

Textile & Garment

Non-rated

A bumpy road ahead for the industry

Contrasting export performance between segments

According to the General Department of Customs, the prelim export turnover of Vietnam's textile and garment remained robust with a growth of 28.6% yoy, achieving USD10.4bn in 3Q22. In contrast to the textile and garment segment, Vietnam's 3Q22 fiber and yarn export posted a negative growth of -31.2% yoy, reaching USD1bn. The US continued to be the largest textile importer in 3Q22 with USD4.5bn (+12.8% yoy), accounting for 43.5% of Vietnam's total textile export value. Meanwhile, China, the largest fiber and yarn market of Vietnam, accounted for USD441mn (-44.1% yoy) in 3Q22, making up 44.1% of Vietnam's total fiber and yarn export value.

Solid revenue and earnings growth in both garment and yarn

The total revenue growth momentum of listed garment companies was maintained in 3Q22 when posting 27.0% compared to 25.8% in 2Q22. The earnings growth pace spiked from 22.6% yoy in 2Q22 to 59.0% yoy in 3Q22 thanks to the low base effect as the Southern region was in a lockdown period in 3Q21. Whereas, listed yarn makers witnessed decent growth figures in 3Q22. Specifically, the revenue growth pace in 3Q22 was 16.7% yoy compared to only 5.5% yoy in 2Q22. Net profit growth of yarn companies also jumped to 12.7% yoy in 3Q22 from 1.2% yoy in 2Q22.

Challenges are ahead in 4Q22F

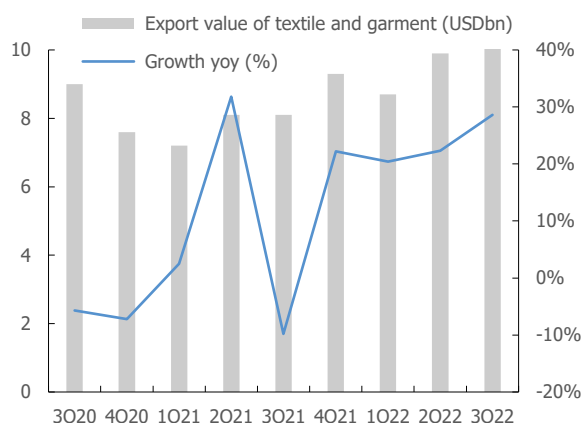
According to the Vietnam Textile and Apparel Association (VITAS), Vietnam's garment industry is expected to face a decline in orders from its key markets over the next two quarters amid high inflation which is dampening global demand. Furthermore, the average selling price is under downward pressure from foreign retailers. VITAS also noted that local garment companies had to cut about 10%-15% of their production and many had been forced to cut their workforce. We expect a challenging outlook for the industry in 4Q22F as we think export will continue to be negatively affected by inflation concerns and China's zero-Covid policy.

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Contrasting export performance between segments in 3Q22

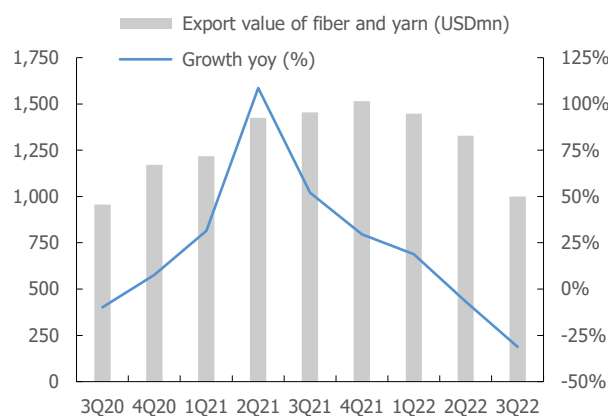
According to the General Department of Customs, the prelim export turnover of Vietnam's textile and garment remained robust with a growth of 28.6% yoy, achieving USD10.4bn in 3Q22. In contrast to the textile and garment segment, Vietnam's 3Q22 fiber and yarn export posted a negative growth of -31.2% yoy, reaching USD1bn.

Figure 1. Vietnam's textile and garment export value



Source: General Department of Customs, KIS Vietnam

Figure 2. Vietnam's fiber and yarn export value

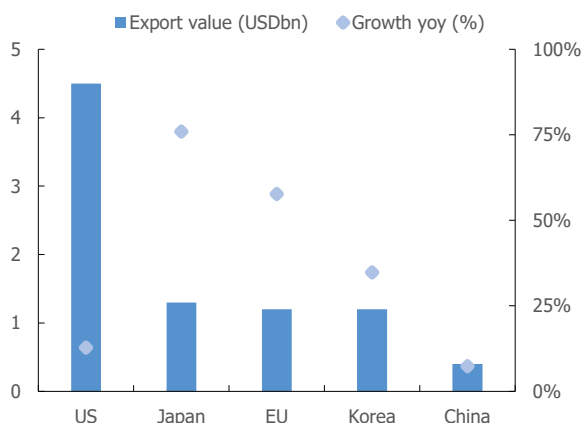


Source: General Department of Customs, KIS Vietnam

Regarding the exports by nation, the US continued to be the largest textile importer in 3Q22 with USD4.5bn (+12.8% yoy), accounting for 43.5% of Vietnam's total textile export value. 3Q22 export to Japan also witnessed a spike in value with a growth of 76.0% yoy, reaching USD1.3bn. Next came the EU with USD1.2bn (+57.7% yoy) and Korea with USD1.2bn (+34.8% yoy). Whereas, the export to China increased slightly 7.4% yoy to USD0.4bn in the same period.

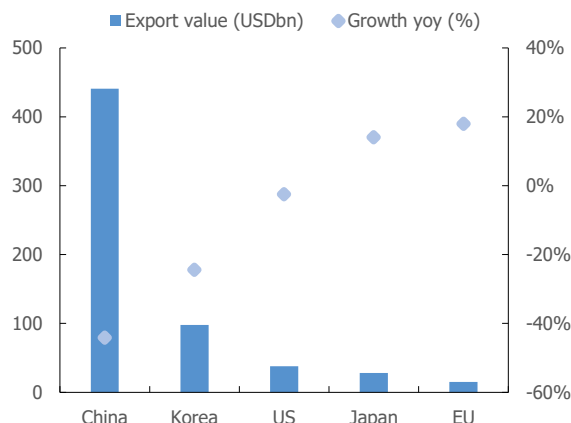
China, the largest fiber and yarn market of Vietnam, accounted for USD441mn (-44.1% yoy) in 3Q22, making up 44.1% of Vietnam's total fiber and yarn export value. The export to Korea, the US, Japan, and the EU in 3Q22 posted USD98mn (-24.4% yoy), USD38mn (-2.5% yoy), USD28mn (+14.1% yoy), and USD15mn (+18.0% yoy), respectively.

Figure 3. Vietnam's textile and garment export value by nation in 3Q22



Source: General Department of Customs, KIS Vietnam

Figure 4. Vietnam's fiber and yarn export value by nation in 3Q22



Source: General Department of Customs, KIS Vietnam

Revenue growth momentum maintained in 3Q22

The aggregated revenue growth momentum on a yearly basis of the 22 listed garment companies was maintained in 3Q22 when posting 27.0% compared to 25.8% in 2Q22. Meanwhile, the earnings growth pace spiked from 22.6% yoy in 2Q22 to 59.0% yoy in 3Q22 thanks to the low base effect as the Southern region was in a lockdown period in 3Q21.

Based on our collection, 5 listed yarn makers witnessed decent growth figures in 3Q22. The revenue growth pace in 3Q22 was 16.7% yoy compared to only 5.5% yoy in 2Q22. Net profit growth also jumped to 12.7% yoy in 3Q22 from 1.2% yoy in 2Q22.

Table 1. 22 T&G producers' aggregated earnings

	(VNDbn, %)				
	3Q21	2Q22	3Q22	YoY	QoQ
Revenue	14,957	20,147	18,992	27.0	-5.7
Gross Profit	1,973	3,005	2,552	29.3	-15.1
Net Profit	553	1,095	879	59.0	-19.7

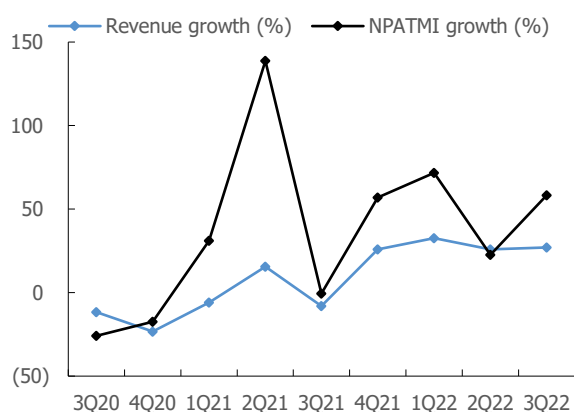
Source: Company data, Fiinpro, KIS Vietnam

Table 2. 5 yarn makers' aggregated earnings

	(VNDbn, %)				
	3Q21	2Q22	3Q22	YoY	QoQ
Revenue	1,246	1,452	1,454	16.7	0.1
Gross Profit	194	245	206	6.2	-15.9
Net Profit	63	201	71	12.7	-64.7

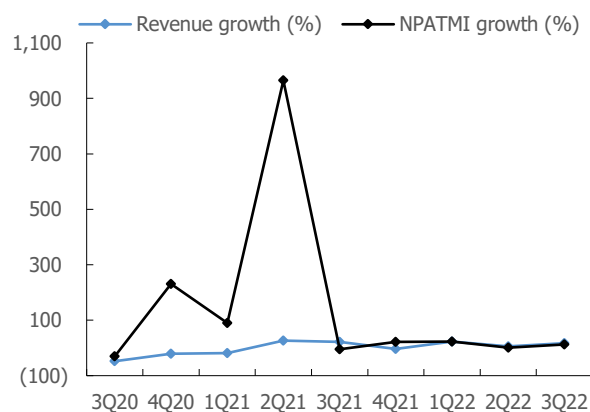
Source: Company data, Fiinpro, KIS Vietnam

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

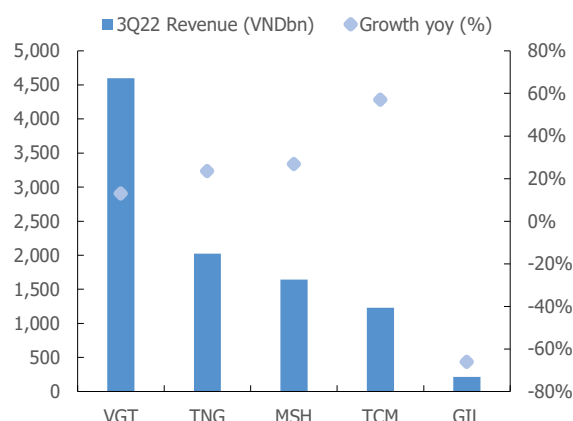


Source: Company data, Fiinpro, KIS Vietnam

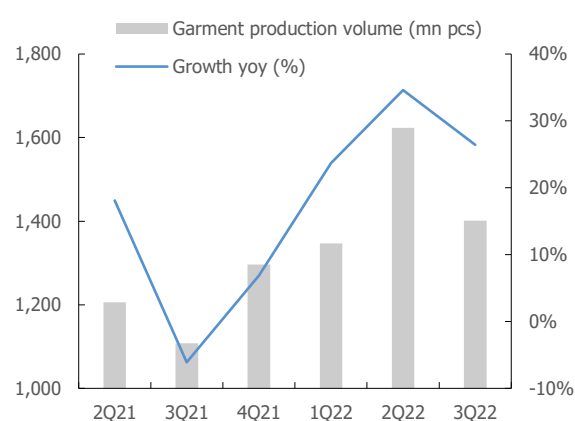
Increased production volume drove T&G's topline growth

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 12.9% yoy to VND4,600bn revenue in 3Q22. Among garment producers, TCM performed the best as revenue grew 57.0% yoy to VND1,229bn revenue (thanks to a low base in 3Q21) while MSH, TNG, and GIL underperformed the industry with revenue growth of 26.8%, 18.2%, and -66.1%, reaching VND1,643bn, VND2,021, VND213bn revenue, respectively.

According to the General Statistics Office (GSO), Vietnam's 3Q22 garment production volume soared to 1,401mn pieces (+26.4% yoy). Increased production post-Covid was the leading driver of revenue growth of garment producers in 3Q22.

Figure 7. T&G producers' aggregated revenue in 3Q22

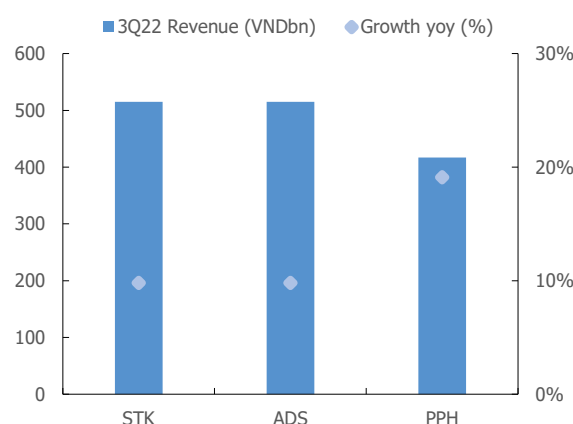
Source: Company data, Fiinpro, KIS Vietnam

Figure 8. Vietnam's garment production volume in 3Q22

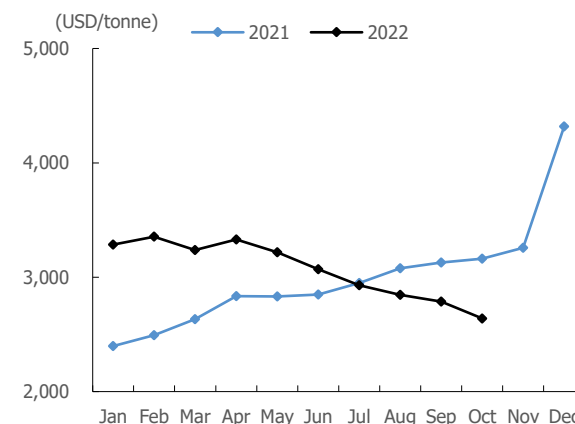
Source: General Statistics Office, KIS Vietnam

STK, the leader of the yarn segment, posted revenue growth of 9.8% yoy in 3Q22, achieving VND515bn revenue. Whereas, the smaller players recorded stronger growth figures, in which PPH's topline growth came in at 19.1% yoy, achieving VND417bn while ADS's revenue grew impressively 43.5% yoy to VND478bn. The positive revenue growth was mainly attributed to the low base in 3Q21 when yarn companies in the South had to cut production and strictly applied Covid prevention measures.

Based on the data from the General Department of Customs, the average export price of Vietnam's yarn dropped 6.5% yoy in 3Q22, from about USD3,052/tonne in 3Q21 to about USD2,854/tonne. The average yarn export price is currently on a downtrend, signaling a difficult 4Q22F for yarn companies.

Figure 9. Yarn producers' aggregated revenue in 3Q22

Source: Company data, Fiinpro, KIS Vietnam

Figure 10. Average export price of Vietnam's fiber and yarn

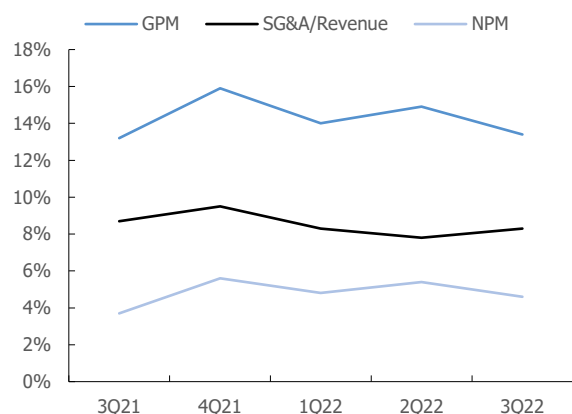
Source: General Department of Customs, KIS Vietnam

Gross profit margin stayed flat on yearly basis in T&G segment and declined in yarn

In 3Q22, the gross profit margin of T&G producers stayed flat while GIL's gross profit margin dipped farthest by 5.2%p yoy to 9.9%. Meanwhile, yarn companies saw a drop in 3Q22 gross profit margin with a 1.4%p yoy reduction, which was mostly dragged down by ADS's 4.6%p yoy GM decline. The gross margin

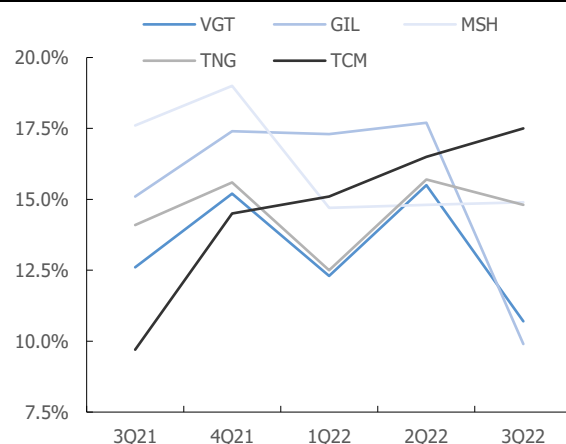
contraction was mainly due to the heavier cost of raw materials as China (the main raw material supplier of Vietnam) strictly applied zero-Covid policy in 3Q22.

Figure 11. GM of garment manufacturers stayed flat in 3Q22



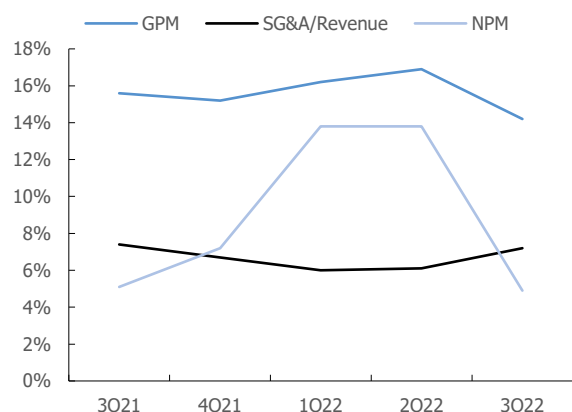
Source: Company data, Fiinpro, KIS Vietnam

Figure 12. GIL saw the largest decrease in GM



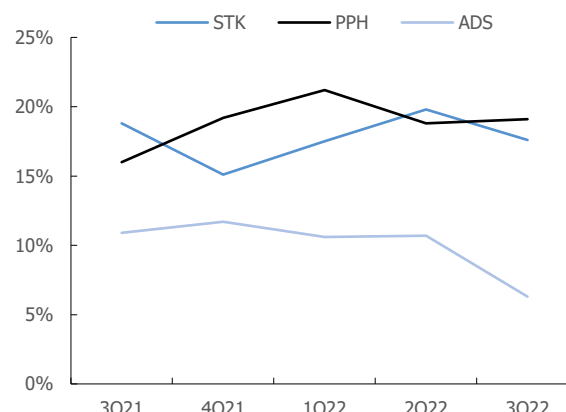
Source: Company data, Fiinpro, KIS Vietnam

Figure 13. GM of yarn manufacturers lifted slightly in 3Q22



Source: Company data, Fiinpro, KIS Vietnam

Figure 14. STK and ADS saw a decline in GM

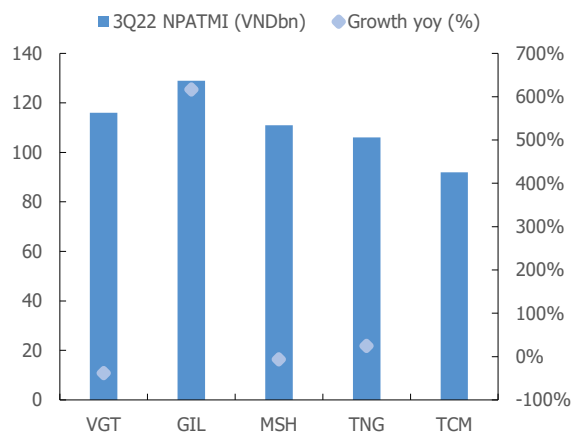


Source: Company data, Fiinpro, KIS Vietnam

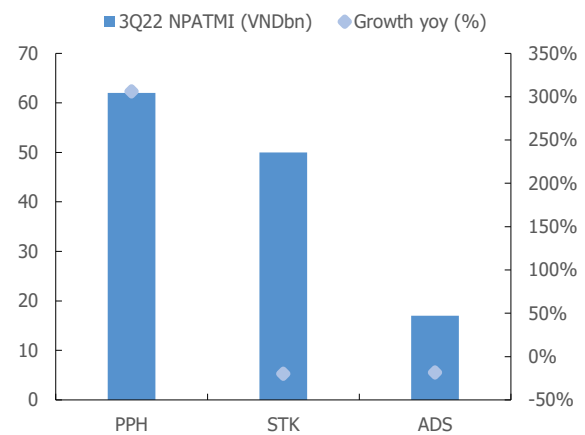
3Q22 net profit margin lifted in T&G but remained unchanged in yarn

The average net profit margin of T&G segment lifted slightly from 3.7% in 3Q21 to 4.6% in 3Q22. VGT, the largest company in the industry, saw a significant fall of 38.0% yoy in net profit growth, down to VND116bn in 3Q22. GIL performed the best among all with a growth of 616.7% yoy thanks to the financial income of about VND201bn coming from the divestment from Gia Dinh Textile and Garment JSC. Meanwhile, the 3Q22 net profit margin of yarn makers remained unchanged at 4.9% in 3Q22. Among all yarn makers, PPH topped net profit growth ranks with 305.9% yoy mostly thanks to income from affiliated companies, while STK and ADS saw a negative growth of -19.7% yoy and -18.5% yoy, respectively.

3Q22 saw SG&A/Revenue ratio dropped in both segments, specifically, falling 0.4%p yoy in garment and 0.2%p yoy in yarn thanks to better cost management and saving on Covid-related expenses.

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

Source: Company data, Fiiipro, KIS Vietnam
 Note: TCM posted negative earnings in 3Q21

Figure 16. PPH beat the industry's net profit growth

Source: Company data, Fiiipro, KIS Vietnam

Challenging outlook expected in 4Q22F

According to the Vietnam Textile and Apparel Association (VITAS), Vietnam's garment industry is expected to face a decline in orders from its key markets over the next two quarters amid high inflation which is dampening global demand. Furthermore, the average selling price is under downward pressure from foreign retailers. VITAS also noted that local garment companies had to cut about 10%-15% of their production and many had been forced to cut their workforce. We expect a challenging outlook for the industry in 4Q22F as we think export will continue to be negatively affected by inflation concerns and China's zero-Covid policy.

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