

FJ Benjamin (FJB SP)

Consumer Cyclical - Consumer Services

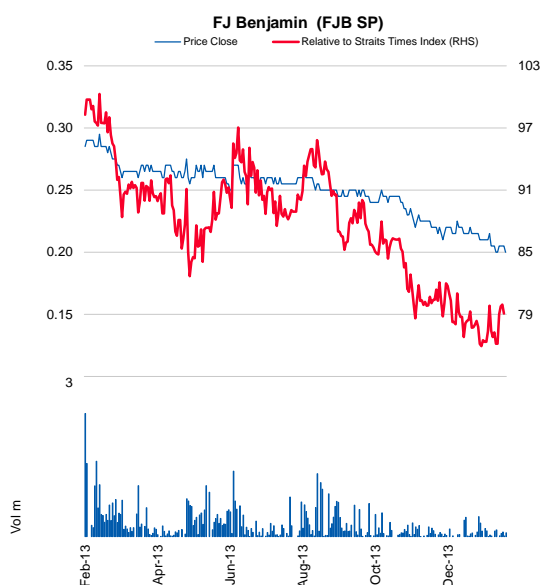
Market Cap: USD89.7m

Neutral (Maintained)

 Target Price: **SGD0.23**

 Price: **SGD0.20**

New Stores Drive 2Q14 Revenue Growth

 Macro ◆◆
 Risks ◆◆
 Growth ◆
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.02m/0.01m
Cons. Upside (%)	80.0
Upside (%)	-12.6
52-wk Price low/high (SGD)	0.20 - 0.30
Free float (%)	44

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

FJB's 2Q14 PATAMI slipped 53% y-o-y to SGD0.5m, even as revenue grew 8% y-o-y to SGD104.6m. As with the previous quarter, this was largely due to forex losses. The recently-opened outlets for its new brands would help to drive topline growth, but we think management would need to actively manage inventory and costs to sustain margins. Maintain NEUTRAL, with a lower DCF-based TP of SGD0.23.

- ◆ **Gross margins dip to 38%.** FJB's 2Q14 gross margins dipped to 38% despite revenue growth, as the company engaged in marked-down pricing to clear inventory. Revenue growth was helped by new store openings (*Valextra*, *Superdry* and *Goyard*) that are doing well. However, given weak consumer sentiment coupled with fewer Indonesian and Malaysian tourists visiting its Singapore outlets, profitability was lower y-o-y. Operating profit improved y-o-y and q-o-q, as FJB was able to achieve better efficiency.
- ◆ **Outlook remains challenging.** FJB expects sentiment in its Indonesian and Malaysian markets to be relatively more stable, compared to the Singapore market. Its Indonesian market continued to record good growth during the quarter, as sales climbed 15% y-o-y and gross margins were maintained. FJB will continue its store expansion gradually by opening a new *Tom Ford* outlet in April 2014 and a third *Superdry* outlet over the next few quarters. These new outlets would help contribute to revenue growth over the next few quarters. As a result of its brand expansion, FJB expects to incur a higher capex in FY14.
- ◆ **Lower estimates and TP.** We think consumer sentiment is not likely to improve significantly yet, and as the group continues to work on expanding its topline, profitability is likely to be dragged down by high rental and staff costs. In view of weaker gross margins and higher-than-expected forex losses in 2Q14, we lower our FY14 earnings estimates to SGD2.3m (from SGD3.5m). Consequently, our TP is trimmed to SGD0.23 (from SGD0.27).

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Forecasts and Valuations	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total turnover (SGDm)	354	393	373	391	409
Reported net profit (SGDm)	13.0	13.9	4.4	2.3	3.7
Recurring net profit (SGDm)	13.5	14.1	2.9	2.3	3.7
Recurring net profit growth (%)	57.7	4.1	(79.5)	(21.9)	64.9
Recurring EPS (SGD)	0.02	0.02	0.01	0.00	0.01
DPS (SGD)	0.02	0.01	0.01	0.01	0.01
Recurring P/E (x)	8.4	8.1	39.4	50.5	30.6
P/B (x)	0.87	0.85	0.87	0.88	0.86
P/CF (x)	211	na	na	17	14
Dividend Yield (%)	10.0	5.0	2.5	2.5	2.5
EV/EBITDA (x)	5.9	8.1	46.8	20.2	20.9
Return on average equity (%)	9.7	10.5	3.4	1.7	2.8
Net debt to equity (%)	4.7	38.3	52.5	53.1	49.0
Our vs consensus EPS (%)				(56.0)	(34.7)

Source: Company data, OSK-DMG estimates

2Q14 Results Review

Figure 1: Quarterly results

YE 30 Jun (SGDm)	2Q14	2Q13	y-o-y %	1Q14	q-o-q %	Remarks
Revenue	104.6	96.9	7.9%	96.0	9.0%	Revenue picked up, helped by new store openings for new brands.
Cost of sales	(65.1)	(55.4)	17.5%	(55.5)	17.2%	
Other income	3.0	2.4	26.0%	1.3	123.4%	
Depreciation	(2.4)	(1.9)	22.0%	(2.3)	2.9%	
Rental of premises	(15.1)	(13.9)	9.2%	(14.1)	7.6%	
Other operating expenses	(22.5)	(26.2)	-14.3%	(22.9)	-2.0%	
Finance cost	(0.7)	(0.7)	12.0%	(0.5)	56.8%	
Exceptional items	-	0.9	-100.0%	-	0.0%	
Forex gain/(loss)	(1.0)	(0.8)	26.0%	(0.8)	30.6%	Translation differences between inter-company accounts.
Share of associates	0.2	0.3	-54.9%	0.1	48.0%	
Profit before taxes	0.9	1.7	-43.1%	1.4	-30.4%	
Income tax	(0.4)	(0.5)	-20.2%	(1.0)	-59.6%	
Minority interest	0.1	0.0	323.1%	0.1	-8.3%	
Net income	0.6	1.2	-49.2%	0.4	48.0%	Profitability dragged down by forex losses.
Margins						
Gross	37.8%	42.8%		42.1%		Gross profit margins were lower as FJB engaged in markdown pricing to clear inventory.
Operating profit	2.4%	1.9%		2.6%		Operating margins was relatively flat, helped by increase in Other Income - technical support fee from its Indonesian partner.
PBT	0.9%	1.7%		1.4%		
PATAMI	0.6%	1.4%		0.4%		

Source: Company data

Financial Exhibits

Profit & Loss (SGDm)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total turnover	354	393	373	391	409
Cost of sales	(203)	(225)	(214)	(225)	(234)
Gross profit	151	168	159	166	175
Gen & admin expenses	(97)	(110)	(114)	(120)	(124)
Selling expenses	(15)	(18)	(15)	(16)	(18)
Other operating costs	(27)	(31)	(35)	(31)	(33)
Operating profit	12	10	(4)	(0)	(1)
Operating EBITDA	19	17	3	8	7
Depreciation of fixed assets	(6)	(7)	(8)	(8)	(8)
Operating EBIT	12	10	(4)	(0)	(1)
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)	(2)	-
Exceptional income - net	(1)	(0)	3	-	-
Pre-tax profit	17	20	7	3	5
Taxation	(4)	(6)	(3)	(1)	(2)
Minority interests	0	0	0	-	-
Profit after tax & minorities	13	14	4	2	4
Reported net profit	13	14	4	2	4
Recurring net profit	14	14	3	2	4

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)	(1)
Depreciation & amortisation	6	7	8	8	8
Change in working capital	(11)	(31)	(18)	2	3
Other operating cash flow	(2)	2	(1)	3	2
Operating cash flow	6	(11)	(15)	13	13
Interest received	0	1	1	0	0
Interest paid	(2)	(3)	(3)	(3)	(3)
Tax paid	(3)	(5)	(6)	(3)	(1)
Cash flow from operations	1	(18)	(23)	7	8
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	8
Total cash generated	(7)	(34)	(19)	(6)	(5)
Forex effects	(0)	(0)	0	-	-
Implied cash at end of period	52	4	(5)	4	3

Source: Company data, OSK-DMG estimates

Financial Exhibits

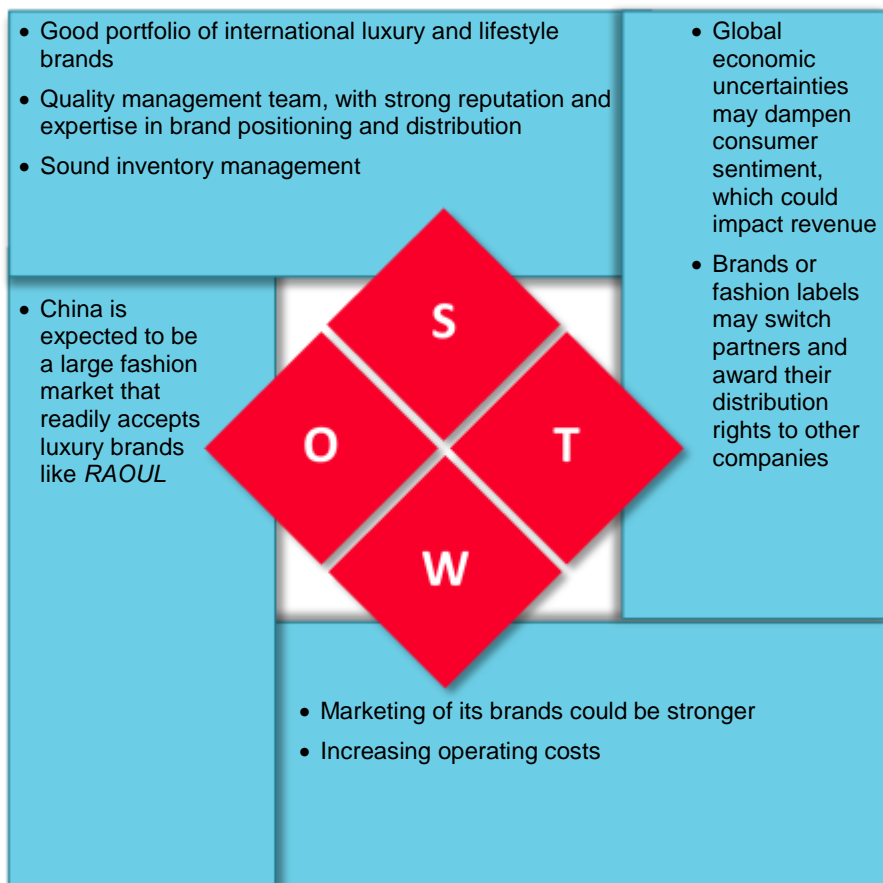
Balance Sheet (SGDm)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total cash and equivalents	38	15	10	8	10
Inventories	94	110	118	117	119
Accounts receivable	58	59	65	65	63
Other current assets	23	26	29	27	28
Total current assets	213	210	221	217	220
Total investments	13	29	27	27	27
Tangible fixed assets	30	32	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	277
Short-term debt	45	59	74	72	70
Accounts payable	75	65	61	63	65
Other current liabilities	3	4	3	1	2
Total current liabilities	122	128	138	136	138
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	145	146
Share capital	165	165	165	165	165
Retained earnings reserve	(34)	(31)	(34)	(36)	(33)
Shareholders' equity	131	134	131	130	132
Minority interests	0	(0)	(1)	(1)	(1)
Other equity	0	0	(0)	(0)	(0)
Total equity	131	134	131	129	131
Total liabilities & equity	257	272	277	274	277

Source: Company data, OSK-DMG estimates

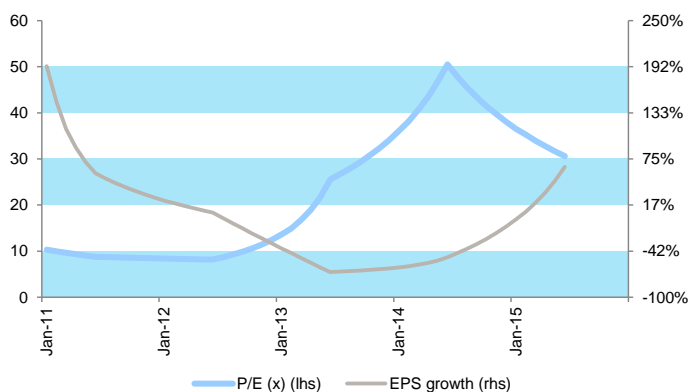
Key Ratios (SGD)	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Revenue growth (%)	22.3	11.1	(5.0)	4.7	4.6
Operating profit growth (%)	0.0	(16.3)	(142.5)	(94.0)	167.8
Net profit growth (%)	56.9	7.2	(68.0)	(49.4)	64.9
EPS growth (%)	56.9	7.2	(68.0)	(49.4)	64.9
Bv per share growth (%)	(4.1)	1.9	(2.0)	(1.0)	1.7
Operating margin (%)	3.5	2.6	(1.2)	(0.1)	(0.2)
Net profit margin (%)	3.7	3.5	1.2	0.6	0.9
Return on average assets (%)	5.1	5.3	1.6	0.8	1.3
Return on average equity (%)	9.7	10.5	3.4	1.7	2.8
Net debt to equity (%)	4.7	38.3	52.5	53.1	49.0
DPS	0.02	0.01	0.01	0.01	0.01
Recurrent cash flow per share	0.00	(0.03)	(0.04)	0.01	0.01

Source: Company data, OSK-DMG estimates

SWOT Analysis

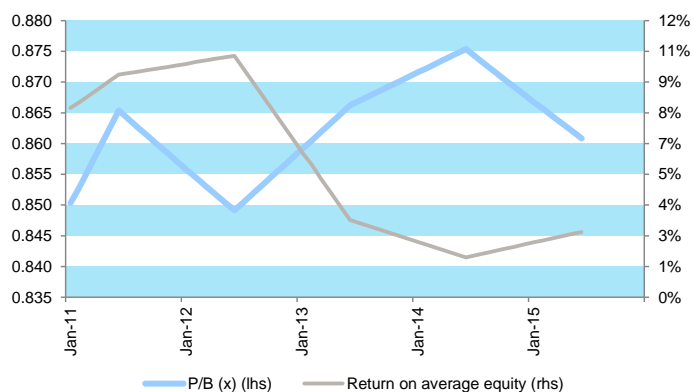


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

Company Profile

FJ Benjamin imports, exports, licenses, distributes and retails consumer fashion wear, accessories and timepieces. It has its own proprietary brand, *RAOUL* and has acquired the *Catherine Deane* label. Its portfolio of brands includes *Guess*, *Banana Republic*, *GAP*, *La Senza*, *Goyard*, *Givenchy*, *Tom Ford* and *Valextra*.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-11-08	Neutral	0.27	0.24
2013-08-28	Neutral	0.27	0.26
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

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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

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Not Rated: Stock is not within regular research coverage

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