

**Neutral (Maintain)**

Industry Report  
January 15, 2020

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[Textile]

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# Textile industry

## Flickering growth prospects

### Overview

Vietnam reported textile export value of US\$27.29bn in 10M19, up 8% YoY. Although overall growth slowed this year due to the contagious effects of concerns over a **potential** global economic crisis, shipments to the US market grew by 8% YoY as China-US trade tensions would result in new orders to Vietnamese producers. Assuming that Vietnam's garment manufacturers will continue to benefit from these trade tensions in 2020, while increasing their market shares in the EU, once the EVFTA takes effect, we expect textile export value to grow by 7% YoY in 2020.

Despite export value's intact growth momentum, listed companies reported slow-to-moderate growth rates, due to the following:

- Export value growth is mainly contributed by companies with foreign capital when they have stable orders and advanced production technology.
- Producers in Vietnam will face higher costs going forward, due to higher electricity and labor costs.

We expect companies with some of the following features to post positive results in 2020:

- A complete in-house or local production chain to better control profit margin and capturing tax benefits granted by EVFTA and CPTPP
- Robust investment in R&D to strengthen and sustain the competitive advantages of Vietnam-origin products in international markets
- The application of automation to enhance production proficiency

### Top picks:

TCM VN: Stable growth rate with a complete production chain

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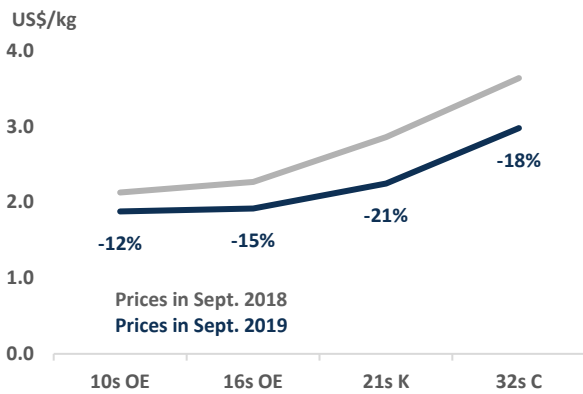
# 2019 Overview: A dim year

## 1. 2019 in the global industry

The textile and apparel industry witnessed a dim 2019, as evidenced by a 9% YoY decline in global apparel import value. The industry faced difficulties in both supply and demand markets. Demand in major consumption markets slumped, due to concerns over the global economic downturn. In the US, Forever 21, Walgreens, Dressbarn, GameStop, Gap, and other big clothing chains announced the closures of nearly 9,000 stores in 2019. A large amount of low-priced apparel was brought to consumers. In European markets, import values were down in major markets, including Germany (-4% YoY), the UK (-37% YoY), France (-2% YoY), and the Netherlands (-38% YoY).

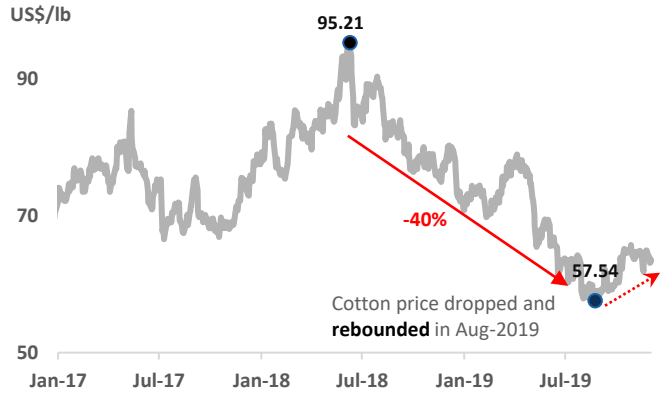
Regarding supply markets, prices of yarn—an initial input of textile and apparel production—faced a crisis, due to China’s dumping activities after its yarn was slapped with additional tariffs in the US market. Being the top supplier of the global apparel industry, the dumping activities of China’s players placed heavy price pressure on their competitors worldwide. According to TEXPROCIL, India, the world’s biggest cotton yarn exporter, reported decreases of 2.4% YoY in yarn export price and 34.57% YoY in value in the second quarter of 2019.

**Figure 1: Decreases in China's yarn prices in 2019**



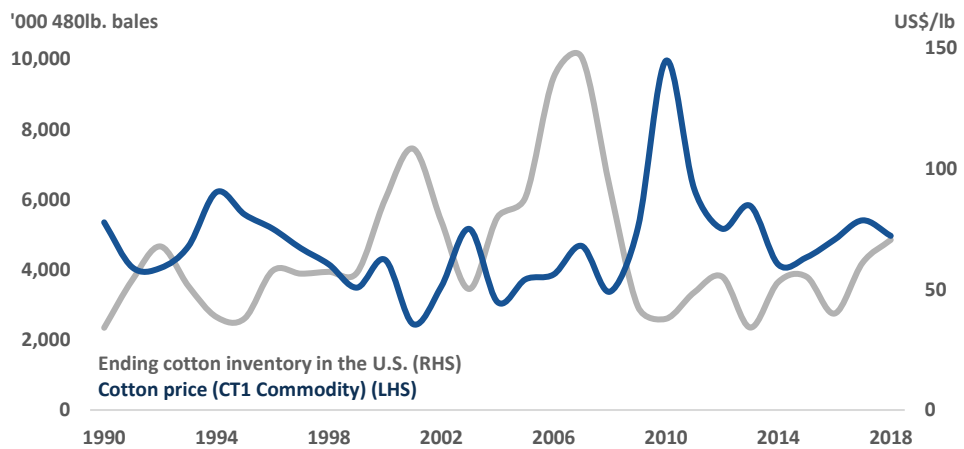
Source: Textile Beacon

**Figure 2: Cotton price (CT1 Commodity)**



Source: Bloomberg

**Figure 3: Decreases in China's yarn prices in Sept. 2019 on a yearly basis**



Source: United States Department of Agriculture

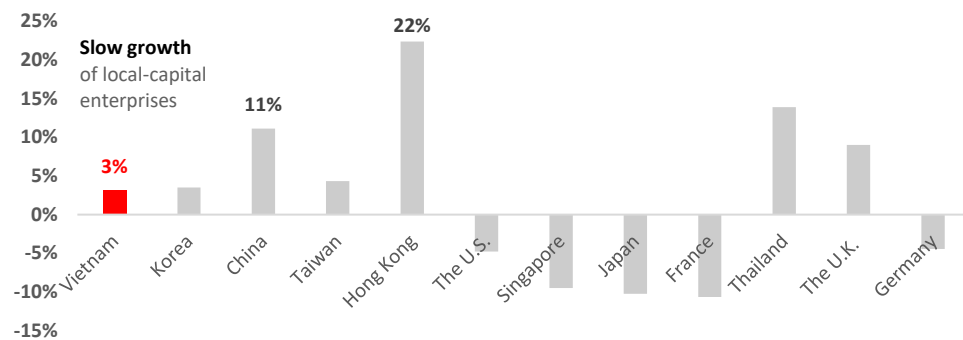
After a period of shrinkage, we see the rebound in global cotton price as a sign of recovery in global textile and apparel production. Looking back to the period of 1990-2018, cotton prices are inversely proportional to cotton inventory data in the US, the world's biggest cotton supplier. In fact, the US is the third-largest cotton producer, producing 15.5% of the world's cotton, after China (23.4%) and India (22.3% in 2018). Meanwhile, in contrast with China and India, where cotton is primarily consumed locally, US cotton serves subsequent production activities in Vietnam, China, Turkey, etc., making the US the top cotton exporter. Amid a 5% YoY rise in global cotton production in 2019-20 according to data from the USDA, the rebound in cotton price triggers an assumption of increasing demand for imported cotton resulting from a recovery in global textile and apparel production.

## 2. 2019 in Vietnam

Vietnam reported 8% YoY growth in textile export value in 10M19, thanks to intact growth momentum of shipment to the US (+8% YoY), accounting for 4ppt of total growth. Even though shipments to major markets remained positive, growth slowed, due to the contagious effects of global economic crisis concerns. In particular, in 10M19, exports to the EU were up 5% YoY, Japan +4% YoY, and Korea +5% YoY.

Nevertheless, export growth was primarily contributed by enterprises with foreign capital, Vietnamese companies reported negative-to-moderate growth in 2020. Currently, FDI textile manufacturers in Vietnam are mostly production units of multinational corporations; consequently, they have more stable order flows from mother companies with their own brands, retail networks, and customer pools. Meanwhile, Vietnamese manufacturers are dependent on partners' orders. We estimate that companies with local capital made up only 31% of total export value and 21% of total growth.

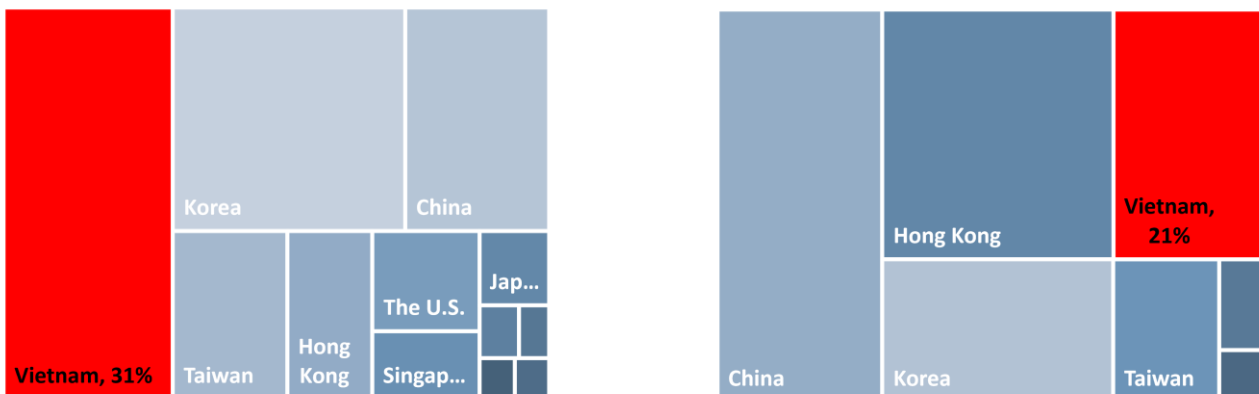
**Figure 4: 8M19 revenue growth rate of textile companies in Vietnam by sources of capital (YoY)\***



Source: Vietnam Textile & Apparel Association

\* Data on top 76 companies with highest export value in Aug. 2019, representing 39% of total textile export value in Vietnam

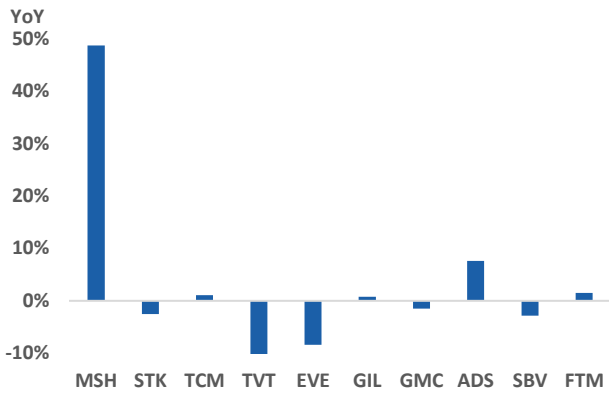
**Figure 5: Local-capital enterprises made up only 31%\* of total export value... and 21%\* of total growth**



Source: Vietnam Textile & Apparel Association

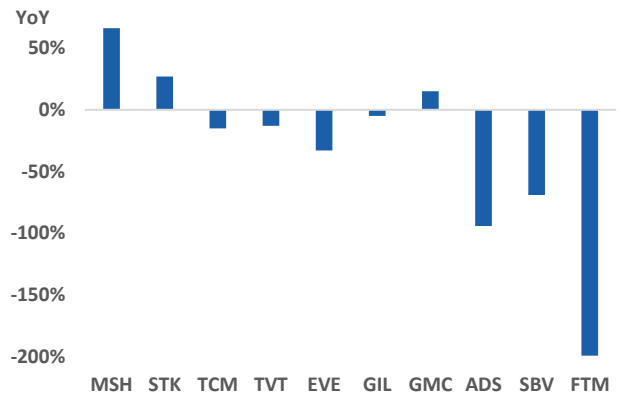
\* Data on top 76 companies with highest export value in Aug. 2019, representing 39% of total textile export value in Vietnam

**Figure 6: 9M19 revenue growth of listed textile companies**



Source: Bloomberg

**Figure 7: 9M19 profit growth of listed textile companies**



Source: Bloomberg

**Figure 8: Export activities rely heavily on imported materials**



Source: Vietnam Customs

# 2020 Outlook

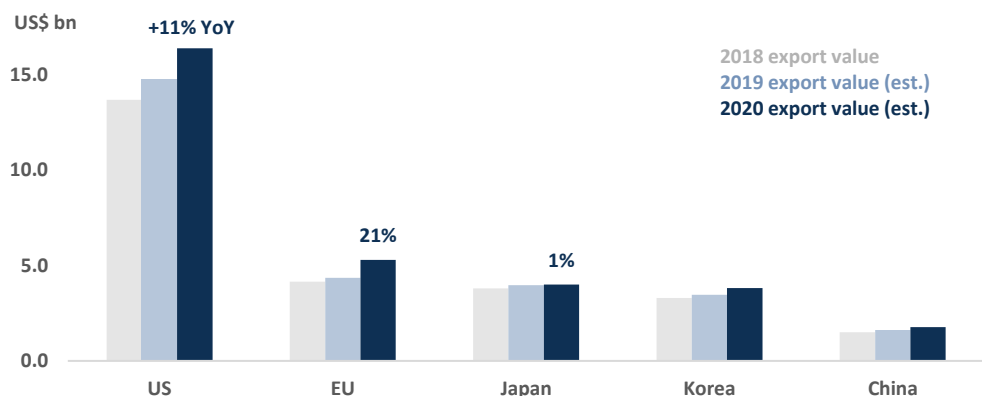
## 1. Outlook

Building our assumptions on the import and consumption data of major consumption markets, we expect global import value growth in 2020 of 7% YoY.

For Vietnam, we expect 10% YoY growth for export value in 2020, due to the following:

- The US should increase imports of apparel from Vietnam to offset a decline in shipments from China resulting from tariff hikes. Expected export value growth to the US market is 10% YoY (equivalent to 5ppt of overall growth).
- Vietnam has gained tax advantages in EU markets, thanks to the EVFTA. According to import and export data between Vietnam and the EU, as well as available production capacity in Vietnam, we expect Vietnam’s manufacturers to be able to fulfill an additional US\$1bn in orders from the EU in 2020, representing an increase of 21% YoY in export value, or 3ppt of overall export growth in 2020.
- Export shipments to Japan are projected to see moderate growth of 1% YoY, in line with Japan’s expected GDP growth. Vietnam remains the biggest garment importer in the Japanese market.

**Figure 9: Expected export value to major markets in 2020**



Source: Vietnam Textile & Apparel Association

## 2. Trends

Amid an uptrend in export value, development trends in the industry will weed out less-capable enterprises. We expect the textile and apparel industry to witness the following trends:

- The completion of domestic production chains from cotton to end-products (e.g., garments) to diminish the current dependence on imported materials, especially on those from China, thus enhancing operating profit margins and capturing tax benefits granted by the EVFTA and CPTPP
- Investments in R&D to strengthen and sustain the competitive advantages of Vietnam-origin products in international markets, especially in large markets with diverse and fastidious tastes, such as the US, Europe, and Japan. Competitive pressure is coming not only from other local companies, but also from foreign producers; therefore, continuous development and new innovations are a must. Recently, some innovations have captured the attention of global producers and investors, including new natural sources of textiles, such as cotton and leather alternatives (e.g., hemp, coffee grounds, etc.).
- Applying automation, increasing production proficiency. Strong growth in manufacturing factors, as well as the recent shift of manufacturers from China to Vietnam has resulted in a shortage of electricity for production activities and a possible shortage of labor available for textile manufacturing, posing potential risks to textile enterprises going forward. Therefore, the application of technologies to increase automation will be key to producers.

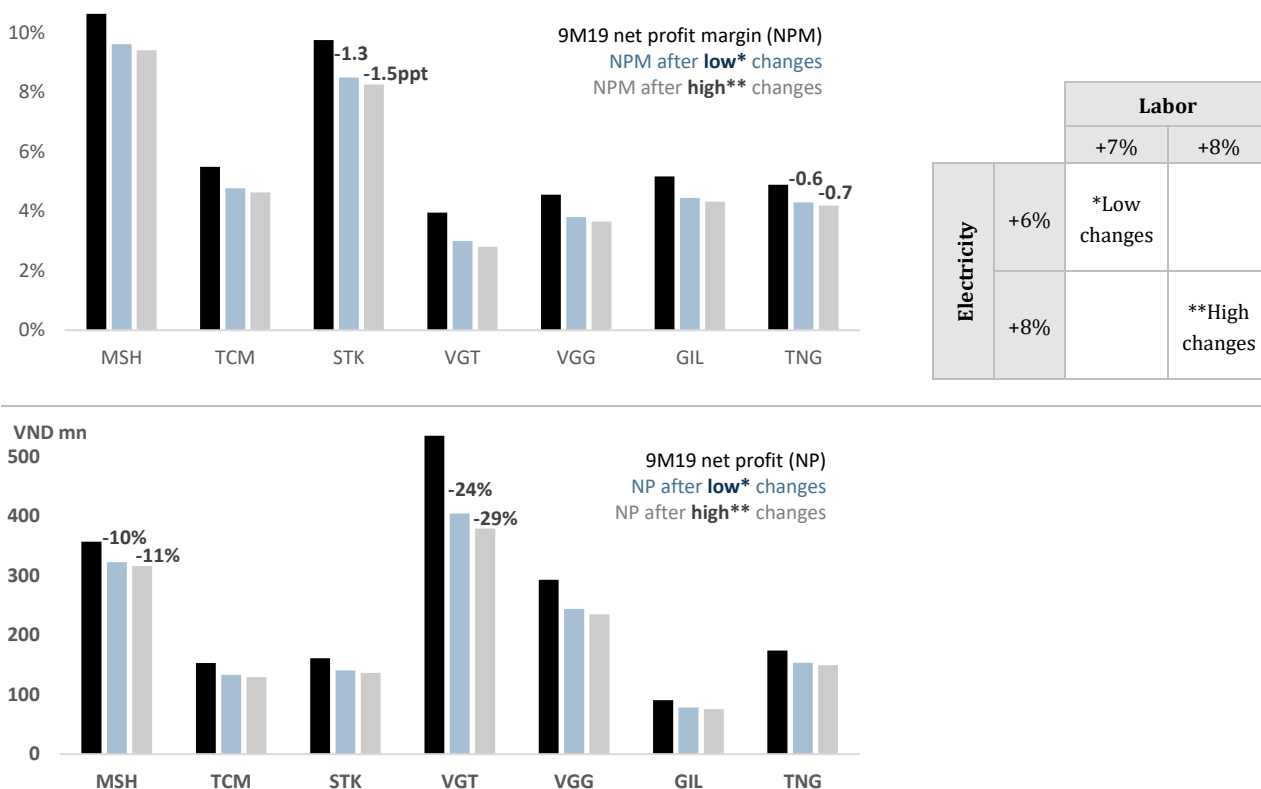
### 3. Risks

Production costs in Vietnam may increase in the coming years, due to increasing labor costs and electricity prices. Electricity demand is soaring, as a result of social-economic development, especially the robust growth of the manufacturing sector, as well as the belated implementation of power projects. According to a report by the Ministry of Industry and Trade, reserve electricity had been exhausted by 2019, and the shortage in electricity will be between 1.5bn and 5bn kWh per year between 2020-2025. Based on data on supply and demand, we estimate electricity prices paid by producers will rise by 6% per kWh per year in the period of 2020-2025.

Regarding labor costs, we assume the base salary will increase by 5-7% per year in the period of 2020-2025. Textile processing is a labor-intensive industry; at the same time, the sector offers among the lowest wages in Vietnam in average (75-80% below the minimum living standard). With increasing employment opportunities for less-educated workers due to rising FDI, more international producers coming to Vietnam, and the recent shift of production from China to Vietnam, garment enterprises may need to offer salaries 7-8% higher on an annual basis to ensure sufficient human resources.

We assess the impact of increasing electricity and labor costs on listed companies based on their 9M19 business results and cost structure. Increases of 7-8% in labor costs (~21% of COGS) and 6-8% in electricity costs (~9% of COGS) would reduce their current gross profit margins by approximately 2-2.4 ppt, corresponding to 0.6-1.5 ppt of net profit margins, assuming other costs remain stable. Consequently, the net profit of listed companies would drop by 10-29% compared with their current actual net profit.

**Figure 10: Estimated reductions in profit of listed companies on increasing electricity and labor costs**

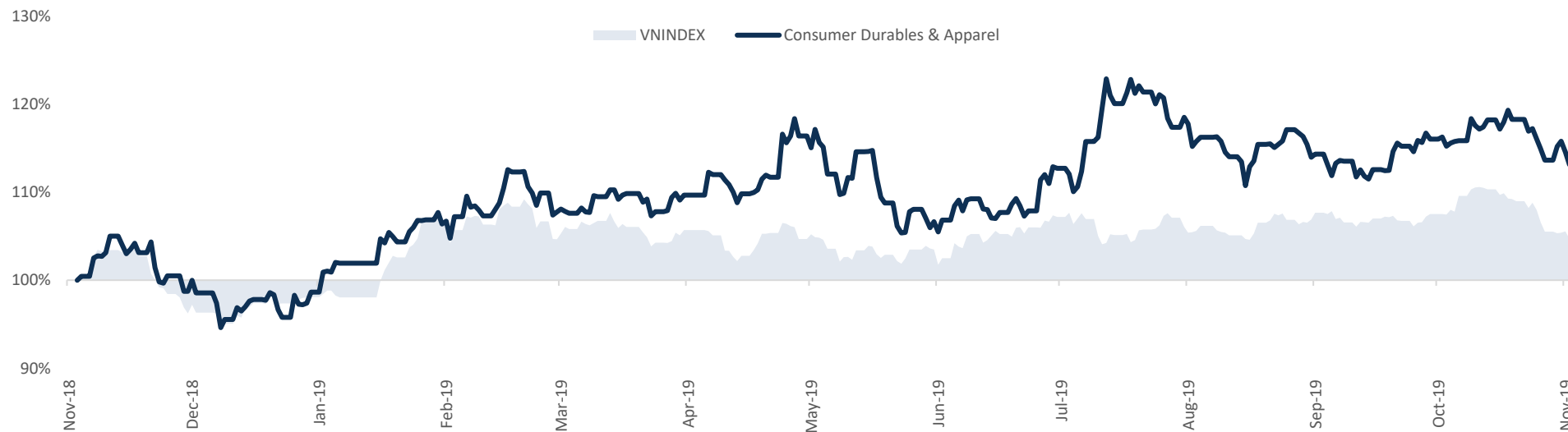


Source: Bloomberg, Company data, Mirae Asset Research

**Table 1: Key indicators**

Name	Ticker	Mkt cap (VND bn)	Price (VND)	Price performance (%)				Market liquidity		TTM growth		EPS growth	Valuation	
				1D	1W	1M	1Y	Volume (Avg 6M)	Value (Avg 6M, VND bn)	Net revenue	NPAT	(% YoY)	P/E	P/B
<b>HCM Stock Index</b>	<b>VN-INDEX</b>	<b>3,327,988</b>	<b>979.68</b>	<b>0.3</b>	<b>-2.8</b>	<b>-1.7</b>	<b>6.4</b>	<b>135,773,654</b>	<b>2,946</b>	<b>-5.0</b>	<b>9.2</b>	<b>9.22</b>	<b>16.0</b>	<b>2.3</b>
<b>Hanoi Stock Index</b>	<b>HNX-INDEX</b>	<b>184,466</b>	<b>103.92</b>	<b>0.4</b>	<b>-1.5</b>	<b>-0.8</b>	<b>-0.1</b>	<b>25,181,793</b>	<b>295</b>	<b>7.0</b>	<b>15.2</b>	<b>15.2</b>	<b>7.5</b>	<b>0.9</b>
<b>Hanoi Upcom Index</b>	<b>UPCOM-INDEX</b>	<b>955,231</b>	<b>55.96</b>	<b>-0.2</b>	<b>-1.8</b>	<b>-1.0</b>	<b>7.4</b>	<b>13,196,468</b>	<b>215</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>8.4</b>	<b>0.8</b>
<b>VN30 Index</b>	<b>VN30 Index</b>	<b>2,634,633</b>	<b>897.60</b>	<b>0.3</b>	<b>-3.1</b>	<b>-3.2</b>	<b>0.3</b>	<b>52,837,034</b>	<b>1,785</b>	<b>-16.3</b>	<b>11.0</b>	<b>11.0</b>	<b>13.0</b>	<b>2.2</b>
<b>HNX30 Index</b>	<b>HNX30 Index</b>	<b>107,589</b>	<b>183.50</b>	<b>0.2</b>	<b>-1.8</b>	<b>-1.0</b>	<b>-1.7</b>	<b>14,857,814</b>	<b>228</b>	<b>-3.5</b>	<b>-17.9</b>	<b>-17.9</b>	<b>6.3</b>	<b>0.8</b>
Song Hong Garment JSC	MSH VN	2,751	55,000	0.4	1.5	0.9	6.7	109,091	6.5	48.8	66.1	53.7	5.4	2.8
Century Synthetic Fiber Corp.	STK VN	1,259	17,800	-2.7	-3.3	-7.8	13.0	83,926	1.9	-2.5	27.1	23.2	5.9	1.2
Thanh Cong Textile Garment Investment Trading JSC	TCM VN	1,155	19,950	-0.7	1.8	-8.1	-9.5	618,065	15.4	1.1	-14.8	-14.8	6.8	0.9
Viet Thang Corp.	TVT VN	461	21,950	-2.2	0.0	1.6	27.5	12,814	0.4	-10.2	-13.4	-9.5	5.3	0.7
Everpia VietNam JSC	EVE VN	413	10,850	-0.5	-1.4	-3.1	-33.5	36,410	0.4	-8.4	-33.4	-30.5	7.9	0.5
Binh Thanh JSC	GIL VN	444	18,500	0.0	-3.6	-14.2	-37.8	27,154	0.6	0.7	-4.9	-11.5	2.6	0.6
Saigon Garmex JSC	GMC VN	382	21,400	0.0	-5.9	-2.5	-35.2	9,781	0.3	-1.5	14.8	14.9	4.4	0.9
Damsan JSC	ADS VN	283	11,100	-2.6	-0.9	6.2	-3.1	9,000	0.1	7.6	-93.7	-94.0	70.7	0.8
Siam Brothers Vietnam JSC	SBV VN	197	7,200	2.9	4.3	2.9	-46.4	2,684	0.0	-2.8	-69.3	-69.3	4.0	0.4
Duc Quan JSC	FTM VN	145	2,900	-5.2	2.8	-15.9	-80.9	669,351	9.8	1.5	-198.9	-198.9	5.7	0.3

**Figure 11: Expected export value to major markets in 2020**



Source: Bloomberg

# Thanh Cong Textile Garment Investment Trading JSC (TCM VN)

## Textile

Company Note  
January 15, 2020

(Maintain)	<b>BUY</b>
Target Price (12M, VND)	<b>34,300</b>
Share Price (14/01/20, VND)	<b>21,300</b>
Expected Return	<b>61.4%</b>

OP (20F, VNDbn)	249
Consensus OP (20F, VNDbn)	
EPS (Trailing 12M)	2,930
Market EPS (Trailing 12M)	61
P/E (current, x)	6.6
Market P/E (current, x)	15.7
VN-INDEX	955.82
Market Cap (VNDbn)	1,126
Shares Outstanding (mn)	58
Free Float (%)	56.6
Foreign Ownership (%)	49.0
Beta (12M)	1.2
52-Week Low (VND)	18,900
52-Week High (VND)	32,570
(%)	<b>1M</b> <b>6M</b> <b>12M</b>
Absolute	-0.3 -19.3 -4.0
Relative	-1.6 -17.2 -14.1



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## Restructuring to drive a turnaround

Thanh Cong Textile Garment Investment Trading JSC (HOSE: TCM) is one of two garment manufacturers listed on Vietnam's stock market. After restructuring, TCM's gross profit margin reached an 8-year high of 19% in 2018, thanks to a shift away from its yarn business, which was a major lagging factor.

After passing a supplier audit at the end of 2019, TCM managed to become a supplier of Adidas. Recognition and new orders from new—and larger—clients is evidence of improvements in production and quality control at TCM, providing the company with a strong and sustainable competitive advantage in the international market.

### Investment highlights

TCM is differentiated from its peers in that it possesses a vertically-integrated production chain, enabling TCM to provide its clients with integrated services, along with greater quality control and shorter lead times. Thanks to close coordination with its R&D team, TCM can diversify its product portfolio in subsequent production stages to meet customized requirements from large international partners.

TCM's garment export revenue (+11% YoY in 2019) is projected to grow by 7% YoY in 2020, supported by an expanding customer base. TCM is seeking new clients by taking advantage of a complete production chain and FTAs. In 2019, 10% of the company's revenue came from new clients. Revenue from the EU was up 56% YoY.

We expect fabric sales (+2% YoY in 2019) to grow by 6% YoY in 2020, with the catalysts of: 1) China-US trade tensions; and 2) a shift of supply network to meet rules of origin set by CPTPP and EVFTA. In 2019, TCM's fabric revenue from local clients was up 13% YoY.

We project a dividend payout of 30% in the period of 2020-2023. With the current market price of VND21,250, the 2020 dividend yield is estimated at 3.3%.

### Investment risks

Increasing labor wages in Vietnam are a key threat to TCM, which operates in a labor-intensive industry. The increase is fueled by robust economic growth, driven by strong growth of the manufacturing sector, and inevitable demands for improved quality of life.

### Valuation

We initiate TCM with a BUY rating and target price of VND34,300. We used justified P/B multiple as our primary method, as we believe that it will effectively reflect the company's stable growth rate and ROE in the long run.

Based on our valuation model, TCM's justified P/B of 1.48x is higher than the 5-year average P/B of 1.34x, reflecting the 2016-2018 restructuring and its potential for higher revenue growth rates and profit margins. The restructuring is expected to drive a turnaround toward stable and sustainable growth.

FY (Dec)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 (F)	FY 2020 (F)
Revenue (VND bn)	2,571	2,792	3,071	3,209	3,662	3,808	4,034
OP (VND bn)	175	162	140	193	248	199	249
OP margin (%)	6.8	5.8	4.6	6.0	6.8	5.2	6.2
NP (VND bn)	168	154	115	193	260	162	203
EPS (VND)	2,572	3,125	2,338	3,729	4,802	2,794	3,506
ROE (%)	21.7	18.0	13.0	19.0	22.0	12.0	15.0
P/E (x)	9.3	14.1	8.3	9	5.7	7.5	5.5
P/B (x)	1.9	1.7	0.8	1.4	1	0.9	0.8
Dividend yield (%)	5.6	2.8	4.7	2.4	2.4	4.7	3.3

Note: NP refers to net profit attributable to controlling interests

Source: Company data, Bloomberg, Mirae Asset Vietnam Research estimates

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## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price	Company (Code)	Date	Rating	Target Price
기업명(00000)	2013.08.00	Trading Buy	1,000,000	기업명(00000)	2013.08.00	Trading Buy	1,000,000
	2013.08.00	Trading Buy	1,000,000		2013.08.00	Trading Buy	1,000,000
	2013.08.00	Trading Buy	1,000,000		2013.08.00	Trading Buy	1,000,000
	2013.08.00	Trading Buy	1,000,000		2013.08.00	Trading Buy	1,000,000
	2013.08.00	Trading Buy	1,000,000		2013.08.00	Trading Buy	1,000,000
기업명(00000)	2013.08.00	Trading Buy	1,000,000	기업명(00000)	2013.08.00	Trading Buy	1,000,000
	2013.08.00	Trading Buy	1,000,000		2013.08.00	Trading Buy	1,000,000
	2013.08.00	Trading Buy	1,000,000		2013.08.00	Trading Buy	1,000,000

#### Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

#### Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (■), Not covered (□), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

\* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

#### Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
68.29%	17.56%	14.15%	0.00%

\* Based on recommendations in the last 12-months (as of March 31, 2016)

#### Disclosures

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