Consumer goods industry

First report

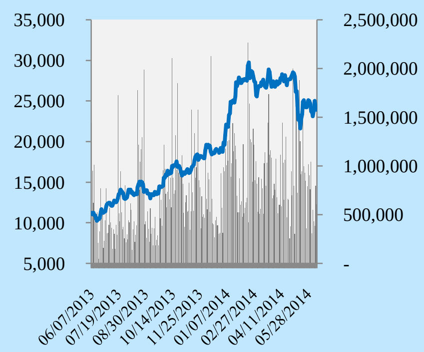
June 2014

Recommendation	**OUTPERFORM**
Target price (VND)	**30,300**
Market price (10/6/2014)	23,900
Expected profit	26.8%

SHARES INFORMATION

Trading exchange	HSX
52-week price range	10.200-29,, 0 VND
Market cap	VND1,174 billion
Outstanding shares	49,099,501
10-day average volume	678,322
% foreign owned	48.98%
Foreign room	49%
Dividend per share	1,000
Dividend yield	4.18%
Beta	1.24

PRICE MOVEMENTS



	YTD	1T	3T	6T
TCM	112.8%	3.0%	-13.4%	23.8%
VN-Index	7.4%	7.1%	-4.8%	10.9%

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THANH CONG TEXTILE GARMENT – INVESTMENT – TRADING JSC

Ticker: TCM Reuters: TCM.HM Bloomberg: TCM VN

FAVORABLE PROSPECT IN 2014 – GREAT OPPORTUNITIES UPON TPP NEGOTIATION COMPLETED

INVESTMENT FOCUS

- **Changing materials purchasing strategy to limit cotton price risks.** Cotton is currently accounting for 60% of TCM's cost of goods sold. Due to a sharp decline in cotton prices, TCM had to bear a great loss in 2012 due to its policy to use future contracts for material purchases. With its shift to use a more effective material purchasing strategy with 30% via future contracts and 70% via spot contracts, TCM can significantly restrict its materials price risk amid the stability of cotton prices.
- **Plan to invest for production expansion.** Currently, all factories of TCM are working at full capacity. Therefore, the Company is building 4 new factories including 2 garment factories, 1 knit factory and 1 deying factory during 2014-2017 with a total investment of $30 million. In our view, the expansion of production scale will be one driving force for its revenue growth in the future.
- **Gross profit margin will continue to improve**. TCM's gross profit margin will continue to increase thanks to its closed production line helping to increase its material self-supply and change input expense controlling policy and the growing number of Eland's orders with higher profit margin in TCM's total garment output. Its gross profit margin is expected to advance from 13.5% in 2013 to 15.7% in 2014.
- **1H/2014 net profit is expected to surge 46.8% yoy to reach VND84.7 billion**. As disclosed, in the first four months of 2014, TCM had revenue and net profit of VND862 billion and VND52.6 billion, respectively. Accordingly, its 1H/2014 net revenue and net profit are estimated at VND1,336 billion (+11.6% yoy) and VND84.7 billion (+46.8% yoy), respectively. FY2014's revenue and net profit are expected to reach VND2,566 billion (+0.4% yoy) and VND182 billion (+47% yoy) thanks to higher sales volume and gross profit margin.
- **Investment recommendation.** We rate **OUTPERFORM** on TCM share with a target price of VND30,300/share based on its favorable operating prospect in 2014 and great opportunity for making a breakthrough when TPP convention is successfully negotiated. Moreover, because its foreign ownership ratio is already full, so if the draft for increasing foreign ownership limit in listed companies is approved, TCM stock can attract great attentions from foreign investors. Investors should pay attention to extraordinary movements of cotton prices and the growing dependence of TCM on its major shareholder – E-land. However, we still think that TCM has good prospects and is deserved to be considered for value investment portfolio.

Norm	Unit	2011	2012	2013	2014F
Revenue	Bil VND	2,195	2,284	2,554	2,566
EBIT	Bil VND	185	37	179	234
EBITDA	Bil VND	239	92	235	299
Gross profit	Bil VND	113	(19)	124	182
EPS	VND	2,505	(451)	2,511	3,703
EPS growth	%	-45%	-118%	-	47%
P/E	x	3,0	-	7,9	6,8
P/B	x	0,5	0,4	1,3	1,8

OWNERSHIP INFORMATION

State owned	0%
Foreign owned	48.98%
Others	50.82%

MAJOR SHAREHOLDER

E-land Asia Holdings Pte., LTD Singapore	43.32 %

FORECASTED FINANCIAL RATIOS

Profit and loss statement

Unit (VND billion)	2011	2012	2013	2014F	2015F
Revenues	2.195	2.284	2.554	2.566	2.753
Cost of goods sold	1.837	2.116	2.209	2.163	2.300
Gross profit	357	167	346	403	453
Financial income	30	13	13	15	13
Financial expenses	138	67	66	60	55
Net income	112	(20)	124	182	220

Balance sheet

Unit (VND billion)	2011	2012	2013	2014F	2015F
Cash and cash equivalents	95	91	118	186	100
Accounts receivable – short-term	175	216	194	220	236
Inventories	690	610	613	612	724
Tangible fixed assets	703	678	697	820	755
Long-term investments	117	122	133	132	132
Total assets	**2.053**	**1.966**	**1.989**	**2.202**	**2.183**
Short-term loans	599	668	661	971	888
Long-term debt	394	310	264	392	329
Owners' equity	723	623	736	838	966
Total resources	**2.053**	**1.966**	**1.989**	**2.202**	**2.183**

Financial ratios

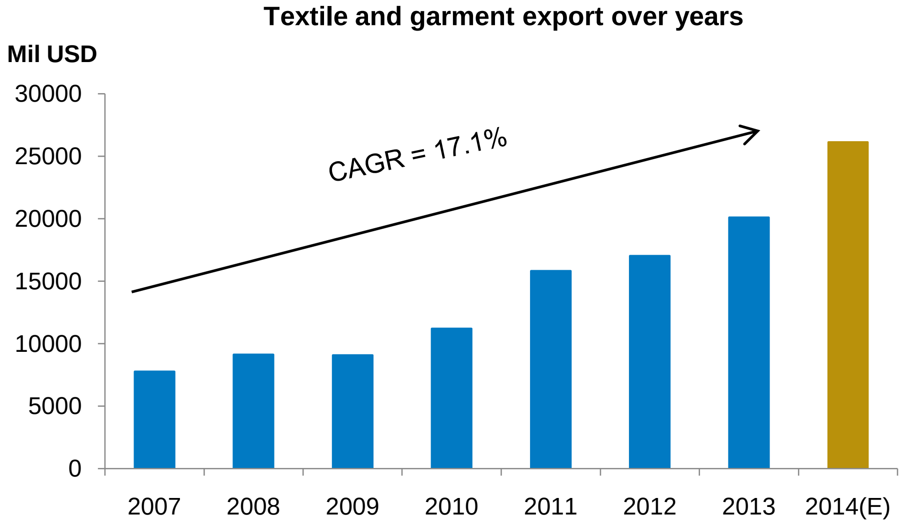
Items	2011	2012	2013	2014F	2015F
Growth					
Revenue growth (%)	16,0%	4,0%	11,9%	0,4%	7,3%
Net profit growth (%)	-43,8%	-118,0%	-	46,8%	21,0%
Yield					
Gross profit margin (%)	16,3%	7,3%	13,5%	15,7%	16,5%
Net profit margin (%)	5,1%	-0,9%	4,8%	7,1%	8,0%
ROA (%)	5,7%	-1,0%	6,2%	8,3%	10,0%
ROE (%)	16,0%	-3,0%	18,2%	21,7%	24,4%
Capital structure					
Total liabilities to total asset (%)	0,65	0,68	0,63	61,9%	55,8%
Total liabilities to owners' equity (%)	1,83	2,15	1,69	162,8%	126,0%
Per shares					
EPS (VND/share)	2.505	-	2.511	3.703	4.482
Book value (VND/share)	16.162	13.926	14.956	17.030	19.634

OVERVIEW OF VIETNAM TEXTILE AND GARMENT INDUSTRY

Strengths	Weaknesses
• High growth rate, expanded market share. • The government has preferential tax policies for companies investing into textile industry. • High proportion of population at working age, cheap labor cost. • Having advantage in knitting sector. • Its products can meet the strict requirements of large markets such as the US, EU and Japan.	• Low labor capacity, rather low export efficiency and profit margin. • Unable to hold the initiative of input materials due to low-developed supporting industries. • Rather low management and capital mobilizing capacity and financial independence. • Limited technological level. Its designing, marketing and brand building operations are undeveloped.
Opportunities	**Challenges**
• The trend of shifting orders from China to Vietnam. • Opportunities for expansion of export market when TPP negotiation is completed. • Domestic market still exists many potentials for exploration. • Having opportunities to improve its technological level and managing experience when textile and garment groups of developed countries invest into Vietnam.	• Growing competitive level among FDI enterprises investing into Vietnam and domestic enterprises. • Barriers about environment, technology and social responsibility from large markets. • Few domestic enterprises can meet the criterion "Yarn-Forward".

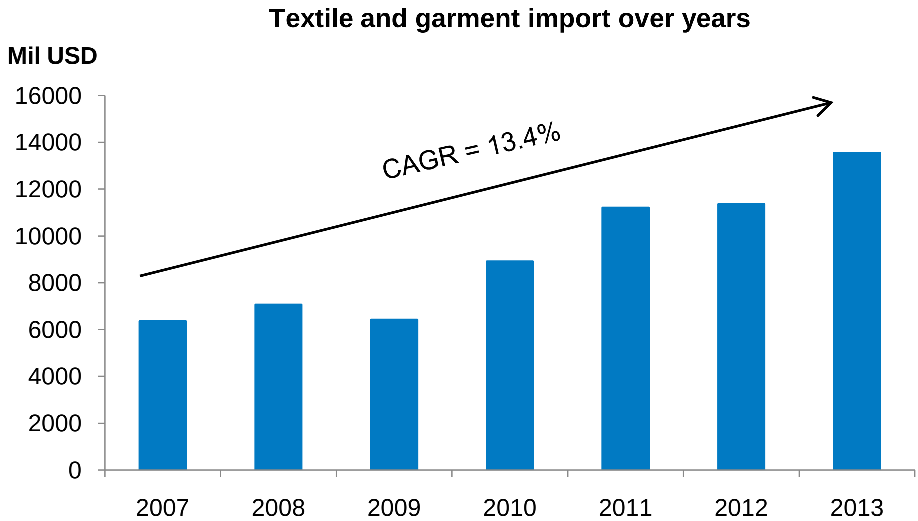
The textile industry still maintains a high growth rate. After 20 years of fast development, there are currently 6,000 companies operating in textile industry, using 2.5 million workers and accounting for 25% of the total number of industrial workers nationwide. With the above contributions, the textile industry has played a more and more important role in the economy's development.

In 2013, textile industry was among the 2 industries having the greatest export turnover (only after mobile phone) with an export value of USD20.1 billion, up ~18% yoy, accounting for ~15% of the total export turnover and contributing ~11% into our national GDP. Among which, garment export reached USD17.9 billion and fibre, yarn, textile and accessories export reached USD2.2 billion. The CAGR of the industry during 2007-2013 reached 17.1% per annum. FDI group has continuously had a higher garment export growth than the domestic group since 2007. Its export turnover reached USD10.7 billion versus a turnover of USD7.3 billion of domestic group and accounted for 59.4% of 2013's total export turnover. In 4 beginning months of 2014, the total export turnover of the textile industry reached ~ USD6 billion, up 21.3% yoy. With the favorable movements since the year beginning, the industry is expected to have a growth rate of 30% for FY2014.



(Source: General Department of Vietnam Custom)

In order to meet export demands, textile and garment import also grew continuously over years at a CAGR of 13.4% for the period 2007-2013. In 2013, textile and garment import value reached USD13.5 billion, up 19.2% yoy and accounting for 10.3% of our total import turnover. 62% of which, equivalent to USD8.3 billion was for fabric import and the remaining was for cotton and yarn import. Until the end of April 2014, our country imported ~ USD2.8 billion of fabric (+18.3% yoy), USD502 million of cotton (+29.8% yoy) and USD479 million of yarn (+3.6% yoy).



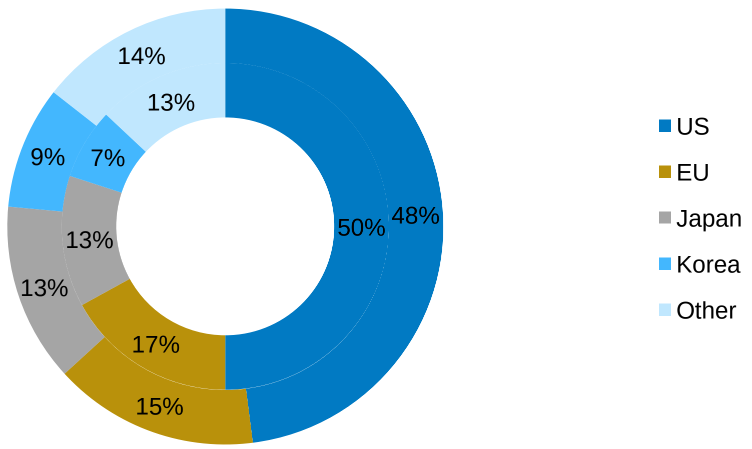
(Source: General Department of Vietnam Custom)

Expanded export markets. Despite the low growth rate of the global textile and garment market in 2013, expressed in the growth rate of 3.6% in US's import demand, 0.5% in EU's, 0.5% in Japan's and 9% in Korea's, Vietnam textile and garment still maintained its good growth rate. More specifically, our export to the US reached USD8.6 billion, up 14.2%; to EU reached USD2.7 billion, up 8.8%; to Japan reached

USD2.4 billion, up 20.5% and to Korea reached USD1.87 billion, up 44%. The continuous growth of our textile and garment export helped lift its market share from 3.3% in 2012 to 4% in 2013, enable our country to be ranked in the lisf of top 5 textile and garment export countries in the world.

The US and Japan continue to be 2 traditional markets accounting for large proportions in our textile and garment export market structure. The 2 countries are also 2 main participants in TPP negotiation. Therefore, we think Vietnam will have chance for market share expansion in these 2 markets upon TPP negotiation completed. Moreover, Vietnam textile and garment also has competitive advantage when China – one country accounting for the largest export market share in US – did not join TPP negotiation.

Structure of main textile and garment export markets, 2012 - 2013



(Source: Bloomberg)

Unsustainable comparative advantage, low export efficiency and incapability of holding the initiative of input materials. The competitive capacity of Vietnam textile and garment industry mainly comes from the cheap labour and electricity cost. These advantages are only short-term and unsustainable ones. Electricity price will be revised up gradually as scheduled and some demonstrations of workers in the recent time can lower our comparative advantage. Moreover, 90% of the input materials for garment and textile production is imported. Cotton price fluctuation and risks of transport time changes and accessories's quality changes during transportation will have direct influence on products' quality and enterprises' initiative in delivery time. The export efficiency of the textile and garment industry remains low, mainly via processing with 65% exported by CMT method, 30% by FOB method and only below 5% by ODM method. Therefore, its products' added value is still modest compared to its export turnover and its profit yield remains low at 5-10%.

Favorable growth potential upon TPP negotiation completed. The global textile and garment industry is expected to have a CAGR of 5% per annum. The trend of shifting orders from China to Vietnam will continue to be maintained thanks to our advantage of cheap labor. Therefore, domestic companies will have chance for revenue increase and export market expansion. Besides, if TPP negotiation is successfully completed, Vietnam can enjoy a great benefit from a preferential tax rate applied by other members of TPP convention. Especially, our export to the US market – the biggest market in TPP convention – will surge when its tariff declines from the average rate of 17% to 0%, resulted in a significant improvement in the profit margins of garment and textile companies. Moreover, TPP will help Vietnam attract more FDI cash flows into accessories production industry – one weak link in Vietnam garment and textile industry – to supply input materials for domestic companies and meet the criterion of "Yarn-Forward". Accordingly, we think Viet nam textile and garment still have many potentials for further development upon TPP negotiation completed. However, this is also one challenge for domestic textile and garment companies due to fierce competition from FDI companies.

THANH CONG TEXTILE GARMENT – INVESTMENT – TRADING JSC (TCM – HSX)

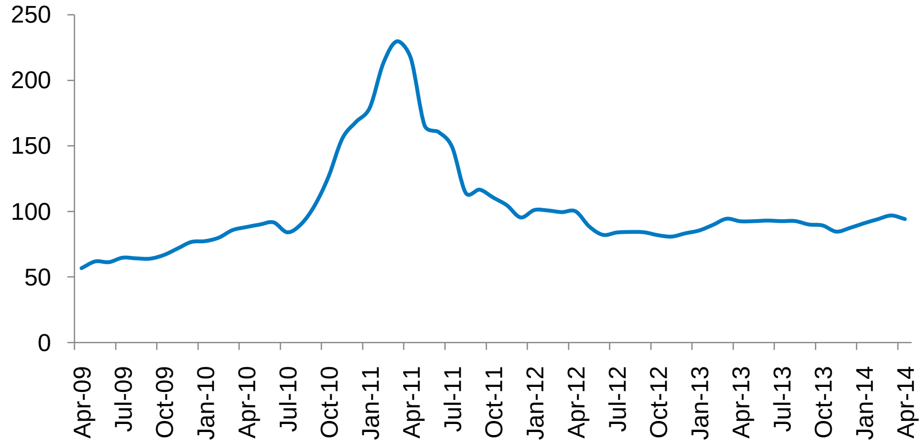
Among 8 textile and garment companies listed in 2 trading exchanges, TCM is the only one which has a closed production line, exports mostly to the US and can meet the criterion of "Yarn-forward" of TPP.

Ticker	NPAT (Bil VND)	MC (Bil VND)	Price	P/E*	P/B	ROE	ROA	NPM	GPM	Debt/ equity
TCM	124	1.188	24.200	9,63	1,48	19,8%	7,0%	5,2%	13,9%	125,7%
EVE	85	671	24.400	7,46	0,87	10,2%	8,5%	10,2%	35,2%	0,2%
GIL	66	331	24.000	9,47	1,01	20,5%	7,2%	6,0%	13,5%	101,2%
GMC	57	327	30.900	6,51	1,50	28,8%	9,4%	3,9%	14,0%	100,7%
KMR	20	203	5.900	8,47	0,40	5,0%	3,6%	6,4%	19,5%	22,8%
NPS	3	31	14.100	6,80	0,75	9,1%	4,3%	7,1%	21,9%	22,0%
TNG	25	180	13.400	3,61	0,77	11,6%	2,3%	2,0%	19,8%	298,2%
TET	4	96	15.500	13,55	1,30	3,9%	3,1%	5,1%	36,1%	0,0%

(Source: calculated by BVSC based on its FSs and its forward EPS)

Its change in materials purchasing strategy has helped limit cotton price risks. TCM imports cotton from the US (about 50-55% of its total materials demand) and some other countries then turns into yarn. A proportion of yarn will be used for export and the remaining will be made into fabric. About 20% of these fabrics will be sold to other peers in the same industry and the remaining 80% will be used for its own garment production. These garments, then, will be exported 90% and sold in domestic market 10%. Therefore, TCM can 100% hold the initiative of input materials from yarn, fabric and garment but must import 100% cotton from foreign countries. Cotton is currently accounting for 60% of TCM's cost of goods sold. In 2012, TCM applied a materials purchasing strategy with 70% via future contracts and 30% via spot contracts A sharp decline in cotton price in 2012 made TCM bear a great loss. Then it has shifted to use a more effective material purchasing strategy with 30% via future contracts and 70% via spot contracts, thus able to significantly restrict its materials price risk amid the stability of cotton prices.

Movements of cotton spot price in US market (USD cent/lb)



(Source: Indexmundi)

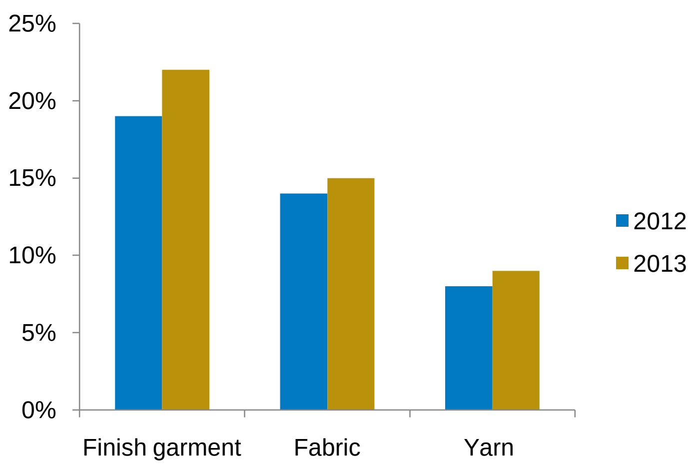
Plan to invest for production scale expansion for revenue increase. When most rivals in the same industry mostly operate in garment phase and must import fabric for their production, TCM has built a closed production line to hold the initiative of materials from yarn phase to garment phase with the capacities of its factories are as follows:

(Nguồn: TCM)

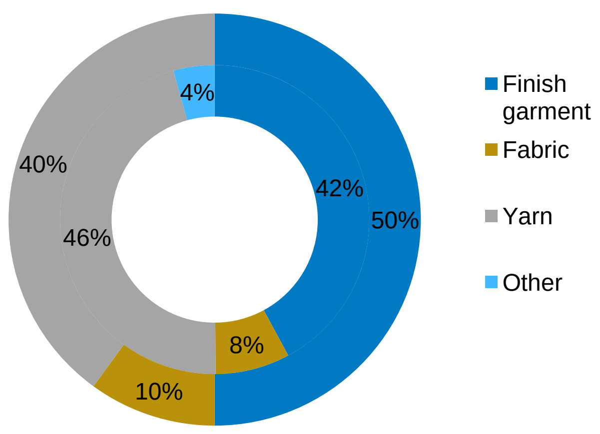
Currently, all TCM's factories are working at full capacity. Moreover, in 2013 TCM had to outsource 3 million products per annum to complete customers' orders. Therefore, the company is building 2 more garment factories to increase the revenue of this phase. The total investment for these 2 factories are USD7 million, with a design capacity of 6-8 million products per year, expected to go into operation at 2014-end and use ~1,500 workers. Moreover, to increase its dyeing capacity, TCM has purchased 10 new dyeing machines at the beginning of 2014. Later, TCM will build one more knitting factory (with a total investment of ~USD9-10 million) and one dyeing factory (with a total investment of ~USD13 million), expected to go into operation in 2016-end and 2017-end, respectively. We think this production scale expansion will be one driving force for its revenue growth in the future.

Revenue proportion of high profit margin products will likely increase. TCM reached a double digit revenue growth for the period from 2007-2013 at ~16%/year. 90% of this revenue comes from export and the remaining is from domestic consumption. The most contributor into its revenue is garments with a proportion of 50%, while yarn and fabric respectively account for 40% and 10%. Of which garment is the segment having the highest profit margin. It's expected that when its 2 new garment factories go into operation, its garment capacity will increase 20-30% more from the current capacity, resulted in a increase in profit margin of garment phase. Moreover, the growing number of Eland's orders with high profit margin in TCM's total garment output will have favorable influence on its future profit.

Gross profit margin of products, 2012 - 2013



Revenue proportion of core products during 2012 - 2013



(Source: TCM)

Support from its strategic partner, Eland. E-Land Asia Holdings Pte., Ltd (Singapore), directly under Eland Group (Korea), is one of the leading Korean fashion distributor and retailer in US, EU, Korea, China, India and Sri Lanka, etc. Its operating activities have had favorable changes since its strategic partner-Eland started to involve in its direct management since 2008. Eland has currently hold 43.3% stake in TCM. Eland's commitment on a long-term cooperation will bring in supports in capital, technology and management capacity and orders to TCM. However, this situation has also shown signs of a greater and greater dependence of TCM on its major shareholder.

Shareholder structure

(Source: TCM)

Attracting foreign investors' attentions when the draft for increasing foreign ownership limit is approved. Currently, TCM has nearly run out of room for more foreign ownership. Being in one industry enjoying the most benefit from TPP convention, TCM share can attract many attentions from foreign investors when the draft for increasing foreign ownership limit is approved.

2014's operating prospect

Q1/2014's profit surged. By Q1/2014-end, TCM recorded an impressive operating results with an increase of 35% yoy in gross profit and a decline in financial expenses (thanks to a shrink in interest expenses) to offset with an increase in selling and administrative expenses. Accordingly, its net profit climbed 37.3% yoy to reach VND37.3 billion. Its gross profit margin has also advanced to 14.4% from 12.5% in 2013 thanks to interest rate decline. Currently, TCM has fulfilled 23% of its FY profit plan.

Its core operations will likely be favorable thanks to a growing number of orders in the coming quarters. As mentioned, the trend of shifting orders from China to Vietnam will bring in many opportunities for further development of Vietnam textile and garment industry. Therefore, 2014 is regarded as one favorable year for TCM. As expected, the company will continue to receive more orders from major markets and also start to receive orders from other new markets. Moreover, orders from Eland are expected to increase and account for 45-50% of total output of TCM in 2014. TCM has claimed that it has already received enough orders for its production until the end of Q3/2014. In order to complete these orders, TCM has signed outsource contract with one garment company to increase its garment manufacturing capacity from the current capacity to 20-30% more. Therefore, we think its garment output will likely increase by 13% yoy.

Its gross profit margin will continue to be improved. Its cotton inventories at high prices already be used in 2013 and its change in material purchasing strategy have helped increase the profit margin of yarn phase, thus improving the profit margin of fabric and garment phases. Moreover, the growing number of Eland's orders with high profit margin in TCM's total garment output will help its gross profit margin be improved more. As estimated, the profit margin of yarn phase will inch up from 8% to 9%; of fabric phase will increase from 14% to 15-17% and of garment phase will climb from 18% to 20-22%. Accordingly, its 2014's gross profit margin is expected to advance from 13.5% in 2013 to 15.7%.

Enjoying benefits from a lower interest rate. Movements of interest rate will have significant influence on TCM's interest expenses due to a high proportion of liabilities in its capital structure at 60-65%. In 2014, the inflation rate is estimated to stay below 7% and interest rate tends to inch down slightly. Therefore, TCM will likely continue to enjoy benefits from this trend when its proportion of liabilities has no notable change.

2014's operating plan. Given the above prospects, we think TCM can earn a revenue and net profit of VND2,566 billion (slightly up 0.4%) and VND182 billion (surging 46.8%). As disclosed, in the first 4 beginning months of 2014, TCM earned a revenue and net profit of VND862 billion and VND52.6 billion, respectively. Accordingly, its 1H's net revenue and net profit are estimated at VND1,336 billion (+11.6% yoy) and VND84.7 billion (+46.8% yoy), respectively.

Item (Bil VND)	1H/2014	Versus 1H/2013	% 2014 plan	2014E	Versus 2013
Revenue	1.339	11,6%	47%	2.566	0,4%
Net profit	85	46,8%	53%	182	46,8%

Cotton price risks. Beside depending on the supplies and demands of some countries such as China, US, India, Pakistan, etc, the world cotton price is also under the influence of some hedge funds. Therefore, it's rather hard for textile and garment company to predict the future trend of cotton price. With a high proportion in cost of goods sold, a strong fluctuation in cotton price will have significant influence on TCM's operations. This is one risk that investor should pay attention to when investing into this share.

ASSESSSMENT AND RECOMMENDATION

DCF method. We use the following assumptions in forecasting TCM's operating results:

- Its garment manufacturing capacity will increase from 15 million products to 22.5 million products per annum when its 2 garment factories start to go into operation since 2015. The capacity of its dyeing phase will increase from 10 million meters textile fabrics/year and 2,000 tons knitted fabrics/year to 11.5 million meters textile fabrics/year and 9,200 tons knitted fabrics/year.
- Demands for yarn and fabric will increase to meet the growing demand of garment phase. Therefore, revenue from selling yarn and fabric will decline, respectively.
- Its gross profit margin will be improved thanks to a growing proportion of garment revenue in its total revenue.
- Its real estate projects are long-term one, thus not yet able to generate cash flows for the company at least in the next 3-5 years. Therefore, we have eliminated these projects when performing our valuation.

TCM's share price calculated by DCF method is VND**31,700**/share

P/E method

Ticker	Market cap (Bil VND)	EPS (2014)	Price (23/05/2014)	P/E
GMC	327	4.748	30.900	6,51
TNG	180	3.714	13.400	3,61
NPS	30	2.074	14.100	6,80
TET	96	1.144	15.500	13,55
Average				**6,8**

TCM's share price calculated by PE method is VND**25,050**/share based on the forward EPS of VND3,703 and the average industry PE of 6.8x.

After combining the 2 above methods at a ratio of 80:20, we have come to a reasonable estimated price for TMC share at VND30,300.

Investment recommedation

We rate **OUTPERFORM** on TCM share at a target price of VND30,300/share based on its favorable operating prospect in 2014 and great opportunity for making a breakthrough when TPP convention is successfully negotiated. Moreover, because its foreign ownership ratio is already full, so if the draft for increasing foreign ownership limit in listed companies is approved, TCM stock can attract great attentions from foreign investors. Investors should pay attention to extraordinary movements of cotton prices and the growing dependence of TCM on its major shareholder – E-land. However, we still think that TCM has good prospects and is deserved to be considered for value investment portfolio.

REPORT COMMENTARY

Target price is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE. FCFF. DDM); NAV-based valuation; comparative indicators (P/E. P/B. EV/EBIT. EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

RECOMMENDATION SYSTEM

BVSC's recommendation system is based on the increase/decrease of the share price to the target price. There are three levels of recommendation with the corresponding difference in magnitude from low to high. Investors should be noticed that investment recommendations can be changed at the end of each quarter after BVSC's corporate reappraisal.

Recommendation levels

Recommendation	Explanation
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price

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