



Data

Price(07/30/2012)	HK\$4.77
Issued shares	2,819.17mn
Market cap	HK\$13,459mn
52week high/low	HK\$6.96/3.91
3-mth average daily turnover	HK\$23.23mn

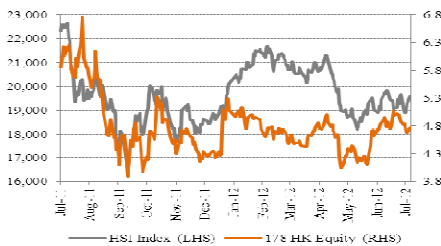
Shareholder

Kwok Siu Ming -Chairman	65.65%
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Stock performance

	1M	3M	YTD
Sa Sa	-1.6%	-1.2%	10.9%
HSI Index	0.7%	-7.2%	6.2%
HSCICG Index	-0.8%	-13.6%	-3.4%

Price chart



Source: Bloomberg, HKEX, ABCI Securities

Report date: 31 July, 2012

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

Sa Sa International Holdings Limited (178)

Initiate with “Sell” rating (12-month target price of HK\$4.22)

We initiate coverage of one-stop cosmetic retailer Sa Sa (178) with SELL rating. We expect Sa Sa’s revenue growth and net profit growth to slow down to 19.8% yoy and 15.1% yoy respectively in FY3/2013 compared with 30.7%yoy and 35.4%yoy in FY3/2012. Although the group has prudent rental cost, we still expect that the slow sales ramp-up will drag down its operating profit margin and net profit margin to 12.5% (vs 12.9% in FY2011) and 10.3% (vs 10.8% in FY2011) in FY03/2013 respectively. We rate the stock at FY3/2013 PER of 15x and set our 12-mth target price at HK\$4.22.

Slow sales and net profit growth in FY3/2012

We expect Sa Sa’s revenue growth and net profit growth to slow down to 19.8% yoy and 15.1% yoy respectively in FY3/2013 compared with 30.7%yoy and 35.4%yoy in FY3/2012.

Prudent rental cost control

To contain the rental hike, the group adds new retail outlets with lower rental rates in non-tourist areas and consolidates its retail outlets in traditional tourist areas. We expect its rental to sales ratio to control at 10.7% in FY3/2013.

China business is on fast-growing path, patience for turning around

The group has aggressively collaborated with renowned developers to accelerate its expansion in the Mainland China. It added 21 outlets (net) in the PRC and will open 26 outlets in FY3/2013. In view of the start-up stage of its China retail business, we expect its China business to incur net loss of HK\$45mn in FY3/2013. Breakeven is unlikely till FY3/2015.

Valuation

In view of 15.1% yoy of FD EPS in FY3/2013, we rate the stock at FY3/2013 PER of 15x and set our 12-mth target price at HK\$4.22. We initiate coverage with “Sell” rating.

Risks: 1) Economic risk;2) Slowing-down Mainland China tourist growth;3) Product sourcing risk;4) Competition; 5) Unreasonable rental hike;6) China business risk.

Financial highlights

Yr to Mar 31	2011	2012	2013F	2014F	2015F
Revenue (HK\$m)	4,901	6,405	7,673	9,284	11,067
Chg (yoy)	19.2%	30.7%	19.8%	21.0%	19.2%
Net Income (HK\$m)	509	690	794	997	1,208
Chg (yoy)	33.4%	35.4%	15.1%	25.6%	21.3%
Diluted EPS(HK\$)	0.180	0.244	0.281	0.353	0.427
NBV (HK\$)	0.479	0.577	0.674	0.813	0.975
DPS (HK\$)	0.139	0.174	0.197	0.247	0.299
P/E(x)	-	19.55	16.99	13.53	11.16
P/B(x)	-	8.27	7.07	5.87	4.89
Dividend yield	2.9%	3.7%	4.1%	5.2%	6.3%
ROAE	40.1%	46.2%	44.9%	47.4%	47.8%
ROAA	29.6%	31.8%	30.8%	33.5%	34.1%

Source: Sa Sa, ABCI Securities



Hong Kong retail business overview

Why shopping cosmetics products in Hong Kong

The Chinese government has imposed on top of 17% value added tax (VAT), 30% consumption tax and 10% import duty on foreign cosmetic products in China. The extra taxes boosted purchasing of cosmetics in Hong Kong as same product may tag lower price in Hong Kong cosmetics retail stores. The enriched and high quality of cosmetics products also attract Mainland tourists to shopping in Hong Kong. The appreciation of RMB against HK dollar further boosted Hong Kong retail sales in past 3-4 years.

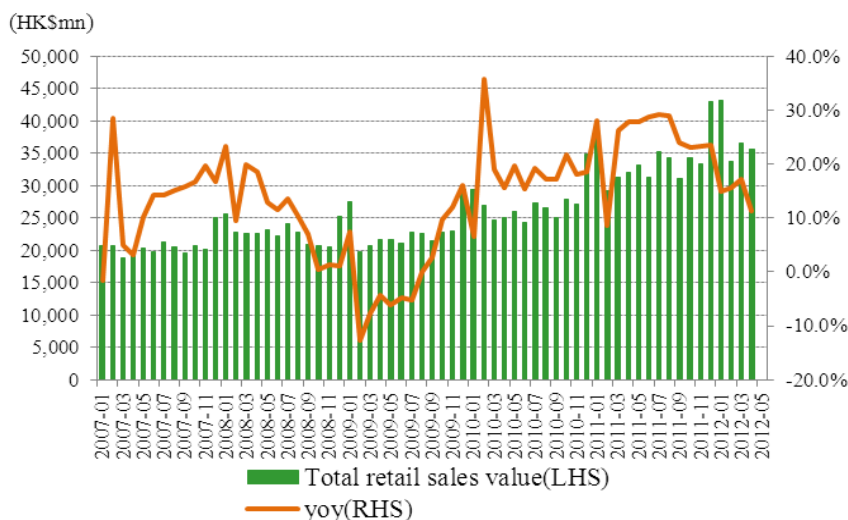
Hong Kong retail sales is slowing down

According to Hong Kong Census and Statistics Department, total retail sales value grew by CAGR of 13.2% from 2007 to 2011. During the same period, retail sales value of medicines and cosmetics products grew by CAGR of 15.2%.

In the first five months of 2012, total retail sales value growth and retail sales value growth of medicines and cosmetics products were slowing down. Total retail sales value growth slowed down to 13.5% yoy for the first five months this year from 24.8% yoy for 2011. Meanwhile, retail sales value growth of medicines and cosmetics slowed down to 16.6% yoy for the first five months this year from 21.5% yoy for 2011.

The total retail sales value growth slowed down to 8.8% yoy in May of 2012 from 15.9% yoy for the Q1 2012. The retail sales value growth of medicines and cosmetics products slowed down to 12.9% yoy in May of 2012 from 18.8% yoy for the Q1 2012. We expect that the retail sales growth is slowing down but maintain double digits for the rest of 2012.

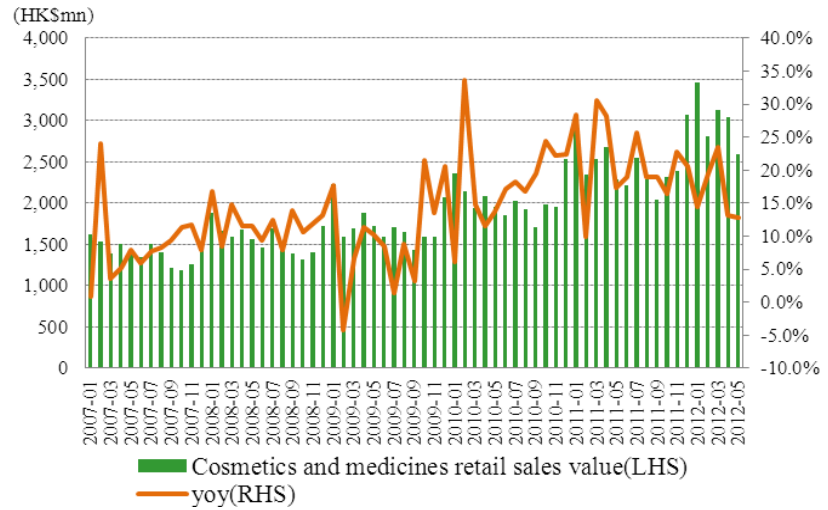
Exhibit 1: 2007-2012 Hong Kong retail sales growth



Source: Hong Kong Census and Statistics Department, Wind



Exhibit 2: 2007-2012 Hong Kong cosmetics and medicines retail sales



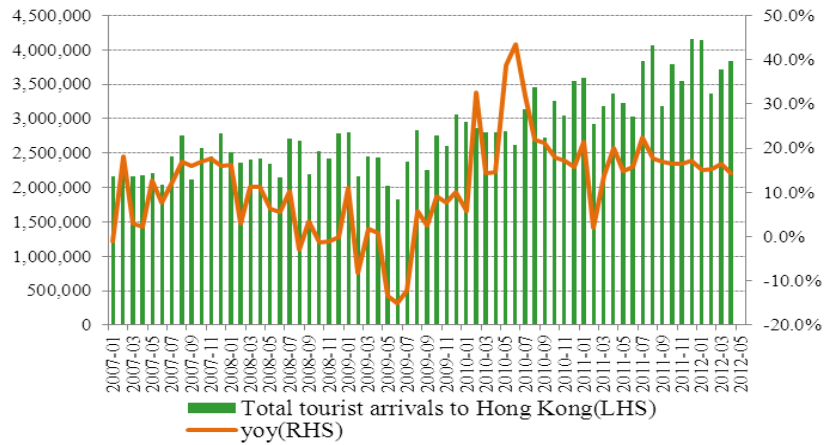
Source: Hong Kong Census and Statistics Department

Rising short haul tourist

In July 2003, the Chinese government launched its individual visit scheme (IVS) to permit Mainland tourists to visit Hong Kong individually rather than as a tour member. The scheme helps to boost up Hong Kong retail sector. From 2007 to 2011, the number of the PRC tourists increased from 15.48mn to 28.10mn, representing a CAGR of 16.1%. The proportion of Mainland tourists as % of total tourists lifted up to 67% in 2011 from 55% in 2007. In the first 5 month of 2012, the Mainland tourist arrivals to Hong Kong grew by 21.3% yoy, accounting for 69.9% of total tourist arrivals. Due to the rising individual income level of residents in the Mainland, the overnight Mainland visitor spending per capita and same day visitors per capita grew by CAGR of 12.4% and CAGR of 7.4% in 2007-2011. In April of 2009, Chinese government launched year-round multiple-entry visa arrangements for Shenzhen residents. In Dec of 2010, the government allowed non-Guangdong residents to apply tourist visa in Shenzhen to facilitate them to travel to HK. The government is considering further facilitate travel to HK by allow self-service immigration clearance for frequent travelers, electronic exit-entry permits for Guangdong residents and online application of IVS for non-Guangdong residents in Shenzhen. The series of measures will further boost Mainland China tourist. We've found that the same-day in-town (one-day but not overnight) visitors have exceeded overnight tourists in 2011 for the first time. Meanwhile, the shopping spending growth of same-day in-town tourists has exceeded overnight tourist for 2011 and the first five months of 2012. We expect that the increasing short haul tourist will further support Hong Kong retail sales growth.

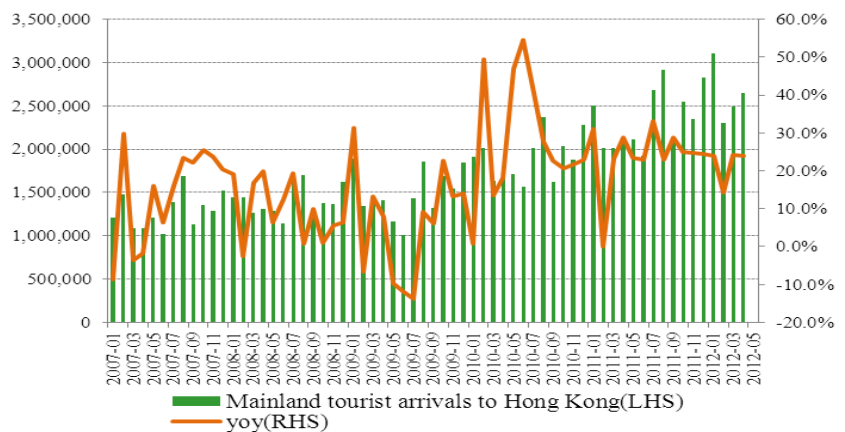


Exhibit 3: 2007-2012 Total tourist arrivals to Hong Kong



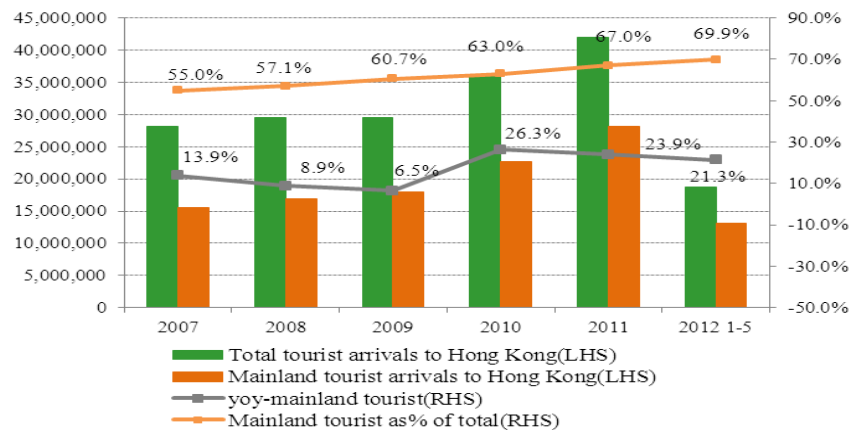
Source: Hong Kong Census and Statistics Department, Wind

Exhibit 4: 2007-2012 Mainland tourist arrivals to Hong Kong



Source: Hong Kong Census and Statistics Department, Wind

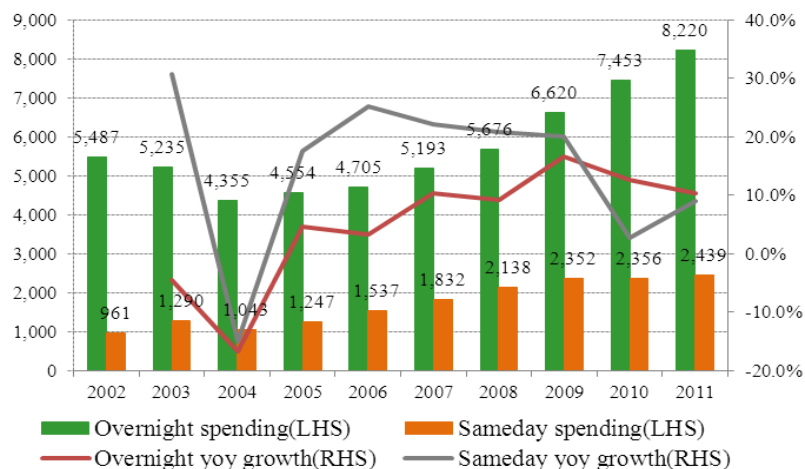
Exhibit 5: 2007-2012 Mainland tourist arrivals to Hong Kong



Source: Hong Kong Census and Statistics Department, Wind

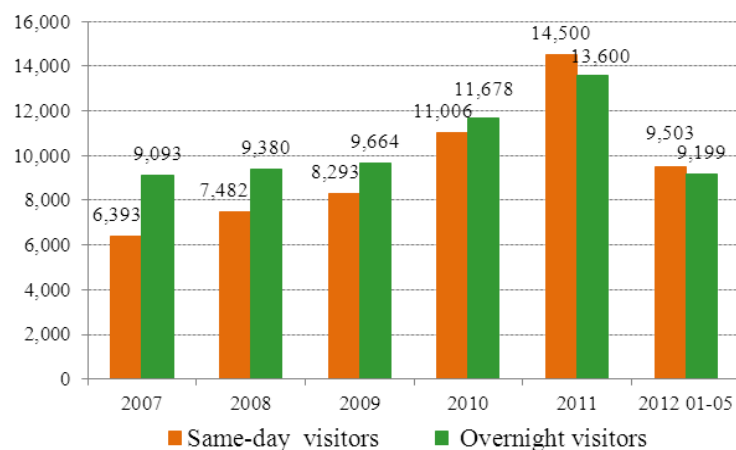


Exhibit 6: 2002-2011 Mainland China visitors spending per capita



Source: Hong Kong Census and Statistics Department, Wind

Exhibit 7: Same-day in-town and overnight visitor arrivals from Mainland China



Source: Hong Kong Census and Statistics Department, Wind

Exhibit 8: Shopping spending from Mainland China visitors

(HK\$m)	Same-day visitor	yoy growth	Overnight visitor	yoy growth
2007	10,388.24	48.2%	34,266.60	27.9%
2008	14,410.49	38.7%	38,047.43	11.0%
2009	17,824.94	23.7%	48,808.70	28.3%
2010	23,905.23	34.1%	64,028.30	31.2%
2011	31,996.44	33.8%	78,792.01	23.1%

Source: Hong Kong Census and Statistics Department, Wind



Exhibit 9: Individual visit scheme coverage

Effective date	Coverage cities
July 2003	Donguang, Foshan, Zhongshan, Jiangmen
Aug 2003	Guangzhou, Shenzhen, Zhuhai, Huizhou
Sep 2003	Shanghai, Beijing
Jan 2004	Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan, Yunfu
May 2004	Shanwei, Maoming, Zhangjiang, Shaoguan, Jieyang, Heyuan, Yangjiang
July 2004	Nanjing, Suzhou, Wuxi, Hangzhou, Ningbo, Taizhou, Fuzhou. Xiamen, Quanzhou
Mar 2005	Tianjin, Chongqing
Nov 2005	Chengdu, Jinan, Dalian, Shenyang
Mar 2006	Nanchang, Changsha, Nanning, Haikou, Guiyang, Kunming
Jan 2007	Shijiazhuang, Zhengzhou, Changchun, Hefei, Wuhan
Apri2009	launch of year-round multiple-entry visa arrangements for Shenzhen residents
Dec 2010	non-Guangdong residents in Shenzhen

Source: China National Tourist Office



Business Analysis

Sa Sa is one of the leading one-stop cosmetic specialty retailers in Asia with extensive network in HK & Macau, the Mainland China, Taiwan, Singapore and Malaysia. It offers 14,000 SKU of its own brands, exclusive brands and parallel-trade products in its retail outlets in the HK & Macau and 7,000 SKU in its retail outlets in the PRC. The group provides wide variety of products from skin care, fragrance, make-up, body care, hair care, beauty accessories and health food. It runs 249 retail stores in HK & Macau, the Mainland China, Taiwan, Singapore and Malaysia in FY3/2013. The extensive network facilitates it to diversify its products with distinct edge in price. HK & Macau market accounted for 79.5% of its total revenue for FY3/2012. Total sales in Taiwan, Singapore and Malaysia contributed 11.3% of its total revenue for FY3/2012. Total sales in the Mainland China and Internet accounted for 4.6% for FY3/2012. For its retail business in HK & Macau, purchasing from Mainland tourists as % of total sales has lifted up to 67.3% in FY3/2012 from 58.7% in FY3/2011.

Exhibit 10: Sa Sa store



Source: Sa Sa

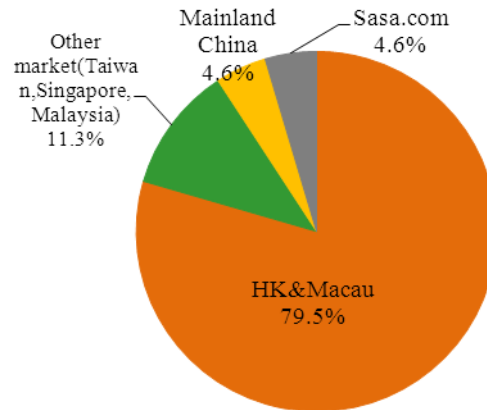
Exhibit 11: Exclusive distribution brands by Sa Sa



Source: Sa Sa

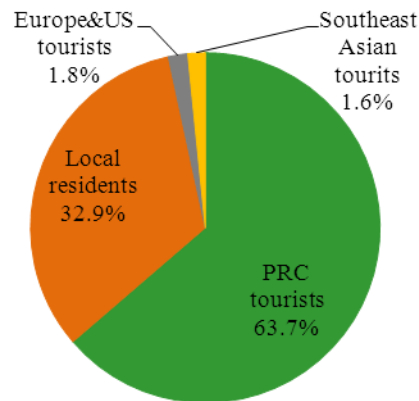


Exhibit 12: FY3/ 2012 Sales breakdown by region



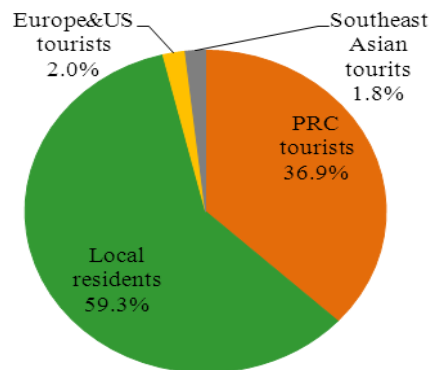
Source: Sa Sa, ABCI Securities

Exhibit 13: FY3/ 2012 Sales breakdown by tourists in HK & Macau



Source: Sa Sa, ABCI Securities

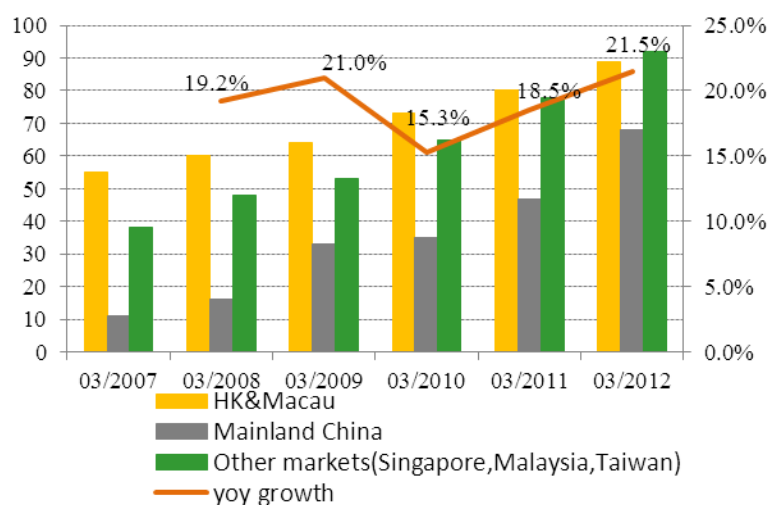
Exhibit 14: FY03/2012 Transaction volume breakdown by tourists in HK&Macau



Source: Sa Sa, ABCI Securities



Exhibit 15: Retail outlets by region



Source: Sa Sa, ABCI Securities

Exhibit 16: Sales performance in 1Q FY3/2013 (ie. Apr-Jun 2012)

HK&Macau	Apr	May	Jun	Q1
Retail sales growth	15.2%	7.7%	23.6%	15.3%
Same store sales growth	10.2%	6.2%	22.2%	12.3%
Ave. Sales/transaction(HK\$)	365	324	325	338
yoy	15.1%	6.2%	11.3%	10.8%
Total no.of transactions(mn)	1.1	1.1	1.2	3.4
yoy	0.1%	1.4%	11.0%	4.1%

Source: Sa Sa, ABCI Securities

Tight rental cost management in HK & Macau

To contain the rental cost to sales ratio, the group implements the following business strategies.

1. The group consolidates the number of retail outlets in traditional tourist area where rental rates are surging rapidly.
2. The group opens new outlets in non-tourist areas where rental rates remain at reasonable levels.

Its rental-to-sales ratio dropped 0.3ppt to 10.1% in FY3/2012, although overall rental rates were increasing. At the end of Mar 2012, 45 out of 87 stores are located in non-tourist areas. The management will increase new stores in non-tourist areas in light of continue rising rental pressure in traditional tourist areas(such as Central, TST, Causeway Bay, Mongkok) and rising number of short haul tourists in non- tourist areas. We expect its rental to sales ratio to control at 10.7% in FY3/2013. The same day visitors have exceeded overnight tourists in 2011 for the first time. Meanwhile, the shopping spending growth of same-day tourist has exceeded overnight tourist for 2011 and the first five months of 2012. The short haul visitors from Southern China tend to shop in non-tourist areas near the border. The group will enhance cooperation with property developers by open new outlets in



shopping malls located above MTR stations near Shenzhen-HK border, such as Sha Tin or Sheung Shui stations to attract short-haul tourists. The management specified sales from the PRC short-haul tourists have exceeded 20% of total sales in these non-tourist outlets. We expect that the series of measures to facilitate Guangdong residents to travel to HK will further boost sales of short-haul tourists. We expect its HK & Macau sales to grow at CAGR of 19.8% in FY3/2013 to FY3/2015.

China business is on fast-growing path, patience for turning around

Sa Sa started its Mainland China business in 2002. As parallel trading is prohibited by Chinese government and each foreign single SKU should pass through the inspect procedure which is time-consuming (several months) and costly (approx. Rmb20K per SKU), its business development in China has huge obstacles due to insufficient product and inadequate retail network. The group aggressively collaborated with renowned developers to accelerate expansion in Mainland China in FY3/2012. It establishes its footprint in Eastern China, Northern China, Central China and Southern China to become a nationwide cosmetic retailer. Sa Sa added 21 (net basis) retail outlets in China in FY3/2012. It will open another 26 retail outlets in FY3/2013, increasing total number of retail outlets to 94 in China and covering 26 cities across 11 provinces. Sa Sa will strengthen its business cooperation with domestic cosmetic manufacturers and foreign beauty group to enrich its products SKU. Although Sa Sa aggressively expands its sales network in China, the business performances in the China market in FY3/2011 and FY3/2012 were disappointed. Net losses in the China market widened to HK\$38mn in FY3/2012 from HK\$23mn in FY3/2011. We believe the losses were caused by lower sales per store in the start-up stage, keen market competition in local market and low product differentiation. We expect the net loss in the China market to widen to HK\$45mn in FY3/2013. Business turnaround is unlikely until after FY3/2015.

Steady growth of retail business in other market and online sales

Other markets, including Singapore, Taiwan and Malaysia, accounted for 11.3% of total sales in FY3/2012, registered a 21.2%yoy sales growth. With continue expansion of sales network and market penetration, we expect this business segment to grow by CAGR of 12.7% in from FY3/2013 to FY3/2015.

Sa Sa's online sales grew by 26.3% yoy in FY3/2012 and accounted for 4.6% of total sales. We expect sales growth to slow to 10.0% yoy in FY3/2013 due to inadequate logistic support in Mainland China.

Gross profit margin uptrend

Due to rising contribution of house brands (including own brands and sole-agent brands) sales, the group's gross profit margin has lift up from 43.7% in FY3/2009 to 45.2% in FY3/2012. Sales of house brand products accounted for 42% of total sales in FY3/2012. The group will further lift up its gross profit margin by boosting sales of high-margin house brand products. We expect its gross profit margin to further lift up to 46.0 % in FY3/2012 from 45.7% in FY3/2011.

High dividend yield

Sa Sa has net cash of HK\$599mn at the end of FY3/2012. The group maintained dividend payout of over 70% last three financial years. In our



earnings model, we assume the group to maintain dividend payout ratio of 70% from FY3/2013 to FY3/2015. We expect its dividend yield to reach 4.1%-6.3% in FY3/2013-FY3/2015, based on the closing price of HK\$4.77 on 30/07/2012.

1Q FY3/2013 is not that gloomy

The group released its sales statistics for 1Q FY3/2013. Its sales and SSSG grew by 15.3% yoy and 12.3%yoy in the HK & Macau market respectively. Sales growth in June rebounded to 23.6%yoy in June from 7.7%yoy in May and 15.2%yoy in April. We expect that its total sales to grow by 19.8% yoy in FY3/2012.

Comparison of Sa Sa and Bonjour**Exhibit 17**

	Sa Sa(As at 31 Mar)	Bonjour(As at 31 Dec)
Business		
No. of retail outlets in HK&Macau	89	44
No. of retail outlets in PRC	68	4
No. of retail outlets in Asia	92	0
No. of beauty salon	0	20
Sales to China tourists in HK & Macau/total sales in HK & Macau	63.70%	40%
Sales of exclusive and in-house brand products /total sales	42%	70%
No. of SKU in HK & Macau	14,000	22,000
Financial(FY2011/2012)		
Gross profit margin for retail sales in HK & Macau	44.8%	39.4%
Gross profit margin	45.2%	45.7%
EBIT margin	12.9%	11.3%
Net profit margin	10.8%	9.2%
Inventory turnover days	104	55
ROAE	44.2%	94.4%
ROAA	30.3%	30.7%

Source: Sa Sa, Bonjour, ABCI Securities



Channel check in Tsim Sha Tsui

We've walked in the most popular tourist area from Salisbury Road to Nathan Road in TST to take a site visit of Sa Sa and other cosmetic and personal healthcare retailers. There are 4 Sa Sa stores and 3 Bonjour stores located in Salisbury Road and Nathan Road. Sa Sa's stores are well decorated with good image while Bonjour's stores are out-style. Three out of four Sa Sa stores are located in basement or upper floor while Bonjour stores are located on the ground floor of these streets. The locations of their retail outlets suggest Sa Sa has prudent strategy in managing store expansion and controlling rental cost.

We've chosen four popular brands including Neutrogena, L'oreal, Vaseline and Kiss me to compare the selling price of each item in different stores. 9 out of 17 items in Bonjour store tagged lower price compared with Sa Sa (4.6%-45.3% discount in Bonjour stores). Bonjour is the best choice which provide lower price for price-sensitive consumers, while same products tagged same price in Sa Sa, Watsons and Mannings. We've concluded that Sa Sa has relatively strong pricing power that is in line with other big personal healthcare retailers such as Watsons and Mannings, while Bonjour should rely on lower price strategy to attract traffic due to its weak branding name and smaller sales network.

Exhibit 18: Channel check (Jul 26, 2012)

(HK\$)	Sa Sa	Bonjour	Watsons	Mannings	Colourmix
Neutrogena					
Hydro Boost Emulsion(50g)	129.9	103.9	129.9	129.9	129.9
Hydro Boost Water Gel(50g)	129.9	103.9	129.9	129.9	119
Hydro Boost Clear Lotion(150ml)	99.9	79.9	98.9	98.9	na
Hydro Boost Essence(30ml)	149.9	119.9	149.9	149.9	na
L'oreal					
Revita Lift Anti-wrinkle & Firming Eye Cream(15ml)	165	98	164.9	164.9	na
Revita Lift Intensive Night Repair Essence(30ml)	219	na	218.9	218.9	na
Revita Lift Day Cream(50ml)	179	98	178.9	178.9	174
Revita Lift Night Cream(50ml)	189	na	188.9	188.9	174
Dermo-Expertise Hydrafresh All Day Hydration Aqua-Essence(50ml)	139	85	138.9	138.9	na
Dermo-Expertise Gentle Lip And Eye Make-Up Remover(125ml)	79	52	79	78.9	na
Excellence cream (hair coloring)	54.5	52	54.5	54.5	na
Vaseline					
Skin Lightening Lotion(400ml)	36.9	na	36.9	29.9	39.9
Aloe Fresh Hydrating Lotion(400ml)	29.9	29.9	36.9	36.9	39.9
Age Defense Lotion(400ml)	34.9	39.9	39.9	39.9	27.9
Total Nourishing Lotion(400ml)	36.9	36.9	na	36.9	na
Kiss Me					
Mascara	98	98	na	na	98
Eyeliners	72	72	na	na	72



Earnings Assumption

Exhibit 19: Earnings assumption

	2011	2012	2013F	2014F	2015F
Sales by region(HK\$mn)					
Retail sales in HK & Macau	3,923	5,093	6,101	7,383	8,764
yoy	19.3%	29.8%	19.8%	21.0%	18.7%
Retail sales in PRC	145	291	422	602	845
yoy	49.9%	99.8%	45.1%	42.7%	40.5%
Retail sales in Singapore	206	242	263	289	307
yoy	28.4%	17.6%	8.7%	10.0%	6.2%
Retail sales in Malaysia	221	257	291	327	365
yoy	27.7%	16.3%	13.3%	12.6%	11.5%
Retail sales in Taiwan	172	226	269	317	364
yoy	15.9%	31.6%	19.3%	17.7%	14.8%
Online sales	235	297	327	366	421
yoy	-4.0%	27.8%	10.0%	12.0%	15.0%
Number of stores					
Retail outlets in HK & Macau	80	89	102	112	120
Retail outlets in PRC	47	68	94	119	139
Retail outlets in Singapore	20	21	24	25	26
Retail outlets in Malaysia	38	45	51	56	61
Retail outlets in Taiwan	20	26	30	34	38
Net addition of outlets					
Retail outlets in HK & Macau	7	9	13	10	8
Retail outlets in PRC	12	21	26	25	20
Retail outlets in Singapore	2	1	3	1	1
Retail outlets in Malaysia	8	7	6	5	5
Retail outlets in Taiwan	3	6	4	4	4
Same store sales growth					
HK & Macau	9.3%	22.2%	8.0%	8.0%	9.5%
PRC	-1.7%	0.5%	3.0%	8.5%	16.0%
Singapore	5.2%	-1.5%	-1.0%	1.0%	2.0%
Malaysia	4.6%	0.7%	-2.0%	1.0%	2.0%
Taiwan	2.0%	2.1%	-2.0%	3.0%	2.0%
HK & Macau business					
Rental expense as % of sales	10.4%	10.1%	10.7%	10.5%	10.6%
Staff expense as % of sales	12.8%	11.9%	12.6%	12.5%	12.2%
A&P expense as % of sales	1.7%	1.6%	1.6%	1.6%	1.6%
Net profit by region(HK\$mn)					
HK & Macau	475	672	744	945	1,139
PRC	(23)	(38)	(45)	(43)	0
Other markets(Singapore, Malaysia, Taiwan)	41	34	68	66	48
Sasa.com	15	19	26	28	21

Source: Sa Sa, ABCI Securities estimates



Valuation

HK retail stocks are undergoing a “de-rating” as market anticipates a slowing down sales growth in coming financial years. Sa Sa was trading at a ave.21.6x PE for past 3 years, in line with its EPS CAGR of 20.6%. We expect Sa Sa’s revenue growth and net profit growth to slow down to 19.8% yoy and 15.1% yoy respectively in FY3/2013 compared with 30.7%yoy and 35.4%yoy in FY3/2012. In view of 15.1% yoy of FD EPS in FY3/2013, we rate the stock at FY3/2013 PER of 15x and set our 12-mth target price at HK\$4.22. We initiate coverage with “Sell” rating.

Exhibit 20: Valuation Table

Code	Name	Mkt cap	Price	PER		EPS growth	
		(HK\$mn)	(HK\$)	T*	T+1	T	T+1
Beauty products retailers							
653	Bonjour	3,535	1.18	16.39	14.75	22.8%	11.2%
178	Sa Sa	13,459	4.77	19.55	16.98	35.6%	15.2%
HK retailers							
709	Giordano	8,386	5.45	11.31	10.15	33.9%	11.4%
999	I.T	4,065	3.31	8.53	7.52	21.3%	13.4%
589	Ports	4,212	7.47	9.95	9.34	-9.5%	6.5%
1929	Chow Tai Fook	87,700	8.77	12.71	12.18	72.5%	4.3%
116	Chow Sang Sang	10,722	15.84	9.81	8.80	39.2%	11.5%
3389	Hengdeli	9,622	2.19	11.84	12.88	42.3%	-8.1%
590	Luk Fook	10,922	18.54	7.63	8.70	42.1%	-12.3%
398	Oriental	1,352	2.37	6.41	5.93	27.6%	8.1%
Average				11.41	10.72		

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

Sensitivity analysis of impact on EBIT margin for HK business

Exhibit 21: Sensitivity analysis

Impact on EBIT margin		Sales growth				
Rental expense increase		12%	15%	18%	21%	24%
	20.0%		-1.53%	-1.13%	-0.75%	-0.38%
22.5%		-1.76%	-1.35%	-0.96%	-0.59%	-0.24%
25.0%		-1.98%	-1.57%	-1.17%	-0.80%	-0.47%
27.5%		-2.21%	-1.79%	-1.39%	-1.01%	-0.65%
30.0%		-2.43%	-2.01%	-1.60%	-1.22%	-0.85%

Source: ABCI Securities estimates



Sa Sa: Financial Summary

Consolidated Income Statement

Yr to Mar 31 (HK\$mn)	2011	2012	2013F	2014F	2015F
Turnover	4,901	6,405	7,673	9,284	11,067
COGS	(2,689)	(3,508)	(4,143)	(4,967)	(5,887)
Gross profit	2,212	2,897	3,530	4,317	5,179
Other income	30	40	40	40	40
Selling and distribution costs	(1,464)	(1,901)	(2,346)	(2,850)	(3,364)
Admin expenses	(181)	(207)	(269)	(306)	(398)
Other operating expenses	11	0	0	0	0
Operating profit	608	828	955	1,200	1,456
Finance income	5	6	7	8	9
Pre-tax profit	614	835	962	1,208	1,465
Tax	(104)	(145)	(168)	(211)	(256)
Net profit	509	690	794	997	1,208
Diluted EPS (HK\$)	0.180	0.244	0.281	0.353	0.427
DPS(HK\$)	0.139	0.174	0.197	0.247	0.299

Source: Sa Sa, ABCI Securities estimates

Consolidated Balance Sheet

As of Mar 31 (HK\$mn)	2011	2012	2013F	2014F	2015F
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	2,089	2,612	3,154
Inventories	802	1,191	1,211	1,587	1,777
Trade receivables	48	70	74	98	107
Prepayments, deposits and other receivables	91	136	149	164	180
Time deposits	94	36	0	0	0
Cash and cash equivalents	524	563	655	763	1,090
Total assets	1,877	2,467	2,683	3,258	3,826
Current liabilities	506	808	749	933	1,042
Trade and bill payables	254	451	431	583	657
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	1,625	2,016	2,475
Total Equity	1,353	1,631	1,906	2,298	2,757
Book value per share (HK\$)	0.479	0.577	0.674	0.813	0.975

Source: Sa Sa, ABCI Securities estimates

**Consolidated Cash Flow Statement**

Yr to Mar 31 (HK\$mn)	2011	2012	2013F	2014F	2015F
Profit before tax	614	835	962	1,208	1,465
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)	(28)	(231)	(107)
Income tax paid	(92)	(124)	(236)	(211)	(256)
Operating cash flow	443	639	857	986	1,347
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)	(518)	(605)	(750)
Others	28	14	0	0	0
Financing cash flow	(363)	(422)	(518)	(605)	(750)
Net increase in cash	115	36	92	108	326
Cash balance at year end	524	563	655	763	1,090

Source: Sa Sa, ABCI Securities estimates

Key Financial Ratios

FY ended Mar 31	2011	2012	2013F	2014F	2015F
Revenue growth	19.2%	30.7%	19.8%	21.0%	19.2%
Net profit growth	33.4%	35.4%	15.1%	25.6%	21.3%
Gross profit margin	45.1%	45.2%	46.0%	46.5%	46.8%
EBIT margin	12.4%	12.9%	12.4%	12.9%	13.2%
Net profit margin	10.4%	10.8%	10.3%	10.7%	10.9%
ROAE	40.1%	46.2%	44.9%	47.4%	47.8%
ROAA	29.6%	31.8%	30.8%	33.5%	34.1%
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%	34.3%	33.2%	39.5%
Dividend Payout ratio	77.1%	71.4%	70.0%	70.0%	70.0%

Source: Sa Sa, ABCI Securities estimates



Risk Factors

Economic risk: In 2Q of 2012, China's GDP slow down to 7.8% from 8.1% in 1Q 2012. The gloomy prospectus of economy will adversely affect the purchasing power of customers from Mainland China.

Slowing-down Mainland China tourist growth: 63.7% of Sa Sa's retail sales comes from the Mainland tourists. As we tracked Macau's monthly tourist data, Macau's monthly tourist growth dropped 8.6%yoy and 4.0%yoy in April and May. Although HK tourist grew by 23.9% and 19.9% in the same period, the slowing down of Mainland tourists growth in HK will affect sales growth of Sa Sa.

Product sourcing risk: If the group fails to source products, which are favourable to consumers, at competitive purchase cost, the competitive edges of the group will diminish and the business performance will be adversely affected.

Competition: The cosmetic retailing industry in Hong Kong is highly competitive. If the group fails to renew its old stores and open new stores in highly-traffic area and provide diversified and bargain products, it will lose its market share to the competitors such as Bonjour and Colourmix.

Unreasonable rental hike: Rental costs grew by 26.1% yoy in FY03/2012, account for 10.1% of total sales in HK & Macau. Rising rental expense and slowing down of sales growth will drag down its operating profit margin in coming years.

China business risk: The group is aggressively expanding its retail network in Mainland China. Its operating loss will further expand if the sales ramp-up is slow than expected.



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