



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Belle International

Reuters 1880.HK	Bloomberg 1880 HK	Exchange HKG	Ticker 1880
ADR Ticker BELLY	ISIN US0784541056		

Date
27 May 2015

Forecast Change

Price at 27 May 2015 (HKD)	10.82
Price target - 12mth (HKD)	12.40
52-week range (HKD)	11.16 - 7.61
HANG SENG INDEX	28,250

Anne Ling

Research Analyst
(+852) 2203 6177
anne.ling@db.com

FY16 outlook - tough environment but strives for fitness; maintaining Buy

New TP at HK\$12.4; maintaining Buy

With FY15 results in line with forecasts, we have only fine-tuned our FY16/17 forecasts downward by roughly 2%; we also introduce our FY18 forecast. While the outlook for footwear remains challenging, operating leverage is unlikely to be severe as most of the opex is variable costs. Meanwhile, sportswear has been encouraging. We maintain our Buy call as we view Belle as a better managed company, reflected in its strong cashflow and increase in payout. Its e-commerce business is also bearing fruit and it aims to break even in FY16 on higher sales. Our TP is HK\$12.4.

FY15 results in line

As mentioned in our note *Belle International Alert - FY15 results in line; building fashion apparel platform longer term*, dated 26 May 2015, FY15 sales were in line and NP was 3%/4% higher than our/market estimates (also in line). We have fine-tuned our FY16/17F NP by -2/-2% as we lower our average sales per store estimate on footwear. We also introduce our FY18 forecast.

Belle – cautious on footwear but sportswear better than expected

For FY16, Belle guided for 3-5% store growth (DB forecast: 4%) with SSSG for sportswear similar to FY15 and SSSG for footwear still negative. As most of the opex is variable cost (given that over 80% of stores are located within department stores), the operating leverage is unlikely to be very severe, as in FY15. In addition, Belle expects the e-commerce business to break even on higher sales growth in FY16. For more information please refer to today's note *Belle International Alert - Key takeaways from analyst meeting*, where we focus on the outlook discussed during the analyst meeting.

New target price of HK\$12.4, up from HK\$12.0; risks

We base our HK\$12.4 target price on DCF (China COE 9.5%, TGR 2%); it equates to 16.6x/15.5x FY2016E/17E PE, which looks fair on a 12-month view. Downside risks: failure to launch new business initiatives for future growth and the sportswear profit margin failing to return to previous levels.

Forecasts And Ratios

Year End Feb 28	2014A	2015A	2016E	2017E	2018E
Reported NPAT (CNYm)	4,401.8	4,763.9	4,874.0	5,240.0	5,668.2
DB EPS FD(CNY)	0.52	0.56	0.58	0.62	0.67
OLD DB EPS FD(CNY)	0.52	0.55	0.59	0.64	-
% Change	0.0%	3.0%	-2.1%	-2.2%	-
DB EPS growth (%)	-	8.2	2.3	7.5	8.2
PER (x)	16.6	12.4	15.0	13.9	12.9
DPS (net) (CNY)	0.20	0.52	0.35	0.37	0.40
Yield (net) (%)	2.3	7.4	4.0	4.3	4.7

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

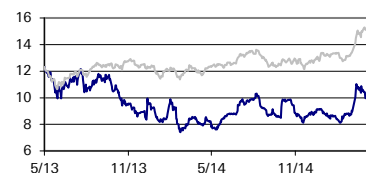
² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Key changes

Price target	12.00 to 12.40	↑	3.3%
Sales (FYE)	43,489 to 43,558	↑	0.2%
Op prof margin (FYE)	-	↑	0.2%
Net profit (FYE)	4,977.9 to 4,874.0	↓	-2.1%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.8	29.0	34.2
HANG SENG INDEX	-0.6	13.8	23.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 27 May 2015

Running the numbers

Asia
China
Retail / Wholesale Trade

Belle International

Reuters: 1880.HK Bloomberg: 1880 HK

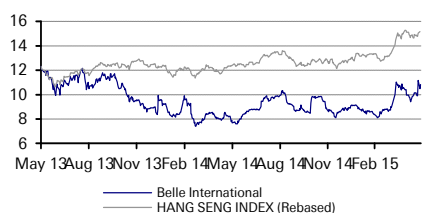
Buy

Price (27 May 15) HKD 10.82
Target Price HKD 12.40
52 Week range HKD 7.61 - 11.16
Market Cap (m) HKDm 91,335
USDm 11,782

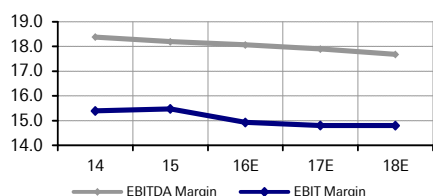
Company Profile

Belle International sells women's footwear. The company operates retail stores in the People's Republic of China, Hong Kong and Macau.

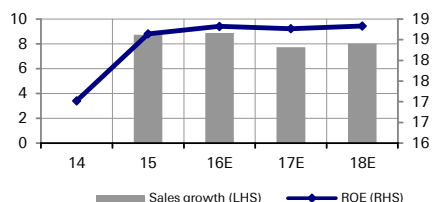
Price Performance



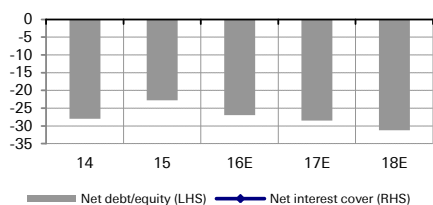
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 28-Feb

Financial Summary

	2014	2015	2016E	2017E	2018E
DB EPS (CNY)	0.52	0.56	0.58	0.62	0.67
Reported EPS (CNY)	0.52	0.56	0.58	0.62	0.67
DPS (CNY)	0.20	0.52	0.35	0.37	0.40
BVPS (CNY)	3.1	3.0	3.2	3.4	3.7
Weighted average shares (m)	8,434	8,434	8,434	8,434	8,434
Average market cap (CNYm)	73,167	59,277	73,088	73,088	73,088
Enterprise value (CNYm)	65,261	53,115	65,330	64,273	62,737

Valuation Metrics

	2014	2015	2016E	2017E	2018E
P/E (DB) (x)	16.6	12.4	15.0	13.9	12.9
P/E (Reported) (x)	16.6	12.4	15.0	13.9	12.9
P/BV (x)	2.43	2.27	2.75	2.55	2.36
FCF Yield (%)	6.8	6.1	3.9	5.5	6.5
Dividend Yield (%)	2.3	7.4	4.0	4.3	4.7
EV/Sales (x)	1.8	1.3	1.5	1.4	1.2
EV/EBITDA (x)	9.6	7.3	8.3	7.7	7.0
EV/EBIT (x)	11.5	8.6	10.0	9.2	8.4

Income Statement (CNYm)

Sales revenue	36,794	40,008	43,558	46,924	50,684
Gross profit	21,112	23,010	24,815	26,658	28,728
EBITDA	6,765	7,279	7,869	8,398	8,961
Depreciation	1,100	1,085	1,365	1,450	1,458
Amortisation	0	0	0	0	0
EBIT	5,665	6,194	6,503	6,949	7,503
Net interest income/(expense)	362	386	271	335	377
Associates/affiliates	5	22	23	24	26
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	6,032	6,601	6,798	7,308	7,906
Income tax expense	1,653	1,851	1,937	2,083	2,253
Minorities	-23	-13	-13	-15	-16
Other post-tax income/(expense)	0	0	0	0	0
Net profit	4,402	4,764	4,874	5,240	5,668
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	4,402	4,764	4,874	5,240	5,668

Cash Flow (CNYm)

Cash flow from operations	5,035	5,467	4,618	5,918	6,274
Net Capex	-76	-1,872	-1,742	-1,877	-1,521
Free cash flow	4,959	3,595	2,876	4,041	4,754
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-1,687	-4,386	-1,316	-3,023	-3,260
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0
Net cash flow	3,272	-791	1,560	1,018	1,494
Change in working capital	-323	-761	-1,911	-878	-981

Balance Sheet (CNYm)

Cash and other liquid assets	9,724	8,386	9,946	10,963	12,458
Tangible fixed assets	9,042	9,829	10,206	10,633	10,695
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	689	633	656	681	707
Other assets	12,940	13,689	16,583	17,761	19,077
Total assets	32,394	32,537	37,391	40,038	42,936
Interest bearing debt	2,360	2,658	2,658	2,658	2,658
Other liabilities	3,699	4,756	7,674	8,240	8,886
Total liabilities	6,059	7,414	10,333	10,898	11,545
Shareholders' equity	26,189	24,923	26,873	28,969	31,236
Minorities	146	199	185	171	155
Total shareholders' equity	26,335	25,122	27,058	29,140	31,391
Net debt	-7,363	-5,728	-7,287	-8,305	-9,799

Key Company Metrics

Sales growth (%)	nm	8.7	8.9	7.7	8.0
DB EPS growth (%)	na	8.2	2.3	7.5	8.2
EBITDA Margin (%)	18.4	18.2	18.1	17.9	17.7
EBIT Margin (%)	15.4	15.5	14.9	14.8	14.8
Payout ratio (%)	38.3	92.1	60.0	60.0	60.0
ROE (%)	17.0	18.6	18.8	18.8	18.8
Capex/sales (%)	0.2	4.7	4.0	4.0	3.0
Capex/depreciation (x)	0.1	1.7	1.3	1.3	1.0
Net debt/equity (%)	-28.0	-22.8	-26.9	-28.5	-31.2
Net interest cover (x)	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



Company update

Valuation

Our target price is HK\$12.4

We use our China market COE (released in May 2014) of 9.5% (risk-free rate of 3.9% and equity risk premium of 5.6%, as close to 100% of the company's business is conducted in China). We use a beta of 1, in line with the beta we use for other consumer plays (1-1.1). We apply a terminal growth rate of 2% because we believe the company can sustain this rate of growth and it is in line with our 2-2.5% terminal growth range for China consumer stocks. Our target price equates to 16.6x/15.5x 2016/17E PE, which we believe is fair on a 12-month view.

Risks

Downside risks include a failure to launch new business initiatives for future growth and the sportswear profit margin failing to return to previous levels.

Figure 1: Deutsche Bank forecasts: old vs. new vs. market forecasts

YE Feb RMBm	DB forecast			Market consensus			Difference		
	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F
Sales	40,008	43,558	46,924	39,394	41,430	44,573	1.6%	5.1%	5.3%
EBIT	6,194	6,503	6,949	5,848	6,020	6,534	5.9%	8.0%	6.3%
Net profit	4,764	4,874	5,240	4,562	4,822	5,240	4.4%	1.1%	0.0%
Key changes									
YE Dec RMBm	Current forecast			Previous forecast			Difference		
	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F
Sales	40,008	43,558	46,924	40,211	43,489	46,764	-0.5%	0.2%	0.3%
GP	23,010	24,815	26,658	23,203	25,026	26,880	-0.8%	-0.8%	-0.8%
EBIT	6,194	6,503	6,949	6,055	6,481	6,969	2.3%	0.3%	-0.3%
Net profit	4,764	4,874	5,240	4,625	4,978	5,358	3.0%	-2.1%	-2.2%

Source: Deutsche Bank, Bloomberg Finance LP



Figure 2: Key changes in assumptions

YE Dec RMBm	Current forecast			Previous forecast			Change %		
	2015	2016F	2017F	2015F	2016F	2017F	2015	2016F	2017F
Store number	20,557	21,440	22,508	20,314	21,329	22,396	1.2%	0.5%	0.5%
Footwear	14,128	14,693	15,428	13,915	14,610	15,341	1.5%	0.6%	0.6%
Sportswear	6,429	6,747	7,081	6,399	6,719	7,055	0.5%	0.4%	0.4%
Averaged sales	2.01	2.07	2.14	2.04	2.09	2.14	-1.1%	-0.7%	-0.2%
Footwear	1.66	1.64	1.67	1.69	1.72	1.75	-1.8%	-4.7%	-4.7%
Sportswear	2.75	2.97	3.09	2.75	2.84	2.92	-0.2%	4.6%	5.7%
Sales	40,008	43,558	46,924	40,211	43,489	46,764	-0.5%	0.2%	0.3%
Footwear	23,037	24,010	25,588	23,247	24,890	26,650	-0.9%	-3.5%	-4.0%
Sportswear	16,971	19,548	21,336	16,964	18,598	20,114	0.0%	5.1%	6.1%
GP	23,010	24,815	26,658	23,203	25,026	26,880	-0.8%	-0.8%	-0.8%
EBIT	6,194	6,503	6,949	6,055	6,481	6,969	2.3%	0.3%	-0.3%
Footwear	5,088	5,210	5,553	5,114	5,415	5,770	-0.5%	-3.8%	-3.8%
Sportswear	1,213	1,407	1,515	1,072	1,209	1,355	13.1%	16.4%	11.8%
Net profit	4,764	4,874	5,240	4,625	4,978	5,358	3.0%	-2.1%	-2.2%

Source: Deutsche Bank, company data

Figure 3: Half year breakdown

YE Feb RMBm	1HFY14	2HFY14	FY14	1HFY15	2HFY15	FY15
Revenue	16,739	20,056	36,794	18,556	21,452	40,008
Footwear	9,715	12,597	22,312	10,355	12,682	23,037
Sportswear	7,024	7,459	14,482	8,201	8,770	16,971
Revenue split %	45.50%	54.50%	100%	46.38%	53.62%	100%
Footwear	43.50%	56.50%	100%	55.80%	59.12%	100%
Sportswear	48.50%	51.50%	100%	44.20%	40.88%	100%
EBIT (segment)	2,498	3,288	5,787	2,780	3,520	6,301
Footwear	2,076	3,003	5,078	2,171	2,917	5,088
Sportswear	423	286	708	609	603	1,213
EBIT split %	43.20%	56.80%	100%	44.13%	55.87%	100%
Footwear	40.90%	59.10%	100%	42.67%	57.33%	100%
Sportswear	59.70%	40.30%	100%	50.25%	49.75%	100%
EBITM (segment)	14.9%	16.4%	15.7%	15.0%	16.4%	15.7%
Footwear	21.4%	23.8%	22.8%	21.0%	23.0%	22.1%
Sportswear	6.0%	3.8%	4.9%	7.4%	6.9%	7.1%
NP	1,931	2,471	4,402	2,086	2,678	4,764
NP split %	40.90%	59.10%	100%	42.67%	57.33%	100%

Source: Deutsche Bank, Company data, Note EBIT is before other operating cost

The authors of this report wish to acknowledge the contribution made by Louise Li, employee of Evalueserve, a third-party provider to Deutsche Bank of offshore research support services.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Belle International	1880.HK	10.80 (HKD) 27 May 15	14,15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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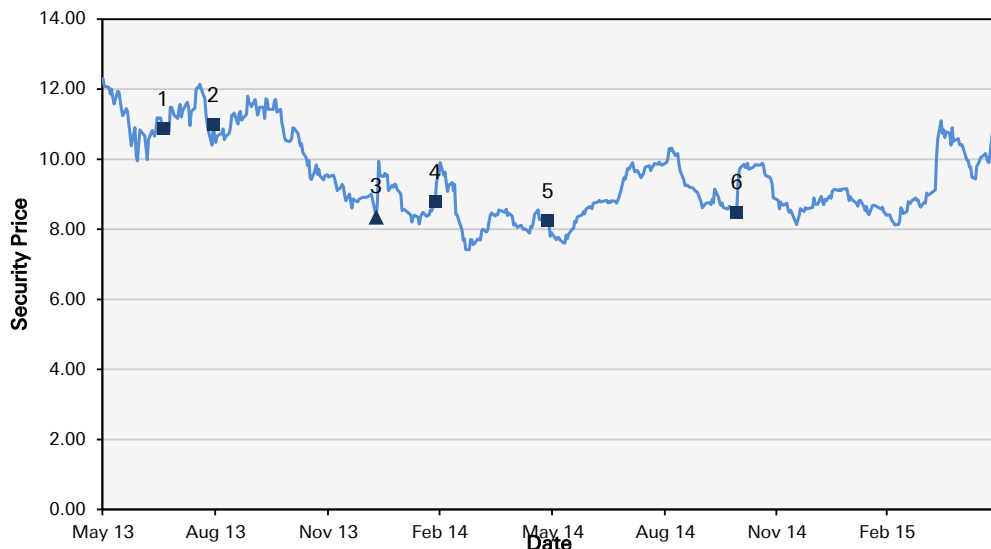
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Historical recommendations and target price: Belle International (1880.HK)

(as of 5/27/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	17/07/2013:	Hold, Target Price Change HKD12.58	4.	24/02/2014:	Buy, Target Price Change HKD11.88
2.	27/08/2013:	Hold, Target Price Change HKD12.44	5.	27/05/2014:	Buy, Target Price Change HKD12.40
3.	07/01/2014:	Upgrade to Buy, Target Price Change HKD11.81	6.	28/10/2014:	Buy, Target Price Change HKD12.00

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

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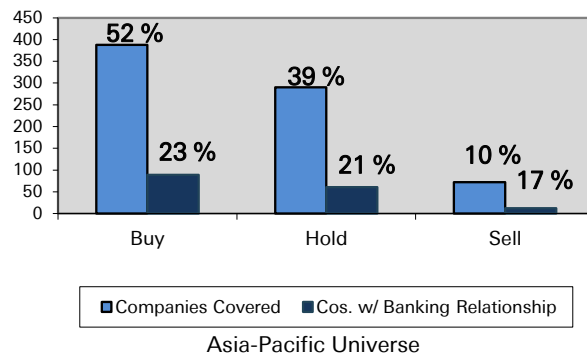
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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

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Equity rating dispersion and banking relationships





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David Folkerts-Landau

Group Chief Economist
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Global Chief Operating Officer
Research

Marcel Cassard
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FICC Research & Global Macro Economics

Richard Smith and Steve Pollard
Co-Global Heads
Equity Research

Michael Spencer
Regional Head
Asia Pacific Research

Ralf Hoffmann
Regional Head
Deutsche Bank Research, Germany

Andreas Neubauer
Regional Head
Equity Research, Germany

Steve Pollard
Regional Head
Americas Research

International locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
