



Company Report

Le Saunda (738 HK) – Unrated Footwear Industry

Key data

Share price (HK\$)	1.94
52Wk H/L(HK\$)	3.76 / 1.91
Issued shares (mn)	639.3
Market cap (HK\$m)	1,240
30-day avg vol (HK\$m)	0.70
Major shareholders (%):	
Lee Tze Bun Marces (Chairman)	43.41
Value Partners	5.99

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY2/12 (%)

Retail(PRC)	84.9
Retail(HK & Macau)	12.7
Export	2.4

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(4.9)	(3.6)
3-mth	(15.7)	(19.2)
6-mth	(31.0)	(25.8)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

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Key takeaways from the plant visit of Le Saunda

We've visited the multi-brands outlet and plant of Le Saunda in Shunde, Guangdong Province. Its Spring-Summer inventories accounted for 20% of total inventories in the outlet and off-season items are offered discount as high as 60%. The inventory clearance activity will last for the whole month of Sep. The group will prudently open new store due to the uncertainty of macro economy and inventory pressure.

Prudent store opening plan for next several years: Due to the uncertainty of macro economy and inventory pressure, the group will adopt a prudent strategy to add new stores. The group will close 60 stores under "CNE" which recorded net loss for FY2/13. The group targets the no. of retail stores at 950 by the end of FY2/13, up 3% YoY.

SSSG is expected to maintain at single digit for FY2/13: Its same stores sale growth recorded 8.2% in FY2/12. The SSSG dropped to 5.2% in 09/2011- 02/2012(vs 12.7% in 03/2011-08/2011). The management unveiled its SSSG was at single digit from Mar to May of 2012. We believe its SSSG will maintain at single digit for FY2/13.

Operating margin under pressure due to rising staff and rental cost: Its staff cost and rental & concessionaire cost accounted for 22.4% and 23.1% of total sales in FY2/12. The slow sales ramp-up and rising staff and rental cost will drag down its operating margin for FY2/13.

Forecast and valuation

Yr ended Feb29	FY11A	FY12A	FY13E	FY14E
Revenue(Rmb mn)	1,320	1,545	1,733	1,884
Chg (% YoY)	32.0	17.1	12.2	8.7
Net Income(Rmb mn)	169	194	165	192
Chg (% YoY)	37.0	15.3	(14.9)	16.4
FD EPS(Rmb)	0.264	0.304	0.260	0.300
Chg (% YoY)	37.3	15.3	(13.3)	15.4
P/E(x)	-	6.4	7.5	6.5
DPS(Rmb)	0.130	0.137	0.120	0.140
Dividend yield(%)	-	7.1	6.2	7.2
ROAA(%)	14.2	14.0	-	-
ROAE(%)	17.2	17.4	-	-

Source: Company data, Bloomberg



Company background and business development:

Le Saunda is a mid-to-high end footwear retailer based in Hong Kong. The group was founded in 1977 and was listed in HKEX in 1992. The group runs 902 retail outlets in the Mainland China and 19 outlets in Hong Kong in FY2/12. The self-owned stores accounted for 80.8% of total outlets. The group has 4 in-house brands under “Le Saunda”, “Linea Rosa”, “ITA UOMO” (men’s footwear) and “CNE”.

Its sales and net profit grew by 17.1% YoY and 15.3% YoY to HK\$1,545mn and HK\$165.5mn in FY2/12 respectively. Its PRC retail sales, HK retail sales and export accounted for 84.9%, 12.7% and 2.4% of total revenue in FY2/12 respectively. Its women’s footwear, men’s footwear and women’s handbag and accessories accounted for 78.4%, 13.1% and 8.5% in FY2/12 respectively. It had net cash of HK\$ 397,981mn at the end of FY2/12. The group’s dividend payout ratio was 45.1%.

Retail outlet visit in Shunde: We’ve visited Le Saunda in Shunde, Guangdong province. The sales person told us the Autumn-Winter items has launched at the beginning of Sep. Its Spring-Summer inventories account for 20% of total inventories in the outlet and off-season items are offered discount as high as 60%. The inventory clearance activity will last for the whole month of Sep. Its new items for Autumn-Winter are offered 22% discount. To celebrate its 35 years anniversary, the stores offer a special promotion with “35% off for each Rmb100”. The overall discount ratio will fetch to 30% for new items. The management has confirmed with us its Autumn-Winter items discount were heavier compared with last year (No discount for its new Autumn-winter items of last year) due to more promotion activities required by department stores and intensified competition among peers.

Prudent store opening plan for next several years: Due to the uncertainty of macro economy and inventory pressure, the group will adopt a prudent store opening plan by increase 10% stores per annual in next several years. The group will allocate more resources to develop its high end women’s footwear brand “Linea Rosa” and high end men’s footwear brand “ITA UOMO”. The group will close 60 stores under “CNE” which recorded net loss for last year. The management targets to have 950 retail outlets by the end of FY2/13, up 3% YoY. The group target its men’s footwear outlets and Linea Rosa’s outlets to increase by CAGR of 42.4% and CAGR of 158.2% to 150 and 60 stores by FY2/14.

SSSG is expected to maintain at single digit for FY2/13: Its same stores sale growth recorded 8.2% in FY2/12. The SSSG dropped to 5.2% in 09/2011-02/2012(vs 12.7% in 03/2011-08/2011). The management unveiled its SSSG was at single digit from Mar to May of 2012. We believe its SSSG will maintain at single digit for FY2/13.

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**Exhibit 1: Peer comparison**

	Belle(Footwear)	Daphne	C.Banner	Le Saunda*
Code	1880 HK	210 HK	1028 HK	738 HK
Market positioning	Mid-to-high end	Mid end/Mass market	Mid-to-high end	Mid-to-high end
Stock price(closed at 12Sep)	14.60	7.81	2.65	1.94
Market cap(HK\$mn)	123,140	12,866	5,300	1,240
No.of stores	11,022	6,581	1,964	921
Inventory turnover days	200	202	239	272
Gross profit margin	56.60%	60.70%	62.40%	64.40%
Operating profit margin	17.50%	13.80%	15.20%	15.90%
Net profit margin	14.00%	9.50%	12.40%	12.60%
ROAE	23.10%	24.70%	28.40%	17.30%
ROAA	18.30%	16.20%	21.30%	14.00%
FY12 PE	20.7	14.3	14.4	7.5

Source: Company data, ABCI Securities; *Le Saunda's data were for the financial year ended 29 Feb 2012



Disclosures

I, Hu Zhaoling, Judy, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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