

Textile & Garment

Signals of shining prospect

Non-rated

Shinning consumption drove export in 3Q24

In 3Q24, textile and garment turned more vibrant in both manufacturing and export activity. Particularly, clothing, fabric and yarn domestic production grew by double-digit in 3Q24, meanwhile, the exports of textile and garment; and footwear soared by +15.6% yoy (USD10.7bn) and +19.3% yoy (USD5.7bn), respectively. The rosy growths were bolstered by reviving consumer demand for fashion during the year-end holiday season in the US and EU markets. In contrast, the bleak fashion prospects in China dragged on Vietnam's fiber and yarn exports in 3Q24 (-7.8% yoy).

Textile and garment players – Robust growth in 3Q24

In 3Q24, we saw textile and garment export growing in key markets, including US (18.1% yoy); EU (+20.5% yoy); and Japan (+5.9% yoy), whilst South Korea slid by 5.8% yoy. As such, earnings of textile and garment fostered thanks to the upturn resurgence of export orders. Specifically, 3Q24 aggregated revenue of 11 listed textile and garment companies swelled on +18.5% yoy and NPAT-MI soared to VND615bn (+1.22x yoy), mainly contributed by recovery of VGT, TNG and MSH's core business.

Fiber and yarn – NPAT-MI was spurred by STK's rebound

In 3Q24, fiber and yarn export turnover remained bleak due to ailing consumption in the Chinese market. Total fiber and yarn export turnover sat at USD1.09bn (-7.8% yoy), of which China slumped by 23% yoy. As such, 3Q24 aggregated revenue of 2 listed fiber and yarn companies (ADS and STK) retreated by 19% yoy (VND673bn). However, aggregated NPAT-MI resurged to VND90.1bn (+1.75x yoy), thanks to an uptick in gross margin of STK.

Dynamic growth could sustain in 4Q24F

In 4Q24F, we view positive growth momentum of textile and garment industry, especially in the US and EU markets. Our assumption is fueled by the holiday season, alongside consumption revival after inflationary pressure ease and FED rate cuts that support consumer confidence. In contrast, *Fiber and yarn* demand in the Chinese market could stay sluggish. Therefore, we believe that Vietnam's yarn export outlook could face challenges in 4Q24F in both export volumes and selling prices. As such, the earnings growth could lack rapid drivers for 4Q24F.

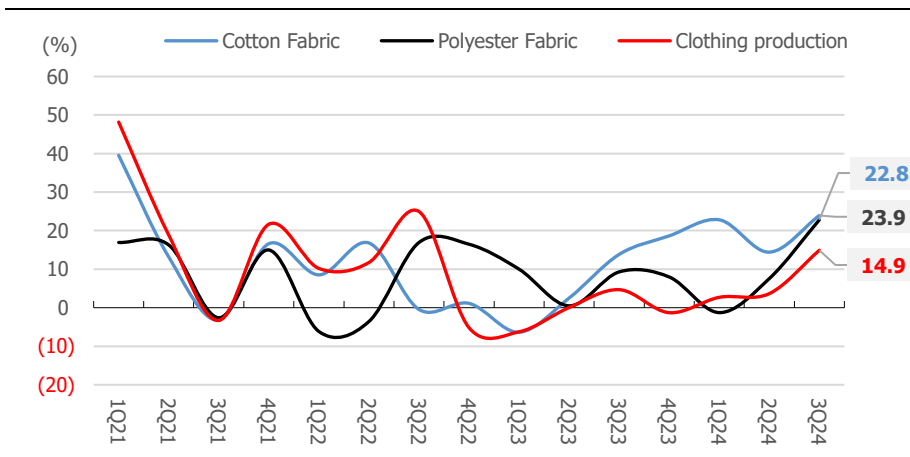
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I. 3Q24 Textile and garment sector overview

According to General Statistics Office (GSO) data, the production of domestic fabric and clothing sharply accelerated (Figure 1), reflecting robust manufacturing activity in the textile and garment (T&G) industry during 3Q24.

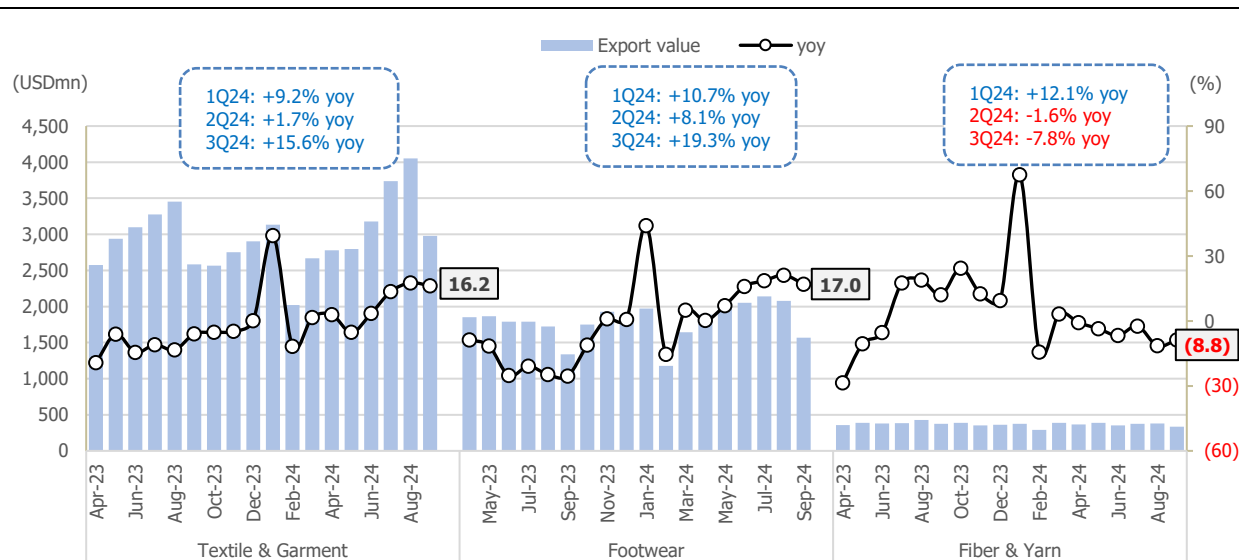
Figure 1. The robust domestic production of fabric and clothing in 3Q24



Source: GSO, KIS Research

Per Vietnam Customs data, the exports turnover of three types of products respectively recorded (T&G): USD10.65bn (+15.6% yoy); footwear: USD5.7bn (+19.3% yoy); and fiber and yarn (F&Y): USD1.01bn (-7.8% yoy). We saw a pickup in yoy export growth of T&G and footwear products in 3Q24 vs to 1Q24 and 2Q24, showing that demand for fashion products is reviving gradually in key markets. In contrast, F&Y products export cooled down due to a glimmer demand in Chinese market (The key F&Y importer of Vietnam) (Figure 2).

Figure 2. Export growth momentum of textile and apparel products was robust in 3Q24



Source: Vietnam Customs, FiinproX, KIS Research

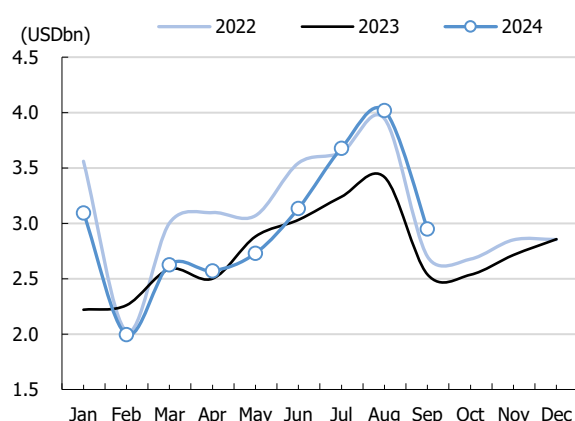
II. T&G export segments – Robust growth in 3Q24

1. 3Q24 T&G export turnover overview

The prospects of T&G products turned brighter in 3Q24, as the monthly T&G export values rally since Jul-24 and approach the high levels seen in 2022 (Figure 3). Additionally, we witnessed the resumption across the industries (including FDI and domestic companies), as FDI firms: +13% yoy and +15% in Jul- and Aug-24, respectively; domestic firms: +15% yoy and +22% yoy in Jul- and Aug-24, respectively (Figure 3, 4). Specifically (Figure 5):

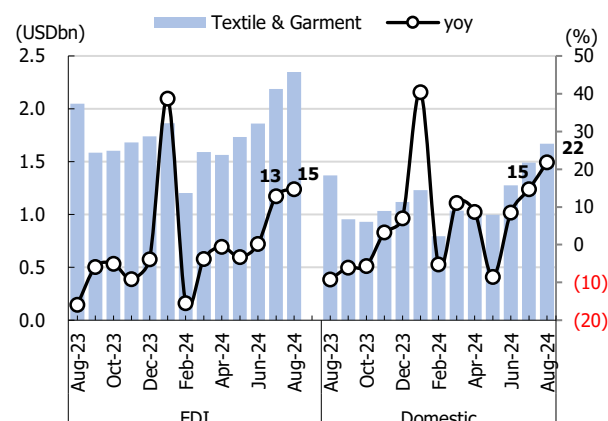
- *The US and EU markets rebounded in 3Q24, with export value growth of +18.1% yoy and +20.5% yoy, respectively. We believe that export orders could return from key markets, especially in the US and EU markets, aiming to serve demand revival on the holiday seasons.*
- *In the Asian markets, represented by Japan and Korea, the export growth trends diverge. The Japanese market showed a solid recovery in 3Q24, with T&G imports from Vietnam inching up to USD1.25bn (+5.9% yoy, higher than +0.3% yoy in 2Q24). In contrast, the South Korean market edged down -5.8% yoy in 3Q24.*

Figure 3. Monthly T&G export turnover surged since Jul-24



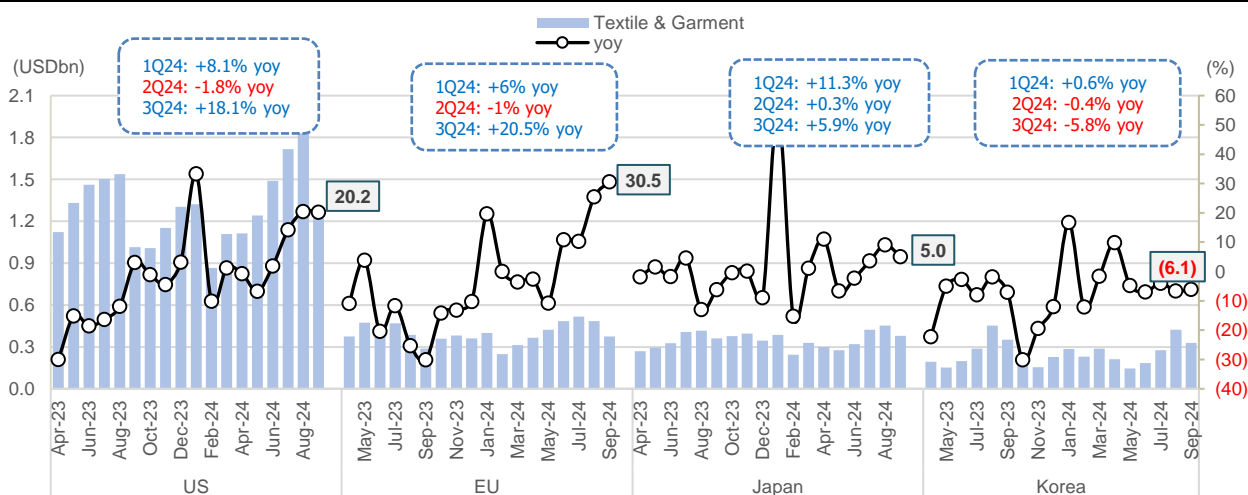
Source: Vietnam Customs, FiinproX, KIS Research

Figure 4... And T&G exports by both FDI and domestic companies showed positive signs in 3Q24



Source: Vietnam Customs, KIS Research

Figure 5. The US and EU markets strongly rebounded thanks to high consumption on holiday seasons

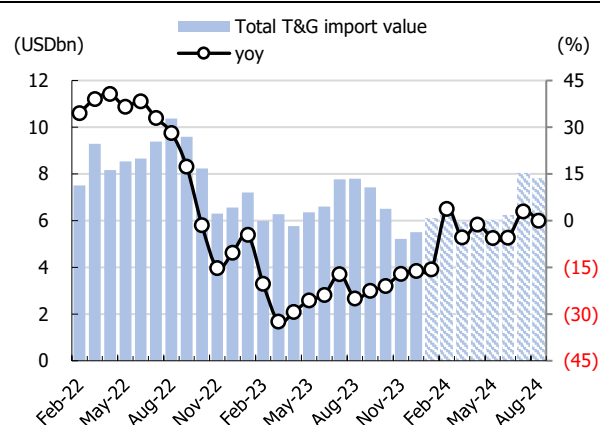


Source: Vietnam Customs, FiinproX, KIS Research

2. The US market – Consumers could be more confident to spend, while inventory stays moderate

The US market accounted for 44% of total Vietnamese export value in 9M24. According to OTEXA, total US textile and apparel imports revived and posed moderate growth in Jul- and Aug-24, at +3% yoy and 0% yoy, respectively (Figure 6). We observed US clothing retail sales picked up in 9M24 (+0.2% yoy) and +3.5% yoy in 3Q24, per FRED data, meanwhile, the retail clothing inventory also stayed at a healthy level and inventory/sales ratio remained moderate (Figure 7).

Figure 6. Total US T&G import gradually improved in Jul- and Aug-24



Source: OTEXA, KIS Research
(*) Note: Calculating based on HS61, HS62

Figure 7. Clothing inventories remain a healthy level amidst clothing retail sales are inching up

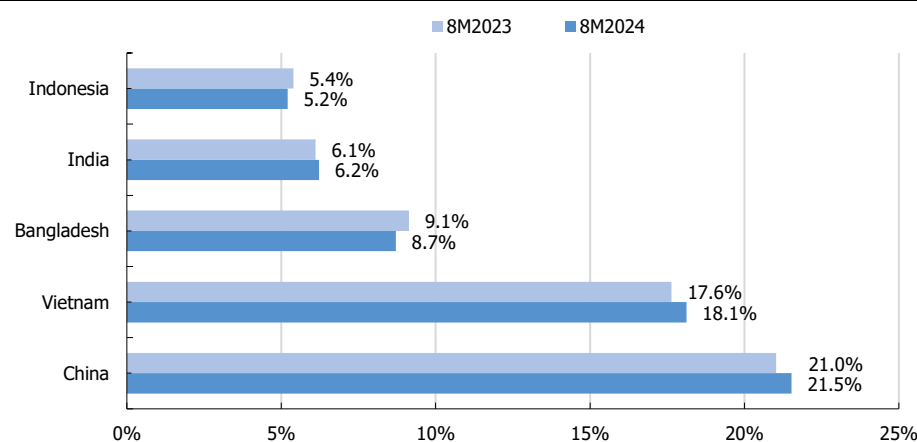


Source: FRED, Bloomberg, KIS Research

We followed the export growth by countries to the US market. Vietnam's T&G export to US could gain market share to others (especially Bangladesh, figure 8). Political instability in Bangladesh could lead to a shift in a portion of orders towards other competitive manufacturing countries, including Vietnam.

Moreover, with high-quality standards, fast and reliable delivery times, Vietnam remains a preferred destination for major US fashion brands seeking manufacturing partners for T&G orders.

Figure 8. Vietnam gained a slight market share from Bangladesh

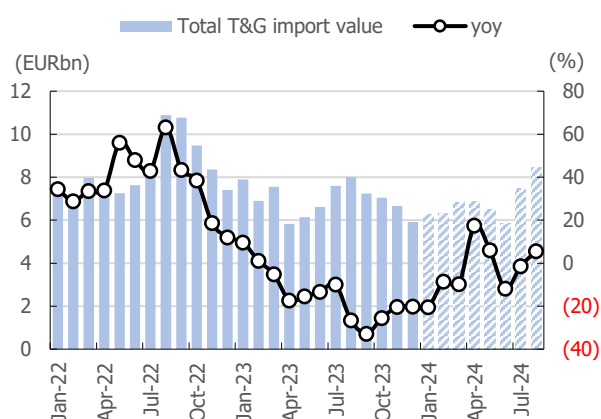


Source: OTEXA, KIS Research
(*) Note: Calculating based on HS61, HS62

3. The EU market – A first stage of restoration in 3Q24

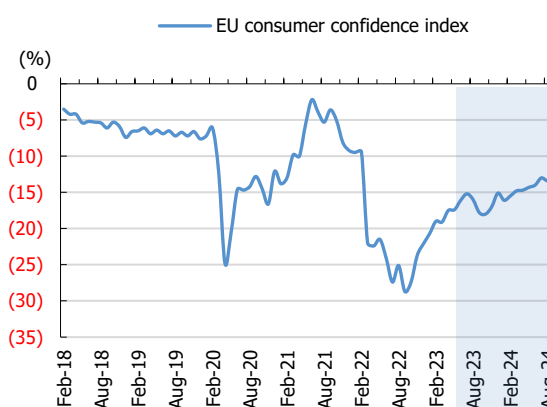
The EU market accounted for 13% of total Vietnamese export value in 9M24. According to Eurostat data, total EU T&G import turnover (HS 61, 62) bounced back since Jul-24, and posed +5.6% yoy in Aug-24 (Figure 10). Consumer confidence picked up after inflationary relief and ECB lowered rates to stimulate economy, with a 25%p reduction in mid-Sep-24.

Figure 9. Total T&G EU products import gradually resumed



Source: Eurostat, KIS Research
(*) Note: Calculating based on HS61, HS62

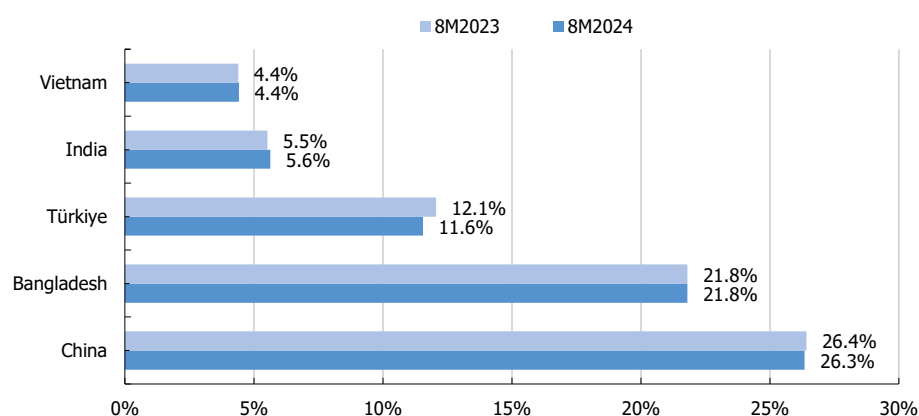
Figure 10. EU consumer confidence improved, indicating a more favorable consumption



Source: Eurostat, KIS Research

In terms of the market share of key exporters to the EU, we observe that the market shares largely stayed unchanged in 8M24, vs the US market. Overall, Vietnam steps aside from the recent trend of relocating away from Bangladesh. The supply of fashion goods remains predominantly concentrated in the two main players: China and Bangladesh.

Figure 11. Market shares between competitors remained stable during 8M24.



Source: Eurostat, KIS Research
(*) Note: Calculating based on HS61, HS62

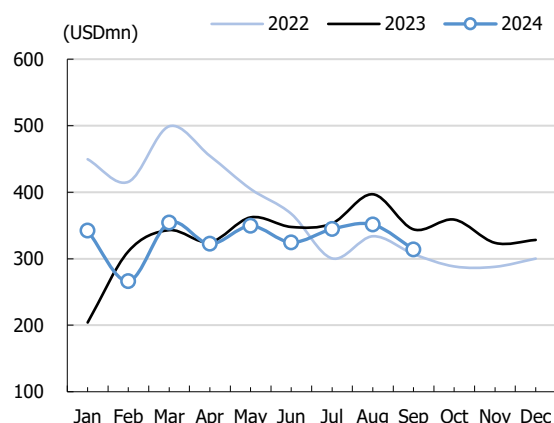
III. F&Y segments – The hardship dragged on

According to Vietnam Customs, F&Y export turnover sat at USD1.09bn (-7.8% yoy) in 3Q24. As monthly F&Y export data showed that it still dragged on the hardship due to the bleak consumption prospects in 3Q24, especially in Chinese markets (the largest cotton yarn importer of Vietnam). Particularly, exports to China slumped by 23% yoy in 3Q24, whereas F&Y exports to Korean

and US markets ramped back up +11.2% yoy and +32.3% yoy, respectively (Figure 14)

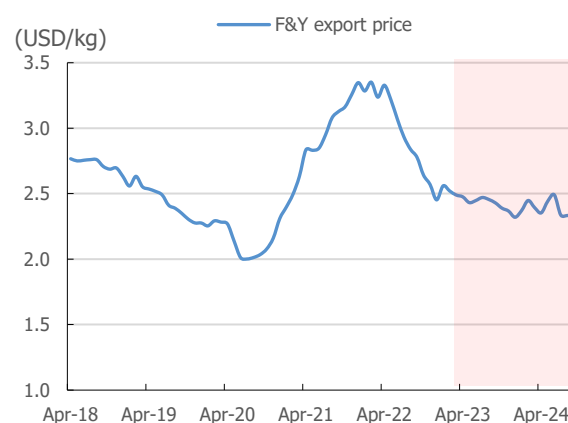
The weak demand and intense competition due to the oversupply in the yarn industry kept persisting in 3Q24 (Figure 13). Therefore, F&Y export prices continued to trade at a low level.

Figure 12. Monthly F&Y export turnover showed a sluggish demand



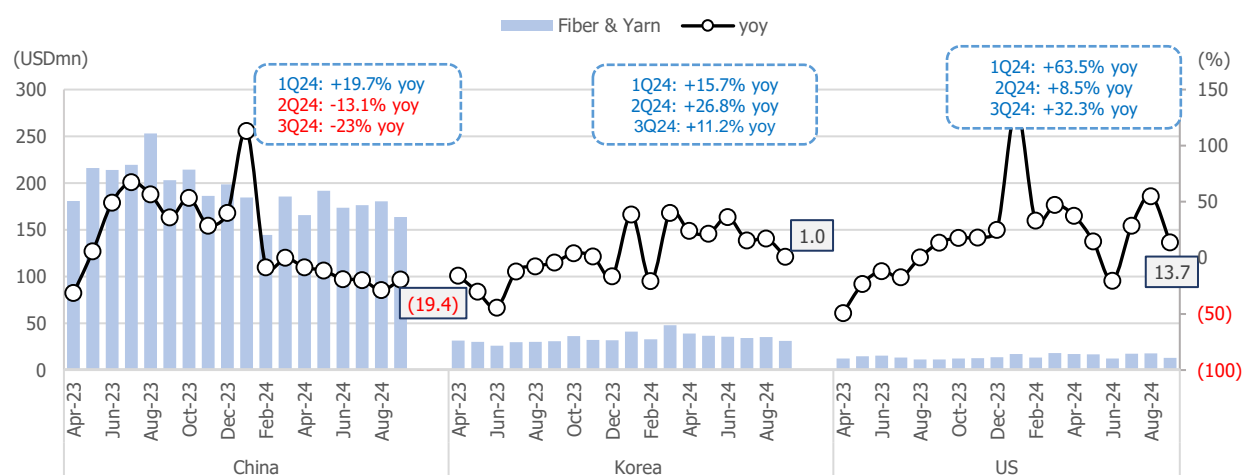
Source: Vietnam Customs, FiinproX, KIS Research

Figure 13... Alongside, F&Y export prices persisted glimmer trend



Source: Vietnam Customs, FiinproX, KIS Research

Figure 14. It was attributed to the weak consumption in Chinese markets (the largest importer Vietnam's F&Y)



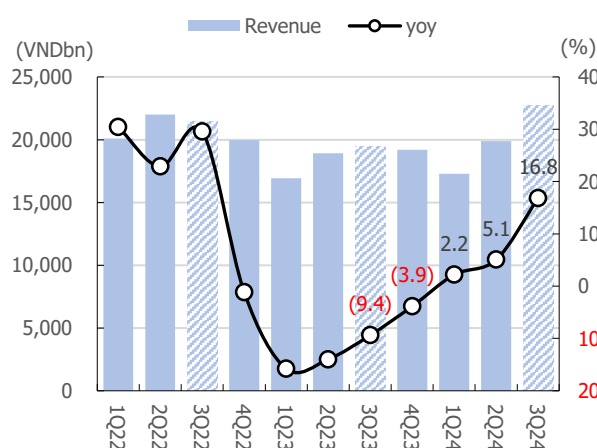
Source: Vietnam Customs, FiinproX, KIS Research

IV. Listed company overview

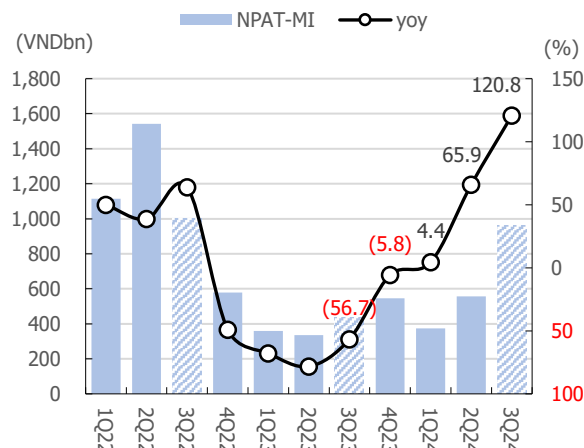
1. 3Q24 aggregated business performance of entire sector

In our collection, 3Q24 aggregated revenue of 32 listed T&G and F&Y companies swelled on 16.8% yoy and 14.3% qoq, amounting to VND22,721bn. Meanwhile, NPAT-MI soared by 1.2x yoy, posting to VND961bn.

The robust growth of NPAT-MI is due to VGT (the largest exporter in industry) resuming from a low base in 3Q23, posting NPAT-MI to VND230bn vs. VND27bn in 3Q23. Besides, TNG and MSH's NPAT-MI also are back on track, growing by 60% yoy and 1.5x yoy, respectively (Table 1).

Figure 15. 3Q24 aggregated revenue of entire textile sector surged by 16.8% yoy

Source: Company data, FiinproX, KIS Research

Figure 16. Meanwhile, NPAT-MI also kept a high growth, with a VND961bn (+1.2x yoy)

Source: Company data, FiinproX, KIS Research

Table 1. Business results of some notable listed T&G and F&Y companies in 3Q24

(VNDbn, %, %p)

	Company	Revenue	yoy	GP	yoy	NPAT-MI	yoy	GM	yoy	NM	yoy
T&G	Total	17,646	18.5	2,325	31.0	874	122.3	13.2	1.3	5.0	2.3
	VGT	4,588	12.2	510	23.8	230	763.3	11.1	1.0	2.8	2.2
	VGG	2,692	18.9	297	41.9	121	132.4	11.0	1.8	4.4	2.1
	TNG	2,358	12.0	341	17.4	111	59.9	14.4	0.7	4.7	1.4
	M10	1,362	19.5	154	30.8	32	1.1	11.3	1.0	2.3	(0.4)
	TCM	1,105	20.2	168	21.2	81	51.6	15.2	0.1	7.3	1.5
	MNB	1,304	36.1	247	60.8	47	1,100.5	18.9	2.9	2.5	2.0
	MSH	1,748	45.0	266	105.4	130	154.2	15.2	4.5	7.4	3.2
	GIL	153	(45.5)	31	13.0	2	Turnaround	20.4	10.6	1.9	1.9
	EVE	208	(1.9)	39	(43.4)	(29)	(935.3)	18.8	(13.8)	-	(1.7)
	HTG	1,498	18.0	165	16.2	75	27.2	11.0	(0.2)	4.9	0.3
F&Y	PPH	630	41.6	108	25.8	74	19.9	17.2	(2.2)	11.4	(2.4)
	Total	673	(19.0)	77	(34.0)	90	175.0	11.4	(2.6)	13.4	9.5
	ADS	366	(19.3)	25	(59.1)	8	(48.3)	6.7	(6.5)	2.1	(1.5)
	STK	307	(18.6)	52	(6.9)	82	391.8	16.9	2.1	26.6	22.2

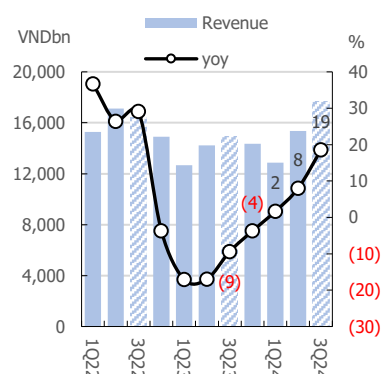
Source: Company data, FiinproX, KIS Research

*Note: "Turnaround": rebound to positive NPAT-MI after yoy losses;

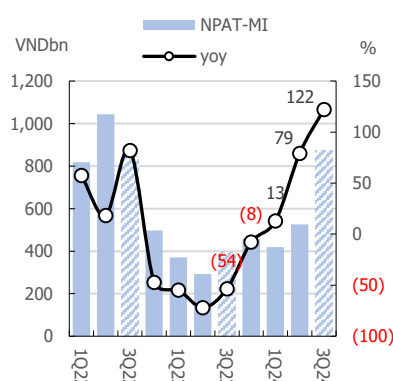
2. 3Q24's T&G enterprises business performance

In our collection, 3Q24 aggregated revenue and NPAT-MI of 11 listed T&G companies soared by 18.5% and 1.22x yoy, respectively. The impressive business results were attributed to:

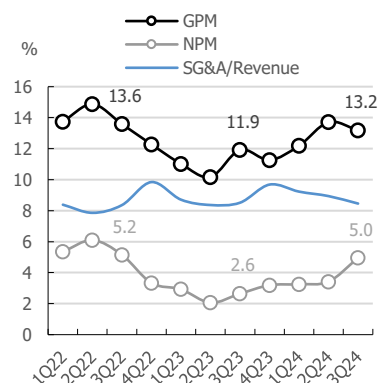
- The low base effect of T&G companies in 3Q23. Additionally, in 3Q24, VGT (the largest exporter) and some notable enterprises (MSH & TNG) steeply resurged which contributed to high growth.
- T&G companies' gross margin (GM) was stable compared to 2Q24, but net margin (NM) inched up. Meanwhile, SG&A/revenue remained stable (Figure 19). Therefore, we think the resurgence of NM could be due to the contribution of non-core business (financial and other income).

Fig 17. 3Q24 aggregated revenue of 11 listed T&G enterprises soared by 18.5% yoy

Source: Company data, FiinproX, KIS Research

Fig 18. NPAT-MI surged by +1.22x yoy thanks to a low base effect

Source: Company data, FiinproX, KIS Research

Fig 19. GM and SG&A/revenue kept stable, NM expanded significantly

Source: Company data, FiinproX, KIS Research

Table 2. Selected T&G companies' business performance in 9M24

(VNDbn, %)

	9M24 Revenue	YoY	9M24 NPAT-MI	YoY	Comments on 3Q24 performance
VGT	12,542	2.9	273	642	<p>In 3Q24, VGT's revenue posted VND4,588bn (+12.2% yoy/ +14.8% qoq). Per BOD, this growth was attributed to improvements in both prices and order volume, driven by a strong market recovery. GM stood at 11% (+1.0%p yoy/ -0.6%p qoq) as processing prices ballooned while input costs remained stable.</p> <p>Meanwhile, NPAT-MI jumped to VND230bn (+7.6x yoy/ +37.5x qoq), further supported by a 69% yoy drop in financial expenses due to a slump in FX losses (VND3.2bn in 3Q24 vs. VND106.6bn in 3Q23) and a deferred tax reversal of VND35.9bn.</p>
TNG	5,884	8.2	241	41.6	<p>In 3Q24, TNG's revenue grew to VND2,358bn (+12% yoy/ +8.5% qoq), driven by a surge in export orders due to robust holiday season demand and TNG's expansion into new markets. GM was 14% (+0.7%p yoy / -2%p qoq), per BOD, supported by TNG's strategic focus on high-value-added, complex products and managed production costs.</p> <p>Additionally, 3Q24 NPAT-MI rose to VND111bn (+59.9% yoy/ +26.3% qoq), bolstered by a rise in financial income (VND53bn in 3Q24 vs. VND28bn in 3Q23), lifting NPM to 4.7% (+1.4%p yoy/ +0.7%p qoq).</p>
TCM	2,885	14.9	216	95.6	<p>In 3Q24, TCM's revenue reached VND1,105bn (+20.2% yoy/ +30.5% qoq), mainly fueled by the Asia market (accounting for 67% of total revenue in 3Q24), which soared by +26% yoy. This growth was fueled by large orders from major shareholder E-Land (South Korea) leading TCM to allocate the majority of its capacity to serve this market. In contrast, the US market (accounting for 22% of revenue), declined -6% yoy, with limited signs of recovery and we are seeking more information on why TCM's exports to the US are diverging from industry trends. TCM's GM stood at 15.2% (+0.1%p yoy/ -2.8%p qoq), supported by lower raw cotton prices (-10.5% yoy/ -6.3% qoq), due to abundant supply.</p> <p>Furthermore, 3Q24 NPAT-MI reached VND81bn (+51.6% yoy/ +13.4% qoq), boosted by VND15bn in other income of VND15bn</p>

from asset disposals (+31.7x yoy), which enhanced NPM to 7.3% (+1.5%p yoy/ -1.1%p qoq).

MSH 3,852 13.8 269 66.2

In 3Q24, MSH's revenue fostered to VND1,748bn (+45% yoy/ +31.2% qoq), thanks to a surge in orders during 3Q24, with export orders from 2Q24 shipped in early July 2024, per BOD. Notably, GM climbed to 15.2% (+4.5%p yoy/ +1.5%p qoq), the highest level since 3Q22, it could be attributed to the recovery of selling prices. Consequently, NPAT-MI jumped to VND130bn (+1.5x yoy/ +50.7% qoq).

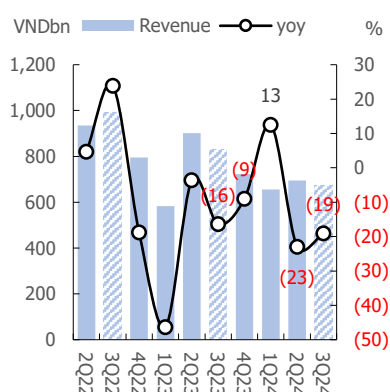
Per BOD, MSH plans to operate the Xuan Truong II factory by the end of 2024, adding 50 new sewing lines (+30~35% of current capacity). Overall, we expect MSH's core business to maintain positive momentum in 4Q24F and strengthen further in 1Q25F.

Source: Company data, KIS Research

3. 3Q24 F&Y enterprise business performance

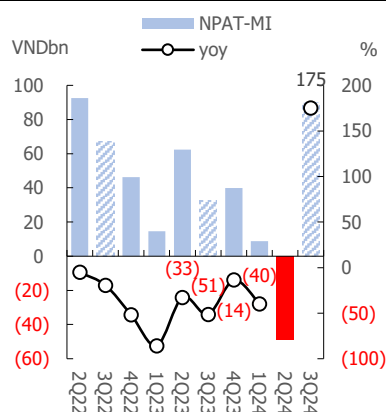
In our collection, 3Q24 aggregated revenue of 2 listed F&Y (ADS and STK) companies kept sliding by 19% yoy. In contrast, NPAT-MI bounced back to VND90.1bn (+1.75x yoy) vs to the losses of VND49bn in 2Q24 thanks to the strong resumption of STK's earnings.

Fig 20. 3Q24 aggregated revenue of 2 listed F&Y enterprises kept sliding by 19% yoy



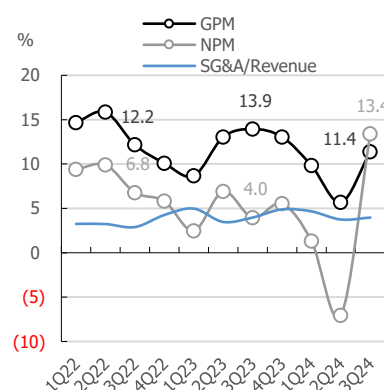
Source: Company data, FiinproX, KIS Research

Fig 21. NPAT-MI bounced back to VND90.1 thanks to the strong recovery of STK



Source: Company data, FiinproX, KIS Research

Fig 22. The margins of these companies widened thanks to STK bounced back



Source: Company data, FiinproX, KIS Research

Table 3. Selected F&Y companies' business performance in 9M24

(VNDbn, %)

	9M24 Revenue	YoY	9M24 NPAT-MI	YoY	Comments on 3Q24 performance
ADS	1,147	(7.7)	23	(57.3)	<p>In 3Q24, ADS's revenue plummeted to VND366bn (-19.3% yoy/ -6.5% qoq), largely due to sluggish demand in its primary market, China, where cotton yarn consumption remained weak.</p> <p>Furthermore, due to cotton prices staying low, ADS's GM came in 7% (-6.5%p yoy/+0.4%p qoq). Consequently, NPAT-MI fell significantly to VND8bn (-48.3% yoy/ +25.5% qoq).</p>

In 3Q24, STK's revenue fell to VND307bn (-18.6% yoy/ +1.3% qoq) amid cautious consumer spending, which led to lower sales.

However, NPAT-MI reached VND82bn (+4.9x yoy), driven by (1) a reversal of VND41bn in foreign exchange losses as the USD/VND rate fell by 3% during 3Q24. (2) an expanded GM of 16.9% (+2.1% yoy/ +12.1% qoq), attributed to lower input costs and a +6.3% yoy in selling prices, and (3) lower machine shutdown costs vs. to 2Q24.

In terms of Unitex factory, BOD announced that the company-initiated test production at the Unitex facility in 3Q24, aiming for commercial launch by 1Q25F. Furthermore, BOD indicated that they have yet to secure orders for 2025F.

STK 876 (18.3) 27 (52.0)

Source: Company data, KIS Research

V. Dynamic growth could continue into 4Q24F

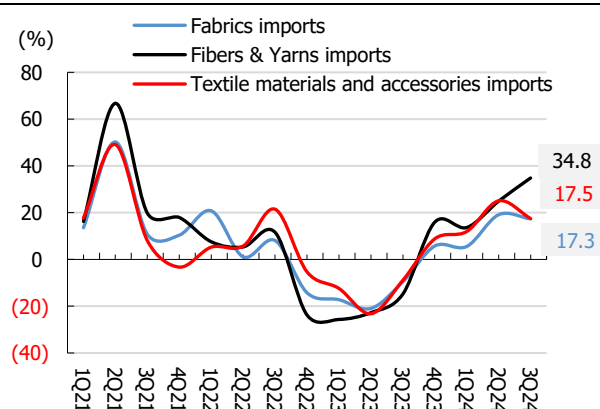
We expect the growth dynamics of T&G companies could remain intact in 4Q24F, as we expect a shining outlook for consumer spending, especially in the US and EU markets, fueled by robust demand on holiday season at the end of year, alongside a revival in consumption after inflationary ease and cutting rate that fosters consumer confidence.

We think these are some signs that support growth in 4Q24F:

- The import of inputs (fabrics, fibers & yarns and accessories) soared in 3Q24 (Figure 23), indicating the robust demand for T&G manufacturing activities and serving as a leading indicator of new orders in 4Q24F;
- The T&G export orders are fulfilled in 4Q24F (such as: TNG, TCM...), per management view;
- The recruitment activities in the T&G sector are quite active, indicating revival prospects. Additionally, the PMI index rebounded from 47.3 after Storm Yagi, returning to an expansion, around 51.2 (Figure 24). This suggests that business conditions in the manufacturing sector, including the T&G industry, are significantly improving.

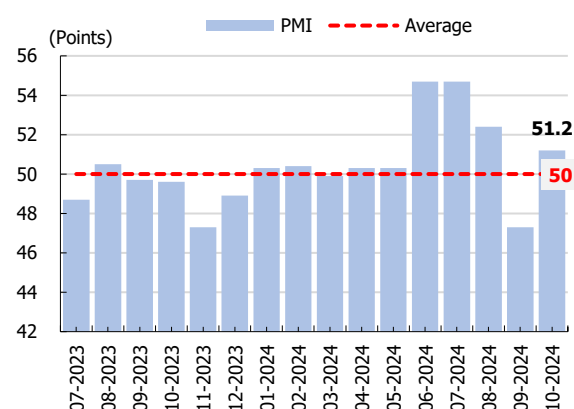
F&Y demand in the Chinese market remains generally sluggish. Therefore, we believe that Vietnam's yarn export outlook could continue to face challenges in 4Q24F in both export volumes and selling prices. As a result, the business performance of F&Y companies could lack strong growth drivers for 4Q24F.

Figure 23. The imports of T&G raw materials were vibrant in 3Q24



Source: Vietnam Custom, KIS Research

Figure 24. Alongside, PMI index posted to 51.2, indicating a rebound in new export orders



Source: FiiiproX, KIS Research

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15%p or more
- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

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- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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