



Company Report

Daphne (210 HK) – Hold

Footwear Industry

Raise 12-mth target price to HK\$10.7 (previous HK\$6.55)

Key data

Share price (HK\$)	10.2
Target price (HK\$)	10.7
Upside potential (%)	4.9
52Wk H/L(HK\$)	11.84 / 6.64
Issued shares (mn)	1641
Market cap (HK\$mn)	16,803
30-day avg vol (HK\$mn)	35.0
Major shareholders (%):	
Chang Chih-Kai's family	24.47
TPG Asia	18.23

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H FY12 (%)

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

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	9.1	7.3
3-mth	31.4	18.4
6-mth	22.0	3.8

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 03 Dec, 2012

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Previous report

Date: 5 Oct, 2012

Rating: Sell

Daphne has outperformed Hang Seng Index by 16% since 12 Oct (after released its weak 3Q SSSG) as market expects a solid recovery of profit in FY13 due to margin improving and stabilization of SSSG. We upgrade the rating to “Hold” as we believe the share price has factored in the positives from the business recovery for FY13.

Revise sales and net profit forecasts for FY12 and FY13: We lower our SSSG forecast from 12% to 10% for FY12 as we estimate that it will not be able to achieve the full-year target of 12% due to high base of 4Q FY11(26% of SSSG in 4Q FY11) and weaker-than-expected sales growth in October and November. We revise down sales and net profit forecast by 1.8% and 1.8% to HK\$10,451mn and HK\$1,011mn respectively in FY12. The group implements CRM (customer relationship management) system to organize and analyze customer data and provides training for the front-line sales to improve productivity. Moreover, the management continues to bargain for better rental rate of stores with the landlords in an attempt to control the pace of rising rental cost. We expect that the measures of cost control and efficiency enhancement will improve the operating margin in FY13 and FY14. We revise up the net profit forecast by 5.1% and 2.7% in FY13 and FY14 respectively.

Upgrade to “Hold”: The stock has outperformed Hang Seng Index by 16% since 12 Oct as market expects a solid recovery of profit in FY13 due to margin improving and stabilization of SSSG. We raise our target price to HK\$10.7 from HK\$6.55 based on the average DCF value and 16x PE in FY13. We upgrade the rating from “Sell” to “Hold”.

Risk factors: Weaker-than-expected retail sales recovery in FY13; slower-than-expected margin improving; intensified competition.

Forecast and valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(HK\$ mn)	6,624	8,577	10,451	12,525	14,791
Chg (YoY)	13.6%	29.5%	21.9%	19.8%	18.1%
Net Income(HK\$ mn)	596	933	1,011	1,253	1,510
Chg (YoY)	51.2%	56.7%	8.4%	23.8%	20.5%
FD EPS (HK\$)	0.319	0.498	0.536	0.664	0.800
Chg (YoY)	40.8%	56.0%	7.6%	23.8%	20.5%
PER (x)	20.5	19.0	15.4	12.8	20.5
NBV(HK\$/share)	2.154	2.548	3.051	3.651	2.154
P/B(x)	4.7	4.0	3.3	2.8	4.7
DPS(HK\$)	0.170	0.184	0.228	0.275	0.170
Dividend yield	1.7%	1.8%	2.2%	2.7%	1.7%
ROAE	21.5%	24.8%	21.9%	22.9%	23.2%
ROAA	13.3%	16.2%	14.8%	15.9%	16.4%

Source: Company data, ABCI Securities estimates

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Daphne International Holdings Limited**Exhibit 1: Estimates revision**

(HK\$ mn)	New forecast			Old forecast			Change%		
	FY 12E	FY 13E	FY 14E	FY 12E	FY 13E	FY 14E	FY 12E	FY 13E	FY 14E
Revenue	10,451	12,525	14,791	10,638	12,538	14,929	-1.8%	-0.1%	-0.9%
yoy	21.9%	19.8%	18.1%	24.0%	17.9%	19.1%	-	-	-
Gross profit	6,250	7,452	8,874	6,361	7,460	8,958	-1.8%	-0.1%	-0.9%
yoy	19.2%	19.2%	19.1%	21.3%	17.3%	20.1%	-	-	-
EBIT	1,486	1,791	2,145	1,511	1,707	2,090	-1.7%	4.9%	2.6%
yoy	8.6%	20.5%	19.8%	10.4%	13.0%	22.5%	-	-	-
Net Income	1,011	1,253	1,510	1,030	1,192	1,470	-1.8%	5.1%	2.7%
yoy	8.4%	23.8%	20.5%	10.4%	15.7%	23.3%	-	-	-
FD EPS(HK\$)	0.536	0.664	0.800	0.546	0.631	0.779	-1.8%	5.1%	2.7%
yoy	7.6%	23.8%	20.5%	9.6%	15.7%	23.3%	-	-	-
Gross profit margin	59.8%	59.5%	60.0%	59.8%	59.5%	60.0%	0.0%	0.0%	0.0%
Operating profit margin	14.2%	14.3%	14.5%	14.2%	13.6%	14.0%	0.0%	0.7%	0.5%
Net profit margin	9.7%	10.0%	10.2%	9.7%	9.5%	9.8%	0.0%	0.5%	0.4%

Source: ABCI Securities estimates

Exhibit 2: Price performance

	Price change since 27 Aug (interim result)	Price change since 12 Oct (3Q SSSG)	YTD price change
210 HK Equity	27.3%	20.3%	18.1%
Relative-HSI	16.0%	16.0%	1.3%
1880 HK Equity	11.8%	15.7%	17.4%
Relative-HSI	0.5%	11.5%	0.6%

Source: Bloomberg, ABCI Securities



Daphne financial summary

Consolidated Income Statement

Yr end 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Turnover	6,624	8,577	10,451	12,525	14,791
Cost of sales	(2,823)	(3,333)	(4,201)	(5,073)	(5,916)
Gross profit	3,801	5,244	6,250	7,452	8,874
Selling & Distribution Expenses	(2,485)	(3,366)	(4,212)	(4,985)	(5,916)
Administrative expenses	(444)	(556)	(627)	(751)	(887)
Other income	89	121	75	75	75
Other (losses)/gains	12	(74)	0	0	0
EBITDA	1,114	1,554	1,714	2,078	2,492
Depreciation & Amortisation	142	186	228	287	346
EBIT	972	1,369	1,486	1,791	2,145
Finance income	0	0	0	0	0
Finance costs	(45)	(47)	(50)	(46)	(46)
Fair value loss on derivative financial instrument-warrants	(77)	0	0	0	0
Share of profit of an associated company	1	0	(30)	0	0
Profit before taxation	850	1,322	1,406	1,744	2,099
Income tax	(239)	(377)	(382)	(480)	(577)
Profit for the year	612	945	1,023	1,265	1,522
Minority interests	16	12	12	12	12
Profit Attributable to Equity Holders of the Company	596	933	1,011	1,253	1,510
EPS (HK\$)	0.364	0.570	0.614	0.760	0.916
Diluted EPS (HK\$)	0.319	0.498	0.536	0.664	0.800
Dividend	197	279	303	376	453
DPS (HK\$)	0.120	0.170	0.184	0.228	0.275

Key Financial Ratios

Yr end 31 Dec	2010A	2011A	2012F	2013F	2014F
Revenue growth	13.6%	29.5%	21.9%	19.8%	18.1%
Net profit growth	51.2%	56.7%	8.4%	23.8%	20.5%
Gross profit margin	57.4%	61.1%	59.8%	59.5%	60.0%
Operating profit margin	14.7%	16.0%	14.2%	14.3%	14.5%
Net profit margin	9.0%	10.9%	9.7%	10.0%	10.2%
ROAE	21.5%	24.8%	21.9%	22.9%	23.2%
ROAA	13.3%	16.2%	14.8%	15.9%	16.4%
Inventory turnover days	128	172	192	183	174
Account receivable days	11	10	10	10	10
Account payable days	62	76	76	76	76
Net cash/ equity	60.9%	42.3%	39.8%	37.4%	43.9%
Dividend Payout ratio	33.0%	29.9%	30.0%	30.0%	30.0%
Dividend yield	-	1.7%	1.8%	2.3%	2.7%

Source: Daphne, ABCI Securities estimates



Consolidated Balance Sheet

As of 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Non-current assets	1,123	1,447	1,701	1,974	2,193
Intangible assets	130	130	135	140	145
Land use rights	50	51	62	73	83
Fixed assets	711	900	1,155	1,352	1,491
Others	232	366	348	409	474
Current assets	3,926	5,055	5,497	6,608	7,679
Inventories	1,084	2,059	2,364	2,709	2,926
Trade receivables	210	274	316	391	444
Other receivables, deposits and prepayments	571	926	816	1,272	1,193
Pledged bank deposit	0	0	0	0	0
Bank deposit with maturity over three months	35	0	0	0	0
Cash and cash equivalents	2,024	1,796	2,001	2,236	3,115
Current liabilities	1,160	1,640	1,565	1,999	2,155
Trade payables	578	819	942	1,184	1,296
Other payables and accrued charges	372	563	616	808	853
Income tax payable	199	251	0	0	0
Bank loans	11	7	7	7	7
Derivative financial instrument – warrants	0	0	0	0	0
Non-current liabilities	581	630	630	630	630
Convertible bonds	557	606	606	606	606
Others	24	24	24	24	24
Total equity	3,308	4,232	5,004	5,953	7,087
Equity attributable to equity holders of the Company	3,124	4,036	4,808	5,757	6,891
Minority interests	183	196	196	196	196
Book value per share (HK\$)	1.675	2.154	2.548	3.051	3.651

Consolidated Cash Flow Statement

Yr end 31 Dec (HK\$ mn)	2010F	2011A	2012F	2013F	2014F
Profit before taxation	850	1,322	1,406	1,744	2,099
Depreciation & Amortisation	142	186	228	287	346
Others	146	105	13	(17)	(17)
Working capital change	18	(1,003)	(62)	(441)	(36)
Income tax paid	(264)	(367)	(633)	(480)	(577)
Net cash generated from operating activities	892	243	952	1,094	1,815
Purchase of PP&E	(281)	(394)	(500)	(500)	(500)
Others	52	71	63	63	63
Net cash used in investing activities	(229)	(323)	(437)	(437)	(437)
Dividend paid	(184)	(235)	(303)	(376)	(453)
Other investing activities	(52)	(7)	(7)	(46)	(46)
Net cash generated from financing activities	(236)	(242)	(310)	(422)	(499)
Net increase in cash	427	(322)	205	235	879
Cash at end of year	2,024	1,796	2,001	2,236	3,115

Source: Daphne, ABCI Securities estimates



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