

## Sector note

24 Feb 2022

## Textile & Garment (T&G)

### Selectively picking up

- 4Q21 aggregated earnings of listed T&G companies soared 53.0% yoy, bringing FY21 earning to grow 57.4% yoy.
- We expect Vietnam yarn producers are the biggest beneficiaries of US-China trade tension.
- Our top picks are STK and MSH.

### Earnings growth to recover in 4Q21

Vietnam's T&G export turnover grew 7.9% yoy and 14.4% qoq in 4Q21 thanks to the resumption of factories in the Southern after 3-month lockdown in 3Q21. Based on our estimates, 4Q21 aggregated revenue of listed T&G companies increased 24.1% yoy, while sector net profit soared 57.4% yoy in 4Q21, higher than that of 82.0% vs. 3Q21. Top companies to record strongest FY21 earnings growth include: ADS (+303.2% yoy), VGT (+161.4% yoy), and STK (+92.9% yoy).

### Yarn producers are the biggest beneficiaries of US-China trade tension

According to Reuters, on 23-Dec-2021, US President Joe Biden signed a new law banning the import of cotton material made in Xinjiang (China), which accounts for 11% of US imported textile and garment. We expect Vietnam cotton yarn producers such as VGT, ADS might fill the gap left by Xinjiang producers. We also believe STK is one of biggest beneficiaries amid the growing demand of prefer eco-friendly materials.

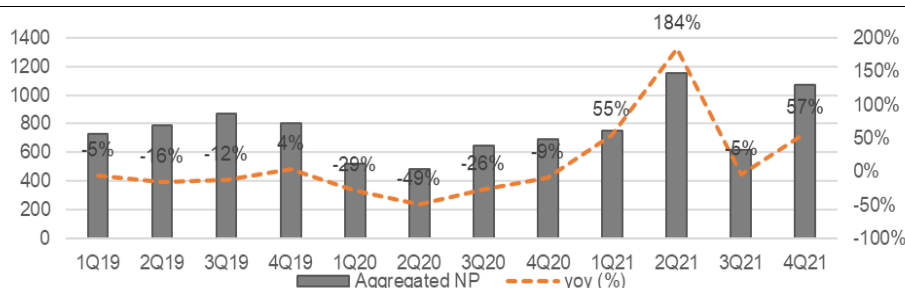
### We expect earnings growth of garment companies to slow down in 2022F

According to World Bank, cotton prices are expected to rise by 15% in 2022 due to poor harvest in the US and India. The US Department of Agriculture forecast US cotton production to reach 17.6m bales (-3.2% yoy) in 2022F, while the India's cotton volume in FY21-22F is forecasted to decline 4% yoy as crops in the producing states are damaged by rain during the harvest season. We think that high cotton price will hurt gross margin of garment companies which use cotton yarns for production process such as MSH, TNG, TCM. As a result, we forecast garment companies' earnings growth to decelerate to 20-25% in FY22F from 40% in FY21.

### Selectively picking up

Most of T&G's stocks had an impressive performance with about 48% - 291% rally in market prices. Despite the solid outlook of textile sector in 2022, we believe investors should pick up selectively as most of T&G stocks are close to fair value. We prefer T&G companies that have ability to expand capacity in order to capture longer-term growth of the sector. Our stock picks are STK (ADD, TP VND72,600) and MSH (ADD, TP VND100,100). We believe STK will become Vietnam's second-largest yarn production while SH10 factory is the key revenue driver of MSH in FY22-23F.

Figure 1: Quarterly aggregated net profit of listed T&G companies (Unit: VNDbn)



SOURCES: Fiiipro, VND RESEARCH

## Analyst(s):



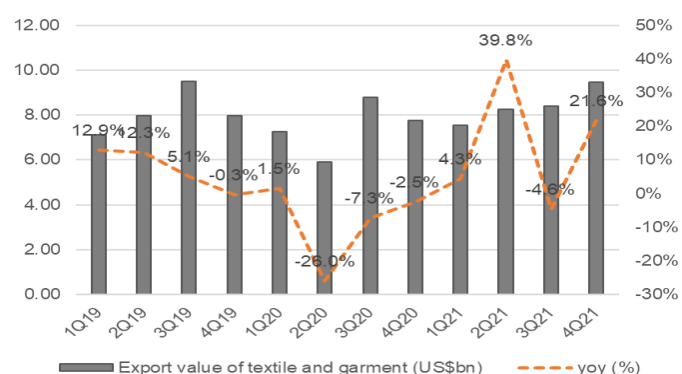
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## VIETNAM TEXTILE & GARMENT SNAPSHOT IN 2021

### Vietnam's textile and garments (T&G) export value

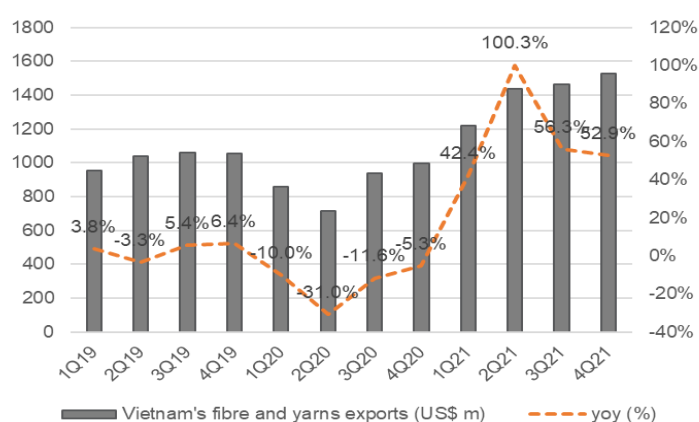
The garment and textile export turnover in 4Q21 showed a strong recovery after 3 months lockdown at the North side. Fabrics and garment export value in 4Q21 increased 21.6% yoy to US\$9.5bn. In which fabric exports reached US\$758m, accounting for 1.9% of the total T&G export turnover (+27.7% yoy). Overall, the total export T&G value in 2021 increased by 10.8% yoy, to US\$39.0bn, fulfilling 100% of the Vietnam government's guidance for 2021.



Sources: MOIT, VNDIRECT RESEARCH

### Vietnam's fiber and yarn export value

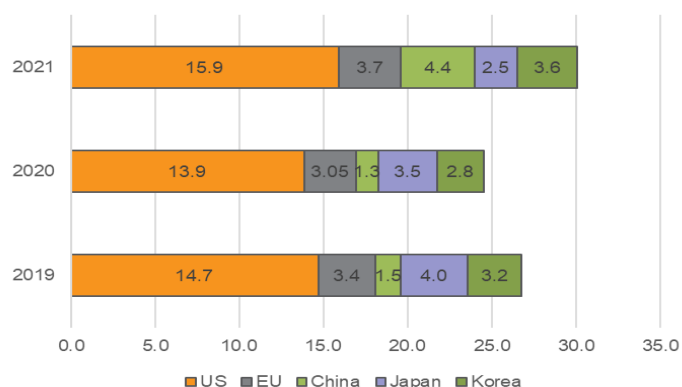
Yarn export value continued to maintain a positive growth momentum in 4Q21. The epidemic has led to an increased demand for global yarn consumption to meet orders for personal protective equipment such as masks. Additionally, Vietnam takes advantage from shifting yarns order from China due to US-China trade war. As a result, yarn and fiber export turnover climbed 52.9% yoy growth to US\$1.5bn. Overall, Vietnam surpassed South Korea to become the sixth largest fiber and yarn exporter in the world with a total yarn export value of US\$5.6bn in 2021 (+50.8% yoy).



Sources: MOIT, VNDIRECT RESEARCH

### T&G export destination in 2021

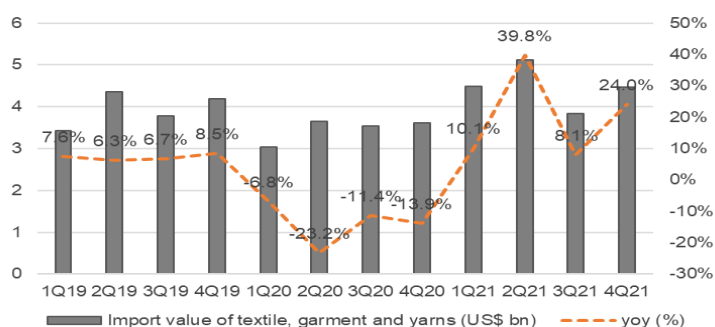
According to (GDVC), regarding the export mix by geographic regions in 2021, The US remained the largest importer of Vietnam T&G products with an import value of US\$15.9bn (+14.3% yoy, accounting for 40.7% of Vietnam's textile and garment exporting value). 2021 exporting to EU and China markets reached US\$3.7bn and US\$4.4bn, increasing 23.3% yoy and 238.4% yoy, respectively. Whereas, exporting to Japan markets declined 28.5% yoy, to US\$2.5bn in 2021.



Sources: GDVC, VNDIRECT RESEARCH

### Vietnam's yarn, textile and garment import value

According to MOIT, the total import value of T&G in 4Q21 reached US\$4.4bn (+24.0% yoy) thanks to the low base in 4Q20 (most T&G companies affected by Covid-19 in 2020). China is still the main import market of Vietnam, accounting for 52.0% T&G import value. We expect Vietnam's T&G import turnover to maintain the growth momentum in 2022F as traditional orders will rebound in 2022F thanks to the strong recover from the Vietnam's main export markets.



Sources: MOIT, VNDIRECT RESEARCH

## TEXTILE & GARMENT: SECTECTIVELY PICKING UP

### Robust 4Q21 earnings growth to bring a successful FY21

Based on our estimate, 4Q21 aggregated revenue of listed T&G companies increased 24.1% yoy thanks to the recovery from Southern garment companies. After lockdown, most of Southern garment companies ran at 85%-90% capacity in 4Q21 (vs. 50-60% capacity in 3Q21). Thus, sector net profit soared 57.4% yoy in 4Q21 and higher 82.0% vs. 3Q21.

### FY21 earnings to recovery from the trough FY20

For 2021, aggregated revenue of listed T&G companies increased slightly 7.6% yoy, while FY21 net profit surged 57.4% yoy and +6.0% higher than FY19 (pre-pandemic). Top companies to record strongest FY21 earnings growth include: ADS (+303.2% yoy), VGT (+161.4% yoy), and STK (+92.9% yoy).

Yarn manufacturers had an impressive performance in FY21 thanks to 1) rising global yarns price due to cotton supply shortage; 2) less affect from Covid-19 compare to garment companies due to lower labor intensive.

The North garment companies such as MSH, TNG also showed a strong earnings growth in FY21 with 90.8% yoy and 51.6% yoy, respectively thanks to 1) low base in 2020, 2) improve product mix (rise FOB orders), and 3) taking advantage from shifting orders from Southern T&G companies in 3Q21.

On the other hand, the South garment companies posted lower earnings growth as garment factories only operated 50-60% capacity during social distancing period and transport restriction in 3Q21 and Oct-21. In which, TCM and VGG record negative earnings growth in 2021 (with -48.1% yoy/-41% yoy, respectively).

Figure 6: 2021 earnings recap of T&G companies

Ticker	4Q20 revenue	4Q21 revenue	Change (%yoy)	FY20 revenue	FY21 revenue	Change (%yoy)	4Q20 NP	4Q21 NP	Change (%yoy)	FY20 NP	FY21 NP	Change (%yoy)	% vs. FY19
VGT (*)	3,637	4,981	37.0%	13,909	16,094	15.7%	79	288	263.6%	328	857	161.4%	164.9%
MSH	844	1,299	54.0%	3,813	4,748	24.5%	66	107	61.6%	232	442	90.8%	98.3%
PPH (*)	532	480	-9.7%	2,099	1,652	-21.3%	46	101	120.9%	281	398	41.9%	189.7%
GIL	911	1,399	53.5%	3,457	4,150	20.1%	118	125	5.9%	309	329	6.7%	205.2%
STK (*)	569	497	-12.7%	1,766	2,042	15.7%	68	75	9.9%	144	278	92.9%	129.9%
TNG	955	1,363	42.8%	4,480	5,444	21.5%	23	63	173.9%	154	233	51.6%	101.2%
TCM	752	829	10.1%	3,470	3,535	1.9%	75	24	-67.5%	275	143	-48.2%	66.1%
ADS (*)	460	482	4.7%	1,339	1,513	13.0%	22	21	-3.1%	21	85	303.2%	1081.7%
VGG	1,951	1,619	-17.0%	7,121	6,009	-15.6%	75	45	-39.5%	142	84	-41.0%	20.7%
M10	665	1,038	56.0%	3,447	3,468	0.6%	24	26	8.5%	66	76	15.1%	111.7%
HSM	384	459	19.3%	1,325	1,657	25.0%	-5	34	na	5	62	1111.9%	na

(\*): yarn company

Source: Fiinpro, VNDIRECT RESEARCH

### We see gross margin improvement of yarn manufacturer in FY21

We see gross margin improvement in yarn manufacturers. To be specified:

- STK's gross margin inched up 3.9% pts yoy to 18.3% in FY21 thanks to 1) larger contribution with higher-margin recycled yarn (50% of FY21 revenue vs 45% of FY20).
- VGT's GM in FY21 widened 4.6% pts yoy on the back of the larger contribution from yarn which delivered a higher margin.
- Whereas, ADS and PPH 's GM in 2021 increased 6.9% pts/6.0% pts yoy as yarn price in 2021 soared +25% yoy due to the depletion of yarn inventories in China and other textile producing countries, along with the US ban on imports of products derived from Xinjiang cotton.

Whereas, most of garment companies reduced GM in FY21. In which, GM of TCM and M10 softened 3.3% pts yoy and 1.8% yoy in FY21 due to 1) increasing "3-on-site" and Covid-19 test cost for labour in 3Q21, and 2) high input material.

**Figure 7: GM's yarn companies showed an improvement in FY21**

	4Q20 Gross profit	4Q21 gross profit	Change GM (% pts)	FY20 gross profit	FY21 gross profit	Change GM (% pts)
VGT (*)	367	758	5.1%	1,280	2,225	4.6%
MSH	204	247	-5.2%	751	931	-0.1%
TNG	139	213	1.0%	676	774	-0.9%
GIL	211	244	-5.7%	636	754	-0.2%
VGG	243	169	-2.0%	671	523	-0.7%
TCM	143	120	-4.6%	620	514	-3.3%
M10	125	126	-6.6%	469	409	-1.8%
STK (*)	100	75	-2.4%	255	374	3.9%
PPH (*)	57	92	8.5%	240	289	6.0%
HSM	29	35	-0.05%	116	221	4.6%
ADS (*)	21	56	7.1%	63	176	6.9%

(\*) yarn company

Source: Fiinpro, VNDIRECT RESEARCH

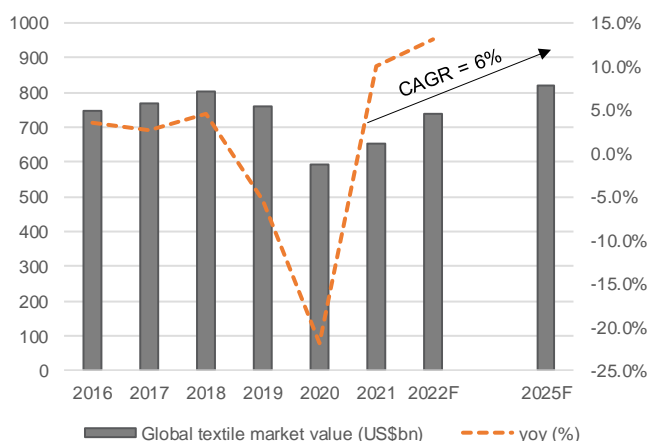
### Bright prospects for yarn manufacturers in 2022F

#### T&G industry will ride on the demand surge in US and the EU markets

Whereas, according to the European Apparel and Textile Federation (Euratex), the EU textile and apparel industry continued to recover from COVID-19. For example, the value of textile output has already reached its pre-pandemic level by the end of Nov-2021. We expect that the outlook of the Vietnam T&G industry in 2022 followed by the recovery of the US and EU market.

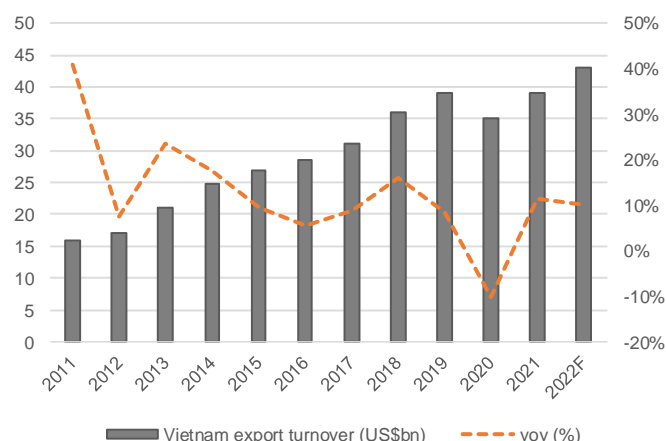
Additionally, large T&G companies such as M10, STK, TCM has enough orders until 2Q22F or 3Q22F. The International Monetary Fund (IMF) and the World Bank (W.B.) forecast global GDP growth to achieve 4.9% in 2022F, and world textile demand in 2022F will return to 2019 levels, reaching about US\$740bn. We believe that Vietnam T&G export turnover could fulfill the government's guidance in FY22F (US\$43bn, +10.2% yoy).

**Figure 8: The global T&G demand is expected to reach US\$821.87bn in 2025 at a CAGR of 6%**



Source: Grandviewresearch, VNDIRECT RESEARCH

**Figure 9: Vietnam export turnover is expected to achieve US\$43bn (+10.2% yoy)**



Source: VITAS, VNDIRECT RESEARCH



### Fabric and yarns production companies take advantage of the US-China tension

According to Reuters, on 23-Dec-2021, US President Joe Biden signed a new law banning the import of cotton material made in the Xinjiang (China) after current tension between China and the US.

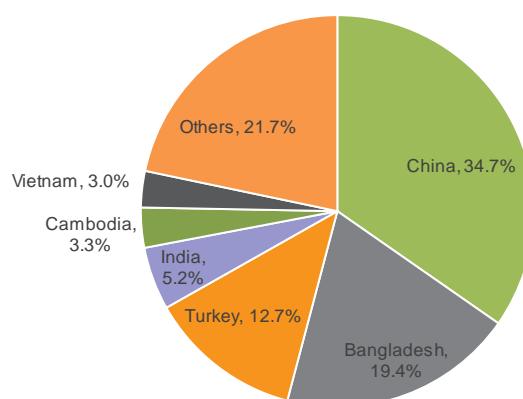
US. Customs and Border Protection estimates that about US\$9bn in cotton products were imported to the US from China in 2021. We believe that large cotton yarn manufactures such as **VGT, ADS, PPH** takes benefits from the refusal of the US to buy cotton from China when they tend to switch to buy fabric and yarns from Vietnam. Same as in Europe in March-21, after a series of major international fashion brands such as Nike, H&M, Uniqlo, Zara... announced to stop using cotton material from Xinjiang (China), China's market share of fabric and yarn exports to Europe has decreased from 52.4% in 2020 to 44.7% to 2021. Whereas, as EU's sixth-largest extra-region T&G supplier in 2021 (accounting for 3% in value), we expect Vietnam will clearly take advantage from EU market from 2022F.

**Figure 10: China's market share of fabric and yarn exports to Europe has decreased from 52.4% in 2020 to 44.7% to 2021**

Source of import	2019	2020	2021
China	37.30%	52.40%	44.70%
Turkey	16.40%	11.90%	17.90%
India	9.10%	6.00%	8.80%
Pakistan	9.00%	6.30%	8.40%
The U.S.	4.00%	2.70%	2.90%

Source: Eurosta, VNDIRECT RESEARCH

**Figure 11: Vietnam was EU's sixth-largest extra-region T&G supplier in 2021**



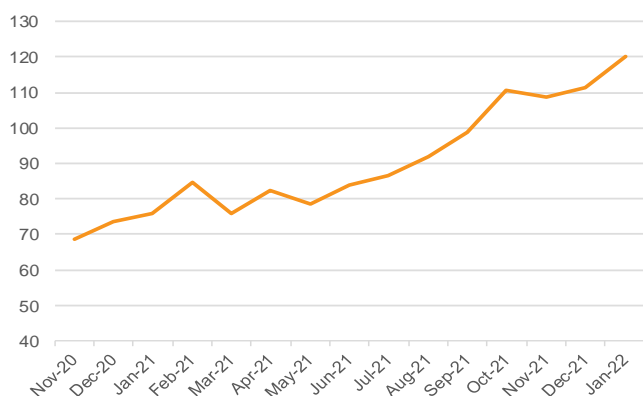
Source: Eurosta, VNDIRECT RESEARCH

Currently, VGT's yarn sales accounted for 50% of gross profit in FY21. Whereas, we forecast yarn revenue from the US market to account for 10% and 20% export revenue of ADS and PPH, respectively. Additionally, the US-China tension could positively impact **STK** in the long term when the large brand fashion tends to use eco-friendly material, in our view. We forecast STK's recycled yarn volume in FY22/FY23F to increase 25.9%/15.8% yoy, respectively.

### We think that increasing input material prices to weigh on garment companies in FY22F

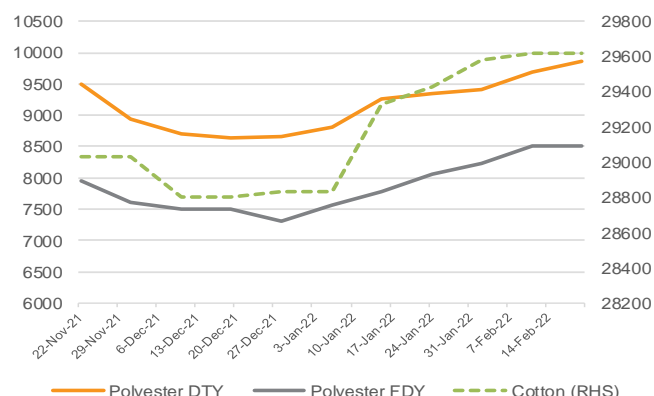
Cotton prices hit a 10-year high in September 2021, reflecting a gradual improvement in the global consumption outlook. According to Trading Economic, cotton prices are expected to reach US\$107.4/pound (+15% yoy) in 2022 due to poor harvest in US and India. The US Department of Agriculture forecast US cotton production to reach 17.6m bales (-3.2% yoy), while the India's cotton volume in FY21-22 is forecasted to decline 4.0% yoy as crops in the main producing states are damaged by rain during the harvest season. We think that high cotton price will hurt the GM of garment companies which use cotton yarns for production process such as MSH, TNG, TCM. We forecast GM's garment company to edge down 1% pts - 1.3% pts yoy in FY22F.

**Figure 12: Cotton price is expected to increase 5% yoy in 2022F (unit US\$/pound)**



Source: Bloomberg, VNDIRECT RESEARCH

**Figure 13: Cotton yarn increased 2.7% ytd in 2022F (unit: RMB/tons)**



Source: Sunsir, VNDIRECT RESEARCH

### We expect industrial property leasing will be the key revenue driver growth for some T&G companies in 2022F

Textile enterprises such as GIL, ADS, TCM, TNG have expanded the business into real estate and industrial park. We expect the new business segment to support T&G enterprises maintain earning growth in the 2022-25F.

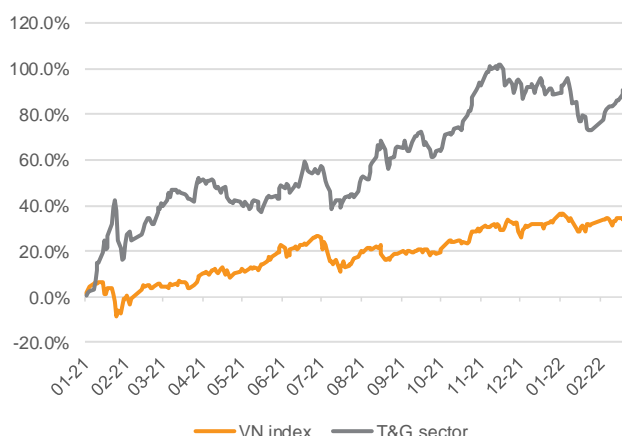
**Figure 14: Real estate projects of T&G companies in 2022-25F**

Company	Projects	Investment (VNDbn)	Area (ha)	Time of revenue recognition
TNG	Son Cam 1 IP	1177	75	2021-22
	TNG Village 1	180	0.3	2022-23
	Expanded Son Cam Industrial Cluster	500	30	2022-23
	Nui Coc Escape	6800	206	na
ADS	Phu Xuan urban area	731	10,5	2021-22
	Quang Trung townhouse	144	0,7	2021-22
	An Ninh IP	445	75	2022-24
	Vu Ninh	410	70	2023-25
GIL	Phu Bai 4 IP	2,614	460	2023-25
	Gilimex Quang Ngai IP	na	730	2023-25
	Gilimex Vinh Ling IP	na	na	na
TCM	TC Tower	1400	0.9	na
	TC 2	na	na	na
	TC 3	na	na	na

Source: VNDIRECT RESEARCH, Company reports

### Our top picks are STK and MSH

T&G stocks increased by +111% from Jan 21 to Feb 22, 77% higher than VN-Index thanks to positive business results in FY21 priced in. The best performing stocks include VGT (+153%); MSH (+126%); STK (+178%); TNG (+116%); and ADS (+291%). We think that most of T&G's stocks prices are currently close to their fair value, and investor should be selective, focus on leading enterprises which has plan to expand factory capacity in FY22-25F.

**Figure 15: The movement of T&G stocks price compared to VN index in 2021-2022**


Source: Fiinpro, VNDIRECT RESEARCH

**Figure 16: The growth of T&G stock price from 01 Jan 2021**

Company name	Ticker	Growth (01/01/2021 to 22/02/2022)
Vietnam National Textile & Garment Group	VGT VN	153.4%
Century Synthetic Fiber Corp	STK VN	178.0%
Song Hong Garment JSC	MSH VN	126.4%
TNG Investment & Trading JSC	TNG VN	116.3%
Damsan JSC	ADS VN	291.3%
Thanh Cong Textile Garment Investment Trading JSC	TCM VN	48.6%
Binh Thanh Garment JSC	GIL VN	129.2%
Phong Phu Corp	PPH VN	111.8%

Source: Bloomberg, VNDIRECT RESEARCH

We favor STK and MSH as their growth potential from Unitex and SH10 projects. We believe STK will become Vietnam's second-largest yarns production while SH10 factory is the key revenue driver of MSH in FY22-23F.

**We like Century Synthetic Fiber Corp (STK VN, ADD, TP: VND72,600) for:**

- We expect Unitex factory phase 1 to operate commercially in 1Q23. The total sale volume in FY23F is expected to reach 76,800 tons/year to capture the growing demand for recycled and virgin yarn.
- We expect STK to expand its market share in the domestic market thanks to the preliminary anti-dumping tax on imported yarns from China, India, Malaysia and Indonesia.
- STK earning is expected to reach 37.0% CAGR over FY21-23F.

**Song Hong Garment JSC (MSH VN, ADD, TP: VND100,100).** We expect MSH to remain the positive outlook in FY22-23F. MSH has resolved bad debt from New York & Company with the recovered value of VND80bn. Currently, MSH has full orders until Jun-22 due to the rebound of orders from US customers. Moreover, we expect the SH10 factory to help FOB revenue grow 15%/20% yoy in FY22/23F.

### Investment risk

Variant Covid-19 (Omicron) has spread to 50 countries and territories around the world. According to World Health Organization (WHO), people who have been infected with COVID-19 are likely to be re-infected with the Omicron variant. The worsening of the new variant outbreak in Vietnam's main export markets may hit T&G companies' performance directly. We expect that countries need to accelerate vaccination programs for people to limit the spread of disease. Additionally, we think that the shortage of empty containers and high logistics costs in 2022F may affect businesses with Original Design Manufacturing (ODM) and Original Brand Manufacturing (OBM) orders.

**Figure 17: Peer comparison**

Company	Ticker	Market Cap		P/E		3 year CAGR growth		P/BV (x)		EV/EBITDA		ROE (%)		ROA (%)	
		US\$m	TTM	2022		CAGR	TTM	2022	TTM	2022	TTM	2022	TTM	2022	TTM
Vietnam National Textile & Garment Group	VGT VN	827.1	44.9	na		-4.3	na	na	19.3	na	3.9	na	1.5	na	
Thanh Cong Textile Garment Investment Trading	TCM VN	250	34.9	26.3		13.8	2.8	2.6	17.4	13.9	10.2	14.225	6.2	8.0	
TNG Investment & Trading JSC	TNG VN	219.9	14.3	14.6		17.6	2.0	na	na	na	15.6	14.0	4.8	4.4	
Song Hong Garment JSC	MSH VN	195.7	11.8	11.9		-13.8	3.0	2.5	9.4	6.3	24.4	32.4	11.5	15.8	
Century Synthetic Fiber Corp	STK VN	182.1	15.9	18.6		21.1	3.6	2.8	10.0	8.8	24.8	21.9	14.9	14.3	
NHA BE Garment Corp-JSC	MNB VN	72.3	12.3	na		5.1	na	na	8.2	na	11.5	na	1.5	na	
Viet Tien Garment Corp	VGG VN	47.8	20.6	10.9		-18.7	1.1	na	5.2	na	5.4	9.8	2.9	3.8	
Mirae JSC	KMR VN	30.4	55.9	na		-39.9	na	na	9.2	na	1.6	na	0.8	na	
<b>Average</b>			<b>26.3</b>	<b>16.5</b>		<b>-2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>11.2</b>	<b>9.7</b>	<b>12.2</b>	<b>18.5</b>	<b>5.5</b>	<b>9.3</b>	
<b>Median</b>			<b>18.3</b>	<b>14.6</b>		<b>0.4</b>	<b>2.8</b>	<b>2.6</b>	<b>9.4</b>	<b>8.8</b>	<b>10.8</b>	<b>14.2</b>	<b>3.9</b>	<b>8.0</b>	

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as in 24 February 2022)



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## RECOMMENDATION FRAMEWORK

### Stock Ratings

Definition:

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

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

### Sector Ratings

Definition:

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

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