

Value footwear retailer

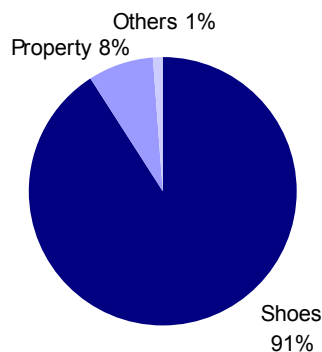
Hong Kong Retail

Le Saunda (738 HK, HK\$1.46)

Not Rated

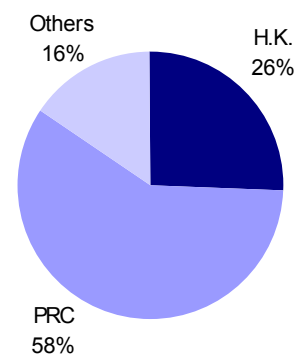
The Company. Le Saunda (LS) is a footwear manufacturer and retailer based in H.K, with side business in property investment and holdings. LS targets the women's footwear market in the Greater China Regions, with products sold under two brands, "Le Saunda" and "CnE" (Comfort and Easy). Also an OEM footwear manufacturer for up-market brands in Spain, Italy, Germany, Japan & etc, it has expanded into apparel and accessory products business under the brand name, "Antinori" since 2005. Its factory is located in Shunde, Guangdong China with a GFA of 215,000 sq. ft.

Chart 1: FY2/06 sales breakdown



Source: Company data & SBI E2-Capital

Chart 2: FY2/06 geographical breakdown



Source: Company data & SBI E2-Capital

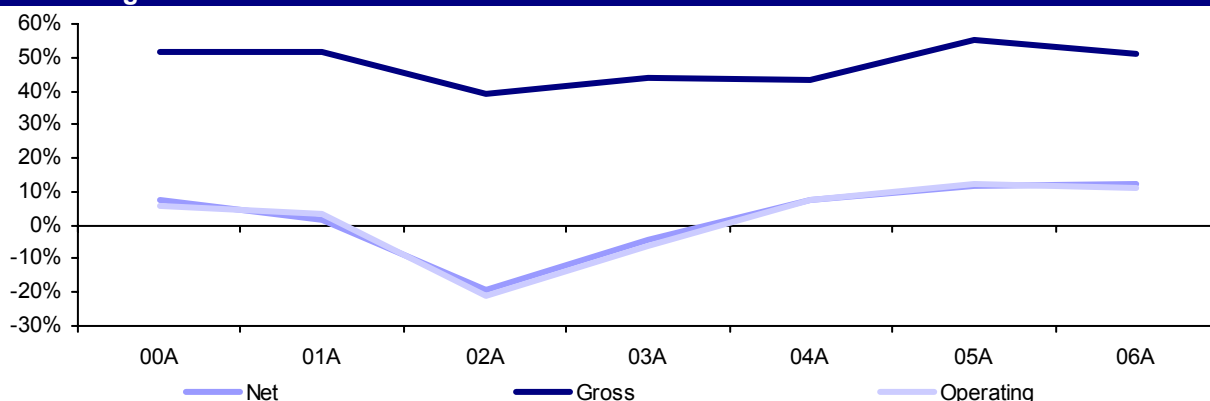
Earnings recorded a double-digit growth in 1H FY2/07. As quoted in the local press, LS is on track to meet its 3-year investment plan of adding 200 POS in the PRC from c.264 POS presently. Capex is estimated between HK\$70m to 80m. LS will focus on the PRC market and expects the PRC market to account for 70% of total sales in the future, up from c.60% currently.

Cost control becomes effective. LS's massive cost control program carried out in the past three years has begun to bear fruits. It has reduced outsourcing production to Italian manufacturers and expanded material sourcing from Europe to other lower-priced regions, such as the PRC. It also closed down under-performing street-level stores and opened big concept stores in high-traffic shopping malls to increase store traffic flow and reinforce brand image as a whole. Since mid 2005, it has decentralized the warehouse management in PRC and streamlined logistic support by setting up six regional offices in H.K. Guangzhou, Shanghai, Beijing, Shenzhen and Chengdu to ensure timely supply.

Improved product mix. LS has broadened its product mix by launching "CnE", which is a fashionable and casual footwear brand mainly appeals to trend-conscious young ladies, a complimented to "Le Saunda", an Italian style dress footwear caters for the mid to high end market. The expansion into different market segment allows LS to leverage on its existing platform in achieving higher economies of scale. Apart from the footwear business, it has expanded its reach to apparel business by establishing "Antinori" in 2005.

Expanding the shoe production capacity by 26% in FY2/07. LS has add a new shoe production line in July 2006. Total production capacity will be raised to 4,800 pairs of shoes/day from 3,800 pairs of shoes/day.

Chart 3: Margin trends



Source: SBI E2-Capital

Margin trends. LS's margin trend has been rather fluctuating in the past. However, margins started to show a remarkable improvement since FY2/04. We believe this was attributable to a new management team, the cost control program and higher ASP from an improved product mix and a better economic environment.

Financials. As at the end of FY2/06, LS was in a net cash position of c.HK\$113m. Its cash position has been further enriched by another HK\$108m through a share placement in July 2006. Current and quick ratios were 3.7x and 1.3x in FY2/06. LS maintained a payout ratio of c.40-44% in the past three years, with the highest dividend yield of 4.7% compared to other branded footwear plays.

Table 1: Peer comparisons

Stock	Ticker	Currency	Share Price	Market cap (US\$m)	P/E (x) FY06F	P/E (x) FY07F	Gross margin (%)	Operating margin (%)	ROA (%)	ROE (%)	Yield (%)	
Branded footwear												
Prime Success	210	HKD	4.3	909.2	20.6	15.2	43.6	12.01	20.3	39.8	1.2	
Mirabell	1179	HKD	2.55	83.2	8.4	7.2	58.4	6.01	11.2	15.2	3.5	
Le Saunda	738	HKD	1.48	96.9	n.a.	n.a.	51.2	12.2	13.6	16.3	4.7	
Hongguo	HGUO	SGD	0.715	176.8	16.5	12.6	33.0	13.15	17.0	24.7	0	
China Hongxin Sports	CHHS	SGD	1.62	410.3	18.6	11.5	34.2	17.53	9.6	14.6	0	
Average					16.0	11.7	44.1	12.2	14.3	22.1	1.9	
OEM footwear												
Yue Yuen	551	HKD	22.15	4,558.1	13.1	11.4	23.1	8.71	10.2	16.8	0.5	
Symphony	1223	HKD	1.02	217.7	7.7	6.9	22.9	11.37	13.0	18.6	6.9	
Kingmaker footwear	1170	HKD	0.92	77.3	18.4	11.5	13.4	4.73	6.4	8.8	8.7	
Average					13.1	9.9	19.8	8.3	9.9	14.7	5.3	
Overall average					14.8	10.9	35.0	10.7	12.7	19.4	3.2	

Source: SBI E2-Capital

Table 2: Shop portfolio comparisons

Stock	Ticker	No. of outlets
Prime Success	210 HK	1,609 (Daphne: 1,443; Adidas Original: 91; SHOEBOX: 75)
Mirabell	1179 HK	360 (HK: 103; PRC: 244; Taiwan: 13)
Le Saunda	738 HK	287 (H.K.: 23, PRC: 264)
Hongguo	HGUO SP	671 (C.Banner: 468, E.Blan: 141; JUC: 62)
China Hongxin Sports	CHHS SP	2,300

Source: SBI E2-Capital

Valuations. branded and OEM footwear sector trades at P/E of 14.8x and 10.9x for FY06F and FY07F. There is no consensus earnings forecast for LS. LS trades at a historical P/E of 8.2x. Assuming earnings growth of 20% in FY2/07F, LS trades at 7x P/E in FY07F, which is much lower than the industry average.

Major risks. 1) Rental pressure. 2) Inventory risks. Inventory days rose from 123 days to 160 days in FY2/06.

Corporate governance issues. 1) PricewaterhouseCoopers has been the auditor. 2) New management is led by Mr. Eddie Wan, the ex-COO of Esprit (330 HK). He joined LS since 2003.

Table 3: Sales & operating profit breakdown

Year to Feb (HK\$m)	05A	06A
Sales		
- Shoes	546.8	653.0
- Property	19.5	58.9
- Others	1.2	8.4
Total	567.5	720.4
Operating profit breakdown		
- Shoes	75.8	73.9
- Property	(2.3)	17.2
- Others	(4.3)	(8.9)
Total	69.2	82.2

Source: SBI E2-Capital

Table 4: P & L

Year to Feb (HK\$m)	04A	05A	06A
Sales			
- Shoes	391.7	546.8	653.0
- Property	69.9	19.5	58.9
- Others	2.8	1.2	8.4
Sales	464.4	567.5	720.4
YoY%	50.1%	22.2	26.9
Sales	464.4	567.5	720.4
Cost of sales	(262.2)	(254.1)	(351.2)
Gross profit	202.2	313.4	369.1
Other revenue	2.1	3.3	25.3
Interest income	0.0	0.6	1.8
Selling expenses	(113.2)	(165.0)	(217.1)
Admin expenses	(55.3)	(82.4)	(95.2)
Other expenses	0.0	0.0	0.0
Operating profit	35.8	69.8	84.0
Interest expenses	(0.4)	(0.3)	(0.2)
Associates	5.6	3.5	4.7
Profit before taxation	40.9	73.0	88.6
Taxation	(5.3)	(4.8)	1.6
Minority interest	0.0	0.0	0.0
Net profit	35.7	68.1	90.2
YoY%	n.a.	91.1	32.3
Dividends	9.0	31.6	37.2
EPS (HK\$) basic	0.079	0.148	0.174
EPS (HK\$) diluted	n.a.	0.142	0.168
DPS (HK\$)	0.020	0.069	0.072

Source: SBI E2-Capital