

Analyst: Kelvin Li

Main Board Listing – Research

銀泰百貨(集團)有限公司

Intime Department Store (Group) Company Limited. [Stock Code: 1833]

Sole Global Coordinator, Book-runner,
Sponsor and Lead Manager : Morgan Stanley

Sector : Retailing

Business : Owner and operator of department stores

Total share offer: 450,000,000 shares
(25% of the enlarged share capital)

Public Offer: 45,000,000 shares (10%)

Placing: 405,000,000 shares (90%)

Greenshoe: 67,500,000 shares

Price: HK\$4.36 – HK\$5.39 per share

Market Cap: HK\$7,848 - 9,702 million

Pro-forma FY06 PER: 37.9X – 46.9X

Adjusted NTA per share: HK\$1.51 - HK\$1.76

Staffing: 699 (as at September 30, 2006)

HK Public Offer period:

7th March 2007 – 12th March 2007 noon

Receiving bank: BOC (Hong Kong)

Share registrar: Computershare Hong Kong
Investor Services Limited

Listing date: 20th March 2007

Business of Intime

Intime is the largest department store chain in Zhejiang province 浙江(in terms of sales). The Group's department stores focus on the medium to high-end retail market and caters primarily to the fashionable and trendy with a motto "Bring you a new lifestyle". The merchandises are primarily sold through concessionaire sales and, to a lesser extent, direct sales.

Intime currently operates 5 stores in Zhejiang province, with one store in Hangzhou, two in Ningbo and one each in Jinhua and Wenzhou. The Hangzhou Wulin store began operation in 1998 and has been the leading department store in Hangzhou in terms of sales per sq m since 2002. The combined sales of the two Ningbo stores in 2005 made Intime the leading department store operator in Ningbo. The Jinhua Fuhua store and the Wenzhou Shimao store were opened in Jan and Feb 2007, respectively.

Intime has recently entered into a joint venture agreement with the Korea department store operator - "Lotte", to jointly own and operate a department store in Wangfujing, Beijing, which is expected to commence operations in 2008. In addition, Intime has entered into a strategic cooperation framework agreement with Lotte to develop department store businesses in the PRC.

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

Mr. Shen Guojun, the Chairman & executive director of Intime Department Store (Group)	42.76%
Warburg Pincus Funds	26.25%
Ku Ka Lee (independent third party)	3.69%
Li Ni (independent third party)	2.30%
	<u>75.0%</u>

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* Intime has entered into placing agreements with two corporate investors. China Life Insurance (Overseas) Company would subscribe for approximately 48,076,000 shares and Mr. Dickson Poon would subscribe for approximately 32,050,000 shares. (assuming an offer price of HK\$4.875, the midpoint of the offer price range)

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,093.5 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$4.875 each, being the midpoint of the indicative price range).

	HK\$ million
For the implementation of expansion strategies through opening new stores and acquisition of premises for existing and new department stores	732.7 – 942.1 (35% - 45%)
For the implementation of expansion strategy of selectively acquiring attractive department store assets through acquiring majority positions in suitable business targets in the department store industry	732.7 – 942.1 (35% - 45%)
To repay short-term bank loans that were used for working capital purposes with interest rates ranging from 0.465% to 0.51% per month and maturity dates ranging from June 5, 2007 to November 7, 2007	209.4 (10%)
For working capital	No more than 209.4 (10%)

Financial Highlights

	Year ended 31 st December			Nine months ended 30 th Sept
RMB million	2003	2004	2005	2006
Revenue	248.6	325.7	478.0	492.1
Operating profit	112.4	174.6	233.2	263.5
Profit before tax	89.1	148	202.1	238.7
Net profit	56.9	93.5	136.2	175.1
Total Sales Proceeds*	1,051.5	1,279.4	1,786.3	1,745.4
Operating margin	45.2%	53.6%	48.8%	53.5%
Net margin	22.9%	28.7%	28.5%	35.6%

*Total Sales Proceeds differ from Revenue in that the former excludes rental income and accounts for the gross revenue from concessionaires sales as opposed to only the commission portion of concessionaire sales.

Breakdown of Revenue

	Year ended 31 st December						Nine months ended 30 th Sep	
RMB million	2003	%	2004	%	2005	%	2006	%
Sales of goods - direct sales	84.5	34.0	112.1	34.4	169.90	35.5	146.3	29.7
Commissions from concessionaire sales	162	65.2	210.7	64.7	302.9	63.4	340.7	69.2
Rental income	2.1	0.8	2.9	0.9	5.2	1.1	5.1	1.0
Total	248.6		325.7		478.0		492.1	

Strengths/Opportunities

- ✓ **Leading position in Zhejiang Province** Intime is the largest department store chain in Zhejiang province. In Hangzhou, it has been the leading department store in terms of sales per sq m since 2002.
- ✓ **Sound business model** The positioning of Intime is in the medium to high end of the retail segment, which is the fastest growing market segment in affluent provinces like Zhejiang.
- ✓ **Joint venture with Lotte** Intime should further expand and capture the lucrative retail market through the proposed JV department store with Lotte in Beijing.

Weaknesses/Threats

- × Intime currently holds minority stakes in companies with department store operations listed in the PRC. These stakes are booked as available-for-sale (AFS) financial assets on the balance sheet. Intime has equity interests in Baida (29.01%), Wushang (20.64%), and Shenyang Commercial Building (1.62%). As at 30 September 2006, the aggregate value of investments in Baida and Wushang were RMB276.6 million and RMB1,248.4 million, or 18.7% and 58.6% of total assets respectively. Though the original intention of these investments were to realize business presence and synergies in those regions / cities, Intime has not been able to exert influence on Baida and Wushang despite Intime has acquired significant stakes in these companies. Also, the two companies are listed in the PRC and the market value of the AFS can fluctuate. Baida has not undergone A share reform; some of those shares are non-tradable shares or restricted tradable shares.
- × **Valuation at the high-end** The pro-forma FY06E PER of 37.9X – 46.9X is on the high-end. Parkson Retail Group (3368.HK), which is a nation-wide operator, trades at FY07E PER of 39.2X while its FY06A PER is 52.7X. Golden Eagle (3308.HK), which is a closer peer in terms of operational scale, trades at FY06E PER of 36.1X. If Intime's shares are to be priced at the higher end of the offer price, the valuation will be on the high side.

Recommendation: Trading Buy

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