



Company Report

Belle (1880 HK) – Sell

Footwear Industry

Cut 12-mth target price to HK\$12.7 (previous HK\$13.5)

Key data

Share price (HK\$)	14.18
Target price (HK\$)	12.7
Downside potential (%)	10.4
52Wk H/L(HK\$)	16.8/ 11.38
Issued shares (mn)	8,434
Market cap (HK\$mn)	119,597
30-day avg vol (HK\$mn)	202.9
Major shareholders (%):	
Tang Yiu- Chairman	31.15
Sheng Baijiao- CEO	7.78

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H FY12 (%)

Footwear business	64.0
Sportswear business	36.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	8.3	5.8
3-mth	13.8	6.3
6-mth	20.0	28.3

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 22 Aug, 2012

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Previous report

Date: 13 Aug, 2012

Rating: Hold

We downgrade Belle to “Sell” and cut its 12-mth target price to HK\$12.7 as we revised down its EPS growth to 13.1%YoY in FY12. Its footwear sales growth was driven by new store expansion while we see its SSSG still maintain mid-single digit in 1H FY12. The group has to strictly control its operating expense to maintain its margin as the sales growth is unlikely to ramp-up in short-term.

1H FY12 review: Its 1H sales grew by 15.4%YoY to HK\$16,024.1mn, 2.5% lower than our previous forecast. Its footwear sales increased by 17.2%YoY in 1H FY12 driven by aggressively new store expansion (20.4% increase of footwear stores in 1H FY12) and mid-single digit of SSSG. Its 1H net profit increased by 11.7%YoY to HK\$2,242.4mn, which is 3.3% lower than our previous forecast. The gross profit margin and operating profit margin dropped 0.8ppt and 0.7ppt to 56.6% and 17.5% in 1H FY12 while the operating margin of footwear business maintained flat with last year due to better control of rental cost.

Revise down its sales and net profit growth for FY12: We revised down its sales and net profit by 3.6% and 2.6% to Rmb33,928mn and Rmb4,810mn respectively in FY12. We expect that its 2H gross profit margin will maintain at 56.6% while operating profit margin will increase to 18.1%(vs 17.5% in 1H) due to strictly operating cost control.

Downgrade to “Sell”: The stock is trading at 21.0x PER of FY12 and 17.5x PER of FY13. This high PE rating is unjustified in view of its slowed EPS growth. We downgrade to “Sell” and revise down our target price to HK\$12.7 from HK\$13.5 based on the average of DCF value of HK\$14.1 and 16x PE of HK\$11.3 in FY 2012. The target price of HK\$12.7 represents 18.0 x PER of FY12 and 15.7 x PER of FY13.

Risk factors: Slower-than-expected sales recovery in 2H FY12; increasing inventory risk; heavy promotion to erode margin.

Forecast and valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(Rmb mn)	23,706	28,945	33,928	40,121	47,451
Chg (%YoY)	20.0	22.1	17.2	18.3	18.3
Net Income(Rmb mn)	3,425	4,255	4,810	5,535	6,604
Chg (%YoY)	35.2	24.2	13.1	15.1	19.3
FD EPS (Rmb)	0.406	0.504	0.570	0.656	0.783
Chg (%YoY)	35.2	24.2	13.1	15.1	19.3
PER (x)	-	22.8	20.1	17.5	14.7
NBV(Rmb)	2.029	2.303	2.725	3.228	3.832
P/B(x)	5.66	4.99	4.22	3.56	3.00
DPS(HK\$)	-	0.126	0.143	0.164	0.196
Dividend yield(%)	-	0.9	1.0	1.2	1.4
ROAE(%)	-	23.3	22.7	22.0	22.2
ROAA(%)	-	18.3	17.4	17.2	17.7

Source: Company data, ABCI Securities estimates



Exhibit 1:1H FY12 results review

RMB mn	Actual	ABCi est.	Difference
Turnover	16,024	16,438	(2.5%)
YoY growth	15.4%	18.3%	
Gross profit	9,069	9,304	(2.5%)
YoY growth	14.5%	17.5%	
Profit from operations	2,809	2,893	(2.9%)
YoY growth	11.2%	14.5%	
Net profit	2,242	2,318	(3.3%)
YoY growth	11.7%	15.5%	
Gross margin	56.6%	56.6%	
Operating margin	17.5%	17.6%	
Net margin	14.0%	14.1%	

Source: Company data, , ABCI Securities estimates

Exhibit 2:1H FY12 business segment review

(Rmb mn)	1H FY11			1H FY12		
	Revenue	YoY growth	% of total revenue	Revenue	YoY growth	% of total revenue
Footwear Business						
Company-owned brands	7,961	29.9%	57.3%	9,165	15.1%	57.2%
Distribution brands	643	25.0%	4.6%	880	36.8%	5.5%
OEM	143	81.1%	1.0%	203	42.1%	1.3%
Sub total	8,747	30.1%	63.0%	10,248	17.2%	64.0%
Sportswear Business						
First-tier sportswear brands	4,477	17.4%	32.2%	5,118	14.3%	31.9%
Second-tier sportswear brands	612	7.5%	4.4%	632	3.4%	3.9%
Other sportswear business	55	15.2%	0.4%	26	-52.8%	0.2%
Sub total	5,144	16.1%	37.0%	5,776	12.3%	36.0%
Total	13,891	24.6%	100.0%	16,024	15.4%	100.0%

Source: Company data, , ABCI Securities estimates

1H FY12 review: Its 1H sales grew by 15.4%YoY to HK\$16,024.1mn, 2.5% lower than our previous forecast. Its footwear sales and sportswear sales increased by 17.2%YoY and 15.4% YoY in 1H FY12 (vs 30.1% and 16.1% in 1H FY11). Its footwear sales growth was driven by new store expansion (20.4% increase of footwear stores in 1H FY12) and mid-single digit of SSSG. As the ASP increased by low-single digit in 1H FY12, we believe its same store sales volume only increased 4-5% in department store channel. Its 1H net profit grew by 11.7%YoY to HK\$2,242.4mn, which is 3.3% lower than our forecast.

The gross profit margin and operating profit margin dropped 0.8ppt and 0.7ppt to 56.6% and 17.5% in 1H FY12 due to destocking in 1Q FY12. Its 1H gross profit margin for footwear business dropped 1ppt while its operating profit margin maintained 25.1% in the 1H FY12. The flat operating margin for its footwear business was due to slow increase of rental



expense(mainly concessionaire fees). Its rental to sales ratio dropped to 20.0% in 1H FY12 compared with 20.4% in 1H FY11.

Its overall inventory turnover days extended to 171 days compared with 168 days in FY11 due to higher sportswear inventory turnover days of 143 days(vs 137 days in FY11) offset by slightly decrease of footwear inventory turnover days of 200 days(vs 202 days in FY11). However, overall inventories were flat with increase of 1,014 stores. The average inventory per stores has reduced. As Belle's peer Daphne has inventory turnover days of 200 days in 1H FY12, We believe prolonged inventory days have been an industry challenge for the women's footwear retailers.

Revise down its sales and net profit growth for FY12: Although we take a long-term positive view of Belle due to its enriched brand portfolio, efficient supply chain and further penetration into low tier cities, the group still face tough macro environment and intensified discount of the whole women's footwear industry. We revised down its sales and net profit by 3.6% and 2.6% to Rmb33,928mn and Rmb4,810mn respectively in FY12. We expect that its 2H gross profit margin will maintain at 56.6% while operating profit margin will increase to 18.1%(vs 17.5% in 1H) due to strictly operating cost control.

Exhibit 3: Estimates revision

(Rmb mn)	New forecast			Old forecast			Change%		
	FY 2012	FY 2013	FY 2014	FY 2012	FY 2013	FY 2014	FY 2012	FY 2013	FY 2014
Revenues	33,928	40,121	47,451	35,200	40,937	47,566	(3.6%)	(2.0%)	(0.2%)
YoY growth	17.2%	18.3%	18.3%	21.6%	16.3%	16.2%	-	-	-
Gross profit	19,207	22,841	27,076	20,118	23,474	27,311	(4.5%)	(2.7%)	(0.9%)
YoY growth	16.0%	18.9%	18.5%	21.5%	16.7%	16.3%	-	-	-
Operating profit	6,042	7,174	8,600	6,209	7,165	8,316	(2.7%)	0.1%	3.4%
YoY growth	14.8%	18.7%	19.9%	17.9%	15.4%	16.1%	-	-	-
Net profit	4,810	5,535	6,604	4,939	5,528	6,391	(2.6%)	0.1%	3.3%
YoY growth	13.1%	15.1%	19.3%	16.1%	11.9%	15.6%	-	-	-
Diluted EPS(Rmb)	0.570	0.656	0.783	0.586	0.655	0.758	(2.7%)	0.2%	3.3%
YoY growth	13.1%	15.1%	19.3%	16.2%	11.8%	15.7%	-	-	-
Gross profit margin	56.6%	56.9%	57.1%	57.2%	57.3%	57.4%	(0.9%)	(0.7%)	(0.6%)
Operating profit margin	17.8%	17.9%	18.1%	17.6%	17.5%	17.5%	1.0%	2.2%	3.7%
Net profit margin	14.2%	13.8%	13.9%	14.0%	13.5%	13.4%	1.0%	2.2%	3.6%

Source: ABCI Securities estimates



DCF model

Exhibit 4:

(Rmb mn)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
EBIT	6,042	7,174	8,600	10,464	11,318	13,129	15,230	17,514	20,141	23,163	26,637
Tax	(1,437)	(1,845)	(2,201)	(2,667)	(2,830)	(3,282)	(3,807)	(4,379)	(5,035)	(5,791)	(6,659)
D&A	871	1,088	1,194	1,140	1,271	1,411	1,546	1,670	1,783	1,885	1,976
WC changes	(1,645)	(1,941)	(2,476)	(2,681)	(3,477)	(3,178)	(3,768)	(4,309)	(4,653)	(5,121)	(5,847)
Capex	(1,684)	(1,216)	(1,162)	(1,328)	(1,200)	(1,200)	(1,000)	(1,000)	(800)	(800)	(800)
FCF	2,147	3,260	3,954	4,928	5,083	6,879	8,201	9,497	11,436	13,336	15,307
DCF	2,147	2,918	3,168	3,534	3,263	3,953	4,218	4,373	4,713	4,920	5,054
Terminal value											160,667
PV of terminal value											53,054

Source: ABCI Securities estimates

Exhibit 5:

Risk free rate	1.15%	WACC	11.72%
BETA	0.932	Perpetuity growth rate	2.0%
Market risk premium	12.05%	SUM DCF	95,316
Cost of equity	12.38%	Less: Net Debt	(991)
Cost of debt	6.50%	Less: Minority interest	170
Effective tax rate	25%	NAV	96,137
Cost of debt(after tax)	4.88%	Total Shares(mn)	8,434
Equity(Rmb mn)	19,594	NAV per share(Rmb)	11.4
Debt(Rmb mn)	1,895	NAV per share(HK\$)	14.1
Total value(Rmb mn)	21,489		

Source: ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Belle International Holdings Limited

Belle financial summary

Income Statement

Yr end 31 Dec (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Turnover	23,706	28,945	33,928	40,121	47,451
Cost of sales	(10,498)	(12,389)	(14,721)	(17,280)	(20,375)
Gross profit	13,208	16,556	19,207	22,841	27,076
Selling & Distribution Expenses	(7,686)	(9,213)	(10,598)	(12,630)	(14,884)
Administrative expenses	(1,620)	(2,192)	(2,572)	(3,041)	(3,597)
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	6,042	7,174	8,600
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	6,247	7,379	8,806
Income tax	(701)	(1,232)	(1,437)	(1,845)	(2,201)
Profit Attributable to Equity Holders of the Company	3,425	4,255	4,810	5,535	6,604
Diluted EPS (Rmb)	0.406	0.504	0.570	0.656	0.783

Source: Belle, ABCI Securities estimates



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Belle International Holdings Limited

Balance Sheet

Yr end 31 Dec (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PP&E	2,354	2,852	3,421	3,281	2,955
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	8,680	8,582
Inventories	4,859	6,517	7,726	9,120	10,732
Trade receivables	2,120	2,746	3,279	3,862	4,567
Structured bank deposits	2,732	3,369	3,706	4,077	4,484
Cash and cash equivalents	2,173	2,887	3,804	5,759	8,181
Other current assets	2,290	2,298	2,599	3,020	3,525
Total current assets	14,174	17,816	21,114	25,837	31,488
Trade payables	1,106	1,248	1,491	1,760	1,883
Short-term borrowings	681	1,895	1,895	1,895	1,895
Other current liabilities	1,674	2,686	2,988	3,281	3,620
Total current liabilities	3,460	5,830	6,374	6,937	7,398
Total non-current liabilities	257	258	183	183	183
Shareholders' equities	17,115	19,424	22,982	27,227	32,319
Minority interest	0	170	170	170	170
Book value per share (Rmb)	2.029	2.303	2.725	3.228	3.832

Source: Belle, ABCI Securities estimates

**Cash Flow Statement**

Yr end 31 Dec (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	4,125	5,471	6,247	7,379	8,806
Depreciation and amortisation	693	763	871	1,088	1,194
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)	(1,645)	(1,941)	(2,476)
Income tax paid	(401)	(771)	(1,437)	(1,845)	(2,201)
Operating cash flow	2,649	3,031	3,831	4,476	5,116
Purchase of PP&E	(1,198)	(1,664)	(1,470)	(1,003)	(949)
Others	966	(257)	(383)	(435)	(439)
Investing cash flow	(232)	(1,922)	(1,854)	(1,438)	(1,388)
Dividend paid	(1,603)	(1,940)	(1,252)	(1,289)	(1,512)
Other investing activities	(312)	1,558	205	205	205
Financing cash flow	(1,915)	(382)	(1,047)	(1,084)	(1,307)
Net increase in cash	502	728	931	1,954	2,422
Cash balance at year end	2,173	2,887	3,804	5,759	8,181

Key Financial Ratios

Yr end 31 Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue growth (%)	20.0	22.1	17.2	18.3	18.3
Net profit growth (%)	35.2	24.2	13.1	15.1	19.3
Gross profit margin (%)	55.7	57.2	56.6	56.9	57.1
Operating margin (%)	16.7	18.2	17.8	17.9	18.1
Net profit margin (%)	14.4	14.7	14.2	13.8	13.9
ROAE (%)	21.1	23.3	22.7	22.0	22.2
ROAA (%)	17.4	18.3	17.4	17.2	17.7
Inventory turnover days	152.6	167.6	176.6	177.9	177.8
Account receivable days	29.9	30.7	32.4	32.5	32.4
Account payable days	31.7	34.7	34.0	34.3	32.6
Net cash/ equity(%)	8.7	5.1	8.3	14.2	19.4
Dividend Payout ratio(%)	76.3	25.0	25.0	25.0	25.0
Dividend yield(%)	2.2	0.9	1.0	1.2	1.4

Source: Belle, ABCI Securities estimates



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