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China Consumer – Jewelry

A K-shaped June and 2Q26 Amid Gold Price Pull Back

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CITI'S TAKE

China jewelry retail sales decline narrowed to 3.4% yoy in Jun 26 vs. 21.3%/8.9% in Apr/May per NBS data. Given a deeper gold price decline in June at -11% mom vs. Apr/May's -3%/-3%, the better June reflected a pent-up demand of weight-based gold jewelry products (which contributed most industry sales) while fixed-price gold jewelry products still struggled, in Citi's view. Among Citi's gold jewelry coverage, we expect downside to our Laopu Jun preview in 1H26E results, while Chow Tai Fook and Luk Fook to maintain solid operation in their 1QFY27E updates. Our pecking order in the China jewelry space is Chow Tai Fook > Laopu > Luk Fook.

Implication on Laopu – Given Laopu's products have fixed prices, the deeper gold price decline in Jun further expanded its product price premium over traditional weighted-based gold jewelry products to 74% (figure 1 & 2). Therefore, we expect downside to our earlier 1H26E preview where we estimated revenue to grow 77% yoy to Rmb21.9bn (Rmb17.5bn in 1Q and Rmb4.4bn in 2Q), and NP to surge 114% to Rmb4.85bn (Rmb3.8bn in 1Q and Rmb1.05bn in 2Q). That said, we also think 2Q sales/earnings are bottomed and the stock is oversold amid recent gold price retreat with compelling valuation at 8.7x P/E and 8.6% dividend yield in 27E (normalized earnings). *See Citi's Jun 22 note: Laopu Gold (6181.HK) - 2Q26E operation trend and 1H26E earnings preview*.

Implication on Chow Tai Fook – The recovery of weight-based gold jewelry products bodes well for Chow Tai Fook, in Citi's view. In Apr-May 2026, its Mainland China SSS resumed growth at 20% (+3%/+35% in fixed price jewelry/weight-based gold jewelry) vs. flattish in 4QFY26; Strong SSSG momentum continued in HK & Macau at +41% (+20%/+57% in fixed price jewelry/weight-based gold jewelry). We expect such momentum to sustain in Jun. We also expect re-rating room if management could deliver the targeted NPM expansion under brand transformation (*See Citi's Jun 12 note: Chow Tai Fook Jewellery Group (1929.HK) - Guidance better than expected; Brand transformation bearing fruit*). Chow Tai Fook is also one of the 10 stocks Citi China Consumer team has identified as over-sold big-cap consumer names with attractive valuations. *See Citi's Jul 2 note: China Consumer - 10 big-cap China consumer stocks with attractive valuation*.

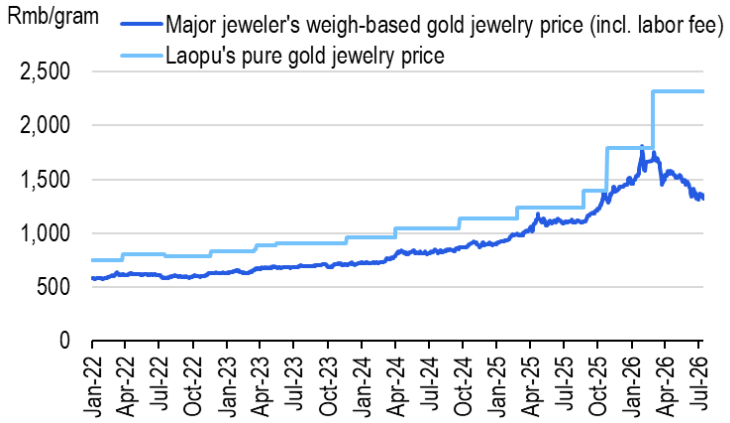
Implication on Luk Fook – The recovery of weight-based gold jewelry products also benefits Luk Fook, in Citi's view. For 1QFY27-to-date (Apr 1 to Jun 21), Mainland China SSSG accelerated to >20% (vs. ~10% in 4QFY26); HK/Macau SSSG was >40% (vs. 39% in 4QFY26) on more attractive pricing under RMB appreciation. *See Citi's*

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliati



Jun 26 note: Luk Fook Holdings (International) (0590.HK) - FY27E Growth Target Stronger Than Expected.

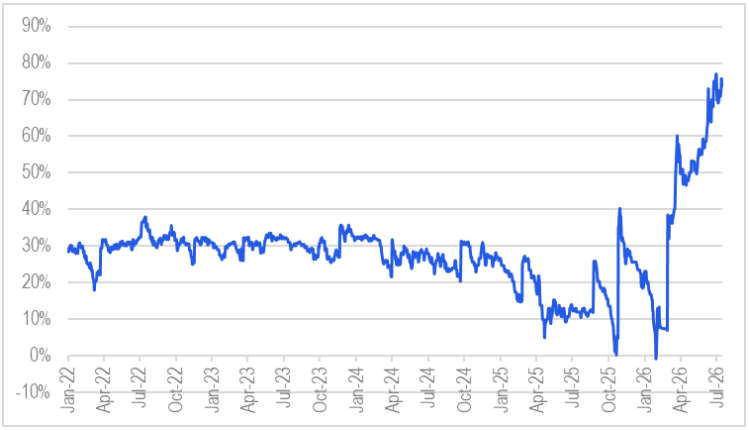
Figure 1. Price comparison of Laopu and major traditional gold jeweler



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Source: Citi Research, Wind

Figure 2. Laopu's price premium over major traditional gold jeweler



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Source: Citi Research

Chow Tai Fook Jewellery Group

(1929.HK; HK$11.82; 1; 15 Jul 26; 16:10)

Valuation

Our target price of HK$15.4 (down from HK$16.7) is based on 15x FY27E P/E (down from 18x fwd P/E given softer market sentiment), which is in line with our target multiple for Laopu Gold.

Risks

Downside risks that could prevent the shares from reaching our target price include: 1) gold price volatility; 2) weak consumption sentiment due to slower-than-expected economic recovery, trade disputes, and RMB depreciation; 3) increased rental cost in HK and operating deleverage impact; and 4) capex increase and lower dividend.

Laopu Gold

(6181.HK; HK$375.0; 1; 15 Jul 26; 16:10)

Valuation

Our target price of HK$659 is based on 15x 2027E P/E (normalized earnings) vs. global luxury peers' 22x 2026E P/E. We apply ~30% valuation discount for Laopu's to reflect its shorter brand history and track record period in the luxury industry. The implied 13x 2026E P/E is at the low end of global luxury peers.

Risks

Key downside risks that could impede the shares from reaching our target price include: 1) gold price volatility; 2) intense competition; 3) evolving consumer tastes and preferences; 4) consumption trade-down amid China's soft economy; and 5) negative free cash flow amid expansion.

Luk Fook Holdings (International)

(0590.HK; HK$22.98; 1; 15 Jul 26; 16:10)

Valuation

Our target price for LF of HK$31.8 is based on a discounted cash flow (DCF) model with a 14.1% WACC and a 2.0% long-term growth rate. Our WACC is derived from a capital structure of 100% equity and 0% net debt, cost of equity of 14.1%, and an after-tax cost of debt of 1.0%.

Risks

Downside risks that could prevent the shares from reaching our target price include: (1) worse-than-expected gold jewelry demand volume curbed by any sharply higher gold prices; (2) worse-than-expected sales on an accelerated decline of mainland China tourist traffic in Hong Kong; (3) weaker-than-expected gold gross margin due to a sharper gold price decline; and (4) milder-than-expected rental cost reduction in Hong Kong. Upside risks that could cause the shares to trade above our target price include: (1) better-than-expected SSSG; (2) stronger-than-expected GP margin; and (3) higher-than-expected rental cost reduction.