

TNG INVESTMENT AND TRADING JSC (TNG - HNX)

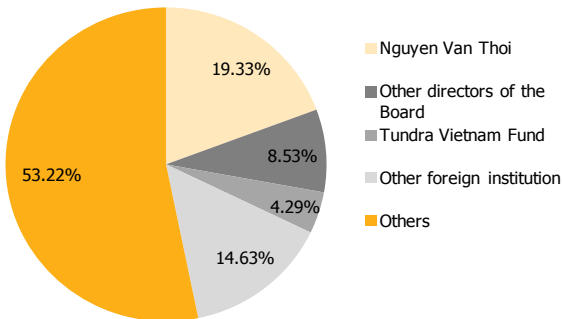
Recommendation: BUY

KEY INDICATORS

Current Price (VND)	10,100
Target Price (VND)	15,010
Upside Potential (%)	48.6
YTD Return (%)	(6.1)
1-Year Return (%)	3.6
Outperform/(Underperform) (%)	3.6
Market Cap (VND billion)	498.3
Outstanding Shares (million)	49.3
Dividend Yield (%)	5.9
P/E Trailing (x)	3.6
P/B (x)	0.7
P/E VN-Index (x)	16.5

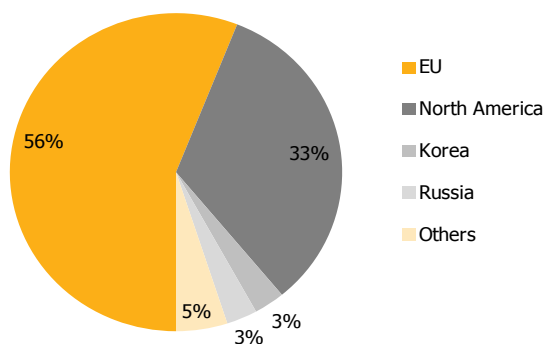
Source: TNG, KBSV

Ownership Structure (as of 15 Jun 2018)



Source: TNG

Export market structure — 2017



Source: TNG

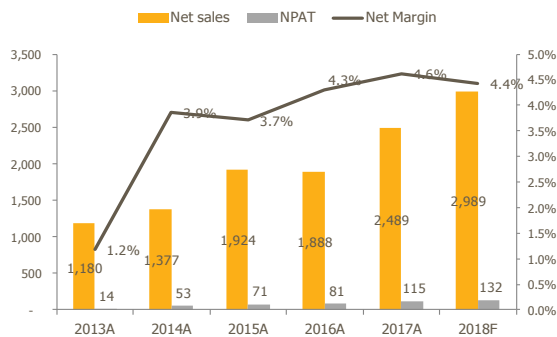
COMPANY OVERVIEW

- TNG's main business are outsourcing, producing jackets and chinos under FOB convert and CMT for export market, . The company also have its own brand name - TNG fashion with over 40 stores nation while, mostly located in the North of Vietnam.
- Production Capacity

Factory	Number of lines	Production Capacity
Viet Duc	26	1,2 million jackets/ year or 3 million Chino pants, bottoms/year.
Viet Thai	16	960,000 million jackets/year or 2.4 million Chino pants, bottoms/year
Dai Tu	35	5 million knit items/year
Song Cong 1, 2, 3	66	3.6 million jackets/ year or 9 million Chino pants, bottoms/year
Phu Binh 1, 2, 3, 4	66	3.6 million jackets/ year or 9 million Chino pants, bottoms/year
TNG Fashion	8	22 showrooms and 14 retailers

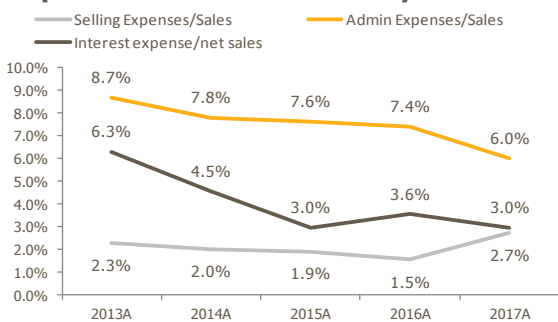
- Export market accounts for 96% of 2017 sales structure, in which 53% goes to EU and 33% to North America. TNG works with various famous brand names, among which Decathlon brings the most revenue of 44.02%.
- TNG is still in the process of expanding production to meet the free trade agreement, particularly EVFTA which is favourable to the company as its largest market is EU. The focus on large clients is to help the company improve its gross margin as well as increase its net profit margin as a substitute for regular CMT orders. In addition, TNG is aiming to affirm its position in the domestic market with its chain of TNG Fashion Store.
- The company won the title of one of the 30 most transparent listed companies on HNX 2016 and top 100 sustainable businesses of 2016.

Annual earnings performance (VND bn)



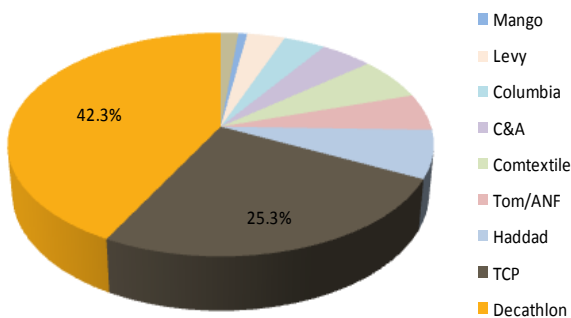
Source: TNG, KBSV

Expense ratio over the last 5 years



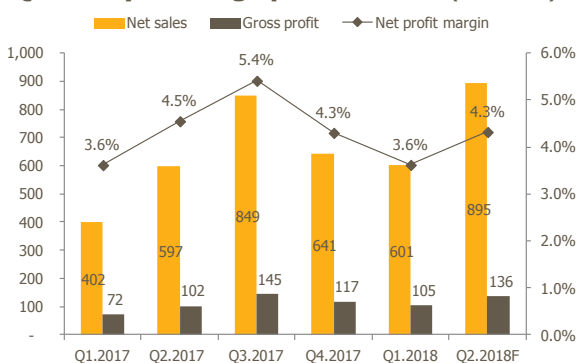
Source: TNG, KBSV

Sales structure by major customers 2017



Source: TNG, KBSV

Quarterly earnings performance (VND bn)



Source: TNG, KBSV

► BUSINESS PERFORMANCE IN 2017

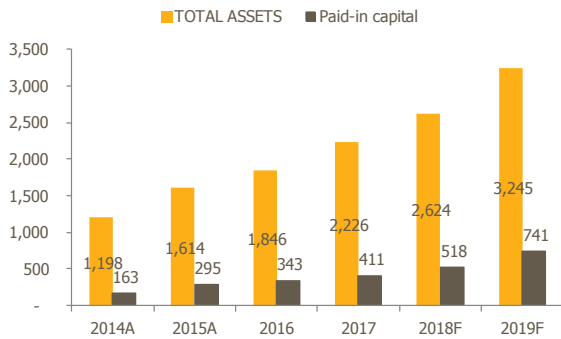
Business result seeing improvement

- **TNG's revenue grew at a CAGR of 21.8% during the period 2014-2017**, higher than the 10.79% of the textile and apparel industry in 2017. In the end of 2017, TNG's net revenue increased 32% to VND2,489 billion. The company posted 42% YoY growth of over VND115 billion. Net profit surge 41.7% to VND115 bn, following recovery signal of the garment and textile industry.
- **GPM stayed at an average of 18.18% during the period of 2013-2017**, having faced a downtrend before holding steady in the last 2 years, which was still higher than that of garment industry of 14.8%. In 2017, TNG received its first FOB orders from Levy Group with total value of USD400,000, which allowed the company to source raw materials itself and therefore gain higher gross profit (20% from FOB vs 16-17% from CMT).
- **Net profit margin almost tripled during that time ending at 4.3% in 2017**. Though the company generated a low net profit, it is reasonable regarding the Vietnam garment and textile industry which contributes quite low in global value-added chain.

Impressive earning result in Q1.2018

- **Ending Q1.2018, the company reached 600.73 billion in revenue, up 50% YoY and completed 21% of the annual plan**, this is also the first quarter with the highest revenue in the past three years. Accordingly, net profit was 21.73 billion dong, up 50% YoY fulfilling 17% of the year plan, which indicated a flat gross profit margin over a year.
- According to the company, this remarkable result is due to that TNG has been operating the maximum production capacity and focused on large contracts from big customers with famous brand and reputation. The company targets to increase the contribution of large customers such as: Decathlon, TCP....
- **For Q2.2018 we expect TNG' revenue to rise 49.8% to VND895 bn and net profit after tax to reach VND38.7 bn (+42.3%)**. According to monthly report from TNG, sales cumulatively reached VND1,137 billion (+55% YoY) and net profit was VND45 billion (+54.5% YoY) in the first 5 months of 2018. Up to the middle April, TNG has signed contracts of 21 million items with total value of USD90.3 mln, completing 76% of 2018 target.
- Cumulatively, our H1.2018's projection for revenue and NPAT is of VND1,496 bn (+49.7% YoY) and VND60.4 bn (+45% YoY).

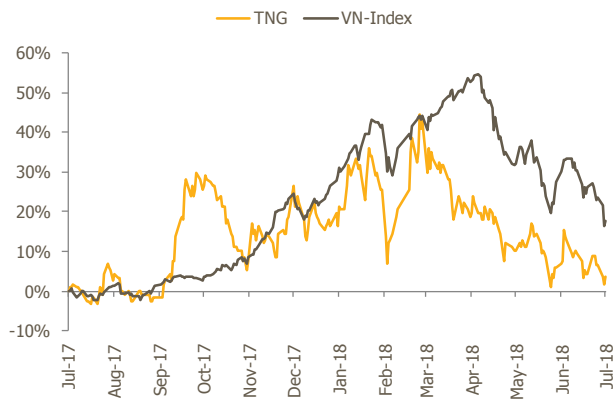
Annual Capital rising (VND bn)



▶ 2018 - 2019 OUTLOOK

- We still conservatively project 2018 revenue of VND2,989 bn (+20.1% YoY) and NPAT of VND132 bn (+15.1% YoY)** despite of rapid increase in earning result of TNG in the first 6 months as increase in labor cost due to minimum wage on rise may hit TNG's bottom and that of the industry generally. For the year 2018, the company target to generate revenue of VND2,750 billion (+10.5% YoY) and net profit after tax of VND127 billion (+10.4% YoY).
- Our 2019 guidance's for revenue and NPAT is of VND3,528 bn (+18% YoY) and of VND162 bn (+22.9% YoY), respectively,** giving capacity expansion and lessening interest burden. The company is expecting 2 more factories, Phu Luong and Vo Nhai with total 48 sewing lines to start construction in late 2018, which will push revenue. The company also has plan to issue additional shares to existing shareholders and strategic shareholders to raise capital to finance further expansion.

1 years stock performance



► VALUATION AND RECOMMENDATION

Valuation Methods	Weighting	Share Value	Contribution	WACC
P/E Multiple 7	50%	16,624	8,312	COE 18.2%
FCFE	50%	13,400	6,700	COD 9.0%
				Tax Rate 20.0%
				WACC 14.8%
Weighted Average Share Value			15,010	Growth 5.0%

Valuation

We used the valuation method Free Cash Flow of the Firm (FCFF) and P/E comparison to evaluate the value of TNG share. The achieved result showed that the fair value of TNG stock is **VND15,010/share, 48.6%** higher than the current market price.

Recommendation

We recommend to BUY shares of TNG with a target price of **VND 15,010** for medium term and long term invested target due to the following reasons:

- Garment and textile industry showed an good growth in export value of 10.23% YoY in 2017 after a disappointing result in 2016 with only 4.4% up. This trend is likely to extend into 2018 with an expected growth of around 9-10% YoY in export. Upcoming EVFTA agreement is a driving force for the industry, especially for those with major export markets to Europe like TNG.
- Upcoming expansion to be about to happen in 2018 will be the main factor driving earning in the future. TNG expect to start construction of 2 more factory in Phu Luong and Vo Nhai, which will boost total sewing lines by 22%, equivalent to 48 lines. The company has plan to issue additional shares to existing shareholders and strategic shareholders to raise capital for further expansion.
- TNG is gradually moving up its business to higher value-added chain to seek for higher GPM. Order from Levy group applying full FOB methods with expecting total value of USD2.9 mln and stores system for TNG fashion brand of 40 stores nationwide are proof of TNG's effort in a shift to high level of creative business thus returning more value.
- TNG is trading at trailing P/E of 3.99x, which is relatively lower than its peers. With 2018 and 2019 EPS at VND2,462/share and VND2,119/share, respectively, its forward P/E for 2017 and 2018 would be 4.02x and 4.83x, which is an attractive for future prospect of garment and textile industry and TNG in particular.

Outstanding Note

- The use of high leverage ratios has put pressure on the interest burden, thereby wiping out the profits of TNG. Long-term working capital is a problem that the company is facing today.
- Revenue from TNG Fashion is still negligible to TNG's revenue scale and Levy's order accounts for only around 2.5% of TNG's total revenue per year. As a result, TNG's GPM might not reflect significant improvement from their plan to move up to higher value-added chain in short term.

▶ FINANCIAL SUMMARY

FINANCIAL SUMMARY	2015A	2016A	2017A	2018F	2019F	2020F
Net sales (VND billion)	1,923.9	1,887.7	2,488.6	2,989.2	3,527.3	4,056.4
Sales growth rate (%)	39.7	(1.9)	31.8	20.1	18.0	15.0
Net profit (VND billion)	71.3	81.2	115.0	132.3	162.7	191.9
Net profit growth rate (%)	34.1	13.9	41.7	15.1	22.9	18.0
Net profit margin (%)	3.7	4.3	4.6	4.4	4.6	4.7
Owner's equity (VND billion)	428.1	521.1	629.3	758.5	1,017.6	1,053.8
Total assets (VND billion)	1,613.6	1,846.2	2,225.7	2,623.6	3,245.5	3,710.3
ROE (%)	16.7	15.6	18.3	17.4	16.0	18.2
ROA (%)	4.4	4.4	5.2	5.0	5.0	5.2
EPS (VND)	2,418	2,369	2,797	2,554	2,195	2,590
BVPS (VND)	14,520	15,208	15,304	14,641	13,736	14,224
Cash Dividend (VND)	600	-	-	-	-	-
P/E (x)	5.0	3.6	3.6	3.95	4.6	3.9
P/B (x)	0.8	0.6	0.7	0.7	0.7	0.7

RATING

BUY - Expected return for 1-year is 15% or greater

HOLD - Expected return for 1-year is between -15% and 15%

SELL - Expected return for 1-year is below or equal to -15%

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