

Nan Liu Enterprise

6504 TT

■ Not Rated

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

Up/downside: -

2 Sep price (TWD): **173.50**

A leading nonwoven fabric supplier in Asia

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- Targeting high-teens YoY sales growth for 2015-16
- Sales in China, its major market, rose by 30% YoY for 2014
- Is focusing on high-end products to expand its margins

■ Background

We recently visited Nan Liu, the largest spun-lace nonwoven fabric supplier in Asia. The company was founded in 1978 and listed on the Taiwan main board in 2013. Nan Liu provides consumer hygiene products for babies and women, such as wet wipes and cosmetics (43.6% of 1H15 sales), spun-lace non-woven fabric (25.1%), air-through and thermal bonded nonwoven fabrics (18.2%) and disposable surgical gown fabrics (13.1%). Key clients include Unicharm (14% as of 1H15) and Kimberly-Clark (8%). Its sales to China accounted for 47.6% of 1H15 sales, Taiwan 26%, Japan 11.7% and others 14.7%.

■ Highlights

Market position: Nan Liu is the 8th largest non-woven fabric supplier in Asia and the 32nd largest in the world by 2013 sales. In terms of its production capacity, Nan Liu is the largest spun-lace non-woven fabric and thermal-bonded non-woven fabrics supplier in Asia, with

annual capacity of 43.2k tonnes (c.10% market share in Asia as of 2015) and 18.6k tonnes (c. 8-9%), respectively.

Targeting a high-teens percentage YoY rise in sales for 2015-16. Nan Liu is seeing strong demand in every product category, especially for disposable surgical gown fabrics. Its global market share in disposable surgical gowns stands to rise to 30% in 2015 from 20% in 2014 as a result of it winning orders from one Japan client (at the expense of Du Pont) in 2015 on the back of its logistics advantage and competitive quality. Du Pont is the leader in the disposable surgical gowns space with a market share of 80% in 2014, according to management.

Nan Liu posted sales of TWD3.45bn (up 15.6%) for 7M15. The robust sales growth performance stems from the nature of its products (necessities, hence order visibility is almost 1 year), strong client base and innovation capability.

China is the major market.

Management expects sales momentum to be bolstered by China's ongoing urbanisation policies and the relaxation of the one-child policy. Sales in the China market reached TWD2.57bn in 2014 (+30 YoY) and TWD1.43bn for 1H15 (+ 18% YoY). Nan Liu's clients in China include Hengan, Goodbaby, Mamypoko, Huggies, May Flower and Les enphants. Besides, Nan Liu plans to follow its major clients (such as Unicharm and Kimberly-Clark) to tap into new markets, such as India in 2017 or 2018.

New Taiwan (Yan chao) plant to be launched in 2H17. The new capacity will be designed for new

high-end products, such as flushable wipes fabrics and pure cotton thermal-bonded fabrics as well as existing product upgrades.

After its new capacity increase in Taiwan, its Taiwan capacity will rise to 50% of total capacity in 2018 (currently Taiwan accounts for 40% of total capacity, and China 60%).

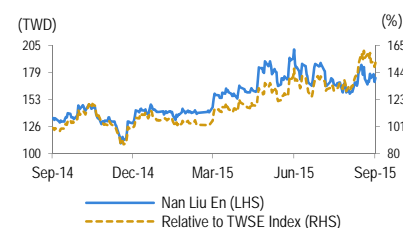
Management targets increased gross margin. For 2015, Nan Liu plans to continue to enhance its sales proportion in high-margin products (eg, disposable surgical gown fabrics, and wet wipes and cosmetics) compared to spun-lace nonwoven fabrics, to drive its gross margin to the 19-21% level in 2015 from 18.3% in 2012.

Dividend policy. Nan Liu paid a DPS of TWD2.8 in cash for 2014, representing a cash dividend-payout ratio of 48%, in line with the company's dividend payout policy of 45-55%, implying a 1.6% dividend yield at its current share price.

■ Valuation

The stock is trading at 2015E and 2016E PERs of 20.2x and 17.4x, respectively (based on Bloomberg consensus EPS forecasts), towards the low end of its past-2-year PER trading range of 18-47x.

Share price performance



12-month range	110.00-201.00
Market cap (USD\$bn)	0.39
3m avg daily turnover (USD\$m)	2.08

Source: FactSet, Daiwa

■ **Nan Liu: financial summary**

TWDm	2011	2012	2013	2014	1H15
Net sales	3,520	3,701	4,568	5,344	3,003
Gross profit	468	679	903	1,039	615
Operating profit	160	339	507	599	386
Pre-tax profit	170	272	482	596	415
Net profit	139	197	377	420	310
EPS(TWD)	2.32	3.19	5.39	5.79	4.27
Margins(%)					
Gross margin	13.3	18.3	19.8	19.5	20.5
Operating margin	4.5	9.2	11.1	11.2	12.9
Net margin	4.0	5.3	8.2	7.9	10.3
YoY(%)					
Net sales	23.1	5.1	23.4	17.0	15.8
Gross profit	35.1	45.0	33.1	15.1	17.3
Operating profit	57.8	111.9	49.5	18.2	21.8
Pre-tax profit	167.1	60.3	77.0	23.6	31.5
Net profit	2,540.3	41.3	91.3	11.5	50.9

Source: Company

■ **Nan Liu: spun-lace non-woven fabrics, applied in wet wipes and face masks, etc.**



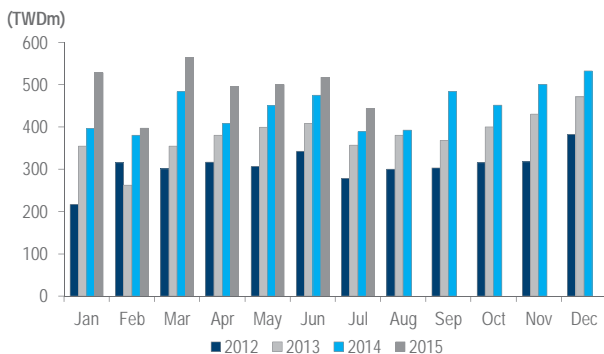
Source: Company

■ **Nan Liu: air-through/thermal-bonded fabrics, applied in diaper and sanitary napkins etc.**



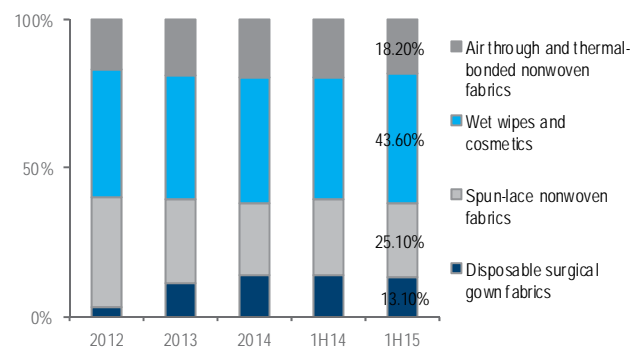
Source: Company

■ **Nan Liu: monthly sales performance**



Source: Company

■ **Nan Liu: product mix**



Source: Company

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