

Nameson Holdings | 1982.HK

Bottoms out with gradual recovery

Rating	BUY	Maintain
Target Price	HKD 0.72	
Current price	HKD 0.57	Upside:26.1%

COVID-19 hit 1HFY21 earnings, GM shows early signs of bottom out

Nameson has issued a profit alert on May 14 after market close, which expects FY21 (year ended Mar 31) net profit would arrive in the range of HK\$260mn-HK\$300mn. By taking a mid-point (HK\$280mn), and based on FY20 adjusted net profit of HK\$244mn, it represents a ~15% Yoy bottom line growth. The net profit growth will be driven by **i) margin improvement as a result of enhancing operating efficiency, ii) absence of restructure cost/ expense of knitted upper business, as business restructure has been completed in FY20.**

Nameson's 1HFY21 was negatively affected by COVID-19 outbreak, with both revenue and adjusted net profit down 24%/13.2% Yoy to HK\$2,295mn and HK\$235mn respectively. During the period, revenue from Japan/ North America / and China dropped 22.1%/21.1%/35.3% respectively, these 3 regions already took up 67% of total revenue. Nameson's total sales volume dropped 14.1% Yoy to 18.3mn pieces in 1HFY21, while blended ASP was down 9% Yoy to HK\$114.3/pc (~US\$15/pc)

We noticed that average wool price was down ~17% in from Oct 2020- Mar 2021 (2HFY21 for Nameson), this would help alleviate the rising cotton cost (+23% Yoy) during the same period, together with the low seasonality, Nameson's 2HFY21 GM would be lower than 1HFY21, this followed similar pattern as in 2HFY19 and 2HFY20. Despite Nameson's low margin (~ low single digit) cashmere yarn business is still ramping up, blended GM was still able to edge up 1.6 ppts to 19.0%, as a result of enhancing production efficiency and increasing sales contribution from higher margin whole garment (~20% vs. mid-teens for sweaters and cashmere)

Whole garment outweighs traditional knitwear and cashmere softness

Though Nameson's total sales volume dropped 6.8%/14.1% Yoy to 34.5mn/18.3mn pieces in FY20 and 1HFY21, their whole garment sales volume continue to outpace traditional knitwear and cashmere. In FY20, whole garment sales volume soared ~90% Yoy to ~5mn pieces, we continue to believe whole garment to be another growth engine in the coming years. **The benefits of whole-garment knitting include fulfilling increasing customer demand for more knitwear utilizing whole garment technology, while for Nameson, they can i) reduce production lead time by >50%; ii) reduce labour in production process; iii) reduce material wastage, especially beneficial for expensive raw materials.**

A recap that Nameson cashmere yarn business kicked off in 2HFY19 and currently has 13 production lines annual capacity at ~700 tonnes, and it is still under gradual ramp up. Therefore we expect segment GM would continue to stay at low single digit, hence partially dilute GM on group level.

Company Update

17 May 2021

Hayman Chiu

hayman.chiu@cinda.com.hk

(852) 2235 7677

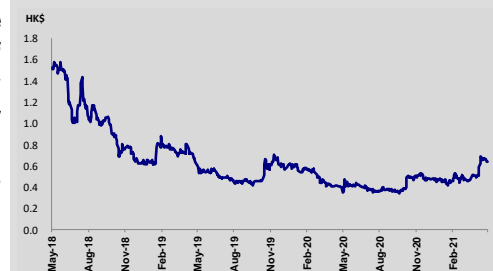
Trading data

52-Week Range (HK\$)	0.73/0.32
3 Mth Avg Daily Vol (m)	1.36
No. of Shares (m)	2,279.4
Market Cap (HK\$m)	1,299.3
Major Shareholders (%)	Wong Ting Chung & Family (68.8%)
Auditors	PWC
Result Due	FY21: Jun 2021

Company description

Established in 1990 and listed in HKEx in April 2016, Nameson is one of the leading knitwear manufacturers in the PRC. Nameson offers one-stop services including raw material development and procurement, product design, sample manufacturing, high-quality production, quality control and timely delivery of products to their clients. Nameson has been supplying quality knitwear products to internationally renowned apparel brands such as UNIQLO (50% of total sales in 1HFY21)

Price chart



Sources: Bloomberg, CIRC

■ Continue to strive for production capacity, sales and customer mix diversification

Nameson continues to diversify their production away from China to cater customers' demand. In FY20, Vietnam plant (with 23mn planned capacity/year) contributed 44% of knitwear production (vs. 24.4%/36.2% in FY18-FY19), while knitwear contribution from China further lowered to 56%.

The EU-Vietnam FTA (EUVFTA) was signed in end-June 2019 and came into effect in Aug 2020. At the core of the EUVFTA is a near complete removal of tariffs between the EU and Vietnam, including the elimination of > 99% of customs duties within 10 years. Immediately upon entry into force, 65% of EU exports (by product type) to Vietnam and 71% of Vietnamese exports to the EU will be duty free. This would further benefit Vietnam's apparel industry and hence further drive demand for local fabric. Nameson have begun to develop fabrics business (weaving, printing and dyeing) with an annual capacity at 36mn pounds/year, production would commence in FY2021.

Moreover, Nameson's knitwear plant in Myanmar targets to commence Phase 1 production in FY22E with annual designed capacity at ~5mn pieces, while an additional 5mn designed capacity would be in Phase 2. Though there would be a slight delay to the Phase 1 construction work due to latest round COVID-19 outbreak in Myanmar, this does not affect our view that their these moves reflects Nameson's target to diversify their existing product portfolio and expand client base in Southeast Asia.

Uniqlo remained as Nameson's largest customer, which took up ~55%/50% of total sales in FY20/1HFY21. Though Nameson previously lost some of their orders to other players due to their pricing strategy, we would see international brands are consolidating their current upstream suppliers, as COVID-19 outbreak significantly affected smaller players in terms of production and financial strength, and have already left the market in the end.

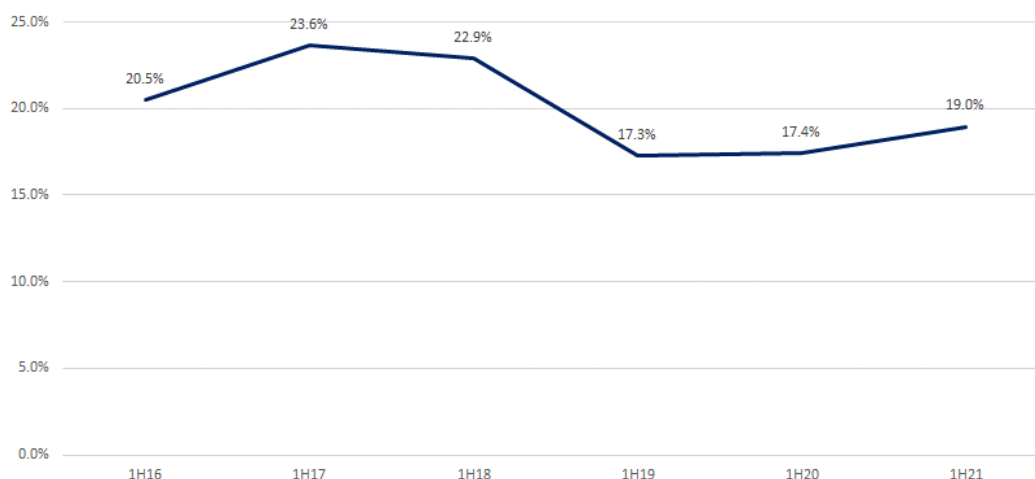
Meanwhile, Nameson managed to find new clients in China (including brands and cashmere yarn trading sales), which drove sales from China grew at 58.7% CAGR in FY17-FY20 to HK\$1,050mn and accounted for 23% of total revenue. Current Chinese customers are mainly leading local sportswear brands, and Nameson also added a renowned local fashion brands which we would see a gradual ramp up.

■ Expect EPS to gradually recover; Undemanding valuation with attractive yield, maintain BUY

We expect Nameson's EPS to grow at 21.9% CAGR in FY20-FY22E on the back of 11.9% sales CAGR. The earnings growth will also be accompanied by gradual GM recovery, thanks to increasing sales contribution from whole garment and more stable upstream supply after having set up a JV with a major cashmere supplier in Hebei, Nameson would be able to secure sufficient cashmere yarn supply and cost could be stabilized.

Though share price having rocketed ~40% YTD, Nameson is still trading at undemanding FY21E 4.5x PE (~68% discount to peers' simple avg.) and with 8.3% dividend yield, this would limit share price downside. However, risk appetite for small caps remains low under current market sentiment. We maintain Nameson's rating at BUY with TP at HK\$0.72 based on 5.7x FY21E PE (60% discount to peers' average due to unfavourable market sentiment for small caps).

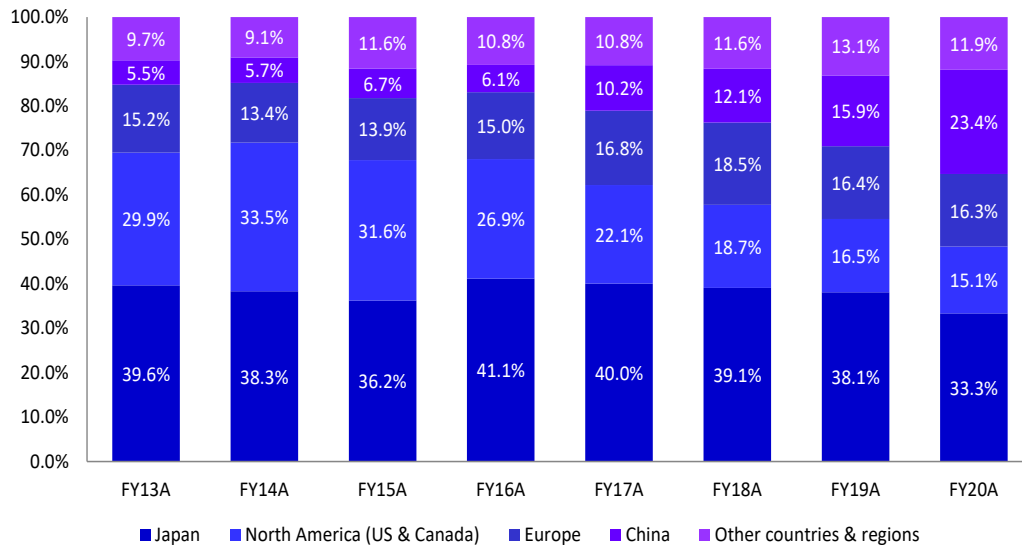
Exhibit 1: Nameson's blended GM showed early signs of recovery



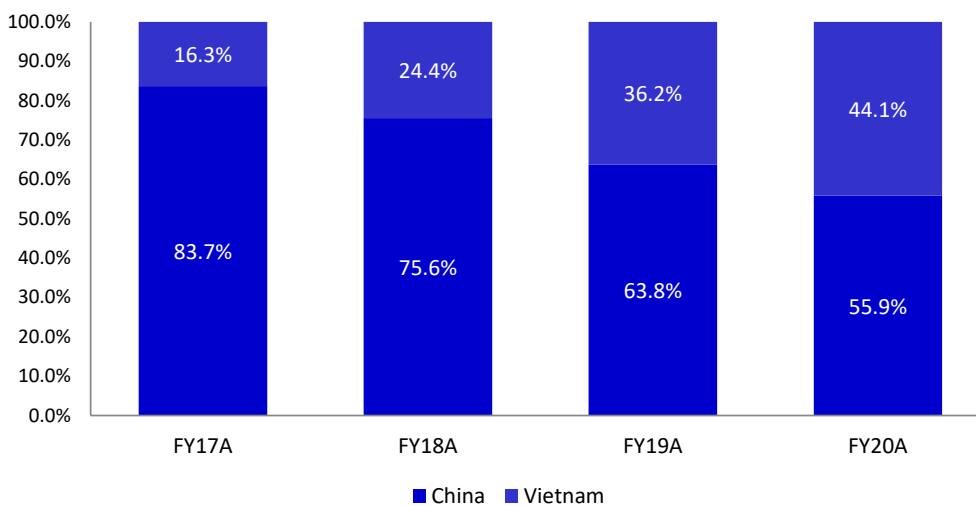
Source: Company data, CIRL

Exhibit 2: Cotton prices in the US (left) was near 3-year high, while Australia (right) wool price is still below than 2019 level


Source: Bloomberg, CIRL

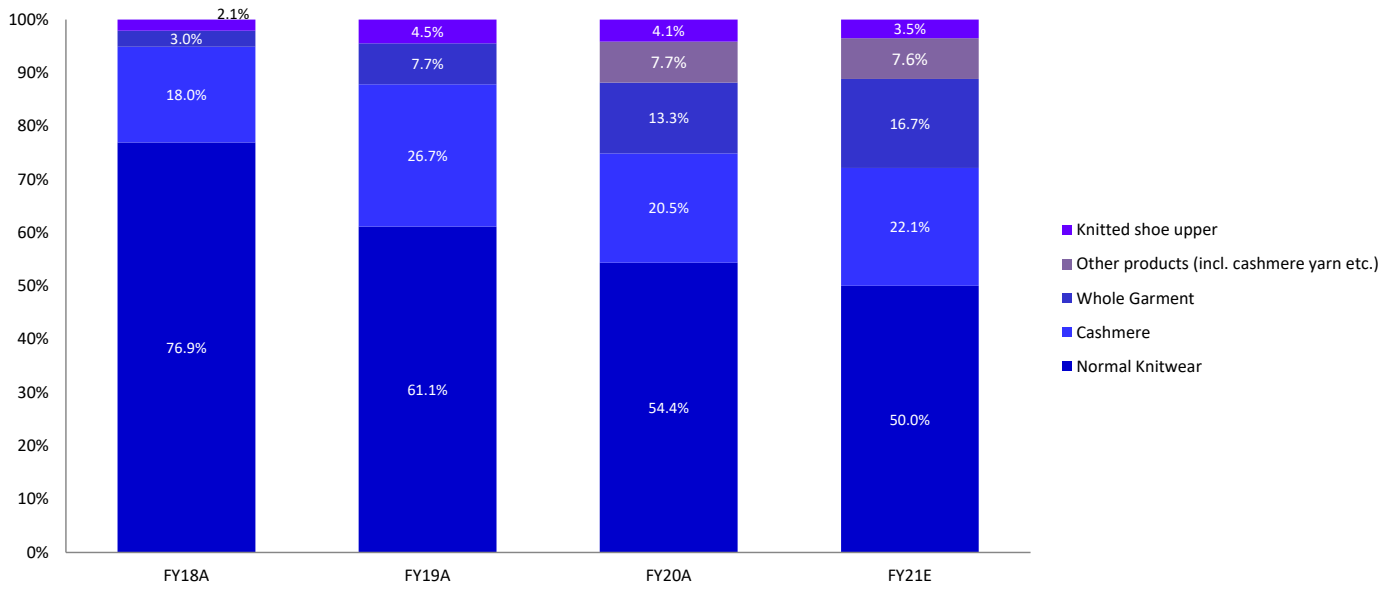
Exhibit 3: Increased sales contribution from China from FY16 onwards


Source: Company data, CIRL

Exhibit 4: Nameson's knitwear production capacity allocation


Source: Company data, CIRL

Exhibit 5: Whole garment expected to contribute mid-teens of Nameson's FY21E revenue



Source: Company data, CIRL estimates

Exhibit 7: Nameson's historical PB band



Source: Bloomberg, CIRL

Exhibit 6: Financial statement
Income statement

Year to Mar (HK\$ Mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	3,446	4,359	4,481	4,986	5,613
Gross profit (reported)	712	672	690	798	926
EBITDA	560	479	436	511	608
Depreciation	164	187	141	152	162
EBIT	396	292	295	360	446
Net interest income (exp.)	(19)	(45)	(63)	(49)	(55)
Associates	(0)	(0)	1	1	1
Exceptionals/others	0	(522)	(59)	0	0
Profit before tax	377	(275)	174	312	392
Tax expenses	(50)	(25)	(23)	(31)	(39)
Minority interest	0	(2)	(6)	(9)	(9)
Profit for the year	327	(300)	152	280	352
Adjusted Net profit	327	227	245	290	362
Dividends	117	82	98	108	134
Adjusted EPS (HK\$)	0.151	0.100	0.107	0.127	0.159

Balance sheet

Year to Mar (HK\$ Mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & equiv	1,010	415	713	544	556
Trade receivables	149	141	164	182	205
Other receivables	149	404	340	340	340
Inventories	812	1,111	806	1,054	1,245
Other current assets	7	12	18	0	0
Fixed assets	1,943	2,088	1,516	1,664	1,752
Land use rights / RoU assets	96	109	997	940	940
Investment, associates etc	818	343	272	274	275
Total assets	4,984	4,623	4,826	4,999	5,314
Account payables	209	313	390	332	372
Other payables	135	163	159	174	171
Short-term debt	1,202	1,006	372	500	493
Other current liabs	137	158	381	404	434
Long-term debts	836	925	1,136	984	887
Deferred tax and others	16	11	3	3	3
Other long-term liabs	0	0	289	226	226
Total liabilities	2,536	2,576	2,730	2,623	2,585
Share capital	23	23	23	23	23
Reserves	2,425	1,921	1,951	2,231	2,584
Shareholders' equity	2,448	1,944	1,974	2,254	2,607
Minorities	0	103	123	123	123
Total equity	2,448	2,047	2,097	2,377	2,729
Net cash (debt)	(1,029)	(1,516)	(795)	(940)	(824)

Cash flow

Year to Mar (HK\$ Mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Pre-tax profit	377	(275)	174	312	392
Taxes paid	(28)	(24)	(16)	(19)	(18)
Depreciation & amortization	164	187	141	152	162
Associates & Others	38	595	258	143	149
CFO bef. WC change	552	484	558	587	684
Change in working cap	(337)	(420)	401	(324)	(174)
Cashflow from operation	214	64	958	263	510
CAPEX	(264)	(323)	(308)	(300)	(250)
Free cash flow	(49)	(259)	651	(37)	260
Dividends	117	82	98	108	134
Balance sheet adj.	(952)	(310)	(27)	(215)	(279)
Shares issued	6	0	0	0	0
Others	0	0	0	0	0
Net cash flow	(878)	(487)	721	(145)	116
Net cash (debt) start	(151)	(1,029)	(1,516)	(795)	(940)
Net cash (debt) at year-end	-1,029	-1,516	-795	-940	-824

Ratios

Year to Mar (HK\$ Mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rate (%)					
Revenue	23.2%	26.5%	2.8%	11.3%	12.6%
EBITDA	1.9%	-14.4%	-8.9%	17.1%	18.9%
EBIT	0.3%	-26.3%	1.3%	21.7%	24.0%
Adjusted Net profit	-0.3%	-30.4%	7.6%	18.4%	24.9%
Fully diluted core EPS	-4.1%	-34.1%	7.6%	18.4%	24.9%
Margins (%)					
Gross margin (reported)	20.7%	15.4%	15.4%	16.0%	16.5%
EBITDA margin	16.2%	11.0%	9.7%	10.3%	10.8%
EBIT margin	11.5%	6.7%	6.6%	7.2%	7.9%
Net margin	9.5%	-6.9%	3.4%	5.6%	6.3%
Other ratios					
ROE (%)	16.3%	10.1%	11.8%	13.0%	14.2%
ROA (%)	8.5%	4.7%	5.2%	5.9%	7.0%
Net gearing (%)	42.0%	74.0%	37.9%	39.5%	30.2%
Interest coverage (x)	-21.2	-6.5	-4.7	-7.4	-8.1
Receivables days	13.5	12.2	12.4	12.7	12.6
Payables days	27.9	31.0	37.6	29.0	29.0
Inventory days	108.4	110.0	77.7	91.9	97.0
Effective tax rate (%)	-13.3%	-10.3%	-9.8%	-10.0%	-10.0%

Source: Company data, CIRL estimates

Exhibit 7: Peers valuation comparison

bloomberg code	Mkt Cap (HKD mn)	Price (HKD)	Share Price Movement (%)			PER (x)					P/B (x)					Yield (%)						
			1M	3M	YTD	FY18	FY19	FY20	FY21E	FY22E	FY17	FY18	FY19	FY20	FY21E	FY22E	FY18	FY19	FY20	FY21E	FY22E	
HK listed peers																						
SHENZHOU INTLGP	2313 HK	262,914	174.90	3.2	(3.5)	15.1	48.8	45.5	45.7	33.4	28.4	11.2	10.4	9.3	8.1	6.9	6.1	1.1%	1.1%	1.1%	1.5%	0.0%
TEXHONG TEXTILE	2678 HK	10,325	11.26	(0.7)	12.4	69.3	7.5	10.2	17.6	6.6	5.3	1.5	1.3	1.2	1.1	1.0	0.9	3.9%	3.4%	1.4%	4.5%	0.0%
CRYSTAL INTERNAT	2232 HK	9,985	3.50	(5.9)	26.4	47.1	8.5	8.4	11.9	7.5	6.8	1.2	1.3	1.2	1.1	1.0	0.9	25.2%	2.5%	2.5%	3.7%	0.0%
PACIFIC TEXTILE	1382 HK	7,056	5.00	(1.4)	0.0	(1.8)	9.8	8.3	9.8	8.9	8.1	2.3	2.2	2.2	2.4	2.2	2.1	9.0%	11.4%	8.8%	9.5%	0.0%
TEXWINCA HLDG	321 HK	2,722	1.97	8.2	24.7	32.2	9.0	8.4	16.1	-	-	0.5	0.5	0.5	0.6	-	-	17.8%	15.2%	5.1%	0.0%	0.0%
REGINA MIRACLE I	2199 HK	2,706	2.21	(6.0)	(7.9)	(13.0)	11.3	9.6	9.3	20.7	8.7	1.0	0.9	0.9	0.9	0.9	0.8	2.9%	3.4%	3.5%	1.1%	0.0%
BEST PACIFIC INT	2111 HK	2,444	2.35	24.3	49.7	88.0	8.6	8.1	9.5	7.1	5.8	1.1	1.0	1.0	0.8	0.8	0.7	2.9%	2.5%	3.1%	3.6%	0.0%
EAGLE NICE INTL	2368 HK	2,421	4.55	(5.2)	9.1	16.1	9.9	16.4	10.8	-	-	2.0	1.8	1.9	1.9	-	-	7.9%	6.7%	6.4%	0.0%	0.0%
WEIQIAO TEXTI-H	2698 HK	2,365	1.98	(2.9)	(8.8)	15.8	3.1	9.7	10.4	-	-	0.1	0.1	0.1	0.1	-	-	9.9%	3.7%	3.5%	0.0%	0.0%
COSMO LADY CHINA	2298 HK	2,362	1.05	(8.7)	(20.5)	(18.6)	5.2	-1.6	-17.5	11.8	8.8	0.6	0.5	0.8	0.8	0.8	0.7	4.2%	0.0%	0.0%	2.8%	0.0%
KINGMAKER FOOT	1170 HK	641	0.94	6.8	4.4	18.6	2.6	18.3	-12.5	-	-	0.6	0.5	0.6	0.6	-	-	6.4%	3.0%	0.0%	0.0%	0.0%
CHINA WEAVING MA	3778 HK	601	0.48	7.9	11.6	43.3	6.3	-384.6	8.5	-	-	1.0	0.9	0.9	0.8	-	-	0.0%	3.5%	4.7%	0.0%	0.0%
BONNY INTERNATIO	1906 HK	582	0.49	(3.0)	(2.0)	7.8	-	-38.9	10.8	-	-	-	-	1.8	1.4	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
WIN HANVERKY	3322 HK	443	0.35	1.5	(2.8)	(5.5)	10.5	6.9	-1.9	-	-	0.2	0.2	0.2	0.2	-	-	11.6%	2.9%	0.0%	0.0%	0.0%
SPEEDY GLOBAL HO	540 HK	111	0.19	(2.1)	2.8	8.8	5.0	4.2	-0.7	-	-	0.4	0.4	0.4	0.7	-	-	5.4%	16.2%	16.2%	0.0%	0.0%
Average		20,512		1.1	6.4	21.5	10.4	12.8	14.6	13.7	10.3	1.7	1.6	1.5	1.4	1.9	1.8	8.3%	5.8%	5.1%	3.8%	N/A
NAMESON HOLDINGS	1982 HK	1,459	0.64	28.0	42.2	37.6	4.2	6.4	6.0	5.0	4.0	0.8	0.6	0.7	0.7	0.6	0.5	8.6%	5.6%	6.7%	7.4%	9.2%
Shoe making peers																						
FENG TAY	9910 TT	48,377	54.87	(2.9)	8.5	(1.0)	35.3	30.6	37.7	25.0	21.7	13.4	11.8	11.2	10.1	8.0	7.1	2.4%	1.5%	0.0%	2.8%	0.0%
ECLAT TEXTILE	1476 TT	44,744	163.08	17.6	42.0	38.9	39.3	41.0	39.9	27.1	24.0	11.3	10.3	9.5	8.5	7.3	6.2	1.8%	1.7%	1.8%	2.5%	0.0%
YUE YUEN IND	551 HK	30,664	19.02	(4.1)	6.9	17.8	12.9	13.0	-43.5	13.1	10.0	0.9	1.0	1.0	1.0	1.0	0.9	7.9%	5.8%	0.0%	4.8%	0.0%
POU CHEN	9904 TT	25,765	8.75	(7.6)	9.4	0.3	9.3	8.6	20.3	8.8	8.0	1.2	1.3	0.8	0.7	0.7	0.6	4.5%	3.6%	0.0%	3.6%	0.0%
MAKALOT	1477 TT	16,798	69.45	1.8	26.9	33.5	39.8	32.4	28.8	22.1	19.4	7.1	7.0	6.6	5.6	5.3	4.9	2.5%	1.8%	3.0%	3.8%	0.0%
STELLA INTERNATI	1836 HK	7,775	9.79	(4.2)	4.6	8.7	15.0	10.3	601.1	12.5	9.8	1.0	1.0	1.0	1.1	1.0	1.0	7.6%	8.7%	0.0%	6.1%	0.0%
TAIWAN PAIHO	9938 TT	7,450	25.00	2.4	11.1	21.6	21.0	19.3	18.2	12.6	12.0	3.4	3.3	3.1	2.8	2.4	2.2	2.7%	3.0%	3.2%	4.4%	0.0%
Average		25,939		0.4	15.6	17.1	24.7	22.2	124.3	17.3	15.0	5.5	5.1	4.7	4.2	3.7	3.3	4.2%	3.8%	2.6%	4.0%	N/A
NAMESON HOLDINGS	1982 HK	1,459	0.64	28.0	42.2	37.6	4.2	6.4	6.0	5.0	4.0	0.8	0.6	0.7	0.7	0.6	0.5	8.6%	5.6%	6.2%	7.4%	9.2%

Source: Bloomberg, CIRL (As of May 14 market close)

Risk Factors

Downside risks include: 1) Trade war tension escalates; 2) RMB appreciation; 3) More intense competition in knitted shoe-upper manufacturing business; 4) Slower than expected ramp up of Vietnam Plant Phase 2; 5) Reduced order from Uniqlo; 6) sharp rise in raw material costs

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

Analysts List

Hayman Chiu	Research Director	(852) 2235 7677	hayman.chiu@cinda.com.hk
Lewis Pang	Associate Director	(852) 2235 7847	lewis.pang@cinda.com.hk
Edith Li	Senior Research Analyst	(852)2235 7515	edith.li@cinda.com.hk
Farica Li	Research Analyst	(852) 2235 7617	farica.li@cinda.com.hk

Analyst Certification

I, Hayman Chiu, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

Disclaimer

This report has been prepared by the Cinda International Research Limited. Although the information and opinions contained in this report have been compiled or arrived at from sources believed to be reliable, Cinda International cannot and does not warrant the accuracy or completeness of any such information and analysis. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Recipients should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision. The report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Any opinions expressed in this report are subject to change without notice. The report is published solely for information purposes, it does not constitute any advertisement and should not be construed as an offer to buy or sell securities. Cinda International will not accept any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report. This document is for the use of intended recipients only, the whole or a part of this report should not be reproduced to others.