



Key Data

Share price (HK\$)	7.9
Target price(HK\$)	6.55
Downside potencial(%)	17.1
52Wk H/L(HK\$)	11.84 / 5.89
Issued shares (mn)	1,641
Market cap (HK\$mn)	13,014
30-day avg vol (HK\$mn)	37.2
Major shareholders (%):	
Chang Chih-Kai's family	24.47
TPG Asia	18.23

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1HFY12 (%)

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

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(8.8)	(10.9)
3-mth	(0.5)	(5.7)
6-mth	(19.5)	(18.4)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst:

Name: Judy Hu
Tel: (852) 2147 8310
Email: judyhu@abci.com.hk

Previous report
Date: 16 Aug 2012
Rating: Sell

**Daphne (210 HK) – Sell
Footwear Industry**

We've discussed the business development with the management of Daphne on 19th Sep. We expect its gross profit margin to hurt due to heavy discount in 2HFY12. The group has slowed down new store opening in 3Q and concentrated on opening directly-managed store. We expect the effects of new initiatives to improve operating efficiency are unlikely to surface till 4QFY12 or 1QFY13.

Heavy discount to erode margin: Daphne offered 60% discount to clear up its off-season inventory in Jul and Aug. Its new Autumn-Winter items are sold around 40% off (vs 20% off in 2011) as Daphne launched its "promotion campaign" to boost new products sales in Sep. We expect its gross profit margin and operating profit margin to drop to 59.8% and 14.2% in FY12 compared with 61.1% and 16.0% in FY11.

SSSG is expected to slowed down to 8-10% in 3Q: Daphne achieved 17% SSSG in the 1HFY12, which is better than mid-single digit SSSG of Belle (1880) and C.Banner (1028). We expect its SSSG to slow down to 8-10% in 3Q as we believe its volume growth was partly offset by single digit drop of ASP due to heavy discount. We maintain our full year SSSG at 12%.

Slowed down new store opening in 3Q and concentrated on opening directly-managed store: The group has slowed down new store opening due to tough macro environment and concentrated on clearing-up inventory in 3Q. The group will continue to lift up its proportion of directly-managed stores to strengthen its control of retail channel and improve operating efficiency. We expect it to net added 650 stores at the end of 2012. (lower than management' target of 700 stores net increase) The effects of new initiatives (supply chain improvement; sales channel management; cost control) to improve operating efficiency are unlikely to surface till 4Q FY12 or 1QFY13.

Valuation: We believe the stock will continue to underperform the market due to high inventory risk and slowing sales growth. We maintain our "SELL" rating and target price at HK\$6.55, representing 12.0x PER of FY12 or 10.4x PER of FY13.

Risk factors: Slower-than-expected sales recovery in 2H FY12; increasing inventory risk; heavy discount to erode margin; keen market competition.

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(HK\$ mn)	6,623.9	8,576.8	10,637.7	12,538.1	14,929.3
Chg (YoY%)	13.6%	29.5%	24.0%	17.9%	19.1%
Net Income(HK\$ mn)	595.6	933.1	1,029.6	1,191.7	1,469.7
Chg (YoY%)	51.2%	56.7%	10.4%	15.7%	23.3%
FD EPS (HK\$)	0.319	0.498	0.546	0.631	0.779
Chg (YoY%)	40.8%	56.0%	9.6%	15.7%	23.3%
PER (x)	-	15.80	14.47	12.52	10.14

Source: Company, Bloomberg, ABCI Securities estimates



Disclosures

Analyst Certification

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183