



Company Report

C.banner (1028 HK) – Hold Footwear Industry

Cut 12-mth target price to HK\$2.57 (previous HK\$2.85)

Key data

Share price (HK\$)	2.60
Target price (HK\$)	2.57
Downside potential (%)	1.2
52Wk H/L(HK\$)	2.61 / 1.54
Issued shares (mn)	2,000
Market cap (HK\$m)	5,140
30-day avg vol (HK\$m)	0.64
Major shareholders (%):	
Chen Yixi-Chairman	36.59
Li Wei- CEO	20.01
CVC Capital	6.01

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H FY12 (%)

Retail and wholesaling	91.3
OEM	8.7

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	3.2	0.1
3-mth	10.8	4.8
6-mth	9.4	17.8

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 27 Aug, 2012

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Previous report

Date: 22 Mar, 2012

Rating: Buy

Key takeaways from the tele-conference of C.banner

We've held a tele-conference with the management of C.banner on 27th Aug. C.banner expanded rapidly of its retail network for its new brands through department stores in 1H FY12. However, its operating margin was squeezed as the rental cost, staff cost and administrative cost rose faster than sales growth. The group's inventory maintained at high level and the inventory clear-up will extend to 2H FY12.

Margin squeezed and inventory maintained at a high level in 1H FY12:

Its operating profit margin dropped 4.6ppt to 15.2% due to rising department stores commission, staff cost and administrative cost. Its department stores commission to sales increased by 1ppt to 27% while staff cost increased by 1.5ppt to 8%. Its administrative cost to sales increased by 1.2ppt to 4.9% in 1H FY12. Its inventory recorded Rmb567mn at 30 Jun 2012. Inventory turnover days increased by 32days to 239 days (vs 207 days in 1H FY11 or 238 days for FY11). We expect that inventory clear-up will extend to 2H FY12.

Revise down its sales and net profit growth for FY12:

We cut our proprietary stores opening forecast to 200 stores from 250 stores. We revise down our FY12 sales forecast by 8.4% to Rmb2,503mn as we expect its full year SSSG to slow down to 8%(vs previous forecast of 9.5%). We expect its net profit to grow by 8% to Rmb313mn in FY12.

Downgrade to Hold: We downgrade the counter to "Hold" from "Buy" and cut 12M target price to HK\$2.57 from HK\$2.85, representing 14.0x PER of FY12 or 12.0x PER of FY13.

Risk factors: Increasing inventory risk; Heavy promotion to erode margin; Earnings dilution from CB.

Forecast and valuation

Yr ended Dec31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue(Rmb mn)	1,575	2,044	2,503	3,100	3,693
Chg (% YoY)	22.6	29.8	22.5	23.8	19.1
Net Income(Rmb mn)	170	290	313	365	427
Chg (% YoY)	113.3	70.8	8.0	16.5	17.0
FD EPS(Rmb)	0.100	0.145	0.149	0.174	0.204
Chg (% YoY)	113.3	45.2	3.0	16.5	17.0
P/E(x)	-	14.6	14.0	12.0	10.3
NBV(Rmb)	0.378	0.702	0.792	0.931	1.094
P/B(x)	-	3.01	2.67	2.27	1.93
DPS(Rmb)	0.113	0.032	0.030	0.035	0.041
Dividend yield(%)	-	1.5	1.4	1.7	1.9
ROAA(%)	17.5	21.3	15.7	15.0	15.0
ROAE(%)	26.2	28.4	20.4	20.1	19.8

Source: Company data, ABCI Securities estimates @Forex:HK\$1.23/Rmb



Exhibit 1:1HFY12 results re view

(Rmb mn)	1HFY11	1HFY12	YoY growth(%)	Comment
Sales	928	1,130	21.8	Retail & wholesale sales increased by 26.2% while OEM sales dropped 10.8% ,ASP increased by 4% while volume increased by ~20%
Cost of sales	(350)	(425)	21.4	
Gross profit	578	706	22.1	
Selling and distribution expense	(360)	(478)	33.0	Increased by rising staff cost, department store commissions and marketing expenses
Administrative expense	(35)	(55)	57.3	
Operating profit	183	172	(6.2)	
Other income	(1)	19	(2,121.3)	Increased from government grants and interest income
PBT	181	190	5.2	
Taxation	50	44	(11.9)	
Net profit	131	140	7.2	
Gross profit margin(%)	62.3	62.4	+0.1ppt	Retail gross profit margin dropped 1.2ppt to 66.2% due to more promotion for inventory while overall gross profit margin increased slightly due to increase of retail and wholesale proportion
Operating profit margin(%)	19.8	15.2	-4.6ppt	Rental cost to sales increased by ~1ppt , staff cost to sales increased by 1.5ppt and admin cost to sales increased by 1.2ppt
Net profit margin(%)	14.1	12.4		

Source: C.banner, ABCI Securities estimates

1H FY12 results review: Its 1H sales increased by 21.8% YoY to HK\$1,130mn with 26.2% YoY sales growth in retail & wholesale business and 10.8% YoY drop in OEM business. Its ASP increased by 4% while its volume increased by 20% mainly due to expansion of new stores. It 1H SSSG recorded 6.4%.The group opened 216 stores and its total stores reach 1,964 at 30 Jun 2012. OEM sales dropped 10.8% given that international order was weak and it re-allocated production lines for self-developed brands.

Its 1H gross profit margin increased by 0.1ppt to 62.4% compared with 1H FY11 while retail gross margin dropped 1.2ppt to 66.2% due to more promotion to clear up winter inventory and slower increase of ASP. Its operating profit margin dropped 4.6ppt to 15.2% due to rising department stores commission, staff cost and administrative cost. Its department stores commission to sales increased by 1ppt to 27% while staff cost increased by 1.5ppt to 8%. Its administrative cost to sales increased by 1.2ppt to 4.9% in 1H FY12. We believe the rising operating expense to sales ratio may due to rapid expansion of new brands which have lower operating efficiency. (131 out of 216 stores were opened by new brands of Sundance and MIO). The management shared with us its monthly sales per store of Sundance is only Rmb60,000 (50% of its matured brand C.banner).

Its inventory recorded Rmb567mn at 30 Jun 2012 with 80% of inventories within one year. Inventory turnover days increased by 32days to 239 days(vs 207 days in 1H FY11 or 238 days for FY11). We do not see any improvement for the inventory turnover days. The group's inventory maintained at high level and the inventory clear-up will extend to 2H FY12.We expect that the group will make more provision for its inventory at the end of FY12.

C.banner International Holdings Limited

The group introduced 3 private equity investors and issued a Rmb189mn of convertible bond at an initial conversion price of HK\$2.4/share in May of FY12. The group will search for M&A opportunity in women's footwear industry.

Revise down its sales and net profit growth for FY12: As slowing sales ramp-up for new stores and rising operating expenses have eroded the operating profit margin, the group will slow down its store opening plan in the 2H of FY12. We cut our proprietary stores opening forecast to 200 stores from 250 stores. We revise down our FY12 sales forecast by 8.4% to Rmb2,503mn as we expect its full year SSSG will slow down to 8% (vs previous forecast of 9.5%). We expect its net profit to grow by 8% to Rmb313mn in FY12.

Exhibit 2: Estimates revision

(Rmb mn)	New forecast			Old forecast			Change%		
	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
Revenues	2,503	3,100	3,693	2,733	3,468	4,279	(8.4)	(10.6)	(13.7)
YoY growth(%)	22.5	23.8	19.1	33.7	26.9	23.4			
Gross profit	1,552	1,928	2,271	1,694	2,150	2,653	(8.4)	(10.3)	(14.4)
YoY growth(%)	19.5	24.2	17.8	30.5	26.9	23.4			
Operating profit	427	508	595	492	624	770	(13.3)	(18.5)	(22.8)
YoY growth(%)	5.1	19.1	17.0	21.2	26.8	23.4			
Net profit	313	365	427	369	469	578	(15.1)	(22.1)	(26.1)
YoY growth(%)	8.0	16.5	17.0	27.2	27.1	23.2			
Diluted EPS(Rmb)	0.149	0.174	0.204	0.185	0.234	0.289	(19.2)	(25.5)	(29.5)
YoY growth(%)	3.0	16.5	17.0	27.6	26.5	23.5			
Gross profit margin	62.0	62.2	61.5	62.0	62.0	62.0			
Operating profit margin	17.1	16.4	16.1	18.0	18.0	18.0			
Net profit margin	12.5	11.8	11.6	13.5	13.5	13.5			

Source: ABCI Securities estimates

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C.banner International Holdings Limited

C.banner Financial Summary
Consolidated Income Statement

Yr to Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Sales	1,575.0	2,043.7	2,502.8	3,099.6	3,692.6
Cost of sales	(602.7)	(745.4)	(951.1)	(1,171.6)	(1,421.7)
Gross profit	972.3	1,298.3	1,551.7	1,927.9	2,271.0
Selling and distribution expense	(653.0)	(817.8)	(1,024.9)	(1,264.6)	(1,506.6)
Administrative expense	(84.8)	(74.4)	(100.1)	(155.0)	(169.9)
Other income	9.1	2.9	2.7	2.7	2.7
EBIT	234.5	406.1	426.7	508.3	594.5
Finance cost	(0.9)	(1.6)	(1.6)	(1.6)	(1.6)
Share of loss of a joint venture	(3.0)	(2.1)	(2.1)	(2.1)	(2.1)
PBT	239.7	405.4	425.8	507.4	593.6
Taxation	(67.6)	(115.2)	(106.4)	(126.8)	(148.4)
Net Income from continuing operations	172.1	290.2	319.3	380.5	445.2
Discontinued operations	(2.2)	0.0	0.0	0.0	0.0
Net profit attributable to equity holders of the co.	169.9	290.2	313.5	365.3	427.4
Non-controlling interests	0.0	0.0	5.9	15.2	17.8
Basic EPS (Rmb)	0.100	0.145	0.157	0.183	0.214
Diluted EPS (Rmb)	0.100	0.145	0.149	0.174	0.204
DPS(Rmb)	0.113	0.032	0.030	0.035	0.041
Shares outstanding(mn)	1,700.0	2,000.0	2,096.9	2,096.9	2,096.9

Key Financial Ratios

	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue growth(%)	22.6	29.8	22.5	23.8	19.1
Net profit growth(%)	113.3	70.8	8.0	16.5	17.0
Gross profit margin(%)	61.7	63.5	62.0	62.2	61.5
Operating profit margin(%)	14.9	19.9	17.1	16.4	16.1
Net profit margin(%)	10.8	14.2	12.5	11.8	11.6
ROAA(%)	17.5	21.3	15.7	15.0	15.0
ROAE(%)	26.2	28.4	20.4	20.1	19.8
Inventory turnover days	206	238	215	209	207
Account receivable days	41	38	41	40	40
Account payable days	100	81	72	76	72
Net cash/equity(%)	16.6	35.9	56.5	49.6	55.0
Dividend Payout ratio(%)	113	22	20	20	20
Dividend yield(%)	-	1.5	1.4	1.7	1.9

Source: C.banner , ABCI Securities estimates

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ABCI SECURITIES COMPANY LIMITED

C.banner International Holdings Limited**Consolidated Balance Sheet**

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Non-current assets:	173.0	207.1	238.7	259.6	275.5
Property, plant and equip	86.3	109.9	136.3	157.7	174.1
Intangible assets	1.8	2.2	2.1	2.0	1.8
Prepaid land lease payments	15.7	15.3	14.9	14.5	14.2
Investment properties	46.1	46.0	46.0	46.0	46.0
Goodwill	0.0	0.0	5.7	5.7	5.7
Other non-current assets	23.2	33.7	33.7	33.7	33.7
Current assets:	823.7	1,523.9	2,033.6	2,351.9	2,793.8
Cash and cash equivalents	161.4	504.0	937.9	969.0	1,262.4
Pledged deposits	33.8	14.6	14.6	14.6	14.6
Trade receivables	179.9	243.6	312.6	361.2	441.5
Prepayments and other receivables	38.4	57.3	68.8	82.6	99.1
Inventories	410.3	561.8	557.1	782.0	833.6
Total assets	996.8	1,731.0	2,272.3	2,611.5	3,069.3
Current liabilities:	347.6	317.7	448.6	480.3	578.3
Short-term bank loans	0.0	0.0	0.0	0.0	0.0
Trade and bill payables	197.2	133.9	242.0	246.2	311.3
Other payables	95.5	114.4	137.3	164.8	197.8
Income tax liabilities	46.4	56.6	56.6	56.6	56.6
Deferred revenue	8.6	12.7	12.7	12.7	12.7
Other current liabilities	55.0	0.0	0.0	0.0	0.0
Non-current liabilities:	7.1	9.8	157.9	157.9	157.9
Interest-bearing bank borrowings	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities	7.1	9.8	9.8	9.8	9.8
Convertible bonds	0.0	0.0	113.9	113.9	113.9
Derivative financial instruments	0.0	0.0	34.1	34.1	34.1
Total liabilities	354.7	327.5	606.4	638.2	736.2
Total equity	642.1	1,403.5	1,665.9	1,973.4	2,333.1
NBV(Rmb)	0.378	0.702	0.792	0.931	1.094

Source: C.banner, ABCI Securities estimates

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ABCI SECURITIES COMPANY LIMITED

C.banner International Holdings Limited**Consolidated Cash Flow Statement**

Yr to Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PBT	237.5	405.4	425.8	507.4	593.6
D&A add-back	15.6	16.1	24.1	29.1	34.1
Change in working capital	(114.5)	(279.1)	55.2	(255.5)	(50.4)
Others	10.3	2.7	(1.1)	(1.1)	(1.1)
Cash flow from operations	148.9	145.1	503.9	279.9	576.2
Interest paid	(0.9)	(1.6)	(1.6)	(1.6)	(1.6)
Income tax paid	(38.7)	(109.3)	(106.4)	(126.8)	(148.4)
Net cash from operating activities	109.3	34.2	395.9	151.4	426.2
Proceeds from disposals of items of PPE	0.3	0.5	0.0	0.0	0.0
Disposals of a subsidiary	34.4	0.0	0.0	0.0	0.0
Interest received	2.7	2.7	2.7	2.7	2.7
Decrease/(increase) in pledged deposits	(4.1)	19.2	0.0	0.0	0.0
Capex	(27.2)	(42.6)	(50.0)	(50.0)	(50.0)
Net cash flow from investing	6.2	(162.9)	(47.3)	(47.3)	(47.3)
New bank loans	0.0	0.0	0.0	0.0	0.0
Repayment of bank loans	(40.9)	0.0	0.0	0.0	0.0
Dividend paid	(191.6)	(64.4)	(62.7)	(73.1)	(85.5)
Proceed from share issuance	0.0	564.8	0.0	0.0	0.0
Fund rising from CB	0.0	0.0	148.0	0.0	0.0
Net cash flow from financing	(232.5)	471.2	85.3	(73.1)	(85.5)
Net change in cash	(117.0)	342.6	433.9	31.1	293.4
Beginning cash	278.4	161.4	504.0	937.9	969.0
Ending cash	161.4	504.0	937.9	969.0	1,262.4

Source: C.banner, ABCI Securities estimates



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