

Analyst: Sam Ho

Main Board Listing- Research

利福國際集團有限公司

Lifestyle International Holdings Limited - [Stock Code: 1212]
Global Coordinator, Sponsor, Bookrunner and Lead Manager : BNP Paribas Peregrine

Sector : Retail

Business : Operation of department store and other retail outlets

Total share offer: <u>180,000,000 shares</u> (25% of the enlarged share capital) Placement: 150,000,000 shares (83.3%) IPO: 30,000,000 shares (16.7%) Greenshoe: 27,000,000 shares	<u>Business of Lifestyle</u> The Company is principally engaged in the operation of department store and other retail outlets and ownership of most of the properties at which its department store is situated. At present the Company operates the <i>Sogo</i> store, <i>Nufront</i> and <i>Daiso Land Ten-dollar Shop</i> in Hong Kong. <i>Sogo</i> store was opened in May 1985 and the existing shareholders of the Company have been in control of <i>Sogo</i> HK since May 2001. <i>Sogo</i> HK was granted the licence to use the trademark of <i>Sogo</i> for a period of 18 years. The store is located at the prime shopping district in Causeway Bay, occupying a total GFA of 364,419 sf with about 95% owned by the Company. <i>Sogo</i> store housed about 290 concessionaire counters of well-known international brands, with average number of visitors exceeding 80,000 per day.
Price: HK\$7.30-HK\$9.30 per share Market cap. : HK\$5,256 mln-HK\$6,696 mln	
Staffing: 724 Historical 2003 P/E: 17.22x-21.93x (fully-diluted) Adjusted NAV per share: HK\$1.420-HK\$1.907	
Book opens: 29 th March 2004 Book closes: 7 th April 2004 IPO commences: 31 st March 2004 IPO ends: 6 th April 2004 Share registrar: Computershare Hong Kong Investor Services Receiving banks: HSBC, BOC (Hong Kong) Listing date: 15 th April 2004	

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Thomas Lau (the managing director) and Joseph Lau (a non-executive director)	37.5%
Chow Tai Fook, which is controlled by Cheng Yu-tung (a non-executive director)	37.5%
	<u>75.0%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,429 million

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$8.30 each, which is the mid-point of the indicative price range)

	HK\$ million
To acquire PRC joint ventures and inject capital for the joint ventures' operation	530
To expand and invest in retail outlets in Hong Kong and the PRC outside Sogo store	500
To renovate and expand the existing Sogo store	50
To serve as general working capital	balance

Financial Highlights

	Year ended 31 st December		For the period from 1 st March 2001 to 31 st December 2001
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover			
<i>Sales of goods- direct sales</i>	774,642	875,171	663,284
<i>Income from concessionaire sales</i>	473,322	418,228	254,313
<i>Services income</i>	27,072	17,367	12,218
<i>Rental income</i>	28,811	19,298	10,876
	<u>1,303,847</u>	<u>1,330,064</u>	<u>940,691</u>
Operating profit	400,194	303,160	183,612
Net profit	<u>274,647</u>	<u>121,322</u>	<u>42,786</u>
EPS- basic	<u>HK\$0.610</u>	<u>HK\$0.269</u>	<u>HK\$0.095</u>

Strengths

- ✓ Tourist spending in Hong Kong reached HK\$52.5 billion in 2002, with mainland visitors accounted for over half of the total visitor spending. Meanwhile, department stores sales collectively accounted for 10% of total retail sale in Hong Kong in 2003 and Lifestyle's sales represented 16.9% of total Hong Kong department-store sales.
- ✓ The prime location of the Sogo store as one of the landmarks in Causeway Bay and the brand name of Sogo do attract a steady flow of visitors and customers. In addition, Sogo store has a comprehensive range of quality merchandise offered for sale. Amid the individual tourism scheme, more mainlanders are travelling to Hong Kong and they will certainly visit Sogo store during their stay. In fact, mainland visitors increased 13.1% on year in January 2004.
- ✓ Lifestyle plans to replicate its success with Sogo store in Hong Kong and has chosen Shanghai for its 1st mainland store. Since the per capita GDP in Shanghai rose rapidly during the last 10 years and reached RMB40,000 in 2002, there is a growing demand for branded and quality items. The market potential in Shanghai should be huge for quality-merchandise department store.
- ✓ Valuation of Lifestyle is fair at historical P/E of 17x-22x, when compared with other department-store operators Dickson Concepts (stock code: 0113)'s 2004/05E P/E of 17x and AEON Store (stock code: 0984)'s 2004/05E P/E of 19.7x. It also compared comfortably with cosmetic retailer Sa Sa (stock code: 0178)'s 2004/05E P/E of 26x. One thing worth mentioning here is that if market value of the Sogo Building in Causeway Bay were taken into account, the shares should be offering at 1.4x of adjusted book value/share.



Weaknesses

- × Competition in the retail market is intense in Hong Kong. Although the number of Japanese-style department stores has largely been declining since 1998 with the closure of Matsuzakaya and Daimura. There are still many key players in the market such as Jusco, Seibu, Mitsukoshi and New World Stores
- × The Company will invest a major portion (HK\$530 million) from the proceeds raised in Shanghai's Ongoing Department Store and the related shopping complex. The PRC joint venture made a net loss of HK\$10.5 million for the year ended 31st December 2003. We believe it will take Lifestyle 1-2 years' time to turn around the joint venture. Thus, no earnings contribution is expected from the PRC business in the near term, but rather a drag on Lifestyle's bottom line is likely.

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