

Analyst: Stanley Lau

## **Main Board Listing - Research**

包浩斯國際(控股)有限公司

Bauhaus International (Holdings) Limited [Stock Code: 0483]

**Sponsor** : Sun Hung Kai International Limited  
**Joint Lead Manager** : Sun Hung Kai Investment Services Limited  
Kim Eng Securities (Hong Kong) Limited

**Sector** : Consumer Discretionary

**Business** : Design, manufacture, wholesales and retail sales of apparel products

<b>Total share offer:</b> <u>91,000,000</u> shares (27% of the enlarged share capital)  <b>Public Offer:</b> 9,100,000 shares (10%) <b>Placing:</b> 81,900,000 shares (90%)  <b>Greenshoe:</b> 13,650,000 shares (15%)	<b><u>Business of Bauhaus</u></b>  Bauhaus principally engages in the design, manufacture, wholesale and retail sales of apparel, bags and sacs and accessories under its own brandnames of <b>TOUGH</b> and <b>SALAD</b> as well as retail sales of apparel under other third-party brandnames including Levi's Miss Sixty, Energie, Killah, Fornarina, Religion and G-Star.  Its own products as well as those sourced from third-party brandnames adopt a trendy and casual line which target the young consumers with fashion consciousness.  Bauhaus operates and manages its own retail networks in Hong Kong and Taiwan. Currently, there are 39 retail stores or counters in Hong Kong and 10 retail counters in different department stores in Taiwan. Bauhaus has engaged in 3 independent franchisees for the operation of 8 <b>TOUGH</b> franchised stores in PRC and Macau.  Bauhaus also sell products under its own brandname to distributors in 17 countries worldwide. It has entered into an exclusive distribution agreement with a Japanese distributor to sell products under the brandname <b>TOUGH</b> in Japan.
<b>Price:</b> HK\$1.00 – HK\$1.25 per share <b>Market Cap.:</b> HK\$337 million – HK\$421 million  <b>Forecast FY2004 P/E:</b> 8.1x – 10.2x (pro forma)  <b>Adjusted NTA per share:</b> HK\$56.6 – HK\$63.4  <b>Staffing:</b> 855	
<b>HK Public Offer period:</b> 29 <sup>th</sup> April 2005 – 5 <sup>th</sup> May 2005  <b>Receiving bank:</b> Standard Chartered Bank  <b>Share registrar:</b> Tricor Investor Services Limited  <b>Listing date:</b> 12 <sup>th</sup> May 2005	

### **Major Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Huge Treasure (BVI) – equally owned by Mr. Wong Yui Lam, Chairman, and Ms. Tong She Man, Executive Director	51%
Great Elite (BVI) – wholly owned by Ms. Tong She Man, Executive Director	11%
Wonder View (BVI) – wholly owned by Mr. Wong Yui Lam, Chairman	10%
Ken Union (BVI) – equally owned by Mr. Chan Chi Keung, a director of certain subsidiaries of Bauhaus, and his spouse Ms. Ho Kin Ching	1%
	<hr/> 73% <hr/>

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$87.4 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.125 each, which is the mid-point of the indicative price range)

	HK\$ million
Expansion of distribution networks of <b>BAUHAUS</b> stores, <b>TOUGH</b> specialty stores and <b>SALAD</b> specialty stores	42.0
Capacity expansion and machines upgrading in PRC production facilities	14.0
Development of <b>80/20</b> brandname and opening of <b>80/20</b> specialty stores	13.0
Marketing of Bauhaus' brandnames in PRC and overseas markets	7.0
Diversification into the high-end fashion market segment in Hong Kong	4.0
Strengthening of in-house design and merchandising team	2.0
General working capital	5.4

### Financial Highlights

	2002 HK\$'000	Year ended 31 <sup>st</sup> March 2003 HK\$'000	2004 HK\$'000	7 months ended 31 <sup>st</sup> October 2004 HK\$'000
Turnover	255,171	271,630	306,768	177,981
Gross profit	135,140	155,420	186,131	116,601
Operating profit	35,872	35,148	50,830	30,023
<b>Net profit</b>	<b>31,329</b>	<b>33,717</b>	<b>41,305</b>	<b>24,153</b>
<b>EPS – Basic</b>	<b>HK¢12.74</b>	<b>HK¢13.71</b>	<b>HK¢16.79</b>	<b>HK¢9.82</b>

### Breakdown of Turnover by Products

	Year ended 31 <sup>st</sup> March						7 months ended 31 <sup>st</sup> October 2004	
	2002 HK\$'000	%	2003 HK\$'000	%	2004 HK\$'000	%	HK\$'000	%
Own brandnames	139,653	54.7	163,107	60.0	201,096	65.6	127,722	71.8
Third-party brandnames	115,518	45.3	108,523	40.0	105,672	34.4	50,529	28.2
<b>Turnover</b>	<b>255,171</b>	<b>100.0</b>	<b>271,630</b>	<b>100.0</b>	<b>306,768</b>	<b>100.0</b>	<b>177,981</b>	<b>100.0</b>

### Breakdown of Turnover by Regions

	Year ended 31 <sup>st</sup> March						7 months ended 31 <sup>st</sup> October 2004	
	2002 HK\$'000	%	2003 HK\$'000	%	2004 HK\$'000	%	HK\$'000	%
Hong Kong	246,584	96.6	237,071	87.3	254,357	82.9	148,550	83.5
Taiwan	6,459	2.5	13,281	4.9	22,314	7.3	14,367	8.1
Japan	179	0.1	14,885	5.5	18,414	6.0	5,473	3.1
Others	1,949	0.8	6,393	2.3	11,683	3.8	9,591	5.3
<b>Turnover</b>	<b>255,171</b>	<b>100.0</b>	<b>271,630</b>	<b>100.0</b>	<b>306,768</b>	<b>100.0</b>	<b>177,981</b>	<b>100.0</b>

**Strengths/Opportunities**

- ✓ Hong Kong retail sales grew 9.6% y-o-y in the first 2 months of 2005, fuelled by rebounding consumer confidence and a vibrant tourism sector. The tourism sector generated approximate half of the total retail sales in 2004. Bauhaus, with more than 80% of its sales originated from Hong Kong, is expected to benefit from the continuous local retail boom.
- ✓ Due to increasing proportion of own brandname products, Bauhaus has achieved a gross profit margin of more than 60% both in FY2004 and for the first 7 months to October 2004, which were impressive compared with other local fashion retailers. With cash on hands of around HK\$128 million, Bauhaus is operating at a low gearing level of 1.4%.
- ✓ While sales contribution from Taiwan is rapidly increasing, Bauhaus plans to further penetrate other markets such as PRC and Europe. The room for expansion in PRC is huge given its current exposure of merely 8 franchised stores. Part of the IPO proceeds will be used to form a strategic alliance with a public relation consultancy to promote Bauhaus' own brandname products in PRC. Meanwhile, Bauhaus intends to participate in 2 to 3 international trade shows in Europe to promote products and enhance brand image. The geographical diversification will reduce its reliance on the Hong Kong market.
- ✓ The valuation of Bauhaus at 8.1x – 10.2x FY2004E P/E is not demanding, compared with the industry average current P/E of 19x.

**Weaknesses/Threats**

- × All of the 39 Bauhaus retail stores or counters in Hong Kong are leased from third parties. 16 of the 39 lease agreements will be expired in March 2006 and another 20 in March 2007. The latest upward trend in retail rents has not been fully reflected in its last 2 years' operating results. The upcoming rental renewal, which is expected to be 20% to 30% higher, should weaken the Company's operating margin.
- × Bauhaus is planning to open 20 more stores in Hong Kong by 2008, bringing the total number of outlets to 59. The expansion plan might be a bit too aggressive as there is keen competition from other specialty brand retailers and department stores in the youth fashion segment, which is subject to seasonality and fast changing fashion trend.
- × The operating history of Bauhaus own brandname specialty stores is short. The **TOUGH** specialty store was opened in 2000, while the **SALAD** specialty store in late 2003. Together with its recent launch of **80/20** specialty store, the short track record is insufficient to judge if the Company's business strategy will continue to succeed in longer term.

**Recommendation:     Trading Buy**