

Le Saunda (738 HK)

Buy (maintained)

Target price: HK\$5.00



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Takeaways from Shenzhen NDR

Maintain Buy and TP of HK\$5.00 At the post-results investor meetings we held last week in Shenzhen, most investors agreed that LS is a quality stock and its valuation is cheap at 6.7x ex-net cash FY16E P/E, but said they had found it difficult to accumulate given its thin trading volume. Key areas of interest included the use of its HK\$637m net cash, the outlook for FY16, control of operating expenses amid the soft retail market, and the breakdown of e-commerce revenue. We like the company's above-peer revenue contribution from e-commerce (targeted at mid-teen in FY16 vs peers' low to mid single-digit in the last financial year), which should help it 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 9.7x FY16E P/E, LS's valuation is undemanding compared to Belle and C.Banner's 14x P/E. Our TP of HK\$5.00 is based on 13x FY16E P/E (9.5x FY16E P/E previously), still a 10% discount to peers. Potential catalyst: in-depth co-operation with third party e-commerce platforms.

Use of cash pile The company's cash and bank balances (mainly RMB denominated) are deposited in bank accounts with maturities of less than one year. The company is interested in acquiring an international footwear brand; however, management is taking a cautious approach to this given concerns about legal issues and the power of labor unions.

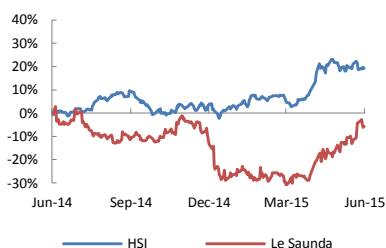
FY16 outlook Management believes 10%+ revenue growth is a reasonable estimate, driven by its targets for 12% store growth, low single-digit SSSG and a 15% revenue contribution from e-commerce (vs 10% in FY15). While market sentiment on ladies footwear is still weak, management targets a better SSSG in 2HFY16 driven by a new image for its 2015 winter products, helped by its Italian employees recruited in late 2014.

Operating expense control Rental (concession fee and shop rental) and staff costs accounted for 47.7% of total revenue in FY15. Given rising wages and a steady concession fee, investors are concerned about de-leveraging pressure amid a soft footwear market. Management targets to increase the revenue contribution from e-commerce in order to be less dependent on physical stores. In addition, the company will continue to maintain a very efficient store network (more than 90% of stores are profitable).

E-commerce revenue breakdown About 70%/30% of its e-commerce revenue came from Le Saunda/CNE in FY15. The company has been consolidating its e-commerce distribution network from more than ten platforms to focusing on Tmall, Vip.com and JD. Vip.com is its second largest e-commerce channel after Tmall. In terms of brand ranking on Tmall by sales, Le Saunda was among the top four brands, while CNE was among the top 30 brands. The retail discount given on e-commerce channels is similar to that at its outlets, i.e. no more than 50% off on average. The company is looking for more in-depth co-operation with 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 5 close (HK\$)	3.77
Shares in issue (m)	642
Major shareholder	Lee Tsz Bun (43.3%)
Market cap (HK\$ bn)	2.4
3M avg. vol. (m)	0.6
52W high/low (HK\$)	4.05/2.75

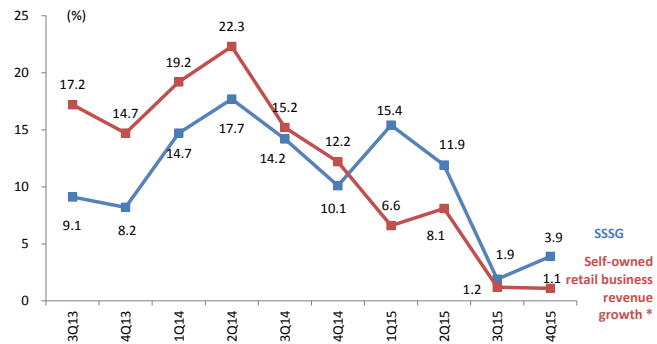
Source: Bloomberg

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	15.8	12.9	3.8	2.0	1.9	12.4
2014	2,039	185	0.29	21	13.0	9.3	7.2	2.4	1.6	13.3
2015	2,108	225	0.35	21	10.8	7.9	5.8	2.4	1.6	14.7
2016E	2,377	249	0.39	11	9.7	6.7	6.3	2.6	1.5	15.4
2017E	2,653	275	0.43	10	8.8	5.8	6.9	2.8	1.3	15.9

Sources: Company data, GF Securities (HK)

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

Figure 2: Key assumptions

(HK\$ m)	FY12	FY13	FY14	FY15	FY16E	FY17E
Total revenue	1,545	1,762	2,039	2,108	2,377	2,653
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%
Gross margin	64.4%	64.7%	67.1%	67.2%	66.7%	66.3%
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
Revenue	1,762	2,039	2,108	2,377	2,653	Fixed assets					
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	Current assets					
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
Net profit	179	287	237	254	280	Total assets	1,610	1,877	1,884	2,062	2,232
Core profit	153	185	225	249	275	Current liabilities					
Core EPS (HK\$)	0.24	0.29	0.35	0.39	0.43	A/C payables	218	262	215	271	306
Growth rates (%)						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	Non-current liabilities					
Margin & ratios (%)						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	Equity					
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
						Total liabilities & equity	1,610	1,877	1,884	2,062	2,232
						Financial Ratios					
						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)						
Operating cash flow	149	298		295	288						
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						
Investing cash flow	(48)	(4)		(39)	(37)						
Change of borrowings	0	0		0	0						
Dividend paid	(91)	(100)		(147)	(160)						
Others	(0)	0		0	0						
Financing cash flow	(91)	(100)		(147)	(160)						

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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