

# Lifestyle International(1212.HK)

## Worth anticipation

HONG KONG | CONSUMER SECTOR | COMPANY INITIATION

29 January 2015

### Company Profile

The business of Lifestyle mainly focuses on department stores operated in Hong Kong and Mainland China respectively by SOGO and JiuGuang. Two SOGO department stores of Lifestyle are SOGO Causeway Bay store and SOGO TST store, among which SOGO TST store was newly opened in December 2014. The company runs four department stores under the brand "JiuGuang" in Mainland China, located in Shanghai, Suzhou, Dalian and Shenyang respectively.

### Summary

- From 2009 to 2013, the total revenue of Lifestyle rose from 3.756 billion to 5.96 billion HKD, with a compound growth rate at 12.2%, in which, the revenue in Hong Kong grew from 3.06 billion to 4.73 billion HKD, with its compound growth rate at 11.5%; and the revenue in Mainland China increased from 697 million to 1.23 billion HKD, with its compound growth rate at 25.2%.
- On the whole, Hong Kong is still a major source of income for Lifestyle. In 2013, the proportion of revenue in Hong Kong market reached 79%, while that in Mainland China was 21%, and for the business performance in H1 of 2014, the proportions of income in Hong Kong and Mainland China were 72% and 28% respectively.
- In December 2014, Lifestyle announced that the family of Thomas Lau Luen-hung and Qatar Investment Authority (QIA) bought 16.14% of the shares of Lifestyle held by Chow Tai Fook (CTF) at a price of 14.75 HKD per share. After the transaction, holdings of Lao Family Group grew to 815 million shares, with a shareholding ratio of 50.14%, and holdings of QIA as the second-largest shareholder rose to 371 million shares with its shareholding ratio of 22.78%.
- In the fourth quarter of 2014, business in Hong Kong might exceed expectations. Although "Occupying the Central" has negative influence on the retail industry in Hong Kong, many signs show that SOGO Causeway Bay store may exceed original market expectations of the growth plateauing. In addition, we also have positive expectations on SOGO TST store.
- Recently, some changes in the fundamental aspects of Lifestyle mainly include important shareholder turnover, normal operation of SOGO Causeway Bay store in the mid-late November, as well as SOGO TST store after reopening. We think that the Lifestyle is returning to normal operation from being forced to change the address of Causeway Bay store and the "Occupying the Central" event of Hong Kong.
- In our opinion, Lifestyle's brand value and management team deserve a better valuation. In the future, with a better atmosphere of commercial retail in Hong Kong and Mainland China, we believe that the valuation of Lifestyle is expected to recover. Lifestyle is allowed to "Accumulate" ratings with a 12-month target price of 16.50 HKD, equivalent to 12 times of P/E in 2015.

### Accumulate (Initiation)

Closing Price: HKD 15.16

Target Price: HKD 16.50 (+8.8%)

O/S SHARES (MN) :	1,629
MARKET CAP (HKD MN) :	24,702
Ent. Value (HKD MN) :	27,162
52 - WK HI/LO (HKD) :	16.74/13.52

#### SHARE HOLDING PATTERN, %

PROMOTERS :	50.14
NON PROMOTER CORP. HOLDINGS :	22.78
PUBLIC & OTHERS :	27.08

#### PRICE



Source: Phillip Capital Research

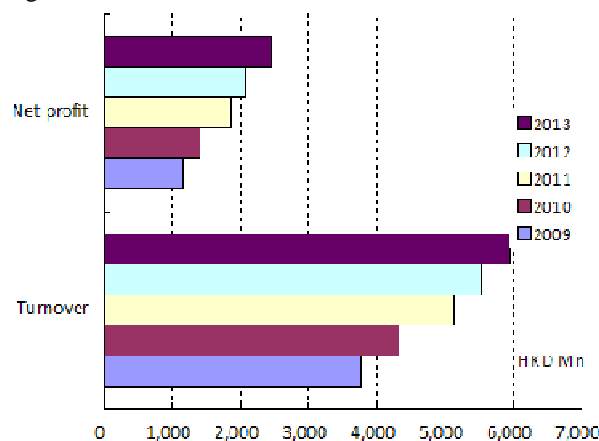
#### KEY FINANCIALS

RMB Mn	FY12	FY13	FY14E	FY15E
Revenue	5,523	5,955	5,878	6,482
Net Profit	2,057	2,448	2,173	2,238
EPS	1.230	1.380	1.330	1.370
P/E (X)	14.35	10.02	12.27	12.04
BVPS	5.730	6.240	8.010	8.870
P/B (X)	3.08	2.22	2.04	1.86
DPS	0.470	0.540	0.520	0.530
Div. Yield	2.66%	3.90%	3.19%	3.21%

Source: Phillip Capital Research Est.

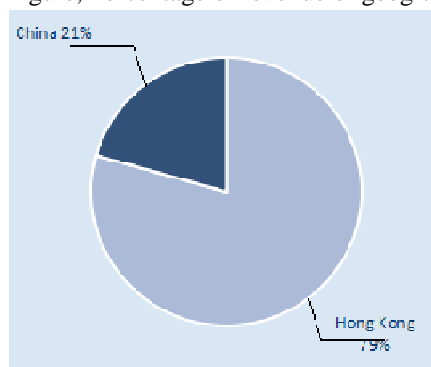
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Figure1, View of financials



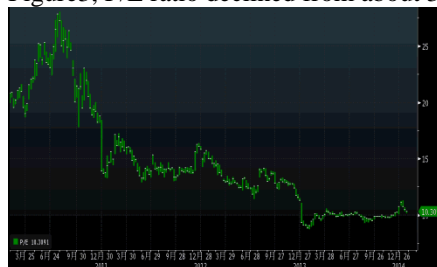
Source, Company report

Figure, Percentage of revenue of geographic segments



Source, Company report

Figure3, P/E ratio declined from about 30x in 2011 to current 10x



Source, Bloomberg

## Financials

FYE	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	13.95	14.35	10.02	12.27	12.04
P/B (X)	3.13	3.08	2.22	2.04	1.86
EV/EBITDA (X), adj.	11.40	13.33	8.99	9.82	9.16
Dividend Yield (%)	2.45%	2.66%	3.90%	3.19%	3.21%
<b>Per share data (HKD)</b>					
EPS, reported	1.110	1.230	1.380	1.330	1.370
EPS, adj.	1.110	1.230	1.380	1.330	1.370
DPS	0.380	0.470	0.540	0.520	0.530
BVPS	4.950	5.730	6.240	8.010	8.870
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	18.90%	7.62%	7.82%	-1.29%	10.28%
EBIT	39.70%	8.68%	9.61%	-3.64%	6.62%
Net Income, adj.	32.70%	10.18%	19.01%	-11.25%	3.02%
<b>Margins</b>					
EBIT margin	39.73%	40.12%	40.79%	39.82%	38.50%
Net profit margin	36.38%	37.24%	41.11%	36.96%	34.53%
<b>Key Ratios</b>					
ROE (%)	22.42%	21.47%	22.12%	16.60%	15.45%
ROA (%)	11.50%	9.53%	9.54%	9.27%	9.55%
Net Debt/(Cash)	net cash	2,826	2,352	2,587	2,477
Net Gearing (X)	net cash	34.00%	22.47%	24.95%	22.91%
<b>Income Statement (HKD mn)</b>					
	FY11	FY12	FY13	FY14F	FY15F
Revenue	5,132	5,523	5,955	5,878	6,482
EBITDA	2,251	2,421	2,669	2,633	2,846
EBIT	2,039	2,216	2,429	2,341	2,496
EBT	2,594	2,755	3,150	2,786	2,877
Tax	(554)	(498)	(480)	(501)	(518)
Tax rate	21.36%	18.08%	15.24%	18.00%	18.00%
Profit for the year	2,040	2,257	2,670	2,285	2,359
Minority interests	173	200	222	112	121
Net profit	1,867	2,057	2,448	2,173	2,238

Source: BLOOMBERG, Lifestyle and Phillip Securities

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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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