

Stock Picks

FJ Benjamin Holdings

Hold on tightly to this gem

Company Overview

FJ Benjamin (FJB) has four business segments:

- a) Retailing and distribution (R&D) – Operates retail outlets in Southeast Asia and Australia with distribution rights for brands such as Banana Republic, GAP, Guess?, La Senza and Celine. The division also operates RAOUL stores in the region.
- b) Timepiece distribution – Wholesale timepiece distribution to watch retailers with distribution rights for brands such as Bell & Ross, Girard Perregaux, Guess, Jean Richard, Marc Ecko, Nautica and Victorinox. FJB currently operates three watch stores.
- c) Creative and licensing – Develops house label RAOUL and creates original and manufactures merchandise.
- d) Lifestyle concepts – Owns a significant investment in St. James Holdings.

Investment Highlights

Well poised to benefit from rosy macro outlook. We like FJB for its exposure to the Asian consumer retail segment and we believe it is well poised to benefit from increasing retail spending in the region. FJB is likely to reap the rewards of surging tourist spending in Singapore with its line-up of retail stores in Orchard Road and Marina Bay Sands.

Strong stable of renowned brands and reliable track record. FJB has exclusive distribution rights in the region for a range of world renowned brands and a reliable 30-year record in brand management and retailing. FJB constantly strives to increase its portfolio of brands with Givenchy, Dewitt and Goyard its latest additions. Management selects new brands based on two criteria: a) brands must be scalable, and b) brands must produce positive synergies with existing portfolio.

HOLD



Share Price	S\$0.385
Target Price	S\$0.425
Upside	10.4%

Stock data

GICS sector	Consumer Discretionary
Bloomberg ticker:	fjb sp
Shares Issued (m):	568.7
Market Cap (S\$m):	219.0
Market Cap (US\$m):	171.7
3-mth avg t'over (US\$m):	0.4

Price Performance (%)

52-week high/low	S\$0.47 / S\$0.265			
1mth	3mth	6mth	1yr	YTD
-7.2	-7.2	15.1	43.9	-9.4

Major Shareholders

	%
Lim Peter	17.6
Segulah Pte Ltd	16.2
Raffles Investments Ltd	11.0



Source: Nextview

Analyst

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The full potential of FJB will be unlocked through RAOUL. FJB currently operates 20 RAOUL stores in Asia and the brand contributes approximately 10% of group revenue. We believe the true potential of RAOUL lies in the huge US and European markets where FJB sells its RAOUL products to departmental and specialty stores. If RAOUL is able to gain acceptance in these markets, it could grow to a S\$400m business in 5-10 years' time. However, we opt to take a cautious stance and avoid pricing in too much optimism given that: a) we have yet to see solid evidence of brand acceptance, and b) we believe RAOUL is still a number of years away from gaining regional prominence.

Initiate coverage with a HOLD and target price of S\$0.425. We believe our target price fairly reflects FJB's existing brand distribution and management business. However, there could be added value if RAOUL manages to take off bigger and faster than expected.

Valuation

Relative valuation (RV) using sector PEG multiple implies a fair value of S\$0.40. Our relative valuation methodology is based on a target PEG multiple of 0.9x, at a 10% discount to FJB's sector average given that: a) FJB has a smaller market capitalisation than its peers, and b) FJB has a considerably smaller retail network with 165 stores (planned by end-FY11) compared with 410 for Trinity, over 1,900 for Giordano and 1,100 for Esprit. Using our expected EPS growth of 19.5% between FY11 and 12, our target FY11 PE is 17.6x, which implies a fair value of S\$0.40.

Peer Comparison

Company	Ticker	Share Price (S\$)	Market Cap (S\$b)	PE FY11F (x)	PEG FY11-13F (x)	P/B FY11F (x)
ESPRIT HLDGS	330 HK	6.57	8.5	13.8	1.2	2.9
TRINITY LTD	891 HK	1.18	2.0	26.0	0.9	4.7
PORTS DESIGN LTD	589 HK	3.36	1.9	16.6	0.8	5.3
GIORDANO INTL	709 HK	0.72	1.1	12.5	1.8	2.8
I.T LTD	999 HK	0.88	1.1	18.2	0.6	3.4
RAMAYANA LESTARI	RALS IJ	0.11	0.8	12.0	0.7	1.9
Sector Average				16.5	1.0	3.5
FJ BENJAMIN	FJB SP	0.385	0.2	17.0	0.9	1.6

Source: Bloomberg, UOB Kay Hian

PEG ratio computed using FY11 PE and consensus EPS growth (CAGR) between FY11-12

Our target price of S\$0.425 is based on the average of our DCF and RV methods. Our DCF model assumes a 9.2% CAGR of after tax net operating income for FY11-15 and 6-8 annual net store openings. We also assume 7.4% WACC based on a constant 0.2x debt to firm value and 1% terminal growth to arrive at our DCF-derived fair value of S\$0.45. Our target price is computed by using the simple average of our DCF- and RV-derived fair values.

Valuation: Free Cash Flow Assumptions

(S\$m)	2011F	2012F	2013F	2014F	2015F
EBIT(1-T)	12.8	15.3	16.7	17.6	18.2
-Inc in Working Capital	(2.8)	(1.8)	(1.9)	(1.9)	(1.9)
-Capex	(4.0)	(4.8)	(4.8)	(4.8)	(4.8)
+Depreciation	8.5	7.0	6.2	5.7	5.3
Free Cash Flow	14.5	15.7	16.2	16.6	16.9
Terminal Value					268.3

Source: UOB Kay Hian

Valuation: Key Inputs

Fair Value Calculation		Discount Rate Inputs	
NPV, S\$m	252.7	Cost of Debt, %	2.7
Net Cash, FY11E S\$m	5.9	Risk Free Rate, %	2.7
Fair Value of Equity, S\$m	258.6	Equity Risk Premium, %	5.0
No. of Shares, m	568.7	Beta	1.2
Fair Value per Share, S\$	0.45	Cost of Equity, %	8.5
		Debt to Firm Value, %	20.0
		WACC, %	7.4
		Terminal Growth, %	1.0

Source: UOB Kay Hian

Industry Outlook

Proxy to Asian fashion and apparel sales growth. Asia's retail market rebounded strongly in 2010, buoyed by strong economic recovery and government incentives to encourage spending. According to a PWC study, the outlook for Asian retail sales remains positive, with the region's growth expected to be at 6% between 2010 and 2014, 2-3ppt higher than the global average. Total retail sales in Asia and Australasia would reach US\$6t in 2011, well above US\$3.9t in North America and US\$2.5t in Western Europe. Fashion and apparel demand, a key component of retail sales, is also expected to grow 4-5% annually between 2010 and 2014.

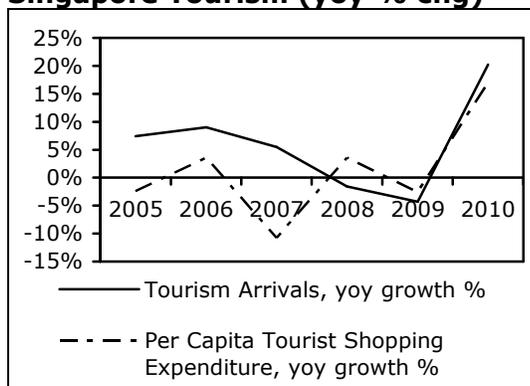
Fashion And Apparel Market Size (yoy % chg)

Region	2009	2010	2011F	2012F	2013F
Asia & Australasia	2.0	4.9	4.7	5.2	5.4
Hong Kong	(2.4)	3.6	3.4	3.1	2.9

Source: EIU, PWC

To benefit from surge in Singapore tourism industry. Tourism arrivals in Singapore grew 20% yoy to 11.6m in 2010, buoyed by the opening of two integrated resorts (IR). Tourism receipts also grew 49% yoy to S\$18.8b, which resulted in a 17% yoy growth in tourist shopping expenditure. For 2011, we expect a 10% growth in arrivals to 12.8m, driven by the next phase of developments in IRs and new attractions like Gardens by the Bay and River Safari at Mandai. We believe FJB is well poised to benefit from increased tourist shopping expenditure with a line-up of stores in the prime tourist belt of Orchard Road and Marina Bay Sands.

Singapore Tourism (yoy % chg)



Source: STB

Earnings Outlook

We expect 8.7% CAGR in R&D revenue for FY10-13, assuming 6-8 net store openings annually, which will also translate into a 4% CAGR in total store area for FY10-13. By 2013, we expect total store area to exceed the pre-crisis peak of 378,135sf (includes Indonesian stores which are accounted for under associates). Store productivity, measured as annual revenue psf, is also expected to recover to pre crisis levels of S\$1,050psf on the back of strong retail sales growth in Asia.

Timepiece and Licensing segments will also see healthy growth. We assume 5% revenue CAGR for the Timepiece segment, accounting for possible product range expansion, and a doubling in revenue for the Licensing segment by FY13. The Licensing segment could outperform our growth expectations and may be a share price catalyst if RAOUL begins to gain broad acceptance in the US and Europe.

Revenue and Store Area By Segment

Year to 30 Jun (S\$m)	2008	2009	2010	2011F	2012F	2013F
Total store area, sf	338,511	378,135	348,415	353,000	371,950	389,150
Annual rev psf, S\$	1,036.0	892.0	902.0	950.0	1,050.0	1,050.0
R&D rev, S\$m	226.3	203.4	197.0	202.4	238.3	253.2
Timepiece rev, S\$m	113.4	94.3	91.5	96.1	100.9	105.9
Licensing rev, S\$m	2.7	2.2	0.8	0.5	1.0	1.5
Total rev, S\$m	342.4	299.9	289.3	335.4	390.5	408.6

Source: FJB, UOB Kay Hian

Financials

Clean balance sheet with expected net cash position. We like FJB for its clean balance sheet after its recent divestment of non-core assets. As a result, we expect FJB to have a net cash of 1 cent/ share at end-FY11. We also expect its interest coverage to improve from 2.8x in FY09 to 8.6x in FY11.

We expect net profit to double to S\$16.9m by FY13. Barring any unforeseen increases in rental and staff costs, we expect net profit to double from S\$8.3m in FY10 to S\$16.9m in FY13. Net margin is also expected to revert to pre-crisis levels of 4% by FY13.

Key Financials

Year to 30 Jun (S\$m)	2009	2010	2011F	2012F	2013F
Net turnover	299.9	289.4	335.4	390.5	408.6
Gross profit	118.6	119.3	139.4	164.3	172.2
EBITDA	14.2	12.7	24.3	25.8	26.7
EBIT	5.5	5.1	15.8	18.7	20.5
Net profit	(2.7)	8.3	12.9	15.4	16.9
EPS (S cent)	1.4	2.2	2.3	2.7	3.0
P/E (x)	27.5	17.5	17.0	14.2	13.0
P/BV (x)	1.7	1.6	1.6	1.6	1.5
EV/EBITDA (x)	16.8	19.3	9.9	9.1	8.6
Dividend yield (%)	2.9	1.3	4.1	4.9	5.4
Net margin (%)	(0.8)	2.9	3.8	3.9	4.1
Net debt/(cash) to equity (%)	0.1	(0.1)	(0.0)	(0.1)	(0.1)
Interest cover (x)	2.8	2.9	8.6	10.3	11.3
ROE (%)	(2.0)	6.1	9.5	11.2	11.9
Consensus net profit			12.1	15.7	19.6
UOBKH/Consensus (x)			1.1	1.0	0.9

Source: FJB, Bloomberg, UOB Kay Hian

Risks

Loss of brand distribution rights. Brand distribution rights are usually agreed for a number of years and may not be extended after the contract term. Distribution rights for GAP are due for renewal in 2011 and management is confident of extending the existing agreement.

Currency risk. FJB is exposed to currency fluctuations arising from sales and purchases made in foreign currencies. The group has major exposures to the US\$, CHF, baht and HK\$. However, FJB seeks to maintain a natural hedge by matching assets and liabilities in the same currency and engages in foreign currency forward contracts where appropriate.

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