



**Data**

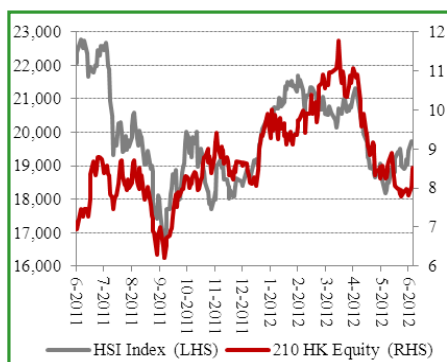
Price(04/07/2012)	HK\$8.51
Issued shares	1,647mn
Market cap	HK\$14,019mn
52week high/low	HK\$11.84/5.89

**Major shareholders:**

Chang Chih-Kai's family(24.47%)
TPG Asia (18.23%)
Chen Tommy Yi-Hsun(10.61%)

**Stock performance**

	1M	3M	YTD
Daphne	3.03%	-22.35%	-1.62%
HSI Index	8.38%	-5.20%	6.92%
HSCICG Index	3.78%	-11.93%	-0.67%



Report date: 05 July, 2012  
 Previous report: 23April, 2012

Analyst:  
 Judy Hu  
 judyhu@abci.com.hk  
 Tel: (852) 21478310

**Daphne International Holdings Limited (210) –**

**Reiterate “BUY” and cut target price toHK\$8.94**

We’ve held a tele-conference with the management of Daphne(210) recently.

**Cut down new stores number, sales and earning growth**

We cut our new store opening forecast to 650 from 900 in FY2012 as we expect management to slow its new store opening pace due to the slow pick-up in new stores sales. We revise down our sales and diluted EPS by 3.3% and 14.2% to HK\$10,637mn and HK\$0.532 respectively in FY2012 respectively.

**SSSG is expected to slow down to mid-teen double digit in 2Q 2012 from 22% in 1Q 2012**

Daphne’s SSSG maintained above 20% in April but dropped to mid-teen double digit in May. We expect that its 2Q2012 SSSG will slow down to 12%-15%. Its SSSG in 2H2012 is expected to drop to single digit due to high comparable base. We maintain our full year SSSG at 12%, which we believe it will outperform its mid-to-high end competitors, like Belle(1880) and C.Banner(1028).

**Margin under pressure due to heavy discount, rising staff and rental cost**

The management has confirmed the group offers larger price discount this year as price competition among women’s footwear industry is keen. We lower our gross profit margin assumption from 60.8% to 60.1% in FY2012 (vs 61.14% in FY2011). Daphne has slowed down the expansion of franchised outlets and put the focus on the expansion of directly-managed outlets in a bid to strength its control on retail channel. Rapid expansion of directly-managed outlets will lead to high rental burden due to most of its stores are street stores. Slowing pick-up of retail sales and rising staff cost and rental cost will drag down its operating profit margin. We expect that its operating profit margin and net profit margin will drop 1.96ppt and 1.09ppt to 14.00% and 9.79% respectively in FY2012 compared with15.96% and 10.88% in FY2011.

**Valuation:**

We expect it FD EPS to grow at CAGR of 13.9% yoy from FY2011 to FY2013. We reiterate “BUY” rating and cut 12M target price from HK\$10.86 to HK\$8.94, based on the average of DCF value of HK\$10.56 and 14x PE of HK\$7.322 in FY 2012. The target price of HK\$8.94 represents 17 x PE of FY2012.

**Risk:** 1) Better-than-expected SSSG;2)A faster ramp-up of new stores sales.

**Financial highlights**

Yr end 31	2010A	2011A	2012F	2013F	2014F
Dec(HK\$ mn)					
Revenue	6623.94	8576.76	10637.70	12765.69	15223.62
Chg (yoy)	13.58%	29.48%	24.03%	20.00%	19.25%
Net Income	595.61	933.06	1041.43	1286.91	1533.03
Chg ( yoy)	51.23%	56.66%	11.61%	23.57%	19.13%
FD EPS(HK\$)	0.319	0.498	0.523	0.647	0.770
Chg (yoy)	40.81%	56.01%	5.07%	23.57%	19.13%
FD P/E(x)	-	17.09	16.26	13.16	11.05
P/B(x)	-	3.95	3.50	2.91	2.43
Dividend yield(%)	-	2.00	2.23	2.75	3.28

Source: Daphne, ABCI Securities estimates



**SSSG is expected to slow down to mid-teen double digit in 2Q2012 from 22% in 1Q2012**

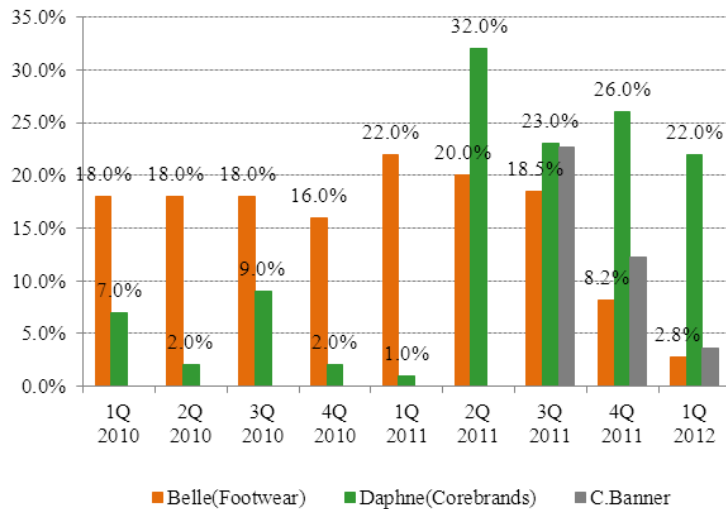
Daphne's SSSG for its core brands (Daphne and Shoebox) recorded 22% in 1Q2012 due to low comparable base effect. Its SSSG maintained above 20% in April and dropped to mid-teen double digit in May. We expect that its 2Q2012 SSSG will slow down to 12%-15%. Its SSSG in 2H2012 is expected to drop to single digit due to high comparable base. We maintain our full year SSSG at 12%, which we believe it will outperform its mid-to-high end competitors, like Belle(1880) and C.Banner(1028).

**Exhibit 1: Quarterly SSSG**

	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	Apr 2012	May 2012	ABCi estimate 2Q 2012
Belle(Footwear)	22.0%	20.0%	18.5%	8.2%	2.8%	Mid-high single digit	Mid-high single digit	8%-9%
Daphne(Core brands)	1.0%	32.0%	23.0%	26.0%	22.0%	>22%	mid-teen double digit	12-15%
C.Banner	-	-	22.7%	12.2%	3.6%	high single digit	high single digit	9%-9.5%

Source: Belle, Daphne, C.Banner, ABCi Securities

**Exhibit 2: Quarterly SSSG in 2010-1Q2012**



Source: Belle, Daphne, C.Banner



**Exhibit 3: Key operating assumption revision**

	FY 2012		FY 2013		FY 2014	
	Old	New	Old	New	Old	New
Total stores No.	7,065	6,815	7,965	7,465	8,865	8,135
YoY growth	14.60%	10.54%	12.74%	9.54%	11.30%	8.98%

Source: ABCI Securities

**Exhibit 4: Earnings revision**

	FY 2012			FY 2013			FY 2014		
	old	new	difference	old	new	difference	old	new	difference
Revenue	10997.24	10637.70	-3.3%	13590.45	12765.69	-6.1%	16582.37	15223.62	-8.2%
Gross profit	6686.32	6393.26	-4.4%	8290.17	7684.95	-7.3%	10115.25	9164.62	-9.4%
EBIT	1726.2	1489.56	-13.7%	2142.81	1825.82	-14.8%	2598.09	2162.97	-16.7%
Net Income	1214.19	1041.43	-14.2%	1518.31	1286.91	-15.2%	1850.66	1533.03	-17.2%
Diluted EPS(HK\$)	0.610	0.523	-14.2%	0.763	0.647	-15.3%	0.930	0.770	-17.2%
Gross profit margin	60.80%	60.10%	-	61.00%	60.20%	-	61.00%	60.20%	-
Operating profit margin	15.70%	14.00%	-	15.77%	14.30%	-	15.67%	14.21%	-
Net profit margin	11.04%	9.79%	-	11.17%	10.08%	-	11.16%	10.07%	-

Source: ABCI Securities

**DCF model**

**Exhibit 5:**

(HK\$ mn)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
EBIT	1,490	1,826	2,163	2,801	2,889	3,178	3,432	3,603	3,784	3,859
Tax	(390)	(480)	(571)	(689)	(711)	(783)	(846)	(889)	(934)	(953)
D&A	228	287	346	408	476	551	633	724	824	933
WC changes	104	(588)	(207)	(497)	(115)	(509)	(40)	(331)	(59)	(105)
Capex	(500)	(500)	(500)	(550)	(605)	(666)	(732)	(805)	(886)	(974)
FCF	933	544	1,231	1,474	1,934	1,771	2,447	2,302	2,728	2,760
DCF	933	486	981	1,049	1,229	1,005	1,239	1,041	1,101	995
Terminal value										28,133
PV of terminal value										9,052

Source: ABCI Securities

**Exhibit 6:**

Risk free rate	1.20%	WACC	8.66%
BETA	0.894	Share price(HK\$)	7.97
Market risk premium	12.27%	Perpetuity growth rate	2.00%
Cost of equity	12.17%	SUM DCF	19,208.42
Cost of debt	7.59%	Net Debt	1,788.75
Effective tax rate	25.00%	Minority interest	11.67
Cost of debt(after tax)	5.69%	NAV	21,008.84
Market value of equity(HK\$ mn)	13,129.48	Total Shares(mn)	1,990.25
Market value of debt(HK\$ mn)	612.88	NAV per share(HK\$)	10.56
Total value(HK\$ mn)	13,742.36		

Source: ABCI Securities

**Daphne: Financial Summary****Consolidated Income Statement**

FY ended at 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Turnover	6623.94	8576.76	10637.70	12765.69	15223.62
Cost of sales	(2823.00)	(3332.99)	(4244.44)	(5080.75)	(6059.00)
Gross profit	3800.94	5243.78	6393.26	7684.95	9164.62
Selling & Distribution Expenses	(2485.38)	(3366.34)	(4255.08)	(5106.28)	(6089.45)
Administrative expenses	(444.39)	(556.03)	(723.36)	(827.59)	(986.94)
Other income	88.87	121.35	74.74	74.74	74.74
Other (losses)/gains	11.73	(74.20)	0.00	0.00	0.00
EBITDA	1113.99	1554.42	1717.92	2113.11	2509.19
Depreciation & Amortisation	142.22	185.86	228.36	287.29	346.21
EBIT	971.77	1368.57	1489.56	1825.82	2162.97
Finance income	0.00	0.00	0.00	0.00	0.00
Finance costs	(44.80)	(46.91)	(46.50)	(46.50)	(46.50)
Fair value loss on derivative financial instrument-warrants	(77.33)	0.00	0.00	0.00	0.00
Share of profit of an associated company	0.62	0.42	0.00	0.00	0.00
Profit before taxation	850.26	1322.08	1443.06	1779.32	2116.48
Income tax	(238.55)	(377.35)	(389.63)	(480.42)	(571.45)
Profit for the year	611.71	944.73	1053.43	1298.91	1545.03
Minority interests	16.10	11.67	12.00	12.00	12.00
Profit Attributable to Equity Holders of the Company	595.61	933.06	1041.43	1286.91	1533.03
EPS (HK\$)	0.364	0.570	0.632	0.781	0.931
Diluted EPS (HK\$)	0.319	0.498	0.523	0.647	0.770
Dividend	196.55	278.83	312.43	386.07	459.91
DPS (HK\$)	0.120	0.170	0.190	0.234	0.279

Source: Daphne, ABCI Securities estimates

**Consolidated Balance Sheet**

As of 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Non-current assets	1123.28	1446.75	1739.80	2014.15	2229.78
Intangible assets	129.89	129.93	135.35	140.22	144.54
Land use rights	50.34	51.20	62.08	72.72	83.10
Fixed assets	710.85	899.66	1154.99	1352.20	1491.28
Others	232.20	365.96	387.37	449.02	510.85
Current assets	3925.77	5054.67	5768.90	6849.15	8084.97
Inventories	1084.31	2058.53	2185.92	2652.89	3117.59
Trade receivables	210.43	274.30	326.91	394.57	465.82
Other receivables, deposits and prepayments	571.36	926.10	846.85	1280.76	1256.51
Pledged bank deposit	0.00	0.00	0.00	0.00	0.00
Bank deposit with maturity over three months	35.39	0.00	0.00	0.00	0.00
Cash and cash equivalents	2024.29	1795.74	2409.22	2520.93	3245.05
Current liabilities	1160.48	1640.24	1845.38	2225.51	2530.00
Trade payables	577.95	819.13	960.00	1169.68	1370.05
Other payables and accrued charges	371.96	563.50	627.77	798.22	902.33
Income tax payable	199.30	250.61	250.61	250.61	250.61
Bank loans	11.28	7.00	7.00	7.00	7.00
Derivative financial instrument – warrants	0.00	0.00	0.00	0.00	0.00
Non-current liabilities	580.97	629.55	629.46	629.46	629.46
Convertible bonds	556.62	605.88	605.88	605.88	605.88
Others	24.34	23.67	23.58	23.58	23.58
Total equity	3307.60	4231.63	5033.85	6008.33	7155.28
Equity attributable to equity holders of the Company	3124.33	4035.87	4838.09	5812.57	6959.52
Minority interests	183.27	195.76	195.76	195.76	195.76
Book value per share (HK\$)	1.675	2.154	2.431	2.921	3.497

Source: Daphne, ABCI Securities estimates



**Consolidated Cash Flow Statement**

Yr end 31 Dec (HK\$ mn)	2010F	2011A	2012F	2013F	2014F
Profit before taxation	850.26	1322.08	1443.06	1779.32	2116.48
Depreciation & Amortization	142.22	185.86	228.36	287.29	346.21
Interest expense	44.80	46.91	46.50	46.50	46.50
(Interest income)	(37.15)	(63.14)	(74.74)	(74.74)	(74.74)
Others	138.20	121.07	0.00	0.00	0.00
Working capital change	18.42	(1002.83)	104.39	(588.42)	(207.21)
Income tax paid	(264.36)	(367.31)	(389.63)	(480.42)	(571.45)
Net cash generated from operating activities	892.39	242.64	1357.94	969.53	1655.79
Capex	(281.32)	(393.66)	(500.00)	(500.00)	(500.00)
Others	52.11	70.94	74.74	74.74	74.74
Net cash used in investing activities	(229.21)	(322.72)	(425.26)	(425.26)	(425.26)
Dividend paid	(184.41)	(234.79)	(312.43)	(386.07)	(459.91)
Other investing activities	(51.67)	(7.22)	(6.88)	(46.50)	(46.50)
Net cash generated from/(used in) financing activities	(236.08)	(242.00)	(319.31)	(432.57)	(506.40)
Net increase in cash	427.10	(322.09)	613.38	111.70	724.13
Cash at beginning of year	1544.85	2024.39	1795.84	2409.22	2520.93
Effect on foreign exchange	52.43	93.54	0.00	0.00	0.00
Cash at end of year	2024.39	1795.84	2409.22	2520.93	3245.05

**Key Financial Ratios**

Yr end 31 Dec	2010A	2011A	2012F	2013F	2014F
Revenue growth	13.58%	29.48%	24.03%	20.00%	19.25%
Net profit growth	51.23%	56.66%	11.61%	23.57%	19.13%
Gross margin	57.38%	61.14%	60.10%	60.20%	60.20%
Operating margin	14.67%	15.96%	14.00%	14.30%	14.21%
Net profit margin	8.99%	10.88%	9.79%	10.08%	10.07%
ROAE	21.47%	24.75%	22.48%	23.31%	23.29%
ROAA	13.25%	16.16%	14.87%	15.72%	15.99%
Inventory turnover days	128	172	183	174	174
Account receivable days	11	10	10	10	10
Account payable days	62	76	76	76	76
Net cash/ equity	60.86%	42.27%	47.72%	41.84%	45.25%
Dividend payout ratio	33.00%	29.88%	30.00%	30.00%	30.00%
Dividend yield	-	2.00%	2.23%	2.75%	3.28%

Source: Daphne, ABCI Securities estimates



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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