IPO Flash

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Small and lean, growth through M&As — China retail

Jiahua Stores (602 HK) — Not Rated

The Company. Established in 1995, Jiahua is a Shenzhen-based supermarket and department store operator with eight retail stores, seven in Shenzhen and one in Dongguan. Two of them commenced operations in Aug and Nov 2006, while one, Shinyan Store, was not operational during the track record period. The stores, averaging 14,400sq.m., are operated under the name of "Jiahua Emporium" (佳華商場). Sales are divided into direct sales, concessionaire sales and rental income from leasing of shop premises (chart 1). The company intends to payout not less than 20%. It plans to set up at least four new retail stores in the next two years.

The company does not own its store premises, leasing them mainly from BJH Industrial and JH Real Estate, which are owned by its founder and chairman, Mr. Zhuang. Martin Currie Investment Management Ltd. is its cornerstone investor, holding 3% of issued shares after the share offer but before over-allotment and subject to one-year lock-up period.

Table 1: Offer statistics

Price range	HK$0.87-1.04
No. of shares offered (new shares, before 15% green shoe)	250m
Fund raised:	HK$217.5-260.0m
Offer P/E (FY12/06A)	15-18x
Market cap	US$1.1-1.3b
IPO open	8 May
IPO close	12 May
Listing	21 May

Source: Company data

Table 2: Use of proceeds

	HK$m
Establishment of new retail stores in Guangdong Province	100
Acquisition of retail stores	63
Set up procurement centres and MIS upgrade	38
Promote brand image	6
General working capital	9
Net proceeds raised	216

Source: Company data

Table 3: Margin trends

%	FY12/04A	FY12/05A	FY12/06A
Gross	21.2	23.1	23.2
Operating	8.7	11.5	10.4
Net	8.6	9.8	9.0

Source: Company data, SBI E2-Capital

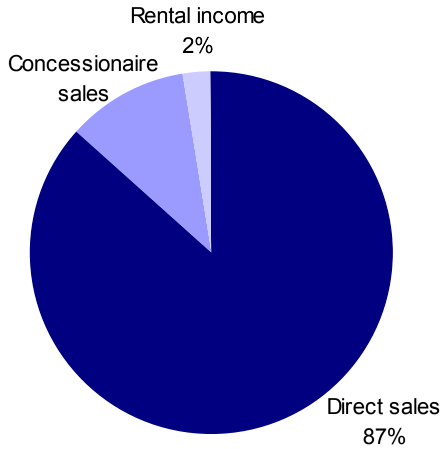
Valuation. The offer price represents 15-18x historical P/E in FY12/06A, a discount compared with the industry average of 36.4x. As the counter is small in terms of geographical presence and profitability (net profit was only RMB56.9m), we believe the discount is justified. Any major upside may come from future mergers and acquisitions. Margins are at a fair level, coming in between department stores and supermarkets (supermarket sales accounted for c.63% of total sales in FY12/06A). The company is in a net cash position of RMB59.4m as most of its liabilities are in the form of trade payables.

Table 4: Peer comparison

Stock	Ticker	Market Cap (US$m)	P/E (x) 06A	07F	08F	Operating margin (%)	ROA (%)	ROE (%)
Lifestyle	1212	2,936.8	30.9	27.5	24.3	30.01	12.43	20.62
Parkson	3368	3,772.1	63.2	46.8	34.5	33.32	8.59	22.99
Intime	1833	1,467.7	41.7	-	-	43.29	11.07	34.14
Beijing Jingkelong	8245	361.9	20.6	23.8	16.9	3.23	3.79	14.82
Lianhua	980	791.1	25.0	21.7	18.6	0.87	3.04	12.26
Wumart	8277	1,076.4	37.2	26.3	22.6	2.82	5.87	13.37
Average			***36.4***	***29.2***	***23.4***	***18.9***	***7.5***	***19.7***

Source: Bloomberg

Chart 1: Sales breakdown by segment FY12/06A



Source: Company data

Risks. 1) Resumption of retail properties; 2) Failure to secure prime retail locations; 3) Intense competition in the supermarket and retail chain store business in China; 4) Seasonal fluctuations and 5) Over-reliance on any particular store.