

Natural Beauty



Privatisation offer not attractive

HOLD (from BUY)

Key points:

- NB announces privatization offer. CVC Asia Pacific Ltd. is the initiator behind the proposal
- 1) Cash Alternative - HK\$1.20 for every share; or 2) Private Holdco Shares Alternative – 0.000047 shares / 0.117868 preference shares / cash of HK\$0.28 for every Natural Beauty share
- Offer is not attractive in our view as the cash alternative of HK\$1.20 represents 6.5x FY12/08F and 5.6x FY12/09F ex-cash P/E

News flow. Natural Beauty announced its long awaited privatization offer late today. Under the proposal, existing shares will be cancelled in exchange for either: 1) Cash Alternative - HK\$1.20 for every share; or 2) Private Holdco Shares Alternative – 0.000047 shares / 0.117868 preference shares / cash of HK\$0.28 for every Natural Beauty share. The cash offer of HK\$1.20 per share represents a 9.8% premium over the volume weighted average closing price of HK\$1.092 over the last 10 trading days and 1.8% premium over the volume weighted average closing price of HK\$1.179 over the last 20 trading days, before NB's shares were suspended on 6 November. The Holdco shares are shares of a newly incorporated unlisted and exempted company in the Cayman Islands. Should the offer be completed, Holdco will indirectly own NB and the value of Holdco shares will primarily be dictated by the value of NB and funds contributed by investment funds to Holdco. The company has also indicated that there will be no guarantee of any dividends or dividend schedule in respect of the Holdco Shares and Holdco Preference Shares. The company's family shareholders (jointly accounting for 65.6% of NB's equity stake) have said that they are committed to electing the Private Holdco Shares Alternative. If the remaining 34.4% elect the Cash Alternative and NB's share options are cancelled in accordance with the terms of the announcement, the total maximum cash consideration payable under the proposal is HK\$1,194.0m. The initiator of the transaction is CVC Asia Pacific Ltd.

Our view. We reckon that the cash offer being at 1.8% premium over the average price of the past 20 days is not attractive. Moreover, the offer price represents an ex-cash P/E of 6.5x FY12/08F and 5.6x FY12/09F. We think that investors are likely to hold-out for a better offer. However, considering that the counter is very illiquid, this may provide an exit opportunity.

Valuation. The offer of HK\$1.20 represents 8.9x FY12/08F and 7.6x FY12/09F P/E. (ex-cash P/E: 6.5x FY12/08F, 5.6x FY12/09F).

China Retail

Wed, 26 Nov 2008

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Stock data

Price	HK\$1.42
Target price	HK\$2.65 (+52.3%)
12 mth range	HK\$1.42-2.57
Market cap.	US\$364.2m
Daily t/o, 3 mth	US\$0.23m
Free float %	46.4%
Ticker	0157.HK/157 HK

Financial summary

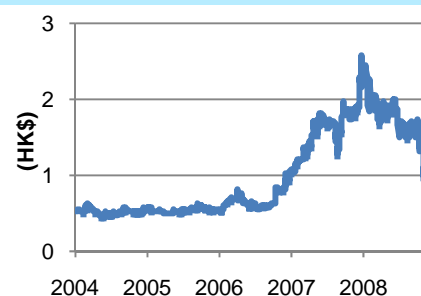
Year to Dec	06A	07A	08F	09F	10F
Turnover (HK\$m)	363.7	450.1	631.9	841.1	1046.0
Net Profit (HK\$m)	123.2	178.7	270.1	313.9	386.2
EPS (HK\$)	0.062	0.089	0.135	0.157	0.193
EPS Δ%	51.9	45.1	51.2	16.2	23.0
P/E (x)	23.1	15.9	10.5	9.0	7.4
P/B (x)	3.23	3.10	3.15	2.90	2.65
EV/EBITDA (x)	12.8	10.3	6.5	5.3	4.2
Yield (%)	2.8	6.5	6.3	7.3	9.0
ROE (%)	14.6	20.0	29.7	33.4	37.6
ROCE (%)	14.4	19.8	29.5	33.2	40.9
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-5.4	+4.9	+24.1
Actual price changes (%)	-0.9	-34.4	-43.8

	08F	09F	10F
Consensus EPS (HK\$)	0.130	0.150	0.183
Previous forecasts (HK\$m)	270.1	313.9	386.2
Previous EPS (HK\$)	0.135	0.157	0.193

Price Chart



Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the bookrunner for Natural Beauty on November 28, 2007 for vendor share placement at HK\$1.91 per share for 94.47m shares.

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BUY : absolute upside of >10% over the next six months
HOLD : absolute return of -10% to +10% over the next six months
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