

# CECEP COSTIN New Materials Group (2228.HK)

A industrial leader with stable profit growth



Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

2228.HK | 2228.HK | 2228.HK

Industry: Textile

2013-10-18

Rating: Buy, CP: HK\$4.23, TP:HK\$5.60

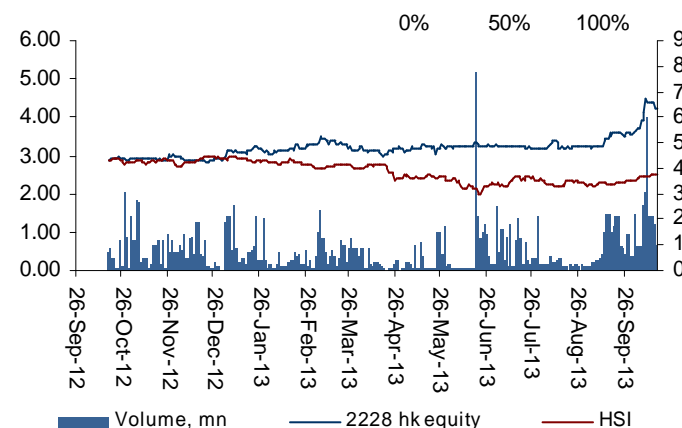
## Company Introduction

CECEP COSTIN New Materials Group Limited ("CECEP COSTIN" or "the Group"), China's first non-woven materials company listed on the Hong Kong Stock Exchange's IPO Main Board, is a pioneer in the non-woven materials industry, committed to using advanced and innovative technology for the production of non-woven materials. The Company is China's first non-woven materials company to receive the "carbon footprint" certificate, and is a SCS Recycled Environmental Protection certified enterprise, and entitled as Fabric China Pioneer Plant of Environmentally-friendly Filtering Materials. The Company's headquarters is located in Hong Kong, its manufacturing base is located in Jinjiang city, Fujian province, and its industry consultation division is located in Beijing. CECEP COSTIN's two pillar industries are the production of recycled chemical fiber using renewable materials and 3-dimension structural non-woven materials through clean manufacturing processes.

## Summary

- China's non-woven fabrics industry improved consistently in recent years, by the end of 2012, we estimate total output of China's non-woven fabrics enterprises reached to 3.4 million tons, up 9% y-y approximately. According to monthly data of NBSC, the output of China's non-woven fabrics maintained on the top in 2013, which amounted to 0.217 million tons by the end of this August;
- Non-woven fabric is the main profit source of CECEP COSTIN, around 75% of total turnover. By the end of 1H2013, turnover of non-woven materials recorded RMB500 million, around 81.7% of the Group's total revenue;
- In all, CECEP COSTIN's profit remains stable, by the end of 1H2013, the operating performance was better than that of 1H2012 obviously benefited from the efficient cost control although the Group's turnover dropped slightly. The Group's gross profit increased by 1.3% y-y to RMB201 million with net profit of RMB98 million, up 10.46% y-y compared with -31% in 1H2012;
- However, we noted that the Group's business had diversified after CECEP Chongqing became the single largest shareholder since April 2012. The major products expanded from the previous non-woven fabric and chemical fibres to thermal resistant filtration materials and other products. Especially, the revenue of thermal resistant filtration materials increased significantly from RMB4.2 million in 2011 to RMB48.6 million in 2012. By the end of 1H2013, such products' revenue amounted to RMB26.8 million, and we estimate it will up 13% approximately in 2013. Although its profits recorded the negative and we believe such relative products have wide prospect of the development in future as the PRC government raises the smoke and dust emission standards of pollutant-discharging industries;

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	na	Not Rated
<b>Target Price (HKD)</b>	<b>5.60</b>	
- Previous Target Price (HKD)	na	
Closing Price (HKD)	4.23	
Expected Capital Gains (%)	32.4%	
Expected Dividend Yield (%)	3.0%	
<b>Expected Total Return (%)</b>	<b>35.4%</b>	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	3,284	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	2.91 - 4.61	
Closing Price in 52 week range		



## Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Operating Profit (RMB 000)	405,899	444,838	498,739	570,004
Net Profit, adj. (RMB 000)	245,621	276,226	310,441	352,591
EPS, adj. (RMB cent)	31.63	35.58	39.98	45.41
P/E (X)	10.5	9.3	8.3	7.3
BVPS (RMB)	1.56	1.70	1.88	2.05
P/B (X)	2.1	2.0	1.8	1.6
DPS (RMB cent)	8.11	8.89	10.00	11.35
Div. Yield	2.44%	2.67%	3.01%	3.41%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

## Valuation Method

PE

## Research Analyst

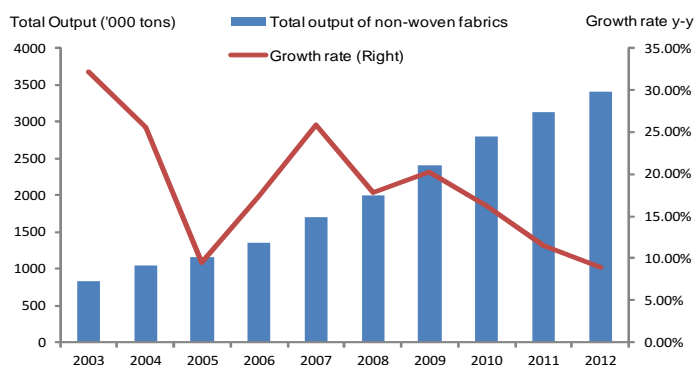
Xingyu Chen

[chenxingyu@phillip.com.cn](mailto:chenxingyu@phillip.com.cn)

+86 21 5169 9400 – 105

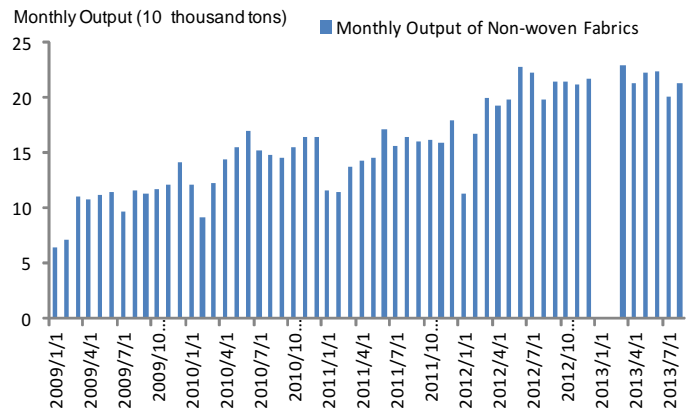
- The Group's profitability continued to increase when the incomes rebounded stably. By the end of June 2013, the Group's gross margin and net margin recorded 32.9% and 15.9%, up 3ppts and 2.6ppts y-y respectively;
- Due to the stronger market competition and continual increase of price, the Group's operating environment faces larger challenges, and the speed of cash withdrawn slows down. By the end of 1H2013, CECEP COSTIN's inventory turnover ratio and account receivable turnover ratio were 2.7 and 1.4, down 0.9 and 0.8 y-y respectively;
- The Group's cash flow maintains stable growth, by the end of June, the cash amounted to RMB1.237 billion, up 28.43% y-y largely. On the other hand, the gearing ratio increased from 27.7% in 2012 to 30.8%, of which the bank loans recorded RMB497 million, and 70% of such loans were the short-term loans. Therefore, we believe the Group will have capital pressure in the short run to some extent, but the debt is still at the reasonable level considering the rich cash flow;
- In summary, CECEP COSTIN has quite good operating performance, and the profit grow starts to go up, and the annual performance in 2013 would be better than that of last year. Meanwhile, the synergy between the Group and CECEP began to take shape, and an annual cap of sale and supply should increase stably within the next three years. Additionally, the PRC government pays more attention to the issues of environmental protection, and announced several stimulus policies, which provides the wide prospect for the development of environmental protection companies in future. Therefore we hold the cautiously optimistic view on CECEP COSTIN's future performance, and estimate the profits will continue to increase in the next three years, and give its 12-m TP to HK\$5.60, around 32% higher than its latest closing price, and equivalent to 11.0xP/E and 2.3xP/B in 2014 respectively, recommend Buy rating.

Figure 1. Total output of non-woven fabrics in China



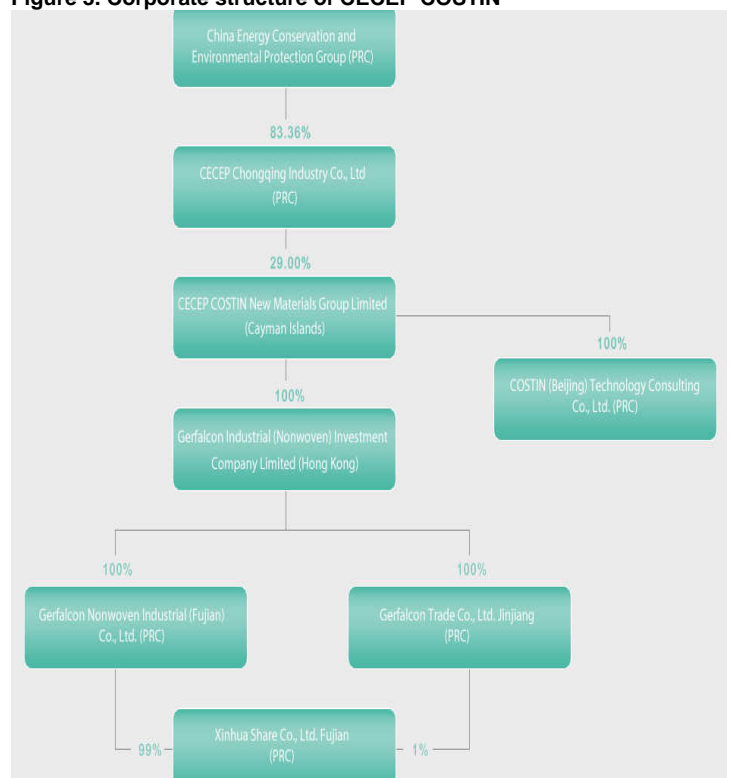
Source: PSR, NBSC, Dazhuhui, Company report

Figure 2. Monthly output of non-woven fabrics in China



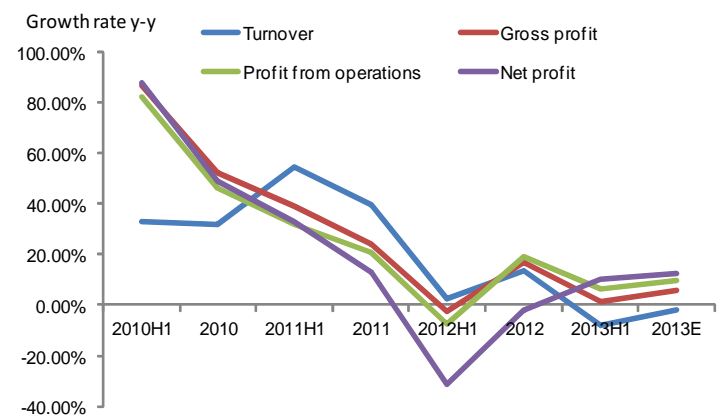
Source: PSR, NBSC, Dazhuhui

Figure 3. Corporate structure of CECEP COSTIN



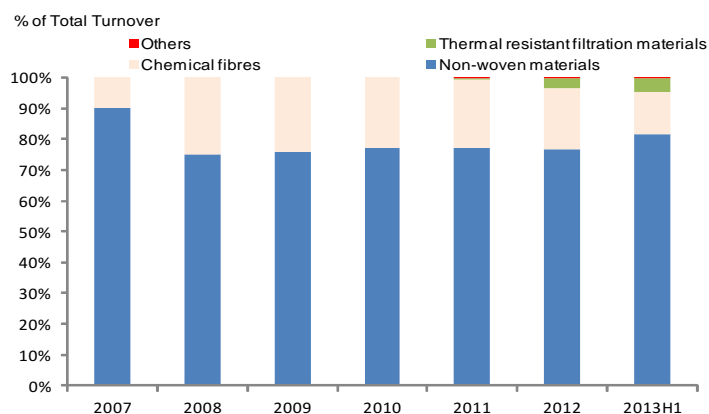
Source: Company website

Figure 4. Income growth of CECEP COSTIN



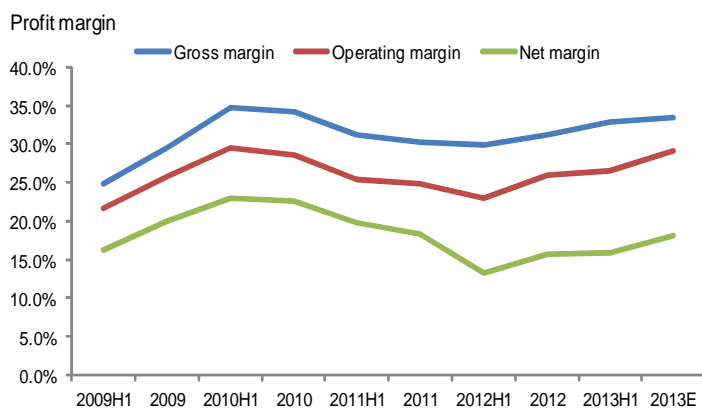
Source: PSR, Company report

Figure 5. Product structure of CECEP COSTIN's turnover



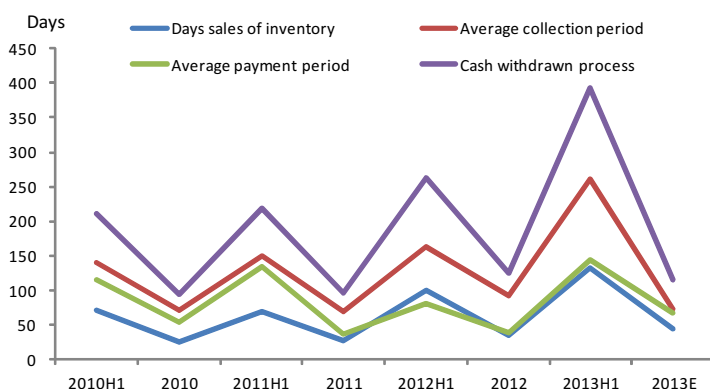
Source: PSR, Company report

Figure 6. Changes of profit margin of CECEP COSTIN



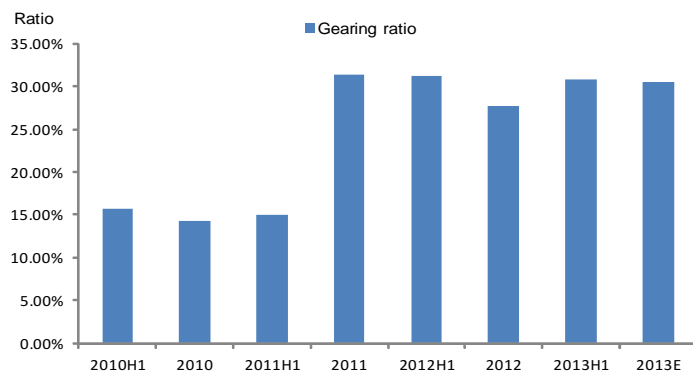
Source: PSR, Company report

Figure 7. Cash withdrawn process of CECEP COSTIN



Source: PSR, Company report

Figure 8. CECEP COSTIN's gearing ratio



Source: PSR, Company report

Table1. Peer comparison

Code	Company Name	Market Value (HK\$Mn)	Price (HK\$)	P/E (x)	P/B (x)
1382 HK Equity	PACIFIC TEXTILES HOLDINGS	14547	10.08	15.8	3.7
2678 HK Equity	TEXHONG TEXTILE GROUP LTD	12067	13.74	12.1	3.4
321 HK Equity	TEXWINCA HOLDINGS LTD	10929	7.98	14.8	1.9
2228 HK Equity	CECEP COSTIN NEW MATERIALS	3261	4.26	10.8	2.0
364 HK Equity	HUAFENG GROUP HOLDINGS LTD	2938	0.26		0.3
539 HK Equity	VICTORY CITY INTL HLDGS LTD	1761	1.05	8.0	0.4
420 HK Equity	FOUNTAIN SET HLDGS	1263	1.04		0.4
3344 HK Equity	ADDCHANCE HOLDINGS LTD	596	1.33	13.1	0.5
2307 HK Equity	KAM HING INTERNATIONAL HOLDI	565	0.65	5.5	0.3
294 HK Equity	YANGTZEKIANG GARMENT LTD	562	2.72	10.6	0.4
565 HK Equity	ART TEXTILE TECHNOLOGY INTL	354	0.34	2.9	0.3
707 HK Equity	CO-PROSPERITY HOLDINGS LTD	228	0.20		0.7

Average

Source: PSR, Bloomberg

10.4 1.2

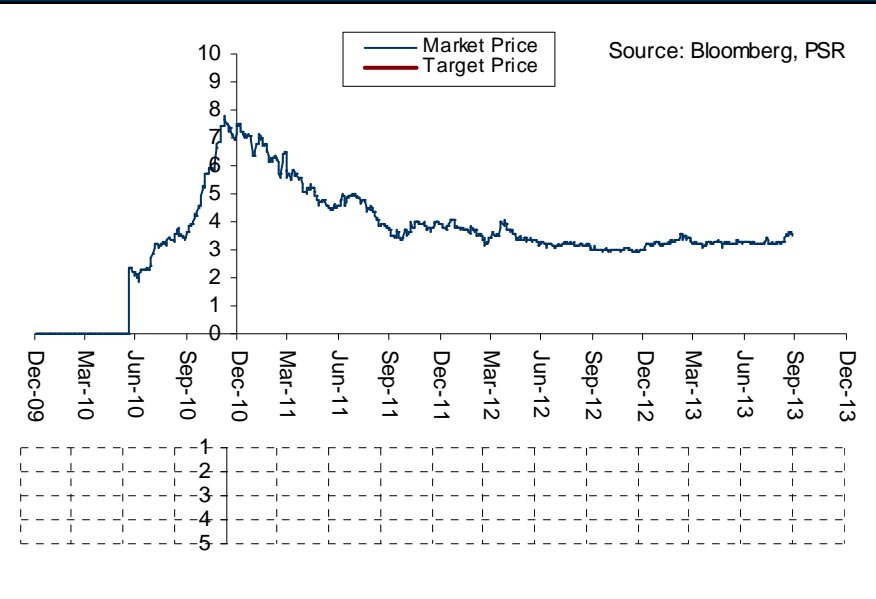
## Financial Status

FYE	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X)	10.5	10.5	9.3	8.3	7.3
P/B (X)	2.5	2.1	2.0	1.8	1.6
Dividend Payout ratio	25.85%	25.65%	25.00%	25.00%	25.00%
Dividend Yield	2.46%	2.44%	2.67%	3.01%	3.41%
<b>Per share data (RMB)</b>					
EPS (RMB cent)	31.62	31.63	35.58	39.98	45.41
DPS (RMB cent)	8.17	8.11	8.89	10.00	11.35
BVPS (RMB)	1.31	1.56	1.70	1.88	2.05
<b>Growth</b>					
Turnover	39.6%	13.5%	-1.8%	5.0%	10.0%
Gross profit	23.8%	16.6%	5.6%	11.0%	13.7%
Operating profit	20.9%	19.3%	9.6%	12.1%	14.3%
Net Income, adj.	13.0%	-2.1%	12.5%	12.4%	13.6%
<b>Key Ratios</b>					
Dividend payout ratio	25.30%	25.65%	25.00%	25.00%	25.00%
Gross margin	30.26%	31.09%	33.45%	35.35%	36.52%
Operating margin	24.78%	26.03%	29.06%	31.03%	32.24%
Net margin	18.26%	15.75%	18.05%	19.32%	19.95%
Inventory turnover ratio (x)	13.3	10.5	8.2	7.6	6.9
Receivable turnover ratio (x)	5.2	3.9	5.0	4.2	2.6
Payable turnover ratio (x)	10.0	9.3	5.4	3.7	3.1
Gearing ratio	31.31%	27.70%	30.54%	31.89%	32.30%
ROA	16.78%	12.77%	11.97%	11.42%	11.29%
ROE	26.05%	22.00%	21.81%	22.32%	23.10%
<b>Income Statement (RMB'000)</b>					
Turnover	1,373,606	1,559,223	1,530,523	1,607,049	1,767,753
COGS	(957,974)	(1,074,399)	(1,018,620)	(1,038,993)	(1,122,112)
<b>Gross profit</b>	<b>415,632</b>	<b>484,824</b>	<b>511,902</b>	<b>568,056</b>	<b>645,641</b>
Other income	21,107	26,247	28,530	31,954	36,747
Distribution expenses	(18,149)	(20,280)	(17,932)	(19,725)	(22,683)
Administrative expenses	(78,230)	(84,892)	(77,663)	(81,546)	(89,700)
<b>Profit from operations</b>	<b>340,360</b>	<b>405,899</b>	<b>444,838</b>	<b>498,739</b>	<b>570,004</b>
Finance costs	(26,540)	(49,425)	(50,229)	(55,252)	(66,302)
Profit before tax	313,820	356,474	394,609	443,487	503,702
Income tax expense	(63,050)	(110,853)	(118,383)	(133,046)	(151,111)
Income tax rate	20.09%	31.10%	30.00%	30.00%	30.00%
<b>Net profit</b>	<b>250,770</b>	<b>245,621</b>	<b>276,226</b>	<b>310,441</b>	<b>352,591</b>
Dividend	63,456	62,999	69,057	77,610	88,148
<b>Balance Sheet (RMB'000)</b>					
Property, plant and equipment	399,534	390,330	378,790	386,366	397,957
<b>Non-current assets</b>	<b>455,386</b>	<b>470,500</b>	<b>472,649</b>	<b>487,193</b>	<b>508,498</b>
Inventories	82,368	122,994	124,193	149,031	177,347
Trade and bills receivables	302,017	489,748	520,800	635,375	730,682
Bank and cash balances	844,541	978,046	1,376,913	1,638,526	1,884,305
<b>Current assets</b>	<b>1,288,019</b>	<b>1,634,003</b>	<b>2,038,840</b>	<b>2,440,400</b>	<b>2,811,945</b>
<b>Total assets</b>	<b>1,743,405</b>	<b>2,104,503</b>	<b>2,511,488</b>	<b>2,927,593</b>	<b>3,320,442</b>
Trade and bills payables	93,314	138,395	239,999	323,998	404,998
Bank loans	279,748	309,000	392,986	487,302	560,398
Convertible bond	0	214,065	217,398	234,790	258,269
<b>Net current liabilities</b>	<b>424,125</b>	<b>782,664</b>	<b>975,021</b>	<b>1,180,820</b>	<b>1,379,055</b>
<b>Total assets less current liabilities</b>	<b>1,319,280</b>	<b>1,321,839</b>	<b>1,536,468</b>	<b>1,746,773</b>	<b>1,941,387</b>
Bank loans	73,034	59,808	156,706	211,553	253,864
<b>Non-current liabilities</b>	<b>298,445</b>	<b>109,271</b>	<b>215,908</b>	<b>285,534</b>	<b>350,012</b>
<b>Total liabilities</b>	<b>722,570</b>	<b>891,935</b>	<b>1,190,929</b>	<b>1,466,355</b>	<b>1,729,067</b>
Share capital	68,475	68,475	68,475	68,475	68,475
Reserves	952,360	1,144,093	1,252,084	1,392,764	1,522,901
<b>Total equity</b>	<b>1,020,835</b>	<b>1,212,568</b>	<b>1,320,559</b>	<b>1,461,239</b>	<b>1,591,376</b>
Total liabilities and equity	1,743,405	2,104,503	2,511,488	2,927,593	3,320,442

Source: PSR

Source: Company, PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

## PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

## PHILLIP RESEARCH STOCK SELECTION SYSTEMS

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**Contact Information (Regional Member Companies)**

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**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96188238  
Fax (613) 92002272  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Hengfeng Road,  
Greentech Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005