Shenzhou International Group Holdings (2313 HK)

1H26: Earnings In Line With Profit Warning But Gross Margin A Miss; Expect Stable Order Volume And Recovery ASP For 2H26

Highlights

- Shenzhou's 1H26 earnings were at the mid-point of the profit warning. However, gross margin deteriorated by 4.5ppt yoy, due to wage increase, rising raw material prices, forex and tariffs.
- In 1H26, the revenue decline was due to volume decline, while ASP remained flat. Looking into 2H26, management expects stable order volumes, with declines for Nike and PUMA narrowing, while Uniqlo and Adidas continue to drive growth, alongside a recovering ASP. Gross margin is expected to show sequential recovery in 2H26.
- **Maintain BUY,** cut target price by 9% to HK$55.80**.**

1H26 Results

Year to 31 Dec (Rmbm)	1H26	2H25	1H25	yoy chg (%)	hoh chg (%)
Total revenue	14,179	16,027	14,966	(5.3)	(11.5)
Gross profit	3,197	4,107	4,058	(21.2)	(22.2)
Gross margin (%)	22.6	25.6	27.1	(4.5)	(3.1)
Attributable net profit	1,905	2,648	3,177	(40.0)	(28.1)
Attributable net margin (%)	13.4	16.5	21.2	(7.8)	(3.1)
Core net profit	2,287	2,953	3,085	(25.9)	(22.6)
Core net margin (%)	16.1	18.4	20.6	(4.5)	(2.3)

Source: Shenzhou International, UOB Kay Hian

Analysis

- **1H26 earnings in the mid-point of the profit warning but gross margin a miss.** Shenzhou International Group Holdings (Shenzhou) reported 1H26 revenue of Rmb14,179m (-5% yoy, -12% hoh). Gross profit was Rmb3,197m (-21% yoy, -22% hoh), with gross margin at 22.6% (-4.5ppt yoy, -3.1ppt hoh). Net profit was Rmb1,905m (-40% yoy, -28% hoh), landing at roughly the mid-point of the guided range (profit warning range of a 38-43% yoy decline to Rmb1,811m-1,970m), with net margin at 13.4% (-7.8ppt yoy, -3.1ppt hoh). The sharp net profit decline can be attributed to: a) gross margin contraction, b) forex loss of Rmb506m (vs forex gain of Rmb126m in 1H25), c) higher SG&A ratio (+0.4ppt yoy), and d) lower government incentives at Rmb112m (vs Rmb274m in 1H25). The company declared an interim dividend of HK$0.88 per share, implying an interim dividend payout ratio of 61.5% (vs 60.0% in 1H25).

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	28,663	30,994	30,553	33,221	37,079
EBITDA	7,362	7,309	6,147	6,874	7,817
Operating profit	5,840	5,820	4,536	5,098	5,875
Net profit (rep./act.)	6,241	5,825	4,312	5,357	6,043
Net profit (adj.)	6,241	5,825	4,312	5,357	6,043
EPS (Fen)	415.1	387.5	286.8	356.4	402.0
PE (x)	8.5	9.1	12.3	9.9	8.8
P/B (x)	1.5	1.4	1.4	1.3	1.2
EV/EBITDA (x)	7.5	7.2	8.5	7.6	6.6
Dividend yield (%)	6.6	6.6	4.9	6.1	6.9
Net margin (%)	21.8	18.8	14.1	16.1	16.3
Net debt/(cash) to equity (%)	(35.2)	(32.0)	(31.3)	(30.4)	(29.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	18.2	15.9	11.3	13.4	14.2
Consensus net profit	-	-	5,660.5	6,380.2	6,922.0
UOBKH/Consensus (x)	-	-	0.76	0.84	0.87

Source: Shenzhou International, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$41.14
Target Price	HK$55.80
Upside	+35.6%
Previous TP	HK$61.40

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	2313 HK
Shares issued (m)	1,502.8
Market cap (HK$m)	61,826.7
Market cap (US$m)	7,887.3
3-mth avg daily t'over (US$m)	37.7

Price Performance (%)

52-week high/low				HK$73.00/HK$38.66
1mth	3mth	6mth	1yr	YTD
(3.4)	(11.1)	(34.7)	(32.8)	(32.8)

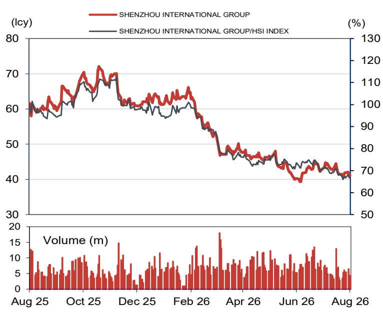
Major Shareholders (%)

Ma Jianrong	44.8
Ma Renhe	5.0

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	25.79
FY26 Net Cash/Share (Rmb)	7.93

Price Chart



Source: Bloomberg

Company Description

Shenzhou is a leading global apparel maker. It produces activewear, athleisure, and casual wear to customers worldwide, including Uniqlo, Nike, Adidas, Puma, etc.

- **Expect sales volume to remain largely stable and ASP to gradually recover in 2H26.** In 1H26, the revenue decline was primarily driven by sales volume decline, due to the rising complexity of the products, while ASP in renminbi terms was flat yoy, despite a 4% yoy increase in US dollar terms. By geography, in 1H26, revenue from Europe and the US declined 9% and 12% yoy, respectively, mainly due to weaker demand for sportswear, and revenue from domestic market declined 5% yoy, due to reduced order demand for international sports brands. In contrast, revenue from Japan grew 3% yoy on higher casual wear demand.
- By customer, the four key brand customers accounted for 82% of sales. Uniqlo remained the largest at 34% of revenue (+10% yoy, flat hoh), Adidas advanced to second at 24% (+13% yoy, -2% hoh), overtaking Nike, which fell to 19% (-23% yoy, -36% hoh), and PUMA ranked fourth at 6% (-41% yoy, -11% hoh). China brands, mainly Li Ning and Anta, rose to 10% of revenue. Meanwhile, a new customer, Alo, began production in 2Q26 and Shenzhou is gaining wallet share from other suppliers. Looking ahead, management expects relatively stable order volumes in 2H26, with declines for Nike and PUMA narrowing, while Uniqlo and Adidas continue to drive growth. ASP is expected to gradually recover.
- **Gross margin declin due to wage increase, rising raw material prices, forex and tariffs; expect sequential recovery in 2H26.** Management attributed the 4.5ppt yoy gross margin decline to: a) increase in salary and retirement benefit expenses, which contributed 1.5ppt of the gross margin contraction; b) rising raw material prices, which contributed 1.3ppt; c) forex, which contributed 1.3ppt; and d) tariff sharing. Looking ahead, management expects sequential gross margin recovery in 2H26.
- **Indonesia production capacity ramp-up expected from 2028.** Regarding the Indonesia production base, management mentioned that the land handover has already been completed and construction would start starting the following month, with capacity only ramping up gradually from 2028. Total capex is expected to be US$160m-200m (approximately Rmb1.1b).

Earnings Revision/Risk

- **We lower our 2026/27 earnings forecasts by 11%.** We raise our 2026 revenue forecast by 2%, while keeping our 2027 revenue forecast unchanged. We trim our 2026/27 gross margin estimates by 2.7ppt/2.4ppt, respectively. We lower our 2026/27 opex estimates slightly by 0.1ppt each. Thus, our 2026/27 earnings forecasts are cut by 11% each.

Valuation/Recommendation

- **Maintain BUY but cut target price by 9% to HK$55.80.** Our DCF-based target price is lowered by 9% to HK$55.80. Our target price implies 17.4x 2026F PE and 14.0x 2027F PE. The stock currently trades at 12.3x 2026F PE and 9.9x 2027F PE.

Segmental Results

Year to 31 Dec (Rmbm)	1H26	2H25	1H25	yoy chg (%)	hoh chg (%)
Revenue - by products					
-Sportswear	9,042	10,838	10,129	(10.7)	(16.6)
-Casual wear	3,963	4,619	3,792	4.5	(14.2)
-Lingerie wear	998	463	940	6.1	115.6
-Other knitwear	177	108	105	67.6	64.1
Sportswear % total	63.8	67.6	67.7	(3.9)	(3.9)
Revenue - by markets					
-Japan	2,565	2,645	2,499	2.6	(3.0)
-Europe	2,761	3,233	3,029	(8.9)	(14.6)
-US	2,257	3,028	2,555	(11.7)	(25.5)
-Other	3,139	3,380	3,238	(3.1)	(7.1)
-Domestic sales	3,457	3,742	3,646	(5.2)	(7.6)
Domestic % of total	24.4	23.3	24.4	0.0	1.0
Revenue – by top 3 customers					
-Uniqlo	4,752	4,747	4,333	9.7	0.1
-Adidas	3,368	3,442	2,992	12.6	(2.1)
-Nike	2,642	4,096	3,436	(23.1)	(35.5)

Source: Shenzhou International, UOB Kay Hian

Profit & loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	30,993.7	30,553.0	33,220.8	37,078.8
EBITDA	7,309.2	6,146.6	6,874.5	7,816.9
Deprec. & amort.	1,489.4	1,610.9	1,776.7	1,941.7
EBIT	5,819.8	4,535.7	5,097.8	5,875.2
Associate contributions	4.5	4.5	4.5	4.5
Net interest income/(expense)	759.4	857.7	691.5	699.2
Pre-tax profit	6,665.8	4,934.2	6,130.1	6,915.3
Tax	(840.5)	(622.2)	(773.0)	(872.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	5,825.3	4,312.0	5,357.1	6,043.3
Net profit (adj.)	5,825.3	4,312.0	5,357.1	6,043.3

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	11,666.3	12,700.5	13,587.2	14,326.5
Other LT assets	3,113.0	3,487.9	3,844.4	4,183.5
Cash/ST investment	15,410.9	9,987.5	10,129.7	10,249.3
Other current assets	26,752.9	26,552.2	27,766.9	29,523.5
Total assets	56,943.0	52,728.1	55,328.2	58,282.7
ST debt	14,615.3	9,112.8	9,063.3	9,038.6
Other current liabilities	4,228.2	4,332.5	4,620.4	5,042.1
LT debt	254.1	155.1	105.6	80.9
Other LT liabilities	353.4	353.4	353.4	353.4
Shareholders' equity	37,491.9	38,774.2	41,185.5	43,767.8
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	56,943.0	52,728.1	55,328.2	58,282.7

Cash flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	5,549.4	5,848.7	5,844.7	6,303.9
Pre-tax profit	6,665.8	4,934.2	6,130.1	6,915.3
Tax	(840.5)	(622.2)	(773.0)	(872.0)
Deprec. & amort.	1,489.4	1,610.9	1,776.7	1,941.7
Working capital changes	(506.4)	305.0	(926.8)	(1,334.9)
Non-cash items	(4.4)	(379.1)	(362.3)	(346.2)
Other operating cashflows	(1,692.0)	(622.2)	(773.0)	(872.0)
Investing	912.4	(2,640.9)	(2,657.7)	(2,673.8)
Capex (growth)	(3,003.7)	(3,020.0)	(3,020.0)	(3,020.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	17.1	0.0	0.0	0.0
Others	3,899.0	379.1	362.3	346.2
Financing	(1,555.8)	(8,631.2)	(3,044.9)	(3,510.5)
Dividend payments	(3,673.6)	(3,029.7)	(2,945.9)	(3,461.0)
Proceeds from borrowings	19,895.4	9,000.0	9,000.0	9,000.0
Loan repayment	(17,728.3)	(14,601.5)	(9,099.0)	(9,049.5)
Others/interest paid	(49.2)	0.0	0.0	0.0
Net cash inflow (outflow)	4,906.0	(5,423.3)	142.2	119.6
Beginning cash & cash equivalent	10,868.8	15,410.9	9,987.5	10,129.7
Changes due to forex impact	(364.0)	0.0	0.0	0.0
Ending cash & cash equivalent	15,410.9	9,987.5	10,129.7	10,249.3

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.6	20.1	20.7	21.1
Pre-tax margin	21.5	16.1	18.5	18.7
Net margin	18.8	14.1	16.1	16.3
ROA	10.6	7.9	9.9	10.6
ROE	15.9	11.3	13.4	14.2
Growth				
Turnover	8.1	(1.4)	8.7	11.6
EBITDA	(0.7)	(15.9)	11.8	13.7
Pre-tax profit	(7.0)	(26.0)	24.2	12.8
Net profit	(6.7)	(26.0)	24.2	12.8
Net profit (adj.)	(6.7)	(26.0)	24.2	12.8
EPS	(6.7)	(26.0)	24.2	12.8
Leverage				
Debt to total capital	29.3	18.3	18.5	17.6
Debt to equity	40.4	24.1	22.8	21.3
Net debt/(cash) to equity	(32.0)	(31.3)	(30.4)	(29.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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