



Rating
Buy

Asia
China

Consumer
Textiles & Apparel

Company
Shenzhou

Reuters
2313.HK

Bloomberg
2313 HK

Exchange
HSI

Ticker
2313

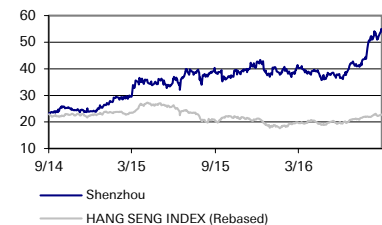
Date
26 September 2016

Initiation of Coverage

Price at 23 Sep 2016 (HKD)	54.50
Price target - 12mth (HKD)	62.00
52-week range (HKD)	55.05 - 35.30
HANG SENG INDEX	23,760

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	11.5	49.3	40.8
HANG SENG INDEX	3.3	13.9	11.5

Source: Deutsche Bank

A dominating force in textile, initiating with Buy

Most effective textile platform adding more innovation elements; Buy

Shenzhou (SZ) is a dominant textile platform due to its strong execution and dominant scale. Also, its unique exposure to China allows both cyclical and structural tailwinds. We view SZ's growth sustainable in the long term due to effective capacity expansion and efficiency improvement. With cost and lead-time advantage, SZ started to conduct more innovations. Flyknit will be a sustainable yet significant driver, while SZ's other innovative products like Tech Fleece will fuel its long-term growth. We forecast SZ to deliver earnings CAGR of 17% from 2015-2020, initiating with Buy.

One of the strongest textile platforms with unique China exposure

SZ's focus on leading sporting goods brands (Nike, Adidas and Puma) and has successfully become their core supplier & partner (Figure 9). We expect SZ's dominance to be reinforced by its further expansion in scale and product upgrades (Figure 12). We, thus, are less worried about intensifying competition following industry capacity addition. Cyclically, SZ's unique exposure to China allows SZ to enjoy the ongoing inventory restocking to Nike and Adidas' local distributors (which has been under inventory shortage) (Figure 17). The China exposure also allows SZ to structurally upgrade its products along with the market. We forecast SZ's China revenue contribution to rise to 32% by 2020 from 24% in 2015. We believe SZ's timely capacity expansion and efficiency improvement will support its growth in the long term (Figure 23).

Flyknit and textile innovations to contribute to long-term growth

We forecast Flyknit order growth to accelerate in 2016 and 2017 (Figure 29). We also forecast SZ to maintain a dominant market share due to superior yield rate and execution. As a result, we estimate Shenzhou to enjoy 42% CAGR for its Flyknit revenue from 2015-2020, with Flyknit representing 14% gross profit by 2020 (vs. 6% in 2015) (Figure 27). In addition, SZ is adding more innovative elements to its platform model, with Tech Fleece an important milestone (Figure 39). Such initiatives support SZ's long-term growth.

DCF-based target price of HKD62 supported by PER, downside risks

We use discounted cash flow (DCF) as our primary approach to value SZ's shares. We adopt the DCF methodology as we expect investors to focus more on SZ's long-term value creation (detailed assumptions in Figure 4). Downside risks: sharp increase in competition and raw material volatility.

This report is published in conjunction with our sector report – Greater China Sporting Goods: Giant Steps

Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E	2018E
Sales (CNYm)	11,131.5	12,639.6	15,328.5	17,874.8	20,310.2
DB EPS FD(CNY)	1.45	1.61	2.02	2.42	2.78
DB EPS growth (%)	7.4	11.7	24.9	20.0	14.9
PER (x)	13.3	17.6	23.2	19.4	16.9
Yield (net) (%)	7.0	5.0	2.9	3.4	3.9

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items



Model updated: 23 September 2016

Running the numbers

Asia

China

Textiles & Apparel

Shenzhen

Reuters: 2313.HK

Bloomberg: 2313.HK

Buy

Price (23 Sep 16) HKD 54.50

Target Price HKD 62.00

52 Week range HKD 35.30 - 55.05

Market Cap (m) HKDm 76,246
USDm 9,830

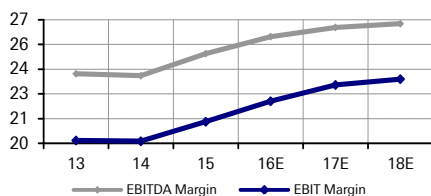
Company Profile

Shenzhen International Group Holdings Limited is the largest vertically integrated manufacturer of knitwear and the largest exporter in China. The company engages in manufacturing, processing, and selling knitwear products on an OEM basis. Shenzhen focuses on producing sports product, casual wear and lingerie wear.

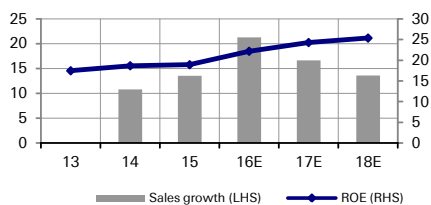
Price Performance



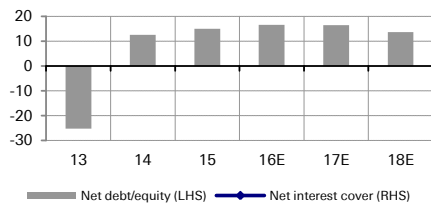
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2013	2014	2015	2016E	2017E	2018E
DB EPS (CNY)	1.35	1.45	1.61	2.02	2.42	2.78
Reported EPS (CNY)	1.32	1.45	1.57	2.02	2.42	2.78
DPS (CNY)	0.95	1.35	1.42	1.38	1.59	1.83
BVPS (CNY)	7.7	8.4	9.3	10.2	11.2	12.3
Weighted average shares (m)	1,347	1,399	1,399	1,399	1,399	1,399
Average market cap (CNYm)	22,985	26,980	39,678	65,567	65,567	65,567
Enterprise value (CNYm)	20,160	24,460	37,733	64,355	64,414	64,034

Valuation Metrics

P/E (DB) (x)	12.7	13.3	17.6	23.2	19.4	16.9
P/E (Reported) (x)	12.9	13.3	18.1	23.2	19.4	16.9
P/BV (x)	2.77	2.28	3.76	4.60	4.19	3.80
FCF Yield (%)	4.0	2.9	0.6	1.3	3.0	4.1
Dividend Yield (%)	5.6	7.0	5.0	2.9	3.4	3.9
EV/Sales (x)	2.0	2.2	3.0	4.2	3.6	3.2
EV/EBITDA (x)	8.5	9.3	12.0	16.2	13.6	11.8
EV/EBIT (x)	10.2	11.2	14.3	19.0	15.6	13.5

Income Statement (CNYm)

Sales revenue	10,047	11,132	12,640	15,328	17,875	20,310
Gross profit	3,246	3,669	4,371	5,481	6,477	7,425
EBITDA	2,384	2,628	3,154	3,983	4,745	5,436
Depreciation	407	443	522	601	624	683
Amortisation	0	0	0	0	0	0
EBIT	1,978	2,186	2,631	3,382	4,120	4,754
Net interest income/(expense)	23	79	124	70	57	59
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	200	279	132	274	282	296
Profit before tax	2,201	2,543	2,887	3,726	4,459	5,109
Income tax expense	397	477	532	694	825	935
Minorities	1	1	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,803	2,066	2,355	3,032	3,634	4,174
DB adjustments (including dilution)	34	-4	69	-4	0	0
DB Net profit	1,837	2,062	2,424	3,027	3,634	4,174

Cash Flow (CNYm)

Cash flow from operations	1,709	1,918	2,259	2,641	3,316	3,825
Net Capex	-789	-1,128	-2,033	-1,764	-1,350	-1,150
Free cash flow	920	791	226	876	1,966	2,675
Equity raised/(bought back)	1,217	0	0	0	0	0
Dividends paid	-755	-825	-1,104	-1,610	-1,930	-2,227
Net inc/(dec) in borrowings	-786	2,911	862	181	-61	-210
Other investing/financing cash flows	-131	-4,058	403	321	-234	-238
Net cash flow	465	-1,181	388	-232	-260	1
Change in working capital	-483	-374	-774	-901	-852	-833

Balance Sheet (CNYm)

Cash and other liquid assets	2,609	1,428	1,816	1,584	1,324	1,325
Tangible fixed assets	4,317	5,061	6,590	7,754	8,480	8,947
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	231	4,019	3,919	3,598	3,738	3,907
Other assets	4,160	5,436	6,036	6,951	7,842	8,738
Total assets	11,317	15,943	18,362	19,887	21,384	22,917
Interest bearing debt	0	2,911	3,774	3,955	3,894	3,684
Other liabilities	986	1,220	1,498	1,657	1,813	1,973
Total liabilities	986	4,132	5,272	5,611	5,707	5,656
Shareholders' equity	10,316	11,796	13,074	14,261	15,661	17,245
Minorities	15	16	16	16	16	16
Total shareholders' equity	10,332	11,811	13,090	14,276	15,677	17,261
Net debt	-2,609	1,483	1,958	2,371	2,569	2,358

Key Company Metrics

Sales growth (%)	nm	10.8	13.5	21.3	16.6	13.6
DB EPS growth (%)	na	7.4	11.7	24.9	20.0	14.9
EBITDA Margin (%)	23.7	23.6	25.0	26.0	26.5	26.8
EBIT Margin (%)	19.7	19.6	20.8	22.1	23.1	23.4
Payout ratio (%)	71.0	91.4	84.4	63.7	61.3	61.3
ROE (%)	17.5	18.7	18.9	22.2	24.3	25.4
Capex/sales (%)	7.9	10.2	16.1	11.5	7.6	5.7
Capex/depreciation (x)	1.9	2.6	3.9	2.9	2.2	1.7
Net debt/equity (%)	-25.3	12.6	15.0	16.6	16.4	13.7
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Investment thesis

Outlook

SZ's focus on leading sporting goods brands (Nike, Adidas and Puma) and has successfully become their core supplier & partner. We expect SZ's dominance to be reinforced by its further expansion in scale and product upgrades. The China exposure also allows SZ to structurally upgrade its products along with the market.

We forecast Flyknit order growth to accelerate in 2016 and 2017. We also forecast SZ to maintain a dominant market share due to superior yield rate and execution. As a result, we estimate Shenzhou to enjoy significant growth for its Flyknit revenue from 2015-2020. In addition, SZ is adding more innovative elements to its platform model, with Tech Fleece an important milestone. Such initiatives support SZ's long-term growth.

Valuation

We use discounted cash flow (DCF) as our primary approach to value SZ's shares. We adopt the DCF methodology as we expect investors to focus more on SZ's long-term value creation. In our DCF model, we derive a WACC of 8.35% with cost of equity of 8.94% (risk-free rate=3.9%, beta=0.9, market risk premium=5.6%) and cost of debt of 4.0%. We assume a long-term growth rate of 2%, which is in line with DB's Hong Kong China consumer discretionary coverage.

Risks

Downside risks

- **Significant competition:** will lead to price erosion and operating deleverage.
- **Heavy volatility in raw material prices:** will lead to heavier volatility in SZ's gross margin and affect SZ clients' ability to smoothly place orders.
- **Yield rate issue with new textile capacity:** will impact SZ's profitability and may lead to order loss.
- **Sharp reduction in Flyknit demand:** will impact SZ's growth momentum and lead to operating deleverage.



Initiating with Buy

Forecasts: DBE EBIT 2-4% above consensus

- **We are more positive on SZ's core competitiveness** as a platform. We, therefore, forecast milder ASP cuts and stronger efficiency gains that support gross margin.
- **We expect more innovative products:** that will likely support SZ's profitability and longer-term revenue growth.

Figure 1: DB more bullish on SZ' core profitability

(RMB mn)	2016E			2017E			2018E		
	DBe	Consensus	Diff	DBe	Consensus	Diff	DBe	Consensus	Diff
Revenue	15,328	15,343	-0.1%	17,875	17,787	0.5%	20,310	20,398	-0.4%
Gross Profit	4,881	4,879	0.0%	5,853	5,705	2.6%	6,742	6,553	2.9%
EBIT*	3,656	3,593	1.7%	4,402	4,235	4.0%	5,050	4,888	3.3%
Net Income	3,032	2,999	1.1%	3,634	3,548	2.4%	4,174	4,127	1.1%
Reported EPS (RMB)	2.02	2.00	1.1%	2.42	2.36	2.4%	2.78	2.75	1.1%
Gross Margin (%)	31.8%	31.8%	0.0%	32.7%	32.1%	0.7%	33.2%	32.1%	1.1%
EBIT Margin (%)	23.8%	23.4%	0.4%	24.6%	23.8%	0.8%	24.9%	24.0%	0.9%
Net Margin (%)	19.8%	19.5%	0.2%	20.3%	19.9%	0.4%	20.6%	20.2%	0.3%

Source: Deutsche Bank estimates, Bloomberg Finance LP *including non-OP items to fit consensus reporting style

Valuation: target price of HKD62 implies 14% upside

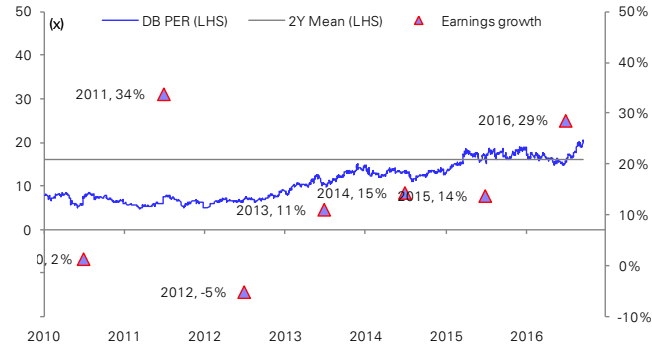
- Our target price represents 21x 2017 EPS, in-line with the 2-year mean plus 1.2 standard deviation.
- Peak/trough PER in the past 2 years: 20x/12x.

Figure 2: Consensus PER



Source: Deutsche Bank, Bloomberg Finance LP consensus

Figure 3: Consensus PER vs. earnings growth



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus

Sentiment and catalysts

Positive catalysts:

- **Sustainable inventory restocking in China and the start of restocking in the US** will lead to better sales and sentiment for the sector.
- **Accelerating growth at Flyknit and more model launches.**



Valuation and risks

Valuation: DCF-based target price of HKD62 implies 21x 2017E PER

DCF-based target price of HKD62

We use discounted cash flow (DCF) as our primary approach to value SZ's shares. We adopt the DCF methodology as we expect investors to focus more on SZ's long-term value creation. In our DCF model, we derive a WACC of 8.35% with cost of equity of 8.94% (risk-free rate=3.9%, beta=0.9, market risk premium=5.6%) and cost of debt of 4.0%. We assume a long-term growth rate of 2%, which is in line with DB's Hong Kong China consumer discretionary coverage.

Figure 4: Discounted cash flow valuation – Key assumptions

Share & Market Information		Note
Valuation date	12 month forward	
Current Stock Price	54.5	
Issued Shares (million)	1,399	Weighted average shares
DCF Target Price	62	
Implied Upside (Downside)	14%	
Valuation metrics		
FY16 PER (recurring)	24.8	
FY17 PER (recurring)	21.4	
FY16 PBR	6.1	
FY17 PBR	5.5	
Cost of Equity	8.94%	
Risk Free Rate (%)	3.90%	Deutsche Bank assumption for China
Beta	0.9	Bloomberg 1-year beta
Market Risk Premium (%)	5.60%	Deutsche Bank assumption for China
Cost of Debt (after tax)	4.00%	
Cost of Debt	5.00%	Company long-term borrowing rate
Tax Rate	20.00%	Long-term tax rate
Target Debt / (Debt + Equity)	12%	
WACC	8.35%	
DCF long-term growth	2.0%	In-line with DB consumer discretionary coverage space

Source: Deutsche Bank estimates, company data



Figure 5: DCF sales, margin assumptions and sensitivity

Two-stage DCF:

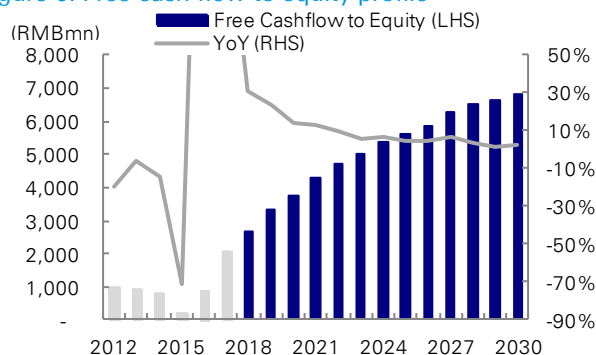
1. FCF forecasts from model 2018-2020
2. Explicit forecast period 2021-2030

	2018-2021	2022-2025	2026-2030	2018-2030
Revenue CAGR:	16.0%	8.2%	5.1%	8.1%
Average EBIT margin:	23.6%	23.3%	22.3%	23.1%
FCF CAGR:	36.7%	7.3%	3.9%	11.5%

	WACC	Terminal Growth				
		9.3%	8.8%	8.3%	7.8%	7.3%
0.00%		47	50	54	58	62
1.00%		49	53	57	62	67
2.00%		52	57	62	68	75
3.00%		57	62	68	76	85
4.00%		62	69	77	88	101

Source: Deutsche Bank estimates

Figure 6: Free cash flow to equity profile



Source: Deutsche Bank estimates, Note: representing free cash flow for equity (in line with Deutsche Bank RTN)

DCF-target price supported by peer valuation comparison

With a strong relationship with leading international sports brands, we view SZ as one of the leaders in the sporting goods ODM industry. SZ is also adding more innovation, this should help drive long-term rerating. Last but not least, SZ's strong China exposure allows it to enjoy the potential of China sporting goods market. Our DCF-based target price implies the PER of 21x, which is in line with Eclat's current valuation. We believe it is justifiable.

Figure 7: Sporting goods ODM comp

Name	Ticker	PX_Last	Market Cap	DB rating	PE		EPS YoY		PB		ROE		Div. Yield	
		(local cur.)	(US\$m)		FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Textile														
Shenzhou	2313 HK	54.5	9,830	Buy	23.2	19.4	25%	20%	4.6	4.2	22.2%	24.3%	2.9%	3.4%
Eclat	1476 TT	387	3,064	Buy	27.8	21.1	-7%	32%	6.9	6.1	27.3%	30.6%	2.5%	3.3%
Texwinca	321 HK	5.48	976	Hold	10.1	13.3	36%	-42%	1.9	1.4	18.5%	10.8%	8.1%	7.5%
Best Pacific	2111 HK	6.7	888	NR	16.1	13.8	24%	17%	3.4	3.0	22.8%	22.9%	2.4%	2.8%
Makalot	1477 TT	151.5	996	NR	17.1	15.5	-16%	10%	3.5	3.3	19.4%	21.9%	5.3%	5.1%
FENC	1402 TT	23.8	4,068	NR	18.1	15.1	-18%	19%	0.7	0.7	3.9%	4.4%	4.3%	5.2%
Formosa Taffeta	1434 TT	30.2	1,625	NR	12.0	10.8	50%	11%	0.9	0.9	7.7%	8.6%	5.9%	6.6%
Youngone	111770 KS	38750	1,557	NR	10.9	10.2	21%	7%	1.3	1.2	12.7%	12.2%	0.5%	0.5%
Hansae	105630 KS	28000	1,016	NR	12.0	10.4	3%	16%	2.2	1.8	20.0%	19.3%	0.9%	0.9%
Pacific	1382 HK	9.84	1,835	NR	13.0	12.3	0%	6%	4.2	4.1	32.9%	34.2%	7.7%	7.8%
Luthai	200726 CH	9.87	1,408	NR	10.3	9.0	10%	15%	1.1	1.0	10.5%	11.0%	6.7%	7.4%
Texhong	2678 HK	10.46	1,193	NR	8.0	7.0	68%	15%	1.7	1.5	23.1%	22.4%	3.8%	4.4%
Average					18.4	15.6	14%	16%	3.3	3.0	18.6%	19.7%	3.8%	4.3%
Footwear ODM														
Feng Tay	9910 TT	147	2,557	Buy	19.4	16.7	10%	16%	6.6	6.0	34.9%	37.8%	3.6%	4.2%
Yue Yuen	551 HK	32.2	6,834	Hold	14.8	13.5	20%	10%	1.5	1.4	10.1%	10.7%	4.1%	4.5%
Stella	1836 HK	13.32	1,364	NR	15.9	14.3	-29%	11%	1.4	1.3	8.8%	9.8%	5.4%	5.5%
Average					16.0	14.4	11%	12%	2.7	2.5	15.8%	17.0%	4.1%	4.6%

Source: Deutsche Bank estimates, Bloomberg Finance LP Note: for companies under DB coverage, use DBs, else, use Bloomberg Finance LP consensus. To determine which companies are under DB coverage, please refer to column "DB rating" Using close price as of 2016 September 23

Downside risks to our view

- **Significant competition** will lead to price erosion and operating deleverage.
- **Heavy volatility in raw material prices** will lead to heavier volatility in SZ's gross margin and affect its clients' ability to smoothly place orders.
- **Yield rate issue with new textile capacity** will impact SZ's profitability and may lead to order loss.
- **Sharp reduction in Flyknit demand** will impact SZ's growth momentum and lead to operating deleverage.



Dominant textile platform

Summary

- SZ's strong position as a textile platform has transformed it into leading sports brands' partner. Thus, we are less worried about competition.
- Cyclical recovery in both US and China will support SZ's near-term growth. SZ's unique China exposure allows more tailwinds.
- Capacity expansion and efficiency improvements are enough to support the sustainable growth for SZ's textile business, based on our analysis.

From supplier to partner

Becoming leading brands' core supplier

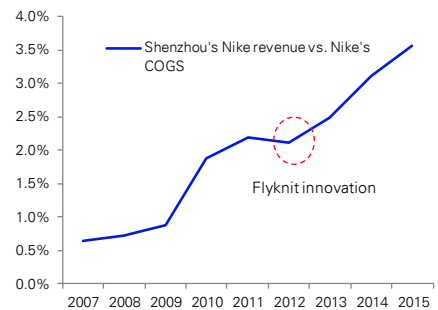
SZ's goal is to become leading sports brands' core supplier. This means handling a great variety of products and helping the brands reduce costs and production cycle time. We consider SZ as one of the best sporting goods ODM platforms with a growing innovation angle.

SZ's is now the largest textile suppliers of Nike, Adidas and Fast Retailing, with a very significant lead over competitors (Figure 9). Moreover, SZ produces the greatest variety of products for the brands covering nearly all sorts of knitted textile products. This is very different when compared to other leading textile companies.

The platform model effectively increases SZ's bargaining power in clients. Also, a diverse product portfolio and geographic exposure hedges SZ from the decline of specific product cycle.

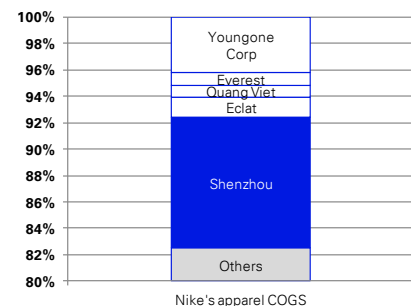
We believe SZ took significant order allocation in the past due to its scale, superior management and unique China exposure (Figure 8). Going forward, we expect the aforementioned strength to sustain, with more innovative products to further help SZ take allocations.

Figure 8: SZ has been gaining order allocation in Nike



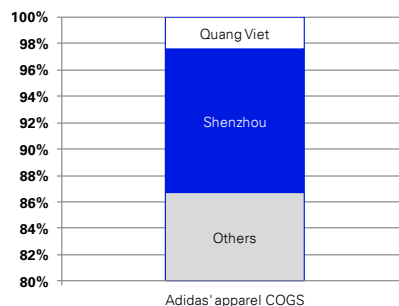
Source: Deutsche Bank estimates, company data

Figure 9: SZ now the largest textile supplier of Nike



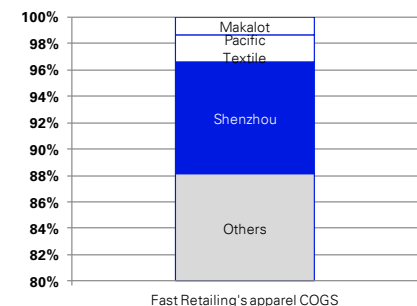
Source: Deutsche Bank estimates, company data

Figure 10: Also Adidas...



Source: Deutsche Bank estimates, company data

Figure 11: ...and Fast Retailing



Source: Deutsche Bank estimates, company data

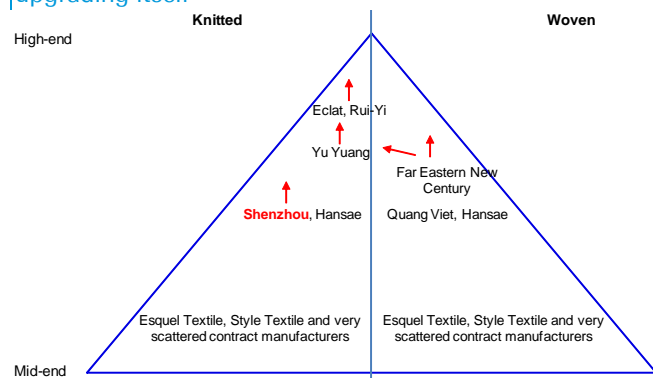


We are less worried about competitors' capacity expansion in Vietnam

Market is concerned that growing capacity in Vietnam (partly incentivized by Trans Pacific Partnership; TPP) will incur more competition and hurt SZ's earnings outlook. We believe an irrational price competition is very unlikely:

- **SZ's position as a major strategic partner of the brands:** Both Nike and Adidas announced their 2020 strategy for global growth. As Nike and Adidas' most important textile platform, we believe SZ plays a very important role in executing the long-term growth for its clients.
- **SZ's scale and cost advantage will continue to drive the market share increase:** Moving to Vietnam will eliminate the geographic entry barrier that used to protect some smaller textile companies. Major players like SZ will be able to compete in a flat ground and take more market share from the marginal ones. For instance, we are seeing Adidas reducing orders at some of its smaller & unlisted Taiwanese plants and shift these to SZ in Vietnam.
- **Integration is no easy job:** Unlike footwear manufacturing, textile companies tend to focus more on specific product categories. Therefore, a strong integrating platform is harder to come by. We believe one of SZ's major competitor in integration is likely Far Eastern New Century (1402 TT, NR).

Figure 12: Suppliers' position for Nike's fabric: SZ upgrading itself



Source: Deutsche Bank estimates

Figure 13: Suppliers' position for Nike's garment: SZ upgrading itself



Source: Deutsche Bank estimates

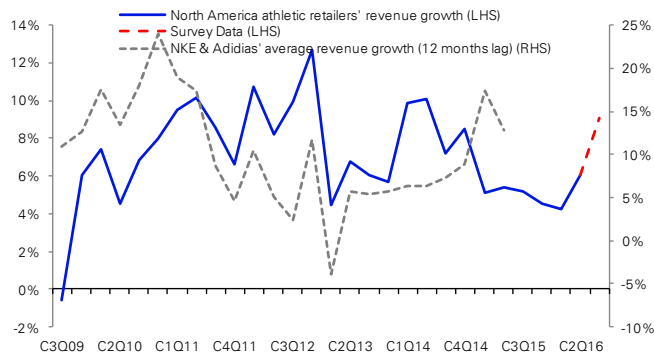
Cyclicality – both US and China turning more positive

North America better than feared

In North America, sporting goods demand has accelerated drastically in summer 2016. This, coupled with reduced inventory levels in general, may lead to an ease to destocking and even restocking.



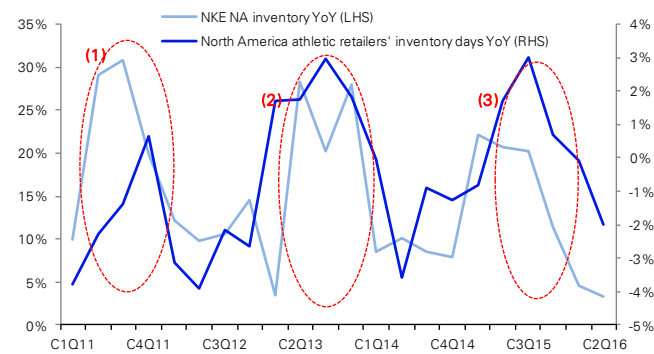
Figure 14: North America (1/3): Recovery in summer sportswear sell-through good for brand recovery



Source: Deutsche Bank, Bloomberg Finance LP, Sport Scan Info

- Operating a “pull” inventory model, we believe sports brands’ revenue is determined by the sell-through activity of their (1) wholesalers, (2) multi-brand operators and (3) DTC.
- We have seen decelerating growth for athletic retailers in North America since 2015. **But our survey data suggests a good acceleration in summer 2016.**

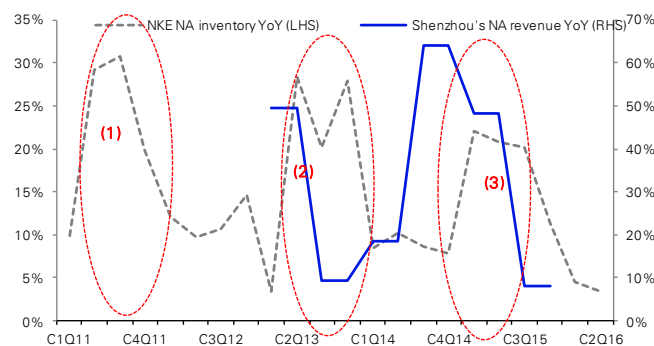
Figure 15: North America (2/3): We are likely approaching the end of the current destocking cycle



Source: Deutsche Bank, Bloomberg Finance LP

- After good restocking in 1H15, market entered an inventory control cycle in 3Q15.
- **However, we expect sports brands to gradually exit their destocking mode.**
- Historically, destocking takes around four quarters to complete; we are now entering the fifth quarter of the current phase.

Figure 16: North America (3/3): Positive implications for Shenzhou



Source: Deutsche Bank, Bloomberg Finance LP

- Shenzhou’s revenue has been a leading indicator of Nike’s North America inventory cycle.
- **We believe Nike’s restocking in North America will boost Shenzhou’s growth and sector sentiment.**

China restocking to boost growth for distributors and Shenzhou

We expect a restocking in 2H16 that will ease the current inventory shortage and likely accelerate distributors’ SSSg. The restocking will also be beneficiary to SZ.



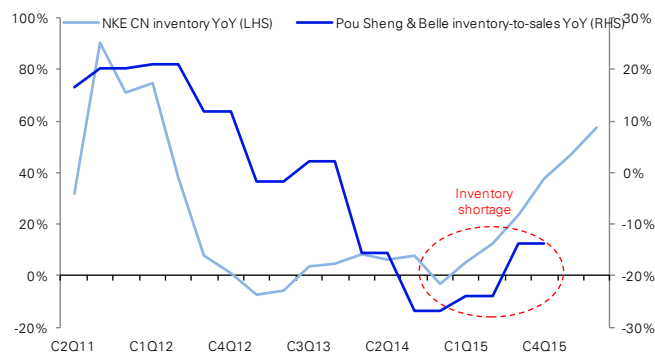
Figure 17: China (1/3): Sell-through slowdown likely due to inventory shortage



Source: Deutsche Bank, Bloomberg Finance LP

- Operating a “pull” inventory model, we believe sports brands’ revenue is determined by the sell-through activity of their (1) wholesalers and (2) DTC.
- We have seen decelerating growth for athletic retailers in China since 2H15 (although growth remains very strong). **We attribute the deceleration to inventory shortages.**
- Therefore, we believe sell-through growth will sustain or even accelerate if inventory shortage ease.

Figure 18: China (2/3): We forecast inventory restocking to ease shortage and boost growth

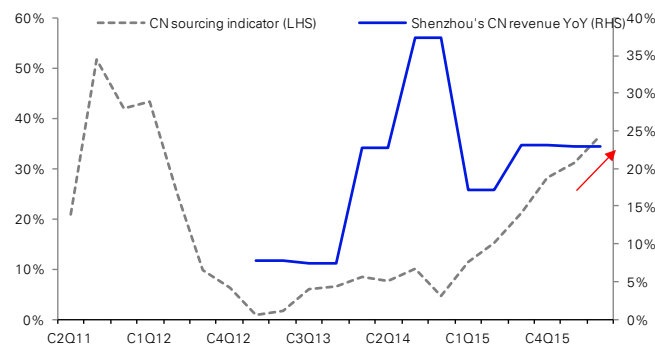


Source: Deutsche Bank, Bloomberg Finance LP

- After good restocking in 2011, we have witnessed a structural destocking since 2012 on both distributors’ and brands’ balance sheets.
- **Continued destocking led to a heavy inventory shortage starting from 2H15.**

Nevertheless, we expect the brands to restock their distributors in 2H16. We sense the brands building inventory on their balance sheet in preparation for a restock.

Figure 19: China (3/3): China inventory restocking is positive for Shenzhou



Source: Deutsche Bank, Bloomberg Finance LP

- Shenzhou’s revenue is driven by brands’ inventory level and sell-through activities in China.
- **We believe sports brands’ restocking in China will boost Shenzhou’s growth and sector sentiment.**

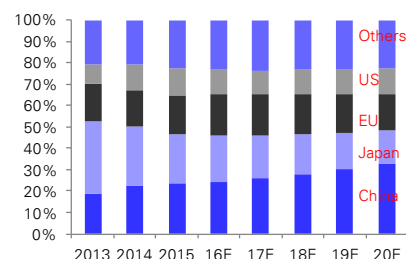


Well positioned for the China growth opportunity

We believe China's sporting goods market remains underpenetrated. We forecast significant growth potential for the market driven by sports segmentation. As Nike and Adidas' leading platform in China, we expect SZ to be the biggest beneficiary of China's growth.

Moreover, we believe the international sports brands will need to rely on SZ's strong local advantage (design, production, logistics) to fulfil their China growth strategy. This enables SZ stronger bargaining power and market share upside.

Figure 20: SZ: increasing revenue contribution from China market



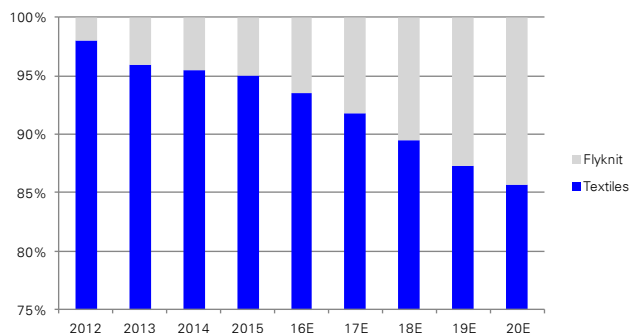
Source: Deutsche Bank estimates, company data

New textile capacity enough to support growth

We forecast SZ's textile product revenue to deliver 13% CAGR in 2016-2020

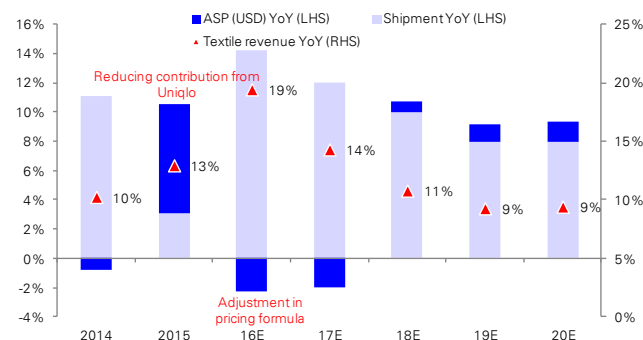
We expect the growth to be driven mostly by volume. On ASP, we conservatively assume limited growth and a 2% decline in 2016 (in USD terms). This is to reflect near-term pricing adjustments after heavy cotton price decline and CNY depreciation in 2015. We also conservatively model a more moderate ASP trend in the long-term to warrant potential intensifying competition.

Figure 21: SZ's revenue mix by business



Source: Deutsche Bank estimates, company data

Figure 22: Textile revenue: driven by volume



Source: Deutsche Bank estimates

Efficiency improvement supports capacity growth

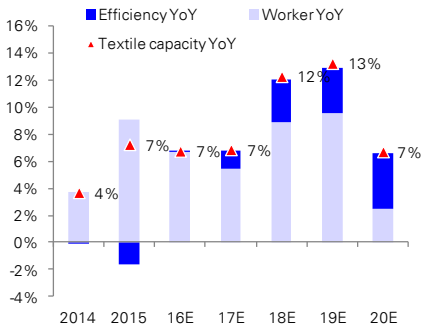
An often cited bottleneck for SZ is its tight garment capacity. Nevertheless, we estimate the company's labour increase as well as labour efficiency improvement will enable enough capacity to support our growth forecasts.

- Efficiency improvement sustains growth:** Figure 23: In 2017 to 2020, we assume SZ's new Vietnam plants to gradually increase production efficiency (measured by per worker garment output) to the level as Cambodia. In addition, we anticipate SZ to renew its production equipments at its Chinese plants. This will further improve SZ's efficiency.
- Rising capacity utilization:** Figure 24: We also forecast SZ to gradually increase its capacity utilization as Vietnam garment plants matures.

Our underlying assumption conservative: Figure 25: We note that our worker count forecast is very conservative when compared to company guidance. We forecast the garment plant to accommodate only 7,000 workers vs. 10,000 workers as guided by the company.

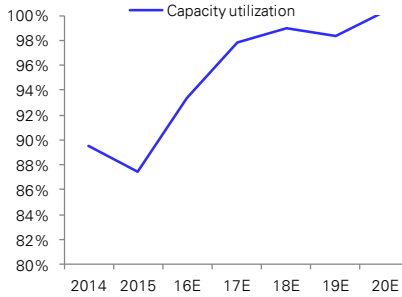


Figure 23: Textile capacity: efficiency increasingly important



Source: Deutsche Bank estimates, company data

Figure 24: Capacity utilization



Source: Deutsche Bank estimate

Figure 25: Year-end headcount forecasts

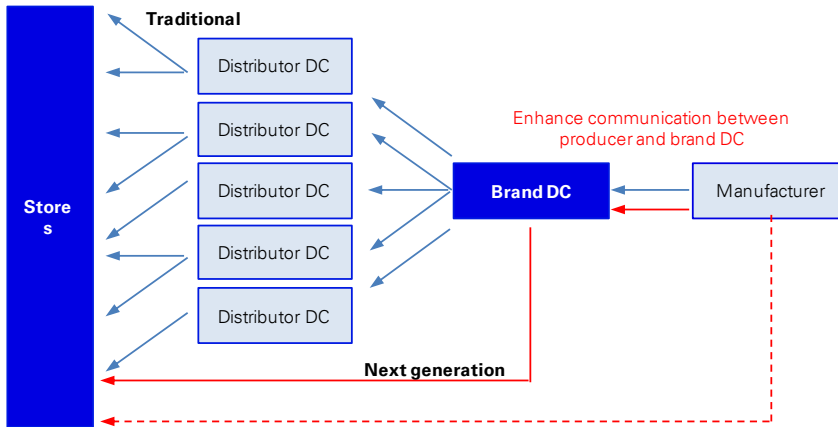
('000)	2017	
	DB	Guidance
Ningbo	38	38
Anhui	12	12
Cambodia	11	11
Vietnam	7	10

Source: Deutsche Bank estimates, company data

The ultimate platform model – coordinating supply chain for brands

In the previous sections, we discussed international brands and distributors' efficiency improvement programs. We think the ODMs also play an integral part in brands' efficiency programs. For instance, we forecast major international sports brand will ask the manufacturers to help coordinate logistics including warehousing. This will further cement the relationship between brands and their major platforms.

Figure 26: Shenzhou ties closely in retail efficiency improvement programs



Source: Deutsche Bank estimates



Flyknit: delivering its true strength from 2016

Summary

- We forecast Flyknit related order growth to accelerate from 2016, driven by both more stable supply and Nike's heavier promotion.
- We view Flyknit a long-term product cycle (due to its production benefits) and SZ should enjoy this sustainable driver.
- We believe SZ will maintain its dominant market share in Flyknit upper.

Entering a major growth cycle

Accelerating growth starting from 2016

We (conservatively) expect SZ's Flyknit Upper revenue to accelerate to 56%/50% in 2016/2017, vs. 24%/26% in 2014/2015, respectively. The acceleration is driven by stabilized supply as well as more aggressive promotions by Nike.

We believe SZ now treats Flyknit as its core business. We, therefore, forecast the company to sustainably increase its exposure to Flyknit Upper and forecast the business to account for 14% of its revenue by 2020 (from 5% in 2015; Figure 28).

Figure 27: Flyknit gross profit contribution

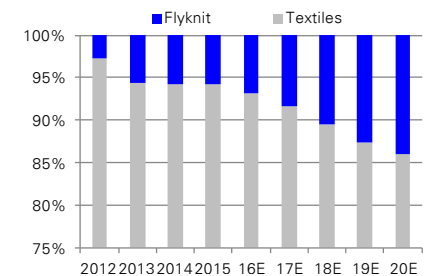


Figure 28: We expect Flyknit Upper to become a meaningful driver for Shenzhou

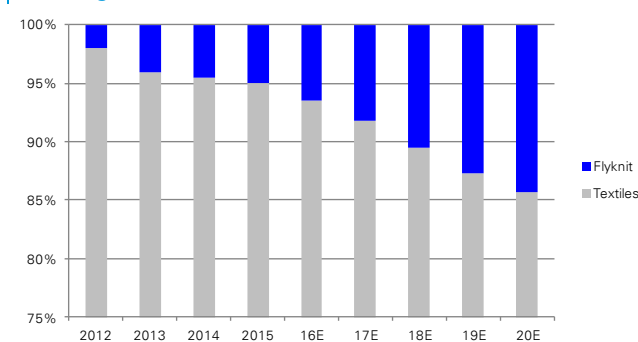
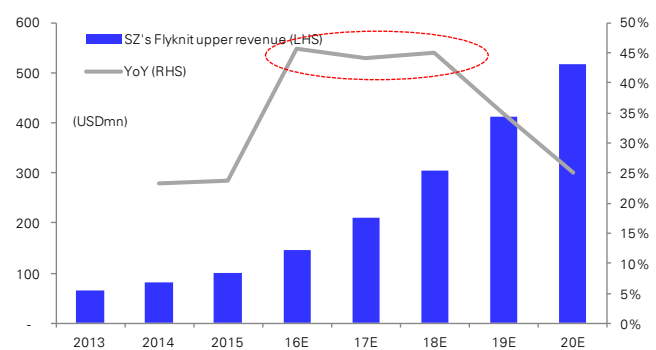


Figure 29: Accelerating growth starting from 2016



Flyknit growth acceleration driven by supply and demand:

On supply:

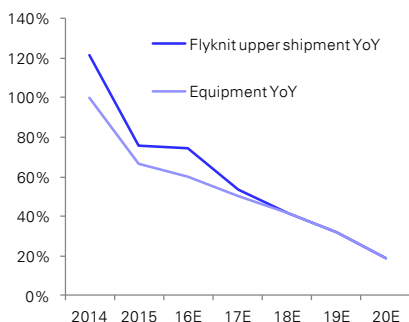
- **Enhanced knitting machine yield rate:** We note that Flyknit Upper production represents a long learning curve. And production yield rate has been a major issue hindering Nike from pushing Flyknit at full strength (given that Nike needs to cover some of the yield rate loss through pricing). Nevertheless, we forecast the yield rate has reached optimal level, due to SZ's superior production control. We note that SZ climbed the learning



curve much faster than the second source located in Sri Lanka (Figure 31). SZ, therefore, will be in charge of future Flyknit capacity expansion, in our view.

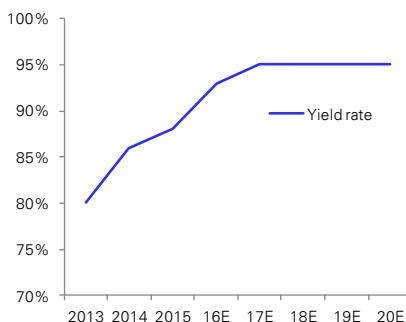
- Stabilizing local yarn supply:** Recycled polyester yarn is one of Flyknit's signatures. In the past, most of the yarn is being produced in the US and therefore costs have been relatively high with constant risks of shipment delays. Nevertheless, we are seeing more polyester yarn produced in China. This has effectively removed the bottlenecks at yarn supply.

Figure 30: Flyknit upper: strong volume growth



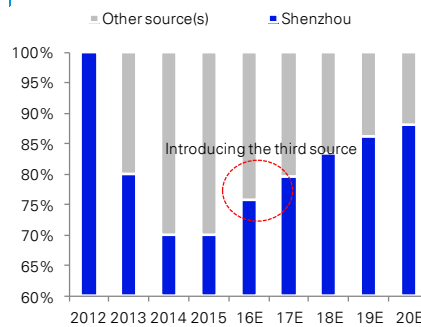
Source: Deutsche Bank estimates

Figure 31: Shenzhou's better yield rate improvements...



Source: Deutsche Bank estimates

Figure 32: ...allows higher market share

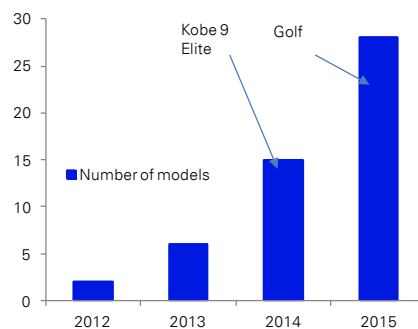


Source: Deutsche Bank estimates

On demand:

- More Flyknit models:** Nike currently offers nearly 30 Flyknit models covering running, training, basketball, golf, etc, based on our calculation. We forecast growing Flyknit models in Nike's pipeline (that extends beyond 2017). We believe it is Nike's long-term target to continue to expand its exposure to Flyknit. We conservatively forecast Flyknit-related footwear orders will represent 8.4% of Nike's total footwear orders (vs. 2.3% in 2015, Figure 34). This implies a 37% CAGR for total Flyknit Upper revenue from 2015-2020.
- Cheaper retail price:** With reduced production cost, we forecast Nike to gradually widen the price range of Flyknit shoes. We also see potential for Nike to launch partial Flyknit models (part of the Upper is knitted while the rest is made using traditional production process). This will boost the volume of Flyknit's orders.

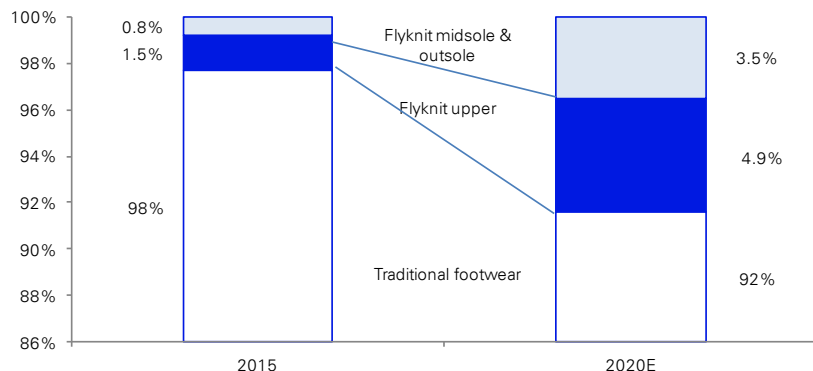
Figure 33: Growing Flyknit models



Source: Deutsche Bank compiled, Nike



Figure 34: Nike's footwear orders mix: Flyknit Upper and sole order to play a bigger part



Source: Deutsche Bank estimates, company data

A long-term play

Flyknit is not fab, but Nike's answer to next generation footwear manufacturing

We sense Nike's growing confidence in building Flyknit into its core product category, aiming at Flyknit's production benefits, including:

- **Labour reduction:** A traditional footwear plant with 600k pairs/month capacity requires c.20k workers. However, Flyknit's 1.2m pairs/month shoe upper capacity requires less than 5k workers, based on our estimates. This advantage frees Nike from massive labour demand.
- **Programmed innovation:** Innovation for Flyknit is vastly different vs. traditional footwear. At Flyknit, the design is all computerized with Nike's programmers capable of tracking the whole innovation process. Nike also co-works with Flextronics to explore full automation of Flyknit's production. Although we do not expect significant progress at the initial stage, Nike's move indicates its intention to invest in Flyknit for the long term.
- **However, Nike still needs production experts to maintain high yield rate and scale-up new designs:** Despite the aforementioned advantages, Flyknit production still requires rigorous monitoring to maintain the production yield. Also, Nike has been constantly trying new material (for instance, hybrid yarn) and these trials need to be conducted at scale-up factories. We believe this is SZ's value addition to Flyknit.

SZ's new Flyknit plant highlights its importance

We believe SZ is building a new plant in Vietnam dedicated to Flyknit Upper. This plant likely represents Nike's initiative to diversify geographic risks, while embracing a maturing footwear ODM supply chain in Vietnam. We note that Feng Tay (9910 TT; in charge of Flyknit basketball lamination) is preparing capacity in Vietnam, likely for SZ's new Flyknit plant.

SZ's agreement to build a new Flyknit plant is meaningful, in our view. We believe this indicates that SZ is now treating Flyknit Upper as its core business.



Market share: SZ likely to dominate Flyknit Upper

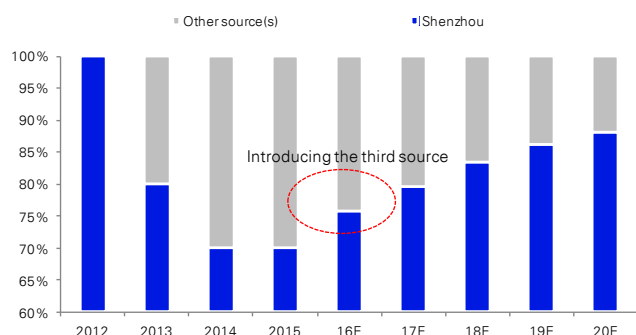
SZ to take most of the incremental growth

We forecast SZ's new Vietnam plant to represent the majority of new Flyknit Upper capacity in the future. We, therefore, forecast the additional Flyknit capacity to come from the new Vietnam plant.

SZ was able to secure the Flyknit expansion project in Vietnam due to its stronger yield rate improvement and execution leadership. Flyknit's second source in Sri Lanka (a major conglomerate with annual revenue of over USD1.5bn vs. SZ of USD2.1bn) did not contribute as much as SZ during the Flyknit R&D stage. We also note that Nike does not have major footwear assembly partners located neither in Sri Lanka nor India (except for Feng Tay's India plants, which has less than 7,000 line workers). The demand for localized production will further push Nike to expand Flyknit in Vietnam, in our view.

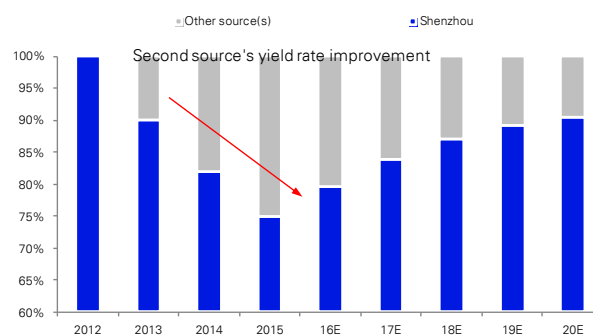
We, therefore, forecast SZ's revenue market share in Flyknit Upper to increase to 90% in 2020E vs. 75% in 2015.

Figure 35: Flyknit Upper: capacity market share



Source: Deutsche Bank estimates

Figure 36: Flyknit Upper: revenue market share



Source: Deutsche Bank estimates

We do not worry about in-sourcing in the next five years

We believe Nike has recently taken on a new source for Flyknit Upper and sensed market's worry. Nevertheless, we do not expect the new source to take a meaningful market share in a foreseeable future. The new production site will mainly act as a testing ground for automated Flyknit production. Also, our conversation with industry experts suggests that it is extremely difficult to achieve full automation for Flyknit. Last but not least, Nike does not have a scaled footwear assembler within North American Free Trade Agreement (NAFTA). We, therefore, believe the new source will remain as an R&D partner instead of scaled producer for Flyknit.



More innovations

Summary

- In addition to reactive R&D (with a focus on cost reduction), SZ has been strengthening its proactive R&D for longer-term growth.
- SZ's innovative textile products including Tech Fleece suggests initial success of its proactive R&D efforts. We expect more innovative product to come.

Enhancing the platform business model with innovator characteristics

Blending in more innovation for long-term growth

SZ is clearly a dominant textile platform. While at the same time, the company started to explore more innovation and delivered more breakthroughs starting from 2014. The company started to execute more proactive R&D (Figure 37) for Nike since 2014 and saw a robust improvement in development hit rate in 2014-2016. We forecast the proactive R&D will start to reflect more on SZ's revenue from 2016.

Figure 37: Proactive R&D vs. reactive R&D

	Proactive R&D (投稿開發)	Reactive R&D (來樣開發)
Nature	Develop new material & technology for brands to choose from	Receive sample from brands to duplicate
Purpose	Differentiation	Cost & lead-time reduction; Scale up
Benefits	Enjoy longer product life cycle	Sustainable volume
Risks	Failure to capture brands' design trend, brands' budget control	Heavier price cut than efficiency improvement

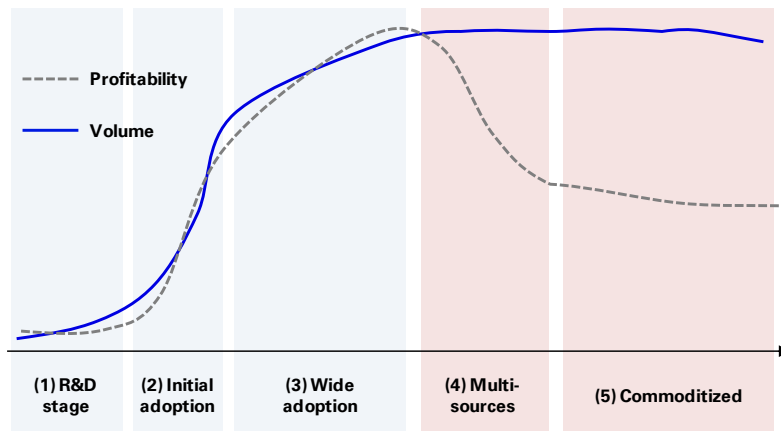
Source: Deutsche Bank estimates

A general life cycle of textile innovation

The more lucrative stage for textile innovation starts during the initial adoption (stage (2) Figure 38), when the product is being introduced by the first brand. An innovative product often carries exclusivity, generally for two years. After that the textile company can introduce the product to other brands. This will move the product into the most lucrative stage, wide adoption stage (stage (3)). During this stage, the textile company works with multiple clients and often commands the strongest bargaining power. Afterwards, brands will introduce more sources through reactive R&D, commoditizing the innovation.



Figure 38: Textile innovation: General life cycle



Source: Deutsche Bank estimates

Proactive R&D vs. reactive R&D

Proactive R&D represents textile company's efforts to develop innovative products and submit for clients' review. Proactive R&D, once successful, often means greater order visibility (as the product will be incorporated in brands' long-term pipeline). A strong proactive R&D product portfolio also ensures better profitability and volume growth.

Contrary to proactive R&D, in reactive R&D, the brands provide a sample textile product for manufacturers for reverse engineering. Reactive R&D is often for cost reduction and/or the inclusion of second source suppliers. In general, proactive R&D often covers stage (1), (2) and (3) while reactive R&D is more for stages (4) and (5) (Figure 38).

A platform business model focuses tremendously on cost reduction and efficiency improvement (reactive R&D). An innovator business model focuses more on the proactive R&D process to co-work with brands' developers.

Synthetic game changer

SZ's efforts to expand into synthetic fabric allow more room to innovate. Cotton yarn, due to its physical nature, is harder to deliver functionally, the shape and physical characteristics of synthetic yarn are easier to manipulate. This leads to more room for innovation.



SZ's textile innovations

Tech Fleece: A versatile answer to urban sportswear

Tech Fleece is one of Nike's major fabric innovations. The fabric is by nature not a fleece product but a special category of "spacer fabric" (meaning containing a layer of thin air between the interior and exterior layer).

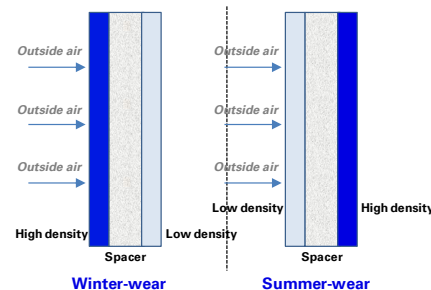
The spacer design offers two advantages vs. the traditional fleece fabric (namely, Three End Fleece). The spacer layer offers a stiffer feel to the fabric and matches better with the urban sports style. On the other hand, spacer fabric is "reversible". With high density layer facing the exterior, the spacer acts as insulation (to keep wearer warm). With low density fabric facing the exterior, the spacer helps the fabric breath (Figure 39).

We forecast SZ's Tech Fleece to soon enter the "wide adoption" stage (Figure 38). We expect growing orders from Nike into its 2017AW and 2018AW designs. In addition, we expect more brands to adopt the spacer fabric design.

China leggings upgrade

China's knitted stretchable fabric market remains to be less advanced when compared to the US. However, we are seeing very robust product upgrades. We expect SZ to be a major beneficiary of the upgrade trend.

Figure 39: "Reversibility" of Tech Fleece



Source: Deutsche Bank, Taiwan Textile Research Institute

Figure 40: Nike's mainstream leggings in China vs. in the US

Name	MSRP (USD)	Available in CN?
Nike Leg-A-See Logo <i>57% cotton / 32% polyester / 11% Spandex</i>	45	Y
Nike Track and Field Graphic <i>57% cotton / 32% polyester / 11% Spandex</i>	50	Y
Nike Legendary Fabric Twist Veneer <i>86% nylon / 14% Spandex</i>	105	N
Nike Palm Epic Lux <i>77% nylon / 23% Spandex</i>	120	N

Source: Deutsche Bank, store visit data

In addition, the sourcing behaviour at local sportswear brands is also changing. Anta and Li Ning, although not a major part of SZ's business, have been enhancing their product design process. Also, both Anta and Li Ning showed very clear intentions to upgrade their product quality.

What's next?

We believe the other innovations in the pipeline include new designs on Tech Fleece structure, more advanced sweat wicking fabric and more Flywire (shoe material), etc. SZ is also studying the potential of jacquard knitted stretchable fabric. But we do not expect to see meaningful volume by SZ in the near future. This will likely allow Eclat to maintain its leadership at the jacquard knitted stretchable fabric universe.



Financial outlook

Income statement

- **Revenue:** we forecast sustainable growth driven by both textile products and Flyknit upper. We forecast 13% revenue CAGR for textile products in 2015-2020, mainly driven by sports brands. We forecast 42% revenue CAGR for Flyknit upper in 2015-2020.
- **Gross margin:** we forecast improving gross margin mainly driven by textile products. We conservatively assume Flyknit upper gross margin to be stable.
- **OPEX:** we do not expect a material reduction in OPEX-to-revenue ratio as we anticipate SZ to further invest in proactive R&D.
- **Other income:** we anticipate more financial income as SZ's cash position increase (after the current round of major expansions).

Figure 41: SZ: income statement

Income Statement- Consolidated						
	2015A	2016E	2017E	2018E	2019E	2020E
Net Sales	12,640	15,328	17,875	20,310	22,747	25,341
Sports (ex Flyknit)	7,396	8,830	10,476	11,934	13,451	15,147
Flyknit	632	986	1,478	2,143	2,894	3,617
Casual & Lingerie	4,612	5,513	5,920	6,232	6,402	6,576
Costs	8,791	10,448	12,022	13,568	15,137	16,844
Gross profit	3,849	4,881	5,853	6,742	7,610	8,497
Operating expenses	1,218	1,499	1,732	1,989	2,227	2,481
Operating profit	2,631	3,382	4,120	4,754	5,382	6,016
Government grant	216	269	282	296	311	326
Other non-OP	39	76	57	59	20	28
Total non-operating income	256	344	339	355	331	354
Pretax profit	2,887	3,726	4,459	5,109	5,713	6,370
Taxes (negative for credit)	532	694	825	935	1,034	1,140
Minority	0	0	0	0	0	0
Net Income	2,355	3,032	3,634	4,174	4,679	5,230
EPS (CNY)	1.61	2.02	2.42	2.78	3.12	3.48
Profitability	2015A	2016E	2017E	2018E	2019E	2020E
Gross margin	30.5%	31.8%	32.7%	33.2%	33.5%	33.5%
Operating margin	20.8%	22.1%	23.1%	23.4%	23.7%	23.7%
OPEX to sales	9.6%	9.8%	9.7%	9.8%	9.8%	9.8%
Pretax margin	22.8%	24.3%	24.9%	25.2%	25.1%	25.1%
Net Margin	18.6%	19.8%	20.3%	20.6%	20.6%	20.6%
Growth	2015A	2016E	2017E	2018E	2019E	2020E
Revenue- YoY	14%	21%	17%	14%	12%	11%
EPS- YoY	12%	25%	20%	15%	12%	12%

Source: Deutsche Bank estimates, company data

Balance sheet

- **Working capital:** we expect SZ to gradually reduce its inventory days. We note that the company strategically build-up raw material (cotton yarn) in 2015 to enjoy the lower raw material prices. However, with raw material prices recovering we expect SZ to operate on leaner inventory. On accounts receivable, we forecast a stable account receivable days, while we estimate SZ to increase accounts payable days due to its stronger bargaining power.



- **Borrowing:** we forecast SZ to gradually pay down its debts as it exists the recent capacity expansion cycle. SZ's convertible bond will expire on Jun 2019 and we currently forecast it to roll over the debt.

Figure 42: SZ: balance sheet

Balance Sheet- Consolidated						
	2015A	2016E	2017E	2018E	2019E	2020E
Cash & equiv.	2,139	1,907	1,648	1,649	1,399	1,435
S/T investment	2,741	2,450	2,616	2,765	1,100	1,100
Receivables	2,002	2,436	2,889	3,339	3,801	4,304
Inventory	3,233	3,842	4,381	4,907	5,433	5,999
Other current asset	797	668	566	486	424	375
Current Asset	10,912	11,303	12,099	13,145	12,157	13,214
Net PP&E	6,590	7,754	8,480	8,947	9,182	9,402
LT equity investment	5	5	5	6	6	7
Other L/T assets	855	825	799	819	859	1,158
L/T Assets	7,450	8,585	9,284	9,772	10,047	10,567
Total Asset	18,362	19,887	21,384	22,917	22,204	23,781
Trade payable	679	821	961	1,103	1,251	1,415
S/T loans	657	900	900	750	1,100	600
Other current liabilities	819	836	852	870	887	905
Current liabilities	2,155	2,557	2,713	2,723	3,238	2,920
L/T debt (incl cap lease)	3,117	3,055	2,994	2,934	-	-
Other L/T liabilities	-	-	-	-	-	-
L/T liabilities	3,117	3,055	2,994	2,934	-	-
Total Liability	5,272	5,611	5,707	5,656	3,238	2,920
Common Equity	142	142	142	142	142	142
Retained Earnings	9,610	10,797	12,197	13,782	15,486	17,381
Minority	16	16	16	16	16	16
Other Equity & Adjustments	3,322	3,322	3,322	3,322	3,322	3,322
Equity	13,090	14,276	15,677	17,261	18,965	20,860

Source: Deutsche Bank estimates, company data

Cashflow statement

- **Operating cash flow supported by enhanced earnings power**, while the use of working capital remains largely controlled.
- **Existing the current capex cycle.**

Figure 43: SZ: cashflow statement

Cashflow Statement- Consolidated						
	2015A	2016E	2017E	2018E	2019E	2020E
EBITDA less tax	2,622	3,288	3,920	4,501	5,064	5,606
A/R Dec. (Inc.)	(359)	(434)	(454)	(449)	(463)	(503)
Inventory Dec. (Inc.)	(626)	(609)	(538)	(526)	(526)	(566)
A/P Inc. (Dec.)	211	142	140	142	148	164
Govt grant & other	411	253	248	157	78	(73)
Operating cashflow	2,259	2,641	3,316	3,825	4,302	4,628
Capex	(2,038)	(1,764)	(1,350)	(1,150)	(950)	(950)
Deposit, loan and prepaid	1,304	376	8	(54)	1,334	55
Financial instruments	(469)	50	(66)	(8)	624	-
Other	(192)	(55)	(56)	(75)	(95)	(150)
Investing cashflow	(1,395)	(1,393)	(1,464)	(1,288)	913	(1,045)
Dividend	(1,104)	(1,610)	(1,930)	(2,227)	(2,558)	(2,867)
Equity financing	-	-	-	-	-	-
Debt financing	862	181	(61)	(210)	(2,584)	(500)
Other & bonus	(268)	(50)	(120)	(100)	(100)	(180)
Financing cashflow	(509)	(1,479)	(2,111)	(2,536)	(5,241)	(3,547)
Adjustments	32	-	-	-	-	-

Source: Deutsche Bank estimates, company data



Appendix A

Company profile

Company history

Shenzhou International Group Holdings Limited was founded in 1988 as the largest vertically integrated manufacturer of high-end knitwear with its subsidiaries in China, and the country's largest exporter of knitwear. The company was listed on Hong Kong Stock in November 2005 with an aim to be the most competitive knitwear manufacturer in the world.

Shenzhou engages in manufacturing, processing and selling knitwear products on an OEM basis. The company's production base is located in Economic Technical Development Zone of Ningbo and Vietnam, and has strategically set up garment factories in Quzhou and Anqing of China and Cambodia. As of 31 December 2015, the company had over 67,390 employees and 810,000 sqm of area under factories, with a production capacity of over 270m pieces of various knitwear per year. Shenzhou focuses on producing sports product, casual wear and lingerie wear for major international brands including Uniqlo, Adidas, Nike and Puma. Its products are offered in Japan, Mainland China, European Union, the US and other countries.

Management team

Figure 44: Management team of Shenzhou

Name	Title	Age	Date of appointment	Background
Ma Jianrong	Chairman	50	5-Jul-05	Worked for Shaoxing Cotton Mill and Hangzhou Linping Knitting and Garment Plant, Manager of the knitting and weaving department of Shenzhou, a deputy general manager and the general manager of Ningbo Shenzhou Weaving Group Co., Ltd, Chairman of Ningbo Shenzhou Knitting Co., Ltd.
Huang Guanlin	CEO/General Manager	50	12-Jul-05	Worked for a silk knitting mill in Yuhang County, Zhejiang Province, Manager and a Deputy General Manager of the production and operation department of Ningbo Weaving, General Manager of Shenzhou Knitting
Chan Tak Hing, Kenji	Secretary/Controller	45	1-Sep-08	Qualified Accountant of Shenzhou International
Zheng Miaohui	Deputy General Manager	60	12-Jul-05	30-year experience in financial management in Shenzhou
Ma Renhe	Executive Director	55	12-Jul-05	Worked for Shaoxing Cotton Mill and Hangzhou Linping Knitting and Garment Plant, Manager and Deputy General Manager of the dyeing and finishing department of Ningbo Weaving, Deputy General Manager of Shenzhou Knitting
Chen Zhifen	Executive Director/Deputy General Manager	47		More than 25-year experience in Shenzhou International, Section Chief, Department Manager, General Manager Assistant of Ningbo Weaving, General Manager Assistant of Shenzhou International
Wang Cunbo	Executive Director/Head: Finance	43	30-May-11	Finance Minister of Shenzhou International and CFO of Shenzhou Knitting since May 2004
Hu Jijun	Deputy General Manager	47	1-Sep-89	25-year sales experience in Japanese Textile & Apparel Market, Assistant Manager of Production & Operation Department and General Manager Assistant in Ningbo Weaving
Chen Lan	Deputy General Manager	50	1-Jul-89	Manager of Weaving Department, Assistant Manager of Production & Operation Department, Manager of Raw Material Purchasing Department and General Manager Assistant of Ningbo Weaving, General Manager Assistant of Shenzhou International
Gu Chaoquan	Deputy General Manager	54	1-Jan-89	More than 27-year experience in textile industry, Deputy Director, Manager of Clothing Department

Source: Deutsche Bank, company data



Major shareholders

According to public company filings, Shenzhou's major shareholders include Keep Glory (80.08% owned by Splendid Steed, 13.92% by BMX and 6.00% by Super China) and Fairco Group (72.94% owned by MCC and 27.06% by certain senior management of the group).

Figure 45: List of Shenzhou's major shareholders

Name	Holding (%)	Profile
Keep Glory	53.63	A company incorporated in the British Virgin Islands with limited liability, owned as to 80.08% by Splendid Steed, 13.92% by BMX and 6.00% by Super China (Splendid Steed, a company incorporated in the British Virgin Islands with limited liability, is wholly owned by Mr. Ma Jianrong. BMX, a company incorporated in the British Virgin Islands with limited liability, is wholly owned by Mr. Huang Guanlin. Super China, a company incorporated in the British Virgin Islands with limited liability, is wholly owned by Mr. Ma Baoxing (father of Mr. Ma Jianrong).)
Fairco Group	6.07	A company incorporated in the British Virgin Islands with limited liability, which is owned as to 72.94% by MCC and 27.06% by certain senior management of the Group including Ms. Zheng Miaohui, Mr. Wang Cunbo and Ms. Chen Zhifen (all are executive Directors). (MCC, a company incorporated in the British Virgin Islands with limited liability, is wholly owned by Mr. Ma Renhe, an executive Director and a cousin of Mr. Ma Jianrong)

Source: Deutsche Bank, company data, Bloomberg Finance LP



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Appendix 1

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Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Shenzhou	2313.HK	54.50 (HKD) 23 Sep 16	6,9

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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Historical recommendations and target price: Shenzhou (2313.HK)
 (as of 9/23/2016)



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- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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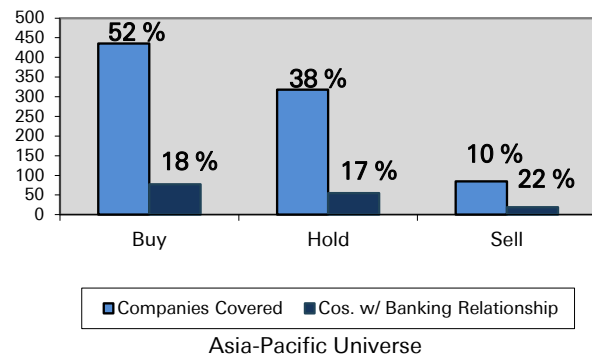
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