

Company Update report 1H2014

THIEN LONG GROUP (TLG)

TVS

TLG 1H2014 POSITIVE PERFORMANCE

Office supplies

19/08/2014

1. Plenty of room for potential growth: 1H2014 revenue achieved VND 746bn, +17% y/y and equivalent to 47% 2014 target.

TLG is projected to grow at a healthy pace of 15%p.a over the next 3 years driven by **(1)** Recovering demand from domestic and exporting markets **(2)** Volume growth from capacity expansion (by increase capacity utilization rate and factory expansion).

2. Positive earning outlook: 1H2014 Net income reached VND 69bn, +12% y/y and equivalent to 54% 2014 target.

Given TLG's effective cost management, upbeat demand and new material supplies with better price and favorable payment term (as stated in TLG AGM 2014), TLG 2014 bottom line is expected to grow +18.2% y/y, equivalent to EPS 2014 of VND5,143/share.

3. Effective cost management & sustainably high profitability ratio

Improving gross margin (GM) with 2Q2014 GM of 38% & net margin 11% compared to those of 1Q2014 35% and 8%, respectively.

4. Undervaluation: TLG is currently trading at PE 8.7x on 2014 EPS of VND5,143/share, compared to VnIndex P/E 13.3x and consumer sector P/E of 15.6x.

Since of our first recommendation dated 02/07/2014, TLG has increased by 17.5%. In view of TLG's upbeat performance in 1H2014, we expect TLG will meet its 2014 profit target and remain positive viewpoint on TLG with target price of VND50,300/share.

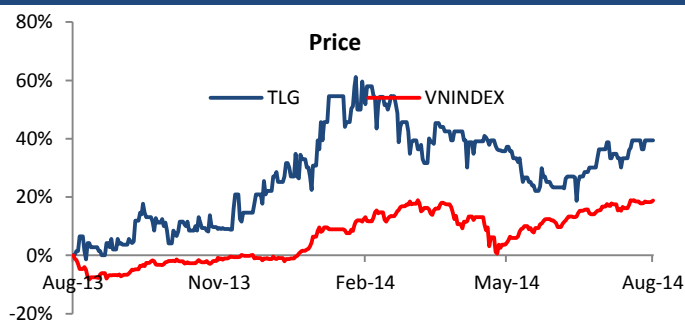
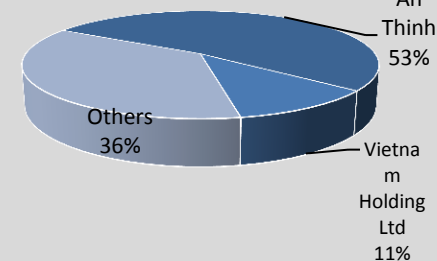
BUY

Price (02/7/2014)	38,300
Current price (19/8/2014)	45,000
Performance	17.5%
Target price (VND)	50,300
2014 PE(x)	10.0x
Upside(%)	30%
Dividend yield	5%
2014 EPS growth**	2.8%
2014 ROE**	20%
2014 Debt/Asset**	22%

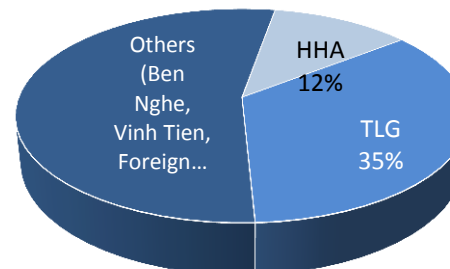
Key indicators

Market cap (USD mn)	57
Outs. Shares (mn) by end 2014	27
Avg 1 month traded (units)	3248

Ownership



Overall Market share 2013



TLG FINANCIAL METRICS (VND bn)

Income statement	2010	2011	2012	2013	*2014F
Revenue	813	1,044	1,216	1,406	1,631
Gross profit	292	412	458	517	590
Operating profit	117	165	164	179	199
Non-operating profit	(0)	(15)	11	9	0
Profit to shareholders	71	81	100	117	138

Balance sheet	2010	2011	2012	2013	2014F
Cash & equivalent	37	81	151	176	107
Accounts receivable	42	53	50	81	76
Inventories	340	478	423	456	515
Net fixed assets	250	248	220	180	329
Others	83	91	118	116	116
Total Assets	752	950	963	1,009	1,144
Short-term debt	197	318	261	238	238
Long-term debt	25	25	12	11	11
Total liabilities	344	472	411	380	388
Total equity	408	478	552	630	756

Cash flows	2010	2011	2012	2013	2014F
Beginning cash	50	37	81	151	176
Operating cash	(4)	(40)	201	87	143
Investing cash	(65)	(57)	(43)	(17)	(200)
Financing cash	57	140	(88)	(45)	(12)
Cash generated	(12)	43	70	25	(69)
Ending cash	37	81	151	176	107

Ratio	2010	2011	2012	2013	*2014F
Margin					
GM	36%	39%	38%	37%	36%
OM	14%	16%	13%	13%	12%
NM	9%	8%	8%	8%	8%
Growth ratio					
Sales	30%	28%	17%	16%	16%
EPS**	21%	-1%	4%	6%	2.8%
Profitability ratio					
ROA	10%	10%	10%	12%	13%
ROE	18%	19%	19%	20%	19.9%
Liquidity/solvency					
Current ratio (x)	1.5x	1.5x	1.7x	2.1x	2.0x
Debt-to-asset	30%	36%	28%	25%	22%
Debt-to-equity	54%	72%	49%	40%	33%
Valuation metric					
EPS (VND)	4,588	4,563	4,729	5,003	5,143
BVPS (VND)	25,262	27,076	26,051	27,023	28,207

**EPS growth should be considered with TLG's dividend payout policies of 20%

2014: 20% Dividend (5% cash, 15% stock) (Expected)

2013: 20% Dividend (5% cash, 15% stock)

2012: 20% Dividend (10% cash, 10% stock)

2011: 20% Dividend (10% cash, 10% stock)

2010: 20% Dividend cash

TLG 1H 2014 POSITIVE PERFORMANCE (VND bn)

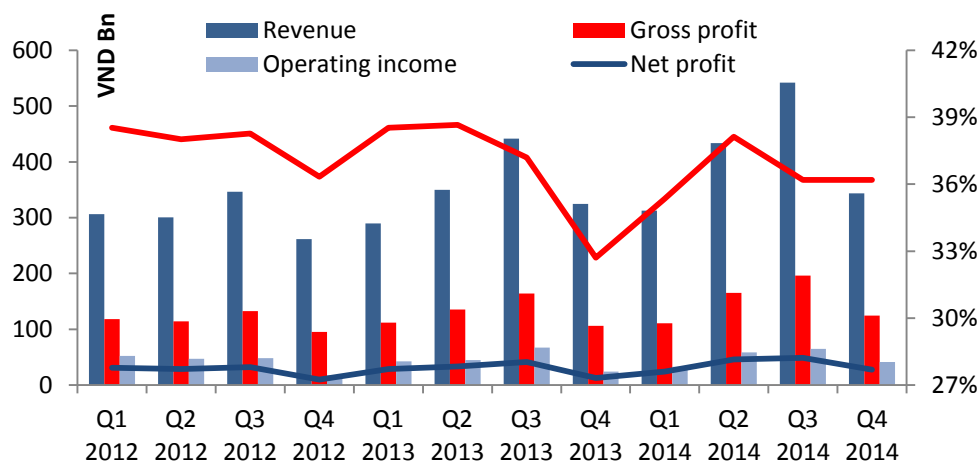
VND Bn	Q1 2013	Q22013	Q12014	Q22014	1H2013	1H2014	Growth y/y
Revenue	290	350	313	433	640	746	17%
COGS	(178)	(214)	(202)	(268)	(392)	(470)	20%
Gross	112	136	110	165	247	276	11%
GM	39%	39%	35%	38%	39%	37%	
Sell cost	(39)	(51)	(45)	(63)	(90)	(108)	20%
Admin cost	(30)	(40)	(33)	(43)	(70)	(77)	9%
SG&A	(69)	(91)	(78)	(107)	(160)	(185)	15%
Interest exp	(7)	(6)	(4)	(4)	(13)	(8)	-36%
Operating income	42	45	33	58	87	91	5%
EBITDA	52	54	42	55	106	97	
EBITDA margin	18%	15%	13%	13%	17%	13%	
NI	28	33	24	46	62	69	12%
NI/Revenue	10%	10%	8%	11%	10%	9%	
EPS					2,684	2,983	

Improving business performance in 2Q2014 compared to last year underpinned by:

- Soaring demand in preparation for back-to-school season translated into 24% y/y growth in revenue.
- Sharp reduction in interest expense by 34% y/y.

2H2014 Expectation

- 3Q2014 operating result is expected to witness considerable growth as back-to-school effect still lingers, even stronger than in 2Q2014. The seasonality pattern of revenue and income proves to be reliable given the last 2 years of historical data.
- Gross margin is expect to remain at high level supported by TLG's new cheaper sources of material (as stated in AGM 2014)
- Lowering lending rate would become an important catalyst for an upswing in 2014 TLG business results. According to 2Q2014 Financial statements, TLG has enjoyed favorable fall in lending rate from 9.5% p.a down to 7% p.a (for short-term loan) and 14% p.a down to 11.7% for long term loan.



Source: Bloomberg

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