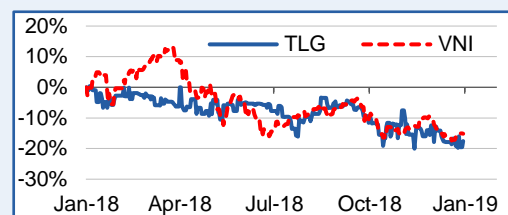


Thien Long Group (TLG)

Earnings Flash

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



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

* foreign peers using adjusted market multiples

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.

Core business shines in line with expectations

Vy Nguyen

Senior Analyst

vy.nguyen@vcsc.com.vn

+848 3914 3588 ext.147

Lucy Huynh, CFA

Senior Manager

lucy.huynh@vcsc.com.vn

+848 3914 3588 ext.130

- 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
Net revenue	1,907	2,105	10.4%	2,497	2,856	14.3%	2,890	99%
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%
Gross profit	724	810	11.9%	934	1,067	14.3%	1,087	98%
Selling expenses	-266	-310	16.6%	-371	-433	16.5%	-433	100%
G&A	-181	-196	8.5%	-248	-273	9.8%	-289	94%
Operating profit	277	304	9.5%	314	361	15.1%	366	99%
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%
NPAT	239	249	4.5%	268	294	9.8%	310	95%
<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&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
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.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

Disclaimer

Analyst Certification of Independence

I, Vy Nguyen, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2013 Viet Capital Securities Company "VCSC". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.

Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks and Securities

Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Nghia Le, Analyst, ext 181

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Head of Institutional Sales

Michel Tosto, M. Sc.
+84 28 3914 3588 ext 102
michel.tosto@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro and Insurance

- Cameron Joyce, Manager, ext 163

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

Industrials and Transportation

Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Dang Thai, Analyst, ext 149

Vietnamese Sales

Dung Nguyen
+84 28 3914 3588 ext 136
dung.nguyen@vcsc.com.vn

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn