

南旋控股 (1982 HK)

买入 (首次覆盖)

行业：纺织

稳健基础·加速扩张

我们首次覆盖中国领先的针织衣物生产商南旋控股。集团正在越南扩充产能，推动销量增长及提升毛利率。它跟国际服装品牌客户的长期合作关系有助其将新增产能，转化为未来几年的盈利增长。此股 17 财年的预期市盈率为 9.4 倍，其估值较同业为低。我们建议买入并给予目标价 1.60 元。

中国领先且历史悠久的针织品制造商。南旋为中国最大的针织品制造商之一，专注生产羊毛及棉针织衣物。集团拥有 26 年的生产经验，其产品广受它的国际服装品牌客户所认同。

与客户建立长期合作关系。南旋跟其国际服装品牌客户建立长达 8 至 20 年的紧密合作关系。其最大客户优衣库及第二大客户 Tommy Hilfiger 分别从 1995 年及 2001 年起便开始合作。此优势不但很难被其竞争对手所复制，而且能令南旋的盈利更稳定。

越南产能将推动增长。越南第二期厂房已于 16 财年下半年试产。全面投产后，其厂房将令南旋的产能增加 37%。而且，越南劳工成本较低将改善集团的毛利率。

评级买入，目标价 1.60 港元。由于南旋上市时间较短，其股值较最近的本港上市同业互太纺织(1382) 存在达 30% 折让。我们给予南旋 17 财年 11 倍市盈率，接近其同业 5 年平均估值水平。现金流折现估值亦支持此目标价。

主要风险：销量差于预期；毛利率较预期低。

(百万港元)	15财年	16财年	17财年 预测	18财年 预测	19财年 预测
收入	2,568	2,766	3,124	3,575	3,786
毛利	573	610	693	804	871
经营利润	334	298	378	432	480
报告利润	273	232	301	349	391
经常性利润	248	273	301	349	391
经常性利润增长率 (%)	13%	10%	10%	16%	12%
每股经常性利润 (分港元)	12.0	13.2	14.5	16.8	18.8
经常性市盈率 (倍)	11.4	10.4	9.4	8.1	7.3
经常性市账率 (倍)	2.4	4.1	2.0	1.8	1.7
股息率 (%)	--	--	3.3	3.9	4.3
股本回报率 (%)	21.7	30.7	30.1	24.8	25.2
净债务股本比	50.4	96.5	(1.2)	(14.8)	(25.3)
我们/市场预期每股利润 (%)	-	-	-11%	-20%	-14%

来源：公司、中投证券

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目标价与评级

6-12 个月目标价： 1.60 港元 (+17%)

当前股价： 1.37 港元

评级调整： 首次覆盖

公司简介

南旋是中国领先针织品制造商之一，为其客户提供设计、原材料采购、样品开发及针织制成品的一站式解决方案。

基本数据

总股本 (百万股)	2,075
总市值 (百万港元)	2,843
平均成交 (百万港元)	10.3
52 周股价波幅	1.21-1.55
主要股东	王庭聰 (72.29%)

股价表现



相关报告

Nameson (1982 HK)

BUY (Initiation)

Sector: Textile

Solid Base for Expansion

We initiate coverage on Nameson, a leading knitwear manufacturer in China. The Group is expanding capacity in Vietnam which will drive volume growth and boost GPM. With the long standing business relationships with its global apparel brand clients and recognized product quality, Nameson is expected to translate the increased capacity into earnings growth in years ahead. The stock is currently trading at 9.4x FY17F P/E and the valuation is undemanding compared with its peers. We initiate BUY with an HKD1.60TP.

Leading knitwear manufacturer with widespread recognition. Nameson is one of the largest knitwear manufacturers in China, focusing on wool and cotton knitwear products. With 26 years of business history, Nameson is recognized by its global apparel brand clients for its product quality and stability.

Long standing business relationships with clients. Nameson has developed long-term and close business relationship with its global apparel brands clients, ranging from 8 to 20 years. In particular, the Group's business relationship with its largest client, UNIQLO, and the second largest client, Tommy Hilfiger, started since 1995 and 2001 respectively. This is difficult to be replicated by its competitors and increases Nameson's earnings stability.

Vietnam capacity expansion to drive growth. Vietnam's phase II facility already commenced trail production in 2HFY16. Upon fully ramp-up, the plant will increase Nameson's capacity by 37%. Moreover, the lower labor cost in Vietnam is expected to improve the Group's overall GPM.

Initiate BUY with a HK\$1.60 TP. Nameson is currently trading at a deep 30% discount from its closest HK-list peer, Pacific Textiles (1382 HK), for its short listing history. We derive our TP using 11x FY17F P/E, which is close to 5-year mean of its peer valuation and supported by our DCF analysis.

Key Risks: Weaker-than-expected volume growth and lower-than-expected GPM.

Research Analyst

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Target Price and Rating

 6-12m TP : **HK\$1.60(+17%)**

 Current Price : **HK\$1.37**

 Rating Change: **Initiation**

Company description

Nameson is one of the leading knitwear manufacturers in the PRC, offering one-stop in-house solution for our customers.

Basic Information

No. of shares (m) 2,075

Market Cap (HKDm) 2,843

Avg turnover (HKDm) 10.3

52-week range (HKD) 1.21-1.55

 Major shareholders Wong Ting Chung
(72.29%)

Share Price Performance



Related Research Reports

(HKDm)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	2,568	2,766	3,124	3,575	3,786
Gross Profit	573	610	693	804	871
EBIT	334	298	378	432	480
Reported net profit	273	232	301	349	391
Recurring net profit	248	273	301	349	391
Recurring net profit growth (%)	13%	10%	10%	16%	12%
Recurring EPS (cents)	12.0	13.2	14.5	16.8	18.8
Recurring P/E (x)	11.4	10.4	9.4	8.1	7.3
P/B (x)	2.4	4.1	2.0	1.8	1.7
Dividend Yield (%)	--	--	3.3	3.9	4.3
ROE (%)	21.7	30.7	30.1	24.8	25.2
Net debt to equity (%)	50.4	96.5	-1.2	-14.8	-25.3
Our / consensus EPS (%)	-	-	-11%	-20%	-14%

Source: Company data, CIS

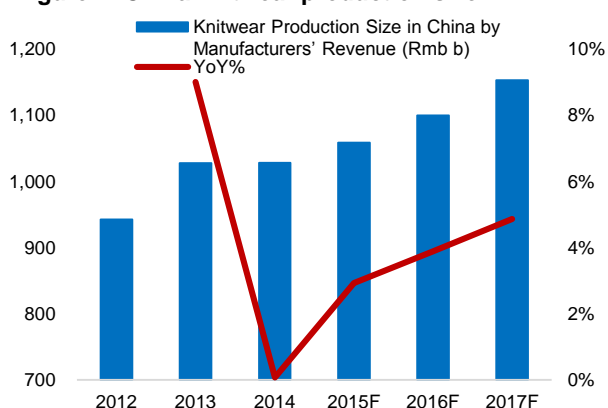
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Leading China's knitwear manufacturer

China knitwear production and retail market are huge in terms of sales value. In 2014, China knitwear production size, which was estimated in terms of manufacturers' revenue, reached Rmb1,028b. It represented 47% of the whole apparel manufacturing market in China. The knitwear retail was slightly smaller than the production size and amounted to Rmb716b in 2014. It was mainly due to more than 40% of knitwear produced in China is exported. Key exports markets include the US, Japan, Hong Kong and the UK.

Figure 1: China knitwear production size



Source: Company, CIS (HK)

Figure 2: China knitwear retail sales value



Source: Company, CIS (HK)

China knitwear manufacturing market is highly fragmented where there are more than 10,000 knitwear manufacturers in the country. The five largest manufacturers combined represent only 2% of the total market revenue in 2014. Nameson, being one of the leading knitwear producers, was ranked the fourth largest producer with market share of 0.19%, after Shenzhou (2313 HK), Seduno and Jifa Group. Compared with smaller players, Nameson enjoys competitive advantages over them such as R&D capabilities and long standing business relationships with global apparel brand clients. Nameson is well experienced and more resourceful in knitwear design where it is able to increase the product offerings by creating new patterns and value-added services such as embroidery. These new designs are then offered to its clients which drive sales growth and maintain Nameson's competitiveness and bonding with them.

Figure 3: Top knitwear players in China

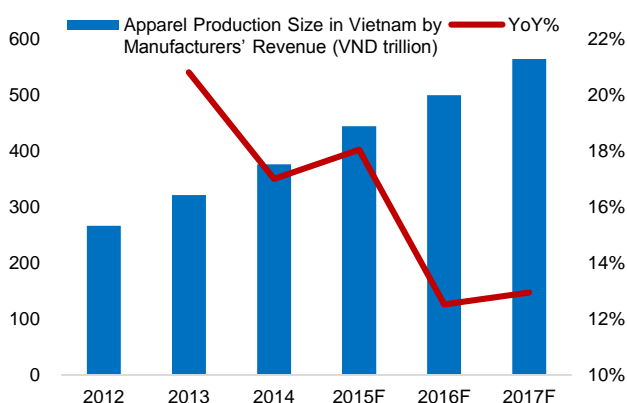
	Company	Market share (%)
1	Shenzhou	0.86%
2	Seduno	0.52%
3	Jifa Group	0.30%
4	Nameson	0.19%

Source: Euromonitor, CIS (HK)

In the past few years, many knitwear and even textile manufacturers have shifted their production plants to Southeast Asian countries such as Vietnam and Cambodia because of lower labor costs and tax benefits for its downstream garment clients. According to statistics of Chinese and Vietnam governments, the average wages of manufacturing workers in Vietnam is only approximately 40% of those in China. On other hand, on Vietnam's entry into the WTO in 2007, the trade quotas for garments and textile were eliminated by all WTO member countries including the US and the EU. The Japan-Vietnam Economic Partnership Agreement which took effect in 2009 has eliminated customs duties on knitwear goods exported from Vietnam to Japan.

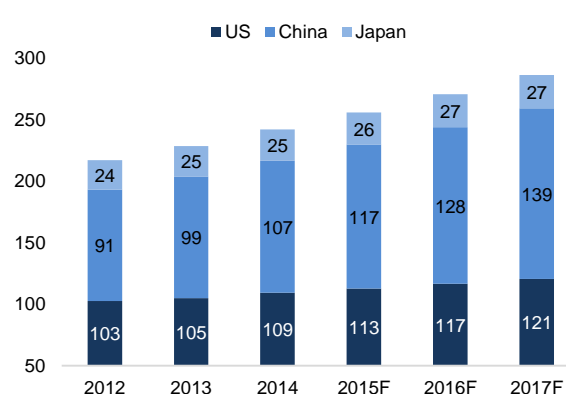
The lower labor costs coupled with policy support drove Vietnam apparel production growth in the past years. From 2012 to 2014, apparel production size in Vietnam maintained a CAGR of 19% and reached USD16.9b in 2014. It is expected to sustain double-digit growth in years ahead. Despite the rapid growth, Vietnam apparel production size remains small compared with China, where the former represents around 11% of the latter. Population, raw material supplies and logistic network are likely constraints of Vietnam knitwear production development.

Figure 5: Vietnam apparel production size



Source: Company, CIS (HK)

Figure 6: Knitwear market retail sales value (USDb)



Source: Company, CIS (HK)

Vietnam expansion to drive growth

Nameson currently has two production plants located in Huizhou, China and Tay Ninh Province, Vietnam respectively. The Huizhou plant is established in 2002 with GFA of 350,000m² and more than 6,000 employees, which is the Group's first and major production facility. With an annual capacity of 29.9m pieces, the plant accounts for 87% of the current total designed capacity. There are >3,700 fully-automated knitting machines and >5,800 linking machines.

Figure 4: Capacity of the plants

	Capacity (million pieces)	%	GFA m ²	No. of knitting machines	Commencement of operation
Huizhou	29.9	64%	350,000	3,765	
Vietnam phase I	4.4	9%	32,000	662	2Q2016
Vietnam phase II	12.6	27%	95,000	1,300	2H2016
Total	46.9	100%	477,000	5,727	

Source: Company, CIS (HK)

Vietnam phase II drives volume growth

To diversify its customer base and to meet expected increase in demand from its international customers, Nameson established its first production base in Tay Ninh Province, Vietnam which commenced operation in 1Q15 and produced 1.8m pieces in FY16. With 662 fully-automated knitting machines and 1,500 linking machines, the facility has an annual capacity of 4.4m pieces, representing 13% of the current total designed capacity.

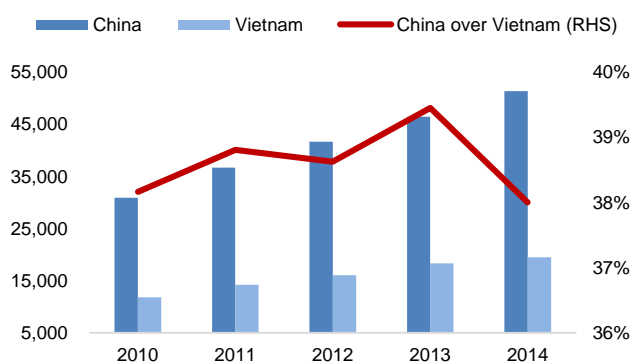
Nameson commenced construction of Vietnam plant phase II in 1H16, which are four six-storey factory buildings with an aggregate GFA of 95,000m². Phase II is expected to house 1,300 sets of fully-automated knitting machines and have a designed annual capacity of 12.6m pieces, accounting for 37% of the current total capacity. Upon completion of Vietnam phase II facility, Nameson's aggregated designed capacity will increase to 46.9m units of knitwear. Total CAPEX of phase II is HKD500m, of which HKD200m was booked in FY16 and the remaining HKD300m FY17. The factory has already commenced production, and is expected to gradually ramp up to full capacity in 2017. The capacity expansion supported by orders from its international apparel brand customers will drive its sales volume growth particularly in FY17 and FY18.

Lower direct labor cost improves gross margin

The income for manufacturing workers is substantially lower than that of China. According to China and Vietnam government statistics, the average annual income of manufacturing workers in 2014 was Rmb51,369 and Rmb19,522 for China and Vietnam respectively. It means the average income for Vietnam workers was only 38% of those in China. Although many textile companies agree the productivity of Vietnam workers are lower than China, the huge difference in income more than compensates it. Many textile companies employ automated machines for manufacturing, but direct labour cost remains a large cost item after raw materials. Hence, lower labour cost becomes one of the reasons for textile companies, including Nameson, establishing plants in Vietnam.

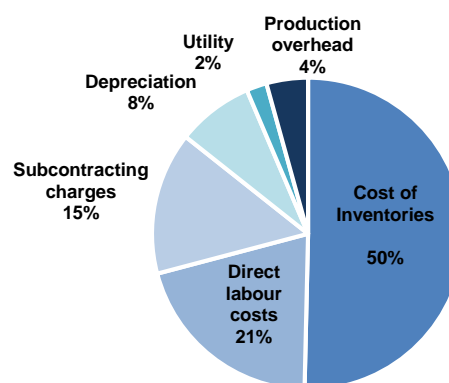
The breakdown of Nameson's FY16 COGS shows cost of inventories is the largest cost item representing 50%. It can be further broken down into cotton, wool and other materials, accounting for 45%, 45% and 10% respectively. Direct labour costs and subcontracting charges are the second and third largest cost items which represent 21% and 15% of the COGS respectively. Other costs including depreciation, utility and production overhead combined account for 14% of the COGS.

Figure 7: Average annual income of manufacturing employed persons in urban units (Rmb)



Source: National Bureau of Statistics of China, General Statistics Office of Vietnam, CIS (HK)

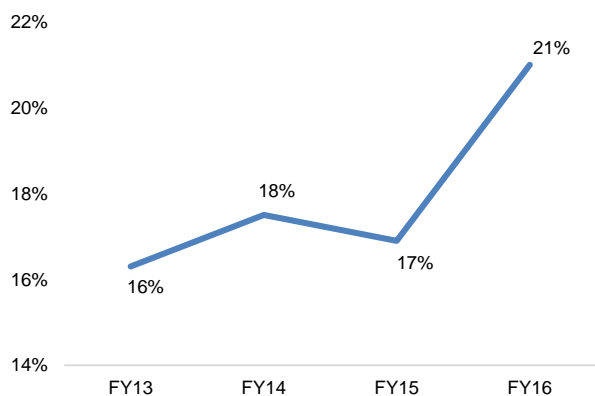
Figure 8: Nameson FY16 COGS breakdown



Source: Company, CIS (HK)

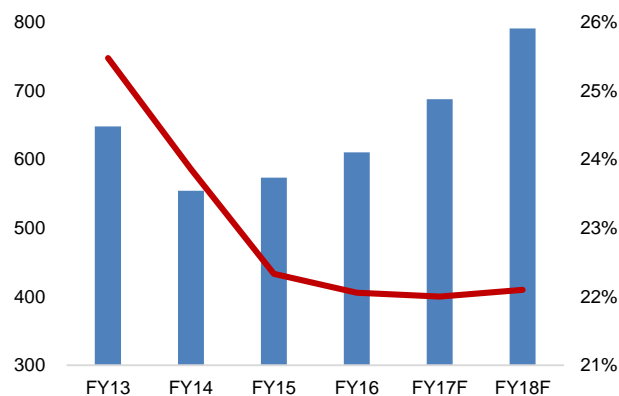
As the labour cost in Vietnam is around 40% of China, it will be translated into approximately 8% higher GPM for Vietnam production than China. Upon completion of Vietnam phase II facility, 37% of Nameson's total capacity will be from Vietnam. Thus, the labour cost alone will at most boost the Group's GPM by 3ppt. The productivity factor will lower the GPM improvement but Vietnam plant will still be a net positive to Nameson's GPM. We expect Nameson's GPM to be steady at around 22% in FY17, and improve gradually in years ahead.

Figure 9: Direct labour costs as % of COGS



Source: Company, CIS (HK)

Figure 10: Sales to Uniqlo and Top 5 clients



Source: Company, CIS (HK)

Moreover, the Vietnam facility enjoys preferential tax rate of 17%, versus the standard corporate tax rate of 20%, for 10 years. There is also a tax holiday for 2 years and a 50% tax reduction for 4 years, which start from the first profit-making year or the fourth revenue-generation year (whichever comes first). The Vietnam plant phase I commenced operation in 2Q16 and is still unprofitable. It implies Nameson will be able to enjoy the tax benefits in years ahead, which is positive for its bottomline.

Long standing relationship with major clients

Long standing relationship with UNIQLO and other apparel brand customers

Nameson has established long-term business relationships, ranging from 8 to 20 years, with its global apparel brands customers, which is difficult to be replicated by its competitors. In particular, the Group's business relationship with its largest client, UNIQLO, and the second largest client, Tommy Hilfiger, started since 1995 and 2001 respectively. The long standing relationships these international apparel brands indicate Nameson is able to execute orders in high standard and a timely and consistent manner. It also enhances its reputation in the knitwear industry and ability to attract new customers. From FY14 to FY16, Nameson gained in total 13 new apparel brand clients, such as GLOBAL WORK and LOWRYS FRAM.

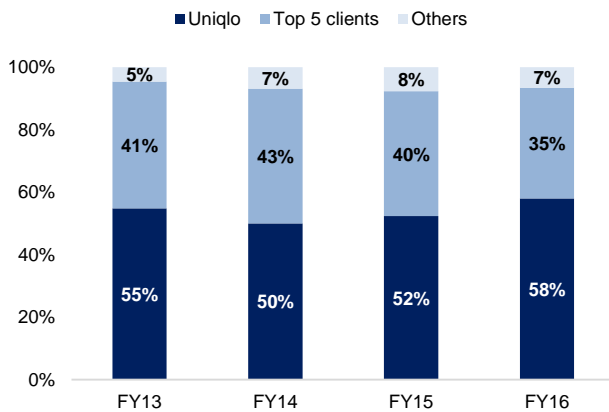
Quality recognition from the international apparel brands

In addition, UNIQLO presented Nameson with the "UNIQLO Quality Supplier Award" in 2014, commending the Group for consistently elevate product quality and the complete and automated system for quality control. Nameson was also certified by UNIQLO as a trusted business partner to produce products under "UNIQLO" label from 2012 to 2015. On the other hand, Tommy Hilfiger granted "Best in Class 2015 Award" to the Group. The recognition from its largest international apparel brand clients shows that Nameson is capable of providing high and stable quality products which is a competitive edge over other knitwear manufacturers.

The largest wool knitwear supplier for Uniqlo and Tommy Hilfiger

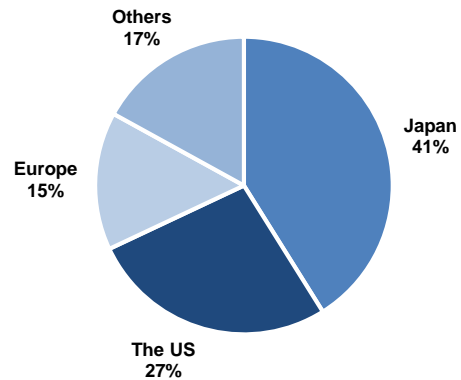
Nameson seems exposed to high business risk due to its high reliance on its two largest customers, Uniqlo and Tommy Hilfiger. Their sales combined represent approximately 78% of the Group's FY16 revenue. Nevertheless, Nameson is the largest wool knitwear supplier for the brands, which is estimated to account for at least 40% of their knitwear sales. Although the Group has high client concentration, the brands also have heavy reliance on it regarding wool knitwear sales. Together with their long standing business relationship and recognized production quality, Nameson's business risk is in fact not substantial. Moreover, the capacity expansion in Vietnam allows Nameson to diversify its customer base by receiving orders from other brands such as GAP, Ralph Laurent, Kent & Curwen and so on.

Figure 11: Sales to Uniqlo and Top 5 clients



Source: Company, CIS (HK)

Figure 12: Geographical breakdown for FY16 revenue



Source: Company, CIS (HK)

Financials

Sales grow on higher volume and stable ASP

The gradual ramp-up of the Vietnam phase II facility is expected to drive Nameson's sales growth. We expect its sales volume to increase by 13%/14%/6% YoY from FY17F to FY19F. We believe the ASP is stable considering relatively steady raw material prices. As a result, the Group's sales growth is dependent on its volume growth.

GPM is estimated to be steady in FY17 due to relatively stable raw material prices and its competitive product quality. We expect its GPM to improve gradually along with the ramp-up of Vietnam phase II facility. Based on our sensitivity analysis below, every 1 ppt change in GPM will lead to approximately 5% change in FY17F EPS.

Figure 13: Sensitivity analysis on FY17 EPS change

FY17F revenue change (%)	FY17F GPM change (ppts)						
	-5	-3	-1	0	1	+3	+5
+20%	-7%	4%	15%	20%	25%	36%	47%
+15%	-11%	-1%	10%	15%	20%	31%	41%
+10%	-15%	-5%	5%	10%	15%	25%	35%
+5%	-19%	-9%	0%	5%	10%	19%	29%
Base	-23%	-14%	-5%	0%	5%	14%	23%
-5%	-26%	-18%	-9%	-5%	-1%	8%	16%
-10%	-30%	-22%	-14%	-10%	-6%	2%	10%
-15%	-34%	-26%	-19%	-15%	-11%	-4%	4%
-20%	-38%	-31%	-24%	-20%	-16%	-9%	-2%

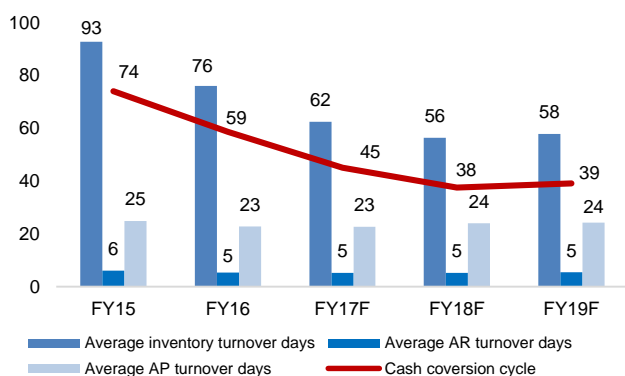
Source: Company, CIS (HK)

Balance sheet and remains healthy

The inventory turnover days have been reducing from 93 in FY15 to 76 in FY16, and we expect it to further decrease to 62 in FY17F. It was primarily due to increasing orders from customers who demand shorter deliver time and improving efficiency. Turnover days for account receivables and account payables have remained steady at lower levels. Hence cash conversion cycle shortened from 74 in FY15 to 59 in FY16, and we expect it to further improve to 45 in FY17F.

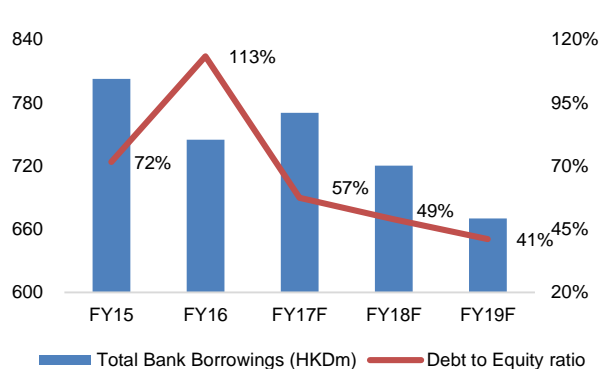
Debt to equity ratio jumped to 113% in FY16 because Nameson paid out dividends before listing which reduces its equity. Upon its listing in Apr 16, the Group raised HKD635.4m, the Group is currently at net cash level. Nameson's FY17F CAPEX is estimated to be HKD300m, of which 45% is for machinery purchase. The machines are purchased on finance lease basis, and therefore the actual investing cash outflow will be less than the CAPEX planned. Together with the strong cash generating capability, Nameson's balance sheet remains healthy.

Figure 14: Turnover days and cash conversion cycle



Source: Company, CIS (HK)

Figure 15: Total Debt and debt-to-equity ratio



Source: Company, CIS (HK)

Valuation

TP of HKD1.60 (17% upside)

The stock is trading at FY17F P/E of 9.4x. The stock was listed in Apr 16. It is inappropriate to value it based on its historical valuation. We believe the closest HK-listed peer of Nameson, instead of Shenzhou (2313 HK), is Pacific Textiles (1382 HK) because they share similarities in the following areas: 1) Both companies have high exposure to Japanese and the US apparel brands. 2) Approximately half of the sales come from a single client, Uniqlo. 3) They focus on casualwear market. 4) The major production facility is located in China and has recently established a new production plant in Vietnam with less than 10% of the total capacity. We give Nameson a valuation of FY17F 11x P/E, which is close to Pacific Textiles' 5-year average P/E and at a 20% discount to the latter's FY17F P/E, reflecting the Group's short listing history. The valuation is justified by our DCF analysis.

Figure 16: Peer comparison table I

Company	Ticker	Price	Mkt Cap (HKDm)	3-mth avg t/o (HKDm)	P/E			P/B FY1	EPS (YoY%)			PEG(x)	Dvd yld	
					Hist	FY1	FY2		FY1	FY2	FY3		Hist(%)	FY1(%)
Nameson	1982	1.37	2,843	10.3	10.4	9.4	8.1	2.0	10.3	16.0	11.9	0.9	0.0	3.3
HK-listed peers														
TEXHONG	2678	11.80	10,439	8	7.3	9.4	8.1	1.92	75.7	53.0	15.4	0.1	4.07	3.23
TEXWINCA	321	5.53	7,641	14.9	10.0	11.0	10.4	1.2	-36.2	-33.6	5.0	N/A	5.81	8.4
PACIFIC TEXTILES	1382	10.36	14,985	23	14.4	13.4	12.4	4.38	4.6	6.2	7.7	2.9	7.14	7.43
SHENZHOU	2313	52.10	72,888	131	22.2	21.9	18.6	4.31	11.8	15.0	18.0	1.9	1.84	2.44
Average			26,488	44	13.5	13.9	12.4	3.0	14.0	10.2	11.5	1.6	4.7	5.4
International peers														
ECLAT	1476	98.68	26,542	172	28.4	26.3	21.3	7.39	38.92	-4.17	23.73	0.7	N/A	2.5
MAKALOT	1477	37.10	7,640	172	21.4	16.3	14.6	3.42	22.75	-11.78	12.03	0.7	N/A	5.3
Average			17,091	172	24.9	21.3	17.9	5.4	30.8	-8.0	17.9	0.7	N/A	3.9

Source: Company, CIS (HK)

Figure 17: Peer comparison table II

Company	Ticker	Revenue		Recur. net profit		Net gearing Hist(%)	Unlev Beta	Gross Margin Hist(%)	Net Margin Hist(%)	ROE (%)			Sh px 1-mth (%)	Sh px 3-mth (%)
		Hist (HKDm)	FY1 (HKDm)	Hist (HKDm)	FY1 (HKDm)					Hist(%)	FY1(%)	FY2(%)		
Nameson	1982	2,766	3,124	273	301	96.5	0.3	22.1	9.9	30.7	30.1	24.8	8.5	7.8
HK-listed peers														
TEXHONG	2678	13,048	14,561	668	1,121	62.8	0.6	18.0	5.1	14.7	22.3	21.8	34.1	46.2
TEXWINCA	321	9,343	9,540	498	697	-34.9	0.6	34.0	5.3	8.2	11.2	11.6	-9.6	-26.1
PACIFIC TEXTILES	1382	6,928	7,214	1,060	1,125	-22.9	0.3	18.8	15.3	30.9	33.8	35.4	-2.6	-0.2
SHENZHOU	2313	15,595	17,686	2,911	3,442	5.5	0.3	30.5	18.7	19.0	21.3	22.2	23.2	31.6
Average		11,228	12,250	1,284	1,596	2.6	0.5	25.3	11.1	18.2	22.1	22.8	11.2	12.9
International peers														
ECLAT	1476	6,232	6,591	1,019	1,000	-8.3	1.0	28.0	16.4	39.3	31	32	11.0	2.9
MAKALOT	1477	5,704	5,847	527	461	-29.9	0.5	23.6	9.2	25.1	20.4	23.3	-8.2	-14.1
Average		5,968	6,219	773	731	-19.1	0.8	25.8	12.8	32.2	25.5	27.5	1.4	-5.6

Source: Company, CIS (HK)

Appendix

Business Overview

Nameson is the largest wool knitwear and one of the leading knitwear manufacturers in China in terms of 2014 sales. The Group offers a wide of knitwear products produced from cotton yarn, wool yarn and raw cashmere. These products include pullovers, cardigans, vests and accessories mainly to its global apparel brand clients. Its knitwear business is characterized by the following features:

High exposure to Womenswear

Womenswear has been the largest product category for Nameson. From 2014 to 2016, womenswear sales accounted for 63% of the total revenue on average. Menswear, on the other hand, only represent 35%. Other products, such as childrenswear, scarf, hat and gloves, only represent 2% of the sales.

Figure 20:
Knitted one-piece



Figure 21:
Knitted pullover



Figure 22:
Knitted childrenswear



Figure 23:
Knitted scarf



Source: Company, CIS (HK)

Half sales from own designs and knitting patterns

Nameson has an R&D team which serves mainly two functions: First, it provides designs based on its customers' requirements. Second, it offers value-added services such as creating its own designs and knitting patterns at least a year in advance for customers' selection. This value-added service is not only able to stimulate sales but also strengthens the business relationship with its clients. It is estimated that half of its sales come from its own designs on top of some regular key items such as Uniqlo's *Merino Wool* products.

Suppliers and competitors

To produce knitwear, Nameson purchases cotton or wool yarn from its suppliers. The five largest suppliers account for approximately 70% of its total raw material purchase. The largest supplier, Jiangsu Guotai (002091 SZ), represents about 40% of the purchase. Other suppliers include Nice Dyeing under Texwinca (321 HK) and Jiangsu Lugang (601599 SH). Like its customers, Nameson has established up to 17 years of business relationships with these five largest suppliers.

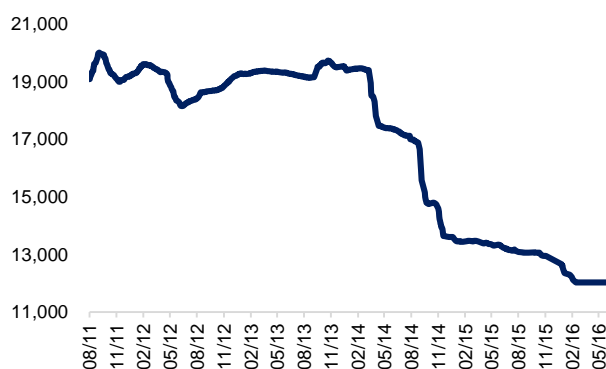
As for competitors, they are mainly integrated and non-listed textile manufacturers such as Crystal Group, Lawsgroup and South Asia Textiles.

Figure 24: Wool Coarse 23 Micron (US cents per kg)



Source: Australian Wool Exchange, CIS (HK)

Figure 25: China Cotton Index 3128B



Source: China National Cotton Exchange, CIS (HK)

Company Overview

Business and History

The Chairman and CEO, Mr. Wong Ting Chung, set up Hang Cheong Knitting Factory in 1982, engaging in knitwear production. Nameson Industrial was established in 1990 in Hong Kong by Mr. Wong Ting Chung, Mr. Wong Ting Kau (a non-executive director) and an independent third party. In 1995 and 2001, Nameson commenced sales to Uniqlo and Tommy Hilfiger, which then became its largest and second largest client.

Knitwear production process

It takes various steps for producing the finished knitwear products from raw materials. After receiving the yarn, Nameson will randomly select samples to perform tests requested by its customers at its Testing Centre. The tests include color fastness to washing, water, perspiration, rubbing and light. The yarn will then be taken to the yarn-winding and yarn-waxing machines so as to reduce knots and standardize its thickness.

Figure 26: Knitwear production process



Source: Company, CIS (HK)

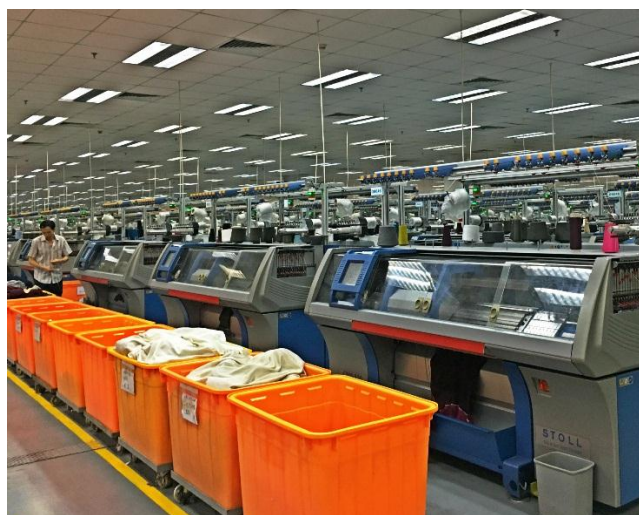
The standardized yarn is knitted into panels including knitted sleeves and knitted body parts by its fully-automated knitting machines. The machines employed by Nameson are sourced from *Stoll* from Germany and *Shima Seiki* from Japan. The Group currently has 3,765, 662 and 1,300 sets of knitting machines in its Huizhou, Vietnam phase I and Phase II plants respectively. The knitted panels will go through the linking process.

Figure 27: Quality testing at the Testing Centre



Source: CIS (HK)

Figure 28: Knitting



Source: CIS (HK)

The knitted panels are linked together manually with the help of the linking machines. Unlike the knitting machines where a worker can monitor a number of sets, each linking machine is operated by a worker, which is labor intensive. The knitted panels then go through the manual stitching process where they are inspected manually for any loosen stitches and redundant strands of yarn. After the process, the product is semi-finished knitwear.

The product will go through another round of inspection before being washed and dried. On client request, they will use the computerized embroidering machines to embroider on the semi-finished knitwear products. The products are ironed and are stitched with size and brand labels. After another round of inspection, the products are sorted by size and clipped with hangtags to be finished knitwear products.

Figure 29: Linking



Source: CIS (HK)

Figure 30: Embroidering



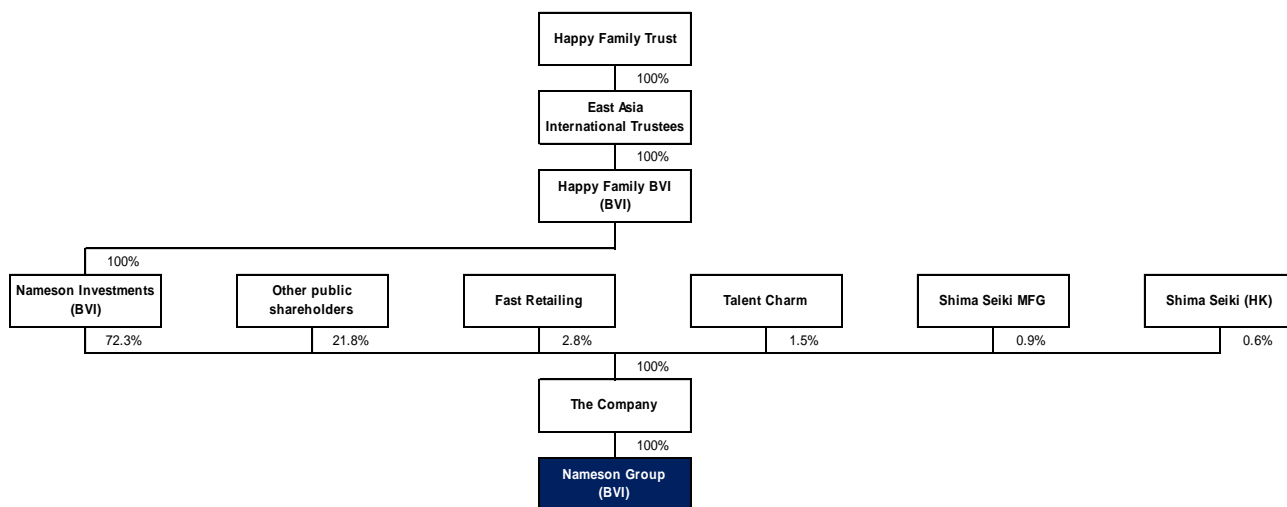
Source: CIS (HK)

Samples of the finished knitwear products are sent to the Testing Centre to go through various tests such as pilling resistance, pH value of acidity and alkalinity, domestic washing and commercial dry-cleaning. After the final inspection, the finished products are packaged and delivered to clients.

Shareholding structure

Nameson Group (1982 HK) was incorporated in Cayman Island where Nameson Investments was the largest shareholder, holding 72.3% of shares, and the remaining shares are held by the cornerstone investors and the public. Nameson Investments was ultimately held by Happy Family Trust, which is owned by the Chairman Wong Ting Chung and his family members. On the IPO of Nameson in Apr 16, the cornerstone investors in total subscribed 5.8% of the issued capital, of which Fast Retailing, the holding company of Uniqlo and other brands, purchased 2.8% of the total shares. Shima Seiki Group, a major knitting machine supplier of Nameson, subscribed in total 1.5% of the shares.

Figure 31: Major shareholders of Nameson Group



Source: Company, CIS (HK)

Figure 32: Management Profile

Name	Age	Position	Experience
Mr. Wong Ting Chung	54	Chairman and Chief Executive Officer	More than 30 years' experience in knitting industry. Established the Group's business through Nameson Industrial in September 1990.
Mr. Wong Wai Wing, Raymond	46	Executive Director and Chief Operating Officer	18 years of experience in the Group. Joined Nameson Industrial as a senior merchandising manager in March 1998.
Mr. Wong Ting Chun	50	Executive Director and Chief Production Officer	More than 30 years of experience in knitting industry. Worked as a production technician in Hang Cheong Knitting Factory from August 1982 to October 1990. Joined the Group as the production manager of Nameson Industrial in November 1990.
Mr. Li Po Sing	51	Executive Director and chief sales officer	More than 26 years of experience in knitting industry. Joined the Group as Sales Manager in February 2000 and was promoted to the Director of Sales and Marketing in April 2007.
Ms. Chan Mei Hing, Aurora	40	Executive Director and Finance Director	More than 17 years of experience in finance and auditing. Joined the Group as finance manager in November 2002 and was appointed as Finance Director in April 2007.
Mr. Tam Wai Hung, David	66	Non-Executive Director	More than 40 years of experience in commercial banking industry in Hong Kong and China. Worked in HSBC and Hang Seng Bank for 31 years and 13 years respectively. He is also an independent non-executive director of Xinyi Glass (868 HK).
Mr. Wong Ting Kau	54	Non-Executive Director	One of the founders of the Group. He is currently the Managing Director of De Classie Fashion (Shenzhen). Joined the Group as an Executive Director in November 1990 and worked as the Managing Director from August 2006 to March 2013.
Mr. Wong Wai Yue	33	Non-Executive Director	Currently an Executive Director of W&W Wealth Management. Served as a Director of Nameson Group from January 2007 to January 2015.
Mr. Lau Ka Keung	40	Non-Executive Director	Currently the Managing Director of Cheer Happy (HK), Join Kong (HK) and Chancy (HK), which are engaging in property management and development. Joined the Group as an IT manager in August 1999 and left Nameson in March 2013.

Source: Company, CIS (HK)

Financial Data and Forecast

Balance Sheet (HKD mn)	FY15	FY16	FY17F	FY18F	FY19F
PPE	875	848	953	858	782
Others	241	238	238	238	238
Total Non-Current Assets	1,116	1,086	1,190	1,096	1,020
Inventories	476	422	411	446	481
Account and bills receivables	39	43	48	55	58
Other receivables and prepayments	0	0	0	0	0
Cash and Cash Equivalents	334	222	931	1,083	1,227
Others	421	40	40	40	40
Total Current Assets	1,269	727	1,430	1,624	1,806
Trade payables	141	128	174	191	197
Other payables and accruals	0	0	0	0	0
Borrowings	765	685	692	642	592
Others	214	170	195	205	208
Total Current Liabilities	1,120	983	1,062	1,038	997
Deferred taxation	1	0	(6)	(14)	(23)
Others	143	171	222	222	222
Total Non-Current Liabilities	144	171	216	208	199
Share capital	337	0	0	0	0
Total reserve	812	832	784	657	1,343
Total equity	1,121	657	1,343	1,476	1,633
Net Cash	(431)	(463)	239	441	635

Cash Flow (HKD Mn)	FY15	FY16F	FY17F	FY18F	FY19F
Profit before tax	314	271	353	409	458
Depreciation of PPE	173	171	180	181	161
Others	(16)	(21)	25	23	22
Changes in working capital	67	22	71	26	10
Income tax paid	(26)	(63)	(80)	(87)	(92)
Net operating cash flows	511	380	548	553	558
Purchase of PPE	(221)	(194)	(297)	(100)	(100)
Dividend received	0	0	0	0	0
Others	17	(133)	(146)	(146)	(146)
Net investing cash flows	(205)	(327)	(443)	(246)	(246)
Proceeds from issuance of ordinary share	-	-	-	635	-
Net changes in bank borrowings	210	(32)	59	(50)	(50)
Others	(491)	(127)	545	(740)	(117)
Net financing activities cash flows	(280)	(160)	604	(155)	(167)
Net (decrease) / increase in cash	26	(106)	709	152	144
Exchange gains/(losses)	1	(6)	0	0	0
Cash at beginning of year	306	334	222	931	1,083
Cash at end of year	334	222	931	1,083	1,227

Income Statement (HKD mn)	FY15	FY16	FY17F	FY18F	FY19F
Total Turnover	2,568	2,766	3,124	3,575	3,786
Cost of sales	(1,994)	(2,156)	(2,430)	(2,771)	(2,915)
Gross profit	573	610	693	804	871
Other income & expenses	48	13	14	14	14
Operating expense	(288)	(325)	(330)	(387)	(405)
Operating Profit	334	298	378	432	480
Net finance income (costs)	(20)	(26)	(25)	(23)	(22)
Profit before tax	314	271	353	409	458
Income tax expense	(41)	(40)	(51)	(60)	(67)
Reported net profit	273	232	301	349	391
Recurring net profit	248	273	301	349	391
Recurring EPS (HKD cents)	12.0	13.2	14.5	16.8	18.8

Ratio Analysis	FY15	FY16	FY17F	FY18F	FY19F
Growth YoY					
Revenue	10.6%	7.7%	12.9%	14.5%	5.9%
Operating profit	27.5%	-10.9%	26.8%	14.5%	10.9%
Recurring net profit	13.3%	9.9%	10.3%	16.0%	11.9%
Recurring EPS	13.3%	9.9%	10.3%	16.0%	11.9%
Margin					
GPM	22.3%	22.1%	22.2%	22.5%	23.0%
OPM	13.0%	10.8%	12.1%	12.1%	12.7%
Recurring NPM	9.7%	9.9%	9.6%	9.8%	10.3%
ROA	11.7%	11.0%	13.6%	13.1%	14.1%
ROE	21.7%	30.7%	30.1%	24.8%	25.2%
Liquidity & Solvency					
Current Ratio	1.1	0.7	1.3	1.6	1.8
Quick Ratio	0.3	0.3	0.9	1.1	1.3
Cash Ratio	0.3	0.2	0.9	1.0	1.2
Total debt to equity	68.2%	104.2%	51.5%	43.5%	36.2%
Net debt to equity	50%	96%	-1%	-15%	-25%
Working Capital					
AR days	6	5	5	5	5
Inventories days	93	76	63	56	58
AP days	25	23	23	24	24
DuPont Analysis					
Net Profit Margin	9.7%	9.9%	9.6%	9.8%	10.3%
Asset Turnover	1.1	1.3	1.4	1.3	1.4
Leverage Ratio	2.1	2.8	2.0	1.8	1.7

Source: Company, CIS (HK)

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Investment Recommendation System

Company Rating:

Strong Buy: Expecting a relative return of over 20% against Hang Seng Index in coming 6-12months

Buy: Expecting a relative return of 10-20% against Hang Seng Index in coming 6-12months

Hold: Expecting a relative return of $\pm 10\%$ against Hang Seng Index in coming 6-12months

Avoid: Expecting a relative return of -10% or less against Hang Seng Index in coming 6-12months

Sector Rating

Outperform: Expecting a relative return of over 5% against Hang Seng Index in coming 6-12months

Neutral: Expecting a relative return of over $\pm 5\%$ against Hang Seng Index in coming 6-12months

Underperform: Expecting a relative return of -5% or less against Hang Seng Index in coming 6-12months

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