

# Le Saunda Holdings Limited

Take Away from FY2012 Annual Result

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738 HK | 738.HK | 738.HK

Industry: Footwears



Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

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## Report type: Annual Result

Rating: Accumulate

Closing Price: HK\$2.03 | Target Price HK\$2.38

### Company Overview

Le Saunda Holdings Limited (Le Saunda) is a Hong Kong-listed footwear retailer that applies a vertically integrated business model with a focus on Hong Kong and China markets. As of 29<sup>th</sup> Feb 2012, the Company had a network of 921 retail outlets in the China, Hong Kong and Macau. Beside, Le Saunda also undertakes OEM business.

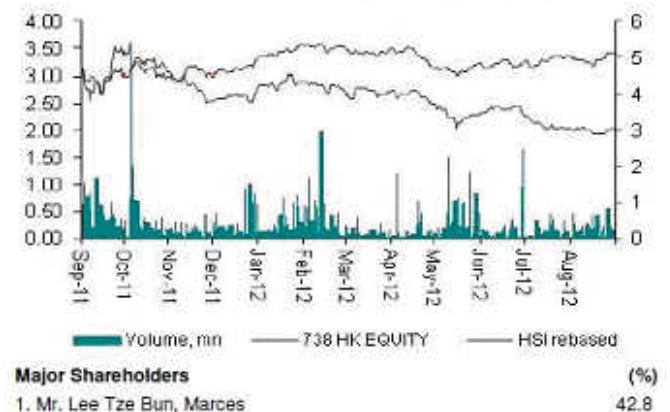
### FY2012 Annual Result Highlights

- Revenue in 2012 was HK\$1,545.0 million (2011: HK\$1,319.9 million), increasing 17.1% y/y.
- Gross Profit was HK\$995.5 million (2011: HK\$829.8 million), up 20% y/y
- Gross Profit Margin was 64.4% in 2012 (2011: 62.9%), stretching 1.5 percentage points
- The total dividend per share is HK\$13.7 cents, which is 45% in terms of payout ratio
- Strong financial position with net cash 0.66 per share, improving 21.9% y/y
- Inventory was HK\$433.2 million (2011: HK\$386.9 million), increasing 12% y/y.
- Deterioration in export business: the group has recorded a significant drop in the export business to HK\$36.1 million from HK\$115.3 million in 2012. The export business only accounted for less than 3% of the total revenue

### Summary

Despite the well-flagged headwinds ahead, the Company is currently trading at P/E ratio of merely 6.62x, well below the industrial average. We recommend to hold inside the portfolio for diversification, as the Company is better valued than the industrial peers possessing upside potential should the market condition turn out better than expected. The current industrial average P/E is 14.41x and we forecast that the valuation gap will be contracted by 15%, implying a trailing P/E of 7.84x and target price of HK\$2.38 with 17.2% upside potential. We forecast our 12-month target price of Le Saunda be to HK\$2.38 with an "Accumulate" rating.

Rating	2.00	Accumulate
- Previous Rating	0.00	Not Rated
Target Price (HKD)	2.38	
- Previous Target Price (HKD)	0	
Closing Price (HKD)	2.03	
Expected Capital Gains (%)	17.2%	
Raw Beta (Past 2yrs weekly data)	0.76	
Market Cap. (HKD mn)	167	
Enterprise Value (HKD mn)	114	
3M Average Daily T/O (mn)	0.3	
52 week range (HKD)	1.91 - 3.66	
Closing Price in 52 week range		



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## Operation Overview

The revenue of the Company was made up of retail business and export business by which the retail business is the group's major revenue contributor accounting for 97% of the total revenue. Hong Kong & Macau and Mainland china recorded double-digit increased in revenue which was 24.2% and 25.4% respectively.

## Key Take Away from FY2012 Annual Result

The management expressed that the underlying profit, which is used to measure the Company's core business performance, merely grew by 1.7% with the effect of inflation and rise in labor cost. In order to secure a high profit margin and steady growth rate in terms of revenue and ASP, the Company will extent its existing mid-to-high end business to the range of high-end market with their new brand "Linea Rosa" to the china market and the Company will source raw-material not only from external suppliers but also some high quality local suppliers for a better profit margin. Also, the Company will expand its business in the focus of the men's footwear by targeting young and stylish executive that we see is differentiate to the market competitors targeting casual and/or classic footwear market segment.

The management shares their view toward the market in the coming year amid the concern of the persisting raise in labor and rental costs and the waning consumption due to the EURO and U.S. economic woe. However, they saw China as a bright market that they believed consumers in china market with strong purchasing spree will bolster its revenue.

From our point of view, we are wary about the consumption trend in the coming year. With all the uncertainties abroad, sluggish stock and housing market internally would also affect the wealth effect of consumer and particularly harmful to higher-end consumer sector. Exporting business had literally diminished to a level we can treat Le Saunda a sheer retailer which spikes the operating risk if the retail business does not go well.

Le Saunda's financial position remains solid, cash per share was HKD 0.66 and NAV per share was HK\$1.87. The Company is currently trading at HK\$2.03 with trailing dividend yield of 6.82%, which makes it defensive enough to resist further tumble in share price.

The management of Le Saunda did not impress us during the presentation. They admitted that it is hard maintain the growth momentum as previous good years. However, they are satisfied with the gross margin (64.4%) and should not have problem to maintain this figure. What they will be concentrating this year is cost cutting and shutting down underperforming stores. However, they did not elaborate how they are going to implement the strategy in details. Some new stores will be opened and by the end of the year, the number of stores would increase about 5% y/y. We doubt if FY2013 will be a good time to expand further.

## Summary

Despite the well-flagged headwinds ahead, the Company is currently trading at P/E ratio of merely 6.62x, well below the industrial average. We recommend to hold inside the portfolio for diversification, as the Company is better valued than the industrial peers possessing upside potential should the market condition turn out better than expected. The current industrial average P/E is 14.41x and we forecast that the valuation gap will be contracted by 15%, implying a trailing P/E of 7.84x and target price of HK\$2.38 with 17.2% upside potential. We forecast our 12-month target price of Le Saunda be to HK\$2.38 with an `Accumulate` rating.

## Peer Comparison

Industry Peer	ROA(%)	ROE(%)	P/E	P/BV	EPS(HKD)	DPS(HKD)	Div Yield(%)
Yue Yuen Industrial (Holdings) Ltd.	8.17	14.54	14.37	-	2.2490	0.8965	-
Stella International Holdings Ltd	11.94	15.48	13.71	2.29	1.4152	0.9763	5.10
Daphne International Holdings Limited	13.93	21.98	15.15	2.97	0.5407	0.1700	2.28
Wai Chun Mining Industry Group Co Ltd	-8.94	-137.42	-	84.41	-0.0005	-	-

Sources: Phillip, Thomson Reuters

## Stock Information

### Stock Data

Market Capitalization (HKD 'mil)	1,285.02
Common Shares Outstanding ('mil)	639.3136
52 Week High (HKD)	3.660
52 Week Low (HKD)	1.910
52 Week Return (%)	-43.540
Average Volume ('mil)	0.3496
Beta	1.24

### Financial strength

Current Ratio	4.15
Quick Ratio	2.40
Long Term Debt to Equity	-
Total Debt to Equity	-
Interest Coverage Ratio (TTM)	-
Free Cash Flow to Firm (TTM) (HKD 'mln)	188.52

### Margin

Gross Margin (TTM)	64.43
Operating Profit Margin (TTM)	15.86
Net Profit Margin (TTM)	12.61

### Dividend

Annual Dividend per share (HKD)	0.1370
Dividend Yield (TTM) (%)	6.82
Dividend Yield (Annual) (%)	6.82
Payout Ratio (TTM) (%)	45.10
3-Year Growth Rate	22.24

### Valuation

Historical P/E Ratio	6.62
P/E Ratio (TTM)	6.62
Historical P/BV	1.09
Historical BVPS (HKD)	1.8515
EPS TTM (HKD)	0.3038

Sources: Phillip, Thomson Reuters

## Summarized Financial Statement

Standardized in HKD 'mln

	FY2008	FY2009	FY2010	FY2011	FY2012
<b>Income Statement</b>					
Total Revenue	781.99	910.02	1,000.02	1,319.93	1,545.04
Cost of Revenue	(391.09)	(431.76)	(393.73)	(490.12)	(549.59)
Gross Profit	390.90	478.26	606.29	829.81	995.46
Operating Expenses	(307.28)	(400.75)	(455.48)	(628.46)	(750.49)
Operating Income	83.62	77.51	150.81	201.35	244.97
Others, Net	19.53	4.71	1.36	10.52	3.54
Income before Taxes	103.15	82.22	152.17	211.87	248.51
Tax	(7.09)	(10.15)	(29.17)	(42.56)	(53.74)
Extraordinary Items and Adjustments	(17.99)	-	-	(0.82)	(0.57)
Net Income	78.08	72.07	123.00	168.50	194.20
<b>Balance Sheet</b>					
Cash and Short Term Investments	282.94	201.66	283.65	346.21	422.81
Total Receivables, Net	90.70	107.03	141.26	134.69	134.51
Other Current Assets	167.37	214.86	265.94	412.35	472.17
Total Current Assets	541.00	523.55	690.84	893.26	1,029.48
Property/Plant/Equipment, Net	99.55	195.71	218.99	232.13	240.84
Other Long Term Assets	256.34	242.56	154.88	177.86	200.64
Total Assets	896.89	961.81	1,064.71	1,303.25	1,470.96
Payables and Accrued Expenses	103.35	119.61	139.17	216.89	231.58
Other Current Liabilities	1.57	2.98	9.92	17.93	16.68
Total Current Liabilities	104.92	122.59	149.08	234.82	248.26
Total Long Term Debt	-	-	-	-	-
Other Liabilities	5.17	6.48	4.70	25.71	39.01
Total Liabilities	110.09	129.07	153.78	260.53	287.27
Common Equity	63.83	63.91	63.93	63.93	63.93
Retained Earnings (Accumulated Deficit)	274.35	297.99	388.47	484.59	597.22
Other Equities	448.63	470.85	458.54	494.19	522.54

Sources: Phillip, Thomson Reuters

#### 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

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