

Shenzhou (2313 HK)

Good entry point given better growth ahead

Upon the sales of 2% old shares by Mr. Ma & family, we believe company fundamental is intact and 2H19E outlook remains positive, hence providing a good entry point at the placement price of HK\$ 102, about 22x FY20E P/E.

- **Largest shareholder selling ~2% of old shares at 5.7% discounts.** Shenzhou (2313 HK) announced that it had sold 31.7mn existing shares, at the price of HK\$ 102.0, ~5.7% discounts to last price of previous day at HK\$ 108.2. The shares sold accounted for 2.1% of total number of shares and raised ~HK\$ 3.2bn.
- **Good time to add on dip.** We believe this is a good chance to add if the price decline is just due to this placement, thanks to: 1) intact fundamental and potential growth acceleration in 2H19E, 2) favorable track records (54% price increase achieved in 12 months for the last four placements), and 3) asset diversifications, largest shareholder may want to diversify its assets given a potential CNY depreciation environment.
- **Positive 2H19E outlook.** We expect business to get better in 2H19E (Adidas orders to accelerate, esp. Adidas's apparel supply shortage in the US market may be helped by shenzhou's new factories, Puma brand momentum to stay strong, underwear segment to stabilize, drags from retail business to narrow, etc), thus forecasting sales/ NP growth to accelerate in 2H19E to 15%/ 23% YoY (vs 12%/11% YoY in 1H19). Wallet shares gain (esp. for Adidas, Nike, Uniqlo), in our view, will still continue. Also, Shenzhou will have a deeper conversation with Lulu Lemon in US in Dec 2019. If an agreement can be reached, it will yield decent extra growth. Shenzhou already received orders from LuLu (US\$ 20-30mn in size by our estimates) but they do prefer larger-sized orders and a stronger relationship onward, OR simply not worth doing.
- **Superior placement track record.** Shenzhou has done four equity placings in the past (two old shares and two top up) and share prices all managed to go up by 54%/ 73% in 12/ 24 months' time.
- **Diversification of assets amid a highly uncertain macro environment.** Given the context of the mega trade war between US and China, potential CNY depreciation environment and continual social unrest in HK, plus the limited dividend payment from Shenzhou (dividend yield has always been around 2% only), we would not be surprised to see the largest shareholder (Mr. Ma & family) to diversify his assets and secure more cash.
- **Undemanding valuation.** The counter trades at 27x FY19E and 22x FY20E P/E which may be above 20x (the 2 years average of forward 2 years P/E), but we still find it attractive, thanks to its proxy as a trade war beneficiary.

Earnings Summary

(YE 31 Dec)	FY16	FY17	FY18
Revenue (RMB mn)	15,099	18,085	20,950
YoY growth (%)	19.5	19.8	15.8
Net income (RMB mn)	2,948	3,763	4,541
EPS (RMB)	2.11	2.58	3.02
YoY growth (%)	25.6	22.3	17.1
P/E (x)	50.4	36.0	30.1
P/B (x)	8.6	6.6	6.2
Yield (%)	2.4	1.9	2.0
ROE (%)	20.9	21.7	21.7
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

NOT RATED
Current Price
HK\$104.00

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Stock Data

Mkt Cap (HK\$ mn)	156,335
Avg 3 mths t/o (HK\$ mn)	289.23
52w High/Low (HK\$)	117.8/76.85
Total Issued Shares (mn)	1,503.2

Source: Bloomberg

Shareholding Structure

Mr. Ding Shizhong (CEO), Mr. Ding Shijia (V-Chairman), Mr. Lai Shixian (CFO) & Family	62.06%
Free Float	37.94%

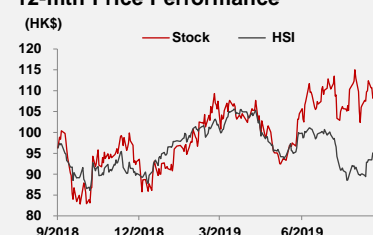
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.4%	-8.0%
3-mth	-0.5%	7.2%
6-mth	-1.5%	8.3%
12-mth	6.1%	12.2%

Source: Bloomberg

12-mth Price Performance



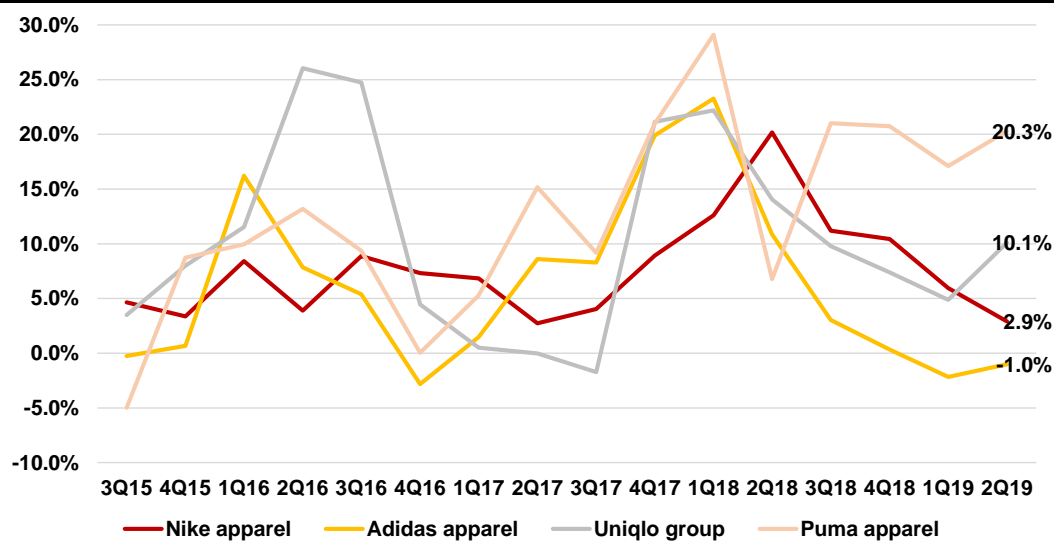
Source: Bloomberg

Auditor: Ernst & Young

Figure 1: Historical data for past placements done by Shenzhou

Date	Primary/ Secondary	Capital raised (HKD mn), before fees	Number of shares (mn)	% of issued shares	Placing price (HKD)	Discount s	Price in 12 months	Price changes in 12 months	Price in 24 months	Price changes in 24 months
19-Sep-19	Secondary	3,233.4	31.7	2.11%	102.00	-5.7%	?	?	?	?
09-Jul-17	Secondary	3,223.0	55.0	3.67%	58.60	-6.8%	96.95	65%	112.40	92%
17-Jun-13	Primary	1,545.6	69.0	4.93%	22.40	-9.1%	26.95	20%	34.75	55%
08-Jan-13	Secondary	793.0	48.0	3.61%	16.52	-7.0%	28.95	75%	26.10	58%
13-Apr-12	Primary	1,173.0	85.0	6.39%	13.80	-9.1%	21.50	56%	25.70	86%

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Sales growth by its top 4 clients

Source: Company data, Bloomberg, CMBIS estimates

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