

Singapore Company Focus

The Hour Glass Limited

Bloomberg: HG SP | Reuters: HRGS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Mar 2022

DBS is supported by the Research Talent Development Grant Scheme, which aims to groom research talent to expand research coverage of small-mid cap SGX-listed companies.

BUY (Initiating Coverage)

Last Traded Price (14 Mar 2022): S\$2.00 (STI : 3,232.03)

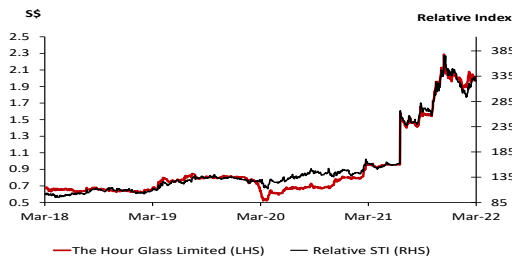
Price Target 12-mth: S\$2.62 (31% upside)

Potential Catalysts: Record FY22F earnings, frontloading of consumer purchases ahead of GST hikes, long-term retail boutique expansion

Analyst

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Price Relative



Forecasts and Valuation

FY Mar (\$m)	2021A	2022F	2023F	2024F
Revenue	743	1,003	953	1,013
EBITDA	159	201	198	213
Pre-tax Profit	110	159	152	161
Net Profit	82.5	119	114	121
Net Pft (Pre Ex.)	92.7	119	114	121
EPS (S cts)	11.7	17.1	16.3	17.3
EPS Pre Ex. (S cts)	13.2	17.1	16.3	17.3
EPS Gth (%)	9	46	(5)	6
EPS Gth Pre Ex (%)	22	30	(5)	6
Diluted EPS (S cts)	11.7	17.1	16.3	17.3
Net DPS (S cts)	6.00	8.00	8.00	8.00
BV Per Share (S cts)	96.6	108	116	126
PE (X)	17.1	11.7	12.3	11.6
PE Pre Ex. (X)	15.2	11.7	12.3	11.6
P/Cash Flow (X)	8.1	20.3	8.5	9.5
EV/EBITDA (X)	8.1	6.3	6.2	5.5
Net Div Yield (%)	3.0	4.0	4.0	4.0
P/Book Value (X)	2.1	1.8	1.7	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.1	15.8	14.0	13.7

Consensus EPS (S cts): 13.0
Other Broker Recs: B: 1 S: 0 H: 0

GIC Industry: Consumer Discretionary

GIC Sector: Retailing

Principal Business: The Hour Glass Limited ("Hour Glass" or the "Group") is mainly involved in sales and distribution of specialty and luxury watches. To date, the Group has 53 retail boutiques.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

It's About Time!

- Record FY22F earnings anticipated, due to strong consumer sentiment amid the 2021 bull market
- Frontloading of consumer spending ahead of GST hikes to support FY23F sales
- Healthy long-term industry outlook with four-year CAGR of 6%, driven by Asia's growing wealthy
- Initiate coverage with BUY with TP of S\$2.62, implying potential upside of 30%

Initiate with a BUY and TP of S\$2.62, offering a potential upside of 30%. We anticipate record earnings in FY22F, driven by the V-shaped recovery in the luxury goods industry in 2021. Over the longer term, we estimate the Group to add six retail boutiques, which should drive a firm earnings growth of 12% by FY25F.

Record-level sales anticipated in FY22F. The Group witnessed record earnings in 1H22 (six mths ending 30 Sept 21), with revenue and net profit rising 63% and 110% y-o-y, respectively. We believe this is supported by the bullish stock market in 2021, which drove consumer sentiment, and the shift in domestic spending from travel towards luxury goods. We anticipate this trend to continue in 2H22 on the back of seasonal demand and as consumption on luxury goods stays firm.

Key beneficiary of Asia's growing wealthy. We anticipate a potential moderation in sales in FY23F due to the volatile stock market, though frontloading of spending ahead of GST hikes could lend some support. Despite short-term headwinds, the longer term industry uptrend remains intact, driven by Asia's growing wealthy. We observe a positive correlation of 0.67 between the number of high-net-worth Individuals (HNWIs) in Asia and the Group's sales; that Asia's wealthy is growing should bode well for the luxury goods players, including Hour Glass.

Valuation:

Initiate with a BUY and TP of S\$2.62, using a blended valuation methodology of a forward PE ratio of 14.5x (peak ratio) and DCF valuation (WACC 6.4%, terminal growth rate 1.5%).

Key Risks to Our View:

Prolonged weakness in economic conditions and sentiment.

At A Glance

Issued Capital (m shrs)	699
Mkt. Cap (\$m/US\$m)	1,366 / 1,002
Major Shareholders (%)	
TYC Investment Pte Ltd (Family Trust)	49.8
Yun Chwan Tay (Founder)	9.5
Fidelity Mgmt & Research Co LLC	8.0
Free Float (%)	22.3
3m Avg. Daily Val (US\$m)	0.49



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ed: BM/ sa: DT, PY, CS



Live more, Bank less

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Investment Summary

Hour Glass is mainly involved in the sales and distribution of specialty and luxury watches. Beginning in 1979 with its first retail boutique in Orchard Road, Singapore, The Hour Glass Limited ("Hour Glass" or the "Group") has grown to become one of the region's leading specialty luxury watch retailers, with 53 retail boutiques in Singapore, Malaysia, Thailand, Vietnam, Hong Kong, Japan, Australia, and New Zealand.

Exclusive product offerings, built on decades of business relationships with brand owners. The Group is the official retailer for a curated selection of specialty houses and luxury watch brands including Rolex, Patek Philippe, Audemars Piguet, Hublot, F.P. Journe, A. Lange & Söhne, Breguet, Cartier, Jaeger-LeCoultre, IWC, MB&F, Omega, TAG Heuer, Tudor, and the like. The Group is also the exclusive distributor in Singapore for luxury brands such as Girard-Perregaux, Hublot, Ulysse Nardin, and MB&F. In our view, the Group's exclusive offerings and established network with brand owners differentiate the Group from other retailers.

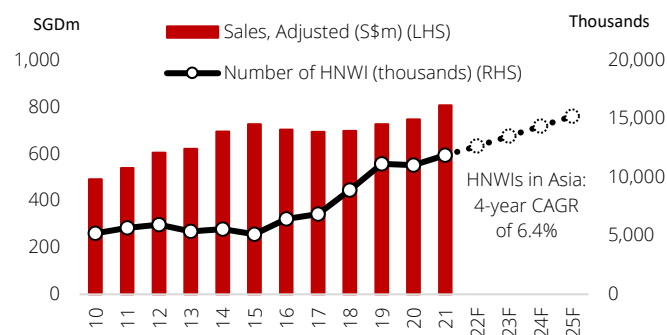
(+) Record FY22F sales anticipated. The Group witnessed record earnings in 1H22 (six mths ending 30 Sept 21), with revenue and net profit rising 63% and 110% y-o-y, respectively. We believe this is contributed by the bullish stock market in 2021 which drove consumer sentiment, and the shift in domestic spending from travel towards luxury goods. We anticipate this trend to continue in 2H22 with seasonal demand and firm luxury goods consumption.

(-) Short-term headwinds from the volatile stock market in 2022. Changes in economic conditions and consumer sentiment can affect discretionary consumer spending. We observe a correlation of +0.86 between the stock market (i.e., S&P500 Index) and the Group's earnings/share price. We anticipate sales in FY23F to moderate on the back of a potential volatile stock market in 2022.

(+) Frontloading of consumer spending ahead of Goods & Services Tax (GST) hikes (on 1 Jan 2023/24) could lend some support to the Group's sales/earnings in FY23F and offset some of the negative impacts from the volatile stock market in 2022.

(+) Resumption of tourism as a catalyst in the longer term. In the past, the Group has benefitted from the influx of mainland Chinese tourists in the countries in which it operates, with purchases from mainland Chinese consumers contributing c.20% of its direct sales. Given China's current zero-COVID strategy, this catalyst would likely only play out over the longer term. Nonetheless, we believe a rise in tourism receipts as air borders reopen could act as another catalyst for the Group's earnings.

Critical Factor: Number of High-Net-Worth Individuals (HNWIs) in Asia vs. Sales (Correlation = +0.67)



Source: Statista, Credit Suisse, DBS Bank;

Note: Revenue is adjusted to reflect estimated sales in each calendar year

(+) Asia's growing wealth acts as a long-term structural driver; healthy long-term outlook with a four-year CAGR growth of c.5-6%. The global luxury watch and jewellery market is estimated to grow at a four-year CAGR of 4.9% till 2025, with Asia Pacific leading in growth with a four-year CAGR of 6.0%, according to Statista. We observe a positive correlation of +0.67 between the number of HNWIs in Asia and the Group's sales. Going forward, the number of HNWIs in Asia is forecasted to grow at a four-year CAGR of 6.4%, according to estimates by Statista and Credit Suisse, which should bode well for the demand for luxury goods in the region. Whilst we anticipate a moderation in sales in 2022, i.e., FY23F, we believe the longer term industry uptrend remains intact on the back of Asia's growing wealth.

(+) Long-term expansion plans should support firm earnings growth of 12% by FY25F. We estimate the Group to open an additional six retail boutiques in the region, which should translate into an estimated four-year CAGR of 10% and 12% in revenue and net earnings, respectively, by FY25F.

Initiate with a BUY and TP of S\$2.62. Our TP is based on a blended valuation methodology of PE and DCF valuation. The former assumes a forward PE ratio of 14.5x, aligned with Hour Glass's peak four-year forward PE ratio. The latter assumes a WACC of 6.4% and terminal growth rate of 1.5%.

Key risks including (but not limited to):

- Sensitivity to changes in economic confidence and consumer sentiment
- Dependency on distributorship arrangements and the co-operation of brand owners
- Challenges in finding suitable locations for new retail outlets on commercially acceptable terms
- Competition in meeting changes in market trends and customer preferences

SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> • Trusted and reputable brand name built on >40 years of operating track record. “The Hour Glass” brand has come to be associated with the industry benchmark for service quality and authentic and luxury offerings within the specialty watch space. The Group has been recognised by international publications such as Monocle and Vanity Fair. • Established business relationships with brand owners spanning several decades. The Group’s strong network of brand owners allows it to benefit from robust supply and a reliable service network. • Exclusive arrangements and dealerships. The Group is also the exclusive distributor in Singapore for luxury brands such as Girard-Perregaux, Hublot, Ulysse Nardin, and MB&F. In our view, we believe this distinguishes Hour Glass from other retailers. • Differentiated retail boutiques that offer novel retail experiences to customers. The Group has unique thematic salons, such as L’Atelier by The Hour Glass and Malmaison by The Hour Glass, that offer novel customer experiences such as traditional watchmaking and sartorial tailoring. The Group aims to enhance the shopping experience of its customers through its thematic salons. • Healthy balance sheets and efficient inventory management. The Group maintains healthy levels of cash. Further, the Group has consistently maintained a healthy stock turn ratio of c.2.0x, which is above the industry average ratio of 1.5x, which suggests efficient inventory management. 	<ul style="list-style-type: none"> • Sensitivity to changes in economic confidence and consumer sentiment. Prolonged volatility in macroeconomic conditions could impact consumer sentiment and subsequently, spending on discretionary consumer products such as luxury watches. • Dependency on distributorship arrangements and the co-operation of brand owners. Dealership and distributorship arrangements do not guarantee that the brand owners will necessarily supply the Group with their watches in accordance with the quantity ordered or timing of delivery, or that the brand owners will not terminate such arrangements. Furthermore, certain dealership relationships are not reduced into any written agreement, which is the normal market practice in the watch retail industry. These brand owners may reduce or cease their co-operation with the Group at their discretion, or they may opt for dealerships or retail arrangements in their own respective names and thereby compete against the Group. • Challenges in finding suitable locations for new retail outlets on commercially acceptable terms. The supply of prime locations for new retail boutiques is scarce and the competition to secure these locations is intense.
Opportunities	Threats
<ul style="list-style-type: none"> • Asia Pacific’s growing wealth as a structural driver to luxury goods demand. Going forward, Asia is estimated to see the fastest growth in the number of HNWIs with a four-year CAGR of 6.4%, according to Statista and Credit Suisse estimates. 	<ul style="list-style-type: none"> • Elimination of the middleman. Brand owners may opt for a direct-to-customer approach, i.e., retail arrangements in their own respective names, and compete against the Group. • Loss of exclusive arrangements and/or existing dealerships could impact the Group’s market leadership. • Rise of online and second-hand sales channels. The rise of online/second-hand sales channels such as Vestiaire Collective could pose a threat to the Group’s market share.

Source: DBS Bank

Clacking in Record Results

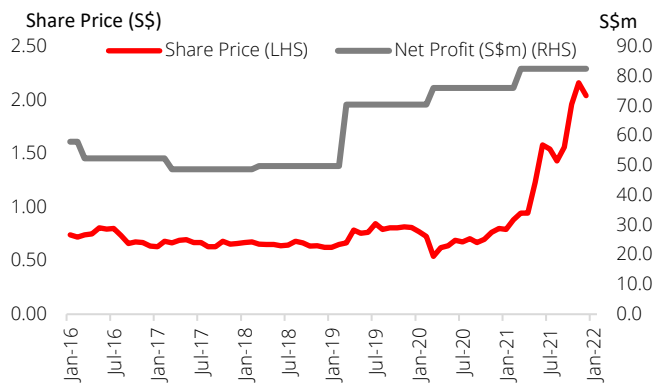
Record-level sales are anticipated for FY22F, driven by the bull market run in 2021. The Group witnessed record earnings in 1H22 (six mths ending 30 Sept 21), with revenue and net profit rising 63% and 110% y-o-y, respectively. We believe this is due to the bullish stock market witnessed in 2021, which drove strong consumer sentiment.

Discretionary consumer spending is heavily dependent on economic confidence and consumer sentiment. We observed a correlation of +0.86 between the S&P500 Index and Hour Glass's net earnings and share price, with the S&P500 Index serving as one of the proxies to economic confidence. We anticipate the strong set of results in 1H22 to continue going into 2H22 (six mths ending 31 March 22), given the continuation of the stock market bull run in the latter period of 2021. Further, 2H typically exhibits higher results than 1H in lieu of the holiday season.

Frontloading of larger consumer spending ahead of the GST hikes (1 Jan 2023/24) could bode well for the Group's earnings in FY23F. We also observed that prior consumption sales tax hikes in Singapore, as witnessed in 2003, 2004, and July 2007, did not result in a significant negative impact on the sales growth of the Group.

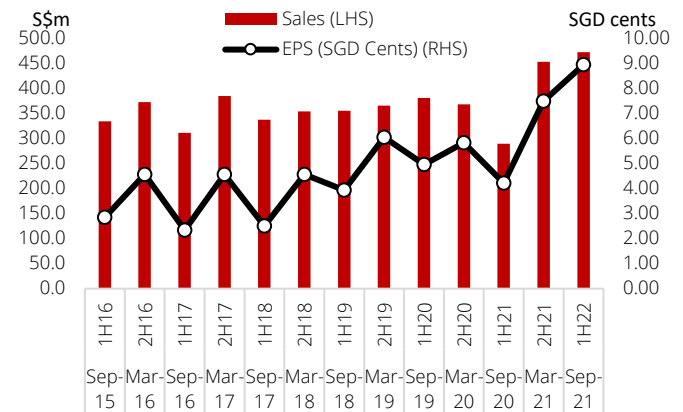
Positive correlation with earnings and dividends per share. We note a positive correlation of +0.62 between the Group's share price with its net profit, and +0.80 with its dividend per share (DPS) declared. With firm FY22F earnings (and potentially dividends) anticipated, we believe this should bode well for Hour Glass's share price.

Critical Factor 2: Hour Glass Share Price vs. Net Profit (Correlation = +0.62)



Source: Bloomberg Finance L.P., Company, DBS Bank

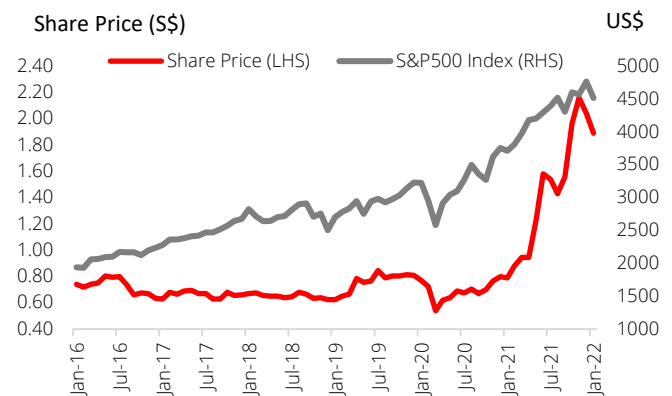
Historical Interim Results



Source: Company, DBS Bank;

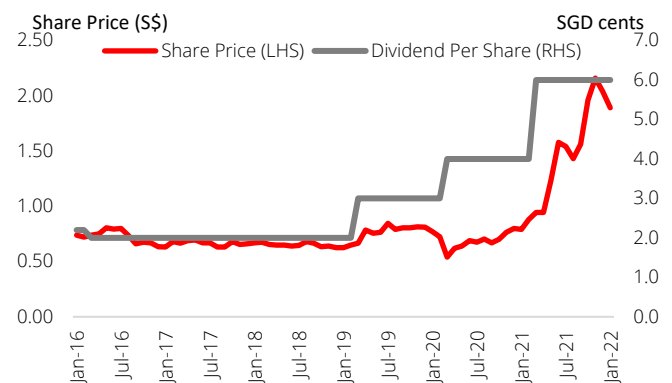
Note: Dates represents 6 months ending

Critical Factor 1: Hour Glass Share Price vs. S&P500 Index (Correlation = +0.86)



Source: Bloomberg Finance L.P., DBS Bank

Critical Factor 3: Hour Glass Share Price vs. Dividend Per Share (Correlation = +0.80)



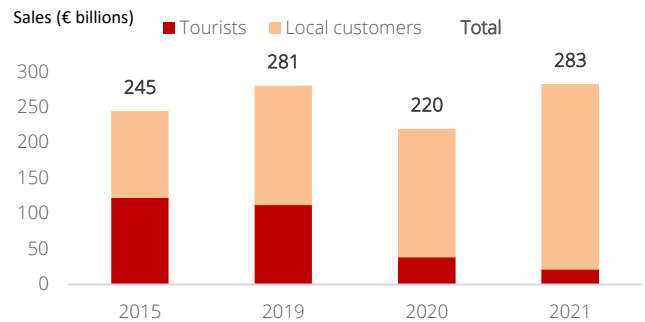
Source: Bloomberg Finance L.P., Company, DBS Bank

Asia's Growing Wealth as a Structural Driver

Global personal luxury goods witnessed a V-shaped recovery in 2021, driven by local spending. According to Bain & Company, global personal luxury goods sales recovered to €283 billion in 2021, up 29% from 2020 and +1% from 2019 levels. Spending by local customers in their own home markets compensated for the decline in spending from tourists. Contribution by locals in the global personal luxury goods market increased from 50% in 2015 to 93% in 2021.

Potential short-term headwinds from the volatile stock market in 2022. After a strong recovery in 2021, we anticipate a moderation in sales growth in FY23F on the back of a potential volatile stock market in 2022 amidst an uncertain macroeconomic environment, contributed by impending interest rate hikes, Russia-Ukraine tensions, and more. Given the correlation between the S&P500 Index and Hour Glass's earnings/share price, uncertain economic conditions could impact consumer confidence and lead to a slowdown in luxury goods spending.

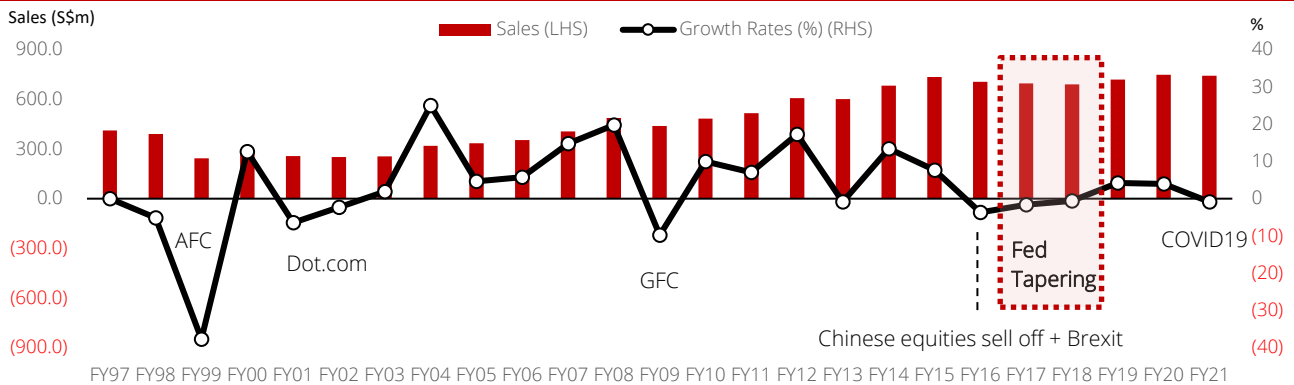
Global personal luxury goods market, by % contribution



Source: Bain & Company, 2021

However, we believe the frontloading of consumer spending ahead of GST hikes (in Singapore) could offset some of these negative impacts and lend some support to sales in FY23F.

Macro financial events' impact on the Group's sales

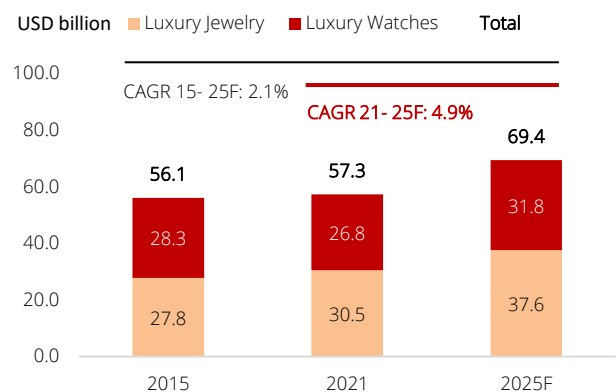


Source: Company, DBS Bank

Long-term industry uptrend remains intact, with an estimated four-year CAGR growth of c.5-6% until 2025. The global personal luxury goods segment is estimated to grow at a four-year CAGR of c.6-8% from €283bn in 2021E to €360-€380 bn by 2025, driven by demand from the Chinese, Millennials, and GenZ consumers; the second-hand luxury market; and online sales channels, according to Bain & Company's Luxury Report 2021.

Within the global personal luxury goods market, the global luxury watches and jewellery market is estimated to grow at a four-year CAGR of 4.9% till 2025 (see chart on the right), with Asia Pacific leading with a four-year CAGR of 6.0%, well above other regions such as North America (3.1%), Europe and UK (4.3%), and Africa (0.6%) (see chart on next page), according to Statista estimates.

Global luxury watches & jewellery sales forecast



Source: Statista

Asia's growing wealth acts as a structural demand driver for luxury goods. As of 2020, Asia Pacific accounts for the highest number of Ultra High-net-worth Individuals (UHNWIs), making up 38% of the world's super rich, versus 35% in the Americas and 27% in Europe, the Middle East, and Africa (EMEA), according to UBS's Billionaires Insights Report 2020. Going forward, Asia is estimated to see the fastest growth in the number of HNWI's with a four-year CAGR of 6.4%, according to Statista and Credit Suisse estimates.

We note a positive correlation of 0.67 between the number of HNWI's in Asia with Hour Glass's sales. We believe Asia's growing wealth acts as a long-term structural driver for luxury goods demand, with Hour Glass as a potential beneficiary.

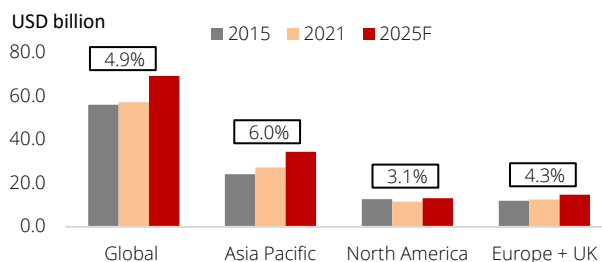
Resumption of tourism as a catalyst in the longer term. In the past, the Group has benefitted from the influx of mainland Chinese tourists in the countries in which it operates, where purchases from the mainland Chinese consumers contribute c.20% of the Group's direct sales. However, the existing stringent travel restrictions implemented by China as a result of the COVID-19 pandemic suggest that this catalyst would likely only play out over the longer term. We believe a rise in tourism receipts as air borders reopen could act as another catalyst for the Group's earnings over the longer term.

A Timeless Industry Player

Trusted and reputable brand name, with an established track record of >40 years. The Group considers "The Hour Glass" brand to be one of its most important assets. The strength of the brand is based on its reputation for retailing authentic, high-end luxury products, complemented by consistent customer service across all of the Group's retail boutiques. The Group has also been recognised by international publications such as Monocle and Vanity Fair.

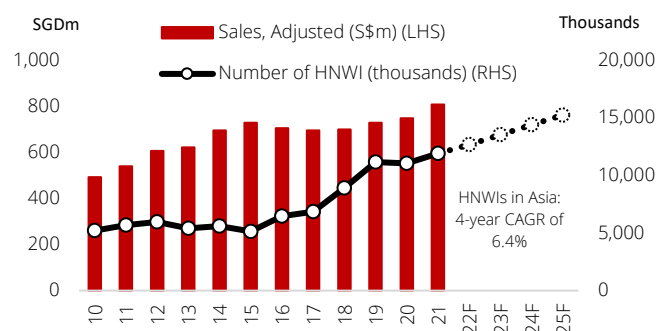
Exclusive product offerings, built on decades of business relationships with brand owners. The Group is the official retailer for a curated selection of specialty houses and luxury watch brands including Rolex, Patek Philippe, Audemars Piguet, Hublot, F.P. Journe, A. Lange & Söhne, Breguet, Cartier, Jaeger-LeCoultre, IWC, MB&F, Omega, TAG Heuer, Tudor, and the like. The Group is also the exclusive distributor in Singapore for luxury brands such as Girard-Perregaux, Hublot, Ulysse Nardin, and MB&F. We believe the Group's exclusive offerings and established network with brand owners differentiate it from other retailers.

Global luxury watches & jewellery sales forecast, by region



Source: Statista; Note: % in boxes refer to 4-year CAGR between 2021 to 2025F

Critical Factor 4: Number of HNWI's in Asia vs. adjusted sales (Correlation = +0.67)



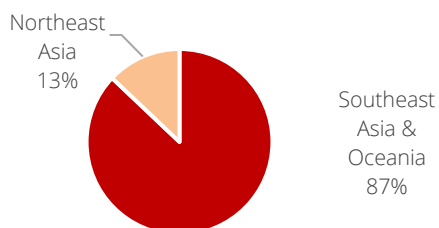
Source: Statista, Credit Suisse, DBS Bank; Note: revenue is adjusted to reflect estimated sales in each calendar year

Brands available (Non-exhaustive list)

Category	Brands
Specialty	A. Lange & Sohne, Audemars Piguet, Blancpain, Breguet, De Bethune, Girard-Perregaux, Harry Winston, MB&F, Patek Philippe, Piaget, Roger Dubuis, Ulysse Nardin, Urwerk, Vacheron Constantin
Luxury	Breitling, Bulgari, Cartier, Chopard, Hublot, IWC Schaffhausen, Jaeger-LeCoultre, Omega, Panerai, Rolex, Tudor
Prestige	Tag Heuer, Longines, Raymond Weil, Sinn, Tissot

Source: Company

FY21A Revenue, by geography



Note: Southeast Asia & Oceania includes Singapore, Malaysia, Thailand, Vietnam, Australia, and New Zealand. Northeast Asia includes Hong Kong and Japan

Source: Company

Selling novel experiences to customers. The Group prides itself in providing top-notch customer service/experiences through its thematic salons, e.g., L'Atelier by The Hour Glass (located at ION Orchard) and Malmaison by The Hour Glass (located at the retail podium at Knightsbridge in Orchard Road), the latter being the Group's most distinctive project to date. The Group's thematic salons offer novel experiences such as traditional watchmaking, sartorial tailoring, fragrances, and leather goods to customers. We believe the Group's thematic salons distinguish itself from other luxury retailers.

Expansion plans in driving firm earnings growth. We estimate the Group to open an additional six retail boutiques within four years (by FY25F). Whilst there is no concrete guidance by management on the Group's expansion plans, we believe our expansion estimates are justifiable.

As a form of reference, the Group added eight boutiques between FY19A and FY21A, i.e., within two years. We believe our assumption of an additional six boutiques within four years is reasonable. Our longer term expansion estimates translates to a four-year CAGR of 10% and 12% in revenue and net earnings, respectively, by FY25F.

Robust balance sheets with sustainable cashflows. The Group has healthy balance sheets, with a net cash position of S\$143m in FY21A, up from S\$119m in FY20A. Further, steady free cash flows generated by the Group also ensure the sustainability of steady dividend payouts; the Group's estimated free cash flows make up >5x of its dividend payout in FY21A. Further, the Group's robust balance sheets could also enable it to comfortably manoeuvre around any potential slowdown in sales and upcoming interest rate hikes.

Efficient stock turns vis-à-vis industry standards. In the past five years, the Group witnessed an average stock turn ratio¹ of 2.0x. The Group's relatively high stock turn ratio places it in a competitive position vis-a-vis its competitors in the same industry, which typically sees average stock turn ratios of approximately 1.5x or below, which suggests Hour Glass is better at selling and marketing and/or is more efficient at inventory management.

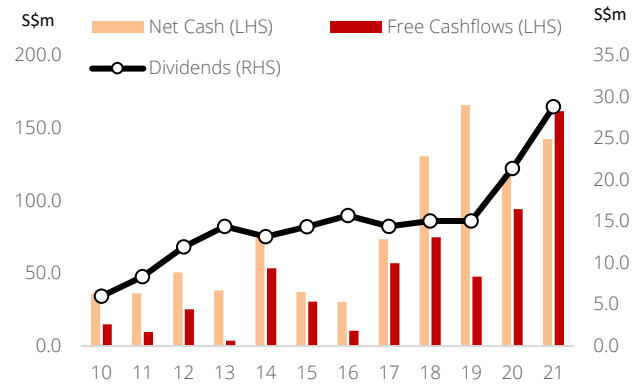
¹ Stock turn is defined as cost of goods sold divided by inventory. The higher the stock turn ratio, the more efficient the company is in selling its inventory

Malmaison by The Hour Glass



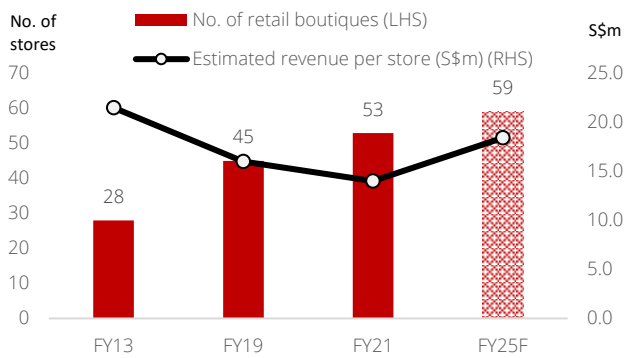
Source: Company

Healthy balance sheets and sustainable cashflows



Source: Company, DBS Bank Estimates

Longer term expansion plans assumed



Source: Company, DBS Bank Estimates

Valuation & Peer Comparison

Initiate with a BUY and TP of S\$2.62. Our TP is based on a blended valuation methodology of PE and DCF valuation.

A. Using PE valuation, we derive an equity value per share estimate of S\$2.48. Key assumptions include an estimated FY22F EPS of 17.09 (SGD cents) and FY22F Forward PE ratio of 14.5x.

B. Using DCF, we derive an equity value per share estimate of S\$2.76. Key assumptions include a WACC of 6.4% and terminal growth rate of 1.5%.

PE valuation mainly focuses on the Group's FY22F earnings, whilst DCF valuation takes into consideration the Group's longer term expansion plans. Our TP is based on a blended valuation methodology, in order to capture not only the Group's near-term earnings, but also its longer term growth potential.

Summary of valuation methodologies

	Target Price	Comments
Blended Valuation	S\$2.62	50% DCF and 50% PE valuation
PE	S\$2.48	FY22F EPS of 17.09 (SGD cents), FY22F Forward PE ratio of 14.5x
DCF	S\$2.76	WACC of 6.4%, terminal growth rate of 1.5%

Source: DBS Bank Estimates

A. PE Valuation

Using PE valuation, we derive an equity value per share estimate of S\$2.48. Key assumptions include an estimated FY22F EPS of 17.09 (SGD cents) and a FY22F Forward PE ratio of 14.5x, which is aligned with Hour Glass's peak forward PE ratio.

Recent share price rallies have led to Hour Glass trading above +2SD of its historical forward PE ratios. We note that recent share price rallies in 2021 were because of earnings and dividend surprises, most notably (also illustrated as the black dots on the right chart):

- May 21: The Group released its full-year earnings results for FY21A, with higher DPS declared of 6.0 SGD cents, up from 4.0 SGD cents in the previous full year
- Nov 21: The Group released its half-year results for 1H22, with 1H22 revenue and net profit rising 63% and 110% y-o-y, respectively

We believe the strong performance in the Group's financials is attributed by the V-shaped recovery in the luxury goods market in 2020/2021. We believe this is attributed to the bullish stock market, which drove strong consumer sentiment, as well as the shift in domestic spending from travel towards luxury goods.

We believe there is still potential for an upside in Hour Glass's share price. We anticipate the Group to witness its record results in FY22F (six mths ending 31 March 22), driven by the continuation of the strong bull market in the latter part of 2021 and seasonal impacts (2H of fiscal year had historically witnessed higher financials than 1H). The Group's robust financials for FY22F will likely catalyse a further upside to its share price, with a rerating toward its peak forward PE valuation.

Forward PE ratios



Source: Bloomberg Finance L.P., DBS Bank; Note: Black dots represent recent share price rallies witnessed in May 21 and Nov 21

B. DCF

Using DCF, we derive an equity value per share estimate of **S\$2.76**. Our DCF assumes a WACC of 6.4% and a terminal growth rate of 1.5%. We assume a two-stage DCF model, with projections from FY22F to FY25F, followed by a steady growth stage with an assumed 1.5% terminal growth rate from FY26F onwards.

Key assumptions for our earnings projections between FY22F to FY25F are as follows:

- Number of stores to grow from 53 (as of FY21A) to 56 by FY24F and to 59 by FY25F
- Average revenue per store (S\$m) to grow from S\$14.0m (as of FY21A) to S\$18.9m in FY22F, to S\$18.0m in FY23F, S\$18.1m in FY24F, and S\$18.4m in FY25F
- Operating margins to improve from 14.2% (as of FY21A) to 14.5% from FY22F onwards

WACC

Risk-Free Rate (Rf)	2.0%
Market Return (Rm)	10.0%
Equity risk premium	8.0%
Beta	0.85
Cost of Equity (Ke)	6.8%
Proportion of debt financing	12.1%
After-tax cost of debt (Kd)	3.1%
Weighted Avg Cost of Capital (WACC)	6.4%

Source: DBS Bank Estimates

DCF & Sensitivity Analysis

FYE March (S\$m)	FY21A	FY22F	FY23F	FY24F	FY25F	FY26F
EBIT (1-t)	105.3	112.0	106.4	113.1	121.4	123.3
Add Depreciation and Amortisation	9.0	9.9	10.5	11.2	11.8	12.0
Less Capex	(12.4)	(20.0)	(20.0)	(20.0)	(20.0)	(14.0)
Add changes in Working Capital	43.5	(103.0)	15.9	(18.9)	(23.7)	(24.1)
FCFF	145.2	(1.2)	112.8	85.3	89.5	97.2
Terminal Value						2031.4
Total FCFF		(1.2)	112.8	85.3	89.5	2128.6

Terminal Growth (assumed)	1.50%
Sum of PV of FCF	310.9
PV of Terminal Value	1492.8
Enterprise Value	1803.7
Add : FY22F Net Cash (Debt)	143.6
Less : FY22F Minority Interests	(18.4)
Equity Value (S\$m)	1928.9
No of shares (diluted)	699.1
Equity Value Per Share (S\$)	2.76

WACC	Terminal growth						
	0.00%	0.50%	1.00%	1.50%	2.00%	2.50%	
4.4%	3.19	3.55	4.02	4.65	5.55	6.93	
5.4%	2.60	2.83	3.11	3.46	3.91	4.53	
6.4%	2.20	2.36	2.54	2.76	3.03	3.37	
7.4%	1.91	2.02	2.15	2.30	2.48	2.69	
8.4%	1.69	1.77	1.87	1.98	2.10	2.25	

Source: DBS Bank Estimates

The Hour Glass Limited

C. Peer Comparison

Hour Glass is currently trading at a discount relative to its Singapore-listed peer. Based on trailing P/E ratios, Hour Glass is trading at a c.9% discount at 12.3x, versus Cortina Holdings at 13.1x.

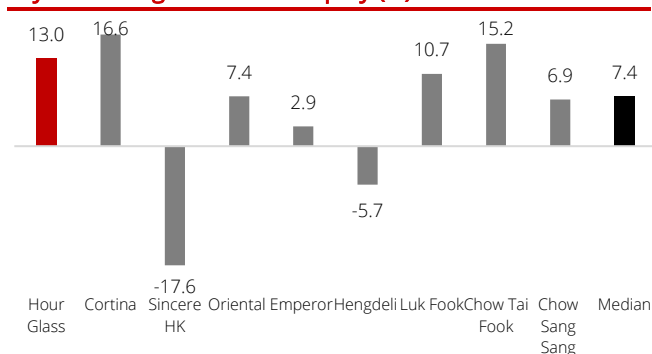
Its premium above its regional peers may be attributed by stronger ROE and profit margins. Using DuPont Analysis, we note that Hour Glass outperformed its peers with a three-year average return on equity (ROE) of 13.0% (versus a median of 7.4%), mainly driven by its profit margins at 11.1% (above median of 6.7%), whilst maintaining steady leverage ratios.

Relative valuation ratios

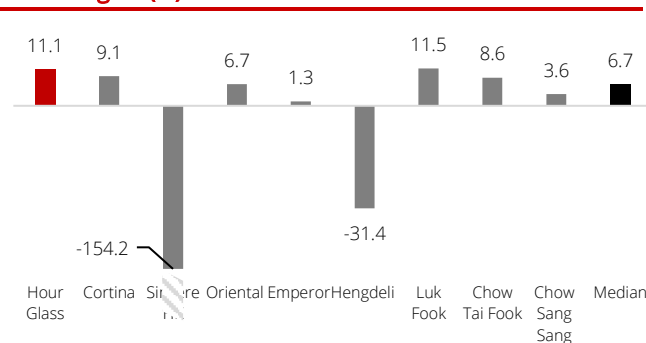
Company	Currency	Exchange rate	Last Price (\$)	Market Cap (\$m)	Price-to-Earnings (x)			Price-to-Book (x)			EV/EBITDA			Dividend Yield (%)	
					CY22F	CY23F	TTM	CY22F	CY23F	TTM	CY22F	CY23F	TTM	CY22F	CY23F
Watch Retailers															
Hour Glass	SGD	1.00	2.02	1,382	15.5x	15.5x	12.3x	-	-	2.1x	-	-	5.8x	2.2	2.2
Cortina Holdings	SGD	1.00	4.00	662	-	-	13.1x	-	-	2.4x	-	-	4.1x	-	-
Sincere Watch HK	HKD	0.17	0.01	54	-	-	-	-	-	0.5x	-	-	-	-	-
Oriental Watch	HKD	0.17	0.73	356	-	-	6.3x	-	-	1.2x	-	-	1.5x	-	-
Emperor Watch & Jewellery	HKD	0.17	0.03	207	-	-	4.4x	-	-	0.3x	-	-	2.6x	-	-
Hengdeli	HKD	0.17	0.05	205	-	-	-	-	-	0.3x	-	-	-	-	-
Other Retailers															
Luk Fook	HKD	0.17	3.49	2,046	9.1x	7.8x	8.7x	0.9x	0.9x	1.0x	3.9x	3.3x	4.7x	6.6	7.6
Chow Tai Fook Jewellery	HKD	0.17	2.66	26,588	22.4x	18.9x	21.2x	4.3x	3.9x	4.9x	12.5x	11.2x	14.1x	3.7	4.2
Chow Sang Sang	HKD	0.17	1.89	1,278	7.4x	6.5x	8.7x	0.6x	0.5x	0.6x	3.8x	3.5x	4.5x	6.7	7.3
Average					13.6x	12.2x	10.7x	1.9x	1.8x	1.5x	6.8x	6.0x	5.3x	4.8	5.4
Median					12.3x	11.7x	8.7x	0.9x	0.9x	1.0x	3.9x	3.5x	4.5x	5.1	5.8

Source: Bloomberg Finance L.P., DBS Bank

3-year Average Return on Equity (%)



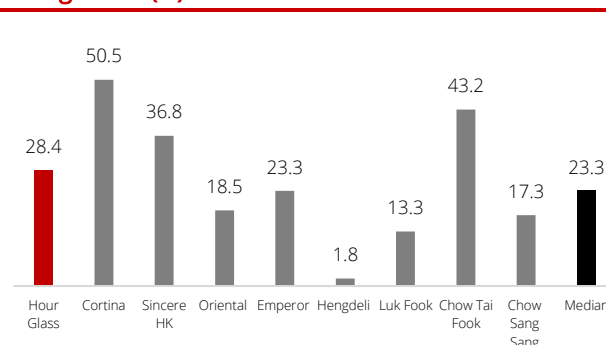
Profit Margins (%)



Asset turnover ratio (x)



Leverage ratio (%)



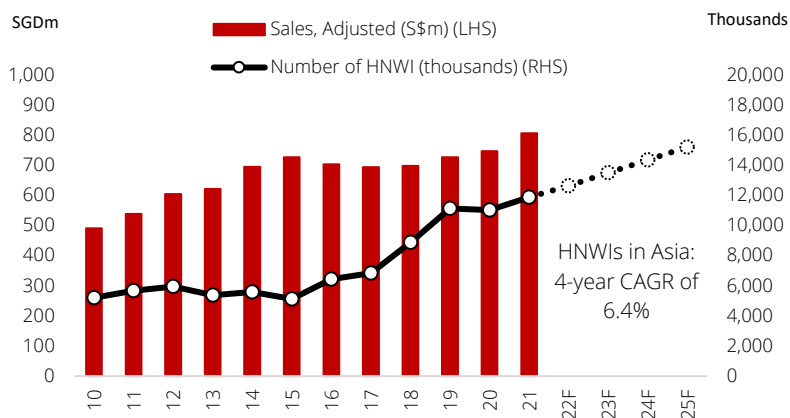
Note: Median is used as a point of comparison instead of average due to outliers present;

Source: Bloomberg Finance L.P., DBS Bank

Critical Factors

We identified the following factors which we believe are critical in driving Hour Glass's share price/fundamentals:

Critical Factor 1: Number of High-net-worth Individuals (HNWIs) in Asia



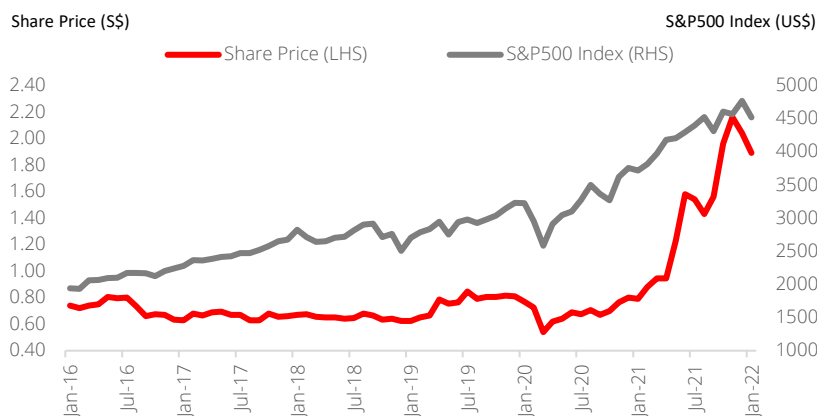
Source: Statista, Credit Suisse, DBS Bank; Note: revenue is adjusted to reflect estimated sales in each calendar year

Comments

We note a positive correlation of 0.67 between the number of HNWIs in Asia with Hour Glass's sales.

Going forward, Asia is estimated to see the fastest growth in HNWIs with a four-year CAGR of 6.4%, according to Statista and Credit Suisse estimates. We believe Asia's growing wealth acts as a long-term structural driver for luxury goods demand, with Hour Glass as a potential beneficiary.

Critical Factor 2: Hour Glass Share Price vs. S&P500 Index



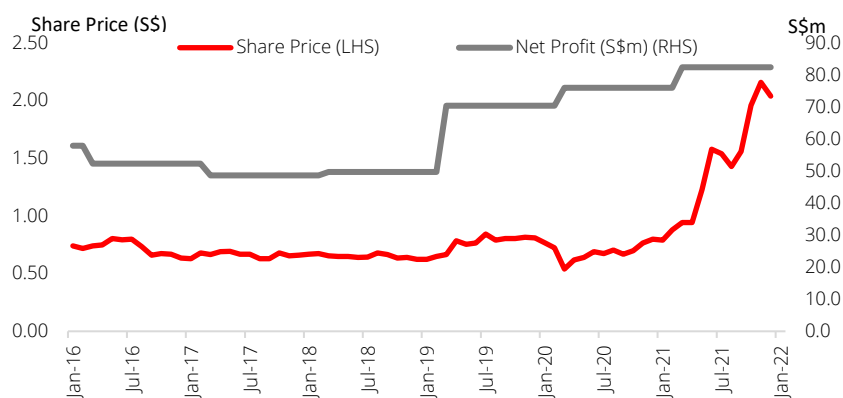
Source: Bloomberg Finance L.P., DBS Bank

Comments

We observed a strong positive correlation of c.0.86 between the S&P500 Index and Hour Glass's net earnings and share price.

Discretionary consumer spending is heavily dependent on economic confidence and consumer sentiment, with the S&P500 Index acting as one of the proxies to economic confidence.

Critical Factor 3: Hour Glass Share Price vs. Net Profit



Source: Bloomberg Finance L.P., Company, DBS Bank

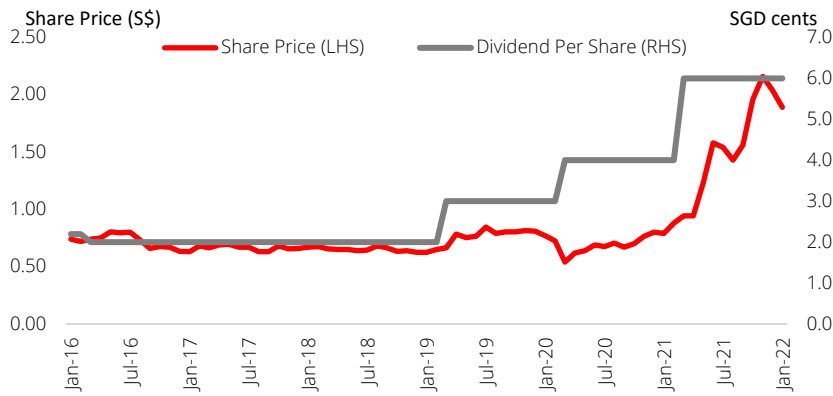
Comments

We note a strong positive correlation of 0.62 between the Group's share price and its net profit.

With firm FY22F earnings anticipated, we believe this would bode well for Hour Glass's share price. We have observed that previous earnings surprises have led to an upwards rally in the Group's share price.

Critical Factor 4: Hour Glass Share Price vs. Dividend Per Share (DPS)

Comments



We note a strong positive correlation of 0.80 between the Group's share price and its DPS declared.

With firm FY22F earnings, and subsequently, potentially robust dividends per share anticipated, we believe this would bode well for Hour Glass's share price. We have observed that previous dividend have led to an upwards rally in the Group's share price.

Source: Bloomberg Finance L.P., Company, DBS Bank

Key Risks

Sensitivity to changes in economic confidence and consumer sentiment. Consumer confidence is affected by, among other factors, general business conditions, stock market and real estate market conditions, as well as current and expected future global or regional macroeconomic conditions such as employment rates, inflation, and interest rates. Macroeconomic volatility may impact spending on luxury goods such as luxury watches.

Dependency on distributorship arrangements and the co-operation of brand owners. Although the Group has entered into various dealership and distributorship arrangements with certain brand owners, such arrangements do not guarantee that the brand owners will necessarily supply the Group with their watches in accordance with the quantity ordered or timing of delivery agreed upon, or that the brand owners will not terminate such arrangements. Furthermore, certain dealership relationships are not put in any written agreement, which is normal market practice in the watch retail industry, in which case, the Group would purchase from the brand owners on an order-by-order basis.

While the Group has established long-standing business relationships with the brand owners, these brand owners may reduce or cease their co-operation with the Group at their discretion, or they may opt for dealerships or retail arrangements in their own respective names and thereby compete against the Group. Should any of these circumstances arise, the Group may not be able to source watches from other brands of comparable quality, image, or prestige, which would impact the Group's operations.

Competition in meeting changes in market trends and customer preferences. The success of the Group's business is dependent on the Group's ability to identify market trends and customer preferences, and then to bring to market in a timely manner products that satisfy the current preferences of a broad range of customers in each country in which the Group operates. However, customer preferences differ across and within each of the countries, and shift over time in response to changing aesthetics and economic circumstances. Further, the Group's success is also attributable to its ability to source watches of popular international brands and its prompt reactions to customers' changing preferences.

There is no assurance that the Group can continually anticipate or respond to changes in customer preferences or that it will be able to bring to market in a timely manner enhanced or new product offerings that meet these changing preferences.

Retaining and attracting skilled personnel. The Group may face difficulties in recruiting or retaining suitable personnel, in particular those with extensive experience in and knowledge of the particular industries in which the Group has operations. If the Group fails to maintain or expand the working team or replace any possible loss of such skilled personnel, its operations may be adversely affected.

Non-renewal of leases or increase in rentals of its retail boutiques. The Group's retail boutiques are generally located in prime shopping districts which are accessible and therefore attract high human traffic. There is no assurance that each of these leases can be renewed upon expiry or can be renewed at terms and conditions which are favourable to the Group.

Challenges in finding suitable locations for new retail outlets on commercially acceptable terms. The supply of prime locations for new retail boutiques is scarce and the competition to secure these locations is intense. In the past few years, the overall cost of securing retail space through leasing arrangements has increased significantly, particularly for prime locations. As a result, the Group expects the cost of securing new retail locations, whether through leases or ownership, to continue to increase in the near future. The Group's ability to purchase or lease suitable properties on terms acceptable to it is critical to the success of its business and expansion strategy.

Forex risks. As the Group's sales are in various currencies such as Hong Kong dollars and others, fluctuations in the value of these currencies against the Singapore dollar may have an adverse effect on the Group's financials. Further, the Group sources its watches under various dealerships of watch brand owners in currencies other than the functional currencies of the Group entities, which may expose the Group to foreign exchange risks.

Financials

Key Assumptions

FY Mar	2019A	2020A	2021A	2022F	2023F	2024F
Total Number of Stores	45.0	48.0	53.0	53.0	53.0	56.0
Overall Average Revenue Per Store (\$m)	16.0	15.6	14.0	18.9	18.0	18.1
Operating Margins (%)	10.9	11.5	14.2	14.5	14.5	14.5

Longer term store expansion assumed includes additional 3 stores by FY24F and 3 stores by FY25F

We assume a moderation in FY23F, and steady recovery in FY24F onwards

Segmental Breakdown

FY Mar	2019A	2020A	2021A	2022F	2023F	2024F
Revenues (\$m)						
Southeast Asia & Oceania	608	647	647	873	830	888
Northeast Asia	113	102	96.1	130	123	124
Elimination	0.0	0.0	0.0	0.0	0.0	0.0
Total	721	749	743	1,003	953	1,013

Operating profit (\$m)

Southeast Asia & Oceania	99.4	113	133	179	170	182
Northeast Asia	19.4	14.9	13.3	17.9	17.0	17.2
Elimination	(40.2)	(41.8)	(40.8)	(51.8)	(49.2)	(52.7)
Total	78.6	85.9	105	145	138	147

Anticipate a moderation in sales in FY23F (due to the volatile stock market in 2022). Frontloading of spending ahead of GST hikes may lend some support to sales

Operating profit

Southeast Asia & Oceania	16.3	17.4	20.5	20.5	20.5	20.5
Northeast Asia	17.2	14.6	13.8	13.8	13.8	13.8
Elimination	N/A	N/A	N/A	N/A	N/A	N/A
Total	10.9	11.5	14.2	14.5	14.5	14.5

We assume steady margins of 14.5% going forward

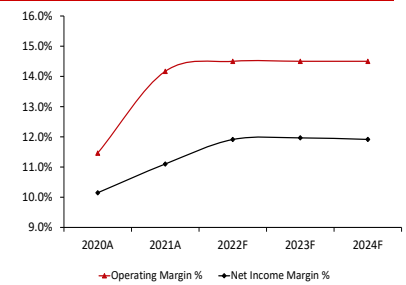
Source: Company, DBS Bank

Income Statement (\$m)

FY Mar	2019A	2020A	2021A	2022F	2023F	2024F
Revenue	721	749	743	1,003	953	1,013
Cost of Goods Sold	(526)	(534)	(526)	(707)	(672)	(714)
Gross Profit	195	216	217	296	281	299
Other Opng (Exp)/Inc	(116)	(130)	(112)	(150)	(143)	(152)
Operating Profit	78.6	85.9	105	145	138	147
Other Non Opg	4.51	4.24	8.24	7.75	7.75	7.75
Associates & JV Inc	6.73	6.49	9.39	9.39	9.39	9.39
Net Interest (Exp)/Inc	0.95	(1.7)	(2.8)	(3.5)	(3.5)	(3.3)
Exceptional Gain/(Loss)	(0.8)	0.10	(10.2)	0.0	0.0	0.0
Pre-tax Profit	90.1	95.1	110	159	152	161
Tax	(18.7)	(17.7)	(25.4)	(36.6)	(34.9)	(36.9)
Minority Interest	(1.0)	(1.3)	(2.1)	(3.0)	(2.9)	(3.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	70.4	76.1	82.5	119	114	121
Net Profit before Except.	71.2	76.0	92.7	119	114	121
EBITDA	96.5	130	159	201	198	213
Growth						
Revenue Gth (%)	4.2	4.0	(0.9)	35.0	(5.0)	6.3
EBITDA Gth (%)	32.7	35.1	21.8	26.5	(1.6)	7.7
Opg Profit Gth (%)	30.7	9.3	22.5	38.2	(5.0)	6.3
Net Profit Gth (Pre-ex)	42.3	6.7	22.0	28.9	(4.6)	5.8
Margins & Ratio						
Gross Margins (%)	27.0	28.8	29.2	29.5	29.5	29.5
Opg Profit Margin (%)	10.9	11.5	14.2	14.5	14.5	14.5
Net Profit Margin (%)	9.8	10.1	11.1	11.9	12.0	11.9
ROAE (%)	12.6	12.5	12.1	15.8	14.0	13.7
ROA (%)	10.8	8.9	8.5	11.0	10.0	9.9
ROCE (%)	12.2	9.7	10.3	12.2	10.9	10.9
Div Payout Ratio (%)	30.0	37.1	51.2	46.8	49.1	46.4
Net Interest Cover (x)	NM	52.0	37.8	41.4	39.4	43.9

Source: Company, DBS Bank

Margins Trend



Fair value losses on investment property

We assume constant DPS of 8.0 SGD cents from FY22F onwards (above FY21A DPS of 6.0 SGD cents)

Interim Income Statement (\$m)

FY Mar	2H2019	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	366	381	368	290	453	472
Cost of Goods Sold	(259)	(279)	(254)	(214)	(312)	(334)
Gross Profit	106	102	114	75.8	141	138
Other Oper. (Exp)/Inc	(59.0)	(62.4)	(67.5)	(44.1)	(68.0)	(70.4)
Operating Profit	47.1	39.5	46.4	31.8	73.5	68.0
Other Non Opg	2.43	2.67	1.57	4.72	3.52	4.82
Associates & JV Inc	4.48	3.55	2.93	3.37	6.02	6.58
Net Interest (Exp)/Inc	0.97	(1.4)	(0.3)	(1.4)	(1.4)	(1.6)
Exceptional Gain/(Loss)	(1.0)	0.24	(0.1)	(0.5)	(9.8)	0.18
Pre-tax Profit	53.9	44.6	50.5	38.0	71.9	78.0
Tax	(10.7)	(9.1)	(8.7)	(7.7)	(17.6)	(14.5)
Minority Interest	(0.6)	(0.6)	(0.8)	(0.6)	(1.5)	(1.0)
Net Profit	42.7	35.0	41.1	29.7	52.8	62.6
Net profit bef Except.	43.7	34.7	41.2	30.2	62.5	62.4
EBITDA	57.5	62.5	67.9	57.0	102	98.9

1H22 clocked in record revenue and earnings growth of 63% and 110% y-o-y, respectively

Full-year results are typically >2.0x of 1H's revenue and earnings, based on the previous 10 years' operating records

Growth

Revenue Gth (%)	2.8	4.3	(3.3)	(21.3)	56.3	4.3
EBITDA Gth (%)	47.3	8.8	8.6	(16.0)	78.6	(2.8)
Opg Profit Gth (%)	49.2	(16.0)	17.2	(31.5)	131.3	(7.4)
Net Profit Gth (%)	53.6	(18.0)	17.4	(27.6)	77.5	18.6

Margins

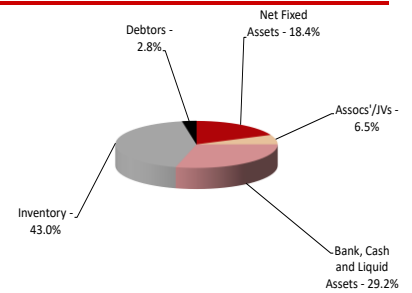
Gross Margins (%)	29.0	26.8	30.9	26.2	31.2	29.3
Opg Profit Margins (%)	12.9	10.4	12.6	11.0	16.2	14.4
Net Profit Margins (%)	11.7	9.2	11.2	10.3	11.6	13.2

1H22 witnessed lower COGS (as % of revenue) at 70.7%, versus 73.8% in 1H21

Source: Company, DBS Bank

Balance Sheet (\$m)

FY Mar	2019A	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	55.6	96.7	146	157	168	178
Invt in Associates & JVs	33.5	40.3	46.4	55.8	65.2	74.6
Other LT Assets	75.0	228	255	231	228	219
Cash & ST Invt	181	183	248	249	306	346
Inventory	286	286	259	367	349	370
Debtors	16.8	20.3	15.6	24.3	23.0	24.5
Other Current Assets	0.98	1.30	1.10	1.10	1.10	1.10
Total Assets	649	857	971	1,084	1,139	1,213
ST Debt	15.0	64.5	105	105	105	105
Creditor	46.4	49.3	60.4	73.8	70.1	74.5
Other Current Liab	11.6	37.5	39.1	59.5	57.9	59.9
LT Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	3.22	82.6	71.0	71.0	71.0	71.0
Shareholder's Equity	560	608	680	756	814	878
Minority Interests	12.8	15.0	15.4	18.4	21.2	24.3
Total Cap. & Liab.	649	857	971	1,084	1,139	1,213
Non-Cash Wkg. Capital	246	221	176	259	245	262
Net Cash/(Debt)	166	119	143	144	201	241
Debtors Turn (avg days)	8.5	9.9	7.7	8.8	8.8	8.8
Creditors Turn (avg)	32.5	36.0	45.0	40.3	40.6	40.9
Inventory Turn (avg)	201.1	209.2	193.1	200.2	202.2	203.4
Asset Turnover (x)	1.1	0.9	0.8	0.9	0.8	0.8
Current Ratio (x)	6.7	3.2	2.6	2.7	2.9	3.1
Quick Ratio (x)	2.7	1.3	1.3	1.1	1.4	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	121.5	24.5	11.8	19.0	19.0	19.0

Asset Breakdown

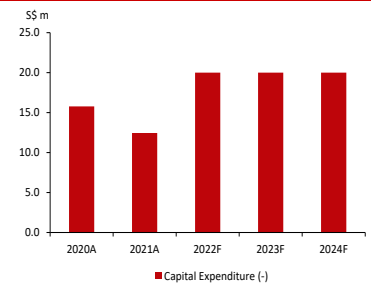
Stable net cash to tide the Group through potential slowdowns in sales and interest rate hikes

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Mar	2019A	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	90.1	95.1	110	159	152	161
Dep. & Amort.	6.65	33.8	35.9	38.3	42.4	49.0
Tax Paid	(14.9)	(20.6)	(19.6)	(16.1)	(36.6)	(34.9)
Assoc. & JV Inc/(loss)	(6.7)	(6.5)	(9.4)	(9.4)	(9.4)	(9.4)
Chg in Wkg. Cap.	(3.1)	(0.9)	43.5	(103)	15.9	(18.9)
Other Operating CF	(5.9)	9.26	14.1	0.0	0.0	0.0
Net Operating CF	66.1	110	174	68.8	164	146
Capital Exp. (net)	(18.2)	(15.8)	(12.4)	(20.0)	(20.0)	(20.0)
Other Invt. (net)	0.0	(83.0)	(72.8)	0.0	0.0	0.0
Invt. in Assoc. & JV	0.0	(18.9)	0.0	0.0	0.0	0.0
Div from Assoc & JV	2.23	0.82	2.27	0.0	0.0	0.0
Other Investing CF	(0.6)	(0.5)	(0.2)	0.0	0.0	0.0
Net Investing CF	(16.6)	(117)	(83.1)	(20.0)	(20.0)	(20.0)
Div Paid	(15.1)	(21.4)	(28.9)	(42.9)	(56.6)	(56.6)
Chg in Gross Debt	(33.6)	54.4	30.1	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(25.6)	(25.5)	(5.0)	(30.0)	(30.0)
Net Financing CF	(48.7)	7.42	(24.2)	(47.9)	(86.6)	(86.6)
Currency Adjustments	(0.3)	1.84	(2.4)	0.0	0.0	0.0
Chg in Cash	0.48	2.16	64.7	0.83	57.5	39.8
Opg CFPS (S cts)	9.81	15.8	18.6	24.6	21.2	23.7
Free CFPS (S cts)	6.79	13.4	23.0	6.98	20.6	18.1

Capital Expenditure



Capital expenditures to support longer term store expansion

We assume constant DPS of 8.0 SGD cents from FY22F onwards (above FY21A DPS of 6.0 SGD cents)

Payment of lease liabilities

Source: Company, DBS Bank

Company Background

Hour Glass is mainly involved in the sales and distribution of specialty and luxury watches. Beginning in 1979 with its first retail boutique in Orchard Road, Singapore, the Group has grown steadily to become one of the region's leading specialty luxury watch retailers by revenue. To date, the Group has a total of 53 retail boutiques located in Singapore, Malaysia, Thailand, Vietnam, Hong Kong, Japan, Australia, and New Zealand.

The Group is the official retailer for a curated selection of specialty houses and luxury watch brands including Rolex, Patek Philippe, Audemars Piguet, Hublot, F.P. Journe, A. Lange & Söhne, Breguet, Cartier, Jaeger-LeCoultre, IWC, MB&F, Omega, TAG Heuer, Tudor, and the like. The Group is also the exclusive distributor in Singapore for luxury brands such as Girard-Perregaux, Hublot, Ulysse Nardin, and MB&F. We believe the Group's exclusive offerings and established network with brand owners differentiates itself from other retailers.

Geographical presence. The Group has two major business segments, with Southeast Asia & Oceania making up c.87% of its FY21A revenue across 50 retail boutiques, followed by Northeast Asia making up c.13% of its FY21A revenue across three retail boutiques. Retail boutiques are broadly categorised into three categories: (1) Multi-brand boutiques ("boutiques"), (2) mono-brand boutiques ("specialty boutiques"), and (3) Watches of Switzerland boutiques.

Diversified customer base, targeting high-income customers. The Group has a well-diversified customer base, which can be divided into three broad categories: (1) Clientele of regular customers, (2) walk-in local customers, and (3) tourists. The Group generally sets up its retail boutiques in prime locations such as luxury shopping malls and in core shopping precincts to target high-income consumers. Further, the Group has benefitted from the influx of mainland Chinese tourists in the countries in which it operates, in which purchases from the mainland Chinese consumers contribute approximately 20.0% of the Group's direct sales in FY15A.

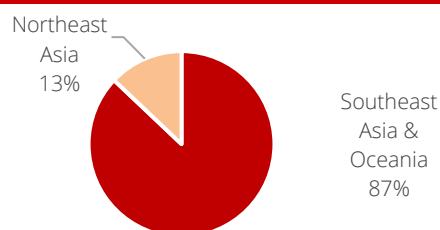
Suppliers and dealership arrangements. The Group sources its supply of watches either directly from the brand owners in Switzerland or from their market distributors. The Group has acquired the rights to the sale and distribution of selected brands of watches in the countries in which it operates through a mix of exclusive and non-exclusive dealership arrangements. The Group has been an authorised dealer for many leading brands since 1979 and expects these dealership arrangements to continue into the future.

Brands available (non-exhaustive list)

Category	Brands
Specialty	Audemars Piguet, Blancpain, Breguet, Girard-Perregaux, MB&F, Parmigiani Fleurier, Patek Philippe, Piaget, Roger Dubuis, Ulysse Nardin, Urwerk
Luxury	Breitling, Bulgari, Cartier, Chopard, Hublot, IWC Schaffhausen, Jaeger-LeCoultre, Omega, Panerai, Rolex, Tudor
Prestige	Tag Heuer, Longines, Sinn, Tissot

Source: Company

FY21A Revenue, by geography



Note: Southeast Asia & Oceania includes Singapore, Malaysia, Thailand, Vietnam, Australia, and New Zealand. Northeast Asia includes Hong Kong and Japan.

FY21A Number of Stores, by geography

	Boutiques	Specialty Boutiques	Watches of Switzerland	Total
Singapore	7	6	4	17
Malaysia	5	3	1	9
Thailand	5	5	-	10
Vietnam	2	4	-	6
Australia	4	2	-	6
New Zealand	1	1	-	2
Hong Kong	2	0	-	2
Japan	1	0	-	1
Total	27	21	5	53

Source: Company

Consistent with normal market practice in the watch retail industry, not all dealership relationships are put in formal written agreements. In such cases, the Group would purchase from the brand owners on an order-by-order basis.

Acquisitions. In 2014, the Group completed its purchase of Watches of Switzerland, a 50-year-old watch retail chain based in Singapore, for an aggregate consideration of approximately S\$13.3 million. The deal was driven by the opportunity for the Group to tap into Singapore's suburban retail landscape and extend its reach into the prestige watch segment. The acquisition also offers a complementary fit to the current portfolio of the Group, which is focused on the specialty and luxury watch segment.

Currently, the Group operates the Watches of Switzerland retail brand through its four stores in Singapore, located at Vivocity, Paragon, NEX, and Tampines Mall. The Group also opened a multi-brand boutique trading under the name of Watches of Switzerland in The Gardens, Mid Valley City in Kuala Lumpur in 2015.

Thematic salons offer stimulating and differentiated retail experiences to customers. The Group has opened a number of thematic salons, including:

- A. L'Atelier by The Hour Glass: Located at the ION Orchard is a boutique dedicated to expressing the patrimony of traditional watchmaking
- B. Malmaison by The Hour Glass: Located at the retail podium at Knightsbridge in Orchard Road, it is a multi-category luxury emporium retailing the finest and carefully curated collections in horology, sartorial tailoring, fragrances, and leather goods. Malmaison by The Hour Glass is the Group's most distinctive project to date and is positioned as Asia's premier luxury emporium.

The Group aims to enhance the shopping experience of its customers through its thematic salons.

Singapore's retail sales (ex auto) index points to a healthy retail outlook, which is likely to continue. We note a positive correlation of 0.57 between Hour Glass's revenue sales growth vis-à-vis the retail sales (ex auto) index % change on a y-o-y basis. We find comfort in our observation that the implementation of GST hikes witnessed in the past two decades did not lead to a significant negative impact on Singapore's retail sales and Hour Glass's sales growth.

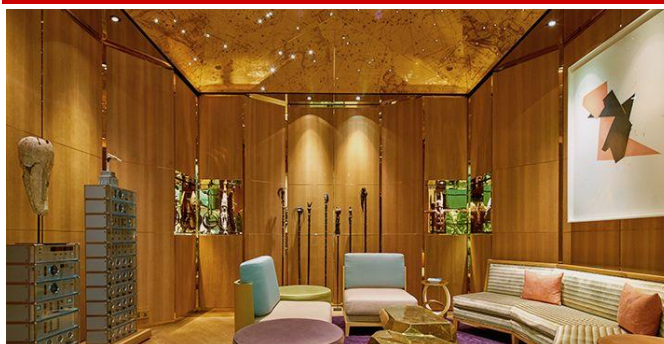
Investment properties. The Group owns a number of investment properties in Singapore, Melbourne, Brisbane, Auckland, and Kuala Lumpur, with a total carrying value of S\$144m as at FY21A. The Group recently acquired 139 Collins Street, a heritage-listed retail and office building presently tenanted by Louis Vuitton, for A\$68m.

L'Atelier by The Hour Glass



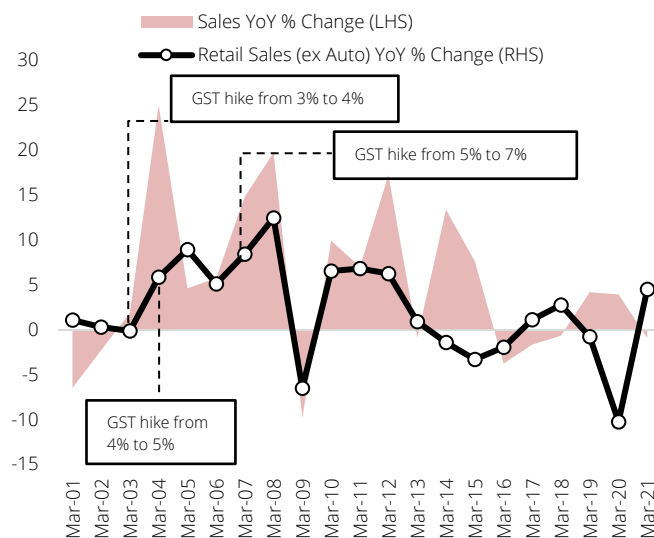
Source: Company

Malmaison by The Hour Glass



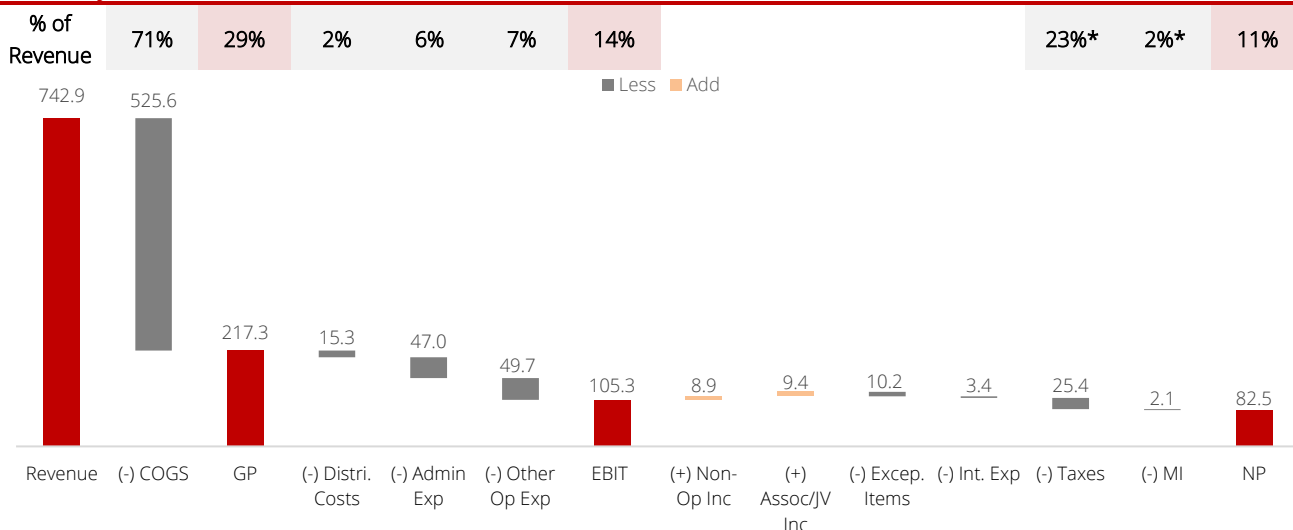
Source: Company

Sales y-o-y % vs. Retail sales (ex auto) y-o-y % change



Source: Bloomberg Finance L.P., Company, DBS Bank

FY21A Key Financials (\$m)



Note: * is calculated as a % of pre-tax of S\$110m in FY21A;
Source: Company, DBS Bank

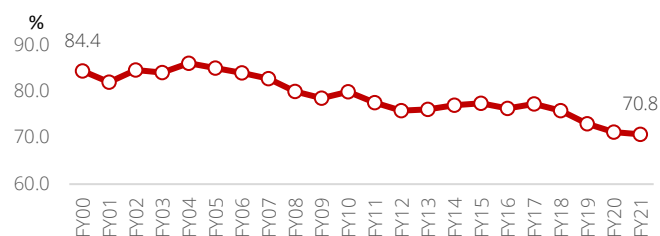
Cost structure. The main component of the Group's cost structure is its costs of goods for its watches. We observe that COGS (as % of revenue) has been on a steady downward trend since two decades ago. We believe this is a function of the Group's rising pricing power, rather than a downward trend in luxury watch prices per se.

On the other hand, total other operating expenses (which includes distribution, admin, and other op. expenses) have been on a steady uptrend, albeit there being an improvement in total other op. expenses to 15.1% in FY21A, down from 17.3% in FY20A.

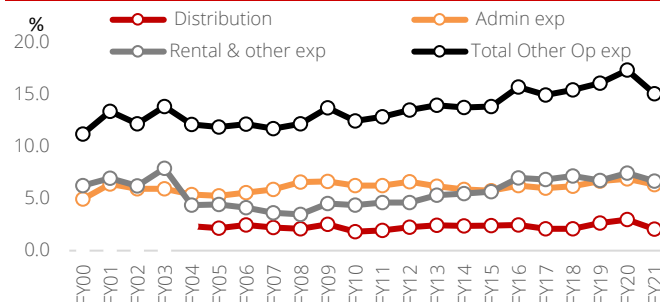
Net profit margins. We observe that the Group's net profit margins have been on a steady upward trend, at mere single-digit margins before FY08A (between 2%-6%), before netting above 10% from FY19A onwards. Improving net margins are contributed by the steady decline in all-in costs (COGS + other operating expenses + taxes). We note that 1H22 could see its net margins reaching a record high of 13.2%.

Tax. Average effective tax rate over the past 10 years stands at c.20%, with FY21A's tax rate at 23.1%, up from 18.6% in FY20A and 20.7% in FY19A. Going forward, we assume a constant effective tax rate of c.23%.

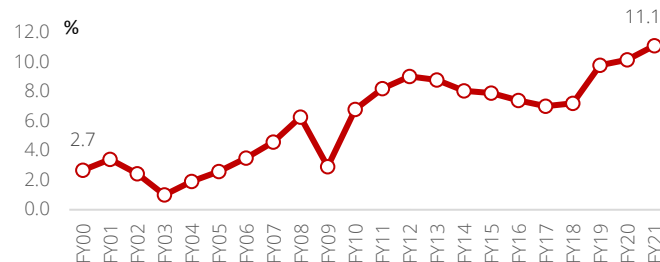
Cost of goods sold (as % of revenue)



Other operating expenses (as % of revenue)



Net profit margins (%)



Source: Company, DBS Bank

Management & Strategy

Vision. Enriching lives with passion by advancing watch culture.

Enterprise mission. To be the world's leading cultural retail enterprise, making it a primary port of call for all enthusiasts and collectors alike.

Business mission. To be an enduring, profitable business organisation that assumes a moderate risk profile, generating sustainable long-term cash flows and returns by continually engaging in the practice of retail and digital sales and marketing, merchandising, and operational excellence.

Digitalisation & e-commerce. The Group is investing in technological applications to improve the organisation, communicate better with its clients, and reach new clients. In 2021, one of the Group's key partners, Tudor, selected the Group to roll out a pilot e-commerce project in Singapore which will then be debuted in all of the Group's existing markets. The Group has noted encouraging sales for sales transacted solely via e-commerce. The Group believes e-commerce for luxury watches is not "click-and-buy as one would do on Amazon or Taobao", but instead its more "click-and-reserve online", with the client then visiting a store to purchase and pick up the item. The Group believes technology applications can be a helpful aid, and will continue to study consumer behaviour in this channel closely.

Board of Directors

Name & Position	Background
<p>Dr. Henry Tay Yun Chwan Executive Chairman</p>	<p>Dr. Henry Tay was appointed Executive Chairman of the Issuer in October 1987, having served as an Executive Director since 11 August 1979. Dr. Tay graduated with an MBBS (Honours) from Monash University, Melbourne and prior to founding the Issuer in 1979, was both a medical practitioner as well as partner in Lee Chay & Co., one of Singapore's earliest watch retail companies.</p> <p>From 1986 to 2001, Dr. Tay was Executive Chairman of a group of companies whose businesses were in the distribution and retail of Burberry in the Asia Pacific region. Dr. Tay is an Independent Director and Chairman of the audit committee of UOB Kay Hian Holdings Limited. He also holds directorships in several private companies focused on investments, real estate development, food and beverage, and entertainment businesses.</p> <p>Dr. Tay served as a Committee Member of the Community Chest from 1992 and was appointed Vice Chairman from 1994 to 2004. Dr. Tay was the Founder President of the Hong Kong Singapore Business Association from 1994 to 2000 and is presently its Honorary President. He has also served as a board member of the Singapore Tourism Board, and Patron of the Singapore Kennel Club.</p>
<p>Mr. Michael Tay Wee Jin Group Managing Director</p>	<p>Mr. Michael Tay was appointed as Group Managing Director of the Issuer on 1 April 2015, having joined the Issuer in January 1999 as its Business Re-Engineering Manager. Tay has developed extensive watch industry experience, having headed multiple facets of the Issuer's businesses from specialty watch manufacturing, global marketing, and distribution to greenfield retail development, group marketing and merchandising, corporate communications, and investor relations.</p> <p>He is a member of the governing Cultural Committee of the Fondation de la Haute Horlogerie and a member of the jury for the Fondation du Grand Prix d'Horlogerie de Genève. Tay also serves on the boards of the National Heritage Board, the Singapore Tyler Print Institute, and Platform Projects Ltd., all non-profit organisations engaged in the heritage and visual arts sector. He is also the Chairman of Mercy Relief, an international humanitarian disaster and relief nongovernmental organisation located in Singapore.</p> <p>Tay graduated from Oxford Brookes University, United Kingdom with a First Class (Honours) in Business and International Management.</p>

Name & Position	Background
<p>Dr. Kenny Chan Swee Kheng</p> <p>Non-Independent Non-Executive Director</p>	<p>Dr. Kenny Chan became a member of the Board of The Hour Glass Limited on 1 April 2004. He joined as the Group Chief Operating Officer in 2002 and was appointed as Managing Director of the Company on 1 April 2004. In June 2009, he was re-designated to Group Managing Director of The Hour Glass Limited. On 31 March 2020, Dr. Chan retired as Group Managing Director. He serves as a Non-Independent and Non-Executive Director and a member of the Audit Committee with effect from 1 April 2020.</p> <p>A graduate of Monash University with a MBBS (Honours), Dr. Chan has over 30 years of experience in the luxury goods industry. Prior to his joining The Hour Glass, he was the Managing Director of Burberry Singapore and Burberry Australia, companies that formed part of a group that was the exclusive distributor and agent of Burberry. Dr. Chan served as a Council Member of the Singapore Retailers Association until his retirement on 8 July 2020.</p>
<p>Mr. Kuah Boon Wee</p> <p>Independent Non-Executive Director</p>	<p>Mr. Kuah Boon Wee was appointed to the Board of The Hour Glass Limited on 1 April 2011 as an Independent Non-Executive Director. He is the Chairman of the Company's Nomination and Remuneration Committee and a member of the Company's Audit Committee.</p> <p>Kuah is the Group Chief Executive Officer of MTQ Corporation Limited. He is also an Independent Non-Executive Director of UOB-Kay Hian Holdings Limited and Chairman of the Audit Committee and member of its Remuneration Committee. He had served as CEO for South East Asia and Singapore Terminals as well as Chief Financial Officer of PSA International Pte Ltd.</p> <p>Kuah is a qualified chartered accountant from the ICAEW and graduated with a Bachelor of Engineering degree from the Imperial College of Science and Technology.</p>
<p>Mr. Liew Choon Wei</p> <p>Independent Non-Executive Director</p>	<p>Mr. Liew Choon Wei was appointed to the Board of The Hour Glass Limited on 1 April 2017 as an Independent Non-Executive Director. He is the Chairman of the company's Audit Committee.</p> <p>Liew is an Independent Non-Executive Director of Halcyon Agri Corporation Limited and an Independent Non-Executive Director of FJ Benjamin Holdings Ltd. He is an Independent Non-Executive Director at Frasers Hospitality Asset Management Pte. Ltd. and Frasers Hospitality Trust Management Pte. Ltd. The former and latter are the manager of the real estate investment trust (REIT) and the trustee-manager of the business trust (BT), respectively, of which the REIT and BT comprise the stapled group, Frasers Hospitality Trust.</p> <p>Liew was with an international public accounting firm for more than 30 years before retiring in 2013 as an Audit Partner. He is a retired Fellow of the Association of Chartered Certified Accountants, UK and a Chartered Accountant of Singapore.</p>
<p>Mr. Lock Wai Han</p> <p>Independent Non-Executive Director</p>	<p>Mr. Lock Wai Han joined the Board of The Hour Glass Limited on 1 October 2020 as an Independent Non-Executive Director and serves as a member of the company's Audit Committee and the Nomination and Remuneration Committee.</p> <p>Lock is the Executive Director and Chief Executive Officer of OKH Global Ltd. He is also a Non-Executive Director of ARA Trust Management (Suntec) Ltd. and Chip Eng Seng Corporation Ltd. Lock was the Executive Director and Group CEO of Rowsley Ltd. and before that, was based in Beijing as the China CEO of CapitaMalls Asia ("CMA"), where he had oversight of a retail mall portfolio that included Raffles City projects and CMA mixed developments.</p> <p>Lock had served in the Singapore public sector for more than 20 years, during which he held various leadership roles including Commissioner of the Immigration & Checkpoints Authority, Director of the Criminal Investigation Department, and Deputy Secretary of the Ministry of Information, Communications, & the Arts, as well as directorships on various statutory boards.</p> <p>Lock graduated from the University of Cambridge with Bachelor and Master of Arts (Engineering) degrees. He also holds a Master of Science (Management) degree from Leland Stanford Junior University.</p>

Name & Position	Background
Mr. Jeffry Lee Yu Chern Independent Non-Executive Director	<p>Mr. Jeffry Lee Yu Chern joined the Board of The Hour Glass Limited on 1 October 2017 as an Independent Non-Executive Director and serves as a member of the company's Nomination and Remuneration Committee.</p> <p>Lee is the Senior Vice-President of HPL Properties Pte Ltd., a wholly owned subsidiary of Hotel Properties Limited. Prior to joining HPL Properties Pte Ltd., he was an Economic Research Analyst at Jacob Ballas & Co. stockbrokers.</p> <p>Lee graduated from Loughborough University with a Bachelor of Science degree.</p>

Source: Company

Key Executives

Name & Position	Background
Mr. Ho Tun Min Norman Group General Manager, Singapore, The Hour Glass Limited	<p>Mr. Ho Tun Min Norman joined the company in January 2019 and is responsible for business planning, operations management, and development of the Group's policies and procedures. Ho holds a Bachelor of Accountancy (Honours) from Nanyang Technological University and a Master of Business Administration from the University of Melbourne and is a member of the Institute of Singapore Chartered Accountants.</p>
Mr. Ho Mang Chan Chief Financial Officer, Singapore, The Hour Glass Limited	<p>Mr. Ho Mang Chan joined the company in August 2009 and is responsible for the Group's financial and accounting functions including statutory and regulatory compliance. Ho holds a Bachelor of Accountancy (Honours) from Nanyang Technological University and is a member of the Institute of Singapore Chartered Accountants.</p>
Mr. Ng Siak Yong Chief Administrative Officer, Singapore, The Hour Glass Limited	<p>Mr. Ng Siak Yong joined the company in October 2004 and is responsible for special projects and real estate of the Group. Ng holds a Bachelor of Accountancy (Honours) from Nanyang Technological University and a Master of Business Administration from the University of Strathclyde, Scotland and is a member of the Institute of Singapore Chartered Accountants.</p>
Mr. Chung Wai Yang Managing Director, Hong Kong, The Hour Glass (HK) Limited	<p>Mr. Chung Wai Yang joined The Hour Glass (HK) Limited in August 1994 and is responsible for the development and management of The Hour Glass's Hong Kong business unit. Chung holds a Master of Business Administration from the Ageno School of Business at Golden Gate University, San Francisco, USA.</p>
Mr. Atsushi Momoi Director & General Manager, Japan, The Hour Glass Japan Ltd.	<p>Mr. Atsushi Momoi joined The Hour Glass (Australia) Pty Ltd. in November 1988 and was subsequently relocated to Japan to establish The Hour Glass Japan Ltd. in July 1996. With more than 30 years of experience in the retail and wholesale distribution of luxury and specialty watches, he is responsible for the strategic planning, business development, and sales and marketing of the company.</p>
Mr. Teh Soon Kheng General Manager, Malaysia, The Hour Glass Sdn Bhd	<p>Mr. Teh Soon Kheng joined The Hour Glass Sdn Bhd in January 2015. He has overall responsibility for the management of the Malaysia operations. Teh graduated with a Master of Business Administration from University of Ballarat, Australia.</p>
Mr. John Glajz Managing Director, Singapore, Glajz-Thg Pte Ltd.	<p>Mr. John Glajz joined the company in January 1980 and has more than 40 years of practical experience in the retail and wholesale of fine jewellery. His partnership with The Hour Glass Limited commenced in 1990 through Mondial Jewellers and after the successful sale of the Mondial brand and business in 2004, he established a new joint venture vehicle Glajz-THG Pte Ltd. Glajz graduated with a Bachelor of Arts degree from The Australian National University.</p>

Source: Company

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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