

6 May, 2024

Nameson | 01982.HK

Business development remains stable

STOCK RATING

NR

TARGET PRICE

HK\$ -

Expansion of cashmere yarn business: Nameson (01982.HK) entered into a JV agreement with its largest cashmere supplier, Hebei Yuteng, to engage in the manufacturing of cashmere yarn in Vietnam, the total production capacity per annum is designed to be 500 - 550 tonnes. Given the >80% utilization rate of cashmere yarn in Hebei, an increase in production capacity in Vietnam supports the potential demand from internal consumption and external customers, especially the manufacturers located in S.E. Asia who produce cashmere apparel. About USD 8mn CAPEX will be incurred in the new factory, and full production of Phase 1 (~300 tonnes) is expected to carry out in 2026.

An increase in sales volume may offset by the decrease in ASP: Regarding the knitwear products, thanks to a warmer winter in the past year, the major customer, Uniqlo, mentioned in the Interim Report, was unable "to compile a suitable product lineup for the warm winter weather or convey sufficient product-related information", bringing additional orders to Nameson (01982.HK). However, the ASP may further decrease due to i) the decline in the price of raw materials like yarn, and ii) the expiry of long-term agreements for wholesaler. We maintain our view that an increase in sales volume will offset the decrease in ASP, bringing a flattish growth for 2023/24 FY but resilient growth in 2023/24 2H. Besides, although the financial guidance announced by the customers was cautious, the order visibility and the order book of the Group remain steady when compared to last year, the coming additional orders may be one of the key factors affecting the FY performance of the Group.

Improving fabric business, but far beyond break-even: It is glad to hear that the demand for fabric ameliorated because of the lower inventory level of the customers. However, it is still an initial stage for the Group to explore the fabric business, and the utilization rate remains too low to achieve break-even. Given a steady market demand for fabric, we believe that the Group need about 1 – 2 years to achieve economies of scale and hence break-even.

Stagnated progress in Myanmar: Although trial production was successful, the development progress in Myanmar remains stagnant due to political issues. Customers displayed reluctance to procure from Myanmar, and we cannot see any change in the attitude of the customers. Potential impairment and depreciation expenses may further drag the financial performance of the Group, and, more importantly, it remains uncertain for the factory in Myanmar to resume production.

COMPANY NOTE

H F NGO, Brian, CFA

SENIOR ANALYST

briango@westbullsec.com.hk

+852 3896 2965

 2701 – 2703, 27/F, Infinitus Plaza, 199 Des Voeux Rd
 Central, Sheung Wan, HK

Nameson (01982.HK)

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

 Current Price **HK\$ 0.69**

 52-Week Range **HK\$ 0.280 – 0.690**

 Market cap. (HKD, bn) **HK\$ 1.6**

| 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 | 27.8% | 38.0% | 91.3% | 63.3% |
| Relative to HSI | 18.9% | 20.8% | 88.2% | 70.9% |



Peers comparison

| | | Mkt. Cap. | P/E | Fw. P/E | P/B | P/S | Revenue | GM | ROE |
|----------|----------------|-----------------|-------------|-------------|------------|------------|-----------------|-------------|-------------|
| | | (HKD, mn) | (x) | (x) | (x) | (x) | (HKD, mn) | (%) | (%) |
| 00420.HK | Fountain Set | 698.3 | 12.4 | - | 0.2 | 0.1 | 4,440.2 | 7.3 | 1.6 |
| 02232.HK | Crystal Intl | 11,439.8 | 9.2 | 7.9 | 1.0 | 0.7 | 17,046.0 | 19.2 | 11.5 |
| 02313.HK | Shenzhou Intl | 124,767.5 | 23.9 | 18.8 | 3.3 | 4.4 | 27,605.2 | 24.3 | 14.3 |
| 02368.HK | Eagle Nice | 2,508.9 | 9.1 | - | 1.5 | 0.6 | 4,051.1 | 18.7 | 16.6 |
| | <i>Average</i> | <i>34,853.6</i> | <i>13.7</i> | <i>13.4</i> | <i>1.5</i> | <i>1.5</i> | <i>13,285.6</i> | <i>17.4</i> | <i>11.0</i> |
| 01982.HK | Nameson | 1,572.8 | 7.6 | - | 0.6 | 0.3 | 4,602.3 | 16.2 | 7.5 |

Source: Bloomberg, West Bull Securities

Risk factors

- Losing market shares in primary customers' orders
- Shrinking market size for knitwear products
- Unable to find new growth drivers
- Unable to maintain a market-expected dividend payout ratio
- Appreciation of RMB against USD

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

West Bull Securities is a dedicated small/mid cap stock brokerage house. Find our research on: Bloomberg, factset.com, Capital IQ, Refinitiv, Wind, Choice, Hibor and 同花顺

Ratings of West Bull Securities:

- STRONG BUY** : absolute upside of >50% over the next 12 months
BUY : absolute upside of >10% over the next 12 months
HOLD : absolute return of -10% to +10% over the next 12 months
SELL : absolute downside of >10% over the next 12 months
STRONG SELL : absolute downside of >50% over the next 12 months

Investors should assume that West Bull Securities is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer:

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of West Bull Securities Limited ('West Bull Securities') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by West Bull Securities Securities or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of West Bull Securities as of the date of this report only and are subject to change without notice. Neither West Bull Securities nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. West Bull Securities and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of West Bull Securities located in such recipient's home jurisdiction.

Copyright© West Bull Securities Limited. All rights reserved.