



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  
10 March 2015

## Company Update

Price at 9 Mar 2015 (HKD)	8.23
Price target - 12mth (HKD)	12.00
52-week range (HKD)	10.32 - 7.41
HANG SENG INDEX	24,123

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# FY16 – cautious on macro, but Belle remains a better player; Buy

## A better player with inexpensive valuation

We maintain Buy on Belle given its ability to stay resilient despite a tough market environment in FY15. In FY16 (YE Feb), despite a tough market, especially for footwear, we expect Belle to be a better operator particularly in supply chain and cash flow management. In addition, reduction in losses from online through improvement in ASP and GPM with more members (scale) in 2014 shows that the brand is getting more relevant in this new channel.

## FY16 outlook for footwear – driving top-line growth remains a challenge

Key guidance will only be announced in end-May during 2014 results announcement, as usual. We believe management remains cautious on FY16 outlook for footwear due to both macro front and channel challenges. We believe Belle will continue to open new stores in lower tier cities. Despite news reports about its department store closure, the company said it will not affect its store opening plan. As for sportswear, performance remains healthy but sssg may not be as strong as in FY15, in our view.

## Online losses reduced in CY2014

According to iresearch, Yougou.com announced on 21 Jan that its online operation received RMB2bn orders in CY2014, an 80% yoy increase. According to the press, management plans to further increase its brand sales in other online platforms in 2015. We believe actual realized sales are actually ~RMB1.4bn. Losses is expected to reduce as planned from 2013's RMB70-80m. We budget RMB20-30m losses for FY15 due to higher ASP and improvement in GPM.

## Target price of HK\$12.0; risks

We base our HK\$12.0 target price on DCF (China COE is 9.5%, TGR 2%); this equates to 17.1x/15.9x FY2015E/16E 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	2015E	2016E	2017E
Sales (CNYm)	36,794.1	40,210.9	43,488.9	46,764.5
EBITDA (CNYm)	6,764.7	7,226.1	7,805.0	8,381.0
Reported NPAT (CNYm)	4,401.8	4,625.3	4,977.9	5,358.0
Reported EPS FD(CNY)	0.52	0.55	0.59	0.64
DB EPS FD(CNY)	0.52	0.55	0.59	0.64
DB EPS growth (%)	-	5.1	7.6	7.6
PER (x)	16.6	12.1	11.3	10.5
EV/EBITDA (x)	9.6	6.6	6.0	5.4
DPS (net) (CNY)	0.20	0.58	0.35	0.38
Yield (net) (%)	2.3	8.7	5.3	5.7

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> 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

## Price/price relative



Performance (%)	1m	3m	12m
Absolute	-3.5	-3.1	-11.7
HANG SENG INDEX	-1.6	2.7	6.5

Source: Deutsche Bank

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Model updated: 28 October 2014

Fiscal year end 28-Feb

2014 2015E 2016E 2017E

Running the numbers

Asia  
China  
Retail / Wholesale Trade

Belle International

Reuters: 1880.HK Bloomberg: 1880.HK

Buy

Price (9 Mar 15) HKD 8.23  
Target Price HKD 12.00  
52 Week range HKD 7.41 - 10.32  
Market Cap (m) HKDm 69,472  
USDm 8,955

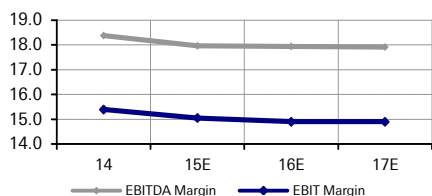
Company Profile

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

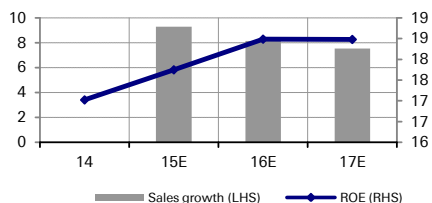
Price Performance



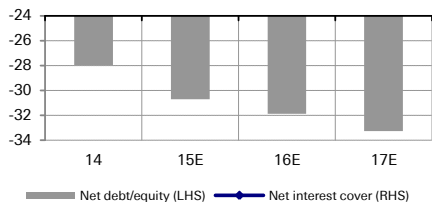
Margin Trends



Growth & Profitability



Solvency



Financial Summary

DB EPS (CNY)	0.52	0.55	0.59	0.64
Reported EPS (CNY)	0.52	0.55	0.59	0.64
DPS (CNY)	0.20	0.58	0.35	0.38
BVPS (CNY)	3.1	3.1	3.3	3.6
Weighted average shares (m)	8,434	8,434	8,434	8,434
Average market cap (CNYm)	73,167	56,094	56,094	56,094
Enterprise value (CNYm)	65,261	47,471	46,459	45,271

Valuation Metrics

P/E (DB) (x)	16.6	12.1	11.3	10.5
P/E (Reported) (x)	16.6	12.1	11.3	10.5
P/BV (x)	2.43	2.15	2.00	1.86
FCF Yield (%)	6.8	7.1	6.8	7.5
Dividend Yield (%)	2.3	8.7	5.3	5.7
EV/Sales (x)	1.8	1.2	1.1	1.0
EV/EBITDA (x)	9.6	6.6	6.0	5.4
EV/EBIT (x)	11.5	7.8	7.2	6.5

Income Statement (CNYm)

Sales revenue	36,794	40,211	43,489	46,764
Gross profit	21,112	23,203	25,026	26,880
EBITDA	6,765	7,226	7,805	8,381
Depreciation	1,100	1,172	1,324	1,412
Amortisation	0	0	0	0
EBIT	5,665	6,055	6,481	6,969
Net interest income/(expense)	362	370	385	423
Associates/affiliates	5	56	60	63
Exceptionals/extraordinaries	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0
Profit before tax	6,032	6,480	6,925	7,454
Income tax expense	1,653	1,879	1,974	2,124
Minorities	-23	-24	-26	-28
Other post-tax income/(expense)	0	0	0	0
Net profit	4,402	4,625	4,978	5,358
DB adjustments (including dilution)	0	0	0	0
DB Net profit	4,402	4,625	4,978	5,358

Cash Flow (CNYm)

Cash flow from operations	5,035	5,603	5,537	6,057
Net Capex	-76	-1,608	-1,740	-1,871
Free cash flow	4,959	3,994	3,797	4,186
Equity raised/(bought back)	0	0	0	0
Dividends paid	-1,687	-3,357	-2,870	-3,089
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	0	0
Net cash flow	3,272	637	927	1,097
Change in working capital	-323	-797	-774	-773

Balance Sheet (CNYm)

Cash and other liquid assets	9,724	10,360	11,287	12,384
Tangible fixed assets	9,042	9,479	9,895	10,353
Goodwill/intangible assets	0	0	0	0
Associates/investments	689	744	804	866
Other assets	12,940	15,035	16,101	17,165
Total assets	32,394	35,619	38,086	40,769
Interest bearing debt	2,360	2,360	2,360	2,360
Other liabilities	3,699	7,206	7,709	8,277
Total liabilities	6,059	9,566	10,069	10,637
Shareholders' equity	26,189	25,931	27,922	30,065
Minorities	146	122	95	67
Total shareholders' equity	26,335	26,052	28,017	30,132
Net debt	-7,363	-8,000	-8,927	-10,024

Key Company Metrics

Sales growth (%)	nm	9.3	8.2	7.5
DB EPS growth (%)	na	5.1	7.6	7.6
EBITDA Margin (%)	18.4	18.0	17.9	17.9
EBIT Margin (%)	15.4	15.1	14.9	14.9
Payout ratio (%)	38.3	105.6	60.0	60.0
ROE (%)	17.0	17.7	18.5	18.5
Capex/sales (%)	0.2	4.0	4.0	4.0
Capex/depreciation (x)	0.1	1.4	1.3	1.3
Net debt/equity (%)	-28.0	-30.7	-31.9	-33.3
Net interest cover (x)	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



## Valuation

### Our target price is HK\$12.0

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 17.1x/15.9x 2015/16E 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 vs. market forecasts

YE Feb RMBm	DB forecast			Market consensus			Difference		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Sales	40,211	43,489	46,764	39,698	42,764	46,328	1.3%	1.7%	0.9%
EBIT	6,055	6,481	6,969	5,688	6,057	6,591	6.4%	7.0%	5.7%
Net profit	4,625	4,978	5,358	4,518	4,826	5,169	2.4%	3.1%	3.7%

Source: Deutsche Bank, Bloomberg Finance LP

## Company update

### FY16 outlook

For FY16, key guidance will only be announced in May during results announcement, as usual. We believe management remains cautious about FY16 outlook for footwear due to both macro and channel challenges. We believe Belle will continue to open new stores in lower tier cities. As for sportswear, performance remains healthy but sssg may not be as strong as in FY15, in our view.

On the GPM front, COGS on per pair of shoes basis is expected to be stable, with no major change in leather cost expected and oil-related raw material cost relatively small. Staff cost in the factory continues to increase with the rise in minimum wage in China. The company continues to diversify its manufacturing base to places such as Hubei and Guizhou. Currently, other than its core facility in Shenzhen, it has a plant in Anhui with 8000 staff members and capacity of 5m pairs of footwear annually (10% of group's capacity).

### FY15 review

**ASP trend.** Footwear's ASP trend remained similar throughout the year with ~1-2% increase in 4QFY15. As for sportswear, ASP was up by 4-5%; 2HFY15 ASP was slightly higher due to less retail discount. To recap, sssg was lower in 3Q as market did not slow down as management expected (lower inventory was budgeted).



**Online losses reduced.** According to iresearch, Yougou.com announced on 21 Jan that its online operation received RMB2bn orders in CY2014, an 80% yoy increase. Mobile transaction was ~40% of total, a fourfold increase. According to the press, management plans to further increase its brand sales in other online platforms in 2015. We believe actual realized sales were ~RMB1.4bn vs. ~RMB1bn in 2013. Losses are expected to reduce as planned from 2013's RMB70-80m. We budget RMB20-30m losses for FY15. Increase in membership (80000 members) and scale are two of the key criteria for its operation improvement, in our view. In addition, we expect the ASP difference between online and offline to narrow for its footwear brand from 30% to 20%, thereby improving GPM.

**Operating margin trend – some deleveraging impact for footwear as in 1HFY15.** On the operating margin front, with footwear sss declining more in 2HFY15 than in 1H, we believe operating deleverage will be higher than in 1H. However, it may not be too severe as rental, the biggest opex, is a variable cost while staff cost is just ~9% of sales. As for sportswear, we believe operating margin trend will be better than the 5.3% we budgeted in our model for 2HFY15 vs. 7.3% in 1H due to better sales performance. However, we are maintaining our forecast as we believe the change will not impact the overall FY15 results much.

Figure 2: Half year breakdown

Belle	Annual							6 Months								
	2011	2012	2013	Feb-14	Feb-15	Feb-16	Feb-17	2012		2013		Feb-14		Feb-15		
YE Dec								1H	2H	1H	2H	1H	2H	1H	2H	
RMBm																
<b>Sales assumptions</b>																
Sales	28,945	32,859	36,249	36,794	40,211	43,489	46,764	16,024	16,835	17,800	18,449	16,739	20,056	18,556	21,655	
Footwear	18,533	21,045	22,278	22,312	23,247	24,890	26,650	10,248	10,797	10,945	11,333	9,715	12,597	10,355	12,892	
Sportswear	10,412	11,814	13,971	14,482	16,964	18,598	20,114	5,776	6,038	6,855	7,117	7,024	7,459	8,201	8,763	
% growth	22%	14%	10%	2%	9%	8%	8%	15%	12%	11%	10%			11%	8%	
Footwear	27%	14%	6%	0%	4%	7%	7%	17%	10%	7%	5%			7%	2%	
Sportswear	15%	13%	18%	4%	17%	10%	8%	12%	15%	19%	18%			17%	17%	
%Mix	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Footwear	64.0%	64.0%	61.5%	60.6%	57.8%	57.2%	57.0%	64.0%	64.1%	61.5%	61.4%	58.0%	62.8%	55.8%	59.5%	
Sportswear	36.0%	36.0%	38.5%	39.4%	42.2%	42.8%	43.0%	36.0%	35.9%	38.5%	38.6%	42.0%	37.2%	44.2%	40.5%	
Total sales	28,945	32,859	36,249	36,794				16,024	16,835	17,800	18,449	16,739	20,056	18,556	21,655	
China	27,443	31,212	34,835	35,352				15,211	16,001	17,135	17,699	16,049	19,303	17,882		
HK	1,209	1,218	1,108	1,111				609	608	551	558	509	602	507		
Other (incl Macau & US)	293	429	306	331				203	226	114	192	180	151	167		
E-commerce (Yougou)	-	657	1,087													
<b>GPM assumptions</b>																
GPM	16,561	18,598	20,860	21,112												
Footwear	12,750	14,215	15,314	15,351												
Sportswear	3,811	4,383	5,546	5,762												
GPM	57.2%	56.6%	57.5%	57.4%	57.7%	57.5%	57.5%	56.6%	56.6%	56.9%	58.1%	55.7%	58.8%	56.3%	58.9%	
Footwear	68.8%	67.5%	68.74%	68.80%	69.20%	69.20%	69.20%	67.60%	67.41%	67.77%	69.68%	67.21%	70.03%	67.68%	70.42%	
Sportswear	36.6%	37.1%	39.70%	39.78%	41.95%	41.95%	41.95%	37.10%	37.10%	39.61%	39.78%	39.86%	39.71%	41.88%	42.02%	
<b>EBIT assumptions</b>																
EBIT	5,265	5,403	5,642	5,665	6,055	6,481	6,969	2,809	2,593	2,757	2,885	2,423	3,243	2,729	3,325	
EBIT (Core)	5,265	5,403	5,642	5,666	6,055	6,481	6,970	2,809	2,593	2,757	2,885	2,423	3,243	2,729	3,325	
Segment results	5,356	5,490	5,772	5,787	6,186	6,624	7,124	2,869	2,620	2,836	2,936	2,498	3,288	2,780	3,406	
Footwear	4,679	5,009	5,102	5,078	5,114	5,415	5,770	2,567	2,441	2,462	2,639	2,076	3,003	2,171	2,944	
Sportswear	676	481	670	708	1,072	1,209	1,355	302	179	374	297	423	286	609	463	
Others	(91)	(87)	(130)	(121)	(132)	(143)	(155)	(60)	(27)	(79)	(51)	(76)	(45)	(51)	(81)	
Margin	18.5%	16.7%	15.9%	15.7%	15.4%	15.2%	15.2%	17.9%	15.6%	15.9%	15.9%	14.9%	16.4%	15.0%	15.7%	
Footwear	25.2%	23.8%	22.90%	22.76%	22.00%	21.76%	21.65%	25.1%	22.6%	22.5%	23.3%	21.4%	23.8%	21.0%	22.8%	
Sportswear	6.5%	4.1%	4.8%	4.9%	6.3%	6.5%	6.7%	5.2%	3.0%	5.5%	4.2%	6.0%	3.8%	7.4%	5.3%	
Net profit	4,254	4,352	4,492	4,402	4,625	4,978	5,358	2,242	2,110	2,167	2,325	1,931	2,471	2,086	2,539	

Source: Deutsche Bank, company data



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Belle International	1880.HK	8.23 (HKD) 9 Mar 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. Data is sourced from Deutsche Bank and subject companies.

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

(as of 3/9/2015)



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.	26/03/2013:	Hold, Target Price Change HKD15.00	5.	24/02/2014:	Buy, Target Price Change HKD11.88
2.	17/07/2013:	Hold, Target Price Change HKD12.58	6.	27/05/2014:	Buy, Target Price Change HKD12.40
3.	27/08/2013:	Hold, Target Price Change HKD12.44	7.	28/10/2014:	Buy, Target Price Change HKD12.00
4.	07/01/2014:	Upgrade to Buy, Target Price Change HKD11.81			

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**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

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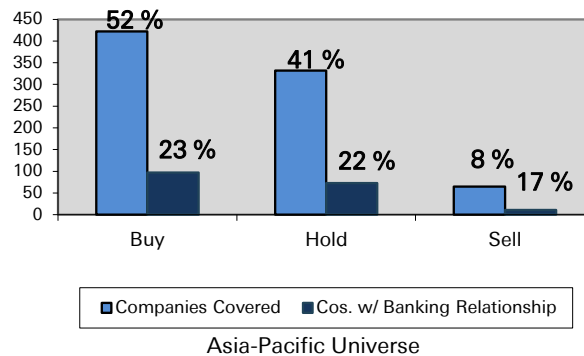
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**Hold:** Expected total return (including dividends) between -10% and 10% over a 12-month period

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Equity rating dispersion and banking relationships



Asia-Pacific Universe



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