

## COMPANY NEWS

### Texhong Textile [2678.HK; HK\$7.93 Not Rated] - Key takeaways from 2014 results presentation

Market Cap: US\$903m; Free Float: 26.2%; 3-months Average Daily Turnover: US\$0.6m  
Analyst: Mark Po

**The Company.** Established in 1997, Texhong Textile Group Limited (Texhong) specialises in the production of high-value-added yarn products such as stretchable core-spun yarns and grey fabric products. Yarn accounted for 92% of total turnover in 2014 while fabric accounted for the rest.

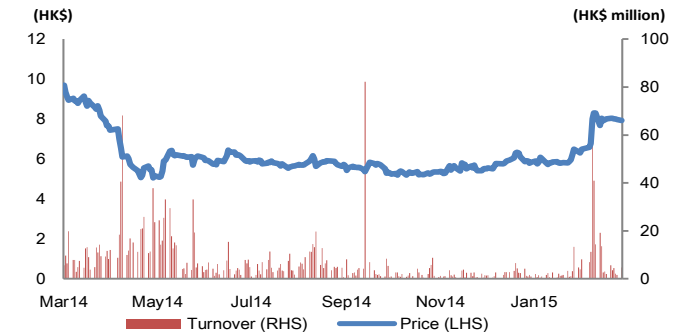
**2014 net profit fell 73% YoY.** Texhong's 2014 turnover rose 27% year-on-year (YoY) to RMB 10.5bn, up from RMB8.2bn in 2013. Turnover growth was mainly driven by volume growth. Additional capacity of about 260,000 spindles for 2nd phase of northern Vietnam production plant reached the optimal capacity in Sep14. Texhong's yarn sales reached a record high of 432,000 tonnes, up 52% YoY in 2014. Turnover was RMB5.9bn in 2H14, up 29% HoH from RMB4.6bn in 1H14. Texhong's 2014 net profit was RMB370m, down 73% YoY. The results were slightly lower than market expectations. The group's net profit was RMB182m in 2H14, up from RMB125m in 1H14. The group's gross margin was 11.7% in 2H14 vs 13.2% in 1H14. Sequential decline in gross margin was mainly due to the impact of falling cotton price since Apr14. Texhong declared a final dividend of HK\$0.08 vs HK\$0.28 in 2013 leading to a full-year dividend payout of 30%.

**Capacity expansion.** As at 31 Dec14, Texhong has a total capacity of about 2.16m spindles and 572 air-jet looms, of which 1.17m spindles and 572 air-jet looms are located in China, and about 0.99m spindles are located in Vietnam. Texhong will build a new production base in Quang Ninh Province, Vietnam. Phase I of the construction with a capacity about 250,000 spindles is expected to be completed by end of 2015 and to commence commercial production by Q1 2016. CAPEX in 2015 will be about RMB600m. The group's total capacity will reach 2.33m spindles after completion of Phase 1 of production facility in Quang Ninh Province.

**Management expects gross margin to improve.** According to management, cotton price in China is still at a low level and declined sequentially in Q1 2015 vs Q4 2014. Management share the view that the downside for cotton price in China is limited and the group's gross margin hit bottom in 2H14. They also highlight the decline in production cost in Q1 2015 vs 2H14 and the group's gross margin is expected to show sequential improvement. A mild recovery of selling price in 2015 is expected given stable cotton price. According to management, the domestic cotton price movement will be clearer in April/May 2015.

**From upstream manufacturing to supply chain management.** Texhong's management targets to move down the value chain from pure upstream manufacturing to supply chain management. Management highlights potential expansion plan into downstream fabric and garment segment in Vietnam. The group will cooperate with smaller textile and garment companies to expand capacity in Vietnam. The new business model will be less capital intensive and asset light. Management expects more concrete moves to occur in late 2015 and the new business model could be a potential growth driver to Texhong.

### [Texhong Textile]



Key Financials (in RMB m)	2013	2014	2015E	2016E
Revenue	8,228.5	10,470.3	11,032.5	12,257.0
Gross Profit	1,583.4	1,294.2	1,548.2	1,867.1
Gross Margin %	19.2	12.4	14.0	15.2
Net Profit	1,125.9	306.7	611.2	811.8
Net Margin %	13.7	2.9	5.5	6.6
EPS (Basic)	1.27	0.35	0.69	0.92
ROE (%)	37.9	9.0	16.2	20.0
Dividend Yield (%)	5.39	1.58	3.19	4.33
PER (x)	5.43	18.81	9.28	6.91
PBR (x)	1.81	1.69	1.43	1.23

Source: Bloomberg, Company Data.

**Beneficiary under TPP.** The challenging macro environment creates opportunities to well-managed companies such as Texhong as management remains upbeat on the outlook especially the operation in Vietnam. Management estimates that Trans-Pacific Partnership (TPP) Agreement, which gives zero tariff for textile products from Vietnam to US, is likely to be signed at the end of 2015. Once TPP is signed, it would give substantial competitiveness to those textile companies who have capacity in Vietnam and Texhong will be a major beneficiary under TPP Agreement.

**Our view.** Texhong's share price rose by over 30% since early Feb due to expectation of earnings recovery given a stable cotton price. According to market consensus, the group is now trading at 9.2x 2015, in line with average of 9.5x for HK listed peers.

**Catalysts.** 1H15 results announcement, signing of TPP and release of details of new business development.

**Figure 1: Peer Comparisons**

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE		ROA		Div yield	
				2014F	2015F	2016F	2014F	2015F	2016F	2013	2014F	2013	2014F	2013	2014F	2013	2014F
				x	x	x	x	x	x	x	x	%	%	%	%	%	%
<b>HK Listed Textile &amp; Garment Plays</b>																	
2678 HK	Texhong Textile Group Ltd	7.93	903	18.5	9.2	7.0	9.0	7.6	6.4	1.4	1.4	9.0	16.2	3.4	6.4	1.6	3.2
2111 HK	Best Pacific International H	3.60	472	13.5	9.9	8.0	8.5	6.7	5.6	n.a.	2.4	34.2	22.5	10.0	10.6	0.0	2.0
2698 HK	Weiqiao Textile Co Ltd-H	4.33	666	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	4.0	n.a.	2.1	n.a.	n.a.	n.a.
321 HK	Texwinca Holdings Ltd	6.30	1,121	10.4	9.2	8.1	5.6	4.8	4.3	1.4	1.4	12.9	13.9	6.7	8.6	8.1	8.6
420 HK	Fountain Set Hldgs	0.86	133	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	3.0	n.a.	1.3	n.a.	2.3	n.a.
1382 HK	Pacific Textiles Holdings	11.28	2,101	16.3	14.6	12.8	11.7	10.0	8.7	4.6	4.4	23.4	26.2	17.7	18.7	7.1	6.4
539 HK	Victory City Intl Hldgs Ltd	1.12	269	4.8	4.7	4.3	4.7	5.0	4.6	0.4	0.4	4.5	7.8	4.6	5.1	8.0	8.6
2313 HK	Shenzhou International Group	30.30	5,459	17.8	15.3	13.3	11.4	9.8	8.6	3.2	3.0	19.6	17.7	14.1	14.3	1.8	2.6
311 HK	Luen Thai Holdings	1.35	180	4.3	3.5	2.9	2.2	2.1	2.5	0.5	0.4	13.6	11.8	5.4	5.6	7.8	5.8
<b>Average</b>				<b>11.2</b>	<b>9.5</b>	<b>8.2</b>	<b>7.3</b>	<b>6.4</b>	<b>5.7</b>	<b>1.5</b>	<b>2.0</b>	<b>14.4</b>	<b>16.6</b>	<b>7.7</b>	<b>10.5</b>	<b>5.0</b>	<b>5.7</b>
<b>A share Listed Textile Plays</b>																	
601233 CH	Tongkun Group Co Ltd-A	12.41	1,910	114.9	24.1	13.4	9.3	7.4	6.1	1.8	1.7	1.1	1.6	0.5	0.7	0.2	1.6
200726 CH	Luthai Textile Co Ltd - B	10.79	1,669	7.8	7.0	6.3	8.5	7.6	7.1	1.4	1.2	17.8	15.2	12.1	12.0	4.4	4.4
000850 CH	Anhui Huamao Textile Co-A	8.34	1,257	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	6.1	n.a.	0.6	n.a.	n.a.	n.a.
002042 CH	Huafu Top Dyed Melange Yar-A	6.52	867	22.8	17.8	14.3	14.1	11.0	8.6	1.6	1.6	6.4	6.9	2.8	2.8	n.a.	0.6
002394 CH	Jiangsu Lianfa Textile Co-A	13.04	674	14.5	12.4	10.5	n.a.	n.a.	n.a.	1.7	n.a.	12.0	n.a.	7.0	n.a.	n.a.	n.a.
<b>Average</b>				<b>40.0</b>	<b>15.3</b>	<b>11.1</b>	<b>10.6</b>	<b>8.7</b>	<b>7.3</b>	<b>1.9</b>	<b>1.5</b>	<b>8.7</b>	<b>7.9</b>	<b>4.6</b>	<b>5.2</b>	<b>2.3</b>	<b>2.2</b>

Source: Bloomberg

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