RONG VIET SECURITIES

TEXTILE & GARMENT

CHALLENGES PILING UP

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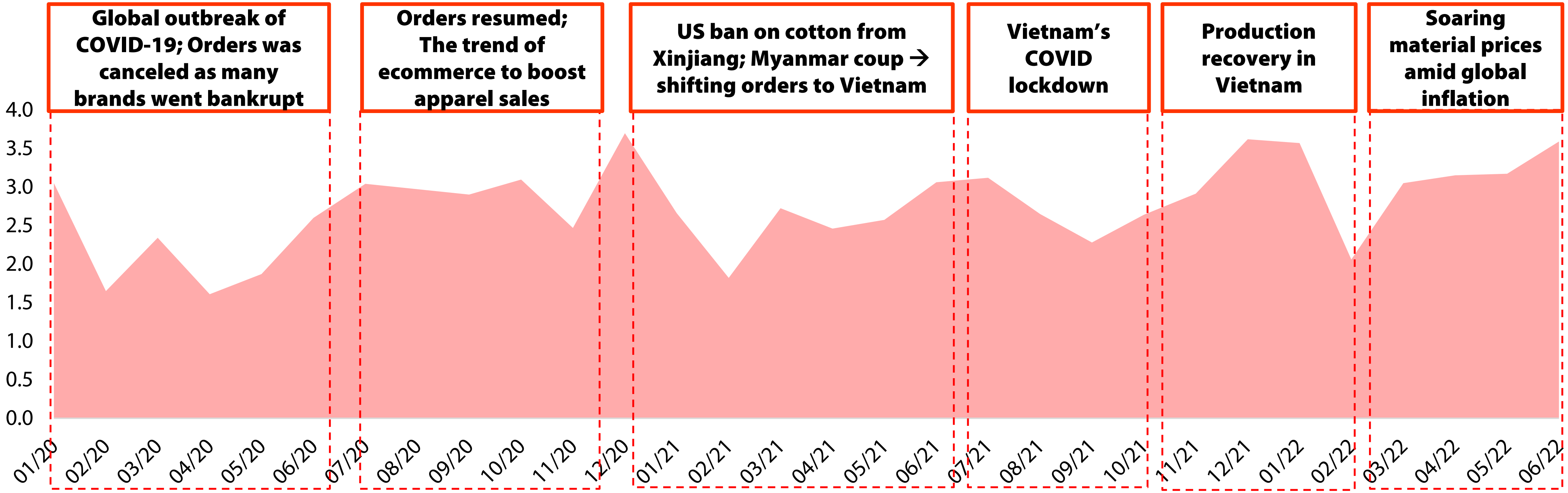
In 1H2022, Vietnam's textile and garment exports were USD 18.53 Bn, up 20.8% YoY, driven by the strong pent-up demand after lockdowns ended in many developed countries and the recovery of domestic production activities. Per McKinsey, global fashion sales are on track to pick up in 2022, as increasingly hopeful consumers unleash pent-up buying power, refreshing their wardrobes as social life begins to resume. Many fashion brands (Nike, Adidas, Columbia, H&M) set 2022 revenue growth plan in the range of 10-20% YoY, showing that increased consumer demand facilitates to accelerate orders for textile and garment companies.

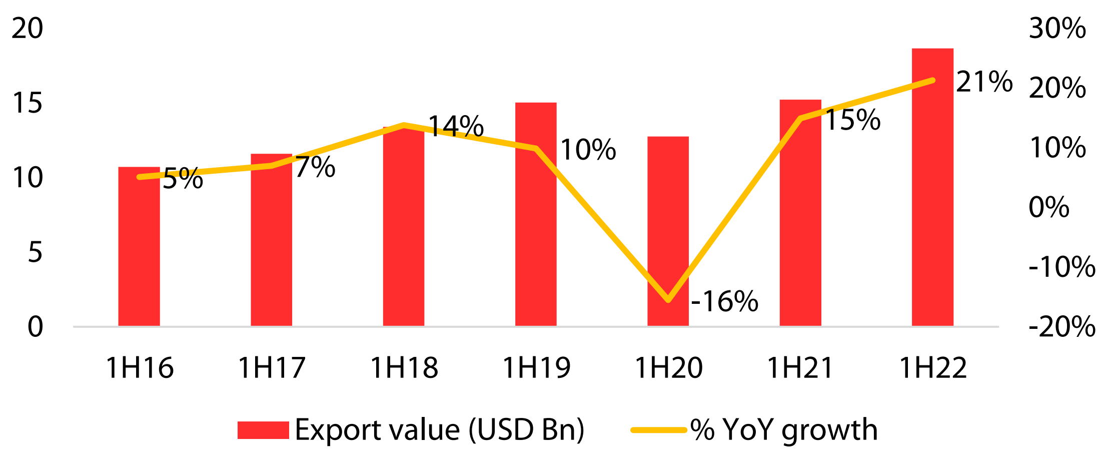
Figure 1: Vietnam's textile and garment export value and key events in 2020 – 2022 (USD Bn)



Source: Vietnam Customs, Rong Viet Securities

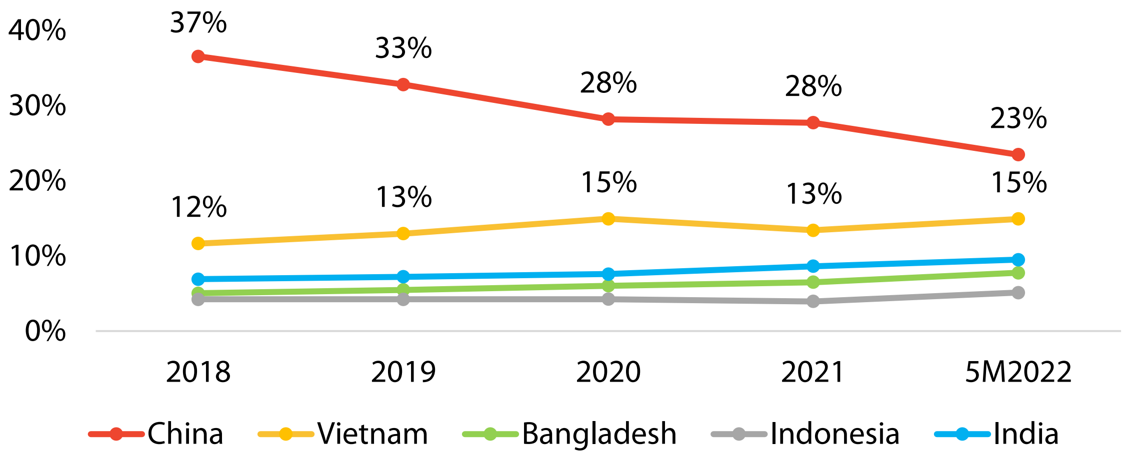
1H 2022: EXPORT VALUE HIT NEW HIGH

Figure 2: T&G export value (USD Bn) ang YoY growth (%)



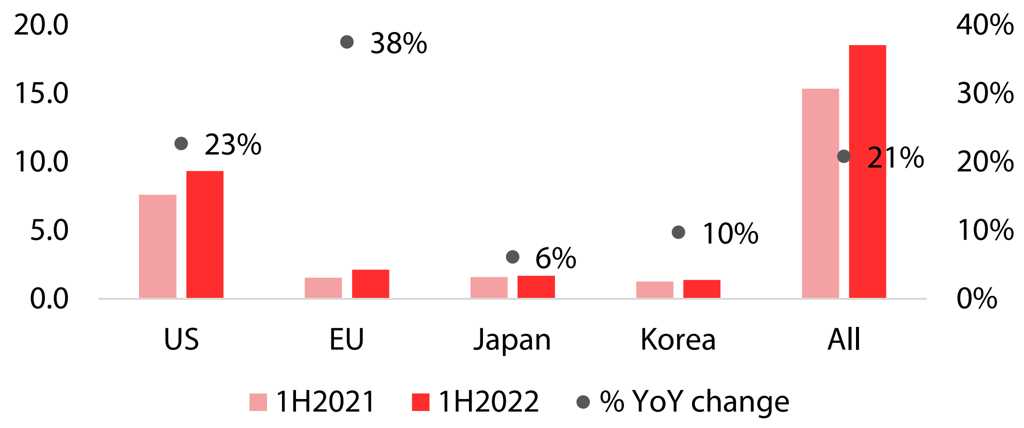
Source: Vietnam Customs, Rong Viet Securities

Figure 4: Market share of T&G export to the US



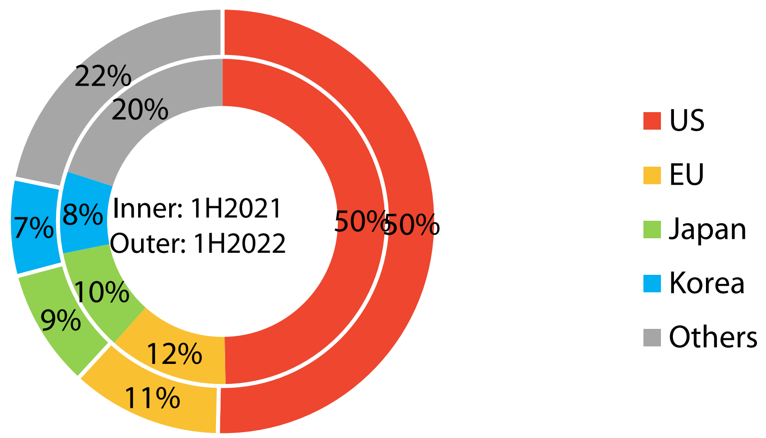
Source: Vietnam Customs, Rong Viet Securities

Figure 3: T&G export value by market (USD Bn)



Source: Vietnam Customs, Rong Viet Securities

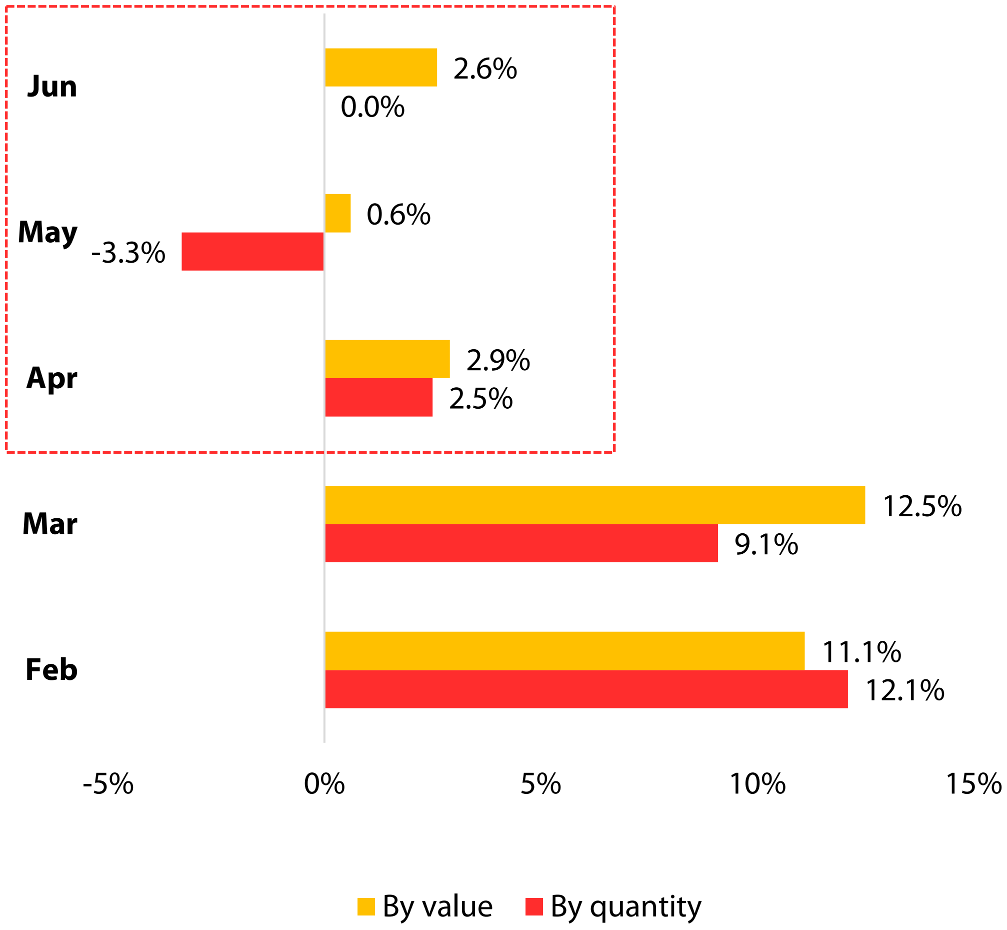
Figure 5: Breakdown of T&G export value by market (%)



Source: Vietnam Customs, Rong Viet Securities

2H 2022: DEMAND IS LIKELY TO SLOW DOWN

Figure 6: MoM growth of US apparel imports in 2022



Source: OTEXA, Rong Viet Securities

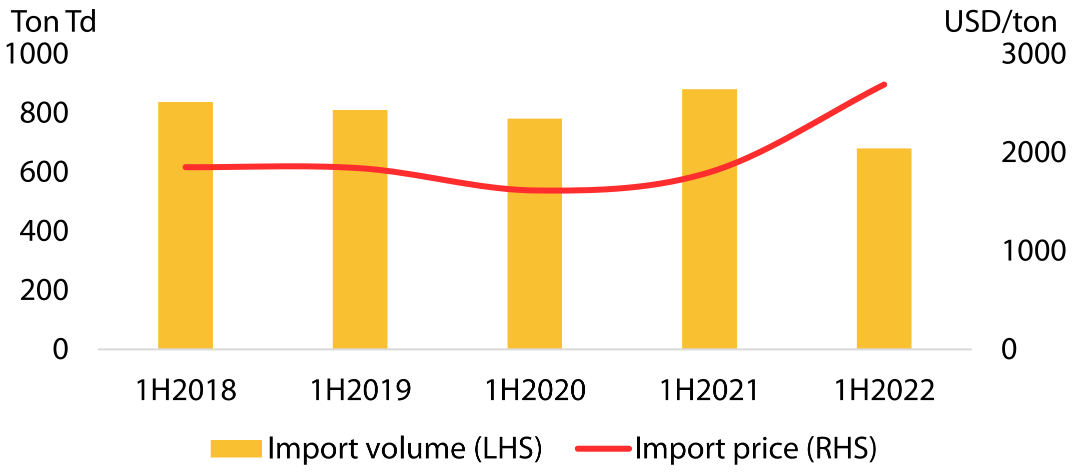
Apparel demand starts to face softening demand, especially in the US

Driven by consumers' spending, in 1H2022, US apparel imports went up 40% in value and 24% in quantity YoY. However, due to weakening demand amid the economic downturn, the speed of import expansion is slowing down. Consumers in the US are becoming more concerned about the future of their household's finances and could limit their discretionary clothes buying. From almost 10% at the start of the year, the monthly rise of US apparel imports decreased to only 2.6% in value and almost zero in quantity in June 2022. (see **Figure 6**)

We could anticipate that many US fashion companies will become more cautious about putting new sourcing orders in the second half of 2022 in order to control inventories and prevent overstock, as the medium-term future of the US economy remains incredibly unpredictable. According to Vinatex, the US market's textile and garment import demand is likely to decrease by 7-10% in 2H 2022 compared to 1H 2022.

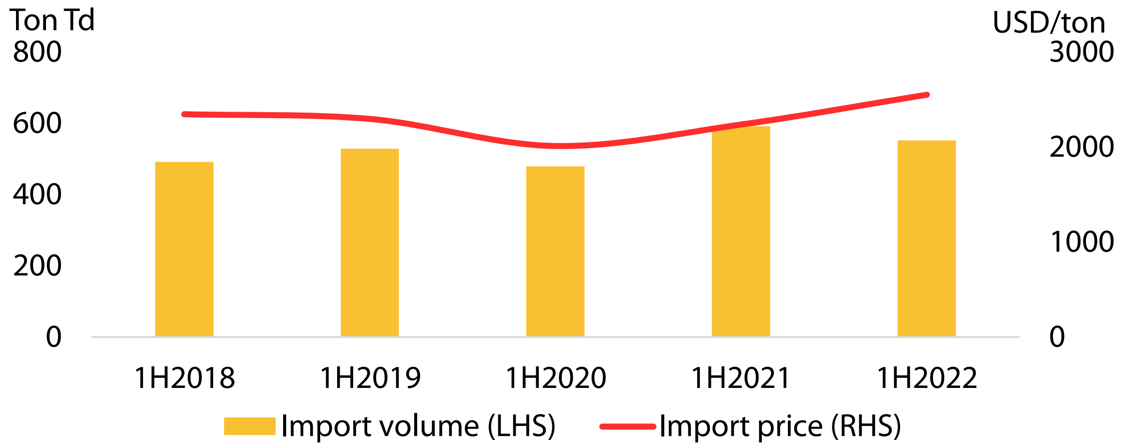
We expect that the decline in orders will gradually become apparent in 2023, putting pressure on the order growth of Vietnamese enterprises.

Figure 7: Vietnam's cotton import volume (thousand tons) and price (USD/ton)



Source: VCOSA, Rong Viet Securities

Figure 8: Vietnam's fiber and yarn import volumes (thousand tons) and prices (USD/ton)



Source: VCOSA, Rong Viet Securities

Due to the double impact of post-COVID supply chain disruptions and the Russia-Ukraine war, the price of imported yarn and cotton into Vietnam increased by an average of 10% year-on-year in 1H 2022, following the world's upward trend in commodity prices. This put pressure on the profit margin of companies in the industry as most recorded a decrease in their gross margin in 1H 2022.

We think that this problem will only be solved when China gradually opens its economy because most of the raw materials of Vietnam's textile and garment industry are imported from this country. China is also showing some positive signs in border easing in the second half of this year. This will help gradually reduce input costs for companies and help profit margins improve in 2H 2022. However, we expect that the profit margin of enterprises still cannot recover to normal level in 2023 due to the delay in the recovery of raw material supply.

Figure 9: Quarterly GPM of garment companies (%)

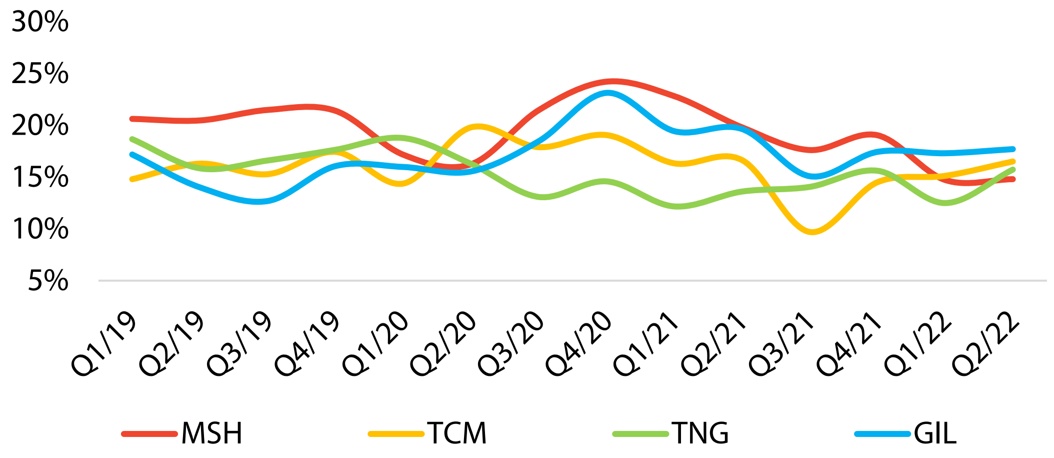
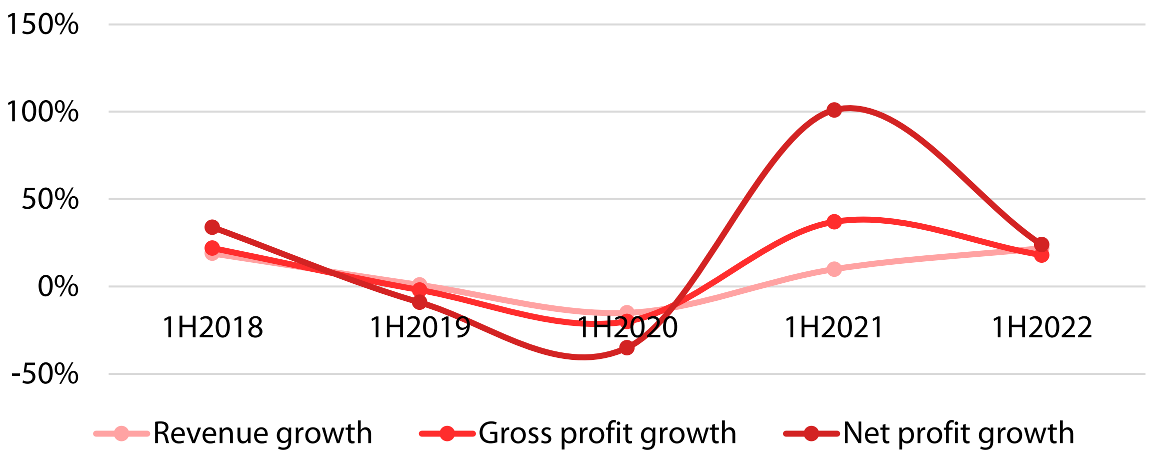


Figure 10: Business growth of textile and garment companies (%)

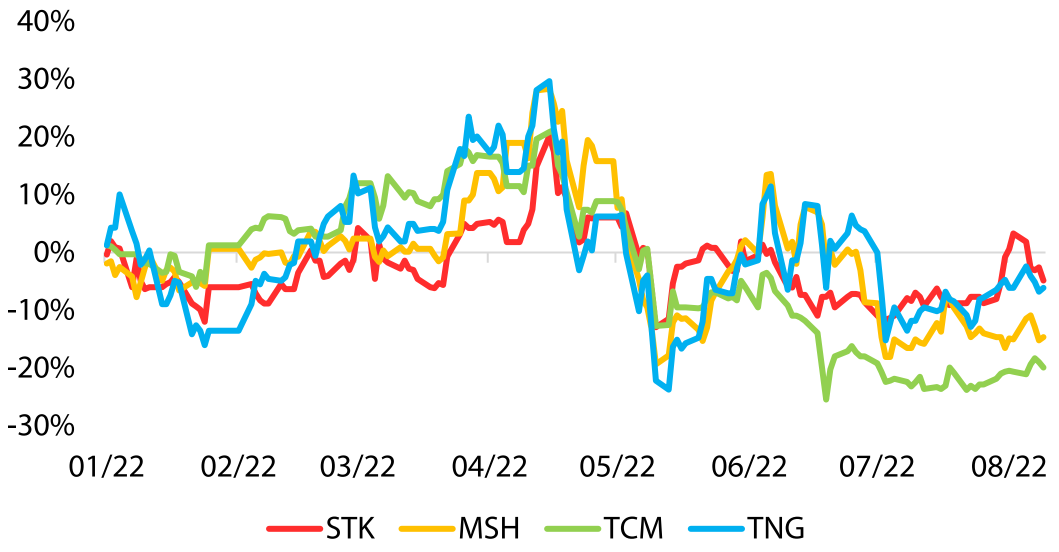


Source: FiinPro, Rong Viet Securities

- In 1H2022, abundant orders have had a positive impact on the results of textile companies. However, under the pressure of high raw material prices, the gross profit growth of companies could not keep up with the revenue growth due to the decrease in gross margin.
- 1H2022 revenue growth of all listed textile and garment companies recorded a 22% YoY growth while gross profit growth of 18% YoY. However, profit margin dropped sharply in some garment companies producing products under FOB level 2, such as MSH.
- We expect that profit margin of most companies will not return to normal levels in 1H2023. The speed of profit margin recovery will depend on the economic opening from China and the situation of apparel demand worldwide.

STOCK PRICES TO GO TO MORE ATTRACTIVE LEVELS

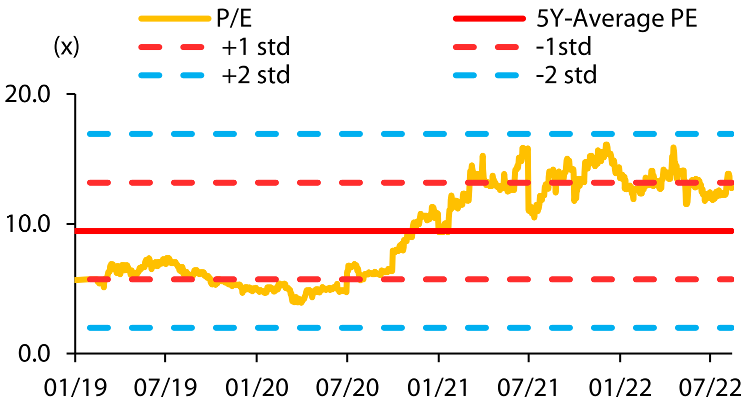
Figure 11: YTD stock price performance (%)



Source: Bloomberg, Rong Viet Securities

- The strong price increase from the end of 2020 to the end of 2021 is based on the strong profit recovery of businesses, pushing the P/E of the textile industry to a high level. We think the recovery catalyst is not convincing enough for the P/E to be re-rated at a higher valuation.
- However, the recent stock price drop has brought the industry's P/E back to near the 5-year average. We expect that the gloomy outlook of the industry in 2H2022 could cause stock prices to continue to drop further. Investors can choose stocks with a clear long-term growth story to invest for the long-term.

Figure 12: STK's five-year PER



Source: Bloomberg, Rong Viet Securities

Figure 13: MSH's five-year PER

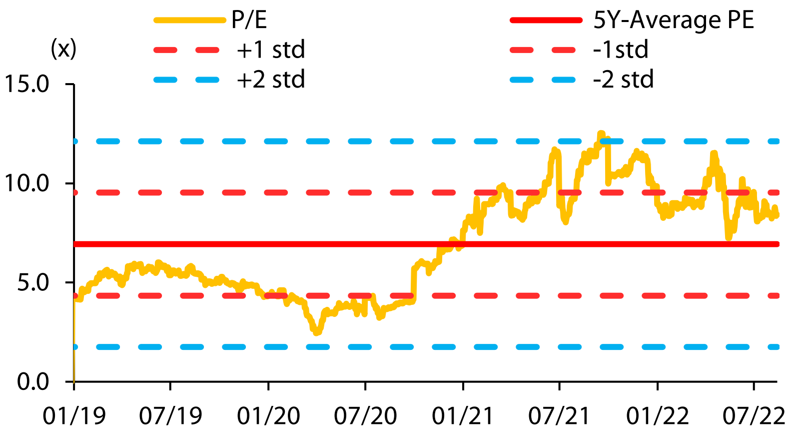
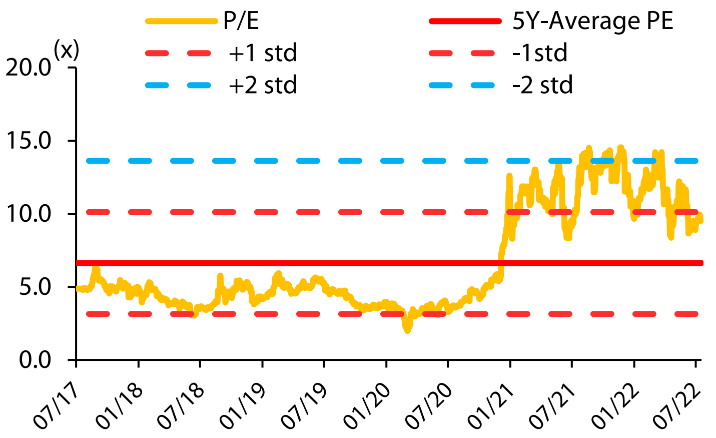


Figure 14: TNG's five-year PER

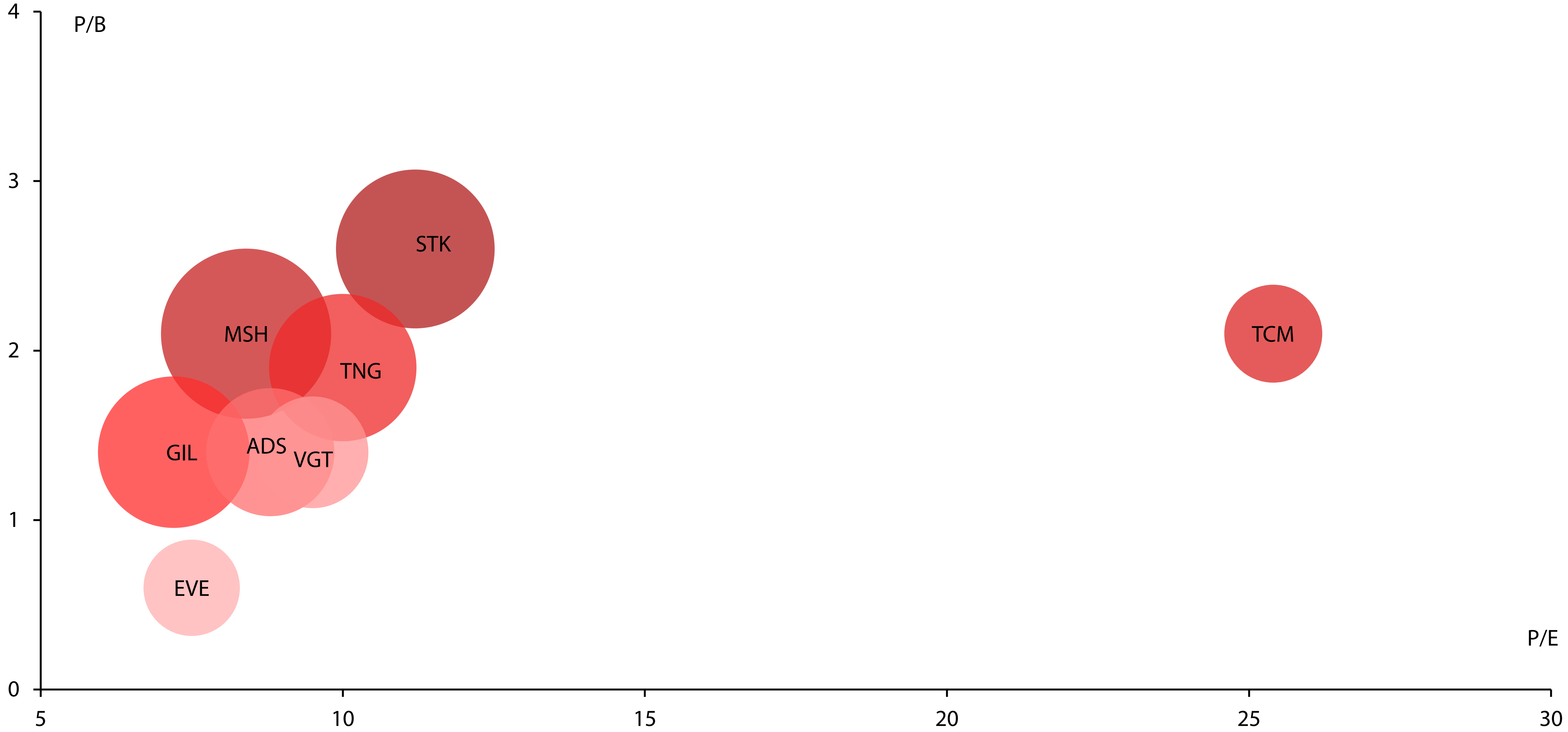


INDUSTRY COMPARABLE (TTM)

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)
STK	162.4	52,700	8.17	4.36	18.74	13.58	22.94	13.27	13.80	23.37	2.80	13.00	2.80
MSH	147.9	48,200	31.22	17.11	10.49	8.02	22.49	7.52	12.08	26.46	6.53	8.59	2.14
TCM	162.8	42,200	3.46	-31.70	8.82	5.68	-46.89	3.95	4.06	7.26	0.00	29.89	2.09
TNG	120.7	34,000	25.99	51.34	7.78	7.79	58.34	4.34	5.60	20.31	1.32	9.67	1.94
GIL	146.0	N/A	19.77	-10.15	10.25	9.68	-6.44	7.78	8.81	19.46	1.76	6.74	1.40
ADS	34.1	N/A	23.22	32.54	11.02	7.52	8.79	5.00	4.29	16.55	0.00	9.31	1.37

Source: Fiinpro, Rong Viet Securities. Share price as of 10 August 2022.

PE, PB & ROE (TTM)

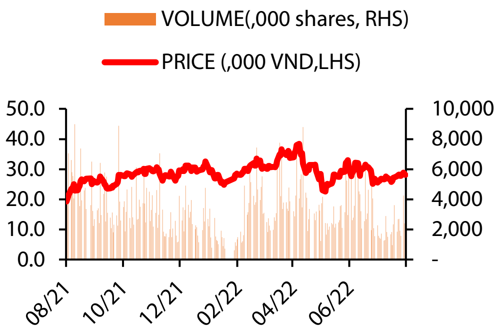


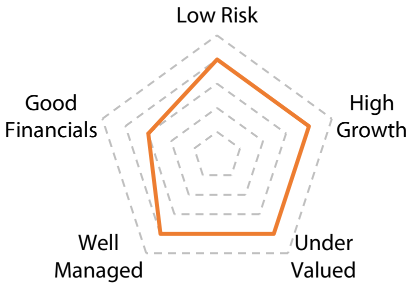
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 10 August 2022.

A DOUBLE-DIGIT NPAT GROWTH COULD CONTINUE IN FY2022

HNX: TNG

<BUY: +23%> **<MP: 28,100>** **<TP: 34,000>**





STOCK INFO

Sector	Personal & Household Goods
Market Cap ($ mn)	120
Current Shares O/S (mn shares)	100
3M Avg. Volume (K)	2,938
3M Avg. Trading Value ($ mn)	84
Remaining foreign room (%)	44.2
52-week range ('000 VND)	39.44 – 21.02

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	5,444	6,456	6,820
NPATMI VND bn)	233	303	374
ROA (%)	5.3%	6.1%	6.7%
ROE (%)	15.9%	17.9%	19.2%
EPS (VND)	2,384	2,728	3,199
Book Value (VND)	15,514	15,780	16,952
Cash dividend (VND)	500	500	500
P/E (x)	13.6	10.1	8.6
P/B (x)	2.1	1.7	1.6

INVESTMENT RATIONALES

One of few garment companies could see double-digit profit growth in FY2022

- For FY2022, we expect revenue will reach VND 6,456 Bn (or USD 280 Mn), growing by 19% YoY and NPAT will increase by 30% YoY to reach VND 303 Bn (or USD 13 Mn), respectively. Revenue growth came from increasing order value due to the recovery of global apparel demand and increasing its operation capacity. Gross margin, which has bottomed out in 2021, should be able to recover slightly 150 bps YoY in 2022 to reach 14.8%, per our estimate. As TNG's orders are mainly in the form of FOB level 1 (customers specify the source of raw materials), the impact of raw material costs is lower than that of orders under FOB level 2.

Declining input costs to help gross margin gradually recover

- For FY2023, we forecast revenue and NPAT to grow by 6% YoY and 23% YoY at VND 6,820 Bn (or USD 296 Mn) and VND 374 Bn (or USD 16 Mn), respectively. We conservatively forecast a single digit revenue growth in FY2023 due to the risk of global apparel demand cooling off amid global severe inflation. However, gross margin improvement in line with decreasing input costs will help FY2023 profits to grow stronger than the revenue growth.
- The exclusive cooperation with Decathlon in Vietnam also helps TNG's orders to be more stable even in the context of economic difficulties in developed countries.
- With regard to real estate segment, Son Cam Industrial Park could start booking in 2H2022 or FY2023, which would help profit to be higher than our forecast as we have not included this project into the estimation yet.

RISKS TO OUR CALL

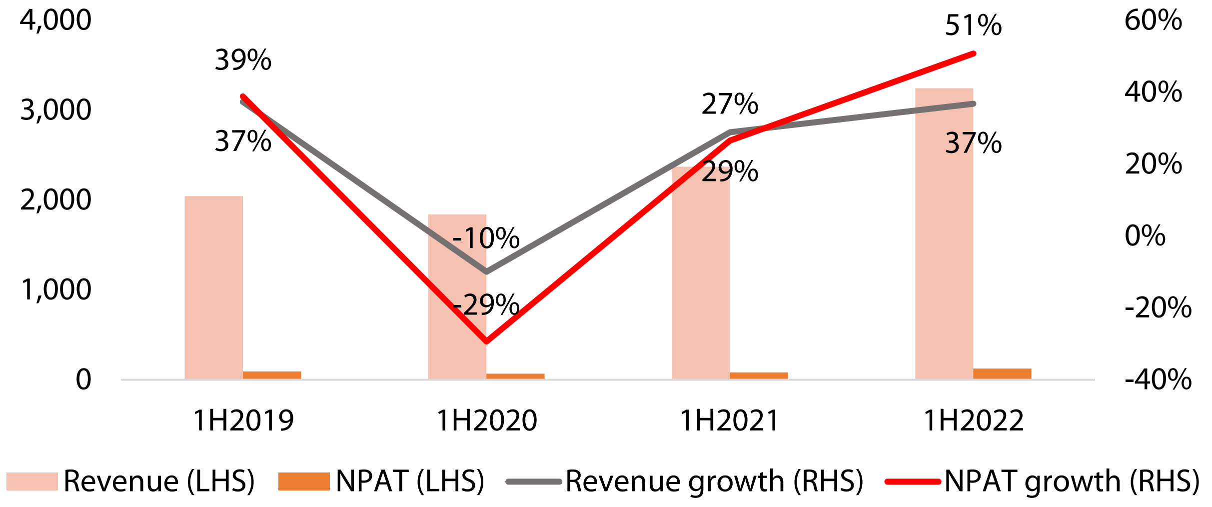
- Volatile input prices could affect the company's gross margin.
- The global inflationary pressure to hurt demand for apparel products.
- Slower-than-expected real estate revenue recognition and delayed construction progress of coming projects; new real estate projects to increase debt, thereby surging financial expenses.

1H2022: STRONG EARNINGS GROWTH DESPITE HIGH MATERIALS COSTS

NPAT grew 51% YoY in 1H2022

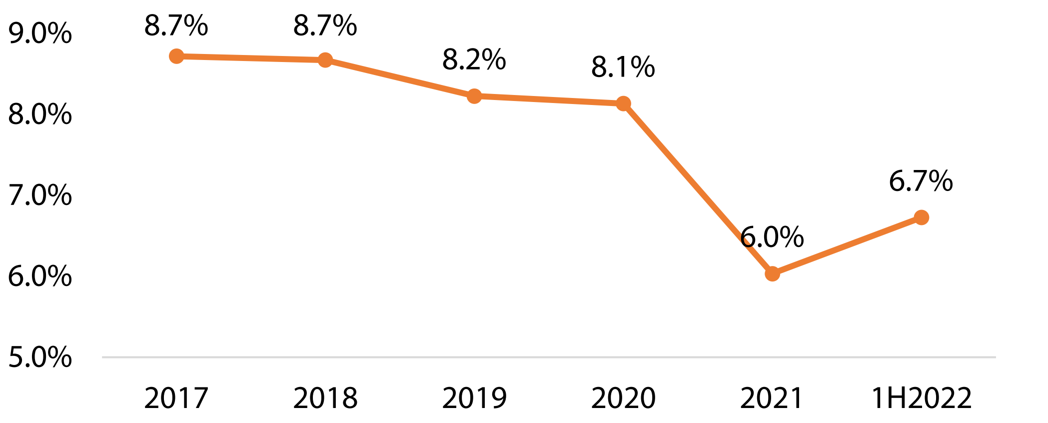
- 1H2022 revenue posted VND 3,242 bn (+37% YoY, USD 140 Mn) and NPAT VND 125 bn (+51% YoY, USD 5 Mn).
- Revenue growth came from increasing order value due to the recovery of global apparel demand and increasing its operation capacity.
- Under input cost pressure, 1H2022 gross margin, although improved 1.4 pp YoY, is much lower than the pre-pandemic level. SG&A/revenue grew slightly 30 bps YoY but much lower than before FY2021 due to new ERP system. Net margin improved 40 bps to 3.9% in1H2022, leading to a strong increase in NPAT of 51% YoY.

Figure 1: Revenue and NPAT in 1H2022



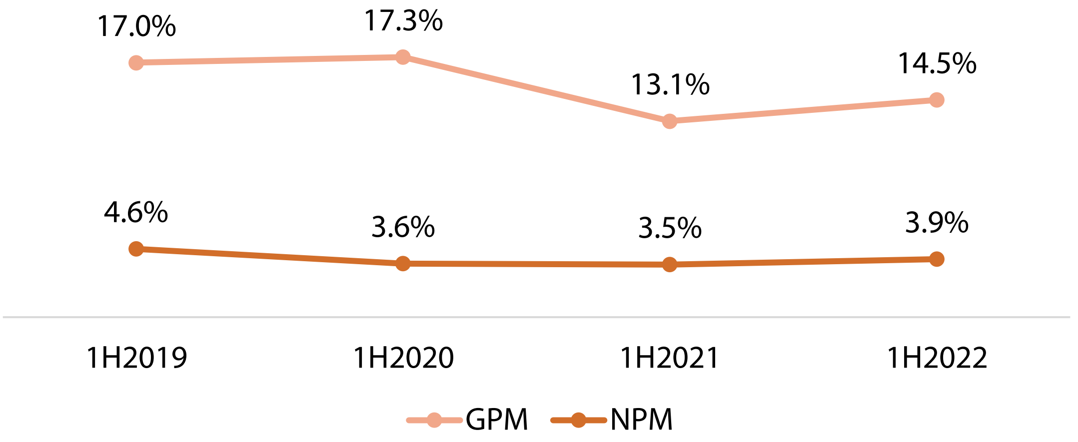
Source: TNG, Rong Viet Securities

Figure 2: SG&A/Revenue (%)



Source: TNG, Rong Viet Securities

Figure 3: GPM and NPM (%)



Source: TNG, Rong Viet Securities

Gross margin can improve in FY2022 on the low base regardless of high input costs

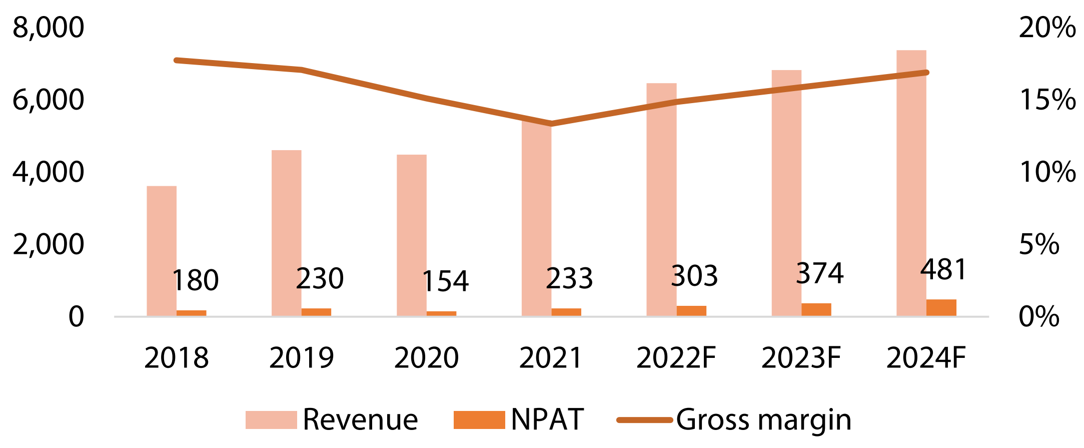
In 2H2022, we forecast revenue and NPAT to be VND 3,214 (or USD 139 Mn, +5% YoY) and VND 178 Bn (or USD 7.7 Mn, +20% YoY).

For FY2022/2023, we expect revenue will reach VND 6,456/6,820 Bn (or USD 280/296 Mn), growing by 19%/6% YoY and NPAT will increase by 30%/23% YoY to reach VND 303/374 Bn (or USD 13/16 Mn), respectively, driven by:

- **Capacity expansion and increasing revenue per garment line:** TNG will have 323 production lines in 2022, increasing by 39 lines compared to 2021. We expect that revenue per line will continue to expand from about VND 19 Bn/line in 2021 to VND 20 Bn/line in 2022 due to shifting orders to customers with better selling prices and profit margin and the new ERP technology system. However, we also acknowledge that there is a risk of global apparel demand cooling off amid a slowing world economy that is tightening people's spending on apparel products. Thus, we conservatively forecast a single digit revenue growth in FY2023.
- **Cooling-down materials costs to result in higher gross margin.** We expect 1H2022 GPM to reach 15.2%, up 70 bps compared to 1H2022 and 50 bps YoY.

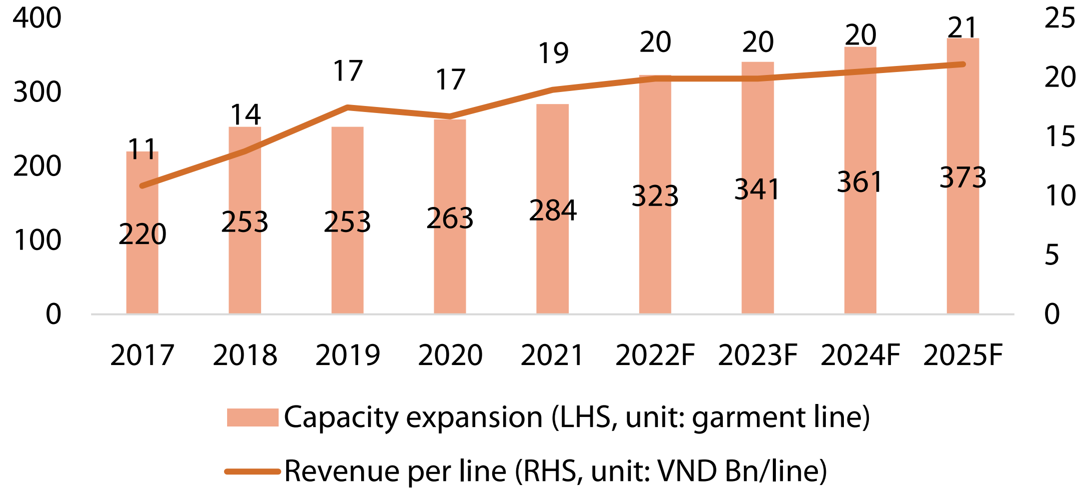
Moreover, with regard to real estate segment, Son Cam Industrial Park could start booking in 2H2022 or FY2023, which would help profit to be higher than our forecast as we have not included this project into the estimation yet.

Figure 4: Revenue and NPAT forecast (VND Bn)



Source: TNG, Rong Viet Securities

Figure 5: Capacity expansion

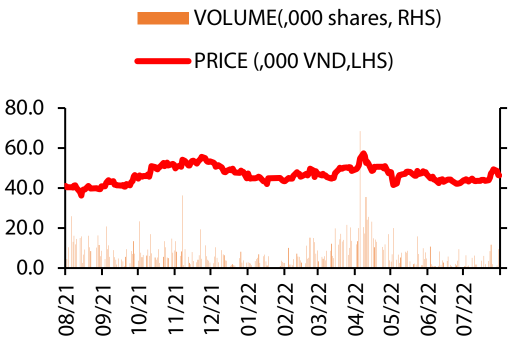


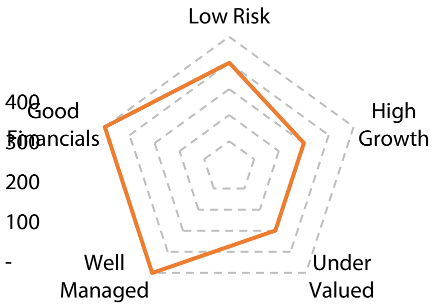
Source: TNG, Rong Viet Securities

SLOWER-THAN-EXPECTED GROWTH AMID WEAK DEMAND

HSX: STK

<ACCUMULATE: +17%> **<MP: 46,250>** **<TP: 52,700>**





STOCK INFO

Sector	Personal & Household Goods
Market Cap ($ mn)	162
Current Shares O/S (mn shares)	68
3M Avg. Volume (K)	21
3M Avg. Trading Value ($ mn)	1
Remaining foreign room (%)	88,9
52-week range ('000 VND)	60,9 - 36,3

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	2,042	2,342	2,714
NPATMI VND bn)	278	296	318
ROA (%)	14.1	11.1	9.5
ROE (%)	22.1	20.5	19.3
EPS (VND)	3,937	4,192	4,491
Book Value (VND)	17,800	20,401	23,612
Cash dividend (VND)	1,500	1,500	1,500
P/E (x)	14.0	11.1	10.3
P/B (x)	3.1	2.3	2.0

INVESTMENT RATIONALES

2022 NPAT could only have at a single digit growth under inflationary pressure to hinder new orders

- In 1H22, STK recorded net sales and net profit of VND 1,171 Bn (+9% YoY) and VND 146 bn (+3% YoY), having completed 45% and 48% of their targets for the year, respectively. Business results grew lower than expected due to the slowdown of demand amid the global turbulence to restrain the consumption of apparel products, thereby indirectly the demand for yarn.
- In FY2022, we forecast revenue and NPAT to be VND 2,342 Bn (or USD 101 Mn, +15% YoY) and VND 296 Bn (or USD 13 Mn, +6% YoY), completing 90% and 99% the full-year guidance, respectively. We lower our previous revenue and NPAT forecasts by 12% and 18%, based on the recent slowdown in orders for the sector.
- One positive point of STK is its ability to maintain price gap regardless of high materials costs. We expect gross margin to remain at the 1H2022 level of 18.6% in 2H2022.

STK is not an attractive investment opportunity for 2H2022, but can eye for the long-term holding when stock price goes down

- We consider the weak demand situation as a temporary deceleration under inflationary pressure to tighten consumer spending. However, STK's core growth drivers will continue after short-term disruptions disappear. Specifically, the trend of shifting to recycled yarn will offer STK a potential to increase the proportion of recycled yarn products, and thereby also improving the company's profit margin. The Unitex factory is on track to start operation in early Q4/2023, driving the company's long-term growth.
- FY2023 outlook will depend on the inflation situation, before witnessing a new growth phase regarding to the operation of the new factory in FY2024. Thus, stock price decline associated with the slowdown will be an opportunity for long-term investment.

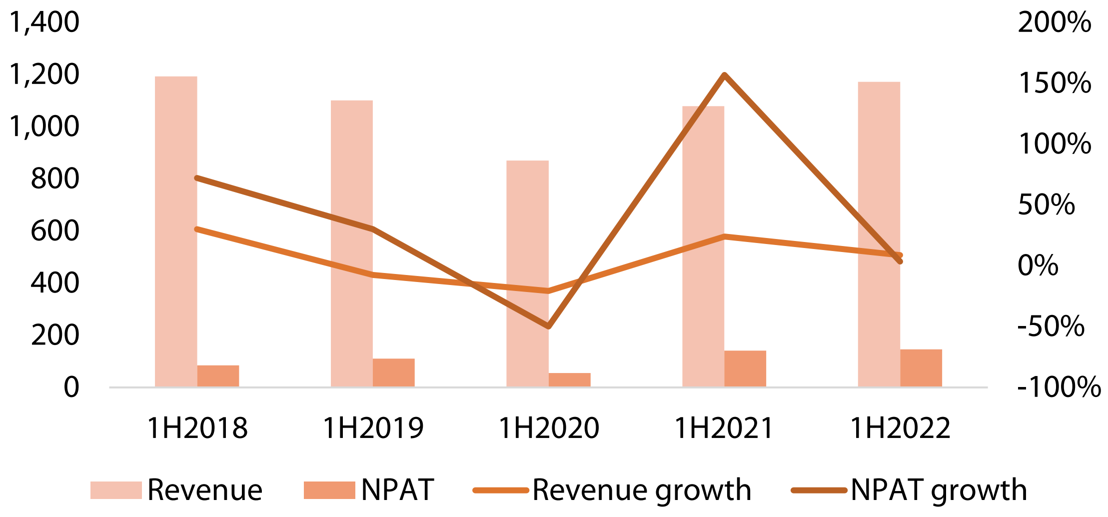
RISKS TO OUR CALL

- Slow apparel demand recovery will hurt demand for yarn.
- Construction progress of the new factory.

NPAT grew at a slower-than-expected pace in 1H2022 due to weak demand

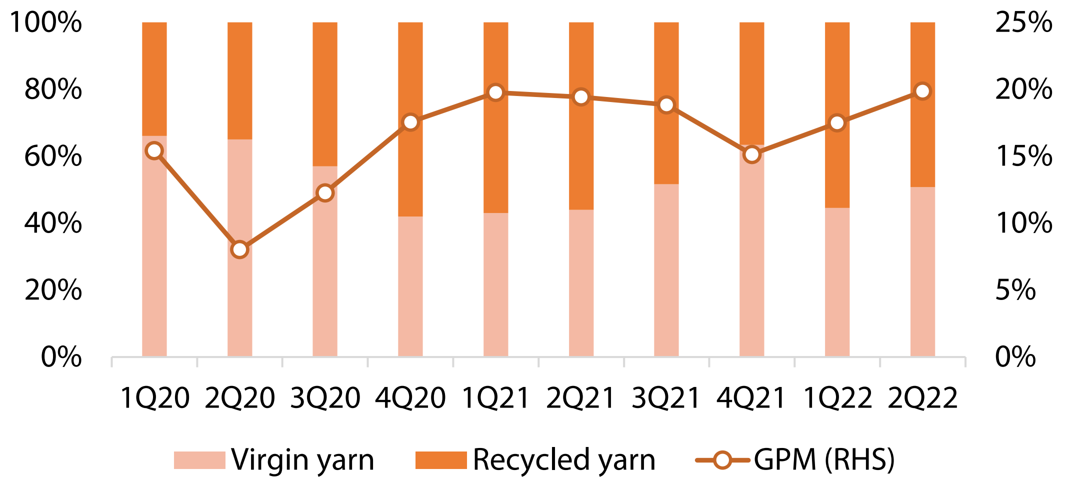
- In 1H22, STK recorded net sales and net profit of VND 1,171 Bn (+9% YoY) and VND 146 bn (+3% YoY), having completed 45% and 48% of their targets for the year, respectively. Business results grew lower than expected due to the slowdown of demand amid the global turbulence to restrain the consumption of apparel products, thereby indirectly the demand for yarn.
- In 1H22, recycled yarn and virgin yarn was VND 581 Bn and VND 587 Bn, down 4% YoY and up 25% YoY, respectively. Recycled/virgin sales mix reached 50%/50% compared to the plan of 54%/46%. However, gross profit margin declined from 19.6% in 1H21 to 18.6% in 1H22 mainly due to the lower contribution of recycled revenue (50% in 1H22 vs. 56% in 1H21).
- We also note that financial expenses soared 6 times YoY in 1H22 due to realized and unrealized FX losses were significant (VND 17 bn) due to the reduction in USD/VND exchange rate.

Figure 1: Revenue and NPAT in 1H2022 (VND Bn)



Source: STK, Rong Viet Securities

Figure 2: Revenue breakdown by products and GPM (%)



Source: STK, Rong Viet Securities

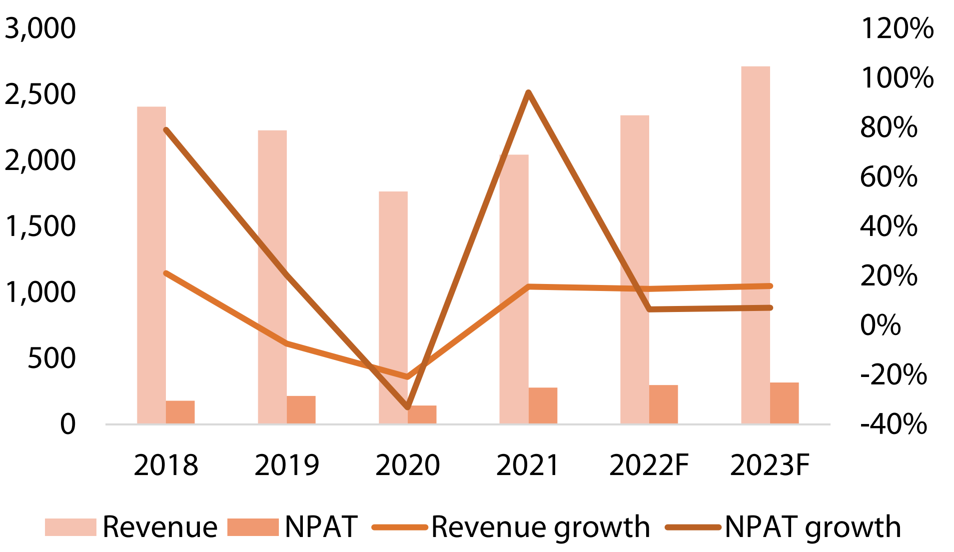
We expect to see a single-digit NPAT growth in FY2022

- In FY2022, we forecast revenue and NPAT to be VND 2,342 Bn (or USD 101 Mn, +15% YoY) and VND 296 Bn (or USD 13 Mn, +6% YoY), completing 90% and 99% the full-year guidance, respectively. We lower our previous revenue and NPAT forecasts by 12% and 18%, based on the recent slowdown in orders for the sector.
- In term of revenue breakdown, we expect recycled yarn will be reach VND 1,154 Bn (or USD 50 Mn, +13% YoY), occupying 49% total revenue in FY2022. Virgin yarn is estimated to be VND 1,188 Bn (or USD 51 Mn, +16% YoY).
- We expect gross margin to remain at the 1H2022 level of 18.6% in 2H2022 due to the ability of maintaining price gap regardless of high materials costs.

Long-term outlook is still bright

- We consider the weak demand situation as a temporary deceleration under inflationary pressure to tighten consumer spending. However, STK's core growth drivers will continue after short-term disruptions disappear. Specifically, the trend of shifting to recycled yarn will offer STK a potential to increase the proportion of recycled yarn products, and thereby also improving the company's profit margin. The Unitex factory is on track to start operation in early Q4/2023, driving the company's long-term growth.
- Our new one-year target price for STK is VND52,700/share, 20% lower than the valuation on Jan 2022, mainly as we revise FY2022 EPS down and reduce our 2022 target P/E from 14x to 11x to reflect the challenges in 2H 2022.
- We think STK is not a good investment opportunities in 2H 2022 given the difficulties. FY2023 outlook will depend on the inflation situation, before witnessing a new growth phase regarding to the operation of the new factory in FY2024. Thus, stock price decline associated with the slowdown will be an opportunity for long-term investment.

Figure 3: Revenue and NPAT forecast (VND Bn)



Source: STK, Rong Viet Securities

Figure 4: Valuation summary

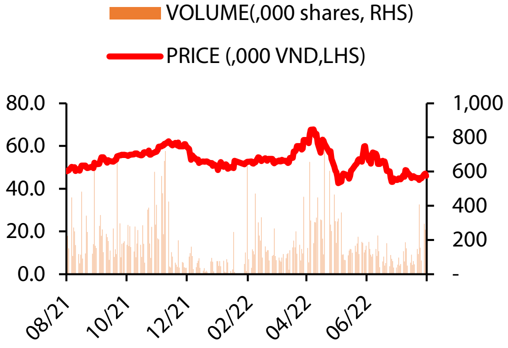
Method	Weight	Valuation
FCFF	50%	59,400
P/E 11x	50%	46,100
Total	**100%**	**52,700**

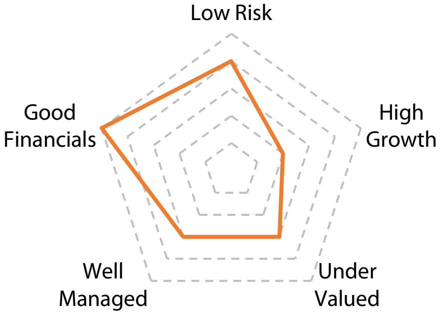
Source: Rong Viet Securities

PROFIT MARGINS HIT HARD AMID SOARING INPUT COSTS

HSX: MSH

<ACCUMULATE: +9%> **<MP:45,950>** **<TP: 48,200>**





STOCK INFO

Sector	Personal & Household Goods
Market Cap ($ mn)	147
Current Shares O/S (mn shares)	75
3M Avg. Volume (K)	139
3M Avg. Trading Value ($ mn)	7
Remaining foreign room (%)	42,4
52-week range ('000 VND)	68,67 - 41,9

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	4,748	5,741	5,975
NPATMI VND bn)	442	365	442
ROA (%)	13.8%	9.4%	10.5%
ROE (%)	31.1%	19.5%	20.5%
EPS (VND)	8,846	4,713	5,707
Book Value (VND)	28,432	25,003	28,710
Cash dividend (VND)	4,500	2,000	2,000
P/E (x)	8.9	9.5	7.9
P/B (x)	2.6	1.8	1.6

INVESTMENT RATIONALES

Revenue and profit growth are in opposite directions due to a sharp drop in gross margin

- In 1H22, MSH delivered net sales and net profit of VND 2,778 Bn (or USD 120 Mn, +29% YoY) and VND 186 Bn (or USD 8 Mn, -14% YoY), respectively. Under input cost pressure, gross margin shrank by 640 bps YoY to 14.7% in 1H2022. Driven by the operation of the new factory, revenue grew strongly in 1H2022, but revenue growth can only partially offset the decline in gross margin, leading to a negative growth in 1H2022.
- Looking ahead to 2H2022, we expect gross margin could gradually improve but still be a low level. In FY2022, we expect revenue and NPAT-MI to be VND 5,741 Bn (or USD 249 Mn, +21% YoY) and VND 365 Bn (or USD 16 Mn, -17% YoY).

In FY2023, profit margin expansion drives net earnings growth

- We forecast FY2023 revenue only grow 4% YoY under inflationary pressure to tighten spending on apparel, leading to cutting orders.
- Gross margin is expected to recover gradually from 2H2022 onwards, but FY2023 profit could only be on par with 2019.

Solid financials outperform peers, stable cash dividend

- Despite the company's abundant cash flow, the short-term difficulties make the market price, even though discounted, still not attractive in a one-year horizon.
- MSH maintains a high and stable cash dividend with an average cash dividend yield of 5-6%.
- We have a neutral view on MSH in the short term and may consider for long-term investment when profit margin shows signs of recovery as our expectation.

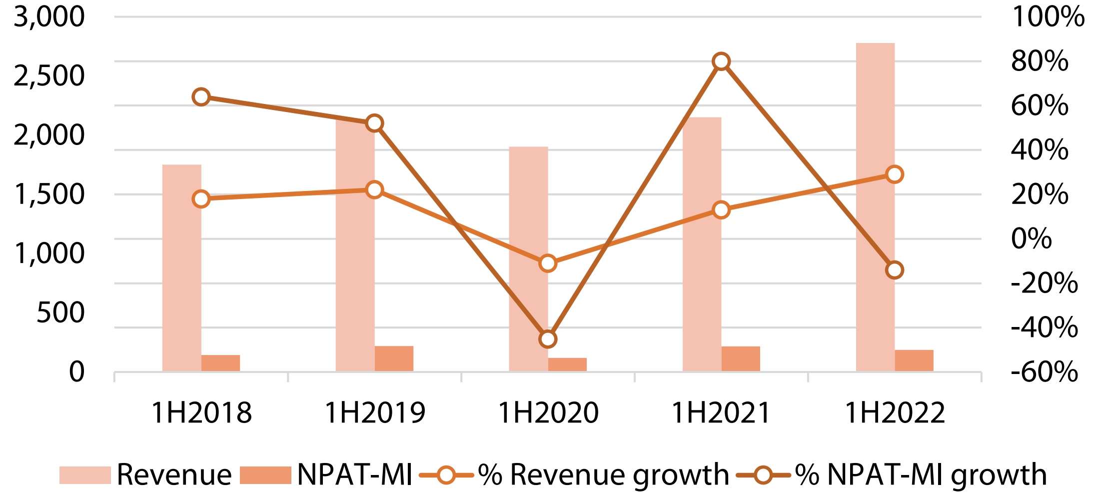
RISKS TO OUR CALL

- Demand for orders are prone to the inflationary pressure.
- Soaring input material costs will cause lower-than-expected profits.

1H2022: REVENUE GREW 29% YOY BUT NET PROFIT DECLINED 14% YOY

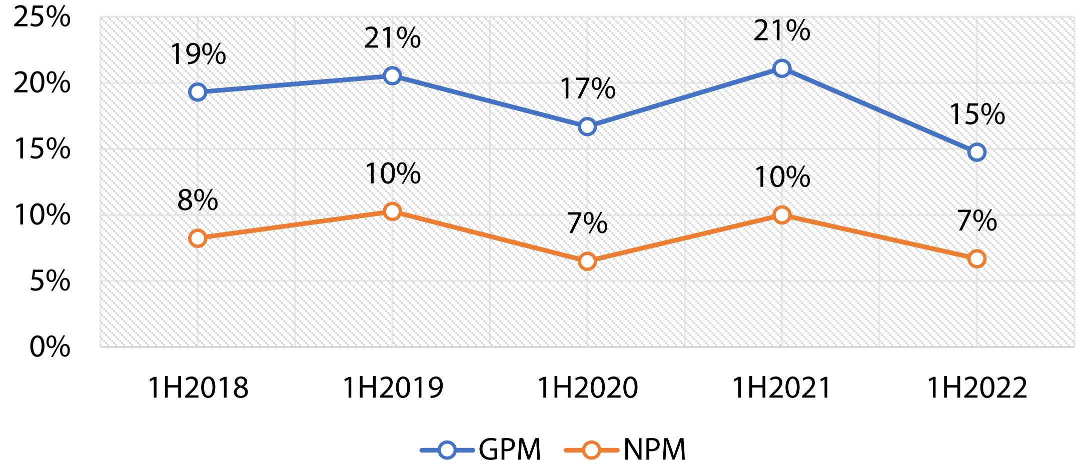
- In 1H22, MSH delivered net sales and net profit of VND 2,778 Bn (or USD 120 Mn, +29% YoY) and VND 186 Bn (or USD 8 Mn, -14% YoY), respectively. The contrast in growth of these two figures comes from gross margin contraction. In 1H2022, under input cost pressure, gross margin shrank by 640 bps YoY to 14.7%, much more affected than peers because MSH produces FOB level 2 mainly (self-sourcing of materials) so it was hit more strongly than other manufacturers in the context of lack of raw materials.
- Cotton prices are under pressure from the armed conflict between Russia and Ukraine. Yarn prices also increased very high due to scarce oil supply and high oil prices. Besides, port congestion and cargo stagnation due to the "Zero Covid" policy in China also increase the cost of raw materials and transportation costs imported from China.
- Moreover, the increase in new factory capacity, although helping to increase orders and revenue, also exacerbated the decrease in gross margin due to inefficiencies in the early stage of operation.

Figure 1: Revenue and NPAT in 1H2022 (VND Bn)



Source: MSH, Rong Viet Securities

Figure 2: GPM & NPM (%)



Source: MSH, Rong Viet Securities

2H2022: INPUT COST PRESSURE TO DRAG FY2022 PROFITS DOWN

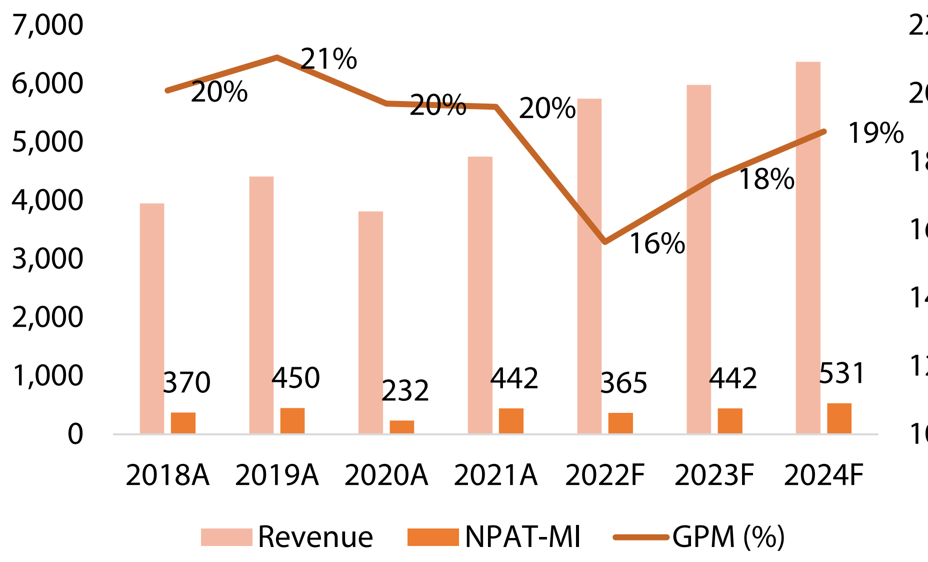
Negative earnings growth is expected to see in FY2022

- In FY2022, we expect revenue and NPAT-MI to be VND 5,741 Bn (or USD 249 Mn, +21% YoY) and VND 365 Bn (or USD 16 Mn, -17% YoY).
- Materials costs tend to decrease, in line with the decline of oil price and the gradual recovery of materials supply. Therefore, we expect gross margin could improve in 2H2022, despite much lower than 2021 level, leading to FY2022 gross margin of 15.6% (-400 bps YoY). However, it is difficult to see profit growth in 2022 as revenue growth can only partially offset the decline in gross margin.

In FY2023, gross margin will improve but the ability to increase orders will be uncertain if inflation persists

- We see that orders could not be abundant in 2023. After countries opened their economies, the demand for textiles and garments increased rapidly, causing countries to increase imports, leading to abundant orders for Vietnam until mid-2022. However, escalating inflation has caused consumers to began to reduce spending on non-essential products such as apparel, causing high inventories of apparel in other countries.
- There are two main factors that could lead to a fall in raw material prices in 2023: China opening up its economy and falling crude oil prices. This will help the profit margin can be better next year. We forecast FY2023 gross margin to be 17.5%.
- We have a neutral view on MSH in short term and may consider for long-term investment when there are signs of profit margin recovery. Despite the company's abundant cash flow, the short-term difficulties make the market price, even though discounted, still not attractive. Therefore, we downgrade our target P/E for 2022 from 10x to 8x to reflect this negative short-term outlook.

Figure 3: Revenue and NPAT forecast (VND Bn)



Source: MSH, Rong Viet Securities

Figure 4: Valuation summary

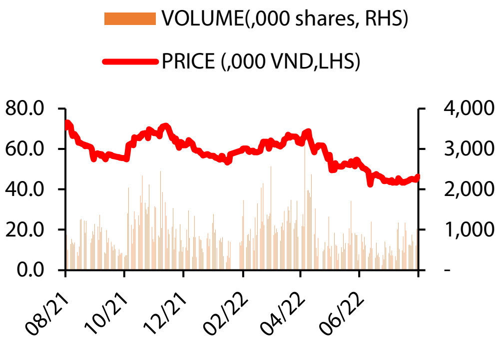
Method	Weight	Valuation
FCFF	50%	58,756
P/E 8x	50%	37,700
Total	**100%**	**48,200**

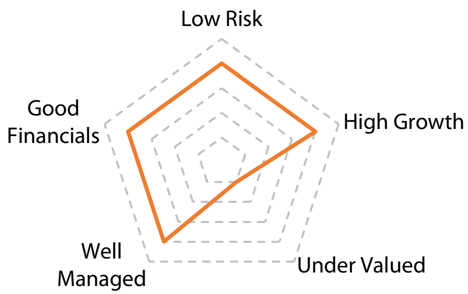
Source: Rong Viet Securities

THE STOCK SLIDE MAKES THE VALUATION MORE FAIR

HSX: TCM

<NEUTRAL: -8%> **<MP:46,300>** **<TP: 42,200>**





STOCK INFO

Sector	Personal & Household Goods
Market Cap ($ mn)	162
Current Shares O/S (mn shares)	82
3M Avg. Volume (K)	632
3M Avg. Trading Value ($ mn)	30
Remaining foreign room (%)	2,7
52-week range ('000 VND)	73,04 - 39,3

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	3,535	4,197	4,448
NPATMI VND bn)	143	266	329
ROA (%)	9.3%	7.0%	8.1%
ROE (%)	16.9%	14.0%	15.6%
EPS (VND)	3,775	2,916	3,608
Book Value (VND)	26,402	23,942	23,179
Cash dividend (VND)	500	500	500
P/E (x)	30.3	15.6	12.6
P/B (x)	2.2	1.9	2.0

INVESTMENT RATIONALES

2022 profit to recover from the low base

- In 2H2022, we forecast revenue and NPAT to be VND 2,026 Bn (or USD 88 Mn, +26% YoY) and VND 138 Bn (or USD 6 Mn, +6.3 times YoY), respectively.
- For FY2022, revenue and NPAT is expected to be VND 4,197 Bn (or USD 182 Mn, +19% YoY) and VND 266 Bn (or USD 11 Mn, +86% YoY), respectively. Gross margin is expected to improve 150 bps YoY in FY2022, but much lower than before FY2021 amid the situation of high material prices.

Vinh Long 2 factory to drive earnings growth in FY2022-23

- The factory to put into operation in 2H 2022, helping TCM to raise garment capacity by 30% to increase FOB orders. However, due to the slowdown of apparel demand amid global inflation, we expect this factory will operate at a 50% utilization rate in FY22 and reach 70% in FY23, compared to the company's 2023 full capacity plan.
- FY2023 revenue and NPAT are projected to be VND 4,448 Bn (or USD 193 Mn, +6% YoY) and VND 329 Bn (or USD 14 Mn, +24% YoY).

The stock price is more reasonable, but still not attractive enough to buy

- Due to the low background effect of Q3/2021, strong earnings growth in Q3/2022 could be a short-term catalyst for stock prices. However, we think a deeper discount to bring the market price below the intrinsic value would be reasonable for a long-term investment.
- At the current price, TCM is trading at P/E TTM of 29.3x and FY22 forward P/E of 15.6x, much higher than its average P/E forward of 9.0x in 2017 - current.
- Continuous stock dividend each year diluted EPS is also a factor to consider.

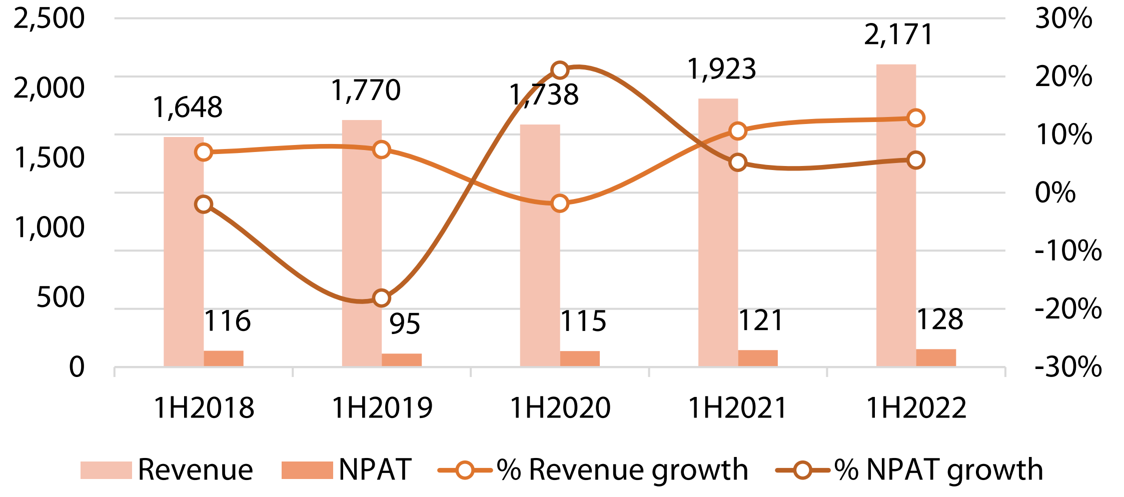
RISKS TO OUR CALL

- Global inflation to worsen apparel demand.
- Soaring input material costs will cause lower-than-expected profits.

1H2022: SLIGHT PROFIT GROWTH

- In 1H22, TCM delivered revenue and NPAT of VND 2,171 Bn (or USD 94 Mn, +13% YoY) and VND 128 Bn (or USD 5.5 Mn, +6% YoY), completing 52% and 50% the full-year guidance, respectively.
- In line with the sharp increase of materials costs, GPM declined 70 bps to 15.8% in 1H22.
- 1H22 NPAT growth was mainly contributed by 1Q22 NPAT growth of +18% YoY while 2Q22 NPAT saw a negative growth.
- In 1H22, TCM recorded a FX loss of VND 37 Bn, resulting in a 128% YoY growth of financial expenses. Hence, net margin contracted 70 bps to 5.3% in 1H22.

Figure 1: Revenue and NPAT in 1H2022 (VND Bn)



Source: TCM, Rong Viet Securities

Figure 2: Revenue breakdown by products (USD Mn)

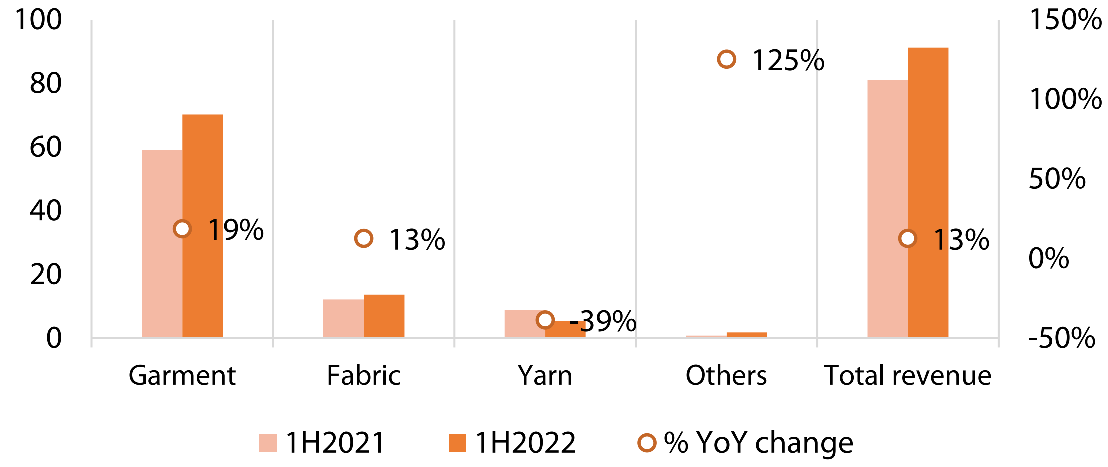
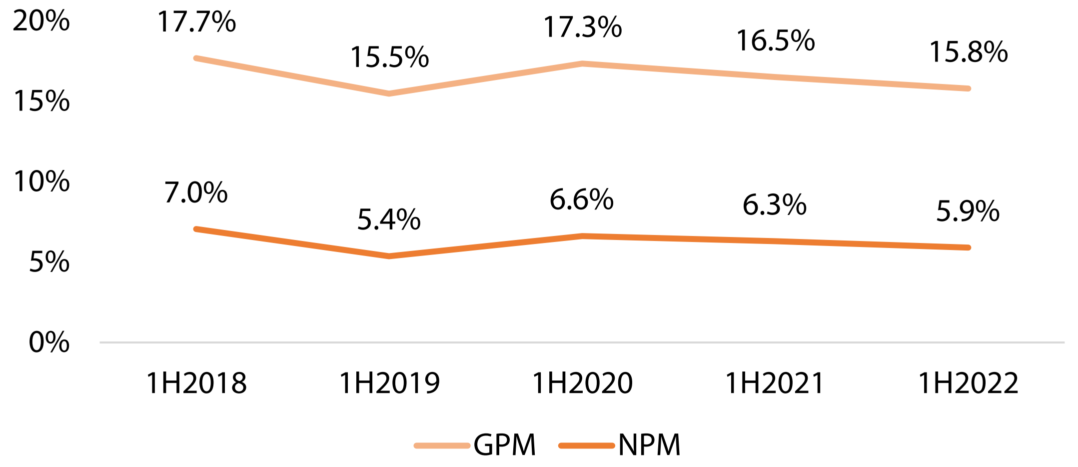


Figure 3: GPM and NPM (%)



Source: TCM, Rong Viet Securities

PROFIT RECOVERY ON THE LOW BASE IN FY2022

2H2022 profit to rise strongly on the low base

- In 2H2022, we forecast revenue and NPAT to be VND 2,026 Bn (or USD 88 Mn, +26% YoY) and VND 138 Bn (or USD 6 Mn, +6.3 times YoY), respectively. Recalling that TCM's profit was hit hard in 3Q2021 due to the severe lockdown in Vietnam.
- In FY2022, we forecast revenue and NPAT to be VND 4,197 Bn (or USD 182 Mn, +19% YoY) and VND 266 Bn (or USD 11 Mn, +86% YoY), respectively.
- Gross margin is expected to improve 150 bps YoY in FY2022, but much lower than before FY2021 amid the situation of high material prices.

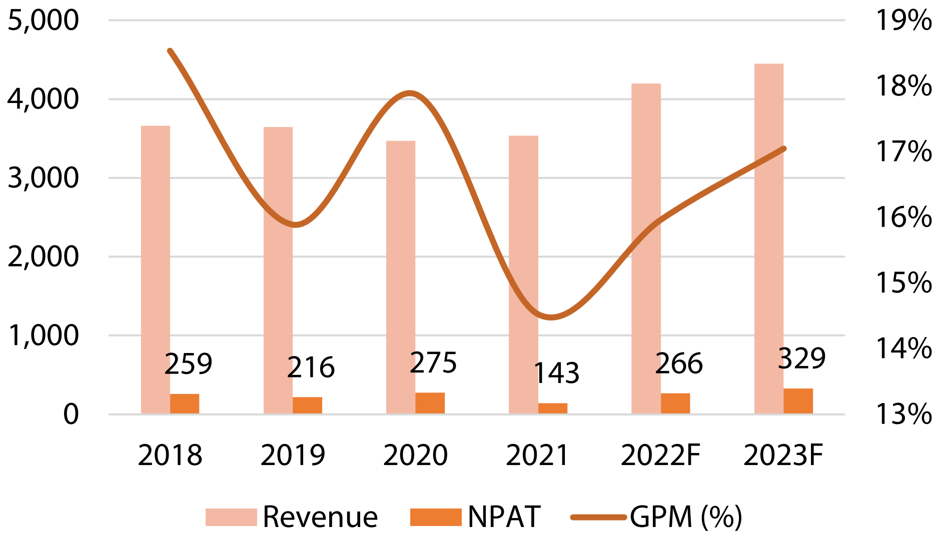
Vinh Long 2 factory to start contributing from 2H2022

- The factory to put into operation in 2H 2022, helping TCM to raise garment capacity by 30% to increase FOB orders. However, due to the slowdown of apparel demand amid global inflation, we expect this factory will operate at a 50% utilization rate in FY22 and reach 70% in FY23, compared to the company's 2023 full capacity plan.
- FY2023 revenue and NPAT are projected to be VND 4,448 Bn (or USD 193 Mn, +6% YoY) and VND 329 Bn (or USD 14 Mn, +24% YoY). FY2023 gross margin to improve 100 bps at 17% due to cooling-down material costs.

The stock price is more reasonable, but still not attractive enough to buy

- The steep drop in stock prices has made valuations more reasonable. Due to the low background effect of Q3/2021, strong earnings growth in Q3/2022 could be a short-term catalyst for stock prices. But we think that for long-term investment, the current market price is still not attractive enough.
- At the current price, TCM is trading at P/E TTM of 29.3x and FY22 forward P/E of 15.6x, much higher than its average P/E forward of 9.0x in 2017 - current.
- Continuous stock dividend each year has diluted EPS.

Figure 3: Revenue and NPAT forecast (VND Bn)



Source: TCM, Rong Viet Securities

Figure 4: Valuation summary

Method	Weight	Valuation
FCFF	50%	49,400
P/E 12x	50%	35,000
Total	**100%**	**42,200**

Source: Rong Viet Securities

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