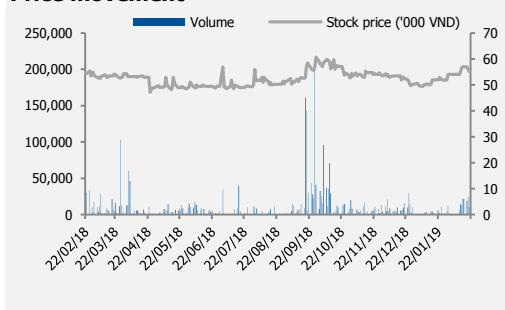


BUY (maintain)**Viettien Garment Corp (UpC: VGG)**

Report date	Mar. 5, 2019
Current price	VND 57,000
Target price	VND 76,600
Upside	34%
Bloomberg	VGG VN Equity
Market cap	VND 2,310bn
	USD 94mn
52 weeks movement	VND 45,400
	VND 58,500
Average daily value	VND 4.0bn
	USD 0.2mn
FOL	29.75%
Current FO	19.25%

Launch of new growth era**Our takeaway**

- In 2018, Vietnam Textiles & Garments export value reached USD36 billion, an increase of 16% versus 2017. Vietnam outpaced main competing countries such as India, Bangladesh and Turkey, who got a small single-digit growth in 2018. Vietnam Textiles & Garment Association set a feasible target of USD41 billion export value for this sector by 2020, at a CAGR of 6.7%.
- New plant Viet Long Hung is the main growth engine of VGG in the long-term, which would double the company's capacity. VGG invested in Phase-2 of the new plant in late 2018, right after phase-1 completion, in order to capture the sector growth.

Price movement

Stock performance	1M	3M	12M
VGG (%)	6%	0%	6%
VN-Index (%)	5%	6%	-10%

Source: Bloomberg

Major Shareholder

Vinatex	47.9%
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What's new

FY18 net profit increased by 24% YoY, double our expectation of 12% because revenue went up by 15% YoY and gross margin widened by 0.3 ppts while SG&A costs increased modestly by 10% YoY. Viet Long Hung plant (Phase-1) generated VND 169bn of revenue for the company (1.7% of total revenue). We forecast a larger contribution of this plant from 2019 onwards.

4Q2018 gross margin saw a strong expansion of 2.4 ppts, which pushed up gross profit by 31% even though revenue just increased by 9%.

Raising FY19 and FY20 earnings forecasts due to new plant performance.

- Revenue and earnings growth of VGG in 2018 came predominantly from existing plants. From 2019, we expect Viet Long Hung plant and other existing plants all to achieve a solid growth rate. Thus, we upgrade revenue growth forecast of VGG in 2020.
- Overall, we raise our FY19 and FY20 earnings forecasts to 19% and 16% respectively from 18% and 6% previously.

Valuation

We revise our 12-month target price upward from VND74,400 to VND76,600 (34% upside) and maintain our BUY recommendation. VGG is currently trading at forward 2019 P/E of 4.5x, a discount compared with its peers' forward 2019 P/E median of 6.1x.

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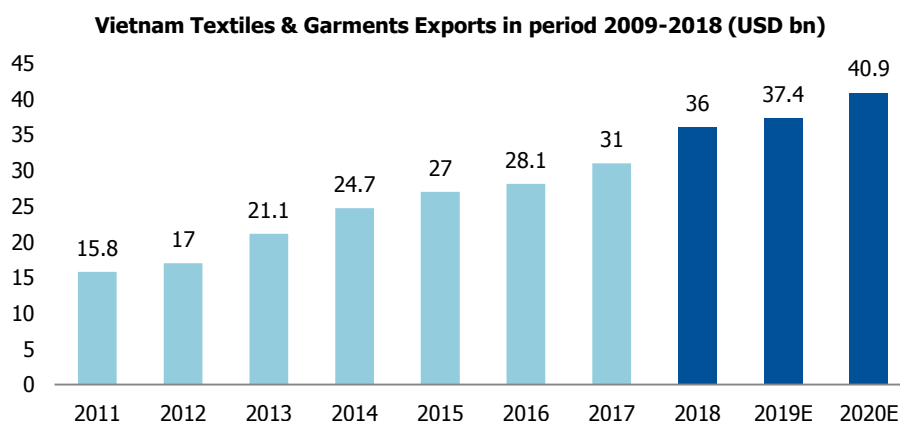
Unit: VND billion	FY17	FY18E	FY19F	FY20F
Revenue	8,452	9,704	11,894	13,502
EBIT	361	470	637	738
Net profit	396	492	583	679
Net profit (basic)	378	468	554	642
EPS (VND)	8,578	10,609	12,568	14,553
EPS growth rate (%)		24%	18%	16%
P/E (x)	6.6	5.4	4.5	3.9
EV/EBITDA (x)	3.3	-1.7	-2.0	-2.1
DPS (VND)	3,500	2,500	3,000	3,500
Dividend yield (%)	6%	4%	5%	6%
P/B (x)	1.5	1.2	0.9	0.8
ROE (%)	26%	28%	26%	24%
Net debt/equity (%)	7%	5%	5%	4%

Source: MBS Research

Sector Update

Industry-wide growth in value

- In 2018, Vietnam Textiles & Garments export value reached USD36 billion, an increase of 16% versus 2017. Vietnam outpaced main competing countries such as India, Bangladesh and Turkey which got a small single-digit growth in 2018.
- Vietnam Textiles & Garment Association expects this sector's export value to surpass USD41 billion by 2020, at a CAGR of 6.7%. In our view, this growth rate is feasible thanks to intrinsic potentials of the sector and external demand.



Source: Vietnam Maritime Administration, MBS Research

Vietnam garments sector has experienced strong growth thanks to affordable labor cost and open policies. In addition, the US-China Trade tension has induced producers to invest outside of China to diversify their production sources in order to avoid negative impacts from the tension, even though apparel is not included in the tariff list yet.



Vietnam – China stake in the US apparel & footwear market

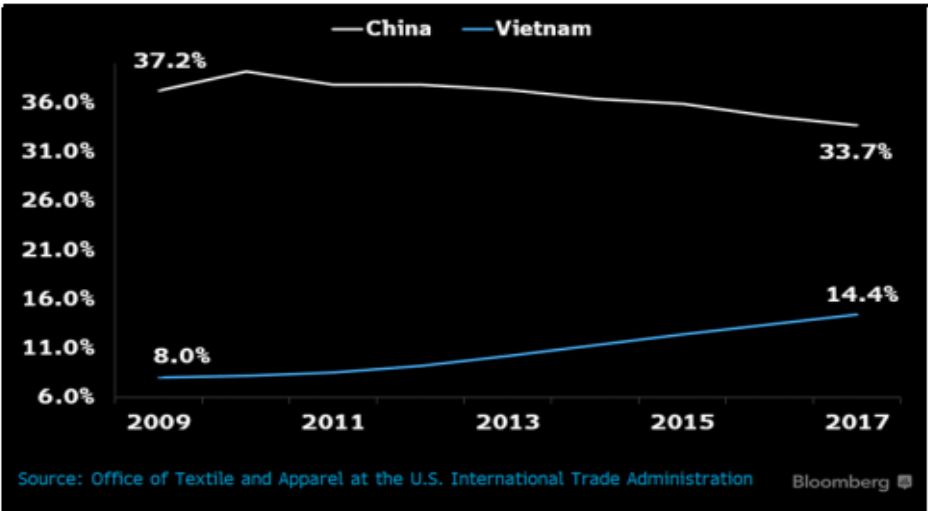
Within nearly a decade, Vietnam has become the 3rd largest apparel exporter and the 2nd largest footwear exporter to the US.

- **Apparel:** Vietnamese exports percentage increased from 8.0% in 2009 to 14.4% in 2017 (China: from 37.2% to 33.7%).
- **Footwear:** Vietnamese exports percentage increased from 10.2% in 2012 to 21.6% in 2017 (China: from 71.9% to 55.8%).

During this decade, the decrease of Chinese exports percentage has been replaced virtually by Vietnamese increase. This transferring trend is likely to be maintained in the

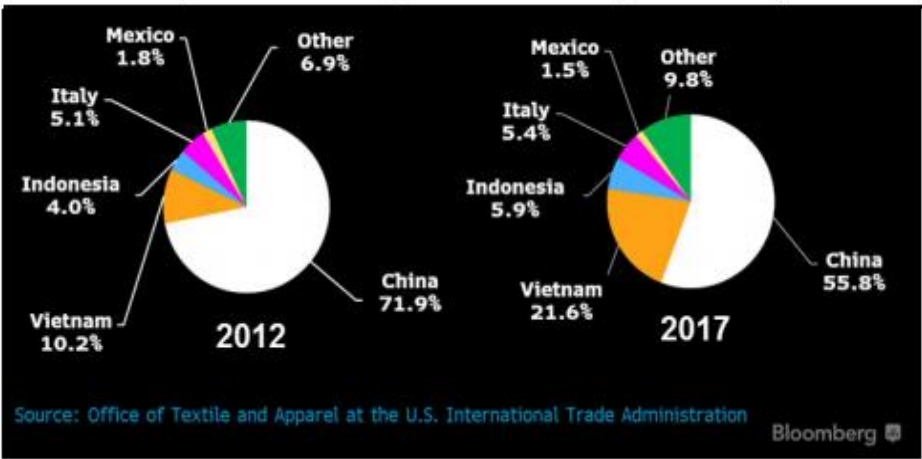
mid to long term, given that China has been transforming their economic model from export-oriented to consumer-oriented form.

Top Exporters of Apparel to U.S. (% of Total)



Source: Bloomberg Intelligence, MBS Research

Top Footwear Exporters to U.S. (% of Total)



Source: Bloomberg Intelligence, MBS Research

Financial Update

VGG posted its 4th quarter financial statement with the results as follows:

- Revenue increased by 9% versus the same quarter in 2017.
- Gross profit increased by 31% YoY. The company saw a large margin expansion in 4Q2018.
- SG&A expenses increased slightly by 3% YoY, much lower than gross profit growth.
- Net profit increased by 27% YoY, in line with our expectation.

Full-year results are as follows:

- The whole year revenue in 2018 was VND 9,707 billion, up 15% YoY and 5% lower than our expectation.
 - Viet Long Hung plant revenue: VND 169 billion.
- Gross profit was VND 1,160 billion, up 17% YoY, in line with our forecast. Margin widened by 0.3 ppts.
- Profit after tax reached VND 468 billion, up 24% YoY.

Full-year bottom line is higher than our projection because of higher profit from Associates & JVs and financial profit.

Table 1: Company financial results

VND bn	FY18	FY17	Y/Y chg%	FY18 MBS Estimate	% Diff	4Q18	4Q17	Y/Y chg%
Revenue	9,704	8,452	14.8%	10,164	-4.5%	2,280	2,096	8.8%
Cost of goods sold	-8,544	-7,464	14.5%	-9,006	-5.1%	-1,959	-1,851	5.8%
Gross profit	1,160	988	17.4%	1,158	0.2%	321	245	31.0%
<i>GPM (%)</i>	12.0%	11.7%	0.3ppts	11.4%	0.6ppts	14.1%	11.7%	2.4ppts
Selling expenses	-370	-349	6.0%	-389	-4.9%	-82	-103	-20.4%
G&A expenses	-320	-278	15.1%	-298	7.4%	-108	-82	31.7%
EBIT	470	361	30.2%	471	-0.2%	131	60	118.3%
<i>EBIT margin (%)</i>	4.8%	4.3%	0.5ppts	4.6%	0.2ppts	5.7%	2.9%	2.8ppts
Profit from Associates & JVs	92	71	29.6%	70	31.4%	31	23	34.8%
Financial profit/(expenses)	23	44	-47.7%	15	53.3%	8	28	-71.4%
Other profit/(expenses)	12	7		0		3	4	
Profit Before Tax	597	483	23.6%	556	7.4%	173	115	50.4%
Income tax expenses	-105	-87	20.7%	-111	-5.4%	-31	-22	40.9%
Minority interest	-24	-18	33.3%	-22	9.1%	-9	-4	125.0%
Net profit for shareholders	468	378	23.8%	423	10.6%	133	89	49.4%
<i>NPM (%)</i>	4.8%	4.5%	0.3ppts	4.2%	0.6ppts	5.8%	4.2%	1.6ppts

Source: Company data, MBS Research

Earnings Model & Valuation

For FY19 and FY20, we adjusted our earnings forecasts upward to VND 554bn and VND 642bn respectively, and earnings growths to 19% and 16% respectively from 18% and 6% previously (Table 3). The adjustments are based on:

- **Growth from Viet Long Hung plant:** Revenue and earnings growth of VGG in 2018 came predominantly from other plants. From 2019, we expect Viet Long Hung plant and other existing plants all to achieve a solid growth rate. Thus, we upgrade revenue growth forecast of VGG in 2020.

Table 3: Revision In Financial Model							
VND bn	New		Previous		% Diff		Comment
	FY19F	FY20F	FY19F	FY20F	FY19F	FY20F	
Revenue	11,894	13,502	11,771	12,846	1%	5%	Adjust upward gross margin thanks to new plant's technologies
Gross profit	1,392	1,566	1,316	1,423	6%	10%	
Selling expenses	-412	-460	-434	-484	-5%	-5%	
G&A expenses	-344	-368	-319	-342	8%	8%	
Financial profit	23	40	24	28	-4%	43%	
Other profit							Adjust according to GP upgrade
EBT	729	848	656	695	11%	22%	
EAT	583	678	525	566	11%	20%	
Net profit	554	642	499	528	11%	22%	
EPS (VND)	12,568	14,618	11,311	11,984	11%	22%	

Source: MBS Research

We do not apply DCF valuation because there are several uncertainties which may impact significantly on the discounted result, such as large profit from associates and JVs and big bonus & welfare funds. Instead, we use multiple valuation with comparable players in Vietnam. VGG is currently trading at forward 2019 P/E of 4.5x, which is discounted versus its peers' forward 2019 P/E median of 6.4x, though its profitability and dividend yield are relatively superior.

With forward FY19 EPS of 12,568 VND/share, we target 12-month forward VGG's stock price at **VND76,600 per share** (34% upside), revised upward from VND74,400, and maintain our BUY recommendation (Table 4).

Table 4: National peers (Forward FY19)						
Company	Ticker	Market Cap (USD mn)	ROE	Dividend yield	EV/EBITDA	P/E
Viettien Garments JSC	VGG VN	105	26.0%	6.4%	3.5	4.5
Thanh Cong Textile Garment JSC	TCM VN	69	15.3%	1.6%	5.6	9.3
Garmex Saigon JSC	GMC VN	29	22.3%	6.7%	5.3	6.3
Hue Textile Garment JSC	HDM VN	10	18.6%	12.8%	3.5	5.8
TNG Investment & Trading JSC	TNG VN	41	24.1%	-	-	5.9
Song Hong Garment JSC	MSH VN	110	30.4%	5.6%	-	6.9
Average			23.2%	6.4%	4.4	6.1

Source: Bloomberg, MBS Research

Investment highlights

Leading player in a surging sector

Viettien Garment Corporation (VGG) is one of the leading garments companies in Vietnam: its annual revenue is just behind Vinatex's - the biggest player in the industry. VGG exports to diverse markets including Japan, the US, EU, etc. Bright industry potential, leading position and strong financial state underpin the company's long-term growth.

New plant Viet Long Hung is the main growth engine of VGG for the next 5 years. The plant plans to employ 10,000 workers for 3 phases, which is equal to total employees at VGG's other plants. VGG invested in Phase-2 of the new plant in late 2018, right after phase-1 completion, in order to capture the potential sector growth.

Table 5: VGG's work force by plant	2017	2018E	Post-2019F
Viet Long Hung plant	-	2,000	10,000
Other plants	8,953	8,953	8,953
Total	8,953	10,953	18,953
% Growth		22.3%	111.7%

Source: Company data, MBS Research

Strong cash generation ability

VGG is a strong cash generator and high and stable dividend payer. We forecast that VGG will even enhance these features with its new plant's incremental contribution.

Table 6: VGG's cash generation	2015	2016	2017	2018	2019F	2020F
EBITDA (VND bn)	420	525	503	639	864	1,004
CFO (VND bn)	550	404	549	793	924	951
Dividends per share (VND)	3,000	3,000	3,500	2,500	3,000	3,500

Source: Company data, MBS Research

Key risks

Risk of macroeconomics. Apparel exports value of Vietnam is closely related to global economic health. A slump in electronic products and automobiles sales in China in 2018 has raised concern that Chinese economy will suffer a slowdown in growth, badly affecting the global economy. We do not anticipate that Vietnamese apparel exports will go down in the two next years. However, downside risk should be kept watch on.

Financials and Valuation Summary

Income statement (VND bn)	FY17	FY18E	FY19F	FY20F	FY21F
Revenue	8,452	9,704	11,894	13,502	14,981
Cost of goods sold	7,464	8,544	10,502	11,936	13,285
Gross profit	988	1,160	1,393	1,566	1,696
Financial income	59	140	106	120	136
Financial expenses	15	26	13	13	13
SG&A expenses	627	690	756	828	908
	476	585	729	844	911
Profit before tax	483	597	729	844	911
Profit after tax	264	265	266	267	268
Profit after tax for parent company	378	468	554	642	692
Not-controlling interest	18	24	29	34	36

Balance sheet	FY17	FY18E	FY19F	FY20F	FY21F
Current assets	3,353	3,563	4,694	5,707	6,582
I. Cash & cash equivalents	950	1,195	1,669	2,195	2,602
II. Short-term investments	0	0			
III. Current accounts receivable	1,364	1,399	1,830	2,077	2,341
IV. Inventories	826	729	955	1,194	1,398
V. Other current assets	213	241	241	241	241
Non-current assets	897	1,082	1,196	1,200	1,364
I. Long-term receivables	45	47	47	47	47
II. Fixed assets	314	474	684	688	852
1. Tangible fixed assets	314	474	684	688	852
2. Intangible fixed assets	0	0	0	0	0
III. Investment properties	0	0	0	0	0
IV. Long-term assets in progress	127	96	0	0	0
V. Long-term investments	374	429	429	429	429
VI. Other long-term assets	37	37	37	37	37
Total assets	4,250	4,646	5,891	6,907	7,946
Liabilities	2,798	2,961	3,755	4,250	4,715
I. Current liabilities	2,767	2,930	3,724	4,219	4,684
1. Short-term payables	2,664	2,852	3,621	4,116	4,581
2. Short-term loans	103	79	103	103	103
II. Non-current liabilities	31	31	31	31	31
1. Long-term payables	31	31	31	31	31
2. Long-term loans	0	0	0	0	0
Equity	1,452	1,684	2,135	2,656	3,231
1. Charter capital	441	441	441	441	441
2. Surplus	24	24	24	24	24
3. Retained earnings	907	1,120	1,542	2,030	2,567
4. Foreign exchange differences	0	0	0	0	0
5. Minorities interests	79	98	128	161	198
Total liabilities & equity	4,250	4,646	5,891	6,907	7,946

Key ratios	FY18E	FY19F	FY20F
Valuation			
EPS	10,609	12,568	14,553
Book value per share (BVPS)	38,190	48,419	60,238
P/E	5.4	4.5	3.9
P/B	1.2	0.9	0.8
P/S	0.2	0.2	0.2
Dividend yield	4.4%	5.3%	6.1%
Profitability			
Gross profit margin	12%	12%	12%
EBITDA margin	7%	7%	7%
Net profit margin	5%	5%	5%
ROE	28%	26%	24%
ROA	10%	9%	9%
Growth			
Revenue growth	15%	23%	14%
Profit before tax growth	24%	22%	16%
Profit after tax growth	24%	22%	16%
EPS	24%	22%	16%
Total Asset	9%	27%	17%
Equity	16%	27%	24%
Liquidity			
Current ratio	1.2	1.2	1.4
Quick ratio	0.9	0.9	1.0
Debt/Total assets	64%	64%	62%
Debt/Equity	176%	176%	160%
Interest coverage	18.2	47.98	55.6
Operating efficiency			
Receivables turnover	7	7	7
Days sales outstanding	53	56	56
Inventory turnover	12	11	10
Days sales of Inventory	31	33	37
Payables turnover	3	3	3
Days payables outstanding	130	126	126

Cashflow Statement	FY18E	FY19F	FY20F
CFO	793	924	951
CFI	-294	-342	-270
CFF	-134	-108	-154
Cash flow for year	363	474	526
Cash & cash equivalents at the beginning of the year	949	1,194	1,669
Cash & cash equivalents at the end of the year	1,194	1,669	2,195

Source: MBS Research

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STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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