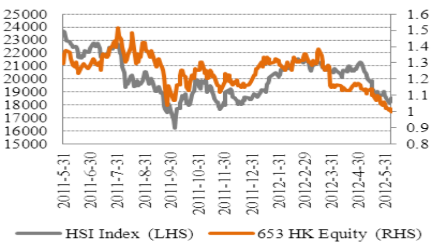
Data

Price (06/06/2012)	HK$1.00
Issued shares	2,996.928mn
Market cap	HK$2,997mn
52week high/low	HK$1.54/1.00
Major shareholders:	
Ip Chun Heng-Chairman Chung Pui Wan- Vice chairman	(63.07%)

Stock performance

	1M	3M	YTD
Bonjour	-12.0%	-23.4%	-15.7%
HSI Index	-12.2%	-11.0%	0.5%
HSCICG Index	-11.7%	-10.3%	-2.3%

Price chart



Source: Bloomberg, HKEX, ABCI Securities

Report date: 06 June, 2012

Analyst: Judy Hu
Email:judyhu@abci.com.hk
Tel: (852) 21478310

Bonjour Holdings Limited (653)

Initiate with "Hold" rating (12-month target price of HK$1.04)

We initiate coverage of beauty and healthcare products retailer Bonjour (653) with HOLD rating. Due to slow down of SSSG and new store opening pace, we expect its sales growth to slow down to 18.8% yoy and 16.3% yoy in FY2012 and FY2013 respectively, compared with 20.7%yoy in FY2011. Operating profit margin and net profit margin will be dragged down to 10.5% (vs 11.3% in FY2011) and 8.6% (vs 9.2% in FY2011) in FY2012 respectively due to rising operating cost. We rate the stock at FY2012 PER of 13x and set our 12-mth target price at HK$1.04.

Moderate sales growth in next 3 years

We expect the SSSG will slow down from 6.0% yoy for FY2011 to 5.0% yoy for FY2012. Management is cautious to rollout new stores as the rental rate has surged rapidly last six months. We predict its revenue growth will slow down to 18.8% yoy for FY2012. As the pace of opening new stores will slow, the revenue growth momentum for coming two financial years will lower to 16.0-16.3%.

Margin under pressure due to rising operating cost

Although we expect its gross profit margin will lift up due to higher proportion of sales from high margin exclusive products. Rental cost and staff cost are expected to grow by 21.4% yoy and 23.3% yoy in FY2012 respectively. Operating profit margin and net profit margin will be dragged down to 10.5% (vs 11.3% in FY2011) and 8.6% (vs 9.2% in FY2011) in FY2012 respectively.

China market is under investment stage

The group operates 4 retail stores in Guangzhou at the end of 2011. Sales in China market accounted for 1.5% of total sales in FY2011. To boost the sales in the Mainland China, the group will continue to promote its brand and increase domestic sourcing to enrich its product portfolio.

Valuation

In view of 12.8% CAGR of FD EPS from FY2011 to FY2014, we rate the stock at FY2012 PER of 13x (or HK$1.04). We initiate with "Hold" rating.

Risks: 1) Economic risk;2) Policy risk on individual visit scheme;3) Product sourcing risk;4) Competition; 5) Upside staff and rental costs;6) China market business risk.

Financial highlights

Yr to Dec 31 (HK$mn)	2011A	2012F	2013F	2014F
Revenue	2,561	3,044	3,540	4,107
Chg (yoy)	20.7%	18.8%	16.3%	16.0%
Net Income	237	262	295	338
Chg (yoy)	23.9%	10.9%	12.6%	14.4%
Diluted EPS(Rmb)	0.072	0.080	0.090	0.103
Chg (yoy)	22.8%	11.5%	12.6%	14.4%
P/E(x)	13.95	12.51	11.11	9.72
NBV(Rmb)	0.087	0.105	0.122	0.143
P/B(x)	11.43	9.57	8.18	6.98
DPS(Rmb)	0.061	0.068	0.076	0.087
Dividend yield	6.1%	6.8%	7.6%	8.7%

Source: Bonjour, ABCI Securities

Hong Kong retail business overview

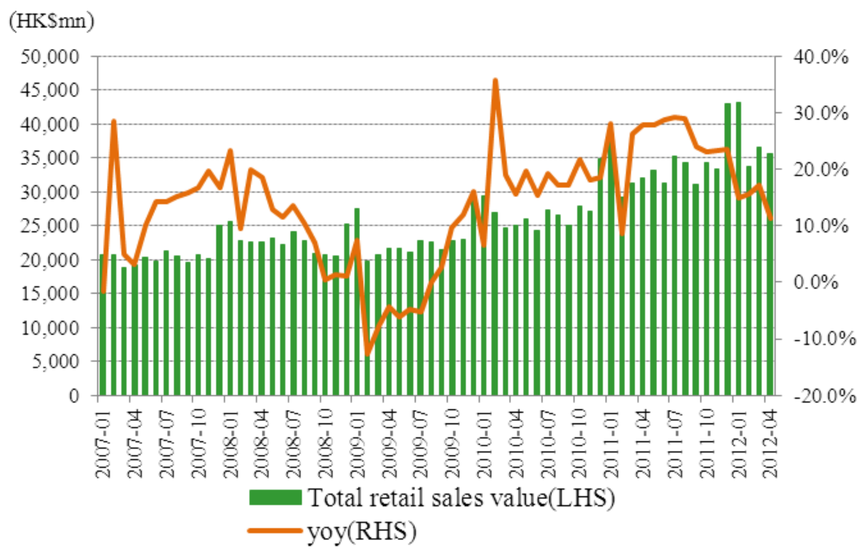
Why shopping cosmetics products in Hong Kong
The Chinese government has imposed on top of 17% value added tax (VAT), 30% consumption tax and 10% import duty on foreign cosmetic products in China. The extra taxes boosted purchasing of cosmetics in Hong Kong as same product may tag lower price in Hong Kong cosmetics retail stores. The enriched and high quality of cosmetics products also attract Mainland tourists to shopping in Hong Kong. The appreciation of RMB against HK dollar further boosted Hong Kong retail sales in past 3-4 years.

Hong Kong retail sales is slowing down
According to Hong Kong Census and Statistics Department, total retail sales value grew by CAGR of 13.2% from 2007 to 2011. During the same period, retail sales value of medicines and cosmetics products grew by CAGR of 15.2%.

In the first 4 months of 2012, total retail sales value growth and retail sales value growth of medicines and cosmetics products were slowing down. Total retail sales value growth slowed down to 14.7% yoy for the first four months this year from 24.8% yoy for 2011. Meanwhile, retail sales value growth of medicines and cosmetics slowed down to 17.4% yoy for the first four months this year from 21.5% yoy for 2011.

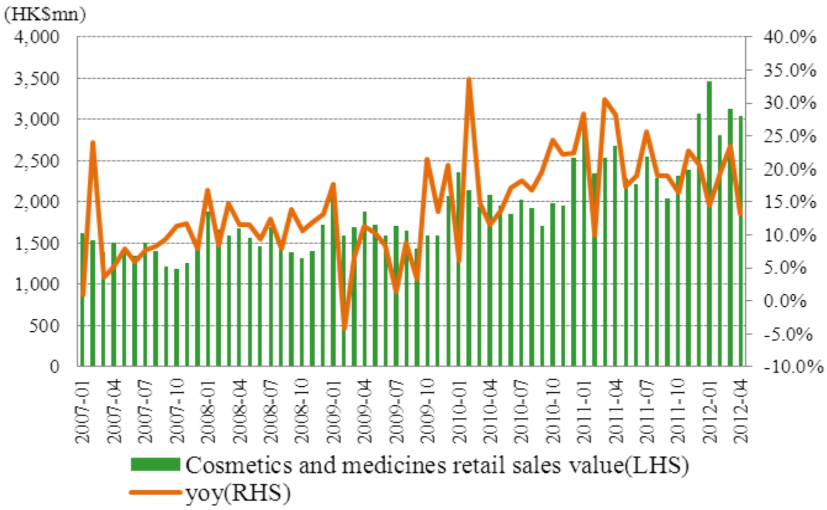
The total retail sales value growth slowed down to 11.4% yoy in April of 2012 from 15.9% yoy for the Q1 2012. The retail sales value growth of medicines and cosmetics products slowed down to 13.1% yoy in April of 2012 from 18.8% yoy for the Q1 2012. We believe the slowing down trend of retail sales will last for the rest of 2012.

Exhibit 1: 2007-2012 Hong Kong retail sales growth



Source: Hong Kong Census and Statistics Department, Wind

Exhibit 2: 2007-2012 Hong Kong cosmetics and medicines retail sales

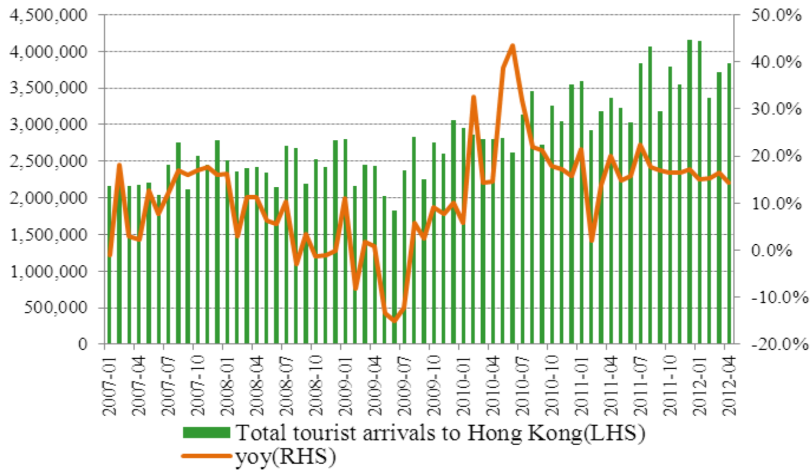


Source: Hong Kong Census and Statistics Department

Expansion of individual visit scheme

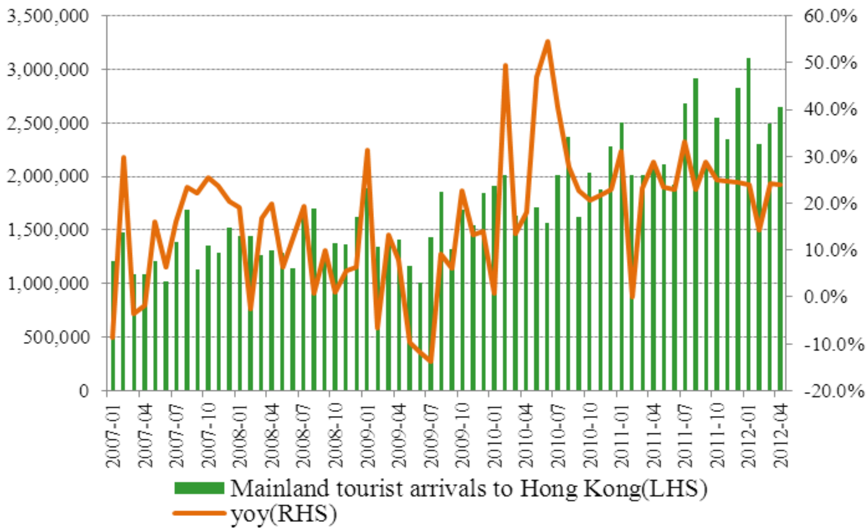
In July 2003, the Chinese government launched its individual visit scheme (IVS) to permit Mainland tourists to visit Hong Kong individually rather than as a tour member. The scheme helps to boost up Hong Kong retail sector. From 2007 to 2011, the number of the PRC tourists increased from 15.48mn to 28.10mn, representing a CAGR of 16.1%. The proportion of Mainland tourists as % of total tourists lifted up to 67% in 2011from 55% in 2007. In the first 4 month of 2012, the Mainland tourist arrivals to Hong Kong grew by 21.8% yoy, accounting for 70% of total tourists arrival. Due to the rising individual income level of mainland residents, the overnight Mainland visitors per capita spending increased from HK$5,484 in 2002 to HK$7,453 in 2010, over 70% of their spending are used on shopping. We expect that Chinese government will allow more Mainland cities to join the IVS that will further support Hong Kong retail sales growth.

Exhibit 3: 2007-2012 Total tourist arrivals to Hong Kong



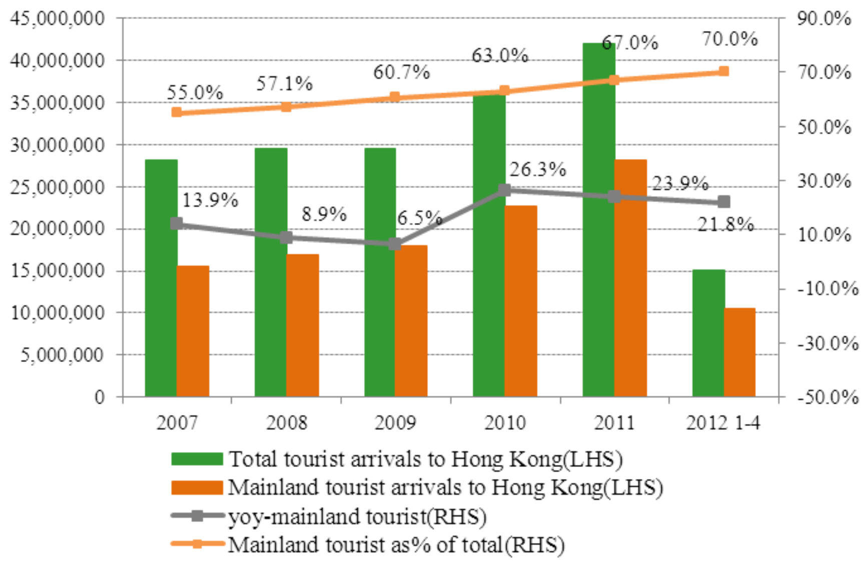
Source: Hong Kong Census and Statistics Department, Wind

Exhibit 4: 2007-2012 Mainland tourist arrivals to Hong Kong



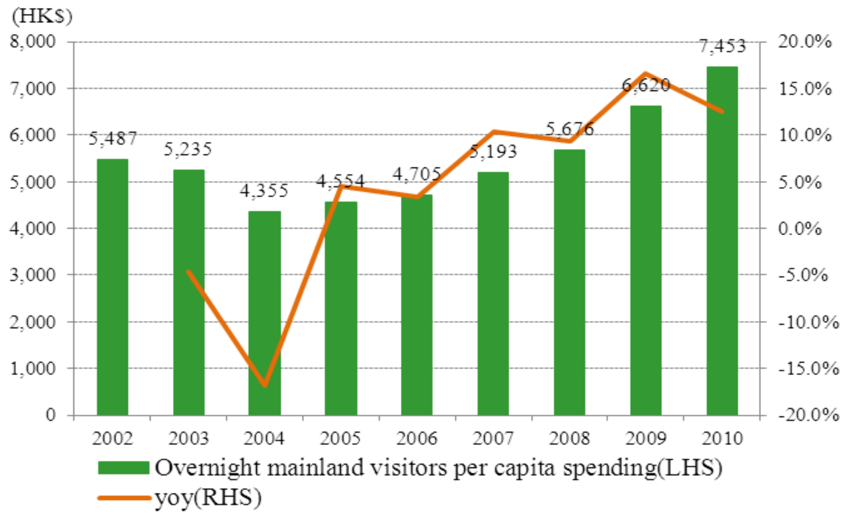
Source: Hong Kong Census and Statistics Department, Wind

Exhibit 5: 2007-2012 Mainland tourist arrivals to Hong Kong



Source: Hong Kong Census and Statistics Department, Wind

Exhibit 6: 2002-2010 Overnight Mainland visitors per capita spending



Source: Hong Kong Census and Statistics Department, Wind

Exhibit 7: Individual visit scheme coverage

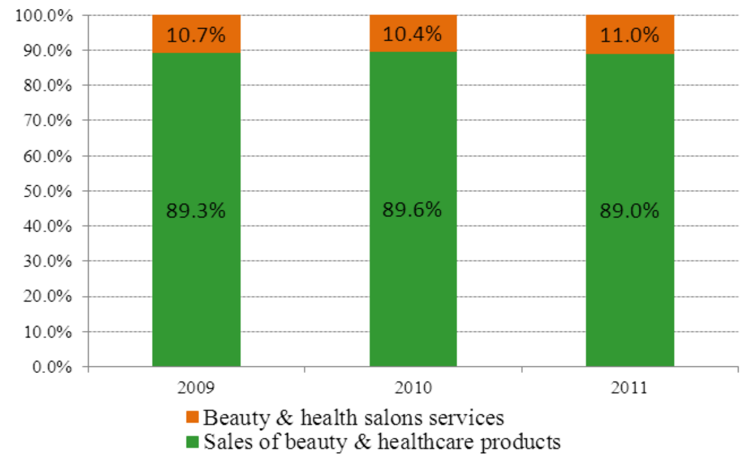
Effective date	Coverage cities
July 2003	Donguang, Foshan, Zhongshan, Jiangmen
Aug 2003	Guangzhou, Shenzhen, Zhuhai, Huizhou
Sep 2003	Shanghai, Beijing
Jan 2004	Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan, Yunfu
May 2004	Shanwei, Maoming, Zhangjiang, Shaoguan, Jieyang, Heyuan, Yangjiang
July 2004	Nanjing, Suzhou, Wuxi, Hangzhou, Ningbo, Taizhou, Fuzhou. Xiamen, Quanzhou
Mar 2005	Tianjin, Chongqing
Nov 2005	Chengdu, Jinan, Dalian, Shenyang
Mar 2006	Nanchang, Changsha, Nanning, Haikou, Guiyang, Kunming
Jan 2007	Shijiazhuang, Zhengzhou, Changchun, Hefei, Wuhan
Apri2009	launch of year-round multiple-entry visa arrangements for Shenzhen residents
Dec 2010	non-Guangdong residents in Shenzhen

Source: China National Tourist Office

Bonjour business overview

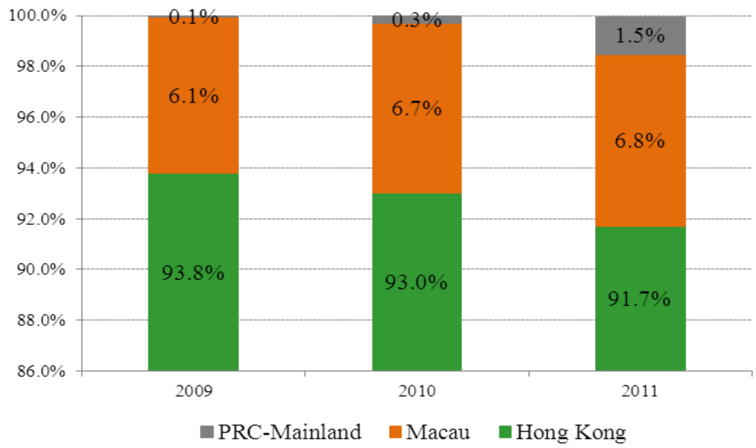
Bonjour is one of the leading retailers for beauty and healthcare products and provider beauty & health salons services in HK & Macau and Mainland China. It has 48 retail stores to sell 22,000 beauty and healthcare products and 20 beauty salons at the end of 2011. 89% of its revenue is generated by sales of beauty and healthcare products while 11% of its revenue is from beauty & health salons services. For its retail business, 40% of sales are from Mainland tourists using Union Pay to settle the bill. The average sales per ticket are approx. HK$165. Its retail products are 5%-10% cheaper than its competitors in the retail channel.

Exhibit 8: Sales breakdown by services



Source: Bonjour, ABCI Securities

Exhibit 9: Sales breakdown by region



Source: Bonjour, ABCI Securities

Exhibit 10: Sales breakdown by sourcing channel

	2010	2011	2012-2014 Estimate
Exclusive products	22.0%	26.8%	30.0%
Purchase from sole agents in HK	49.0%	43.2%	45.0%
Parallel imports from all over the world	29.0%	30.0%	25.0%

Source: Bonjour, ABCI Securities

Exhibit 11: Gross profit margin for Bonjour products

	Gross profit margin
Exclusive products	80%-90%
Purchase from sole agents in Hong Kong	25%-35%
Parallel imports from all over the world	5%-15%

Source: Bonjour, ABCI Securities

Exhibit 12: Turnover by products (as % of sales)

	2009	2010	2011
Skin care products	50.7%	49.7%	55.1%
Fragrance products	10.7%	10.1%	10.3%
Cosmetics products	8.4%	7.9%	7.0%
Hair and body care products	10.1%	9.7%	9.5%
Pharmaceutical products	4.6%	5.9%	7.3%
Accessories	3.7%	3.9%	2.9%
Health food	9.4%	10.6%	4.5%
Others	1.6%	2.2%	3.4%

Source: Bonjour, ABCI Securities

Moderate sales growth in next 3 years

Affected by the uncertainty prospectus of global economy and slowing down of China economy, Hong Kong's retail sales growth had slowed down for the first 4 month of 2012. We expect the group's SSSG to slow down to 5% (vs 6% in FY2011) for FY2012. Management is cautious to rollout new stores as the rental rate has surged rapidly last six months. Management guided the retail sales has been growing at a mid-teen pace for the first 4 month of 2012.We expect its full year sales will grow by 18.8%yoy in FY2012 compared with 20.7% yoy in FY2011. We expect the sales growth to further slow down to 16.3% yoy and 16% yoy in FY2013 and FY2014.

Gross profit margin uptrend

The group sold 43.2% of its products from purchase of local sole agents, while parallel imports and exclusive products account for 30% and 26.8% of total sales respectively in FY2011. As the gross profit margins of exclusive products reach 80%-90%, the management expect to lift up the proportion of exclusive products to increase overall gross profit margin. The gross marginof the group increased 3ppt to 45.7% in FY2011 due to the contribution of high margin exclusive products. The proportion of sales of exclusive products was up from 23% in FY2010 to 27% in FY2011. Management is aiming to increase the proportion of sales of exclusive products to 30% next 3 years. We expect its gross profit margin to lift up to 46.4% in FY2012 from 45.7% in FY2011.

Margin under pressure due to rising operating cost
Rental and staff costs grew by 42.8% yoy and 28.7% yoy in FY2011 respectively, faster than sales growth of 20.7% yoy in YFY2011. We expect its rental and staff cost will grow by 21.4% yoy and 23.3% yoy in FY2012 respectively. We estimate its rental/sales ratio and staff cost/sales ratio will go up to 12.4% and 15% in FY2012 compared with 12.1% and 14.5% in FY2011, respectively. The rising operating cost will erode its operating profit margin and net profit margin. We expect its operating profit margin and net profit margin to decline to 10.5% and 8.6% in FY2012 compared with 11.3% and 9.2% in FY2011 respectively.

Steady growth of beauty and health salon business
The group diversifies into beauty & health salon services to reduce overall business risk and enhance gross profit as gross profit margin of beauty & health salon business exceeds 90%. This business division provides a full range of treatment services including facial, slimming, spa, body massages and nail art and foot massage. Customers are requested to buy a pre-paid package with terms from 1 month to 2 years. This business division is a "cash cow". We expect the beauty and health salon business will have a steady growth of 16.3% yoy and 15.0% yoy in FY2012 and FY2013 respectively.

Penetrating into China market
The group operates 4 retail stores in Guangzhou at the end of 2011. The management plans to open multiple stores in a single city to achieve operating efficiency and better logistics management. As parallel trading is prohibited by Chinese government and each foreign single SKU should pass through the inspect procedure which is time-consuming (several months) and costly (approx. Rmb20K per SKU). Sales in China market accounted for 1.5% of total sales in FY2011 owing to limited retail channel and lack of large products portfolio. The management will continue to invest in branding and increase domestic souring to enrich its product portfolio. The retail business in the China market is on the early investment stage and we expect the group to open 3-4 stores per year in FY2012-2014.

High dividend payout ratio
Bonjour has ample net cash equivalent to HK$294mn. Its ROAE and ROAA reach 94.4% and 30.7% in FY2011 respectively. The management has committed to a dividend payout ratio of over 80% of earnings in FY2011-2013. We expect its dividend yield to reach 6.8%-8.7% in FY2012-2014, based on the closing price of HK$1.00 on 06/06/2012.

Earnings Assumption

Exhibit 13: Earnings assumption

	2010	2011	2012F	2013F	2014F
Sales of beauty & healthcare products	1,900.65	2,280.61	2,717.51	3,164.15	3,678.32
yoy	24.8%	20.0%	19.2%	16.4%	16.3%
Beauty & health salons services	220.63	280.64	326.41	375.37	428.41
yoy	20.6%	27.2%	16.3%	15.0%	14.1%
Total revenue	2,121.29	2,561.25	3,043.92	3,539.52	4,106.73
yoy	24.4%	20.7%	18.8%	16.3%	16.0%
Retail gross margin	36.2%	39.4%	40.3%	40.2%	40.2%
Rental cost/revenue	10.3%	12.1%	12.4%	12.4%	12.3%
Staff cost/revenue	13.6%	14.5%	15.0%	15.0%	15.0%
Distribution cost/revenue	2.8%	3.2%	3.2%	3.4%	3.3%
Admin cost/revenue	29.2%	32.4%	32.8%	33.0%	33.0%
Retail outlets in HK	39	43	45	47	49
Retail outlets in Macau	1	1	1	1	1
Retail outlets in the PRC	1	4	7	11	15
Total retail outlets	41	48	53	59	65
No. of beauty salons in HK	16	18	19	20	21
No. of beauty salons in Macau	1	1	1	1	1
No. of beauty salons in the PRC	2	1	2	3	4
Total beauty salons	19	20	22	24	26
Net addition of outlets	0	0	0	0	0
Retail outlets in HK	6	4	2	2	2
Retail outlets in Macau	0	0	0	0	0
Retail outlets in the PRC	1	3	3	4	4
Total net add of retail outlets	7	7	5	6	6
No. of beauty salons in HK	1	2	1	1	1
No. of beauty salons in Macau	0	0	0	0	0
No. of beauty salons in the PRC	0	-1	1	1	1
Total net add of beauty salons	1	1	2	2	2
Same store sales growth	10.0%	6.0%	5.0%	5.0%	5.0%

Source: Bonjour, ABCI Securities estimates

Valuation

We expect its revenue growth and net profit growth to slow down to 18.8% yoy and 10.9% yoy respectively in FY2012. In view of 12.8% CAGR of FD EPS from FY2011 to FY2014, we rate the stock at FY2012 PER of 13x and set our 12-mth target price at HK$1.04. We initiate coverage with "Hold" rating.

Exhibit 14: Valuation Table

		Mkt cap	Price	PER		EPS growth	
Code	Name	(HK$mn)	(HK$)	2011	2012	2011	2012
Beauty products retailers							
653	**Bonjour**	**2,997**	**1.00**	**13.89**	**12.50**	**22.8%**	**11.2%**
178	Sa Sa	11,934	4.24	18.52	15.14	27.2%	22.3%
HK retailers							
709	Giordano	7,973	5.20	10.79	9.68	33.9%	11.4%
999	I.T	3,856	3.14	8.09	7.42	21.3%	9.0%
589	Ports	4,277	7.52	10.01	8.95	-9.5%	11.9%
1929	Chow Tai Fook	90,000	9.00	13.93	11.11	61.5%	25.4%
116	Chow Sang Sang	10,722	15.84	9.81	8.19	39.2%	19.8%
3389	Hengdeli	9,192	2.09	11.30	10.30	42.3%	9.7%
590	Luk Fook	9,390	15.94	6.70	6.61	39.1%	1.3%
398	Oriental	1,255	2.20	5.64	3.86	-11.4%	46.2%
Average				10.87	9.38		

Source: Bloomberg, ABCI Securities estimates

Sensitivity analysis

We did a sensitivity analysis to factor in the operating expense change related to EBIT margin and net profit. If rental cost goes up or down by 10%, the EBIT margin will reduce 2.5ppt or increase 2.5ppt and the net income will decrease or increase by 11.87%. If staff cost goes up or down by 10%, the net income will decrease or increase by 14.36%.

Exhibit 15:Sensitivity analysis

FY2012(HK$ mn)	Rental cost +10%	Rental cost -10%	Staff cost+10%	Staff cost -10%
EBIT	281	357	273	365
EBIT chg	(11.83%)	11.83%	(14.31%)	14.31%
EBIT margin (%)	9.24%	11.72%	8.98%	11.98%
EBIT margin chg	(11.83%)	11.83%	(14.31%)	14.31%
Net income	231	293	225	300
Net income chg	(11.87%)	11.87%	(14.36%)	14.36%
EPS	0.070	0.089	0.068	0.091
EPS chg	(11.87%)	11.87%	(14.36%)	14.36%

Source: ABCI Securities estimates

Bonjour: Financial Summary

Consolidated Income Statement

Yr to Dec 31 (HK$mn)	2010A	2011A	2012F	2013F	2014F
Turnover	2,121.29	2,561.25	3,043.92	3,539.52	4,106.73
COGS	(1,222.30)	(1,390.21)	(1,632.14)	(1,903.42)	(2,212.49)
Gross profit	898.99	1,171.04	1,411.77	1,636.10	1,894.24
Other income	12.97	32.03	11.50	11.50	11.50
Distribution costs	(59.60)	(81.95)	(96.80)	(118.57)	(135.52)
Administrative expenses	(618.36)	(829.86)	(1,004.49)	(1,168.04)	(1,355.22)
Other operating expenses	(3.78)	(3.08)	(3.00)	(2.00)	(2.00)
Operating profit	230.23	288.18	318.98	358.98	413.00
Finance costs	(1.49)	(1.24)	(1.00)	(1.00)	(1.00)
Pre-tax profit	228.74	286.95	317.98	357.98	412.00
Tax	(37.82)	(50.36)	(55.65)	(62.65)	(74.16)
Net profit	190.92	236.59	262.34	295.33	337.84
Diluted EPS (HK$)	0.058	0.0717	0.0799	0.0900	0.1029
DPS(HK$)	0.051	0.0613	0.0679	0.0765	0.0875

Source: Bonjour, ABCI Securities estimates

Consolidated Balance Sheet

As of Dec 31 (HK$mn)	2010A	2011A	2012F	2013F	2014F
Non-current assets	133.17	166.78	169.66	172.54	175.42
Property, plant and equipment	68.13	78.42	81.30	84.18	87.06
Goodwill	0.00	3.53	3.53	3.53	3.53
Other non-current assets	65.04	84.83	84.83	84.83	84.83
Current assets	580.20	661.77	773.20	870.72	1,013.19
Inventories	204.41	217.18	277.41	299.39	371.06
Trade receivables	45.27	58.00	63.75	77.83	86.44
Rental and utility deposits	21.44	30.08	36.09	43.31	51.97
Prepayments, deposits and other receivables	27.23	48.90	58.68	70.42	84.50
Bank and cash balances	255.87	292.78	322.44	364.95	404.38
Pledged bank deposit	1.39	1.40	1.40	1.40	1.40
Other current liabilities	24.59	13.42	13.42	13.42	13.42
Total assets	713.37	828.55	942.87	1,043.26	1,188.61
Current liabilities	498.43	532.31	592.13	634.20	710.81
Trade payables	145.87	158.14	198.61	217.44	266.16
Other payables, deposits received and accrued charges	79.87	96.82	116.19	139.42	167.31
Deferred revenue	170.14	208.82	208.82	208.82	208.82
Short-term bank borrowings	20.00	0.00	0.00	0.00	0.00
Other non-current liabilities	82.57	68.52	68.52	68.52	68.52
Non-current liabilities	2.52	7.58	7.58	7.58	7.58
Share capital	29.43	30.08	30.08	30.08	30.08
Reserves	182.98	258.59	313.07	371.39	440.14
Total Equity	212.41	288.67	343.15	401.47	470.21
Net(debt) cash	234.77	294.18	323.85	366.35	405.79
Book value per share (HK$)	0.065	0.087	0.105	0.122	0.143

Source: Bonjour, ABCI Securities estimates

Consolidated Cash Flow Statement

Yr to Dec 31 (HK$mn)	2010A	2011A	2012F	2013F	2014F
Profit before tax	228.74	286.95	317.98	357.98	412.00
Finance costs	1.49	1.24	1.00	1.00	1.00
Interest income	(0.03)	(0.38)	(0.50)	(0.50)	(0.50)
Depreciation	29.47	39.77	47.12	57.12	69.12
Others	(1.07)	40.57	(7.02)	(8.22)	(9.66)
Change in working capital	(13.63)	(22.18)	(15.92)	(5.73)	(17.76)
Income tax paid	(32.81)	(33.46)	(55.65)	(62.65)	(74.16)
Operating cash flow	212.15	312.50	287.02	339.01	380.04
Purchases of PPE	(46.10)	(52.24)	(50.00)	(60.00)	(72.00)
Others	0.35	2.45	0.50	0.50	0.50
Investing cash flow	(45.76)	(49.80)	(49.50)	(59.50)	(71.50)
Dividend paid	(206.38)	(188.37)	(207.85)	(237.01)	(269.10)
Others	83.50	(37.39)	0.00	0.00	0.00
Financing cash flow	(122.87)	(225.76)	(207.85)	(237.01)	(269.10)
Net increase in cash	43.52	36.94	29.67	42.50	39.44
Cash balance at year end	255.87	292.78	322.44	364.95	404.38

Source: Bonjour, ABCI Securities estimates

Key Financial Ratios

FY	2010A	2011A	2012F	2013F	2014F
Revenue growth	24.4%	20.7%	18.8%	16.3%	16.0%
Net profit growth	19.1%	23.9%	10.9%	12.6%	14.4%
Gross profit margin	42.4%	45.7%	46.4%	46.2%	46.1%
Operating margin	10.9%	11.3%	10.5%	10.1%	10.1%
Net profit margin	9.0%	9.2%	8.6%	8.3%	8.2%
ROAE	82.6%	94.4%	83.0%	79.3%	77.5%
ROAA	30.1%	30.7%	29.6%	29.7%	30.3%
Inventory turnover days	56	55	55	55	55
Account receivable days	6	7	7	7	7
Account payable days	40	40	40	40	40
Net cash/ equity	1.11	1.02	0.94	0.91	0.86
Dividend Payout ratio	87.7%	85.5%	85.0%	85.0%	85.0%

Source: Bonjour, ABCI Securities estimates

Risk Factors

Economic risk: Purchasing power of customers from the Mainland China and local market will be adversely affected by the cooling down of economy in the Mainland China and HK.

Policy risk on individual visit scheme: 40% of Bonjour's retail sales comes from the Mainland tourists. Any tightening or loosening of individual visit policy to Hong Kong will affect visitor traffic and further affect sales growth of Bonjour.

Product sourcing risk: If the group fails to source products, which are favourable to consumers, at competitive purchase cost, the competitive edges of the group will diminish and the business performance will be adversely affected.

Competition: The cosmetic retailing industry in Hong Kong is highly competitive. If the group fails to renew its old stores and open new stores in highly-traffic tourist area and provide diversified and bargain products, it will lose its market share to the competitors such as SaSa.

Upside staff and rental cost: Rental and staff costs grew by 42.8% yoy and 28.7% yoy in FY2011 respectively, faster than the sales growth of 20.7% yoy in FY2011. We expect the rising rental and staff cost will erode the operating margin and net profit margin in coming years.

China market business risk: The group is expanding its business in the Mainland China. The importing regulatory policy and currency fluctuation will induce operating risk and exchange rate risk to the group. The prolonged product registration process and high product registration cost constraints the group to implement its business expansion plan in the Mainland China market.

Disclosures

Analyst Certification

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