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Hong Kong protests could hinder luxury stocks: UBS

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Many luxury brands have a presence in Hong Kong. Image courtesy of Four Seasons

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As protests continue in Hong Kong, the widespread disruption is likely to impact its valuable luxury market.

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According to research from UBS, investors should brace for slips in luxury stocks' valuations if the Hong Kong protests persist. Political unrest, including demonstrations that have turned violent, has adversely affected the luxury sector in recent years.

Luxury repercussions

Mainland China and Hong Kong are both crucial luxury markets. UBS estimates that Hong Kong is responsible for about 5 percent of luxury sales, with above average profitability.

Protests against a planned extradition law with mainland China began in Hong Kong on June 9, with activists accusing China of restricting the city's autonomy. Reports of luxury stores closing during the demonstrations are the first indication that brands are likely to lose some revenues.



Hong Kong is a significant market for luxury group Richemont. Image credit: Van Cleef & Arpels

On June 12, city police used rubber bullets, tear gas and pepper spray on protestors, many of them students, in an attempt to disperse large crowds. The following day, Hong Kong's legislative session was canceled, according to [Reuters](#).

There are also reports that Chinese social networks WeChat and Weibo have censored content related to the protests, while news service [AFP](#) reports that protestors in Hong Kong have moved away from digital messaging platforms including WhatsApp and Telegram because of surveillance fears.

Should protests continue at this scale, some luxury groups are more financially at risk than others based on company disclosures and UBS estimates.

About 11 percent of Swiss conglomerate Richemont's sales come from the Hong Kong market.

Last fall, Richemont's Yoox Net-A-Porter Group strengthened its digital presence in the region by teaming up with Chinese ecommerce giant Alibaba ([see story](#)).

French luxury groups LVMH and Kering also make between 6 and 8 percent of their sales in Hong Kong.

British fashion label Burberry sees an estimated 9 percent of its sales come from Hong Kong, compared to about 6 percent of sales for luxury labels Moncler, Prada and Tod's.

Regional luxury brands are also likely to see dips in sales.

Luxury companies in China, including Hong Kong, saw sales grow 13.8 percent in the fiscal year ended in June 2018, according to Deloitte.

Hong Kong's Chow Tai Fook Jewellery Group Limited led all Asian luxury companies with \$7.8 billion in sales. The conglomerate recorded sales growth of 15.4 percent ([see story](#)).

This week's demonstrations are the largest in the city since 2014's Umbrella Movement. During those protests, which occurred in Hong Kong from September to December of that year, the luxury sector's price-earnings ratio dropped by 23 points.



Galleries Lafayette closed during protests in Paris. Image credit: Galleries Lafayette

More recently, Paris was the center of weeks of demonstrations as the Yellow Vest protests swept through France.

With so much violence and chaos in the streets of France, retailers including Galleries Lafayette and Printemps had to temporarily shut their doors. In Paris, the famous Champs-lyses street, known for its luxury shopping, was hit hard with vandalism. ([see story](#)).

Since the French protests escalated, luxury's P/E saw a 12 point decline.

Hong Kong hospitality

Protests in Hong Kong are also likely to impact the city's tourism industry, especially if the violence continues long-term.

UBS estimates that tourism makes up more than 80 percent of the Hong Kong market.

Luxury hospitality brands have made recent investments in Hong Kong.

In April, Marriott International's St. Regis Hotels & Resorts brought its brand and butler service to Hong Kong for the first time with the opening of a residential-style property.

The St. Regis Hong Kong is located in Wan Chai, nearby to the city's Convention and Exhibition Center and a short distance from Central and Victoria Peak ([see story](#)).

Similarly, hospitality group Rosewood Hotels & Resorts is heralding the opening of its new global flagship property with an advertising campaign tied to Hong Kong. Rosewood Hong Kong is located on Salisbury Road in Tsim Sha Tsui within the Victoria Dockside arts and culture district ([see story](#)).

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