, and the redirection of its tourist consumption into Macau could act as re-rating catalysts. We maintain BUY on a 12-month horizon, with target price of HK$1.68 that benchmarks a 5% FY22 yield.

Business outlook:

At present, Sa Sa expects Macau, Mainland China and Malaysia to stage a faster sales recovery than HK, and anticipate China to potentially achieve break-even operations sometime in 2H FY21. It is currently believed that Macau could resume 60-70% of normal sales by 2HFY21, especially with large-scale promotional campaigns likely to be launched by gaming operators to attract tourists once the border reopens. Current expectations for HK would involve a much slower recovery to only c.30% of normal sales level by 2HFY21 given the low visibility on the back of the impact of social issues. All in, there should be a good chance to return to profitability by 2HFY21.

In China, more than 40% of its stores are currently located in Southern China. Sa Sa plans to re-accelerate its expansion and targets to open 10 stores in the PRC market during FY21, and another c.20 stores in FY22. The company will also place strong focus on productivity improvement, of which one way could be to achieve the critical mass and scale-up operations of each key region. Hence, it will focus on growing a few key cities in each region in the near-term before ultimately extending its sales network across China. Aside from the Greater Bay Area in Southern China, Western China will have Chengdu, and then Chongqing as the focus of expansion; Eastern China will focus on Shanghai, Hangzhou and Ningbo; and Northern China will focus on Beijing.

In HK/Macau, Sa Sa is also actively managing costs and working towards a break-even point of HK$300m monthly sales within FY21, through enhanced digitalisation & operational optimisation as well as streamlining of store network and further rental negotiations, vs. a break-even level with HK$400m monthly sales in FY20. As of 14 Jun 20, Sa Sa had already closed 12 stores in HK since last October, mainly in the tourist districts of Tsim Sha Tsui, Causeway Bay and Mongkok, and received temporary rental cuts (>HK$10m) from selective landlords during the pandemic. The company also expects to close another 10 stores during the rest of FY21, and looks for at least 60% rental reduction for any lease renewals in the tourist districts.

In Malaysia, with the gradual reopening of retail shops by May 2020, local sales performance has begun to recover and recorded positive same store sales growth in May. However, overall sales continued to see a negative growth as not all its shops had been reopened. Sales contribution from local Malays continued to rise given the further progress achieved in expanding its Malay customer base.

In e-commerce, Sa Sa will accelerate the development by investing more resources in information technology and digitalisation to better ride on the growing demand for online capabilities. Increased automation across its retail network to drive its O2O (online-to-offline) business model, further progress in WeChat mini-programme applications, and continuous efforts to explore more opportunities in third-party platforms (including beyond Mainland China by partnering with Shopee since 2019 in Singapore and Malaysia, with more S.E. Asian countries to cover ahead). All such efforts should pave a good progress in its multi-channel strategies.

Overall, Sa Sa targets to attain a leaner cost structure and better operational efficiency to build a healthy and agile business model for its longer-term development.

FY20 Final Results Summary:

Sa Sa saw a 29.9% y-o-y decline in group revenue to HK$5.7bn for its continuing operations in FY20. Reported losses reached HK$516m; stripping away HK$271m impairment on retail store assets in accordance to new accounting standards, and provision of HK$41m from the termination of the Singapore retail division, net losses reached HK$205m, in line with expectations. No final dividend was declared given the challenging and uncertain operating landscape (FY19: HK$0.09; bringing full-year DPS to HK$0.16).

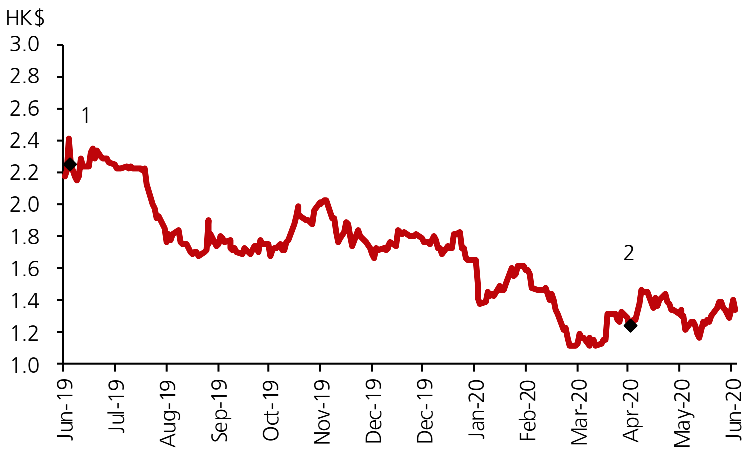
HK/Macau revenue declined by 33.2% to HK$4.7bn in FY20, along with sluggish demand due to weaker sentiment arising from the Sino-US trade war, social issues in HK and the coronavirus outbreak. The proportion of Mainland tourists sales decreased by 11.1ppts to 60.3%. Its house brand mix also dropped by 1.4ppts to 35.1%, along with a fall in sales mix of sole agent products. Coupled with more aggressive promotions to run down inventories and an increase in wholesale activities in 2HFY20, gross margin fell by 5ppts to 35.4% in FY20. The temporary closure of 21 stores and streamlining of staff base during 1Q20 reduced some fixed overheads, but were inadequate to offset significant operating deleverage. Excluding HK$265.3m asset impairment provided for HK/Macau in accordance to the new accounting standards, HK/Macau made a loss of HK$148m.

China saw its sales declined by 12% in local currency to HK$243m, while same store sales in local currency rose by 5.2%. The temporary closure of most retail stores during late-Jan to mid-Feb 2020 due to the outbreak of COVID-19, and reduced foot traffic after the reopening had dragged sales growth into the negative territory in 4QFY20, hence

affecting its full-year performance. Net loss surged from HK$14m in FY19 to HK$34m in FY20.
For its online division, sales of third-party platforms for China rose by 4.6% amid growth from TMall and JD.com, with contributions increasing to 70% of e-commerce revenue. Newer third-party platforms of HKTVmall for HK and Shopee for Malaysia & Singapore were also added towards late FY20. Following the launch of the WeChat mini-programme in China since Aug 2019, it had almost halved the sales decline during the peak of the COVID-19 outbreak when many physical stores were closed. As WeChat mini-programme facilitates more personal touch points and services, with better sales mix, gross margin and basket sizes versus pure online sales, Sa Sa has strategically shut down its own e-shopping site for the Chinese market. FY20 e-commerce loss reached HK$40m, up HK$2m+ y-o-y upon excluding HK$11m write-off of e-commerce engine.

Malaysia saw a high single-digit earnings growth in 10MFY20 up to Jan 2020. Yet, the pandemic affected the local consumer sentiment since Feb 2020, with the impact being intensified by mandatory temporary store closures in mid-Mar to late-May 2020, resulting in full-year FY20 sales growing by only 3.6% on local currency to HK$390m. Earnings dipped 24% to HK$16m.

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	21-Jun-19	HK$2.41	HK$2.45	Hold
2:	22-Apr-20	HK$1.24	HK$1.68	Buy

Source: DBS HK

Analyst: Mavis HUI

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 19 Jun 2020 17:29:02 (HKT)
Dissemination Date: 19 Jun 2020 18:03:52 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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