



Rating
Buy

Asia
Hong Kong

Consumer
Textiles & Apparel

Company
Trinity

Reuters 0891.HK	Bloomberg 891 HK	Exchange HSI	Ticker 0891
ADR Ticker TRYY	ISIN US89652T1007		

Date
18 March 2015

Forecast Change

Price at 17 Mar 2015 (HKD)	1.42
Price target - 12mth (HKD)	1.93
52-week range (HKD)	2.51 - 1.41
HANG SENG INDEX	23,901

Anne Ling

Research Analyst
(+852) 2203 6177
anne.ling@db.com

2015 - restructuring plan remains intact; Buy

TP lowered to HK\$1.93; maintaining Buy

2014 segment profit was in line with DB forecast, while NP was boosted by other income. Although ytd sssg is not very strong, management remains confident with its restructuring plan. Better sourcing strategy has already commenced. New management team is in place. With macro environment weaker than expected, we cut our 2015/2016 NP by 11/14%. TP lowered to HK\$1.93. Maintaining Buy.

2014 sales in line; segment profit was in line at HK\$323m.

Trinity announced a 47.8% decline in NP to HK\$161m on sales decline of 2.7% to HK\$2.6bn. Sales were broadly in line with DB, while NP was 24.8% higher than our forecast as it included a one-off write back in contingent liability of HK\$77.5m. Full-year dividend was HK\$6.7 per share vs. HK\$13.0 per share in 2013, representing a payout ratio of 72.7% vs. 73.0% in 2013.

2015 Outlook – macro still uncertain but restructuring underway

Management is confident that they can perform in more constructive way in 2015 with positive top line growth. While ytd sssg was weak, they remain confident on full-year basis on new marketing initiatives and merchandising. New products will be launched in 2H15. In 2015, they will focus on 1) inventory, 2) store performance, and 3) tier-II, III cities.

Valuation and risks

We cut our 2015/2016 NP by 11/14% and introduce 2017 forecasts. Our new DCF-based target price is HK\$1.93 (from HK\$2.20); the decrease mainly due to NP downgrade for FY15/16 and reducing our NP CAGR (2017-24). Assumptions: HK/China blended COE of 8.7% and TGR 2%. Risks: Stronger- or weaker-than-expected economic conditions; competition; slower- or faster-than-expected store openings and sssg; long inventory days and higher provision policy.

Key changes

Price target	2.20 to 1.93	↓	-12.3%
Sales (FYE)	2,688 to 2,455	↓	-8.7%
Op prof margin (FYE)	10.9 to 9.5	↓	-12.7%
Net profit (FYE)	247.5 to 220.3	↓	-11.0%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.1	-7.2	-22.0
HANG SENG INDEX	-3.6	5.8	11.3

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (HKDm)	2,695.9	2,623.6	2,454.6	2,626.8	2,808.1
EBITDA (HKDm)	539.2	355.9	412.9	497.9	558.9
Reported NPAT (HKDm)	308.2	160.9	220.3	301.5	361.5
Reported EPS FD(HKD)	0.18	0.09	0.13	0.17	0.21
DB EPS FD(HKD)	0.18	0.09	0.13	0.17	0.21
OLD DB EPS FD(HKD)	0.18	0.07	0.14	0.21	-
% Change	0.0%	24.5%	-10.9%	-17.8%	-
DB EPS growth (%)	-40.1	-47.0	35.9	36.4	19.7
PER (x)	19.0	21.5	11.3	8.2	6.9
EV/EBITDA (x)	10.9	10.4	6.1	4.7	3.9
DPS (net) (HKD)	0.13	0.07	0.09	0.13	0.15
Yield (net) (%)	3.9	3.4	6.5	8.9	10.7

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² 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

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Model updated: 18 March 2015

Running the numbers

Asia

Hong Kong

Textiles & Apparel

Trinity

Reuters: 0891.HK

Bloomberg: 891 HK

Buy

Price (17 Mar 15) HKD 1.42

Target Price HKD 1.93

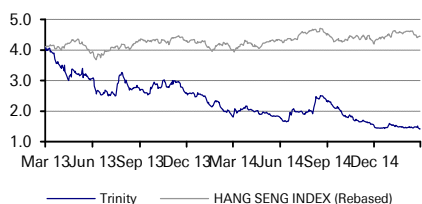
52 Week range HKD 1.41 - 2.51

Market Cap (m) HKDm 2,448
USDm 315

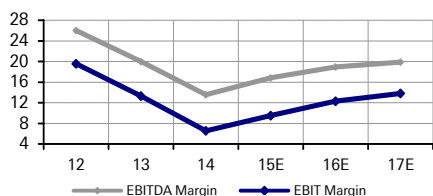
Company Profile

Trinity is a leading high-to-luxury end menswear retailer primarily serving Greater China. It manages six international menswear brands, namely Altea, Cerruti 1881, D'urban, Gieves & Hawkes, Intermezzo and Kent & Curwen. It also operates Salvatore Ferragamo JV in South Korea and certain countries in Southeast Asia.

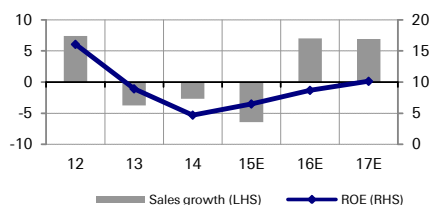
Price Performance



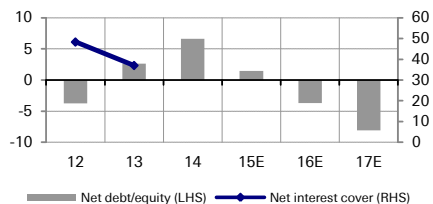
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (HKD)	0.29	0.18	0.09	0.13	0.17	0.21
Reported EPS (HKD)	0.31	0.18	0.09	0.13	0.17	0.21
DPS (HKD)	0.24	0.13	0.07	0.09	0.13	0.15
BVPS (HKD)	2.0	2.0	2.0	2.0	2.0	2.1
Weighted average shares (m)	1,716	1,729	1,733	1,733	1,733	1,733
Average market cap (HKDm)	9,803	5,768	3,464	2,448	2,448	2,448
Enterprise value (HKDm)	9,674	5,859	3,690	2,498	2,317	2,153

Valuation Metrics

P/E (DB) (x)	19.5	19.0	21.5	11.3	8.2	6.9
P/E (Reported) (x)	18.5	18.8	21.5	11.3	8.2	6.9
P/BV (x)	2.52	1.31	0.74	0.71	0.70	0.68
FCF Yield (%)	nm	2.3	4.4	10.0	14.9	16.4
Dividend Yield (%)	4.2	3.9	3.4	6.5	8.9	10.7
EV/Sales (x)	3.5	2.2	1.4	1.0	0.9	0.8
EV/EBITDA (x)	13.3	10.9	10.4	6.1	4.7	3.9
EV/EBIT (x)	17.6	16.3	21.4	10.7	7.2	5.5

Income Statement (HKDm)

Sales revenue	2,801	2,696	2,624	2,455	2,627	2,808
Gross profit	2,186	2,036	1,943	1,841	1,982	2,115
EBITDA	728	539	356	413	498	559
Depreciation	180	180	183	179	174	170
Amortisation	0	0	0	0	0	0
EBIT	548	359	173	234	323	389
Net interest income/(expense)	-11	-10	4	22	34	47
Associates/affiliates	65	16	8	8	9	9
Exceptionals/extraordinaries	35	4	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	637	369	184	264	366	444
Income tax expense	97	61	23	43	65	83
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	540	308	161	220	301	361
DB adjustments (including dilution)	-29	-3	0	2	2	2
DB Net profit	511	305	161	223	304	364

Cash Flow (HKDm)

Cash flow from operations	331	304	248	333	459	501
Net Capex	-477	-174	-96	-86	-92	-98
Free cash flow	-147	130	151	247	368	403
Equity raised/(bought back)	34	21	23	0	0	0
Dividends paid	-394	-354	-117	-72	-187	-239
Net inc/(dec) in borrowings	490	558	-680	0	0	0
Other investing/financing cash flows	226	-17	-192	0	0	0
Net cash flow	209	338	-815	175	181	164
Change in working capital	-214	-174	-61	-87	-30	-39

Balance Sheet (HKDm)

Cash and other liquid assets	999	1,337	523	698	878	1,042
Tangible fixed assets	3,406	3,359	3,291	3,198	3,116	3,044
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	128	135	131	140	148	157
Other assets	1,158	1,284	1,198	1,247	1,295	1,361
Total assets	5,692	6,116	5,143	5,283	5,437	5,604
Interest bearing debt	870	1,428	748	748	748	748
Other liabilities	1,348	1,248	999	1,078	1,150	1,218
Total liabilities	2,218	2,677	1,747	1,826	1,898	1,966
Shareholders' equity	3,466	3,440	3,397	3,457	3,539	3,638
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,466	3,440	3,397	3,457	3,539	3,638
Net debt	-129	91	225	50	-130	-295

Key Company Metrics

Sales growth (%)	7.4	-3.7	-2.7	-6.4	7.0	6.9
DB EPS growth (%)	-0.8	-40.1	-47.0	35.9	36.4	19.7
EBITDA Margin (%)	26.0	20.0	13.6	16.8	19.0	19.9
EBIT Margin (%)	19.6	13.3	6.6	9.5	12.3	13.8
Payout ratio (%)	76.3	72.9	72.7	72.6	72.9	72.7
ROE (%)	16.1	8.9	4.7	6.5	8.7	10.1
Capex/sales (%)	17.0	6.4	3.7	3.5	3.5	3.5
Capex/depreciation (x)	2.6	1.0	0.5	0.5	0.5	0.6
Net debt/equity (%)	-3.7	2.6	6.6	1.5	-3.7	-8.1
Net interest cover (x)	48.3	37.0	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Anne Ling

+852 2203 6177

anne.ling@db.com



Company update

Valuation

Target price lowered to HK\$1.93 from HK\$2.2; Buy

We use a long-term growth rate of 2.0%, which is within the 2.0-2.5% range we use for the consumer sector. Our target price of HK\$1.93 implies 15.3x and 11.2x FY15E and FY16E PE, in line with the general consumer sector. We believe the solid management team will guide the company better through cycles. We are positive on the early signs of sssg improvement from 2H14 to date although it is partly helped by promotion. We expect the momentum to continue in 2015; we maintain Buy.

Risks

Downside risks. Industry risks include: 1) adverse economic conditions; 2) fashion risk; and 3) intense competition, mainly from international brands. Company risks include: 1) execution risk; 2) slower-than-expected retail network expansion and sssg; and 3) long inventory days.

Figure 1: Forecast change

YE Dec / HK\$m	DB forecast (new)		DB forecast (previous)		difference w ith		Market forecast		difference w ith	
	Sales	NP	Sales	NP	Sales	NP	Sales	NP	Sales	NP
14F	2,624	161	2,583	129	2%	25%	2,618	174	0%	-7%
15F	2,455	220	2,688	249	-9%	-11%	2,737	241	-10%	-9%
16F	2,627	302	2,930	353	-10%	-14%	2,992	318	-12%	-5%

Source: Deutsche Bank, Bloomberg Finance LP

2015 Outlook

Management is confident that they can perform in more constructive way in 2015 with positive top line growth. While ytd sssg was weak, they remain confident on full-year basis on new marketing initiatives and merchandising. They believe the company is in good position in 2015 for the opportunities in the market. In 2015, they will focus on 1) inventory, 2) store performance, and 3) tier-II, III cities.

Lowering inventory days remains priority, but driven by new products this year

90% of 2012 or older inventories have been removed through aggressive markdown. To recap, the company sold inventory at cost or above in 2014, resulting in write back of provision.

The target of 300 inventory days maintained. Inventory days have declined to 343 days in 2014 from 428 days in 2013. Management is confident that inventory days can be further reduced. This will be achieved through selling right product at regular price instead of markdown.

Sssg – a good sign of recovery

Sssg in different markets (excluding Taiwan) turned positive in 2H14 driven by markdown. Management thinks this was a good sign. Retail revenue per sqf improved 6%.



Ytd sssg was good in mainland but bit of difficult in other markets. But management is confident on full-year basis. The HK market becomes tough but they believe there is a chance if they have good location and good story.

Sourcing at much less expensive price; new merchandising in Fall/Winter

Long-term GPM targeted at 75%. First, the company expects much potential in lowering sourcing cost given centralized procurement for four brands. Second, more products will be sold at regular price since 1H15 and more margin upside, especially in Fall given new merchandising. Management said that the excessive inventory is gone. Given their value-for-money offering, they believe they are competitive in the market.

Marketing – four stories associated

In the upcoming marketing campaign, the company will launch four stories associated with its four brands to tell the consumers the distinct heritage and characteristics of each brand.

Among the four brands, management views Cerruti has most potential though they are also positive on the other three brands. They don't have any plans to add new brands since there is a lot of work to do with the existing four brands.

Store portfolio - 400 stores are optimum level

Management says there exist great opportunities in tier-II, III cities. They have been much disciplined in store openings with clear measures on store economics.

New talents acquired

Beside the CEO, new hiring also includes chief merchandising officer, chief planner, marketing director and HR director. CEO admitted the lack of direct experience in China and expects the local approach will help.

US and EU present good opportunity

The company expects EU operation will have positive contribution to earnings in 2015. Since they have some proven experience, they believe they can achieve goals quickly.

Payout to maintain at 73%

This will be maintained assuming no much negative macro.

Other results highlights

- Expense ratio – continue to go up because of more investments. Instead of simply cost cut, they focus more on staff training and teamwork.
- Forex swing – the company will take measures to cover the impact. They don't expect to have such forex swing going forward.

2014 Review

Sale in line; segment profit was in line at HK\$323m. Trinity announced a 47.8% decline in NP to HK\$161m on sales decline of 2.7% to HK\$2.6bn Sales were broadly in line with DBE, while NP was 24.8% higher than our forecast as it included a one-off write back in contingent liability of HK\$77.5m. Full-year dividend was HK\$6.7 per share vs. HK\$13.0 per share in 2013, representing a payout ratio of 72.7% vs.73.0% in 2013.

GPM decreased 1.4ppt to 74.1% mainly due to liquidation of the excess inventory and EBIT margin significantly decreased 6.7ppt to 6.6%. The opex



also includes HK\$33m exchange loss vs. our forecast of HK\$20m exchange loss, which is offset by HK\$64m write-back in provision of inventory.

Key highlights

- **By segment**, retail sales in HK/Macao and Mainland China declined 3.6% and 4.6% yoy, respectively. This was offset by a 3.0% increase in sales in Taiwan and 17.1% sales increase of wholesales sales in HK/Macao. Europe retail/licensing business reported a slight decline of 1.5% for its retail business. In terms of segment contribution, HK/Macao and China retail business declined 43% and 20%, respectively, but this was partly offset by the 26% rise in profit from Taiwan and 36% increase of wholesales sales in HK/Macao. Losses in Europe expanded to HK\$97m (vs. HK\$92m a year ago).
- **Total store number was reduced by 52 to 451**, with net closure of 49/2/1 in Mainland China/HK&Macao/UK, respectively.
- **SSS recovered with 0.3% growth** (2013:-5.3%) for the whole company with 3.2% in 2H14 vs. -3.0% in 1H14. China Mainland and Taiwan saw SSSg slightly down to 1.3% and 0.1%, respectively; while SSSg in HK/Macao and Europe was up 0.5% and 8.4%, respectively, on a full-year basis.
- **Opex ratio increased from 64.8% in 2013 to 71.2% in 2014.** Advertising & promotion expenses as % of sales were slightly down to 5.7% from 5.9% in 2013. Rental/staff cost as % of sales increased 1.0ppt/1.6ppt to 23.8%/27.0%.
- **Inventory days were reduced 85 days to 343 days in 2014**, mainly attributed to improved inventory management. This strengthening inventory control also resulted in a decrease in AP days from 47 days in 2013 to 36 days in 2014. AR days were 25, same as in 2013.
- **It had net debt of HK\$225.2m by the end of 2014**, vs. net debt of HK\$90.7m over last year. Net debt/equity was 6.6% vs. 2.6% by the end of 2013.



Figure 2: Half-year results

Trinity Interim								
YE Dec HKDm	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14
Total Revenue	1,206	1,401	1,367	1,434	1,338	1,358	1,260	1,364
YoY %	30.4%	29.0%	13.4%	2.3%	-2.1%	-5.3%	-5.9%	0.5%
Mix%	46.3%	53.7%	48.8%	51.2%	49.6%	50.4%	48.0%	52.0%
Gross Profit	974	1,130	1,083	1,103	1,009	1,027	998	944
YoY %	38.9%	32.8%	11.2%	-2.3%	-6.8%	-6.9%	-1.0%	-8.1%
GP margin	80.8%	80.6%	79.2%	77.0%	75.4%	75.7%	79.3%	69.2%
EBIT	298	315	303	245	171	188	94	79
YoY %	65.8%	26.2%	1.7%	-22.3%	-43.5%	-23.4%	-45.5%	-57.7%
Mix%	48.6%	51.4%	55.3%	44.7%	47.8%	52.2%	54.1%	45.9%
EBIT margin	24.7%	22.5%	22.2%	17.1%	12.8%	13.8%	7.4%	5.8%
Net interest income	1	0	(3)	(8)	(6)	(4)	(1)	5
Associates	30	33	31	34	12	4	5	3
Exceptionals	-	-	-	35	4	-	-	-
Income tax	(89)	(75)	(67)	(30)	(31)	(30)	(18)	(5)
NPAT	240.1	273.0	265.1	274.9	150.0	158.2	79.0	81.9
YoY %	63.5%	40.7%	10.4%	0.7%	-43.4%	-42.4%	-47.3%	-48.3%
Mix%	46.8%	53.2%	49.1%	50.9%	48.7%	51.3%	49.1%	50.9%
NP margin	19.9%	19.5%	19.4%	19.2%	11.2%	11.7%	6.3%	6.0%

Source: Deutsche Bank, company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Trinity	0891.HK	1.42 (HKD) 17 Mar 15	NA

*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.

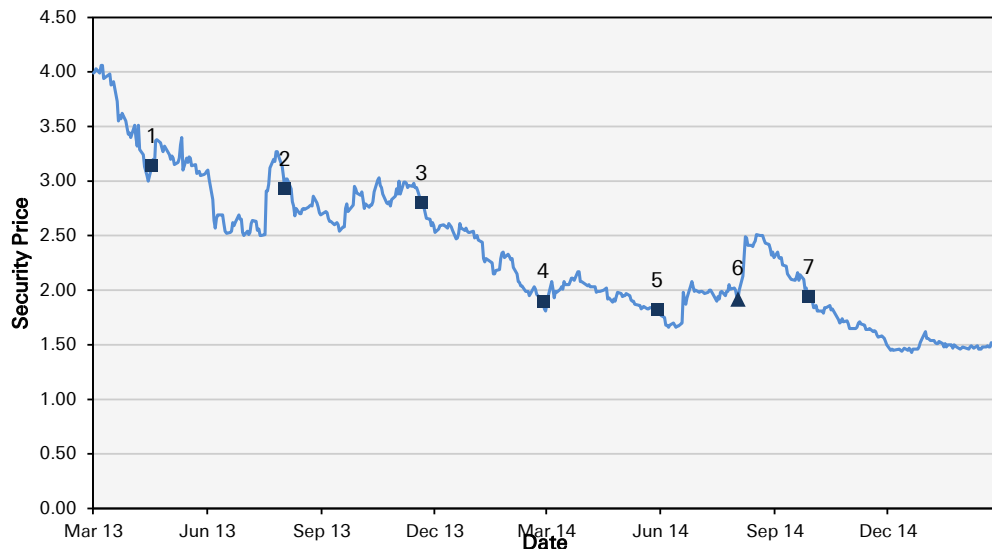
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Historical recommendations and target price: Trinity (0891.HK)

(as of 3/17/2015)



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.	06/05/2013:	Hold, Target Price Change HKD3.25	5.	17/06/2014:	Hold, Target Price Change HKD1.80
2.	21/08/2013:	Hold, Target Price Change HKD3.03	6.	21/08/2014:	Upgrade to Buy, Target Price Change HKD2.28
3.	09/12/2013:	Hold, Target Price Change HKD2.87	7.	17/10/2014:	Buy, Target Price Change HKD2.20
4.	17/03/2014:	Hold, Target Price Change HKD2.14			



Equity rating key

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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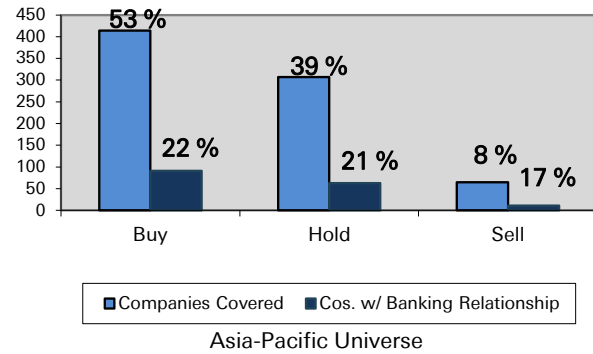
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Equity rating dispersion and banking relationships





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David Folkerts-Landau
Group Chief Economist
Member of the Group Executive Committee

Raj Hindocha
Global Chief Operating Officer
Research

Marcel Cassard
Global Head
FICC Research & Global Macro Economics

Richard Smith and Steve Pollard
Co-Global Heads
Equity Research

Michael Spencer
Regional Head
Asia Pacific Research

Ralf Hoffmann
Regional Head
Deutsche Bank Research, Germany

Andreas Neubauer
Regional Head
Equity Research, Germany

Steve Pollard
Regional Head
Americas Research

International locations

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

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