

VIETNAM TEXTILE INDUSTRY

Positive signals in key markets



Key points

Industry rating - Maintain Neutral	3
Vietnam Textile industry overview	4
Recommend companies	8
Century Synthetic Fiber Corporation (STK VN)	8
Song Hong Garment JSC (MSH VN)	9
Charts & Tables	
Vietnam fiber exports to key markets	4
Vietnam textile product exports to key markets	4
Vietnam textile products by key market	4
Vietnam textile export value growth	5
Vietnam garment market share	5
Monthly Vietnam textile exports	5
Monthly Vietnam textile input imports	5
China textile production volume growth	5
Vietnam garment IIP	5
Consumer confidence indexes	6
Average garment import price in US	6
Shipping rate indexes	6
Vietnam textile labor employment index	6
Textile input price	6
US textile inventory/sales ratio	6
Quarterly inventory of major brands	7



Industry rating – Maintain Neutral

Maintain Neutral rating

- Although the Vietnam Textile industry has seen gradual improvement, we believe the business environment in 2024 still faces challenges, mainly from macro uncertainties. Thus, we maintain our Neutral rating for the Vietnam Textile industry.

2023: Decline narrowed; Fiber exports to China saw turnaround

- **Exports gradually recovered:** Despite facing challenges amid international uncertainties, the Vietnam Textile industry continued its recovery trend, with the decline in export value narrowing gradually in 2023. Fiber and garment export value reached US\$4.4bn (-9.3% YoY, 10M23: -10.8% YoY) and US\$33.3bn (-11.3% YoY; 10M23: -12.4% YoY), respectively.
- **Garment market share improved in Japan:** Vietnam textile exports to key markets saw negative growth in 2023. Therein, textile products' export value to the US reached US\$14.4bn (-16.7% YoY; 2022: +7.9% YoY); Japan: US\$4.1bn (-0.4% YoY; 2022: +25.6% YoY); South Korea: US\$3bn (-7.9% YoY; 2022: +12.1% YoY); Canada: US\$1.1bn (-16.3% YoY; 2022: +40.4% YoY). In 2023, in Japan, Vietnam's garment market share reached 16.9% (2022: 15.9%). Meanwhile, the figures weakened in the US and South Korea, reaching 18.2% (2022: 18.3%) and 28.7% (2022: 30.5%), respectively. Notably, China's share in the US and Japan continued to fall, while rivals like Bangladesh, Indonesia, and India are taking bigger pieces of the pie.
- **Fiber exports to China returned growing, but declined in South Korea:** In 2023, Vietnam's fiber export value to China reached US\$2.3bn (+6.2% YoY; 2022: -26.8% YoY), accounting for 57.9% of Vietnam's total fiber exports. China's textiles continued its recovery trend since mid-2023, with textile manufacturing volume by end-2023 increased by a modest 1.7% YoY (September: +0.8% YoY). However, Vietnam's fiber exports to South Korea saw a decline of 19.8% YoY (2022: -14.8% YoY), reaching US\$384.4mn.
- **Textile and garment production activities continued to recover:** Domestic textile production continued to recover in 2023, particularly in weaving activities. The IIP of the weaving segment in 2023 increased 7% YoY, while the IIP of the garment segment was nearly unchanged (10M23: -1.3% YoY). In addition, the weaving labor employment index recorded 7.5% YoY at the beginning of January 2024.
- **Cotton input prices saw advances in early-2024:** The cotton price rallied to around US\$95/lb, after recovering from the bottom of US\$80/lb in late-2023, which may foreshadow a rise in cotton input demand for the textile industry.

Prospects and risks in 2024

- **Economies continue to grow:** In 2023, Vietnam's key markets recorded healthy GDP growth generally: The US (full-year growth rate of +2.5% YoY, which is slightly lower than the Fed's forecast); the EU (+0.5% YoY, lower than outlook of 0.8%); China (+5.2% YoY, above the 5% target); Japan (+1.9% YoY, much higher than JCER's prediction of 1.5%). According to the WB, the 2024 real GDP forecast of Vietnam's key markets continued to grow: The US (+1.6%); EU (+0.7%); Japan (+0.9%); and China (+4.5%). Continued growth in these economies should lead to recovery in income and demand in these markets. Moreover, the fear of a hard recession should be lower, which supports spending on textile products.
- **Key brand inventories and sales:** At end-2023, the inventory-to-sales ratios of key brands like Nike, Inditex, GAP, H&M, and Puma showed a downward trend and remained at a lower level versus 4Q22 figures, while sales showed signs of increasing during holiday periods. In addition, the inventory-to-sales ratio of general clothing stores also recorded a decrease compared with late-2022 figures. Positive signals in sales should lead to increases in 2024 orders.
- **Consumer confidence maintained:** Along with GDP growth, consumer confidence indexes in key markets remained steady during 2023. On a positive note, compared with early-2023 figures, consumption sentiment appears to be stronger. However, consumers in the US — Vietnam's key textile market — saw household savings decline and remain low, which bodes ill for consumption going forward.
- **Short-term risks:** Geopolitics and high policy rates are the main risks for 2024 textile demand. Tensions in the Red Sea present risks, not only in terms of shipping rate hikes but also in terms of the safety of routes and vessels.
- **Long-term risk:** Along with increasing FDI flows to Vietnam, textile and garment companies should be under pressure from increasing labor costs. In addition, it is now easier for Vietnamese workers to seek work abroad, which exacerbates domestic wage competition.

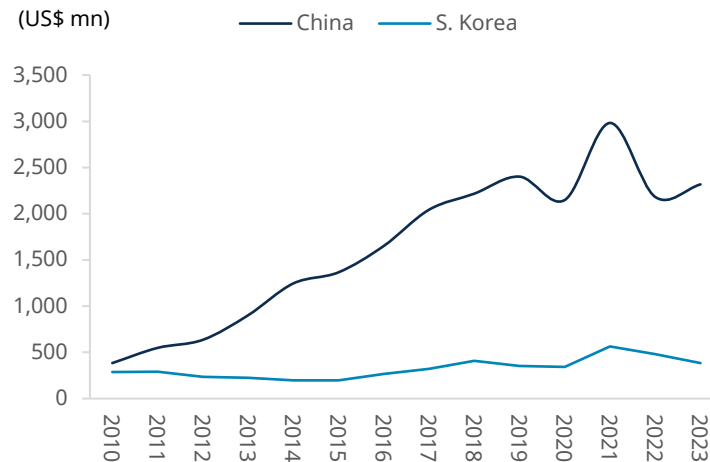
Vietnam textile industry overview

Number of companies in Vietnam:	Around 7,000 companies
Textile labor force:	Around 3mn workers
2023 total export value:	US\$37.6bn
Key markets:	The US, China, S. Korea, Japan
Key FTAs:	EVFTA, VJFTA, VKFTA, CPTPP, RCEP, ASEAN+

Notable listed companies:

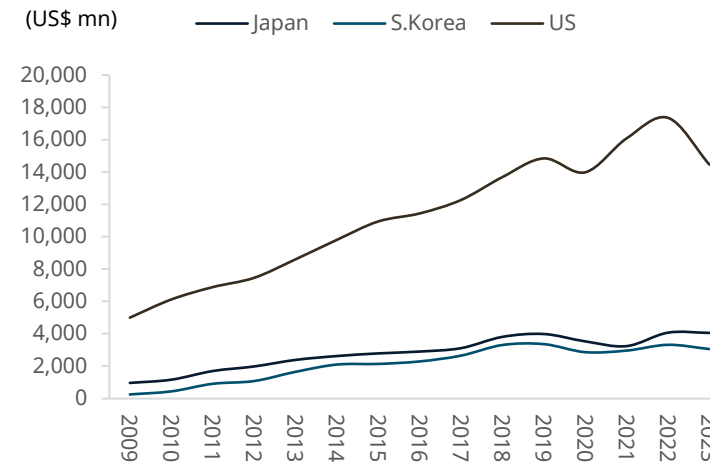
- Vietnam National Textile & Garment Group (VGT VN)
- Song Hong Garment JSC (MSH VN)
- TNG Investment and Trading JSC (TNG VN)
- Binh Thanh Import - Export Production & Trade JSC (GIL VN)
- Century Synthetic Fiber Corporation (STK VN)
- Thanh Cong Textile Garment Investment Trading (TCM VN)

Vietnam fiber export to key markets



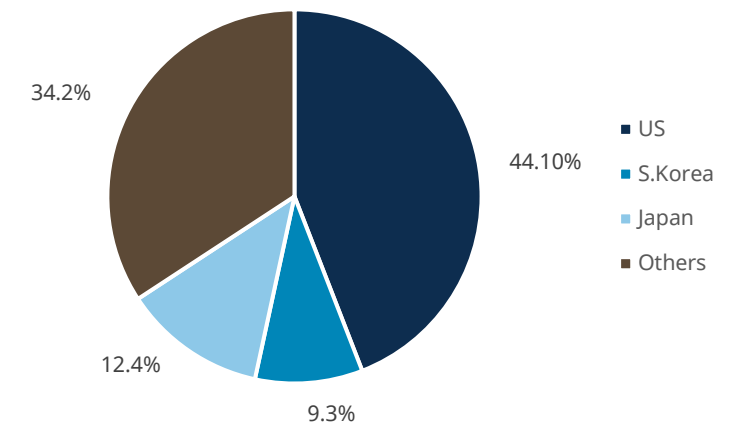
Source: GSO, Mirae Asset Vietnam Research

Vietnam textile product export to key markets



Source: GSO, Mirae Asset Vietnam Research

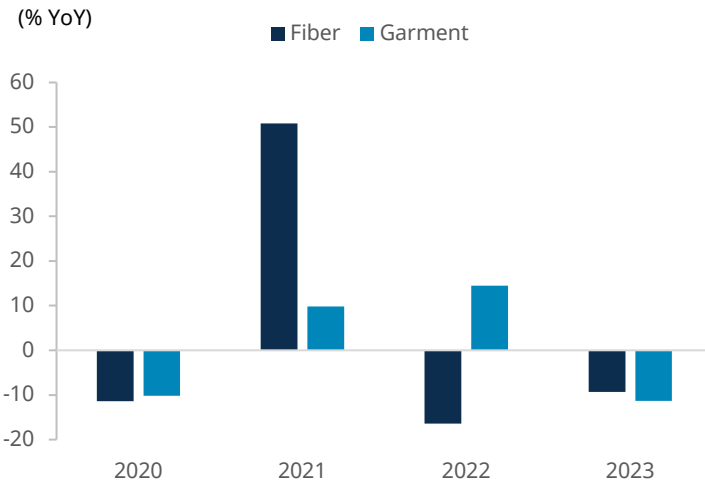
Vietnam textile product by key markets



Source: GSO, Mirae Asset Vietnam Research

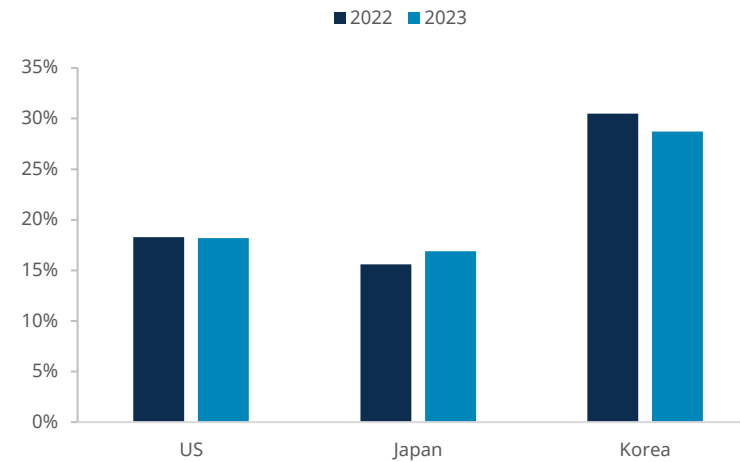
Gradual improvement in 2023

Vietnam textile export value growth



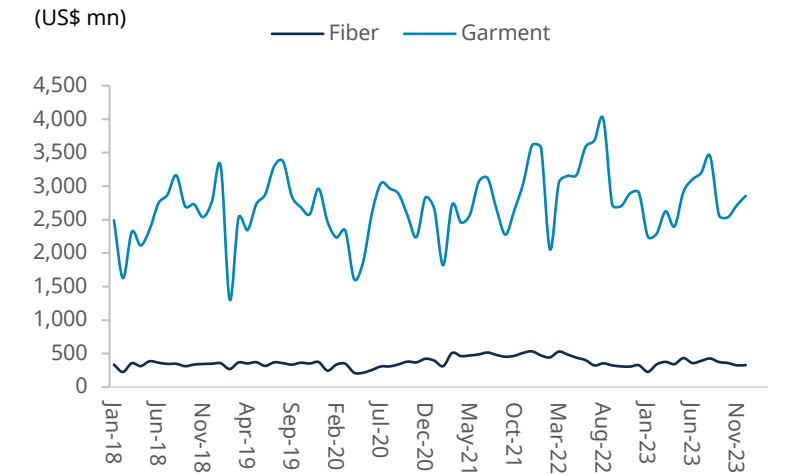
Source: GSO, Mirae Asset Vietnam Research

Vietnam garment market share in some major markets



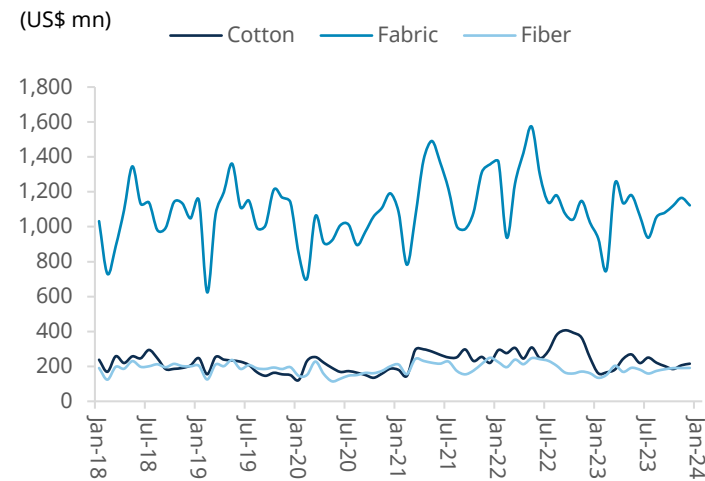
Source: Country statistics, Mirae Asset Vietnam Research

Monthly Vietnam textile exports



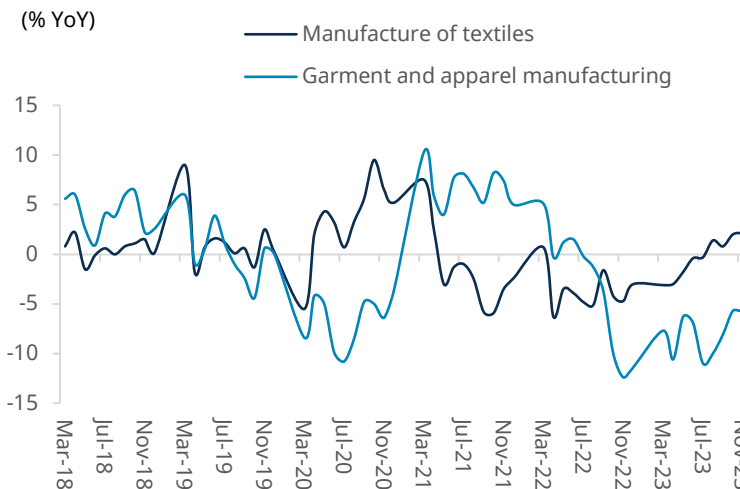
Source: GSO, Mirae Asset Vietnam Research

Monthly Vietnam textile input imports



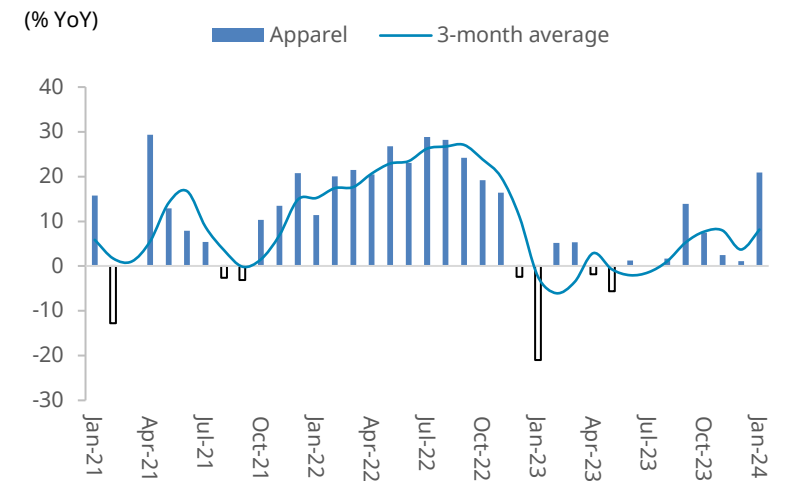
Source: GSO, Mirae Asset Vietnam Research

China textile production volume growth



Source: Bloomberg, Mirae Asset Vietnam Research

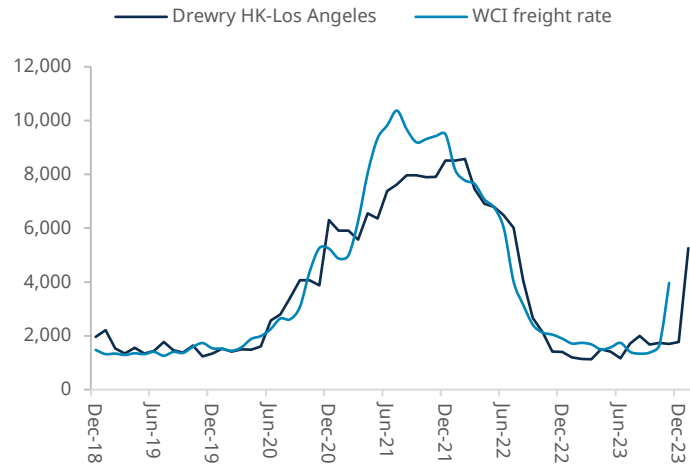
Vietnam garment IIP



Source: GSO, Mirae Asset Vietnam Research

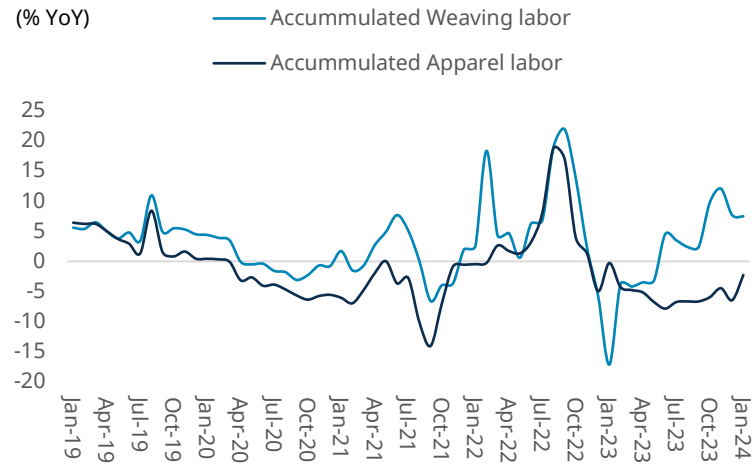
Gradual improvement in 2023 (cont'd.)

Shipping rate indexes



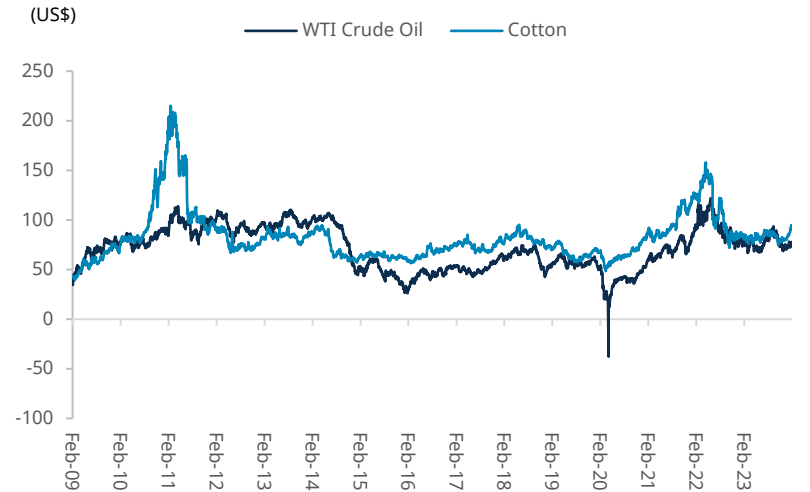
Source: Bloomberg, Mirae Asset Vietnam Research

Vietnam textile labor employment index



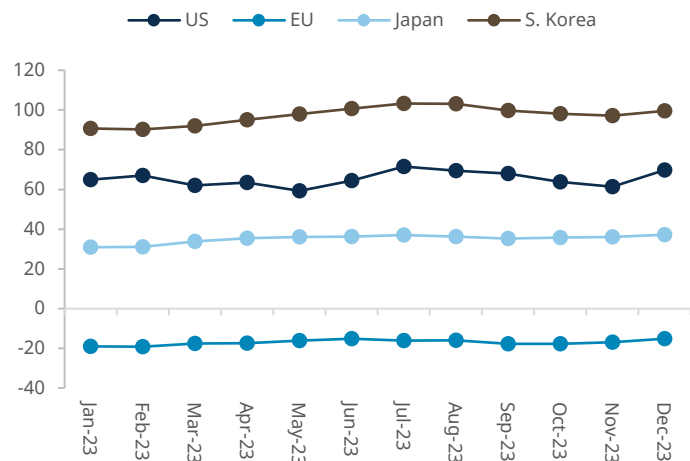
Source: GSO, Mirae Asset Vietnam Research

Textile input price



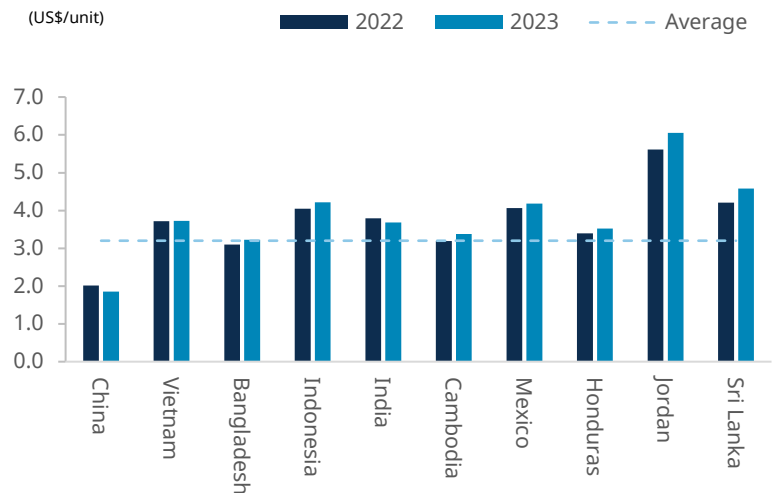
Source: Bloomberg, Mirae Asset Vietnam Research

Consumer confidence indexes



Source: Country statistics, Mirae Asset Vietnam Research

Average garment import price in US



Source: OTEXA, Mirae Asset Vietnam Research

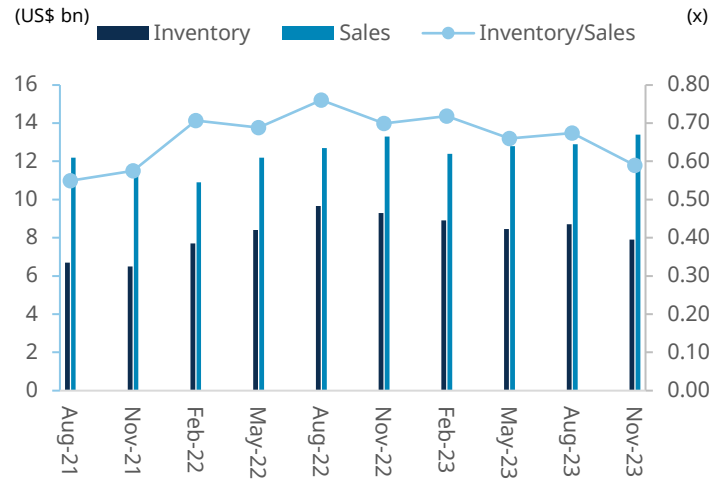
US textile inventory/sales ratio



Source: Bloomberg, Mirae Asset Vietnam Research

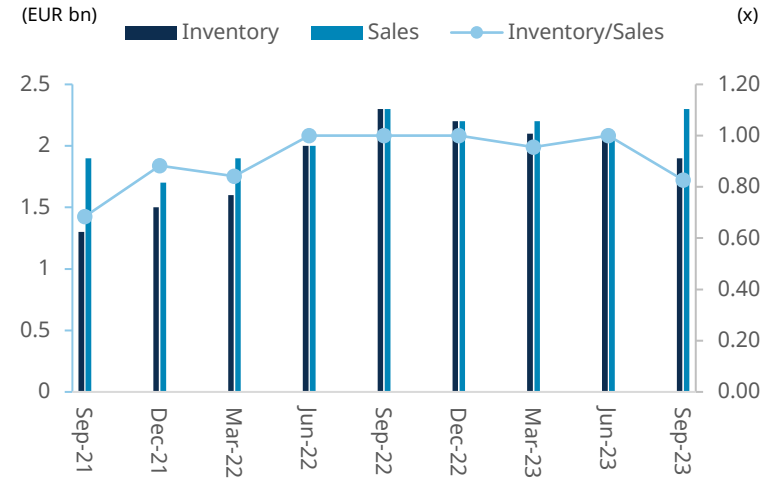
Quarterly inventory of major brands

Nike



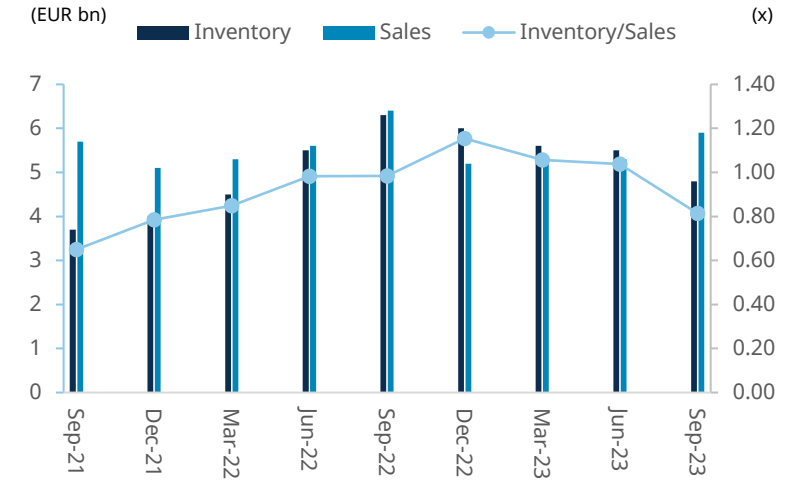
Source: Bloomberg, Mirae Asset Vietnam Research

Puma



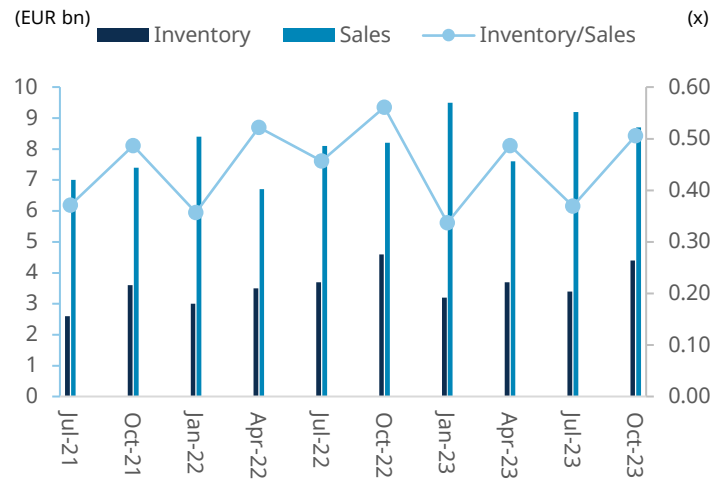
Source: Bloomberg, Mirae Asset Vietnam Research

Adidas



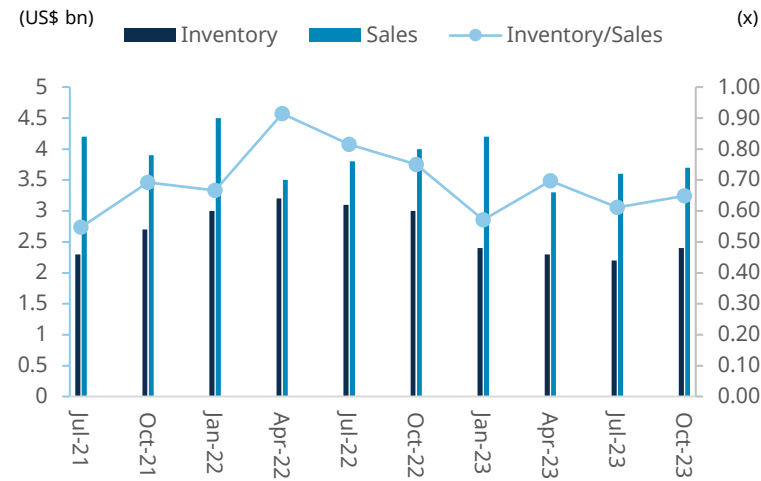
Source: Bloomberg, Mirae Asset Vietnam Research

Inditex



Source: Bloomberg, Mirae Asset Vietnam Research

GAP



Source: Bloomberg, Mirae Asset Vietnam Research

H&M



Source: Bloomberg, Mirae Asset Vietnam Research



Turnaround expectations

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(Maintain)	TRADING BUY
Target price (VND, 12M)	31,900
Current price (02/23/24)	27,650
Expected return	+15.4%

NPATMI (24F, VNDbn)	223
Market consensus (24F, VNDbn)	154
EPS Growth (24F, %)	134
P/E (24F, x)	11

Market cap (VND bn)	2,572
Shares outstanding (mn)	94
Free float (%)	58.9
Foreign ownership (%)	NA
52-week low (VND)	22,173
52-week high (VND)	35,650

(%)	1M	6M	12M
Absolute	3.9	-14.6	1.4
Relative	-0.9	-12	-4.7

Investment points

- Investment thesis:** Century Synthetic Fiber Corp (STK VN) is a textile company that concentrates on polyester filament products. The company's main products are virgin and recycled DTY, FDY, and POY. STK currently operates two spinning factories, located in HCMC and Dong Nai province, with a total capacity of 63,000 tons/annum. Moreover, STK is the only company in the ASEAN area that enjoys strategic cooperation with Unifi Inc. to develop high-value and recycled filaments. As recycled and man-made filaments are becoming increasingly popular in the textile world, we believe STK is on the right path to success.
- 2023 updates:** STK's 4Q23 revenue fell by 18.2% YoY to VND352.3bn. According to the company, the main reasons are weak demand amid recent macro uncertainties, combined with conflicts regarding customs law, commercial law, and foreign trade law, with authorities in Vietnam halting the issuance of origin certificates for on-the-spot export transactions (which account for about 60% STK's total revenue). Gross margin improved to 16.4% (4Q22: 14.8%) and gross profit reached VND57.8bn (-9.4% YoY). While operating costs were nearly unchanged in 4Q23, financial income fell sharply, due to the company's investments in the Unitex project; as a result, operating profit fell to VND33.5bn (-30.5% YoY). STK recorded 4Q23 NPAT at VND31.6bn (-26.3% YoY). In 2023, STK's revenue and NPAT reached VND1,425.6bn (-32.5% YoY) and VND87.3bn (-63.9% YoY), respectively.
- 2024 forecast:** According to the company, the Unitex is to be completed in late-1Q24, becoming operational from 3Q24 (later than our expectation of 2Q24). We expect the Unitex to add about 18,000 tons of polyester products to STK's 2024 output, which increases 2024 total output to 48,000 tons. In our base-case scenario, we assume the average selling price of STK at US\$2,000/ton. Thus, we forecast 2024 revenue at VND2,352bn (+64.9% YoY). We assume material costs (mainly PET) to be stable, at around VND31mn/ton, due to current low demand. Other production costs should increase in accordance with inflation rates and the operation of a new fiber factory. As STK increases debt for financing the Unitex, we expect financial expenses to jump to VND126.3bn (+133.5% YoY). Thus, we forecast operating profit at VND248.2bn (+179.8% YoY). In turn, we forecast STK's pre-tax profit and NPAT at VND248.2bn (+174.3% YoY) and VND223.4bn (+155.9% YoY), respectively.
- Valuation:** We used the free cashflow to the firm (FCFF) method to evaluate STK shares, with the main assumptions: 1) Required rate of return on equity of 14%; and 2) long-term growth rate after 2033 of 2%. Thus, we maintain our target price at VND31,900 with a Trading Buy rating.



FY (31/12)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Revenue (VNDbn)	2,043	2,117	1,426	2,352	2,499	2,597
OP (VNDbn)	285	271	89	248	278	314
OP margin (%)	14.0	12.8	6.2	10.6	11.1	12.1
Pre-tax income (VNDbn)	286	269	91	248	278	314
NPATMI (VNDbn)	278	242	87	223	251	283
EPS (VND)	4,084	3,341	1,003	2,348	2,634	2,972
ROE (%)	23.8	17.3	5.5	13.1	13.5	14.1
P/E (x)	13.9	9.1	25.7	10.9	9.8	8.6
P/B (x)	3.1	1.5	1.5	1.4	1.3	1.2
Total assets (VNDbn)	1,971	2,125	2,975	3,611	3,571	3,624
Equity (VNDbn)	1,259	1,541	1,628	1,779	1,935	2,077

Source: Company data, Mirae Asset Vietnam Research



New clusters boost capacity

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(Maintain)	BUY
Target price (VND, 12M)	48,400
Current price (02/23/24)	39,500
Expected return	+22.5%

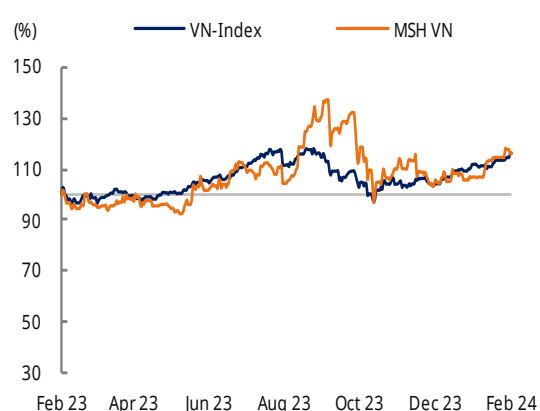
NPATMI (24F, VNDbn)	308
Market consensus (24F, VNDbn)	NA
EPS Growth (24F, %)	19.8
P/E (24F, x)	10.4

Market cap (VND bn)	2,993
Shares outstanding (mn)	75
Free float (%)	43.6
Foreign ownership (%)	4.1
52-week low (VND)	31,800
52-week high (VND)	48,000

(%)	1M	6M	12M
Absolute	8.1	8.9	13.7
Relative	4	5.4	0.5

Investment points

- Investment thesis:** Song Hong Garment JSC (MSH VN) is a highly profitable garment company located in Northern Vietnam. MSH operates more than 20 manufacturing workshops in Nam Dinh province, Vietnam, that are well-positioned logistically, with key product lines comprising CMT and FOB export garments (major revenue proportion). MSH boasts a solid customer portfolio concentrated on the US market, including Walmart, Nike, Target, and Haddad Brands. The company also boasts a well-known brand in the domestic blanket-sheet-pillow and mattress market.
- 2023 updates:** MSH's 4Q23 revenue reached VND1,156.7bn (+1.3% YoY), recording a positive YoY growth rate again, after a decline in 3Q23. However, gross margin fell to 13.9% (4Q22: 15.2%), while gross profit reached VND160.7bn (-7.4% YoY). Financial income increased, thanks to MSH's large sum of cash, while operating costs were flat. Thus, MSH's 4Q23 operating profit increased 23.8% YoY to VND100.8bn. MSH's 4Q23 NPAT reached VND81.3bn (+48.1% YoY). In 2023, the company's revenue and NPAT reached VND4,541.9bn (-17.7% YoY) and VND245.2bn (-27.4% YoY).
- 2024 forecast:** Although the company has new clusters, due to recent macro uncertainties, we believe the possibility of a boost in textile product demand in key markets is relatively low, while MSH has only slightly raised its average workforce assumption to around 12,000 people. In addition, the productivity of new clusters, like Song Hong 10 (SH10) or the Xuan Truong project, may take time to increase to the average company level; as a result, we maintain our productivity assumption at VND400mn/person. Thus, we forecast MSH's 2024 revenue at VND4,800bn (+5.7% YoY). In turn, we forecast 2024 operating profit and NPAT at VND419bn (+37.3% YoY) and VND335.2bn (+36.7% YoY), respectively.
- Valuation:** We used the discounted free cash flow to the firm (FCFF) method to determine the fair value of MSH stock. With a required rate of return of 14% and assuming 0% long-term growth after 2034. We maintain our target price for MSH at VND48,400/share with a Buy rating.
- Key risks:** Wage competition with other employers in Northern Vietnam, amid increasing new FDI investment; input dependence on key suppliers in China; VND/US\$ ratio fluctuations are the main risks to our rating and valuation.



FY (31/12)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Revenue (VNDbn)	4,749	5,523	4,542	4,800	5,330	5,330
OP (VNDbn)	546	446	305	419	590	563
OP margin (%)	11.5	8.1	6.7	8.7	11.1	10.6
Pre-tax income (VNDbn)	543	439	307	419	590	563
NPATMI (VNDbn)	442	375	245	308	434	414
EPS (VND)	8,846	4,998	3,260	3,905	5,497	5,246
ROE (%)	30.1	21.0	13.9	17.8	22.5	19.1
P/E (x)	8.9	6.6	12.0	10.4	7.4	7.7
P/B (x)	2.8	1.5	1.8	1.7	1.5	1.3
Total assets (VNDbn)	3,203	3,294	3,453	3,295	3,578	3,784
Equity (VNDbn)	1,495	1,719	1,810	1,961	2,234	2,489

Source: Company data, Mirae Asset Vietnam Research

APPENDIX

Stock Ratings		Industry Ratings	
Buy	: Relative performance of 20% or greater	Overweight	: Fundamentals are favorable or improving
Trading Buy	: Relative performance of 10% or greater, but with volatility	Neutral	: Fundamentals are steady without any material changes
Hold	: Relative performance of -10% and 10%	Underweight	: Fundamentals are unfavorable or worsening
Sell	: Relative performance of -10%		

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

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* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

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