



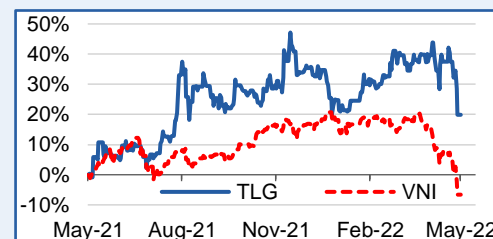
Thien Long Group (TLG) [BUY +24.8%]

Update Report

Industry Report Date	Stationery May 16, 2022		2021	2022F	2023F	2024F
Current Price	VND41,900	Rev y/y	-0.6%	21.5%	16.7%	16.7%
Target Price	VND50,300	EPS y/y	15.4%	19.9%	23.4%	21.1%
Previous Target Price	VND49,500	GPM	42.2%	41.4%	42.1%	42.6%
Upside to TP	+20.0%	NPM	10.4%	10.2%	10.8%	11.2%
Dividend Yield	4.8%	EV/EBITDA	6.8x	5.7x	4.5x	3.7x
TSR	+24.8%	P/B	1.8x	1.7x	1.6x	1.5x
		P/E	13.1x	10.9x	8.8x	7.3x

Market Cap	USD141.7mn		TLG	Peers*	VNI
Foreign Room	USD105.6mn	P/E (ttm)	11.8x	11.8x	12.8x
ADTV30D	USD155,000	P/B (curr)	1.7x	0.9x	2.0x
State Ownership	0.0%	Net D/E	-23.0%	-26.0%	N/A
Outstanding Shares	77.8 mn	ROE	16.4%	10.1%	15.8%
Fully Diluted Shares	77.8 mn	ROA	12.5%	6.1%	2.6%

* Global peers



Company Overview

TLG is a leading stationery maker with various products (writing instruments and office, school and art supplies). TLG holds ~60% of the domestic writing instrument market and is expanding globally. TLG has had a partnership with Newell Brands, a leading US-based global consumer goods company, since early 2019.

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2022F sales & EBIT margin rebound give attractive valuation

- We upgrade our rating for TLG to BUY from OUTPERFORM while nudging up our target price by 2% to VND50,300/share. Our increased target price is mostly driven by a 2% increase in our 2022F NPAT-MI as we lower our 2022F SG&A expense assumption and roll over our target price horizon to mid-2023.
- TLG reported strong Q1 2022 NPAT-MI of VND115bn (USD5.0mn; +35% YoY and +18% QoQ) thanks to a recovery in sales after COVID-related disruptions in 2021 and resilient gross margin despite the high input plastic price environment.
- For 2022, we raise our NPAT-MI forecast by 2% to VND332bn (USD14.4mn; +20% YoY) while maintaining our revenue assumption at VND3.2tn (USD140.9mn, +21% YoY) as we revise down our SG&A on sales assumption due to lower-than-expected Q1 2022 results.
- We believe TLG's valuation is compelling at a 2022F P/E of 10.9x vs the 12-month average peer LTM P/E median of 11.9x given our forecast for a 22% EPS CAGR in 2021-2024F.
- Downside risk: Weaker-than-expected margins from high plastic costs.

We continue to expect a strong YoY sales rebound across TLG's product portfolio in 2022F. In Q1 2022, TLG's revenue grew 17% YoY and 1% QoQ (Q4 usually serves as TLG's main sales season — see **Figure 2**) on the back of a demand recovery after COVID disruptions in 2021. Strong YoY sales were recorded across product segments — writing instruments (+7% YoY), office supplies (+24% YoY), school supplies (+25% YoY) and art supplies (23% YoY). As TLG's Q1 2022 sales progress was in line with our expectation, we maintain our 2022F sales forecasts for all product segments. We continue to expect a strong 21% YoY rebound in TLG's 2022F revenue as Vietnam is accelerating vaccinations for school-aged children has allowed all levels of schools and educational services to reopen since Q1 2022.

We forecast lower GPM in 2022 due to high input plastic prices. According to management, the resilient Q1 2022 gross margin (42.5% compared to 42.5% in Q1 2021 and 44.4% Q4 2021) despite the high plastic price environment was supported by 1) TLG's efforts to push for product categories with higher margins in its total product portfolio and 2) the company already securing input plastic resin inventory at favorable prices. However, as we expect plastic prices to remain high throughout 2022F, we believe the impact of low-cost input plastic inventory will diminish in the remainder of 2022. As a result, we keep our 2022F gross margin unchanged at 41.4%.

EBIT margin to inch up in 2022 YoY thanks to lower SG&A expenses. We revise down our SG&A on sales assumption to 28.7% from previously 29.0% due to lower-than-expected Q1 2022 results, which brings our 2022F EBIT margin to 12.7% compared to 12.4% in 2021. However, we still expect TLG to remain aggressive in promotional and advertising activities to push sales — especially for new products and high-margin products. Therefore, our 2022F SG&A expenses as a proportion of sales is still higher compared to the average of 25.5% in 2018-2020.

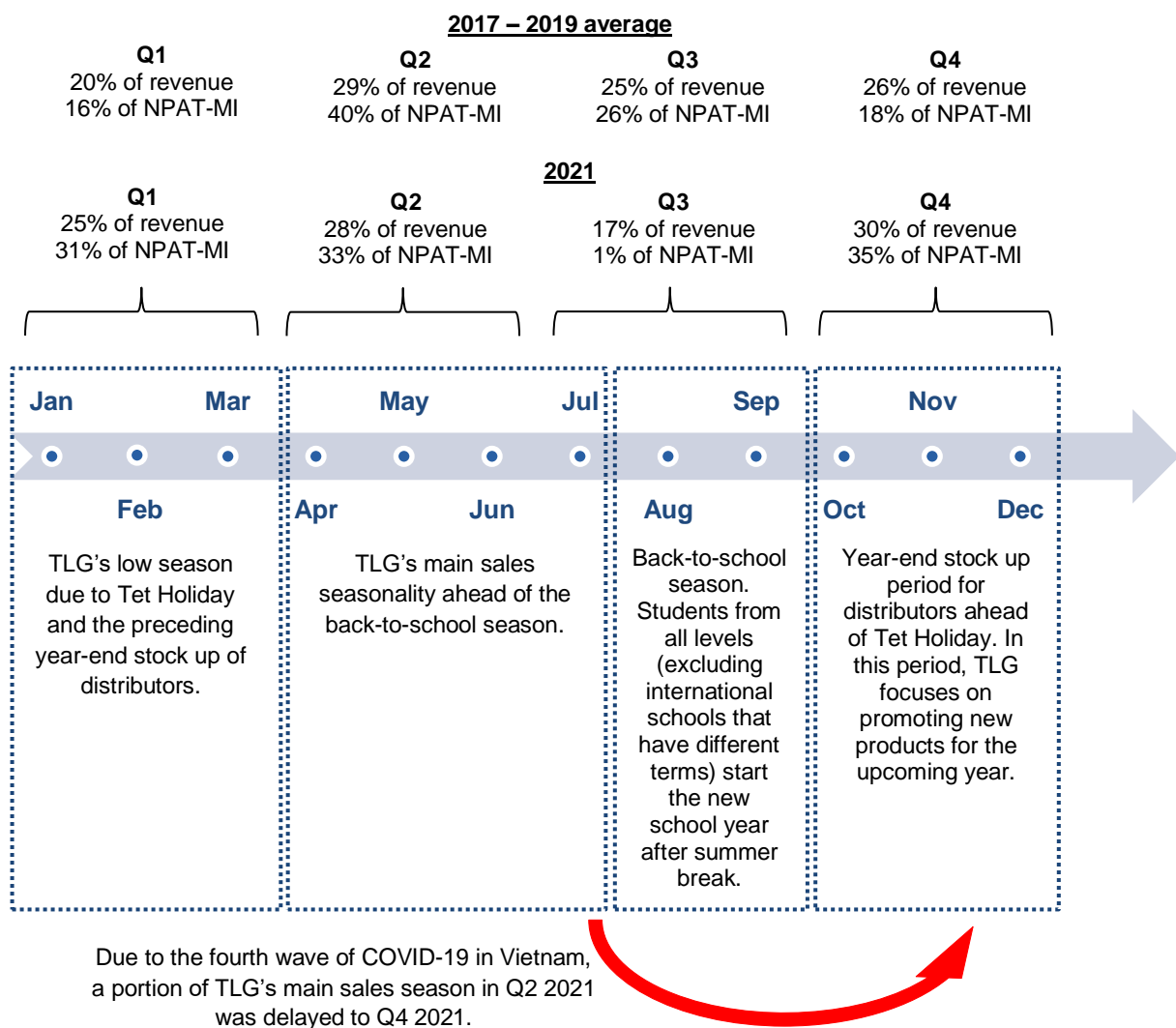
Q1 2022 Recap: Strong earnings amid robust sales, resilient margins

Figure 1: TLG's Q1 2022 results

VND bn	Q1 2021	Q1 2022	Growth	2022F old	Q1 as % of 2022F old	VCSC comments
Net revenue	680	794	17%	3,241	25%	
Writing instruments	303	326	7%	1,431	23%	* TLG recorded positive YoY revenue growth across all product segments on the back of a demand recovery as educational services resumed after being disrupted by COVID-19 in 2021.
Office supplies	225	278	24%	1,106	25%	
School supplies	51	64	25%	283	22%	
Art supplies	97	119	23%	400	30%	
Merchandise trading & others	4	8	99%	22	37%	
<i>Of which: Exports</i>	176	230	31%	693	33%	* The export market was less impacted by COVID-19 disruptions in 2021 and continued to post strong growth in Q1 2022.
Gross profit	285	338	18%	1,342	25%	
SG&A expenses	-184	-201	9%	-940	21%	* SG&A expenses as a proportion of sales dropped to 25.2% in Q1 2022 compared to 28.9% in Q4 2021 and 27.0% in Q1 2021, which was driven by TLG's sales continuing to recover from COVID-related disruptions in 2021.
EBIT	102	137	35%	402	34%	
Interest expense	-2	-2	-9%	-7	22%	
Net other gain/loss	8	9	19%	10	90%	
NPAT-MI	85	115	35%	324	35%	* Strong YoY growth in Q1 2022 was mostly driven by a sales recovery, gross margin expansion despite the high input plastic price environment, and lower-than-expected SG&A.
<i>Gross margin %</i>	<i>42.0%</i>	<i>42.5%</i>		<i>41.4%</i>		* Gross margin remained high at 42.5% in Q1 2022 vs 42.0% in Q1 2021 and 44.4% in Q4 2021. * We believe TLG's resilient gross margin in Q1 2022 was driven by 1) its continued efforts to push for product categories with higher margins in its total product portfolio and 2) the company already securing input plastic resin inventory at favorable prices.
<i>SG&A as % sales</i>	<i>27.0%</i>	<i>25.2%</i>		<i>29.0%</i>		
<i>EBIT margin %</i>	<i>14.9%</i>	<i>17.3%</i>		<i>12.4%</i>		
<i>NPAT-MI margin %</i>	<i>12.5%</i>	<i>14.4%</i>		<i>10.0%</i>		

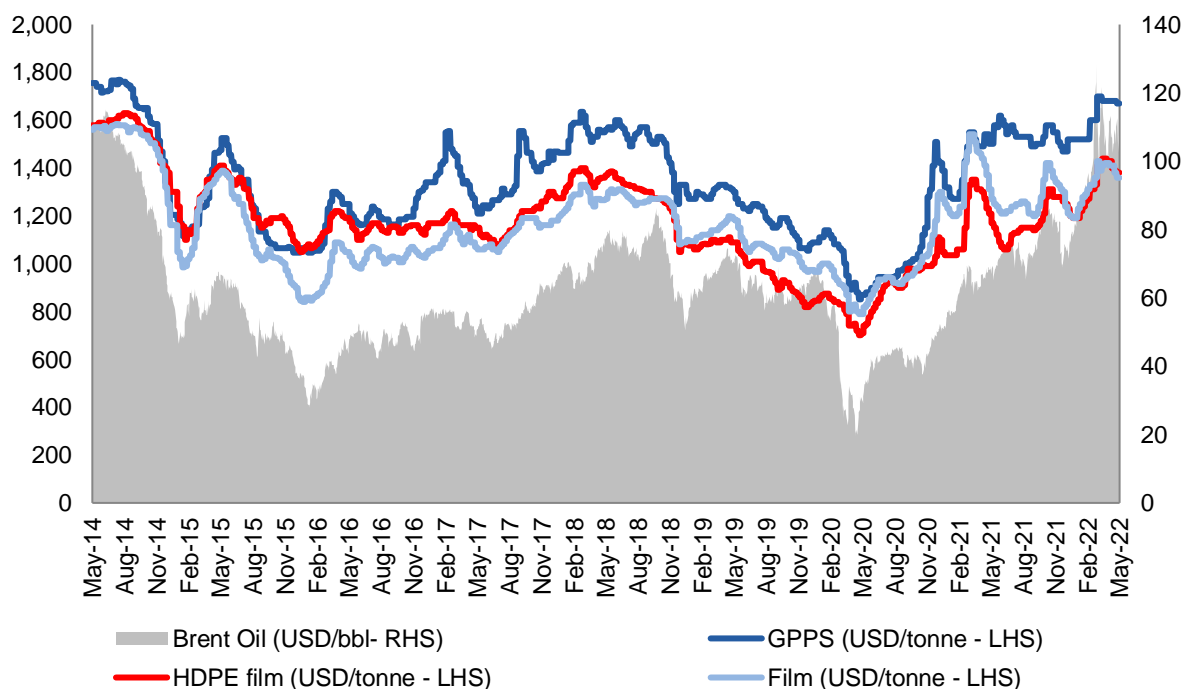
Source: Company's Q1 2022 financial statements, VCSC forecasts

Figure 2: TLG's business seasonality



Source: VCSC compilation

Figure 3: TLG's main input plastic prices and oil prices



Source: Bloomberg, VCSC compilation

2022 Outlook: Strong sales rebound from low base; resilient margins to support earnings growth

Figure 4: 2022 forecast

VND bn	2021	2022F Old	2022F Revised	2021F Revised vs Old	2022F Revised vs 2021	VCSC assumptions for 2022F
Net revenue	2,668	3,241	3,241	0%	21%	* We maintain our 2022F sales forecast as Q1 2022 results were broadly in line with our expectation.
Writing instruments	1,177	1,431	1,431	0%	22%	* We continue to expect a strong rebound in revenue across TLG's product segments as Vietnam has accelerated vaccinations for school-aged children since Q4 2021, which allowed schools and educational services to reopen in Q1 2022 following the Tet Holiday (January 29 to February 6, 2022).
Office supplies	910	1,106	1,106	0%	22%	
School supplies	233	283	283	0%	22%	
Art supplies	329	400	400	0%	22%	
Merchandise trading & others	19	22	22	0%	13%	
<i>Of which: Export</i>	570	693	693	0%	22%	* We expect export markets to maintain healthy growth momentum.
Gross profit	1,127	1,342	1,342	0%	19%	
SG&A expenses	-797	-940	-930	-1%	17%	* We revise down our SG&A as % of sales assumption due to lower-than-expected Q1 2022 results.
EBIT	330	402	412	2%	25%	
Interest expense	-7	-7	-7	0%	2%	
Net other gain/loss	35	10	10	0%	-72%	
NPAT-MI	277	324	332	2%	20%	* Strong growth thanks to a sales volume recovery from COVID-related disruptions in 2021.
						* We maintain our 2022F gross margin forecast despite the strong margin expansion in Q1 2022 as we expect the impact of TLG's low-cost input plastic inventory will diminish in the remainder of 2022 amid the high plastic price environment.
<i>Gross margin %</i>	42.2%	41.4%	41.4%			* Our 2022F gross margin is lower compared to 2021 as we expect the high input plastic prices that have occurred since late 2021 will reflect in TLG's 2022F earnings after its low-cost input plastic inventory depletes.
						* We expect TLG's strategy to convert sales from thin-margin trading products to higher-margin products throughout 2021 will support the sustainability of its gross margin in 2022 and beyond.
						* We revise down our SG&A as % of sales assumption due to lower-than-expected Q1 2022 results.
<i>SG&A as % sales</i>	29.9%	29.0%	28.7%			* We expect SG&A on sales to edge down in 2022F compared to 2021 mostly due to higher sales and fewer COVID-related expenses.
						* However, we expect TLG to remain aggressive in promotional and advertising activities to push sales — especially for new products and high-margin products. Therefore, we our 2022F SG&A expenses as a proportion of sales is still higher compared to the average of 25.5% in 2018-2020.
<i>EBIT margin %</i>	12.4%	12.4%	12.7%			
<i>NPAT-MI margin %</i>	10.4%	10.0%	10.2%			

Source: Company's financial statements, VCSC forecasts

Valuation

We continue to use a combination of the DCF (80% weighting) and P/E (20% weighting) methodologies to derive a one-year target price of VND50,300/share for TLG.

1. We attribute a weighting of 80% to the DCF method as we believe it fairly reflects TLG's long-term growth prospects and stable cash flow generation. Our DCF-derived valuation is 1% higher compared to our last Update Report as the positive impact of 1) 2% increase in our 2022F NPAT-MI and 2) rolling over our target price horizon to mid-2023 is offset by TLG's lower cash balance at end-Q1 2021 (VND607bn/USD26.4mn) vs end-2021 (VND743bn/USD32.3mn).
2. Our P/E-derived valuation is 2% higher than our last report as we apply higher average 2022-2023F EPS of VND4,287 compared to 2022F EPS of VND3,749 as previously. This is partially offset by our lower targeted P/E of 11.9x instead of 13.3x as previously, which is based on the one-year average of our global peer group median.

Our increased DCF-derived valuation and P/E-derived valuation result in our target price to increase by 2% to VND50,300/share from VND49,500/share as previously.

Figure 5: Valuation summary

Valuation method	Fair price (VND/share)	Weight	Contribution (VND/share)
DCF	50,100	80%	40,100
Targeted PER at 11.9x	51,000	20%	10,200
Target price			50,300
2022F P/E at target price			13.1x
2023F P/E at target price			10.6x

Source: VCSC

Figure 6: DCF valuation

FCFF projections (VND bn)	2022F	2023F	2024F	2025F	2026F
EBIT	330	412	517	627	770
- Tax	-66	-82	-103	-125	-154
+ Depreciation	80	107	129	140	151
- Capex	-330	-110	-110	-110	-110
- Working cap increase	-144	-164	-198	-234	-281
Free Cash Flow	-130	163	235	299	377
Present value of FCF	-124	140	183	209	239
Cumulative total PV of FCF	-124	17	199	409	648

Cost of Capital	Previous report	Revised	DCF valuation	VND bn
Beta	0.8	0.8	PV of Free Cash Flow	648
Market Risk Premium %	7.0	7.0	PV of Terminal Val (2% growth)	2,811
Risk Free Rate %	5.5	5.5	PV of FCF and TV	3,458
Cost of Equity %	11.1	11.1	Plus: Cash + Short term deposit	607
Cost of Debt %	8.0	8.0	Less: Debt	168
Corporate Tax Rate %	20.0	20.0	Value of Equity	3,898
Debt-to-capital ratio %	9.2	9.2	Fully diluted shares (million)	78
WACC %	10.7	10.7	Value per share (VND)	50,102

Source: VCSC

Figure 7: Sensitivity analysis of our target price (VND/share) for TLG in relation to DCF's WACC and terminal growth rate, ceteris paribus

Terminal growth rate %	WACC %							
	9.2%	9.7%	10.2%	10.7%	11.2%	11.7%	12.2%	
	0.5%	52,000	49,700	47,600	45,700	43,900	42,400	41,000
	1.0%	54,000	51,400	49,100	47,000	45,200	43,500	42,000
	1.5%	56,300	53,400	50,800	48,600	46,500	44,700	43,100
	2.0%	58,900	55,600	52,800	50,300	48,000	46,000	44,200
	2.5%	61,900	58,200	55,000	52,200	49,700	47,500	45,600
	3.5%	69,400	64,500	60,400	56,800	53,800	51,100	48,700
	4.0%	74,300	68,600	63,800	59,700	56,200	53,200	50,500

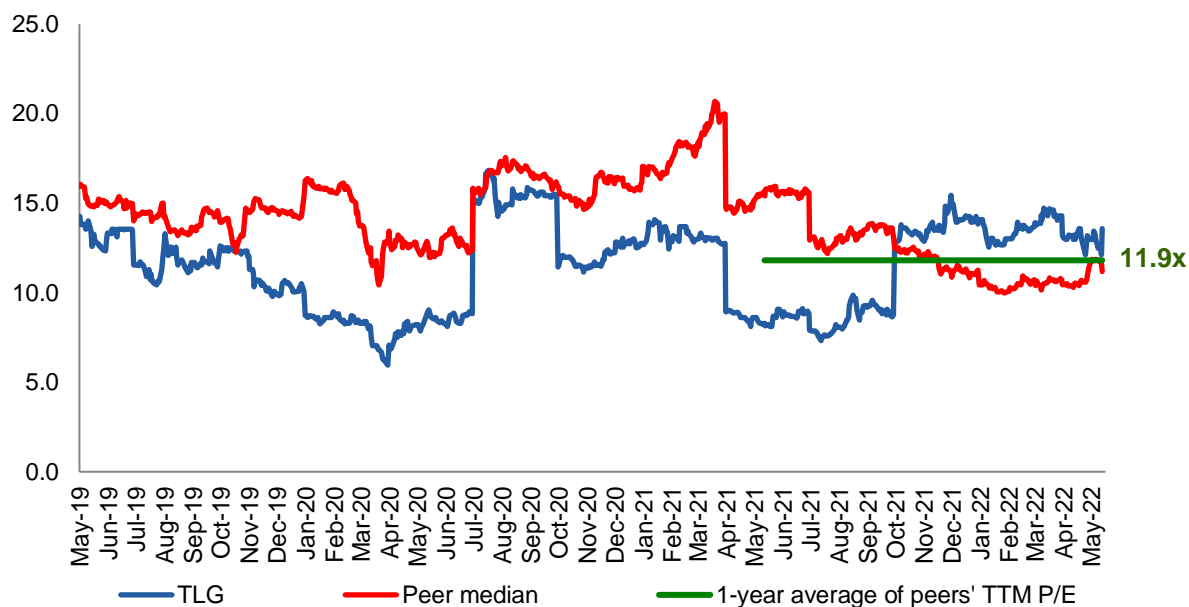
Source: VCSC

Figure 8: Global peers

Company name	Country	Market cap (USD mn)	TTM Net Sales (USD mn)	YoY (%)	TTM NPAT (USD mn)	YoY (%)	Gross margin (%)	Net margin (%)	Net debt/Equity (%)	ROA (%)	ROE (%)	TTM P/E (x)	LQ P/B (x)
Societe BIC	France	2,666	2,251	15.1	256	-4.3	50.9	11.4	-21.4	8.6	12.7	11.6	1.4
SDI Corp	Taiwan	840	412	28.2	33	89.2	18.8	8.0	44.2	7.4	14.9	27.3	3.9
ACCO Brands	United States	713	2,056	22.3	120	256.0	30.1	5.8	123.6	3.9	15.0	7.0	0.8
Mitsubishi Pencil	Japan	651	568	14.8	54	40.1	49.4	9.5	-41.0	4.9	6.4	12.0	0.7
Max Co	Japan	591	659	15.5	54	18.2	42.4	8.2	-30.6	5.8	7.5	12.5	0.9
Asia File Corporation	Malaysia	90	76	24.4	12	24.6	N/A	15.7	-36.7	6.5	7.2	8.1	0.6
Average		925	1,004	20.1	88	70.6	38.3	9.8	6.3	6.2	10.6	13.1	1.4
Median		682	613	18.9	54	32.4	42.4	8.9	-26.0	6.1	10.1	11.8	0.9
Thien Long Group	Vietnam	142	121	-3.9	13.3	-11.1	42.4	11.0	-23.0	12.5	16.4	11.8	1.7

Source: Bloomberg, VCSC. Note: Data as of May 16, 2022.

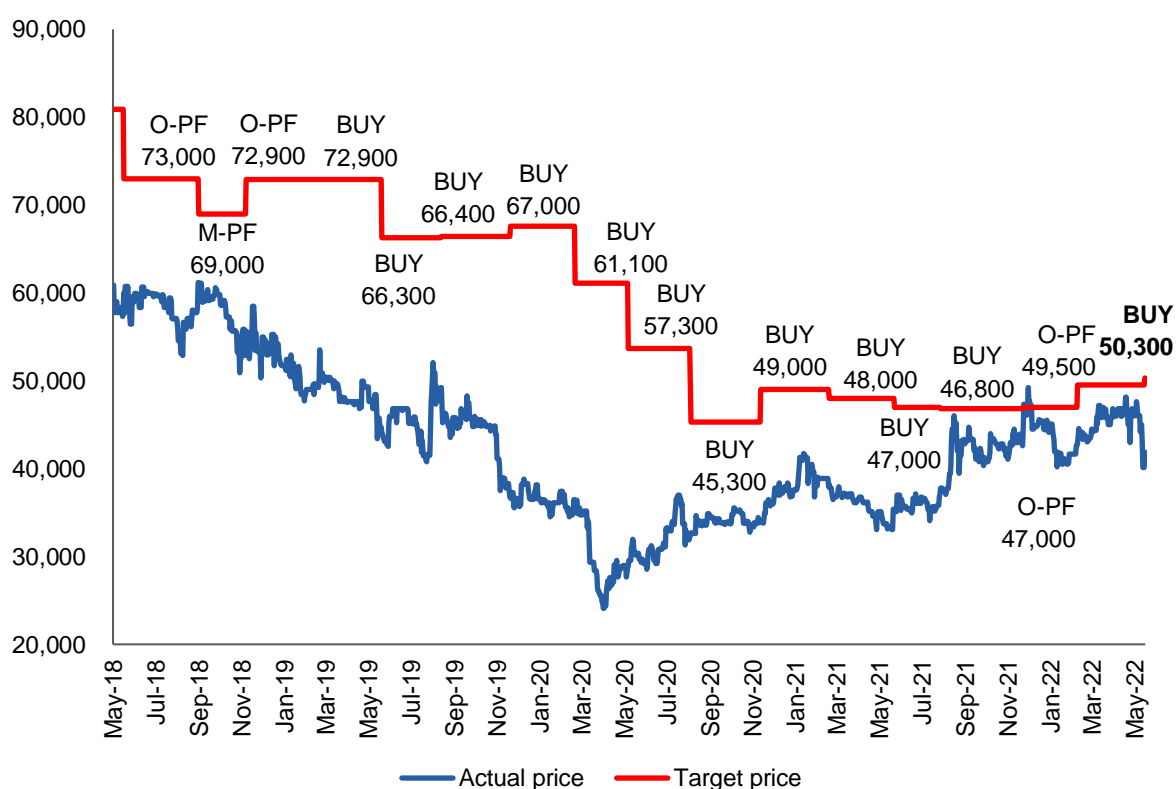
Figure 9: Historical price-to-earnings ratio (P/E) of TLG vs peers



Source: Bloomberg, VCSC

Recommendation History

Figure 10: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC. Note: Historical target prices adjusted for changes in shares outstanding.

Financial statements

P&L (VND bn)	2021	2022F	2023F	2024F
Revenue	2,668	3,241	3,782	4,413
COGS	-1,541	-1,899	-2,191	-2,533
Gross Profit	1,127	1,342	1,591	1,881
Sales & Marketing exp	-505	-590	-688	-803
General & Admin exp	-292	-340	-386	-450
Operating Profit	330	412	517	627
Financial income	32	3	-5	-6
Financial expenses	-7	-4	-4	-5
- o/w interest expense	-7	-7	-8	-9
Associates	0	0	0	0
Net other income/(loss)	3	3	3	3
Profit before Tax	359	415	512	620
Income Tax	-82	-83	-102	-124
NPAT before MI	277	332	409	496
Minority Interest	0	0	0	0
NPAT less MI, reported	277	332	409	496
NPAT less MI, adjusted	277	332	409	496

EBITDA	414	492	625	757
EPS reported, VND	3,201	3,839	4,736	5,735
EPS adjusted, VND	3,201	3,839	4,736	5,735
EPS fully diluted, VND	3,201	3,839	4,736	5,735
DPS, VND	2,000	2,000	3,000	3,500
DPS/EPS (%)	62%	52%	63%	61%

RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue growth	-0.6%	21.5%	16.7%	16.7%
Op profit (EBIT) growth	15.3%	24.8%	25.6%	21.3%
PBT growth	18.1%	15.7%	23.4%	21.1%
EPS growth, adjusted	15.4%	19.9%	23.4%	21.1%

Profitability				
Gross Profit Margin	42.2%	41.4%	42.1%	42.6%
Op Profit, (EBIT) Margin	12.4%	12.7%	13.7%	14.2%
EBITDA Margin	15.5%	15.2%	16.5%	17.1%
NPAT-MI Margin, adj,	10.4%	10.2%	10.8%	11.2%
ROE	15.5%	17.5%	20.3%	22.9%
ROA	11.6%	13.2%	15.2%	16.8%

Efficiency				
Days Inventory On Hand	145	140	139	141
Days Accts, Receivable	50	45	49	50
Days Accts, Payable	36	36	32	31
Cash Conversion Days	159	149	155	160

Liquidity				
Current Ratio x	3.2	2.9	2.9	2.8
Quick Ratio x	2.0	1.7	1.6	1.5
Cash Ratio x	0.9	0.8	0.7	0.6
Debt / Assets	7.6%	6.3%	6.7%	7.2%
Debt / Capital	9.2%	7.6%	8.3%	8.9%
Net Debt / Equity	-30.6%	-15.4%	-12.7%	-11.3%
Interest Coverage x	52.1	58.9	68.7	71.2

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	503	464	454	475
ST investment	240	0	0	0
Accounts receivables	348	455	552	668
Inventories	693	766	898	1,055
Other current assets	83	83	83	83
Total Current assets	1,867	1,768	1,987	2,281
Fix assets, gross	1,050	1,380	1,490	1,600
- Depreciation	-606	-686	-793	-922
Fix assets, net	444	695	697	678
LT investment	34	34	34	34
LT assets other	101	96	91	86
Total LT assets	579	824	822	797
Total Assets	2,446	2,592	2,808	3,078

Accounts payable	193	183	206	231
Short-term debt	173	162	189	221
Other ST liabilities	212	258	301	351
Total current liabilities	578	603	695	802
Long term debt	12	0	0	0
Other LT liabilities	31	31	31	31
Total Liabilities	621	634	726	833

Preferred Equity	0	0	0	0
Paid in capital	778	778	778	778
Share premium	362	362	362	362
Retained earnings	686	818	943	1,106
Other equity	228	255	288	328
Minority interest	0	0	0	0
Total equity	1,826	1,958	2,082	2,246
Liabilities & equity	2,446	2,592	2,808	3,078

Y/E shares out, mn	78	78	78	78
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CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Beginning Cash Balance	372	503	464	454
Net Income	277	332	409	496
Dep, & amortization	84	80	107	129
Chge in Working Cap	-113	-144	-164	-198
Other adjustments	-27	-39	-47	-55
Cash from Operations	238	229	306	372

Capital Expenditures, net	-70	-330	-110	-110
Investments, net	159	240	0	0
Cash from Investments	82	-90	-110	-110

Dividends Paid	-194	-156	-233	-272
Δ in Share Capital	0	0	0	0
Δ in ST debt	26	-11	27	32
Δ in LT debt	-20	-12	0	0
Other financing C/F	0	0	0	0
Cash from Financing	-189	-178	-206	-241

Net Change in Cash	132	-40	-10	21
Ending Cash Balance	503	464	454	475

Source: Company's financial statements, VCSC forecasts

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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