



Key Data

Share price (HK\$)	26.1
52Wk H/L(HK\$)	37.1 / 14.7
Issued shares (mn)	589.1
Market cap (HK\$m)	15,376
30-day avg vol (HK\$m)	64.7
Major shareholder (%): Wong Wai Sheung (CEO)	42.45

Source: Company, Bloomberg, ABCI Securities

Revenue composition by region in FY3/12 (%)

Retail sales-HK & Macau	82.9
Retail sales-PRC	6.9
Wholesales	10.2

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	26.5	23.4
3-mth	66.1	56.4
6-mth	(7.3)	(4.2)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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**Luk Fook (590 HK) – Unrated
Specialty Stores Industry**

We expect Luk Fook's sales and gross profit margin to improve in 3Q 2012 due to rising gold price. Its gold inventory sets to expose more upside risk in the second half of its fiscal year starting from Sep. The stock is expected to continue to outperform the market.

Gold price rally fuelled by QE3: The gold price surged 4.8% to US\$1,774/ounce since Sep as market expected the Fed to launch QE3 which will stimulate demand for inflation-hedging precious metals such as gold. The continued weakening of US\$ dollar also boosts demand for gold as alternative of US\$. DXY Index has been down 3.3% since end Jun. We expect HK jewelry retailers will benefit from rising gold demand as consumers believe the rally of gold price will continue.

Margin improving for Luk Fook: As most of HK jewelry retailers do not fully hedge their gold price exposures and keep about 3 months gold inventory, we expect jewelers to see upside risk of their gold inventories in 3Q 2012. Luk Fook will be one of major beneficiaries due to its lowest gold price hedging ratio among HK jewelry retailers (20% hedging ratio vs 40% hedging ratio of Chow Sang Sang(116 HK) & 90-100% hedging ratio of Chow Tai Fook(1929 HK). Luk Fook's gross profit margin will improve in 3Q on rising bullion price.

Valuation: Due to its low hedging on its gold inventory, Luk Fook's share price is highly correlated to gold price. We noted Luk Fook was trading as high as 16x PER in May 2011 when gold price rallied during May-Sep 2011. Luk Fook is trading at 12.2x PER for FY3/13. We believe the stock will be subject to upward re-rating in near term.

Risk factors: Unfavourable gold price movement and worse-than-expected sales slow-down.

Forecast and Valuation

FY ended Mar 31	FY11A	FY12A	FY13E	FY14E
Sales (HK\$ mn)	8,091	11,907	13,843	16,211
Chg (%YoY)	50.2	47.2	16.3	17.1
Net Income (HK\$ mn)	866	1,334	1,247	1,467
Chg (%YoY)	63.0	54.0	(6.5)	17.7
FD EPS (HK\$)	1.71	2.43	2.14	2.52
Chg (%YoY)	58.3	42.1	(12.1)	17.9
NBV(HK\$)	6.31	9.50	11.01	12.58
DPS (HK\$)	0.68	0.96	0.83	1.00
PER (x)	-	10.7	12.2	10.4
PB	-	2.7	2.4	2.1
Dividend yield (%)	-	3.7	3.2	3.8
ROAA(%)	25.2	24.2	18.3	17.3
ROAE (%)	34.1	29.6	21.2	20.6

Source: Company, Bloomberg, ABCI Securities estimates

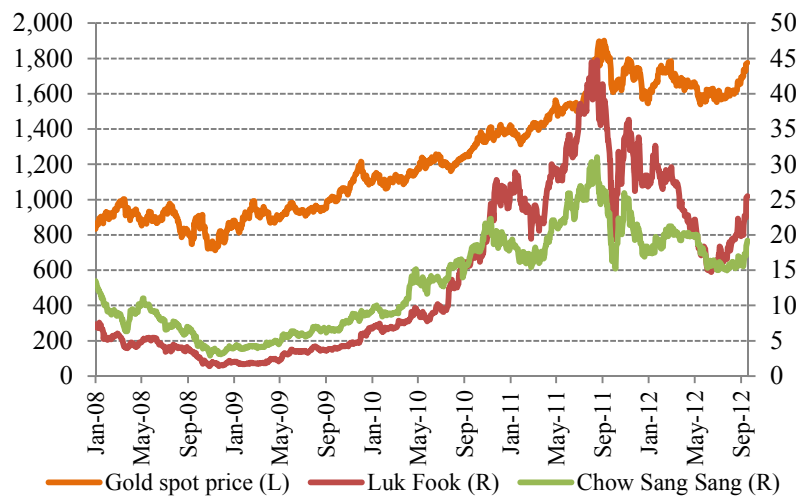


Exhibit 1: Peer comparison

Code	Name	Mkt cap (HK\$m)	Price (HK\$)	PER		EPS growth	
				T*	T+1	T	T+1
1929	Chow Tai Fook	110,200	11.02	16.0	15.5	72.5%	2.9%
116	Chow Sang Sang	13,132	19.40	12.0	12.1	39.2%	(0.9%)
590	Luk Fook	15,376	26.10	10.7	12.2	42.1%	(12.3%)
3389	Hengdeli	10,059	2.29	12.4	12.1	42.3%	2.7%
398	Oriental	1,524	2.67	9.2	7.2	(34.1%)	27.6%
Average				12.1	11.8		

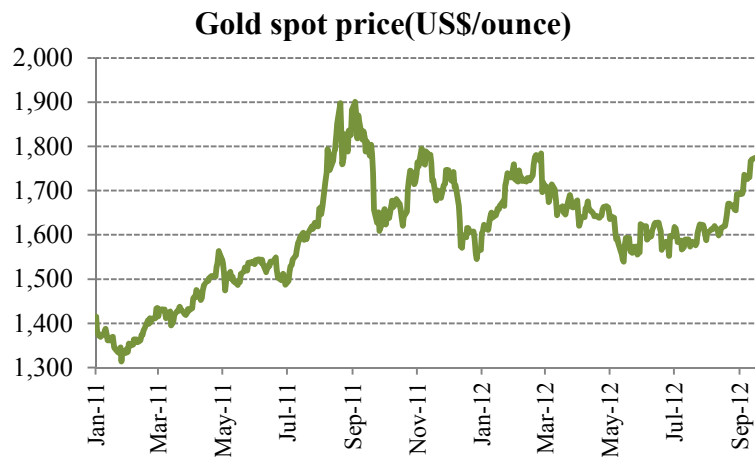
Source: Bloomberg, ABCI Securities estimates, T* represents historical financial year

Exhibit2: Gold price vs share price



Source: Bloomberg, ABCI Securities estimates

Exhibit 3



Source: Bloomberg



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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