

Belle (1880 HK)

Buy (maintained)

Target price: HK\$12.40



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FY15 results beat; raise TP to HK\$12.40

FY15 results beat Net profit rose 8% YoY to Rmb4,764m, 6% and 4% above Bloomberg consensus and our estimate, respectively, due to a better-than-expected EBIT margin (15.5% vs our estimate of 15.2%), especially in its sportswear and apparel segment (7.1% vs our estimate of 6.5%).

FY16 outlook. (1) **1Q16 SSS trend:** Footwear SSSG so far is estimated at negative mid single-digit (vs -4.2% in 4Q15). Due to a late CNY holiday in Feb, we believe the worst of SSS was seen in Mar. Sportswear SSS maintained double-digit growth (vs 10.9% in 4Q15). (2) **Footwear EBIT margin trend:** Due to continuing weak SSS and staff cost pressure, we expect EBIT margin to fall below 22% in FY16 (vs 22.1% in FY15). (3) **Store opening:** Management is cautious on opening footwear stores due to the continuing weak store traffic in department stores. We estimate low single-digit growth in footwear stores, and expect mid single-digit store growth for sportswear and apparel. (4) **E-commerce:** E-commerce losses were significantly reduced in FY15. Management targets to breakeven in FY16. The company will not accelerate its e-commerce business development before finding an appropriate O2O strategy.

Impact of import tariff cut Overall, management believes the impact of the import tariff cut will be insignificant. For sportswear, most international brands' shoes are manufactured in China and other Asian countries such as Vietnam and Malaysia, which are currently exempt from import tariffs. We do not expect much change in retail prices between international brands and domestic brands due to the cut. For footwear, we believe the import tariff cut (from 22%-24% to 12%) may lower procurement costs for international brands by a high single-digit. Given the GM of international brands is high and that they may not fully pass procurement cost savings onto consumers, we expect the percentage reduction in retail prices on the back of the tariff cut to be less than the reduction in procurement costs.

Results highlights. (1) **Footwear segment EBIT flat** Footwear segment revenue rose 3% YoY led by 7% store growth but partly offset by the 4% SSS decline. GM was stable at 68.5% (vs 68.8% in FY14) due to stable costs for manufacturing and procurement as well as in promotion. Despite a SSS decline during the period, EBIT margin dropped just 0.7pp to 22.1%, reflecting the company's flexible cost structure. (2) **Sportswear and apparel segment EBIT surged 71%** The strong profit growth was fueled by 25% revenue growth (~11% SSSG and 9% store growth) and 2.2pp EBIT margin expansion to 7.1%. GM widened by 2.8pp to 42.6% driven by less discounting, more subsidies from brand names and higher sales mix of new collections. Thanks to rapid network expansion and improvements in operation efficiency, Baroque achieved breakeven in China in 2014 for the first time since the establishment of the JV in 2013, which was above management's expectation. The segment's EBIT proportion as a percentage of the company's EBIT rose to 19% (vs 12% in FY14).

Maintain Buy and raise TP to HK\$12.40 We raise our FY16/17 net profit forecasts by 4%/3% mainly to factor in a lower SG&A expenses ratio and higher sportswear SSSG assumptions. Given our earnings upgrade and the re-rating potential due to expectations of southbound fund flow (Belle is included in the Shanghai-HK Stock Connect scheme), we raise our TP from HK\$10.00 to HK\$12.40, based on 16.3x FY16E P/E, which is in line with its average 1-yr forward P/E (vs previous 13.8x FY16E P/E at -1 standard deviation). We see Belle as a quality footwear retailer given its superior supply chain and flexible operating costs. Its overall earnings visibility has improved driven by a better growth outlook in its sportswear segment on solid demand and margin expansion.

Stock performance



Source: Bloomberg

Key data

May 27 close (HK\$)	10.82
Shares in issue (m)	8434.2
Major shareholder	Tang Yie (31.15%)
Market cap (HK\$ bn)	91.3
3M avg. vol. (m)	19.2
52W high/low (HK\$)	12.26/7.26

Source: Bloomberg

Valuation

Year-end	Turnover	Net profit	EPS	EPS YoY	P/E	Ex-net	Yield	BPS	P/B	ROE
Feb	(Rmb m)	(Rmb m)	(Rmb)	(%)		cash P/E	(%)	(Rmb)		(%)
2014	36,794	4,402	0.52	1	16.4	14.6	2.3	3.1	2.7	18.1
2015	40,008	4,764	0.58	10	14.9	13.6	6.9	3.0	2.9	18.6
2016E	42,865	5,023	0.61	5	14.2	12.7	4.1	3.3	2.7	19.3
2017E	45,872	5,324	0.64	6	13.3	11.6	4.4	3.5	2.4	18.8
2018E	49,155	5,673	0.69	7	12.3	10.5	4.8	3.8	2.2	18.5

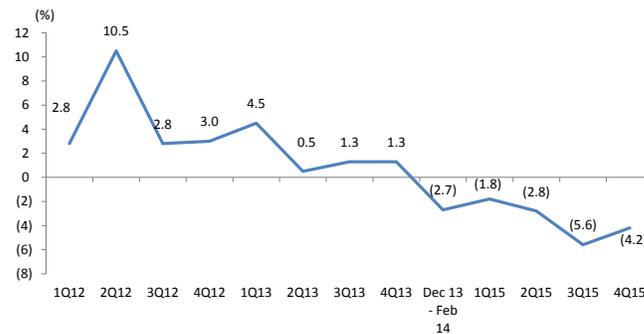
Sources: Company data, GF Securities (HK)

Figure 1: Results review

Y/E Feb (Rmb m)	FY15	FY14	% change	2H15	2H14	% change	1H15	1H14	% change
Revenue	40,008	36,794	9%	21,452	20,056	7%	18,556	16,739	11%
Cost of sales	(16,998)	(15,682)	8%	(8,885)	(8,273)	7%	(8,113)	(7,410)	9%
Gross profit	23,010	21,112	9%	12,567	11,783	7%	10,443	9,329	12%
Other income	422	389	8%	217	180	20%	205	208	-1%
Other net gains/(losses)	(22)	(15)	41%	(12)	(9)	28%	(10)	(6)	61%
Selling and distribution expenses	(13,920)	(12,966)	7%	(7,560)	(7,210)	5%	(6,360)	(5,756)	10%
Administrative expenses	(3,296)	(2,854)	15%	(1,747)	(1,502)	16%	(1,549)	(1,352)	15%
Operating profit	6,194	5,665	9%	3,465	3,243	7%	2,729	2,423	13%
Finance income	465	395	18%	214	192	12%	251	203	24%
Finance costs	(79)	(33)	138%	(53)	(14)	266%	(27)	(19)	41%
Share of results of associates and a JV	22	5	304%	19	3	627%	3	3	4%
Profit before tax	6,601	6,032	9%	3,645	3,423	6%	2,957	2,610	13%
Tax expense	(1,851)	(1,653)	12%	(967)	(956)	1%	(884)	(697)	27%
Profit after tax	4,751	4,379	8%	2,678	2,467	9%	2,073	1,913	8%
Non-controlling interests	13	23	-43%	8	4	84%	5	18	-73%
Net profit	4,764	4,402	8%	2,686	2,471	9%	2,078	1,931	8%
EPS (Rmb)	0.58	0.52	10%	0.33	0.29	13%	0.25	0.23	8%
DPS (Rmb)	0.59	0.20	195%				0.40	0.08	400%
Margin & Ratio (%)									
Gross margin	57.5	57.4	0.1	58.6	58.8	(0.2)	56.3	55.7	0.5
Operating margin	15.5	15.4	0.1	16.2	16.2	(0.0)	14.7	14.5	0.2
SG&A expenses ratio	43.0	43.0	0.0	43.4	43.4	(0.0)	42.6	42.5	0.2
Rental expenses ratio	20.9	21.7	(0.8)	21.5	23.0	(1.4)	20.2	20.2	(0.1)
Staff expenses ratio	16.1	15.6	0.5	15.9	15.0	0.9	16.4	16.4	0.0
Net margin	11.9	12.0	(0.1)	12.5	12.3	0.2	11.2	11.5	(0.3)
Effective tax rate	28.0	27.4	0.6	26.5	27.9	(1.4)	29.9	26.7	3.2
Payout ratio	102.4	71.7	30.7				61.7	60.2	1.5
	FY15	FY14	change				1H15	1H14	change
Inventory days	139	156	(17)				153	na	na
A/C receivables days	37	32	5				33	na	na
A/C payable days	19	22	(3)				21	na	na
	FY15	FY14	change				1H15	1H14	change
Footwear stores	14,128	13,252	7%				13,491	na	na
Sportswear & apparel stores	6,429	5,925	9%				6,055	na	na
Net cash (Rmb m)	6,258	7,873	-21%				7,571	na	na

Sources: Company data, GF Securities (HK)

Figure 2: Footwear SSS trend



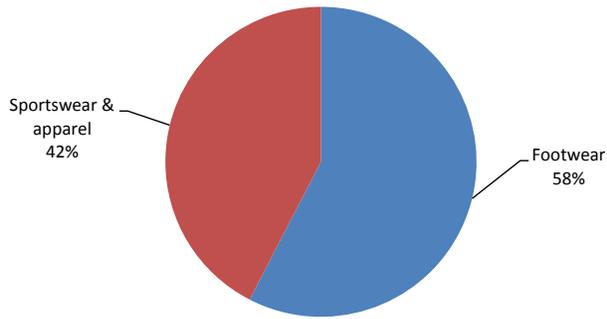
Sources: Company data, GF Securities (HK)

Figure 3: Sportswear and apparel SSS trend



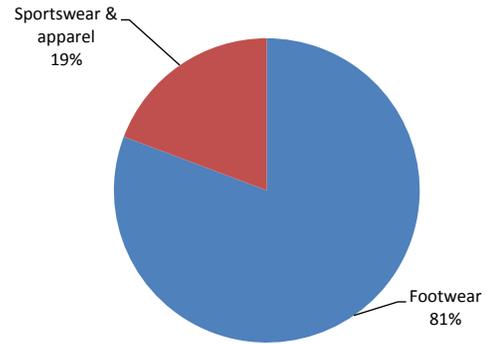
Sources: Company data, GF Securities (HK)

Figure 4: Revenue breakdown by segment (FY15)



Sources: Company data, GF Securities (HK)

Figure 5: Profit breakdown by segment (FY15)



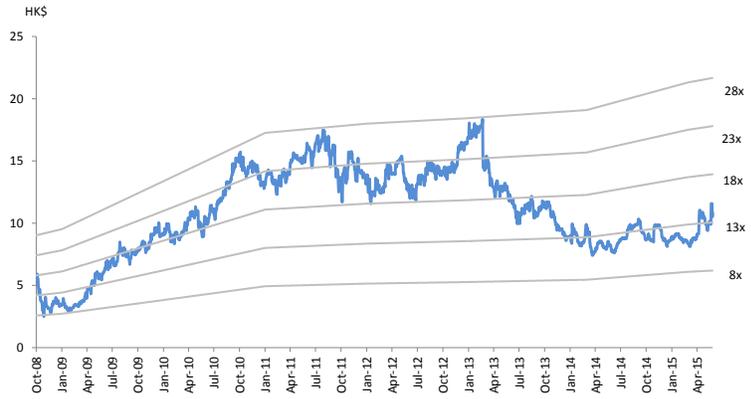
Sources: Company data, GF Securities (HK)

Figure 6: Key assumptions

Y/E Feb (Rmb m)	FY14	FY15	FY16	FY17	FY18
Total revenue	36,794	40,008	42,865	45,872	49,155
growth %	na	8.7%	7.1%	7.0%	7.2%
- Footwear revenue	22,313	23,037	23,347	24,148	24,977
growth %	na	3.2%	1.3%	3.4%	3.4%
store growth %	na	6.6%	3.0%	2.0%	2.0%
SSS %	na	-4.0%	-2.0%	1.0%	1.0%
- Sportswear and apparel revenue	14,482	16,971	19,518	21,724	24,179
growth %	na	17.2%	15.0%	11.3%	11.3%
store growth %	na	8.5%	6.0%	5.0%	5.0%
SSS %	na	11.4%	8.5%	6.0%	6.0%
Gross profit	21,112	23,010	24,588	26,189	27,917
Gross margin	57.4%	57.5%	57.4%	57.1%	56.8%
- Footwear	68.8%	68.5%	68.7%	68.6%	68.5%
- Sportswear and apparel	39.8%	42.6%	43.8%	44.3%	44.7%
EBIT	5,665	6,194	6,460	6,801	7,199
EBIT margin	15.4%	15.5%	15.1%	14.8%	14.6%
- Footwear	22.8%	22.1%	21.6%	21.4%	21.3%
- Sportswear and apparel	4.9%	7.1%	7.8%	8.0%	8.2%
Effective tax rate	27.4%	28.0%	27.2%	27.2%	27.2%
Net profit	4,402	4,764	5,023	5,324	5,673
growth %	na	8%	5%	6%	7%
Net profit margin	12.0%	11.9%	11.7%	11.6%	11.5%
Payout ratio	38.3%	60.2%	60.0%	60.0%	60.0%

Sources: Company data, GF Securities (HK) estimates

Figure 7: P/E band



Sources: Bloomberg, GF Securities (HK) estimates

Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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