

FJ Benjamin Holdings

Resilient fashion retailer

OUTPERFORM

Price target : **S\$0.43**

PRICE (as at 04 May 2012)	BLOOMBERG	REUTERS	12 MONTH RANGE	MARKET CAP
S\$0.34	FJB SP	FJBN.SI	S\$0.27 - 0.41	S\$193m (US\$155m)

- FJ Benjamin Holdings (FJB) reported net profit of S\$3.5m (+8% YoY), in line with our expectations.
- We kept our earnings estimates unchanged, but raise our PT to S\$0.43 (from S\$0.40), as we roll over our valuation to FY13E EPS, based on 0.7x PEG (translating to 13.3x FY13E PER).
- FJB's earnings momentum remained resilient despite the European sovereign debt crisis, led by its strong brand portfolio and growing presence in the fast growing ASEAN economies. According to management, its operations in Malaysia and Indonesia, where the bulk of the store expansion is planned, have been achieving double-digit same store sales growth.
- Performance of its proprietary brand – RAOUL – remains on track, with losses narrowing according to management. The brand continues to enjoy strong sell through in the US, although sales in Europe slowed in the last 3 months.
- Maintain Outperform. Assuming FJB maintains the same dividend payout of 2 Scts in FY11, the stock offers a dividend yield of 5.6%.

Results highlight

Results summary

Year end: Jun	3QFY11 results	3QFY12 results	YoY % growth	9M FY11 results	9M FY12 results	YoY % YTD growth	YTD as % of FY2012E estimates	FY2012E
Total turnover (S\$m)	89.1	95.8	7%	265.1	301.7	14%	76%	395.7
-Fashion segment	59.5	64.6	9%	171.9	192.2	12%	n.a.	n.a.
-Timepieces segment	29.3	31.0	6%	92.5	108.9	18%	n.a.	n.a.
- Licensing segment	0.3	0.2	-34%	0.7	0.6	-7%	n.a.	n.a.
Gross profit (S\$m)	38.6	43.7	13%	114.8	132.0	15%	83%	158.3
Gross margin	43%	46%	n.a.	43%	44%	n.a.	n.a.	40%
EBIT (S\$m)	5.4	6.1	13%	12.8	16.9	32%	91%	18.6
EBIT margin	6%	6%	n.a.	5%	6%	n.a.	n.a.	5%
Net profit (S\$m)	3.2	3.5	8%	10.5	12.1	14%	80%	15.1
Net margin	4%	4%	n.a.	4%	4%	n.a.	n.a.	4%
EPS (adj.) (Scts)	0.57	0.61	8%	1.85	2.12	14%	80%	2.66
DPS (Scts)	-	-	n.a.	-	-	n.a.	0%	1.86
NAV per share (Scts)	22.84	23.21	2%	22.84	23.21	2%	97%	23.93

Source: Company, Standard Chartered Research estimates

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Profit lifted by higher gross profit margins

- Net profit grew 8% YoY on 7% revenue growth, in line with our expectations. Net profit rose 8% YoY to SGD3.5m in 3QFY12 due to higher revenues and gross margin improvement of 3ppt to 46%. Management believes branding initiatives and diversification helped soften the impact of dampened consumer sentiment in 3QFY12.

Fashion segment led growth

- FJB's top line grew 7% YoY to SGD95.8m in 3QFY12, driven primarily by growing Fashion segment revenue. The Fashion segment, which accounted for 67% of revenue in 3QFY12, grew 9% YoY to SGD64.6m, while Timepieces, which accounted for 32% of revenue in 3QFY12, grew 6% YoY to SGD31.0m in 3Q2012. Licensing revenue (0.2% of revenue in 3Q2012), declined 34% YoY to SGD0.2m over the corresponding period.

Fig 1: Revenue breakdown by product 3M FY12

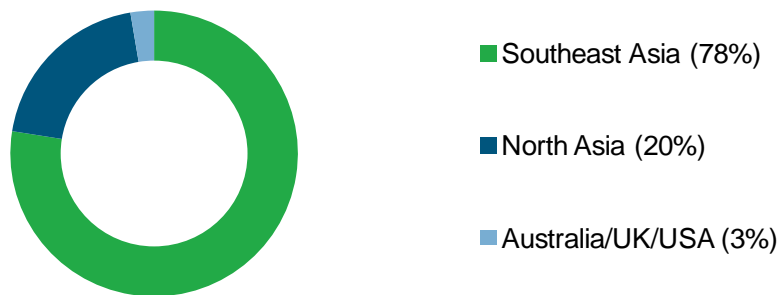


Legend: segments listed clockwise from top

Source: Company

- **Growth in major markets – Malaysia and Hong Kong:** Fashion segment revenue grew 4% YoY in Southeast Asia, while Timepieces revenue declined 10%. In North Asia, Timepieces revenue grew 44% YoY despite slowing tourist expenditure, with China reporting 6% YoY growth in revenue. Furthermore, the group reported 14% YoY revenue growth in Indonesia due to growing demand.

Fig 2: Revenue breakdown by geography 3Q FY12



Source: Company



- **EBIT margin is fairly stable.** EBIT margins improved marginally to 6.4% in 3QFY12 from 6.1% in 3QFY11, primarily due to improvement in gross margins to 46% in 3QFY12 from 43% in 3QFY11 and higher other income. Other income grew 71% YoY to S\$2.5m, mainly due to higher market technical support fee from its Indonesia operations. These were partially offset by rising operating expenses, which grew 16% YoY to SGD40.1m. Management attributes higher operating expenses to increased head count, new store rentals and set-up costs of a warehouse, studio and logistics centre in China and a showroom in Milan.
- **Net margins stable.** FJB reported stable net margins of 3.6% in 3QFY12, despite a 67% YoY decline in the share of associate profits to SGD291m in 3QFY12.

Balance sheet strength

- **Rising net gearing.** Net gearing increased to 46% in 3QFY12 from 6% as at end 2011, due to borrowings to finance expansion. Despite lower total debt, net gearing was higher due to declining cash and bank balance of SGD13m in 3QFY12 compared to SGD47m in 2QFY12. Total debt stood at SGD74m in 3QFY12, down from SGD98m in 2QFY12.
- **Working capital cycle.** FJB's working capital cycle deteriorated to 115 days in 3QFY12 from 80 days in 3QFY11, primarily due to longer inventory days of 194 days (+25 days) in 3QFY12. Receivable days increased 2 days to 41 days and payable days declined 9 days to 120 days in 3QFY12.
- **Operating cash flow trend.** Operating cash flows stood at negative SGD7.1m in 3QFY12, down from SGD2.3m in 3QFY11, due to unfavourable credit and receivable conditions, which saw working capital outflow of SGD13.1m in 3QFY12, compared to SGD3.6m in 3QFY11.
- **Negative free cash flow.** Free cash flow deteriorated to negative SGD8.7m in 3QFY12 from SGD0.2m in 3QFY11, due to lower cash from operations, despite lower capital expenditures. Net capital expenditure declined to SGD1.6m in 3QFY12 from SGD2.1m in 3QFY11.

Outlook

- The group intends to leverage on key brands and is currently in discussions to add new brands to drive growth. The group also intends to focus on cost and liability management, and in 3QFY11, according to management, it was vigilant about keeping expenses in line with expansion plans. FJB is optimistic about the Asian region's near term outlook despite an uncertain economic environment.
- FJB is poised to benefit from Singapore's buoyant tourism. According to Singapore Tourism Board, tourist arrivals are expected to rise 2-10% YoY to 13.5-14.5m in 2012.
- The group plans to add 26 stores in FY12 (+15.7%YoY), expanding its retail network to 192 stores. This includes 14 store additions in Indonesia (up to 89 stores), 14 store additions in Malaysia (up to 69 stores), 2 store additions in Hong Kong (up to 5 stores) and 3 store closures in Singapore (down to 29 stores). Store expansions in fast-growing ASEAN economies would support our expectations of FJB's earnings momentum of 20% CAGR over FY11-FY14E.

Fig 3: Valuation summary

Year end: Jun	FY2011	FY2012E	FY2013E	FY2014E
EV/EBITDA (x)	9.9	9.5	8.0	6.9
PER (x)	14.9	12.6	10.5	8.8
Dividend yield (%)	6.0	5.6	5.7	5.7
PBR (x)	1.4	1.4	1.3	1.2
ROE (%)	9.7	11.1	12.7	14.0

Source: Company, Standard Chartered Research estimates



Income statement (\$m)					
Year end: Jun	2010	2011	2012E	2013E	2014E
Sales	289	354	396	440	484
Gross profit	119	151	158	176	194
SG&A	(114)	(133)	(140)	(154)	(167)
Other income	0	0	0	0	0
Other expenses	0	0	0	0	0
EBIT	5	18	19	22	27
Net interest	(2)	(2)	(2)	(2)	(2)
Associates	2	1	2	2	2
Other non operational	4	(0)	0	0	0
Exceptional items	(0)	(1)	0	0	0
Pretax profit	9	17	19	23	27
Taxation	(1)	(4)	(4)	(5)	(5)
Minority interests	0	0	0	0	0
Exceptional items after tax	0	0	0	0	0
Net profit	8	13	15	18	22
Net profit adj	8	13	15	18	22
EBITDA	13	25	26	30	35
EPS (\$)	0.01	0.02	0.03	0.03	0.04
EPS adj (\$)	0.01	0.02	0.03	0.03	0.04
DPS (\$)	2.00	2.00	1.86	1.92	1.89
Avg fully diluted shares (m)	569	569	569	569	569

Cash flow statement (\$m)					
Year end: Jun	2010	2011	2012E	2013E	2014E
EBIT	5	18	19	22	27
Depreciation & amortisation	8	6	7	8	9
Net interest	2	2	2	2	2
Tax paid	(1)	(4)	(4)	(5)	(5)
Changes in working capital	4	(9)	(8)	(7)	(7)
Others	8	(6)	(1)	(1)	(1)
Cash flow from operations	26	7	14	19	23
Capex	(4)	(8)	(13)	(4)	(4)
Acquisitions	0	0	0	0	0
Disposals	10	0	0	0	0
Others	0	(1)	0	0	0
Cash flow from investing	6	(8)	(13)	(4)	(4)
Dividends	0	0	0	0	0
Issue of shares	0	0	0	0	0
Change in debt	(7)	11	0	0	0
Other financing cash flow	(5)	(13)	(11)	(11)	(11)
Cash flow from financing	(11)	(2)	(11)	(11)	(11)
Change in cash	21	(3)	(9)	4	8
Exchange rate effect	0	0	0	0	0
Free cash flow	22	(1)	1	15	19

Balance sheet (\$m)					
Year end: Jun	2010	2011	2012E	2013E	2014E
Cash	60	65	56	60	68
Short term investments	0	0	0	0	0
Accounts receivable	33	37	41	46	51
Inventory	87	94	111	123	135
Other current assets	32	43	43	43	43
Total current assets	212	240	251	272	297
PP&E	23	25	30	26	22
Intangible assets	0	0	0	0	0
Associates and JVs	0	0	0	0	0
Other long term assets	21	20	20	20	20
Total long term assets	44	44	50	46	41
Total assets	256	284	301	318	338
Short term debt	51	72	72	72	72
Accounts payable	62	75	87	97	107
Other current liabilities	1	2	2	2	2
Total current liabilities	114	149	161	171	181
Long term debt	2	1	1	1	1
Convertible bonds	0	0	0	0	0
Deferred tax	0	0	0	0	0
Other long term liabilities	3	3	3	3	3
Total long term liabilities	4	4	4	4	4
Total liabilities	118	153	165	175	184
Shareholders' funds	137	132	136	143	154
Minority interests	0	(0)	(0)	(0)	(0)
Total equity	137	131	136	143	154
Total liabilities and equity	256	284	301	318	338
Net debt (cash)	(7)	7	17	13	4
Year end shares (m)	569	569	569	569	569

Financial ratios and other					
Year end: Jun	2010	2011	2012E	2013E	2014E
Operating ratios					
Gross margin (%)	41.2	42.8	40.0	40.0	40.0
EBITDA margin (%)	4.4	6.9	6.5	6.9	7.3
EBIT margin (%)	1.8	5.2	4.7	5.1	5.5
Net margin adj (%)	2.9	3.6	3.8	4.1	4.4
Effective tax rate (%)	10.5	25.1	20.0	20.0	20.0
Sales growth (%)	-3.5	22.3	11.8	11.2	10.0
Net income growth (%)	nm	54.6	18.3	20.4	18.4
EPS growth (%)	nm	54.6	18.3	20.4	18.4
EPS growth adj (%)	nm	54.6	18.3	20.4	18.4
DPS growth (%)	300.0	0.0	-7.0	3.2	-1.3
Efficiency ratios					
ROE (%)	6.1	9.5	11.3	13.0	14.5
ROCE (%)	3.7	13.2	13.5	15.6	17.5
Asset turnover (x)	1.1	1.3	1.4	1.4	1.5
Op cash / EBIT (x)	5.2	0.4	0.7	0.8	0.9
Depreciation / CAPEX (x)	1.7	0.8	0.6	2.0	2.2
Inventory days	191.3	163.0	157.6	161.5	162.4
Accounts receivable days	44.0	36.2	36.1	36.2	36.4
Accounts payable days	134.6	123.3	124.6	127.2	127.9
Leverage ratios					
Net gearing (%)	-5.4	5.5	12.3	9.0	2.9
Debt/capital (%)	37.0	53.6	51.8	49.3	45.9
Interest cover (x)	2.9	10.3	10.5	12.6	15.0
Debt/EBITDA (x)	4.2	2.5	2.8	2.4	2.0
Current ratio (x)	1.9	1.6	1.6	1.6	1.6
Valuation					
EV/Sales (x)	0.6	0.6	0.5	0.5	0.4
EV/EBITDA (x)	14.2	9.2	8.4	7.0	5.8
EV/EBIT (x)	35.5	12.3	11.5	9.4	7.7
PER (x)	20.5	17.3	12.6	10.5	8.8
PER adj (x)	20.5	17.3	12.6	10.5	8.8
PBR (x)	1.3	1.6	1.4	1.3	1.2
Dividend yield (%)	672.1	516.2	555.1	572.8	565.2
Other					
Fashion	197	230	0	0	0
Timepieces	92	123	0	0	0
Licensing	1	1	0	0	0



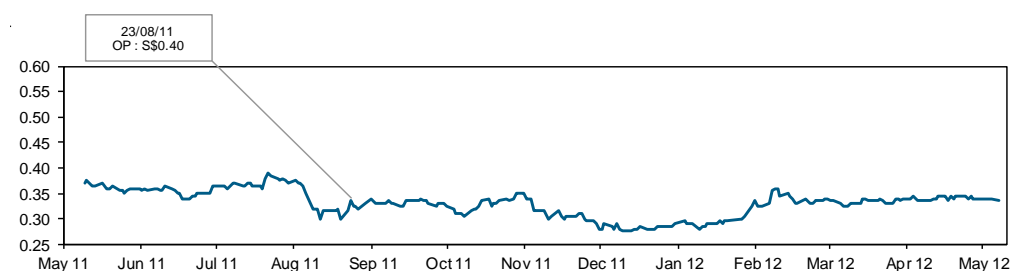
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FJ Benjamin Holdings Ltd.



Source: FactSet prices / SCB ratings and price targets

Recommendation Distribution and Investment Banking Relationships

	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	58.6%	10.4%
IN-LINE	31.7%	13.1%
UNDERPERFORM	9.7%	13.0%

As of 31 March 2012

Research Recommendation

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
IN-LINE (IL)	The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months
UNDERPERFORM (UP)	The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months

SCB uses an investment horizon of 12 months for its price targets.

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