

Consumer & Retail
Textiles, Apparel & Luxury
Goods
 Equity – Hong Kong

Buy

Target price (HKD)	1.70
Share price (HKD)	1.22
Upside/Downside (%)	39.3

Performance	1M	3M	12M
Absolute (%)	-9.6	-18.7	
Relative ^A (%)	-8.1	-22.5	

Index^A HANG SENG INDEX

RIC 0787.HK
 Bloomberg 787 HK

Market cap (USDm) 1,315
 Market cap (HKDm) 10,200

Enterprise value (USDm) 2720
 Free float (%) 61

Global Brands Group (787 HK)

Upgrade to Buy: Higher visibility on growth

- ▶ **The group reported its first full-year results as a standalone company, and gave us more confidence in its strategy**
- ▶ **We raise our 2015-16 recurring earnings by 16-22% on the oback of higher visibility for growth and margin prospects**
- ▶ **Upgrade to Buy (from Neutral (V) under the previous rating system); set a fair value TP of HKD1.7**

With this note, Catherine Chao assumes primary coverage of Global Brands Group.

Spin-off helped with company focus. Considering the group only spun off to become a standalone company starting in Jul-2014, we were previously cautious given its lower margin as compared with peers and its limited track record. But with 2014 results, we think the group has made strides in improving the total margin and streamlining the organization. More importantly though, we think the company is now better focused on which product segment it is concentrating on (namely affordable luxury brands, mostly American) and what categories (kids, footwear, apparel and accessories). The stock price has fallen 20% YTD and while that may have been due to low visibility (short track record as a standalone company), we think the clearer strategy and improved margin outlook should warrant a re-rating. At 9.4x 2015e PE and 15% recurring earnings CAGR from 2014-17e, we think the current valuation is attractive.

Concentration in US as short-term benefit. The US still represents the vast majority of sales (2014: 80%) and for this year at least, this should prove to be an advantage. The US consumer sentiment is more stable than other regions, and while the group would eventually want to expand a similar model to Europe and Asia, the demand outlook should be good for this year. In addition, having a majority of sales from the US also helps from a currency perspective. Since the USD has appreciated against most Asian currencies (where most of the group's suppliers are based) and with lower raw material prices (e.g., cotton), these should help to benefit gross margin. On a longer term basis, the group will seek to continually adjust the mix towards higher margin businesses.

2014 results review. The group reported FY14 net profit of USD108m (+9% yoy) on +5% revenue. Core operating profit was 8% higher than our estimate due to higher gross margin.

Upgrade to Buy and set TP of HKD1.70. We set a fair value PE-based target price of HKD1.70 on higher earnings estimates. Previously, our TP was HKD1.45 under our prior rating system. We maintain a target multiple of 14x 2015e PE, representing c20% discount to the peer average of 18.2x, which we think is justified given the very limited track record and industry-lagging metrics (margins and ROE).

27 March 2015

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Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (USDm)				
Revenue	3,454	3,621	3,772	3,901
EBITDA	383	449	481	523
Depreciation & amortisation	-228	-254	-274	-297
Operating profit/EBIT	155	195	207	226
Net interest	-44	-45	-40	-36
PBT	235	187	203	227
HSBC PBT	235	187	203	227
Taxation	-22	-34	-36	-41
Net profit	214	153	166	186
HSBC net profit	108	140	151	166

Cash flow summary (USDm)

Cash flow from operations	404	350	382	451
Capex	-26	-72	-75	-78
Cash flow from investment	-77	-179	-180	-183
Dividends	0	0	0	0
Change in net debt	654	-123	-157	-227
FCF equity	194	189	222	291

Balance sheet summary (USDm)

Intangible fixed assets	3,287	3,164	3,021	2,859
Tangible fixed assets	205	250	295	338
Current assets	1,226	1,890	2,118	2,314
Cash & others	126	677	838	971
Total assets	4,783	5,369	5,499	5,576
Operating liabilities	559	563	523	508
Gross debt	1,719	2,147	2,152	2,058
Net debt	1,593	1,470	1,313	1,086
Shareholders funds	2,475	2,628	2,794	2,980
Invested capital	4,033	4,064	4,073	4,033

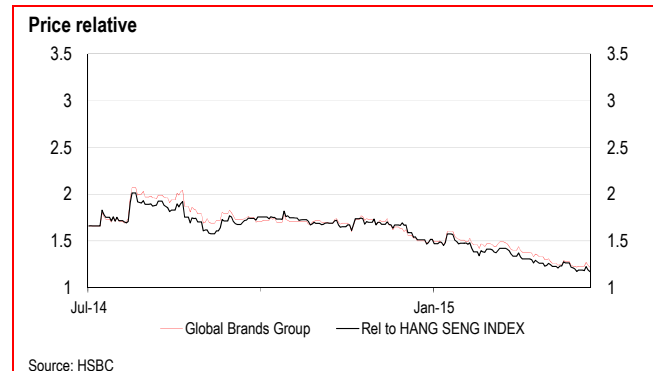
Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	5.0	4.9	4.2	3.4
EBITDA	18.8	17.0	7.1	8.9
Operating profit	29.7	26.0	6.0	9.4
PBT	81.9	-20.8	8.6	11.9
HSBC EPS	9.3	29.2	7.8	10.1
Ratios (%)				
Revenue/IC (x)	0.9	0.9	0.9	1.0
ROIC	8.7	8.5	9.1	9.9
ROE	4.4	5.5	5.6	5.7
ROA	5.4	3.8	3.7	4.0
EBITDA margin	11.1	12.4	12.7	13.4
Operating profit margin	4.5	5.4	5.5	5.8
EBITDA/net interest (x)	8.7	10.0	11.9	14.7
Net debt/equity	64.4	55.9	47.0	36.5
Net debt/EBITDA (x)	4.2	3.3	2.7	2.1
CF from operations/net debt	25.4	23.8	29.1	41.5
Per share data (USD)				
EPS reported (fully diluted)	0.03	0.02	0.02	0.02
HSBC EPS (fully diluted)	0.01	0.02	0.02	0.02
DPS	0.00	0.00	0.00	0.00
Book value	0.30	0.31	0.33	0.36

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	0.8	0.8	0.7	0.6
EV/EBITDA	7.4	6.1	5.3	4.5
EV/IC	0.7	0.7	0.6	0.6
PE*	12.2	9.4	8.7	7.9
P/Book value	0.5	0.5	0.5	0.4
FCF yield (%)	15.5	15.1	17.7	23.3
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 26 Mar 2015

Valuation and risks

We set a fair value target price of HKD1.70 (HKD1.45 under our previous ratings model) and upgrade to Buy (vs Neutral (V) under our previous ratings model). We benchmark our PE multiple against the group's listed peers, given it is a newly listed company with limited trading history. We use a target multiple of 14x 2015e PE, representing c20% discount to the peer average of 18.2x, which we think is justified given the very limited track record and industry-lagging metrics (margins and ROE).

We raise our 2015-16e recurring earnings estimates by 22-28%, respectively. We lower sales slightly to account for the group exiting from certain lower margin businesses in 2014 but we raise our earnings primarily on higher gross margin assumptions.

Downside risks: 1) higher than expected investments for its recently signed joint venture and deal (David Beckham JV and Kate Spade), 2) sluggish sell-ins on underperforming brands/product categories, and 3) a drastic increase in key raw material cost inputs.

Global Brands Group - HSBC changes vs. old vs. consensus estimates

In USDm	HSBC		2015e			HSBC		2016e		
	Old	New	Cons.	Diff. vs. old	Cons.	Old	New	Cons.	Diff. vs. old	Cons.
Revenue	3,789	3,621	3,679	-4.4%	-1.6%	3,979	3,772	3,828	-5.2%	-1.4%
EBIT	109	195	109	79.7%	79.0%	111	207	111	85.5%	86.3%
EBIT margin	2.9%	5.4%	3.0%	2.5ppt	2.4ppt	2.8%	5.5%	2.9%	2.7ppt	2.6ppt
Recurring earnings	66	153	na	130.4%	na	69	166	na	139.5%	na
Recurring earnings margin	1.8%	4.2%	na	2.5ppt	na	1.7%	4.4%	na	2.7ppt	na
Reported earnings	114	140	108	22.2%	29.9%	117	151	121	28.3%	24.4%
Reported earnings margin	3.0%	3.9%	2.9%	0.8ppt	0.9ppt	2.9%	4.0%	3.2%	1.0ppt	0.8ppt

Source: Bloomberg, HSBC estimates

Disclosure appendix

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Important disclosures

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

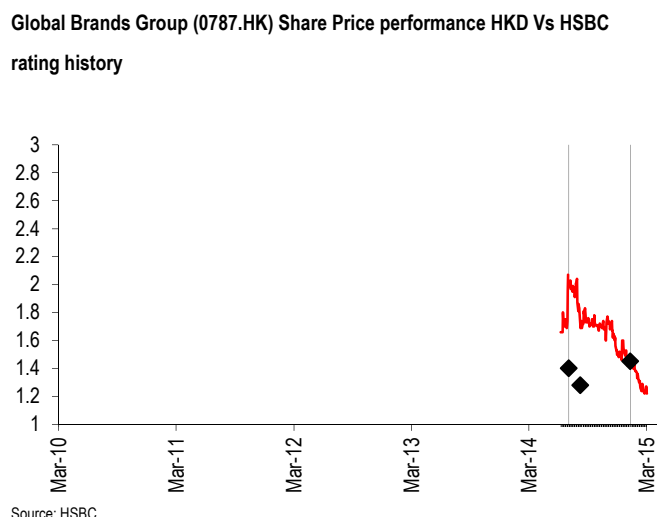
Rating distribution for long-term investment opportunities

As of 26 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(30% of these provided with Investment Banking Services)
Hold	39%	(27% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities



Recommendation & price target history		
From	To	Date
N/A	Underweight (V)	27 July 2014
Underweight (V)	Neutral (V)	03 February 2015
Target Price	Value	Date
Price 1	1.40	27 July 2014
Price 2	1.28	01 September 2014
Price 3	1.45	03 February 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
GLOBAL BRANDS GROUP	0787.HK	1.22	26-Mar-2015	7

Source: HSBC

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