SinoPac

Ming Fung Jewel (0860.HK) OUTPERFORM

More B2C in FY08F and potential catalyst

Retail	
Share price	**Target price**
HK$0.93	**HK$1.60**

Reason for note	**Forecasts revised**
Recommendation	**Unchanged**

Trading data	
52-week range (HK$)	
Market cap. (HK$mn)	14625
Market cap. (US$mn)	1828
Shares outstanding (mn)	4400
Avg. daily volume (mn)	
Avg. daily value (HK$mn)	
Major s/h (%)	69.5
Free float (%)	27.7

Financial data	FY05
Shareholders' equity(HKD mn)	4238
Price/book (x)	3.19
ROA (%)	4.56
ROE (%)	9.64
Net gearing (%)	19.9
Book value/share (HK$)	4.61

Performance	1-mth	3-mth	12-mth
Stock price	27.5	n.a.	n.a.
HSI			

Relative performance

07Source: Bloomberg

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Event:

- **Revised forecasts and remain positive**. We revised our forecasts after MF announced FY07 (FYE Sep) results and we added our FY10 forecasts. We expect retail sales to contribute more in FY08F (from 20% of total revenue in FY07 to 30% in FY08F) and bring up gross margin from 34.7% in FY07 to 35.4% in FY08F. In the mean time, the impact from US recession is yet to be seen. So far, sales to overseas markets are still in line with expectation.

Comments:

- **More contribution from retail sales.** MF had 26 stores at the start of FY08F vs only six at the same time last year. Out of the 26 stores, nine were opened only in the last quarter of FY07. These newly opened stores should therefore make more significant contributions in FY08F. (i.e. 240 months of sales in total contributed by the 20 new stores in FY08F compared with only 101 months of sales in FY07). Besides, management also guided 15 new stores to be opened in FY08F. We expect these stores to contribute another 57.5 months of sales. In all, we forecast retail sales to grow 76% y-o-y in FY08F to RMB211mn.

- **OEM business growth is still in line with expectation.** In the first quarter of FY08, sales to overseas markets were still in line with expectation. The impact from a US recession is yet to be seen, although exporters remain cautious in their forecasts on US exports. But we forecast only a 3% y-o-y drop in total export sales in FY08F, due to a forecasted 2% y-o-y growth to the EU market, 2% growth to the Middle East and 8% drop in the US (the same as what MF suffered during US recession in 2002/03). Besides, the set back in export growth could be fully offset higher gross margin and not affect our bottom-line forecasts.

- **JV could be a short-term catalyst.** MF is still in negotiations with a domestic jewellery retailer to form a JV, which, as part of the deal, could sell MF's jewellery in its partner's stores (about 200 outlets in China). The deal, if successfully concluded, may help MF to significantly increase its market share within a short period at a relatively lower cost. We believe such JV would serve as a catalyst to MF's stock price and expect the deal to be concluded in 2Q of 2008 as management has indicated that it expects to see some contribution from the JV by the end of FY08F if negotiations between two parties is proceeding at the current pace.

Recommendation:

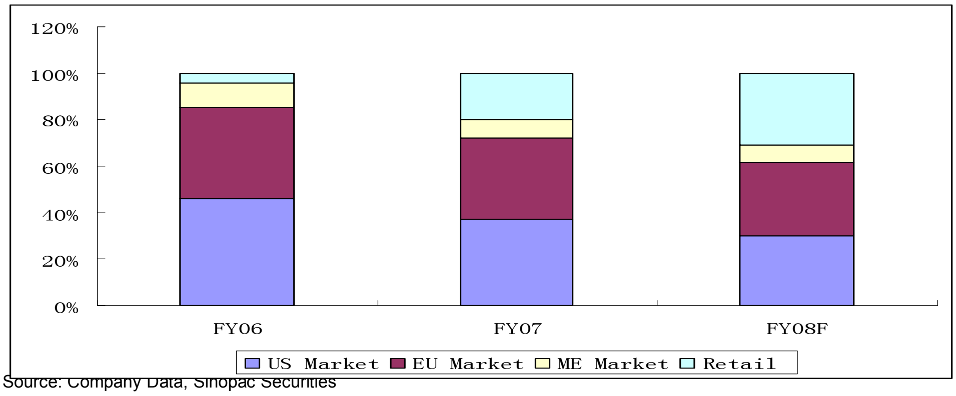
- **Reiterate Outperform and maintain TP at HK$1.60.** Our TP is equal to a PER of 10x FY08F EPS plus a small premium for the JV catalyst, whose contribution is not yet factored into our model. We reiterate our Outperform rating.

Financial summary

FYE 31st Sep (HK$ mn)	FY06	FY07	FY08F	FY09F	FY10F
Turnover	480	610	688	795	894
% chg	*11.6*	*27.1*	*12.8*	*15.6*	*12.5*
EBITDA	90	139	159	186	214
% chg	*9.8*	*54.4*	*14.4*	*17*	*13.2*
Net profit	57	97	116	143	170
% chg	*5*	*70.2*	*19.6*	*12.1*	*18.9*
EPS (HK$)	0.084	0.127	0.151	0.187	0.222
% chg	*1.2*	*51.2*	*18.9*	*23.8*	*18.7*
PER (x)	11.1	7.3	**6.2**	5.0	4.2
DPS (HK$)	0.01	0.008	0.00	0.00	0.00
Yield (%)	1.1	0.1.	0.0	0.0	0.0

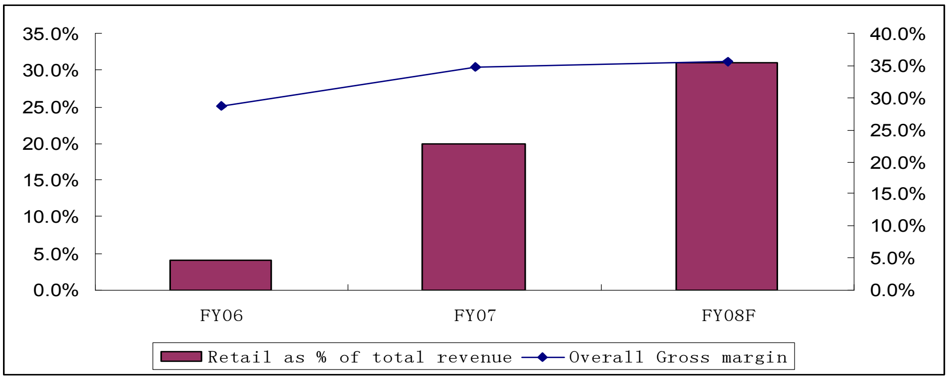
Source: Company data, SinoPac Securities estimates

Chart 1: Retail will account for more of total revenue in FY08F



Source: Company Data, Sinopac Securities

Chart 2: Overall gross margin improving as a result of more retail sales



Source: Company Data, Sinopac Securities

Table 1: Forecast Change

	FY08		Change	FY09		Change
	Previous	Revised	%	Previous	Revised	%
Sales (HK$ mn)	705	688	-2.4	802	795	-0.87
Gross Margin (%)	34.4	35.6	1.2	35	37.4	2.4
EBIT (HK$ mn)	163	141	-13.5	195	172	-11.8
Interest Exp (HK$ mn)	17	6	-64.7	21	6	-71.4
Effective Tax (%)	17.2	15.1	-2.1	17.1	15.1	-2.0
EPS (HK$)	0.158	0.158	0	0.189	0.195	3.2

Source: Sinopac Securities

Table 2: Peer comparison

	CODE	CCY	EPS FY07	EPS FY08	EPS FY09	EPS CAGR FY07-FY09	PER FY07	PER FY08	PER FY09
Bulgari	BUL	EUR	0.51	0.57	0.66	13.8%	16.1	14.5	15.6
Movado	MOV	USD	1.61	1.65	1.95	10.1%	14.2	12.2	11.6
Tiffany	TIF	USD	2.348	2.64	2.948	12.1%	15.7	13.6	12.2
Zale Corp	ZLC	USD	1.113	0.897	1.463	14.7%	9.9	15.1	10.2
Chow Sang Sang	116	HKD	0.59	0.695	0.815	17.5%	20.3	17.2	14.7
Luk Fook	590	HKD	0.487	0.575	0.827	30.3%	14.9	11.9	10.5
Hang Fung Gold Tech	870	HKD	0.17	0.19	N/A	N/A	13.9	12.5	N/A
Noble Jewelry	475	HKD	0.28	0.34	N/A	N/A	4.7	3.9	N/A
Dickson Concepts	113	HKD	0.643	0.603	0.691	3.7%	11.1	8.7	9.2
AVERAGE						**16.4%**	**13.4**	**12.2**	**12.0**
Ming Fung Group	860	HKD	0.132	0.151	0.181	17.1%	7.0	6.1	5.1

Source: Bloomberg

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Recommendation definitions:

Outperform	: return > 10% in excess of benchmark return in a year
In-line	: return within 10% of benchmark return in a year
Underperform	: return > 10% below benchmark return in a year

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