

FJ Benjamin (FJB SP)

Consumer Cyclical - Distribution & Wholesale

Market Cap: USD113m

Neutral (Maintained)

 Target Price: **SGD0.27**

 Price: **SGD0.26**

Challenges Lay Ahead After Weak 4QFY13

 Macro ◆◆
 Risks ◆◆
 Growth ◆
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.06m/0.05m
Cons. Upside (%)	38.5
Upside (%)	4.7
52-wk Price low/high (SGD)	0.25 - 0.36
Free float (%)	44

Shareholders (%)	
Benjamin Family	27.3
Lim Eng Hock Peter	17.8
Raffles Investments	11.0

Lynette Tan 65 6232 3895
lynette.tan@sg.oskgroup.com

Forex losses on top of a 2.0% y-o-y drop in revenue led to FJB posting a 4QFY13 PATAMI of SGD0.4m. We expect the near term prospects to be challenging amid persistently soft consumer spending in certain markets. In spite of this, FJB is going ahead with plans to expand its brands portfolio and open new stores. In view of this, we maintain our NEUTRAL recommendation and TP of SGD0.27.

- ◆ **Keeping gross margins above 40%.** Despite the competitive operating environment where retailers marked down prices to clear inventory, FJB was able to achieve a gross profit margin (GPM) of 40.1% in 4QFY13 (3QFY13: 44.1%). Included in the 4QFY13 numbers were gains from the disposal of properties amounting to SGD1.9m. This, minus forex losses of SGD1.8m due to translation differences, resulted in a PATAMI of SGD0.4m. Due to the weaker performance, FJB announced a dividend of 0.5 cent per share (FY12: 1 cent/share).
- ◆ **Outlook to remain challenging.** Consumer spending in Singapore is expected to remain cautious amid rising rentals and staff costs, which could adversely affect profitability. Demand for luxury timepieces in China and tourist spending by Chinese visitors in Hong Kong are likely to stay weak. However, this would somewhat be offset by continued healthy demand in Indonesia. Meanwhile, FJB plans to continue to open new outlets in Indonesia to ride on the nation's healthy domestic demand. Some of these new stores would be its planned VNC outlets.
- ◆ **New luxury brands to perk up revenue growth.** Despite the challenges, FJB plans to focus on its luxury fashion segment, which has proven to be relatively resilient. The group has secured distribution rights for *Tom Ford*, *Valextra* and *Superdry* and plans to open new stores for these brands at upmarket shopping malls in Singapore and Malaysia. While these new brands may help expand its revenue, the higher rental costs and absence of exceptional gains will dampen the growth. As such, we expect flat PATAMI growth for FY14.

Forecasts and Valuations	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total turnover (SGDm)	354	393	373	385	402
Reported net profit (SGDm)	13.0	13.9	4.4	3.5	5.5
Recurring net profit (SGDm)	13.5	14.1	2.9	3.5	5.5
Recurring net profit growth (%)	57.7	4.1	(79.5)	21.4	57.2
Core EPS (SGD)	0.02	0.02	0.01	0.01	0.01
DPS (SGD)	0.02	0.01	0.01	0.01	0.01
Dividend Yield (%)	7.8	3.9	2.0	2.0	2.0
Core P/E (x)	10.7	10.3	50.3	41.4	26.3
Return on average equity (%)	9.7	10.5	3.4	2.7	4.1
P/B (x)	1.10	1.08	1.10	1.11	1.08
P/CF (x)	270	na	na	17	14
EV/EBITDA (x)	7.4	9.5	54.1	23.3	17.3
Net debt to equity (%)	4.7	38.3	52.5	50.0	43.8
Our vs consensus EPS (%)				(73.2)	(12.0)

Source: Company data, OSK-DMG estimates

4QFY13 Results Review

Figure 1: Quarterly results

YE 30 Jun (SGDm)	4QFY13	4QFY12	y-o-y %	FY13	FY12	y-o-y %	3QFY13	q-o-q %	Remarks
Revenue	89.7	91.5	-2.0%	373.4	393.2	-5.0%	92.6	-76.0%	4Q is seasonally the weakest quarter. On top of that, it saw lower sales from North Asia due to lower spending by the Chinese.
Cost of sales	(53.7)	(54.5)	-1.4%	(214.1)	(224.8)	-4.8%	(51.7)	-74.9%	
Other income	6.1	2.4	151.3%	11.9	9.4	26.7%	1.8	-48.9%	
Depreciation	(1.9)	(2.1)	-10.1%	(7.8)	(7.1)	10.0%	(2.2)	-76.0%	
Rental of premises	(13.7)	(13.0)	5.7%	(54.3)	(49.7)	9.2%	(13.9)	-74.7%	
Other operating expenses	(25.3)	(21.6)	16.8%	(101.6)	(101.4)	0.2%	(25.5)	-75.1%	
Finance cost	(0.8)	(0.6)	18.9%	(2.6)	(2.0)	30.8%	(0.8)	-71.2%	
Exceptional items	1.9	0.2	711.5%	2.8	(0.3)	-1075.4%	-	-32.6%	Gain on disposal of investment properties.
Forex gain/(loss)	(1.8)	0.5	-447.7%	(1.2)	1.7	n.m.	1.0	52.3%	Translation differences between inter-company accounts.
Share of associates	0.3	(0.4)	-166.2%	0.8	0.6	33.2%	(0.2)	-63.2%	
Profit before taxes	0.8	2.5	-68.2%	7.3	19.7	-62.9%	1.0	-89.3%	
Income tax	(0.5)	(0.7)	-29.2%	(3.3)	(6.1)	-46.9%	(0.7)	-84.0%	
Minority interest	0.1	0.1	-16.4%	0.4	0.4	100.0%	0.1	-75.0%	
Net income	0.4	1.8	-80.3%	4.4	13.9	-68.0%	0.4	-91.8%	
Margins									
Gross	40.1%	40.5%		42.7%	42.8%		44.1%		
Operating profit	1.3%	3.0%		2.0%	5.0%		1.1%		
PBT	0.9%	2.7%		2.0%	5.0%		1.1%		
PATAMI	0.4%	2.0%		1.2%	3.5%		0.5%		

Source: Company data

Financial Exhibits

Profit & Loss (SGDm)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total turnover	354	393	373	385	402
Cost of sales	(203)	(225)	(214)	(219)	(229)
Gross profit	151	168	159	165	173
Gen & admin expenses	(97)	(110)	(114)	(119)	(121)
Selling expenses	(15)	(18)	(15)	(16)	(18)
Other operating costs	(27)	(31)	(35)	(31)	(32)
Operating profit	12	10	(4)	(0)	2
Operating EBITDA	19	17	3	8	10
Depreciation of fixed assets	(6)	(7)	(8)	(8)	(8)
Operating EBIT	12	10	(4)	(0)	2
Net income from investments	1	1	1	1	1
Other recurring income	6	9	12	8	8
Interest income	(2)	(2)	(3)	(3)	(3)
Exchange gains	(0)	2	(1)	-	-
Exceptional income - net	(1)	(0)	3	-	-
Pre-tax profit	17	20	7	5	8
Taxation	(4)	(6)	(3)	(2)	(2)
Minority interests	0	0	0	-	-
Profit after tax & minorities	13	14	4	4	6
Reported net profit	13	14	4	4	6
Recurring net profit	14	14	3	4	6

Source: Company data, OSK-DMG estimates

Cash flow (SGDm)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Operating profit	12	10	(4)	(0)	2
Depreciation & amortisation	6	7	8	8	8
Change in working capital	(11)	(31)	(18)	4	3
Other operating cash flow	(2)	2	(1)	3	2
Operating cash flow	6	(11)	(15)	14	15
Interest received	0	1	1	0	0
Interest paid	(2)	(3)	(3)	(3)	(3)
Tax paid	(3)	(5)	(6)	(3)	(2)
Cash flow from operations	1	(18)	(23)	8	11
Capex	(8)	(8)	(11)	(8)	(8)
Other investing cash flow	0	(16)	10	-	-
Cash flow from investing activities	(8)	(25)	(1)	(8)	(8)
Dividends paid	(11)	(11)	(6)	(3)	(3)
Increase in debt	11	20	10	(2)	(2)
Other financing cash flow	-	-	-	-	(0)
Cash flow from financing activities	0	9	4	(5)	(5)
Cash at beginning of period	60	38	15	10	12
Total cash generated	(7)	(34)	(19)	(4)	(2)
Forex effects	(0)	(0)	0	-	-
Implied cash at end of period	52	4	(5)	5	9

Source: Company data, OSK-DMG estimates

Financial Exhibits

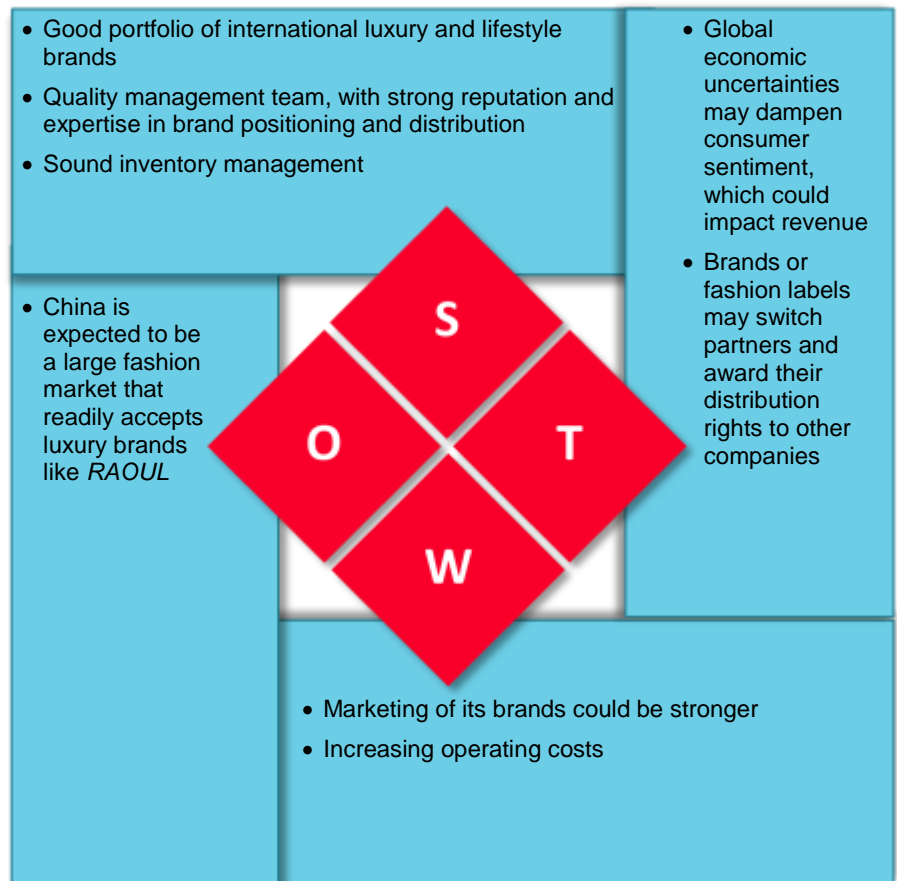
Balance Sheet (SGDm)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total cash and equivalents	38	15	10	12	16
Inventories	94	110	118	115	117
Accounts receivable	58	59	65	63	62
Other current assets	23	26	29	27	28
Total current assets	213	210	221	217	223
Total investments	13	29	27	27	27
Tangible fixed assets	30	32	27	27	27
Intangible assets	1	1	1	1	1
Total other assets	1	1	1	2	2
Total non-current assets	44	62	56	57	57
Total assets	257	272	277	274	280
Short-term debt	45	59	74	72	70
Accounts payable	75	65	61	62	64
Other current liabilities	3	4	3	2	3
Total current liabilities	122	128	138	135	137
Total long-term debt	-	7	5	4	4
Other liabilities	4	4	4	4	4
Total non-current liabilities	4	10	8	8	8
Total liabilities	126	138	146	144	146
Share capital	165	165	165	165	165
Retained earnings reserve	(34)	(31)	(34)	(35)	(31)
Shareholders' equity	131	134	131	131	135
Minority interests	0	(0)	(1)	(1)	(1)
Other equity	0	0	(0)	(0)	(0)
Total equity	131	134	131	130	134
Total liabilities & equity	257	272	277	274	280

Source: Company data, OSK-DMG estimates

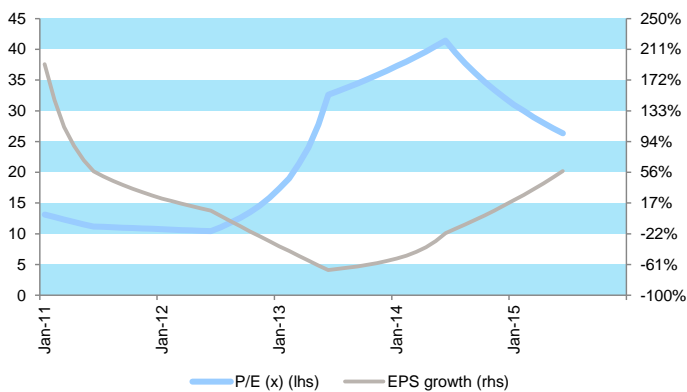
Key Ratios (SGD)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Revenue growth (%)	22.3	11.1	(5.0)	3.0	4.6
Operating profit growth (%)	0.0	(16.3)	(142.5)	(91.1)	0.0
Net profit growth (%)	56.9	7.2	(68.0)	(21.2)	57.2
EPS growth (%)	56.9	7.2	(68.0)	(21.2)	57.2
Bv per share growth (%)	(4.1)	1.9	(2.0)	(0.4)	3.0
Operating margin (%)	3.5	2.6	(1.2)	(0.1)	0.5
Net profit margin (%)	3.7	3.5	1.2	0.9	1.4
Return on average assets (%)	5.1	5.3	1.6	1.3	2.0
Return on average equity (%)	9.7	10.5	3.4	2.7	4.1
Net debt to equity (%)	4.7	38.3	52.5	50.0	43.8
DPS	0.02	0.01	0.01	0.01	0.01
Recurrent cash flow per share	0.00	(0.03)	(0.04)	0.01	0.02

Source: Company data, OSK-DMG estimates

SWOT Analysis

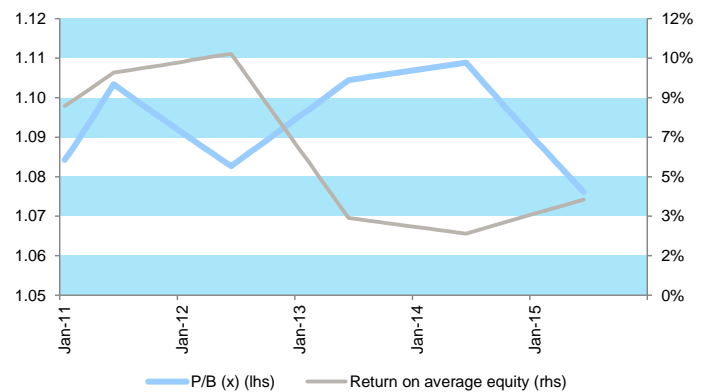


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

Company Profile

FJ Benjamin imports, exports, licences, distributes and retails consumer fashion wear and accessories and timepieces. It has its own in-house brands, *RAOUL* and *Catherine Deane*, as well as a portfolio of other brands such as *Guess*, *Banana Republic*, *GAP*, *La Senza* and *Goyard*.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-13	Neutral	0.27	0.26
2013-02-06	Buy	0.36	0.29
2013-02-06	Buy	0.36	0.29
2012-11-09	Buy	0.39	0.31
2012-08-23	Buy	0.39	0.34
2010-02-12	Buy	0.46	0.28

Source: OSK-DMG estimates, Bloomberg

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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Kuala Lumpur	Hong Kong	Singapore
<p>Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693</p>	<p>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.) 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p>DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia) Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.) Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited) No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel : +(855) 23 969 161 Fax : +(855) 23 969 171</p>
Bangkok		
<p>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL) 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel : +(66) 862 9999 Fax : +(66) 108 0999</p>		