

Stella International

Bloomberg: 1836 HK Equity | Reuters: 1836.HK

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DBS Group Research . Equity

19 Jan 2024

BUY

Last Traded Price (18 Jan 2024): HK\$9.62 (HSI : 15,392)
Price Target 12-mth: HK\$12.00 (25% upside) (Prev HK\$11.20)

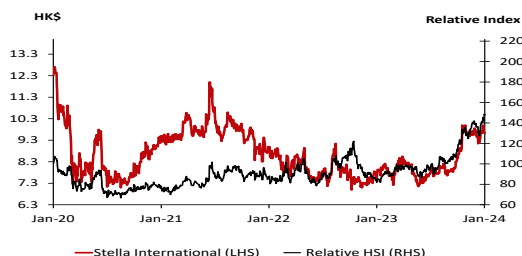
Analyst

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What's New

- Expect mid-single digit volume recovery in FY24F
- Improvement in utilisation rate should drive margin expansion
- Raised FY23E/24F earnings by 14%/11% and introduced FY25F forecasts; maintain Buy with TP raised to HK\$12.0

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2022A	2023F	2024F	2025F
Turnover	1,631	1,493	1,496	1,600
EBITDA	182	200	223	252
Pre-tax Profit	133	149	166	189
Net Profit	118	130	144	164
Net Profit Gth (Pre-ex) (%)	29.9	10.0	11.1	13.4
EPS (US\$)	0.15	0.16	0.18	0.21
EPS (HK\$)	1.17	1.28	1.42	1.61
Core EPS (US\$)	0.15	0.16	0.18	0.21
Core EPS (HK\$)	1.17	1.28	1.42	1.61
EPS Gth (%)	29.9	10.0	11.1	13.4
Diluted EPS (HK\$)	1.17	1.28	1.42	1.61
DPS (HK\$)	0.98	1.08	1.20	1.36
BV Per Share (HK\$)	9.86	10.16	10.51	10.93
PE (X)	8.3	7.5	6.8	6.0
P/Cash Flow (X)	4.1	6.4	4.4	5.8
P/Free CF (X)	5.3	13.8	8.6	14.3
EV/EBITDA (X)	4.4	4.1	3.7	3.5
Net Div Yield (%)	10.2	11.2	12.4	14.1
P/Book Value (X)	1.0	0.9	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	11.8	12.8	13.8	15.1
Earnings Rev (%)		14	11	New
Consensus EPS (US\$)		0.17	0.19	0.21
Other Broker Recs:		B:6	S:0	H:0

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

Stable recovery ahead

Investment Thesis

High-quality footwear manufacturer in China & ASEAN. Stella International ("Stella") is one of the leading manufacturers of high-quality footwear for fashion, luxury, sports, and premium casual brands with production bases in China, Vietnam, Indonesia, the Philippines, and Bangladesh. Being a first mover to diversify capacity from China to ASEAN, the company continues to ramp up capacity there, with ex-China capacity to reach 76% by end FY23E.

Expect volume recovery in FY24. Stella's major customers are primarily from North America and Europe, with a combined proportion of c.81% of sales, while the remainder is from the Asia-Pacific region. We believe global sportswear has largely completed its destocking exercise, with restocking to recover gradually in FY24. Despite cautiousness by Nike trimming its guidance in Dec-23, we expect restocking to drive volume recovery ahead. We forecast volumes to recover by 4%/7% in FY24E/FY25F, while ASP will change by -2%/0% over the same period on the back of a shift in product mix towards sportswear.

Margin resilience supported by improvement in utilisation rate. A gradual recovery in sportswear orders should improve its utilisation rate, thereby driving an improvement to its GP margin. This trend should continue and support further margin improvement, with its new 3-year plan targeting a 10% OP margin (FY23E: 9.5%). We currently forecast FY24E/FY25F OP margin to expand by 1.4ppts/0.7ppt driven by improvement in utilisation rate.

BUY with target price of HK\$12.0 We raised our earnings by 14%/11% in FY23E/FY24F on better GP margin assumption and have introduced FY25F estimates. We retain a BUY rating with a target price of HK\$12.0 based on 8.5x FY23E PE (previously 10x FY22F). With a long and established dividend record, we expect payout to remain high, translating into an attractive >11% yield. Key catalysts include the recovery in shipment volume and improvement in utilisation rate, which will drive further margin upside.

Key Risks

Weaker than expected shipment volumes and GP margin expansion

At A Glance

Issued Capital (m shrs)	794
Mkt Cap (HKm/US\$m)	7,638 / 977
Major Shareholders (%)	
Cordwalner Bonaventure Inc.	21.8
Chiang (Jeh Chung Jack)	6.4
Free Float (%)	71.8
3m Avg. Daily Val. (US\$m)	0.61
GIICS Industry: Consumer Discretionary / Consumer Durables & Apparel	

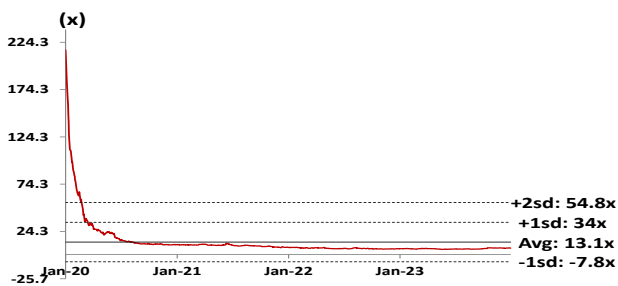
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Company Background

Stella is a manufacturer of footwear for fashion, casual, and sports brands. Its manufacturing capacity is diversified across China and Southeast Asia, with ex-China capacity accounting for around 76% by end FY23. The company also has retail and wholesale businesses, but its contribution is rather minimal, at merely 1% of total revenue in FY23.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Sales volume (m pairs)	55.8	56.0	49.0	51.0	54.5
ASP (US\$/pair)	27.1	28.5	29.7	29.1	29.1

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (US\$ m)					
Manufacturing	1,525	1,620	1,456	1,484	1,588
Retail & wholesale	16	11	37	12	12
Total	1,541	1,631	1,493	1,496	1,600

Source: Company, DBS HK

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Income Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	1,541	1,631	1,493	1,496	1,600
Cost of Goods Sold	(1,224)	(1,279)	(1,138)	(1,130)	(1,204)
Gross Profit	317	352	354	365	396
Other Opng (Exp)/Inc	(214)	(220)	(206)	(200)	(208)
Operating Profit	103	133	148	166	189
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	1	1	1	0	0
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	103	133	149	166	189
Tax	(13)	(16)	(20)	(22)	(26)
Minority Interest	0	1	1	1	1
Preference Dividend	0	0	0	0	0
Net Profit	91	118	130	144	164
EBITDA	151	182	200	223	252
Growth					
Revenue Gth (%)	35.6	5.9	(8.5)	0.2	7.0
EBITDA Gth (%)	226.4	20.0	10.4	11.4	12.9
Opg Profit Gth (%)	3,064.7	28.7	11.7	12.0	13.8
Net Profit Gth (%)	8,382.3	29.9	10.0	11.1	13.4
Margins & Ratio					
Gross Margins (%)	20.6	21.6	23.7	24.4	24.8
Opg Profit Margin (%)	6.7	8.1	9.9	11.1	11.8
Net Profit Margin (%)	5.9	7.2	8.7	9.6	10.2
ROAE (%)	9.4	11.8	12.8	13.8	15.1
ROA (%)	7.4	9.2	10.1	10.9	11.9
ROCE (%)	9.1	11.2	12.1	13.1	14.4
Div Payout Ratio (%)	86.1	84.0	84.0	84.0	84.0
Net Interest Cover (x)	NM	NM	NM	68,989.8	78,540.8

Source: Company, DBS HK

Interim Income Statement (US\$ m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	695	845	827	804	716
Cost of Goods Sold	(556)	(667)	(663)	(615)	(550)
Gross Profit	139	178	164	188	166
Other Oper. (Exp)/Inc	(102)	(111)	(95)	(123)	(102)
Operating Profit	37	67	69	65	64
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	(1)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	37	67	68	65	63
Tax	(4)	(8)	(8)	(8)	(8)
Minority Interest	(1)	1	0	1	0
Net Profit	31	60	61	57	55
Growth					
Revenue Gth (%)	36.0	35.4	18.9	(4.9)	(13.4)
Opg Profit Gth (%)	(1,937.8)	1,017.3	86.9	(2.6)	(7.2)
Net Profit Gth (%)	N/A	845.2	94.6	(3.8)	(9.6)
Margins					
Gross Margins (%)	20.0	21.0	19.8	23.4	23.1
Opg Profit Margins (%)	5.3	7.9	8.3	8.1	8.9
Net Profit Margins (%)	4.5	7.1	7.3	7.2	7.6

Source: Company, DBS HK

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Balance Sheet (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	410	379	466	513	545
Invts in Associates & JVs	39	43	45	47	50
Other LT Assets	115	110	110	109	110
Cash & ST Invts	135	219	192	197	145
Inventory	226	189	185	186	210
Debtors	373	318	303	295	345
Other Current Assets	0	0	0	0	0
Total Assets	1,298	1,258	1,301	1,348	1,404
ST Debt	0	5	5	5	5
Creditors	214	174	183	192	202
Other Current Liab	44	41	44	47	51
LT Debt	24	22	22	22	22
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	999	999	1,030	1,065	1,107
Minority Interests	18	17	17	17	17
Total Cap. & Liab.	1,298	1,258	1,301	1,348	1,404
Non-Cash Wkg. Capital	342	292	262	242	302
Net Cash/(Debt)	111	192	164	170	118
Debtors Turn (avg days)	83.5	77.4	76.0	73.0	73.0
Creditors Turn (avg days)	58.7	57.6	60.0	63.8	63.0
Inventory Turn (avg days)	63.8	61.6	62.9	63.2	63.3
Asset Turnover (x)	1.3	1.3	1.2	1.1	1.2
Current Ratio (x)	2.9	3.3	2.9	2.8	2.7
Quick Ratio (x)	2.0	2.4	2.1	2.0	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	234.1	211.6	295.4	402.7	367.6
Z-Score (X)	0.0	0.0	0.0	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	103	133	149	166	189
Dep. & Amort.	48	49	52	58	64
Tax Paid	(13)	(9)	(16)	(20)	(22)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(34)	53	(35)	18	(63)
Other Operating CF	15	1	2	2	2
Net Operating CF	120	240	151	224	169
Capital Exp.(net)	(57)	(58)	(81)	(110)	(101)
Other Invts.(net)	(16)	2	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	1	2	2	1	1
Net Investing CF	(71)	(54)	(79)	(109)	(100)
Div Paid	(21)	(99)	(99)	(109)	(121)
Chg in Gross Debt	(3)	(7)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	2	0	0	0	0
Net Financing CF	(23)	(106)	(99)	(109)	(121)
Currency Adjustments	0	(2)	0	0	0
Chg in Cash	27	78	(27)	5	(52)
Opg CFPS (US\$)	0.19	0.24	0.24	0.26	0.29
Free CFPS (US\$)	0.08	0.23	0.09	0.14	0.09

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	17-Mar-23	HK\$7.65	HK\$11.20	Buy

Source: DBS HK

Analyst: Alison Fok

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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