



Company Report: Samsonite (01910 HK)

公司报告: 新秀丽 (01910 HK)

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A Multi-brand Strategy to Drive Growth, Initiate With “Buy”

多品牌策略驱动增长,首次给予“买入”评级

- **Samsonite, with its global well-recognized luggage brands and product distribution network will benefit from increasing global tourist arrivals.** UNWTO estimated global tourist arrivals to increase annually by 3.3% from 2010 to 2030.
- **Scale is a competitive advantage for a company with an industry leading status.** The Company benefits from economies of scale in R&D, marketing, distribution expansion and product sourcing. Leveraging on its global distribution network, newly acquired brands are expected to grow fast and be a driver for long term growth.
- **Strong US dollar against Euro and other currencies lowers the Company's revenue on a translation basis, while weak RMB and oil price enhance the gross margin; the overall effect on net profit is negative.** The increased FX and commodity price volatility indicates increased earnings uncertainty.
- **Initiate with a “Buy” rating and a TP of HK\$27.68.** Revenue is expected to grow at a CAGR of 13.8% from FY13 to FY16 driven by geographically deeper penetration of new brands. Also, net profit is expected to grow at a CAGR of 13.3% from FY13 to FY16. We value the Company at HK\$27.68 per share, representing 22.5x and 19.6x FY15 and FY16 PER respectively.
- **新秀丽拥有全球高知名度的行李品牌和产品销售网络,将受益于正在上升的全球旅游人数。**世界旅游组织估算,全球旅游人数从2010年2030年以3.3%的年复合增长率增长。
- **规模是有行业领先地位公司的竞争优势。**公司可在研发、市场营销、分销扩张和产品采购上享有规模经济。借助公司全球的销售网络,新收购的品牌预期可快速增长,并成为长期增长的驱动者。
- **美元兑欧元和其它货币的强势在换算上降低了营收,然而较弱的人民币和原油价格提升了毛利率,对于净利的整体效应是负面的。**外汇和商品价格波动性的上升使得公司的盈利不确定性增加。
- **首次给予“买入”评级和27.68港元的目标价。**预计营收从2013至2016年的年复合增长率为13.8%,主要由新品牌更深的区域渗透所驱动。同时预计净利从2013至2016年的年复合增长率为13.3%。我们定下公司每股27.68港元的目标价,分别相当于22.5倍和19.6倍2015年和2016年市盈率。

Rating:

Buy

Initial

评级:

买入 (首次研究)

6-18m TP 目标价:

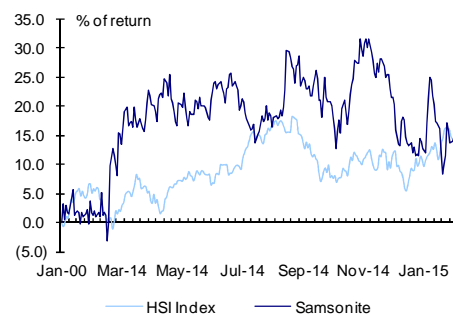
HK\$27.68

Share price 股价:

HK\$23.050

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(2.5)	(12.4)	11.6
Rel. % to HS index 相对恒指变动 %	(6.0)	(15.9)	(3.7)
Avg. share price(HK\$) 平均股价 (港元)	23.9	24.7	24.3

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入 (US\$ m)	Net Profit 股东净利 (US\$ m)	EPS 每股净利 (US\$)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (US\$)	PBR 市净率 (x)	DPS 每股股息 (US\$)	Yield 股息率 (%)	ROE 净资产收益率 (%)
FY12A	1,772	148	0.105	77.7	28.2	0.747	4.0	0.021	0.7	15.1
FY13A	2,038	176	0.125	18.6	23.8	0.848	3.5	0.027	0.9	15.7
FY14F	2,342	204	0.145	16.0	20.5	0.962	3.1	0.065	2.2	16.1
FY15F	2,666	224	0.159	9.5	18.7	1.041	2.8	0.072	2.4	15.9
FY16F	3,002	256	0.182	14.5	16.3	1.148	2.6	0.082	2.8	16.6

Shares in issue (m) 总股数 (m)	1,407.9	Major shareholder 大股东	JPMorgan Chase & Co. 11.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	32,455.0	Free float (%) 自由流通比率 (%)	95.1
3 month average vol. 3 个月平均成交股数 ('000)	4,398.5	FY15 Net gearing (%) 15 年净负债/股东资金 (%)	Net Cash
52 Weeks high/low (HK\$) 52 周高/低	28.050 / 19.920	FY15 Est. NAV (HK\$) FY15 每股估值 (港元)	28.1

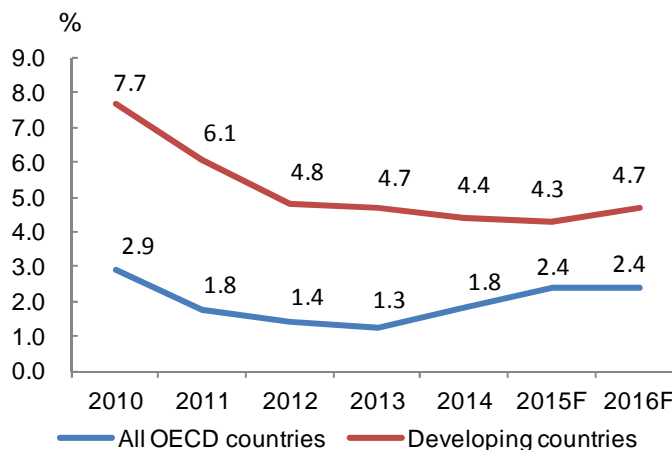
Source: the Company, Guotai Junan International.

Industry Analysis

Global luggage market can be divided into three primary segments, namely travel bag, business bag and casual bag. Travel bag comprises suitcase and carry-on, which are made of various sizes and materials. Business bag comprises briefcases and computer bags, which are primary for business use. Casual bag comprises broader types of products which are primary for daily uses, including different types of backpacks and shoulder bags. According to Frost & Sullivan, casual bag and travel bag are two larger segments with each accounted for approximately 40% of the total luggage market in 2010 and the business bag segment is smaller and accounted for approximately 20%.

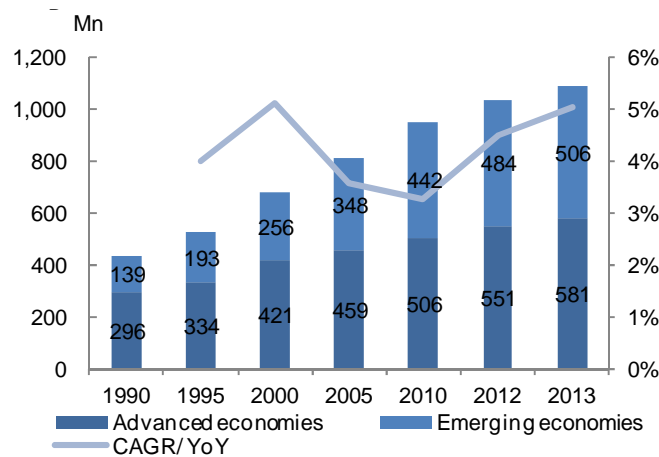
Global travel is to benefit from global economic growth. A research conducted by HIS Economics found that the propensity to travel, measured in trips or revenue passenger-kilometers (RPKs), generally increases with per capita income. The size of this increase varies considerably in different countries. Intuitively, markets that are more open will be more responsive to changes in per capita income as airlines are freer to add routes, frequencies, and seats to capture demand. Luggage market is expected to benefit from increasing global economic growth which is mainly driven by emerging markets, such as China and India. The World Bank forecasted that the economic growth in developing countries will continue to outpace that of developed countries.

Figure-1: GDP Growth of OECDs and Developing Countries



Source: The World Bank.

International tourist arrivals showed uninterrupted growth and persistent growth is expected. According to the data compiled by World Tourism Organization (UNWTO), international tourist arrivals worldwide showed persistent growth since 1990s. Global tourist arrivals grew at a CAGR of approximately 4.7% from 2010 to 2013 and were forecasted to grow between 4.0% and 4.5% in 2014. UNWTO further forecasted the number to increase annually by 3.3% from 2010 to 2030 and would reach 1.8 bn by 2030. Between 2010 and 2030, the growth rate for tourist arrivals in emerging destinations was expected to be faster than that of advanced economies (4.4% vs 2.2%).

Figure-2: International Tourist Arrivals


Source: World Tourism Organization (UNWTO).

Table-1: International Tourist Arrivals by Region

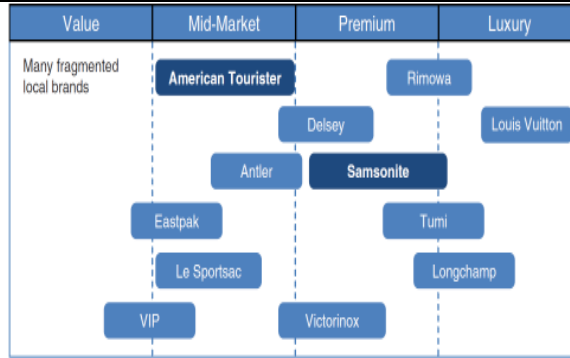
	International Tourist Arrivals (Mn)						
	1990	1995	2000	2005	2010	2012	2013
World	434	528	677	807	948	1,035	1,087
CAGR/ YoY		4.0%	5.1%	3.6%	3.3%	4.5%	5.0%
By UNWTO regions:							
Europe	261	304	388	449	485	534	563
Asia and the Pacific	56	82	110	154	205	234	248
Americas	93	109	128	133	151	163	168
Africa	15	19	26	35	50	53	56
Middle East	10	14	24	36	58	52	52

Source: World Tourism Organization (UNWTO).

Retail sales of global luggage market are expected to grow steadily. Frost & Sullivan valued the global luggage market at US\$24.7 bn in retail value in 2010 and was estimated to reach approximately US\$31.6 bn by 2015, representing a CAGR of 5.0%. Similar research conducted by Koncept Analytics revealed that the global luggage market was estimated to grow at a CAGR of 4.6% from 2012 to 2016 and reach US\$32.7 bn by 2016.

Global luggage industry is fragmented and most of the players operate in specific geographic regions. The majority of the larger global brands target mid-end, premium and luxury market and the value market is very fragmented with numerous local brands. According to a research conducted by Frost & Sullivan in 2010, Samsonite together with American Tourister had the largest market share of 9.6% followed by VF Corp of 3.1%. VF Corp is based in the US and has a portfolio of casual bag brands including Jansport, Kipling, Eastpak and The North Face. Tumi, Ace and Delsey each had a market share of around 1.2% to 1.6%. No other brand has a market share of more than 1% other than the brands mentioned above. Famous German luxury brand, Rimowa, had a market share of 0.6%. Though some luggage players are expanding globally, most of them have major geographical presence. For example, Rimowa, has major presence in Europe; Tumi in North America; VIP Industries in India and Crown in China. Samsonite Group is the only company that has a global presence.

Figure-3: Market Positioning of Major Luggage Brands



Source: The Company.

Figure-4: Major Global Luggage Brands

Rimowa



Source: Rimowa.

Tumi



Source: Tumi.

Louis Vuitton



Source: Louis Vuitton.

Victorinox



Source: Victorinox.

Company Analysis

Corporate Profile

Samsonite, founded in 1910, is the world's largest travel luggage company in terms of retail sales. The Company is principally engaged in the design, manufacture, sourcing and distribution of luggage, business and computer bags, outdoor and casual bags, travel accessories and slim protective cases for personal electronic devices throughout the world. The Company adopts a multi-brand strategy such that under the brand names of Samsonite, American Tourister, Hartmann, High Sierra, Gregory, Speck and Lipault. It offers a broad range of product categories to consumers around the world. The Company also sells products under other owned and licensed brand names. Samsonite brand being the core brand, accounted for 67.3% of the total sales in 1H14. American Tourister is the second largest revenue contributor of the Company, which accounted for 21.4% of the total revenue in 1H14.

History

Samsonite was founded in 1910 in Denver, the United States, as a trunk manufacturing company. In 1941, the Samsonite brand first appeared on the Streamlite suitcase. The Company expanded its brand portfolio in 1993 by acquiring a well-known luggage brand, American Tourister. In the same year, the Company was listed in the Nasdaq Smallcap Market. In 2002, the Company was delisted from the Nasdaq Smallcap Market and moved to the OTC Bulletin Board. It was then acquired by the CVC Funds in 2007. The Company started its corporate reorganization in 2009 and successfully listed in Hong Kong Stock Exchange in 2011. The Company has speeded up its brand acquisition in recent years. It acquired High Sierra and Hartmann in 2012 and further acquired Lipault, Speck and Gregory in 2014.

Brands and Products

We categorize the Samsonite's major brand portfolio into three groups: travel luggage, backpacks and protective case for electronic devices. Samsonite and American Tourister are two core travel luggage brands of the Company. Two brands have different positioning in a way that Samsonite targets the premium market while American Tourister targets the mid-market. The two brands combined contributed 88.7% of the total sales in 1H14. Hartman is a recently acquired luggage brand which acts as a complement to the other two travel luggage brands by positioning as a luxury brand. Lipault, a French fashionable luggage brand with a shorter brand history, targets female consumer and is another travel luggage brand. High Sierra and Gregory are two well-known backpack brands targeting the mid-market and premium market, respectively. Speck produces stylish and innovative cases for high-grade protection of mobile devices. The Company also sells products under some smaller local brands such as Saxoline and Xtrem.

Table-2: Brand and Product Summary

Brand	Founded Year	Main Product Offering	Sales (US\$ mn)		Product Positioning
			1H 2014	2013	
Samsonite	1910	Travel luggage	744	1,414	Premium
American Tourister	1933	Travel luggage	236	429	Mid-market
High Sierra	1978	Causal, outdoor and adventure luggage	53	72	Mid-market
Hartmann	1877	Travel luggage	8	16	Luxury
Lipault	2004	Fashionable luggage	na	7	Mid-market
Speck	2001	Protective cases for electronic devices	11	105	Premium
Gregory	1977	Outdoor backpack	na	35	Premium

Source: The Company, Guotai Junan International.

Figure-5: Samsonite's Brands and Products

Samsonite



American Tourister



Hartmann



High Sierra



Lipault



Gregory



Speck



Source: The Company.

Business Model

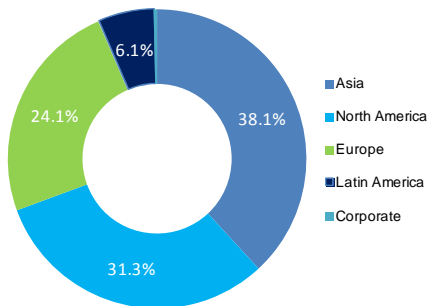
The Company adopts an asset light model allowing it to outsource a significant proportion of production to OEMs and sells its products to distributors on a wholesale basis. The Company sells its products in Asia, Europe, North America and Latin America. As of June 30 2014, it has more than 48,800 POS in over 100 countries. Products are sold through wholesale distribution, self-operated retail stores and e-commerce. Wholesale customers include department stores, specialty luggage stores, hypermarkets and warehouse clubs. Sales through wholesale channels accounted for 79.9% of total sales in 1H14. The Company outsources most of the productions to OEMs. About 80% of the production are outsourced, 60% in China and 20% in South-East Asia countries, such as Vietnam, Thailand and Bangladesh. The other 20% of the products are manufactured in-house. In-house productions involve only products using the patented Curv materials, which are used mainly in hard-side luggage, in order to protect intellectual property.

Competitive Advantages and Key Drivers

Scale is a competitive advantage for a sustainable industry leadership. The Company benefits from economies of scale in R&D, marketing, distribution expansion and product sourcing. We saw evolutionary changes in luggage materials used in recent years. Luggage brands compete in appearance design, weight, durability, functionality and innovation to cater ever changing consumer needs. Marketing and advertising help to boost and refresh brand image and to deliver the selling points of selected products to particular consumer group. Investment in product R&D and marketing are necessary for a company to maintain its competitiveness in the market. Large scale entitles the Company a higher bargaining power over its suppliers. Given the large scale and well-respected brands of the Company, it is easier to gain retail spaces in prime retail locations.

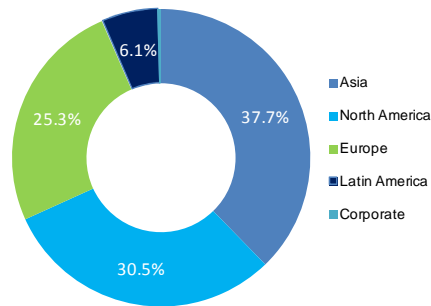
Geographical diversification in business ensures more stable revenue. The Company enjoys a global market exposure that it sells its products in more than 100 countries, both developed and emerging countries, in the world. It is positioned to benefit from the global travel growth and the diversification has largely reduced the risk from any single country or regional sales disruption.

Figure-6: Net Sales by region, 1H2014



Source: The Company.

Figure-7: Net Sales by region, 2013



Source: The Company.

A multi-brand strategy and a well-positioned brand portfolio that avoids cannibalization. To avoid cannibalization, no brands are targeting the same customer segment. For example, the two core brands Samsonite and American Tourister have a different positioning: Samsonite targets higher income group while the latter targets younger customers. The newly acquired Hartmann positioned as a luxury travel luggage brand. Two backpack brands, High Sierra and Gregory, also target different consumers. High Sierra targets young active consumers while Gregory's key customers are active outdoor and adventure enthusiasts.

Local taste customization to maintain competitiveness in every market. Products with different designs are offered in different countries to tailor to the local tastes. Each region has a local design team that develops products specifically for that region. Designers from each region share ideas and designs on a regular basis. For example, Asian design team is centrally coordinated in Hong Kong, whereas Japan, South Korea and China each has a local country team. European team is based in Oudenaarde, Belgium and Saltrio, Italy.

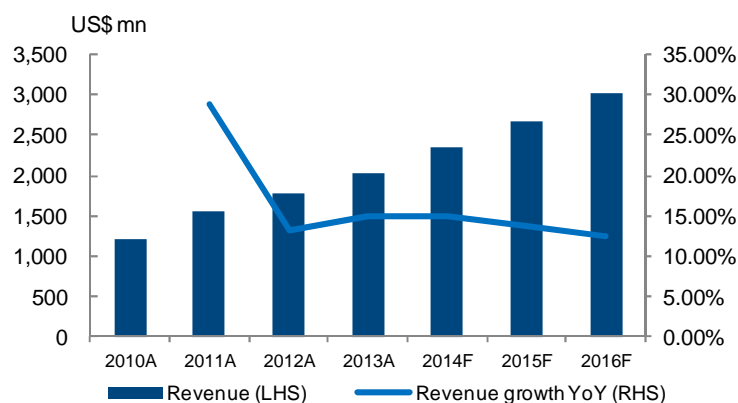
Decentralized management in operations while retaining centralized management over brand consistency, product sourcing and finance. Centralized and decentralized management has been an important topic in corporate management. Being a global luggage company selling products in more than 100 countries, the Company, in our view, has an effective management system which supports a sustainable business growth. Four regions, Asia, Europe, North America and Latin America, led by four regional management teams, enjoy a high degree of autonomy which ensures a fast operational decision-making on a regional level, including product design, product development, sales, marketing, sourcing and distribution. Other key management functions such as finance, treasury, legal and regional coordination are managed centrally. Too much regional autonomy, especially in marketing and advertizing, may cause some inconsistency in brand image; therefore, brand image is managed centrally.

Leveraging on the global distribution network, newly acquired brands and developed sub-brands are expected to grow fast. The Company has been actively looking for suitable luggage brand as acquisition targets in recent years. It had developed a sub-brand Samsonite Red and acquired 5 brands since 2012. We expect the Company to leverage on its global distribution, sourcing capability to expand the newly developed and acquired brands.

Financial Analysis and Forecasts

The Company experienced a fast growth phase from FY10 to FY13. Revenue grew from US\$1.2 bn for FY10 to US\$2.0 bn for FY13, representing a CAGR of 18.8%. The revenue growth is expected to slow down after years of fast growth but maintains a relatively high growth rate driven by brand acquisition and subsequent geographical expansion of the acquired brands. We forecast a three year CAGR of 13.8% from FY13 to FY16 for the revenue growth. Asia was the largest market which has contributed more than one-third of the revenue in last four years. Asia is expected to grow with a three year CAGR of 14.0% from FY13 to FY16. After several years of spectacular growth, the sales in China slackened in FY13 and FY14 due to anti-corruption measures and a higher base. Triggered by new product and new brand initiation, the Chinese market is expected to pick up in FY15 and FY16 with an expected low-teens YoY growth for both years. Through creating a new sub-brand Samsonite Red and brand acquisition, the Company has been increasing its exposure in casual products. As a percentage of total sales, casual product increased from 5% in 2011 to 12% in 1H2014. The launch of Samsonite Red sub-brand in 2012 has proven to be very successful. With the contribution of Samsonite Red, casual product sales surged by 34.1% and 87.6% YoY for FY12 and FY13 respectively. Casual product is expected to grow by more than 20% YoY for FY14.

Figure-8: Samsonite's Revenue Growth



Source: the Company, Guotai Junan International.

Table-3: Sales Contribution by Product Categories

Net sales by product category (US\$'000):	1H2014	2013	2012	2011	2010
Travel	797,758	1,515,852	1,357,054	1,186,683	885,944
% of sales	72%	74%	77%	76%	73%
Casual	134,764	205,871	109,743	81,849	112,213
% of sales	12%	10%	6%	5%	9%
Business	96,892	193,474	189,561	189,582	110,321
% of sales	9%	9%	11%	12%	9%
Accessories	54,418	85,745	79,662	70,786	50,186
% of sales	5%	4%	4%	5%	4%
Other	21,489	36,870	35,706	36,247	56,643
% of sales	2%	2%	2%	2%	5%
Net sales	1,105,321	2,037,812	1,771,726	1,565,147	1,215,307

Source: the Company.

Strong US dollar lowers the reported revenue on a translation basis. The US is expected to raise its benchmark rate in FY15. On the other hand, the Eurozone economy appears to be fragile and ECB has scaled up its asset-purchase programme. Euro has depreciated significantly against US dollar by 11.7% in FY14. We expect that Euro continues to be weak in FY15 and FY16 as the interest rate discrepancy between Eurozone and the US enlarges when the Fed starts its rate hike. Our sensitivity analysis suggests that 1% depreciation of Euro against US dollar would result in 0.26% decline in revenue and 0.28% decline in net profit. Asian currency, led by Renminbi (RMB), is expected to be relatively stable in FY15 and FY16 with a mild depreciation against US dollar. Latin American currency is expected to be weak due to sluggish global commodity demand, highlighted by slower economic growth in China.

Table-4: Our Assumptions of Currency Effect on Sales Growth

Net sales growth by region		2014F	2015F	2016F
YoY (local currency)				
	Asia	19.34%	14.71%	12.57%
	North America	20.39%	15.93%	13.07%
	Europe	20.29%	20.36%	14.65%
	Latin America	29.10%	25.58%	22.64%
YoY (reported sales)				
	Asia	15.91%	13.56%	12.57%
	North America	20.39%	15.93%	13.07%
	Europe	8.26%	12.54%	11.21%
	Latin America	10.94%	10.51%	16.51%
Currency effect				
	Asia	-3.43%	-1.15%	0.00%
	North America	0.00%	0.00%	0.00%
	Europe	-12.03%	-7.82%	-3.44%
	Latin America	-18.16%	-15.07%	-6.13%

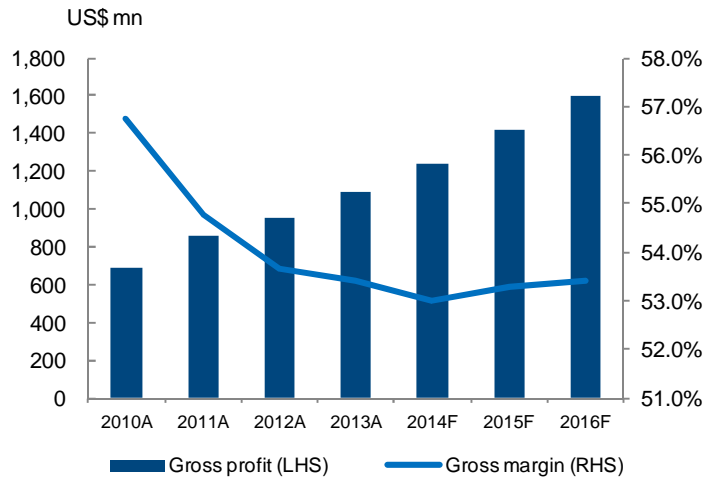
Source: Guotai Junan International.

Gross margin trended down due to strong RMB and change in product mix. Gross margin dropped gradually from 56.8% for FY10 to 53.4% for FY13 due to RMB appreciation because approximately 60% of the products were sourced in China. The high oil price during the period was also attributable to the shrinking margin. The appreciation of RMB against US dollar halted in FY14 and in fact RMB depreciated by 2.3%. With a higher vulnerability in Chinese economic growth and interest rate hike expectation in the US, we expect a weak RMB for FY15 and FY16. This is a positive for the gross margin. The increasing proportion of lower margin products, which have a higher growth rate than the core Samsonite brand, further dragged down the gross margin.

The up trending oil price from FY10 to FY13 was another reason for a shrinking gross margin as the price of plastics, heavily used in products, is highly correlated with the crude oil price. Crude oil price slumped in 4Q14 and continued to be weak in January FY15. The volatility has also increased significantly. The Company management pointed out that about 70% of the COGS comes from raw material which is mainly derived from oil. Due to a multiple-layer structure of its supply chain, raw material cost decline might not match the decline of crude oil price and there could be a time lag. WTI oil price declined by 42.6% in 4Q14 while that of Polyester and Polyvinyl Chloride (PVC) only declined by 14.0% and 7.5% respectively. We are expecting a weaker oil price for FY15 and FY16 comparing to that in FY13 and FY14. Our sensitivity analysis suggests that a 1.0% decline in the raw material price would result in 0.65% increase in gross profit and 2.6% increase in net profit, ceteris paribus.

Weak RMB and oil price supports a gross margin recovery for FY15 and FY16. We are forecasting a gross margin of around 53.0% for FY14, a drop of 0.4ppt YoY due to stronger oil price. Gross margin for FY15 and FY16 is expected to be around 53.3% and 53.4% respectively. The recent weakness in oil price is favorable to the short term stock price performance as there is a potential upward revision of gross margin forecast if the weak oil price lasts longer than expected.

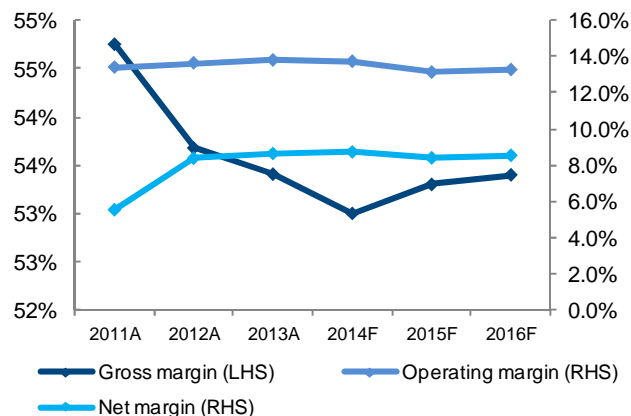
Figure-9: Samsonite's Gross Profit and Gross Margin



Source: the Company, Guotai Junan International.

Operating efficiency improved but is expected to decrease in the coming years due to stepping up marketing efforts for the newly acquired brands. Distribution, marketing and general administrative (SG&A) expenses as a percentage of turnover dropped persistently from 42.7% for FY10 to 39.4% for FY13. Operational efficiency was enhanced by economies of scale such that the marketing expenses as a percentage of turnover dropped from 8.4% for FY10 to 6.3% for FY13 and general & administrative expense as a percentage of turnover dropped from 8.0% for FY10 to 6.5% for FY13. We expected the SG&A as a percentage of turnover for FY14 to be around 39.0%, lower than the FY13 level of 39.4%. Owing to higher marketing expense budget for newly acquired brands, we expect SG&A as a percentage of turnover to be 40.0% for both FY15 and FY16, an increase of 0.6 ppt YoY for FY15 and flat for FY16.

Figure-10: Samsonite's Profitability



Source: the Company, Guotai Junan International.

The Company has a diversified global market exposure such that the effective tax rate is expected to be stable and depends on the global mix in profitability. The effective tax rate is calculated using a weighted average income tax rate from various tax jurisdictions in which the Company has its business. The effective tax rate was 25.8% and 27.0%, respectively, for FY12 and FY13. The increase in effective tax rate was due to a higher proportion of profit derived from the US which is a relatively higher tax jurisdiction. We expect that the effective tax rate for FY14/15/16 to be around 27.0% as the global mix is pretty stable.

Net profit is expected grow at a CAGR of 13.3% from FY13 to FY16. The Company's net profit had a significant growth of a CAGR of 49.3% from FY11 to FY13 after the corporate restructuring and listing in Hong Kong Stock Exchange. We expect the net profit for FY14-FY16 to grow by 16.0%, 9.5% and 14.5% respectively. The lower expected growth rate for FY15 is due to higher marketing expenses projection. Net profit margin is expected to increase marginally from 8.6% for FY13 to 8.7% in FY14 to factor in better operational efficiency. Our EPS forecasts for FY14/15/16 are RMB0.145/0.159/0.182 respectively. Recent strong US dollar against Euro lowers the revenue on a translation basis, while a weaker RMB and crude oil price enhances the gross margin, the overall effect on net profit is negative and has been reflected in recent weak stock price performance. The increased FX and commodity price volatility indicates an increased earning uncertainty.

Capital expenditure is expected to be stable. About 20% of the products, mostly hard-side luggage using the patented Curv materials, are manufactured in-house. The capital expenditure is mainly used to expand in-house production capacity to meet increasing product demand, enhance Company's IT system and open more retail stores in Asia. Excluding the brand acquisition, our capital expenditure forecasts for FY14/15/16 are US\$65.6/68.9/77.6 mn respectively.

Dividend payout ratio is expected to increase due to strong liquidity position and stable operating cash flow. The Company is in a strong liquidity position that it had a net cash of US\$110 mn as of end of 1H14. The Company had strong operating cash flow to support its brand acquisition and a higher dividend payment. Dividend payout ratio increased from around 20% in FY12 to around 40% in FY13. Given its ample liquidity, we expect the Company to increase the payout ratio further in FY14/15/16 to around 45% for each of the three years.

Table-5: Key Assumptions and Adjustments

US\$ mn	FY12A	FY13A	FY14F	FY15F	FY16F
Revenue	1,772	2,038	2,342	2,666	3,002
Asia	684	768	891	1,011	1,139
North America	500	622	748	868	981
Europe	465	515	558	628	698
Latin America	113	124	137	152	177
Others	10	9	9	8	8
Gross profit	951	1,088	1,242	1,421	1,603
Operating profit	242	281	322	350	399
Net profit	148	176	204	224	256
Basic EPS (US\$)	0.105	0.125	0.145	0.159	0.182
Gross profit margin	53.7%	53.4%	53.0%	53.3%	53.4%
Operating profit margin	13.6%	13.8%	13.7%	13.1%	13.3%
% A&P to turnover	39.8%	39.4%	39.0%	40.0%	40.0%
Effective tax rate	25.8%	27.0%	27.0%	27.0%	27.0%
Net profit margin	8.4%	8.6%	8.7%	8.4%	8.5%

Source: Guotai Junan International.

Peer Comparison and Valuation

The Company has no direct comparable due to some unique characteristics, such as product offerings and global presence. Tumi Holdings (TUMI US), listed in the United States, is positioned as a luxury luggage brand while Samsonite is positioned as premium brand. The Company has also acquired different brands in recent years to have a broad range of product and brand portfolio while Tumi focuses only on luggage products. Samsonite has global presence that it sells its products in more than 100 countries. We found no other luggage manufacturer has comparable geographical coverage. To select comparable companies for valuation purpose, we believe that two criteria have to be met: (1) global presence; (2) high-end products. Some global luxury brands and leading sportswear companies are also selected as comparables peers for valuation. We value the Company at HK\$27.24 per share based on a target FY15 PER of 22.1x, which is the mean value of the weighted average PER in the three categories listed below.

Table-6: Peer Comparison

Company	Stock Code	Currency	Last price	Market Cap HK\$ mn	PE(x)				PB(x)				ROE(%)	D/Y(%)	EV/EBITDA(x)	Gross Margin(%)	Operating Margin(%)
					13A	14F	15F	16F	13A	14F	15F	16F	14F	14F	14F	14F	14F
Luggage																	
SAMSONITE	1910 HK	HKD	23.05	32,455	23.8	19.7	17.4	14.8	3.5	3.2	2.8	2.5	16.4	2.2	10.8	52.7	13.9
TUMI	TUMI US	USD	23.20	12,210	29.0	27.3	22.7	19.3	4.3	3.7	3.2	2.7	n.a.	0.0	13.8	58.1	17.8
Simple Average					26.4	23.5	20.1	17.1	3.9	3.4	3.0	2.6	16.4	1.1	12.3	55.4	15.8
Weighted Average					25.2	21.7	18.8	16.0	3.7	3.3	2.9	2.6	11.9	1.6	11.6	54.2	15.0
Luxury Brands																	
PRADA*	1913 HK	HKD	46.80	119,753	26.6	27.9	25.1	21.9	4.8	4.6	4.1	3.7	25.1	2.0	11.9	73.8	26.2
LVMH	MC FP	EUR	144.50	652,061	21.0	13.0	18.7	17.0	2.7	2.8	2.6	2.4	12.1	2.2	10.9	65.1	17.7
CHRISTIAN DIOR	CDI FP	EUR	153.60	248,093	19.2	19.3	16.7	14.0	2.5	2.3	2.1	2.0	12.4	2.1	6.9	65.8	19.5
KERING	KER FP	EUR	177.80	199,513	18.8	18.9	16.1	14.4	2.1	2.0	1.9	1.7	10.2	2.2	13.4	63.0	17.0
MICHAEL KORS*	KORS US	USD	72.22	115,313	19.0	17.3	15.0	13.3	6.6	5.6	4.2	3.2	46.4	0.0	16.5	60.9	30.5
BURBERRY	BRBY LN	GBP	1,771.00	92,594	30.4	24.1	23.3	20.9	7.7	6.7	5.7	5.0	29.6	2.3	9.6	71.2	20.1
COACH*	COH US	USD	38.69	82,681	15.4	20.4	19.3	16.1	4.2	4.2	3.9	3.4	32.4	3.9	6.7	68.6	23.3
HUGO BOSS	BOSS GY	EUR	113.60	71,081	23.8	21.8	19.1	17.3	11.0	9.4	8.1	7.0	45.7	3.2	13.1	66.1	18.7
SALVATORE FERRAGAMO	SFER IM	EUR	26.30	39,366	29.5	29.3	24.9	22.0	12.1	9.8	8.0	6.6	35.3	1.7	15.9	63.5	17.6
TOD'S	TOD IM	EUR	91.10	24,784	20.8	26.7	24.7	22.5	3.5	3.4	3.2	3.0	13.1	2.6	13.5	62.4	15.9
Simple Average					22.4	21.9	20.3	18.0	5.7	5.1	4.4	3.8	26.2	2.2	11.9	66.0	20.6
Weighted Average					21.3	18.0	18.8	16.7	4.0	3.7	3.2	2.9	19.3	2.2	11.1	65.8	19.8
Sportswear																	
NIKE*	NKE US	USD	93.35	625,374	27.7	26.3	22.8	19.6	6.9	6.5	5.5	5.4	24.5	1.2	15.0	44.8	13.2
ADIDAS	ADS GR	EUR	63.64	118,337	16.9	20.7	18.7	15.9	2.4	2.3	2.2	2.0	11.3	2.1	10.2	48.1	6.7
UNDER ARMOUR	UA US	USD	72.83	120,684	47.3	77.2	61.3	48.6	7.3	11.9	10.1	8.6	17.3	0.0	36.4	49.2	11.5
Simple Average					30.6	41.4	34.2	28.0	5.5	6.9	5.9	5.3	17.7	1.1	20.6	47.3	10.5
Weighted Average					29.0	32.6	27.6	23.1	6.3	6.7	5.7	5.4	21.7	1.2	17.4	45.8	12.1
Overall																	
Simple Average					26.5	28.9	24.9	21.0	5.1	5.1	4.4	3.9	20.1	1.5	14.9	56.3	15.7
Weighted Average					24.0	23.0	21.8	18.9	4.8	4.7	4.1	3.7	20.0	1.8	13.2	58.8	17.1

Source: Bloomberg, Guotai Junan International. All forecasts are based on Bloomberg consensus.

* Note: The financial year end dates of these companies are not 31st December. For easier comparison with peers, "13A" means "FY14A" and "14F" means FY15F and so on.

Samsonite has positive and relatively stable free cash flow; we apply a three stage DCF model to value the Company.

As the Company has a very low level of debt and mostly short term debt, we believe that discounting free cash flow to equity (FCFE) is a better approach than free cash flow to firm (FCFF) to estimate the equity value. As the Company has acquired some brands in recent years and is expected to increase its investment in the newly acquired brands through higher marketing expenses and expanded distribution network. Therefore, the Company is expected to grow faster with the global expansion of the brands in coming years and is expected to slow down and stabilize afterwards. In the first stage of our DCF model, we assume a five-year high growth phase from FY15 to FY19. In the second stage, we assume another 5 years of relatively high growth rate such that the FCF growth decline linearly from 8% to a stable rate of 3% over the period. We value the Company at HK\$28.12 per share using the DCF valuation.

Table-7: DCF Assumptions and Calculations

Beta	0.629
Risk-free rate	1.75%
Risk premium	11.44%
Cost of equity	8.95%

Source: Guotai Junan International.

Table-8: DCF Valuation

Brand	2014F	2015F	2016F	2017F	2018F	2019F
Operating cash flow	231	265	307	368	389	436
Capital expenditure	(66)	(69)	(78)	(86)	(95)	(105)
Net borrowing	41	(16)	(11)	(8)	(6)	(4)
Free cash flow to equity	206	180	218	274	289	326
Short term growth rate						8%
Terminal growth rate						3%
Length of relatively high growth period (years)						5
Terminal FCF						6,339
PV of CF	206	165	184	212	205	4,343
Equity value		5,109				
Equity value per share (USD)		3.63				
Equity value per share (HKD)		28.12				

Source: Guotai Junan International.

We derive a target price of HK\$27.68 by considering the two values derived from the two valuation approaches. Our target price represents 24.6x, 22.5x and 19.6x FY14, FY15 and FY16 PER respectively. Given an above 20% of upside potential, we initiate with a "Buy" rating.

Major Risks

Currency Risk

As Samsonite's financials are reported in US dollar, net earnings are subject to fluctuations of the currency values against US dollar. Depreciations of local currency against US dollar will adversely affect the reported revenue and earnings.

Economic Risk

Global luggage demand is high correlated with the global travel which in turn is affected by the economic condition. The world is more connected than ever before under the trend of globalization. In other words, the cyclical nature of the global economic growth is getting more obvious. Sales and earnings of Samsonite will be adversely affected by economic downturns.

Rising production cost in major supplier's country

A significant percentage of the Company's production is outsourced to Asian countries. Approximately 60% of the productions are outsourced to suppliers in China and approximately 20% are outsourced to South-East Asian countries, the rising labour costs in these countries, especially in China, will negatively affect the Company's gross margin.

Higher volatility in raw material cost

About 70% of the Company's COGS goes to raw materials which are subject to the fluctuation of oil price. A higher oil price will adversely affect the gross margin and higher volatility in oil price cause higher uncertainty in the Company's profitability.

Financial Statements and Ratios

Income Statement					
Year end Dec (US\$ mn)	FY12A	FY13A	FY14F	FY15F	FY16F
Turnover	1,772	2,038	2,342	2,666	3,002
Cost of sales	(821)	(949)	(1,101)	(1,245)	(1,399)
Gross profit	951	1,088	1,242	1,421	1,603
Distribution costs	(466)	(541)	(614)	(699)	(786)
Marketing expenses	(117)	(129)	(150)	(197)	(222)
Administrative & general expenses	(126)	(137)	(156)	(175)	(196)
Operating profit	242	281	322	350	399
Net finance cost	(17)	(11)	(8)	(6)	(5)
Profit before tax	225	270	314	344	394
Income tax	(58)	(73)	(85)	(93)	(106)
Minority interest	(18)	(21)	(25)	(27)	(31)
Net profit	148	176	204	224	256
EPS (RMB)	0.105	0.125	0.145	0.159	0.182
YoY	77.7%	18.6%	16.0%	9.5%	14.5%
DPS (US\$)	0.021	0.027	0.065	0.072	0.082

Cash Flow Statement					
Year end Dec (US\$ mn)	FY12A	FY13A	FY14F	FY15F	FY16F
Profit for the year	167	197	229	251	287
Depreciation and amortization	40	45	50	56	62
Others	51	61	76	91	105
Working capital change	2	(48)	(31)	(33)	(36)
Tax & interest paid	(57)	(62)	(92)	(99)	(111)
Operating cash flow	203	193	231	265	307
Purchase of PP&E	(38)	(57)	(66)	(69)	(78)
Other investing activities	(142)	0	(112)	0	0
Other proceeds	1	3	0	0	0
Investing cash flow	(179)	(54)	(178)	(69)	(78)
Dividend paid	(30)	(38)	(46)	(112)	(106)
Other financing activities	13	(27)	31	(27)	(24)
Financing cash flow	(17)	(65)	(15)	(140)	(130)
Cash at beginning of year	141	151	225	263	320
Change in cash and cash equivalent	7	74	38	57	100
Cash balance at year end	151	225	263	320	420

Source: the Company, Guotai Junan International.

Balance Sheet					
As at Dec 31 (US\$ mn)	FY12A	FY13A	FY14F	FY15F	FY16F
PP&E	136	155	180	202	227
Goodwill	214	214	255	255	255
Other intangible assets	672	663	723	714	705
Others	78	67	68	60	49
Total non-current assets	1,100	1,100	1,227	1,232	1,236
Inventory	278	298	346	395	446
Trade and other receivables	222	246	283	323	366
Prepaid expenses and other assets	62	65	72	79	87
Cash balance	151	225	263	320	420
Total current assets	713	835	963	1,117	1,318
Trade and bill payables	362	387	446	510	575
Bank loans	32	14	55	38	27
Current tax liabilities	49	46	46	46	46
Employee benefits	50	54	49	44	40
Total current liabilities	494	502	596	639	688
Non-controlling interest put options	45	53	59	65	70
Employee benefits	68	33	23	21	19
Deferred tax liabilities & other liabilities	120	116	122	128	134
Total non-current liabilities	234	203	204	208	218
Minority interest	35	38	36	37	33
Shareholders' equities	1,052	1,193	1,354	1,465	1,616
BPS (RMB)	0.747	0.848	0.962	1.041	1.148

Financial Ratio					
	FY12A	FY13A	FY14F	FY15F	FY16F
Revenue growth (%)	13.2	15.0	14.9	13.8	12.6
Operating profit growth (%)	15.2	16.4	14.4	8.9	13.8
Net profit growth (%)	71.1	18.6	16.0	9.5	14.5
Gross margin (%)	53.7	53.4	53.0	53.3	53.4
Operating margin (%)	13.6	13.8	13.7	13.1	13.3
Net profit margin (%)	8.4	8.6	8.7	8.4	8.5
ROE (%)	15.1	15.7	16.1	15.9	16.6
ROA (%)	8.8	9.4	9.9	9.9	10.5
Inventory turnover days	114.4	110.7	106.8	108.6	109.7
Account receivable days	40.6	42.0	41.2	41.5	41.9
Account payable days	144.3	144.1	138.1	140.2	141.6
Cash conversion cycle	10.6	8.5	9.8	9.9	10.0
Current ratio (x)	1.4	1.7	1.6	1.7	1.9
Payout ratio (%)	20.2	39.9	45.0	45.0	45.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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