Data

Price(04/07/2012)	HK$13.78
Issued shares	8,434.233mn
Market cap	HK$116,224mn
52week high/low	HK$17.54/11.38

Major shareholders:

Tang Yiu- Chairman(31.15%)

Sheng Baijiao- CEO(6.89%)

Stock performance

	1M	3M	YTD
Belle	15.03%	-1.43%	1.77%
HSI Index	8.38%	-5.20%	6.92%
HSCICG Index	3.78%	-11.93%	-0.67%

Report date: 05 July, 2012
Previous report: 10 May, 2012

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Belle International Holdings Limited (1880)

Upgrade "SELL "to "HOLD" and rise 12mth target price at HK$13.5

We've held a tele-conference with the management of Belle(1880) recently.

SSSG recovered in 2Q2012 from the bottom of 1Q2012

Belle(1880) recorded 2.8% SSSG in 1Q2012 for its footwear segment. Its SSSG recorded mid-to-high single digit in April and May. We expect that its 2Q2012 SSSG will improved to 8%-9% compared with 2.8% in 1Q2012. We maintain our full year SSSG at 7%.

Margin still under pressure

Although we agree that 1Q2012 has been a bottom for its sales, we still cautious on gross profit margin and operating profit margin in the 1H2012. The management has confirmed sales discount in the past several months was heavier than last year. The slow ramp-up of retail sales and rising staff cost will drag down operating profit margin. We expect that its operating profit margin and net profit margin will drop 0.6ppt and 0.7ppt to 17.6% and 14.0% respectively in FY2012 compared with18.2% and 14.7% in FY2011.

Valuation

We upgrade Belle from "SELL" to "HOLD" as we believe sales have been bottomed in 1Q2012. We maintain our sales and EPS of Rmb35,200mn and Rmb0.586 in FY2012 respectively, representing 21.6% yoy and 16.1%yoy respectively in FY2012. The stock is trading at 19.0x 2012PE based on the close price of HK$13.78. We raise our target price from HK$12.93 to HK$13.5, based on the average of DCF value of HK$13.9 and 18x PE of HK$13.023 in FY 2012. The target price of HK$13.5 represents 18.7 x PE of 2012.

Risks: 1) Better-than-expected SSSG;2)A faster rebound of China retail sales.

Financial highlights

Yr end to 31 Dec (Rmb mn)	2010A	2011A	2012F	2013F	2014F
Revenue	23,706	28,945	35,200	40,937	47,566
Chg (yoy)	20.0%	22.1%	21.6%	16.3%	16.2%
Net Income	3,425	4,255	4,939	5,528	6,391
Chg (yoy)	35.2%	24.2%	16.1%	11.9%	15.6%
Diluted EPS (Rmb)	0.406	0.504	0.586	0.655	0.758
Chg (yoy)	35.2%	24.2%	16.1%	11.9%	15.6%
P/E(x)	-	22.13	19.00	17.19	14.90
NBV (Rmb)	2.029	2.303	2.740	3.235	3.810
P/B(x)	-	4.85	4.07	3.45	2.93
DPS (Rmb)	0.310	0.126	0.147	0.162	0.187
Dividend yield	-	0.9%	1.1%	1.2%	1.4%

Source: Belle, ABCI Securities estimates

SSSG recovered in 2Q2012 from the bottom of 1Q2012

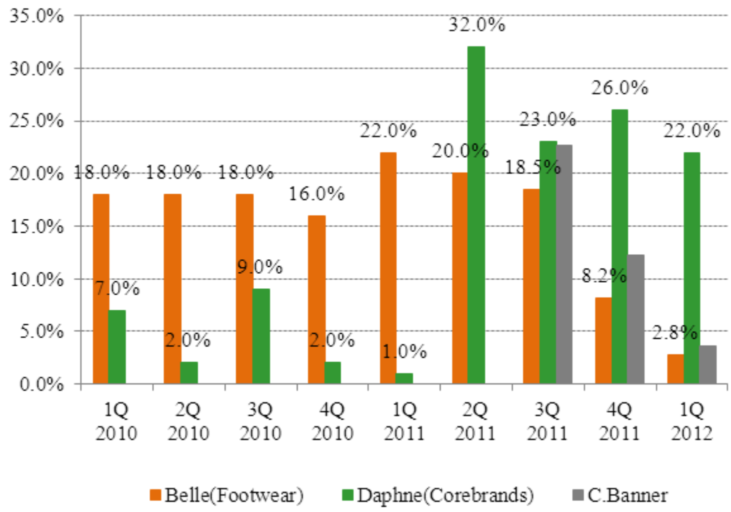
Belle's SSSG dropped to 8.2% in 4Q2011from double digits in previous quarter, indicating a sharply slow-down of its footwear sales. Its SSSG further dropped to 2.8% in 1Q2012 for its footwear segment. We believe 1Q2012 has been the bottom for this financial year. Its SSSG recorded mid-to-high single digit in April and May. We expect that its 2Q2012 SSSG will improved to 8%-9%. We maintain our full year SSSG at 7%.

Exhibit 1:Quarterly SSSG

	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	Apr 2012	May 2012	ABCI estimate 2Q 2012
Belle(Footwear)	22.0%	20.0%	18.5%	8.2%	2.8%	Mid-high single digit	Mid-high single digit	8%-9%
Daphne(Core brands)	1.0%	32.0%	23.0%	26.0%	22.0%	>22%	mid-teen double digit	12-15%
C.Banner	-	-	22.7%	12.2%	3.6%	high single digit	high single digit	9%-9.5%

Source: Belle, Daphne, C.Banner, ABCI Securities

Exhibit 2: Quarterly SSSG in 2010-1Q2012



Source: Belle,Daphne,C.Banner

Belle: Financial Summary

Consolidated Income Statement

FY ended at 31 Dec (Rmb mn)	2010A	2011A	2012F	2013F	2014F
Turnover	23,706	28,945	35,200	40,937	47,566
Cost of sales	(10,498)	(12,389)	(15,081)	(17,463)	(20,255)
Gross profit	13,208	16,556	20,118	23,474	27,311
Selling & Distribution Expenses	(7,686)	(9,213)	(11,238)	(13,203)	(15,384)
Administrative expenses	(1,620)	(2,192)	(2,675)	(3,111)	(3,615)
Other income	29	114	4	4	5
Other expenses	0	0	0	0	0
Other (losses)/gains	31	0	0	0	0
Profit from operations	3,963	5,265	6,209	7,165	8,316
Finance income	164	224	224	224	224
Finance (costs)	(2)	(19)	(19)	(19)	(19)
Share of profit of associate	0	372	0	0	0
Profit before taxation	4,125	5,471	6,415	7,370	8,522
Income tax	(701)	(1,232)	(1,475)	(1,843)	(2,130)
Profit Attributable to Equity Holders of the Company	**3,425**	**4,255**	**4,939**	**5,528**	**6,391**
Diluted EPS (Rmb)	0.406	0.504	0.586	0.655	0.758

Source: Belle, ABCI Securities estimates

Consolidated Balance Sheet

As of 31 Dec (Rmb mn)	2010A	2011A	2012F	2013F	2014F
PP&E	2,354	2,852	3,421	3,301	2,976
Leasehold land and land use rights	629	818	998	1,173	1,341
Intangible assets	2,713	2,790	2,736	2,681	2,625
Other assets	963	1,405	1,439	1,545	1,660
Total non-current assets	**6,658**	**7,865**	**8,595**	**8,700**	**8,603**
Inventories	4,859	6,517	7,966	9,438	10,938
Trade receivables	2,120	2,746	3,345	3,971	4,615
Structured bank deposits	2,732	3,369	3,706	4,077	4,484
Cash and cash equivalents	2,173	2,887	3,653	5,465	7,816
Other current assets	2,290	2,298	2,599	3,020	3,525
Total current assets	**14,174**	**17,816**	**21,269**	**25,970**	**31,379**
Total assets	**20,832**	**25,681**	**29,864**	**34,670**	**39,982**
Trade payables	1,106	1,248	1,511	1,790	1,886
Short-term borrowings	681	1,895	1,895	1,895	1,895
Other current liabilities	1,674	2,686	3,009	3,314	3,624
Total current liabilities	3,460	5,830	6,416	6,999	7,405
Total non-current liabilities	257	258	183	183	183
Total liabilities	**3,717**	**6,087**	**6,598**	**7,182**	**7,588**
Shareholders' equities	17,115	19,424	23,096	27,318	32,223
Minority interest	0	170	170	170	170
Book value per share (Rmb)	2.029	2.303	2.738	3.239	3.821
Net(debt) cash	1,492	991	1,757	3,569	5,921

Source: Belle, ABCI Securities estimates

Consolidated Cash Flow Statement

Yr end to 31 Dec (Rmb mn)	2010A	2011A	2012F	2013F	2014F
Profit before tax	4,125	5,471	6,415	7,370	8,522
Depreciation and amortization	693	763	871	1,088	1,196
Interest expense	2	19	19	19	19
Interest income	(132)	(194)	(224)	(224)	(224)
Others	11	21	(0)	0	0
Changes in working capital	(1,648)	(2,277)	(1,910)	(2,040)	(2,360)
Income tax paid	(401)	(771)	(1,475)	(1,843)	(2,130)
Operating cash flow	2,649	3,031	3,695	4,370	5,021
Purchase of PP&E	(1,198)	(1,664)	(1,470)	(1,023)	(951)
Others	966	(257)	(383)	(435)	(438)
Investing cash flow	(232)	(1,922)	(1,854)	(1,458)	(1,390)
Dividend paid	(1,603)	(1,940)	(1,267)	(1,305)	(1,486)
Other investing activities	(312)	1,558	205	205	205
Financing cash flow	(1,915)	(382)	(1,062)	(1,100)	(1,280)
Net increase in cash	502	728	779	1,812	2,351
Cash balance at year end	2,173	2,887	3,653	5,465	7,816

Key Financial Ratios

Yr end to 31 Dec	2010A	2011A	2012F	2013F	2014F
Revenue growth (%)	20.0	22.1	21.6	16.3	16.2
Net profit growth (%)	35.2	24.2	16.1	11.9	15.6
Gross profit margin (%)	55.7	57.2	57.2	57.3	57.4
Operating margin (%)	16.7	18.2	17.6	17.5	17.5
Net profit margin (%)	14.4	14.7	14.0	13.5	13.4
ROAE (%)	21.1	23.3	23.2	21.9	21.5
ROAA (%)	17.4	18.3	17.8	17.1	17.1
Inventory turnover days	153	168	175	182	184
Account receivable days	30	31	32	33	33
Account payable days	32	35	33	34	33
Net cash/ equity(%)	8.7	5.1	7.5	12.7	18.0
Dividend payout ratio (%)	76.3	25.0	25.0	25.0	25.0
Dividend yield (%)	-	0.9	1.1	1.2	1.4

Source: Belle, ABCI Securities estimates

Disclosures

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