

28th Feb. 2014

BUY

Share Price

Rs28.85

Market Cap

Rs2.9bn

Year End

30-Jun

NAV

Rs 32.53

Issued Capital

101.8 (m)

12 Months (Rs)**High**

28.90

Low

21.70

Bloomberg

FKL.MP

ISIN Code

MU0071I00004

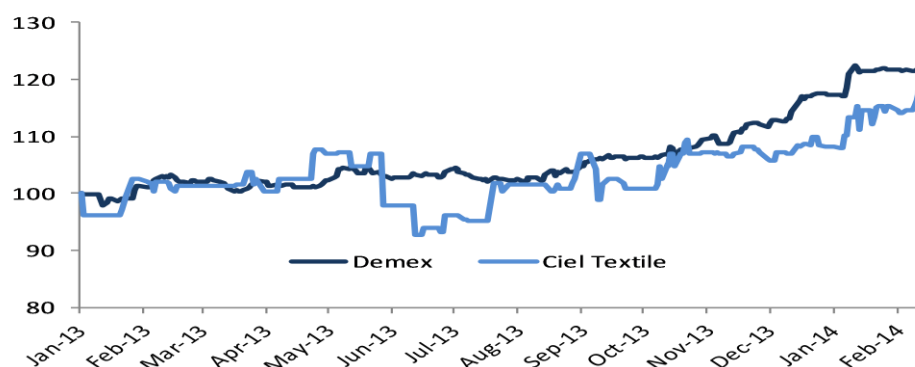
CIEL Textile - Mauritius top textile manufacturing group by turnover

Incorporated in Mauritius in 1971, CIEL Textile Limited (CTL) is the holding company of the CIEL Group's textile cluster and was listed on the stock exchange of Mauritius, on the DEM, in 2006. The group is a global player in textile and garment manufacturing, with foothold in foreign countries as well, such as Madagascar, India and Bangladesh. The group exports nearly 30 million garments pieces, produces around 25 million metres of woven and knitted fabrics, and spins 1,500 tons of woollen yarn per year. CTL successfully went for the internationalization of its operation with 39% of turnover generated from Mauritian operations, 34% from Madagascar and 27% from Asia (India and Bangladesh). Profit from international operations amounts to 65%. Its main market for exportation is Europe (60%), followed by India and South Africa which together account for 25% of CTL's exports, and the USA (15%). Key customers of CTL include big international brand names such as Hugo Boss, Levi's, Marks and Spencer, Woolworths and Zara.

Financials (Rs m.)	2009	2010	2011	2012	2013	2014F
Turnover	6863	7,054	7,876	8,643	8,686	9,381
Operating Profit	158	402	353	698	660	750
Net Finance costs	(100)	(119)	(95)	(88)	(54)	(71)
Profit after tax	49	229	214	516	514	578
Attributable profits	25	213	210	476	462	528
Ratios	2009	2010	2011	2012	2013	2014F
EPS (Rs)	0.24	2.09	1.86	4.50	4.51	5.18
DPS (Rs)	0.37	0.45	0.55	1.00	1.50	2.00
PER (x)	20.00	4.78	8.60	3.56	4.99	5.54
Dividend Yield	7.7%	4.5%	3.4%	6.3%	6.7%	7.0%
Price/Book Value (x)	0.23	0.42	0.65	0.57	0.73	0.84
NAV (Rs)	20.64	24.09	24.57	28.24	31.01	34.19
Operating Margin	2.3%	5.7%	4.5%	7.6%	8.0%	8.0%
Net Margin	0.7%	3.3%	2.7%	6.0%	5.9%	6.2%

Performance – Impacted by restructuring of operations and debt reduction

For the year ended 30 June 2013, the Group reported stable profits with the woven cluster (Aquarelle Group) being the main contributor (62%). Finance costs fell by 37.9% as the Group redeemed Preference shares of Rs405m during the year. For the half year ended 31 December 2013, the Group profits were up by 36.4% with the Knitwear, Knits & Retail cluster doubling its earnings. The restructuring exercise carried out in the last couple of years has proven to be beneficial, along with the globalisation strategy implemented to better serve CTL's Western clients expansion in the East. 2012 saw 70% growth in operating margin compared to 2011. Improved gearing level as from 2011 (31.6% in FY2013) lead to reduced Net Finance Costs which stood at Rs54m in 2013. DPS grew by 82% in 2012 to Rs1.00 and 50% in 2013 to Rs1.50.



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Reorganisation of Ciel Textile's main shareholders in 2013

Last year, a reorganisation exercise was undertaken within Deep River Investment (DRIL) which was the holding company of CTL (25.70% stake) and CIEL Investment, where DRIL and CIEL Investment were listed on the secondary (DEM) market of the Stock Exchange of Mauritius. Through transactions effected last year, DRIL became the main shareholder of CTL, which then triggered a mandatory takeover as per Securities Rule. Thereby, DRIL acquired further 4.6m shares of CTL and its effective shareholding rose to 47.49%.

Moreover in January 2014, Ciel Investment amalgamated with and into DRIL, whereby the latter was the surviving company and was rebranded as CIEL Limited. The new amalgamated entity (*current market cap. Rs8.7bn*), which owns 56% of CTL was quoted on the Official market on the 4th Feb. 2014. Thus, an investor can have both direct and indirect exposure to Ciel Textile shares on the stock exchange.

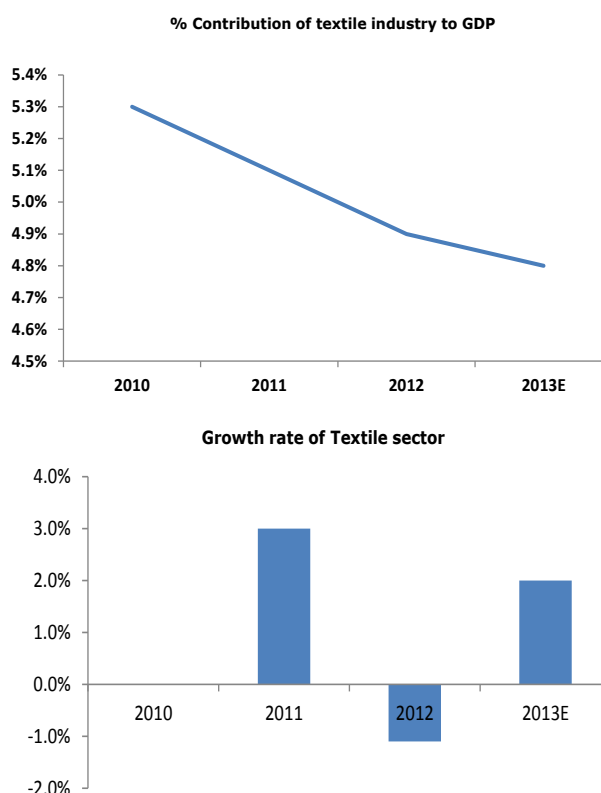
Brief Overview of the Global Textile Industry

Mauritius – A competitive player which has benefitted from duty and quota free access

Forty years back, the first apparel company was set up in September 1971. Since then, the Mauritian Textile & Apparel (T&A) sector faced several challenges and has emerged as a high-tech, dynamic, modern, vertically integrated sector. The textile sector constitutes one of the main pillars of the Mauritian economy contributing to 50% of total exports of goods, and employs 40000 people annually. Its contribution to the GDP was estimated to 4.8% in 2013 declining from 5.3% in 2010. The sector saw mixed performance during the recent years. There was no growth in 2010, followed by a 3.0% growth in 2011 and declining by 1.0% in 2012. According to Statistics Mauritius the textile industry is expected to grow by 2.0% in 2014 same as in 2013.

Mauritius benefitted from the increasing demand of South Africa while its traditional EU and US market were slowing down. South African clothing imports increased by 53.5% between 2008/09 and 2012/13, from R8,079M to R12,399M (US\$1,457M). China, Mauritius and Madagascar were the sources of 99.8% of the growth of imports into South Africa in absolute terms over the four-year period. Imports from China grew by 59.0%; imports from Mauritius soared by 188.9% and imports from Madagascar surged by a staggering 644.7%.

(Source: Statistics Mauritius)



African Growth and Opportunity Act (AGOA)

AGOA provides beneficiary Sub-Saharan African countries with duty-free access to the U.S. market for apparel, subject to specific rules of origin and other administrative requirement. This commercial relationship is set to expire in 2015 and Mauritian companies may no longer be competitive without the preferential access. However, there are discussions in order to extend it further.

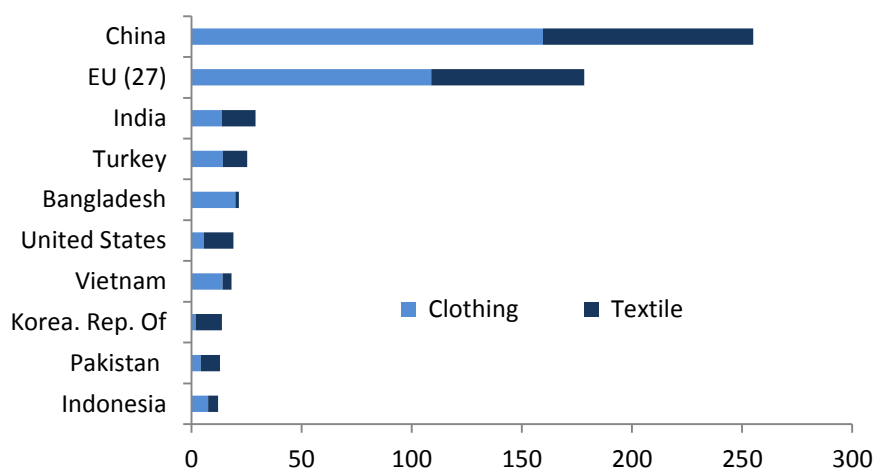
Top Textile Manufacturing Companies - Mauritius	Turnover (Rs m.)	Financial Year
Ciel Textile	8,643	30/06/2012
Compagnie Mauricienne de Textile Ltee	5,114	31/07/2012
Esquel (Mauritius) LTD	3,038	31/12/2012
Denim de L'île Ltd	1,851	30/06/2011
World Knits Ltd	1,200	30/06/2012
Firemount Textiles Ltd.	1,093	30/06/2012
Star Knitwear Group Ltd	983	30/09/2012
RT Knits Ltd.	956	30/06/2012
FM Denim CO Ltd	623	30/06/2012
Original Confection Ltd	362	30/06/2011

China – Largest exporter for textile and clothing

According to the World Trade Organization, global export of textile and clothing stagnated in 2012 after posting a growth of 17% in 2011 and 14.6% in 2010. Textile exports accounted for US\$286bn (down by 3% from 2011) and clothing exports totaled US\$423bn (increase of 1% from 2011).

China remains the leading exporter, accounting for 33% of textile exports (2011: 32%) and 38% of clothing exports (2011: 37%). Textile imports amounted to US\$302bn while clothing represented US\$442bn. European Union and United States remain the major markets for clothing accounting for 38% and 20% of global imports respectively.

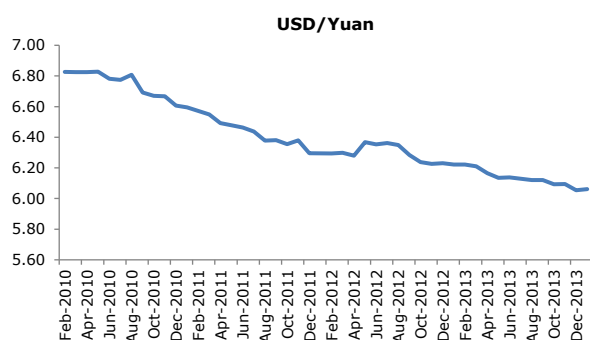
Major exporters of textiles & clothing 2012 (USD bn.)



Source: World Trade Organisation International Trade Statistics 2013

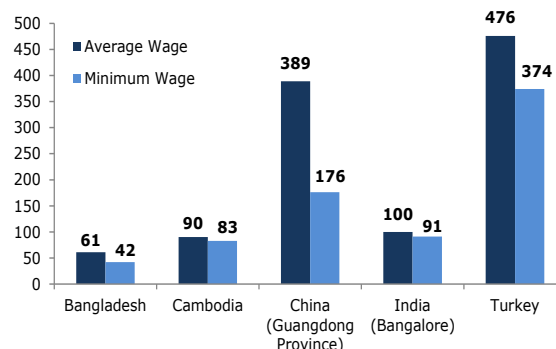
China is known to be the largest producer and exporter of textile and clothing sector and the country gained impetus following its accession to the World Trade Organisation. The global share of China's textile and clothing has increased from 2.6% in 1970 to approximately 36% in 2012.

However, recent appreciation of the Yuan (+2.9% vis-a-vis USD dollar in 2013) together with rapidly rising labour costs and environment restrictions in terms of tougher pollution control norms have put Chinese manufacturers in a much less competitive position. Competition from very low-cost nations in Africa as well as Vietnam, Sri Lanka, Mauritius, Malaysia, Cambodia, Bangladesh, Pakistan amongst others is strong and a large share of apparel manufacturing previously in China is moving towards these areas.



Source: bloomberg

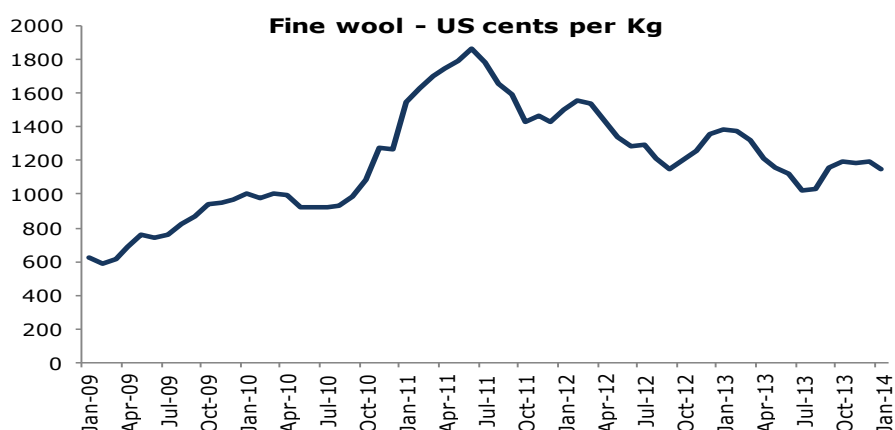
Applicable monthly minimum wages vs average wages (USD)



Source: Bloomberg – Hannes & Mauritz Sustainability Report March 2013

Prices of raw materials have an impact on textile and clothing trends. World wool production has remained relatively flat since 2009 and figures presented at International Wool Textile Organisation congress projected a decline of 1.5% in production for 2014. Moreover wool prices have been quite volatile in 2013 partly due to increase in US\$ against the currencies of some of the world's major wool producing countries. Hence, prices for fine wool in 2014 will largely be dependent on improved global economic conditions, increased consumer demand or a reduction in supply.

Another widely used raw material for textile and clothing is cotton and latest estimates projects world cotton consumption at 109.5m bales where the top four cotton spinning countries China, India, Pakistan and Turkey are predicted to account for 70% of world's cotton mill use in 2013/2014. Global cotton production is projected at 117.4m bales, whereby forecast is 3% below 2012/2013 and 6% below 2011/2012's record. Hence, this reflect the surplus of global cotton stock and as per of its internal policy of stockpiling China has been absorbing extra supplies from the world market, thus supporting global prices. Therefore prices of cotton will be largely influenced by the disposition of the Chinese government stocks.

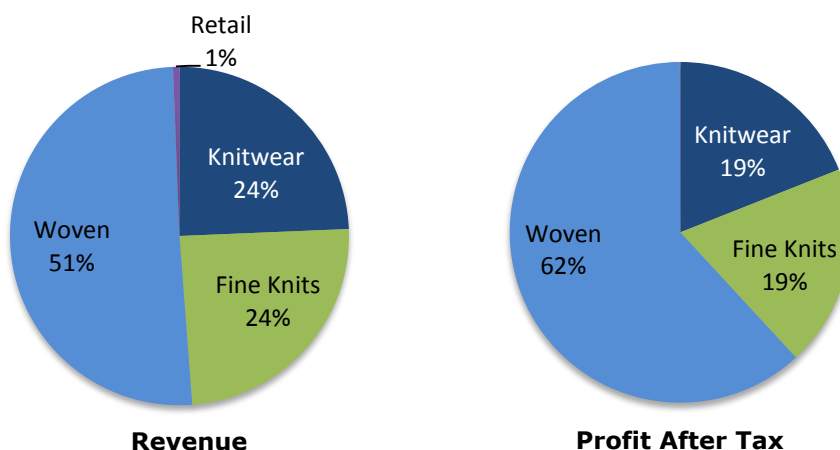


Source: indexmundi.com

For 2014, key markets namely United States and European Union which were reeling under recessionary condition in 2013, are showing signs of revival. Hence, there is an anticipation of improvement in demand for textiles and prices of raw materials as well exchange rates will also influence the demand for these products.

Cluster Analysis

CIEL Textile's activities are carried out mainly within the three following clusters; Woven, Knitwear and Fine Knits. As illustrated below, the **Woven** activities, carried out in and beyond Mauritius under the holding entity Aquarelle Clothing Ltd contributed the most to both revenue and profits in the last years, mainly due to sales from its manufacturing units in India. However, the **Knitwear** Cluster which has performed well in the last couple of years, being the main contributor to CTL's profits before 2012, was subjected to drop in profitability in 2013 on the back of lower margins and regional sales. As for the **Fine Knits** segment, the impact of restructuring of its operations was witnessed as from 2012 where it saw a significant turnaround in profits, which was sustained in 2013. The Knitwear and Fine Knits order books are more subjected to seasonality in their main export markets. To pursue its growth strategy, CTL is planning to invest around Rs600m in 4 new production units which will allow it to expand to 35-40million of garment pieces production.



Woven

The woven cluster is involved in the production of men's casual and formal shirts, ladies blousing and kids shirting. The aim of this cluster has been to position itself as the best alternative to China via its multi operations in Mauritius (25% of total production), Madagascar (25%), India (40%) and Bangladesh (10%), via 9 production units which delivered 12 million pieces of garments and 8000 metres of woven fabrics in 2013. This strategy has served CTL, through its entities operating under Aquarelle Clothing Ltd very well in the last few years, especially production activities in India. The Indian operations are in joint venture with Laguna Clothing Ltd, a textile company based in India, which contributed to 45% of Aquarelle's turnover in 2013. A new line of business has recently been launched; the ladies blouse manufacturing and sale. The cluster is vertically integrated with its own weaving mill, but also sources yarn from different regions globally, so as to ensure that the most competitive prices are offered.

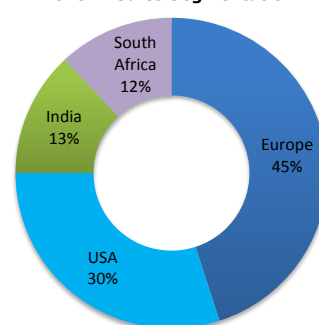
In the short to medium term, growth in sales from local and Asian operations in the medium term will still depend on China's rising costs as well as the appreciation of the Yuan against the US Dollar, where importation from the USA and Europe had shifted to a certain extent to other Asian manufacturing units in the last few years. To ensure sustainable growth in the longer term, an annual growth of 20% in revenue is being targeted for Aquarelle in the next 4-5 years, which management is confident about due to investments made in India and Bangladesh in the previous years. High capital expenditure will likely be incurred within this cluster, whereby the implantation of another factory in a South East Asian country is being envisaged within the next three years, in order to be closer to the cluster's clients, but to also supply the USA, Japan and China.

Woven				
Rs' 000	FY 2010	FY 2011	FY 2012	FY 2013
Revenues from external customers	3,093,881	3,498,070	4,457,721	4,393,617
Segment Profit	121,666	179,543	381,221	421,420
Net Finance Costs	(22,823)	(59,952)	(40,318)	(15,843)
PBT	98,843	119,591	340,903	405,577
Taxation	(28,722)	(16,332)	(71,979)	(87,835)
PAT	70,121	103,259	268,924	317,742
Operating Margin	4%	5%	9%	10%
Net Margin	2%	3%	6%	7%

Main entities operating under the Woven Cluster

- Aquarelle Clothing Limited – Casual Shirt production
- Aquarelle International Ltd
- Aquarelle (India) Private Ltd
- Aquarelle Madagascar SA
- Laguna Clothing Ltd (India) and Laguna Clothing (Mauritius) Ltd – Formal Shirt production
- Consolidated Fabrics Limited – Woven fabric production

Woven - Sales Segmentation



Knitwear

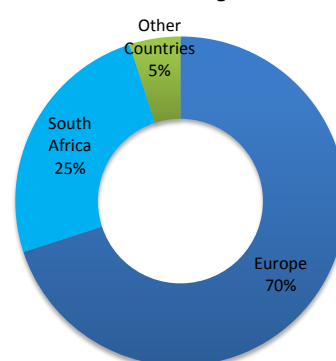
The knitwear cluster, which is the second largest Woolmark knitwear supplier in the world, consists of the production of high quality sweaters through the use of wool, merino and cashmere. The cluster has 5 production units across Mauritius, Madagascar and Bangladesh and operates at a capacity of 5.5million sweaters per annum and 2000 tons of Woollen carded yarns. It has its own vertically integrated woollen spinning mill, the Ferney Spinning Mills, which supplies 70% of its yarn needs. Fine quality yarns are imported from Europe, the Far East and Africa.

The South African market benefitted the Knitwear cluster to a considerable extent, given the challenging trading environment in Europe during the last few years. However, the Rand depreciation naturally impacted margins as well. Management is planning to enter new territories such as Germany and the USA as part of their growth strategy for the Knitwear cluster, along with shifting towards higher value products, such as cashmere, which should generated higher margins. Additionally, given the sensitive and complex manufacturing process involved in the knitwear garment production and the importance of supplying fine quality products with rapidity and flexibility, a shift towards increased automation of processes is also on CTL management agenda. A new production unit in Madagascar is also being envisaged.

Knitwear				
Rs' 000	FY 2010	FY 2011	FY 2012	FY 2013
Revenues from external customers	2,232,878	2,261,710	2,135,137	2,114,074
Segment Profit	265,190	171,593	207,357	121,471
Net Finance Costs	(47,296)	(30,128)	(34,644)	(27,637)
PBT	217,894	141,465	172,713	93,834
Taxation	(8,495)	(2,896)	(19,288)	3,784
PAT	209,399	138,569	153,425	97,618
Operating Margin	12%	8%	10%	6%
Net Margin	9%	6%	7%	5%

FY2010 has exceptional profit of Rs96m on disposal of property. FY 2012 has exceptional write back of expenses amounting to Rs13m.

Knitwear - Sales Segmentation



Main entities operating under the Knitwear Cluster

- Floreal Knitwear Limited – Knitwear Production
- Floreal Madagascar Ltd
- Ajax Sweaters Ltd
- Floreal International Ltd
- Ferney Spinning Mills Limited – Yarn Production

Fine Knits

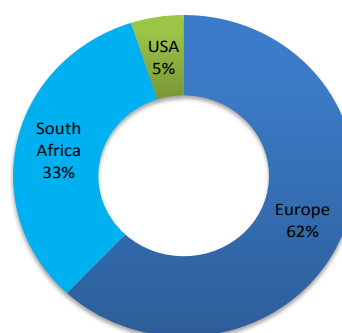
The vertically integrated fine knits cluster is involved in the production of T-shirts, Polo, Fancy and Rugby garments producing some 12.6 million pieces per annum and 3,900,000kg of fabric, via its production units in Mauritius and Madagascar. The cluster has undertaken a deep restructuring in operations, sales and marketing which has contributed to turnaround the cluster. This cluster now focuses on higher margin clients with 65% of its turnover now being generated from its top 5 customers. Going forward, the globalisation strategy already adopted by CTL's Woven operations shall be mirrored by the Fine Knits cluster as well. Hence, capital expenditure in the next few years is to be expected. In the short to medium term, management will be targeting high margin clients.

	Fine Knits			
Rs' 000	FY 2010	FY 2011	FY 2012	FY 2013
Revenues from external customers	1,651,702	2,046,457	1,968,435	2,124,698
Segment Profit	(46,226)	6,198	107,921	115,740
Net Finance Costs	(12,760)	(8,435)	(11,940)	(10,172)
PBT	(58,986)	(2,237)	95,981	105,568
Taxation	(20,617)	963	(3,442)	(7,119)
PAT	(79,603)	(1,274)	92,539	98,449
Operating Margin	-3%	0.3%	5%	5%
Net Margin	-5%	-0.1%	5%	5%

Main entities operating under the Fine Knits Cluster

- Tropic Knits Limited – Garments Production
- TKL International Ltd
- Tropic Madagascar SA
- Consolidated Dyeing & Fabrics Limited – Dyed fabrics production

Fine Knits - Sales Segmentation



Retail

There is also the Retail segment which comprises of sales outlets around the island commercialising the brand Harris Wilson. New international brands which have entered the Mauritian market have impacted negatively on sales last year. Cost management has been carried out through the relocation of storage and administration units and reduction of floor space of their biggest outlet. A new multi brand outlet is being planned within the Bagatelle shopping mall, which is one of the most visited shopping venue in Mauritius.

	Retail			
Rs' 000	FY 2010	FY 2011	FY 2012	FY 2013
Revenues from external customers	75,521	70,003	61,890	53,338
Segment Profit	(4,143)	(250)	1,812	959
Net Finance Costs	(673)	(586)	(730)	(724)
Impairment of non current receivables	-	(27,271)	-	-
Share of results of associates	2,030	870	-	-
PBT	(2,786)	(27,237)	1,082	235
Taxation	302	1,150	(82)	(7)
PAT	(2,484)	(26,087)	1,000	228
Operating Margin	-5%	-0.4%	3%	2%
Net Margin	-3%	-37%	2%	0.4%

Q2 2014 Results (ending 31 Dec.2013)

Turnaround of profit from the knitwear cluster boost quarterly results of CIEL Textile

The Group was able to increase both its turnover and margins. Turnover grew by 15.9% to Rs2.2bn while operating margins expanded from 4.7% to 6.5% leading to a growth of 65.0% in operating profit. The Knitwear, Knits and Retail cluster reported a turnaround of profit from losses of Rs5.6m to profits of Rs37.9m. However, earnings from Woven cluster fell by 12.3% to Rs53.4m. Net profit grew by 65.1% to Rs91.3m.

Rs M	Quarter ended Dec		
	2013	2012	%Δ
Turnover	2245.1	1937.8	15.9%
Operating profit	151.3	91.7	65.0%
Net Finance costs	20.0	12.4	61.3%
Taxation	27.2	17.6	54.5%
Profit for the period	104.0	61.7	68.6%
EPS (Rs)	0.9	0.5	66.7%
Operating Margin	6.7%	4.7%	
Net profit Margin	4.6%	3.2%	
Segment Revenue			
Knitwear	984.4	901.9	9.1%
Woven	1260.7	1035.9	21.7%
Segment Profit			
Knitwear	37.9	(5.6)	from loss to profit
Woven	53.4	60.9	-12.3%

Bull & Bear Case

BULL CASE

- Successful internationalization strategy allows competitiveness in terms of production costs.
- Furthering of operations in Asia to better serve new markets such as Japan and China.
- The Group intends to focus on niche products on which higher margins can be achieved.
- Management is determined to keep improving the infrastructure within the Knitwear and Fine Knits clusters, in order to achieve the standard of the Woven (Aquarelle) cluster.
- Able to invest in new products, such as Non-Iron shirts, which are technologically complex.
- The stock has healthy fundamentals with price earnings multiples of 5.5x and dividend yield of 7.0%

BEAR CASE

- The Company has very thin margins due to the high costs associated to such a capital intensive business. Given the planned high capex, gearing and finance costs will thus increase.
- Any appreciation of the Indian Rupee will lead to higher production costs and hence may lower the competitive edge compared to China, notwithstanding the service and product quality offered.
- Furthermore, any depreciation of CTL's export revenue currencies (EUR, USD, ZAR and GBP) will impact negatively on the Group's revenue and margins.
- Sensitive to increase in commodity prices such as wool and cotton.
- Lower competitive edge if AGOA expires in 2015 and is not renewed.
- Order book is reliant on external seasonal factors in export markets, such as the longer winter period witnessed in the West in 2013, which impacted CTL's results to a certain extent.

Recommendation

Based on our estimated EPS of Rs5.2 for FY 2014, the stock is trading at forward PER of 5.5x. The management of the Company announced a dividend per share of Rs2.00 for the FY 2014 representing a dividend yield of 7.0%. Despite unstable political climate in Madagascar and slowdown of the economy in Europe and USA, CTL posted a commendable performance during the last years. The IMF expects Euro area to come out of recession in 2014 with a projected real GDP growth of 1.0% (-0.4% in 2013) while forecasts for economic growth in USA stands at 2.6% (2013 1.6%). CTL has a five year strategic plan for the Aquarelle Group which aims at doubling its turnover over the next 5-7 years (20% annual growth), with Asia representing about 65% of total turnover, and continuous 'upmarket' move and more penetration in niche products. This strategy is a continuation of the group's Globalisation process and will be mirrored by the Knitwear and Fine Knits clusters. We believe that recent improvement in the political situation in Madagascar and economic recovery of Europe and USA should give another boost to the Group's performance going forward. We have a **buy** recommendation for the stock which is also improving its cash flow generation and currently has a low debt level.