

Thanh Cong Textile & Garment (TCM-HSX)

Growing without TPP in place

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- qoq	Q4-FY12	+/- yoy
Net Revenues	645.4	709.3	-9%	516.0	25%
NPAT	28.9	36.9	-22%	(19.6)	-247%
EBIT	40.1	51.0	-21%	(7.9)	-609%
EBIT margin (%)	6.2	7.2	-97bps	-1.5	774bps

Sources: TCM, RongViet Securities

- **Optimistic business results in FY2013, 10-15% of dividends expected**
- **Business still in the growth without TPP in place**
- **Long-term growth driver from the in-progress Vinh Long factory**
- **Substantial revenue and earning improvements seen for FY2014**

Outlook:

With respect to capacity and technology, TCM is the leading listed textile-garment company. The Company is advantaged by a closed-end production process and the support in term of capital and sales orders from its strategic shareholder, E-land. Also, the risk of cotton price volatility is now no longer as significant as it was in past periods. Now that TCM has been technologically prepared for the TPP, the Company could benefit from positive effects of the trade pact even though it is still on the negotiation table. In the long term, the construction of the new factory in Vinh Long from now to 2017 would be the key growth driver wherein the expansion of the sewing line capacity may give a boost to both revenue and earnings in 2014 and 2015.

In the expectation that the Company's efforts to the lift its production competence will start paying off as soon as 4Q2014, we revised out target price for TCM to VND33,100/share from VND18,900/share in the previous report (20/09/2013) and rate the stock as ACCUMULATE accordingly. This is explained partly by the fact that the major uptrend of the broad market since the last report has caused the average P/E ratio for the textile-garment industries to increase considerably, which in turn influenced the outcome of the comparable valuation method. More importantly, the long-term business outlook for TCM is now more definite and optimistic than before.

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014F	FY2015F
Net Revenue	2,283.5	2,554.4	2,895.5	3,385.2
% chg	4.0	11.9	13.4	16.9
NPAT	-20.2	123.5	171.0	207.7
% chg	-118.0	-712.7	38.5	21.4
EBIT margin (%)	-0.9	4.8	5.9	6.1
ROA (%)	-1.0	6.2	8.1	8.4
ROE (%)	-3.0	16.8	21.8	23.3
EPS (VND)	-452	2,516	3,476	4,221
Adjusted EPS (VND)	-176	2,516	3,476	4,221
Book value (VND)	13,926	14,956	16,932	19,347
Cash dividend (VND)	-	1,000	1,500	1,500
P/E (x)	-11.7	8.2	8.1*	6.7*
P/BV (x)	0.4	1.4	1.7*	1.5*

Sources: TCM, RongViet Securities, *based on market price as of 12/03/2014

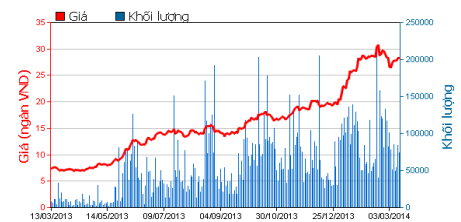
ACCUMULATE

Market price (VND)	28,300
Target price (VND)	33,100

Investment period	MEDIUM
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Stock Info

Sector	Personal goods
Market Cap (VND bn)	1,389.5
Current Shares O/S	499,099,501
Beta	1.8
Free float (%)	56.7
52 weeks High	31,200
52 weeks Low	6,182
Avg. Daily Volume (20 sessions)	914,217



Performance (%)

	3T	1N	3N
TCM	48	316	132
Textile Garment	27	79	n/a
VN30 Index	17	21	n/a
VN Index	16	24	19

Major Shareholders (%)

E-land Asia Holdings Pte., Ltd Singapore	43.3
Foreigner investor Room (%)	0

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Exhibit 1: 4QFY2013 (Unit: billion VND)

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)
Net Revenues	645.4	709.3	-9.0%	516.0	25.1%
Gross profits	79.1	96.4	-17.9%	29.7	166.1%
SG&AC	48.8	43.0	13.5%	40.0	22.0%
Operating Income	30.5	37.5	-18.7%	-22.1	n/a
EBITDA	96.2	93.0	3.5%	46.7	106.1%
EBIT	40.1	51.0	-21.3%	-7.9	n/a
Financial expenses	4.3	19.7	-78.1%	16.5	-73.7%
- Interest Expenses	8.5	11.0	-23.4%	13.6	-38.0%
Dep. and amortization	-56.1	-42.0	33.5%	-54.6	2.8%
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	31.7	39.9	-20.7%	-21.5	n/a
NPAT	28.9	36.9	-21.7%	-19.6	n/a
(*) Adjusted NPAT					

Sources: RongViet Securities

Exhibit 2: 4QFY2013 performance analysis

Particulars	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	12.3	13.6	-133bps	5.8	650bps
EBITDA Margin	14.9	13.1	180bps	9.0	586bps
EBIT Margin	6.2	7.2	-97bps	-1.5	774bps
Net Margin	4.5	5.2	-72bps	-3.8	828bps
Adjusted Net Margin	4.4	5.0	-60bps	-3.9	829bps
Turnover *(x)					
-Inventories	3.9	4.0	-0.1	3.5	0.4
-Receivables	11.6	12.4	-0.8	9.6	2.0
-Payables	50.9	41.6	9.2	32.7	18.2
Leverage (%)					
Total Debt/ Equity	1.7	1.9	-0.2	2.1	-0.5

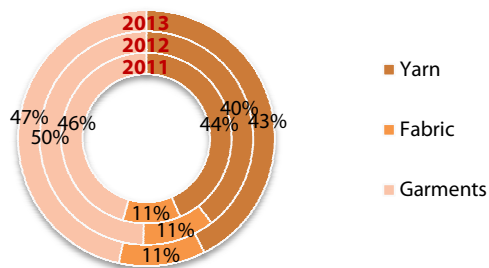
Sources: RongViet Securities

Optimistic business results in FY2013, 10-15% of dividends expected

2013 was a rather successful year for TCM when the Company recorded up a revenue growth rate of up to 12% and net income jumping to VND123 billion from as low as minus VND20 billion in FY2012. Such results were made possible by two main factors. On the one hand, the recovery of purchasing power in major export market, i.e. US, EU, Japan and Korea, in the later half of 2013 combined with large sales orders from E-land laid the groundwork for the revenue jump. On the other hand, after soaring to an abnormal height, world's cotton price reverted to a much tolerable level in 2013. During the year, TCM managed to free up its entire high-cost cotton inventory while at the same time adjusting the proportion of spot/forward cotton purchases from 20/80 to 70/30; and the result was drastically increased profit margins.

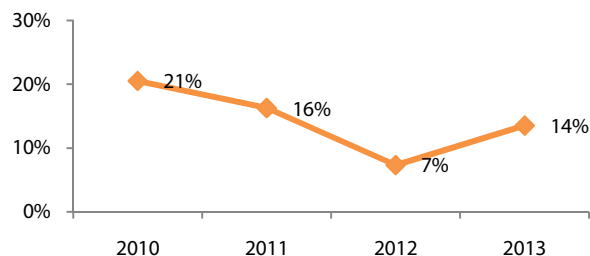
Under such positive results, TCM intends to pay 10-percent-on-par cash dividend for FY2013. Notwithstanding, given the Company's above-expectation earnings, it would be reasonable for shareholders to ask for a more lucrative payout rate.

Exhibit 3: Textile & garment revenue breakdown 2011-2013



Sources: TCM, RongViet Securities

Exhibit 4: Gross profit margin 2010-2013



Sources: TCM, RongViet Securities,

Business still in the growth without TPP in place

Aside from the benefiting factors as seen in 2013, this year, TCM is also advantaged by the fact purchasers in the US, Japan and Korea has started to rerout a large portion of their apparel orders to Vietnam in search of suppliers who can be applied zero import tax immediately after TPP comes into effect. By statistics of the Ministry of Industry and Commerce, Vietnam's exports of textile and garments in the first two months of 2014 rose up to 40% from the previous year, and for February, the growth rate was as high as 45%. As the only listed textile-garment producer to meet TPP's yarn-forward standard so far, TCM would be among the first destinations of overseas importers.

Even under effect of the Lunar New Year, revenue and profits both picked up considerably from a year earlier in the first two months of 2014, reaching ~VND400 billion and ~VND14 billion respectively. We expect the growth to become more significant from Q2 forward.

Long-term growth driver from the in-progress Vinh Long factory

TCM plans to establish a new knitting-sewing-dyeing complex in Hoa Phu Industrial Zone, Vinh Long, with total investment of up to USD30 million from now to 2017. By the original outline, the Company would first set up a 1,500-worker, 8-million-USD sewing line this year then double the capacity in 2015. The set-up may take up to 5 months to complete and construction may start in 2Q2014, right after the Company finishes with the paperwork. Now, TCM is doing evaluations on the environmental effects of the dyeing line as required by the Industrial Zone authority.

Separately, the expansion of the sewing line capacity in 2014 and 2015 may soon give a boost to TCM's apparel sales. While orders are still piling up, the Company's existing sewing line is already at full capacity. To ensure a proactive stance, the Company has subcontracted an 800-labor sewing factory, also its regular outsourcing partner, to cater its orders. Putting on top the capacity of the new sewing line (expected to start operating in Q4), TCM's apparel output may increase ~25% in 2014 and another 35% in 2015.

Exhibit 5: World's cotton price 02/2009-02/2014



Sources: www.indexmundi.com

Substantial revenue and earning improvements seen for FY2014

Based on the increased number of sales orders and elevated sewing capacity, 2014 revenue may grow 13,4% from 2013. On the other hand, assuming that world's cotton price would climb slightly 1-2% from the current level of USD90-92/pound (Exhibit 5), net income is forecasted at VND171 billion, up by 38% from the previous year and translated into a forward EPS of VND3,746/share.

Outlook

With respect to capacity and technology, TCM is the leading listed textile-garment company. The Company is advantaged by a closed-end production process and the support in term of capital and sales orders from its strategic shareholder, E-land. Also, the risk of cotton price volatility is now no longer as significant as it was in past periods. Now that TCM has been technologically prepared for the TPP, the Company could benefit from positive effects of the trade pact even though it is still on the negotiation table. In the long term, the construction of the new factory in Vinh Long from now to 2017 would be the key growth driver wherein the expansion of the sewing line capacity may give a boost to both revenue and earnings in 2014 and 2015.

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Exhibit 6: Key assumptions

Particulars	Previous estimates		Revised estimates	
	FY2014F	FY2015F	FY2014F	FY2015F
Revenue growth (%)	15	15	13	17
Gross margin (%)	15	15	14	15
EBIT margin (%)	8	8	8	8
Cotton price changes (%)	1.5	1.5	1.5	1.5

Sources: RongViet Securities

Exhibit 7: Estimate changes

Particulars	FY2014F			FY2015F		
	Previous estimates	Revised estimates	Change (%)	Previous estimates	Revised estimates	Change (%)
Net Interest income	2,926.3	2,895.5	-1%	3,365.3	3,385.2	1%
Non-Interest income	15.0%	14.4%	-56.6bps	15.0%	15.0%	-0.80bps
Operating encome	187.3	185.3	-1%	225.5	225.1	0%
Operating expense	251.7	232.6	-8%	279.3	282.4	1%
Pre-provision profits	90.0	68.1	-24%	112.9	78.3	-31%
Provision	183.1	184.9	1%	192.0	224.5	17%
PBT	166.4	171.0	3%	174.1	207.7	19%
Provision for Tax	381.8	303.0	-21%	428.8	362.3	-16%
NPAT	239.5	235.2	-2%	262.1	282.4	8%

Sources: RongViet Securities

Unit: billion VND

INCOME STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Revenue	2,283.5	2,554.4	2,895.5	3,385.2
COGS	2,116.1	2,208.9	2,477.5	2,877.7
Gross profit	167.4	345.5	417.9	507.5
Selling Expense	56.5	65.4	75.3	89.7
G&A Expense	86.6	98.9	110.0	135.4
Finance Income	12.5	12.8	12.6	12.5
Finance Expense	66.9	66.2	68.1	78.3
Other profits	5.1	3.0	3.0	3.7
PBT	-20.4	134.5	184.9	224.5
Prov. of Tax	-1.5	10.7	13.9	16.8
Minority's Interest	1.3	0.3	0.0	0.0
NPAT	-20.2	123.5	171.0	207.7
EBIT	37.4	178.8	235.2	282.4
EBITDA	92.0	234.9	303.0	362.3

Unit: %

FINANCIAL RATIO	FY2012	FY2013	FY2014E	FY2015F
Growth				
Revenue	4.0	11.9	13.4	16.9
Operating Income	-88.8	644.0	28.3	21.4
EBITDA	-61.6	155.4	29.0	19.6
EBIT	-79.8	377.8	31.5	20.1
PAT	-118.0	-712.7	38.5	21.4
Total Assets	-4.3	1.2	11.9	21.1
Equity	-13.8	18.1	13.2	14.3
Internal growth rate	-13.0	18.2	12.4	15.0
Profitability				
Gross profit/Revenue	7.3	13.5	14.4	15.0
Operating profit/ Revenue	1.1	7.1	8.0	8.3
EBITDA/ Revenue	4.0	9.2	10.5	10.7
EBITDA/ Revenue	1.6	7.0	8.1	8.3
Net margin	-0.9	4.8	5.9	6.1
ROAA	-1.0	6.2	8.1	8.4
ROIC or RONA	3.5	17.1	20.0	18.9
ROAE	-3.0	16.8	21.8	23.3
Efficiency				
Receivable Turnover	11.7	13.2	13.6	13.0
Inventory Turnover	3.3	3.6	3.8	3.8
Payable Turnover	7.0	7.8	7.9	7.8
Liquidity				
Current	1.0	1.0	1.2	1.3
Quick	0.3	0.4	0.4	0.5
Solvency				
Total Debt/Equity	213.2	169.4	166.4	182.6
Current Debt/Equity	107.2	89.8	69.5	64.0
Long-term Debt/ Equity	49.8	35.9	51.4	73.0

Unit: billion VND

BALANCE SHEET	FY2012	FY2013	FY2014E	FY2015F
Cash and equivalents	90.6	118.1	111.9	156.4
Short-term investment	0.0	1.6	0.0	0.0
Receivables	216.0	194.2	231.6	287.7
Inventories	610.2	612.7	693.7	805.8
Other current assets	35.8	33.5	26.8	21.4
Total Current Asset	952.6	960.1	1,064.0	1,271.4
Tangible Fixed Assets	568.5	575.1	711.9	975.6
Intangible Fixed Assets	83.1	98.0	96.8	95.4
Construction in Progress	13.3	11.6	11.1	11.6
Investment Property	118.9	118.7	116.1	116.1
Long-term Invest ment	130.9	132.9	132.9	132.9
Other long-term assets	98.5	92.7	92.7	92.7
Goodwill	0.0	0.0	0.0	0.0
Long-term Asset	1,013.2	1,029.1	1,161.5	1,424.4
Total Asset	1,965.8	1,989.3	2,225.5	2,695.8
Payables	242.6	221.0	272.5	316.5
Other current liabilities	81.1	63.9	69.5	81.2
Current Debt	667.6	660.9	579.1	609.3
Long-term Debt	310.2	264.4	428.4	694.5
Other long-term liabilities	34.9	36.9	36.9	36.2
Total Liability	1,336.4	1,247.1	1,386.5	1,737.9
Owner's Equity	623.0	735.9	833.1	951.9
Capital	447.4	492.0	492.0	492.0
Retained Earnings	55.9	169.8	267.0	400.9
Funds & Reverses	81.6	57.3	57.3	42.2
Others	0.0	0.0	0.0	0.0
Total Equity	623.0	735.9	833.1	951.9
Minority's Interest	6.4	6.4	5.9	6.1
TOTAL RESOURCES	1,965.8	1,989.3	2,225.5	2,695.8
LƯU CHUYỂN TIỀN TỆ	FY2012	FY2013	FY2014E	FY2015F
Pretax Income	-20.4	134.5	184.9	224.5
-Depreciation	54.6	56.1	67.8	79.9
-Adjustments	34.1	55.1	0.0	0.0
+/- Working capital	32.7	-64.0	-13.4	-61.7
Net Operating CF	100.9	181.6	239.3	242.6
+/- Fixed Asset	-24.8	-67.3	-200.1	-342.8
+/- Deposit, equity investment	-0.9	-1.7	0.0	0.0
Interest, dividend, cash profit received	2.1	2.5	14.0	14.3
Net Investing CF	-23.6	-66.5	-186.1	-328.6
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-14.2	-56.4	82.2	296.3
Dividend paid	-67.0	-31.2	-141.6	-165.9
Net Financing CF	-81.2	-87.6	-59.4	130.5
+/- cash & equivalents	-3.8	27.5	-6.2	44.5
Beginning cash & equivalents	94.5	90.6	118.1	111.9
Impact of exchange rate	-0.1	0.0	0.0	0.0
Ending cash & equivalents	90.6	118.1	111.9	156.4

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to -5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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