KTMG Limited

25 August 2023

Initiation (Non-rated)

BBG	KTMG SP
Market cap	S$32.7m
52-week range	S$0.150 – S$0.200
Current Price	S$0.193
Target Price Previous Price	- -
Shares Outstanding	169.7m
Free Float	21.17%
Major Shareholders	Lim Family 78.23% Goh Tin Yeow 0.30% Yap Pin Boh 0.30%

P/BV (1H23)	1.5x
Net Debt to EBITDA (1H23)	0.3

Source: Company data, Bloomberg, SAC Capital

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Seizing Athleisure Demand

Shifting focus to athleisure wear to capture the increasing demand. KTMG has clinched a huge contract with one of the top 10 sportswear brands after passing the quality test and the orders will contribute meaningfully to the group's financials in the coming quarters. The Group is also in talks with other athletic brands. Securing additional contracts from prominent sportswear brands, particularly those ranked among the top 10 globally, will serve as a testament to KTMG's high production standards and propel the group towards its next phase of expansion in the athleisure space.

Consolidating and streamlining production capability. KTMG plans to relocate its apparel production facilities from Malaysia to Cambodia while focusing its resources in Malaysia on textile production due to the lower manpower cost and also favourable trade agreement with the EU in Cambodia. The internal production of fabric will reduce the overall cost of apparel production by c.5%.

Outsourcing production to Vietnam. In a strategic move, KTMG set up a sourcing office in Nov 2022 to seek collaborations with local apparel, harnessing the power of Vietnam's competitive costs and robust infrastructure. The adoption of this low capex strategy will facilitate KTMG in achieving rapid scalability at higher margins.

Venturing downstream. KTMG has diversified its business into the realm of women's apparel retail in Malaysia, introducing its proprietary brand, Shiza, which caters to the Muslim ladies' market. Capitalizing on the rising demand for Islamic attire, the company could secure a portion of the market share and achieve considerable financial gains. Notably, KTMG's existing clientele in the Western region suggests potential for future expansion in that geographical area, which is poised to experience the most rapid expansion for Islamic attire.

Risks includes customer concentration, rising material prices, unfavorable alterations and shifts in global trade policies, inflation and weaker economic environment, resumption of student loan repayment and rising overdue credit card payments.

Valuation. The Group is trading at a TTM EV/EBITDA of 9.4x, above its peers but about 1 s.d. below 5-year mean. We expect annualized 1H23 valuation to be in line his peers due to strong demand from new and returning orders.

FYE 30 Sep (S$m)	FY18A	FY19A	FY20A	FY21A	FY22A
Revenue	102.6	87.6	71.0	97.8	106.3
EBIT	2.4	(0.8)	5.1	4.1	5.5
Net profit (loss)	1.6	(1.9)	3.1	2.1	3.5
EPS (S cents)	0.9	(1.1)	1.8	1.3	0.9
DPS (S cents)	-	-	-	-	-
Net cash (Net debt)	(14.5)	(13.3)	(12.9)	(18.9)	(6.1)
Valuation					
EBIT margin (%)	2.3	(0.9)	7.1	4.2	5.1
ROIC (%)	13.1	(6.4)	18.2	12.0	20.9
EV/EBITDA (x)	13.5	45.4	6.5	8.4	11.1
P/E (x)	21.3	-	10.9	15.6	21.3
Dividend yield (%)	-	-	-	-	-

Ranking of the top 10 sportswear brands based on worldwide 2022 sportswear sales.

1. NIKE	Worldwide sportswear sales: $49.1 billion
2. ADIDAS	Worldwide sportswear sales: $24.2 billion
3. PUMA	Worldwide sportswear sales: $8.5 billion
4. LULULEMON ATHLETICA	Worldwide sportswear sales: $8.0 billion
5. UNDER ARMOUR	Worldwide sportswear sales: $5.8 billion
6. JORDAN BRAND	Worldwide sportswear sales: $5.0 billion
7. NEW BALANCE	Worldwide sportswear sales: $4.5 billion
8. REEBOK	Worldwide sportswear sales: $3.7 billion
9. COLUMBIA SPORTSWEAR	Worldwide sportswear sales: $3.4 billion
10. ASICS	Worldwide sportswear sales: $3.3 billion

Source: AllTopEverything

Investment Thesis

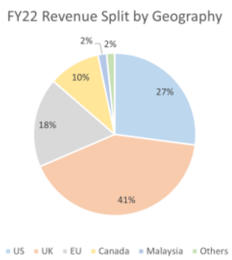
Shifting focus to athleisure wear to capture the increasing demand. Previously, the Group specialised in producing nightwear, loungewear, and casual wear. KTMG has clinched a huge contract with one of the top 10 sportswear brands after passing the quality test and the orders will contribute meaningfully to the group's financials in the coming quarters. The Group is also in talks with other athletic brands. Securing additional contracts from prominent sportswear brands, particularly those ranked among the top 10 globally, will serve as a testament to KTMG's high production standards and propel the group towards its next phase of expansion in the athleisure space.

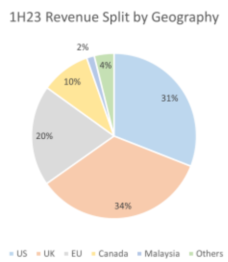
Consolidating and streamlining production capability. KTMG plans to relocate its apparel production facilities from Malaysia to Cambodia while focusing its resources in Malaysia on textile production due to the lower manpower cost and also favourable trade agreement with the EU in Cambodia. Malaysia's apparel production lines have been reduced to 4 by the end of 2022 as compared to 12 in the previous years while Cambodia lines saw a growth of 10, reaching a total of 40. The textile facilities in Malaysia are currently running at approximately 60% capacity, with c.75% of the produced fabric being utilized for internal apparel manufacturing. This internal usage accounts for about a quarter of the fabric needed for apparel production. They plan to achieve full capacity rate by the end of 2024. The internal production of fabric will reduce the overall cost of apparel production by c.5%.

Outsourcing production to Vietnam. In a strategic move, KTMG set up a sourcing office in Nov 2022 to seek collaborations with local apparel, harnessing the power of Vietnam's competitive costs and robust infrastructure. The Group has already begun outsourcing orders to a major apparel manufacturer that provides production at a lower cost from their economics of scale. The adoption of this low capital expenditure (capex) strategy will facilitate KTMG in achieving rapid scalability at higher margins. In 1H23, the apparel production volume in Vietnam constituted c.9% of the overall total. The management aims to achieve a revenue contribution of 30% from Vietnam by the year 2027.

Venturing downstream. KTMG has diversified its business into the realm of women's apparel retail in Malaysia, introducing its proprietary brand, Shiza, which caters to the Muslim ladies' market. They have introduced it on e-commerce platforms like Shopee and implemented strategic marketing efforts on TikTok. Plans are underway to establish a dedicated website for future sales. Capitalizing on the rising demand for Islamic attire, the company could secure a portion of the market share and achieve considerable financial gains. Notably, KTMG's existing clientele in the Western region suggests potential for future expansion in that geographical area, which is poised to experience the most rapid expansion for Islamic attire.

Company Background

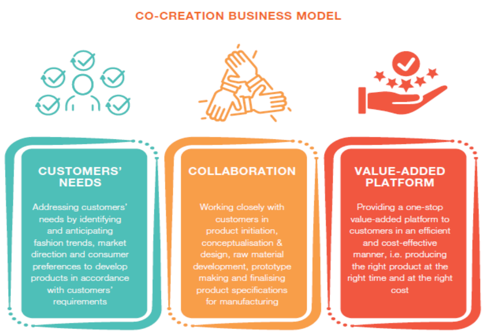




Source: Company, SAC Capital

Established in 1988, KTMG Limited is an integrated apparel and textile manufacturer with 3 apparel manufacturing facilities (1 in Malaysia, 2 in Cambodia) and 1 textile manufacturing facility in Malaysia. Their clients are retailers in the UK, US, EU, and Canada, who then sell apparel products under their own brands. Customers include Matalan, Cater's, Bluestem Brands, Hunkemöller, Lemur and many more. Customer acquisition is through referrals and recommendations from existing customers and other industry contacts.

Venturing upstream into knitting, dyeing, and finishing of fabric in 2019 allows KTMG to have more visibility over its raw material supply. The textile manufacturing lines in Malaysia supply c.75% of its fabric output to their production of apparel in Cambodia and Vietnam, accounting for about a quraater of the entire fabric needed internally in FY22. The rest goes to commission dyeing. The Group's main raw materials are cotton, fabric and polyester and imports them from various countries including Indonesia, Vietnam, Thailand, India and China.



Source: Company

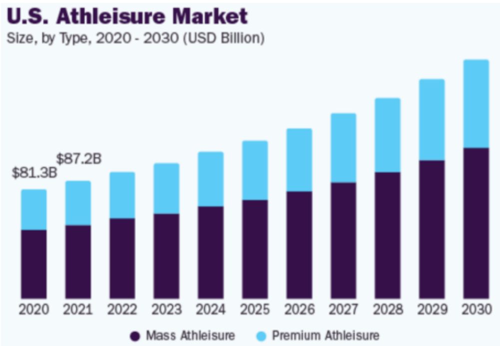
Operating a dynamic co-creation business model to forge close partnerships with customers from the very start of the product journey. This unique approach offers customers an all-in-one value-added platform. By staying ahead of fashion trends, market shifts, and consumer desires, KTMG works hand in hand with customers to develop materials, create prototypes, and finalize product specifications. With this seamless and cost-effective process, the Group is able to deliver a comprehensive solution tailored to customer's needs, from concept to completion.

Seasonality. Orders see seasonal fluctuation, with peak manufacturing activity in the 2nd and 3rd quarter of the calendar year due to end-of-year seasons like Black Friday, Cyber Monday, Christmas and holiday travels. During the lull period, utilization capacity is c.60%.

Consistently strives to enhance operational efficiency. In the past 2 years, KTMG has (i) embraced lean manufacturing, effectively eliminating waste and inefficiencies in the apparel production process, resulting in reduced cycle times and heightened productivity; (ii) invested in General Sewing Data (GSD) software, a computerised data management system that helps to establish and quantify method-time-cost benchmarks for each step in our apparel manufacturing process; (iii) relocated specific production lines from their Malaysian facility to Cambodia, streamlining and consolidating their manufacturing operations; (iv) upgraded sewing machines and implemented state-of-the-art production unit hanger systems in Cambodia, boosting their annual apparel production output by c.50%.

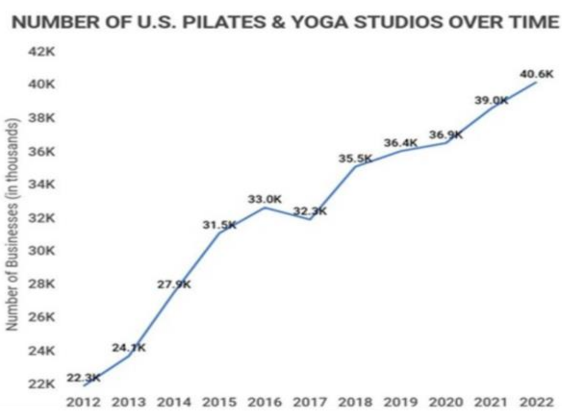
Industry Analysis

Athleisure

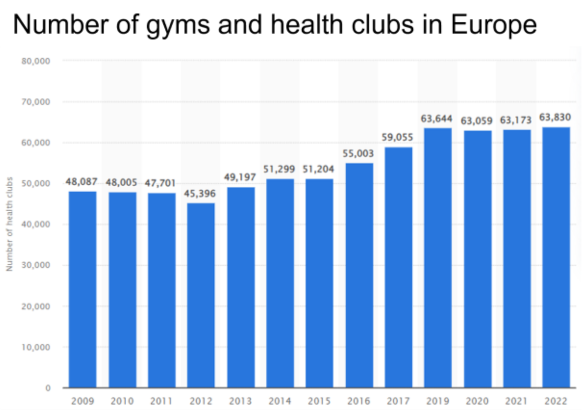


Source: Grand View Research

The global market for athleisure, with a value of about USD331b in 2022, is expected to expand at a CAGR of 9.1% (8.3% in US) from 2023 to 2030, according to Grand View Research. Key drivers behind this trend are (i) growing interest in sports and outdoor activities among the younger population (ii) rising awareness of fitness and health; and (iii) desire to lead an active lifestyle and self-consciousness. These lead to a surge in the popularity of various fitness activities, including aerobics, running, weight training, and yoga, coupled with a growing number of women engaging in fitness and sports, and an increase in memberships at gyms and health clubs. The primary consumers driving the athleisure market are individuals aged between 16 and 30, who prioritize fitness.

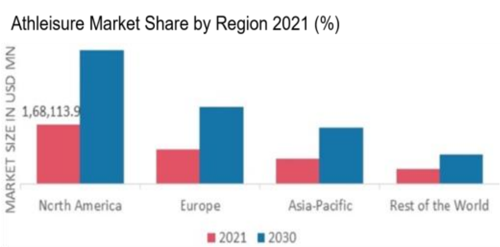


Source: Market Research Future



Source: Statista

Increasing trend in fitness. According to the Physical Activity Monitor (2019-2021), c.27% of Canadian adults stated their involvement in sports. Another survey conducted in Japan revealed that 15.1% of respondents in their twenties reported using fitness clubs in Nov 2021. Furthermore, factors like celebrity endorsements, international sporting events, influence from social media platforms, and government initiatives such as the #FitIndia campaign launched by the Government of India have all contributed to increased consumer participation in fitness and sports activities..



Source: Market Research Future

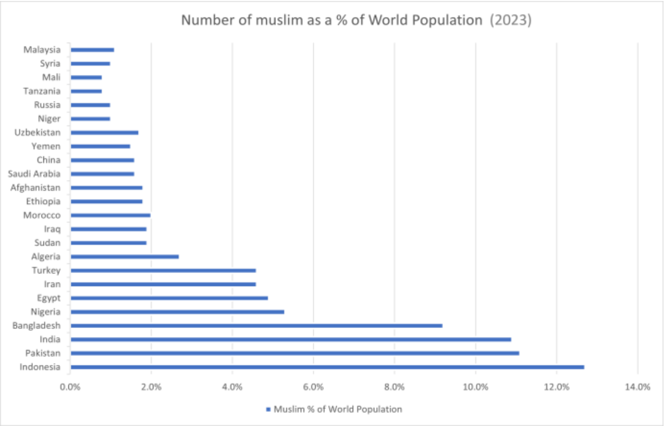
North America holds the largest Athleisure market share, followed by Europe, while the UK was seen to be growing the fastest in the European market, based on Market Research Future. Sales of athletic clothing and equipment are increasing as customers' awareness of health and fitness increases in Europe due to the societal trend toward a healthier and more active lifestyle among all age groups and the rising popularity of sportswear worn as casualwear.

With the flourishing demand and thus rise in expenditure on sports apparel including athleisure and trendy clothing, KTMG might potentially see a surge in orders as they secure trust and establish partnerships with the top 10 athleisure giants.

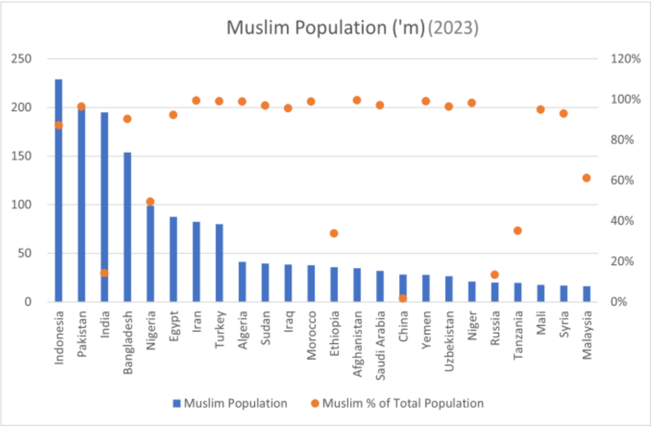
Industry

Global Muslim Market

Muslim community globally is estimated to have reached a total of 2 billion in April 2023, constituting about 25% of the world's population of ~8 billion people, according to the Global Muslim Population. Islam holds the position of the second-largest religion on a global scale. It is projected that the Muslim population will increase to 2.76 billion, 29.7% of the total anticipated global populace by 2025 according to Desilver & Masci.

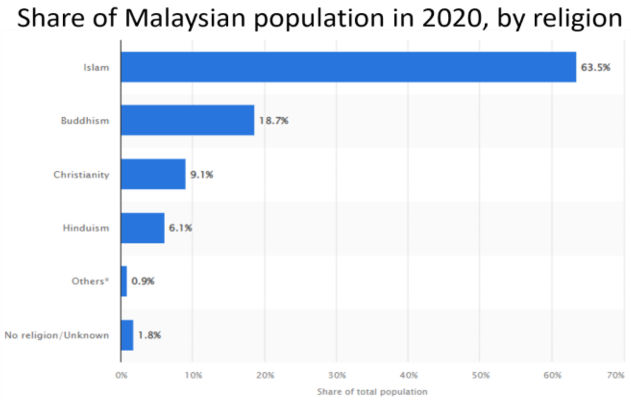


Source: World Population Review



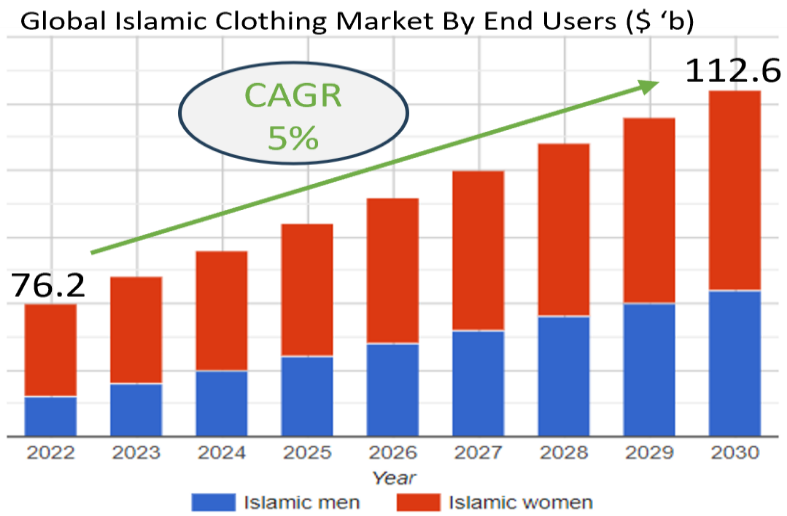
Source: World Population Review

The Asian region holds significant potential for the Islamic clothing market, given that a substantial portion of the global Muslim population resides in this area. Indonesian has the highest proportion of Muslims in its nation at c.87% in 2023, holding the global record for having the largest Muslim population globally, with an estimated 229 million adherents of the faith or c.13%.



Source: Statista

Capitalizing on the fact that Islam is the prevailing religion in Malaysia, with about 20.6 million followers constituting around 63.5% of the population, KTMG's venture into its own apparel brand could strategically tap into the promising potential of the hijab fashion industry, leveraging its strong foothold within the Malaysian market.



Source: SkyQuest, SAC Capital

The global Islamic clothing market size was valued at USD73.19 in 2022 and is forecasted to grow at a CAGR of 5% between 2023 and 2030. The force behind the demand is (i) Islamic women, who are inclined towards conservative attire like covered hair, elegant flowing designs, and vibrant colours. Circle H International predicts that expenditure on Muslim footwear will likely hit around US$311 billion by 2024; (ii) increasing trend of Islamic clothing gaining traction in the sports sector; (iii) growing global expenditure on modest apparel; and (iv) rising investments in Islamic clothing by major players.

As indicated by SkyQuest, North America is poised to experience the most rapid expansion for Islamic attire, attributed to the embrace of contemporary Islamic garments that uphold ethical standards, substantial growth of the youthful Muslim community in the area and ascent of ethnic fashion preferences.

Developing its own brand in the Muslim women's apparel market presents KTMG with a range of strategic advantages. By tapping into the growing demand for Islamic clothing driven by the expanding global Muslim population, KTMG has the potential to secure a share of the market and generate substantial profits. KTMG's existing customer base in the Western region indicates a potential for future expansion in that area.

Inventory Glut Ending

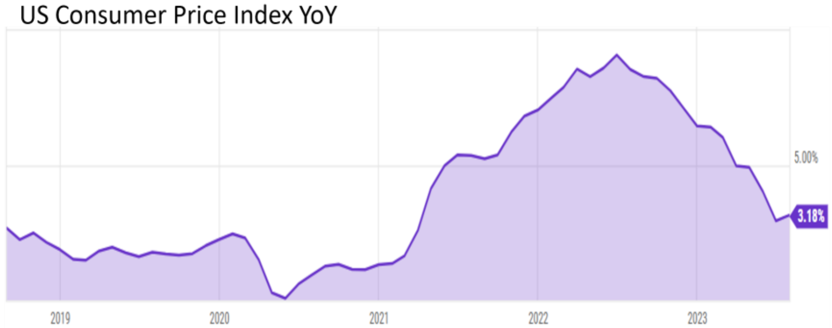
Amid the Covid pandemic, there was a surge in the demand for sports and athleisure wear, attributed to people being confined to quarantine. This led to a trend of individuals stockpiling items like yoga pants and sweatpants, which consequently led to reduced inventory levels.

Retail Inventories/Sales Ratio

Source: U.S. Census Bureau, fred.stlouisfed.org

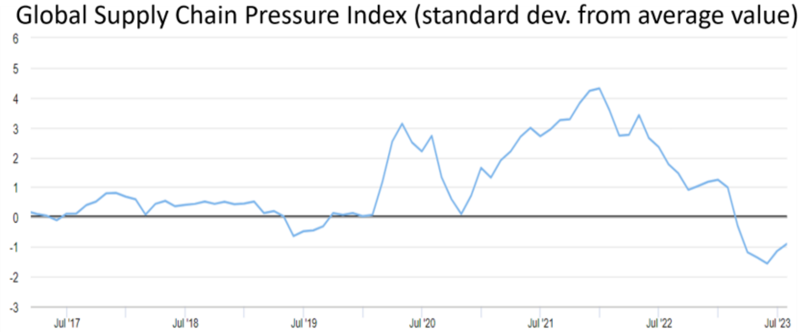
Retailers anticipated that the pandemic-induced spending habits would persist even as restrictions were lifted, assuming that more people would resume in-person shopping. Thus, they increased orders from wholesalers, setting off a chain reaction of elevated orders with manufacturers and their suppliers.

US Consumer Price Index YoY



Source; Ycharts

Global Supply Chain Pressure Index (standard dev. from average value)



Source: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics

However, due to inherent lead times and compounded by supply chain challenges, the time it took for these orders to reach retailers and subsequently fill store shelves was lengthy. Unfortunately, by the time the merchandise was ready for sale, the initial demand had already subsided. The situation was further aggravated by the Russia-Ukraine conflict, which triggered inflation that rippled through the economy, resulting in further weakened market demand.

Cambodia's favourable trade agreement with the EU.

Under the framework of the EU-ASEAN Cooperation Agreement and as a Least Developed Country (LDC) member of the World Trade Organization (WTO), Cambodia enjoys a favourable trade arrangement provided by the EU's Generalised Scheme of Preferences (GSP) through the “Everything But Arms (EBA)” scheme. Benefits include (i) lower or no tariffs on exports to the EU, granting them crucial access to the EU market and fostering their economic growth; (ii) unilateral duty-free and quota-free access to the EU for all products (excluding arms and ammunition).

In 2018, Cambodia ranked as the second-largest beneficiary of the EBA scheme, with Bangladesh being the top, according to European Commission. In 2021, textiles and footwear, bicycles, prepared foodstuffs, and vegetable products account for 94.2% of Cambodia’s overall exports to the EU. The EU ranked as Cambodia's fifth-biggest trade partner, accounting for 9% of the country’s total trade (with China at 23.4% and the USA at 15.5%). Around 93% of the country's total exports in 2020 were eligible for preferential duties under the EBA scheme. In 2022, exports to the North American market make up approximately 40% of Cambodia's total export volume.

However, The European Commission, on 12 Feb 2020, reduced c.20% in the preferential benefits provided to Cambodia under the EBA trade arrangement due to human and political rights concerns while the US halt its GSP benefits and imposed multiple economic sanctions on Cambodia. Also, the implementation of the Cambodia-China Free Trade Agreement (CCFTA) in January 2022 could potentially strain Cambodia's relations with the United States and the European Union. On a positive note, the ongoing geopolitical turmoil, particularly between the United States and China, is likely to be beneficial for Cambodia.

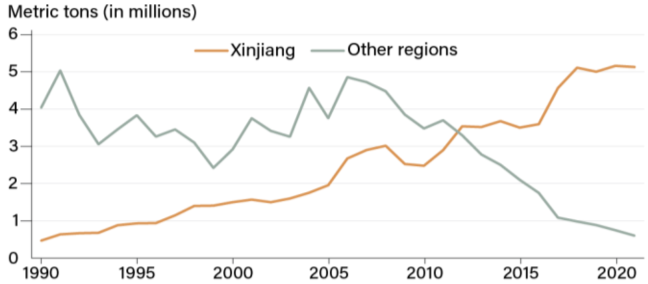
Fortunately, Cambodia continues to benefit from approximately 80% duty-free access, and KTMG's apparel is included in this arrangement.

The US ban on imports made from Xinjiang will compel retailers to seek alternative manufacturers outside of China.

In 2021, under the Uyghur Forced Labor Prevention Act (UFLPA), US Customs and Border Protection (CBP) will block all imports made in/by firms linked to Xinjiang due to forced labour allegations.

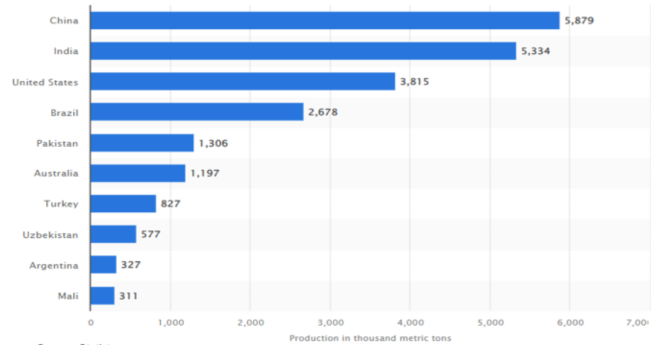
A shipment of Uniqlo shirts was intercepted by the US customs agency in 2021 over concerns that it violated a ban on cotton products originating from Xinjiang. In the same year, Muji, another Japanese retailer received criticism for launching a series of shirts made of cotton in Xinjiang.

China's cotton output increased in Xinjiang and decreased in other regions from 1990-2021



Source: USDA, Economic Research Service using data from the National Bureau of Statistics of China.

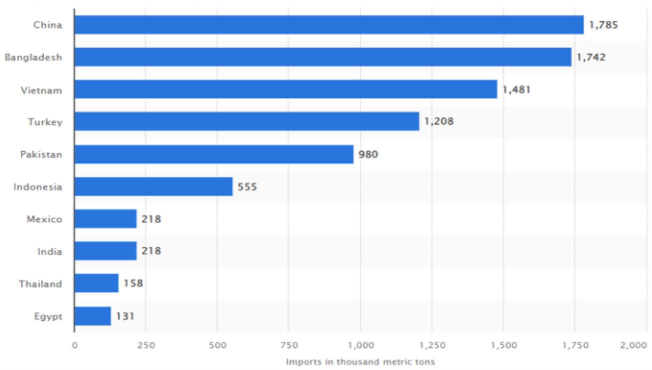
Leading cotton producing countries in 2021/2022 (in 1,000 metric tons)



Source: Statista

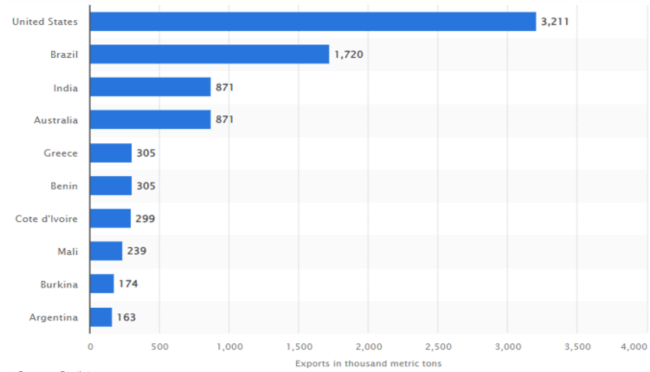
The top five cotton-producing nations collectively control a significant c.75% of the world's cotton supply. China takes the crown as the world's largest cotton producer. Among its regions, Xinjiang alone contributes to c.90% of China's cotton production and only c.20% of the cotton utilized by Chinese textile manufacturers is sourced from imports. This means that the majority of Chinese cotton products incorporate cotton that originates from Xinjiang and consequently falls within the scope of the ban.

Leading cotton importing countries in 2021/2022 (in 1,000 metric tons)



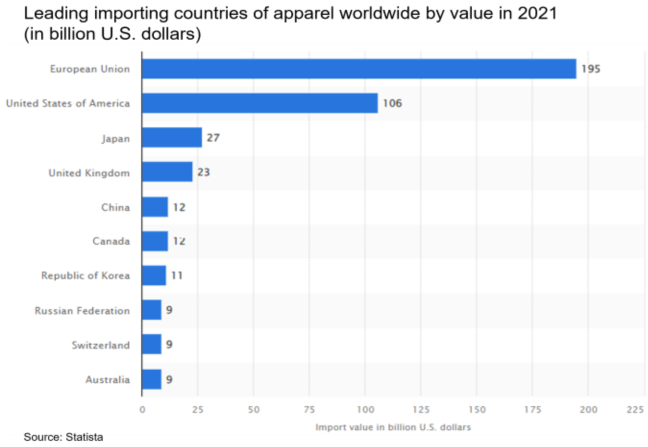
Source: Statista

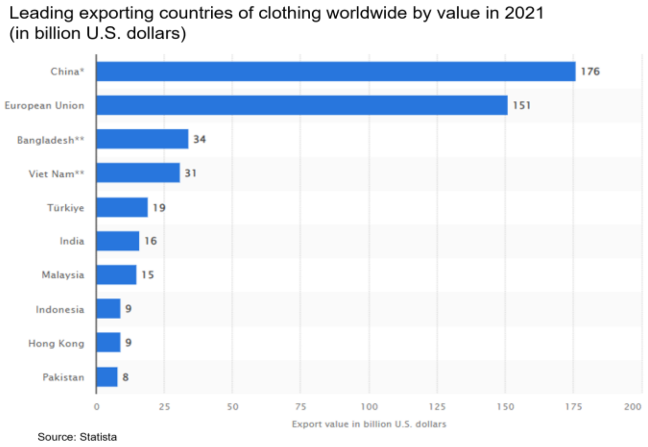
Leading cotton exporting countries in 2021/2022 (in 1,000 metric tons)



Source: Statista

Even though China is at the top in cotton production than any other country, they are still unable to produce enough to feed its apparel and textile industry. As a result, China is also the world's largest cotton importer. The United States dominates the cotton export market, exporting 3.2m tonnes of cotton in 2022, supplying about one-third of China's cotton imports.



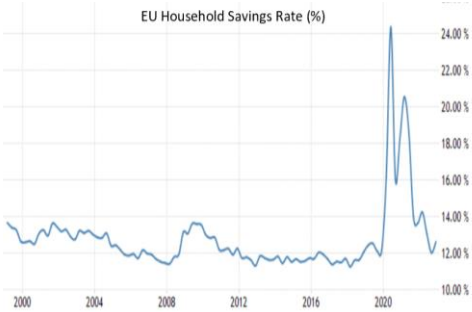


The European Union (EU) holds the top position, serving as the leading importer while China takes the lead as the primary exporter of clothing worldwide.

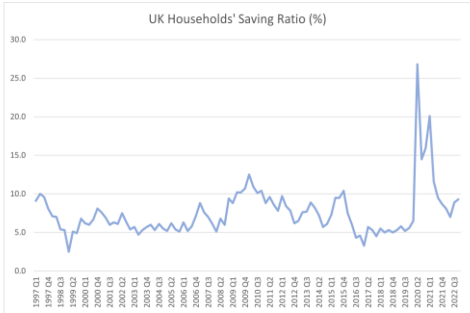
As US-China trade tensions rise and the ban on Xinjiang cotton looms, retailers are swiftly shifting their sourcing strategies away from China, seeking alternative manufacturers in Southeast Asia. Seizing this opportunity, the Group has emerged as a beneficiary, witnessing a surge in customers eager to explore manufacturing options beyond China's borders.

Excess savings alongside credit cards transactions

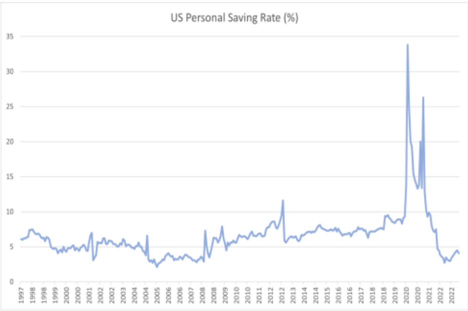
KTMG is poised to capitalize on the surplus savings during covid period, along with consumers' inclination to rely on credit cards for their buying transactions.



Source: Trading Economics, Eurostat

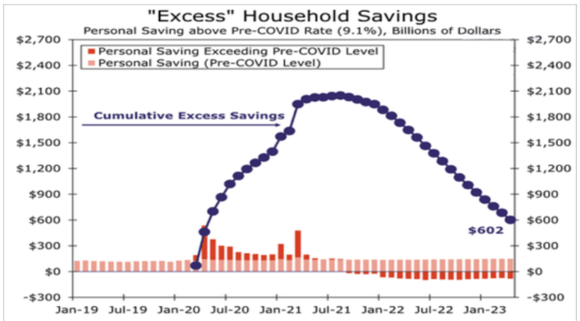


Source: UK Office of National Statistics

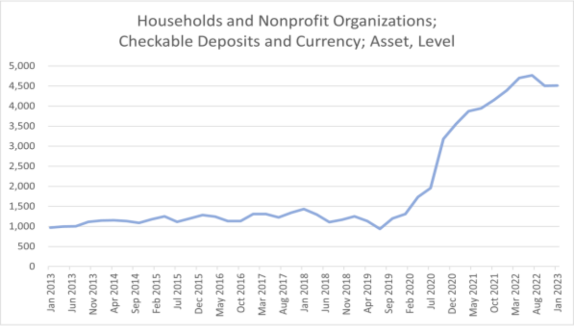


Source: U.S. Census Bureau, fred.stlouisfed.org

The fiscal response from governments to the initial impact of the pandemic was prompt and substantial. Numerous economic stimulus packages were implemented, injecting trillions of dollars into the economy at a time when many people had seen their household incomes dwindle. The spikes observed are stimulus checks distributed and not spent, resulting in an increase in savings.

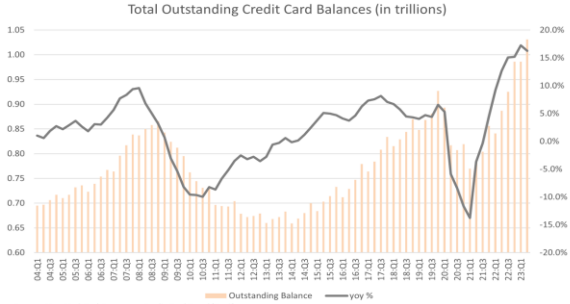


US Department of Commerce and Wells Fargo Economics



Source: Board of Governors of the Federal Reserve System (US)

This accumulation explains why they have piled up a war chest of savings. However, the savings that were accumulated in the initial phases of the pandemic are now being gradually depleted as they begin to spend them.



Source: New York Fed Consumer Credit Card Panel/Equifax

With savings starting to dwindle, consumers have displayed a readiness to rely on credit cards for their purchases. The overall amount of credit card debt increased by 4% to $45b during 2QCY2023. This elevated the total owed to $1.03 trillion, marking the highest recorded value dating back to 2003.

For now, the existing excess household savings and ongoing pent-up demand will continue to benefit the retail sector and, consequently, the manufacturers associated with it.

Cost Drivers

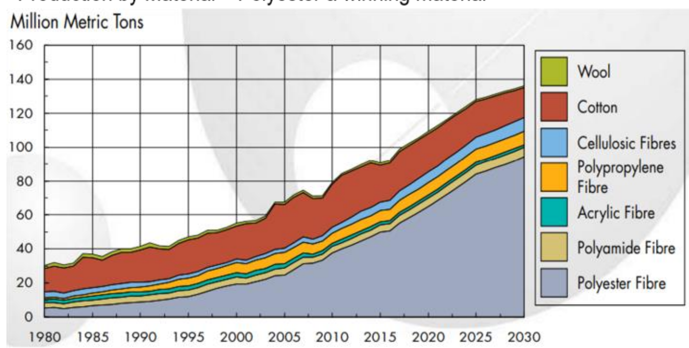
Cotton makes up ~60% of the raw materials used in the group's production processes.

Source: Trading Economics

Following a period of decline caused by mill closures and reduced retail demand due to COVID-19 social distancing measures, the global prices of raw cotton nearly doubled between April 2020 and November 2021 despite weak economies in lockdown and supply chain problems. This is due to (i) ongoing trade tensions between countries; (ii) US ban on cotton imports from Xinjiang; (iii) inflationary pressure; and (iv) China's increased purchases of US cotton.

Polyester – (Oil: Crude/Ethylene) Polyester accounts for ~40% of the raw materials utilized in the group's production.

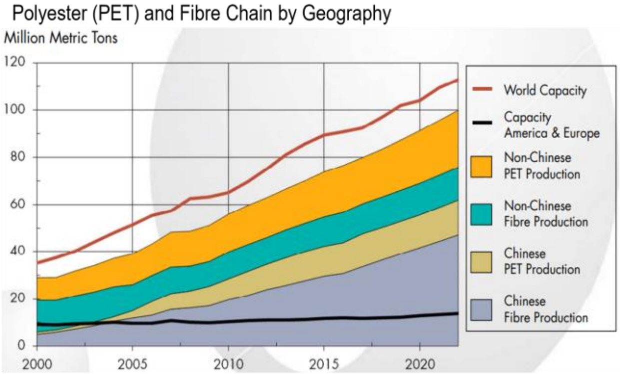
Production by Material – Polyester a winning material



Source: Tecnon OrbiChem

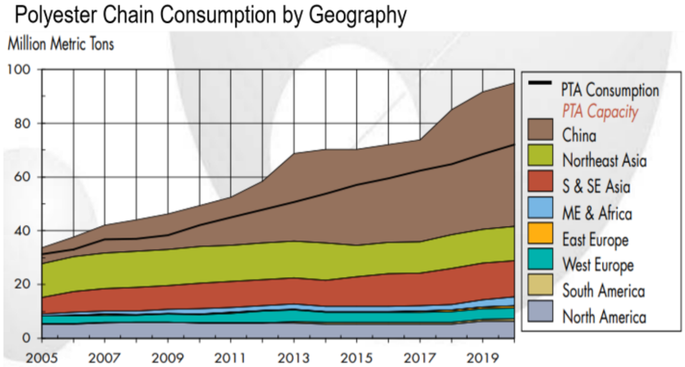
It is a synthetic fabric made from petroleum and is widely used in clothing items. The growth of polyester comes from the advancements in its quality and the decrease in oil prices, which result in lower production costs as it is derived from crude oil.

Polyester (PET) and Fibre Chain by Geography



Source: Tecnon OrbiChem

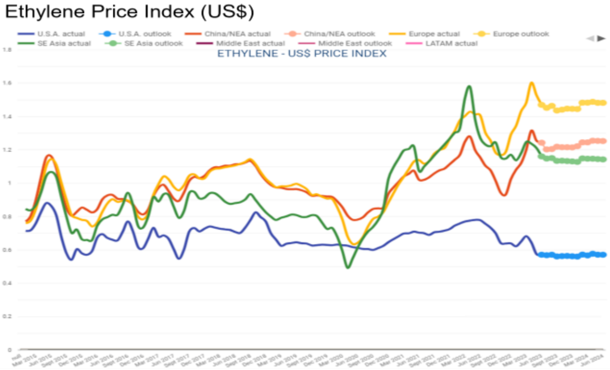
Polyester Chain Consumption by Geography



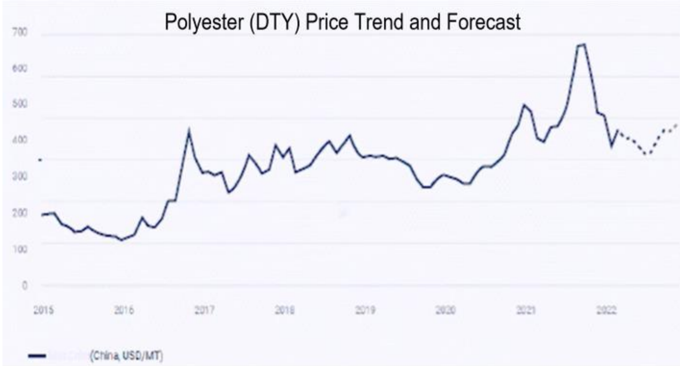
Source: Tecnon OrbiChem

China is the leading producer, exporter, and consumer of polyester staple fibre worldwide.

Ethylene Price Index (US$)



Source: Business Analytiq



Source: Procurement Resource

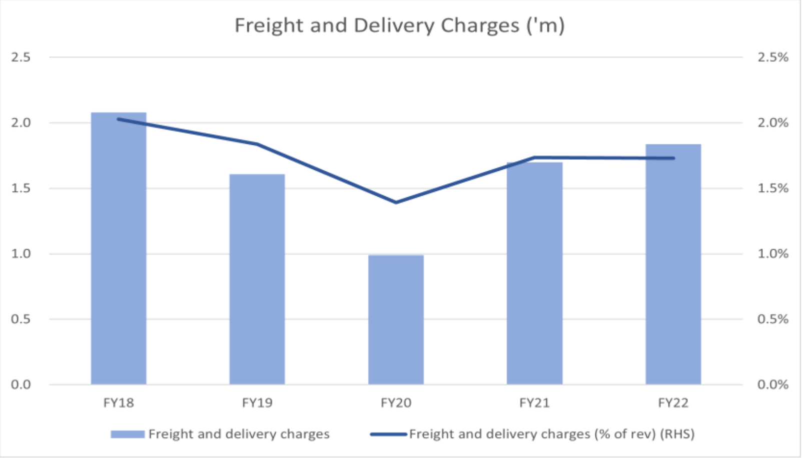
According to CCF Group, the price of polyester filament yarn (PFY) might see a decline due to (i) existing higher levels of inventory; (ii) delayed production cuts by polyester plants, which will intensify competition; (iii) weak economic expectations leading to lower demand in polyester clothing; (iii) seasonal decrease in demand.

KTMG imports its polyester from China and hence should help alleviate its margins.

Container Rates

Freightos Baltic Index (FBX): Global Container Freight Index

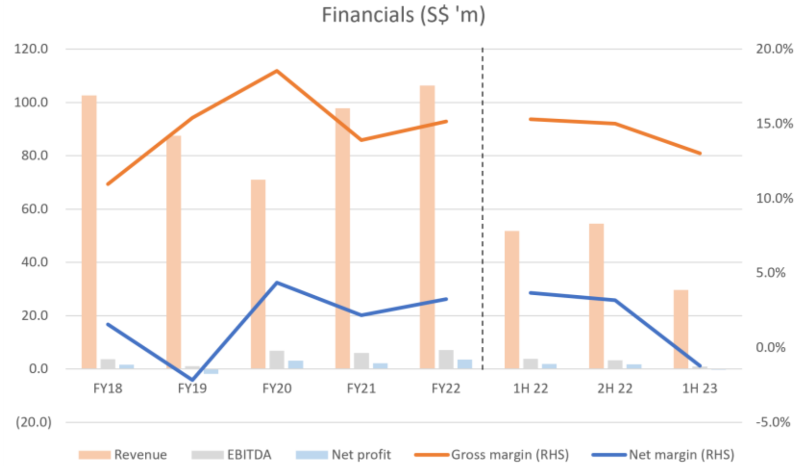
Source: FreightOS Data



Source: Company, SAC Capital

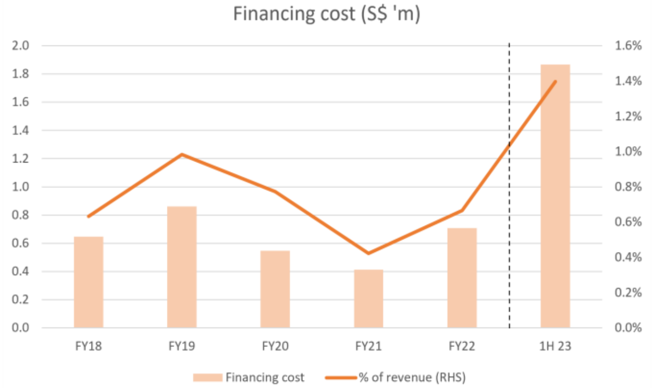
Normalization of freight rates will reduce and stabilize the cost of importing and exporting apparel.

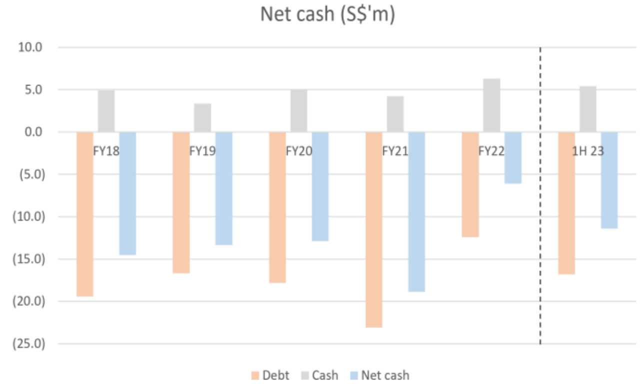
Financials



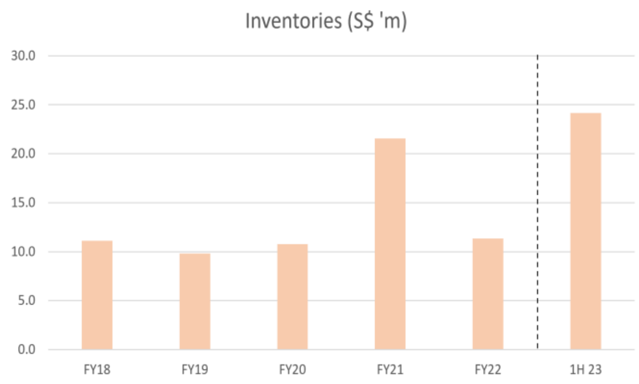
1H23 revenue plummeted by 42.7% yoy to S$29.7m underpinned by reduced apparel orders from existing customers. The management attributed this to the impact of increasing inflation and interest rates, which weakened consumer spending capability, but believe that these factors have now stabilized. Gross profit margin dipped 2.3pp yoy to 13% from the lack of advantages of economies of scale. Net profit went into the red at S$0.4m as compared to S$ 1.9m in 1H22. 1H23 utilization capacity is around 65%.

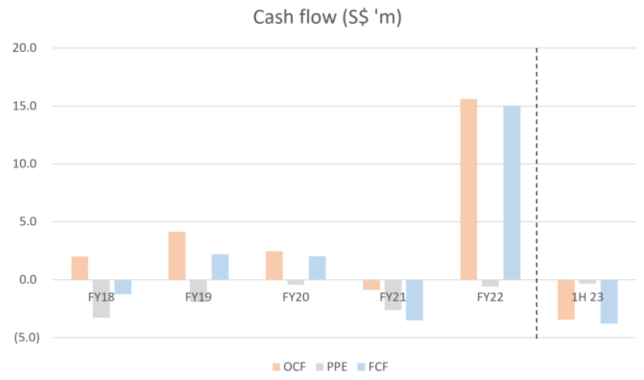
We expect a more robust performance in 2H23 due to the resurgence of orders, as their order roster is filled from July to August 2023.





KTMG’s business model requires a higher level of debt compared to its cash reserves. This is not a matter of worry because KTMG procures loans to acquire production materials only after confirming orders from customers. Also, any alterations in raw material prices can be smoothly transferred to their customers, translating to a stable gross margin. The loans are mostly denominated in USD as they transact with their customers and supplier in that currency. In an elevated interest rate setting, there will be an increase in the expense associated with financing.





The surge in OCF in FY2022 was in line with the performance, with a reduction in inventories as the previous year's inventories were dispatched during the year due to improved supply chain conditions, and a decrease in trade and other receivables, offset by a decrease in trade and other payables.

Going forward, we anticipate CAPEX to be low as the Group outsource orders to Vietnam manufacturer.

Risks

Customer Concentration. The Group is exposed to significant credit risk as three customers collectively make up around 74% of the total trade receivables, which is a decrease from the 87% seen in the previous three years. If any of these major customers opt to switch to a different apparel manufacturing supplier, it could negatively impact the financials of KTMG.

Nonetheless, the addition of more customers, particularly from prominent athleisure brands, will not only enhance the diversification of its customer portfolio but also acknowledge the manufacturing excellence of KTMG.

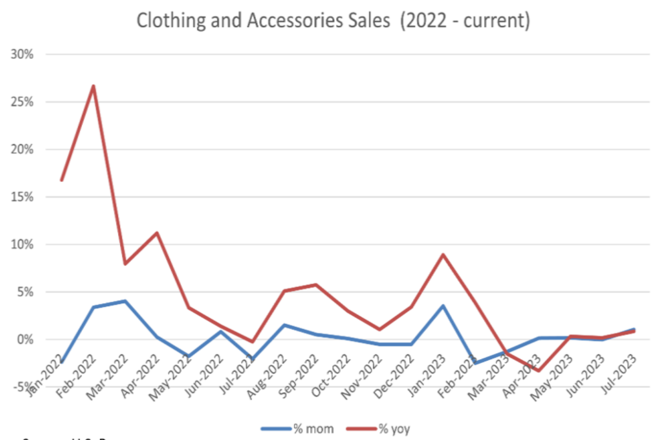
Rising cotton prices. Anticipated heatwaves in Xinjiang, China's primary cotton-producing zone, could further imperil the already diminished cotton output due to delays in planting and previous cold snaps. The northwestern region is projected to encounter high temperatures exceeding 40°C in (ideally 25-30°C) certain districts, potentially leading to lower yields and shorter fibre length, as indicated by COFCO Futures. Should this scenario unfold, China might find itself compelled to heighten its overseas cotton purchases, resulting in higher cotton prices.

Earlier in June 2023, a China state-owned agency had foreseen a substantial 13.5% decline in production, prompting Beijing's strategy to release cotton from national reserves to enhance supplies. This should mitigate price hikes in the cotton market.

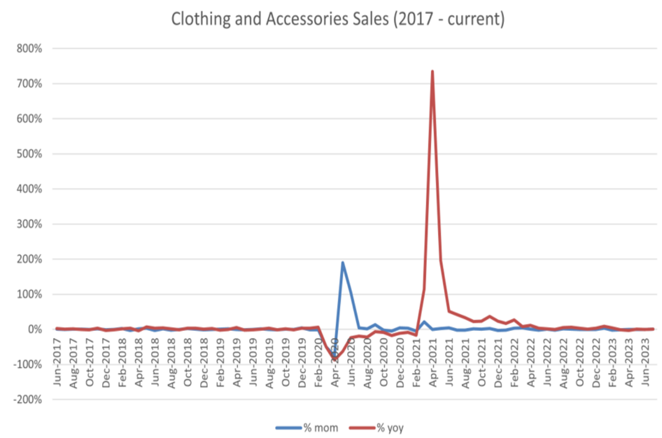
Unfavorable alterations and shifts in global trade policies. Since Aug 2020, the European Union's choice to partially revoke Cambodia's duty-free and quota-free entry to its market has come into effect, resulting in several of Cambodia's usual export items like garments, footwear, and travel goods being liable for customs duties imposed by the European Union. The special trade arrangement Cambodia had under the EBA framework has been temporarily suspended due to significant and systemic human rights issues identified within the country. This change affects c.20% of Cambodia's exports to the EU, while the remaining 80% still enjoy no duties or quotas.

Fortunately, KTMG remains unaffected by this alteration and continues to benefit from the FTA. Nevertheless, if the EU introduces stricter regulations in the future, there is a possibility that KTMG's profit margin might be impacted.

Inflation and weaker economic environment are taming consumer spending. Following a strong expansion spanning from early 2021 to mid-2022, the sector is encountering a difficult environment. Inflation is the foremost concern among executives in 2023, according to findings from the annual Business of Fashion and McKinsey State of Fashion Survey. Rising inflation will erode consumer demand, leading shoppers to reduce fashion expenses or opt for more affordable products as their costs for energy and groceries rise. The impact of the 11th interest rate hike, which typically requires time for the economy to fully experience, might also serve to tame consumer spending.

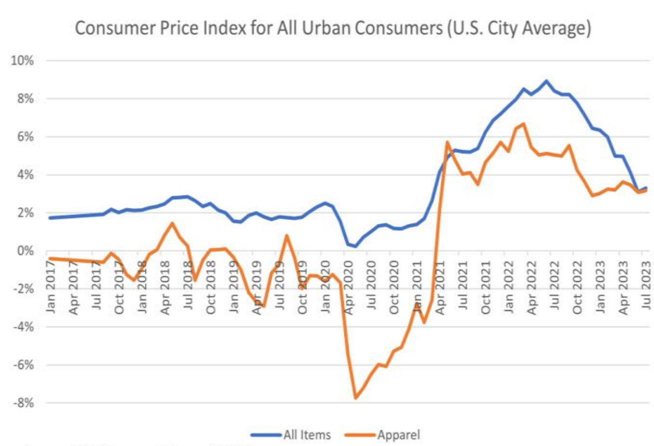


Source: U.S. Bureau

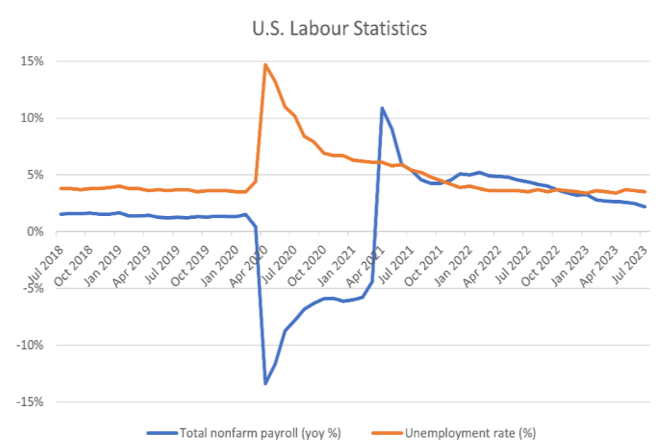


Source: U.S. Bureau

In July, customers exhibited robust spending as evidenced by a 1.0% yoy increase in retail sales excluding cars, gasoline, building materials and food services with purchases of clothing and accessories rising 0.9% yoy. Yet, consumers exhibited greater selectivity in relation to higher ticket items, as evidenced by a 1.8%/1.3%/0.3% yoy decline in sales at furniture stores/electronics stores/motor dealers. Home Depot Inc management voiced their cautious outlook on discretionary spending citing persistent challenges in specific high-value, non-essential product categories.



Source: U.S. Bureau of Labor Statistics

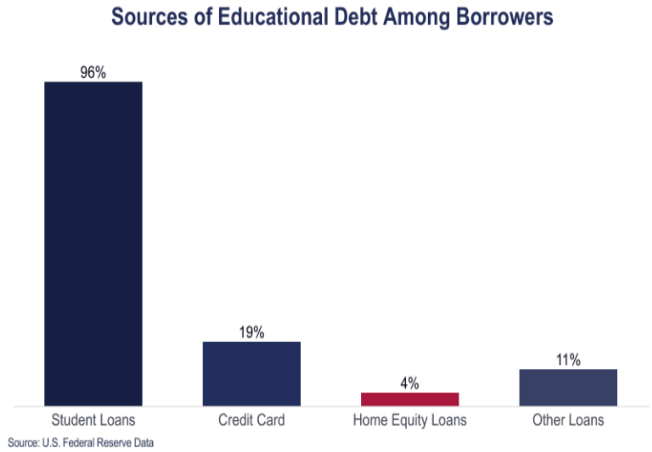


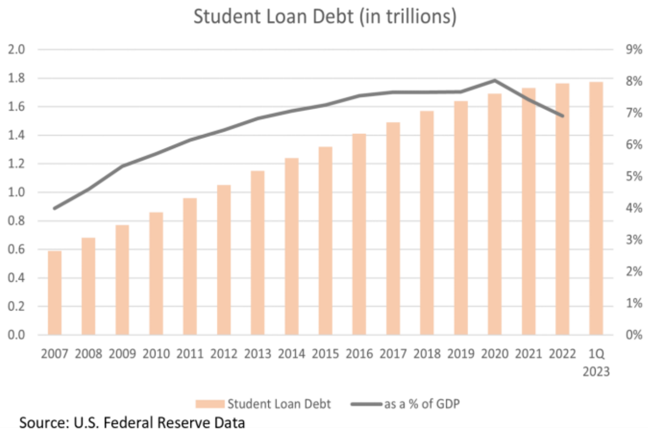
Source: U.S. Bureau of Labor Statistics

A decade-low low unemployment rate of 3.5%, a notable increase of 187,000 jobs in nonfarm payroll in July 2023, combined with inflation moving at its slowest rate in over two years, this situation seems to be bolstering consumer confidence, and thus, have a favourable implication for both expenditure and overall economic growth.

Resumption of student loan repayment, lowering disposable income and buckling consumer spending on discretionary goods.

In June, households are hit with a double whammy when US Supreme Court nullified Biden's plan to eliminate $400b worth of student loans and mandated the resumption of loan payments and interest, a measure tied to the agreement to raise the debt ceiling. Interest and student loan payments, which were paused during covid, will recommence from Sep 2023 with payments becoming due from Oct 2023. The projected average monthly loan repayment is anticipated to fall within the range of $300 to $600.



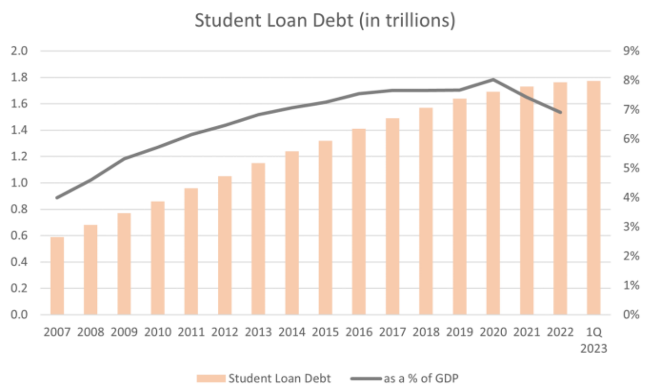


Morgan Stanley suggests that ending the moratorium could decrease real GDP growth by up to 9bp while Barclays predicts an 8% reduction in monthly income for loan holders from loan payments. A Credit Karma survey indicates that 56% of borrowers expect to face a dilemma between loan payments and essential expenses (e.g., rent and groceries) after the pandemic forbearance period while KeyBanc notes that the loans might cause a potential 2% decline in retail sales over the next year.

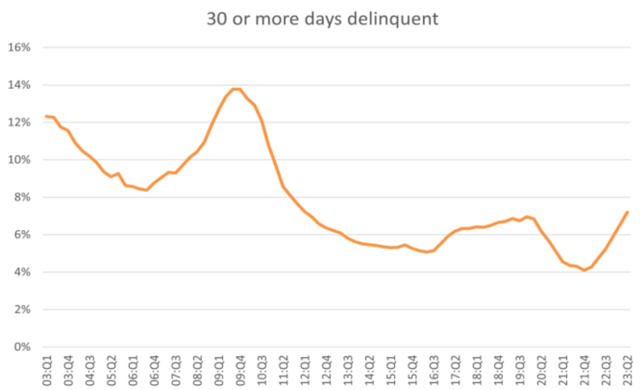
This arrived during an inopportune moment when numerous individuals are already facing challenges due to increasing inflation, higher interest rates, decreasing savings, and sluggish wage growth. When you factor in student loans, it's clear that this will negatively impact people's ability to spend on clothing, as financial pressures continue to mount.

Having mentioned those points, Biden is crafting another plan to reduce most payments for undergraduate loans by 50%, offer one year of leniency for repaying debts, introduce a novel forgiveness program, and have the Department of Education nullify loans for 800k borrowers (amounting to $39b) who have been making payments for either 20 or 25 years.

Rising overdue credit card payments is a growing indicator that consumers are feeling the financial strain of elevated prices and lower savings compared to just a few years ago.



Source: U.S. Federal Reserve Data



Source: New York Fed Consumer Credit Card Panel/Equifax

The Federal Reserve's gauge of credit card debt that is 30 days or more overdue increased by 6.5pp to qoq 7.2% in 2QCY2023, marking the highest rate recorded since 1Q2012. Despite this, they seem to be returning to levels seen before the pandemic. The central bank also noted a reduced demand for issuing new credit cards, which coincides with reports from banks indicating that credit standards are becoming stricter.

Valuation

The Group is trading at a TTM EV/EBITDA of 9.4x, 40% above its peers but about 1 s.d. below 5-year mean. We expect annualized 1H23 valuation to be in line his peers due to strong demand from new and returning orders.

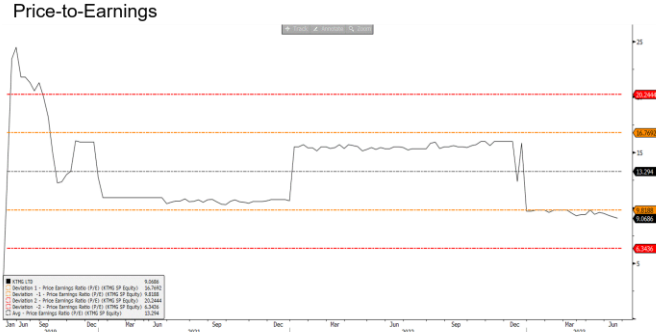
Potential catalyst: garner additional contracts from the leading ten worldwide sports labels, acquire fresh clients within the athleisure sector, enhance profitability through the effective integration of advanced production machinery and outsourcing to Vietnam for production, and faster-than-expected traction for the Shiza and Enchanted brand.

Typically, producing and selling proprietary brands yield a gross margin of c.45% and EBITDA margins of c.15%. Presently, KTMG's gross/net margins stand at 15.2%/3.3% respectively. The successful introduction and faster-than-anticipated popularity growth of the Shiza and Enchanted brands have the potential to elevate the company's overall financial performance.

Company	BBG Ticker	Mkt Cap (S$ 'm)	Revenue (S$ 'm)	EBITDA (S$ 'm)	NI (S$ 'm)	GM (%)	NM (%)	ROE (%)	ROIC (%)	EV/EBITDA (x)	P/E (x)	P/B (x)
KTMG LTD	KTMG SP	32.7	106.3	7.5	3.5	15.2	3.3	5.6	4.8	**9.4**	**27.0**	**1.5**
ZHEJIANG JIAXIN SILK CORP-A	002404 CH	696.3	886.9	55.5	47.2	14.8	5.3	13.2	5.8	-	14.4	1.9
PACIFIC TEXTILES HOLDINGS	1382 HK	437.8	879.6	96.7	47.1	9.8	5.4	8.3	6.6	6.7	9.3	0.8
EVEREST TEXTILE	1460 TT	230.7	453.8	41.9	1.0	17.3	0.2	5.9	1.3	11.5	21.9	0.7
PROLEXUS BHD	PROL MK	25.9	76.2	9.6	2.8	17.3	3.7	10.5	8.6	3.4	2.9	0.3
NAM DINH GARMENT JSC	NJC VN	3.7	33.1	2.0	1.2	17.8	3.7	31.4	8.4	5.1	3.2	0.9
									Mean	6.7	10.3	0.9
									Median	5.9	9.3	0.8

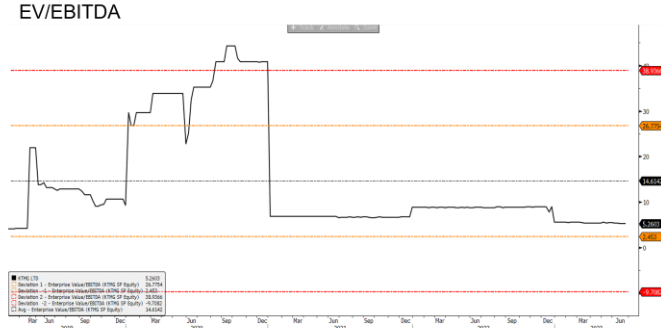
Source: Bloomberg as at 18Aug2023

Price-to-Earnings



Source: Bloomberg

EV/EBITDA



Source: Bloomberg

Price-to-Book

Source: Bloomberg

SAC CAPITAL

Income Statement

FYE 30 Sep (S$m)	FY18A	FY19A	FY20A	FY21A	FY22A
Revenue	**102.6**	**87.6**	**71.0**	**97.8**	**106.3**
Cost of sales	(91.3)	(74.1)	(57.8)	(84.2)	(90.2)
Gross profit (loss)	**11.2**	**13.5**	**13.2**	**13.6**	**16.1**
Admin & general	(4.1)	(7.4)	(4.4)	(4.9)	(6.9)
Sales & Marketing	(3.5)	(5.1)	(2.0)	(2.7)	(2.2)
EBITDA	**3.6**	**1.0**	**6.8**	**5.9**	**7.1**
D&A	(1.4)	(2.0)	(2.2)	(2.2)	(2.2)
Other income	0.2	0.2	0.5	0.3	0.6
EBIT	**2.4**	**(0.8)**	**5.1**	**4.1**	**5.5**
Finance costs	(0.7)	(0.9)	(0.8)	(0.7)	(0.9)
Pretax profit (loss)	1.7	(1.7)	4.2	3.4	4.5
Tax credit (expense)	(0.1)	(0.2)	(1.1)	(1.1)	(0.9)
Non-controlling interest	0.0	0.0	0.0	(0.0)	(0.0)
Net profit (loss)	**1.6**	**(1.9)**	**3.1**	**2.3**	**3.6**

Balance Sheet

FYE 30 Sep (S$m)	FY18A	FY19A	FY20A	FY21A	FY22A
Assets					
Property, plant and equipment	17.2	15.7	14.6	16.6	15.1
Right-of-use assets	0.0	3.7	4.1	3.5	3.0
Subsidiaries	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.2	0.3	0.2	0.1	0.1
Total non-current assets	**17.4**	**19.7**	**19.0**	**20.2**	**18.2**
Inventories	11.1	9.8	10.8	21.6	11.3
Trade and other receivables	22.1	15.9	22.3	27.5	14.5
Tax recoverable	0.4	0.7	0.0	0.3	0.5
Cash and cash equivalents	4.9	3.4	5.0	4.2	6.3
Total current assets	**38.6**	**29.8**	**38.1**	**53.5**	**32.7**
Total Assets	**56.0**	**49.5**	**57.0**	**73.8**	**50.9**
Liabilities					
Borrowings	(5.2)	(3.4)	(2.2)	(2.0)	(0.7)
Lease liabilities	0.0	(1.8)	(2.0)	(1.5)	(0.9)
Deferred tax liabilities	(0.5)	(0.2)	(0.0)	(0.0)	0.0
Total non-current liabilities	**(5.7)**	**(5.3)**	**(4.3)**	**(3.6)**	**(1.7)**
Borrowings	(14.2)	(13.3)	(15.6)	(21.1)	(11.7)
Lease liabilities	0.0	(0.5)	(0.7)	(0.7)	(0.8)
Trade and other payables	(21.3)	(15.0)	(17.4)	(28.0)	(13.8)
Tax payable	0.0	0.0	(0.7)	(0.0)	(0.2)
Total current liabilities	**(35.5)**	**(28.8)**	**(34.3)**	**(49.8)**	**(26.5)**
Total Liabilities	**(41.2)**	**(34.1)**	**(38.6)**	**(53.3)**	**(28.2)**
Net Assets	**14.8**	**15.4**	**18.4**	**20.4**	**22.8**
Equity					
Share capital	4.9	33.2	33.2	33.2	33.2
Retained earnings / (accumulated losses)	0.0	0.0	0.0	6.8	0.0
Foreign currency translation reserve	0.0	0.0	0.0	(0.1)	0.0
Capital reserve	0.0	0.0	0.0	0.6	0.0
Merger reserve	10.0	(17.8)	(14.8)	(20.1)	(10.5)
Owner's Equity	14.8	15.4	18.4	20.4	22.7
Non controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**14.8**	**15.4**	**18.4**	**20.4**	**22.8**

Cash Flow Statement

FYE 30 Sep (S$m)	FY18A	FY19A	FY20A	FY21A	FY22A
Pretax profit (loss)	**1.7**	**(1.7)**	**4.2**	**3.2**	**4.4**
Depreciation of PPE	1.4	1.4	1.5	1.5	1.4
Depreciation of right-of-use assets	0.0	0.6	0.8	0.7	0.7
Loss on disposal of PPE	(0.0)	(0.0)	0.0	0.0	(0.0)
Impairment loss recognised on trade receivables, net	0.0	3.0	0.0	0.2	(0.0)
Interest expense	0.7	0.9	0.8	0.7	0.9
Interest income	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Changes in working capital	(0.4)	0.7	(4.3)	(5.5)	9.0
Income tax paid	0.1	0.0	0.0	0.0	0.0
Income tax refund	(1.3)	(0.7)	(0.5)	(1.8)	(1.1)
Operating cash flow	**2.0**	**4.1**	**2.4**	**(1.0)**	**15.4**
Capex	(3.3)	(1.9)	(0.4)	(2.6)	(0.6)
Others	0.0	0.2	0.0	0.0	0.1
Investing cash flow	**(3.2)**	**(1.8)**	**(0.4)**	**(2.6)**	**(0.5)**
Free cash flow	**(1.2)**	**2.4**	**2.1**	**(3.6)**	**14.9**
Net borrowings	3.0	(2.5)	1.1	4.2	(10.9)
Others	(1.0)	(1.5)	(1.7)	(1.5)	(1.7)
Financing cash flow	**2.0**	**(3.9)**	**(0.6)**	**2.7**	**(12.6)**
Net change in cash & equivalents	**0.7**	**(1.6)**	**1.5**	**(0.9)**	**2.3**

Ratios

FYE 30 Sep (S$m)	FY18A	FY19A	FY20A	FY21A	FY22A
Profitability (%)					
Gross margin	11.0	15.4	18.5	13.9	15.2
EBIT margin	2.3	(0.9)	7.1	4.2	5.1
Liquidity (x)					
Current ratio	1.1	1.0	1.1	1.1	1.2
Interest coverage ratio	0.0	(0.0)	0.1	0.1	0.1
Net Debt to Equity (%)	97.8	86.7	69.8	92.4	26.8
Valuation (x)					
P/E	21.3	-	10.9	15.6	21.3
P/B	2.3	2.2	1.8	1.6	3.2
EV/EBITDA	13.5	45.4	6.5	8.4	11.1
Cash Conversion Cycle (CCC)					
Trade receivable days	78.7	66.4	114.8	102.5	49.9
Inventory days	44.4	48.3	68.1	93.5	45.9
Trade payable days	85.1	73.7	109.6	121.2	55.8
CCC days	38.0	41.0	73.2	74.7	40.0

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Party	**Quantum of position**
Nil	Nil

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Nature of Business Relation	**Date of Business Relation**
Catalist Sponsorship	Continuing

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