RONG VIET SECURITIES

PRELIMINARY 2H2021 OUTLOOK

RONG VIET SECURITIES

TEXTILE & GARMENT

WHEN TAILWINDS BECOME HEADWINDS

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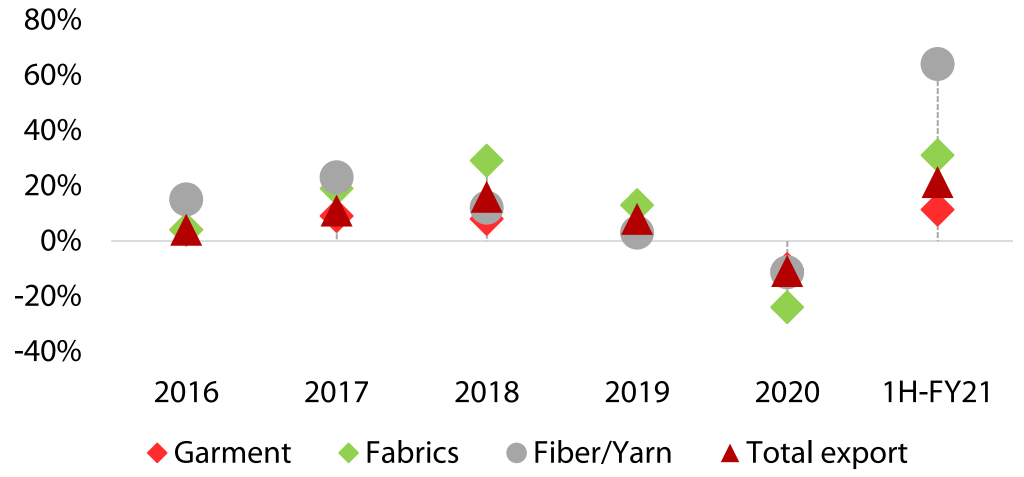
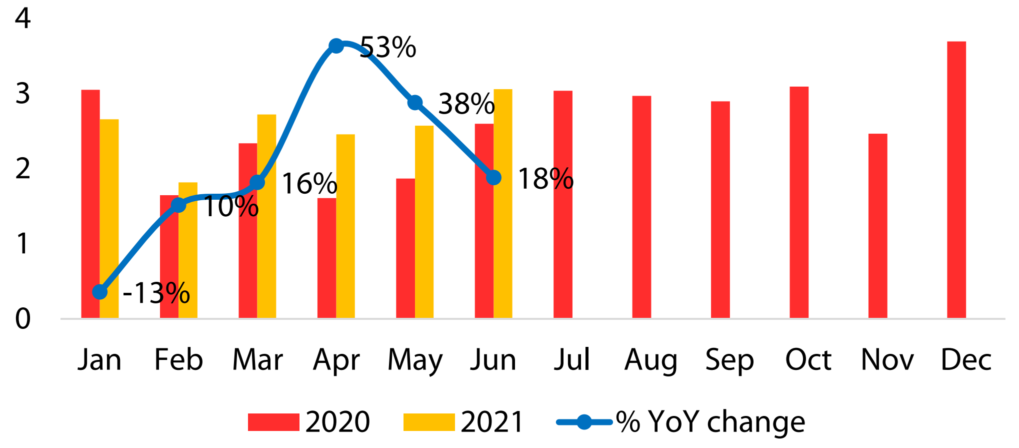
Figure 1: Textile & garment export growth (YoY) by segment (%)



Source: VITAS, Rong Viet Securities

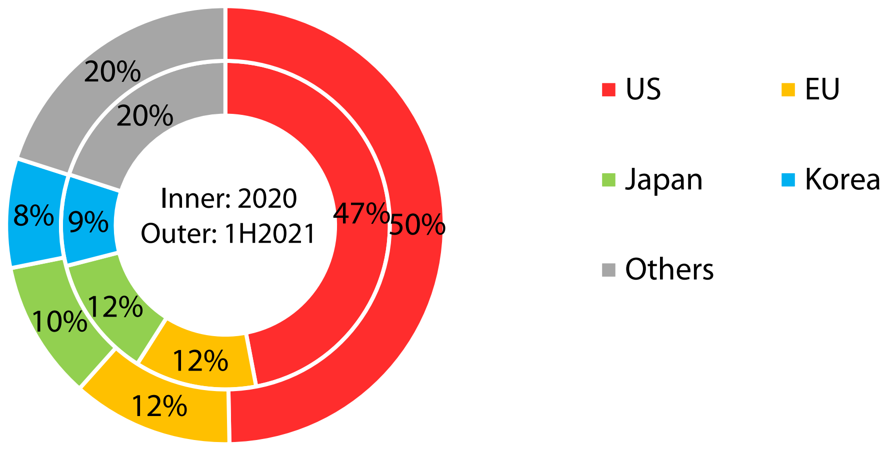
- In 1H2021, Vietnam's textile and garment exports was USD 18.79 Bn, up 21% YoY, driven by: (1) Stimulus packages and successful vaccine rollout, resulting in the demand recovery in main markets (US, EU, China, etc.); (2) The shift of orders from competitors affected by COVID-19 (India, Bangladesh, Cambodia) and coup (Myanmar).
- All segments showed signs of strong recovery from 2020: (1) Yarn witnessed the highest growth rate at 64% YoY due to the recovery of Chinese imports. Yarn selling prices rallied by 3%-25% YoY. (2) Garment rose by 11% YoY as a result of a ramp-up in orders, driven by the increasing demand from the US and EU, (3) Fabrics exports went up 31% YoY.

Figure 2: Vietnam's textile & garment exports (USDbn)



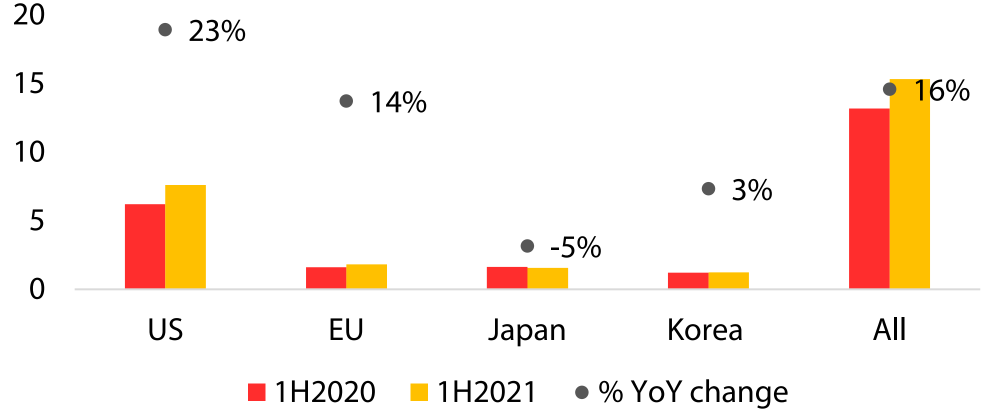
Source: Vietnam Customs, Rong Viet Securities

Figure 3: Textile & garment exports by market (%)



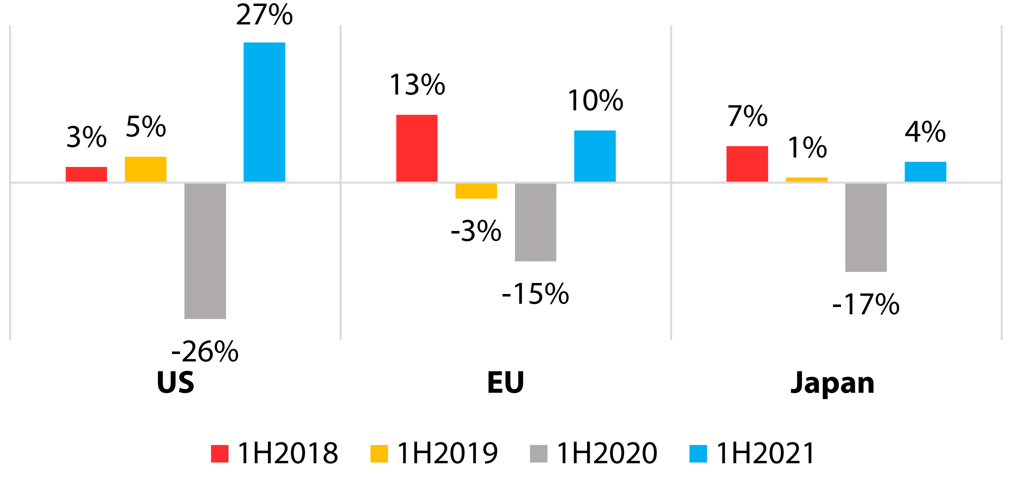
Source: Vietnam Customs, VITAS, Rong Viet Securities

Figure 4: Vietnam's exports by market (USD Bn)



Source: Vietnam Customs, Rong Viet Securities

Figure 5: Import growth (YoY) in major countries (%)



Source: Trademap, Eurostat, Rong Viet Securities

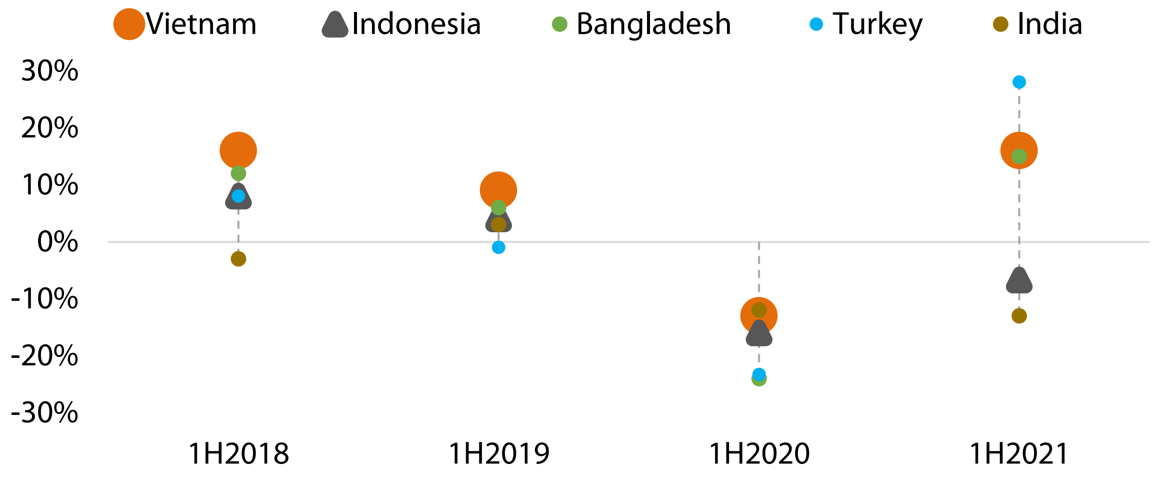
Imports of US and EU have been rebounding

The US continued to be the largest importer of Vietnam's textile and garment at US 7.6 Bn, up 23% YoY, accounting for 50% of total exports, followed by Japan at USD 1.6 Bn and the EU at USD 1.8 Bn. *(see **Figure 4,5**)*

Vietnam's exports prevailed over competitors due to better COVID-19 control in 1H2021

Vietnam was selected as a supplier to partially replace some countries (India, Bangladesh, Myanmar, Cambodia) as these countries had to temporarily close factories due to COVID-19's resurgence or political instability. *(see **Figure 6**)*

Figure 6: Export growth (YoY) in major countries (%)



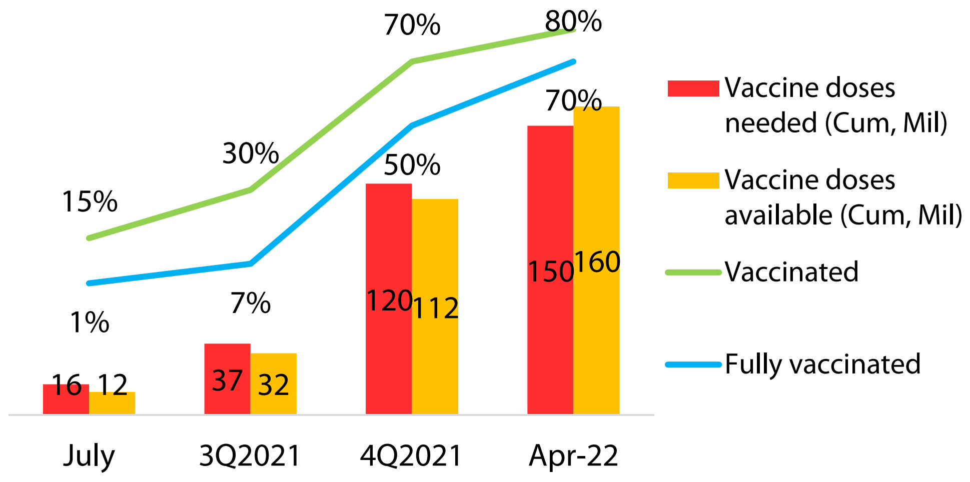
Source: Trademap, UN Comtrade, Rong Viet Securities

Table 1: Orders/operating capacity

Companies	Status
STK	70% workers stayed at factories at the end of July 2021
TCM	50% workers stayed at factories at the end of July 2021 Full orders until the end of 4Q2021
VGT	Full orders until the end of 4Q2021
TNG	Full orders until the end of 4Q2021

Source: Rong Viet Securities compiled

Figure 7: Vaccination plan



Source: MOH, Rong Viet Securities

COVID-19 resurgence to threaten manufacturing operations

- According to the Prime Minister's Directive 16, many manufacturers in the Southern area have been complied with the "3 on site" rule (production-eating-resting at factory). As a result, companies are affected: (1) low operation capacity due to lack of workers resulting in late shipments; (2) the disruption of domestic logistics causing delays in exports; (3) rising operating costs. ***Many listed companies are affected by Directive 16: STK, TCM, GIL, PPH, GMC, etc.***
- COVID-19 tends accelerating in the US, EU and Asian countries could slow down the demand recovery in 2H2021. Apart from that, congestion in Chinese ports could cause a lack of raw materials as 60% of fabric materials are imported from there.

The ability to meet orders is a big concern

- Many companies have enough orders until the end of 4Q2021. Demand is no longer a concern, instead, the ability to meet orders on time is a big challenge. Delays have caused some brands to cancel orders and move out of Vietnam.
- Fabric prices and logistics costs have surged while importers require stable quality, shorter production lead time and lower prices, thereby putting pressure on operations and profits.
- The race to vaccination and the ability to handle potentially successive COVID-19 waves will decide the fate of recovery. Based on MOH's vaccination plan, we expect the industry's growth to return to 2019 level in 2H2022.

Table 2: Impact of COVID-19 on brand's strategies

Trends	Score (%)	Impacts
Shortening value chain	19	Accelerating to transfer CMT to OEM and FOB.
Diversifying suppliers	41	Moving orders from Vietnam to other countries or vice versa, depending on the ability to meet the requirements of brands.
Online sales	52	Smaller order value, shorter delivery time, less defects → puts pressure on manufacturers to improve operation.
Eco-friendly manufacturing	58	Replacing non-recycled products or polluting processes with products made from recycled/natural fibers and produced in an eco-friendly process.

Source: ERC, VITAS, Rong Viet Securities

Table 3: Textile & garment investment projects

Company	Project	Purpose
STK	Unitex factory	Focusing on recycled yarn
TCM	Vinh Long 2 factory	Increasing garment capacity by 50%
MSH	SH10 factory	Increasing capacity by 20%, focusing on FOB orders
TNG	Son Cam	Industrial real estate for weaving and dyeing factories
Texhong	Fabric factory	
Brotex	Colored-yarn factory	

Source: Rong Viet Securities

Textile & garment will adapt to post-COVID-19 trends

After COVID-19, manufacturers will pay more attention to operations, value chain, eco-friendly manufacturing and orders from online sales to adapt to the requirements of brands *(see **Table 2**)*. We favor the business models of ***STK and TCM*** which are in line with the trends of integrated value chain and "green fashion".

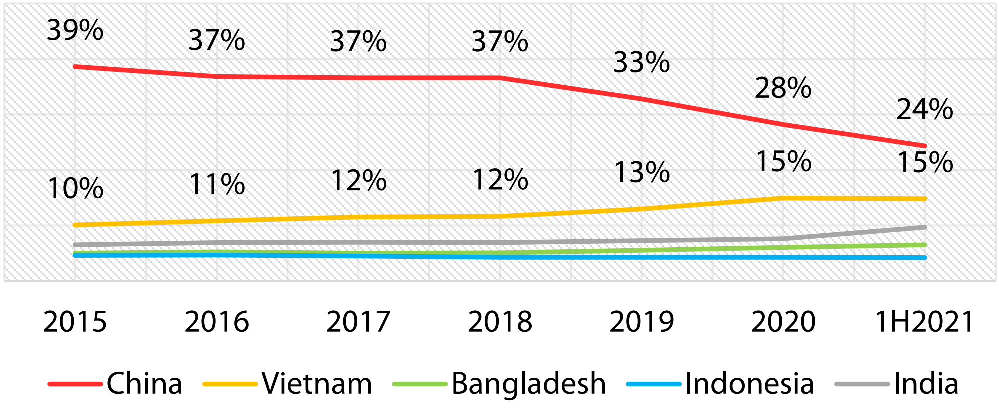
Companies will increase investment projects

To benefit from FTAs, some companies start constructing new projects to increase capacity and fulfill the value chain. Moreover, FDI projects will also help solve partly the principle "fabric onwards" in the long run. *(see **Table 3**)*

Diversifying into higher-margin business segments

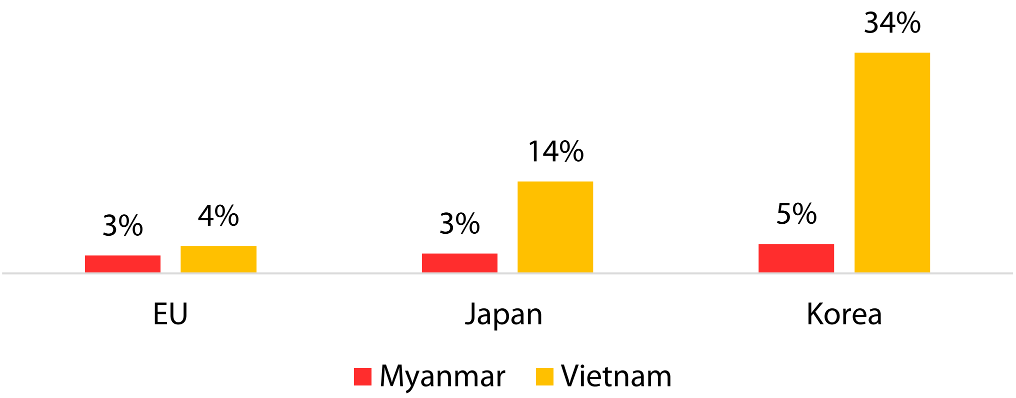
Due to the long-term labor and cost risks as well as low profit margin of the textile & garment industry, many companies tend to restructure their business model to other segments, typically real estate, such as: ***GIL, TNG, TCM, ADS.*** We think this trend will continue, especially for mid and small-sized companies if the issue of input materials is not resolved.

Figure 8: Market share of textile & garment imports to the US



Source: OTEXA, Rong Viet Securities

Figure 9: Market share of Vietnam and Myanmar in EU, Japan and Korea (2019)



Source: UN Comtrade, Wazir Analysis, Rong Viet Securities

Vietnam is a strong candidate in replacing China's orders

- Per Fitch Solutions, China looks to reduce its apparel manufacturing operations and move up the value chain. Vietnam, along with Bangladesh, Cambodia and Myanmar, is poised to benefit the most.

Difficulties of competitors will bolster Vietnam's ability to expand market share

- In 1H2021, Myanmar's coup disrupted orders for many brands (H&M, Uniqlo, Primark, Wacoal, Shimamura, Adastria, OVS, Next, etc.), resulting in temporary shift of orders to Vietnam. Although some have begun to resume Myanmar orders (H&M, Bestseller), we believe many will gradually halt their orders going to politically stable places and Vietnam will be the main beneficiary. We expect that Vietnam might expand its market share in the EU, Japan and Korea which are mutual export markets of Vietnam and Myanmar. (*see* ***Figure 9)***
- In addition, the EU withdrew 20% of the tariff preferences granted to Cambodia under the EBA scheme (*), including selected garments and footwear products, thereby creating an opportunity for Vietnam to gain market share in that zone.

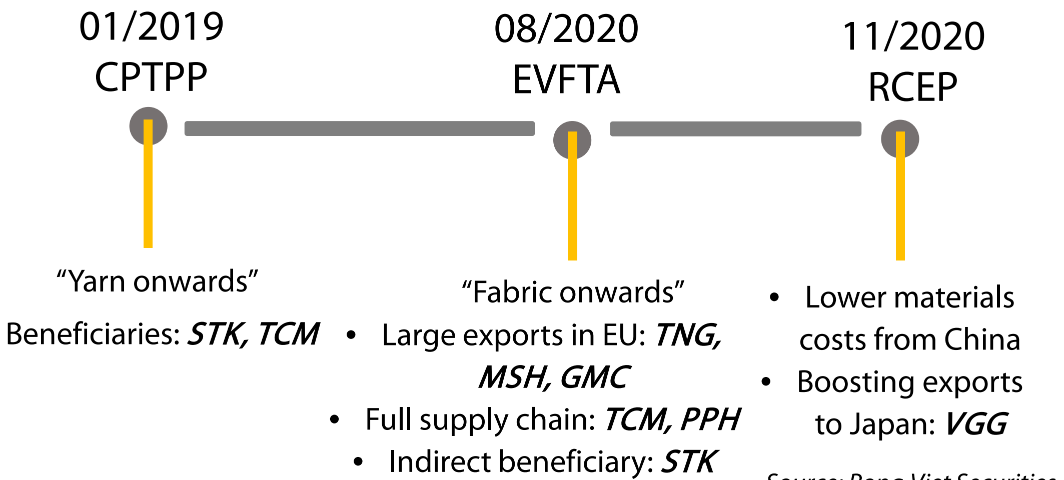
(*) Read more here

FTA – DRIVING FORCE IN THE LONG TERM

EVFTA: Garment, which accounts for 90% of Vietnam's exports to the EU will start to benefit from EVFTA from 2021 on. The EU accounts for 34% of global total textile and garment imports while Vietnam's export to the EU only accounts for 4%. However, low self-supply of raw materials owing to the bottleneck of weaving and dyeing makes it difficult to meet the standard "fabric onwards". EVFTA is a catalyst to boost orders from the EU in the long run **(*)**.

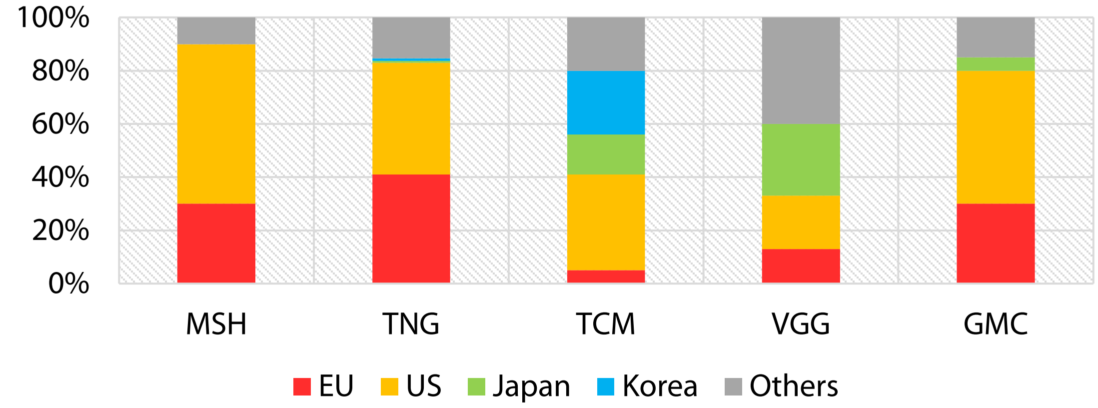
RCEP: Supports the textile & garment industry to reduce input costs as fabric export taxes from China are reduced from 10 to 2 per cent; also enjoying tax reduction in Japan, even using raw materials from China.

Figure 11: Summary of FTAs



Source: Rong Viet Securities

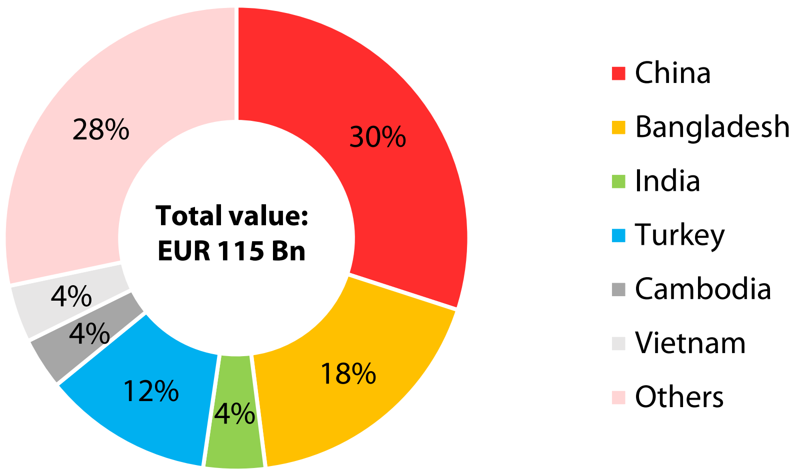
Figure 10: Export structure of listed garment companies (%)



Source: Rong Viet Securities compiled

(*) Read more on Rong Viet's analysis about the EVFTA impact here

Figure 12: Market share in EU imports in 2020



Source: Euratex, Statista, Rong Viet Securities

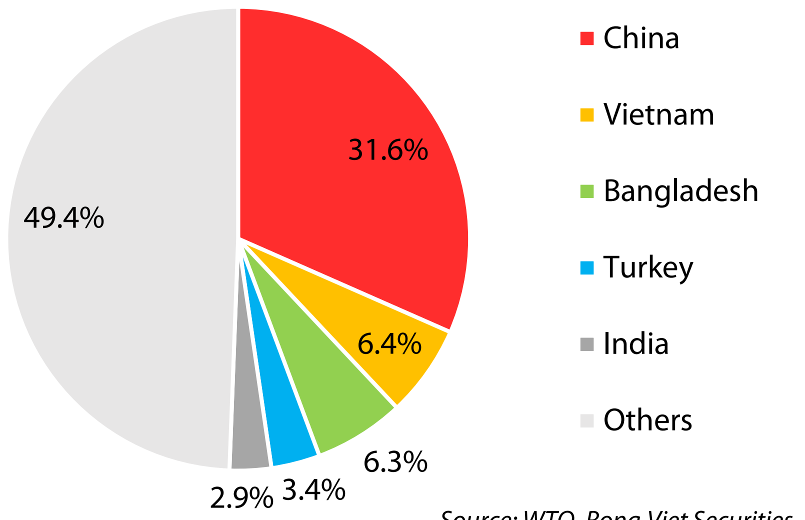
Vietnam remains numerous advantages compared to competitors

Vietnam is the second largest garment exporter in the world, following China. Vietnam has the advantage of cheap labor compared to China, India and Indonesia. FTAs will continue to create competitive advantages for Vietnam. Compared to Bangladesh and Cambodia, Vietnam dominates in terms of skilled labor and the production of complex products. However, Vietnam is weak in integrated value chain, especially bottlenecks from weaving and dyeing.

Integrated value chain will bolster Vietnam's position in the long run

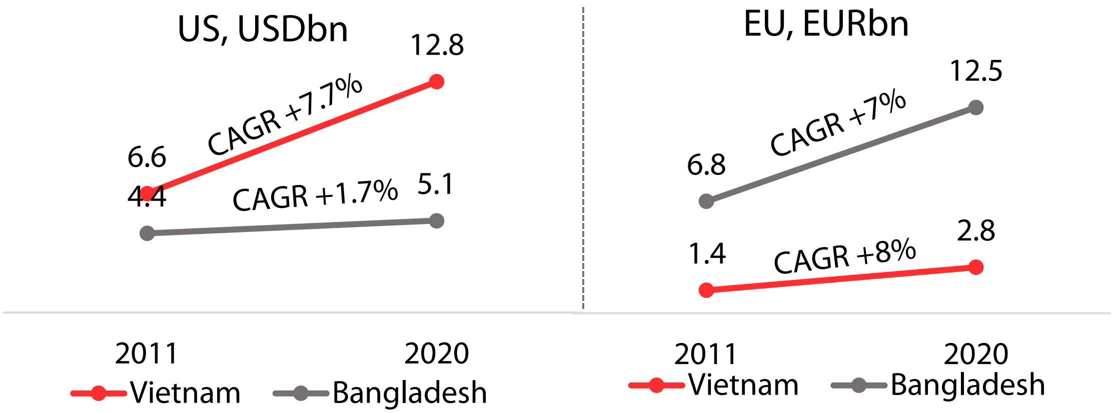
Garment companies import more than 65% of their input needs while 2/3 yarn produced in Vietnam has to be exported. Not only for beneficial FTAs, self supply of input materials will also help Vietnam increase its competitive advantage in the long run. In fact, the advantage of cheap labor in Vietnam is gradually disappearing, per the World Bank. To sustain Vietnam's position among textile & garment exporters, it needs to focus on building fully integrated value chain: Yarn - Weaving - Dyeing – Sewing, as the way that China, India and Indonesia have done.

Figure 13: Garment exports market share, 2020



Source: WTO, Rong Viet Securities

Figure 13: Garment import value from Vietnam and Bangladesh



Source: ITC, Eurostat, McKinsey, Rong Viet Securities

Table 4: Competitive advantages among textile & garment countries

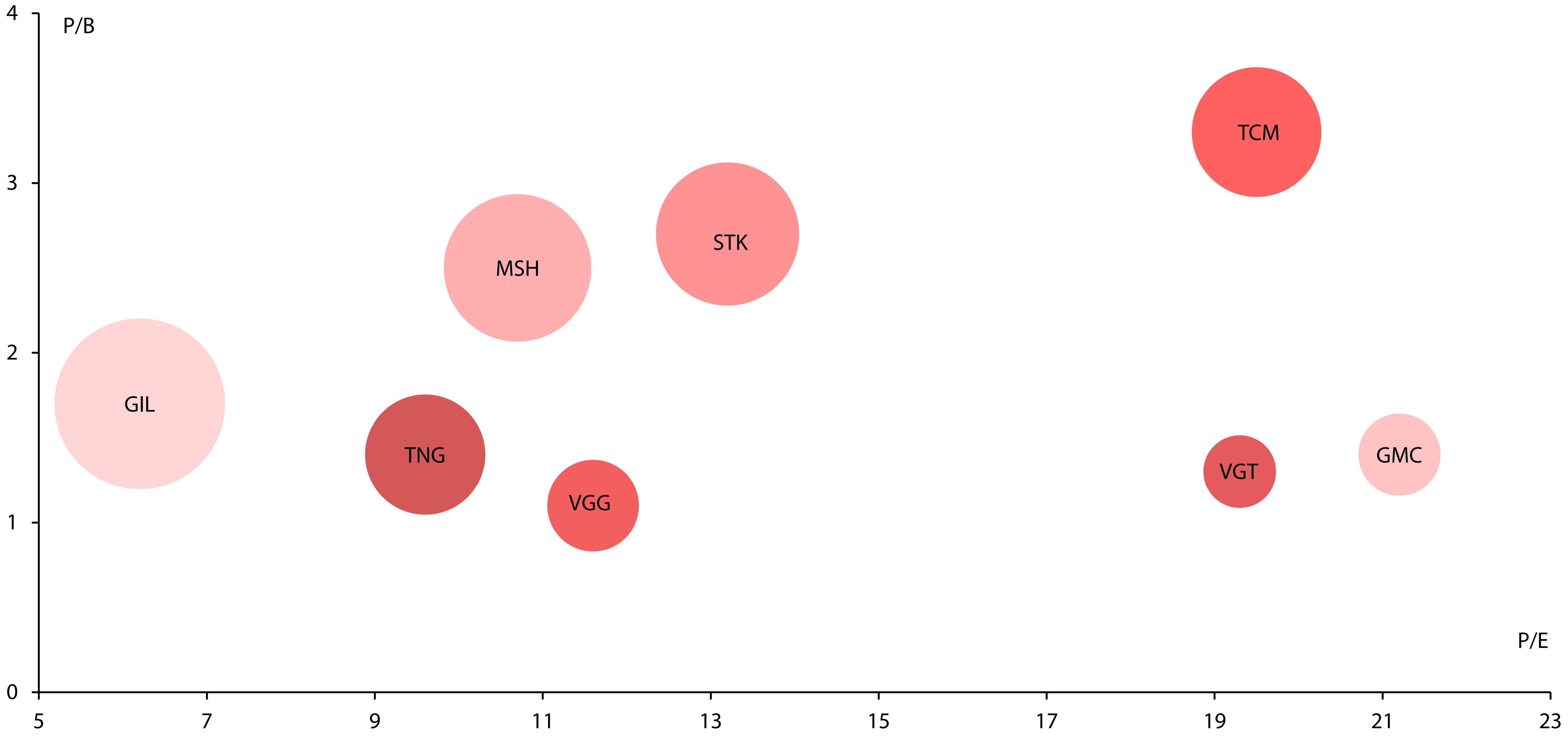
	Vietnam	Bangla-desh	China	Indonesia	India
Low labor costs	x	x			x
High labor skills	x		x		
Integrated value chain			x	x	x
Infrastructure			x	x	
FDI incentives	x	x			x

Source: ERC, VITAS, Rong Viet Securities

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
GIL	105.0	N/A	14.0	26.9	13.6	12.7	27.2	9.9	13.5	29.8	1.5	6.2	1.7
GMC	41.6	N/A	-4.8	-11.8	6.3	3.8	-0.7	3.2	3.8	6.9	0.0	21.2	1.4
MSH	151.8	N/A	6.6	29.1	11.8	9.7	40.3	8.0	11.9	22.3	4.3	10.7	2.5
STK	131.9	46,000	-1.3	13.7	19.4	13.1	43.4	11.6	12.6	21.0	3.4	13.2	2.7
TCM	237.6	N/A	1.2	4.8	12.2	9.5	19.2	7.7	8.9	17.2	0.7	19.5	3.3
TNG	76.4	N/A	13.7	-2.0	9.7	4.3	-15.2	3.4	4.3	14.8	1.8	9.6	1.4
VGG	85.6	N/A	-11.0	-37.0	2.9	3.0	-30.6	2.6	3.8	9.3	4.6	11.6	1.1
VGT	367.9	N/A	-15.9	43.8	7.6	6.7	38.8	6.3	2.4	5.4	2.9	19.3	1.3

Source: Bloomberg, Rong Viet Securities. Share price as of 02 Aug 2021.

PE, PB AND ROE (TTM)

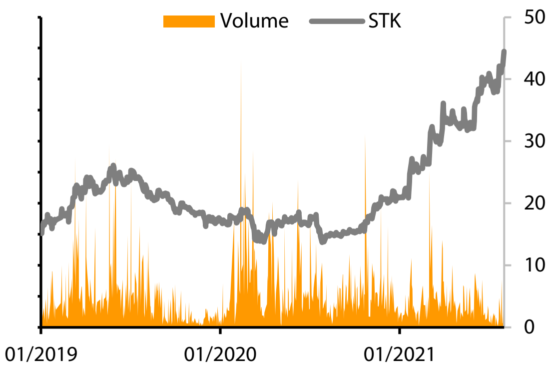


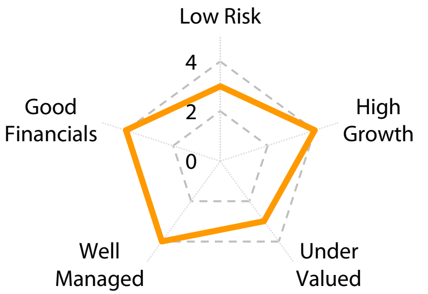
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 02 Aug 2021.

STK – BRIGHT PROSPECT DESPITE SHORT-TERM COVID-19 DISRUPTIONS

HSX: STK

<NEUTRAL: 7%> **<MP: 44,500>** **<TP: 46,000>**





STOCK INFO

Sector	Textile & Garment
Market Cap ($ mn)	132
Current Shares O/S (mn shares)	68
3M Avg. Volume (K)	68
3M Avg. Trading Value (VND Bn)	2.5
Remaining foreign room (%)	36.8
52-week range ('000 VND)	14.1-44.5

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue	1,766	2,152	2,754
NPATMI	143	231	324
ROA (%)	8.4	10.8	9.3
ROE (%)	13.3	17.3	21.2
EPS (VND)	2,028	2,762	3,866
Book Value (VND)	15,296	15,615	17,606
Cash dividend (VND)	1,500	1,500	500
P/E (x) (*)	10.3	16.3	11.6
P/B (x) (*)	1.4	2.8	2.5

INVESTMENT RATIONALES

Lucrative recycled yarn demand will drive STK's growth

- Recycled polyester yarn will enjoy favorable demand tailwinds in the coming years. 85 top-notch brands, including STK's major customers, already committed to the global percentage of recycled polyester from 14% in 2019 to 45% by 2025, equivalent a CAGR of 25% in 2019-2025F, per Textile Exchange.
- Demand and profit margins have been much more resilient for recycled yarn versus virgin yarn. STK has accelerated to increase the contribution of recycled yarn in revenue from 6% in 2017 to 56% in 1H2021. We forecast recycled yarn revenue to grow at a CAGR of 30% in 2021-2025F and contribute 75% and 88% in STK's revenue and NPAT in 2025F, respectively.

The Unitex factory paves way for long-term growth

- Doubling capacity after the factory construction is completed (first phase in 2023 and second phase in 2025) will bolster STK to take advantage of recycled yarn potential. In addition, tailwinds from "yarn/fabric onwards" rules under FTAs and low anti-dumping duties in the US will also boost STK's revenue in the coming years.

Healthy balance sheet and robust operating cash flow to support the upcoming CAPEX

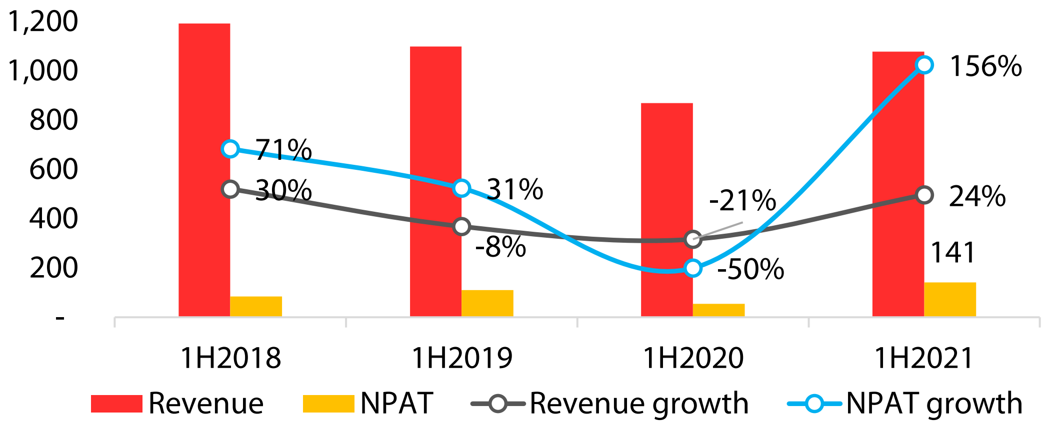
- STK has no long-term debt and debt/equity of only 9.7% in 1H2021. Debt financing of Unitex factory (~USD 84 Mn) will push debt/equity to reach 78% (including upcoming private placements) in 2023F versus 25% in 2020. The average 2021F-2025F interest coverage ratio of 11 in our projection is higher than that of historical 2016-2020 period of 7.

RISKS TO OUR CALL

- Extending social distancing could negatively affect on STK's operations than expected.

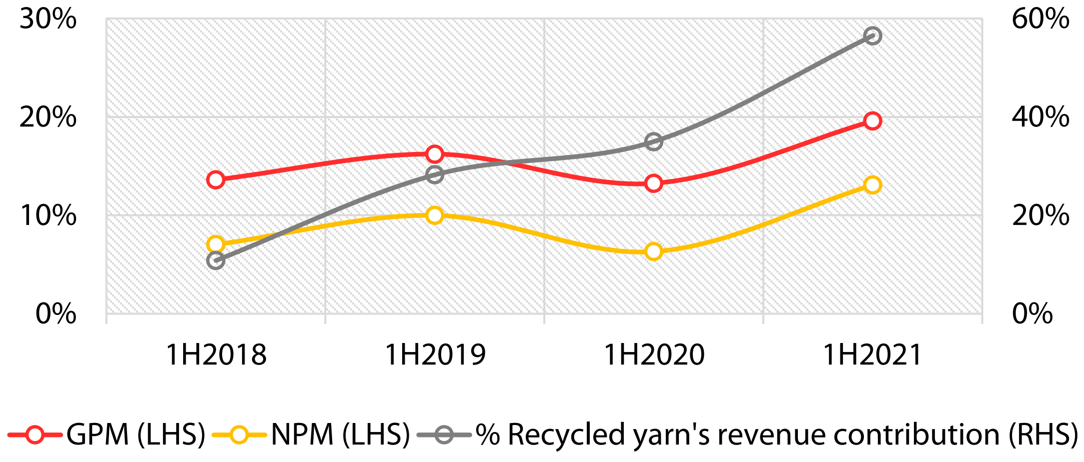
1H2021: STRONG EARNINGS GROWTH DRIVEN BY RECYCLED YARN

Figure 1: 1H-FY21 Revenue and NPAT (VND bn)



Source: STK, Rong Viet Securities

Figure 2: GPM, NPM and contribution of recycled yarn (%)

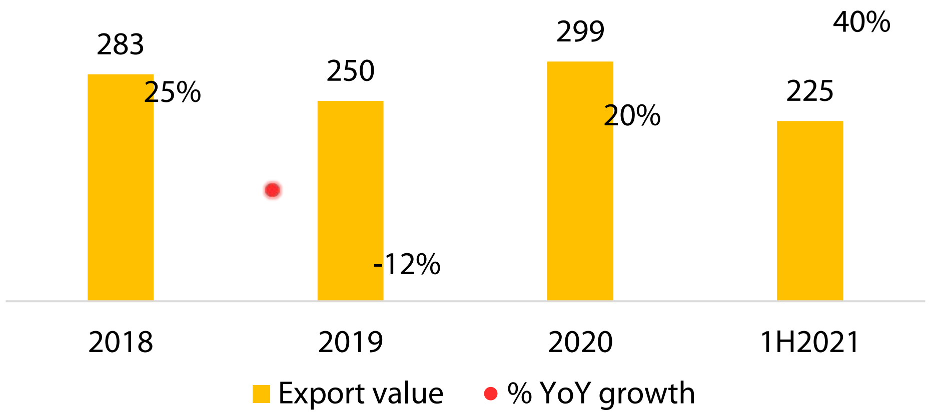


Source: STK, Rong Viet Securities

Recycled yarn showed an impressive growth

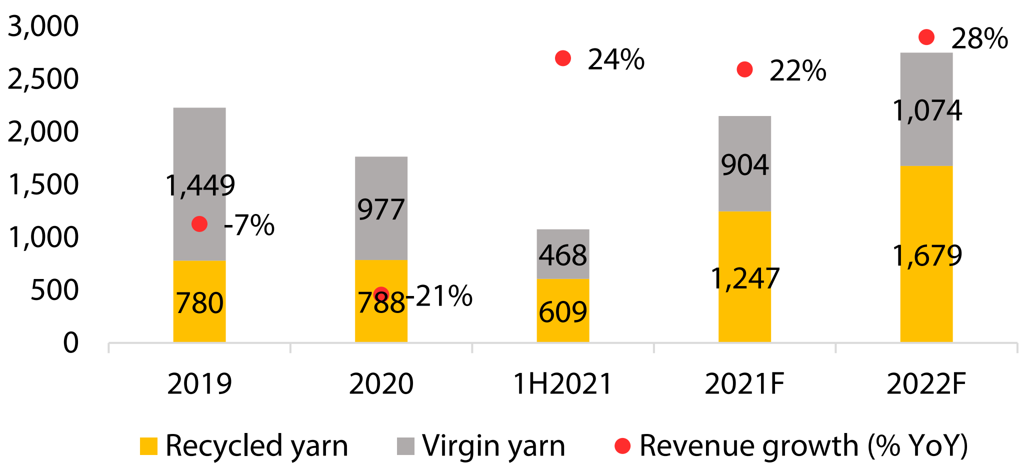
- Revenue reached VND 1,077 Bn (or USD 47 Mn), up 24% YoY due to the global garment demand recovery amid successful vaccine rollout boosting yarn demand.
- Recycled yarn revenue surged 100% YoY, contributing 56% to total revenue compared to 35% in 1H2020. In contrast, virgin yarn revenue plunged 17% YoY.
- Gross profit and NPAT rose sharply 83% and 157% YoY, respectively, owing to a product mix shift towards high-margin recycled yarn. Gross margin increased to 19.6% (+633 bps YoY and +131bps compared to 2019).

Figure 3: Vietnam's polyester filament yarn exports (USDmn)



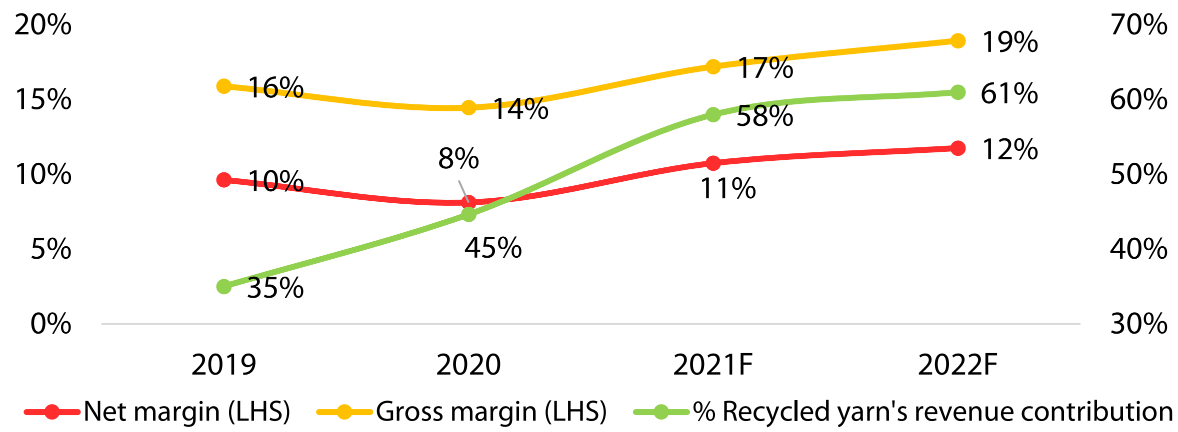
Source: Vietnam Customs, Rong Viet Securities

Figure 4: Revenue forecast (VND bn)



Source: STK, Rong Viet Securities

Figure 5: NPAT, GPM and Recycled yarn's revenue contribution



Source: STK, Rong Viet Securities

COVID-19 resurgence will put pressure on operations

- Currently, STK is operating at 70% of normal capacity owing to COVID-19 resurgence, likely causing delays in shipment and deterring logistics activities. In addition, operating costs are expected to increase due to COVID-19 tests and staying-at-factory-related costs.
- We forecast 2H2021 revenue at VND 1,074 Bn (or USD 47 Mn, +20% YoY) and NPAT at VND 90 Bn (or USD 4 Mn), up 2% YoY and down 36% HoH.

Key forecasts for 2021:

- We forecast revenue to rise 22% YoY to reach VND 2,152 Bn (or USD 94 Mn). Recycled yarn revenue will rise 58% YoY while virgin yarn revenue will decline 7% YoY. Recycled yarn's revenue contribution is forecasted to increase to 58% from 45% in 2020.
- We anticipate NPAT to be VND 231 Bn (or USD 10 Mn), up 61% YoY on the back of 2020 low base. Due to a product mix towards high-margin recycled yarn, we expect GPM and NPM to reach 17% and 11%, increasing 337bps and 307bps YoY, respectively.

What is recycled yarn's potential?

- With 85 brands and suppliers already committed in April 2021, the 2025 Recycled Polyester Challenge serves as an essential catalyst for change in the apparel and textile industry that petitions the apparel industry to commit to increasing the global percentage of recycled polyester from 14% to 45% at 17.1 million metric tons by 2025.
- A ban on all the import of all resources classified by the Chinese Ministry of Ecology and Environment as 'solid waste' – including recovered fibre – came into effect in Jan 2021. This could jeopardize China's recycled polyester production which accounts for 70% of global polyester capacity (per IHS Markit), thereby creating opportunity for other countries to replace this supply shortage.

Recycled yarn will be STK's long-term growth driver

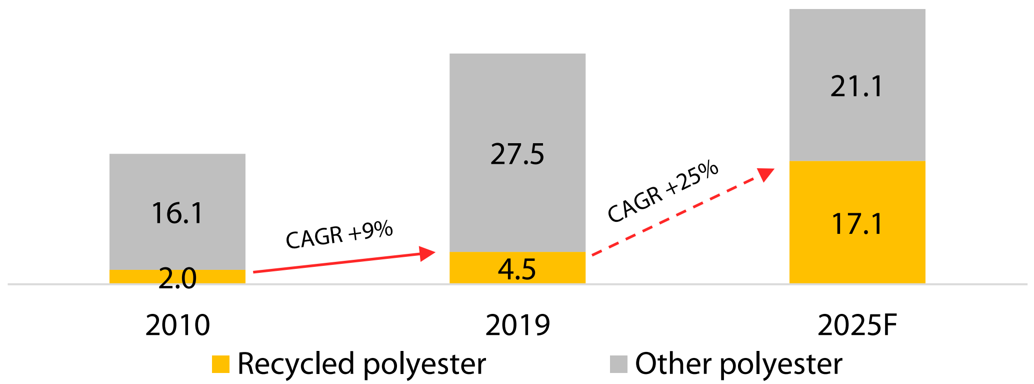
- We forecast STK's recycled yarn revenue to grow at a CAGR of 30% in 2021-2025F and contribute 75% into the company's revenue in 2025F.
- However, recycled yarn segment could face competition due to potential new competitors. In 2020, VNPoly partnered with Shinkong – Taiwanese textile giant.

Table 1: Recycled polyester target of STK's indirect customers (*)

Brand	%Current	Target	Year	% Products made in Vietnam	
				Apparel	Footwear
Adidas	50%	100%	2024	20%	42%
Puma	17%	75%	2025	-	35%
Decathlon	35%	100%	2022	52%	35%
Nike	59%	100%	2025	28%	50%
H&M	64%	100%	2030	N/A	
Inditex	20%	100%	2025	N/A	
Uniqlo	Started using in 2020			N/A	

Source: Rong Viet Securities compiled (*) STK's major customers are suppliers for those brands

Figure 6: Global recycled polyester consumption for apparel

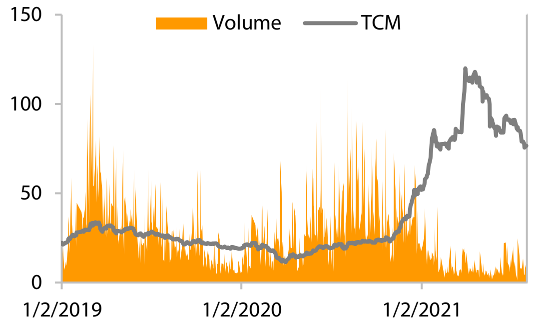


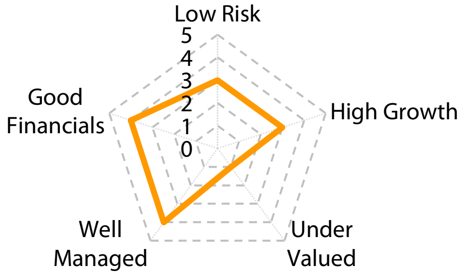
Source: Textile Exchange, Rong Viet Securities Assuming a 3% growth rate of the apparel industry

NEW PROJECTS TO DRIVE LONG-TERM GROWTH

HSX: TCM

<MONITOR> <MP: 76,700> <TP: N/A>





STOCK INFO

Sector	Textile & Garment
Market Cap ($ mn)	238
Current Shares O/S (mn shares)	71
3M Avg. Volume (K)	248
3M Avg. Trading Value (VND Bn)	22.1
Remaining foreign room (%)	4.9
52-week range ('000 VND)	18.6-104.4

FINANCIALS	2020A	2021F	2022F
Revenue	3,470	3,881	4,135
NPATMI	275	213	299
ROA (%)	9.3	6.4	8.1
ROE (%)	16.9	11.9	14.8
EPS (VND)	3,775	2,691	3,771
Book Value (VND)	26,402	25,081	28,336
Cash dividend (VND)	500	500	500
P/E (x) (*)	13.7	33.9	24.2
P/B (x) (*)	2.0	3.6	3.2

INVESTMENT RATIONALES

Traditional garment orders have recovered but COVID-19 resurgence to bring challenges in 2H2021

- Traditional garment demand has recovered in main export markets (US, Japan, Korea), bringing revenue and profits back to its sustainable growth trajectory. However, COVID-19 resurgence puts pressure in 2H2021 revenue and profits: (1) surging materials costs due to the shortages of globally material production, (2) low production capacity and logistics disruption to delay orders, (3) rising operating costs to comply with "3 on-site" rules under social distancing policy of Directive 16.

Closed supply chain creates favorable conditions for TCM to meet the requirements of FTAs

- The closed production chain from yarn to garment will facilitate TCM to meet "yarn/fabric onwards" principles, thereby taking advantage of FTAs. Moreover, TCM can also indirectly benefit FTAs through selling fabric to domestic apparel companies.

New projects will bolster its sustainable growth in the coming years

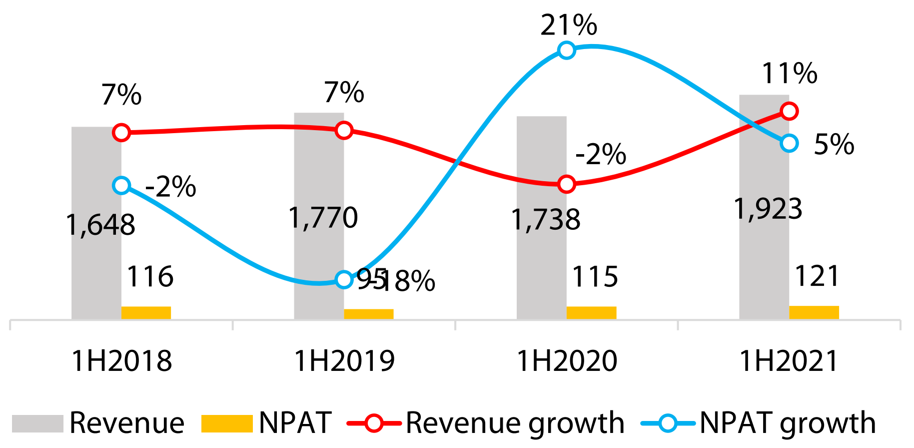
- Vinh Long 2 factory is expected to put into operation in end-2021, helping TCM to raise garment capacity by 50%, thereby reducing outsourcing orders to meet customer's requirements. Knitting and dyeing capacity expansion in 2022-2023F to increase its fabric capacity by 37% from 2023 onwards will bolster profit margin to expand sustainably in the long run.

Overvaluation. TCM is currently trading at TTM P/E of 19.5x - a 50% and 110% premium to peers and 5-year P/E average, respectively. We believe TCM is overvalued given our projected EPS CAGR of 6.2% over 2020-2023F.

RISKS TO OUR CALL

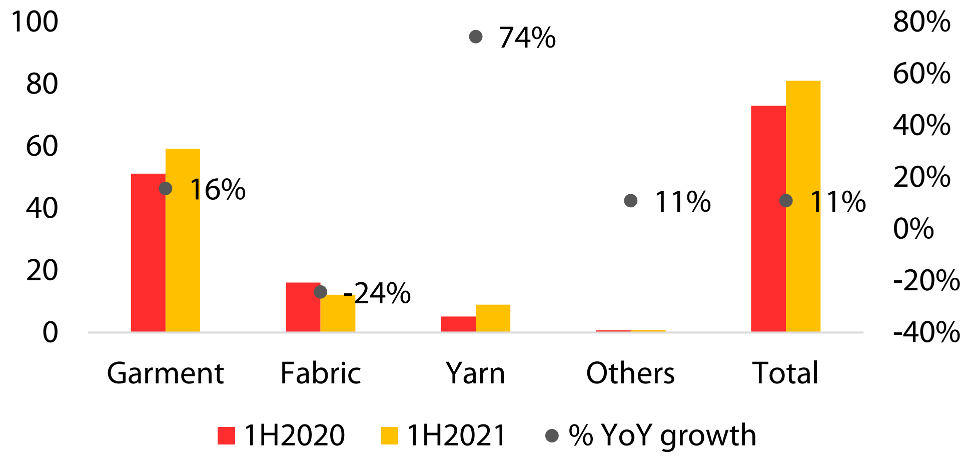
- Extending COVID-19 resurgence may negatively affect on productions and exports than expected.

Figure 1: Revenue, NPAT (VNDbn) and YoY growth (%)



Source: TCM, Rong Viet Securities

Figure 2: Revenue breakdown by product (USDmn)



Source: TCM, Rong Viet Securities

1H2021: NPAT growth slowed down due to no PPE(*) orders

- 1H2021 revenue increased 11% YoY to reach VND 1,923 Bn (or USD 84 Mn) due to the recovery of traditional garment orders.
- NPAT only rose 5% YoY due to no high-margin PPE orders. We remind that in 1H2020, TCM enjoyed high profit margin on the pandemic-related products.
- Net margin was 6.3%, contracting 33 bps YoY.

2H2021: Net margin to keep the downward trend

- We expect 2H2021 net margin will be under pressures: (1) surging materials costs due to the shortages of globally material production, (2) low production capacity and logistics disruption due to COVID resurgence, (3) rising operating costs as the workers stay at the factory, and (4) shortage of PPE orders.
- We project that TCM's revenue and NPAT in 2021 will reach VND 3,881 Bn (or USD 169 Mn, +12% YoY) and VND 213 Bn (or USD 9 Mn, -23% YoY). Net margin is expected to decrease to 5.5%, contracting 243bps YoY.

2022: Boosting revenue due to new factory

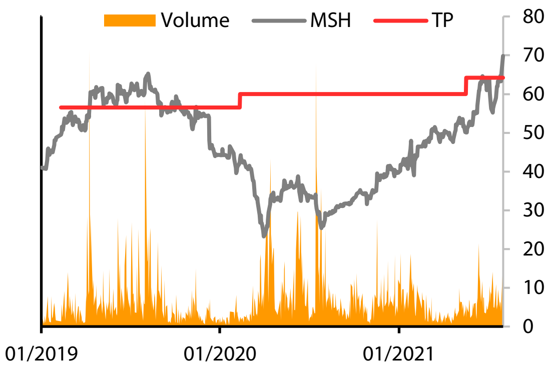
- Vinh Long 2 factory is expected to put into operation in end-2021, helping TCM to raise garment capacity by 50%, thereby reducing outsourcing orders to meet customer’s requirements.

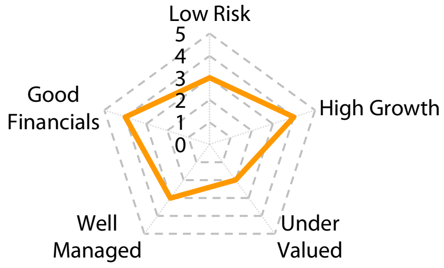
(*) PPE: Personal protective equipment for COVID-19 such as anti-bacterial fabrics and masks

LESS AFFECTED BY SOCIAL DISTANCING

HSX: MSH

<MONITOR> <MP: 69,800> <TP: N/A>





STOCK INFO

Sector	Textile & Garment
Market Cap ($ mn)	152
Current Shares O/S (mn shares)	50
3M Avg. Volume (K)	108
3M Avg. Trading Value (VND Bn)	6.2
Remaining foreign room (%)	42.3
52-week range ('000 VND)	27.4-69.8

FINANCIALS	2020A	2021F	2022F
Revenue	3,813	4,474	5,810
NPATMI	232	389	516
ROA (%)	8.8	11.3	12.7
ROE (%)	16.9	24.8	27.8
EPS (VND)	4,635	6,992	9,287
Book Value (VND)	27,366	31,358	37,146
Cash dividend (VND)	3,000	3,500	3,500
P/E (x) (*)	8.6	7.6	5.7
P/B (x) (*)	1.4	1.7	1.4

INVESTMENT RATIONALES

Demand has recovered in MSH's main markets

- Garment orders have been rebounding on the back of successful vaccine rollout in developed countries. Moreover, fashion retailers temporarily have shifted orders to Vietnam amid political uncertainty in Myanmar and massive outbreaks of Covid-19 in India and Cambodia. However, we are concerned that increasing material prices and freight costs could drag down profit margins in 2H2021.
- MSH is less affected by social distancing. In the context of COVID-19 cases continuing to increase rapidly in countries such as India, Indonesia and social distancing causing production disruption in the southern region of Vietnam, we expect MSH could increase orders in 2H2021.

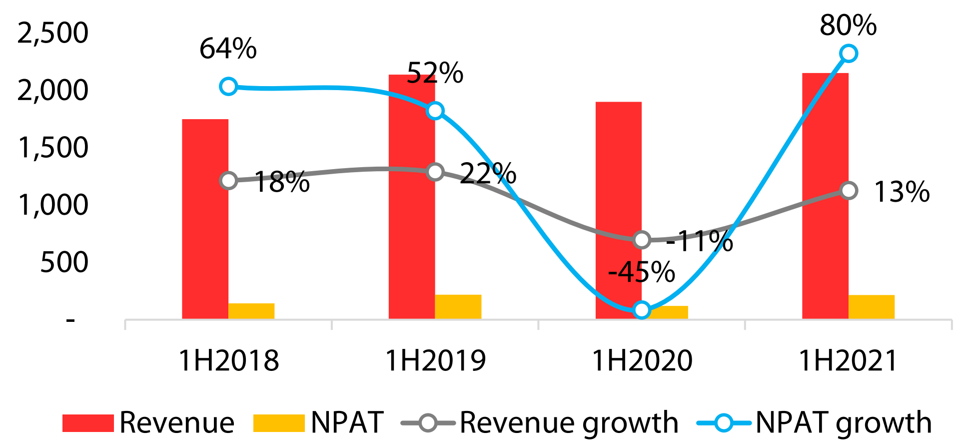
Song Hong 10 factory is a catalyst for growth

- Song Hong 10 new factory will be completed in November 2021 and will operate at full capacity from May 2022. Total capacity will rise 20% compared to present. Song Hong 10 will focus on complex items, of which 50-60% are FOB orders. Continuing to expand FOB orders will maintain MSH's position as the most profitable company in the industry.

RISKS TO OUR CALL

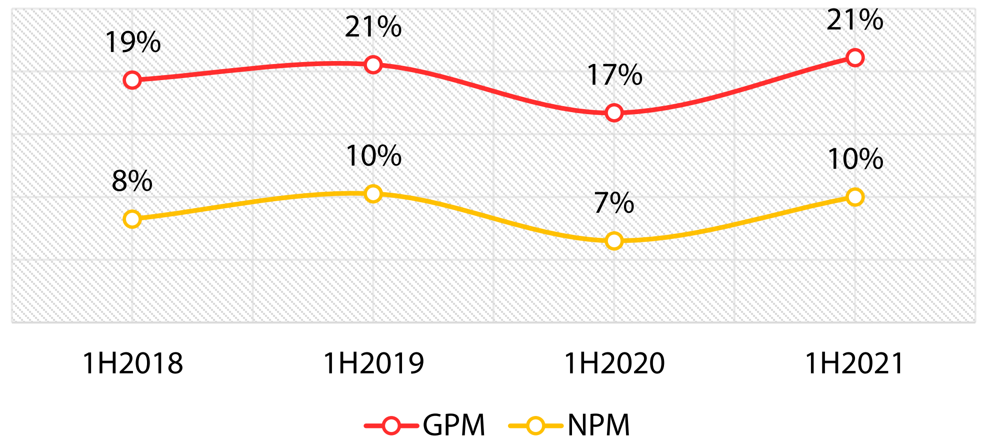
- COVID-19 resurgence in main markets may slowdown the recovery of apparel demand.
- Unexpected fluctuation in fabric materials price.

Figure 4: 1H2021 Revenue and NPAT (VND Bn)



Source: MSH, Rong Viet Securities

Figure 5: GPM and NPM (%)



Source: MSH, Rong Viet Securities

1H2021: Business results bounced back from 2020 low base

- In 1H2021, revenue recorded VND 2,152 Bn (or USD 94 Mn), up 13% YoY driven by recovering global apparels demand and difficulties in rival garment producing countries.
- NPAT soared 80% YoY to reach VND 216 Bn (or USD 9 Mn) due to increasing gross margin and reversal of receivables provision of VND 53 Bn (USD 2.3 Mn) in 1H2021.

2H2021: Increasing material prices and freight costs could drag down profit margins

- The rapid recovery of China's manufacturing activities has resulted in sharp increases in the prices of raw materials. With the usual one-quarter lag from purchasing materials to sales of MSH, the effect of the increase in material prices on gross margin could be seen in 2H2021.
- We project that MSH's revenue and NPAT in 2021 will reach VND 4,474 Bn (or USD 195 Mn) and VND 389 Bn (or USD 17 Mn), increasing 17% YoY and 68% YoY, respectively. Net margin is forecasted to be 8.7%

Song Hong 10 factory will boost revenue growth from 2022F

If the factory construction is completed in end-2021 as planned, MSH will record strong growth in revenue and profit in 2022 (+30% YoY and +33% YoY respectively, per our estimate) when operating at full capacity from May 2022. We estimate that the new factory will increase MSH's garment capacity by 20%.

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