

Analyst: Vincent Leung

Main Board Listing – Research

Embry Holdings Limited. [Stock Code: 1388]
安莉芳控股有限公司
Sponsor
Taifook Capital Limited
Sole bookrunner and lead manager
: Taifook Securities Company Limited
Sector : Consumer Durables & Apparel
Business : Design, manufacturing, and distribution of lingerie products

Total share offer: <u>100,000,000</u> shares (25% of the enlarged share capital) Public Offer: 10,000,000 shares (10%) Placing: 90,000,000 shares (90%) Greenshoe: 15,000,000 shares Price: HK\$2.86 – HK\$3.62 per share Market Cap: HK\$1,144 – HK\$1,448 million Pro-forma FY06 PER: 14.88X – 18.80X Adjusted NTA per share: HK\$1.51 – HK\$1.69 Staffing: 5,001	<u>Business of Embry Holdings (Embry)</u> Established in the 1970's, Embry has developed into a vertically integrated lingerie brand owner company in the PRC and Hong Kong with its own design, manufacturing, marketing, distribution and retail capabilities. Embry's products are principally sold under its own brand names: EMBRY FORM, FANDECIE and COMFIT and LC, covering a wide range of products with different designs and features. The products have been accredited with a number of awards and recognitions over the past few years. PRC is the principal market for Embry's products, accounting for over 80% of total revenue as at the end of June 2006. The products are sold through over 1,000 retail outlets covering major cities in the PRC and 44 outlets in Hong Kong. Embry also owns two production sites in the Shenzhen and Changzhou in the PRC
HK Public Offer period: 5 th December 06 – 8 th December 06 noon Receiving bank: Hang Seng Bank Share registrar: Tricor Investor Services Limited Listing date: 18 th December 2006	

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

Mr. Cheng Man Tai (the Chairman, Founder and an Executive Director)*	44.45%
Madam Ngok Ming Chu (an Executive Director)*	29.44%
Ms. Cheng Pik Ho Liza (the Chief Executive Officer and an Executive Director; the daughter of Mr. Cheng Man Tai)	0.95%
Mr. Cheng Chuen Chi (the son of Mr. Cheng Man Tai)	0.16%
	<u>75.00%</u>

Remark (): interest held via Harmonious World Limited and Fairmout Investments Limited, which hold 73.57% and 0.32% of Embry Holdings Limited.*

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$324 million. *(Being the mid-point of the offer price range [HK\$3.24 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For the expansion of sales network by increasing the number of retail outlets in the PRC and Hong Kong by approximately 300 by the end of 2007	75
For the promotion and marketing of EMBRY FORM, FANDECIE and COMFIT products	75
For the promotion and marketing of LC products	15
For the establishment of the Shandong factory	66
For product development	22
For the enhancement of the Group's ERP and other IT systems	18
For general working capital	29

Financial Highlights

(HK\$ million)	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
Turnover	429.30	508.49	550.01	314.11
Gross profit	313.25	382.62	413.04	241.88
Profit before tax	21.91	56.41	56.39	52.17
Net profit	14.67	42.14	44.43	40.32
Gross margin	73.0%	75.2%	75.1%	77.0%
Profit before tax margin	5.1%	11.1%	10.3%	16.6%
Net margin	3.4%	8.3%	8.1%	12.8%

Revenue Breakdown (% of Total Revenue)

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
Retail				
Concessions	79.0%	78.6%	78.9%	82.4%
Retail stores	9.5%	9.1%	9.3%	8.6%
Wholesale	6.0%	4.5%	6.1%	6.1%
OEM	5.4%	7.7%	5.7%	2.9%
Total	100.0%	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ **Strong brand recognition** With the long development history in the PRC and a wide product portfolio targeting a spectrum of customers, Embry's products have been accredited with several awards and recognitions, such as "The Best-selling Lingerie Products in the Industry in Ten Consecutive Years 1996-2005" and "Top 100 PRC Garment Enterprises 2005".
- ✓ **Extensive sales network** Embry established an extensive retail network with 1,036 retail outlets covering major cities in the PRC and 44 outlets in Hong Kong. Most of the outlets are concessionary counters within department stores or shopping arcades in major cities. Embry is in a competitive position to ride on the robust growth in consumer spending in the PRC.

Weaknesses/Threats

- × Competition of the lingerie industry in the PRC is intense and fragmented. Many international brand names are well-established in the PRC and HK markets. The rapid change in fashion trends also intensifies the competition and pressure on products' selling prices.
- × The pro-forma FY06E PER of 14.88X – 18.80X is a bit stretched. Top Form International (0333.HK), a rival lingerie maker, trades at 11.0X FY06 PER. Using the mid-point of Embry's pro-forma PER range (16.84X), this translates into about 50% premium to Top Form's valuation.

Recommendation: Neutral



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