

## THANHCONG TEXTILE GARMENT INVESTMENT TRADING (TCM) - UPDATE

<b>Market Price</b> VND22,900	<b>Target Price</b> VND30,200	<b>Dividend Yield</b> 2.2%	<b>Rating</b> ADD	<b>Sector</b> TEXTILE	
<b>Outlook – Short term</b>		<b>Outlook – Long term</b>		<b>Valuation</b>	
Negative	Neutral	Positive	Negative	Neutral	Positive

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### Key changes in the report

- Add FY18 disposal income

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	33,100
52w low (VND)	21,900
3m Avg daily volume (shares)	589,641
3m Avg daily value (VNDmn)	15,600
Market cap (VNDbn)	1,186
Outstanding shares (m)	51.8
Free float (%)	49
TTM P/E	6.3
Current P/B	1.1

### Ownership

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

Source: VNDIRECT

We expect TCM's core earnings to continue to improve this year backed by increasing garment and fabric output. The company also aborted plans to raise its FOL during its FY18 AGM. This will allow TCM to reactivate its project development on its existing land bank, which will greatly support its valuation in the near-term.

**High property value offsets the lack of foreign room.** TCM now holds a 19.2-ha land bank in HCMC (Figure 3) that can be used for residential and hospitality development. However, this also caps its FOL at 49% at a time when foreign investors, particularly strategic partner Eland group, were looking to increase their stake in TCM. During the FY18 AGM, management admitted that the value in the land bank and the current buoyancy in the real estate market convinced them to keep the FOL at 49% for now and speed up execution on pending projects such as TC1, 2 & 3. Current laws do not allow real estate developers to be more than 49% foreign-owned.

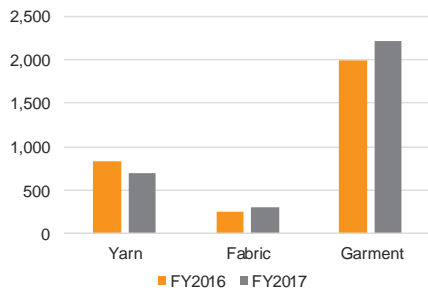
**Core segments to perform moderately well in 2018.** TCM's yarn product capacity fell by 33% due to the suspension of unprofitable yarn factories 1 and 3 last year. Hence, we cut our yarn sale volume estimate for FY18 by 13% and will keep an eye on a further potential drop, in the event that TCM decides to use yarn factory number 2 to produce fabric instead. The company's fabric and garment sales will not receive a huge lift from the CPTPP in the short-term. However, we still believe that these segments will deliver 5% and 10% growth respectively this year thanks to high product quality and low price.

**We expect that FY18 core-earnings to grow by a robust 45%.** Based on the above volume expectations, we project 4.5% revenue growth this year, assuming that there is no change in the ASP. Moreover, we also factor a 3.0% fall in the garment unit labor costs in Vinh Long factory, which began operating above the breakeven level last year. The company's FY18 core earnings may increase by 45%, but FY18 EAT growth may only be 14% due to the lower asset disposal income from the sale of the yarn factory No.3 which will contribute VND27bn to pre-tax earnings in Q1 2018, compared to VND42bn in financial gains from the Xuyen A IP land transfer in FY17.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	3,071	3,209	3,355	3,629
Revenue growth	10.0%	4.5%	4.5%	8.2%
Gross margin	13.6%	15.7%	16.8%	17.2%
EBITDA margin	8.4%	12.1%	19.8%	13.1%
Net profit (bn)	116	193	220	228
Net profit growth	(24.8%)	67.1%	14.0%	3.3%
Recurring profit growth	(25.6%)	25.6%	45.0%	9.4%
Basic EPS	2,246	3,753	4,276	4,419
Adjusted EPS	1,572	3,195	3,635	3,977
BVPS	18,461	20,635	23,223	26,193
ROAE	12.9%	19.6%	19.5%	17.9%

### FY2017 review: strong recovery in core performance

Figure 1: Revenue by segment (VNDbn)



Source: VNDIRECT, TCM

The company recovered strongly during FY17, which was backed by both recurring and non-recurring income. The business has been restructured to focus less on yarn production, and more on other high margin segments. The 15.3% drop in the company's yarn output put a lot of pressure on top line, but this was offset by 19.0% and 11.0% growth in fabric and garment sales value, respectively, which resulted in overall revenue growth of 4.5%. FY17 gross profit surged by 15.7% thanks to garment & fabric volume growth and the improved efficiency of the Vinh Long garment factory. The strong growth in gross profit combined with lower SG&A to push core earnings growth to an impressive 35.7%. The company's reported EAT in FY17, which was supported by VND33bn in disposal income, rose by 67.8%.

### Overlap between CPTPP and current FTAs

Figure 2: Overlapped incentive tariff between FTA and CPTPP

CPTPP members	T&A export contribution	Effective tariff from FTA
Japan	11.9%	0% since 2008
Canada	2.1%	
Australia	0.7%	Drop to 0% from 2018
Malaysia	0.4%	
Chile	0.3%	
Mexico	0.3%	
Singapore	0.3%	
New Zealand	0.1%	Drop to 0% from 2018

Source: VNDIRECT

In the long-term, we expect that the CPTPP will strengthen Vietnam's exports by removing most of the tariff barriers and result in economic benefits equating to 3.5% of current GDP (~US\$7.1bn, World Bank). In fact, potential tariff removals under CPTPP overlap with several existing bilateral FTAs. Hence, the actual impact of CPTPP on Vietnam's textile and apparel (T&A) exports is unclear as they are already exempt from import tariffs in several CPTPP members such as Australia, Japan and New-Zealand. While these countries only accounted for 12% of Vietnam's 2017 T&A export value, the other members of CPTPP show are unlikely to move the needle due to their small market size. Therefore, we believe the net impact will be muted, and it may take more than a year for T&A exporters like TCM to begin approaching new markets. However, the signing of CPTPP could well lift sentiment on the textile export sector, potentially lifting valuations.

### Land bank is a valuable asset

We do not have complete details for all of TCM's projects to factor them into our valuation at the moment (including TC2 and TC3). But the land locations are really attractive for any real estate developer given that there is a growing scarcity of land in HCMC and we think that announcement of concrete plans for monetizing this land bank could lift TCM's valuation even beyond our target price.

Figure 3: Project summary

Name	Location	Area (sqm)	Book value (VNDbn)	Note
TC 1	Tây Thạnh, Tân Phú District, HCMC	9,898	127	Its preliminary plan consists of 600 mid-class condos. TCM is seeking a partnership with a real estate developer to build an optimal plan and product portfolio this year. The total capital for the project is estimated at US\$9mn (~VND204bn) and it will likely be launched in 4Q2018.
TC 2	Tây Thạnh, Tân Phú District, HCMC	66,478	N/A	
TC 3	District 4, HCMC	13,178	N/A	
Phan Thiết resort	Phan Thiết	102,000	56	TCM plans to transfer this entire project and may receive US\$4.5 million

Source: VNDIRECT, TCM

### Valuation

We apply the peer average PE 8.3x to our forecasted FY18 EPS and come up with the TP of VND30,200. Although the earnings include a minor contribution from non-recurring gains from asset disposals, equivalent to VND400/share, we do not strip this out when applying our target PE because a) we think that the market will react to reported earnings and b) we are not currently factoring in any potential future earnings from the company's property assets.

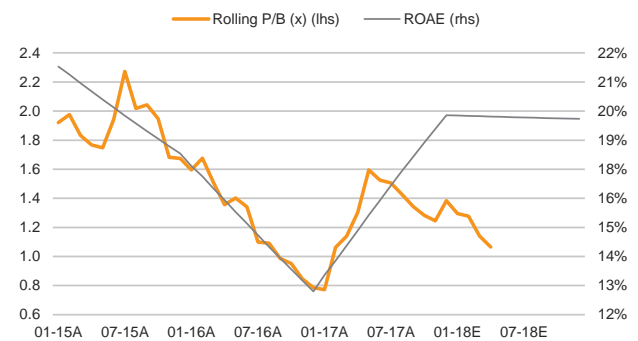
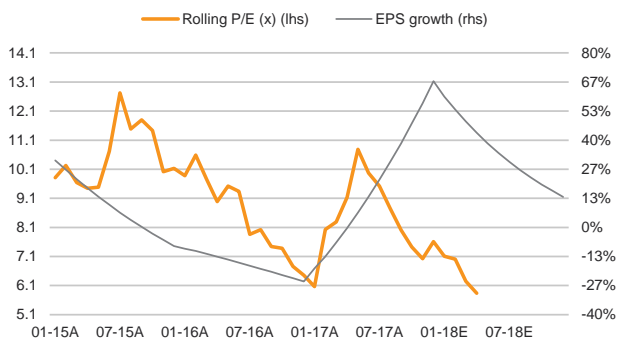
Figure 4: Peer valuation

Sticker	Exchange	Market Cap. (US\$mn)	TTM EPS YoY growth	TTM EAT growth	D/E	TTM ROE	TTM ROA	P/B (x)	TTM P/E (x)
VGG	UPCOM	103	-3.7%	0.4%	0.1	27.3%	9.4%	1.7	6.1
EVE	HOSE	30	-43.2%	-43.2%	0.3	5.4%	4.3%	0.8	14.3
TNG	HNX	26	18.1%	41.7%	2.1	20.0%	5.6%	0.9	5.1
GMC	HOSE	17	8.1%	7.7%	1.2	22.9%	7.3%	1.4	6.0
BDG	UPCOM	16	1.4%	1.4%	0.4	39.4%	14.4%	1.8	4.8
MPT	HNX	2	-48.7%	-30.8%	0.3	2.4%	1.4%	0.3	13.5
<b>Peer median</b>					<b>0.4</b>	<b>21.5%</b>	<b>6.5%</b>	<b>1.1</b>	<b>6.1</b>
<b>Peer average</b>					<b>0.7</b>	<b>19.6%</b>	<b>7.1%</b>	<b>1.1</b>	<b>8.3</b>
TCM	HOSE	53	67.1%	67.1%	1.2	19.3%	6.5%	1.1	6.3

All the prices are based on the closing as at 16th Apr 2018.

Source: VNDIRECT, Fiiipro

## Valuation



### Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	3,209	3,355	3,629
Cost of sales	(2,706)	(2,791)	(3,006)
Gen & admin expenses	(148)	(154)	(167)
Selling expenses	(112)	(117)	(127)
<b>Operating profit</b>	<b>243</b>	<b>292</b>	<b>330</b>
Operating EBITDA	349	634	473
<b>Depreciation and amortisation</b>	<b>(106)</b>	<b>(342)</b>	<b>(144)</b>
<b>Operating EBIT</b>	<b>243</b>	<b>292</b>	<b>330</b>
Interest income	26	31	33
Financial expense	(71)	(70)	(73)
Net other income	42	27	0
Income from associates & JVs	(5)	(5)	(5)
<b>Pre-tax profit</b>	<b>235</b>	<b>276</b>	<b>285</b>
Taxation	(43)	(55)	(57)
Minority interests	1	0	0
<b>Net profit</b>	<b>193</b>	<b>220</b>	<b>228</b>
Adj. net profit to ordinary	165	187	205
Ordinary dividends	(33)	(52)	(52)
<b>Retained earnings</b>	<b>161</b>	<b>169</b>	<b>176</b>

### Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	130	371	475
Short term investments	151	151	151
Accounts receivables	475	418	449
Inventories	806	760	820
Other current assets	44	44	44
<b>Total current assets</b>	<b>1,607</b>	<b>1,745</b>	<b>1,940</b>
Fixed assets	1,197	1,216	1,072
Total investments	101	101	101
Other long-term assets	131	131	131
<b>Total assets</b>	<b>3,035</b>	<b>3,193</b>	<b>3,244</b>
Short-term debt	969	1,017	916
Accounts payable	292	251	270
Other current liabilities	366	366	366
<b>Total current liabilities</b>	<b>1,626</b>	<b>1,633</b>	<b>1,551</b>
Total long-term debt	294	308	289
Other liabilities	44	44	44
Share capital	517	517	517
Retained earnings reserve	299	435	588
<b>Shareholders' equity</b>	<b>1,064</b>	<b>1,200</b>	<b>1,353</b>
Minority interests	8	8	8
<b>Total liabilities &amp; equity</b>	<b>3,035</b>	<b>3,193</b>	<b>3,244</b>

### Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
<b>Pretax profit</b>	<b>235</b>	<b>276</b>	<b>285</b>
Depreciation & amortisation	106	342	144
Tax paid	(43)	(55)	(57)
Other adjustments	(35)	(59)	(51)
<b>Change in working capital</b>	<b>23</b>	<b>61</b>	<b>(71)</b>
<b>Cash flow from operations</b>	<b>286</b>	<b>564</b>	<b>249</b>
Capex	(93)	(361)	0
Proceeds from assets sales	82	0	0
Others	(109)	26	29
Other non-current assets changes	0	0	0
<b>Cash flow from investing activities</b>	<b>(121)</b>	<b>(335)</b>	<b>29</b>
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(48)	63	(121)
Other financing cash flow	(50)	0	0
Dividends paid	(33)	(52)	(52)
<b>Cash flow from financing activities</b>	<b>(131)</b>	<b>11</b>	<b>(173)</b>
Cash and equivalents at beginning of period	96	130	371
<b>Total cash generated</b>	<b>34</b>	<b>241</b>	<b>104</b>
Cash and equivalents at the end of period	131	371	475

### Key ratios

	12-17A	12-18E	12-19E
<b>Dupont</b>			
Net profit margin	6.0%	6.6%	6.3%
Asset turnover	1.10	1.08	1.13
ROAA	6.6%	7.1%	7.1%
Avg assets/avg equity	2.97	2.75	2.52
ROAE	19.6%	19.5%	17.9%
<b>Efficiency</b>			
Days account receivable	49.4	41.1	41.1
Days inventory	109	99	100
Days creditor	39.4	32.8	32.8
Fixed asset turnover	2.66	2.78	3.17
ROIC	8.3%	8.7%	8.9%
<b>Liquidity</b>			
Current ratio	0.99	1.07	1.25
Quick ratio	0.49	0.60	0.72
Cash ratio	0.17	0.32	0.40
Cash cycle	119	108	108
<b>Growth rate (yoy)</b>			
Revenue growth	4.5%	4.5%	8.2%
Operating profit growth	36.1%	20.2%	12.9%
Net profit growth	67.1%	14.0%	3.3%
EPS growth	67.1%	14.0%	3.3%
<b>Share value</b>			
Basic EPS (VND)	3,753	4,276	4,419
BVPS (VND)	20,635	23,223	26,193

Source: VNDIRECT



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### 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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