



Rating  
**Hold**

Asia  
Hong Kong

Consumer  
Retail / Wholesale Trade

Company  
**Esprit Holdings Ltd**  
**Alert**

Reuters 0330.HK	Bloomberg 330 HK	Exchange HKG	Ticker 0330
ADR Ticker ESPGY	ISIN US29666V2043		

Date  
2 March 2015

**Company Update**

Price at 27 Feb 2015 (HKD)	8.02
Price target - 12mth (HKD)	9.30
52-week range (HKD)	14.88 - 8.02
HANG SENG INDEX	24,823

## Key takeaways from NDR

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We hosted a one-day NDR with the management of Esprit; the following are the key takeaways:

### How far are we into the transformation plan?

The company needs to work with a "faster engine", and it believes it is 50% there, as explained during the analysts' meeting. The transformation plans started in July 2014, with first products launched in stores in early February 2015. Thus, another six months are needed, and there will be refinements afterwards. It is still too early to evaluate, as they are in the stores for just two to three weeks. Management thinks it is more appropriate to share its views with investors at the end of the season. Management believes it has the right products, quality and price points (value for money). It is now getting close to the 1 price point target above that of Zara, vs. the 3 price points higher than Zara in the past.

### When will the store closure plan finish for the retail operation? And when will the retail space stop declining for the wholesale operation?

The aim is to improve sales per sm and profitability. For retail, the company closed nine stores under the store closure plan and stores with onerous leases in 1H FY15. It has 41 stores to be closed in the future, and we believe most of these are in Europe (especially in Germany). The company has 29,192 sm of retail space to be closed by the end of FY14 (no data available in 1H FY15), representing 8.7% of retail space as of 1H FY15 (likely less as a percentage of retail sales). Management expects a low single-digit decline in retail space in 2H FY15. We thus expect the retail space for retail to stabilise.

As for the wholesale operation, of the 15% decline in the selling area in 1H FY15, 20% was in Germany (or a 7% space decline), 33% in Asia and 47% in the rest of Europe. The higher space reduction in Europe was due to moving the Sweden operation to retail and the termination of the Poland and Russia wholesale operations (non-recurrent events). For Asia, the reduction was due to the rationalisation of the China operation signed with new wholesale partners (with a stronger financial background). Thus, while management did not comment on wholesale space expectations during the analysts' meeting and the NDR, we believe such an event will be absent. It is hoped that the rate of decline in 2H FY15 will be slower than in 1H.

Stock data	
Market cap (HKDm)	15,551
Market cap (USDm)	2,005
Shares outstanding (m)	1,939.1
Major shareholders	Lone Pine Capital (10.88%)
Free float (%)	91
Avg daily value traded (USDm)	4.004
Source: Deutsche Bank	

Key data			
FYE 6/30	2014A	2015E	2016E
Sales (HKDm)	24,227	20,336	20,335
Net Profit (HKDm)	210.0	216.1	433.3
DB EPS (HKD)	0.20	0.12	0.23
PER (x)	66.4	67.7	35.4
Yield (net) (%)	0.5	0.8	1.7
Source: Deutsche Bank			

Deutsche Bank AG/Hong Kong

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