

Milan Station Holdings Limited

Strong headwind ahead

Bloomberg | Reuters | POEMS

1150 HK | 1150.HK | 1150.HK

Industry: Apparels & Accessories Special Store



Phillip Securities (Hong Kong)

Phillip Securities Research

11 September 2012

Report type: Interim Results

Rating: **SELL**

Closing Price: HK\$0.59 | Target Price HK\$0.42

Company Overview

Milan Station Holdings Limited (Milan Station) is principally engaged in the retail of unused and second-hand luxury branded handbags and apparel products in Hong Kong, China and Macau by operating a total of 16 retail shops under the brand names of "Milan Station" and "France Station". Milan Station focused on retail sales of second-hand luxury branded handbags since its establishment. The products offered by the Company include unused and second-hand handbags, clothing, shoes, watches and other accessories. The company currently carried over 20 brands of handbag products and over 30 brands of other products from international luxury fashion houses including Balenciaga, Bottega Veneta, Ce' line, Chanel, Chloe', Dior, Fendi, Goyard, Gucci, Hermès, Louis Vuitton, Miu Miu, Prada and Yves Saint Laurent.

FY2012 interim results highlights

- Revenue came in HK\$374.3 million, down 13.0% y/y.

-Gross profit margin was 20.9%, contracted 4.12 percentage points y/y.

- Net income came in HK\$0.4 million, plunged 98.8% y/y.

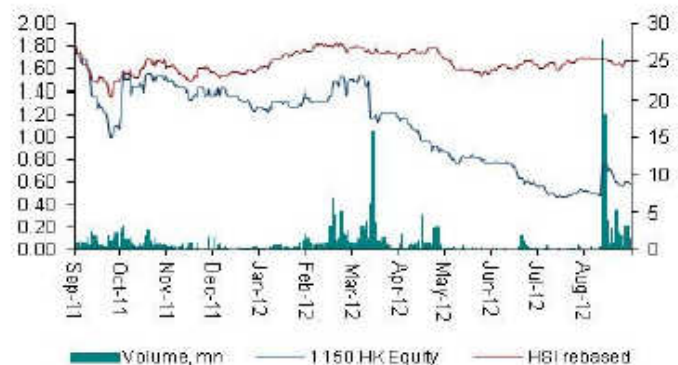
- The Company has resolved not to declare an interim dividend for the six months ended 30 June 2012.

Summary

Milan Station is currently facing well-flagged headwinds. Revenue from Hong Kong market is eroded by fierce peers competitions and the surge in rental costs. Meanwhile, the revenue per stores, same stores sales growth and expansion pace of the China market was slack and fail to underpin the profitability of the Company. According to our model, Milan Station will face structural costs problem in FY2012 to FY2013. It will be difficult for the Company to shore up its gross profit margin, selling expenses and administrative and other operating expenses. Last but not least, the worsening consumer sentiment in Hong Kong and China market will further pressure on the profitability of Milan Station.

From the FY2012 interim results, net cash per share of the Company was HK\$0.126. Assuming all inventory to be sold at a 30% discount, net cash per share would come in HK\$0.247. Calculated will price/ net cash per share of 1.7x, the fair value of Milan Station will be HK\$0.42, implying a 28.8% downside risk comparing will the current share price of HK\$0.59. We downgrade our 12-month target price of Milan station to HK\$0.42 with a "Sell" rating.

Rating	5.00	Sell
- Previous Rating	5.00	Sell
Target Price (HKD)	0.42	
- Previous Target Price (HKD)	0.46	
Closing Price (HKD)	0.59	
Expected Capital Gains (%)	-28.8%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	-28.8%	
Raw Beta (Past 2yrs weekly data)	--	
Market Cap. (HKD mn)	398	
Enterprise Value (HKD mn)	222	
3M Average Daily T/O (mn)	1.3	
52 week range (HKD)	0.450 - 1.760	



Major Shareholders		(%)
1	Mr. Yiu Kwan Tat	72.4
2		
3		

Key Financial Summary				
FYE	12/10	12/11	12/12F	12/13F
Revenue (HKD mn)	730	880	809	864
Net Profit, adj. (HKD mn)	54	48	(6)	(28)
EPS, adj. (HKD)	0.08	0.07	(0.01)	(0.04)
P/E (X),adj.	7.3	8.3	-	-
BVPS (HKD)	0.20	0.55	0.55	0.52
P/B (X)	3.0	1.1	1.1	1.1
DPS (HKD)	0.00	0.03	0.00	0.00
Div. Yield (%)	0.0%	5.7%	0.0%	0.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

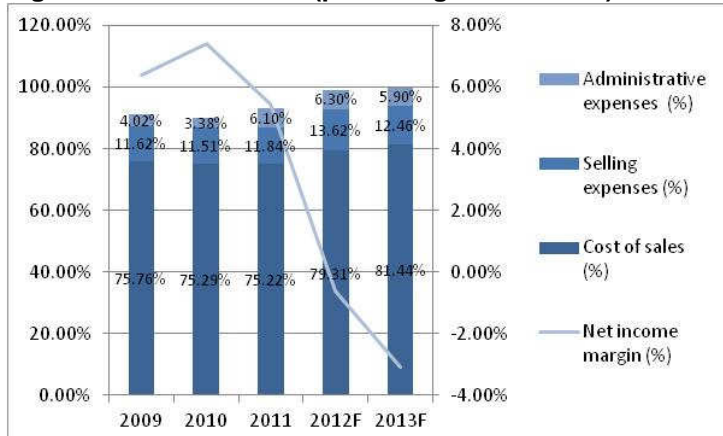
Research Analyst

Philip Mok

philipmok@phillip.com.hk

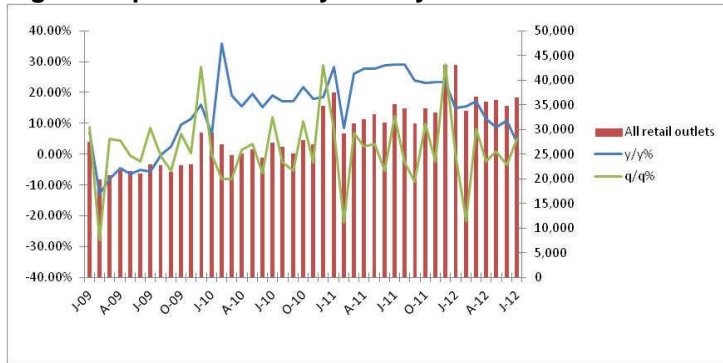
+852 2277 6609

Fig. 1 Costs breakdown (percentage of revenue)



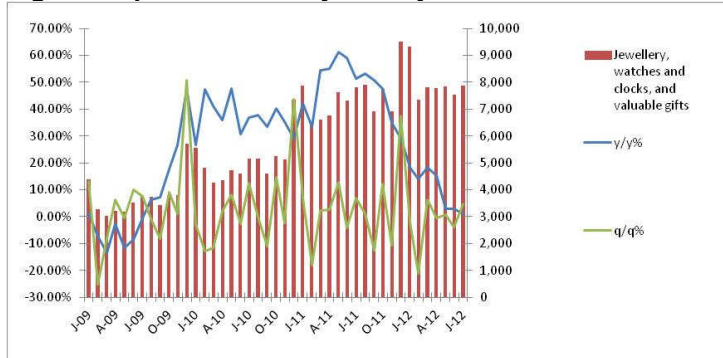
Sources: Company, PSR Est.

Fig. 2a Report on Monthly Survey of Retail Sales HK



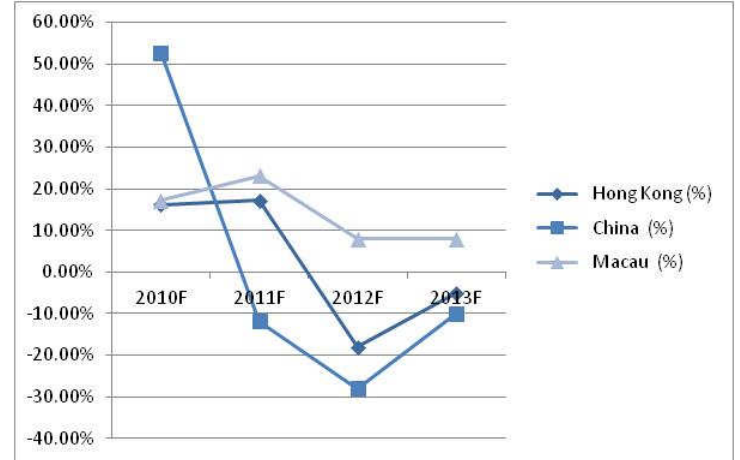
Sources: Census and Statistics Department, HKSAR

Fig. 2b Report on Monthly Survey of Retail Sales HK



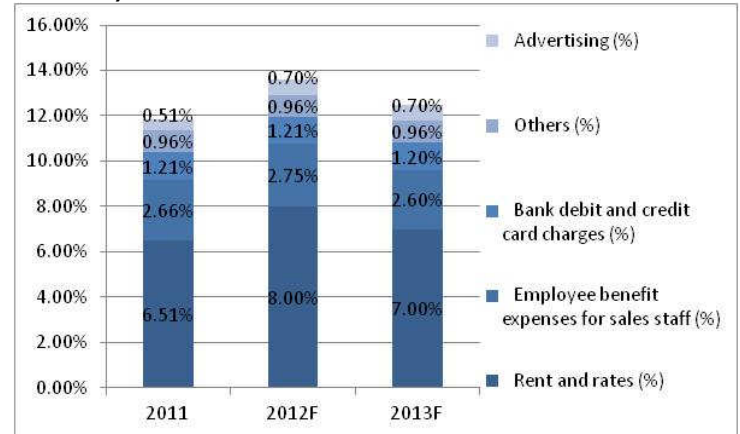
Sources: Census and Statistics Department, HKSAR

Fig. 3 SSSG by market



Sources: Company, PSR Est.

Fig. 4 Selling expenses breakdown (percentage of revenue)



Sources: Company, PSR Est.

	12/10	12/11	12/12F	12/13F
Valuation Ratios				
P/E (X), reported	7.3	8.2	-	-
P/E (X), adj.	7.3	8.3	-	-
P/B (X)	3.0	1.1	1.1	1.1
EV/EBITDA (X), adj.	3.1	3.3	-	-
Dividend Yield (%)	0.0%	5.7%	0.0%	0.0%
Per share data (HK\$)				
EPS, reported	0.08	0.07	(0.01)	(0.04)
EPS, adj.	0.08	0.07	(0.01)	(0.04)
DPS	0.00	0.03	0.00	0.00
BVPS	0.20	0.55	0.55	0.52
Growth & Margins (%)				
Growth				
Revenue	19.5%	20.5%	-8.1%	6.9%
EBITDA	36.9%	-6.6%	-	-
EBIT	37.7%	-5.6%	-	-
Net Income, adj.	38.6%	-11.6%	-	-
Margins				
Gross profit margin	24.7%	24.8%	20.7%	18.6%
EBITDA margin	9.9%	7.7%	0.0%	-3.1%
EBIT margin	9.1%	7.2%	-0.7%	-3.8%
Net Profit Margin	7.4%	5.5%	-0.6%	-3.1%
Key Ratios				
ROE (%)	48.0%	19.1%	-1.6%	-7.8%
ROA (%)	33.7%	17.1%	-1.4%	-5.9%
Net Debt/(Cash)	5.66	(148.20)	(82.18)	(35.12)
Net Gearing (X)	0.0424	Net Cash	Net Cash	Net Cash
Receivable days	4	4	4	5
Payable days	9	11	12	13
Inventories days	52	67	81	69
Income Statement (HK\$ mn)				
Revenue	730.3	879.8	808.6	864.0
COGs	(549.9)	(661.7)	(641.3)	(703.7)
Other revenue/(expenses)	0.9	7.5	8.3	9.1
Selling and marketing expenses	(84.1)	(104.2)	(123.8)	(145.1)
Administrative expenses	(24.7)	(53.7)	(51.9)	(51.0)
EBITDA	72.5	67.8	(0.2)	(26.7)
Depreciation & Amortisation	(5.7)	(4.7)	(5.2)	(5.7)
EBIT	66.8	63.0	(5.3)	(32.4)
Net Finance (Expense)/Income	(0.2)	1.0	(0.7)	(1.0)
Other items	0.0	0.0	0.0	0.0
Associates & JVs	0.0	0.0	0.0	0.0
Profit Before Tax	66.6	64.1	(6.0)	(33.4)
Taxation	(12.3)	(16.1)	1.1	6.7
Profit After Tax	54.3	48.0	(4.9)	(26.7)
Minorities Interest	0.0	0.0	1.1	1.2
Other comprehensive income	0.2	0.4	0.0	0.0
Net Income, reported	54.5	48.4	(6.0)	(27.9)
Net Income, adj.	54.3	48.0	(6.0)	(27.9)
Dividend	0.0	22.9	0.0	0.0

Source: Company, PSR Est

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005