

10 Aug, 2023

Nameson | 01982.HK

More than a knitwear supplier

STOCK RATING

NR

TARGET PRICE

HK\$ -

More than a knitwear supplier:

- Established in 1990, Nameson (01982.HK) has participated in the knitwear manufacturing business for decades, and it is the major business contributing approximately 79.7% of total revenue to the Group. It achieved revenue of 29.2mn pieces of knitwear products for the fiscal year ended Mar 2023, and, supported by the increasing raw material costs, the ASP of knitwear products also rallied from HKD 110.4 per piece for the fiscal year ended Mar 2022 to HKD 125.6 per piece for the fiscal year ended Mar 2023.
- Nameson (01982.HK) produced approximately 780 tons of cashmere yarn for the fiscal year ended Mar 2023, and, generally speaking, more than half of the cashmere yarn produced is sold to external customers. The Group recorded HKD 543.7mn revenue from the sales of cashmere yarn for the fiscal year ended Mar 2023, accounting for about 11.8% of total revenue.
- Nameson (01982.HK) tried to diversify into the fabric in Vietnam, and the trial production was completed in 2022 Q2. As at the end of Mar 2023, the designed annual production capacity was about 30mn pounds.

A supplier of leading players: Nameson (01982.HK) has built a business relationship with Uniqlo for more than 2 decades, and Uniqlo is a key customer contributing nearly half of the total revenue to the Group. Apart from half of the revenue contributed by Uniqlo, the 2nd to 5th largest customers accounted for approximately 20% of total revenue. According to the customer concentration ratio, disclosures and the geographical breakdown of the total revenue of the Group, it is expected that key customers are multi-national companies like Tommy Hilfiger, Calvin Klein, Land's End etc.

Expansion of global footprint: Nameson (01982.HK) has a factory in Huizhou and a factory in Hebei for the production of knitwear products and cashmere yarn respectively. Apart from the factories in China, Nameson (01982.HK) expands its global footprint in both Vietnam and Myanmar. As at the end of Mar 2023, the factory in Vietnam had a GFA of >130k sq. m., and it employed over 8,000 employees and manufactured more than half of the knitwear products for the fiscal year ended 31 Mar 2023. The Group intended to further expand the factory in Vietnam to satisfy the ballooning demand for knitwear products produced outside China. Besides, the construction of the factory in Myanmar has almost been completed, the Group is actively communicating with customers and trying to complete the trial production.

COMPANY NOTE

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Nameson (01982.HK)

Stock Rating **NR**
Target Price **HK\$ -**

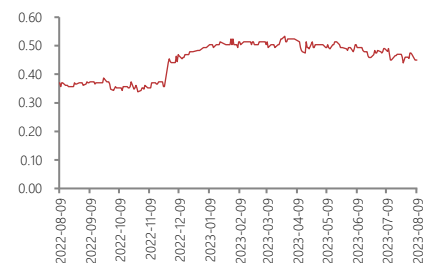
 Current Price **HK\$ 0.45**

 52-Week Range **HK\$ 0.375 – 0.540**

 Market cap. (HKD, bn) **HK\$ 1.0**

HKD, mn	2019/	2020/	2021/	2022/
	20 (A)	21 (A)	22 (A)	23 (A)
Revenue	4,480.7	3,848.6	4,040.5	4,602.3
Gross Profit	690.1	701.4	706.1	745.5
Gross Margin	15.4%	18.2%	17.5%	16.2%
Net Profit	151.5	298.4	275.6	158.3
ROE	7.3%	13.2%	11.0%	6.2%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-6.2%	-8.9%	-12.4%	21.7%
Relative to HSI	-10.4%	-5.7%	-1.4%	25.5%



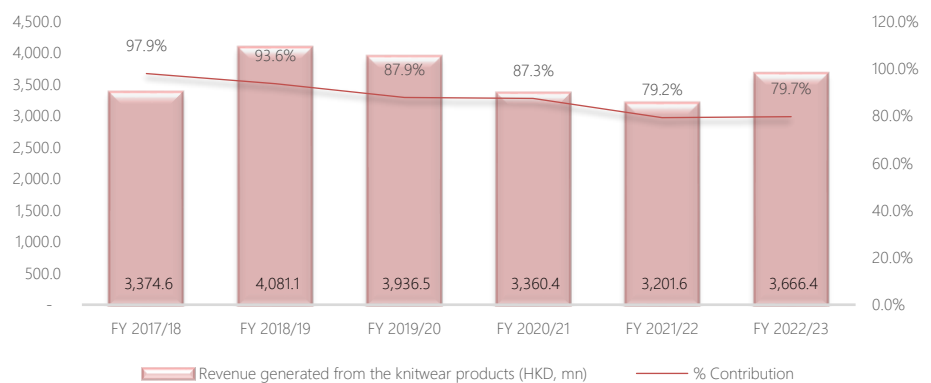
Investment Thesis

More than a knitwear supplier

- A primary player in knitwear products

Established in 1990, Nameson (01982.HK) has participated in the knitwear manufacturing business for decades, and it is the major business contributing approximately 79.7% of total revenue to the Group.

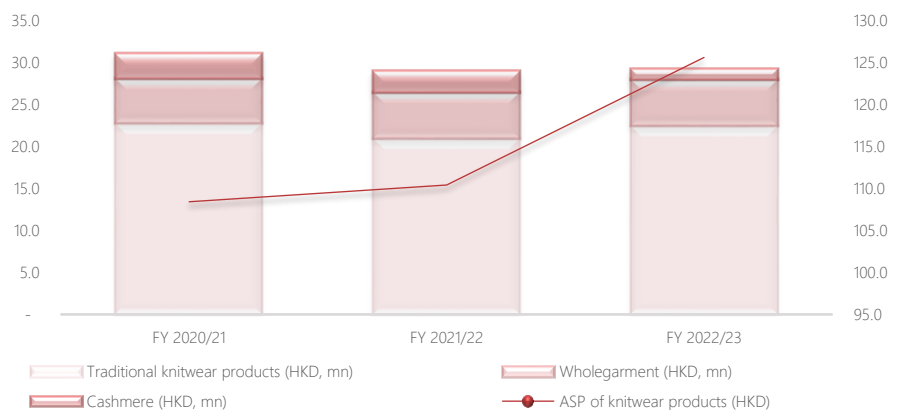
Exhibit: Revenue generated from the knitwear manufacturing business and the % contribution



Source: Company data, West Bull Securities

Nameson (01982.HK) achieved a sales of 29.2mn pieces of knitwear products for the fiscal year ended Mar 2023, which growth is nearly flat when compared to the previous fiscal year, and, supported by the increasing raw material costs, the ASP of knitwear products also rallied from HKD 110.4 per piece for the fiscal year ended Mar 2022 to HKD 125.6 per piece for the fiscal year ended Mar 2023.

Exhibit: Sales breakdown of knitwear products and the ASP of knitwear products



Source: Company data, West Bull Securities

- Growing contribution from the cashmere yarn

Nameson (01982.HK) formed a JV in 2018 and operated a cashmere yarn spinning facility in China. As at the end of Mar 2023, the production capacity of cashmere yarn of the Group was 900 tons per year.

Exhibit: The cashmere yarn spinning facility of Nameson (01982.HK)



Source: Company data

Nameson (01982.HK) produced approximately 780 tons of cashmere yarn for the fiscal year ended Mar 2023, and, generally speaking, more than half of the cashmere yarn produced is sold to external customers. The Group recorded HKD 543.7mn revenue from the sales of cashmere yarn for the fiscal year ended Mar 2023, accounting for about 11.8% of total revenue.

- Exploration of fabric business

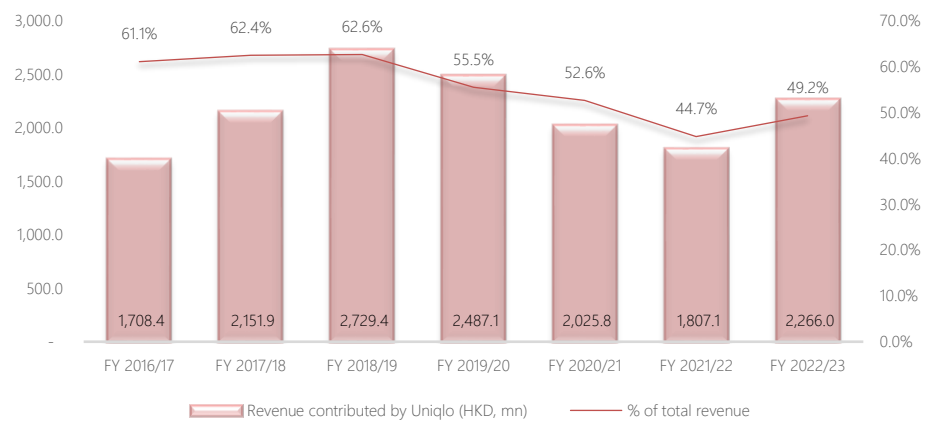
Nameson (01982.HK) tried to diversify into the fabric business (incl. the weaving, printing and dyeing of fabrics) in Vietnam, and the trial production was completed in 2022 Q2. As at the end of Mar 2023, the designed annual production capacity was about 30mn pounds. However, the utilization rate remained low and the production is ramping up slowly due to the weak end demand, it is expected that the Group has to take about 2 – 3 years for production ramp-up to achieve break-even.

A supplier of leading players

- Close business relationship with Uniqlo

Nameson (01982.HK) has built a business relationship with Uniqlo for more than 2 decades, and Uniqlo is a key customer contributing nearly half of the total revenue to the Group. Nameson (01982.HK) primarily provides Uniqlo with traditional knitwear sweaters as well as wholegarment products.

Exhibit: Revenue contributed by Uniqlo and the % of total revenue



Source: Company data, West Bull Securities

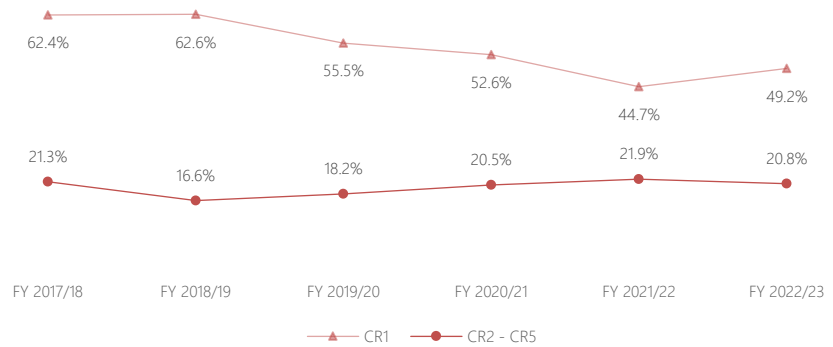
Wholegarment is an advanced technology reducing about 30% of material wastage and 50% of lead time, and the number of labour required and hence labour cost is lower due to the elimination of the linking process. Besides, the equipment for wholegarment sweaters production is approximately 10x of traditional knitwear production machines. Nameson (01986.HK) invested heavily in this advanced technology and sells the majority of wholegarment sweaters produced to Uniqlo, reflecting the business relationship with Uniqlo is much closer than other customers.

As a Japanese company's supplier of particular products, knitwear sweaters and wholegarment products, for decades, we believe that the business relationship between Nameson (01982.HK) and Uniqlo is strong. Given no special issues, it is expected that the cooperation between the two companies will remain status quo.

■ Growing top-tier customers

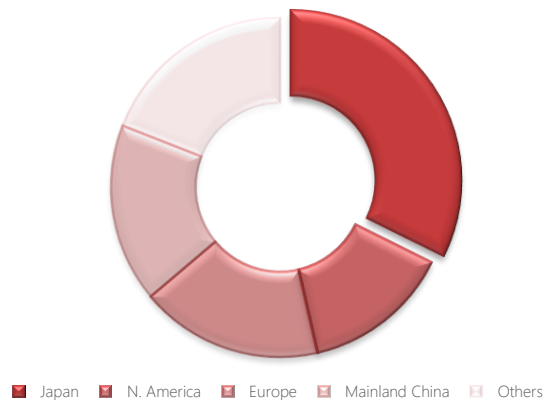
Apart from half of the revenue contributed by Uniqlo, the 2nd to 5th largest customers accounted for approximately 20% of total revenue. According to the customer concentration ratio, disclosures and the geographical breakdown of the total revenue of the Group, it is expected that key customers are multi-national companies like Tommy Hilfiger, Calvin Klein, Land's End etc.

Exhibit: CR1, CR2 – CR5 of Namson (01982.HK)



Source: Company data, West Bull Securities

Exhibit: Geographical breakdown of the total revenue of Namson (01982.HK)



Source: Company data, West Bull Securities

Besides, we are excited to hear that the Group successfully gets into the supply chain of two major sportswear companies in the US, we believe that the availability of top-tier customers is one of the key factors determining the sustainability of a supplier without private labels. It is a positive signal that i) the product quality of the Group remains stable and good enough to gain the top-tier customers targeting the mass market, ii) the utilization rate and hence the profit margin can be sustained due to the relatively regular and bulk orders from the top-tier customers.

Expansion of global footprint

Apart from the factories in China, Nameson (01982.HK) expands its global footprint in both Vietnam and Myanmar.

■ China

Nameson (01982.HK) has a factory in Huizhou and a factory in Hebei for the production of knitwear products and cashmere yarn respectively.

■ Vietnam

As at the end of Mar 2023, the factory in Vietnam had a GFA of >130,000 sq. m., and it employed over 8,000 employees and manufactured more than half of the knitwear products for the fiscal year ended 31 Mar 2023. The Group intended to further expand the factory in Vietnam to satisfy the ballooning demand for knitwear products produced outside China.

The fabric factory also locates in Vietnam with an annual production capacity of 30mn pounds. Despite a temporary headwind, the fabric business may be one of the key directions.

■ Myanmar

The construction of the factory in Myanmar has almost been completed but an impairment loss of HKD 243.4mn (more than half of the total investment incurred) was recognized for the fiscal year ended Mar 2023 due to the delay of trial production.

The impairment loss in the investment in Myanmar, in our opinion, is not a replication of the “V. Success Incidence”, it doesn’t involve any dilution as well as related transaction. The Group is actively communicating with customers and trying to complete the trial production in the coming year.

Risk Factors

Appreciation of RMB against USD

Given i) little bargaining power on the choice of raw materials, ii) the payment in RMB for the raw material iii) a higher correlation between the raw materials and the selling price, an appreciation against RMB to USD does squeeze the profit margin of the Group.

The pressure brought by the depreciation expenses

Nameson (01982.HK) intends to i) expand the production capacity of knitwear products in Vietnam to satisfy the demand for knitwear products produced outside China, ii) expand the production capacity of fabric in Vietnam, iii) produce knitwear products in Myanmar. It means that part of the production capacity will be relocated abroad, and the depreciation expenses from the existing equipment in China, as well as the additional equipment in Vietnam and Myanmar, may bring pressure to the Group in the short term.

Ballooning borrowing costs

The hiking interest environment doesn't favour the operation of Nameson (01982.HK) whose debt-to-equity ratio was 37.8%, an increase in the benchmark interest rate led to an increment in borrowing costs. According to the annual report of the Group, the weighted average effective interest rate rallied from 1.75% for the fiscal year ended 31 Mar 2022 to 4.63% for the fiscal year ended 31 Mar 2023.

Moreover, the de-leveraging process is expected to decelerate due to the investment abroad.

Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
02232.HK	Crystal Intl	7,759.7	5.8	5.6	0.7	0.4	19,505.8	18.6	13.1
02313.HK	Shenzhou Intl	115,898.4	23.5	23.1	3.5	3.9	32,349.7	22.1	15.6
02368.HK	Eagle Nice	2,466.2	8.4	-	1.5	0.6	4,051.1	18.7	17.7
	<i>Average</i>	<i>42,041.4</i>	<i>12.6</i>	<i>14.4</i>	<i>1.9</i>	<i>1.6</i>	<i>18,635.5</i>	<i>19.8</i>	<i>15.5</i>
01982.HK	Nameson	1,025.7	7.6	-	0.5	0.2	4,602.3	16.2	5.8

Source: Bloomberg, West Bull Securities

Financial Statement

PnL (HKD, mn)					Balance Sheet				
	2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)	(HKD, mn)	2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)
Revenue	4,480.7	3,848.6	4,040.5	4,602.3	PPE	1,515.7	1,770.8	2,131.1	1,780.4
<i>YoY growth</i>	2.8%	-14.1%	5.0%	13.9%	Others	1,269.2	1,098.5	640.0	601.8
COGS	(3,790.6)	(3,147.1)	(3,334.4)	(3,856.8)	Non-current assets	2,784.9	2,869.4	2,771.2	2,382.3
Gross profit	690.1	701.4	706.1	745.5	Inventories	806.5	721.6	1,161.2	1,032.0
Other income	43.7	48.1	19.5	125.4	Trade receivables	164.0	143.9	146.2	132.7
Operating expenses	(497.5)	(381.9)	(386.2)	(629.2)	Cash & cash equivalents	713.1	793.2	610.7	717.0
Operating profit	236.4	367.6	339.4	241.7	Others	357.9	127.6	124.9	165.1
Finance expenses, net	(62.8)	(33.0)	(21.2)	(33.0)	Current assets	2,041.4	1,786.2	2,043.1	2,046.8
JV & Ass.	0.8	0.1	0.8	0.7	Total assets	4,826.4	4,655.6	4,814.3	4,429.1
Profit before tax	174.4	334.7	319.0	209.4	LT borrowings	1,136.1	343.0	935.6	530.9
Tax	(22.8)	(36.3)	(43.4)	(51.1)	Others	291.9	115.5	54.1	88.1
Net profit	151.5	298.4	275.6	158.3	Non-current liabilities	1,428.0	458.5	989.7	619.0
<i>YoY growth</i>	-150.4%	96.9%	-7.6%	-42.6%	Trade payables	390.4	314.4	415.9	363.4
					ST borrowings	371.6	881.3	254.5	405.8
					Others	539.7	585.3	551.2	563.2
					Current liabilities	1,301.7	1,781.0	1,221.6	1,332.4
					Total liabilities	2,729.8	2,239.5	2,211.4	1,951.4
					Non-controlling interests	122.7	174.9	194.5	202.6
					Controlling interests	1,974.0	2,241.2	2,408.4	2,275.1
					Total equities	2,096.6	2,416.1	2,602.9	2,477.7

Cash Flow					Financial Ratio				
(HKD, mn)	2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)		2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)
Profit before tax	174.4	334.7	319.0	209.4	Gross margin	15.4%	18.2%	17.5%	16.2%
Finance expenses	68.6	35.9	23.9	43.2	Operating margin	5.3%	9.6%	8.4%	5.3%
Finance income	(5.7)	(2.9)	(2.7)	(10.1)	Net profit margin	3.4%	7.8%	6.8%	3.4%
D&A	150.8	126.4	146.4	196.9	Adj. EBITDA profit margin	10.5%	12.6%	12.0%	13.4%
Others	87.6	92.9	35.3	140.6	Return on Equity	7.3%	13.2%	11.0%	6.2%
Change in working capital	400.7	262.4	(277.9)	13.3	Return on Asset	3.2%	6.3%	5.8%	3.4%
CFO	876.3	849.3	244.0	593.2	Current ratio	156.8%	100.3%	167.2%	153.6%
					Quick ratio	94.9%	59.8%	72.2%	76.2%
CAPEX	(307.4)	(273.1)	(97.3)	(10.1)	Cash ratio	54.8%	44.5%	50.0%	53.8%
Others	(1.1)	2.9	6.9	10.1	Debt-to-Equity ratio	71.9%	50.7%	45.7%	37.8%
CFI	(308.5)	(270.3)	(90.4)	0.0	Net Debt-to-Equity ratio	37.9%	17.8%	22.3%	8.9%
					Inventory turnover days	92.3	88.6	103.1	103.8
Shares issuance	-	-	-	-	Receivable turnover days	12.5	14.7	13.1	11.1
Net borrowings	(2.8)	(283.4)	(34.2)	(253.4)	Payable turnover days	33.8	40.9	40.0	36.9
Interest expenses	-	-	-	-					
Dividend paid	(98.0)	(86.6)	(123.1)	(150.4)					
Others	(164.2)	(139.1)	(180.4)	(80.0)					
CFF	(265.0)	(509.2)	(337.7)	(483.8)					
FCFE	566.1	292.8	112.5	329.8					
FCFF	626.6	608.1	167.2	614.6					

Source: Company data, West Bull Securities

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