

October 15, 2021 07:16 AM GMT

## Makalot Industrial | Asia Pacific

A Good Finish for 3Q21 Profits;  
Stay OW

📈 Stock Rating  
Overweight

📊 Industry View  
In-Line

🎯 Price Target  
NT\$325.00

Sept op. profits of NT\$345mn declined 12% YoY (above MSe of NT\$327mn), while sales declined 7%, due to operating deleverage dragging GPM, which declined ~0.7ppt YoY while absolute opex dollar was flattish YoY (showing Makalot's solid cost control). This led to Sept OPM of 13.8% (the 2nd highest YTD; -0.7ppt YoY). Sept pre-tax profit of NT\$341mn was slightly above MSe.

3Q21 op. profits of NT\$1.02bn beat MSe by 2% (despite the sales miss by 5%) and consensus by 2%. 3Q21 OPM of 12.2% was down 0.6ppt YoY, but still the 2nd highest for a 3Q, above MSe and consensus' 11.4%. 3Q21 pre-tax profit was slightly above MSe and consensus.

Makalot noted the target capacity utilization (UT) rate is 50% for a plant in southern Vietnam and 30% for another plant also in southern Vietnam by end-Oct. It targets to improve such UT rates to ~100% and 60-70%, respectively, by end-Nov and for production to normalize by year-end. We think the worst may be over and recovery is underway. The stock's valuation of 16.1x our 2022e EPS is attractive.

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## Asia Research

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## Makalot Industrial ( 1477.TW, 1477.TT )

Taiwan Consumer and Industrials / Taiwan

Stock Rating	Overweight
Industry View	In-Line
Price target	NT\$325.00
Shr price, close (Oct 15, 2021)	NT\$209.00
52-Week Range	NT\$291.50-161.14
Sh out, dil, curr (mn)	220
Mkt cap, curr (mn)	NT\$45,950
EV, curr (mn)	NT\$46,534
Avg daily trading value (mn)	NT\$486

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## Valuation Methodology and Risks

### **Makalot Industrial (1477.TW)**

Base case value, derived by applying a multiple of 25x to our 2022 EPS estimate. This is 25% higher than its average of 20x in the prior upcycle in 2018-3Q19, reflecting our positive stance on better sales, margins (rising sportswear exposure), and hence earnings growth, which we think should drive further re-rating amid overall industry upcycle

### **Risks to Upside**

- Quick abatement of COVID-19 outbreak
- New non-US customer wins
- ASP and margin expansion via more complex garments
- Better US GDP growth
- Faster order reallocation owing to trade tension

### **Risks to Downside**

- Deterioration in the macro environment
- Significant store shutdowns of key customers
- Drastic appreciation of TWD.
- A less stable Covid-19 situation
- Tariff increases on apparel exports from Vietnam or Cambodia

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(as of September 30, 2021)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1500	43%	399	47%	27%	668	43%
Equal-weight/Hold	1510	43%	380	44%	25%	683	44%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	506	14%	77	9%	15%	192	12%
<b>TOTAL</b>	<b>3,516</b>		<b>856</b>			<b>1543</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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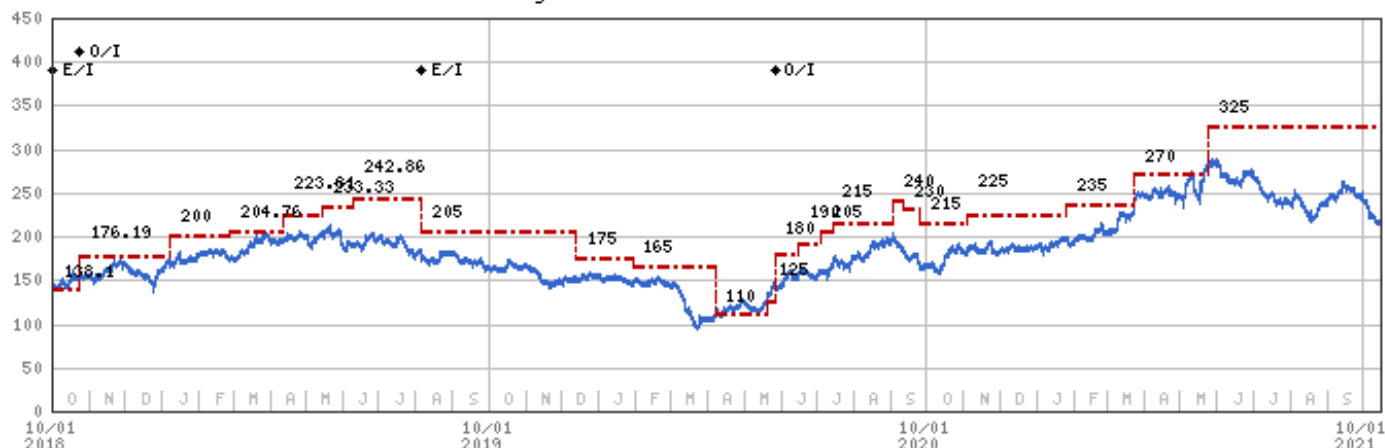
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

### Stock Price, Price Target and Rating History (See Rating Definitions)

Makalot Industrial (1477.TW) - As of 10/14/21 in TWD  
Industry : Taiwan Consumer and Industrials

Stock Rating History: 10/1/18 : E/I; 10/24/18 : O/I; 8/6/19 : E/I; 5/27/20 : O/I

Price Target History: 9/29/16 : 138.1; 10/19/16 : 121.9; 1/8/18 : 119.05; 6/26/18 : 138.1; 10/24/18 : 176.19; 1/7/19 : 200;  
2/26/19 : 204.76; 4/12/19 : 223.81; 5/15/19 : 233.33; 6/10/19 : 242.86; 8/6/19 : 205; 12/13/19 : 175; 1/29/20 : 165; 4/7/20 : 110;  
5/21/20 : 125; 5/27/20 : 180; 6/16/20 : 190; 7/4/20 : 205; 7/14/20 : 215; 9/3/20 : 240; 9/11/20 : 230; 9/25/20 : 215; 11/4/20 : 225;  
1/26/21 : 235; 3/23/21 : 270; 5/25/21 : 325

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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#### INDUSTRY COVERAGE: Taiwan Consumer and Industrials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/15/2021)
<b>Terence Cheng</b>		
Eclat Textile (1476.TW)	O (12/04/2014)	NT\$553.00
Feng Tay (9910.TW)	O (06/26/2018)	NT\$206.50
Giant Manufacturing (9921.TW)	O (05/15/2020)	NT\$311.00
Ginko International (8406.TWO)	O (01/29/2020)	NT\$186.50
Gourmet Master Co. Ltd. (2723.TW)	U (01/29/2020)	NT\$138.00
Makalot Industrial (1477.TW)	O (05/27/2020)	NT\$209.00
Merida Industry (9914.TW)	E (03/28/2016)	NT\$268.00
Nien Made Enterprise (8464.TW)	O (07/23/2021)	NT\$381.00
Pegavision Corporation (6491.TW)	E (07/27/2021)	NT\$541.00
President Chain Store (2912.TW)	U (03/31/2021)	NT\$290.00
St. Shine Optical (1565.TWO)	E (01/28/2021)	NT\$284.50
Taiwan Paiho Limited (9938.TW)	O (06/10/2019)	NT\$76.90
Uni-President Enterprises Corp. (1216.TW)	U (09/03/2020)	NT\$68.10
Universal Vision Biotechnology Co., Ltd (3218.TWO)	O (11/05/2020)	NT\$328.00

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