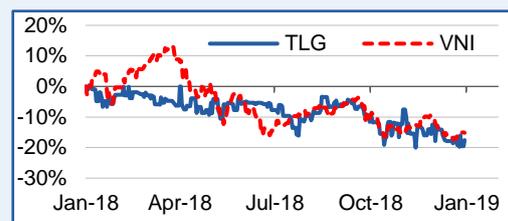


Industry:	Stationery		2017	2018
Report Date:	Jan. 28, 2019	Rev y/y	15.5%	14.3%
Current Price:	VND61,200	EPS y/y	13.9%	9.8%
Last Target Price:	VND80,200	GPM	37.4%	37.4%
Upside	+31.0%	NPM	10.7%	10.4%
Dividend Yield	3.3%	EV/EBITDA	11.3x	9.9x
TSR	+34.3%	P/Op CF	33.3x	92.5x
Rating	OP-F	P/E	16.6x	15.2x



		TLG	Peers*	VNI	
Market Cap:	\$188.2mn	15.2x	19.0x	15.6x	
Foreign Room:	\$126.0mn	P/E (ttm)	3.4x	1.3x	2.4x
ADTV30D:	\$0.0mn	P/B (curr)	6.0%	32.7%	N/A
State Ownership:	0.0%	Net D/E	25.4%	9.0%	15.2%
Outstanding Shares:	65.7 mn	ROE	17.6%	5.2%	2.4%
Fully Diluted Shares:	70.7 mn	ROA			

**Company Overview**

Thien Long Group is a leading stationery producer with a wide variety of products, including writing instruments and office, school and art supplies. TLG holds 60% of the domestic writing instruments market share and is expanding internationally.

\* foreign peers using adjusted market multiples

## Core business shines in line with expectations

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- TLG's 2018 results were broadly in line with our expectations, with revenue up 14% YoY to VND2.9tn (USD124.2mn) and NPAT-MI up 10% YoY to VND294bn (USD12.8mn). With these results, we do not foresee significant adjustments to our 2019 forecasts for TLG.
- We believe TLG's sustainable growth outlook is underpinned by structural growth in demand for stationary from Vietnam's high-growth education and office sectors and increased penetration of TLG's export markets in ASEAN nations (Myanmar, Thailand and the Philippines), which share similar demand dynamics.

**All product segments continued to score healthy sales growth.** These include writing instruments (revenue up 13% YoY), office supplies (+20% YoY), school supplies (+16% YoY) and art supplies (+14% YoY). Export sales also recorded strong growth of 18% YoY as TLG continued its push into other ASEAN markets.

**Volatile oil prices hit Q4 2018 gross margin as expected.** TLG's Q4 2018 gross margin fell to 34.2% vs 35.5% in Q4 2017 and vs 39.1% in Q3 2018. We attribute this fall in margin to higher oil prices during Q3 2018 (Brent crude averaged USD76/bbl during Q3 2018, up 45.6% vs Q3 2017), which we believe led to higher plastic input costs for TLG during Q4 2018.

**Cash balance fell as TLG ramped up capex to improve operating efficiency.** TLG's total capex for 2018 was VND216bn (USD9.4mn, +49% YoY), above our forecast of VND190bn (USD8.3mn). This surge in capex is the main reason for TLG's lower cash balance at end-2018, which stood at VND146bn (USD6.3mn) vs VND354bn (USD15.3mn) at end-2017. TLG has followed through on its strategy of investing in increasing the level of automation and vertical integration in its production process, as well as optimizing its distribution network by enhancing its warehouse capabilities. We are seeking more details regarding TLG's future capex plan with the company's management.

**Figure 1: TLG's 2018 results**

VND bn	Q4 2017	Q4 2018	Q4 2018 vs Q4 2017	2017A	2018A	2017A vs 2018A	2018F	% of 2018F
<b>Net revenue</b>	<b>1,907</b>	<b>2,105</b>	<b>10.4%</b>	<b>2,497</b>	<b>2,856</b>	<b>14.3%</b>	<b>2,890</b>	<b>99%</b>
Writing instruments	798	863	8.2%	1,031	1,161	12.6%	1,164	100%
Office supplies	536	636	18.7%	757	909	20.1%	921	99%
School supplies	173	191	10.4%	212	246	15.9%	243	101%
Art supplies	183	210	14.8%	227	259	14.0%	260	100%
Merchandise trading	217	206	-5.1%	270	281	4.2%	303	93%
Export	251	296	17.9%	330	420	27.3%	398	105%
<b>Gross profit</b>	<b>724</b>	<b>810</b>	<b>11.9%</b>	<b>934</b>	<b>1,067</b>	<b>14.3%</b>	<b>1,087</b>	<b>98%</b>
Selling expenses	-266	-310	16.6%	-371	-433	16.5%	-433	100%
G&A	-181	-196	8.5%	-248	-273	9.8%	-289	94%
<b>Operating profit</b>	<b>277</b>	<b>304</b>	<b>9.5%</b>	<b>314</b>	<b>361</b>	<b>15.1%</b>	<b>366</b>	<b>99%</b>
Interest expense	2	3	40.6%	10	11	16.5%	9	128%
Net other gain/loss	6	3	-55.8%	30	18	-40.5%	31	58%
PBT	294	311	5.8%	335	368	10.1%	388	95%
<b>NPAT</b>	<b>239</b>	<b>249</b>	<b>4.5%</b>	<b>268</b>	<b>294</b>	<b>9.8%</b>	<b>310</b>	<b>95%</b>
<i>Gross margin %</i>	<i>35.5%</i>	<i>34.2%</i>		<i>37.4%</i>	<i>37.4%</i>		<i>37.6%</i>	
<i>SG&amp;A as % sales</i>	<i>29.3%</i>	<i>26.6%</i>		<i>24.8%</i>	<i>24.7%</i>		<i>25.0%</i>	
<i>Operating margin %</i>	<i>6.2%</i>	<i>7.7%</i>		<i>12.6%</i>	<i>12.7%</i>		<i>12.6%</i>	
<i>Effective tax rate %</i>	<i>27.3%</i>	<i>21.4%</i>		<i>19.9%</i>	<i>20.1%</i>		<i>20.0%</i>	

Source: TLG financial statements, VCSC forecasts

## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as  $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$ , 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
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