

Results preview

China Consumer

Hembly (3989 HK, HK\$2.60)

BUY (unchanged)

Target price: HK\$3.90 (+50.0%)

Hembly will announce its first post-listing annual results on 29th March. We expect a strong growth in sales, up c.40% YoY at HK\$598.5m, and in net profit, up c.30% YoY at HK\$75.7m, supported by its increasing outsourcing from Europe in the Supply Chain Management (SCM) segment and strong sales growth from Lotto and Stonefly in the retail & distribution (R&D) segment. New SCM customers, mainly premium brands, should enhance its gross margin, partly offsetting higher operating costs due to downstream retail expansion. We expect a payout of 30% or DPS of HK\$0.09, representing a dividend yield of 3.5%. We reiterate our BUY recommendation, with a target price of HK\$3.90, based on our sum-of-the-parts valuation (refer to table 1). Our target price represents 8.4x P/E in FY12/07F.

Key things to note:

- ❑ We expect the retail and distribution segment to break even in FY12/06F, earlier than expected.
- ❑ Re-registration of the 30 outlets transferred to the JV from the Benetton Group is taking longer than expected and thus, Sisley stores' contribution will not be booked in until FY12/07F.
- ❑ Upward pressure on operating expenses due to higher administration and selling spending.
- ❑ Talks with renowned brands about potential strategic alliances in the China retail market.
- ❑ Strong order book under SCM - current spring-summer 2007 shipments already up 30%.

Table 1: Sum-of-the-parts valuation

(HK\$m)	FY12/07F net profit	Target P/E (x)	Valuation
- Supply chain management (SCM)	110.4	10.6	1,170.5
- Retail & distribution (R&D)	7.4	17.7	131.4
Valuation	117.8		1,301.9
Less debt			(315.2)
Equity value			986.7
Value per share (HK\$)			3.9

Source: SBI E2-Capital

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Sole Bookrunner, Lead Manager and Underwriter for the Hembly IPO (77.28m shares at HK\$1.70) on 12 July 2006.

Table 2: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
04A	30.9	0.122	21.6	21.3	8.2	13.8	n.a.	74.6	24.7	185.7
05A	58.2	0.230	88.5	11.3	3.2	6.3	n.a.	56.7	25.1	104.5
06F	75.7	0.299	30.1	8.7	3.2	4.6	3.5	43.2	21.5	71.0
07F	117.3	0.464	54.9	5.6	2.6	3.1	5.4	51.4	25.7	67.5
08F	151.7	0.600	29.3	4.3	1.8	2.8	6.9	48.6	30.2	31.3

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