

Stella International



Well Heeled

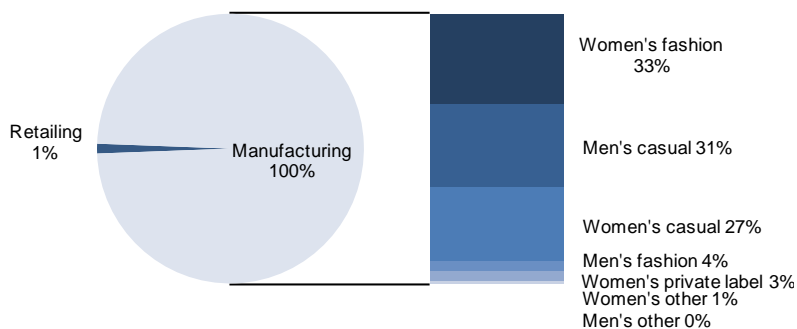
Key points:

- Footwear manufacturer for global top brands.
- Increased demand witnessed from major customers in 2008.
- To benefit from decreasing production in Europe.
- Feasible capacity expansion and upgrade model.
- Product mix changes to boost unit gross profit.
- Expanding retail operation to bring extra value.
- 32.0% same-store-sales growth in 1Q FY12/08A and 51.0% in April.
- Overall turnover to grow at a CAGR of 17.0% from FY12/07A to FY12/12F.
- We initiate coverage on the stock with a target price of HK\$20.74.

Company Overview

With production bases in Guangdong, China and Vietnam, Stella offers footwear ODM services to customers worldwide. The company launched its retail operation in 2006 under two own brands: Stella Luna and What For. Turnover reached US\$937.2m (33.0% from women's fashion products) in FY12/07A, up 20.3% YoY, and net profit was US\$114.7m, up 25.5%.

Chart 1: Sales breakdown in FY12/07A



Source: Company data

ODM division

Competitive strengths. We regard Stella as a premium manufacturer with:

- ❑ strong design and development ability - the footwear manufacturing industry has migrated from OEM to more sophisticated ODM to better meet customers' needs. Stella employs more than 3,100 technicians in design and development. Research expenses in FY12/07A reached US\$33.0m or 3.5% of turnover.
- ❑ ability to deliver high-quality small, customized orders - footwear production relies heavily on skilled labour since part of

BUY
(initiating coverage)

China Consumer

Mon, 16 Jun 2008

Norman Zhang

(852) 2533 3715

normanzhang@sbie2capital.com

Stock data

Price	HK\$14.18
Target price	HK\$20.74 (+46%)
12 mth range	HK\$10.94-18.80
Market cap.	US\$1,466.4m
Daily t/o, 3 mth	US\$1.4m
Free float %	30.3%
Ticker	1836.HK/1836 HK

Financial summary

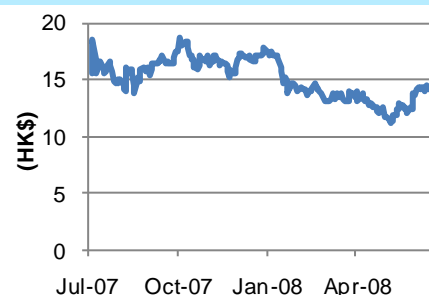
Year to Dec	06A	07A	08F	09F	10F
Turnover (US\$m)	668.9	779.3	937.21	1,214.1	1,345.0
Net Profit (US\$m)	85.4	91.4	114.7	145.3	165.1
EPS (US\$)	0.146	0.156	0.165	0.180	0.204
EPS Δ%		6.8	5.8	8.9	13.6
P/E (x)	12.5	11.7	11.0	10.1	8.9
P/B (x)	2.83	2.42	2.01	1.88	1.75
EV/EBITDA (x)	15.2	14.3	11.4	9.3	7.8
Yield (%)	-	-	0.8	0.9	1.0
ROE (%)	22.7	22.4	19.6	19.2	20.4
ROCE (%)	22.3	21.9	18.7	17.8	20.0
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+23.9	+1.9	n.a.
Actual price changes (%)	+11.0	+5.2	n.a.

	08F	09F	10F
Consensus EPS (US\$)	0.172	0.200	0.220
Previous forecasts (US\$)	n.a.	n.a.	n.a.
Previous EPS (US\$)	n.a.	n.a.	n.a.

Price Chart



the processes cannot be automated for technical reasons. Stella maintains a skilful workforce, which constitute its competitive edge, as it takes a long time to build up.

- ability to contain costs – to escape China’s rising manufacturing costs, Stella has established a production base in Vietnam via contractual arrangements with local entities (first in 1998). Its capacity there expanded to 6.5m in 2007, accounting for 14.4% of the total.
- extensive client portfolio - the company maintains a high-profile customer base, including over 30 top brands, from casual fashion to luxury products. Around 74.0% of customers are long-term clients (more than six years) such as Clarks, Deckers, Rockport, Timberland and Wolverine, who contributed 59.3% of total sales in FY12/06A.

Table 1: Comparison of footwear ODM companies

Company	Stella	Kingmaker	Prime Success	Le Saunda
Ticker	1836 HK	1170 HK	210 HK	738 HK
Major ODM products	Men and women's casual, fashion footwear	Rugged, casual, baby & children, sportswear & sports shoes	Private label women's footwear	Women's footwear
ODM division performance	FY12/07A	FY03/07A	FY12/07A	FY02/07A
Sales volume (pairs m)	47.7	11.0	n.a.	0.6
Turnover (HK\$m)	7,224.6	1,156.7	707.7	124.9
Effective ASP (HK\$ per pair)	151.5	105.2	n.a.	208.1
Unit cost (HK\$ per pair)	(116.4)	(91.8)	n.a.	n.a.
Unit gross profit (HK\$ per pair)	35.0	13.3	n.a.	n.a.
Gross margin (%)	23.1	12.7	16.4	n.a.

Source: Company data

Chart 2: Client portfolio



Source: Company data

Increase in orders for 2008. Stella’s shipment volume rose 10.2% in FY12/07A to 47.7m pairs and the company said some major customers plan to increase procurement this year. Notably, a major client, Clarks, plans to shift 6.0m pair orders in the next two to three years from Brazil to Asia, mainly to Stella.

Table 2: Orders change of major customers in 2008

Customers	Expected change in 2008	Reasons
Clarks	Increase 4m pairs to 12m 2 - 3m for new "Unstructure" series and another 2m order reallocation from Brazil	
Deckers	Increase 2m pairs	Growth of UGG brand
Guess	Increase to 4.5m from 3m pairs in 2007	Customer's business expansion
Ecco	Increase to >2m from <2m pairs in 2007	Customer's business expansion
Timberland	Slight decline	Customer's business contraction
Rockport	Slight decline	Customer's business contraction

Source: Company data

Mid-term growth sustained. The global footwear industry grows at low single-digits a year. With its labor-intensive nature, production is shifted frequently in search of lower costs. Over 90.0% footwear consumption in the US is satisfied by imports (98.9% in 2003). European countries still maintain some production facilities, mostly for high-end products, but output is declining due to cost pressure and a dwindling worker base. We expect Europe's output to continue shrinking over the next three years, with orders absorbed by manufacturers in Asia and South America.

Table 3: Footwear industry in EU-25

	2002	2003	2004	2005
Number of firms	33,350	32,323	29,957	29,363
Employment	449,180	419,693	397,975	383,726
Production (pairs m)	900.5	780.8	728.2	641.9
Exports (pairs m)	214.3	181.3	170.1	226.0
Imports (pairs m)	1,232.9	1,455.0	1,709.9	1,939.8
Apparent consumption (pairs m)	1,919.1	2,054.6	2,268.0	2,355.7
% of import to apparent consumption	64.2	70.8	75.4	82.3

Source: Eurostat

Capacity constraints. Despite the company's optimistic demand outlook, we are concerned about potential capacity constraints due to the time and cost needed to train qualified workers. Stella targets 8.0 – 10.0% capacity expansion each year, while upgrading its sales mix gradually. Low-end products, mainly private labels, will be outsourced to release capacity for high-margin orders.

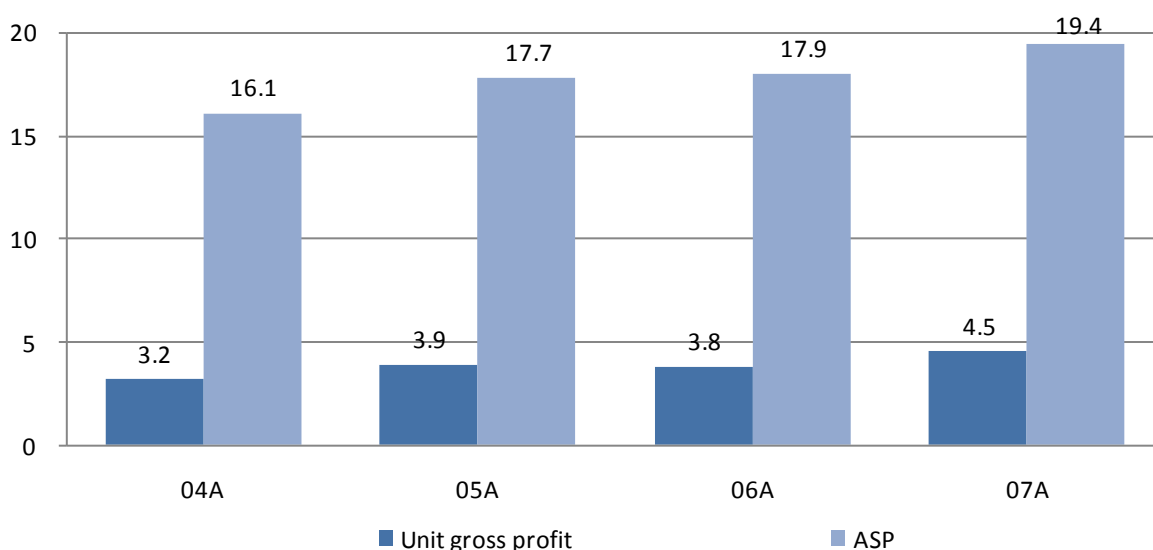
Table 4: Capacity expansion

Y/F 31 Dec (pairs m)	04A	05A	06A	07A	08F	09F	10F	11F	12F
Total effective capacity	35.0	39.1	45.0	45.0	47.9	54.4	60.7	67.4	70.5
Dongguan	29.2	33.3	38.5	38.5	38.5	38.5	38.5	38.5	38.5
Huizhou						2.0	4.0	6.0	6.0
Hebei					1.8	3.4	5.0	5.0	5.0
Hunan						1.8	3.4	5.0	5.0
Vietnam	5.8	5.8	6.5	6.5	7.6	8.7	9.8	10.9	12.0
Indonesia								2.0	4.0
Self-owned and operated	9.8	12.5	18.0	18.0	18.0	20.0	22.0	24.0	24.0
Under processing agreement	19.4	20.8	20.5	20.5	22.3	25.7	28.9	30.5	30.5
Under contractual agreement	5.8	5.8	6.5	6.5	7.6	8.7	9.8	12.9	16.0

Source: Company data, SBI E2-Capital

Unit gross profit boost. Footwear ODM contracts are generally commission-based and raw material costs are borne by customers. Although competition might depress Stella's gross margin, we expect the unit gross profit (i.e. gross profit per pair) to widen thanks to product mix changes and higher ASPs. In FY12/07A, the unit gross profit and ASP increased 18.4% and 8.4%, respectively.

Chart 3: ASP and unit gross profit (US\$ per pair)



Source: Company data

Segmental forecast. We expected Stella's shipment volume to grow in line with its capacity expansion. Backed by rising ASPs, segmental turnover should grow at a CAGR of 15.0% from FY12/07A to FY12/12F. Meanwhile operating results will grow at a CAGR of 13.7% due to the company's declining gross margin.

Table 5: Major estimates for the ODM segment

	Y/F 31 Dec	06A	07A	08F	09F	10F	11F	12F
Effective capacity (pairs m)		45.0	45.0	47.9	54.4	60.7	67.4	70.5
External shipment volume (pairs m)		43.3	47.7	52.8	58.1	63.5	67.3	71.1
ASP (US\$ per pair)		17.9	19.4	20.7	22.1	23.5	24.8	26.2
Unit gross profit (US\$ per pair)		3.8	4.5	4.9	5.1	5.4	5.6	5.8
External sales (US\$m)		776.7	926.2	1,094.3	1,282.1	1,492.2	1,670.8	1,864.0
Gross profit (US\$m)		164.6	214.3	257.0	297.6	341.6	375.6	409.2
Gross margin (%)		21.2	23.1	23.5	23.2	22.9	22.5	22.0
Segmental result (US\$m)		131.4	179.6	216.6	250.2	286.4	314.1	341.3
Operating margin (%)		16.9	19.4	19.8	19.5	19.2	18.8	18.3

Source: Company data, SBI E2-Capital

Retail Division

History. In Feb 2006, the company launched Stella Luna, its own retail brand aimed at the mid-to-upper end of the market (priced at RMB1,000-2,800). Another brand, What For, for the contemporary & lifestyle market was established in Jul 2007. The company has retail rights, expiring in Feb 2011, for Guess footwear in China.

Table 6: Brand strategy

	Stella Luna	What For
Target customers	Middle & upper class	Contemporary & lifestyle market
Market position	Affordable luxury	Mid-price – premium
Average price range	RMB1,000 - 2,800	RMB600 - 1,500
Average GFA per store (sqm)	50	30

Source: Company data

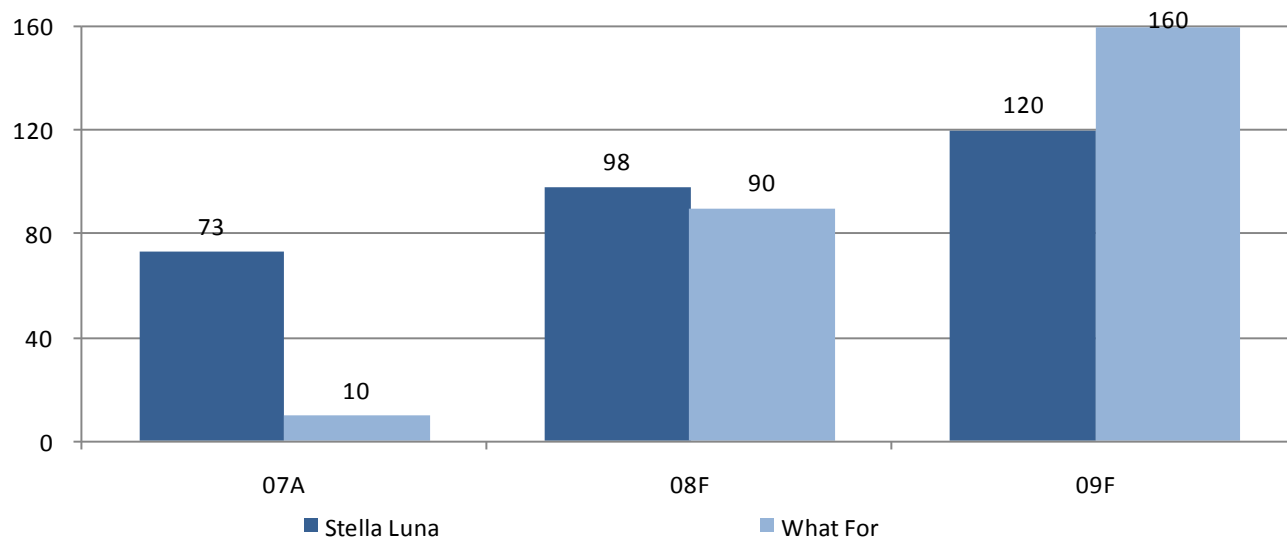
Strengths and weaknesses. Advantages are Stella's superior manufacturing skills and close relationships with top luxury brands allowing to it capture fashion trends. The main weakness is relatively green brand names and lacking of experience in retail operation.

Operating performance. Retail turnover was US\$10.9m in FY12/07A with a minor operating loss of US\$0.5m. In 1Q FY12/08A, segmental turnover increased to US\$4.8m from US\$1.5m one year ago. Same store sales grew 32.0% in 1Q FY12/08A and 51.0% in April. The company expects its retail division to break

even in FY12/08F.

Expansion plans. By end-2007, the company had 83 selling points, mainly concessionaire counters in department stores (73 for Stella Luna and 10 for What For). It plans to expand this network to 280 outlets in two years.

Chart 4: Store roll-out plan (number of stores)



Source: Company data

Our expectations. With its strength in manufacturing and design, we expect the company's two brands to establish a solid position in the market. So far, we have observed positive reactions to Stella Luna. The company's expansion plan seems feasible but brand building, especially in premium brands, takes a long time. Hence Stella's long-term success is far from assured at this stage.

Segmental forecast. We expect the company to have 210 Stella Luna and 280 What For selling points by 2012. Segmental turnover will increase from US\$10.9m in FY12/07A to FY191.4m in FY12/12F. Operating profit will reach US\$40.4m in FY12/12F.

Table 7: Comparison of brand retailers

	Stella	Belle	Prime Success	Ports
Ticker	1836 HK	1880 HK	210 HK	589 HK
Retail division performance			(Daphne brand only)	
Products	Women's footwear	Women's footwear	Women's footwear	Apparel, footwear, accessories
Brands	Stella Luna, What For, Guess	Belle, Tata, Senda, Staccato, etc	Daphne	Ports
Number of stores (2007)	83	3,732	2,374	360
Turnover (2007)	US\$10.9m	RMB6,022.2m	HK\$2,562.2m	RMB1,080.9m
Average sales per store	n.a.	RMB1.9m	HK\$1.2m	RMB3.0m
SSS growth	n.a.	n.a.	8.8%	27.0%
Gross margin	n.a.	63.8%	55.7%	82.1%
Operating margin	Loss-making	23.7%	17.2%	33.4%

Source: Company data

Table 8: Major estimates for the retail segment

Y/F 31 Dec	06A	07A	08F	09F	10F	11F	12F
Number of stores	32	83	188	280	350	420	490
Stella Luna	32	73	98	120	150	180	210
What For	0	10	90	160	200	240	280
Sales per store (US\$m)			0.200	0.269	0.334	0.382	0.421
Stella Luna (US\$m)			0.200	0.279	0.363	0.436	0.479
What For (US\$m)			0.200	0.259	0.311	0.342	0.377
External sales (US\$m)	2.6	10.9	27.0	62.9	105.1	147.3	191.4
Gross profit (US\$m)	1.0	6.7	20.3	47.2	78.8	110.4	143.6
Gross margin (%)	39.8	61.2	75.0	75.0	75.0	75.0	75.0
Segmental result (US\$m)	(1.3)	(0.5)	0.1	10.7	22.6	32.6	40.4
Operating margin (%)	-51.0	-4.3	0.5	17.1	21.5	22.2	21.1

Source: Company data, SBI E2-Capital

Valuation and recommendation

Taxation. The company's retail operation, by shifting around half of its profit back to Hong Kong via the Closer Economic Partnership Arrangement (CEPA) with China, will realize an effective tax rate of 16.0%. We expect the effective tax rate of the ODM division to rise gradually along as its various preferential tax treatments expire.

Earnings forecast. Net profit should reach US\$146.1m in FY12/08F and US\$215.7m in FY12/12F, representing a CAGR of 12.9% since FY12/07A.

Table 9: Segmental P&L

Y/F 31 Dec (US\$m)	06A	07A	08F	09F	10F	11F	12F
Turnover	779.3	937.2	1,121.4	1,345.0	1,597.3	1,818.2	2,055.8
ODM	776.7	926.2	1,094.3	1,282.1	1,492.3	1,671.0	1,864.3
Retail	2.6	10.9	27.0	62.9	105.1	147.3	191.4
Gross profit	165.7	221.0	277.3	344.7	420.4	486.0	552.8
ODM	164.6	214.3	257.0	297.6	341.6	375.6	409.2
Retail	1.0	6.7	20.3	47.2	78.8	110.4	143.6
Operating profit	93.7	119.6	156.4	184.1	214.3	237.4	257.5
Operating result from ODM	131.4	179.6	216.6	250.2	286.4	314.1	341.3
Operating result from retail	(1.3)	(0.5)	0.1	10.7	22.6	32.6	40.4
Unallocated income	11.0	16.0	25.3	25.9	27.2	29.4	32.6
Unallocated expenses	(47.4)	(75.5)	(85.7)	(102.7)	(121.9)	(138.8)	(156.8)
Share of results of an associate	0.0	(0.1)	0.0	0.2	0.4	0.7	0.9
Finance costs	(0.1)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
Income tax	(2.3)	(4.6)	(10.7)	(18.7)	(28.1)	(37.6)	(47.2)
Related to ODM operation	(2.3)	(4.6)	(10.7)	(17.0)	(24.6)	(32.4)	(40.9)
Related to retail operation	0.0	0.0	(0.0)	(1.6)	(3.5)	(5.1)	(6.4)
Minority interest	0.0	0.1	(0.0)	(0.1)	(0.1)	(0.1)	(0.2)
Net profit	91.4	114.7	145.3	165.1	185.9	199.8	210.3

Source: Company data, SBI E2-Capital

DCF calculation. We apply a multi-stage DCF model to derive the counter's fair value. We assume that after FY12/12F, the company's ODM segment will grow at a steady 3.0% each year infinitely. Growth of its retail division, given its smaller scale and China's bright consumption prospects, will decelerate gradually from 30.0% in FY12/12F to the 3.0% long-term growth rate in FY12/15F. Under the 11.15% required return-on-equity rate (3.15% risk-free plus 8.0% risk premium), the discounted value is HK\$20.74 per share.

Table 10: FCFE calculation

Y/F 31 Dec (US\$m)	08F	09F	10F	11F	12F	13F	14F	15F	16F
Sales	1,121.4	1,345.0	1,597.3	1,818.2	2,055.8	2,150.0	2,230.5	2,297.5	2,366.4
ODM	1,094.3	1,282.1	1,492.3	1,671.0	1,864.3	1,920.2	1,977.8	2,037.2	2,098.3
Retail	27.0	62.9	105.1	147.3	191.4	229.7	252.7	260.3	268.1
Sals growth	19.7%	19.9%	18.8%	13.8%	13.1%	4.6%	3.7%	3.0%	3.0%
ODM	18.1%	17.2%	16.4%	12.0%	11.6%	3.0%	3.0%	3.0%	3.0%
Retail	147.4%	132.5%	67.1%	40.1%	30.0%	20.0%	10.0%	3.0%	3.0%
Operating profit	156.4	184.1	214.3	237.4	257.5	270.1	280.6	289.1	297.7
Operating margin	13.9%	13.7%	13.4%	13.1%	12.5%	12.6%	12.6%	12.6%	12.6%
EBT	156.0	183.6	213.8	236.8	256.8	269.4	279.9	288.3	297.0
EBT margin	13.9%	13.7%	13.4%	13.0%	12.5%	12.5%	12.6%	12.6%	12.6%
Tax paid	(7.7)	(10.7)	(18.7)	(28.1)	(37.6)	(45.6)	(53.1)	(54.6)	(56.3)
Depreciation	17.5	20.4	23.6	26.2	28.3	29.5	30.7	31.6	32.5
Capex	(40.0)	(34.9)	(28.5)	(30.0)	(12.7)	(13.3)	(13.8)	(14.2)	(14.6)
Change in working capital	(30.8)	(37.3)	(42.1)	(36.9)	(39.7)	(41.5)	(43.0)	(44.3)	(45.6)
Change in debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFE	95.0	121.1	148.1	168.0	195.2	198.7	200.8	206.8	213.0

Source: SBI E2-Capital

Table 11: Discounted value

Risk premium	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%
Risk free rate	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%
Required rate of return on equity	9.15%	9.65%	10.15%	10.65%	11.15%	11.65%	12.15%	12.65%	13.15%
Discounted value (US\$m)	2,832.3	2,621.0	2,439.4	2,281.6	2,143.2	2,020.8	1,911.9	1,814.3	1,726.3
Non-operational assets (US\$m)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Non-operational liabilities (US\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest (US\$m)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fair value (US\$m)	2,841.2	2,630.0	2,448.3	2,290.5	2,152.1	2,029.7	1,920.8	1,823.2	1,735.2
Number of shares outstanding (m)	809.2	809.2	809.2	809.2	809.2	809.2	809.2	809.2	809.2
Fair value per share (HK\$)	27.39	25.35	23.60	22.08	20.74	19.56	18.51	17.57	16.73

Source: SBI E2-Capital

Recommendation. The counter is trading at 11.0x P/E multiple historically, in line with other ODM companies. However, with its competitiveness in the ODM market and expanding retail operation, we believe it deserves a higher valuation. We set our target price (based on the discounted value) at HK\$20.74, which represents 14.8x FY12/08F P/E. Our recommendation is BUY.

Table 12: Valuation comparison

Company	Ticker	Fiscal Year End	Mkt Cap (US\$m)	historical	consensus PE (x)	
					1-Yr	2-Yr
Stella	1836 HK	12/2007	1,466.4	10.9	n.a.	n.a.
ODM						
Kingmaker	1170 HK	03/2007	80.4	18.6	11.2	8.7
Yue Yuen	551 HK	09/2007	4,564.8	12.7	11.2	9.8
Retail						
Prime Success	210 HK	12/2007	947.2	19.2	15.1	12.1
Le Saunda	738 HK	02/2007	68.2	5.1	n.a.	n.a.
Walker Group	1386 HK	03/2007	115.2	n.a.	7.0	5.3
Belle	1880 HK	12/2007	8,722.3	28.4	25.6	19.0
Customers						
Deckers	DECK US	12/2007	1,679.1	24.8	20.0	16.7
Guess	GES US	01/2008	3,944.7	19.6	16.7	14.9
Jones Apparel	JNY US	12/2007	1,327.5	13.5	12.8	10.6
Timberland	TBL US	12/2007	1,083.3	18.0	21.5	18.2

Source: Bloomberg (except Stella)

Risks. We believe labor costs are the major risk factor for the ODM division. We have incorporated a 20.0% rise in unit labor costs (self-produced products) for FY12/08F and 15.0% for FY12/09F – FY12/12F. The retail division, as a new business, carries more uncertainties. Retail operations account for 18.8% of Stella's total value, in our estimates. The company also faces risks related to Renminbi appreciation, the US' economic slowdown and a potential financial crisis in Vietnam.

P & L (US\$m)	06A	07A	08F	09F	10F	Cash Flow (US\$m)	06A	07A	08F	09F	10F
Year to Dec						Year to Dec					
Turnover	779.3	937.2	1,121.4	1,345.0	1,597.3	EBIT	89.3	109.5	135.1	162.2	191.1
% chg	16.5	20.3	19.7	19.9	18.8	Depre./amort.	13.0	15.3	17.5	20.4	23.6
Gross profit	165.7	221.0	277.3	344.7	420.4	Net int. paid	4.4	9.8	20.9	21.5	22.7
EBITDA	102.3	124.8	152.6	182.5	214.7	Tax paid	0.0	0.0	(7.7)	(10.7)	(18.7)
Depre./amort.	(13.0)	(15.3)	(17.5)	(20.4)	(23.6)	Dividends received	0.2	0.1	0.0	0.0	0.0
EBIT	89.3	109.5	135.1	162.2	191.1	Gross cashflow	106.8	134.7	165.8	193.3	218.7
Net int. income/(exp.)	4.4	9.8	20.9	21.5	22.7	Chgs. in working cap.	(55.2)	(78.7)	(30.8)	(37.3)	(42.1)
Exceptionals						Operating cashflow	51.6	56.0	135.0	156.0	176.6
Associates	0.0	(0.1)	0.0	0.2	0.4	Capex	(22.1)	(24.2)	(40.0)	(34.9)	(28.5)
Jointly-controlled entit.						Free cashflow	29.5	31.9	95.0	121.1	148.1
Pre-tax profit	93.6	119.2	156.0	183.9	214.2	Dividends paid	(21.8)	(122.7)	(96.8)	(107.2)	(117.6)
Tax	(2.3)	(4.6)	(10.7)	(18.7)	(28.1)	Net distribution to MI					
Minority interests	0.0	0.1	(0.0)	(0.1)	(0.1)	Investments					
Net profit	91.4	114.7	145.3	165.1	185.9	Disposals					
% chg	7.0	25.5	26.7	13.6	12.6	New shares	0.0	444.6	0.0	0.0	0.0
Dividends	(21.8)	(251.2)	(96.8)	(107.2)	(117.6)	Others	2.8	(20.4)	1.4	0.2	0.2
Retained earnings	69.6	(136.5)	48.5	57.9	68.4	Net cashflow	10.5	333.3	(0.4)	14.1	30.7
EPS (US\$) - Basic	0.156	0.165	0.180	0.204	0.230	Net (debt)/cash - Beg.	63.2	73.7	407.0	406.6	420.7
EPS (US\$) - F.D.	0.156	0.165	0.180	0.204	0.230	Net (debt)/cash - End.	73.7	407.0	406.6	420.7	451.4
DPS (US\$)	-	0.115	0.128	0.141	0.154						
No. sh.s o/s (m) - W.A.	585.0	693.9	809.3	809.3	809.3	Interim Results (US\$m)	06A	07A			
No. sh.s o/s (m) - Y.E.	585.0	809.3	809.3	809.3	809.3	Six months to Jun					
No. sh.s o/s (m) - F.D.	585.0	693.9	809.3	809.3	809.3	Turnover	352.2	417.3			
						% chg		18.5			
Margins (%)						Profit from operations	42.7	52.3			
Gross	21.3	23.6	24.7	25.6	26.3	Interest expenses	(0.0)	(0.1)			
EBITDA	13.1	13.3	13.6	13.6	13.4	Associates	0.0	0.0			
EBIT	7.0	11.7	12.0	12.1	12.0	Jointly-controlled entit.					
Pre-tax	12.0	12.7	13.9	13.7	13.4	Pre-tax profit	42.7	52.2			
Net	11.7	12.2	13.0	12.3	11.6	Tax	(1.3)	(2.1)			
						Minority interests		0.0			
						Net profit	41.5	50.2			
						% chg		21.0			
						EPS (US\$) - Basic	0.071	0.086			
						DPS (US\$)		0.038			
Balance Sheet (US\$m)	06A	07A	08F	09F	10F	Shareholding Structure					
Year to Dec										Shares o/s (m)	%
Fixed assets	144.6	158.2	180.7	195.3	200.1	Cordwalner Bonaventure Inc.				564.3	69.7
Intangible assets	9.5	10.4	10.2	10.2	10.4	Others				245.0	30.3
Other LT assets	0.6	1.2	0.0	0.0	0.0	Total				809.3	100.0
Cash	73.7	407.0	406.6	420.7	451.4						
Accounts receivable	128.0	174.1	208.3	249.9	296.8	Background					
Other receivables						Established in 1982, Stella International is a Taiwan-based footwear manufacturing company. Products include men's casual, men's fashion, women's casual, women's fashion, etc. Production facilities are located in China and Vietnam with effective capacity totaling 45.0m pairs in 2007. The company commenced its own retailing operation in 2006 and owns two brands (Stella Luna and What For) now. It listed in Hong Kong exchange in Jul 2007.					
Inventories	77.9	97.9	117.1	140.5	166.8						
Due from related co.s	78.7	7.1	7.1	7.1	7.1	Key Ratios	06A	07A	08F	09F	10F
Other current assets	50.1	0.8	0.8	0.8	0.8	Net gearing (%)	Cash	Cash	Cash	Cash	Cash
Total assets	563.0	856.7	930.9	1,024.5	1,133.5	Net ROE (%)	22.4	19.6	19.2	20.4	21.3
Accounts payable	(105.6)	(115.6)	(138.3)	(165.8)	(197.0)	EBIT ROCE (%)	21.9	18.7	17.8	20.0	21.9
Other payable						Dividend payout (%)	23.8	219.1	66.6	64.9	63.2
Tax payable	(3.0)	(7.7)	(10.7)	(18.7)	(28.1)	Effective tax rate (%)	2.4	3.9	6.8	10.2	13.1
Due to related co.s	(15.1)	0.0	0.0	0.0	0.0	Net interest coverage (x)	na	na	na	na	na
ST debts						A/R turnover (days)	56.9	58.8	62.2	62.2	62.5
Other current liab.	0.0	(0.3)	(0.3)	(0.3)	(0.3)	A/P turnover (days)	45.8	43.1	41.3	41.3	41.4
LT debts						Stock turnover (days)	42.6	44.8	46.5	47.0	47.7
Other LT liabilities											
Total liabilities	(123.7)	(123.6)	(149.3)	(184.9)	(225.4)						
Share capital	0.0	10.4	10.4	10.4	10.4						
Reserves	439.3	722.6	771.2	829.1	897.4						
Shareholders' funds	439.3	733.0	781.5	839.4	907.8						
Minority interest	-	0.1	0.1	0.2	0.3						
Total	439.3	733.1	781.6	839.6	908.1						
Capital employed	439.3	733.1	781.6	839.6	908.1						
Net (debt)/cash	73.7	407.0	406.6	420.7	451.4						

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

SBI E2-Capital stock ratings:

STRONG BUY : absolute upside of >50% over the next three months

BUY : absolute upside of >10% over the next six months

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

SELL : absolute downside of >10% over the next six months

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Securities Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Securities Limited 2008. All rights reserved.
