Daiwa Capital Markets Hong Kong Limited

Makalot Industrial (1477 TT)

Target price: **TWD232.00** (from TWD275.00)

Share price (31 Jul): **TWD219.50** | Up/downside: **+5.7%**

5 4 3 2 1

Hold
(unchanged)

2Q26 review: order uncertainty continues

- 2Q26 results beat our forecast but missed the Bloomberg consensus
- 3Q26 guidance was lowered previously on macro uncertainties
- Maintaining our Hold (3) call; lowering 12-month TP to TWD232

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What's new: Makalot released its updated 2Q26 results on 31 July. We provide an update on its outlook for 3Q26 and 2026 (*see our previous memo* on 26 May).

What's the impact: **2Q26 results beat our forecast but missed the Bloomberg consensus.** Makalot's 2Q26 revenue of TWD8,166m (-8.2% QoQ, +6.2% YoY) was in line with our forecast but slightly missed the consensus estimate. Its 2Q26 gross margin was 24.4% (vs. 26.1% in 1Q26, 22.0% in 2Q25), beating our estimate of 24.0% but was in line with the consensus estimate of 24.5%. Its operating margin of 13.3% (vs. 15.5% in 1Q26, 12.2% in 2Q25) was higher than our estimate of 12.3% while missing the consensus estimate of 14.0%. Therefore, operating profit of TWD1,086m (-21.1% QoQ, +15.4% YoY) beat our forecast by 9.3% and missed the consensus by 7.9%. Its pre-tax profit of TWD1,072m (-21.0% QoQ, +31.0% YoY) beat our estimate by 11.5% and missed the consensus estimates by 9.0%. Its net income was TWD814m (-24.1% QoQ, +32.2% YoY), 8.2% higher than our forecast but 9.9% lower than the consensus. Its 2Q26 EPS ended at TWD3.3.

Unchanged 3Q26 outlook. Due to geopolitical uncertainties and structural shifts in pricing dynamics, Makalot maintained its 3Q26 guidance: shipments to grow by a mid-single digit rate (4-5%) YoY and ASP to decline by 3%, with a gross margin target of 24%. For 2026, it expects growth in both revenue and net profit. For 2026 shipments, it guides for a low-single digit rate of growth YoY with flat ASP YoY and gross margin of 25%. We lower our 2026-27E EPS after 2-6% factoring in 2Q26 results with a more conservative operating margin assumption. We introduce our 2028 forecasts.

What we recommend: We maintain our Hold (3) rating but lower our 12-month TP to TWD232 (from TWD275), now based on a target PER of 15x (from 18x), near the average (19x) of its past-3-year PER trading range of 14-26x on top of its earnings momentum and order uncertainty in an inflationary environment and applied to our 1-year-forward EPS forecast. However, we believe its dividend yield of 6.8-7.5% over 2026-28E should be its share price support. Key upside/downside risks: higher-/fewer-than-expected orders from key clients, inflation and tariffs.

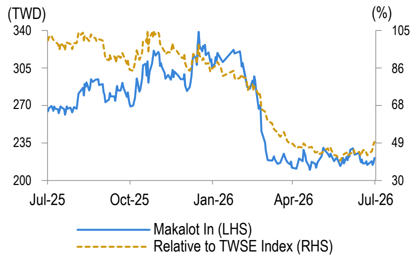
How we differ: Our 2026-28E EPS are 8-15% below the Bloomberg consensus, likely due to our more conservative revenue, gross and operating margin expansion assumptions.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	(1.0)	(1.0)	n.a.
Net profit change	(2.3)	(5.8)	n.a.
Core EPS (FD) change	(2.3)	(5.8)	n.a.

Source: Daiwa forecasts

Share price performance



12-month range	210.00-338.50
Market cap (USDbn)	1.67
3m avg daily turnover (USDm)	18.35
Shares outstanding (m)	247
Major shareholder	Li-Pian Zhou (Chairman) (2.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	34,799	36,539	38,366
Operating profit (m)	4,802	5,152	5,563
Net profit (m)	3,707	3,926	4,254
Core EPS (fully-diluted)	14.966	15.847	17.173
EPS change (%)	2.6	5.9	8.4
Daiwa vs Cons. EPS (%)	(8.1)	(11.3)	(15.3)
PER (x)	14.7	13.9	12.8
Dividend yield (%)	6.8	7.2	7.5
DPS	15.0	15.9	16.4
PBR (x)	3.8	3.7	3.5
EV/EBITDA (x)	9.9	9.2	8.5
ROE (%)	26.1	27.0	28.2

Source: FactSet, Daiwa forecasts

Flash

Daiwa Capital Markets Hong Kong Limited

Makalot: revenue and earnings forecasts revisions

	2026E			2027E			2028E		
(TWDm)	New	Previous	Change	New	Previous	Change	New	Previous	Change
ASP (TWD/dozen)	1,907	1,888	1.0%	1,907	1,888	1.0%	1,907	n.a.	n.a.
Shipments (m dozen)	18.25	18.61	-1.9%	19.16	19.54	-1.9%	20.12	n.a.	n.a.
Sales	**34,799**	**35,133**	-1.0%	**36,539**	**36,890**	-1.0%	**38,366**	**n.a.**	**n.a.**
Gross profit	**8,700**	**8,783**	-1.0%	**9,208**	**9,407**	-2.1%	**9,783**	**n.a.**	**n.a.**
Gross profit margin	*25.0%*	*25.0%*	*0pp*	*25.2%*	*25.5%*	*-0.3pp*	*25.5%*	*n.a.*	*n.a.*
Operating profit	**4,802**	**4,954**	-3.1%	**5,152**	**5,423**	-5.0%	**5,563**	**n.a.**	**n.a.**
Operating profit margin	*13.8%*	*14.1%*	*-0.3pp*	*14.1%*	*14.7%*	*-0.6pp*	*14.5%*	*n.a.*	*n.a.*
Net profit	**3,707**	**3,793**	-2.3%	**3,926**	**4,168**	-5.8%	**4,254**	**n.a.**	**n.a.**
Net profit margin	*10.7%*	*10.8%*	*-0.1pp*	*10.7%*	*11.3%*	*-0.6pp*	*11.1%*	*n.a.*	*n.a.*
Diluted EPS (TWD)	**14.97**	**15.32**	-2.3%	**15.85**	**16.83**	-5.8%	**17.17**	**n.a.**	**n.a.**

Source: Daiwa forecasts

Makalot: 2Q26 results review

(TWDm)	2Q26 results	Our forecast	Differ	Bloomberg consensus	Differ
Revenue	8,166	8,100	0.8%	8,413	-2.9%
Gross profit	1,990	1,944	2.4%	2,057	-3.3%
Operating profit	1,086	994	9.3%	1,179	-7.9%
Profit before tax	1,072	961	11.5%	1,178	-9.0%
Net profit	814	753	8.2%	904	-9.9%
Basic EPS	3.30	3.05	8.2%	3.61	-8.4%
Margin					
Gross margin	24.4%	24.0%	0.4pp	24.5%	-0.1pp
Operating margin	13.3%	12.3%	1pp	14.0%	-0.7pp
Pre-tax margin	13.1%	11.9%	1.3pp	14.0%	-0.9pp
Net margin	10.0%	9.3%	0.7pp	10.7%	-0.8pp

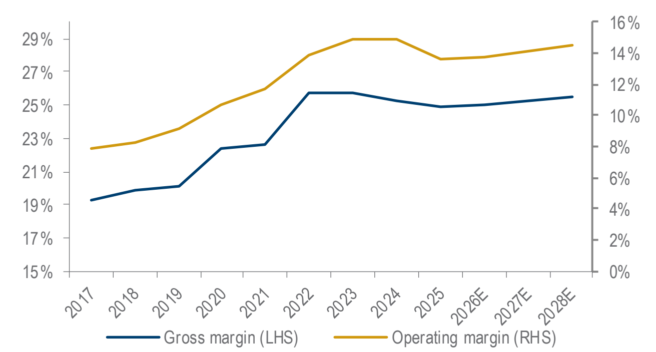
Source: Company, Bloomberg, Daiwa forecasts

Makalot: quarterly P&L

	2026E				2027E				2026E	2027E	2028E
(TWDm)	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E			
Revenue	8,897	8,166	9,000	8,736	9,100	8,600	9,500	9,339	34,799	36,539	38,366
Gross profit	2,326	1,990	2,160	2,224	2,366	2,124	2,309	2,409	8,700	9,208	9,783
Operating profit	1,377	1,086	1,210	1,129	1,366	1,174	1,309	1,303	4,802	5,152	5,563
Pre-tax profit	1,357	1,072	1,188	1,107	1,332	1,141	1,275	1,270	4,724	5,018	5,429
Net profit	1,073	814	928	891	1,044	890	998	994	3,707	3,926	4,254
Basic EPS (TWD)	4.35	3.30	3.76	3.61	4.23	3.61	4.04	4.03	15.03	15.91	17.24
Margin											
Gross margin	26.1%	24.4%	24.0%	25.5%	26.0%	24.7%	24.3%	25.8%	25.0%	25.2%	25.5%
Operating margin	15.5%	13.3%	13.4%	12.9%	15.0%	13.7%	13.8%	14.0%	13.8%	14.1%	14.5%
Pre-tax margin	15.3%	13.1%	13.2%	12.7%	14.6%	13.3%	13.4%	13.6%	13.6%	13.7%	14.2%
Net margin	12.1%	10.0%	10.3%	10.2%	11.5%	10.4%	10.5%	10.6%	10.7%	10.7%	11.1%
YoY											
Revenue	-10.3%	6.2%	1.2%	10.2%	2.3%	5.3%	5.6%	6.9%	1.1%	5.0%	5.0%
Gross profit	-15.7%	17.4%	8.4%	5.0%	1.7%	6.8%	6.9%	8.3%	1.6%	5.8%	6.3%
Operating profit	-12.8%	15.4%	10.8%	5.8%	-0.8%	8.1%	8.1%	15.5%	2.6%	7.3%	8.0%
Pre-tax profit	-16.1%	31.0%	9.8%	3.1%	-1.8%	6.4%	7.3%	14.7%	2.9%	6.2%	8.2%
Net profit	-15.5%	32.2%	8.2%	2.5%	-2.8%	9.3%	7.5%	11.5%	2.6%	5.9%	8.4%
QoQ											
Revenue	12.2%	-8.2%	10.2%	-2.9%	4.2%	-5.5%	10.5%	-1.7%			
Gross profit	9.8%	-14.5%	8.6%	3.0%	6.4%	-10.2%	8.7%	4.4%			
Operating profit	29.1%	-21.1%	11.4%	-6.7%	21.0%	-14.0%	11.4%	-0.4%			
Pre-tax profit	26.4%	-21.0%	10.9%	-6.9%	20.4%	-14.4%	11.8%	-0.4%			
Net profit	23.5%	-24.1%	14.0%	-4.0%	17.1%	-14.7%	12.1%	-0.4%			

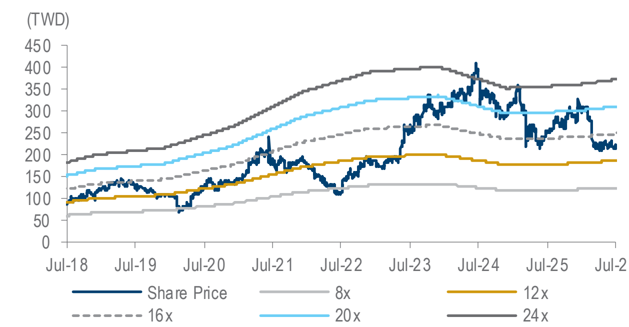
Source: Company, Daiwa forecasts

Makalot: margin trend



Source: Company, Daiwa forecasts

Makalot: 1-year-forward PER bands



Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
ASP (TWD) (dozen)	1,732.4	1,980.4	1,932.1	1,995.7	1,907.0	1,907.0	1,907.0	1,907.0
Shipments (m dozen)	16.7	16.2	16.8	17.8	18.1	18.2	19.2	20.1
Consolidated gross margin (%)	22.6	25.7	25.8	25.3	24.9	25.0	25.2	25.5

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
US	22,855	23,421	22,721	24,867	24,118	24,359	25,577	26,856
Japan	4,918	5,775	6,167	6,394	6,202	6,264	6,577	6,906
Other Revenue	1,157	2,887	3,570	4,263	4,108	4,176	4,385	4,604
Total Revenue	**28,931**	**32,083**	**32,459**	**35,524**	**34,428**	**34,799**	**36,539**	**38,366**
Other income	0	0	0	0	0	0	0	0
COGS	(22,396)	(23,827)	(24,092)	(26,532)	(25,864)	(26,099)	(27,331)	(28,583)
SG&A	(3,154)	(3,824)	(3,527)	(3,691)	(3,883)	(3,897)	(4,056)	(4,220)
Other op.expenses	0	0	0	0	0	0	0	0
Operating profit	**3,381**	**4,432**	**4,840**	**5,300**	**4,681**	**4,802**	**5,152**	**5,563**
Net-interest inc./(exp.)	(74)	(155)	(189)	(272)	(242)	(260)	(260)	(260)
Assoc/forex/extraord./others	91	313	376	215	154	181	126	126
Pre-tax profit	**3,398**	**4,589**	**5,027**	**5,243**	**4,592**	**4,724**	**5,018**	**5,429**
Tax	(720)	(1,049)	(992)	(1,071)	(922)	(949)	(1,008)	(1,091)
Min. int./pref. div./others	(23)	(25)	(44)	(57)	(55)	(67)	(84)	(84)
Net profit (reported)	**2,655**	**3,515**	**3,991**	**4,115**	**3,614**	**3,707**	**3,926**	**4,254**
Net profit (adjusted)	**2,655**	**3,515**	**3,991**	**4,115**	**3,614**	**3,707**	**3,926**	**4,254**
EPS (reported)(TWD)	**11.195**	**14.532**	**16.502**	**16.680**	**14.650**	**15.028**	**15.913**	**17.245**
EPS (adjusted)(TWD)	**11.195**	**14.532**	**16.502**	**16.680**	**14.650**	**15.028**	**15.913**	**17.245**
EPS (adjusted fully-diluted)(TWD)	**11.151**	**14.450**	**16.432**	**16.608**	**14.587**	**14.966**	**15.847**	**17.173**
DPS (TWD)	**9.500**	**14.500**	**16.400**	**17.100**	**15.000**	**15.028**	**15.913**	**16.383**
EBIT	**3,381**	**4,432**	**4,840**	**5,300**	**4,681**	**4,802**	**5,152**	**5,563**
EBITDA	**3,912**	**4,994**	**5,388**	**5,865**	**5,288**	**5,343**	**5,730**	**6,178**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	3,398	4,589	5,027	5,243	4,592	4,724	5,018	5,429
Depreciation and amortisation	530	562	548	565	608	541	578	615
Tax paid	(720)	(1,049)	(992)	(1,071)	(922)	(949)	(1,008)	(1,091)
Change in working capital	301	(223)	393	(39)	488	(225)	(92)	(243)
Other operational CF items	(497)	(165)	809	33	(421)	260	260	260
Cash flow from operations	**3,013**	**3,715**	**5,785**	**4,731**	**4,344**	**4,351**	**4,755**	**4,970**
Capex	(399)	(398)	(476)	(799)	(708)	(750)	(750)	(750)
Net (acquisitions)/disposals	4	8	39	8	16	0	0	0
Other investing CF items	(1,977)	(676)	(1,040)	1,969	522	0	0	0
Cash flow from investing	**(2,372)**	**(1,066)**	**(1,478)**	**1,177**	**(170)**	**(750)**	**(750)**	**(750)**
Change in debt	(1,483)	(136)	(199)	(332)	79	0	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(1,935)	(2,298)	(3,507)	(3,966)	(4,185)	(3,700)	(3,707)	(3,926)
Other financing CF items	3,088	(207)	(331)	(1,870)	21	0	0	0
Cash flow from financing	**(329)**	**(2,640)**	**(4,037)**	**(6,169)**	**(4,084)**	**(3,700)**	**(3,707)**	**(3,926)**
Forex effect/others	(37)	109	(17)	146	(97)	0	0	0
Change in cash	**276**	**118**	**254**	**(115)**	**(8)**	**(100)**	**298**	**295**
Free cash flow	2,614	3,317	5,309	3,932	3,636	3,601	4,005	4,220

Source: FactSet, Daiwa forecasts

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Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	2,809	2,917	3,226	3,102	2,830	2,731	3,029	3,323
Inventory	5,434	5,241	4,843	5,702	5,034	5,345	5,458	5,781
Accounts receivable	1,160	1,199	1,527	829	899	861	929	962
Other current assets	6,757	8,607	8,822	6,459	7,141	7,141	7,141	7,141
Total current assets	**16,160**	**17,963**	**18,419**	**16,093**	**15,905**	**16,077**	**16,557**	**17,207**
Fixed assets	5,022	5,227	5,264	5,815	5,978	6,187	6,359	6,495
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	1,041	1,239	1,193	1,290	2,022	2,022	2,022	2,022
Total assets	**22,223**	**24,429**	**24,876**	**23,198**	**23,904**	**24,286**	**24,938**	**25,723**
Short-term debt	1,866	1,753	1,553	1,221	1,300	1,300	1,300	1,300
Accounts payable	2,237	1,859	2,187	2,276	2,164	2,211	2,301	2,414
Other current liabilities	3,603	4,899	4,857	4,522	5,100	5,100	5,100	5,100
Total current liabilities	**7,707**	**8,511**	**8,597**	**8,019**	**8,565**	**8,612**	**8,702**	**8,815**
Long-term debt	163	0	0	0	0	0	0	0
Other non-current liabilities	557	474	352	411	1,166	1,166	1,166	1,166
Total liabilities	**8,427**	**8,984**	**8,949**	**8,429**	**9,730**	**9,777**	**9,867**	**9,980**
Share capital	2,419	2,419	2,419	2,467	2,467	2,467	2,467	2,467
Reserves/R.E./others	11,294	12,939	13,401	12,177	11,578	11,845	12,323	12,912
Shareholders' equity	**13,713**	**15,357**	**15,819**	**14,644**	**14,045**	**14,312**	**14,790**	**15,379**
Minority interests	83	88	108	125	129	196	280	364
Total equity & liabilities	**22,223**	**24,429**	**24,876**	**23,198**	**23,904**	**24,286**	**24,938**	**25,723**
EV	53,453	53,073	52,584	52,393	52,748	52,915	52,701	52,491
Net debt/(cash)	**(779)**	**(1,164)**	**(1,673)**	**(1,881)**	**(1,530)**	**(1,430)**	**(1,728)**	**(2,023)**
BVPS (TWD)	**57.821**	**63.497**	**65.408**	**59.359**	**56.933**	**58.015**	**59.953**	**62.338**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	16.1	10.9	1.2	9.4	(3.1)	1.1	5.0	5.0
EBITDA (YoY)	22.2	27.7	7.9	8.9	(9.8)	1.0	7.2	7.8
Operating profit (YoY)	26.8	31.1	9.2	9.5	(11.7)	2.6	7.3	8.0
Net profit (YoY)	29.1	32.4	13.6	3.1	(12.2)	2.6	5.9	8.4
Core EPS (fully-diluted) (YoY)	19.8	29.6	13.7	1.1	(12.2)	2.6	5.9	8.4
Gross-profit margin	22.6	25.7	25.8	25.3	24.9	25.0	25.2	25.5
EBITDA margin	13.5	15.6	16.6	16.5	15.4	15.4	15.7	16.1
Operating-profit margin	11.7	13.8	14.9	14.9	13.6	13.8	14.1	14.5
Net profit margin	9.2	11.0	12.3	11.6	10.5	10.7	10.7	11.1
ROAE	22.3	24.2	25.6	27.0	25.2	26.1	27.0	28.2
ROAA	13.0	15.1	16.2	17.1	15.3	15.4	16.0	16.8
ROCE	23.0	26.8	27.9	31.7	29.8	30.7	32.0	33.3
ROIC	22.2	25.0	27.2	31.1	29.3	29.8	31.2	32.9
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	21.2	22.9	19.7	20.4	20.1	20.1	20.1	20.1
Accounts receivable (days)	22.9	13.4	15.3	12.1	9.2	9.2	8.9	9.0
Current ratio (x)	2.1	2.1	2.1	2.0	1.9	1.9	1.9	2.0
Net interest cover (x)	46.0	28.5	25.7	19.5	19.3	18.5	19.8	21.4
Net dividend payout	84.9	99.8	99.4	102.5	102.4	100.0	100.0	95.0
Free cash flow yield	4.8	6.1	9.8	7.3	6.7	6.6	7.4	7.8

Source: FactSet, Daiwa forecasts

Company profile

Makalot Industrial (Makalot) is a diversified garment manufacturer for brands and retailers globally. Its major clients include Gap, Fast Retailing, Kohl's, Target, and Walmart.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	Most directors on the board have relevant experience in the apparel industry. We also see a high female percentage (6 females) among its 15 directors, including 2 of the 3 independent directors. Makalot's Chairman and CEO are the same individual, but we believe the board's stability will be maintained as we note that the CEO has decided to appoint his son, Alex Chou, as his successor.
	Capital management	1	Makalot has maintained a dividend payout ratio of over 85% (2025: 102.4%), except for 2019, which was severely affected by the global economy, and which impacted the development of the apparel industry. In the future, the company will continue to maintain a stable cash dividend policy with expected payout ratio of 70-90%.
	Related party & transaction	1	Makalot has tapped into its Vietnam fabric suppliers' operations to effectively control material quality and cost for better profitability.
S	Supply chain management	1	Makalot adopts the Higg Index to evaluate and train its suppliers, and its supplier management policy is set up based on relative agreements. Makalot is devoted to co-developing with its suppliers, sustainable textile products that are recyclable, biomass-based and biodegradable to uphold the values of eco-friendliness. Furthermore, in 2025, Makalot purchased USD170m of recycled material and USD140m of eco-friendly cotton, effectively reducing the negative impact to the environment.
E	Materials sourcing & efficiency	2	Makalot follows the ZDHC goals, and aims to reduce water use and carbon emissions. In 2023, 78% of raw materials or finished products are provided by key first-tier suppliers that have passed third-party environmental certifications, and there were no violations of chemical regulations and chemical leakage incidents with Makalot, and all its products met the chemical emissions standards of ZDHC.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 31 Jul 2026

Source: Daiwa, Company

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