



Company Report

Belle (1880 HK) – Hold

Footwear Industry

Raise 12-mth target price to HK\$14.6 (previous HK\$12.7)

Key data

Share price (HK\$)	14.62
Target price (HK\$)	14.6
Downside potential (%)	0.1
52Wk H/L(HK\$)	16.3/ 11.38
Issued shares (mn)	8,434
Market cap (HK\$mn)	123,308
30-day avg vol (HK\$mn)	177.64
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

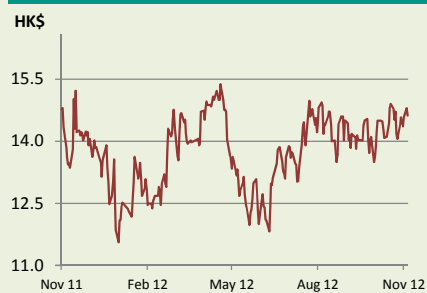
Share performance (%)

	Absolute	Relative*
1-mth	2.1	3.5
3-mth	(0.4)	(5.8)
6-mth	12.3	(0.1)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 21 Nov, 2012

Judy Hu

Tel: (852) 2147 8310

Email: judyhu@abci.com.hk

Previous report

Date: 22 Aug, 2012

Rating: Sell

We had a tele-conference with the management of Belle on 20th Nov. We revise down our SSSG forecast in FY12 to factor in the weak performance in 3Q and we believe sales will recover moderately rather than fast ramp up in 4Q as Spring Festival effect will delay to Jan of FY13.

Termination of agent status with GEOX: We've confirmed with the management that the sole agent contract with GEOX in China expiring at the end of FY12 will not be renewed. The management will keep searching for new international brands added into its brand portfolio. Currently the group has 10 self-owned brands and 6 distribution brands in its footwear brand portfolio. The sales of distribution brands accounted for 5.3% and 5.5% of total sales in FY11 and 1HFY12 respectively. We estimate that the impact of terminating agent status with GEOX on the group's earning is limited.

Sales to recover in 2H of October: Due to long Golden Week Holiday effect, the group's sales only have a low single digit growth in 1H of October. Sales started to pick up in the 2H of October. We expect a moderate acceleration of sales growth in 4QFY12.

Revise sales and net profit forecasts for FY12 and FY13: We revise down our SSSG forecast from 7% to 6% for FY12 to factor in the weak SSSG performance in 3Q. Sales and net profit are adjusted downward by 0.5% and 1.2% respectively in FY12. With lower comparison base and recovery of retail industry, we expect SSSG to recover in FY13. We revise up our FY13 SSSG forecast to 8.5% from 8% and FY13 net profit by 2% to Rmb5,646mn.

Upgrade to "Hold": The stock is trading at 20.9x PER of FY12 and 17.6x PER of FY13. We raise our target price to HK\$14.6 from HK\$12.7 based on the average of DCF value of HK\$14.2 and 18x PE of HK\$15.0 in FY13. We upgrade the counter from "Sell" to "Hold" due to limit upside of share price.

Risk factors: Prolonged slowdown of China economy; rising rental and staff costs; intensified competition.

Forecast and valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(Rmb mn)	23,706	28,945	33,746	40,095	47,553
Chg (%YoY)	20.0	22.1	16.6	18.8	18.6
Net Income(Rmb mn)	3,425	4,255	4,754	5,646	6,734
Chg (%YoY)	35.2	24.2	11.7	18.8	19.3
FD EPS (Rmb)	0.406	0.504	0.564	0.669	0.798
Chg (%YoY)	35.2	24.2	11.7	18.8	19.3
PER (x)	-	23.3	20.9	17.6	14.7
NBV(Rmb)	2.029	2.303	2.719	3.235	3.850
P/B(x)	-	5.1	4.3	3.6	3.1
DPS(HK\$)	0.310	0.126	0.141	0.167	0.200
Dividend yield(%)	-	0.9	1.0	1.1	1.4
ROAE(%)	21.1	23.3	22.4	22.5	22.5
ROAA(%)	17.4	18.3	17.2	17.6	18.0

Source: Company data, ABCI Securities estimates



Revise sales and net profit forecasts for FY12 and FY13: We revise down our SSSG forecast from 7% to 6% for FY12 to factor in the weak SSSG performance in 3Q (2.8% in 3Q vs 10.5% in 2Q). Sales and net profit are adjusted downward by 0.5% and 1.2% to Rmb33,746mn and Rmb4,754mn respectively in FY12. With lower comparison base and recovery of retail sales industry, we expect SSSG to recover in FY13. We revise up our FY13 SSSG forecast to 8.5% from 8% and FY13 net profit by 2% to Rmb5,646mn.

Exhibit 1: Estimates revision

(Rmb mn)	New forecast			Old forecast			Change%		
	FY 12E	FY 13E	FY 14E	FY 12E	FY 13E	FY 14E	FY 12E	FY 13E	FY 14E
Revenues	33,746	40,095	47,553	33,928	40,121	47,451	-0.5%	-0.1%	0.2%
YoY growth	16.6%	18.8%	18.6%	17.2%	18.3%	18.3%	-	-	-
Gross profit	19,084	22,824	27,145	19,207	22,841	27,076	-0.6%	-0.1%	0.3%
YoY growth	15.3%	19.6%	18.9%	16.0%	18.9%	18.5%	-	-	-
Operating profit	5,969	7,176	8,655	6,042	7,174	8,600	-1.2%	0.0%	0.6%
YoY growth	13.4%	20.2%	20.6%	14.8%	18.7%	19.9%	-	-	-
Net profit	4,754	5,646	6,734	4,810	5,535	6,604	-1.2%	2.0%	2.0%
YoY growth	11.7%	18.8%	19.3%	13.1%	15.1%	19.3%	-	-	-
Diluted EPS(Rmb)	0.564	0.669	0.798	0.570	0.656	0.783	-1.2%	2.0%	2.0%
YoY growth	11.7%	18.8%	19.3%	13.1%	15.1%	19.3%	-	-	-
GPM	56.6%	56.9%	57.1%	56.6%	56.9%	57.1%	-0.1	0.0	0.0
OPM	17.7%	17.9%	18.2%	17.8%	17.9%	18.1%	-0.1	0.0	0.1
NPM	14.1%	14.1%	14.2%	14.2%	13.8%	13.9%	-0.1	0.3	0.2

Source: ABCI Securities estimates



DCF model

Exhibit 2:

(Rmb mn)	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
EBIT	5,969	7,176	8,655	10,529	11,343	13,158	15,263	17,553	20,186	23,213	26,695
Tax	(1,420)	(1,735)	(2,126)	(2,684)	(2,836)	(3,289)	(3,816)	(4,388)	(5,046)	(5,803)	(6,674)
D & A	871	1,088	1,194	1,140	1,272	1,411	1,547	1,671	1,784	1,897	1,999
WC changes	(1,625)	(1,938)	(2,507)	(2,697)	(3,486)	(3,186)	(3,775)	(4,317)	(4,662)	(5,131)	(5,858)
Capex	(1,684)	(1,215)	(1,164)	(1,331)	(1,200)	(1,200)	(1,000)	(1,000)	(1,000)	(800)	(800)
FCF	2,111	3,376	4,051	4,958	5,093	6,894	8,220	9,518	11,261	13,376	15,362
DCF	2,111	3,022	3,246	3,556	3,270	3,961	4,228	4,382	4,641	4,934	5,073
Terminal value											161,253
PV of terminal value											53,247

Source: ABCI Securities estimates

Exhibit 3:

Risk free rate	1.15%	WACC	11.72%
BETA	0.932	Perpetuity growth rate	2.0%
Market risk premium	12.05%	SUM DCF	95,671
Cost of equity	12.38%	Less: Net Debt	(991)
Cost of debt	6.50%	Less: Minority interest	170
Effective tax rate	25%	NAV	96,492
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\$)	14.2
Total value(Rmb mn)	21,489		

Source: ABCI Securities estimates



Belle financial summary

Consolidated Income Statement

Yr end 31 Dec (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Turnover	23,706	28,945	33,746	40,095	47,553
Cost of sales	(10,498)	(12,389)	(14,662)	(17,272)	(20,408)
Gross profit	13,208	16,556	19,084	22,824	27,145
Selling & Distribution Expenses	(7,686)	(9,213)	(10,562)	(12,625)	(14,904)
Administrative expenses	(1,620)	(2,192)	(2,558)	(3,027)	(3,590)
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	5,969	7,176	8,655
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	6,174	7,381	8,860
Income tax	(701)	(1,232)	(1,420)	(1,735)	(2,126)
Profit Attributable to Equity Holders of the Company	3,425	4,255	4,754	5,646	6,734
Diluted EPS (Rmb)	0.406	0.504	0.564	0.669	0.798

Source: Belle, ABCI Securities estimates

Key Financial Ratios

Yr end 31 Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue growth (%)	20.0	22.1	16.6	18.8	18.6
Net profit growth (%)	35.2	24.2	11.7	18.8	19.3
Gross profit margin (%)	55.7	57.2	56.6	56.9	57.1
Operating margin (%)	16.7	18.2	17.7	17.9	18.2
Net profit margin (%)	14.4	14.7	14.1	14.1	14.2
ROAE (%)	21.1	23.3	22.4	22.5	22.5
ROAA (%)	17.4	18.3	17.2	17.6	18.0
Inventory turnover days	152.6	167.6	177.1	177.6	177.4
Account receivable days	29.9	30.7	32.5	32.4	32.3
Account payable days	31.7	34.7	34.1	34.3	32.6
Net cash/ equity(%)	8.7	5.1	8.2	14.5	19.8
Dividend Payout ratio(%)	76.3	25.0	25.0	25.0	25.0
Dividend yield(%)	2.1	0.9	1.0	1.1	1.4

Source: Belle, ABCI Securities estimates



Consolidated Balance Sheet

As of 31 Dec (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PP&E	2,354	2,852	3,421	3,280	2,957
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	8,679	8,584
Inventories	4,859	6,517	7,709	9,101	10,739
Trade receivables	2,120	2,746	3,269	3,851	4,571
Structured bank deposits	2,732	3,369	3,706	4,077	4,484
Cash and cash equivalents	2,173	2,887	3,774	5,838	8,327
Other current assets	2,290	2,298	2,599	3,020	3,525
Total current assets	14,174	17,816	21,058	25,886	31,646
Trade payables	1,106	1,248	1,488	1,756	1,884
Short-term borrowings	681	1,895	1,895	1,895	1,895
Other current liabilities	1,674	2,686	2,984	3,277	3,622
Total current liabilities	3,460	5,830	6,367	6,929	7,401
Total non-current liabilities	257	258	183	183	183
Shareholders' equities	17,115	19,424	22,933	27,283	32,475
Minority interest	0	170	170	170	170
Book value per share (Rmb)	2.029	2.303	2.719	3.235	3.850

Consolidated Cash Flow Statement

Yr end 31 Dec (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	4,125	5,471	6,174	7,381	8,860
Depreciation and amortization	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)	(1,625)	(1,938)	(2,507)
Income tax paid	(401)	(771)	(1,420)	(1,735)	(2,126)
Operating cash flow	2,649	3,031	3,794	4,591	5,215
Purchase of PP&E	(1,198)	(1,664)	(1,470)	(1,002)	(951)
Others	966	(257)	(383)	(435)	(439)
Investing cash flow	(232)	(1,922)	(1,854)	(1,437)	(1,390)
Dividend paid	(1,603)	(1,940)	(1,245)	(1,296)	(1,542)
Other investing activities	(312)	1,558	205	205	205
Financing cash flow	(1,915)	(382)	(1,040)	(1,090)	(1,337)
Net increase in cash	502	728	901	2,064	2,489
Cash balance at year end	2,173	2,887	3,774	5,838	8,327

Source: Belle, ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Belle International Holdings Limited

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183