

## BUY

## 9 October, 2008

### Stronger than expected 2008 results

➤ **Strong revenue and net profit growth:** The revenue and operating profit of NWDS reached HK\$ 1,489.3 mn and HK\$ 589.4 mn respectively, which represented growths of 42.3% and 68% respectively. Net profit attributable to equity holders increased 57.4% to HK\$ 476.6 mn. EPS was HK\$ 0.29. The company also declared a dividend of HK\$ 151.8 mn, which was HK 0.09 per share.

➤ **Well performance in all sources of revenue:** The strong growth in revenue was driven by well performance in all sources of revenue. NWDS generates its revenue from 4 main sources: Concessionaire income; direct sales, management fees and rental income.

Concessionaire income grew 34% and reached HK\$ 1,017 mn in 2008. It continued to be the major revenue contributor and accounted for 68% of all revenue. Direct sales, which accounted for 15% of all revenue, increased strongly at 92.5% and represented HK\$ 224.5 mn. The solid growth in these 2 sources were mainly attributed to: 1) strong SSS growth of 25.3% - which was contributed by 5-7% traffic increase, 1-3% stay and buy ratio increase, 12% ticket size increase and Renminbi appreciation; 2) revenue contribution from stores which were opened in 2007; and 3) revenue contribution from 2 newly opened stores ( Anshan and Nanjing stores).

Management fees and rental income also increased 55.5% and 26.9% respectively; and recorded at HK\$ 165 mn and HK\$ 82 mn respectively.

The gross margin was 21.3% (5.5% lower than 2007). This was mainly due to the sale of lower margins Olympic metals products and promotion of other merchandises.

➤ **Operating profit grew 68%:** The operating profit of NWDS was HK\$ 589.4 mn, which represented an increase of 68%. This increase was driven by 1) strong SSS growth, 2) solid growth from all revenue sources and 3) well management of operating expenses.

The overall operating expenses increased steadily. However, the rental expense, selling expense and water & electricity expense as a percentage of revenue decreased 4.8%, 1.1% and 1.2% respectively to 20.8%, 3.5% and 6.3%.

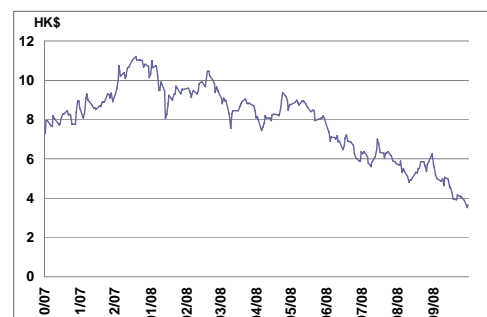
➤ **Net profit increased 57.4% :** The net profit of NWDS increased 57.4% to HK\$ 476.6 mn; which was due to 1) strong revenue growth and well cost control.

➤ **Future strategy:** NWDS has 3 expansion strategies: 1) open new stores; 2) acquisition; and 3) greenfield projects. One of the main expansion strategies is to have multiple stores in a single city. Therefore, NWDS will focus in opening additional stores in core cities such as Wuhan, Beijing, Shanghai and Shenyang, where it already has presence. Secondly, it will expand its network to nearby cities such as Zhengzhou, Nanjing and Chengsha etc.

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Industry	Department Store
Price	HK\$ 3.68
Target price	HK\$ 7.36 (+ 100%)
Bloomberg/ Reuters code	825.HK
Market cap.	HK\$ 6.15 bn
O/S shares	1.67 bn
52wk high/low	HK\$ 11.56 / 3.5
NAV per share	HK\$ 0.51
Major shareholder	New World Development (72.29%)

### Price Performance



Source: Bloomberg

Furthermore, NWDS will expand itself by acquiring managed stores; own leased properties and stores in prime locations.

NWDS's target is to open 2-3 new stores each year. The management expects to add 60,000 – 90,000 sqm in 2009.

► **Valuation:** We maintain a buy rating for NWDS. Our June 09 price target is HK\$7.36, which implies a P/E of 20x June 2009E earnings.

### Earning Summary

Year end 30 June	2006	2007	2008	2009E	2010E
Revenue (HKD mn)	807	1,047	1,489	1,874	2,246
Growth (%)	25%	30%	42%	26%	20%
Net profit (HKD mn)	158	303	477	595	782
Growth (%)	57%	92%	57%	25%	31%
EPS (HKD)	0.09	0.18	0.29	0.36	0.47
P/E (x)	38.9	20.3	12.9	10.3	7.8
DPS (HKD)	0.00	0.00	0.09	0.11	0.14
Dividend yield(%)	-	-	1.6%	1.8%	2.4%

Source: Company information, FSSL

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