



International Housewares Retail (1373 HK)

Hong Kong discount retailer at half the global peer group multiple



Disclaimer



This is neither a recommendation to purchase or sell any of the shares, securities or other instruments mentioned in this document or referred to; nor can this presentation be treated as professional advice to buy, sell or take a position in any shares, securities or other instruments. The information contained herein is based on the study and research of Delante Media and are merely the written opinions and ideas of the author, and is as such strictly for educational purposes and/or for study or research only.

This information should not and cannot be construed as or relied on and (for all intents and purposes) does not constitute financial, investment or any other form of advice. Any investment involves the taking of substantial risks, including (but not limited to) complete loss of capital. Every investor has different strategies, risk tolerances and time frames. You are advised to perform your own independent checks, research or study; and you should contact a licensed professional before making any investment decisions.

The author makes it unequivocally clear that there are no warranties, express or implies, as to the accuracy, completeness, or results obtained from any statement, information and/or data set forth herein. The author, shall in no event be held liable to any party for any direct, indirect, punitive, special, incidental, or consequential damages arising directly or indirectly from the use of any of this material.

Summary



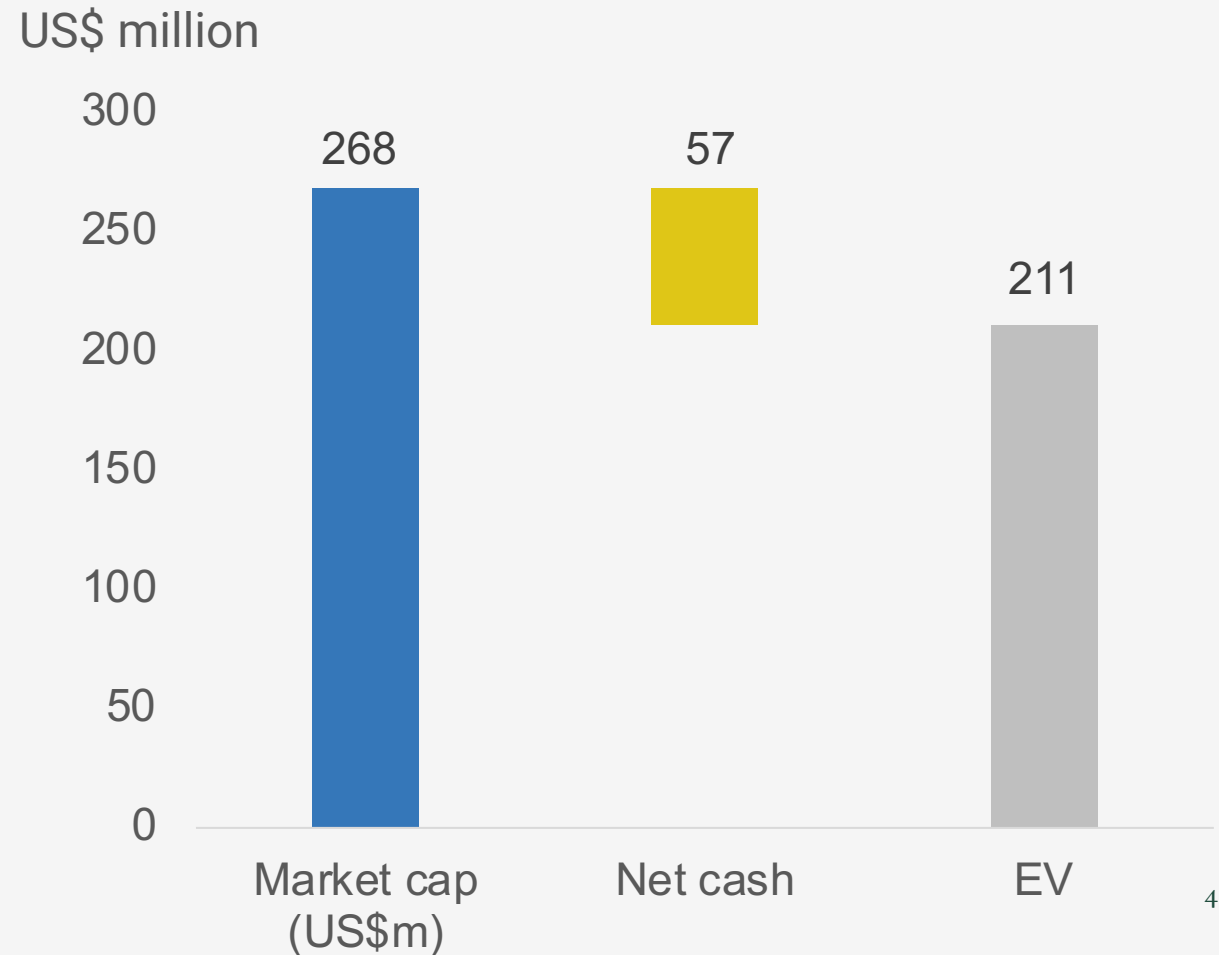
1. International Housewares Retail (“IH Retail”) is a Hong Kong-based discount retailer run by two high calibre Hong Kong entrepreneurs. Its 380 shops sell home products, mostly under the “Japan Home Centre” brand name. It originally started as a dollar shop but has moved on to becoming a one-stop shop for housewares, but with products still selling at highly discounted prices.
2. In my experience, their products are shockingly cheap, thanks to their strong bargaining power with suppliers and high proportion of private label goods at around 40%. The fact that the products are so cheap also helps protect them against online competition, where delivery costs can easily exceed the price of the item.
3. IH Retail’s growth has primarily come from same-store sales of around 5% per year. The growth in the store count has been slower at around 2% per year, mostly driven by the Hong Kong government’s housing plans. If they follow through on their plans to build affordable housing for millions of people in New Territories, IH Retail would be a prime beneficiary. IH Retail’s success in its overseas markets has been mixed, but the potential remains.
4. I believe IH Retail’s profits will drop somewhat now that Hong Kong is finally healing from the COVID-19 pandemic. It has sold face masks and rapid antigen test kits from 2020 onwards, high-margin e-commerce sales boomed and the company also benefitted from government subsidies in Hong Kong in Singapore. So clearly, profit margins will come back a bit.
5. But even at a 7% margin, you’re looking at a P/E of 11.1x by 2025. The dividend yield is likely to be around 8% per year thanks to a generous dividend pay-out ratio. The global dollar store peer group trades at roughly twice that multiple. That could be the reason why IH Retail’s two co-founders keep buying shares in the open market at close to the current share price.
6. There are some minor related party transactions with regards to office space rentals. But the main risk is really a short-term drop in profits post-COVID-19 which is likely to play out in the next year or so.

IH Retail has a huge net cash position (ex-operating leases)



- Share price: HK\$2.90
- Shares outstanding: 724 million
- Market cap: US\$268 million
- Net cash: US\$57 million
- Enterprise value: US\$211 million

- Average daily trading volume: US\$100,000



* HK\$ = Hong Kong Dollar. USD/HKD = 7.83

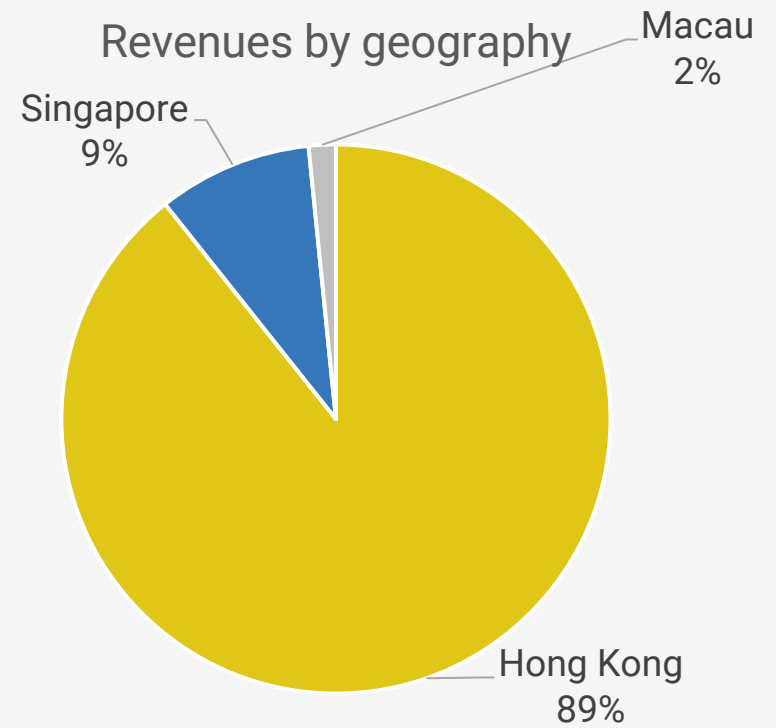
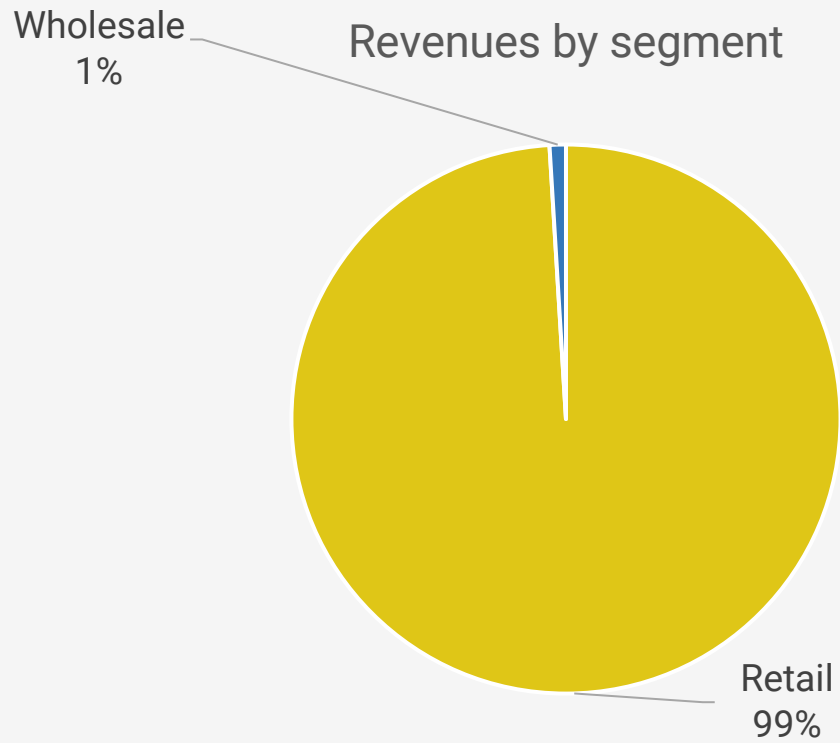
Business overview



- International Housewares Retail (“IH Retail”) (1373 HK) is a Hong Kong-based discount retailer, focusing on houseware items under the Japan Home Centre brand name with a claimed ~50% market share for specialty housewares stores in Hong Kong.
- The company began as the Hong Kong version of a Dollar Store, selling all items at uniform prices of HK\$10 (~US\$1). But over time, the stores have instead become one-stop shops for housewares, at deeply discounted prices.
- The company now has 380 stores in total, most of which in Hong Kong, Singapore and Macau, selling >20,000 SKUs.
- IH Retail also runs a wholesale business, serving hospitals, schools, hotels, etc. with houseware items. But this segment represents just 1% of total revenues.



Segments



IH Retail's store network is mostly centred around HK/SG



Macau
• Japan Home: 9 stores

Singapore
• Japan Home: 46 stores



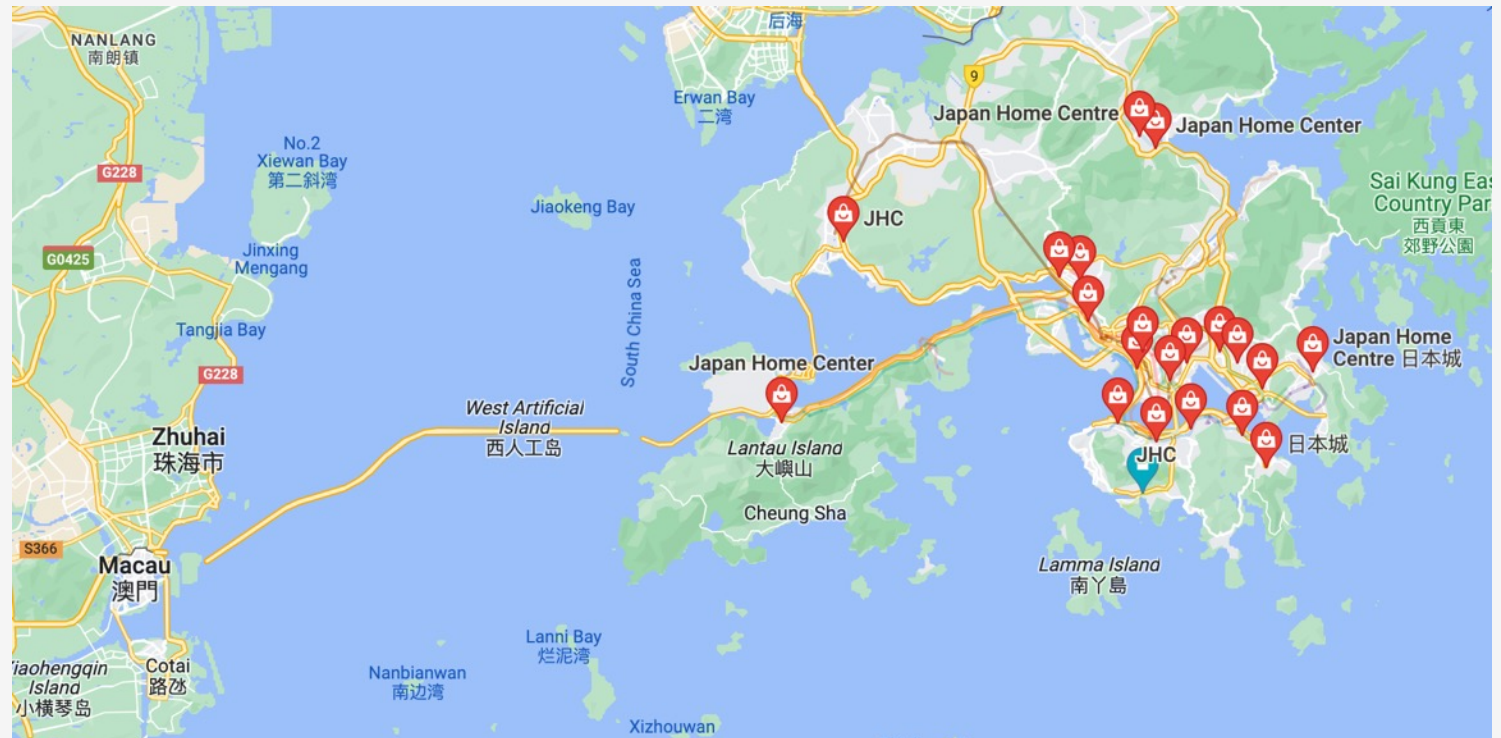
Hong Kong
• Japan Home: 272 stores
• 123 by Ella: 33 stores
• City Life: 4 stores
• Smart / Day Day Store: 11 stores

Philippines, Saudi Arabia etc.
• Japan Home: 6 franchisee stores

The Hong Kong & Macau store network



- In Hong Kong, IH Retail operates fully on its own with no JV partners and no franchised stores. It offers four main store concepts:
 - **Japan Home Centre (日本城):** Sales of low-priced houseware items. It was traditionally a dollar store, but now simply sells items at cutthroat prices. The products have been likened to a cross between IKEA and Daiso.
 - **123 by Ella:** Also sells housewares products, though with more of a trendy focus.
 - **City Life:** Also sells housewares products, with less of a Japanese design.
 - **Smart (多來買):** A store with snacks and other fast-moving consumer goods.
- The company has 320 stores in total, out of which 272 are Japan Home Centre stores. As well as e-commerce website JHC eShop.



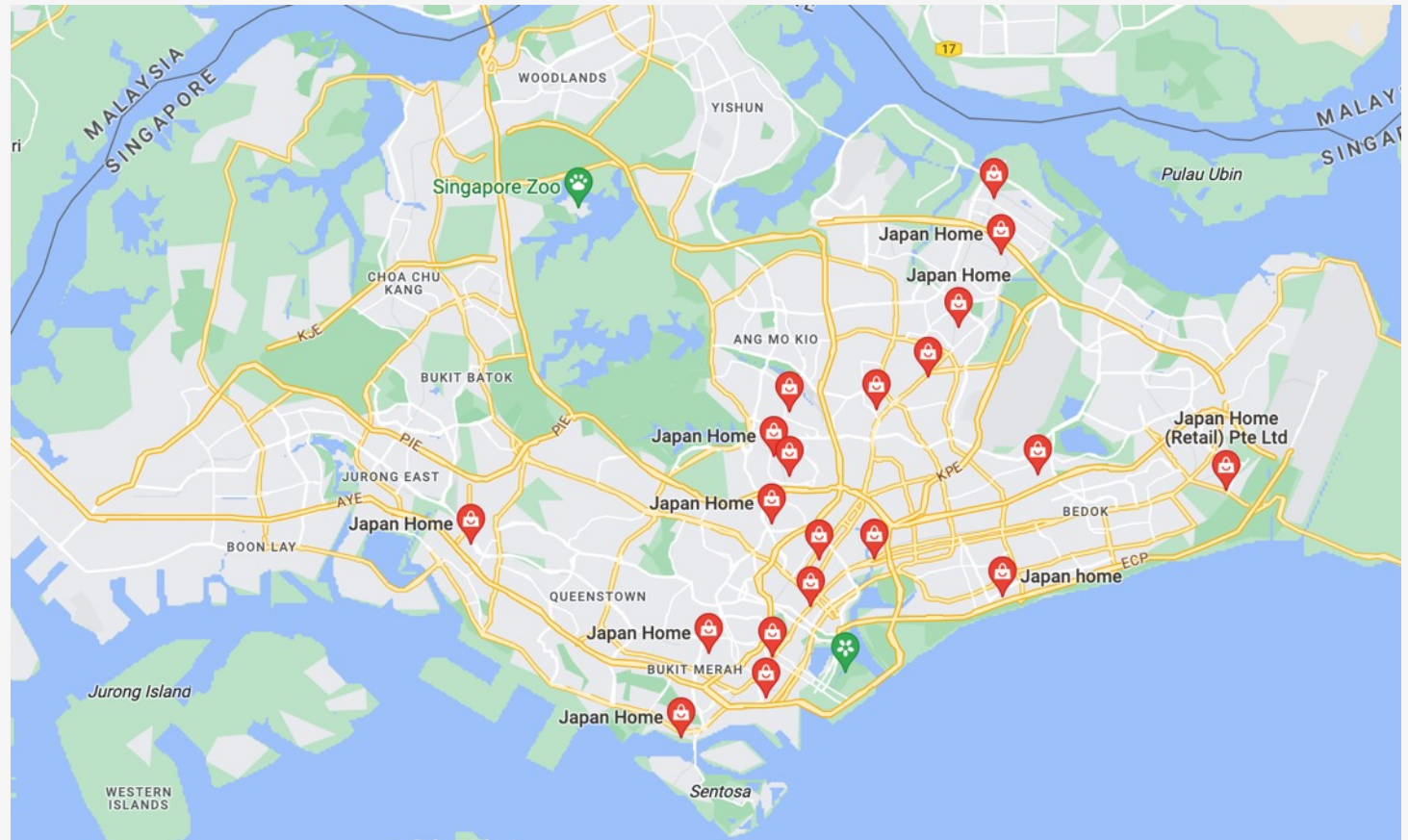
A typical Japan Home Centre store in Hong Kong



The Singapore store network



- In Singapore, IH Retail operates through a 60% owned joint venture with a local partner.
- All of them are under the Japan Home Centre brand name. There are currently 46 stores at present, spread across the central and eastern parts of the city-state.
- The stores are in shopping centres and residential complexes, with similar store layouts as the stores in Hong Kong.
- E-commerce operations are done on Japan Home Centre's own website as well as on 3rd party platforms such as Lazada & Shopee.



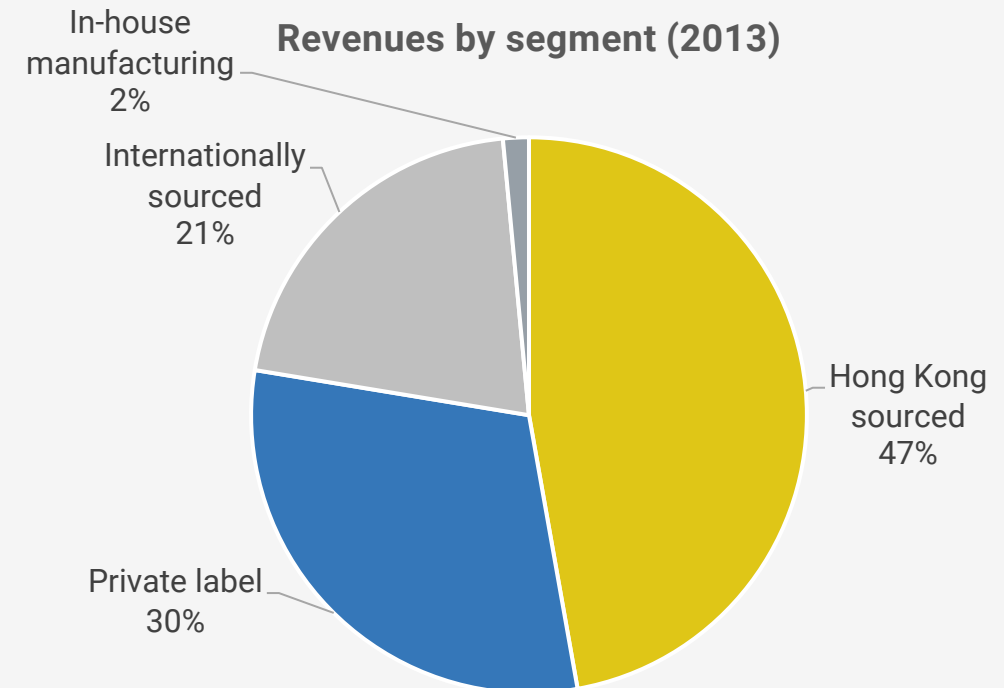
A typical Japan Home Centre store in Singapore





Sourcing of products

- At the time of the IPO in 2013, IH Retail stated that it sourced products from 650 suppliers across 13 regions. Most products are branded, sourced from distributors within Hong Kong or overseas.
- The private label products come from over 250 manufacturers. IH Retail enters into agreements with each of these manufacturers, specifying the design and quantity.
- To coordinate the supply, IH Retail set up a logistics centre in Shenzhen which handles manufactured products sourced from different regions in China.
- Back at the IPO the share of products under private label was 30%. But in 2020, IHR Retail disclosed that it had then reached 40%.



Japan Home Centre has average Google review scores of 3.6, with many pointing out how cheap the products are

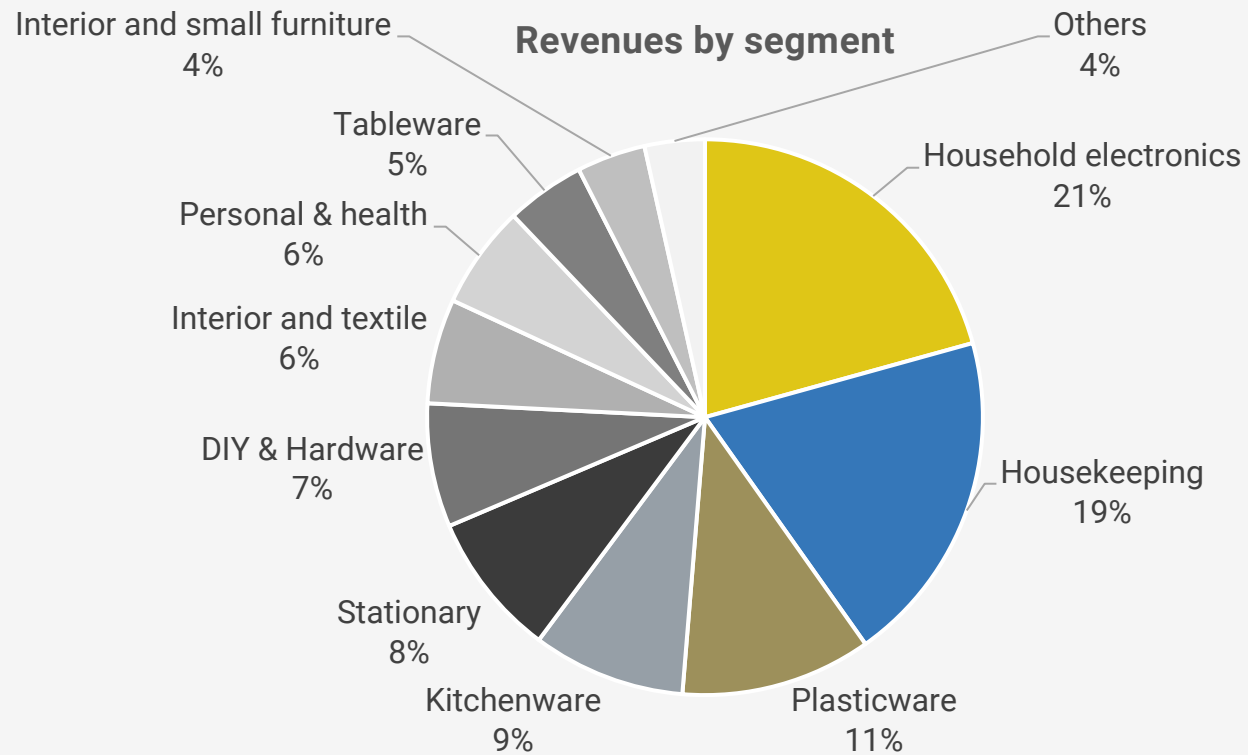


- *"Another good buy cheap goods. Japan home has smaller store compare to Vulu \$ but has more variety products & choices. Price are quite reasonable. Quality of product varies to prices."*
- *"Pretty good quality stuff. Matsusho brand blender is a tiny power house"*
- *"It's ok lah, but items are getting more expensive and less reliable."*
- *"Decent price, can visit this place. \$1 products are available"*
- *"Nice utilities shop. Got some good collections and items that are only available here. Crowded during evenings, but busy during other timings. Glass jar/items are good and useful. Sometimes, promo sales happen, you pick items much cheaper."*
- *Most of the goods are cheaper than other stores.*
- *It's worth visiting, there are unexpected rewards.*
- *somewhat messy and disorganised shop but lots of good deals to be found plus variety of useful home accessories. Great for visitors and short, mid term stay folks needing some home equipment and don't want to spend too much. my first port of call!*
- *You can find all the home goods, the best part is u can buy electronic items to soap and in quite a reasonable price from lamp to electric cooker soaps to towel ..list goes on ...*
- *I often think that the 🇯🇵 city that sells a lot of 🇨🇳 goods should be renamed 🇨🇳 city*
- *Household items, everything is available!*
- *💧 Inexpensive and high quality!! 🙌*

Products in a typical Japan Home Centre store include kitchenware, bedsheets, toys, stationary, food, electronics, etc.



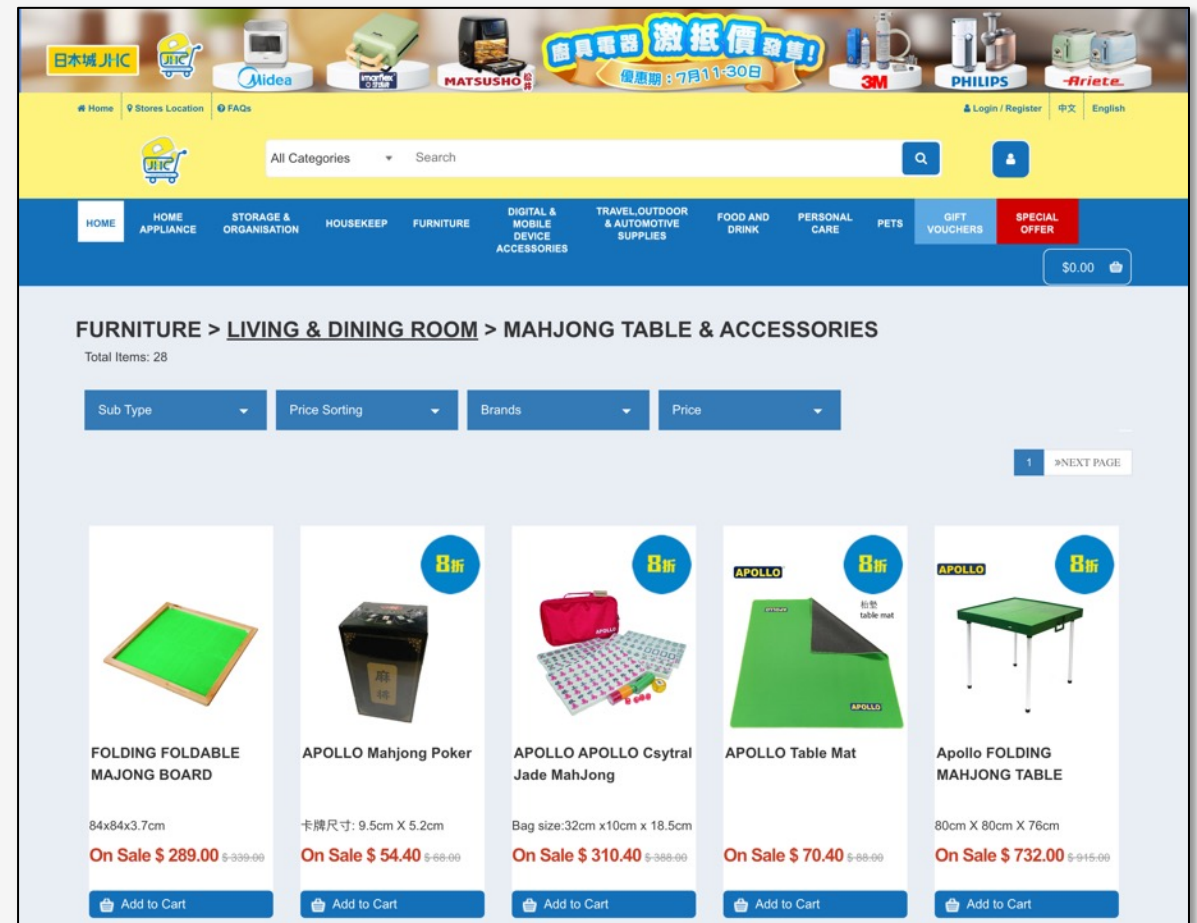
The product mix has historically been diverse (2013 numbers)



The Japan Home Centre website



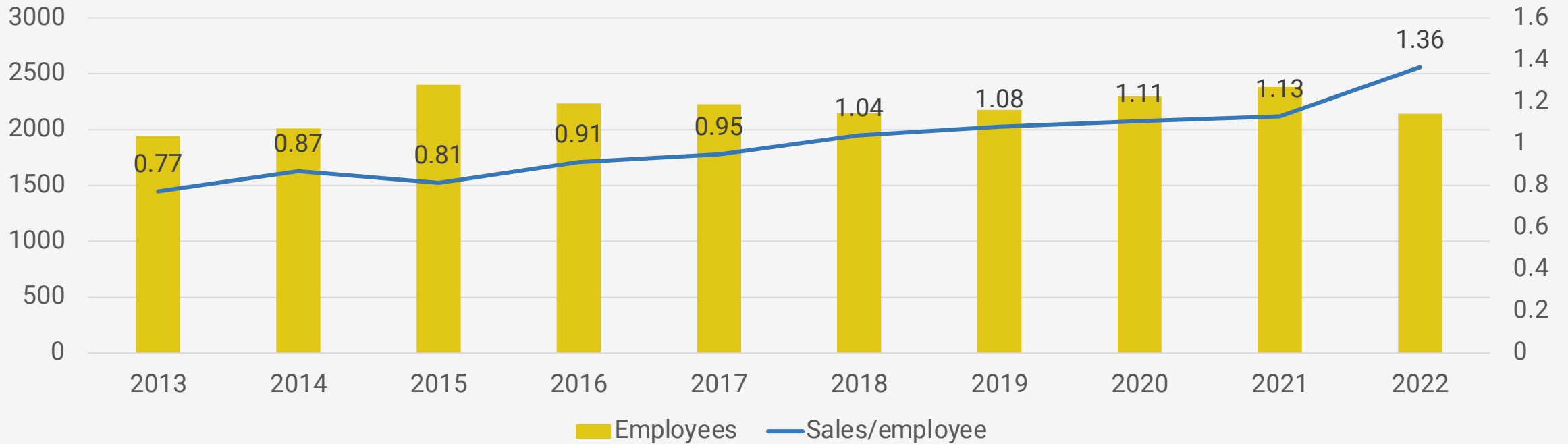
- Japan Home Centre also runs an e-commerce website in Hong Kong called JHC eShop.
- The user interface looks bare, but the website is functional and prices generally attractive.
- According to the latest investor presentation, IH Retail are now working on a revamp to improve the website further.
- Japan Home Centre is co-operating with Foodpanda for fast home delivery of items in the Hong Kong warehouses.



The employee count hasn't grown much yet sales keeps going up thanks to solid same-store sales



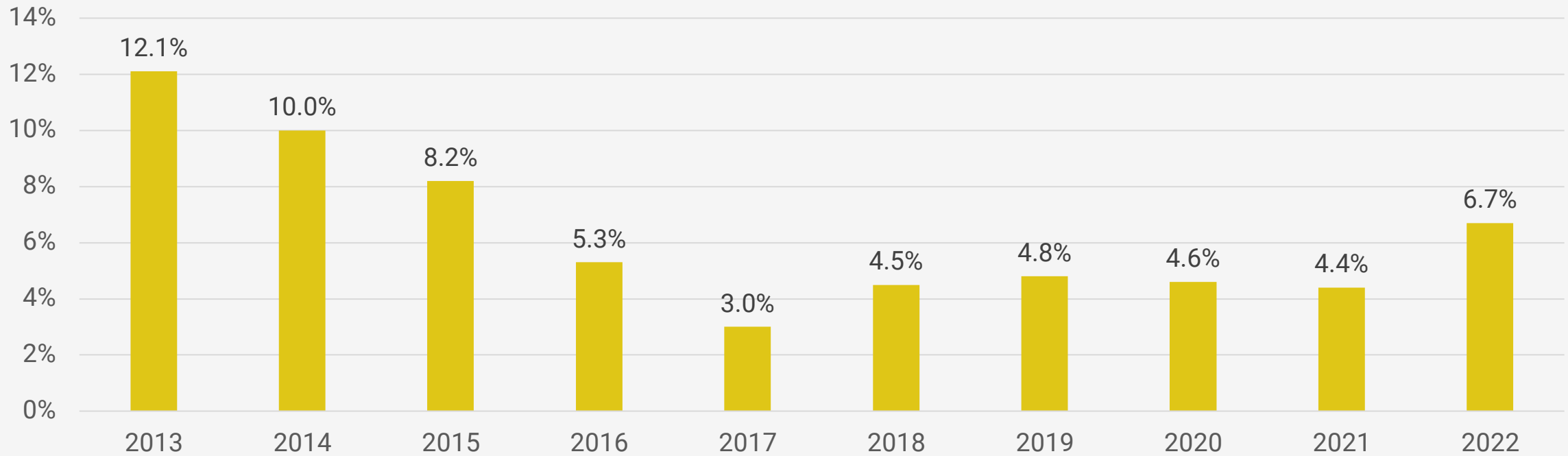
IH Retail sales per employee



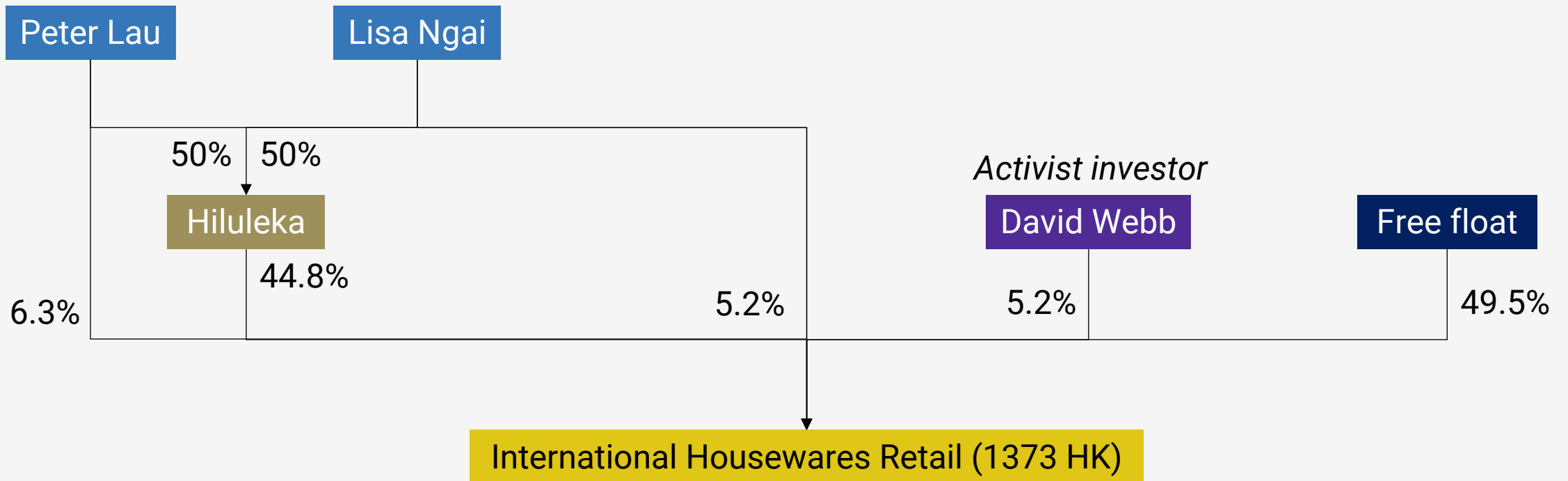
IH Retail's has shown strong comparable store sales numbers



IH Retail: Comparable store sales



The two founders retain a controlling >50% stake in the company



History of the company



- The company was founded by Peter Lau and Lisa Ngai in **1991**. That same year, the first “Japan Home Centre” store opening that same year in North Point, Hong Kong.
- In **1993**, IH Retail established the first HK\$10 store in Hong Kong (almost equivalent to US\$1). This concept was inspired by American Dollar stores, offering high quality products at uniform prices of HK\$10 each.
- From **2001** onwards, the strategy of the company shifted from being a HK\$10 store to a housewares products specialist store. They wanted to create a store that would be a one-stop shop for any housewares needs and hence increased the product portfolio but with differences in price.
- In **2002**, IH Retail launched the City Life brand, a higher end houseware products store.
- In **2007**, it launched the Epo Gifts & Stationary store, focusing on students and young customers.
- In the year **2000**, IH Retail acquired major competitor Nippon Warehouse, which had 30 stores at the time. And in **2007**, it acquired Quality Housewares, with another 19 stores.
- In **2011**, IH Retail acquired a housewares retail chain in Singapore run by Chin Chain Yong with 17 stores for SG\$2.0 million.
- In **2010**, Lau and Ngai sold 40% of their shares to a private equity fund run by Sweden’s EQT for HK\$224 million.
- In **2013**, IH Retail went public through an IPO on the Hong Kong Stock Exchange, and the fund sold off its stake in the subsequent three years.
- In **2015**, Japan Home Centre launched its e-commerce site JHC eShop.
- In **2018**, the company launched Easy Buy kiosks for its stores, where customers can shop for all store-wide SKUs.

IH Retail continues to be run by its two original co-founders



Ms Lisa Ngai, Chairman & CEO

- Co-founder of IH Retail and Chairman & CEO since 2017
- Has been responsible for strategic plans and execution and M&A
- Breached mandatory general obligation of the takeover code in 2019 when she purchased over 2pp of IH Retail's shares without offering all shareholders the right to sell.
- Has been buying shares in the open market throughout 2022
- Owns race horses at Hong Kong Jockey Club
- Has an undergraduate degree from the Hong Kong Metropolitan University.
- Member of the CPPCC, a Communist Party Organisation



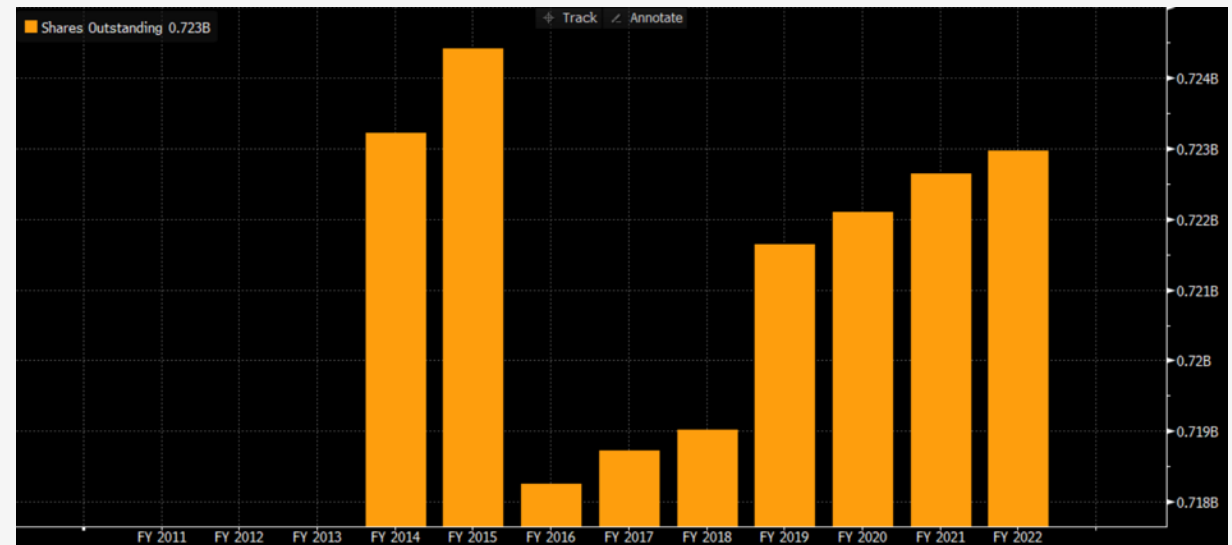
Mr Peter Lau, Executive Director

- Chairman until 2017 and now Executive Director, which includes involvement in corporate strategies and business development
- Ran a trading company in Hong Kong, including in housewares products throughout the 1980s before co-founding IH Retail in 1991.
- In recent years, he has been pushing Japan Home Centre's development outside of Hong Kong, including in Singapore and the Philippines
- Bachelor's Degree in Science from Queen's University, Canada
- Named Innovative "Entrepreneur of the Year" by City Junior Chamber in 1998 ²¹
- Has been buying shares in the open market throughout 2022

Capital allocation



- A fund run by Swedish private equity firm EQT took a 40% stake in IH Retail in 2010, and helped the company develop operationally. They sold shares in the IPO and got out completely in 2016.
- IH Retail's share count has been broadly stable since the IPO, save for occasional share buybacks.
- I cannot tell why the 10% share buyback in 2022 has not translated to a lower share count. Shares awarded to employees remain around 1%. I'm not seeing any Treasury shares either.
- The only acquisitions that have taken place have been strategic and sensible, in my personal view:
 - Nippon Warehouse in the year 2000
 - Quality Housewares in 2007
 - A Singapore chain of retail stores run by Chin Chain Yong in 2011, with another 15% stake purchased in 2020.



Shares outstanding

Effective	Action Type	Ticker / ID	Summary
01/02/20	Acquisition	1373 HK	Target: Japan Home Retail Pte Ltd, Sought: 15.00%
10/24/14	Acquisition	1373 HK	Target: business and assets of Union Way Trading Ltd, Sought: 100.00%
03/31/10	Acquisition	1071Z SS	Acquirer: EQT Partners AB, Sought: 40.00%

Competitive advantage



- **Brand:** Decades of market leadership has led to consumer mindshare and trust. In a survey conducted by Frost & Sullivan in 2013, over 99% of respondents in Hong Kong recognised the Japan Home Centre brand.
- **Supplier bargaining power:** IH Retail's high market share in Hong Kong provides the company with bargaining power against its suppliers. Other large competitors such as supermarkets (more food & beverages) and furniture stores (more big-ticket items) occupy other niches. Within the housewares retailing niche, the only major competitors are mom & pop housewares stores, who are unable to compete on price. But there is certainly an overlap with Japanese dollar store Daiso who also has strong bargaining power against suppliers.
- **Private label products:** Over time, Japan Home Centre began developing its own private label products, with most of the production across the border in mainland China. By doing so, it's able to retain a greater share of profits within the company.
- **Honest and competent management team:** The two co-founders continue to run the company on a day-to-day basis, surely preferable to most hired guns. They also seem honest and shareholder friendly.

IH Retail now has 25 private label brands with 1,800 SKUs, representing roughly 40% of total revenues

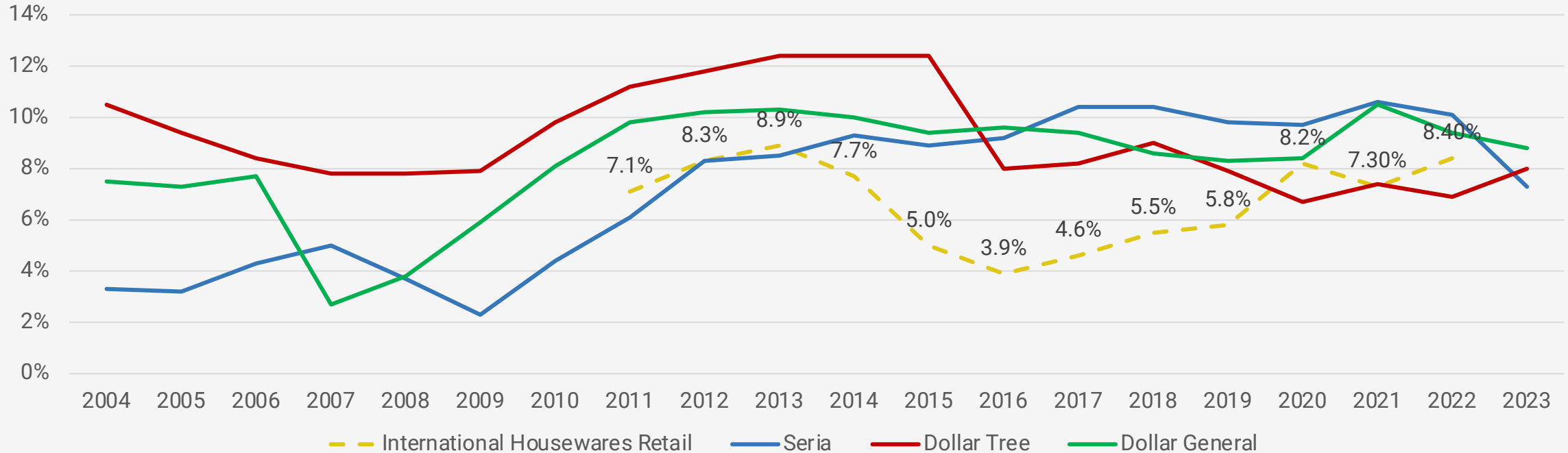


General Household Products 家居用品品牌	Kitchen & Cooking 廚房用品品牌	Electrical & Digital 電子產品品牌	Personal Care 個人護理衛生品牌	Food & Snack 食品品牌
 <p>Cleaning, hardware, small furniture, disposables, bathroom, storage, plastic-ware.</p>	 <p>Cookware, small kitchen gadgets</p>	 <p>Electrical appliances</p>	 <p>Protective masks</p>	 <p>Seasoning</p>
 <p>Small furniture, storage, tools, litter bin</p>	 <p>Upgraded Cookware</p>	 <p>Digital appliances</p>	 <p>Personal care, outdoor, travel, bath items</p>	 <p>Snack</p>
 <p>Cleaning</p>	 <p>Kitchen cling paper, Fresh-keeping bag</p>	 <p>Electrical Accessories</p>	 <p>Protective masks</p>	 <p>Snack</p>
 <p>Textile</p>	 <p>Thermos Products</p>	 <p>Watches and Clock</p>	Super Value Items 便價促銷品牌	Tea & Soup 茶包湯包品牌
 <p>Gardening</p>	Porcelain & Pottery 廚房陶瓷用品	Stationery 文具品牌		 <p>Tea</p>
  <p>Products manufactured at self-owned factory</p>	 		 <p>Pest control dehumidifier bag/box</p>	 <p>Herbal soup bases</p>

Operating margins



Operating margins

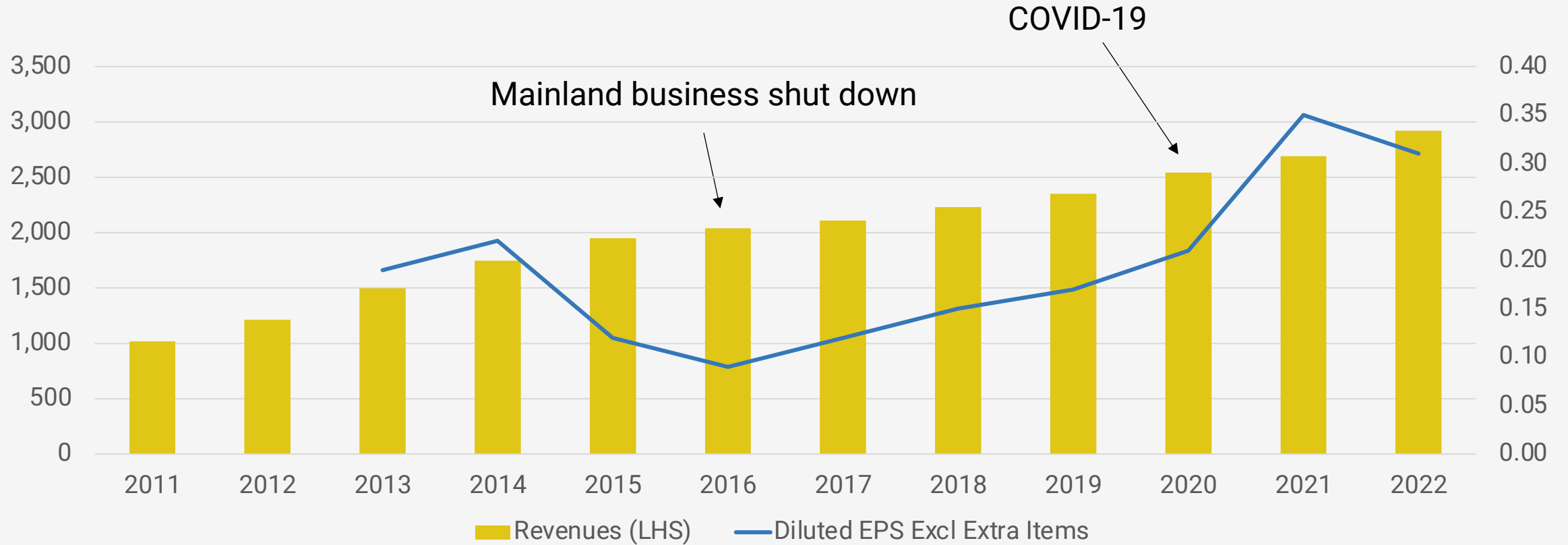




A weaker share price since the pandemic broke out



IH Retail has been a steady-grower

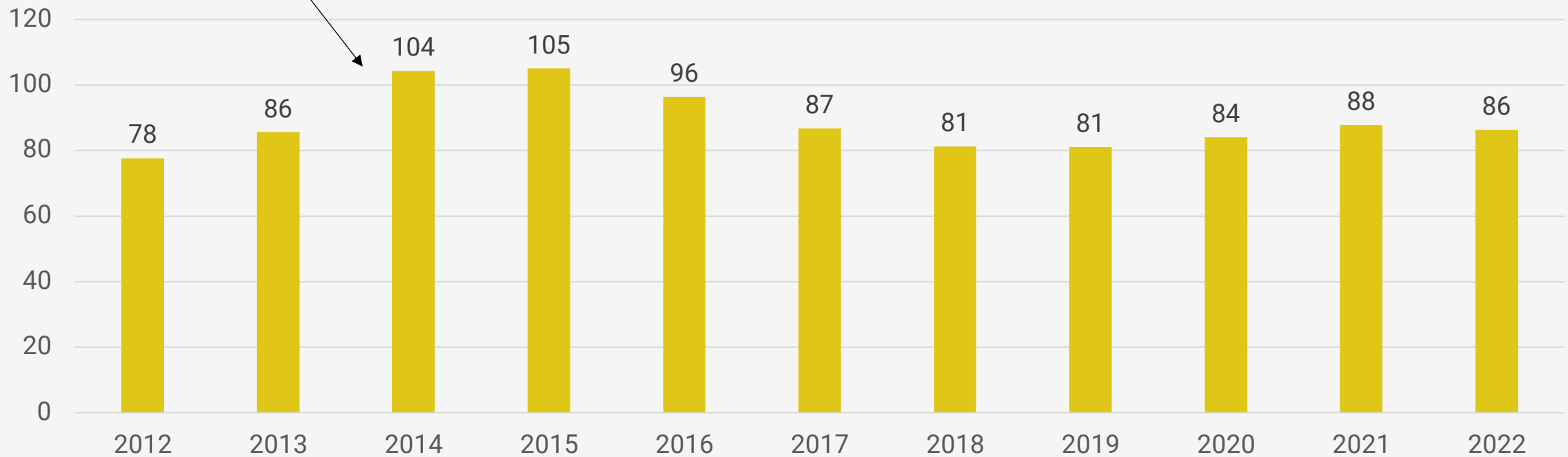


IH Retail's inventory days have been healthy in recent years



Potential earnings manipulation by overstating end-year inventory

Inventory days





Long-term industry trends

1. **Dollar store market share gains:** More and more consumers are moving to dollar stores to pick up necessities for those on a budget. The dollar stores are taking market share from department stores and mom & pop merchandise stores, which offer similar products but at much higher prices.
2. **E-commerce:** There's also a shift toward e-commerce in Hong Kong. Even though Japan Home Centre and its competitors Daiso have online platforms, offline discount retailer are doing well against online competition as the products are so cheap that paying for shipping doesn't make sense.
3. **Self-checkout:** To save money further, dollar stores around the world are adopting self check-out services including Japan Home Centre's EasyBuy.
4. **Affordable housing programs:** Hong Kong home prices are high, and the government seems to be resolved to solve the problem by building affordable housing, especially in the north. The plans is to build a "Northern Metropolis" of government-subsidised housing in New Territories close to Shenzhen, raising the population there from 1 million to 2.5 million. More households means more demand for housewares.
5. **Offshoring of production capacity:** Production costs in China are going up, and companies such as IH Retail are now moving their sights to supplier in other regions, including Vietnam.

What is going to change for IH Retail?



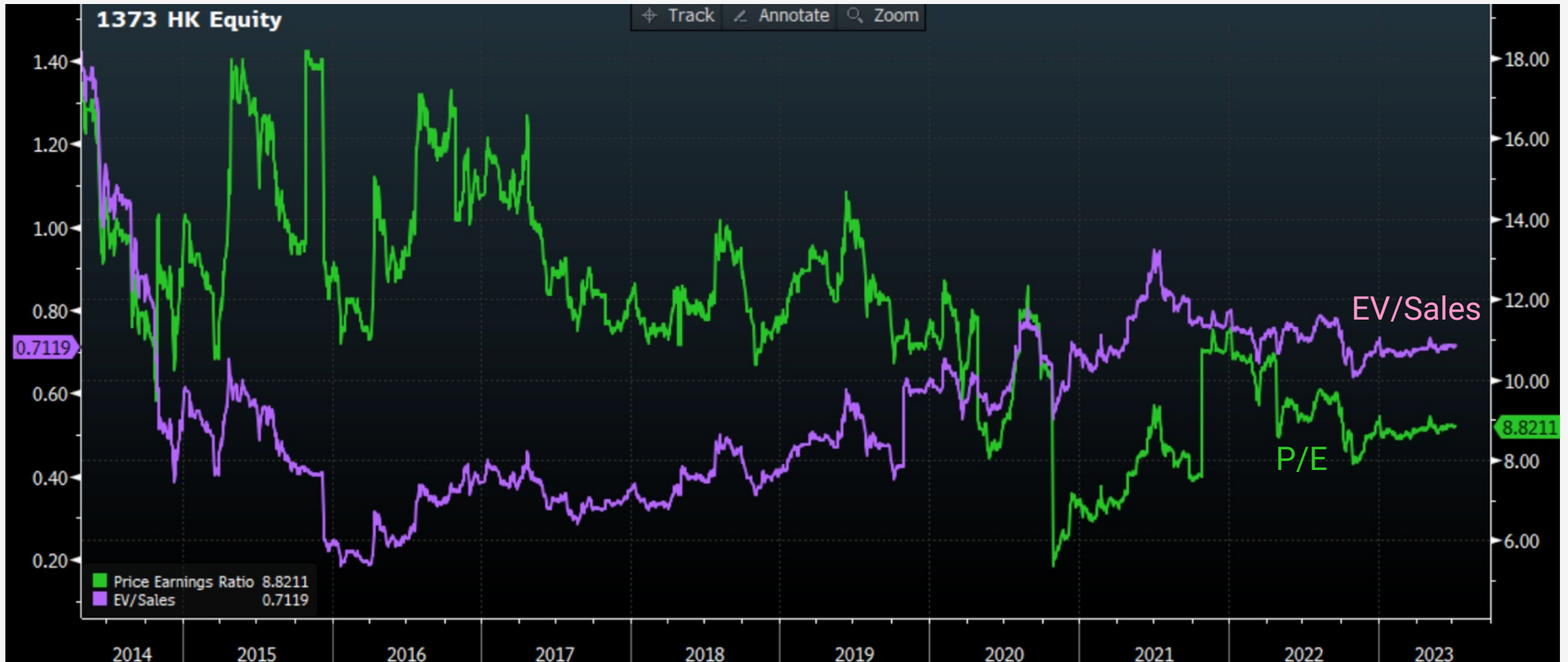
- 1. Convenience general merchandise stores:** In 2019, the company shifted Japan Home Centre's focus from housewares to a broader category of (convenience) general merchandise stores, which also includes fast moving consumer goods and personal car products. The snacks offering will be partly under a new brand called "Day Day Store". IH Retail also shifting online with its EasyBuy kiosks and JHC eShop. This shift has only just begun.
- 2. Post-COVID malaise:** It's clear to me that IH Retail benefitted significantly from the COVID-19 pandemic. For example, in 2020 it launched in-house mask factory and started selling rapid antigen test kits. E-commerce sales also accelerated from 2020 onwards as consumers purchased goods from the comfort of their homes. And finally, it received subsidies from the Hong Kong and Singapore governments, none of which will recur post-pandemic.
- 3. Store expansion:** The company plans for store expansion of about 2% per year, which should be added on top of same-store sales to get a sense of organic growth. In the latest investor presentation, IH Retail says it will follow the government housing plans to plan store openings. Capex on new stores will be around HK\$20 million.
- 4. Weak Renminbi:** The weak Chinese Yuan should be a tailwind for IH Retail since it purchases most of its goods on the mainland and gets paid in Hong Kong Dollar.



The Chinese Yuan is close to a record low against the HK Dollar



The stock trades at close to an all-time low in its 0.34x P/B



IH Retail trades at roughly half the peer group multiple



Discount retailers 2024e	Ticker	Region	Mkt cap (US\$m)	EV/Sales	EV/EBIT	P/E	Div yield
International Housewares Retail	1373 HK	Hong Kong	268	0.71x	7.1x	8.8x	8.3%
Seria	2782 JP	Japan	1,312	0.57x	9.2x	19.6x	2.9%
Pan Pacific International	7532 JP	Japan	12,363	1.04x	18.8x	22.3x	0.8%
Dollar Tree	DLTR US	United States	32,544	1.37x	22.4x	24.4x	0.0%
Dollar General	DG US	United States	36,983	1.39x	17.1x	16.7x	1.4%
CostCo	COST US	United States	238,414	0.92x	25.9x	35.0x	0.7%
Average ex-IH Retail			64,323	1.06x	18.7x	23.6x	1.2%
Median ex-IH Retail			32,544	1.04x	18.8x	22.3x	0.8%

Both Peter and Lisa have been buying shares in the past 1.5 years

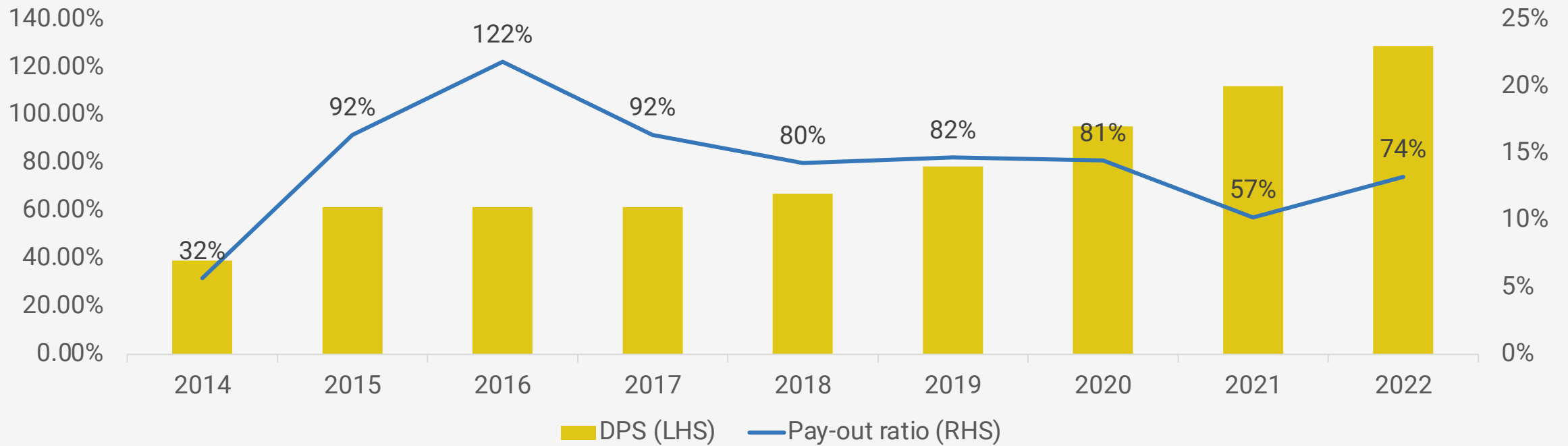


1373 HK Equity		25 Export		Settings		Security Ownership	
INTERNATIONAL HOUSEWARES RET ISIN KYG487291000							
1) Current 2) Historical 3) Matrix 4) Ownership Summary 5) Insider Transactions 6) Options 7) Issuer Debt							
Transaction Type		All Open Market Buy/Sell		Range 07/13/90 - 07/13/23		10 Chart 11 Table	
Shareholders		All					
Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)	Close Price	Volume	
12) 10/27/2022	1	Lau Pak Fai		230,000	2.6500	1.117MLN	
13) 10/26/2022	1	Lau Pak Fai		200,000	2.6000	1.248MLN	
14) 10/25/2022	1	Lau Pak Fai		250,000	2.6200	860,991	
15) 10/19/2022	1	Lau Pak Fai		150,000	2.6800	472,000	
16) 10/18/2022	1	Lau Pak Fai		200,000	2.6500	560,000	
17) 10/17/2022	1	Lau Pak Fai		176,000	2.6000	339,000	
18) 10/14/2022	1	Lau Pak Fai		200,000	2.5800	645,988	
19) 08/15/2022	1	Lau Pak Fai		250,000	3.0000	523,000	
20) 08/11/2022	1	Lau Pak Fai		250,000	3.0000	841,000	
21) 08/09/2022	1	Lau Pak Fai		135,000	2.9800	991,994	
22) 08/04/2022	1	Lau Pak Fai		150,000	2.9100	431,000	
23) 08/03/2022	1	Lau Pak Fai		250,000	2.9000	789,000	
24) 08/02/2022	1	Lau Pak Fai		119,000	2.9000	1.498MLN	
25) 08/01/2022	1	Lau Pak Fai		94,000	2.8600	1.196MLN	
26) 07/29/2022	1	Lau Pak Fai		200,000	2.9000	4.855MLN	
27) 05/25/2022	2	Ngai Lai Ha, Lau Pak Fai		349,000	2.9300	1.057MLN	
28) 05/24/2022	2	Ngai Lai Ha, Lau Pak Fai		673,000	2.9000	1.055MLN	
29) 05/23/2022	2	Ngai Lai Ha, Lau Pak Fai		275,000	2.8700	1.241MLN	
30) 05/20/2022	1	Ngai Lai Ha		500,000	2.8700	1.093MLN	
31) 05/19/2022	2	Ngai Lai Ha, Lau Pak Fai		600,000	2.8700	2.282MLN	
32) 05/18/2022	2	Ngai Lai Ha, Lau Pak Fai		533,000	2.8700	1.054MLN	
33) 05/17/2022	2	Ngai Lai Ha, Lau Pak Fai		498,000	2.8700	3.437MLN	
34) 05/16/2022	2	Ngai Lai Ha, Lau Pak Fai		510,000	2.8300	1.262MLN	
35) 05/13/2022	1	Lau Pak Fai		55,000	2.7800	1.413MLN	

An exceptionally generous dividend policy



IH Retail's dividend per share & pay-out ratio



Projection



IH Retail (1373 HK) (HK\$m) (FY end Apr)	2018	2019	2020	2021	2022	2023	2024	2025
Total revenues	2230	2350	2542	2692	2921	3125	3344	3578
Operating cost	-1187	-1270	-1358	-1476	-1586	-1688	-1806	-1932
Gross profit	1043	1081	1184	1217	1335	1438	1538	1646
Other income	13	15	29	134	51	13	13	13
Other loss - net	-2	2	-8	2	-5	0	0	0
Distribution and advertising	-57	-59	-64	-68	-75	-78	-84	-89
Administrative and other	-877	-901	-942	-980	-1028	-1125	-1221	-1324
Operating profit	121	139	199	305	278	248	247	246
Finance income	3	6	5	3	1	1	1	1
Finance expenses	-1	-1	-22	-20	-17	-17	-17	-17
Pretax profit	123	143	182	288	262	232	231	230
Income tax	-22	-25	-26	-30	-42	-39	-39	-39
Net profit	101	118	156	258	220	192	192	191
Net profit to minorities	4	1	-5	-3	-1	-2	-2	-2
NPAT to controlling shareholder	105	119	151	255	220	190	190	189
EPS (HK\$)	0.14	0.16	0.21	0.35	0.30	0.26	0.26	0.26
P/E	20.0x	17.6x	13.9x	8.2x	9.6x	11.0x	11.0x	11.1x
EV/pretax profit	17.4x	14.8x	11.7x	7.4x	8.1x	9.2x	9.2x	9.3x
Div yield	4.1%	4.8%	5.9%	6.9%	7.9%	7.7%	7.7%	7.6%

Potential downside risks



- **Post-COVID cliff in earnings:** For reasons detailed above, earnings are likely to drop short-term: lower sales of face masks, lower e-commerce sales and a lack of government subsidies.
- **Expansions gone wrong:** IH Retail's Mainland Chinese expansion in connection with the IPO did poorly and the initiative was later scrapped. It remains that case that IH Retail has done wonderfully in Hong Kong but not so much in other geographies. I therefore view Japan Home Centre's overseas ambitions with a sceptical eye.
- **Rent movements:** All stores are rented and movements in the rent level will affect the operating margin directly. Failures to renew tenancy agreements at attractive rates could therefore hurt the bottom line.
- **Related party transactions:** Chairman and CEO Lisa Ngai owns properties, and in FY2022, IH Retail paid HK\$36.9 million to properties owned by Lisa Ngai, roughly 13% of pretax profit. This number will go up to HK\$48 million by 2025. It's possible that such related party transactions could be done at off-market prices, though I have no evidence of any malfeasance.



Catalysts



- End of post-COVID slump in demand for masks & test kits
- Weaker RMB flowing through to profits
- Lower rental expenses as tenancy agreements are renegotiated
- Boom in the construction of affordable housing in Hong Kong

