GLOBAL

551 HK	Outperform
Price (at 05:21, 05 Mar 2015 GMT)	HK$29.90

Valuation	**HK$**	**39.00**
- PER		
12-month target	**HK$**	**39.00**
Upside/Downside	**%**	**+30.4**
12-month TSR	**%**	**+34.7**
GICS sector		
Consumer Durables & Apparel		
Market cap	**HK$m**	**49,303**
Market cap	**US$m**	**6,273**
30-day avg turnover	**US$m**	**6.9**
Number shares on issue	**m**	**1,649**

Investment fundamentals

Year end 31 Dec		2013A	2014E	2015E	2016E
Revenue	m	7,582.5	7,995.7	8,441.7	9,146.5
EBIT	m	408.6	424.8	466.5	661.9
EBIT growth	%	-19.2	4.0	9.8	41.9
Reported profit	m	434.8	321.1	500.7	689.5
Adjusted profit	m	430.8	431.4	500.7	689.5
EPS rep	¢	26.4	19.5	30.4	41.8
EPS rep growth	%	-17.8	-26.1	55.9	37.7
EPS adj	¢	26.1	26.2	30.4	41.8
EPS adj growth	%	-12.5	0.2	16.1	37.7
PER rep	x	14.6	19.8	12.7	9.2
PER adj	x	14.8	14.7	12.7	9.2
Total DPS	¢	14.2	15.1	16.2	16.2
Total div yield	%	3.7	3.9	4.2	4.2
ROA	%	6.0	6.0	6.3	8.7
ROE	%	10.4	9.8	11.0	14.0
EV/EBITDA	x	9.2	8.7	8.0	6.3
Net debt/equity	%	-0.1	2.3	0.9	-2.7
P/BV	x	1.5	1.4	1.4	1.2

Source: FactSet, Macquarie Research, March 2015
(all figures in USD unless noted, TP in HKD)

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6 March 2015

Yue Yuen

Transition offence

Initiate with Outperform; target price HK$39.0/sh

We initiate coverage of Yue Yuen Industrials (YY) with an Outperform rating and a target price of HK$39.0/sh based on a FY16E PER of 12x as we see it making progress in capacity relocation away from China. We believe the new management's focus on RoI and a renewed effort to tap the China consumer retail market should drive a recovery in margins. YY is trading at 9x FY16E earnings and offers a 4.2% 2015E dividend yield vs peers' PER of 13x-14x and 5.0% dividend yield. Our FY16E earnings estimate is 16% above consensus as we expect margins to recover faster than consensus expectations.

We see internal restructuring starting to bear fruit in 2016

We forecast OEM volume, which we estimate dropped 1.0% in 2014, will rise 5% in 2016 thanks to: 1) a reduction in its China capacity exposure from 50% in FY09 to <30% in the next twelve months; and 2) optimization of the manufacturing process for its production lines. During our visit to YY's factory in Vietnam, we saw increasing automation and streamlining of production lines. We believe its production line revamp from 'bulk process' to smaller, more flexible lines will enable it to reduce lead-times and better control order flow, thereby accommodating changing demands of customers. We believe this is the right growth strategy and we expect client order wins as it completes the transition.

Margins to expand with management's focus on returns

Our forecast of margin expansion rests on the new management team's focus on margin growth (vs previous management's emphasis on volume growth). We believe margin gains will be driven by a shift to higher-end products and rationalizing client orders to generate better returns. We expect OEM OP margins to recover from a 6-yr historical low of 6.5% in 2014E (6.5%-11.6% 2009-14) to 8.9% in 2016E vs its 10-year high of 13%. We believe the positive impact on margins from lower raw material prices is likely to be short-lived, as brands will be ready to exploit cost savings passed through to stimulate end-demand. We estimate cost pass-through to lag by six months.

Tapping China consumer demand

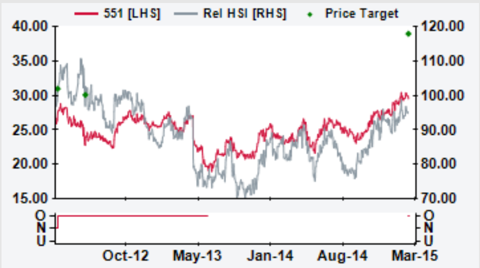
In addition to growing global demand for sportswear, YY has been tapping into the China consumer market through retail distribution through its subsidiary Pou Sheng (3813 HK, non-rated). We expect PS to maintain 6-7% SSSg over the next few years after starting afresh from restructuring 2 years ago. Robust demand, relatively low promotion spend and brand companies' marketing support should drive OPM recovery. Longer term, we believe YY is well positioned to benefit from changes in Chinese consumers' lifestyles and with brands' potentially shifting to local sourcing to reduce logistics costs 5-10 years down the road, China exposure may become a tailwind.

Bull case scenario represents >100% upside potential

Our long-term bull case valuation of HK$62.4/sh is based on ~10% revenue CAGR growth with gross margin of 27.6% and operating margin of 9.0%. We expect the PER multiple to re-rate to 15x by 2017E and this, together with an increase in earnings, could translate to 100% upside by 2017 if YY executes its stated strategy. Our Taiwan analyst Corinne Jian recently published a Taiwan footwear sector report with a bullish view on the sector. (PDF→ Taiwan footwear sector - Running faster)

Inside

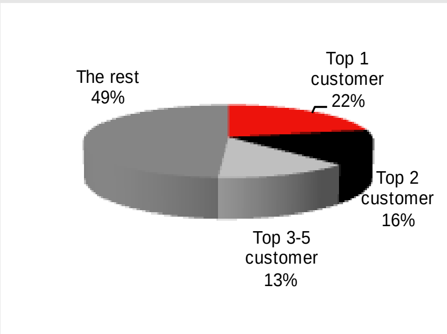
Fig 1 551 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015 (all figures in USD unless noted, TP in HKD)

Fig 2 Yue Yuen revenue breakdown by clients (2013)



Source: Company data, Macquarie Research, March 2015

Yue Yuen Industrials

Company profile

Yue Yuen (YY) is the world's largest branded athletic and casual footwear manufacturer by volume. It is also a leading retailer and distributor of sports footwear and apparel in China. Founded in 1988, Yue Yuen listed on the Stock Exchange of Hong Kong Limited in 1992. In 9M14, 30% of its volume was produced in China, 39% in Vietnam, 30% in Indonesia, and the rest in other countries. In 9M14, the company made 228.8m pairs of shoes, serving 60 brand customers with 50 factories in PRC, Indonesia, Vietnam, Cambodia and Bangladesh.

Management strategy

We see the company shifting its focus towards returns and margins compared volume growth previously. This is evident from several actions undertaken by the management after the current CEO Ms. Patty Tsai became managing director in June 2013. The company continues to relocate capacity away from China and expects further reduction in 2015E to <30%. Pou Sheng has gone through restructuring over the past 2 years and is beginning to see results, having turned profitable in 3Q14. We expect the company to optimize its product mix, increasing the proportion of high-margin products, and improving stability of client order flow by being more selective in an effort to improve returns.

Long-term growth drivers

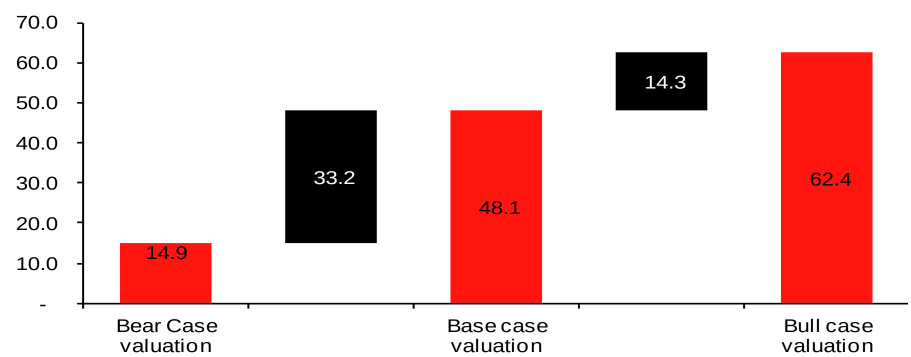
Unlike many other OEM/ODM companies, YY has tapped into the China consumer market and is one of the largest distributors for international brands such as Nike and Adidas. We believe the company is well positioned to tap China's growing demand for sportswear driven by changing lifestyles, given the government's policy aim to raise the sports participation rate.

Scenario analysis

Our long-term bull case valuation of HK$62.4/sh is based on ~10% revenue CAGR growth from 2014-17E with gross margin of 27.6% and operating margin of 9.0%. We expect the multiple to re-rate to 15x together with an increase in earnings and could see >100% upside if management executes its strategy.

Our bear case valuation of HK$14.9/sh is based on ~flattish revenue CAGR from 2014–17E with gross margin of 19.0% and operating margin of 4.5%. This scenario assumes the PER multiple de-rating to 9x together with a decline in earnings; this would translate to 50% downside if the company fails to execute its stated strategy and there are delays in capacity relocation and stagnant growth in orders from customers after sacrificing ASP.

Fig 3 Waterfall scenario analysis for Yue Yuen (HK$)



Source: Macquarie Research, March 2015

Transition offence

Investment thesis: Initiate with Outperform; Target price HK$39.0/sh

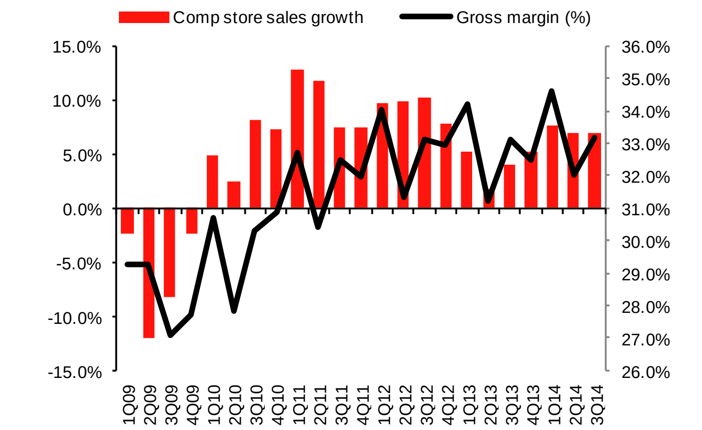
We initiate coverage on Yue Yuen with an Outperform recommendation and a target price of HK$39.0/sh, based on a PER of 12x on FY16E

We initiate coverage of Yue Yuen with an Outperform recommendation and a target price of HK$39.0/sh, based on a PER of 12x on FY16E, representing the average PER during 2010-2014. This compares to its closest peers Stella and Feng Tay trading at 13-14x FY16E, respectively. We apply the lower multiple of 12x as we believe the company's capacity exposure remains high at ~30% for 9M14, compared to Feng Tay at only 16%. Our target price represents a 35% total shareholder return and we believe the stock will deserve a re-rating once its capacity relocation is completed. YY is trading at 9x FY16E PER offering a 4.2% dividend yield, vs peers trading at 13x-14x and 5.0% dividend yield.

Strong sportswear demand globally should benefit OEM suppliers via increased orders

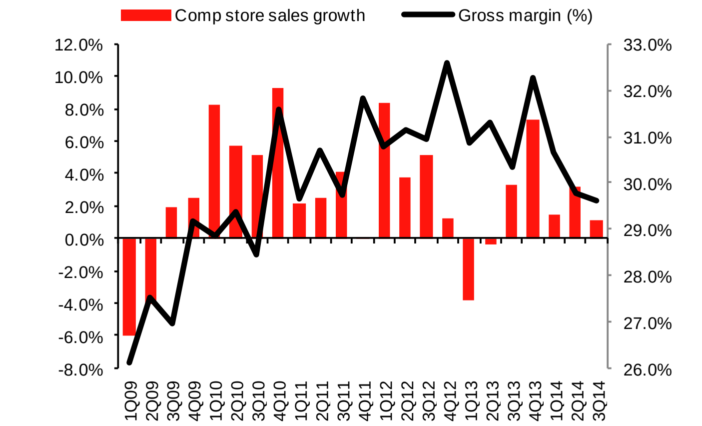
In its recent 4Q14 earnings announcement, US retailer Kohl's also said sales from the Nike brand within its department store grew 24% YoY in the quarter. Kohl's management noted that athletic footwear performance was much stronger and expects it to continue to outperform. We are also seeing strong demand in China sportswear with high-single digit to low-teen SSSg for different brands. In fact sportswear brands such as Anta or ASICS are already delivering strong results for FY14, driven by strong sportswear demand. Foot Locker and Dick's Sporting Goods both saw positive comp store growth in recent quarters. We forecast OEM volume growth to turn positive in 2015 before accelerating to mid-single digit growth in 2016E.

Fig 4 Foot Locker's strong comp store sales to date suggest sportswear demand remains strong globally



Source: Company data, Macquarie Research, March 2015

Fig 5 Comp store growth for Dick's sporting goods for 5 consecutive quarters



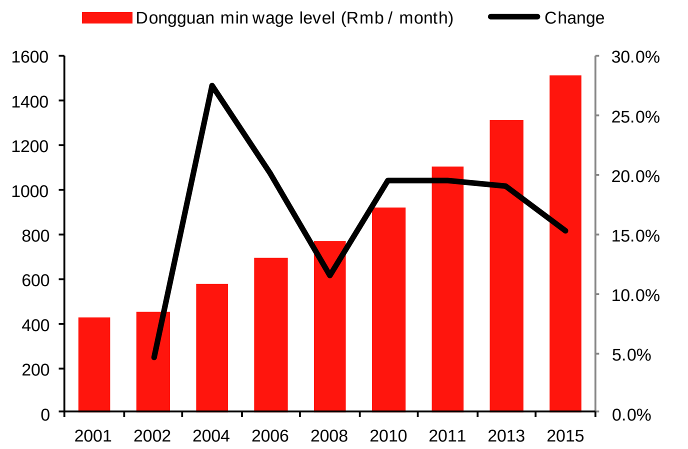
Source: Company data, Macquarie Research, March 2015

We see internal restructuring bearing fruit in 2016

We forecast OEM volume growth to accelerate from -1.0% in 2014E to 5% in 2016 due to reduction in its China capacity exposure to <30% in next twelve months

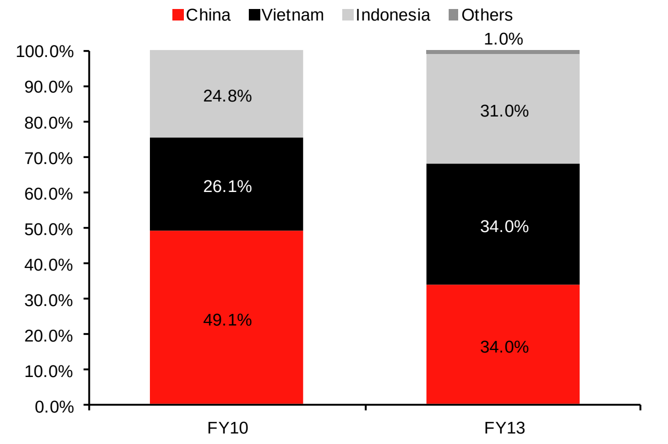
We forecast OEM volume growth to accelerate from -1.0% in 2014E to 5% in 2016 due to reduction of its China capacity exposure to <30% in the next twelve months from 50% in FY09 and optimization of the manufacturing process for its production lines. During our visit to YY's factory in Vietnam this January we saw increasing automation and streamlining of its production lines taking place. We believe the company's revamp of its production lines from "bulk process" to smaller, more flexible lines should allow it to reduce lead times and better control the order flow to accommodate the changing demands of brand customers. We believe this is all on the right track and expect client order wins as the company completes the transition. The minimum wage in Dongguan, for example, has grown at a 9.4% CAGR since 2001 and is currently 13% and 67% above that of Indonesia and Vietnam respectively.

Fig 6 Dongguan minimum wage increase at low to high teens % in recent years



Source: Company data, Macquarie Research, March 2015

Fig 7 Yue Yuen has been shifting capacity away from China due to labour shortage and wage pressure

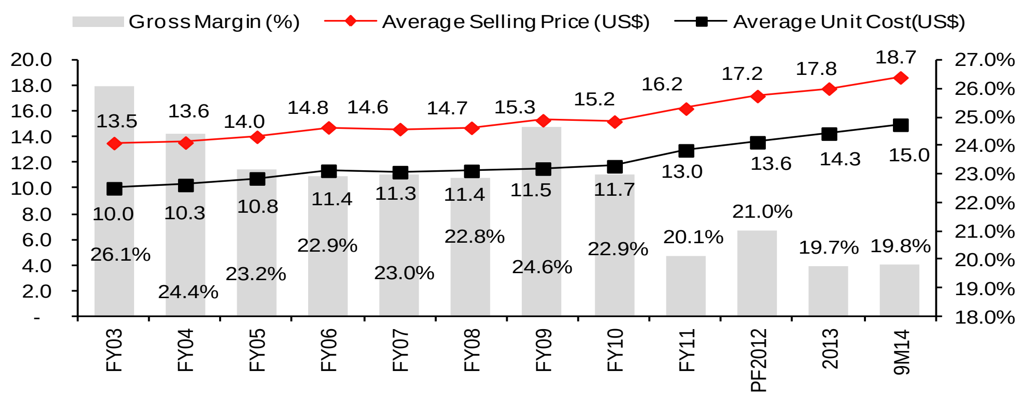


Source: Company data, Macquarie Research, March 2015

Margins to expand with management's focus on returns

We expect OEM OP margins to recover from historical lows at 6.5% in 2014E to its 10 year average of 8.6% in 2016, compared to its 10-year high at 13%. This may come from shifting to higher end products and other complementary services to be offered. We understand these changes will happen over time. We believe the positive impact to margins from lower raw material prices is likely to be short-lived as brands will be ready to exploit the cost savings passed through to stimulate end-demand. We estimate the cost pass through will occur with the usual 6-month time lag.

Fig 8 Athletic and casual shoes' Average Selling Price (ASP) continues to increase, driven by an optimization of product mix



Source: Company data, Macquarie Research, March 2015 *Note: The company's fiscal year end was September before PF2012

Tapping into China end-consumer demand

We highlight running as a sports category that has been booming in China. With the growth in the number of participants in this sport, it should continue to drive demand in the running category. We also believe running is not the only category receiving attention. Our industry channel checks suggest that athletic footwear is seeing much stronger demand than lifestyle/casual. We note that recent strong results in ASICS and Adidas's strong Greater China region performance suggest that the sportswear demand is here to stay. PDF China Sportswear - Adidas results confirm upcycle

Fig 9 Pou Sheng delivering mid to high single digit SSSg for the past three quarters

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Anta	Flat	Flat	Flat	M.s.d. +ve	M.s.d. +ve	Low double digit +ve	H.s. d +ve	H.s. d +ve
Xtep	Flat	Flat	Flat	Flat	L.s.d. +ve	M.s.d. +ve	M.s.d. +ve	
Peak	0.0%	0.0%	l.s.d +ve	l.s.d +ve	l.s.d +ve	l.s.d +ve	l.s.d +ve	l.s.d +ve
361	-1.5%	-0.8%	0.0%	1.5%	1.8%	2.8%	4.7%	5.5%
Pou Sheng	**5.0%**	**-1.0%**	**-2.0%**	**-1.0%**	**6.0%**	**8.0%**	**9.0%**	**N/A**
Nike China direct retail ^	Mid-teens	double digits	>20%	>20%	11.0%	22.0%	30.0%	N/A
Belle's sportswear	**11.0%**	**2.5%**	**4.5%**	**5.0%**	**7.0%***	**15.3%***	**14.4%***	**5.3%***

Source: Macquarie Research, March2015. ^ according to Nike's fiscal quarter 1Q13 = Dec 12-Feb 13 *According to Belle's new fiscal quarters

In Belle International - Sportswear takes the driver's seat, we wrote that the increasing adoption of active lifestyles and rising health awareness is driving robust growth in sportswear volume and ASP in China, and we believe Pou Sheng will maintain mid-high single-digit SSSg over the next few years. Robust demand, relatively low promotional spend and brand companies' marketing support, we believe, should drive OPM expansion. We are also seeing other foreign brands considering Pou Sheng as their distribution partner in China.

Risks to our call

In April 2014, some of YY's workers in the Gaobu factory went on strike and demanded an employee benefit payment adjustment

Another labour strike may undermine the company's perception among brands. In April 2014, some of YY's workers in the Gaobu factory went on strike and demanded an employee benefit payment adjustment. The production volume of the Gaobu factory accounted for ~10% of the Group's total in 2013. The company subsequently reviewed its employee benefits policy at the Gaobu factory and other factories and increased the contributions and employee benefits to its workers. We note that after the incident, certain brands shifted their orders away from China. If such incidents were to happen again, it could cause brands to shift their even more of their sourcing away from China. If YY was not able to accommodate these requests in a timely manner, it could result in a loss of orders.

Costs pass-through on expenses occurs slower than our expectations. Given YY's OEM/ODM operates under a cost plus model, and the transparency of raw material markets, one can expect the cost savings to be exploited by brands once they start to renegotiate contract terms. The same happens with labour cost pass-through. Any delays or change in terms of the pass through may have an impact on the company's financials, at least in the short term.

Product mix shift faster than expectations. One way YY is trying to mitigate the cost pressure is to move its products to the higher end. The company has been producing Lebron James's latest basketball shoes for Nike, "Lebron 12", and Adidas' popular "Energy Boost". If the company was able to win more of these orders, gross margin could increase given YY can charge a higher ASP for these shoes based on the higher technical expertise required.

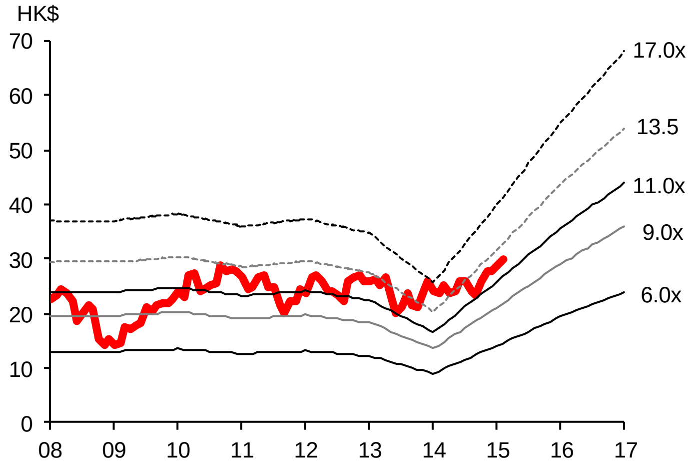
Capacity relocation happens faster than expected. We understand the company is closing down the loss making factories in China and relocating capacity elsewhere. If the company is able to speed up the relocation without sacrificing efficiency too much, margins could surprise on the upside.

Valuation and recommendation

We initiate coverage on Yue Yuen with a Outperform recommendation and a target price of HK$39.0/sh, based on a PER of 12x

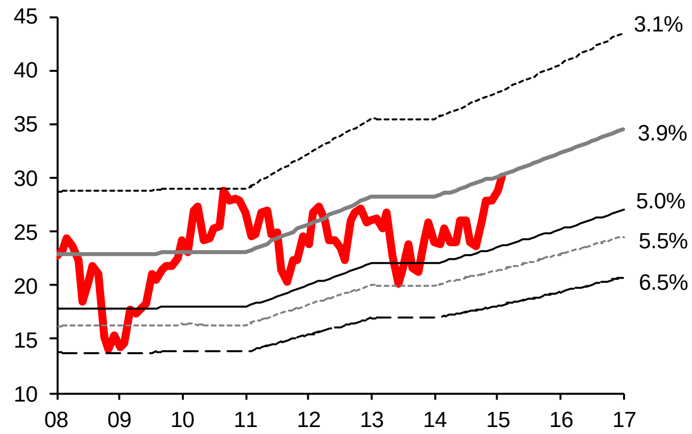
We initiate coverage on Yue Yuen with an Outperform recommendation and a target price of HK$39.0/sh, based on a PER of 12x on FY16E, representing the 5 year average PER during 2010-2014. This compares to its closest peers Stella and Feng Tay trading at 13-14x FY16E respectively. We apply this lower multiple of 12x as we believe the company's capacity exposure still remains high at ~30% for 9M14, compared to Feng Tay at only 16%. Our target price represents a 35% total shareholder return and we believe the stock will deserve a re-rating once its capacity relocation is completed.

Fig 10 Yue Yuen historical PER band



Source: Bloomberg, Macquarie Research, March 2015

Fig 11 Yue Yuen historical dividend yield band



Source: Bloomberg, Macquarie Research, March 2015

From a dividend yield perspective, the stock is trading at 4.2% for FY15E. In the past 5-6 years, the company has never reached beyond a 5.5% dividend yield, implying HK$22.9 based on our FY16E DPS assumption. According to the company's dividend history, they have maintained stable growth in absolute dividend amount over the past 10 years. On a dividend payout ratio, the company will try to maintain this at around 50-60% generally

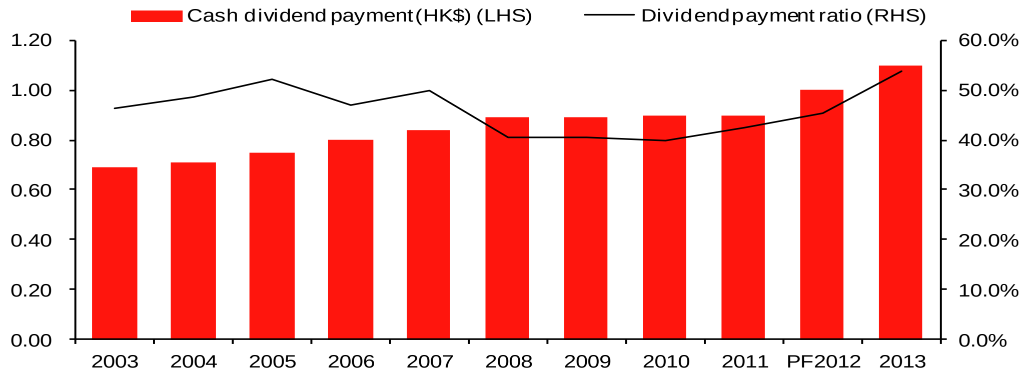
Fig 12 Yue Yuen DCF valuation

WACC:		**DCF Valuation**	
Risk Free Rate	3.0%	Sum of PV of FCF	2,973
Market Risk Premium	10.0%	Terminal Value	10,491
Equity Beta	0.60	Investment Securities (book value)	434
Cost of Equity	9.0%	Investment in Assoc. & JCEs (book value)	43
Cost of Debt (Pre-tax)	2.0%	Enterprise Value	13,941
Cost of Debt (After tax)	1.5%	Less: Minority Interests (book value)	-419
Target Debt weight	20.0%	Less Net Debt (book value)	7
Target Equity weight	80.0%	Equity Value	13,529
Tax Rate	25.0%	No. of Ord shares (m), fully diluted	1,740
WACC	**7.5%**	**Value per Share, RMB**	**$60.3**
Terminal Growth	**2.0%**	**Share Price upside to Valuation**	**102%**

Source: Macquarie Research, March 2015

Our DCF valuation suggests HK$60.3/sh, given the company's strong cash flow generation capability. This implies our target price is at a 35% discount to its valuation, largely due to the capacity relocation which caused margins and orders to decline in the near term. We expect the discount to narrow as the company completes its relocation and sees orders normalise.

Fig 13 Yue Yuen's dividend steadily rising



Source: Company data, Macquarie Research, March 2015

On a relative comp basis, we see Feng Tay and Stella as the closest comparisons to Yue Yuen given their footwear OEM nature. Feng Tay is trading at 14x FY16E PER while Stella is trading at 13x FY16E PER. Our target multiple of 12x is based on the fact that Yue Yuen has a higher capacity exposure in China at 30% compared to Feng Tay at 16%. We believe as Yue Yuen continues to reduce its capacity exposure in China, the multiple is likely to re-rate, however we believe it will take time for the relocation to reflect in the financials.

Fig 14 HK/China footwear/sportswear peer valuations

Company	Code	Price (HK$)	Rat-ing	TSR (HK$)	Up-side (%)	Mkt US$m	P/E (x) 2015E	P/E (x) 2016E	P/B (x) 2015E	P/B (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	EPS Growth 2015E	EPS Growth 2016E	PEG 2015E	Dividend yield 2015E	Dividend yield 2016E
Footwear																	
Belle*	1880 HK	8.30	OP	12.70	58%	8,929	12.1	11.1	2.1	1.9	17.6	18.4	6.2	9.6	1.9	4.0	5.3
Stella Intnl	1836 HK	20.10	OP	22.00	15%	2,030	14.8	13.4	2.1	2.0	14.4	15.4	14.1	11.0	1.0	5.1	5.8
Daphne	210 HK	2.07	N	2.50	24%	436	16.5	10.9	0.7	0.7	4.5	6.7	29.1	52.4	0.6	2.5	3.8
C Banner	1028 HK	2.28	NR	NR	NR	588	14.2	11.9	1.4	1.3	NA	NA	23.8	19.2	NA	2.4	3.0
Le Saunda	738 HK	2.93	NR	NR	NR	240	8.5	7.7	1.2	1.1	NA	NA	-22.6	10.8	-0.4	6.8	8.5
Footwear average							**13.2**	**11.0**	**1.5**	**1.4**	**12.2**	**13.5**				**4.2**	**5.3**
Sportswear																	
Dong xiang	3818 HK	1.31	NR	NR	NR	935	25.2	23.0	0.7	0.7	2.6	2.9	10.5	9.5	2.4	2.9	2.9
Anta Sports	2020 HK	16.34	OP	19.40	24%	5,351	16.6	14.4	3.6	3.1	23.5	23.3	16.6	15.1	1.0	4.6	5.5
Li Ning	2331 HK	3.04	OP	4.60	51%	744	59.2	15.9	1.6	1.5	3.6	9.8	-106.5	271.6	NA	0.0	0.0
Peak Sports	1968 HK	2.21	NR	NR	NR	595	10.8	9.4	0.8	0.8	8.2	9.5	17.9	15.2	0.6	5.5	6.7
361 Degrees	1361 HK	2.34	NR	NR	NR	664	10.0	6.3	0.7	0.6	9.8	10.6	8.6	57.9	1.2	3.7	4.2
Xtep	1368 HK	2.57	NR	NR	NR	716	7.5	7.0	0.9	0.8	NA	NA	6.9	6.1	1.1	7.6	7.8
Sportswear average							**14.0**	**12.0**	**1.3**	**1.2**	**11.0**	**11.6**				**4.9**	**5.4**
Yue Yuen	551 HK	29.90	N	39.0	30%	6,358	12.7	9.2	1.4	1.2	11.0	14.0	16.1	37.7	0.2	4.2	4.2
Li & Fung	494 HK	7.93	UP	5.20	-26%	8,559	16.5	16.1	1.5	1.5	9.3	9.2	25.9	2.3	7.0	4.4	4.5
Shenzhou	2313 HK	31.00	OP	32.20	7%	5,466	14.9	13.5	2.7	2.4	19.1	19.0	22.2	10.6	0.7	3.0	3.4
Pacific Textile	1382 HK	11.20	OP	13.60	26%	2,093	16.4	13.3	4.2	4.0	25.3	30.7	-11.6	23.4	-1.4	5.0	6.2
Texhong	2678 HK	7.68	NR	NR	NR	922	9.1	6.8	1.4	1.2	15.9	20.1	88.4	34.6	0.1	3.3	4.4
Feng Tay	9910 TT	135.00	OP	150.0	15%	2,533	17.4	14.4	5.8	5.0	36.8	37.1	30.2	20.6	0.6	4.2	5.0
Formosa Taffeta	1434 TT	32.40	OP	42.0	34%	1,745	19.1	14.1	1.0	1.0	5.4	7.2	-7.4	35.6	-2.6	4.1	5.5
Eclat Textile	1476 TT	360.00	OP	440.0	25%	3,193	21.4	16.4	7.9	6.3	41.5	42.9	54.6	31.0	0.4	3.0	3.9
FENC	1402 TT	32.30	OP	38.0	22%	5,418	17.6	14.0	0.9	0.9	5.1	6.6	49.2	25.7	0.4	4.7	5.4
Makalot	1477 TT	196.50	OP	190.0	1%	1,194	18.9	16.2	4.5	4.2	24.6	26.8	14.3	16.4	1.3	4.6	5.4
Toung Loong	4401 TT	102.50	OP	140.0	41%	419	17.1	13.1	4.4	3.8	27.7	31.0	58.1	30.0	0.3	4.2	5.5
OEM Average							**16.4**	**13.3**	**3.2**	**2.8**	**20.0**	**22.0**				**3.8**	**4.6**

Source: Bloomberg, Macquarie Research, March 2015. Share price data as at 2 March 2015

Our FY15 forecast if 4% below consensus and FY16 is 16% below

While our revenue estimates are largely in line with consensus estimates, we highlight that the street may have been too bearish regarding its margin recovery. Our gross margins are above consensus by 70bps and 240bps for FY15 and FY16 respectively.

Scenario analysis

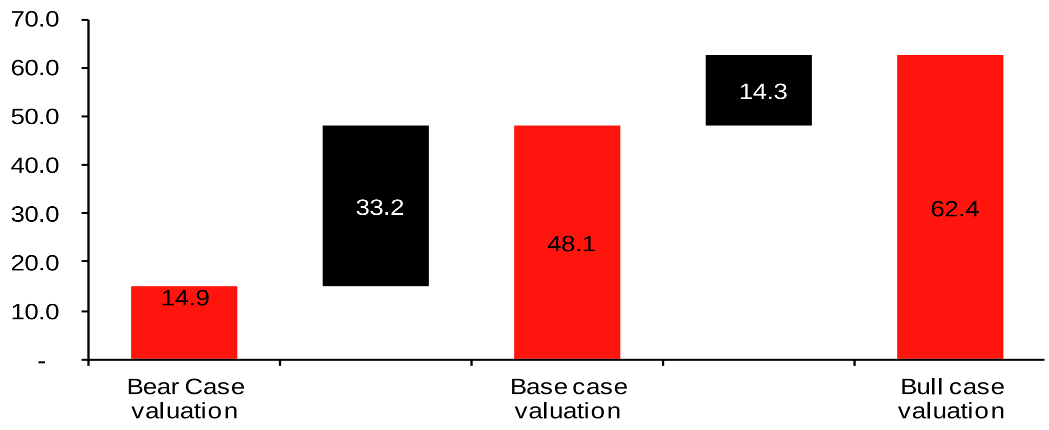
Our bull case scenario is based on a 5% 3-year volume CAGR in shoe shipments and 4% 3-year CAGR in ASP

Our bull case scenario is based a 5% 3 year volume CAGR in shoe shipments and 4% 3 Year CAGR in ASP, representing recovery in orders with capacity relocation completing earlier than expected while the company continues to improve the product mix. We expect gross margin for OEM to be 1.0ppt higher than our base case while the retail margin is at 34.6%, achieving Foot Locker's retail gross margin level, with a lower retail discount and product mix improvement. We expect the operating margin to reach 9.0% with operating leverage kicking in due to a stronger top line and better margins. We expect the multiple to re-rate to 15x together with increased earnings and arrive at a bull case valuation of HK$62.4/sh

Our bear case scenario is based on flattish 3 Year volume CAGR in shoe shipments and 1% 3 Year GAGR decline in ASP

Our bear case scenario is based on a flattish 3 Year volume CAGR in shoe shipments and 1% 3 Year GAGR decline in ASP, due to slower than expected capacity relocation while the company needs to continue to produce lower end products to train up new staff from new production facilities. We expect gross margin for OEM to be 4.9ppt lower than our base case while the retail margin is at 27.0%, due to poor sell-through resulting in steeper retail discounts. We expect the multiple to de-rate to 9x together with decline in earnings and we arrive at a bear case valuation of HK$14.9/sh

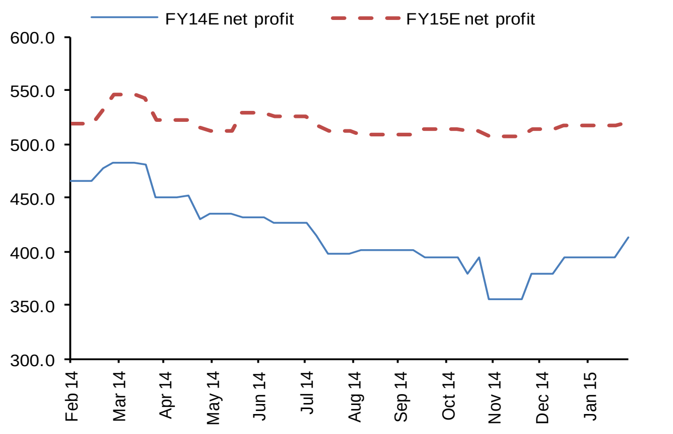
Fig 15 Waterfall chart for Scenario analysis



Source: Macquarie Research, March 2015

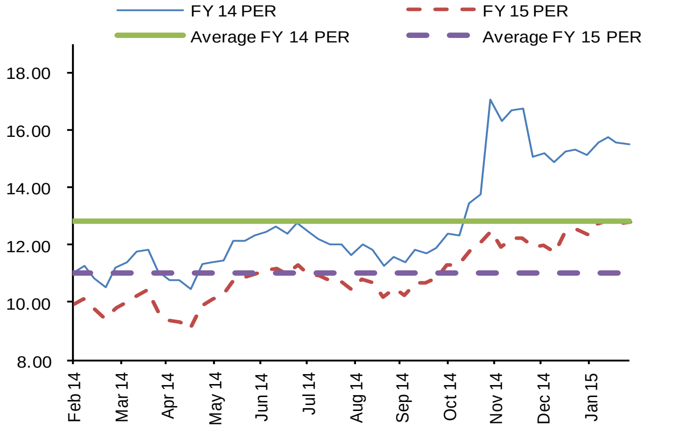
It would seem that YY saw multiple expansion in late 2014 despite a downward revision in earnings, driven by expectations of positive margin impact from lower raw material costs. We are also surprised by the limited change in FY15 over the past year. We note that there are currently only 6 analysts covering the stock, and only 4 of which disclose their recommendations. There are currently 2 Buys, 1 Hold and 1 Sell.

Fig 16 Consensus earnings cut by 11% for FY14 and 0% for FY15



Source: FactSet, March2015

Fig 17 Yue Yuen PER on consensus earnings forecasts



Source: FactSet, March2015

Financials

Earnings outlook

Looking ahead in 2015 we expect ASP to pick up at a low single digit pace driven by product mix enhancement and slower volume growth

Looking ahead in 2015, we expect ASP to pick up at a low single digit pace driven by product mix enhancement and slower volume growth given the company is undergoing capacity relocation away from China. In the retail business, we expect a conservative mid to high single digit SSSg in the next few years given the company is starting afresh from re-organisation and introducing new international brands.

In terms of gross margin trend we are forecasting 2015 OEM gross margin to recover slightly due to product mix improvement as cost savings will be passed through to brands, while retail gross margin should continue to trend up due to narrow discounts and better inventory management.

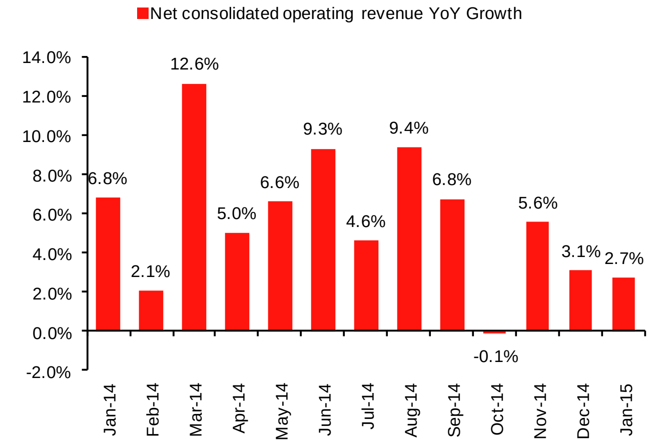
Fig 18 Yue Yuen Income statement

(US$m)	Pro-forma 2012*	2013A	2014E	2015E	2016E	2017E
OEM Volume growth		**1.1%**	**-1.0%**	**1.5%**	**5.0%**	**5.7%**
ASP growth		**3.2%**	**3.6%**	**2.0%**	**2.8%**	**3.5%**
SSSg		**1.0%**	**7.3%**	**7.0%**	**7.0%**	**7.0%**
Athletic shoes	3,711	3,813	3,833	3,996	4,326	4,748
Casual/outdoor shoes	1,237	1,357	1,467	1,497	1,603	1,748
Sports sandals	90	86	92	90	96	99
Retail sales – shoes and apparel	1,643	1,713	1,948	2,191	2,440	2,697
Soles, components and others	599	614	656	669	682	696
Total	**7,281**	**7,582**	**7,996**	**8,442**	**9,147**	**9,988**
Manufacturing COGS	(4,532)	(4,672)	(4,864)	(4,994)	(5,203)	(5,548)
Retail COGS	(1,089)	(1,263)	(1,379)	(1,534)	(1,700)	(1,879)
Total	(5,621)	(5,936)	(6,242)	(6,528)	(6,902)	(7,427)
Gross Profit	**1,660**	**1,647**	**1,753**	**1,914**	**2,244**	**2,561**
Operating Expense (US$m)						
Distribution and selling expenses	(634)	(624)	(643)	(683)	(722)	(783)
Administrative expenses	(554)	(563)	(599)	(650)	(713)	(778)
Research and development costs	(165)	(175)	(180)	(188)	(217)	(237)
Other expense	(6)	(34)	(119)	(37)	(40)	(44)
Total	**(1,359)**	**(1,396)**	**(1,542)**	**(1,558)**	**(1,693)**	**(1,843)**
Other income	**150**	**171**	**113**	**121**	**121**	**121**
Operating profit	**451**	**422**	**325**	**477**	**672**	**839**
Other gains and losses	(30)	8	(21)	0	0	0
Financing costs	(36)	(24)	(19)	(20)	(18)	(13)
Share of results of associates	45	43	52	57	63	69
Share of results of JCE	42	6	23	25	28	30
Pre-tax Profit	**472**	**454**	**359**	**539**	**745**	**926**
Tax Expense	(23)	(25)	(37)	(34)	(51)	(68)
Profit for the period	**450**	**429**	**322**	**505**	**695**	**858**
Minority Interest	(18)	(6)	1	5	5	7
Net Profit to shareholders	**468**	**435**	**321**	**501**	**689**	**852**
Recurring net profit	**442**	**431**	**431**	**501**	**689**	**852**
YoY Growth						
Athletic shoes	Not meaningful	2.7%	0.5%	4.2%	8.3%	9.8%
Casual/outdoor shoes	Not meaningful	9.7%	8.1%	2.0%	7.1%	9.1%
Sports sandals	Not meaningful	-3.9%	6.4%	-2.3%	6.8%	3.2%
Retail sales – shoes and apparel	Not meaningful	4.2%	13.8%	12.4%	11.4%	10.5%
Soles, components and others	Not meaningful	2.4%	6.9%	2.0%	2.0%	2.0%
Revenue	Not meaningful	4.1%	5.4%	5.6%	8.3%	9.2%
Gross Profit	Not meaningful	-0.8%	6.5%	9.2%	17.2%	14.1%
Operating Profit	Not meaningful	-6.5%	-23.1%	46.9%	41.0%	24.8%
Pre-tax Profit	Not meaningful	-3.8%	-21.0%	50.2%	38.2%	24.2%
Net Profit	Not meaningful	-7.1%	-26.2%	55.9%	37.7%	23.5%
Recurring profit	Not meaningful	-2.4%	0.1%	16.1%	37.7%	23.5%
OEM gross margin	19.4%	20.2%	19.6%	20.1%	22.4%	23.9%
Retail gross margin	34.4%	26.8%	29.2%	30.0%	30.3%	30.3%
Gross margin	22.8%	21.7%	21.9%	22.7%	24.5%	25.6%
OP margin	6.2%	5.6%	4.1%	5.6%	7.4%	8.4%
Pre-tax margin	6.5%	6.0%	4.5%	6.4%	8.1%	9.3%
Net margin	6.4%	5.7%	4.0%	5.9%	7.5%	8.5%
Recurring net margin	6.1%	5.7%	5.4%	5.9%	7.5%	8.5%

Source: Macquarie Research, March 2015 *Note: The company changed accounting year end in 2012. Pro forma 2012 financials reflect a comparable 12 month period with respect to 2013.

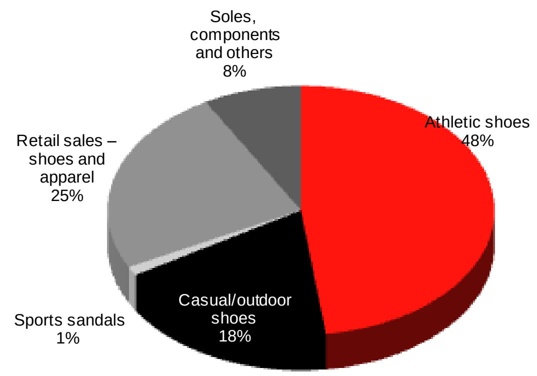
In 9M14, Yue Yuen's total turnover was up 6.8% YoY to US$ 5.9bn, where the company saw a pick-up in retail revenue of 11.5% against OEM's revenue growth of 5.3%. In the OEM business, the company registered a volume decline of 0.5% YoY to 228.8mn pairs while total ASP was up 4.4% YoY to US$ 17.47/ pair. Stripping out the low ASP shoe models, athletic and casual shoes ASP was at US$18.65/pair. On the retail side, Pou Sheng recorded 8% SSSg for 9M14.

Fig 19 Yue Yuen's monthly consolidated operating revenue YoY growth for past 13 months



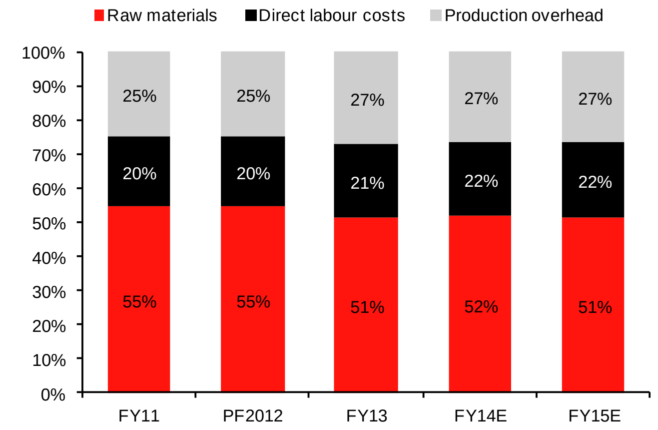
Source: Company data, Macquarie Research, March 2015

Fig 20 YY's 2014E revenue breakdown



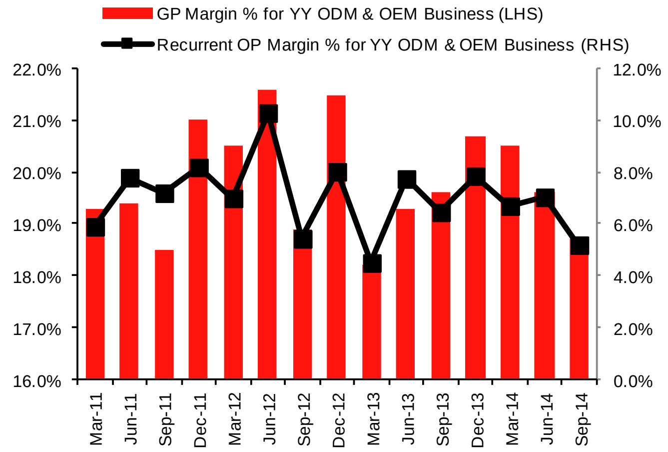
Source: Company data, Macquarie Research, March 2015

Fig 21 YY OEM cost breakdown



Source: Company data, Macquarie Research, March 2015

Fig 22 YY OEM/ODM GM and recurring OPM trend



Source: Company data, Macquarie Research, March 2015

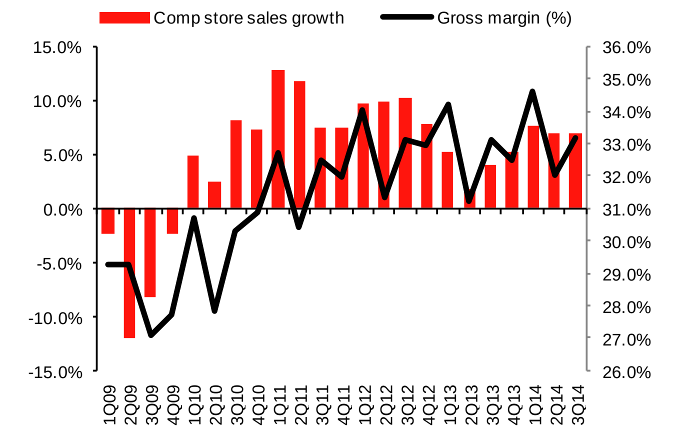
Strong sportswear demand globally should benefit OEM/ODM suppliers

29.3% of Yue Yuen's revenue exposed to USA while China also accounts for around 29%

29.3% of Yue Yuen's revenue is from the USA while China also accounts for around 29%. This means that sportswear end-user demand in these two countries already governs the majority of the revenue for the company. Strong sportswear sales at the end retailers likely translates into higher confidence by distributors and brands which in term can trigger a positive restocking cycle. A restocking cycle or even rush orders to fulfill demand would likely be positive to OEM suppliers such as Yue Yuen.

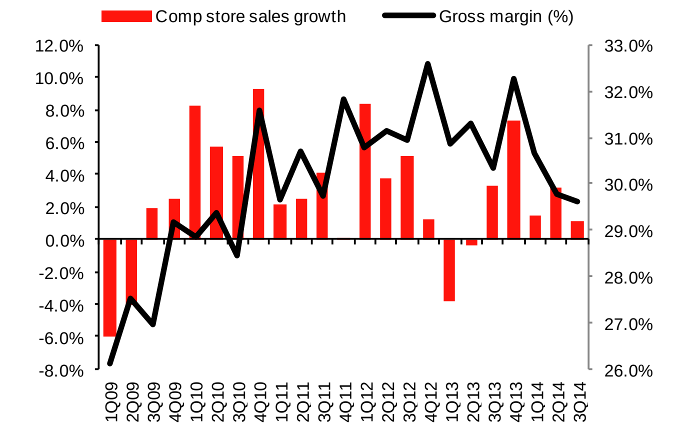
US Retailer Kohl's in its most recent 4Q14 earnings announcement said sales from the Nike brand within its department store grew by 24% YoY in the quarter. Kohl's management noted athletic footwear performance was much stronger and expect it to continue to outperform. We are also seeing strong demand in China sportswear with high-single digit to low teens SSSg for different brands. In fact we are already seeing sportswear brands such as Anta and ASICS delivering strong results for FY14, driven by strong sportswear demand. Foot Locker and Dick's Sporting Goods both saw positive comp store growth in recent quarters.

Fig 23 Foot Locker's strong comp store sales to date suggest sportswear demand remains strong globally



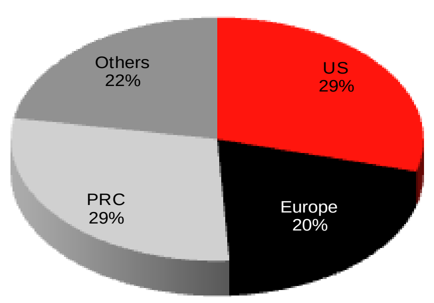
Source: Company data, Macquarie Research, March 2015

Fig 24 Comp store growth for Dick's sporting goods for 5 consecutive quarters



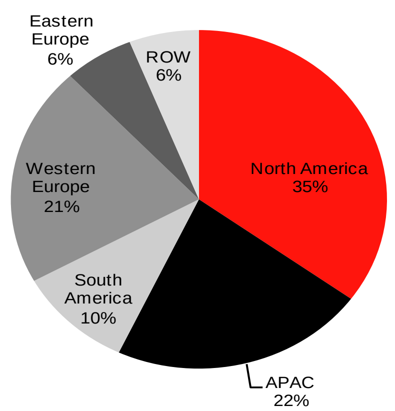
Source: Company data, Macquarie Research, March 2015

Fig 25 Yue Yuen revenue exposure by geography (2013)



Source: World Footwear 2012 Year Book, Macquarie Research, March2015

Fig 26 Global athletic footwear demand breakdown, 2012



Source: Euromonitor, Macquarie Capital (USA), March2015

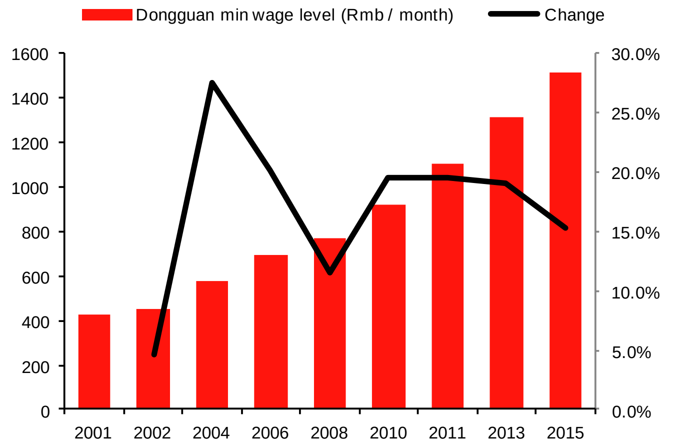
We see internal restructuring bearing fruit in 2016

To sum up the production situation in China, it is no longer a low cost country given the fierce increase in wages and related costs such as social insurance expense.

We forecast volume growth to accelerate from -1.0% in 2014E to 5% in 2016 due to reduction of its China capacity exposure to <30% in the next twelve months from 50% in FY09 and optimization of the manufacturing process at its production lines. The company is scheduled to open a new production facility in Myanmar, which is set to commence operations by 4Q15. With the company's ongoing efforts to modify its production line from bulk production to smaller, more flexible production lines to accommodate client demand, we see potential for order wins. While these flexible production lines only occupy <5-10%, it gives the company an option to cater for rush orders or bespoke orders, where they can shorten production lead times, in our view.

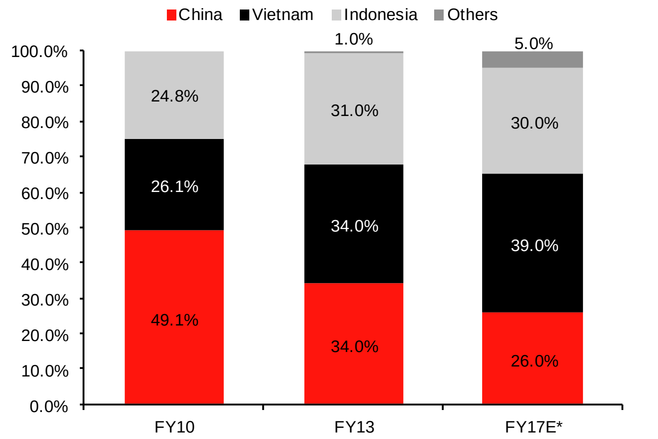
To sum up the production situation in China, it is no longer a low cost country given the fierce increase in wages and related costs such as social insurance expense. The company incurred a one-off US$90mn expense for the provision of additional Employee Benefits Payments for its factories in 2Q14. Given the increased labour expense, we estimate that a number of YY's China factories are loss making due to rising cost pressure. We expect YY to keep reducing its number of production lines in China and shift its capacity elsewhere over the next twelve months. This is different to other OEM/ODM suppliers that have relocated into other parts of China as Yue Yuen sees these regions are catching up fast in terms of wage growth with Dongguan or the Pearl River Delta.

Fig 27 Dongguan minimum wage increase at low to high teens % in recent years



Source: Company data, Macquarie Research, March2015

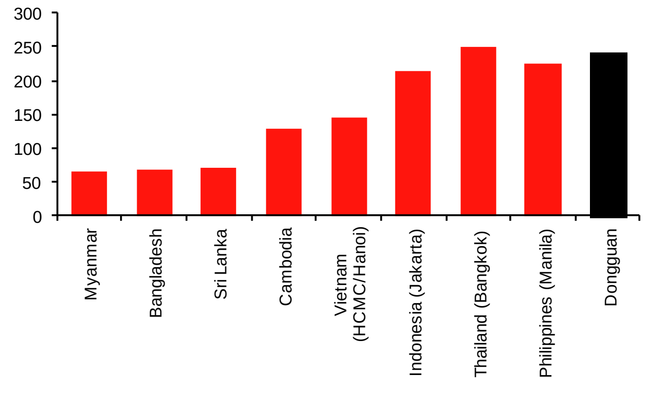
Fig 28 Yue Yuen has been shifting capacity away from China due to labour shortage and wage pressure



Source: Company data, Macquarie Research, March2015 *Note based on our forecasts

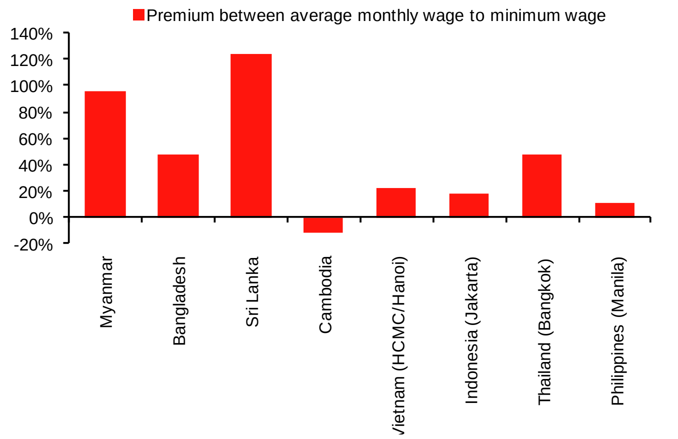
The remaining production lines in the Pearl River Delta Region will focus on products with higher value-add to generate higher ASP. YY is restructuring its supply chain and introducing automation to reduce the exposure to labour. The minimum wage in Dongguan, for example, has grown at a 9.4% CAGR since 2001 and is currently 13% and 67% above that of Indonesia and Vietnam's respectively

Fig 29 Minimum wages across Southeast Asian countries versus Dongguan (US$ / month)



Source: HKTDC, Macquarie Research, March2015

Fig 30 Premium of average monthly wage to minimum wage (%)



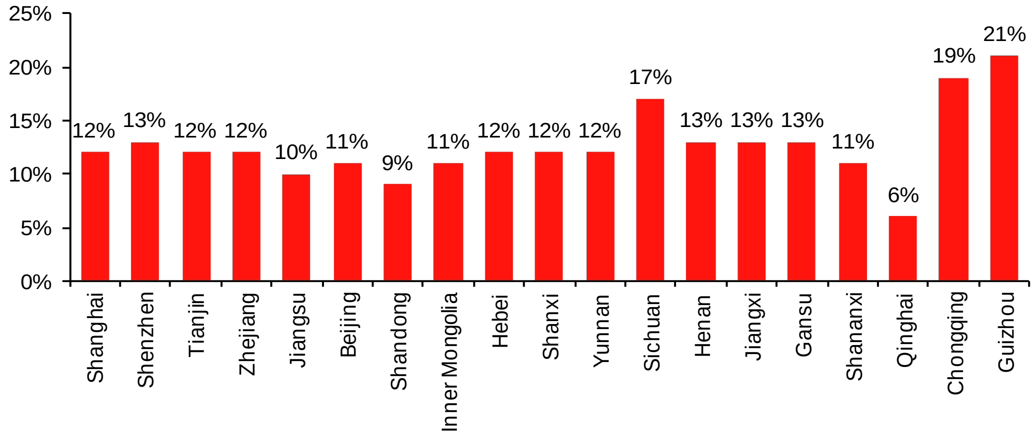
Source: HKTDC, Macquarie Research, March2015

Fig 31 Wage and minimum wage level comparison across different Southeast Asian countries

Country	Minimum wage	Remarks	Average Monthly Wage
Myanmar	US$ 65 per month	Temporary min salary for industrial zone workers	US$127
Bangladesh	US$ 68 per month		US$100
Sri Lanka	US$ 50-53/US$ 60-72 per month (unskilled/skilled worker)		US$161
Cambodia	US$ 128 per month	garment and shoe industries	US$113
Vietnam (HCMC/Hanoi)	US$ 145 per month		US$176
Haiphong	US$ 150- US$ 200 per month		US$176
Indonesia (Jakarta)	US$ 215 per month		US$253
Thailand (Bangkok)	US$ 9-10 per day		US$369
Philippines (Manila)	US$ 10-11 per day		US$249
Dongguan	US$ 242 per month	Rmb 1510/month	

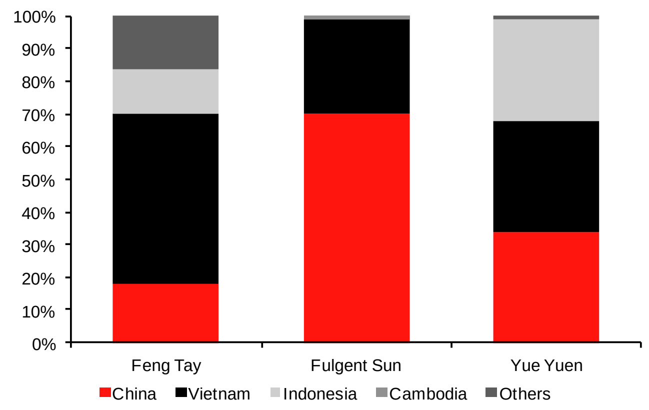
Source: HKTDC, JETRO, WageIndicator Foundation, Macquarie Research, March2015

Fig 32 Monthly minimum wage increase in 2014 by region in China



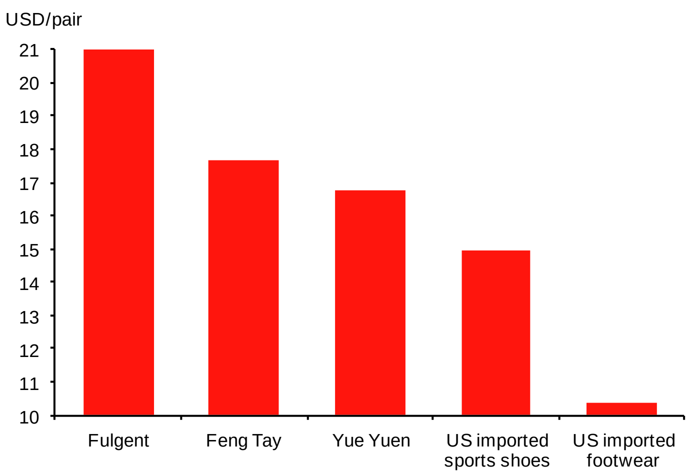
Source: Sun Art presentation, Macquarie Research, March 2015

Fig 33 Capacity breakdown by region – Feng Tay, Yue Yuen and Fulgent



Source: Company data, Macquarie Research, March2015

Fig 34 ASP comparison across different OEMs



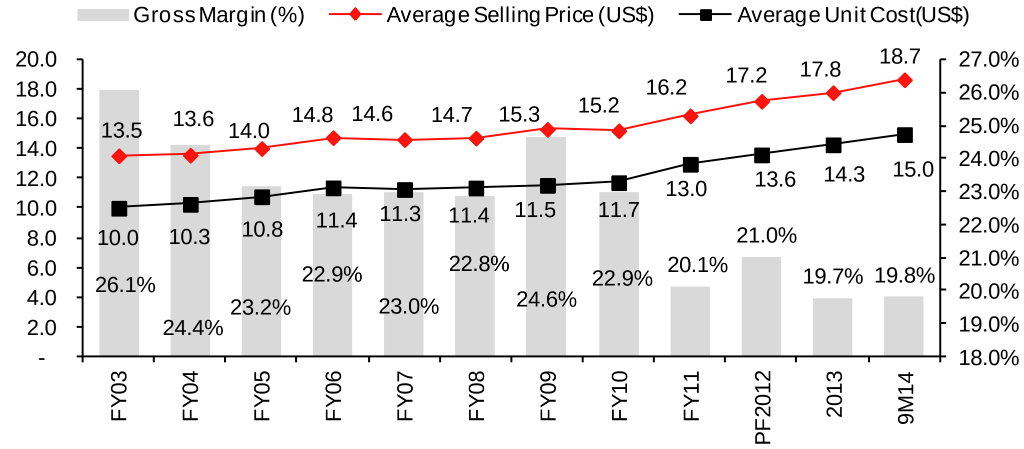
Source: Company data, Macquarie Research estimate, March2015

Margins to normalise in the long run

Our forecast of margin expansion is driven by management's focus on margins from volume growth previously

Our forecast of margin expansion is driven by management's focus on margins from volume growth previously, since second generation management took charge. The margin improvement comes from shifting to higher end products and rationalizing client orders to generate better returns. As a result, we expect OEM OP margins to recover from 6-year historical lows of 6.5% in 2014E to 8.9% in 2016, compared to its 10-year high at 13%. We expect the positive impact to margins from lower raw material prices to be short-lived as brands will be ready to exploit cost savings passed through to stimulate end-demand. We note that the cost pass through usually comes with a 6-month time lag

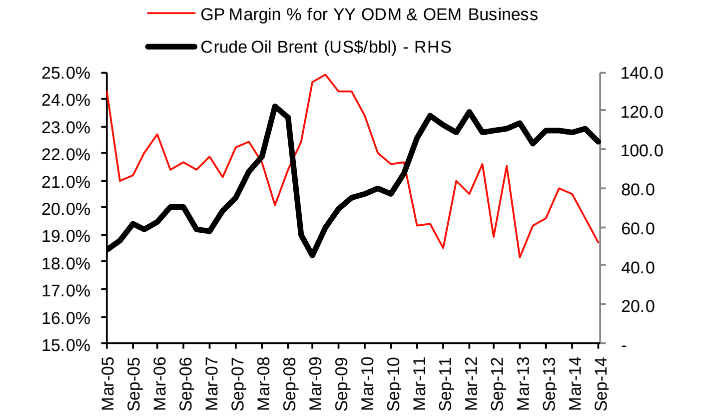
Fig 35 Athletic and casual shoes Average Selling Price (ASP) continues to increase, driven by an optimization of the product mix



Source: Company data, Macquarie Research, March 2015 *Note: The company's fiscal year end was September before PF2012

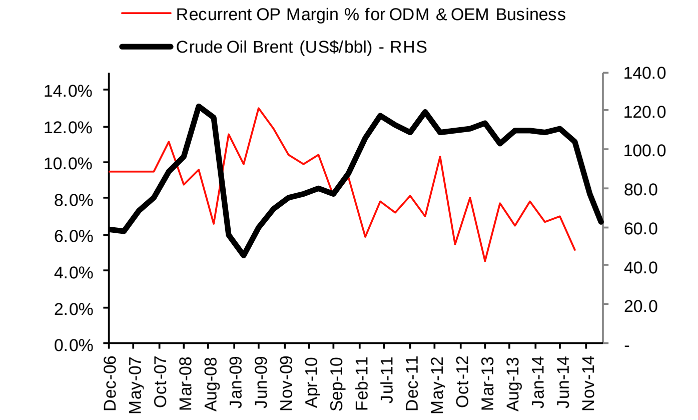
In the chart above, although gross margins for its mid to high end athletic and casual shoes shot up quickly in FY09, they fell back the next year. We believe this may suggest that raw material cost savings benefits are actually quite short term. A more granular picture can be observed in the charts below, where margins initially spiked up and trended down afterwards. We looked back at the past 10 year quarterly gross margins and saw gross margin spiked up to as high as 24.9% when oil prices fell to US$45-60/barrel, however it normalised at 22.0% a year later. We believe the transparent raw material market is the reason for this.

Fig 36 OEM Gross margin went up when oil prices fell during 2008-09



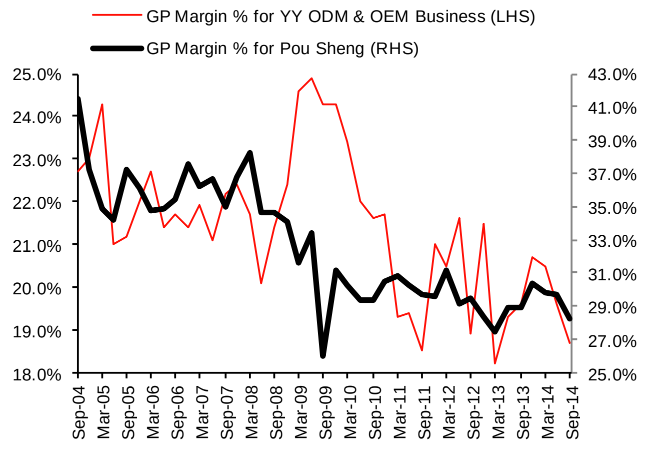
Source: Company data, Macquarie Research, March 2015

Fig 37 OEM Operating margin also went up as a result



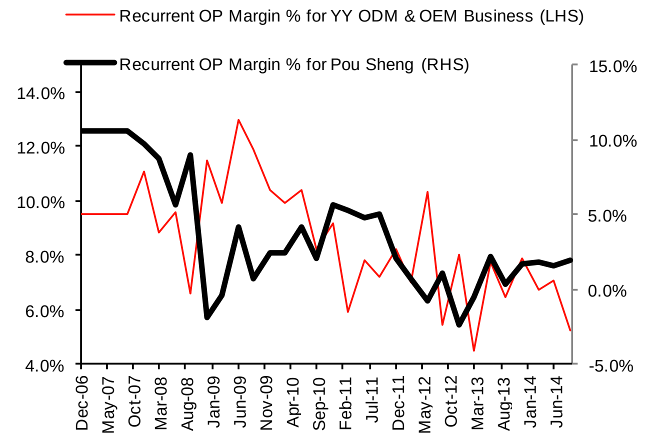
Source: Company data, Macquarie Research, March 2015

Fig 38 Quarterly gross margin comparison between OEM and Pou Sheng



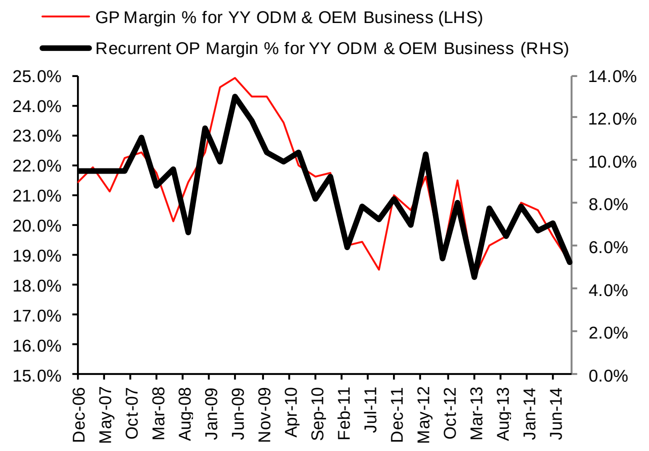
Source: Company data, Macquarie Research, March 2015

Fig 39 Quarterly recurrent operating margin comparison between OEM and Pou Sheng



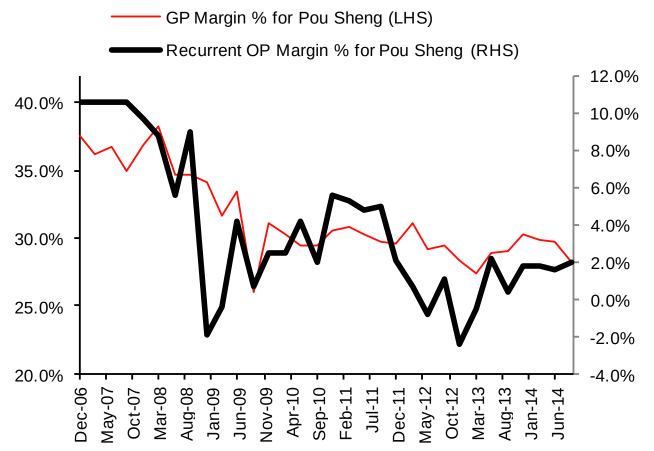
Source: Company data, Macquarie Research, March 2015

Fig 40 Margin trend for OEM business



Source: Company data, Macquarie Research, March 2015

Fig 41 Margin trend for Pou Sheng business

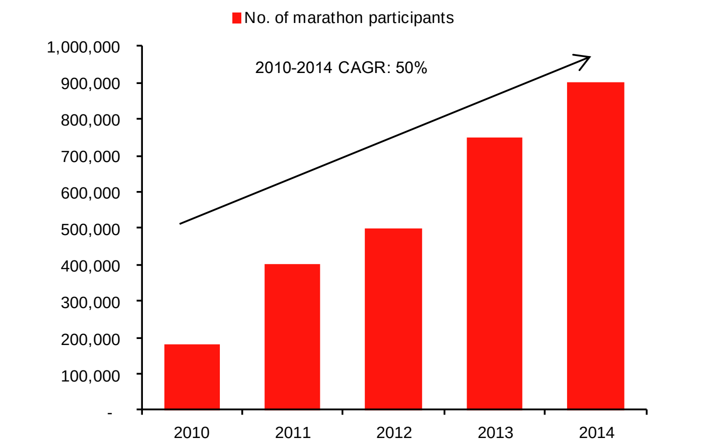


Source: Company data, Macquarie Research, March 2015

Retail riding on the rising sports participation rate in China

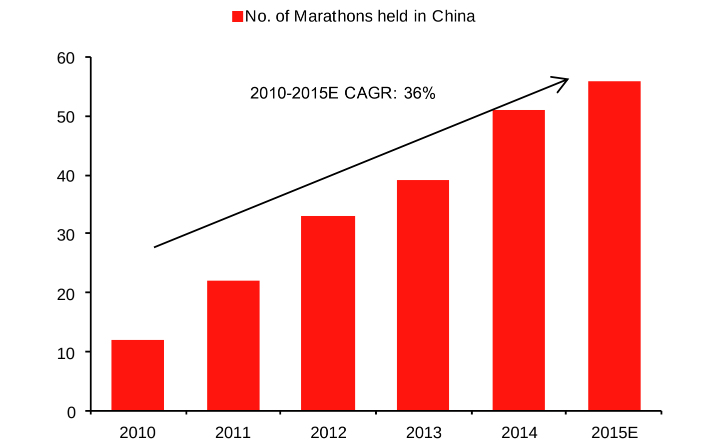
We highlight running as a sports category that has been booming in China. With growth in the number of marathons held in China and the number of participants in this sport, it should continue to drive demand in the running category. We also believe running is not the only category receiving attention. Our industry channel checks suggest that athletic footwear is seeing much stronger demand than lifestyle/casual. We note that recent strong results in ASICS and Adidas's strong Greater China region performance suggest that the sportswear demand is here to stay. PDF→China Sportswear - Adidas results confirm upcycle.

Fig 42 The no. of marathon participants reached 900k in 2014, ~5x the participants in 2010



Source: CAA, Macquarie Research, March 2015

Fig 43 Marathons in China: strong and still growing



Source: CAA, Macquarie Research, March 2015

Compared to its international peers such as Foot Locker and Dick's Sporting goods, we believe Pou Sheng still has upside in terms of gross margin improvement. Foot Locker's gross margin has been above 30% since 2011, while in only 4 quarters between 1Q11 and 3Q14 did we see Pou Sheng's gross margin above 30%. As a result we still see significant room for improvement for Pou Sheng. We believe the recent YoY dip in monthly revenue for January is likely due to the Chinese New Year holidays falling in Mid February in 2015 compared to early February in 2014.

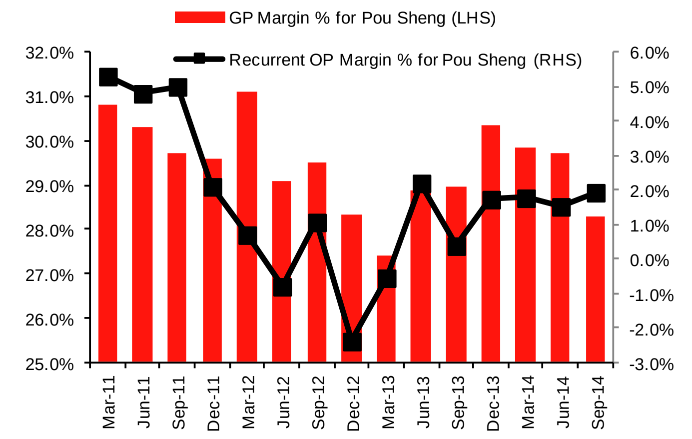
Fig 44 Pou Sheng delivering mid to high single digit SSSg for the past three quarters

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Anta	Flat	Flat	Flat	M.s.d. +ve	M.s.d. +ve	Low double digit +ve	H.s. d +ve	H.s. d +ve
Xtep	Flat	Flat	Flat	Flat	L.s.d. +ve	M.s.d. +ve	M.s.d. +ve	
Peak	0.0%	0.0%	l.s.d +ve	l.s.d +ve	l.s.d +ve	l.s.d +ve	l.s.d +ve	l.s.d +ve
361	-1.5%	-0.8%	0.0%	1.5%	1.8%	2.8%	4.7%	5.5%
Pou Sheng	**5.0%**	**-1.0%**	**-2.0%**	**-1.0%**	**6.0%**	**8.0%**	**9.0%**	**N/A**
Nike China direct retail ^	Mid-teens	double digits	>20%	>20%	11.0%	22.0%	30.0%	N/A
Belle's sportswear	**11.0%**	**2.5%**	**4.5%**	**5.0%**	**7.0%***	**15.3%***	**14.4%***	**5.3%***

Source: Macquarie Research, March2015. ^ according to Nike's fiscal quarter 1Q13 = Dec 12-Feb 13 *According to Belle's new fiscal quarters

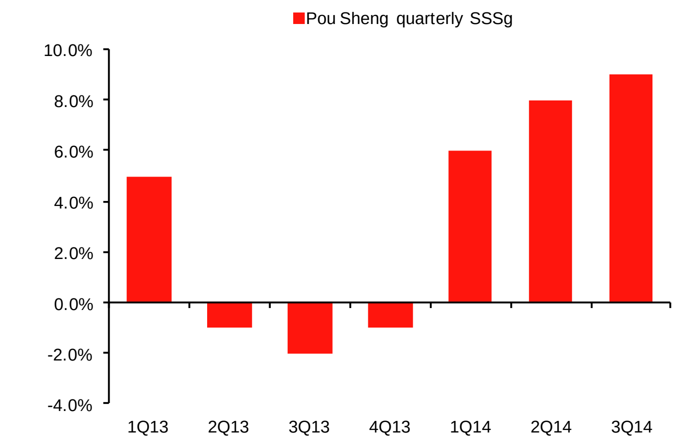
In PDF→Belle International - Sportswear takes the driver's seat, we wrote that the increasing adoption of active lifestyles and rising health awareness is driving robust growth in sportswear volume and ASP in China, and we believe Pou Sheng will maintain mid-high single-digit SSSg over the next few years. Robust demand, relatively low promotional spend and brand companies' marketing support, we believe, should drive OPM expansion. Other foreign brands are also considering Pou Sheng as their distribution partner in China. According to our ground checks, Pou Sheng has already opened stores for Under Armour (UA US, US$77.01, Neutral, TP: US$65.00) and Sketchers in China. We believe this is testament to Pou Sheng's rise to healthy top line growth since its restructuring about 12-15 months ago.

Fig 45 Quarterly margin trend for Pou Sheng



Source: Company data, Macquarie Research, March 2015

Fig 46 Pou Sheng quarterly SSSg

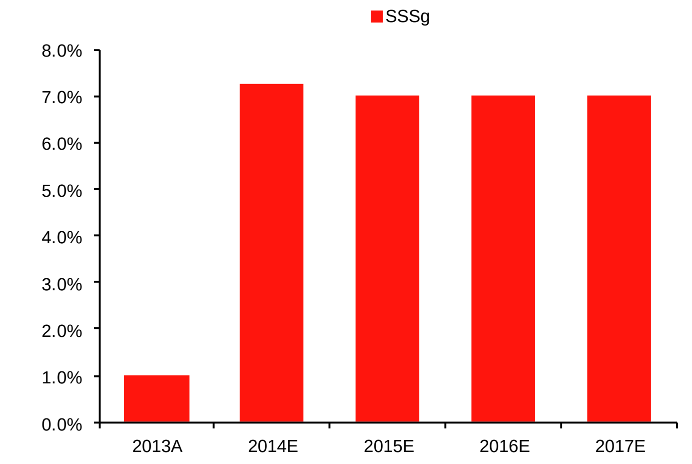


Source: Company data, Macquarie Research, March 2015

Multi-brand to be next growing channel format?

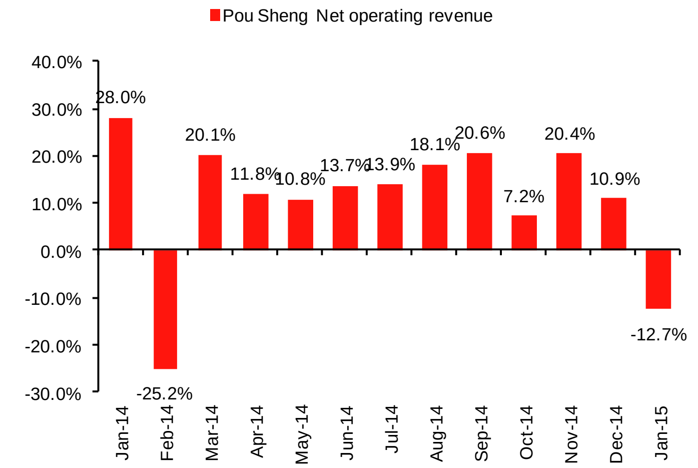
Currently the multi-brand format is still in the development stage in China, as compared to developed countries. Notable names such as Foot Locker and Dick's Sporting goods utilise this format to allow a better consumer experience where consumers can compare and contrast various products by different brands in the same category. We believe as Chinese consumers mature, this format will likely take off, however currently it is still at the incubation stage. We believe Pou Sheng as a longer term strategy will try out this format by classifying different store formats with different themes (ie. YY Outdoors, or YY Women's) to cater to different groups of consumers. We believe being a multi-brand distributor allows Pou Sheng some flexibility in terms of choosing its own product assortment according to local consumer tastes and behaviour.

Fig 47 Our SSSg forecasts for Pou Sheng



Source: Company data, Macquarie Research, March 2015

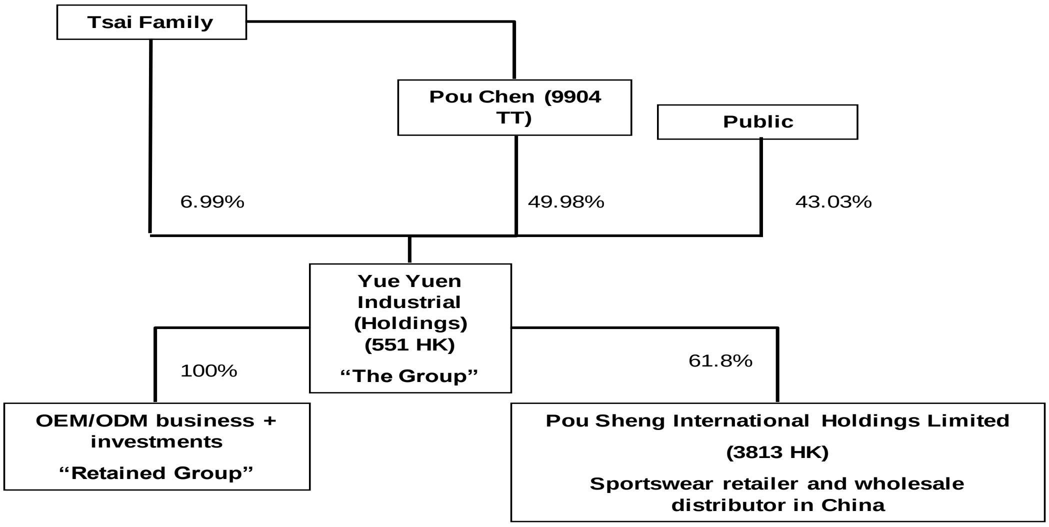
Fig 48 Recent monthly revenue YoY growth for PS



Source: Company data, Macquarie Research, March 2015

Organization and management structure

Fig 49 Shareholding structure of Yue Yuen Industrial



Source: Company data, Macquarie Research, March 2015

Executive directors and senior management of Yue Yuen Industrial

Lu Chin Chu, aged 60, is an executive director and the chairman of the Company. He joined Pou Chen Corporation (PCC), which is being listed on the Taiwan Stock Exchange (TSE), in 1977. He is the General Manager of the footwear global supply chain department of the Group and in charge of the management of the supply chain. He is a director of certain subsidiaries of the Company. Mr. Lu is also the President and a director of PCC and he is involved primarily at the board level and in strategic issues. Mr. Lu has over 36 years of experience in the manufacturing of footwear and footwear materials, and is a college graduate.

Tsai Pei Chun, Patty, aged 34, is the managing director of the Company. She joined the Group in 2002 and has served as a director of the Company since 2005 with a focus on the Group strategic planning and enterprise development. Ms. Tsai currently also serves as a non-executive director of Pou Sheng, a non-wholly owned subsidiary of the Company, whose shares are listed on the Stock Exchange. Ms. Tsai is a daughter of Mr. Tsai Chi Jui, who is a substantial shareholder of the Company. Ms. Tsai is also a niece of Mr. Tsai Chi Neng and a cousin of Mr. Tsai Ming-Lun, Ming, who are the executive directors of the Company. She graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science Degree in Economics with a concentration in Finance and a College Minor in Psychology.

Tsai Chi Neng, aged 65, oversees the management and in particular footwear manufacturing and production management. Mr. Tsai joined the Group in 1992, and was the Chairman of the Company from April 1993 to 25th March 2014. He has more than 31 years of experience in the footwear manufacturing business in Taiwan, Canada and the US. Over the years, he has implemented various projects, including cost control, innovative production management and experience sharing programs to improve the organisation. Mr. Tsai is an uncle of Ms. Tsai Pei Chun, Patty, who is the managing director and an executive director of the Company, and Tsai Ming-Lun, Ming, who is an executive director of the Company.

Kuo Tai Yu, aged 63, joined the Group in 1996 and has been a General Manager of the garment department in charge of development and integration of garment manufacturing since 2012. He has over 30 years of experience in footwear manufacturing. Mr. Kuo holds a Bachelor's Degree from Chung Hsing University in Taiwan.

Kung Sung Yen, aged 60, joined the Group in 1976 and is a General Manager of the department of joint ventures and is in charge of the management and development of certain joint ventures. He has over 37 years of experience in the footwear industry. Mr. Kung is also a director of Wealthplus and certain subsidiaries of the Company

Chan Lu Min, aged 59, who joined the Group in 2001, is in charge of finance and accounting. He has 33 years of finance and accounting experience in Taiwan. Mr. Chan is a graduate of Chung Hsing University in Taiwan.

Li I Nan, Steve, aged 72, is responsible for the financial operations of the Group. He joined the Group in 1992, and has many years of experience in the footwear business, including sourcing and wholesale operations. He holds a Bachelor's Degree and a Master's Degree in Arts from National Chengchi University in Taiwan and University of Southern California, respectively. Mr. Li was appointed as a non-executive director of Pou Sheng on 26th March, 2013.

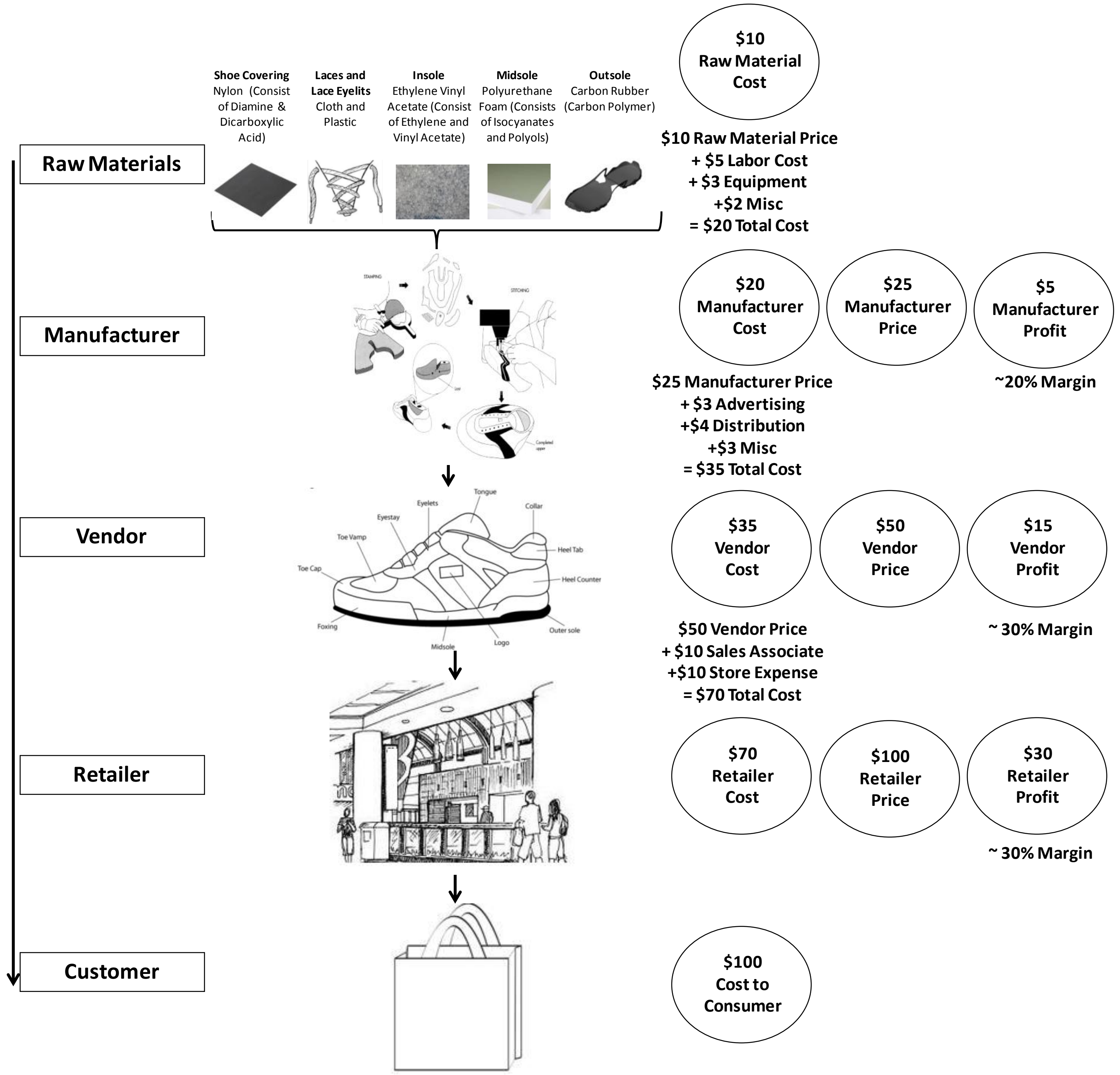
Lee Shao Wu, aged 50, joined the Company as Head of Strategic Investment Planning Department and was appointed as an executive director of the Company in January 2011. He holds a Master of International Enterprise Administration Degree granted by China Culture University, Taiwan and a Bachelor of Mechanical Engineering Degree granted by Central University.

Tsai Ming-Lun, Ming, aged 36, specializes in factory management and is responsible for business development and the production operations of major customers, and the sourcing of certain footwear materials. Mr. Tsai has served the Group since 2005 and was appointed as an executive director of the Company on 28th June, 2013. Mr. Tsai is a nephew of Mr. Tsai Chi Neng, an executive director of the Company, and a cousin of Ms. Tsai Pei Chun, Patty, the managing director and an executive director of the Company. He holds a Bachelor's Degree in Science from National Taiwan University. He graduated from Harvard University in 2004 and holds a Master's Degree in Design Studies with a Major in Project Management.

George Hong-Chih Liu, aged 41, joined the Company as Deputy Chief Financial Officer with effect from 29th April, 2013 and was appointed as an executive director of the Company on 28th June, 2013. Mr. Liu holds a Master of Business Administration Degree in Finance and Entrepreneurial Management from The Wharton School of University of Pennsylvania and Bachelor of Arts Degree in Economics and International Studies from Yale University. Mr. Liu was with Morgan Stanley from 2000 to 2010 with primary responsibility in deal origination and execution and client coverage in Greater China. Mr. Liu last held the position of Executive Director at Morgan Stanley. In June 2010, Mr. Liu joined China International Capital Corporation as Managing Director and Head of the Hong Kong Investment Banking Department.

Appendices

Fig 50 Footwear supply chain



Source: Company data, Macquarie Research, March 2015

Fig 51 Apparel and Footwear/sportswear supply chain companies in Asia

Footwear/sportswear

Raw material	Components			Footwear OEM/ODM	Distributor	Brands
	PU Leather	Fabric	Sole			
Formosa Plastic (1301 TT) (EVA/PVC chips)	San Fang (1307 TT)	Li Cheng (4426 TT)	Victory (1340 TT)	Pou Chen (9904 TT)/ Yue Yuen(551 HK)	Pou Sheng (3813 HK)	Nike (NKE US)
Nanya Plastic (1303 TT) (Polyester fibre)		Shenzhou (2313 HK)	Pou Chen (9904 TT)/ Yue Yuen (551 HK)	Feng Tay (9910 TT)	Belle (1880 HK)	Adidas (ADS DE)
TSRC (2103 TT) BR/SBR		Best Pacific (2111 HK)	Feng Tay (9910 TT)	Fulgent Sun (9802 TT)		Columbia (COLM US)
Natural rubber and leather producers			Fulgent Sun (9802 TT)	Stella (1836 HK)		Anta Sports (2020 HK)
						Li Ning (2331 HK)
						Prada (1913 HK)
						Under Armour (UA US)

Apparel

Synthetic / Cotton yarn	Fabric	Garment OEM/ODM	Brands
Zig Sheng (1455 TT)	Eclat Textile (1476 TT)	Eclat Textile (1476 TT)	Nike (NKE US)
Toung Loong (4401 TT)	Best Pacific (2111 HK)	Makalot (1477 TT)	Adidas (ADS DE)
Tainan Spinning (1440 TT)	Shenzhou (2313 HK)	Shenzhou (2313 HK)	Under Armour (UA US)
FENC (1402 TT)	FENC (1402 TT)	FENC (1402 TT)	Victoria's Secret
Bros Eastern (601339 CH)	Pacific Textile (1382 HK)	Yue Yuen (551 HK)	Lululemon (LULU US)
Weiqiao Textile (2698 HK)	Texhong Textile (2678 HK)	Youngone (111770 KS)	Uniqlo/Fast Retailing (9983 JP)
Luthai Textile (000726 CH)		Hansae (105630 KS)	Anta Sports (2020 HK)
Texhong Textile (2678 HK)			Xtep International (1368 HK)
			Li Ning (2331 HK)
			US Department stores

Footnote for Top clients:
Eclat: Nike (13%), Under Armour (8%), Lululemon (7-8%)
Shenzhou: Uniqlo (30%), Nike (27%), Adidas (22%)
Pacific Textile: Uniqlo (MQ estimate~50%)
Yue Yuen: Nike (22%), Adidas (16%)
Best Pacific: Victoria's Secret (15%), Under Armour (<1%), Lululemon (<1%)
Makalot: Kohl's (24%), Target (21%), Gap (21%), Fast Retailing (6%), Under Armour (<1%)
Feng Tay: Nike (80%)
Fulgent Sun: DKL (20%), Columbia (13.4%), Nike (12%)
Stella: Wolverine (16%), Deckers (16%)

Source: Company data, Macquarie Research, March 2015

Yue Yuen (551 HK)

Interim Results		1H/12A	2H/12E	1H/13A	2H/13A
Revenue	**m**	**3,535**	**4,150**	**3,699**	**3,883**
Gross Profit	**m**	**780**	**973**	**779**	**868**
Cost of Goods Sold	m	2,729	3,204	2,921	3,015
EBITDA	**m**	**315**	**393**	**309**	**348**
Depreciation	m	90	113	122	118
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	4	4
EBIT	**m**	**225**	**281**	**183**	**226**
Net Interest Income	m	-17	-21	-9	-6
Associates	m	46	46	24	25
Exceptionals	m	0	0	4	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	-3	11
Pre-Tax Profit	**m**	**254**	**306**	**199**	**255**
Tax Expense	m	-14	-17	-8	-17
Net Profit	**m**	**240**	**289**	**190**	**239**
Minority Interests	m	-16	-20	4	2
Reported Earnings	**m**	**235**	**294**	**194**	**240**
Adjusted Earnings	**m**	**224**	**268**	**191**	**240**
EPS (rep)		0.14	0.18	0.12	0.15
EPS (adj)		0.14	0.16	0.12	0.15
EPS Growth yoy (adj)	%	1.8	7.2	-14.9	-10.4
EBITDA Margin	%	8.9	9.5	8.4	9.0
EBIT Margin	%	6.4	6.8	4.9	5.8
Earnings Split	%	45.5	54.5	44.2	55.8
Revenue Growth	%	7.1	10.9	4.6	-6.4
EBIT Growth	%	-5.1	7.1	-18.7	-19.5

Profit & Loss		2013A	2014E	2015E	2016E
Revenue	**m**	**7,582**	**7,996**	**8,442**	**9,147**
Gross Profit	**m**	**1,647**	**1,753**	**1,914**	**2,244**
Cost of Goods Sold	m	5,936	6,242	6,528	6,902
EBITDA	**m**	**657**	**665**	**722**	**933**
Depreciation	m	240	233	248	263
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	8	8	8	8
EBIT	**m**	**409**	**425**	**466**	**662**
Net Interest Income	m	-15	-9	-10	-7
Associates	m	49	75	82	91
Exceptionals	m	4	-110	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	8	-21	0	0
Pre-Tax Profit	**m**	**454**	**359**	**539**	**745**
Tax Expense	m	-25	-37	-34	-51
Net Profit	**m**	**429**	**322**	**505**	**695**
Minority Interests	m	6	-1	-5	-5
Reported Earnings	**m**	**435**	**321**	**501**	**689**
Adjusted Earnings	**m**	**431**	**431**	**501**	**689**
EPS (rep)		0.26	0.19	0.30	0.42
EPS (adj)		0.26	0.26	0.30	0.42
EPS Growth (adj)	%	-12.5	0.2	16.1	37.7
PE (rep)	x	14.6	19.8	12.7	9.2
PE (adj)	x	14.8	14.7	12.7	9.2
Total DPS		0.14	0.15	0.16	0.16
Total Div Yield	%	3.7	3.9	4.2	4.2
Basic Shares Outstanding	m	1,649	1,648	1,648	1,648
Diluted Shares Outstanding	m	1,649	1,648	1,648	1,648

Profit and Loss Ratios		2013A	2014E	2015E	2016E
Revenue Growth	%	-1.3	5.4	5.6	8.3
EBITDA Growth	%	-7.2	1.2	8.6	29.2
EBIT Growth	%	-19.2	4.0	9.8	41.9
Gross Profit Margin	%	21.7	21.9	22.7	24.5
EBITDA Margin	%	8.7	8.3	8.6	10.2
EBIT Margin	%	5.4	5.3	5.5	7.2
Net Profit Margin	%	5.7	5.4	5.9	7.5
Payout Ratio	%	54.3	57.9	53.4	38.8
EV/EBITDA	x	9.2	8.7	8.0	6.3
EV/EBIT	x	14.1	12.9	11.8	8.6
Balance Sheet Ratios					
ROE	%	10.4	9.8	11.0	14.0
ROA	%	6.0	6.0	6.3	8.7
ROIC	%	9.8	8.1	8.9	12.0
Net Debt/Equity	%	-0.1	2.3	0.9	-2.7
Interest Cover	x	26.9	46.8	47.6	89.5
Price/Book	x	1.5	1.4	1.4	1.2
Book Value per Share		2.6	2.7	2.9	3.1

Cashflow Analysis		2013A	2014E	2015E	2016E
EBITDA	**m**	**657**	**665**	**722**	**933**
Tax Paid	m	-25	-37	-34	-46
Chgs in Working Cap	m	-26	-53	-83	-111
Net Interest Paid	m	-24	-19	-20	-19
Other	m	42	-146	-15	-21
Operating Cashflow	**m**	**624**	**410**	**570**	**736**
Acquisitions	m	0	0	0	0
Capex	m	-173	-300	-300	-300
Asset Sales	m	27	0	0	0
Other	m	106	50	50	50
Investing Cashflow	**m**	**-39**	**-250**	**-250**	**-250**
Dividend (Ordinary)	m	-266	-234	-228	-267
Equity Raised	m	0	0	0	0
Debt Movements	m	0	0	0	0
Other	m	-223	122	-73	-217
Financing Cashflow	**m**	**-489**	**-111**	**-301**	**-484**
Net Chg in Cash/Debt	**m**	**96**	**48**	**19**	**2**
Free Cashflow	**m**	**451**	**110**	**270**	**436**

Balance Sheet		2013A	2014E	2015E	2016E
Cash	m	926	954	973	976
Receivables	m	1,457	1,454	1,535	1,642
Inventories	m	1,240	1,291	1,356	1,426
Investments	m	3	3	3	3
Fixed Assets	m	0	0	0	0
Intangibles	m	20	20	20	20
Other Assets	m	3,347	3,483	3,611	3,733
Total Assets	**m**	**6,993**	**7,206**	**7,498**	**7,799**
Payables	m	1,233	1,228	1,290	1,356
Short Term Debt	m	519	667	621	429
Long Term Debt	m	400	400	400	400
Provisions	m	0	0	0	0
Other Liabilities	m	104	85	85	85
Total Liabilities	**m**	**2,256**	**2,381**	**2,396**	**2,270**
Shareholders' Funds	m	4,339	4,426	4,699	5,121
Minority Interests	m	398	399	403	409
Other	m	0	0	0	0
Total S/H Equity	**m**	**4,736**	**4,825**	**5,102**	**5,529**
Total Liab & S/H Funds	**m**	**6,993**	**7,206**	**7,498**	**7,799**

All figures in USD unless noted.
Source: Company data, Macquarie Research, March 2015

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

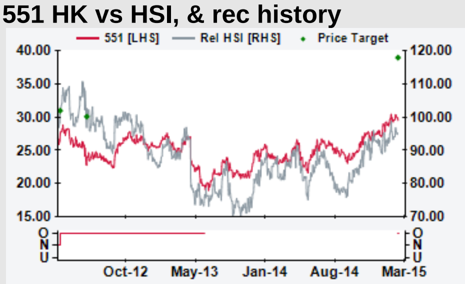
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

551 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

551 HK: HK$39.00 based on a PER methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
07-Jun-2012	551 HK	Outperform	HK$30.10
13-Mar-2012	551 HK	Outperform	HK$31.00

Target price risk disclosures:
551 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:
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