

Analyst: Paul Sham

Main Board Listing – Research

茂業國際控股有限公司

Maoye International Holdings Limited [Stock Code: 0848]
Joint Global Coordinators, Joint Sponsors, Joint Bookrunners and Joint Lead Managers

: Goldman Sachs (Asia) LLC
The Hongkong and Shanghai Banking Corporation Limited
UBS AG
J.P. Morgan Securities Ltd.*

**Being Joint bookrunner and joint lead manager only*
Sector : Retailing

Business : Owner and operator of department stores

Total share offer: <u>*863,000,000</u> shares (16.9% of the enlarged share capital) Public Offer: 86,300,000 shares (10%) Placing: 776,700,000 shares (90%) Greenshoe: 129,450,000 shares <i>*All 863,000,000 shares are New Shares</i>	<u>Business of Maoye International</u> Maoye is a leading department store operator in southern and southwestern China, operating 15 stores (including 8 Maoye-branded stores and 7 Chengshang-branded stores) across eight cities. The department stores have positioned themselves at the medium to high-end segment of the retails market in China. As of 31 st December 2007, Maoye offered an extensive range of merchandize, carrying over 2,800 brands. Both Maoye-branded and Chengshang-branded department stores generate revenue mainly from commissions on concessionaire sales, merchandize direct sales and rental income from store tenants, representing 43.4%, 30.6% and 5.5% respectively, of total revenue as of 31 st December 2007. In 2005, through the acquisition of Chengshang Group, a listed company on the Shanghai Stock Exchange, Maoye diversified its businesses into automobile sales, hotel operation and advertising. The automobile sales business includes new car sales, automobile parts supply, and automobile maintenance. In 2007, automobile sales business contributed 19.9% of total revenue of Maoye.
Price: HK\$2.90 – HK\$3.80 per share Market Cap: HK\$14.83 billion – HK\$19.43 billion Pro forma fully diluted FY07E PER: 29.0x – 38.0x Adjusted NTA per share: HK\$0.49– HK\$0.64 Staffing: 3,516 (as of 31 st December 2007)	
HK Public Offer period: 21 st April 2008 – 24 th April 2008 Receiving banks: The Hongkong and Shanghai Banking Corp. The Bank of East Asia Industrial and Commercial Bank of China (Asia) Limited Share registrar: Tricor Investor Services Limited Listing date: 5 th May 2008	

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**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Maoye Department Store Investment Ltd. – wholly-owned by Mr. Huang Mao Ru, the Chairman, executive Director and CEO of the Company	83.1%
Public Investors	16.9%
	100%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,717.4 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.35 each, being the midpoint of the indicative price range)

	HK\$ million
For potential acquisitions of department stores and/or premises at prime locations for existing and new department stores	951.1 – 1,087.0 (35%-40%)
For expansion of the retail network, including setting up of new stores in existing and new cities of operations	815.2 – 951.1 (30% - 35%)
For renovation and upgrading of the existing department stores	407.6 (15%)
For upgrading of the current IT system	135.9 (5%)
For working capital and general corporate purposes	No more than 271.7(10%)

Financial Highlights

	Year ended 31 st December		
	2005	2006	2007
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Revenue	918,140	1,352,600	1,567,301
Operating profit	155,241	233,097	643,222
Attributable profit	136,759	217,059	416,999
Operating margin	16.9%	17.2%	41.0%
Net margin	14.9%	16.0%	26.6%

Revenue Breakdown (% of Total Revenues)

	Year ended 31 st December					
	2005		2006		2007	
	<u>RMB</u>		<u>RMB</u>		<u>RMB</u>	
	<u>(Millions)</u>	<u>%</u>	<u>(Millions)</u>	<u>%</u>	<u>(Millions)</u>	<u>%</u>
Commissions from concessionaire sales	373.5	40.7	557.9	41.3	680.5	43.4
Direct sales	317.2	34.5	436.1	32.2	479.5	30.6
Rental income	56.2	6.1	77.5	5.7	86.1	5.5
Management fee from the operation of department stores	-	-	-	-	1.0	0.1
Sales of automobile	166.8	18.2	280.4	20.7	311.5	19.9
Other revenue	4.4	0.5	0.7	0.1	8.7	0.5
Total	918.1	100.0	1,352.6	100.0	1,567.3	100.0

Strengths/Opportunities

- ✓ **Benefits from the growth in personal wealth and consumption** The rapid GDP growth and urbanization of the PRC lead to the development of department stores. According to Euromonitor's estimation, retail revenue is expected to reach RMB785 billion by 2011, compared to RMB500 billion in 2007. Moreover, it is expected that department stores of Maoye would be less impacted by the recent price-intervention measures in the PRC as they primarily sell the medium to high-end products.
- ✓ **Inflationary market** As the suppliers of branded goods mainly pay commissions based on a fixed rate (20.4% on average in 2006) of total sales in Maoye department stores, an inflationary environment in China could translate into better earnings for the Company.
- ✓ **High profit margin** Operating profit grew from RMB 233.1 million in 2006 to RMB 643.2 million in 2007 with operating margin and net margin improving from 17.2% and 16% in 2006 to 41% and 26.6% in 2007, respectively. However, the higher operating profit in 2007 was partly due to a drop in employee expenses by 52.5% from RMB196.8 million in 2006 to RMB93.4 million in 2007, which is not likely to be seen again in the near future.
- ✓ **Valuation** Market estimates that Maoye should be traded between 19.7X and 25.8X FY2008E PE, which is not too demanding compared to the sector average of some 27X (ranging from Intime's 19.9X to Parkson's 34.4X)

Weaknesses/Threats

- × **Not a pure consumer stock of department stores** After the acquisition of Chengshang, the sales of automobile segment contributed about 20% of Maoye's total revenue which makes Maoye benefit from the growing department store industry in a lesser extent than other listed pure plays such as Parkson (3368), Golden Eagle (3308), Intime (1833) and New World Department Store China (0825).
- × **Declining concession rate** Maoye's average concession rate dropped from 25.7% in 2004 to 20.4% in 2006, suggesting the company was negatively affected by the intensifying competition among department stores in the Mainland.

Recommendation: Trading buy

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