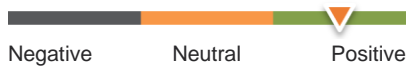


THANH CONG TEXTILE GARMENT INVESTMENT TRADING (TCM) - UPDATE

Market Price VND19,000	Target Price VND22,500	Dividend Yield 5.3%	Rating ADD	Sector Textiles
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Outlook – Short term



Outlook – Long term



Valuation



07 August 2018

Tu Vu Minh

tu.vuminh@vndirect.com.vn

Key changes in the report

- Reduce target price by 25.5% due to a contraction in the peers average P/E ratio, largely on stock market correction and revised EPS of VND3,394.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	28,758
52w low (VND)	16,300
3m Avg daily volume (shares)	209,418
3m Avg daily value (VNDmn)	4,148
Market cap (VNDbn)	931
Outstanding shares (m)	54.1
Free float (%)	49
TTM P/E (x)	5.2
Current P/B (x)	0.8

Ownership

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

Source: VNDIRECT

We expect TCM's 2018 core earnings to rise by 18.3% yoy with a change in product mix to focus more on garment manufacturing which has the highest margin in TCM's portfolio. We therefore expect gross margins to expand by 130bp to 17.0% in 2018.

TCM recorded moderate 6M2018 results with net revenue of VND1,648bn (+6.5% yoy). Core earnings grew 18.9% yoy to VND107bn. However, other profit, largely driven by the sale of yarn factories, fell 20.9% yoy, coinciding with the expiration of the subsidized tax rate of 15.0% in 2017. These one-off factors contributed to the slight decline in EAT by 1.2% to touch VND116.8bn yoy.

We think TCM's restructuring of its product portfolio is proving effective as gross margin expanded by 130bp yoy in 1H2018. The product mix is shifting towards garments (GPM of 21.1%) and away from yarn (GPM of 0.9%). Garment revenue was up 58.5% in 6M2018 yoy due to a large export order from Japan, while yarn revenue decreased 38.7% over the same period as TCM increasingly used its yarn for in-house consumption instead of selling the product externally, given the intense competition from Chinese and Indian producers.

Garment sales are expected to increase with larger purchases by major shareholder E-Land Asia (43.3% stake), the Singaporean subsidiary of Korean retailer E-Land that purchases garment products from TCM to supply its Korean and Chinese retail operations. It is gradually shifting its sourcing from China to Vietnam to lower costs.

We estimate FY18 revenue to rise 3.0% yoy to VND3,307bn with an increase in production and unchanged average selling price (ASP). In 2018, sales of yarn, fabric and garment are expected to change by -15% yoy, +4% yoy and +7.5% yoy, respectively hence pushing gross margin up 130bp to 17.0%. EAT is expected to increase 6.4% yoy to VND206bn with adjusted EPS of VND3,394/ share (+6.4% yoy).

We maintain an ADD rating but reduce our target price by 25.5% to VND22,500 based on a lower target P/E of 6.6x, equal to the peer average TTM P/E, and revised EPS of VND3,394 (-6.4% vs previous forecast). TCM looks attractive right now as it is trading at a TTM P/E of just 5.2x, a 21.2% discount to the peer average.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	3,071	3,209	3,307	3,575
Revenue growth	10.0%	4.5%	3.0%	8.1%
Gross margin	13.6%	15.7%	17.0%	17.3%
EBITDA margin	8.4%	12.1%	12.5%	12.1%
Net profit (bn)	116	193	206	226
Net profit growth	(24.8%)	67.1%	6.4%	9.8%
Recurring profit growth	(25.6%)	42.1%	18.3%	17.8%
Basic EPS	2,246	3,753	3,993	4,385
Adjusted EPS	1,572	3,195	3,394	3,947
BVPS	18,461	20,635	22,984	25,925
ROAE	12.9%	19.6%	18.3%	17.9%

Source: VNDIRECT

1H2018 results and full year outlook

Figure 1: 1H2018 results and full year outlook

FYE (VND bn)	2Q18	2Q17	yoy%	qoq%	1H18	1H17	yoy%	Prev	New	Comments
								forecast	forecast	
			chg	chg			chg	FY18F	FY18F	
Revenues	800	772	3.7%	-5.7%	1,648	1,547	6.5%	3,355	3,307	We reduced the target revenue under our expectation that yarn revenue will keep declining
COGS	656	649	1.0%	-6.6%	1,357	1,294	4.9%	2,791	2,746	
Gross profit	145	123	17.8%	-1.6%	291	253	15.0%	564	561	
<i>Gross profit margin (%)</i>	<i>18.1%</i>	<i>15.9%</i>			<i>17.7%</i>	<i>16.4%</i>		<i>16.8%</i>	<i>17.0%</i>	We expected gross margin to rise due to shift in product mix toward garments
SG&A	72.3	61.8	17.0%	10.0%	138	122	13.5%	271	277	Slightly higher based on 1H2018 result
EBIT	72	61	18.7%	-11.0%	153	132	16.4%	293	284	
<i>EBIT margin (%)</i>	<i>9.0%</i>	<i>7.9%</i>			<i>9.3%</i>	<i>8.5%</i>		<i>8.7%</i>	<i>8.6%</i>	
Financial expense	24	10	130.8%	24.4%	43	33	30.4%	70	86	We revised the effect of USD appreciation
Borrowing cost	13	12	7.6%	14.3%	24	23	6.2%	50	53	
Losses due to FX revaluation	11	-2	N/A	38.3%	19	11	82.1%	20	33	
Other profit	27.2	33.1	-17.8%	N/A	27	34	-20.9%	27	27	Profit from selling yarn factories
EBT	89	85	4.3%	43.7%	150	142	5.7%	276	257	
<i>EBT margin (%)</i>	<i>11.1%</i>	<i>11.0%</i>			<i>9.1%</i>	<i>9.2%</i>		<i>8.2%</i>	<i>7.8%</i>	
<i>Tax rate (%)</i>	<i>23.6%</i>	<i>16.8%</i>			<i>22.2%</i>	<i>16.7%</i>		<i>20.3%</i>	<i>19.8%</i>	
Net profit	68	71	-4.1%	37.9%	117	118	-1.4%	220	206	
<i>Net profit margin (%)</i>	<i>8.5%</i>	<i>9.2%</i>			<i>7.1%</i>	<i>7.7%</i>		<i>6.6%</i>	<i>6.2%</i>	
EPS VND					1,824	2,046	-10.9%			

Source: VNDIRECT

Valuation

We have reduced the target P/E from 8.3x to 6.6x due to the overall correction of Vietnam's stock market largely driven by Fed rate hikes and the trade tensions between the US and China. Textiles exports from Vietnam, however, are growing strongly on the back of FTAs and in anticipation of the upcoming CPTPP and could even benefit from increased tariffs on Chinese imports into the US. The strength in Vietnam's textile exports are reflected in the TTM earnings growth of major listed exporters (Figure 3).

We think TCM should at least be trading in line with the peer average TTM P/E of 6.6x due to (1) the restructuring of product mix towards high value-added products which will continue to improve blended gross margin; and (2) its increasing exposure to major regional garment export markets, with the help of major shareholder E-Land Asia. Using the peers' average TTM P/E of 6.6x and adjusted EPS of VND3,394/share, we value TCM's shares at 22,500/ share.

Figure 2: Valuation

Valuation method	
Forecasted 2018 EAT (VND bn)	206
Number of fully diluted shares in 2018	54,129,605
Adjusted EPS forward 2018 (VND/ share)	3,394
Target P/E (peers' average) (x)	6.6
Target price (VND/ share)	22,511

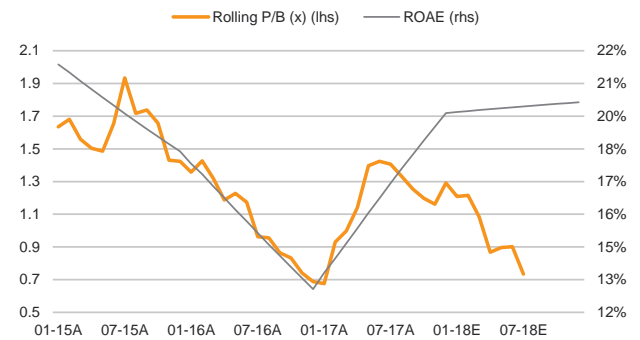
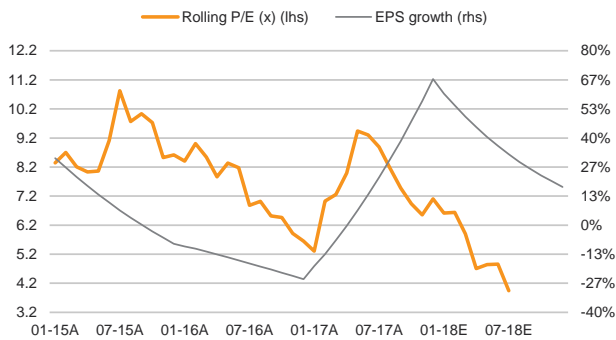
Source: VNDIRECT

Figure 3: Peer comparison

	Exchange	Market Cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	D/E (x)	TTM ROA (%)	TTM ROE (%)	TTM P/E (x)	TTM P/B (x)
VGG	UPCOM	95.7	2.4%	2.4%	1.9	9.2%	26.5%	5.6	1.5
EVE	HOSE	28.4	141.0%	141.0%	0.5	4.9%	6.7%	10.8	0.7
TNG	HNX	24.5	34.2%	60.9%	3.2	5.7%	21.9%	4.0	0.7
GMC	HOSE	19.3	19.4%	19.4%	2.1	7.9%	23.7%	6.2	1.4
Average					1.9	6.9%	19.7%	6.6	1.1
Median					2.0	6.8%	22.8%	5.9	1.1
TCM	HOSE	44.9	-10.6%	-1.2%	1.7	6.2%	17.5%	5.2	0.8

Source: VNDIRECT

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	3,209	3,307	3,575
Cost of sales	(2,706)	(2,746)	(2,957)
Gen & admin expenses	(148)	(155)	(168)
Selling expenses	(112)	(122)	(132)
Operating profit	243	283	318
Operating EBITDA	349	385	423
Depreciation and amortisation	(106)	(102)	(105)
Operating EBIT	243	283	318
Interest income	26	38	51
Financial expense	(71)	(86)	(82)
Net other income	42	27	0
Income from associates & JVs	(5)	(5)	(5)
Pre-tax profit	235	257	283
Tax expense	(43)	(51)	(57)
Minority interest	1	0	0
Net profit	193	206	226
Adj. net profit to ordinary	165	175	203
Ordinary dividends	(33)	(52)	(52)
Retained earnings	161	154	174

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	130	173	228
Short term investments	151	201	251
Accounts receivables	475	413	443
Inventories	806	860	928
Other current assets	44	101	170
Total current assets	1,607	1,748	2,020
Fixed assets	1,197	1,185	1,057
Total investments	101	15	15
Other long-term assets	131	131	131
Total assets	3,035	3,079	3,223
Short-term debt	969	920	913
Accounts payable	292	247	265
Other current liabilities	366	366	366
Total current liabilities	1,626	1,532	1,544
Total long-term debt	294	308	289
Other liabilities	44	44	44
Share capital	517	517	517
Retained earnings reserve	299	422	574
Shareholders' equity	1,064	1,187	1,339
Minority interest	8	8	8
Total liabilities & equity	3,035	3,079	3,223

Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
Pretax profit	235	257	283
Depreciation & amortisation	106	102	105
Tax paid	(43)	(51)	(57)
Other adjustments	(35)	(65)	(69)
Change in working capital	23	(38)	(79)
Cash flow from operations	286	206	183
Capex	(93)	(113)	0
Proceeds from assets sales	82	0	0
Others	(109)	36	(50)
Other non-current assets changes	0	0	0
Cash flow from investing activities	(121)	(77)	(50)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(48)	(34)	(27)
Other financing cash flow	(50)	0	0
Dividends paid	(33)	(52)	(52)
Cash flow from financing activities	(131)	(86)	(79)
Cash and equivalents at beginning of period	96	130	173
Total cash generated	34	43	55
Cash and equivalents at the end of period	130	173	228

Key ratios

	12-17A	12-18E	12-19E
Dupont			
Net profit margin	6.0%	6.2%	6.3%
Asset turnover	1.10	1.08	1.13
ROAA	6.6%	6.7%	7.2%
Avg assets/avg equity	2.97	2.72	2.49
ROAE	19.6%	18.3%	17.9%
Efficiency			
Days account receivable	49.4	41.1	41.1
Days inventory	109	114	115
Days creditor	39.4	32.8	32.8
Fixed asset turnover	2.66	2.78	3.19
ROIC	8.3%	8.5%	8.9%
Liquidity			
Current ratio	0.99	1.14	1.31
Quick ratio	0.49	0.58	0.71
Cash ratio	0.17	0.24	0.31
Cash cycle	119	123	123
Growth rate (yoy)			
Revenue growth	4.5%	3.0%	8.1%
Operating profit growth	36.1%	16.4%	12.5%
Net profit growth	67.1%	6.4%	9.8%
EPS growth	67.1%	6.4%	9.8%
Share value			
Basic EPS (VND)	3,753	3,993	4,385
BVPS (VND)	20,635	22,984	25,925

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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Definition:

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- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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- 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

Tu Vu Minh – Analyst

Email: tu.vuminh@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>