

Consumer

Update

Key Takeaways from China Visit

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Our View on Highlighted Companies

Company	Rating	Current Price (Jan 17)	Target Price
Belle (1880.HK)	BUY	HK\$10.14	HK\$13.78
Li Ning (2331.HK)	BUY	HK\$25.60	HK\$33.53
Parkson (3368.HK)	Not Rated	HK\$77.90	N.A
LGH&H (051900.KS)	BUY	W186,500	W252,000
AmorePacific (090430.KS)	BUY	W668,000	W1,180,000

A reality check During our retail-focused company visits and field studies in China last week, we found that the Chinese market prospers thanks to exceedingly dynamic conditions: 1) competition is greater than ever before, especially in the hypermarket business, despite stellar growth of the Chinese consumer sector; 2) questions surrounding the pace of expansion and how operating leverage or economy of scale should be executed by players; and 3) M&As as a quick way to increase market share for aggressive players.

Top Picks After meeting with various companies, like **Parkson** (3368.HK), **Lianhua** (980.HK), **Jingkelong** (8245.HK), **Shinsegae** (004170.KS), **LotteShopping** (023530.KS), our preferences are: 1) department store operators over hypermarket player; 2) foreign players over local players; and 3) high-end brand companies over mass-market players.

Stock Idea 1) Premium department store operators, like **Parkson** among Chinese retailers; 2) manufacturer with its own distribution and strong brands, like **Belle International** and **Li Ning**; and 3) makers of expanding high-end products, like **LGH&H** and **AmorePacific**.

Company Visit

Parkson Retail Group (3368.HK)

Our View on Highlighted Companies

Company	Rating	Current Price (Jan 17)	Target Price
Parkson (3368.HK)	Not Rated	HK\$77.90	N.A

Shopping with National Brands

We believe Parkson distinguishes itself as a national department store operator. It has an extensive distribution network of 41 “Parkson” department stores in the PRC with upper- to middle-upper market positioning covering 26 major cities. About 30% of gross sales proceeds are from Beijing and Shanghai while the contribution from stores in second- and third-tier cities continue to increase.

Parkson envisions itself growing rapidly through organic growth: rate of 5-6 new stores per year and total of around 80 stores over the next 5 years. It also plans to acquire 1-2 stores each year from competitors, focused particularly on regions where Parkson can rapidly gain entry into those new markets. Also, Parkson plans to acquire further interests from stores that it manages for the parent group and other third parties.

We are in the process of finalizing the earnings forecasts for Parkson. Overall, we are positive on Parkson’s strong brand equity, management track record, and extensive distribution network. We believe Parkson has got most of the right ingredients to be the national leader.

Company	Ticker	Market Cap (HK\$ bn)	Historic P/E (x)	Consensus FY07E P/E (x)	Consensus FY08E P/E (x)
Parkson	3368.HK	43.4	87.2	59.8	41.5
Golden Eagle	3308.HK	15.6	61.3	45.8	32.9
Lifestyle	1212.HK	34.1	39.4	35.3	33.2
InTime	1833.HK	14.0	48.0	35.7	27.6
New World Department Store	825.HK	16.0	1.9	42.6	29.1
Lianhua Supermarket	980.HK	6.5	24.8	22.0	17.9
Jiahua Stores	602.HK	0.9	10.8	NA	NA
Jingkelong	8245.HK	2.5	15.9	19.4	13.5
Wumart	8277.HK	6.7	22.2	20.3	16.0