Shenzhou International (2313 HK)

1H26 Profit Warning; Net Profit To Decline 38-43%; Weaker Than Expected

Highlights

- Shenzhou issued a profit warning on 7 August, expecting a 1H26 net profit decline of approximately 38-43% yoy. This guidance is 27-33% below the VA consensus.
- Management attributed the decline mainly to: a) weak demand and tariff sharing, b) rising labour costs and raw materials costs, and c) appreciation of the renminbi against the US dollar.
- The company will report its 1H26 results on 25 August. We believe the key focus will remain on: a) the order outlook for 2H26, and b) gross margin expansion pace. Maintain BUY, cut target price by 15% to HK$61.40.

Analysis

- **Profit warning expects 1H26 net profit to decline 38-43% yoy.** On 7 August, after market close, Shenzhou International (Shenzhou) issued a profit warning, expecting a 1H26 net profit decline of approximately 38-43% yoy to Rmb1,811m-1,970m, compared with Rmb3,177m in 1H25. This guidance is 27-33% below the visible alpha (VA) consensus of Rmb2,692m.
- **Management attributed** the **profit decline to:**
  - **Weak demand and tariff sharing.** End-user restocking demand has been subdued and brand clients have adopted a more cautious approach to placing order. This has led to increased volatility in order demand, resulting in a decline in revenue, while tariff sharing has also had a negative impact.
  - **Rising labour costs and raw materials costs.** Wage and pension costs increased across all regions. The capacity expansion in Vietnam and Cambodia enlarged the overall workforce, while the new facilities remain in the ramp-up phase, with room for improvement in production efficiency. In addition, raw material costs, mainly yarn, rose in line with international oil prices. Together, these factors drove up overall labour and manufacturing costs.
  - **Impact of the appreciation of the renminbi.** Shenzhou's trade revenue is primarily denominated in US dollars while it reports in renminbi. The renminbi appreciated 4% yoy on average against the US dollar in 1H26, which had an adverse impact on its trading activities and on the revaluation of its US dollar net current assets, mainly bank balances and trade receivables. This, per our understanding, resulted in a significant forex loss in 1H26 (vs Rmb126m forex gain in 1H25).

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	28,663	30,994	29,834	33,221	37,079
EBITDA	7,362	7,309	6,815	7,622	8,521
Operating profit	5,840	5,820	5,205	5,845	6,580
Net profit (rep./act.)	6,241	5,825	4,840	6,018	6,668
Net profit (adj.)	6,241	5,825	4,840	6,018	6,668
EPS (Fen)	415.1	387.5	322.0	400.3	443.6
PE (x)	8.9	9.5	11.4	9.2	8.3
P/B (x)	1.5	1.5	1.4	1.3	1.2
EV/EBITDA (x)	7.8	7.5	7.9	7.1	6.3
Dividend yield (%)	6.3	6.4	5.3	6.6	7.3
Net margin (%)	21.8	18.8	16.2	18.1	18.0
Net debt/(cash) to equity (%)	(35.2)	(32.0)	(32.4)	(31.4)	(30.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	18.2	15.9	12.6	14.9	15.4
Consensus net profit	-	-	5,969.2	6,558.0	7,091.1
UOBKH/Consensus (x)	-	-	0.81	0.92	0.94

ce: Shenzhou International, Bloomberg, UOB Kay Hian
n.m.: not meaningful; negative PE, EV/EBITDA reflected as "n.m."

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BUY (Maintained)	
Share Price	HK$42.80
Target Price	HK$61.40
Upside	+43.5%
Previous TP	HK$72.50

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	2313 HK
Shares issued (m)	1,502.8
Market cap (HK$m)	64,321.4
Market cap (US$m)	8,199.1
3-mth avg daily t'over (US$m)	40.4

Price Performance (%)

52-week high/low: HK$73.00/HK$38.66

1mth	3mth	6mth	1yr	YTD
(0.6)	(8.0)	(33.8)	(23.6)	(30.1)

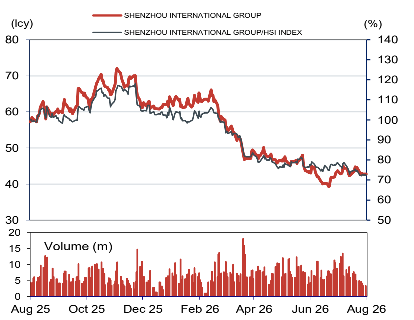
Major Shareholders (%)

Ma Jianrong	44.8
Ma Renhe	5.0

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	26.03
FY26 Net Cash/Share (Rmb)	8.25

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.

- The company will report its 1H26 results on 25 August. We believe the key focus will remain on: a) the order outlook for 2H26, and b) gross margin expansion pace.

Earnings Revision/Risk

- **We lower our 2026/27 earnings forecasts by 24%/12% respectively.** We lower our 2026/27 revenue forecasts by 8%/5%, respectively, to reflect weaker order volumes and lower visibility, together with ASP pressure amid renminbi appreciation. We trim our 2026/27 gross margin estimates by 0.6ppt/0.8ppt, respectively, due to rising raw material costs, slower-than-expected productivity ramp-up and some tariff sharing. We raise our 2026/27 opex estimates by 1.5ppt/1.5ppt, respectively, to reflect operating deleverage. We also factor in forex losses for 2026. Thus, our 2026/27 earnings forecasts are cut by 24%/12% respectively.

Valuation/Recommendation

- **Maintain BUY but cut target price by 15% to HK$61.40.** Our DCF-based target price is lowered by 15% to HK$61.40. Our target price implies 17.0x 2026F PE and 13.7x 2027F PE. The stock currently trades at 11.4x 2026F PE and 9.2x 2027F PE.

Profit & loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	30,993.7	29,833.6	33,220.8	37,078.8
EBITDA	7,309.2	6,815.5	7,622.0	8,521.4
Deprec. & amort.	1,489.4	1,610.9	1,776.7	1,941.7
EBIT	5,819.8	5,204.5	5,845.3	6,579.7
Associate contributions	4.5	4.5	4.5	4.5
Net interest income/(expense)	759.4	843.0	699.9	710.0
Pre-tax profit	6,665.8	5,538.4	6,886.0	7,630.5
Tax	(840.5)	(698.4)	(868.3)	(962.2)
Minorities	0.0	0.0	0.0	0.0
Net profit	5,825.3	4,840.0	6,017.7	6,668.4
Net profit (adj.)	5,825.3	4,840.0	6,017.7	6,668.4

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	10,464.3	10,665.5	11,028.4
Other current assets	26,752.9	26,224.7	27,766.9	29,523.5
Total assets	56,943.0	52,877.3	55,864.0	59,061.8
ST debt	14,615.3	9,112.8	9,063.3	9,038.6
Other current liabilities	4,228.2	4,125.2	4,501.3	4,928.9
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	39,130.8	41,840.4	44,660.0
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	56,943.0	52,877.3	55,864.0	59,061.8

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	5,549.4	6,497.0	6,266.0	6,935.0
Pre-tax profit	6,665.8	5,538.4	6,886.0	7,630.5
Tax	(840.5)	(698.4)	(868.3)	(962.2)
Deprec. & amort.	1,489.4	1,610.9	1,776.7	1,941.7
Working capital changes	(506.4)	425.2	(1,166.1)	(1,328.9)
Non-cash items	(4.4)	(379.1)	(362.3)	(346.2)
Other operating cashflows	(1,692.0)	(698.4)	(868.3)	(962.2)
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)	(8,802.7)	(3,407.1)	(3,898.3)
Dividend payments	(3,673.6)	(3,201.2)	(3,308.1)	(3,848.8)
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	(4,946.6)	201.2	362.9
Beginning cash & cash equivalent	10,868.8	15,410.9	10,464.3	10,665.5
Changes due to forex impact	(364.0)	0.0	0.0	0.0
Ending cash & cash equivalent	15,410.9	10,464.3	10,665.5	11,028.4

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.6	22.8	22.9	23.0
Pre-tax margin	21.5	18.6	20.7	20.6
Net margin	18.8	16.2	18.1	18.0
ROA	10.6	8.8	11.1	11.6
ROE	15.9	12.6	14.9	15.4
Growth				
Turnover	8.1	(3.7)	11.4	11.6
EBITDA	(0.7)	(6.8)	11.8	11.8
Pre-tax profit	(7.0)	(16.9)	24.3	10.8
Net profit	(6.7)	(16.9)	24.3	10.8
Net profit (adj.)	(6.7)	(16.9)	24.3	10.8
EPS	(6.7)	(16.9)	24.3	10.8
Leverage				
Debt to total capital	29.3	18.3	18.3	17.3
Debt to equity	40.4	24.0	22.5	20.9
Net debt/(cash) to equity	(32.0)	(32.4)	(31.4)	(30.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.