

Textile and Garment Sector – ICB
3763
Dec, 26th, 2016

COMPANY RESEARCH REPORT VIETNAM NATIONAL TEXTILE & GARMENT GROUP (VGT)



VINATEX- THE REPRESENTATIVE FOR VIETNAMESE TEXTILE AND GARMENT SECTOR

We grant a **Hold recommendation for Vinatex's stock** based on the fair price being in the range between VND 11.245 and VND 13.619. Our target price is calculated under net asset value method in which investments's value is adjusted based on two methods: (1) asset value; (2) income. Vinatex is the representative for Vietnamese textile and garment sector. The firm owns robust subsidiaries and affiliates recorded at low historical value. Besides chances coming from FTAs, shifting in manufacturing method to FOB, ODM is the necessary trend that is expected to gain profit for Vinatex's subsidiaries and affiliates. If TPP is impasse, growth of the industry could be downgraded, however this could create a lower prices of Vinatex and related stocks which are more attractive for long term investors.

Vietnam textile and garment sector – opportunities coming from FTAs and shifting in manufacturing method. Being a country that was ranked No.8 in value of textile and garment goods exported to the world in 2008, Viet Nam held the fourth position in 2015. Total export turnover got USD 25 billion in 2015, implying an average growth rate of 19% during the 2010 – 2015 period. We have stated that Vietnamese textile and garment industry were certain to get back its growth rate thanks to (1) new FTAs, (2) Changes in the global textile production-consumption value chain, (3) Expanding supply chain, and shifting the manufacturing method to FOB, ODM.

The Group has been the leader in terms of scale and be the representative for the sector. Total consolidated revenue got VND 39.503 billion. The Group has been the leader in localization rate (52%) and in shifting manufacturing method to FOB, ODM. Vinatex is one of the first members getting benefit from the growth and shifting trend in the field thanks to its big scale and activity history.

The Group has owned several leaders in the sector. Vinatex's members are the firms being famous for their strong brand, being headmost in total revenue, production capacity and good customer basis. Lots of investments are recorded at much lower value compared to market evaluation such as Vietien Corp, Garco 10, Duc Giang Corp, Phong Phu Corp, Hoa Tho Spinning Corp,...

Investment risks (1) Weak demand, (2) Risk of shifting orders from Vietnam to Bangladesh, India, Cambodia, (3) Risk coming from TPP failing which impacts on the activity efficiency of new projects of Vinatex, (4) Risk from operating the big system of member companies, (5) Exchange rate risk, (6) Higher interest rate risk.

Listing information	
Listed price	13,500
Date for listing	3 rd Jan, 2017
No. of shares (mil)	500
Free float	
NAV valuation based on assets	11,245
NAV valuation based on income	13,619

	2012	2013	2014	2015	9T2016
Net sales (VND bil)	12,454	10,971	13,488	15,181	11,288
% of growth YoY	-37%	-12%	23%	13%	1.3%
Total assets (VND bil)	11,179	11,830	17,781	18,811	19,345
Equity (VND bil)	4,863	4,964	6,533	7,333	7,399
NI (VND bil)	500	198	312	382	257
% of growth YoY	3%	-60%	58%	23%	13%
Gross profit margin	12%	12%	11%	12%	11%
ROS	4%	2%	2%	3%	2%
ROE	10%	4%	5%	6%	9%
ROA	4%	2%	2%	2%	3%

Analyst

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Nguồn: VGT, BSC research

VINATEX OVERVIEW

Introduction	
Company	Vietnam National Textile and Garment
Headquarter	No. 41A- Ly Thai To - Hoan Kiem District – Ha Noi
Web site	http://www.vinatex.com/
Phone number	(+84-4).38257700
Fax	(+84-4).38262269
Chartered cap.	VND 5,000 billion
Field	Manufacturing, trading, importing and exporting textile and garment goods

History	
Year	Event
2005	The Group was established
2010	Being converted into one-member limited
2014	Being privatized

Tier 1 subsidiaries	% of ownership	Historical Cost (bil)
Phong Phu Corp	51.00%	490
8-3 Textile Co. Limited	100.00%	173
Dong Phuong Knitting Co. Limited	100.00%	164
Hue Textile & Garment JSC	65.54%	24
Textile & Garment Export – Manufacture JSC	68.34%	10
Hoa Tho Textile & Garment Corp	64.96%	129
Hanosimex	57.57%	124
Dong Xuan Knitting JSC	100.00%	115
Viet Nam Wool JSC	67.15%	29
Viet Nam Textile & Garment Materials Trading JSC	61.63%	30
Viet Nam Cotton JSC	55.00%	14
Pho Noi Infrastructure Development JSC	51.00%	41
Vinatex Investment & Development JSC	51.00%	36
Nam Dinh Textile & Garment JSC	53.67%	78
Phu Bai Spinning JSC	53.85%	33
The South – Vinatex Textile & Garment Corp	100.00%	N/A
The North Textile & Garment Corp	100.00%	N/A

Source: Vinatex, as of September, 30th 2016

Affiliates	% of ownership	Historical Cost (bil)
Nha Be Garment Corp	27.69%	62
Vinatex- Tan Tao Investment Corp	27.00%	31
Duc Giang Corp	36.79%	38
Hung Yen Garment JSC	35.01%	53
Garco 10 Corp	35.51%	52
Viettien Corp	31.92%	187
Viet Thang Corp	46.93%	175
Huu Nghi Garment JSC	29.24%	28
Binh Minh Garment JSC	25.00%	17
Chien Thang Garment JSC	21.99%	7
Dap Cau Garment JSC	24.04%	12
Nam Dinh Garment JSC	30.00%	8
Tan Chau Garment Export JSC	44.00%	4
Vinatex OJ JSC	35.00%	7
Construction consulting & investment services JSC	23.46%	1
Lien Phuong Garment JSC	19.15%	47
Vinatex Hong Linh JSC	46.50%	38
Vinatex Da Nang JSC	20.04%	3
Dong Nai Garment JSC	25.65%	20
Saigon-Vina Tel. & Garment JSC	42.72%	85

Order	Shareholders	Quantity (1.000 shares)	Density (%)
1	The State	267.438	53.5%
2	Strategic shareholders	120.000	24.0%
3	Others		
	- Foreigners	55.032	11.0 %
	- Domestic investors	57.500	11.5%
4	Total	500.000	100%

Source: Vinatex

HIGHLIGHTS

We granted a **Hold** recommendation for VGT at the target price ranged between VND 11.245 and VND 13.619 per share. Our recommendation is rational due to the following points:

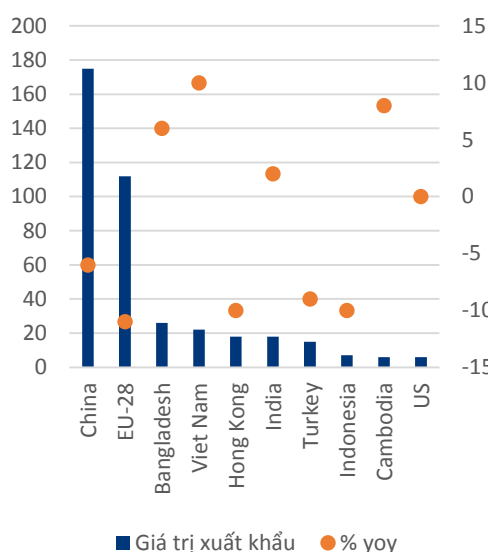
- Company analysis**
 - Operating as Holding model, Vinatex has owned lots of leaders of the sector, receiving a higher valuation by the market, compared to book value recorded, for instance: Phong Phu Corp, Hue Textile & Garment, Viet Tien Textile & Garment, Nha Be Garment, Duc Giang Garment, Hung Yen Garment, Garco 10,....
 - The leader and representative for the textile & garment field of Viet Nam. Total consolidated revenue in 2015 reached VND 39.503 billion. The group performed as a company getting the highest localization rate in this field, about 52%. Besides, the Group is also a pioneer in shifting manufacturing process to FOB, ODM that have created higher added value. Thanks to its big scale and history of activity in the sector, Vinatex will be one of the first members getting the advantages coming from the growth and shifting trend in the field.
- Sector Analysis**
 - Vietnamese textile & garment sector maintained its high growth rate, at CAGR of 15% from 2012 to 2015. The market share and export saw a strong gain, from being ranked at No.7 (2008) to No.4 (2015), thanks to shifting orders from developing countries to the areas providing lower labour cost and signing many FTAs.
- Business performance forecast**
 - We stated that in the year 2016, the Group reached VND 15.179 billion in net sale and VND 383 billion in net income, these figures for the year 2017 could be VND 15.640 billion and VND 310 billion, respectively, implying that 2016 EPS could be VND 704 per share and this number for the year 2017 might be VND 570 per share. The growth rate of revenue and PAT between 2016 and 2020 are expected to get 4% and 1%, respectively (excluding the profit coming from investment withdrawal).
- Risk analysis**
 - Investment risk. (1) Global demand is weak, (2) Risk of shifting the orders from Vietnam to Bangladesh, India, Cambodia. (3) TPP couldn't be passed, negatively impacting on the efficiency of new projects of Vinatex. (4) Risk of managing and operating a big system of member companies. (5) Exchange rate risk could increase. (6) Higher risk for interest rate.
- Valuation**
 - We used Net asset value method, based on adjusting value of investments based on 2 methods: (1) asset value; (2) income. Fair prices of the stock calculated based on these methods are VND 11.245 per share and VND 13.619 per share.

Adjusted book value	Recorded Value	Revaluation	
		Based on asset	Based on income
Total assets	8,095	10,241	11,823
Equity	5,351	7,497	9,079
Net asset value per	10,703	14,993	18,159
Discount rate		25%	25%
Fair price		11,245	13,619

Source: BSC research

TEXTILE AND GARMENT SECTOR

Top 10 of the world's largest exporters of textile & garment goods.



Source: WTO

Monthly minimum labour cost in some exporters of textile and garment goods in the year 2016.

Nations	2016		% 2016 vs 2015	
	Lowest level	Highest level	Lowest level	Highest level
Bangladesh	68	68		
Indonesia	104	266	13.0%	8%
Vietnam	107	156	5.9%	8%
Pakistan	116	125	17.2%	5%
India	137	179		
Cambodia	140	140	9.4%	
China	155	321	15.7%	10%
Philippine	180	321		
Malaysia	280	280	24.4%	11%
Thailand	281	281	18.6%	

Source: Delaware University

Textile & Garment sector – slow global growth. After the bright period occurred from 2005 to 2014 (export and import in this field reached the CAGR of 7% and 8%, respectively), demand for textile and garment goods declined in 2015. The export were USD 737 billion (-8% YoY) whereas the import reached USD 813 billion (-6% YoY). Majority of large exporters experienced a drop, export of China, EU and Turkey went down by 6% YoY, 11% YoY and 9% YoY, respectively. In the context of weak consuming demand, Viet Nam was believed to be a star, export up by 10% in 2015, the highest growth rate among the largest garment exporters of the world, stated by WTO.

Shifting orders to exporters like Bangladesh, Viet Nam. The orders has shifted from developed countries including Hong Kong, Germany, Italy to developing countries such as Bangladesh, Viet Nam thanks to lower labour cost, abolition of textile and garment industry trade barriers and FTAs. The market share of Viet Nam's export went up to 5% (2015) from 2% (2008) and from No.7 to No.4 of largest exporters on the world.

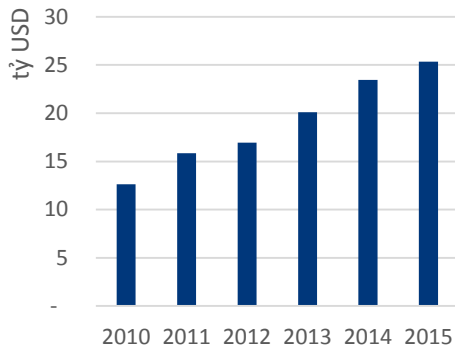
Change in ranking of the world's largest exporters of textile and garment goods, from 2008 to 2015. (Unit: USD bil)

Năm 2008			Năm 2015		
Xếp hạng	Quốc gia	Giá trị xuất khẩu	Xếp hạng	Quốc gia	Giá trị xuất khẩu
1	Trung Quốc	120	1	Trung Quốc	175
2	EU	112	2	EU	112
3	Hồng Kong	27,9	3	Banladesh	26
4	Thổ Nhĩ Kỳ	13,6	4	Viet Nam	22
5	Bangladesh	10,9	5	Hồng Kong	18
6	Ấn Độ	10,9	6	Ấn Độ	18
7	Viet Nam	9	7	Thổ Nhĩ Kỳ	15
8	Indonesia	6,3	8	Indonesia	7
9	Mexico	4,9	9	Campuchia	6
10	Hoa Kỳ	4,4	10	Hoa Kỳ	6

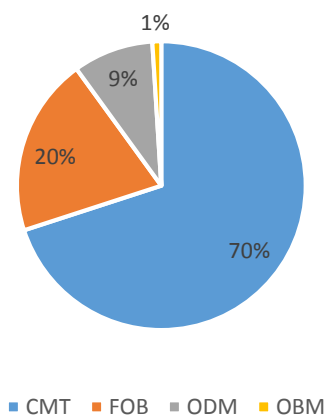
Source: WTO

Viet Nam's textile and garment industry is ranked No.4 in the list of the world's exporters. Total export turnover of Viet Nam reached USD 23 billion in the year 2015 (according to General Department of Vietnam Customs). The growth rate of these products of Vietnam were at the high level during the 2013 – 2015 period, implying 15% per annum. Total export turnover is estimated to be USD 28 billion, being lower than original plan. The major reason is the trend of shifting orders from Viet Nam to Bangladesh, Campuchia,...due to: (1) these countries signed FTAs with USA, havign a lower tax rate, compared to Viet Nam, (2) Minimum salary of countries such as Myanmar, Bangladesh, Sri Lanka has been lower than Viet Nam's one. (3) Several nation's governments promulgated policies supporting the sector, for

Value of export of Vietnamese textile and garment goods from 2010 - 2015

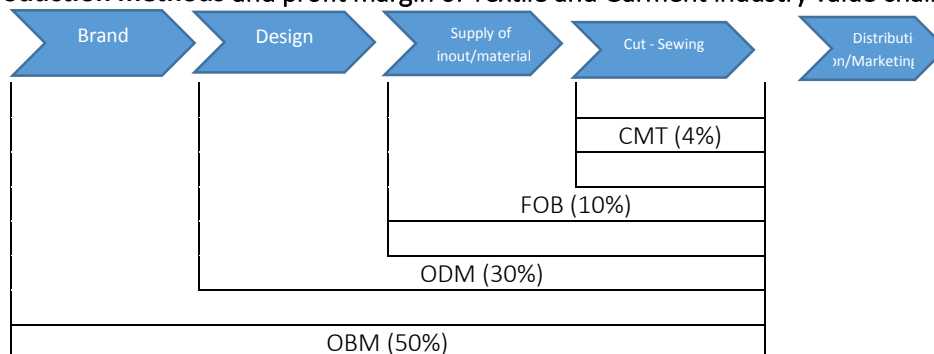


Forms of production of Vietnamese textile and garment sector.



Source: Vitas

Production methods and profit margin of Textile and Garment industry value chain



Source: BSC research

example: China decreased the rate of social insurance premium, from 22% to 18%. (4) Salary, social insurance premium in Viet Nam hiked up due to subsidies and other grants.

Some of main export markets of Viet Nam

Market	Average tax rate	FTAs	Tax rate based on FTAs	Value of export 10M2016	CAGR 2010-2015
USA	18%	TPP		9.50	12%
EU	10%		0% vào năm 2010	3.44	12%
Japan		VJEPA	0% từ năm 2015	2.42	19%
Korea		VKFTA	0% từ 2012/2015	2.21	27%
Other				4.51	17%
Total				22.08	15%

Source: General Department of Vietnam Customs, BSC research

Being dependent on imported materials. The ability to attend the value chain due to higher capital expenditure and environment pollution. According to WTO, value of importing textile and garment goods of Viet Nam reached USD 18 billion in the year 2015, going up by 50% from the same period last year. Residual value of the field only got USD 4 billion, implying 18% of value of export.

Low added value. The strong point of the Vietnamese firms is sewing. However, almost the companies have manufactured based on Cut – Make – Trim method, being worth lowest added value. The rate of producing based on this method has occupied 70% whereas this figure for FOB was 20% in the year 2016.

- The first, to get beneficial tariff (down to 0%) in TPP, the textile and garment products have to meet requirements about proportion of intra-region value “yarn forward”, about 50-55%. However, importing materials from TPP members and the ability to proactively select textile and garment input are still at the low level. Importing from TPP only accounts for 8% of total material imported for this sector in Viet Nam. Localization rate could not reach 50%. Therefore, if TPP is impasse, Vietnamese firms couldn’t receive the above advantage.
- The second, there are other FTAs, along with TPP, such as: VEFTA (Viet Nam – EU) and VKFTA (Viet Nam –Korea). These agreements have allowed easier regulation relating to goods “yarn forward” and lower tariff, from 8-12% to 0%. Moreover, FTAs like RCEP and Customs Union of Russia, Belarus and Kazakhstan also help to enhance the import of Vietnamese firms to potential markets.

RCEP is expected to decrease expenses for importing textile and garment materials of Vietnamese firms. RCEP has been in the 15th negotiation round, being forecasted to end at the middle of 2017. Countries in RCEP have accounted for more than 69% of material import value of Viet Nam. If the import tax rate declines to 0%, expenses of the Vietnamese companies is certain to be considerably saved.

VINATEX – “THE GIANT” OWNS LOTS OF LEADERS IN VIETNAMESE TEXTILE AND GARMENT SECTOR.

Vinatex is operating as a holding. Up to the end of quarter III/2016, Vinatex has owned the system of 17 Tier 1 Subsidiaries, 38 Tier 2 Subsidiaries and 38 affiliates. Vinatex’s parent company plays a vital role in planning the strategy, human resources and connecting and managing the operation of member companies. These firms in the Group have established the integrated supply chain from cotton, yarn, weaving and sewing¹.

Being equivalent to other holdings model, the highest asset of Vinatex is the system of subsidiaries and affiliates. Member companies have contributed 99% of consolidated revenue and 99% of consolidated net income to the Group.

Owning lots of good firms and being the leader of Vietnamese textile and garment sector. Member companies of Vinatex are famous for its strong brand, pioneering in the stages of value chain such as: Eight March Textile Co. Limited, Dong Phuong Knitting Co. Limited, Hue Textile & Garment, Hoa Tho Textile & Garment, Phong Phu Corp, Duc Giang Garment, Viet Tien Garment, Garco 10,..The value of member companies in the group is much higher than book value of these

¹ In the year 2015, Vinatex withdrew all of its invested capital from the subsidiary named Viet Nam Textile Fashion Trading Company Limited.

investments. These companies are being considered attractive valuation points, compared to other textile & garment corporations.

Historical prices and revaluation prices of robus subsidiaries and affiliates of Vinatex²

Firms	Dividen d 2014- 2016	EPS 2016F	BVPS	Historical cost (VND bil)	Revaluation price(VND bil)	% of increase
Phong Phu Corp	15-16%	8,988	32,438	490	1,213	148%
8/3 Textile Co. Limited		-	18,362	173	318**	84%
Hue Textile & Garment JSC	30-45%	4,475	19,479	24	95*	301%
Hoa Tho Textile & Garment	20-30%	4,493	20,431	129	219	71%
Ha Noi Textile & Garment JSC	10-12%	2,456	18,376	124	217	75%
Nam Dinh Textile & Garment	20-25%	1,079	13,444	78	98	26%
Phu Bai Spinning JSC	5-10%	5,026	10,058	33	27	-19%
Nha Be Garment JSC	25%	3,305	21,634	62	171*	176%
Duc Giang Garment JSC	20-35%	6,413	28,506	38	65	70%
Hung Yen Garment JSC.	20-	5,171	22,594	53	107	101%
Garco 10 Corp	18-20%	4,514	24,989	52	89	71%
Viettien Garment Corp	30%	8,988	32,438	187	799*	326%
Viet Thang Corp	20-25%	5,099	32,525	175	321	83%
Total				1,618	3,739	131%

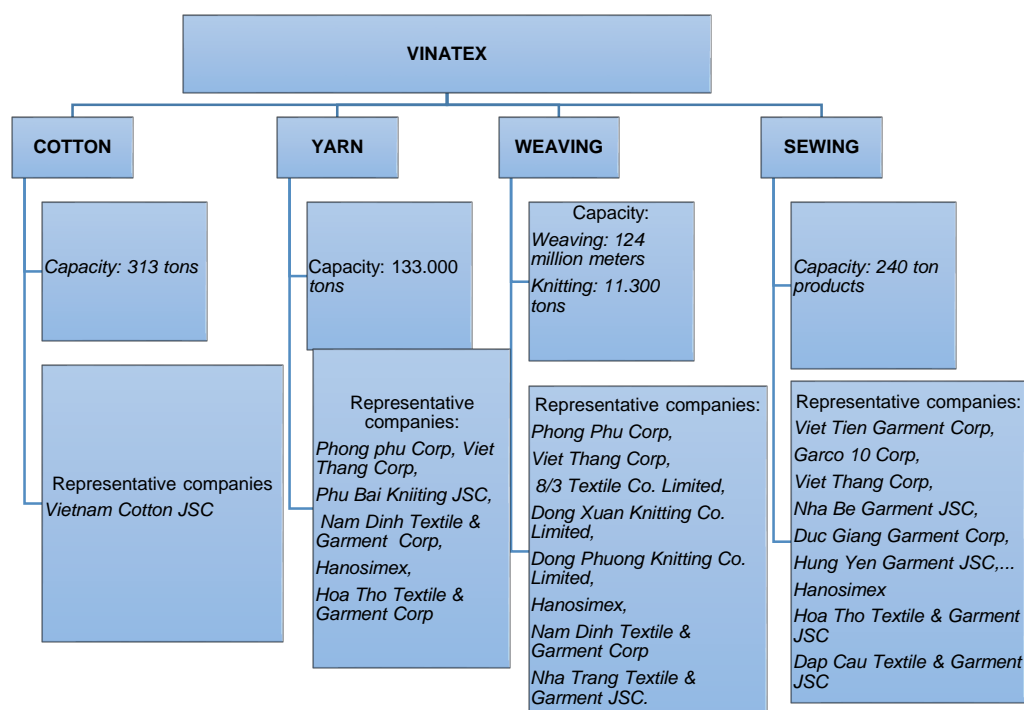
Source: BSC research

*Stock price

**Book value as at Dec 31st, 2016

*** Including share dividend

The graph of supply chain of member companies of Vinatex

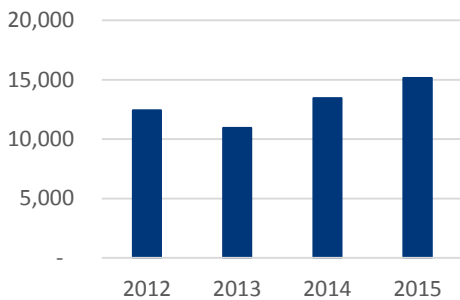


Source: BCTN Vinatex, BSC research

² Revaluation price is estimated based on market price of listed firms or based on book value as 30th Sep, 2016 of remainders.

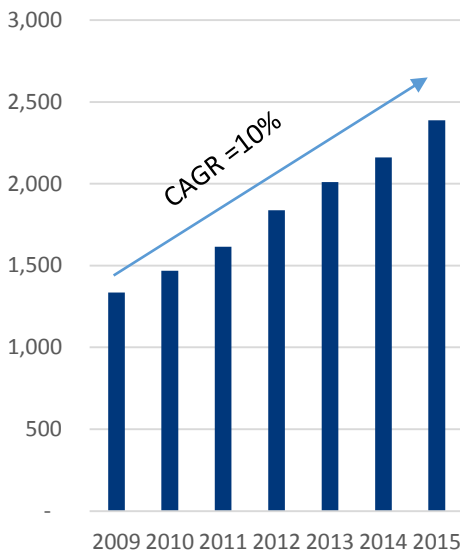
DEVELOPMENT IN SUPPLY CHAIN

Vinatex's revenue from 2012 to 2015 (VND bil)



Sources: Vinatex Consolidated Statment

Export turnover of Vinatex from 2009 to 2015 (USD million)



Source: Tổng cục Hải quan

VINATEX – REPRESENTATIVE FOR VIETNAMESE TEXTILE AND GARMENT SECTOR

Big capacity. Vinatex has owned 12 big firms manufacturing yarn, supplying 113,000 tons of yarn per annum (accounting for 14.8% of the sector); 5 companies producing knitted fabric, providing 11,300 tons per annum; 5 units manufacturing weaved fabric, providing 124 million meters of yarn per annum and 17 corporations and companies attending sewing stage with total capacity of 240 million products per annum (16% of the sector's one).

The leader in this field. Total consolidated revenue (excluding VAT) of Vinatex and members in the group in the year 2015 reached VND 39,503 billion (+10% YoY). Export turnover of the Group got USD 2,388 million (+11% YoY), being worth 15% of export market share in Viet Nam and 23% of export share of domestic companies.

Growth. Export turnover of Vinatex and its member units achieves an average of 10% during the 2009-2015 period. Revenue growth at average of 7%/year from 2012 to 2015. 9M2016, the export turnover of the corporation is VND 1,793 billion.

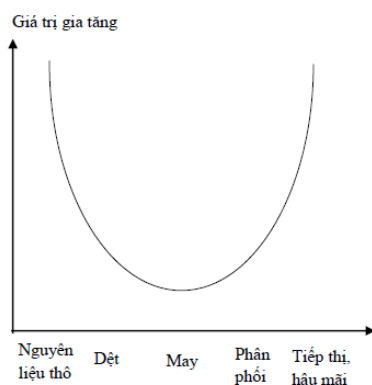
Investments in Textiles and garment supply chain:

Material Proactive. Domesticize production proportion of the company is 52% (higher than the average of the industry which is 50%). Almost all cotton used in production process must be exported, the corporation has đã tự chủ phần lớn sợi. In fabric segment, although the production capacity of weaving is high, produced-fabrics have to exports in their crude stage because of weak dyeing capacity, and then import back in order to finalize the fabric.

Continue expansion on supply and production chain. The knitting, dying segment required large amount of capital investment because of handling waste water, guaranteeing environmental protection, start up cost for the industry is high, which is a great opportunity for unit that has large capital investment such as Vinatex. The corporation has been stimulating development on supply chain, especially in they dyeing segment, in order to satisfy the product origin require of "yarn" in TPP, "fabric" according to FTA between Vietnam-EU. This is a necessary step for member units in the Corporation so that they can improve production value by implementing FOB, ODM- are production methods that create high value-added product.

Total production capacity increased by 31,339 ton yarn, 34 million fabric meter shuttled fabric and 3,600 ton knitted fabric and 66,6 million garment products during the 2015-2016. period

Value added of Textile Industry value chain



Soruce : Frederick, Duke University

Revenue proportion according to Vinatex corp production methods

	2013	2015
CMT	55%	40%
FOB	35%	52%
ODM	10%	8%

Source: Vinatex

BSC evaluates that opportunities were certain to arise in corporations, conglomerate developing supply chains thanks to (1) Value added of input materials, dying - knitting is higher than sewing; (2) Material supplyment for sewing, utilizing higher production methods such as FOB and ODM ; (3) Material proactive, is the necessary condition for the corporations to satisfy the product origin requirements of all FTA agreements, and to receive taxes benifits.

FOB, ODM PRODUCTION METHODS – INCREASING SURPLUS VALUE

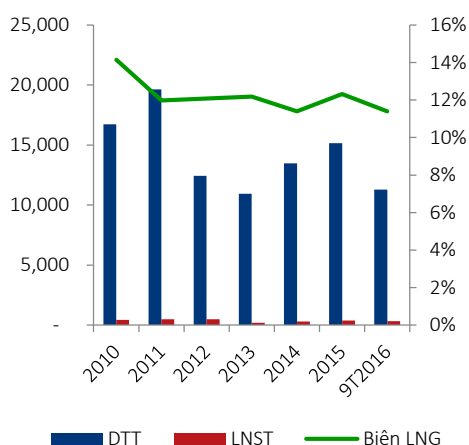
CMT production method bring low value-added products. Vinatex CMT-products accounted for a high perecentage of its product proportion, which was 40% in 2015. This produciton method creates the lowest value added among the garment industry value chain. Profit margin, in accordance to ODM method, is 4%, much lower compared to FOB (10%), ODM (30%) and OBM (50%) methods.

A mission of enhancing production capacity according to FOB and ODM methods. Compared to 2013, CMT-product proportion decreases from 55% to 40%. As of the end of 2015, FOB-product proportion of the corporation and its congomelate members was 52%, higher than the avarage of the industry which was 20%. The corporation continues setting new mission to raise the proportion of FOB-product and ODM-product up to 60% and 20% in 2020.

BSC analyzes that FOB and ODM production methods were certain to facilitate revenue and profits growth of congomelates members and Vinatex corporation. And, these production methods are necessary elements to bring Vietnam garment and textile Industry to a higher level of standards, intelligence, and value added.

FINANCIAL ANALYSIS

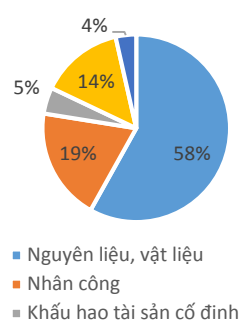
Revenue and PAT of Vinatex from 2009-2015



Large scale revenue. Average revenue growth of the coporation is 23% from 2012 to 2015 thanks to high and stable growth rate of the Vietnam textile and garment industry. Total revenue of Vinatex was VND 13.294 billion (+11% yoy), which is laregely contributed by subsidiary companies. A few subsidiary companies that has large revenue scale in Vinatex corporation are TCT CP Phong Phú (VND 3.487 billion), TCT Dệt may Hòa Thọ (VND 3.002 billion), Hanosimex (VND 1.745 billion) and CTCP Dệt may Huế (VND 1.480 billion).

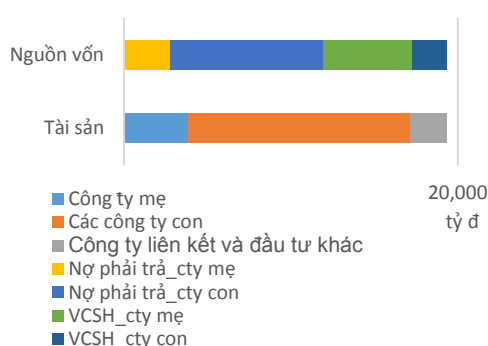
Expense Structure. Accounting for most of the production expense are variable expenses such as raw matterial (58% of total business production expense) and labors expense (19%). This special feautre is the general nature of global textile and garment industry . This element also creates advantages for Vietnam textile and garment industry in comparision to the world thanks to lower labor expense. BSC is sure that, if investment projects that expands the supply chains

Production expense structure according to Vinatex categories in 6M2016



Source: Vinatex

Asset- Capital Structure of Vinatex on 30/9/2016



Source: Vinatex

of Vinatex and its conglomerates members are effectively executed, the corporation's production expense is bound to be reduced.

Stable operation efficiency. Gross profit margin was approximately 11-12% during the 2011-2015 period and 11% in 9M2016. Operating profit margin fluctuated from 1 to 3% during the 2011-2015 period and was 2.4% in 9T2016. ROE and ROA ratios are respectively 9% and 3% in 9T2016.

Asset structure. Long-term debt/ total asset is maintained within the range of 48-51% during the 2011-2015 period and it moves up to 55% at the end of 2016 third quarter thanks to increasing value from new investment projects. BSC assesses that the highest property value of Vinatex corporation is the value of its investments in subsidiary companies and joint venture or affiliated companies. The systems composed mainly of efficient operating companies, that contributes 99% of Vinatex's total revenue and 99% of Vinatex's total profit-after-tax.

Capital structure. High equity value, which is VND 7.399 billion at the end of 2016 third quarter. Financial leverage ratio is 2.61x, which is equivalent to the median of public corporations in Vietnam (2.56x). A large part of the corporation debts originated from subsidiary companies (account for 77% of total payable debt). Many debts of Vinatex and its subsidiaries are in United States Dollars (above 100 million USD), and that in turn, makes the corporation confront with exchange rate risk.

Liquidation Capacity. Quick ratio and liquidity ratio are respectively 1.36x and 0.89x (higher than the median of all Vietnam textile and garment public companies, which are 1.14x and 0.51x).

Summary of Vinatex Corporation financial ratios

Fundamental ratios	2010	2011	2012	2013	2014	2015	3Q 2016
Capital structure							
Debt/Equity	0.91	0.73	0.49	0.48	1.09	1.11	1.13
Total asset/Equity	3.65	2.96	2.30	2.38	2.72	2.57	2.61
Asset structure							
LT asset/ total asset	44%	48%	49%	51%	46%	51%	55%
ST asset/ total asset	56%	52%	51%	49%	54%	49%	45%
Liquidation capacity							
Quick ratio	0.69	0.79	0.87	0.84	0.89	0.89	0.93
Liquidity ratio	1.21	1.22	1.30	1.29	1.33	1.36	1.38
Operating capacity							
Receivable turnover	40	32	44	41	45	53	55
Inventory turnover	65	56	65	64	71	78	73
Payable turnover	31	27	38	38	33	34	32
Profitability (%)							
Gross Profit Margin	14%	12%	12%	12%	11%	12%	11%
ROS	3%	2%	4%	2%	2%	3%	2%
ROE	11%	11%	10%	4%	5%	6%	9%
ROA	3%	3%	4%	2%	2%	2%	3%

Source: BSC research

BUSINESS PERFORMANCE FORECAST

Forecast of Textile-garment market value growth rate

Nation	CAGR 2016-2020
USA	2.70%
France	1.40%
Netherlands	2.80%
Spain	4.40%
Germany	2.20%
Italy	2.80%
UK	3.00%
Japan	2.70%
Korea	2.80%

Source: Euromonitor Passport 2016

Because the firm operates as a holdings, its result depends largely on that of its subsidiaries and affiliates. Thus, BSC speculates the business result of Vinatex corporation base on the business result forecasts of member units, excluding internal transactions. BSC's forecast is divided in 3 main categories:

- Contributions of revenue, operating profit and profit-after-tax of subsidiaries in the consolidated firm.
- Profit/loss from joint venture or affiliated companies
- Financial Revenues and expenses of consolidated firm.

BSC forecasts revenue and profits for each member company base on :

- Vietnam exports growth rate in the next 5 year, is assumed to increase along with garment product demand in each market (Euromonitor estimate). With the assumption that market share of Vinatex and its member is constant, the exports growth rate of Vinatex members is forecasted to averagely increase by 3%/year, much lower than the 19% average growth rate of Vietnam garment and textile industry during 2009-2015.
- Domestic market is going to increase with an average of 10%/year during 2017-2020, which is conservative rate compared to the growth rate of 10-15% in the last 5 year;
- Investment plans, business plans and capability of maintaining its competitive position.

Note, in our forecast, we do not incorporate expected orders from EU to Vietnam when the FTA Vietnam-EU agreement is officially in-effect.

Total revenue and profit after tax respectively are VND 15.179 billion and VND 383 billion in 2016, and VND 17.754 billion (4% CAGR) and VND 399 billion in 2020.

Specifically:

1. Subsidiary companies

Total revenue of the Vinatex corporation is forecasted to be VND 15.179 billion in 2016, almost unchanged in comparison to 2015, and VND 17.754 billion in 2020 (4% CAGR during the 2016-2020 period). Operating profit is VND 274 billion in 2016 (-15% yoy) and VND 309 billion in 2020 (3% CAGR). Operating profit margin of the corporation is approximately 2% during the 2016-2020 period.

Forecast of parent company and notable subsidiaries

Subsidiary companies	2016		2017	
	Revenue	Operating	Revenue	Operating Profit
Parent Company	606	(131)	622	(134)
Phong Phu Corp	3,244	192	3,290	195
Hue Textile & Garment JSC	1,465	73	1,509	77
Hoa Tho Textile & Garment Corp	3,135	73	3,286	77
Ha Noi Textile & Garment JSC	2,007	113	2,077	124
Nam Dinh Textile & Garment JSC	733	37	689	36
Phu Bai Knitting	773	23	796	24
Total	15,139	280	15,599	294

Source: BSC research

2. Affiliated companies:

Profits/losses of Joint venture or affiliated companies are forecasted base on business result of each companies multiple with Vinatex's ownership proportion of that company, along with assumption that the ownership proportion remains constant. Thus, profits from joint venture or affiliated companies are expected to be VND 482 billion in 2016 and VND 413 billion in 2020.

Forecast of Profit/loss from notable affiliated companies of Vinatex

Affiliated companies	Ownership Proportion	2016			2017		
		Profits of affiliated companies	Dividends - Paid by cash	Profits/losses from affiliated companies	Profit of affiliated companies	Dividends - Paid by cash	Profits/losses from joint venture or affiliated companies
Nha Be Garment JSC	27.69%	60.15	25%	16.66	61.96	25%	17.16
Duc Giang Garment JSC	36.79%	39.64	30%	14.58	40.63	40%	14.95
Hung Yen Garment JSC.	35.01%	70.06	20%	24.53	71.17	20%	24.92
Garco 10 Corp	35.51%	48.75	18%	17.31	50.12	20%	17.80
Viettien Garment Corp	31.92%	377.50	30%	120.50	414.11	28%	132.18
Viet Thang Corp	46.93%	107.08	25%	50.25	110.75	30%	51.98

Source: BSC resesearch

3. Financial revenue and expense:

Financial revenue is mainly composed of depository interest rate, lendings and revenues from organizations. Financial revenue is expected to be VND 284 billion in 2016 and VND 261 billion in 2020 thanks to the increasing revenue from depository and lending, dividend incomes from long or short term investments are assumed to be stable.

Financial expense includes interest expense. With assumption that dividend incomes from long term investments are stable, financial expense is expected to be VND 498 billion in 2016 and VND 451 billion in 2020.

Note: BSC forecast does not incorporate financial revenue and expense originated from subsidiary and affiliated companies divestments.

VALUATION

P/E and P/B of Textile and garment corporations in Vietnam

Ticker	Capital (VND million)	12 month revenue (VND billion)	P/E	P/B
TCM	663	2,955	7.47	0.75
STK	910	1,035	12.34	1.32
TNG	421	1,950	4.65	0.82
GMC	419	1,559	5.79	1.61
ADS	346	1,301	20.58	1.56
KMR	240	375	17.78	0.45
MPT	55	91	4.39	0.49
G20	55	301	3.13	0.34
NPS	26	36	27.09	0.76
Median			7.47	0.76

Source: Bloomberg

BSC utilized the adjusted Net asset value method to evaluate Vinatex stocks. This is a common methods to assess Holdings value because the main propoperty and income sources of Holdings corporations comes from their investments.

BSC evaluates that the highest property value of Vinatex corporation is the investments in subsidiary, joint venture or affiliated companies along with an assumption that the property value remains constant. BSC recalculates the value of important subsidiaries, affiliates based on two methods: (1) based on asset value; (2) based on income.

(1) Based on assets.

Investments value is calculated base on (1) Stock market value (If the company is listed) and (2) Book value of investments in the remaining companies; (3) The number of shares hold by Vinatex.

- Investment value increases by VND 2,145 billion
- Net asset value after adjustment is 14,993 VND/share
- Applying a discount of 25% for Vinatex equity value after adjustment, which incorporates liquidity risk, market risk and control risk,.... Thus, the price of a share is 11,245 VND/share.

(2) Based on income.

Value of each investment is caculated base on (1) 2016 EPS forecast of each member; (2) median P/E of the sector; (3) number of shares owned by Vinatex.

- Median P/E is 7.47x which is the referred listed Textile and Garment companies in Vietnam.
- Investment value increases by VND 3.728 billion
- Equity value over a share of Vinatex after adjustment is 18,158 VND/share
- Applying a discount of 25% for Vinatex equity value after adjustment, which incorporates liquidity risk, market risk and control risk,... Thus, the price of a Vinatex share is 13,619 VND/share.

Incorporating the two methods, Vinatex share price fluctates from 11.245 VND/share to 13.619 VND/share.

	Adjusted value	Book value	Valuation Price	
			Base on asset	Base on income
Total asset		8,095	10,241	11,823
Total debt		2,744	2,744	2,744
Equity		5,351	7,497	9,079
Outstanding shares		0.5	0.5	0.5
Equity/share		10,703	14,993	18,159
Discount Rate			25%	25%
Price			11,245	13,619

Source: BSC research

INVESTMENT RISK

World economies growth forecast

	2016	2017
World	3.1	3.4
USA	1.6	2.2
Germany	1.7	1.4
Japan	0.8	0.9
England	1.8	1.1
France	1.3	1.3

Source: IMF

Weak global demand. Low economic growth, including major Textile and Garment importing countries (IMF forecasts that world economic growth is expected to be 3.1% in 2016 and up to 3.4% in 2017) causes a global decrease in demand for fashion products and garment products and that in turn, impacts on the demands for Vinatex's Textile and garment products.

Risk of orders moving to other nations including Bangladesh, India, Cambodia. Because major garment and textile exporting nations outside of TPP have many subsidy policies for export products while the salary expense and insurance expense in Vietnam is increasing along with the danger of TPP impasse. This phenomenon, if continues for a long time, is certain to restrain the export market share of Vietnam Textile and Garment corporations as well as members of Vinatex corporation.

Risk of TPP impasse. This event is certain to impact Textile and Garment exports market to TPP countries, especially the U.S.. At the same time, a TPP impasse is sure to put pressure on output market of Vinatex new investment projects and increases these projects operating risk. Currently, Vinatex and its corporate members is reviewing their projects, demands for each business segment, each product in order to re-adjust their business plans. However, this phenomenon can drive down the current market price of Vinatex stock, which make it an attractive investment opportunity for investors who want to own Textile and Garment stocks group for long term.

Risk of controlling operation of its subsidiaries, and affiliates. Vinatex owned a portfolio of 17 level 1 subsidiaries, 38 level 2 subsidiaries and 38 joint venture or affiliated companies. Business result of Vinatex directly depend on operating efficient of the mentioned companies. Administrative, management and co-operation of member companies are challenges that Vinatex is facing. Moreover, the company has a few debts which are used for lending to the subsidiary companies (Phong Phu Corp, Hoa Tho Spinning Corp, Hanosimex,...) and a few capital borrowing guarantees of subsidiaries and affiliated companies.

Increasing interest rate risk. High total debt of VND 8.396 billion at the end of 2016 third quarter. Most new investments of Vinatex and its member units are sponsored by capital borrowing (estimatedly 60% of borrowed capital). If the interest rate goes up by 0.5%, interest expense of the corporation is estimated to increased by VND 840 billion.

Exchange rate risk. (1) Most revenues of Vinatex originates from export operations. Subsidiaries and affiliates of Vinatex compete not

only with domestic companies but also foreign Textile and Garment corporations. Thus, currency dumpings in major Textile and Garment exporting countries have strong impact on the competitive position and export turnover of Vinatex. (2) Total debt in USD is worth 100 million USD that creates profit/loss from exchange rate difference. With an assumption that exchange rate is going to increase by 2%, loss from currency difference of borrowing debt moves up to VND 45 billion.

Exchange rate movement of large garment and textile exporting countries, and territories since 2013

	Comparison of domestic currency and USD			Garment and textile exports growth	
	2014 vs 2013	2015 vs 2014	2016 vs 2015	2014 vs 2013	2015 vs 2014
China	-2%	-4%	-6%	5%	-6%
EU	-12%	-10%	-3%	7%	-12%
Bangladesh	0%	-2%	0%	5%	6%
Vietnam	-1%	-5%	-1%	14%	13%
India	-2%	-4%	-2%	14%	1%
Indonesia	-2%	-10%	4%	0%	-9%

Sources: Bloomberg, WTO, BSC research

APENDIX 01: BALLANCE SHEET

	2015	2016F	2017F	2018F	2019F	2020F
A. Current Assets	9,272	8,749	8,803	8,964	9,448	9,989
I. Cash and cash equivalents	2,472	1,758	1,614	1,495	1,679	1,896
II. Net value of short-term	301	500	500	500	500	500
III. Receivables	3,282	3,286	3,386	3,527	3,680	3,843
IV. Net inventories	2,833	2,837	2,923	3,046	3,177	3,319
V. Other current assets	383	369	380	396	413	431
B. Long-term assets	9,539	12,069	11,940	11,803	11,284	10,785
I. Long-term receivables	585	586	604	629	656	685
II. Fixed assets	4,726	7,145	7,523	7,288	6,756	6,242
III. Capital instruction in	1,588	1,746	1,088	1,175	1,175	1,175
IV. Net value of investment	137	131	272	267	261	255
V. Long-term investments	1,993	1,985	1,977	1,969	1,961	1,953
VI. Other long-term assets	508	475	475	475	475	475
TOTAL ASSETS	18,811	20,818	20,743	20,767	20,732	20,774
A. Liabilities	11,478	12,963	12,496	12,106	11,621	11,168
I. Current liabilities	6,842	6,851	6,691	6,965	7,260	7,577
II. Long-term liabilities	4,636	6,112	5,806	5,141	4,361	3,591
B. Stock holder's equity	7,333	7,855	8,246	8,660	9,111	9,606
TOTAL RESOURCES	18,811	20,818	20,743	20,767	20,732	20,774

APPENDIX 02: INCOME STATEMENT

	2015	2016F	2017F	2018F	2019F	2020F
Net revenue	15,159	15,179	15,640	16,294	16,998	17,754
Operating profit	324	274	286	293	299	309
Financial Income	442	284	244	247	252	261
Financial expenses	(689)	(498)	(485)	(481)	(466)	(451)
Gain/loss from associates	498	482	366	381	396	413
Other profit	52	95	95	95	95	95
Profit before tax	627	637	506	534	576	627
Corporation income tax	(95)	(84)	(90)	(93)	(97)	(100)
Net profit after tax	532	553	416	441	479	527
Profit of parent company	382	383	310	328	359	399

Sources: BSC research

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: *Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.*

Valuation Methodology: *The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).*

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is

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