

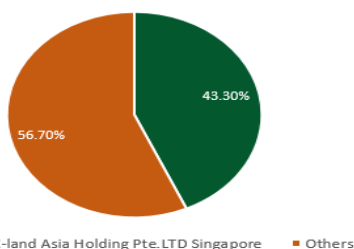
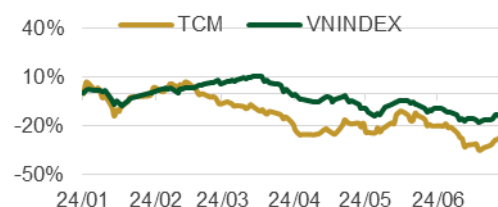
BUY [+37.6%]

Updated time: 30/07/2018

Target price	26,417	VND
Current price	19,200	VND

 Bùi Thị Thùy Dương
 (+84-28) 5413 5472 – duongbui@phs.vn
Stock information

Outstanding share (million)	54.1
Free-float (million)	32.5
Market cap (billion dong)	985
3 month average volume	455,991
Foreign owning rate	48.67%
First listing date	15/10/2007

Major shareholder

Price movement comparing to the Index

Evaluating history


Source: FiinPro

Financial indicators	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F	2021F
Net revenue (billion VND)	2,554	2,571	2,792	3,071	3,209	3,385	3,590	3,823	4,080
Earnings after tax (billion VND)	124	168	154	114	192	226	238	243	263
EPS (VND)	2,517	3,422	3,125	2,338	3,712	4,163	4,405	4,500	4,861
EPS growth (%)		36%	-9%	-25%	59%	12%	6%	2%	8%
Book value (VND)	19,154	21,642	24,804	26,118	29,025	30,101	35,381	38,199	41,284
P/E	6.4	7.7	8.2	5.4	7.0	6.3	-	-	-
P/B	0.8	1.2	1.0	0.5	0.9	0.9	-	-	-
Cash dividend (%)	0%	16%	6%	10%	10%	10%	-	-	-

Source: PHS

Being benefited from trade agreements and production expanding motivation
Updating 6M/2018 business results:

Ending 6 months, TCM combined revenue is 1,648 billion (+7%YoY), gross margin is also positive as it increased to 18%. However, EAT in 6 months dropped slightly by 1.4% YoY to 117 billion. The main reason for this drop is that last year, both financial and selling expenses increased strongly by over 30%. Besides, other profit also dropped by 27% since in 2017, the company had irregular profit of 34 billion dong from transferring land leasing right in Xuyen A IP. Not counting this irregular profit, TCM core operation EAT in 6M2018 saw a growth of 15% YoY.

2018 forecast:

Ending 2018, expecting production expansion, we estimates that the company revenue this year will be 3,385 billion (+5%YoY), gross margin will increase to 18% with fiber profit margin increasing from 3% to 7%. So, the company EAT is expected at 226 billion (+18%YoY).

Growing motivation:

(1) Revenue growing prospect with benefit from Free trade agreements: with the advantage of owning “yarn forward” production value chain, TCM can totally meet the Original Source demand and might enjoy 0% tax rate when exporting to the countries in CPTPP agreement, especially it expects stronger market share in Japan and Canada. **(2) Strengthening productivity in fabric and textile products:** fabric and textile product has high gross margin with average at 20-25% and 15-20% respectively. So, the company expands the production by transforming factory number 2 into manufacturing fabric and buying a textile factory in Trang Bang at the capacity of 3 million products a year. **(3) Seeing irregular profit from liquidating fixed asset:** in Q2/2018, the company saw over 27 billion dong of irregular income from liquidating number 3 fiber factory which raised the company income. **(4) Growing prospect in long-term with TC Tower project:** TC Tower project is expected to be offered from early 2019 which expects to support TCM with irregular profit in the future.

Recommendation:

By DCF method, we estimate TCM reasonable price at about **26,417 dong/share**, equivalent to 2018 expected P/E of 6.3 times. So we recommend **BUY** on this code.

Textile: big opportunity, big challenge

Benefited from Free trade agreements FTA

With effort from member countries, CPTPP expects to be valid from early 2019 which is expected to push Vietnam textile with great support from lower export tax. Besides, EVFTA, EAEU are also the main growing motivation for textile until 2022.

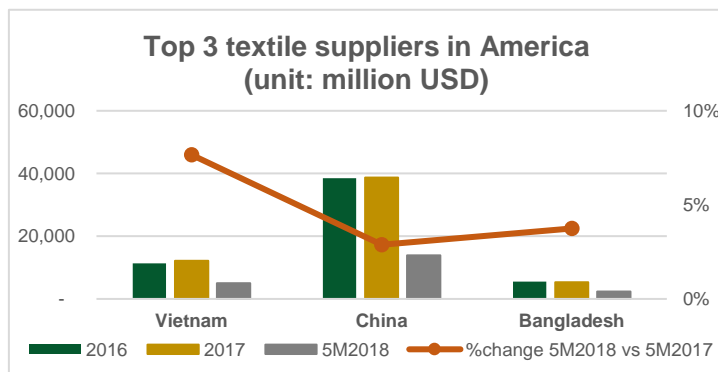
FTAs' effect forecast on textile		
FTA	Valid	Effect forecast
VKFTA	2015	Export turnover to Korea increases by 27-30%/year
EAEU	2016	Export turnover to member countries increases by 50% in first year and 20% in following years
EVFTA	Dự kiến 2018	Textile export turnover to EU will increase by 17%/year
CPTPP	Dự kiến 2019	Export turnover to member countries increases by 8%/year.

Source: PHS summarization

Accordingly, in the first 6 months 2018, textile export growth is nearly 17%, for a value of 16.5 billion dong. In which, the growth in important export markets like America, EU, Korea, China, and CPTPP countries like Australia, Canada, and Japan all saw positive growth.

Cautious from America-China trade war

The trade war is considered a big opportunity for Vietnam textile since America is tending to replace China orders with Vietnam so textile import market share from China dropped from 42% to 26% and Vietnam increased from 13% to 14% in the first 5 months 2018.



However, Vietnam textile must also face big challenges from exchange rate difference and the pressure from China products that might invade Vietnam as it lost important market in America.

Worry from increasing world cotton price

Textile main production material is cotton, but the main cotton source comes from import.

Meanwhile, cotton material price is tending to increase as from the beginning of the year, cotton price has increased by nearly 12% which lowered gross margin of textile enterprises.

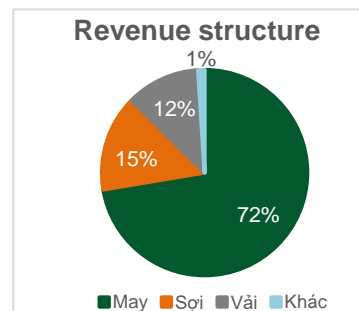


World cotton price (USD/100 pounds)

(Source: IFCmarkets)

TCM business situation

Clothes account main weight and the main selling channel is export



TCM main product is clothes with over 70% revenue. In which, the main income comes from export market (88%).

Korea (30%), Japan (18%), China (15%), America (13%) and Europe are the main export markets for TCM.

In which, export orders to Korea and China are mainly from E-land group (accounting 25-29% total revenue).

Advantage from Yarn – Fabric – Sewing complete production chain

TCM is one of a few enterprises with a complete production chain from yarn – weaving – dyeing – sewing, unlike other enterprises that have to outsource the material for production. Controlling material will support TCM meeting requirements on originality for tax priority when exporting to CPTPP countries.

✓ Yarn

TCM yarn main production material is from cotton and fibre. In which, cotton is mainly imported from America, Brazil, West Africa while fibre is imported from Thailand, Indonesia, and Taiwan.

Yarn product is mainly for export (~70%), the rest is used internally (30%). The contribution of this section is quite significant in total revenue with 15% weight. However, since yarn section sees much pressure from input material price changes, the company has restructured this section, lowering the production in low effective factories, slowly turning to internal consumption to lower yarn section loss.

Factory	Capacity	Status
Yarn factory #2, Tan Binh IP	6,500 tons/year	Changed to fabric manufacturing
Yarn factory #3, Duc Hoa, Long An	6,000 tons/year	Stopped operating
Yarn factory #4, Tay Binh	7,500 tons/year	Stopped operating

✓ *Fabric*

The company can mostly control input material for fabric manufacturing. In which, TCM fabric section is divided in 2 types: weaving and knitting with designed capacity of 9.6 meters/year and 15,000 tons/year respectively. For knitting fabric, it is mainly used to make clothes while weaving fabric is mainly exported to Japan with high profit margin of 20-25%.

✓ *Clothes*

Clothes revenue accounts biggest weight in the company revenue (72%) and the first 6 months 2018 growth is nearly 10%. In which, TCM traditional consuming markets are America, Korea, and China, mainly by the orders with E-land

group partners. Besides, new market like Japan and Canada are also seeing higher market share after CPTPP is officially signed.

For productivity, the company owns Thanh Cong – Vinh Long

factory with 23 million products a year capacity, worker productivity has improved from 26-27 to 30 USD/person/day and sometimes to 36 USD/person/day. Facing more export order in following years, TCM expects to expand the production by buying a factory in Trang Bang so TCM can ensure the production with increasing demand, limiting outsourcing expense.

Growing motivation in 2018: positive

- ✓ *Export revenue is still expected to increase positively with tax priority benefit from CPTPP and EVFTA agreements.*



With the advantage of owning a “yarn forward” value chain, TCM is expected to enjoy priority tax rate of 0% when exporting to CPTPP member countries. Besides, there is a hope for an order moving from China to Vietnam thanks to low cost workers and tax benefits from free trade agreements which will support TCM for more orders.

- ✓ *Restructuring production situation, raising production in the sections with high profit margin*

Production	Yarn (ton)	Weaving fabric (1000m)	Knitting fabric (ton)	Cloth product (1000 pcs)
2014	18,540	5,972	4,213	14,596
2015	16,358	4,138	6,236	18,432
2016	15,500	5,856	7,418	25,330
2017	13,213	6,927	8,807	24,465
2018E	11,814	7,599	11,323	29,382

Facing problems in yarn business, TCM has liquidated yarn factory number 3 and transformed factory number 2 into fabric factory. Besides, to meet increasing demand, the company has bought a textile factory in Trang Bang to lower outsourcing expense with capacity of 3 million products a year.

- ✓ *Seeing irregular profit from fixed asset liquidating*

In Q2/2018, the company had an irregular profit from liquidating yarn factory number 3 for a value of over 27 billion which is added in the company’s income. Previously in 6 months 2017, TCM also saw an irregular income of 34 billion from transferring the land in Xuyen A Industrial Park.

- ✓ *Prospect in real estate project with TC Tower*

TCM has invested 85% in TC Tower project with main business being real estate. Total investment is about 83 million USD and it is expected to be started construction in August 2018. The project’s block 1 will be offered in 2019 with 600 apartments and offices, offering price will be 900 – 1,000 USD/m². Expectedly in the future, this project will contribute irregular profit for TCM.

Risks

Input material price changes: yarn section still depends greatly on cotton import from the world. Meanwhile, cotton price is tending to increase at the moment which might see influence on the company’s profit margin.

Exchange rate changes: the company’s long-term loan is mainly in USD, accounting 15% total debt. With USD getting stronger, the company’s loan burden might get heavier in near future. However, the company has foreign income from export so the influence from exchange rate changes will not be significant.

Investment point of view

Textile in general is expected to be benefited from free trade agreements, especially the enterprises with “yarn forward” production chain advantage like TCM. Expectedly in 2018, TCM will expand the production for fabric and clothes, the company’s revenue is expected to see stable growth of about 5% to reach 3,385 billion. At the same time, profit margin is expected to increase to 18% with lower loss in yarn section. Therefore, EAT forecast is 226 billion (+18% YoY).

By DCF method, we estimate TCM reasonable price is about **26,417 dong**, equivalent to 2018 P/E of 6.3 times. So we recommend **BUY** on this code.

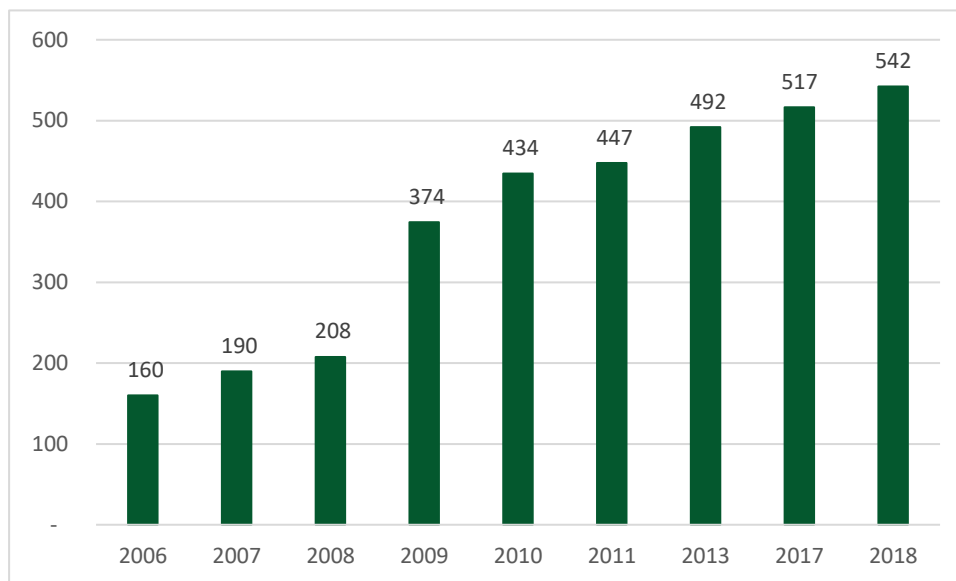
Indicator (billion dong)	2018F	2019F	2020F	2021F
Operating profit	226	239	244	264
Loan interest after tax	71	70.7	68	69
Depreciation	45	60	83	92
Basic construction investment	144	140	102	65
Operating capital change	110	116	99	119
FCFF	89	114	194	241
Current value	83	99	157	182
Final value	2,472			
Enterprise value	2,994			
Debt	1,700			
Cash	139			
Market capital	1,433			
Outstanding share (million)	54			
Reasonable price	26,417			

Company profile

- Thanh Cong Textile was originally Tai Thanh Weaving Technical established in 1967. In August 1976 it was transformed into State owned factory under the name Tai Thanh Weaving factory, then it was renamed Thanh Cong weaving factory and then Thanh Cong Weaving Company. In 2000, it was renamed Thanh Cong Textile Company. In July 2006, it was transformed into Thanh Cong Textile JSC.
- Thanh Cong Textile JSC is a leading textile company in Vietnam, especially in knitting technique and comprehensive dyeing. The company's fabric quality has been confirmed in domestic and foreign markets.
- In 2009, E-land invested over 30% total shares and participated in BoM. This is the event marking a new phase for TCM development. During the time working with TCM, Eland has supported the company in production as well as signing long-term export contracts.



Capital raising progress (billion dong)



Source: TCM và PHS summarization

Finance statement (billion dong)

Business results	2014A	2015A	2016A	2017A	2018F	1H/2018
Net revenue	2,571	2,792	3,071	3,209	3,385	1,648
Cost of goods sell	(2,195)	(2,365)	(2,652)	(2,706)	(2,793)	(1,357)
Gross profit	376	426	419	503	592	291
Selling expense	(69)	(86)	(97)	(112)	(135)	(65)
Management expense	(102)	(121)	(144)	(148)	(169)	(73)
Operational profit	175	162	140	193	226	153
Financial profit	(33)	(63)	(42)	(45)	(57)	(31)
Loan interest profit	(27)	(27)	(38)	(48)	(89)	(24)
Earnings before tax	182	167	133	235	253	122
Earning after tax	168	154	115	193	226	117
Parent company's EAT	168	154	114	192	226	116
Balance sheet	2014A	2015A	2016A	2017A	2018F	1H/2018
Current asset	995	1,171	1,310	1,607	1,980	1,835
Cash and equivalent	141	88	96	130	139	181
Short-term finance investment	5	5	30	151	159	202
Short-term receivables	191	200	369	475	512	318
Inventory	625	781	729	806	1,100	1,098
Other current asset	34	98	86	44	71	35
Non-current asset	1,066	1,338	1,510	1,429	1,643	1,232
Long-term receivables	0	0	0	0	0	0
Fixed asset	719	871	1,178	1,185	1,317	1,069
Invested real estate	118	116	6	5	5	6
In progress construction	21	59	33	12	41	22
Long-term finance investment	135	140	142	101	132	15
Other non-current asset	72	152	150	126	149	120
Good will	-	-	-	-	-	-
Total asset	2,060	2,509	2,820	3,035	3,623	3,067
Payables	1,226	1,614	1,904	1,964	2,398	1,934
Short-term debt	986	1,231	1,468	1,626	1,987	1,626
Long-term debt	240	382	436	337	411	308
Equity capital	814	896	916	1,072	1,225	1,133
Chartered capital	492	492	492	517	542	542
Minority benefit	-	-	-	-	-	-
Total resource	2,040	2,509	2,820	3,035	3,623	3,067

Cash flow	2014A	2015A	2016A	2017A	2018F	1H/2018
Operational net cash flow	231	(9)	240	286	277	(15)
Investment net cash flow	(97)	(230)	(205)	(121)	(144)	111
Financial net cash flow	(111)	187	(27)	(131)	(125)	(45)
Net cash flow during the period	23	(53)	8	34	8	51
Cash and equivalent at the	118	141	88	96	130	130
Cash and equivalent at the end	141	88	96	130	139	181
Financial indicators (%)	2014A	2015A	2016A	2017A	2018F	1H/2018
Growth						
Revenue	1%	9%	10%	5%	5%	7%
Earnings after tax	36%	-9%	-26%	68%	18%	-1%
Total asset	4%	23%	12%	8%	19%	1%
Total equity	10%	10%	2%	17%	14%	6%
Profitability						
Gross margin	15%	15%	14%	16%	18%	18%
EBIT margin	8%	7%	6%	8%	9%	9%
EBITDA margin	9%	8%	7%	4%	11%	8%
Net margin	7%	5%	4%	6%	7%	7%
ROA	8%	7%	4%	7%	7%	4%
ROE	22%	18%	13%	19%	20%	10%
Efficiency						
Receivables days	13.4	14.3	10.8	7.6	6.9	5.2
Inventory days	4.2	4.0	4.1	4.2	3.6	1.5
Payables days	19.4	16.4	13.6	12.1	10.7	5.0
Liquidity						
Current ratio	0.81	0.73	0.69	0.82	0.83	0.95
Quick rator	0.38	0.32	0.40	0.49	0.44	0.45
Financial structure						
Total debt/Total asset	60%	64%	68%	65%	66%	63%
Total debt/Equity	151%	180%	208%	183%	196%	171%
Short-term debt/Equity	121%	137%	160%	152%	162%	144%
Long-term debt/Equity	29%	43%	48%	31%	34%	27%

Source: PHS

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Performance is defined as 12-month total return (including dividends)

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