

## Eternite Int'l Company

### Steps into Luxury - completion of Larry Jewelry acquisition

to summarize...

- The group announced on August 22<sup>nd</sup>, 2011, the placing of 61.8m exiting shares and subscription of 72.7m shares at a placing price of HK\$0.75 per share, which is a 13.79% discount to the last closing price.
- The group completed the acquisition of Larry Jewelry, a high-end jewellery retailer on July 19<sup>th</sup>, 2011. By this acquisition, the group begins to expand vertically into the luxury jewellery market.
- On August 8th, 2011, the group announced the acquisition of 100% of Parkwell Group, a jewellery retail chain under the brand and trademark "theegold" in Beijing, at a total consideration of HK\$5.5m.
- This acquisition is in line with the group's strategy as Parkwell is similar and complementary to the new products under the group future brand "Vera".
- The acquisition also brings along a team of talented players in the operation of mid-tier jewellery retail business, thus accelerate the development of the Group's expansion.
- We'll soon begin the possibility of initiating coverage on this counter.

**Recent corporate activity:** On August 22<sup>nd</sup>, 2011, the group announced the placing of 61.8m exiting shares and subscription of 72.7m shares at a placing price of HK\$0.75 per share, which is a 13.79% discount to the last closing price. The Placees are professional institutional investors including Gen2 Partners and other investors. The subscription participants include Mr. Larry Chan, the founder of Larry Jewelry; Mr. Joe Chan, Chairman of Eternite and the Company's other existing major shareholders.

Also the group announced the completion of the Larry Jewelry acquisition on July 19<sup>th</sup>, 2011. The completion of the acquisition represented a major milestone for the Group's business to expand its retail jewelry business across the Asian markets. It will devote efforts and resources to promote the "Larry" brand in Hong Kong, Singapore and the PRC, thus Eternite can expand vertically in the luxury jeweler market.

**Table 1. Recent Corporate Development**

Dates	
7 Oct. 2009	Listing debut on HKGEM
7 Apr. 2010	Top-up placing of 72m shares
19 Oct. 2010	Announcement of the General Offer
13 Dec. 2010	Completion of the General Offer
8 Mar. 2011	MOU in respect of a possible acquisition
9 Mar. 2011	Announced placing of 64.5m new shares & subscription of 26m new shares
26 Apr. 2011	S&P with Larry Jewelry Limited
19 July 2011	Completion of the acquisition
8 Aug. 2011	Announcement of the acquisition of Parkwell Group
11 Aug. 2011	Opened new store under "Larry Jewelry" in Causeway Bay

Source: Company data

**About Larry:** Larry Jewelry established in 1967, a household name in Hong Kong and Singapore. It is a distributor for Lazare jewelry in Singapore. It is one of three jewelers in Hong Kong that is recognized by De Beers to sell the Forevermark diamonds. Currently it has four shops in Hong Kong and two shops in Singapore. Going forward they are planning to enter China, Taiwan and Macau market and explore the possibility of distributing other branded diamonds. The key personals

Ticker	8351 HK
Rating	NR
Price (HK\$)	0.87
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.25-1.95
Market cap. (US\$m)	77.6
Daily t/o (US\$m)	0.7
Free float (%)	66.7

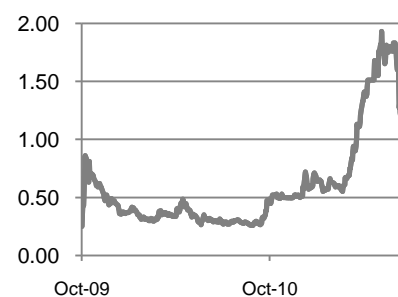
#### Financial summary

Year to Dec	09A	10A	11A
Turnover (HK\$)	44.6	47.2	48.7
Net Profit (HK\$)	9.7	7.9	(19.4)
EPS (HK\$)	0.030	0.018	-
P/E (x)	28.8	49.5	-
P/B (x)	42.59	7.87	4.75
EV/EBITDA (x)	23.9	36.4	-
Yield (%)	-	-	-
ROE (%)	148.0	28.1	-
ROCE (%)	176.9	35.5	-
N. Gear. (%)	Cash	Cash	Cash

Source: SBI

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-9.7	-40.5	220.6
Actual price changes (%)	-17.1	-48.2	205.3



Source: Bloomberg

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and managements from Larry Jewelry will be retained upon completion of the acquisition to ensure a smooth transition and further into an expansion phase.

**Parkwell Group acquisition:** on August 8th, 2011, the group announced the acquisition of 100% of Parkwell Group, a jewellery retail chain under the brand and trademark "theegold" in Beijing, at a total consideration of HK\$5.5m. HK\$3.5m of the consideration shall be settled in cash while the remaining HK\$2m shall be settled by the purchaser issue of the convertible note, with conversion price at HK\$1.00, three years in maturity and nil interest payment.

**About Parkwell Group:** Prior to this acquisition, Parkwell Group was owned by Ms Iris Chung, Ms Janet Shuen and Ms Tsung. Parkwell group principally engaged in jewerllry retails business, such as a wholesale and distribution of jewerlly accessories and watches. The group has establish a consignment store in AA11 Sunlight Department store in Oriental Plaza, Beijing and another consignment store in Grand Ocean Department Store, No 133 Baiyiqibei Road, Gulou District, Fuzhou via franchise arrangement. The group is the owner of the brand and trademark "theegold", to which both consignment stores are named. This acquisition is in line with the group's strategy as Parkwell is similar and complementary to the new products business under the group future brand "Vera". "Vera" is targeting at the mid-tier fashion jewellery sector of the retail market. The acquisition brings along a team of talented players in the operation of mid-tier jewellery retail business, thus accelerate the development of the Group's expansion plan.

**Key personnel:** The group has appointed Ms Iris Chung as head of the retail department and Ms Janet Shuen as head of marketing. Before the acquisition of Parkwell, Ms Chung acted in the capacity of Business Adviser to Eternite, her previous experience includes the group CEO for the Just Gold group, she headed regional offices in the PRC, Taiwan and HK responsible for around 70 branded outlets. Ms Shuen' previous experience includes joining Just Gold as its chief marketing officer and was later promoted to the general manager roll for Hong Kong. She was also in charge of the operations in Hong Kong and Macau, being responsible for product planning, brand strategy, and all marketing related activities. Ms. Tsung previously worked for Just Gold as assistant general manager and was responsible for developing the PRC business. She had helped opening the direct operating shops in Beijing and Shanghai, and also expanding the franchising network to cities like Shenyang and Harbin.

**New shop openings:** On August 11th, Eternite opened another new shop under the "Larry Jewelry" brand in Hennessy Road, Causeway Bay, Hong Kong. It is the first new store opened after the acquisition of Larry Jewelry. The new store is located at the intersection of the two major shopping destinations: Sogo Department Store and Times Square shopping mall. This area is expected to further increase in shopping traffic upon the opening of Hysan Place in 2012. For 2012, there will be another shop in plan for Hong Kong, one new shop in Singapore and a new shop in Beijing.

**Table 2. Exsiting No. of Shops & Projected No. of Shops (Larry Jewelry & Vera)**

Company name	2008A	2009A	2010A	2011F	2012F
<b>Larry Jewelry</b>					
Hong Kong	3	3	3	4	5
Singapore	2	2	2	2	3
PRC	-	-	-	-	1
Total	5	5	5	6	9
<b>Vera</b>					
HK	-	-	-	-	1
PRC	-	-	-	2	2
Total	-	-	-	2	3

Source: Company data

**Larry Jewelry sales estimates:** Sales from Larry totaled HK\$404.4m in FY2010. Singapore stores contributed HK\$208.7m with two shops. Hong Kong stores contributed HK\$195.7m with three shops. Each shop from Singapore contributed HK\$104.3m on average, and each Hong Kong shop contributed HK\$65.2m on average. Due to the significant lag from Hong Kong shops comparing to Singapore shops, there should be a major opportunity for Hong Kong shops to streamline its operation and bring each shop to in-line with sales performance of those in Singapore. Assuming that Hong Kong shops can gradually increase up to Singapore level in two years, thus on average each Hong Kong shop can have a potential to reach sales of HK\$78.3m for FY2011 and HK\$94m for FY2012. Total sales for Hong Kong should reach HK\$234.9m for FY2011 and HK\$375.8m in FY2012. The new shop in Causeway Bay should take around four to five months to reach a normal operating level, thus its contribution can be seen in FY2012. For Singapore shops, since they're already operating efficiently at a maturity stage, we forecast sales growth should be steady for the next two years. We estimate that on average each Singapore shop should reach sales of HK\$107.5m for FY2011 and HK\$110.7m for FY2012. Total sales for Singapore should reach HK\$214.9m for FY2011 and HK\$221.4m in FY2012. For Larry Jewelry as a whole, we estimate that sales should reach HK\$449.8 for FY2011 and HK\$597.2m for FY2012.

**Table 3. Larry Jewelry sales and forecasts**

Company name	2008A	2009A	2010A	2011F	2012F
<b>Larry Jewelry</b>					
Hong Kong (HK\$m)	197.8	156.8	195.7	234.9	375.8
Singapore (HK\$m)	194.8	169.4	208.7	214.9	221.4
PRC	-	-	-	-	-
Total	392.5	326.2	404.4	449.8	597.2

**No. of Shops**

Hong Kong	3	3	3	4	5
Singapore	2	2	2	2	3
<b>Average Sales Per Shop</b>					
Hong Kong (HK\$m)	65.9	52.3	65.2	78.3	94.0
Singapore (HK\$m)	97.4	84.7	104.3	107.5	110.7

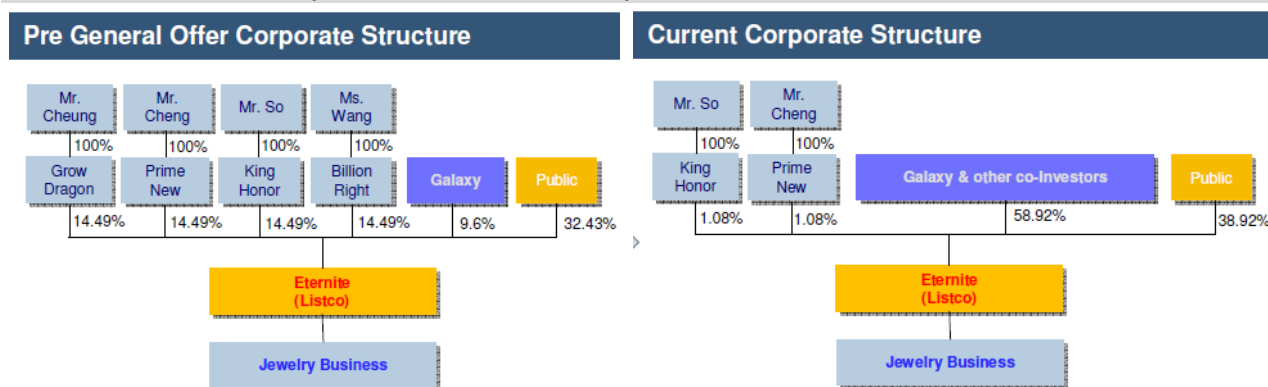
Source: Company data, SBI E2-Capital

### Company Background

**Description:** Eternite International was listed in Hong Kong on the GEM board on 7 Oct, 2009. The company engages in the design and sale of a range of jewelry products mainly as jewelry wholesalers. The products include: rings, earrings, bracelets, bangles, brooches, necklaces and pendants with a range of designs, settings and styles, and the products made of diamonds, gemstones, pearls and precious metals.

**Shareholders structures:** Galaxy Asset Management (and its co-investor, mainly Mr. Michael Tsang Man-heem) is a major shareholder (58.9% or 350m shares). Galaxy acquired 245m shares from founders at HK\$0.50 each in Dec 2010. Other major shareholders are UBS holding 9.41%, Mr. Chan Ping Yee holds 5.75%, Deutsche bank holds 1.34%, Mr. So Chun Kai holds 1.08% and Mr. Cheng Kwong Sai holds 1.08%.

Chart 1. Pre-General Offer Corporate Structure & Current Corporate Structure



Source: Company data

### Future Plan

**New brand introduction:** In order to continue to expand their brand portfolio and develop new product line; they will launch a new mid-tier fashion jewelry retail business. The new product line “Vera” is to be a jewelry fashion brand, targeting lady customers that are cosmopolitan with strong fashion sense. The brand stands for a lifestyle icon, a statement of luxury jewelry with an affordable price. It will have a unique fashionable design, perfect for many occasions.

**Merger & Acquisition:** Eternite plans to explore strategic partnership and alliance to expedite expansions. M&A strategy will be both vertical and horizontal. Vertical expansion is target to secure supply and create synergies, actively exploring upstream mining business opportunities to secure good quality gem stones at a competitive price and capturing profit margins along the value chain. For horizontal expansion, they will targets to gain market share, by penetration into the luxury retail market via value-added acquisitions. Criteria will be based on brand heritage, design, complementary product lines, geographical and network coverage to enrich brand portfolio to capture different customer segments and will create synergies for the retail network brand portfolio.

**Valuation:** The HK listed peers are currently trading at average 26.0x historical P/E on market consensus.

Table 4. Valuation comparison

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	His P/E (x)	1-Yr P/E (x)	2-Yr P/E (x)	PB (x)	Est ROE (%)
<b>HK-listed</b>								
Chow Sang Sang	116 HK	2,607.9	30.05	26.0	20.8	17.0	3.6	15.8
Ming Fung	860 HK	364.5	0.79	22.9	-	-	1.4	8.9
Hang Fung Gold	870 HK	79.3	0.65	1.9	-	-	0.4	20.5
Man Sang	938 HK	78.7	0.50	11.2	-	-	0.5	4.6
Eternite	8351 HK	77.6	0.87	-	-	-	5.0	-
Continental	513 HK	55.3	0.14	59.2	-	-	0.4	0.4
Noble Jewelry	475 HK	34.1	0.98	35.0	-	-	1.0	2.9
<b>Average</b>				<b>26.0</b>				

Source: Bloomberg

Table 5. Historical P &amp; L for Larry Jewelry

Year to Dec (HK\$m)	2008A	2009A	2010A
Hong Kong revenue	197.8	156.8	195.7
Singapore revenue	194.8	169.4	208.7
<b>Revenue</b>	<b>392.5</b>	<b>326.2</b>	<b>404.4</b>
Cost of sales	(271.2)	(243.5)	(298.4)
<b>Gross profit</b>	<b>121.4</b>	<b>82.7</b>	<b>106.0</b>
Other revenue	0.4	1.9	1.6
Distribution costs	(55.3)	(56.1)	(60.5)
Administrative expenses	(17.5)	(16.3)	(19.7)
Other operating expenses	(2.0)	-	-
Finance costs	(0.2)	(0.6)	(0.6)
<b>Profit before tax</b>	<b>46.6</b>	<b>11.6</b>	<b>26.8</b>
Income tax	(8.4)	(1.8)	(4.5)
<b>Profit attributable to the owners</b>	<b>38.2</b>	<b>9.7</b>	<b>22.3</b>

Source: Company data

Disclosure of interests: SBI E2-Capital Financial Services Limited, acted as sub-placing agent for Eternite International Company Limited (Stock Code 8351 HK) in August 2011.

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