

Analyst: Anita Hwang

Main Board Listing – Research

New World Department Store China Limited [Stock Code: 0825]

新世界百貨中國有限公司

**Joint global coordinators, joint bookrunners,
joint lead managers and joint sponsors**

: Deutsche Bank

HSBC

Sector : Retailing

Business : Owner and operator of department stores

<p>Total share offer: <u>406,300,000</u> shares (25 % of the enlarged share capital)</p> <p>Public Offer: 40,630,000 shares (10%)</p> <p>Placing: 365,670,000 shares (90%)</p> <p>Greenshoe: 60,945,000 shares</p>	<p><u>Business of New World Department Store (NWDS)</u></p> <p>NWDS is one of the largest owners and operators of department stores in the PRC in terms of sales (excl. sales tax) based on information from Euromonitor. It currently operates a large national network of 22 “New World” branded department stores and Six “巴黎春天” branded department stores in the PRC and in HK. Of these 28 stores, NWDS owned and operated 16 stores and managed an additional 12 stores owned by independent third parties and connected persons, with whom NWDS entered into management consultancy contracts. The first store of NWDS was opened in 1994 in Wuhan.</p> <p>The department stores are positioned at the mid-to high-end of the PRC retail market and offer a range of merchandise mainly focusing on fashion, accessories, jewelry and cosmetics. Most sales in the stores are made by concessionaires.</p> <p>The company provided a profit forecast for the year ending 30 June 2007 with net profit attributable to shareholders to be no less than HK\$265 million, which is equivalent to unaudited pro forma forecast basic EPS of HK\$0.16.</p>
<p>Price: HK\$4.80 – HK\$5.80 per share</p> <p>Market Cap: HK\$7.80 – HK\$9.43 billion</p> <p>Adjusted pro-forma forecast FY07 PER: 33X – 40X</p> <p>Adjusted NTA per share: HK\$1.58 – HK\$1.82</p> <p>Staffing: 3,491</p>	
<p>HK Public Offer period: 28th June 07 – 4th July 07 noon</p> <p>Receiving bank: HSBC The Bank of East Asia</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 12th July 2007</p>	

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

New World Development Company Limited (0017.HK)

75.0%

Public shareholders

25.0%

100.0%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$2,021 million. *(Being the mid-point of the offer price range [HK\$5.30 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For establishing new stores within the next 3 years in certain major cities in the PRC such as Anshan, Nanjing and Chongqing	450-550
For acquiring from the relevant landlords the leased properties at which the stores are located	600
For future acquisition of department stores in other cities in the PRC where consumption power and future prospects are promising	500
For the expansion, refurbishment and renovation of certain existing stores in the PRC such as stores in Harbin, Shanghai, Shenyang and Tianjin	250
For upgrading existing information technology and management systems	50
For general working capital	Remaining

Financial Highlights

HK\$ million	Year ended 30 Jun			Six months ended 31 Dec
	2004	2005	2006	2006
Revenue	467.8	594.2	749.9	453.8
Operating profit	112.7	128.4	171.9	167.2
Profit before tax	112.5	128.1	182.6	169.6
Net profit	74.9	100.8	157.9	140.4
Gross sales revenue (GSR)	1,643.2	2,226.8	2,962.2	1,791.3
Operating Margin	24.1%	21.6%	22.9%	36.8%
Net Margin	16.0%	17.0%	21.1%	30.9%

Breakdown of turnover by activities

Year ended 30 Jun	2004		2005		2006		Six months ended 31 Dec 2006	
	HK\$ million	%	HK\$ million	%	HK\$ million	%	HK\$ million	%
Commission income from concessionaire sales	357.5	76.4	474.3	79.8	618.7	82.5	360.7	79.5%
Sales of goods - direct sales	78.4	16.8	85.8	14.4	86.7	11.6	50.6	11.2%
Management fees	31.9	6.8	34.0	5.7	44.4	5.9	42.5	9.4%
Total	467.8	100.0	594.2	100.0	749.9	100.0	453.8	100.0%

Strengths/Opportunities

- ✓ **Prime store locations** Leveraging on the expertise of New World Development, NWDS has been able to pick strategic locations in prime commercial and residential areas in major cities and developed a national network of stores. Store expansion will be a key growth driver in the near term to capture the opportunities from the growing affluence of Chinese consumers.



- ✓ There are a number of department store operators listed in HK namely Parkson (3368.HK), Golden Eagle (3308.HK), InTime (1833.HK) and Lifestyle International (1212.HK). We excluded Lifestyle in the comparison group as over 85% of its FY06 sales revenue was generated from the 2 HK stores. In terms of the number of self-owned stores, NWDS has 16 trailing behind Parkson's 25. In terms of operating margin (as a percentage of GSR), NWDS was at 5.8% in FY06 while the other 3 peers were at 11-12%. This was because of NWDS' higher proportion of staff costs and rental costs to GSR, attributable to higher percentage of younger stores. Golden Eagle has the most self-owned property among the peers so it has the least burden from rental costs.

In the circumstances, NWDS should be traded at a discount to Parkson and Golden Eagle. At the offer price range of HK\$4.80 – 5.80, the FY07E (fiscal year ending 30 June 2007) pro-forma forecast PER is 33X – 40X, while Parkson and Golden Eagle are traded at FY07E PER of 42.4X and 37.5X, respectively (fiscal year ending 31 Dec 2007). Valuation of NWDS is considered to be reasonable.

Weaknesses/Threats

- × General operating costs inflation, particularly from positive rental reversion in major cities and rising staff costs, will likely persist in the near-term and is a threat to profit margins.
- × Competition in the retail industry, particularly in operation of department stores, has been high. Recently, competition comes from not only domestic and international department store operators but also other retail formats, such as supermarkets and specialty stores, of which the product portfolio is similar to that of department stores.

Recommendation: Subscribe



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