Analyst Express

Textiles & Apparel Sector Jan 2012 Report: Spring is drawing near — Brand Retail: Outperform (Reiterate); Processing & Manufacturing: Neutral (Reiterate)

- Preview of the 2011 annual results: the brand apparel makers are expected to deliver excellent results in 2011, logging a 45%-plus average growth in net income. Net income growth rate of the men's wear companies is expected to rise to 45%, that of the home textile companies is estimated at 40-60% albeit the slowing growth in 4Q11; while the apparel makers with solid growth momentum may even register a 70%-plus strong growth. During the same period, the processing & manufacturing companies are projected to maintain a ~15% average growth in net income, lower than in 1-3Q11.
- Unveiling of the "12th Five-Year Plan" for textiles & apparel will promote the sector's sustainable healthy development. The plan revised and slashed the aggregate objectives, lowering the average annual growth rates of industrial value added and fiber processing by 8% and 4.5%, respectively. During the 12th FYP period, the energy consumption per unit of industrial value added will be cumulatively reduced by 20%, and the pollutant emissions will drop 10% from 2010. Chinese government is expected to lend support to development of the chemical fiber, technical textiles, independent innovation and proprietary brands while maintain the export rebate ratio stable.
- Brand apparel: sales rebounded in Dec as expected, and moderate performance is expected for 1Q12E. In Dec., retail sales of apparel, caps, shoes and knitwear by the enterprises above the designated size ("large-scale enterprises") rose by 26.7% yoy (+4.2pcts MoM), and in full-year 2011, the retail sales of large-scale enterprises increased by 24%, thanks primarily to 1) the booming consumption of apparels driven by the increase of household income, 2) the price-driven increase of sales revenue and 3) the promotional sales before holidays. Sales of men's wear kept relatively stable, and growth of the home textile sales slowed. Going ahead, we look to moderate performance in 1Q12E as 1) the price hike will reduce the sales volume, 2) apparel sales will drop markedly after the holidays and 3) growth of orders placed at the 2012 autumn/winter collections trade fair eased compared to that at the spring/summer collections trade fair. It's believed the growth rate of apparel sales will gradually stabilize since 2Q, reaching 19% in full-year 2012E.
- Processing & manufacturing: greater pressure in 1H12E. Export of textiles and apparels increased by 20% yoy in 2011. And the enterprise profit dropped Q0Q in 4Q11 amidst the slowing growth of textiles & apparel export. We expect the growth of export will slow down further in 1H12E and look to a slim chance in the hike of raw material prices.
- Potential risks: 1. If the economic downslide beats forecast in 2012E, it will intensify the pressure on sales of textiles and apparel; 2. Continuous credit austerities will likely raise the financing cost of brand apparel dealers and in turn slow down the expansion of channels; 3. Possible volatility of the Rmb exchange rate and the risk of a lower export rebate ratio will increase the pressure against the processing and manufacturing companies.

Principal Market Indices

Index	Close	Change %		
		1-d	5-d	YTD
CSI 300	2422.19	-1.56	-0.6	3
S&P/CITIC300	2033.24	-1.56	-0.7	3
S&P/CITIC 50	1791.78	-1.31	0.3	4
Shanghai Composite	2266.38	-1.39	-0.4	3
Hang Seng Index	19686.92	0.30	2.8	7
H-share index	10952.60	-0.09	4.1	10
Red Chip	3838.41	-0.50	0.5	4
Nikkei 225	8550.58	0.99	1.2	2
Dow Jones	12578.95	0.78	0.9	2
S&P 500	1308.04	1.11	1.2	4
Nasdaq	2769.71	1.53	2.5	6
DAX	6354.57	0.34	3.3	9
CAC	3264.93	-0.15	1.9	4
FTSE 100	5702.37	0.15	0.6	2
BDI	926.00	-4.93	-22.4	-47

Major mercantile futures

Futures	Close (USD)	Change %		
		1-d	5-d	YTD
NYME Oil	100.59	-0.12	-0.3	1
NYME Gold	1659.90	0.26	1.7	8
LME Copper	8234.75	0.49	6.0	11
LME Aluminum	2181.50	-1.08	2.1	11
LME Zinc	2002.00	0.05	3.4	9
Spot silver	30.54	1.51	1.9	11
Corn futures	593.50	-1.74	-9.0	-7
Soybean futures	1183.50	0.00	-3.9	-1
Wheat futures	592.25	-2.07	-7.4	-8
Cotton futures	97.53	-0.67	0.6	6
Rough rice futures	14.58	-1.52	-1.3	0
Sugar	24.00	0.59	2.9	2

Major foreign exchanges

FX	Close	Change %		
		1-D	5-D	YTD
USD index	80.54	-0.79	-1.0	0
USD-RMB	6.31	-0.07	0.0	0
USD-JPY	76.78	-0.08	-0.2	-1
EUR-USD	1.29	0.92	1.2	-1
GBP-USD	1.54	0.49	0.6	0

Major stock index futures in China

Futures	Chg%	Basis	Position	Chn in position
IF1201	-2.04	5.21	6578	-12683
IF1202	-2.18	19.21	36775	6073
IF1203	-1.72	34.61	8013	850
IF1206	-1.45	54.81	2891	47

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Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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