February, 2019

SONG HONG GARMENT JSC (HSX: MSH)

Solid foundations for growth

MSH is one of the leading players in garment industry with a stable business performance and high cash dividend that has been maintained over the years. It mainly exports garment orders to two major markets: USA (60%) and EU (30%). Thanks to the advantage of the EVFTA that is expected to be effective in 2019 along with the movement of orders to Vietnam under the impact of the trade war, the potential for orders growth in these markets is quite large. Besides, MSH strengthened its internal abilities through changes in production methods. It is aiming towards increasing the proportion of FOB, enhance total garment capacity to improve its competitiveness and seize the opportunities of order growth from major fashion partners.

*We combine two valuation methods: FCFF and P/E to evaluate MSH's fair value. Based on that, we estimate the target price at **VND 56,500** per share, anticipating a cash dividend of VND 3,500 per share in the next 12 months, which results in a **25%** total return from the closing price on January 31st, 2019. Therefore, we recommend **BUY** on this stock.*

Investment rationales

- Advantage from free trade agreements and the shift of orders to Vietnam will boost the growth of garment orders.
- The leading position with large scale may help MSH to receive its prestigious orders.
- Profitability is quite attractive compared to its competitors.
- "Song Hong 10" factory is a catalyst for long-term growth.
- Attractive dividend yield.

Risks

- EVFTA may not be adopted.
- MSH has not diversified its customer portfolio.

Key financial ratios

Y/E Dec (VND Bn)	FY2016	FY2017	FY2018F	FY2019F
Net revenue	2,992	3,282	3,842	4,359
%change	17.4	9.7	17.1	13.5
PAT	185	200	344	389
% change	15.8	8.4	71.5	13.3
Net margin (%)	6.2	6.1	8.9	8.9
ROA (%)	8.4	8.4	14.3	14.7
ROE (%)	28.3	26.5	30.9	30.1
EPS (VND)	7,801	8,662	6,493	7,359
Adjusted EPS (VND)	3,715	4,331	6,493	7,359
Book value (VND)	28,805	31,711	23,349	27,207
Cash dividend (VND)	4,500	4,500	4,000	3,500
P/E (x)	N/A	N/A	7.4	6.5
P/BV (x)	N/A	N/A	2.1	1.8

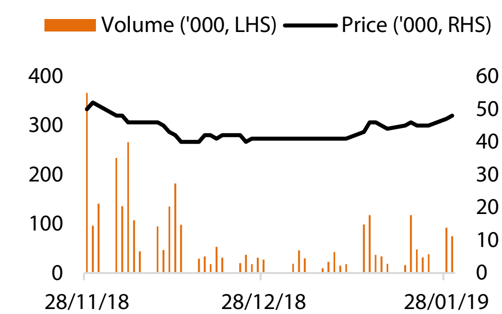
*Source: MSH, Rong Viet Securities, * Based on the closing price on Jan 31st, 2019*

BUY +25%

CMP (VND)	48,000
Target Price (VND)	56,500
Cash Dividend (VND)*	3,500

** Expected in the next 12 months*

Stock Info	
Sector	Textile & Garment
Market Cap (VND billion)	2,286
Share O/S	47.6
Beta	0.6
Free Float (%)	39
52 weeks high	51,530
52 weeks low	39,800
Average trading volume (20 sessions)	46,500



Performance (%)	3M	1Y	3Y
MSH	N/A	N/A	N/A
VN 30 Index	-1	-21	53
VN Index	3	-18	65

Major shareholders (%)	
Bui Duc Thinh	21.6
FPTS	13.6
Bui Viet Quang	10.9
Foreigner Investor Room (%)	*47.2*

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INVESTMENT RATIONALES

The advantage from FTAs and the shift of orders to Vietnam will boost the increase of garment orders

(1) Benefit from FTAs will help Vietnam's textile & garment industry increase the price competitiveness

With the preferential tariffs of free trade agreements, especially CPTPP (effective in Vietnam from January 2019) and EVFTA (expected to take effect at the end of 2019) will be the driving force for the growth of industry, helping Vietnamese's garment products to increase its price advantage compared to other competitors in the region. In particular, yarn producers and textile & garment companies that are vertically integrated along the supply chain, from yarn to sewing production will benefit directly from the origin requirements of FTAs. Besides, companies with large export to total sales to the EU market, such as MSH (30% of total sales), will benefit indirectly due to the growth of orders from fashion partners.

The benefit from CPTPP will not be so obvious as Vietnam signed the bilateral and multilateral FTAs with seven out of ten countries with similar tariff levels. However, we can expect that joining CPTPP will help to expand the market shares of apparel exports to potential markets such as Canada, Mexico, New Zealand and Australia.

Table 1. The free trade agreements affect to Vietnam's garment & textile industry

FTA	Effective date	Tariffs		Rule of Origin
Vietnam – Japan (VJEPA)	Dec 2008	Yarn	0%	From fabric onwards
		Garment	0%	
Vietnam – Korea (VKFTA)	Dec 2015	Yarn	0%	Cutting and sewing
		Garment	0%	
ASEAN – Australia/New Zealand (AANZFTA)	Jan 2010	Yarn	0% from 2018	Cutting and knitting
		Garment		
Vietnam - EU (EVFTA)	Expect to be effective at the end of 2019	Yarn	0%	From fabric onwards
		Garment	Remove the tariffs within 7 years	
CPTPP	Officially take effect in Vietnam on January 14th, 2019	Garment	Each country has its own tariff cutting process	From yarn onwards

Source: Rong Viet Securities

(2) The advantage of cheap labor costs help Vietnam increase the export market share to the US market

According to the recent survey from US Fashion Industry Association to evaluate the strengths and weaknesses of apparel supply area, in terms of uniformity in the criteria (such as speed to market, sourcing cost and compliance risk), China and Vietnam are similarly evaluated, which are the top choices for apparel supply to the US market (Table 2).

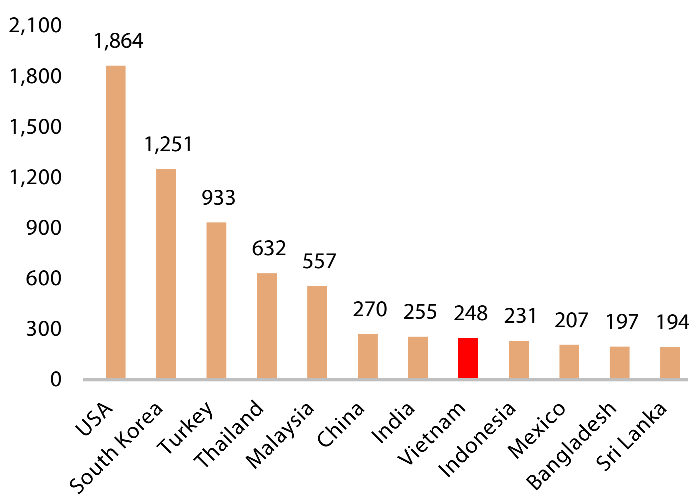
Table 2. Strengths and weaknesses of apparel supply area to the US market

Region	Sourcing destination	Speed to market	Sourcing cost	Risk of compliance
Western Hemisphere	USA	5	1.5	4
	Mexico	4	3	3
	CAFTA-DR	3.5	3.5	3
	Colombia	3	2.5	3
Asia	China	3	3.5	3
	Vietnam	3	4	3
	Bangladesh	2	4.5	1.5
	Indonesia	2.5	3.5	3
	India	2.5	3.5	2.5
	Sri Lanka	2.5	3.5	3
	Cambodia	2.5	3.5	2.5
Others	AGOA	2	3.5	2.5
	Egypt	2.5	3	3

Source: Dr. Sheng Lu, US Fashion Industry Association, Rong Viet Securities
*_Respondents: US fashion companies_*
The results were based on respondents' average rating for each country in a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average).

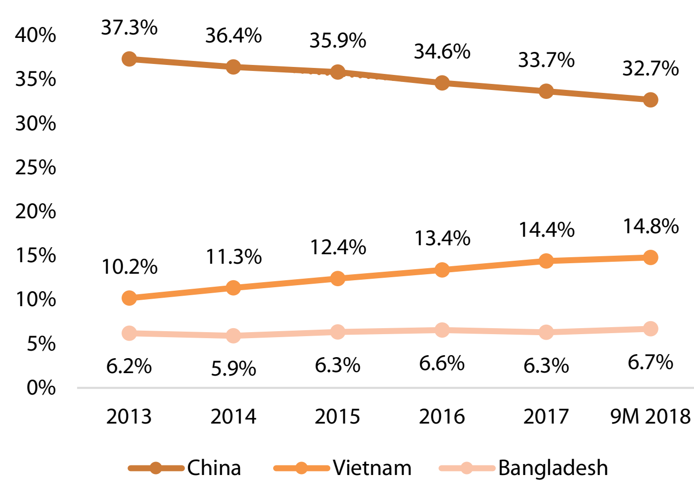
Despite being considered the world's leading manufacturing factory, China's labor costs is still high compared to regional apparel exporters (Figure 1), so US fashion brands still actively seek the alternative sources to reduce its dependence on this market.

Figure 1. Minimum wage level for garment workers (USD per month)



Source: PRI, Rong Viet Securities

Figure 2. Apparel market shares of three main exporters in the US market (%)



Source: OTEXA, Rong Viet Securities

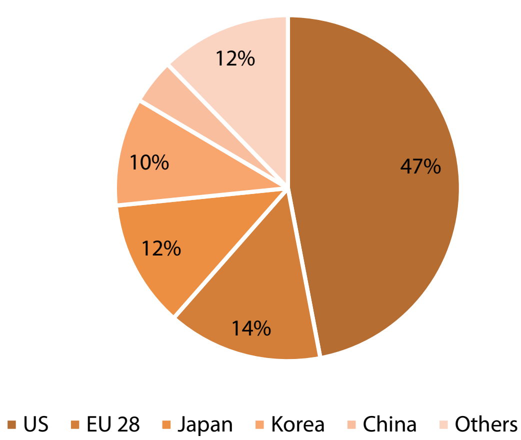
In 2018, under concerns about the impact of the US – China trade war, the shift of orders to neighboring markets became more pronounced (Figure 2). Thanks to the advantage of cheap and abundant labor force, Vietnam has been chosen as the destination for FDI enterprises to invest in this labor-intensive sector. Besides, we think that the US and China temporary ceasefire will not affect much the movement of orders from China to neighboring countries, including Vietnam. China's policy to shift the economic structure to consumption and technology production with high value added, limits the development of downstream garment using intensive labors.

On the other hand, the advantage of cheap labor in Vietnam has showed the signs of decline, the current minimum wage of garment workers in Vietnam is higher than the regional countries like Indonesia, Bangladesh, Sri Lanka (Figure 1). Therefore, if Vietnam's garment enterprises do not conduct the investment to improve its factory quality and workers' skills, the growth of orders may decline in the future.

(3) The US and the EU economies are forecasted to continue growing in 2019, stimulating apparel consumption

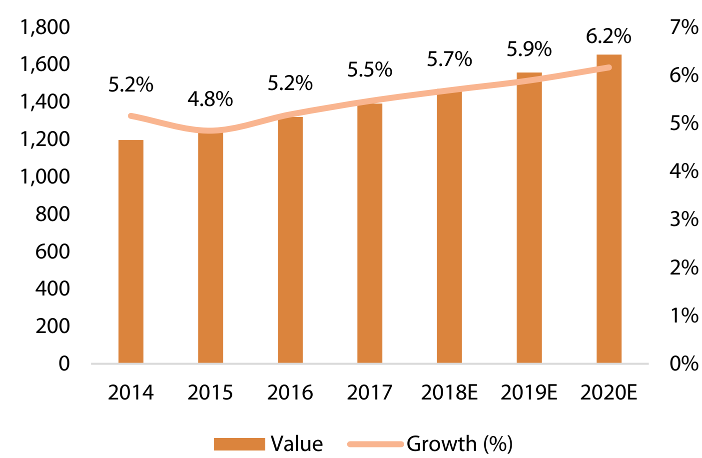
The US and the EU are Vietnam's two main export markets in recent years, so the economic fluctuation in these two markets will have a significant impact on consumer demand, including garment products. According to the IMF, even though economic growth in the US and the EU will slightly decrease next year, GDP will still be positive: 2.5% (-40 bps YoY) and 1.9% (-10 bps YoY), respectively. In such a context, Vietnam's two largest markets for this industry will ensure the value of exports will stay robust.

Figure 3. Vietnam's export value of fabrics and garments by market in 2018 (%)



Source: Vietnam Customs, Rong Viet Securities

Figure 4. World sales of garment products (USD bn)



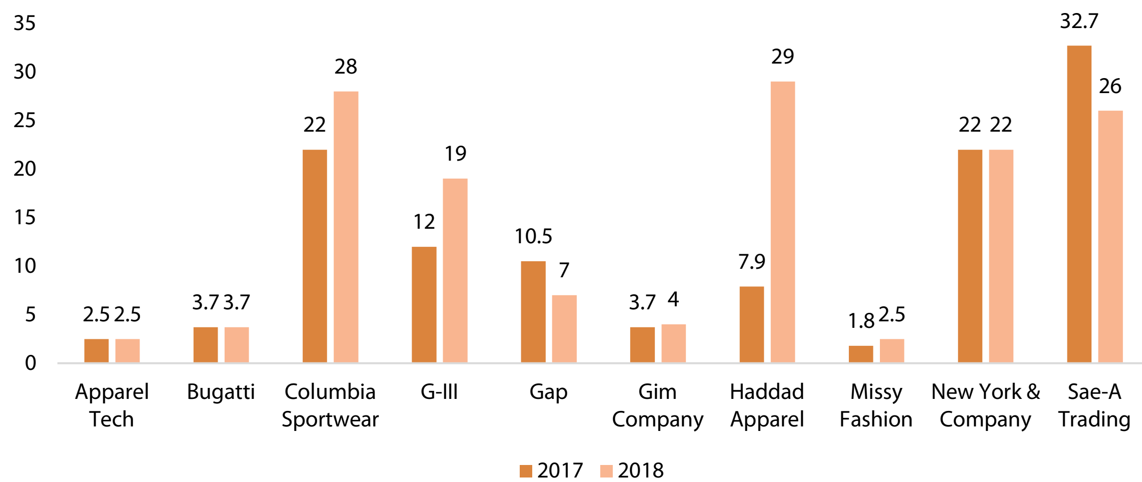
Source: MarketLine, Rong Viet Securities

In general, thanks to the positive effects of ongoing and upcoming FTAs and an increase of orders to Vietnam, garment companies have a great support to speed up. However, most companies have operated at its full capacity. Therefore, in spite of the large growth potential of industry, the opportunity will not spread evenly, but it will spend a lot for the players which have full prepared, strengthened its internal ability, enhanced the production capacity to anticipate growth.

The leading position in large-scale helps MSH receive the prestigious fashion orders

In 2018, the value of garment orders increased by 21% over the same period of last year, mainly coming from its key customers such as Columbia Sportwear, G-III, Haddad Apparel (Figure 5). In particular, Haddad Apparel (the leader in branded children's wear and accessories, manufacturer and distributor for famous brand names such as Converse, Nike, Levi's) is its new customer, developing order from 2017. Until 2018, thanks to meeting of product quality and delivery time, Haddad increased its order value from USD 7.9 mn to USD 29 mn (+267% YoY). Expected in 2019, Haddad may continue to be one of its major customers with estimated revenue contribution at 18% - 20% of total garment revenue.

Figure 5. The value of garment orders were signed (USD mn)



Source: MSH, Rong Viet Securities

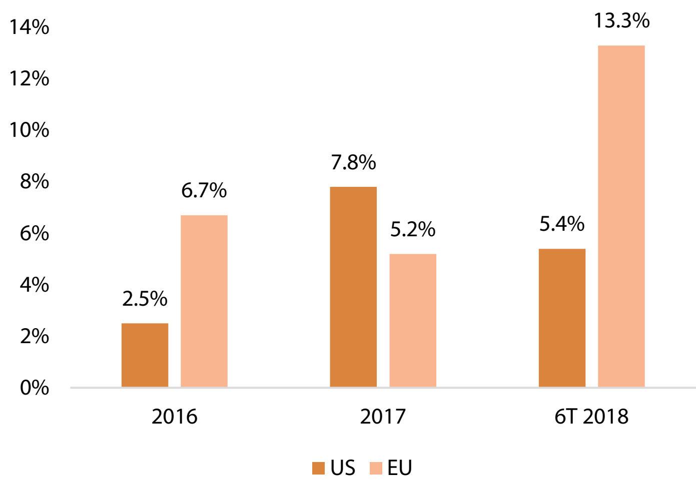
Besides, MSH will expand its joint venture with Luen Thai in 2019 (a listed company manufactures clothes and accessories for fashion brand names like Adidas, UNIQLO, Polo Ralph Lauren, Calvin Klein). The two partners are expected to set up headquarter in Hong Kong, producing underwear products for Victoria Secret, Calvin Klein. The estimated revenue is around USD 40 mn, producing under FOB level 2 method, so it may bring the higher gross profit margin for the company than current ones (20% - 25% of gross profit margin).

The orientation of MSH in the coming years is to reduce the proportion of CMT order and transfer to FOB production method. Therefore, MSH proactively cut 20% of the order value with its partner Sae-A Trading (its main customer in CMT order) last year to have room for FOB orders. As a result, the value from Sae-A decreased by 20.5% over the same period, from USD 32.7 mn (2017) to USD 26 mn (2018).

(*) CMT (cut – make – trim): the simplest method of exporting processing, enterprises make the cutting, sewing and finished goods.

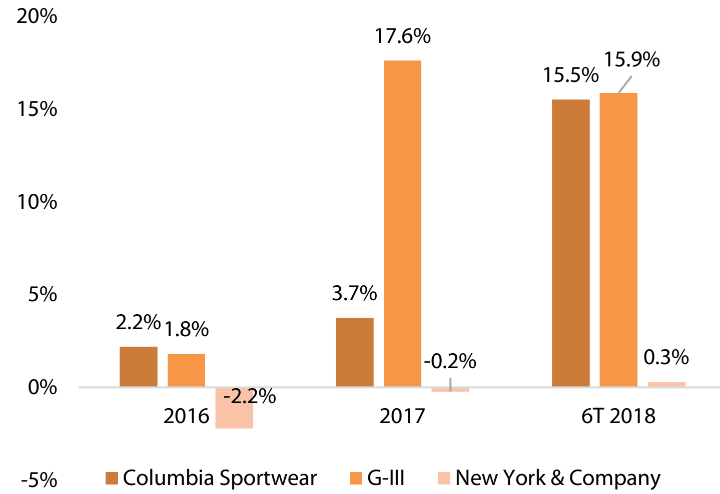
FOB (free-on-board): the direct export method, enterprises buy and control the raw materials, then sell out its products to customers.

Figure 6. Volume growth rate of Vietnam's garment products imported in US and EU



Source: OTEXA, Eurostat, Rong Viet Securities

Figure 7. Revenue growth of MSH's main customers



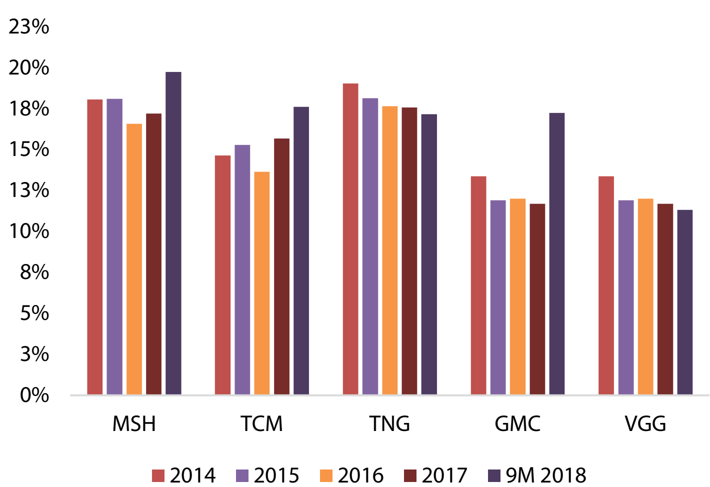
Source: Financial statement of fashion companies, Rong Viet Securities
**Adjusted the same fiscal year*

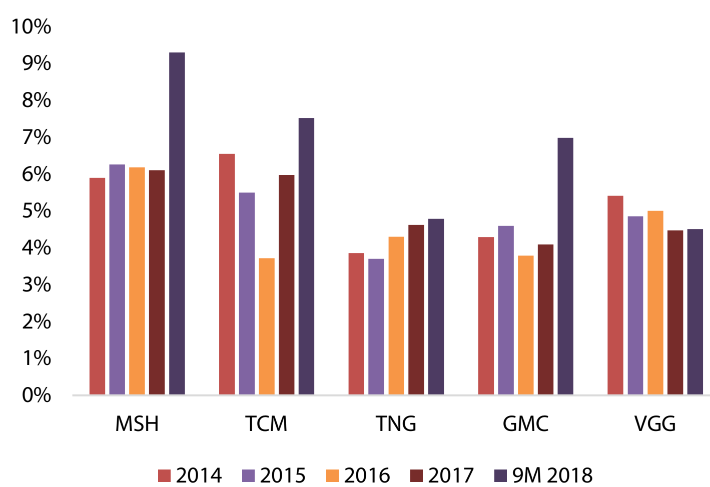
We believe that the growth of orders from fashion customers is quite large due to the positive macro factors. However, under the concerns about the emergence of e-commerce market, which has gradually replaced the traditional fashion stores in the garment supply chain. Apparently, MSH should pay attention to the financial situation of its traditional customers to minimize debt risks and sudden drop in orders (like the case of TCM and Sears).

Its profitability is quite attractive compared to its competitors

MSH has an attractive profitability ratio compared to other companies in the industry. In 9M 2018, its gross margin and its net margin were 20% and 9%, respectively. Main reason came from: (1) the order volume from FOB customers increased, so it could change the product mix, (2) Song Hong no.9 factory in Nghia Hung province fulfilled its capacity to improve the effectiveness, (3) ERP system came into operation, helped to reduce the material waste, controled the productivity at each production line.

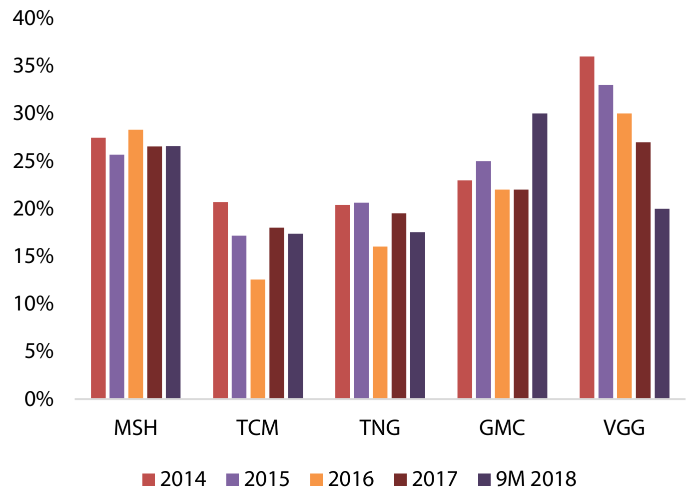
Figure 8. Gross margin (left) and net margin (right) of MSH is quite attractive compared to competitors

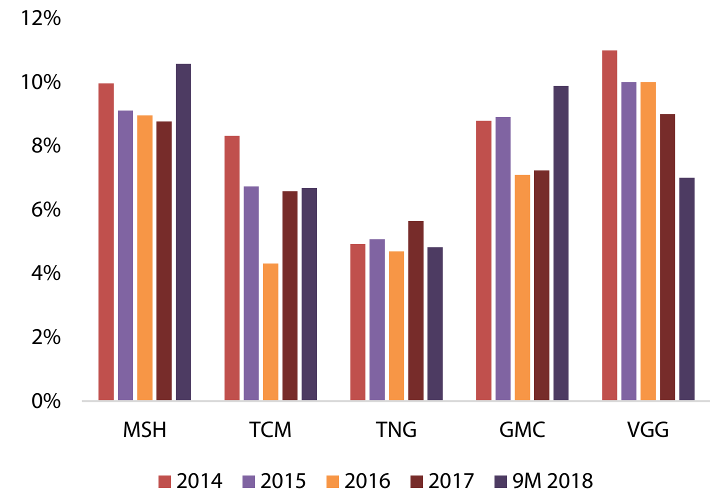




Source: Fiinpro, Rong Viet Securities

Figure 9. ROE (left) and ROA (right) of MSH is high and stable over the years





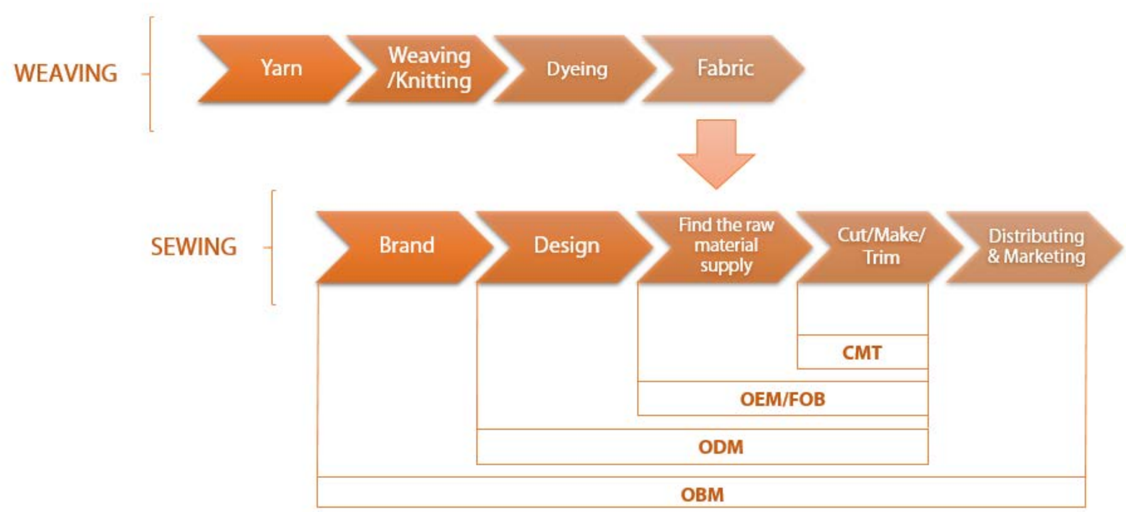
Source: Fiinpro, Rong Viet Securities

We believe that MSH can continue to maintain and improve its profitability in the coming years, based on the following factors:

(1) Increase the FOB proportion in order to improve its competitiveness

Currently, around 70% of Vietnamese's garment companies produce under CMT processing method. This is the simplest export method in the garment industry, so the value added is not high. In the long run, in order to improve the competitiveness, garment companies should shift its value chain to higher method such as FOB, ODM, OBM. However, why does this shift help to increase the profitability?

Figure 10. The garment production methods



Source: Rong Viet Securities compiled

To better explain, we enter into the accounting aspect of listed garment companies. Specifically, the recognition of revenue and COGS in both FOB and CMT method have the most difference in terms of input materials. Regarding CMT method, revenue and COGS only include production cost, labour cost and overhead cost. Meanwhile, relating to FOB orders, revenue and COGS recorded same as CMT then plus the value of fabric materials (usually accounts for 60% - 70% of garment's COGS). As a result, in term of labour productivity, labour cost and auxiliary materials cost unchanged, the revenue of FOB order will be about 1.5 times higher than CMT method once shifting the production method from CMT to FOB.

For MSH, as CMT production method still accounts for 25% of garment revenue, it has a lot of room to shift to FOB production chain (Figure 11), which helps boost both revenue and gross margin in the coming years. Compared with TCM (it has shifted the entire production chain to FOB method), we expect that the gross margin of its garment segment will improve and move closer to TCM's gross margin (19%-20%) when its strategy is to gradually increase the proportion of FOB orders in total garment revenue, and its products are considered to be more difficult than TCM's products (T-shirts, polo shirts).

Figure 11. MSH increase the proportion of FOB method in its garment revenue

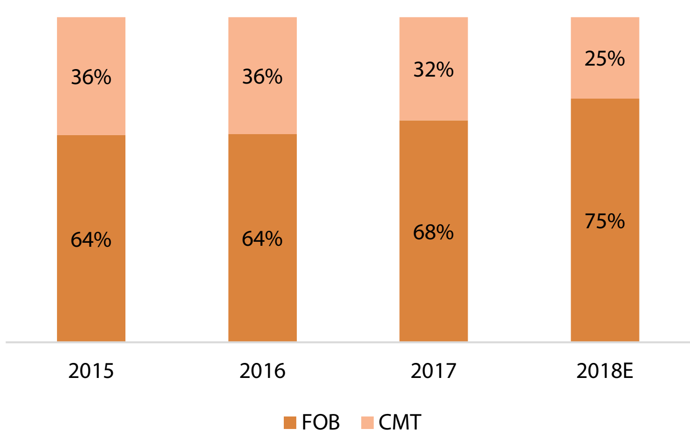
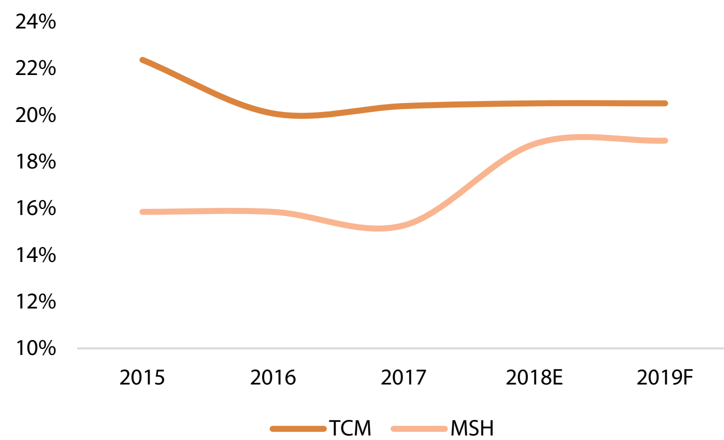


Figure 12. Comparing the gross profit margin of FOB method between MSH and TCM



Source: MSH, Rong Viet Securities

(2) Expanding the market share of bedding segment in foreign markets to reduce the domestic competition pressure

Although bedding segment contributes only 10% of total revenue, it brings the highest gross profit margin, at around 36% - 40%. However, the domestic market demand for bedding is not so great when the scale of market is around VND 1,500 - 1,800 bn and is being shared from many large brands like Everon, Hanvico. In addition, bedding products are evaluated as seasonal products, the demand of the market often fluctuates under the influence of weather. We believe that with product positioning in the mid-range segment, providing products to end-users, MSH will be more competitive in price compared to fake and counterfeit goods from China than the two remaining brands, which are Everon and Hanvico (locate middle and high-end segment, mainly distributing for hotels and resorts).

Therefore, since 2016, the company had strategies to improve the quality and distribution of its products in foreign markets to minimize domestic competition pressure. Currently, MSH's bedding products are qualified to export to Japan and Korea, meeting the requirements of EU and JIS in product quality and safety in production. The company expects to boost exports of products to the Japanese market to partner Nishikawa Sangyo in 2019, with a minimum revenue estimated at USD 3 mn (~ VND 70 bn). In favorable conditions, revenue from Japanese market is expected to be USD 5 mn (~ VND 117 bn).

Song Hong No. 10 factory is a catalyst for long-term growth

Due to the maximum operation of design capacity, MSH plans to build SH10 factory in Nghia Hung and Nam Dinh districts to seize the opportunity growing orders from fashion customers. MSH established a subsidiary, Song Hong Garment - Nghia Hung JSC with a charter capital of VND 150 bn, it contributed VND 76.5 bn (equivalent to 51% of chartered capital), the remaining was contributed from small shareholders of the company.

It is expected that SH10 factory will start construction in 2019 and go into operation in April 2020. Garment production is estimated to increase by 17% compared to its current capacity, providing an additional 1 mn piece per month with a total investment of VND 300 bn. In 9M 2018, the cash balance and short-term investment was about VND 570 bn (accounting for 22% of total assets), we believe that MSH will not face much pressure to increase its financial leverage. With the assumption that the company will use its own capital and debts at a ratio of 1: 1, its cost of borrowing from 2019 onwards is estimated at 5% - 6% of EBIT and its debt structure accounts for 13% of total assets.

Figure 13. Debt structure in the period 2018-2022 (VND bn)

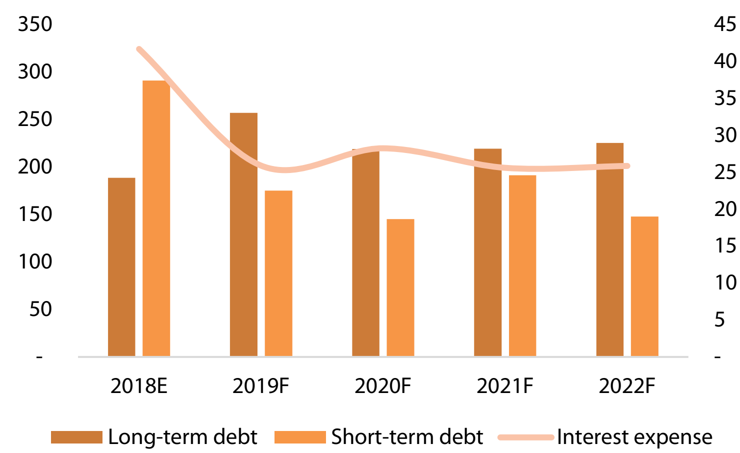
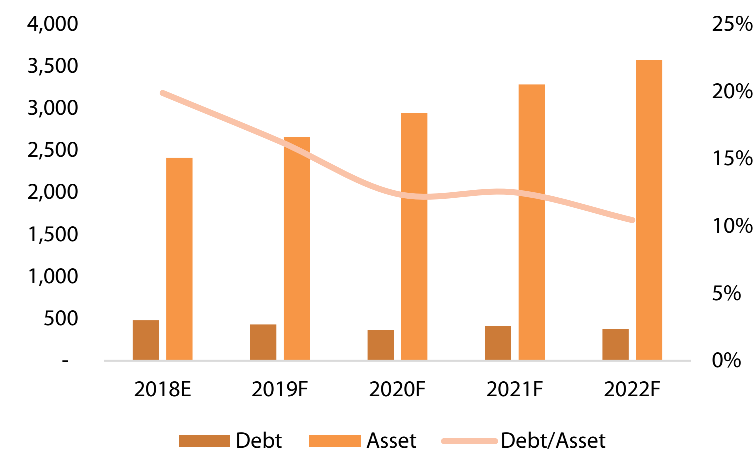


Figure 14. Debt to asset ratio in the period 2018-2022



Source: Rong Viet Securities

Tax incentives from SH7, SH9 factories and SH 10 project can increase the benefit for shareholders

MSH is entitled to tax incentives for the 2 projects of Song Hong No.7 and Song Hong No.9. Accordingly, it is exempted from corporate income tax in the first two years and 50% tax reduction within next 4 years for additional income from these two expanded investment projects. In addition, when the new Song Hong No.10 factory comes into operation, it also enjoys tax incentives similar to the above factories, which helps to reduce the cost of payable tax and increase the benefits for shareholders. With the assumption that the capacity of Song Hong 10 factory in 2020 runs 50% of capacity, 2021 runs 75% of capacity and the company can fulfill orders in 2022, MSH tax rates are entitled to incentives in the period 2018-2022, which is estimated at VND 83 bn.

Table 3. Estimated corporate income tax rate for the period 2018-2022 (VND bn)

	2018E	2019F	2020F	2021F	2022F
Estimated tax rates	15.4%	17.5%	16.2%	15.6%	18.6%
The amount of tax savings compared to tax rate of 20%	19	12	20	24	8

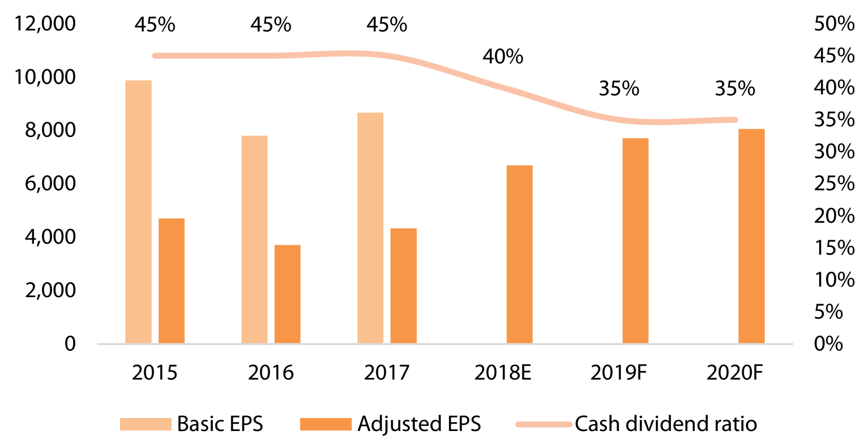
Source: Rong Viet Securities

Attractive dividend yield

Over the past few years, it maintained a relatively high cash dividend policy of about VND 4,500 per share. Thanks to stable business operations with low re-investment demand, most of the profits made during the year are paid to shareholders. The BoD said MSH will maintain the dividend policy of VND 3,500 per share in the coming years. Thereby, the dividend yield of MSH is about 8.5%, quite attractive for investors who prefer to hold stocks with high and stable dividends over the years.

It is expected that the dividend income in the coming years will be around VND 7,500 per share to VND 9,000 per share, so we believe that the company is capable to maintain a cash dividend rate of 35% (on par value).

Figure 15. Cash dividend policy for years



Source: MSH, Rong Viet Securities

RISK

EVFTA may not be adopted

Due to escalating geopolitical influences from the European Union, we are concerned that EVFTA may not be approved in 2019. If this happens, even if businesses meet requests for origin of fabric onwards, will still not be entitled to 0% tariff preference under the 7-year tax cut schedule. As a result, Vietnam's long-term price competitiveness will decline when the main export markets of the EU are Bangladesh and Cambodia will still enjoy GSP preferential tax regime with the tax rate of 0%.

MSH has not diversified its customer portfolio

Currently, its five big fashion customers, including Columbia Sportwear, G-III, Haddad Apparel, New York & Company and Sae-E Trading account for the majority of garment revenue proportion (~ 86%). The lack of diversification of customer lists will make it face the risk of losing orders, abruptly reducing revenue when these major partners shift orders to high-competitiveness garment enterprises with a better price.

Besides, most of its fashion partners are traditional garment enterprises in the US market. With e-commerce and fast-fashion trends emerging rapidly in recent years, if its partners cannot catch up with the industry's development trend, it is easy to face the same risks as the Sears retail. Therefore, MSH needs to establish a periodic review of customers' financial situation to prevent potential risks that may arise.

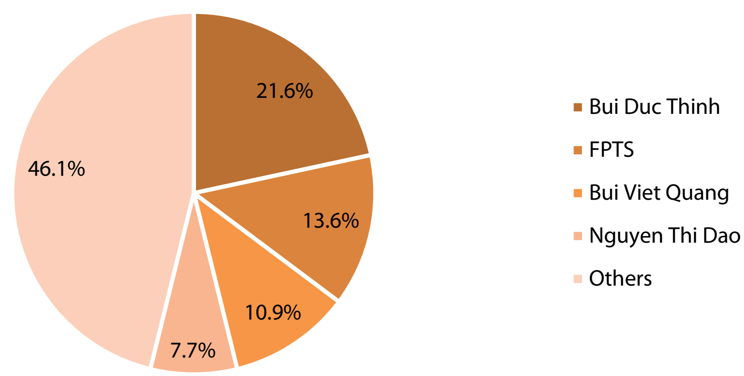
COMPANY OVERVIEW

MSH is one of the leading garment enterprises with the position of top 4 private enterprises in Vietnam's largest garment industry and the top 7 largest garment enterprises in Vietnam (ranking VNR500 in 2018). Export apparel is its core business, besides, MSH also produces bedding products mainly distributed to the domestic market.

Shareholder structure

The shareholder structure is relatively concentrated, with 4 major shareholders accounting for more than 53% of share capital, including Mr. Bui Duc Thinh (Chairman), Mr. Bui Viet Quang (CEO), Ms. Nguyen Thi Dao and FPT Securities JSC. The ESOP ratio issued by the company accounts for about 4% of the chartered capital and the foreign room is over 47%.

Figure 16. Shareholder structure



Source: MSH, Rong Viet Securities

Business activities

Export apparel (including CMT & FOB orders) is the core business

FOB orders mainly export to the US (60%) and Europe (30%) markets for large and reputable fashion brands such as Columbia Sportwear, Haddad Brands (with Nike, Hurley, Jordan, brand names). Converse, Levi's, GIII (with Calvin Klein, Tommy Hilfiger, DKNY, Karl Kagerfeld), GAP, New York & Company, Bugatti brand names).

In order to meet the quality requirements of the partners, MSH mainly imports fabric materials from the US, China, Hong Kong and Taiwan. Simple accessories such as zippers, lining fabrics are purchased from domestic suppliers.

CMT orders mainly export to the US, Europe and Korea for Walmart, Target Store and Costco. The largest customer is Sae-E Trading who directly buys fabric materials and appoints companies to import from abroad.

Bedding segment has a highest gross profit margin

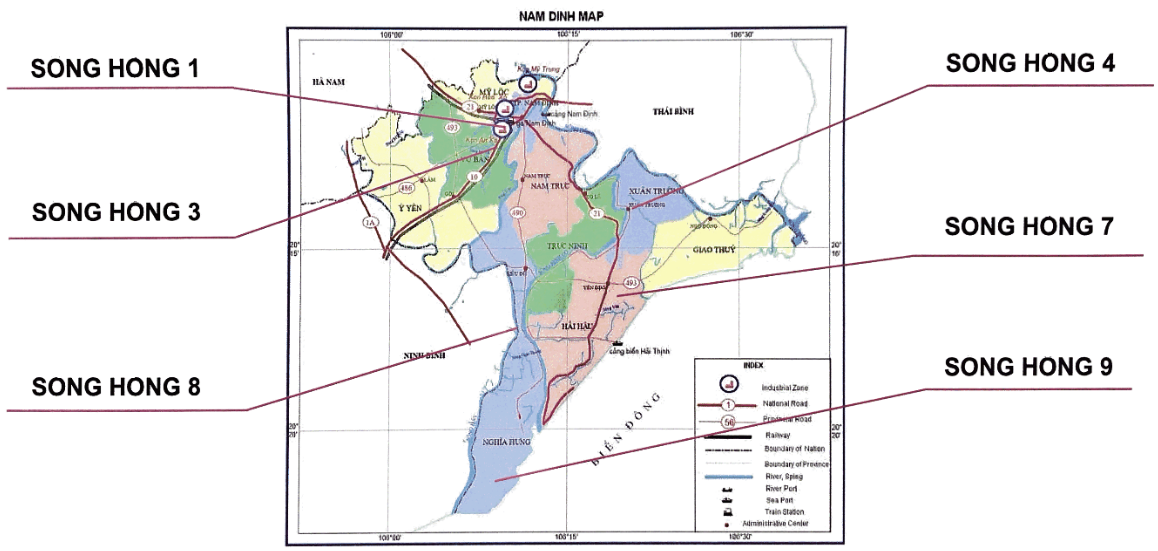
MSH is currently cooperating with more than 50 level 1 agents and hundreds of level 2 agents nationwide to distribute bedding products with the brand name "Song Hong". It has launched two product lines: three-piece cushion and pure cushion. Thanks to outstanding advantages in quality, durability, light, pure cotton mattresses are very well received by customers. Until now, MSH has stopped producing three-piece cushions to focus on research and development of advanced products of the pure cotton mattress line.

Moreover, MSH currently produces and distributes key product lines including Home collection, Classic collection, Hello Kitty - Doraemon, Elegance and children's products. It has been licensed to use Disney's copyrighted images for Song Hong bedding brands, with an annual fee of USD 25,000. MSH has advocated to develop a line of bedding products for children, the niche segment has not had much exploitation from other competitors.

Production areas

It owns and operates 6 garment and bedding production areas in Nam Dinh city, including 18 sewing factories with 155 sewing lines, supplying nearly 5 million garments per month (shirt, jacket, pants, sportswear, skirt, etc). In addition, MSH plans to renovate the factory in 2019, equipped with more automation devices (RFID card control equipment, smart sewing machines) to increase productivity and competiveness.

Figure 17. MSH's production areas



Source: MSH, Rong Viet Securities

Table 4. Information of its garment factories

Factory	Established year	Number of sewing factories	Number of production line	Number of workers	Production capacity (pieces per month)	Products
Song Hong No.1	2000	2	16	1,000	630,000	Fashion skirts, high-end women's shirts
Song Hong No.3	2006	4	32	2,000	1,300,000	Jacket, men's shirts, woven pants
Song Hong No.4	2009	4	35	2,000	1,300,000	Woven jacket, skirt, pants
Song Hong No.7	2012	4	36	2,000	1,300,000	Jacket, woven pants, knitwear
Song Hong No.8	2001	2		300	150,000 yards	Bedding products
Song Hong No.9	2015	4	36	2,000	1,500,000	Knitted products
Song Hong No.10	2020	2	40	3,000	1,000,000	Knitting & weaving products

Source: MSH, Rong Viet Securities

FINANCIAL ANALYSIS

Revenue and net income increase positively

In the period of 2013-2017, its revenue and NPAT recorded a positive average growth rate of 11% and 24%, respectively. In particular, the after-tax profit has a higher growth rate thanks to the conversion of production methods towards increasing FOB proportion, helping MSH's profit margin to be maintained and improved over the years. In 9M 2018, thanks to the strong growth in order volume in the textile and garment industry, it can choose to produce orders that bring high profit margins. Besides, it also reduce the SG&A expenses compared to the same period last year, helping NPAT to record a remarkable growth of 101%.

Figure 18. Revenue by segment (VND bn)

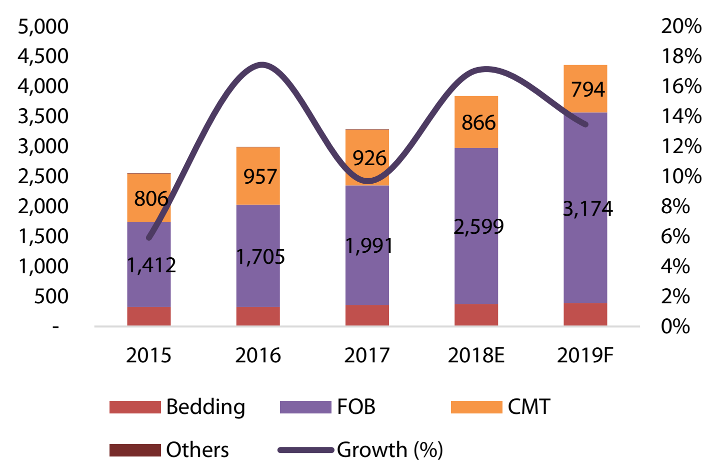
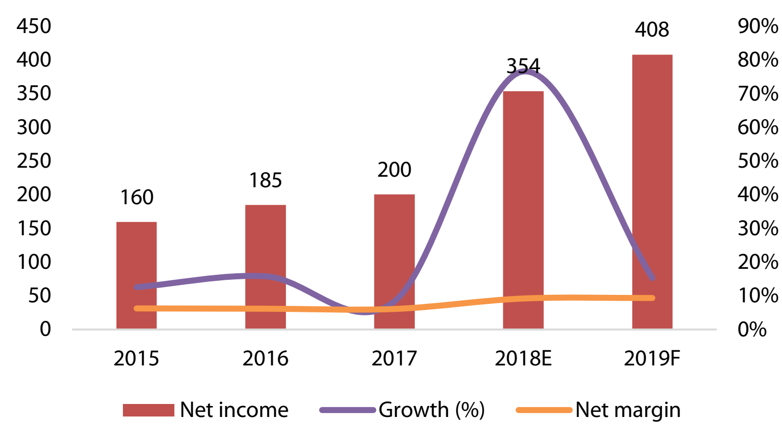


Figure 19. Net income (VND bn)



Source: MSH, Rong Viet Securities

Selling expenses account for a high proportion of revenue, but improving

Its selling expenses to revenue ratio usually high compared to other garment enterprises, averaging about 4.5% in the period of 2014 - 2017. In particular, the cost of services purchased from outside and inspection costs products at Hong Kong office (in charge of finding suppliers, purchasing raw materials for its production activities) are two main costs, accounting for 80% of selling expenses. MSH gradually reduce this cost over the years, from 4.8% in 2014 to 3.6% in 9M 2018, approximately equal to the industry average of 3.5%. In addition, the administration cost of revenue of MSH is approximately equal to the industry average of 4.5%.

Figure 20. Selling expense to revenue (%)

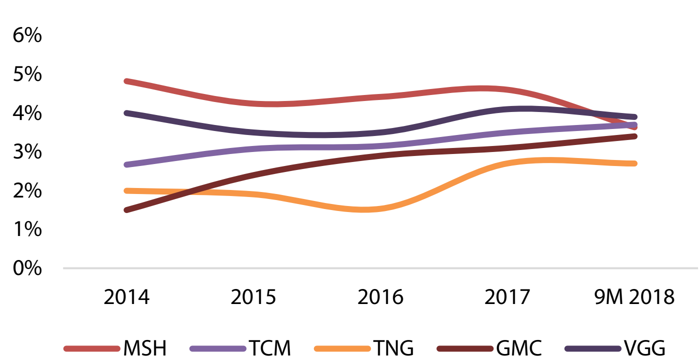
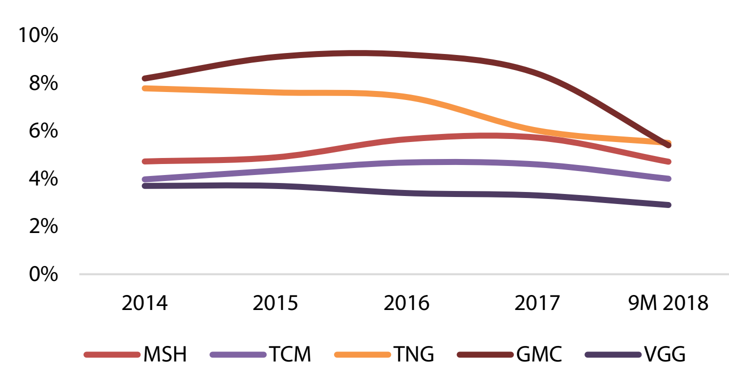


Figure 21. G&A expense to revenue (%)



Source: MSH, Rong Viet Securities

Managing working capital is more efficient than other competitors

The cash flow of MSH in recent years has tended to increase as it has reduced the time to take up capital from suppliers and eased the receivables policy for customers, but it still controll the working capital circulation better than other competitors. In addition, through the agreement of order volume with fashion partners before production, it can better control the production material in the period, adjust the reserve material in the production process. The output of MSH's inventory days is still low, at 62 days compared to other garment enterprises such as TCM, 96 days or TNG with 73 days.

Figure 22. Working capital management (days)

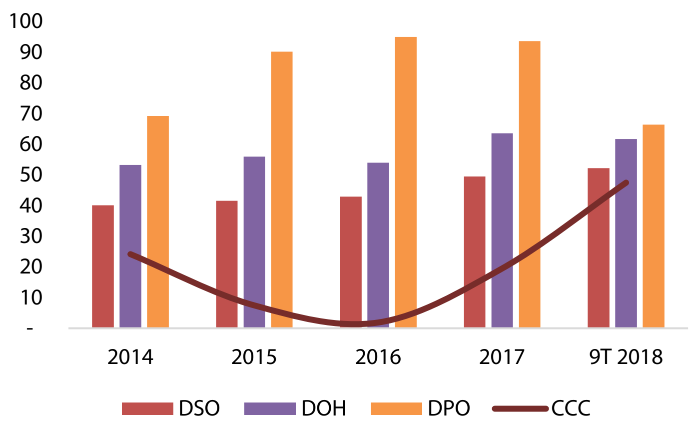
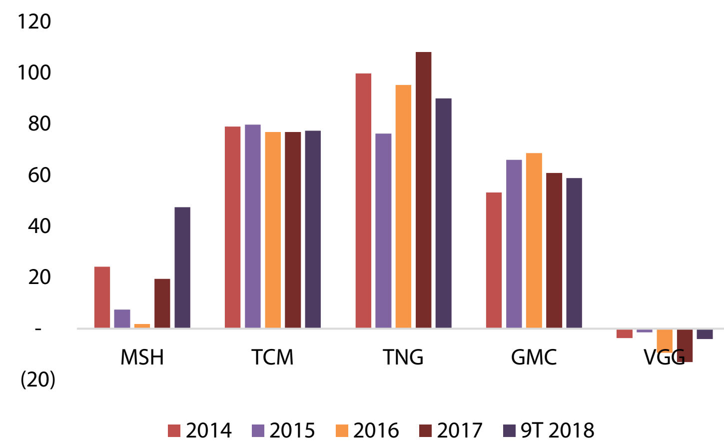


Figure 23. Cash conversion cycle of garment companies (days)



Source: Rong Viet Securities

FORECAST

Table 5. Estimated revenue and gross profit of business segments

Unit: VND bn	2015	2016	2017	2018E	2019F
Revenue	**2,548**	**2,992**	**3,282**	**3,842**	**4,359**
Beddings	*328*	*326*	*362*	*376*	*391*
FOB	*1,412*	*1,705*	*1,991*	*2,599*	*3,174*
CMT	*806*	*957*	*926*	*866*	*794*
Gross profit	**461**	**496**	**564**	**734**	**839**
Beddings	*130*	*121*	*133*	*135*	*137*
FOB	*224*	*270*	*304*	*489*	*601*
CMT	*106*	*101*	*133*	*110*	*99*

Source: Rong Viet Securities

Bedding and mattress segment

Revenue is projected to grow at 4% CAGR in the period of 2018-2022 under the assumption that the company will not build more bedding factories and revenue growth thanks to the increase in sales volume and selling price increase of 2% over the years. Under concerns about competitive pressure from Chinese fake and counterfeit products in the domestic market, we project that gross profit margin will decrease gradually over the years as the company strengthens discount for distribution agents to boost sales, thereby gross profit margin in 2018 and 2019 is 36% and 35.5%, respectively.

Export garment segment

Estimated proportion of FOB contribution will increase gradually from 80% to 90% in the period of 2019-2021. By 2022, MSH will completely convert to FOB production to improve profit margins. Revenue is estimated to grow 13.7% CAGR in the period of 2018-2022 (not consolidating subsidiary business SH10). Gross profit in 2019 was estimated at VND 699 bn (+17% YoY), corresponding to a gross profit margin of 17.6%, an increase of 37.5 bps compared to the same period last year.

Forecast of subsidiary business results

Assuming Song Hong 10 factory will operate at 50% capacity in 2020, 75% capacity in 2021 and run at maximum capacity in 2020. Revenue is estimated at VND 287 bn in the first year of operation (2020), losses VND 18 billion after-tax profit because revenue cannot offset production costs in the period.

Table 6. Summary of business results

Unit: VND bn	2016	2017	2018E	2019F
Revenue	2,992	3,282	3,842	4,359
COGS	2,496	2,718	3,108	3,520
Gross profit	**496**	**564**	**734**	**839**
Selling expense	132	151	153	173
G&A expense	169	188	192	218
Financial income	55	58	73	63
Financial expense	32	49	57	40
Other income/loss	-3	-2	1	1
Gain/(loss) from JV	0	0	0	0
PBT	**214**	**231**	**406**	**472**
Tax expense	29	31	62	83
Minority interests	0	0	0	0
PAT	**185**	**200**	**344**	**389**
EBIT	195	225	389	449
EBITDA	298	339	505	569

Source: Rong Viet Securities

VALUATION

Table 7. Valuation results

Model	Price (VND)	Proportion (%)	Average
FCFF	58,267	50	29,133
PE	54,548	50	27,274
Target price		100	**56,408**
Market price	31/01/2019		48,000
Upside			**25%**

Source: Rong Viet Securities

Rong Viet Securities uses two methods: FCFF and P/E valuation to determine the fair value of MSH, in which:

(1) Valuation method DCF assumes an average cost of capital of 13.5%, FCFF long-term growth rate of 1.1%;

(2) P/E valuation method using the industry average P/E of 7.3.

Since then, the fair value of MSH is VND 56,500 per share, 25% higher than the market price on 31/01/2019.

Table 8. Comparison with enterprises in the textile & garment industry

Stock	Company	Market Cap (VND mn)	Trailing P/E	ROE (%)
TCM	THANH CONG TEXTILE GARMENT JSC	1,456,086	6.6	17.3
STK	CENTURY SYNTHETIC FIBER CORP	1,115,922	6.5	21.3
TNG	TNG INVESTMENT & TRADING JSC	863,453	4.8	25.4
TVT	VIET THANG CORP	552,300	7.1	12.9
GMC	SAIGON GARMENT MANUFACTURING	615,602	5.8	33.0
M10	GARMENT 10 CORP-JSC	677,380	12.5	17.5
VGG	VIET TIEN GARMENT CORP	2,381,400	8.3	22.0
PPH	PHONG PHU CORP	1,232,070	7.3	8.3
	Average	**1,111,777**	**7.3**	**19.7**
MSH	SONG HONG GARMENT JSC	2,333,772	5.7	28.5

Source: Bloomberg as at Jan 30, 2019, Rong Viet Securities

Unit: VND billion

INCOME STATEMENT	2016A	2017A	2018E	2019F
Revenue	2,992	3,282	3,842	4,359
COGS	2,496	2,718	3,108	3,520
Gross profit	**496**	**564**	**734**	**839**
Selling expense	132	151	153	173
G&A expense	169	188	192	218
Financial income	55	58	73	63
Financial expense	32	49	57	40
Other income/loss	-3	-2	1	1
Gain/(loss) from JV	0	0	0	0
PBT	**214**	**231**	**406**	**472**
Tax expense	29	31	62	83
Minority interests	0	0	0	0
PAT	**185**	**200**	**344**	**389**
EBIT	195	225	389	449
EBITDA	298	339	505	569

Unit: %

FINANCIAL RATIO	2016A	2017A	2018E	2019F
Growth				
Revenue	17.4	9.7	17.1	13.5
EBITDA	0.2	13.8	49.0	12.7
EBIT	-14.8	15.7	72.6	15.5
PAT	15.8	8.4	71.5	13.3
Total Asset	13.2	8.6	1.3	10.0
Total Equity	5.0	15.6	47.3	16.5
Profitability				
Gross profit margin	16.6	17.2	19.1	19.2
EBITDA margin	10.0	10.3	13.2	13.1
EBIT margin	6.5	6.9	10.1	10.3
Net profit margin	6.2	6.1	8.9	8.9
ROA	8.4	8.4	14.3	14.7
ROCE	20.0	23.2	29.4	28.5
ROE	28.3	26.5	30.9	30.1
Efficiency (x)				
Receivables turnover	7.4	6.7	7.9	7.9
Inventories turnover	6.0	5.1	6.3	6.3
Payables turnover	3.5	3.9	3.9	3.9
Liquidity (x)				
Current	1.1	1.2	1.6	1.7
Quick	0.8	0.8	1.2	1.2
Financial Structure				
Total debt/ Equity	124.0	121.1	43.1	33.3
ST debt / Equity	78.9	95.7	26.2	13.5
LT debt/ Equity	45.1	25.4	16.9	19.8

Unit: VND billion

BALANCE SHEET	2016A	2017A	2018E	2019F
Cash and cash equivalents	47	344	262	206
Short term investments	469	302	500	500
Accounts receivable	403	487	486	552
Inventories	413	534	493	558
Other current assets	28	8	9	9
Tangible Fixed Assets	690	645	597	762
Intangible Fixed Assets	1	3	3	2
Long term investment	50	0	0	0
Other non-current assets	91	58	60	63
Total Asset	**2,192**	**2,381**	**2,411**	**2,652**
Account Payable	706	688	797	903
Short term borrowings	516	723	291	175
Long term borrowings	294	192	188	257
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	23	22	22	22
Technology – Science dev fund	0	0	0	0
Total Liabilities	**1,539**	**1,625**	**1,298**	**1,357**
Common stock and APIC	227	238	476	476
Treasury stock	0	0	0	0
Retained Earnings	353	391	510	694
Other comprehensive income / (loss)	2	2	2	2
Investment and Development Fund	71	124	124	124
Total Equity	**653**	**755**	**1,112**	**1,296**
Minority Interest	0	0	0	0

CASH FLOW STATEMENT	2016A	2017A	2018E	2019F
Profit before tax	**214**	**231**	**406**	**472**
Depreciation	94	97	117	121
Adjustment	-11	10	0	0
Working capital	-144	-194	88	-108
Net Operating CFs	**153**	**145**	**611**	**485**
Fixed Asset	-132	-78	-33	-265
Deposit, equity investment	-35	222	0	0
Interest, dividend, cash profit received	0	0	0	0
Net Investing CFs	**-168**	**145**	**-33**	**-265**
Capital	0	11	238	0
Debt	110	105	-428	-184
Dividend paid & other	-138	-108	-473	-92
Net Financing CFs	**-28**	**8**	**-664**	**-276**
Net Cash flow				
Beginning cash & equivalents	**89**	**47**	**348**	**262**
Effect of exchange rate	-43	297	-86	-57
Ending cash & equivalents	**50**	**348**	**262**	**206**

Company Report

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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