

## China Textile Monthly

### Signs of stabilising US end market

	Ticker	Rec	Mkt cap (HKD bn) Ccy	Price	PT	Up/ dn (%)	PER 1-yr fwd	2-yr fwd	PBR 1-yr fwd	Dividend yield (%)	ROIC (%)
Texhong Textile	2678 HK	Buy	10.4 HKD	11.4	13.3	16.5	8.4	7.8	1.8	2.6	14.5
Weiqiao Textile	2698 HK	NR	6.1 HKD	5.1	N/A	N/A	4.7	3.5	0.3	5.6	4.7
Fountain Set	420 HK	NR	1.2 HKD	1.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pacific Textiles	1382 HK	Buy	13.4 HKD	9.3	12.9	38.9	14.0	12.8	4.1	8.6	22.9
Best Pacific	2111 HK	Buy	6.8 HKD	6.6	7.2	9.1	17.0	14.6	3.4	2.0	13.5
Taiwan Paiho	9938 TT	NR	7.2 HKD	24.2	N/A	N/A	17.5	15.1	3.6	N/A	11.4
Texwinca	321 HK	Hold	7.4 HKD	5.4	5.1	(4.7)	12.9	12.0	1.1	8.6	14.1
Shenzhen International	2313 HK	Buy	68.1 HKD	48.7	53.3	9.6	21.5	17.3	4.1	1.6	16.0
Regina Miracle	2199 HK	Hold	9.0 HKD	7.4	8.5	15.6	48.0	24.9	3.0	0.8	15.9
Nameson	1982 HK	Buy	3.6 HKD	1.8	2.1	20.0	10.6	8.3	2.3	3.3	13.1
Win Hanverky	3322 HK	NR	1.7 HKD	1.3	N/A	N/A	6.5	6.5	0.7	8.9	9.7
Eagle Nice	2368 HK	NR	1.1 HKD	2.2	N/A	N/A	8.4	7.6	1.0	12.1	9.8

Source: Company, Bloomberg, CSC Research estimates

- Based on the latest results of the textile OEM listcos in H.K., that have announced earnings reports in Nov-16, companies with extensive exposure to the US market have suffered substantial setbacks. However, a majority of them expect the US market to bottom out in 2H17 on the back of inventory re-stocking by major apparel brands.
- Except for Under Armour (UA US), Nike Inc. (NKE US) and Lululemon (LULU US), most of the apparel brands have posted a declining inventory/sales ratio in their latest fiscal quarter, which also support the above trend.
- China's cotton prices continued to rebound strongly in Nov-16 on inventory restocking, while synthetic yarn prices also showed a noticeable 5.7% YoY pick-up in Nov-16 on global crude oil price surge.

**Signs of stabilising U.S. end market.** Several textile OEM listcos, including Texwinca (321 HK), Pacific Textile (1382 HK), Regina Miracle (2199 HK) and Nameson (1982 HK) have released results in Nov-16, which have generally revealed a major setback for those with extensive exposure to the U.S. market. Nevertheless, since the US market has started to stabilise in 2H17, the significant decline in orders is unlikely to repeat in 2H17 as major apparel brands have started to restock their inventories.

**Majority of the apparel brands recorded a decline in their inventory/sales ratio for the latest fiscal quarter.** A drop in retailer's inventory/sales ratio is usually accompanied by acceleration in their inventory replenishment in the near future, hence favourable to their OEM suppliers. In their latest fiscal quarter, such ratio declined YoY for Adidas (ADS GR:-3.4%), Fast Retailing (9983 JP:-0.1%), Hanesbrands (HBI US:-2.2%), L Brands (LB US:-1.1%) and PVH (PVH US:-4.2%), compared with the same quarters of the past two years. On the contrary, the ratio increased YoY for Under Armour (UA US:+5.4%) and Nike (NKE US:+5.0%), while it was pretty flat for Lululemon (LULU US:+0.6%) (see Figure 2). Hence, we are wary about UA's growing inventory levels would continue to drag on Regina Miracle's recovery (2199 HK, HOLD, PT HKD8.5). On the bright side, suppliers for ADS, such as Taiwan Paiho (9938 TT, NR) and Win Hanverky (3322 HK, NR) will benefit (see Figure 1).

**China's domestic cotton prices remained strong in Nov and synthetic yarn prices rebounded significantly on oil price surge.** China's domestic cotton prices continued to climb in Nov, gaining 2.3% MoM and 20.8% YoY to a record monthly average of RMB15,663/ton for 2016, according to the China Cotton 328 (CC328) Index (see Figure 3). Whereas, China's synthetic yarn prices showed a more noticeable pick-up in November, compared with cotton and polyester cotton yarn, as global crude oil prices surged to the highest level in 2016 (see Figure 5).

SO Lai Shan, Jennifer

(CE No.: AHA295)

jenniferso@csci.hk

+852 3465 5781

**Figure 1: Textile OEM's major client exposure**

Ticker Company CSCI Rating/ PT	1382 HK Pacific Textiles BUY/ HKD12.9	2678 HK Texhong Textiles BUY/ HKD13.3	2111 HK Best Pacific BUY/ HKD7.2	2313 HK Shenzhou Int'l BUY/ HKD53.3	321 HK Texwinca HOLD/ HKD5.1	1982 HK Nameson BUY/ HKD2.1	2199 HK Regina Miracle HOLD/ HKD8.5	3322 HK Win Hanverky Non-rated
Key customers	Uniqlo (40%)	Diversified: Global	Lingerie: VS (20%), Wacaol/ Triumph/ M&S/ Calvin K.: 3-5% each	Nike (31%) - apparel/footwear (25%/6%)	Textiles: Global, >100 brands	Uniqlo (58%)	L Brands (30%)	Adidas (85-90%)
(Revenue %)	Target & Walmart (20-25%)  L.Brands & Under Armour (10-15%) Anta - NEW!	n.a.	Sportswear: Victoria Secret (8%), Under Armour (4%), Adidas (3%), Reebok (3%), Lululemon (3%). Lace: Calvin Klein, Aimer, Maidenform.	Uniqlo (31%)  Adidas (22%)  Puma (9%)  Polo (0.5%) - NEW!	i.e. Polo, Adidas, M&S, GAP  Abercrombie & Fitch, H&M.	Tommy Hilfiger (21%)  Ann Taylor (8%)  Adastria Group, Gap - NEW!	PVH, Hanes Bradns & Under Armour: 10% each	Reebok, JAKO, Puma.

Source: Company data, CSCI research

**Figure 2: Changes in major global apparel brands. inventory/sales (x)**

Company	Ticker	Latest quarter : Inv/ sales (x)	Historical average for the same quarter in the past		YoY %
			two historical years: Inv/sales (x)		
Adidas	ADS GR	3Q16	0.59	0.61	-3.4%
Fast Retailing	9983 JP	4Q16	0.77	0.77	-0.1%
Hanesbrands	HBI US	3Q16	1.14	1.16	-2.2%
L Brands	LB US	3Q17	0.64	0.65	-1.1%
Nike	NKE US	1Q17	0.54	0.51	5.0%
PVH	PVH US	3Q17	0.56	0.59	-4.2%
Under Armour	UA US	3Q16	0.74	0.70	5.4%
Lululemon	LULU US	2Q17	0.54	0.54	0.6%

Source: Company, Bloomberg, CSCI Research

## Textile commodity update – November 2016

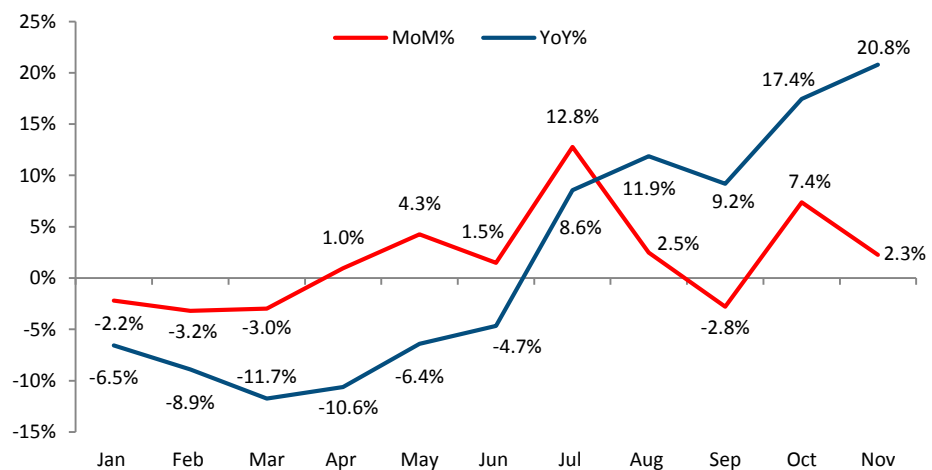
**China's domestic cotton prices remained strong in Nov.** China's domestic cotton prices continued to climb in Nov, gaining 2.3% MoM and 20.8% YoY to a record monthly average of RMB15,663/ton for 2016, according to the China Cotton 328 (CC328) Index. The strong cotton price was supported by demand from *i)* inventory re-stocking; *ii)* higher speculative demand as cotton prices continued to rise in tandem with other commodity prices, and *iii)* a further decline in cotton supply, as cotton inventories continued to drop. YTD, the CC328, Foreign Cotton (FC) and Cotlook A indices had gone up by 2.0%, 9.3% and 0.3% in 11M16, compared with an increase of 0.5%, 9.0% and a decline of 0.1% in 10M16, respectively.

**Figure 3: China Cotton Price Index 328 (CC 328 Index) (Oct 2005- Nov 2016)**



Source: Wind, CSCI Research

**Figure 4: China Cotton 328 Index (Jan - Nov 2016, MoM% YoY%)**



Source: Wind, CSCI Research

**Figure 5: Year-to-date major index performance**

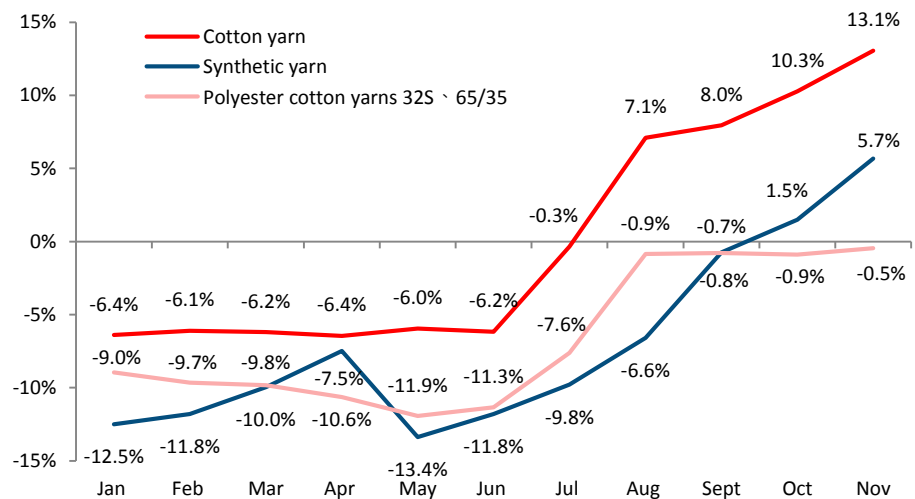
2016 Major indices	YoY %	YoY %	YoY %	YoY %	YoY %	YoY %
	Jan-Nov	Jan-Oct	Jan-Sep	Jan-Aug	Jan-Jul	Jan-Jun
CC328 Index (China domestic cotton)	2.0%	0.5%	-2.0%	-3.3%	-5.7%	-8.2%
Cotlook A Index	9.3%	9.0%	7.6%	6.2%	4.4%	3.1%
FC Index (Foreign import cotton)	0.3%	-0.1%	-2.0%	-3.3%	-5.1%	-6.8%
China Cotton Yarn Index	0.1%	-1.2%	-2.4%	-3.8%	-5.3%	-6.2%
China Synthetic Yarn Index	-7.2%	-8.4%	-9.5%	-10.5%	-11.0%	-11.3%
China Polyester Cotton Yarn (32S ` 65/35) Index	-6.6%	-7.3%	-7.9%	-8.9%	-9.9%	-10.4%

Source: Wind, CSCI Research

**Synthetic yarn prices rebounded significantly, as oil price surges to its highest level in a year.** China's synthetic yarn prices showed a more noticeable pick-up in November, compared with cotton and polyester cotton yarn, as global crude oil prices surged to the highest level in 2016, with the yarn index rising by 5.7% YoY, compared to only a 1.5% YoY increase in October. Meanwhile, domestic cotton yarn prices have remained on an uptrend, increasing 13.1% YoY in November, outpacing the 10.3% YoY growth registered for October.

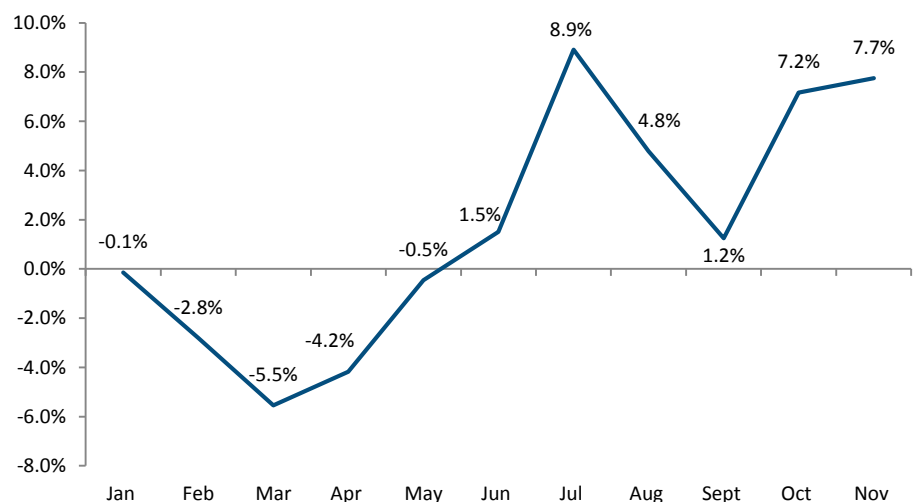
**Chinese cotton yarn prices continued to rebound albeit at a slower pace versus cotton prices.** As we pointed out in our textile report in October, if the rebound in cotton yarn prices continued to lag behind that of the cotton prices (i.e. widening spread), it will be unfavourable to the yarn producers. The spread between the YoY changes in the CC328 Index and China Cotton Yarn Index went from a negative territory to a positive territory from Jun 2016 onwards and continued to widen to 7.7% in Nov from 7.2% in Oct (see Figure 6).

**Figure 6: China yarn prices – by categories (Jan – Nov 2016, YoY%)**



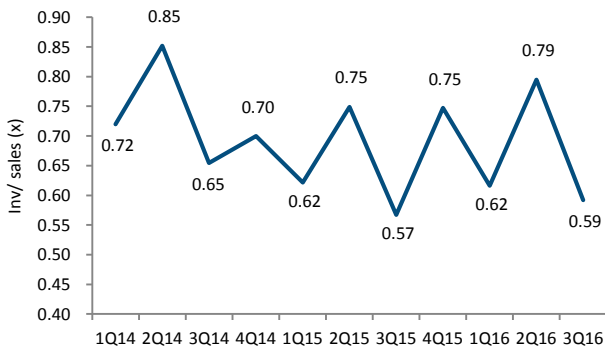
Source: Wind, CSCI Research

**Figure 7: CC328 v. China Cotton Yarn Index YoY % Spread (Jan-Nov 2016)**



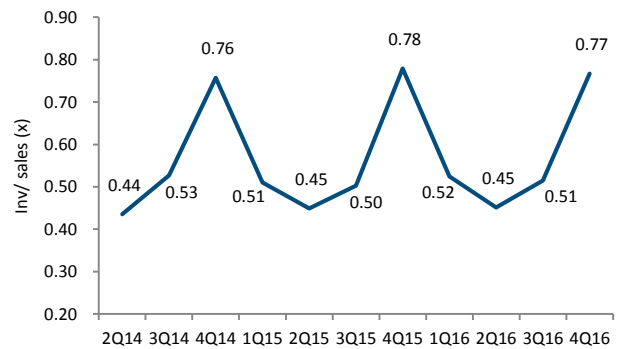
Source: Wind, CSCI Research

**Figure 8: Inventory/ sales (x), Adidas (ADS GR)**



Source: Bloomberg, CSCI Research

**Figure 9: Inventory/ sales (x), Fast Retailing (9983 JP)**



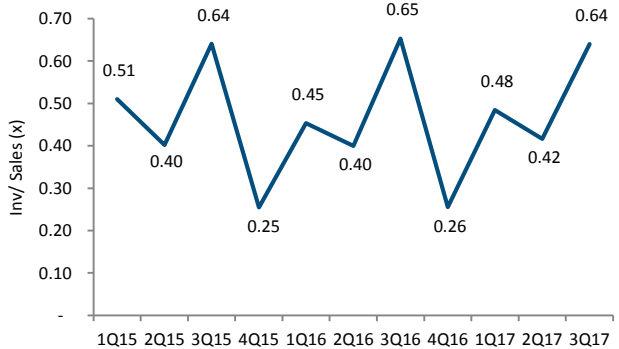
Source: Bloomberg, CSCI Research

**Figure 10: Inventory/ sales (x), Hanesbrands (HBI US)**



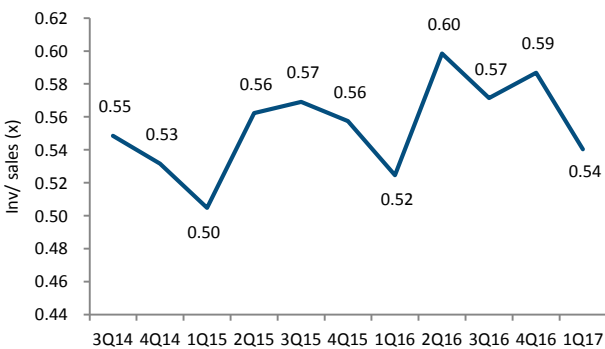
Source: Bloomberg, CSCI Research

**Figure 11: Inventory/ sales (x), L Brands (LB US)**



Source: Bloomberg, CSCI Research

**Figure 12: Inventory/ sales (x), Nike (NKE US)**



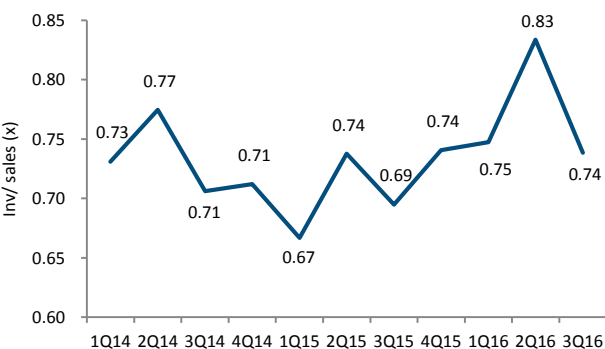
Source: Bloomberg, CSCI Research

**Figure 13: Inventory/ sales (x), PVH (PVH US)**



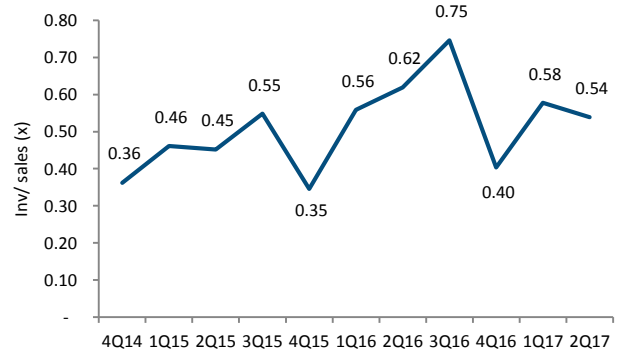
Source: Bloomberg, CSCI Research

**Figure 14: Inventory/ sales (x), Under Armour (UA US)**



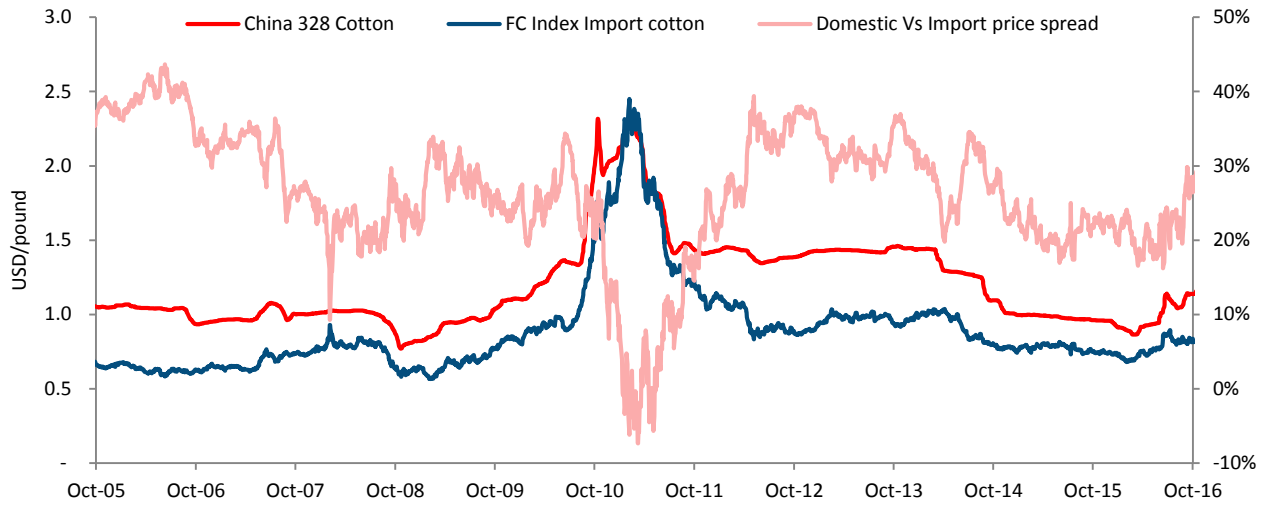
Source: Bloomberg, CSCI Research

**Figure 15: Inventory/ sales (x), Lululemon (LULU US)**



Source: Bloomberg, CSCI Research

Figure 16: Cotton prices: domestic vs. import (Oct 2005- Nov 2016)



Source: Wind, CSCI Research



## Research

**LIU Taisheng, Steven**  
TMT  
(852) 3465 5652  
stevenliu@csci.hk

**SO Lai Shan, Jennifer**  
Consumer  
(852) 3465 5781  
jenniferso@csci.hk

**CHAN Ka Yeung, Duncan**  
Commodity  
(852) 3465 5654  
duncanchan@csci.hk

**TIAN Yang**  
Automotive  
(852) 3465 5775  
tianyong@csci.hk

**SUN Lingxiao, Roger**  
Industrials  
(852) 3465 5785  
rogersun@csci.hk

**XU Bo, Albert**  
Financials  
(852) 3465 5789  
albertxu@csci.hk

**ZHU Kexin**  
Renewable energy  
(852) 3465 5653  
zhukexin@csci.hk

## Institutional Sales & Trading

**XIANG Xinrong, Ron**  
(852) 3465 5633  
ronxiang@csci.hk

**CAO Xiaogang, Glen**  
(852) 3465 5658  
caoxiaogang@csci.hk

**ZHANG Meng, Maurice**  
(852) 3465 5656  
mauricezhang@csci.hk

**HO Wen Hao, Jack**  
(852) 3465 5685  
jackho@csci.hk

**WANG Zhuo, Gary**  
(852) 3465 8655  
wangzhuo@csci.hk

**HO Hung Wei**  
(852) 3465 5687  
hohungwei@csci.hk

**LEE Ying Ju, Rose**  
(852) 3465 5707  
roselee@csci.hk

**LI Jiageng, Mike**  
(852) 3465 5636  
mikeli@csci.hk

**XIA Tian**  
(852) 3465 5670  
xiatian@csci.hk

**XU Xiaowei, Vincent**  
(852) 3465 5795  
vincentxu@csci.hk

**LI Tianyi, Miranda**  
(852) 3465 8653  
mirandali@csci.hk

## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

<b>Buy</b>	12-month absolute total return: $\geq 10\%$
<b>Hold</b>	12-month absolute total return: $> -10\%$ but $< 10\%$
<b>Sell</b>	12-month absolute total return: $\leq -10\%$

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### China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852) 21809495

Bloomberg: CSCR <Go>