

Looking good**Hong Kong Retail****I.T Limited (999 HK, HK\$1.41)****Not Rated****What are I.T's market niches?**

Fashion trendsetter. I.T is a fashion leader with an experienced merchandising team in spotting upcoming fashion trend. Shoppers in I.T look for designs and fashion trends; they are less price sensitive than that of the mass-market.

Multi-branding power. I.T's portfolio of international designer labels has grown close to 300 currently with over 10 in-house & licensed brands. The advantage of multi-branding rests mainly on a low brand concentration, which means that it is easy for I.T to replace any non-performing brand without significantly affecting its business. The single largest brand, Tsumori Chisato, accounted for c.5% of total sales only.

Rental bargaining power. Apart from operating shop names I.T and i.t, it will open standalone shops for single-brands, such as vivayou, Arnold Palmer, cacheral & etc. The advantages of opening standalone shops under different brandnames within a single shopping mall or high-street area are higher rental negotiation power and cultivation of shopping atmosphere. For example, over 70% of the shops in Patterson Street, Causeway Bay are rented by I.T. Apart from a stronger rental bargaining power, I.T can easily change its shop portfolio when certain standalone shops under-perform. They can easily switch to other brands with different products to suit the consumer taste in that region.

Outlook

H.K: Focus on raising operating efficiency. Since the H.K. domestic market is close to saturation, I.T will focus on raising sales per GFA, instead of a rapid store expansion. It is launching two self-owned brands in Nov 2006, targeting the lower market segment. One of the brands will focus on men's casual wear with merchandise like Zara and Abercrombie & Fitch but at a price range similar to that of Giordano (709 HK). The other brand is a ladies' shoe wear, targeting the office lady market. It targets to open 9 shops under the men's casual wear and 4 shops under the ladies shoes. We like this concept because the men's casual wear is always neglected by the market. Penetrating into the lower market segment also makes sense because men are not willing to pay for fashion as much as women do in general. Besides, H.K. brands, such as Giordano, G2000, U2, Bossini, began to age without much creativity.

PRC & Taiwan: GSIT will reach a breakeven in FY2/07F. After incurring losses in the past three years, GSIT, a 50%-owned JV with Glorious Sun (393 HK), begins to show some light. Operating losses narrowed from HK\$9m in FY2/05A to HK\$4.2m in FY2/06A, which HK\$2m losses came from the Taiwan market. In 1Q07, GSIT showed a 50% YoY sales growth and a 20% YoY same-store-sales growth. GSIT is expected to achieve 30-50% sales growth and reach breakeven in FY2/07F.

Valuations

I.T has budgeted c. HK\$100m capex with 70% for new store expansions and 30% for general capex. It is in a net cash position of HK\$300-400m. The market is looking for a 15-20% sales growth and a 10-15% profit growth in FY2/07F. Payout ratio is maintained at c.40%. We believe earnings contribution will mainly come from the H.K. market in the near-term, it take time for the PRC market to start material contributions. We expect FY2/08F will be a significant year for I.T. It is trading at a consensus 10.3x FY2/07F P/E.

Major risks

1) Rental pressure. Rental expenses accounted for 21.5% of total sales in FY2/06A, c. one-third of the leases will

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be renewed every year. We expect rental expenses to increase slightly to 22.5% of total sales in FY2/07F. 2) Higher labour costs. Labour accounted for 17% of total sales in FY2/06A. We expect the percentage to increase to 18-19% in FY2/07F.