Textile Sector

Industry	Textile
Report Date	October 18, 2024

Han Nguyen
Analyst
han.nguyenngoc@vietcap.com.vn
+8428 3914 3588 ext.191

Vy Nguyen
Senior Manager
vy.nguyen@vcsc.com.vn
+8428 3914 3588 ext.147

Upstream expansion to support higher returns

Textiles and garments (T&G) together are Vietnam's second-largest export industry. While their combined share of Vietnam's total export value dropped from 16% in 2011 to 11% in 2023, the trade surplus as a percentage of export value increased from 41% to 53% during the same period. This shift suggests greater profitability of Vietnam's T&G industry, which we attribute to the fact that industry is evolving from low-cost production to higher value-added activities. This is bolstered by improved supply chains, production efficiency, and Vietnam's involvement in key free trade agreements (FTAs). This mirrors China from 2000 to 2013, when rising labor costs coincided with improved workforce skills and technology.

Opportunity to expand upstream: According to the Ministry of Industry and Trade (MoIT), in 2023, Vietnam had to import 40% of its synthetic fiber, 50% of cotton yarn, and 80% of fabric for domestic needs. Despite remaining large gaps in the upstream value chain, the ratio of imported raw materials and accessories to export value has decreased from 50% to 40% over the past decade. We believe Vietnam can continue to expand upstream, aided by the relocation of Taiwanese and Chinese fabric/yarn factories. A more integrated value chain will help Vietnam to secure more FOB/ODM orders **(see page 7)** and maximize the benefits from FTAs requiring evidence of products' 'origin from fiber' and/or 'origin from fabric.'

Bangladesh's political unrest - only short-term gains for Vietnam: While Vietnam may gain from diverted orders, we believe India will be the primary beneficiary due to its proximity and strong ties to Bangladesh's value chain. With unrest in Bangladesh starting in late 2023 and order shifts in early 2024, we do not expect a significant impact in 2025. We believe Bangladesh's government will support this key industry in the long term.

Signs of a brighter outlook for textile and garment orders in H2 2024 – 2025: Vietnam's T&G export value achieved USD30bn (+6.3% YoY) in 9M 2024**,** supported by (1) brands and retailers restocking and (2) shifts in orders from other countries to Vietnam. Our survey suggests that most local textile companies have secured orders for production through end-2024 and are receiving orders for 2025. Typically, (1) Q4 marks the peak season for consumption, fueled by holiday demand, while (2) healthy inventory levels among brands and retailers, and (3) improving economic conditions for consumers in key export markets bolster purchasing power.

We expect modest increases in selling prices in 2024 and a stronger rebound in 2025. While the number of orders started to show improvement in 9M 2024, ASPs (average selling prices) remained subdued. We expect firmer ASPs in late 2024 and into 2025, supported by easing inflation, interest rates in the US and Europe, and lower shipping costs, reducing the pressure on manufacturers to cut prices.

As Vietnam's top producer of high-quality synthetic yarn, STK should be an early beneficiary of demand recovery. In 9M 2024, STK's sales volume fell to ~17,000 tonnes (-17% YoY), with the recovery of orders since Q2 hindered by quality control system issues. A weaker VND against the USD also hurt STK's loans of USD51mn, further contributing to the weak results. However, we expect a brighter outlook starting in Q4 2024, driven by (1) a stronger VND against the USD, (2) increased sales from hiring more labor to address ongoing quality control issues, and (3) a 60% capacity increase at the Unitex factory. We currently have an OUTPERFORM rating for STK, with a target price (TP) of VND32,200/share.

TNG, MSH, and TCM are best positioned to capture high-margin garment orders. These companies are among Vietnam's largest and most efficient garment makers. TCM stands out with its fully-integrated T&G value chain. TNG has had the highest growth over the past decade through strategic capacity expansion, while MSH benefits from its 30% GPM bedding products. All three lead in transitioning to FOB orders, which make up 70-90% of their revenue.

Downside risks: (1) weaker-than-expected demand in key export markets, (2) Vietnam loses market share to other countries, (3) trade disruption from escalation of geopolitical tensions.

Figure 1: Key data for largest five listed T&G stocks by market cap

	Rating	Mkt cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Upside %	Div. Yield %	12M TSR %
STK	O-PF	101	0.0	100	84.2	0.0	25,950	32,200	15.4	0.0	15.4
VGT	N/A	283	53.5	49	99.4	0.6	14,200	N/A	N/A	N/A	N/A
TCM	N/A	192	0.0	50	2.7	3.5	46,750	N/A	N/A	N/A	N/A
MSH	N/A	137	0.0	49	61.2	0.2	45,200	N/A	N/A	N/A	N/A
TNG	N/A	120	0.0	49	38.6	2.0	24,500	N/A	N/A	N/A	N/A

Source: Company data, FiinProX, Vietcap forecast. Note: Share prices as of October 14, 2024.

Figure 2: Summary valuations

	Share Price (VND ps)	EPS g 2023 (%)	EPS g 2024F (%)	EPS g 2025F (%)	P/E TTM (x)	P/E 2023 (x)	P/E 2024F (x)	P/E 2025F (x)	ROE TTM (%)	P/B LQ (x)	EV/EBITDA TTM (x)	Net D/E LQ (%)
STK	25,950	-65	-42	383	N/A	25.2	52.2	10.8	-0.4	1.6	24.6	52.5
VGT	14,200	N/A	N/A	N/A	50.5	N/A	N/A	N/A	2.1	1.1	16.4	39.3
TCM	46,750	N/A	N/A	N/A	26.1	N/A	N/A	N/A	9.4	2.4	12.9	-3.3
MSH	45,200	N/A	N/A	N/A	13.1	N/A	N/A	N/A	15.6	2.0	12.7	-32.7
TNG	24,500	N/A	N/A	N/A	12.9	N/A	N/A	N/A	14.3	1.8	N/A	135.13

Source: Company data, FiinProX, Vietcap forecast. Note: Share prices as of October 14, 2024.

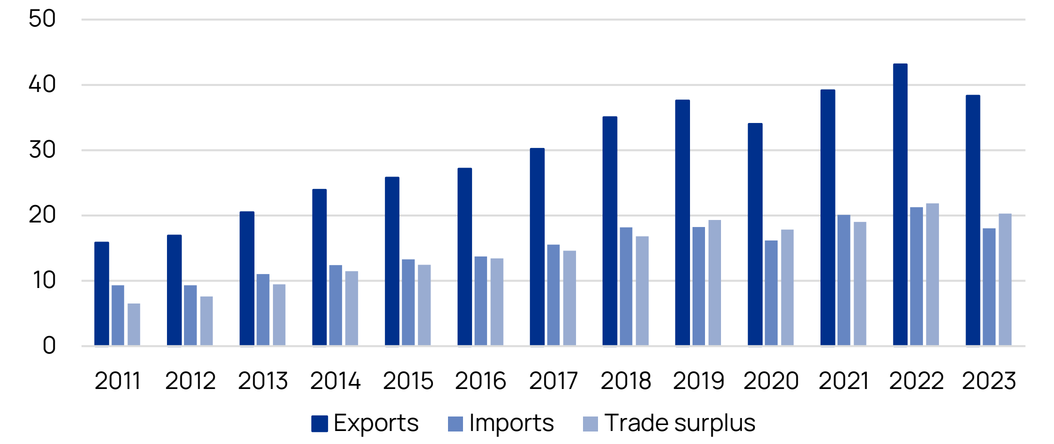
Table of Contents

The textile and garment (T&G) industry in Vietnam

T&G's share of Vietnam's exports has declined but value added has grown

The share of textiles and garments (T&G) to Vietnam's total export value declined from 16% in 2011 to 11% in 2023. While T&G exports experienced a CAGR of 7.7% from 2011 to 2023, the Information and Communications Technology & Consumer Electronics (ICT & CE) and machinery sectors grew significantly faster, with a CAGR of 17%. This rapid growth enabled these segments to increase their share of Vietnam's total exports from 18% to 44%. The shift highlights Vietnam's emergence as a major ICT & CE assembly hub, driven by investments from tech giants such as Samsung, LG, and Foxconn as part of the 'China Plus One' strategy.

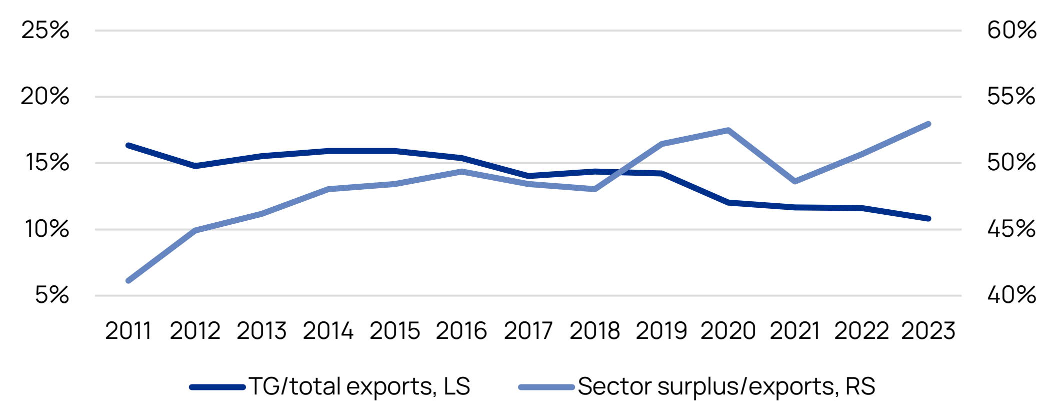
Figure 3: Vietnam's exports and imports of T&G (USD bn)



Source: GSO, Vietcap

However, the T&G sector has seen a notable increase in value added. The surplus in T&G to total export value rose from 41% to 53% between 2011 – 2023, indicating that Vietnam is transitioning from a low-cost production hub to a more value-added export economy within this sector. We attribute this transformation to (1) Vietnam's strengthened supply chains, with more raw materials being sourced domestically or from regional trade partners, such as yarns and fabrics, reducing reliance on imports, and (2) improved domestic production efficiency, supported by a more skilled workforce, advanced technologies, and better infrastructure. Additionally, (3) Vietnam's participation in key FTAs, such as CPTPP and EVFTA, has further enhanced the sector's competitiveness by lowering tariffs and increasing access to key export markets, allowing the T&G industry to capture more value and improve trade balances.

Figure 4: TG's exports/total exports, sector's surplus/exports



Source: GSO, Vietcap

Bottleneck in 'yarn to fabric' stage hinders Vietnam's T&G industry from achieving greater vertical integration

The production process for T&G consists of four components (Figure 5: Value chain of T&G industryFigure 5), encompassing the transformation of raw materials into finished garments, ready for distribution and retail.

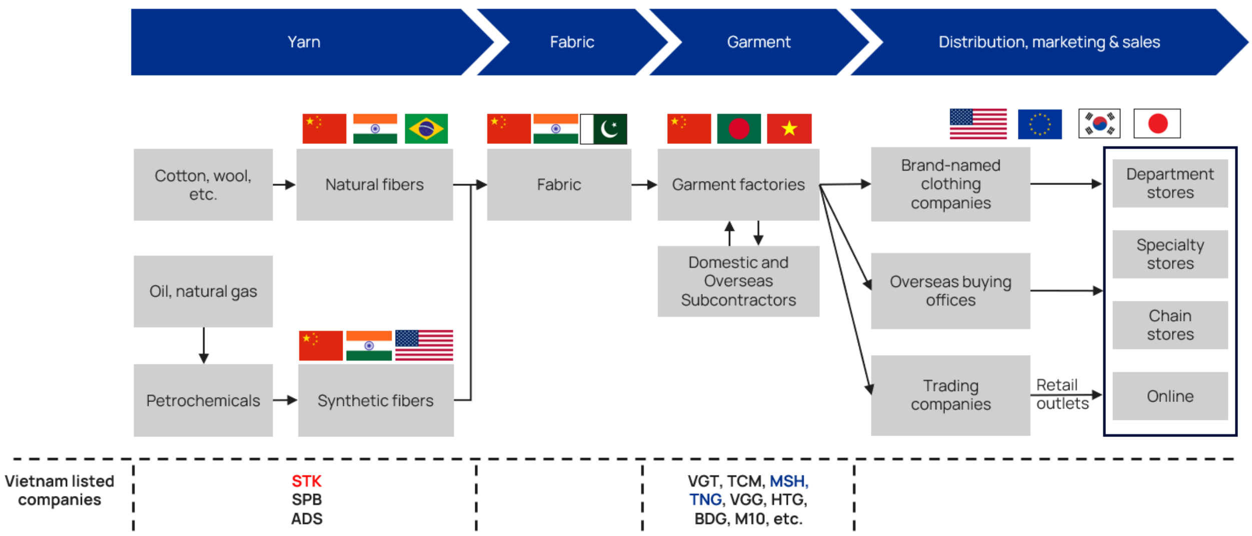
Yarn production: This includes both natural and synthetic yarns. Natural yarns are derived from raw materials such as cotton, wool, and silk, which are grown, harvested, and processed. In which, synthetic yarns like polyester and nylon are produced using chemical processes. Spinning mills then transform these raw fibers into yarn, which forms the basic building block for fabric.

Fabric production: The yarn is woven (for fabrics like cotton and denim) or knitted (for fabrics like jersey) into fabric rolls. These fabrics are then dyed, printed, or treated to achieve the desired color, texture, or additional properties, such as water resistance or wrinkle resistance.

Garment production: In this stage, garment designs are created and patterns are developed. The fabric is cut according to these patterns and stitched into garments, typically in large factories that specialize in high-volume production.

Distribution, marketing, and sales: Finished garments are distributed to retailers or sold through e-commerce platforms. This stage involves logistics, warehousing, and inventory management. Brands and retailers use online and offline marketing strategies to promote the garments and drive consumer sales.

Figure 5: Value chain of T&G industry and Vietnamese stocks



Vietnam's textile sector has over 7,000+ enterprises.

Of these, only 12% produce yarn, 18% produce fabric, 2% produce other materials, and the majority 68% are garment manufacturers.

Source: Vietcap compilation. Note: Flags represent major producing countries; listed companies are placed according to their highest revenue-contributing segment.

Vietnam exports 65% of its yarn production, while relying on imports for over 50% of fabric manufacturing input needs. According to the Vietnam Cotton and Spinning Association (VCOSA), domestic yarn companies produced a total of ~3,9 million tonnes of yarn in 2023. Of this, 65% was exported to China (the largest market), leaving just 35% for domestic garment makers. Private and FDI companies prioritized exporting yarn, which offers higher profits, while domestic use was mainly handled by companies within the Vinatex group. Shipping yarn from northern Vietnam to China costs half as much and takes 50-75% less time than domestic transportation. As a result, weaving companies rely on importing over 50% of input material needs, totaling 1.3 million tonnes in 2023, making Vietnam the third-largest importer globally.

Vietnam also lacks off capacity in the 'yarn to fabric' stage. This stage remain unattractive to Vietnam's T&G companies due to its (1) high capital expenditure requirements, particularly for wastewater treatment systems, which are challenging for Vietnam's 80% SMEs to manage, (2) a shortage of skilled labor and weaknesses in fabric design and printing, leading brands/retailers to prioritize sourcing fabrics from other countries (i.e, China and South Korea), and (3) lacking an economies of scale advantage that makes Vietnam's fabric price significantly higher than in major fabric-producing countries. Consequently, Vietnam's garment makers had to import 9 billion sqm of fabric to produce final garments in 2023, equivalent to 64% of domestic needs.

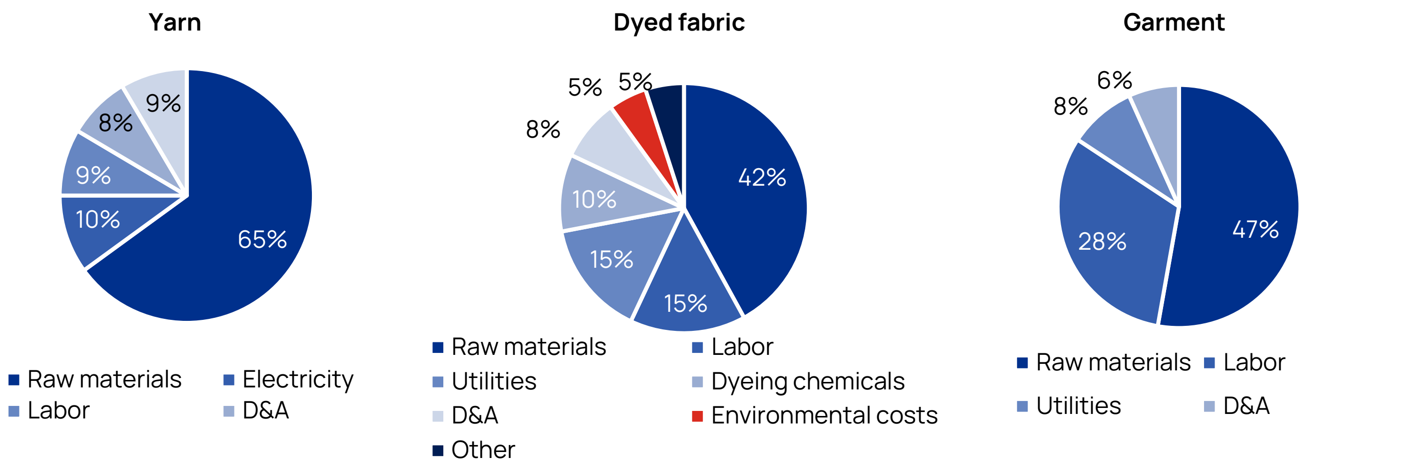
Cost structure: Vietnam's T&G industry is evolving to less labor-intensive stages

Yarn production is capital and energy intensive. In addition to raw materials (cotton/polyester), which represent around 65% of total production costs, energy and depreciation/amortization (D&A) expenses make up 17%. These costs stem from the industry's reliance on technology, with continuously operating machinery. The location of natural yarn manufacturers depends on cultivation conditions, with major producers including China, India, and the US. On the other hand, synthetic yarn production is concentrated in regions with strong petrochemical industries, such as China, Taiwan, and South Korea.

Dyed yarn production offers high added value but comes with notable environmental risks. The dyeing process plays a critical role in determining the final price of fabric. According to the International Textile Manufacturers Federation (ITMF) and our estimates, dyeing chemicals represent only 6-10% of production costs, yet dyed fabric can yield a gross profit margin (GPM) of 20-30%, compared to just 10-20% for raw fabric. However, the heavy use of water and chemicals poses environmental challenges, requiring companies to invest in wastewater treatment and other protective measures. Dyed fabric manufacturers are typically concentrated in regions with proximity to raw materials and textile production hubs (i.e., China and India). However, environmental regulations also play a role, with countries like China tightening controls, leading to the expansion of dyeing operations in Vietnam and other nearby nations.

Garment production is labor intensive. Labor costs typically comprise 20-40% of total garment production expenses. This labor cost sensitivity has driven garment manufacturers to shift operations to countries with competitive labor costs, such as China, Bangladesh, and Vietnam. Although China faces rising labor costs, it still holds a significant share in the garment manufacturing sector, especially for complex and high-value products. In addition, R&D activities, which offer higher value, are typically dominated by developed countries such as from the EU and the US, Japan, and South Korea.

Figure 6: Cost structure following value chain



Source: International Textile Manufacturers Federation, Company data, Vietcap estimates

Figure 7: Garment processing value chain

	Brand	Design	Material sourcing	Cutting /Sewing	Distribution	Vietnam's production 2014	Vietnam's production 2024
CMT				✓		85%	35%
FOB			✓	✓		13%	55%
ODM		✓	✓	✓		2%	9%
OBM	✓	✓	✓	✓	✓	0%	1%

Source: Vietcap compilation. Note: Vietnam's production is classified by processing type for orders.

There are four key garment processing methods: CMT, OEM/FOB, ODM, and OBM.

- **Cut – Make – Trim (CMT)**
  In CMT, clients supply all necessary materials and design specifications to garment makers, who then handle the cutting, sewing, and trimming of the products. This model typically yields the lowest margins, with a gross profit margin (GPM) ranging between 5-15%, and a net profit margin (NPM) often between 2-5%.

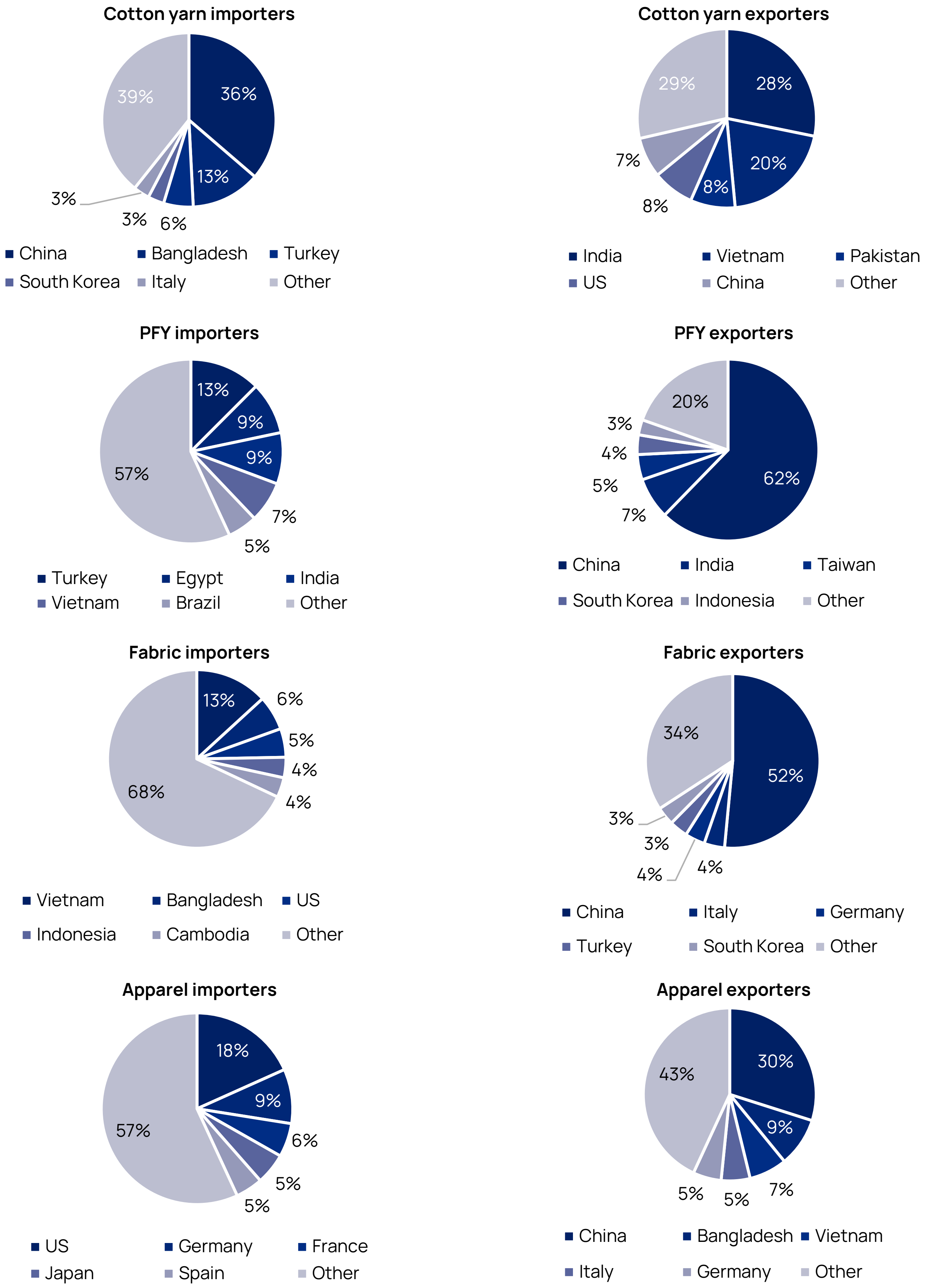
- **Original Equipment Manufacturing/Free on Board (OEM/FOB)**
  In OEM/FOB, garment manufacturers take greater control over the sourcing of raw materials. There are two levels: (1) FOB level 1 that the manufacturer purchases materials from suppliers specified by the client, and (2) FOB level 2 that the manufacturer source materials independently. FOB offers better margins than CMT, with GPMs from 10-25% and NPMs from 5-10%.

- **Original Design Manufacturing (ODM)**
  In ODM, garment manufacturers handle the entire process from product design to material sourcing, cutting, and sewing. The clients don't need to create new designs but can select from a catalogue of designs provided by manufacturers. Clients normally rebranded the finished product with its brand name. ODM businesses typically achieve GPMs of 15-30% and NPMs of 10-15%.

- **Original Brand Manufacturing (OBM)**
  In OBM, garment manufacturers manage the entire value chain, including designing, producing, marketing, and selling products under their own brand. OBM's GPMs reaching 30-40% and NPMs ranging from 15-20%.

Major import and export countries by T&G products

Figure 8: Major import and export countries by product, 2023



Source: International Textile Manufacturers Federation, Vietcap

T&G industry in Vietnam – SWOT analysis

Strengths:

Scale and established position in global supply chains.

Government policies supportive of export-oriented manufacturing.

Young, relatively well-educated workforce vs stage of economic development.

Political and social stability.

Weakness:

Increasing labor costs that are higher than some other significant global players in the T&G industry (e.g. Bangladesh and Indonesia).

Opportunities:

Increase local input material content.

Increase value-added activities.

Position as 'trusted ESG partner' in supply chains for global brands.

Threats:

Adverse trade disruptions.

Tariff shocks in key export markets.

Lower-cost competitors increase value-added activities faster.

Industry outlook

Vietnam's T&G industry is has been evolving to higher stages of the garment value chain. In 2014, 85% of Vietnam's garment companies were operating under CTM contracts – the simplest but least value-added portion of the garment production value chain, while only 13% operated under FOB contracts. Over the past decade, the industry has shifted towards higher-value contracts, with FOB now representing 55% of total contracts, allowing companies to have greater control over material sourcing. CMT contracts have fallen to around 35%. This signifies Vietnam's effort to integrate deeper into the T&G production value chain, enabling industry players to access higher-value orders as well as gain more control over production processes and margins.

We see this transition as a critical step for Vietnam, driven by rising labor costs while balanced by improvements in workforce skills and technology, alongside enhanced supply chain integration through the development of domestic supply chains and strengthened cooperation with international suppliers. Lower-value contracts are now moving to countries with lower labor costs, such as Bangladesh, India, and Cambodia. We have observed that this trend mirrors China's trajectory from 2000 – 2013 in transitioning towards higher-value production and brand development when its labor costs escalated.

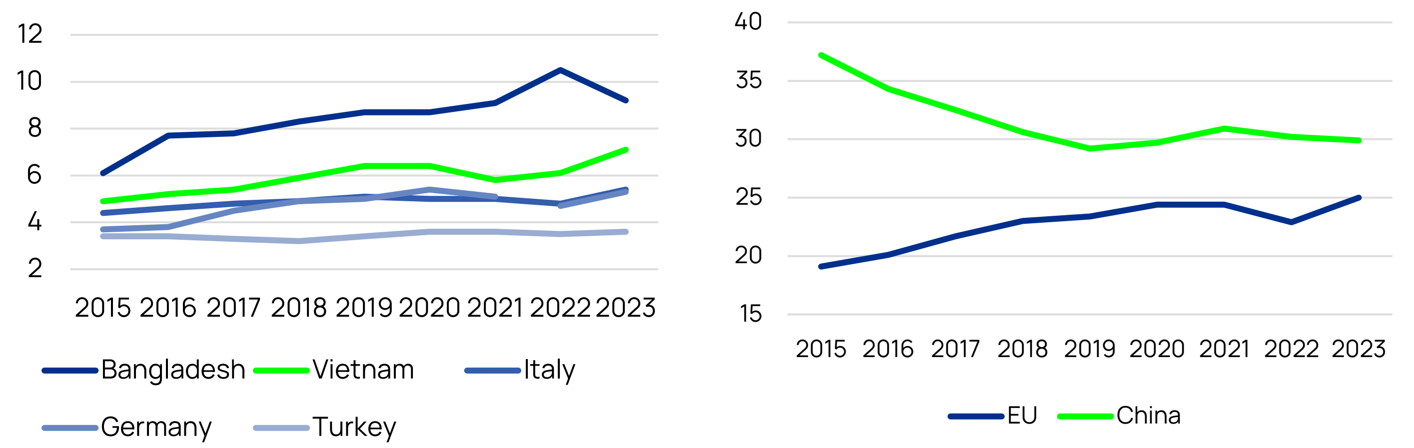
Vietnam can continue gaining market share by expanding upstream

Vietnam is the world's third-largest T&G exporter, following China and Bangladesh **(Figure 9)**. As of Q2 2024, Vietnam holds 17.4%/3.2%/17.8%/24.8% respective market share in the US, EU, Japan, and South Korea – its largest export market **(Figure 10)**.

Looking ahead, we believe Vietnam can continue expanding its market share by leveraging (1) competitive sourcing costs, as noted by the USFIA, which encompass labor, transportation, and tariffs—providing a more holistic view than just labor cost comparisons, and (2) its geographic proximity to China, positioning it as a prime alternative for businesses seeking to diversify supply chains amid China's rising production costs and trade tensions. According to the

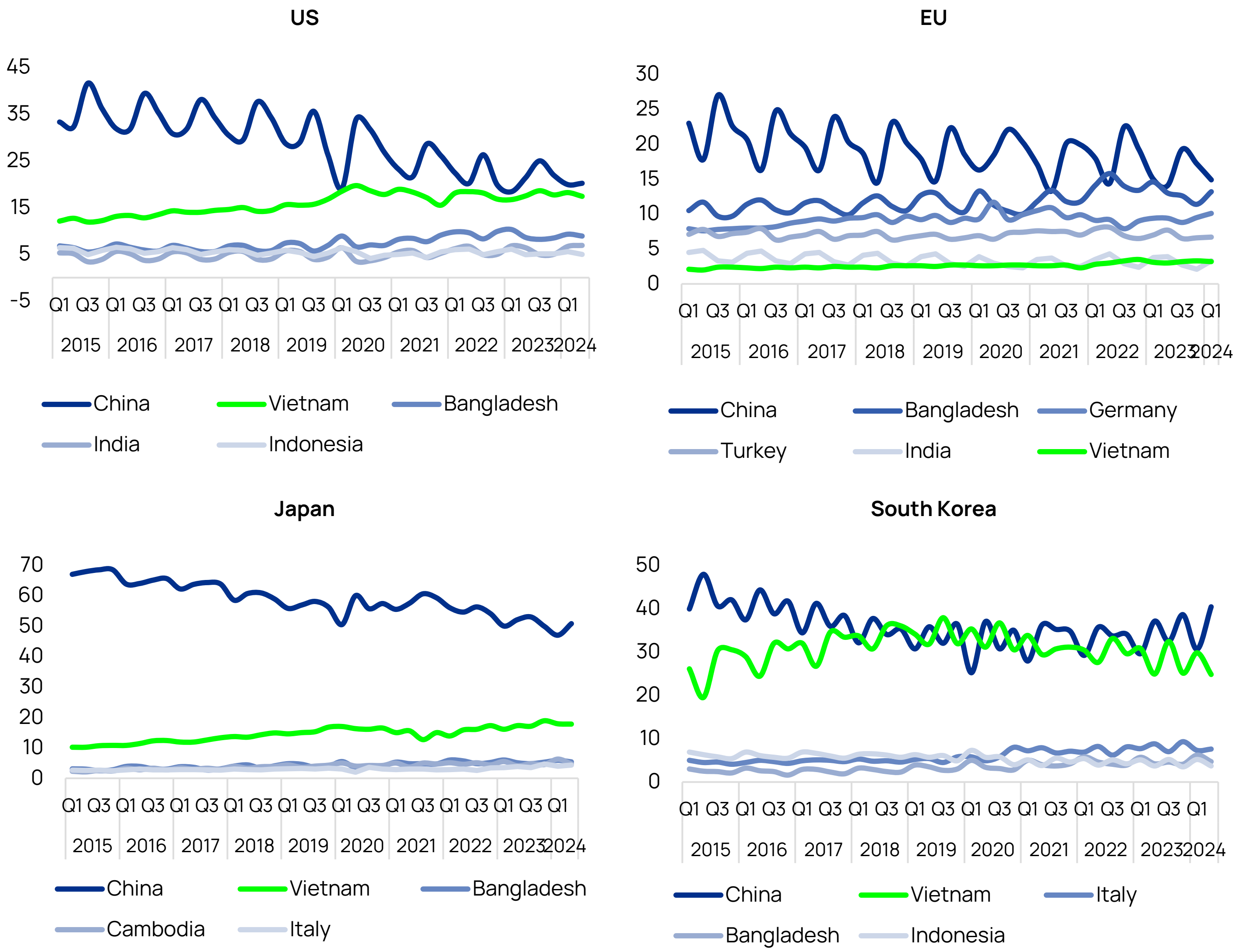
USFIA, 80% of US fashion companies plan to reduce their sourcing of apparel from China in 2024-2025. Additionally, we anticipate (3) that Bangladesh's political unrest could drive short-term market share gains, especially during the peak season of winter holidays.

Figure 9: World's major apparel exporters and market share (%)



Source: International Trade Center, Vietcap

Figure 10: Apparel imports by major sourcing destinations (%)



Source: International Trade Center, Vietcap

Bangladesh's political unrest: Short-term gains for India and Vietnam

Bangladesh's political unrest drives brands to diversify supply chains. Political unrest, which started at the end of 2023, intensified in Bangladesh in early August 2024 and has disrupted Bangladesh's T&G industry. Bangladesh is the world's second-largest T&G exporter, accounting for 10% and 13% market share in the EU and US markets, respectively. The unrest has caused supply chain disruptions, leading to 3–4-week order delays and eroding customer confidence in this market. In response, brands have diversified their orders to other markets (i.e., India, Vietnam, Indonesia, and Cambodia) since the beginning of 2024.

We expect India to be the key beneficiary: This is supported by (1) India's border with Bangladesh, offering closer proximity than other countries, (2) India already supplying over 30% of its cotton exports to Bangladesh, minimizing value-chain adjustments for brands, and (3) nearly 25% of Bangladesh's textile companies being owned by Indian investors, who are likely relocating operations to India, per Business Standard. In Vietnam, a few garment makers have also reflected this driver, like TNG and M10. However, we emphasize that the unrest started at the end of 2023 and the shift in orders begun since the beginning of 2024. As a result, we anticipate no significant impact ahead for Vietnam's T&G companies.

However, we anticipate Bangladesh to remain a key exporter in the long term. The T&G industry contributes 16% of Bangladesh's GDP and accounts for 85% of its export value. Thus, as a pillar industry, we believe Bangladesh's new government will soon take swift measures to support it given its economic significance. Overall, Bangladesh maintains a 15-25% cost advantage over other countries due to low labor costs, government subsidies for energy, favorable interest rates, and tax-free and quota-free access to EU markets.

Vietnam to supply more raw materials in the medium term

Among major exporters, Vietnam's sourcing costs are only at a disadvantage to Bangladesh. In the 2024 USFIA survey, total sourcing costs of brands and retailers including labor, transportation, and tariffs, provide a more comprehensive view than a comparison based solely on pure labor costs.

Figure 11: Strengths and weaknesses of primary textile and apparel sourcing bases in 2024 by country

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Minimum order quantity (MOQ)	Vertical integration	Risk of labor and social compliance	Risk of environmental compliance	Geopolitical risk
Western Hemisphere	USA	4.0	1.5	3.0	4.0	2.5	4.0	4.0	4.0
	Mexico	4.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0
	CAFTA-DR	4.0	3.5	3.0	2.5	3.0	3.0	3.0	3.5
	Colombia	3.5	3.0	3.0	3.5	3.5	3.0	3.0	3.5
Asia	China	3.5	4.0	4.0	3.5	4.5	2.0	2.0	1.5
	Vietnam	3.0	3.5	3.5	3.0	3.0	3.0	3.0	3.0
	Bangladesh	2.0	4.0	3.0	2.5	3.0	2.5	2.5	3.0
	Indonesia	2.5	3.5	3.5	3.0	2.5	3.0	2.5	3.5
	India	2.5	3.5	3.5	3.0	4.0	2.5	2.5	3.5
	Sri Lanka	2.0	3.5	3.5	3.0	2.5	3.0	3.0	3.5
	Cambodia	2.5	3.5	3.0	2.5	2.5	2.5	2.5	3.0
Rest of the world	Europe	3.5	2.0	3.0	3.5	3.0	4.0	4.0	4.0
	Türkiye	3.0	3.0	3.5	3.0	4.0	3.0	3.0	3.0
	AGOA	1.5	4.0	2.5	2.5	1.5	3.0	2.5	3.0
	Egypt	3.0	4.0	3.0	2.5	3.0	3.0	3.0	3.0

Note: The figures in the table reflect respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); △ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author's evaluation of each country's competitiveness.

Source: United States Fashion Industry Association, Dr. Sheng Lu

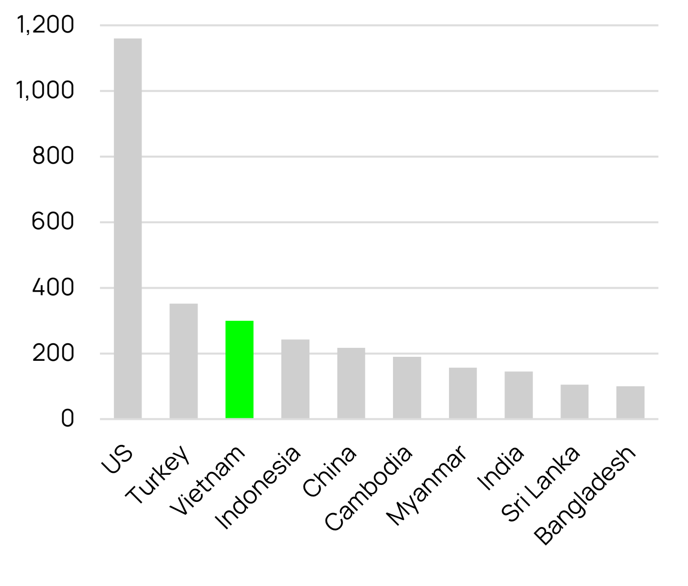
However, we have observed that Vietnam is gradually becoming less attractive cost-wise.

However, we have observed that Vietnam is gradually becoming less attractive cost-wise. Per industry associations, the average monthly wage for a Vietnam garment worker is USD300/month, three times higher than Bangladesh's USD100/month, twice that of India's USD145/month, and 20% higher than that of Indonesia's USD243 **(Figure 12)**. Additionally, Bangladesh's favorable policies to support this industry further enhance its cost advantage. While some countries like Indonesia have become alternatives to Vietnam due to a lower garment worker wage in exchange for lower productivity.

Vietnam is shifting towards high-value products and deepening integration in the value chain. Vietnam boasts the most diverse product range, per brands and retailers, excelling in high-value categories (i.e., sportswear and fleece clothing). This is supported by a skilled workforce and machinery investment. In addition, Vietnam's textile makers are targeting deeper integration into the production value chain, enabling them to access higher-value orders as FOB, ODM, and OBM can yield net profit margin of 3-6%, compared to 1-3% for CMT. As mentioned above, the proportion of CMT has decreased to 35%, compared to 70-80% a decade ago. The remainder includes about 55% for OEM/FOB, 9% for ODM, and 1% for OBM.

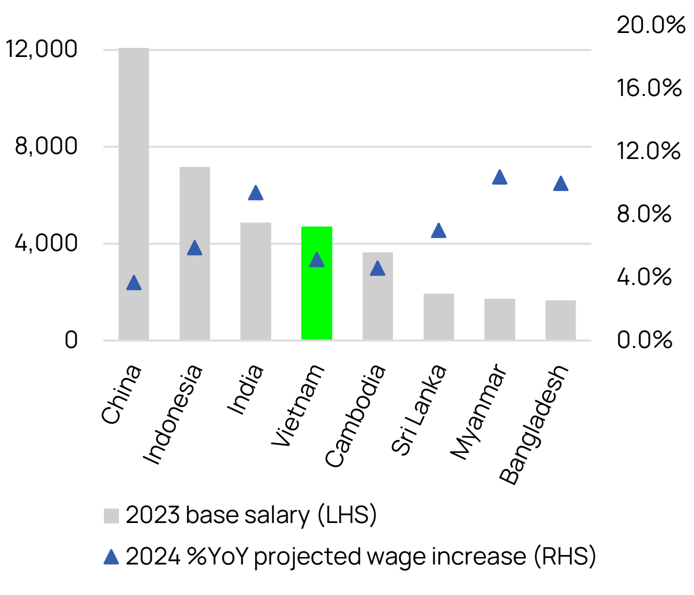
To achieve this, we believe vertical expansion upstream is crucial. This strategy can enhance customer trust and maximize the benefits of FTAs. Vietnam's T&G industry is facing a huge void in raw materials. In 2023, imported raw materials and accessories represented 58% of Vietnam's export value of USD40.3bn, per Vitas. The Ministry of Industry and Trade (MoIT) also reported that Vietnam needs to import 90% of raw cotton, 40% synthetic fiber, 50% of cotton yarn, and 64% of domestic fabric demand.

Figure 12: Monthly minimum wages for garment workers (USD/month)



Source: Minimum-wages, Vietcap. Note: the US, Turkey, and China data are 2019; others are from 2021.

Figure 13: Total cost of a manufacturing worker* in Asia (USD/year)



Source: JETRO (data for 2023), Vietcap. Note: *Regular general workers with three years of working experience.

We maintain our expectation that Vietnam can capture more raw material manufacturing. China is bound to remain a dominant force in fabric and yarn production, which is not labor intensive, and its fabric exports have continued growing over the past few years. However, there is a shift of Chinese raw material factories away from the country, caused by (1) rising costs (i.e., wages and land rates), (2) stricter environmental regulations, and (3) US-China tension, with a small number having relocated to Vietnam. Many Taiwanese and Chinese FDI firms are looking to keep/establish a presence in fabric/yarn production in Vietnam while diversifying garment manufacturing to other countries.

Figure 14: Vietnam's 2021-2030 development plan for the textile industry targets single digit export growth and more domestic raw materials

	2020	2022	2025G	2030G
Exports (USD bn)	33.5	42	50-52	68-70
	2021-2025		2026-2030	2021-2030
Exports growth per annum	7.5%-8.0%		N/A	6.8%-7.2%
Localization rate*	51%-55%		56% - 60%	N/A

Raw materials

- Reduce imports, grow local production.
- Functional yarn, high value-added yarn, ecofriendly yarn.
- Knitted fabric, woven fabric, functional fabrics.
- Centralized industrial parks that focus on textiles.
- Prioritize investors with large capacity and good reputations.
- Prioritize synchronized and closed production and waste treatment.

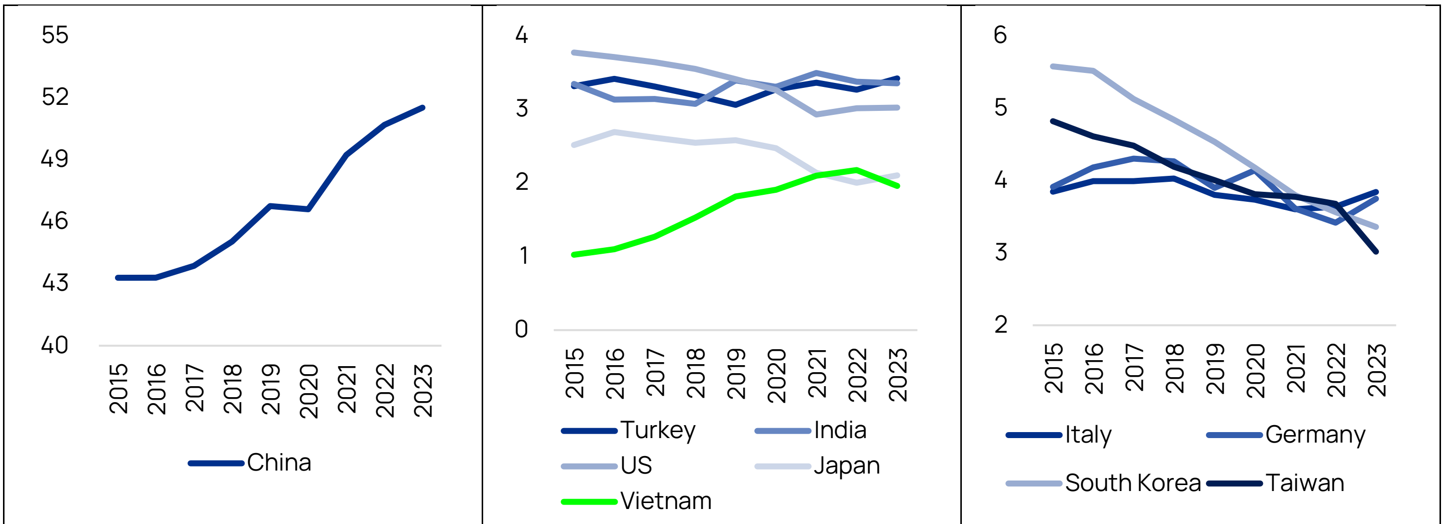
Garment

- Develop higher value-added garments.
- Relocate to regions with favorable labor sources and infrastructure.
- Invest in automated machines and expanding production to all garment-making tasks.

Source: Ministry of Industry and Trade, Vietcap. Note: * Locally produced raw materials/raw materials used.

Vietnam has emerged as one of the top-ten fabric-exporting countries (Figure 15), being the only nation besides China to experience significant growth over the past five years. We believe Vietnam can welcome fabric and yarn mills better going forward as stated in the 2021-2030 Development Plan of the Textile and Footwear Industry. Additionally, the implementation of eco-friendly technologies, such as dope-dyed yarn, is helping to reduce the environmental impact of fabric production, further bolstering this trend.

Figure 15: Market share of world's top-ten fabric exporters (%)



China's exports of fabric grew as garment production left the country much faster than fabric production. The country remains dominant in fabric making.

Many Taiwanese and Chinese FDI firms plan to keep/establish a fabric/yarn presence in Vietnam to benefit from FTAs, while diversifying garment manufacturing to other countries.

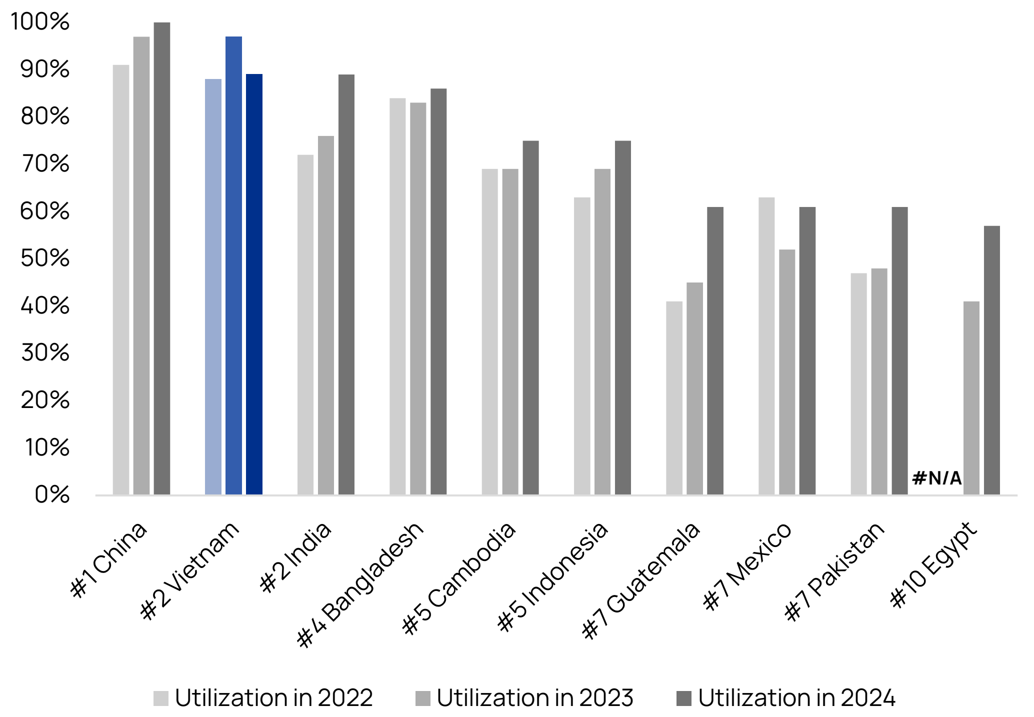
Vietnam has emerged as one of the top-ten countries in terms of fabric exports and was the only country apart from China that recorded significant growth over the past five years.

Source: International Trade Center, Vietcap

Diversification in Brand Sourcing- "Asia Plus the Rest of the World": This marks a shift from the previous model of "China Plus Vietnam Plus Many," driven by (1) geopolitical tensions, especially between the US and China, (2) supply chain vulnerabilities exposed during Covid-19, particularly for brands/retailers overly reliant on a few regions, (3) rising costs, and (4) increasing focus on sustainability, with nearshoring to regions like Latin America helping to reduce lead times and lower transportation-related carbon emissions.

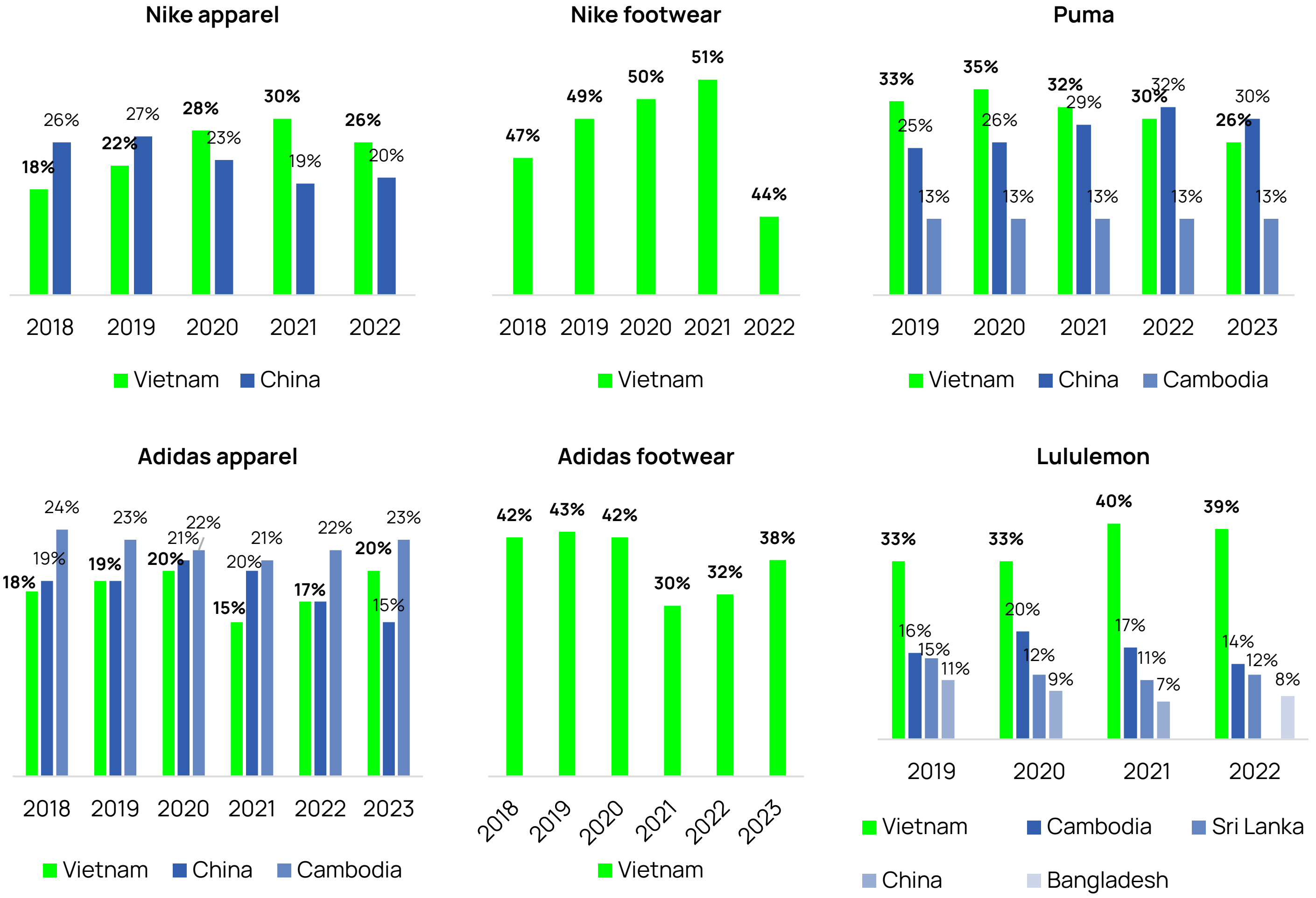
According to the USFIA, nearly 70% of large-sized and 68% of small-sized companies now source from ten or more countries, up from 45-55% in previous years. While Asian countries, including China, Vietnam, and Bangladesh, remain the primary sourcing region, fashion companies increasingly explore new destinations in other regions, such as the Western Hemisphere, even though companies are not necessarily leaving Asia. This trend poses a potential risk for Vietnamese companies. However, we anticipate that companies with strong competitive positions, such as STK, TCM, TNG, and MSH will be less affected.

Figure 16: Respondents' apparel sourcing base



Source: United States Fashion Industry Association, Vietcap. Note: Respondents were asked to select all sourcing destinations they were currently using. The utilization rate in the above figure was calculated by dividing the frequency of each country's utilization by the total number of respondents.

Figure 17: Select sourcing bases for fashion brands



Source: Company data, Vietcap

ESG is now a key pillar

ESG has become a pivotal focus for Vietnam's T&G industry in maintaining a competitive edge. Over the past few years, listed textile companies' attitudes towards ESG have changed, with ESG compliance now being a central topic in management discussions and annual reports, rather than being limited to industry pioneers. This has translated into many quantifiable standards such as using renewable energy (e.g., rooftop solar panels), sustainable materials (e.g., recycled polyester), water usage reduction (e.g., dope-dyed yarn), and worker treatment.

Vietnam's FTAs with over 60 countries offer favorable conditions for the expansion of the T&G industry. However, newer-generation FTAs come with stricter green growth requirements. Leadership in Energy and Environmental Design (LEED) is the world's most widely used green building rating system. The EU, one of Vietnam's largest T&G export markets, is at the forefront with initiatives like the Carbon Border Adjustment Mechanism (CBAM) and the Supply Chain Due Diligence Act, which impose higher environmental and social standards on imported goods. According to the Ministry of Natural Resources and Environment, the EU now prioritizes ESG compliance for orders, followed by quality and price, whereas, in the past, the focus was on quality first, then price.

Green transition challenge for SMEs: According to Ms. Nguyen Thi Tuyet Mai – Vice General Secretary of the Vietnam Textile Association (Vitas) – SMEs make up 80% of Vietnam's T&G industry. These businesses often lack the resources needed to invest in green technologies and certifications, which can be cost-prohibitive. Navigating complex regulations, and ensuring supply chain transparency while maintaining operational safety, further complicates efforts.

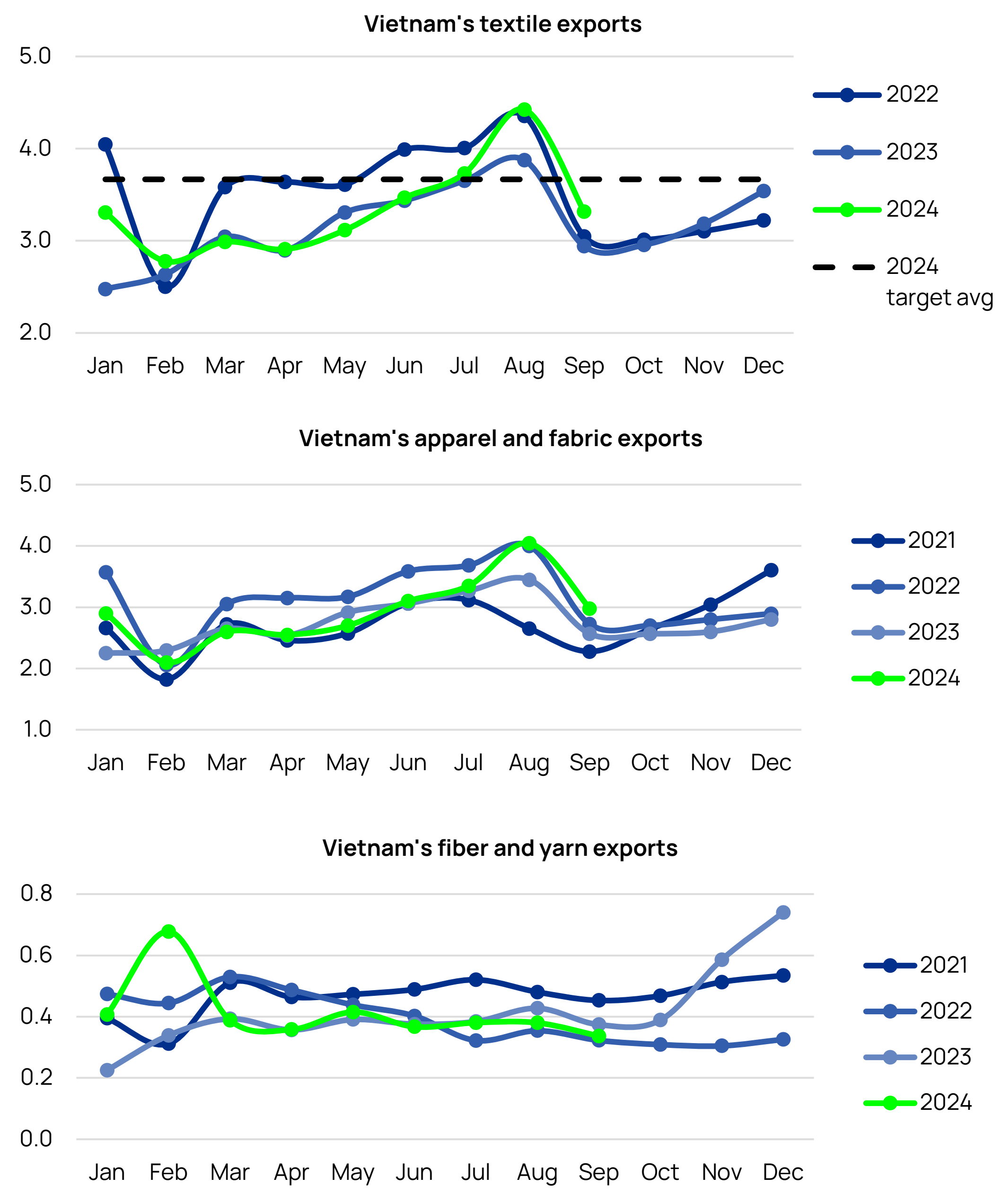
Demand outlook: End-customer demand gradually improving

Vietnam: Bright H2 2024 orders outlook, ASPs remain subdued

Vietnam's textile export value achieved USD30bn (+6.3% YoY) in 9M 2024. Of which, yarn & fiber and apparel exports increased 13.6% and 5.3%, respectively. Growth was mainly driven by a recovery in export volumes, supported by brands restocking as their inventory returned to a healthy level, coupled with (2) a shift in orders from other countries to Vietnam, such as Bangladesh, amid political unrest. However, the ASP of orders remained subdued as high inflation among major markets weakened end-customer purchasing power.

Vietnam targets reaching USD44bn (+9% YoY) in T&G export value in 2024. Vietnam National Textile and Garment Group (Vinatex) also anticipates that Vietnam's T&G export turnover will grow by 8-10% YoY. We find this target to be highly optimistic. In 8M 2024, Vietnam's T&G exports completed 61% of the sector's 2024 target, lower than 65-70% in 2018-2023.

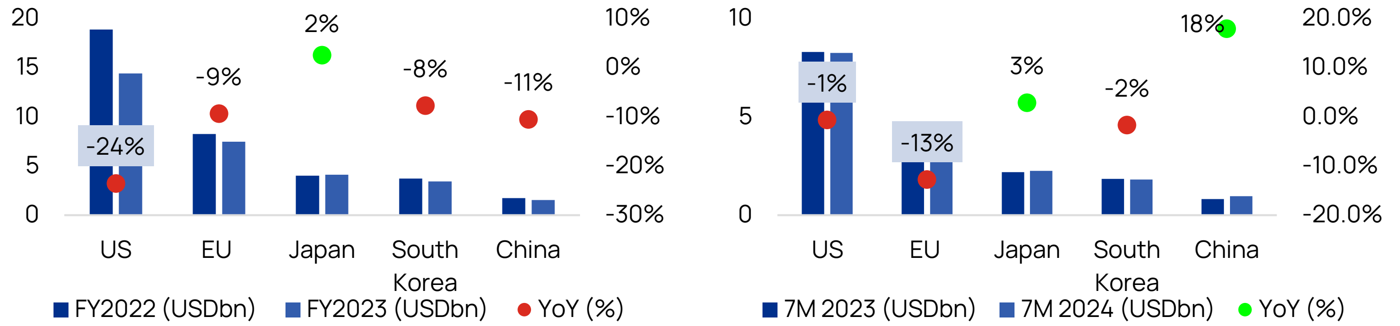
Figure 18: Vietnam's textile exports: apparel, fabric, yarn, and fiber (USD bn)



Source: Vietnam Customs, Vietcap. Note: We include apparel, fabric, yarn, and fiber in textiles; 2024 target by the Vietnam Textile and Apparel Association.

Vietnam's apparel exports to Japan and China posted strongest growth. In 7M 2024, Vietnam's exports to these markets increased 3% and 18% YoY, respectively (**Figure 19)**, with growth accelerating to 10.5% and 33.5% in July. In contrast, exports to the US and EU experienced a slower recovery. Consumers' reduced savings and increased debt burdens lead to tightening spending on discretionary products, including apparel. As a result, despite a healthy inventory level, brands and retailers remain cautious about restocking. Additionally, in the EU market, textile exporters face hurdles in meeting sustainability regulations, adding further complexity to the rebound effort in this market.

Figure 19: Vietnam's apparel exports by market share

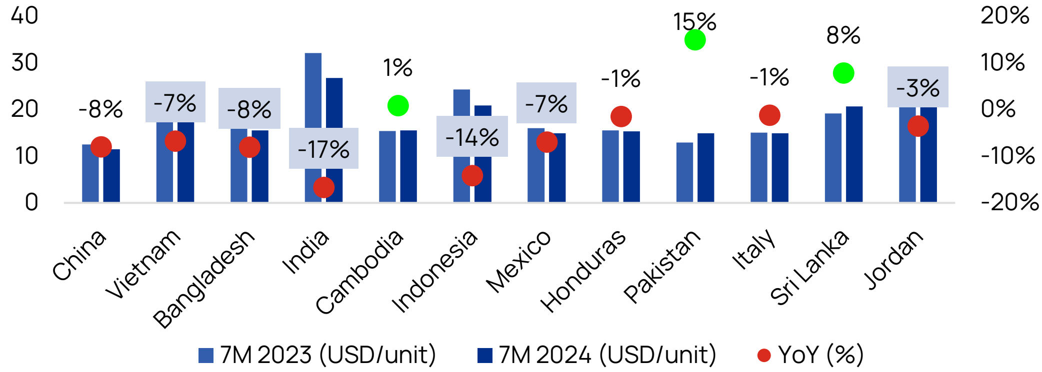


Source: International Trade Center, Vietcap. Note: Green dots indicate positive YoY growth, red dots indicate negative YoY growth.

Orders improvement momentum was stronger in H2 2024: We have observed that many garment makers have orders for Q4. Typically, (1) Q4 is the peak season for consumption driven by winter holiday demand (e.g., Christmas and New Year's), and (2) gradually improving economic conditions in key markets like the US and EU, with controlled inflation and Fed rate cuts starting in mid-September, are boosting purchasing power. Per Ms. Nguyen Thi Tuyet Mai, some textile enterprises are now working through Vitas to find smaller companies to subcontract orders.

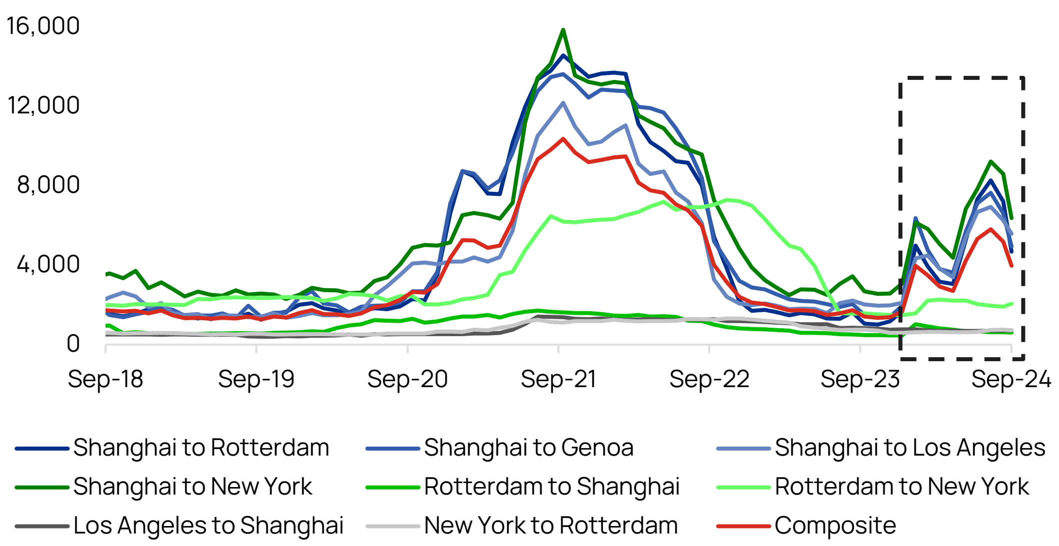
However, we expect only modest ASP increases in 2024 before rebounding in 2025. In 7M 2024, weak demand led to apparel export ASPs weakening in markets **(Figure 20)**. In addition, high shipping costs, driven by the Ukraine-Russia conflict and the Red Sea crisis, are exerting pressure on price reductions as brands/retailers demand lower ASPs to share the burden of these costs. Except TNG, that witnessed a 5-7% YoY ASP increase, per management, most of the listed garment makers (i.e., MSH, TCM, and GIL) saw flat/modest ASP increases. Looking ahead, although economic conditions are improving, and shipping costs are cooling down **(Figure 21)**, we believe cautious consumer spending will likely hinder Vietnamese textile exporters from achieving significant YoY growth in ASP.

Figure 20: ASP of orders by exporting markets



Source: International Trade Center, Vietcap. Note: Green dots indicate positive YoY growth, red dots indicate negative YoY growth.

Figure 21: World Container Index (WCI)

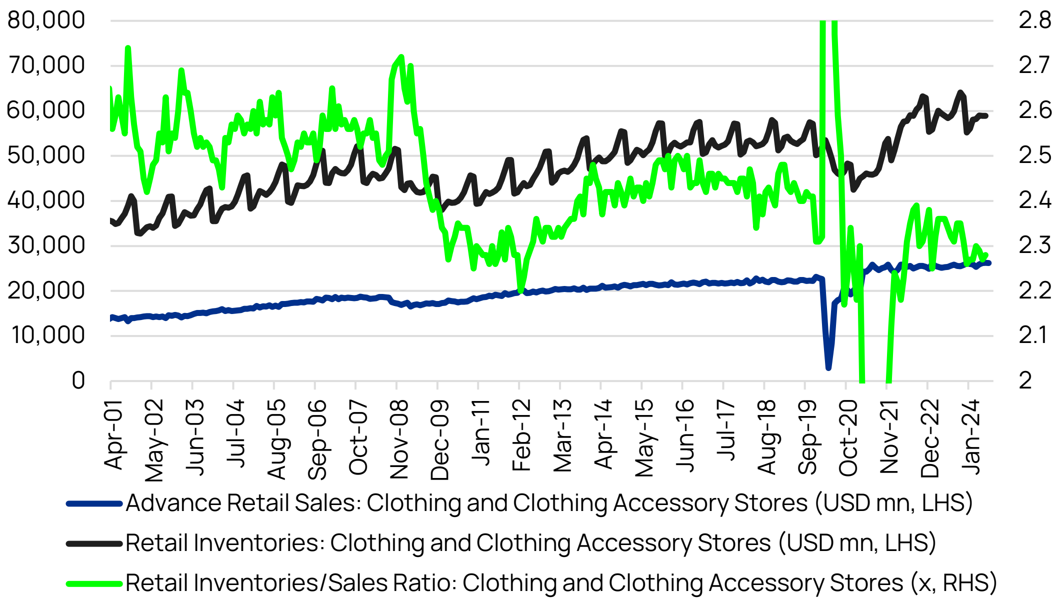


Source: Bloomberg, Vietcap

US: Inventory levels entering healthy territory, end customers remain cautious

The US, which receives 40% Vietnam's T&G exports, saw a 2% YoY increase in clothing retail sales in 7M 2024 **(Figure 22)**. During the 2008 recession, monthly clothing retail sales did not compress significantly until August 2008 and subsequently took two years to recover. Additionally, this same metric was flat for two years after the dot-com bubble during 2000-2002.

Figure 22: US clothing retail sales and retailer inventory

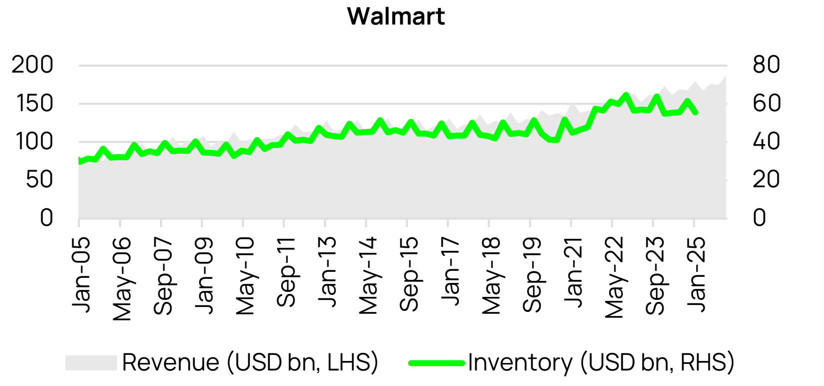


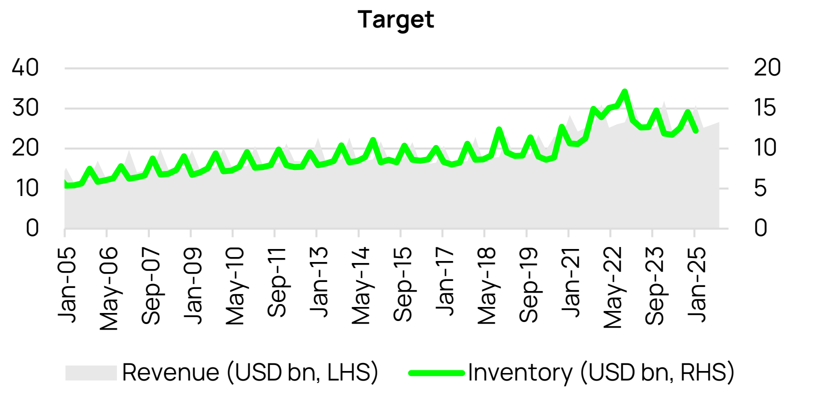
Source: Bloomberg, Vietcap

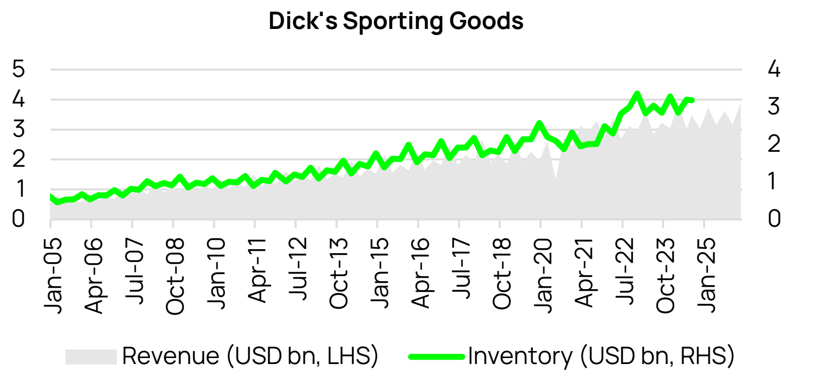
We have examined global casual apparel brands (Inditex, H&M, and The Children's Place), sportswear brands (Nike, Adidas, Puma, and Lululemon) and retailers (Walmart, Target, Dick's Sporting Goods, and Macy's) and found that their inventories have returned to healthy levels. However, brands and retailers remain cautious about restocking, citing concerns over the slow recovery of end-customer purchasing power.

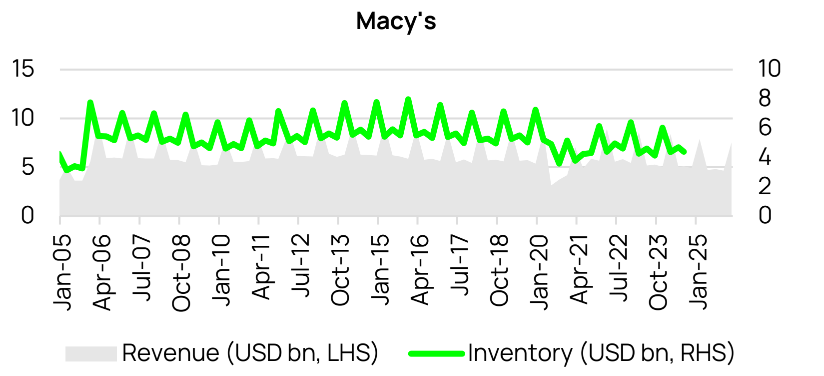
Below are performances and comments from select companies.

Figure 23: Revenue and inventory of select apparel brands and retailers

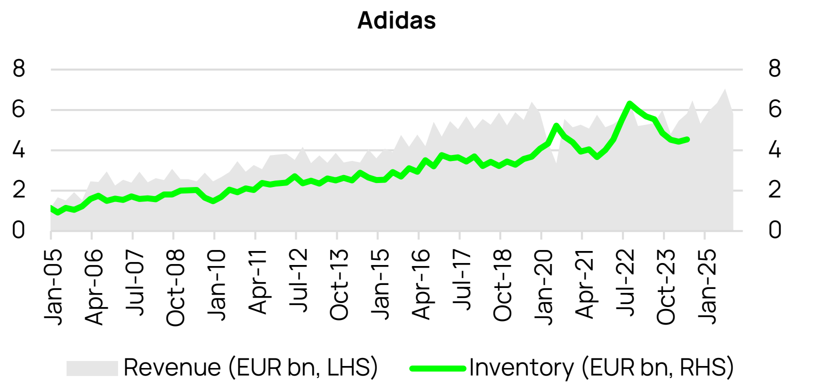
<table>
<tr><th>Revenue and inventory *</th><th>Corporate management’s comments</th></tr>
<tr><td>


</td><td>* Inventory declined 2% YoY as of July 2024. Expecting sales growth of 3.75-4.75% in 2024.</td></tr>
<tr><td>


</td><td>* Expecting a same-stores sales growth (SSSG) of 0-2% in 2024 while keeping a cautious outlook given the volatile macroeconomic environment.
* Continuing to maintain a prudent inventory position. As of June 2024, inventory declined 7% YoY.</td></tr>
<tr><td>


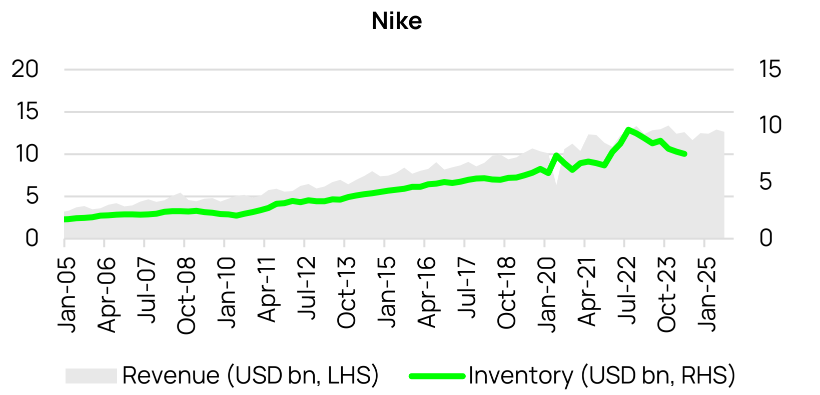
</td><td>* Expecting SSSG of 2.5%-3.5% in 2024, reflecting confidence in its core strategy despite ongoing macroeconomic uncertainties and consumer pressures.
* Inventory is ‘clean and well positioned.’ The increase of 6% YoY in H1 2024 comes mainly from key products/categories that are key growth drivers.</td></tr>
<tr><td>


</td><td>* Expecting a low-single-digit decline in 2024 net sales. Customers are more discriminating given ongoing macroeconomic uncertainty and increasingly complex world events.
* Disciplined inventory, expecting 2024YE without any meaningful inventory liabilities.</td></tr>
</table>



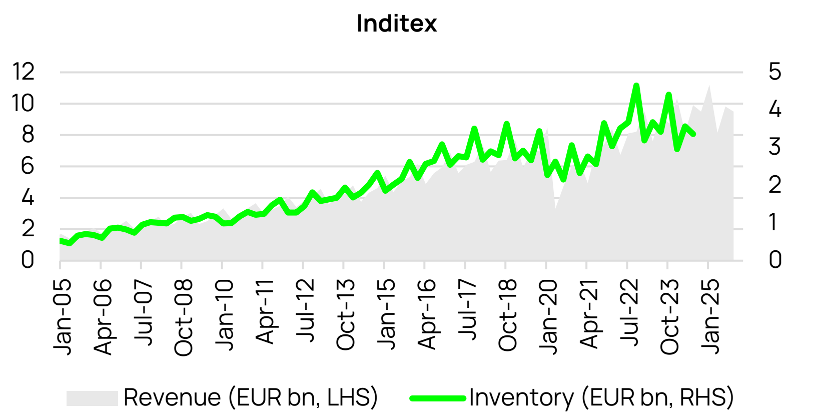
* Expecting a high-single-digit revenue increase in 2024. Footwear continues to lead top-line growth.

* Inventory is at a healthy level. As of June 2024, inventory decreased 17% YoY.



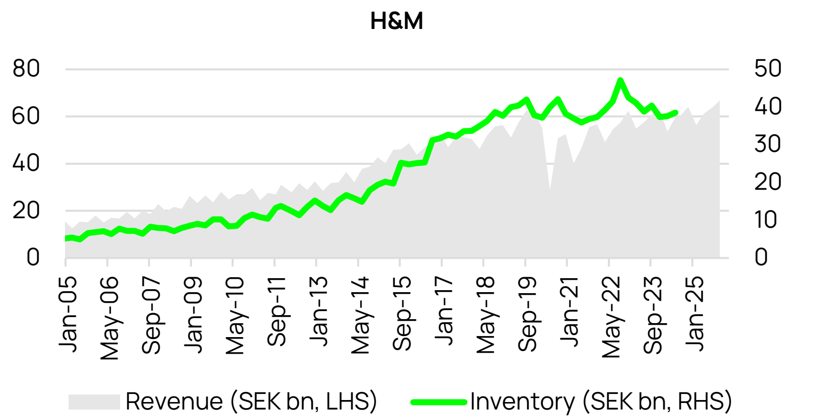
* Expecting a mid-single digit sales decline in 2025 (2025 for textile makers).

* Inventory decreased 11% YoY as of June 2024. Continuing managing both NIKE and partner inventory carefully.



* Expecting mid-single-digit sales growth in 2024.

* Inventory was 2% YoY lower as of Q2 2024, returning to a 'regular level.' At the end of the period, inventory was of high quality.



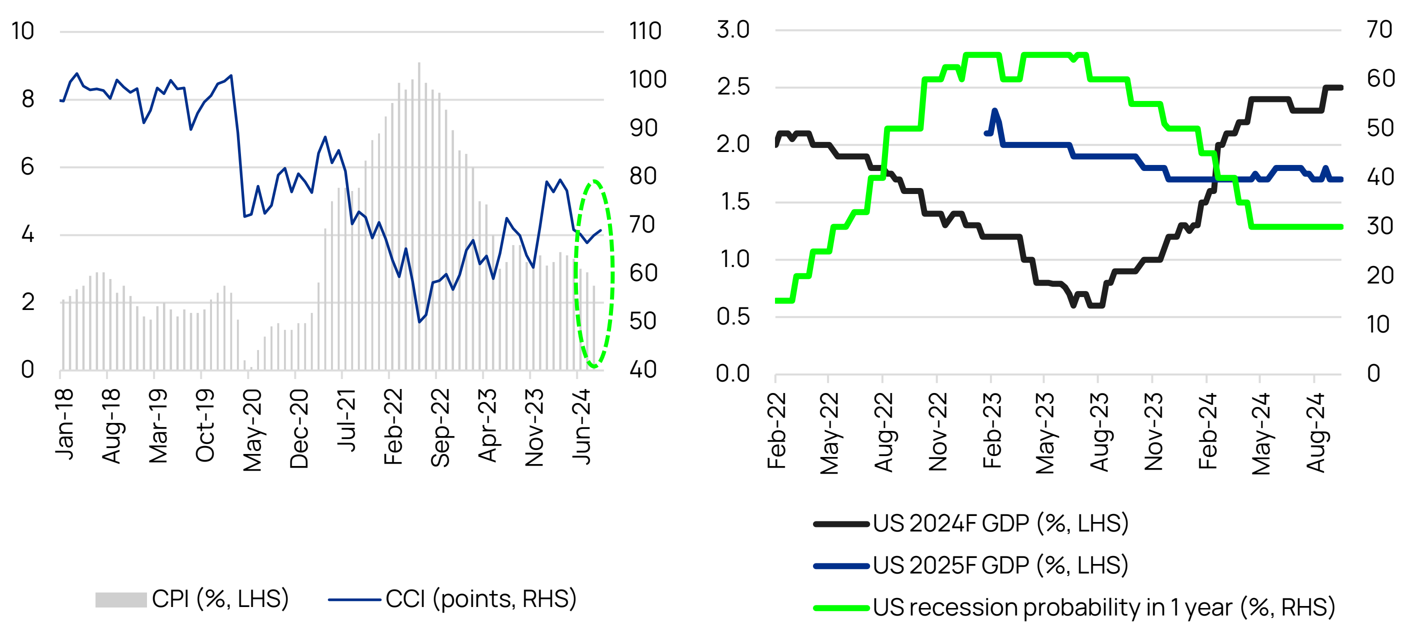
* Expecting single-digits growth in 2024.

* Inventory is well-composed. The company aims to reduce inventory/sales from 18% currently to 12%-14% in the long term.

Source: Company data, Bloomberg, Vietcap. Note: *Data for future periods is from Bloomberg consensus.

We expect US market consumption to continue recovering moving forward. Consumer confidence in this market picked up in July 2024 **(Figure 24)** as inflation appears well-controlled, dropping from its peak of 9.1% in mid-2022 to 2.5% in August 2024. Additionally, the Fed has begun cutting interest rates, with a 50bps reduction in mid-September. We expect these positive improving economic signals to further support the purchasing power of end consumers. However, as mentioned, cautious consumer spending remains as the key factor to likely hinder Vietnamese textile exporters from achieving significant YoY growth in ASP.

Figure 24: Bloomberg consensus shows an improving outlook for the US



Source: Bloomberg, Vietcap

T&G comparable universe

Vietnam's textile sector has over 7,000+ enterprises, with 80% of these being SMEs, according to Vitas. FDI companies make up 39% of the total, with major investors from South Korea, Taiwan, Hong Kong, and China. Despite representing only 39% of the total number of companies, FDI firms contribute 60–70% of the sector's export value, leveraging their significant capital investments, advanced technology focused on export-oriented production, and global supply chain integration.

In selecting a peer group for comparison, we apply a top-down approach that considers both local and global players. First, we target emerging markets in the Asia-Pacific region that share similar macroeconomic conditions, trade policies, and T&G manufacturing characteristics with Vietnam. We then classify the companies by their main revenue-generating products and narrow our selection to those with market capitalizations greater than USD65mn. For Vietnam's yarn segment, we include all three listed companies due to the limited number of firms in this category, and for the garment segment, we exclude Vinatex's subsidiaries. Based on FiinProX data, Vietnam has 51 listed T&G companies, comprised of three yarn, 45 garment, and three footwear enterprises, of which 17 are subsidiaries/joint ventures/associates of Vinatex.

We favor Century Synthetic Fiber Corp (HOSE: STK), Thanh Cong Textile Garment Investment Trading JSC (HOSE: TCM), Song Hong Garment JSC (HOSE: MSH), and TNG Investment and Trading JSC (HOSE: TNG). We have seen that these companies are the most well-positioned to be among the first beneficiaries of the T&G demand recovery. Their growth prospects are further bolstered by ongoing capacity expansions planned during H2 2024 – 2025 **(See page 25)**.

Figure 25: Vietnam comparable universe

Ticket	Company	Mkt cap (USD mn)	TTM Net Sales (USD mn)	YoY (%)	TTM NPAT-MI (USD mn)	YoY (%)	Net D/E (%)	ROE (%)	ROA (%)	TTM P/E (x)	LQ P/B (x)
Yarn manufacturers											
STK	Century Synthetic Fiber Corp	104.2	52.9	-20.8	-0.3	-20.8	52.5	-0.4	-0.2	N/A	1.6
ADS	Damsan JSC	32.2	66.6	0.2	1.4	0.2	42.5	4.2	1.5	20.7	0.8
SPB	Phu Bai Spinning JSC	13.0	51.7	-9.1	-1.7	-9.1	258.2	-18.2	-4.3	N/A	1.3
	Average	**49.8**	**57.1**	**-9.9**	**-0.2**	**-9.9**	**117.7**	**-4.8**	**-1.0**	**20.7**	**1.2**
	Median	**32.2**	**52.9**	**-9.1**	**-0.3**	**-9.1**	**52.5**	**-0.4**	**-0.2**	**20.7**	**1.3**
Garment manufacturers											
VGT	Vietnam National Textile & G	297.2	690.9	-10.1	7.0	-10.1	39.3	2.1	0.9	50.5	1.1
TCM	Thanh Cong Textile Garment	202.3	143.3	-6.5	8.5	-6.5	-3.3	9.4	6.0	26.1	2.4
MSH	Song Hong Garment JSC	143.5	182.0	-10.0	11.1	-10.0	-32.7	15.6	7.0	12.9	2.0
TNG	TNG Investment & Trading J	131.8	297.0	6.2	10.1	6.2	135.1	14.3	4.3	13.1	1.8
VGG	Viet Tien Garment Corp	75.4	361.1	1.7	8.0	1.7	-25.2	8.2	3.6	12.1	1.0
GIL	Binh Thanh Import Export P	89.4	35.7	-2.7	3.3	-2.7	-23.9	3.4	2.4	26.2	0.9
	Average	**156.6**	**285.0**	**-3.6**	**8.0**	**-3.6**	**14.9**	**8.8**	**4.0**	**23.5**	**1.5**
	Median	**137.6**	**239.5**	**-4.6**	**8.3**	**-4.6**	**-13.6**	**8.8**	**4.0**	**19.6**	**1.4**

Source: Bloomberg, Vietcap

Figure 26: Global comparable universe

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	YoY (%)	TTM NPAT-MI (USD mn)	YoY (%)	Net D/E (%)	ROE (%)	ROA (%)	TTM P/E (x)	LQ P/B (x)
Yarn manufacturers											
Lealea Enterprise Co Ltd	TAIWAN	283.8	243.7	-23.2	6.6	-23.2	31.5	1.9	1.1	41.1	0.8
Roda Vivatex Tbk PT	INDONESIA	254.1	33.6	-1.4	19.1	-1.4	-28.7	9.7	8.5	12.9	1.3
Yi Jinn Industrial Co Ltd	TAIWAN	191.5	103.7	-3.0	20.3	-3.0	91.7	12.8	3.3	7.0	0.9
Century Enka Ltd	INDIA	169.8	210.8	-15.8	5.2	-15.8	-16.6	3.2	2.6	33.4	1.1
Indo Rama Synthetics India Ltd	INDIA	144.6	446.6	-5.4	-24.6	-5.4	355.9	-43.3	-7.2	N/A	3.3
Indo-Rama Synthetics Tbk PT	INDONESIA	136.9	801.4	-2.2	-32.9	-2.2	25.3	-7.9	-4.0	N/A	0.3
LAN FA Textile	TAIWAN	112.6	43.8	11.4	3.4	11.4	17.6	3.7	2.1	30.6	1.1
China Weaving Materials Holdings Ltd	CHINA	71.8	170.2	14.2	-2.8	14.2	52.4	-2.9	-1.3	N/A	0.7
Hong YI Fiber Industry Co	TAIWAN	69.7	45.3	8.1	3.3	8.1	-52.4	3.8	3.5	21.6	0.8
	Average	**159.4**	**233.2**	**-1.9**	**-0.3**	**-1.9**	**53.0**	**-2.1**	**1.0**	**24.4**	**1.1**
	Median	**144.6**	**170.2**	**-2.2**	**3.4**	**-2.2**	**25.3**	**3.2**	**2.1**	**26.1**	**0.9**
Garment manufacturers											
Shenzhou International Group Holdings Ltd	CHINA	12,431.0	3,652.7	2.5	742.3	2.5	-14.0	16.2	11.3	16.4	2.6
Bosideng International Holdings Ltd	HONG KONG	6,914.5	3,238.9	38.4	428.9	38.4	-65.6	23.4	13.2	15.6	3.5
Eclat Textile Co Ltd	TAIWAN	4,767.2	1,059.0	3.2	192.2	3.2	-5.7	25.4	19.0	25.1	6.0
Makalot Industrial Co Ltd	TAIWAN	2,829.5	1,059.2	5.9	132.5	5.9	-9.5	30.4	18.6	21.6	6.5
Crystal International Group Ltd	HONG KONG	1,532.4	2,261.8	0.2	173.9	0.2	-31.5	12.3	8.6	8.8	1.1
Lu Thai Textile Co Ltd	CHINA	640.6	824.0	-7.7	48.6	-7.7	2.4	3.8	2.6	9.4	0.3
Quang Viet Enterprise Co Ltd	TAIWAN	334.3	491.6	-20.4	19.6	-20.4	-22.1	8.3	3.3	17.3	1.4
	Average	**4,207.1**	**1,798.2**	**3.1**	**248.3**	**3.1**	**-20.9**	**17.1**	**10.9**	**16.3**	**3.1**
	Median	**2,829.5**	**1,059.2**	**2.5**	**173.9**	**2.5**	**-14.0**	**16.2**	**11.3**	**16.4**	**2.6**

Source: Bloomberg, Vietcap

We examined local textile makers, including Vinatex's associates and subsidiaries, for a more comprehensive view of T&G's sector outlook. We have observed the following:

(1) Most textile makers secured orders through the end of Q3, with some extending into Q4. A few manufacturers have seen orders with long lead times coming back — compared to mostly small, rush orders YTD.

(2) Despite this, YTD prices have remained flat or showed only modest YoY improvements. This trend stems from (1) weak end-consumer purchasing power and (2) pressure from brands to lower prices amid high shipping costs. Nearly all companies anticipate only a modest recovery prices in 2024, with some expecting a full recovery by 2025.

(3) Major players like TNG, MSH, and TCM remain confident in achieving their 2024 targets. However, STK has fallen behind due to its H1 2024 losses, caused by (1) reduced selling prices to attract orders, (2) the shutdown of some production machinery, and (3) accumulating VND66bn of FX losses as the USD/VND appreciated 5% during H1 2024.

Figure 27: Comments from textile associations and company management teams

VND bn	H1 2024 sales	YoY	2024G sales	YoY	Managements' comments on orders/demand outlook
VGG	4,933	20%	8,360	-3%	N/A
TNG	3,527	6%	7,900	11%	On track to meet its 2024 targets. 2024 orders have been fulfilled with an increase in FOB orders from major customers (i.e., Decathlon, Asmara, and Columbia Sportswear) as inventory levels in the US have decreased. For 2025, the company is receiving orders, with expectations driven by a recovery in demand and a shift of orders from Bangladesh.
MSH	2,104	-3%	5,200	14%	On track to meet its 2024 targets. Expecting gradual order and price increases in H2 2024, with full recovery by 2025. Major brands such as Express, Nike, and Adidas are restructuring and exerting pressure on prices amid high shipping costs from the Ukraine-Russia conflict and the Red Sea crisis.
HTG*	2,273	0%	4,500	-4%	On track to meet its 2024 targets. Expecting no major improvement in H2 2024.
M10*	1,979	4%	4,500	9%	2024 orders have been fulfilled. Expecting further improvements in 2025, mainly driven by a shift of orders from other countries (i.e., Bangladesh).
TCM	1,781	12%	3,707	11%	On track to meet its 2024 targets, having secured 90% of orders for Q3 and 86% for Q4. However, ASP has remained flat YoY.
Eclat Textile**	13,316	20%	N/A	N/A	Optimistic, driven by stronger order growth from mid-sized and high-priced brand clients. Rush orders are declining, and clients are tending to place long-term orders.
Makalot**	12,601	8%	N/A	N/A	Expecting orders to remain strong, with low-teens YoY growth in Q3 2024 and GPM improving QoQ.
PPH*	1,042	33%	2,600	49%	N/A
STK	569	-18%	2,290	61%	STK is off track to meet its guidance. As of 8M 2024, the company has just completed 5.5% its 2024G. Expecting order recovery in Q4 2024 from 9M's low base, driven by revived demand and its direct customers (fabric makers) expand capacity. Expecting improved GPM driven by a higher contribution from recycled yarn.
GIL	367	-14%	1,500	60%	GIL still suffers from its concentration of revenue to Amazon, which canceled major orders to GIL. Current orders are also under pressure from customer price reductions.

Source: Company data, FiinPro, Vietcap. Note: *Vinatex's associates and subsidiaries; **FDI companies that also operate outside Vietnam — data converted from TWD to VND.

Selected listed companies

Century Synthetic Fiber Corp (HOSE: STK)

STK is one of seven Vietnam's synthetic yarn manufacturers with superior quality. The company has a production capacity of 63,300 tonnes/year, specializing in polyester filament yarn that is utilized in high-end textiles, sportswear, footwear, accessories, and automobile upholstery. In July 2024, STK began operating select production lines at its Unitex factory, which has a capacity of 36,000 tonnes per year, and plans to be fully operational by Q4 2024.

Approximately 64% of STK's revenue comes from fabric manufacturers within Vietnam. As of 2024, the company serves a diverse customer base of 776 clients, with direct customers supplying fabrics to major fashion brands such as Adidas, Nike, Puma, Decathlon, and Uniqlo.

Upside potential: (1) orders recovery, (2) Unitex factory to increase total capacity by 60% from Q4 2024, and (3) favorable USD/VND rate in H2 2024, supporting STK's USD/VND debt deteriorate.

Key downside risks: weaker-than-expected end-consumer demand in key economies; Vietnam losing market share in fabric and yarn; loss of STK's key recycled input supplier Unifi.

We currently have an OUTPERFROM rating for STK with a target price (TP) of VND32,200/share. Please see our latest Update Report for more information.

Vietnam National Textile & Garment Group (UPCOM: VGT)

VGT has a fully-integrated T&G value chain with industry-leading production capacity. The company's annual output includes 131,900 tonnes of yarn, 66 million meters of woven fabric, 12,000 tonnes of knit fabric, and 1,607 sewing lines. According to the company, Vinatex accounts for using 95.5% of the industry's cottonseed, over 42.3% of yarn, nearly 25.7% of fabric, nearly 13% of garments, and more than 18% of the sector's total exports.

However, bulky organizational structure hinders its performance. VGT is an SOE company, operating through 64 subsidiaries, joint ventures, and affiliates. Despite having the largest market capitalization, its 3Y average ROE is just 7%, significantly lower compared to peers **(Figure 28)**. To address these issues, VGT is undergoing a restructuring process following its "Restructuring Plan in 2021–2025."

Upcoming catalysts: orders recovering; higher FOB/ODM orders contribution; one-off earnings from divestment plan.

Upcoming risk: slower-than-expected order recovery.

VGT is currently trading at a 157% premium in terms of TTM P/E compared with its peer group median. MSH's TTM P/E is 50.5x vs 19.6x of its peer group median.

Thanh Cong Textile Garment Investment Trading JSC (HOSE: TCM)

TCM is one of the few companies with a fully-integrated T&G value chain. The company's annual production capacity includes 10,000 tonnes of yarn, 30-million-meters of fabric (12-million-meters dyed), and 30 million EU-standard garments. Yarn, fabric, and garments products contribute 8%, 14%, and 74% to total revenue, respectively, with exports making up 88%.

TCM engages in two stages of the garment processing value chain, including CMT and FOB level 2. In H1 2024, FOB contributed around 90% of revenue, offering higher profit margins. In Q2 2024, TCM acquired SYVina for USD19mn, boosting its fabric and dyeing capacity by 8-million-meters/year, further enhancing its control over raw materials to secure more high-value orders.

Upcoming catalysts: orders recovering; cotton prices remaining low; one-off revenue from selling the Trang Bang factory and land in Vinh Long, expected in 2024-2025F.

Upcoming risks: slower-than-expected orders recovery; JPY/VND appreciation, potentially reducing revenue from Japan (20% of total exports).

TCM is currently trading at a 33% premium in terms of TTM P/E compared with its peer group median. TCM's TTM P/E is 26.1x vs 19.6x of its peer group median.

Song Hong Garment JSC (HOSE: MSH)

MSH is one of Vietnam's biggest garment exporters. The company has production capacity of 7.8 million products/year with 100% utilization as of H1 2024. Additionally, the Song Hong 11 factory is currently under construction, with a designed capacity of 3 million products per year. Management anticipates that this facility will begin operations in early 2025.

MSH engages in two stages of the garment processing value chain, including CMT and FOB. MSH also manufactures bedding products primarily for the domestic market. In 2020-2023, FOB and bedding sales accounted for an average of 83% of revenue, while CMT's contribution decreased from 23% to 16%, reflecting MSH's strategic shift toward higher-margin segments.

Upside potential: orders to fully recover by 2025G with higher FOB orders; Song Hong 11 to increase total capacity by 39%; expanding to the Egyptian market in H2 2024.

Downside risk: slower-than-expected order recovery; adverse volatility in input material prices; failure in entering the Egyptian market.

MSH is currently trading at a 34% discount in terms of TTM P/E compared with its peer group median. MSH's TTM P/E is 12.9x — lower than 19.6x of its peer group median. We attribute this as partly due to MSH's lack off IRR activities. Please see our latest Non-rated Report for more information.

TNG Investment and Trading JSC (HNX: TNG)

TNG is one of Vietnam's biggest garment exporters. As of end-2023, TNG operated 322 production lines in 17 garment and fiber & packaging factories in northern Vietnam, all running at full capacity. TNG planned to put an additional 45 production lines into operation throughout 2024, reflecting management's positive outlook on Vietnam's textile & garment sector, and on TNG specifically.

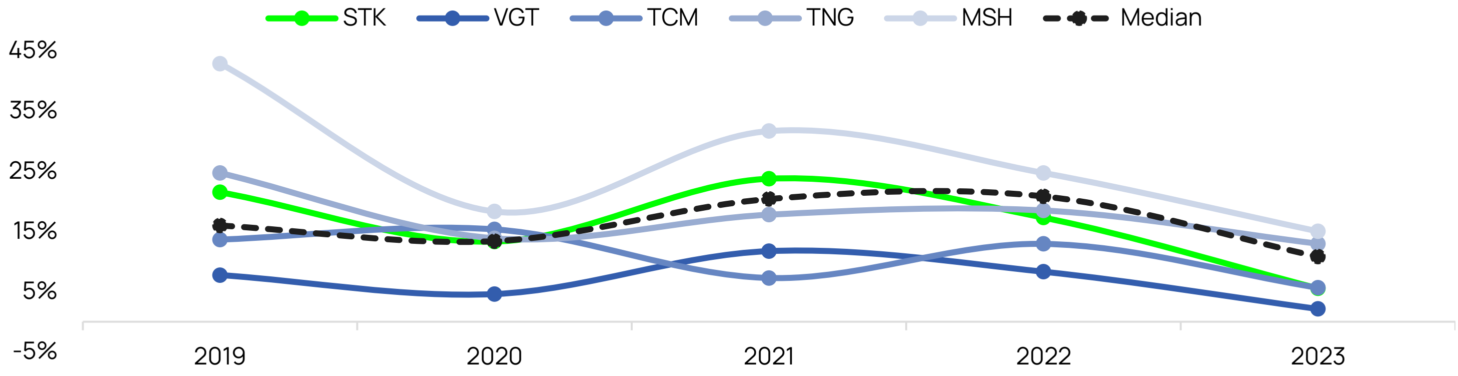
TNG engages in three stages of the garment processing value chain, including CMT, FOB, and ODM. In 2023, TNG reported FOB revenue of VND5.6tn (83% of revenue), followed by CMT (16%), and others (1%). The US was a significant market, contributing 53% of TNG's revenue, with major customers including Decathlon and The Children's Place.

Upside potential: orders recovering; small profits from real estate; higher ODM contribution.

Downside risk: Slower-than-expected order recovery.

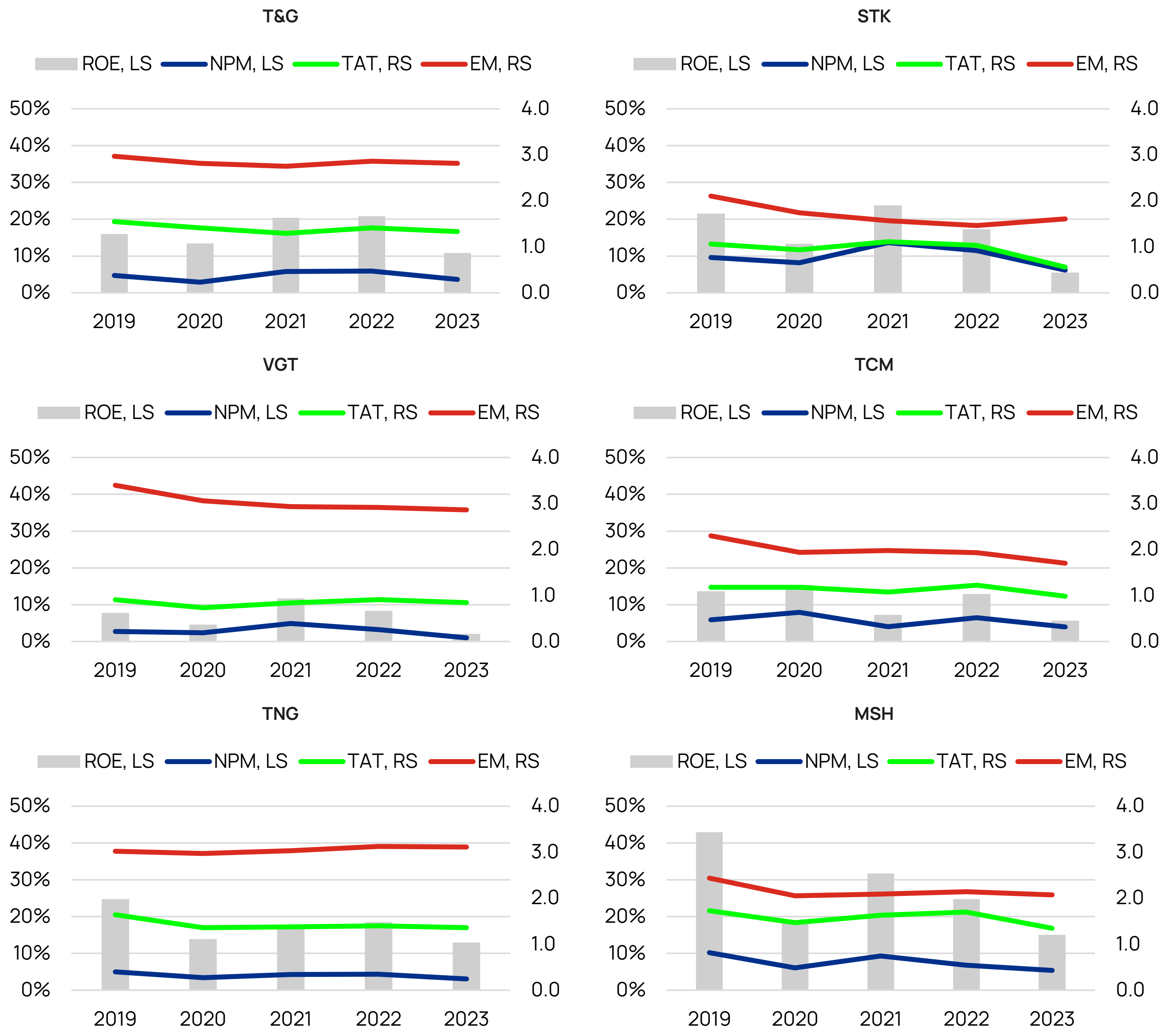
TNG is currently trading at a 33% discount in terms of TTM PER compared with its peer group median. TNG's TTM PER is 13.1x — lower than 19.6x of its peer group median. Please see our latest Non-rated Report for more information.

Figure 28: ROE comparison



Source: FiinProX, Vietcap, Source: FiinProX, Vietcap. Note: Median includes yarn stocks STK, ADS, and SPB and garment stocks VGT, TCM, TNG, MSH, PPH, GIL, VGG, HTG, BDG, M10, and HDM.

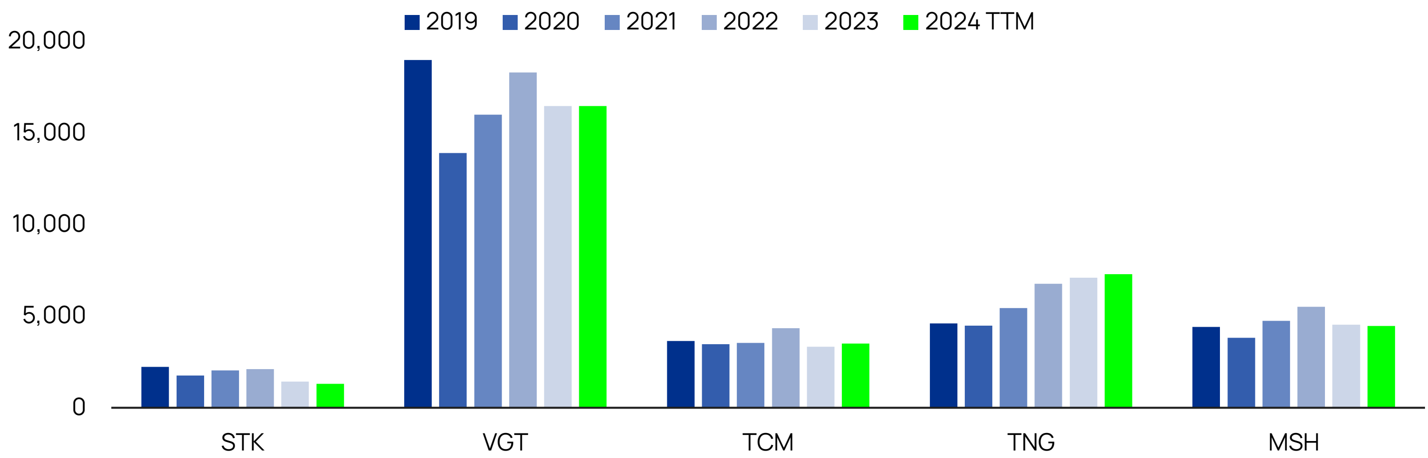
Figure 29: Dupont analysis



Source: FiinProX, Vietcap. Note: Abbreviations: NPM – Net Profit Margin, TAT – Total Asset Turnover, EM – Equity Multiplier.

Financial analysis

Figure 30: Revenue and revenue growth of selected companies (VND bn, %)



Growth	2019	2020	2021	2022	2023	CAGR 19-23
STK	-7.4%	-20.8%	15.7%	3.5%	-32.6%	-10.6%
VGT	-0.6%	-26.7%	15.1%	14.4%	-10.1%	-3.5%
TCM	-0.5%	-4.8%	1.9%	22.7%	-23.3%	-2.3%
TNG	27.7%	-2.9%	21.5%	24.4%	4.8%	11.4%
MSH	11.7%	-13.6%	24.5%	16.3%	-17.7%	0.7%

Source: FiinProX, Vietcap

At end-2019 to 2020, the onset of the COVID-19 pandemic impacted all T&G players. This disrupted global supply chains, causing factory closures coupled with a sharp decline in demand, and a shift towards e-commerce and casual wear as remote work became more widespread. TCM and TNG were less affected due to (1) ample raw material reserves and (2) strong R&D capabilities, allowing them to shift towards masks/medical protective gear, and advanced fabrics (e.g., antibacterial fabric) to capture domestic market needs, which partly offset the drop in export revenue.

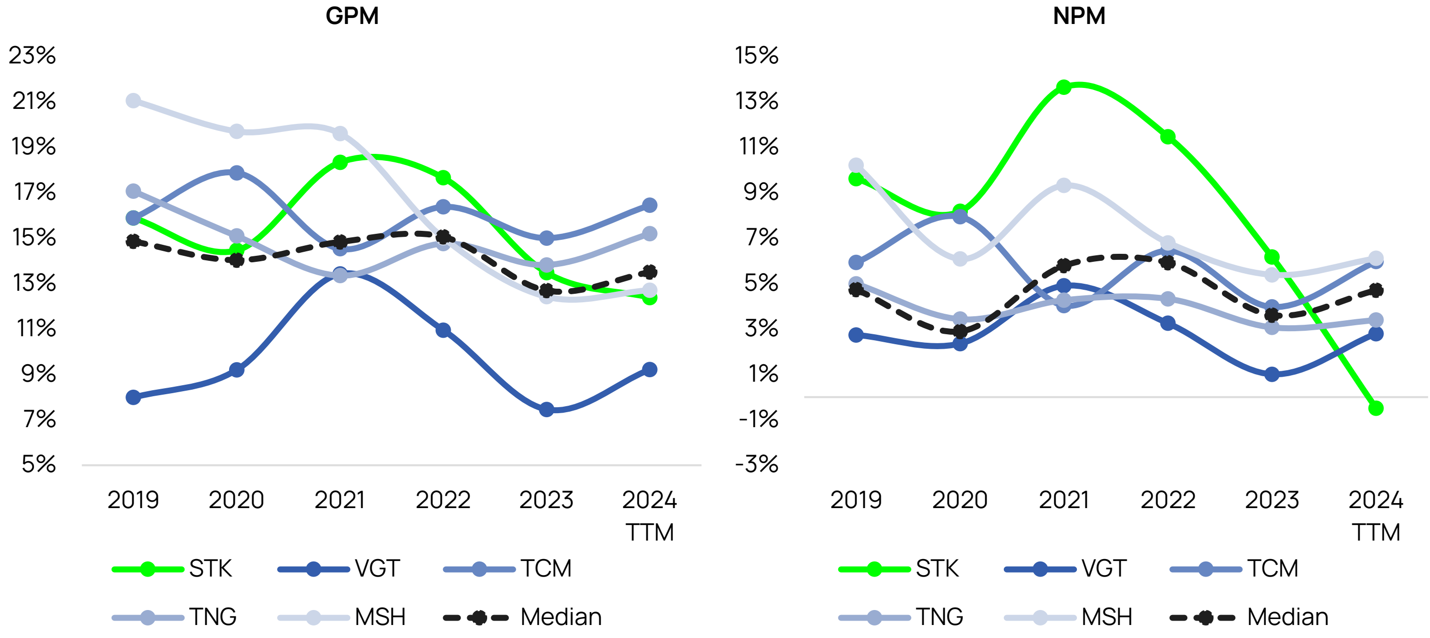
In 2021, yarn and garments demand surged, following the end of Covid-19 lockdowns, and a shift in orders to Vietnam from other countries due to their ongoing pandemic-related disruptions and political issues. The EVFTA, effective from August 2020, further supported Vietnam's T&G sector by offering immediate tariff reductions to 0% on eligible products.

In 2022, the sector saw a sharp correction, with some stabilization around mid-2023. This decline was due to falling global demand among major markets amid economic slowdowns, exacerbated by the Russia-Ukraine war and China's "Zero COVID" policy. By 2023, total demand for textiles dropped significantly, with production order prices falling by an average of ~30%, with some cases up to 50%, according to Vinatex.

2024 YTD, the sector has shown a modest recovery, supported by gradual global economic improvement, reduced input prices, and easing freight costs. However, STK experienced a divergent trend compared to peers due to its (1) automatic quality control system issues which constrained company's sales volume and (2) medium-high-end products that have experienced a slower improvement in demand. Despite this, recovery is underway.

Looking ahead to 2025, we believe a stronger return of orders and price improvements should boost earnings across the sector. Additionally, STK, TCM, TNG, and MSH can be further supported by capacity expansions during H2 2024 – 2025.

Figure 31: Gross profit margin and NPAT margin of selected companies



Source: FiinProX, Vietcap. Note: Median includes yarn stocks STK, ADS, SPB and garment stocks VGT, TCM, TNG, MSH, PPH, GIL, VGG, HTG, BDG, M10, HDM; Abbreviations: GPM – Gross Profit Margin; NPM – Net Profit Margin.

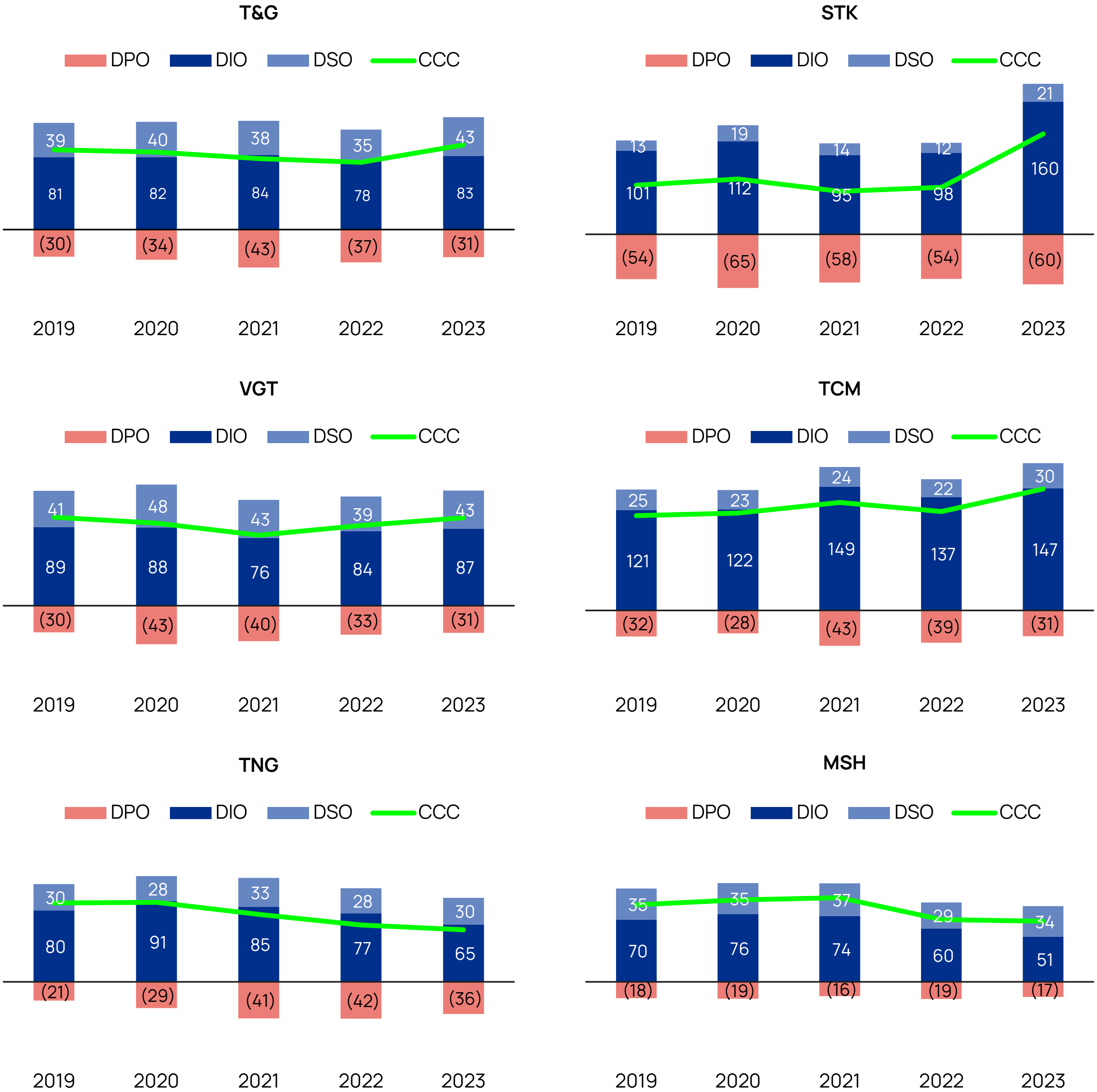
The GPM of T&G companies ranges from 7-20%, influenced by fluctuations in material input cost (i.e., PET and fabric), differences in the order mix, with FOB orders yielding higher GPM compared to CMT, and labor wages, with garment manufacturing being more labor-intensive than yarn. NPAT for these companies ranges from 1-14%, further supported by tax incentives derived from capacity expansion. From 2019 to TTM 2024, margins have been primarily impacted by two key drivers: (1) high imported material costs (such as PET and fabric) resulting from global supply chain disruptions that began in mid-2021, and (2) a shift toward lower-margin orders like CMT due to weak demand.

At the company level, **TCM and TNG** faced additional challenges in 2021, as they no longer received orders for antibacterial fabrics, masks, and medical protective gear –products that fueled their growth in 2020. **MSH**, on the other hand, saw a consistent decline in GPM from 2021 – TTM 2024 as it accepted low-margin orders amidst weak demand, per management.

STK, as a yarn manufacturer, stands out with the highest NPM in 2019 – 2023. This was further supported by the growing contribution of recycled yarn to the product mix, which increased from 27% to 49% in 2019-2023, with plans to further raise this proportion to 60-70% by 2027. However, in H1 2024, STK's NPM dropped to the lowest among its peers, with FX losses from STK's USD loans used to fund the Unitex factory exacerbating overall weak orders. We anticipate a brighter outlook moving forward, as since Q3 2024, STK has recorded FX gains as the VND appreciated against the USD, and orders are gradually recovering.

VGT, despite being the largest player in the industry, consistently underperforms compared to its peers. This is largely because it has a high contribution from CMT, whereas companies like TCM, TNG, and MSH have shifted towards FOB orders. Additionally, VGT's bulky organizational structure leads to higher management costs which further weigh on its profitability.

Figure 32: T&G cash conversion cycle



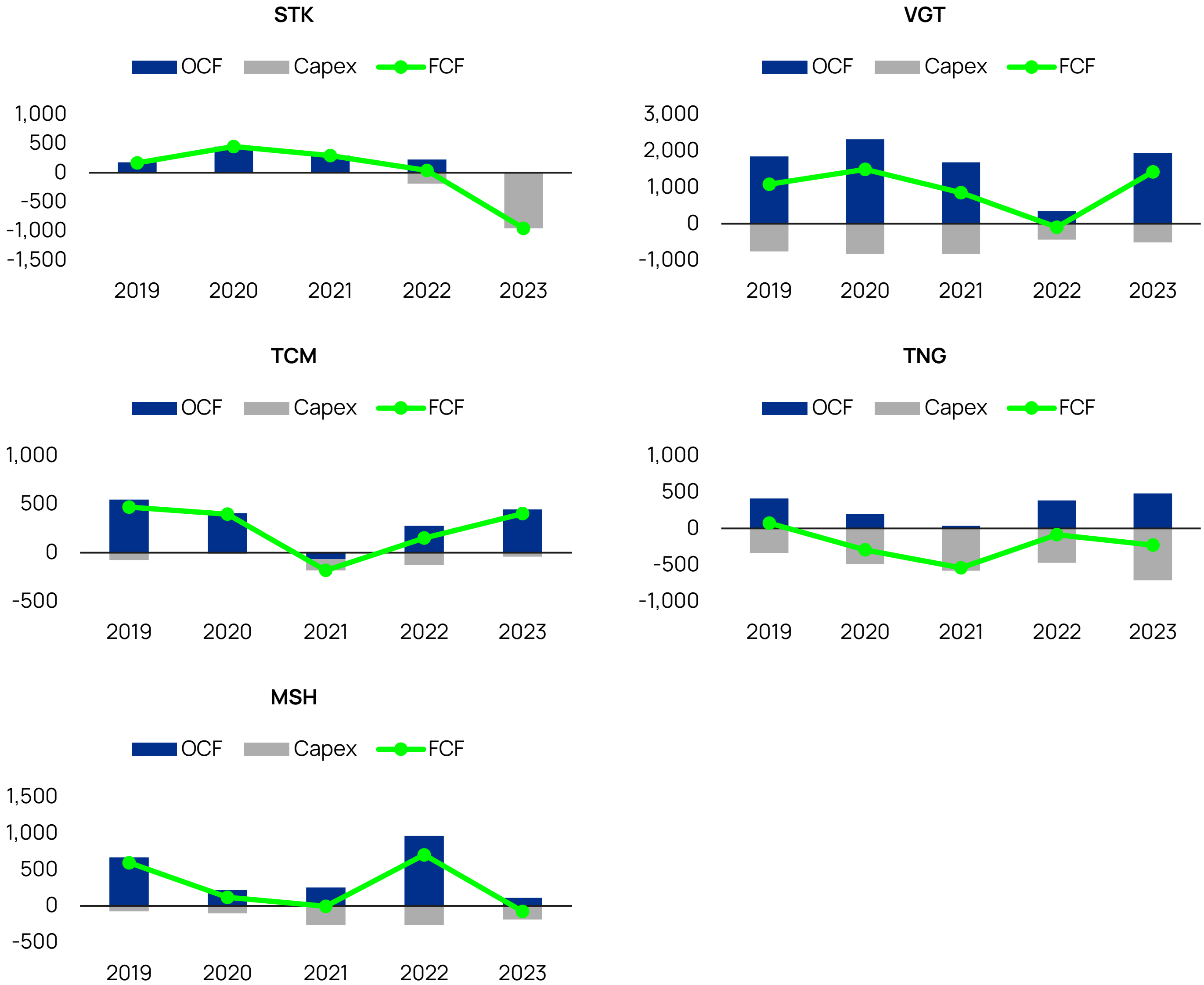
Source: FiinProX, Vietcap. Note: T&G median includes yarn stocks STK, ADS, and SPB and garment stocks VGT, TCM, TNG, MSH, PPH, GIL, VGG, HTG, BDG, M10, and HDM; Abbreviations: CCC - Cash Conversion Cycle; DPO - Days Payables Outstanding; DOI - Days Inventory Outstanding; DOS - Days Sales Outstanding.

The CCC for T&G companies has historically been stable, averaging around 85 days, as brands and retailers typically place orders 2-4 months in advance. However, in 2023, manufacturers extended payment terms due to weakened demand, causing the CCC to spike to 95 days.

STK's CCC was stable at around 60 days in 2019-2022, reflecting its strong bargaining power with suppliers, allowing it to delay payments, as well as employing efficient sales policies that enable fast cash collection. In 2023, however, STK's CCC surged to 121 days, driven primarily by an increase in DOI, while DSO and DPO remained competitive. We expect STK's operational inefficiencies to improve as global demand recovers, facilitating better inventory absorption.

Garment manufacturers exhibited more stable CCC. In which, **TCM** reported a longer DOI, averaging 120 days, vs the industry peer average of 77 days, due to its integrated value chain spanning from yarn to garments. Additionally, **TNG and MSH** saw CCC decline. This resulted from a higher contribution from CMT revenue, where customers provide raw materials at no cost. This should increase moving forward as companies shift towards higher-margin FOB and ODM orders.

Figure 33: Free-cash-flow of selected companies (VND bn)



Source: FiinProX, Vietcap. Note: Abbreviations: FCF – Free Cash Flow; OCF – Operating Cash Flow.

Overall, our selected companies maintained healthy FCF in 2019 – 2023, except for **TNG** that reported negative FCF during 2020 – 2023. This was due to (1) reinvesting most of its annual earnings into working capital and (2) ongoing capacity upgrades. These actions, however, fueled its strongest revenue growth of 11.4% in 2019 – 2023 compared to peers. Looking ahead, management plans to scale back its expansion investments after aggressively expanding for a decade, which we believe should help improve its FCF.

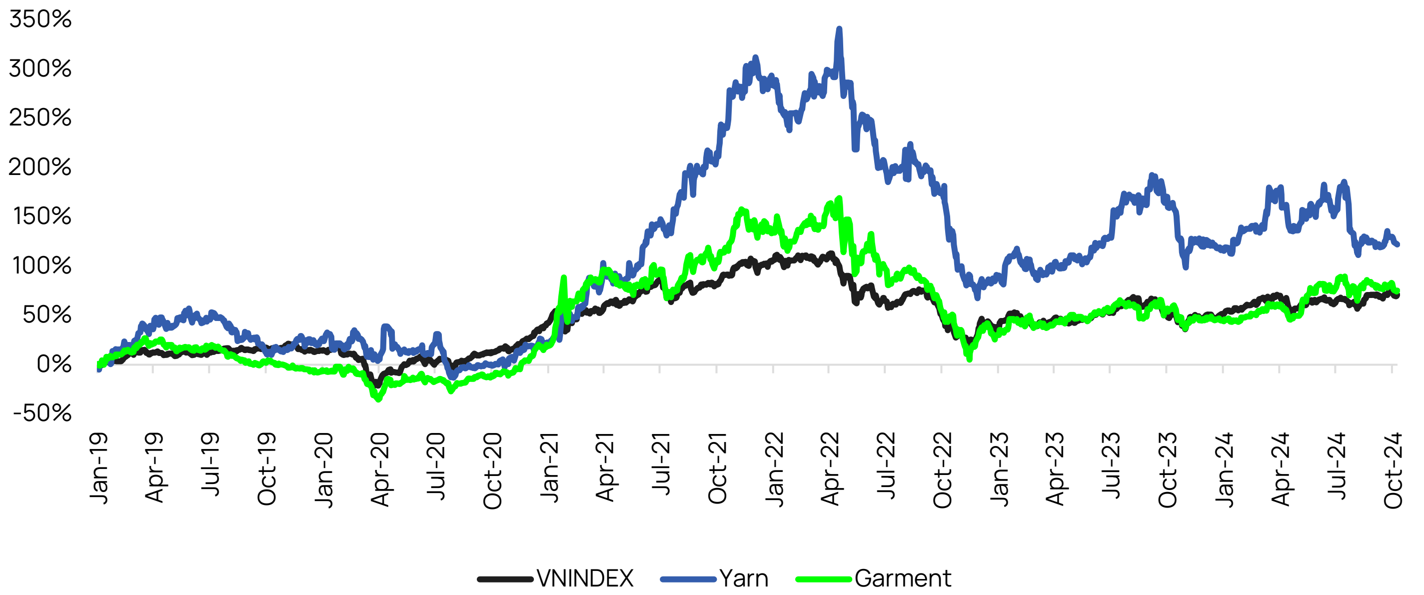
STK's FCF turned negative in 2023, driven by (1) muted OCF caused by higher DOI, and (2) substantial capex expenditures totalling VND950bn (USD38bn), of which VND757bn (USD30bn) was allocated to the Unitex factory. The factory has finished installing machinery and is now in the trial run phase, which management anticipates will conclude by October, with full operations expected to commence in Q4 2024.

T&G stocks' performance

The trajectory of T&G stocks closely mirrors the performance of the industry's revenue. Yarn manufacturers, as upstream players in the value chain, have faced greater volatility compared to larger garment makers, who typically experience more stable performance.

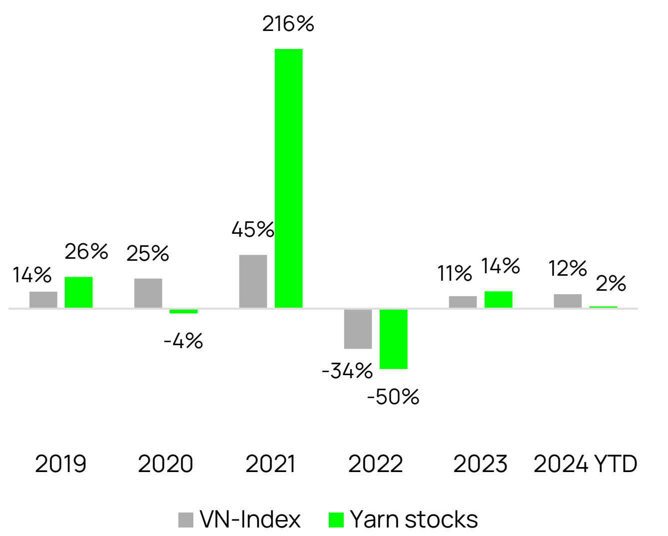
In 2021, yarn and garment stocks outperformed the VN-Index with respective increases of 216% and 91%. Then, the sector saw a sharp correction in 2022, underperforming the VN-Index, with some stabilization around mid-2023. YTD, the sector's stock performance has shown a modest recovery.

Figure 34: T&G stock indices vs VN-Index



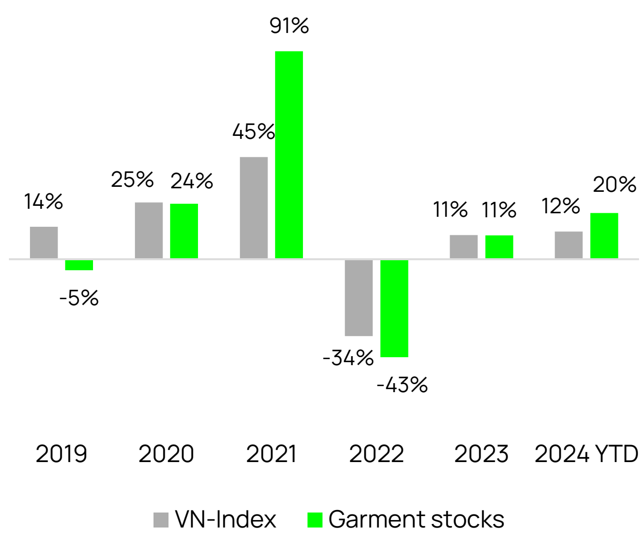
Source: Bloomberg, Vietcap. Note: Our T&G index is based on market cap weighted performance of yarn stocks STK, ADS, and SPB and garment stocks VGT, TCM, TNG, MSH, PPH, GIL, VGG, HTG, BDG, M10, and HDM.

Figure 35: Yarn stocks' annual returns vs VN-Index



Source: Bloomberg, Vietcap. Note: Our yarn stocks index is based on market cap weighted performance of STK, ADS, and SPB.

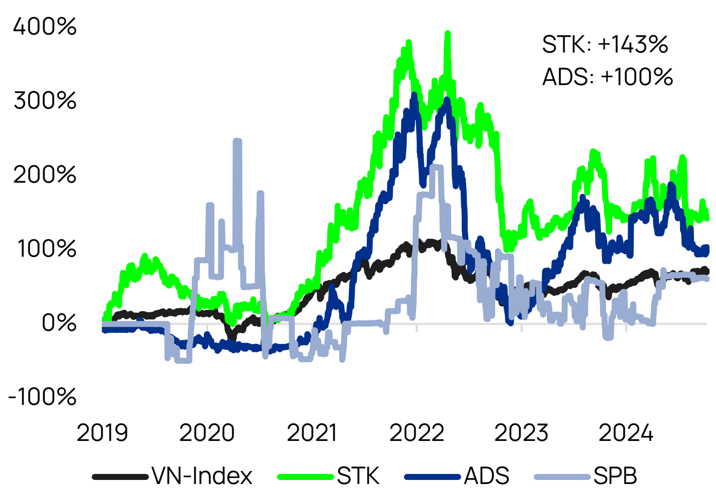
Figure 36: Garment stocks' annual returns vs VN-Index



Source: Bloomberg, Vietcap. Note: Our garment stocks index is based on market cap weighted performance of VGT, TCM, TNG, MSH, PPH, GIL, VGG, HTG, BDG, M10, and HDM.

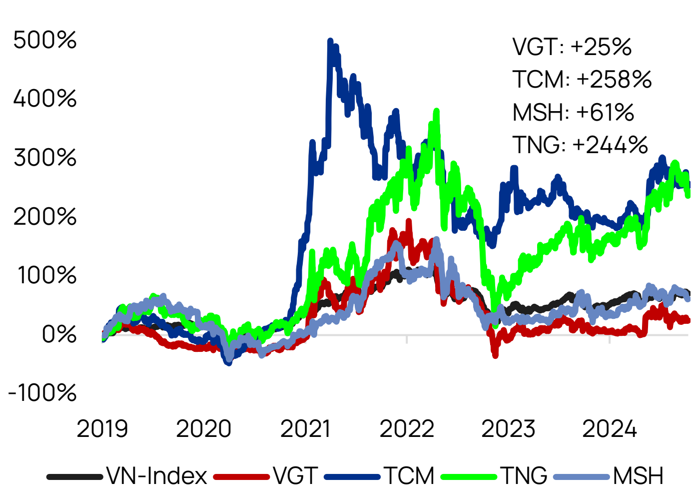
Vietcap

Figure 37: Yarn stocks vs VN-Index



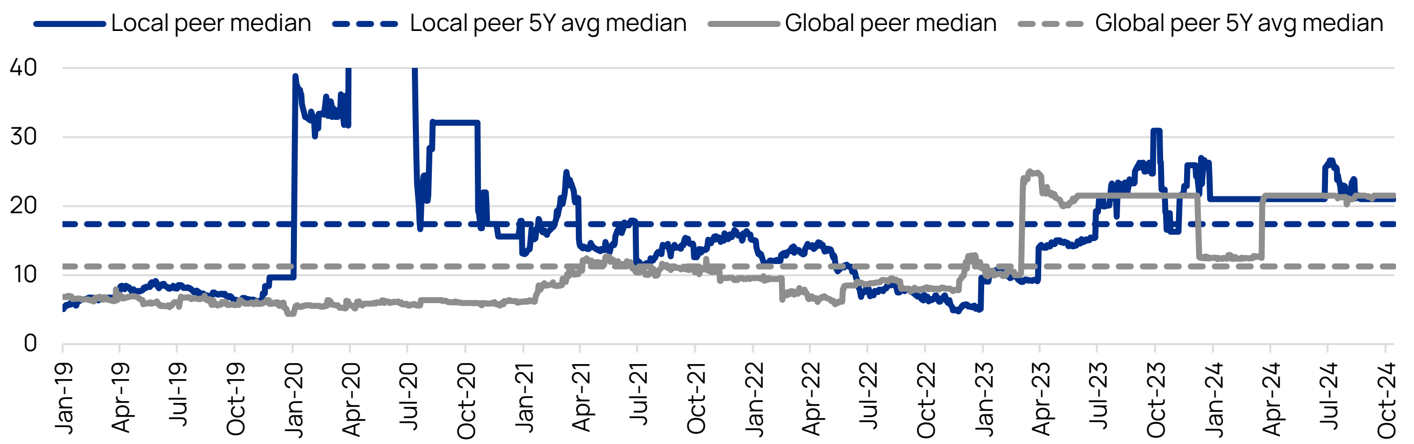
Source: Bloomberg, Vietcap

Figure 38: Garment stocks vs VN-Index



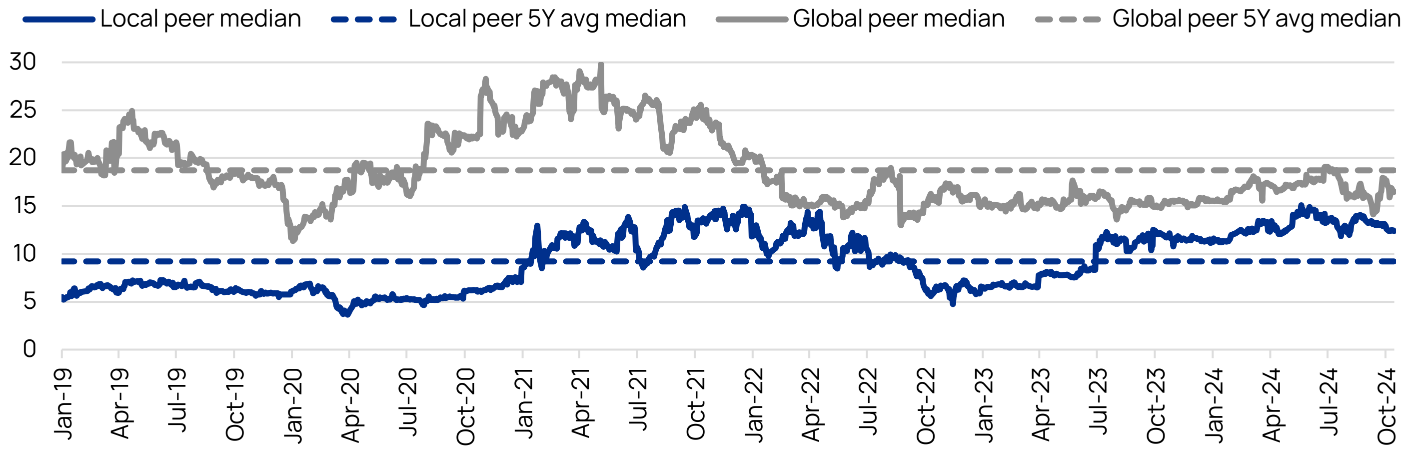
Source: Bloomberg, Vietcap

Figure 39: P/E of local and global yarn peers



Source: Bloomberg, Vietcap

Figure 40: P/E of local and global garment peers



Source: Bloomberg, Vietcap

Vietcap Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance. ```````

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when Vietcap is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution, or other enquiries, clients should contact their local sales representative.

Disclaimer

Analyst Certification of Independence

We, Han Nguyen and Vy Nguyen, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Vietcap and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).Vietcap may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

 This report has been prepared on the basis of information believed to be reliable at the time of publication. Vietcap makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of Vietcap and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of Vietcap in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of Vietcap. Please cite sources when quoting.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by Vietcap issued by Vietcap has been prepared in accordance with Vietcap's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by Vietcap in Australia to "wholesale clients" only. Vietcap does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of Vietcap. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, Vietcap will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between Vietcap and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of Vietcap. **Singapore:** Vietcap and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by Vietcap in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. Vietcap does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of Vietcap. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by Vietcap is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if Vietcap Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and Vietcap is permitted to provide research material concerning investment to you under relevant legislation and regulations.

Contacts

Corporate

www.vietcap.com.vn

Head Office
Bitexco Financial Tower, 15th Floor
2 Hai Trieu Street, District 1, HCMC
+84 28 3914 3588

Hanoi Branch
109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Nguyen Hue Transaction Office
Vinatex Building, 1st & 3rd Floor
10 Nguyen Hue Street, District 1, HCMC
+84 28 3914 3588 (417)

Ham Nghi Transaction Office
Doji Tower, 16th Floor
81-83-83B-85 Ham Nghi Street, District 1, HCMC
+84 28 3914 3588 (400)

Dong Da Transaction Office
9 Lane 82 Pham Ngoc Thach
Dong Da District, Hanoi
+84 24 6262 6999

Research

Research Team: +84 28 3914 3588
research@vietcap.com.vn

Alastair Macdonald, Head of Research, ext 105
alastair.macdonald@vietcap.com.vn

Banks, Securities and Insurance
Duy Nguyen, Senior Manager, ext 123
- Ngoc Huynh, Senior Analyst, ext 138
- Nga Ho, Analyst, ext 516
- Hoai Trinh, Analyst, ext 116

Macro
Luong Hoang, Senior Manager, ext 368
- Quang Dao, Analyst, ext 368

Consumer
Nam Hoang, Associate Director, ext 124
- Ha Huynh, Senior Analyst, ext 185
- Han Mai, Analyst, ext 538
- Ngan Ly, Analyst, ext 532

Oil & Gas, Power and Water
Duong Dinh, Associate Director, ext 140
- Phuoc Duong, Analyst, ext 135
- Tuan Do, Analyst, ext 181

Real Estate
Hong Luu, Senior Manager, ext 120
- Anh Pham, Analyst, ext 149
- Thuc Than, Analyst, ext 174

Industrials and Infrastructure
Vy Nguyen, Senior Manager, ext 147
- Han Nguyen, Analyst, ext 191
- Huy Hoang, Analyst, ext 526

Retail Client Research
Duc Vu, Associate Director, ext 363
- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Senior Analyst, ext 366
- Ngoc Vu, Analyst, ext 365
- Dang Le, Analyst, ext 570

Brokerage and Institutional Sales & Trading

Tuan Nhan
Managing Director, Brokerage & Institutional Sales & Trading
+84 28 3914 3588, ext 107
tuan.nhan@vietcap.com.vn

Quynh Chau
Managing Director
Brokerage
+84 28 3914 3588, ext 222
quynh.chau@vietcap.com.vn

Dung Nguyen
Director
Institutional Sales & Trading
+84 28 3914 3588, ext 136
dung.nguyen@vietcap.com.vn