

Key Data

Share price (HK\$)	2.70
Target price (HK\$)	2.57
Downside potential (%)	4.8
52Wk H/L(HK\$)	2.76 / 1.63
Issued shares (mn)	2,000
Market cap (HK\$m)	5,400
30-day avg vol (HK\$m)	0.47
Major shareholders (%):	
Chen Yixi-Chairman	36.59
Li Wei- CEO	20.01
CVC Capital	6.01

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1HFY12 (%)

Retail and wholesaling	91.3
OEM	8.7

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.0	(2.7)
3-mth	12.5	2.1
6-mth	14.9	11.4

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 27 Aug, 2012
Rating: Hold

C.Banner (1028 HK) -Hold

Footwear Industry

Key takeaways from the tele-conference of C.Banner

We've held a tele-conference with the management of C. Banner on 17th Oct. We believe the single digit SSSG will last for the next year. Its sales growth will mainly due to new store expansion.

Single digit SSSG is expected to last for the next year: Due to weak consumer environment start from 4Q2011, middle-to-high end women's footwear retailers' SSSG slowed down sharply. The management of C.Banner said the SSSG in Oct so far is c.5%, which is lower than the 3Q SSSG. In a moderate CPI environment and intensified competition of women's footwear market, we believe C.Banner will continue to offer attractive discount or lower its tag price to boost sales. We expect the single digit SSSG to last for the next year. Its sales growth will mainly due to new store expansion.

Margin erosion for FY12: The management stated that its overall discount ratio for its products reached c.40%. The heavy discount and rising selling and distribution cost will drag down its retail gross profit margin and operating profit margin by 1-2ppt for this year. The management believe the margin squeeze will last for next year as they expect that the selling and distribution cost will grow faster than sales.

Improving inventory turnover days: Due to the inventory clear-up effect for last several months, the management stated that the inventory turnover days have dropped and returned to normal level. The management believes its inventory turnover days will drop to 200-210 days at the end of FY12 compared with 239 days in 1HFY12. This will ease market concern of high inventory risk. Most of women's footwear retailers have strong control of its directly-management stores (100% self-managed stores of Belle, 84% self-managed stores of Daphne, 73% self-managed stores of C.Banner). In contrast, sportswear & apparel peers, which their outlets are mainly run by franchisee, will be less keen to control inventory risk as the risk is passed to franchisees.

Valuation: The counter is trading at PER of 14.6x FY12 and 12.6x for FY13. We maintain our "Hold" rating and set target price at HK\$2.57.

Risk factors: Slower-than-expected recovery of retail market; increasing inventory risk; worse-than-expected margin erosion; keen market competition.

Forecast and Valuation

Yr ended Dec31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue(Rmb mn)	1,575	2,044	2,503	3,100	3,693
Chg (% YoY)	22.6	29.8	22.5	23.8	19.1
Net Income(Rmb mn)	170	290	313	365	427
Chg (% YoY)	113.3	70.8	8.0	16.5	17.0
FD EPS(Rmb)	0.100	0.145	0.149	0.174	0.204
Chg (% YoY)	113.3	45.2	3.0	16.5	17.0
P/E(x)	-	15.3	14.6	12.6	10.7

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: Quarterly SSSG

	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	ABCI estimate 2012
Belle(Foot wear)	22.0%	20.0%	18.5%	8.2%	2.8%	10.50%	2.8	7%
Daphne(Core brands)	1.0%	32.0%	23.0%	26.0%	22.0%	14%	5%	12%
C.Banner	-	-	22.7%	12.2%	3.6%	9.80%	6.3	8%

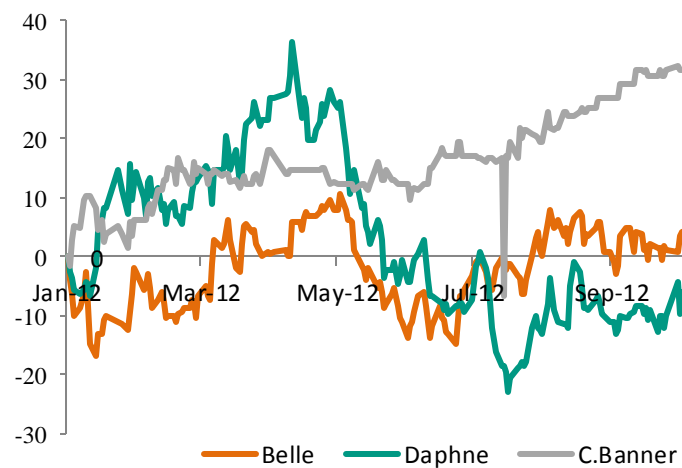
Source: ABCI Securities estimates

Exhibit 2: Retail outlet

As at the end of 30 Sep	Belle(Footwear)	Daphne(core brands)	C.Banner
Retail outlets	11,518	6,148	2,095
Proprietary outlets	11,518	5,167	1,539
Third party outlets	0	981	556
ABCI estimate			
Retail outlets	11,298	6,152	2,048
Proprietary outlets	11,298	5,094	1,511
Third party outlets	0	1,058	537

Source: ABCI Securities estimates

Exhibit 3: YTD price performance(%)



Source: Bloomberg, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011 (~15%)

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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