

Sector : Consumer

Thien Long Group Joint Stock Company - (HSX:TLG)

WHAT ARE THE OPPORTUNITIES FOR 2023?

Recommendations Buy

Current Price:	63,200	Report writing date:	6/9/2022	Shareholder structure	
Previous target price	-	Ouasset tanding Shares (Million)	77.794	Thien Long An Think Joint Stock	48.01%
New target price:	75,600	Market capitalization (billion)	4,917	Company	7.07%
Dividend yield	4.7%	Average liquidity in 6 months:	626,970	NWL Cayman Holdings ltd	6.1%
Upside potential	20%	Foreign ownership	81.26%	Ms. Gia Tho	

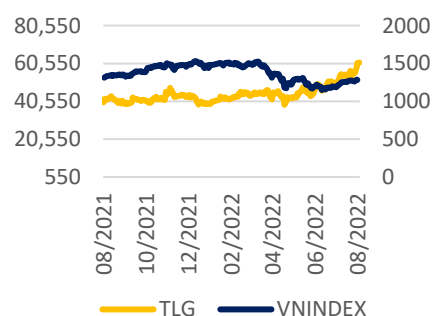
Analyst:

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Consumer and retail sector

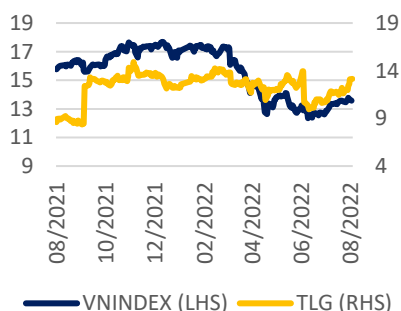
Technical Analyst:

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Recommended price: VND
Stop loss price: VND

Price comparison table of stocks and VN- Index



Comparison table of P/E and VN index



VALUATION

We recommend **BUY** for TLG share with a **target price of 75,600 VND/SHARE** upside 20% compared to the price on 5/9/2022 with DCF method and P/E with a weighting of 50%/50% respectively.

FORECASTING BUSINESS RESULASSET

BSC expecasset TLG's net revenue and NPAT in 2022 to reach VND 3,725 billion (+40%YoY) and VND 527 billion (+97%YoY), EPS FW = VND 5,290, P/E FW = 12 times thanks to low background growth and lower materials price trend over the same period.

In 2023, net revenue and NPAT will reach VND 4,514 billion (+21%YoY) and VND 625 billion (+19%YoY), equivalent to EPS in 2023 = VND 6,293 and P/E FW = 10 years – 12.4 times lower than the 5-year average PE.

INVESTMENT THESIS

- **Gross profit margin improved from 2H/2022 around 44%-45%** thanks to (1) an increase in selling prices from 1H/2022~5%YoY and a roadmap to increase selling prices according to the strategy (2) raw material prices tend to decrease (3) restructuring the distribution system.
- **Long-term growth** comes from (1) the expectation that Thien Long Thanh factory will be put into operation by the end of 2022; (2) premiumization of existing SP series (3) growth potential comes from new OEM and new producasset – based on the advantage of proactively sourcing bioplastic materials.
- **Healthy financial structure**, stable dividend yield from ~5%/year.

Catalyst

- Strategic investors and shareholders increase ownership rates
- The potential comes from investingwith large enterprises to expand B2B channels

RISK

- Input NVL price movemenasset .
- There is not much room for growth in the pen and learning tools sector.

	2021	2022F	2023F	Peer
P/E (x)	24	12	10	17.2
P/B (x)	2.7	2.3	2.0	1.1
EV/EBITDA (x)	6.9	6.9	6.9	5.7
ROA (%)	11%	18%	18%	2%
ROE (%)	15%	25%	25%	4%

	2020	2021	2022F	2023F
Revenue	2,685	2,668	3,725	4,514
Gross profit	1,030	1,127	1,662	2,037
NPAT	240	277	527	625
EPS	2,960	2,652	5,290	6,293
EPS Growth	-31%	-10%	99%	19%

BUSINESS RESULASSET 1H/2022 recovers from low background

Revenue structure	Q2/2022	Q2/2021	%YoY	1H/2022	1H/2021	%YoY
Pen				778	581	34%
%Revenue				41%	41%	
Office equipment				652	502	30%
%Revenue				35%	35.1%	
Learning tools				169	126	35%
%Revenue				9%	9%	
Art tools				257	209	23%
%Revenue				14%	15%	
	Q2/2022	Q2/2021	%YoY	1H/2022	1H/2021	%YoY
Net revenue	1,087	748	45%	1,882	1,428	32%
Gross profit	486	325	49%	824	611	35%
GPM	44.71%	43%		43.8%	42.8%	
Selling expenses	(181)	(138)	31%	(315)	(256)	23%
SG&A expenses	(86)	(84)	3%	(152)	(149)	2%
SG&A/Rev	24.5%	30%		24.82%	28.397%	
Operating profit	220	104	112%	357	205	
Operating profit margin	20%	14%		18.97%	14.36%	
Financial income	14	8	77%	23	15.2	51%
Financial expenses	(4)	2	-358%	(6)	(1)	571%
Other income	3	2	111%	4	3	62%
EBT	233	115	103%	378	222	70%
NPAT	186	91	104%	300	176	71%
NPAT margin	17.06%	12.16%		15.95%	12.32%	

Source Fiinpro

In 1H.2022, TLG recorded net revenue = 1,882 billion VND (+32% yoy) and NPAT = 300 billion VND (+71% yoy) – completing 58% of revenue and 107% of profit. The double-digit growth momentum came from all categories after normal learning and living activities returned after the epidemic, especially in Q2/2022, which is the peak sales season.

Operating profit margin in the first half of 2022 increased from 14.4% (1H.2021) to 19% (1H.2022) thanks to

- (1) **Gross profit margin increased from 42.8% (1H.2021) to 43.8% (1H.2022)** mainly due to (1.1) the company's stockpiling of low-priced materials from the end of 2021 and the restructuring of the organization of trading companies and (1.2) improving the product portfolio in 1H.2022, helping to increase the average selling price ~+5% YoY.
- (2) **The ratio of SG&A/revenue expenses decreased from 28.4% (1H.2021) to 24.8% (1H.2022)** because most marketing-related cosasset have not been recorded in 6M 2022. According to TLG, the key marketing program is oriented to focus on the last quarters of the year to increase the recognition of Thien Long's brands and support the Back2school sales season, so the SG&A/REVENUE ratio is expected to be around 30%-31% in 2h/2022.

Positive outlook for business resulasaset 2H/2022:

Based on +62% YoY growth in revenue and +195% YoY in profit in July 2022 on a low background basis. We expect business resulasaset 2H/2022 to maintain double-digit growth thanks to (1) positive domestic and export demand growth in the back-to-school season (2) improved profit margins as selling prices increased by 5% YoY in 1H/2022 and the downward trend in materials prices (including plastics and steel coil prices) in Q3 from -7.9% to -34.5% YoY.

CAN BUSINESS RESULASSET GROW ABOVE THE HIGHS OF 2022?

	2020	2021	2022F	2023F
Pen	1,066	1,177	1,628	1,791
%Revenue	40%	44%	44%	40%
Office equipment	871	910	1,246	1,396
%Revenue	32%	34%	33%	31%
Learning tools	211	233	326	349
%Revenue	8%	9%	9%	8%
Art tools	322	328	492	615
%Revenue	12%	12%	13%	14%
Net revenue	2,685	2,668	3,725	4,514
%YoY	-17%	-1%	40%	21%
Gross profit	1,030	1,127	1,662	2,037
GPM	38.4%	42.2%	44.6%	45.1%
Selling expenses	(489)	(505)	(745)	(925)
SG&A expenses	(255)	(292)	(292)	(363)
SG&A/Rev	27.7%	29.9%	27.9%	28.5%
EBIT	286	330	624	748
EBIT Margin	10.7%	12.4%	16.8%	16.6%
Financial income	27	32	47	47
Financial cosasset	(16)	(7)	(11)	(11)
Other income	7	3	3	3
EBT	304	359	664	788
NPAT	240	277	527	625
NPAT margin	8.9%	10.4%	14.1%	13.8%
%YoY	-31%	15%	90%	19%
Eps	2,960	2,652	5,290	6,293
P/E	21.4	23.8	11.9	10.0
P/B	2.8	2.7	2.3	2.0

Source: BSC research

BSC expecasset TLG's net revenue and NPAT in 2022 to reach VND 3,725 billion (+40%YoY) and VND 527 billion (+90%YoY), EPS FW = VND 5,290, P/E FW = 11.9 times. The main driver of revenue growth comes from

- (1) Domestic demand and exporasset recovered above the low background of 2021.
- (2) Gross profit margin increased from 42.2% (2021) to 44.6% (2022) due to the restructuring of the product portfolio that helped tb selling price increase by +5%YoY and hoard cheap NVL from the end of 2021 and the downward trend of NVL prices.

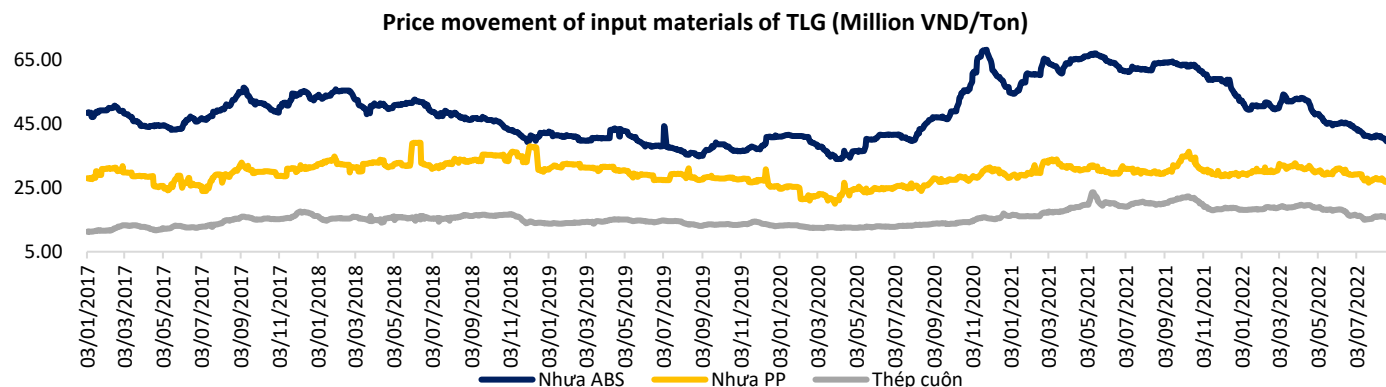
In 2023, net revenue and NPAT will reach VND 4,514 billion (+21%YoY) and VND 625 billion (+19%YoY), equivalent to EPS in 2023 = VND 6,293 and P/E FW = 10 times – lower than the 5-year average PE of 12.4 times.

Based on these assumptions:

(1) Thien Long Thanh factory capacity increase project helps to increase more than 60% of TLG's current capacity - meeting OEM needs and developing new producasset with better profit margins in the period 2023-2027. In particular: Phase 1 of the project is expected to be completed by the end of 2022 to early 2023 will operate ~33% of the upgraded capacity,

corresponding to an increase in business output of +20%YoY; Phase 2 of the expansion project will be implemented based on the demand for OEM orders and the absorption capacity of new producasset by 2027.

(2) Gross profit margin increased from 44.6% to 45.1% due to (1) a downward trend in raw material prices while the company moved towards a higher segment improving the average selling price of producasset and (2) the effectiveness of restructuring sales channels and stimulating demand by boosting marketing activities.

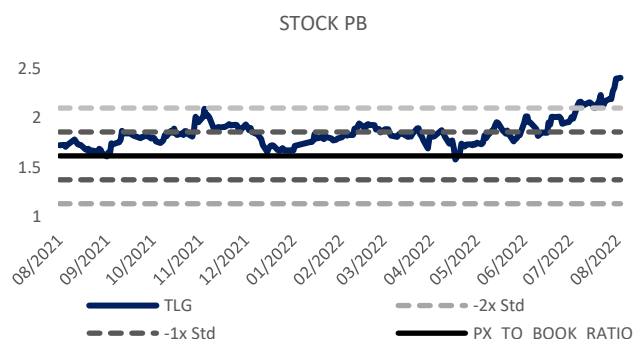
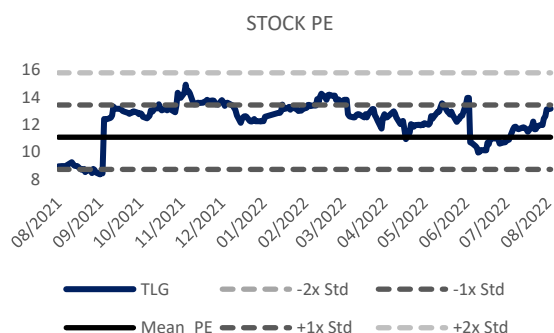


TLG's upside potential?

We recommend **BUY** with TLG stock code with a **target price of 75,600 VND – Upside 20% compared to the closing price on 5/9/2022**, according to dcf method (50%) with WACC = 11.3% and P/E method (50%) with a target P/E of 12.4 times – Equivalent to TLG's 5-year average P/E of 12.4 times.

Discount the terminal value	2022	2023	2024	2025	2026
Free Cash Flow Company (FCFF)	366	413	471	527	601
Total value of 5-year free cash flow extract	353	358	367	369	377
Final value	5,414				
Final value discount	3,399				
Total discount value	5,223				
(-) Debt	(229)				
(+) Cash	943				
Total value of the company	5,937				
No. ouasset tanding shares (million)	78				
Fair value	76,313				
P/E method					
Diluted EPS	6,043				
Target P/E	12.4				
Reasonable price	74,928				
Method	Price	Density	Average price	Cost of capital use	
DCF	76,313	50%	38,157	Rf	6%
P/E	74,928	50%	37,464	Beta	0.74
Target price			75,600	Ke	12%
Current Prices			63,200	Kd	5%
Upside			20%	E/A	9%
Recommendations			Buy	D/A	91%
Dividend yield			4.7%	Tax	23%
5-year P/E			12.4	WACC	11.3%

Source: BBG, BSC



APPENDIX

IS (Billion)	2020	2021	2022	2023
Net revenue	2,685	2,668	3,725	4,514
Cost of goods sold	(1,655)	(1,541)	(2,063)	(2,478)
Gross profit	1,030	1,127	1,662	2,037
Selling expenses	(489)	(505)	(745)	(925)
SG&A expenses	(255)	(292)	(292)	(363)
Contract profit/loss	286	330	624	748
Financial revenue	27	32	47	47
Financial cosasset	(16)	(7)	(11)	(11)
Interest expense	(12)	(7)	(9)	(9)
Other profit/loss	7	3	3	3
Profit before tax	304	359	664	788
Corporate Income Tax	(64)	(82)	(137)	(162)
NPAT	240	277	527	625
NPAT - owner	240	277	527	625
EBITDA	367	415	715	845
EPS	2,960	2,652	5,290	6,293

BS (Billion VND)	2020	2021	2022	2023
Cash and cash equivalenasst	372	503	572	698
Short-term investment	372	240	370	456
Short-term receivables	415	398	548	677
Inventory	530	693	802	984
Other short-term asset	13	33	45	54
Short-term asset	1,702	1,867	2,338	2,869
Tangible asset	464	446	461	478
Depreciation	(551)	(606)	(696)	(794)
Long-term unfinished asset	13	19	16	13
Long-term investment	22	34	34	34
Other long-term asset	109	75	75	75
Long-term asset	613	579	591	605
General asset	2,315	2,446	2,929	3,475
Liabilities	113	193	247	297
Payday loans	147	173	225	214
Other short-term debt	233	203	264	328
Total Current Debt	500	578	808	984
Long-term loans	32	12	3	3
Other long-term debt	-	-	-	-
Total Long-Term Debt	67	42	20	20
Total Debt	566	621	828	1,003
Capital contribution	778	778	778	778
Share capital surplus	362	362	362	362
Undistributed profit	409	458	681	989
Other equity	-	-	-	-
Minority shareholders	-	-	-	-
Total Equity	1,748	1,826	2,101	2,471
Total funding	2,315	2,446	2,929	3,475
No. of outstanding shares	78	78	78	78

CF (Billion)	2020	2021	2022	2023
NPAT	304	359	664	788
D&A	80	84	90	96
Changes in working capital	126	(85)	(156)	(207)
Other adjustmenasset	(121)	(109)	(146)	(172)
CFO	369	222	431	481
Cash for purchase of fixed assets	(85)	(58)	(102)	(110)
Other investmenasset	124	157	(70)	-
CFI	39	99	(173)	(110)
Dividend payment	(153)	(194)	(233)	(233)
Cash from net borrowing	(42)	6	44	(11)
Other revenues	(227)	(189)	(233)	(233)
CFF	(227)	(189)	(190)	(245)
Beginning of year CF	191	372	503	572
Cash in the period	181	133	69	126
Ending of year CF	372	504	572	698

Ratio (%)	2020	2021	2022	2023
Solvency				
Current ratio	3.41	3.23	2.89	2.92
Quick ration	2.32	1.97	1.77	1.71
Capital structure				
Debt/Asset	0.08	0.08	0.08	0.06
Debt/Equity	0.10	0.10	0.11	0.09
Operational capacity				
DIO	70.7	94.2	79.2	80.2
DSO	55.3	54.1	54.1	55.1
DPO	25.0	45.7	43.7	43.7
CCCC	101.0	102.6	89.6	91.6
Profit margin				
Gross profit	38.4%	42.2%	44.6%	45.1%
NPAT profitability	8.9%	10.4%	14.1%	13.8%
ROE	13.7%	15.2%	25.1%	25.3%
ROA	10.4%	11.3%	18.0%	18.0%
Pricing				
Pe	21.35	23.83	11.95	10.04
Pb	2.81	2.69	2.34	1.99
Growth				
Net revenue growth	-17.5%	-0.6%	39.6%	21.2%
EBIT Growth	10.7%	12.4%	16.8%	16.6%
EBT growth	-30.5%	18.1%	85.1%	18.6%
EPS Growth	-31.3%	-10.4%	99.5%	19.0%

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