

Goodbaby (1086 HK)

Buy (maintained)

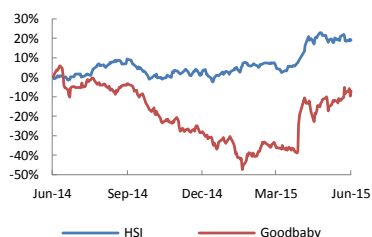
Target price: HK\$4.10



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Stock performance



Source: Bloomberg

Key data

4 Jun 2015 close (HK\$)	3.73
Shares in issue (m)	1101
Major shareholder	Song Zhenghuan (25.8%)
Market cap (HK\$ bn)	4.1
3M avg. vol. (m)	3
52W high/low (HK\$)	4.27/2.07

Source: Bloomberg

Two pieces of positive news about China's child safety car seat market

Mandatory use of safety car seats might be enforced in 2016 The Second Child Traffic Safety Seminar (第二届儿童交通安全研讨会) was held in Beijing on May 29. The Seminar was organized by the CATRC (中国汽车技术研究中心, an affiliate of the State Council) and was supported by various parties on the safety car seat value chain, including the Ministry of Public Security's Road Traffic Safety Research Center, the China Quality Certification Center, Alibaba's auto business division as well as a number of auto and safety car seat companies (figure 1). At the seminar, the CATRC published a China Child Road Traffic Safety Blue Paper (中国儿童道路交通安全蓝皮书), which contains extensive and in-depth analyses and discussions of issues related to child traffic safety, including the development of relevant legislation. According to the Deputy Director of the Ministry of Public Security's Road Traffic Safety Research Center (公安部道路交通安全研究中心副主任), a law related to the mandatory use of safety car seats will be submitted to the State Council when ongoing discussions of the legal framework at the ministry level are finished. There are media reports that this law might, at the earliest, be unveiled by the end of 2015 and start to be implemented in 2016.
(http://www.autoinfo.org.cn/autoinfo_cn/content/xwzx/20150604/1423965.html)

Safety car seat industry set to be consolidated According to the latest safety car seat test report published by the CATRC on May 27, among the 39 products from 20 brands tested, a total of 19 products from 13 brands were rated "Not Recommended", the lowest of the rating scheme. All these products were purchased by the CATRC from Tmall and JD. It is worth noting that e-commerce is currently the largest distribution channel of safety car seats in China (accounting for around 70% of total car seat sales), while the test result indicates that many low quality brands are being sold in the market. At the Second Child Traffic Safety Seminar, the representative of Alibaba's auto business division said the company will promote quality car seat products on its Tmall and Taobao platforms going forward. Given that all safety car seat products will be required to get a China Compulsory Certificate before being sold in the market starting from Sep 1, 2015 and that Goodbaby is among the first group of companies that have secured 3C certification, we believe consolidation is set to take place in the safety car seat industry, which should help Goodbaby increase its market share.
(http://www.autoinfo.org.cn/autoinfo_cn/content/xwzx/20150528/1422911.html)

Maintain Buy We have an optimistic mid-term outlook on the company given four potential re-rating catalysts: 1) the potential enforcement of the mandatory use of safety car seats in China in FY16, which might drive an extra 82% increment on top of our FY16 net profit estimate; 2) 1H15 results that are satisfactory to the market, including a core profit margin expansion; 3) further easing in China's one-child policy; and 4) the company's acquisition of a juvenile product distribution business from its parent group. Our target price of HK\$4.10 is based on 18x FY16E P/E, pegged to 0.9x PEG, which is still undemanding compared to international peers' 1.32x PEG.

Downside risks: 1) a weak euro; 2) a longer-than-expected breakeven period for Evenflo and Urbini; 3) faster-than-expected order cut by Dorel and other blue-chip customers.

Stock valuation

Year ended Dec	Turnover (HK\$ m)	Net profit (HK\$ m)	Core profit (HK\$ m)	Core EPS (HK\$)	EPS YoY (%)	P/E	Yield (%)	BPS (HK\$)	P/B	ROE (%)
2013	4,189	171	171	0.171	-6	20.0	1.5	2.0	1.7	9.0
2014	6,116	58	139	0.127	-25	26.9	0.0	2.1	1.6	6.5
2015E	7,160	203	203	0.184	45	18.6	0.0	2.3	1.5	8.5
2016E	7,368	251	251	0.228	23	15.1	2.0	2.5	1.4	9.6
2017E	7,678	293	293	0.266	17	12.9	2.3	2.7	1.3	10.3

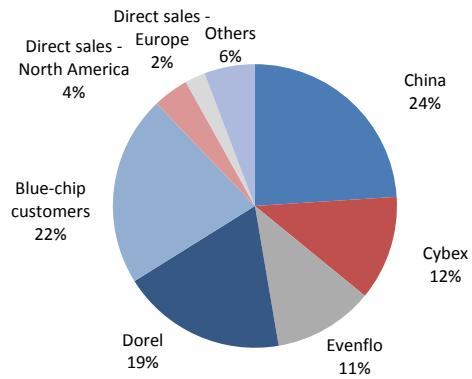
Sources: Company data, GF Securities (HK)

Figure 1: Second Child Traffic Safety Seminar supported by various parties on the safety car seat value chain



Sources: auto.sohu.com

Figure 2: FY14 revenue breakdown by segment



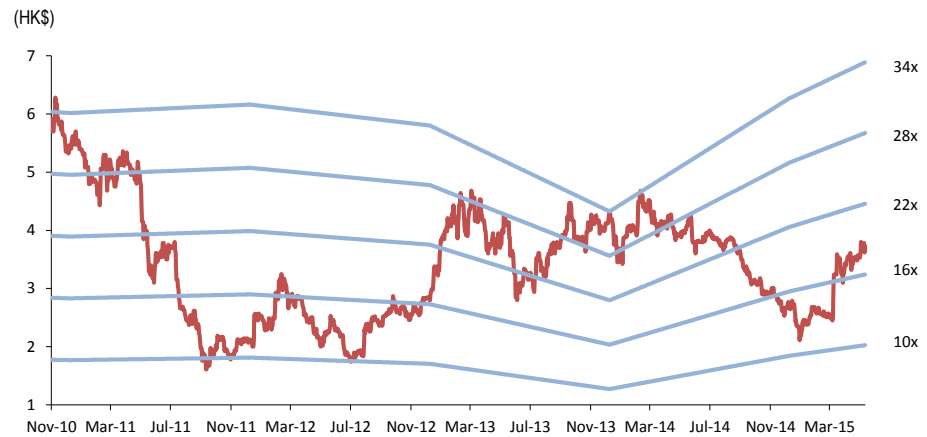
Sources: Company data, GF Securities (HK)

Figure 3: Key assumptions

Year ended Dec (HK\$ m)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Total revenue	4,554	4,189	6,116	7,160	7,368	7,678
growth %	15.5%	-8.0%	46.0%	17.1%	2.9%	4.2%
China market	1,303	1,358	1,466	1,599	1,749	1,937
growth %	30.2%	4.2%	8.0%	9.0%	9.4%	10.7%
Overseas market	3,251	2,831	4,649	5,561	5,619	5,741
growth %	10.6%	-12.9%	64.2%	19.6%	1.0%	2.2%
- Cybex	na	na	730	1,093	1,366	1,585
- Evenflo	na	na	697	1,637	1,768	1,892
- Dorel	1,705	1,295	1,149	549	149	0
- Others	1,547	1,536	2,073	2,282	2,335	2,264
Gross margin	19.1%	22.9%	25.1%	27.4%	28.7%	29.5%
Selling & distribution expense ratio	7.9%	10.7%	12.7%	12.5%	13.0%	13.3%
Administrative expense ratio	7.5%	8.6%	11.4%	11.2%	11.2%	11.1%
Operating profit margin	4.8%	4.6%	3.7%	4.8%	5.6%	6.1%
Effective tax rate	15.2%	12.2%	45.1%	26.2%	27.8%	28.8%
Net profit margin	4.0%	4.1%	0.9%	2.8%	3.4%	3.8%

Sources: GF Securities (HK) estimates

Figure 4: P/E band



Sources: Bloomberg, GF Securities (HK) estimates

Figure 5: Valuation comparison with international juvenile product companies

Company	Ticker	Rating	Mkt Cap (US\$ m)	Currency	Price	TP	P/E			EPS growth (%)			PEG (x)	Revenue growth (%)				Yield (%)	P/B	ROE (%)	
							FY15E	FY16E	FY17	FY14E	FY15E	FY16E		FY17	FY14E	FY15E	FY16E				FY17
Goodbaby	1086 HK	Buy	530	HKD	3.73	4.10	20.2	16.4	14.0	(25)	45	23	17	0.81	46	17	3	4	0.0	1.7	8.5
International juvenile products companies																					
Newell Rubbermaid	NWL US	NR	10,791	USD	40.16	na	18.6	16.8	15.5	(16)	58	11	8	1.76	2	3	4	5	1.9	6.1	30.2
Mattel	MAT US	NR	8,577	USD	25.35	na	19.0	16.6	14.1	(44)	(8)	15	17	1.03	(7)	(3)	(1)	5	6.0	3.1	15.2
Hasbro	HAS US	NR	8,986	USD	72.19	na	22.0	18.2	16.3	47	1	21	12	1.11	5	1	8	7	2.5	5.9	28.0
Carter's	CRI US	NR	5,487	USD	104.44	na	22.9	19.6	16.6	31	25	17	18	1.12	10	6	8	8	0.9	na	na
Pigeon	7956 JP	NR	3,429	JPY	3510.0	na	42.3	36.3	31.2	143	18	16	17	2.21	9	13	9	10	1.1	8.6	20.7
Children's Place	PLCE US	NR	1,373	USD	66.58	na	19.3	17.1	15.6	11	32	13	10	1.52	(0)	(1)	0	1	0.9	2.5	12.5
Dorel	DII/CN	NR	872	CAD	33.55	na	14.3	11.0	7.9	(136)	(385)	30	na	na	10	4	4	na	4.5	0.9	5.7
Mothercare	MTC/LN	NR	684	GBP	2.61	na	25.8	18.9	13.6	na	31	37	39	0.50	(1)	20	5	(13)	0.0	na	23.4
Simple average							23.0	19.3		5	(29)	20	17	1.32	3	5	5	3	2.2	4.5	19.4

Sources: Bloomberg, GF Securities (HK) estimates

Figure 6: Financial statements

Income statement (HK\$ m)						Balance sheet (HK\$ m)					
Year ended 31 Dec	FY13	FY14	FY15E	FY16E	FY17E	Year ended 31 Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenue	4,189	6,116	7,160	7,368	7,678	Fixed assets					
Cost of sales	(3,228)	(4,579)	(5,198)	(5,250)	(5,412)	PPE	708	921	953	979	998
Gross profit	961	1,537	1,962	2,118	2,266	Prepaid land lease payments	68	65	63	61	59
Other income	49	97	86	86	86	Goodwill	0	808	808	808	808
Selling & distribution expenses	(447)	(777)	(895)	(958)	(1,021)	Intangible assets	35	712	698	684	670
Administration expenses	(360)	(627)	(804)	(828)	(853)	Investment in a JV	1	1	1	1	0
Other expenses	(11)	(3)	(7)	(7)	(7)	Deferred tax assets	15	20	20	20	20
Operating profit	191	226	341	411	471		827	2,528	2,544	2,554	2,555
Net finance cost	4	(40)	(64)	(61)	(57)	Current assets					
Share of profit/(loss) of JV	(0)	(0)	(0)	(0)	(0)	Inventories	798	1,535	1,394	1,408	1,452
Other expenses	0	(82)	0	0	0	A/C receivables	738	973	1,140	1,173	1,222
Profit before tax	195	105	278	350	414	Derivative financial instruments	0	27	27	27	27
Income tax expense	(24)	(48)	(73)	(97)	(119)	Due from related parties	236	379	394	431	478
Non-controlling interests	(0)	0	2	2	2	Prepayments	129	193	226	232	242
Net profit	171	58	203	251	293	AFS investments	128	206	206	206	206
Core profit	171	139	203	251	293	Pledged deposits	0	166	166	166	166
Core EPS (HK\$)	0.17	0.13	0.18	0.00	0.00	Time deposits	0	51	51	51	51
						Cash and cash equivalents	608	435	453	493	531
							2,637	3,965	4,057	4,187	4,374
						Total assets	3,464	6,493	6,601	6,740	6,928
Growth rates (%)						Current liabilities					
Revenue	(8)	46	17	3	4	A/C payables	714	1,131	1,284	1,297	1,337
Core profit	(6)	(19)	46	23	17	Other payables	242	433	507	522	544
Core EPS	(6)	(25)	45	23	17	Bank borrowings	447	1,496	543	593	643
						Tax payables	5	25	17	22	27
						Provision	9	21	25	25	26
						Others	0	0	0	0	0
							1,417	3,107	2,377	2,460	2,578
Margin & ratios (%)						Non-current liabilities					
Gross margin	22.9	25.1	27.4	28.7	29.5	Bank borrowings	0	762	1,416	1,216	1,066
OP margin	4.6	3.7	4.8	5.6	6.1	Others	0	76	76	76	76
Core margin	4.1	2.3	2.8	3.4	3.8	Deferred tax liabilities	19	220	220	220	220
Effective tax rate	12.2	45.1	26.2	27.8	28.8		19	1,058	1,711	1,511	1,361
Payout ratio	32.2	0.0	0.0	30.0	30.0	Equity					
						Shareholders' equity	1,997	2,297	2,480	2,734	2,952
						Non-controlling interests	31	31	33	35	37
							2,027	2,328	2,513	2,769	2,989
						Total liabilities & equity	3,464	6,493	6,601	6,740	6,928
						Financial ratios (HK\$ m)					
						Year ended 31 Dec	FY13	FY14	FY15E	FY16E	FY17E
						Current ratio	1.9	1.3	1.7	1.7	1.7
						Quick ratio	1.3	0.8	1.1	1.1	1.1
						A/C receivable turnover days	81	69	74	78	79
						A/C payable turnover days	85	74	85	90	89
						Inventory turnover days	80	93	103	97	96
						Asset turnover	1.2	0.9	1.1	1.1	1.1
						Total assets/total equity	1.7	2.8	2.6	2.4	2.3
						Net gearing ratio (%)	net cash	60%	43%	32%	25%
						ROE (%)	9.0	6.5	8.5	9.6	10.3
						ROA (%)	5.1	2.8	3.1	3.8	4.3

Sources: Company data, GF Securities (HK) estimates

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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