

Semir Garment (002563 SZ)

Profitability improved significantly after the divestment of Kidiliz, and Q4 profit beat expectation

Hong Kong | Consumer (apparel) | Update Report

10 March 2021

Buy (maintain)

CMP CNY 9.85

(Closing price as of March 4)

TARGET CNY 11.96 (+21.4%)

Investment Summary

The company announced the 2020 annual results preview on February 27. The revenue in 2020 is about 15.17 billion yuan, a YoY decrease of 21.56%. Operating profit is about RMB 1.15 billion, a YoY decrease of 46.47%. The net profit attributable to the parent is about RMB 0.80 billion yuan, a YoY decrease of 48.21%. The company's revenue under our expectation, however, the profitability beat expectations.

Looking closer to quarterly result, the company's revenue from 20Q1 to 20Q4 was 2.74/3.00/3.72/5.72 billion yuan, and YoY changes were -33.51%/-26.95%/-26.30%/-5.90%. In terms of revenue, the company's revenue has continued to improve in the past four quarters, and the decline has been significantly narrowed, but it is relatively low compared to our previous estimate of revenue, mainly due to the negative impact of excluding the French subsidiary Kidiliz from the consolidated statement is greater than expected. Excluding the impact of divestiture of subsidiaries, on revenue, the company is expected to record HSD growth in 20Q4. In terms of profit, the company's profit in the Q4 improved significantly. The operating profit and net profit attributable to the parent in the Q4 were 820 million yuan and 590 million yuan, an increase of 95.2%/142.3% YoY. Operating profit margin and net profit margin both have significantly improved, 14.3% and 10.3%, respectively, mainly due to the reduction of the negative impact on the company's profitability after the divestiture of the subsidiary.

Valuation model adjustment

In our previous valuation model, we expected the company's children's wear/leisure wear growth to be 0%/-5% YoY in 2020, and the overall revenue growth rate will be -11.8% YoY. The company's business recovery in the fourth quarter was slower than we expected. The company's whole-year revenue fell 21.56% YoY, which was lower than our expectations. However, in terms of profitability, we previously predicted that under the epidemic situation, the company's profitability will be affected by inventory pressure and discount promotion. The overall NPM is 3.3%, but the company's overall cost control greatly exceeds our expectations. The actual NPM is 5.3%. It offset the negative impact of the slower business recovery rate, the actual net profit for FY2020 was RMB 800 million, beat our expectations. As there is significant decrease in company expenses after the divestiture of Kidiliz, we lowered the company's sales and administrative expenses estimates for the next three years to 18% and 5% (previously 20% and 6%), and FY21/F22's EPS were raised to RMB 59.80 cent/69.99 cent (previously 53.38 cent and 62.21 cent).

Financial forecast and valuation

Semir Apparel has taken a leading position in the domestic children's and casual wear markets. The acquisition of Kidiliz business in 2018 brought significant revenue growth to the company, but at the same time it also caused a substantial increase in the company's cost. In addition, the European epidemic situation has not improved. Kidiliz's loss to the company expanded. In Q4, it shows the divestiture has a significant negative impact on the company's revenue, but the company's profitability has risen. In the future, the company is expected to improve its profitability after divesting Kidiliz.

COMPANY DATA

O/S SHARES (MN) :	2,697.59
MARKET CAP (CNY MN) :	26,571
52 - WK HI/LO (CNY):	10.18/6.32

SHARE HOLDING PATTERN, %

Qiu Guanghe	16.32
Qiu Jinqiang	13.32
Semir Group	12.45

PRICE VS. SZSE



Source: Wind, Phillip Securities (HK) Research

Key Financials

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	19,337	15,167	18,317	20,986
Net Profit	1,549	802	1,614	1,889
EPS, CNY cent	57.42	29.79	59.80	69.99
P/E, x	17.15	33.07	16.47	14.07
BVPS, CNY	437.07	459.92	495.71	529.50
P/BV, x	2.25	2.14	1.99	1.86
DPS (Cent)	45.00	17.87	35.88	41.99
Div. Yield (%)	4.57%	1.81%	3.64%	4.26%

Source: Company reports, Phillip Securities Est.

Research Analyst

Timothy Chong (+ 852 22776515)

timotheychong@phillip.com.hk

Based on 1) After the divestment of Kidiliz, it will have a short-term impact on the company's children's clothing segment revenue, but the company has its own brand of Balabala in the children's clothing business to continue to provide growth, and it is expected that the children's clothing business will be stabilized and expanded. 2) After the divestment of Kidiliz, the company has improved its expenses of the period management, and its overall profitability has increased. The Q4 reflects the actual impact of Kidiliz's divestiture on the company. Based on this, we raised the company's profit forecast. The profit is RMB 59.80/69.99 cents, and the twelve-month target price is raised to RMB 11.96, corresponding to the FY20/FY21E/FY22E earnings ratio of 40.1x/20.0x/17.1x.

(Closing price as of March 4)

Risk

- 1) The impact of COVID-19 continues
- 2) Overlapping positioning between brands

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20E	FY21E	FY22E	FY23E
Revenue	19,337	15,167	18,317	20,986	24,138
COGS	(11,113)	(8,935)	(10,603)	(12,080)	(13,819)
Gross Profit	8,224	6,232	7,714	8,906	10,319
Selling & distribution	(4,055)	(3,033)	(3,297)	(3,777)	(4,345)
Admin	(1,029)	(910)	(916)	(1,049)	(1,207)
R&D	(414)	(531)	(458)	(525)	(603)
Other operating gain/(loss)	80	-	-	-	-
Operating Profit	2,010	1,023	2,172	2,562	3,028
Net finance income	123	49	48	68	82
Associated companies & JVs	(4)	-	-	-	-
Profit before tax	2,129	1,072	2,219	2,630	3,110
Tax	(595)	(263)	(577)	(684)	(809)
NCI	16	(6)	(29)	(57)	(86)
Profit for the year	1,549	804	1,614	1,889	2,216
EPS	57.42	29.79	59.80	69.99	82.11

Key Financial Data

Dec Y/E	FY19	FY20E	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	17.15	33.07	16.47	14.07	12.00
P/B ratio, x	2.25	2.14	1.99	1.86	1.73
Dividend Yield, %	4.57	1.81	3.64	4.26	5.00

Per share data (RMB cent)

EPS	57.42	29.79	59.80	69.99	82.11
BVPS	437.07	459.92	495.71	529.50	569.89
DPS	45.00	17.87	35.88	41.99	49.27

Growth & Margin

Growth					
Revenue Growth	23%	-22%	21%	15%	15%
Operating income Growth	-8%	-49%	112%	18%	18%
Net income Growth	-9%	-48%	101%	17%	17%
Margin					
Gross Profit Margin	43%	41%	42%	42%	43%
Operating profit Margin	10%	7%	12%	12%	13%
Net Profit Margin	8%	5%	9%	9%	9%

Key Ratios

ROE	13%	6%	12%	13%	14%
ROA	9%	5%	9%	9%	10%

Source : PSHK

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20E	FY21E	FY22E	FY23E
Non Current Asset					
PPE	2,237	2,573	2,958	3,402	3,913
GoodWill	-	-	-	-	-
LT investment	681	525	525	525	525
Other	2,389	2,266	2,164	2,079	2,009
Total Non Current Assets	5,307	5,364	5,648	6,007	6,447
Current Asset					
T/R	1,973	1,537	1,857	2,127	2,447
Inventories	4,109	3,672	4,357	4,964	5,679
Cash and cash equivalents	2,548	4,265	4,677	4,880	5,117
Others	2,684	2,245	2,245	2,245	2,245
Total Current Assets	11,314	11,719	13,136	14,217	15,488
Total Assets	16,621	17,083	18,784	20,224	21,935
Non Current Liabilities					
Loan	-	-	-	-	-
Deferred tax liabilities	80	80	80	80	80
Others	749	749	749	749	749
Total Non Current Liabilities	829	829	829	829	829
Current Liabilities					
Loan	267	267	267	267	267
T/P	2,209	1,958	2,324	2,648	3,029
B/P	462	631	686	783	899
Others	1,059	987	1,301	1,408	1,533
Total Current Liabilities	3,997	3,843	4,578	5,106	5,727
Equity					
Share capital	2,699	2,699	2,699	2,699	2,699
Reserve	9,066	9,677	10,614	11,469	12,473
Non controlling interest	30	35	64	121	207
Total Equity	11,794	12,411	13,377	14,289	15,379
Total Liabilities and Equity	16,621	17,083	18,784	20,224	21,935

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20E	FY21E	FY22E	FY23E
EBITDA	2,930	1,705	2,917	3,387	3,949
Chg in working cap	(847)	1,229	(584)	(456)	(538)
Others	(495)	49	48	68	82
Tax	-	(335)	(263)	(577)	(684)
CFO	1,588	2,984	2,380	2,998	3,494
Capex	(344)	(895)	(1,029)	(1,183)	(1,361)
Others	(216)	156	-	-	-
CFI	(560)	(739)	(1,029)	(1,183)	(1,361)
Issue of Shares	0	-	-	-	-
Dividends paid	(965)	(193)	(677)	(1,034)	(1,212)
Others	115	-	-	-	-
CFF	(849)	(193)	(677)	(1,034)	(1,212)
Net Change in Cash	179	1,717	412	204	237
Foreign exchange	14	-	-	-	-
Cash and CE at Y/E	2,459	4,265	4,677	4,880	5,117

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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

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

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Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

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 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

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

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 (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

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