

**Analyst: Anita Hwang**

## **Main Board Listing – Research**

Belle International Holdings Limited [Stock Code:1880] (百麗國際控股有限公司)
**Joint global coordinators, joint bookrunners, joint sponsors and joint lead managers** : Morgan Stanley Credit Suisse

**Sector** : Consumer Durables & Apparel

**Business** : Manufacture and retailing of footwear and sportswear

<b>Total share offer:</b> <u>1,396,226,000</u> shares (17 % of the enlarged share capital)  <b>Public Offer:</b> 139,624,000 shares (10%) <b>Placing:</b> 1,256,602,000 shares (90%) <b>Greenshoe:</b> 209,433,000 shares <b>Price:</b> HK\$5.35 – HK\$6.20 per share <b>Market Cap:</b> HK\$44.04 – HK\$51.04 billion <b>FY06 PER:</b> 35.7X – 41.4X <b>Adjusted NTA per share:</b> HK\$0.97 – HK\$1.09 <b>Staffing:</b> 33,995	<b><u>Business of Belle international (Belle)</u></b>  Belle International is the largest retailer of ladies' footwear in the PRC, based on sales revenue. Belle offers a wide range of footwear under eight brands, six of which are own brands (Belle, Staccato, Teemix, Tata, Fato and JipiJapa) and two of which are licensed brands (Joy & Peace and Bata). Belle is also one of the largest retailers of sportswear in the PRC. In 2006, Belle was the largest retailer in the PRC for both Nike and Adidas.  Belle expanded its business scope to include PRC footwear retail in Sept 2005 and acquisition of sportswear business in June 2006. At end of 2006, Belle directly controlled and managed a nationwide retail network of 3,828 retail outlets in 150 cities in the PRC and a network of 35 retail outlets in HK, Macau and the US.  Belle has a vertically integrated business model which comprises product design and development, production, marketing and promotion, distribution and retail.
<b>HK Public Offer period:</b> 9 <sup>th</sup> May 07 – 14 <sup>th</sup> May 07 noon  <b>Receiving bank:</b> HSBC Bank of Communications  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 23 <sup>rd</sup> May 2007	

### **Major Shareholders after Listing (Assuming the over-allotment option is not exercised)**

Mr. Tang Yiu (Founder, Chairman and Executive Director), Mr. Sheng Baijiao (CEO and Executive Director) and Ms. Tang Wing Sze (daughter of Mr. Tang Yiu)	51.4%
Best Quality (one of the major shareholder of Belle before Belle's expansion into retail footwear business in 2005)	15.2%
Essen (a company of which the top 5 shareholders were individual distributors to Belle)	8.4%
	<u>75.0%</u>

#### **\*Corporate Investors:**

- Groupe Arnault (the parent company of LVMH Moet Hennessy) has agreed to subscribe for HK\$234.6 million worth of shares (approximately 2.91% of the total share offer and 0.49% of the enlarged share capital).
- Cephei Absolute Return Fund Limited has agreed to subscribe for USD10.0 million worth of shares (approximately 0.97% of the total share offer and 0.16% of the enlarged share capital).

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$6,496.8 million. *(Being the mid-point of the offer price range [HK\$5.775 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For expansion plans which include acquiring companies or forming alliances with strategic partners	27%–31% (1,754 – 2,014)
For expansion of retail network for footwear and sportswear businesses by opening new retail outlets and establishing new retail sports complexes	24%–25% (1,559 – 1,624)
For expansion of production and warehouse capacity and logistics centres and for construction of additional office facilities	18%–20% (1,169 – 1,299)
For payment of existing bank borrowings	14% (910)
For promotional and marketing activities, as well as upgrade of brand image of self-owned brands	5% (325)
For establishment of research and development centres for products	2% (130)
For general working capital	Balance

**Financial Highlights**

(RMB million)	Year ended 31 Dec		
	2004	2005	2006
Turnover	870.5	1,731.8	6,238.5
Gross profit	212.0	957.1	3,500.7
Operating profit	99.5	292.3	1,023.2
<b>Net profit</b>	<b>75.1</b>	<b>234.9</b>	<b>976.6</b>
Gross margin	24.4%	55.3%	56.1%
Operating margin	11.4%	16.9%	16.4%
Net margin	8.6%	13.6%	15.7%

**Turnover Breakdown by business activities (% of Total turnover)**

	For the year ended						For the six months ended 30 Jun 2006		For the six months ended 31 Dec 2006	
	2004		2005		2006					
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Footwear										
Retail	123.1	14.2	1,354.2	78.2	4,147.3	66.5	1,835.5	89.0	2,311.8	55.4
Wholesale	696.8	80.0	260.7	15.1	360.3	5.8	137.0	6.6	223.3	5.3
OEM	50.6	5.8	116.9	6.7	154.2	2.5	89.4	4.4	64.8	1.6
Sportswear										
Retail	-	-	-	-	1,284.4	20.5	-	-	1,284.4	30.8
Wholesale	-	-	-	-	292.3	4.7	-	-	292.3	7.0
<b>Total</b>	<b>870.5</b>	<b>100.0</b>	<b>1,731.8</b>	<b>100.0</b>	<b>6,238.5</b>	<b>100.0</b>	<b>2,061.9</b>	<b>100.0</b>	<b>4,176.6</b>	<b>100.0</b>

**Strengths/Opportunities**

- ✓ **Market leadership via multi-brand strategy** According to the statistics from the China Industrial Information Issuing Centre, Belle was the largest ladies' footwear brand in the PRC for the past 10 years in terms of sales revenue, while Teenmix, Staccato and Tata were ranked fourth, eighth and tenth, respectively, for the year ended 31 Dec 2006. Belle, Teenmix, Staccato and Tata aggregately accounted for a combined market share of 17.7% for 2006. Belle adopted the multi-brand strategy by offering products at a wide range of retail prices (RMB 300 to RMB2,000) to different target customer segments. The brands are mainly positioned in the mid to high-end of the market. Comparing with peers in the footwear retail business (e.g. Prime Success, LeSaunda, Hongguo, Mirabell), Belle should continue to capture significant market share among each market segments.



- ✓ **Strong retail network** As Belle currently directly controls and manages 3,828 retail outlets in 150 cities in the PRC, this allows it to be in close touch with market trends and feedback valuable information for marketing, product development and inventory management. The locations of the outlets are mostly in prime department stores or street-level stores in strategic locations. At end of 2006, about 81.4% of the outlets are located in major department stores and sales in those outlets accounted for 73.4% of total turnover in 2006.
- ✓ **Higher margin than its peers** Comparing with its peer groups in the footwear retail business, Belle generated a mere 2.5% of total turnover from OEM business, which is often at a lower profit margin. This contrasted with Prime Success (0210.HK) and Hongguo (HUGO SP), which generated 36% and 17% of their FY06 turnover from OEM business respectively. Also, there is a difference between the 3 companies' average selling price (ASP) of the products: Belle (RMB300-RMB2,000), Prime Success (RMB200-RMB300) and Hongguo (RMB400-RMB600). Hence, Belle had the highest gross profit margin of 56% (versus Prime Success' 45% and Hongguo's 39%) in FY06.
- ✓ **Fair Valuation** Belle did not give specific profit forecast for FY07. According to consensus syndicate projections, the pro-forma FY07E PER ranges between 28.9X – 33.4X. Close peers, such as Prime Success (0210.HK), LeSaunda (0738.HK) and Mirabell (1179.HK) trade at average FY07 PER of 26.2X. However, these peers do not have sportswear business and their profit margins are lower than that of Belle. Meanwhile, sportswear retail player such as Li Ning (2331.HK) trades at 38.2X FY07E PER. We think Belle's valuation is fair given its higher profit margin and market leadership.

## **Weaknesses/Threats**

- × **Non-comparable historical performance** Belle recorded spectacular growth in turnover (6 times) and net profit (12 times) during FY2004 to FY2006 thanks to expansion in business scope in 2005 into footwear retail business and acquisition of sportswear business in June 2006. The growth in turnover and net profit was largely attributable to the expansion of business scope rather than a reflection of growth of business segments. Also, the number of self-managed retail outlets increased from 2,026 at the end of FY2005 to 3,828 at the end of FY2006. The future performance of Belle hinges on how well the rapid growth in retail network is managed and can translate into robust growth in the bottom-line.
- × **Short distributorship period** The Nike and Adidas distributorship agreements will both expire in 2008 and the distributorship agreements with Li Ning, Kappa and PUMA will expire in the later half of 2007. Belle is subject to renewal risk of those licenses.

**Recommendation:    Trading Buy**



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