

Company Visit Note

VGT - Vietnam National Textile and Garment Group

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BSC

Recommendation: TRACKING

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Target price	N/A
Current price	14,800
Upside	N/A

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Target price	20,000
Cut loss	14,500

Market Data

Outstanding share	500
Mkt Cap	7,400
High of 52w	19,700
Avg Vol 10 days (share)	373,419
Foreign onwership	10.68%

Major shareholder

Ministry of Industry&Trade	53.5%
VID	14.0%
VinGroup	10.0%
Bui Manh Hung	6.0%

Chart (1 year)



Overview

With 50 years of development, Vinatex is the leading textile and garment manufacturer in Vietnam, having huge capacity of producing yarn, fiber, dyed products and garment to complete the textile value chain. VGT also invest in many subsidiaries and associates, making significant contributions to the group annually.

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Textile and Garment Highlight

Valuation

We recommend TRACKING for VGT based on the advantage of being the largest corporation representing the Vietnamese textile and garment industry. At present, VGT is trading at VND14,800/share, corresponding to a P/E of 20.8x - high valuation compared to the average of listed garment enterprises.

Business prospects

- The Vietnamese textile and garment industry is expected to continue to grow positively in 2018 thanks to: (1) improved income per capita (+ 7.7% in 2017) boosting textile spending; (2) Textile export turnover is forecasted to reach 33.5- 34 billion USD (+ 7% YoY) in 2018.
- Operating as a holding, owning many well-known garment companies, VGT is expected to continue its growth momentum in 2018. The corporation's total revenue for 2018 is VND48,500 billion VND (+ 6.5% YoY), equivalent to 2017 and is based on conservative assumptions when taking into consideration the upward trend of raw material price.

Investment risk

- Increasing price of raw material (affected by cotton price, oil price).
- Risk of managing investment capital in member companies.

Catalyst

- Divestment plan at several subsidiaries and associates.
- The Ministry of Industry and Trade plans to divest all state capital (equivalent to 53.49% of share capital) at VGT in 2018.

Business Update

(1) 2017 earnings growth was positive with net sales of VND 17,497 billion (+ 13% YoY), regaining two-digit growth (in comparison with 2016's growth rate of 1.8% YoY) and higher than industry average.

(2) Divestment plan at several subsidiaries and associates. In 2018, VGT is expected to divest in some member companies such as Vietnam Cotton JSC (54%). It is worth to note that BVN's shares have doubled since the beginning of this year (from VND 8,000 to VND 16,000 / share), along with improved liquidity.

(3) State capital divestment process. VGT is currently conducting a re-valuation of its business to serve the state capital divestment (from 53.49% to 0%) according to Decision No. 1232/2017/QĐ-TTg.

SUMMARY OF FINANCIAL STATEMENT

Unit: billions	2013	2014	2015	2016	2017
Net sales	10,954	13,461	15,184	15,462	(17,497)
Gross profit	1,335	1,534	1,885	1,704	(1,600)
Financial income	210	236	442	339	305
Financial exps	(300)	(331)	(689)	(487)	(446)
interest exps	(240)	(276)	(354)	(334)	(385)
Sell exps	(593)	(650)	(562)	(492)	(536)
G&A exps	(622)	(921)	(981)	(1,023)	(911)
Operating profit	29	245	594	548	(584)
Net other income	76	285	52	136	131
EBT	333	530	646	684	715
Net income	274	465	547	579	634
Minority interests	76	153	157	254	278
Parents	198	312	390	325	355
EPS	462	725	780	623	711

Current asset	5,747	9,582	9,533	9,232	9,543
Cash and CE	1,299	2,545	2,472	1,496	1,493
Accounts receivable	2,218	3,444	3,282	3,215	3,318
Inventories	1,762	2,849	3,095	3,207	(3,620)
Other current assets	265	295	383	361	385
Non-current asset	6,083	8,199	9,271	10,562	11,480
LT receivables	47	505	585	816	791
Fixed assets (fa)	3,534	4,650	4,726	5,920	6,723
Tangible fa	2,742	4,448	4,547	5,718	(6,539)
Finance lease fa	10	51	63	67	46
Intangible fa	244	151	116	135	138
LT incomplete assets	-	577	1,327	1,132	1,120
Other LT assets	364	550	508	513	465
Total asset	11,830	17,781	18,804	19,794	21,024
Total liabilities	6,149	11,248	11,456	12,200	13,218
Current liabilities	4,532	7,223	6,856	6,882	7,377
ST borrowings	2,362	3,901	3,885	4,022	(4,656)
Non-current liabilities	1,617	4,026	4,600	5,318	5,840
LT borrowings	1,278	3,240	4,221	4,818	(5,190)
Owner's equity	4,964	6,533	7,348	7,594	7,806
Paid-in cap	4,286	4,300	5,000	5,000	5,000
Retained earnings	355	211	571	555	555
Total resources	11,830	17,781	18,804	19,794	21,024

% yoy Revenue		23%	13%	2%	13%
Gross margin	12.2%	11.4%	12.4%	-11.0%	-9.1%
Ir.exps / sale	2.2%	2.1%	2.3%	2.2%	2.2%
Sell exps / sale	5.4%	4.8%	3.7%	3.2%	3.1%
Admin exps / sale	5.7%	6.8%	6.5%	6.6%	5.2%
Net profit margin	2.5%	3.5%	3.6%	3.7%	3.6%

- Net sales + 13% YoY, reflecting positive demand for textiles and garment products in 2017. VGT's garment subsidiaries witnessed strong revenue growth such as HSM (+ 24% YoY), HTG (+ 21% YoY), excluding for PPH, net sales decreased by 7% YoY as Nha Trang factory had to cease operation within a month due to typhoons.
- Earnings from joint ventures increased by 13% YoY, offsetting a decline in gross profit and financial income (-10% YoY), of which 47% was contributed by Phong Phu (+ 14% YoY). In addition, investments in joint ventures and associates of parent companies also showed positive growth such as TVT (+ 47.1% YoY), VGG (+ 5.3% YoY), M10 (+ 3.2% YoY).

- Inventory increased sharply by 12.9%, mainly in raw materials (comprising 31% of inventory value, + 35.3% YoY) to scale up production at the parent company and its subsidiaries.

- Tangible fixed asset +14.4% YoY due to some uncompleted investment project in the previous year at the corporation have completed and went into operation.

- Investments in joint ventures maintained a relatively large proportion of total assets (~10.5%), bringing in nearly 80% of pre-tax profit in 2017.

- Short-term and long-term loans increased by 15.8% YoY and 7.7% YoY, respectively, to meet capital requirements for expansion projects.

- Note that there are VND2,000 billion out of nearly VND5,190 billion long-term loans from ADB. The maximum size of this loan is \$105 million, and its maturity is 25 years(from 2016). The purpose of it is for VGT to lend back to its subsidiaries for debt restructuring.

- Gross margins fell slightly by 6% as input costs increased following the rising movement of raw material prices and wage adjustments.

FINANCIAL RATIO

	2013	2014	2015	2016	2017
1. Liquidity ratio					
Current ratio	1.27	1.33	1.39	1.34	1.29
Quick ratio	0.82	0.89	0.88	0.82	0.75
2. Capital structure ratio					
Ca/TA	0.49	0.54	0.51	0.47	0.45
NCA/TA	0.51	0.46	0.49	0.53	(0.55)
Liabilities/TA	0.52	0.63	0.61	0.62	0.63
Liabilities/TE	1.24	1.72	1.56	1.61	1.69
CL/TA	0.38	0.41	0.36	0.35	0.35
NCL/TA	0.14	0.23	0.24	0.27	0.28
3. Operating efficiency ratio					
Inventory turnover	5.70	5.17	(4.47)	(4.37)	(4.66)
Receivable turnover	8.72	7.92	(6.80)	(6.91)	(7.83)
Payable turnover	9.43	10.95	(10.69)	(11.21)	(13.17)
Days of inventory	64.02	70.55	81.57	83.60	78.38
Days of receivables	41.88	46.08	53.71	52.79	46.59
Days of payables	38.71	33.35	34.16	32.56	27.72
CCC	67.19	83.29	101.12	103.82	97.25
4. Profitability ratio					
Net income/NSale	2.5%	3.5%	3.6%	3.7%	-3.6%
ROE	5.5%	7.1%	7.4%	7.6%	-8.1%
ROA	2.3%	2.6%	2.9%	2.9%	-3.0%
Oper profit/NSale	0.3%	1.8%	3.9%	3.5%	-3.3%
5. Dupont analysis					
TA/TE	2.38	2.72	2.56	2.61	2.69
NSale/TA	0.93	0.76	0.81	0.78	0.83
EBIT/NSale	0.05	0.06	0.07	0.07	0.06
EBT/EBIT	0.58	0.66	0.65	0.67	0.65
Net income/EBT	0.82	0.88	0.85	0.85	0.89
6. Valuation multiples					
PE	35.13	22.36	20.80	26.03	(22.81)
PB	1.41	1.43	1.39	1.37	(1.35)
EPS	462	725	780	623	711
BVPS	11,482	11,342	11,648	11,814	11,986
7. Growth (%yoy)					
TA		50%	6%	5%	6%
Liabilities		83%	2%	6%	8%
Sale		23%	13%	2%	13%
GP		15%	23%	-10%	-6%
NI		70%	18%	6%	9%
EPS		57%	8%	-20%	14%

- Liquidity Ratio was maintained at a safe level, slightly down in 2017 due to a 15.8% YoY increase in current debt

- The proportion of non-current asset increased to 55% due to the expansion of investment activities. In 2017, VGT has invested in 30 projects, including 2 textile projects, 3 sewing projects, 15 investment projects to upgrade equipments and 10 other investment projects.

- Higher inventory turnover, but still lower than the average of listed textile companies.

- Days sales outstanding and days of payable remained.

- The profitability from operating activities decreased slightly due to the impact of material costs and labor costs. In 2017, cotton price in the world market + 12% YTD, affecting the price of raw materials and auxiliary materials of textile enterprises; labor costs also increased sharply because the Government raised the minimum wage level by 7.1-7.5% YoY depending on the region.

- Gain from affiliates + 13% YoY (equivalent to 80% of pre-tax profit, up from 74% in 2016) helps to maintain net profit margin.

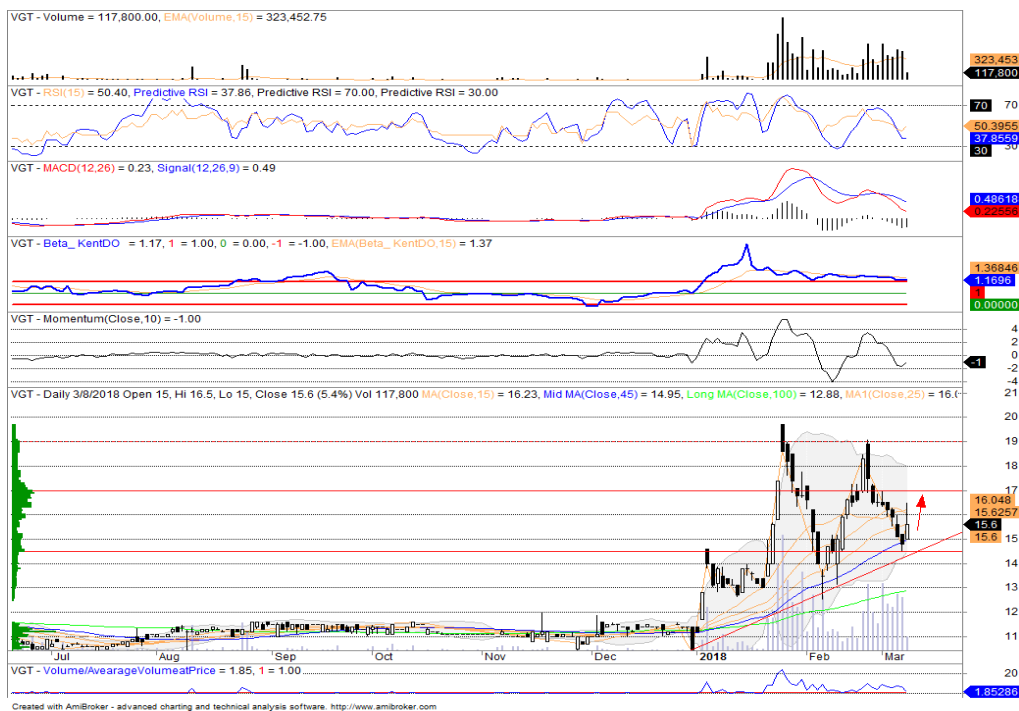
Valuation of VGT is currently high compared to industry average (average P/E of 9x).

Technical highlights:

- Current trend: Short term: Decreasing, Medium term: Long term: Increasing
- The MACD is above 0 but cutting the lagging indicator line, but the short term uptrend is in the short term correction. The RSI is approaching the overbought zone.
- Liquidity: Average liquidity of 10 trading sessions was 6.13 billion dong, liquidity was not low compared to the general market, liquidity of stocks is currently Decreasing.

Comment: VGT has just broke out of the former cumulative price of around 11 from the beginning of 2018 and continuously conquer the higher resistance levels of 13-15, but can not reach the price of 20. However, the stock price recently fluctuated around 15-20, with increasing liquidity.

Recommendation: Investors should take advantage of the correction of VGT to the support of MA (45) at around 15.0 on buy VGT, expecting the stock to maintain a long term uptrend. Reasonable price is 15, target price is 20, and cut loss if VGT loses its support of 14.5.

Technical Chart

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