

# Yue Yuen Industrial (Holdings) Limited (00551.HK)

Strong Performance in Footwear Manufacturing, Retail Challenges  
China | Manufacturing

25 November 2024

## Investment Summary

Yue Yuen Industrial (Holdings) Limited ("Yue Yuen") remains a global leader in footwear manufacturing. For the nine months ended September 30, 2024, Yue Yuen reported a net profit attributable to owners of USD 331.7 million, representing a YoY growth of 140.9%. The robust performance of its footwear manufacturing business offset the challenges in its China retail operations, while effective cost control measures supported overall profitability growth.

Despite macroeconomic uncertainties, including fluctuations in consumer confidence and geopolitical risks, Yue Yuen has demonstrated strong operational resilience. With flexible capacity management, ongoing cost control efforts, and stable cash flow Based on the company's resilient business model and promising outlook. Our investment rating is "Buy", with PT of HKD35.00.

## Financial Performance Highlight

For the nine months ending September 2024, Yue Yuen reported revenue of USD 6,075.3 million, reflecting a YoY increase of 1.5%. Gross profit surged to USD 1,472.3 million, up by 4.5%, with the gross margin expanding to 24.2%, an improvement of 0.7 percentage points compared to the same period last year.

Revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) reached USD 3,782.7 million, marking an 8.2% YoY growth. Footwear shipments volume increased by 16.2% YoY to 18.69 million pairs, while the average selling price per pair declined by 6.8% to USD 20.24. The gross margin for the manufacturing business rose by 1.6 percentage points to 19.6%, primarily driven by strong order demand, enhanced capacity utilization, and significant improvements in production efficiency.

The athletic/outdoor footwear segment accounted for 85.9% of footwear manufacturing revenue, whereas casual shoes and sports sandals comprised 14.1%. Athletic/outdoor shoes remain the primary revenue contributors, representing 53.5% of total revenue, followed by casual shoes and sports sandals at 8.8% of total revenue.

Selling and distribution expenses decreased by 8.3% to USD 624.2 million, administrative expenses declined by 1.2% to USD 416.1 million, and other expenses fell by 32.2%. These cost-containment measures have bolstered overall profitability and significantly enhanced operational efficiency.

The company recorded non-recurring profit of USD 26.4 million, primarily stemming from a one-off gain of US\$24.1 million on the partial disposal of associates. Excluding non-recurring items, recurring profit attributable to shareholders stood at USD 305.2 million, reflecting a substantial YoY increase of 127.8%.

## Accumulate

CMP HKD16.70  
(Closing price as of 21 November)  
Target HKD 19.00 (+13.8%)

### COMPANY DATA

O/S SHARES (MN) :	1608.551986
MARKET CAP (HKD MN) :	27345.4
52 - WK HI/LO (HKD):	17.48/6.22

### SHARE HOLDING PATTERN, %

Pou Chen Corporation	51.23%
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### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

USD mn	FY22	FY23	FY24E	FY25E
Revenue	8,970.2	7,890.2	8,072.5	8,406.2
Net profit	296.3	274.7	408.6	428.2
Reported EPS	0.1839	0.1704	0.2533	0.2655
P/E ratio, x	11.6	12.5	8.4	8.1
Dividend Yield, %	6.6%	5.4%	6.7%	7.5%

Source: Company reports, Phillip Securities Est.

### Sr. Research Analyst

Eric Li (+852 2277 6516)

erichyli@phillip.com.hk

### **Robust Footwear Demand**

As the global footwear market continues to normalize, Yue Yuen Group is poised to sustain robust growth in order demand, driving further improvements in overall capacity utilization and production efficiency. Operationally, the third quarter of the year was uncharacteristically solid and not a low season for the Group's manufacturing business. Demand for its production capacity continued to outstrip supply, with footwear shipment volumes growing strongly and the decline in average selling price narrowing quarter-on-quarter.

Despite the mixed consumption landscape in mainland China, where retail operations have been impacted by diminished foot traffic across multiple locations, resulting in subdued sales momentum, Pou Sheng continuously improved sales conversion rates within its retail stores while optimizing store-level productivity and efficiency. At the same time, its omni-channel sales remained relatively resilient as it continued to push ahead with its digital transformation strategy and maintain a high degree of agility and flexibility in its decision-making processes.

Looking ahead, Yue Yuen Group remains committed to its mid-to-long-term capacity expansion strategy, targeting Indonesia and India to leverage labor supply and infrastructure developments that support sustainable growth. This strategic diversification of manufacturing capacity is expected to bolster the company's operational resilience. The company will continue to focus on enhancing manufacturing efficiency and sustaining solid profitability growth through stringent cost and expense management measures. Additionally, Yue Yuen International will persist in its dynamic expansion of both physical and omni-channel retail operations, further enhancing operational efficiency through inventory management and digital transformation initiatives.

### **Investment Thesis**

We maintain a cautiously optimistic outlook on Yue Yuen's future growth prospects. The company's leading position in the global footwear manufacturing market, coupled with its robust financial performance and flexible capacity management capabilities, positions it well to remain competitive amid market volatility. We expect the company's earnings per share (EPS) to reach USD 0.25 in FY2024 and USD 0.27 in FY2025, with PT of HKD19.00, implies a FY2024E forecast P/E of 9.6x (aligning with ~5-yrs historical average). Our investment rating is "Accumulate".

### **Risk factors**

1) Adverse global economic conditions or waning consumer confidence could negatively impact demand within the footwear market; 2) Increases in the costs of raw materials or labor may erode the company's gross margins; 3) Potential disruptions to global supply chains resulting from geopolitical tensions could adversely affect operations; and 4) Continued subdued consumer spending in mainland China's retail sector may further dampen retail business performance.

## Financial

### Consolidated Statement of Profit or Loss

Dec Y/E, USD '000	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	8,533,337	8,970,228	7,890,168	8,072,461	8,406,188
COGS	(6,485,102)	(6,833,014)	(5,964,854)	(6,093,615)	(6,341,840)
<b>Gross Profit</b>	2,048,235	2,137,214	1,925,314	1,978,845	2,064,348
Other income	140,067	131,347	135,589	128,462	134,824
Selling expenses	(1,189,488)	(988,482)	(894,156)	(869,893)	(911,460)
General & Admin exp	(611,886)	(609,102)	(546,619)	(553,695)	(583,131)
Others	(225,367)	(254,150)	(216,230)	(144,245)	(150,209)
<b>Operating Profit</b>	161,561	416,827	403,898	539,474	554,373
Finance costs, net	(52,698)	(67,710)	(85,039)	(37,066)	(20,515)
Share of results of associates	26,292	46,489	47,728	45,333	41,881
Share of result of a JV	(14,538)	16,124	14,454	14,649	15,255
Other gains and losses	54,814	1,521	9,157	10,543	7,387
<b>Profit before tax</b>	175,431	413,251	390,198	572,934	598,380
Income tax	(33,485)	(120,050)	(80,992)	(142,680)	(140,316)
<b>Shareholders Net profit</b>	115,072	296,347	274,710	408,562	428,224
<b>Reported EPS, Diluted</b>	0.0714	0.1839	0.1704	0.2533	0.2655
DPS	0.026	0.141	0.115	0.143	0.159
<b>Payout ratio</b>	35.9%	76.7%	67.6%	56.3%	60.1%

### Key Financial Data

Dec Y/E	FY21	FY22	FY23	FY24E	FY25E
<b>Valuation Ratio</b>					
P/S ratio, x	0.4	0.4	0.4	0.4	0.4
P/E ratio, x	30.0	11.6	12.5	8.4	8.1
Dividend Yield, %	1.2%	6.6%	5.4%	6.7%	7.5%

### Per share data (HKD)

EPS	0.56	1.43	1.33	1.98	2.07
BVPS	0.02	0.02	0.02	0.02	0.02
DPS (HKD)	0.20	1.10	0.90	1.11	1.25

### Growth & Margin

<b>Growth</b>					
Revenue Growth	1.0%	5.1%	-12.0%	2.3%	4.1%
Gross Profit Growth	11.9%	4.3%	-9.9%	2.8%	4.3%
Operating Profit Growth	-	158.0%	-3.1%	33.6%	2.8%
Net Profit Growth	-	157.5%	-7.3%	48.7%	4.8%
<b>Margin</b>					
Gross Profit Margin	24.0%	23.8%	24.4%	24.5%	24.6%
Operating Profit Margin	1.9%	4.6%	5.1%	6.7%	6.6%
Net Profit Margin	1.3%	3.3%	3.5%	5.1%	5.1%

### Key Ratios

ROE	2.6%	6.4%	5.9%	8.5%	8.4%
ROA	1.3%	3.6%	3.6%	5.6%	5.6%
Debt/Equity	41.9%	34.2%	22.9%	13.7%	12.8%
Current Ratio	1.8	2.1	1.9	2.3	2.4

### Consolidated Statement of Financial Position

Dec Y/E, USD '000	FY21	FY22	FY23	FY24E	FY25E
<b>Non Current Asset</b>					
PPE	2,024,657	1,871,035	1,675,886	1,612,925	1,561,915
Others	2,094,016	1,920,861	1,898,488	1,897,125	1,895,762
<b>Total Non Current Assets</b>	4,118,673	3,791,896	3,574,374	3,510,050	3,457,677
<b>Current Asset</b>					
Inventory	2,058,022	1,625,117	1,247,003	1,311,508	1,591,602
Trade and other receivables	1,477,957	1,430,944	1,393,872	1,462,400	1,467,929
Bank balance and cash	837,965	1,018,259	1,104,495	1,028,868	1,266,386
Others	145,467	69,205	38,488	39,467	40,387
<b>Total Current Assets</b>	4,519,411	4,143,525	3,783,858	3,842,243	4,366,303
<b>Total Assets</b>	8,638,084	7,935,421	7,358,232	7,352,293	7,823,980
<b>Non Current Liabilities</b>					
Long-term debt	1,061,258	928,501	329,501	293,349	293,197
Other Non-current Liabilities	503,876	361,303	334,029	431,381	518,663
<b>Total Non-current Liabilities</b>	1,565,134	1,289,804	663,530	724,730	811,860
<b>Current Liabilities</b>					
Interest-bearing Borrowings	655,839	506,430	643,159	317,793	302,723
Trade payables	1,516,947	1,223,214	1,136,831	1,126,111	1,275,801
Others	295,713	273,648	204,684	229,022	250,843
<b>Total Current Liabilities</b>	2,468,499	2,003,292	1,984,674	1,672,926	1,829,366
<b>Equity</b>					
Shareholders' equity	4,098,458	4,189,711	4,240,268	4,463,185	4,661,462
Non-controlling interests	505,993	452,614	469,760	491,452	521,292
<b>Total equity</b>	4,604,451	4,642,325	4,710,028	4,954,637	5,182,754
<b>Total Liabilities and Equity</b>	8,638,084	7,935,421	7,358,232	7,352,293	7,823,980

### Consolidated Statement of Cash Flow

Dec Y/E, USD '000	FY21	FY22	FY23	FY24E	FY25E
<b>CFO</b>					
Profit before income tax	175,431	413,251	390,198	572,934	598,380
D&A add-back	582,885	494,478	407,673	282,367	279,746
Others	(67,399)	(45,471)	(110,828)	(143,659)	(141,236)
Net (inc)/dec working capital	(227,814)	45,644	257,614	(143,753)	(135,932)
<b>Net cash flow from operating activities</b>	463,103	907,902	944,657	567,889	600,957
<b>CFI</b>					
Purchase of PP&E	(286,044)	(204,283)	(163,803)	(218,043)	(227,372)
Others	189,213	112,004	12,111	121,690	109,103
<b>Net cash flow from investing activities</b>	(96,831)	(92,279)	(151,692)	(96,354)	(118,269)
<b>CCF</b>					
Dividends paid	-	(123,036)	(185,479)	(185,644)	(229,948)
Others	(431,283)	(504,274)	(674,187)	(361,518)	(15,223)
<b>Net cash flows from financing activities</b>	(431,283)	(627,310)	(859,666)	(547,162)	(245,170)
<b>Net Change in Cash</b>	(65,011)	188,313	(66,701)	(75,627)	237,518
<b>Cash and CE at Y/E</b>	837,965	994,781	923,217	847,590	1,085,108

Current Price as of: November 21

Source: PSHK Est.

### 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

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](http://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](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 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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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