

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

Buy

Target price (HKD)	1.90
Share price (HKD)	1.73
Upside/Downside (%)	9.8

Performance	1M	3M	12M
Absolute (%)	3.6	39.5	
Relative ^A (%)	7.6	24.0	

Index^A HANG SENG INDEX

RIC 0787.HK
 Bloomberg 787 HK

Market cap (USDm) 1,865
 Market cap (HKDm) 14,463

Enterprise value (USDm) 3280
 Free float (%) 61

12 June 2015

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Global Brands Group (787 HK)

Buy: Key takeaways from Singapore non-deal roadshow

- ▶ **The most common topics at the meetings were the licensing portfolio strategy and the potential for margin expansion**
- ▶ **We think the potential for Controlled Brands is particularly exciting and could provide upside to earnings**
- ▶ **Maintain Buy; raise our PE-based fair value target price to HKD1.90 (from HKD1.70) on higher earnings estimates**

More focus within Licensed Brands: At the Singapore non-deal roadshow on 9 June, hosted by HSBC, many investors questioned why the group had so many licensing agreements and how sustainable the contribution was. After its spin-off from Li & Fung (494 HK, Hold, HKD6.38) last year, the group is increasingly focused on three main categories within Licensed Brands: kids; footwear; and accessories. The group has largely completed the consolidation of non-core categories and so future licensing agreements will build on the group's existing expertise. With regard to the number of licenses (>350 active licenses), the number of licenses associated with the characters side of the business is high but there is a greater concentration in terms of relationships with the overall brand owner (eg many licenses under Disney).

Margin expansion likely: The group has set two targets to achieve by 2016 as part of its three-year plan: 1) to at least meet the total margin of 2011 (33.9%); and 2) double core operating profit from 2013 (USD268m). We think the first target is achievable (perhaps even by 2015) thanks to an improving portfolio mix under Licensed Brands and a greater contribution from Controlled Brands. The second target may be harder to achieve – we forecast USD224m for 2016e core operating profit; the group has additional opex savings it could achieve after the spin-off (eg office consolidation) but it will also be investing in its Controlled Brands.

Contribution from new brands promising: In Controlled Brands, the group has made progress in several brands. The group named a new CEO for Frye on 6 May and appointed a President for Seven Global (JV with David Beckham and Simon Fuller) on 10 June. And the group added Jones New York on 4 June as a new long-term licensing agreement (see p3 for more details), which should start contributing in autumn/winter 2016.

Maintain Buy, implying 10% upside: We raise our PE-based target price to HKD1.90 (HKD1.70 previously). We change our target multiple to 14x 2015e PE (from 13.5x earlier), representing a c20% discount to the peer average of 18.2x, which we think is justified given the limited track record and industry-lagging metrics (margins and ROE). We use 2015e HSBC EPS of HKD0.14 to calculate our target price.

Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (USDm)				
Revenue	3,454	3,635	3,819	4,060
EBITDA	383	455	497	538
Depreciation & amortisation	-228	-254	-275	-291
Operating profit/EBIT	155	200	221	248
Net interest	-44	-37	-36	-35
PBT	235	198	204	231
HSBC PBT	235	198	204	231
Taxation	-22	-36	-37	-44
Net profit	214	163	168	187
HSBC net profit	108	147	169	189

Cash flow summary (USDm)

Cash flow from operations	405	310	414	455
Capex	-26	-50	-50	-50
Cash flow from investment	-77	-157	-156	-105
Dividends	0	0	0	0
Change in net debt	654	-112	-219	-311
FCF equity	194	179	302	343

Balance sheet summary (USDm)

Intangible fixed assets	3,287	3,169	3,033	2,835
Tangible fixed assets	205	222	233	242
Current assets	1,226	1,360	1,618	2,002
Cash & others	126	181	372	668
Total assets	4,783	4,816	4,949	5,144
Operating liabilities	559	487	480	502
Gross debt	1,719	1,661	1,633	1,619
Net debt	1,593	1,480	1,261	951
Shareholders funds	2,475	2,637	2,805	2,992
Invested capital	4,033	4,084	4,032	3,910

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
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Y-o-y % change

Revenue	5.0	5.3	5.1	6.3
EBITDA	18.8	18.6	9.3	8.3
Operating profit	29.7	29.3	10.6	11.8
PBT	81.9	-15.7	3.0	13.2
HSBC EPS	9.3	36.0	15.0	11.7

Ratios (%)

Revenue/IC (x)	0.9	0.9	0.9	1.0
ROIC	8.7	8.5	9.3	10.1
ROE	4.4	5.8	6.2	6.5
ROA	5.4	4.1	4.1	4.4
EBITDA margin	11.1	12.5	13.0	13.3
Operating profit margin	4.5	5.5	5.8	6.1
EBITDA/net interest (x)	8.7	12.1	14.0	15.5
Net debt/equity	64.4	56.1	45.0	31.8
Net debt/EBITDA (x)	4.2	3.3	2.5	1.8
CF from operations/net debt	25.4	20.9	32.9	47.9

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	0.32	0.34	0.36

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	1.0	0.9	0.8	0.7
EV/EBITDA	8.8	7.2	6.2	5.1
EV/IC	0.8	0.8	0.8	0.7
PE*	17.2	12.7	11.0	9.9
P/Book value	0.8	0.7	0.7	0.6
FCF yield (%)	10.8	10.0	16.8	19.0
Dividend yield (%)	0.0	0.0	0.0	0.0

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



Note: price at close of 11 Jun 2015

Long-term licensing agreement with Jones New York

On 10 June, Global Brands Group and Authentic Brands Group (ABG; owner of a global portfolio of fashion, sports, celebrity and entertainment brands) jointly announced the signing of a long-term licensing agreement for American fashion brand, Jones New York.

Jones New York was acquired by ABG in April 2015 and the brand drives close to USD1bn in retail sales across department stores in the US and in key international markets, including Canada, Europe, the Middle East, and Latin America.

Under the agreement, GBG will design, produce, and distribute products across multiple categories including womenswear, menswear, kidswear, accessories, and footwear. The first range of Jones New York products produced in collaboration with GBG will launch in autumn 2016.

This is the third collaboration with Jones New York's parent company ABG (in addition to long-term licensing agreements for Juicy Couture and Spyder). We think this is positive for GBG overall: 1) Jones New York is a well-known brand that fits into the affordable luxury category on which the group has been focusing; 2) another collaboration with ABG demonstrates a good track record; and 3) synergies from the group's existing relationships with department stores and other retailers can potentially be leveraged along with the group's other licensing deals.

Valuation and risks

We set a fair value target price of HKD1.90 (vs HKD1.70 previously). 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 (13.5x earlier), representing c20% discount to the peer average of 18.2x, which we think is justified given the limited track record and industry-lagging metrics (margins and ROE). We use 2015e HSBC EPS of HKD0.14 to calculate the TP. As our new target price implies upside of c10%, we maintain our Buy rating on the stock.

We raise our 2015-16e recurring earnings estimates by 6% and 1%, respectively. We raise our sales assumptions to account for the new licenses signed, but leave our EBIT margin relatively unchanged as we expect the group to continue to invest in opex, particularly in relation to Controlled Brands.

Downside risks: 1) higher than expected investments for Controlled Brands; 2) sluggish sell-ins on underperforming brands/product categories; and 3) a significant increase in key raw material cost inputs.

Global Brands Group - Old vs new vs consensus estimates, 2015-17e

	2015e			2016e			2017e								
	HSBC Old	Cons. New	Diff. vs. old Cons.	HSBC Old	Cons. New	Diff. vs. old Cons.	HSBC Old	Cons. New	Diff. vs. old Cons.						
Revenue	3,621	3,635	3,644	0.4%	-0.2%	3,772	3,819	3,820	1.2%	0.0%	3,901	4,060	4,059	4.1%	0.0%
EBIT	231	236	161	2.0%	46.6%	243	240	182	-1.3%	31.8%	262	266	208	1.4%	28.3%
EBIT margin	6.4%	6.5%	4.4%	0.1ppt	2.1ppt	6.4%	6.3%	4.8%	-0.2ppt	1.5ppt	6.7%	6.6%	5.1%	-0.2ppt	1.4ppt
Recurring earnings	153	163	na	6.4%	na	166	168	na	0.9%	na	186	187	na	0.8%	na
Recurring earnings margin	4.2%	4.5%	na	0.3ppt	na	4.4%	4.4%	na	0.0ppt	na	4.8%	4.6%	na	-0.2ppt	na
Reported earnings	140	147	116	5.3%	26.7%	151	169	139	12.3%	21.7%	166	169	170	2.0%	-0.5%
Reported earnings margin	3.9%	4.0%	3.2%	0.2ppt	0.9ppt	4.0%	4.4%	3.6%	0.4ppt	0.8ppt	4.2%	4.2%	4.2%	-0.1ppt	0.0ppt
HSBC EPS	0.13	0.14	0.61	5.3%	-77.7%	0.14	0.16	0.70	12.3%	-77.5%	0.15	0.18	0.80	14.0%	-78.0%

Source: Bloomberg, HSBC estimates

Disclosure appendix

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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.

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

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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.

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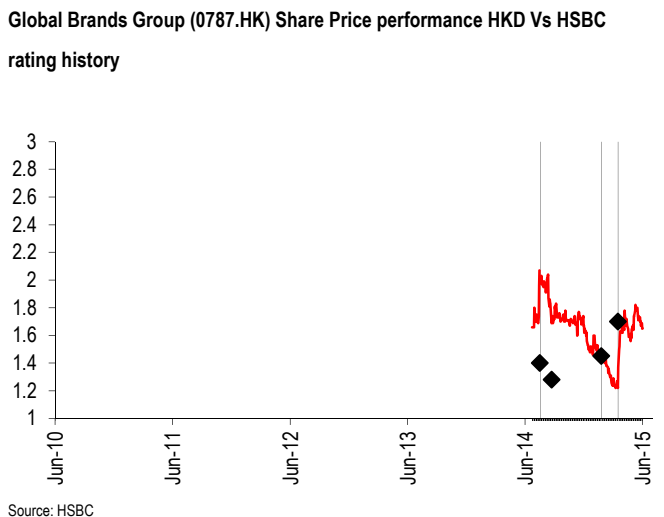
Rating distribution for long-term investment opportunities

As of 11 June 2015, the distribution of all ratings published is as follows:

Buy	39%	(29% of these provided with Investment Banking Services)
Hold	43%	(28% of these provided with Investment Banking Services)
Sell	18%	(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
Neutral (V)	Buy	26 March 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
Price 4	1.70	26 March 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
GLOBAL BRANDS GROUP	0787.HK	1.65	10-Jun-2015	7

Source: HSBC

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