China Consumer Sector
Stock Implications from New Hukou Policy

China State Council published the guidelines for household registration reform last week. Here we analyse the impact on consumer sector. We will prefer companies that have good positioning in 1) good branded discretionary products, 2) better quality food & beverage products and 3) Home appliance products.

The New Policy: China State Council published the guidelines for household registration reform last week. According to the guideline, the central government plans to help about 100 million Chinese migrant workers living in cities to settle down by 2020, through granting them the urban household registration, or “Hukou”. Please refer to our “China Macro Monitor: Hukou reform to tap consumption potential of migrant workers” for detail published by Angus To on August 1, 2014.

Impact to consumer sector: We believe this reform will have significant positive impact to domestic consumption in the long-term. Once migrant workers are granted with urban household ID, this population will have improved social welfare as they are included in the medical, pension, education and jobless claims system. More importantly in our view, these people will have improved sense of belongings for the cities, and will have better intention to settle down rather than moving back to their hometown in rural region. We think such changes will have significant impact to the consumption style of this population – from consumption for volume to consumption for value, or an obvious consumption trade-up for migrant workers’ consumption.

Before the policy, when consumers have no intention to settle down, they often prefer to save every penny so they could have enough deposit to start their new business/new live when moving back to rural area. Therefore consumption is limited at most basic level in such scenario. However, once this population is granted with better social welfare, they will have less need to maintain high deposited rate for medical or pension, leaving more disposable income for consumption. Furthermore, they will have higher intention to benchmark their consumption to what urban population consume, and have increasing demand for – 1) good branded discretionary products, 2) better quality food & beverage products and 3) household related products such as household appliance.

What stock names will be benefited: Therefore, we believe consumers companies that have good positioned in above three categories will be most benefitted reform and have better sales outlook with strong purchase power released from this reform: 1) The first category includes Belle (1880.HK; BUY; TP HK$12.0) - a premium positioned footwear retailer and Chow Tai Fook (1929.HK; BUY; TP HK$15.2) - a premium positioned jewelry retailer; 2) The second category includes Uni-president (220.HK, not covered) - a branded food/beverage manufacturer and Sun Art (6808.HK, not covered) - an integrated food/beverage retailer; 3) The third category include Gome (493.HK, BUY, TPHK$1.83) - the good positioning household appliance retailer.

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