

Consumer & Retail  
 Textiles, Apparel & Luxury  
 Goods  
 Equity – Hong Kong

## Overweight

Target price (HKD)	29.00
Share price (HKD)	24.90
Potential return (%)	16.5

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	3.3	5.1	24.5
Relative <sup>A</sup> (%)	6.9	-0.9	11.6

Index<sup>A</sup> HANG SENG INDEX

RIC 1910.HK  
 Bloomberg 1910 HK

Market cap (USDm) 4,514  
 Market cap (HKDm) 35,065

Enterprise value (USDm) 4296  
 Free float (%) 85

Note: (V) = volatile (please see disclosure appendix)

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Erwan Rambourg\*

Analyst  
 The Hongkong and Shanghai Banking  
 Corporation Limited  
 +852 2996 6572  
 erwanrambourg@hsbc.com.hk

Catherine Chao\*

Analyst  
 The Hongkong and Shanghai Banking  
 Corporation Limited  
 +852 2996 6570  
 catherinefchao@hsbc.com.hk

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# Samsonite Intl SA (1910 HK)

Upgrade to OW: Smoother journey ahead

- ▶ **Post results, we turn more positive as margins are more robust on measures to offset the impact of FX**
- ▶ **While the acquisition pace may slow this year, there is still potential for additional opportunities**
- ▶ **Upgrade to OW (from N); raise TP to HKD29.0 (from HKD27.0) on higher EBITDA margin and lower WACC**

**EUR impact manageable.** Previously we were more pessimistic on EBITDA margin due to: 1) integration costs from recent acquisitions, and 2) impact of strong USD (particularly against EUR). While investments in the brands continue into 2015, we turn more positive on EBITDA margin after management pointed to mitigating factors, including cost hedging and more local production (50% of Europe sales produced in EUR regions). We have factored in negative 25% FX impact for Europe sales in 2015, but we also raise our 2015-16 EBITDA margin assumptions by 0.5 and 0.3ppts, respectively.

**Many engines of growth firing.** Sales in 2014 were in line with our expectations although if FX and acquisitions are excluded, then constant FX sales growth was 12.6% (HSBC: 11.4%). Even in a difficult operating environment, the group managed to deliver strong organic growth.

**M&A strategy maintained.** Although the group is in the process of integrating four acquisitions made over the past 12 months, we think there could be the capacity for one or two more acquisitions if the right opportunities come up. The group's focus will continue to be on complementary products and/or retail channels (similar to the Rolling Luggage acquisition last month). Apart from M&A, we expect the group to raise capex spending into 2015 (more direct-to-consumer retail, investments in logistics and product) but the operating cash flow is high enough so that the dividend payout can be maintained (from 25% in 2012 to 45-47% in 2013-14, respectively).

**2014 results review.** FY14 results were operationally in line but headline profit missed on below EBITDA line items. Specifically, reported sales and EBITDA were in line but net profit was 8% below our estimate, primarily due to higher finance costs (FX translation on strong USD) and effective tax rate (higher withholding taxes on dividend and royalty income).

**TP raised on margins; upgrade to OW from N.** With FX having less of an impact than we had previously forecast, we raise our DCF-based TP to HKD29.0 (from HKD27.0) on higher EBITDA margin assumptions and a lower WACC (from 9.4% to 9.2%). Downside risks: FX, threats to travel, price of oil, FX, M&A integration and commoditisation of the industry. Catalysts include M&A, 1Q15 operating update (expected late April).

## Financials & valuation

### Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
<b>Profit &amp; loss summary (USDm)</b>				
Revenue	2,351	2,542	2,766	2,992
EBITDA	351	409	454	503
Depreciation & amortisation	-52	-58	-64	-69
Operating profit/EBIT	299	351	390	434
Net interest	-17	-15	-11	-9
PBT	282	336	379	425
HSBC PBT	282	336	379	425
Taxation	-77	-90	-100	-113
Net profit	186	223	252	283
HSBC net profit	186	223	252	283

### Cash flow summary (USDm)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Cash flow from operations	230	308	339	378
Capex	-70	-64	-65	-58
Cash flow from investment	-215	-64	-65	-58
Dividends	-95	-100	-114	-128
Change in net debt	136	-144	-160	-192
FCF equity	152	227	257	303

### Balance sheet summary (USDm)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Intangible fixed assets	1,095	1,082	1,068	1,053
Tangible fixed assets	202	219	235	239
Current assets	835	1,019	1,236	1,485
Cash & others	140	284	444	636
Total assets	2,131	2,321	2,539	2,777
Operating liabilities	651	695	749	801
Gross debt	65	65	65	65
Net debt	-75	-219	-379	-571
Shareholders funds	1,270	1,415	1,580	1,765
Invested capital	1,340	1,342	1,347	1,339

### Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
<b>Y-o-y % change</b>				
Revenue	15.4	8.1	8.8	8.2
EBITDA	7.5	16.6	10.8	10.8
Operating profit	6.4	17.2	11.2	11.2
PBT	4.5	19.0	12.6	12.3
HSBC EPS	5.7	19.8	13.1	12.3

### Ratios (%)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Revenue/IC (x)	1.9	1.9	2.1	2.2
ROIC	18.2	19.8	22.1	24.6
ROE	15.1	16.6	16.9	16.9
ROA	10.7	11.5	11.8	12.0
EBITDA margin	14.9	16.1	16.4	16.8
Operating profit margin	12.7	13.8	14.1	14.5
EBITDA/net interest (x)	20.8	27.8	39.8	58.0
Net debt/equity	-5.8	-15.5	-24.0	-32.4
Net debt/EBITDA (x)	-0.2	-0.5	-0.8	-1.1
CF from operations/net debt				

### Per share data (USD)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EPS reported (fully diluted)	0.13	0.16	0.18	0.20
HSBC EPS (fully diluted)	0.13	0.16	0.18	0.20
DPS	0.06	0.07	0.08	0.09
Book value	0.90	1.01	1.12	1.25

### Key forecast drivers

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Asia	16.1	14.5	13.0	12.0
Europe	8.3	-9.3	5.5	5.5
North America	22.4	12.6	5.0	4.0
Latin America	5.7	14.1	12.0	13.0
Corporate	0.0	0.0	0.0	0.0
<b>Global</b>	<b>15.4</b>	<b>8.1</b>	<b>8.8</b>	<b>8.2</b>

### DCF analysis

HSBC assumptions	DCF, comprising		
Risk-free rate (%)	3.5	EBIT growth, 2015-25e CAGR (%)	8.2
Equity risk premium (%)	5.0	EBIT growth, 2025-44e CAGR (%)	3.2
Sector beta	1.20	Fade period 2044-52e	
Specific beta	1.00	WACC	9.2

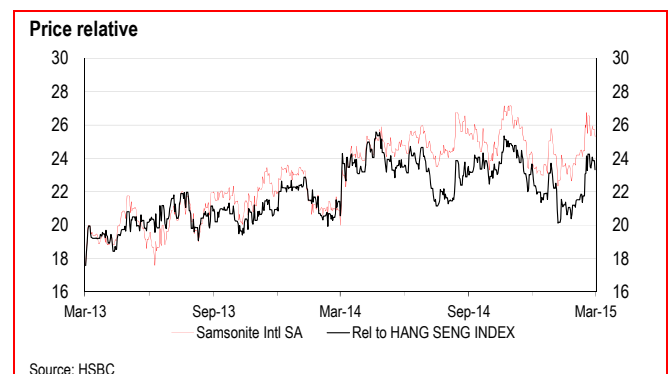
### Sensitivity and valuation range

Cost of capital vs fade period	4 years	8 years	12 years
8.2%	32.5	33.2	33.6
8.7%	30.4	31.0	31.4
9.2%	28.6	<b>29.0</b>	29.4
9.7%	26.9	27.2	27.6
10.2%	25.3	25.6	26.0

### Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	1.9	1.7	1.5	1.3
EV/EBITDA	12.8	10.5	9.1	7.8
EV/IC	3.3	3.2	3.1	2.9
PE*	24.2	20.2	17.9	15.9
P/Book value	3.6	3.2	2.9	2.6
FCF yield (%)	3.3	5.0	5.7	6.7
Dividend yield (%)	1.9	2.2	2.5	2.8

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 17 Mar 2015

## Valuation and risks

We have raised our EBITDA margin assumptions by 0.5ppt and 0.3ppt in 2015-16e thanks to better-than-expected management of costs despite a stronger USD. We correspondingly revise up our longer-term margin assumptions in line with the nearer-term assumptions. We also slightly adjust our WACC to 9.2% (previous 9.4%) to take into account a higher proportion of debt in the capital structure. For Samsonite's DCF, we use a 1.2 sector beta to take into account the limited barriers to entry in the sector, meaning current growth rates for the company could be challenged beyond the forecast period (see assumptions on p. 2). However, we use a company-specific beta of 1.0; although the industry is fragmented, we think, as the market leader, Samsonite should be more resilient.

Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Hong Kong stocks of 8.5%. Our target price of HKD29.0 implies a potential return of 16.5%, above the Neutral band; we thus upgrade to Overweight (from Neutral). Potential return equals the percentage difference between the current share price and the target price including the forecast dividend yield where indicated.

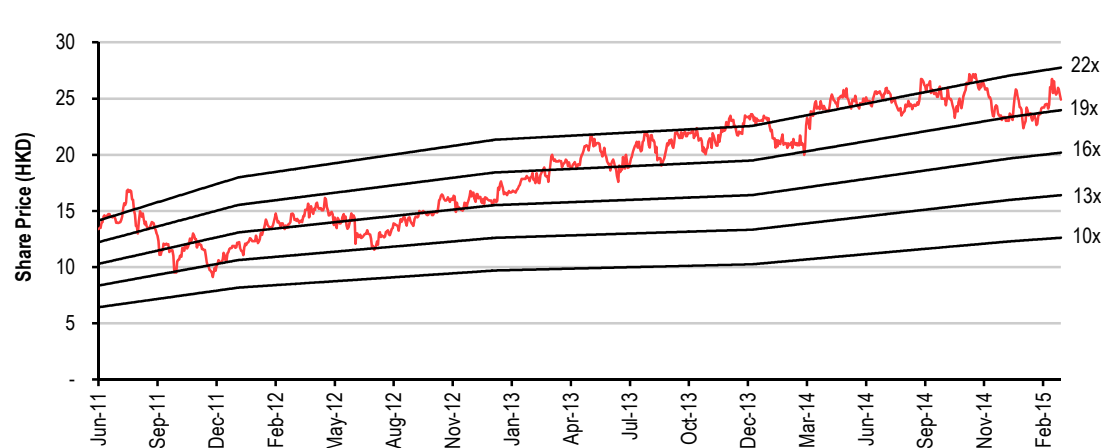
**Downside risks** include worse-than-expected sales in key regions, unfavourable currency moves (i.e. stronger USD), macro threats to travel (terrorism, recession), commoditisation of the luggage market, execution of M&A integration, and a spike in the price of oil.

Samsonite - HSBC vs old vs consensus estimates, 2015-16e

In US\$dm	HSBC		FY15e Cons	Difference vs.		HSBC		FY16e Cons	Difference vs.	
	Old	New		old	cons	Old	New		old	cons
Revenue	2,569	2,542	2,642	-1%	-4%	2,793	2,766	2,979	-1%	-7%
EBITDA	401	409	425	2%	-4%	450	454	491	1%	-8%
EBITDA margin	15.6%	16.1%	16.1%	0.5ppt	0.0ppt	16.1%	16.4%	16.5%	0.3ppt	-0.1ppt
Net profit	221	223	239	1%	-6%	251	252	280	1%	-10%
Net profit margin	8.6%	8.8%	9.0%	0.2ppt	-0.2ppt	9.0%	9.1%	9.4%	0.2ppt	-0.3ppt

Source: Bloomberg, HSBC estimates

Samsonite - 12-month forward PE band chart, Jun-11 to date



Source: Thomson Reuters Datastream, HSBC estimates

# Disclosure appendix

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Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

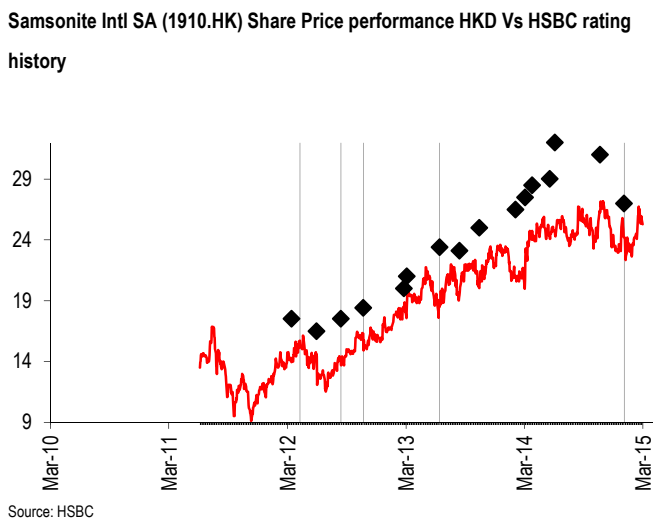
\*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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<b>Neutral (Hold)</b>	39%	(28% of these provided with Investment Banking Services)
<b>Underweight (Sell)</b>	20%	(20% of these provided with Investment Banking Services)

## Share price and rating changes for long-term investment opportunities



### Recommendation & price target history

From	To	Date
Overweight (V)	Neutral (V)	23 April 2012
Neutral (V)	Overweight (V)	28 August 2012
Overweight (V)	Neutral (V)	05 November 2012
Neutral (V)	Overweight	28 June 2013
Overweight	Neutral	18 January 2015
Target Price	Value	Date
Price 1	17.50	29 March 2012
Price 2	16.50	14 June 2012
Price 3	17.50	28 August 2012
Price 4	18.40	05 November 2012
Price 5	20.00	10 March 2013
Price 6	21.00	19 March 2013
Price 7	23.40	28 June 2013
Price 8	23.10	28 August 2013
Price 9	25.00	29 October 2013
Price 10	26.50	17 February 2014
Price 11	27.50	19 March 2014
Price 12	28.50	09 April 2014
Price 13	29.00	03 June 2014
Price 14	32.00	19 June 2014
Price 15	31.00	05 November 2014
Price 16	27.00	18 January 2015

Source: HSBC

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### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SAMSONITE INTL SA	1910.HK	25.30	16-Mar-2015	7

Source: HSBC

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**Issuer of report**

**The Hongkong and Shanghai Banking Corporation Limited**

Level 19, 1 Queen's Road Central

Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: [www.research.hsbc.com](http://www.research.hsbc.com)

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