

Trinity Limited

Profit Warning Highlights Limited Near-Term Catalysts - Downgrade to Neutral

Trinity has released a profit warning stating that it expects to report an operating loss in 1H15 and expects FY15 financial results to be lower than those achieved in FY14. Following this release, we reduce our forecasts significantly. We were previously positive on Trinity due to our belief that there were a number of earnings growth drivers supporting the stock, with the opportunity for operating cost reduction a near-term catalyst. However, with top-line sales deteriorating, we see limited positive share price catalysts in the near term and downgrade the stock to Neutral.

- **Expecting operating loss in 1H15.** Trinity expects to report an operating loss in 1H15 due to: (1) Weak market conditions in Greater China; (2) One-time restructuring costs; (3) Reduced ASPs which have put pressure on margins. Consequently, the company expects FY15 financial results to be lower than those achieved in FY14.
- **We reduce our forecasts significantly.** Following this release, we reduce our forecasts by 115%/47%/43% for FY15/FY16/FY17. We reduce our forecasts to reflect a weak sales environment (we now expect double-digit SSS decline for HK and Mainland China for FY15), lower gross margin expectations and restructuring costs. We now forecast Trinity to report a headline NPAT loss of HK\$31m for FY15. We are forecasting a HK\$53m EBIT loss for 1H15 with HK\$50m restructuring costs assumed for 1H15. On a full year basis, we are assuming HK\$100m of restructuring costs, implying that we are forecasting FY15 EBIT (excluding restructuring costs) of HK\$54m.
- **Downgrade to Neutral.** We were previously positive on Trinity due to our belief that there were a number of earnings growth drivers supporting the stock. In particular, we thought there was a significant opportunity for operating cost reduction to drive earnings in the near term. However, the deterioration in sales for the company's core Greater China region is offsetting any positive benefit from cost reduction. With top-line sales deteriorating, we see limited positive share price catalysts in the near term and downgrade the stock to Neutral.

Trinity Limited (Reuters: 0891.HK, Bloomberg: 891 HK)

HK\$ in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (HK\$ mn)	2,696	2,624	2,394	2,566	2,766
Net Profit (HK\$ mn)	308	161	(31)	130	161
Diluted EPS (HK\$)	0.18	0.09	(0.02)	0.07	0.09
Recurring EPS (HK\$)	0.18	0.09	(0.02)	0.07	0.09
DPS (HK\$)	0.13	0.07	0.00	0.05	0.05
Revenue growth (%)	(3.7%)	(2.7%)	(8.7%)	7.2%	7.8%
Net Profit growth (%)	(42.9%)	(47.8%)	(119.0%)	(524.6%)	23.7%
Recurring profit growth	(42.9%)	(47.8%)	(119.0%)	(524.6%)	23.7%
EPS growth (%)	(42.7%)	(47.8%)	(118.9%)	(524.6%)	23.7%
ROE	8.9%	4.7%	(0.9%)	3.9%	4.6%
ROA	5.2%	2.9%	(0.6%)	2.5%	3.1%
P/E (x)	9.2	17.6	NM	22.0	17.7
P/BV (x)	0.8	0.8	0.9	0.8	0.8
EV/EBITDA (x)	6.3	10.4	29.8	10.6	9.6
Dividend Yield	8.0%	4.1%	0.0%	3.1%	3.1%

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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▼ Neutral

Previous: Overweight

0891.HK, 891 HK

Price: HK\$1.63

▼ Price Target: HK\$1.30

Previous: HK\$2.20



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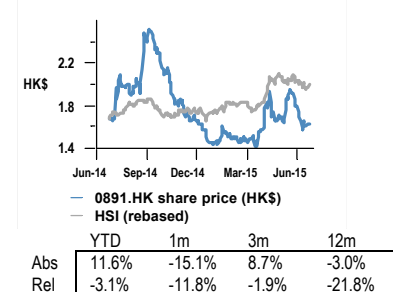
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Price Performance



Company Data

Shares O/S (mn)	1,708
Market Cap (HK\$ mn)	2,785
Market Cap (\$ mn)	359
Price (HK\$)	1.63
Date Of Price	22 Jun 15
Free Float(%)	
3M - Avg daily vol (mn)	4.07
3M - Avg daily val (HK\$ mn)	6.96
3M - Avg daily val (\$ mn)	0.9
HSI	27,080.85
Exchange Rate	7.75
Price Target End Date	31-Dec-16
Price Target (HK\$)	1.30

Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
(1) Improvement in the general retail environment; (2) Reduction with respect to cost pressures that the company faces; (3) Any signs that the company's EBIT margins can increase	(1) Improvement in the general retail environment; (2) Reduction in the level of competition with respect to the general retail environment in China; (3) Reduction with respect to cost pressures that the company faces; (4) Improvement with respect to the company's current brand position in Mainland China	(1) Further deterioration in the general retail environment; (2) Further increase in inventory turnover days as a result of weak sell-through of products and/or poor company execution; (3) Increase in intensity of competition with respect to higher end men's apparel; (4) Worse-than-expected operating cost pressures

Key financial metrics	FY14A	FY15E	FY16E	FY17E
Revenues (LC)	2,624	2,394	2,566	2,766
Revenue growth (%)	-3%	-9%	7%	8%
EBITDA (LC)	337	117	314	346
EBITDA margin (%)	13%	5%	12%	12%
Tax rate (%)	13%	-16%	16%	16%
Net profit (LC)	161	-31	130	161
EPS (LC)	0.09	-0.02	0.07	0.09
EPS growth (%)	-48%	-119%	-525%	24%
DPS (LC)	0.07	0.00	0.05	0.05
BVPS (LC)	1.94	1.88	1.96	2.00
Operating cash flow (LC mn)	222	241	340	262
Free cash flow (LC mn)	116	74	177	94
Interest cover (X)	NM	NM	444.6x	NM
Net margin (%)	6%	-1%	5%	6%
Sales/assets (X)	0.5x	0.5x	0.5x	0.5x
Debt/equity (%)	22%	23%	22%	21%
Net debt/equity (%)	7%	7%	1%	1%
ROE (%)	5%	-1%	4%	5%

Key model assumptions	FY15E	FY16E	FY17E
SSSG China	-10.1%	0.8%	4.6%
SSSG HK	-11.0%	-1.9%	2.4%
Gross Margin	71.5%	70.6%	70.0%
Operating Margin	-1.9%	5.7%	6.5%

Source: Bloomberg, Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA	EPS
Sensitivity to	FY15E	FY15E
5% decrease in sales growth	-24.3%	-35.3%
1pp decrease in Gross margin	-7.8%	-11.2%
1pp decrease in EBIT margin	-7.8%	-11.2%

Source: J.P. Morgan estimates.

Comparative metrics

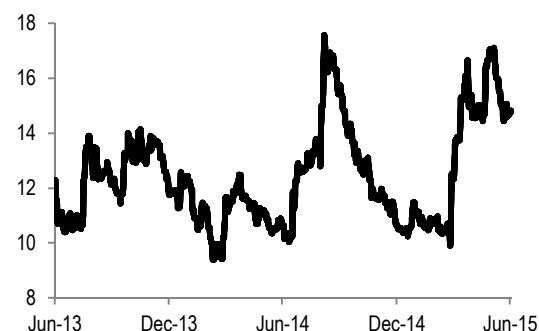
	CMP	Mkt Cap	P/E		EV/EBITDA		P/BV		YTD
	LC	\$Mn	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	Stock perf.
Belle	9.3	10,086.3	13.7x	12.5x	8.2x	7.6x	2.3x	2.3x	6.3%
Parkson	1.7	584.4	13.2x	11.6x	6.4x	5.6x	0.6x	0.6x	-13.9%
China Dongxiang	2.1	1,478.4	23.4x	32.5x	22.6x	19.3x	0.9x	0.9x	60.1%
Anta	17.3	5,582.0	17.5x	15.5x	11.7x	9.9x	4.1x	3.7x	29.4%
Golden Eagle	10.9	2,507.7	14.5x	13.4x	8.9x	8.3x	2.5x	2.3x	27.6%
Xtep	3.2	904.8	10.1x	9.3x	4.8x	4.1x	1.1x	1.1x	5.7%

Source: Bloomberg, Company and J.P. Morgan estimates. Prices are as of June 22, 2015 close.

Valuation and price target basis

Our price target falls to HK\$1.30 as a result of the reduction in earnings forecasts. Our price target is based on our target P/E of 13x earnings forecasts for year ending Dec-17. Our target P/E of 13x is in line with the historical one-year forward trading P/E for Trinity.

Trinity – One-year Forward P/E



Source: Bloomberg

JPM vs. consensus, change in estimates

EPS	FY15E	FY16E
JPM old	0.12	0.14
JPM new	-0.02	0.07
% chg	-114.6%	-47.1%
Consensus	0.10	0.12

Source: Bloomberg, J.P. Morgan.

Earnings estimate revisions

- Following the profit warning, we have revised our earnings forecasts as detailed in the table below. Key changes to our earnings forecasts are as follows:
 - We reduce our sales growth and gross margin forecasts to reflect more conservatism going forward.
 - We assume HK\$100m of restructuring costs for FY15.

Table 1: Trinity – Earnings estimate revisions

HK\$ in millions, year-end December

	Old			New			% Change		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Revenue	2,622	2,843	3,066	2,394	2,566	2,766	-8.7%	-9.7%	-9.8%
Revenue growth	-0.1%	8.4%	7.8%	-8.7%	7.2%	7.8%			
Gross profit	1,930	2,060	2,217	1,711	1,811	1,936	-11.3%	-12.1%	-12.7%
Gross margin	73.6%	72.4%	72.3%	71.5%	70.6%	70.0%			
Operating profit	239	280	321	-46	147	181	-119.1%	-47.5%	-43.7%
Operating margin	9.1%	9.9%	10.5%	-1.9%	5.7%	6.5%			
NPAT	210	245	282	-31	130	161	-114.6%	-47.1%	-43.1%
NPAT growth	30.4%	16.9%	15.0%	-119.0%	-524.6%	23.7%			
Diluted EPS (HKcps)	12.0	14.0	16.1	-1.7	7.4	9.2	-114.6%	-47.1%	-43.1%
DPS (HKcps)	9.0	10.0	12.0	0.0	5.0	5.0	-100.0%	-50.0%	-58.3%

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Trinity Limited (Neutral; Price Target: HK\$1.30)

Investment Thesis

We downgrade Trinity from Overweight to Neutral. We were previously positive on Trinity due to our belief that there were a number of earnings growth drivers supporting the stock. In particular, we thought there was significant opportunity for operating cost reduction to drive earnings in the near term. However, the deterioration in sales for the company's core Greater China region is offsetting any positive benefit from cost reduction. With top line sales deteriorating, we see limited positive share price catalysts in the near term and downgrade to Neutral.

Valuation

Our Dec-16 price target of HK\$1.30 is based on a target P/E of 13x for the year ending Dec-17. Our target P/E of 13x is in line with the historical one-year forward trading P/E for Trinity.

Risks to Rating and Price Target

Key upside risks: (1) Improvement in the general retail environment; (2) Reduction in the level of competition with respect to the general retail environment in China; (3) Reduction with respect to cost pressures that the company faces; (4) Improvement with respect to the company's current brand position in Mainland China.

Key downside risks: (1) further deterioration in the general retail environment; (2) damage to the company's brands; (3) weakness in execution with respect to sales, inventory management, merchandising and store operations; (4) increased intensity of competition with respect to higher-end men's apparel; and (5) worse-than-expected operating cost pressures.

Trinity Limited: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	2,696	2,624	2,394	2,566	2,766	PBT	369	184	(36)	155	191
% change Y/Y	(3.7%)	(2.7%)	(8.7%)	7.2%	7.8%	Depr. & amortization	180	165	163	167	165
Gross Profit	2,036	1,943	1,711	1,811	1,936	Change in working capital	(214)	(101)	120	35	(58)
% change Y/Y	(6.9%)	(4.6%)	(11.9%)	5.8%	6.9%	Tax & Other	9	(3)	(11)	8	(6)
Gross margin	75.5%	74.1%	71.5%	70.6%	70.0%	Cash flow from operations	283	222	241	340	262
Other operating income	118	66	20	21	22	Capex	(96)	(102)	(165)	(163)	(167)
EBITDA	539	337	117	314	346	Sale of assets	4	0	0	0	0
% change Y/Y	(26.4%)	(37.4%)	(65.2%)	167.2%	10.1%	Acquisition of subsidiaries/intangibles	0	0	0	0	0
EBITDA Margin	20.0%	12.9%	4.9%	12.2%	12.5%	Other	(78)	0	0	0	0
EBIT	359	173	(46)	147	181	Cash flow from investing	(169)	(102)	(165)	(163)	(167)
% change Y/Y	(34.5%)	(51.9%)	(126.5%)	(421.1%)	22.9%	Equity raised/(repaid)	21	0	0	0	0
EBIT Margin	13.3%	6.6%	(1.9%)	5.7%	6.5%	Debt raised/(repaid)	540	(680)	0	0	0
Net Interest	(10)	4	2	(1)	2	Dividends paid	(354)	(267)	(75)	0	(87)
Share of JVs	16	8	8	8	9	Other	0	0	0	0	0
Other non operating income	4	0	0	0	0	Cash flow from financing	207	(947)	(75)	0	(87)
Earnings before tax	369	184	(36)	155	191	FX gain/(loss)	-	-	-	-	-
% change Y/Y	(42.0%)	(50.1%)	(119.8%)	(524.6%)	23.7%	Net change in cash	320	(827)	1	176	8
Tax	(61)	(23)	6	(25)	(31)	Ending cash	1,319	510	524	700	708
as % of EBT	16.6%	12.7%	(16.0%)	16.0%	16.0%	DPS	0.13	0.07	0.00	0.05	0.05
Minorities	0	0	0	0	0						
Net income (reported)	308	161	(31)	130	161						
% change Y/Y	(42.9%)	(47.8%)	(119.0%)	(524.6%)	23.7%						
Recurring Net Income	308	161	(31)	130	161						
% change Y/Y	(42.9%)	(47.8%)	(119.0%)	(524.6%)	23.7%						
Diluted EPS	0.18	0.09	(0.02)	0.07	0.09						
% change Y/Y	(42.7%)	(47.8%)	(118.9%)	(524.6%)	23.7%						
Recurring EPS	0.18	0.09	(0.02)	0.07	0.09						
% change Y/Y	(43.2%)	(48.2%)	(119.0%)	(524.6%)	23.7%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	1,337	523	524	700	708	Gross margin	75.5%	74.1%	71.5%	70.6%	70.0%
Accounts receivable	174	180	151	161	173	EBITDA margin	20.0%	12.9%	4.9%	12.2%	12.5%
Inventories	685	612	605	567	622	Operating Margin	13.3%	6.6%	(1.9%)	5.7%	6.5%
Others	142	126	126	126	126	Net margin	11.4%	6.1%	(1.3%)	5.1%	5.8%
Current assets	2,338	1,442	1,406	1,555	1,630	Recurring net profit margin	11.4%	6.1%	(1.3%)	5.1%	5.8%
Goodwill	1,272	1,272	1,272	1,272	1,272	Sales growth	(3.7%)	(2.7%)	(8.7%)	7.2%	7.8%
Intangible assets	1,809	1,783	1,783	1,783	1,783	Net profit growth	(42.9%)	(47.8%)	(119.0%)	(524.6%)	23.7%
Long term investments	135	131	139	147	156	Recurring net profit growth	(42.9%)	(47.8%)	(119.0%)	(524.6%)	23.7%
Net fixed assets	279	237	238	235	237	EPS growth	(42.7%)	(47.8%)	(118.9%)	(524.6%)	23.7%
Other assets	284	279	207	207	207	Interest coverage (x)	55.6	NM	NM	444.6	NM
Total Assets	6,116	5,143	5,045	5,198	5,284	Net debt to equity	2.6%	6.6%	6.8%	1.4%	1.1%
Liabilities						Sales/assets	0.5	0.5	0.5	0.5	0.5
Short-term loans	1,428	748	748	748	748	Assets/equity	171.2%	164.7%	152.3%	152.6%	151.6%
Trade & other payables	492	366	379	384	390	ROE	8.9%	4.7%	(0.9%)	3.9%	4.6%
Others	61	27	24	40	42	ROCE	6.5%	3.3%	(1.3%)	3.0%	3.6%
Total current liabilities	1,981	1,141	1,150	1,171	1,180						
Long-term debt	0	0	0	0	0						
Others	0	0	0	0	0						
Total Liabilities	2,677	1,747	1,754	1,778	1,790						
Minorities											
Shareholders' equity	3,440	3,397	3,291	3,421	3,494						
BVPS	1.99	1.94	1.88	1.96	2.00						

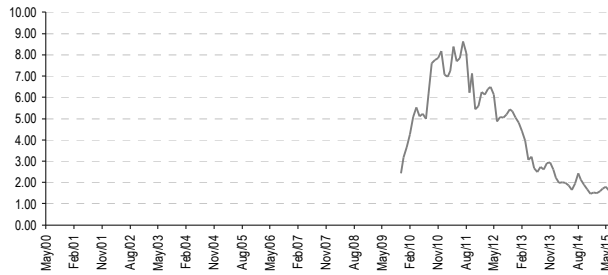
Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile
Trinity Limited (HONG KONG / Consumer Discretionary)
 As Of: 19-Jun-2015

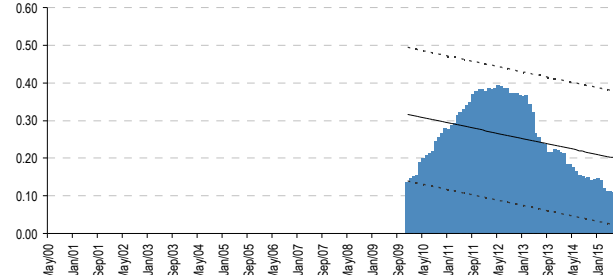
Global Equity Quantitative Analysis

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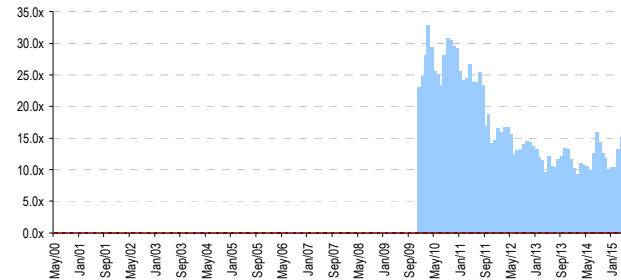
Local Share Price **Current: 1.61**



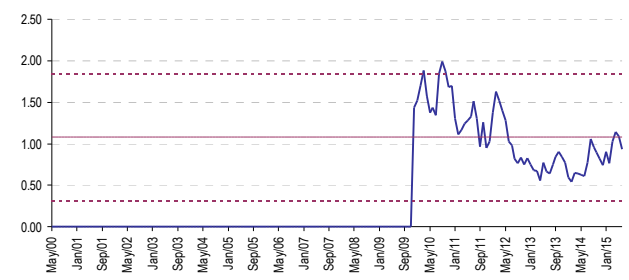
12 Mth Forward EPS **Current: 0.11**



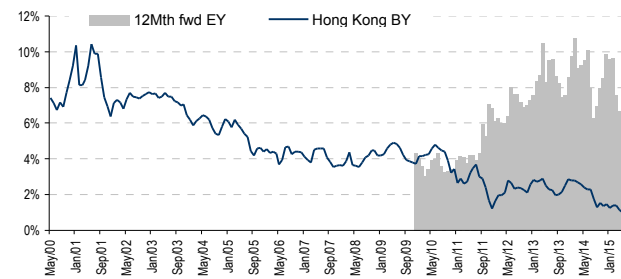
PE (1Yr Forward) **Current: 14.7x**



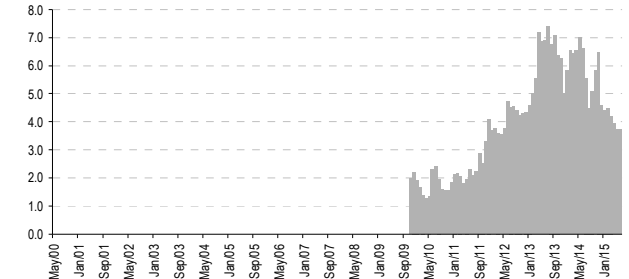
P/E Relative to Hong Kong Index **Current: 0.94**



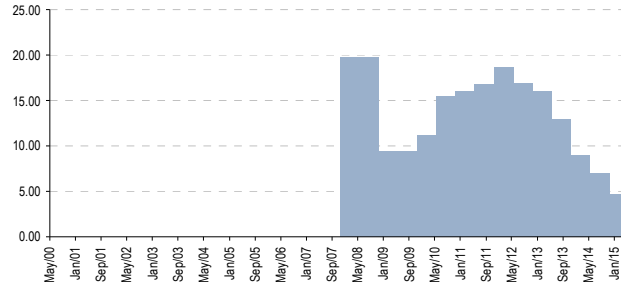
Earnings Yield (& Local Bond Yield) **Current: 7%**



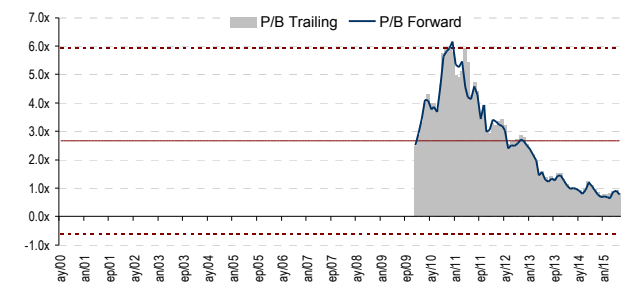
Dividend Yield (Trailing) **Current: 3.72**



ROE (Trailing) **Current: 4.71**



Price/Book (Value) **Current: 0.8x**



Summary

Trinity Limited		TICKER 891 HK		As Of: 19-Jun-15							
HONG KONG				Local Price: 1.61							
Consumer Discretionary				EPS: 0.11							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	14.70x										
P/BV (Trailing)	0.83	0.00	5.95	2.60	2.67	5.93	-0.60	-100%	619%	215%	222%
Dividend Yield (Trailing)	3.72x	1.27	7.40	4.16	4.03	7.74	0.33	-66%	99%	12%	8%
ROE (Trailing)	4.71	4.71	19.70	15.53	13.43	22.87	3.99	0%	319%	230%	185%

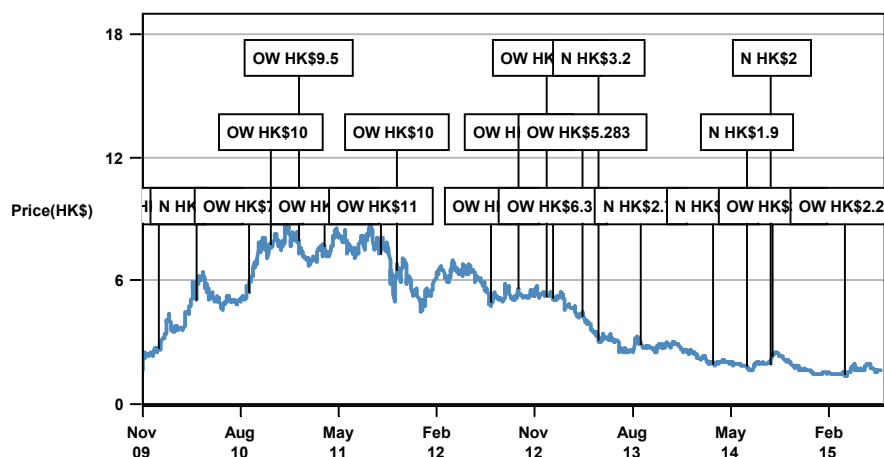
Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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Trinity Limited (0891.HK, 891 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Dec 15, 2009.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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