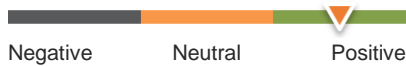


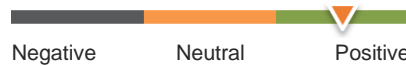
## SONG HONG GARMENT JSC (MSH) – UPDATE

<b>Market Price</b> VND61,000	<b>Target Price</b> VND66,600	<b>Dividend Yield</b> 6.0%	<b>Rating</b> HOLD	<b>Sector</b> TEXTILE
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### Outlook – Short term



### Outlook – Long term



### Valuation



16 August 2019

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### Key changes in the report

- Raise FY19F EPS by 6.6%
- Adjust TP upward to VND66,600

### Price performance



Source: VNDIRECT Research

### Key statistics

52w high (VND)	65,300
52w low (VND)	39,800
3m Avg daily volume (shares)	145,967
3m Avg daily value (VNDm)	8,904
Market cap (VNDbn)	3,226
Outstanding shares (m)	50.0
Free float (%)	39
TTM P/E (x)	6.9
Current P/B (x)	3.0

### Ownership

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

Source: VNDIRECT Research

### Solid 1H performance, bright outlook despite trade war tension

**A shift of production method toward major FOB customers boosted 1H19 performance.** 1H19 revenue grew 23.7% yoy to come in at 50% of our full-year forecast, driven by a 32.4% yoy increase in FOB orders and bedding segments. However, CMT revenue witnessed a soft fall of 10% yoy due to order cut from SAE-A Trading. Larger contribution of the high-margin segment (FOB, Bedding), rising to 85.1% of 1H19 revenue from 79.6% in 1H18, helped MSH's blended GM to edge up by 1.0% pts. Consequently, 1H19 NP jumped 52% yoy, in line with our earnings forecast.

**MSH's exports business grew healthily despite U.S.-China trade tensions.** The 1H19 garment segment revenue enjoyed an excellent export growth of about 25% yoy to the United States, Japan, South Korea and Europe. Besides, MSH focuses more on exporting bedding products to Japan, South Korea and the EU, instead of expanding sales in the domestic market. Moreover, it is also seeking suitable material so as to benefit from tariff incentives under the EVFTA recently signed in June between Vietnam and the European Union. Given a small export volume to China, MSH can ease the risk from yuan devaluation.

**We raise our FY19F revenue and NP forecast by 5.2% and 6.6%, respectively,** on the back of higher growth of FOB segment and higher gross margin. We revise up FOB segment's FY19F revenue growth to 24.4% from 18.6% in previous forecast thanks to its solid 1H19 performance. FY19F blended GM was also slightly adjusted upward to 21.4% from 21.3% in previous forecast.

**Maintain Hold rating but raise target price to VND66,600.** We raise our TP by 6.6% to reflect a 6.6% rise in FY19F EPS. Our TP is based on adjusted FY19F EPS and targeted P/E of 7.2x (which is 10% premium to peers' median P/E). We still like MSH as its distinguished business model helps the company ease the short-term pain from trade war while enjoying long-term benefit. However, the stock price is now quite close to the fair value.

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	3,282	3,951	4,551	5,152
Revenue growth	9.7%	20.4%	15.2%	13.2%
Gross margin	17.2%	20.1%	21.4%	22.3%
EBITDA margin	11.6%	15.2%	14.7%	16.5%
Net profit (bn)	200	371	497	584
Net profit growth	8.4%	85.4%	33.9%	17.4%
Recurring profit growth	17.8%	91.9%	31.2%	17.6%
Basic EPS	4,208	7,799	9,944	11,670
Adjusted EPS	3,929	7,284	9,287	10,851
BVPS	15,859	19,616	25,565	33,735
ROAE	28.5%	44.0%	44.9%	39.4%

Source: VNDIRECT Research

**1H19 review: Gross profit margin improved following a substantial increase in FOB orders**

Figure 1: 1H19 results comparison

VNDbn	2Q18	2Q19	%yoy	1H18	1H19	%yoy	% of our FY19F forecast	Our comments
<b>Net revenue</b>	<b>969</b>	<b>1,164</b>	<b>20.1%</b>	<b>1,750</b>	<b>2,165</b>	<b>23.7%</b>	<b>50.0%</b>	
FOB & Bedding				1,393	1,843	32.4%	47.1%	
CMT				357	322	-10.0%	55.6%	Cut CMT orders from SAE-A Trading Co Ltd.
<b>COGS</b>	<b>(770)</b>	<b>(926)</b>	<b>20.2%</b>	<b>(1,412)</b>	<b>(1,726)</b>	<b>22.2%</b>	<b>50.7%</b>	
Gross profit	199	238	20.0%	338	439	29.9%	47.7%	
<b>Gross profit margin</b>	<b>20.5%</b>	<b>20.5%</b>	<b>-3.3bp</b>	<b>19.3%</b>	<b>20.3%</b>	<b>96.7bp</b>	<b>-100.6bp</b>	Below our forecast, as we expected FOB contribution in 2H19 to be higher than in 1H19.
SG&A	(74)	(86)	16.5%	(151)	(188)	24.4%	54.4%	
SG&A as % of revenue	7.7%	7.4%	-23.3bp	8.6%	8.7%	4.9bp	+69.3bp	
EBT	113	158	38.9%	174	266	52.5%	46.9%	
<b>Net profit</b>	<b>96</b>	<b>133</b>	<b>38.8%</b>	<b>144</b>	<b>219</b>	<b>52.0%</b>	<b>46.9%</b>	

Source: VNDIRECT Research

**GPM expanded thanks to the increase in FOB orders.** MSH's production structure in 1H19 witnessed a fall in CMT orders, which contributed only 14.9% to the firm's revenue in the period, from 20.4% in 1H18. In contrast, we estimate the proportion of FOB increased to roughly 78% of revenue in 1H19 from 71% in 1H18. In our observation, given the average GPM of FOB method is often 4-5% higher than that of CMT method, the higher FOB orders helped boost MSH's blended gross profit margin by 96.7bp yoy.

**MSH's bedding products seek opportunities in overseas market.** Currently, MSH's bedding segment accounts for about 10% of total revenue. The size of the domestic market is still modest (with a total value of just US\$80m), while it faces fierce competition from Everon, Hanvico, and Chinese products. Therefore, MSH finds it tough to boost its domestic market growth. In terms of export, in 2019, MSH estimates its shipments to Japan will generate US\$3-5m, or around 20-30% of MSH's annual bedding revenue. In addition, MSH is also seeking suitable materials in order to take advantage of tariff incentives from EVFTA's rules of origin. Specifically, EVFTA have rules of origin of fabric forward, which means MSH must source the required fabric material domestically instead of importing from China, Hong Kong or Taiwan.

### FY19F OUTLOOK

**We raise our FY19F revenue by 5.2% to VND4,551bn**, counting in the 1H19 positive results from FOB and CMT orders. Besides, we also **raise FY19F net profit by 6.6%**, given higher-than-expected revenue while GM would edge up to 21.4%, from 21.3% in our previous forecast as FOB orders increased beyond our previous forecast.

**In our opinion, the high growth rate in 1H19 mainly came from 1H18's low-base effect** as the shift from CMT to FOB was strongly implemented in 2Q18. We believe that 2H19 growth will not be as high as in 1H19, with less effect from product mix changing.

**Song Hong 10 garment factory (SH10) operational in 2020 will be the key driver for MSH's growth.** MSH is now operating six production sites in the northern province of Nam Dinh, including 18 sewing factories (eight sewing lines each), and one bedding factory. The company plans to complete the additional SH10 in 3Q20F (delayed from the original plan of 2Q20F) to increase the total design capacity by 24%. Accordingly, Song Hong-Nghia Hung subsidiary, SH10 operator, has just been established in early 2019 with a charter capital of VND150bn, in which MSH owns 51%. The firm is currently doing site clearance.

Figure 2: FY19F revision

VNDbn	FY19F forecast			% change		Comments
	2018 Old	New	%yoy	of forecast		
<b>Net revenue</b>	<b>3,951</b>	<b>4,327</b>	<b>4,551</b>	<b>15.2%</b>	<b>5.2%</b>	
<i>FOB</i>	2,845	3,375	3,538	24.4%	4.8%	We raise the order growth rate from two big FOB partners - Columbia Sportswear and Haddad - to 25% and 20% from 10% and 10% in previous forecast, respectively.
<i>CMT</i>	741	578	638	-13.9%	10.3%	We reduce the rate of order reduction to -10% from -20% for SAE-A Trading in previous projection.
<i>Bedding</i>	365	372	372	2.0%	0.0%	
<b>Gross profit</b>	<b>793</b>	<b>921</b>	<b>974</b>	<b>22.8%</b>	<b>5.8%</b>	
<b>Gross profit margin</b>	<b>20.1%</b>	<b>21.3%</b>	<b>21.4%</b>	<b>+133bp</b>	<b>+13bp</b>	
Financial income	59	67	70	18.9%	4.6%	
SG&A	(338)	(346)	(364)	7.6%	5.2%	
% SG&A to revenue	-8.6%	-8.0%	-8.0%	56.1bp	0.0bp	
<b>Net profit</b>	<b>371</b>	<b>467</b>	<b>497</b>	<b>33.9%</b>	<b>6.6%</b>	
Net profit margin	9.4%	10.8%	10.9%	+153bp	+15bp	
<b>EPS (VND)</b>	<b>7,799</b>	<b>9,329</b>	<b>9,944</b>	<b>27.5%</b>	<b>6.6%</b>	

Source: VNDIRECT Research

## VALUATION

We maintain our Hold rating, while raising the target price to VND66,600/share (6.6% higher than previous TP), on the back of adjusted FY19F EPS of VND9,287/share (+27.5% yoy) and P/E target of 7.2x (10% premium versus peers median). We still like MSH as its distinguished business model helps the company ease the short-term pain from trade war while enjoying long-term benefit. However, the stock price is now quite close to the fair value, thus we keep our Hold rating on MSH stock.

Figure 3: Valuation

Valuation	
<b>FY19F EAT of parent company (VND bn)</b>	<b>497</b>
Less	
Allocation of FY19F bonus and welfare fund (VND bn)	(33)
<b>EAT of parent company to calculate EPS</b>	<b>464</b>
Number of FY19F fully diluted shares	50,009,400
FY19F fully diluted EPS (VND)	9,287
Target P/E (x)	7.2
<b>Target price (VND/ share)</b>	<b>66,644</b>

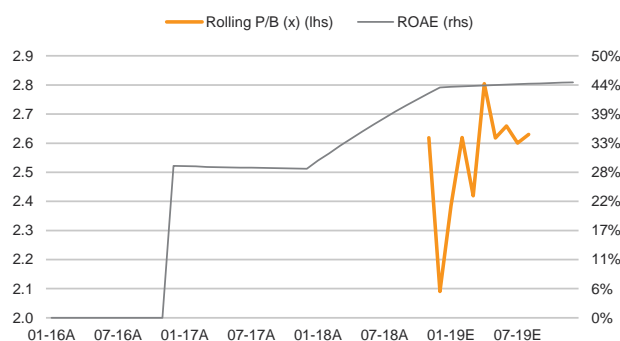
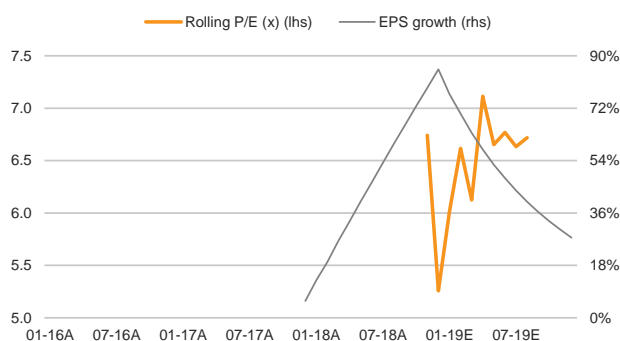
Source: VNDIRECT Research

Figure 4: Peer comparison

	Exchange	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)		ROE (%)		P/E (x)		P/B (x)		D/E (x)
					TTM	FY19F	TTM	FY19F	TTM	FY19F	TTM	FY19F	
VGG	UPCOM	121.6	19.8%	22.9%	10.1%	9.0%	24.0%	26.0%	8.0	5.1	1.8	1.3	0.0
GMC	HOSE	26.8	94.0%	120.3%	11.7%	N/A	33.1%	N/A	4.7	N/A	1.5	N/A	0.9
TNG	HNX	52.1	46.8%	56.7%	6.7%	N/A	26.2%	N/A	5.9	N/A	1.4	N/A	1.6
TCM	HOSE	67.2	25.4%	35.1%	7.7%	6.8%	17.0%	17.0%	7.3	6.5	1.2	1.1	1.0
EVE	HOSE	22.5	-12.0%	59.1%	3.8%	N/A	6.0%	N/A	9.2	N/A	0.6	N/A	0.2
TVT	HOSE	21.6	11.2%	13.6%	6.1%	N/A	13.5%	N/A	5.8	N/A	0.8	N/A	0.8
<b>Average</b>		<b>52.0</b>	<b>30.9%</b>	<b>51.3%</b>	<b>7.7%</b>	<b>7.9%</b>	<b>20.0%</b>	<b>21.5%</b>	<b>6.8</b>	<b>5.8</b>	<b>1.2</b>	<b>1.2</b>	<b>0.8</b>
<b>Median</b>		<b>39.5</b>	<b>22.6%</b>	<b>45.9%</b>	<b>7.2%</b>	<b>7.9%</b>	<b>20.5%</b>	<b>21.5%</b>	<b>6.6</b>	<b>5.8</b>	<b>1.3</b>	<b>1.2</b>	<b>0.9</b>
MSH	HOSE	124.3	84.6%	18.1%	15.1%	16.9%	43.8%	44.9%	6.9	6.2	3.0	2.3	0.8

Source: VNDIRECT Research

## Valuation



### Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	3,951	4,551	5,152
Cost of sales	(3,157)	(3,576)	(4,003)
Gen & admin expenses	(191)	(205)	(232)
Selling expenses	(148)	(159)	(180)
<b>Operating profit</b>	<b>455</b>	<b>610</b>	<b>737</b>
Operating EBITDA	571	729	889
<b>Depreciation and amortisation</b>	<b>(116)</b>	<b>(118)</b>	<b>(152)</b>
<b>Operating EBIT</b>	<b>455</b>	<b>610</b>	<b>737</b>
Interest income	59	70	99
Financial expense	(63)	(75)	(83)
Net other income	0	(1)	(1)
Income from associates & JVs	0	0	0
<b>Pre-tax profit</b>	<b>451</b>	<b>603</b>	<b>752</b>
Tax expense	(79)	(106)	(133)
Minority interest	0	0	(36)
<b>Net profit</b>	<b>371</b>	<b>497</b>	<b>584</b>
Adj. net profit to ordinary	371	497	584
Ordinary dividends	(166)	(175)	(175)
<b>Retained earnings</b>	<b>205</b>	<b>322</b>	<b>409</b>

### Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	198	590	1,103
Short term investments	485	485	485
Accounts receivables	523	582	659
Inventories	661	763	854
Other current assets	14	16	18
<b>Total current assets</b>	<b>1,881</b>	<b>2,435</b>	<b>3,119</b>
Fixed assets	611	893	764
Total investments	0	0	0
Other long-term assets	30	34	39
<b>Total assets</b>	<b>2,521</b>	<b>3,362</b>	<b>3,922</b>
Short-term debt	710	764	864
Accounts payable	161	204	229
Other current liabilities	631	738	785
<b>Total current liabilities</b>	<b>1,502</b>	<b>1,705</b>	<b>1,879</b>
Total long-term debt	85	326	267
Other liabilities	0	0	0
Share capital	476	500	500
Retained earnings reserve	272	514	828
<b>Shareholders' equity</b>	<b>934</b>	<b>1,279</b>	<b>1,687</b>
Minority interest	0	53	89
<b>Total liabilities &amp; equity</b>	<b>2,521</b>	<b>3,362</b>	<b>3,922</b>

### Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
<b>Pretax profit</b>	<b>451</b>	<b>603</b>	<b>752</b>
Depreciation & amortisation	116	118	152
Tax paid	(86)	(106)	(133)
Other adjustments	(11)	(2)	(8)
<b>Change in working capital</b>	<b>(118)</b>	<b>(8)</b>	<b>(93)</b>
<b>Cash flow from operations</b>	<b>352</b>	<b>606</b>	<b>670</b>
Capex	(73)	(403)	(23)
Proceeds from assets sales	(183)	0	0
Others	44	0	0
Other non-current assets changes	0	0	0
<b>Cash flow from investing activities</b>	<b>(212)</b>	<b>(403)</b>	<b>(23)</b>
New share issuance	0	24	0
Shares buyback	0	0	0
Net borrowings	(120)	294	42
Other financing cash flow	0	46	0
Dividends paid	(166)	(175)	(175)
<b>Cash flow from financing activities</b>	<b>(286)</b>	<b>189</b>	<b>(133)</b>
Cash and equivalents at beginning of period	344	198	590
<b>Total cash generated</b>	<b>(146)</b>	<b>392</b>	<b>514</b>
Cash and equivalents at the end of period	198	590	1,103

### Key ratios

	12-18A	12-19E	12-20E
<b>Dupont</b>			
Net profit margin	9.4%	10.9%	11.3%
Asset turnover	1.61	1.55	1.41
ROAA	15.2%	16.9%	16.0%
Avg assets/avg equity	2.90	2.66	2.46
ROAE	44.0%	44.9%	39.4%
<b>Efficiency</b>			
Days account receivable	45.2	43.4	43.5
Days inventory	76.4	77.9	78.1
Days creditor	18.7	20.8	21.0
Fixed asset turnover	6.28	6.05	6.22
ROIC	21.5%	20.5%	20.1%
<b>Liquidity</b>			
Current ratio	1.25	1.43	1.66
Quick ratio	0.81	0.98	1.21
Cash ratio	0.45	0.63	0.85
Cash cycle	103	100	101
<b>Growth rate (yoy)</b>			
Revenue growth	20.4%	15.2%	13.2%
Operating profit growth	102.2%	34.0%	20.8%
Net profit growth	85.4%	33.9%	17.4%
EPS growth	85.4%	27.5%	17.4%
<b>Share value</b>			
Basic EPS (VND)	7,799	9,944	11,670
BVPS (VND)	19,616	25,565	33,735

Source: VNDIRECT Research

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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.

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