

Analyst: Kelvin Li

Main Board Listing – Research

時代零售集團有限公司
Times Ltd. [Stock Code: 1832]
Sole Global Coordinator, Bookrunner, and Lead Manager : HSBC
Sponsors : HSBC
Somerley Limited
Sector : Retailing
Business : Operator of hypermarkets and supermarkets in the PRC

Total share offer: <u>210,600,000</u> shares (25% of the enlarged share capital) Public Offer: 21,060,000 shares (10%) Placing: 189,540,000 shares (90%) Greenshoe: 31,590,000 shares Price: HK\$3.60 – HK\$4.18 per share Market Cap: HK\$3.03 billion–HK\$3.52 billion Pro forma FY2006 PER: 39.1x to 45.4x Adjusted NTA per share: HK\$0.89 – HK\$1.03 Staffing: 9,844 (as of 31 st December 2006)	<u>Business of Times</u> <p>Times is an operator of hypermarkets and supermarkets in the PRC. The Group now has presence in the provinces of Jiangsu, Zhejiang, Anhui and Shandong and the municipality of Shanghai. Times currently operates 55 retail outlets in 42 cities with a total gross floor area of 586,049 sq m. Over 90% of the gross floor area is operated under the hypermarket format.</p> <p>Jiangsu province is the home-base city of Times, where it operates 28 hypermarkets and 15 supermarkets, accounting 78% of the total gross floor area and more than 80% of total sales of merchandise and gross proceeds received from concessionaire sales in 2006.</p> <p>Times is planning to expand its retail network by opening a total of 18 stores in 2007-2008.</p>
HK Public Offer period: 29 th June 2007 – 5 th July 2007 noon Receiving bank: HSBC, Hang Seng Bank Share registrar: Tricor Investor Services Limited Listing date: 16 th July 2007	

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

CS International*	75%
Public	25%
	<u>100%</u>

Remark: ()Lenstar Global, 100% owned by chairman Mr. Kenneth Fang, holds 49% of CS International, while Loyson Pacific (BVI), 45% owned by Mr. Kenneth Fang, 45% by Mr. Laurence Fang and 10% by Mr. Vincent Fang – both brothers of Mr. Kenneth Fang, holds 51% in CS International. As a result, chairman Mr. Kenneth Fang holds an effective 53.96% interest in the enlarged share capital of Times Ltd.*

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$762.3 million (Assuming an offer price of HK\$3.89, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For the expansion of retail network, including renovation costs and set-up costs for the 18 new stores planned for 2007 and 2008.	381.2
For the repayment of borrowings from HSBC. The tenure of the loan facility is 15 months from the date of first drawdown (being 16 th April 2007). The interest rate is HIBOR plus 80 basis points for the first six months from the first drawdown and HIBOR plus 88 bps thereafter.	304.9
For general working capital.	76.2

Financial Highlights

(RMB '000)	2004	2005	2006
Turnover	1,982,626	2,353,564	2,828,645
Gross profit	311,229	373,571	461,431
Operating profit/(loss)	80,076	101,424	136,001
Profit attributable of shareholders	46,086	56,129	77,558
EPS	RMB0.073	RMB0.089	RMB0.123
Gross profit margin	15.70%	15.87%	16.31%
Operating profit margin	4.04%	4.31%	4.81%
Net profit margin	2.32%	2.38%	2.74%

Strengths/Opportunities

- ✓ Since its inception in 1997, the Group has established a strong presence in Jiangsu province, one of the most affluent provinces along the eastern coast of the Mainland China. For the Group's other business regions like the provinces of Shandong, Anhui and Zhejiang, and the municipality of Shanghai, its operations are in a smaller scale when compared with the home-base Jiangsu province.
- ✓ Times has entered into a total of 17 agreements with property developers and owners in 17 cities in the provinces of Jiangsu, Shandong and Anhui to lease 17 premises for future expansion. Besides, it also acquired a land site in Anhui province for development of a retail outlet. These agreements will secure the Group with some 110,000 and 181,000 sq m of additional gross floor area for opening 8 and 10 new outlets in 2007 and 2008 respectively.

Weaknesses/Threats

- × According to Times' management, the overall same-store sales growth was 6% in 2006. The same-store sales growth of the Group's hypermarkets was at 7-8%, while that of supermarkets was at an unexciting 4% last year. As such, inorganic growth (i.e. opening new stores) would be the key for future growth momentum. Outside Jiangsu province, the Group's business scale is relatively small. As a new-comer, Times may experience fierce competition and so profit margin pressure when it expands its presence in other provinces.
- × Nearly 40% of the net proceeds raised from the share offering would be used to pay down Times' debt. The debt was drawn in April 2007 to settle debt owing to fellow subsidiaries, a director and controlling shareholders during the reorganisation prior to the share offering. However, there is only limited information describing about how the debt was originally initiated and in what ways the money was utilised.
- × To be priced at 45x (at the top end of the indicative price range) 2006 P/E, Times' valuation is higher than peer Lianhua (HKEx: 0980), which is trading at a historical price-earnings multiple of 29.

Recommendation: Unattractive

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