

28 Jul 2022

Thanh Cong Textile Garment (TCM)

Ride out the storm

Modest business results in 2Q22

TCM posted modest business results in 2Q22 with revenue of VND1,049bn (+7.2% yoy, -6.5% qoq) and NPAT of VND55bn (-6.2% yoy, -25.1% qoq). After a challenging 2021 with negative earnings growth, in 1H22, the company recorded VND2,171bn (+12.7% yoy) in revenue and VND129bn in NPAT (+6.6% yoy). The positive growth figures in 1H22 were mainly supported by an increase in orders from major brands in the US, Canada, and the EU as apparel demand in these markets recovered.

In the first 6 months of 2022, the company's exports to Asia accounted for the highest proportion of 53.7%, of which the Korean market accounted for 22.4%, and Japan accounted for 18.9%. Followed is the Americas with 39.3%, of which the US market accounted for 30.5%, and Canada accounted for 8.6%. Europe ranked 3rd with 6.5%, of which the UK market accounted for 5.7%.

Revenue in 1H22 came from 3 main items, of which garment products accounted for 77%, fabric accounted for 15%, and yarn accounted for 6% of total revenue.

Profit margins were hit

With a large proportion of FOB orders, TCM faces increased cost pressure in 1H22 due to the spike in raw material prices and transportation costs, leading to a fall in profit margins. Specifically, the gross profit margin and net profit margin of the company fell by 0.7%p yoy and 0.4%p yoy in 1H22, down to 15.8% and 5.9%, respectively.

Valuation

TCM is trading at 23.79x TTM PE and 1.95x TTM PB, lower than the 1-year median of 26.96x and 2.85x, respectively.

12M rating **Non-rated**

12M TP **N.A**

Up/Downside **N.A**

Stock Data

VNIndex (28 Jul, pt)	1,208
Stock price (28 Jul, VND)	43,750
Market cap (USD mn)	153
Shares outstanding (mn)	81.9466800
52-Week high/low (VND)	73,044/42,250
6M avg. daily turnover (USD mn)	2.34
Free float / Foreign ownership (%)	40.2/46.4
Major shareholders (%)	
E-Land Asia Holdings Pte., Ltd	43.3

Performance

	1M	6M	12M
Absolute (%)	(7.9)	(23.8)	(35.5)
Relative to VNIndex (%p)	(7.5)	(6.2)	(31.6)

Stock price trend



Source: Bloomberg

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Year	Sales (VND bn)	OP (VND bn)	NP (VND bn)	EPS (VND)	% chg (YoY)	EBITDA (VND bn)	PE (x)	EV/EBITDA (x)	PB (x)	ROE (%)	DY (%)
2017A	3,209	243	192	2,996	29.0	349	14.5	8.9	2.1	19.4	1.5
2018A	3,662	305	259	3,214	7.3	383	13.5	8.1	1.8	22.2	1.1
2019A	3,644	292	216	2,388	(25.7)	407	18.1	7.4	1.8	16.1	1.1
2020A	3,470	334	275	2,997	25.5	453	14.4	6.2	1.6	18.0	1.1
2021A	3,535	159	143	1,436	(52.1)	278	30.2	12.4	1.8	8.6	1.0

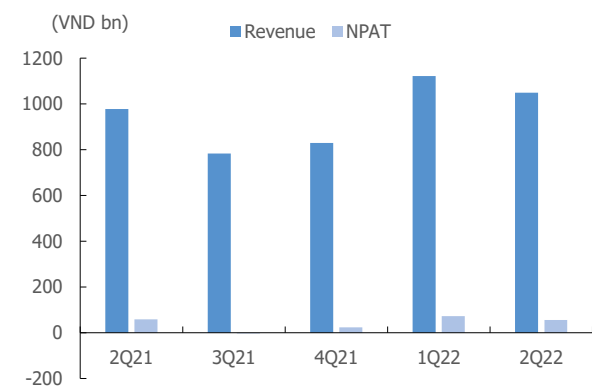
Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

Challenges still ahead in 2H22

TCM's Vinh Long factory phase 2 has put into operation the first 5 out of 29 sewing lines since April this year. However, due to the labor shortage situation, the factory has orders available but has not yet recruited enough workers to operate. Therefore, TCM estimated that from now until the end of 2022, half of the designed capacity will be put into production, equivalent to about 15 sewing lines, bringing the total capacity of the company to increase by 18%.

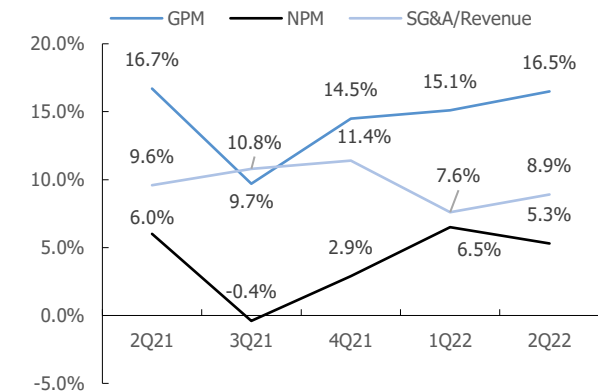
In 2H22, we expect Vietnam's textile export to slow down due to the high inflation situation in main export markets, which may cause consumers to tighten spending on non-essential goods. Currently, TCM has received enough orders for 3Q22 and has received nearly 70% of the orders for 4Q22. However, customers can cancel orders if consumer demand weakens. Also, input material prices and transportation costs are still expected to remain at a high level in 2H22, therefore TCM's profit margins may be negatively affected.

Figure 1. Revenue and NPAT



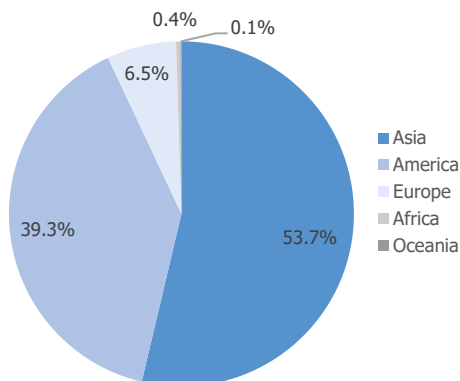
Source: Company data, Korea Investment & Securities

Figure 2. Gross profit margin and Net profit margin



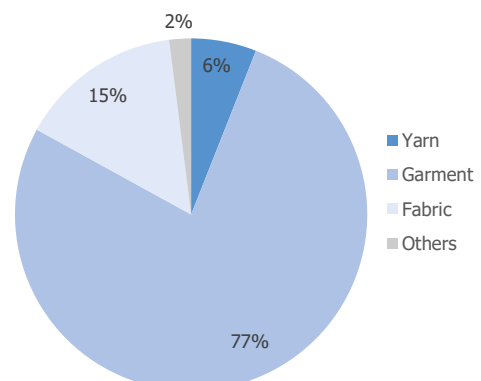
Source: Company data, Korea Investment & Securities

Figure 3. Exports by continent



Source: Company data, Korea Investment & Securities

Figure 4. Revenue by product item



Source: Company data, Korea Investment & Securities

■ Company Overview

Founded in 1976, Thanh Cong Textile Garment Investment Trading JSC (TCM) is a renowned Vietnamese textile manufacturer that offers a fully integrated Vertical Production System service. TCM is strengthening its position in the textile industry by applying green technology to meet the ESG requirements of well-known international brands such as Nike, Adidas, Uniqlo, etc.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Current assets	1,607	1,893	1,624	1,784	2,351
Cash & cash equivalents	282	419	451	555	557
Accounts & other receivables	475	280	259	200	288
Inventory	806	1,138	893	1,007	1,464
Non-current assets	1,429	1,354	1,298	1,193	1,255
Fixed assets	1,185	1,107	1,091	986	928
Investment assets	118	110	90	93	227
Others	170	193	140	136	143
Total assets	3,035	3,247	2,923	2,976	3,606
Advances from customers	160	177	32	40	69
Unearned revenue	0	0	0	0	0
Trade payables	292	300	187	260	554
Others	249	265	278	295	272
ST debt & due bonds	969	1,008	877	706	910
LT debt & bonds	294	222	123	38	93
Total liabilities	1,964	1,971	1,498	1,338	1,898
Controlling interest	1,064	1,268	1,417	1,630	1,700
Capital stock	517	542	580	621	714
Capital surplus	23	23	23	23	23
Other reserves	231	302	395	463	503
Retained earnings	299	406	425	530	466
Minority interest	8	9	8	8	9
Shareholders' equity	1,072	1,276	1,425	1,639	1,709

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Sales	3,209	3,662	3,644	3,470	3,535
COGS	2,706	2,983	3,065	2,850	3,022
Gross profit	503	679	579	620	514
SG&A expenses	260	374	287	286	354
Operating profit	243	305	292	334	159
Financial income	26	32	35	48	61
Interest income	8	16	18	21	23
Financial expenses	71	89	62	48	51
Interest expenses	48	52	49	28	19
Other non-operating profit	42	75	5	3	3
Gains (Losses) in associates, subsidiaries and JV	(5)	1	4	6	7
Earnings before tax	235	323	274	343	178
Income taxes	43	63	57	67	35
Net profit	193	260	217	276	144
Net profit of controlling interest	192	259	216	275	143
EBITDA	349	383	407	453	278

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
C/F from operations	286	86	527	387	(89)
Net profit	193	260	217	276	144
Dep'n & Amort'n	106	78	115	119	119
Net incr. in W/C	(13)	(253)	195	(9)	(352)
C/F from investing	(121)	80	(80)	(34)	(117)
Capex	(93)	(66)	(76)	(12)	(117)
Incr. in investment	(27)	146	(4)	(22)	0
C/F from financing	(131)	(80)	(438)	(290)	189
Incr. in equity	0	0	(1)	0	0
Incr. in debt	(98)	(54)	(410)	(261)	220
Dividends	(33)	(26)	(27)	(29)	(31)
C/F from others	0	0	0	0	0
Increase in cash	34	86	9	63	(17)

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Per-share data (VND, adj.)					
EPS	2,996	3,214	2,388	2,997	1,436
BPS	20,746	23,537	24,566	26,402	23,942
DPS	638	483	473	473	439
Growth (%)					
Sales growth	4.5	14.1	(0.5)	(4.8)	1.9
OP growth	36.1	25.4	(4.2)	14.4	(52.4)
NP growth	67.8	35.1	(16.8)	27.6	(48.2)
EPS growth	29.0	7.3	(25.7)	25.5	(52.1)
EBITDA growth	95.5	9.7	6.3	11.4	(38.6)
Profitability (%)					
OP margin	7.6	8.3	8.0	9.6	4.5
NP margin	6.0	7.1	6.0	8.0	4.1
EBITDA margin	10.9	10.5	11.2	13.1	7.9
ROA	6.6	8.3	7.0	9.4	4.4
ROE	19.4	22.2	16.1	18.0	8.6
Dividend yield	1.5	1.1	1.1	1.1	1.0
Dividend payout ratio	21.3	15.0	19.8	15.8	30.6
Stability					
Net debt (VND bn)	981	811	550	188	446
Net debt/equity (%)	91.5	63.5	38.6	11.5	26.1
Valuation (x)					
PE	14.5	13.5	18.1	14.4	30.2
PB	2.1	1.8	1.8	1.6	1.8
EV/EBITDA	8.9	8.1	7.4	6.2	12.4

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- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
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