



HONG KONG

1880 HK Outperform

Price (at 07:59, 09 Mar 2015 GMT) HK\$8.13

Valuation HK\$ 12.70
- PER

12-month target HK\$ 12.70

Upside/Downside % +56.2

12-month TSR % +61.9

Volatility Index Medium

GICS sector

Consumer Durables & Apparel

Market cap HK\$m 68,570

Market cap US\$m 8,947

Free float % 26

30-day avg turnover US\$m 12.5

Number shares on issue m 8,434

Investment fundamentals

Year end 28 Feb		2014A	2015E	2016E	2017E
Revenue	m	36,794	39,629	42,128	45,677
EBIT	m	5,666	6,075	6,557	7,186
EBIT growth	%	4.9	7.2	7.9	9.6
Reported profit	m	4,402	4,627	5,071	5,591
Adjusted profit	m	4,402	4,627	5,071	5,591
EPS rep	Rmb	0.52	0.55	0.61	0.67
EPS rep growth	%	1.1	6.2	9.6	10.3
EPS adj	Rmb	0.52	0.55	0.61	0.67
EPS adj growth	%	1.1	6.2	9.6	10.3
PER rep	x	12.6	11.8	10.8	9.8
PER adj	x	12.6	11.8	10.8	9.8
Total DPS	Rmb	0.16	0.27	0.36	0.40
Total div yield	%	2.4	4.1	5.5	6.1
ROA	%	18.6	18.8	20.1	20.7
ROE	%	18.1	17.6	18.4	18.5
EV/EBITDA	x	8.0	7.5	6.6	6.0
Net debt/equity	%	-1.8	-3.8	-9.7	-15.2
P/BV	x	2.1	2.1	1.9	1.7

1880 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015
(all figures in Rmb unless noted, TP in HKD)

Analyst(s)

Linda Huang, CFA

+852 3922 4068

linda.huang@macquarie.com

Terence Chang

+852 3922 3581

terence.chang@macquarie.com

9 March 2015

Macquarie Capital Securities Limited

Belle International

Sportswear beat again

Event

- Belle announced 4QFY15 numbers after market close with the footwear SSSg decline narrowing and sportswear resuming double-digit growth after last quarter's dip. The strong number in sportswear continues to give us confidence that the China end-user sportswear demand remains strong while in our previous note on Adidas' Greater China result ([PDF](#) → [China Sportswear - Adidas results confirm upcycle](#)) also suggests that the brand companies remain bullish about 2015. Maintain Outperform.

Impact

- Footwear outlook still remains fickle, but SSSg decline narrowed.** Belle recorded -4.2% SSSg for 4QFY15 compared to -5.6% in 3QFY15. This number is slightly better than or expectation of -5%. ASP remains positive 1-2% while volume is still the key drag. Due to the mid-single-digit SSSg decline, there could be slight operating leverage, so we project footwear OPM will arrive at 21.8% for FY15, lower than company's guidance of 22-24%.
- Sportswear in a very solid growth phase.** Sportswear recorded a SSSg of 10.9% YoY (vs our projection of 7% YoY only), of which ASP increased by mid-single-digit growth on the back of a narrowing retail discount. We still believe that sportswear will take the driver's seat ([PDF](#) → [Belle International - Sportswear takes the driver's seat](#)) for the next two years as the increasing adoption of active lifestyles and rising health awareness will keep driving market demand. Most important of all, we believe the store efficiency improving could help operating leverage with OPM improve from ~5% to 7% in FY15. On the other hand, the apparel business is reaching critical mass as it has 70 stores in China now with continuous OPM expansion. Although the apparel business is still not meaningful at the current stage, it is worthwhile to observe its growth profile due to its fast expansion and quick efficiency improvement.
- Multi-channel strategy.** As of the end of FY15, Belle had 14,128 footwear outlets and 6,429 sportswear outlets, representing 6.6% and 8.5% store expansion growth. We still maintain a mid-single store expansion growth rate for the coming year. As for E-commerce, the loss significantly narrowed in 2014. Management has commitment to the online channel and will keep investing in this business as breakeven might not be their top priority.

Earnings and target price revision

- No Change.

Price catalyst

- 12-month price target: HK\$12.70 based on a PER methodology.
- Catalyst: FY15 results, M&A, contract win for new brand distribution rights

Action and recommendation

- We maintain an Outperform, and Belle remains one of our top picks in the consumer discretionary sector. We believe growing demand for sportswear in China is a structural trend, and Belle is one of its beneficiaries. Belle is trading at 10x FY17E PER, a 6% dividend yield.

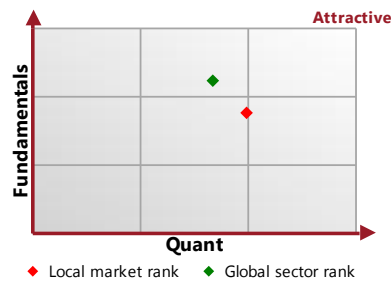
Macquarie Quant View

The quant model currently holds a marginally positive view on Belle International. The strongest style exposure is Quality, indicating this stock is likely to have a superior and more stable underlying earnings stream. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

168/378

Global rank in
Consumer Durables & Apparel

% of BUY recommendations 48% (11/23)
Number of Price Target downgrades 0
Number of Price Target upgrades 1

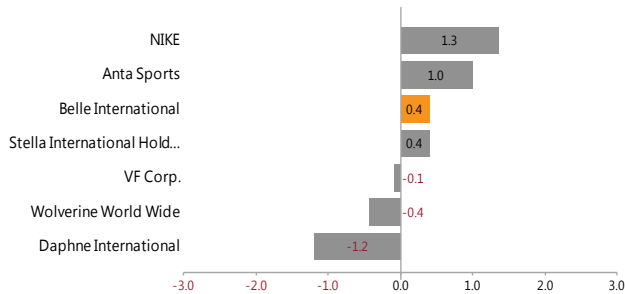


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (China) and Global sector (Consumer Durables & Apparel)

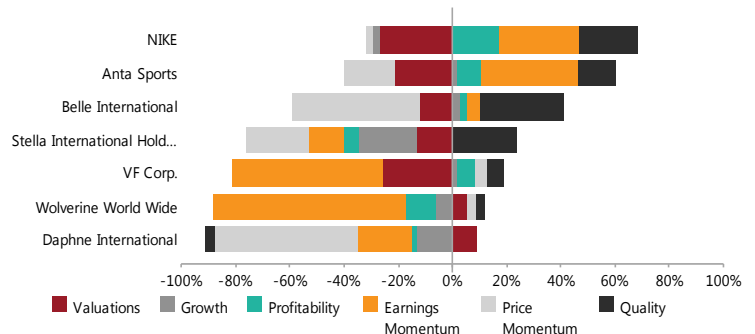
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



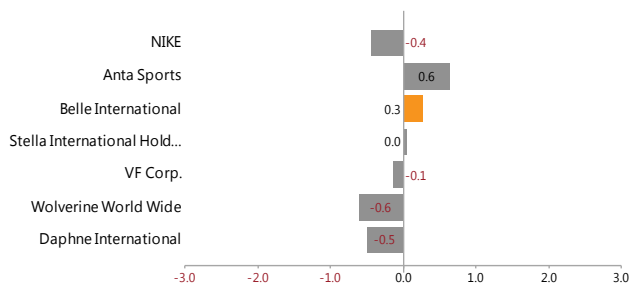
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



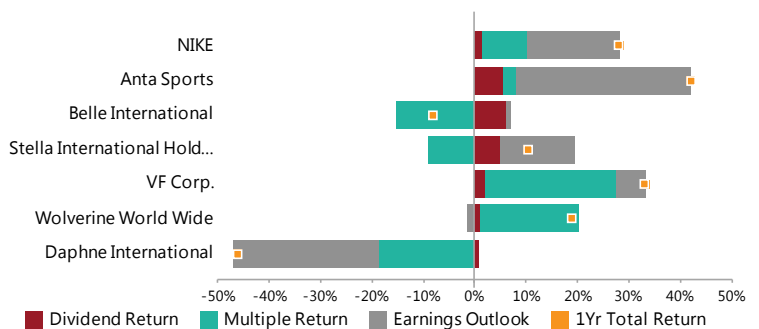
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



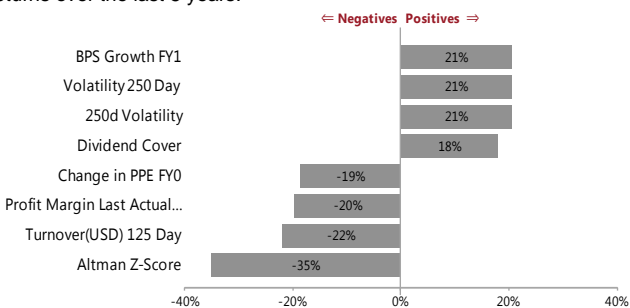
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



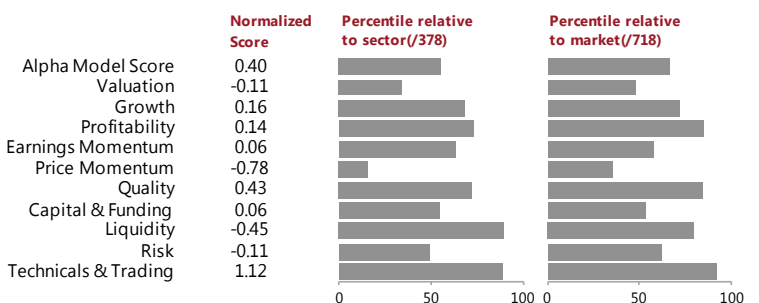
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Belle International (1880 HK, Outperform, Target Price: HK\$12.70)

Interim Results					Profit & Loss						
	1H/15A	2H/15E	1H/16E	2H/16E		2014A	2015E	2016E	2017E		
Revenue	m	18,556	21,073	19,675	22,453	Revenue	m	36,794	39,629	42,128	45,677
Gross Profit	m	10,443	12,429	11,136	13,217	Gross Profit	m	21,112	22,873	24,353	26,305
Cost of Goods Sold	m	8,113	8,644	8,539	9,236	Cost of Goods Sold	m	15,682	16,757	17,775	19,372
EBITDA	m	3,263	3,880	3,786	4,373	EBITDA	m	6,765	7,143	8,159	8,958
Depreciation	m	477	477	717	717	Depreciation	m	973	954	1,435	1,605
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	57	57	84	84	Other Amortisation	m	126	114	167	167
EBIT	m	2,729	3,346	2,985	3,572	EBIT	m	5,666	6,075	6,557	7,186
Net Interest Income	m	225	139	185	185	Net Interest Income	m	362	364	371	454
Associates	m	3	3	3	3	Associates	m	5	6	6	6
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	2,957	3,488	3,173	3,760	Pre-Tax Profit	m	6,032	6,444	6,933	7,645
Tax Expense	m	-884	-942	-857	-1,015	Tax Expense	m	-1,653	-1,826	-1,872	-2,064
Net Profit	m	2,073	2,546	2,316	2,745	Net Profit	m	4,379	4,619	5,061	5,581
Minority Interests	m	5	3	5	4	Minority Interests	m	23	8	9	10
Reported Earnings	m	2,078	2,549	2,322	2,749	Reported Earnings	m	4,402	4,627	5,071	5,591
Adjusted Earnings	m	2,078	2,549	2,322	2,749	Adjusted Earnings	m	4,402	4,627	5,071	5,591
EPS (rep)	fen	24.9	30.5	27.8	32.9	EPS (rep)	fen	52.2	55.4	60.8	67.0
EPS (adj)	fen	24.9	30.5	27.8	32.9	EPS (adj)	fen	52.2	55.4	60.8	67.0
EPS Growth yoy (adj)	%	48.9	-13.9	11.7	7.8	EPS Growth (adj)	%	1.1	6.2	9.6	10.3
						PE (rep)	x	12.6	11.8	10.8	9.8
						PE (adj)	x	12.6	11.8	10.8	9.8
EBITDA Margin	%	17.6	18.4	19.2	19.5	Total DPS	fen	16.0	27.0	36.1	39.8
EBIT Margin	%	14.7	15.9	15.2	15.9	Total Div Yield	%	2.4	4.1	5.5	6.1
Earnings Split	%	44.9	55.1	45.8	54.2	Basic Shares Outstanding	m	8,434	8,346	8,346	8,346
Revenue Growth	%	61.0	-16.6	6.0	6.5	Diluted Shares Outstanding	m	8,434	8,346	8,346	8,346
EBIT Growth	%	52.6	-13.7	9.4	6.8						
Profit and Loss Ratios					Cashflow Analysis						
		2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E	
Revenue Growth	%	12.0	7.7	6.3	8.4	EBITDA	m	6,765	7,143	8,159	8,958
EBITDA Growth	%	7.2	5.6	14.2	9.8	Tax Paid	m	1,540	1,826	1,872	2,064
EBIT Growth	%	4.9	7.2	7.9	9.6	Chgs in Working Cap	m	-110	132	-252	-241
Gross Profit Margin	%	57.4	57.7	57.8	57.6	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	18.4	18.0	19.4	19.6	Other	m	-2,267	-2,867	-3,368	-3,669
EBIT Margin	%	15.4	15.3	15.6	15.7	Operating Cashflow	m	5,929	6,233	6,412	7,112
Net Profit Margin	%	12.0	11.7	12.0	12.2	Acquisitions	m	1,290	0	0	0
Payout Ratio	%	30.7	48.7	59.4	59.4	Capex	m	-1,768	-1,000	-1,270	-1,450
EV/EBITDA	x	8.0	7.5	6.6	6.0	Asset Sales	m	-30	-300	-300	-300
EV/EBIT	x	9.6	8.8	8.2	7.5	Other	m	-2,871	0	0	0
Balance Sheet Ratios					Investing Cashflow						
ROE	%	18.1	17.6	18.4	18.5	Dividend (Ordinary)	m	-1,349	-4,386	-3,042	-3,355
ROA	%	18.6	18.8	20.1	20.7	Equity Raised	m	0	0	0	0
ROIC	%	18.3	16.8	18.8	20.1	Debt Movements	m	230	0	0	0
Net Debt/Equity	%	-1.8	-3.8	-9.7	-15.2	Other	m	-5	-572	-1,788	0
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	-1,125	-4,958	-4,830	-3,355
Price/Book	x	2.1	2.1	1.9	1.7	Net Chg in Cash/Debt	m	1,418	-25	11	2,007
Book Value per Share		3.1	3.2	3.5	3.8	Free Cashflow	m	4,161	5,233	5,142	5,662
					Balance Sheet						
						2014A	2015E	2016E	2017E		
					Cash	m	2,825	2,800	2,811	4,819	
					Receivables	m	3,285	3,231	3,399	3,590	
					Inventories	m	6,571	6,643	6,997	7,315	
					Investments	m	0	0	0	0	
					Fixed Assets	m	3,691	3,398	3,233	3,079	
					Intangibles	m	3,469	3,469	3,469	3,469	
					Other Assets	m	12,553	12,567	13,204	14,031	
					Total Assets	m	32,394	32,108	33,114	36,303	
					Payables	m	761	936	1,205	1,488	
					Short Term Debt	m	2,360	1,788	0	0	
					Long Term Debt	m	0	0	0	0	
					Provisions	m	160	160	160	160	
					Other Liabilities	m	2,778	2,715	2,792	2,862	
					Total Liabilities	m	6,059	5,599	4,156	4,509	
					Shareholders' Funds	m	26,189	26,363	28,812	31,647	
					Minority Interests	m	146	146	146	146	
					Other	m	0	0	0	0	
					Total S/H Equity	m	26,335	26,509	28,958	31,794	
					Total Liab & S/H Funds	m	32,394	32,108	33,115	36,303	

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, March 2015

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation
 *equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

1880 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

1880 HK: HK\$12.70 based on a PER methodology

Company-specific disclosures:

1880 HK: Macquarie Capital Securities Limited makes a market in the securities of Belle International Holdings Ltd

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
20-Jan-2015	1880 HK	Outperform	HK\$12.70
29-Oct-2014	1880 HK	Outperform	HK\$12.80
15-Sep-2014	1880 HK	Outperform	HK\$12.40
28-May-2014	1880 HK	Outperform	HK\$13.00
25-Feb-2014	1880 HK	Outperform	HK\$13.40
08-Jan-2014	1880 HK	Outperform	HK\$12.70
27-Aug-2013	1880 HK	Outperform	HK\$12.50
28-Mar-2013	1880 HK	Outperform	HK\$15.00
23-Aug-2012	1880 HK	Outperform	HK\$17.00
21-Mar-2012	1880 HK	Outperform	HK\$18.00

Target price risk disclosures:

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Takuo Katayama (Japan)	(813) 3512 7856

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