



Data

Price (09/05/2012)	HK\$14.76
Issued shares	8,434.233mn
Market cap	HK\$124,489mn
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	5.43%	12.33%	9.01%
HSI Index	(1.27%)	(3.23%)	10.29%
HSCICG Index	(4.52%)	(4.66%)	6.53%



Report date: 10 May, 2012

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Belle International Holdings Limited (1880) – SELL

12-month target price: HK\$12.93

Belle International Holdings Limited (“Belle”) is a leading middle-to-high end women’s footwear retailer in China, with 15,427 nationwide directly-managed stores across over 300 cities at the end of 1Q 2012. Due to the slow down of organic sales growth and rising operating costs, we expect its operating profit margin and net profit margin to drop 70bp and 60bp to 17.6% and 14.0% in FY12 respectively. We predict its revenue and net profit to grow at CAGR of 18.0% and 14.5% from FY11 to FY14 respectively.

Slowing down of SSSG and new store expansion

We expect SSSG to slow down in coming years as volume growth will slow down while ASP will maintain flat. The CAGR of total sales outlets is expected to slow down to 10.1% from FY11 to FY14. We predict its revenue to grow at CAGR of 18.0% from FY11 to FY14, compared with CAGR of 25.5% from FY07 to FY11.

Rising inventory turnover days

Its finished goods in the inventory increased by 36.7%YoY to Rmb6,242mn at the end of 2011, accounting for 50.4% of COGS for FY11 (vs 43.5% of COGS for FY10). Finished goods per self-managed outlet increased by 9.8%YoY to Rmb0.413mn at the end of 2011. Its average inventory turnover days for footwear and sportswear businesses added 23.4 days and 5.9 days to 202.0 days and 137.4 days in FY11 respectively. The lengthening of inventory turnover days signals rising risks in its product design & development, over estimation of product demand and logistics management. .

Valuation

We use both DCF and PE multiple methods to appraise the stock. We set 12M target price at HK\$12.93, based on the average of DCF value of HK\$13.0/share and 18.0x PE of HK\$12.86/share in FY12. The target price of HK\$12.93 represents 18.1x PE of 2012. We rate the counter SELL.

Risks: 1) Economic risk;2)Intensive competition;3) New businesses risk; 4) Increasing staff and rental cost;5)Inventory risk; 6)Share price risk.

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)	-	23.70	20.41	18.24	15.78
NBV (Rmb)	2.029	2.303	2.738	3.239	3.821
P/B(x)	-	5.19	4.37	3.69	3.13
DPS (Rmb)	0.310	0.126	0.146	0.164	0.189
Dividend yield	-	0.9%	1.0%	1.1%	1.3%
ROAE	21.1%	23.3%	23.2%	21.9%	21.5%
ROAA	17.4%	18.3%	17.8%	17.1%	17.1%

Source: Belle, ABCI Securities



Macro economy

Fast-growing pace of retail sales is unsustainable in view of relatively low income growth

According to the National Bureau of Statistics, total retail sales value grew by CAGR of 19.4% from 2007 to 2011. During this period, retail sales value of clothing products (including garments, footwear, hats and knitwear) grew by CAGR of 27.4%. The CAGR of retail sales of clothing products was 1.41x of the CAGR of total value of retail sales of the retail industry. However, we believe the fast-growing pace of the retail sales value is hard to sustain as household income was growing at much slower pace.

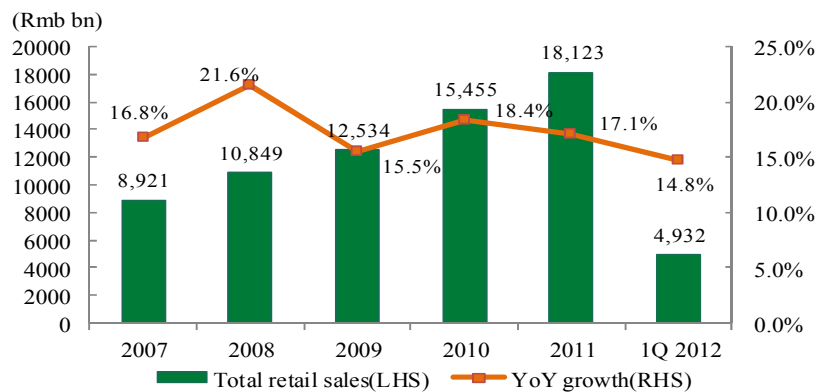
The urban household disposal income grew by CAGR of 12.2% from Rmb13,786 in 2007 to Rmb21,810 in 2011. The CAGR of retail sales value was 1.59x of the CAGR of urban household disposal income during the period of 2007-2011. The relative fast growth of retail sales last five years suggests that the growth momentum is not sustainable.

As China is a fast-growing emerging country, residents are willing to spend more to upgrade their living standard. In the short-term, positive (negative) wealth effect will encourage (discourage) spending. However, income growth is one of major factors to limit the consumption growth in the long-term. Thus, we expect retail sales growth to slow down to in line with the household disposal income growth in the medium to longer terms. Income effect will become a dominant factor to affect retail sector when positive wealth effect is diminishing.

Retail sales slowed down in 1Q 2012

For the 1Q 2012, the growth of retail sales value slowed down from 17.1%YoY in 2011 to 14.8%YoY in the 1Q 2012. Real retail sales growth also slowed down from 11.6%YoY in 2011 to 9.8%YoY in the 1Q 2012. Nominal urban household disposal income growth eased slightly from 14.1%YoY in 2011 to 14.0% in the 1Q 2012. Real urban household disposal income growth increased from 8.4%YoY in 2011 to 9.8%YoY in the 1Q 2012, owing to the decline of inflation pressure. Both nominal and real retail sales growth in the 1Q 2012 came down to in line with the corresponding nominal and real urban household disposal income growth. The income factor has become a dominant factor to affect the retail industry in 2012.

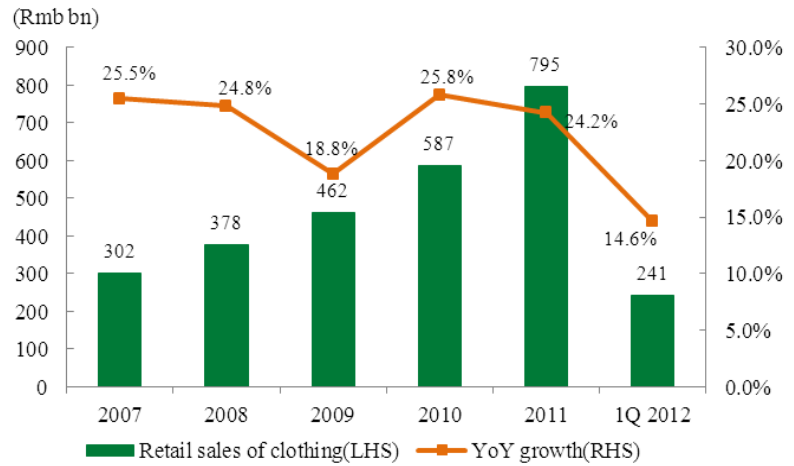
Exhibit 1: 2007-2012 Retail sales growth



Source: National Bureau of Statistics of China, Winds

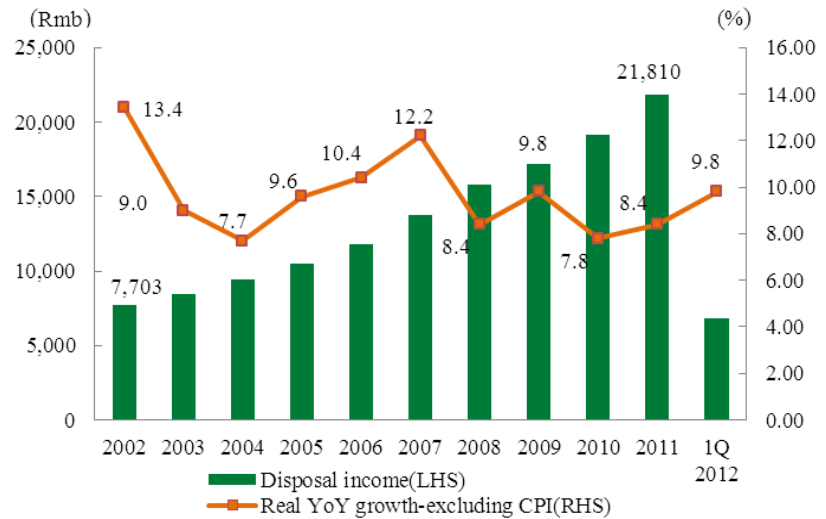


Exhibit 2: 2007-2012 Retail sales of clothing



Source: National Bureau of Statistics of China, Winds

Exhibit 3: 2002-2012 Urban Household disposal income



Source: National Bureau of Statistics of China, Winds



Women Footwear Industry Overview

Women’s footwear market is mainly segmented by prices

The women’s footwear market can be classified into four segments, namely

1. low-end,
2. middle,
3. mid-to-premium and
4. luxury.

Each segment is differentiated itself by price, sales channel and brand positioning. The luxury segment is dominated by foreign brands while middle and middle-to-premium segments are dominated by domestic brands.

The market shares of middle and mid-to-premium segments are increasing

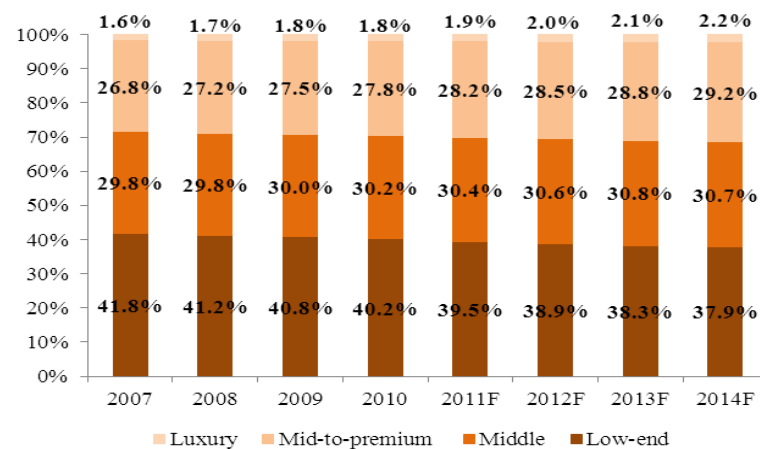
Currently, the low-end and middle segments captured more than 70% market shares of women’s footwear segments in 2010. As the household income keeps rising in nominal term and real term, we expect that the market share of low end segment will decline while the total market share of middle and mid-to-premium segments will increase.

Exhibit 4

Price segment	Price range	Sales channels	Brands
Low-end	< Rmb 300	Hypermarkets/Supermarkets/Multi-brand footwear stores	No brand
Middle	Rmb 300-600	Chained specialty stores/Middle-end department stores	Daphne/Comrade/Walker Shop
Mid-to-premium	Rmb 600-2,000	Chained specialty stores/Middle-to-high end department stores	Belle/Teenmix/Tata/C.banner/ST&SAT/Clarks/Ecco
Luxury	>Rmb 2,000	High-end department store/Mono-brand specialty stores	LV/Gucci/D&G/Salvatore Ferragamo

Source: Euromonitor

Exhibit 5: 2007-2014F market shares of the women's footwear segment in China



Source: Euromonitor



Brand portfolio

Multi-brands for footwear segment

The group has 10 self-owned footwear brands (Belle, Teenmix, Tata, Staccato, Joy&Peace, etc.) and 7 distribution brands (Mephisto, BCBG, Clanks, GEOX, etc.) to target middle and mid-to-high end customers. The ASP of its footwear is around Rmb450-500 per pair. Its flagship brand Belle's annual sales have exceeded Rmb5bn. The annual sales of another 3 self-owned brands (Teenmix, Tata and Staccato) have exceeded Rmb2bn. As at the end of 2011, the self-owned brands account for 57.7% of its total sales.

Expansion of sales network of Nike and Adidas in China market

The group is a leading sportswear distributor, distributing first-tier sportswear brands Nike and Adidas, and second-tier sportswear brands Kappa, PUMA, Converse, etc. In 2011, total sales of Nike and Adidas accounted for 87.2% of total sales of sportswear business segment.

On 20 Mar 2012, the group announced to acquire a sportswear distributor "Big Step" at a consideration of Rmb880mn (subject to adjustments with a max. cap of Rmb920mn). Big step operates approx.600 self-managed retail outlets to mainly distribute Nike and Adidas in the Mainland of China. It is expected to generate Rmb2bn revenue and Rmb100mn net profit annually. The consideration of Rmb880mn implies 8.8xPE. The acquisition will further strengthen the group's distribution ability for Nike and Adidas in China. Belle expects the acquisition to bring in synergy effect on cost savings and improvement of operational efficiency when the Big Step's business merged with group's existing sportswear business.

Exhibit 6: Belle's brand portfolio

Footwear brands

Company-owned brands	Belle, Teenmix, Tata, Staccato, Joy&Peace, Mirabell, Millie's, Senda, Basto, Jipi Japa
Distribution brands	Mephisto, BCBG, Clanks, GEOX, CAT, Merrellm, Bata

Sportswear brands

1st-tier brands	Nike, Adidas
2nd-tier brands	Kappa, Puma, Converse, Mizuno, Levi's

Source: Belle

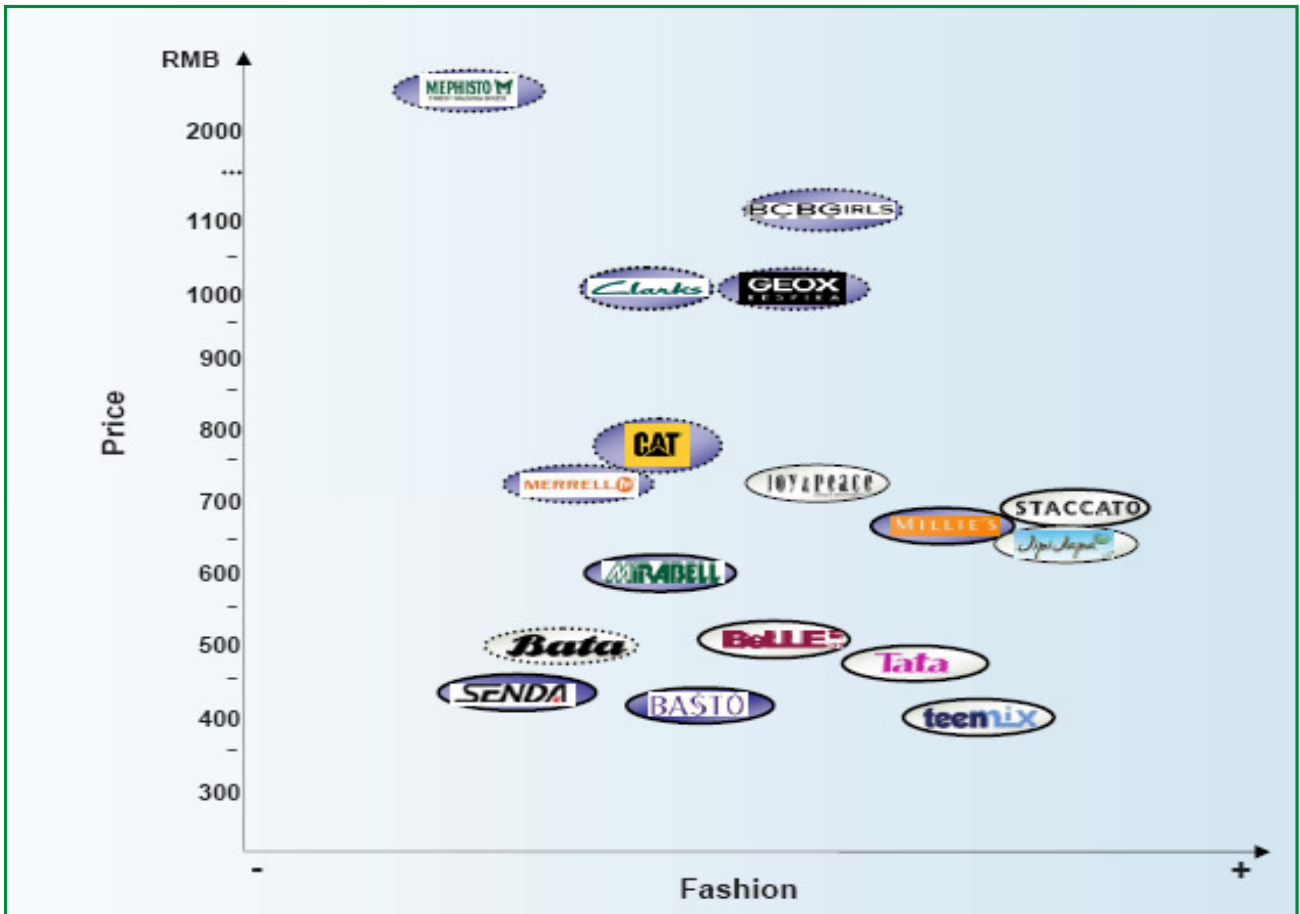
Exhibit 7: Revenue breakdown-FY 2011

(Rmb mn)	Revenue	% of total sales	YoY growth
Footwear	18,532.6	64.0%	26.5%
Company-owned brands	16,713.7	57.7%	24.9%
Distribution brands	1,526.0	5.3%	46.1%
OEM	292.9	1.0%	32.0%
Sportswear	10,412.1	36.0%	15.0%
1st-tier brands	9,075.5	31.4%	16.3%
2nd-tier brands	1,229.2	4.2%	7.0%
Apparels	107.4	0.4%	(0.2%)
Total	28,944.7	100.0%	22.1%

Source: Belle



Exhibit 8: Belle's footwear brands



Source: Belle



Extensive nationwide retail distribution network

The group has established a nationwide sales network of 14,950 stores in Mainland of China at the end of 2011. Its sales network reached 15,427 in the 1Q 2012. All the stores are directly managed by the group. It has 10,608 retail outlets for footwear business and 4,819 retail outlets for its sportswear business at the end of Mar 2012.

A high proportion of directly-managed outlets bring in challenges to the group in working capital management (such as inventory control) and chain-stores management. 48.8% of its footwear outlets and 55.4% of its sportswear outlets are located in 3rd tier cities. We expect that the group will continue to penetrate into 2-3 tier cities to expand its sales network. We expect the number of its Mainland stores to increase at CAGR of 10.1% from 14,950 in 2011 to 19,943 in 2014. The CAGR of no. of retail outlets is expected to slow down to 10.1% from FY11 to FY14 compared with CAGR of 25.2% from FY07 to FY11.

Exhibit 9: Number of retail outlets-Mainland China

As at 31 Dec 2011	Store number	% of total store
Footwear	10,270	68.70%
Company-owned brands	9,317	62.32%
Distribution brands	953	6.37%
Sportswear	4,680	31.30%
1st-tier brands	3,602	24.09%
2nd-tier brands	1,073	7.18%
Apparel	5	0.03%
Total	14,950	100.00%
As at 31 Mar 2012		
Footwear	10,608	68.76%
Sportswear	4,819*	31.24%
Total	15,427	100.00%

Source: Belle * The retail outlets do not include the outlets to be acquired from Big Step deal.

Exhibit 10: Sales network by cities

	1st-tier cities	2nd-tier cities	3rd-tier cities
Footwear	15.70%	35.50%	48.80%
Sportswear	9.20%	35.40%	55.40%

Note:

1st-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen;

2nd-tier cities: Provincial capital cities (except 1st tier cities);

3rd-tier cities: All cities other than cities mentioned in 1st & 2nd tier cities.



Exhibit 11: Mainland sales network-at the end of Dec 2011



Source: Belle



Supply chain analysis

Tight supply chain among peers and increasing average inventory turnover days

The group adopts a tight supply chain management among peers. Its first order ratio (as % of total sales for new season) is 40%, compared with 70% of Daphne and 60% of C.Banner. Meanwhile, its cycle time for replenishment orders has shortened to 20 days, compared with 30-35 days of Daphne and 20-30 days of C.Banner.

However, its average inventory turnover days for footwear business have extended to 202 days for FY12 from 179 days for FY11, against its peer Daphne (172 days) and C. Banner (238 days). The long inventory turnover days indicate a significant business risk incurred on the business model which is fully reliance on the directly managed stores when the amount slow-moving inventory is surging. If long inventory turnover day is becoming an industry phenomenon, this will tie up lots of financial resources of the group in existing self-run sales network and will impose financial constraint of the group to expand its self-owned sales network in the future. Moreover, the long inventory turnover days also signals the weakness of the group in product design and development. We expect that its inventory turnover days will maintain at a high level of 175-184days for next 3 years.



Comparison with peers

Belle has the largest directly-managed sales network in mainland of China among HK listed women's footwear retailers. It achieved the highest gross profit margin for its footwear business and net profit margin in 2011 due to efficient operating cost control and supply chain management. Belle achieved 23.1% of ROAE in 2011, which is the lowest compared with Daphne and C.Banner. Its ROAA of 18.3% is the second highest among three retailers. In 1Q 2012, SSSG of Belle and C.Banner slowed down to 2.8%yoy and 3.6% yoy respectively caused by weak sales growth in the first 2 months, while Daphne's SSSG reach 22% yoy due to the base of 1Q 2011 is low(SSSG of 1% in 1Q2011).

Exhibit 12: Peers comparison-FY 2011

	Belle	Daphne	C.Banner
Code	1880 HK	210 HK	1028 HK
Market positioning	Mid-to-high end	Mid end/Mass market	Mid-to-high end
Operation statistics			
No.of stores	10,270(Footwear)	6,165	1,748
New store growth	23.60%(Footwear)	18.60%	35.60%
% of Proprietary stores	100%	82%	76%
Same store sales growth	15%(Footwear)	21%(core brands)	14.60%
ASP(Rmb)	450-500	206	Around 400
Financial data			
Inventory turnover days	202(Footwear)	172	238
AR turnover days	31	10	38
AP turnover days	35	68	81
2011 Revenue (Rmb mn)	28,945	7033	2,044
YoY growth	22.10%	29.50%	29.80%
2011 Net profit (Rmb mn)	4,255	765	290
Gross profit margin	68.8%(Footwear)	61.10%	63.50%
Net profit margin	14.70%	10.90%	14.20%
ROAE	23.10%	24.70%	28.40%
ROAA	18.30%	16.20%	21.30%

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

Exhibit 13:Business update in 1Q 2012

	Belle	Daphne(Core brands)	C.Banner
No. of retail footwear outlets (ended 31 Mar 2012)	10,608	5,751	1,824
Net added in 1Q 2012	338	149	76
SSSG in 1Q 2012	2.80%	22%	3.60%
No. of retail sportswear outlets (ended 31 Mar 2012)	4819	-	-
Net added in 1Q 2012	139	-	-
SSSG in 1Q 2012	(2.40%)	-	-

Source: Belle, Daphne, C.Banner; Core brands:"Daphne"&"Shoebox"



Earnings Assumptions and Forecast

We expect its revenue and net profit to grow at CAGR of 18.0% and 14.5% from FY11 to FY14 respectively. Number of new stores will grow by 10.1% CAGR from FY11 to FY14. Our key assumptions are as below:

Exhibit 14: Key operating assumptions

SSSG	2010	2011	2012F	2013F	2014F
Footwear	17.0%	15.0%	7.0%	8.5%	7.6%
Sportswear	5.0%	4.0%	-0.8%	0.3%	1.2%

Business segment breakdown as % of total sales					
	2010	2011	2012F	2013F	2014F
Footwear	61.8%	64.0%	65.4%	67.1%	68.4%
Sportswear	38.2%	36.0%	34.6%	32.9%	31.6%

Source: Belle, ABCI Securities

Exhibit 15: Number of stores

	2008 A	2009A	2010A	2011A	2012F	2013F	2014F
Total number of stores	9,169	9,612	11,967	14,950	16,449	18,107	19,943
YoY growth	50.6%	4.8%	24.5%	24.9%	10.0%	10.1%	10.1%
Footwear stores	6,050	6,750	8,312	10,270	11,298	12,432	13,682
YoY growth	62.1%	11.6%	23.1%	23.6%	10.0%	10.0%	10.1%
Sportswear stores	3,119	2,862	3,655	4,680	5,151	5,675	6,261
YoY growth	32.3%	(8.2%)	27.7%	28.0%	10.1%	10.2%	10.3%

Source: Belle, ABCI Securities

Exhibit 16: Key ratio and margin forecast

	2008 A	2009A	2010A	2011A	2012F	2013F	2014F	2015F
Overall gross profit margin	51.7%	53.3%	55.7%	57.2%	57.2%	57.3%	57.4%	57.5%
-Footwear	64.9%	65.4%	68.0%	68.8%	68.3%	67.8%	67.3%	66.8%
-Sportswear	36.1%	35.7%	35.9%	36.6%	36.1%	36.0%	36.0%	36.0%
EBIT margin	12.8%	14.3%	16.7%	18.2%	17.6%	17.5%	17.5%	17.7%
Net profit margin	11.3%	12.8%	14.4%	14.7%	14.0%	13.5%	13.4%	13.6%
SG&A/Sales	39.4%	39.1%	39.3%	39.4%	39.5%	39.9%	39.9%	39.8%
Rentals/Sales	20.7%	21.7%	22.3%	20.7%	21.0%	21.0%	21.0%	21.0%
Staff cost/Sales	11.9%	12.1%	12.2%	13.5%	13.9%	14.4%	14.9%	15.5%

Source: Belle, ABCI Securities



Valuation

We use both DCF and PE multiple methods to appraise the stock. Based on the DCF method, the stock is valued at HK\$13.0/share. Based on the PER rating, the stock is rated at 18.0x PE for FY12 or HK\$12.86/share. We set the 12-month target price of HK\$12.93, which represents 18.1x PE of 2012. We initiate with SELL rating.

Exhibit 17: Valuation Table

Code	Name	Mkt cap(HK\$m)	Price(HK\$)	PER		Net profit growth		
				2011	2012F	2010	2011	2012F
1880	Belle	124,489	14.76	24.01	20.65	45.30%	24.23%	16.08%
210	Daphne	15,765	9.57	19.22	15.69	51.23%	56.66%	30.13%
1836	Stella	15,252	19.20	13.62	12.00	19.10%	18.01%	14.12%
1028	C.Banner	4,600	2.30	12.57	10.19	129.43%	70.59%	27.24%
738	Le Saunda	1,739	2.72	9.71	8.77	39.08%	9.46%	21.37%
Average				15.83	13.46			
Weighted avg.				22.09	18.93			

Source: Bloomberg, ABCI Securities

DCF model

Exhibit 18:

(HK\$ mn)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
EBIT	6,209	7,165	8,316	9,808	11,141	12,812	14,733	16,207	17,827	19,610	21,571
Tax	(1,475)	(1,843)	(2,130)	(2,503)	(2,785)	(3,203)	(3,683)	(4,052)	(4,457)	(4,903)	(5,393)
D&A	871	1,088	1,196	1,143	1,274	1,413	1,548	1,673	1,786	1,887	1,978
WC changes	(1,910)	(2,040)	(2,360)	(2,581)	(3,135)	(2,994)	(3,518)	(3,523)	(3,218)	(3,356)	(3,682)
Capex	(1,684)	(1,237)	(1,164)	(1,320)	(1,200)	(1,200)	(1,000)	(1,000)	(800)	(800)	(800)
FCF	2,011	3,134	3,857	4,546	5,295	6,828	8,080	9,304	11,138	12,439	13,674
DCF	2,011	2,805	3,090	3,260	3,399	3,923	4,156	4,284	4,590	4,589	4,515
Terminal value											143,529
PV of terminal value											47,394

Source: ABCI Securities

Exhibit 19:

Risk free rate	1.15%	WACC	11.72%
BETA	0.932	Perpetuity growth rate	2.00%
Market risk premium	12.05%	SUM DCF	88,018
Cost of equity	12.38%	Less: Net Debt	(991)
Cost of debt	6.50%	Less: Minority interest	170
Effective tax rate	25%	NAV	88,840
Cost of debt(after tax)	4.88%	Total Shares(mn)	8,434
Equity(Rmb mn)	19,594	NAV per share(Rmb)	10.5
Debt(Rmb mn)	1,895	NAV per share(HK\$)	13.0
Total value(Rmb mn)	21,489		

Source: ABCI Securities



Scenario and sensitivity analysis

The following exhibit illustrates various assumptions to our base, bull and bear scenarios of the group. We use CPI of clothing and real growth of urban household disposal income as our reference indexes. Our bear case assumes SSSG of footwear segment and sportswear segment to be 3.5% and -3.0% respectively, while new stores growth of 8.0%. Our base case assumes SSSG of footwear segment and sportswear segment to be 7.0% and -1.0% respectively, while new stores growth of 10.0%. Our bull case assumes SSSG of footwear segment and sportswear segment to be 10.0% and 3.0% respectively, while new stores growth of 15.0-20.0%. We did a sensitivity analysis to factor in the operating expense change related to net profit and margin. If concessionaire fee goes up or down by 10%, the net income may decrease or increase by 11.52%; If staff cost goes up or down by 10%, the net income may decrease or increase by 7.65%.

Exhibit 20: Reference

CPI of clothing (%)									
2011-08	2011-09	2011-10	2011-11	2011-12	2012-01	2012-02	2012-03	1 Q 2012	Median
2.90	3.20	3.70	3.50	3.80	3.30	3.80	3.80	3.60	3.50
Real growth of urban household disposal income (%)									
2007	2008	2009	2010	2011	1Q 2012	Median			
12.20	8.40	9.80	7.80	8.40	9.80	8.40			

Source: National Bureau of Statistics of China, Winds

Exhibit 21: Scenario analysis

FY 2012	Bear case	Base case	Bull case
Footwear SSSG	3.50%	7.00%	10.00%
Footwear new store growth	8.00%	10.01%	15.00%
Sportswear SSSG	(3.00%)	(1.00%)	3.00%
Sportswear new store growth	8.00%	10.05%	20.00%
Overall sales growth	16.89%	21.61%	29.45%
EBIT margin	17.10%	17.60%	18.10%
Diluted EPS(Rmb)	0.548	0.586	0.637
EPS growth	8.60%	16.10%	26.20%
Target multiple	16	18	26
Target price(HKS)	10.69	12.86	20.20

Source: ABCI Securities

Exhibit 22: Sensitivity analysis

FY 2012(Rmb mn)	Concessionaire fee +10%	Concessionaire fee -10%	Staff cost+10%	Staff cost -10%
EBIT	5,470	6,949	5,719	6,700
EBIT chg	(11.90%)	11.90%	(7.90%)	7.90%
EBIT margin (%)	15.5	19.7	16.2	19.0
EBIT margin chg	(11.93%)	11.93%	(7.95%)	7.95%
Net income	4,370	5,509	4,562	5,317
Net income chg	(11.52%)	11.52%	(7.65%)	7.65%
EPS	0.518	0.653	0.541	0.630
EPS chg	(11.53%)	11.53%	(7.63%)	7.65%

Source: ABCI Securities



Risk Factors

Economic risk: The growth of economy is slowing down. We expect the growth of average household income to slow down subsequently. The affordability of consumers will be adversely by the slowdown of economic growth.

Competition: The women's footwear industry in China is highly competitive with numerous foreign and local brands. If the group fails to catch up fashion trend and cater customers' preferences, its market share will be eroded and its slow-moving inventory will be piled up. Both financial and business risks of the group will increase subsequently.

Market and product development risks: The group launched its first mass market brand "15mins" in February 2012. The group will allocate more resources to develop men's footwear and children's footwear to fully cover those segments. The diversifications of market segments and product segments will enlarge risk and return profile of the group.

Increasing staff and rental cost: Operating lease rentals (mainly concessionaire fees) and staff costs accounted for 20.7% and 13.5% of total sales respectively in FY2011. We expect its operating expense to continue increase rapidly due to faster increasing rental and wage cost. We expect that its operating profit margin will drop to 17.6% in 2012 from 18.2% in 2011.

Inventory risk: The group distributes its footwear through its nationwide self-managed outlets other than distributors. If the seasonal products fail to catch up customers' preferences, the group will bear inventory obsolete risk. Its finished goods in the inventory increased by 36.7%YoY to Rmb6,242mn at the end of 2011, accounting for 50.4% of COGS for FY11 (or 43.5% of COGS for FY10). Finished goods per self-managed outlet increased by 9.8%YoY to Rmb0.413mn at end of 2011. Its average inventory turnover days for footwear and sportswear businesses added 23.4 days and 5.9 days to 202.0 days and 137.4 days in FY11 respectively. The lengthening of inventory turnover days signals rising risks in its product design & development, over estimation of product demand and logistics management.

Share price risk: 30-days volatility of the stock was 25.5%, or 1.44x of 30-days volatility of HSI of 17.7%. The share price risk of Belle is relatively high.

**Belle: Financial Summary****Consolidated Income Statements**

Yr end to 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



Balance Sheets

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



Consolidated Cash Flow Statements

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 debt/ equity (%)	(8.7)	(5.1)	(7.6)	(13.1)	(18.4)
Dividend payout ratio (%)	76.3	25.0	25.0	25.0	25.0
Dividend yield (%)	-	0.8	1.0	1.1	1.3

Source: Belle, ABCI Securities



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