



Key Data

Share price (HK\$)	8.34
Target price(HK\$)	8.94
Upside potencial(%)	7.2
52Wk H/L(HK\$)	5.89 / 11.84
Issued shares (mn)	1,641
Market cap (HK\$m)	13,739
30-day avg vol (HK\$m)	44.3
Major shareholders (%):	
Chang Chih-Kai's family	24.47
TPG Asia	18.23

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY12 (%)

Core brands (Daphne,Shoebox)	88.6
Other brands	6.2
OEM	5.2

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(8.7)	(9.6)
3-mth	(20.2)	(18.3)
6-mth	(16.3)	(13.4)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 5 July 2012
Rating: Buy

Daphne (210 HK) – Buy
Footwear Industry

Daphne will release its interim result on 15th Aug. We expect its half-year net profit growth to slow to 9.1%YoY for 1H FY12 due to falling ASP and rising cost. We believe the market has priced in these negative factors as the stock has tumbled 42% since Apr. We expect its profit margins to recover in 2H 2012 due to stringent control in product pricing, operating cost and supply chain management.

1H FY12 results preview: We expect its sales and net profit to grow by 21.5%YoY and 9.1%YoY for 1H FY12 respectively, backed by SSSG of 17%YoY for its core brands during the period. Owing to approx. 5% decline in ASP and increase in promotion expenses, we expect its gross profit margin and operating margin to fall to 59.5% and 13.8% in 1H FY12 from 61.2% and 16% in 1H FY11. Although the group unveiled impressive SSSG for 1H FY12 relative to its peer Belle (1880 HK) and C. Banner (1028 HK), its share price tumbled in Q2. Market was pessimistic on its earnings growth momentum.

Outlook for 2H FY12: We expect its profit margins to improve in 2H FY12 given more disciplined retail discounting for their fall/winter products and improving supply chain and cost management. The group has implemented a series of new initiatives on supply-chain enhancement to shorten its production/logistic lead time and reduces over-stocking risk. We expect its sales growth to recover to 26.2%YoY and gross profit margin improve to 60.6% for 2H FY12.

Maintain BUY: The stock is trading at 15.9x PER for FY12, 32% discount to Belle (1880 HK) and 43% discount for its past 3 years PER of 23x. We reiterate “BUY” rating and maintain 12M target price at HK\$8.94, representing 17x PER of FY12.

Risk factors: Slow-than-expect sales recovery in 2H FY12; widening loss in non-core brands footwear retailing business.

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(HK\$ mn)	6,624	8,577	10,638	12,766	15,224
Chg (YoY%)	13.6	29.5	24.0	20.0	19.3
Net Income(HK\$ mn)	596	933	1,041	1,287	1,533
Chg (YoY%)	51.2	56.7	11.6	23.6	19.1
FD EPS (HK\$)	0.319	0.498	0.523	0.647	0.770
Chg (YoY%)	40.8	56.0	5.1	23.6	19.1
PER (x)	-	16.75	15.94	12.90	10.83
DPS(HK\$)	-	0.170	0.190	0.234	0.279
Dividend yield(%)	-	2.1	2.3	2.8	3.4

Source: Company, Bloomberg, ABCI Securities estimates

**Exhibit 1: 1H and 2H summary**

(HK\$ mn)	1H2011	2H2011	1H2012E	2H2012E	2012 E	Consensus	Difference(%)
Turnover	3,939.3	4,637.5	4,787.0	5,850.7	10,638	10,420	2.1
(YoY%)	23.8	34.8	21.5	26.2	24.0%	21.5%	-
Gross profit	2,412.4	2,831.4	2,848.2	3,545.0	6,393	6,281	1.8
(YoY%)	33.0	42.5	18.1	25.2	21.9%	19.8%	-
Operating profit	630.2	738.4	660.6	829.0	1,490	1,469	1.4
(YoY%)	31.6	49.8	4.8	12.3	8.8%	7.3%	-
Net profit	440.2	492.8	481.1	560.3	1,041	1,024	1.7
(YoY%)	131.7	21.5	9.3	13.7	11.6%	9.8%	
Gross margin(%)	61.2	61.1	59.5	60.6	60.1	60.3	
Operating margin(%)	16.0	15.9	13.8	14.2	14.0	14.1	
Net margin(%)	11.2	10.6	10.1	9.6	9.8	9.8	

Source: Bloomberg, ABCI Securities estimates



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