

Sector: Textile

**Vietnam National Textile and Garment Group (UpC: VGT)  
2020 Annual General Meeting Update**

**Recommendation**

**N.A**

|                       |            |
|-----------------------|------------|
| Current price:        | 7,300      |
| Previous target price | N.A        |
| Current target price  | N.A        |
| Dividend yield        | 7%         |
| <b>Upside</b>         | <b>N.A</b> |

|                                |            |                               |
|--------------------------------|------------|-------------------------------|
| Date:                          | 19/08/2020 | <b>Major shareholders (%)</b> |
| Outstanding share (mil)        | 500        | SCIC 53.4%                    |
| Market cap (VND bil)           | 3,650      | Itochu 13.0%                  |
| Average Volume 10 days (share) | 21,398     | Vingroup 10.0%                |
| Foreign Ownership              | 13%        | Bui Manh Hung 6.0%            |

**Sector Analyst:**

Tu Nguyen  
(Technology, Fishery, Textile)  
[tuntc@bsc.com.vn](mailto:tuntc@bsc.com.vn)

**Technical Analyst:**

Duc Nguyen  
[ducnt@bsc.com.vn](mailto:ducnt@bsc.com.vn)  
Target price N.A  
Cut loss price N.A

**Valuation**

- By August 18<sup>th</sup> 2020, VGT closed at VND 7,300 per share, equivalent to PE multiple of 8.4 which is in discount of 28% compared to 2 year median PE multiple of 11.7

**Bussiness plan**

- In 2020, VGT set the target of revenue and profit before tax of VND 14,640bn (-27.3% YoY) and VND 381bn (-50.2% YoY), equivalent to EPS fw 2020 of 444 VND/share, PE fw 2020 of 16.4

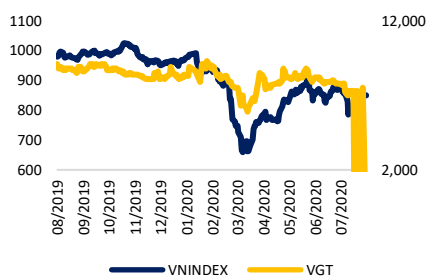
**Risks**

- Covid – 19 pandemic discouraged the recovery of fashion orders in the second half of 2020
- Risk that clients file for bankruptcy

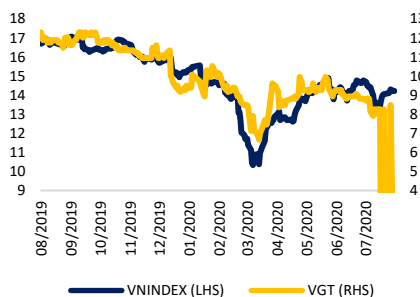
**Business result update**

- Accumulated by the first half of 2020, VGT's bussiness result reflected the difficult period of Vietnam's textile industry.** The company delivered VND 7,046 bn (-24.5% YoY) in net sales and VND 289bn (-21.9% YoY) in profit after tax.
- Outlook for the second half of 2020 is still challenging** as (i) mask and protective gear orders records a decline in bidding price (ii) factories do not have fashion orders in the fourth quarter.
- Divestment of government's ownership of VGT gets technical problems.** In 2020 AGM, SCIC representatives confirmed that government's policy is still to divest from VGT, however, process is facing technical problems related to increasing charter capital for VGT.

**Table Comparision VNIndex and Stock chart**



**Table Comparision VNIndex and Stock's**



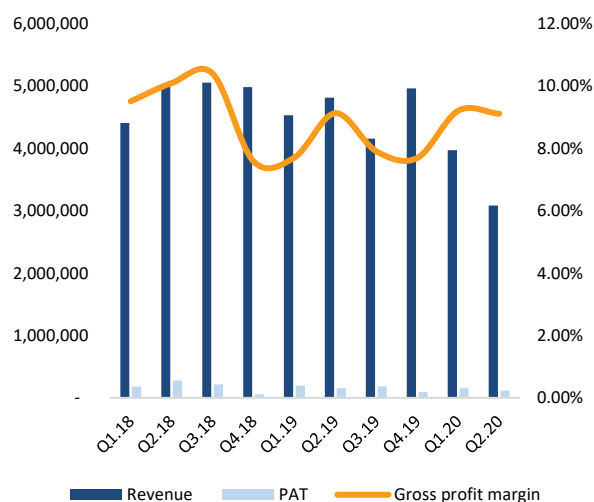
|         | 2018 | 2019 | Peer  | VN-Index |
|---------|------|------|-------|----------|
| PE (x)  | 13.4 | 8.4  | 5.9   | 14.1     |
| PB (x)  | 0.8  | 0.7  | 1.0   | 1.9      |
| PS (x)  | 0.3  | 0.2  | 0.3   | 29       |
| ROE (%) | 9.2% | 9.7% | 17.2% | 13.6%    |
| ROA (%) | 3.3% | 3.4% | 8.3%  | 2.4%     |

|                  | 2017   | 2018   | 2019   | 1H2020 |
|------------------|--------|--------|--------|--------|
| Revenue          | 17,446 | 19,101 | 19,986 | 7,046  |
| Gross profit     | 1,592  | 1,801  | 1,516  | 645    |
| Profit after tax | 685    | 703    | 716    | 276    |
| EPS              | 772    | 741    | 885    | 553    |
| EPS Growth       | 19%    | -4%    | 19%    | -20.6% |
| Liability/Equity | 167%   | 187%   | 161%   | 127%   |

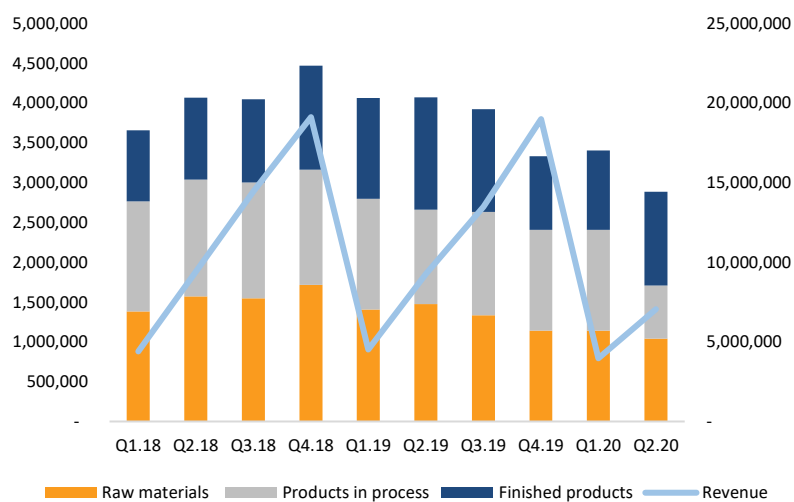
## I. COMPANY UPDATE

**(i) In the first half of this year, business result suffered a strong decline in earning.** Its revenue was down by 24.5% YoY to VND 7,046bn while profit before tax swung to a decrease of 22% YoY to VND 289bn, accomplishing 48% revenue plan and 76% profit before tax plan. The first half earning reflected the worst time when the company faced a supply shock of raw materials imported from China and a demand shock of deminishing fashion orders from clients.

Quarterly business result of VGT



Quarterly inventories and revenues



Source: VGT

**(ii) Outlook for the second half of the year still faces many challenges due to** (i) Mask and protective gear orders observe a decline in bidding prices which makes it more difficult for outsourcing factories (ii) Factories do not receive fashion orders in the fourth quarter. Moreover, a potential upstick in corona virus cases may pose significant risk for the eventual recovery.

**(iii) The Group released 2020 business target which expected a significant drop in earning.** Target revenue and profit before tax respectively are about VND 14,640bn (-27.3% YoY) and VND 381bn (-50.2% YoY). Although business activities are hit hard by Covid 19, BSC evaluates that VGT is too conservative about the business plan.

|                | 2017 P | 2017 A | 2018 P | 2018 A | 2019 P | 2019 A | 2020 P | 1H2020 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b> | 15,999 | 18,464 | 20,319 | 20,246 | 22,185 | 20,139 | 14,640 | 7,046  |
| <b>PBT</b>     | 749    | 748    | 788    | 761    | 839    | 765    | 381    | 289    |

Source: VGT

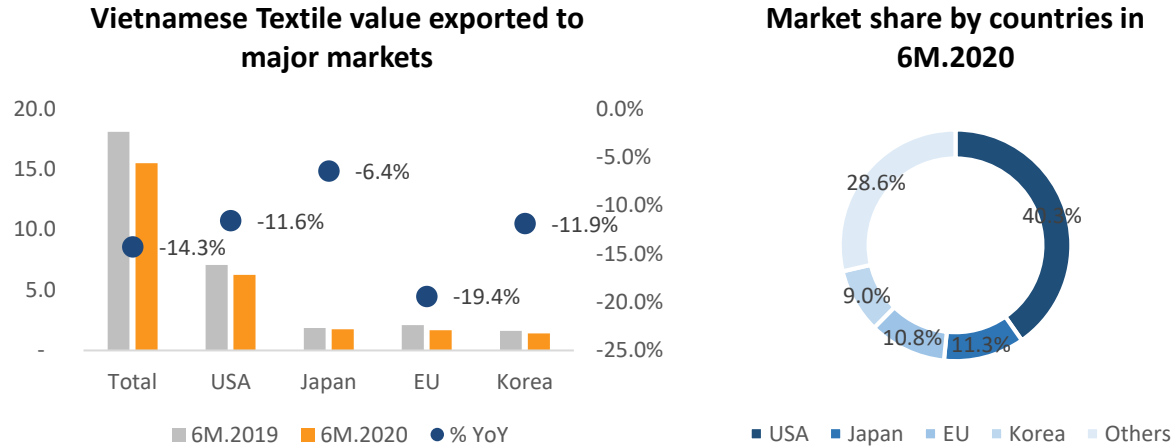
**Progress of divestment from VGT** In 2020 AGM, SCIC representatives confirmed that government's policy is still to divest from VGT, however, process is facing technical problems related to increasing charter capital for VGT.

## II. TEXTILE SECTOR UPDATE

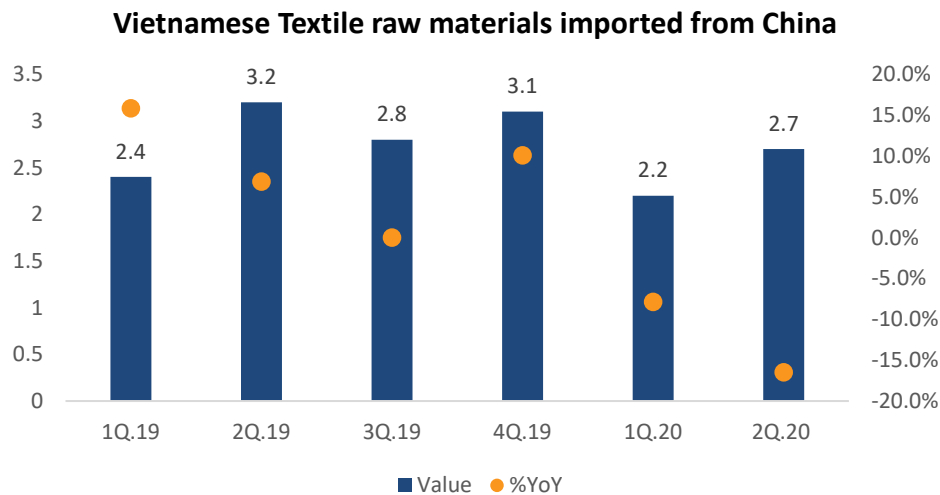
BSC believes that the first 6 months of the year is the worst time for the Textile industry has passed and BSC expects business results to prosper again from the end of the third and fourth quarters of 2020.

(i) The first two quarters of 2020 is the worst time for textile enterprises:

+ Textile export turnover dropped sharply (-14.3% YoY) to 15.5 billion USD, mainly fashion orders were postponed/ canceled due to Covid -19. All export markets recorded negative growth, in which, the EU market dropped the most (-19.4% YoY).



Source: General Department of Vietnam Customs



Source: General Department of Vietnam Customs

In the opposite direction, the demand for imported textile materials also decreased. In the first 6 months of 2020, textile import turnover reached US \$ 5.5 billion (-15.9% YoY). China continues to be the main supplier market with 89% market share.

+ 6M.2020 business results of some textile enterprises (which have released their financial statements) have dropped sharply. The total revenue of 6 months is VND 6,357 billion (-15% YoY) and profit after tax is VND 268 billion (-27% YoY). In particular, small businesses, depending on some main customers recorded the strongest profit reduction (KMR: -88% YoY; TDT: -75% YoY)

**(ii) BSC expects the business results of textile companies to prosper again from the end of the third quarter and the fourth quarter of 2020**

+ Fashion orders came back from June to serve the main consumption demand at the end of the year. Some textile enterprises said that garment factories had orders until the end of October 2020. At the same time, the effective control of China's disease also made the supply of raw materials more stable.

+ Positive effect when Vietnam - EU Free Trade Agreement (EVFTA) comes into effect (01/08/2020). Currently, the EU market accounts for 10.8% of the market share of textile turnover and we expect the turnover to the EU to benefit from the tax reduction schedule for textile products (42.5% of items are reduced to 0% right in the first year). (BSC's EVFTA Impact Assessment Report: [Link](#))

**(iii) The biggest risk for Textile enterprises is the imbalance of cash flow from operations.** This risk increases when:

+ Export countries re-blockade when Covid-19 returns. The re-blockade will cause traditional production orders to be postponed/ canceled like the first Covid-19 wave phase.

**Policies of some fashion brands in the world towards processing partners**

| The brands commit to pay for in-process/ completed orders  | The brands do not commit to pay for in-process/ completed orders         |
|--|--|
| Adidas (TNG), ASOS, H&M, Inditex (Zara), Levi Strauss & CO.(MSH), Nike (TNG), Target, Tesco, Under Armour, Uniqulo (M10),... | C&A (TNG), GAP, Li&Fung, Sears, The Children's Place, Walmart (Asda),... |

Source: Covid-19 Tracker

+ Customers with financial difficulties must file for bankruptcy. In Q2.2020, NewYork & Co (MSH's customer) filed for bankruptcy due to COVID disease that made the business difficult and unable to pay debts.

Duc Nguyen (TA)

[ducnt@bsc.com.vn](mailto:ducnt@bsc.com.vn)

Target price #N/A

Cutloss price #N/A

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VGT – Vietnam National Textile and Garment Group

**Technical highlights:**

- Current trend: Downtrend.
- Trend indicator MACD: The MACD line is below the signal line.
- RSI indicator: Decreases gradually below 50 but has not entered the oversold zone.
- MA: EMA12 is below EMA26.

Outlook: VGT is still in the long-term downward process from 2018 to now and there is no sign of a change in trend. The liquidity of VGT in recent weeks still remained low value. Most of technical indicators are in negative status. The RSI oscillator is below the 50 mark and still far from oversold so the potential stock continues its downside momentum for a few more weeks. Looking more broadly, VGT is facing an oblique resistance, so if it recovers in the short term, selling pressure may appear at the price zone near 8.

Recommendation: Investors should watch more this stock in the near future and reduce the proportion of VGT in the portfolio to a low level before more positive changes occur.



Source: BSC, PTKT iTrade

## APPENDIX

| KQKD(Tỷ đồng)                           | 2016       | 2017       | 2018       | 2019       |
|---|------------|------------|------------|------------|
| Net revenue                             | 15,183     | 17,446     | 19,101     | 18,986     |
| Cost of goods sold                      | -13,757    | -15,854    | -17,300    | -17,470    |
| Gross profit                            | 1,704      | 1,592      | 1,801      | 1,516      |
| Selling expense                         | -492       | -547       | -537       | -549       |
| Administration expense                  | -1,023     | -870       | -894       | -758       |
| <b>Income from business operation</b>   | <b>548</b> | <b>632</b> | <b>724</b> | <b>727</b> |
| Financial income                        | 339        | 318        | 324        | 366        |
| Financial expense                       | -487       | -406       | -644       | -549       |
| Interest expense                        | -339       | -356       | -457       | -517       |
| Income from associates/JVs              | 507        | 545        | 673        | 701        |
| Net other income                        | 136        | 117        | 38         | 39         |
| <b>Profit before tax</b>                | <b>684</b> | <b>748</b> | <b>761</b> | <b>766</b> |
| Corporate Income Tax                    | -104       | -63        | -59        | -49        |
| <b>Profit after tax</b>                 | <b>579</b> | <b>685</b> | <b>703</b> | <b>716</b> |
| Net income attributable to NCI          | 254        | 299        | 264        | 198        |
| Net income attributable to shareholders | 325        | 386        | 438        | 519        |
| EPS                                     | 650        | 772        | 741        | 885        |

| CĐKT (Tỷ đồng)                                    | 2016          | 2017          | 2018          | 2019          |
|---|---------------|---------------|---------------|---------------|
| <b>Cash and cash equivalents</b>                  | <b>1,496</b>  | <b>1,496</b>  | <b>1,591</b>  | <b>412</b>    |
| Short-term investments                            | 952           | 720           | 531           | 1,718         |
| Accounts receivable                               | 3,215         | 3,220         | 3,506         | 3,314         |
| Inventories                                       | 3,207         | 3,637         | 4,844         | 3,633         |
| Other current assets                              | 361           | 401           | 300           | 264           |
| <b>Total current assets</b>                       | <b>9,232</b>  | <b>9,475</b>  | <b>10,772</b> | <b>9,341</b>  |
| Fixed assets                                      | 5,920         | 6,570         | 7,365         | 6,819         |
| Long-term assets in progress                      | 1,132         | 1,292         | 690           | 305           |
| Long-term investments                             | 2,079         | 2,124         | 2,143         | 2,339         |
| Other long-term assets                            | 513           | 452           | 408           | 387           |
| <b>Total non-current assets</b>                   | <b>10,562</b> | <b>11,431</b> | <b>11,122</b> | <b>10,492</b> |
| <b>Total asset</b>                                | <b>19,794</b> | <b>20,906</b> | <b>21,895</b> | <b>19,834</b> |
| Current payable                                   | 12,199        | 13,085        | 13,899        | 11,894        |
| Short term borrowing                              | 4,021         | 4,826         | 5,728         | 4,531         |
| Other payables                                    | 604           | 573           | 604           | 467           |
| <b>Current Liabilities</b>                        | <b>6,882</b>  | <b>7,475</b>  | <b>8,778</b>  | <b>7,313</b>  |
| Long-term borrowing                               | 4,818         | 5,088         | 4,633         | 4,022         |
| Other long-term payable                           | 138           | 103           | 87            | 95            |
| Non-current Liabilities                           | 5,318         | 5,609         | 5,120         | 4,581         |
| <b>Total Liabilities</b>                          | <b>12,199</b> | <b>13,085</b> | <b>13,899</b> | <b>11,894</b> |
| Contributed capital                               | 5,000         | 5,000         | 5,000         | 5,000         |
| Share premium                                     | 29            | 29            | 29            | 29            |
| Retained earnings                                 | 555           | 569           | 657           | 739           |
| Other funds                                       | 10            | 10            | 0             | 0             |
| Non-controlling interest                          | 1,651         | 1,834         | 1,899         | 1,748         |
| <b>Shareholders' Equity</b>                       | <b>7,594</b>  | <b>7,821</b>  | <b>7,445</b>  | <b>7,389</b>  |
| <b>Total liabilities and shareholders' equity</b> | <b>19,794</b> | <b>20,906</b> | <b>21,895</b> | <b>19,834</b> |
| Outstanding number of share                       | 500           | 500           | 500           | 500           |

| LCTT (Tỷ đồng)        | 2016    | 2017    | 2018    | 2019    |
|-----------------------|---------|---------|---------|---------|
| (Lỗ)/LNST             | 683     | 748     | 761     | 766     |
| Khấu hao và phân bổ   | 641     | 770     | 889     | 836     |
| Thay đổi vốn lưu động |         |         |         |         |
| Điều chỉnh khác       | 0       | 0       | 0       | 0       |
| LCTT từ HĐ KD         | 363     | 152     | 354     | 1,093   |
| Tiền chi mua TSCĐ     | -1,950  | -1,686  | -1,269  | -761    |
| Đầu tư khác           | -68     | -96     | -29     | -59     |
| LCTT từ HĐ Đầu tư     | -1,970  | -886    | -299    | -966    |
| Tiền chi trả cổ tức   | -403    | -396    | -368    | -522    |
| Tiền từ vay ròng      | 14,562  | 15,768  | 12,056  | 23,597  |
| Tiền thu khác         | -13,594 | -14,658 | -11,663 | -24,407 |
| LCTT từ HĐ Tài chính  | 631     | 734     | 39      | -1,309  |
| Dòng tiền đầu kỳ      | 2,472   | 1,496   | 1,496   | 1,591   |
| Tiền trong kì         | -976    | -2      | 93      | -1,181  |
| Dòng tiền cuối kỳ     | 1,496   | 1,496   | 1,591   | 412     |

| Chỉ số(%)                          | 2016   | 2017  | 2018  | 2019  |
|------------------------------------|--------|-------|-------|-------|
| <b>Liquidity</b>                   |        |       |       |       |
| Current ratio                      | 1.65   | 1.87  | 1.89  | 1.89  |
| Cash ratio                         | 2.90   | 2.79  | 2.74  | 2.68  |
| <b>Solvency</b>                    |        |       |       |       |
| Liabilities/Asset                  | 62%    | 63%   | 65%   | 62%   |
| Liabilities/Equity                 | 161%   | 167%  | 187%  | 161%  |
| <b>Efficiency</b>                  |        |       |       |       |
| Inventory period (day)             | 83     | 78    | 89    | 88    |
| Receivable collection period (day) | 52     | 45    | 42    | 44    |
| Payable payment period (day)       | 33     | 28    | 26    | 28    |
| CCC                                | 104    | 96    | 105   | 105   |
| <b>Profitability</b>               |        |       |       |       |
| Gross profit margin                | 11.0%  | 9.1%  | 9.4%  | 8.0%  |
| Net margin                         | 3.7%   | 3.9%  | 3.7%  | 3.8%  |
| ROE                                | 7.8%   | 8.9%  | 9.2%  | 9.7%  |
| ROA                                | 3.0%   | 3.4%  | 3.3%  | 3.4%  |
| <b>Market ratio</b>                |        |       |       |       |
| PE                                 |        |       |       |       |
| PB                                 |        |       |       |       |
| <b>Growth</b>                      |        |       |       |       |
| Revenue growth                     | 1.8%   | 12.8% | 9.5%  | -0.6% |
| PBT growth                         | 5.8%   | 9.5%  | 1.7%  | 0.5%  |
| EPS growth                         | -16.7% | 18.8% | -4.0% | 19.4% |

Source: BSC Research.

## DISCLOSURE

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### **BSC Headquarters**

BIDV Tower, 10<sup>th</sup> & 11<sup>th</sup> Floor  
35 Hang Voi, Hoang Kiem, Hanoi  
Tel: +84439352722  
Fax: +84422200669

### **Ho Chi Minh City Office**

146 Nguyen Cong Str, 9<sup>th</sup> Floor  
District 1, HCMC  
Tel: +84838218885  
Fax: +84838218510

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