# Daphne (210.HK)

## Retail Sector

**24 January 2013**

## *Research Idea: Retail Mis-Steps*

Daphne (210.HK) is a mass and mid-range ladies' footwear brand manufacturer in China. Core brands Daphne and ShoeBox together account for ~5% of the mainland's highly fragmented ladies' footwear market. Following weak Q3 and Q4 FY12 operating data, we believe excess inventory persists and that heavy discounts will continue in the near term, which will hurt earnings. We believe rising operating costs and ongoing operational restructuring will limit margin expansion in FY13 and FY14. As such we believe the current valuation is stretched.

**Three reasons to sell:**

- **Weak sales growth suggests heavy discounting and excess inventories persist.** 2% in Q4 FY12 and suggests that inventory clearance could take longer than expected despite discount sales beginning in 3Q12. Gross margin could fall further in 2H12.
- **Rising operating costs could cut margins further** before performance improvement initiatives start to pay off. EBIT margin dropped by 2.5 ppts y/y in 1H12, and could come under further pressure given aggressive promotion efforts in 2H12. We expect EBIT margin to decrease from 16.1% in FY11 to 12.9% in FY12 and the ongoing restructuring to limit margin expansion in FY13.
- **Valuation is stretched.** The shares have gained 47% in the past six months on hopes of a recovery in the retail market, outperforming Belle's (1880.HK) 30% and the HSI's 24% increases. Stock trades at 0.7X PEG and 15X FY13E P/E on consensus EPS growth of 21%, which we see as too high given the prospects for lower earnings growth in FY13.

**Catalysts.** FY12 results in March; operating data or industry comments from peers; weaker-than-expected retail figures in China.

**Valuation.** We value Daphne at 0.85X PEG on 16.9% EPS growth for FY13. Our target price HK$8.4 implies 14X FY13E P/E and 12X FY14E P/E, suggesting 18% downside.

**Risks.** 1) Stronger-than-expected recovery of retail market; 2) easing inventory levels; 3) performance-enhancement initiatives paying off sooner than expected; 4) smaller-than-expected increase in operating costs.

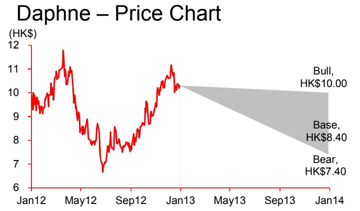
**Figure 1: Daphne – Earnings Summary**

| Year end 31 Dec. | FY10 | FY11 | FY12E | FY13E | FY14E |
|---|---|---|---|---|---|
| Revenue – HK$m | 6,623.8 | 8,576.8 | 10,205.2 | 11,688.4 | 13,566.9 |
| Gross margin – % | 57.4 | 61.1 | 59.3 | 60.2 | 60.2 |
| EBIT margin – % | 13.9 | 16.1 | 12.9 | 13.1 | 13.2 |
| Net profit – HK$m | 595.5 | 933.1 | 951.2 | 1,111.9 | 1,304.8 |
| Net-profit growth – % | 52.7 | 54.5 | 2.7 | 16.9 | 17.4 |
| Diluted EPS – HKcents | 34.2 | 52.2 | 50.1 | 58.5 | 68.7 |
| EPS growth – % | 42.7 | 52.9 | (4.1) | 16.9 | 17.4 |
| P/E – X | 30.2 | 19.7 | 20.6 | 17.6 | 15 |
| Dividend yield – % | 1.0 | 1.4 | 1.5 | 1.7 | 2.0 |
| P/B – X | 5.4 | 4.2 | 3.6 | 3.0 | 2.6 |
| Issued shares - millions | 1,637.9 | 1,638.2 | 1,643.9 | 1,643.9 | 1,643.9 |

*Sources: Bloomberg and Sun Hung Kai Financial*

| | |
|---|---|
| **Target Price** | **HK$8.40** |
| **12m Rating** | **Sell** |
| | **(18% downside)** |

Daphne – Price Chart

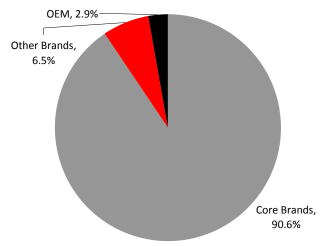



| | |
|---|---|
| Bull | 5.6% SSSG for FY13 |
| Base | 7.6% SSSG for FY13 |
| Bear | 10.1% SSSG for FY13 |

| | |
|---|---|
| Price (HK$) | 10.3 |
| 52W high/low (HK$) | 11.84/6.64 |
| Mkt cap – HK$m (US$m) | 16,982.0 (2,190) |
| Shares in issue (H share) – millions | 1,648.74 |
| Free float (H share)– % | 55.06 |
| 3M avg. t/o– HK$m (US$m) | 40.0 (5.2) |
| Major shareholder (%) | |
| Lucky Earn | 24.3 |

Sources: Bloomberg and Sun Hung Kai Financial

**1H12 revenues: HKm 5,079.5**





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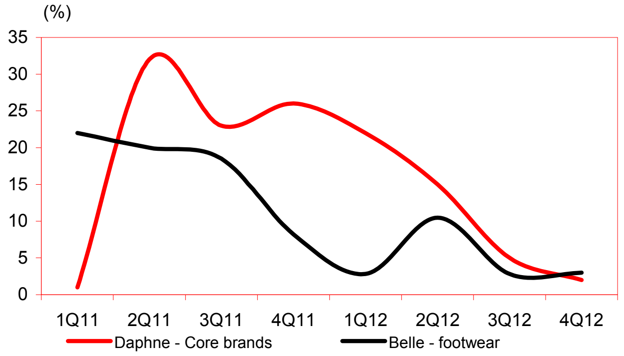
# Investment Case

### Weaker-than-expected FY12 SSSG

Same-store-sales growth slowed in FY12 owing to the weak retail market in FY12. According to the Q4 FY12 operating update, Daphne's core brand recorded 2% SSSG, down from 5% in 3Q12. Full-year SSSG was 9%, down from 21% in FY11 and missing management's target of 11%-12%. The weak numbers were attributed to the high base in FY11 and Chinese New Year coming later in 2013 than in 2012.

In view of the weak Q4 FY12 sales growth, we expect poor FY12 results and the company may have to continue its heavy discounts to clear inventory. The earnings outlook could remain weak through FY13.

Figure 2: **Daphne – core brands' SSSG**

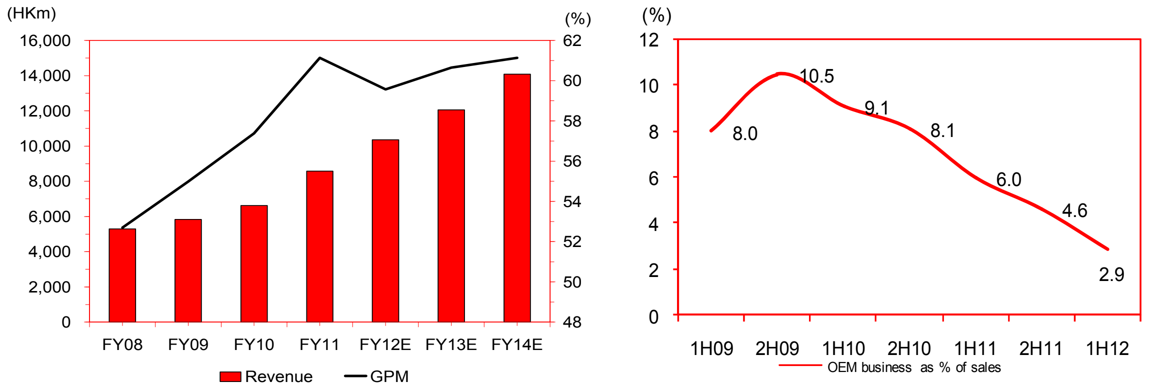



*Sources: The Company and Sun Hung Kai Financial*

### Margin pressure likely to continue

Revenues and gross margins have increased steadily in previous years as the company expanded while phasing out its OEM business. But we see two main factors limiting room for margin expansion in FY13: 1) still weak sales growth, and 2) increasing operating costs and initial costs for performance-enhancement initiatives.

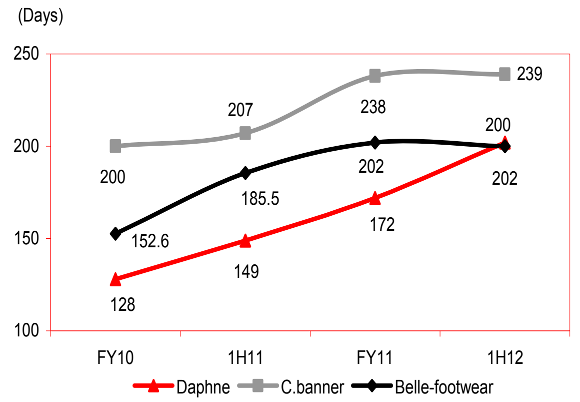
Figure 3: **Daphne – revenue and gross margin expansion (L) and OEM business as % of revenue (R)**

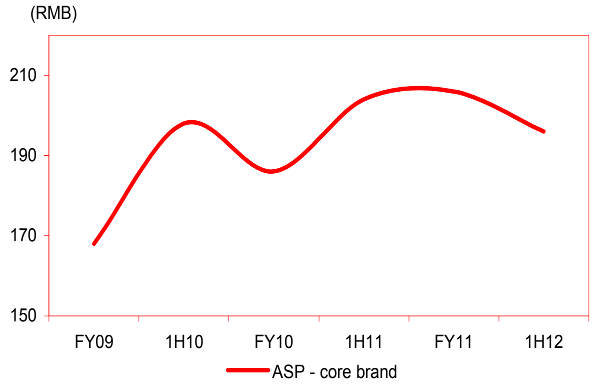



*Sources: The Company and Sun Hung Kai Financial*

**1) Weak sales growth.** Management said that the slow retail market last year caused inventory levels to rise in the sector. Ladies' footwear makers all recorded higher inventory turnover days in 1H12. Daphne focused on clearing inventory in Q3 FY12, which resulted in a less favorable sales mix including more lower-ASP summer products than higher-ASP fall/winter products. Management said promotion activities continued in Q4 FY12 and that these were more aggressive than in Q4 FY11, though not as aggressive as in Q3 FY12. We expect gross margin to come under pressure in 2H12 and early FY13 as clearance sales continue.

Figure 4: **Daphne – Inventory turnover days (L) and ASP trend (R)**



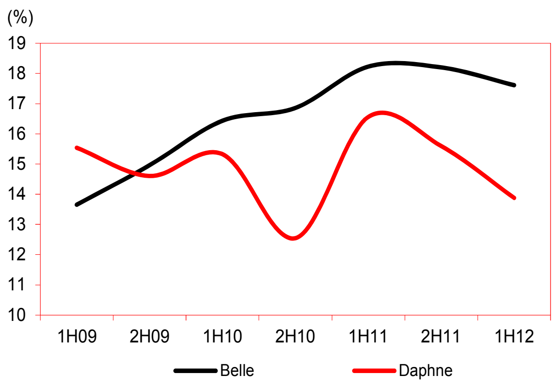



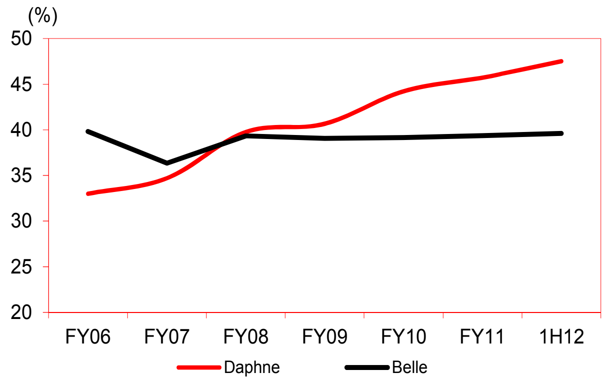

*Sources: Company reports and Sun Hung Kai Financial*

**2) Rising operating costs.** Operating costs have increased as the company focused on opening more directly managed stores amid a weak retail environment in FY12, aiming to gain market share in its core segments. EBIT margin dropped by 2 ppts y/y to 14% in H1 FY12.

During the company's previous high-growth phase it seemed to pay little attention to cost controls, reflected in Opex/Sales increasing from 33% in FY09 to 48% in 1H12. Daphne's EBIT margins have as a result been more volatile than Belle's, reflecting what we believe is a difference in operational efficiency between the two companies.

Figure 5: **EBIT margin trends (L) and operating expenses/sales (R)**

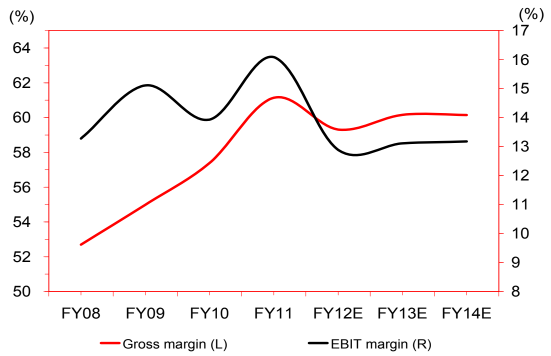


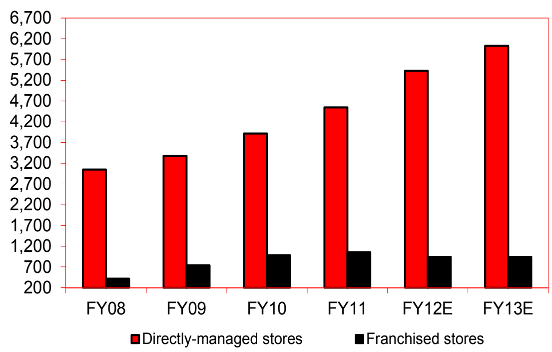




*Sources: The Companies and Sun Hung Kai Financial*

Daphne has launched a series of performance-enhancement initiatives to streamline operations, but we expect little benefit in the short term. Another concern is the steep increase in directly managed stores in the past few years, which has increased the cost base. This could make it harder for the company to adjust cost in the short term. Rental costs grew ~25% y/y and accounted for 22% of total SG&A in H1 FY12, compared with 20% in H1 FY11. The company plans to maintain its pace of store opening in FY13, which we believe may hamper efforts to cut costs in the short term.

Figure 6: **Daphne - margin trends (L) and store numbers for core brands (R)**




*Sources: The Company and Sun Hung Kai Financial*

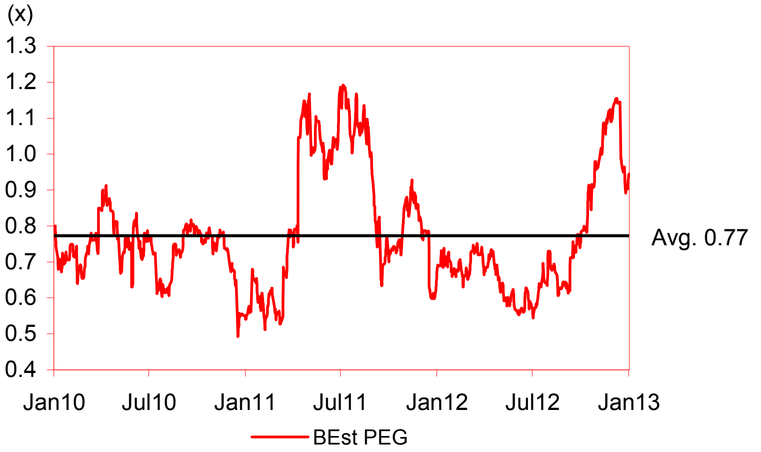
## Valuation and Forecasts

The stock trades at 0.7X FY13E PEG and 15X FY13E P/E on consensus EPS growth of 21%. We estimate 16.9% EPS growth in FY13, which puts the stock at 0.9X PEG, the high end of its historical range. We value the stock at 0.85X FY13 PEG, in line with the average 0.8X of its retail peers. Our target price is HK$8.40, for 18% downside, implying 14X FY13E P/E and 12X FY14E P/E.

Figure 7: **Daphne – forward P/E**


*Sources: Bloomberg and Sun Hung Kai Financial*

Figure 8: **Daphne – Forward PEG**




*Sources: Bloomberg and Sun Hung Kai Financial*

Figure 9: **Peer comparison**

| Company | Stock code | Stock price (LC) | Mkt. cap (US$m) | Ytd chg (%) | FY1 EPS growth (%) | FY2 EPS growth (%) | FY1 P/E (X) | FY2 P/E (X) | FY3 P/E (X) | FY2 PEG | Div. yield (%) | P/S (X) | Net-debt/ Equity (%) | ROE (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Daphne | 210.HK | 10.30 | 2,190.2 | (3.0) | (1.7) | 21.1 | 18.4 | 15.2 | 12.7 | 0.7 | 1.7 | 1.7 | (28.0) | 26.1 |
| Belle | 1800.HK | 17.46 | 18,992.8 | 3.8 | 10.8 | 17.9 | 25.1 | 21.2 | 18.1 | 1.2 | 1.1 | 3.8 | (24.8) | 23.3 |
| C.banner | 1028.HK | 2.89 | 745.5 | (1.0) | (1.7) | 28.1 | 14.5 | 11.3 | 8.9 | 0.4 | 1.9 | 2.0 | (45.0) | 28.4 |
| Stella | 1836.HK | 22.60 | 2,315.5 | 7.6 | 1.1 | 11.5 | 15.9 | 14.3 | 12.4 | 1.2 | 4.3 | 1.5 | (32.5) | 17.2 |
| Le Saunda | 738.HK | 2.72 | 224.3 | 6.7 | 13.8 | (23.3) | 9.1 | 11.8 | 10.5 | (0.5) | 4.7 | 1.1 | (35.4) | 17.2 |
| Golden eagle | 3308.HK | 17.88 | 4,461.3 | (6.3) | 3.5 | 16.4 | 22.2 | 19.1 | 16.1 | 1.2 | 1.3 | 8.0 | (48.2) | 29.4 |
| Intime | 1833.HK | 10.72 | 2,779.5 | 17.3 | 4.4 | 21.8 | 19.1 | 15.7 | 14.4 | 0.7 | 2.0 | 4.9 | 31.5 | 13.8 |
| NWDS | 825.HK | 5.26 | 1,143.9 | 5.2 | (32.5) | 8.4 | 15.3 | 14.1 | 12.3 | 1.7 | 3.4 | 2.5 | (43.8) | 16.5 |
| Chow Sang Sang | 116.HK | 20.70 | 1,807.2 | 15.1 | (10.0) | 28.1 | 14.2 | 11.1 | 9.4 | 0.4 | 2.9 | 0.8 | 27.4 | 18.2 |
| Ports | 589.HK | 7.02 | 501.7 | 14.0 | (14.7) | 12.8 | 8.7 | 7.7 | 7.5 | 0.6 | 6.9 | 1.5 | (4.7) | 24.7 |
| Giordano | 709.HK | 7.52 | 1,497.2 | 0.9 | (5.4) | 14.5 | 16.5 | 14.4 | 13.0 | 1.0 | 5.1 | 2.0 | (42.9) | 28.3 |
| Trinity | 891.HK | 4.84 | 1,076.0 | (4.3) | 8.9 | 11.8 | 14.7 | 13.1 | 11.5 | 1.1 | 4.8 | 3.0 | (12.6) | 18.6 |
| | | | *Average* | *3.5* | *(3.7)* | *13.0* | *13.3* | *11.7* | *10.7* | *0.8* | *5.6* | *2.2* | *(20.1)* | *23.9* |

*Sources: Bloomberg and Sun Hung Kai Financial*
*Note: Consensus estimates for all numbers*

We believe SSSG of 7%-9%, in line with GDP growth, is achievable in the long run as the overall economy improves. We forecast SSSG of 7% in 1H13 and 8% in 2H13, for 7.6% SSSG in FY13. We also estimate revenue to increase 14.5% y/y to HK$11,688m, 4% below consensus. Given inventory pressure and increasing operating costs, we expect SG&A growth to continue to outpace revenue growth. We also estimate EBIT margin to decrease from 16.1% in FY11 to 12.9% in FY12 owing to aggressive promotions in 2H12 and greater operation costs. We expect EBIT margin expansion to be limited in FY13.

Figure 10: **Daphne – target price scenarios**

| Scenario | 1H13 core brands SSSG (%) | 2H13 core brands SSSG (%) | FY13 core brands SSSG (%) | Target price (HK$) |
|---|---|---|---|---|
| **Base** | 7 | 8 | 7.6 | 8.4 |
| **Bull** | 10 | 11 | 10.6 | 10.0 |
| **Bear** | 5 | 6 | 5.6 | 7.4 |

*Sources: Sun Hung Kai Financial*

Our FY12 and FY13 net-profit estimates are 2.5% and 7% below consensus, reflecting our expectations of weaker sales growth, higher SG&A cost assumptions. We did not factor in benefits from the performance-enhancement initiatives since these have only just started and in view of the execution risk. The progress of these measures could be catalysts going forward.

Figure 11: **Daphne – forecast summary**

| HKm | FY10 | FY11 | FY12E | FY13E | FY14E |
|---|---|---|---|---|---|
| Revenue | 6,623.8 | 8,576.8 | 10,205.2 | 11,688.4 | 13,566.9 |
| *y/y (%)* | *13.6* | *29.5* | *19.0* | *14.5* | *16.1* |
| *SSSG - core brands(%)* | *4.6* | *21.0* | *9.0* | *7.6* | *9.0* |
| Gross profit | 3,800.8 | 5,243.8 | 6,053.2 | 7,031.1 | 8,160.7 |
| *y/y (%)* | *18.5* | *38.0* | *15.4* | *16.2* | *16.1* |
| *GPM(%)* | *57.4* | *61.1* | *59.3* | *60.2* | *60.2* |
| EBIT | 922.8 | 1,379.6 | 1,315.3 | 1,532.3 | 1,787.8 |
| *y/y (%)* | *4.7* | *49.5* | *(4.7)* | *16.5* | *16.7* |
| *EBIT margin (%)* | *13.9* | *16.1* | *12.9* | *13.1* | *13.2* |
| Net profit | 595.5 | 933.1 | 951.2 | 1,111.9 | 1,304.8 |
| *y/y (%)* | *51.2* | *56.7* | *1.9* | *16.9* | *17.4* |
| Diluted EPS (HK cents) | 34.2 | 52.2 | 50.1 | 58.5 | 68.7 |
| *y/y (%)* | *42.7* | *52.9* | *(4.1)* | *16.9* | *17.4* |

*Sources: Company reports and Sun Hung Kai Financial*

The stock has traded at ~30% forward P/E discount to Belle over the past few years, which we expect to continue for the foreseeable future given its smaller market cap, lower liquidity, smaller operating scale and lower efficiency. Should Daphne be successful in streamlining its operations, this could help it narrow the valuation gap in the long run.

Figure 12: **Daphne – forward P/E discount to Belle**


*Sources: Bloomberg and Sun Hung Kai Financial*

Figure 13: **Daphne – FY13 EPS sensitivity analysis**

| HK$ | | SSSG – core brands (%) 4 | 6 | 7.6 | 8 | 10 |
|---|---|---|---|---|---|---|
| Core brands GPM(%) | 59 | 51.6 | 52.5 | 53.1 | 53.3 | 54.1 |
| | 60 | 55.7 | 56.6 | 57.3 | 57.5 | 58.4 |
| | 60.3 | 56.9 | 57.8 | 58.5 | 58.7 | 59.6 |
| | 61 | 59.7 | 60.7 | 61.5 | 61.7 | 62.6 |
| | 62 | 63.8 | 64.8 | 65.7 | 65.9 | 66.9 |

*Sources: Sun Hung Kai Financial*

Figure 14: **Daphne – Target price sensitivity analysis**

| HK$ | | SSSG – core brands (%) 4 | 6 | 7.6 | 8 | 10 |
|---|---|---|---|---|---|---|
| FY13 P/E(x) | 12 | 6.8 | 6.9 | 7.0 | 7.1 | 7.2 |
| | 13 | 7.4 | 7.5 | 7.6 | 7.6 | 7.8 |
| | 14 | 8.2 | 8.3 | 8.4 | 8.5 | 8.6 |
| | 15 | 8.5 | 8.7 | 8.8 | 8.8 | 8.9 |
| | 16 | 9.1 | 9.3 | 9.4 | 9.4 | 9.5 |

*Sources: Sun Hung Kai Financial*

## Risks

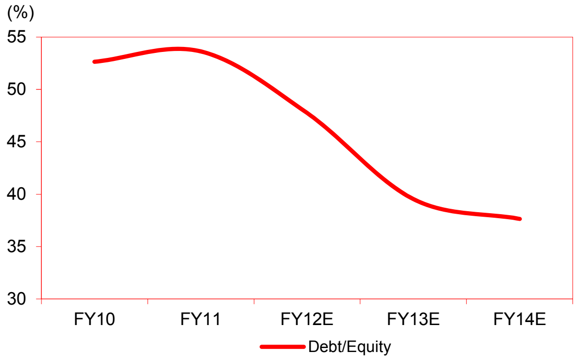
Risks to our target price include: 1) Stronger-than-expected recovery in China's retail market resulting in less need for price discounting and supporting a gross-margin recovery; 2) easing inventory issues with better management; 3) benefits from the performance-enhancement initiatives materializing sooner than expected; 4) lower-than-expected increase in operating costs (e.g. rentals and wages).

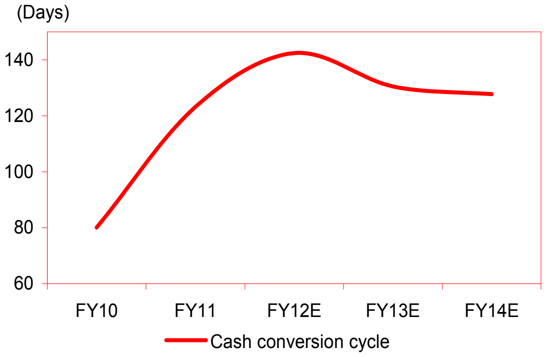
## Financials

The company has been net cash for the past few years and we expect this to continue since internal cash generation should be sufficient to support business development. However, the cash-conversion cycle has increased since FY10, owing to rising inventory turnover days. Slower cash generation may hinder business expansion or investment in restructuring operations.

We expect end-FY12 inventory numbers to remain high because Chinese New Year comes later this year, which will probably delay demand and contribute to weak Q4 FY12 sales. Management says that inventory management has improved for its Daphne brand and we expect inventory turnover days to decrease gradually.

Figure 15: **Daphne – gearing (L) and cash conversion cycle (R)**




*Sources: The Company and Sun Hung Kai Financial*

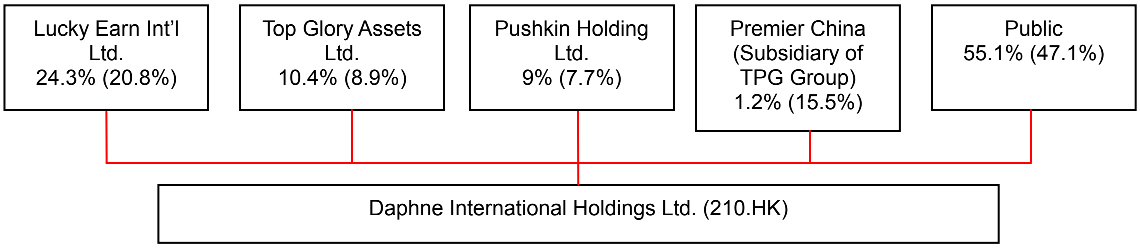
Figure 16: **Daphne – working capital turnover days**

| HKm | FY10 | FY11 | FY12E | FY13E | FY14E |
|---|---|---|---|---|---|
| Cash conversion days | 80.1 | 123.2 | 141.7 | 127.4 | 122.7 |
| Trade receivable days | 10.8 | 10.3 | 10.4 | 10.3 | 10.2 |
| Trade payable days | 58.2 | 59.2 | 71.3 | 79.0 | 66.5 |
| Inventory days | 127.6 | 172.1 | 202.6 | 196.2 | 179.0 |

*Sources: Company reports and Sun Hung Kai Financial*

## Company Background

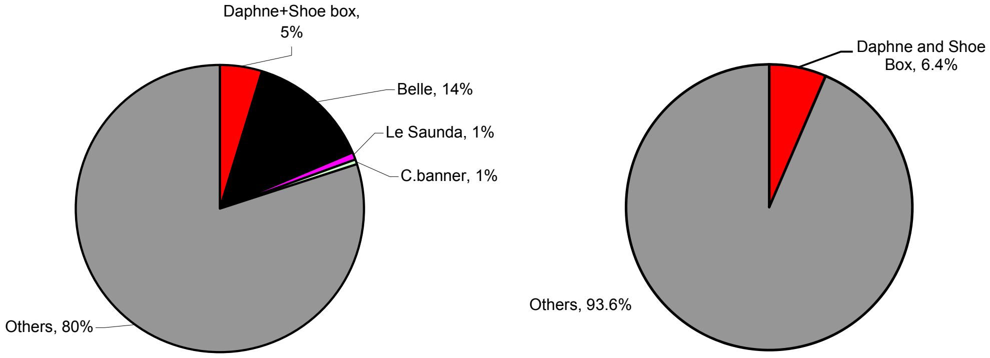
Figure 17: **Daphne – shareholding structure**




*Sources: The Company and Sun Hung Kai Financial*
*Note: Figures in brackets indicate stake after full conversion of CBs and full exercise of warrants by Premier China Ltd.*

Daphne started as a ladies' OEM shoe manufacturer in the 1980s and launched its own brand Daphne in 1990. It has become one of the nation's leading ladies' shoes brands with strong footprints in lower-tier cities. The company went public in Hong Kong in 1995. Daphne launched its mass-market channel brand for general shoes, ShoeBox, in 2004. These two core brands accounted for 90.6% of Daphne's business in 1H12. In the meantime, Daphne has gradually exited its lower-margin OEM business, launched mid-range to premium brands, and licensed foreign brands to expand its brand portfolio.

Figure 18: **Daphne – share of ladies' footwear market (L) and mass-market ladies' footwear market (R)**




*Sources: Euromonitor and Sun Hung Kai Financial*

Figure 19: **Daphne – brand portfolio**


| Own brands |
|---|
| Daphne |
| AEE |
| Dulala |
| **Own channel brands** |
| ShoeBox |
| Ameda |
| **Sole distributorship brands** |
| ALDO |
| AEROSOLES |

*Sources: Company and Sun Hung Kai Financial*

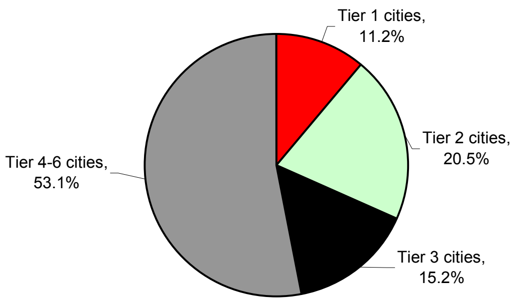
### Extensive distribution network still a key advantage

We believe Daphne's extensive store coverage and distribution networks in lower-tier cities and strong presence in the mass market are its main competitive advantages.

The ladies' footwear market is highly fragmented and the mass market even more so given its sheer size and wide geographic dispersion across lower-tier cities. Mass-market footwear is mainly distributed in standalone stores at street level rather than in department stores, which are the main channels for mid-range, premium and luxury footwear. Such standalone stores are scattered geographically, requiring an extensive and sophisticated logistics network and close collaboration with suppliers and contract manufacturers, particularly in rural areas.

This is the main entry barrier for footwear brands looking to enter lower-tier cities. Daphne's extensive network and strong presence in these markets give it economies of scale and a major competitive advantage over smaller peers, which might have only loose control over their franchise models. In addition, the company's focus on the mass market (ASP: ~RMB200) means it avoids direct competition from foreign brands, unlike domestic mid-range to premium brands Belle and C.banner (ASP: ~RMB450 or above).

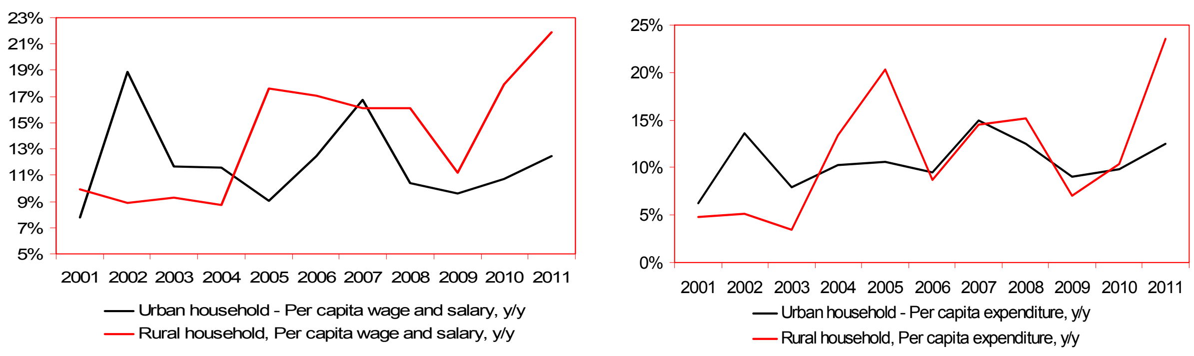
Figure 20: **Daphne – sales networks**




*Sources: The Company and Sun Hung Kai Financial*

Daphne's focus on lower-tier cities also increases its exposure to rising personal incomes, which are increasing faster than in higher-tier cities. This should translate into higher discretionary spending and greater growth potential for mass-market brand Shoe Box, which has a lower ASP than the Daphne brand and includes men's and children's products.

Figure 21: **China per capita income growth (L) and per capita expenditure (R)**



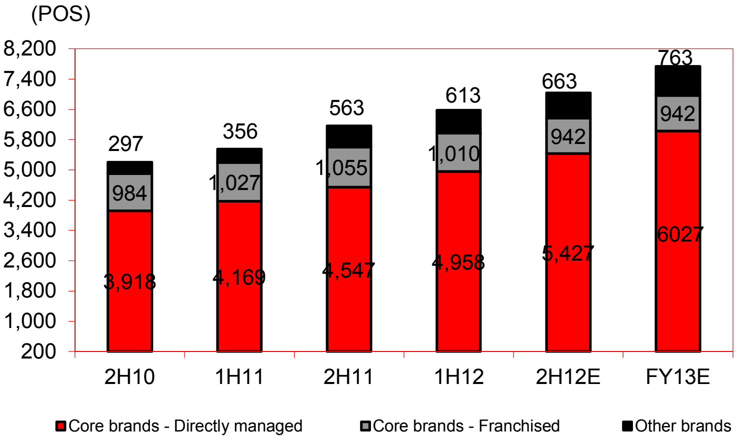

*Sources: WIND and Sun Hung Kai Financial*

### Store-opening strategy

Daphne has typically concentrated new-store openings in the second half of the year, but it went against this trend by opening 52% of its new stores last year in 1H12 in an effort to grab market share. Despite the weak retail market in 2H12, the company still beat its target of adding 700 new directly managed stores in FY12. It will continue to focus on opening directly managed stores for core brands and close franchise stores that have missed operating targets in FY13. Most of the new stores will be in lower-tier cities.

We believe Daphne's directly-managed stores will allow greater control over its supply chain and improve operating efficiency in the long run compared with its mass-market rivals, which generally operate under a franchise model.

Figure 22: **Daphne – sales network**




*Sources: Company and Sun Hung Kai Financial*

### Performance improvement on the way – structural improvement may bring re-rating potential in the long run

The company launched performance-improvement initiatives in 2H12 to keep a rein on surging costs. The expanding sales network has resulted in rising costs and the company needs more sophisticated management practices and support systems to support growth. We believe strategic shareholder TPG's collaboration with Daphne since 2009 may help reduce the execution risk for these initiatives. Should these initiatives be successful, they would be long-term positives for the company and could bring about a re-rating for the stock.

Figure 23: **Daphne – performance improvement programs**

| | |
|---|---|
| Sales operation and channel management | ▪ Invest more in staff training and optimize incentive program for front-line sales to improve productivity.<br>▪ Continue to consolidate and refurbish stores to enhance productivity. Continue to focus on core brands when expanding network.<br>▪ Set up new online-business team to capture e-commerce opportunities.<br>▪ Tighten control over rental costs and improve rental-to-sales ratio. |
| Product development | ▪ Provide products over a wider price range to cover more market segments.<br>▪ Improve sales analysis to help strengthen best-selling product lines.<br>▪ Deploy new design software to enhance designs and efficiency. |
| Supply chain management | ▪ HK$100m of the HK$500m capex budget for FY13 will be spent on upgrading IT systems, including ERP, POS , and business intelligence. The new system is targeted to be online by FY13.<br>▪ Continue centralizing product planning and procurement. |
| Marketing | ▪ Strengthen out-of-store promotions for core brands.<br>▪ Expand range of new media for marketing. |

*Sources: The Company*

## Competitive Analysis

### Strengths

- Strong sales networks in lower-tier cities provide entry barrier against new entrants in the mass footwear market.
- Superior market position and brand awareness in its market segment nationwide.
- Experienced management that has long focused on the footwear market.

### Weaknesses

- Less penetration in premium markets.
- Focus on lower-tier cities could increase exposure to rising labor costs, given that wages are rising faster in these areas.

### Opportunities

- Rising incomes and consumption power further boosting the retail market.
- Successful performance-improvement initiatives.
- ShoeBox brand tapping footwear markets other than ladies' footwear.
- Strong market position and solid finances (net cash) can facilitate acquisitions.

### Threats

- Keen competition in the mass market from regional players.
- Competition from new entrants into the mass market, such as Belle.
- Rising operating costs, including labor and rental costs.
- Slower-than-expected retail recovery in China.

## Appendix: Financial statements and forecasts

Year end 31 December

| P&L – RMB m | FY10 | FY11 | FY12E | FY13E | FY14E |
|---|---|---|---|---|---|
| **Revenues** | 6,623.8 | 8,576.8 | 10,205.2 | 11,688.4 | 13,566.9 |
| Gross profit | 3,800.8 | 5,243.8 | 6,053.2 | 7,031.1 | 8,160.7 |
| EBIT | 922.8 | 1,379.6 | 1,315.3 | 1,532.3 | 1,787.8 |
| Finance costs | (44.8) | (46.9) | (48.7) | (49.0) | (49.0) |
| Tax | (238.6) | (377.4) | (323.5) | (378.2) | (443.8) |
| **Net profit** | 595.5 | 933.1 | 951.2 | 1,111.9 | 1,304.8 |
| Basic EPS – HKcents | 36.4 | 57.0 | 57.9 | 67.6 | 79.4 |
| Fully diluted EPS – HKcents | 34.2 | 52.2 | 50.1 | 58.5 | 68.7 |
| DPS – HK cents/share | 10.5 | 14.9 | 15.3 | 17.9 | 21.0 |
| Weighted avg. shares – m | 1,637.9 | 1,638.2 | 1,643.9 | 1,643.9 | 1,643.9 |
| **B/S – RMB m** | **FY10** | **FY11** | **FY12E** | **FY13E** | **FY14E** |
| Cash & equivalents | 2,059.7 | 1,795.7 | 1,598.5 | 2,045.3 | 2,465.6 |
| Account receivables | 781.8 | 1,200.4 | 1,224.6 | 1,402.6 | 1,628.0 |
| Inventories | 1,084.3 | 2,058.5 | 2,551.3 | 2,454.6 | 2,849.1 |
| Net fixed assets | 710.9 | 899.7 | 1,365.0 | 1,596.1 | 1,784.1 |
| **Total assets** | 5,049.1 | 6,501.4 | 7,327.1 | 8,152.5 | 9,457.5 |
| Account payables | 949.9 | 1,382.6 | 1,536.3 | 1,443.8 | 1,675.9 |
| Short-term debt | 11.3 | 7.0 | 7.0 | 7.0 | 7.0 |
| Total current liabilities | 1,160.5 | 1,640.2 | 1,737.4 | 1,677.7 | 1,949.2 |
| Long-term debt | 556.6 | 605.9 | 613.5 | 613.5 | 613.5 |
| **Total liabilities** | 1,741.4 | 2,269.8 | 2,368.1 | 2,310.6 | 2,584.7 |
| **Shareholders' equity** | 3,124.3 | 4,035.9 | 4,743.8 | 5,604.1 | 6,608.4 |
| Minority Interests | 183.3 | 195.8 | 215.2 | 237.9 | 264.5 |
| **Cash flow - RMB m** | **FY10** | **FY11** | **FY12E** | **FY13E** | **FY14E** |
| Pre-tax profit | 850.2 | 1,322.1 | 1,294.2 | 1,512.8 | 1,775.3 |
| Depn. & amortization | 142.2 | 185.9 | 234.7 | 268.8 | 312.0 |
| Δ WC | 18.4 | (1,002.8) | (419.9) | (140.9) | (348.4) |
| Operating cash flow | 892.3 | 242.6 | 790.6 | 1,281.9 | 1,307.7 |
| Capex | (281.3) | (393.7) | (700.0) | (500.0) | (500.0) |
| Investing cash flow | (229.2) | (322.7) | (672.3) | (470.3) | (463.4) |
| Financing cash flow | (236.1) | (242.0) | (315.5) | (364.9) | (424.0) |
| Net cash flow | 427.0 | (322.1) | (197.2) | 446.8 | 420.3 |
| Free cash flow (OCF-capex) | 611.0 | (151.0) | 90.6 | 781.9 | 807.7 |
| **Ratios - %** | **FY10** | **FY11** | **FY12E** | **FY13E** | **FY14E** |
| Revenue growth | 13.6 | 29.5 | 19.0 | 14.5 | 16.1 |
| Gross profit margin | 57.4 | 61.1 | 59.3 | 60.2 | 60.2 |
| EBIT margin | 13.9 | 16.1 | 12.9 | 13.1 | 13.2 |
| Effective tax rate | 28.1 | 28.5 | 25.0 | 25.0 | 25.0 |
| EPS growth | 42.7 | 52.9 | (4.1) | 16.9 | 17.4 |
| Net debt to equity | (47.7) | (29.3) | (20.6) | (25.4) | (27.9) |
| ROA | 13.2 | 16.2 | 13.0 | 14.4 | 14.8 |
| ROE | 22.4 | 26.1 | 20.1 | 21.5 | 21.4 |
| Cash conversion cycle | 80.1 | 123.2 | 141.7 | 127.4 | 122.7 |
| Trade payable days | 10.8 | 10.3 | 10.4 | 10.3 | 10.2 |
| Trade receivable days | 58.2 | 59.2 | 71.3 | 79.0 | 66.5 |
| Inventory turnover days | 127.6 | 172.1 | 202.6 | 196.2 | 179.0 |

Sources: Bloomberg, the Company and Sun Hung Kai Financial

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