

# Toung Loong Textile (4401 TT)

 Target price: **n.a.**

 Share price (15 Jan): **TWD79.90** | Up/downside: -

5 4 3 2 1

## No Rating

### The largest provider of nylon 66 yarn in Asia

- Management has an upbeat revenue-growth outlook for 2016
- It expects intimate apparel to be the strongest revenue driver for 2016
- Gross margin improving consistently thanks to new products

**Helen Chien**

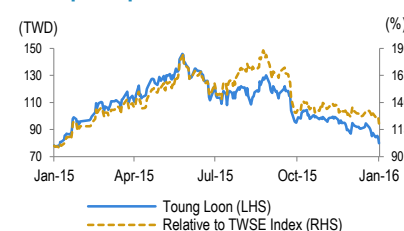
(886) 2 8758 6254

helen.chien@daiwacm-cathay.com.tw



**Background:** Founded in August 1961 and listed on Taiwan's OTC board in May 1996, Toung Loong Textile (TLT) specialises in the manufacture of yarn, such as dyed yarn (50-60% revenue contribution or 40-50% shipments for 2015) as well as raw white yarn (which includes air-textured yarn, draw textured yarn, sewing thread and fancy yarn). As of 2015, its end-market revenue split was: North America 50-60%, Europe 15%, Australia 10% and others (ie, Japan and China) 15-25%. Its major clients include Nike (18% of 2015 revenue), Lululemon Athletica (12%) and Victoria's Secret (8%). Eclat Textile (1476 TT, Not rated) is one of TLT's top-5 clients. In terms of revenues by product application, the breakdown is: athletic sportswear (32% of 2015 revenue), intimate apparel (22%), outdoor sportswear (18%), casual wear (14%), golf and tennis sportswear (10%) and sewing thread and others (4%). TLT's production plants are located in Taiwan (Tao Yuan for dyed yarn and Chang Hwa for raw white yarn), Vietnam (sewing threads) and Cambodia (sewing threads).

### Share price performance



12-month range	77.30-146.00
Market cap (USDbn)	0.28
3m avg daily turnover (USDm)	0.903

Source: FactSet, Daiwa forecasts

### Highlights: Company guides for an upbeat growth outlook for 2016.

On 11 January 2016, TLT posted 2015 revenue of TWD4,649m (up 7.5% YoY) and indicated that the major revenue drivers are intimate apparel, outdoor sportswear and casual wear. For 2016, the company expects intimate apparel (targeting 10-20% YoY revenue growth for 2016) to remain the strongest category, followed by athletic sportswear (5-10%) and outdoor sportswear (5-10%).

**Strong R&D and new-product pipeline should lift its gross margin in the next 2-3 years.** According to management, in light of its innovative nylon 66 yarn technology, its ability to co-develop with brands, fabrics and raw material mills and constant new-product launches (which usually have a high gross margin), the group's gross margin should rise over the next few years. Going forward, the company plans to focus on developing complex textured yarn for functional sportswear and fashion sportswear. It also plans to develop light-weight textured yarn for intimate apparel and outdoor sportswear. The company plans to increase its yarn capacity to 2,400 tonnes per month (+9% YoY) for 2016 from the current 2,200.

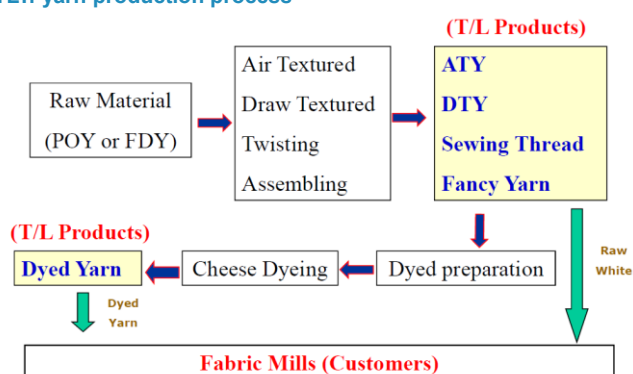
**Dividend policy.** TLT paid a DPS of TWD3.5 in cash in 2014, equal to a cash-dividend payout ratio of 96% and 4.4% dividend yield at the current share price. It guides for an over-65% cash dividend payout for 2015.

**Valuation:** The stock is trading currently at 2016E and 2017E PERs of 15.1x and 12.9x, respectively (on Bloomberg consensus forecasts), near the lower end to mid-point of its past-3-year trading range of 11-40x.

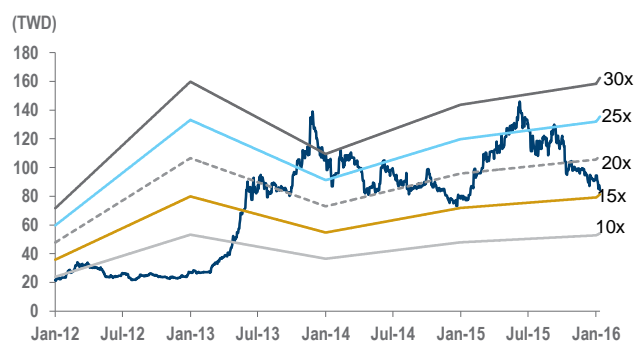
**TLT: financial summary**

TWDm	2012	2013	2014	1Q15	2Q15	3Q15	9M15
Net sales	3,825	4,920	4,323	1,015	1,369	1,126	3,511
Gross profit	530	966	781	193	279	239	711
Operating profit	351	765	564	141	219	179	539
Pre-tax profit	381	795	587	136	220	172	527
Net profit	288	639	440	107	176	134	418
EPS(TWD)	2.39	5.32	3.65	0.89	1.46	1.12	3.47
Margins(%)							
Gross margin	13.9	19.6	18.1	19.0	20.3	21.3	20.3
Operating margin	9.2	15.5	13.0	13.9	16.0	15.9	15.4
Net margin	7.5	13.0	10.2	10.6	12.8	11.9	11.9
YoY(%)							
Net sales	-	9.4	28.6	-	12.1	4.9	18.9
Gross profit	-	22.7	82.4	-	19.2	2.2	19.9
Operating profit	-	28.4	118.0	-	26.4	2.8	23.1
Pre-tax profit	-	28.8	108.3	-	26.2	4.8	21.3
Net profit	-	32.1	122.0	-	31.3	5.1	45.6

Source: Company

**TLT: yarn production process**


Source: Company

**TLT: one-year-forward PER**


Source: Bloomberg

**Valuation: TLT and its peers**

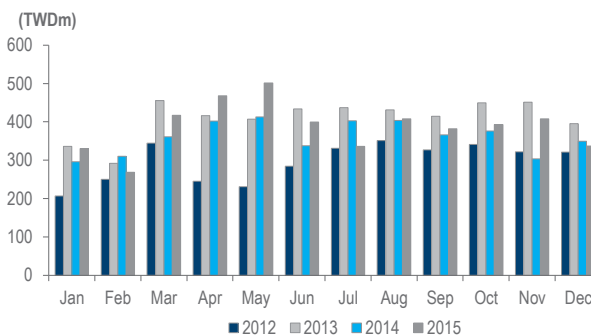
Companies	Bloomberg code	Rating	Market cap (USDm)	Share price (local curr.)	PER (x)		PBR (x)		ROE (%)		Dividend yield (%)	
					2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
TOUNG LOONG TEXTILE MANUF CO	4401 TT Equity	Not rated	286	79.9	15.1	12.9	3.5	3.2	24.8	26.0	5.0	5.9
ZIG SHENG INDUSTRIAL CO LTD	1455 TT Equity	Not rated	137	7.52	11.1	NA	0.6	0.6	2.2	NA	NA	NA
EVEREST TEXTILE	1460 TT Equity	Not rated	202	14.4	13.5	NA	1.3	1.3	9.1	NA	NA	NA
LI PENG ENTERPRISE CO LTD	1447 TT Equity	Not rated	200	7.33	7.6	NA	0.6	0.6	8.2	NA	NA	NA
ECLAT TEXTILE COMPANY LTD	1476 TT Equity	Not rated	3,265	407.5	21.7	17.5	7.6	6.3	38.9	39.3	3.2	3.8
*MAKALOT INDUSTRIAL CO LTD	1477 TT Equity	Buy	1,221	206.5	16.4	13.5	4.3	3.9	27.9	31.1	5.3	6.4
<b>Average</b>					<b>14.2</b>	<b>14.6</b>	<b>3.0</b>	<b>2.7</b>	<b>18.5</b>	<b>32.1</b>	<b>4.6</b>	<b>5.4</b>

Source: Bloomberg; \*Daiwa forecasts

Note: data is based on share prices as at 15 January 2016; NA denotes no Bloomberg-consensus forecasts

**TLT: athletic sportswear apparel application**


Source: Company

**TLT: monthly revenue trend**


Source: Company

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