

Eternite Int'l Company

Multi-brand luxurious retail chain in the making

to summarize...

- Eternite International was listed in Hong Kong on the GEM board on October 7th, 2009. The company engages in the design and sale of a range of jewellery products mainly as jewellery wholesalers.
- The company enters into an S&P agreement to acquire 100% of Larry Jewelry. Larry Jewelry is a high-end jewellery retailer, by this acquisition, they can expand vertically in the luxury jewellery market.
- Larry Jewelry established in 1967, a household name in Hong Kong and Singapore. It is a distributor for Lazare jewellery in Singapore. It is one of three jewellers in Hong Kong that is recognized by De Beers to sell the Forevermark diamonds.
- In order to continue to expand their brand portfolio, they will launch a new mid-tier Fashion Jewellery brand "Vera".
- Plan to explore strategic partnership and alliance to expedite expansions. M&A strategy will be both vertical and horizontal.

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. On April 26th, 2011 the company enters into an S&P agreement to acquire 100% of Larry Jewelry. Larry Jewelry is a high-end jewelry retailer. By this acquisition, 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

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 three shops in Hong Kong and two shops in Singapore. Going forward they are planning to enter China, Taiwan and Macau market by opening seven new shops and explore the possibility of distributing other branded diamonds. In addition they will open two new shops in Singapore and four new shops in Hong Kong by the end of 2012. The key personals and managements from Larry Jewelry will be retained upon completion of the acquisition to ensure a smooth transition and further into an expansion phase.

Deal structure: The consideration for the acquisition of Larry is to be HK\$400m. Of the HK\$400m, HK\$250m is to acquire the jeweler inventory at cost; HK\$150m is for the Larry brand and along with its business infrastructure established in Hong Kong and Singapore. The payment term for the acquisition is HK\$250m to be paid in cash, and will adjust downward on a dollar for dollar basis, if the inventory becomes less than HK\$250m. The balance of HK\$150m is paid by issuance of a promissory note with 3.5% interest per annum, HK\$50m fall due on

Ticker	8351 HK
Rating	NR
Price (HK\$)	1.76
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.25-1.94
Market cap. (US\$m)	157.0
Daily t/o (US\$m)	1.5
Free float (%)	66.65

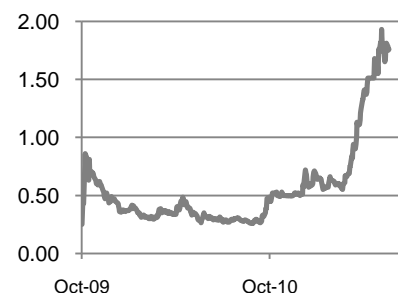
Financial summary

Year to Dec	09A	10A
Turnover (HK\$)	44.6	47.2
Net Profit (HK\$)	9.7	7.9
EPS (HK\$)	0.030	0.020
P/E (x)	58.2	87.9
P/B (x)	86.16	13.98
EV/EBITDA (x)	48.5	66.6
Yield (%)	-	-
ROE (%)	148.0	28.1
ROCE (%)	176.9	35.5
N. Gear. (%)	Cash	Cash

Source: SBI

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	23.7	196.8	454.3
Actual price changes (%)	16.6	193.3	564.2



Source: Bloomberg

SBI Research Team

(852) 2533 3700
 sbie2research@sbie2capital.com

expiry of six months from deal completion and HK\$100m falls due on the first anniversary of the deal completion. The vendor gives a profit guarantee of total net profit after taxation before depreciation, interest, capital expenditure and extraordinary items for two successive fiscal of not less than HK\$70m in aggregate. In the case of shortfall, vendor will pay on a dollar for dollar basis.

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. Eternite targets to open approximately 40 outlets by the end of 2013.

Key personnel: The key to a successful brand launch depends heavily on key personnel. Eternite has employed Ms. Iris Chung as an adviser, responsible for retail operation and marketing. Ms. Chung has over 20 years of working experience in marketing and retail operations. She was the CEO for “Just Gold” and spokesperson for the company. In 1994, she launched Just Diamond and steered Just Gold into China in 2002. In 2006, she was awarded the 100 most outstanding woman entrepreneurs in China.

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.

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%.

Valuation: The HK listed peers are currently trading at average 38.9x historical P/E on market consensus.

Table 3. 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 (%)
HK-listed								
Chow Sang Sang	116 HK	1,948.3	22.45	19.5	17.1	14.3	2.7	15.8
Ming Fung	860 HK	343.1	0.92	20.4	-	-	1.7	8.9
Hang Fung Gold	870 HK	79.3	0.65	1.9	-	-	0.4	20.5
Continental	513 HK	73.8	0.18	79.0	-	-	0.6	0.4
Man Sang	938 HK	69.2	0.44	40.4	-	-	0.5	1.2
Noble Jewelry	475 HK	38.7	1.11	22.9	-	-	1.1	1.2
Average				38.9				

Source: Bloomberg

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BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

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