

10 Feb 2023

Textile & Garment

Non-rated

Crossing the hurdles

Export value dropped in both segments

According to the General Department of Customs, Vietnam's textile and garment exports experienced a decrease in growth for the first time in 2022, with a -9.1% yoy decline, totaling USD8.5bn in 4Q22. The export of fiber and yarn showed an even greater decline, dropping by 38.1% yoy and reaching a value of only USD938mn in the same quarter. The US remained the leading importer of textiles and garments in 4Q22, importing USD3.5bn (-22% yoy), accounting for 41% of Vietnam's total textile and garment exports. Meanwhile, China, the largest market for fiber and yarn exports from Vietnam, accounted for USD426mn (-44.1% yoy) in 4Q22, making up 45.4% of Vietnam's total fiber and yarn export value.

Garment and yarn companies saw negative revenue and earnings growth

In 4Q22, the revenue growth of listed garment companies experienced a decline, posting a -2.9% yoy growth compared to the 27% yoy growth in 3Q22. Furthermore, the pace of earnings growth also slowed down, dropping from 58.3% yoy in 3Q22 to -57.9% yoy in 4Q22. This decline is due to reduced orders from main export markets, resulting from decreased apparel demand and high inventory levels at major retailers. Similarly, listed yarn manufacturers also had a negative growth in the same quarter, with a revenue growth of -17.9% yoy compared to 16.8% yoy 3Q22. The net profit growth of these companies also slid, posting -12.4% yoy in 4Q22, compared to 12.4% yoy in 3Q22.

Bleak outlook anticipated for 1Q23F

The textile and garment industry is expected to face significant challenges in 1Q23 due to a decrease in demand for garments and high inventory levels at major foreign retailers such as Nike and Adidas. These retailers have reported significant yearly increases in their inventory levels, with increases of 43% and 72.4% respectively in their recent quarterly reports. According to the Vietnam Textile and Apparel Association (VITAS), orders for 1Q23 have dropped by 25-27% yoy, indicating a difficult year ahead for the industry. However, there were some good news, as China's reopening could act as a growth driver for yarn companies, as China is the main yarn importer for Vietnam and accounted for 46% of the country's total yarn export value in 2022.

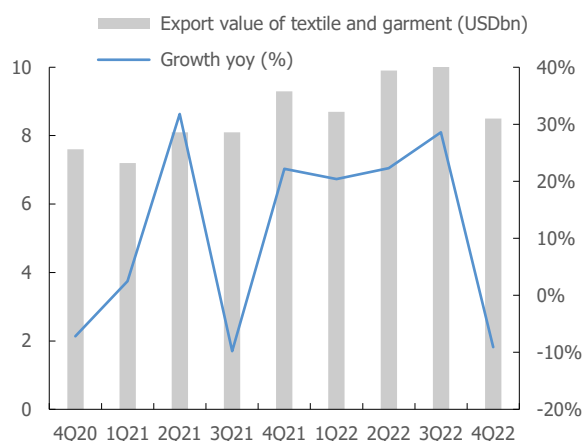
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Negative export growth saw in both segments in 4Q22

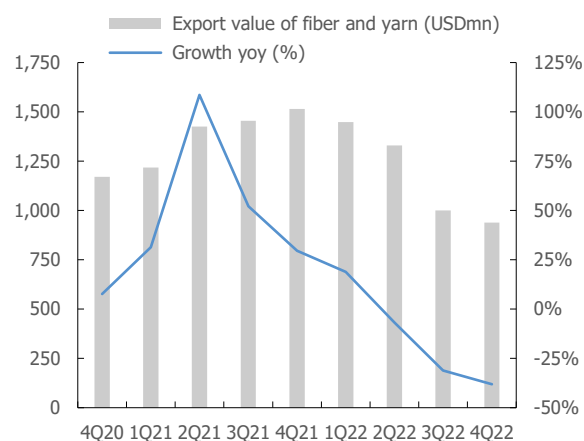
The General Department of Customs reported that for the first time in 2022, Vietnam's textile and garment exports showed a decline in growth of 9.1% yoy, totaling USD8.5bn in 4Q22. The export of fibers and yarns in 4Q22 even showed a more significant decrease, falling by 38.1% yoy and reaching only USD938mn.

Figure 1. Textile and garment export value declined for the first time in 2022



Source: General Department of Customs, KIS Vietnam

Figure 2. Fiber and yarn export value dropped in the latest three quarters

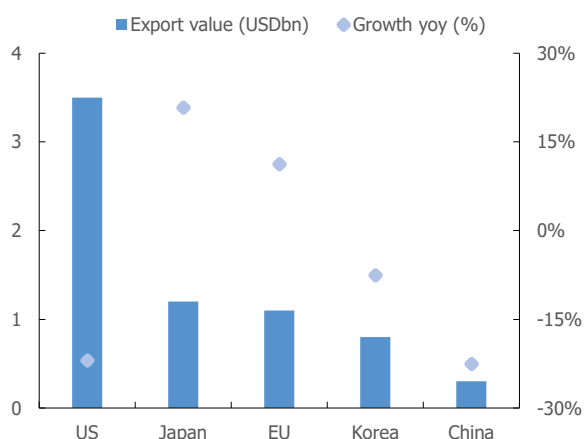


Source: General Department of Customs, KIS Vietnam

In 4Q22, the US maintained its position as the top importer of textile and garment, importing USD3.5bn (-22% yoy). This accounted for 41% of Vietnam's total textile and garment exports. Exports to Japan and the EU increased in value, with growth of 20.8% yoy and 11.2% yoy respectively, reaching USD1.2bn and USD1.1bn. However, exports to Korea and China declined in the same quarter, falling 7.6% yoy and 22.6% yoy to USD788mn and USD276mn respectively.

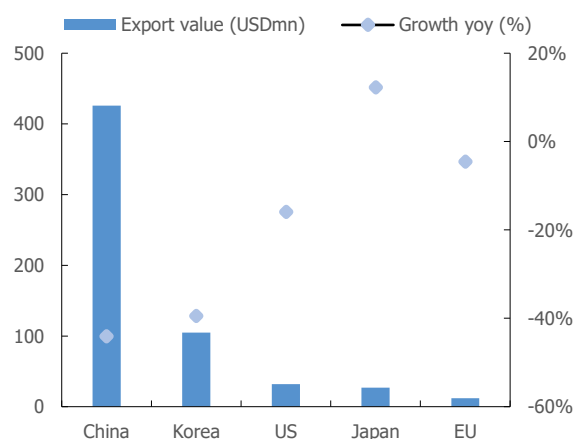
China was the largest market for fiber and yarn exports from Vietnam in 4Q22, accounting for 45.4% of the total export value of USD426mn (-44.1% yoy). The export to Korea, the US, Japan, and the EU in 4Q22 amounted to USD105mn (-39.4% yoy), USD32mn (-15.9% yoy), USD27mn (+12.3% yoy), and USD12mn (-4.5% yoy), respectively.

Figure 3. Export to the US saw a significant decrease in 4Q22



Source: General Department of Customs, KIS Vietnam

Figure 4. Export to China fell dramatically in 4Q22



Source: General Department of Customs, KIS Vietnam

Revenue growth momentum ended in 4Q22

In 4Q22, the revenue growth of 22 listed garment companies saw a decline, posting -2.9% yoy compared to 27% yoy in 3Q22. Additionally, the pace of earnings growth also decreased, dropping from 58.3% yoy in 3Q22 to -57.9% yoy in 4Q22. This decline is due to reduced orders from main export markets, resulting from decreased apparel demand and high inventory levels at major retailers.

Similarly, 5 listed yarn makers also experienced negative growth in 4Q22, with revenue growth of -17.9% yoy compared to 16.8% yoy in 3Q22. The net profit growth also slid, posting -12.4% yoy in 4Q22, compared to 12.4% yoy in 3Q22.

Table 1. 22 T&G producers' aggregated revenue and earnings

(VNDbn, %)

	4Q21	3Q22	4Q22	YoY	QoQ
Revenue	18,081	18,991	17,550	-2.9%	-7.6%
Gross Profit	2,870	2,552	2,049	-28.6%	-19.7%
Net Profit	1,010	879	425	-57.9%	-51.6%

Source: Company data, Fiinpro, KIS Vietnam

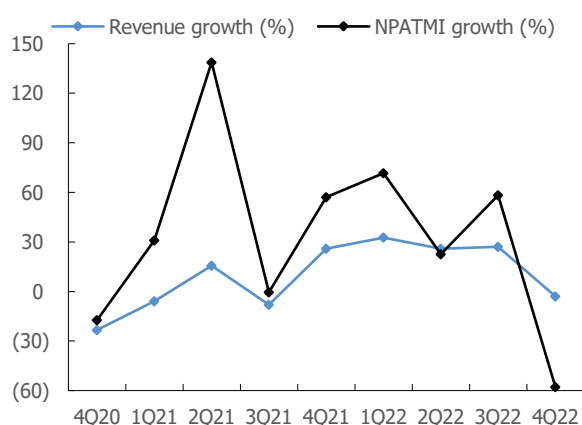
Table 2. 5 yarn makers' aggregated revenue and earnings

(VNDbn, %)

	4Q21	3Q22	4Q22	YoY	QoQ
Revenue	1,542	1,454	1,266	-17.9%	-12.9%
Gross Profit	234	206	176	-24.8%	-14.6%
Net Profit	110	71	97	-11.8%	36.6%

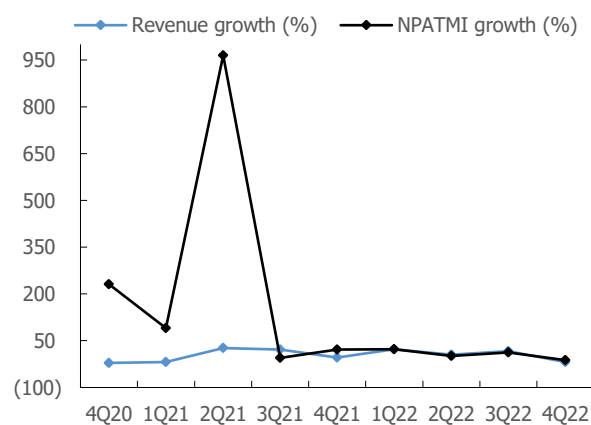
Source: Company data, Fiinpro, KIS Vietnam

Figure 5. The growth trend of T&G producers' aggregated earnings



Source: Company data, Fiinpro, KIS Vietnam

Figure 6. The growth trend of yarn makers' aggregated earnings

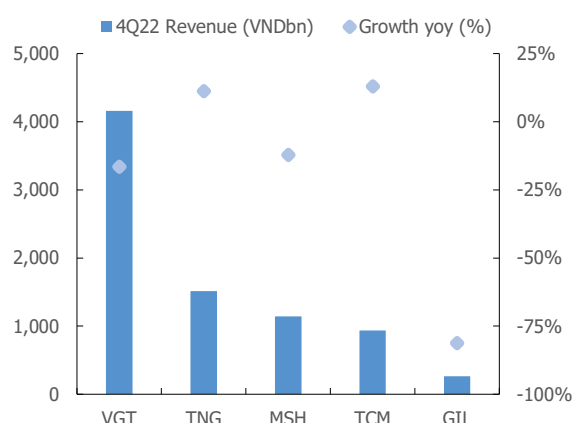


Source: Company data, Fiinpro, KIS Vietnam

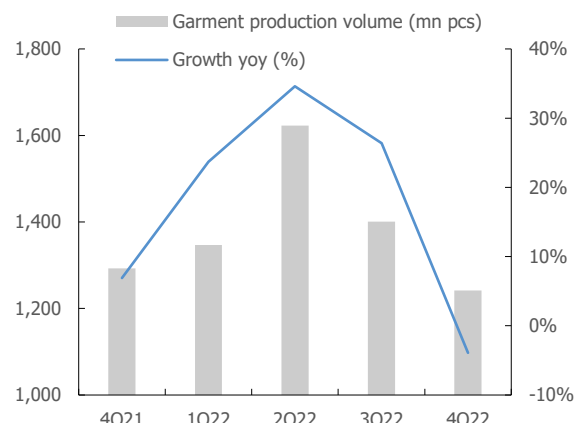
Declined production volume led to negative topline growth

Breaking down T&G aggregated revenue growth by a specific company, VGT had the greatest impact in the light of its dominant position with revenue growth of -16.5% yoy, reaching VND4,157bn in 4Q22. Among garment producers, TCM performed the best as revenue grew 13% yoy to VND937bn thanks to a low base in 4Q21. TNG came in second with an 11.2% yoy growth, achieving VND1,516bn in revenue. Meanwhile, MSH and GIL underperformed the industry with revenue growth of -12.2% yoy and -81.3% yoy, totaling VND1,141bn and VND262bn in revenue, respectively. The substantial drop in GIL's revenue was due to order cancelations from Amazon (the largest customer who accounts for nearly 80% revenue of GIL), amid tighter consumer spending in the US.

According to the General Statistics Office (GSO), Vietnam's 4Q22 garment production volume fell 4% yoy to 1,242mn pieces. The decrease of production volume was caused by a drop in export orders as a result of weaker global consumer demand, indicating that the industry is facing a difficult time.

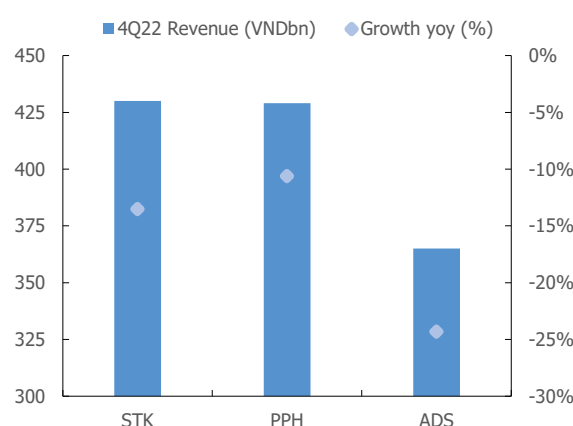
Figure 7. TCM performed the best among garment producers in 4Q22

Source: Company data, Fiinpro, KIS Vietnam

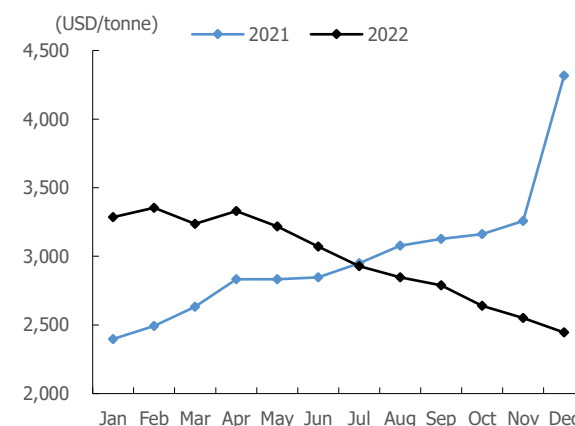
Figure 8. Vietnam's garment production volume continued to drop in 4Q22

Source: General Statistics Office, KIS Vietnam

In 4Q22, the yarn industry experienced a decline in revenue due to several factors. STK, a prominent player in the industry, saw a -13.5% yoy drop in revenue, totaling VND430bn. Other smaller companies, such as PPH and ADS, also suffered from negative growth, with revenue declines of -10.6% yoy and -24.3% yoy, respectively, reaching VND429bn and VND365bn. The lockdown of China (the largest importer of Vietnam's yarns), combined with weak demand for apparel products and high inventory levels among top fashion brands, were the main reasons for decreased revenue among yarn companies in 4Q22. According to data from the General Department of Customs, the average export price of yarn from Vietnam dropped 43.4% yoy in 4Q22, going from USD4,317/tonne in 4Q21 to USD2,445/tonne, continuing a downward trend that started in 2Q22.

Figure 9. Major yarn companies all posted negative growth in 4Q22

Source: Company data, Fiinpro, KIS Vietnam

Figure 10. Average export price of Vietnam's fiber and yarn continued the downward trend in 4Q22

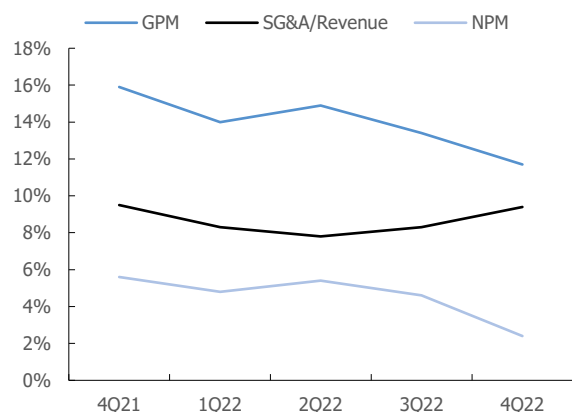
Source: General Department of Customs, KIS Vietnam

Gross profit margin dropped in both segments

In 4Q22, the gross profit margin (GPM) of garment producers shrank from 15.9% in 4Q21 to 11.7% with VGT's GPM dipped farthest by 10.5%p yoy to 4.7%. Yarn companies also experienced a drop in GPM during 4Q22, with a 1.3%p yoy reduction, primarily due to ADS's 7.2%p yoy decrease in GPM. Raw material costs decreased slightly of 2% yoy in 4Q22 as China (Vietnam's primary raw material supplier) gradually relaxed its Zero-Covid policy. However, the decline

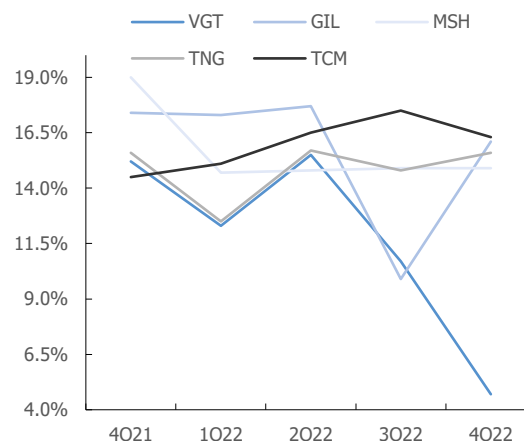
in raw material costs was not sufficient to offset the drop in selling prices, which were under downward pressure from foreign retailers, resulting in a decrease in the GPM of garment companies.

Figure 11. GPM of garment manufacturers dropped in 4Q22



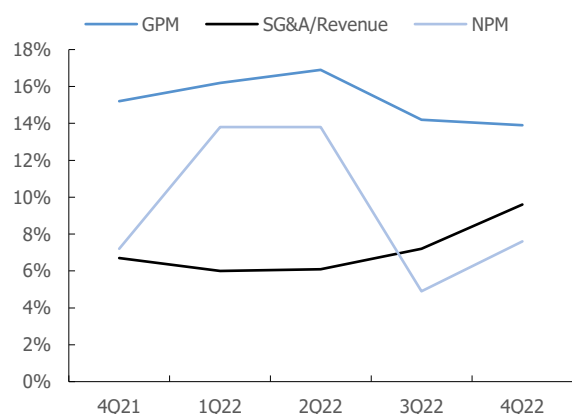
Source: Company data, Fiinpro, KIS Vietnam

Figure 12. VGT saw the largest decline in GPM among garment companies



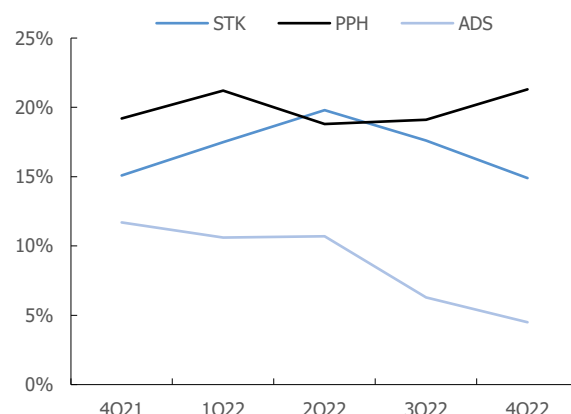
Source: Company data, Fiinpro, KIS Vietnam

Figure 13. Yarn manufacturers also witnessed a decrease in GPM



Source: Company data, Fiinpro, KIS Vietnam

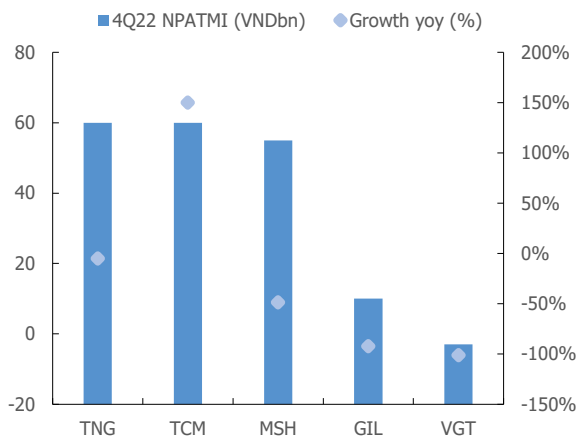
Figure 14. ADS faced the steepest decline in GPM among yarn companies



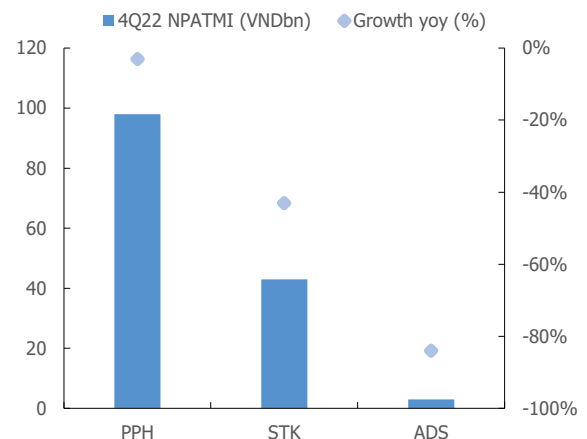
Source: Company data, Fiinpro, KIS Vietnam

4Q22 net profit margin slid in T&G but lifted slightly in yarn

The net profit margin of the T&G segment fell from 5.6% in 4Q21 to 2.4% in 4Q22. The largest company in the industry, VGT, recorded its first quarterly loss of VND3bn in 4Q22. GIL also experienced one of its worst quarters with net profit dropped 92% yoy, which totaled only VND10bn. In contrast, the 4Q22 net profit margin of yarn makers lifted 0.4%p yoy to 7.6%. Major yarn makers including STK, PPH and ADS all recorded negative net profit growth in 4Q22, with decline of 43%, 3% and 84%, respectively, with net profits reaching VND43bn, VND98bn, VND3bn.

Figure 15. TCM's net profit growth outperformed the industry

Source: Company data, Fiinpro, KIS Vietnam

Figure 16. Major yarn companies suffered negative net profit growth

Source: Company data, Fiinpro, KIS Vietnam

Bleak outlook anticipated for 1Q23F

The textile and garment industry is expected to face multiple headwinds in 1Q23F due to declining demand for garment products and excessive inventory levels at major foreign retailers like Nike and Adidas. These retailers have reported significant yearly increases in their inventory levels, with increases of 43% and 72.4% respectively in their recent quarterly reports. As per the Vietnam Textile and Apparel Association (VITAS), orders for 1Q23F have dropped by 25-27% yoy, indicating a difficult year ahead for the industry. On the bright side, China's reopening could act as a growth driver for yarn companies, as China is the main yarn importer for Vietnam and accounts for 46% of the country's total yarn export value in 2022. Among yarn companies, ADS is likely to benefit the most since China constituted 80% of its export revenue.

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