



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Belle International

Reuters 1880.HK	Bloomberg 1880 HK	Exchange HSI	Ticker 1880
ADR Ticker BELLY	ISIN US0784541056		

Date
26 September 2016

Company Update

Price at 23 Sep 2016 (HKD)	5.42
Price target - 12mth (HKD)	6.26
52-week range (HKD)	7.70 - 4.17
HANG SENG INDEX	23,760

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Making the right turn; maintaining Buy

Expecting brighter days ahead; Buy

Belle, as the largest sportswear retailer in China, should benefit from Chinese consumers' quest for health and wellness by offering the right merchandise (tier 1 and tier 2 international sportswear brands) and selectively in a new retail format (merchandise displayed by function rather than brand). Tier 1 brands should further penetrate new cities while niche tier 2 brands will likely cater to fragmented consumer demand with specialization. We maintain Buy on Belle, as we view the concerns over its footwear business as well priced in, with a better outlook for its SSSg.

Sportswear is the bright spot for Belle

SSSg grew by ~6% over the past four quarters with margins reaching 8.8% in FY16. We expect store growth of 8% for FY17 with SSS edging higher to 7%. We expect 40%/46% of EBIT will come from sportswear business in FY17/FY18, rising from 31% in FY16. Apart from the sustainable growth of tier 1 brands, management plans to enrich the business with 1) potential for tier 2 brands, 2) seeking O2O initiatives, and 3) testing the sports complex model.

Helped by sports fragmentation – tier 2 brands taking 12% of sales by FY19

We believe that its strategy to tap more tier 2 brands will help Belle benefit from sports segmentation. It hired a senior manager in FY16, previously at Nike, to explore the opportunities. After strong 22%/19% growth in sales and store number in 1HFY17, we expect ~8% CAGR in stores for FY17-19, a rate higher than that of tier 1 brands, which was 4-8%. Store count and sales mix for tier 2 brands should increase to 18.2%/12.2% from 17.5%/9.9%.

Target price of HK\$6.26; risks

Belle has two businesses: footwear and sportswear. Pou Sheng (3813.HK, Buy) is its closest peer in sportswear. If we apply PS's market P/E of 15x for FY16 to Belle's sportswear business, this implies that the market is paying 4.6x P/E for its footwear business at the current price of HK\$5.42 vs. HK/China peers' 8x-23x FY16 market P/E. We expect healthy EBIT growth at a 12% CAGR for sportswear for FY17/19E, while footwear EBIT should stabilise its decline at HK\$2.6bn. Concerns over its footwear are priced in. Downside risks: failure to narrow the SSS decline in footwear, and sportswear SSS/profit margin decline.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.7	26.0	-18.4
HANG SENG INDEX	3.3	13.9	11.5

Source: Deutsche Bank

Forecasts And Ratios

Year End Feb 28	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	40,008.1	40,790.2	41,820.3	43,948.8	46,439.0
Reported NPAT (CNYm)	4,763.9	2,934.1	3,907.2	3,736.7	3,846.8
Reported EPS FD(CNY)	0.56	0.51	0.46	0.44	0.46
DB EPS growth (%)	8.2	-9.9	-8.9	-4.4	2.9
PER (x)	12.4	12.4	10.1	10.5	10.2
DPS (net) (CNY)	0.59	0.22	0.28	0.27	0.27
Yield (net) (%)	8.4	3.5	6.0	5.7	5.9

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close



Model updated: 27 May 2016

Running the numbers

Asia
China
Retail / Wholesale Trade

Belle International

Reuters: 1880.HK Bloomberg: 1880.HK

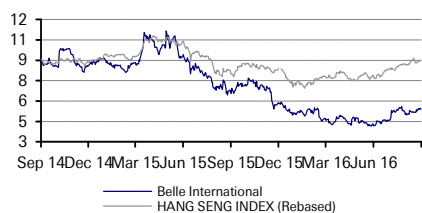
Buy

Price (23 Sep 16) HKD 5.42
Target Price HKD 6.26
52 Week range HKD 4.17 - 7.70
Market Cap (m) HKDm 45,752
USDm 5,899

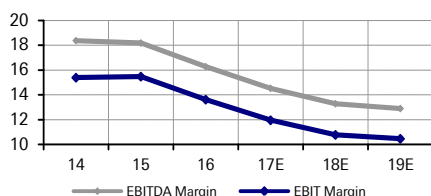
Company Profile

Belle International sells women's footwear. The company operates retail stores in the People's Republic of China, Hong Kong and Macau.

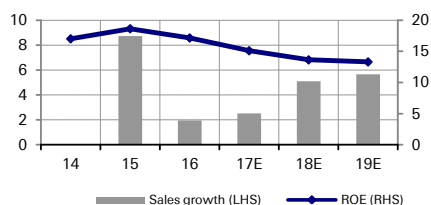
Price Performance



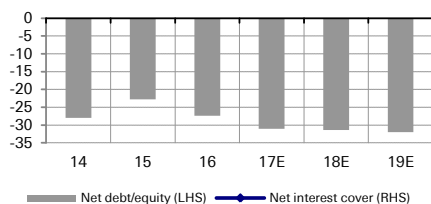
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 28-Feb

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.52	0.56	0.51	0.46	0.44	0.46
Reported EPS (CNY)	0.52	0.56	0.51	0.46	0.44	0.46
DPS (CNY)	0.20	0.59	0.22	0.28	0.27	0.27
BVPS (CNY)	3.1	3.0	3.0	3.2	3.3	3.5
Weighted average shares (m)	8,434	8,434	8,434	8,434	8,434	8,434
Average market cap (CNYm)	73,167	59,277	53,384	39,344	39,344	39,344
Enterprise value (CNYm)	65,261	53,115	45,727	30,200	29,574	28,841

Valuation Metrics

P/E (DB) (x)	16.6	12.4	12.4	10.1	10.5	10.2
P/E (Reported) (x)	16.6	12.4	12.4	10.1	10.5	10.2
P/BV (x)	2.43	2.27	1.46	1.44	1.37	1.29
FCF Yield (%)	6.8	6.1	9.7	6.3	7.3	7.5
Dividend Yield (%)	2.3	8.4	3.5	6.0	5.7	5.9
EV/Sales (x)	1.8	1.3	1.1	0.7	0.7	0.6
EV/EBITDA (x)	9.6	7.3	6.9	5.0	5.1	4.8
EV/EBIT (x)	11.5	8.6	8.2	6.0	6.2	5.9

Income Statement (CNYm)

Sales revenue	36,794	40,008	40,790	41,820	43,949	46,439
Gross profit	21,112	23,010	22,958	22,653	23,050	24,011
EBITDA	6,765	7,279	6,642	6,080	5,842	5,996
Depreciation	1,100	1,085	1,084	1,078	1,103	1,134
Amortisation	0	0	0	0	0	0
EBIT	5,665	6,194	5,558	5,003	4,739	4,862
Net interest income/(expense)	362	386	268	297	322	347
Associates/affiliates	5	22	72	75	79	83
Exceptionals/extraordinaries	0	0	-1,356	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	6,032	6,601	5,898	5,375	5,140	5,292
Income tax expense	1,653	1,851	1,596	1,455	1,391	1,432
Minorities	-23	-13	11	13	12	13
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,402	4,764	2,934	3,907	3,737	3,847
DB adjustments (including dilution)	0	0	1,356	0	0	0
DB Net profit	4,402	4,764	4,291	3,907	3,737	3,847

Cash Flow (CNYm)

Cash flow from operations	5,035	5,467	5,328	3,734	4,177	4,328
Net Capex	-76	-1,872	-167	-1,255	-1,318	-1,393
Free cash flow	4,959	3,595	5,161	2,479	2,858	2,935
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,687	-4,976	-1,856	-1,055	-2,298	-2,272
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	3,272	-1,381	3,305	1,424	560	663
Change in working capital	-323	-761	-42	-977	-533	-624

Balance Sheet (CNYm)

Cash and other liquid assets	9,724	8,386	7,782	9,206	9,766	10,428
Tangible fixed assets	9,042	9,829	8,911	9,088	9,303	9,563
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	689	633	946	1,022	1,101	1,184
Other assets	12,940	13,689	13,416	15,046	15,769	16,614
Total assets	32,394	32,537	31,055	34,362	35,939	37,789
Interest bearing debt	2,360	2,658	861	861	861	861
Other liabilities	3,699	4,756	4,908	6,639	6,709	7,008
Total liabilities	6,059	7,414	5,769	7,500	7,570	7,869
Shareholders' equity	26,189	24,923	25,076	26,639	28,134	29,672
Minorities	146	199	210	223	235	248
Total shareholders' equity	26,335	25,122	25,286	26,862	28,369	29,921
Net debt	-7,363	-5,728	-6,927	-8,345	-8,905	-9,568

Key Company Metrics

Sales growth (%)	nm	8.7	2.0	2.5	5.1	5.7
DB EPS growth (%)	na	8.2	-9.9	-8.9	-4.4	2.9
EBITDA Margin (%)	18.4	18.2	16.3	14.5	13.3	12.9
EBIT Margin (%)	15.4	15.5	13.6	12.0	10.8	10.5
Payout ratio (%)	38.3	104.5	63.2	60.0	60.0	60.0
ROE (%)	17.0	18.6	17.2	15.1	13.6	13.3
Capex/sales (%)	0.2	4.7	0.4	3.0	3.0	3.0
Capex/depreciation (x)	0.1	1.7	0.2	1.2	1.2	1.2
Net debt/equity (%)	-28.0	-22.8	-27.4	-31.1	-31.4	-32.0
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Valuation and risks

Sportswear as sustainable driver; waiting for footwear strategy to pay off

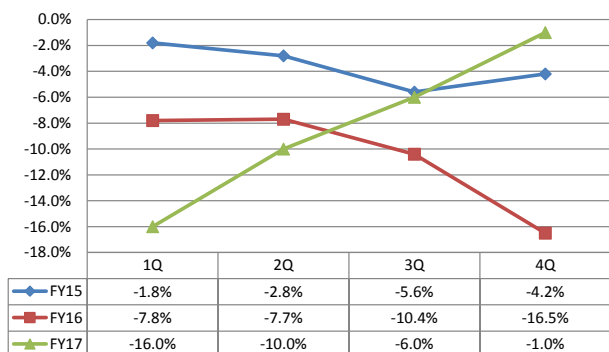
Sportswear has been/will likely be a sustainable driver for Belle's sales and NP

We expect that Belle's strong position as the largest sportswear distributor/retailer will continue to deliver impressive returns with the following strategies:

- Growing tier 2 brands – benefiting from sports segmentation while tier 1 brands' restocking accelerates its performance
- O2O initiatives – increasing penetration effectively
- Testing new retail formats – a way to build brand equity

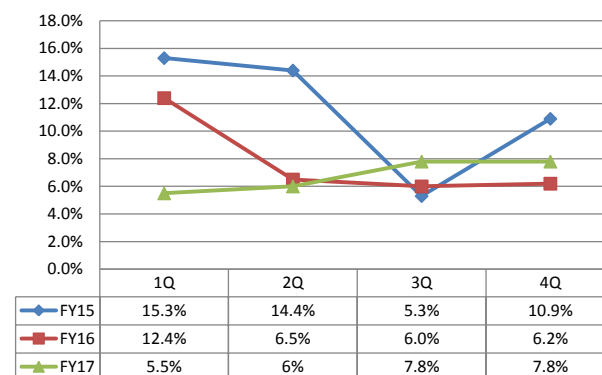
Thus, we expect an EBIT CAGR of 11% and a sales CAGR of 13.7% for FY17-19E for its sportswear business. As the largest sportswear distributor for Nike and Adidas, its growth momentum for the short to medium term is largely attributable to the strength of these brands, and we expect Belle to report SSS growth of 7% in FY17 (accelerating from 6% in 1HFY17) as restocking in Nike and Adidas should continue to help its sales performance.

Figure 1: Footwear – a low base from 2HFY16; we expect -1% SSS for 4QFY17E



Source: Deutsche Bank, Note: 3Q and 4Q FY17F are Deutsche Bank estimates

Figure 2: Sportswear – we expect 7% SSS for FY17E with acceleration in 2H



Source: Deutsche Bank, Note: 3Q and 4Q FY17F are Deutsche Bank estimates

Yet, the recovery in SSS from its footwear operation remains the share price catalyst – we expect SSS to narrow to -1% in 4Q

This is partly due to low base effect in 4QFY16 due to the warm winter (multiple discounts and promotions on boots), and continuously right-sizing its store network with the closure of low performing stores, especially from FY16 onwards, should help stabilize sales per store.

Management also has the following key strategies for its long-term development:

- **Channel and price positioning** – it is teaming up with selected department stores to seek ways to attract consumers to return. The endless promotions by department stores and the large difference



between tag price and actual transactions need to be addressed. (i.e. by price repositioning with less discounting). It also wants to increase its presence in malls.

- **Supply chain reform – to enhance value for money (better quality) and lower cost.** Instead of adopting the replenishment model (pull model), it wants to develop the fast fashion push model. There will be more savings on the manufacturing side. However, this means that it needs a lot of data analysis in order to understand what the consumer needs. This leads to the third point.
- **IT development and e-commerce.** It needs to bring its shops online in order to develop the O2O strategy. It also needs to make use of social media to help create a database for its younger consumers.

Structural trend – negative for footwear but positive for sportswear, but share correction more than reflects the weakness in footwear, in our view

Management still sees structural trends (less apparel/shoes as a percentage of wallet share, consumers’ preference for sportswear over dress shoes, channel fragmentation) weighing on its footwear business, in addition to a macro slowdown. However, the sportswear trend remains strong. In our view, the share price correction more than reflects the weakness in footwear. Management’s strategy on ladies footwear and being focused should allow the company to be the first one to emerge from the woods, in our view.

We maintain Buy, as:

- 1) We believe that the share price has corrected and that the market is assuming a decline in NP for the next two years, which we believe is already very conservative. We also expect the SSS decline to narrow from 2HFY16, given the low base.
- 2) Belle remains focused on shoes/apparel, while its peers seek diversification. We believe that it will be rewarded and will be the first to recover by maintaining its focus and relevance.
- 3) Belle’s sportswear might benefit from restocking by Nike and Adidas, driving better-than-expected SSS and store growth in 2HFY17 and FY18.
- 4) Despite its vertical model for the footwear business, it has a strong net cash position with a free cash flow yield of 7-8% for FY17-19E. Thus, we believe that it still warrants a Buy rating.

Figure 3: Sum of parts suggests that the market is paying 4.8x FY17 P/E for its footwear business at the current price of HK\$5.42

SOTP				
FY17 YE Feb RMB m	Earnings mix	NP ex net int	Mkt cap	PE
Footwear	60%	2,215	10,279	4.64
Sportswear	40%	1,476	22,146	15.00
Total	100%	3,691		
Net cash			6,921	
Market cap (RMBm)			39,347	

Source: Deutsche Bank estimates

Target price of HK\$6.26; risks

Belle has two businesses: footwear and sportswear. Pou Sheng (3813.HK, Buy) is its closest peer in sportswear. If we apply Pou Sheng’s market P/E of 15x for FY16E to Belle’s sportswear business, this implies that the market is paying



4.6x P/E for its footwear business at the current price of HK\$5.42 (Figure 3) vs. HK/China peers' 8-23x FY16 market P/E (Figure 19).

Our DCF-based target price is HK\$6.26. We use our Chinese market COE of 9.5% (a risk-free rate of 3.9% and an equity risk premium of 5.6% as close to 100% of the company's business is conducted in China). We use beta of 1, which is in line with beta we use for other consumer plays (1-1.3). We apply a terminal growth rate of 0% as we believe that there is a structural issue in the department store channel and footwear market in China, and it is at the low end of our 0-2% terminal growth range for China consumer stocks.

Our NP forecast is 10% higher than the market's estimates for FY17-19E (Figure 4). We expect the key discrepancy to be the expectation of SSS stabilization for the footwear operation, and thus, less operating deleveraging moving forward.

Preview of 1HFY17 results. The company is expected to announce its 1HFY17 results at the end of October. We expect Belle to announce a 10% decline in NP to HK\$1.9bn on a 1% rise in sales to RMB19.6bn (for the breakdown, please refer to Figure 18).

Figure 4: Deutsche Bank forecast vs. market

YE Feb RMBm	DB forecast			Market consensus			Difference		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Sales	41,820	43,949	46,439	40,618	41,519	43,528	3.0%	5.9%	6.7%
EBIT	5,003	4,739	4,862	4,567	4,347	4,354	9.6%	9.0%	11.7%
Net profit	3,907	3,737	3,847	3,561	3,413	3,512	9.7%	9.5%	9.5%

Source: Deutsche Bank estimates, Bloomberg Finance LP, note we use Bloomberg Finance LP 28 days consensus, considering the current market conditions, we believe the 28-day numbers best capture market expectations.

Downside risks: a failure to narrow the SSS decline in footwear, and the sportswear profit margin failing to return to previous levels.



Focus on sportswear

Growing tier 2 brands for LF while short- to medium-term tier 1 brands restocking

Multi-brand strategy: develop tier 2 brand network to cater to fragmented demand

During its FY16 results meeting, management commented that the sportswear market is becoming fragmented as 1) consumers become sophisticated and focus on functionality (some niche brands are specialized in particular sports), and 2) consumers become more affluent and willing to pay more for a differentiated product.

More tier 2 brands, but focusing on international brands

We share management's view that niche brands, such as Timberland (outdoor), North Face (outdoor), and Asics (running specialist), have high potential, benefiting from sports segmentation. It expects to add more tier 2 brands in the future, on the right terms. To recap, it ceased distribution for Li Ning and Kappa four to five years ago due to dismal per store sales for these brands. Consequently, it focuses more on international brands for the tier 2 brand division.

New team to drive growth – store/sales growth to be faster than tier 1 brands

The company hired a senior manager in FY16, previously at Nike, to explore the opportunities of these tier 2 brands. Thus, we expect the store network for tier 2 brands to increase growth for Belle, since it was a profitable segment in FY16, according to management. After strong 22%/19% growth in sales and store number in 1HFY17, we expect ~8% CAGR in stores for FY17-19, a rate higher than that of tier 1 brands, which was at 4-8% (Figure 6).

Currently Nike and Adidas account for over 85% of sales – a sustainable driver for sales and NP

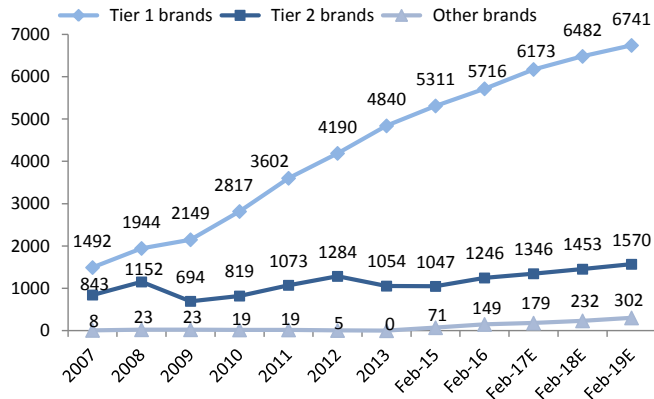
For reference, over 85% of sales come from Nike and Adidas, although only ~80% of the stores are under these two brands. As the largest sportswear distributor for Nike and Adidas, its growth momentum for the short to medium term is largely attributable to the strength of these brands, and we expect Belle to report 7% SSS growth FY17 (accelerating from 6% in 1HFY17), with overall store growth of 8% in FY17, as restocking in Nike and Adidas should continue to help sales performance. (Please refer to John Chou's sector report titled *Greater China Sporting Goods – Giant Steps*, under the sub-title *China: inventory levels low but sell-through strong.*)

Apart from tier 2 brands, it also wants to diversify into mid-end casual apparel

Within the sportswear segment, it also has ~2% of stores in apparel brands (Sly, Moussy and Replay etc.), as the company believes that apparel is a potential growth segment and is a complement to its ladies footwear business. The company should continue to invest in its apparel business through its 51%-owned JV with Baroque China, 30% stake in Baroque Japan and 29% stake in Replay.

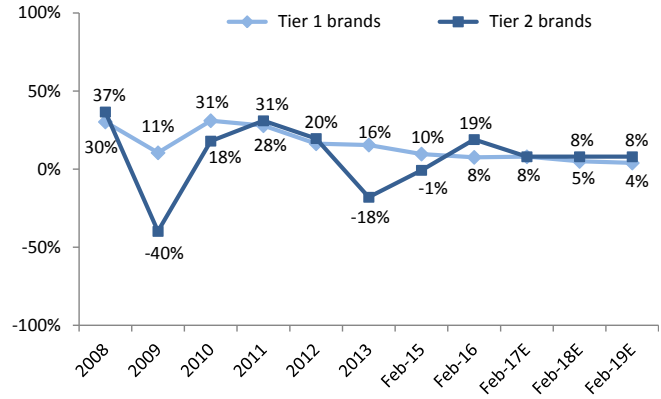


Figure 5: Store number of tier 1 brands, tier 2 sports brands, and others



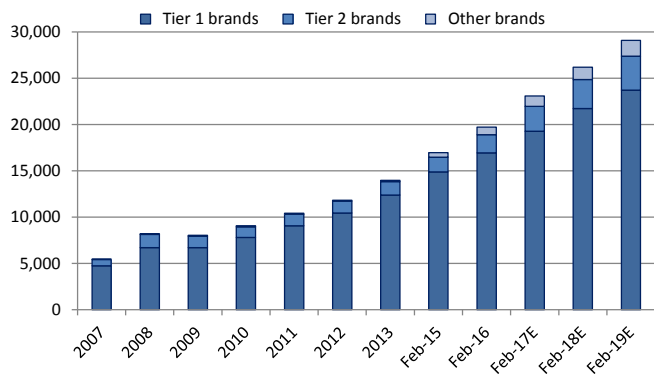
Source: Deutsche Bank estimates, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 6: Store growth of tier 1 brands, tier 2 sports brands, and others



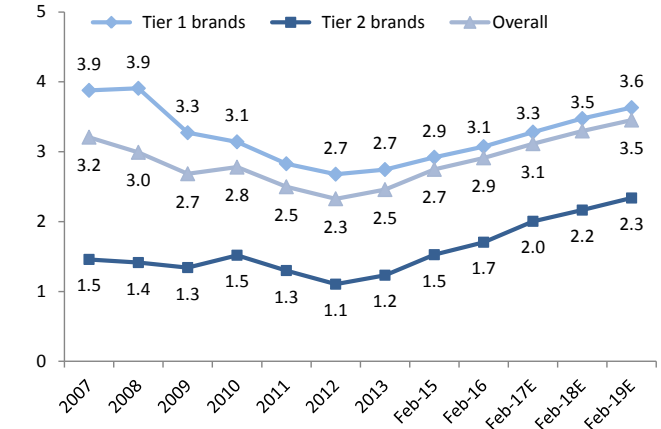
Source: Deutsche Bank estimates, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 7: Sales contribution of tier 1 brands, tier 2 sports brands, and others (RMBm)



Source: Deutsche Bank estimates, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 8: Average sales per store of tier 1 brands, tier 2 sports brands, and others (RMBm)



Source: Deutsche Bank estimates, company data, Note: the company changed YE from Dec to Feb from Feb-14.

O2O initiatives – increase penetration effectively

Brands' attitudes – more receptive to e-commerce

In the past, sportswear brands were more cautious about letting distributors be involved in e-commerce as they did not want any disruption to the pricing system. However, in recent years, brands have become more receptive and there has been some development on this front, according to management.

What does Belle need to do?

Belle, with a vast network on the ground, has invested in its IT and POS in order to link up its offline physical stores with its online stores. This should allow the network to share inventory and customer databases. It is also developing a WeChat fan group, targeting younger consumers. The O2O initiatives should offer convenience, potentially attracting consumers.



The company will likely reduce investment in Yougou, but increase its presence in Tmall and VIP. For reference, e-commerce comprises 4-5% of sportswear sales and 3-4% of footwear. We believe that growth will be higher than that of the group level, due to a small base, but slower than that of the industry.

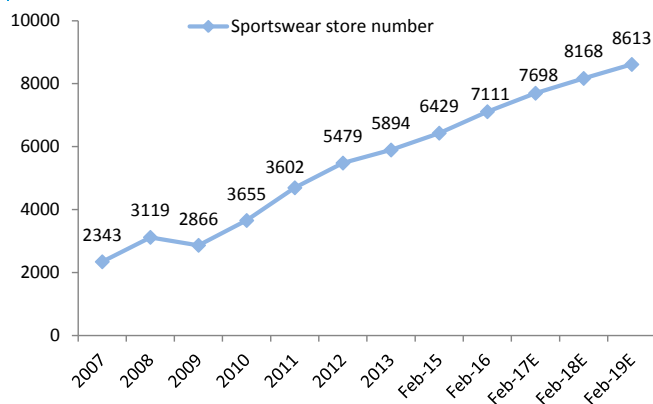
Existing offline retail network – going to lower tier cities...

We expect its sportswear store network to continue to grow by 5-8% per year for FY17-19F, mainly via organic growth. As a nationwide network, the company comments that there is no particular preference by region or province, and it all depends on the expected return of new stores. However, we believe that it will go to lower tier cities for further brand/network penetration, especially for tier 1 brands, which is what it has done in the past. Currently, Belle's 7,216 self-run stores cover 300 cities in 32 provinces as of the end of 1HFY17.

...and tier 2 brands can fill the gaps in tier 1 cities

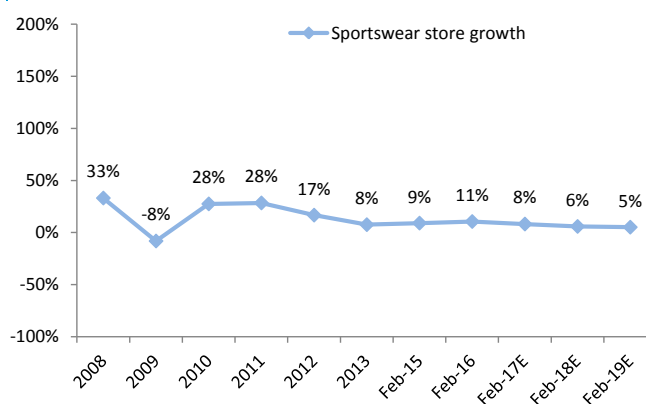
As mentioned earlier, given the growth potential of tier 2 brands with the increase in demand for different functionality, store network growth is likely to be in tier 1 or tier 2 cities, in our view, as these brands are not fully penetrated and consumers are more sophisticated.

Figure 9: Sportswear – overall store number estimates



Source: Deutsche Bank estimates, Company data. Note: the company changed YE from Dec to Feb from Feb-14.

Figure 10: Sportswear – overall store growth estimates



Source: Deutsche Bank, Company data. Note: the company changed YE from Dec to Feb from Feb-14.

Testing new retail format – capturing the growing trend in sports participation

More consumers choose products by function than purely by brand

Management notes that the increase in sports participation has resulted in consumers focusing on comparing functionality of products of different brands rather than simply going for a particular brand when they shop. Belle has been testing a new retail format that categorizes merchandise by function, like Foot Locker in the US.

Sports complex – helping build brand equity and gain bargaining power

The results have been encouraging in selected tier 1 cities, showing that there should be potential for such a format in the future. We believe that this format could help Belle (Top Sports) create its brand equity as a sports specialist chain in consumers' minds as well as gain further bargaining power over brands.



Management does not disclose how many stores it has for such a format, nor its economics. However, we believe that margins potentially could be higher once the model is mature due to better efficiency per sqm. Currently, as the retail brand is not as strong as the sportswear brand, management is looking at ways to drive traffic (e.g. more marketing in social media groups to increase awareness).

Still a bit premature in lower tier cities, but only a matter of time...

However, management commented that sales from this format account for a very low % of sales, and that the number is still premature in lower tier cities. Sales performance is yet to pick up. We believe that it is a matter of time. For reference, the company started the first generation 3,000-4,000sm Sports Complex format (big store with shop-in-shop format) in 2007 and performance was not satisfactory – we believe it was too early. Such a format is now becoming popular among retailers.

To recap, most of the sportswear stores in China have a standalone, single-brand store format, as brand names want to focus on brand building in emerging markets. In addition, key brands have greater bargaining power, and consumers also tend to follow brands in emerging markets (which, we believe, is changing gradually).

Sportswear – expecting an EBIT CAGR of 11% for FY17-19E

A key beneficiary of health and wellness trend – sales growth driver

Belle should continue to benefit from the health and wellness trend as the biggest sportswear distributor/retailer. This is reflected in:

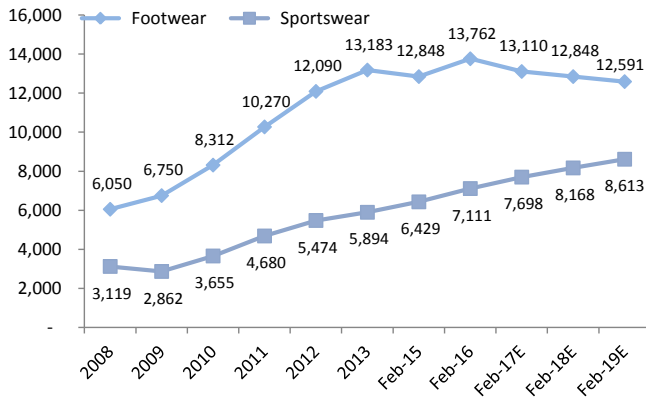
- 1) **Continuous new store growth.** We expect it to grow by 400-500 new stores each year for FY17-19E, with growth in tier 1 and tier 2 brands, and
- 2) **Same store sales increase**, which we expect to be 5-7% for the same forecast period, with higher growth from ASP than volume, as consumers are trading up.

Average sales per store to further improve, in our view

We expect further improvement to RMB3.5m per store sales in FY19. To recap, Belle has recovered after the market correction following the industry's peak at the time of the 2008 Beijing Olympics. Average sales per store dropped to a low of RMB2.3m in 2012 (YE December) and recovered to RMB2.91m in FY16 (YE February), a figure which is similar to the 2008 level.

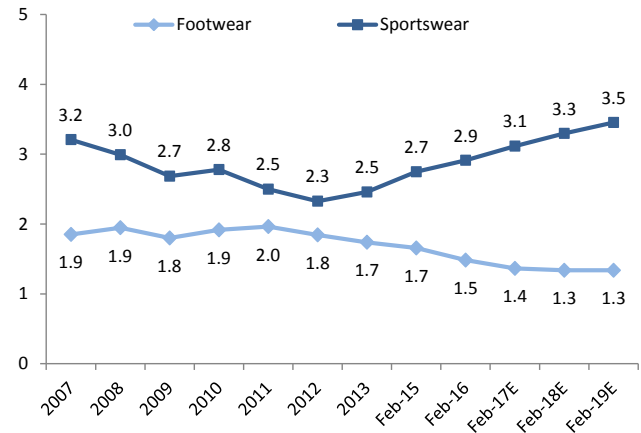


Figure 11: Total store number



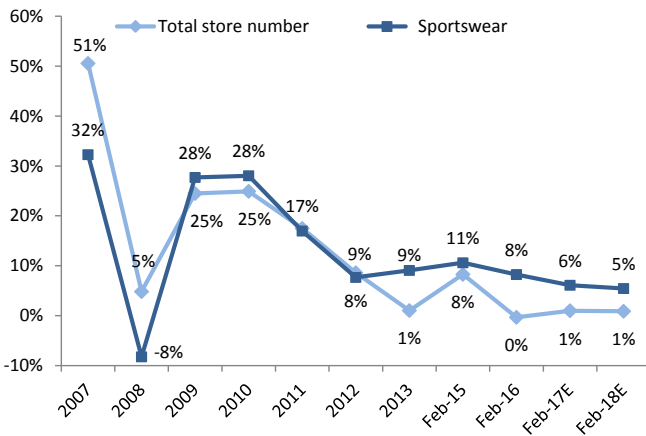
Source: Deutsche Bank estimates, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 12: Average sales per store – footwear and sportswear (RMBm)



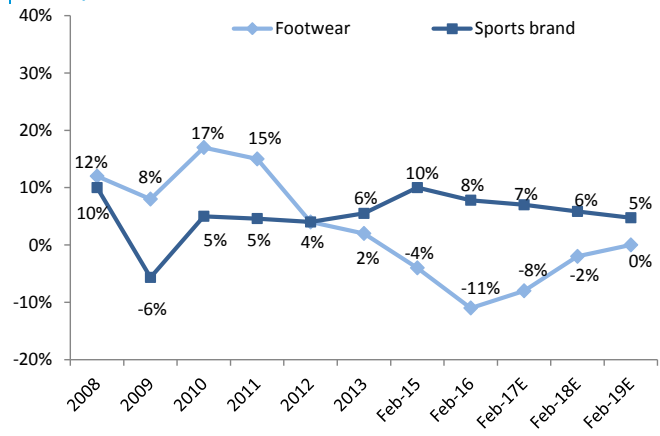
Source: Deutsche Bank estimates, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 13: Store growth



Source: Deutsche Bank estimates, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 14: Recovery in SSS for sportswear since 2009, we expect footwear to recover from 2HFY17



Source: Deutsche Bank estimates, Company data, Note: data in 2009 and 2011 are 4 quarters' average, the company changed YE from Dec to Feb from Feb-14.

Belle's sportswear GPM has been steadily trending upward, but we expect a lower GPM trend moving toward 42-43% from the peak in FY16

We believe that part of the reason for the high GPM in FY16 at 45% is less discounting (lack of inventory). Management has been replenishing inventory and thus we expect that this should be reflected in higher sales and more normalized GPM. We estimated a 7% rise in SSS in FY16, an acceleration from 6% in FY15.

To recap, Belle's sportswear GPM has improved from 35.6% in 2007 to 44.5% in FY16, and it only reported a less than 1ppt decline in FY09 following the industry peak in 2008. We believe that this is due to:

- Industry consolidation
- Brands' support for key retailers such as Belle with rebates/subsidies, especially during tough times, and



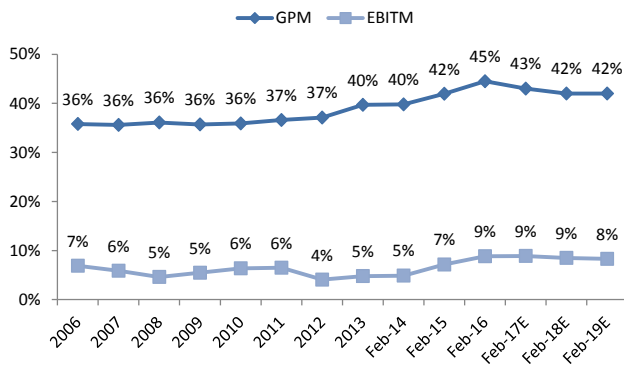
- Inventory control either by Belle or by brands. Belle is known for having good working capital management and being efficient in the industry in sportswear and footwear.

EBIT to trend towards ~8% from current 9%

We conservatively project EBITM to be around 8.3-8.9% for FY17-19E. We expect relatively stable EBITM for the business as rent, the biggest cost item, which is around the high teens (%), is mainly a variable cost, as concession rates at department stores are based on a cut from the sales proceeds. The next cost item is staff cost, which is around the high single digits with a mixture of fixed vs. variable structure.

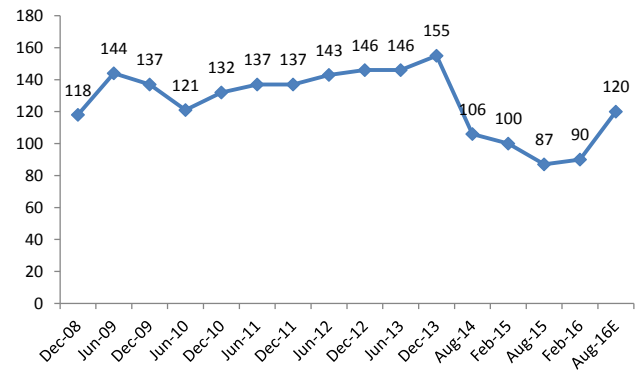
However, historically, EBIT margin is more volatile, with EBITM having dropped to 4.6% in 2008 and 4.1% in 2012 before recovering to 8.8% in FY16.

Figure 15: Sportswear GPM trend and EBITM trend



Source: Deutsche Bank estimates, Company data

Figure 16: Sportswear inventory trend – restocking by tier 1 brands likely to help SSS moving forward



Source: Deutsche Bank estimates, Company data



Figure 17: Key assumptions for the whole group

Belle	Annual					
YE Dec	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18	Feb-19
RMBm						
	A	A	A	F	F	F
Store assumptions						
Total No of stores	19,177	20,557	20,873	20,808	21,015	21,204
Footwear	13,252	14,128	13,762	13,110	12,848	12,591
Sportswear	5,925	6,429	7,111	7,698	8,168	8,613
Net increase	100	1,380	316	(65)	208	188
Footwear	69	876	(366)	(652)	(262)	(257)
Sportswear	31	504	682	587	470	445
%growth						
Total No of stores	1%	7%	2%	0%	1%	1%
Footwear	1%	7%	-3%	-5%	-2%	-2%
Sportswear	1%	9%	11%	8%	6%	5%
% Mix						
Total No of stores	100%	100%	100%	100%	100%	100%
Footwear	69%	69%	66%	63%	61%	59%
Sportswear	31%	31%	34%	37%	39%	41%
Avg store number	19,127	19,867	20,715	20,840	20,912	21,110
Footwear	13,218	13,690	13,945	13,436	12,979	12,719
Sportswear	5,910	6,177	6,770	7,404	7,933	8,390
%growth	4.4%	3.9%	4.3%	0.6%	0.3%	0.9%
Footwear	5%	4%	2%	-4%	-3%	-2%
Sportswear	4%	5%	10%	9%	7%	6%
Sales per avg store RMB m	1.92	2.01	1.97	2.01	2.10	2.20
Footwear	1.66	1.66	1.48	1.36	1.34	1.34
Sportswear	2.45	2.75	2.91	3.11	3.30	3.45
%growth						
Footwear	-4.4%	-0.4%	-10.5%	-8.0%	-2.0%	0.0%
Sportswear	-0.3%	12.1%	6.0%	7.0%	5.8%	4.7%
Reported sssg						
Footwear		-4%	-11%	-8%	-2%	0%
Sports brand		10%	8%	7%	6%	5%
Sales assumptions						
Sales	36,794	40,008	40,790	41,820	43,949	46,439
Footwear	22,312	23,037	21,074	18,757	17,796	17,466
Sportswear	14,482	16,971	19,716	23,064	26,153	28,973
% growth	2%	9%	2%	3%	5%	6%
Footwear	0%	3%	-9%	-11%	-5%	-2%
Sportswear	4%	17%	16%	17%	13%	11%
%Mix	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Footwear	60.6%	57.6%	51.7%	44.9%	40.5%	37.6%
Sportswear	39.4%	42.4%	48.3%	55.1%	59.5%	62.4%
GPM assumptions						
GPM	57.4%	57.6%	56.3%	54.2%	52.4%	51.7%
Footwear	68.80%	69.20%	67.30%	67.90%	67.80%	67.80%
Sportswear	39.78%	41.95%	44.50%	43.00%	42.00%	42.00%
EBIT assumptions						
EBIT	5,665	6,194	5,558	5,003	4,739	4,862
EBIT (Core)	5,666	6,194	5,558	5,003	4,739	4,861
Segment results	5,787	6,301	5,686	5,132	4,869	4,993
Footwear	5,078	5,088	3,944	3,079	2,646	2,588
Sportswear	708	1,213	1,742	2,053	2,223	2,405
Others	(121)	(107)	(128)	(128)	(130)	(132)
Margin	15.7%	15.7%	13.9%	12.3%	11.1%	10.8%
Footwear	22.76%	22.09%	18.71%	16.42%	14.87%	14.82%
Sportswear	4.9%	7.1%	8.8%	8.9%	8.5%	8.3%

Source: Deutsche Bank estimates, Company data



Figure 18: Half-year estimates

YE Feb RMBm	1H	2H	FY14	1H	2H	FY15	1H	2H	FY16	1HF	2HF	FY17F
Sales	16,739	20,056	36,794	18,556	21,452	40,008	19,360	21,431	40,790	19,562	22,258	41,820
Footwear	9,715	12,597	22,312	10,355	12,682	23,037	9,836	11,239	21,074	8,428	10,329	18,757
Sportswear	7,024	7,459	14,482	8,201	8,770	16,971	9,524	10,192	19,716	11,135	11,929	23,064
% Change				10.9%	7.0%	8.7%	4.3%	-0.1%	2.0%	1.0%	3.9%	2.5%
Footwear				6.6%	0.7%	3.2%	-5.0%	-11.4%	-8.5%	-14.3%	-8.1%	-11.0%
Sportswear				16.8%	17.6%	17.2%	16.1%	16.2%	16.2%	16.9%	17.0%	17.0%
Sales split %	45.5%	54.5%	100%	46.4%	53.6%	100%	47.5%	52.5%	100%	46.8%	53.2%	100%
Footwear	43.5%	56.5%	100%	44.9%	55.1%	100%	46.7%	53.3%	100%	44.9%	55.1%	100%
Sportswear	48.5%	51.5%	100%	48.3%	51.7%	100%	48.3%	51.7%	100%	48.3%	51.7%	100%
EBIT	2,498	3,288	5,787	2,780	3,520	6,301	2,901	2,785	5,686	2,546	2,585	5,132
Footwear	2,076	3,003	5,078	2,171	2,917	5,088	1,900	2,044	3,944	1,433	1,646	3,079
Sportswear	423	286	708	609	603	1,213	1,001	741	1,742	1,113	939	2,053
% Change				11.3%	7.1%	8.9%	4.3%	-20.9%	-9.7%	-12.2%	-7.2%	-9.8%
Footwear				4.6%	-2.9%	0.2%	-12.5%	-29.9%	-22.5%	-24.6%	-19.5%	-21.9%
Sportswear				44.1%	111.3%	71.2%	64.3%	22.8%	43.7%	11.2%	26.7%	17.8%
EBIT split %	43.2%	56.8%	100%	44.1%	55.9%	100%	46.0%	44.2%	100%	40.4%	41.0%	100%
Footwear	40.9%	59.1%	100%	42.7%	57.3%	100%	48.2%	51.8%	100%	46.5%	53.5%	100%
Sportswear	59.7%	40.3%	100%	50.2%	49.8%	100%	57.5%	42.5%	100%	54.2%	45.8%	100%
EBITM	14.9%	16.4%	15.7%	15.0%	16.4%	15.7%	15.0%	13.0%	13.9%	13.0%	11.6%	12.3%
Footwear	21.4%	23.8%	22.8%	21.0%	23.0%	22.1%	19.3%	18.2%	18.7%	17.0%	15.9%	16.4%
Sportswear	6.0%	3.8%	4.9%	7.4%	6.9%	7.1%	10.5%	7.3%	8.8%	10.0%	7.9%	8.9%
NP (core)	1,931	2,471	4,402	2,078	2,678	4,764	2,158	2,132	4,291	1,937	1,970	3,907
% Change				7.6%	8.4%	8.2%	3.9%	-20.4%	-9.9%	-10.2%	-7.6%	-8.9%
NP split %	43.9%	56.1%	100%	43.6%	56.2%	100%	50.3%	49.7%	100%	49.6%	50.4%	100%
NPM	11.5%	12.3%	12.0%	11.2%	12.5%	11.9%	11.1%	10.0%	10.5%	9.9%	8.8%	9.3%

Source: Deutsche Bank estimates, Company data, Note: 2HFY16 core NP excludes a RMB1.26bn impairment write-down for its ladies footwear business.

Figure 19: Valuation table for footwear brands

Ticker	Company	Recom (12 mth)	Target Price	Share Local	Price	Mkt Cap (USDm)	Rpt. Ccy	Y/E	Headline PE FY16	PE FY17	PB FY16	PB FY17	Div Yield FY16	Div Yield FY17	ROE FY14	ROE FY15	Net Debt/ Equity (%)
China ladies footwear retailers																	
1880.HK	Belle	Buy	6.3	5.4	5,943	CNY	Feb	10.1	10.6	1.4	1.4	5.9	5.7	18.6	17.2	-31.1	
0210.HK	Daphne	na	na	1.1	230	HKD	Mar	-5.9	-21.2	0.4	0.4	0.0	0.9	3.5	-8.0	-9.7	
1028.HK	C.Banner	na	na	2.3	615	HKD	Dec	22.9	19.1	2.4	2.4	1.0	2.0	14.8	15.4	21.7	
002291.SZ	Foshan Saturday	na	na	13.6	814	CNY	Dec	146.3	113.4	3.0	3.0	0.2	0.2	2.2	1.3	17.5	
603001.SS	Aokang	na	na	21.1	1,265	CNY	Dec	20.4	17.9	2.1	2.1	2.1	2.2	6.8	9.8	-17.8	
0738.HK	Le Saunda	na	na	1.7	150	HKD	Feb	7.9	11.0	0.8	0.8	0.0	0.0	20.6	15.6	-40.6	
1836.HK	Stella	na	na	13.3	1,364	USD	Dec	15.9	14.3	1.4	1.4	0.7	0.7	12.8	12.5	-17.1	
Average								31.1	23.6	1.7	1.6	1.4	1.7	11.3	9.1	-11.0	

Source: Deutsche Bank estimates, Bloomberg Finance LP, closing price as of 23 Sep 2016



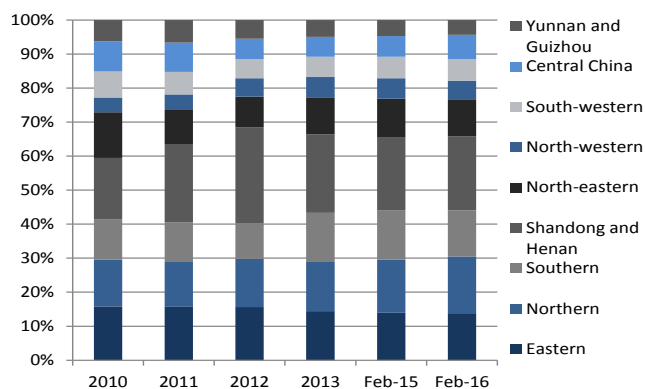
Appendix A

Store network data

(In terms of expansion trends for tier 1 brands vs. tier 2 brands in sportswear)

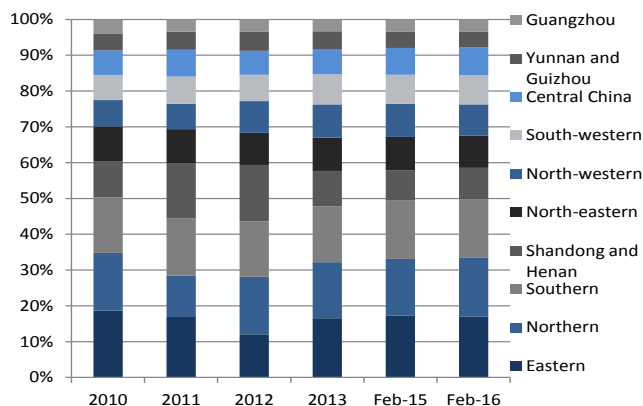
- Different from that of its footwear business, which has the biggest network in South China, **the biggest market for Belle's sportswear is Shandong and Henan**. Management explained that performance has been very strong in this area. Thus, the regional manager, **Yu Wu, was promoted as executive director and head of the sportswear division in July 2015**. (Figure 20 and Figure 21).
- For **tier 1 brands, Belle has diversified its concentration** from Eastern China to other markets such as North China, Shandong and Henan and Southern China (Figure 22).
- However, for **tier 2 brands, which tripled to 1,246 stores since 2007**, it has increased its coverage in East, North and South China. Store growth for tier 2 brands started to pick up in 2016, with 19% growth, as this is one of the **key drivers for sports fragmentation** (Figure 23).

Figure 20: Belle sportswear store network



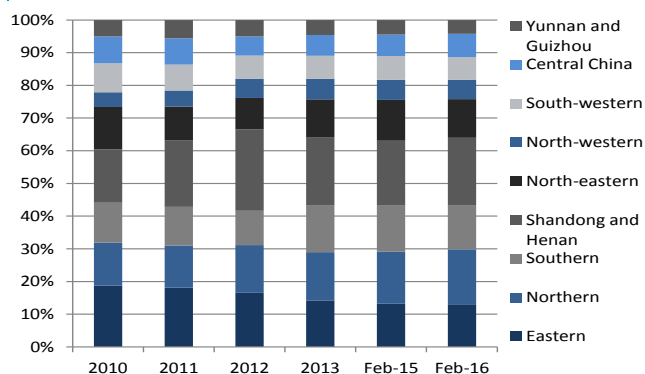
Source: Deutsche Bank, Company data, Note: Guangzhou is grouped under Southern China, the company changed YE from Dec to Feb from Feb-14.

Figure 21: Belle footwear store network



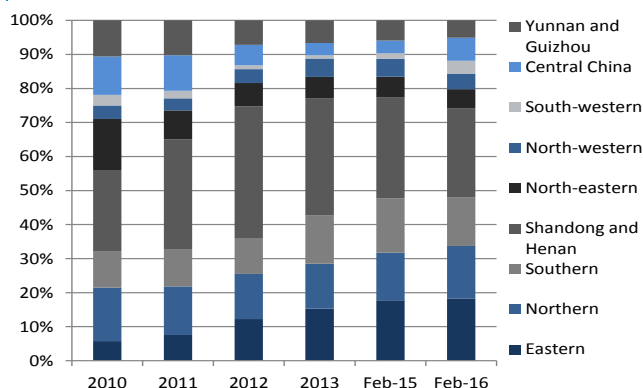
Source: Deutsche Bank, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 22: Belle sportswear store network (tier 1 brands)



Source: Deutsche Bank, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

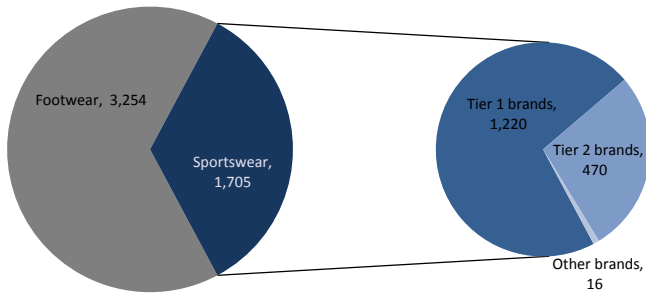
Figure 23: Belle sportswear store network (tier 2 brands)



Source: Deutsche Bank, company data, Note: the company changed YE from Dec to Feb from Feb-14.

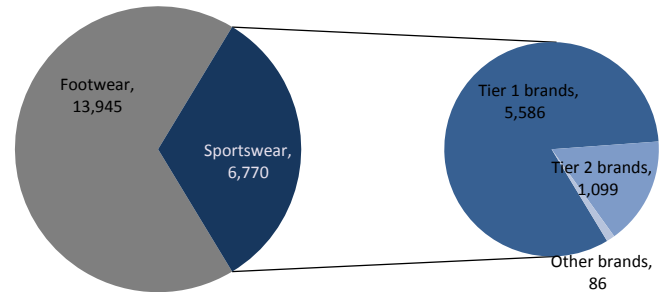


Figure 24: Belle store network in 2007



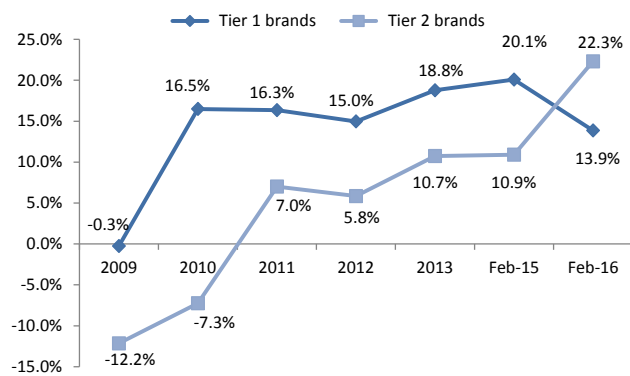
Source: Deutsche Bank, Company data

Figure 25: Belle store network in 2016



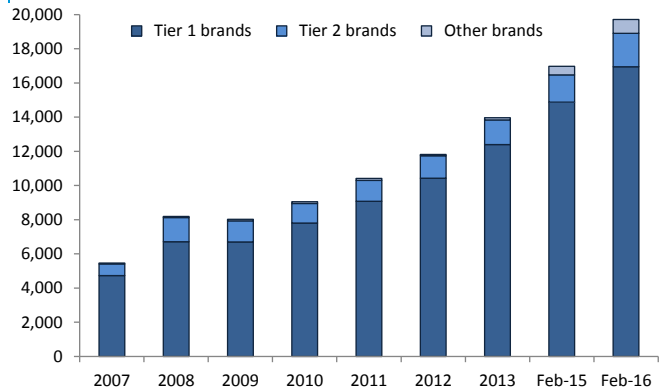
Source: Deutsche Bank, Company data

Figure 26: Sales growth of first tier brands vs. tier 2 sports brands



Source: Deutsche Bank, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

Figure 27: Store mix of first tier brands vs. tier 2 sports brands



Source: Deutsche Bank, Company data, Note: the company changed YE from Dec to Feb from Feb-14.

A quick history of its sportswear operation

Belle, under Top Sports, operates the largest sportswear network in China, with its head office in Shanghai. Starting as a manufacturer/wholesaler of ladies shoes, Belle then forged into retail in September 2005 and sportswear in June 2006. However, investment had already been made several years earlier through Belle Investment before consolidating into a listco. Unlike the footwear business, which is vertically integrated, its sportswear business is engaged in distribution and retail. It is one of the two Nike (NKE.N Buy) and Adidas (ADSGn.DE Buy) distributors, with nationwide coverage.

Its sportswear business has grown rapidly through organic growth and acquisitions from 1,052 stores in 2006 to 7,221 stores as of 31 May 2016, a 7x increase with sales growth from RMB1.6bn (six-month contribution as it was acquired in mid-2006) to RMB19.7bn.

For reference, by retail format, around 70% of the business is located in department stores, ~10% is in shopping malls, ~5% in online sales, and the rest in street-level stores.



The size of the retail outlets ranges from c. 60-300sm for sportswear brands. The number of employees per store depends upon size, location and type of store, but a typical store needs ~4-5 sales staff. The company underwent an IT upgrade last year, resulting in real-time POS uploads of sales and inventory data to its head office.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Belle International	1880.HK	5.42 (HKD) 23 Sep 16	14,15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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Historical recommendations and target price: Belle International (1880.HK)
(as of 9/23/2016)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

**Analyst is no longer at Deutsche Bank

1. 28/10/2014:	Buy, Target Price Change HKD12.00 Anne Ling	4. 27/10/2015:	Buy, Target Price Change HKD10.58 Anne Ling
2. 27/05/2015:	Buy, Target Price Change HKD12.40 Anne Ling	5. 01/04/2016:	Buy, Target Price Change HKD6.49 Anne Ling
3. 26/08/2015:	Buy, Target Price Change HKD11.19 Anne Ling	6. 27/05/2016:	Buy, Target Price Change HKD6.26 Anne Ling

Equity rating key

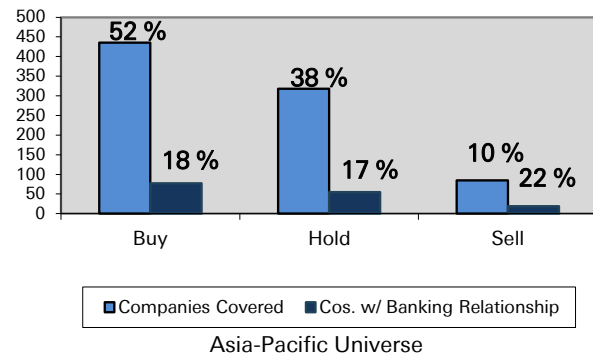
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



Regulatory Disclosures

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