

## YGM Trading Limited

### Brand building and setting up distribution in China

to summarize...

- YGM Trading Limited is a Hong Kong based company operating in four segments: sales of garments, licensing of trademarks, printing & related awards, and property rental.
- The sales of garments segment includes the manufacture, retail and wholesale of garments accounting for 87% of total turnover. The licensing of trademarks segment includes the management and licensing of trademarks for royalty income accounts for 9% of turnover.
- YGM operates a wide spectrum of brands from mass market appeal to mainstream to high-end luxury fashion brand.
- It has a sizable China market penetration with well established retail networks in Beijing, Shanghai, Guangzhou and expanding its network in second, third and fourth tier cities.
- YGM is currently trading at 10.8x current year fwd P/E and 8.1x 1-yr fwd P/E on consensus.

**Description:** 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 87% of total turnover. The licensing of trademarks segment includes the management and licensing of trademarks for royalty income accounts for 9% of turnover. The printing and related services segment includes the manufacture and sale of printed products. The property rental segment includes the leasing of properties to generate rental income. Among the sales of garments segment, retail sales accounts for 56% this segment and the rest is contributed by wholesales and export. The company holds 20% of Hang Ten group (448 HK).

**Table 1. 1H2010/11A**

6 months to Dec	Turnover (HK\$)	Gross Profit (HK\$)	Gross margin (%)	Pre-tax profit (HK\$)	Tax rate (%)	Net profit (HK\$)
1H09/10A	474.5	312.9	65.9	103.3	12.9	89.9
1H10/11A	411.1	259.7	63.2	47.2	13.3	41.7
YoY(%)	15.4	20.5		118.6		115.8

Source: Company data

**Lasted Reported Financial:** YGM reported half year earnings for 1H2010/11A. Revenue increased 15.4% to HK\$474.5m from HK\$411.1m in 1H09/10A. Gross profit increased 20.5% to HK\$312.9m from HK\$259.7m. Profit for the year increased 115.8% to HK\$89.9 from HK\$41.7m. Earnings per share attributable to equity holder increased +114.8% to HK\$58 cents from HK\$27 cents. Gross profit margin increased +2.7p.p. to 65.9% from 63.2% and net profit margin increased 8.8p.p to 18.9%.

**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 55.6% of turnover and Guy Laroche contributes 5.6% 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 14.4% of

Ticker	0375 HK
Rating	NR
Price (HK\$)	17.9
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	7.02-24.65
Market cap. (US\$m)	373.2
Daily t/o (US\$m)	0.5
Free float (%)	61.1

#### Financial summary

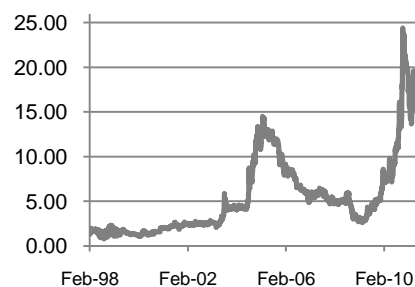
Year to Dec	08A	09A	10A
Turnover (HK\$)	1,110.1	971.9	991.1
Net Profit (HK\$)	176.2	79.5	198.4
EPS (HK\$)	1.110	0.517	1.280
P/E (x)	15.6	34.7	13.9
P/B (x)	3.28	3.53	2.99
EV/EBITDA (x)	18.4	20.5	12.5
Yield (%)	1.8	0.6	0.8
ROE (%)	21.0	9.8	23.3
ROCE (%)	13.3	11.7	21.7
N. Gear. (%)	Cash	Cash	Cash

Source: SBI

	11F	12F	
Consensus EPS (HK\$)	1.66	1.935	-
Previous EPS (HK\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-0.9	22.9	109.9
Actual price changes (%)	-5.5	22.3	150.3



Source: Bloomberg

#### SBI Research Team

(852) 2533 3700  
 sbie2research@sbie2capital.com

sales and J.Lindeberg contributes on 0.1% 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 11.3% of sales.

**Table 2. Brand Positioning**

Brand Portfolio		% of Turnover	POS
<b>Mass Market – Main Stream</b>			
Michel René	Self-Owned Brand	11.3	49
<b>Mid Tier – International Fashion &amp; Sports Apparel</b>			
Ashworth	Distribution and Licensed Brand	14.4	58
J.Lingeberg	Distribution and Licensed Brand	0.1	3
<b>High-end – Luxury European Fashion</b>			
Aquascutum	Self-Owned Brand	55.6	156
Guy Laroche	Self-Owned Brand	5.6	1

Source: Company data

**Geographic Presence:** There are total 295 POS as of September 30th, 2010. With 194 point of sales in China, 48 POS in Hong Kong, eight POS in Macau, 32 POS in Taiwan, 12 POS in South East Asia and one shop in Europe. Hong Kong contributes 50% of turnover, China contributes 36% of turnover, Taiwan contributes 8% of turnover and the rest contributes 6% of turnover.

**Table 3. Geographic coverage**

	31 March 2009	31 March 2010	30 September 2010	30 Sept 2013 (Target)	% of Turnover
China	215	198	194	250	36
Hong Kong & Macau	43	53	56	65	50
Taiwan	49	39	32	40	8
South East Asia	13	12	12	22	
Europe	1	1	1	1	
<b>Total</b>	<b>321</b>	<b>303</b>	<b>295</b>	<b>378</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 131 stores spreading across 24 cities. In the third tier cities, there are 39 stores spreading among 20 cities. And in the fourth tier cities it has 19 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 50 outlets in China by 2013.

**Valuation:** YGM is currently trading at 10.8x current year fwd P/E and 9.3x 1-yr fwd P/E on consensus. The Hong Kong listed peers are currently trading on average at 15.4x FY12/11F and 12.3x FY12/12F P/E based on market consensus.

**Table 4. 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	4,648.9	28.10	9.8	10.1	9.0	2.0	27.7
Bosideng	3998 HK	2,152.3	2.16	12.4	10.1	8.7	2.3	16.1
Lilang	1234 HK	1,680.8	10.92	26.1	19.8	15.8	5.9	23.9
Trinity	891 HK	1,660.1	7.64	35.4	26.4	19.9	5.4	16.0
Ports Design	589 HK	1,419.8	19.48	19.3	16.2	13.3	5.6	31.5
Giordano	709 HK	1,213.7	6.32	17.6	15.3	13.8	3.9	23.7
Boshiwa	1698 HK	1,104.0	4.15	22.7	16.0	10.9	2.5	15.6
I.T LTD	999 HK	1,053.0	6.79	24.1	22.5	17.0	5.1	19.5
Evergreen	238 HK	561.6	4.46	16.0	16.3	13.1	2.5	18.7
Glorious Sun	393 HK	425.1	3.13	9.1	9.6	8.7	1.3	15.7

27 May 2011

YGM Trading	375 HK	373.2	17.90	11.3	10.8	9.3	2.9	23.1
Hang Ten	448 HK	294.7	2.34	12.1	-	-	2.9	21.1
Dickson Concept	113 HK	288.3	6.04	7.9	-	-	1.1	15.5
Bossini	592 HK	184.8	0.89	12.6	11.1	8.1	1.9	12.9
Joyce Boutique	647 HK	183.2	0.88	19.9	-	-	2.7	7.3
Moiselle	130 HK	75.6	2.09	9.3	-	-	1.3	12.5
Crocodile	122 HK	57.5	0.72	2.3	-	-	0.5	20.1
U-RIGHT	627 HK	6.4	0.01	47.6	-	-	-	-
<b>Average</b>				<b>17.5</b>	<b>15.4</b>	<b>12.3</b>		

Source: Bloomberg

Table 5. Historical P &amp; L

Year to Dec (HK\$m)	2008A	2009A	2010A
<b>Revenue</b>	1,110.1	971.9	991.1
Cost of sales	(438.6)	(379.3)	(350.5)
<b>Gross profit</b>	<b>671.5</b>	<b>592.6</b>	<b>640.6</b>
Other revenue	12.0	11.5	10.8
Other net income/(loss)	10.5	8.5	(4.4)
Distribution costs	(409.4)	(367.1)	(326.9)
Administrative expenses	(174.2)	(154.5)	(147.5)
Other operating expenses	(7.8)	(2.4)	(0.6)
<b>Profit from operations</b>	<b>102.5</b>	<b>88.7</b>	<b>171.9</b>
Finance costs	(4.7)	(1.7)	0.9
Share of Profit of associates	34.1	17.7	29.5
<b>Profit before tax</b>	<b>190.9</b>	<b>91.1</b>	<b>228.9</b>
Income tax	(14.6)	(11.6)	(30.5)
<b>Net profit</b>	<b>176.2</b>	<b>79.5</b>	<b>198.4</b>

Source: Company data, SBI E2-Capital

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