

# Textile & Garment

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**Non-rated**

## The fatigue persists in 2Q23F

### Export value dropped across the universe in 1Q23

According to the General Department of Customs, Vietnam's 1Q23 textile and garment exports experienced a diminishment in growth, with a -17.4% yoy decline, totaling USD7.17bn. The export of fiber and yarn showed an even greater decline, dropping by 35% yoy and reaching a value of only USD941mn in 1Q23. The US - the leading importer of textiles and garments in 1Q23, importing USD3.05bn (-30% yoy), accounting for 42.5% of Vietnam's total textile and garment exports. Meanwhile, China, the largest market for fiber and yarn exports from Vietnam, posted only USD430mn (-39% yoy) in 1Q23, making up 45.7% of Vietnam's total fiber and yarn export value.

### Garment and yarn saw lessened earnings growth in 1Q23

In line with 4Q22, the 1Q23 revenue growth of listed garment companies continuously experienced a decline, posting a -22.8% yoy growth compared to the -2.9% yoy growth in 4Q22. Furthermore, the pace of earnings growth continuously slowed down, dropping -71.4% yoy 1Q23. 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 negative, with revenue growth of -35.3% yoy compared to -17.9% yoy in 4Q22. The net profit growth of these companies also slid, posting -58.7% yoy in 1Q23, compared to -12.4% yoy in the previous quarter.

### The gloomy prospect remains in 2Q23F

2Q23F will still be a tough year for the textile industry when garment companies face significant challenges due to a sharp decrease in purchase power from major markets such as US, and EU. Inventory levels at major foreign retailers like Nike and Adidas have increased since 2H22, which together with slow consumption led to a decrease in orders. That high inventories will unlikely to solve in 2Q23F and the recovery in the orders is hard to happen.

China's reopening is also a hurdle for garment companies when they have to compete with the big apparel exporter in the world. However, it is a good signal for yarn companies with large export contributions in China. Besides that, the Mar US cotton prices were in a downtrend, trading at 0.79 USD/pound, compared to 0.83 USD in Feb. According to The Vietnam Cotton and Spinning Association (VCOSA), imported cotton prices will be lower in the coming time which will improve yarn companies' gross margin in 2Q23F.

**Research Dept**

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### Export activities faced a challenge in 1Q23

The General Department of Customs released their report, Vietnam's 1Q23 textile and garment exports declined 17.4% yoy, totaling USD7.17bn. The export of fibers and yarns in 1Q23 even fell more by 35% yoy to only USD941mn. In 1Q23, the US maintained the top importer of textile and garment, even decelerated its value to USD3.05bn (-30% yoy), accounting for 42.5% of Vietnam's total textile and garment exports. Exports to the EU and China contracted by 12.9% yoy (USD0.8bn) and 24.3% yoy (USD0.2bn), respectively. Only exports to Japan and Korea grew by 11.6% yoy (USD0.9bn) and 5.8% yoy (USD0.3bn) respectively.

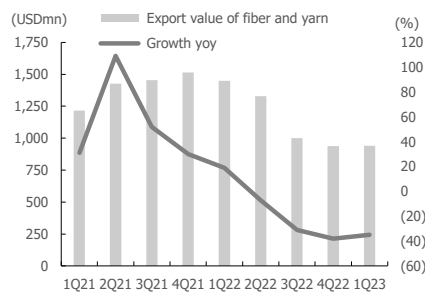
In terms of fiber and yarn exports, China was the largest market with 45.7% share of the total export value at USD430mn (-39% yoy). The export to Korea, the US, Japan, and the EU in 1Q23 amounted to USD106mn (-15.3% yoy), USD30mn (-38.9% yoy), USD24mn (-9.3% yoy), and USD20mn (-29.3% yoy).

**Figure 1. Textile and garment export value maintain downward momentum**



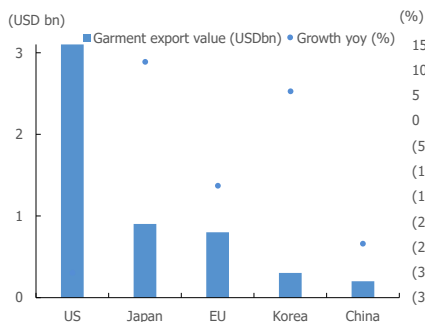
Source: General Department of Customs, KIS Vietnam

**Figure 2. Fiber and yarn export value showed a gloomy number in 3 last quarters**



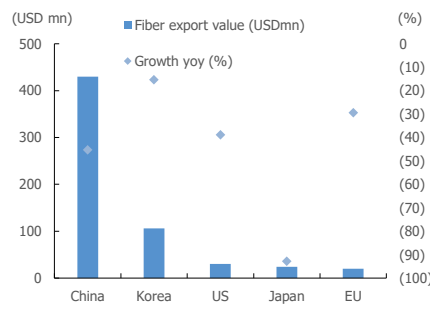
Source: General Department of Customs, KIS Vietnam

**Figure 3. Export to the US steeply retreated in 1Q23**



Source: General Department of Customs, KIS Vietnam

**Figure 4. Export to China fell strongly in 1Q23**



Source: General Department of Customs, KIS Vietnam

### Revenue growth kept downturn in 1Q23

In 1Q23, the revenue growth of 22 listed garment companies posted VND13,947bn, -22.8% yoy compared to -2.9% yoy in 4Q22. Additionally, earnings growth also significantly dropped to VND248.5bn (-71.4% yoy, -41.6% qoq). We attribute this pullback to order reduction from main export markets,

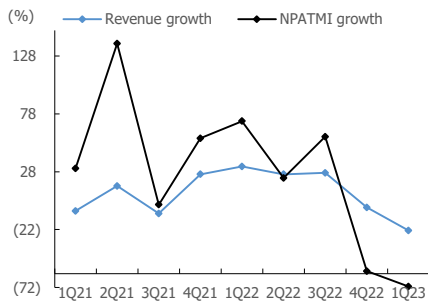
resulting from decreased apparel demand and high inventory levels at major retailers. Similarly, 5 listed yarn makers also posted subdue growths in revenue (-35.3% yoy) and the net profit (-58.7% yoy) in 1Q23.

**Table 1. 22 T&G producers' aggregated revenue and earnings (VNDbn, %)**

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	18,059	17,550	13,947	(22.8)	(21.2)
Gross Profit	2,520	2,049	1,489	(41.6)	(27)
Net Profit	866	425	248	(71.4)	(41.6)

Source: Company data, Finpro, KIS Vietnam

**Figure 5. The yoy growth of T&G producers: 1Q23 saw the largest fall since 2021**



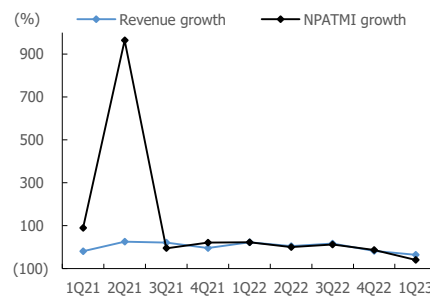
Source: Company data, Finpro, KIS Vietnam

**Table 2. 5 yarn makers' aggregated revenue and earnings (VNDbn, %)**

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	1,592	1,266	1,029	(35)	(19)
Gross Profit	258	176	140	(46)	(20)
Net Profit	219	97	91	(58)	(6)

Source: Company data, Finpro, KIS Vietnam

**Figure 6. The yoy growth of yarn makers: 1Q23 even worse**

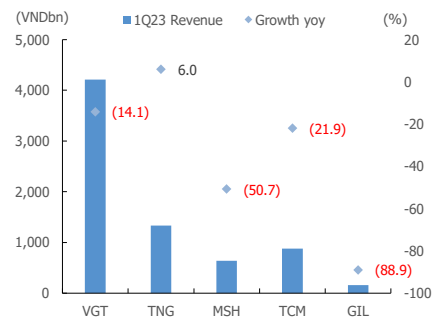


Source: Company data, Finpro, KIS Vietnam

### Declined production volume led to negative topline growth

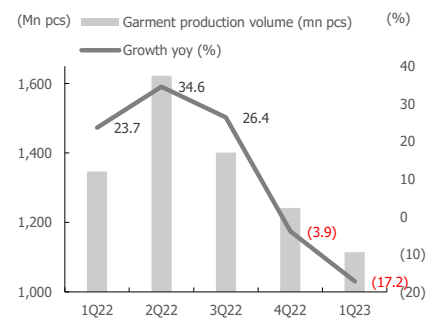
Breaking down T&G aggregated revenue growth by a specific company, VGT impacted the most in the light of its dominant position (Rev: VND4,209bn, -14.1% yoy) in 1Q23. The follower performed tepidly (MSH: Rev VND637bn (-50.7% yoy); TCM: Rev VND876bn (-21.9% yoy); GIL: Rev VND157bn (-88.9% yoy).). Only TNG sustained revenue growth. Meanwhile, GIL's gloomy revenue was a consequence of order cancellations from Amazon (the largest customer of GIL). The reduction of topline growth was largely arising from a declined production of 17.2% yoy to 1,115mn pieces (GSO), resulting from a drop in export orders due to weaker global apparel demand.

**Figure 7. VGT performed the best in 1Q23**



Source: Company data, Finpro, KIS Vietnam

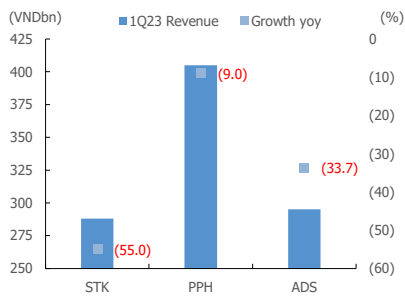
**Figure 8. Vietnam's garments dropped in 1Q23**



Source: General Statistics Office, KIS Vietnam

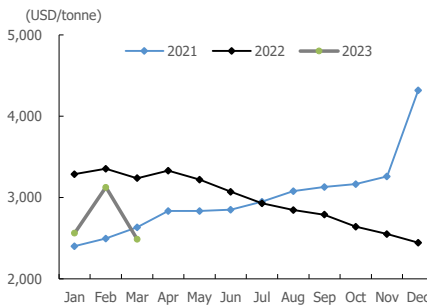
In 1Q23, the yarn industry also experienced revenue contraction. PPH dominated in light of revenue (VND405bn, -9% yoy). The smaller players like STK, and ADS even descended their revenue further at -55% yoy/-33.7% yoy. Amid the difficulty of the textile industry, upstream companies suffered export yarn price drops. According to GSO, average Vietnam's export price of yarn was downed 31.3% yoy (USD2,724/tonne) in 1Q23, despite the revival in Feb.

**Figure 9. Major yarn companies suffered negative growth in 1Q23**



Source: Company data, Fiiipro, KIS Vietnam

**Figure 10. Vietnam's average export price of fiber and yarn kept downward in 1Q23**



Source: General Department of Customs, KIS Vietnam

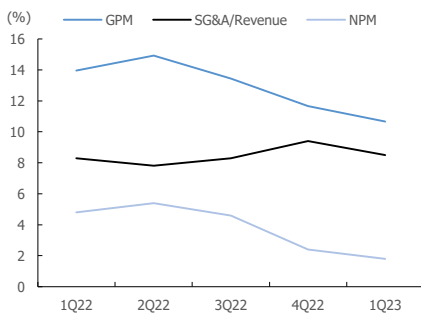
### Gross margin of T&G companies narrowed in 1Q23

In 1Q23, the gross profit margin (GM) of garment producers shrank 10.7% (-3.3%p yoy, -1%p qoq). GM of the most garment producers dipped even GIL's gross profit slid to negative territory (-VND4.3bn) due to some hurdles as mentioned previously. However, VGT's GM revived (7.8%, +3.1%p qoq). The GM yarn segment also lessened and, STK's GM dwindled the most at 6.2% (-8.7%p qoq, -11.3%p yoy).

Overall, the T&G segment announced the net profit plunge and VGT (-72% yoy; TCM -24.7% yoy). GIL even made loss -VND38bn. In the yarn segment, PPH as a leader sustained its net profit growth by (-3% yoy). Despite the improvement in SG&A/sale (8.5%, -0.9% qoq), the net profit margin (NM) of the T&G segment became weaker by -3%p yoy to 1.8% (-0.6% qoq) in 1Q23. In contrast, the NM of yarn companies turned upward to 8.8% (+1.2%p qoq).

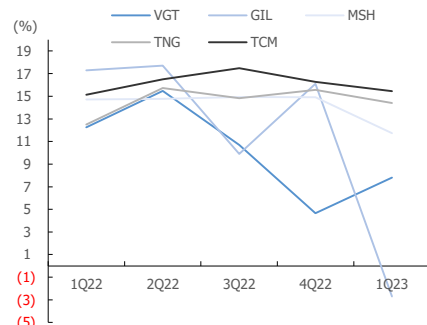
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**Figure 11. GM of garment lessened in 1Q23**



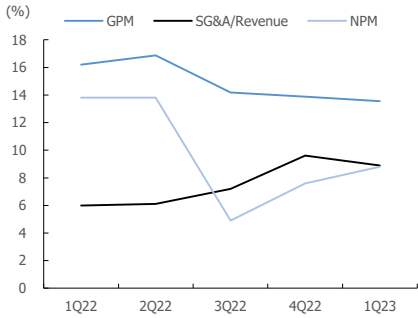
Source: Company data, Fiiipro, KIS Vietnam

**Figure 12. GIL saw the largest decline in GM**



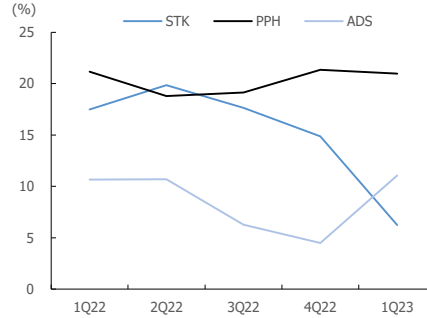
Source: Company data, Fiiipro, KIS Vietnam

**Figure 13. Yarn manufacturers also witnessed a decrease in GM**



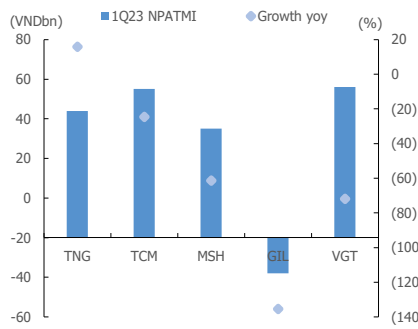
Source: Company data, Fiiipro, KIS Vietnam

**Figure 14. STK faced the steepest decline in GM among yarn companies**



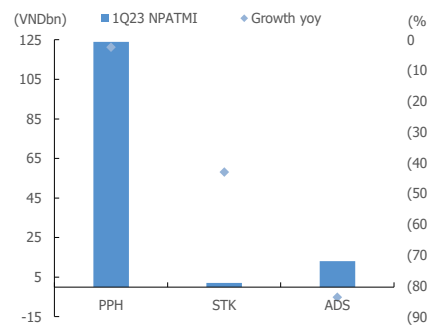
Source: Company data, Fiiipro, KIS Vietnam

**Figure 15. GIL posted a loss in 1Q23**



Source: Company data, Fiiipro, KIS Vietnam

**Figure 16. Major yarn companies decreased the net profit**



Source: Company data, Fiiipro, KIS Vietnam

### Gloomy outlook for 2Q23F

2Q23F will still be a tough year for the textile industry when garment companies face significant challenges due to a sharp decrease in purchase power from major markets such as US, and EU. Inventory levels at major foreign retailers like Nike and Adidas have increased since 2H22, which together with slow consumption led to a decrease in orders. That high inventories will unlikely to solve in 2Q23F and the recovery in the orders is hard to happen. China's reopening is also a hurdle for garment companies when they have to compete with the big apparel exporter in the world. Nonetheless, it is a good signal for yarn companies with large export contributions in China. Besides that, according to VCOSA, imported cotton prices will be lower in the coming time which will improve yarn companies' gross margin in 2Q23F.

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