

La Chapelle (6116.HK)

Multi-brand Strategy with High Dividend Payout Ratio

Hong Kong | Consumer | Company report

28 February 2017

Investment Summary

- Low valuation. The stock is trading at 6.4x FY15 P/E. La Chapelle has already submitted IPO application to China's Securities Regulatory Commission. If it's successfully listed in A-share market, the company's valuation is expected to improve.
- Large number of retail points. As at 30 June 2016, there were 8,483 retail points in Mainland China. The retail points are operated directly. The growth in revenue in 1H2016 was mainly attributable to the expansion of retail network of the Group.
- The company carries out multi-brand strategy. The ratio to revenue of the top two brands was decreasing year by year. The company reduced the reliance on the top two brands and further spread the business risk.
- Development of the online business. In order to develop the online business, the company invested in the famous website "Qigege" and Qigege operates the company's online business in order to enhance the online distribution channels.
- Stable and high dividend payout ratio. The dividend payout ratio remained high in past years. The company paid an interim dividend of RMB0.35 (tax inclusive) per share for the six months ended 30 June 2016.

Accumulate

CMP: HKD 8.90
(Closing price as at 24 Feb 2017)
TARGET: HKD 9.80 (+10.11%)

COMPANY DATA

O/S SHARES (MN) :	492.9
MARKET CAP (HKDMN) :	4,387
52 - WK HI/LO (HKD):	11.60/7.15

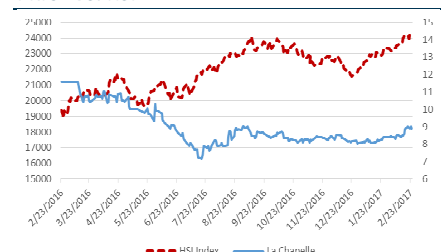
SHARE HOLDING PATTERN, %

XING JIAXING	37.95
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PRICE PERFORMANCE, %

	1M	3M	1Y
La Chapelle	+7.75	+6.46	-23.14
HSI	+4.43	+6.00	+24.87

PRICE VS. HSI



Source: Bloomberg, Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Sales	7,814	9,096	9,869	10,806
Net Profit	503	615	632	671
EPS, CNY	1.27	1.23	1.28	1.36
PER, x	8.6	9.5	6.1	5.8
BVPS, CNY	6.15	6.34	7.34	8.12
P/BV, x	1.9	1.8	1.1	1.0
ROE, %	23.1	19.8	18.2	17.5

Source: Company reports, Phillip Securities Est.

Company Business

The revenue increased from RMB1,864 million in 2011 to RMB9,096 million in 2015 at a CAGR of 48.6%. The revenue was mainly from Tier 2 and Tier 3 cities.

The revenue of the Group in 1H2016 increased steadily from RMB4,225.7 million in 1H2015 to RMB4,809.3 million, representing an increase of 13.8%. The growth in revenue in 1H2016 was mainly attributable to the expansion of retail network of the Group. As at 30 June 2016, there were 8,483 retail points which were situated at approximately 2,665 physical locations in Mainland China, increasing from 7,893 as at 31 December 2015. The retail points are operated directly.

The profit for the period over 1H2016 amounted to RMB303.7 million, representing a YoY increase of 4.8%.

The company paid an interim dividend of RMB0.35 (tax inclusive) per share for the six months ended 30 June 2016. The dividend payout ratio remained high in the past years.

Multi-brand Strategy

The company carries out multi-brand strategy. In addition to the wide range of apparel products under the existing ten brands of the Group, namely La Chapelle, Puella, Candie's, Vougeek, 7m, La Babité, La Chapelle Kids, Pote, MARC ECKO and UlifeStyle and brands associated with the company (namely OTHERMIX, JACK WALK and O.T.R etc.), the Group continues to look for opportunities to invest in quality apparel brands and other retail consumer goods.

Research Analyst

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The following table shows the revenue breakdown by brand for 1H2016 and 1H2015:

	Six months ended 30 June			
	2016		2015	
	Revenue(RMB'000)	% of total	Revenue(RMB'000)	% of total
La Chapelle	1,290,633	26.8%	1,443,744	34.1%
Puella	1,215,592	25.3%	1,195,096	28.3%
7m	736,830	15.3%	573,942	13.6%
La Babité	570,394	11.9%	387,381	9.2%
Candie's	347,222	7.2%	363,179	8.6%
Vougeek/Pote	201,948	4.2%	181,512	4.3%
La Chapelle Kids	47,582	1.0%	20,888	0.5%
UlifeStyle	199,131	4.1%	—	—
MARC ECKÖ	8,983	0.2%	—	—
OTHER MIX/OTHER CRAZY	177,916	3.7%	59,946	1.4%
JACK WALK/O.T.R	13,024	0.3%	—	—
Others	68	0.0%	—	—
Total	4,809,323	100.0%	4,225,688	100.0%

Source: Company reports, Phillip Securities (HK) Research

The following table shows that the ratio to revenue of the top two brands was decreasing year by year. The company reduced the reliance on the top two brands and further spread the business risk.

	% of Total Revenue of Top 2 Brands
2011	96.4%
2012	88.5%
2013	73.7%
2014	66.5%
2015	59.4%
1H2016	52.1%

Source: Company reports, Phillip Securities (HK) Research

The Company Focuses on Mass-market Ladies' Casualwear

The company focuses on mass-market ladies' casualwear. Female consumers become more independent, the influence by female consumers is expected to increase. Mass market of womenswear is expected to maintain steady growth in the future. As the quality of life increases and the women has higher requirements in terms of appearance, less developed regions' market potential is expected to be excavated.

The company believes that mass consumption continues to act as the key driver of the development of consumer market, and online shopping becomes the new normal trend for market development.

Online Business Development

The Group divides the online store into individual brand stores with more products selling at the same price online as the physical stores. Revenue from the online platform was RMB389.8m for 1H2016, accounting for 8.1% of total

revenue for 1H2016 and representing an increase of 1.6% from the percentage of total revenue in FY2015.

In order to develop the online business, the company invested in the famous website “Qigege” and Qigege operates the company’s online business in order to enhance the online distribution channels.

The company’s online sales volume was RMB317 million on the double 11th day, increasing by 11% YoY. Together with the offline sales volume of RMB194 million, the total sales exceeded RMB500 million. The brand “La Chapelle” ranked No.5 in Tmall ladies` wear with the sales volume of RMB161 million.

With the continuous development of e-commerce, the company’s revenue from online platform is expected to increase fast.

The Company Launched the Partnership Incentive Programme

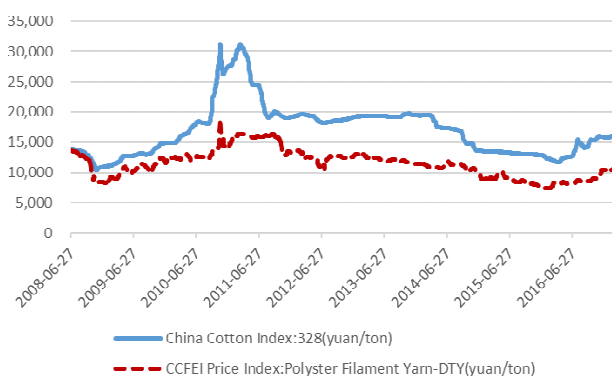
La Chapelle launched the Partnership Incentive Programme at the beginning of 2015 to let every clerk become partner of the store and share the company’s profit according to the store performance. The payment changes from “fixed wages +commission” to “linked with sales performance”. The wages are shared by the manager and the clerks of the store. It will enhance the employees` sense of belonging to the company, improve operational efficiency and increase customer satisfaction and is beneficial to the company’s sales performance.

The Company Plans to Open Segafredo Cafés in the Retail Points

In June 2016 La Chapelle announced that its wholly-owned subsidiary LaCha Fashion acquired a 20.75 stake in TNPI for about US\$3.75 million. In the future, the Group may work with TNPI to set up Segafredo cafés in the retail points of the Group, so that customers can enjoy quality life while shopping. By doing this the company may increase offline sales and increase consumer viscosity.

Price Reference of Raw Materials

The following chart shows the price reference of raw materials.



Source: Wind, Phillip Securities (HK) Research

Same Store Sales and GPM

Due to the general slowdown of the economy in China and weak recovery in the consumer market, same store sales for physical stores of the Group decreased by 4.98% YoY in 1H2016. Same store sales decreased by 0.8% YoY in 1H2015 and decreased by 3.2% YoY in FY2015.

GPM decreased by 1.2% YoY to 67.0% in 1H2016, mainly due to the slight decrease in average effective unit selling price in 1H2016.

Inventory turnover days rose from 160 days in 1H2015 to 179 days in 1H2016, mainly as a result of higher precipitation and unstable temperature in spring.

The company has established large retail network. However, influenced by China's slowdown, SSSG seems to encounter bottlenecks. Whether the company can use its large retail network and its popularity and find ways to improve its same store sales performance and inventory turnover or not is still under observation.

Business Outlook

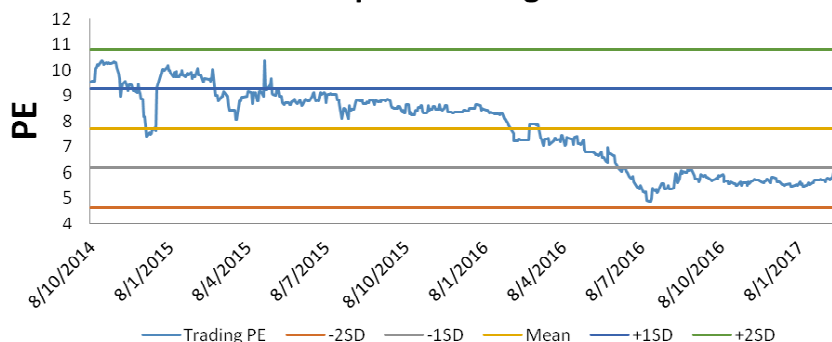
The future development plans include increasing the proportion of retail points with complementary lifestyle experience, allocating more resources to support new brands, enhancing the brands' influence on the market, increasing the proportion of online sales, continuing to invest in relevant brands related to apparels and so on.

In addition, La Chapelle has already submitted IPO application to China's Securities Regulatory Commission. If it's successfully listed in A-share market, the company's valuation is expected to improve.

Valuation

Accumulate Rating is given with TP of HK\$9.80. We expect net profit growth of 2.8%/6.1%, driven by 8.5%/9.5% revenue growth. Our TP of HK\$9.80 represents 6.8/6.4x FY16E/FY17E P/E. (Closing price as at 24 February 2017)

La Chapelle Trading PE band



Source: Bloomberg, Phillip Securities (HK) Research Estimates

Risk

The weak consumer market environment due to China's slowdown;
The ladies-wear industry in China faces intense competition;
Change in fashion trend and consumer tastes.

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
P/E	--	8.6	9.5	6.1	5.8
P/B	--	1.9	1.8	1.1	1.0
Per Share Data(RMB)					
EPS	--	1.27	1.23	1.28	1.36
Book Value Per Share	--	6.15	6.34	7.34	8.12
Dividend Per Share	--	0.60	0.75	0.77	0.82
Growth & Margins(%)					
Growth Rates					
Revenue	60.8%	25.5%	16.4%	8.5%	9.5%
Operating profit	61.7%	24.6%	12.8%	8.3%	5.8%
Net Profit	56.7%	23.6%	22.2%	2.8%	6.1%
Margins					
Gross profit margin	68.8%	68.7%	68.1%	67.5%	68.0%
Operating profit margin	9.5%	9.4%	9.1%	9.1%	8.8%
Net profit margin	6.5%	6.4%	6.8%	6.4%	6.2%
Key Ratios					
ROE(%)	44.6	23.1	19.8	18.2	17.5
ROA(%)	13.0	10.5	10.6	10.0	9.9
Income Statement(RMB mn)					
Revenue	6,225	7,814	9,096	9,869	10,806
Gross profit	4,283	5,365	6,198	6,661	7,348
Operating profit	589	734	829	898	949
EBT	553	684	879	898	949
Net Income	407	503	615	632	671

Source: Company, Bloomberg, Phillip Securities (HK) Research Estimates
(Financial figures as at 24 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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