

Results Update

RM Group Holdings Limited

8185 HK

Full speed ahead

- RM Group recorded revenue and net profit attributable to shareholders of HKD47.8m and HKD3.8m in 1Q FY03/15, representing a YoY increases of 47.5% and 11.3x respectively.
- Stripping out its one-off listing expenses in 1Q FY03/14, its profit for 1Q FY03/15 would have increased by 5.5x YoY.
- The increase in profit was mainly attributable to its launch of new health supplements during the quarter.
- The company's Taiwan business continued to record profit, indicating greater sustainability of the business in the country.
- Operating efficiency improved with SG&A to sales decreasing by 5.1ppts to 65.3%.
- The company is currently trading at a prospective P/E of 18.7x for FY03/15E, which is lower than the average level of its peers.

Health supplements led the growth: Health supplements, under which Royal Medic CS-4 (the best-selling product under the company's proprietary brand) is categorized, was up 93.7% YoY to HKD38.3m. The increase in revenue in the segment was mainly attributable to the launch of new products in the quarter (including 4 new products developed with CUCAMed). With the increase in popularity of the new products and the continuous growth of existing products, we expect the company to witness substantial growth in the coming years.

Taiwan business started to pick up: The company recorded revenue generated from its Taiwan business of HKD0.6m in 1Q FY03/15 (1Q FY03/14: Nil), which accounted for 1.2% of its total revenue in the quarter (with the remainder coming from HK). Albeit still a negligible amount, we regard this development as a big leap forward for the company, as it signals the sustainability of its business in Taiwan after it recognized revenue from the country for the first time in FY03/14. Assuming that the quarterly result of its Taiwan business will remain stable throughout FY03/15E, we expect the company to see a 7.5% YoY increase in its revenue from the country in FY03/15E.

SG&A to sales ratio fell on the back of higher revenue from increased marketing activities: Although SG&A increased from HKD22.8m in 1Q FY03/14 to HKD31.2m in 1Q FY03/15, a direct result of an increase in marketing expenses, its SG&A to sales ratio was down by 5.1ppts to 65.3%, indicating higher revenue and business growth translated from the same increased marketing expenses. Coupled with the expansion in gross margin and the absence of listing expenses, we expect the company to see substantial improvement in its performance in FY03/15.

Undemanding valuation compared with peers: At a share price of HKD1.68, RM Group is trading at a prospective P/E of 18.7x for FY03/15, representing a discount of 23.3% and 25.8% to the average levels at which its international peers and its HK-listed peers are trading, respectively.

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Stock Data (8185 HK)

Rating	Not Rated
Price (HKD)	1.68
Target Price (HKD)	n.a.
12m Price Range (HKD)	1.046-2.884
Market cap. (HKDm)	865.2
Daily t/o (HKDm)	1.5
Free float (%)	25.2
Source: Bloomberg	

Figure 1: Financials and valuation

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Total revenue (HKD m)	163.8	169.7	189.9	205.1	221.6
Revenue growth (YoY)	3.1%	3.6%	11.9%	8.0%	8.1%
Gross profit (HKD m)	129.0	130.0	150.0	162.1	175.3
Gross profit growth (YoY)	2.1%	0.8%	15.4%	8.1%	8.1%
Net profit (HKD m)	39.3	(5.7)	46.2	49.3	53.3
Net profit growth (YoY)	-8.8%	N.A.	N.A.	6.7%	8.3%
EPS (HKD cents)	N.A.	(1.3)	9.0	9.6	10.4
P/E (x)	N.A.	N.A.	18.7	17.6	16.2

Source: SBI China Capital, Company data

Please refer to important disclosures at the end of this report.

Figure 2: Results snapshot for 1Q FY03/15 & 1Q FY03/14

	1Q FY03/15 HKD m	1Q FY03/14 HKD m	YoY Change
Revenue	47.8	32.4	47.5%
Operating profits	4.9	0.6	729.9%
Net profit attributable to shareholders	3.8	0.3	1132.8%
Net profit attributable to shareholders (adjusted for listing expenses)	3.8	0.6	551.6%

Source: Company data

Figure 3: Revenue breakdown for 1Q FY03/15 & 1Q FY03/14

Revenue breakdown	1Q FY03/15 HKD m	1Q FY03/14 HKD m	YoY Change (%)
Health Supplements			
Proprietary brands	29.3	14.9	96.7%
Private label brands	9.1	4.9	84.5%
	38.3	19.8	93.7%
Beauty supplements			
Proprietary brands	8.1	8.8	-8.3%
Private label brands	1.1	3.6	-70.6%
	9.2	12.5	-26.3%
Others	0.3	0.2	71.3%
Total	47.8	32.4	47.5%

Source: Company data

Figure 4: Gross margin breakdown for 1Q FY03/15 & 1Q FY03/14

Gross margin breakdown	1Q FY03/15 HKD m	1Q FY03/14 HKD m	YoY Change (ppts)
Health Supplements			
Proprietary brands	77.5%	75.1%	2.4
Private label brands	83.4%	82.8%	0.6
	78.9%	77.0%	1.9
Beauty supplements			
Proprietary brands	64.8%	66.5%	-1.7
Private label brands	83.4%	73.5%	9.8
	66.9%	68.6%	-1.6
Others	83.9%	46.7%	37.2
Total	76.6%	73.6%	3.0

Source: Company data

Valuation

At a share price of 1.68, RM Group is trading at a prospective P/E of 18.7x for FY03/15E, which is lower than the respective averages of its international peers and its HK-listed peers.

The company's international peers, including Herbalife (HLF US), Nu Skin (NUS US), USANA (USNA US), FANCL (4921 JP), and Eu Yan Sang (EYSAN SP), are on average trading at a trailing P/E of 30.8x for 2013 and a prospective P/E of 24.4x for 2014.

As for the company's HK-listed peers, there are six companies that are engaged in manufacturing and selling of healthcare products in HK and China. These companies include Wai Yuen Tong (0897 HK), Tong Ren Tang (1666 HK), Beijing Tong Ren Tang Chinese Medicine Co. Ltd. (8138 HK), CK Life Sciences International (0775 HK), Besunyen (0926 HK), and Real Nutriceutical (2010 HK). On average, these companies are trading at a trailing P/E of 19.2x for 2013 and a prospective P/E of 25.2x for 2014.

Excluding RM Group, the above-mentioned companies together are on average trading at a trailing P/E of 25.0x for 2013 and a prospective P/E of 24.6x for 2014.

Figure 5. Peer comparison

Company	Ticker	Mkt Cap (HKD m)	3M avg turnover (HKD m)	2013 P/E (x)	2014E P/E (x)*	P/book (x)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
RM Group	8185 HK	865.2	1.5	N.A.	18.7	4.1	(5.5)	(4.3)	0.0	(71.6)
International Peers										
Fandl Corporation	4921 JP	6,370.2	11.1	101.9	69.5	1.1	1.8	1.6	N.A.	(44.6)
Eu Yan Sang International	EYSAN SP	2,238.2	0.3	19.8	19.8	2.5	13.1	5.6	N.A.	41.9
Herbalife	HLF US	37,056.6	1,112.1	10.7	8.3	N.A.	N.A.	19.6	1.7	(7.6)
Nu Skin Enterprise	NUS US	22,366.5	608.0	8.1	11.8	3.2	40.4	21.4	2.6	(42.6)
USANA Health Science	USNA US	7,019.5	74.3	13.7	12.5	3.8	31.1	22.3	N.A.	(56.0)
Average		15,010.2	361.2	30.8	24.4	2.7	21.6	14.1	2.2	(21.8)
HK-listed Peers										
Wai Yuen Tong Medicine	0897 HK	586.2	8.8	3.6	N.A.	0.3	9.3	7.4	1.5	(0.3)
Tong Ren Tang Technologies	1666 HK	14,447.2	17.4	27.6	23.9	3.5	15.0	9.4	1.4	(54.2)
CK Life Sciences International	0775 HK	7,496.6	3.3	31.8	N.A.	1.4	4.6	2.3	0.9	57.2
Besunyen Holdings	0926 HK	847.5	0.8	N.A.	N.A.	0.6	(7.5)	(6.7)	0.0	(34.8)
Beijing Tong Ren Tang Chines	8138 HK	7,893.3	6.2	29.3	26.4	5.9	21.3	19.2	0.8	(70.5)
Reak Nutraceutical	2010 HK	2,302.2	4.7	3.7	N.A.	0.5	14.0	11.9	2.9	(28.4)
Average		5,595.5	6.9	19.2	25.2	2.0	9.5	7.3	1.3	(21.8)
Average of all**		9,874.9	167.9	25.0	24.6	2.3	14.3	10.4	1.5	(21.8)

Source: SBI China Capital, Bloomberg

*For RM Group, the prospective P/E is for FY2015 as its year end is in March.

**RM Group is not included in the average figure.

Figure 6. Per share items

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
EPS - Basic (HK cents)	-	(1.3)	9.0	9.6	10.4
- Diluted (HK cents)	-	(1.3)	8.4	9.0	9.8
BVPS (HK cents)	-	32.6	37.6	42.7	48.3

Source: Company data

Figure 7. Ratio analysis

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Growth (YoY)					
Revenue	3.1%	3.6%	11.9%	8.0%	8.1%
Gross profit	2.1%	0.8%	15.4%	8.1%	8.1%
Net profit	-8.8%	N.A.	N.A.	6.7%	8.3%
Margin					
Gross margin	78.8%	76.6%	79.0%	79.0%	79.1%
Operating margin	28.5%	0.3%	29.8%	30.2%	30.2%
Net profit margin	24.0%	-3.4%	24.3%	24.0%	24.1%
Other Ratios					
Return on asset	47.3%	-3.1%	20.9%	19.3%	18.2%
Return on equity	101.8%	-3.4%	23.8%	22.4%	21.5%
Valuation					
P/E (x)	-	N.A.	18.7	17.6	16.2
P/B (x)	-	5.1	4.5	3.9	3.5

Source: SBI China Capital, Company data

Figure 8. Income statement (HKD m)

	FY03/13 HKD m	FY03/14 HKD m	FY03/15E HKD m	FY03/16E HKD m	FY03/17E HKD m
Revenue	163.8	169.7	189.9	205.1	221.6
Cost of good sold	(34.8)	(39.7)	(39.9)	(43.0)	(46.4)
Gross profit	129.0	130.0	150.0	162.1	175.3
other revenue and other net income	1.3	2.7	1.5	2.4	2.5
Selling, distribution and administrative expenses	(82.1)	(109.4)	(94.9)	(102.6)	(110.8)
Listing expenses & share based payment	(1.6)	(22.7)	0.0	0.0	0.0
Profit from operations	46.6	0.6	56.5	61.9	67.0
Finance costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
Profit before taxation	46.5	0.4	56.5	61.8	67.0
Taxation	(7.2)	(6.2)	(10.3)	(12.6)	(13.6)
Profit attributable to shareholders	39.3	(5.7)	46.2	49.3	53.3

Source: SBI China Capital, Company data

Figure 9. Segment Financials

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Revenue breakdown by segments (HKD m)					
Health Supplements					
Proprietary brands	105.2	104.3	118.0	128.2	139.2
Private label brands	14.9	27.5	30.2	33.3	36.6
Subtotal	120.1	131.8	148.2	161.4	175.8
Beauty supplements					
Proprietary brands	27.2	28.3	29.8	31.5	33.3
Private label brands	15.6	8.8	11.0	11.2	11.5
Subtotal	42.8	37.0	40.8	42.7	44.8
Others	0.8	0.9	0.9	0.9	1.0
YoY Growth (%)					
Health Supplements					
Proprietary brands	-0.5%	-0.8%	13.1%	8.6%	8.7%
Private label brands	292.3%	84.4%	10.0%	10.0%	10.0%
Subtotal	9.7%	9.8%	12.5%	8.9%	8.9%
Beauty supplements					
Proprietary brands	-10.1%	4.0%	5.5%	5.6%	5.7%
Private label brands	-15.6%	-44.0%	25.4%	2.2%	2.3%
Subtotal	-12.2%	-13.5%	10.2%	4.7%	4.8%
Others	56.5%	1.4%	5.0%	5.0%	5.0%

Source: SBI China Capital, Company data

Figure 10. Balance sheet (HKD m)

	FY03/13 HKD m	FY03/14 HKD m	FY03/15E HKD m	FY03/16E HKD m	FY03/17E HKD m
Non-current assets					
Property, plant and equipment	16.9	17.0	16.7	16.0	14.9
Intangible asset	0.0	0.7	0.7	0.7	0.7
Total non-current assets	16.9	17.8	17.5	16.8	15.7
Current assets					
Inventories	12.8	17.5	8.8	10.1	10.3
Trade and other receivables	32.6	25.8	36.6	30.8	42.1
Pledged bank deposit	5.0	0.0	0.0	0.0	0.0
Tax recoverable	0.0	2.2	2.2	2.2	2.2
Cash and cash equivalents	15.7	123.3	155.3	195.6	223.7
Total current assets	66.1	168.8	202.9	238.7	278.2
Current liabilities					
Trade and other payables	(13.2)	(13.8)	(22.6)	(32.0)	(42.2)
Secured bank loans	(3.5)	(2.9)	(2.4)	(1.9)	(1.4)
Others	(27.6)	(1.3)	(1.3)	(1.3)	(1.3)
Total current liabilities	(44.3)	(18.1)	(26.3)	(35.3)	(44.9)
Non-current liabilities					
	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)
Net Asset	38.6	168.1	193.7	219.9	248.6
EQUITY					
Share capital	0.0	5.2	5.2	5.2	5.2
Reserves	38.6	163.0	188.5	214.7	243.4
TOTAL EQUITY	38.6	168.1	193.7	219.9	248.6

Source: SBI China Capital, Company data

Figure 11. Cash flow statement (HKD m)

	FY03/13 HKD m	FY03/14 HKD m	FY03/15E HKD m	FY03/16E HKD m	FY03/17E HKD m
Operating activities					
Profit before taxation	46.5	0.4	56.5	61.8	67.0
Adjustments for non cash items	1.0	8.4	2.4	2.8	3.1
Change in W/C	(18.3)	3.6	6.6	14.0	(1.3)
Tax paid	(28.3)	(8.1)	(10.3)	(12.6)	(13.6)
Net cash generated from operating activities	0.9	4.4	55.2	66.0	55.2
Investing activities					
Purchase of property, plant and equipment	(2.9)	(2.0)	(2.0)	(2.0)	(2.0)
Proceeds from sale of property, plant and equipment	2.1	0.0	0.0	0.0	0.0
Others	(5.0)	4.5	0.0	0.0	0.0
Net cash generated from operating activities	(5.8)	2.5	(2.0)	(2.0)	(2.0)
Financing activities					
Proceeds from IPO	0.0	128.1	0.0	0.0	0.0
Repayment of secured bank loans	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Interests paid	(0.1)	(0.1)	(0.1)	(0.1)	0.0
Dividend paid	0.0	0.0	(20.6)	(23.1)	(24.6)
Others	(13.6)	(26.6)	0.0	0.0	0.0
Net cash generated from financing activities	(14.2)	100.9	(21.2)	(23.6)	(25.1)
Net increase/ decrease in cash and cash equivalent	(19.1)	107.7	32.0	40.4	28.0
Cash and cash equivalent at the end of last period	34.8	15.7	123.3	155.3	195.6
Exchange rate effect	0.0	(0.1)	0.0	0.0	0.0
cash and cash equivalent at the end of the current period	15.7	123.3	155.3	195.6	223.7

Source: SBI China Capital, Company data

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