

China Gaoxian Fibre Fabric

4Q09: In line; remarkable performance to extend into 2010-11

Gaoxian reported 4Q09 net profit of Rmb118.7m, +16.1% yoy. We expect over 20% earnings growth for the next two years, backed by strong demand and rapid expansion. Maintain BUY with target price of S\$0.40.

4Q09 Results

Year to 31 Dec	4Q09 (Rmbm)	yoy % chg	2009 (Rmbm)	yoy % chg	Remarks
Turnover	497.7	(1.1)	1,812.4	(1.0)	10% ASP drop but 10% volume increase
Gross Profit	162.6	11.5	576.9	3.8	Increased contribution from high-margin products
EBITDA	163.3	15.7	578.9	3.3	
Tax	(36.5)	27.8	(120.3)	3.8	
Net Profit	118.7	16.1	409.1	4.8	
EPS (Rmb¢)	8.24	(9.7)	33.73	(3.2)	
Segment Breakdown					
FDY	147.6	(10.6)	565.8	(22.7)	Capacity channelled towards other yarn products
DTY	73.0	(10.1)	268.4	(13.8)	Lower ASP
WKF	71.2	16.2	256.3	25.2	Higher sales volume
BY	136.5	(7.9)	468.8	(10.2)	Lower ASP
TFY	69.4	45.8	253.0	323.7	366% hike in sales volume for 2009
Gross Margins					
	%	chg	%	chg	
FDY	28.8	4.4ppt	27.3	1.0ppt	
DTY	33.0	6.1ppt	32.6	2.9ppt	
WKF	37.8	6.5ppt	37.0	0.7ppt	
BY	30.4	-1.7ppt	30.0	-3.5ppt	Further cutback in ASP to gain market share
TFY	39.7	4.0ppt	39.4	2.7ppt	
Overall	32.7	3.7ppt	31.8	1.5ppt	

Source: Gaoxian, UOB Kay Hian

Results

China Gaoxian Fibre Fabric (Gaoxian) reported 4Q09 net profit of Rmb118.7m, up 16.1% yoy on the back of a 1% dip in its sales. For 2009, the company saw a 4.8% yoy growth in the bottom line. The results are in line with our expectation.

Average selling prices (ASP) for 2009 declined 10.4% yoy due to the general downturn in China's textile and garment industry in the past year. Gaoxian, however, managed to ramp up its sales volume in the same period by 10.6% on the back of its timely roll-out of new high-end products and competitive pricing strategy, so the impact on 2009 revenue was minimal.

Overall gross margin improved 1.5ppt to 32.7% due to an increase in sales contribution from higher-margin products such as TFY and WKF.

SINGAPORE

China Gaoxian Fibre Fabric (CGXF SP)

BUY

Current Price: S\$0.185
Target Price: S\$0.40

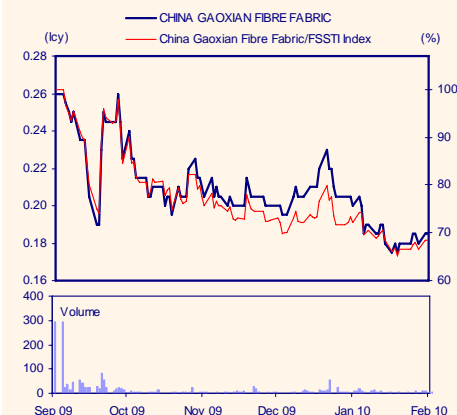
Sector: Chemical
52-Wk Avg Daily Vol. ('000): 13,223
Market Cap (S\$m): 280.8
(US\$m): 200.6

Major Shareholders (%)
China Success: 59.1
Carry Luck: 10.4

FY10 NAV/Share (Rmb): 1.20
FY10 ROE (%): 33.5
FY10 Net Cash/Share (Rmb): 0.46

Results Due
1Q: May
3Q: Nov
2Q: Aug
Final: Feb

Price Chart



Source: Bloomberg

Analyst

Allen Jiao, CFA
☎ (8621) 5404 7225 ext. 805
allen.jiao@uobkayhian.com

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)	Yield (%)
2008	1,830.3	559.8	390.4	34.9	47.9	2.6	1.3	0.0	0.0
2009	1,812.4	578.9	409.1	33.7	(3.2)	2.7	1.3	3.2	3.6
2010F	2,335.3	733.8	512.0	35.6	5.4	2.5	1.0	7.1	7.8
2011F	2,998.6	907.3	633.3	44.0	23.7	2.1	0.8	8.8	9.7
2012F	3,311.3	1,011.5	707.3	49.1	11.7	1.8	0.7	9.8	10.8

Consensus net profit – n.a.

Stock Impact

Ongoing robust demand for import-substitution products. We believe demand for Gaoxian's unique fibre products will continue to grow as more

and more local fabric manufacturers are turning to domestic suppliers, who have a cost advantage over foreign players and enjoys strong government support. According to Gaoxian, its yarn products are sold at a 20-30% discount to imported products of similar quality. The company had a Rmb300m orderbook as of end-09 to be fulfilled within the next two months, which reflects strong market demand.

Future growth to be underpinned by capacity expansion. To better leverage on the strong demand for its unique fibre products, Gaoxian has budgeted Rmb300m for its expansion plan for 2010. Total yarn production capacity is expected to increase from 180,000 tonnes p.a. currently to 241,500 tonnes by end-10. For its fabric business, the company targets to expand annual capacity to 81,000 tonnes by end-10 from 17,000 currently. Gaoxian will continue to upgrade its product mix by investing in new facilities, thus further expanding gross margin.

Earnings Revision

We have raised our earnings forecasts for 2010 and 2011 slightly by 2.3% and 1.8% respectively.

Valuation/Recommendation

Gaoxian is trading at 2.5x 2010F PE and 2.1x 2011F PE, reflecting a more than 50% discount to its Singapore-listed peers' 2010F PE. The Group's current valuation seems attractive given its more stable performance during the industry downturn and its superior growth prospects. We reiterate our BUY recommendation with target price remaining at S\$0.40 based on 6x 2010F PE, which is a 20% discount to Hong Kong-listed peers' average forward PE.

Profit & Loss

Year to 31 Dec (Rmbm)	2008	2009	2010F	2011F	2012F
Turnover	1,830.3	1,812.4	2,335.3	2,998.6	3,311.3
EBIT	516.5	540.0	684.1	843.7	941.3
Pre-tax Profit	506.4	529.5	682.7	844.4	943.1
Net Profit	390.4	409.1	512.0	633.3	707.3

Balance Sheet

Year to 31 Dec (Rmbm)	2008	2009	2010F	2011F	2012F
Current Assets	532.8	1,174.4	1,221.4	1,914.1	2,298.9
Total Assets	1,030.1	1,654.0	1,968.3	2,697.3	3,111.9
Current Liabilities	467.0	311.6	215.8	437.8	286.2
Long-Term Liabilities	7.4	18.7	19.1	19.5	20.0
Shareholder Funds	555.6	1,323.8	1,733.4	2,240.0	2,805.8
Total Equity & Liabilities	1,030.1	1,654.0	1,968.3	2,697.3	3,111.9

Cash Flow

Year to 31 Dec (Rmbm)	2008	2009	2010F	2011F	2012F
Operating	357.8	317.8	498.2	568.0	820.5
Investing	(395.5)	(21.3)	(316.9)	(100.0)	(100.0)
Financing	115.3	206.8	(124.4)	(64.7)	(141.5)
Net Cash In/(Out) Flow	77.6	503.3	56.8	403.2	578.1
Begin Cash & Cash Equiv.	92.4	95.2	598.5	655.3	1,058.5
End'g Cash & Cash Equiv.	95.2	598.5	655.3	1,058.5	1,636.6

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of UOB Kay Hian Research Pte Ltd only and are subject to change without notice. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of the addressee only and is not to be taken as substitution for the exercise of judgement by the addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. UOB Kay Hian and its affiliates, their Directors, officers and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add to or dispose of any such securities. UOB Kay Hian and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

UOB Kay Hian (U.K.) Limited, a UOB Kay Hian subsidiary which distributes UOB Kay Hian research for only institutional clients, is an authorised person in the meaning of the Financial Services and Markets Act 2000 and is regulated by Financial Services Authority (FSA).

In the United States of America, this research report is being distributed by UOB Kay Hian (U.S.) Inc ("UOBKHUS") which accepts responsibility for the contents. UOBKHUS is a broker-dealer registered with the U.S. Securities and Exchange Commission and is an affiliate company of UOBKH. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact UOBKHUS, not its affiliate. The information herein has been obtained from, and any opinions herein are based upon sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions and estimates herein reflect our judgement on the date of this report and are subject to change without notice. This report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, the firm preparing this report or its affiliates or the principals or employees of such firm or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such non-U.S. persons may have purchased securities referred to herein for their own account in advance of release of this report. Further information on the securities referred to herein may be obtained from UOBKHUS upon request.

<http://research.uobkayhian.com>

MICA (P) 167/04/2009
RCB Regn. No. 198700235E