

Belle ----- Maintain OUTPERFORM
Sequential improvement in both footwear and sportswear segments in 4Q FY15
EPS: ◀▶ TP: ◀▶

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- Belle's 4Q FY15 SSSG was broadly in line with market expectation: (1) footwear SSSG of negative 4.2% came from the 1% ASP increase and a 5.2% traffic drop; and (2) sportswear SSSG of 10.9% was driven by a 5% ASP hike and a 5.9% traffic increase.
- 4Q FY15 operational data suggest a recovery in both footwear and sportswear from an abnormally weak 3Q FY15 (two major holidays in 3Q; lower holiday sales contribution as a result of the anti-corruption campaign).
- Given the lukewarm sales momentum in March, management remains cautious on footwear performance and cautiously positive on sportswear for FY16. We think the worst (earnings decline in FY15) is behind us. We expect an U-shape recovery ahead.
- We retain our earnings estimates and OUTPERFORM rating. Our TP of HK\$10.35 implies 14x FY16E P/E (a 16% ROE and a 5% dividend yield). Stronger-than-expected footwear SSSG is the key catalyst to drive share price performance, in our view.

Bbg/RIC	1880 HK / 1880.HK	Price (09 Mar 15, HK\$)	8.23		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	10.35 (10.35)		
Shares outstanding (mn)	8,434.23	Est. pot. % chg. to TP	26		
Daily trad vol - 6m avg (mn)	17.4	52-wk range (HK\$)	9.97 - 7.16		
Daily trad val - 6m avg (US\$ mn)	19.8	Mkt cap (HK\$/US\$ mn)	69,413.7 / 8,945.4		
Free float (%)	54.3	Performance	1M 3M 12M		
Major shareholders	Founder and mgmt	Absolute (%)	(4.9) (3.1) (8.6)		
		Relative (%)	(4.9) (8.9) (22.1)		
Year	02/13A	02/14A	02/15E	02/16E	02/17E
Revenue (Rmb mn)	32,859	36,794	38,910	41,482	44,000
EBITDA (Rmb mn)	6,314	6,770	6,957	7,531	8,236
Net profit (Rmb mn)	4,352	4,402	4,390	4,868	5,341
EPS (Rmb)	0.52	0.52	0.52	0.58	0.63
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	0.54	0.57	0.61
EPS growth (%)	—	1.1	(0.3)	10.9	9.7
P/E (x)	12.9	12.7	12.8	11.5	10.5
Dividend yield (%)	2.4	0	3.5	5.2	5.7
EV/EBITDA (x)	8.7	8.2	7.3	6.6	5.8
P/B (x)	2.2	2.1	1.9	1.8	1.6
ROE (%)	18.2	17.0	15.9	16.0	16.2
Net debt(cash)/equity (%)	(5.1)	(1.8)	(17.1)	(20.4)	(23.8)

Note 1: ORD/ADR=10.00. Note 2: Belle International Holdings Limited is an investment holding company. The Company, together with its subsidiaries, is engaged in the manufacturing, distribution and retail sales of shoes and footwear products, and the sales of sportswear products.

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Footwear SSSG of negative 4.2% = 1% ASP increase + 5.2% traffic drop

(1) Footwear SSSG was negative 4.2% in 4Q FY15 (Dec 2014–Feb 2015). This suggests a mild improvement from negative 5.6% in 3Q FY15 (Sep–Nov 2014), but still lower than negative 2.3% in 1H FY15 (Mar–Aug 2014).

(2) Negative 4.2% SSSG in 4Q FY15 was driven by: (1) a 1% ASP increase (in line with 1% in 3Q FY15 and 1H FY15) and (2) a 5.2% traffic decline (better than the 6.6% decline in 3Q FY15, and a worse than the 3% decline in 1H15). Management confirms channel inventory remained at a healthy level and well under control.

(3) Given negative 4.9% SSSG for 2H FY15, we estimate footwear OP margin will erode to 20% (vs 21% OP margin with negative 2.3% SSSG in 1H FY15).

(4) Management witnessed no material changes in March SSSG, and retains its cautious view on its sales growth momentum in the next 12 months. We assume 1% SSSG for FY16E and 3% in FY17E.

(5) In the long run, Belle's management targets 5-10% sales growth with a 22-24% OP margin for its footwear business.

Sportswear SSSG of 10.9% = 5% ASP increase + 5.9% traffic increase

(1) Sportswear SSSG was 10.9% in 4Q FY15 (Dec 2014–Feb 2015), representing an improvement from 5.3% in 3Q FY15 (Sep–Nov 2014), but slower than the 15% in 1H FY15 (Mar–Aug 2014).

(2) The 4-5% ASP increase (in line with 3Q FY15 and 1H FY15) was mainly due to a more favourable discount rate by brands, suggesting a healthy promotional environment and supply/demand dynamics.

(3) 5.9% sales volume growth was stronger than the 1.3% YoY in 3Q FY15, but weaker than the over 10% YoY in 1H FY15. Management confirms channel inventory remained at a healthy level.

(4) Given 2H FY15 SSSG of 8.1%, we estimate a sportswear OP margin of 8% in 2H FY15, an improvement from 7.4% in 1H FY15, vs Belle's long-term target of 10%.

New opening, 15-min stores, mall stores and e-commerce

(1) Belle opened 1,380 new stores (net) in FY15, representing 7.2% growth YoY. Management plans to open less than 1,380 stores in FY16, implying below 6.2% YoY. (2) Performance of 15-min stores (low/mass-market, competing with Daphne directly) was below management expectation. (3) Mall stores are doing well in terms of sales, though margin remains under pressure. (4) Online sales contributed nearly 3% of total revenue. We expect Belle to benefit from the government's recent strict crackdown on online fake products.

Figure 1: Income statement of Belle (CY12-FY02/17E)

(Rmb mn)	CY12*	FY02/14	1H15	2H15E	FY02/15E	FY02/16E	FY02/17E
Sales	32,859	36,794	18,556	20,354	38,910	41,482	44,000
Sales YoY	13.5%	N/A	10.9%	1.5%	5.7%	6.6%	6.1%
- Footwear	13.6%	N/A	6.6%	-3.1%	-0.2%	3.9%	5.4%
- Sportswear	13.5%	N/A	16.8%	9.2%	14.4%	10.4%	7.0%
Sales mix	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
- Footwear	64.0%	60.6%	55.8%	60.0%	58.0%	56.5%	56.1%
- Sportswear	36.0%	39.4%	44.2%	40.0%	42.0%	43.5%	43.9%
- FW SSSG	4.8%	N/A	-2.3%	-4.9%	-3.6%	1.0%	3.0%
- SW SSSG	4.0%	N/A	15.0%	8.1%	11.6%	8.0%	5.0%
GP margin	56.6%	57.4%	56.3%	57.5%	56.9%	56.6%	56.6%
- Footwear	67.5%	68.8%	67.7%	67.9%	67.8%	67.9%	68.1%
- Sportswear	37.1%	39.8%	41.9%	41.9%	41.9%	42.0%	42.0%
OP margin	16.4%	15.4%	14.7%	15.1%	14.9%	15.1%	15.6%
- Footwear	23.8%	22.8%	21.0%	20.0%	20.5%	21.0%	21.9%
- Sportswear	4.1%	5.0%	7.4%	8.0%	7.7%	8.0%	8.2%
Net profit	4,352	4,402	2,078	2,312	4,390	4,868	5,341
- Net profit YoY	2.3%	N/A	7.6%	-6.4%	-0.3%	10.9%	9.7%
- Net margin	13.2%	12.0%	11.2%	11.4%	11.3%	11.7%	12.1%

*For calendar year. Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 09-Mar-2015)

Belle International Holdings Ltd (1880.HK, HK\$8.23, OUTPERFORM, TP HK\$10.35)
Daphne (0210.HK, HK\$1.89)

Disclosure Appendix

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1880.HK Date	Closing Price (HK\$)	Target Price (HK\$)	Rating
21-Mar-12	13.70	16.61	O
25-Apr-12	14.43	17.00	
13-Jun-12	11.92	14.58	
22-Aug-12	13.70	15.07	
16-Oct-12	13.15	16.03	
23-Nov-12	15.16	16.90	
14-Jan-13	16.69	18.35	
21-Feb-13	14.76	17.19	
26-Mar-13	12.81	16.32	
08-Jul-13	10.35	12.36	
12-Jul-13	10.80	12.85	
24-Feb-14	9.00	11.30	
27-May-14	7.78	9.56	
28-Oct-14	9.00	10.43	
10-Dec-14	8.52	10.35	



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Method: Our DCF-based TP of HK\$10.35 implies 14.3x FY2016E earnings (16% ROE). From long-term perspective and on a relative comparison basis (business model and structural challenges), we prefer Belle over most department stores.

Risk: Risks to our HK\$10.35 target price for Belle International Holdings Ltd include potential loss from business initiatives, lower-than-expected channel expansion, homogeneity in brand styles, hikes in rental rates, and non-renewal of licensing/distribution contracts.

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