

Shenzhou Int'l (2313 HK) – Unrated Textiles Industry

Key Data

Share price (HK\$)	13.42
Target price (HK\$)	N/A
Upside potential (%)	N/A
52Wk H/L(HK\$)	15.82/ 7.91
Issued shares (mn)	1,330
Share market cap (HK\$m)	17,849
30-day avg vol (HK\$m)	14.8
Auditors	Ernst & Young
Major shareholder (%)	
Ma Jianrong	58.37

Source: Company, Bloomberg, ABCI Securities

Sales breakdown in 1HFY12 (%)

Sportswear	58.50
Casual wear	29.75
Lingerie	9.36
Other knitting products	2.38

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	1.7	(0.9)
3-mth	(4.4)	(10.0)
6-mth	(6.9)	(3.8)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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High utilization rate with clear ramp up plan

We believe its export business risk will reduce after the Fed has launched QE3. The Group plans to ramp up its production capacity by 27.4% from 208mn units in FY11 to 265mn units in FY14. We estimate capacity utilization rate increase to 98% in FY12. Sales in FY13 and FY14 will be boosted by output growth. Its product competitiveness is proven by its impressive results achieved last 2 years when the economies of US and Europe were sluggish.

Sales growth rally expected in FY13 and FY14. After discussing with management, we estimate revenue will grow by 5.8% YoY to Rmb9,570mn in FY12, which is higher than the half year results at 3.0% YoY in 1HFY12. The growth on sales is expected to slow down in FY12 mainly because of the limitation of the production capacity. The utilization rate is estimated to increase to 98% in FY12. The Group has launched the capacity ramp up at the beginning of this year, and expected to be in operation in FY13. We estimate the capacity will increase by 10% YoY to 230mn units p.a. in FY13 and increase by 15% YoY to 265mn units p.a. in FY14.

Profitability expected to be improved. The Group puts more emphasis on the development of sportswear in order to diversifying the product concentration and improves the profitability of the Group. The gross profit/sales volume ratio of sportswear (estimated at Rmb13.5/unit in 1HFY12) is higher than that of casual wear (estimated at Rmb10.8/unit in 1HFY12). By increasing the sales of sportswear as a percentage of revenue, the profitability is expected to be improved.

QE3 as a catalyst. Under the implementation of QE3, the consumer spending is expected to increase and spur the sales of the downstream retail industries. The profit margin is expected to increase due to the increase in sales of sportswear, which has a higher GP/unit ratio. The counter is trading at 7.9x FY12E PE, which is lower than the peer at 10.7x.

Risk factors: Delay of capacity ramp up; Increase in idle capacity of new production facilities

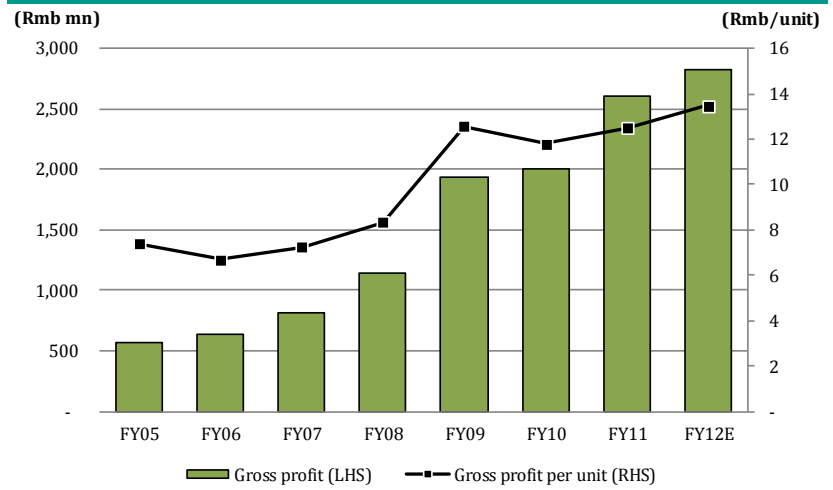
Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rmb mn)	3,656	4,823	6,093	6,719	9,043
Chg (%YoY)	22.7	31.9	26.4	10.3	34.6
Net Income (Rmb mn)	407	699	1,252	1,272	1,704
Chg (%YoY)	4.6	71.9	79.0	1.6	34.0
EPS (Rmb)	0.33	0.56	1.010	1.020	1.370
Chg (%YoY)	6.5	69.7	80.4	1.0	34.3
PE (x)	-	-	-	-	8.0
PB (x)	-	-	-	-	2.2
Yield (%)	-	-	-	-	3.7
ROAA (%)	12.2	17.0	25.7	19.8	21.3
ROAE (%)	18.0	26.2	37.1	29.3	31.3
Net debt/total equity (%)	20.4	19.6	7.2	16.3	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates



Gross profit and gross profit per sales volume ratio of the Group



Source: National Bureau of Statistics of China

Peer valuation table

Company	Ticker	Mkt cap HK\$ mn	Share price CRY Price	FY12 PE(x)	FY12 PB(x)	FY12 Yield(%)
WEIQIAO TEXTI-H	2698 HK	3,476	HK\$ 2.93	23.7	0.2	1.3
TEXHONG TEXTILE	2678 HK	2,203	HK\$ 2.53	5.8	0.8	6.4
PACIFIC TEXTILE	1382 HK	7,238	HK\$ 5.00	8.7	1.7	6.2
SHENZHOU INTL GP	2313 HK	17,849	HK\$ 13.42	7.9	1.8	3.8
TEXWINCA HLDG	321 HK	7,512	HK\$ 5.60	7.3	1.3	8.8
MAKALOT INDUSTRI	1477 TT	3,658	TWD 84.50	10.8	2.9	7.5
Mean				10.7	1.4	5.7
Median				8.3	1.5	6.3

Source: Bloomberg

Disclosures

Analyst Certification

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Definition of equity rating

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

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

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

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

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

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

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