

## RCG Holdings Ltd.

### Cloudy issues around

to summarize...

- The second largest shareholder was rejected by the judge for his claim on Nina Wong's heritage.
- The shareholding structure is uncertain now with the possibility that two largest shareholders may sell their shares.
- Share price is under pressure in short term although the company in long run may benefit from expected simplified shareholder structure.

**Shareholding structure is under cloud.** On 2 February 2009, the second largest shareholder (23.2%) of RCG, Mr. Tony Chan, was rejected by the judge for his claim on tycoon Nina Wong's heritage. The company said that its operation has not been affected, however, it is possible that both Tony Chan and ChinaChem Charitable Foundation, the current largest shareholder of the company (24.0%), would seek closing out their position in RCG.

**Share price under pressure.** Share price of the counter dropped 19.7% so far since the news come out. In our view, although, in long run, the company could potentially benefit from expected simplified shareholder structure, the negative news would put the stock under selling pressure. We remove our recommendation temporarily pending on further review.

Ticker	802 HK
Rating	N.A. (under review)
Price (HK\$)	8.59
Target Price (HK\$)	N.A. (under review)
12m Price Range (HK\$)	5.60-29.28
Market cap. (US\$m)	345.6
Daily t/o (US\$m)	0.55
Free float (%)	45.93

#### Financial summary

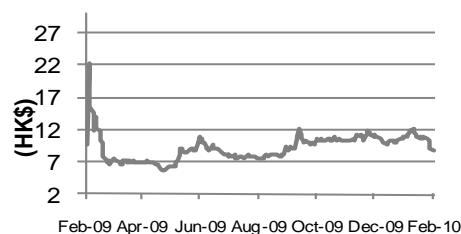
Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,438.8	2,002.4	2,385.3	2,784.7	3,291.1
Net Profit (HK\$m)	452.5	622.3	676.1	803.2	942.5
EPS (HK\$)	2.020	2.675	2.471	2.936	3.445
P/E (x)	4.2	3.2	3.5	2.9	2.5
P/B (x)	0.9	0.7	0.6	0.5	0.4
EV/EBITDA (x)	2.8	2.6	2.1	1.5	0.8
Yield (%)	0.9	1.0	1.4	1.7	2.0
ROE (%)	40.9	26.2	21.2	19.7	19.4
ROCE (%)	37.5	23.1	19.0	18.1	18.0
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI/Bloomberg

	09F	10F	11F
Consensus EPS (HK\$)	2.773	3.310	3.737
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-9.3	-6.7	-
Actual price changes (%)	-20.5	-16.4	-



Source: Bloomberg

#### Research Team

SBI E2-Capital Securities Ltd.  
 (852) 2533 3700  
[sbie2research@sbie2capital.com](mailto:sbie2research@sbie2capital.com)

Table 1: P &amp; L forecast

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Revenue	1,438.8	2,002.4	2,385.3	2,784.7	3,291.1
Cost of sales	(719.7)	(943.7)	(1,134.5)	(1,354.6)	(1,629.6)
<b>Gross profit</b>	<b>719.1</b>	<b>1,058.6</b>	<b>1,250.8</b>	<b>1,430.1</b>	<b>1,661.5</b>
Other income	29.1	19.3	20.7	41.4	62.1
Distribution expenses	(113.4)	(96.9)	(134.5)	(167.1)	(213.9)
Administrative expenses	(176.4)	(362.5)	(441.4)	(473.4)	(526.6)
<b>Operating profit</b>	<b>458.4</b>	<b>618.6</b>	<b>695.6</b>	<b>831.0</b>	<b>983.0</b>
Finance costs	(2.2)	(5.2)	(6.3)	(3.0)	(1.2)
<b>Profit before tax</b>	<b>456.2</b>	<b>613.4</b>	<b>689.3</b>	<b>828.1</b>	<b>981.8</b>
Income tax expense	(3.5)	(2.3)	(7.6)	(16.6)	(29.5)
<b>Profit after tax</b>	<b>452.7</b>	<b>611.1</b>	<b>681.7</b>	<b>811.5</b>	<b>952.4</b>
Minority interests	(0.1)	11.2	(5.6)	(8.4)	(9.9)
<b>Net profit</b>	<b>452.5</b>	<b>622.3</b>	<b>676.1</b>	<b>803.2</b>	<b>942.5</b>

Source: Company data, SBI E2-Capital

Disclosure of interests: SBI E2-Capital Securities Limited acted as sole placing agent for RCG Holding Limited (Stock Code: 802) in September 2009.

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