

China / Hong Kong Company Update

Shenzhou International

Bloomberg: 2313 HK EQUITY | Reuters: 2313.HK

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DBS Group Research . Equity

22 Jan 2024

BUY

Last Traded Price (19 Jan 2024): HK\$69.50 (HSI : 15,309)
 Price Target 12-mth: HK\$98.00 (41% upside) (Prev HK\$100.00)

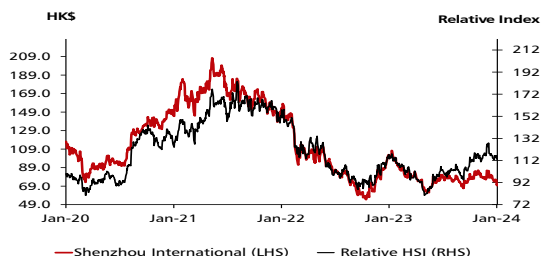
Analyst

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What's New

- Sportswear orderbook reflecting signs of recovery in 4Q23
- FY24E to record a rebound in earnings on the back of improvement in utilisation rate coming from sportswear plays
- Retain Buy with HK\$98 TP on earnings rebound driven by (1) recovery in orderbook volume, (2) better GP margin from improving utilisation rate

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	27,781	26,152	29,391	32,717
EBITDA	5,366	5,186	6,418	7,403
Pre-tax Profit	5,262	4,669	5,936	6,969
Net Profit	4,563	4,202	5,164	6,028
Net Profit Gth (Pre-ex) (%)	35.3	(7.9)	22.9	16.7
EPS (RMB)	3.04	2.80	3.44	4.01
EPS (HK\$)	3.30	3.04	3.73	4.36
Core EPS (RMB)	3.04	2.80	3.44	4.01
Core EPS (HK\$)	3.30	3.04	3.73	4.36
EPS Gth (%)	35.3	(7.9)	22.9	16.7
Core EPS Gth (%)	35.3	(7.9)	22.9	16.7
Diluted EPS (HK\$)	3.30	3.04	3.73	4.36
DPS (HK\$)	1.81	1.97	2.43	2.83
BV Per Share (HK\$)	22.23	23.67	25.44	27.50
PE (X)	21.1	22.9	18.6	15.9
CorePE (X)	21.1	22.9	18.6	15.9
P/Cash Flow (X)	36.1	18.9	18.5	16.0
P/Free CF (X)	202.7	27.4	28.1	23.9
EV/EBITDA (X)	17.1	17.4	14.0	12.0
Net Div Yield (%)	2.6	2.8	3.5	4.1
P/Book Value (X)	3.1	2.9	2.7	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	14.8	12.8	14.7	15.8
Earnings Rev (%)		(0)	(0)	New
Consensus EPS (RMB)		3.06	3.78	4.52
Other Broker Recs:		B:40	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Regaining momentum

Investment Thesis

A leading integrated fabrics & garment manufacturer in Asia. As a key supplier for global brands including Nike, Uniqlo, Adidas, Puma, and more, Shenzhou Int'l (Shenzhou)'s diversified production base in China and Asia, as well as its strong manufacturing capability in integrating fabric and garment production, should enable it to continue gaining market share, especially in the sportswear segment.

Downstream inventory pressure eased, with restocking cycle to begin.

Sportswear account for 74% of 1H23 sales, followed by casual wear (10.1%), lingerie (5.3%). We expect most of the sportswear brand operators will begin a restocking cycle in FY24E. We expect key drivers will come from Adidas, Fast Retailing, Lululemon and Puma. Nike is expected to have a stable recovery in orders, while domestic sportswear brands hold a generally mixed outlook in FY24E. We expect rapid orders will account for a higher proportion of orders due to uncertainty in macro-environment, and Shenzhou should be well equipped to support such orders given its size and integration of supply chain.

FY24F earnings poised for solid rebound.

We expect Shenzhou's sales volume to rise by 12% in FY24E, driven by restocking activities from sportswear related companies, followed by an 11% growth in FY25E. With an improvement in utilisation rate, we expect GP margin to expand by 2.3ppt and 1.0ppt to 25.5% and 26.5% in FY24E/FY25E respectively.

Buy with target price of HK\$98.

Shenzhou is trading at a 20x FY24F PE. We introduce our FY25E forecasts while slightly adjust our TP at HK\$98, based on 26x FY24F PE (Previously 27x). The company's strategy to shift its capacity expansion to Southeast Asia, with new plants planned in Indonesia, aligned with requirement of brand customers as they seek to diversify their sourcing needs. We expect Overseas/China contribution (50/50) to gradually shift to 55/45 by end-FY23.

Key Risks

Disruption to its production capacity, orderbook disruption by major customers

At A Glance

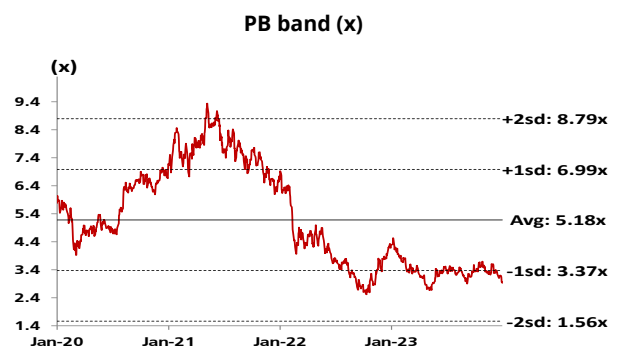
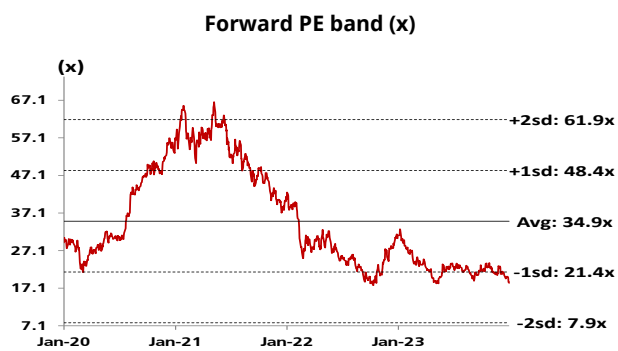
Issued Capital (m shrs)	1,503
Mkt Cap (HKm/US\$m)	104,459 / 13,362
Major Shareholders (%)	
Keep Glory Limited	42.4
Free Float (%)	57.6
3m Avg. Daily Val. (US\$m)	36.32
GICS Industry: Consumer Discretionary / Consumer Durables & Apparel	

Shenzhou International

Company Background

Shenzhou International is China's largest vertically integrated knitwear manufacturer. The company is primarily engaged in the production of premium knitwear (sportswear, casual wear, and lingerie) on an Original Equipment Manufacturer (OEM) basis, with production facilities located in China, Vietnam, and Cambodia (total capacity of c.500m pieces/year of various knitwear). The company boasts of renowned clients such as Nike, Adidas, and Puma.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Shenzhou International

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Sports wear	17,612	20,870	18,783	21,412	24,089
Casual wear	4,721	5,752	5,579	6,137	6,690
Lingerie wear	1,040	819	836	877	965
Other knitwear	472	341	954	964	974
Total	23,845	27,781	26,152	29,391	32,717

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	23,845	27,781	26,152	29,391	32,717
Cost of Goods Sold	(18,055)	(21,656)	(20,085)	(21,896)	(24,047)
Gross Profit	5,790	6,126	6,067	7,495	8,670
Other Opng (Exp)/Inc	(2,210)	(2,159)	(1,961)	(2,204)	(2,454)
Operating Profit	3,579	3,967	4,106	5,290	6,216
Other Non Opng (Exp)/Inc	124	1,233	411	411	411
Associates & JV Inc	7	(21)	(21)	(21)	(21)
Net Interest (Exp)/Inc	113	83	173	256	363
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	3,823	5,262	4,669	5,936	6,969
Tax	(452)	(699)	(467)	(772)	(941)
Minority Interest	0	0	0	0	(1)
Preference Dividend	0	0	0	0	0
Net Profit	3,372	4,563	4,202	5,164	6,028
EBITDA	4,736	5,366	5,186	6,418	7,403
Growth					
Revenue Gth (%)	3.5	16.5	(5.9)	12.4	11.3
EBITDA Gth (%)	(26.7)	13.3	(3.3)	23.7	15.4
Opng Profit Gth (%)	(33.8)	10.8	3.5	28.8	17.5
Net Profit Gth (%)	(34.0)	35.3	(7.9)	22.9	16.7
Margins & Ratio					
Gross Margins (%)	24.3	22.1	23.2	25.5	26.5
Opng Profit Margin (%)	15.0	14.3	15.7	18.0	19.0
Net Profit Margin (%)	14.1	16.4	16.1	17.6	18.4
ROAE (%)	12.1	14.8	12.8	14.7	15.8
ROA (%)	8.0	10.5	8.7	9.7	10.2
ROCE (%)	9.0	11.5	9.7	10.9	11.6
Div Payout Ratio (%)	60.1	54.9	65.0	65.0	65.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Shenzhou International

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	11,130	11,594	12,119	12,792	13,604
Invt in Associates & JVs	601	574	574	574	574
Other LT Assets	3,892	5,161	5,123	5,087	5,051
Cash & ST Invt	12,215	13,725	17,558	20,792	24,181
Inventory	6,636	6,261	7,030	7,664	8,416
Debtors	3,502	5,005	4,712	5,295	5,894
Other Current Assets	4,158	1,174	1,174	1,174	1,174
Total Assets	42,132	43,493	48,290	53,378	58,895
ST Debt	10,212	7,198	7,198	7,198	7,198
Creditors	1,387	932	1,205	1,314	1,443
Other Current Liab	1,934	2,130	2,130	2,130	2,130
LT Debt	483	2,087	4,621	7,154	9,688
Other LT Liabilities	333	381	381	381	381
Shareholder's Equity	27,771	30,753	32,742	35,188	38,042
Minority Interests	12	13	13	14	14
Total Cap. & Liab.	42,132	43,493	48,290	53,378	58,895
Non-Cash Wkg. Capital	10,975	9,378	9,580	10,689	11,912
Net Cash/(Debt)	1,519	4,440	5,739	6,440	7,296
Debtors Turn (avg days)	53.6	65.8	65.8	65.8	65.8
Creditors Turn (avg days)	29.9	16.8	23.1	23.1	23.0
Inventory Turn (avg days)	143.3	112.8	135.0	134.7	134.4
Asset Turnover (x)	0.6	0.6	0.5	0.6	0.6
Current Ratio (x)	2.0	2.6	2.9	3.3	3.7
Quick Ratio (x)	1.2	1.8	2.1	2.5	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	19.9	23.5	13.3	12.3	11.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

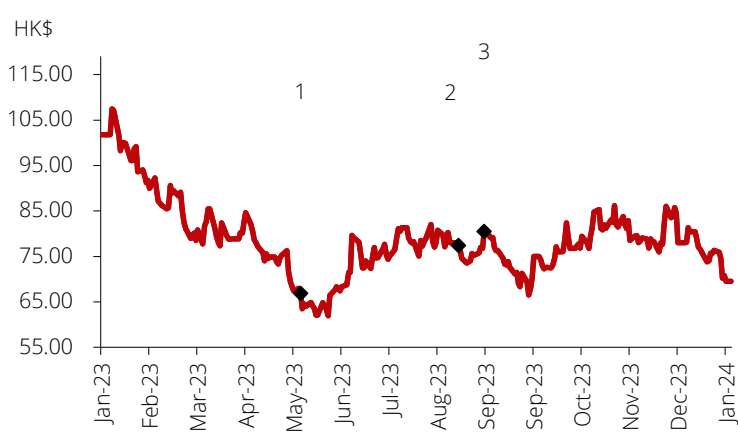
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	3,823	5,262	4,669	5,936	6,969
Dep. & Amort.	1,156	1,399	1,081	1,127	1,187
Tax Paid	(282)	(699)	(467)	(772)	(941)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	2	0	0	0	0
Chg in Wkg.Cap.	(831)	(1,584)	(202)	(1,109)	(1,223)
Other Operating CF	(274)	(1,719)	0	0	0
Net Operating CF	3,594	2,659	5,081	5,183	5,992
Capital Exp.(net)	(2,130)	(2,185)	(1,569)	(1,763)	(1,963)
Other Invt.(net)	(3,886)	0	0	0	0
Invt in Assoc. & JV	7	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(400)	0	0	0	0
Net Investing CF	(6,410)	(2,185)	(1,569)	(1,763)	(1,963)
Div Paid	(2,718)	(2,326)	(2,212)	(2,719)	(3,174)
Chg in Gross Debt	4,061	2,534	2,534	2,534	2,534
Capital Issues	0	0	0	0	0
Other Financing CF	(24)	0	0	0	0
Net Financing CF	1,320	208	321	(185)	(640)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,496)	682	3,833	3,234	3,389
Opg CFPS (RMB)	2.94	2.82	3.51	4.19	4.80
Free CFPS (RMB)	0.97	0.32	2.34	2.27	2.68

Source: Company, DBS HK

Shenzhou International

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-May-23	HK\$68.00	HK\$82.60	Buy
2:	16-Aug-23	HK\$77.55	HK\$102.50	Buy
3:	31-Aug-23	HK\$76.75	HK\$100.00	Buy

Source: DBS HK

Analyst: Alison Fok

Shenzhou International

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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