

Le Saunda (738 HK)

Hold (maintained)

Target price: HK\$3.10



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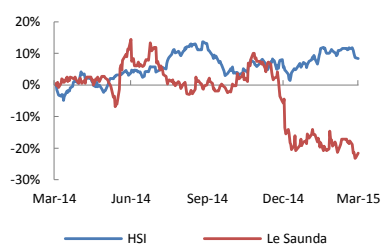
SSS rebounded in 4QFY15 but high base ahead

3.9% SSSG in 4QFY15 4QFY15 SSS was better than the 1.9% growth seen in 3QFY15 on the back of strong SSS growth in Feb (vs negative SSS in Dec and Jan) due to the later CNY holiday in 2015. Revenue in its self-operated retail business grew 1% in 4QFY15 (vs 1% growth in 3QFY15), lower than we had expected. We believe this may be due to softening e-commerce sales growth and a high base for CNE offline retail sales.

Store trend The company had 904 stores at the end of FY15 (vs 928 in FY14), up 2% QoQ but down 3% YoY, due to the closure of 57 CNE retail stores. It had 770 self-operated stores, +1% YoY/+4% QoQ. However, the number of franchised stores in China dropped by 5% QoQ/20% YoY to 134.

Maintain Hold We lower our FY15/16/17 core profit estimates by 3%/7%/7% as we have trimmed our revenue forecasts by 2%/3%/4%, respectively. Looking into FY16, we do not expect an improvement in 1H SSS given the high comparable base (1HFY15 SSS 13.8%) and expect lower leverage by assuming 3% SSS growth. However, we believe the company's high exposure to the rapidly growing e-commerce sector could improve its OP margin in the medium-term and serve as a potential re-rating catalyst – we expect revenue from e-commerce to account for almost 10% of FY15 revenue. Due to a lower sector valuation, we lower our TP from HK\$3.74 to HK\$3.10, based on 9.5x FY16E P/E (previously 10.6x FY16E P/E), still a 10% discount to peers. The stock is trading at an undemanding 4.6x ex-net cash P/E and 5.9% yield for FY16, which we believe should provide good share price support.

Stock performance



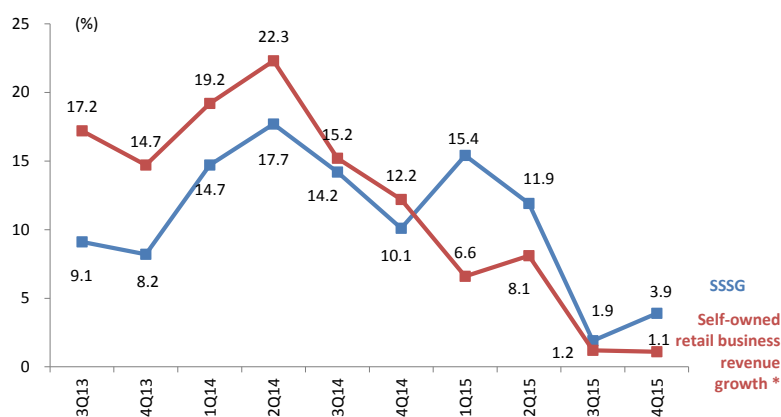
Source: Bloomberg

Key data

Mar 9 close (HK\$)	2.83
Shares in issue (m)	642
Major shareholder	Lee Tsz Bun (43.3%)
Market cap (HK\$ bn)	1.8
3M avg. vol. (m)	0.6
52W high/low (HK\$)	4.05/2.75

Source: Bloomberg

Figure 1: SSS and retail business revenue growth



Sources: Company data, GF Securities (HK)

* Self-owned retail business includes e-commerce sales starting from 2Q15

Valuation

	Turnover (HK\$ m)	Core profit (HK\$ m)	Core EPS (HK\$)	Core EPS YoY (%)	Core P/E	Ex-net cash core P/E	BPS (HK\$)	P/B	ROE (%)
2013	1,762	153	0.24	-8	11.8	9.0	2.0	1.4	12.4
2014	2,039	185	0.29	21	9.8	6.0	2.4	1.2	13.3
2015E	2,120	211	0.32	11	8.8	5.2	2.5	1.1	13.4
2016E	2,284	214	0.33	2	8.6	4.6	2.7	1.1	12.9
2017E	2,445	226	0.35	6	8.1	3.8	2.9	1.0	12.7

Sources: Company data, GF Securities (HK)

Figure 2: Key assumptions

(HK\$ m)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Total revenue	1,545	1,762	2,039	2,120	2,284	2,445
growth %	17.1%	14.1%	15.7%	3.9%	7.7%	7.1%
Retail	1,509	1,726	2,028	2,113	2,277	2,438
growth %	25.3%	14.4%	17.5%	4.2%	7.8%	7.1%
- offline *			1,967	1,949	2,053	2,144
growth %				-0.9%	5.3%	4.4%
- online *			61	163	224	293
growth %				167.0%	36.9%	31.1%
OEM	36	36	11	7	7	7
growth %	-68.6%	0.6%	-68.8%	-38.4%	0.0%	0.0%
SSS growth (%)	8.2%	6.1%	13.8%	8.0%	3.0%	3.0%
Store growth (%)	20.2%	6.8%	-5.7%	-2.6%	3.8%	2.3%
Gross margin	64.4%	64.7%	67.1%	67.7%	67.7%	67.6%
Retail - offline				68.9%	69.2%	69.4%
Retail - online				55.2%	55.1%	55.0%
OEM				40.0%	40.0%	40.0%
Selling & distribution expenses ratio	39.4%	42.5%	43.3%	43.2%	43.6%	43.4%
Administrative expenses ratio	11.4%	10.8%	11.7%	12.4%	12.7%	12.9%
Operating profit margin	13.8%	11.9%	12.7%	13.4%	12.6%	12.4%
Effective tax rate	21.6%	25.7%	21.3%	28.5%	28.5%	28.5%
Core profit margin	10.7%	8.7%	9.1%	9.7%	9.2%	9.1%

Sources: Company data, GF Securities (HK)

Figure 3: P/E band



Sources: Company data, GF Securities (HK), Bloomberg

Figure 4: Financial statements

Income Statement						Balance Sheet					
Year end Feb 28 (HK\$ m)	FY13	FY14	FY15E	FY16E	FY17E	Year end Feb 28 (HK\$ m)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	1,762	2,039	2,120	2,284	2,445	Fixed assets					
Cost of sales	(621)	(671)	(684)	(737)	(792)	PPE	238	219	209	193	175
Gross profit	1,141	1,368	1,436	1,547	1,652	Investment properties	90	92	92	92	92
Other income	8	12	27	27	27	Investment in a JV	35	36	37	37	38
Selling & distribution expenses	(749)	(883)	(916)	(995)	(1,061)	Others	51	42	41	40	39
Administration expenses	(190)	(238)	(263)	(290)	(315)	Deferred tax assets	52	57	57	57	57
Operating profit	210	259	283	288	302		465	445	435	419	400
Net finance cost	6	8	11	13	15	Current assets					
Other gains, net	8	92	2	0	0	Inventories	469	484	537	567	598
FV change of investment properties	16	6	0	0	0	A/C receivables	199	199	206	222	238
Share of profit/(loss) of JV	1	1	1	1	1	Deposits and prepayments	42	46	48	52	56
Profit before tax	241	367	298	301	317	Others	0	7	0	0	0
Income tax expense	(62)	(78)	(85)	(86)	(90)	Pledged deposit	3	3	3	3	3
Non-controlling interests	0	(1)	(2)	(2)	(1)	Term deposit	6	72	72	72	72
Net profit	179	287	211	214	226	Cash and cash equivalents	427	621	664	771	892
Core profit	153	185	206	211	223		1,146	1,432	1,530	1,688	1,858
Core EPS (HK\$)	0.24	0.29	0.32	0.33	0.35	Total assets	1,610	1,877	1,965	2,106	2,258
Growth rates (%)						Current liabilities					
Revenue	14	16	4	8	7	A/C payables	218	262	267	288	309
Core profit	(8)	21	11	2	6	Amount due to a JV	37	34	34	34	34
Core EPS	(8)	21	11	2	6	Tax liabilities	21	29	31	32	33
							277	325	333	354	377
Margin & ratios (%)						Non-current liabilities					
Gross profit margin	64.7	67.1	67.7	67.7	67.6	Deferred tax liabilities	32	38	38	38	38
OP margin	11.9	12.7	13.4	12.6	12.4		32	38	38	38	38
Core profit margin	8.7	9.1	9.7	9.2	9.1	Equity					
Effective tax rate	25.7	21.3	28.5	28.5	28.5	Shareholders' equity	1,290	1,500	1,579	1,698	1,826
Payout ratio	50.7	60.1	50.0	50.0	50.0	Non-controlling interests	12	13	15	16	17
							1,302	1,514	1,594	1,714	1,843
Cash Flow Statement						Total liabilities & equity	1,610	1,877	1,965	2,106	2,258
Year end Feb 28 (HK\$ m)	FY13	FY14	FY15E	FY16E	FY17E	Financial Ratios					
Profit before tax	241	367	298	301	317	Year end Feb 28 (HK\$ m)	FY13	FY14	FY15E	FY16E	FY17E
Share of (profit)/loss of JV	(1)	(1)	(1)	(1)	(1)	Current ratio	4.1	4.4	4.6	4.8	4.9
FV gain on investment properties	(16)	(6)	0	0	0	Quick ratio	2.4	2.9	3.0	3.2	3.3
Gain on disposal of investment properties	0	(87)	0	0	0	A/C receivable turnover days	35	36	35	34	34
Depreciation and amortization	52	57	61	67	69	A/C payable turnover days	123	131	141	137	138
Net finance cost	(6)	(8)	(11)	(13)	(15)	Inventory turnover days	265	259	272	273	268
Share option expenses	13	15	13	11	11	Asset turnover	1.1	1.1	1.1	1.1	1.1
Others	3	1	0	0	0	Total assets/total equity	1.2	1.2	1.2	1.2	1.2
Change in amount due to a JV	7	(3)	0	0	0	Net cash	436	696	739	846	967
Change of working capital	(81)	32	(58)	(29)	(28)	Core ROE (%)	12.4	13.3	13.4	12.9	12.7
Tax paid	(61)	(69)	(82)	(85)	(88)	Core ROA (%)	9.9	10.6	10.7	10.3	10.2
Operating cash flow	149	298	220	251	266						
Capex	(49)	(49)	(50)	(50)	(50)						
Disposals	0	102	0	0	0						
Interest received	6	8	11	13	15						
Change in term deposits	(4)	(66)	0	0	0						
Change in pledged deposits	(1)	(0)	0	0	0						
Others	0	0	0	0	0						
Investing cash flow	(48)	(4)	(39)	(37)	(35)						
Change of borrowings	0	0	0	0	0						
Dividend paid	(91)	(100)	(139)	(106)	(110)						
Others	(0)	0	0	0	0						
Financing cash flow	(91)	(100)	(139)	(106)	(110)						
Net change of cash flow	11	193	42	108	120						
Forex changes	(5)	2	0	0	0						

Sources: Company data, GF Securities (HK)

Rating definitions

Benchmark: Hong Kong Hang Seng Index
Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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