

### 4Q SSS update no surprise

## Quick Note

#### Belle reported 4QFY15 (Dec 2014-Feb 2015) operational data on 9 Mar

- As we expected, Belle's 4QFY15 SSS for footwear remained in the negative range. Footwear SSS fell 4.2% y-y, in line with our forecast of ~4%, vs 5.6% y-y decline in 3QFY15 (Fig. 1).
- SSS jumped 10.9% for the sportswear segment, vs our estimate of ~10% (5.3% y-y growth in 3QFY15, up 14.4% y-y in 2QFY15 and 15.3% growth y-y in 1QFY15).
- Belle opened 350 point of sales (POS) in China during the quarter. As expected, close to 100% of new POS were for sportswear. Total number of footwear POS in China reached 14,128 and that for sportswear was 6,429, as of 28 Feb 2015.

#### Less deterioration in FY16F but investors should not get too excited about recovery

- Belle's footwear SSS has been on a negative trend since 1QFY15. We share the same view as management that Belle's sales growth has peaked.
- We forecast footwear SSSG to be flat in FY16F primarily due to easier comps.
- We expect SSS for sportswear to grow 15%. However, we note that selling more sportswear likely means margins dilution because sportswear is a less profitable segment.

#### Our channel checks suggest lacklustre retail traffic

- From Dec 2014 to Feb 2015, we visited over 70 stores, malls and retail outfits in Beijing, Shanghai and Hong Kong on weekends and weekdays. Retail traffic still seems lacklustre for footwear and department stores in general.
- We have seen local footwear brand prices increased by up to 30% y-y, likely to offset the cost of more aggressive promotions (eg, "Buy CNY188 less CNY100"). We believe Belle will find it difficult to fully pass through the cost of promotions as part of its major cost items such as staff and rental costs are fixed. Yet, sales growth will likely remain weak without continuous promotions.

#### Maintain Reduce and TP of HKD8.0

- We maintain our Reduce rating and TP of HKD8.0, implying 12.5 FY15F P/E (EPS: CNY0.507), roughly in line with the sector average. We would look for improvement in sales volumes for the footwear segment before turning positive.
- We think Belle's key challenges remain: 1) a lack of product differentiation; 2) insufficient exposure to malls which enjoy higher sales growth; and 3) threat from e-commerce and 'copy cats'. We think that Belle's fashion business, Baroque, and its M&A targets (as per management) in the same sector could entail execution risks.
- Our FY15F/16F/17F EPS forecasts are 3.5%, 5.4% and 10.7% below consensus (Fig. 2).

### Global Markets Research

9 March 2015

Rating Remains	<b>Reduce</b>
Target price Remains	HKD 8.00
Closing price 9 March 2015	HKD 8.23

### Research analysts

#### China Consumer Related

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**Fig. 1: Same-store sales growth trends – Belle and its peers**

	Footwear						Menswear		Department stores					Global names		Cosmetics	Jewellery retailers		
	Belle's footwear	Belle's sportswear	Daphne	Stella	C.Banner	Le Saunda	Trinity	Lilang	Golden Eagle	Parkson	Intime	Springland (dept stores)	Springland (supermkt)	Prada	L'Occitane	Sa Sa	Chow Tak Fook	Luk Fook	
1Q09A	7.2%	-6.0%	1.0%	na	na	na	na	na	12.7%	9.0%	11.0%	na	na	na	na	3.8%	na	na	
2Q09A	6.0%	-8.0%	1.0%	33.0%	na	na	na	na	16.0%	4.6%	15.0%	na	na	na	na	1.6%	na	na	
1H09A	7.4%	-7.0%	1.0%	na	na	na	-4.8%	na	14.9%	6.9%	13.0%	na	na	na	na	2.7%	na	na	
3Q09A	9.0%	-13.0%	flat	26.1%	na	na	na	na	16-17%	7.5%	high-teens	na	na	na	na	3.4%	na	na	
4Q09A	10.0%	LSD drop	teens	38.3%	na	na	na	20.0%	18-20%	8.7%	high-teens	na	na	na	na	8.7%	na	na	
2H09A	9.7%	LSD drop	single-digit	32.2%	na	na	11.1%	na	18.4%	8.2%	high-teens	na	na	na	na	6.1%	na	na	
2009A	7.0%	LSD drop	single-digit	23.3%	na	na	3.0%	na	17.5%	7.5%	16.7%	13.3%	1.8%	na	na	4.4%	na	na	
1Q10A	18.0%	4.0%	5.0%	14.0%	na	na	na	20.0%	26.0%	10.8%	18.4%	na	na	na	na	12.9%	na	na	
2Q10A	18.0%	4.0%	~ 1%	13.9%	na	na	na	15.0%	23.0%	11.9%	16-17%	na	na	na	na	11.3%	na	na	
1H10A	18.0%	4.0%	LSD	13.9%	na	na	21.0%	17.5%	25.4%	11.3%	17.2%	21.4%	8.8%	na	na	12.1%	na	na	
3Q10A	18.0%	3.0%	5.0%	31.0%	na	na	na	21.6%	25.0%	10.9%	12-13%	na	na	na	na	7.3%	na	na	
4Q10A	16.0%	7.0%	LSD	42.2%	na	na	na	19.6%	24-25%	11.8%	mid-teens	na	na	na	4.5%	6.8%	na	na	
2H10A	16.5%	5.0%	LSD	36.6%	na	na	20.0%	20.6%	25.0%	11.4%	19.0%	29.6%	14.0%	na	na	7.1%	na	na	
2010A	17.0%	5.0%	LSD	25.3%	12.3%	na	21.0%	17.8%	25.1%	11.4%	18.2%	25.5%	11.5%	na	na	9.6%	na	na	
1Q11A	22.0%	7.0%	1.0%	21.0%	na	na	na	20.0%	29.0%	13.9%	27.2%	na	na	na	9.5%	11.6%	na	na	
2Q11A	20.0%	5.5%	32.0%	51.7%	na	na	na	16.0%	28.5%	12.5%	29.6%	na	na	na	6.4%	26.3%	na	na	
1H11A	-20%	6-7%	16-17%	37.1%	na	na	19.7%	18.0%	28.7%	13.3%	28.4%	29.8%	14.4%	na	5.8%	19.0%	na	na	
3Q11A	16.5%	2.5%	23.0%	30.0%	22.7%	na	na	18.0%	28-29%	12.0%	25-26%	25.4%	na	na	5.8%	22.5%	na	na	
4Q11A	8.2%	3.5%	26.0%	22.0%	12.2%	na	na	18.0%	~ 19%	9.0%	mid-teens	17.0%	na	41.3%	6.4%	20.7%	na	na	
2H11A	12-13%	~ 3%	24-25%	~26%	17-18%	na	na	~ 18%	23-24%	10-11%	~20%	~21%	7.0%	na	6.1%	21.6%	na	na	
2011A	~ 16%	~ 4%	~ 25%	35.0%	14.6%	na	19.5%	18.0%	24.9%	11.4%	23.1%	21.0%	7.4%	na	7.0%	20.3%	na	na	
1Q12A	2.8%	-2.4%	22.0%	16.7%	3.6%	na	MSD	14.0%	9.0%	2.0%	9.1%	25.4%	10.9%	29.0%	8.2%	21.1%	na	na	
2Q12A	10.5%	5.0%	14.0%	2.8%	9.8%	na	MSD	~ 12%	8.2%	4.0%	10.1%	>10%	flat	20.7%	0.7%	12.3%	na	na	
1H12A	6.7%	1.3%	17.0%	8.7%	6.4%	na	6.5%	12.4%	8.6%	2.9%	9.2%	~12%	1.0%	24.8%	4.5%	16.7%	na	na	
3Q12A	2.8%	3.6%	5.0%	-8.2%	6.3%	na	LSD*	5.0%	LSD	-1.7%	LSD	12.1%	1.0%	15.0%	4.5%	20.9%	na	na	
4Q12A	3.0%	10.0%	2.0%	-0.5%	2.7%	na	MSD-HSD*	flat	MSD	-2.5%	8-9%	MSD	LSD drop	9.0%	4.7%	12.6%	na	na	
2H12A	2.9%	6.8%	3.5%	-4.4%	5.0%	na	LSD-MSD*	LSD	3.6%	-2.1%	9.0%	6.0%	~-3%	12.0%	4.6%	16.8%	na	na	
2012A	~ 4%	~ 4%	9.0%	3.0%	6.3%	na	0.5%	5.5%	6.1%	0.4%	9.1%	8.8%	-1.0%	16.2%	4.5%	16.7%	LSD	na	
1Q13A	4.5%	11.0%	-2.5%	8.9%	1.7%	8.2%	flat	LSD	MSD	-2.8%	9.5%	low-teens	na	7.7%	-0.7%	15.0%	-1.8%	24.4%	
2Q13A	0.5%	2.5%	-13.7%	-8.6%	-9.6%	14.7%	-20.4%	LSD	MSD-HSD	1.4%	17-18%	mid-teens	na	6.7%	0.8%	18.6%	55.0%	93.2%	
1H13A	2-3%	6-7%	-9.2%	-0.6%	-5.1%	11.5%	-10.2%	LSD	5.6%	-0.7%	13.7%	10.6%	-3.1%	7.2%	0.0%	16.8%	26.6%	58.8%	
3Q13A	1.3%	4.5%	-18.1%	7.3%	-9.8%	17.7%	MSD drop*	MSD	4-5%	2-3%	-4.2%	~7%	HSD	na	6.7%	1.0%	8.7%	34.0%	42.0%
4Q13A	1.3%	5.0%	na	-5.8%	7-8% drop	14.2%	HSD drop*	LSD	LSD	-1.6%	LSD drop	flat	na	7.0%	5.7%	15.8%	11.0%	9.3%	
2H13A	-1.3%	4-5%	na	na	8-9% drop	16.0%	-12.1%	LSD	LSD	-2.9%	2-3%	-4%	1.0%	6.8%	3.4%	12.3%	22.5%	25.7%	
2013A	-2%	5.5%	-ve	-1.0%	-6.9%	13.7%	-11.1%	LSD	2.9%	-1.8%	8.0%	7.1%	-0.9%	7.6%	1.7%	14.5%	24.6%	42.2%	
1Q14A	-2.7%	7.0%	-9.5%	-8.5%	-8.6%	10.1%	low-teens drop	LSD	flat	-8.0%	1.8%	na	na	0.0%	7.3%	9.5%	4.0%	-10.0%	
2Q14A	-1.8%	15.3%	-2.4%	-8.8%	-2.1%	15.4%	MSD drop*	LSD	lowteens drop	-9.8%	-6.6%	na	na	-3.0%	6.2%	1.9%	-40.0%	-54.0%	
1H14A	-2.3%	11.0%	-5.5%	-8.6%	-5.4%	12.8%	-6.0%	LSD	-6.7%	-8.9%	-2.4%	-1.1%	1.0%	-1.6%	6.8%	5.7%	-18.0%	-32.0%	
3Q14A	-2.8%	14.4%	6.3%	-16.8%	5.0%	11.9%	na	na	MSD drop*	-4.5%	-3.9%	na	na	-11.4%	6.0%	11.9%	-20.0%	-21.0%	
4Q14F	-5.6%	5.3%	-7.5%	-26.2%	7.7%	1.9%	na	na	flat*	-6.1%	flat*	na	na	-3.6%	5.5%	-2.7%	-18.0%	-7.0%	
2H14F	-4.2%	9.9%	-0.6%	-21.5%	6.4%	6.9%	na	na	LSD drop*	-5.3%	LSD drop*	-2.5%	-0.6%	-7.5%	5.8%	4.6%	-19.0%	-14.0%	
2014F	-3.2%	10.5%	-3.4%	-15.7%	0.5%	9.8%	na	na	-2%*	-7.1%	-2.5%	-1.8%	0.2%	-4.7%	6.3%	5.2%	-18.5%	-23.0%	
1Q15A	-4.2%	10.9%	na	na	na	3.9%	na	na	LSD drop*	na	LSD drop*	na	na	Flat*	MSD to HSD*	MSD*	LSD drop to flat*	-8%*	
2015F	Flat*	15%*	na	na	na	na	na	na	Flat*	na	3.8%*	na	na	Flat*	MSD to HSD*	MSD*	10%*	10%*	

Note: \* are our estimates; all numbers are calendarised except for Belle and Le Saunda whose fiscal year-end at Feb; Trinity's SSSG numbers are China only  
 Source: Company data, Nomura research

**Fig. 2: Nomura vs. consensus**

	FY15F Consensus	FY15F NMR	FY15F diff.	FY16F Consensus	FY16F Nomura	FY16F Chg.	FY17F Consensus	FY17F Nomura	FY17F Chg.
Turnover	40,017	39,822	-0.5%	43,919	42,825	-2.5%	46,979	46,332	-1.4%
EBIT	5,728	5,710	-0.3%	6,201	6,015	-3.0%	6,740	6,027	-10.6%
Net income	4,444	4,287	-3.5%	4,783	4,524	-5.4%	5,098	4,551	-10.7%
EPS	0.53	0.51	-3.5%	0.57	0.53	-5.4%	0.60	0.54	-10.7%

Source: Bloomberg, Nomura research

# Appendix A-1

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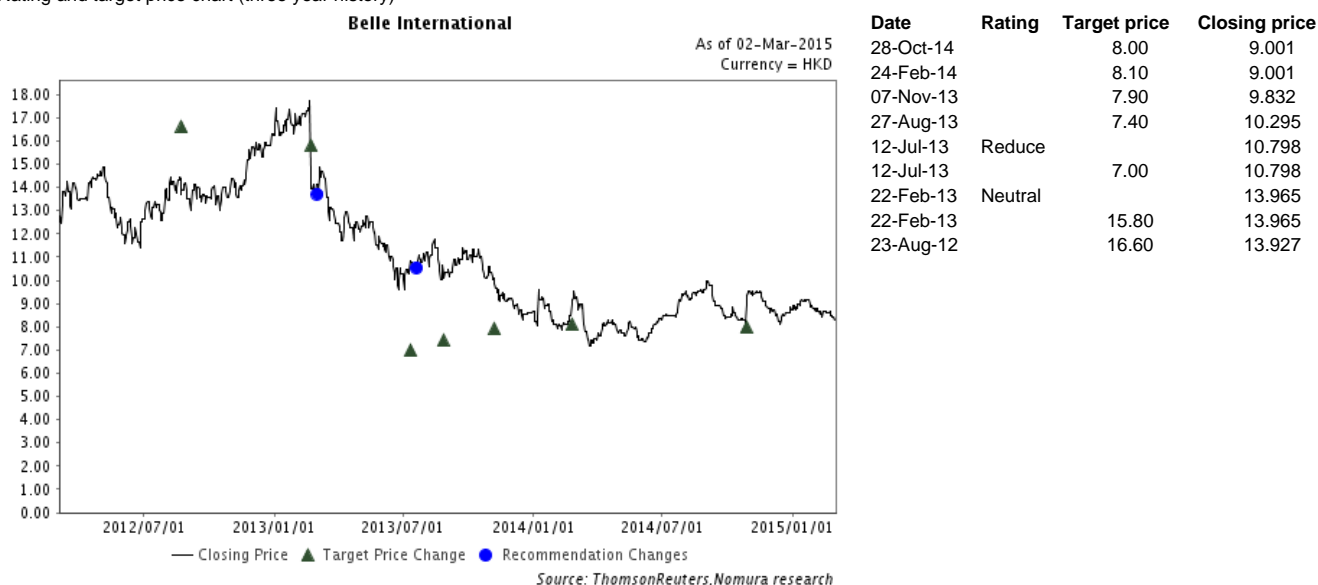
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Belle International	1880 HK	HKD 8.23	09-Mar-2015	Reduce	N/A	

### Belle International (1880 HK)

HKD 8.23 (09-Mar-2015) Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We use HK-listed discretionary consumer names' average of 12.5x FY15 P/E as the target multiple and our EPS estimates of CNY0.51 in FY15 to arrive at our TP of HKD8.0. The benchmark index for this stock is MSCI China.

**Risks that may impede the achievement of the target price** Upside risks: a faster-than-expected recovery in SSSG and lower-than-expected operating expense.

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