



Company Report

Sa Sa (178 HK) – Hold Specialty Stores

Raise 12-mth target price to HK\$5.8 (previous HK\$4.22)

Key Data

Share price (HK\$)	5.94
Target price(HK\$)	5.80
Downside potential(%)	2.4
52Wk H/L(HK\$)	6.02 / 3.92
Issued shares (mn)	2,815
Market cap(HK\$m)	16,779
30-day avg vol (HK\$m)	26.9
Major shareholder (%): Kwok Siu Ming (Chairman)	65.65

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1HFY3/13 (%)

HK & Macau	77.9
Mainland China	5.0
Other markets	11.7
Sa Sa.com(online business)	5.4

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	4.8%	3.3%
3-mth	19.6%	11.3%
6-mth	29.7%	16.5%

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 16 Nov, 2012

Judy Hu

Tel: (852) 2147 8310

Email: judyhu@abci.com.hk

Previous report

Date: 5 Sep, 2012

Rating: Sell

Key takeaways from the analyst meeting

Sa Sa released better-than-expected sales growth in 1H FY3/13 as the rapid increase of short-haul Mainland tourists boosted daily necessities sales. Surging sales of high-margin house brands lifted up gross profit margin in 1H but rising rental and staff costs will bring pressure to its operating profit margin in 2H and 2013.

Solid sales performance in 1H: Sales increased by 21.2% YoY to HK\$3,377mn, 1.2% higher than consensus. The net profit increased by 25.7% to HK\$282mn due to improving gross profit margin and operating profit margin, which was 7.2% higher than consensus. The sales in HK & Macau and Mainland China increased by 19.3% YoY and 53.6% YoY respectively. The net loss per store in China dropped 9% to HK\$0.3mm compared with HK\$0.33mm in 1HFY3/12, while China business segment loss reached HK\$19.8mm compared with HK\$19.7 in 1HFY3/12.

Revise up sales and earnings: HK & Macau retail sales and SSSG increased by 23.1% and 17.8% respectively from 1 Oct to 11 Nov. We revise up our SSSG for HK & Macau to 16% (from 8%) and 14% (from 10%) for FY3/13 and FY3/14 respectively to factor in the strong average sales growth and lower our operating profit margin by 0.2ppt in light of rising rental and staff costs.. We revise up sales and net profit by 5.0% and 3.2% respectively in FY3/13.

Upgrade to Hold: We believe the strong sales and earnings growth are fully factor in the share price as the stock is trading at 20.5x PER for FY3/13. We upgrade the counter to “HOLD” from “SELL” and raise 12M target price to HK\$5.8 from HK\$4.22, representing 20.0x PER of FY3/13.

Risk factors: Sustainability of tourist growth; rising rental and staff costs to erode margin.

Forecast and valuation

FY ended Mar 31 (HK\$m)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	4,901	6,405	8,059	10,123	12,298
Chg (% YoY)	19.2%	30.7%	25.8%	25.6%	21.5%
Net Income	509	690	819	1,000	1,207
Chg (% YoY)	33.4%	35.4%	18.8%	22.0%	20.7%
Diluted EPS(HK\$)	0.180	0.244	0.290	0.354	0.427
Chg (% YoY)	33.4%	35.4%	18.8%	22.0%	20.7%
P/E(x)	-	24.3	20.5	16.8	13.9
NBV(HK\$)	0.479	0.577	0.681	0.816	0.978
P/B(x)	-	10.30	8.72	7.28	6.08
DPS(HK\$)	0.139	0.174	0.203	0.248	0.299
Dividend yield(%)	-	2.9%	3.4%	4.2%	5.0%
ROAE(%)	40.1%	46.2%	46.1%	47.2%	47.6%
ROAA(%)	29.6%	31.8%	31.4%	33.0%	33.3%

Source: Company data, ABCI Securities estimates



Sa Sa International Holdings Limited

1H FY3/13 review: Sales increased by 21.2% YoY to HK\$3,377mm with 19.3% YoY sales growth in HK & Macau and 53.6% YoY sales growth in the Mainland China. ISSSG and same store number of transaction increased by 16.8% and 4.7% respectively in HK & Macau. Strong SSSG was mainly contributed by surging average sales value per ticket from Mainland China tourists (+10.7% YoY). SSSG increased by 5.9% in the Mainland China. China business segment recorded profit loss of HK\$19.8mm, representing 0.4% increase compared with last year. The net loss per store in China dropped 9% to HK\$0.3mm compared with HK\$0.33mm in 1HFY3/12. The gross profit margin improved by 1.8ppt to 45.7% as the group steadily increased house brand sales and house brand sales accounted for 42% of total sales (vs 41.5% in 1H FY11). The operating profit margin increased by 0.5ppt to 10.2%. The rental costs as % of sales and staff costs as % of sales increased to 11.4% (vs 11.1% in FY3/12) and 13.0% (vs 11.9% in FY3/12) respectively.

Earnings revision: We revise up our SSSG for HK & Macau to 16% (from 8%) and 14% (from 10%) for FY3/13 and FY3/14 respectively to factor in the strong average sales growth and lower our operating profit margin by 0.2ppt and 0.2ppt in light of rising rental and staff costs.. We revise up its sales and net profit by 5.0% and 3.2% respectively in FY3/13.

Exhibit 1: 1HFY3/13 results review

(HK\$ mn)	1H FY3/12	1H FY3/13	YoY	Consensus	Diff.
Turnover	2,786	3,377	21.2%	3,338	1.2%
COGS	-1,562	-1,834	17.4%		
Gross profit	1,224	1,544	26.1%	1,502	2.8%
Selling and distribution costs	-866	-1,096	26.5%		
Admin expenses	-98	-134	36.6%		
Operating profit	269	345	28.0%	291	18.4%
Finance income	4	4	-1.6%		
Pre-tax profit	273	348	27.6%		
Tax	-49	-66	36.2%		
Net profit	224	282	25.7%	263	7.2%
Gross profit margin	43.9%	45.7%	+1.8ppt	45.0%	+0.7ppt
Operating profit margin	9.7%	10.2%	+0.5ppt	8.7%	+1.5ppt
Net profit margin	8.1%	8.4%	+0.3ppt	7.9%	+0.5ppt

Source: Company data., ABCI Securities estimates

Exhibit 2: Estimates revision

(HK\$ mn)	New forecast			Old forecast			Change %		
	FY3/13	FY3/14	FY3/15	FY3/13	FY3/14	FY3/15	FY3/13	FY3/14	FY3/15
Revenues	8,059	10,123	12,298	7,673	9,284	11,067	5.0%	9.0%	11.1%
YoY growth	25.8%	25.6%	21.5%	19.8%	21.0%	19.2%	6.0%	4.6%	2.3%
Gross profit	3,707	4,687	5,719	3,530	4,317	5,179	5.0%	8.6%	10.4%
YoY growth	28.0%	26.4%	22.0%	21.8%	22.3%	20.0%	6.1%	4.1%	2.1%
Operating profit	986	1,204	1,454	955	1,200	1,456	3.2%	0.3%	-0.2%
YoY growth	19.0%	22.1%	20.8%	15.3%	25.7%	21.3%	3.7%	-3.6%	-0.5%
Net profit	819	1,000	1,207	794	997	1,208	3.2%	0.3%	-0.2%
YoY growth	18.8%	22.0%	20.7%	15.1%	25.6%	21.3%	3.7%	-3.6%	-0.5%
Diluted EPS(HK\$)	0.290	0.354	0.427	0.281	0.353	0.427	3.2%	0.3%	-0.2%
YoY growth	18.8%	22.0%	20.7%	15.1%	25.6%	21.3%	3.7%	-3.6%	-0.5%
Gross profit margin	46.0%	46.3%	46.5%	46.0%	46.5%	46.8%	0.0%	-0.2%	-0.3%
Operating profit margin	12.2%	11.9%	11.8%	12.4%	12.9%	13.2%	-0.2%	-1.0%	-1.3%
Net profit margin	10.2%	9.9%	9.8%	10.3%	10.7%	10.9%	-0.2%	-0.9%	-1.1%

Source: ABCI Securities estimates

Exhibit 3: Peer comparison

Code	Name	Mkt cap (HK\$mn)	Price (HK\$)	PER		EPS growth	
				T*	T+1	T	T+1
Beauty products retailers							
653	Bonjour	2,990	1.00	13.9	15.9	15.9	22.8%
178	Sa Sa	16,779	5.94	24.3	20.5	20.5	35.6%
HK retailers							
709	Giordano	10,147	6.58	13.7	12.7	12.7	33.9%
999	I.T	3,893	3.17	8.2	7.2	7.2	21.3%
589	Ports	3,325	6.00	8.0	8.7	8.7	(9.5%)
1929	Chow Tai Fook	99,000	9.90	14.3	13.9	13.9	72.5%
116	Chow Sang Sang	12,347	18.24	11.3	11.4	11.4	39.2%
3389	Hengdeli	12,387	2.82	15.2	14.8	14.8	42.3%
590	Luk Fook	11,782	20.00	8.2	9.4	9.4	42.1%
398	Oriental	1,375	2.41	8.3	6.5	6.5	(34.1%)
Average				12.5	12.1		

Source: Bloomberg, ABCI Securities estimates, T* represents historical financial year

Exhibit 4: PE chart of Sa Sa



Source: Bloomberg, ABCI Securities estimates



Sa Sa financial summary

Consolidated Income Statement

Yr to Mar 31 (HK\$mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Turnover	4,901	6,405	8,059	10,123	12,298
COGS	(2,689)	(3,508)	(4,352)	(5,436)	(6,580)
Gross profit	2,212	2,897	3,707	4,687	5,719
Other income	30	40	40	40	40
Selling and distribution costs	(1,464)	(1,901)	(2,498)	(3,168)	(3,874)
Admin expenses	(181)	(207)	(266)	(354)	(430)
Other operating expenses	11	0	4	0	0
Operating profit	608	828	986	1,204	1,454
Finance income	5	6	7	8	9
Pre-tax profit	614	835	993	1,212	1,463
Tax	(104)	(145)	(174)	(212)	(256)
Net profit	509	690	819	1,000	1,207
Diluted EPS(HK\$)	0.180	0.244	0.290	0.354	0.427
DPS(HK\$)	0.139	0.174	0.203	0.248	0.299

Key Financial Ratios

Yr to Mar 31 (HK\$mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue growth	19.2%	30.7%	25.8%	25.6%	21.5%
Net profit growth	33.4%	35.4%	18.8%	22.0%	20.7%
Gross profit margin	45.1%	45.2%	46.0%	46.3%	46.5%
EBIT margin	12.4%	12.9%	12.2%	11.9%	11.8%
Net profit margin	10.4%	10.8%	10.2%	9.9%	9.8%
ROAE	40.1%	46.2%	46.1%	47.2%	47.6%
ROAA	29.6%	31.8%	31.4%	33.0%	33.3%
Inventory turnover days	93	104	106	103	104
Account receivable days	3	3	3	3	3
Account payable days	29	37	39	37	38
Net cash/equity	38.8%	34.5%	30.7%	29.2%	33.4%
Dividend Payout ratio	77.1%	71.4%	70.0%	70.0%	70.0%
Dividend yield	2.3%	2.9%	3.4%	4.2%	5.0%

Source: Sa Sa, ABCI Securities estimates



Consolidated Balance Sheet

As of Mar31 (HK\$m)	FY11A	FY12A	FY12E	FY13E	FY14E
Non-current assets	316	471	594	646	672
Property, plant and equipment	205	333	456	508	534
Investment property	0	0	0	0	0
Rental deposits and other assets	106	133	133	133	133
Deferred income tax assets	5	5	5	5	5
Current assets	1,560	1,996	2,153	2,674	3,256
Inventories	802	1,191	1,332	1,731	2,029
Trade receivables	48	70	82	106	122
Prepayments, deposits and other receivables	91	136	149	164	180
Time deposits	94	36	0	0	0
Cash and cash equivalents	524	563	590	673	924
Total assets	1,877	2,467	2,747	3,320	3,928
Current liabilities	506	808	793	984	1,136
Trade and bill payables	254	451	475	634	751
Other payables and accruals	200	289	318	350	385
Income tax payable	51	68	0	0	0
Non-current liabilities	18	28	28	28	28
Retirement benefit obligations	4	3	3	3	3
Deferred income tax liabilities	0	4	4	4	4
Other payables	14	21	21	21	21
Share capital	280	281	281	281	281
Reserves	1,072	1,349	1,644	2,026	2,482
Total Equity	1,353	1,631	1,926	2,308	2,764
Book value per share (HK\$)	0.479	0.577	0.681	0.816	0.978

Source: Sa Sa, ABCI Securities estimates

Consolidated Cash Flow Statement

Yr to Mar31 (HK\$m)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	614	835	993	1,212	1,463
Depreciation of property, plant and equipment	79	117	166	228	254
Finance income	(5)	(6)	(7)	(8)	(9)
Others	4	8	0	0	0
Change in working capital	(156)	(190)	(112)	(248)	(179)
Income tax paid	(92)	(124)	(242)	(212)	(256)
Operating cash flow	443	639	799	972	1,274
Purchases of PPE	(137)	(247)	(290)	(280)	(280)
Others	172	65	43	8	9
Investing cash flow	35	(182)	(247)	(272)	(271)
Dividend paid	(391)	(436)	(524)	(618)	(750)
Others	28	14	0	0	0
Financing cash flow	(363)	(422)	(524)	(618)	(750)
Net increase in cash	115	36	27	82	252
Cash balance at year end	524	563	590	673	924

Source: Sa Sa, ABCI Securities estimates



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011 (~15%)

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183