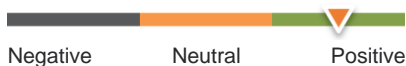


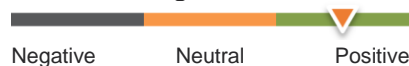
## SONG HONG GARMENT JSC (MSH) – INITIATION

<b>Market Price</b> VND51,000	<b>Target Price</b> VND62,500	<b>Dividend Yield</b> 6.90%	<b>Rating</b> ADD	<b>Sector</b> TEXTILES
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### Outlook – Short term



### Outlook – Long term



### Valuation



29 March 2019

Tu Vu Minh

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**We like MSH with its regarding its leading position in apparel manufacturing industry, solidified by a strong customer base of global premium fashion brands. We initiate MSH with an ADD recommendation and target price of VND62,500/share.**

**MSH is one of the largest local textile and apparel (T&A) enterprises** in terms of revenue (VND3,951bn as of end-FY18), and also the largest in terms of profitability (ROE FY18 of 44.0%). MSH's core business comes from apparel exports, which accounted for 90.8% of FY18 revenue. The bedding segment (under brand name "Song Hong") contributed 9.2% of FY18 revenue.

**A change in product mix with larger contribution from high-margin FOB (Free on board) apparel production is expected to be the near-term growth driver**, since all factories are currently running at full capacity. We expect the FOB business to contribute 78% of revenue in FY19F (up from a level of 72% seen in FY18), which will drive the company's FY19F revenue to grow by 9.5% yoy and FY19F blended GM to improve by 120bp.

**We project a FOB order value CAGR of 18.5% over FY18-22 on the back of a strong client base**, including Haddad, Columbia, G-III and newly-signed Luen Thai. Our estimation is based on the mutually-beneficial relationship and trust between these customers and MSH, proven by a 59.6% yoy rise in value of FOB orders of these customers in FY18.

**Manufacturing capacity expansion is expected to be the long term growth engine from FY20F onward.** The new US\$16-million-apparel factory Song Hong 10 (SH10) will start construction in Apr 2019 and commence production in 2H2020. We forecast that a 25% increase in capacity will propel a 13.3% CAGR FY20-22 in revenue and a 19.5% CAGR in net profit.

**We initiate MSH with an ADD rating** based on bright prospects: (1) rising FOB orders from large customers, (2) expanding capacity from SH10 factory and (3) attractive dividend policy of minimum VND3,500/share for FY19 (equivalent to a dividend yield of 6.9%). Using adj. FY19F EPS of VND8,713/ share and target P/E of 7.2x, 10% premium vs peers, we come up with target price of VND62,500/ share.

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	55,400
52w low (VND)	39,800
3m Avg daily volume (shares)	70,259
3m Avg daily value (VNDmn)	3,483
Market cap (VNDbn)	2,477
Outstanding shares (m)	47.1
Free float (%)	39.0
TTM P/E (x)	6.6
Current P/B (x)	2.4

### Ownership

Bui Duc Thinh	21.6%
FPTS	13.6%
Bui Viet Quang	10.9%
Others	53.9%

Source: VNDIRECT

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	3,282	3,951	4,327	4,916
Revenue growth	9.7%	20.4%	9.5%	13.6%
Gross margin	17.2%	20.1%	21.3%	22.4%
EBITDA margin	11.6%	15.2%	17.0%	18.7%
Net profit (bn)	200	371	467	556
Net profit growth	8.4%	85.4%	25.7%	19.0%
Recurring profit growth	17.8%	91.9%	23.2%	19.1%
Basic EPS	4,208	7,799	9,338	11,112
Adjusted EPS	3,929	7,284	8,721	10,379
BVPS	15,859	19,616	24,959	32,571
ROAE	28.5%	44.0%	42.8%	38.6%

**A LEADING GARMENT ENTERPRISE IN VIETNAM**

**A long tradition apparel manufacturer that has a strong set of clients consisted of global premium fashion brands**

**MSH is a long-established apparel and bedding manufacturer.**

Song Hong Garment JSC (MSH) was established in 1988 under the name of 1/7 Garment Factory with over 100 workers. In 2001, MSH launched its brand “Song Hong”, offering bedding products such as mattresses, blankets, and pillows which it manufactures in-house. It has also been producing apparel for export since 2004.

Figure 1: Song Hong bedding products



Source: MSH

Figure 2: MSH’s apparel products for export

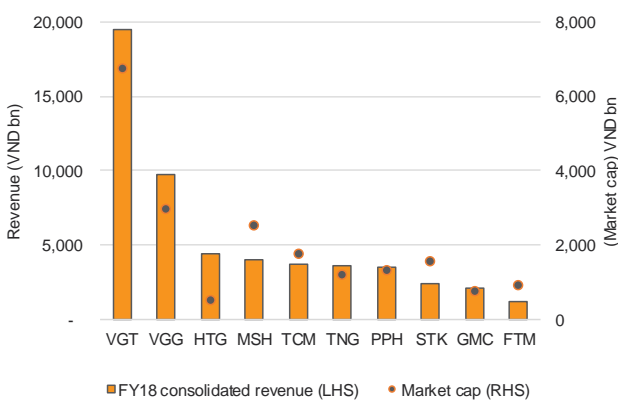


Source: VNDIRECT, MSH

**MSH is the fourth largest enterprise in the Vietnam textiles and apparel (T&A) industry in terms of FY18 revenue.**

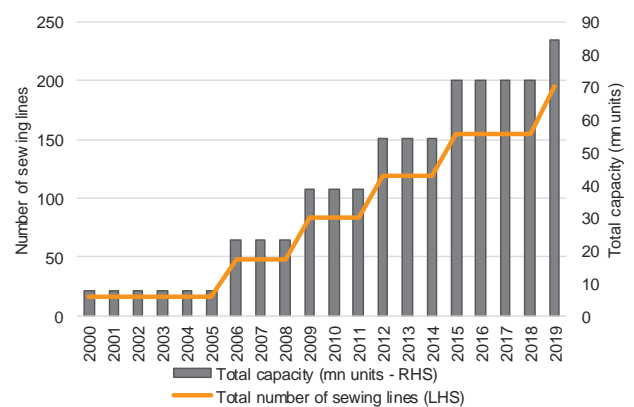
MSH, which has a total capacity of over 72m apparel and bedding units coming from six factories with 155 sewing lines and 10,500 labourers, is the fourth largest enterprise in Vietnam’s T&A industry in terms of sales. According to MSH’s CEO, being in the list of the largest Vietnamese T&A enterprises will strengthen its brand name and raise its profile among top foreign fashion firms when they seek outsourcing manufacturers in Vietnam.

Figure 3: Top 10 largest Vietnamese T&A enterprises by revenue and market capitalisation



Source: VNDIRECT, Fiiipro

Figure 4: MSH's increasing total capacity over years



Source: VNDIRECT, MSH

**Strong set of clients including famous fashion brands in premium class gives MSH an edge over Vietnamese peers.**

Figure 5: Overview of MSH's customers

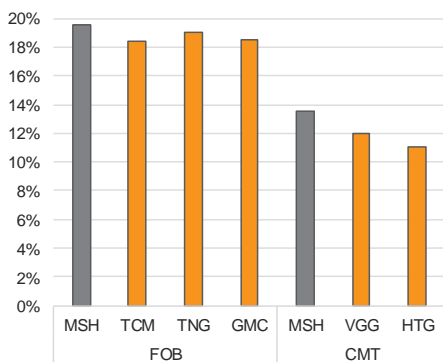
Customers	Brands	Customers' order value (US\$ m)		FY18		
		2017	2018	ROE (%)	D/E (x)	CAGR 5 year of revenue (%)
The Haddad apparel group (distributor)	Converse, Jordan, Nike, Levi's	8	29	N/A	N/A	N/A
Columbia Sportswear company	Columbia Sportswear	22	28	16.3%	-	10.7%
New York & company	NY&C	22	22	6.8%	0.2	-0.8%
G-III (distributors)	Calvin Klein, DKNY, Tommy Hilfiger	12	19	5.8%	0.3	14.9%
Luen Thai		-	4	9.4%	0.5	-4.9%
<b>Total</b>		<b>64</b>	<b>102</b>			

Source: VNDIRECT, Bloomberg

MSH's apparel segment provides outsourcing services for clothes production for international fashion brands such as Tommy Hilfiger, Karl Lagerfeld, etc. In our view, MSH's client list of premium tier brands distinguishes it from its competitors. These premium tier brands have high requirements for the manufacturers including modern facilities, highly-skilled labourers and good CSR (Corporate Social Responsibility). Other Vietnamese garment manufacturers have lower-tier clients such as GAP, ZARA, H&M, FOREVER 21 which are normally classified as fast fashion.

We think that MSH's clientele of premium fashion brands will give it advantages such as (1) higher gross margin than its Vietnamese competitors since the order value per unit is bigger, (2) lower pressure on delivery schedules as the quality of final products is the top priority rather than timing; ((3) lower risk of insolvent customers (such as in TCM's case with Sear's bankruptcy) and (4) building MSH's reputation amongst global fashion brands as a sourcing location for high quality products, hence making it easier for MSH to secure new high-profile clients (such as Ralph Lauren, a potential client as disclosed by the management).

Figure 6: Gross margin by apparel production methods of Vietnamese T&A enterprises



Source: VNDIRECT, Fiiipro

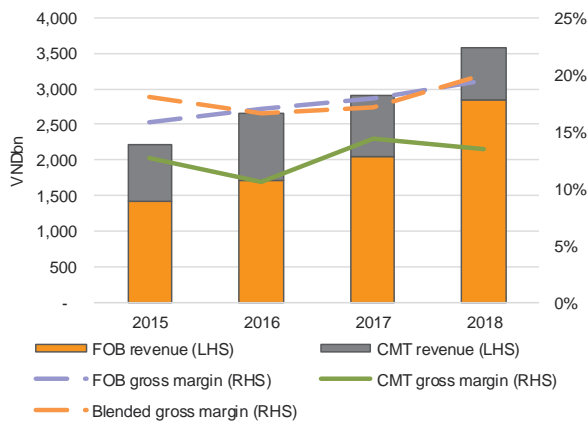
Figure 7: Global fashion brands segmentation



Source: The Fashion Retailer

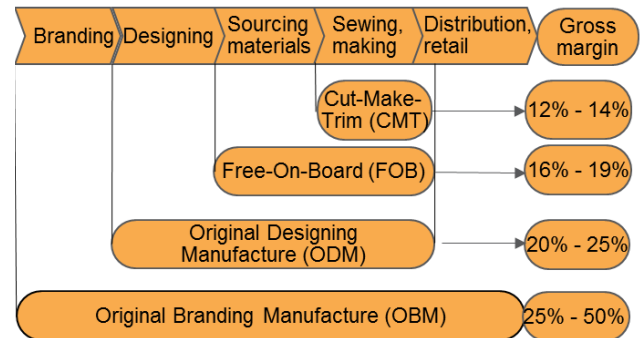
**MSH's important growth driver in the past few years has been the transition from CMT to FOB method.**

**Figure 8: MSH's revenue by apparel products over years**



Source: VNDIRECT, MSH

**Figure 9: Apparel production methods and corresponding gross margins**

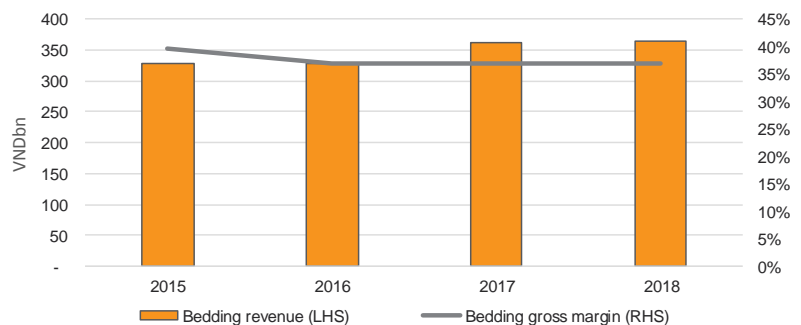


Source: VNDIRECT, MSH

The proportion of FOB in the total sales rose from 55% in FY15 to 72% in FY18, while CMT experienced a reduction in revenue contribution from 32% to 19% in the same period. This was in line with MSH management strategy to upgrade apparel production to the advanced FOB method. Compared to CMT, the FOB method includes the additional step of sourcing for fabric, the cost of which is then added to the order value. In other words, this generates higher revenue as it includes fabric costs which account for 60% of the cost of goods sold. This means that an FOB order, using the same labour force, is worth around 2.5 times as much as a CMT order (which only consists of skilled labour input). Furthermore, since MSH is in charge of sourcing for materials, they can also achieve higher gross margin for undertaking more responsibilities in such FOB orders. For T&A outsourcing companies, the GM is not affected by material as material price fluctuation can be passed through to the clients (under our observation, the gross margin of FOB, on average is 4-5% pts higher than that of CMT).

**Bedding segment has recorded muted growth recently.**

**Figure 10: MSH's bedding segment business performance**



Source: VNDIRECT, MSH

According to management, MSH's bedding segment has seen little growth with revenue CAGR of 3.6% in 2015/18 due to (1) small size bedding market of around VND1,500bn that has achieved maturity and (2) intense competition from EVE (the market leader with over 50% market share) that caused contraction in MSH's gross margin in the bedding segment. MSH's bedding business, under the "Song Hong" brand which is positioned as a mid-tier range product, is concentrated

in the north of Vietnam with 170 retail stores/ agents and accounts for just under 25% of market share. In our view, this is a smart strategy for MSH, since EVE has dominated the upper tier with their modern equipment and strong, trendy design capability.

**Low customer concentration in term of revenue is MSH's advantage.** MSH's revenue is diversified amongst its customer portfolio, with the largest customer (Haddad apparel group) only contributing around 16.9% of MSH's FY18 revenue hence reducing the risk of relying on one large customer, which can be risky if that fashion brand has problems in operating or meet financial difficulty.

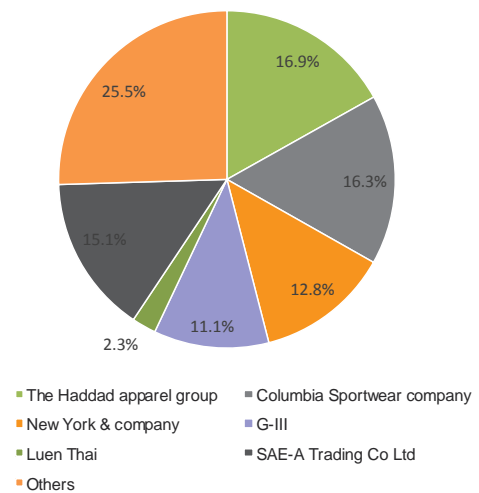
**Figure 11: Vietnam is amongst the top sourcing locations for US fashion brands**

Region	Sourcing Destination	Speed to market	Sourcing cost	Risk of Compliance	Total score
Western Hemisphere	US	5.0	1.5	4.0	<b>10.5</b>
	Mexico	4.0	3.0	3.0	<b>10.0</b>
	CAFTA-DR	3.5	3.5	3.0	<b>10.0</b>
	Colombia	3.0	2.5	3.0	<b>8.5</b>
	China	3.0	3.5	3.0	<b>9.5</b>
	<b>Vietnam</b>	<b>3.0</b>	<b>4.0</b>	<b>3.0</b>	<b>10.0</b>
	Bangladesh	2.0	4.5	1.5	<b>8.0</b>
	Indonesia	2.5	3.5	3.0	<b>9.0</b>
Asia	India	2.5	3.5	2.5	<b>8.5</b>
	Sri Lanka	2.5	3.5	3.0	<b>9.0</b>
	Cambodia	2.5	3.5	2.5	<b>8.5</b>
Others	AGOA	2.0	3.5	2.5	<b>8.0</b>
Others	Egypt	2.5	3.0	3.0	<b>8.5</b>

Notes: 1 is the worst performance, 5 is the best performance (compared to average) for each criteria. The scores measure strength and weakness of sourcing countries, survey from US apparel importers.

Source: VNDIRECT, USFIA

**Figure 12: MSH's FY18 revenue by major customers**



Source: VNDIRECT, MSH

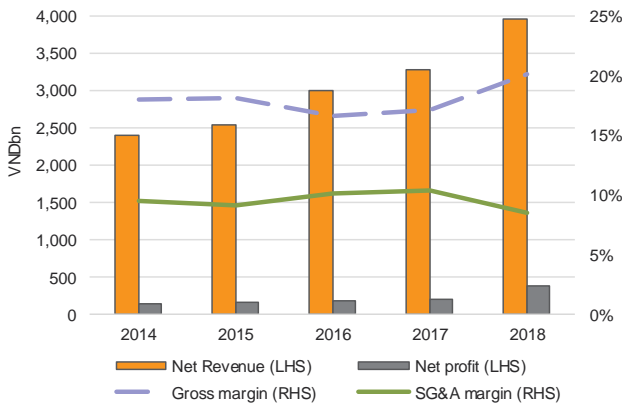
## STRONG FINANCIAL BACKGROUND

**Solid historical business performance that resulted in high ROE and attractive dividend policy**

### Stellar FY18 business results

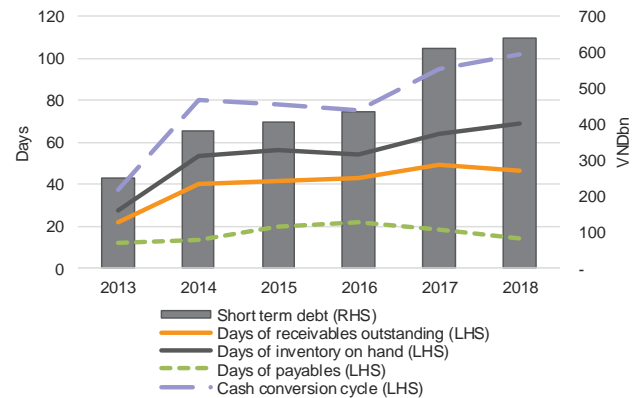
Top line grew 20.4% yoy, while EAT surged 85.4% to touch VND371bn, on the back of (1) a huge expansion of blended gross margin by 290bp to reach 20.1% due to an increase of FOB contribution from 62.6% to 72.0% of total revenue and (2) implementation of the ERP system which cut the SG&A margin by 170bp to 8.6% by bringing better inventory management and reducing waste material.

Figure 13: MSH's improving business performance over years



Source: VNDIRECT, MSH

Figure 14: Longer cash conversion cycle put pressure on short term debt



Source: VNDIRECT, MSH

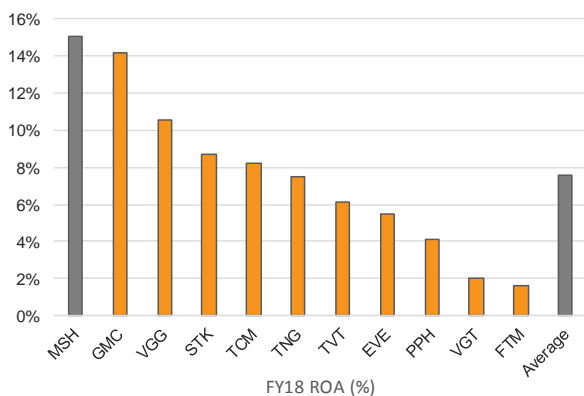
**However, premium clients with high quality requirements put pressure on cash conversion cycle and eventually short term debts.**

It currently takes three times longer to complete one cash cycle (from payment for purchasing materials to collecting customer payments) than five years ago. This is due to the fact that (1) MSH has increased the FOB orders of premium brands, which require higher quality and attention to detail hence lengthening inventory days by around 2.5 times from FY13 to FY18 and (2) global fashion brands have superior bargaining power over MSH hence creating pressure on days of receivables. Therefore, it created pressure on short term debt, which is used to finance working capital.

**High ROE amongst Vietnamese T&A enterprises creates room for high cash dividend policy.**

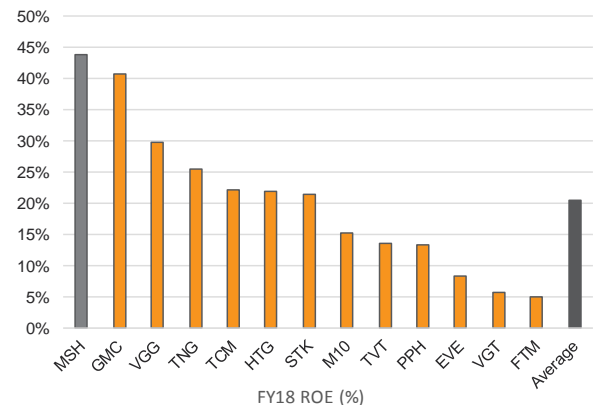
MSH had the highest ROE amongst Vietnamese T&A enterprises of 44.0% thanks to outstandingly high net margin of 9.2% vs peers average of 6.0%, supported by high gross margin on the back of customers which are premium fashion brands. Therefore, high cash dividend policy, ranging from VND4,000/share to VND5,800/share, has been maintained in the last three years, equivalent to payout ratio from 51% to 71%, hence guaranteeing shareholders' benefit.

Figure 15: ROA of Vietnamese T&A enterprises (FY18)



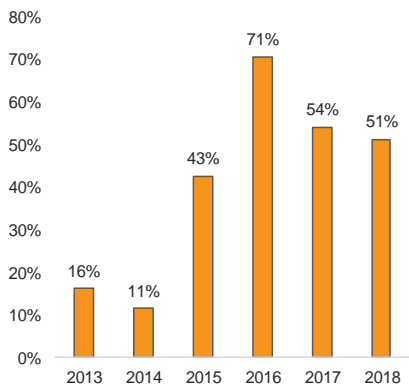
Source: VNDIRECT, Fiiipro

Figure 16: ROE of Vietnamese T&A enterprises (FY18)



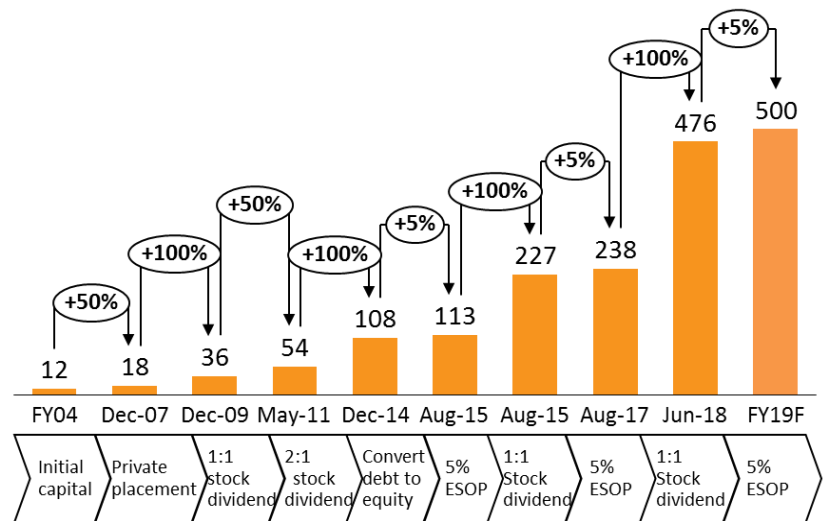
Source: VNDIRECT, Fiiipro

Figure 17: MSH's dividend payout ratio (%)



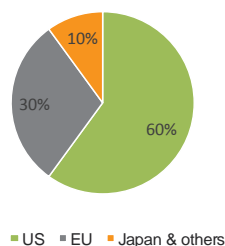
Source: VNDIRECT, MSH

Figure 18: MSH's chartered capital



Source: VNDIRECT, MSH

Figure 19: MSH's FY18 revenue by export destinations



Source: VNDIRECT, MSH

### KEY RISKS

**A total reliance on imported fabric, mostly from China and Korea, will be a slight disadvantage for MSH**

The majority of MSH's materials (fabric) are imported from China, Korea, Hong Kong, etc, owing to weak domestic fabric production (60% of total fabric consumption is imported every year) because of outdated technology, lack of equipment and facilities (these are capital intensive and mostly provided by FDI enterprises). This has prevented MSH from being eligible for tax deduction under the newly-signed CPTPP FTA and upcoming EVFTA (expected to be signed by the end of May 2019). This is because CPTPP and EVFTA have rules of origin of yarn forward and fabric forward, respectively, which means apparel exporters must source the required material domestically.

In our opinion, this is a slight disadvantage for MSH compared to Vietnamese T&A enterprises that are able to use local fabric (such as TCM), considering 30% of MSH apparel is exported to the EU annually. However, it should be noted that TCM is one of the very few Vietnamese apparel enterprises that qualify for EVFTA and CPTPP, therefore MSH's ineligibility to satisfy these FTAs is only a minor comparative disadvantage

**We think that the risk of losing foreign clients due to competition or insolvency is low**

In our view, one of the largest concerns for MSH is that its customers might switch to other T&A enterprises to provide outsourcing services. In these cases, there are two possible alternative choices, which are either (1) choosing apparel exporters from other countries (such as Bangladesh, Cambodia etc.) or (2) choosing different apparel exporters from Vietnam.

We think that neither of those options are likely to happen with MSH. Firstly, with respect to option (1), Vietnam is an attractive sourcing location with a comprehensive T&A production chain, therefore it is unlikely for fashion brands to change their sourcing location to another country. Regarding the option (2) of choosing another Vietnamese firm instead of MSH, we also think that it is difficult to do so as it seems that not many Vietnamese apparel exporters have the ability to satisfy high standards of premium brands like what MSH has achieved with its

customers. As a matter of fact, FOB orders by MSH's large, premium customers rose 59.4% yoy in FY18, reflecting the satisfaction of and good relationships with MSH's customers.

**FY19F ESOP of 5% is one of our main concerns for MSH, regarding dilution and loose restriction.** Starting from 2015, MSH issued ESOP every two years with proportion of 5.0%, which seems to be acceptable considering CAGR 2015/2018 of EPS growth of 28.5%. However, we think upcoming FY19F ESOP is too concentrated an issuance (shares issued will only be for the chairman and top managers), with low restriction (lock-in period of one year). In our view, the company's ESOP policy partly dampens the attraction of upcoming dividends with a minimum yield of 6.8%.

### BRIGHT PROSPECTS AHEAD

**A change in product mix with larger contribution from high-margin FOB (Free on board) apparel production is expected to be the near-term growth driver**

Figure 20: Forecasted MSH's business result by segments and key customers

	(VNDbn)	FY17	FY18	FY19F	FY20F	FY21F	FY22F
<b>Total revenue</b>		<b>3,282</b>	<b>3,951</b>	<b>4,325</b>	<b>4,914</b>	<b>5,793</b>	<b>6,292</b>
% yoy		9.7%	20.4%	9.5%	13.6%	17.9%	8.6%
<b>Revenue by key customers</b>							
The Haddad Apparel Group		182	667	734	844	1,013	1,114
yoy %			267.1%	10.0%	15.0%	20.0%	10.0%
Columbia Sportswear		506	644	708	815	978	1,075
yoy %			27.3%	10.0%	15.0%	20.0%	10.0%
New York & company		506	506	531	558	669	703
yoy %			0.0%	5.0%	5.0%	20.0%	5.0%
G-III		276	437	503	603	724	796
yoy %			58.3%	15.0%	20.0%	20.0%	10.0%
Luen Thai		-	92	230	276	359	395
yoy %			0.0%	150.0%	20.0%	30.0%	10.0%
Others		511	637	669	987	1,308	1,535
% yoy			24.8%	5.0%	47.5%	32.6%	17.4%
SAE-A Trading		752	598	478	383	306	245
yoy %			-20.5%	-20.0%	-20.0%	-20.0%	-20.0%
Others		207	143	100	70	49	34
yoy %			-31.1%	-30.0%	-30.0%	-30.0%	-30.0%
<b>Revenue by segments</b>							
<b>FOB</b>		<b>2,056</b>	<b>2,845</b>	<b>3,375</b>	<b>4,082</b>	<b>5,050</b>	<b>5,618</b>
% yoy			38.4%	18.6%	21.0%	23.7%	11.2%
<b>CMT</b>		<b>863</b>	<b>741</b>	<b>578</b>	<b>453</b>	<b>355</b>	<b>279</b>
% yoy			-14.1%	-22.0%	-21.7%	-21.5%	-21.4%
<b>Bedding</b>		<b>363</b>	<b>365</b>	<b>372</b>	<b>380</b>	<b>387</b>	<b>395</b>
% yoy			0.6%	2.0%	2.0%	2.0%	2.0%
Gross profit		564	790	919	1,099	1,356	1,493
<b>Blended gross margin (%)</b>		<b>17.2%</b>	<b>20.0%</b>	<b>21.2%</b>	<b>22.4%</b>	<b>23.4%</b>	<b>23.7%</b>
SG&A expenses		(339)	(338)	(346)	(393)	(464)	(504)
as % of revenue		10.3%	8.6%	8.0%	8.0%	8.0%	8.0%
<b>Net profit</b>		<b>200</b>	<b>371</b>	<b>467</b>	<b>554</b>	<b>704</b>	<b>792</b>
% yoy		8.4%	85.4%	25.6%	18.8%	27.1%	12.5%
Total Capacity (VND bn)		3,438	4,128	4,496	5,534	6,431	6,777
% yoy		0.0%	20.1%	8.9%	23.1%	16.2%	5.4%
<b>Utilization rate (%)</b>		<b>95.5%</b>	<b>95.7%</b>	<b>96.2%</b>	<b>88.8%</b>	<b>90.1%</b>	<b>92.8%</b>

Source: VNDIRECT, MSH

**We expect FY19F EAT to grow by 25.6% yoy and blended GM to expand by 120bp**, thanks to the rise in FOB's large customer contribution in MSH's total revenue to 78.0% from 72.0% in FY18, while the proportion of CMT is expected to fall from 18.8% in FY18 to 13.4% in FY19F. Currently, MSH's factory has been operating at maximum capacity hence the growth driver in FY19F will come mostly from the rise in FOB orders of major customers.



The reason for the change in product mix toward FOB is that (1) FOB orders will generate higher revenue (around 2.5 times as much as CMT orders, using the same production factor which is labor work) and (2) higher gross margin coming from sourcing materials.

**We project a FOB order value CAGR of 18.5% over FY18-22 on the back of a strong client base.** MSH recently signed a 4-year contract worth US\$40m (in which US\$4m was completed in FY18) with Luen Thai, MSH's strategic partner, that expects to generate FY19F revenue of US\$10m (+150% yoy) contributing 5.3% of MSH's FY19F revenue. In addition, we forecast existing large FOB customers, including G-III, Haddad and Columbia, will register order value growth between 10% to 20% in FY19-22F, which is slower than FY17-18.

**Implementing ERP will help to reduce FY19F SG&A expenses.** MSH's BOD has decided to continue to invest in the ERP system that costs around VND30bn. Under our estimation, SG&A in % of revenue will decrease by 60bp from 8.6% in FY18F to 8.0% in FY19F, which is equivalent to around VND26bn of savings from reduction of SG&A in absolute terms.

**Manufacturing capacity expansion is expected to be the long term growth engine since FY20F onward**

**SH10, a joint venture with an undisclosed party, in which MSH will hold 51% of stake,** with designed capacity of 40 sewing lines (equivalent to 25% of current capacity), 2,000 labourers and CAPEX of US\$16m (funded 70% by debt, per management), is expected to start construction in April 2019 and launch in 2H2020. The factory will run at initial utilisation rate of 50%, and then extend to 90% by the end of 2020.

SH10 will manufacture FOB orders exclusively for FOB clients including Luen Thai, and (potentially Victoria's Secret and Ralph Lauren, per management). These new customers along with the rise in orders from existing customers of 13.9% yoy and 20% yoy in FY20F and FY21F respectively, will help fully leverage the SH10 factory capacity in FY21F.

Figure 21: MSH sewing factory floor



Source: MSH

SH10 will enjoy preferential tax rates amounting to 0% tax in the first two years and then 10% per annum in the following four years for investing in poor areas of Nam Dinh province and creating jobs. This will help reduce the effective tax rate of MSH in the following years.

Figure 22: Effect of SH10 on tax rate of MSH

	2020	2021	2022	2023	2024	2025	2026
SH10's tax rate	0.0%	0.0%	10.0%	10.0%	10.0%	10.0%	20.0%
SH10's EAT	66	149	144	146	150	156	145
Tax rate of other factories	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Other factories' EAT	507	578	621	669	733	810	901
MSH's EAT	573	726	765	815	883	966	1,045
<b>Effective tax rate</b>	<b>17.7%</b>	<b>15.9%</b>	<b>18.1%</b>	<b>18.2%</b>	<b>18.3%</b>	<b>18.4%</b>	<b>20.0%</b>

Source: VNDIRECT

**It should be noted that a CMT order cannot be changed to an FOB order** as in many cases, a fashion brand will hire an agent (eg: SAE-A Trading) to seek manufacturing firms that provide outsourcing services for apparel production. In this case, SAE-A has appointed MSH to be the manufacturer of the brand's CMT orders while SAE-A will be in charge of providing necessary materials (such as fabrics), by sourcing fabrics from another manufacturer and earning commission on that. Therefore, changing a CMT order to the FOB method will eliminate the role of that agent. SAE-A, as an agent, has no incentive to change CMT orders to FOB orders. Overall, we think that MSH's plan to remove CMT revenue by FY24F will be difficult to achieve and might take another 2-3 years.

#### **We expect MSH to maintain attractive dividend policy**

The company expects to pay a dividend of VND3,500/share – VND4,500/share (equivalent to a dividend yield of 6.9% - 8.8%) per year over the next few years. We conservatively forecast the FY19F dividend payment to be VND3,500/share (equivalent to a payout ratio of 38.3% and dividend yield of 6.8%) because MSH will also need to finance SH10 in FY19F and FY20F.

#### **WE INITIATE COVERAGE WITH ADD RATING AND TARGET PRICE OF VND62,500/SHARE**

**We use the P/E valuation method to arrive at a target price of VND62,500/share (upside 22.7%)**, from FY19F fully diluted EPS of VND8,713/share (+19.7% yoy) and P/E target of 7.2x (10% premium versus peers average). We think that MSH deserves to be traded at the premium compared to Vietnamese apparel manufacturers peers because of (1) strong set of premium global fashion brands that give MSH higher gross margin vs peers, (2) solid near-term growth driver of change in production method toward major FOB customers that drives up both revenue and gross margin and (3) SH10 factory to go into operating in FY20F will be long term growth driver.

Figure 23: P/E valuation method

<b>Valuation</b>	
<b>FY19F EAT of parent company (VND bn)</b>	<b>467</b>
Less	
Allocation of FY19F bonus and welfare fund (VND bn)	(31)
<b>EAT of parent company to calculate EPS</b>	<b>436</b>
Number of FY19F fully diluted shares	50,009,400
FY19F fully diluted EPS (VND)	8,721
Target P/E (x)	7.2
<b>Target price (VND/ share)</b>	<b>62,584</b>

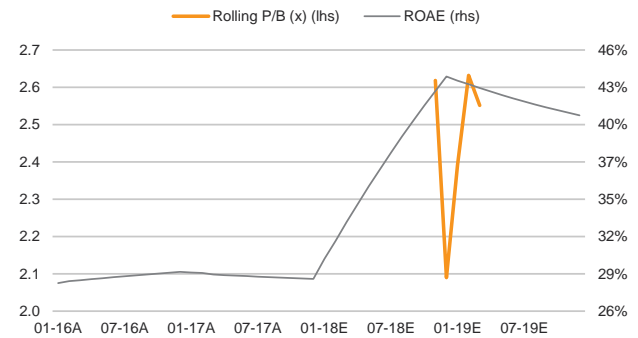
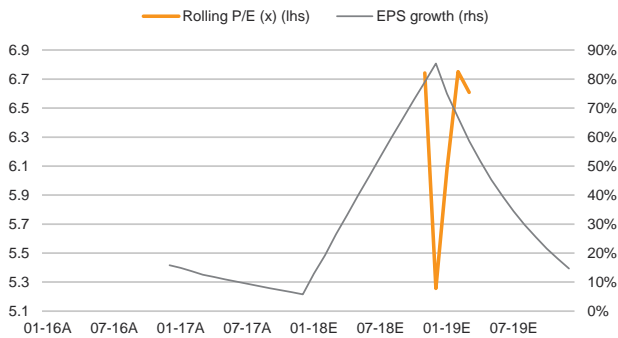
Source: VNDIRECT

Figure 24: Vietnamese T&A peers comparison

	Exchange	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	TTM ROA (%)	TTM ROE (%)	D/E (x)	TTM P/E (x)	TTM P/B (x)
VGG	UPCOM	129.6	23.7%	23.7%	10.5%	29.8%	0.0	6.3	1.9
TCM	HOSE	75.8	35.1%	28.7%	8.2%	22.1%	1.0	6.7	1.4
TNG	HNX	51.6	57.1%	30.8%	7.5%	25.4%	1.6	6.3	1.5
GMC	HOSE	31.9	106.4%	107.0%	14.1%	40.8%	0.9	5.4	2.0
TVT	HOSE	26.5	10.8%	10.8%	6.1%	13.4%	0.8	6.3	0.9
EVE	HOSE	25.9	49.7%	59.2%	5.5%	8.4%	0.2	8.1	0.7
<b>Average</b>		<b>56.9</b>	<b>47.1%</b>	<b>43.4%</b>	<b>8.7%</b>	<b>23.3%</b>	<b>0.8</b>	<b>6.5</b>	<b>1.4</b>
<b>Median</b>		<b>41.7</b>	<b>42.4%</b>	<b>29.8%</b>	<b>7.9%</b>	<b>23.7%</b>	<b>0.9</b>	<b>6.3</b>	<b>1.5</b>
MSH		109.8	84.6%	84.6%	15.1%	43.8%	0.8	6.6	2.4

Source: VNDIRECT, Fiinpro

## Valuation



### Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	3,951	4,327	4,916
Cost of sales	(3,157)	(3,406)	(3,816)
Gen & admin expenses	(191)	(195)	(221)
Selling expenses	(148)	(151)	(172)
<b>Operating profit</b>	<b>455</b>	<b>575</b>	<b>707</b>
Operating EBITDA	571	693	859
<b>Depreciation and amortisation</b>	<b>(116)</b>	<b>(118)</b>	<b>(152)</b>
<b>Operating EBIT</b>	<b>455</b>	<b>575</b>	<b>707</b>
Interest income	59	65	85
Financial expense	(63)	(72)	(75)
Net other income	0	(1)	(1)
Income from associates & JVs	0	0	0
<b>Pre-tax profit</b>	<b>451</b>	<b>567</b>	<b>715</b>
Tax expense	(79)	(100)	(127)
Minority interest	0	0	(33)
<b>Net profit</b>	<b>371</b>	<b>467</b>	<b>556</b>
Adj. net profit to ordinary	371	467	556
Ordinary dividends	(166)	(175)	(175)
<b>Retained earnings</b>	<b>205</b>	<b>292</b>	<b>381</b>

### Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	198	375	643
Short term investments	485	605	812
Accounts receivables	523	553	628
Inventories	661	727	814
Other current assets	14	15	17
<b>Total current assets</b>	<b>1,881</b>	<b>2,276</b>	<b>2,915</b>
Fixed assets	611	893	764
Total investments	0	0	0
Other long-term assets	30	33	37
<b>Total assets</b>	<b>2,521</b>	<b>3,201</b>	<b>3,716</b>
Short-term debt	710	661	751
Accounts payable	161	196	219
Other current liabilities	631	718	766
<b>Total current liabilities</b>	<b>1,502</b>	<b>1,574</b>	<b>1,735</b>
Total long-term debt	85	326	266
Other liabilities	0	0	0
Share capital	476	500	500
Retained earnings reserve	272	489	779
<b>Shareholders' equity</b>	<b>934</b>	<b>1,248</b>	<b>1,629</b>
Minority interest	0	53	86
<b>Total liabilities &amp; equity</b>	<b>2,521</b>	<b>3,201</b>	<b>3,716</b>

### Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
<b>Pretax profit</b>	<b>451</b>	<b>567</b>	<b>715</b>
Depreciation & amortisation	116	118	152
Tax paid	(86)	(100)	(127)
Other adjustments	(11)	(5)	(7)
<b>Change in working capital</b>	<b>(118)</b>	<b>28</b>	<b>(92)</b>
<b>Cash flow from operations</b>	<b>352</b>	<b>608</b>	<b>642</b>
Capex	(73)	(403)	(23)
Proceeds from assets sales	(183)	(121)	(207)
Others	44	0	0
Other non-current assets changes	0	0	0
<b>Cash flow from investing activities</b>	<b>(212)</b>	<b>(524)</b>	<b>(230)</b>
New share issuance	0	24	0
Shares buyback	0	0	0
Net borrowings	(120)	191	31
Other financing cash flow	0	53	0
Dividends paid	(166)	(175)	(175)
<b>Cash flow from financing activities</b>	<b>(286)</b>	<b>93</b>	<b>(144)</b>
Cash and equivalents at beginning of period	344	198	375
<b>Total cash generated</b>	<b>(146)</b>	<b>177</b>	<b>268</b>
Cash and equivalents at the end of period	198	375	643

### Key ratios

	12-18A	12-19E	12-20E
<b>Dupont</b>			
Net profit margin	9.4%	10.8%	11.3%
Asset turnover	1.61	1.51	1.42
ROAA	15.2%	16.3%	16.1%
Avg assets/avg equity	2.90	2.62	2.40
ROAE	44.0%	42.8%	38.6%
<b>Efficiency</b>			
Days account receivable	45.2	43.4	43.5
Days inventory	76.4	77.9	78.1
Days creditor	18.7	21.0	21.0
Fixed asset turnover	6.28	5.76	5.94
ROIC	21.5%	20.4%	20.3%
<b>Liquidity</b>			
Current ratio	1.25	1.45	1.68
Quick ratio	0.81	0.98	1.21
Cash ratio	0.45	0.62	0.84
Cash cycle	103	100	101
<b>Growth rate (yoy)</b>			
Revenue growth	20.4%	9.5%	13.6%
Operating profit growth	102.2%	26.2%	23.1%
Net profit growth	85.4%	25.7%	19.0%
EPS growth	85.4%	19.7%	19.0%
<b>Share value</b>			
Basic EPS (VND)	7,799	9,338	11,112
BVPS (VND)	19,616	24,959	32,571

Source: VNDIRECT

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<b>Description:</b>	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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