

THANH CONG TEXTILE GARMENT INVESTMENT TRADING JSC (TCM) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND82,000	VND59,800	1.21%	Reduce	CONSUMER GOODS

29 January 2021

Outlook – Short term: **Neutral**
Outlook – Long term: **Neutral**
Valuation: **Neutral**

Consensus*: Add:4 Hold:1 Reduce:2

Target price / Consensus: 96.5%

Key changes in the report

- Increase FY21F GM assumption by 0.5% pts

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	84,000
52w low (VND)	10,654
3m Avg daily value (VNDmn)	32,021
Market cap (VND bn)	5,013
Free float (%)	49
TTM P/E (x)	18.9
Current P/B (x)	3.2

Ownership

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

Source: VND RESEARCH

Analyst(s):



Nguyen Duc Hao

hao.nguyenduc@vndirect.com.vn

www.vndirect.com.vn

Potential earnings growth has been priced in

- In FY20, TCM's revenue declined 4.8% yoy and net profit soared 27.5% yoy, respectively making up 102.3% and 101.2% of full year forecast.
- The agreement with Adidas is the key driver for FY21F NP.
- We downgrade to Reduce from Hold as we believe the potential growth has been priced in.

2020 business results in line with our expectation

TCM's revenue decreased 12% yoy to VND752bn in 4Q20 due to drop in Personal Protected Equipment (PPE) revenue. 4Q20 revenue from gauze masks and PPEs fell 72% qoq due to lower demand from its clients. Overall, in FY20, TCM's net revenue reached VND3,470bn (-4.8% yoy), making up 102.3% of our full-year forecast. Excluding the contribution of gauze mask and PPE products, FY20 garment revenue dropped 24.6% yoy, while fabric and yarn sales reached VND694bn (+22.1% yoy) and VND278bn (-21.1% yoy).

FY20 bottomline grow significantly mainly thanks to PPE segment

In FY20, TCM's gross margin increased 1.8% pts due to the new contribution of the PPEs segment and new orders from Adidas in 4Q20. We estimate GM of PPE segment to range from 25-30%, higher than GM of FOB orders (17%-20%). Total debt decreased 25.8% yoy as TCM was about to pay-off long-term debts, which mainly financed the knitting factory; thus, interest expense decrease 48% yoy. Therefore, TCM's net profit soared 27.5% yoy to VND276bn.

The agreement with Adidas is the key driver for FY21F NP

The current surge in TCM's stock price is partly explained by the news on TCM's agreement with Adidas. According to TCM, the company will produce sportswear in the form of FOB order. We expect Adidas orders to fill 12m units/years of Vinh Long factory (~40% sewing capacity) and contribute 30% of total garment revenue in FY21F.

FY21F results look solid on the back of garment sales

We raise FY21F revenue forecast by 5.1%, equivalent to VND3,844bn (+8.4% yoy) to reflect revenue from Adidas orders. We also increase FY21F GPM assumption by 0.5% pts and net financial income by 20.3%. As a results, TCM's net profit is estimated to rise 24.3% yoy to reach VND343bn in FY21F.

Downgrade from Hold to Reduce

We increase our target price by 67.5% to VND59,800 as we now apply FY21F EPS and raise our target P/E to 12x. We downgrade our rating from Hold to Reduce as all the positive factors appears to be fully priced in. Re-rating catalysts include 1) Stronger-than-expected rise of fabric demand from domestic market and 2) higher-than-expected order volume from Adidas. Downside risk: worsening Covid-19 situation in TCM's main export markets.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	3,644	3,470	3,844	4,084
Revenue growth	(0.5%)	(4.8%)	10.8%	6.2%
Gross margin	15.9%	17.9%	18.6%	19.6%
EBITDA margin	11.5%	12.4%	13.4%	14.5%
Net profit (bn)	218	276	343	394
Net profit growth	(17.6%)	26.7%	24.3%	14.7%
Recurring profit growth	(8.7%)	34.4%	16.2%	19.8%
Basic EPS	3,516	4,455	5,536	6,350
Adjusted EPS	2,904	3,902	4,982	5,222
BVPS	22,856	26,295	28,851	31,079
ROAE	16.2%	18.1%	20.1%	21.2%

Source: VND RESEARCH

FY20 RECAP: POSITIVE RESULTS DESPITE THE PANDEMIC
Figure 1: Results comparison

(VND bn)	4Q19	4Q20	FY19	FY20	yoy%	% vs our FY20F forecast	Comments
Net revenue	855	752	3,644	3,470	-4.8%	102.3%	
Yarns	68	60	352	278	-21.0%	91.4%	2020 yarn revenue declined by 21.0 % yoy due to 5% decrease in ASP and 20% fall in volume following low demand in China amid trade tension and Covid-19 epidemic
Fabrics	153	188	569	694	22.1%	81.1%	Fabrics sales jumped 22.1% yoy in 2020 mainly thanks to improved domestic demand after the implementation of EVFTA
Garments	615	488	2,647	2,429	-8.2%	106.4%	Revenue from garments segment in 2020 drop by 8.2% yoy due to the influence of Covid-19, leading to sharp decline in US and Korean market demand.
<i>Traditional order</i>	<i>615</i>	<i>456</i>	<i>2,647</i>	<i>2,001</i>		<i>98.6%</i>	
<i>PPE and gauze mask</i>	<i>-</i>	<i>32</i>	<i>-</i>	<i>428</i>	<i>-</i>	<i>77.8%</i>	To adapt to the epidemic situation, TCM actively switched to Personal Protective Equipment (PPE) production since 2Q20
Others	17	15	77	69	-9.8%	72.5%	
Gross margin	149	143	585	620	6.0%	99.0%	GPM in 2020 increased by 1.8% pts due to the higher GPM of
<i>Gross profit margin</i>	<i>17.43%</i>	<i>19.02%</i>	<i>16.1%</i>	<i>16.9%</i>	<i>1.8% pts</i>	<i>1% pts</i>	PPE segment and new order from Adidas in 4Q20
SG&A	73	63	287	286	-0.2%	107.3%	
<i>SG&A as % of revenue</i>	<i>8.54%</i>	<i>8.38%</i>	<i>7.9%</i>	<i>8.2%</i>	<i>0.4% pts</i>	<i>0.3% pts</i>	
Operating profit	80	92	292	334	14.5%	115.6%	
Net other income	1.2	1.7	5	3	-42.2%	38.6%	
EBT	81	93	274	343	25.3%	105.3%	
Net profit	63	75	217	276	27.5%	101.2%	

Source: VND RESEARCH

PPE sales plunged 72% qoq in 4Q20 due to weaker demand. PPE revenue was only VND32bn (-72% qoq), accounting for 4.3% of total revenue in 4Q20 after US customers stocked up on inventory in 3Q20. In FY20, PPE revenue reached VND428bn, accounting for 17.6% of garment's revenue and 12.3% of total revenue.

Fabric revenue surged in 2020 thanks to EVFTA effects and high demand from PPE producers. TCM's fabric segment benefited from providing antibacterial fabrics to other textile and apparel businesses to produce gauze masks and PPE orders. Furthermore, EVFTA has officially taken effect starting from Aug 2020 which supported domestic sales of fabric segment, helping its clients to meet Rule of Origins. Fabric's revenue in FY20 was VND694bn (+22.1% yoy), making up 20% of total revenue.

Covid-19 epidemic casted shadow on yarns and garments export revenue. Under the shadow of Covid-19 outbreak, revenue from yarns and traditional garment export orders were reeling from the damage caused by supply chain disruption, demand plummet and manufacturing lockdown. Although TCM has PPE orders to offset the shortage of traditional orders, the revenue of yarns and garments declined 21.1% and 8.2% yoy in 2020 to VND278bn and VND2,429bn, respectively. Outsourcing gauze masks and PPEs has lower technical requirements than traditional garment orders. This improves the worker's productivity (US\$50/worker/day, 50% increase compared to traditional orders). We estimate GM of PPE segment to range from 25-30%, higher than GM of FOB orders (17%-20%).

Two fashion brands launched in Nov 2020 showed positive signal. At the end of Nov 2020, TCM launched a new fashion brand called INNOF targeting the domestic market. Besides, TCM initially recognized revenue from ONLEE brand to export to the US market via Amazon e-commerce channel. We estimate the revenue of this segment to account for 10% of garment sales in Dec 2020.

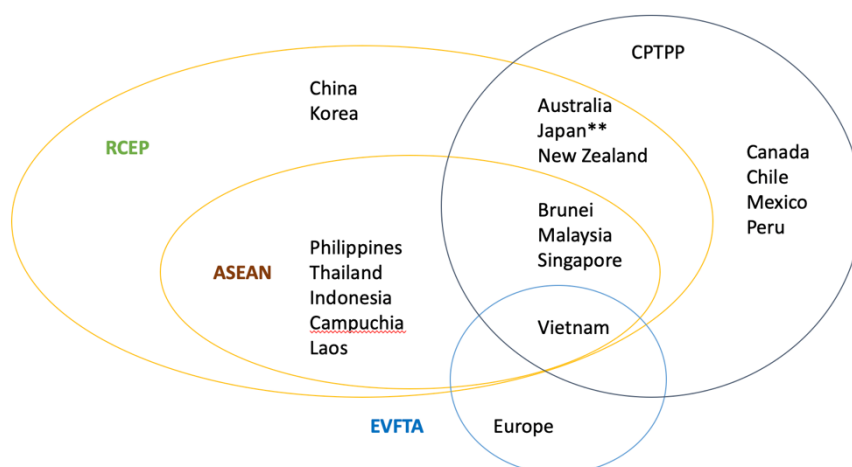
DECENT 2021F OUTLOOK

Cooperation with Adidas to secure long-term orders. In 2020, TCM has successfully obtained an order from Adidas - one of the largest sport fashion brand in the world, which would account for 35% of sewing capacity in Vinh Long factory in 4Q20. Participation in the Adidas value chain shows that the business is capable of meeting rigorous standards including product quality, size, and environmental and social requirements. Therefore, we believe TCM will meet the conditions of EU customers in order to take advantage of EU-Vietnam Free Trade Agreement (EVFTA). We expect Adidas orders to fill 12m units/years of Vinh Long factory (~40% sewing capacity) in FY21F and contribute 30% of total garment revenue in FY21F.

The effect of the FTAs can be a double-edged sword on fabric and yarns segment. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EVFTA are the key drivers for the development of TCM's fabric segment. Despite being one of the world's largest garment exporters, Vietnam is still heavily dependent on imported fabrics, especially from China due to high investment cost in the textile and dyeing stage. TCM owns a complete supply chain of yarn, weaving, dyeing, and sewing, which not only makes TCM self-sufficient in fabric supply and stabilizes GPM but also supports the company to adapt to the principal rule“ from yarn forward” of CPTPP and “from fabric forward” of EVFTA. We expect domestic sales to grow 20% in FY19-22F, while the revenue proportion of EU market would increase from 5% in 2020 to 10% in 2021F. We forecast fabrics and yarns segment revenue to reach VND728bn (+12% yoy) and VND326bn (+22% yoy) respectively in FY21F.

Regional Comprehensive Economic Partnership (RCEP) agreement was signed on 15 Nov 20 between 6 ASEAN member countries and 5 non-ASEAN countries. We expect RCEP to support T&A companies in reducing input costs when fabric export tax from China decreases from 10% to 2%. Specifically, we forecast cost of goods sold of garment segment to decline 5%-5.5%. However, we estimate TCM to face more challenges due to rising competition from China fabric at the domestic market (China fabric price is 10-15% cheaper than Vietnam fabric).

Figure 2: Free Trade Agreements between Vietnam and other countries



Source: MAVR, Company report

Fashion e-commerce site is tailwind in the long run. TCM will launch De Closet which is the first fashion e-commerce site on both mobile application and website in 1Q21F. De Closet has cooperated with over 100 domestic and overseas fashion brands. We expect the revenue of this new segment to achieve CAGR of 37.5% in FY21-24F.

Figure 3: VnDirect Research forecasts of TCM's FY21-22F business results

VNDbn	2019A	2020A	2021F	2022F
Net revenue	3644	3470	3844	4084
% yoy	-0.5%	4.8%	14.5%	6.2%
Yarns	352	268	326	329
Fabrics	569	671	738	812
Garments	2647	2350	2548	2673
Others	77	67	134	201
Gross profit	585	620	717	800
Gross profit margin	16.1%	17.9%	18.6%	19.6%
SG&A	287	259	329	349
SG&A as % of revenue	7.9%	7.5%	8.5%	8.5%
EBT	274	308	427	489
EBT margin	7.5%	8.9%	11.1%	12.0%
Net profit	217	276	343	394
% yoy	-16.8%	27.4%	24.4%	14.7%

Source : VND RESEARCH

VALUATION

We increase our target price to VND59,800 as we raise our target FY21F P/E to 12x, equivalent to 30% premium to peers average due to the company's efficient Covid-19 damage control, better position for recovery and higher FY21F core EPS forecast vs previous forecast.

We downgrade our rating from Hold to Reduce as expected growth in FY21F appears to have been priced in and TCM's stock price increased by 4 times in the last 3 months. We estimate stock price is past its fair value. Re-rating catalysts include 1) Stronger-than-expected rise of fabric demand from domestic market and 2) higher-than-expected order volume from Adidas. Downside risk: worsening Covid-19 situation in TCM's main export markets, including US and Korea.

Figure 4: Valuation method: multiple (P/E)

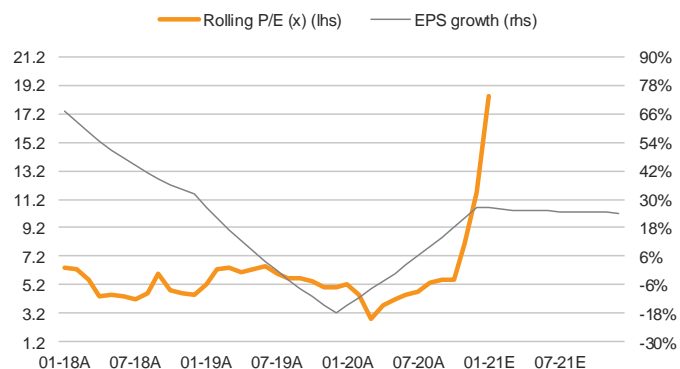
	FY21F
Core profit (VND bn)	343
Less	
Bonus and welfare fund	34
Core profit for calculating EPS	309
Number of fully diluted shares (m)	62
Core EPS (VND/ share)	4,984
Target P/E (30% premium peers' average) (x)	12.0
Target price (VND/ share)	59,808

Source: VND RESEARCH

Figure 5 : Peer comparison

	Exchange	Market cap (US\$ m)	Share price (local curr)	Target price (local curr)	3- year EPS CAGR (%)	ROE (%)		P/E (x)		P/B (x)	
						FY20	FY21	FY20	FY21	FY20	FY21
MSH	HOSE	100	41900	n/a	4.5	16.8%	31.5%	11.9	7.3	n/a	n/a
STK	HOSE	80	25850	29200	20.4	16.1%	17.9%	11.3	10	1.6	1.5
TNG	HNX	80	19300	14500	13.5	14.2%	15.3%	12.0	9.9	n/a	n/a
Average					12.8	15.70%	21.57%	11.7	9.1	1.6	1.5
Median					20.5%	24.4%	24.1%	3.7	4.3	1.0	1.0
TCM	HOSE	220	82000	59800	13.8	15.2	12.5	21.6	25.7	2.9	2.6

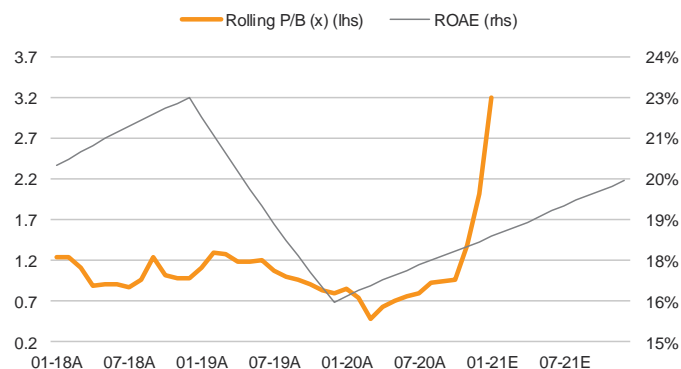
Source: VND RESEARCH, Bloomberg


Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	3,470	3,844	4,084
Cost of sales	(2,850)	(3,127)	(3,283)
Gen & admin expenses	(142)	(169)	(180)
Selling expenses	(144)	(160)	(169)
Operating profit	334	388	451
Operating EBITDA	455	516	588
Depreciation and amortisation	(121)	(128)	(137)
Operating EBIT	334	388	451
Interest income	48	67	71
Financial expense	(48)	(47)	(51)
Net other income	3	10	10
Income from associates & JVs	6	8	8
Pre-tax profit	343	427	489
Tax expense	(67)	(83)	(96)
Minority interest	0	0	0
Net profit	276	343	394
Adj. net profit to ordinary	242	309	324
Ordinary dividends	(62)	(62)	(62)
Retained earnings	214	281	332

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	288	202	233
Short term investments	267	238	253
Accounts receivables	200	337	322
Inventories	1,007	914	961
Other current assets	22	22	22
Total current assets	1,784	1,713	1,791
Fixed assets	999	1,045	1,177
Total investments	78	74	74
Other long-term assets	116	407	465
Total assets	2,977	3,240	3,508
Short-term debt	706	776	854
Accounts payable	260	281	295
Other current liabilities	292	287	279
Total current liabilities	1,257	1,344	1,428
Total long-term debt	81	76	111
Other liabilities	(0)	23	33
Share capital	621	620	620
Retained earnings reserve	530	689	827
Shareholders' equity	1,630	1,789	1,927
Minority interest	8	8	8
Total liabilities & equity	2,977	3,240	3,508


Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	343	427	489
Depreciation & amortisation	121	128	137
Tax paid	(83)	(96)	(113)
Other adjustments	(97)	(108)	(101)
Change in working capital	1	157	146
Cash flow from operations	285	508	558
Capex	(157)	(157)	(250)
Proceeds from assets sales	0	0	0
Others	29	(108)	(63)
Other non-current assets changes			
Cash flow from investing activities	(128)	(265)	(313)
New share issuance	(1)	0	0
Shares buyback	0	0	0
Net borrowings	(175)	(114)	(87)
Other financing cash flow	(39)	(41)	(43)
Dividends paid	(29)	(58)	(58)
Cash flow from financing activities	(243)	(213)	(188)
Cash and equivalents at beginning of period	225	288	202
Total cash generated	(86)	31	58
Cash and equivalents at the end of period	139	319	260

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	8.0%	8.9%	9.6%
Asset turnover	1.18	1.24	1.21
ROAA	9.4%	11.0%	11.7%
Avg assets/avg equity	1.94	1.82	1.82
ROAE	18.1%	20.1%	21.2%
Efficiency			
Days account receivable	44.6	38.8	41.1
Days inventory	129.3	106.7	106.8
Days creditor	33.4	32.9	32.9
Fixed asset turnover	3.30	3.76	3.68
ROIC	11.4%	13.0%	13.6%
Liquidity			
Current ratio	1.4	1.3	1.3
Quick ratio	0.6	0.6	0.6
Cash ratio	0.4	0.3	0.3
Cash cycle	140.6	112.6	115.1
Growth rate (yoy)			
Revenue growth	(4.8%)	10.8%	6.2%
Operating profit growth	14.5%	16.2%	16.2%
Net profit growth	26.7%	24.3%	14.7%
EPS growth	26.7%	24.3%	14.7%

Source: VND RESEARCH

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

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.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Nguyen Duc Hao – Analyst

Email: hao.nguyenduc@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>