

THANH CONG TEXTILE GARMENT JSC (TCM) – EARNINGS UPDATE

Market Price VND29,000	Target Price VND32,300	Dividend Yield 1.77%	Rating HOLD	Sector TEXTILES
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Outlook – Short term



Outlook – Long term



Valuation



24 April 2019

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1Q19 results registered contrasting topline and bottomline growth

Strong 1Q19 topline performance exceeded our expectations. 1Q19 revenue reached VND978bn (+15.3% yoy), fulfilling 26.2% of our full year forecast revenue, driven by a surge of 16.7% yoy in exports and a 0.7% yoy rise in domestic business. It should be noted that Q1 is the low season of textile industry, normally contributing about 20-22% to the whole year revenue. Therefore, TCM's tepid 1Q19 revenue completing 26.2% of FY19F is above our expectations.

However, 1Q19 net profit fell 12.4% yoy due to contracting gross margin and rising SG&A expenses. 1Q19 GM shrank by 250bp on the back of climbing labour cost to 22.9% of revenue from 20.3% in 1Q18. In addition, SG&A expenses/Revenue inched up by 90bp to 7.5% due to higher 2018 bonus payment for staff, per management.

Possibility of collecting Sears' receivables is unclear. In Feb 2019, Sears was acquired for US\$5.2bn by a hedge fund of its former CEO, Edward Lampert, after filing for bankruptcy. TCM is waiting for judgments toward Sears' receivables which worth about of VND101bn. According to management, they are able to collect a part of Sears' receivables. Thus, the company did not increase the provisioning for Sears' receivables in 1Q19 which was about VND78bn by end-FY18.

Terms of payment are being re-negotiated to mitigate risk of uncollectable receivables, starting with 2 clients Sears and Eddie Bauer. According to TCM's management, terms of payment are being re-negotiated to change from T/T (Telegraphic transfer) to L/C (Letter of credit) which guarantees payments from buyers. Management is confident about the success of negotiations which allow TCM to resume orders from Sears and Eddie Bauer. However, we conservatively removed garment orders from these two clients in our FY19F onward revenue forecast until there are official announcements by TCM.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	33,800
52w low (VND)	16,300
3m Avg daily volume (shares)	626,600
3m Avg daily value (VNDmn)	36,780
Market cap (VNDbn)	1,551
Outstanding shares (m)	56.4
Free float (%)	49
TTM P/E (x)	5.9
Current P/B (x)	1.2

Ownership

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

Source: VNDIRECT

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	3,209	3,662	3,728	4,081
Revenue growth	4.5%	14.1%	1.8%	9.5%
Gross margin	15.7%	18.5%	19.0%	19.0%
EBITDA margin	12.1%	13.1%	13.1%	13.8%
Net profit (bn)	193	260	256	301
Net profit growth	67.1%	34.6%	(1.8%)	17.6%
Recurring profit growth	28.8%	72.8%	3.9%	11.5%
Basic EPS	3,753	4,802	4,715	5,545
Adjusted EPS	3,195	4,081	4,008	4,699
BVPS	20,635	23,379	25,843	28,391
ROAE	19.6%	22.3%	19.2%	20.4%

Source: VNDIRECT

Figure 1: 1Q19 results comparison

VNDbn	1Q18	1Q19	% yoy	% of our FY19F forecast	Our comments
Total revenue	848	978	15.3%	26.2%	1Q19 topline performance exceeded our expectation, fulfilling 26.2% of FY19F revenue, thanks to 16.7% surge in export revenue and 0.7% rise in domestic business.
Gross profit	147	145	-1.4%	20.5%	
Gross profit margin	17.3%	14.8%	-250bp	-420bp	Gross margin fell due to rising porportion of labour cost to revenue from 20.3% in 1Q18 to 22.9% in 1Q19.
SG&A	56	73	31.5%	21.4%	SG&A expenses surged due to higher Tet holiday bonus for staffs, per management
SG&A as % of revenue	6.6%	7.5%	+90bp	-170bp	Slightly lower than our forecast as we expected the rest of Sears' receivables of VND23bn to be booked for provision in FY19F
Operating profit	68	54	-20.2%	17.2%	
Net other income	(6)	0	N/A	0.0%	
EBT	62	54	-12.0%	16.9%	
Net profit	49	43	-12.4%	16.8%	Net profit is lower than our forecast due to lower gross profit and higher SG&A expenses

Source: VNDIRECT, TCM

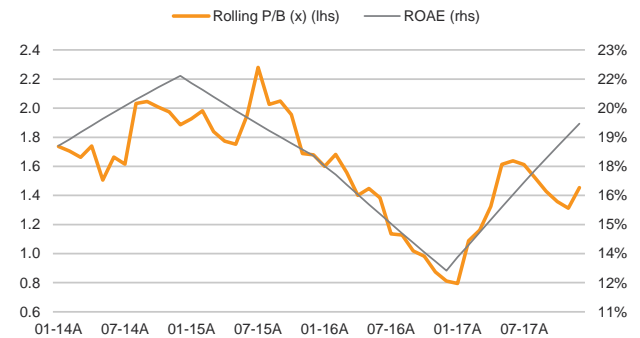
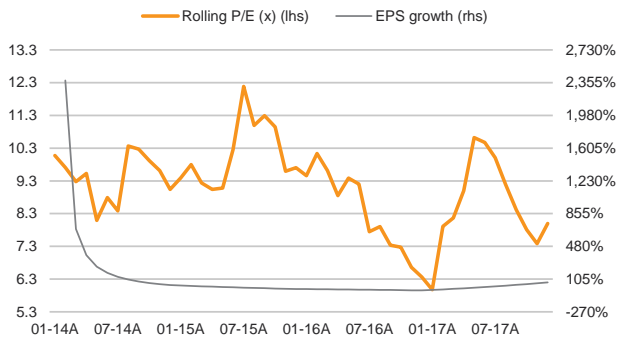
TC1 Tower – the company’s first property footprint - is expected to start construction in 4Q19. Locating in an area of 10,000sq m in Tan Phu Dist., HCMC, this 14-fl residential tower a joint venture between TCM (land contribution) and E-Land Construction. According to TCM’s management, the retail price of the tower is expected to be around US\$1,200/sq m – US\$1,300/sq m (based on the reference price of real estate projects in Tan Phu district) while the CAPEX of the project has not been disclosed.

Figure 2: Vietnamese textile peers as of 24 Apr 2019

	Exchange	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	TTM ROA (%)	TTM ROE (%)	D/E (x)	TTM P/E (x)	TTM P/B (x)
VGG	UPCOM	124.1	19.8%	19.8%	10.1%	29.0%	0.0	6.3	1.8
MSH	HOSE	122.2	84.6%	84.6%	15.1%	43.8%	0.8	7.6	3.0
TNG	HNX	46.0	56.7%	56.7%	7.5%	25.3%	1.6	5.1	1.3
TVT	HOSE	32.7	10.8%	10.8%	6.1%	13.4%	0.8	7.8	1.1
GMC	HOSE	28.7	103.3%	103.3%	12.6%	34.5%	0.9	5.5	1.7
HTG	UPCOM	22.8	20.5%	20.5%	4.9%	21.8%	2.1	5.5	1.3
Average		62.7	49.3%	49.3%	9.4%	28.0%	1.1	6.3	1.7
Median		39.3	38.6%	38.6%	8.8%	27.2%	0.9	5.9	1.5
TCM	HOSE	64.7	35.1%	35.1%	8.2%	22.1%	1.0	5.9	1.2

Source: VNDIRECT

Valuation



Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	3,662	3,728	4,081
Cost of sales	(2,983)	(3,021)	(3,304)
Gen & admin expenses	(230)	(194)	(188)
Selling expenses	(144)	(149)	(163)
Operating profit	305	364	426
Operating EBITDA	410	481	552
Depreciation and amortisation	(105)	(117)	(126)
Operating EBIT	305	364	426
Interest income	32	44	51
Financial expense	(89)	(93)	(105)
Net other income	48	0	0
Income from associates & JVs	28	5	5
Pre-tax profit	323	320	377
Tax expense	(63)	(64)	(77)
Minority interest	0	0	0
Net profit	260	256	301
Adj. net profit to ordinary	221	217	255
Ordinary dividends	(26)	(27)	(54)
Retained earnings	234	229	246

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	216	489	656
Short term investments	203	203	203
Accounts receivables	280	318	358
Inventories	1,138	1,067	1,169
Other current assets	100	86	87
Total current assets	1,937	2,163	2,472
Fixed assets	1,107	1,050	1,274
Total investments	67	67	67
Other long-term assets	141	141	141
Total assets	3,252	3,421	3,954
Short-term debt	1,008	1,121	1,223
Accounts payable	300	302	357
Other current liabilities	398	344	418
Total current liabilities	1,705	1,767	1,998
Total long-term debt	222	197	360
Other liabilities	48	48	48
Share capital	542	542	542
Retained earnings reserve	406	540	678
Shareholders' equity	1,268	1,401	1,540
Minority interest	9	9	9
Total liabilities & equity	3,252	3,421	3,954

Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	323	320	377
Depreciation & amortisation	105	117	126
Tax paid	(66)	(64)	(77)
Other adjustments	(10)	(27)	(56)
Change in working capital	(266)	(11)	(64)
Cash flow from operations	86	334	306
Capex	(66)	(60)	(350)
Proceeds from assets sales	104	0	0
Others	42	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	79	(60)	(350)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(10)	25	265
Other financing cash flow	(43)	0	0
Dividends paid	(26)	(27)	(54)
Cash flow from financing activities	(80)	(2)	211
Cash and equivalents at beginning of period	130	216	489
Total cash generated	86	273	167
Cash and equivalents at the end of period	216	489	656

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	7.1%	6.9%	7.4%
Asset turnover	1.16	1.12	1.11
ROAA	8.3%	7.7%	8.2%
Avg assets/avg equity	2.70	2.50	2.51
ROAE	22.3%	19.2%	20.4%
Efficiency			
Days account receivable	33.1	41.1	41.2
Days inventory	139	129	129
Days creditor	36.7	36.5	39.5
Fixed asset turnover	3.20	3.46	3.51
ROIC	10.4%	9.4%	9.6%
Liquidity			
Current ratio	1.14	1.22	1.24
Quick ratio	0.47	0.62	0.65
Cash ratio	0.25	0.39	0.43
Cash cycle	136	134	131
Growth rate (yoy)			
Revenue growth	14.1%	1.8%	9.5%
Operating profit growth	25.4%	19.3%	17.2%
Net profit growth	34.6%	(1.8%)	17.6%
EPS growth	28.0%	(1.8%)	17.6%
Share value			
Basic EPS (VND)	4,802	4,715	5,545
BVPS (VND)	23,379	25,843	28,391

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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