

Key Data

Share price (HK\$)	8.48
Target price(HK\$)	6.55
Downside potencial(%)	22.7
52Wk H/L(HK\$)	11.84 / 6.67
Issued shares (mn)	1,641
Market cap (HK\$m)	13,970
30-day avg vol (HK\$m)	35.2
Major shareholders (%):	
Chang Chih-Kai's family	24.47
TPG Asia	18.23

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1HFY12 (%)

Core brands (Daphne,Shoebox)	90.0
Other brands	7.0
OEM	3.0

Source: Company

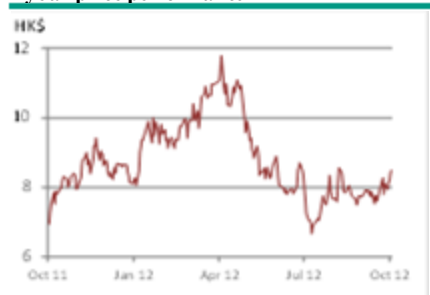
Share performance (%)

	Absolute	Relative*
1-mth	8.7%	2.8%
3-mth	16.0%	5.5%
6-mth	(25.4%)	(27.8%)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst:

Name: Judy Hu
Tel: (852) 2147 8310
Email: judyhu@abci.com.hk

Previous report
Date: 20 Sept 2012
Rating: Sell

Daphne (210 HK) – Sell
Footwear Industry

We maintain our cautious view of Daphne as we expect that its hard to achieve its full year SSSG target of 12% after it released its 3Q SSSG. The group will continue to provide attractive discount to boost sales in 4Q, while its gross profit margin will still under pressure.

SSSG slowed down to 5% in 3Q: Daphne achieved 5% SSSG in the 3QFY12, worse than our forecast of 8-10%. Despite its sales volume increased by double digits in 3Q, the drop of ASP and a high base of 23% for the 3Q of last year contribute the weak SSSG in 3Q. Management still maintained its full year SSSG target of 12% (reported SSSG for first nine months at 12%). We doubt it can achieve its announced SSSG target in view of low SSSG growth in 3Q.

Improving inventory turnover days: Due to the inventory clear-up effect for last several months, the management stated that the inventory turnover days for its core brands have returned to nearly optimal level. This will ease market concern of high inventory risk. We anticipate its inventory turnover days reduced to 150-180 days in 3Q from over 200 days in 1HFY12.

Waiting for improving of operating efficiency: The group has launched several initiatives to improve operating efficiency, such as inventory optimization and supplier chain efficiency improving. The group implemented CRM (customer relationship management) system to organizing and analyzing customer data and provide training to the front line sales to improve productivity. These effects will take more time to improve its operating margin in FY13.

Maintain cautious view: The group implemented heavy discount to boost sales and clear-up its inventory. Due to lack of pricing power in the intensified competition of women's footwear market, we expect that the group will continue to provide attractive discount to boost sales. We maintain our "SELL" rating and target price at HK\$6.55, representing 12.0x PER of FY12 or 10.4x PER of FY13.

Risk factors: Slower-than-expected recovery of retail market; increasing inventory risk; worse-than-expected margin erosion; keen market competition.

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(HK\$ mn)	6,623.9	8,576.8	10,637.7	12,538.1	14,929.3
Chg (YoY%)	13.6%	29.5%	24.0%	17.9%	19.1%
Net Income(HK\$ mn)	595.6	933.1	1,029.6	1,191.7	1,469.7
Chg (YoY%)	51.2%	56.7%	10.4%	15.7%	23.3%
FD EPS(HK\$)	0.319	0.498	0.546	0.631	0.779
Chg (YoY%)	40.8%	56.0%	9.6%	15.7%	23.3%
PER (x)	-	17.03	16.21	13.11	11.01

Source: Company, Bloomberg, ABCI Securities estimates

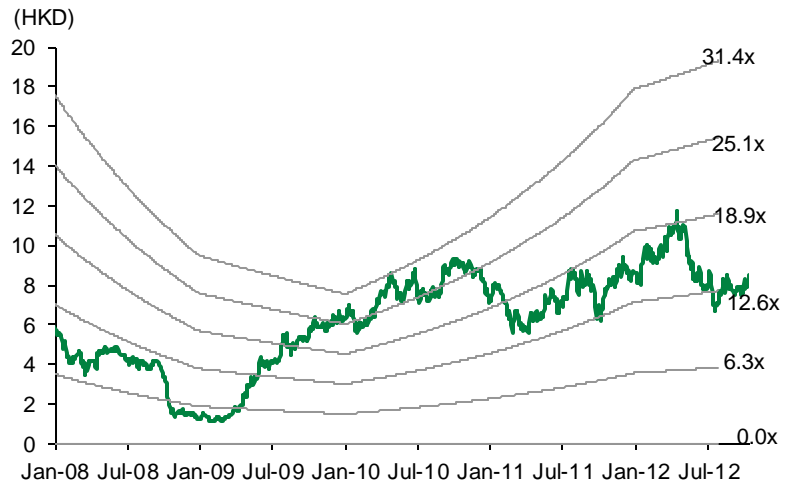


Exhibit 1: Quarterly SSSG

	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	ABCI estimate 2012
Belle(Footwear)	22.0%	20.0%	18.5%	8.2%	2.8%	10.50%	-	7%
Daphne(Core brands)	1.0%	32.0%	23.0%	26.0%	22.0%	14%	5%	12%
C.Banner	-	-	22.7%	12.2%	3.6%	9.80%	-	8%

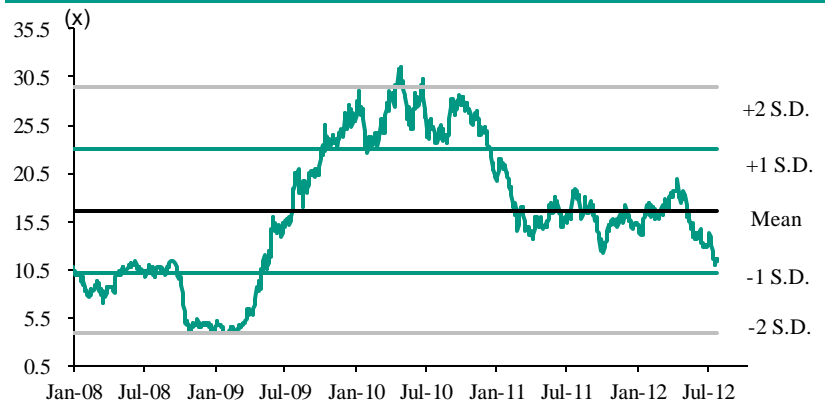
Source: ABCI Securities estimates

Exhibit 2: PE chart of Daphne



Source: Bloomberg, ABCI Securities estimates

Exhibit 3: Standard deviation of Daphne



Source: Bloomberg, ABCI Securities estimates



Disclosures

Analyst Certification

I, Hu Zhaoling, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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.

Disclosures of Interests

ABCI Securities Company Limited and/or its member companies ("ABCI") may pursue financial interests to the companies mentioned in the report.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

Tel: (852) 2868 2183