

Semir Garment (002563 SZ)

Q1 earning in line with expectation,
divestment of Kidiliz improve profitability
Hong Kong | Consumer (apparel) | Update Report

8 July 2021

Investment Summary

The company announced its results for 1Q21. In 1Q21, it recorded revenue of CNY 3.31 billion, an increase of 20.9%; net profit attributable to parent was approximately CNY 353 million, an increase of 1916.8% Yoy, and a 1.7% increase from the same period in 2019. Excluding the impact of Kidiliz's spin-off, the company's revenue and net profit increased by 50% and 226% respectively Yoy. After spin off Kidiliz, the company has improved its cost control, and its overall revenue and profit performance are in line with our expectations.

Divide by sales channel, the company's online retail sales volume has increased by more than 40% Yoy. Among them, children's wear and adult casual wear have recorded more than 50% and double-digit growth respectively, and the overall online sales volume of the same period in 2019 also recorded a 30% increase; Overall offline retail sales volume recorded an increase of more than 60% which children's clothing and adult casual wear recorded 60% and 70% growth respectively. In terms of business segment, the sale volume of children's wear increased by about 50%-60% Yoy, and the Sales volume of adult casual wear increased by 40%-50% Yoy, mainly due to the low base in the same period last year. If compared with the same period in 2019, the Sales volume of children's wear and adult casual wear increased by more than 20% and a reduction of about 20% respectively.

Discounts and pricing improved, company GPM and NPM increased significantly,

The company's GPM during the period was 44.0%, an increase of approximately 2.9 ppts from 41.1% in the same period in 2020, mainly due to the company's improved price markup rate and discount. From the perspective of pricing, since 2H19, the company has continued to adjust the brand. The pricing multiple of the Balabala brand has increased from 3.5-4.0x to above 4.0x, and the pricing multiple of Semir has increased from 3.0x-3.5x to approximately 3.5x. The company's overall pricing multiple is about 4.0x; from the perspective of discounts, the company's average discount level in recent years is about 70% to 80% offline and 50% online. Affected by the epidemic, the company increased its discounts last year. The discount returned to the normal at the end of 4Q20.

After spinning off Kidiliz, the company's expense ratio during the period was significantly improved. The company's sales/management/R&D expense ratio was 19.4%/5.3%/1.36%, a Yoy decrease of 7.9/1.9/0.5 ppts. With the improvement in both expense ratio and GPM, the company's profitability has improved significantly. In 1Q21, the company's NPM was 10.6%, an increase of 10.1 ppts Yoy. In 1Q21, it recorded a net profit attributable to the parent of CNY 353 million, a Yoy increase of 1916.78%. This was mainly due to the company's low profit level due to the impact of the epidemic in the same period last year, resulting in high Yoy growth under a low base.

Profit forecast and valuation

Semir Garment has secured its leading position in the domestic children's wear and casual wear market. After the divestiture of Kidiliz, the company's profitability has improved significantly on a quarterly basis. After adjusting the pricing multiple, the impact of the partial divestment of Kidiliz on the income side was offset, and the company's profitability also increased significantly. The company has a leading advantage on the children's clothing industry and is expected to bring sustained growth to the company.

Buy (maintain)

CMP CNY 12.29
(Closing price as of July 6)
TARGET CNY 14.95 (+21.6%)

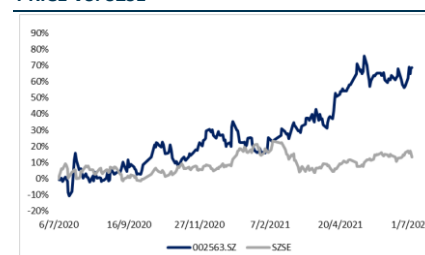
COMPANY DATA

O/S SHARES (MN) :	2,697.59
MARKET CAP (CNY MN) :	33,153
52 - WK HI/LO (CNY):	13.08/6.42

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	FY20	FY21E	FY22E
Net Sales	19,337	15,205	18,317	20,986
Net Profit	1,549	806	1,614	1,889
EPS, CNY cent	57.42	29.86	59.80	69.99
P/E, x	21.40	41.16	20.55	17.56
BVPS, CNY	437.07	426.18	461.94	495.73
P/BV, x	2.81	2.88	2.66	2.48
DPS (Cent)	45.00	17.91	35.88	41.99
Div. Yield (%)	3.66	1.46	2.92	3.42

Source: Company reports, Phillip Securities Est.

Research Analyst

Timothy Chong (+ 852 22776515)

timothyong@phillip.com.hk

The company's performance in the first quarter of 2021 is in line with our expectations. After the divestiture of Kidiliz, it will have a short-term impact on the company's children's clothing segment revenue. However, the company has its own brand Balabala in the children's clothing business. By adjusting the pricing multiple, it is expected to continue to provide growth for the children's clothing business. In addition, after the divestiture of Kidiliz, the company has improved its admin expenses and sales expenses, and its overall profitability has increased. The company's first quarter reflects the actual impact of Kidiliz's divestiture on the company. We maintain the company's earnings forecast. The company's FY21E/FY22E net profit attributable to the parent is expected to be CNY 1.61 billion/1.90 billion, corresponding to FY21E/FY22E EPS of CNY 59.80/69.99 cents, considering the improvement of the company's brand image, we revised up company's target P/E to FY21E 25.0X, and the target price is raised to CNY 14.95, corresponding to FY21E/FY22E P/E of 25.0x/21.4x. (Current price as of July 6)

Risk

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

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	19,337	15,205	18,317	20,986	24,138
COGS	(11,113)	(9,071)	(10,603)	(12,080)	(13,819)
Gross Profit	8,224	6,232	7,714	8,906	10,319
Selling & distribution	(4,055)	(3,349)	(3,297)	(3,777)	(4,345)
Admin	(1,029)	(824)	(916)	(1,049)	(1,207)
R&D	(414)	(292)	(458)	(525)	(603)
Other operating gain/(loss)	80	135	-	-	-
Operating Profit	2,010	1,011	2,172	2,562	3,028
Net finance income	123	77	48	68	82
Associated companies & JVs	(4)	0	-	-	-
Profit before tax	2,129	1,088	2,219	2,630	3,110
Tax	(595)	(294)	(577)	(684)	(809)
NCI	16	11	(29)	(57)	(86)
Profit for the year	1,549	806	1,614	1,889	2,216
EPS	57.42	29.86	59.80	69.99	82.11

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	21.40	41.16	20.55	17.56	14.97
P/B ratio, x	2.81	2.88	2.66	2.48	2.29
Dividend Yield, %	3.66	1.46	2.92	3.42	4.01

Per share data (RMB cent)

EPS	57.42	29.86	59.80	69.99	82.11
BVPS	437.07	426.18	461.94	495.73	536.13
DPS	45.00	17.91	35.88	41.99	49.26

Growth & Margin

Growth					
Revenue Growth	23%	-21%	20%	15%	15%
Operating income Growth	-8%	-50%	115%	18%	18%
Net income Growth	-9%	-48%	100%	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%	7%	13%	14%	15%
ROA	9%	5%	9%	10%	11%

(Closing price as of July 6)

Source : PSHK

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	2,237	2,142	2,463	2,832	3,257
GoodWill	-	-	-	-	-
LT investment	681	384	384	384	384
Other	2,389	1,894	1,815	1,750	1,696
Total Non Current Assets	5,307	4,419	4,662	4,966	5,337
Current Asset					
T/R	1,973	1,392	1,857	2,127	2,447
Inventories	4,109	2,501	4,357	4,964	5,679
Cash and cash equivalents	2,548	5,047	2,956	3,214	3,521
Others	2,684	3,811	3,538	3,538	3,538
Total Current Assets	11,314	12,751	12,708	13,844	15,184
Total Assets	16,621	17,170	17,370	18,809	20,521
Non Current Liabilities					
Loan	-	-	-	-	-
Deferred tax liabilities	80	15	15	15	15
Others	749	696	696	696	696
Total Non Current Liabilities	829	711	711	711	711
Current Liabilities					
Loan	267	-	-	-	-
T/P	2,209	2,036	2,324	2,648	3,029
B/P	462	1,962	686	783	899
Others	1,059	960	1,183	1,290	1,415
Total Current Liabilities	3,997	4,958	4,193	4,721	5,342
Equity					
Share capital	2,699	2,698	2,698	2,698	2,698
Reserve	9,066	8,775	9,712	10,566	11,570
Non controlling interest	30	28	56	114	200
Total Equity	11,794	11,501	12,466	13,378	14,468
Total Liabilities and Equity	16,621	17,170	17,370	18,809	20,521

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	2,930	1,898	2,786	3,243	3,791
Chg in working cap	(847)	2,684	(3,010)	(456)	(538)
Others	(407)	(126)	48	68	82
Tax	-	-	(380)	(577)	(684)
CFO	1,677	4,457	(177)	2,855	3,335
Capex	(344)	(134)	(857)	(985)	(1,133)
Others	(216)	(514)	-	-	-
CFI	(560)	(647)	(857)	(985)	(1,133)
Issue of Shares	0	2	-	-	-
Dividends paid	(965)	(1,222)	(677)	(1,034)	(1,212)
Others	115	(84)	-	-	-
CFF	(849)	(1,304)	(677)	(1,034)	(1,212)
Net Change in Cash	267	2,505	(2,091)	258	307
Foreign exchange	14	(5)	-	-	-
Cash and CE at Y/E	2,548	5,047	2,956	3,214	3,521

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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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