



**Data**

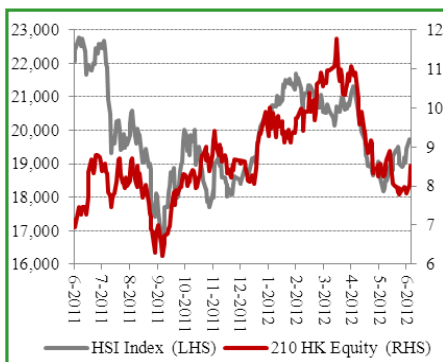
Price(04/07/2012)	HK\$8.51
Issued shares	1,647mn
Market cap	HK\$14,019mn
52week high/low	HK\$11.84/5.89

**Major shareholders:**

Chang Chih-Kai's family(24.47%)
TPG Asia(18.23%)
Chen Tommy Yi-Hsun(10.61%)

**Stock performance**

	1M	3M	YTD
Daphne	3.03%	-22.35%	-1.62%
HSI Index	8.38%	-5.20%	6.92%
HSCICG Index	3.78%	-11.93%	-0.67%



Report date: 05 July, 2012  
 Previous report: 23April, 2012

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

**Daphne International Holdings Limited (210) –**

**Reiterate “BUY” and cut target price to HK\$8.94**

We’ve held a tele-conference with the management of Daphne(210) recently.

**Cut down new stores number, sales and earnings growth**

We cut our new store opening forecast to 650 from 900 in FY2012 as we expect management to slow its new store opening pace due to the slow pick-up in new stores sales. We revise down our sales and diluted EPS by 3.3% and 14.2% to HK\$10,637mn and HK\$0.523 respectively in FY2012.

**SSSG is expected to slow down to mid-teen double digit in 2Q2012 from 22% in 1Q2012**

Daphne’s SSSG maintained above 20% in April but dropped to mid-teen double digit in May. We expect that its 2Q2012 SSSG will slow down to 12%-15%. Its SSSG in 2H2012 is expected to drop to single digit due to high comparable base. We maintain our full year SSSG at 12%, which we believe it will outperform its mid-to-high end competitors, like Belle(1880) and C.Banner(1028).

**Margin under pressure due to heavy discount, rising staff and rental cost**

The management has confirmed the group offers larger price discount this year as price competition among women’s footwear industry is keen. We lower our gross profit margin assumption from 60.8% to 60.1% in FY2012 (vs 61.14% in FY2011). Daphne has slowed down the expansion of franchised outlets and put the focus on the expansion of directly-managed outlets in a bid to strengthen its control on retail channel. Rapid expansion of directly-managed outlets will lead to high rental burden as most of its stores are street stores. Slowing pick-up of retail sales and rising staff cost and rental cost will drag down its operating profit margin. We expect that its operating profit margin and net profit margin will drop 1.96ppt and 1.09ppt to 14.00% and 9.79% respectively in FY2012 compared with 15.96% and 10.88% in FY2011.

**Valuation:**

We expect its FD EPS to grow at CAGR of 13.9% yoy from FY2011 to FY2013. We reiterate “BUY” rating and cut 12M target price from HK\$10.86 to HK\$8.94, based on the average of DCF value of HK\$10.56 and 14x PE of HK\$7.322 in FY 2012. The target price of HK\$8.94 represents 17x PE of FY2012.

**Risk:** 1) Better-than-expected SSSG;2) A faster ramp-up of new stores sales.

**Financial highlights**

Yr end 31	2010A	2011A	2012F	2013F	2014F
Dec(HK\$ mn)					
Revenue	6,624	8,577	10,638	12,766	15,224
Chg (yoy)	13.6%	29.5%	24.0%	20.0%	19.3%
Net Income	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%
FD P/E(x)	-	17.09	16.26	13.16	11.05
P/B(x)	-	3.95	3.50	2.91	2.43
Dividend yield(%)	-	2.00	2.23	2.75	3.28

Source: Daphne, ABCI Securities estimates



**SSSG is expected to slow down to mid-teen double digit in 2Q2012 from 22% in 1Q2012**

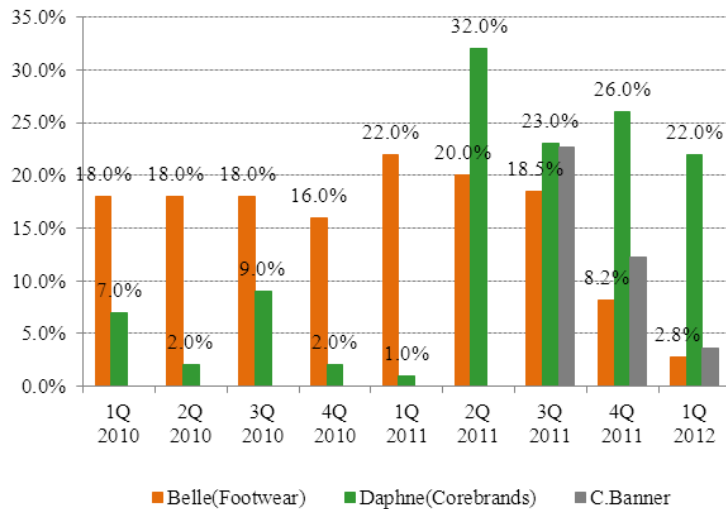
Daphne's SSSG for its core brands (Daphne and Shoebox) recorded 22% in 1Q2012 due to low comparable base effect. Its SSSG maintained above 20% in April and dropped to mid-teen double digit in May. We expect that its 2Q2012 SSSG will slow down to 12%-15%. Its SSSG in 2H2012 is expected to drop to single digit due to high comparable base. We maintain our full year SSSG at 12%, which we believe it will outperform its mid-to-high end competitors, like Belle(1880) and C.Banner(1028).

**Exhibit 1: Quarterly SSSG**

	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	Apr 2012	May 2012	ABC estimate 2Q 2012
Belle(Footwear)	22.0%	20.0%	18.5%	8.2%	2.8%	Mid-high single digit	Mid-high single digit	8%-9%
Daphne(Core brands)	1.0%	32.0%	23.0%	26.0%	22.0%	>22%	mid-teen double digit	12-15%
C.Banner	-	-	22.7%	12.2%	3.6%	high single digit	high single digit	9%-9.5%

Source: Belle, Daphne, C.Banner, ABCI Securities

**Exhibit 2: Quarterly SSSG in 2010-1Q2012**



Source: Belle,Daphne,C.Banner



**Exhibit 3: Key operating assumption revision**

	FY 2012		FY 2013		FY 2014	
	Old	New	Old	New	Old	New
Total stores No.	7,065	6,815	7,965	7,465	8,865	8,135
YoY growth	14.6%	10.5%	12.7%	9.5%	11.3%	9.0%

Source: ABCI Securities

**Exhibit 4: Earnings revision**

	FY 2012			FY 2013			FY 2014		
	old	new	difference	old	new	difference	old	new	difference
Revenue	10,997	10,638	-3.3%	13,590	12,766	-6.1%	16,582	15,224	-8.2%
Gross profit	6,686	6,393	-4.4%	8,290	7,685	-7.3%	10,115	9,165	-9.4%
EBIT	1,726	1,490	-13.7%	2,143	1,826	-14.8%	2,599	2,163	-16.7%
Net Income	1,214	1,041	-14.2%	1,518	1,287	-15.2%	1,851	1,533	-17.2%
Diluted EPS(HK\$)	0.610	0.523	-14.2%	0.763	0.647	-15.3%	0.930	0.770	-17.2%
Gross profit margin	60.8%	60.1%	-1.2%	61.0%	60.2%	-1.3%	61.0%	60.2%	-1.3%
Operating profit margin	15.7%	14.0%	-10.8%	15.8%	14.3%	-9.3%	15.7%	14.2%	-9.3%
Net profit margin	11.0%	9.8%	-11.3%	11.2%	10.1%	-9.7%	11.2%	10.1%	-9.8%

Source: ABCI Securities

**DCF model**

**Exhibit 5:**

(HK\$ mn)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
EBIT	1,490	1,826	2,163	2,801	2,889	3,178	3,432	3,603	3,784	3,859
Tax	(390)	(480)	(571)	(689)	(711)	(783)	(846)	(889)	(934)	(953)
D&A	228	287	346	408	476	551	633	724	824	933
WC changes	104	(588)	(207)	(497)	(115)	(509)	(40)	(331)	(59)	(105)
Capex	(500)	(500)	(500)	(550)	(605)	(666)	(732)	(805)	(886)	(974)
FCF	933	544	1,231	1,474	1,934	1,771	2,447	2,302	2,728	2,760
DCF	933	486	981	1,049	1,229	1,005	1,239	1,041	1,101	995
Terminal value										28,133
PV of terminal value										9,052

Source: ABCI Securities

**Exhibit 6:**

Risk free rate	1.2%	WACC	8.7%
BETA	0.894	Share price(HK\$)	7.97
Market risk premium	12.3%	Perpetuity growth rate	2.0%
Cost of equity	12.2%	SUM DCF	19,208
Cost of debt	7.6%	Net Debt	1,789
Effective tax rate	25.0%	Minority interest(HK\$ mn)	11.67
Cost of debt(after tax)	5.7%	NAV	21,009
Market value of equity(HK\$ mn)	13,129	Total Shares(mn)	1,990
Market value of debt(HK\$ mn)	613	NAV per share(HK\$)	10.56
Total value(HK\$ mn)	13,742		

Source: ABCI Securities

**Daphne: Financial Summary**

<b>Consolidated Income Statement</b>					
FY ended at 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Turnover	5,289	5,832	6,624	8,577	10,638
Cost of sales	(2,502)	(2,625)	(2,823)	(3,333)	(4,244)
Gross profit	2,787	3,207	3,801	5,244	6,393
Selling & Distribution Expenses	(1,822)	(2,066)	(2,485)	(3,366)	(4,255)
Administrative expenses	(281)	(306)	(444)	(556)	(723)
Other income	21	52	89	121	75
Other (losses)/gains	(26)	(25)	12	(74)	0
EBITDA	796	998	1,114	1,554	1,718
Depreciation & Amortisation	117	135	142	186	228
EBIT	679	863	972	1,369	1,490
Finance income	0	0	0	0	0
Finance costs	(13)	(27)	(45)	(47)	(46)
Fair value loss on derivative financial instrument-warrants	0	(203)	(77)	0	0
Share of profit of an associated company	1	1	1	0	0
Profit before taxation	666	634	850	1,322	1,443
Income tax	(169)	(233)	(239)	(377)	(390)
Profit for the year	497	401	612	945	1,053
Minority interests	4	7	16	12	12
Profit Attributable to Equity Holders of the Company	493	394	596	933	1,041
EPS (HK\$)	0.301	0.240	0.364	0.570	0.632
Diluted EPS (HK\$)	0.301	0.227	0.319	0.498	0.523
Dividend	90	131	197	279	312
DPS (HK\$)	0	0	0.120	0.170	0.190

Source: Daphne, ABCI Securities estimates

**Consolidated Balance Sheet**

As of 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Non-current assets	1,123	1,447	1,740	2,014	2,230
Intangible assets	130	130	135	140	145
Land use rights	50	51	62	73	83
Fixed assets	711	900	1,155	1,352	1,491
Others	232	366	387	449	511
Current assets	3,926	5,055	5,518	6,599	7,834
Inventories	1,084	2,059	2,186	2,653	3,118
Trade receivables	210	274	327	395	466
Other receivables, deposits and prepayments	571	926	847	1,281	1,257
Pledged bank deposit	0	0	0	0	0
Bank deposit with maturity over three months	35	0	0	0	0
Cash and cash equivalents	2,024	1,796	2,159	2,270	2,994
Current liabilities	1,160	1,640	1,595	1,975	2,279
Trade payables	578	819	960	1,170	1,370
Other payables and accrued charges	372	563	628	798	902
Income tax payable	199	251	0	0	0
Bank loans	11	7	7	7	7
Derivative financial instrument – warrants	0	0	0	0	0
Non-current liabilities	581	630	630	630	630
Convertible bonds	557	606	606	606	606
Others	24	24	24	24	24
Total equity	3,308	4,232	5,034	6,008	7,155
Equity attributable to equity holders of the Company	3,124	4,036	4,838	5,813	6,960
Minority interests	183	196	196	196	196
Book value per share (HK\$)	1.675	2.154	2.431	2.921	3.497

Source: Daphne, ABCI Securities estimates



**Consolidated Cash Flow Statement**

Yr end 31 Dec (HK\$ mn)	2010F	2011A	2012F	2013F	2014F
Profit before taxation	666	634	850	1,322	1,443
Depreciation & Amortization	117	135	142	186	228
Interest expense	13	27	45	47	46
(Interest income)	(3)	(7)	(37)	(63)	(63)
Others	27	231	138	121	0
Working capital change	(517)	531	18	(1,003)	104
Income tax paid	(131)	(201)	(264)	(367)	(640)
Net cash generated from operating activities	173	1,350	892	243	1,119
Capex	(234)	(143)	(281)	(394)	(500)
Others	38	(62)	52	71	63
Net cash used in investing activities	(196)	(205)	(229)	(323)	(437)
Dividend paid	(86)	(102)	(184)	(235)	(312)
Other investing activities	61	337	(52)	(7)	(7)
Net cash generated from/(used in) financing activities	(25)	235	(236)	(242)	(319)
Net increase in cash	(48)	1,380	427	(322)	363
Cash at beginning of year	182	148	1,545	2,024	1,796
Effect on foreign exchange	14	17	52	94	0
Cash at end of year	148	1,545	2,024	1,796	2,159

**Key Financial Ratios**

Yr end 31 Dec	2010A	2011A	2012F	2013F	2014F
Revenue growth	13.6%	29.5%	24.0%	20.0%	19.3%
Net profit growth	51.2%	56.7%	11.6%	23.6%	19.1%
Gross margin	57.4%	61.1%	60.1%	60.2%	60.2%
Operating margin	14.7%	16.0%	14.0%	14.3%	14.2%
Net profit margin	9.0%	10.9%	9.8%	10.1%	10.1%
ROAE	21.5%	24.8%	22.5%	23.3%	23.3%
ROAA	13.3%	16.2%	15.1%	16.2%	16.4%
Inventory turnover days	128	172	183	174	174
Account receivable days	11	10	10	10	10
Account payable days	62	76	76	76	76
Net cash/ equity	60.9%	42.3%	42.7%	37.7%	41.8%
Dividend payout ratio	33.0%	29.9%	30.0%	30.0%	30.0%
Dividend yield	-	2.0%	2.2%	2.8%	3.3%

Source: Daphne, ABCI Securities estimates



## Disclosures

### Analyst Certification

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 has/have no financial interests in relation to subject company(ies) covered in this report., as well as I and/or my associates do not serve as officer(s) of listed corporation(s) covered in this report.

### Disclosures of Interests

“ABC International Company Limited and/or its affiliates, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from one of the companies mentioned in the report.”

### Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABC International Company Limited is under no obligation to update or keep current the information contained herein. ABC International Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABC International Company Limited, into other areas, units, groups or affiliates of ABC International Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABC International Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABC International Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2012 ABC International Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABC International Company Limited.

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

**Tel:** (852) 2868 2183