

## China textile monthly

### What are we facing with Trump's anti-trade agenda?

	Ticker	Rec	Mkt cap (HKD mb)	Ccy	Price	PT	Up/ dn (%)	PER 1-yr fwd	PER 2-yr fwd	PBR 1-yr fwd	Dividend yield (%)	ROIC (%)
Texhong Textile	2678 HK	Buy	11.0	HKD	12.0	13.3	10.8	8.2	7.4	1.7	2.5	14.5
Weiqiao Textile	2698 HK	NR	6.1	HKD	5.1	N/A	N/A	4.5	3.4	0.3	5.7	4.7
Foutain 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	13.1	HKD	9.1	12.9	41.9	14.7	13.5	4.3	8.8	22.9
Best Pacific	2111 HK	Buy	6.8	HKD	6.6	7.2	9.6	17.5	15.1	3.6	2.0	13.5
Tewinca	321 HK	Hold	7.4	HKD	5.3	5.5	3.4	11.9	11.7	1.1	8.3	14.0
Shenzhou International	2313 HK	Buy	66.3	HKD	47.4	56.7	19.6	21.2	16.9	4.3	1.6	16.0
Victory City	539 HK	NR	0.8	HKD	0.3	N/A	N/A	N/A	N/A	N/A	16.9	3.7
Regina Miracle	2199 HK	Hold	9.2	HKD	7.5	8.4	12.1	41.1	25.9	3.0	0.9	16.2
Nameson	1982 HK	Buy	3.2	HKD	1.5	2.0	31.6	9.9	7.3	2.1	-	13.1
Win Hanverky	3322 HK	NR	1.7	HKD	1.3	N/A	N/A	6.7	6.7	0.7	8.6	9.7
Eagle Nice	2368 HK	NR	1.2	HKD	2.4	N/A	N/A	9.0	8.1	1.0	10.0	10.2

Source: Company data, Bloomberg and CSCI research estimates

- With Donald Trump's triumph in the US presidential election, there is a high tendency towards a protectionist trade policy and lapsing of the Trans-Pacific Partnership (TPP), originally expected to enact in 2018.
- This means we might be going backwards from "globalisation" to "localisation", which might increase the adversity of China's textile OEM plays with the largest exposure to the U.S. market, that have invested heavily in Vietnam recently and that are closest to the downstream of the industry value chain.
- Nonetheless, the process towards "localisation" will be a long one and filled with uncertainties, whereby voices of the oppositions might become too great that the change may be revoked. We just want to alert investors of the potential risks in the worst case scenarios.

**What are we facing with Trump's anti-trade agenda?** With Donald Trump's triumph in the US presidential election, there is a high tendency towards a protectionist trade policy, i.e. imposing tariffs on imported goods from the emerging markets, such as China, and lapsing of the Trans-Pacific Partnership (TPP), which is expected to enact in 2018. Hence, we expect to see a more restricted labour market with products becoming more expensive in the U.S. if import taxes are introduced, and even aggravation of the currency war amid efforts of penalised countries to combat U.S.'s tariff hike. Such development will upset the U.S. retailer's supply chain. The potential impact on China's textile OEMs is negative in our view, on both the demand and cost front. As products become more expensive in the U.S., it discourages discretionary spending and protectionist might result in a shift from global sourcing back to the U.S.. On the flip side, higher tariff raises the cost of trading, and hence lowers export competitiveness.

**Potential losers.** In our view, the potential losers would be OEMs with i) the largest exposure to the U.S. market, ii) substantial investments in Vietnam, and that are iii) located in the downstream of the industry textile value chain. Winners would be those with a more geographically diversified client base and located in the upstream. At such, Regina Miracle (2199 HK, HOLD, PT HKD8.40) looks most vulnerable, given that 62% of its total revenue comes from the U.S. market and it has invested heavily in Vietnam, followed by Pacific Textiles (1382 HK, BUY, PT HKD12.90), with the U.S. market contributing 47% of its total revenue. However, Pacific Textiles would fare better than Regina Miracle as its investment in Vietnam is relatively much lower and it is located in the upstream. Meanwhile, the negative impact on Shenzhou (2313 HK, BUY, PT HKD56.7), Texhong Textiles (2678 HK, BUY, PT HKD13.3) and Win Hanverky (3322 HK, NR) would be limited as they are more geographically diversified in terms of client base, and so is Best Pacific (2111 HK, BUY, PT HKD7.2) since it is located in the upstream. (see Figure 1).

**SO Lai Shan, Jennifer**  
**(CE No.: AHA295)**

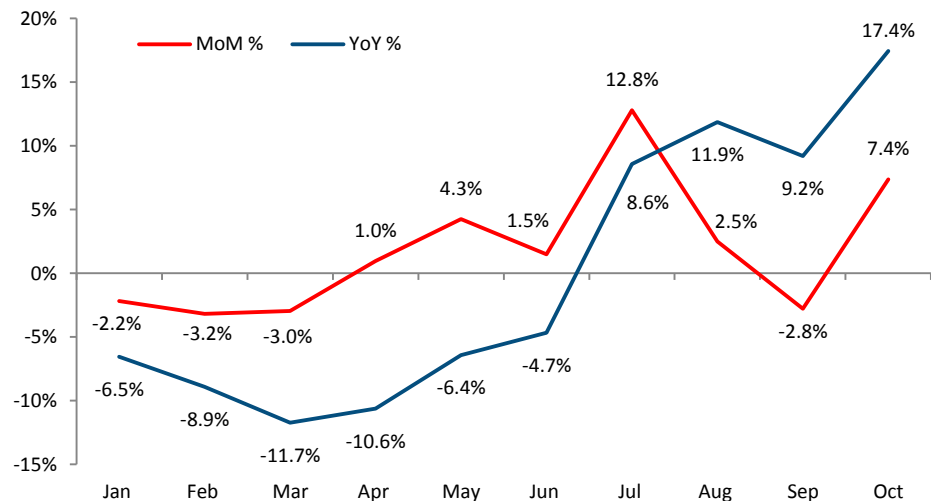
jenniferso@csci.hk  
 +852 3465 5781

**Figure 1: Revenue exposure comparison**

CSCI Rating/ PT	BUY/ HKD12.9	BUY/ HKD13.3	BUY/ HKD7.2	BUY/ HKD56.7	HOLD/ HKD5.5	BUY/ HKD2.0	HOLD/ HKD8.4	Non-rated	Non-rated	Non-rated
Ticker	1382 HK	2678 HK	2111 HK	2313 HK	321 HK	1982 HK	2199 HK	3322 HK	2698 HK	539 HK
Company	Pacific Textiles	Texhong Textiles	Best Pacific	Shenzhou Int'l	Texwinca	Nameson	Regina Miracle	Win Hanverky	Weiqiao	Victory City
*Segment	Upstream	Upstream	Upstream	Up-mid stream	Up-mid stream, plus retail	Mid-stream	Mid-stream	Mid-stream	Upstream	Up-mid stream
Geographical exposures (Revenue %)	US (47%) Japan (45%) Europe (6%) China (1%)	China (78.5%) Macao & HK (20%) Vietnam (1.2%)	HK (38%) PRC (25%) Sri Lanka (20%) US & Europe (3.4%) SE Asia (14%)	China (24%) Japan (23%) Europe (18%) US (13%) Others (23%)	China (48%) US (29%) Japan (11%) HK (10%)	Japan (36%) US (32%) Europe (14%) China (7%)	US (62%) China (10%) HK (5%) SE Asia (4%)	Europe (36%) HK (17%) PRC (14%) Other Asian (12%) US & Canada (14%)	PRC (72%) HK (13%) Asia (10%)	PRC (42%) HK (14%) US (13%) Korea (9%) Bangladesh (5%), Europe, SG, Taiwan.
Production base	Panyu, Vietnam	China (Yangtze River + Xinjiang), Vietnam	Dongguan, Vietnam	Ningbo, Vietnam, Cambodia.	Dongguan	Huizhou, Vietnam	Shenzhen, Vietnam	PRC, Vietnam, Cambodia	PRC (Shandong)	PRC (Xinghui), Indonesia, Cambodia & Jordan
Production capacity (annual)	Panyu: 220mn lbs Viet: 29mn lbs initially, but will expand to 50mn	2.2mn no. of yarn spindles (0.99mn in viet)	Dongguan: 72.2/1,072/16.8mn metres	270mn pieces of knitwear	480mn lbs finished fabric	Huizhou: 29.9mn units of knitwear	Shenzhen: 190mn pieces/pairs	50mn pieces of garments	6mn spindles	N/A
			Viet: +30%/+30%/+60% YoY			Viet: 17mn by 17E	Vietnam: est. 152mn pieces/pairs	PRC (30%), Vietnam (50%), Cambodia (20%)		

Source: Company data, CSCI research (\*upstream includes yarn and fabric makers, mid-stream means garment manufacturer, downstream means retail stores)

## Monthly textile commodity update – October

**Figure 2: China Cotton 328 Index (Jan - Oct 2016, MoM% YoY%)**


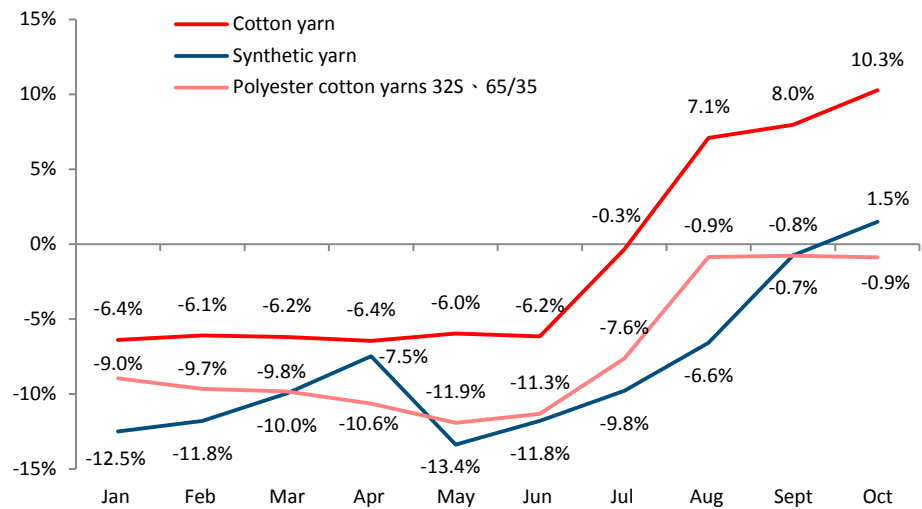
Source: Wind, CSCI Research

**Figure 3: Year-to-date major index performance**

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

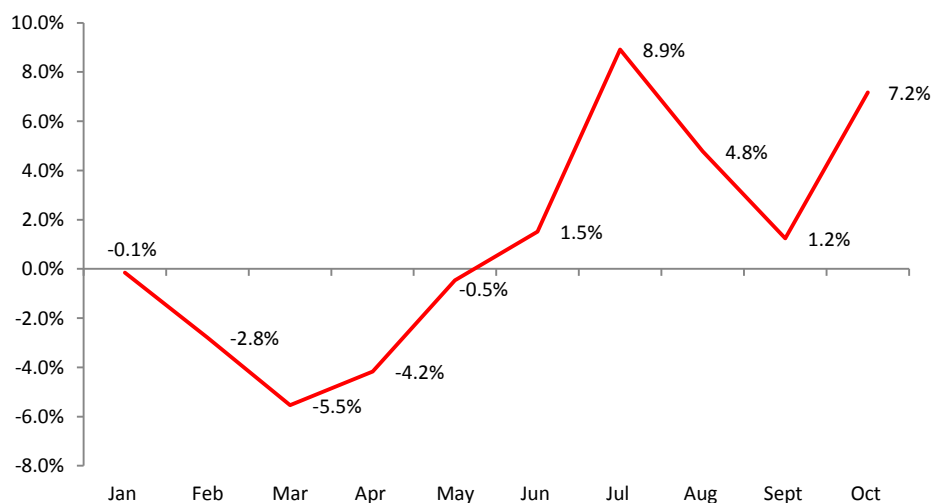
Source: Wind, CSCI Research

**China's domestic cotton prices picked up strongly in October.** Despite domestic cotton prices softened slightly in Sept, subsequent to the one month auction of cotton reserves extension into the end of Sept, cotton prices started to pick up strongly again in Oct. The China Cotton 328 (CC328) Index went up by 17.4% YoY or 7.4% MoM in Oct, after registering a mild slowdown in Sept with a 2.8% MoM decline and 9.2% YoY gain. YTD, the CC328, Foreign Cotton (FC) and Cotlook A indices had gone up by 0.5%, 9.0% and dropped 0.1% in the first ten months of this year, compared with a 2% decline, 7.6% pickup and 2% slide for the Jan-Sept period, respectively. Besides the reason that state auction of cotton reserves has ended, the strong rebound was also driven by a delay in the harvesting of cotton in Xinjiang due to the cold weather during the National Day holiday, lack of new cotton supply and higher quality of cotton than last year.

**Figure 4: China yarn prices – by categories (Jan – Oct 2016, YoY%)**


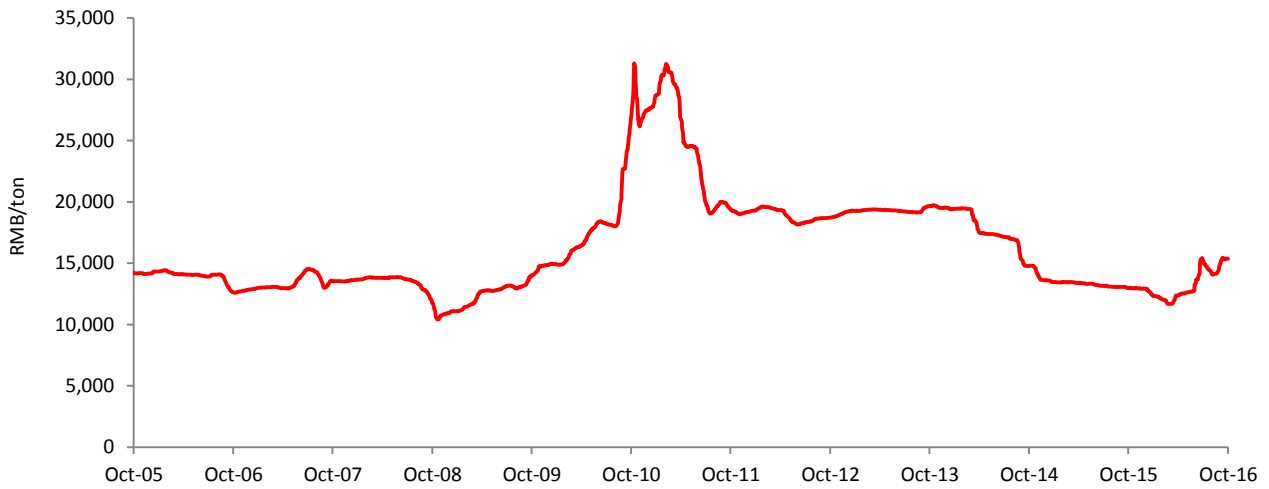
Source: Wind, CSCI Research

**Yarn prices paired losses, despite a weak textile market.** Following the rebound in domestic cotton prices, Chinese cotton yarn prices have also picked up, albeit at a slower pace. The China cotton yarn index continued to improve in Oct, registering a 10.3% YoY or 1.2% MoM gain, after rising by 8% and slipping slightly by 0.8% MoM in Sept. Although YTD, the index has fallen by 1.2% YoY in 10M16, the extent of the decline has continued to narrow from the 2.4% drop during the Jan-Sept period. However, the rebound in cotton yarn prices had started to lag behind that of the cotton prices since June this year, and widened further in Oct (see Figure 5). 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 onwards and continued to widen in Oct. In our view, such development will be unfavourable to the yarn producers if the spread continues to widen more rapidly, as it would mean that they may not be able to pass on the rising input costs to the end users. Such a negative impact would not be prominent in 2016 as they are still able to leverage on a low-cost inventory in 1H16. However, if the gap continues to widen, the negative impact on yarn producers' GPM will be more explicit in 2017.

**Figure 5: CC328 v. China Cotton Yarn Index YoY % Spread**


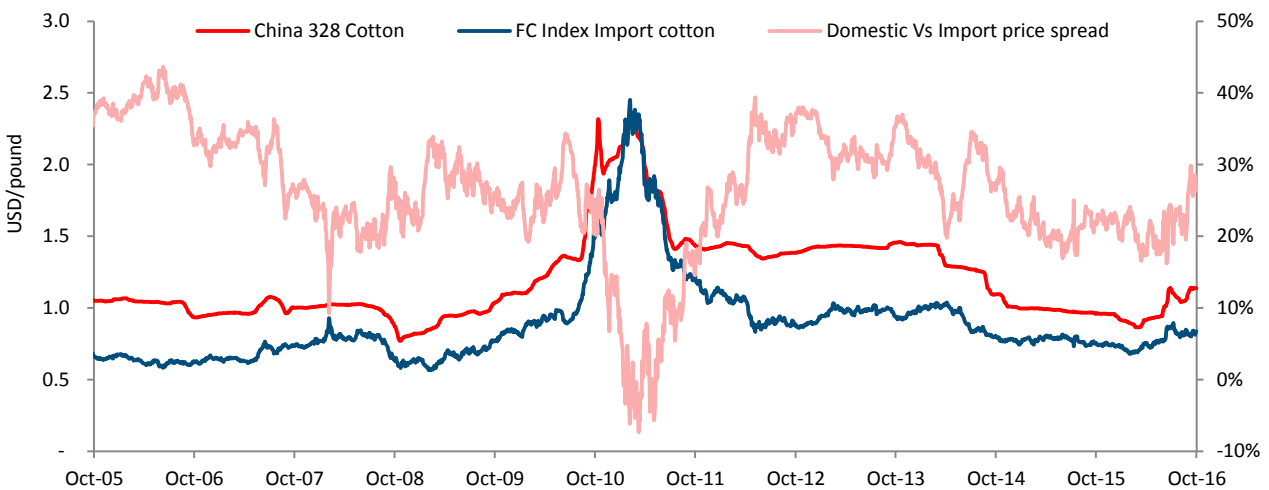
Source: Wind, CSCI Research

**Figure 6: China Cotton Price Index 328 (CC 328 Index) (Oct 2005- Oct 2016)**



Source: Wind, CSCI Research

**Figure 7: Cotton prices: domestic vs. import**



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: $\leq -10\%$

### Disclosure of Interests

As of the date of this report,

- The research analysts primarily responsible for the preparation of all or part of this report hereby certify that:
  - the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and
  - no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.
- The research analysts primarily responsible for the preparation of all or part of this report, or his/her associate(s), do not have any interest (including any direct or indirect ownership of securities, arrangement for financial accommodation or serving as an officer) in any company mentioned in this report,
- This report has been produced in its entirety by China Securities (International) Brokerage Company Limited ("China Securities (International)") (CE Number: BAU373, regulated by the Securities and Futures Commission in Hong Kong)
- China Securities (International) and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities have no financial interest, in aggregate, equal to or more than 1% of the market capitalization in the stocks reviewed in this report.
- China Securities (International) and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities may receive compensation from or mandates for investment banking services in the past 12 months from listed corporations whose stocks are being reviewed by China Securities (International) in this report.
- China Securities (International) and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities do not have any individual employed by or associated with them serving as an officer of a listed corporation whose stocks are being reviewed by China Securities (International) in this report.
- China Securities (International) and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities may act as the market makers in the stocks reviewed by China Securities (International) in this report.

### Disclaimer

This report is for information purposes only and should not be construed as an offer to sell or to solicitation of an offer to buy or sell any securities in any jurisdiction. The securities referred to in this research report may not be eligible for sale in some jurisdictions. This information contained in this report has been compiled by China Securities (International) from sources that it believes to be reliable and the opinions, analysis, forecasts, projections and expectations contained in this report are based on such information and are expressions of belief only and no representation, warranty or guarantee is made or given by China Securities (International) or any person for its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of China Securities (International) as of the date of this report only and are subject to change without notice. Such opinions and estimates may be different from or contrary to the opinions presented by the other business departments, units or affiliates of China Securities (International), as different assumptions and standards, different views and analytical methods may be adopted in the preparation of such other materials, and China Securities (International) is under no obligation to bring such other materials to the attention of any recipient of this report. Neither China Securities (International) nor its holding companies and affiliates accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this report or otherwise arising in connection therewith.

Any investment referred to herein may involve significant risk, may be illiquid and may not be suitable for all investors. The value of or income from any investment referred to herein may fluctuate and be affected by changes in exchange rates. Past performance is not indicative of future results. This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors are expected to make their own investment decision without relying on this publication. Before entering into any transactions in any securities referred to in this research report investor should consider their own individual investment objectives and financial situation and seek professional financial, tax and legal advice, as necessary.

This report is strictly confidential to the recipient. It is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose. The distribution of this report in other jurisdictions may be restricted by law, and persons into whose possession this report comes should inform themselves about, and observe, any such restrictions. By accepting this report you agree to be bound by the foregoing instructions.

### China Securities (International) Research

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

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

Bloomberg: CSCR <Go>