

## Le Saunda (738 HK)

**Buy** (maintained)

Target price: HK\$5.00



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1Q16 e-commerce revenue +69% YoY

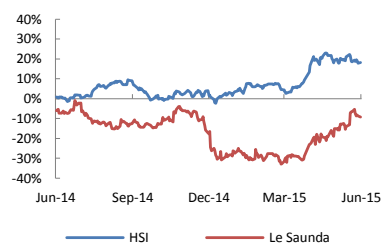
**1Q16 SSS -3% YoY** LS released its 1Q16 operating figures, which were in line with our expectation. Though its 3% SSS decline in 1Q16 was weaker than the 4% SSSG in 4Q15, we think this was partly due to the high comparable base (1Q15 SSSG 15%) and very weak SSS in Mar. Management revealed that SSS has seen a MoM sequential improvement during 1Q16. Mar SSS saw a double-digit fall due to the late CNY holiday. SSS then recovered to a low single-digit decline in Apr and mid single-digit growth in May. 1Q16 revenue for all physical stores was flat YoY at a 3% SSS decline and 3% store growth.

**1Q16 e-commerce revenue +69% YoY** Growth in the company's e-commerce revenue means it is on track to having 15% of total revenue come from its e-commerce operations in FY16 (vs 10% in FY15). We estimate that total retail revenue (including physical stores and e-commerce) could reach mid single-digit growth in 1Q16.

**Maintain Buy and TP of HK\$5.00** We like the company's above-peer e-commerce revenue contribution (targeted to reach a mid-teen contribution in FY16 vs peers' low to mid single-digit in the last financial year). This should help the company to improve its OP margin and could serve as a re-rating catalyst. We forecast LS will post an 11% CAGR in core profit in FY16-17. Trading at 9.2x FY16E P/E or 6.2x ex-net cash FY16 P/E, LS's valuation is undemanding compared to Belle and C.Banner's 14-15x P/E. Our TP of HK\$5.00 is based on 13x FY16E P/E, still a 10% discount to peers. Potential catalyst: in-depth co-operation with third party e-commerce platforms.

**Downside risks** The company fails to meet its e-commerce growth target; new store performance below expectation.

### Stock performance



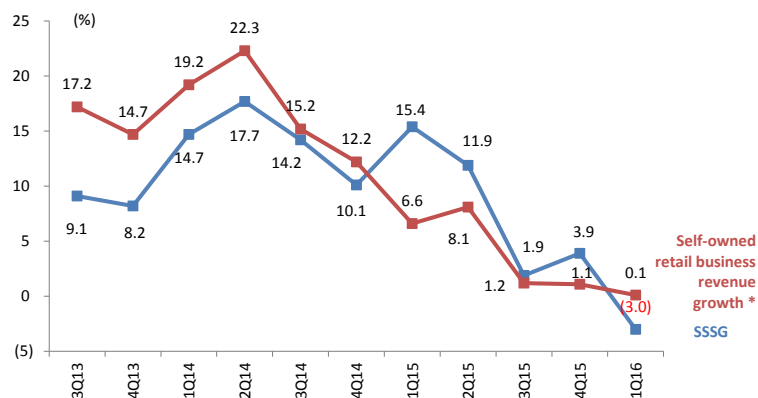
Source: Bloomberg

### Key data

June 9 close (HK\$)	3.56
Shares in issue (m)	642
Major shareholder	Lee Tsz Bun (43.3%)
Market cap (HK\$ bn)	2.3
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)

\* 2Q15-4Q15 self-owned retail business revenue growth includes e-commerce sales

### Valuation

	Turnover (HK\$ m)	Core profit (HK\$ m)	Core EPS (HK\$)	Core EPS YoY (%)	Core P/E	Ex-net cash core P/E	Yield (%)	BPS (HK\$)	P/B	ROE (%)
2013	1,762	153	0.24	-8	14.9	12.0	4.0	2.0	1.8	12.4
2014	2,039	185	0.29	21	12.3	8.5	7.6	2.4	1.5	13.3
2015	2,108	225	0.35	21	10.2	7.3	4.6	2.4	1.5	14.7
2016E	2,377	249	0.39	11	9.2	6.2	6.7	2.6	1.4	15.4
2017E	2,653	275	0.43	10	8.3	5.3	7.3	2.8	1.3	15.9

Sources: Company data, GF Securities (HK)

Figure 2: Key assumptions

(HK\$ m)	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Total revenue</b>	<b>1,545</b>	<b>1,762</b>	<b>2,039</b>	<b>2,108</b>	<b>2,377</b>	<b>2,653</b>
growth %	17.1%	14.1%	15.7%	3.4%	12.7%	11.6%
Retail	1,509	1,726	2,028	2,105	2,373	2,649
growth %	25.3%	14.4%	17.5%	3.8%	12.8%	11.6%
- offline *			1,959	1,904	2,052	2,211
growth %				-2.8%	7.8%	7.8%
- online *			69	201	322	438
growth %				190.4%	59.7%	36.2%
OEM	36	36	11	3	3	3
growth %	-68.6%	0.6%	-68.8%	-70.4%	0.0%	0.0%
SSS growth (%)	8.2%	6.1%	13.8%	7.5%	3.0%	3.0%
Store growth (%)	20.2%	6.8%	-5.7%	-2.6%	9.3%	6.2%
<b>Gross margin</b>	<b>64.4%</b>	<b>64.7%</b>	<b>67.1%</b>	<b>67.2%</b>	<b>66.7%</b>	<b>66.3%</b>
Retail - offline				68.7%	68.9%	69.2%
Retail - online				53.2%	52.6%	51.6%
OEM				56.0%	56.0%	56.0%
Selling & distribution expenses ratio	39.4%	42.5%	43.3%	42.3%	42.2%	42.1%
Administrative expenses ratio	11.4%	10.8%	11.7%	12.1%	11.9%	11.7%
Operating profit margin	13.8%	11.9%	12.7%	14.4%	14.0%	13.8%
Effective tax rate	21.6%	25.7%	21.3%	26.1%	26.0%	26.0%
Core profit margin	10.7%	8.7%	9.1%	10.6%	10.5%	10.4%

Sources: Company data, GF Securities (HK)

Note: FY14 and FY15 offline and online sales and GM are our estimates

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	FY15	FY16E	FY17E	Year end Feb 28 (HK\$ m)	FY13	FY14	FY15	FY16E	FY17E
<b>Revenue</b>	<b>1,762</b>	<b>2,039</b>	<b>2,108</b>	<b>2,377</b>	<b>2,653</b>	<b>Fixed assets</b>					
Cost of sales	(621)	(671)	(691)	(792)	(894)	PPE	238	219	202	191	175
Gross profit	1,141	1,368	1,417	1,585	1,758	Investment properties	90	92	95	95	95
Other income	8	12	34	34	34	Investment in a JV	35	36	42	43	43
Selling & distribution expenses	(749)	(883)	(893)	(1,003)	(1,117)	Others	51	42	42	42	41
Administration expenses	(190)	(238)	(256)	(283)	(310)	Deferred tax assets	52	57	70	70	70
Operating profit	210	259	303	333	366		465	445	452	440	424
Net finance cost	6	8	11	11	13	<b>Current assets</b>					
Other gains, net	8	92	(0)	0	0	Inventories	469	484	511	574	635
FV change of investment properties	16	6	3	0	0	A/C receivables	199	199	231	247	276
Share of profit/(loss) of JV	1	1	7	1	1	Deposits and prepayments	42	46	53	54	61
Profit before tax	241	367	324	345	379	Others	0	7	0	0	0
Income tax expense	(62)	(78)	(84)	(90)	(99)	Cash and bank balances	436	696	637	746	837
Non-controlling interests	0	(1)	(2)	(2)	(1)		1,146	1,432	1,432	1,621	1,808
<b>Net profit</b>	<b>179</b>	<b>287</b>	<b>237</b>	<b>254</b>	<b>280</b>	<b>Total assets</b>	<b>1,610</b>	<b>1,877</b>	<b>1,884</b>	<b>2,062</b>	<b>2,232</b>
<b>Core profit</b>	<b>153</b>	<b>185</b>	<b>225</b>	<b>249</b>	<b>275</b>	<b>Current liabilities</b>					
<b>Core EPS (HK\$)</b>	<b>0.24</b>	<b>0.29</b>	<b>0.35</b>	<b>0.39</b>	<b>0.43</b>	A/C payables	218	262	215	271	306
<b>Growth rates (%)</b>						Amount due to a JV	37	34	36	36	36
Revenue	14	16	3	13	12	Tax liabilities	21	29	30	33	36
Core profit	(8)	21	21	11	10		277	325	280	340	378
Core EPS	(8)	21	21	11	10	<b>Non-current liabilities</b>					
<b>Margin &amp; ratios (%)</b>						Deferred tax liabilities	32	38	44	44	44
Gross profit margin	64.7	67.1	67.2	66.7	66.3		32	38	44	44	44
OP margin	11.9	12.7	14.4	14.0	13.8	<b>Equity</b>					
Core profit margin	8.7	9.1	10.6	10.5	10.4	Shareholders' equity	1,290	1,500	1,545	1,662	1,794
Effective tax rate	25.7	21.3	26.1	26.0	26.0	Non-controlling interests	12	13	15	16	17
Payout ratio	50.7	60.1	59.5	60.0	60.0		1,302	1,514	1,559	1,678	1,810
						<b>Total liabilities &amp; equity</b>	<b>1,610</b>	<b>1,877</b>	<b>1,884</b>	<b>2,062</b>	<b>2,232</b>
Cash Flow Statement						Financial Ratios					
Year end Feb 28 (HK\$ m)	FY13	FY14	FY15	FY16E	FY17E	Year end Feb 28	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	241	367		345	379	Current ratio	4.1	4.4	5.1	4.8	4.8
Share of (profit)/loss of JV	(1)	(1)		(1)	(1)	Quick ratio	2.4	2.9	3.3	3.1	3.1
FV gain on investment properties	(16)	(6)		0	0	A/C receivable turnover days	35	36	37	37	36
Gain on disposal of investment properties	0	(87)		0	0	A/C payable turnover days	123	131	126	112	118
Depreciation and amortization	52	57		62	67	Inventory turnover days	265	259	263	250	247
Net finance cost	(6)	(8)		(11)	(13)	Asset turnover	1.1	1.1	1.1	1.2	1.2
Share option expenses	13	15		11	11	Total assets/total equity	1.2	1.2	1.2	1.2	1.2
Others	3	1		0	0	Net cash	436	696	637	746	837
Change in amount due to a JV	7	(3)		0	0	Core ROE (%)	12.4	13.3	14.7	15.4	15.9
Change of working capital	(81)	32		(24)	(61)	Core ROA (%)	9.9	10.6	11.9	12.4	12.8
Tax paid	(61)	(69)		(87)	(94)						
<b>Operating cash flow</b>	<b>149</b>	<b>298</b>		<b>295</b>	<b>288</b>						
Capex	(49)	(49)		(50)	(50)						
Disposals	0	102		0	0						
Interest received	6	8		11	13						
Change in term deposits	(4)	(66)		0	0						
Change in pledged deposits	(1)	(0)		0	0						
Others	0	0		0	0						
<b>Investing cash flow</b>	<b>(48)</b>	<b>(4)</b>		<b>(39)</b>	<b>(37)</b>						
Change of borrowings	0	0		0	0						
Dividend paid	(91)	(100)		(147)	(160)						
Others	(0)	0		0	0						
<b>Financing cash flow</b>	<b>(91)</b>	<b>(100)</b>		<b>(147)</b>	<b>(160)</b>						

Sources: Company data, GF Securities (HK)

## Rating definitions

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

### Company ratings

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

### Sector ratings

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

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