

JPM-pp1

Asia Pacific Equity Research

09 March 2015

Belle International Holdings Ltd. (1880 HK)

Neutral

Price: HK\$8.23

09 Mar 2015

Price Target: HK\$8.10

PT End Date: 28 Feb 2016

Footwear SSS continues its declining trend in 4QFY15, sportswear strong again

Belle's footwear SSS continued its declining trend and was down 4.2% y/y in 4QFY15 (3 months ending Feb-15), only slightly better than the 5.6% y/y decline of 3QFY15. It is also worth highlighting that weak 4Q SSS is over a supposedly low base (4QFY14 same-store sales was down 2.7% y/y). Sportswear SSSG improved to 10.9% y/y in 4Q better than 3QFY15 (+5.3% y/y) but below 1H trends. With these figures implied same-store sales for 2HFY15 is -4.9% y/y for footwear and +8.1% y/y for sportswear, lower than our estimates of -2.3% and 13.2%, which is likely to lead to 2% downside risk to our FY15 sales estimates. We remain cautious on Belle, given that the core footwear business continues to struggle which likely means that pressure on margins will be more severe than our estimates and sportswear which still has decent momentum is only c.20% of EBIT and unlikely to save the day. We maintain our Neutral rating on Belle for the mid-term only for the 5% yield which seems secure given the cash pile.

- **Footwear SSS decline continued.** 4QFY15 footwear SSS declined 4.2% y/y, slightly picking up from 3QFY15 (-5.6% y/y) but still worse than 1H trend (2QFY15 -2.8%, 1QFY15 -1.8%). This print (implied SSS decline of 4.9% in 2H) was below our estimate of 2.3% y/y decline. We believe the extent of the weak 2H is disappointing and would have come as a negative surprise to the market.
- **Sportswear SSSG improved.** 4QFY15 sportswear SSSG was +10.9% y/y, improving from +5.3% y/y of 3QFY15 but still slower than 1H (2QFY15 +14.4%, 1QFY15 +15.3%). The implied 2H SSSG of 8.1% also came below our estimate of 13.2%.

Figure 1: Belle's quarterly SSS trend



Source: Company reports.

Investment Thesis

Despite some optimism on the back of stronger than 1H15 earnings and higher dividend, footwear operations have worsened in 3Q vs. 1H15. Structural issues remain in place (online threat, department stores' losing traffic, shopping malls doing better while Belle's MAP, which was built for malls, is still struggling) with only two bright spots being sportswear (c20% of EBIT) and higher dividend yield as the management decided to return cash to shareholders. Given the core footwear business is still struggling, we find it difficult to argue for re-rating post results. We maintain our Neutral rating for mid-term given 5% yield which seems secure given the cash pile.

In the medium term, we note the following challenges: 1) a lack of pricing (from pricing awareness generated by e-commerce competition) is taking a toll on Belle's footwear SSSG; 2) we expect footwear margins to come under some pressure. If ASPs remain challenging, we are likely to see severe margin contraction, and this could be a longer-term downside risk to earnings; 3) store expansion will be slower as the company already has close to 8-10 POS per department store; and 4) we believe international female footwear brands are gaining share at the expense of Belle.

Valuation

Our Feb-16 PT of HK\$8.1 is based on 2016E EPS and PE of 10.5 (2 st dev below historical mean given significantly slower growth rates relative to history).

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.

Consumer

AC

Ebru Sener Kurumlu

(852) 2800-8521

ebru.sener@jpmorgan.com

Bloomberg JPMA KURUMLU <GO>

Shen Li, CFA

(852) 2800 8523

shen.w.li@jpmorgan.com

George Hsu

(852) 2800-8559

george.hsu@jpmorgan.com

Dylan Chu

(852) 2800-8537

dylan.chu@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
10-Oct-07	OW	10.76	12.00
29-Feb-08	OW	9.20	12.60
26-Mar-08	OW	7.70	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	12.78	15.00
23-Mar-11	OW	14.00	17.50
26-Aug-11	OW	14.72	19.50
12-Oct-11	OW	14.36	16.50
19-Feb-12	OW	12.50	15.50
21-Mar-12	OW	13.54	16.00
02-Jul-12	OW	13.12	15.50
22-Aug-12	OW	14.86	17.00
15-Sep-12	N	14.44	13.50
13-Jan-13	N	17.28	14.80
21-Feb-13	N	15.28	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	8.81	9.00
27-May-14	N	8.06	7.00
28-Oct-14	N	8.48	8.10

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