

Asia Retailers

An Extra 440m Middle-Class Consumers

- **EM Asia Key to Global Consumer Growth to 2022** – IMA Asia estimates emerging markets to contribute 55% of global consumer spending growth in the decade to 2022, with EM Asia accounting for ~21%. Demographic change, wage and household income growth, urbanization and education levels are key drivers expanding the middle class and for the type of products/services they will spend on. IMA Asia estimates the middle class in Asia's emerging markets will swell by 440m by 2022, with China dominating the wealth transition. In 2013, we stay positive in Hong Kong, Indonesia and the Philippines, neutral on Thailand and Malaysia, and cautious on China, India and Korea.
- **Demographic Shifts** – India shows the biggest increase in the 15-24 age bracket between 2012 and 2017, while China is estimated to decline by 38m. When China ages, its labor force is also expected to fall. Improvement in life expectancy could reduce the decline. As Asia ages and its income rises, Euromonitor forecasts stronger growth in transportation, communication services, and education, and a decline in the proportion of spending on basic staples and other necessities.
- **Wealth Transition and Increase in Middle Class** – IMA Asia estimates 22% of Asia's emerging market population will be in the middle income group by 2022, up from 10% in 2012. Drivers of household income growth include fixed-capital investment, urbanization progress, wage growth, education and GDP per worker. Despite a decline in workforce, IMA Asia expects China to dominate wealth transition in Asia's emerging markets, adding 322m to the middle class or better. It estimates India to add 77m and Indonesia 16m. China remains an attractive market for aspirational merchandise.
- **Challenging Year for North Asia Retailers** – Staples' premium over retailers has expanded to 2x the historical average this year, partly as concerns over China's economic growth persist. Share prices of retailers in India, Indonesia, the Philippines and Thailand performed better than retailers in North Asia. For investors focusing on incremental changes, we see a stronger pick-up in 2014 earnings growth in China, Korea and Thailand.

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Figure 1. Asia Retailers – Key Picks for 2H13

Ticket	Name	Rating	Share Price	Target Price	ETR	EV/Sales	PER	EPS Chg
1169.HK	Haier	1	12.7	15.7	24.0%	0.3	10.7	25.0%
1833.HK	Intime	1	7.8	12.7	62.2%	2.7	9.8	50.5%
0178.HK	Sa Sa	1	8.2	9.2	12.7%	2.9	22.5	25.4%
MAPI.JK	MAPI	1	8,350	9,520	14.0%	1.7	16.5	41.2%
PGOLD.PS	Puregold	1	37.4	38.0	1.6%	1.3	22.6	27.1%
CPALL.BK	CPALL	1	40.8	47.5	16.6%	1.5	21.7	10.2%
JUBI.BO	J. Foodwork	1	1,080	1,300	20.4%	4.9	42.5	22.8%

Note: Prices as of 6 June, 2013. FY14E estimate for SaSa (YE March). Share prices and target prices in local currencies. Multiples represent the forward estimated year
Source: Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Asia Retailers

Key theme for the decade to 2022

An emerging Asia middle class with annual household income of over US\$20,000 will increase by nearly 1.5x, adding 440m: This is not only positive for the consumer industry in Asia Pacific, but more importantly for discretionary spending. Despite slower-than-expected retail sales growth in China this year, the longer-term attractiveness of the China consumer market holds up well. IMA Asia estimates China to contribute 14% of the growth in consumer spending in the decade to 2022 and, out of the 440m-strong new middle class, 322m will come from China.

Demographic shift and implications for market size: EM Asia is maturing, with China aging faster than its peers in EM Asia. For China, EIU estimates a decline of 38m people in the 15-24 age bracket in a mere five years between 2012 and 2017, and an increase of 59m in the age bracket of over 40. The market for infants and small children is flat and for youth is shrinking. Suppliers of baby formula and diapers will likely rely on ASP increase rather than volume growth to drive revenue. The aging profile could be positive for jewelry (and other aspirational merchandise) retailers, healthcare and cosmetics. India is more balanced and should be a strong market for both youth and adult merchandise, such as alcohol and fast-food services.

Households in urban cities have higher income than rural: The United Nations estimates China urbanization would reach nearly 70% and Indonesia would exceed 60% by 2030. With investment in infrastructure and transportation, China has the highest urbanization rate among emerging markets in Asia. Modern retailers should gain market share with rising urbanization, and should benefit Intime, Sun Art, MAPI and CP ALL.

Workforce increases in India and Indonesia bode well for mass consumption: EIU estimates the workforce in India to increase by 188m in the decade to 2022, and Indonesia 30m. China workforce will decline by between 26m (according to EIU) and 60m (according to IMA Asia). This partly explains China raising min wages and delegating lower value-added manufacturing jobs to its lower cost neighbors.

Consumption Change with Wealth Transition and Demographic Shifts: More than one-third of China's household will fall into the middle-class by 2022, compared to 11% in India and Indonesia. Wealth transition and demographic shifts suggest spending moves away from basic necessities to more discretionary merchandise or services. Euromonitor estimates stronger growth in the demand for transportation, communications, and health goods. Companies which could benefit from this trend include Samsonite, Erjaya Swasembada and Tong Ren Tang Technologies.

Local vs International: Local distributors have advantages over overseas distributors in emerging markets, partly due to government regulations. Meanwhile, foreign brands have stronger brand equities than local. Nike's revenue from Asia Pacific grew at CAGR of 7.8% between 2002 and 2012. Local retailers which distribute foreign brands include Belle, Trinity, Hengdeli, LG Fashion, MAPI, and J Foodwork.

2013 Performance and Valuation: We are positive on the retail sector in HK, Indonesia, and the Philippines this year, neutral on Thailand and Malaysia, and cautious on China, India, and Korea. North Asia retailers underperformed the Asean retailers, on earnings downgrade and a de-rating. While valuation of the Asean discretionary companies is above their historical average, Citi analysts expect strong earnings growth in 2014 to bring their PE ratio down to be in line with the HK/China retailers. For investors focusing on incremental changes, we see a

Related Reports

[China Macro View - The Urbanization Dividend](#)

[Indonesia Retail Sector - Store of Wealth and Growth; MAPI Is Our Top Pick](#)

[Citi's Global E-Commerce Retail Outlook - Global Omnichannel Trends and Top Retail Picks for 2013](#)

stronger pick-up in the 2014 earnings growth in China, Korea and Thailand. Staples' premium over discretionary among Asia Pacific ex Japan increased from the historical 4.6ppt to the current 10.4ppt.

Figure 2. Citi Asia Pac Consumer Discretionary Coverage: Lead Analyst, Region, Sector(s), and Reference Page for Retail Outlook

Analyst	Region	Sector(s)	Page
Eddie Lau	China/HK	Broadlines, Grocery Retailing, Textiles Supply Chain	24, 27
Catherine Lim	China/HK	Apparel/Footwear, Specialty Retailing, Luxury Goods	24, 27
Catherine Chan	China/HK	Home appliances, Cosmetics	24, 27
Jamshed Dadabhoy	India	Autos	29
Aditya Mathur	India	General Retail	29
Margarett Go	Indonesia	General Retail	32
SS Kim	Korea	General Retail	35
Sean Lee	Korea	Hotel	35
Petrina Chong	Malaysia	General Retail	38
Minda Olonan	Philippines	General Retail	40
Peter Krusz	Taiwan	General Retail	--
Suchart Techapalai	Thailand	General Retail	44

Source: Citi Research

Figure 3. Citi Global Consumer Discretionary Coverage: Lead Analyst, Region, Sector(s)

Analyst	Region	Sector(s)
Craig Woolford	Australia	Food Retailing, Retailing Broadlines, Retailing Softlines, and Food and Beverages
Alastair Johnston	Europe	Food Retailing
Richard Edwards	Europe	General Retail
James Ainley	Europe	Leisure Time, Lodging, Restaurants, Support Services, and Gaming
Thomas Chauvet	Europe	Luxury Goods
Brady Martin	Russia	Beverages, Food Manufacturers, Food Retailing, and Retailing Hardlines
Kgosietse Rahube	South Africa	Containers & Packaging, Gaming, Lodging, and Support Services
Zaheer Joosub	South Africa	Apparel/Footwear/Textiles, Drug, Home Furnishings, Hardlines, Softlines, and Specialty Finance
Kate Mcshane	U.S.	Apparel & Footwear Manufacturers, Hardlines
Deborah Weinswig	U.S.	Broadlines, Food & Drug
Alvin Concepcion	U.S.	Restaurants
Gregory Badishkanian	U.S.	Leisure Time, Natural Products, and Restaurants
Oliver Chen	U.S.	Specialty Stores & Luxury

Source: Citi Research

EM Asia Driving Global Consumption

Wealth Transition and an Extra 440m Middle Class

Emerging Asia to account for 21% of the growth in the global consumer spending to 2022

Based on a presentation by IMA Asia, consumers in the developed economies account for around 18% of the world's population, but 70% of global consumer spending. While this group will still present the majority of the global consumer spending in the decade to 2022, the faster growth will come from the emerging countries. In particular, IMA Asia identified emerging Asia to account for 21% of the growth in the global consumer spending to 2022, with China contributing 14% alone. For comparison, IMA Asia expects Latin America to contribute around 12% to the growth in global consumer spending.

Extra 440m middle class with annual income over US\$20,000

With assumptions on fixed capital investment, urbanization, wages and return on wage, education level and GDP per worker, IMA Asia forecast an incremental 440m people in emerging Asia will be in households with an annual income of over US\$20,000 due to wealth transition during the decade to 2022. This brings the middle class population in emerging Asia from 298m to 739m, according to IMA Asia. Out of the 440m new middle class in Asia, China accounts for 322m, India 77m, Indonesia 16m, and Vietnam 9m. About 36% of China's population will be in households with annual income of US\$20,000 or more in 2022, compared to 11% in India and Indonesia. The EIU and Citi see a consistent trend, and estimate that about 26.8% of China's households will earn over US\$20,000 pa by 2017, up from 6.5% in 2012. See China strategist Minggao Shen's report on China urbanization [China Macro View - The Urbanization Dividend](#).

Figure 4. Asia Pacific – GDP Per Capita

GDP Per Capita (US\$)	2010	2017	CAGR
China	4,533	10,723	13.1%
India	1,435	3,228	12.3%
Indonesia	2,918	5,898	10.6%
Malaysia	8,653	15,334	8.5%
Philippines	1,998	3,635	8.9%
South Korea	20,554	31,820	6.4%
Thailand	4,716	8,445	8.7%

Source: EIU

Figure 5. Households with Annual Income Below US\$10,000

	2002	% total	2012	% total	2017	% total
China	248,396	98.9%	299,840	73.0%	144,560	32.3%
India	135,735	98.7%	208,170	90.6%	171,560	69.7%
Indonesia	45,465	98.9%	57,625	94.1%	52,720	81.4%
Malaysia	3,540	66.4%	2,106	34.3%	1,471	22.1%
Philippines	13,035	93.7%	14,878	75.8%	13,790	63.8%
South Korea	3,050	18.5%	930	4.9%	0	0.0%
Thailand	14,684	92.4%	13,881	71.8%	10,534	53.0%

Source: EIU

Figure 6. Households with Annual Income Above US\$20,000

	2002	% total	2012	% total	2017	% total
China	682	0.3%	26,585	6.5%	119,990	26.8%
India	261	0.2%	5,887	2.6%	23,825	9.7%
Indonesia	100	0.2%	898	1.5%	3,052	4.7%
Malaysia	662	12.4%	2,189	35.7%	3,356	50.4%
Philippines	246	1.8%	1,657	8.4%	3,052	14.1%
South Korea	6,629	40.2%	13,805	72.6%	16,815	86.9%
Thailand	343	2.2%	0	0.0%	3,828	19.3%

Source: EIU and Citi estimates

Demographics Shift

China is aging faster than its peers in EM Asia

Emerging Asia is also aging. The significant change to the age profile of the Asian population will not only affect its disposable income, but also the merchandise and services they consume. By 2017, about 46.9% of the China's population will be over 40 years old, compared to 32.3% in 2002. India and Indonesia have a younger population, with only 31.5% and 35.0%, respectively, of their population over the age of 40 by 2017. This compares with 24.9% and 26.2% in 2002.

Figure 7. Population By Age Group in 2002

Age Group / Percentage	0 -14	15 - 24	25 - 39	40 - 64	65+	Total	0 -14	15 - 24	25 - 39	40 - 64	65+
China	294.4	204.5	352.2	316.2	90.4	1,257.6	23.4%	16.3%	28.0%	25.1%	7.2%
India	342.3	198.5	240.5	210.9	47.6	1,039.7	32.9%	19.1%	23.1%	20.3%	4.6%
Indonesia	66.5	42.3	53.7	46.8	10.7	220.0	30.2%	19.2%	24.4%	21.3%	4.9%
Malaysia	8.0	4.7	5.8	5.2	1.0	24.7	32.2%	19.0%	23.5%	21.1%	4.1%
Philippines	31.6	17.4	18.2	14.6	3.1	84.9	37.2%	20.5%	21.4%	17.2%	3.7%
South Korea	9.8	7.5	12.4	14.2	3.8	47.6	20.5%	15.8%	26.0%	29.8%	8.0%
Thailand	14.9	11.0	16.4	16.7	4.5	63.5	23.4%	17.4%	25.8%	26.3%	7.1%

Source: EIU and Citi estimates

Figure 8. Population By Age Group in 2012

Age Group / Percentage	0 -14	15 - 24	25 - 39	40 - 64	65+	Total	0 -14	15 - 24	25 - 39	40 - 64	65+
China	230.7	213.5	306.1	457.6	120.9	1,328.7	17.4%	16.1%	23.0%	34.4%	9.1%
India	357.1	222.4	285.8	286.7	68.0	1,220.0	29.3%	18.2%	23.4%	23.5%	5.6%
Indonesia	67.1	42.6	60.3	62.4	15.8	248.2	27.0%	17.1%	24.3%	25.1%	6.4%
Malaysia	8.6	5.0	6.8	7.4	1.5	29.3	29.4%	17.2%	23.2%	25.2%	5.1%
Philippines	35.6	19.9	23.5	20.3	4.5	103.8	34.3%	19.1%	22.7%	19.5%	4.3%
South Korea	7.5	6.8	11.4	18.3	5.9	50.0	15.1%	13.6%	22.8%	36.6%	11.9%
Thailand	13.4	10.4	16.6	21.9	6.5	68.8	19.5%	15.1%	24.1%	31.8%	9.5%

Source: EIU and Citi estimates

Figure 9. Population By Age Group in 2017

Age Group / Percentage	0 -14	15 - 24	25 - 39	40 - 64	65+	Total	0 -14	15 - 24	25 - 39	40 - 64	65+
China	231.3	175.3	316.9	489.5	147.9	1,360.8	17.0%	12.9%	23.3%	36.0%	10.9%
India	354.0	231.7	301.4	327.2	80.7	1,295.0	27.3%	17.9%	23.3%	25.3%	6.2%
Indonesia	65.2	44.3	59.7	73.1	18.3	260.6	25.0%	17.0%	22.9%	28.1%	7.0%
Malaysia	8.7	5.3	7.1	8.3	1.9	31.3	27.8%	16.8%	22.6%	26.7%	6.1%
Philippines	36.7	21.2	25.6	23.4	5.5	112.3	32.6%	18.8%	22.8%	20.8%	4.9%
South Korea	6.5	6.5	10.8	19.4	7.0	50.3	13.0%	12.9%	21.5%	38.7%	13.9%
Thailand	13.2	10.0	16.1	24.0	8.0	71.2	18.5%	14.0%	22.6%	33.7%	11.2%

Source: EIU and Citi estimates

Demographic shifts have implications for target markets of different merchandise / services

The demographic shifts have numerous implications. One would be on the potential target markets for different merchandise or services. Take China for example: the country is forecast to see a decline of 38m people in the 15-24 age bracket in a mere five years between 2012 and 2017, and an increase of 59m in the over-40 age bracket. Unless China were to relax its one-child policy, the market for youth merchandise, such as on-line games, is shrinking. There is currently a strong demand for high-quality milk and baby formula in China. Notwithstanding market share changes among milk products suppliers, there is little growth in the age group of 0-14 between 2012 and 2017.

For people in the over-40 age group, they would likely have bought their first home appliances and other essentials and could be looking for more discretionary, higher-end spending. The strong increase in this age group also represents opportunities for medical and health goods and service providers. On the other hand, it seems India is more balanced and would be a strong market for merchandise targeting young as well as middle-aged consumers.

Figure 10. Absolute Change in Population By Age Group – 2012-2017

Age Group	0 -14	15 - 24	25 - 39	40 - 64	65+	Total
China	0.6	-38.2	10.8	32.0	27.0	32.1
India	-3.1	9.3	15.6	40.5	12.8	75.0
Indonesia	-1.9	1.7	-0.6	10.7	2.5	12.4
Malaysia	0.1	0.2	0.3	1.0	0.4	2.0
Philippines	1.0	1.3	2.0	3.1	1.0	8.5
South Korea	-1.0	-0.3	-0.6	1.1	1.0	0.3
Thailand	-0.2	-0.4	-0.5	2.2	1.4	2.5

Source: EIU and Citi estimates

China urban household income was 1.7x higher than rural household income in 2012

Urbanization

Urban household income tends to be higher than the rural household income, and income growth of an economy should accelerate when workers move from the rural area to the urban area. According to CEIC, China average urban household income was Rmb26,959 in 2012, compared to Rmb9,787 for rural households. Consumer Pyramids estimates average urban household income in India was 114% of the average rural household income in 2011-2012.

The United Nations estimates China urbanization would reach nearly 70% and Indonesia would exceed 60% by 2030. China benefits from its investment on infrastructure and transportation in the last two decades, and its urbanization rate is the strongest among the emerging markets in Asia, according to the United Nations.

Even with a relatively high urbanization rate, the urban population in India and Thailand would still be below 50% of its total population by 2030.

Figure 11. Urbanization Levels (% of Population)

	2000	2005	2010	2015	2020	2025	2030
China	35.9	42.5	49.2	55.6	61.0	65.4	68.7
Korea	79.6	81.3	82.9	84.3	85.4	86.3	87.1
India	27.7	29.2	30.9	32.8	34.8	37.2	39.8
Indonesia	42.0	45.9	49.9	53.7	57.2	60.3	63.1
Malaysia	62.0	67.6	72.0	75.4	77.9	79.6	81.1
Philippines	48.0	48.0	48.6	49.8	51.6	53.9	56.3
Thailand	31.1	32.2	33.7	35.6	38.0	40.8	43.7

Source: United Nations

Figure 12. Urbanization Rate

	2010-2015	2015-2020
China	2.44	1.85
India	1.15	1.23
Indonesia	1.47	1.25
Malaysia	0.92	0.65
Philippines	0.48	0.69
Thailand	1.10	1.27

Source: United Nations

Changes in Labor Force

Increase in labor force in India and Indonesia, and decline in China and South Korea

The demographics shift has a significant impact on the labor force of the country, wealth creation, and consumer spending. China already has a high percentage of its population in the work force, compared to other emerging markets in Asia. EIU estimates that China's workforce will decline by nearly 27m in the ten years to 2022, and its percentage of workers to drop to 57.5%. IMA Asia is more aggressive, and forecast a 60m drop in China's workforce between 2012 and 2022. One of the variables is the change in life expectancy, which in turn is a function of medical care, diet and the environment. China will need to raise its productivity to compensate for the decline in workforce. The government has also been moving up the value chain in global manufacturing by raising minimum wages, and delegating the lower-end manufacturing jobs to some of the neighboring countries.

The decline in China's workforce relative to the total population could also mean the country is unlikely to see a significant fall in its savings rate, given the culture's willingness for the young to look after the old. Urbanization, together with fixed capital investment and productivity improvement, helps to offset a decline in labor force in China's wealth transition.

On the other hand, EIU estimates a significant increase in workforce in both India and Indonesia. This should help to support per capita income growth and consumer spending in the decade to 2022. It seems that the increase in work force in Indonesia alone could offset the decline in China's work force in the decade to 2022. However, we have seen recently more aggressive wage increases in Vietnam and Indonesia than in China. This, together with the rising focus on human rights conditions in the rising manufacturing hubs such as Bangladesh, would mean a higher wage cost for global manufacturing in the future.

Figure 13. Asia Work Force

	2002	2012	2017	2022	vs 2012
China	762.1	798.5	782.9	771.9	-26.6
India	432.0	486.6	501.8	675.1	188.5
Indonesia	100.8	118.1	128.2	148.6	30.5
Malaysia	9.9	12.9	14.4	16.0	3.1
Philippines	33.9	40.4	45.2	52.1	11.7
South Korea	22.9	25.5	25.6	24.1	-1.4
Thailand	34.3	39.4	41.4	40.3	0.9

Source: EIU

Figure 14. Asia Work Force to Total Population

	2002	2012	2017
China	60.6%	60.1%	57.5%
India	45.8%	39.9%	38.7%
Indonesia	45.8%	47.6%	49.2%
Malaysia	40.1%	44.0%	45.9%
Philippines	39.9%	38.9%	40.3%
South Korea	48.1%	51.0%	50.9%
Thailand	54.0%	57.3%	58.1%

Source: EIU

Changes in Consumption

China has lowest private consumption to GDP ratio among Asia Pacific markets

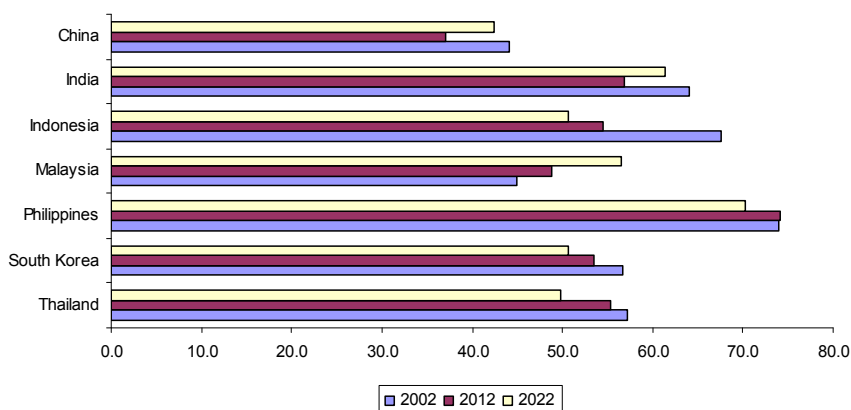
Private consumption could be more relevant to retail sales than GDP. According to EIU, private consumption to GDP rises in China and India in the decade to 2022, but declines in Indonesia, the Philippines and Thailand. Among the Asia Pacific economies, EIU forecasts strong private consumption CAGR in China, Indonesia and Malaysia.

Figure 15. Nominal Private Consumption to GDP

	2002	2012	2022E
China	44.0	37.0	42.4
India	64.1	56.9	61.3
Indonesia	67.6	54.6	50.7
Malaysia	45.0	48.9	56.6
Philippines	73.9	74.1	70.2
South Korea	56.7	53.5	50.7
Thailand	57.2	55.4	49.8

Source: EIU and Citi estimates

Figure 16. Nominal Private Consumption to GDP



Source: : EIU and Citi estimates

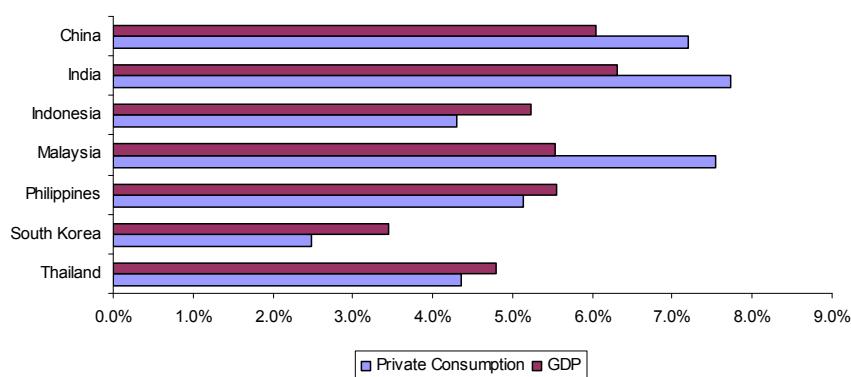
EIU forecast strong private consumption growth in China, India and Malaysia

Figure 17. Private Consumption CAGR 2012-2022E

	Nominal	Real
China	12.7%	7.2%
India	11.3%	7.7%
Indonesia	7.9%	4.3%
Malaysia	11.0%	7.5%
Philippines	8.0%	5.1%
South Korea	7.0%	2.5%
Thailand	8.9%	4.3%

Source: EIU and Citi estimates

Figure 18. Private Consumption and GDP CAGR 2012-2022, Real



Source: EIU and Citi estimates

Emerging markets consumers spend most of its income on food, according to 2010 data

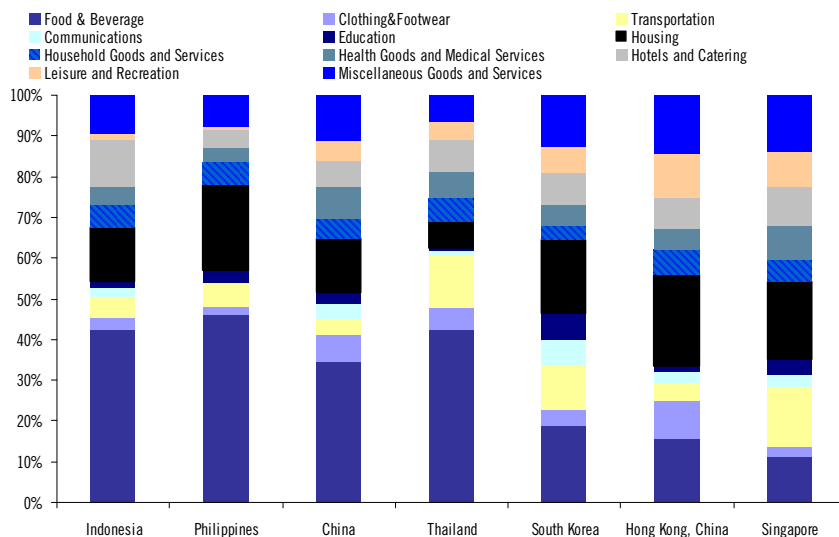
While the data show stronger private consumption growth in China, Indonesia and Malaysia, wealth transition and demographic changes suggest changes in the consumer behavior as well. From a snapshot in 2010, the Euromonitor data suggest consumers in emerging markets spend the majority of their disposable income on food, and those in developed markets on housing and more discretionary goods and services.

Figure 19. Proportion of Spending, 2010

	China	Hong Kong	Indonesia	Philippines	Singapore	South Korea	Thailand
Alcoholic Beverages and Tobacco	3.3%	1.1%	6.4%	1.9%	2.9%	3.0%	5.4%
Clothing and Footwear	6.8%	9.0%	2.8%	1.8%	2.4%	3.9%	5.5%
Communications	3.9%	2.5%	2.0%	0.5%	3.2%	6.5%	1.0%
Education	3.0%	1.6%	1.7%	2.9%	3.6%	6.4%	0.6%
Food and Non-Alcoholic Beverages	31.2%	14.8%	36.0%	44.2%	8.5%	15.9%	37.1%
Health Goods and Medical Services	7.9%	5.2%	4.5%	3.6%	7.9%	5.1%	6.5%
Hotels and Catering	6.3%	7.4%	11.6%	4.4%	9.9%	8.0%	7.7%
Household Goods and Services	4.7%	6.2%	5.5%	5.3%	5.6%	3.5%	5.8%
Housing	13.2%	22.3%	13.3%	21.4%	19.3%	18.0%	6.7%
Leisure and Recreation	4.7%	11.1%	1.4%	0.4%	8.2%	6.5%	4.5%
Miscellaneous Goods and Services	11.4%	14.3%	9.6%	8.0%	14.1%	12.6%	6.4%
Transport	3.6%	4.6%	5.1%	5.5%	14.4%	10.6%	12.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Euromonitor

Figure 20. Proportion of Spending, 2010



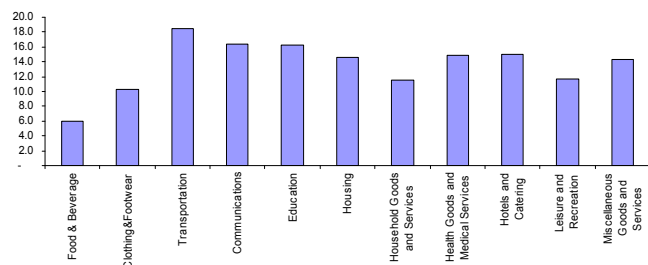
Source: Euromonitor

As income rises, there is stronger demand for more discretionary merchandise/services including transportation, communications and health goods

As incomes rise, not only does private consumption increase, but the proportion of the income spend on basic necessities such as food should fall, and the ability to either save or spend on discretionary merchandise or services should rise. China's saving rate is already higher than the emerging markets in Asia for various cultural and historical reasons. With the demographics shift, it is uncertain whether the savings rate will substantially come down, despite the rise in household income.

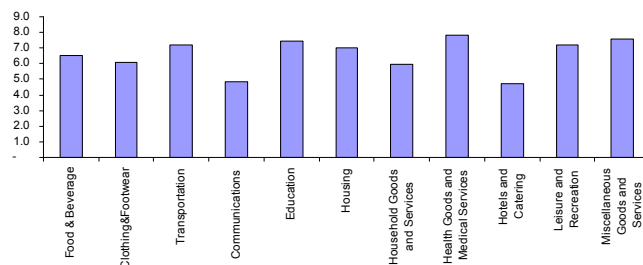
Euromonitor estimates stronger growth in the demand for transportation and communications in China between 2010 and 2015. Growth in clothing and footwear could be slower than the household spending average during the period. We note that growth in demand for health goods and services is stronger than the household average in all seven markets we focus on.

Figure 21. China – Spending CAGR, 2010-2015



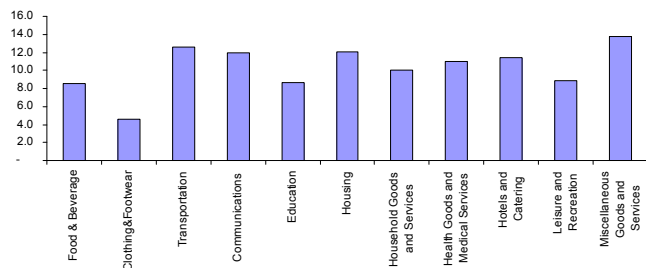
Source: Euromonitor

Figure 22. Hong Kong – Spending CAGR, 2010 - 2015



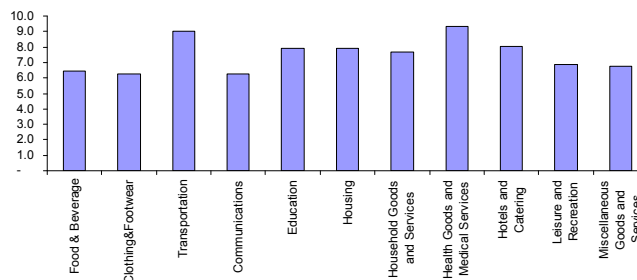
Source: Euromonitor

Figure 23. Indonesia – Spending CAGR, 2010-2015



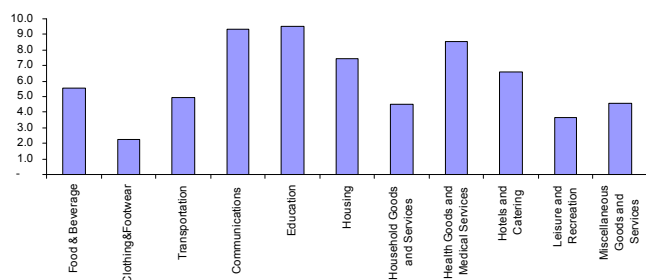
Source: Euromonitor

Figure 24. Philippines – Spending CAGR, 2010-2015



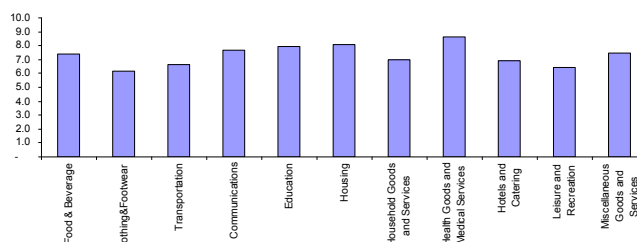
Source: Euromonitor

Figure 25. Singapore – Spending CAGR, 2010-2015



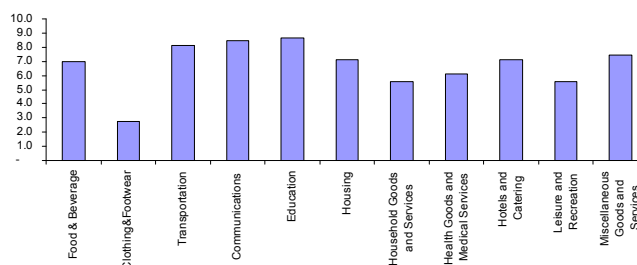
Source: Euromonitor

Figure 26. South Korea – Spending CAGR, 2010-2015



Source: Euromonitor

Figure 27. Thailand – Spending CAGR, 2010-2015



Source: Euromonitor

Domestic vs International

Local distributors could have advantages over overseas distributors, while foreign merchandise enjoys stronger brand equity

We are optimistic on discretionary consumption in Asia with the increase of 440m buyers in the decade to 2022 who are moving beyond the purchase of the basic necessities. Local distributors should still have advantages over foreign distributors partly due to government regulations as in India, Indonesia and Vietnam. Meanwhile, international brands have stronger brand equity over local brands in attracting the aspiring local consumers. This is particularly visible in apparel, sporting merchandise, jewelry and watches. As such, investors could gain exposure to the rising discretionary spending in Asia through overseas brands.

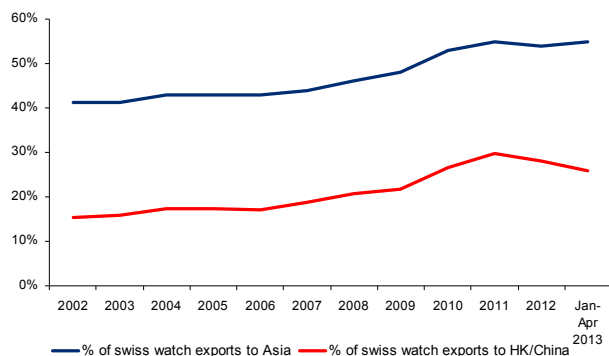
China's consumers account for 30% of the global consumption of luxury products

China consumers are brand followers, and we estimate China consumers to account for around 30% of the global consumption of luxury products. According to consulting firm McKinsey, more than 40% of Chinese consumers think well-known brands are of better quality (from 41% in 2007 to 45% in 2010), compared to 16% in the US, 9% UK and 8% Japan. As such, international brands with heritage will likely to continue to dominate the China luxury segment in the near to medium term. Around 25% of Chinese consumers think expensive products are of better quality (from 22% in 2007 to 30% in 2010), compared to 10% in the US, 9% UK and 7% Japan.

Case study: Swiss watches and Nike

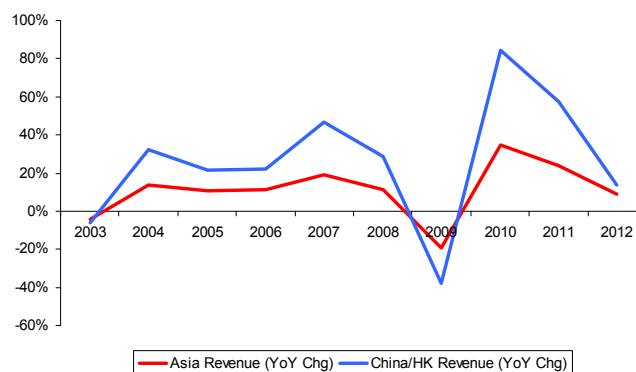
We look at two categories of merchandise on different price points but both with strong brand equity. Swiss watch sales to Asia and China/HK grew by CAGR of 10.2% and 13.9%, respectively, between 2002 and 2012. These data could have understated the underlying demand from Asian consumers as they do not capture the sale to Asian travelers in Europe where taxes are lower. On the other hand, Nike's revenue from Asia Pacific increased from 12.2% in 2002 to 16% in 2012. Its Asia Pacific revenue grew at CAGR of 7.8% during this period.

Figure 28. Swiss Watch Exports – Asia and China/HK Revenue



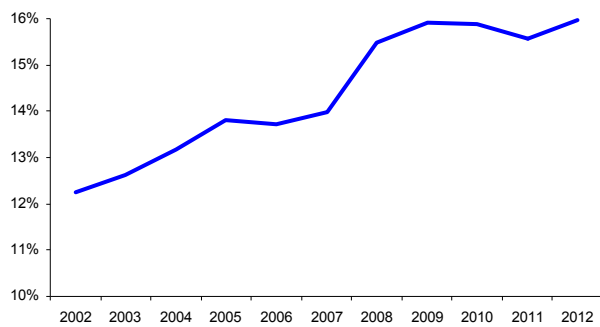
Source: Federation of the Swiss Watch Industry

Figure 29. Swiss Watches – Asia and China/HK Revenue, YoY Chg



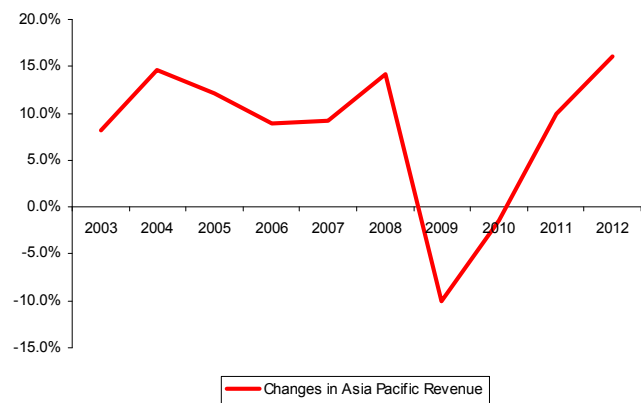
Source: Federation of the Swiss Watch Industry

Figure 30. Nike – Asia Pacific Revenue to NIKE Brand Revenue



Source: Nike Inc

Figure 31. Nike – Asia Pacific Revenue, YoY Chg



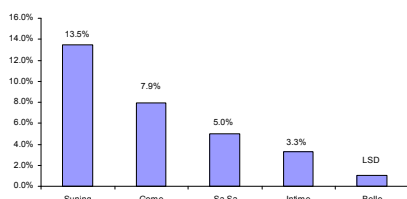
Source: Nike Inc

Asia Pacific is projected to exceed North America in e-commerce sales in 2013

E-Commerce

Income growth and rising urbanization support an acceleration in both on-line and mobile penetration in Asia Pacific, and suggests strong potential for on-line retailing. According to a report from eMarketer, e-commerce sales volume in Asia Pacific is expected to exceed North America for the first time in 2013. E-commerce sales grew more than +33% in 2012 to US\$332 billion. Sales are anticipated to be up more than 30% in 2013, reaching \$433 billion, according to eMarketer. Rapid sales growth in Asia Pacific is driven by three markets – China, India and Indonesia, which are seeing faster B2C e-commerce growth than all other markets globally in 2013. For an in-depth study on global e-commerce, refer to Deborah Weinswig's [Citi's Global E-Commerce Retail Outlook - Global Omnichannel Trends and Top Retail Picks for 2013](#), Richard Edwards' [Online Implications for Retail Profitability - Focus on Apparel Retail](#), and Craig Woolford's [Online Retail Businesses - What are the cost differences to bricks and mortar?](#)

Figure 32. China Retailers – Internet Penetration



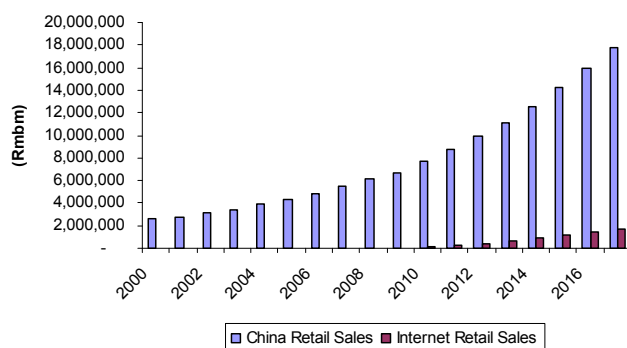
Source: Citi Research

According to Euromonitor, internet retail sales increased by 84% YoY in 2012 and accounted for around 4.1% of total retail sales in China. There are 242m e-commerce shoppers and this number could be doubled by 2016. There has been more aggressive investment in e-commerce by appliance distributors, mainly due to a new entrant and the commodity nature of the merchandise. Grocery retailers and department stores also cited internet sales for their slower sales growth, but the impact is difficult to quantify. We estimate on-line represents 9.7% of Gome and 13.5% of Suning's 2012 revenue, which is loss making for both distributors. For other listed retailers, on-line sales contribute around 5% of cosmetic distributor Sa Sa's FY13E revenue, and is profitable. Department store Intime derived around 3% of its 2012 merchandise sales from on-line and incurred around Rmb100m losses last year. For shoe retailer Belle, on-line accounts for a low-single-digits percentage of its 2012 revenue and we estimate the company also incurred around Rmb100m losses on its e-commerce platform.

With the exception of home appliance distributors, China off-line retailers have not been aggressive in developing omnichannels

In China, the rapid growth in the on-line channel has been disruptive for the off-line retailers. However, it seems most China off-line retailers have yet to develop a strategy to integrate on and off-line. They cite lack of clarity on the profitability of the on-line business model. Department stores are still primarily operated under a consignment arrangement and there are few private labels or exclusive merchandise. Hypermarket operator Sun Art offers a pre-packing service for customers who order merchandise on-line, as well as an on-line store on T-Mall for non-FMCG products. For brands, on-line is primarily used for inventory clearance by brands. Brands need to consider merchandise offered, the pricing mechanism, and relationship with the traditional channels to avoid cannibalization. Rising marketing and delivery costs, high return rates for non-standard items such as apparel and accessories, grey market, fake products, and safety issues for cosmetics and skincare are challenges for the pure on-line retailers. Meanwhile, some successful on-line retailers such as Liebo Apparel, a top-selling apparel brand on Taobao's T-Mall, is expanding its off-line retail stores.

Figure 33. China Retail Sales and Internet Retail Sales



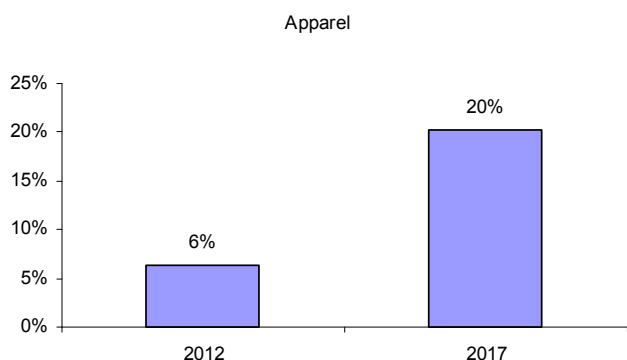
Source: Euromonitor

Figure 34. China Internet Retailing – Merchandise Breakdown

	2012	2017	Chg
Apparel	26.6%	35.0%	8.4%
Consumer Electronics and Video Games Hardware	27.9%	21.8%	-6.2%
Consumer Appliances	23.6%	18.9%	-4.7%
Others	8.1%	10.8%	2.6%
Beauty and Personal Care	7.4%	9.6%	2.2%
Media Products	3.1%	1.5%	-1.7%
Food and Drink	1.3%	1.0%	-0.3%
Furniture and Homewares	1.1%	0.9%	-0.2%
Toys and Games	0.3%	0.2%	-0.1%
Consumer Healthcare	0.3%	0.1%	-0.1%
Home Improvement and Gardening	0.2%	0.1%	0.0%
Home Care	0.1%	0.1%	0.0%
Total Internet Retailing	100%	100.0%	

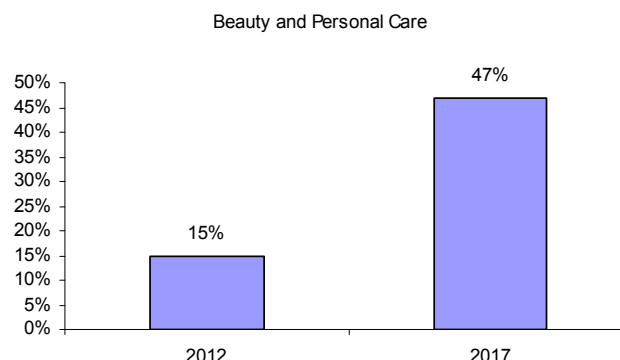
Source: Euromonitor

Figure 35. Internet Sales to Total Retail Sales - Apparel



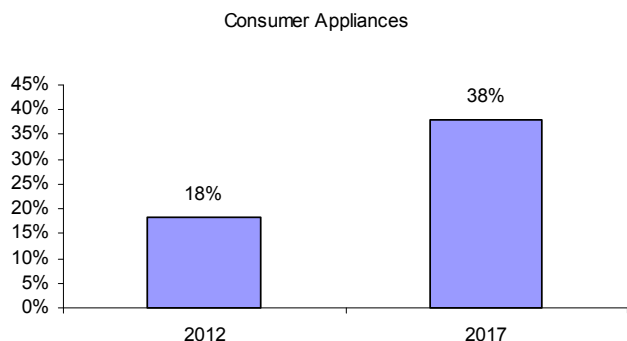
Source: Euromonitor

Figure 36. Internet Sales to Total Retail Sales – Beauty & Personal Care



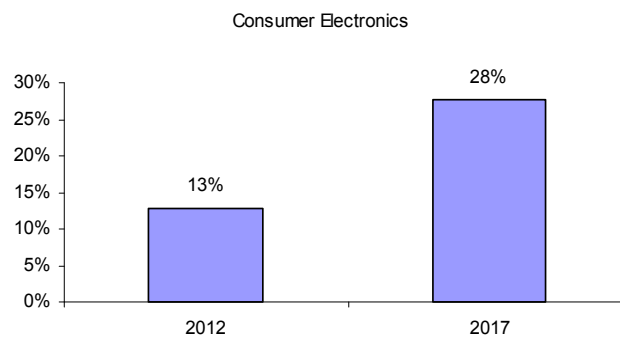
Source: Euromonitor

Figure 37. Internet Sales to Total Retail Sales – Consumer Appliances



Source: Euromonitor

Figure 38. Internet Sales to Total Retail Sales – Consumer Electronics



Source: Euromonitor

Korea off-line retailers have been ahead in developing an integrated model, as on-line sales account for 5-12% of major department stores 2011 total revenue

Korean retailers are more advanced in adopting the on-line channel, which includes both TV home shopping and internet shopping. On-line sales account for a higher percentage of total sales for the major retailers than in other markets. Internet shopping is a growth channel for the Korean retailers, but carries much lower operating margins due to marketing costs. The on-line market size is estimated at W40tn in 2012E with turnover CAGR (2009-2012E) of 22%, according to Korea Online Shopping Mall Association. On-line shopping contributed 5.3% of total retail spending in 2010. The on-line channel accounts for 5-12% of the 2011 total revenue of the major dept stores and about 2% of the major discount store revenue. Longer term, discount stores target to achieve at least 5% of their total revenue to come from on-line channels, partly due to tougher government regulations on the off-line operations. As for home shoppers, on-line channels would continue to be the major growth driver but it remains margin dilutive until industry consolidation enables industry leaders to improve margins.

2013 Performance

Positive in Hong Kong, Indonesia and the Philippines

We are positive on the retail sector in Hong Kong, Indonesia, and the Philippines this year, neutral on Thailand and Malaysia, and cautious on China, India, and Korea. Private consumption growth in Hong Kong, Indonesia, and the Philippines this year is underpinned by steady economic growth. Thai private consumer spending could be transitioning into a normal growth following strong post-flood spending by the government last year. While there seem to be some signs of sequential improvement in retail sales in China, India and Korea, uncertainties on their economies are still high. Among the retailers/discretionary companies in Asia Pacific, our key picks are Sa Sa (0179.HK), Haier (1169.HK), Intime (1833.HK), Mitra Adiperkasa (MAPI.JK), Puregold Price Club (PGOLD.PS), CP ALL (CPALL.BK), Jubilant Foodworks (JUBI.BO).

Low or declining unemployment supports real income growth in Hong Kong, Indonesia, the Philippines and Thailand. This helps to create new and a broader middle class in Indonesia and the Philippines, which could lead to consumer upgrading and higher discretionary spending. We also expect modern retailing to continue to gain share in Indonesia, the Philippines, and Thailand.

Figure 39. Asia Retailers – Valuation and Performance Summary

	P/E (x)		EPS Growth		PEG		Share price movement			
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	YTD	3-mth	6-mth	12-mth
China/Hong Kong	18.2	26.0	-4.7%	22.8%	-3.9	1.1	4.2%	-8.8%	-6.6%	7.9%
Korea	12.7	10.1	1.1%	20.6%	11.7	0.5	1.7%	-1.3%	1.2%	13.4%
Taiwan	23.4	21.6	16.2%	8.9%	1.4	2.4	4.0%	8.3%	12.0%	15.5%
Malaysia	13.7	11.7	-15.4%	17.5%	-0.9	0.7	-33.4%	-18.6%	-18.0%	-19.8%
Indonesia	24.1	18.0	36.5%	33.8%	0.7	0.5	119.7%	10.6%	17.1%	62.3%
Philippines	27.3	22.4	27.1%	22.0%	1.0	1.0	105.3%	-5%	13%	49%
Thailand	31.4	23.0	17.2%	35.5%	1.8	0.6	99.5%	1.4%	20.6%	46.7%
India	39.3	32.1	23.1%	22.1%	1.7	1.4	52.2%	4.5%	-13.6%	18.8%

Notes: Prices as of 6 Jun 2013

Source: Citi Research

Share price performance: Asean retailers continue to deliver strong share price performances this year following a strong year in 2012. We are wary of the crowded trade on Asean, but see no catalyst for North Asian retailers to outperform when economic uncertainties in China persist.

Earnings momentum: Among the retailers in the Asia Pacific markets we follow, Indonesia has the strongest earnings growth this year, follow by the Philippines and India. Looking out into 2014, we see a stronger pick-up in earnings growth from retailers in China, Korea and Thailand.

Valuation: The current year price –earnings ratio of the Asean retailers looks stretched, compared to retailers in North Asia, as well as their historical levels. For instance, consumer discretionary in the Philippines is trading at more than 2 SD over its historical average; and in Thailand almost 1SD. Meanwhile, consumer discretionary in China is trading at over 1SD below its historical average. However, the Citi analysts still expect strong earnings growth in 2014 to bring the PE ratios of the Asean retailers down to a level in line with HK/China.

In addition, the valuation gap between discretionary and staples has further expanded this year, reflecting concerns on economic growth. In Asia Pacific ex Japan, staples historically trade at 4.6ppt premium over discretionary. This premium now increases to 10.4ppt. We need signs of growth acceleration in North Asia for the gap to narrow.

Figure 40. Consumer Discretionary and Staples Valuation

	Forward PER (x)			Staples vs Discretionary Valuation Gap	
	5/31/2013	Historical	Hist. SD.	5/31/2013	Historical
Asia Pacific ex Japan				10.4	4.6
consumer discretionary	9.9	12.1	1.9		
consumer staples	20.4	16.8	1.9		
China				11.3	2.1
consumer discretionary	12.1	14.4	3.4		
consumer staples	23.4	16.5	3.6		
Hong Kong					
consumer discretionary	17.0	16.9	3.2		
consumer staples	n/a	n/a	n/a		
Taiwan				4.7	4.5
consumer discretionary	16.4	14.7	2.7		
consumer staples	21.1	19.2	1.7		
Korea				8.9	5.5
consumer discretionary	6.6	9.3	1.5		
consumer staples	15.5	14.7	1.6		
India				20.6	9.8
consumer discretionary	12.3	13.5	2.9		
consumer staples	32.9	23.3	3.5		
Indonesia					
consumer discretionary	n/a	n/a	n/a		
consumer staples	21.7	16.9	2.2		
Malaysia				4.3	2.0
consumer discretionary	14.2	14.4	2.3		
consumer staples	18.5	16.4	1.7		
Philippines				-2.3	-3.1
consumer discretionary	31.4	20.9	5.0		
consumer staples	29.1	17.8	4.6		
Singapore				-5.9	0.7
consumer discretionary	17.4	15.5	1.9		
consumer staples	11.6	16.3	6.1		
Thailand				1.7	-2.6
consumer discretionary	20.8	18.0	3.3		
consumer staples	22.5	15.4	3.4		

Source: Citi Research

Figure 41. Asia Pacific Retailers – Financial Comparisons

		FY			Price	Mkt-Cap	P/E (x)			EPS Growth			P/B (x)			ROE		Share price movement			
Company	RIC	End	Rating	Ccy	06-Jun	US\$M	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	YTD	3-mth	6-mth	12-mth
China/Hong Kong																					
361 Degrees	1361.HK	Jun	NR	HKD	1.89	503	4.7	6.8	6.1	n/a	-31%	10%	0.6	0.6	0.6	16%	9%	-39%	-17%	-10%	-4%
Aeon Stores	0984.HK	Dec	NR	HKD	16.00	536	15.7	21.0	18.2	-22%	-25%	15%	2.5	2.3	2.1	16%	11%	-9%	-16%	-18%	-32%
Ajisen	0538.HK	Dec	NR	HKD	6.03	845	42.2	30.9	24.5	-56%	36%	26%	2.2	2.0	1.9	5%	7%	-29%	11%	-14%	16%
Anta	2020.HK	Dec	3	HKD	7.60	2,442	11.0	14.3	14.2	-21%	-23%	1%	2.2	2.1	2.0	21%	15%	-18%	9%	28%	25%
Beijing Jingkelong	0814.HK	Dec	NR	HKD	2.66	141	8.4	6.1	5.2	-51%	38%	17%	0.5	0.5	0.4	6%	8%	-60%	-30%	-41%	-52%
Belle	1880.HK	Dec	1	HKD	11.58	12,584	17.7	15.6	14.0	2%	14%	11%	3.4	3.0	2.6	21%	20%	-14%	-22%	-28%	-8%
Bosideng	3998.HK	Mar	NR	HKD	1.94	2,002	8.4	9.0	8.3	12%	-7%	8%	1.7	1.6	1.6	21%	18%	-12%	-21%	-17%	7%
C.Banner	1028.HK	Dec	1	HKD	3.05	786	15.1	11.1	8.5	10%	36%	31%	3.0	2.5	2.1	21%	24%	56%	9%	3%	33%
Café de Coral	0341.HK	Mar	NR	HKD	25.30	1,873	30.4	26.9	24.4	-8%	13%	10%	4.4	4.3	4.1	15%	17%	42%	8%	12%	26%
Chow Sang Sang	0116.HK	Dec	NR	HKD	18.02	1,572	12.4	10.1	8.2	-10%	23%	23%	1.7	1.5	1.4	15%	16%	3%	-14%	-2%	11%
Chow Tai Fook	1929.HK	Mar	1	HKD	9.02	11,622	14.2	17.3	13.8	60%	-18%	26%	3.1	2.8	2.5	31%	17%	-35%	-18%	-20%	0%
Convenience Retail	0831.HK	Dec	NR	HKD	5.69	544	21.2	20.3	17.8	19%	4%	14%	4.1	3.9	3.6	20%	19%	77%	3%	-2%	32%
Dairy Farm	DAIR.SI	Dec	2	USD	12.50	16,901	37.8	29.9	27.0	-6%	26%	11%	14.2	11.7	9.8	43%	43%	34%	0%	10%	20%
Daphne	0210.HK	Dec	NR	HKD	7.07	1,502	13.4	11.7	9.7	1%	14%	20%	2.4	2.1	1.8	23%	21%	-18%	-25%	-30%	-18%
Dongxiang	3818.HK	Dec	1H	HKD	1.41	1,006	35.4	26.0	22.5	73%	36%	16%	0.9	0.9	0.9	3%	3%	7%	31%	53%	57%
Emperor	0887.HK	Dec	NR	HKD	0.73	647	12.2	10.0	7.9	-38%	22%	26%	1.2	1.1	1.0	10%	12%	-25%	-19%	-20%	-10%
Esprit	0330.HK	Jun	3	HKD	11.66	2,913	17.2	-5.0	246.8	1003%	-442%	102%	1.0	1.2	1.2	5%	-21%	26%	19%	-5%	0%
Giordano	0709.HK	Dec	NR	HKD	7.39	1,481	13.9	14.2	12.8	12%	-2%	11%	3.8	3.7	3.4	29%	26%	31%	-4%	2%	39%
Golden Eagle	3308.HK	Dec	2	HKD	12.24	2,993	15.5	14.3	11.6	1%	8%	24%	3.5	2.9	2.7	25%	23%	-25%	-21%	-32%	-24%
Gome	0493.HK	Dec	1H	HKD	0.77	1,674	-17.2	18.6	7.0	-124%	193%	167%	0.7	0.7	0.6	-4%	4%	-57%	-11%	-4%	-31%
Goodbaby	1086.HK	Dec	NR	HKD	4.08	528	22.7	17.3	13.4	0%	31%	29%	2.2	2.0	1.8	10%	13%	92%	-10%	58%	80%
Haier Elec	1169.HK	Dec	1	HKD	12.58	4,120	15.6	12.4	10.6	17%	25%	17%	4.2	3.3	2.5	35%	33%	81%	-8%	9%	37%
Hengdeli	3389.HK	Dec	NR	HKD	2.04	1,262	9.2	9.8	8.2	5%	-6%	19%	1.4	1.2	1.1	18%	14%	-12%	-3%	-17%	5%
I.T	0999.HK	Feb	NR	HKD	3.16	500	8.5	10.5	9.0	16%	-19%	18%	1.7	1.5	1.3	23%	16%	-26%	-3%	-1%	2%
Intime	1833.HK	Dec	1	HKD	8.00	2,076	12.9	8.6	10.0	14%	51%	-14%	1.7	1.5	1.5	14%	19%	1%	-14%	-11%	-2%
Li Ning	2331.HK	Dec	3	HKD	5.00	816	-2.3	-25.5	34.9	-561%	91%	173%	2.7	3.2	2.8	-79%	-19%	-19%	4%	18%	-11%
Lianhua	0980.HK	Dec	NR	HKD	4.43	639	11.7	9.7	8.7	-46%	21%	11%	1.2	1.1	1.0	10%	11%	-55%	-37%	-27%	-45%
Lifestyle	1212.HK	Dec	1	HKD	17.32	3,693	14.1	14.8	13.5	10%	-5%	10%	3.0	2.7	2.4	23%	20%	1%	-5%	-7%	3%
Lilang	1234.HK	Dec	1	HKD	4.00	619	6.0	7.1	7.1	1%	-15%	1%	1.6	1.6	1.4	27%	22%	-41%	-15%	-6%	-24%
L'Occitane	0973.HK	Mar	1	HKD	20.60	3,903	24.7	26.3	25.0	20%	-6%	5%	4.6	4.1	3.7	20%	17%	32%	-10%	-16%	11%
Luk Fook	0590.HK	Mar	1	HKD	18.64	1,415	8.2	9.6	7.8	42%	-15%	24%	2.0	1.8	1.5	30%	19%	-31%	-24%	-20%	22%
Maoye	0848.HK	Dec	NR	HKD	1.35	916	8.5	7.2	6.5	5%	19%	9%	1.0	0.9	0.8	12%	13%	-15%	-23%	-13%	-9%
NWDS China	0825.HK	Jun	NR	HKD	4.13	897	12.4	11.5	9.8	10%	8%	17%	1.2	1.1	1.0	10%	10%	-7%	-18%	-12%	-2%
Oriental Watch	0398.HK	Mar	NR	HKD	2.71	199	6.0	12.6	10.7	6%	-52%	18%	0.7	0.7	0.7	13%	8%	-24%	-6%	-5%	26%
Parkson	3368.HK	Dec	3	HKD	3.61	1,307	9.4	9.4	8.3	-24%	0%	13%	1.4	1.3	1.2	16%	15%	-62%	-27%	-36%	-54%
PCD Stores	0331.HK	Dec	NR	HKD	1.17	635	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9%	-1%	41%	58%
Peak Sports	1968.HK	Dec	3	HKD	1.42	384	7.6	8.3	8.1	-60%	-8%	2%	0.6	0.6	0.5	8%	7%	-30%	-1%	0%	1%
Ports Design	0589.HK	Dec	3	HKD	6.27	448	8.0	7.7	6.7	-18%	4%	15%	1.5	1.4	1.2	19%	19%	-47%	-5%	13%	-19%
Pou Sheng	3813.HK	Sep	NR	HKD	0.36	247	-4.6	n/a	n/a	-177%	100%	n/a	n/a	n/a	n/a	n/a	n/a	-63%	-27%	-21%	-43%
Prada	1913.HK	Jan	2	HKD	74.45	24,546	43.0	29.0	25.6	70%	48%	14%	10.3	8.1	6.8	29%	30%	112%	-7%	5%	64%
Sa Sa Int'l	0178.HK	Mar	1	HKD	8.16	2,972	33.4	28.2	22.5	35%	19%	25%	14.0	12.4	10.7	46%	47%	90%	-1%	29%	94%
Samsonite	1910.HK	Dec	NR	HKD	20.00	3,626	23.4	17.8	15.2	83%	32%	17%	n/a	3.0	2.6	15%	18%	64%	9%	24%	44%
Skyworth	0751.HK	Mar	1	HKD	4.60	1,662	8.8	8.1	7.0	19%	8%	17%	1.4	1.4	1.2	16%	18%	69%	-12%	10%	30%
Springland	1700.HK	Dec	NR	HKD	3.86	1,243	11.7	10.5	9.4	13%	11%	12%	1.7	1.5	1.4	15%	15%	-24%	-12%	1%	-21%
Sun Art	6808.HK	Dec	2	HKD	11.02	13,545	34.5	30.0	26.2	23%	15%	14%	4.9	4.7	4.1	15%	16%	13%	0%	-10%	16%
TCL	1070.HK	Dec	NR	HKD	6.15	1,055	8.9	8.3	7.3	65%	7%	15%	1.7	1.5	1.3	22%	19%	148%	-3%	34%	35%
Trinity	0891.HK	Dec	1H	HKD	3.14	700	10.0	15.2	12.4	4%	-34%	22%	1.6	1.5	1.4	16%	10%	-44%	-28%	-40%	-46%
Wumart	1025.HK	Dec	NR	HKD	14.72	2,430	24.7	21.4	18.7	-9%	16%	14%	4.2	3.8	3.3	18%	19%	-9%	-1%	-7%	-13%
Xtep	1368.HK	Dec	3	HKD	3.24	909	6.9	7.6	6.9	-16%	-10%	11%	1.3	1.3	1.2	20%	17%	32%	7%	0%	-1%
Average							18.2	26.0		-4.7%	22.8%							4.2%	-8.8%	-6.6%	7.9%

Source: Citi Research estimates, IBES for NR companies. Prices as of 6-June, 2013

Figure 42. Asia Pacific Retailers – Financial Comparisons (cont'd)

Company	RIC	FY End	Rating	Ccy	Price 06-Jun	Mkt-Cap US\$M	FY12	P/E (x) FY13E	FY14E	EPS Growth FY12	FY13E	FY14E	P/B (x) FY12	FY13E	FY14E	ROE FY12	FY13E	Share Price Movement YTD	3-mth	6-mth	12-mth
Korea																					
CJ O Shopping	035760.KQ	Dec	NR	KRW	311000	1,724	11.8	13.2	11.3	n/a	-10%	16%	3.2	2.4	2.0	30%	21%	19%	1%	9%	75%
E-Mart	139480.KS	Dec	NR	KRW	196000	4,883	12.9	11.2	10.1	n/a	15%	11%	0.9	0.8	0.8	7%	8%	-28%	-7%	-13%	-22%
Hotel Shilla	008770.KS	Dec	1	KRW	59800	2,097	23.6	32.8	15.9	81%	-28%	106%	3.5	3.2	2.7	16%	10%	49%	18%	29%	8%
Hyundai Dept Store	069960.KS	Dec	NR	KRW	154500	3,231	11.1	10.1	9.3	-8%	9%	9%	1.3	1.1	1.0	12%	12%	-1%	1%	-1%	15%
LG Fashion	093050.KS	Dec	NR	KRW	29950	783	14.4	9.6	8.1	-37%	50%	18%	1.0	0.9	0.8	7%	10%	-27%	3%	-2%	-6%
Lotte Shopping	023530.KS	Dec	NR	KRW	362500	10,201	9.7	10.3	9.1	16%	-5%	13%	0.7	0.7	0.6	7%	7%	8%	-5%	1%	25%
Shinsegae	004170.KS	Dec	NR	KRW	217500	1,914	13.2	12.3	10.6	48%	7%	16%	1.0	0.9	0.8	8%	7%	-10%	3%	5%	-4%
Average								12.7	10.1		1.1%	20.6%						1.7%	-1.3%	1.2%	13.4%
Taiwan																					
Ambassador Hotel	2704.TW	Dec	NR	TWD	29.40	362	39.2	29.5	27.9	-21%	33%	6%	n/a	1.2	1.2	3%	4%	-3%	-3%	-5%	-1%
Far Eastern Dept Store	2903.TW	Dec	1	TWD	27.90	1,281	22.4	20.1	17.4	-24%	12%	15%	1.4	1.3	1.3	6%	7%	-14%	0%	-9%	8%
President Chain Store	2912.TW	Dec	2	TWD	180.50	6,291	27.6	23.8	22.1	7%	16%	8%	8.2	7.3	6.5	31%	32%	8%	11%	17%	18%
Average								23.4	21.6		16.2%	8.9%						4.0%	8.3%	12.0%	15.5%
Malaysia																					
Parkson	PRKN.KL	Jun	2	MYR	3.77	1,337	11.6	13.7	11.7	8%	-15%	17%	1.5	1.5	1.4	14%	11%	-33%	-19%	-18%	-20%
Indonesia																					
Ace Hardware	ACES.JK	Dec	1	IDR	890	1,559	34.9	26.8	20.1	53%	30%	33%	9.5	7.2	5.5	31%	31%	114%	13%	16%	70%
Erajaya Swasembada	ERAA.JK	Dec	2	IDR	3275	970	21.9	15.9	10.7	18%	38%	49%	3.7	3.1	2.6	18%	21%	231%	13%	16%	102%
Mitra Adiperkasa	MAPI.JK	Dec	1	IDR	8450	1,432	32.4	23.0	16.7	20%	41%	37%	6.5	5.2	4.0	22%	25%	64%	8%	21%	21%
Modern International	MDRN.JK	Dec	3	IDR	970	412	74.4	47.6	30.9	-26%	56%	54%	3.7	3.5	3.1	7%	8%	63%	-5%	31%	84%
Ramayana Lestari	RALS.JK	Dec	2	2	1580	1,145	26.5	20.2	18.3	12%	31%	10%	3.7	3.3	3.0	14%	17%	123%	15%	10%	63%
Average								24.1	18.0		36.5%	33.8%						119.7%	10.6%	17.1%	62.3%
Philippines																					
Puregold Price Club	PGOLD.PS	Dec	1	PHP	37	2,435	34.7	27.3	22.4	12%	27%	22%	3.7	3.3	2.9	14%	13%	105%	-5%	13%	49%
Thailand																					
Big C	BIGC.BK	Dec	1	THB	200	5,389	26.8	21.7	17.0	14%	23%	28%	5.2	4.8	4.2	22%	23%	66%	-9%	3%	-5%
CP ALL	CPALL.BK	Dec	1	THB	41	11,986	33.3	30.2	21.7	41%	10%	39%	13.7	11.9	9.3	46%	42%	57%	-14%	-1%	21%
Home Product Center	HMPR.BK	Dec	2	THB	15	3,983	45.4	34.1	26.1	33%	33%	31%	10.6	10.1	8.6	30%	33%	88%	5%	46%	70%
Minor International	MINT.BK	Dec	1	THB	23	3,048	25.5	21.4	16.7	15%	19%	28%	4.7	3.7	3.3	21%	20%	129%	-8%	15%	85%
Robinson Dept Store	ROBI.BK	Dec	3	THB	71	2,591	38.4	34.3	29.7	42%	12%	15%	7.9	6.8	5.9	22%	21%	68%	-8%	14%	26%
Siam Makro	MAKR.BK	Dec	3	THB	764	6,004	51.6	44.3	29.6	37%	16%	50%	17.2	15.7	13.8	35%	37%	220%	48%	68%	120%
Average								31.4	23.0		17.2%	35.5%						99.5%	1.4%	20.6%	46.7%
India																					
Jubilant Foodworks	JUBI.BO	Mar	1	INR	1080	1,240	64.0	52.2	42.5	51%	23%	23%	23.5	16.2	11.7	43%	37%	44%	-5%	-17%	-10%
Future Retail	FURE.BO	Dec	3	INR	142	570	73.4	52.0	34.0	-45%	41%	53%	1.1	1.0	1.0	1%	2%	24%	-12%	-35%	-5%
Titan	TITN.BO	Mar	3	INR	277	4,332	41.0	34.0	28.8	39%	21%	18%	17.0	12.5	9.7	48%	42%	58%	9%	-10%	30%
Average								39.3	32.1		23.1%	22.1%						52.2%	4.5%	-13.6%	18.8%

Source: Citi Research estimates, IBES for NR companies. Prices as of 6 Jun, 2013.

China Retail

Sector Outlook

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China retail sales growth this year has been softer than expected. It reported 12.9% retail sales YoY growth in May, compared to 12.8% in April, 12.6% in March and 12.3% in Jan/February. While consumer spending has not deteriorated, the growth is below expectation. We think this is partly due to a weaker-than-expected economy – Citi's China economist revised down the China 2013 GDP forecast to 7.7% from 7.8% in April, and partly due to the government's persistent anti-corruption campaign. Jewelry and home appliance sales are strong, and the April data showed some pick-up in auto sales. On the other hand, apparel and footwear sales have been erratic and catering and restaurants sales growth is slow. We think China retailers could continue to underperform the market on perceived downside risk to the country's economic growth.

China department stores in general reported sequential improvement in the 1Q13 SSSG, and we think SSSG this year would improve from last year on steady concession rates. Operators seem ready to resume store expansion this year as well. Benign CPI and rising competition are the two issues facing grocery retailers this year. Retail sales performance for apparel and footwear has been erratic, with some companies citing a weak sales environment due to unfavorable weather. We think there are also margin pressures on the footwear retailers with the soft sales performance. We remain cautious on the sports companies as discounting remains high across the industry at the retail level and we expect further YoY declines in 2013 sales for the brands.

Drivers

- **Economic Growth and Government Focus on Domestic Consumption:** Citi forecasts China GDP growth of 7.3% for 2014. The government continues to focus on domestic consumption as the driver for economic growth, and has been aggressively raising minimum wages since 2010. We forecast 8.0% private consumption growth in 2014, up from 7.5% this year. Both urban and rural disposable income rise at low-teens this year with average CPI at 2.9%, compared to 2.6% in 2012.
- **Urbanization:** This is a priority for the current government leaders. According to Citi China strategist Minggao Shen, potentially around 600m of China's population could be urbanized in the next two decades. He argues the urbanization dividend should underpin sustained growth of 6-8% in the coming decade. We think organized grocery retailers could be a major beneficiary of the China urbanization.

Challenges and Risks

- **Competition from supply and on-line:** There is rising competition in both channels and brands. An increase in the retail space, in both department stores and shopping malls, could reduce the profitability of the existing distributors. Local brands are seeing strong competition from the international brands which are more sophisticated in merchandising and efficient in retailing. On-line retailing has been disruptive to the brands and traditional retailers. Not many on-line retailers are profitable. Brands and the traditional retailers seem to be hesitant in committing resources to the on-line channel as they are unsure on its return proposition.
- **Government Policies:** These could have a material impact on the retail industry. They include efforts to streamline fees collected by the retailers from the vendors, subsidies for home appliances and their expiry; efforts to counter corruption, illegitimate gifting and lavish receptions; and changes to import tariffs of selected merchandise.

Stock Picks

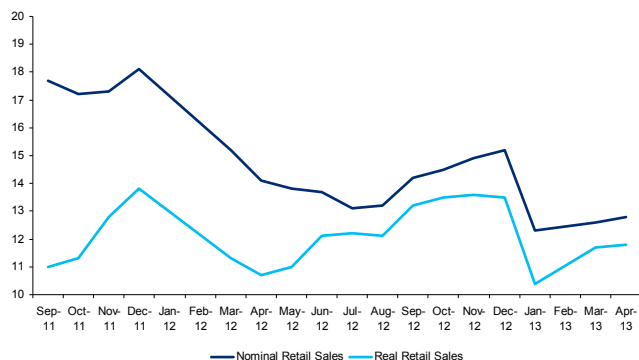
Recent report: [Haier Electronics \(1169.HK\) - A Good Start to FY13](#)

- **Haier (1169.HK; Buy)** – The company is the No. 1 manufacturer of washing machines and water heaters in China with respective nationwide market share of 26% and 27% in 1H11. Haier reported 1Q13 results with net profit up 25% to Rmb396mn on 14% sales growth, implying 19% of our FY13E forecast of Rmb2.1bn (1Q12: 19% of FY12), and we believe the company is on track to achieve our 2013E forecast. This solid set of results aligns with our view that home appliance shipments would recover in 2013, and Haier will continue to deliver above-industry growth. The manufacturing business remains strong with 14% YoY growth and ICS business grew by 15%, which was above our expectation.

Recent report: [Intime Department Store \(1833.HK\) - Reassuring Guidance](#)

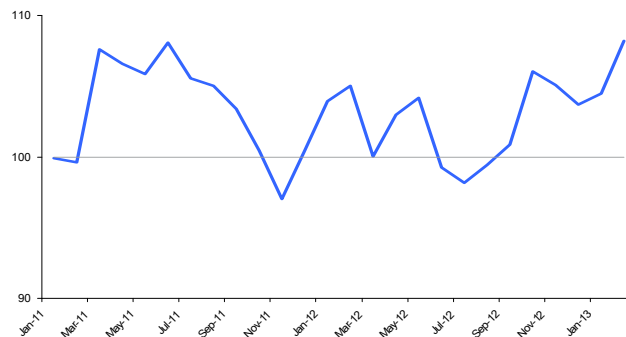
- **Intime (1833.HK; Buy)** - Intime operates the largest mid- to high-end department store chain in Zhejiang province, with a market share that management estimates at 50%. The group plans to open more stores in the province in the next three years. It is also expanding into four other markets: Anhui, Hubei, Shaanxi and Beijing. At end-2012, Intime owned 50% of its retail gross floor area, with 50% leased. While GFA expansion will accelerate this year, management is focusing on profitability from merchandise mix and cost control. Intime proposes a name change to Intime Retail Company, reflecting its medium-term strategy to become a diversified retailer with department stores, shopping complexes and e-commerce. The company leads the sector with 9.5% SSSG in 1Q13.

Figure 43. China Retail Sales Growth



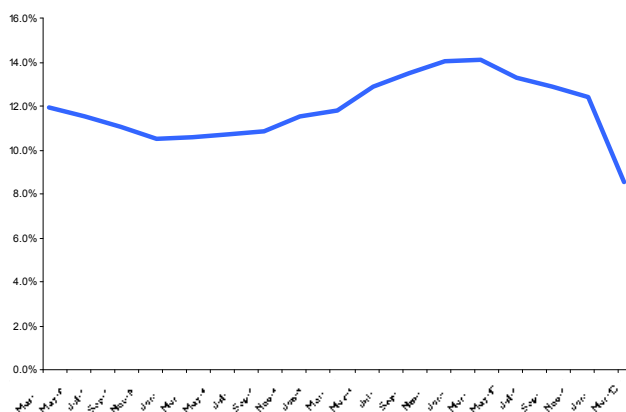
Source: CEIC

Figure 44. China Consumer Confidence Index



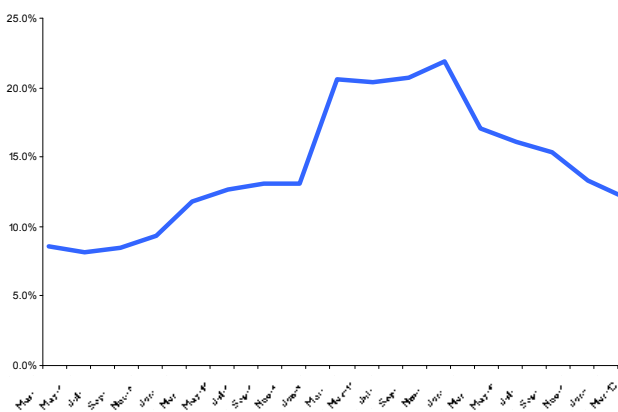
Source: CEIC

Figure 45. Urban Household Income Per Capital Growth



Source: CEIC

Figure 46. Rural Household Income Per Capital Growth



Source: CEIC

Figure 47. China Retail Sales Growth – By Categories, YoY

CATEGORIES	2009	2010	2011	2012	Jan-Feb 2013	Mar 2012	Apr 2013	May 2013
Jewelry	15.9%	46.0%	42.1%	16.0%	14.3%	26.3%	72.2%	38.4%
Home appliances and AV products	12.3%	27.7%	27.5%	7.2%	16.7%	16.6%	15.3%	21.5%
Furniture	35.5%	37.2%	32.8%	27.0%	20.9%	24.9%	22.0%	21.1%
Building & decoration materials	26.6%	32.3%	30.1%	24.6%	17.7%	21.0%	18.8%	17.8%
Communication appliances	-1.3%	21.8%	27.5%	28.9%	10.4%	16.0%	12.8%	17.7%
Daily necessities, non-food	15.6%	25.1%	24.1%	17.5%	13.0%	18.0%	15.2%	14.3%
Food related - grain & edible oil	14.0%	24.5%	25.3%	17.9%	12.1%	14.9%	11.9%	14.0%
Cosmetics	16.9%	16.6%	18.7%	17.0%	12.5%	14.4%	13.8%	13.3%
Garments, footwears etc.	18.8%	24.8%	24.2%	18.0%	9.4%	17.4%	9.5%	10.9%
Auto	32.3%	34.8%	14.6%	7.3%	6.9%	5.5%	13.0%	9.7%
Restaurant	n/a	18.0%	16.9%	13.6%	8.4%	8.7%	7.9%	9.2%
Petroleum related	6.8%	34.3%	37.4%	16.9%	11.2%	7.8%	5.1%	5.2%

Source: CEIC

Hong Kong Retail

Sector Outlook

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Improvement in the Hong Kong retail sales growth from 2012 has been more visible than for China. Hong Kong reported stronger than expected 20.7% retail sales YoY growth in April, compared to 9.8% in March, and 15.8% in Jan/February. Retail sales growth was up 15.5% in value and 15.1% in volume YoY for January to April. High employment, buoyant property prices, and strong tourist arrivals should continue to support retail sales this year. Consumption recovery in Hong Kong has been stronger and faster than expected. We forecast private consumption to grow 3.7% this year, up from 3.2% in 2012. We expect real GDP growth to recover to 3.0% this year, up from 1.5% in 2012, and further improve to 3.4% in 2013.

Jewelry companies reported stronger YTD SSSG in HK than in China, partly due to the lower base in 1H12. The sharp decline in gold prices in April resulted in stronger volume sales, but has negative impact to gold merchandise margins with the higher inventory cost.

Drivers

- **Tourists Arrivals:** Total and mainland tourists arrivals were up 13% and 20% YoY, respectively from January to April. The completion of some major infrastructure could bring more tourists to Hong Kong over the next few years: the new world class cruise terminal will be completed this June; the Hong Kong section of the Beijing-Guangzhou-Shenzhen-Hong Kong high speed line is expected to open in 2015. This high speed rail line cuts travel time by more than half. In addition to trains running between Beijing, Shijiazhuang, Zhengzhou, Wuhan, Changsha, Guangzhou and Shenzhen, the railway also has direct service with other connecting high-speed lines.
- **Wage Growth:** A minimum wage hike could continue to support local consumption. In 1Q13, median household income rose 5.8% YoY in nominal terms and 2% YoY in real terms.

Challenges and Risks

- **Rental:** Among selected retailers, rental to sales was up 2.5ppt YoY for Emperor Watches and Jewelry in FY12, Giordano 1.6ppt, Hengdeli 0.6ppt, and Sa Sa - 0.1ppt. Hong Kong retailers need to maintain high single-digit SSSG to offset rental pressure.
- **Price Differentials:** Hong Kong attracts mainland consumers as luxury items in China could be 35-40% higher than in Hong Kong, due to a combination of different pricing set by the vendors, import tariffs, luxury tax and VAT. There have been reports that China may reduce the luxury tax to retain mainland consumer spending on luxury items in China. While the free trade agreements between China and Switzerland would likely bring about a 5% reduction in the retail price of Swiss watches over 10 years, retail prices in Hong Kong could still be more than 15% lower than in China.

Stock Picks

- **Sa Sa (0179.HK; Buy):** SaSa is the leading cosmetic specialty retailer in Hong Kong, with 101 stores/counters in Hong Kong and Macau, 64 in mainland China, 21 in Singapore, 51 in Malaysia and 27 in Taiwan as of December 2012. For its HK/Macau operations, solid SSSG growth momentum in the mid-teens, and sales growth of ~20% in March held up fairly well into April. We expect SSSG in the HK segment will remain solid at 14%, with 22% sales growth in FY14E.

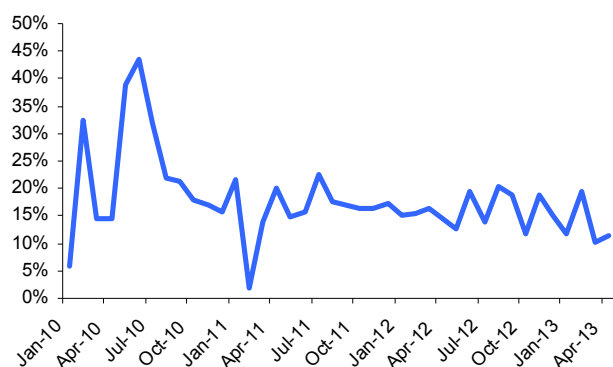
Recent report: [SaSa \(0178.HK\) - Sustainable Long-Term Growth](#)

SaSa's China expansion has been slower than expected, accounting for only 5.3% of overall sales, while HK still accounts for >90% of its total earnings. PRC tourists account for ~65% of its HK sales. SSSG in Jan-Feb declined from 1.6% in 3Q13 on less promotional events to protect brand image. While its China operations remain challenging, we see longer-term opportunities given China's beauty and personal care market size is 16.6x larger than HK.

Recent report: **Lifestyle International Holdings (1212.HK) - Consistent Performer**

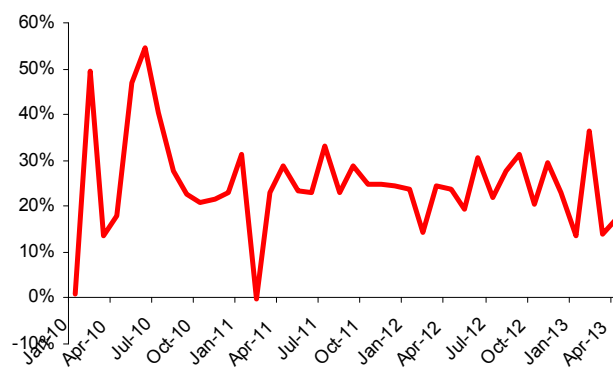
■ **Lifestyle (1212.HK; Buy):** We like Lifestyle for its quality assets and consistent performance. Hong Kong contributed 73.9% of group sales and 80.6% of EBITDA in FY12. The CWB Sogo store achieved 6% sales growth in Jan/Feb, and we think sales growth could reach high-single-digit for the year on an increase in ticket size. The company announced in March that its controlling investor distributed 230m shares or 13.8% of the company to its shareholders, raising concerns on potential further changes in Lifestyle's shareholding.

Figure 48. Hong Kong – Total Tourist Arrivals Chg, YoY



Source: HK Government Statistics

Figure 49. Hong Kong – China Tourist Arrivals Chg, YoY



Source: HK Government Statistics

Figure 50. Hong Kong Retail Sales Growth – By Categories, YoY

Categories (value, YoY):	2011	2012	Oct-12	Nov-12	Dec-12	Jan/Feb-13	Mar-13	Apr-13
Jewellery, watches & clocks	46.6%	7.7%	-3.0%	13.7%	11.3%	20.5%	9.8%	68.8%
Consumer durables - others	90.8%	55.8%	17.3%	35.5%	68.2%	164.1%	106.2%	33.6%
Department stores	21.6%	9.7%	5.4%	10.9%	10.7%	13.5%	19.7%	21.6%
Medicines and cosmetics	21.5%	15.0%	16.1%	13.1%	3.2%	13.5%	3.8%	12.0%
Consumer goods - others	17.6%	5.0%	0.9%	6.6%	6.0%	4.0%	0.0%	7.6%
Supermarkets	12.4%	10.5%	5.7%	13.7%	7.1%	9.0%	5.3%	6.9%
Fuels	14.7%	3.3%	2.6%	-70.0%	-1.1%	0.2%	3.0%	6.2%
Clothing and footwear	28.0%	7.6%	0.7%	8.2%	6.1%	9.2%	13.2%	5.0%
Motor vehicles & parts	12.3%	5.5%	-2.7%	-3.9%	-1.1%	23.4%	11.5%	4.8%
Food, alcoholic drinks & tobacco	24.8%	2.8%	-0.5%	2.0%	-3.5%	4.6%	-3.7%	4.4%
Electrical goods & photographic equipment	31.5%	21.5%	21.7%	10.9%	14.7%	13.5%	4.3%	-2.5%
Furniture & fixtures	8.3%	-3.0%	1.0%	-4.7%	-1.7%	5.4%	-3.1%	-7.4%

Source: HK Government Statistics

India Retail

Sector Outlook

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Over the past 12-18 months, consumer sentiment has been relatively modest, adversely impacting same-store-sales growth across retail categories. Overall, the cyclical weakness continues and demand remains more sedate compared to earlier years – however, the recent quarterly trends have been mixed. There are companies/segments that have reported a slight pickup sequentially like Future group's value business (Big Bazaar, Food Bazaar) and Shopper's Stop; whereas trends in the more discretionary segments like home retailing, watches and diamond jewellery remain muted. Most industry players are expecting an improvement in the forthcoming Qs, albeit at a slow pace. We would keep a close eye on the macro trends; refer to Citi's latest India macro views at: [India Macro Outlook – Tailwinds Yes, But Challenges Remain](#).

In the recent past, we've seen a lot of players including larger ones like Future Retail and Spenser's Retail rationalize retail space and work towards improving front and back end efficiencies in an attempt to improve productivity/profitability across their network. Interesting to note, leading FMCG player Hindustan Unilever's volumes in the modern trade channel were under pressure in 2HFY13 – management notes that the number of store closures have been fairly high. We think a lot of the initiatives undertaken to improve retail infrastructure are strategically correct, and we would look for the impact on better profit growth/free cash flows generation ability going forward.

In the last year, the government relaxed the FDI in retail norms in the country. While this has been a sentiment positive, there are a number of imponderables primarily around timing and the stance that the state governments may take.

Drivers

- The penetration of organized retail is still fairly small – has been ~7% of the overall market for some time. The retail opportunity is large and longer-term drivers of favorable demographics – rising income levels, urbanization, etc. – remain intact. Consumption accounts for ~60% of India's GDP and moves in tandem with GDP and personal disposable income growth.
- With the FDI norms being relaxed in the country, there is potential on new foreign retailers to enter the market, as well as, potential tie-ups / JVs for increased investment across sub-sectors. While there could be risks around execution near term, there is a fairly healthy long-term growth potential for the sector.

Challenges and Risks

- Besides cyclical concerns of modest discretionary consumption spend, retailers need to address important issues on leverage and working capital/cash flows. Efforts to improve inventory turns and overall assets turns (better back-end infrastructure management/tweaking store sizes and mix) are key to create long-term sustainable business models. The bloated balance sheets and funding constraints are key issues for the sector.

Stock Picks

- **Jubilant Foodworks (JUBI.BO; Buy):** JUBI is the master franchisee of Domino's Pizza Inc, currently operating Domino's stores in India (and Sri Lanka) – and is well placed to benefit from the favorable consumption growth prospects, as well as the increasing shift towards organized food services in the country. We believe the stock's sharp underperformance over the past 1 year (~35%/26% vs.

Recent report: **Jubilant FoodWorks (JUBI.BO) - Initiate at Buy: Promising to Deliver**

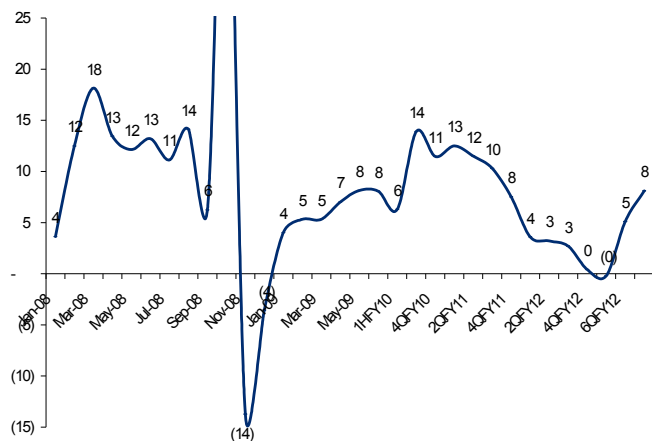
the broader market/mid cap index) to a large extent prices in the relatively soft demand near term given the slower macro. With more rational expectations than before, benefits from the increased store ramp-ups (100+ stores p.a.) flowing through, coupled with the continued sustainability of Domino's robust and scalable business model, we are positive on the stock.

- **Future Retail (FURE.BO; Sell):** The company (erstwhile Pantaloon Retail) is in the midst of an extensive restructuring as it aims to deleverage its balance sheet. We await financial details (more so after the stake sales/hive-off of many retail formats), and would monitor trends in the restructured business, as well as on the execution of strategies undertaken to better manage back-end/inventories/costs. A challenging macro and high capital costs remain concerns. Key upside risk includes a) further value unlocking, especially in value/home business, or, b) the introduction of GST.

Recent report: [Titan Industries \(TITN.BO\)](#)
- 4QFY13: Sales Disappoint; Profit
Buoyed by Gold Inventory Gains

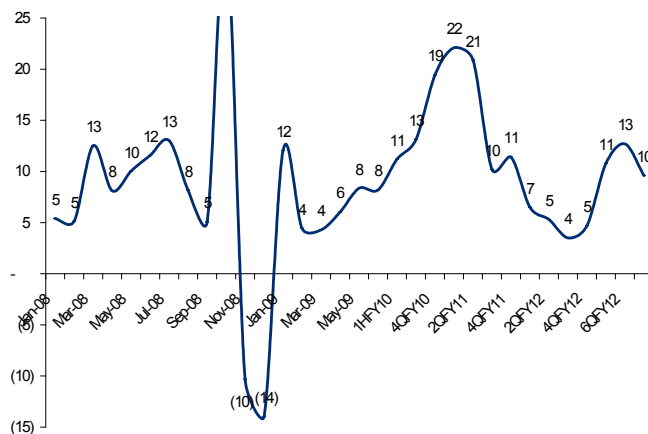
- **Titan (TITN.BO; Sell):** We believe the risk reward balance for Titan is unfavorable – weak sentiment is impacting discretionary demand, coupled with lower benefits arising out of gold price realizations. Increased aggression by many organized competitors is a valid concern. While the regulatory risks have moderated in the last few months, we still think there is an overhang around certain regulations (linking gold lease rates to base rate, capping gold imports to 90 days, government's stance to temper gold purchases, et al). At 27x one year forward P/E and potential risks to revenue/profit growth estimates, we remain cautious.

Figure 51. Same-Store Sales Growth – Value Retailing (%)



Source: Company Reports

Figure 52. Same-Store Sales Growth – Lifestyle Retailing (%)



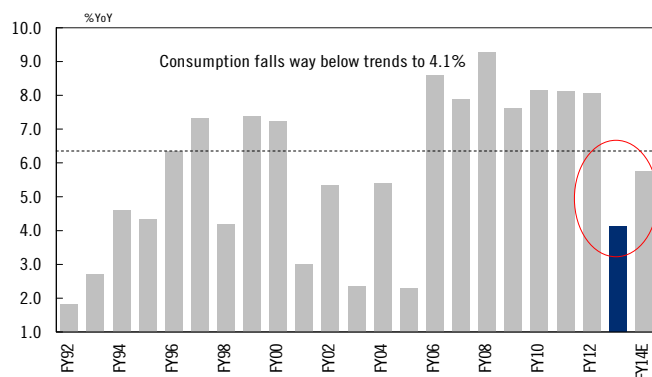
Source: Company Reports

Figure 53. Titan – Format Wise Same Store Sales Growth (%)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
World of Titan	8%	16%	8%	14%	9%	-1%	11%	-2%
Fastrack	70%	72%	21%	16%	12%	7%	31%	15%
Helios	12%	10%	18%	-9%	19%	19%	18%	12%
Tanishq	70%	31%	26%	25%	3%	12%	10%	8%
Gold Plus	49%	49%	13%	23%	-8%	-8%	12%	0%
Titan Eye+	26%	-19%	77%	-1%	1%	19%	14%	40%
Large Format Stores in watches	26%	24%	-1%	19%	3%	-10%	10%	4%

Source: Company Reports

Figure 54. Trends in Consumption (%)



Source: CSO; Citi Research Estimates

Indonesia Retail

Sector outlook

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We are generally still positive on the Indonesian retail sector. Indonesia's sustained economic growth and changing demographics are not only enlarging the number of middle-income consumers but also enriching them. Their newfound buying power is drawing them to modern retailers at the expense of the still dominant mom-and-pop shops. Modern retailers have therefore mapped out aggressive plans for Indonesia, eager to wrest early share in a market with immense growth potential.

The Indonesian retail sector continues to accelerate, driven primarily by a combination of an expansion in the number of retailers as well as the increasing revenue of retailers. Over the next 5 years, the sector is expected to grow at approximately 6% YoY.

Drivers

- **Growing buying power:** While most economies have been affected by the ongoing economic turbulence, Indonesia's GDP has been relatively insulated and continues to expand at a stable rate of approximately 6% per annum. Consequently, sustained economic growth would accelerate income growth, lifting millions of people out of poverty. Official statistics have recorded that from 2000-11 around 9m people exited poverty.

The combination of poverty reduction and favorable demographics (large population base of over 240million people, rising urbanization, larger number of young and productive people, more females participating in the workforce, etc.) will be a key driving force in generating a new and broader middle class, turning them into a huge consumption driver.

- **Changing consumer preferences and behaviors:** Indonesia's sustained economic growth and favourable demographics are not only enlarging the number of middle-income consumers but also enriching them. Over time, there has been a shift in consumer preferences and behaviors. With income less of an issue, the need for an enhanced quality of life starts to emerge. Consumers no longer just purchase basic needs items such as shampoos and instant noodles. Their shopping purchases are now geared more toward augmenting their lifestyles (i.e., housing, vehicles, education, clothing, etc.).

Furthermore, today's middle class are pressed for time given the combined demands of work and family life. Retailers who can successfully provide a one-stop-shop solution would have a substantial competitive advantage over their peers.

Challenges and Risks

- **Economic slowdown:** Indonesia's favorable economic growth has translated well to income growth, which in turn helps enhance consumers' spending power. Should the economy turn for the worse, consumers' spending power would decline. Consumers, especially those within the lower income group, may either scale down purchases or downgrade to more economical products. Consumers who are in the mid to upper income group are generally less price sensitive and are more resilient during economic shocks. In this regard, retail companies whose target market is mostly the mid to upper segment would be less vulnerable even during economic downturns.

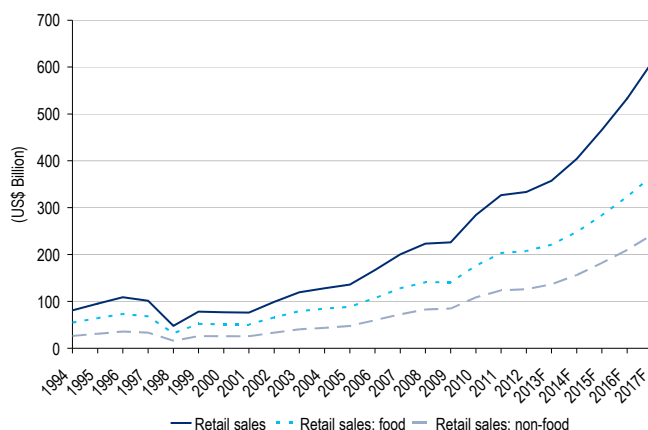
- **Competition:** Operating in a highly competitive market environment is a key risk to any company. But within the Indonesian retail sector, the competitive environment is still mild. The sector is highly fragmented and is largely underpenetrated with each of the retail companies within our coverage competing in different subsectors. We expect the trend to persist, underpinned by a large and growing population base and supplemented by a growing middle class with higher spending power. Retailers with more aggressive expansion plans stand to gain market share at a faster pace and should better withstand risks of new entrants.
- **Forex fluctuations:** Some retail companies import their products. As such, fluctuations in forex would pose higher risk to margins. Similarly, consumers relying on remittance money will also be impacted. A weaker rupiah would be positive. On the flip side, should the rupiah strengthen, it would mean lower value for the remitted money. With remittances a key source of income among OCWs and their families, higher remittances inflow supplemented with ongoing weaker rupiah would translate to higher spending power.

Stock Picks

Recent report: [Mitra Adiperkasa \(MAPI.JK\) - Takeaways from Citi Indonesia Investor Conference](#)

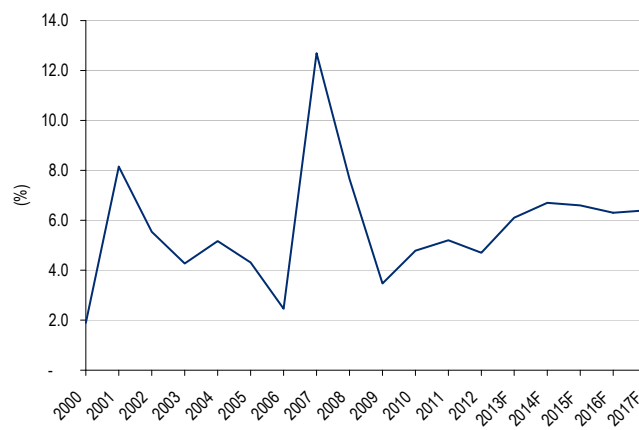
- **Mitra Adiperkasa (MAPI.JK; Buy)** - With broad product/brand portfolios, a well anchored mall presence (30% of total mall space), and target customers who are relatively insensitive to economic downturns and price hikes, MAPI looks best positioned to take advantage of the structural expansion of Indonesia's middle class. A 28% 3-yr EPS CAGR to 2014E supplemented with a relatively high liquidity of US\$3m/day provide further appeal.

Figure 55. Retail Sales



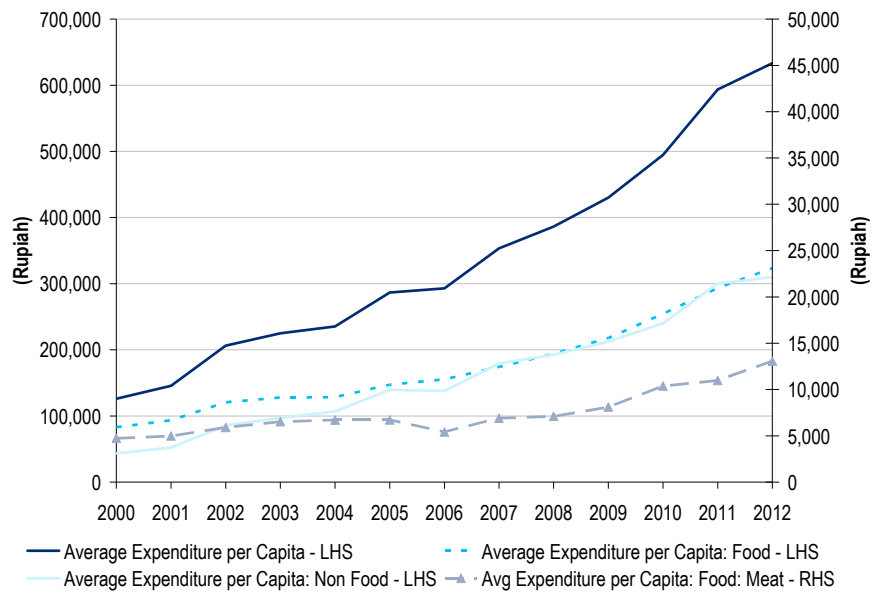
Source: Citi Research; EIU

Figure 56. Retail Sales Growth



Source: Citi Research; EIU

Figure 57. Average Expenditure per Capita



Source: Citi Research; CEIC

Korean Retail

Sector Outlook

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YTD in 2013, Korean retailers continue to face sluggish macro factors: (a) GDP growth (0.9% in 1Q), (b) lingering household debt and slow income growth, and (c) weak property market and regulatory pressure; compulsory shutdown (twice a month) for discount stores and SSM (Super-supermarket). SSSG (same-store-sales growth) across the industry (based on data from the Ministry of Economy) continues under pressure. By segment, department store SSSG has stayed relatively better at -1.9% in April and -0.2% YTD in 2013. This compares with discount store SSSG of -9.8% in April and -7.5% YTD in 2013. CV (convenient store) SSSG is also under pressure, as witnessed by 8.5% total sales increase versus 13.4% increase in the number of CV stores. In contrast, non-traditional channels (home-shopping, online and mobile channels) outgrew YTD in 2013.

Heading into 2H2013, Citi expects a mild recovery of domestic consumption led by (a) property deregulation, (b) government supplementary budget impact and (c) GDP growth pickup (1.5% in 1Q to 2.0% in 2Q, 3.6% in 3Q and 4.3% in 4Q), according to Citi's economic forecasts. Property recovery has begun already in April with 44.7% YoY transaction volume in Seoul and stabilizing property prices. (See [Korea Construction Monthly Monitor - Property Market Bottomed Out, Bipolarization in Overseas Orders](#)) By segment, while homeshopping and online shopping continue growing structurally with consumer trends in (a) trading-down, and (b) improving access in new channels on technology development, traditional retailers also will show SSSG recovery in 2H. However, discount stores will continue to under grow other segments, given the compulsory shutdown (twice a month) impact will continue throughout the year and limit sales expansion.

Drivers

- **Regulation for discount store and SSM (super-supermarket):** We continue to see more municipal governments implementing compulsory shutdown policies (two Sundays per month) in each region. In addition to this, we continue to see pressure from NGO/media/municipal government to limit SSM and discount store openings. Overall, we believe regulatory pressure will continue throughout the year in 2013. If there is improving sentiment toward regulations – unlikely – this would be more positive for discount stores.
- **Property market (= wealth effect) and households' balance sheet:** The wealth effect is also a critical factor to drive consumption. Thus, the property market recovery could lift up domestic consumption. But we do not expect a strong recovery due to the still lofty household debt level (161% of households' disposable income in 2012).

Challenges and Risks

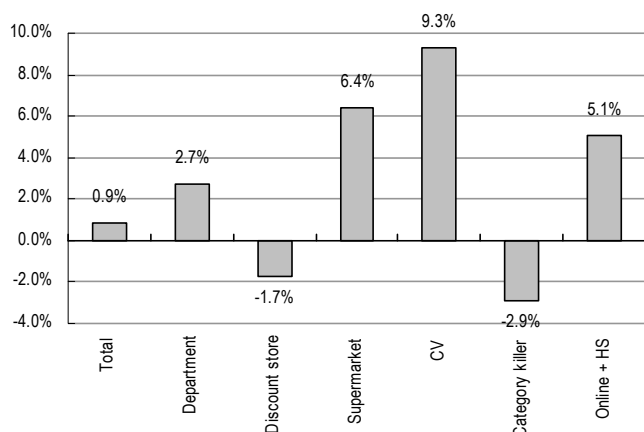
- **Customers trading down** - With economic and demographic changes, consumers' trading down or value-focused shopping trends will remain negative for the overall sector. If these trends continue, we may see a limited rebound in overall consumption.
- **Diverging growth between traditional and new channels** – As shown by YTD retail sales by segment, we are seeing a diverging trend in retail sales; new channels continue to outgrow. Thus, if this trend continues, we may see limited upside from department and discount stores.

Stock Picks

Recent report: **Hotel Shilla (008770.KS) - 1Q Hit by One-offs. But Continue to Focus on China Story**

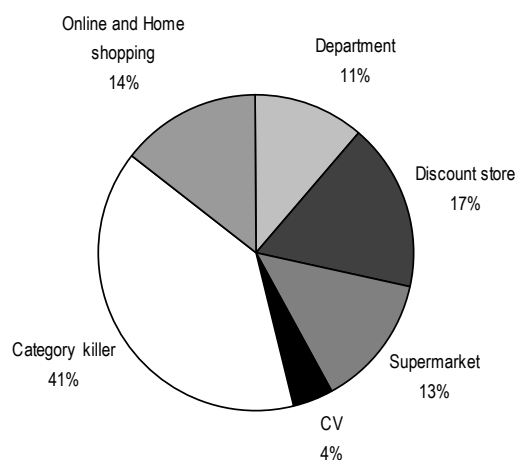
■ **Hotel Shilla (008770.KS; Buy):** Despite weak 1Q earnings hit by one-off expenses, we maintain our Buy rating as we believe our key investment thesis (the long-term secular growth story in the form of Chinese inbound visitors) remains firm. Chinese inbound data continued to be strong in 1Q, up 38% YoY, and we expect the strong trend to continue. Our model assumes 25% and 20% growth for 2013 and 2014, respectively. Despite the strong Chinese growth, Shilla DFS rev growth in 1Q was slow at 5% YoY as 1) KRW term growth was negatively affected by 5% YoY KRW appreciation against USD (all DFS sales are made in USD terms), and 2) DFS rev from Japanese declined substantially with ongoing JPY weakness – total inbound traffic declined by 21% YoY in 1Q, but we think DFS visit traffic declined as much as 50%. However, going forward, we expect limited downside from Japanese visitors, as we estimate they made up only 12% of Shilla's DFS revenue in 1Q. Meanwhile Chinese DFS rev contribution was more than 40% in 1Q.

Figure 58. Retail spending by channel in 3M2013



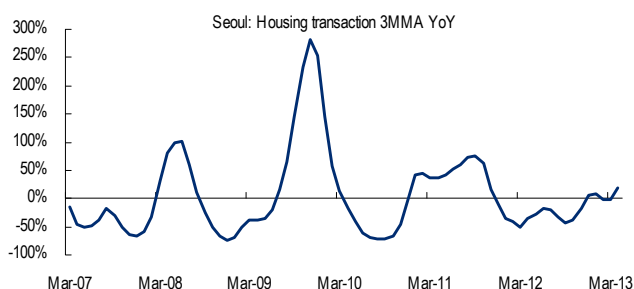
Source: KorCharm, KOSIS, Citi Research

Figure 59. Retail spending breakdown by channel in 3M2013



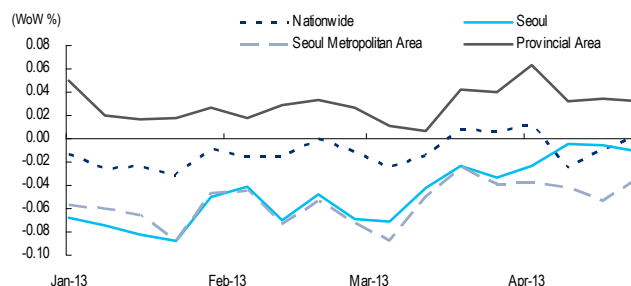
Source: KorCharm, KOSIS, Citi Research

Figure 60. Housing transaction trend in Seoul; Improving prior to nationwide recovery in April



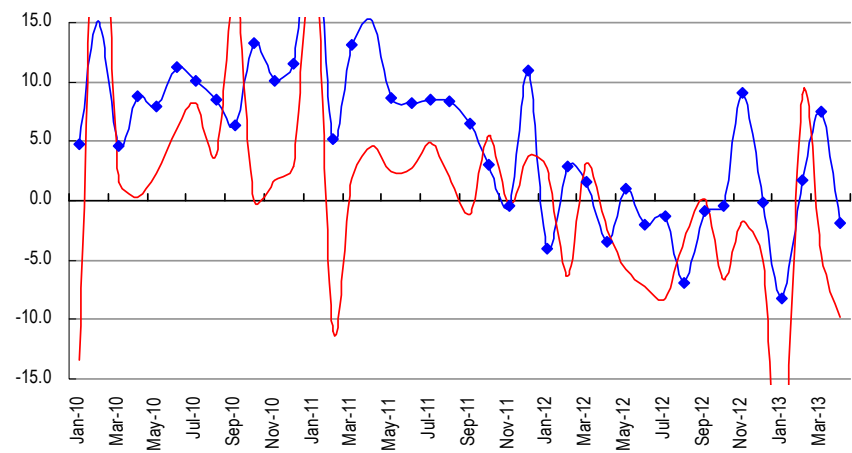
Source: MoLIT, Citi Research

Figure 61. Weekly trend in housing price by region



Source: Kookmin Bank, Citi Research

Figure 62. Trend in SSSG of Discount Stores and Department Stores in Korea



Source: Ministry of Trade, Industry and Energy (MoTIE)

Malaysia Retail

Sector Outlook

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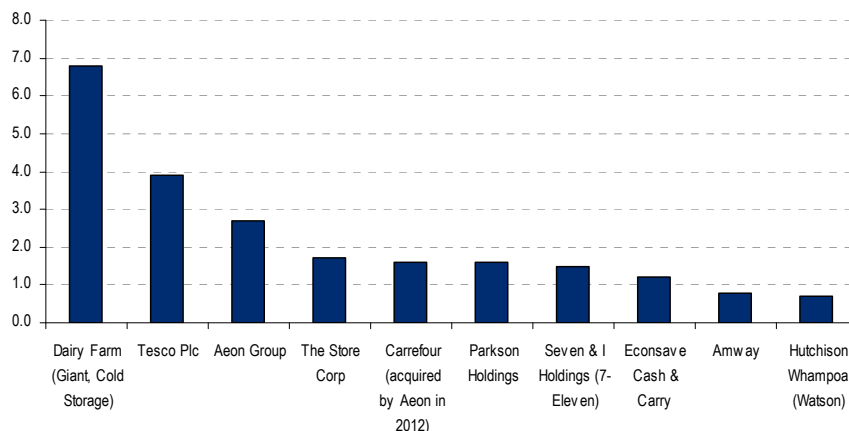
With election uncertainties behind us following the 13th General Elections held on 5th May, the Malaysian economy can move ahead with the rollout of major infrastructure projects benefiting the construction, banks and oil and gas sectors. These projects were introduced earlier in the Economic Transformation Program (ETP) and the 10th Malaysia Plan (10MP, 2011–2015).

We expect a multiplier effect of these projects to filter into the economy and benefit the consumer sector. Election concerns had resulted in slightly weaker than expected GDP growth in 1Q2013 at 4.1% vs 6.5% in 4Q2012 but Citi Research's economics team expects a pickup in 2H2013. See [Malaysia Macro Flash - Domestic Demand Firm despite External Drag on 1Q13 GDP](#) for details.

Consumer sentiment, as monitored by the Malaysian Institute of Economics Research (MIER), climbed to a six-year high at 122.9 points (+4.2 points QoQ) in 1Q2013 with stable income levels and sanguine employment and financial outlook. However, the survey also indicated that higher consumer demand, particularly among the higher-income earners, was recorded for houses and cars while smaller goods such as furniture, white goods and personal computers saw lower demand. As such, we do not expect the improving consumer sentiment to benefit retailers, but rather the property and automotive markets.

MIER's Business Conditions Index (BCI) on the other hand, showed a decline in 1Q2013 with sales notably weaker for sectors producing textile and clothing, wood and wood products, paper and paper products, and electrical and electronic products. MIER's business expectations for 2Q13 are for domestic and export sales orders to increase, production volume expansion, steady employment and easing wage pressures.

Figure 63. Top 10 Retailers in Malaysia by Market Share



Source: Euromonitor, Citi Research

Parkson, one of Malaysia's leading department store chains, has guided for 7–9% Same-Store-Sales Growth (SSSG) pa. This is above Citi Research's 2013E GDP growth forecast of 5.2%. In comparison, Parkson's closest competitor, Aeon, has guided for SSSG to typically be within the range of 3–5% pa.

Challenges and Risks

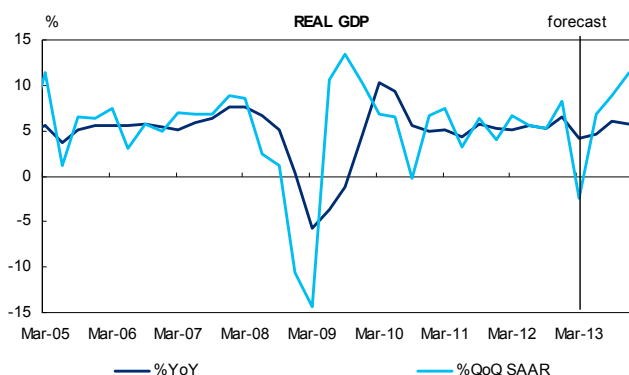
- With the end of the election period, one concern is the post-election slowdown in consumption as the scaling back of fiscal transfers and/or civil servants bonuses may have spillover effects on private consumption. However, with the continuation of the rollout of key ETP and 10MP projects post elections, we expect the multiplier effects of these projects to filter into the economy at large.

Stock Picks

Recent report: **Parkson Holdings Bhd (PRKN.KL) - 3Q FY13: Cautious in China, ASEAN SSSG Boosted by CNY**

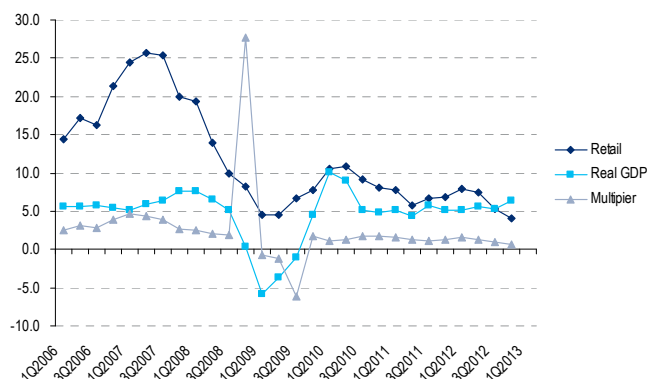
- Parkson Holdings (PRKN.KL; Neutral):** We have a Neutral recommendation on Parkson Holdings, the parent company of Parkson Retail Group (3368.HK; HK\$3.76; 3) and Parkson Retail Asia (PRAL.SI; S\$1.55; Not Rated). Its China and Vietnam stores continue to see weak SSSG while its Malaysia and Indonesian stores are expected to show stable SSSG of 7–9% and 9–10% respectively.

Figure 64. We expect pickup in activity in 2H13



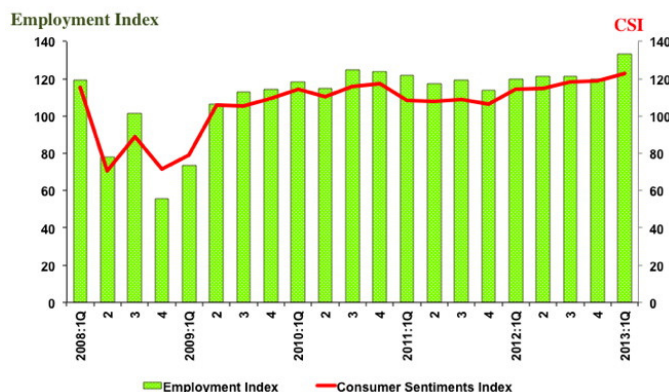
Source: Department of Statistics, Haver, Citi Research

Figure 65. Retail Trade vs. Real GDP



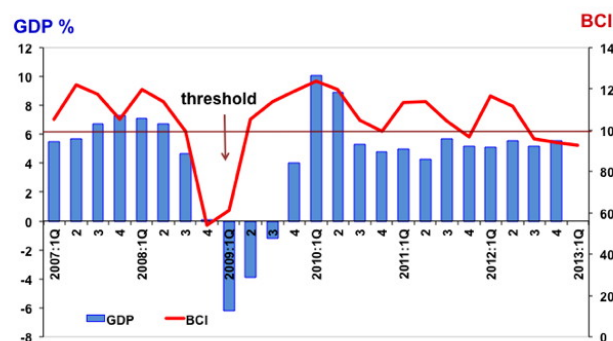
Source: Bank Negara Malaysia, Department of Statistics, Citi Research

Figure 66. MIER Consumer Sentiments Index



Source: Malaysian Institute of Economic Research, Citi Research

Figure 67. MIER Business Conditions Index



Source: Malaysian Institute of Economic Research, Citi Research

Philippines Retail

Sector Outlook

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A favorable macro backdrop is seen to continue to support the Philippines retail growth. Citi forecasts private consumption spending to grow 6.1% annually in 2013-14, underpinned by declining unemployment, resilient overseas foreign worker (OFW) remittances, low inflation, and growing business process outsourcing (BPO). *Euromonitor* forecasts 8.2% sales CAGR for grocery retailing and a slightly faster rate of 8.5% for mixed retailers in 2012-17.

Key sector drivers include the shift to modern grocery retailing driven by aggressive expansion of retail chains and growing residential communities. Competition is also driving aggressive acquisition moves by top retail chains to accelerate expansion plans and secure a foothold in the regions, particularly in food/grocery retailing.

Drivers

According to *Euromonitor*, only 25% of grocery retail value and 16% of retail space in the Philippines is accounted for by modern retail formats. It estimates that the Philippines only has 23 sqm of modern grocery retail sales area per thousand inhabitants, which is among the lowest in Asia. *Euromonitor* expects modern retail to grow at a healthy 9.4% CAGR in 2012-17, outpacing the 7.8% growth in traditional retailing.

Key drivers that could further intensify growth of modern retail include:

- **Resilient domestic demand with improving purchasing power:** Citi economist Jun Trinidad forecasts Real Personal Consumption Expenditure (PCE) to grow annually by 6.1% in 2013 to 2014, supporting above range GDP growth of 6.2% in 2013 and 6.6% in 2014. Continued easing of inflationary pressures with CPI expected at 2.8% average in 2013 (and pick up slightly to 3.2% in 2014) should support upbeat consumption spending. Meanwhile, unemployment is expected to decline from 7.0% to 6.0% in 2014.
- **Growing middle class:** The continued expansion of the middle class, with higher purchasing power, should foster the growth of modern retail. Based on a study done by the Asian Development Bank ("ADB Key Indicators for Asia and the Pacific 2010 (Special chapter: The Rise of Asia's Middle Class, August 2010), about 54.9% of the Philippine population in 2006 is in the middle class (those with consumption spending of US\$2-20 per person per day based on 2005 PPP\$). In the same study, the middle class segment has expanded by 12 percentage points from 1990-2008. Expanding household incomes supported by stable OFW remittance and business process outsourcing (BPO) sector whose revenues are expected to grow at a healthy 16.6% CAGR from 2012-16 (Information Technology and Business Process Association of the Philippines) with employment rising to 1.3m by 2016 from 750,000 in 2012. The growth of the BPO sector has fostered the rapid rise in 24-hour convenience stores (i.e., Ministop and 7-11) in key cities. The higher spending propensity of young BPO workers to shop and the influence of OFWs on consumer preferences have become important drivers of mixed retail growth trends.
- **Expanding regional centers:** The emergence of fast growing cities outside Metro Manila is being driven by expansion of BPO hubs outside Metro Manila and vibrant local tourism. The implementation of government infrastructure spending should further promote regional expansion. As a result, most of the retail chains such as SM Retail (of SM Investments) and Puregold are focusing their store expansion plans outside Metro Manila, mainly through smaller brand formats such as supermarkets and discounters.

Challenges and Risks

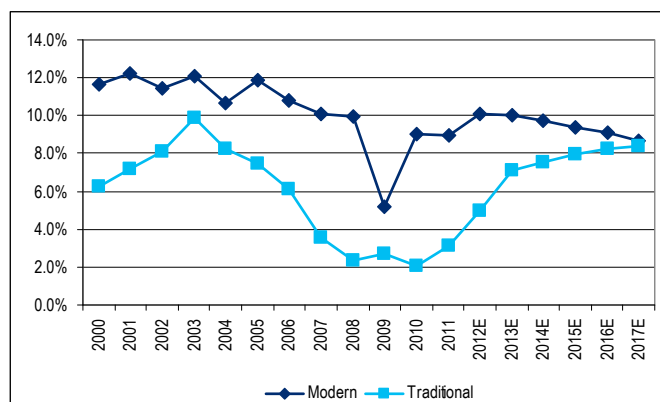
- **Competition heating up in grocery retailing; slowing SSS growth.** More aggressive competition is evident in the grocery retailing segment with rapid store expansion a key strategy to expand market share. To some extent, the aggressive expansion has resulted in the cannibalization of sales by the new entrants, hence, the flat or decline in SS sales growth of grocery retailers such as SM Retail (under listed SM Investments) and Puregold. Aside from weaker SS sales, competition also limits pricing flexibility and hence, could squeeze margins.
- **Execution risks related to network expansion.** Rapid expansion strategy fueled moves to acquire smaller family-owned independent players. *Euromonitor* estimates the independents' shares in total retailing sales declined by around 2% in 2012. There is a risk that the value enhancing impact of this consolidation will be limited.
- **Strong peso appreciation to curtail peso purchasing power.** OFW remittances are key drivers of retail spending. A sustained peso appreciation lowers peso purchasing power, hence could result in lower discretionary spending similar to the experience in 2008.

Stock Picks

Recent report: **Puregold Price Club (PGOLD.PS) - Initiate at Buy: High Growth in Store**

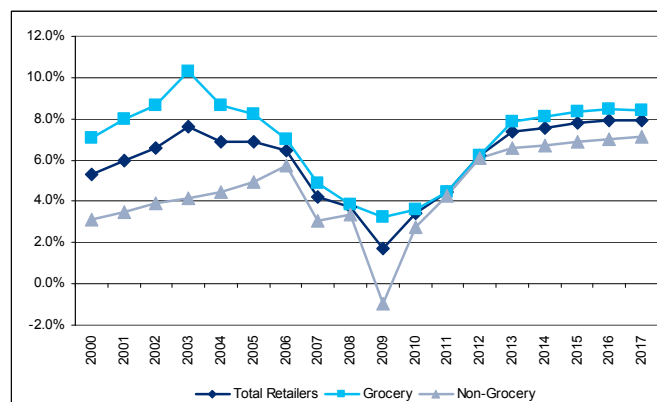
- **Puregold (PGOLD.PS; Buy).** Puregold is the only pure retail play in the Philippine market. While it is one of the fastest growing grocery retailers, we believe PGOLD's strategy to target both the low income segment (Puregold) and high-end market (via S&R) makes it a defensive retail player with the high margins of S&R offsetting the slowing SSS of the low-income segment in the near term. While Puregold is leveraged on the shift to modern retail, its strong niche as the supplier to the re-sellers or 'mom-pop' stores gives it access to the still large traditional retailers.

Figure 68. Growth of modern retail outpacing traditional retail



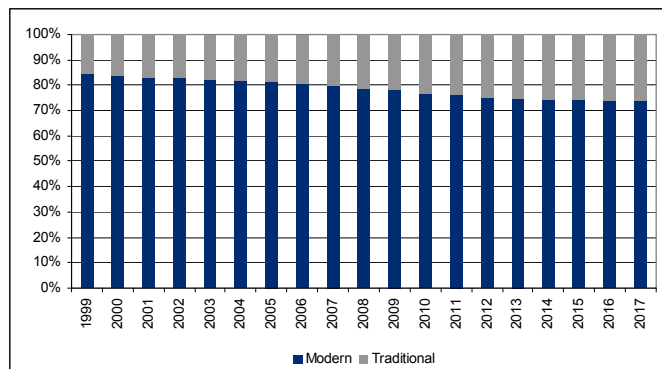
Source: Euromonitor

Figure 69. Grocery retailer sales expanding much faster



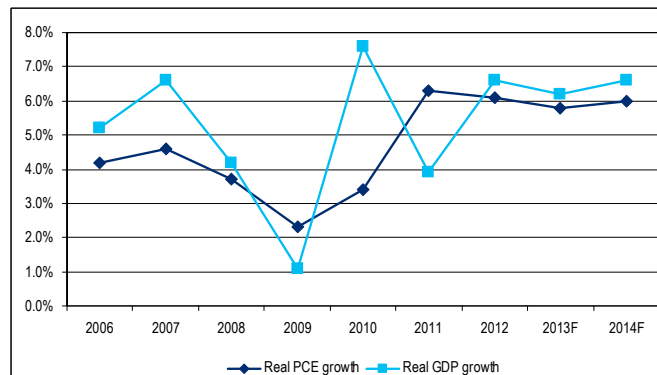
Source: Euromonitor

Figure 70. Low modern grocery retail penetration underpins growth



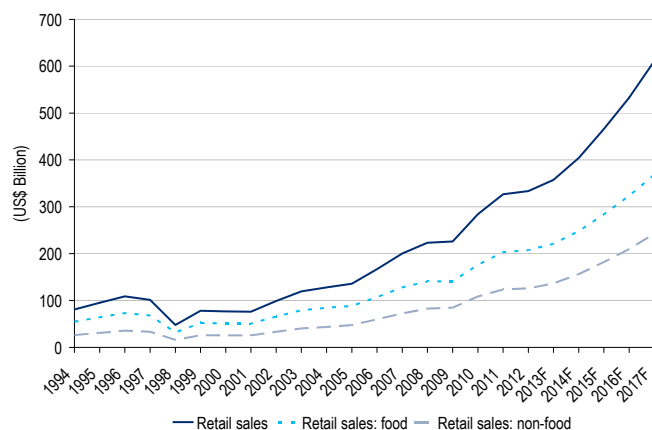
Source: Euromonitor

Figure 71. Healthy PCE growth of 6.1% seen until 2014.



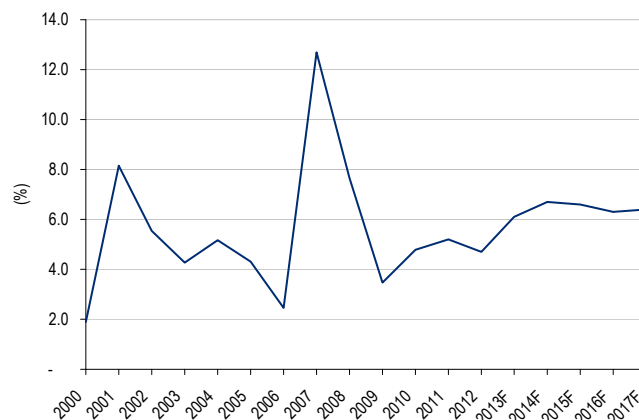
Source: Euromonitor

Figure 72. Retail Sales



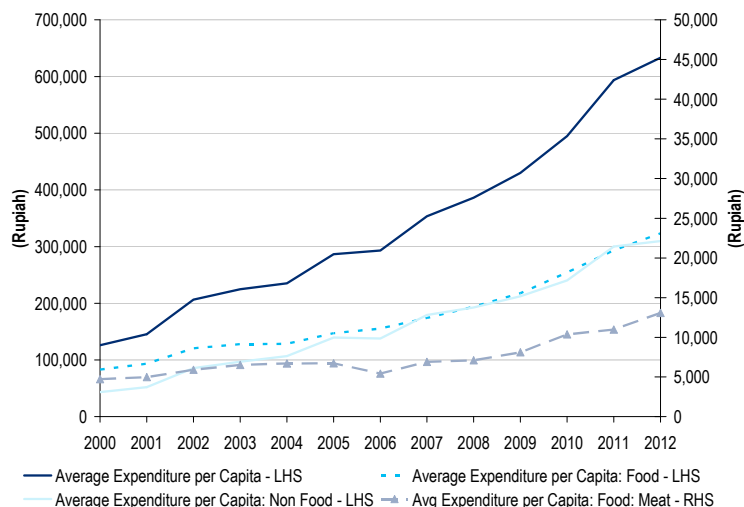
Source: Citi Research; EIU

Figure 73. Retail Sales Growth



Source: Citi Research; EIU

Figure 74. Average Expenditure per Capita



Source: Citi Research; CEIC

Thailand Retail

Sector Outlook

Suchart Techaposai

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1Q13 private consumption contracted 2.2% YoY in nominal terms: Non-auto Durables (-11%) and Clothing (-1%), while F&B still grew 1%YoY. This poses near-term challenges to ROBINS and HMPRO, while CPALL, MAKRO, and BIGC should season through better.

YTD performance among Thai retailers diverged with HMPRO and MAKRO outperforming the rest. Near-term consumer spending slowdown poses some threat to ROBINS and HMPRO; CPALL and MAKRO will continue to do well, while BIGC should recover from a surprisingly soft 1Q13.

Challenges and Risks

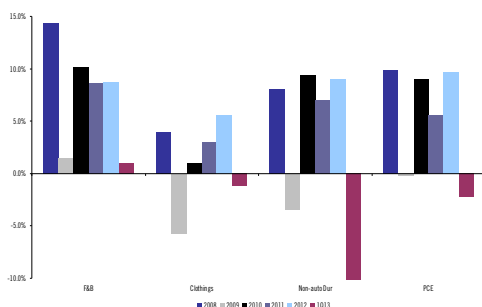
- YTD HMPRO and MAKRO outperformed the rest, while CPALL was hurt by the acquisition announcement as investors were shocked with the price tag and debt load. Valuation argues for "Buy" BIGC and CPALL, "Sell" MAKRO and ROBINS. We keep "Neutral" on HMPRO as growth upside could come from ongoing strong property presales momentum supporting demand for home improvement in coming quarters and its plan to launch a new outlet format called "Mega Home" to tap into the high-growth upcountry construction boom.

Stock Picks

Recent report: [Thailand Retail - 1Q13 Summary – Solid Growth Despite High-based 1Q12](#)

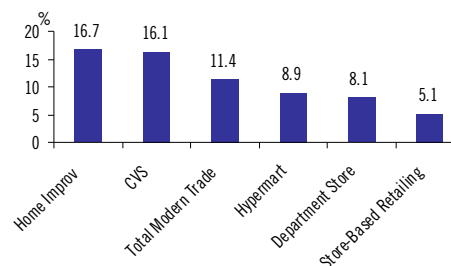
- **CP ALL (CP ALL.BK; Buy):** CCVS continues to outperform the rest. CPALL, the leading CVS operator, continues to deliver the strongest growth in 1Q13 consistent with its past 7-Yr CAGR. This is the segment all modern trade operators try to tap into. MAKRO also did well in line with expectation supported by strong demand for fresh food products from HoReCa clients. ROBINS, HMPRO, and BIGC delivered softer performance due to high-based 1Q12 post-flood home restoration spending. While CPALL paid ~45x 13E PE for Makro, we view the deal as offering synergies and upside potential with the combined entity representing 18% of the total market and 40% of modern grocery. Upside growth could come from more outlet expansion, margin expansion from sourcing and powerful advertising and promotion activities, and operational efficiency on logistics and distribution. We estimate the deal would add to CPALL's EBIT by ~50% and NP by ~12% (due to interest paid for Bt162bn debt raised to finance the deal). Upsides to our estimates could come from asset restructuring and redeployment, more synergy upsides, and successful penetration to neighboring countries under the "MAKRO" brand. (For detail on the transaction, please see [Thailand Retail - CPALL-Makro Transaction: Non-Consensus Positive View](#))

Figure 75. Softer Private Consumption in 1Q13



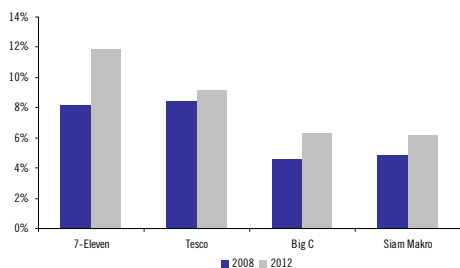
Source: Citi Research estimates; NESDB

Figure 76. CVS & Home Improvement outperformed in the past 7 Yrs



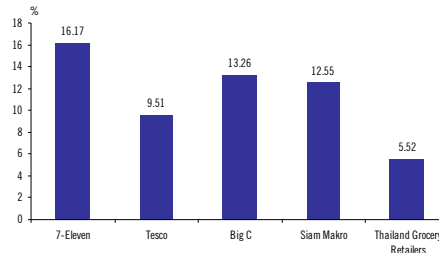
Source: Citi Research estimates; Euromonitor

Figure 77. Market Shares by Key Modern Grocery Operators



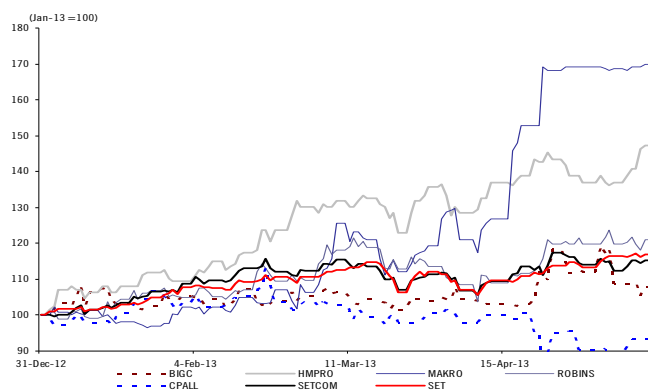
Source: Citi Research; Euromonitor

Figure 78. 5-Yr Sales CAGR by Key Modern Grocery Players and Sector



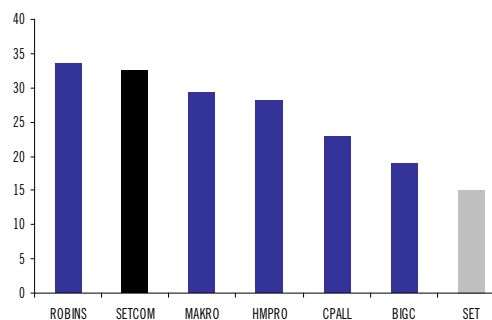
Source: Citi Research; Euromonitor

Figure 79. YTD Share Price Performance (End 12 = 100)



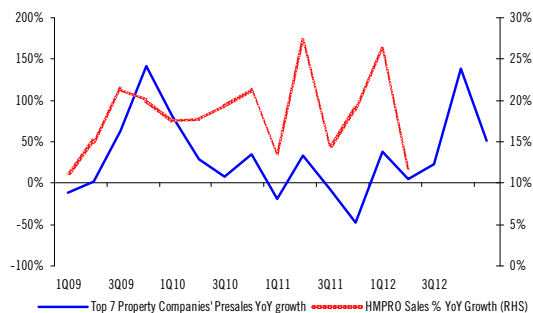
Source: Bloomberg and Citi Research

Figure 80. FY14E PE for Five Retailers under Coverage vs SET, SETCOM



Source: Citi Research estimates; Bloomberg

Figure 81. Property Presales Growth Led Hmpo's Sales Growth by 4 Quarters in the Past



Source: Company data and Citi Research

Macro At A Glance

Figure 82. Asia Pacific – Selected Macro Performance

China	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	9.2	10.4	9.3	7.8	7.7	7.3	7.0
Nominal GDP (US\$ bn)	5071	5932	7319	8244	9229	10330	11525
Wage Growth, real (%YoY)	12.4	9.7	11.8	7.0	6.6	6.2	--
CPI Inflation (%YoY)	-0.7	3.3	5.4	2.6	2.9	3.5	3.8
Unemployment Rate (%)	4.3	4.1	4.1	4.1	4.1	4.2	--
Private Consumption Growth, real (%YoY)	10.3	8.5	17.1	8.4	7.5	8.0	--
Private Consumption Growth, nominal (%YoY)	9.5	12.1	23.5	10.9	--	--	--
Hong Kong	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	-2.5	6.8	4.9	1.4	3.0	3.5	4.0
Nominal GDP (US\$ bn)	214	229	249	263	282	302	325
Wage Growth, real (%YoY)	-2.5	0.1	4.4	0.7	-0.8	0.8	--
CPI Inflation (%YoY)	0.6	2.3	5.3	4.1	4.3	3.6	3.5
Unemployment Rate (%)	5.2	4.4	3.5	3.3	3.3	3.2	--
Private Consumption Growth, real (%YoY)	0.8	6.3	9.0	4.0	2.1	2.1	--
Private Consumption Growth, nominal (%YoY)	-0.6	7.7	12.9	6.8	--	--	--
India	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	4.6	6.2	6.5	6.2	6.2	6.3	6.5
Nominal GDP (US\$ bn)	539	709	846	878	955	1082	1214
Wage Growth, real (%YoY)	0.4	6.7	1.3	3.7	21.2	10.5	--
CPI Inflation (%YoY)	4.8	5.1	5.4	4.3	5.6	4.1	5.7
Unemployment Rate (%)	7.9	7.1	6.6	6.1	5.9	5.8	--
Private Consumption Growth, real (%YoY)	4.9	4.7	4.7	5.3	5.2	5.1	--
Private Consumption Growth, nominal (%YoY)	9.7	10.7	11.3	10.9	--	--	--
Indonesia	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	8.6	9.3	6.2	5.0	5.7	6.4	7.2
Nominal GDP (US\$ bn)	1367	1710	1866	1857	2055	2343	2710
Wage Growth, real (%YoY)	--	--	--	--	--	--	--
WPI Inflation (%YoY)	3.8	9.6	8.9	7.3	6.5	6.0	6.0
Unemployment Rate (%)	--	--	--	--	--	--	--
Private Consumption Growth, real (%YoY)	7.1	8.6	8.0	4.1	5.5	6.7	--
Private Consumption Growth, nominal (%YoY)	14.1	17.3	16.2	12.8	--	--	--
Korea	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	0.3	6.3	3.7	2.0	3.2	4.1	3.9
Nominal GDP (US\$ bn)	835	1015	1115	1129	1183	1358	1548
Wage Growth, real (%YoY)	-0.2	3.7	-2.9	3.0	2.0	2.1	--
CPI Inflation (%YoY)	2.8	3.0	4.0	2.2	2.3	3.0	3.2
Unemployment Rate (%)	3.6	3.7	3.4	3.2	3.3	3.2	--
Private Consumption Growth, real (%YoY)	0.0	4.4	2.4	1.7	2.2	3.2	--
Private Consumption Growth, nominal (%YoY)	2.6	7.1	6.2	3.9	--	--	--
Malaysia	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	-1.5	7.2	5.1	5.6	5.5	6.0	6.0
Nominal GDP (US\$ bn)	202	247	288	304	339	383	428
Wage Growth, real (%YoY)	1.9	6.4	0.6	4.8	2.9	2.1	--
CPI Inflation (%YoY)	0.6	1.7	3.2	1.6	2.0	2.8	3.2
Unemployment Rate (%)	3.7	3.2	3.1	3.0	2.9	2.9	--
Private Consumption Growth, real (%YoY)	0.6	6.6	7.1	7.7	6.1	6.6	--
Private Consumption Growth, nominal (%YoY)	1.1	8.5	10.8	10.0	--	--	--
Philippines	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	1.1	7.6	3.9	6.6	6.2	6.6	6.5
Nominal GDP (US\$ bn)	169	200	225	251	282	314	350
Wage Growth, real (%YoY)	-3.1	1.6	0.7	3.8	3.1	2.3	--
CPI Inflation (%YoY)	3.2	4.1	4.7	3.1	3.3	3.7	4.0
Unemployment Rate (%)	7.5	7.3	7.0	7.0	6.5	6.0	--
Private Consumption Growth, real (%YoY)	2.3	3.4	6.3	6.1	5.8	6.0	--
Private Consumption Growth, nominal (%YoY)	4.4	7.5	11.4	9.2	--	--	--

Figure 83. Asia Pacific – Selected Macro Performance

Singapore	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	-0.8	14.8	5.2	1.3	2.0	4.0	4.0
Nominal GDP (US\$ bn)	189	232	266	277	294	322	316
Wage Growth, real (%YoY)	-3.2	2.7	0.7	-2.2	1.4	2.6	--
CPI Inflation (%YoY)	0.6	2.8	5.2	4.6	3.5	2.8	3.5
Unemployment Rate (%)	3.0	2.2	2.0	2.0	1.9	1.8	--
Private Consumption Growth, real (%YoY)	-0.5	6.2	4.6	2.2	2.6	3.2	--
Private Consumption Growth, nominal (%YoY)	-0.3	10.1	8.7	6.0	--	--	--
Taiwan	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	-1.8	10.8	4.1	1.3	3.5	4.0	4.0
Nominal GDP (US\$ bn)	378	428	464	474	488	526	572
Wage Growth, real (%YoY)	-4.1	4.5	1.3	-1.6	0.1	1.1	--
CPI Inflation (%YoY)	-0.9	1.0	1.4	1.9	1.7	1.9	1.8
Unemployment Rate (%)	5.8	5.2	4.4	4.2	4.1	4.0	--
Private Consumption Growth, real (%YoY)	0.8	4.0	3.1	1.5	1.9	2.7	--
Private Consumption Growth, nominal (%YoY)	-0.5	4.6	3.9	2.8	--	--	--
Thailand	2009	2010	2011	2012	2013	2014	2015
Real GDP (%YoY)	-2.3	7.8	0.1	6.4	4.7	4.8	5.0
Nominal GDP (US\$ bn)	264	319	346	366	412	440	476
Wage Growth, real (%YoY)	-1.0	2.4	3.3	8.6	2.2	0.4	--
CPI Inflation (%YoY)	-0.9	3.3	3.8	3.0	3.2	3.6	4.0
Unemployment Rate (%)	1.5	1.0	0.7	0.7	0.8	1.0	--
Private Consumption Growth, real (%YoY)	-1.1	4.8	1.3	6.6	3.9	3.1	--
Private Consumption Growth, nominal (%YoY)	-0.1	8.7	5.8	9.6	--	--	--

*Note: 1) India fiscal year starts 1-Apr; 2) WPI for headline inflation measure

Source: Citi Research estimates

Recent Publications

Figure 84. Asia Retailers – Recent Publications

Country/Region	Topic	Author	Date
Taiwan	Uni President (1216.TW) - Downgrade to Neutral: Dominant Market Position, Richly Priced	Peter Kurz	6-Jun-13
HK/China	Gome (0493.HK): Buy: 1Q13 Shows Profit Recovery.	Eddie Lau	31-May-13
HK/China	China Luxury Retailing: Import Tariff Cut Has Minimal Impact on Watch Prices; Sales Update YTD May.	Catherine Lim	30-May-13
HK/China	China Footwear Retailing - Erratic Sales Trends YTD May Affirm Weak 1H13E.	Catherine Lim	29-May-13
Malaysia	Parkson Holdings Bhd (PRKN.KL): Neutral: 3Q FY13: Cautious in China, ASEAN SSSG Boosted by CNY.	Petrina Chong	28-May-13
HK/China	Esprit (0330.HK): Sell: New Directions; Challenges Remain.	Eddie Lau	27-May-13
Taiwan	Far Eastern Department Store (2903.TW): Buy: Insights from Management Meeting.	Peter Kurz	24-May-13
HK/China	Yue Yuen Industrial (Holdings) (0551.HK): Buy: Margins Setback Likely Temporary.	Eddie Lau	23-May-13
Indonesia	Indonesian Media: Continue Riding the Bull; Raising Estimates.	Ferry Wong	22-May-13
HK/China	Parkson (3368.HK): Sell: Taking Longer to Return to Positive Growth.	Eddie Lau	21-May-13
HK/China	China Resources Enterprise (0291.HK): Buy: Lower Expectation on Retail Margin Recovery.	Jasmine Bai	20-May-13
HK/China	L'Occitane International S.A. (0973.HK): Buy: FY3/13 Preview: A Temporary Blip To Growth.	Catherine Lim	20-May-13
Taiwan	President Chain Store (2912.TW): Neutral: Strong Fundamentals, But Fairly Valued.	Peter Kurz	20-May-13
India	Jubilant FoodWorks (JUBI.BO): Initiate at Buy: Promising to Deliver.	Aditya Mathur	20-May-13
HK/China	China Apparel Retailing: Where Will The Greater China Brands Go From Here?	Catherine Lim	16-May-13
HK/China	Sun Art Retail Group (6808.HK): Neutral: 1Q13 Results In Line on LSD SSSG.	Eddie Lau	16-May-13
HK/China	Esprit (0330.HK): Sell: Investor Day Takeaways.	Eddie Lau	16-May-13
Taiwan	Far Eastern Department Store (2903.TW): Buy: Weak Sales Leads to Margin Compression in 1Q13.	Peter Kurz	16-May-13
HK/China	Anta Sports Products (2020.HK): Sell: Moderating Declines in 4Q13 Orderbooks in Line.	Catherine Lim	15-May-13
Taiwan	President Chain Store (2912.TW): Neutral: Significant OM Expansion in 1Q13.	Peter Kurz	15-May-13
Indonesia	Erajaya Swasembada (ERAA.JK): Initiate at Neutral: Chasing a New ERAA, but Valuations Look Full*	Margarett Go	14-May-13
Thailand	Thailand Retail - 1Q13 Summary - Solid Growth Despite High-based 1Q12.	Suchart Techaposai	13-May-13
Thailand	Thailand Retail: CPALL-Makro Transaction: Non-Consensus Positive View.	Suchart Techaposai	13-May-13
HK/China	Skyworth Digital (0751.HK): Buy: Solid April Sales; FY14 China TV Shipment Growth Target Set at 15%.	Catherine Chan	10-May-13
Indonesia	Modern International (MDRN.JK): Sell: FY12 in a Snapshot - Profits Dragged Down by Higher Opex and Interest.	Margarett Go	9-May-13
HK/China	Gome (0493.HK): Buy: Resumption of Earnings Growth in 1Q13E.	Eddie Lau	8-May-13
HK/China	Yue Yuen Industrial (Holdings) (0551.HK): Buy: Surprise Pressure on Manufacturing Margin.	Eddie Lau	8-May-13
HK/China	Esprit (0330.HK): Sell: Further Provisions and Restructuring Charges.	Eddie Lau	8-May-13
HK/China	China Resources Enterprise (0291.HK): Buy: 1Q Retail Unlikely to Be Exciting; Back-end Loaded Margin Recovery Trend Intact.	Jasmine Bai	7-May-13
HK/China	Trinity (0891.HK): Buy: Worthy of a Longer View; Lack of Near-Term Catalysts.	Catherine Lim	7-May-13
HK/China	SaSa (0178.HK): Buy: Sustainable Long-Term Growth.	Catherine Chan	7-May-13
Indonesia	Ramayana Lestari Sentosa (RALS.JK): Neutral: 1Q13 in Line with Historical Trends.	Margarett Go	6-May-13
Indonesia	Ace Hardware Indonesia (ACES.JK): Buy: Profits Dragged Down by Higher Labour and Rental Costs.	Margarett Go	6-May-13
Thailand	Robinson Department Store (ROBI.BK): Good News Priced In; Reiterate Sell.	Suchart Techaposai	6-May-13
Thailand	Home Product Center (HMPR.BK): Downgrade to Neutral: Limited Upside Despite Good Growth.	Suchart Techaposai	6-May-13
India	Titan Industries (TITN.BO): Sell: 4QFY13: Sales Disappoint; Profit Buoyed by Gold Inventory Gains.	Aditya Mathur	6-May-13
HK/China	China Luxury Retailing - Channel Checks on Gold Demand At <US\$1,400/t.oz.	Catherine Lim	22-Apr-13
Thailand	CP ALL (CPALL.BK): Neutral: Aggressive Move.	Suchart Techaposai	23-Apr-13
Thailand	BigC Supercenter (BIGC.BK): Improvements Visible & Valuation Attractive; Reiterate Buy.	Suchart Techaposai	23-Apr-13

Source: Citi Research

Appendix A-1

Analyst Certification

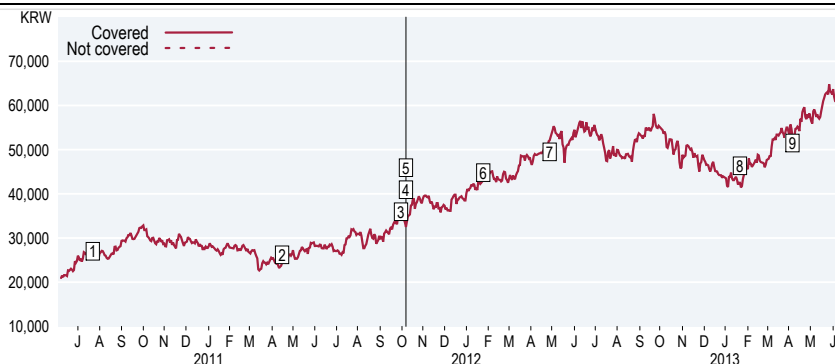
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IMPORTANT DISCLOSURES

Hotel Shilla (008770.KS)

Ratings and Target Price History Fundamental Research

Analyst: Sean Lee, CFA



Date	Rating	Target Price	Closing Price
1 22-Jul-10	*2M	*29,000.00	26,350.00
2 15-Apr-11	*1M	*37,000.00	24,350.00
3 30-Sep-11	1M	*45,000.00	35,500.00

* Indicates change

Date	Rating	Target Price	Closing Price
4 7-Oct-11	Stock rating system changed		
5 7-Oct-11	*1	45,000.00	32,500.00
6 25-Jan-12	1	*54,000.00	43,050.00

Date	Rating	Target Price	Closing Price
7 27-Apr-12	1	*61,000.00	52,100.00
8 22-Jan-13	1	*50,000.00	42,500.00
9 5-Apr-13	1	*68,000.00	52,800.00

Rating/target price changes above reflect Eastern Standard Time

Hotel Shilla (008770.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Sean Lee, CFA



Date	Rating	Target Price	Closing Price
1 14-Feb-12	*ADD MP	-	43,950.00

* Indicates change

Date	Rating	Target Price	Closing Price
2 11-Jul-12	*REM MP	-	52,800.00

Rating/target price changes above reflect Eastern Standard Time

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International Holdings, Far Eastern Department Store, SaSa, Siam Makro, Prada SpA, Giordano, Golden Eagle, Titan Industries, E-Mart, Dairy Farm, Li Ning in the past 12 months.

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Data current as of 31 Mar 2013	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	39%	12%	7%	87%	7%
% of companies in each rating category that are investment banking clients	53%	49%	43%	65%	49%	51%

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