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7 February 2023

Taiwan

Consumer

Reuters 1477.TW
Bloomberg 1477 TT

Priced on 7 February 2023
Taiwan Wtd @ 15,400.9

12M hi/lo NT\$245.00/135.50

12M price target NT\$280.00
±% potential +24%

Shares in issue 241.9m
Free float (est.) 86.9%

Market cap US\$1.8bn

3M ADV US\$14.0m

Foreign s'holding 38.6%

Major shareholders

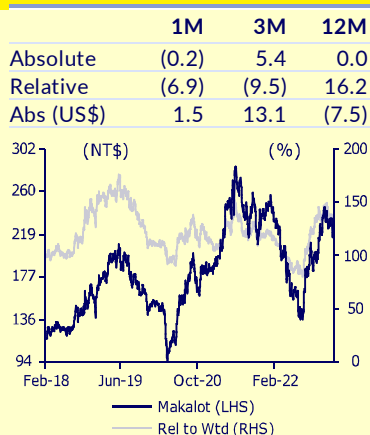
Fubon Financial Holding 6.8%
Cathay Life Insurance 4.7%

Blended ESG Score (%)*

Overall 71.9
Country average 72.9
GEM sector average 71.7

*Click to visit company page on clsa.com for details

Stock performance (%)



Source: Bloomberg

Inventory glut concerns alleviating

Continued margin expansion on better product mix

Makalot struck a positive tone during a small group meeting held by CLST today. While it sees downside risk to its 2023 sales guidance due to lower material prices in the near term, it expects 1) the US inventory glut to ease by the end of 2Q23, leading to replenishment demand afterwards, 2) limited ASP concerns from peers' price cuts, and 3) continued profit expansion. Makalot remains our top pick in the sector thanks to both its ability to deliver rush orders and improve its product mix and production efficiency in the next three years. Reiterate BUY.

US inventory glut to ease by the end of 2Q23

Despite ongoing inventory destocking in the US, Makalot expects inventory glut among apparel brands to ease by end-2Q23, indicating strong replenishment demand in 2H23 and echoing its sales guidance of 2H outperforming 1H. Also, while it sees downside risk to its 2023 sales guidance due to lower material prices, it expects its bottom line to remain solid given a better product mix and well-controlled Opex.

Limited ASP concern from price cuts by peers in Asia

Investors have been worrying about the potential impact of Asian peers aggressively cutting prices to gain share recently, but Makalot says there will be a limited negative impact as (1) >50% of its sales are from premium sportswear segments, a market in which those competitors are not qualified, and (2) it has been migrating low-to-mid price capacities (c.20% of capacity) to premium products and this will accelerate in 2023. Worst-case, only about c.3-4% (of the 20%) of the mid-to-low end orders will relocate back to China.

Unchanged focus on profit expansion thanks to improved product mix

For 2023, Makalot reiterated its profit expansion strategy through an improved product mix. Specifically, it expects premium products (sportswear) to account for 56-57% of its sales in 2023 vs 52-53% in 2022. For 2024-25, Makalot believes that deeper cooperation with its Japanese client will afford it better production efficiency and thus an improved gross margin profile.

Reiterate BUY and NT\$280 target

We lift 22CT EPS after factoring in 4Q22 preliminary results, slightly cut 1Q23 sales due to lower material prices and make no changes to our 2024 forecasts. We maintain our BUY recommendation and NT\$280 target price on Makalot, which remains our top pick in the textile sector.

Financials

Year to 31 December	20A	21A	22CT	23CT	24CT
Revenue (NT\$m)	24,924	28,931	32,083	33,434	37,237
Rev forecast change (%)	-	-	0.0	(0.9)	0.0
Net profit (NT\$m)	2,056	2,655	3,515	3,457	3,672
NP forecast change (%)	-	-	3.3	0.4	0.0
EPS (NT\$)	9.35	11.20	14.53	14.29	15.18
CL/consensus (16) (EPS%)	-	-	102	100	95
EPS growth (% YoY)	8.0	19.7	29.8	(1.7)	6.2
PE (x)	24.1	20.1	15.5	15.7	14.8
Dividend yield (%)	2.2	4.3	5.5	5.4	5.7
ROE (%)	21.4	22.3	24.5	22.7	23.2
Net debt/equity (%)	9.7	(3.9)	(19.2)	(17.9)	(17.5)

Source: www.clsa.com

Financials at a glance

Year to 31 December	2020A	2021A	2022CT	(% YoY)	2023CT	2024CT
Profit & Loss (NT\$m)						
Revenue	24,924	28,931	32,083	10.9	33,434	37,237
Cogs (ex-D&A)	(18,818)	(21,865)	(23,498)		(24,440)	(27,375)
Gross Profit (ex-D&A)	6,106	7,065	8,585	21.5	8,994	9,862
SG&A and other expenses	(2,906)	(3,154)	(3,586)		(3,734)	(4,304)
Op Ebitda	3,200	3,912	4,999	27.8	5,260	5,558
Depreciation/amortisation	(534)	(530)	(567)		(672)	(722)
Op Ebit	2,666	3,381	4,432	31.1	4,587	4,836
Net interest inc/(exp)	(48)	(74)	(102)		(105)	(105)
Other non-Op items	99	91	259	185.1	20	20
Profit before tax	2,717	3,398	4,589	35	4,503	4,751
Taxation	(638)	(720)	(1,049)		(1,021)	(1,055)
Profit after tax	2,079	2,678	3,540	32.2	3,481	3,696
Minority interest	(22)	(23)	(25)		(25)	(25)
Net profit	2,056	2,655	3,515	32.4	3,457	3,672
Adjusted profit	2,056	2,655	3,515	32.4	3,457	3,672
Cashflow (NT\$m)						
Operating profit	2,666	3,381	4,432	31.1	4,587	4,836
Depreciation/amortisation	534	530	567	6.8	672	722
Working capital changes	(2,480)	301	1,237	310.3	(134)	(380)
Other items	33	(1,199)	(1,095)		(1,316)	(1,355)
Net operating cashflow	753	3,013	5,140	70.6	3,810	3,823
Capital expenditure	(724)	(399)	(531)		(930)	(814)
Free cashflow	29	2,614	4,609	76.3	2,880	3,009
M&A/Others	(723)	(1,973)	4		4	4
Net investing cashflow	(1,447)	(2,372)	(527)		(926)	(810)
Increase in loans	2,530	(1,237)	(467)		(350)	(262)
Dividends	(1,122)	(1,954)	(2,253)		(2,988)	(2,938)
Net equity raised/other	(135)	2,863	0		0	0
Net financing cashflow	1,273	(329)	(2,720)		(3,338)	(3,201)
Incr/(decr) in net cash	578	312	1,893	506.2	(454)	(188)
Exch rate movements	(50)	(37)	0		0	0
Balance sheet (NT\$m)						
Cash & equivalents	2,367	2,643	4,536	71.6	4,082	3,894
Accounts receivable	2,473	1,160	1,318	13.6	1,374	1,530
Other current assets	7,906	12,357	11,342	(8.2)	11,731	12,466
Fixed assets	5,077	5,022	4,986	(0.7)	5,244	5,337
Investments	204	239	239	0	239	239
Intangible assets	0	0	0		0	0
Other non-current assets	608	801	801	0	801	801
Total assets	18,636	22,223	23,223	4.5	23,472	24,267
Short-term debt	3,349	1,948	1,481	(24)	1,131	869
Accounts payable	1,864	2,237	2,417	8	2,522	2,822
Other current liabs	2,815	3,521	3,521	0	3,521	3,521
Long-term debt/CBs	-	163	163	0	163	163
Provisions/other LT liabs	444	557	557	0	557	557
Shareholder funds	10,085	13,713	14,975	9.2	15,443	16,177
Minorities/other equity	79	83	108	29.8	132	157
Total liabs & equity	18,636	22,223	23,223	4.5	23,472	24,267
Ratio analysis						
Revenue growth (% YoY)	(7.9)	16.1	10.9		4.2	11.4
Ebitda margin (%)	12.8	13.5	15.6		15.7	14.9
Ebit margin (%)	10.7	11.7	13.8		13.7	13.0
Net profit growth (%)	8.0	29.1	32.4		(1.7)	6.2
Op cashflow growth (% YoY)	(55.5)	300.3	70.6		(25.9)	0.3
Capex/sales (%)	2.9	1.4	1.7		2.8	2.2
Net debt/equity (%)	9.7	(3.9)	(19.2)		(17.9)	(17.5)
Net debt/Ebitda (x)	0.3	-	-		-	-
ROE (%)	21.4	22.3	24.5		22.7	23.2
ROIC (%)	20.6	21.3	26.2		27.7	28.0

Source: CLST

Find CLSA research on Bloomberg, Thomson Reuters, FactSet and CapitalIQ - and profit from our evaluator proprietary database at clsa.com

Makalot webinar takeaways

Operations recap

- ❑ Delivered record-high revenue and net profit (+30%+ YoY) in 2022
- ❑ Thinks Makalot is a major beneficiary of Covid – lots of disruptions during Covid and customers are desperate to find secondary sources; Makalot has proven that it can be trusted with sportswear orders

2023

- ❑ Guidance
 - Aims to maintain upward trajectory in revenue and profit
 - Believes 2H will be stronger than 1H
 - Will prioritise profit expansion over quantity
- ❑ Sees downside risk to its 2023 sales guidance due to lower material costs and competition, but bottom line should not be impacted
 - Right now still expects bottom line to outgrow top line, so better OPM
 - This year product mix will continue to improve but at a slower pace
 - Sportswear mix up from 52-53% in 2022 to 56-57%, but lower rush order mix
 - This year probably cannot expect such high profitability but thinks it is well positioned for 2024/25
- ❑ January sales down 16% YoY due to CNY holidays
- ❑ Guidance for 1Q23 is still the same
 - Revenue and profit: flat to low-single digit growth
 - Sequential improvement month over month for 1Q23
- ❑ US destocking still ongoing
 - Some of its customers are able to digest inventory through deep discounts during holiday sales
 - Believes whole destocking will be done in 1H23
 - Fast-growing demand for replenish and rush orders from the US market
 - Replenish and rush orders accounted for low-teen percentage of shipping volume in Spring 2023 with 2-5ppt higher margins
 - Makalot thinks US brands will eventually have to place orders; but those orders aren't confirmed yet so it cannot make any guarantees to investors
 - Destocking comes at a different pace for different categories
 - Stay-at-home categories will need more time
 - Brands doing better than department stores and discounters
 - Shouldn't be too many worrying situations in 2H
- ❑ Japan reopening
 - January: still enjoying very strong sell-through in domestic market and beat its own internal expectations
 - 2023: benefits from Japan reopening and strong international market
 - Expects its revenue to grow in double digits in 2023
- ❑ Easing transportation and material costs



Great



Solid



OK

- Transportation cost already back to pre-Covid level – logistic costs down by 90%+
- Material costs down by high-single-digits to low-teens

❑ Rush orders

- If things get better, rush orders may start to slow down from 3Q and this will have some impact on GM
- Better expense control should be able to offset this negative though

Production

❑ Customers continue to diversify their procurement from China to Southeast Asia (SEA), South Asia and Central America

❑ Makalot's production leans heavily on SEA

- Will have a base in Bangladesh by 2Q24 and now has production partner in Central America
- Should benefit Makalot for the next 2-5 years

❑ Indonesia

- 60 new lines by end-2023 for its Japan customer
- Another 60 lines to be completed no later than 2025
 - Right now all is going as planned
- Now still serves only GU, and not Uniqlo

❑ Fabric

- Has a very small percentage of fabric sales
- Only 14% of the fabric it uses is internally sourced

China decoupling

❑ A longer trend

❑ Customers trying even harder to diversify away from China

- Chinese vendors now offering deep discounts to US customers to secure current orders – thinks the pace of decoupling will slow in the near term
- Longer term, still thinks decoupling continue

❑ Diversifying away from Vietnam should also be the trend in the next few years

- Apparel is very labour-intensive and also land in Vietnam is quite scarce
- Apparel industry isn't able to add value to the country like tech industry does

❑ Indonesia, India are new places companies are looking into – cheap labour, more land and more ESG resources like green electricity, etc

- Indonesia also about to sign a free-trade agreement with Japan

Price cuts from Chinese peers

- ❑ Chinese peers, mostly in the low price range, do offer very attractive prices for US customers. As a result, some US brands are sticking with Chinese vendors for now
- ❑ Makalot thinks impact on the company is not that great since more than 50% of its products are premium sportswear and transportation costs are also declining

- ❑ Chinese peers able to provide very attractive pricing because of wage cuts – workers not receiving overtime compensation
- ❑ Makalot has about 20% of capacity in the low-to-mid price range - needs to wait until 2Q23 to be clear how big the effect is:
 - If things get more serious, maybe 3-4% of the 20% will be relocated back to China
 - The faster Makalot can migrate the 20% to premium sportswear the better
- ❑ Right now Makalot is benefiting from rush orders - these more than ensure it will do better this year
- ❑ Still expects 100% UTR despite this competition

ASP

- ❑ ASP is still more affected by raw material prices and FX
- ❑ Material prices coming down quicker than expected – cotton prices and oil prices coming down
- ❑ Raw material prices may see ASP decline by 2-3% this year with capacity up by 7%

Gross margin

- ❑ Sportswear 25%
- ❑ Fast fashion 23-24%
- ❑ Rush orders a few ppts higher
- ❑ Japan client
 - Japan client is fashion-focused but not exactly with lower margins, because a lot of their orders are rush orders, so eventually margin is 1-1.5ppt higher than average
 - Also, if the cooperation with Japan client accelerates, then investors can neglect the impact from price competition from China
 - Having more orders from its Japan customer is a very strong catalyst for Makalot to compete in the next few years
 - June or July this year should be a major checkpoint for its cooperation

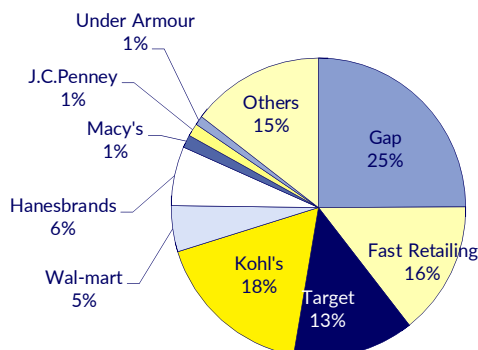
Figure 1

Brands' guidance and comments

Brand	Current full-year sales guidance	Previous guidance	Guidance release date	Key comments
Lululemon Athletica	up 26-27%	up 26-27%	10-Jan	<p>Sales/Demand Our performance across markets and geographies shows that consumers are seeking brands like Lululemon that offer innovative versatile product and a strong community connection that they can't find anywhere else</p> <p>Inventory On a unit basis inventory increased 80%, representing a three-year compound annual growth rate of 38%, which is inclusive of three-percentage points for in-transit inventories. Believes its inventories are well positioned to support its expected revenue growth in the fourth quarter</p>
Adidas	up low-single digits	up mid-single digits	9-Nov	<p>Sales/Demand Lowered 2022 guidance as a result of the further deterioration of traffic trends in Greater China, and higher clearance activity to reduce elevated inventory levels</p> <p>Inventory Consumer demand in Western markets slowed and traffic trends in Greater China further deteriorated. As a result, we saw a significant inventory buildup across the industry</p>
Nike	up low-teens	up low-double digits	21-Dec	<p>Sales/Demand We are making progress where we are focused most, in North America. Given our strong second quarter performance, we now expect full-year revenue to grow in low teens on a currency neutral basis</p> <p>Inventory Driven by an increase in units from lapping prior year supply chain disruption, as well as higher input costs</p>
Under Armour	up low-single digit	up 5-7%	3-Nov	<p>Sales/Demand It's not yet clear how long these conditions may persist; however, elevated inventories including late-arriving products across our sector, higher levels of discounting and promotions and softer retail trends have impacted how we see the rest of fiscal '23 playing out</p> <p>Inventory We expect elevated inventory growth rates over the next few quarters. With a peak in the high '40s coming in our current third quarter and then closing out our fiscal year in the mid-30% growth range</p>
The Gap	F4Q22 down mid-single digit	Withdrawn	18-Nov	<p>Sales/Demand Net sales benefited in part by the timing of franchise sales, as well as the October holiday event at Old Navy</p> <p>Inventory The company continues to target total inventories below prior year levels by the end of fiscal 2022 as a result of its inventory actions, reduction of receipts, and anniversary of higher in-transit levels last year</p>

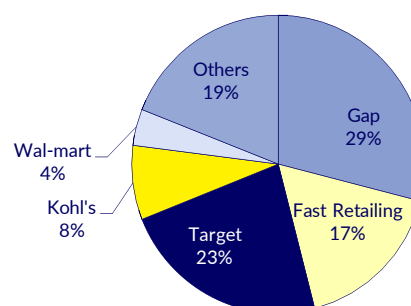
Source: CLST, Brands

Figure 2

Makalot customer mix, 2016

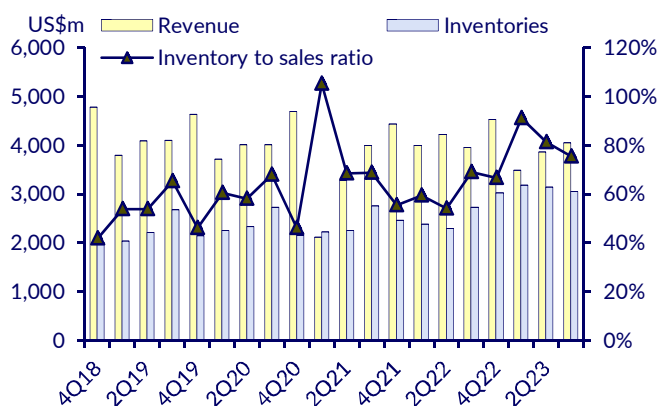
Source: CLST, Company

Figure 3

Makalot customer mix, 2021

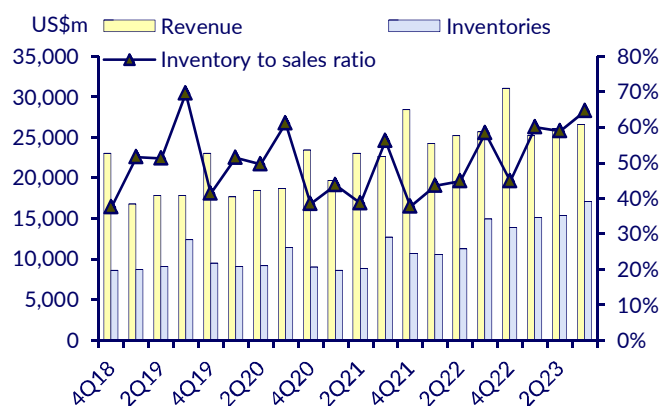
Source: CLST, Company

Figure 4

Gap inventory-to-sales

Source: CLST, Bloomberg

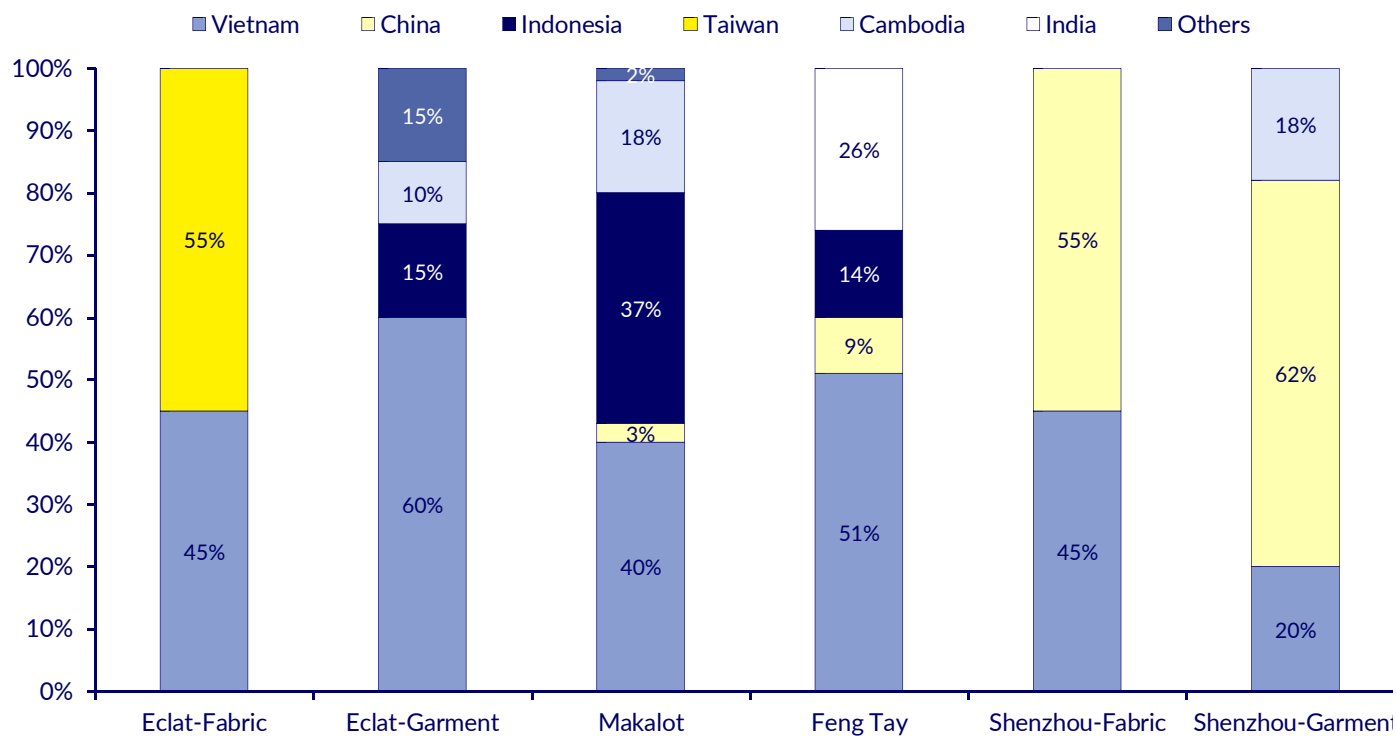
Figure 5

Target inventory-to-sales

Source: CLST, Bloomberg

Figure 6

Textile peers – capacity mix by country



Source: CLST, Company

Figure 7

Fast Retailing monthly SSS comparison

Fast Retailing	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun-22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan-23
SSS	(7.1)	(14.0)	(10.7)	15.8	17.5	(10.2)	6.4	14.9	11.0	12.8	(3.8)	16.9	10.9
Customer Traffic	(3.7)	(12.6)	(15.8)	3.9	9.6	(15.8)	(6.3)	0.2	(2.9)	1.4	(9.7)	1.8	(1.5)
Customer Spend	(3.6)	(1.6)	6.1	11.5	7.3	6.6	13.6	14.8	14.4	11.3	6.5	14.8	12.6

Source: CLSA

Figure 8

P&L													
(NT\$m)	1Q22	2Q22	3Q22	4Q22P	1Q23CT	2Q23CT	3Q23CT	4Q23CT	2020	2021	2022CT	2023CT	2024CT
Sales	7,972	7,341	9,407	7,363	7,713	8,037	9,463	8,221	24,924	28,931	32,083	33,434	37,237
QoQ growth	4%	(8%)	28%	(22%)	5%	4%	18%	(13%)					
YoY growth	17%	20%	13%	(4%)	(3%)	9%	1%	12%	(8%)	16%	11%	4%	11%
Gross profit	2,078	1,838	2,203	1,899	1,985	2,078	2,301	1,958	5,571	6,535	8,018	8,322	9,140
GM	26.1%	25.0%	23.4%	25.8%	25.7%	25.9%	24.3%	23.8%	22.4%	22.6%	25.0%	24.9%	24.5%
Opex	964	870	918	833	872	904	883	1,077	2,906	3,154	3,586	3,734	4,304
Opex %	12%	12%	10%	11%	11%	11%	9%	13%	11.7%	10.9%	11.2%	11.2%	11.6%
Operating profit	1,113	968	1,285	1,065	1,113	1,175	1,419	881	2,666	3,381	4,432	4,587	4,836
OPM	14.0%	13.2%	13.7%	14.5%	14.4%	14.6%	15.0%	10.7%	10.7%	11.7%	13.8%	13.7%	13.0%
OP YoY growth	40%	24%	27%	34%	0%	21%	10%	(17%)	7%	27%	31%	4%	5%
Non-op profit	18	(21)	226	(65)	(21)	(21)	(21)	(21)	51	17	157	(85)	(85)
Non-op %	0%	0%	2%	(1%)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Pretax profit	1,131	947	1,510	1,000	1,092	1,153	1,397	860	2,717	3,398	4,589	4,503	4,751
Net profit	893	734	1,110	778	828	864	1,085	679	2,056	2,655	3,515	3,457	3,672
QoQ growth	33%	(18%)	51%	(30%)	6%	4%	26%	(37%)					
YoY growth	37%	33%	42%	16%	(7%)	18%	(2%)	(13%)	8%	29%	32%	(2%)	6%
EPS (NT\$)	3.69	3.03	4.59	3.22	3.43	3.57	4.49	2.81	9.35	11.20	14.53	14.29	15.18

Source: CLST

Figure 9

Earnings revision - quarterly									
(NT\$m)	1Q23CT			2Q23CT			3Q23CT		
	old	new	% ch	old	new	% ch	old	new	% ch
Revenue	8,031	7,713	(4%)	8,037	8,037	0%	9,463	9,463	0%
Gross profit	2,064	1,985	(4%)	2,078	2,078	0%	2,301	2,301	0%
Opex	952	872	(8%)	904	904	0%	883	883	0%
Operating profit	1,112	1,113	0%	1,175	1,175	0%	1,419	1,419	0%
Pretax profit	1,091	1,092	0%	1,153	1,153	0%	1,397	1,397	0%
Net profit	828	828	0%	864	864	0%	1,085	1,085	0%
EPS (NT\$)	3.42	3.43	0%	3.57	3.57	0%	4.49	4.49	0%
Margin									
Gross margin	25.7%	25.7%	0 ppt	25.9%	25.9%	0 ppt	24.3%	24.3%	0 ppt
Operating margin	13.9%	14.4%	0.6 ppt	14.6%	14.6%	0 ppt	15.0%	15.0%	0 ppt
Net margin	10.3%	10.7%	0.4 ppt	10.7%	10.7%	0 ppt	11.5%	11.5%	0 ppt

Source: CLST

Figure 10

Earnings revision - annual

(NT\$m)	2022CT			2023CT			2024CT		
	old	new	% ch	old	new	% ch	old	new	% ch
Revenue	32,083	32,083	0%	33,752	33,434	(1%)	37,222	37,237	0%
Gross profit	8,001	8,018	0%	8,390	8,322	(1%)	9,137	9,140	0%
Opex	3,780	3,586	(5%)	3,815	3,734	(2%)	4,303	4,304	0%
Operating profit	4,221	4,432	5%	4,576	4,587	0%	4,834	4,836	0%
Pretax profit	4,422	4,589	4%	4,491	4,503	0%	4,749	4,751	0%
Net profit	3,403	3,515	3%	3,444	3,457	0%	3,671	3,672	0%
EPS (NT\$)	14.07	14.53	3%	14.24	14.29	0%	15.18	15.18	0%
Margin									
Gross margin	24.9%	25.0%	0.1 ppt	24.9%	24.9%	0 ppt	24.5%	24.5%	0 ppt
Operating margin	13.2%	13.8%	0.7 ppt	13.6%	13.7%	0.2 ppt	13.0%	13.0%	0 ppt
Net margin	10.6%	11.0%	0.4 ppt	10.2%	10.3%	0.1 ppt	9.9%	9.9%	0 ppt

Source: CLST

Figure 11

CT vs consensus - quarterly

(NT\$m)	1Q23E			2Q23E			3Q23E		
	CT	Consensus	diff.	CT	Consensus	diff.	CT	Consensus	diff.
Revenue	7,713	7,955	(3%)	8,037	7,748	4%	9,463	9,984	(5%)
Gross Profit	1,985	2,043	(3%)	2,078	1,891	10%	2,301	2,383	(3%)
Op. Income	1,113	1,095	2%	1,175	1,015	16%	1,419	1,373	3%
Net Income	828	844	(2%)	864	751	15%	1,085	1,041	4%
EPS (NT\$)	3.43	3.49	(2%)	3.57	3.11	15%	4.49	4.30	4%
Gross Margin (%)									
	25.7%	25.7%	0.0 ppt	25.9%	24.4%	1.4 ppt	24.3%	23.9%	0.4 ppt
Op. Margin (%)									
	14.4%	13.8%	0.7 ppt	14.6%	13.1%	1.5 ppt	15.0%	13.8%	1.2 ppt
Net Margin (%)									
	10.7%	10.6%	0.1 ppt	10.7%	9.7%	1.1 ppt	11.5%	10.4%	1.0 ppt

Source: CLST, Bloomberg

Figure 12

CT vs consensus - annual

(NT\$m)	2022E			2023E			2024E		
	CT	Consensus	diff.	CT	Consensus	diff.	CT	Consensus	diff.
Revenue	32,083	32,399	(1%)	33,434	34,452	(3%)	37,237	37,427	(1%)
Gross Profit	8,018	8,041	0%	8,322	8,491	(2%)	9,140	9,194	(1%)
Op. Income	4,432	4,311	3%	4,587	4,575	0%	4,836	5,013	(4%)
Net Income	3,515	3,490	1%	3,457	3,522	(2%)	3,672	3,837	(4%)
EPS (NT\$)	14.53	14.43	1%	14.29	14.56	(2%)	15.18	15.86	(4%)
Gross Margin (%)									
	25.0%	24.8%	0.2 ppt	24.9%	24.6%	0.2 ppt	24.5%	24.6%	-0.0 ppt
Op. Margin (%)									
	13.8%	13.3%	0.5 ppt	13.7%	13.3%	0.4 ppt	13.0%	13.4%	-0.4 ppt
Net Margin (%)									
	11.0%	10.8%	0.2 ppt	10.3%	10.2%	0.1 ppt	9.9%	10.3%	-0.4 ppt

Source: CLST, Bloomberg

Makalot currently trades at
16x forward PE

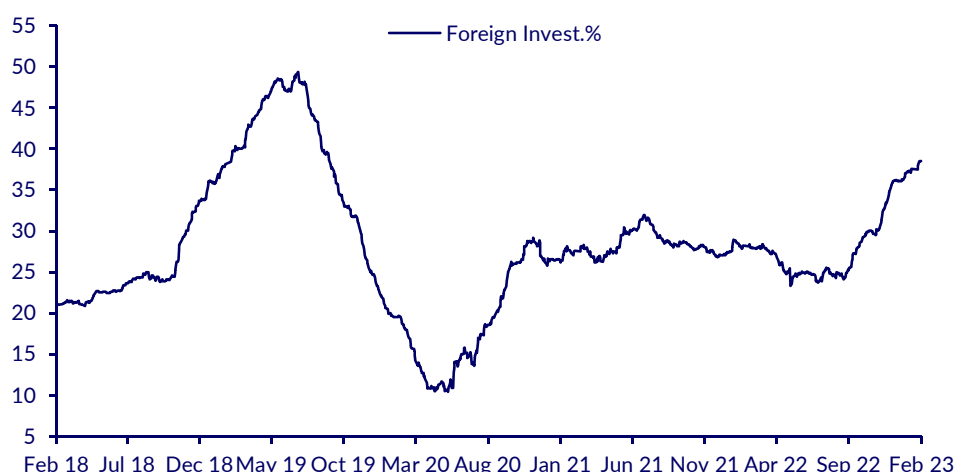
Foreign investors hold
about 39%

Figure 13

Makalot consensus PE

Source: CLST, Bloomberg

Figure 14

QFII holdings

Source: CLST, TEJ

Valuation details

Our target is based on 18x 24CT PE, which is the stock's average 10-year forward PE. This is supported by robust sales/earnings Cagr during 2022-24CT, helped by apparel industry consolidation following the start of the pandemic and share gains from Asian peers due to disciplined environmental, social and corporate governance enforcement.

Investment risks

Risks include an unfavourable US\$/NT\$ exchange rate as Makalot collects a high proportion of its sales in US dollars; more macro uncertainty in the US, which comprises 80% of Makalot's sales; more volatility in raw-material prices given the company's cost-plus business model, which passes along such expenses to its customers; and weak consumption by consumers during the pandemic.

Detailed financials

Profit & Loss (NT\$m)

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Revenue	23,930	27,048	24,924	28,931	32,083	33,434	37,237
Cogs (ex-D&A)	(18,814)	(21,104)	(18,818)	(21,865)	(23,498)	(24,440)	(27,375)
Gross Profit (ex-D&A)	5,116	5,944	6,106	7,065	8,585	8,994	9,862
Research & development costs	0	0	0	0	0	0	0
Selling & marketing expenses	(1,494)	(1,582)	(1,525)	(1,667)	(1,978)	(2,005)	(2,287)
Other SG&A	(1,271)	(1,353)	(1,380)	(1,487)	(1,608)	(1,729)	(2,017)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	2,350	3,009	3,200	3,912	4,999	5,260	5,558
Depreciation/amortisation	(373)	(519)	(534)	(530)	(567)	(672)	(722)
Op Ebit	1,977	2,490	2,666	3,381	4,432	4,587	4,836
Interest income	13	14	16	17	36	37	37
Interest expense	(83)	(119)	(64)	(91)	(137)	(142)	(142)
Net interest inc/(exp)	(70)	(105)	(48)	(74)	(102)	(105)	(105)
Associates/investments	0	17	46	45	31	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	45	48	54	46	227	20	20
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	1,953	2,450	2,717	3,398	4,589	4,503	4,751
Taxation	(431)	(521)	(638)	(720)	(1,049)	(1,021)	(1,055)
Profit after tax	1,522	1,929	2,079	2,678	3,540	3,481	3,696
Preference dividends	-	-	-	-	-	-	-
Profit for period	1,522	1,929	2,079	2,678	3,540	3,481	3,696
Minority interest	(15)	(24)	(22)	(23)	(25)	(25)	(25)
Net profit	1,507	1,905	2,056	2,655	3,515	3,457	3,672
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	1,507	1,905	2,056	2,655	3,515	3,457	3,672
Dividends	(1,265)	(1,506)	(1,122)	(1,954)	(2,253)	(2,988)	(2,938)
Retained profit	242	399	934	701	1,262	469	734
Adjusted profit	1,507	1,905	2,056	2,655	3,515	3,457	3,672
EPS (NT\$)	7.2	8.7	9.4	11.2	14.5	14.3	15.2
Adj EPS [pre excep] (NT\$)	7.2	8.7	9.4	11.2	14.5	14.3	15.2
Core EPS (NT\$)	7.2	8.7	9.4	11.2	14.5	14.3	15.2
DPS (NT\$)	7.1	5.0	5.0	9.7	12.4	12.1	12.9

Profit & loss ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Growth (%)							
Revenue growth (% YoY)	6.9	13.0	(7.9)	16.1	10.9	4.2	11.4
Ebitda growth (% YoY)	9.0	28.0	6.4	22.2	27.8	5.2	5.7
Ebit growth (% YoY)	11.9	25.9	7.1	26.8	31.1	3.5	5.4
Net profit growth (%)	17.2	26.4	8.0	29.1	32.4	(1.7)	6.2
EPS growth (% YoY)	16.4	20.4	8.0	19.7	29.8	(1.7)	6.2
Adj EPS growth (% YoY)	16.4	20.4	8.0	19.7	29.8	(1.7)	6.2
DPS growth (% YoY)	16.7	(29.6)	0.0	93.8	27.5	(1.7)	6.2
Core EPS growth (% YoY)	16.4	20.4	8.0	19.7	29.8	(1.7)	6.2
Margins (%)							
Gross margin (%)	21.4	22.0	24.5	24.4	26.8	26.9	26.5
Ebitda margin (%)	9.8	11.1	12.8	13.5	15.6	15.7	14.9
Ebit margin (%)	8.3	9.2	10.7	11.7	13.8	13.7	13.0
Net profit margin (%)	6.3	7.0	8.3	9.2	11.0	10.3	9.9
Core profit margin	6.3	7.0	8.3	9.2	11.0	10.3	9.9
Op cashflow margin	7.7	6.3	3.0	10.4	16.0	11.4	10.3
Returns (%)							
ROE (%)	17.6	21.3	21.4	22.3	24.5	22.7	23.2
ROA (%)	11.8	13.8	12.2	13.0	15.0	15.2	15.8
ROIC (%)	20.9	24.7	20.6	21.3	26.2	27.7	28.0
ROCE (%)	27.1	32.0	27.6	27.7	34.8	36.7	36.8
Other key ratios (%)							
Effective tax rate (%)	22.1	21.3	23.5	21.2	22.9	22.7	22.2
Ebitda/net int exp (x)	33.7	28.6	66.5	53.2	49.2	50.2	53.0
Exceptional or extraord. inc/PBT (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	98.6	57.7	53.5	86.5	85.0	85.0	85.0

Source: CLST

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Balance sheet (NT\$m)

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Cash & equivalents	1,914	1,839	2,367	2,643	4,536	4,082	3,894
Accounts receivable	925	596	2,473	1,160	1,318	1,374	1,530
Inventories	3,337	3,403	4,026	5,434	4,220	4,403	4,927
Other current assets	2,054	3,300	3,880	6,923	7,122	7,328	7,539
Current assets	8,230	9,137	12,746	16,160	17,196	17,187	17,890
Fixed assets	4,788	4,868	5,077	5,022	4,986	5,244	5,337
Investments	153	173	204	239	239	239	239
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	490	575	608	801	801	801	801
Total assets	13,661	14,753	18,636	22,223	23,223	23,472	24,267
Short term loans/OD	396	819	3,349	1,948	1,481	1,131	869
Accounts payable	2,056	1,812	1,864	2,237	2,417	2,522	2,822
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	0	0	0	0	0	0	0
Other current liabs	2,072	2,522	2,815	3,521	3,521	3,521	3,521
Current liabilities	4,524	5,153	8,027	7,707	7,420	7,175	7,213
Long-term debt/leases/other	-	-	-	163	163	163	163
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	256	402	444	557	557	557	557
Total liabilities	4,780	5,556	8,472	8,427	8,141	7,896	7,933
Share capital	2,094	2,199	2,199	2,419	2,419	2,419	2,419
Retained earnings	3,346	3,761	4,717	5,459	6,722	7,190	7,924
Reserves/others	3,328	3,135	3,169	5,835	5,835	5,835	5,835
Shareholder funds	8,768	9,095	10,085	13,713	14,975	15,443	16,177
Minorities/other equity	113	102	79	83	108	132	157
Total equity	8,881	9,198	10,164	13,795	15,082	15,576	16,334
Total liabs & equity	13,661	14,753	18,636	22,223	23,223	23,472	24,267
Total debt	396	819	3,349	2,111	1,645	1,295	1,032
Net debt	(1,518)	(1,020)	982	(531)	(2,891)	(2,787)	(2,862)
Adjusted EV	45,554	48,333	50,074	52,553	51,395	51,524	51,474
BVPS (NT\$)	41.9	41.4	45.9	57.8	61.9	63.9	66.9

Balance sheet ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Key ratios							
Current ratio (x)	1.8	1.8	1.6	2.1	2.3	2.4	2.5
Growth in total assets (% YoY)	8.7	8.0	26.3	19.2	4.5	1.1	3.4
Growth in capital employed (% YoY)	1.9	11.1	36.3	19.0	(8.1)	4.9	5.3
Net debt to operating cashflow (x)	-	-	1.3	-	-	-	-
Gross debt to operating cashflow (x)	0.2	0.5	4.4	0.7	0.3	0.3	0.3
Gross debt to Ebitda (x)	0.2	0.3	1.0	0.5	0.3	0.2	0.2
Net debt/Ebitda (x)	-	-	0.3	-	-	-	-
Gearing							
Net debt/equity (%)	(17.1)	(11.1)	9.7	(3.9)	(19.2)	(17.9)	(17.5)
Gross debt/equity (%)	4.5	8.9	32.9	15.3	10.9	8.3	6.3
Interest cover (x)	24.1	21.0	42.1	37.5	32.5	32.5	34.3
Debt cover (x)	4.7	2.1	0.2	1.4	3.1	2.9	3.7
Net cash per share (NT\$)	7.2	4.6	(4.5)	2.2	12.0	11.5	11.8
Working capital analysis							
Inventory days	56.1	56.9	70.1	77.1	73.2	62.7	60.6
Debtor days	12.4	10.3	22.5	22.9	14.1	14.7	14.2
Creditor days	36.0	32.6	34.7	33.4	35.3	35.9	34.7
Working capital/Sales (%)	9.1	11.0	22.9	26.8	20.9	21.1	20.6
Capital employed analysis							
Sales/Capital employed (%)	325.0	330.7	223.6	218.1	263.2	261.4	276.4
EV/Capital employed (%)	618.7	591.0	449.3	396.2	421.6	402.9	382.1
Working capital/Capital employed (%)	29.7	36.2	51.1	58.5	55.1	55.2	56.8
Fixed capital/Capital employed (%)	65.0	59.5	45.6	37.9	40.9	41.0	39.6
Other ratios (%)							
PB (x)	5.4	5.4	4.9	3.9	3.6	3.5	3.4
EV/Ebitda (x)	19.4	16.1	15.6	13.4	10.3	9.8	9.3
EV/OCF (x)	24.6	28.6	66.5	17.4	10.0	13.5	13.5
EV/FCF (x)	29.5	40.5	1,733.8	20.1	11.2	17.9	17.1
EV/Sales (x)	1.9	1.8	2.0	1.8	1.6	1.5	1.4
Capex/depreciation (%)	81.6	95.8	135.5	75.3	93.7	138.4	112.8

Source: CLST

Cashflow (NT\$m)

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Operating profit	1,977	2,490	2,666	3,381	4,432	4,587	4,836
Operating adjustments	(470)	(585)	(609)	(726)	(917)	(1,131)	(1,164)
Depreciation/amortisation	373	519	534	530	567	672	722
Working capital changes	(676)	(137)	(2,480)	301	1,237	(134)	(380)
Interest paid / other financial expenses	-	-	-	-	-	-	-
Tax paid	-	-	-	-	-	-	-
Other non-cash operating items	645	(595)	642	(473)	(179)	(185)	(191)
Net operating cashflow	1,849	1,691	753	3,013	5,140	3,810	3,823
Capital expenditure	(305)	(497)	(724)	(399)	(531)	(930)	(814)
Free cashflow	1,545	1,194	29	2,614	4,609	2,880	3,009
Acq/inv/disposals	(78)	(19)	(723)	(1,973)	4	4	4
Int, invt & associate div	-	-	-	-	-	-	-
Net investing cashflow	(383)	(516)	(1,447)	(2,372)	(527)	(926)	(810)
Increase in loans	119	422	2,530	(1,237)	(467)	(350)	(262)
Dividends	(1,265)	(1,506)	(1,122)	(1,954)	(2,253)	(2,988)	(2,938)
Net equity raised/others	-	(121)	(135)	2,863	0	0	0
Net financing cashflow	(1,146)	(1,205)	1,273	(329)	(2,720)	(3,338)	(3,201)
Incr/(decr) in net cash	320	(29)	578	312	1,893	(454)	(188)
Exch rate movements	35	(46)	(50)	(37)	0	0	0
Opening cash	1,559	1,914	1,839	2,367	2,643	4,536	4,082
Closing cash	1,914	1,839	2,367	2,643	4,536	4,082	3,894
OCF PS (NT\$)	8.8	7.7	3.4	12.7	21.3	15.8	15.8
FCF PS (NT\$)	7.4	5.4	0.1	11.0	19.1	11.9	12.4

Cashflow ratio analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Growth (%)							
Op cashflow growth (% YoY)	6.5	(8.6)	(55.5)	300.3	70.6	(25.9)	0.3
FCF growth (% YoY)	5.1	(22.7)	(97.6)	8,951.9	76.3	(37.5)	4.5
Capex growth (%)	14.2	63.1	45.7	(44.9)	33.0	75.2	(12.5)
Other key ratios (%)							
Capex/sales (%)	1.3	1.8	2.9	1.4	1.7	2.8	2.2
Capex/op cashflow (%)	16.5	29.4	96.2	13.2	10.3	24.4	21.3
Operating cashflow payout ratio (%)	80.4	65.0	146.0	76.2	58.1	77.1	81.6
Cashflow payout ratio (%)	68.4	89.1	149.1	64.9	43.8	78.4	76.9
Free cashflow payout ratio (%)	81.9	126.1	3,885.9	74.8	48.9	103.7	97.6

DuPont analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Ebit margin (%)	8.3	9.2	10.7	11.7	13.8	13.7	13.0
Asset turnover (x)	1.8	1.9	1.5	1.4	1.4	1.4	1.6
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	11.8	13.8	12.2	13.0	15.0	15.2	15.8
Leverage (x)	1.5	1.6	1.7	1.7	1.6	1.5	1.5
ROE (%)	17.6	21.3	21.4	22.3	24.5	22.7	23.2

EVA® analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Ebit adj for tax	1,541	1,960	2,040	2,665	3,419	3,547	3,762
Average invested capital	7,384	7,936	9,897	12,484	13,045	12,808	13,448
ROIC (%)	20.9	24.7	20.6	21.3	26.2	27.7	28.0
Cost of equity (%)	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Cost of debt (adj for tax)	1.6	1.6	1.5	1.6	1.5	1.5	1.6
Weighted average cost of capital (%)	5.1	5.1	5.1	5.1	5.1	5.1	5.1
EVA/IC (%)	15.8	19.6	15.5	16.3	21.1	22.6	22.9
EVA (NT\$m)	1,165	1,556	1,536	2,029	2,755	2,895	3,078

Source: CLST

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Companies mentioned

Makalot (1477 TT - NT\$225.00 - BUY)¹

Adidas (N-R)

Eclat Textile (1476 TT - NT\$494.5 - O-PF)¹

Fast Retailing (9983 JP - ¥82,560 - O-PF)²

Feng Tay (9910 TT - NT\$199.5 - U-PF)¹

Gap (N-R)

Hanesbrands (N-R)

J.C. Penney (N-R)

Kohl's (N-R)

Lululemon Athletica (N-R)

Macy's (N-R)

Nike (N-R)

Shenzhou (2313 HK - HK\$96.05 - BUY)²

Target (N-R)

Under Armour (N-R)

Wal-Mart Stores (N-R)

¹ Covered by CLST; ² Covered by CLSA

Analyst certification

The analyst(s) of this report hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

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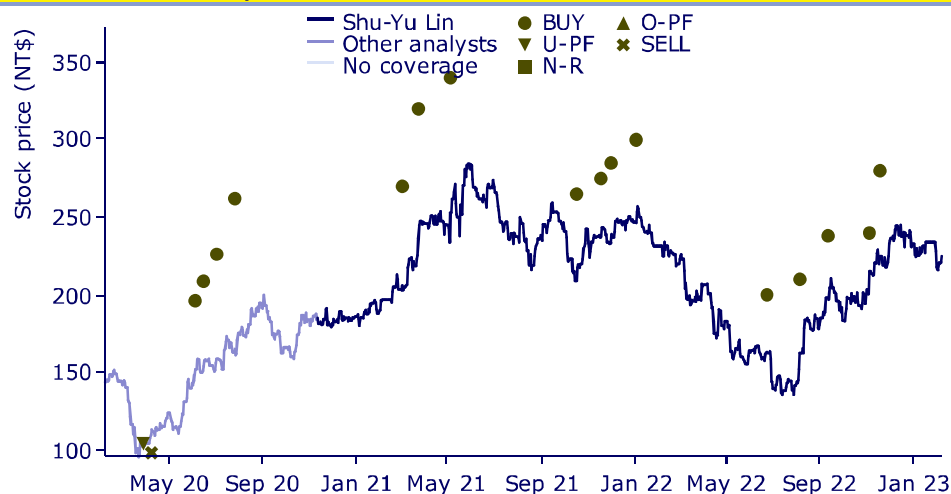
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Important disclosures

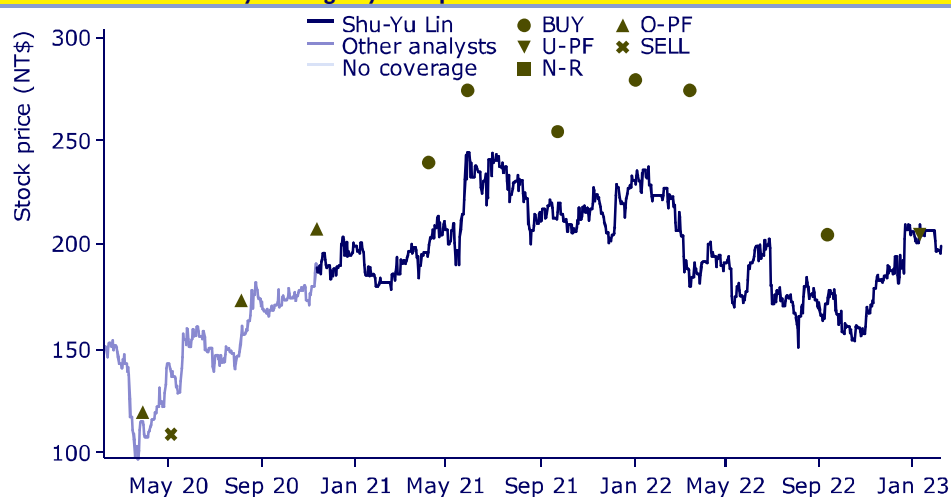
Recommendation history of Makalot Industrial Co Ltd 1477 TT



Date	Rec	Target	Date	Rec	Target
18 Nov 2022	BUY	280.00	05 May 2021	BUY	340.00
04 Nov 2022	BUY	240.00	24 Mar 2021	BUY	320.00
11 Sep 2022	BUY	238.00	03 Mar 2021	BUY	270.00
05 Aug 2022	BUY	210.00	27 Jul 2020	BUY	262.10*
23 Jun 2022	BUY	200.00	03 Jul 2020	BUY	226.18*
03 Jan 2022	BUY	300.00	16 Jun 2020	BUY	208.71*
01 Dec 2021	BUY	285.00	05 Jun 2020	BUY	196.09*
18 Nov 2021	BUY	275.00	09 Apr 2020	SELL	98.04*
17 Oct 2021	BUY	265.00	29 Mar 2020	U-PF	103.87*

Source: CLST; * Adjusted for corporate action

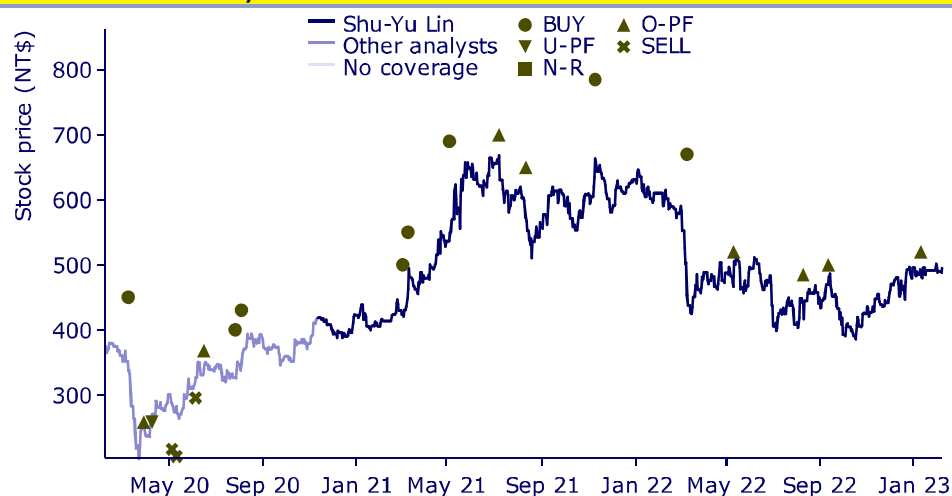
Recommendation history of Feng Tay Enterprises Co Ltd 9910 TT



Date	Rec	Target	Date	Rec	Target
10 Jan 2023	U-PF	205.00	07 Apr 2021	BUY	240.00
11 Sep 2022	BUY	205.00	12 Nov 2020	O-PF	208.00
15 Mar 2022	BUY	275.00	05 Aug 2020	O-PF	173.33*
03 Jan 2022	BUY	280.00	05 May 2020	SELL	108.33*
23 Sep 2021	BUY	255.00	29 Mar 2020	O-PF	119.17*
28 May 2021	BUY	275.00			

Source: CLST; * Adjusted for corporate action

Recommendation history of Eclat Textile Co Ltd 1476 TT



Date	Rec	Target	Date	Rec	Target
10 Jan 2023	O-PF	520.00	03 Mar 2021	BUY	500.00
11 Sep 2022	O-PF	500.00	04 Aug 2020	BUY	430.00
09 Aug 2022	O-PF	485.00	27 Jul 2020	BUY	400.00
10 May 2022	O-PF	520.00	16 Jun 2020	O-PF	368.00
10 Mar 2022	BUY	670.00	05 Jun 2020	SELL	295.00
10 Nov 2021	BUY	785.00	11 May 2020	SELL	205.00
11 Aug 2021	O-PF	650.00	05 May 2020	SELL	216.00
07 Jul 2021	O-PF	700.00	09 Apr 2020	U-PF	258.00
03 May 2021	BUY	690.00	29 Mar 2020	O-PF	258.00
10 Mar 2021	BUY	550.00	09 Mar 2020	BUY	450.00

Source: CLST

Recommendation history of Shenzhou International Group Holdings Ltd 2313 HK



Date	Rec	Target	Date	Rec	Target
30 Jan 2023	BUY	127.00	30 Mar 2021	BUY	192.00
26 Aug 2022	BUY	110.00	08 Mar 2021	BUY	200.00
30 Nov 2021	BUY	197.00	17 Sep 2020	BUY	155.00
21 Sep 2021	BUY	207.00	26 Aug 2020	BUY	143.00
10 Sep 2021	BUY	205.00	24 Mar 2020	BUY	89.00

Source: CLST

Recommendation history of Fast Retailing Co Ltd 9983 JP



Date	Rec	Target	Date	Rec	Target
07 Dec 2022	O-PF	96,020.00	25 Jun 2021	BUY	103,000.00
13 Oct 2022	BUY	96,020.00	12 Mar 2021	O-PF	103,000.00
14 Jul 2022	BUY	87,550.00	14 Jan 2021	O-PF	106,000.00
06 Apr 2022	BUY	77,690.00	15 Oct 2020	O-PF	77,500.00
02 Dec 2021	BUY	80,174.00	02 Jun 2020	O-PF	66,400.00
14 Oct 2021	U-PF	80,174.00	09 Apr 2020	O-PF	52,213.00
15 Jul 2021	U-PF	85,000.00	03 Mar 2020	O-PF	61,342.00

Source: CLST

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