

THANH CONG TEXTILE GARMENT INVST. TRADING JSC (TCM) - UPDATE

Market Price VND26,300	Target Price VND28,200	Dividend Yield 1.98%	Rating HOLD	Sector TEXTILE
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Outlook – Short term



Outlook – Long term



Valuation



05 August 2019

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Key changes in the report

- Lower FY19F EPS by 18.2%
- Lower target price by 12.7%

Price performance



Source: VNDIRECT Research

Key statistics

52w high (VND)	31,588
52w low (VND)	17,365
3m Avg daily volume (shares)	626,558
3m Avg daily value (VNDm)	15,746
Market cap (VNDbn)	1,454
Outstanding shares (m)	58.1
Free float (%)	52.2
TTM P/E (x)	7.3
Current P/B (x)	1.2

Ownership

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

Source: VNDIRECT Research

Growing near-term pain from US-China trade dispute

Subdued yarn business amid weak demand from China as a result of trade tension. The 10.3% yoy and 15.0% yoy revenue increase of fabric and garment business, respectively, was partially offset by a 21% yoy drop in yarn business. Consequently, 1H19 revenue grew modestly at 7.4% yoy to VND1,770bn, forming 47.5% of our full-year forecast.

Higher labour cost and lower yarn ASP squeezed 1H19 gross margin. We estimated that yarn average selling price dropped 8% yoy which brought a sharp contraction to segment GPM (from 9% in 1H18 to 2% in 1H19). Additionally, labour cost rose to 21.1% of TCM's revenue in 1H19 from the level of 19.2% seen in 1H18. As such, 1H19 blended GPM shrunk 2.2% pts, altogether with the lack of one-off gain (which was about VND23bn in 1H18); leading to an 18.6% yoy decline in net profit.

No final court ruling yet on Sears's uncollectable receivables. TCM said the outstanding receivables worth around VND22bn related to Sears Group will be provisioned in 2H19. TCM has been negotiating with several U.S. firms on the sale of Sears' debts but no agreement has been in place.

We cut our FY19F EPS by 18.2% on the back of lower blended GPM (from 19.0% to 17.2%) to reflect the yarn ASP drop and the labor cost hike. We believe cotton yarn market still faces downward pressure toward year-end amid ever-ending US-China trade tension.

Downgrade to HOLD rating with lower target price of VND28,200. We revised down our TP by 12.7% to reflect the lower FY19F EPS. Our TP is based on the average core FY19-20F EPS and targeted P/E of 7.0x (which is equivalent to TCM's 1-year average TTM P/E). The valuation also excludes the booking of the remaining provision for Sears' receivables of VND22bn in the 2H19 P&L as it is a one-off event. We believe TCM is a long-term beneficiary of trade tension and FTAs but potentials are priced in. Meanwhile, concern over sluggish yarn business and provisioning on Sears' receivables still casts shadow on TCM's performance in near-term.

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%

1H19 review: Given modest top-line growth, gross margin compression weighed on bottom lines

Figure 1: 1H19 results comparison

VNDbn	1H18	1H19	% yoy	% of our FY19F forecast	Our comments
Total revenue	1648	1770	7.4%	47.5%	
<i>Yarn</i>	234	185	-21.0%	37.0%	Below our forecast due to an estimated 8% decrease in ASP and a 14% fall in sale volume.
<i>Fabric</i>	218	251	15.0%	39.2%	Export orders to Japan rose. Production capacity expanded by 2.4m metres of weaving fabric, with CAPEX of VND20m.
<i>Garments</i>	1166	1287	10.3%	50.3%	Bright spot from EU market sale, with an increase of 60% yoy, accounting for 5% of total revenue.
<i>Others</i>	30	47	58.1%	186.9%	
COGS	(1357)	(1496)	10.2%	49.5%	
Gross profit	291	274	-6.0%	38.8%	Gross margin fell due to rising labour cost (from 19.2% to 21.1% of revenue) and contracting gross margin in yarn segment (to 2% in 1H19 from 9% in 1H18).
Gross profit margin	17.7%	15.5%	-220bp	-353bp	
SG&A	138	138	0.3%	40.3%	Below our forecast as no additional provisions related to Sears were recorded in 1H19. We expect the rest of Sears' receivables worth VND22bn to be booked for provision in 2H19
SG&A as % of revenue	8.4%	7.8%	-55bp	-139bp	Selling expenses on revenue decreased by 46bp (to 3.5% from 3.9%). G&A expenses on revenue remained unchanged yoy despite slight growth in revenue.
<i>Operating profit</i>	123	117	-4.6%	32.4%	
Net other income	27	2	-90.9%		- One-off profit of VND23bn transferred from Thanh Quang JSC in 2Q18.
EBT	150	120	-20.2%	37.7%	
Net profit	117	95	-18.6%	37.1%	Below our forecast due to lower blended gross profit.

Source: VNDIRECT Research

Escalating U.S.-China trade tension casted shadow on yarn export business. We observed that U.S yarn import volume declined 29.7% yoy in the first 5M2019 as Chinese producers are returning to their home market amid higher U.S tariffs. An oversupply in China has dragged yarn price down 8.5% YTD. TCM's yarn exports not only suffered from price reduction but also from the devaluation of CNY in 2Q19. We suspect that selling prices are still in a downward trend and there is no sign of recovery when the U.S.-China trade war is getting more severe.

Revenue from the European market showed positive signs as it jumped 60% yoy, accounting for 5% of total revenue. Meanwhile, other markets strengthened slightly. Management said the company would soon accelerate trade promotion in the European market. In Sep, TCM will appoint representatives to exhibit in France and other EU countries. We believe TCM will continue to record considerable sale growth from EU market on the back of EVFTA. The benefits under the EVFTA will increase strongly along with tax reductions from the second year onwards.

In 1Q19, TCM witnessed a surge of 30% yoy in labour costs, which increased only 4.5% yoy in 2Q19, contributing to the 10.5% rise of COGS in 1H19. In our opinion, this is a one-off extraordinary bonus for employees on Tet holiday, so 2H19 COGS will record lower growth rates than in 1H19. Therefore, we expect the blended gross margin in 2H19 will be better than in 1H19.

TCM continues to cut orders from Sears and Eddie Bauer while negotiating with debt buying partners. The payment method is still telegraphic transfer (T/T) but TCM is re-negotiating on reducing the period of deferred payment in order to minimise risks. We expect the remaining VND22bn to be provisioned in 2H19.

FY19F OUTLOOKS

We raise our FY19F revenue by 4.0% to VND3,879bn regarding the 1H19 positive results of the garment segment. On the other hand, we revise down FY19F net profit by 12.5% on the back of: (1) lower blended GPM to 17.2% from 19.0% due to the drop of yarn segment's GPM and higher labour cost; (2) increase SG&A by 7.1% as TCM will launch a promotion campaign for EU market in 3Q19.

Final approval is pending for TCM Tower project, so it has yet to obtain a construction permit. TCM management expects to complete procedures and implement the project by the end of 2019 or early next year. The project capex has not been disclosed. Therefore, we have not included the investment in our forecast.

Construction of Vinh Long dyeing factory is expected to start in FY20F, with CAPEX of USD15m. The plant will be officially launched in FY22F. TCM plans to raise funds for this project through additional share issues to existing/strategic shareholders.

Figure 2: FY19F revision

(VND bn)	FY18	FY19F forecast		% change		Comments
		Old	New	yoy%	of forecast	
Net revenue	3,662	3,728	3,879	5.9%	4.0%	
<i>Yarn</i>	469	500	381	-18.8%	-23.8%	We lower the assumption of asp and volume growth to -8% yoy and -12% yoy respectively from +2.7% yoy and +4% yoy in the previous forecast due to the oversupply in China.
<i>Fabric</i>	533	642	642	20.4%	0.0%	
<i>Garments</i>	2,598	2,560	2,796	7.6%	9.2%	We assume an increase of 1.5% yoy in volume instead of a fall of 6.2% yoy in our previous forecast on the back of positive growth from EU market and other U.S. partners.
Gross profit	679	707	669	-1.5%	-5.4%	Revise yarn segment GPM to 0.6% from 9.5% due to the downward trend of yarn selling price to China.
Gross margin	18.5%	19.0%	17.2%	-130bp	-173bp	Raise the ratio of labour cost on revenue to 21.0% from 18.3% in previous projection.
Financial income	32	44	48	50.6%	9.3%	
Financial expense	(89)	(93)	(84)	-5.6%	-9.2%	
SG&A	(374)	(343)	(367)	-1.8%	7.1%	
SG&A as % of revenue	10.2%	9.2%	9.5%	-74bp	+27bp	
Profit from joint venture	28	5	5	-82.1%	0.0%	
Net other income	48	-	8	-83.3%		We raised forecast of other income given a land transfer in Phan Thiet.
Net profit	260	256	224	-14.0%	-12.5%	
Net margin	7.1%	6.9%	5.8%	-134bp	-110bp	
EPS (VND)	3,814	4,008	3,279	-14.0%	-18.2%	Including 7% of stock dividend in May 2019.

Source: VNDIRECT Research

VALUATION

We lower our target price by 12.7% and downgrade our rating to HOLD

Our TP is based on the average core FY19-20F EPS and targeted P/E of 7.0x (which is equivalent to TCM's 1-year average TTM P/E). The valuation also excludes the booking of the remaining provision for Sears' receivables of VND22bn in the 2H19 P&L as it is a one-off event.

We come up with a TP of VND28,200/share (-12.7% vs. our previous TP, taking into account the stock dividend of 7%/par value in May 2019) due to lower FY19F core EPS forecast vs previous forecast. Thus, we downgrade the rating to HOLD as the stock price is close to fair value. We believe TCM is a long-term beneficiary of trade tension and FTAs but potentials are priced in. Meanwhile, concern over sluggish yarn business and provisioning on Sears' receivables still casts shadow on TCM's performance in near-term.

Figure 3: Valuation

Valuation method	
FY19F core profit for calculating EPS (VND bn)	210
FY20F core profit for calculating EPS (VND bn)	263
Number of shares	58,026,100
FY19F core EPS (VND/share)	3,619
FY20F core EPS (VND/share)	4,532
Average EPS	4,076
Target P/E (peers' average) (x)	7.0
Target price (VND/ share) (1)	28,530
Less	
Provision for Sears' receivables (VND bn)	22
P/B (x) applied to provision	1.0
Provision value per share (2)	379
Adjusted target price (VND/ share) (1)-(2)	28,151

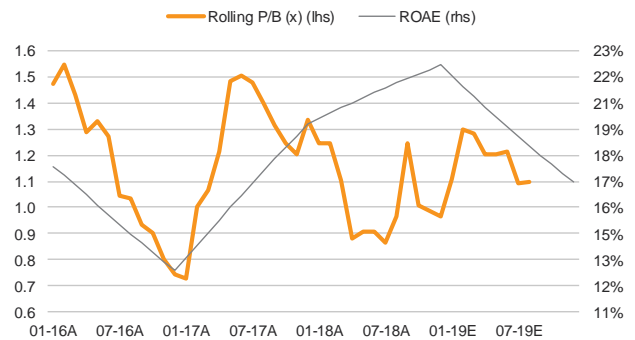
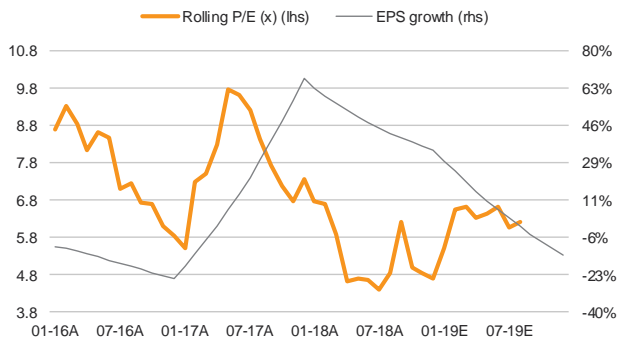
Source: VNDIRECT Research

Figure 4: Peer comparison

	Exchange	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)		ROE (%)		P/E (x)		P/B (x)		D/E (x)
					TTM	FY19F	TTM	FY19F	TTM	FY19F	TTM	FY19F	
VGG	UPCOM	121.6	19.8%	22.9%	10.1%	9.0%	24.0%	26.0%	8.0	5.1	1.8	1.3	0.0
MSH	HOSE	124.3	84.6%	18.1%	15.1%	15.2%	43.8%	38.6%	5.7	6.2	3.0	2.3	0.8
STK	HOSE	71.4	48.0%	79.1%	9.2%	11.2%	22.3%	24.2%	8.2	6.8	1.6	1.5	0.9
TNG	HNX	52.1	46.8%	56.7%	6.7%	N/A	26.2%	N/A	5.9	N/A	1.4	N/A	1.6
Average			49.8%	44.2%	10.3%	11.8%	29.1%	29.6%	7.0	6.0	1.9	1.7	0.8
Median			47.4%	39.8%	9.7%	11.2%	25.1%	26.0%	7.0	6.2	1.7	1.5	0.8
TCM	HOSE	67.2	25.4%	35.1%	7.7%	6.8%	17.0%	17.0%	7.3	6.5	1.2	1.1	1.0

Source: VNDIRECT Research

Valuation



Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	3,662	3,879	4,081
Cost of sales	(2,983)	(3,210)	(3,304)
Gen & admin expenses	(230)	(220)	(188)
Selling expenses	(144)	(147)	(163)
Operating profit	305	301	426
Operating EBITDA	410	418	543
Depreciation and amortisation	(105)	(117)	(117)
Operating EBIT	305	301	426
Interest income	32	48	51
Financial expense	(89)	(84)	(105)
Net other income	48	8	0
Income from associates & JVs	28	5	5
Pre-tax profit	323	278	377
Tax expense	(63)	(54)	(77)
Minority interest	0	0	0
Net profit	260	224	300
Adj. net profit to ordinary	221	190	255
Ordinary dividends	(26)	(29)	(58)
Retained earnings	234	195	242

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	216	284	380
Short term investments	203	214	229
Accounts receivables	280	269	287
Inventories	1,138	1,199	1,235
Other current assets	100	56	56
Total current assets	1,937	2,023	2,188
Fixed assets	1,107	1,050	1,313
Total investments	67	67	67
Other long-term assets	141	202	147
Total assets	3,252	3,341	3,714
Short-term debt	1,008	993	1,081
Accounts payable	300	321	357
Other current liabilities	398	404	414
Total current liabilities	1,705	1,717	1,851
Total long-term debt	222	197	305
Other liabilities	48	48	48
Share capital	542	580	580
Retained earnings reserve	406	480	611
Shareholders' equity	1,268	1,371	1,502
Minority interest	9	9	9
Total liabilities & equity	3,252	3,341	3,714

Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	323	278	377
Depreciation & amortisation	105	117	117
Tax paid	(66)	(54)	(77)
Other adjustments	(10)	(31)	(56)
Change in working capital	(266)	(49)	(9)
Cash flow from operations	86	260	353
Capex	(66)	(60)	(380)
Proceeds from assets sales	104	0	0
Others	42	(11)	(15)
Other non-current assets changes	0	0	0
Cash flow from investing activities	79	(71)	(395)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(10)	(92)	197
Other financing cash flow	(43)	0	0
Dividends paid	(26)	(29)	(58)
Cash flow from financing activities	(80)	(121)	139
Cash and equivalents at beginning of period	130	216	284
Total cash generated	86	68	96
Cash and equivalents at the end of period	216	284	380

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	7.1%	5.8%	7.4%
Asset turnover	1.16	1.18	1.16
ROAA	8.3%	6.8%	8.5%
Avg assets/avg equity	2.70	2.50	2.46
ROAE	22.3%	17.0%	20.9%
Efficiency			
Days account receivable	33.1	33.1	33.2
Days inventory	139	136	137
Days creditor	36.7	36.5	39.5
Fixed asset turnover	3.20	3.60	3.45
ROIC	10.4%	8.7%	10.4%
Liquidity			
Current ratio	1.14	1.18	1.18
Quick ratio	0.47	0.48	0.51
Cash ratio	0.25	0.29	0.33
Cash cycle	136	133	130
Growth rate (yoy)			
Revenue growth	14.1%	5.9%	5.2%
Operating profit growth	25.4%	(1.2%)	41.3%
Net profit growth	34.6%	(14.0%)	34.0%
EPS growth	34.6%	(14.0%)	34.0%
Share value			
Basic EPS (VND)	4,488	3,858	5,170
BVPS (VND)	21,850	23,628	25,877

Source: VNDIRECT Research

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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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- 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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