

## YGM Trading Limited

### Strong growth in sales of garments and margin improvements

to summarize...

- YGM reported full year earnings for FY2010/11A. Revenue increased +16.5% to HK\$1,154.6m from HK\$991.1m in 2009/10A. Profit for the year increased +42.4% to HK\$279.9m from HK\$196.6m.
- Gross profit margin increased +2.5p.p. to 67.1% from 64.6% and net profit margin increased 4.4p.p. to 24.2%.
- Sales of garments recorded yoy growth of 15.9% from HK\$881m to HK\$1,022m which is also the largest contributor to revenue accounting for 88%. Licensing of trademarks revenue recorded yoy growth of 20.4% from HK\$76m to HK\$92m.
- Going forward the company hopes to leverage their existing network and to capture the rapid consumption growth. They will target to increase another 161 outlets in China by 2015.
- YGM is currently trading at 11.0x current year fwd P/E and 9.1x 1-yr fwd P/E on consensus.

**FY2010/11A results:** YGM reported full year earnings for FY2010/11A. Revenue increased 16.5% to HK\$1,154.6m from HK\$991.1m in 2009/10A. Gross profit increased 21% to HK\$775.2m from HK\$640.6m. Profit for the year increased 42.4% to HK\$279.9m from HK\$196.6m. Earnings per share attributable to equity holder increased 39.1% to HK\$1.78 from HK\$1.28. Gross profit margin increased +2.5p.p. to 67.1% from 64.6% and net profit margin increased 4.4p.p. to 24.2%.

Table 1. FY2010/11A

12 months to Mar	Turnover (HK\$)	Gross Profit (HK\$)	Gross margin (%)	Pre-tax profit (HK\$)	Tax rate (%)	Net profit (HK\$)
FY2010/11A	1154.6	257.8	65.9	326.1	12.9	284.2
FY2009/10A	991.1	171.9	63.2	228.9	13.3	198.4
YoY(%)	16.5	21.0		42.5		42.4

Source: Company data

**Earning analysis:** Sales of garments recorded yoy growth of 15.9% from HK\$881m to HK\$1,022m which is also the largest contributor to revenue accounting for 88%. Total number of POS increased by 17. Licensing of trademarks revenue recorded yoy growth of 20.4% from HK\$76m to HK\$92m. On the profit side, higher increased was due to royalty for Aquascutum was saved now that YGM owns the brand and their investment in Hang Ten (448 HK) recorded a 66.7% increased in profit of HK\$49.1m from HK\$29.5 in previous year.

**About:** YGM Trading Limited is a Hong Kong-based company. The Company operates in four segments: sales of garments, licensing of trademarks, printing & related awards, and property rental. The sales of garments segment include the manufacture, retail and wholesale of garments accounting for 88% of total turnover. The licensing of trademarks segment includes the management and licensing of trademarks for royalty income accounts for 8% of turnover. The printing and related services segment included the manufacture and sale of printed products. The property rental segment includes the leasing of properties to generate rental income. The company holds 20% of Hang Ten group (448 HK).

**Market Positioning:** YGM operates a wide spectrum of brands from mass market appeal to mainstream to high-end luxury fashion brand. In the luxury fashion brand segment, the company operates the "Aquascutum" brand and "Guy Laroche" brand. Both of these are self-owned. Aquascutum contributes 56.2% of turnover and Guy

Ticker	0375 HK
Rating	NR
Price (HK\$)	19.4
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	8.90-24.65
Market cap. (US\$m)	3,160.8
Daily t/o (US\$m)	0.6
Free float (%)	61

#### Financial summary

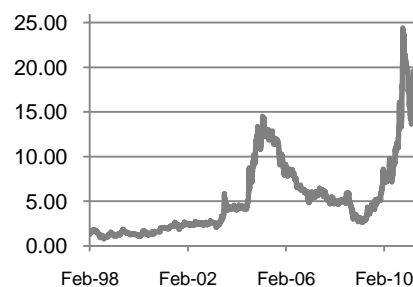
Year to Dec	09A	10A	11A
Turnover (HK\$)	971.9	991.1	1,154.6
Net Profit (HK\$)	79.5	198.4	279.9
EPS (HK\$)	0.517	1.280	1.780
P/E (x)	34.7	13.9	10.1
P/B (x)	3.53	2.99	2.31
EV/EBITDA (x)	20.5	12.5	8.9
Yield (%)	1.6	2.2	4.2
ROE (%)	9.8	23.3	26.1
ROCE (%)	11.7	21.7	26.1
N. Gear. (%)	Cash	Cash	Cash

Source: SBI

	12F	13F
Consensus EPS (HK\$)	2.14	2.69
Previous EPS (HK\$)	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	8.8	31.1	92.6
Actual price changes (%)	2.9	24.8	114.4



Source: Bloomberg

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Laroche contributes 5.3% of turnover. In the mid-tier fashion segment, the company operates the "Ashworth" and "J.Lindeberg" brand. Both of these brands are operating under distribution and licensed agreement. Ashworth contributes 15.4% of sales and J.Lindeberg contributes on 1.3% of sales. J.Lindeberg was only launched in September 2010. In the mainstream mass market segment, the company operates the "Michel René" brand, this which is a self-owned brand contributing 11.7% of sales.

**Table 2. Brand Positioning**

Brand Portfolio		% of Turnover	POS
<b>Mass Market – Main Stream</b>			
Michel René	Self-Owned Brand	11.7	50
<b>Mid Tier – International Fashion &amp; Sports Apparel</b>			
Ashworth	Distribution and Licensed Brand	15.4	72
J.Lingeberg	Distribution and Licensed Brand	1.3	14
<b>High-end – Luxury European Fashion</b>			
Aquascutum	Self-Owned Brand	56.2	166
Guy Laroche	Self-Owned Brand	5.3	1

Source: Company data

**Geographic Presence:** There are total 320 POS as of March 31th, 2011. With 212 point of sales in China, 57 POS in Hong Kong and Macau, 33 POS in Taiwan, 17 POS in South East Asia and one shop in Europe. There are total 137 POS that are self-operated as of March 31th, 2011. With 61 self-operating point of sales in China, 44 self-operating POS in Hong Kong and Macau and 32 self-operating POS in Taiwan. Hong Kong contributes 46.6% of turnover, China contributes 38.1% of turnover, Taiwan contributes 10% of turnover and the rest contributes 5.3% of turnover.

**Table 3. Geographic coverage**

Brands	China	2015 (target)	HK & Macau	2015 (target)	Taiwan	2015 (target)
Aquascutum	125	255	18	21	23	44
Michel René	29	29	16	16	5	5
Ashworth	51	54	16	17	5	5
J.Lingeberg	7	35	7	9	-	6
<b>Total</b>	<b>212</b>	<b>373</b>	<b>57</b>	<b>63</b>	<b>33</b>	<b>60</b>

Source: Company data

**Table 4. Self-operated vs. Wholesale/Franchisee operated**

Brands	China		HK & Macau		Taiwan		Total
	Self-operated	Wholesale/F.F.	Self-operated	Wholesale/F.F.	Self-operated	Wholesale/F.F.	
<b>Self-owned Brands</b>							
Aquascutum	19	106	13	5	22	1	166
Michel René	29	-	16	-	5	-	50
Sub-total	48	106	29	5	27	1	216
<b>Licensed Brands</b>							
Ashworth	16	35	12	4	5	-	72
J.Lingeberg	-	7	3	4	-	-	14
Sub-total	16	42	15	8	5	-	86
<b>Total</b>	<b>61</b>	<b>151</b>	<b>44</b>	<b>13</b>	<b>32</b>	<b>1</b>	<b>302</b>

Source: Company data

## Future Plan

**Strategy:** Going forward YGM will continue to build their existing brands and to further setup distribution in China and other Emerging Markets in Asia. For the Aquascutum Brand, the strategy is to increase square footage in the existing stores and improving efficiency by separating different distinction sections for men's wear and ladies' wear. There's also plan to expand into the Korean market by licensing method. Other possibility is to produce extension and develop a new line of golf collections. Overall, the company targets to improve margin by pricing power and brand image. YGM will also seek further opportunity to brands acquisition.

**Capturing China Market:** YGM already has a sizable China market penetration. It has well established retail networks in Beijing, Shanghai, Guangzhou and expanding its network in second, third, fourth tier cites. In the first and second tier cities it has 147 stores spreading across 24 cities. In the third tier cities, there are 44 stores spreading among 20 cities. And in the fourth tier cities it has 21 stores among 15 cities. Going forward the company hopes to leverage their existing network and to capture the rapid consumption growth. They will target to increase another 161 outlets in China by 2015. The number of new POS seems a bit high given that only 17 POS was added last year; we can first focus on the possible opening of 50 POS targeted for 2013.

**Risk:** Currently, the group is involving in a lawsuit in Paris with Societe Guy Laroche (SGL), a wholly owned subsidiary. On Dec. 22, 2010, the Tribunal of Commerce (TDC) ruled that SGL shall be liable for approximately €2.6m as indemnities for loss of gross margin of sales plus a design fee payable of €15,000. SGL filed an appeal against this judgment immediately. At the moment, the counsels of SGL advised

that: 1) SGL has a strong case despite the unfavorable judgment, 2) in France; commercial litigation between merchants will be held before the TDC which specializes in commercial litigation. Magistrates of the TDC are lay judges. The Court of Appeal, which is chaired by professional judges, will hear the case completely from the beginning and the previous judgment constitutes no prejudice; 3) the Court of Appeal is not expected to hear this case before 2012; and 4) the indemnity of approximately €2.6 million is not due for payment until the judgment of the Court of Appeal is issued.

**Valuation:** YGM is currently trading at 11.0x current year fwd P/E and 9.1x 1-yr fwd P/E on consensus. The Hong Kong listed peers are currently trading on average at 14.9x current year fwd P/E and 15.1x 1-yr fwd P/E based on market consensus.

**Table 5. Valuation Comparison**

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	His P/E (x)	1-Yr P/E (x)	2-Yr P/E (x)	PB (x)	Est ROE (%)
ESPRIT	330 HK	4,003.7	24.20	8.4	8.8	7.8	1.7	27.7
Bosideng	3998 HK	2,391.5	2.40	12.1	10.8	10.0	2.5	16.1
Trinity	891 HK	1,702.6	7.83	36.3	27.5	20.8	5.5	16.0
Lilang	1234 HK	1,677.7	10.90	25.9	19.7	15.6	5.8	23.9
Ports	589 HK	1,341.4	18.40	18.2	15.6	12.8	5.3	31.5
Giordano	709 HK	1,274.8	6.60	18.4	16.0	14.4	4.1	23.7
Boshiwa	1698 HK	1,263.6	4.75	25.9	18.4	12.6	2.8	15.6
I.T LTD	999 HK	1,183.0	7.56	23.1	17.3	14.3	4.9	23.3
Evergreen	238 HK	481.5	3.86	13.8	14.4	11.3	2.1	18.7
<b>YGM</b>	<b>375 HK</b>	<b>405.2</b>	<b>19.40</b>	<b>11.0</b>	<b>9.1</b>	<b>7.2</b>	<b>3.1</b>	<b>23.1</b>
Glorious Sun	393 HK	399.3	2.94	8.6	9.0	8.2	1.2	15.7
Dickson	113 HK	289.3	6.06	6.5	-	-	1.1	15.5
Hang Ten	448 HK	285.9	2.27	9.3	-	-	2.8	21.1
Joyce Boutique	647 HK	206.1	0.99	12.1	-	-	3.0	7.3
Bossini	592 HK	180.6	0.87	12.3	-	-	1.8	12.9
Moiselle	130 HK	93.7	2.59	9.3	-	-	1.6	12.5
Crocodile	122 HK	54.4	0.68	2.2	-	-	0.4	20.1
<b>Average</b>				<b>14.9</b>	<b>15.1</b>	<b>12.3</b>		

Source: Bloomberg

Table 6. Historical P &amp; L

Year to Dec (HK\$m)	2009A	2010A	2011A
<b>Revenue</b>	971.9	991.1	1,154.6
Cost of sales	(379.3)	(350.5)	(379.4)
<b>Gross profit</b>	<b>592.6</b>	<b>640.6</b>	<b>775.1</b>
Other revenue	11.5	10.8	11.9
Other net income/(loss)	8.5	(4.4)	5.1
Distribution costs	(367.1)	(326.9)	(373.8)
Administrative expenses	(154.5)	(147.5)	(159.3)
Other operating expenses	(2.4)	(0.6)	(1.1)
<b>Profit from operations</b>	<b>88.7</b>	<b>171.9</b>	<b>257.8</b>
Finance costs	(1.7)	0.9	0.9
Share of Profit of associates	17.7	29.5	49.1
<b>Profit before tax</b>	<b>91.1</b>	<b>228.9</b>	<b>326.1</b>
Income tax	(11.6)	(30.5)	(41.9)
<b>Net profit</b>	<b>79.5</b>	<b>198.4</b>	<b>284.2</b>

Source: Company data, SBI E2-Capital

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