

# De Licacy Industrial (1464 TT)

Target price: **n.a.**Share price (26 Feb): **TWD39.25** | Up/downside: -

5 4 3 2 1

## No Rating

### Benefiting from booming demand for sportswear

- Targeting 15% YoY revenue growth for 2016
- Sees Under Armour being the key revenue driver for the next few years
- Began expanding overseas production base in 4Q15

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**Background:** Founded in July 1982 and listed on Taiwan's main board in January 1997, De Licacy specialises in manufacturing woven fabric. Its product split in 2015 was: filament-fibre (79%), spun-fibre (17%), and others (4%), and the major applications were fashion (10%), performance and protective functions (65%), and home decoration (25%). Some 67% of its 2014 revenue came from products shipped to Asia (45% to Taiwan), followed by North America (14%), Europe (13%) and others (6%) to leading brands globally, eg, Under Armour (21-22% of 2015 revenue), Adidas (11-12%) and Uniqlo (9%). Its production sites include Tainan (Taiwan, 65%) and Hangzhou (China, 35%), with a total capacity of 12m yards a month.

**Highlights:** One of Taiwan's leading woven fabric providers. For 2016, De Licacy expects 20-25% YoY order growth from Under Armour and a revenue contribution of 23-24%, vs. 21-22% for 2015. De Licacy's solid January 2016 strong revenue of TWD656m (+ 22.0% YoY, -14.9% MoM) was due to solid demand for functional products such as performance and protective products. Overall, it is targeting 15% YoY revenue growth for 2016.

**Vertically integrated plant in Vietnam.** De Licacy started setting up a vertically integrated plant in Vietnam (from fabric to garment manufacturing) in 4Q15, targeting to start mass production in 1Q17. It aims to produce an incremental 3.5m yards a month for a 29% increase in its fabric capacity. It is seeking to cooperate with a Japanese partner in the garment space.

**JV with Tainan Enterprises to extend its downstream footprint.** On 19 January 2016, De Licacy announced its 49% JV investment with Tainan Enterprises (1473 TT, TWD36.75, Not rated), in order to move further into the garment segment, with a garment-manufacturing capacity of 200,000-250,000 pieces a month.

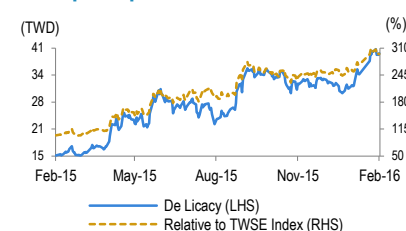
#### 12.4% share dilution from capital-raising exercise in December 2015.

De Licacy announced the issuance of 30m new shares at a price of TWD28 per share (total proceeds of TWD840m) to pay off a bank loan.

**Dividend policy.** De Licacy paid a DPS of TWD0.974 in cash and 4.87% in stock dividends in 2014, equivalent to a cash-dividend payout ratio of 24% and a 2.5% dividend yield at the current price. It is targeting more than a 100% cash dividend payout for 2015 after recording a land disposal gain in 2014.

**Valuation:** The stock is trading currently at 2016E and 2017E PERs of 21.3x and 13.5x, respectively, based on the Bloomberg consensus forecasts (below its past-2-year average PER of 30x).

### Share price performance



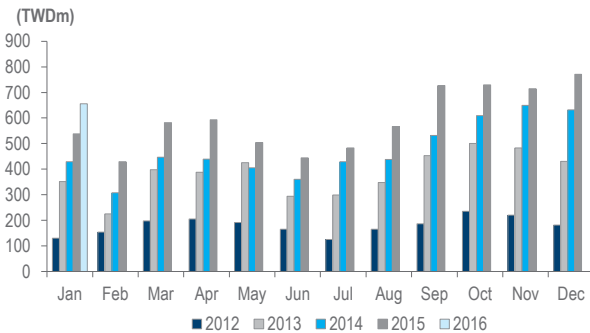
12-month range	15.11-40.30
Market cap (USDbn)	0.27
3m avg daily turnover (USDm)	6.03

Source: FactSet, Daiwa forecasts

**De Licacy: financial summary**

TWDm	2012	2013	2014	1Q15	2Q15	3Q15	9M15
Net sales	4,427	4,589	5,685	1,576	1,570	1,787	4,933
Gross profit	658	540	806	291	271	313	876
Operating profit	39	- 78	0	96	112	66	274
Pre-tax profit	75	- 33	899	100	153	120	373
Net profit	63	- 39	895	60	70	90	220
EPS(TWD)	0.29	(0.18)	4.14	0.28	0.32	0.39	0.96
Margin (%)							
Gross margin	14.9	11.8	14.2	18.5	17.3	17.5	17.8
Operating margin	0.9	(1.7)	0.0	6.1	7.1	3.7	5.6
Net margin	1.4	(0.8)	15.7	3.8	4.4	5.1	4.5
YoY (%)							
Net sales	- 7.1	3.7	23.9	34.1	28.2	27.9	29.9
Gross profit	5.2	- 18.0	49.4	80.4	73.9	94.8	83.1
Operating profit	470.0	n.a.	n.a.	n.a.	460.1	n.a.	2,761.6
Pre-tax profit	105.6	n.a.	n.a.	2,279.5	457.1	1,325.8	831.8
Net profit	22.1	n.a.	n.a.	807.8	164.7	1,162.8	449.2

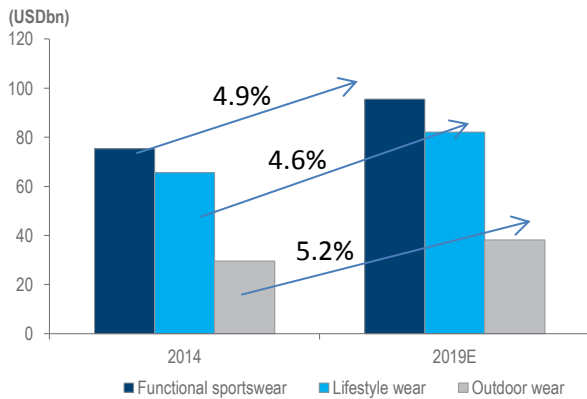
Source: Company

**De Licacy: monthly revenue**


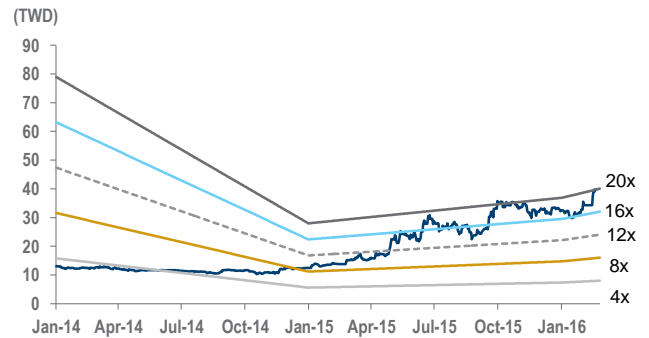
Source: Company

**De Licacy: brand client coverage**


Source: Company

**Taiwan Sportswear industry market value**


Source: Euromonitor

**De Licacy: 1-year forward PER**


Source: Bloomberg

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Rating	Percentage of total
Buy*	63.9%
Hold**	21.3%
Sell***	14.8%

Source: Daiwa

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