

Hong Yi Fiber Industry

1452 TT

■ Not Rated

Target (TWD): **n.a.**

Up/downside: -

5 Jun price (TWD): **34.10**

Growing with demand for high-end hybrid yarn

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- A niche player in the polyester textured yarn industry
- Aims to lift sales proportion of high-end hybrid yarn
- Benefiting from trend of sportswear/outdoor clothing

■ Background

Founded in 1968 and listed on the Taiwan main board in December 1992, Hong Yi Fiber (Hong Yi) specialises in the production of polyester textured yarn and had a 4.5% shipment market share in 2014 (30% shipment market share in the high-end hybrid yarn space) in Taiwan, according to management. Its clients include New Wide (unlisted), Far Eastern New Century (1402 TT) and Eclat (1476 TT), which manufacture for brands such as Under Armour, Nike, Gap, Uniqlo and Adidas.

Its production plant is in New Taipei and has a monthly production capacity of 2,400 tonnes. For 2015, management expects high-end polyester to account for 60% of the company's revenue and standard polyester textured yarn to account for the remainder.

■ Highlights of company visit

Eye on high-end polyester textured yarn. Hong Yi said it aims

to optimise its product mix (eg, low denier, high count, functional yarn and hybrid yarn) in order to expand its gross margin. It currently operates 34 machines (17 for standard textured/hybrid yarns and 17 for high-end hybrid yarns). But, it said it plans to replace 4 standard textured yarn machines with advanced hybrid yarn machines, (2 in September 2015, 2 in October 2015) and replace another 4 standard hybrid yarn machines with advanced hybrid yarn ones in 2H16.

Despite the planned equipment replacements, management expects organic top-line YoY growth for 2015 and 2016. It also said it expects its improved product mix to enhance its bottom-line YoY growth (see page 2), due to the increasing sales proportion of high-end hybrid polyester yarn (net margin of over 17%, vs. 3% for standard textured yarn). Hong Yi is targeting for 70% of its revenue to come from high-end hybrid yarn in 2016E, vs. 60% in 2015E.

The price of partially oriented yarn (POY) (the main raw material for Hong Yi's products made from polyester) remained weak in 2014. But, given Hong Yi's improving product mix, its overall ASP rose by 2% YoY for 2014 despite a 17% YoY price drop for POY, and its ASP rose by 6% YoY in 1Q15 on a flat POY price YoY.

Most global high-end fabric is supplied by Taiwan. Hong Yi says that 70-80% of the global high-end fabric is manufactured in Taiwan.

The main difference between China and Taiwan's polyester textured yarn makers is that the Taiwan companies focus on specialised and high-end items, unlike the mass product focus of their China peers' vertical-integration models.

Hong Yi's Taiwan peers include Lealea (1444 TT), Zig Sheng (1455 TT) and Shinkong Synthetic Fiber (1409 TT). Hong Yi has a similar position in Taiwan's textile industry to Tounge Loong Textile (4401 TT), though Tounge Loong Textile focuses more on Nylon 66 than polyester (see page 2).

Hong Yi's hybrid yarn still has some differences compared with the yarn made by its Taiwan peers, chiefly due to the manufacturing process.

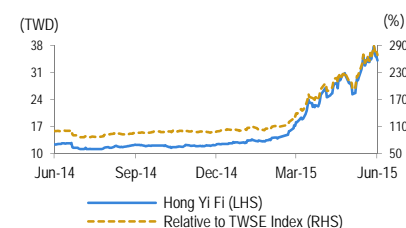
As a result, Hong Yi foresees less price competition in the Taiwan high-end hybrid yarn space and believes it has an edge over Taiwan hybrid yarn suppliers and China rivals. Hong Yi said its advantages vs. its Taiwan peers are its relatively complete and specialised product line, its new-product development capability and flexible production strategy.

Dividend policy: cash payout-ratio of 70-80%. Hong Yi paid a cash dividend of TWD1/share for 2014 (dividend-payout ratio of 76%), equivalent to a 2.9% dividend yield.

■ Valuation

The stock is trading at a 2015E PER of 16.6x (based on Bloomberg consensus EPS forecast), close to the mid-point of its past-3-year range of 10-29x.

Share price performance



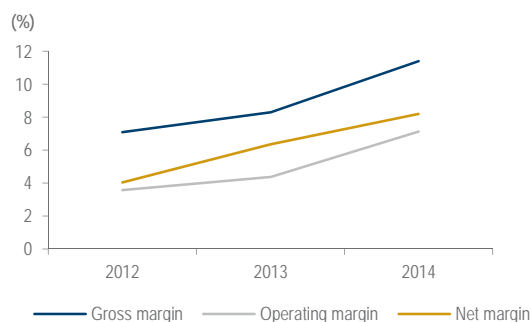
12-month range	11.15-37.75
Market cap (USDbn)	0.15
3m avg daily turnover (USDm)	8.06

Source: FactSet, Daiwa

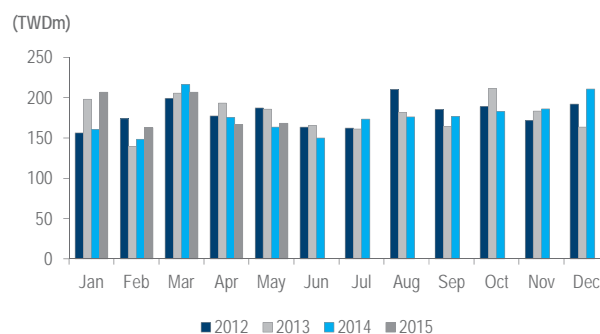
■ Hong Yi: financial summary

TWDm	2011	2012	2013	2014	1Q15
Net sales	2,286	2,169	2,154	2,120	576
Gross profit	188	154	179	242	109
Operating profit	117	78	94	151	83
Pre-tax profit	116	105	171	198	105
Net profit	89	88	137	174	88
EPS(TWD)	0.67	0.66	1.03	1.31	0.66
Margins(%)					
Gross margin	8.2	7.1	8.3	11.4	19.0
Operating margin	5.1	3.6	4.4	7.1	14.4
Net margin	3.9	4.0	6.4	8.2	15.2
YoY(%)					
Net sales	6.2	(5.1)	(0.7)	(1.6)	9.8
Gross profit	(22.5)	(18.0)	16.2	35.3	101.5
Operating profit	(27.1)	(33.9)	21.7	60.0	158.3
Pre-tax profit	(56.2)	(9.7)	63.5	15.6	119.8
Net profit	(62.1)	(1.1)	56.1	26.8	125.0
EPS	(61.9)	(1.5)	56.1	27.2	127.6

Source: Company

■ Hong Yi: margin performance


Source: Company

■ Hong Yi: monthly sales


Source: Company

Note: 2Q and 3Q are usually the low seasons to the company

■ Hong Yi: 2014 margin performance comparison with its peers

Company	Ticker	Gross margin(%)	Operating margin(%)	Pre-tax margin(%)	Net margin(%)
Hong Yi Fiber	1452 TT	11.41	7.12	9.33	8.20
Lealea Enterprise	1444 TT	4.16	-0.47	2.48	2.01
Zig Sheng Industrial	1455 TT	2.29	-0.16	0.47	0.32
Shinkong Synthetic Fibers	1409 TT	12.75	5.19	4.89	4.13
Toung Loong Textile	4401 TT	18.06	13.03	13.57	10.54

Source: Company

■ Hong Yi: valuation of Hong Yi and its peers

Company	Ticker	Price (TWD) 05/06/15	Mkt cap (USDm)	PER (x)		ROE (%)		PBR (x)		Dividend yield (%)	
				2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Hong Yi Fiber	1452 TT	34.1	147	16.6	n.a	10.6	n.a	n.a	n.a	n.a	n.a
Lealea Enterprise	1444 TT	10.15	315	33.8	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Zig Sheng Industrial	1455 TT	12.6	250	16.7	n.a	22.1	n.a	1.0	n.a	n.a	n.a
Shinkong Synthetic Fibers	1409 TT	10.5	565	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Toung Loong Textile	4401 TT	142	554	28.5	19.6	26.3	30.7	7.7	7.9	3.3	4.4

Source: Bloomberg; Note: Data as of 5 June 2015

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