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Stock Focus

A VISIT TO TWO TEXTILE COMPANIES

C&G Industrial and Hongwei Technologies

We visited C&G Industrial (C&G) and Hongwei Technology (Hongwei) in Fujian last week. Both companies are in the textile business and manufacture different products in the textile supply chain. C&G produces fibre grade differential PET chips and functional yarns while Hongwei manufactures polyester yarns and synthetic cotton.

Both companies are optimistic about the industry outlook and are expanding their businesses rapidly. They had placement exercises recently to raise capital for expansion. C&G raised about S\$44.1m while Hongwei raised about S\$11m. The share placements were well received and attracted interest from institutional investors. Both companies aim to move up the value chain to produce higher value-added products with bigger margins. They are confident that their new products would achieve higher margins to drive revenue and profit.

With strong appreciation in China Sky's (+25%) and Fibrechem's (+15%) share prices since 11 July, investors looking for laggards or bargains may switch to the two stocks whose valuations are cheaper.

Figure 1: Corporate Statistics

C&G INDUSTRIAL HOLDINGS								
Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)
2004	368.5	90.8	66.9	0.23	29.2	14.3	15.0	0.00
2005	396.8	111.5	70.0	0.22	(1.9)	14.6	12.3	0.05
2006	707.0	181.3	134.8	0.35	54.5	9.4	7.5	0.05

HONGWEI TECHNOLOGIES								
Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)
2004	115.9	37.2	33.4	0.24	127.5	8.9	12.2	0.00
2005	157.5	44.3	39.6	0.27	11.3	8.0	10.3	0.06
2006	225.6	53.7	48.0	0.25	(4.9)	8.4	8.5	0.08

Source: UOB Kay Hian

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