

Everest Textile

1460 TT

■ Not Rated

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

Up/downside: -

11 Sep price (TWD): **14.15**

Focus on knitted fabrics

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- Management seeking bottom-line vs. top-line YoY growth
- Expanding production capacity for knitted fabrics
- A beneficiary of the rising popularity of outdoor wear and sportswear globally

■ Background

Founded in 1988 and listed on the Taiwan main board in 1995, Everest Textile (Everest) is a vertically-integrated textile manufacturer, specialising in yarn spinning, twisting, weaving, dyeing, finishing, printing, coating, laminating and special finishing.

Its main products are fabric (85.7% of 2014 sales), textured yarn (11.3%) and others (3%). Major clients include Nike (20% of 2014 sales), North Face (9-10%), Lululemon Athletica (4-5%), Columbia (4-5%), Decathlon (4-5%) and Under Armour (<1%).

In terms of its production-capacity distribution, 60% of its 2014 manufacturing took place in Taiwan, 20% in China and 20% in Thailand.

■ Highlights

Looking for bottom-line vs. top-line YoY growth. Everest plans to focus on improving its product mix going forward. It aims to increase the revenue contribution from knitted fabrics to 8-10% in 2015 (10-20% over the next 3 years)

from 3-4% in 2014, in order to enhance its gross margin, since the gross margin for knitted fabrics is higher than that for woven fabrics.

Everest recorded 6.7% and 2.7% revenue growth YoY for 2014 and 8M15, respectively. Management said this was mainly driven by ASPs instead of shipment growth, in light of its selective order strategy, wherein it chooses orders with higher gross margins.

Everest gradually expanded its gross margin to 19% for 1H15 from 15.2% in 2012. Management attributed this to: 1) a favorable order mix, 2) declining raw-material prices, and 3) an improving yield rate.

Expanding production capacity for knitted fabrics. Management is seeing rising demand for knitted fabrics (vs. woven fabrics), due to the rising popularity of functional sportswear and outdoor wear globally. Hence, it plans to progressively increase its production capacity for knitted fabrics. Everest had 88 installed (not all operational) knitting machines as at end-July 2015, a rise from 64 in end-2014.

Everest built an in-house production plant for knitted fabrics in 2015, and has won sales orders for knitted fabrics (eg. body-mapping knit, see pg. 2) from North Face for 2H15. North Face and Lululemon Athletica have approved the quality of Everest's knitted fabric.

Rising adoption of Nylon. In 2014, Everest's raw materials were made of polyester (80%) and Nylon (20%). Given the rising popularity of outdoor wear and sportswear globally, management plans to raise its production of Nylon-based products.

Own brand: EverSmile.

(<http://www.eversmile.com.tw/>). In 2011, Everest built its own brand, EverSmile, to provide high-cost-value products as well as to utilise excess fabric after supplying to OEM clients. There are about 110 EverSmile stores in Taiwan, (direct-owned and franchise). However, in terms of the revenue contribution, it only accounted for 2-3% in 2014.

Advantages and risks. Everest believes its vertically-integrated model and R&D capability give it a major competitive advantage. It also acknowledges competition from China and Taiwan textile companies, but emphasised that it plans to expand market share in higher-end products vs. mass-market ones.

2014 dividend payout. Everest paid a DPS of TWD0.7 in cash for 2014, representing a cash-dividend payout ratio of 82%, implying a 4.9% dividend yield on its current share price. The company does not have a dividend policy.

■ Valuation

The stock is trading at 2015E and 2016E PERs of 13.4x and 14.0x, respectively (based on Bloomberg consensus EPS forecasts), towards the low end of its past-2-year PER trading range of 12.9-34.8x.

Share price performance



12-month range	11.90-20.25
Market cap (USDbn)	0.20
3m avg daily turnover (USDm)	1.83

Source: FactSet, Daiwa

■ Everest: financial matrix

TWDm	2011	2012	2013	2014	1H15
Net sales	7,517	7,379	7,643	8,158	3,969
Gross profit	1,134	1,123	1,204	1,450	753
Operating profit	180	106	214	323	209
Pre-tax profit	208	578	230	440	204
Net profit	204	580	230	374	177
EPS(TWD)	0.47	1.33	0.53	0.85	0.40
Margins(%)					
Gross margin	15.1	15.2	15.8	17.8	19.0
Operating margin	2.4	1.4	2.8	4.0	5.3
Net margin	2.7	7.9	3.0	4.6	4.5
YoY(%)					
Net sales	22.3	(1.8)	3.6	6.7	2.2
Gross profit	36.4	(0.9)	7.2	20.4	14.7
Operating profit	284.3	(41.2)	102.0	51.0	60.0
Pre-tax profit	114.9	178.1	(60.2)	91.2	24.7
Net profit	114.4	184.1	(60.4)	62.8	24.1
EPS	114.5	183.0	(60.2)	60.4	21.2

Source: Company

■ Everest: business partners



Source: Company

■ Everest: body-mapping knit



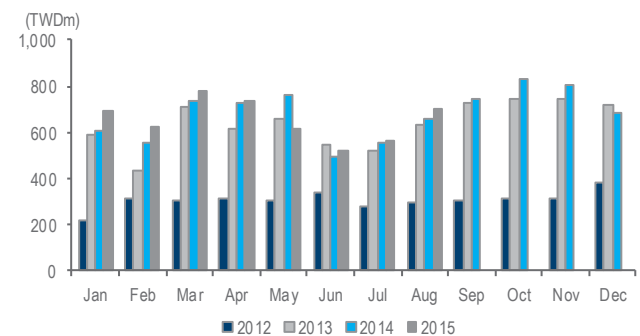
Source: Company

■ Everest: global network



Source: Company

■ Everest: monthly sales trend



Source: Company

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