

Koradior (3709 HK)

Multi-brand Strategy with Effective Marketing and Promotion

Hong Kong | Consumer | Company report

14 February 2017

Investment Summary

- Good historical performance. Revenue and net profit increased at CAGR of 40.8% and 80.0% respectively from 2011 to 2015. Total revenue increased by 20.03% and the net profit increased by 32.29% YoY in 1H2016.
- The company carries out multi-brand strategy. It's building multi-brand platform through self-brand building, acquisitions and the agent business of foreign brands.
- The company has nationwide sales network and the shop expansion process is relatively fast.
- Ways of marketing and promotion implemented by the company are effective.

Buy

CMP HKD9.01
(Closing price as at 10 Feb 2017)
TARGET HKD11.68 (+29.63%)

COMPANY DATA

O/S SHARES (MN) :	495.1
MARKET CAP (HKDMN) :	4,461
52 - WK HI/LO (HKD):	14.00/7.20

Company Overview

Koradior engages in the design, promotion, marketing and sales of their self-owned branded products, Koradior, La Koradior and Koradior elsewhere that target affluent ladies between the ages of 30 and 45. In 2015, Koradior was awarded "Forbes China Potential Enterprises Award" by Forbes China. Koradior was also awarded "The Most Influential Brand" by Shenzhen Garment Industry Association in 2015.

Total revenue increased to RMB701.59 million in 1H2016, representing a 20.03% YoY increase; the net profit for 1H2016 was RMB120.54 million, representing a 32.29% YoY increase.

The revenue came from self-operated retail stores, distributors, e-commerce platform and so on. The revenue from self-operated retail stores has the highest proportion. The revenue from self-operated retail stores accounted for 84.4% of total revenue in 1H2016 and it accounted for 85.0% of total revenue in 2015.

Following charts show the performance data from 2011 to 1H2016(RMB mn). Revenue and net profit increased at CAGR of 40.8% and 80.0% respectively from 2011 to 2015.

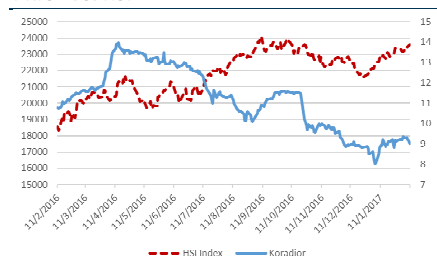
SHARE HOLDING PATTERN, %

Koradior Investments	60.68
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PRICE PERFORMANCE, %

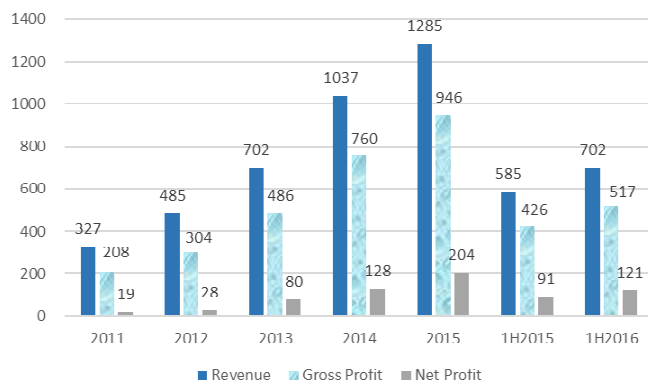
	1M	3M	1Y
Koradior	+2.39	-9.26	-17.49
HSI	+3.65	+3.22	+22.23

PRICE VS. HSI



Source: Bloomberg, Phillip Securities (HK) Research

Performance Data from 2011 to 1H2016



Source: Company reports, Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Sales	1037	1285	1542	1858
Net Profit	128	204	247	289
EPS, CNY	0.29	0.40	0.50	0.58
PER, x	21.1	21.9	16.0	13.6
BVPS, CNY	1.54	1.60	1.78	2.08
P/BV, x	5.5	5.5	4.5	3.8
ROE, %	30.6	27.3	28.1	28.1

Source: Company reports, Phillip Securities Est.

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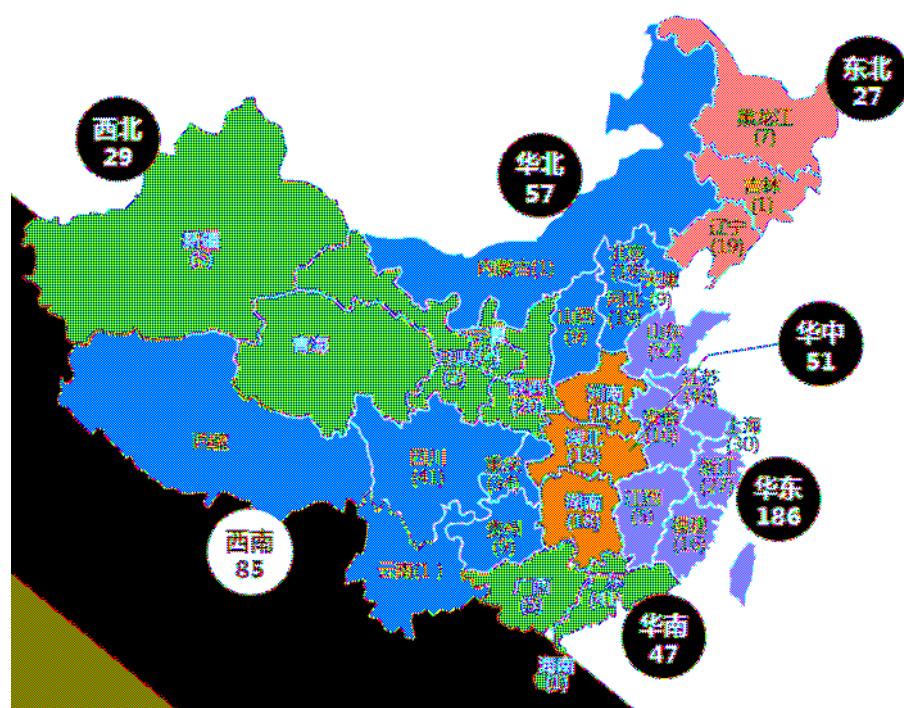
GPM and NPM

Ratio	2011	2012	2013	2014	2015	1H2015	1H2016
GPM	63.5%	62.8%	69.3%	73.3%	73.7%	72.9%	73.8%
NPM	5.9%	5.7%	11.4%	12.4%	15.9%	15.6%	17.2%

Source: Company reports, Phillip Securities (HK) Research

Sales Network

The company's products are sold across nationwide sales network, most of the network consists of self-operated retail stores, covering over 100 cities in 29 provinces, autonomous regions and municipalities in China. As at 30 June 2016, there were 482 retail stores in total: 433 are self-operated stores and 49 are operated by distributors. In 1H2016, the company opened 45 new stores and closed 21 stores, with a net increase of 24 stores. The picture below shows Koradior's domestic sales network:



Source: Company, Phillip Securities (HK) Research

Multi-brand Strategy

The company carries out multi-brand strategy. The company is building multi-brand platform through self-brand building, acquisitions and the agent business of foreign brands.

The table below shows the introduction to the company's self-owned brands Koradior, La Koradior and Koradior elsewhere.

Brand	Established	Brand Positioning	Number of Stores
Koradior	2007	Offer the customers feminine, stylish, chic and young-looking designs for all seasons	401
La Koradior	Sep 2012	Offer luxurious and elegant designs for all seasons and has a brand theme of "glamorous, distinctive and vibrant"	26
Koradior elsewhere	Sep 2014	Offer simple yet feminine, stylish and modern relaxed designs	55

Source: Company, Phillip Securities (HK) Research

In June 2016, the company acquired 65% equity interests in Shenzhen Mondial Industrial Co., Ltd. which is a high-end ladies' apparel corporation in Shenzhen. The "CADIDL" brand under the company has a history of nearly 20 years and targets business ladies between the ages of 30 and 40 who have higher artistic taste and quality requirement for their apparel in Tier I and Tier II cities in China.

Fosun International bought into Koradior at the end of 2015. Introduced by Fosun, Koradior has established strategic cooperation relationship with Qingdao Kutesmart and has adopted O2O and direct sales model to officially launch the new brand "DE KORA" for tailor-made fashion. DE KORA targets young consumers aged 25-35 graduated within 10 years to create a global platform for personal customization. They will build airport flagship store to enhance customers' brand awareness and brand recognition.

In addition, the company is setting up a brand management company with well-known retail experts to explore Chinese market for foreign brands via agent business.

According to the company, the market size of middle and high-end ladies-wear industry is nearly 140 billion and the market concentration is relatively low at present. The middle and high-end ladies-wear industry is in large-scale development stage now and the industry consolidation process is accelerating. There are a lot of M&A opportunities when the companies are establishing the advantage of scale. M&A is one of the long-term development strategy of the company, and they will continue to proceed.

Effective Ways of Marketing and Promotion

The Group has placed advertisements at Shenzhen Airport, Shanghai Pudong International Airport, Shanghai Hongqiao International Airport and Chengdu Airport. Let's take a look at the passenger flow of the four airports. According to Wind, the passenger flow of Shenzhen Airport is 41.97 million in 2016, with a 5.7% YoY increase. Shanghai Pudong International Airport, Shanghai Hongqiao International Airport and Chengdu Airport recorded passenger flow of 60.10 million, 39.09 million and 42.24 million respectively in 2015; and the numbers as at end of October 2016 were 55.49 million, 33.59 million and 38.48 million YTD.

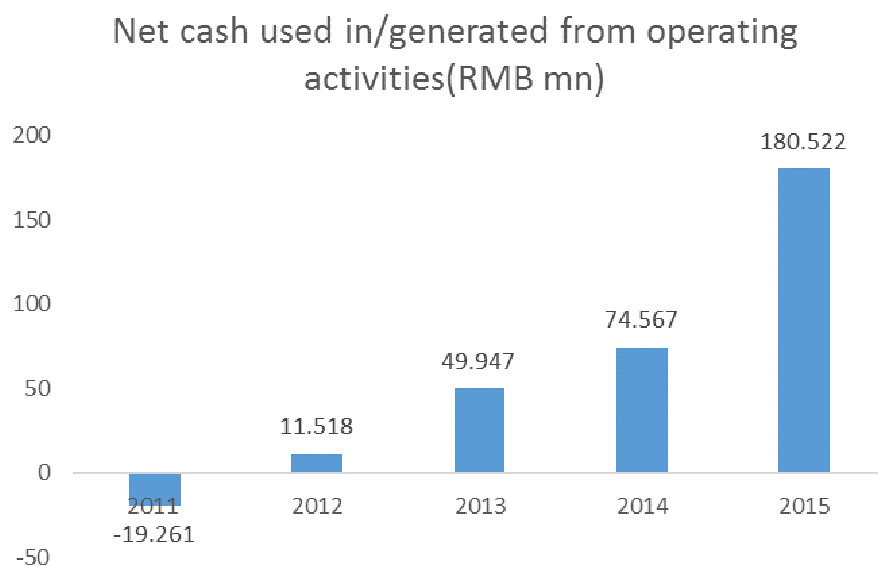
In addition, as the sole fashion brand from China officially invited by the Milan Fashion Week in Italy, La Koradior made its debut in September 2015. The company also invited Miranda Kerr, a top model worldwide, and signed with her to be the company's brand spokesperson. In March 2016, their self-owned brand "Koradior elsewhere" attended the A/W 2016 Shenzhen Fashion Week. The Group also placed brand imaging advertisements in selected top nationwide circulated fashion/lifestyle magazines and publications, such as "VOGUE" etc. The Group also co-sponsored the film

“Only You” directed by Zhang Hao and starring Tang Wei and Liao Fan. And the Group also became the sole apparel brand placed in Les interprètes, a TV drama starring by Yang Mi with high audience rating.

Financial Analysis

Compared with FY2015, the trade receivable turnover days, trade payable turnover days and inventory turnover days all decreased in 1H2016. Trade and bills receivables turnover days was 43 in 1H2016, compared with 47 in 2015. Trade and bills payables turnover days was 56 compared with 69 in 2015. Inventory turnover days was 246 compared with 249 in 2015.

As at end of June 2016, the equity debt ratio was 17.75% compared with 9.82% at the end of Dec 2015. The chart below shows the net cash generated from operating activities in recent years:



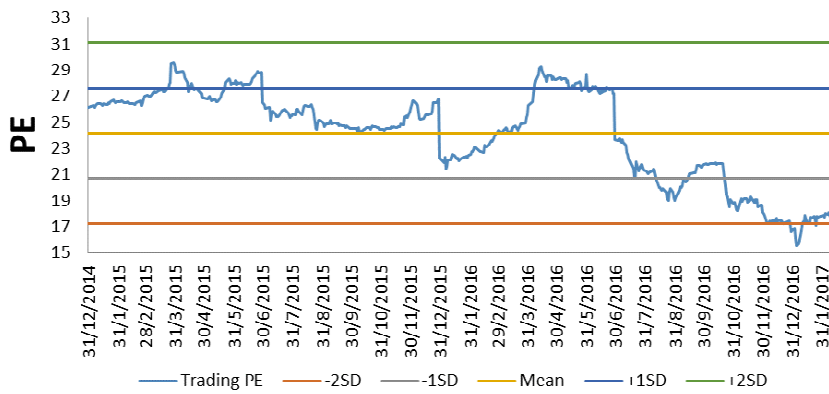
Source: Company reports, Phillip Securities (HK) Research

Cash and cash equivalents on 30 June 2016 was 598 million RMB (end of 2015: 437 million RMB). The cash flow of the company is healthy and the company has sufficient cash on hand, which is good for future expansion strategy.

Valuation

Buy Rating is given with TP of HK\$11.68. We expect net profit growth of 21.2/17.0%, driven by 20.0%/20.5% revenue growth. The stock price experienced correction recently and we think the price is undervalued. Our TP of HK\$11.68 represents 20.7/17.7x FY16E/FY17E P/E. (Closing price as at 10 February)

Koradior Trading PE band



Source: Bloomberg, Phillip Securities Est.

Risk

The ladies-wear industry in China faces intense competition from both international and domestic brands;
Changes in fashion trends and consumer tastes.

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
P/E	--	21.1	21.9	16.0	13.6
P/B	--	5.5	5.5	4.5	3.8
Per Share Data(RMB)					
EPS	--	0.29	0.40	0.50	0.58
Book Value Per Share	--	1.54	1.60	1.78	2.08
Dividend Per Share	--	0.08	0.13	0.15	0.18
Growth & Margins(%)					
Growth Rates					
Revenue	44.7%	47.7%	23.9%	20.0%	20.5%
Operating profit	182.5%	60.5%	47.2%	25.3%	17.6%
Net Profit	188.0%	60.3%	58.9%	21.2%	17.0%
Margins					
Gross profit margin	69.3%	73.3%	73.7%	74.0%	73.7%
Operating profit margin	15.8%	17.1%	20.4%	21.3%	20.7%
Net profit margin	11.4%	12.4%	15.9%	16.0%	15.6%
Key Ratios					
ROE(%)	79.6	30.6	27.3	28.1	28.1
ROA(%)	27.8	20.4	20.6	20.4	20.1
Income Statement(RMB mn)					
Revenue	702	1,037	1,285	1,542	1,858
Gross profit	486	760	946	1,141	1,369
Operating profit	111	178	262	328	385
EBT	108	177	267	324	379
Net Income	80	128	204	247	289

Source: Company, Bloomberg, Phillip Securities (HK) Research Estimates
 (Financial figures as at 10 Feb 2017)

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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