

**Q3.2015 UPDATE REPORT**

December, 24<sup>th</sup> 2015

**TCM – HOLD**

**STOCK INFORMATION**

(Date: 24/12/2015)

Stock Exchange	HSX
Market price (VND)	30,900
Capitalization (bil. VND)	1,527
Outstanding stocks	49,099,501
% owned by foreigners	49%
BVPS	17,798

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**TCM: POSITIVE 9M.2015 RESULTS**

**9M.2015 results:** TCM has official announced a fairly positive 9M.2015 business results with revenue of VND 2,144 billion (+11% yoy, 77% target) and net income of VND 132.8 billion (+2.5% yoy, 78% target).

**Outlook:** In 2016, despite the forex risk and the depreciation from the new plant, increase of production capability by 33% and extra income from export orders of Vinh Long plant will be the key drivers of growth for TCM. Hence, we expect revenue and net income of TCM will improve greatly starting from 2016. Therefore, forecasted revenue for 2016 is VND 3,314 billion (+21% yoy, 102% target) and forecasted NI for 2016 is VND 165.7 billion (+15% yoy, 103% target).

**Recommendation:** According to TCM's estimated 2015 results, EPS 2015 will be at VND 2.932/share, corresponding to a P/E of 10.54x. Forward EPS for 2016 is VND 3.376/share, corresponding to a P/E of 9.15x. This is a reasonable P/E for a leading company in the textile industry as TCM. So we recommend **HOLDING** this stock for long-term perspective.

Items	2012	2013	2014	9M.2015
Revenue (bn. VND)	2,284	2,554	2,571	2,144
+/- yoy (%)	4%	12%	1%	11%
NI (bn. VND)	-20	124	168	133
+/- yoy (%)	-117%	N/A	36%	3%
Owner's equity (bn. VND)	629	742	814	874
D/A (%)	68%	63%	61%	63%
Gross profit margin (%)	7%	14%	15%	16%
Net profit margin (%)	-1%	6%	8%	6%
ROA – TTM (%)	-1%	6%	8%	7%
ROE – TTM (%)	-3%	17%	21%	20%
EPS - TTM (VND)	-452	2,516	3,430	2,392
BVPS (VND)	14,068	15,086	16,535	17,798

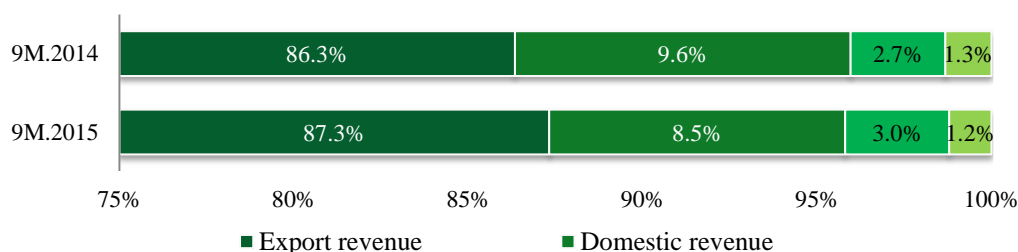
## BUSINESS RESULTS ANALYSIS

**Business results of 9M.2015:** TCM has completed 77% of its revenue target and 78% of its net income target.

TCM has official announced a fairly positive 9M.2015 business results with revenue of VND 2,144 billion (+11% yoy, 77% target) and net income of VND 132.8 billion (+2.5% yoy, 78% target). Net revenue had recently increased sharply thanks to exporting activities (+12% yoy) with benefit from exchange rate. Hence, proportion of export products in the total revenue had also increased slightly by +1% yoy.

Because the Vinh Long plant started operating officially in mid-September 2015, its contribution into the total revenue is insignificant. However in the context of other plants already reaching its maximum capacity, this new plant is recognized as the key drive of growth for TCM in the next time.

*Revenue structure*



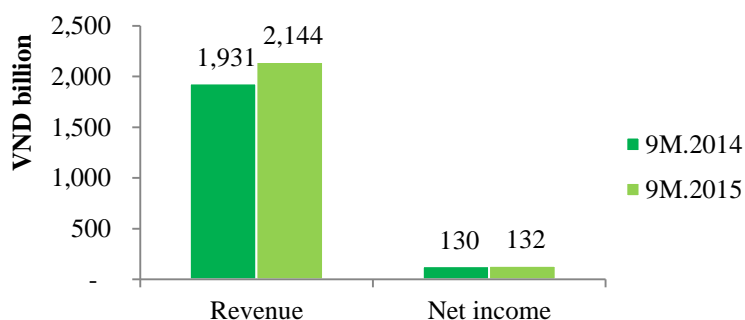
*Sources: Financial reports of TCM*

While accumulated revenue had grown quite well, net income of TCM only increased slightly to compensate for (1) expenses that related to the launching of the new plant in Vinh Long and (2) foreign exchange transaction loss from debts of foreign currency. In more details:

- (1) Sales & marketing expenses as well as G&A expenses had both increased respectively by 28% and 17%, higher than the growth rate of net revenue, which was 11%. Among those, there were some notable increases, such as labor cost in sales expenses up VND 7.37 billion (+47% yoy) and rent expenses up VND 2.6 billion (+130% yoy).
- (2) Financial expenses had surged 60% yoy, mainly coming from the foreign currency transaction losses (VND 45.5 billion) when TCM has owed a net debt of VND 950.6 billion in USD.

Therefore, net profit margin was also affected, down from 6.7% in last year to 6.2%.

**Business results of 9M.2014 vs 9M.2015**



*Source: Financial reports of TCM*

**Business results of October and November 2015:** During 11M.2015, revenue had reached VND 2,588 billion (93% target), net income had reached VND 138 billion (81% target)

Because Q4 is not the high season of textile exports, the average revenue of October and November 2015 of TCM only reached USD 9.87 million, lower than the average revenue in Q2 and Q3 but it was still acceptable compared to the same period a year ago.

Due to short-time running, the operation of Vinh Long plant had not affected the Q3.2015 financial results of TCM yet. However, some consequences have started showing in financial results of Q4.2015. Revenue from the new plant was not enough to compensate for the fixed cost as well as the increasing labor cost. Putting aside the results of February 2015 with the long holiday of Lunar New Year, the net income of TCM in October and November 2015 are at the lowest level within the last 12 months, corresponding to USD 134 million and USD 135 million. Therefore, net profit margin of these two months had dropped sharply, staying at 1.70% and 1.14% respectively, compared to net profit margin of previous months (9M.2015) at 6.15%.

Thus, 11M.2015 net revenue of TCM had reached VND 2,588 billion, completed 93% target and net income was posted at VND 138 billion, completed 81% target. In the current context, we assume that Q4.2015 results of TCM might not be positive as expected and the company might not reach its planned target for 2015.

## Financial health

Ending Q3.2015, the D/A ratio of TCM was at 63%, higher than which of same time last year at 58%. Comparing to last year, current liabilities had increased by VND 315.8 billion (+39% yoy), where VND 306 billion was from short-term borrowings and short-term capital-leases. Yet, this D/A ratio is still at a low level compared to its peers.

Comparing ending Q3.2015 to ending Q3.2014, current liabilities of TCM increased by 39% yoy while current assets only increased by 23%. Hence, cash ratio, quick ratio and current ratios of TCM had all declined and stayed 0.09 – 0.36 – 0.94 times respectively. However, this is not really a negative point since:

- (1) CFO still remains quite stable and revenue growth is higher than 10% yoy;
- (2) Current liabilities had increased because: payables were up 509% yoy due to extra-rent expenses of VND 43 billion for the new plant. Moreover, payment schedules were loosened up by suppliers while expecting positive cash flow from the new plant in short-term. Hence, account payables also increased by 123% yoy.

## Peer comparison

Data of some listed exporting textile manufacturers:

Ticker	Total asset (VND bn)	Owner's equity (VND bn)	D/A	Net Profit Margin	ROA (ttm)	ROE (ttm)	EPS (ttm)	BVPS
TCM	2,370	874	63%	6.20%	7.23%	19.60%	3,525	17,978
GMC	844	238	72%	4.65%	7.92%	28.08%	5,741	20,445
TNG	1,543	364	76%	4.05%	4.70%	19.93%	2,447	12,277
Avg.	1,586	492	70%	4.97%	6.62%	22.54%	3,904	16,900

*Data as of Q3.2015, price as at Dec 15<sup>th</sup>, 2015*

Among other peers, TCM had the highest net profit margin of 6.2%. However, the low leverage resulted in lower ROE compared to that of GMC and TNG. ROA ratio of TCM was also lower than that of competitor GMC as TCM's assets increased sharply at the end of accounting period

(+15%), hence asset utilization had not been reflected fully.

## OTHER UPDATES

### New plant in Vinh Long province

New plant in Vinh Long province started to operate from end of Q3.2015 with 16 out of 25 sewing lines installed and test run at 60% of design capacity. The other sewing lines were planned for installation this December in order to complete Phase 1 in Q1.2016 and the plant will start taking export orders - products with higher margin than current processed orders. Hence, an increase of 25 sewing lines in Vinh Long plant will boost TCM's production capacity to 24 million products/year, up 33% from current capacity of 18 million products/year. We assume that TCM is capable of having new orders to fill up 60% of Vinh Long plant's production capacity given the followings:

- (1) TCM had been running at full capacity for a while and the company has often been requested from buyers to increase orders;
- (2) The parent company, E-Land, is able to cover 40% to 50% output of TCM.

Therefore, we expect Vinh Long plant will bring around VND 455.5 billion in revenue for TCM in 2016.

### Expansion of retail business in domestic market

As mentioned in our previous report, TCM had confirmed their plan to boost retail sales in domestic market via the new company: TC E-land Co., Ltd., Accordingly, the excess export outputs of TCM and other manufacturers of E-land in Vietnam and India will be distributed via TC E-land. This retail segment will surely bring extra revenue for TCM in 2016 but with a small proportion.

## OUTLOOK

**2015 results:** *Annual revenue is estimated at VND 2,773 billion (-5.9% yoy, 98% target) and annual net income at VND 143.9 billion (-14.5% yoy, 85% target)*

As our prior forecast that TCM might not meet its annual profit target, the company just released its estimated 2015 results with a revenue of VND 2,773 billion (-5.9% yoy, 98% target) and a net income of VND 143.9 billion (-14.5% yoy, 85% target). Accordingly, 2015 EPS will be posted at VND 2,932/share, corresponding to a 2015 P/E of 10.54x, which is above the industry's average of 7.77x.

### 2016 Outlook: Positive

TCM has announced its projected business plan for 2016 with a revenue of VND 3,263.7 billion (+19% yoy) and a net income of VND 160 billion (+11% yoy). We think this is a feasible business plan since in long-term, TCM still have some good growth potentials as:

- (1) having a good financial health and corporate government,
- (2) owning a closed supply chain which is able to exploit textile value chain to the maximum,
- (3) its plan for expansion and its scale of investment are quite consistent with the development of Vietnam's textile industry, capturing the up-coming demand from FTAs that Vietnam has signed.

In 2016, despite the forex risk and the depreciation from the new plant, increase of production capability by 33% and extra income from export orders of Vinh Long plant will be the key drivers of growth for TCM. Hence, we expect revenue and net income of TCM will improve greatly starting from 2016. Therefore, forecasted revenue for 2016 is VND 3,314 billion (+21% yoy, 102% target) and forecasted net income for 2016 is VND 165.7 billion (+15% yoy, 103%

target). Accordingly, forward 2016 EPS is at VND 3,376/share, corresponding to a P/E of 9.15x.

### INVESTMENT RECOMMENDATION

#### **HOLD**

Depreciation and operating expenses of Vinh Long plant will heavily affect 2015 results of TCM. However, considering its healthy financial status and its closed-loop production system from yarn to garment, we believe TCM still is a good pick for investment. 2016 revenue is estimated at VND 3,314 billion (+21% yoy, 102% target) and net income at VND 165.7 billion (+15% yoy, 103% target). Accordingly, forward 2016 EPS is at VND 3,376/share, corresponding to a P/E of 9.15x. This is a reasonable P/E for a leading company in the textile industry as TCM. So we recommend **HOLDING** this stock for long-term perspective.

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