



Rating
Buy

Asia
Hong Kong

Consumer
Retail / Wholesale Trade

Company
Li & Fung Alert

Reuters 0494.HK	Bloomberg 494 HK	Exchange HKG	Ticker 0494
ADR Ticker LFUGY	ISIN US5018971029		

Date
26 March 2015

Company Update

Price at 26 Mar 2015 (HKD)	7.34
Price target - 12mth (HKD)	9.90
52-week range (HKD)	12.06 - 7.13
HANG SENG INDEX	24,528

Anne Ling

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

GBG - key takeaways from results meeting

Adjusted net profit increased 9.1% yoy to USD108m in 2014

GBG's (0787.HK NR HKD1.22) reported NP decreased 8.2% yoy. In 2H14, the NP/adjusted NP increased 24.7%/36.4% yoy to USD202m/USD161m. Turnover in 2014/2H14 rose 5% yoy/7.5% yoy to USD3.5bn/USD2.1bn. The COP increased 15.2% yoy to USD154m, and margin was up 0.4ppt to 4.5% in 2014. No dividend was proposed for FY14. As of 31 Dec 2014, the company held a net debt position of USD537m (vs. a net cash of USD115m as of 31 Dec 2013).

Key guidance for 2015: working towards its three-year target

***Financial guidance.** GBG guided for low single-digit growth for the licensing segment and higher than-teens growth for controlled brands. As for total margin, the company expects it to return to the 2011 level of 33.9% in 2015 from 32.3% in 2014. To recap, on a like-to-like basis, GPM rose by 150 ppt in 2014.

***Licensed brands vs. controlled brands.** GBG views licensed brands, especially in the character segment, as a cash-generative business, and expects strong upside in revenue for its controlled brands. That said, it believes its kids licensing business has a big opportunity to globalize to Asia and Europe. GBG's new license agreements with Quik Silver and Disney (sleepwear) will contribute to its P&L in 2015. It is adding resources to 4 of its 10 **controlled brands**. In 2015, **Frye** will add 6 more stores on its retail side, taking the total to 10. GBG continues to develop Frye into a lifestyle brand with the launch of sunglasses, belts and handbags. **Spyder** will be positioned as a more affordable brand, tapping into the off-mountain business. It will introduce spring/summer apparels. Management sees a big opportunity for outdoor brand in Asia and will start in South Korea. **Juicy Couture** will have 230 stores by the end of the year with its retail partners opening more than 30 new stores to expand into girls categories and expand into Asia, ME and Africa. **Aqua Talia** is a small brand and at an incubation stage. It sees opportunities in Europe and will start men's collection in fall 2015; a strong growth momentum is expected.

***The restructuring process is completed.** The company disposed of its private label jewelry business, and a loss of US50m was incurred below the COP. GBG may streamline some of the lower margin or less desirable businesses in the future; however, the impact is expected to be limited and will be reflected in the COP.

Deutsche Bank's view

GBG is LF's sister company and 85% of its 2014 sourcing went to LF, according to management. This is roughly 11% of LF's trading business. Based on GBG's sales guidance, sourcing order to LF is likely to experience steady growth.

Stock data

Market cap (HKDm)	59,484
Market cap (USDm)	7,671
Shares outstanding (m)	8,104.2
Major shareholders	Fung Family (34%)
Free float (%)	66
Avg daily value traded (USDm)	26.704

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (USDm)	19,288	20,753	22,611
Net Profit (USDm)	539.4	465.6	585.1
DB EPS (USD)	0.05	0.06	0.08
PER (x)	25.4	15.1	12.3
Yield (net) (%)	4.0	5.2	6.3

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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