

27 May 2022

# Textile & Garment

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**Non-rated**

## Revenue to gather full momentum in 2H22F

### Export is on course to grow

Major brand buyers are placing bigger orders as consumer sentiment revives in the US and Europe. In 1Q22, Vietnam's textile and garment (T&G) export turnover witnessed an impressive growth of 20.4% yoy to USD8.68bn. The yarn export also thrived to VND USD1.45bn, +18.9% yoy. US persisted as the largest importer with a USD4.36bn, 24.2% yoy in T&G market and China maintained its biggest share with a USD703mn, +6.1% yoy in yarn market. Apparel consumption in the importing nations is on course to grow amid economic reopening and the rise of online shopping.

### Utilization is getting back to normal

Clients aggressively restocked as sales revived. Labors are getting back to plants after the constraints of on-site work in the social lockdown period are lifted. Those all combined to bolster the earnings of Vietnamese factories and OEM companies. Based on our estimates, 1Q22 aggregated revenue of listed T&G and yarn companies perked up 32.6%/22.6% yoy while NPATMI soared 71.5%/22.3% yoy, respectively. Top companies include VGG (+550% yoy), HTG (+247.6% yoy), and VGT (+102% yoy). After dragging down earnings until end-4Q21, utilization has turned around and can begin to offset hefty fixed costs.

### Production begins for fall/winter; Peak period starts

2Q is a typical peak period when production begins for the next fall/winter season. Inventory assets swelled 24.5% yoy as of end-1Q22 in T&G companies, and this demonstrates healthy conditions among clients. Vietnam's textile and garment export turnover in Apr 2022 sustains the revival growth of 28.4% yoy and 3.6% mom to USD3.1bn. Vietnam's fiber and yarn export value in Apr recorded USD487mn, up 5.0% yoy but down 8.1% mom. Revenue recovery could ramp up in 2Q22F for T&G segments. In 2H22F, revenue would thrive driven by clients' robust restocking needs, and fast recovery in utilization.

**Quy Nguyen**

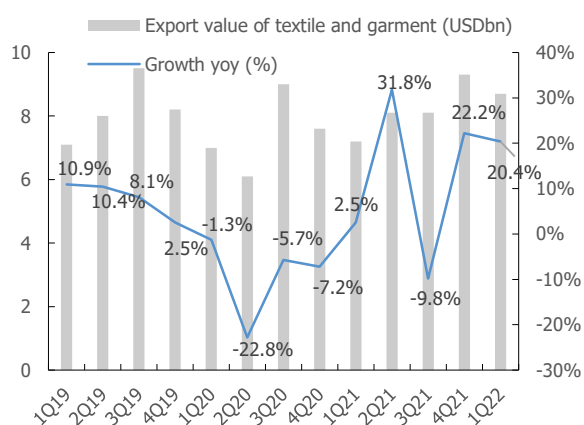
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## 1. Export growth powered by clients' favorable conditions

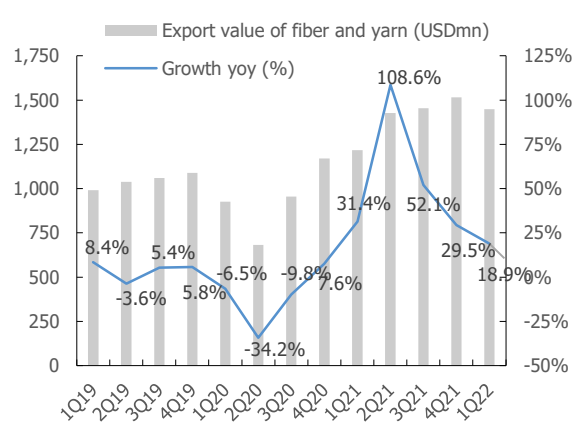
Vietnam's 1Q22 textile and garment (T&G) export turnover advanced by 20.4% yoy to USD8.68bn. Similar to T&G, Vietnam's fiber and yarn export value in 1Q22 sustained growth momentum, with a USD1.45bn, + 18.9% yoy. According to the Vietnam Textile and Apparel Association (VITAS), the T&G industry could achieve a new record export turnover of USD42bn - USD43.5bn, 8 - 12% yoy in 2022F. Behind the rally was clear demand growth momentum backed by sound business conditions. While the global supply chain trouble has kept apparel inventories thin in the US, the country's retail sales of apparel have exceeded the level in 2019. Although pandemic disrupted production and shipping, a surge in clients restocking demand has fattened the OEM's export. Furthermore, the pandemic led to an increasing demand for global yarn consumption to meet orders for personal protective equipment such as masks. Meanwhile, Vietnamese yarn producers are taking advantage from clients shifting yarn orders from China due to US-China trade tension. Previously, Vietnam surpassed South Korea to become the sixth-largest fiber and yarn exporter in the world with a total export value of USD5.6bn in 2021 (+50.8% yoy).

**Figure 1. Vietnam's textile and garment export value**



Source: General Statistics Office

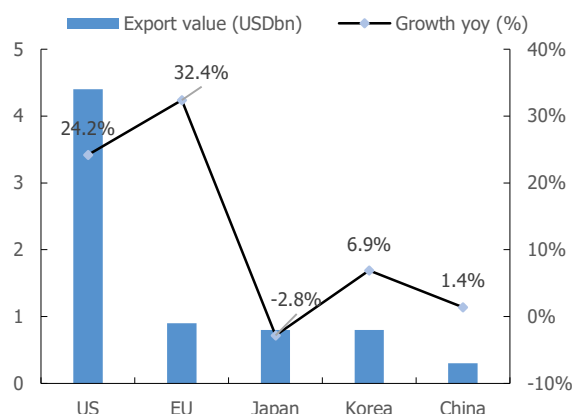
**Figure 2. Vietnam's fiber and yarn export value**



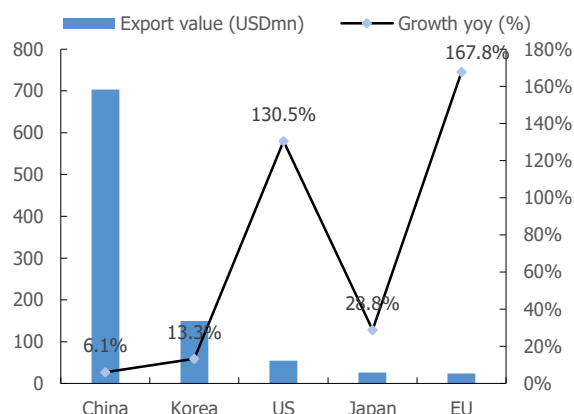
Source: General Statistics Office

Regarding the export destinations, the US continued to be the largest T&G importing market of Vietnam with a USD4.36bn, +24.2% yoy and accounting for 50.3% of total value. 1Q22 export to EU also witnessed a robust revival of 32.4% yoy to USD882mn, followed by Korea (+6.9% yoy, USD754mn) and China (+1.4% yoy, USD291mn). In contrast, the export value to Japan market declined 2.8% yoy (USD771mn) in 1Q22.

China still remained the leading fiber and yarn importer of Vietnam with USD703mn, +6.1% yoy and accounting for 49% of total export value in 1Q22. US and EU markets revived by 130.5% yoy and 167.8% yoy with USD54.4mn/24.1mn, respectively. Korea and Japan nations racked up by USD149.4mn and USD26.4mn, 13.3% yoy and 28.8% yoy, respectively.

**Figure 3. Vietnam's textile and garment export value by nation**

Source: General Statistics Office

**Figure 4. Vietnam's fiber and yarn export value by nation**

Source: General Statistics Office

## 2. 1Q22 earnings reaped the benefit from higher utilization

The total revenue growth momentum of the 22 listed garment companies bounced back strongly in 1Q22. 1Q22 revenue growth came in at 32.6% yoy, higher than 4Q21 of 25.8% yoy. Meanwhile, the earnings growth pace spiked from 57.0% yoy in 4Q21 to 71.5% yoy in 1Q22 thanks to a low growth base in 1Q21.

**Table 1. 22 T&G producers' aggregated earnings**

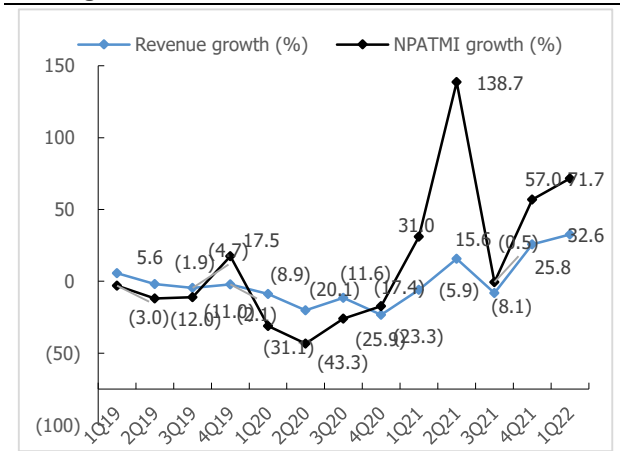
	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	13,621	18,081	18,059	32.6	(0.1)
OP	722	1,435	1,207	67.2	(15.9)
NP	505	1,010	866	71.5	(14.3)

Source: Fiinpro

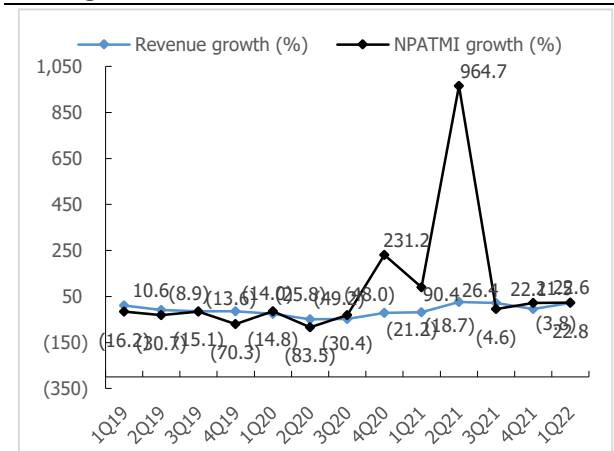
**Table 2. 5 yarn makers' aggregated earnings**

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	1,298	1,542	1,592	22.7	3.2
OP	200	227	260	30.0	14.5
NP	179	110	219	22.3	99.1

Source: Fiinpro

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

Source: Fiinpro

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

Source: Fiinpro

Based on our collection, the 1Q22 aggregate revenue growth of 5 listed yarn companies recovered from the negative growth of 4Q21 (the negative growth in 4Q21 was due to a shortage of workers, leading to factories' capacity not being

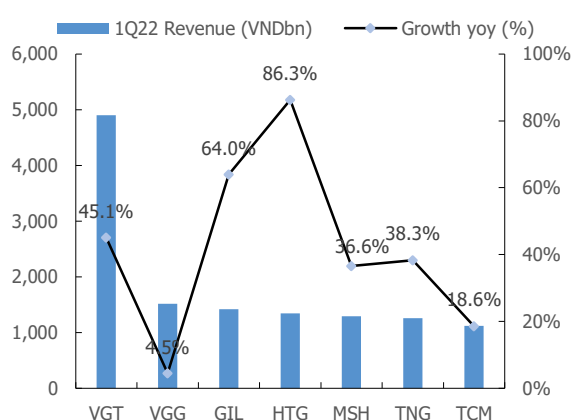
maximized). The revenue growth pace in 1Q22 was positive at 22.6% yoy compared to -3.8% yoy in 4Q21. Net profit growth increased slightly to 22.3% yoy in 1Q22 from 21.5% yoy in 4Q21.

## 2.1 Volume led to T&G's topline while price bolster yarn

Breaking down T&G aggregated revenue growth by a specific company, VGT top influence in the light of its dominant position with revenue growth of 45.1% yoy to VND3,377bn in 1Q22. Among garment producers, HTG performed the best with 1Q22 revenue growth of 86.3% yoy to VND1,345bn. Most garment companies targeted double-digit revenue growth in 2022F. In 1Q22, they already fulfilled around 21-32% of their 2022F revenue guidance. Targeting aggressive topline growth, OEM companies are bullish on prosperous outlook for the T&G industry.

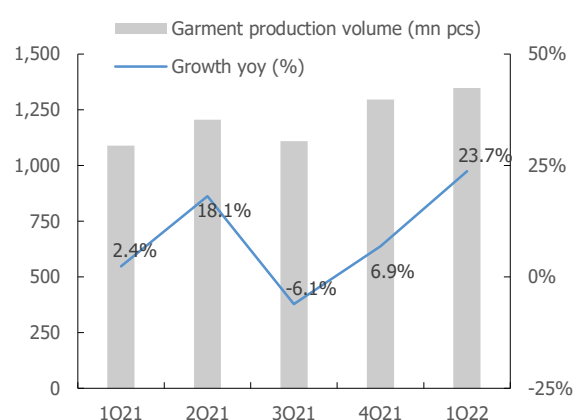
Vietnam's 1Q22 garment production volume soared to 1,347.4mn pieces (+23.7% yoy). The positive growth was mainly prospered by robust demand revival for apparel in the world market, especially in major exporting markets of Vietnam such as the US, EU, Japan. In the US, apparel and footwear sales are clearly picking up. As US apparel retail sales started rising faster than inventory from Oct, 2020, restocking signals appeared. And as apparel sales spiked thereafter, the 2021 US apparel retail sales outpaced 2019 by 12%. US apparel sales remain brisk in 2022 with retail sales up 21% in January and 31% in February.

**Figure 7. The trend of T&G producers' aggregated earnings**



Source: Fiinpro

**Figure 8. The trend of yarn makers' aggregated earnings**



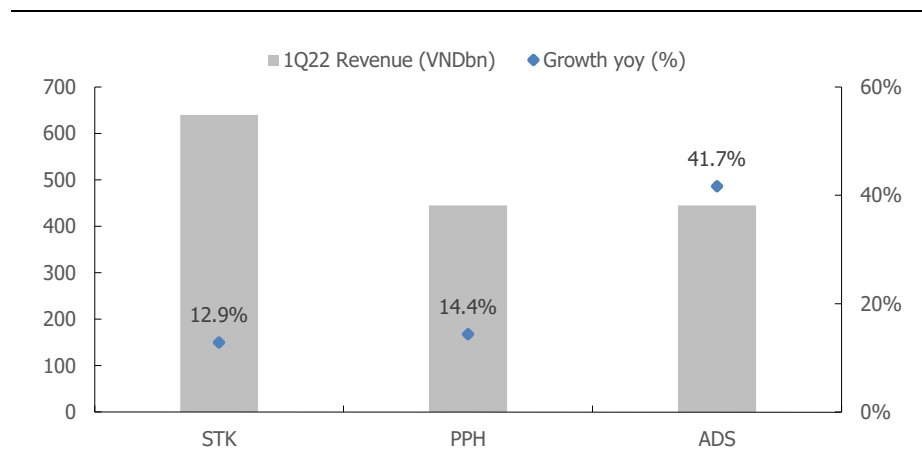
Source: Fiinpro

STK, the leader of the industry, posted revenue growth of 12.9% yoy in 1Q22, achieving VND640bn. Meanwhile, the smaller players also reaped fabulous figures, in which PPH's topline growth came in at 14.4% yoy (VND445bn) and ADS's revenue growth was highest with 41.7% yoy to VND445bn. 1Q22 global cotton price soared a 45% yoy from USD84.6/lbs in 1Q21 to USD122.4/lbs. The price rally was assisted by the fact that China's yarn supply is getting worse and its Zero-Covid policy led to a temporary shortage of raw materials. On the other hand, the US's ban on cotton imported from Xinjiang and the effects of the armed conflict between Russia and Ukraine worsened the supply disruption and these pushed up the cotton price.

At the same time, the average export price of Vietnam's fiber and yarn also climbed by 31.3% yoy in 1Q22, from about USD2,508/tonne to about USD3,292/tonne. This was the leading driver of revenue growth of yarn

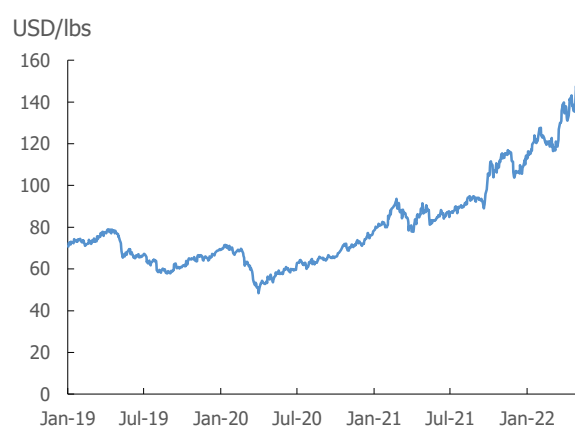
producers in 1Q22.

**Figure 9. ADS's 1Q22 revenue growth outperforms the industry**



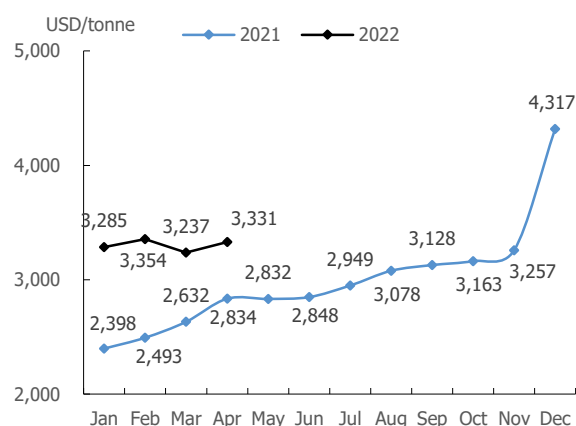
Source: Company data, Fiinpro

**Figure 10. Cotton price in the world market**



Source: Bloomberg

**Figure 11. Average export price of Vietnam's fiber and yarn**

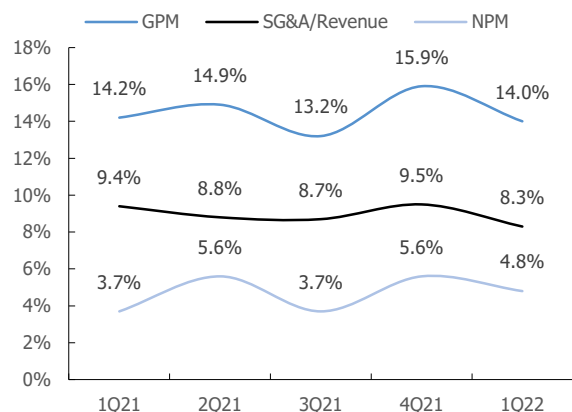


Source: General Department of Customs

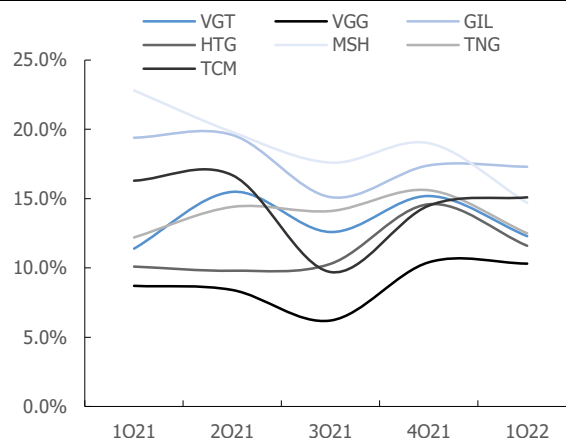
## 2.2 Gross profit margin slightly declined in 1Q22

In 1Q22, the gross profit margin of T&G producers contracted by 0.2%p yoy while MSH's gross profit margin dipped farthest by 8.1%p yoy to 14.7%. The gross margin contraction was mainly hurt by costlier imported raw materials from China amid its Zero-Covid policy, and rising logistic costs caused by the Russia – Ukraine conflict in 1Q22.

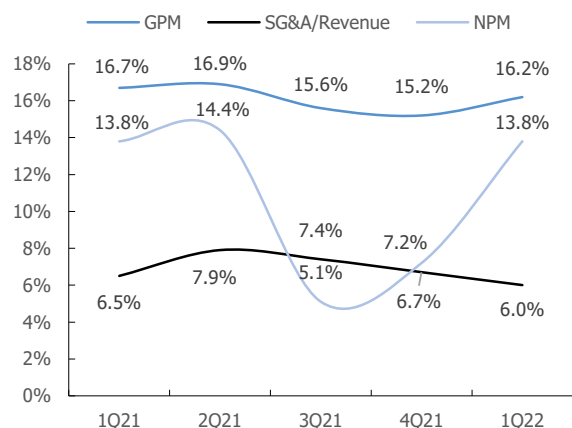
Yarn companies also saw a drop in 1Q22 gross profit margin with a 0.5%p yoy reduction, which was mostly dragged down by STK's 2.3%p yoy GM decline. Similar to garment companies, the heavier cost of raw materials together with higher freight rates drove up purchase cost and weighed down the gross profit margin of yarn producers.

**Figure 12. GM of garment manufacturers slightly declined in 1Q22**

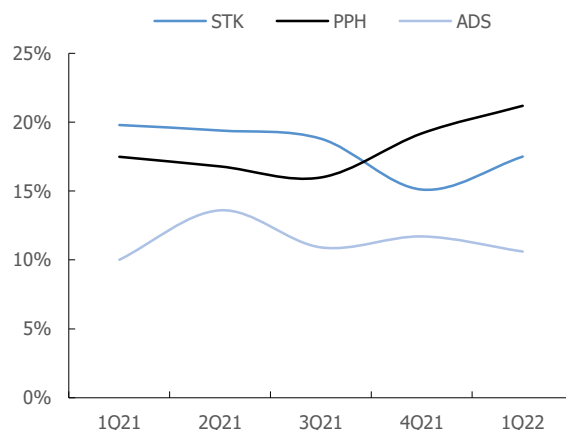
Source: Company data, Fiinpro

**Figure 13. MSH saw the largest decrease in GM**

Source: Company data, Fiinpro

**Figure 14. GM of yarn manufacturers also dropped in 1Q22**

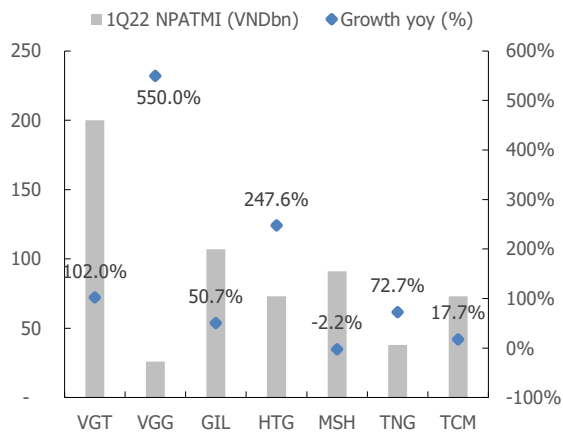
Source: Company data, Fiinpro

**Figure 15. STK saw a decline in GM**

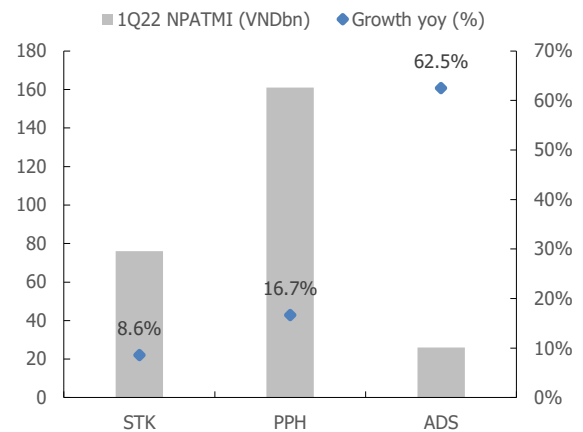
Source: Company data, Fiinpro

### 2.3 1Q22 net margin improved for T&G but flatten for yarn

In contrast, the average net profit margin of T&G segment expanded from 3.7% in 1Q21 to 4.8% in 1Q22. After dragging down earnings until end-1Q22, utilization has turned around and can begin to offset hefty fixed costs. VGT, the largest company in the industry, recorded net profit growth by 102% yoy, to VND200bn in 1Q22. VGG performed the best among all with 550% yoy while MSH saw a fall of 2.2% yoy in net profit growth. Meanwhile, the 1Q22 net profit margin of yarn makers stayed flat at 13.8%. Among all yarn makers, ADS top net profit growth with a 62.5% yoy, followed by PPH with 16.7% yoy and STK with 8.6% yoy.

**Figure 16. VGG net profit growth far exceeded the industry**

Source: Company data, Fiinpro

**Figure 17. ADS beat the industry's net profit growth**

Source: Company data, Fiinpro

### 3. Optimistic outlook expected for T&G industry in 2Q22F

In 2Q22F, we expect a bright outlook for the T&G industry thanks fast recovery of utilization in factories amid the removal of lockdown period and return of labor forces. Furthermore, 2Q is a typical peak period when production begins for the next fall/winter season. Inventory assets swelled 24.5% yoy as of end-1Q22, and this demonstrates healthy conditions among clients.

This further strengthens our belief in an optimistic outlook for the T&G industry in 2Q22F and the prospect that T&G export turnover could achieve VITAS's ambitious target of USD42bn - USD43.5bn in 2022F.

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