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1Q22 NPAT jumped by 51.1% YoY thanks to increased orders from Amazon

Gilimex (GIL) engages in the textile manufacturing business with two key partners, Amazon and IKEA. The company owns a rich product portfolio: home textiles, laundry bags, duffel bags, backpacks, laundry baskets, outdoor textile products, lampshades, clothing, etc. In the first quarter of 2022, its NPAT reached VND107 billion (+51.1% YoY) on revenue of VND1,417 billion (+64.0% YoY) thanks to increased orders from Amazon.

The outlook for the textile and garment industry is bright in 2022

In 2022, KBSV is upbeat about the growth prospect of the textile and garment industry based on the following factors: (1) uninterrupted business operations under the impact of the pandemic; (2) China's textile and apparel order transfer.

GIL is Amazon Robotics' largest fabric pod array provider

GIL accounts for over 50% of Amazon Robotics' fabric pod array imports. It is also GIL's largest customer representing 80% of GIL's total revenue, followed by IKEA and others with 20%. In the years to come, GIL will benefit from e-commerce trends and the expansion of Amazon fulfillment centers.

Growth potential comes from industrial park

From the end of 4Q22, GIL may record revenue from Phu Bai Industrial Park (IP) with a scale of 460.9 ha, about 15 km from Hue city center and next to Phu Bai international airport.

We recommend BUY for GIL stocks with a target price of VND94,300

Based on valuation results, business outlook, and possible risks, we recommend BUY for GIL stocks. The target price is VND94,300/share, 47.6% higher than the closing price on June 15, 2022.

Buy

Target price VND94,300

Upside/Downside	47.6%
Current price (Jun 13, 2022)	VND63,900
Consensus target price	n/a
Market cap (VNDbn)	3,834

Trading data

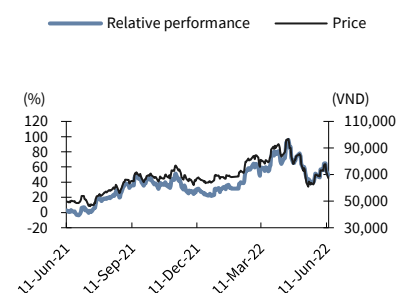
Free float	35.13%
3M avg trading value (VNDbn/USDmn)	375/16.2
Foreign ownership	2.9%
Major shareholder	Le Hung (12.2%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	4	-15	-1	42
Relative	4	3	16	49

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	3,457	4,150	6,338	7,402
Net revenue growth (%)	36.2%	20.1%	52.7%	16.8%
Gross profit (VNDbn)	636	754	993	1,190
Gross profit margin (%)	18.4%	18.2%	15.7%	16.1%
Net profit (VNDbn)	309	330	430	548
Net profit growth (%)	92.7%	6.6%	30.3%	27.6%
EPS (VND)	8,578	7,624	7,154	9,127
EPS growth (%)	28.2%	-11.1%	-6.2%	27.6%
P/E (x)	7.8	8.8	9.4	7.4

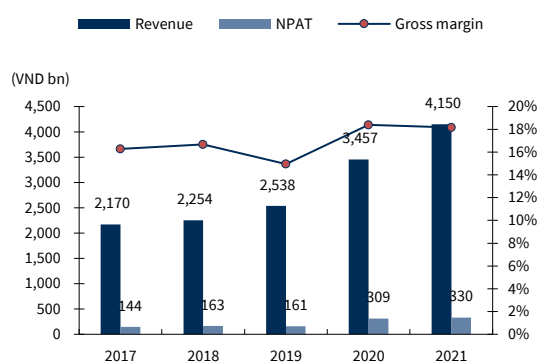


Business performance

GIL is a textile enterprise with two key partners, Amazon and IKEA

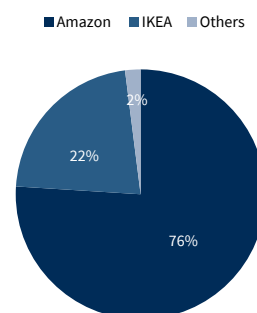
GIL is a textile enterprise with two key partners, Amazon and IKEA. The company owns a rich product portfolio: home textiles, laundry bags, duffel bags, backpacks, laundry baskets, outdoor textile products, lampshades, clothing, etc. In 2021, GIL achieved NPAT of VND330 billion (+6.6% YoY) and revenue of VND4,150 billion (+20.1% YoY). The surge in revenue was primarily thanks to increased orders from Amazon Robotics. However, considering the strong inner strength of GIL, this growth rate was humble given subdued business results in 3Q21 arising from suspended production during the lockdown.

Fig 1. GIL – Business results



Source: Gilimex

Fig 2. GIL – Revenue breakdown (%)

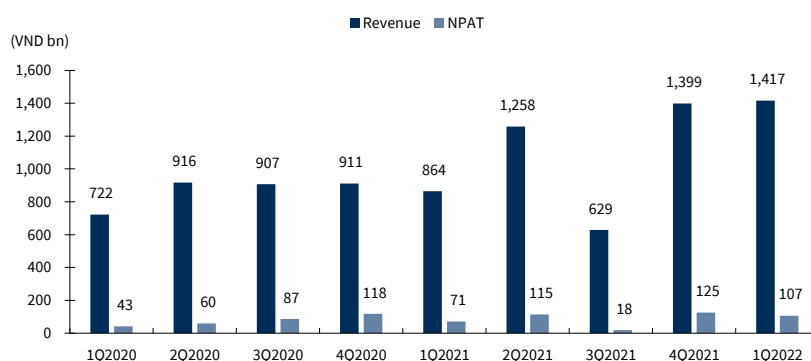


Source: KB Securities Vietnam

3Q21 revenue declined sharply due to suspended production to contain the COVID-19 pandemic.

In 1Q22, NPAT reached VND107 billion (up 51.1% YoY) on revenue of VND1,417 billion (up 64.0% YoY) primarily thanks to increased orders from Amazon Robotics.

Fig 3. GIL – Business results by quarter



Source: Gilimex

Investment catalysts

1. The outlook for the textile and garment industry is bright in 2022

In 2021, the textile and garment industry recovered positively despite various challenges, from the resurgence of COVID-19 in the third quarter in Vietnam to the upsurge in freight rates due to a serious shipping container shortage at ports. The export turnover growth rate of the industry rose by 9.9% YoY in 2021, with the motivation from: (1) the low base in 2020; and (2) increased orders from fashion retailers. In 2022, KBSV is upbeat about the prospect of the textile and garment industry for the following reasons:

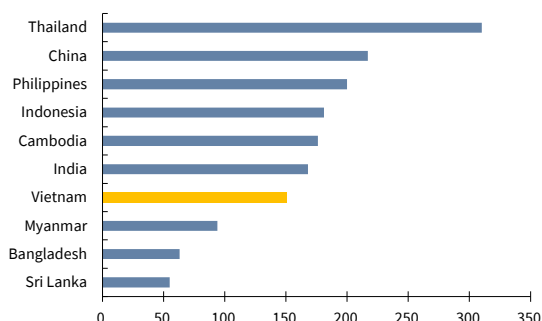
Production activities are no longer interrupted by the COVID-19 pandemic

In the third quarter of 2021, Vietnam implemented stringent social distancing on a large scale, especially in the Southern regions, to contain the pandemic, hindering the fulfillment of export orders of textile and garment enterprises. In 2022, thanks to better control of the pandemic following the rollout of vaccination programs across the country, factories can return to normal operations. Textile companies, therefore, can witness their revenue snowball thanks to recovering capacity.

The value of textile orders continues to rise on the long-term China's textile and apparel order transfer

The textile industry has seen major shifts in the concept of manufacturing facilities on CMT (cut, make and trim) contracts to take advantage of lower production costs. The first one, from North America and Europe to Japan, was in the 1950s and 1960s. The second was from Japan to three manufacturing bases in Asia (Hong Kong, Taiwan and Korea) between 1970 and 1980. The third relocation was to less developed Asian countries and the Americas. Next, the 1980s saw the emergence of large textile mills and factories in China. However, alongside remarkable developments, China was no longer the go-to destination for many businesses due to diminishing production costs resulting from rising labor costs. Textile companies kept switching their sewing lines into bases with abundant and cheap human resources, namely Vietnam, Bangladesh, and Cambodia. According to Minimum-wage.org, the average minimum wage for garment workers in Vietnam is USD151/month, much below China's USD217/month but above that of some countries like Bangladesh and Myanmar. However, Vietnamese workers are highly appreciated thanks to their capability to quickly produce huge orders with remarkable workmanship that goes into fabric products. Therefore, the textile and garment orders in Vietnam principally come from big retailers and famous fashion brands with demanding requirements for product quality and subsequent higher value than that of rival countries. We believe the trend of transferring orders from China to others, including Vietnam, will endure in the medium and long term, thus benefiting Vietnamese textile enterprises.

Fig 4. Global – Minimum wage/month in textile markets in 2020 (USD/month)



Source: Minimum-wage.org

Fig 5. Global – Customer's assessment of the quality of clothes in 2016

	Sri Lanka	India	Pakistan	Bangladesh	China	Myanmar	Vietnam	Cambodia	Indonesia
Speed	**	*	*	*	***	*	***	**	***
Compliance	***	*	*	*	***	*	***	**	***
Quality	***	*	*	**	***	**	***	**	**

Source: The World Bank

2. GIL is Amazon Robotics' largest fabric pod array provider

GIL accounts for over 50% of Amazon Robotics' fabric pod array imports. Amazon robots carry and arrange pods of inventory and transport pallets through buildings in the Sortable Fulfillment Centers. Amazon Robotics is also GIL's largest customer, representing almost 80% of total revenue, followed by IKEA and other partners with 20%.

GIL will benefit from e-commerce trends and the expansion of Amazon fulfillment centers

Amazon is by far the world's largest e-commerce company. Marketplace Pulse estimates Amazon to reach USD600 billion in GMV (gross merchandise volume) and 29.39% in 3-year CAGR (compound annual growth rate) in 2021. Along with ever-increasing demand and rapid development of the e-commerce market, Amazon has boosted investment in the expansion of fulfillment centers that are charged with fulfilling customer orders. In other words, Amazon warehouses not only store products but also serve as distribution centers where associates pick, pack, and ship orders quickly and efficiently. According to MWPVL International, this year, Amazon plans to expand its fulfillment centers plan by 26% YoY in terms of total area, of which Small Sortable Fulfillment Centers increase by 43.3%, from 73.6 million feet in 2021 to 105.5 million feet in 2022. As a result, we expect GIL's revenue to grow strongly on the expansion of Amazon fulfillment centers, especially Small Sortable Fulfillment Centers, and recover from the low bases in 2Q and 3Q21 under the negative impacts of the COVID-19 pandemic.

Table 6. Amazon – Expansion of fulfillment & distribution centers in 2022

Location	Fulfillment centers	Total area (2021)	Total area after expansion expected (2022)
US	Small Sortable Fulfillment Center	73,617,365	31,921,900
	Specialty Fulfillment Center	23,742,189	1,136,984
	Sub Same Day Fulfillment Centers	4,758,783	2,799,416
Other	Fulfillment Centers	106,004,088	18,437,466

Source: MWPVL International

GIL raised capacity through building a new factory and M&A

In 2021, GIL inaugurated Long Khanh Garment Factory phase 1. However, the number of orders from Amazon is now always exceeding GIL's capacity. To improve the situation, GIL carried out M&A and held stake in a number of textile companies, such as Gia Dinh Textile and Garment Corporation, Garmex Saigon Corporation, and Unimex Hue, and had these businesses support manufacturing. The number of outsourced sewing lines of GIL increased from 41 in 2020 to 120 in 2021. From our observations, GIL and its associates recruited about 1000 more workers early this year (GIL: 250; Gia Dinh: 300; Unimex Hue: 500). This is a positive signal showing that capacity is increasing in 2022, helping GIL to be able to accommodate the increased orders from Amazon.

Table 7. GIL – Number of sewing lines

	2017	2018	2019	2020	2021E
Binh Thanh Garment Factory	27	21	21	21	24
Thanh My Garment Factory	16	14	15	17	17
Outsourcing	46	28	36	41	120
Total	89	63	72	79	161

Source: Gilimex

3. Growth potential comes from industrial park

In 2022, GIL may record revenue from Phu Bai IP, one of the key industrial zones in Hue, with a scale of 460.9 ha. It is about 15 km from Hue city center, next to Phu Bai international airport, along the National Highway 1A and the North-South railway, 40 km from Chan May Port to the south, and 15 km from Thuan An Port to the north. Currently, GIL has completed 80% of legal procedures on site clearance for Phu Bai IP. We believe GIL can turn a profit from this IP from 4Q22-end. Also, GIL plans to implement two other projects, Gilimex Quang Ngai Industrial Park (730ha) and Gilimex Vinh Long.

Risks

Dilution risk from private placement

Between March 17, 2022 and April 15, 2022, GIL issued 16.8 million private shares or 38.89% of the outstanding shares at VND35,000/share to existing shareholders. Those shares will be restricted from transfer within three years. It led to the risk of diluted P/E (price to earnings). However, the private placement plan was announced a year ago, thus limiting the impact on the stock price at the time of issuance.

Risks from rising raw material costs for FOB orders

FOB orders (the FOB term in the textile and garment sector means 'buy all raw materials – sell products') from Amazon, with a higher profit margin than that of IKEA orders with specified materials, contribute 80% of GIL's total revenue. However, GIL takes FOB orders at the beginning of the quarter, which may become a disadvantage if the raw material prices surge during the quarter.

Dependence on two major partners

Amazon and IKEA contribute most of GIL's total revenue. As a result, the company might be at risk if these two key partners change operating policies and practices or their business results deteriorate. In 1Q22, Bloomberg reported that Amazon planned to sublet up to 30 million square feet of warehouse space or renegotiate leases since over-expansion during the pandemic was biting the e-commerce giant as economies reopen. However, we assess that the negative impact of this move on GIL's prospect is negligible as this subleased space is only equal to about 20% of Amazon's expansion plan in 2022.

Forecast & Valuation

2022F business results

We make our forecast for GIL's business results in 2022 as follows:

- Revenue should reach VND6,338 billion thanks to the garment segment up 51.6% YoY on the expansion of Amazon fulfillment centers from 2Q and 3Q21 lows and VND46 billion from leasing 50,000 m² at Phu Bai IP.
- Gross profit margin of the garment segment should decrease by 2.7% due to rising input material costs, in a conservative scenario.
- NPAT is estimated at VND429 billion, up 30.4% YoY.

Table 8. GIL – 2022–23F business results

	2020A	2021A	2022F	2023F
Net revenue	3,457	4,150	6,338	7,402
Cost of goods sold	2,821	3,396	5,346	6,212
Gross profit	636	754	993	1,190
Selling expenses	123	156	238	278
G&A expenses	111	156	239	279
Financial expenses	47	63	45	8
Profit before tax	395	433	564	719
NPAT of the parent company	309	329	429	548

Source: KB Securities Vietnam

We recommend BUY for GIL stocks with a target price of VND94,300/share

After combining three valuation methods SOTP (sum-of-the-parts), DCF (discounted cash flow) for the garment segment, and RNAV (revalued net asset value) for the IP segment and considering business prospects and possible risks, we recommend BUY for GIL stocks. The target price is VND94,300/share, 47.6% higher than the closing price on June 15, 2022. We take a conservative stance on the IP segment since Phu Bai IP is 40km from Chan May deep-water port, leading to higher road transportation costs of goods for tenants and resultant falling demand for leasing. We will further follow the occupancy rate of the Phu Bai IP and revalue the IP segment.

Table 9. GIL – Target price according to DCF valuation method (VND/share)

Cost of equity	10.86%	Present value of terminal value (VNDbn)	3,885
Risk-free rate	3.1%	Present value for 2022–2028 (VNDbn)	1,525
Equity risk premium	7.8%	Equity value (VNDbn)	5,410
Beta	1.00	Shares outstanding (thousand shares)	60,000
Terminal growth rate	1.0%	Value per share (VND)	90,169
Estimated period	6 years		

Source: KB Securities Vietnam

Table 10. GIL – Target price according to RNAV valuation method (VND/share)

Leasable area in 2022 (thousand m ²)	50	Net present value (VNDbn)	246,690
Leasable area in the coming years (thousand m ² /year)	190	Outstanding shares (thousand shares)	60,000
Expected time to be filled up (years)	25	Equity/outstanding shares (VND)	4,112
Cost of equity	0		

Source: KB Securities Vietnam

GIL – 2020A–2023E financials

Income Statement

(VND billion)	2018A	2019A	2020A	2021F
Netsales	2,538	3,457	4,150	6,292
Cost of sales	2,159	2,821	3,396	5,317
Gross Profit	379	636	754	975
Financial income	34	62	85	80
Financial expenses	40	47	63	45
of which: interest expenses	20	15	16	45
Gain/(loss) from joint ventures	-5	-22	-32	0
Selling expenses	87	123	156	236
General and admin expenses	85	111	156	237
Operating profit/(loss)	201	418	464	537
Other incomes	25	3	8	19
Other expenses	10	4	7	6
Net other income/(expenses)	15	-1	1	13
Net accounting profit/(loss) before tax	211	395	433	550
Corporate income tax expenses	0	0	0	0
Net profit/(loss) after tax	161	309	330	419
Minority interests	0	0	0	0
Attributable to parent company	161	309	329	419

Margin ratio

(%)	2018A	2019A	2020A	2021F
Gross profit margin	14.9%	18.4%	18.2%	15.5%
EBITDA margin	9.7%	12.5%	11.4%	9.8%
EBIT margin	9.1%	11.9%	10.8%	9.5%
Pre-tax profit margin	8.3%	11.4%	10.4%	8.7%
Operating profit margin	7.9%	12.1%	11.2%	8.5%
Net profit margin	6.3%	8.9%	7.9%	6.7%

Cash Flow Statement

(VND billion)	2018A	2019A	2020A	2021F
Net profit/(loss) before tax	211	395	433	550
Depreciation and amortisation	16	21	25	19
Profit/loss from investing activities	2	5	8	0
Interest expense	20	15	16	45
Operating profit/(loss) before changes in Working Capital	245	435	493	614
(Increase)/decrease in receivables	-59	-397	-472	-254
(Increase)/decrease in inventories	207	130	-236	-241
Increase/(decrease) in payables	-2	184	515	491
(Increase)/decrease in prepaid expenses	-3	-2	-6	0
Interest expense	0	0	0	0
Net cash inflows/(outflows) from operating activities	311	251	114	483
Purchases of fixed assets and other long term assets	-50	-63	-94	-145
Proceeds from disposal of fixed assets	1	0	2	0
Loans granted, purchases of debt instruments	-26	-348	-541	0
Collection of loans, proceeds from sales of debt instrument	0	45	334	0
Investments in other entities	0	-22	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interests received	4	17	22	0
Net cash inflows/(outflows) from investing activities	-71	-370	-278	-145
Proceeds from issue of shares	0	180	1	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	1,307	1,959	2,565	0
Repayment of borrowings	-1,422	-1,775	-2,324	-941
Finance lease principal payments	0	0	0	0
Dividends paid	0	-52	-35	-42
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-115	314	208	-365
Net increase in cash and cash equivalents	125	195	45	-27
Cash and cash equivalents at the beginning of period	267	392	587	627
Cash and cash equivalents at the end of period	392	587	627	600

Source: Gilimex, KB Securities Vietnam

Balance Sheet

(VND billion)	2018A	2019A	2020A	2021F
TOTAL ASSETS	1,898	2,709	3,764	4,419
CURRENT ASSETS	1,544	2,161	3,152	3,692
Cash and cash equivalents	392	587	627	600
Short-term investments	43	357	614	614
Accounts receivable	382	630	1,021	1,276
Inventories	642	511	749	991
LONG-TERM ASSETS	354	548	613	727
Long-term trade receivables	2	26	29	29
Fixed assets	167	204	273	388
Long-term incomplete assets	29	18	14	14
Long-term investments	158	155	122	122
Goodwill	0	130	141	141
LIABILITIES	1,062	1,419	2,155	2,444
Current liabilities	1,059	1,416	2,084	2,373
Trade accounts payable	338	466	927	0
Short-term unrealized revenue	1	1	1	0
Short-term borrowings	579	765	941	617
Long-term liabilities	3	3	71	71
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	3	3	3	3
Long-term borrowings	0	0	68	68
OWNER'S EQUITY	836	1,290	1,610	1,987
Paid-in capital	240	360	432	600
Share premium	167	227	228	228
Undistributed earnings	413	661	885	0
Other funds	46	46	41	0
Minority interests	1	27	57	57

Key ratios

(x, % VND)	2018A	2019A	2020A	2021F
Multiple				
P/E	#N/A	#N/A	#N/A	#N/A
P/E diluted	#N/A	#N/A	#N/A	#N/A
P/B	#N/A	#N/A	#N/A	#N/A
P/S	#N/A	#N/A	#N/A	#N/A
P/Tangible Book	#N/A	#N/A	#N/A	#N/A
P/Cash Flow	#N/A	#N/A	#N/A	#N/A
EV/EBITDA	#N/A	#N/A	#N/A	#N/A
EV/EBIT	#N/A	#N/A	#N/A	#N/A
Operating performance				
ROE	20.8%	29.4%	23.4%	24.1%
ROA	8.6%	13.4%	10.2%	10.2%
ROIC	15.7%	21.1%	16.6%	20.2%
Financial structure				
Cash Ratio	41.1%	66.7%	59.6%	51.2%
Quick Ratio	76.9%	111.0%	105.0%	101.9%
Current Ratio	145.7%	152.6%	151.2%	155.6%
LT Debt/Equity	0.0%	0.0%	4.2%	3.4%
LT Debt/Total Assets	0.0%	0.0%	1.8%	1.5%
ST Debt/Equity	69.2%	59.3%	58.5%	31.1%
ST Debt/Total Assets	30.5%	28.2%	25.0%	14.0%
ST Liabilities/Equity	126.6%	109.8%	129.5%	119.4%
ST Liabilities/Total Assets	55.8%	52.3%	55.4%	53.7%
Total Liabilities/Equity	127.0%	110.0%	133.9%	123.0%
Total Liabilities/Total Assets	55.9%	52.4%	57.2%	55.3%
Activity ratios				
Account Receivable Turnover	7.4	6.8	5.0	5.5
Inventory Turnover	2.9	4.9	5.4	6.1
Account Payable Turnover	6.6	7.4	5.8	5.8

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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