

## Legend Strategy International

### FY12/12A result update

#### to summarize...

- Legend Strategy announced FY12/12A result, turnover increased by 31% YoY to HK\$91.6m, while net profit was up by 55% YoY to HK\$32.9m. Profit margin improved by 5.5pp YoY to 36.1%.
- Average room rate was up by 2.5% to RMB185.2 per night with occupancy rate dropped by 0.6pp YoY to 79.61%.
- Company has confirmed five new hotel locations and entered into the leasing agreement with landlords in 2013. Upon completion, total leased-and-operated hotels will be double.
- Current price HK\$2.22 implied 12A P/E of 12.1x and 12A P/B of 3.4x.

**What news.** Legend Strategy (LS) released its annual result on Tuesday after market. Company has delivered sound financial result for FY12/12A. Turnover increased by 31% YoY to HK\$91.6m. Turnover from hotel operations (leased-and-operated hotel business) increased by 20% YoY to HK\$33.0m with segment result increased by 1.8x YoY to HK\$7.4m, whereas turnover from hotel consultancy services increased by 38% YoY to HK\$58.2m with segment result increased by 20% YoY to HK\$37.3m. In terms of operating expenses, operating margin improved by 3.8pp YoY to 49.1%, was largely due to increase in sales divided from low OPEX hotel consultancy business. Leased expense to sales ratio dropped by 1.6pp YoY to 12.7%, while wages expenses to sales ratio increased by 0.6pp YoY to 10.8%. Net profit for FY12/12A was HK\$32.9m, increased by 36% YoY. Table 1 shows segments earnings result:

**Table 1. Segment result summary**

HK\$m	11A	12A	Chg
Segment turnover			
- Hotel operation	27.4	33.0	20%
- Hotel consultancy	42.2	58.2	38%
Segment net profit			
- Hotel operation	2.6	7.4	1.8x
- Hotel consultancy	31.2	37.3	20%
Leased-and-operated hotels:			
Occupancy rate	80.2%	79.6%	-0.6pp
ARR (RMB)	180.6	185.2	2.5%

Source: SBI E2-Capital

**Hotel operation update.** For 12A, Legend Strategy has five leased-and-operated hotels and two managed hotels under brand of Welcome Inn (悦来客栈). During the year, company has double its leased-and-operated hotels portfolio by adding 5 new leased-and-operated hotels located in Guangdong province, as shown in table 3. They are expected to commence hotel business in 2013F. In terms of hotel consultancy services, company had entered into 12 hotel consultancy agreements. Up to date, company has completed over 30 services at average ~RMB2.5m/job.

**Table 1. Segment result summary**

Name	Location	Lease Term	Commencement
Xiachong Hotel	Huizhou City	10 years	1H 13F
Huizhou Binjiang Hotel	Huizhou City	10 years	2H 13F
Meilin Hotel	Shenzhen City	10 years	3Q 13F
Shekou Hotel	Shenzhen City	10 years	3Q 13F
Changping Hotel	Dongguan City	10 years	4Q 13F

Source: SBI E2-Capital

Ticker	8160 HK
Rating	Not Rated
Price (HK\$)	2.22
Target Price (HK\$)	-
12m Price Range (HK\$)	0.92 – 2.51
Market cap. (US\$m)	51.2
Daily t/o (US\$m)	0.3
Free float (%)	31.2

#### Financial summary

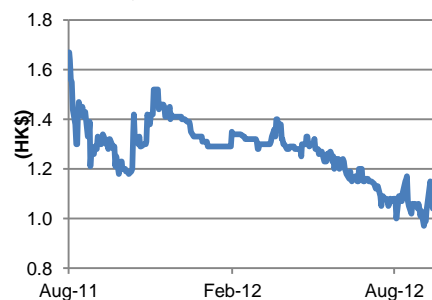
Year to Dec	10A	11A	12A
Turnover (HK\$m)	37.3	69.6	91.2
Net Profit (HK\$m)	9.2	21.3	32.9
EPS (HK\$ cent)	6.8	13.6	18.3
P/E (x)	32.6	16.3	12.1
P/B (x) pre-CB	-	4.7	3.4
EV/EBITDA (x)	20.1	10.2	7.5
Yield (%)	-	-	-
ROE (%)	5.9x	42	32
ROCE (%)	3.1x	58	37
N. Gear. (%)	7	N. Cash	1

Source: SBI E2-Capital

	12F	13F	14F
Consensus EPS (US\$)	-	-	-
Previous earnings (US\$m)	-	-	-
Previous EPS (US\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	3.9	10.5	61.6
Actual price changes (%)	0.9	11.0	70.8



Source: Bloomberg

#### SBI Research Team

(852) 2533 3700  
 sbie2research@sbie2capital.com

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**Valuation.** Based on current price HK\$2.22, Legend Strategy 12A P/E and 12A P/B are trading at 12.1x and 3.4x respectively.

**Table 7. Key financial result from 2010 to 2012**

HK\$m	10A	11A	12A
Revenue	37.32	69.59	91.16
Expenses			
Operating lease	(7.49)	(9.98)	(11.58)
Depreciation of PPE	(6.37)	(7.09)	(7.96)
Employee benefit	(4.04)	(7.09)	(9.85)
Utilities	(1.43)	(1.73)	(1.89)
Other operating	(4.38)	(12.18)	(15.12)
Operating loss/ profit	13.61	31.51	44.75
Finance income	0.05	0.06	0.08
Finance cost	(0.14)	(0.20)	(1.08)
Share of result of JV		(2.51)	(0.02)
Loss/ profit before income tax	13.52	28.85	43.73
Tax	(3.97)	(7.59)	(10.86)
Net profit	9.55	21.26	32.87
Net profit to holder	9.19	21.26	32.87

Source: SBI E2-Capital, LS

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