

## Thanh Cong Textile & Garment (TCM – HSX)

### Moving up the value chain

Particulars (VND bn)	Q2-FY14	Q1-FY14	+/- qoq	Q2-FY13	+/- yoy
Net Revenues	663.6	642.3	3%	653.7	2%
NPAT	46.7	37.3	25%	35.1	33%
EBIT	62.6	48.1	30%	53.1	18%
EBIT margin (%)	9.4	7.5	193bps	8.1	131bps

Source: TCM, RongViet Securities

- **Weaving the future**
- **Yarn risk stretched thin over the long term**
- **3Q2014 result update**
- **Optimistic business prospects in late 2104 and FY2015**

### Outlook:

In addition to a plan to bolster production capacity, TCM under the support of its major shareholder E-Land, is showing its flexibility in exploiting niche markets and improving business efficiency. In particular, the expansion of manufacturing scale and exports of high-end fabrics show much potential considering growing demand from overseas market and superior margins. This approach will also help TCM take advantage of its technology and is seen as a preparation of the Company to push itself forward in the value chain of textile production.

In 4Q2014, TCM's revenue and NPAT growth is expected to pick up speed thanks to higher demand leading export markets in preparation for public holidays in the end of the year. Moreover, TCM has started the construction of the first sewing workshop under the Vinh Long project. By our estimate, the first phase of the project will raise TCM's sewing capacity by 18% in 2015. Along with it, the expansion of weaving capacity is also a driving force for earning growth in upcoming years. Based on the arguments above, we revise our target price for TCM to **VND42,500/share** from VND 33,100/share in the previous report (14/03/2014) and rate the stock as **ACCUMULATE** in the **LONG TERM**.

### Key financials

Y/E Dec ( VND bn)	FY2012	FY2013	FY2014F	FY2015F
Net Interest Income	2,283.5	2,554.4	2,665.8	2,816.3
% chg	4.0	11.9	4.4	5.6
NPAT	-20.2	123.5	180.6	202.2
% chg	-118.0	-712.7	46.2	11.9
NIM (%)	-0.9	4.8	6.8	7.2
ROA (%)	-1.0	6.2	9.1	9.8
ROE (%)	-3.0	16.8	22.9	22.6
EPS (VND)	-452	2,516	3,671	4,110
Adjusted EPS (VND)	-176	2,516	3,671	4,110
Book value (VND)	13,926	14,956	17,128	19,237
Cash dividend (VND)	-	1,000	1,500	1,000
P/E (x)	-11.7	8.2	9.5*	8.4*
P/BV (x)	0.4	1.4	2.0*	1.8*

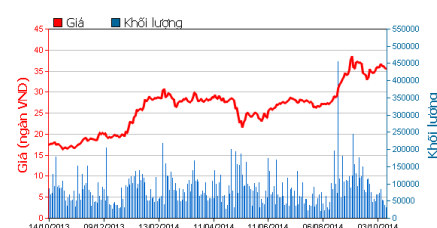
Source: TCM, RongViet Securities, stock price as of 14/10/2014

## ACCUMULATE

Market price (VND)	34,700
Target Price (VND)	42,500
Investment Period	LONG TERM

### Stock Info

Sector	Personal goods
Market Cap ( VND bn)	1,748
Current Shares O/S	49,199,951
Beta	1.68
Free float (%)	51.73
52 weeks High	39,500
52 weeks Low	15,826
Avg. Daily Volume (in 20 sessions)	779.202



### Performance (%)

	3M	1Y	3Y
TCM	26.2	102.3	137.3
Textile & Garment	20.1	44.8	n/a
VN30 Index	3.8	17.9	42.6
HSX Index	5.4	24.2	48.9

### Major Shareholders (%)

E-land Asia Holdings Pte., Ltd Singapore	43.23
Le Quoc Hung	5.04
Foreigner Investor Room	0

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**Exhibit 1: 2QFY2014**

Particulars (VND bn)	Q2-FY14	Q1-FY14	+/- (qoq)	Q2-FY13	+/- (yoy)
Net Revenues	663.6	642.3	3.3	653.7	1.5
Gross profits	99.1	92.4	7.3	101.8	-2.7
SG&AC	43.3	40.0	8.2	38.8	11.6
Operating Income	48.4	39.6	22.2	39.4	22.8
EBITDA	71.1	62.0	14.8	80.6	-11.7
EBIT	56.4	48.1	17.1	53.1	6.3
Financial expenses	10.8	14.1	-23.3	26.6	-59.4
- Interest Expenses	7.0	7.6	-8.2	12.8	-45.3
Dep. and amortization	-14.8	-13.8	6.7	-27.5	-46.3
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	49.4	40.5	21.9	40.3	22.7
NPAT	46.7	37.3	25.0	35.1	32.9
(*) Adjusted NPAT	46.7	37.3	25.0	35.1	32.9

Sources: TCM, RongViet Securities

**Exhibit 2: 2QFY2014 performance analysis**

Particulars	Q2-FY14	Q1-FY14	+/- (qoq)	Q2-FY13	+/- (yoy)
<b>Profitability Ratios (%)</b>					
Gross Margin	14.9	14.4	55bps	15.6	-64bps
EBITDA Margin	10.7	9.6	107bps	12.3	-160bps
EBIT Margin	8.5	7.5	100bps	8.1	38bps
Net Margin	7.0	5.8	122bps	5.4	166bps
Adjusted Net Margin	7.0	5.8	122bps	5.4	166bps
<b>Turnover *(x)</b>					
-Inventories	4.0	4.0	0.0	3.4	0.6
-Receivables	12.3	12.0	0.3	12.2	0.1
-Payables	9.0	8.8	0.2	7.7	1.3
<b>Leverage (%)</b>					
Total Debt/ Equity	1.7	1.5	0.2	2.2	-0.6

Source: TCM, RongViet Securities

**Weaving the future**

Since 2014, TCM has expanded its fabric segment to the manufacturing of higher-quality products for the Japanese market, a market known for its rigorous requirements of product quality and uniformity along with a variety of technical standards. TCM now supplies up to 25% the fabric demand of Nomura Trading Co. Ltd. (Japan) for a gross profit margin of about 25%, better than other products of the Company, even garments (22%). To cater for new demand, TCM has imported 15 new power looms, thereby raising its weaving capacity up about 20%. For 2014 whole-year, the gross margin for the fabric segment is estimated at around 19%, well higher than the number recorded in 2013 (16%).

The expansion into the new territory of high-end fabrics shows not only flexibility but also vision of TCM's management under the support of its largest shareholder, E-Land (Korea). Designing and manufacturing of these lines of fabrics typically require more advanced production technology, especially for ability to combine yarns of different quality specifications. Given its technology and a

ready yarn production line, TCM is well-equipped for the expansion into this untapped territory. At the presence, textile and garments made in Vietnam only accounts for a fraction of Japan's total imports of these products (nearly 18.8% in 1H2014). Under the prospect of both nations obtaining their memberships in the TPP, TCM, will have a better chance to exploit the potential of the Japan market when the "trade pact of the century" is officially enforced.

With a close-end production process, TCM has been manufacturing apparels for exports under the FOB method, which offers a gross profit margin of 20-25%. Besides, TCM is preparing to march up the ODM method, which unfortunately, calls for substantial and long-term investments to build a strong design team and develop a trusted, widely recognized brand name. Competitive advantages in fabric manufacturing technology, however, can help improve profit margins in a relatively short period of time. We believe this is one of TCM's preparations to advance to a higher level in the value chain.

### **Yarn risk stretched thin over the long term**

At a total capacity of 21,000 tons/year, TCM's spinning lines are contributing about 35-42% of the Company's annual revenue. Due to the uniqueness of each order in contrast to the uniformity of yarn output, self-consumption is only 10-20% of the yarn output, TCM sells most of its yarns to overseas markets such as Korea, China, India and Pakistan and a smaller portion in the local market. Taking advantages of its closed-end production technology, TCM generally combines cotton, yarns and fibers from various sources to create a spectrum of quality specifications for yarns and fabrics to fill the diverse quality requirements of each export order.

In 2012, TCM recorded a net loss of VND20.16 billion due to high-cost cotton inventory resulting from cotton speculation in previous periods. To minimize the risk from cotton price volatility, TCM has trimmed the proportion of forward contracts in total cotton purchases from 80% to 20-30% and under close monitor of the cotton market, has been flexibly adjusting this ratio in response to market movements at each point of time. Even so, yarn trading always bears a substantial amount of risk due to its inherent sensitivity to market prices. Meanwhile, it offers only a modest gross profit margin (7-12%) as compared to other lines of products. In 1H2014, wide fluctuations of cotton and yarn prices plunged the gross profit margin of yarn segment to only 3-4% in 1Q2014 and 6-7% in 2Q2014. Also, as we mentioned above, TCM can only make use of a fraction of the yarns it produced. Therefore, in the longer term, we see it is likely that the Company will have to consider downsizing the yarn segment as a whole to promote profit stability.

On the other hand, after the TPP takes effect, TCM will have the option to import yarns and fabrics at greater diversity and more competitive prices from all TPP member countries other than Vietnam. In that case, the operation of a full-scale cotton yarn production line may no longer be necessary. By downsizing the yarn segment, TCM could reduce the risk of cotton and yarn price fluctuations and allocate more resources on the production of more value-added products.

### **3Q2014 result update**

We estimate TCM's Q3 revenue was about VND606.1 billion, down 14.5% from a year earlier due to the tumbling yarn sales as the result of lower yarn price in the international market. In contrast, NPAT in 3Q2014 rose by VND6.6 billion or 18% over the one-year period to VND43.5 billion as the Company continued expanding to high-quality fabrics and were able to obtain some yarn sale contracts with lucrative margins. Given an average cotton inventory cost (at the end of August) of 0.81 cent/pound and prevailing yarn sale price of 3.23-3.3 cents/pound, we estimate TCM could have achieve a gross profit margin of about 10-11% for the yarn segment in Q3. In Q4, the gross profit margin for yarns may be lower at 8-9% since the yarn prices may continue to go down even though cotton price may move forward on the downtrend as well.

**Exhibit 4: 4QFY2013 Forecast**

Particulars (VND bn)	Q4-FY14	+/- qoq	+/- yoy
Net Revenues	737	20	14
Gross profits	113	20	43
EBIT	74	19	86
NPAT	53	22	84

Source: RongViet Securities

**Optimistic business prospects for late-2014 and 2015**

From 2015 onwards, there are factors underpinning TCM's revenue and earnings growth. The first sewing factory under the Vinh Long project will be operational as early as January 2015. With a design capacity of 6 million products/year, the factory will raise the overall capacity of TCM's sewing line by 18% and is expected to contribute about VND13 billion to company-wide NPAT. Purposed to solely produce for the US market, the Vinh Long workshops will be constructed on an unscattered land area and in a better organized set-up than all the existing workshops in Ho Chi Minh City. This urges us to believe that the efficiency of sewing segment as a whole will be enhanced after the new sewing workshop starts creating products. At present, the average monthly salary for a sewing line operator in Vinh Long is just about 20% lower than in HCMC. Meanwhile, TCM has seen its average wage on a steady rise in the last few years (13.9%/year between 2009 and 2013) now making up 15% of total COGS. Therefore, good manufacturing organization and planning is crucial to enhancing labor efficiency in the long term.

**Outlook**

In addition to a plan to bolster production capacity, TCM under the support of its major shareholder E-Land, is showing its flexibility in exploiting niche markets and improving business efficiency. In particular, the expansion of manufacturing scale and exports of high-end fabrics show much potential considering growing demand from overseas market and superior margins. This approach will also help TCM take advantage of its technology and is seen as a preparation of the Company to push itself forward in the value chain of textile production.

In 4Q2014, TCM's revenue and NPAT growth is expected to pick up speed thanks to higher demand leading export markets in preparation for public holidays in the end of the year. Moreover, TCM has started the construction of the first sewing workshop under the Vinh Long project. By our estimate, the first phase of the project will raise TCM's sewing capacity by 18% in 2015. Along with it, the expansion of weaving capacity is also a driving force for earning growth in upcoming years. Based on the arguments above, we revise our target price for TCM to **VND42,500/share** from VND 33,100/share in the previous report (March 14, 2014) and rate the stock as **ACCUMULATE** in the **LONG TERM**.

**Exhibit 4: Key Assumption**

Particular	Earlier Estimates		Revised Estimates	
	FY2014F	FY2015F	FY2014F	FY2015E
Revenue growth (%)	15	15	4	6
Gross margin (%)	15	15	15	16
EBIT margin (%)	8	8	9	10

Source: RongViet Securities

**Exhibit 5: Changes in Estimates**

Particular (VND bn)	FY2014F			FY2015F		
	Earlier Estimates	Revised Estimates	Change (%)	Earlier Estimates	Revised Estimates	Change (%)
Net revenue	2,926.3	2,665.8	-9	3,365.3	2,816.3	-16
Gross profit margin	15.0%	15.4%	36.6bps	15.0	16.1	110.73bps
SG&A expenses	187.3	170.6	-9	225.5	187.3	-17
Operating profit	251.7	239.0	-5	279.3	266.3	-5
Financial expenses	90.0	64.1	-29	112.9	68.5	-39
Pre-tax income	183.1	195.3	7	192.0	218.6	14
NPAT	166.4	180.6	9	174.1	202.2	16
EBITDA	381.8	301.6	-21	428.8	333.4	-22
EBIT	239.5	241.6	1	262.1	268.1	2

Source: RongViet Securities



Unit: VND Billion

<b>INCOME STATEMENT</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014E</b>	<b>FY2015F</b>
Revenue	2,283.5	2,554.4	2,665.8	2,816.3
COGS	2,116.1	2,208.9	2,256.2	2,362.6
<b>Gross profit</b>	<b>167.4</b>	<b>345.5</b>	<b>409.6</b>	<b>453.6</b>
Selling Expense	56.5	65.4	69.3	74.6
G&A Expense	86.6	98.9	101.3	112.7
Finance Income	12.5	12.8	12.6	12.8
Finance Expense	66.9	66.2	64.1	68.5
Other profits	5.1	3.0	3.0	3.7
<b>PBT</b>	<b>-20.4</b>	<b>134.5</b>	<b>195.3</b>	<b>218.6</b>
Prov. of Tax	-1.5	10.7	14.6	16.4
Minority's Interest	1.3	0.3	0.0	0.0
<b>PAT to Equity Shareholder</b>	<b>-20.2</b>	<b>123.5</b>	<b>180.6</b>	<b>202.2</b>
EBIT	37.4	178.8	241.6	268.1
EBITDA	92.0	234.9	301.6	333.4

Unit: %

<b>FINANCIAL RATIO</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014E</b>	<b>FY2015F</b>
<b>Growth</b>				
Revenue	4.0	11.9	4.4	5.6
Operating Income	-88.8	644.0	31.8	11.4
EBITDA	-61.6	155.4	28.4	10.5
EBIT	-79.8	377.8	35.1	11.0
PAT	-118.0	-712.7	46.2	11.9
Total Assets	-4.3	1.2	-1.2	10.5
Equity	-13.8	18.1	14.5	12.3
Internal growth rate	-3.0	10.9	13.5	11.6
<b>Profitability</b>				
Gross profit/Revenue	7.3	13.5	15.4	16.1
Operating profit/ Revenue	1.1	7.1	9.0	9.5
EBITDA/ Revenue	4.0	9.2	11.3	11.8
EBITDA/ Revenue	1.6	7.0	9.1	9.5
Net margin	-0.9	4.8	6.8	7.2
ROAA	-1.0	6.2	9.1	9.8
ROIC or RONA	3.5	17.1	22.3	21.8
ROAE	-3.0	16.8	22.9	22.6
<b>Efficiency (x)</b>				
Receivable Turnover	11.7	13.2	13.1	12.4
Inventory Turnover	3.3	3.6	3.6	3.5
Payable Turnover	6.9	7.8	7.6	7.4
<b>Liquidity</b>				
Current	1.0	1.0	1.2	1.3
Quick	0.3	0.4	0.4	0.5
<b>Solvency</b>				
Total Debt/Equity	214.5	169.5	132.4	128.7
Current Debt/Equity	107.2	89.8	63.3	53.6
Long-term Debt/ Equity	49.8	35.9	27.7	36.8

Unit: VND Billion

<b>BALANCE SHEET</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014E</b>	<b>FY2015F</b>
Cash and equivalents	90.6	118.1	124.9	134.6
Short-term investment	0.0	1.6	0.0	0.0
Receivables	216.0	194.2	213.3	239.4
Inventories	610.2	612.7	631.7	708.8
Other current assets	35.8	33.5	26.8	21.4
<b>Total Current Asset</b>	<b>952.6</b>	<b>960.1</b>	<b>996.7</b>	<b>1,104.2</b>
Tangible Fixed Assets	568.5	575.1	519.0	619.7
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 Investment	130.9	132.9	132.9	132.9
Other long-term assets	98.5	92.7	91.9	91.1
Goodwill	0.0	0.0	0.0	0.0
Long-term Asset	<b>1,013.2</b>	<b>1,029.1</b>	<b>967.8</b>	<b>1,066.9</b>
<b>Total Asset</b>	<b>1,965.8</b>	<b>1,989.3</b>	<b>1,964.5</b>	<b>2,171.1</b>
Payables	242.6	221.0	248.2	259.9
Other current liabilities	81.1	63.9	64.0	67.6
Current Debt	667.6	660.9	533.2	506.9
Long-term Debt	310.2	264.4	233.6	347.9
Other long-term liabilities	34.9	36.9	36.9	36.2
<b>Total Liability</b>	<b>1,336.4</b>	<b>1,247.1</b>	<b>1,115.9</b>	<b>1,218.6</b>
<b>Owner's Equity</b>	<b>623.0</b>	<b>735.9</b>	<b>842.7</b>	<b>946.5</b>
Capital	447.4	492.0	492.0	492.0
Retained Earnings	55.9	169.8	276.6	380.4
Funds & Reverses	81.6	57.3	57.3	57.3
<b>Others</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Equity</b>	<b>623.0</b>	<b>735.9</b>	<b>842.7</b>	<b>946.5</b>
Minority's Interest	6.4	6.4	5.9	6.1
<b>TOTAL RESOURCES</b>	<b>1,965.8</b>	<b>1,989.3</b>	<b>1,964.5</b>	<b>2,171.1</b>
<b>CASH FLOW STATEMENT</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014E</b>	<b>FY2015F</b>
<b>Profit before tax</b>	<b>-20.4</b>	<b>134.5</b>	<b>195.3</b>	<b>218.6</b>
-Depreciation	54.6	56.1	60.0	65.3
-Adjustments	34.1	55.1	0.0	0.0
+/- Working capital	32.7	-64.0	32.3	-45.2
<b>Net Operating CFs</b>	<b>100.9</b>	<b>181.6</b>	<b>287.6</b>	<b>238.7</b>
+/- Fixed Asset	-24.8	-67.3	1.3	-164.4
+/- Deposit, equity investment	-0.9	-1.7	0.0	0.0
Interest, dividend, cash profit received	2.1	2.5	14.0	14.3
<b>Net Investing CFs</b>	<b>-23.6</b>	<b>-66.5</b>	<b>15.3</b>	<b>-150.2</b>
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-14.2	-56.4	-158.5	88.1
Dividend paid & other	-67.0	-31.2	-137.6	-167.0
<b>Net Financing CFs</b>	<b>-81.2</b>	<b>-87.6</b>	<b>-296.2</b>	<b>-78.9</b>
+/- cash & equivalents	-3.8	27.5	6.8	9.7
<b>Beginning cash &amp; equivalents</b>	<b>94.5</b>	<b>90.6</b>	<b>118.1</b>	<b>124.9</b>
Impact of exchange rate	-0.1	0.0	0.0	0.0
<b>Ending cash &amp; equivalents</b>	<b>90.6</b>	<b>118.1</b>	<b>124.9</b>	<b>134.6</b>

## COMPANY RESEARCH REPORT

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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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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