

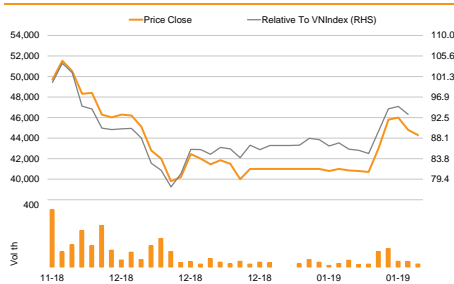
SONG HONG GARMENT JSC (MSH) – VISIT NOTE

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Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	51,538
52w low (VND)	39,800
3m Avg daily volume (shares)	41,423
3m Avg daily value (VNDmn)	3,659
Market cap (VNDbn)	2,134
Outstanding shares (m)	47.6
Free float (%)	46.1
TTM P/E (x)	5.1
Current P/B (x)	1.4

Ownership

Bui Duc Thinh	21.6%
FPTS	13.6%
Bui Viet Quang	10.9%
Nguyen Thi Dao	7.7%
Others	46.2%

Source: VNDIRECT

We visited MSH and its factories in Nam Dinh province recently and here are some key takeaways from the meeting:

MSH is one of the largest Vietnamese garment exporters that focuses on contract manufacturing for upper-mid market global clothing brands including Calvin Klein, Tommy Hilfiger, Karl Lagerfeld, etc. with annual capacity of 60m units, supported by 155 sewing lines and over 9,000 workers. MSH also owns a domestic bedding brand called May Song Hong that commands a 27% share of the Vietnamese branded bedding market, worth VND1,500bn.

2018 prelim results were strong with sales growth of 20.4% and a 67.1% jump in earnings; margins expanded on improved sales mix. Revenue of VND3,950bn (+20.4% yoy) of which FOB accounted for VND2,714bn, CMT accounted for VND828bn while bedding contributed VND400bn. EAT is estimated at between VND330bn to VND335bn (+64.7% to +67.5% yoy). Gross margin touched 19.3% (+183bps yoy) due to an increase in revenue contribution from FOB production (which has higher gross margins) from 61% in FY17 to 69% of total revenue in FY18.

ERP system implementation to reduce management cost and improve operating efficiency. ERP investments to continue into FY19 and FY20 and will cost between VND20-30bn per year.

MSH will continue to raise FOB revenue contribution, to touch 100% of garment export revenue by 2024. Management guides for FY19 revenue of around VND4,356bn (+10.3% yoy), within which FOB revenue is expected to rise 22.9% yoy to reach VND3,335bn while CMT revenue is expected to fall by 25.0% yoy, while revenue from the bedding segment is expected to remain unchanged at around VND400bn due to unfavorable hot weather and intense competition from Everpia (EVE VN, Non-rated).

FOB penetration to be focused on large client accounts, including Haddad (distributor of Converse, Nike), G-III (distributing Calvin Klein, Karl Lagerfeld) and Columbia. Ralph Lauren is a potential customer, according to management. MSH has signed an FOB contract worth US\$40m with Hong-based Luen Thai for exporting garments that will be phased over 4 years and should help increase blended margins, per management.

Expansion plan in 2020 to lift capacity by 20%. Song Hong 10 factory (SH 10) which is a joint venture between MSH (51%) and un-named partners (49%), involves a CAPEX of US\$16mn (financed 70% by debt and 30% by equity). The factory will have 40 sewing lines and employ 2,000 – 2,500 workers, raising total production capacity by around 20%. Construction is expected to break ground in April 2019 and the plant is slated to operate at the start of 2020 at an expected utilization rate of 50%, which management aims to raise to around 90% by the end of 2020.

Attractive dividend payout. The company expects to pay a dividend of VND3,500/share – VND4,500/share (equivalent to a dividend yield of 7.9% - 10.1%) per year over the next few years. There are no capital-raising plans on the anvil, per management.

Financial summary (VND)	12-15A	12-16A	12-17A
Net revenue (bn)	2,548	2,992	3,282
Revenue growth		17.4%	9.7%
Gross margin	18.1%	16.6%	17.2%
EBITDA margin	11.6%	11.9%	11.6%
Net profit (bn)	160	185	200
Net profit growth	12.6%	15.8%	8.4%
Recurring profit growth	9.4%	15.8%	8.4%
Basic EPS	10,138	8,153	8,656
Adjusted EPS	7,436	5,689	6,388
BVPS	27,422	28,793	31,713
ROAE	28.1%	29.0%	28.5%

Figure 1: MSH's factory number 14



Source: MSH

Figure 1: MSH's finished products



Source: VNDIRECT

Figure 3: Inside MSH's factory



Source: MSH

Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	2,548	2,992	3,282
Cost of sales	(2,087)	(2,496)	(2,718)
Gen & admin expenses	(125)	(169)	(188)
Selling expenses	(108)	(132)	(151)
Operating profit	228	195	225
Operating EBITDA	297	298	339
Depreciation and amortisation	(69)	(103)	(114)
Operating EBIT	228	195	225
Interest income	50	55	58
Financial expense	(80)	(32)	(49)
Net other income	2	(3)	(2)
Income from associates & JVs	0	0	0
Pre-tax profit	200	214	231
Tax expense	(40)	(29)	(31)
Minority interest	0	0	0
Net profit	160	185	200
Adj. net profit to ordinary	160	185	200
Ordinary dividends	(68)	(130)	(108)
Retained earnings	92	54	92

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	89	47	344
Short term investments	470	469	302
Accounts receivables	300	403	487
Inventories	325	413	534
Other current assets	46	28	8
Total current assets	1,231	1,360	1,675
Fixed assets	630	691	648
Total investments	0	50	0
Other long-term assets	75	91	58
Total assets	1,937	2,192	2,381
Short-term debt	406	516	723
Accounts payable	177	187	152
Other current liabilities	438	543	558
Total current liabilities	1,022	1,245	1,433
Total long-term debt	293	294	192
Other liabilities	0	0	0
Share capital	227	227	238
Retained earnings reserve	370	353	391
Shareholders' equity	622	653	755
Minority interest	0	0	0
Total liabilities & equity	1,937	2,192	2,381

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	200	214	231
Depreciation & amortisation	69	103	114
Tax paid	(60)	(86)	(74)
Other adjustments	6	(27)	(9)
Change in working capital	62	(53)	(118)
Cash flow from operations	277	153	145
Capex	(256)	(159)	(119)
Proceeds from assets sales	(106)	(48)	222
Others	30	39	42
Other non-current assets changes	0	0	0
Cash flow from investing activities	(332)	(168)	145
New share issuance	5	0	11
Shares buyback	0	0	0
Net borrowings	109	103	105
Other financing cash flow			
Dividends paid	(68)	(130)	(108)
Cash flow from financing activities	46	(28)	8
Cash and equivalents at beginning of period	99	89	47
Total cash generated	(9)	(43)	297
Cash and equivalents at the end of period	89	47	344

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	6.3%	6.2%	6.1%
Asset turnover	1.45	1.45	1.44
ROAA	9.1%	9.0%	8.8%
Avg assets/avg equity	3.08	3.24	3.25
ROAE	28.1%	29.0%	28.5%
Efficiency			
Days account receivable	41.2	47.0	50.3
Days inventory	56.9	60.6	71.6
Days creditor	31.0	27.4	20.5
FIXED asset turnover	4.88	4.53	4.90
ROIC	12.1%	12.6%	12.0%
Liquidity			
Current ratio	1.20	1.09	1.17
Quick ratio	0.89	0.76	0.80
Cash ratio	0.55	0.41	0.45
Cash cycle	67	80	101
Growth rate (yoy)			
Revenue growth		17.4%	9.7%
Operating profit growth	9.4%	(14.8%)	15.7%
Net profit growth	12.6%	15.8%	8.4%
EPS growth		(19.6%)	6.2%
Share value			
Basic EPS (VND)	10,138	8,153	8,656
BVPS (VND)	27,422	28,793	31,713

Source: VNDIRECT

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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