

## Disposal of a gold carriage

## Hong Kong Retail

### Hang Fung Gold (870 HK, HK\$1.37)

### BUY (unchanged)

#### Target price: HK\$2.3 (+67.9%)

**The disposal.** Hang Fung Gold (HFG) has announced the disposal of one of its gold carriages for a consideration of c.HK\$75m to an independent third party. The gold carriage is made up of c.15,180 ounces of pure gold. The price represents a 1.7% discount to the gold price of US\$643.75 per ounce as of 6 March 2007, according to the London P.M. Gold Fix. A disposal gain of HK\$26.5m will be recognized. HFG agreed to lease back the gold carriage from the purchaser for an annual rental payment of c.HK\$4.9m, representing a leaseback yield of 6.5%.

**Mild benefit initially but more value can be unleashed.** The disposal has been widely anticipated but the gain is higher than our expectation of c.HK\$24.7m (i.e. HK\$49.3m for two carriages as stated in our previous report), mainly due to the higher gold price. We expect the gain to be booked in FY3/08F. According to our estimation, the disposal will lower HFG's depreciation expenses by c.HK\$5.3m a year, which after deducting the annual rental payment of HK\$4.9m leaves the net benefit of HK\$0.4m.

**Maintain BUY.** After this disposal, the hidden value of its gold asset portfolio amounted to HK\$278.9m, or HK\$0.28/shs on a fully-diluted basis. We have fine-tuned our earnings forecast to reflect the above changes. The counter is trading at 6.5x P/E and 0.84x P/B for FY3/07F. We maintain our BUY recommendation with a target price of HK\$2.3, equivalent to 8.4x FY3/08F P/E. On 27 Feb, Goldman Sachs converted HK\$50m worth of convertible bonds at HK\$1.136, representing c.21% of the CB issued and 44m new shares were issued upon the conversion. Total issued share capital as at 28 Feb 2007 amounted to 818.3m.

**Table 1: Portfolio of gold exhibits**

	Year of establishment	Cost (HK\$m)	Market value (HK\$m) (6 March 2007)	Estimated gain on disposal (HK\$m)
Gold Kuan Yin	2000/01	13.4	31.5	18.1
Gold Zodiac	2000/01	6.9	16.4	9.5
Gold Washroom	2000/01	64.2	136.0	71.8
Gold Windmill	2003/04	3.9	6.1	2.2
Gold Carriage	2004/05	53.1	76.2	23.2
Gold Palace	2005/06	399.8	553.9	154.0
Others		0.5	0.6	0.2
<b>Total</b>		<b>541.9</b>	<b>820.8</b>	<b>278.9 *(HK\$0.28/sh)</b>

\*fully-diluted

Source: SBI E2-Capital

**Table 2: Financial summary**

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Mar	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
<b>05A</b>	107.2	0.189	59.9	7.3	0.93	6.84	2.8	13.9	9.9	83.9
<b>06A</b>	129.7	0.170	(9.9)	8.0	0.93	5.63	2.9	13.2	10.2	41.5
<b>07F</b>	162.1	0.209	23.0	6.5	0.84	4.90	3.1	13.6	11.7	59.7
<b>08F</b>	211.8	0.274	30.6	5.0	0.74	4.75	4.0	15.8	12.4	58.7
<b>09F</b>	274.0	0.354	29.4	3.9	0.64	3.93	5.2	17.8	15.4	50.4

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