

# THANH CONG TEXTILE GARMENT INVESTMENT TRADING, JSC

June 2014



## INITIATE COVERAGE: BUY

Current Price (18/6/2014):	VND	26,300
Target Price:	VND	31,501

Short Term Trading Recommendation	Hold
Resistance Level	VND 26,500
Support Level	VND 21,200

Bloomberg ticker: **TCM VN** Exchange: HSX

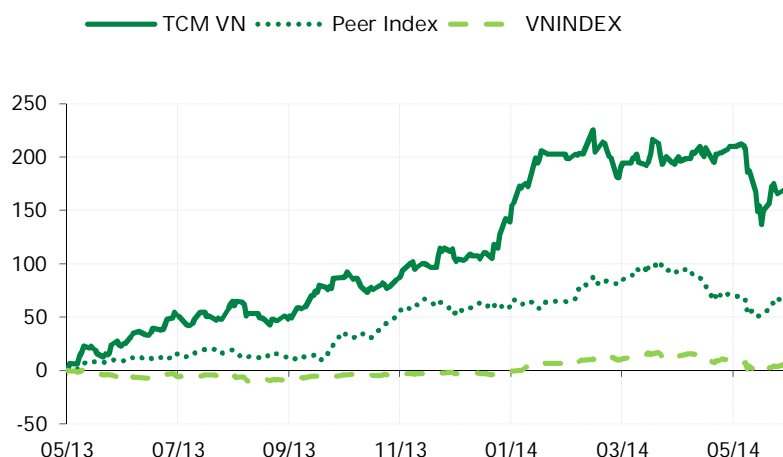
Industry:	Textile
Beta	1.24
52w Low / High (VND)	10,400 – 30,800
Outstanding Shares (mn)	49
Market Cap (VND bn)	1,365
Free Float (mn shares)	24
LTM Avg Trading Vol	1,861,481
Foreign-owned Ratio (%)	44.4%

Year	Cash Div.rate	EPS (TTM)
2013	10%	2,514
2012 (bonus stock)	10%	(491)
2011	7%	2,282

Ratio	TCM	Peers	VNI
PE	8.1	8.3	13.1
PEG	0.01	(0.2)	na
P/B	1.54	0.86	1.88
EBIT/I	6.86	8.52	na
EV/EBITDA	7.47	4.79	10.00
ROE	16.8%	10.4%	14.5%

### Company Description:

TCM is specialized in the production and trading of yarn, fabric and garments. The Company was established in 1967 and equitized in 2006. Thanh Cong was listed on the Ho Chi Minh Stock Exchange in 2007. After several name changes, the Company's name was officially changed to Thanh Cong Textile Garment Investment Trading JSC in 2008. As of January 31, 2014, total assets of TCM were VND1,880 billion and total equity was VND754 billion.



We initiate coverage of Thanh Cong Textile Garment Investment Trading JSC (TCM) with a long-term BUY recommendation based on the following:

- ❖ **Strong recovery after impact of cotton price.** In 2013, TCM reported good results with revenue growth of 12%. Net profit of TCM turned from negative of VND20 billion in 2012 to VND124 billion in 2013. For Q1/2014, TCM reported revenue of VND642 billion (+18%) and net profit of VND37 billion (+64%) as compared to the same period of 2013.
- ❖ **Great chance from TPP and FTAs.** Vietnam is in the process of negotiating TPP and FTAs with regional countries and the EU, which will open significant opportunities for the textile sector in general as well as for TCM. In detail, the tariff to the USA market will decline from 17% to 0% if TPP comes into effect.
- ❖ **TCM is currently the only listed textile company which controls its own value chain from cotton to garment production.** This will help the company to increase their value added products and meet strict importing standards. TCM's garment capacity will increase strongly (2.1 times) within the next five years when new plants come into operation.
- ❖ We use the relative P/E, DCF valuation model to derive TCM's value of VND31,501/share, which is 20% higher than the current trading price.

Please see important disclosure information at the end of this report

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## VIETNAM TEXTILE AND GARMENT INDUSTRY

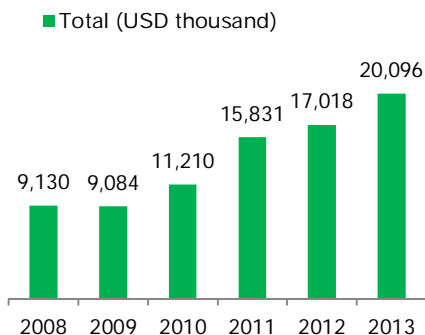
*Vietnam's textile industry has grown at a high speed and contributed significantly to total exports.*

Vietnam's textile and garment industry with more than 6,000 companies is one of the leading export industries in Vietnam and plays an important role in the economy. The textile and garment industry has experienced accelerated development with a CAGR of 17% per year from 2008 to 2013. The year 2013 is recorded as a successful year of the industry with total export value of USD20.096 billion, accounting for 15% of total Vietnam export value and 12% of GDP. Firm sizes of enterprises in the industry are small and medium, of which 70% are garment companies, the rest are companies specializing in spinning, knitting, dyeing and other apparel activities.

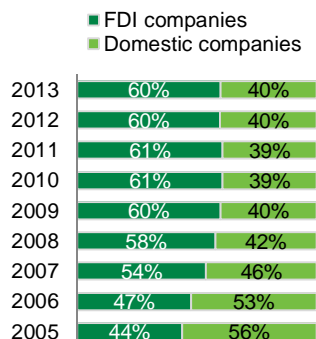
Textile and garment exports have benefited significantly from Foreign Direct Investment (FDI) enterprises. Until 2013, the FDI segment exported around USD12billion, 18% higher than last year's export value and accounted for 60% of the total textile export value.

Vietnam exports mainly jackets, T-shirts and pants. The United States is the largest import market of Vietnam's garment products with 43% of total value. The European Union (EU) is the second market with 14% total value following by Japan with 12% of total value. Korea has emerged recently as a potential market of Vietnam's exports. The export value of the garment industry to this country rose from only USD0.14 billion in 2008 to USD1.67 billion in 2013, a 12 fold increase within only six years and accounted for 8% of total export value.

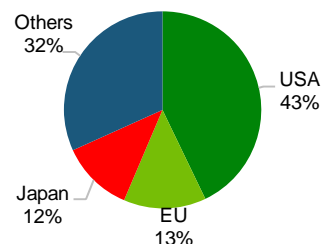
Textile export value from 2008 - 2013



Textile companies breakdown



Exporting market breakdown



Source: VITAS

**Production depends on imported materials.** Vietnam exports textile and garments products but has shortages in material for production. The country imports mainly fibers, yarns, cottons and fabric. In the period of 2009 to 2013, Vietnam import garment material's value has a CAGR of 21%, of which 62% of the total import value is contributed by fabric imports. As of 2013, Vietnam's textile and apparel industry imported USD13.6 billion, increasing by 19% as compared to last year, of which, USD10.9 billion of import value is used for producing export textiles and garments.

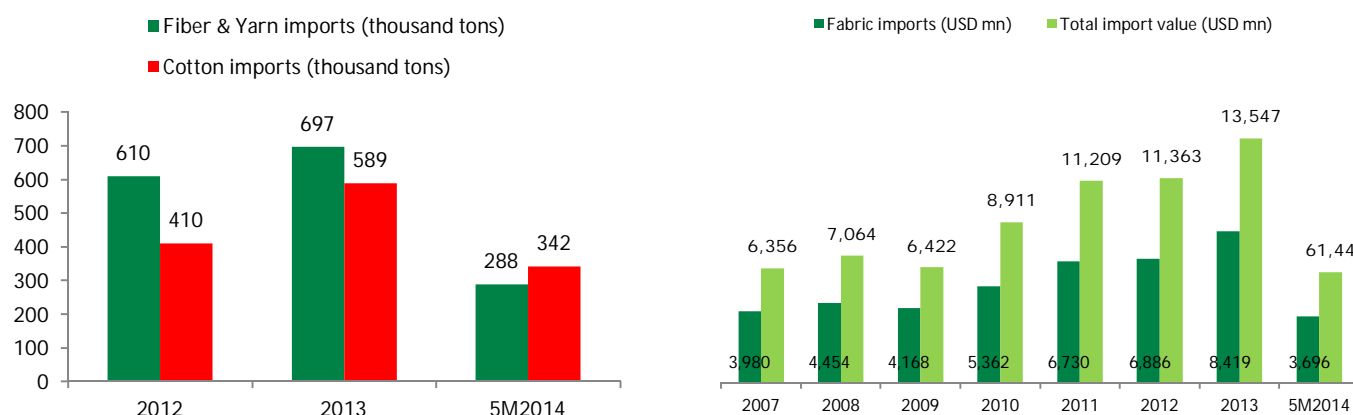
**Cotton import.** In 2013, cotton import reached 589 thousand tons, equaling USD1.19 billion, an increase of 39% in volume and 34% in value in comparison to 2012's. Vietnam imports cotton mainly from the United States, India and

Australia. Vietnam's domestic cotton supply is miniscule compared to the national demand for production, fulfilling only 2%. The main reason is that Vietnam has not focused on the development of cotton plantations and Vietnam does not have natural advantage of planting cotton. Therefore, so far Vietnam's textiles and garments are heavily dependent on imported materials.

- ❖ **Yarn & Fiber import.** Yarn import in 2013 was 697 thousand tons, 7% increase in volume and reached USD1.52 billion in value, 8% rise in value as compared to last year's numbers. Yarns are imported from Taiwan and China, Thailand and Korea.
- ❖ **Fabric import.** In the import value breakdown, fabrics hold dominant position with 62% of the total textile and garments import value. In 2013, fiber import value was USD8.4 billion, + 19% compared to 2012.

Cotton, fiber and yarn import volume

Total import and fabric import value (USD mn)



Source: VITAS

Vietnam's cotton plantation area was around 10 thousand ha. After the booming period from 2001 to 2006, plantation areas have declined steadily. It is explained that planting cotton is land-consumed and much influenced by weather. Moreover, cotton planting in Vietnam has been relatively spontaneous. In combination with low planting techniques, Vietnam's cotton is of low quality which cannot qualify for garment production, leading to unstable growth in cotton plantations. Given modest plantation areas, Vietnam's cotton only accounts for 2% of domestic cotton use. According to Decision 29/QD-TTg, Vietnam has a program to develop Vietnam cotton plants until 2015, and the vision to 2020. In detail, the plantations of the nation are expected to increase to 30 thousand ha in 2015 and 60 thousand ha in 2020. However, we think that this is a relatively ambitious plan as there has not been many changes since the Decision was applied, implying that Vietnam's cotton still depends on imported cotton in the medium-term.

In Vietnam, there are four basic levels of processing garments for export from the lowest value to the highest: Cut. Make. Trim (CMT), Original Equipment Manufacturing (OEM/FOB), Original Design Manufacturing (ODM).

**ODM (ORIGINAL DESIGN MANUFACTURING)**  
 of exporting garment The export factory takes part in designatorbuying materials and manufacturing specific products and then branded by foreign buyers for sale used by only2% VN's exporting companies

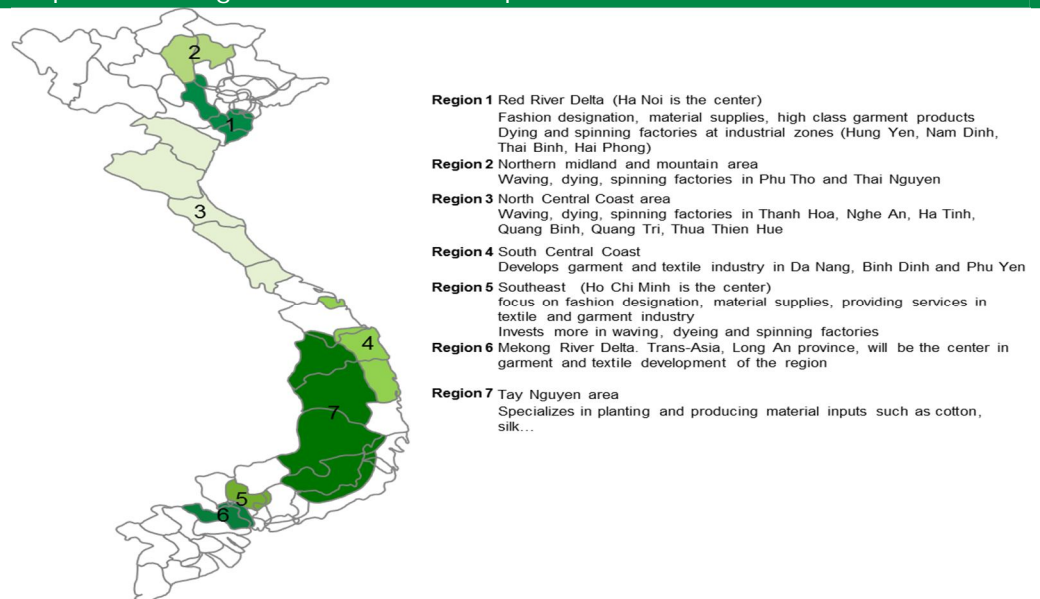
Source: VPBS collects

### A Master Plan was ratified to set a development plan for the textile and garment industry in 2020, with a vision to 2030.

*A Master plan for the textile and garment industry's development has been set to maintain strong growth in the long term.*

According to Decision 3218/QĐ-BCT issued in April 2014, the Ministry of Trade and Commerce approved the Master plan of Vietnam's Textile industry in 2020, with a vision to 2030. Accordingly, Vietnam continues to focus on traditional export markets such as the United States, Japan, the European Union and expanding to other new markets. Accordingly, the export value of Vietnam is expected to reach USD23-24 billion in 2015 and USD36-38 billion in 2025, +15% and +84% to 2013's number respectively. In the Master Plan, Vietnam's textile and garment industry is divided by seven regions with different development strategies. Specifically, seven regions of development are mentioned as below:

#### Map of seven regions for textile development



According to the Master Plan, we observe that Vietnam has plans for investment in weaving, dyeing and spinning factories, which are currently experiencing shortages in the country's value chain. However, development input materials is still modest, which remains one of the largest challenges to Vietnam's textile and garment industry.

### **Free trade agreements (FTA) and TPP will bring both opportunities and challenges for Vietnam's textile and garment industry**

#### **FTA EU- Vietnam**

EU is one of the prominent markets for Vietnam with total export value reached USD24.3 billion in 2013, accounting for 18% of the total nation's exports. Signing the FTA will help to boost Vietnam's garment exports to this market significantly. Accordingly, Vietnam will enjoy tax preferences for garment exports, which will be reduced from current 11.6% to 0%. The EU-Vietnam FTA is expected to be signed at the end of this year and become effective in 2015.

#### **Trans-Pacific Partnership (TPP)**

TPP is the proposed cooperation in trade among 12 countries, including Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Given the trade agreement within these countries, there would be a free-trade area with GDP up to 40% GDP of the world and trade value of this group accounts for one-third of global trade. Similarly to FTA, TPP includes cooperation in commerce and services but extends to others including intellectual property, investor-state arbitration, environment, organized labor issues, etc.

Vietnam has signed FTAs with Australia, Brunei, Chile, Japan, Malaysia, New Zealand and Singapore. Therefore, TPP from these countries are not likely to have much effect on Vietnam. On the other hand, North American countries (Mexico, Canada and especially the United States) will be potential markets for Vietnam in the long term. Currently, tariffs to export garments to the United States is around 17-18% and this rate will plunge to 0% if the TPP agreement finishes negotiation.

However, in order to receive duty-free access, member countries which want to export garments must follow the "yarn forward" rule of origin. Accordingly, this requires TPP members to use yarns which are made from TPP members to produce textile and garment. However, the latest update to this rule is only applied after three or five years when TPP agreement comes into effect and member countries which cannot produce yarns can import from TPP outside suppliers. This would be a boost to Vietnam's textile and apparel industry that depends heavily on imported yarns.

According to the Vietnam Textile and Apparel Association (VITAS)'s estimation, given the current growth rate of 15% to 17% per year, Vietnam's garment export value is expected to reach USD40 billion in 2025, double the current export numbers.

*FTAs and TPP are key drivers for Vietnam's textile and garment industry within the next three years.*

Given two mentioned trade agreements, we assume that TCM is the textile company which will enjoy the highest benefits as most of the revenue of the Company comes from exports.

### Foreign investments in textile

Taking advantage of Vietnam's TPP status, many FDI investors have increasingly scaled up their investments in Vietnam's textile and garment industry, especially in building weaving, dyeing, spinning factories as well as garment factories. Almost all the investors come from China, which will not join TPP but holds the biggest share in exporting garments to the United States.

Investors	Nation	Investment Location	Type	Investment value (USD mn)	Status
Foshan Sanshui Jialida +Luenthai (Hong Kong) + Vinatex	Hongkong	Nam Dinh	textile + garment industrial zone	350	Building a whole value chain from e to final products
Jiangsu Yulun Textile Group	China	Nam Dinh	weaving, dyeing, spinning factory	68	Build from 3/2014 to 6/2016
Texhong textile group	China	Quang Ninh	yarn production with total capacity of 140 thousand tons/year	300	Finished 1st phase in 7/2013 and starts 2nd phase
TAL group	Hongkong	N/A	weaving, dyeing and making garment	200	Looking for location
Forever Glorious Company	Taiwan	Ho Chi Minh	produce clothing and accessories for water sports	50	Planning
Dong-il	Korea	Dong Nai	yarn production with total capacity of 9 thousand tons/year	52	Build from 6/2014 and expect to finish in mid-2015
Gain Lucky Limited	China	Ho Chi Minh	designing and producing high-end products	140	Planning

Source: VPBS collects

Following the increased growth trend of garment exports in 2013, Vietnam garment exports are expected to see a strong rise of 30% in 2014, reaching USD26 billion. According to Mr Nguyen Van Thoi, Chairman of Thai Nguyen Investment and Trade JSC (TNG), at the end of Q1/2014, most of the export garment companies have received full orders for the whole year, implying a positive signal for the sector.

So far, Vietnam's textile and garment industry's largest advantage is competitively-priced labor. Labor costs of Vietnam are lower than China, giving the country a distinct cost advantage. Moreover, the Government has granted many supportive policies to attract FDI and export garment companies (tax-free for importing of materials which are later to be re-exported under garment products within 90 to 120 days).



## THANH CONG TEXTILE GARMENT INVESTMENT TRADING JSC – A CLOSED PRODUCTION CHAIN

*TCM possesses full value chain from spinning, weaving, knitting, dyeing and sewing*

Thanh Cong Textile Garment Investment Trading JSC (TCM) was formerly Tai Thanh Textile which was established in 1967. In 1976, it was transformed into a state-owned enterprise and changed its name to Tai Thanh Factory. After some more changes, the company was officially named Thanh Cong Textile Garment Company in 2000. TCM was equitized in 2006 and received approval to list on the Ho Chi Minh Stock exchange in October 2007. In 2008, TCM was renamed Thanh Cong Textile Garment Investment Trading JSC.

TCM specializes in the production and trading of yarn, fabric and garments. Most of the company's revenue comes from exporting garment products. The largest advantage of TCM is that the company has a full value chain in garment production, which can offer vertical production system services from making yarn to fabric and final garment products.

TCM's spinning and weaving machines



Source: TCM

### Organization and Shareholder structure

*There is currently no space for foreign investors to join TCM's group of shareholders. TCM's strategic partner, E-land, accounts for 44.4% of share.*

TCM's shareholder structure includes 49% foreign ownership, 7.6% state-owned ownership and the remaining shares belong to other local investors. There is currently no room for foreign ownership at TCM as E-land Asia Holdings (Singapore) and E-land Vietnam, accounts for 44.4% of share. The other foreign funds account for the remaining 4.6% of the foreign ownership limit (FOL). TCM is one of the favorite stocks of foreign investors. If the Government approves additional space for FOLs, we think that TCM can earn premiums to sell additional shares to their current strategic partner (E-land) or to other financial foreign investors.

- E-land Asia Holdings (Singapore) is a subsidiary of E-land Group in Korea. In November 2009, TCM issued six million shares to E-land Asia Holdings, increasing E-land Asia Holdings' ownership at TCM to 37% and becoming TCM's strategic partner. So far, E-land Holdings owns around 21.8 million shares of TCM and took part in the management board of TCM. Regarding E-land Group, this is a conglomerate in Korea which operates in retail malls, restaurants, theme parks, hotels and construction businesses as well as its cornerstone, the fashion apparel business. Besides operations in Vietnam, E-land has businesses in China, India, Sri Lanka, United States and Europe (England, Italy). Given



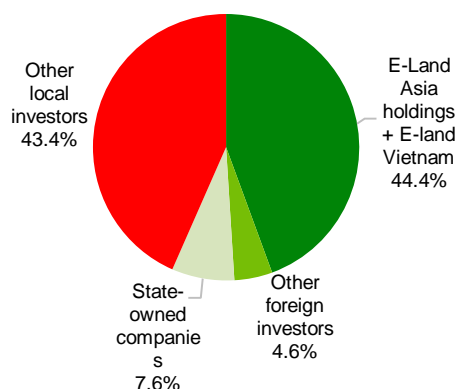
support from E-land, one of the reputable fashion groups in Korea, TCM has gained many benefits in terms of capital, technology, expertise and access to the Korean fashion market.

- State-owned ownership at TCM is 7.6% including 4% that belongs to Vietnam National Textile and Garment Group (Vinatex).

The management board of TCM includes Ms. Phan Thi Hue, Chairman, Mr. Kim Dong Ju, Vice Chairman, and board members, Mr. Tran Nhu Tung, Ms. Nguyen Minh Hao, Mr. Kim Jung Heon and Mr Lee Eun Hong, General Director. We observe that three out of six board members of TCM are E-land's representatives, implying a great influence of E-land on TCM's decisions.

#### TCM's operation structure

#### TCM's shareholder structure



Source: Company, VPBS

TCM has three subsidiary companies and has four affiliates with total investment value of VND287 billion

- Thanh Cong Medical Center JSC in Tan Phu District, Ho Chi Minh city. The center's main business is providing medical service, trading pharmaceutical products and medical equipment. TCM holds 70% in total chartered capital of VND21.7 billion.
- Thanh Quang JSC., Tan Phu District, Ho Chi Minh city. This company has chartered capital of VND22 billion and TCM owns 98% of the company. Thanh Quang specializes in infrastructure, trading fabric and yarns.
- Thanh Cong- Vinh Long one-member limited company. TCM owns 100% of this company (chartered capital VND129 billion). This company is established as a legal entity to manage TCM's plants in Hoa Phu Industrial zone in Vinh Long province.

In addition, TCM has four affiliates which trade in various areas: Thanh Chi JSC (trading and exploiting sand, stone, leasing warehouse), Thanh Phuc JSC (construction and project management), Vung Tau Golf Tourism JSC (tourism and entertainment), Thanh Cong Securities JSC (securities company).

TCM's subsidiary and associate companies	TCM's ownership	Chartered capital (VND bn)	Investment value (VND bn)
<b>Subsidiaries</b>			
Thanh Cong Medical Center JSC	70%	22	15
Thanh Quang JSC	98%	22	22
Thanh Cong- Vinh Long	100%	129	129
<b>Associates</b>			
Thanh Chi JSC	47%	44	21
Thanh Phuc JSC	24%	7	2
Vung Tau Golf Tourism JSC	30%	29	9
Thanh Cong Securities JSC	25%	360	89
Total			287

Source: TCM

## TCM's position in the industry

TCM aims to be a global fashion textile and garment company by 2020. In the mid-term, the company focuses on optimizing the vertical manufacturing process, increasing weaving and garment capacity. Besides cotton oriented products, TCM will develop a product line of synthetically made items.

TCM is involved in almost every step of the value chain. This makes the company different to other enterprises which are almost entirely CMT companies. TCM is considered to be FOB (type 2) in garment export, which is higher level than CMT. Thanks to the close value chain, products of TCM are well-controlled in terms of quality and exporting criteria.

### TCM's value chain



Source: TCM

Compared to other exporting garment listed companies, TCM is the only company which imports cotton while other ones import fabric as input materials. Hence, TCM is currently the only listed textile and garment company which can qualify for the “yarn-forward” requirement of TPP.

Name	Ticker	Import materials	Products	Market capital (VND bn)
Thanh Cong Textile Garment Investment Trading JSC	TCM	Cotton	T-shirts	1232
Everpia Vietnam JSC	EVE	Fabric	Padding, Quilting, Bedding	671
Saigon Garment Manufacturing Trading JSC	GMC	Fabric	Sport clothing, jacket	333
Mirea JSC	KMR	Fabric	Bedding	206
Phu Thinh- Nha Be Garment JSC	NPS	Fabric	Vest, Shirts, Trousers, Jacket	31
TNG investment and trading JSC	TNG	Fabric	Jackets, trousers, Jeans, Padding, Quilting	182

Source: VPBS

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## Production capacity

**Yarn production:** TCM has four spinning factories to make yarn in Ho Chi Minh, Long An, Tay Ninh with total installed capacity of 21,000 tons/year. Only one third of the yarn produced is used for internal production, the remaining is used for export.

**Weaving- Knitting:** TCM has a capacity of weaving seven million meters fabric and knitting 7,000 tons fabric each year.

**Dyeing:** TCM's capacity for dyeing is 10 million for woven fabric and 8 thousand tons of knitted fabric.

**Garment:** Most of the fabric produced is used for making garments; accordingly, the revenue from selling fabric is modest. TCM is able to produce 18 million garment items per year, of which three million items are outsourced. Garment products of TCM, mainly T-shirts, are for export which contributes the largest portion of TCM's revenue. TCM plans to extend this segment to ODM, which is the method in which the exporting company can design their products instead of following designated samples.

## Expansion plan

Given current operating capacity at 100%, TCM has planned to enhance their production capability with total investment value of USD30 million (30% equity-70% bank loan). In specific, this is a production chain which is a combination of factories from knitting, dyeing and sewing in Hoa Phu industrial zone, Vinh Long province. TCM will invest step-by-step in two sewing factories, one knitting factory and one dyeing factory from 2014 to 2017.

- ❖ 2014: TCM will invest USD7 million to build the first sewing factory. Capacity of this factory is about 10 million garment items. This plan is expected to finish in 2014 and be put into operation in 2015, raising TCM's garment capacity by 55%.
- ❖ 2015: TCM will invest USD7 million to build the second sewing factory. Capacity of this factory is 10 million garment items per year. When these two additional factories come into operation, garment production capacity of the company will reach 38 million items per year, 2.1 times higher than current capacity. In addition, the number of garment laborers will increase from the current 4,300 to 7,300 people.
- ❖ 2016: TCM plans to use USD7million to invest in the knitting factory with capacity of 10,000 tons of fabric.
- ❖ 2017: TCM will invest between USD9 to 10 million to build a dyeing factory for knitting fabric with additional capacity of 3,000 tons per year.

In short, when all the plants are operating within the next five years, total capacity of TCM will be: spinning - 21,000 tons/year, weaving - 7 million meters/year, knitting - 17,000 tons/year, dyeing - 11,000 tons/year (knitting fabric) and sewing - 35 million items/year. We observe that the spinning capacity of TCM does not increase in the medium-term as only 30% of spinning capacity is for internal production. Therefore, TCM focuses on enhancing their knitting, dyeing, sewing capacity, implying that the proportion of yarn used for internal production will increase gradually and the yarn for exporting will decline accordingly.

	Expansion capacity				
	Current capacity	2014	2015	2016	2017
<b>Spinning</b>					
Spinning Factory No 1	2,500				
Spinning Factory No 2	6,500				
Spinning Factory No 3	4,500				
Spinning Factory No 4	7,500				
<b>Accumulated capacity (tons/year)</b>	<b>21,000</b>				
<b>Weaving</b>					
Weaving factory (mn meters/year)	7				
<b>Knitting</b>					
Knitting factory (tons/year)	7,000			10,000	
<b>Accumulated capacity</b>	<b>7,000</b>			<b>17,000</b>	
<b>Dyeing</b>					
Weaving fabric (mn meters/ year)	10				
Knitting fabric (thousand tons/year)	8				3
<b>Accumulated capacity of knitting fabric (thousand tons/year)</b>	<b>8</b>				<b>11</b>
<b>Sewing</b>					
Sewing factory (mn items/year)	18	10	10		
<b>Accumulated capacity (mn items/year)</b>	<b>18</b>	<b>28</b>	<b>38</b>		

Source: TCM

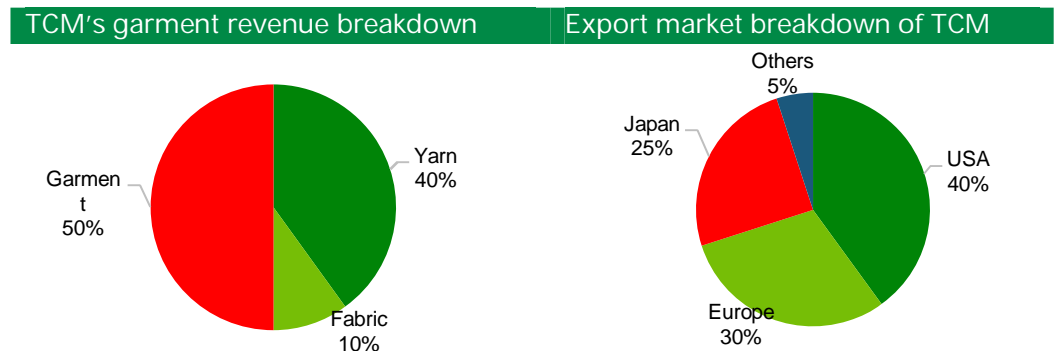
## BUSINESS ACTIVITIES

TCM's business line includes textiles and garments, healthcare and real estate. However, the real estate segment stopped contributing revenue to TCM in 2012 due to the inactive real-estate market. Textile and garment has been the dominant segment in TCM's operation with 98% of revenue, the remaining revenue comes from healthcare.

### Revenue mainly comes from trading yarn and garment

*Trading yarn and garment has contributed large portions of TCM's revenue with 40% and 50% respectively.*

TCM's revenue is derived from three main categories, including trading yarn (40%), trading fabric (10%) and garments (50%). The gross profit margins of these three categories are 9%, 15 to 17% and 20 to 25%, respectively. Among which, profit from yarn has fluctuated the most while imported cotton depends totally on the international cotton price. 90% of TCM's clothes are exported to the United States (35-40%), Europe (30%), Japan (25%) and Korea. Export markets of TCM are similar to the whole industry's export market. TCM exports garments to Korea mainly via their strategic partner E-land. According to TCM's representative, TCM exports garments to E-land under the form of fashion clothes, which bring higher value to TCM than casual wear exports to other conventional markets. Therefore, export contracts to E-land are recorded at relatively higher profit margins than selling garments to the remaining markets. Recently, TCM has increased their exports to the United States and the Korean market. The United States holds even more potential market when the tariffs of this market are eliminated as per TPP.



Source: TCM

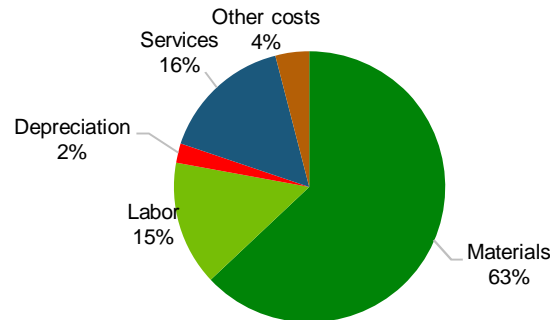
### Production cost depends on cotton prices

Materials of TCM, mainly cotton and chemicals, represent 60 to 70% of the COGS. TCM utilizes the "just-in time" inventory method, which minimizes the costs associated with inventory control. This means materials arrive at TCM's warehouse for only a short period and then quickly go into production. This requires the company to precisely calculate the orders and demand for inputs. Regarding origins, 50% of TCM's cotton demand was imported from the United States, the remaining amount is bought from Africa and Pakistan, among others.

Therefore, there are two risks related to TCM's cotton inputs, one is the policy

of cotton exporting countries and the movement of cotton prices which can greatly impact TCM's profit margins.

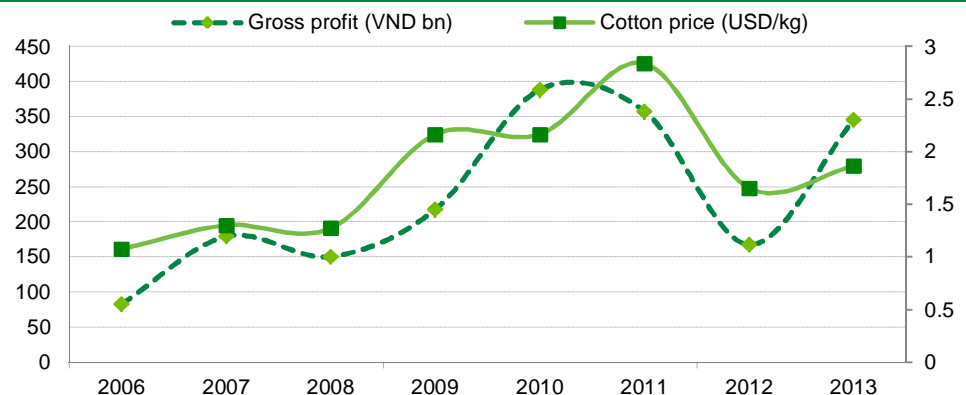
#### TCM's COGS breakdown in 2013



Source: TCM

During the period of 2009 to 2011, cotton prices increased steadily and reached the peak in March 2011. Cotton prices hit the record in this period for two reasons: (1) on the supply side, floods in Pakistan and Australia led to poor cotton crops (2) on the demand side, demand for textiles worldwide, especially in China, bounded back from lows set in the global economic crisis. In order to deal with the concerns of increasing input prices, many Vietnamese textile companies purchased a large amount of cotton using future contracts to hedge price risk. However, the world economy then contracted, dragging the cotton price down to the current price of USD1.88/kg, down by 57% from its peak. Despite reduced cotton prices, TCM committed to exercise their contracts with the average cotton price of USD5/kg. Therefore, although the cotton price plunged to USD1.7/kg in 2012, TCM continued to use the high-cost inputs in production, increasing COGS and marking a loss in the financial year. TCM suffered losses to guarantee their reputation in the international commodity exchange and to maintain the stable and quality supply. Meanwhile, the other textile companies which revoked future contracts were put onto "the black-list" of suppliers consequently, this means that those companies can no longer purchase cotton in the international exchange and have to collect cotton from unstable and untrustworthy sources.

#### Cotton price and TCM's gross profit



Source: VPBS



TCM has actively switched from purchasing 80% future-20% spot materials to 30% future-70% spot materials, reducing significantly the input costs. In combination with stable cotton prices in 2013 and Q1/2014, gross profit margins of TCM have improved from the bottom of 7.3% in 2012 to nearly double that rate of 13.5% in 2013. In Q1/2014, gross profit margin of TCM reached 14.4%.

#### Depreciation policy

TCM applies the straight-line depreciation method with a useful life of 7 to 15 years for equipment and 12 to 50 years for the building. Deprecation is included in the COGS but accounts for a small part which is only around 2%, equaling VND50 – 60 billion per year.

### Delayed real estate projects

Besides its core-business in the garment sector, TCM has plans to develop four real-estate projects given their advantage of owning the land. However, except for TC1, which has the most potential to move forward, the other projects have been delayed. When these projects will be reactivated is not decided as of yet given the current difficulties associated with the real-estate sector.

Real estate projects	Size (m2)	Type	Location	Status
TC1	9,898	Shopping center + high-end apartments	Tan Phu	Acquired Red book
TC2	66,478	Complex	Tan Phu	Current production plants locate here and are expected to move in next three to five years
TC3	7,350	Complex	District 4	Cleared land
TC4	102,000	Resort	Phan Thiet	In-progress of clearance

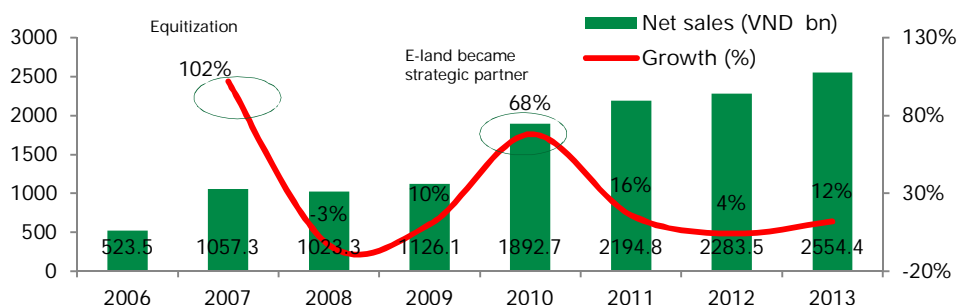
Source: TCM

## Historical performance

### Growth thanks to strategic partner's contribution

After equitization in 2006, TCM's revenue doubled in 2007, from only VND523 billion to VND1,057 billion. The growth of revenue was maintained at a growth rate of 16% per year from 2007 to 2013 thanks to the participation of E-land. Especially in 2010 when E-land officially became a strategic partner of TCM, TCM's revenue growth was recorded at 68%. Revenue breakdown of TCM also shifted from 56% export- 46% domestic in 2009 to totally depending on exporting in 2013 with 90% from export.

TCM's revenue and growth (%)



Source: TCM, VPBS

### Gross profit margin

Gross profit margin of TCM depends on a combination of gross profit margins of trading yarn, fabric and garments. Of which, gross profit margin of yarn trading has been dramatically volatile as yarn production depends on imported cotton which is subject to international prices. Therefore, gross profit margin of TCM is highly correlated with changes in international cotton prices, especially in circumstances when TCM cannot precisely forecast the movement of cotton prices.

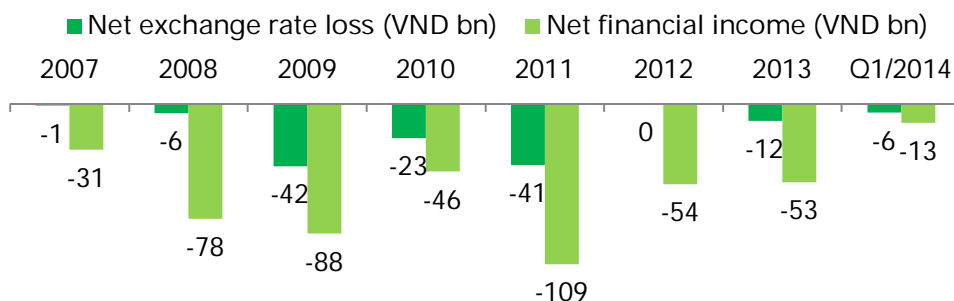
### Net Financial Income – risk of exchange rate loss

Financial income of TCM includes interest income from deposits, dividends received from affiliates and exchange rate gains. However, interest income and income from affiliates in 2013 were modest with VND2.4 billion and VND0.2 billion, respectively. The largest portion was gains from exchange rate (VND10.3 billion) in 2013. For the whole year 2013, TCM recorded a financial income of VND12.8 billion. Meanwhile, financial expense of TCM was much higher than income, reporting at VND66 billion. In detail, interest expense of TCM in 2013 was VND44 billion and exchange rate loss was VND22 billion, the other expenses accounted for the rest. We observe that the net financial income of TCM has been negative in the period from 2006 to 2013 as financial income could not offset the interest expense and exchange rate loss.

TCM imports cotton and pays mainly in USD. On the other hand, the Company exports and receives revenue in USD, which is sufficient to cover the amount of import materials. TCM borrows in USD but the majority of the USD loans are

from its strategic partner with low pressure of repayment. Therefore, risk of exchange rate loss of TCM does exist but at a low threat level.

#### TCM's net financial income and net exchange rate loss

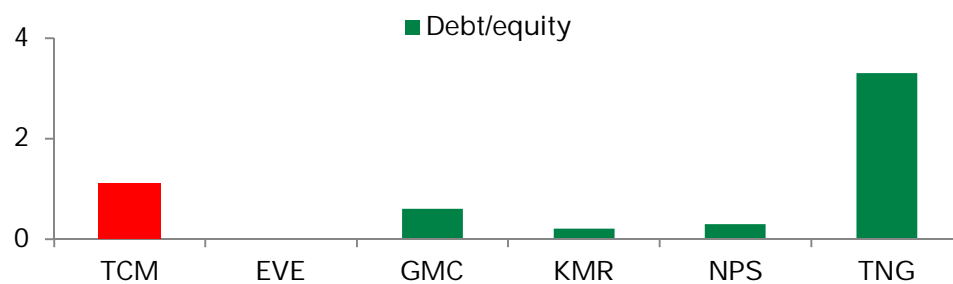


Source: TCM, VPBS

#### High Leverage among garment listed companies

As of 31/3/2014, TCM had total bank loans of VND851 billion, including VND573 billion short-term loans and VND278 billion long-term loans. In terms of loan currency, TCM has around USD18 million (VND378 billion) of credit short-term line and USD10.5 million (VND221 billion) of long-term loan and CHF1.1 million (VND26 billion) of long-term loans from VCB. The rest of the loans are made under VND currency.

#### Debt/Equity in Q1/2014 of garment listed companies



Source: VPBS

It is worth noting that there are USD7 million of long-term loans from E-land at low rates with terms of three years per each loan, including USD1 million with 0.99% per year and USD6 million with 0.78%. In specific, USD6 million was used for legal procedures to get the Red book for the TC1 project. As E-land is a strategic partner of TCM, the Group has supported TCM in many aspects, including finance. Therefore, TCM has paid interest for USD7 million loans but not the principal thus far.

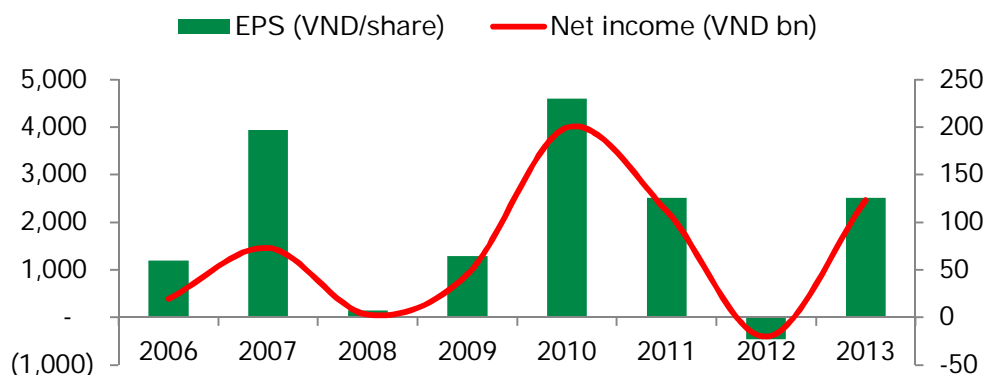
TCM has a higher debt burden than other garment listed companies. Total debt/equity of TCM was 1.0x in Q1/2014, much higher than the debt-free companies such as EVE, KMR and NPS. However, compared to TNG, TCM's debt/equity ratio was still far behind.

#### Net Profit depends on cotton prices

The year 2013 witnessed the recovery of TCM after a loss year in 2012 due to the cost burden of cotton. By the end of 2013, TCM's net income was reported

at VND124 billion, equaling an EPS of VND2,516/share. For 2014's target, TCM aims to reach a revenue of VND2,822 billion and a net profit of VND164 billion, 18% higher in revenue and 82% higher in net profit as compared to last year. Until the end of May 2014, TCM has announced shortly that they earned a net profit of VND21.5 billion, accumulating 5M2014's net profit of VND75 billion and fulfilling 46% of its target plan.

#### EPS and Net income of TCM



Source: TCM, VPBS

#### High debt ration but well managed

In comparison with other garment listed companies, TCM is relatively risky in terms of liquidity as the company has high debt. Every year, TCM's financial expense accounts for approximately 3% of net sales, among which, interest expense stands for 2%. However, TCM still manages their liquidity well with an average current ratio of 1x during 2009 through Q1/2014. Interest coverage ratio of TCM in 2013 was 4.2x, soaring from 0.4x in 2012.

## FORECAST

As stated earlier, 98% of TCM's revenue is derived from the garment and textile segment, which consists of yarn, fabric and garment trading. The remaining 2% comes from health care and other revenue. Hence, forecasted revenue of TCM will be based on each segment's forecast. We assume that if there is no unavoidable event which can affect supply and demand of cotton in primary markets, cotton prices will move in a small range around USD2/kg in the next five years. Accordingly, TCM's gross margin for each segment will be either stable or improve slightly during the forecast period from 2014 to 2018.

## Garment trading dominates revenues

### Garment and textile segment

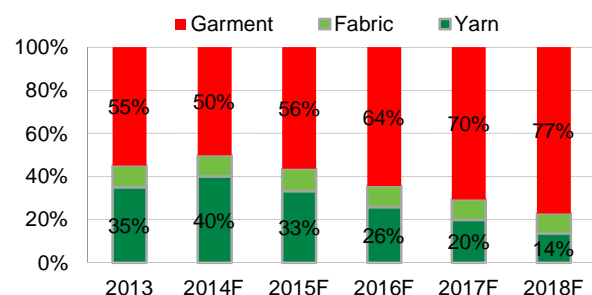
The garment and textile segment of TCM depends on three categories: yarn, fabric and garment trading. Yarn and garment are the two primary segments as (1) internal yarn use only accounts for 30% of yarn production capacity, therefore large portion of yarn production is used for export (35% of revenue); (2) garment production is the final stage in TCM's production, which dominates 55% of revenue.

In our forecast we assume that:

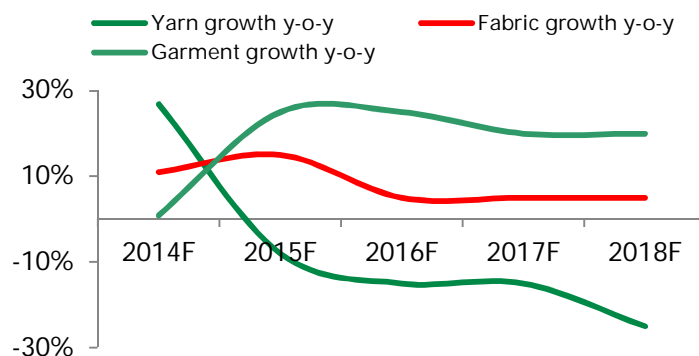
(1) Yarn Trading: The proportion of yarn trading revenue will decline gradually in the next five years as TCM needs to use yarn for internal production when the two new sewing plants begin operations in 2015 to 2016. The proportion of yarn in the garment and textile segment is expected to be 40% in 2014 before starting to decline to 33% in 2015 when the first sewing plant begins running in 2015. The portion of yarn trading is forecast to decline year-over-year and down to 14% in 2018 when both of the new sewing plants come into operation. As a result, TCM's revenue from yarn trading is estimated to decline from VND876 billion in 2013 to VND554 billion in 2018 at a CAGR of negative 9% per year.

(2) Fabric trading: We project that the proportion of fabric trading in garment and textile segment is stable at 9%. Therefore, we estimate fabric trading revenue will increase from VND250 billion in 2013 to VND370 billion in 2018 (CAGR of 8%/year).

Garment and textile segment breakdown



Garment and textile segment's growth (%)



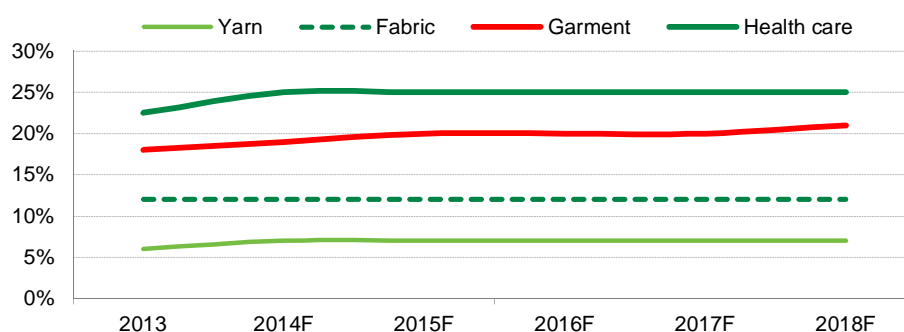
Source: VPBS

(3) Garment trading: TCM's revenue from garment exports is going to increase as the sewing capacity will rise and the trading agreements among Vietnam and other regions go into effect. The proportion of revenue from garments would increase from 55% in 2013 to 77% in 2018, reaching the amount of VND3,124 billion in 2018 with a CAGR of 18% per year in the period of 2013 through 2018.

### Healthcare and other revenue

Revenue from healthcare of TCM is relatively tiny compared to the company's main activity. We assume that revenue of this segment will increase slightly at 3% per year and reach VND39 billion in 2018. Other revenue is forecast to remain stable at VND18 billion.

Gross profit margin of TCM's segments



Source: VPBS

## Financial income

**Financial income:** income from deposits is expected to be 12% of cash and cash equivalents.

**Financial expense:** average interest rate is assumed to be 5% from 2014 through 2018. Accordingly, TCM will record interest expense of VND50 billion to VND64 billion.

**Exchange rate loss:** based on the assumption that the VND is expected to depreciate 2% per year against the USD through the next five years, leading to exchange rate loss of VND8 to 12 billion in the forecast period.

## Tax

Tax for TCM's core activity in textile and garment in industrial zone is 15%. TCM was granted tax exemption for the three years starting from the year of recording profit in operation (2006 to 2008) and it pays only half of the CIT rate in the next seven years from 2009 to 2015 (7.5%). Other activities are assessed at a common CIT rate of 25%.

## Net profit

We assume that SG&A cost/revenue will be 8% to 10% from 2014 to 2018. Net profit margin of TCM is forecast to be 6% to 10%, increasing gradually from



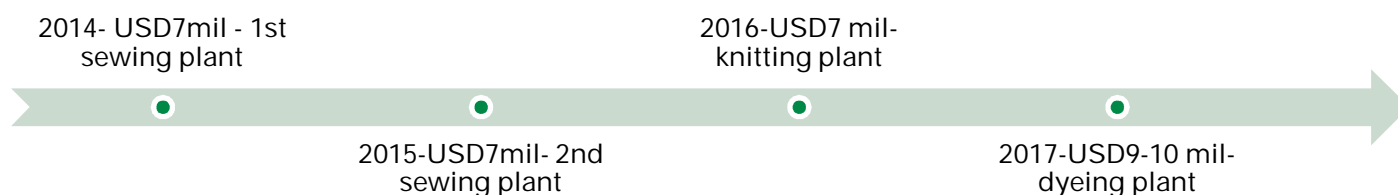
year-to-year during 2014 to 2018. Accordingly, EPS of TCM is expected to range from VND3,334 in 2014 to VND8,740 per share in 2018.

## Balance sheet

We make key assumptions to build TCM's balance sheet as below:

- Day sales outstanding: remains stable at 22 days.
- Day inventories outstanding: fluctuates at around 104 to 108 days.
- Day payables outstanding: is about to be stable at 27 days.
- Current assets and current liabilities: remaining stable as percentage of related revenues and expenses.
- Capital expenditure: TCM will spend fund on investments for new plants as below.

### List of investment plant of TCM for new plants



Source: TCM, VPBS

- Borrowings: short-term borrowing will account for 25% to 26% of revenue based on historical data. Meanwhile, additional long-term loans would be 70% of fund needs for new plants and existing loans will be paid according to payment schedule.
- Dividends: TCM is expected to pay 10% of cash dividend (VND1,000 per share) in 2014. For the following years, dividend is forecast to increase gradually and reach VND1,700 per share in 2018.

## VALUATION

To value TCM, we apply two methods: P/E and DCF to derive target value for TCM.

### Peer comparison

We choose comparable companies which have similar market capital to TCM, including regional and domestic peers. We eliminated peers which have outlying ratios and put a total of six companies on the shortlist.

- **Siyaram Silk Mills** (India) Limited manufactures fabrics, texturized and dyed yarn, and readymade garments.
- **People's Garment Public Company Limited** (Thailand) manufactures and distributes ready-made wear for all levels of consumers. The Company is part of the Saha Group Company.
- **Yangtzekiang Garment Limited** (Hongkong), through its subsidiaries, manufactures and sells garments and textiles.
- **Art Textile Technology International Company Limited** (Hongkong), through its subsidiaries, manufactures and sells finished fabrics targeting at the mid- to high-end market in China.
- **Golden Shield Holdings Industrial Ltd. (Hongkong)** is principally engaged in the production and sale of cotton yarn and grey fabric. The Group's products have applications in textile and garment products such as bedding and clothing.
- **Prolexus Berhad** (Malaysia), through its subsidiaries, the company manufactures and markets garments and children's apparels.

Simply comparing P/E ratios may not give an accurate picture, however, because the peer companies are trading in different markets that have different risk-free rates and macroeconomic conditions. For a more accurate comparison, we look at relative P/E ratios to derive a value of VND29,865/share.

Name	P/E	Market P/E	Ratio P/E to market P/E	ROE (%)
Siyaram Silk Mills	5.74	17.98	0.32	18.60%
People's Garment Public Company Limited	13.91	16.54	0.84	6.60%
Yangtzekiang Garment Limited	6.7	10.81	0.62	6.90%
Art Textile Technology International Company Limited	6.41	10.81	0.59	5.40%
Golden Shield Holdings Industrial Ltd.	14.08	10.81	1.3	1.80%
Prolexus Berhad	7.03	16.94	0.41	17.50%
Average of Peer Group	8.98	13.98	0.68	9.47%
Thanh Cong Textile Garment Investment Trading JSC	8.06	13.14	0.61	16.80%
TCM's 2014 EPS	3,334			
Price (VND/share)	29,865			

Source: VPBS, Bloomberg

## Discounted Cash Flow (DCF) Method

We derive the intrinsic value of TCM based on the DCF method. We derive a WACC of 12% for TCM. Key inputs for WACC calculation were a beta of 1.2, which is a one-year Beta obtained from Bloomberg. In addition, a terminal growth rate of 3% is applied for TCM's growth. Finally, a risk free rate of 7.05% is used, in-line with a 5-year government bond. Thus, we finally arrive at the intrinsic value of TCM of **VND33,378/ share**.

Cost of Equity	Value
Five-year government bond yield	7.05%
Beta	1.2
Market required rate of return	15.00%
Cost of Equity	16.58%
Cost of Debt	
Long-term interest rate	8%
Effective Tax Rate	15%
After Tax Cost of Debt	6.8%
Current Share Price (VND)	25,000
Number of shares (million)	49
Market Capitalization (VND bn)	1,227.5
Debts (VND bn)	925.27
WACC	12%
Terminal Growth Rate	3.0%
<b>Valuation per share</b>	<b>33,378</b>

Source: Bloomberg, VPBS

## Sensitivity analysis

Terminal growth rate		WACC				
		10%	11%	12%	13%	14%
	1%	37,002	30,513	25,245	20,891	17,238
	2%	43,011	35,150	28,905	23,834	19,642
	3%	50,737	40,945	33,378	27,366	22,483
	4%	61,038	48,396	38,969	31,683	25,893
	5%	75,460	58,332	46,158	37,079	30,060

Source: VPBS

## DCF stock price to Gross profit margin

We do not have precise data on the amount of cotton used for production but we estimate that cotton makes up 80 to 90% of materials which in turn make up approximately 60% of cost of goods sold. Therefore a 25% increase in cotton prices should increase cost of goods sold by 12%. Cotton has fluctuated from a price of USD1/kg in 2006 to an average of USD3/kg in 2011 and is now near USD2kg.

GPM	DCF price	Change in stock price
26%	55,260	66%
22%	47,966	44%
18%	40,672	22%
<b>14%</b>	<b>33,378</b>	<b>0%</b>
10%	26,084	-22%
6%	19,701	-41%
2%	11,496	-66%

## Technical analysis

After dropping quickly from the sideways band of 27,000 to 30,000, TCM has found the bottom at 21,200. Then, its price started to rise smoothly in a short-term uptrend from May 15. It is now trading at the strong resistance level, formed by the MA50 and MA100 at 25,900 to 26,500. The signal for a mid-term uptrend will be generated once TCM breaks successfully through this threshold above.

Thus, we recommend to HOLD TCM at the time of publishing this report.

Horizon analytic	
Ticker	TCM
Horizon analytic	3 to 6 months
3 months highest price	29,500
3 months lowest price	21,200
Current MA50 days	25,900
Current MA100 days	26,500
Mid-term resistance level	26,500
Mid-term support level	21,200
<b>Recommendation</b>	<b>HOLD</b>

Source: VPBS



Source: VPBS

## Conclusion

Using the P/E and DCF methods, we deliver a target price of TCM at VND31,501/share, which is 20% higher than the current trading price.

Method	Price	Proportion	Target price
P/E	29,865	50%	14,812
DCF	33,378	50%	16,689
Target price			<b>31,501</b>

*Source: VPBS*

Income Statement	2012A	2013	2014F	2015F	2016F	2017F	2018F
<b>Revenue</b>							
Yarn, fabric and garment trading	2229	2502	2777	3077	3374	3694	4048
Growth rate		12%	11%	11%	10%	9%	10%
Others	54	52	54	54	55	56	57
Growth rate		-4%	3%	1%	1%	1%	1%
<b>Total Revenue</b>	<b>2,284</b>	<b>2,554</b>	<b>2,831</b>	<b>3,132</b>	<b>3,429</b>	<b>3,751</b>	<b>4,105</b>
Growth rate	4%	12%	11%	11%	9%	9%	9%
<b>Cost of Goods Sold</b>							
GCS	2,062	2,153	2,389	2,601	2,809	3,041	3,260
CGS % of segment revenue	90%	84%	84%	83%	82%	81%	79%
Depreciation in CGS	55	56	68	86	96	108	115
Reported Cost of Goods Sold	2,116	2,209	2,457	2,687	2,905	3,149	3,375
Less: Depreciation included in CGS	55	56	68	86	96	108	115
<b>Cost of Goods Sold</b>	<b>2,062</b>	<b>2,153</b>	<b>2,389</b>	<b>2,601</b>	<b>2,809</b>	<b>3,041</b>	<b>3,260</b>
<b>Gross Profit</b>	<b>222</b>	<b>402</b>	<b>442</b>	<b>531</b>	<b>620</b>	<b>710</b>	<b>845</b>
Gross Profit Margin	10%	16%	16%	17%	18%	19%	21%
<b>Selling Expenses</b>							
Marketing	57	65	57	94	137	150	164
Commissions			-	-	-	-	-
Other			-	-	-	-	-
<b>Total Selling Expenses</b>	<b>57</b>	<b>65</b>	<b>57</b>	<b>94</b>	<b>137</b>	<b>150</b>	<b>164</b>
<b>General &amp; Admin Expenses</b>							
Salaries	91	99	103	109	119	131	144
Utilities			-	-	-	-	-
Rents			-	-	-	-	-
Research and Development			-	-	-	-	-
Transportation			-	-	-	-	-
Other			-	-	-	-	-
<b>Total General &amp; Admin Expenses</b>	<b>91</b>	<b>99</b>	<b>103</b>	<b>109</b>	<b>119</b>	<b>131</b>	<b>144</b>
Income from Affiliated Companies	4	4	4	4	4	4	4
<b>EBITDA</b>	<b>79</b>	<b>241</b>	<b>286</b>	<b>332</b>	<b>368</b>	<b>432</b>	<b>541</b>
EBITDA Margin	3%	9%	10%	11%	11%	12%	13%
	147	164	159	203	256	281	308
<b>Depreciation</b>	55	56	59	77	87	97	110
<b>Amortization</b>			-	-	-	-	-
<b>EBIT</b>	<b>25</b>	<b>185</b>	<b>227</b>	<b>255</b>	<b>281</b>	<b>336</b>	<b>431</b>
Financial income	13	13	14	19	31	43	52
Financial expenses							
Interest Expense	58	44	51	73	93	118	122
Foreign Exchange Losses (Gains)			8	9	10	11	12
Other Financial Expenses Losses (Gains)	9	22	5	5	5	5	5
<b>Net Financial Income (Expense)</b>	<b>(54)</b>	<b>(53)</b>	<b>(50)</b>	<b>(68)</b>	<b>(78)</b>	<b>(92)</b>	<b>(88)</b>
Other Income	5	3					
<b>Pretax Income</b>	<b>(24)</b>	<b>134</b>	<b>176</b>	<b>187</b>	<b>203</b>	<b>244</b>	<b>343</b>
Income Tax Expense	(2)	11	14	15	30	37	52
Effective Tax Rate	6%	8%	8%	8%	15%	15%	15%
<b>Income Before XO Items</b>	<b>(23)</b>	<b>124</b>	<b>162</b>	<b>172</b>	<b>172</b>	<b>207</b>	<b>292</b>
Extraordinary Loss Net of Tax			-	-	-	-	-
Minority Interests	1	0	-	-	-	-	-
<b>XO Items &amp; Minority Interest</b>	<b>1</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income</b>	<b>(24)</b>	<b>123</b>	<b>162</b>	<b>172</b>	<b>172</b>	<b>207</b>	<b>292</b>
Net Profit Margin	-1%	5%	6%	5%	5%	6%	7%
Average Number of Shares	49	49	49	49	49	49	49
EPS	(491)	2,514	3,307	3,501	3,510	4,222	5,944
Dividends Per Share	-	-	1,000	1,200	1,500	1,500	1,700



Balance Sheet	2012	2013	2014F	2015F	2016F	2017F	2018F
<b>Current Assets</b>							
Cash & Near Cash Items	91	118	175	278	386	473	649
Short Term Investments	-	2	2	2	2	2	2
Accounts & Notes Receivable	145	154	171	189	207	226	259
<i>A/R DOH</i>	23	22	22	22	22	22	23
Inventories	610	613	680	750	803	871	965
<i>Inv DOH</i>	108	104	104	105	104	105	108
Other Current Assets	107	73	73	85	77	78	80
<b>Total Current Assets</b>	<b>953</b>	<b>960</b>	<b>1,101</b>	<b>1,303</b>	<b>1,475</b>	<b>1,650</b>	<b>1,953</b>
<b>Long-Term Assets</b>							
Gross Fixed Assets	1,419	1,428	1,638	1,830	2,023	2,260	2,368
Accumulated Depreciation	706	710	769	847	933	1,030	1,140
Net Fixed Assets	714	717	868	984	1,090	1,230	1,228
Long Term Investments	-	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-	-
Other Long Term Assets	300	312	312	312	312	312	312
<b>Total Long-Term Assets</b>	<b>1,013</b>	<b>1,029</b>	<b>1,180</b>	<b>1,296</b>	<b>1,401</b>	<b>1,542</b>	<b>1,539</b>
<b>Total Assets</b>	<b>1,966</b>	<b>1,989</b>	<b>2,281</b>	<b>2,599</b>	<b>2,876</b>	<b>3,192</b>	<b>3,493</b>
<b>Current Liabilities</b>							
Accounts Payable	173	136	176	192	207	225	241
<i>A/P DOH</i>	31	23	27	27	27	27	27
Accrued Expenses	116	145	141	179	226	247	271
Short Term Borrowings	668	661	707	812	896	983	1,085
Other Short Term Liabilities	42	4	4	4	4	4	4
<b>Total Current Liabilities</b>	<b>999</b>	<b>946</b>	<b>1,027</b>	<b>1,188</b>	<b>1,333</b>	<b>1,460</b>	<b>1,601</b>
<b>Long Term Liabilities</b>							
Long Term Borrowings	310	264	361	406	439	494	446
Other Long Term Liabilities	35	37	37	37	37	37	37
<b>Total Long Term Liabilities</b>	<b>345</b>	<b>301</b>	<b>398</b>	<b>443</b>	<b>476</b>	<b>531</b>	<b>483</b>
<b>Total Liabilities</b>	<b>1,344</b>	<b>1,247</b>	<b>1,425</b>	<b>1,630</b>	<b>1,809</b>	<b>1,991</b>	<b>2,083</b>
<i>Total Debt to Capital</i>	<i>61.4%</i>	<i>55.7%</i>	<i>55.7%</i>	<i>55.9%</i>	<i>55.7%</i>	<i>55.3%</i>	<i>52.2%</i>
<b>Equity</b>							
Preferred Equity	-	-	-	-	-	-	-
Share Capital & APIC	491	515	514.72	514.72	514.72	514.72	514.72
Retained Earnings	124	221	334.42	447.39	546.09	679.75	888.15
Other Equity	-	-	-	-	-	-	-
<b>Total Shareholders Equity</b>	<b>615</b>	<b>736</b>	<b>849</b>	<b>962</b>	<b>1,061</b>	<b>1,194</b>	<b>1,403</b>
Minority Interest	6	6	6.38	6.38	6.38	6.38	6.38
<b>Total Liabilities &amp; Equity</b>	<b>1,966</b>	<b>1,989</b>	<b>2,281</b>	<b>2,599</b>	<b>2,876</b>	<b>3,192</b>	<b>3,493</b>
<i>Balance check</i>	<i>(0)</i>	<i>(0)</i>	<i>(0)</i>	<i>(0)</i>	<i>(0)</i>	<i>(0)</i>	<i>(0)</i>
Average Shares Outstanding	49	49	49	49	49	49	49
Book Value Per Share	12,527	14,987	17,294	19,595	21,605	24,327	28,572
Tangible Book Value Per Share	12,527	14,987	17,294	19,595	21,605	24,327	28,572

Cash Flows	2012A	2013A	2014F	2015F	2016F	2017F	2018F
Net Income	(20)	135	162	172	172	207	292
Depreciation & Amortization	55	56	59	77	87	97	110
Changes in Working Capital	33	(64)	(44)	(83)	(49)	(71)	(112)
Other Non-Cash Adjustments	34	55	(4)	38	47	22	24
<b>Cash From Operation Activities</b>	<b>101</b>	<b>182</b>	<b>173</b>	<b>205</b>	<b>257</b>	<b>255</b>	<b>314</b>
Disposal of Fixed Assets	3	1	-	-	-	-	-
Capital Expenditures	(27)	(69)	(210)	(193)	(193)	(237)	(107)
Increase/Decrease in Investments	(1)	(2)	-	-	-	-	-
Other Investing Activities	2	3	-	-	-	-	-
<b>Cash From Investing Activities</b>	<b>(24)</b>	<b>(67)</b>	<b>(210)</b>	<b>(193)</b>	<b>(193)</b>	<b>(237)</b>	<b>(107)</b>
(Dividends Paid)	(67)	(31)	(49)	(59)	(74)	(74)	(83)
Increase (Decrease) in Short Term Borrowings	1,431	1,902	46	106	83	88	101
Increase (Decrease) in Long Term Borrowings	(1,442)	(1,953)	97	45	33	55	(49)
Increase (Decrease) in Capital Stocks	-	-	-	-	-	-	-
Other Financing Activities	(4)	(5)	-	-	-	-	-
<b>Cash From Financing Activities</b>	<b>(81)</b>	<b>(87)</b>	<b>93</b>	<b>91</b>	<b>43</b>	<b>69</b>	<b>(31)</b>
Beginning Cash Balance	95	91	118	175	278	386	473
Net Changes in Cash	(4)	28	57	103	108	87	176
Expected Ending Cash Balance	<b>90</b>	<b>118</b>	<b>175</b>	<b>278</b>	<b>386</b>	<b>473</b>	<b>649</b>

Ratio Analysis	2012	2013	2014F	2015F	2016F	2017F	2018F
<b>Valuation Ratios</b>							
Price Earnings		9.9	13.7	7.7	7.6	6.3	4.4
PEG	N/a	-1.9	19.8	4.3	7.6	5.2	3.0
EV to EBIT	54.2	6.0	15.2	8.9	8.0	6.7	5.2
EV to EBITDA	17.0	4.6	10.7	6.8	6.1	5.2	4.1
Price to Sales	0.1	0.5	0.4	0.4	0.3	0.3	0.3
Price to Book	0.4	1.7	1.5	1.4	1.2	1.1	0.9
Dividend Yield	0.1	0.0	0.0	0.1	0.1	0.1	0.1
<b>Profitability Ratios</b>							
Gross Margin (ex. Dep)	9.72%	15.72%	12.67%	16.66%	17.79%	18.64%	20.32%
EBITDA Margin	3.48%	9.43%	7.16%	10.29%	10.43%	11.25%	12.91%
Operating Margin	1.09%	7.23%	5.07%	7.83%	7.89%	8.67%	10.23%
Profit Margin	-1.05%	4.83%	3.03%	4.90%	4.51%	5.00%	6.57%
Return on Avg. Assets	(0.01)	0.06	0.04	0.07	0.06	0.06	0.08
Return on Avg. Equity	(0.04)	0.18	0.11	0.19	0.17	0.19	0.23
<b>Leverage Ratios</b>							
Interest Coverage Ratio (EBIT/I)	0.43	4.16	2.80	3.36	2.90	2.75	3.43
EBITDA / (I + Cap Ex)	0.93	2.13	0.78	1.21	1.25	1.19	2.31
Tot Debt/Capital	0.61	0.56	0.58	0.58	0.58	0.58	0.55
Tot Debt/Equity	1.59	1.26	1.38	1.40	1.41	1.39	1.23
<b>Liquidity Ratios</b>							
Asset Turnover	1.16	1.28	1.28	1.25	1.24	1.23	1.23
Accounts Receivable Turnover	15.74	16.56	16.56	16.56	16.56	16.56	15.87
Accounts Payable Turnover	13.19	18.79	15.57	16.22	16.49	16.64	17.00
Inventory Turnover	3.74	4.17	4.02	4.16	4.25	4.29	4.24
Current Ratio	0.95	1.02	1.00	1.02	1.02	1.04	1.12
Quick Ratio	0.34	0.37	0.32	0.38	0.42	0.44	0.52

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**Buy:** Expected return, including dividends, over the next 12 months is greater than 15%.

**Hold:** Expected return, including dividends, over the next 12 months is from -10% to + 15%.

**Sell:** Expected return, including dividends, over the next 12 months is below -10%.

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