

## VIETNAM'S TEXTILE AND APPAREL INDUSTRY: RIDING ON THE COATTAILS OF GROWING TRADE INTEGRATION

### Outlook – Short term



### Outlook – Long term



### Valuation



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### NEUTRAL

#### Highlighted Companies

#### Century Fiber Corp (STK VN, HOLD, TP VND25,200)

The 2nd largest synthetic fiber manufacturer in Vietnam and the largest beneficiary from trade war as Chinese polyester yarn and related products have now been subject to a 25% import tariff..

#### Song Hong Garment Jsc (MSH VN, HOLD, TP VND62,500)

One of the leading apparel manufacturers in Vietnam, solidified by a strong customer base involving global premium fashion brands, which will build MSH's reputation as a supplier of upper class brands.

#### Thanh Cong Textiles & Garments (TCM VN, HOLD, TP VND32,300)

The only Vietnamese T&A enterprise that has a fully vertically integrated production chain, now being improved with an investment in dyeing factory, giving TCM edges as they can satisfy the Rule of Origin criteria in the two trade pacts CPTPP and EVFTA. However, weak financial situation of its customers casts a shadow on short term prospect.

| P/E (x) | Dec-18 | Dec-19F | Dec-20F |
|---------|--------|---------|---------|
| TCM     | 6.2    | 6.4     | 5.4     |
| STK     | 8.5    | 6.8     | 5.6     |
| MSH     | 7.6    | 7.1     | 5.3     |

| P/B (x) | Dec-18 | Dec-19F | Dec-20F |
|---------|--------|---------|---------|
| TCM     | 1.3    | 1.2     | 1.1     |
| STK     | 1.7    | 1.5     | 1.2     |
| MSH     | 3.0    | 2.4     | 1.8     |

| ROE (%) | Dec-18 | Dec-19F | Dec-20F |
|---------|--------|---------|---------|
| TCM     | 22.3%  | 19.2%   | 20.4%   |
| STK     | 21.1%  | 24.2%   | 24.3%   |
| MSH     | 44.0%  | 42.8%   | 38.6%   |

**Textile and Apparel (T&A): A vertically integrated industry that will strongly benefit from growing trade ties and escalating US-China trade war.**

**The fastest growing sector with robust outlook.** Vietnam's T&A export registered a CAGR of 13.1% in the 2008-17 period, far ahead of the global average of 4.9%, mainly thanks to cheap labor and a large number of Free Trade Agreements (FTAs). An extensive list of export destinations might support Vietnam to reduce the reliance on US market and ensure a bright outlook for the Vietnamese industry, in the case of a matured US apparel market (the US-bound shipment made up 38.6% of Vietnam's total T&A export).

**A host of external factors will support the continued growth of Vietnam's T&A export industry.** Structural changes in China's economy, an escalating US-China trade tension, the signed CPTPP and the upcoming EU-Vietnam FTA (EVFTA) are expected to largely benefit Vietnam's T&A industry. Global sourcing destination being switched from China to Vietnam (China plus Vietnam plus many) might bring in huge T&A orders, helping Vietnam gain shares from China in the US market.

**Vietnam's T&A manufacturing capabilities are improving.** We are seeing vertically integrated T&A production chains thanks to continuous FDI flows that focus on upstream production (yarn and fabric). In addition, apparel manufacturers have been moving towards advanced production methods such as Free on Board (FOB) and Original Design Manufacturing (ODM), which helps improve their margins. In long term, we expect Vietnam to become a textile material supplier for regional apparel manufacturers thanks to comprehensive T&A value chain.

**Vietnam's apparel retail market is not a relaxing playground for domestic players in our view, therefore export-oriented strategies are reasonable.** According to Euromonitor, Vietnam's apparel retail market is a fragmented and relatively small-sized market (US\$2.6bn in FY18). Besides, the domination of non-branded clothing, seizing 83% of the retail market, and a fierce competition from newly-joined but fast-expanding foreign fashion giants have made the domestic apparel retail market tough for Vietnamese T&A enterprises.

**Bright future prospects yet valuation is currently fair.** We think that shares of Vietnam T&A industry are being traded at fair prices since most of internally and externally supportive factors have priced in. Amongst T&A stocks, we like STK, an upstream player, MSH, an apparel manufacturer, and TCM, a fully-integrated production chain, to play with Vietnam's T&A stories.

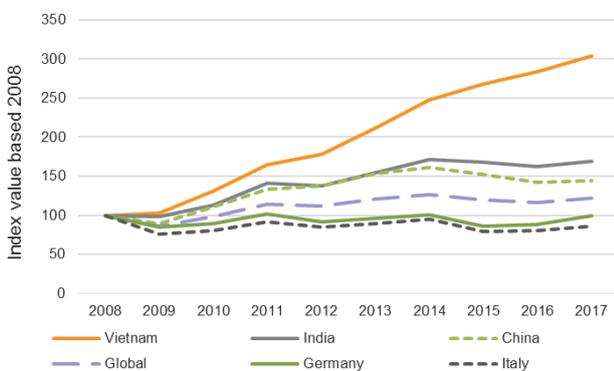
**Sector's main downside risks are rising labor cost and dyeing stage remains a bottleneck of the value chain.** Cheap labor advantage in apparel production might not be sustainable from FY25F onwards and could possibly affect efficiency of the industry, due to rising labour costs as FDI inflows will boost demand for labour. In addition, dyeing capability remains weak in Vietnam due to the environmental norms and large capital expenditure requirements, thus preventing Vietnam from fully realizing benefits from FTAs which have strict "Rules of Origin".

**RIDING ON THE COATTAILS OF GROWING INTEGRATION**

**Vietnam is the world's fastest growing Textile and Apparel exporter**

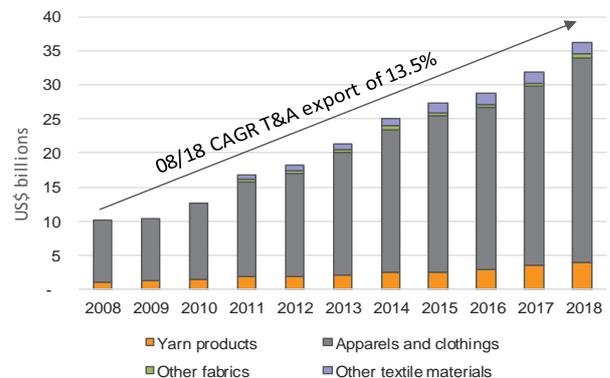
**Vietnam's Textile and Apparel (T&A) sector has grown rapidly since the country's accession to the World Trade Organization.** Vietnam's T&A export enjoyed a pronounced CAGR of 13.1% over the 2008-17 period, worthy of US\$31bn in 2017, while the world's T&A export growth averaged 2.2% in the same period, reported by WTO. In FY18, total textiles and apparel exports from Vietnam touched US\$36bn (+16.0% yoy) in value, surpassing the annual target of US\$35bn set by Vietnam Textile and Apparel Association (VITAS).

Figure 1: Vietnam is the fastest growing T&A exporter



Source: VNDIRECT, WTO

Figure 2: Vietnamese T&A export growth has been driven by downstream garment production (2008-18)

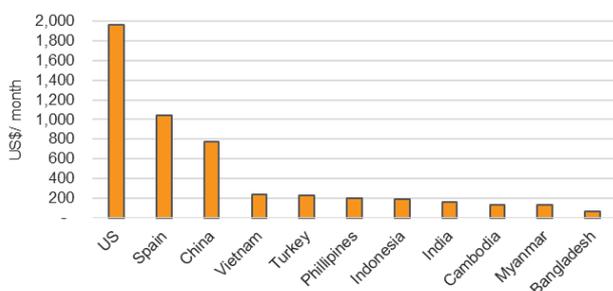


Source: VNDIRECT, VITAS

**Boosted by cheap labour and Free Trade Agreements (FTAs)**

Textile production is a labour-intensive industry. According to our estimation, labour costs account for around 60% of garment manufacturing costs; therefore having a large and cheap labour force is a vital comparative advantage. According to Trading Economics, the average wage in China's manufacturing sector is 3.4x higher than that in Vietnam in 2017. Vietnam's large and relatively cheap labour force has enabled the country to gain export market share from incumbent China, which has seen a steep rise in labour costs in the manufacturing sector, with 2011-17 CAGR of 9.9%.

Figure 3: Average monthly wage (US\$) of low-skilled, manufacturing sectors in 2017 amongst global T&A exporters



Source: VNDIRECT, Trading Economics

Figure 4: Signed FTAs with major textile trading partners

| Name  | Partners        | Effective from | Effective import tax rate for textiles (%) |               | 2018 export value (US\$ bn) | % share of Vietnam textiles in 2018 |
|-------|-----------------|----------------|--|---------------|-----------------------------|-------------------------------------|
|       |                 |                | Before signing                             | After signing |                             |                                     |
| VJEPA | Vietnam - Japan | 2009           | 10% - 40%                                  | 0%            | 4.0                         | 11.0%                               |
| VKFTA | Vietnam - Korea | 2015           | 10% - 30%                                  | 0%            | 3.8                         | 10.5%                               |
| ACFTA | ASEAN - China   | 2006           | Over 10%                                   | 0%            | 4.1                         | 11.2%                               |

Source: VNDIRECT

At the same time, Free Trade Agreements (FTAs) have played a crucial role in enhancing Vietnam's export competitiveness. These FTAs, on average, have led to a waiver or phased reduction of import taxes of up to 10%. Vietnam, participating in 16 FTAs (both bilateral and multi-lateral) with a majority of leading T&A importers, has

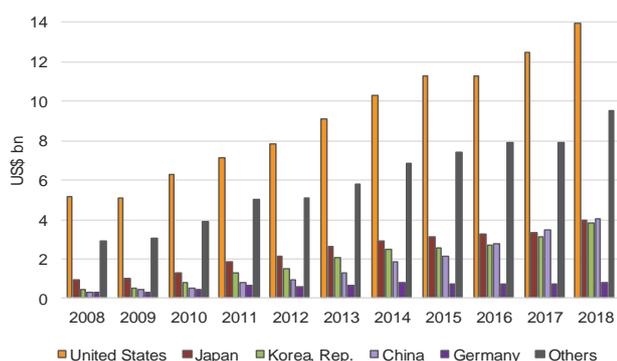
largely benefitted from these import tax and duty exemptions in key export markets such as Japan, South Korea and China.

**While the United States remains Vietnam's top T&A export destination, Vietnam is diversifying its export footprint with a tilt to Asia**

We are seeing a diversification in Vietnam's export destinations towards Asia, notably China and South Korea. T&A export value from Vietnam to China grew at a CAGR of 28.0% over 2008-18, while export to South Korea grew 24.9% over the same period. The share of T&A export to China in Vietnam's total T&A export rose to 11.2% from 3.4%, while the corresponding figure for South Korea increased to 10.5% from 4.1% over 2008-18.

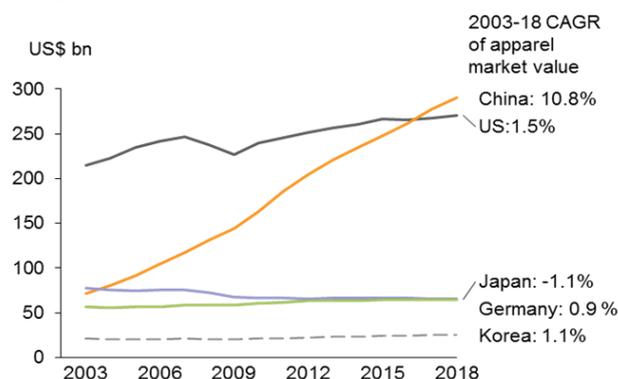
One key driver of China's growing share in Vietnam's T&A export mix is the strong growth in the Chinese apparel market, which clocked a 2003-18 value CAGR of 10.8% to reach US\$296bn, surpassing the United States to become the largest apparel market in the world. In the same period, the US share of total Vietnam's T&A export decreased to 38.6% in 2018 from 51.2% in 2008 due to maturity US apparel retail market (with 2003-18 CAGR of value reaching 1.5%).

Figure 5: Vietnam T&A export by key destination countries



Source: VNDIRECT, Vietnam Customs

Figure 6: Apparel market value of Vietnam's major T&A trading partners



Source: VNDIRECT, Euromonitor

**Vietnamese T&A enterprises recorded a strong performance both in topline and bottomline in the last 5 years**, driven by (1) a rise in revenue supported by large export orders re-allocated from China to Vietnam due to US-China trade tensions; and (2) expanding gross margins thanks to a gradual shift towards higher value-added products such as Free-On-Board (FOB) products (versus Cut-Make-Trim or CMT) and recycled, colour yarn (versus regular yarn).

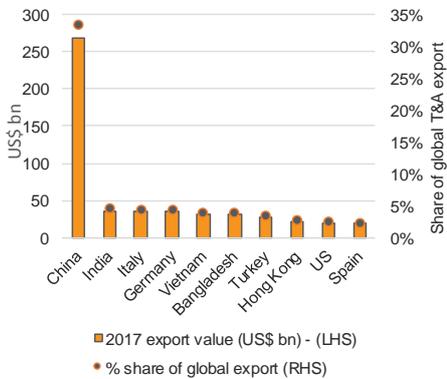
Figure 7: Overview of Vietnamese T&A enterprises' operating results

| Ticker         | Exchange | Market Cap (VND bn) | FY18 net revenue (VND bn) | 2013-18 CAGR of revenue (%) | 1Q19 revenue growth yoy (%) | FY18 net profit (VND bn) | 2013-18 CAGR of net profit (%) | 1Q19 net profit growth yoy (%) | FY13 gross margin (%) | FY18 gross margin (%) |
|----------------|----------|---------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------------|--------------------------------|-----------------------|-----------------------|
| VGT            | UPCOM    | 5,884               | 19,136                    | 11.8%                       | 2.8%                        | 703                      | 20.8%                          | 8.9%                           | 12.2%                 | 9.4%                  |
| MSH            | HOSE     | 2,801               | 3,951                     | 12.6%                       | 22.2%                       | 370                      | 34.4%                          | 77.8%                          | 14.4%                 | 20.1%                 |
| VGG            | UPCOM    | 2,654               | 9,720                     | 15.0%                       | -7.2%                       | 477                      | 14.0%                          | -9.4%                          | 13.9%                 | 12.0%                 |
| STK            | HOSE     | 1,676               | 2,408                     | 10.6%                       | 2.8%                        | 178                      | 19.1%                          | 29.4%                          | 12.2%                 | 13.9%                 |
| TCM            | HOSE     | 1,646               | 3,664                     | 7.4%                        | 15.3%                       | 260                      | 16.0%                          | -12.2%                         | 13.5%                 | 18.5%                 |
| TNG            | HNX      | 1,160               | 3,613                     | 24.9%                       | 34.2%                       | 180                      | 66.6%                          | 71.7%                          | 18.4%                 | 17.7%                 |
| GMC            | HOSE     | 672                 | 2,045                     | 10.7%                       | 9.7%                        | 120                      | 19.6%                          | 72.7%                          | 13.5%                 | 17.8%                 |
| MNB            | UPCOM    | 582                 | 4,920                     | 11.8%                       | 5.6%                        | 68                       | -5.1%                          | -65.0%                         | 18.1%                 | 19.8%                 |
| M10            | UPCOM    | 581                 | 2,980                     | 10.1%                       | 16.8%                       | 56                       | 12.0%                          | 37.7%                          | 14.7%                 | 15.6%                 |
| HTG            | UPCOM    | 439                 | 4,346                     | 12.1%                       | -0.6%                       | 101                      | 15.8%                          | 15.0%                          | 9.7%                  | 8.8%                  |
| BDG            | UPCOM    | 404                 | 1,459                     | 5.9%                        | -7.7%                       | 111                      | 60.0%                          | -23.7%                         | 9.0%                  | 15.0%                 |
| <b>Average</b> |          | <b>1,682</b>        | <b>5,295</b>              | <b>12.1%</b>                | <b>8.5%</b>                 | <b>239</b>               | <b>24.8%</b>                   | <b>18.4%</b>                   | <b>13.6%</b>          | <b>15.3%</b>          |
| <b>Median</b>  |          | <b>1,160</b>        | <b>3,664</b>              | <b>11.8%</b>                | <b>5.6%</b>                 | <b>178</b>               | <b>19.1%</b>                   | <b>15.0%</b>                   | <b>13.5%</b>          | <b>15.6%</b>          |

Source: VNDIRECT, Fiiipro

**A HOST OF EXTERNAL FACTORS WILL SUPPORT THE CONTINUED GROWTH OF VIETNAM'S TEXTILES AND APPAREL EXPORT INDUSTRY**

**Figure 8: China is still a dominant player in the global T&A export market**



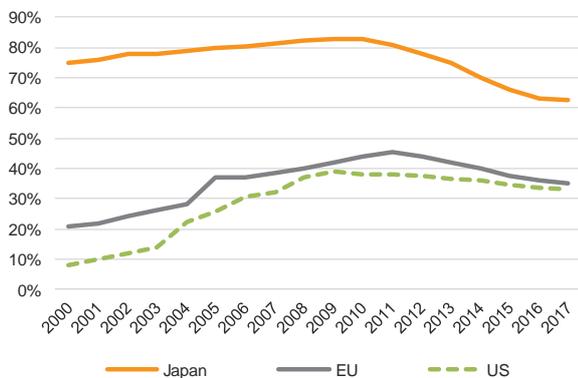
Source: VNDIRECT, WTO

**Structural changes in China's economy underway to focus on innovation and technology-led sectors**

The Chinese government wants the country to move up the value chain after adopting the 13<sup>th</sup> Five-Year plan (for the 2016-20 period) in 2016 with the objective of developing an innovation-driven, balanced and green economy. Also, in our view, the value added by the textile industry will be much smaller than that by the technology sector, going forward, in helping maintain an annual GDP growth of 6.5% during 2016-20 as set by the Chinese government. In April 2016, China decided to end all subsidies for T&A exports (which run contrary to WTO rules regarding fair trade agreements) including crucial tax advantages and tax rebates, dealing yet another blow to the competitiveness of this industry.

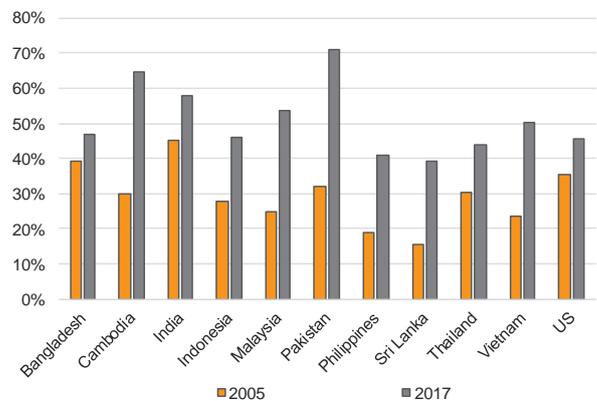
Overall, we expect the whole Chinese T&A industry to slow down due to the structural shift underway in the economy. Also, within the T&A industry, we forecast a shift into upstream segments that are less labour-intensive with China continuing to be the dominant global textile material sourcing hub in the future. China's apparel export share has decreased from a peak in 2010, with many other exporting nations taking away its market share.

**Figure 9: China's share of apparel exports to large markets is past its peak**



Source: VNDIRECT, UNComtrade

**Figure 10: China's rising share of textile imports by key garment exporting nations shows its migration upstream**



Source: VNDIRECT, WTO

**China's shift away from labour-intensive garment production will leave a sizable void for other exporters like Vietnam to fill**

China's T&A industry is expected to keep shifting away from labour-intensive segments (e.g. apparel, clothing) due to a surge in average manufacturing labor wages which have risen at a CAGR of 9.9% over 2011-17. Therefore, the reduction in apparel production (from 47% to 40% of total industry value in 2015-20 under the 13<sup>th</sup> Five-Year plan) will leave a huge gap (worth around US\$23bn, equivalent to 64% of Vietnam's 2018 T&A export value) for other countries (including Vietnam) to fill.

We think that Vietnam is potentially the largest beneficiary from the changes in the Chinese apparel industry, along with India, Bangladesh and Cambodia, given relatively low labour costs, and the rapid development of an integrated production chain starting from upstream yarn production all the way to cutting and sewing operations. Vietnam's T&A industry also has a track record of relatively good compliance with international social, environmental and labour safety standards which differentiates it from other major

exporters like Bangladesh, which has seen a number of garment factory accidents in recent years.

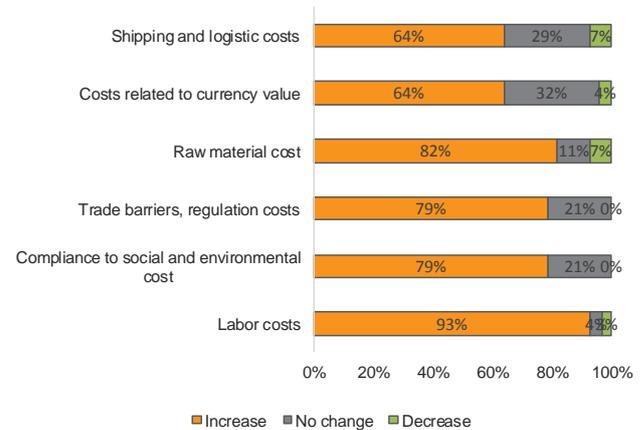
Figure 11: Strength and weakness as a sourcing base

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

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: Expected change in sourcing cost by component (results of a survey of US T&A buyers in 2018 - % of respondents)



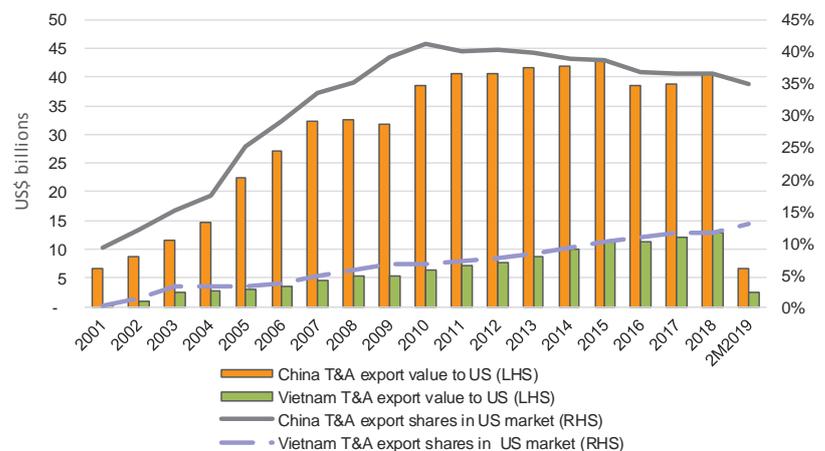
Note: Sourcing costs are measured on a global basis.

Source: VNDIRECT, USFIA

### An escalating US-China trade tension is an opportunity for Vietnam's T&A export to gain share from China

Vietnam T&A export has been gaining shares from China in US market for the last couple of years. Shares of Vietnam T&A export in the US market rose to 11.6% in 2018 from 6.7% in 2010, while China has gradually lost its share to 36.5% from 41.2% in the same period. We believe that there are two reasons for these changes including: (1) China's economy restructuring (as explained above) and (2) Trump's anti-China political stance that ignited the trade tension since he was elected in 2016 (that partly caused China's T&A export to US fell in the same year).

Figure 13: T&A exports of Vietnam and China to US market

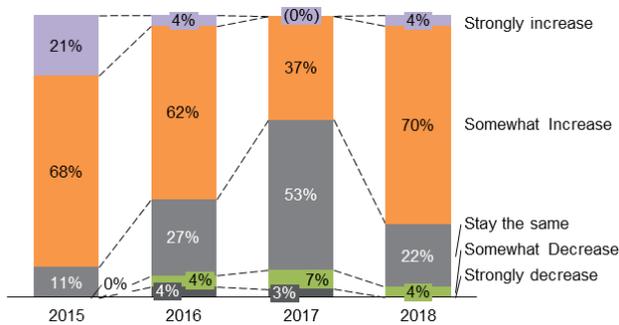


Source: VNDIRECT, OTEXA

**US-China trade tensions are bound to improve Vietnam's future T&A export prospects.** A "China plus Vietnam plus many" sourcing strategy has become an imperative for global T&A importers following the recent trade tensions between China and the United States. Global importers will continue to shift their sourcing to Vietnam in anticipation of a resurgence in trade tensions in the

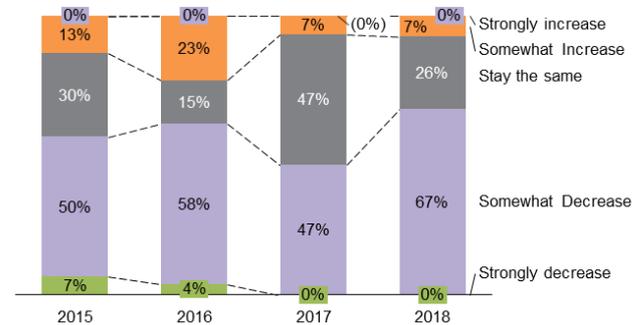
future. Below are the results of a survey conducted by the United States Fashion Industry Association in 2018.

Figure 14: Results of survey of US buyers' planned changes in T&A sourcing (in value terms) from Vietnam



Source: VNDIRECT, USFIA

Figure 15: Results of survey in 2018 of US buyers' planned changes in T&A sourcing (in value terms) from China



Source: VNDIRECT, USFIA

In the context of an escalating US-China trade war, we have summarized the actions, actual effects and our forecast onto China and Vietnam's T&A industries in the following table:

Figure 16: US - China Trade war sum-up and the effects onto T&A industries of Vietnam and China

| Time                  | Tariff imposed     | Tariff package value (US\$ bn) | Note   | Actual effects/ our forecasts   |
|-----------------------|--------------------|--------------------------------|--|---|
| 1st round             | 24-Sep-18          | 10%                            | US\$200bn<br>Including US\$13bn worth of textile products  | <b>Actual effects: The 1st round of tariff of 10% imposed by US damaged Chinese textile export while supporting Vietnam T&amp;A export.</b><br>China T&A export to US only increased by 1.4% yoy in 2M19 while the growth rate of 2M2018 was 8.8% yoy, in which Chinese textile products (yarn, fabrics, that were imposed tariffs) recorded a decline in 2M2019 export value to US by 1.6% yoy vs the growth rate of 31.3% yoy in 2M2018.<br>Chinese T&A share in US market shrank 160bp from 36.5% in the end of FY18 to 34.9% in Feb 2019. We think that the sentimental effect, rather than the material effect, from the 1st round of tariff is the main cause for this decline as US importers were worried about a further escalation of the trade war hence started to diversify their sourcing locations away from China.<br>Vietnam T&A export to US surged 11.7% yoy in 2M2019 hence raising Vietnamese T&A export shares in US market to the record high of 13.0% (+80bp yoy), largely thanks to soaring textile export of 26.9% yoy, which received large US textile orders migrated from China as a consequence of trade war. |
| 2nd round             | 10-May-19          | 25%                            | US\$200bn<br>Including US\$13bn worth of textile products  | <b>Our forecast: the 2nd round of US tariffs of 25% might give Vietnam T&amp;A export a further boost.</b><br>Under our pro-forma assumptions that the growth rate of Vietnam and China T&A export to US in 2M2019 to be maintained for the remaining of 2019, we estimate that Vietnam T&A share in US market could rise to 12.5% (+90bp yoy) by the end of 2019.  |
| 3rd round (proposing) | Expect end of June | 25%                            | Additional US\$300bn (raise total tariff package to US\$500bn)<br>Including all T&A export of China that worths US\$41bn | <b>Our forecast: a full-on trade war will almost certainly put Vietnam T&amp;A industry in "sweet spot".</b><br>This round of tariffs will bear a much more significant impact upon both China and especially Vietnam T&A industry, considering the fact that 94.2% of Vietnam's T&A exports to the US are comprised of apparel while the similar proportion for China is 69.7%.  |

Source: VNDIRECT

**Devaluation in Chinese Yuan, as the consequence of trade war, will benefit Vietnam T&A enterprises thanks to cheaper inputs.** In the latest actions of retaliating against the US, Chinese government has devalued CNY to aid Chinese exports to the US, depreciating CNY by 210bp vs. VND from the beginning of May 2019. This means that it is becoming cheaper for Vietnam firms to purchase materials including yarn, fabric from China (our largest import destination for these products) therefore improving gross margin of domestic T&A enterprises. As material makes up the largest expense, accounting for 60%-70% of COGS, we estimate that for every 100bp depreciation of CNY/VND, gross margin of Vietnam T&A enterprises would be expanded by 50 - 60bp, on average.

Figure 17: CNY/VND exchange rate



Source: VNDIRECT, exchange-rate.org

**EVFTA may give Vietnam’s T&A export an immediate lift while CPTPP will raise the industry sentiment**

Figure 18: The overlap between CPTPP and previously signed FTAs

| Country      | % of 2018 Vietnam T&A exports | Overlap with signed FTAs     |
|--------------|-------------------------------|------------------------------|
| Japan        | 10.5%                         | VJEPA, effective from 2008   |
| Canada       | 1.9%                          |                              |
| Australia    | 0.6%                          | AANZFTA, effective from 2018 |
| Malaysia     | 0.4%                          |                              |
| Chile        | 0.4%                          |                              |
| Singapore    | 0.3%                          |                              |
| Mexico       | 0.3%                          |                              |
| New Zealand  | 0.1%                          | AANZFTA, effective from 2018 |
| <b>Total</b> | <b>14.5%</b>                  |                              |

Source: VNDIRECT, Customs of Vietnam

**CPTPP will mostly help raise sentiment considering the overlaps with previous FTAs.** After the withdrawal of the United States from TPP in 2017, 11 other countries have grouped and formed a new trade deal called CPTPP (with similar rules) which has officially come into effect on 14 Jan 2019 after countries signed up on 3 Aug 2018. CPTPP will immediately eliminate 95-98% of tariff lines and the rest in the next five years. However, it should be noted that the majority of effect from CPTPP is overlapped with previously-signed VJEPA with Japan, Vietnam’s largest T&A trading partner, with US\$4bn of Vietnam’s 2018 T&A export amongst CPTPP members (with total export value of US\$5bn). Therefore, actual effects onto Vietnamese T&A industry from CPTPP is not significant.

**On the other hand, EVFTA (Vietnam – European Union FTA) may bring large opportunities from a huge market.** The EU is an important T&A trading partner of Vietnam. Vietnam’s export value to the EU stood at US\$4.2bn in 2018, or 11.6% of the country’s total T&A export. EVFTA will remove 99% of tariff lines on Vietnam’s exports to the EU (which is currently between 10% - 12%) and also stimulate investment from the EU to Vietnam and strengthen the textile production chain. EVFTA, which has been submitted to the EU Council in Nov 2018, is provisionally scheduled for discussion by the EU on 28 May 2019. In our view, considering the complicated situation of Brexit, the ratification of EVFTA might last longer and is expected to take place by the end of 2019.

Overall, we estimate the tax savings for importers from these tariff exemptions can reach up to US\$484m (at the average tariff rate of 10%, after excluding overlaps with previous FTAs), hence potentially raising exports to these destinations.

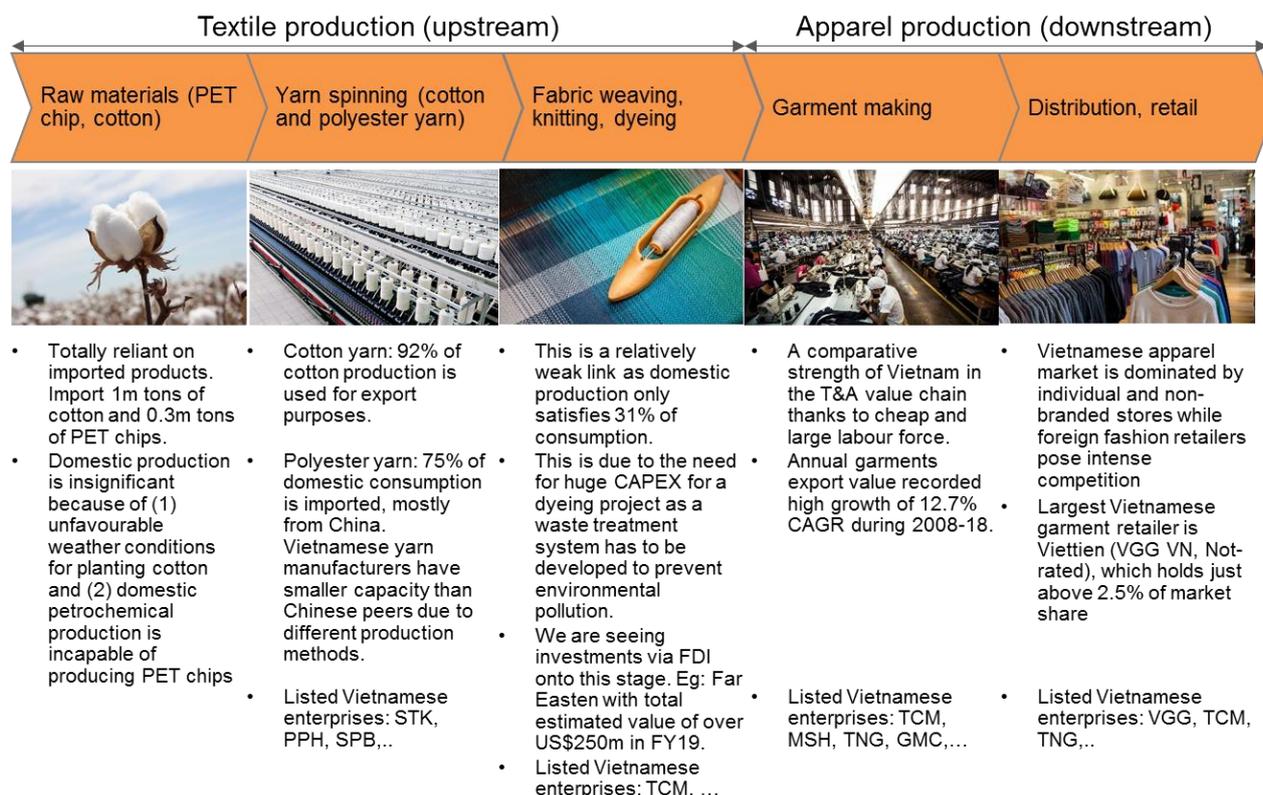
**Upstream manufacturers and vertically-integrated textile producers are expected to benefit significantly.** In our opinion, the largest beneficiaries from these trade deals are upstream manufacturers (including yarn and fabric enterprises, such as STK – a polyester yarn manufacturer) or firms that have a comprehensive production chain (such as TCM). Vietnamese exporters will have to start sourcing intermediates closer to home to meet rules of origin requirements. Also, while downstream exporters will have to compete with large Chinese garment exporters who are relocating their facilities to Vietnam, upstream players will see an increase in their addressable market opportunities due to higher demand.

Also, we think that foreign-owned enterprises in Vietnam will benefit the most, since the majority of upstream products is manufactured by foreign-owned enterprises (over 70% of yarn exports from Vietnam).

### VIETNAM'S T&A MANUFACTURING CAPABILITIES ARE IMPROVING

Production chains are being vertically integrated

Figure 19: Vietnam T&A production chain

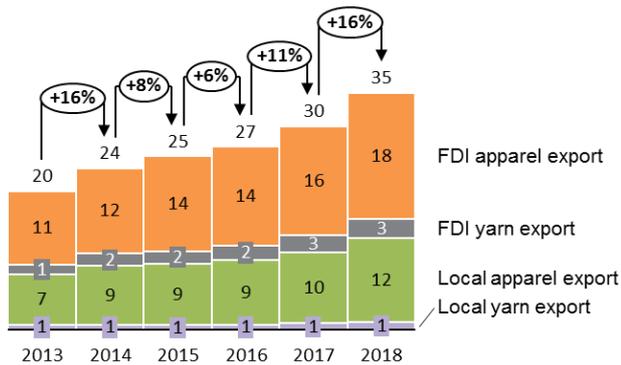


Source: VNDIRECT, VITAS

**Vertical integration is being driven by FDI players, focusing on upstream processes, to benefit from trade war tensions and trade pacts.** The FDI sector plays a crucial role in Vietnam's T&A industry as it accounts for 70% and 60% of national textiles and apparel exports in terms of value, respectively. It recorded strong growth during 2013-16, with an export value CAGR of 10.9% vs. domestic sector's export value growth of 8.0%, driven to a large extent by the expected ratification of the Trans Pacific Partnership (TPP). FDI flows into Vietnam's T&A industry paused in 2017, after the withdrawal of the United States (the largest country) from the TPP, and only recovered in 2018 as the CPTPP ratification became imminent.

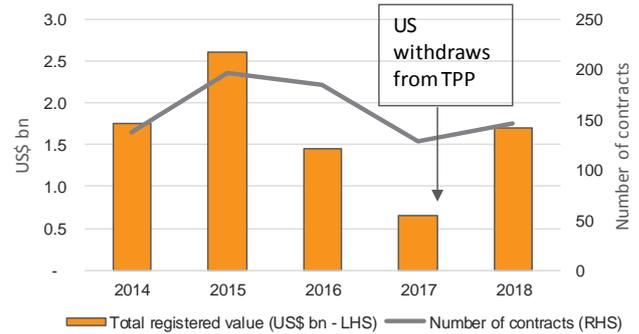
In our view, after successfully negotiating CPTPP and upcoming EVFTA, FDI is expected to resume its momentum in the following years, specifically in upstream production since demand for domestic upstream products will be increasingly large thanks to "Rules of Origin". Also, from our perspective, opportunities for investment in the upstream manufacturing segment are expected to be huge. Currently, Vietnam's T&A industry has a relatively strong capacity in sewing, and garment and apparel manufacturing, but it is relatively weak in the capital intensive manufacturing of upstream products (including yarn and fabric), hence creating a bottleneck in dyeing stage.

Figure 20: T&A export value of FDI vs. domestic sectors



Source: VNDIRECT, Vietnam Customs

Figure 21: Registered FDI into Vietnam's T&A industry



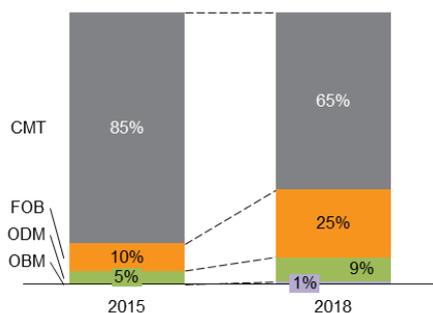
Source: VNDIRECT, VITAS

Many Chinese textile manufacturers have started to relocate their factories from China to Vietnam due to concerns over the US-China trade war. In our view, this might help to strengthen the textile production chain of Vietnam without creating severe competition since (1) the potential market is large as explained above, (2) Chinese yarn manufacturers provide a wide range of products (including advanced ones) which will expand the variety of products, reducing the needs for importing. Therefore, local apparel exporters will be able to source locally instead of importing, hence reducing logistic costs and order lead times for imported materials (10 - 20 days on average).

**Gradual shift towards high value-added apparel production**

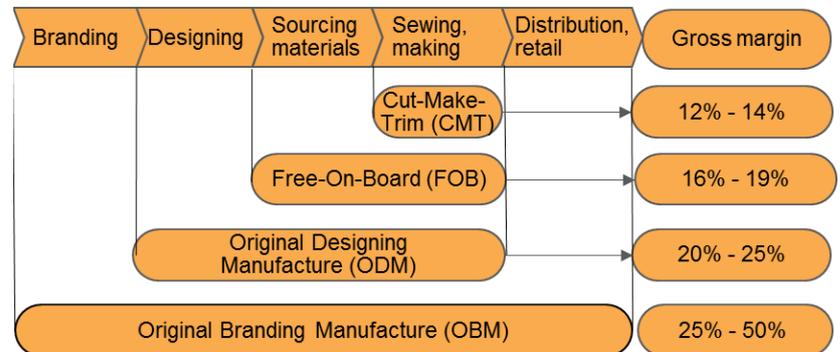
We are seeing manufacturers upgrading their production method from CMT towards FOB due to the increasingly integrated value chain of the Vietnamese T&A industry and the rising credibility of Vietnamese apparel exporters amongst global clothing and brand owners and retailers. The first impact of this change is that orders will generate an additional 4% of gross margin (FOB vs. CMT) on average as they will have come with the added responsibility of material sourcing. Secondly, this will help Vietnam run ahead its competitor, Bangladesh, despite the fact that this country has much cheaper labour than Vietnam.

Figure 22: Vietnam's garment production mix is improving (% export revenue by type)



Source: VNDIRECT, VITAS

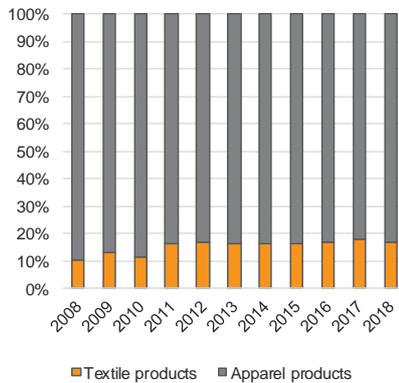
Figure 23: Garment production methods and gross margin (based on our observations and T&A enterprises' disclosure)



Source: VNDIRECT

**We forecast upstream production to be long term growth driver of Vietnam's T&A industry**

**Figure 24: Rising contribution of textile products in Vietnam's T&A export**



Source: VNDIRECT, Customs of Vietnam

**Upstream production will become an attractive investment destination in Vietnam's T&A production chain.** Upstream production (e.g. yarn, fabric...), which uses very little labour (labour cost is less than 10% of COGS on average), will not be affected when labour cost is on the rise. In our view, this segment is highly potential with huge room to grow, considering low domestic competition (even though capital barriers to entry is high) and nearly 75% of yarn and 70% of fabric are imported annually. We expect increasing investment in Vietnam's upstream production from foreign enterprises, including those who will relocate textile factories from China to Vietnam.

**In a very long term, we expect Vietnam's T&A industry to become a regional textile material supplier and apparel sourcing location for premium brands.** Considering continuous FDI inflows mostly into upstream production, we expect a comprehensive T&A value chain of Vietnam to be formed in five to ten years, hence gradually changing the role of Vietnam's T&A industry to become a textile material supplier for other regional low-cost apparel manufacturers, such as Cambodia and Myanmar as apparel orders will start to migrate to these countries. However, we also expect new garment orders from upper class and premium brands to take advantage of skilled labour and availability of materials. Overall, we forecast textile export to become the main growth driver in long term, while apparel export will mostly focus on high value-added products and remain flattish.

## DOMESTIC APPAREL MARKET IS NOT A RELAXING PLAYGROUND FOR DOMESTIC ENTERPRISES

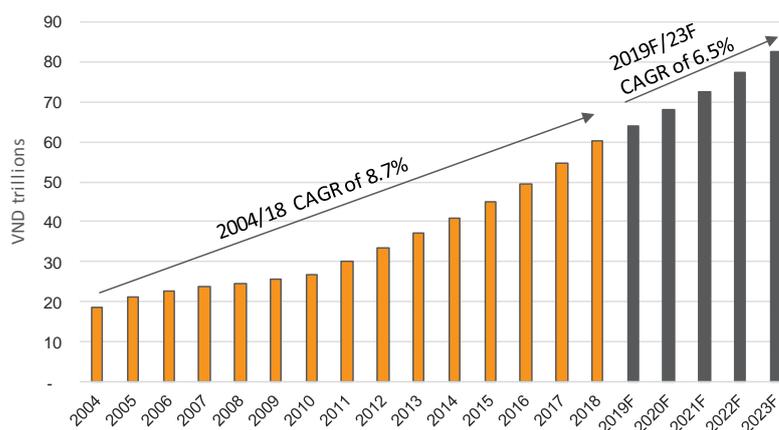
### Vietnam's apparel market has been growing strongly

**Vietnam's apparel market is amongst the fastest growing globally.** The country's apparel market has grown at a 2004-18 value CAGR of 8.7% to reach VND60tr in 2018 vs. the world's average growth rate of around 3.2% thanks to rising disposal income. According to Euromonitor, this growth rate is expected to be sustained at 6.5% for the next four years, potentially making Vietnam's apparel market one of the fastest growing in the world, against a global forecast 2019-2023 CAGR of around 1.3%.

### We are seeing a trend of uptrading towards branded clothing.

According to Euromonitor, shares of branded clothing retail in Vietnam's apparel market rose to 16.7% in 2018 from 11.6% in 2013. We expect this trend to be strengthening in upcoming years thanks to (1) an increasing demand for branded clothing as a method of enhancing self-image, and (2) an extending list of global fashion brands that will penetrate into Vietnam's apparel market, hence providing wide range of options for consumers. This trend will promote a change in consumer shopping habit from purchasing in individual stores to large, branded stores.

Figure 25: High growth of Vietnam's apparel market is expected to continue

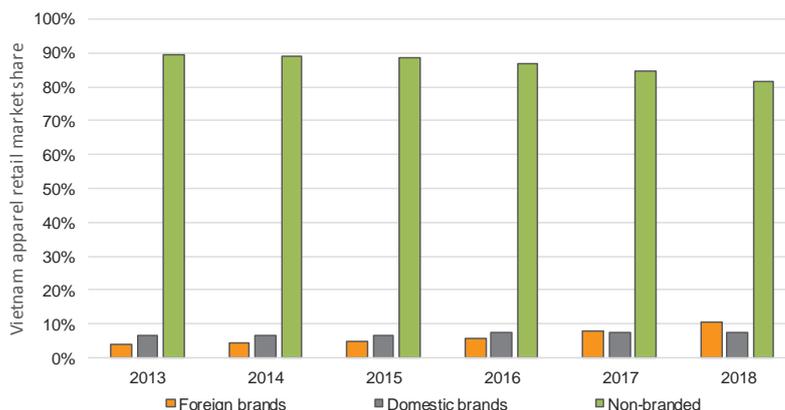


Source: VNDIRECT, Euromonitor

### The domestic market is facing fierce competition which means there are little chances for domestic players

**Fiercely competitive domestic market, dominated by non-branded clothing and stimulated by the entrance of foreign fashion giants.** According to Euromonitor, Vietnam's apparel market is extremely fragmented, with the dominance of individual stores that sell non-branded clothing (and also counterfeit products, imported from China, Thailand, etc) that account for 83.3% of retail value in 2018. The competition has also heated up significantly with the entry of several international fashion brands including Zara and H&M which have proven to be popular with Vietnamese consumers. In 2018, Zara made a revenue of VND2,163bn (+94.1% yoy) from its Vietnam operations, while H&M generated VND721bn (+288.2% yoy), reported Euromonitor.

Figure 26: Non branded clothing remains dominant in Vietnam retail market



Source: VNDIRECT, Euromonitor

**Overall, we think the domestic retail market is not a relaxing playground for local businesses.** While Vietnamese consumers have increasingly been trading up to branded clothes to improve their status and personal image, the trend mostly benefits international fashion brands. We think Vietnamese T&A enterprises should not fight for the domestic market in the short term.

Firstly, Vietnam apparel market size is relatively small with FY18 value of around US\$2.6bn, reported by Euromonitor, compared to total production capability of domestic apparel enterprises of around US\$30bn (measured by total apparel export in FY18). Secondly, it would be very difficult for Vietnamese T&A enterprises to compete with non-branded clothing which is generally cheaper and has extensive distribution network via small stores across the country. This process will take time for consumers to change the habit from purchasing non-branded to branded clothing. Regarding foreign fashion retailers, Vietnamese garment enterprises, now mostly at the CMT space, need to adopt the FOB (Free on Board), ODM (Original Design Manufacturing) and OBM (Original Branding Manufacturing) methods but the switch takes time and requires heavy investment.

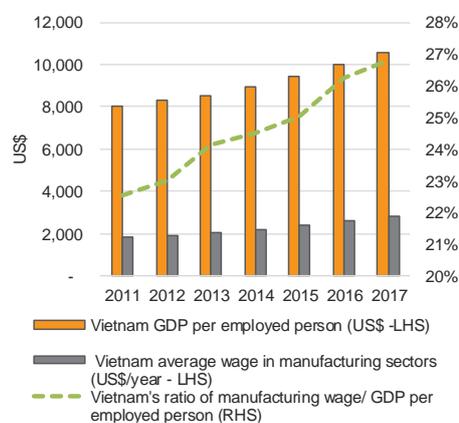
We have seen few listed Vietnamese T&A enterprises to recently join the domestic clothing retail market, namely TNG (with TNG Fashion) and TCM; both of whom did not performed well. According to TNG's BoD, TNG Fashion has not reached the breakeven point after three operating years, while revenue contribution of TCM's fashion brand is insignificant. Viettien (VGG VN, Non-rated), a long-established brand with over 20 operating years, seems to be the top performing Vietnamese clothing brand, recording 2013-18 revenue CAGR of 15%, yet it still lagged behind new foreign arrivals Zara and H&M in terms of growth rate.

**KEY SECTOR RISKS ARE RISING LABOUR COSTS WHILE DYEING STAGE REMAINS A BOTTLENECK**

**Rising labour costs might negatively affect efficiency of T&A industry from FY25F**

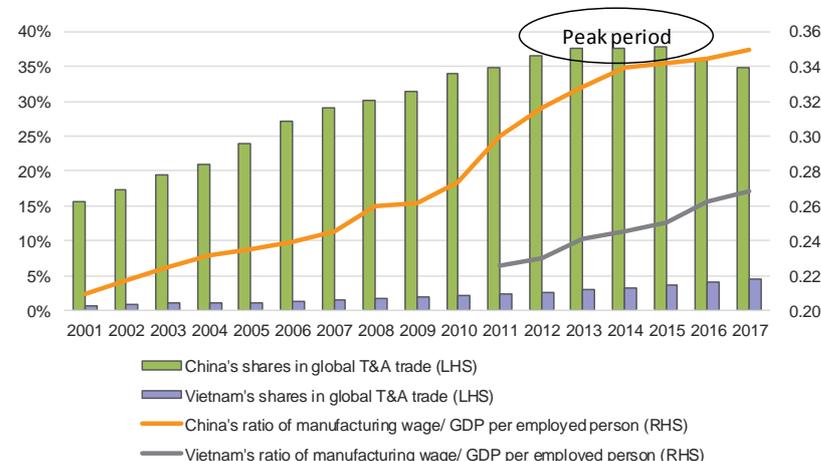
The advantage of Vietnam’s T&A industry in terms of cheap labour will not be able to last in the long term. Labour costs, which on average claim 50% to 60% of COGS of Vietnamese textile enterprises, heavily affect the topline and bottomline of the T&A industry. Average annual wage in manufacturing fields increased at a CAGR of 8.3% in the 2011-18 period (80bp higher than the growth of GDP per capita in the same period). A large number of Vietnamese T&A enterprises’ managements share the same expectation that this trend will be maintained in the upcoming years on the back of rising FDI as factories are being relocated from China to Vietnam, which will potentially boost demand for labour.

**Figure 27: Vietnam’s rising labour cost in manufacturing sectors**



Source: VNDIRECT, Worldbank, Trading Economics

**Figure 28: China vs. Vietnam rising labour wage context**



Source: VNDIRECT, WTO, World Bank, Trading Economics

**Effects from rising labour costs onto efficiency of Vietnam T&A industry might manifest from FY25F.**

In order to estimate the period of time that rising labour costs will affect Vietnam’s T&A industry, we use China’s situation as a benchmark as Vietnam is trailing China’s footprints. China’s export share in global T&A trade peaked at 37.6% in the 2013-15 period, while the ratio of average wage in manufacturing sectors/GDP per employed person (which implies cost/revenue per labour) was reported at 0.33x compared to Vietnam’s 0.25x. Therefore, we will use the ratio of 0.33x as the benchmark level, suggesting a further rise in wage (beyond that level) will leave a negative impact on Vietnam’s T&A industry.

We applied the average historical growth rates in the 2011-18 period of 4.7% for Vietnam’s GDP per employed person, and 8.3% for annual wage in the manufacturing sectors in our estimation. Overall, under our pro-forma we estimate that by 2025, the ratio of Vietnam’s average wage in manufacturing sector to GDP per employed person will reach 0.33x, indicating that Vietnam’s T&A industry might start to realize the diminishing efficiency in labour force.

**Dyeing stage remains a bottleneck thus preventing Vietnam from fully realizing benefit from FTAs**

**Vietnam dyeing production is still relatively weak.** According to VITAS, dyeing production (a final yet crucial stage in fabric production), despite recent improvements, is still relatively weak as only 4 out of 63 provinces have fabric dyeing projects, therefore Vietnamese fabric production only meets 32% of domestic demand.

**Environmental norms and large capital expenditure requirement are the two largest barriers to entry.** Toxic chemical substances used in dyeing fabric require heavy investment in effluent treatment facilities (from US\$10m of CAPEX) per dyeing factory, a requirement which favours only foreign-owned or large domestic enterprises. Secondly, local authorities are also reluctant to provide licences for dyeing projects after many environmental scandals in Vietnam in recent years. For instance, in Jun 2018, Vinh Phuc province authorities proposed that the Prime Minister reject the grant of an operating licence to a huge dyeing factory with capex of US\$350m due to environmental concerns.

**Therefore, Vietnam might not fully benefit from FTAs due to “Rules of Origin”.** It should be noted that the two trade pacts EVFTA and CPTPP have very strict sets of rules in terms of material usage called “Rules of Origin” for exporters to qualify for favourable tariff lines. The requirement of EVFTA is “fabric forward” and for CPTPP “yarn forward”. These rules mean apparel exporters have to source the required materials domestically or from other trade pact member countries.

Figure 29: Vietnam T&A industry's SWOT analysis

| SWOT analysis  |  |
|--|--|
| Strength (S)   | Weakness (W)   |
| Fast growing on the back of cheap labors, large number of FTAs with diversified export destinations  | Dyeing stage remains Bottleneck of the value chain due to large capital requirement and environmental norms hence making Vietnam T&A industry mostly reliant on imported materials |
| Value chain is being vertically integrated, driven by FDI enterprises and a gradual shift towards high-value apparel production                              |  |
| Opportunities (O)  | Threats (T)  |
| China economy's structural changes towards innovation leave a sizeable void for Vietnam T&A industry to fill   | Rising labor cost might shows negative impact onto efficiency of Vietnam T&A industry from FY25F   |
| Upcoming EVFTA will eliminate 99% of tariff lines to Vietnam T&A export to EU (value of around US\$4bn in FY18, equivalent to 11% of total T&A export)       |  |
| US - China tradewar will shift a large number of T&A orders and trigger a relocation of factories from China to Vietnam hence improving domestic value chain |  |

Source: VNDIRECT

**TEXTILE SECTOR STOCK PICKS: WE LIKE TCM, STK AND, MSH**

We like textile players that meet the following criteria: (1) net beneficiaries of FTAs, CPTPP and trade war due to the right export market footprint accompanied by a presence of midstream or upstream value chain, which is considered a long term investment in our view; and (2) have plans to either invest in a new range of products or raise existing production capacity. Therefore, our stock picks are Thanh Cong Textiles Garment Investment Trading (TCM VN, HOLD, TP: VND32,300), Century Synthetic Fiber Corp (STK VN, HOLD, TP: VND25,200), and Song Hong Garment (MSH VN, HOLD, TP: VND62,500).

**TCM is the only T&A enterprise that has a fully vertically integrated production chain from yarn production to garment making.** We expect TCM to be a net beneficiary of CPTPP and EVFTA as they already have in-house production facilities for both fabric and yarn, hence satisfying the Rule of Origin criteria in the two trade pacts. Secondly, TCM will invest in a dyeing factory with a CAPEX of around US\$16m in FY20F. The factory is expected to add capacity of 3,000m of fabric/day, hence reducing outsourcing

expenses and potentially raising gross margins by around 1%. However, problems related to customers' solvency present a risk in the near future as TCM has been trying to renegotiate terms of payment.

**STK will strongly benefit from trade war with solid near- and long-term growth drivers.** Chinese polyester yarn and related products have now been subjected to a 25% import tariff, on average, in the US market which made Vietnamese yarn relatively more competitive. In addition, we expect a robust year in 2019 for STK, on the back of improving product mix and commercial launch of a new factory, the Trang Bang 5. Furthermore, STK's BoD shows an ambition of investing in new projects with huge CAPEX to upgrade its technology and transform STK into the largest synthetic fiber manufacturer in Vietnam since FY22F.

**MSH is one of the leading apparel manufacturers in Vietnam, solidified by a strong customer base of global premium fashion brands.** We expect a change in product mix, with larger contribution from high-margin FOB apparel production forecast to be the near-term growth driver. Manufacturing capacity expansion is expected to be the long term growth engine from FY20F onwards thanks to the US\$16m apparel factory Song Hong 10 (SH10) that will start construction in 2Q2019F, and production in 2H2020F. MSH's total capacity would rise by 25%. Also, the firm has a very attractive dividend policy, with 2019 dividend expected at VND3,500/share (equivalent to a dividend yield of 5.8%).

Figure 30: Textiles and Apparel peers comparison

| Company                                  | Bloomberg Ticker | Recom. | Current price (local curr) | Target price (local curr) | 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) |
|--|------------------|--------|----------------------------|---------------------------|---------------------|---------------------|--------------------|-------------|--------------|------------|-------------|-------------|
| <b>Synthetic fiber manufacturers</b>     |                  |        |                            |                           |                     |                     |                    |             |              |            |             |             |
| Century Synthetic Fiber                  | STK VN           | HOLD   | 24,600                     | 25,200                    | 72.3                | 29.4%               | 19.1%              | 8.9%        | 21.6%        | 0.8        | 8.0         | 1.6         |
| Texhong Textile Group Ltd                | 2678 HK          | N/A    | 9                          | N/A                       | 1,380.0             | 1.0%                | 10.6%              | 6.8%        | 18.4%        | 0.5        | 7.9         | 1.4         |
| Vardhman Textiles Ltd                    | VTEX IN          | N/A    | 1,095                      | N/A                       | 937.3               | 24.1%               | 44.8%              | 7.4%        | 12.6%        | 0.4        | 10.8        | 1.3         |
| Shinkong Synthetic Fibers                | 1409 TT          | N/A    | 13                         | N/A                       | 711.7               | 154.8%              | 87.4%              | 1.7%        | 8.8%         | 0.5        | 8.9         | 0.8         |
| Indo-Rama Synthetics                     | INDR I           | N/A    | 4,500                      | N/A                       | 220.0               | 301.1%              | 477.7%             | 7.7%        | 19.4%        | 0.0        | 3.5         | 0.6         |
| Daehan Synthetic Fiber                   | 03830 TT         | N/A    | 109,000                    | N/A                       | 130.0               | 116.8%              | -73.2%             | 7.7%        | 9.1%         | 0.0        | 2.8         | 0.3         |
| Hong YI Fiber Industry                   | 1452 TT          | N/A    | 20                         | N/A                       | 86.1                | -9.6%               | -36.3%             | 7.1%        | 7.8%         | 1.1        | 13.5        | 1.1         |
| <b>Average</b>                           |                  |        |                            |                           | <b>505.3</b>        | <b>88.2%</b>        | <b>75.7%</b>       | <b>6.8%</b> | <b>14.0%</b> | <b>0.5</b> | <b>7.8</b>  | <b>1.0</b>  |
| <b>Median</b>                            |                  |        |                            |                           | <b>220.0</b>        | <b>29.4%</b>        | <b>19.1%</b>       | <b>7.4%</b> | <b>12.6%</b> | <b>0.5</b> | <b>7.9</b>  | <b>1.1</b>  |
| <b>Apparel and garment manufacturers</b> |                  |        |                            |                           |                     |                     |                    |             |              |            |             |             |
| Thanh Cong Textile Garment               | TCM VN           | HOLD   | 30,500                     | 32,300                    | 70.9                | -12.2%              | -12.2%             | 8.1%        | 20.5%        | 0.9        | 6.5         | 1.3         |
| Song Hong Garment                        | MSH VN           | HOLD   | 59,900                     | 62,500                    | 120.7               | 77.8%               | 77.8%              | 16.4%       | 42.2%        | 0.8        | 7.0         | 2.7         |
| Viet Tien Garment                        | VGG VN           | N/A    | 60,200                     | N/A                       | 114.4               | -9.4%               | -1.9%              | 9.6%        | 27.1%        | 0.1        | 5.8         | 1.6         |
| TNG Inv't and Trading                    | TNG VN           | N/A    | 22,000                     | N/A                       | 50.0                | 71.7%               | 8.3%               | 7.1%        | 25.7%        | 1.8        | 5.6         | 1.4         |
| Viet Thang Corp.                         | TVT VN           | N/A    | 32,900                     | N/A                       | 29.8                | -20.7%              | -5.2%              | 5.5%        | 12.6%        | 0.8        | 7.6         | 1.0         |
| Garmex Saigon                            | GMC VN           | N/A    | 42,600                     | N/A                       | 29.0                | 72.7%               | 8.6%               | 14.4%       | 40.9%        | 0.7        | 4.6         | 1.7         |
| Nha Be Garment                           | MNB VN           | N/A    | 32,000                     | N/A                       | 25.1                | -65.0%              | -7.4%              | 2.7%        | 21.9%        | 4.6        | 6.6         | 1.9         |
| <b>Average</b>                           |                  |        |                            |                           | <b>62.9</b>         | <b>16.4%</b>        | <b>9.7%</b>        | <b>9.1%</b> | <b>27.3%</b> | <b>1.4</b> | <b>6.2</b>  | <b>1.7</b>  |
| <b>Median</b>                            |                  |        |                            |                           | <b>50.0</b>         | <b>-9.4%</b>        | <b>-1.9%</b>       | <b>8.1%</b> | <b>25.7%</b> | <b>0.8</b> | <b>6.5</b>  | <b>1.6</b>  |

Source: VNDIRECT, BLOOMBERG

## THANH CONG TEXTILE GARMENT INVESTMENT TRADING JSC (TCM)

|                                  |                                  |                               |                       |                           |
|----------------------------------|----------------------------------|-------------------------------|-----------------------|---------------------------|
| <b>Market Price</b><br>VND30,500 | <b>Target Price</b><br>VND32,300 | <b>Dividend Yield</b><br>1.8% | <b>Rating</b><br>HOLD | <b>Sector</b><br>TEXTILES |
|----------------------------------|----------------------------------|-------------------------------|-----------------------|---------------------------|

### Outlook – Short term



### Outlook – Long term



### Valuation



24 May 2019

Tu Vu Minh

tu.vuminh@vndirect.com.vn

### Price performance



Source: VNDIRECT

### Key statistics

|                              |         |
|------------------------------|---------|
| 52w high (VND)               | 33,800  |
| 52w low (VND)                | 16,300  |
| 3m Avg daily volume (shares) | 626,600 |
| 3m Avg daily value (VNDmn)   | 36,780  |
| Market cap (VNDbn)           | 1,551   |
| Outstanding shares (m)       | 56.4    |
| Free float (%)               | 49      |
| TTM P/E (x)                  | 6.5     |
| Current P/B (x)              | 1.3     |

### Ownership

|   |       |
|---|-------|
| E-land Asia Holdings Pte., Ltd<br>Singapore | 43.3% |
| VCBF  | 2.6%  |
| Le Quoc Hung                                | 1.9%  |
| Others                                      | 52.2% |

Source: VNDIRECT

### 1Q19 results registered contrasting topline and bottomline growth

**Strong 1Q19 topline performance exceeded our expectations.** 1Q19 revenue reached VND978bn (+15.3% yoy), fulfilling 26.2% of our full year forecast revenue, driven by a surge of 16.7% yoy in exports and a 0.7% yoy rise in domestic business. It should be noted that 1Q is the low season of the textile industry, normally contributing about 20-22% to the whole year revenue. Therefore, TCM's tepid 1Q19 revenue completing 26.2% of FY19F is above our expectations.

**However, 1Q19 net profit fell 12.4% yoy due to contracting gross margin and rising SG&A expenses.** 1Q19 GM shrank by 250bp on the back of climbing labour cost to 22.9% of revenue, from 20.3% in 1Q18. In addition, SG&A expenses/revenue inched up by 90bp to 7.5% due to higher 2018 bonus payment for staff, the company's management said.

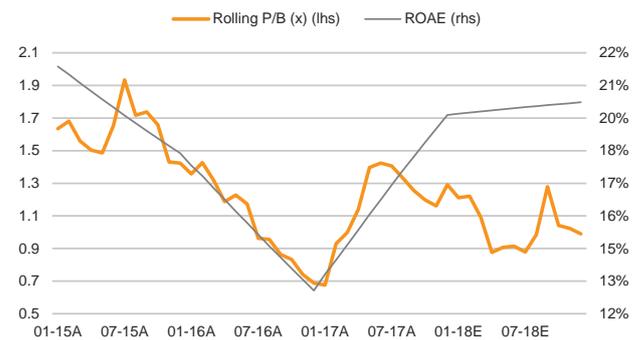
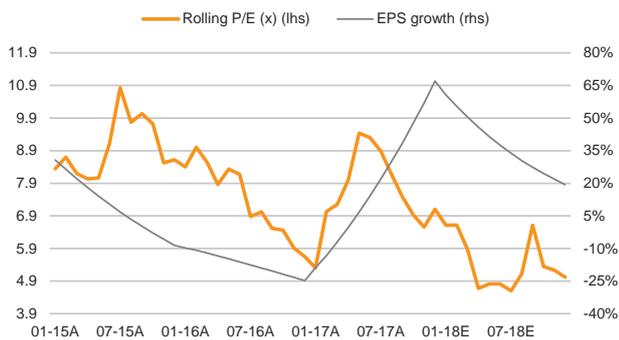
**Possibility of collecting Sears' receivables is unclear.** In Feb 2019, Sears was acquired for US\$5.2bn by a hedge fund of its former CEO, Edward Lampert, after filing for bankruptcy. TCM is waiting for judgments from US judges toward Sears' receivables, which are worth about VND101bn. According to management, they are able to collect a part of Sears' receivables. Thus, the company did not increase the provisioning for Sears' receivables in 1Q19 which were about VND78bn by end-FY18.

**Terms of payment are being re-negotiated to mitigate risk of uncollectable receivables, starting with two clients Sears and Eddie Bauer.** According to TCM's management, terms of payment are being re-negotiated to change from T/T (Telegraphic transfer) to L/C (Letter of credit) which guarantees payments from buyers. The firm's management is confident about the success of negotiations which would allow TCM to resume orders from Sears and Eddie Bauer. However, we have conservatively removed garment orders from these two clients in our FY19F onward revenue forecast, subject to official announcements by TCM.

| Financial summary (VND) | 12-17A | 12-18A | 12-19E | 12-20E |
|-------------------------|--------|--------|--------|--------|
| Net revenue (bn)        | 3,209  | 3,662  | 3,728  | 4,081  |
| Revenue growth          | 4.5%   | 14.1%  | 1.8%   | 9.5%   |
| Gross margin            | 15.7%  | 18.5%  | 19.0%  | 19.0%  |
| EBITDA margin           | 12.1%  | 13.1%  | 13.1%  | 13.8%  |
| Net profit (bn)         | 193    | 260    | 256    | 301    |
| Net profit growth       | 67.1%  | 34.6%  | (1.8%) | 17.6%  |
| Recurring profit growth | 28.8%  | 72.8%  | 3.9%   | 11.5%  |
| Basic EPS               | 3,753  | 4,802  | 4,715  | 5,545  |
| Adjusted EPS            | 3,195  | 4,081  | 4,008  | 4,699  |
| BVPS                    | 20,635 | 23,379 | 25,843 | 28,391 |
| ROAE                    | 19.6%  | 22.3%  | 19.2%  | 20.4%  |

Source: VNDIRECT

## Valuation



### Income statement

| (VNDbn)                              | 12-18A       | 12-19E       | 12-20E       |
|--------------------------------------|--------------|--------------|--------------|
| Net revenue                          | 3,662        | 3,728        | 4,081        |
| Cost of sales                        | (2,983)      | (3,021)      | (3,304)      |
| Gen & admin expenses                 | (230)        | (194)        | (188)        |
| Selling expenses                     | (144)        | (149)        | (163)        |
| <b>Operating profit</b>              | <b>305</b>   | <b>364</b>   | <b>426</b>   |
| Operating EBITDA                     | 410          | 481          | 552          |
| <b>Depreciation and amortisation</b> | <b>(105)</b> | <b>(117)</b> | <b>(126)</b> |
| <b>Operating EBIT</b>                | <b>305</b>   | <b>364</b>   | <b>426</b>   |
| Interest income                      | 32           | 44           | 51           |
| Financial expense                    | (89)         | (93)         | (105)        |
| Net other income                     | 48           | 0            | 0            |
| Income from associates & JVs         | 28           | 5            | 5            |
| <b>Pre-tax profit</b>                | <b>323</b>   | <b>320</b>   | <b>377</b>   |
| Tax expense                          | (63)         | (64)         | (77)         |
| Minority interest                    | 0            | 0            | 0            |
| <b>Net profit</b>                    | <b>260</b>   | <b>256</b>   | <b>301</b>   |
| Adj. net profit to ordinary          | 221          | 217          | 255          |
| Ordinary dividends                   | (26)         | (27)         | (54)         |
| <b>Retained earnings</b>             | <b>234</b>   | <b>229</b>   | <b>246</b>   |

### Balance sheet

| (VNDbn)                               | 12-18A       | 12-19E       | 12-20E       |
|---------------------------------------|--------------|--------------|--------------|
| Cash and equivalents                  | 216          | 489          | 656          |
| Short term investments                | 203          | 203          | 203          |
| Accounts receivables                  | 280          | 318          | 358          |
| Inventories                           | 1,138        | 1,067        | 1,169        |
| Other current assets                  | 100          | 86           | 87           |
| <b>Total current assets</b>           | <b>1,937</b> | <b>2,163</b> | <b>2,472</b> |
| Fixed assets                          | 1,107        | 1,050        | 1,274        |
| Total investments                     | 67           | 67           | 67           |
| Other long-term assets                | 141          | 141          | 141          |
| <b>Total assets</b>                   | <b>3,252</b> | <b>3,421</b> | <b>3,954</b> |
| Short-term debt                       | 1,008        | 1,121        | 1,223        |
| Accounts payable                      | 300          | 302          | 357          |
| Other current liabilities             | 398          | 344          | 418          |
| <b>Total current liabilities</b>      | <b>1,705</b> | <b>1,767</b> | <b>1,998</b> |
| Total long-term debt                  | 222          | 197          | 360          |
| Other liabilities                     | 48           | 48           | 48           |
| Share capital                         | 542          | 542          | 542          |
| Retained earnings reserve             | 406          | 540          | 678          |
| <b>Shareholders' equity</b>           | <b>1,268</b> | <b>1,401</b> | <b>1,540</b> |
| Minority interest                     | 9            | 9            | 9            |
| <b>Total liabilities &amp; equity</b> | <b>3,252</b> | <b>3,421</b> | <b>3,954</b> |

### Cash flow statement

| (VNDbn)                                     | 12-18A       | 12-19E      | 12-20E       |
|---|--------------|-------------|--------------|
| <b>Pretax profit</b>                        | <b>323</b>   | <b>320</b>  | <b>377</b>   |
| Depreciation & amortisation                 | 105          | 117         | 126          |
| Tax paid                                    | (66)         | (64)        | (77)         |
| Other adjustments                           | (10)         | (27)        | (56)         |
| <b>Change in working capital</b>            | <b>(266)</b> | <b>(11)</b> | <b>(64)</b>  |
| <b>Cash flow from operations</b>            | <b>86</b>    | <b>334</b>  | <b>306</b>   |
| Capex                                       | (66)         | (60)        | (350)        |
| Proceeds from assets sales                  | 104          | 0           | 0            |
| Others                                      | 42           | 0           | 0            |
| Other non-current assets changes            | 0            | 0           | 0            |
| <b>Cash flow from investing activities</b>  | <b>79</b>    | <b>(60)</b> | <b>(350)</b> |
| New share issuance                          | 0            | 0           | 0            |
| Shares buyback                              | 0            | 0           | 0            |
| Net borrowings                              | (10)         | 25          | 265          |
| Other financing cash flow                   | (43)         | 0           | 0            |
| Dividends paid                              | (26)         | (27)        | (54)         |
| <b>Cash flow from financing activities</b>  | <b>(80)</b>  | <b>(2)</b>  | <b>211</b>   |
| Cash and equivalents at beginning of period | 130          | 216         | 489          |
| <b>Total cash generated</b>                 | <b>86</b>    | <b>273</b>  | <b>167</b>   |
| Cash and equivalents at the end of period   | 216          | 489         | 656          |

### Key ratios

|                          | 12-18A | 12-19E | 12-20E |
|--------------------------|--------|--------|--------|
| <b>Dupont</b>            |        |        |        |
| Net profit margin        | 7.1%   | 6.9%   | 7.4%   |
| Asset turnover           | 1.16   | 1.12   | 1.11   |
| ROAA                     | 8.3%   | 7.7%   | 8.2%   |
| Avg assets/avg equity    | 2.70   | 2.50   | 2.51   |
| ROAE                     | 22.3%  | 19.2%  | 20.4%  |
| <b>Efficiency</b>        |        |        |        |
| Days account receivable  | 33.1   | 41.1   | 41.2   |
| Days inventory           | 139    | 129    | 129    |
| Days creditor            | 36.7   | 36.5   | 39.5   |
| Fixed asset turnover     | 3.20   | 3.46   | 3.51   |
| ROIC                     | 10.4%  | 9.4%   | 9.6%   |
| <b>Liquidity</b>         |        |        |        |
| Current ratio            | 1.14   | 1.22   | 1.24   |
| Quick ratio              | 0.47   | 0.62   | 0.65   |
| Cash ratio               | 0.25   | 0.39   | 0.43   |
| Cash cycle               | 136    | 134    | 131    |
| <b>Growth rate (yoy)</b> |        |        |        |
| Revenue growth           | 14.1%  | 1.8%   | 9.5%   |
| Operating profit growth  | 25.4%  | 19.3%  | 17.2%  |
| Net profit growth        | 34.6%  | (1.8%) | 17.6%  |
| EPS growth               | 28.0%  | (1.8%) | 17.6%  |
| <b>Share value</b>       |        |        |        |
| Basic EPS (VND)          | 4,802  | 4,715  | 5,545  |
| BVPS (VND)               | 23,379 | 25,843 | 28,391 |

Source: VNDIRECT

## CENTURY SYNTHETIC FIBER CORP (STK)

|                                  |                                  |                               |                       |                           |
|----------------------------------|----------------------------------|-------------------------------|-----------------------|---------------------------|
| <b>Market Price</b><br>VND24,600 | <b>Target Price</b><br>VND25,200 | <b>Dividend Yield</b><br>6.1% | <b>Rating</b><br>HOLD | <b>Sector</b><br>TEXTILES |
|----------------------------------|----------------------------------|-------------------------------|-----------------------|---------------------------|

### Outlook – Short term



### Outlook – Long term



### Valuation



24 May 2019

Tu Vu Minh

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### Price performance



Source: VNDIRECT

### Key statistics

|                              |        |
|------------------------------|--------|
| 52w high (VND)               | 20,200 |
| 52w low (VND)                | 13,150 |
| 3m Avg daily volume (shares) | 63,630 |
| 3m Avg daily value (VNDmn)   | 1,180  |
| Market cap (VNDbn)           | 953    |
| Outstanding shares (m)       | 59.6   |
| Free float (%)               | 50     |
| TTM P/E (x)                  | 8.0    |
| Current P/B (x)              | 1.6    |

### Ownership

|  |       |
|--|-------|
| Huong Viet Investment Consultant Corporation | 20.2% |
| Dang Trieu Hoa                               | 13.9% |
| Dang My Linh                                 | 8.5%  |
| Dang Huong Cuong                             | 8.5%  |
| Vietnam Holding Ltd                          | 4.7%  |
| Others                                       | 44.2% |

Source: VNDIRECT

### Resilient 1Q results, robust 2019 outlook

**Flattish revenue growth but improving product mix.** 1Q19 revenue posted VND606bn (+2.9% yoy) on the back of 2.0% yoy rise in average selling price (ASP) and 0.9% yoy rise in sale volume. 1Q19 production volume was around 14,574 tonnes (utilization rate of 92.1%, which is 4.2pts lower yoy). However, we see a large improvement in product mix as recycle yarn revenue contribution (higher gross margin) surged to 22.9% in 1Q19 from 13.1% in 1Q18, while both DTY (Drawn Texturized Yarn) and FDY (Fully Drawn yarn) recorded falling revenue contribution by 5.0pts and 6.0pts, respectively. This altogether helped raise blended GM by 70pb yoy.

**Strong 1Q19 bottomline growth thanks to lower operating expense.** SG&A expense declined to 3.0% of revenue in 1Q19 from 3.9% in 1Q18, lifting net margin to 8.6% from 6.8% on yoy basis. Net profit rose to VND52bn in 1Q19 (+29.4% yoy), or 21.2% of our estimate for FY19, which is in line with our forecast given 1Q is a low season.

**We raise our FY19F net profit by 5.2% thanks to improving gross margin.** We now forecast FY19F recycle yarn revenue contribution to reach 26.0% (vs. 17.0% in our previous forecast) to reflect the change of STK's business plan. We expect revenue to be 2.9% higher than our previous forecast while blended gross margin is forecast at 15.3% (+70bp vs. our previous forecast) and FY19F EAT to rise by 5.2%.

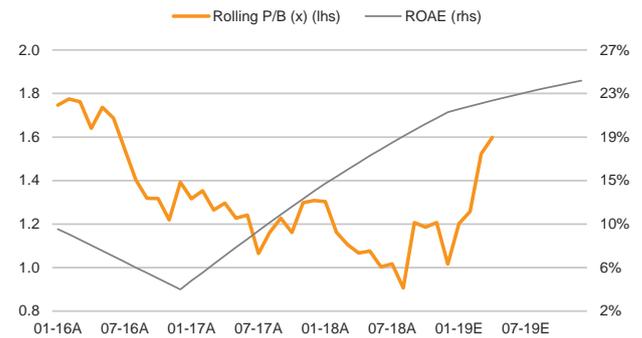
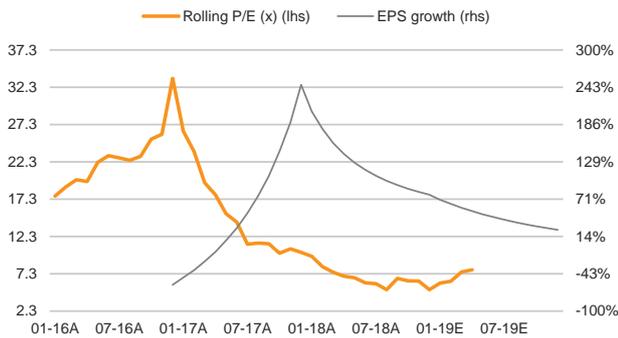
**Ambitious expansion plan would make STK the largest synthetic fiber manufacturer in Vietnam from FY22F.** In 2019 AGM, management shared a plan to triple its current capacity, making STK the largest synthetic fiber manufacturer in Vietnam. Total investment was estimated at VND3,745bn. However, further details have not been disclosed therefore we have not taken the factor into account in our forecasts. STK has announced an investment of US\$0.3mn in 2Q19F in a production line to produce 4,000 tonnes of colour yarn a year.

**We downgraded to HOLD rating after a recent rally in stock price,** despite positive outlooks from (1) improving product mix, which will drive up gross margin and (2) attractive dividend policy of VND1,500/share (equivalent to 6.1% dividend yield). Our TP of VND25,200 is based on fully diluted FY19F EPS of VND3,458/share and P/E target of 7.3x, which is the one-year historical P/E average of STK.

| Financial summary (VND) | 12-17A | 12-18A | 12-19E | 12-20E |
|-------------------------|--------|--------|--------|--------|
| Net revenue (bn)        | 1,989  | 2,408  | 2,748  | 2,950  |
| Revenue growth          | 46.4%  | 21.0%  | 14.1%  | 7.4%   |
| Gross margin            | 10.9%  | 13.9%  | 15.3%  | 15.9%  |
| EBITDA margin           | 14.1%  | 15.4%  | 17.0%  | 17.9%  |
| Net profit (bn)         | 100    | 178    | 245    | 298    |
| Net profit growth       | 246.7% | 78.2%  | 37.1%  | 21.8%  |
| Recurring profit growth | 248.0% | 76.2%  | 37.8%  | 22.5%  |
| Basic EPS               | 1,561  | 2,782  | 3,458  | 4,213  |
| Adjusted EPS            | 1,561  | 2,782  | 3,458  | 4,213  |
| BVPS                    | 12,128 | 14,181 | 15,758 | 18,980 |
| ROAE                    | 13.6%  | 21.1%  | 24.2%  | 24.3%  |

Source: VNDIRECT

**Valuation**



**Income statement**

| (VNDbn)                              | 12-18A       | 12-19E       | 12-20E       |
|--------------------------------------|--------------|--------------|--------------|
| Net revenue                          | 2,408        | 2,748        | 2,950        |
| Cost of sales                        | (2,073)      | (2,328)      | (2,480)      |
| Gen & admin expenses                 | (56)         | (64)         | (69)         |
| Selling expenses                     | (33)         | (38)         | (41)         |
| <b>Operating profit</b>              | <b>245</b>   | <b>318</b>   | <b>360</b>   |
| Operating EBITDA                     | 388          | 476          | 522          |
| <b>Depreciation and amortisation</b> | <b>(143)</b> | <b>(159)</b> | <b>(162)</b> |
| <b>Operating EBIT</b>                | <b>245</b>   | <b>318</b>   | <b>360</b>   |
| Interest income                      | 11           | 15           | 22           |
| Financial expense                    | (53)         | (50)         | (39)         |
| Net other income                     | (3)          | 2            | 2            |
| Income from associates & JVs         | (1)          | 0            | 0            |
| <b>Pre-tax profit</b>                | <b>199</b>   | <b>284</b>   | <b>346</b>   |
| Tax expense                          | (21)         | (39)         | (48)         |
| Minority interest                    | 0            | 0            | 0            |
| <b>Net profit</b>                    | <b>178</b>   | <b>245</b>   | <b>298</b>   |
| Adj. net profit to ordinary          | 178          | 245          | 298          |
| Ordinary dividends                   | (48)         | (106)        | (71)         |
| <b>Retained earnings</b>             | <b>130</b>   | <b>138</b>   | <b>227</b>   |

**Balance sheet**

| (VNDbn)                               | 12-18A       | 12-19E       | 12-20E       |
|---------------------------------------|--------------|--------------|--------------|
| Cash and equivalents                  | 198          | 263          | 442          |
| Short term investments                | 0            | 0            | 0            |
| Accounts receivables                  | 69           | 82           | 88           |
| Inventories                           | 499          | 624          | 685          |
| Other current assets                  | 31           | 47           | 50           |
| <b>Total current assets</b>           | <b>797</b>   | <b>1,015</b> | <b>1,265</b> |
| Fixed assets                          | 1,160        | 1,032        | 913          |
| Total investments                     | 148          | 197          | 210          |
| Other long-term assets                | 0            | 0            | 0            |
| <b>Total assets</b>                   | <b>2,105</b> | <b>2,244</b> | <b>2,388</b> |
| Short-term debt                       | 427          | 406          | 436          |
| Accounts payable                      | 315          | 352          | 387          |
| Other current liabilities             | 105          | 83           | 89           |
| <b>Total current liabilities</b>      | <b>847</b>   | <b>841</b>   | <b>912</b>   |
| Total long-term debt                  | 348          | 240          | 76           |
| Other liabilities                     | 1            | 49           | 58           |
| Share capital                         | 599          | 707          | 707          |
| Retained earnings reserve             | 275          | 372          | 600          |
| <b>Shareholders' equity</b>           | <b>909</b>   | <b>1,115</b> | <b>1,342</b> |
| Minority interest                     |              |              |              |
| <b>Total liabilities &amp; equity</b> | <b>2,105</b> | <b>2,244</b> | <b>2,388</b> |

**Cash flow statement**

| (VNDbn)                                     | 12-18A      | 12-19E       | 12-20E       |
|---|-------------|--------------|--------------|
| <b>Pretax profit</b>                        | <b>199</b>  | <b>284</b>   | <b>346</b>   |
| Depreciation & amortisation                 | 143         | 159          | 162          |
| Tax paid                                    | (14)        | (39)         | (48)         |
| Other adjustments                           | (3)         | 8            | (4)          |
| <b>Change in working capital</b>            | <b>(83)</b> | <b>(135)</b> | <b>(30)</b>  |
| <b>Cash flow from operations</b>            | <b>242</b>  | <b>276</b>   | <b>426</b>   |
| Capex                                       | (95)        | (42)         | (43)         |
| Proceeds from assets sales                  | 0           | 0            | 0            |
| Others                                      | 8           | 0            | 0            |
| Other non-current assets changes            | 25          | 0            | 0            |
| <b>Cash flow from investing activities</b>  | <b>(62)</b> | <b>(42)</b>  | <b>(43)</b>  |
| New share issuance                          | 0           | 66           | 0            |
| Shares buyback                              | 0           | 0            | 0            |
| Net borrowings                              | (50)        | (129)        | (133)        |
| Other financing cash flow                   | 0           | 0            | 0            |
| Dividends paid                              | (48)        | (106)        | (71)         |
| <b>Cash flow from financing activities</b>  | <b>(98)</b> | <b>(169)</b> | <b>(204)</b> |
| Cash and equivalents at beginning of period | 117         | 198          | 263          |
| <b>Total cash generated</b>                 | <b>81</b>   | <b>65</b>    | <b>179</b>   |
| Cash and equivalents at the end of period   | 198         | 263          | 442          |

**Key ratios**

|                          | 12-18A | 12-19E | 12-20E |
|--------------------------|--------|--------|--------|
| <b>Dupont</b>            |        |        |        |
| Net profit margin        | 7.4%   | 8.9%   | 10.1%  |
| Asset turnover           | 1.17   | 1.26   | 1.27   |
| ROAA                     | 8.6%   | 11.2%  | 12.9%  |
| Avg assets/avg equity    | 2.45   | 2.15   | 1.89   |
| ROAE                     | 21.1%  | 24.2%  | 24.3%  |
| <b>Efficiency</b>        |        |        |        |
| Days account receivable  | 8.90   | 8.23   | 8.25   |
| Days inventory           | 88     | 98     | 101    |
| Days creditor            | 55.5   | 55.2   | 57.0   |
| Fixed asset turnover     | 2.03   | 2.51   | 3.03   |
| ROIC                     | 10.6%  | 13.9%  | 16.1%  |
| <b>Liquidity</b>         |        |        |        |
| Current ratio            | 0.94   | 1.21   | 1.39   |
| Quick ratio              | 0.35   | 0.47   | 0.64   |
| Cash ratio               | 0.23   | 0.31   | 0.48   |
| Cash cycle               | 41.2   | 50.8   | 52.3   |
| <b>Growth rate (yoy)</b> |        |        |        |
| Revenue growth           | 21.0%  | 14.1%  | 7.4%   |
| Operating profit growth  | 94.3%  | 29.5%  | 13.5%  |
| Net profit growth        | 78.2%  | 37.1%  | 21.8%  |
| EPS growth               | 78.2%  | 24.3%  | 21.8%  |
| <b>Share value</b>       |        |        |        |
| Basic EPS (VND)          | 2,782  | 3,458  | 4,213  |
| BVPS (VND)               | 14,181 | 15,758 | 18,980 |

Source: VNDIRECT

## SONG HONG GARMENT JSC (MSH)

|                                  |                                  |                               |                       |                           |
|----------------------------------|----------------------------------|-------------------------------|-----------------------|---------------------------|
| <b>Market Price</b><br>VND59,900 | <b>Target Price</b><br>VND62,500 | <b>Dividend Yield</b><br>5.8% | <b>Rating</b><br>HOLD | <b>Sector</b><br>TEXTILES |
|----------------------------------|----------------------------------|-------------------------------|-----------------------|---------------------------|

### Outlook – Short term



### Outlook – Long term



### Valuation



24 May 2019

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**We like MSH with its leading position in apparel manufacturing industry, solidified by a strong customer base of global premium fashion brands.**

**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 apparel production is expected to be the near-term growth driver**, since all its factories are currently running at full capacity. We expect the FOB business to contribute 78% of revenue in FY19F (up from 72% seen in FY18), which will drive the company's FY19F revenue to grow 9.5% yoy and FY19F blended GM to improve by 120bp.

**We project a FOB order value CAGR of 18.5% over FY18-22F 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 by the 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 2Q2019F and production in 2H2020F. 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 downgrade to HOLD rating as the stock price has surged recently**, despite 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 5.8%). Using adjusted FY19F EPS of VND8,721/share and target P/E of 7.2x (10% premium vs. peers), we come up with a 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)                  | 7.0    |
| Current P/B (x)              | 2.7    |

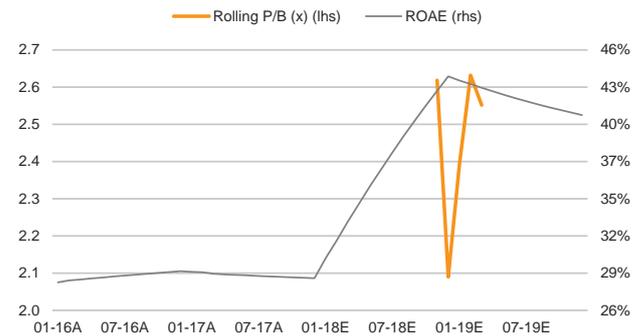
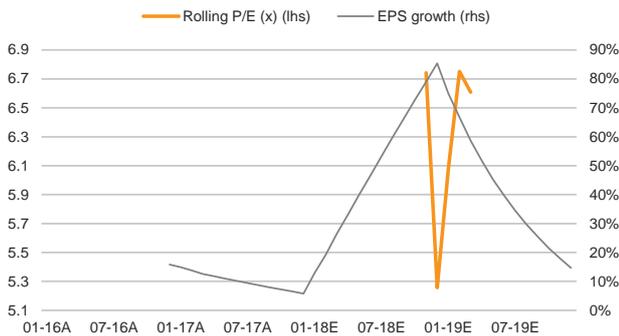
### Ownership

|                |       |
|----------------|-------|
| 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%  |

**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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### 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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