

STOCK PITCH REPORT

**Buy**

July 22, 2021

**Target price VND85,600**

Upside/Downside	50.2%
Current price (July 14, 2021)	57,000
Market cap (VNDbn)	2,816

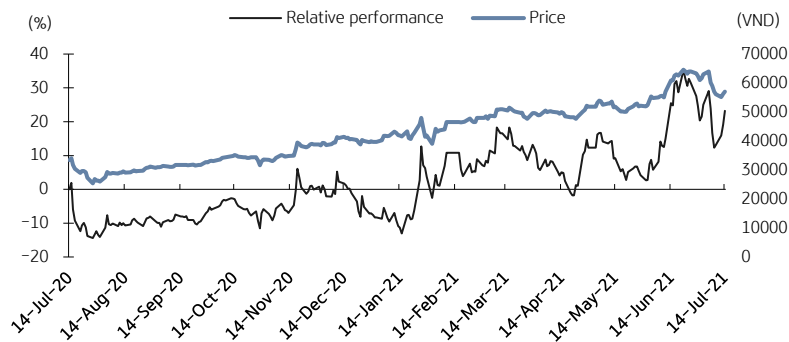
**Trading data**

Free float	51.8%
3M avg trading value (VNDbn/USDmn)	4.9/0.2
Foreign ownership left	42.8%
Major shareholder	Bui Duc Thinh 23.91%

**Forecast earnings & valuation**

FY-end	2018A	2019A	2020A	2021F
Net revenue (VNDbn)	3950.8	4411.3	3813.4	4383.2
Gross profit	793.5	928.4	751.0	877.0
Profit attributable to parent company (VNDbn)	369.8	449.8	231.8	433.3
EPS (VND)	7764.9	8994.8	4634.8	8664.0
EPS growth (%)	-7.7	15.8	-48.5	86.9
P/E (x)	6.8	7.3	6.3	12.3
P/B (x)	2.9	2.3	2.0	1.7
ROE (%)	39.6	36.4	16.1	25.5
Cash dividend (VND/share)	4,000	4,500	3,000	4,000

**Fig 1. MSH – Share price performance**



Source: Bloomberg, KB Securities Vietnam

**Song Hong Garment (MSH)**

Analyst Tran Thi Phuong Anh  
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**INVESTMENT VIEWPOINT**

We recommend BUYING Song Hong Garment (MSH) shares, the target price is VND85,600/share on the assumption that business results will continue to grow strongly thanks to recovering demand, capacity expansion, boosted exports and attractive cash dividend.

**INVESTMENT CATALYSTS**

**Recovering demand for apparel, especially in the main export markets – the US and EU.** MSH will strongly benefit from growing demand in the coming time owing to the accelerated global COVID-19 vaccination program; US-China trade war and free trade agreements (FTAs).

**Outstanding production models.** MSH is among top prestigious enterprises capable of producing complex products thanks to skilled workforce and good cost management; is partner of many big fashion companies worldwide. MSH is also one of the few businesses with a high proportion of products, of which both FOB Type I and FOB Type II bring in a higher gross profit margin than CMT modality.

**35% increase in FOB capacity thanks to the operation of Song Hong 10 (SH10).** The construction of SH10 factory should be completed in November, 2021 with a total investment of VND600 billion, which may help raise FOB capacity by 35% or more than 2 million products/month to ensure FOB orders for strategic partners.

**Recovery of provision for accounts receivable of New York & Company (NYC).** NYC, a longtime partner of MSH, had filed for bankruptcy, causing MSH to make a provision of VND186 billion. However, MSH expects to recover 37% of this debt or VND81 billion in 2Q21.

**RISKS**

- Resurgence of the COVID-19 pandemic
- Bankruptcy of MSH’s partner

## BUSINESS PERFORMANCE

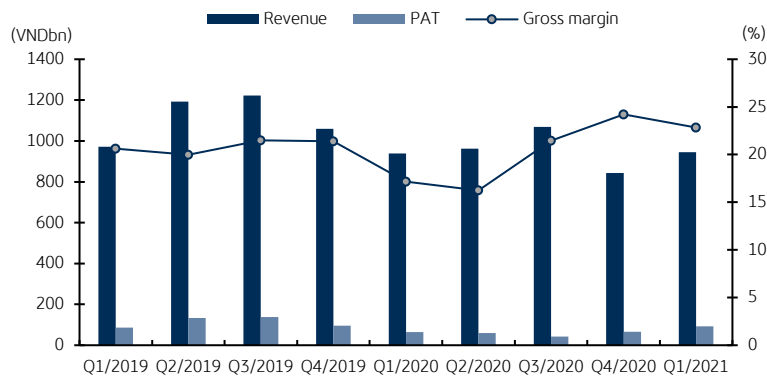
**MSH experienced a tough 2020 due to the impact of the pandemic and major partner's bankruptcy**

In 2020, MSH's business performance was negative with a profit of only VND231.8 billion (-48% YoY) on revenue of VND3,813.4 billion (-13.6% YoY), and gross profit margin reaching 19.7% (lower than 21% in 2019). This may be attributable to the bankruptcy of its major partner NYC and the negative impact of the pandemic on orders which caused MSH to increase the proportion of CMT products to maintain production activities. In 2020, MSH had to make a provision of VND182 billion for receivables.

**1Q21 business results were positive**

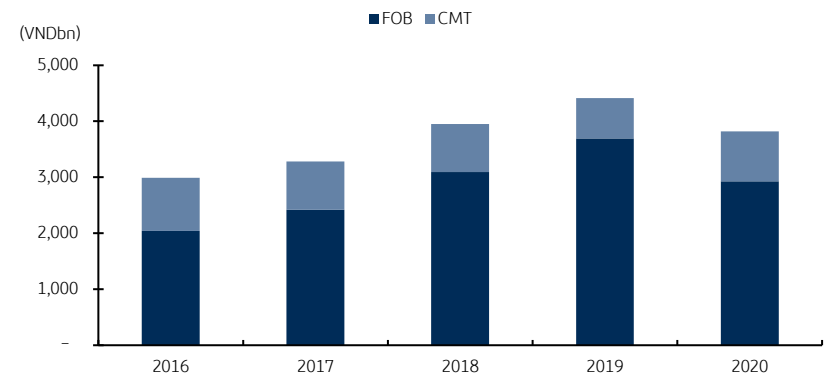
In 1Q21, even though MSH had to make a provision of VND42.6 billion for receivables, it still recorded positive business results with a profit of VND92.1 billion (+44% YoY) on revenue of VND944.8 billion (+1% YoY) thanks to improved gross profit margin and reduced selling expenses.

Fig 2. MSH – Business performance (VNDbn, %)



Source: Song Hong Garment

Fig 3. MSH – Revenue structure (VNDbn)



Source: Song Hong Garment

## INVESTMENT CATALYSTS

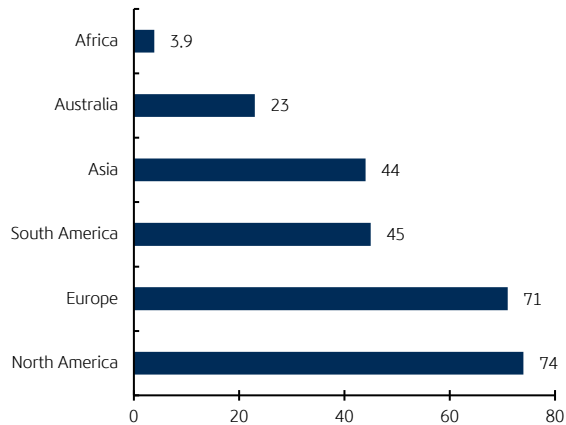
“MSH is one of the leading garment and bedding manufacturers in Vietnam. With more than 20 workshops built and managed in the province of Nam Dinh, it has the advantages of geographical location near airports, seaports, well-trained human resources, experienced management, together with cooperation with experienced foreign experts, MSH has become a trusted partner of a large number of popular fashion brands around the world.” MSH

### 1. Recoving demand for apparel, especially in the main export markets – the US and EU

The demand for textiles and garments is forecast to recover significantly thanks to the accelerated global COVID-19 vaccination program which helped many countries gradually reopen their economies. The US-China trade tensions and effective FTAs (EVFTA) will be a strong growth driver for MSH in the coming time when export revenue to the US and EU accounts for more than 90% of the total revenue of the company.

Large-scale stimulus packages to support businesses and residents are driving forces to push the demand for textiles and garments up in the coming time amid suppressed sentiment caused by travel restrictions. As one of the industries heavily affected by the pandemic as many countries had to take tough measures to contain the spread of COVID-19, we believe that after the restrictions on activities of the residents are gradually loosened to new normalcy, the demand for consumption will grow strongly. Especially in the US and EU, the two main export markets of MSH are accelerating the COVID-19 vaccination program (Figure 4), using vaccine passports and gradually reopening the economy. In addition, to support the recovery of the economy, many countries around the world, including the US and EU, have launched large-scale stimulus packages so as to boost private consumption.

Fig 4. World – COVID-19 vaccination rate by continent  
(Number of shots/100 people)

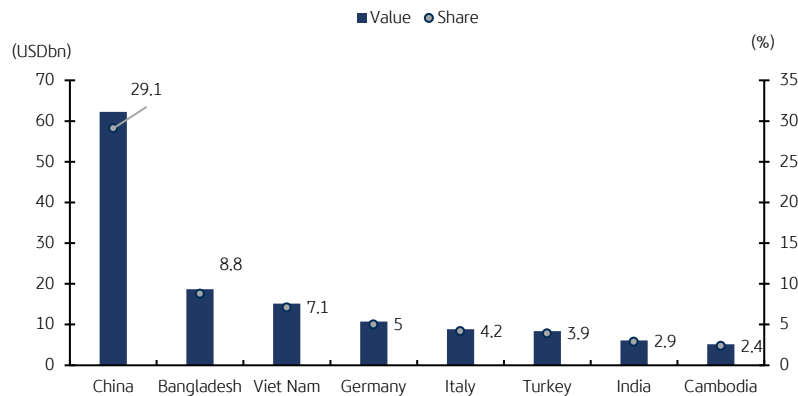


Source: Our World in Data

Despite going through a tough year, Vietnam's textile and garment industry still recorded positive growth compared to the world. According to the Ministry of Planning and Investment, in 2020, Vietnam's textile and garment export turnover reached USD35 billion (-10.5% YoY) amid the pandemic while the total world demand for garments decreased by up to 22% YoY, showing that Vietnam gained more market share from competitors. MSH's business performance is better than that of the common market mainly thanks to: (1) Vietnam's good control of the pandemic, enabling businesses to maintain production activities better than many rival countries; (2) accelerated process of moving production out of China ; and (3) low production costs in the labor-intensive industry.

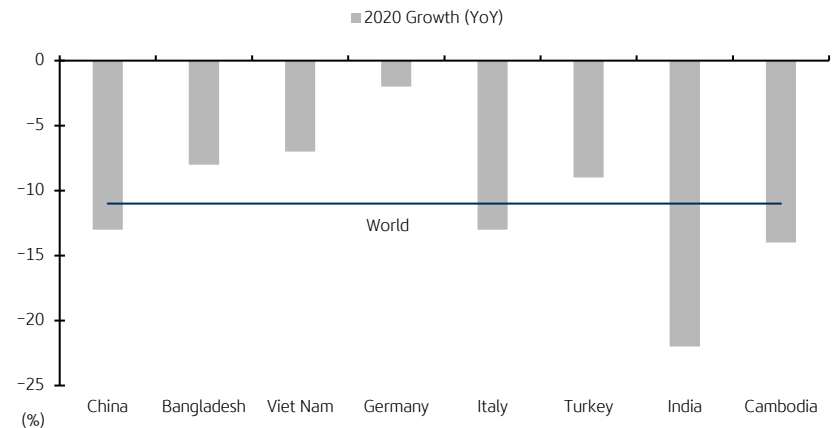
According to our research, current orders of textile companies in the North are very abundant. Many companies have received enough production orders until the end of 2022 and continuously recruited more staff to ensure delivery speed. Vinatex forecast that this year's textile and garment exports may rise 10% or USD39 billion compared to 2020, and Vietnam's textile and garment may return to the export level of 2019, one year earlier than previous forecast.

Fig 5. World – Garment export value and percentage by total world garment export value under HS61 code (USDbn, %)



Source: International Trade Centre

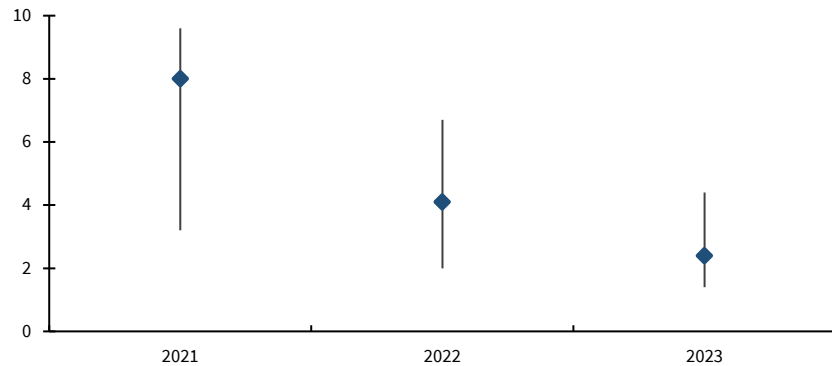
Fig 6. World – YoY export value growth of textile and garment under HS61, 2020 (%)



Source: International Trade Centre

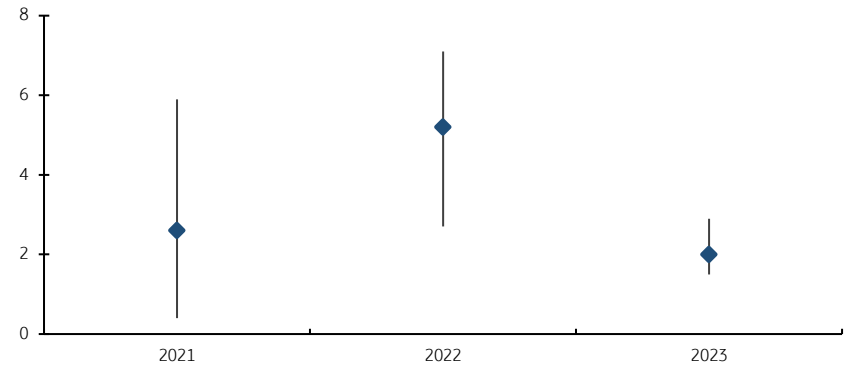
The US and EU economies are recovering and forecast to grow strongly in the post-pandemic period. According to forecasts of major economic organizations worldwide, consumption in the US and EU will recover strongly (Figure 7 and 8) at a faster rate than GDP growth.

**Fig 7. The US – Forecast of personal consumption growth (%)**



Source: Bloomberg

**Fig 8. Eurozone – Forecast of personal consumption growth (%)**



Source: Bloomberg

In the EU market, the benefits of EVFTA to Vietnam's textile and garment will be apparent from 2021 when many key export products will enjoy incentive tariffs gradually reduced to 0% from an average of 9.6% (Table 3) in a maximum duration of seven years. In 2020, the impact of EVFTA on Vietnam's textile and apparel exports in general and MSH in particular was not profound due to the pandemic and that many products still enjoyed GSP tax incentives at 9.6%. However, with the above roadmap, the effect of the EVFTA will become more and more obvious from 2021. The EVFTA will help Vietnam gain market share in exports to the EU from other countries, especially Cambodia and Bangladesh. In particular, 26 garment products originating from Cambodia, equivalent to 19.8% of total garment exports to the EU would not enjoy EBA trade preferences since August 12, 2020 and will be taxed at 6.5%–12% instead of current 0% due to human rights issues. In addition, the cumulation rules for fabric originating in South Korea officially effective from March 1, 2021 will partially unlock the bottleneck in the rule of origin "from fabric onwards", expanding opportunities for textile and apparel products to enjoy preferential tariffs under the agreement as Korea is the second largest importer of Vietnamese fabrics.

**Table 1. Vietnam – Some types of export garments to the EU**

Type	7M20 (USDmn)	7M20 (%YoY)	Aug 2020 – Mar 2021 (USDmn)	Aug 2020 – Mar 2021 (%YoY)	1Q21 (USDmn)	1Q21 (%YoY)
Total	1686.16	-15.98	2,075.44	-4.52	672.03	3.44
Trousers	324.99	-11.66	384.69	-8.51	137.54	1.6
T-shirt	242.45	-8.73	320.2	1.35	120.86	15.07
Jacket	466.79	-14.69	482.31	-15.13	107.55	-11.09
Shirt	105.01	-15.43	132.28	-10.93	44.79	-9.6
Underwear	91.31	-37.93	128.83	-10.15	54.37	20.17
Shorts	66.6	-6.66	91.31	13.27	48.5	26.02

Source:

**Table 2. World – Proportion of garment exports from non-EU countries to the EU (%)**

	Weight (%)		Value (%)	
	2020	2019	2020	2019
China	30.36	31	30.01	28.92
Bangladesh	25.12	24.74	18.03	18.72
Turkey	10.09	8.96	11.83	11.02
England	4.6	5.53	5.95	5.86
India	4.17	4.54	4.31	4.91
Vietnam	3.06	2.79	4.02	3.9
Cambodia	3.7	4.23	3.56	4.11
Others	18.9	18.21	22.29	22.56

Source: Ministry of Industry and Trade

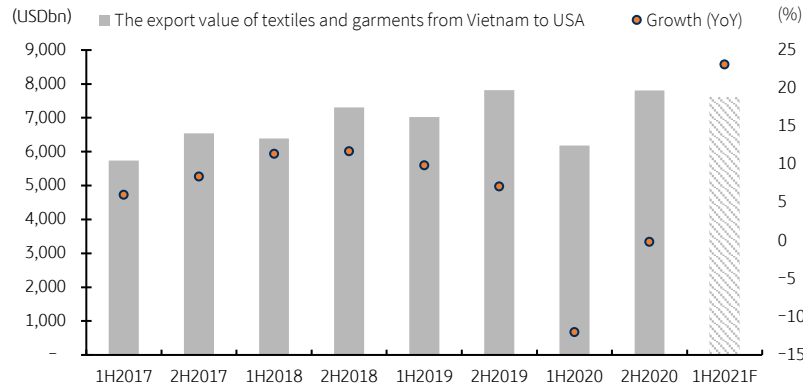
**Table 3. EVFTA – Tax rates of textile and garment industry (%)**

Type	Base rate	Aug 1, 2020	Jan 1, 2021	Jan 1, 2022	Jan 1, 2023	Jan 1, 2024	Jan 1, 2025	Jan 1, 2026	Jan 1, 2027
A	12%	0%	0%	0%	0%	0%	0%	0%	0%
B3	12%	9%	6%	3%	0%	0%	0%	0%	0%
B5	12%	10%	8%	6%	4%	2%	0%	0%	0%
B7	12%	10.50%	9%	7.50%	6%	4.50%	3%	1.50%	0%

Source: Foreign Trade Association

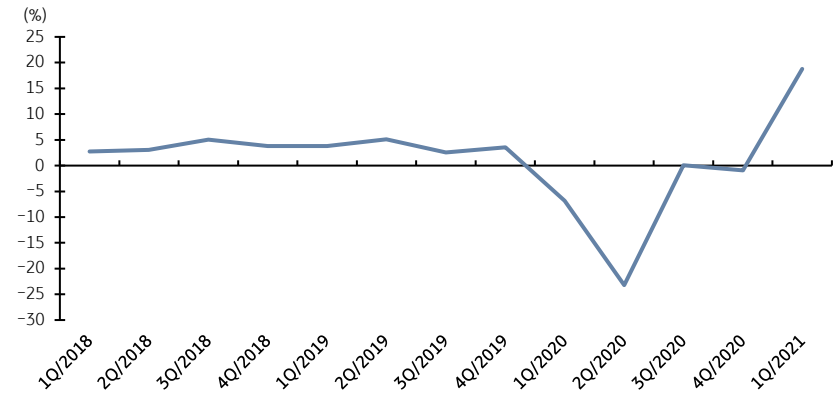
**MSH will continue to benefit from the US-China trade war in the US market, especially when post-pandemic demand for textiles and garments increases.** Textile and garment export turnover to the US in 6M21 reached USD7.6 billion (+23.1% YoY, surpassing that over the same period in 2019). Vietnam's textile and garment exports to the US are forecast to continue to surge when the US-China trade tension still shows no signs of cooling down. With proven leading manufacturing capabilities that meet the rigorous standards of world fashion giants such as Columbia, G-III, Haddad and more recently Walmart, we believe orders of MSH will surge even if the parent company of longtime customer NYC (RTW Retailwinds Inc.) declared bankruptcy. **The management said that the order situation of enterprises has had many positive signals since the end of 2020 and is believed to be favorable in the whole year 2021, even 2022.**

**Fig 9. Vietnam – Export value of textiles and garments to the US (USDmn, %)**



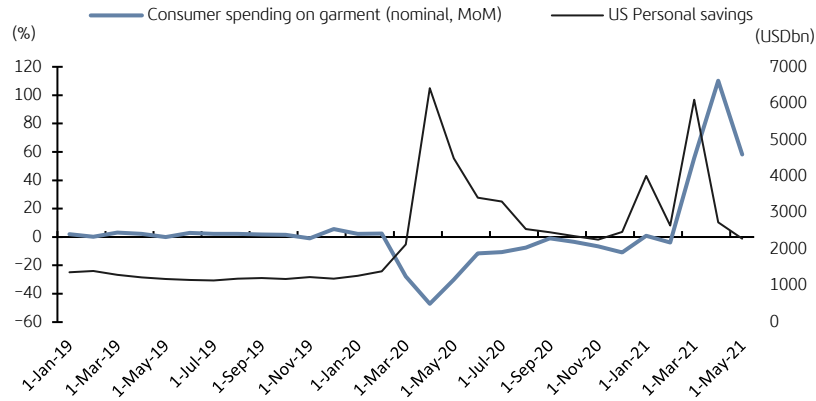
Source: Customs Statistics

**Fig 10. The US – Growth in consumer value of textile & garment and footwear (%YoY)**



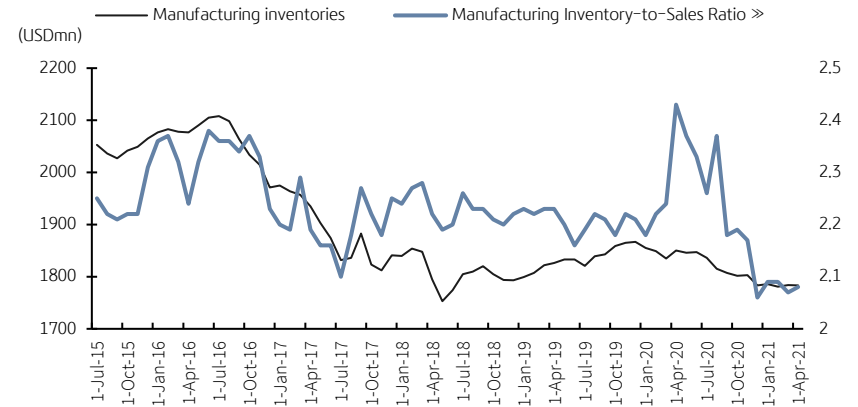
Source: Bloomberg

**Fig 11. The US - Total personal savings and clothing consumption growth (%)**



Source: Bloomberg

**Fig 12. The US - Inventory value and apparel inventory/sales ratio (USDmn, %)**



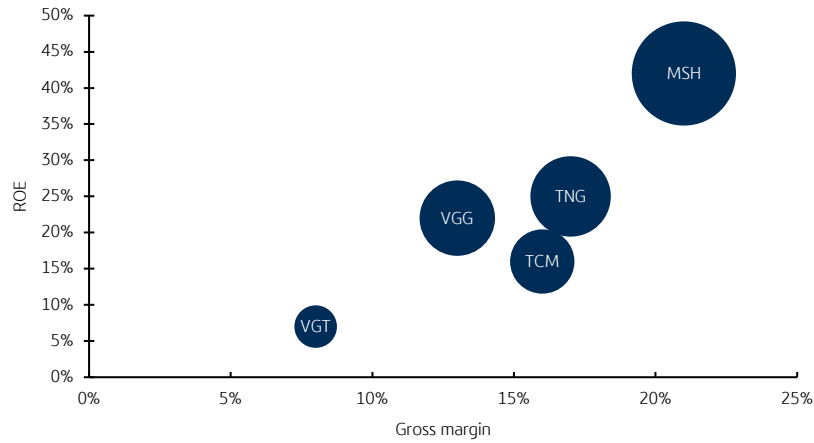
Source: Bloomberg

## 2. Outstanding production models

MSH is one of the most prestigious enterprises with a high profit margin in the industry thanks to its ability to produce products of high complexity, skilled workforce and good cost management; is partner of many big fashion companies worldwide such as Columbia, G-III, Haddad. In the domestic market, its bedding products have also established a strong foothold, competing directly with imported products. In addition, more than 20 production workshops built and managed within Nam Dinh Province, near airports and seaports, together with well-trained workers and competitive costs will create positive advantages for the company. MSH is also one of the few enterprises with a high proportion of FOB products, of which both FOB Type 1 and FOB Type 2 bring in a gross profit margin of 18-25%, 8-12% higher than that of CMT modality. We believe that MSH's profit will grow strongly in the near future with the main driving force coming from: (1) revenue growth, (2) improved gross profit margin as increasing proportion of FOB products will greatly contribute to the revenue structure of the enterprise.

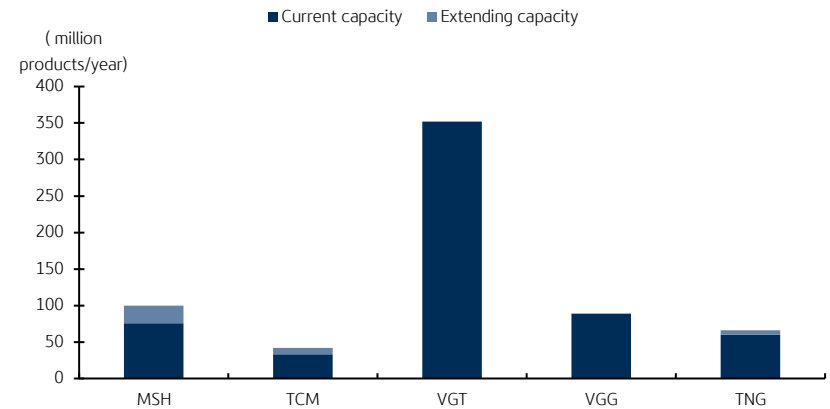


**Fig 13. Vietnam – Gross profit margin & ROE of some textile enterprises in 2019 (%)**



Source: KB Securities Vietnam

**Fig 14. Vietnam – Capacity of some textile enterprises (Million products/year)**



Source: KB Securities Vietnam

### 3. 35% increase in FOB capacity thanks to the operation of Song Hong 10 (SH10)

The SH10 factory has been under construction since March, 2021 and is expected to be completed in November, 2021 after two delays. The project has a total investment of more than VND600 billion, covering an area of 77,673 m<sup>2</sup> with a floor area of 55,600 m<sup>2</sup>, financed 70% from debt and 30% from the MSH's capital. It is expected that SH10 will raise capacity by 35% or more than 2 million products/month to serve FOB orders for strategic partners and recruit from 2,500–3,000 workers. The factory is expected to operate at 50% capacity in the first year of operation to produce orders of partners such as Columbia, Luen Thai and may reach full capacity in 2022. The management noted the enterprise started recruiting workers for the new factory. Located in Nam Dinh Province with many schools and vocational training centers, it will create favorable conditions for MSH to access well-trained labor force, especially in the context many domestic textile and garment companies are facing a shortage of skilled workers.

#### **4. Recovery of provision for accounts receivable of New York & Company (NYC)**

NYC- a long-time partner of MSH declared bankruptcy, causing the business to lose a large partner (accounting for 13% of 2019 revenue) and have to set aside VND186 billion in provision expenses for receivables, of which 85% is from NYC. However, MSH expects to be able to recover 37% of this debt of VND81 billion in 2Q21 as shared at the AGM. Accordingly, the enterprise may recover VND49 billion in provision expenses (equivalent to 21% of 2020 profit), helping increase 2021 profit.



## RISKS

**Resurgence of the pandemic.** The factory might be suspended in case of the resurgence of the pandemic, which will affect the fulfillment of orders and the process of signing new contracts of MSH.

**Bankruptcy of the partner.** In 2020, NYC declared bankruptcy, causing MSH to lose a major partner and be at risk of not being able to recover its accounts receivable. This also forced the business to find new partners to compensate for old orders. Despite existing potential risks, we believe that the current major partners of MSH are still doing business stably, especially amid recovering demand for textiles and garments.

## VALUATION

### FORECAST 2021 BUSINESS RESULTS

We forecast the MSH's business results in 2021 with a profit of VND433.3 billion (+86.9% YoY), revenue of VND4383.2 billion (+14.9% YoY) thanks to recovering orders and increasing proportion of FOB products, EPS at 8,664 VND/share, assuming that the company recovers 37% of debts from the bankrupt partner NYC as shared by the management at the AGM. In 2020, due to the complicated developments of COVID-19, the company actively produced CMT orders to make up for the decrease in FOB orders. However, in 2021, the proportion of FOB orders rebounded with the SH10 factory coming into operation in the fourth quarter of 2021. We assume that the factory will initially operate at 40-50% capacity then gradually increase and reach full capacity by the end of 2022. The enterprise is now recruiting workers for the factory. In the scenario MSH is not able to recover debts as expected, the its profit in 2021 should be VND396.1 billion (+66.6% YoY), equivalent to the EPS of VND7,794/share.

### VALUATION

Based on two methods of valuation free cash flow to the firm (FCFF) and P/E with a ratio of 50:50, business prospects as well as possible risks, we recommend BUYING MSH shares with a target price of 85,600VND/share, 50.2% higher than the closing price on July 14, 2021.

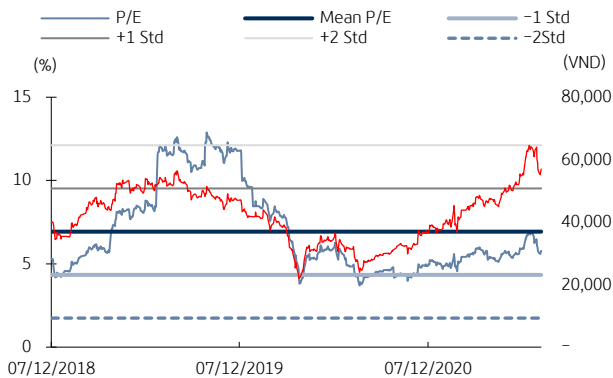
#### (a) P/E method

Assuming no debts recovered as expected, MSH is currently trading at a P/E of 7.3x for 2021, well below the industry average of 9.5x. However, we believe that with positive growth potential thanks to recovering demand, higher capacity as well as ability and leading production efficiency, MSH deserves a higher valuation at a P/E of 10x. With FY21 EPS of VND7,794, the fair price for MSH shares is VND77,900/share.

#### (b) FCFF method

Based on FCFF method, the target price is VND93,200 under the main consumption of a conservative view including a WACC capital cost of 15% and a long-term growth rate of 1% to reflect market and pandemic risks as well as other unexpected factors.

Fig 15. MSH – PE (x)



Source: KB Securities Vietnam

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## Investment ratings & definitions

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### 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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