

THANHCONG TEXTILE GARMENT INVESTMENT TRADING (TCM) - UPDATE

Market Price VND28,100	Target Price VND29,300	Dividend Yield 3.50%	Rating HOLD	Sector TEXTILE & APPAREL
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Outlook – Short term



Outlook – Long term



Valuation



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Tho Dien Hong

tho.dienhong@vndirect.com.vn

Key changes in the report

- 56% increase in FY18F yarn revenue

Price Performance



Source: VNDIRECT

Key Statistics

52w high (VND)	33,100
52w low (VND)	13,050
3m Avg daily volume (shares)	669,381
3m Avg daily value (VNDmn)	17,745
Market cap (VNDbn)	1,464
Outstanding shares (m)	52.1
Free float (%)	60%
P/E TTM	7.6x
P/B	1.3x

Ownership

E-land Asia Holdings Pte., Ltd Singapore	43.3%
VCBF	2.6%
Lê Quốc Hưng	1.9%
Others	52.2%

Source: VNDIRECT

Despite the continued strength in the core garment and fabric segments next year, we expect the company's reported earnings to fall slightly in 2018 due to the lack of one-time gains from land sales realized this year. We therefore haircut our TP and maintain our Hold rating on TCM.

FY17 earnings to surge by 87% on core business recovery, declining revenue contribution from low margin yarn segment and land sales. We retain our positive outlook for the company's garment and fabric sales during FY17 and raise our previous yarn revenue estimates by 14%, up to VND663bn (-20% YoY). We also expect that Q4 2017 revenue could see a rebound and expect 4.4% growth in total FY17 revenue. The improvement in the productivity of the garment factory and the contraction in yarn output versus last year should boost gross margin by approximately 300 bps to touch 20%. We project that the company's FY17 EAT will surge by 87% due to the 38.3% growth in recurring earnings and sale of land earlier this year which generated VND33bn worth of one-time financial gains.

We expect healthy sales growth to be sustained into 2018 on continued strength in garment sales and fabric capacity expansion. We remain positive on the company's FY18 garment sales (+10% YoY) outlook. Management recently disclosed its FY18 plan based on the 1Q 2018 order book status from its customers. Customers, especially the Japanese, still favor TCM's fabric cost and quality, and are pushing the company to raise its currently overloaded fabric capacity by nearly 20% next year. This convinces us that the company will experience 20% sales growth in its fabric sales next year, assuming that ASPs remain flat. TCM will maintain its 2017 yarn output level into next year to serve its internal fabric production. We project that the company's FY18 revenue will rise by 8.9%.

Reported earnings to fall, however, due to lack of one-time gains. Assuming that it maintains the same production efficiency, the company recurring earnings could rise 11.4% next year, but reported earnings will fall by 3.8%. This is because there will be no more abnormal earnings from land sales and tax expenses will rise by 21% since the current tax incentive policy will expire next year. TCM also plans to sell the land on which its now-closed yarn factory No.3 sits, but has not announced any concrete details, and so we have not factored this into our earnings estimates.

TCM is trading at a FY18F forward PE of 7.7x which is roughly in line with the sector average. We downgrade our TP to VND29,300 linked to the FY18 EAT reduction and maintain a HOLD recommendation on the stock.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Net revenue (bn)	2,792	3,071	3,206	3,491
Revenue growth	8.6%	10.0%	4.4%	8.9%
Gross margin	15.3%	13.6%	16.7%	17.0%
EBITDA margin	9.4%	8.4%	13.3%	12.4%
Net profit (bn)	154	116	216	208
Net profit growth	(8.5%)	(24.8%)	86.6%	(3.8%)
Recurring profit growth	(8.0%)	(18.4%)	38.3%	11.4%
Basic EPS	2,986	2,246	4,192	4,033
Adjusted EPS	1,792	1,572	3,773	3,630
BVPS	18,072	18,461	20,389	22,974
ROAE	18.2%	12.9%	22.1%	18.6%

Source: VNDIRECT

The company's Q3 2017 volume recovery was encouraging. Apparel order demand is typically strong during this time, which allowed the company to boost its Q3 2017 garment output volume by 14% YoY. This represents a considerable improvement from the low base seen in Q3 2016 caused by a sharp reduction in orders from E-land due to its struggling Chinese operations which are now seeing some renewed strength. The company's 9M 2017 garment and fabric revenue rose 10% and 25% YoY, respectively, while its yarn revenue fell by 20% YoY, dragging total revenue growth to 6% YoY.

Figure 1: Key operating factors

VNDbn	2016A	YoY%	2017E	YoY%	2018F	YoY%
Revenue, including:	3,071	13%	3,206	4%	3,491	9%
<i>Yarn</i>	829	1%	663	-20%	663	0%
<i>Fabric</i>	246	30%	307	25%	368	20%
<i>Garments</i>	1,996	16%	2,235	12%	2,459	10%
COGs, including:	2,652	12%	2,670	1%	2,897	8%
<i>Raw material</i>	1,592	10%	1,657	4%	1,809	9%
<i>Labor cost</i>	564	22%	551	-2%	586	6%
<i>Depreciation</i>	72	20%	75	4%	79	6%
<i>Overhead</i>	421	6%	385	-9%	419	9%
<i>Other</i>	3	71%	3	4%	3	9%
Gross margin	13.6%		16.7%		17.0%	

Source: VNDIRECT

TCM's current valuation seems fair based on recurring earnings. Even though the stock prices in Vietnam do often experience a knee-jerk reaction to abnormal or one-time earnings, we feel that TCM's one-time financial gains bonanza in 2017 is already priced-in as we are already well into the fourth quarter.

We expect FY18 EPS to be reported at VND3,630 which will entirely stem from the core activities. Using the peer average PE as a benchmark, TCM's fair value should be VND29,300 which is 5% below our previous TP. In fact, the apparel and textiles industry seem to be trading at a substantial discount to the stock market as a whole which we believe is a function of the following factors: a) too much dependence on global economic and policy developments which remain uncertain, b) limited vertical integration plays and c) heavy degrees of customer concentration for most exporters.

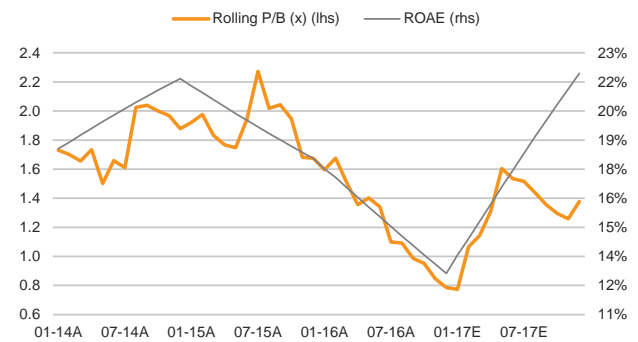
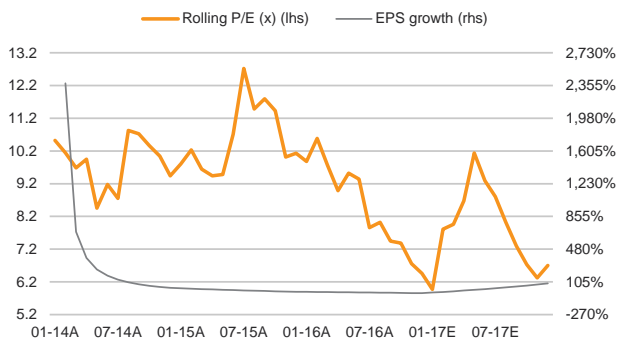
Figure 2: Peer valuation

Sticker	Exchange	Market Cap. (VNDbn)	TTM EPS (VND)	TTM EPS YoY growth	TTM EAT growth	D/E	TTM ROE	TTM ROA	Dividend Yield	P/B	P/E
VGG	UPCOM	2,550	9,215	6%	17%	0.08	28.5%	27.1%	4.3%	1.7	6.3
TCM*	HOSE	1,397	3,552	2%	75%	1.28	20.0%	18.8%	3.7%	1.3	7.6
EVE	HOSE	785	999	-35%	-65%	0.28	4.4%	5.7%	0.0%	0.8	18.7
TNG	HNX	584	2,314	0%	16%	2.46	17.9%	22.9%	11.3%	1.0	6.1
GMC	HOSE	430	4,334	23%	13%	1.15	23.9%	21.8%	10.8%	1.5	6.4
BDG	UPCOM	324	6,747	18%	37%	0.91	43.2%	51.2%	9.3%	1.6	4.0
MPT	HNX	50	440	37%	-20%	0.71	3.3%	1.8%	11.4%	0.0	7.3
Average										1.1	8.1

(*) TCM issued 2.45mn bonus shares in the ratio 100:5 on 11 Aug 2017

Source: VNDIRECT, Finpro

Valuation



Income statement

(VNDbn)	12-16A	12-17E	12-18E
Net revenue	3,071	3,206	3,491
Cost of sales	(2,652)	(2,670)	(2,897)
Gen & admin expenses	(144)	(150)	(163)
Selling expenses	(97)	(101)	(110)
Operating profit	179	284	321
Operating EBITDA	265	409	450
Depreciation and amortisation	(86)	(124)	(129)
Operating EBIT	179	284	321
Interest income	26	29	32
Financial expense	(68)	(91)	(95)
Net other income	(6)	33	0
Income from associates & JVs	3	3	3
Pre-tax profit	133	259	260
Taxation	(18)	(43)	(52)
Minority interests	1	0	0
Net profit	116	216	208
Adj. net profit to ordinary	116	194	187
Ordinary dividends	(41)	(52)	(52)
Retained earnings	75	164	156

Balance sheet

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	96	169	276
Short term investments	30	30	30
Accounts receivables	369	384	416
Inventories	729	734	797
Other current assets	86	86	86
Total current assets	1,310	1,404	1,605
Fixed assets	1,212	1,119	1,104
Total investments	142	142	142
Other long-term assets	156	156	156
Total assets	2,820	2,821	3,007
Short-term debt	894	796	859
Accounts payable	239	240	260
Other current liabilities	336	336	336
Total current liabilities	1,468	1,371	1,455
Total long-term debt	392	347	313
Other liabilities	45	45	45
Share capital	492	517	517
Retained earnings reserve	201	319	455
Shareholders' equity	908	1,051	1,187
Minority interests	7	7	7
Total liabilities & equity	2,820	2,821	3,007

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Pretax profit	133	259	260
Depreciation & amortisation	86	124	129
Tax paid	(17)	(43)	(52)
Other adjustments	(16)	(87)	(55)
Change in working capital	53	(20)	(75)
Cash flow from operations	240	234	207
Capex	(189)	(32)	(114)
Proceeds from assets sales	6	33	0
Others	(21)	32	34
Other non-current assets changes	0	0	0
Cash flow from investing activities	(205)	33	(79)
New share issuance	0	0	0
Shares buyback	(20)	0	0
Net borrowings	49	(143)	30
Other financing cash flow	(16)	0	0
Dividends paid	(41)	(52)	(52)
Cash flow from financing activities	(27)	(194)	(22)
Cash and equivalents at beginning of period	88	96	169
Total cash generated	8	73	106
Cash and equivalents at the end of period	96	169	276

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	3.8%	6.7%	6.0%
Asset turnover	1.15	1.14	1.20
ROAA	4.3%	7.7%	7.1%
Avg assets/avg equity	2.97	2.88	2.60
ROAE	12.9%	22.1%	18.6%
Efficiency			
Days account receivable	41.2	41.1	41.1
Days inventory	101	100	100
Days creditor	33.0	32.8	32.8
Fixed asset turnover	2.87	2.75	3.14
ROIC	5.3%	9.8%	8.8%
Liquidity			
Current ratio	0.89	1.02	1.10
Quick ratio	0.40	0.49	0.56
Cash ratio	0.09	0.15	0.21
Cash cycle	109	109	109
Growth rate (yoy)			
Revenue growth	10.0%	4.4%	8.9%
Operating profit growth	(18.6%)	59.1%	12.8%
Net profit growth	(24.8%)	86.6%	(3.8%)
EPS growth	(24.8%)	86.6%	(3.8%)
Share value			
Basic EPS (VND)	2,246	4,192	4,033
BVPS (VND)	18,461	20,389	22,974

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.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Phuong Nguyen Mai, CFA – Director

Email: phuong.nguyenmai@vndirect.com.vn

Tho Dien Hong – Analyst

Email: tho.dienhong@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>