



Company Report

Bonjour (653 HK) – Sell Specialty Stores

Cut 12-mth target price to HK\$0.89 (previous HK\$1.04)

Key data

Share price (HK\$)	1.00
Target price (HK\$)	0.89
Downside potential (%)	11.0
52Wk H/L(HK\$)	1.456 / 0.84
Issued shares (mn)	3,007
Market cap (HK\$mn)	2,996
30-day avg vol (HK\$mn)	6.14
Major shareholders (%):	
Ip Chun Heng-Chairman & Chung Pui Wan- Vice chairman	63.07

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H FY12 (%)

Sales of beauty & healthcare products	89.0
Beauty & health salons services	11.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(16.7)	(20.2)
3-mth	(12.6)	(18.0)
6-mth	(27.3)	(21.2)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 24 Aug, 2012

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Previous report

Date: 6 June, 2012

Rating: Hold

Key takeaways from the tele-conference of Bonjour

Bonjour's bottom line was squeezed by slowing down of sales growth and fast-growing rental cost in 1H FY12. We believe high rental cost will reduce marginal benefit of opening new sales outlets. The group will slow its expansion plan inevitably. We are not optimistic with the sales growth and EPS growth in 2H FY12.

Sales growth slowed down and margin squeezed in 1H FY12: Its 1H FY12 sales growth slowed down to 4.8%YoY (vs 24.5% YoY growth in 1H FY11). The operating profit margin dropped 5ppt to 7.6% in 1H FY12 due to 35.9%YoY increase of distribution cost and 28.7%YoY increase of administrative cost. Its rental cost as % of sales and staff cost as % of sales increased to 14.6% (vs 12.1% in FY11) and 12.8% (vs 11.4% in FY11) for retail business respectively.

Weak earnings outlook: We revised down its sales and net profit by 8.8% and 21% to HK\$2,776mn and HK\$207mn in FY12. We expect its retail sale to grow by 8.4%YoY while its net profit to drop 12.4% in FY12.

Downgrade to Sell: The stock price retreated 26.9% after the group announced its profit warning for 1H FY12 on 13th Aug. We believe the downside risk of its share price is still high as we do not expect a rapid recovery of sales growth and margin. We downgrade the counter to "SELL" from "Hold" and cut 12M target price to HK\$0.89 from HK\$1.04, representing 14.0x PER of FY12 or 12.0x PER of FY13.

Risk factors: Slower-than-expected sales recovery in 2H FY12; continuing rental hike.

Forecast and valuation

FY ended Dec 31(HK\$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	2,121	2,561	2,776	3,141	3,602
Chg (%YoY)	24.4	20.7	8.4	13.2	14.7
Net Income	191	237	207	243	296
Chg (%YoY)	19.1	23.9	(12.4)	17.1	22.0
Diluted EPS(HK\$)	0.058	0.072	0.063	0.074	0.090
Chg (%YoY)	-	22.8	(12.0)	17.1	22.0
P/E(x)	-	13.95	15.85	13.53	11.09
NBV(HK\$)	0.065	0.087	0.095	0.111	0.131
P/B(x)	-	11.43	10.54	9.04	7.63
DPS(HK\$)	0.051	0.061	0.044	0.063	0.077
Dividend yield(%)	-	6.1	4.4	6.3	7.7
ROAE(%)	82.6	94.4	67.3	67.3	69.2
ROAA(%)	30.1	30.7	24.0	25.3	27.5

Source: Company data, ABCI Securities estimates



Exhibit 1:1H FY12 results review				
(HK\$ mn)	1H FY11	1H FY12	YoY	Comments
Turnover	1,251.8	1,311.9	4.8%	
Sales of beauty & healthcare products	1,095.3	1,166.8	6.5%	excluding the impact of Japanese milk powder sales in last year, retail sale grew by 11.6% YoY; 1H SSSG was 2.2% while SSSG excluding milk pounder was 7.2%
Beauty & health salons services	156.5	145.1	(7.3%)	decrease redemption rate of beauty package
COGS	(695.1)	(713.0)	2.6%	
Gross profit	556.7	598.9	7.6%	
Other income	6.5	26.3	305.4%	
Distribution costs	(32.8)	(44.5)	35.9%	increase in frontline staff cost and marketing cost
Admin expenses	(372.8)	(480.0)	28.7%	higher rental cost as 4 stores renewed and 4 new stores opened in 1H, rental/sales for retail business increase to 14.6% from 12.1%
Other operating expenses	0.0	(1.5)	0.0%	
Operating profit	157.6	99.1	(37.1%)	rapid increase of rental cost, staff cost and marketing cost drag down operating profit
Finance costs	(0.8)	(0.4)	(47.7%)	
Pre-tax profit	156.8	98.7	(37.0%)	
Tax	(26.3)	(14.0)	1.1%	
Net profit	130.5	84.7	(35.1%)	
Gross profit margin	44.5%	45.7%	+1.2ppt	improved by increase high margin exclusive products sales
Operating profit margin	12.6%	7.6%	-5ppt	operating expense growth exceed sales growth

Source: Company data,, ABCI Securities estimates

1H FY12 review: Its 1H sales increased by 4.8%YoY to HK\$1311.9mn with 6.5%YoY sales growth in beauty & healthcare products and 7.3%YoY drop in beauty & salons services. The management stated that the sharply slowing-down of retail sales growth was partly due to the distorted effect of Japanese milk pounder sales. Excluding milk pounder sales, the retail sales of beauty & healthcare products in HK & Macau increased by 11.4% in 1H FY12. Its 1H FY12 SSSG was 2.2% while its SSSG excluding Japanese Milk Power was 7.2%. The drop of sales in beauty & salons services was largely due to the decrease in the redemption rate of beauty package while beauty package sales increased by 1.5%.

Its 1H gross profit margin increased by 1.2ppt to 45.7% as the group lift up high margin exclusive products sales. Its exclusive products sales account for 28% of total sales (vs 26.8% in 1H FY11). The operating profit margin dropped 5ppt to 7.6% in 1H FY11 due to 35.9%YoY increase of distribution cost and 28.7%YoY increase of administrative cost. Its rental cost as % of sales and staff cost as % of sales increased to 14.6% (vs 12.1% in FY11) and 12.8% (vs 11.4% in FY11) for retail business respectively.



Earnings outlook: As 60% of its retail stores are located in traditional tourist area (such as Mong Kok, TST and Causeway Bay) that their rental are surging, the group will prudently roll out new stores as the sales growth is slowing down while operating cost are extremely high. We lower our new store assumption as we expect the group to add 3 (net basis) retail stores at the end of FY12. We revised down its sales by 8.8% to HK\$2,776mn in FY12. We expect its retail sale to grow by 12.4%YoY in 2H support by 8% SSSG. The beauty salon business will not recover soon since the local consumption is weak. We expect its net profit will drop 12.4% to HK\$207mn in FY12.

Exhibit 2: Key assumption

	FY10A	FY11A	FY12E	FY13E	FY14E
Sales of beauty & healthcare products	1,900.65	2,280.61	2,498.80	2,836.01	3,263.55
yoy	24.8%	20.0%	9.6%	13.5%	15.1%
Beauty & health salons services	220.63	280.64	277.33	305.40	338.78
yoy	20.6%	27.2%	-1.2%	10.1%	10.9%
Total revenue	2,121.29	2,561.25	2,776.13	3,141.42	3,602.34
yoy	24.4%	20.7%	8.4%	13.2%	14.7%
Retail gross margin	36.2%	39.4%	40.2%	40.5%	40.8%
Beauty gross margin	95.6%	97.1%	97.0%	97.0%	97.0%
Distribution cost/revenue	2.8%	3.2%	3.3%	3.3%	3.3%
Admin cost/revenue	29.2%	32.4%	33.8%	33.6%	33.0%
Retail outlets in HK	39	43	44	46	48
Retail outlets in Macau	1	1	1	1	1
Retail outlets in the PRC	1	4	6	8	10
Total retail outlets	41	48	51	55	59
No. of beauty salons in HK	16	18	19	20	21
No. of beauty salons in Macau	1	1	1	1	1
No. of beauty salons in the PRC	2	1	1	1	1
Total beauty salons	19	20	21	22	23
Net addition of outlets	0	0	0	0	0
Retail outlets in HK	6	4	1	2	2
Retail outlets in Macau	0	0	0	0	0
Retail outlets in the PRC	1	3	2	2	2
Total net add of retail outlets	7	7	3	4	4
No. of beauty salons in HK	1	2	1	1	1
No. of beauty salons in Macau	0	0	0	0	0
No. of beauty salons in the PRC	0	-1	0	0	0
Total net add of beauty salons	1	1	1	1	1
Same store sales growth	10.0%	6.0%	5.0%	6.0%	7.0%

Source: ABCI Securities estimates

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(HK\$ mn)	New forecast			Old forecast			Change%		
	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
Revenues	2,776	3,141	3,602	3,044	3,540	4,107	(8.8%)	(11.2%)	(12.3%)
YoY growth	8.4%	13.2%	14.7%	18.8%	16.3%	16.0%			
Gross profit	1,274	1,445	1,660	1,412	1,636	1,894	(9.8%)	(11.7%)	(12.4%)
YoY growth	8.8%	13.5%	14.9%	20.6%	15.9%	15.8%			
Operating profit	252	295	362	319	359	413	(21.0%)	(17.8%)	(12.3%)
YoY growth	(12.5%)	17.1%	22.7%	10.7%	12.5%	15.0%			
Net profit	207	243	296	262	295	338	(21.0%)	(17.8%)	(12.4%)
YoY growth	(12.4%)	17.1%	22.0%	10.9%	12.6%	14.4%			
Diluted EPS(HK\$)	0.063	0.074	0.090	0.080	0.090	0.103	(21.0%)	(17.9%)	(12.4%)
YoY growth	(12.5%)	17.1%	22.0%	11.5%	12.6%	14.4%			
Gross profit margin	45.9%	46.0%	46.1%	46.4%	46.2%	46.1%			
Operating profit margin	9.1%	9.4%	10.0%	10.5%	10.1%	10.1%			
Net profit margin	7.5%	7.7%	8.2%	8.6%	8.3%	8.2%			

Source: ABCI Securities estimates

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Bonjour Holdings Limited**Bonjour financial summary****Consolidated Income Statement**

Yr to Dec 31 (HK\$m)	FY10A	FY11A	FY12E	FY13E	FY14E
Turnover	2,121.29	2,561.25	2,776.13	3,141.42	3,602.34
COGS	(1,222.30)	(1,390.21)	(1,502.60)	(1,696.59)	(1,942.19)
Gross profit	898.99	1,171.04	1,273.53	1,444.83	1,660.15
Other income	12.97	32.03	11.50	11.50	11.50
Distribution costs	(59.60)	(81.95)	(91.61)	(103.67)	(118.88)
Admin expenses	(618.36)	(829.86)	(938.33)	(1,055.52)	(1,188.77)
Other operating expenses	(3.78)	(3.08)	(3.00)	(2.00)	(2.00)
Operating profit	230.23	288.18	252.08	295.14	362.00
Finance costs	(1.49)	(1.24)	(1.00)	(1.00)	(1.00)
Pre-tax profit	228.74	286.95	251.08	294.14	361.00
Tax	(37.82)	(50.36)	(43.94)	(51.48)	(64.98)
Net profit	190.92	236.59	207.14	242.67	296.02
Diluted EPS (HK\$)	0.058	0.072	0.063	0.074	0.090
DPS(HK\$)	0.051	0.061	0.044	0.063	0.077

Key Financial Ratios

Yr to Dec 31 (HK\$m)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue growth	24.4%	20.7%	8.4%	13.2%	14.7%
Net profit growth	19.1%	23.9%	(12.4%)	17.1%	22.0%
Gross profit margin	42.4%	45.7%	45.9%	46.0%	46.1%
Operating margin	10.9%	11.3%	9.1%	9.4%	10.0%
Net profit margin	9.0%	9.2%	7.5%	7.7%	8.2%
ROAE	82.6%	94.4%	67.3%	67.3%	69.2%
ROAA	30.1%	30.7%	24.0%	25.3%	27.5%
Inventory turnover days	56	55	59	57	55
Account receivable days	6	7	7	7	7
Account payable days	40	40	40	40	40
Net cash/ equity	1.11	1.02	0.92	0.97	0.90
Dividend Payout ratio	87.7%	85.5%	70.0%	85.0%	85.0%
Dividend yield	-	6.1%	4.4%	6.3%	7.7%

Source: Bonjour, ABCI Securities estimates



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Consolidated Balance Sheet

As of Dec 31 (HK\$mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Non-current assets	133.17	166.78	169.66	172.54	175.42
Property, plant and equipment	68.13	78.42	81.30	84.18	87.06
Goodwill	0.00	3.53	3.53	3.53	3.53
Other non-current assets	65.04	84.83	84.83	84.83	84.83
Current assets	580.20	661.77	728.69	846.33	961.85
Inventories	204.41	217.18	267.53	262.66	325.88
Trade receivables	45.27	58.00	53.04	72.61	71.48
Rental and utility deposits	21.44	30.08	36.09	43.31	51.97
Prepayments, deposits and other receivables	27.23	48.90	58.68	70.42	84.50
Bank and cash balances	255.87	292.78	298.52	382.51	413.18
Pledged bank deposit	1.39	1.40	1.40	1.40	1.40
Other current liabilities	24.59	13.42	13.42	13.42	13.42
Total assets	713.37	828.55	898.35	1,018.87	1,137.27
Current liabilities	498.43	532.31	563.82	617.31	668.62
Trade payables	145.87	158.14	170.29	200.55	223.98
Other payables, deposits received and accrued charges	79.87	96.82	116.19	139.42	167.31
Deferred revenue	170.14	208.82	208.82	208.82	208.82
Short-term bank borrowings	20.00	0.00	0.00	0.00	0.00
Other non-current liabilities	82.57	68.52	68.52	68.52	68.52
Non-current liabilities	2.52	7.58	7.58	7.58	7.58
Share capital	29.43	30.08	30.08	30.08	30.08
Reserves	182.98	258.59	296.87	363.90	430.98
Total Equity	212.41	288.67	326.95	393.98	461.06
Net(debt) cash	234.77	294.18	299.92	383.91	414.59
Book value per share (HK\$)	0.065	0.087	0.100	0.120	0.140

Source: Bonjour, ABCI Securities estimates

**Consolidated Cash Flow Statement**

Yr to Dec 31 (HK\$mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	228.74	286.95	251.08	294.14	361.00
Finance costs	1.49	1.24	1.00	1.00	1.00
Interest income	(0.03)	(0.38)	(0.50)	(0.50)	(0.50)
Depreciation	29.47	39.77	47.12	57.12	69.12
Others	(1.07)	40.57	(7.02)	(8.22)	(9.66)
Change in working capital	(13.63)	(22.18)	(23.65)	27.05	(24.86)
Income tax paid	(32.81)	(33.46)	(43.94)	(51.48)	(64.98)
Operating cash flow	212.15	312.50	224.10	319.12	331.12
Purchases of PPE	(46.10)	(52.24)	(50.00)	(60.00)	(72.00)
Others	0.35	2.45	0.50	0.50	0.50
Investing cash flow	(45.76)	(49.80)	(49.50)	(59.50)	(71.50)
Dividend paid	(206.38)	(188.37)	(168.86)	(175.63)	(228.94)
Others	83.50	(37.39)	0.00	0.00	0.00
Financing cash flow	(122.87)	(225.76)	(168.86)	(175.63)	(228.94)
Net increase in cash	43.52	36.94	5.74	83.99	30.68
Cash balance at year end	255.87	292.78	298.52	382.51	413.18

Source: Bonjour, ABCI Securities estimates



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