| **Research department** **Lisa Liu** +1 626 345 5648  lisaliu@grandationcapital.com  **Alex Lee** +1 626 639 3024  alexlee@grandationcapital.com  **Companies mentioned in this report**  **(price as 3/12/19 market close)** | | **Grandation capital** | | --- |  **Retail Industry Report****3/12/2019****Volume 2, Issue 5** **Weak China trade data and soft U.S. employment data in Feb’19 hit stock market.** On 3/8/19, China reported Feb’19 trade data, far below expectations. Despite the Chinese Lunar new year fell into Feb, the data further validated the slowing of Chinese economy. On the other hand, the Feb’19 U.S. employment data, released on 3/11/19, was also below estimates, indicating the global economic slowing finally landed at the U.S. shore.  **Key stock takeaways: S&P 500 was up 11.4% YTD.** S&P 500 was resilient at 2800 level. In the last two weeks, S&P 500 had several attempted to surpass 2800 but bounced back immediately. Many analysts remained conservative view in 2019. **Retail Industry:** YTD, S&PRetail Index growth is in line with S&P 500, closing at 45.23 on Mar 12, up 10.3% YTD. However, within retail industry, luxury and sport stocks performed solidly while groceries and department stores were diverged. **Individual stocks**: the stocks we monitor in retail sector have rallied YTD. YTD, the top three returns are SKX, UAA and CPRI, up 43.3%, 23.9% and 20.1%, respectively. |
| --- | --- | --- |

**What’s happening?**

* **China released weak import/export data of Feb’19.** On 3/8/19, China Custom reported Feb’19 trade data. Total export was $135.24bn, down 20.7% YoY and 38% MoM, and total import was $131.11bn, down 5.2% YoY and 26.5% MoM. The weak trade data further validated the slowing of Chinese economic. Shanghai Exchange and China-ADS plunged on the day **(downside: ▼ for Shanghai Exchange, Shenzhen Exchange and China ADS)**.
* **The U.S. released Feb’19 employment data, missed estimate.** On 3/11/19, BLS released Feb’19 employment data. Non-farm payroll increased 200,000, missed estimate of 360,000. Feb’19 employment rate was 3.8%, down 0.2% MoM. The data addressed the concerns on the U.S. economic slowing **(downside: ▼ for all sectors).**
* **Trump Administration proposed 150-page Budget for FY20.** On 3/11/19, Congress received Trump’s 2020 Budget Proposal of $1.1 trillion deficit. Key spending include $8.6bn for boarder wall, $500bn cut on Medicare and 5% increase in Defense to $750bn.
* **Over 50% of household will have AMZN Prime memberships.** On 3/12/19, AMZN reported that approximately 63.9mn household will have prime memberships. New addition is from low-income household given AMZN’s new offering on installment payment **(upside: ▲for AMZN)**.
* **Levi’s seeks $587mn in IPO.** On 3/12/19, Levi’s planned to issue 36.7mn shares between $14-16/share from IPO. The company will be listed on NYSE under the ticker of “LEVI”. Key underwriters are Goldman Sachs, J.P. Morgan, Merrill Lynch and Morgan Stanley.
* **SFIX released Q2’19 earnings.** On 3/11/19, SFIX reported Q4’18 earnings after-market with EBITDA of $19.2mn, up 18.1% YoY, beat consensus by $7.9mn, and number of active clients climbed 18% YoY to 3mn. The company also provided strong guidance for Q3’19 and FY19 with revenue of mid $393mn and $1.545bn, respectively. Stitch Fix is a new online retail platform, providing subscription and personal styling service. Given the surprise of the actual results and strong guidance, SFIX jumped 22% after-market **(upside: ▲for SFIX)**.

**What’s coming up?**



**Data Tracker:**

* **We updated China trade table (Exhibit 1):** In Feb, total export was $135.24bn, down 20.7% YoY and 38% MoM, and total import was $131.11bn, down 5.2% YoY and 26.5% MoM.
* **We updated the U.S. unemployment rate table (Exhibit 2).** Feb’19 employment data was released on 3/11/19. The U.S. unemployment rate is 3.8%, down 0.2% MoM.
* **We updated the U.S. employment table (Exhibit 3).** Total nonfarm payroll employment increased by 200,000 in Feb’19, far missing estimate of 360,000.
* **Estimated earning schedule table (Exhibit 4).** Most of retail stocks reported Q4’18 earnings, except for NKE, TIF and LULU, scheduling in the 2nd half of March.
* **Consensus Book (Exhibit 5):** Most of retail stocks delivered top-line and bottom-line beats**.** AEO reported an in line Q4’18 earnings on 3/6/19.
* **Stock performance (Exhibit 6-8):** Last week, S&P Retail Index underperformed the S&P 500 by 0.3%. MTD, AEO and TIF were the only gainers.
* **S&P Retail Index vs. S&P 500 (Exhibit 9-10).** In 2018, S&P Retail Index outperformed S&P 500 by 3.1%.
* **Short interest tracker (Exhibit 11):** The latest short interest data with an 2/28/19 settlement was released on 3/11/19. Short interest, when compared with the 2/15/19 settlement data, are up 1.36%, 0.86% and 0.7% for GOOS, TIF and UAA.
* **Currency Tracker (Exhibit 13-17):** The USD was mostly flat WoW to CNY, CAD and EUR and appreciated against JPY WoW.

**Exhibit 1: China trade data----** On 3/8/19, China Custom reported Feb’19 trade data. Total export was $135.24bn, down 20.7% YoY and 38% MoM, and total import was $131.11bn, down 5.2% YoY and 26.5% MoM.



Source: China Customs, Grandation

**Exhibit 2: The U.S. unemployment rate----**Feb’19 employment data was released on 3/11/19. The U.S. unemployment rate is 3.8%, down 0.2% MoM.



Source: Bureau of Labor Statistics, Grandation

**Exhibit 3: Total nonfarm payroll employment increased by 200,000 in Feb’19, far miss estimate of 360,000 .**



Source: Bureau of Labor Statistics, Grandation

**Exhibit 4: Estimated earning schedule**---- Most of retail stocks reported Q4’18 earnings, except for NKE, TIF and LULU, scheduling in the 2nd half of March.



Source: Thomson Reuters, Grandation

**Exhibit 5: Consensus Book of Q4’18----**Most of retail stocks delivered top-line and bottom-line beats**.** AEO reported an in line Q4’18 earnings on 3/6/19.



Source: Thomson Reuters, Grandation

**Exhibit 6：Stock Performance**----Last week, S&P Retail Index underperformed the S&P 500 by 0.3%. MTD, AEO and TIF were the only gainers.



Source: Thomson Reuters, Grandation

**Exhibit 7：Entering to 2019, most of Luxury stocks are up, except for TPR, down 2% YTD due to weak earnings.**



Source: Thomson Reuters, Grandation

**Exhibit 8: Entering to 2019, all Sport stocks are up. Lulu, SKX and UAA are the top three gainers, up 19%, 17% and 16% YTD.** 

Source: Thomson Reuters, Grandation

**Exhibit 9: Entering to 2018, S&P Retail Index outperformed S&P 500 by 3.1%.**

 Source: Thomson Reuters, Grandation

**Exhibit 10: In 2018, S&P Retail Index monthly performance is in line with S&P 500 overall.**



Source: Thomson Reuters, Grandation

**Exhibit 11: Short Interest Tracker. ----**The latest short interest data with an 2/28/19 settlement was released on 3/11/19. Short interest, when compared with the 2/15/19 settlement data, are up 1.36%, 0.86% and 0.7% for GOOS, TIF and UAA.



Source: Thomson Reuters, Grandation

**Exhibit 12: Valuation/Comp Sheet**



Source: Thomson Reuters, Grandation

**Exhibit 13: Currency Tracker----**the USD was mostly flat WoW to CNY, CAD and EUR and appreciated against JPY WoW.



Source: Thomson Reuters, Grandation

**Exhibit 14：CNY vs. USD is flat WoW to 6.71.**



**Exhibit 15：EUR vs. USD is down 0.2% WoW to 0.89.**



**Exhibit 16: CAD vs. USD is down 0.1% WoW to 1.34.**



**Exhibit 17： GBP vs. USD is down 0.8% WoW to 0.77.**



Source: Thomson Reuters, Grandation

**Appendix 1: Summary of retailers went bankruptcy in 2018 and 2019 ----**On 1/16/19, kids store Gymboree filed proposal to seek liquidation. Notably, this is the second time Gymboree filed for bankruptcy.



Source: Google Trends, Grandation

**Appendix 2 :The U.S. CPI table**. November CPI is 2.4% for all urban consumers, flat MoM. On LTM basis, all items CPI increases 2.2% prior to seasonal adjustment.



Source: Thomson Reuters, Grandation

**Appendix 3: Hourly wage are up 2.3% MoM in** **service-providing in general and up 5.5% in** **clothing for Oct’18**

Source: Company Profile, Grandation

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Our rating system attempts to incorporate industry, company and/or overall market risks and volatilities; therefore, our investment recommendations on based on the security’s 12-month price target from the date this report is issued.

* STRONG BUY: A rating, which at the time it is instituted and or reiterated, that indicates an expected return exceeding 25% over the next 12-month period.
* BUY: A rating, which at the time it is instituted and or reiterated, that indicates an expected return between 10% to 25% over the next 12-month period.
* NEUTRAL: A rating, which at the time it is instituted and or reiterated, that indicates an expected return between -10% to 10% over the next 12-month period.
* SELL: A rating, which at the time it is instituted and or reiterated, that indicates an expected return between -25% to -10% over the next 12-month period.
* STRONG SELL: A rating, which at the time it is instituted and or reiterated, that indicates an expected return exceeding -25% over the next 12-month period.

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