



Belle International Holdings Ltd.

Footwear business continues to be a drag in FY16E

Neutral

1880.HK, 1880 HK

Price: HK\$10.82

▲ **Price Target: HK\$11.50**

Previous: HK\$8.10

Belle's FY15 results were in line with our estimates with net profit up c8%. At the analyst briefing, management guided for a weak outlook, given its footwear business (c82% of EBIT) is facing a structural slowdown, which fuels our concern that clear recovery might not happen in the near term and we tweak down our FY16 estimates. Although we are concerned about Belle's footwear business structurally, we raise our PT to HK\$11.5 from HK\$8 given: i) strong sportswear business, ii) strong balance sheet with RMB8.3bn cash, hence potential for further special dividend payment, iii) recent strong sentiment for China apparel/retail names that had underperformed for three years; and iv) possibility of an improvement in e-commerce strategy (though a slim chance), which we believe warrants a higher target P/E multiple and we now use 1 SD below the historical mean vs a previous 2 SDs. We maintain our Neutral rating.

- **Margin deflation in footwear segment continues:** We expect footwear segment to post 21.7% EBIT margin in FY16E (vs 22.1% in FY15) on rising labor cost and operating leverage with weak SSSG. Management sees limited positive benefits in wealth effect or in recent import tax cut (as most sneakers are already manufactured in China) and we think the tax cut might even impact Belle slightly negatively as it makes foreign brands' prices more competitive.
- **Management believes ecommerce business has potential but size is small:** Mgmt highlighted improving momentum for Belle's ecommerce business and expects to break even this year. However, as the scale is small and management still lacks a clear development footprint, they have no plans to aggressively push the business this year. We are concerned about the development and potential of its e-commerce business as we do not yet see any efforts to integrate the off-line and online channels and both are still run in isolation with different pricing and product offerings.

Sportswear is the only bright spot; apparel may prove difficult: Sportswear remains the only bright spot and we expect double-digit SSSG for FY16 with improving margins. However, we believe improvement in sportswear margins is unlikely to save blended margin this time. On the apparel front, mgmt sounds optimistic. It is natural that the business is growing fast at the initial stages given a very low base but we are concerned about the prospects given a very competitive apparel market in China, lack of branding power and supply chain integration in this category (unlike their footwear business). We are not building any major upside from the apparel business into our estimates.

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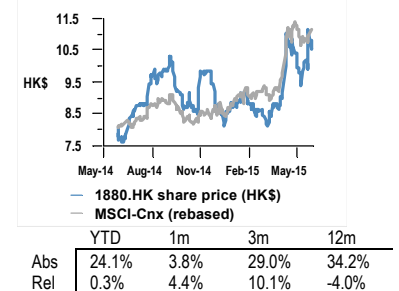
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Price Performance



Belle International Holdings Ltd. (Reuters: 1880.HK, Bloomberg: 1880 HK)

Rmb in mn, year-end Feb	FY13A	FY14A	FY15A	FY16E	FY17E
Revenue (Rmb mn)	36,249	36,794	40,008	42,716	45,659
Net Profit (Rmb mn)	4,492	4,402	4,764	4,998	5,229
EPS (Rmb)	0.53	0.52	0.58	0.60	0.63
Recurring EPS (Rmb)	0.49	0.48	0.53	0.55	0.57
DPS (Rmb)	0.20	NA	0.59	0.36	0.38
Revenue growth (%)	10.3%	1.5%	8.7%	6.8%	6.9%
Net Profit growth (%)	3.2%	(2.0%)	8.2%	4.9%	4.6%
Recurring profit growth	1.2%	(2.8%)	8.2%	4.4%	4.1%
EPS growth (%)	3.2%	(2.0%)	10.4%	4.9%	4.6%
ROE	17.2%	15.5%	17.0%	17.5%	16.9%
ROA	13.3%	12.2%	13.4%	13.6%	13.4%
P/E (x)	16.3	16.6	15.0	14.3	13.7
P/BV (x)	2.9	2.8	2.9	2.7	2.5
EV/EBITDA (x)	14.0	14.0	13.1	12.6	12.1
Dividend Yield	2.3%	-	6.8%	4.2%	4.4%

Source: Company data, Bloomberg, J.P. Morgan estimates. *2013A represents YE Dec-13. 2014A represents YE Feb-14. 2015 represents YE Feb-15.

Company Data

Shares O/S (mn)	8,434
Market Cap (Rmb mn)	73,030
Market Cap (\$ mn)	11,772
Price (HK\$)	10.82
Date Of Price	27 May 15
Free Float(%)	55.6%
3M - Avg daily vol (mn)	21.78
3M - Avg daily val (HK\$ mn)	212.77
3M - Avg daily val (\$ mn)	27.4
MSCI-Cnx	8500.50
Exchange Rate	7.75
Price Target End Date	30-Aug-16

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
(1) SSS momentum (2) Acquisition in the horizon, given large cash horde on the balance sheet (3) Sustainability of margins	(1) Improving sales momentum, sudden turnaround in footwear SSSG (2) Higher-than-expected gross margins (3) Management coming up with a feasible plan focusing on full integration of online and offline platforms	(1) Erosion in gross margin due to product mix if the company becomes more aggressive on mass market brand; (2) Lack of pricing increases from e-commerce competition; (3) Market share losses to International female footwear brands.

Key financial metrics	FY14A	FY15A	FY16E	FY17E
Revenues (LC)	36,794.4	40,008.1	42,715.5	45,659.0
Revenue growth (%)	1.5%	8.7%	6.8%	6.9%
EBITDA (LC)	6,370.2	6,889.0	7,140.1	7,424.0
EBITDA margin (%)	17.3%	17.2%	16.7%	16.3%
Tax rate (%)	27.4%	28.0%	27.0%	27.0%
Net profit (LC)	4,402.2	4,763.9	4,997.8	5,228.7
EPS (LC)	0.52	0.58	0.60	0.63
EPS growth (%)	-2.0%	10.4%	4.9%	4.6%
DPS (LC)	-	0.59	0.36	0.38
BVPS (LC)	3.11	3.02	3.26	3.51
Operating cash flow (LC mn)	-	5,444.0	4,582.9	5,298.8
Free cash flow (LC mn)	(262.4)	3,760.0	3,275.9	3,944.3
Interest cover (X)	-17.6	-17.9	-17.0	-15.3
Net margin (%)	12.0%	11.9%	11.7%	11.5%
Sales/assets (X)	1.1x	1.2x	1.3x	1.3x
Debt/equity (%)	9.0%	10.6%	9.8%	9.1%
Net debt/equity (%)	-1.8%	-0.2%	-4.0%	-9.3%
ROE (%)	15.5%	17.0%	17.5%	16.9%
Key model assumptions	FY14A	FY15A	FY16E	FY17E
Sales Growth	1.5%	8.7%	6.8%	6.9%
Gross Margin	57.4%	57.5%	56.9%	56.4%
Operating Margin	14.3%	14.4%	13.9%	13.5%

Source: Bloomberg, Company data and J.P. Morgan estimates.

Sensitivity analysis	EBIT		EPS	
	FY16E	FY17E	FY16E	FY17E
Sensitivity to				
1% chg in sales	7.2%	7.4%	8.6%	8.8%
1% chg in Gross margin	-3.1%	-3.2%	-3.1%	-3.2%
1% chg in opex as a % of sales	-3.1%	-3.2%	-3.7%	-3.8%

Source: Bloomberg, Company data and J.P. Morgan estimates.

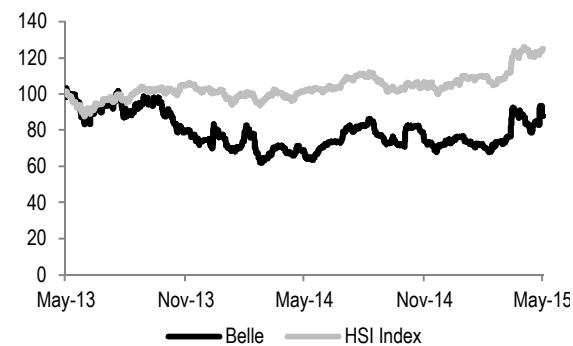
Comparative metrics	CMP LC	Mkt Cap \$Mn	P/E		EV/EBITDA		P/BV		YTD Stock perf.
			FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	
Ports Design	5.6	403.3	6.8x	6.8x	NA	NA	NA	NA	139.0%
Parkson	2.0	704.0	17.0x	13.3x	7.7x	6.7x	0.8x	0.7x	3.7%
Golden Eagle	12.1	2,764.0	15.9x	14.8x	10.3x	9.5x	2.8x	2.5x	40.7%
Anta	18.8	6,069.3	19.1x	16.8x	12.8x	11.0x	4.4x	4.0x	40.7%
Li Ning	4.7	1,135.6	NA	22.1x	17.0x	8.4x	2.3x	2.1x	35.8%

Source: Bloomberg, Company data and J.P. Morgan estimates.

Valuation and price target basis

We increase our PT from HK\$8.1 to HK\$11.5 per share due to a combination of multiple change, earnings revision and rolling forward our PT timeframe to Aug-16 (previously Feb-16). Our Aug-16 PT of HK\$11.5 is based on the average EPS of FY16E and FY17E and P/E of 15x (1 standard deviation below historical mean vs 2 st dev below previously due to sentiment tailwind).

Belle – Stock Price Performance



Source: Bloomberg.

JPMe vs. consensus, change in estimates

EPS	FY16E	FY17E
JPMe old	0.61	0.63
JPMe new	0.60	0.63
% chg	-0.2%	-0.2%
Consensus	0.58	0.62

Source: Bloomberg, Company data and J.P. Morgan estimates.

FY15 results recap

Table 1: 2H15 results

Belle P&L (RMB mn)	2H14	2H15A	% chg y/y	2H15E	Actuals vs Est
Turnover	20,056	21,452	7.0%	21,844	-1.8%
Gross profit	11,783	12,567	6.7%	12,762	-1.5%
Gross margin	58.8%	58.6%		58.4%	
Selling and distribution costs	-7,210	-7,560	4.9%	-8,132	-7.0%
G&A expenses	-1,517	-1,769	16.6%	-1,419	24.6%
Total opex	-8,727	-9,329	6.9%	-9,551	-2.3%
as % of sales	-43.5%	-43.5%		-43.7%	
Operating profit	3,057	3,238	5.9%	3,211	0.8%
Operating margin	15.2%	15.1%		14.7%	
Other income	187	227		232	
Share of associates	3	19		-3	
Net interest	177	161		191	
Pre-tax profit	3,423	3,645	6.5%	3,632	0.3%
Tax	-956	-967	1.1%	-994	-2.7%
Tax rate	27.9%	-26.5%		-27.4%	
Net Profit attributable to share holders	2,471	2,686	8.7%	2,658	1.1%
Net margin	12.3%	12.5%		12.2%	

Source: J.P. Morgan estimates, Company data.

Table 2: FY15 results

Belle P&L (RMB mn)	FY14	FY15A	% chg y/y	FY15E	Actuals vs Est
Turnover	36,794	40,008	8.7%	40,400	-1.0%
Gross profit	21,112	23,010	9.0%	23,205	-0.8%
Gross margin	57.4%	57.5%		57.4%	
Selling and distribution costs	-12,966	-13,920	7.4%	-14,492	-3.9%
G&A expenses	-2,869	-3,318	15.6%	-2,968	11.8%
Total opex	-15,835	-17,238	8.9%	-17,460	-1.3%
as % of sales	-43.0%	-43.1%		-43.2%	
Operating profit	5,277	5,772	9.4%	5,746	0.5%
Operating margin	14.3%	14.4%		14.2%	
Other income	389	422		427	
Share of associates	5	22		0	
Net interest	362	386		416	
Pre-tax profit	6,033	6,601	9.4%	6,589	0.2%
Tax	-1,653	-1,851	11.9%	-1,878	-1.4%
Tax rate	-27.4%	-28.0%		-28.5%	
Net Profit attributable to share holders	4,402	4,764	8.2%	4,735	0.6%
Net margin	12.0%	11.9%		11.7%	

Source: J.P. Morgan estimates, Company data.

Table 3: 2H15 sales breakdown and margins

	2H14	2H15A	% chg y/y	2H15E	Actuals vs Est
Revenue Breakdown	20,056	21,452	7.0%	21,844	-1.8%
Footwear	12,597	12,682	0.7%	13,196	-3.9%
Sportswear	7,459	8,770	17.6%	8,648	1.4%
Gross profit breakdown	11,783	12,567	6.7%	12,762	-1.5%
Footwear	8,822	8,775	-0.5%	9,171	-4.3%
Sportswear	2,962	3,792	28.0%	3,592	5.6%
EBIT breakdown (EBIT + other income and gain)	3,243	3,465	6.8%	3,444	0.6%
Footwear	3,003	2,917	-2.9%	3,010	-3.1%
Sportswear	286	603	111.3%	515	17.1%
Unallocated	-45	-56	23.9%	-82	
Gross margin	58.8%	58.6%		58.4%	
Footwear	70.0%	69.2%		69.5%	
Sportswear	39.7%	43.2%		41.5%	
EBIT margin (EBIT + other income and gain)	16.2%	16.2%		15.8%	
Footwear	23.8%	23.0%		22.8%	
Sportswear	3.8%	6.9%		6.0%	

Source: J.P. Morgan estimates, Company data.

Table 4: FY15 sales breakdown and margins

	FY14	FY15A	% chg y/y	FY15E	Actuals vs Est
Revenue Breakdown	36,794	40,008	8.7%	40,400	-1.0%
Footwear	22,312	23,037	3.2%	23,551	-2.2%
Sportswear	14,482	16,971	17.2%	16,849	0.7%
Gross profit breakdown	21,112	23,010	9.0%	23,205	-0.8%
Footwear	15,351	15,783	2.8%	16,179	-2.4%
Sportswear	5,762	7,227	25.4%	7,026	2.9%
EBIT breakdown (EBIT + other income and gain)	5,666	6,194	9.3%	6,173	0.3%
Footwear	5,078	5,088	0.2%	5,181	-1.8%
Sportswear	708	1,213	71.2%	1,125	7.8%
Unallocated	-121	-107	-11.6%	-133	
Gross margin	57.4%	57.5%		57.4%	
Footwear	68.8%	68.5%		68.7%	
Sportswear	39.8%	42.6%		41.7%	
EBIT margin (EBIT + other income and gain)	15.4%	15.5%		15.3%	
Footwear	22.8%	22.1%		22.0%	
Sportswear	4.9%	7.1%		6.7%	

Source: J.P. Morgan estimates, Company data.

Earnings revisions

Table 5: Earnings revision

Changes to estimates RMB mn	Old estimates		New estimates		% change	
	2016E	2017E	2016E	2017E	2016E	2017E
Turnover	42,947	45,679	42,716	45,659	-0.5%	0.0%
% chg y/y	6.3%	6.4%	6.8%	6.9%		
Gross profit	24,481	25,799	24,319	25,774	-0.7%	-0.1%
Gross margin	57.0%	56.5%	56.9%	56.4%		
Total opex	-18,499	-19,633	-18,376	-19,627	-0.7%	0.0%
as % of sales	-43.1%	-43.0%	-43.0%	-43.0%		
Operating profit	5,982	6,166	5,943	6,147	-0.6%	-0.3%
Operating margin	13.9%	13.5%	13.9%	13.5%		
% chg y/y	4.1%	3.1%	3.0%	3.4%		
Pre-tax profit	6,963	7,289	6,828	7,143	-1.9%	-2.0%
Tax	-1,880	-1,968	-1,843	-1,929		
Tax rate	-27.0%	-27.0%	-27.0%	-27.0%		
Net Profit attributable to share holders	5,109	5,348	4,998	5,229	-2.2%	-2.2%
% chg y/y	7.9%	4.7%	4.9%	4.6%		
Net margin	11.9%	11.7%	11.7%	11.5%		

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Belle International Holdings Ltd. (Neutral; Price Target: HK\$11.50)

Investment Thesis

Belle's FY15 results were in line with our estimates, with net profit up c8%. In the analyst briefing, management guided a weak outlook, given its footwear business (c82% of EBIT) is facing a structural slowdown, which fuels our concern that clear recovery might not happen in the near term and we tweak down our FY16 estimates. While structurally we are concerned about Belle's footwear business given: i) strong sportswear, ii) very strong balance sheet with RMB8.3bn cash, iii) recent strong sentiment for China apparel/retail names that had underperformed for 2-3 years, iv) possibility of an improvement in e-commerce strategy (though with slim chance), we maintain our Neutral rating. Our revised PT is HK\$11.5.

Valuation

We increase our PT from HK\$8.1 to HK\$11.5 per share due to a combination of multiple change, earnings revision and rolling forward our PT timeframe to Aug-16 (previously Feb-16). Our Aug-16 PT of HK\$11.5 is based on the average EPS of FY16E and FY17E and P/E of 15x (1 standard deviation below historical mean vs 2 st dev below previously due to sentiment tailwind).

Risks to Rating and Price Target

Key upside risks include: 1) better-than-expected gross margin; 2) fast expansion of the new mass market brand, and 3) management coming up with a feasible plan, focusing on full integration of online and offline platforms.

Key downside risks include: 1) erosion in gross margin due to product mix if the company becomes more aggressive on mass market brand; 2) lack of pricing increases from e-commerce competition; and 3) market share losses to international female footwear brands.

Belle International Holdings Ltd.: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Feb	FY14	FY15	FY16E	FY17E	FY18E	Rmb in millions, year end Feb	FY14	FY15	FY16E	FY17E	FY18E
Revenues	36,794	40,008	42,716	45,659	48,848	PBT	6,033	6,601	6,828	7,143	7,566
% change Y/Y	1.5%	8.7%	6.8%	6.9%	7.0%	Depr. & amortization		1,117	1,197	1,277	1,357
Gross Profit	21,112	23,010	24,319	25,774	27,375	Change in working capital		(409)	(1,154)	(707)	(744)
% change Y/Y	1.2%	9.0%	5.7%	6.0%	6.2%	Tax & Other		17	(444)	(486)	(571)
Gross margin	57.4%	57.5%	56.9%	56.4%	56.0%	Cash flow from operations	-	5,444	4,583	5,299	5,565
Other operating income	-	-	-	-	-	Capex		(1,498)	(1,000)	(1,000)	(1,000)
EBITDA	6,370	6,889	7,140	7,424	7,791	Sale of assets		61	0	0	0
% change Y/Y	(0.0%)	8.1%	3.6%	4.0%	4.9%	Acquisition of subsidiaries/intangibles		0	0	0	0
EBITDA Margin	17.3%	17.2%	16.7%	16.3%	15.9%	Other		808	0	0	0
EBIT	5,277	5,772	5,943	6,147	6,434	Cash flow from investing	-	(601)	(1,000)	(1,000)	(1,000)
% change Y/Y	(0.0%)	9.4%	3.0%	3.4%	4.7%	Equity raised/(repaid)	-	0	0	0	0
EBIT Margin	14.3%	14.4%	13.9%	13.5%	13.2%	Debt raised/(repaid)	-	251	0	0	0
Net Interest	362	386	421	486	571	Dividends paid		(4,386)	(2,999)	(3,137)	(3,323)
Share of JVs	5	22	0	0	0	Other		(1,686)	421	486	571
Other non operating income	389	422	464	510	561	Cash flow from financing	-	(5,821)	(2,578)	(2,652)	(2,752)
Earnings before tax	6,033	6,601	6,828	7,143	7,566	FX gain/(loss)		4	0	0	0
% change Y/Y	0.5%	9.4%	3.4%	4.6%	5.9%	Net change in cash	-	(974)	1,005	1,647	1,813
Tax	(1,653)	(1,851)	(1,843)	(1,929)	(2,043)	Ending cash	-	2,708	3,736	5,383	7,196
as % of EBT	27.4%	28.0%	27.0%	27.0%	27.0%	DPS	NA	0.59	0.36	0.38	0.40
Minorities	23	13	14	14	15						
Net income (reported)	4,402	4,764	4,998	5,229	5,539						
% change Y/Y	(2.0%)	8.2%	4.9%	4.6%	5.9%						
Recurring Net Income	4,014	4,342	4,534	4,719	4,977						
% change Y/Y	(2.8%)	8.2%	4.4%	4.1%	5.5%						
EPS (reported)	0.52	0.58	0.60	0.63	0.67						
% change Y/Y	(2.0%)	10.4%	4.9%	4.6%	5.9%						
Recurring EPS	0.48	0.53	0.55	0.57	0.60						
% change Y/Y	(2.8%)	10.4%	4.4%	4.1%	5.5%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Feb	FY14	FY15	FY16E	FY17E	FY18E	Rmb in millions, year end Feb	FY14	FY15	FY16E	FY17E	FY18E
Cash and cash equivalents	2,825	2,708	3,736	5,383	7,196	Gross margin	57.4%	57.5%	56.9%	56.4%	56.0%
Accounts receivable	3,285	4,798	4,096	4,378	4,684	EBITDA margin	17.3%	17.2%	16.7%	16.3%	15.9%
Inventories	6,571	6,349	7,560	8,172	8,825	Operating Margin	14.3%	14.4%	13.9%	13.5%	13.2%
Others	8,016	6,879	7,083	7,179	7,284	Net margin	10.9%	10.9%	10.6%	10.3%	10.2%
Current assets	20,696	20,734	22,474	25,112	27,989	Recurring net profit margin	10.9%	10.9%	10.6%	10.3%	10.2%
Goodwill	-	-	-	-	-	Sales growth	1.5%	8.7%	6.8%	6.9%	7.0%
Intangible assets	3,469	3,812	3,812	3,812	3,812	Net profit growth	(2.0%)	8.2%	4.9%	4.6%	5.9%
Long term investments	2,890	2,243	2,111	1,978	1,846	Recurring net profit growth	(2.8%)	8.2%	4.4%	4.1%	5.5%
Net fixed assets	3,691	4,142	4,077	3,933	3,709	EPS growth	(2.0%)	10.4%	4.9%	4.6%	5.9%
Other assets	959	973	973	973	973	Interest coverage (x)	NM	NM	NM	NM	NM
Total Assets	32,394	32,537	34,080	36,441	38,961	Net debt to equity	(1.8%)	(0.2%)	(4.0%)	(9.3%)	(14.5%)
Liabilities						Sales/assets	1.1	1.2	1.3	1.3	1.3
Short-term loans	2,360	2,658	2,658	2,658	2,658	Assets/equity	127.4%	127.0%	128.5%	126.2%	125.3%
Trade & other payables	761	1,013	1,008	1,090	1,177	ROE	15.5%	17.0%	17.5%	16.9%	16.5%
Others	2,715	3,492	3,054	3,257	3,489	ROCE	13.6%	14.8%	15.2%	14.7%	14.3%
Total current liabilities	5,837	7,163	6,721	7,005	7,324						
Long-term debt	0	0	0	0	0						
Others	222	252	252	252	252						
Total Liabilities	6,059	7,414	6,973	7,256	7,576						
Minorities	146	199	199	199	199						
Shareholders' equity	26,189	24,923	26,909	28,986	31,186						
BVPS	3.11	3.02	3.26	3.51	3.77						

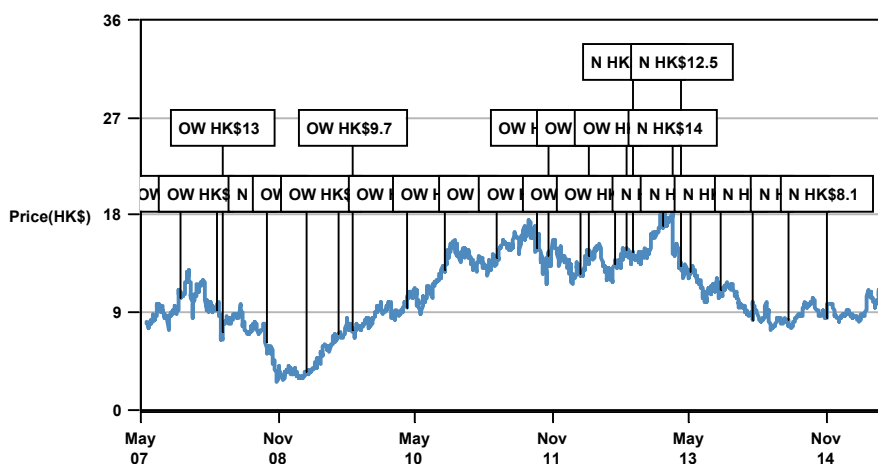
Source: Company reports and J.P. Morgan estimates. *2013A represents YE Dec-13. 2014A represents YE Feb-14. 2015E represents YE Feb-15E

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Belle International Holdings Ltd. (1880.HK, 1880 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 10, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
10-Oct-07	OW	10.40	12.00
29-Feb-08	OW	9.20	12.60
26-Mar-08	OW	7.21	13.00
11-Sep-08	N	6.23	7.00
20-Feb-09	OW	3.47	4.80
30-Jun-09	OW	7.06	7.85
27-Aug-09	OW	7.33	9.70
25-Mar-10	OW	9.40	10.80
25-Aug-10	OW	12.98	15.00
23-Mar-11	OW	14.10	17.50
26-Aug-11	OW	14.94	19.50
12-Oct-11	OW	14.22	16.50
19-Feb-12	OW	12.50	15.50
21-Mar-12	OW	14.18	16.00
02-Jul-12	OW	13.46	15.50
22-Aug-12	OW	14.86	17.00
15-Sep-12	N	14.50	13.50
13-Jan-13	N	16.92	14.80
21-Feb-13	N	18.36	14.00
26-Mar-13	N	13.26	12.50
01-May-13	N	12.66	11.20
27-Aug-13	N	11.00	9.60
07-Jan-14	N	8.36	9.00
27-May-14	N	8.24	7.00
28-Oct-14	N	8.48	8.10

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IB clients*	55%	49%	37%
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IB clients*	75%	68%	54%

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