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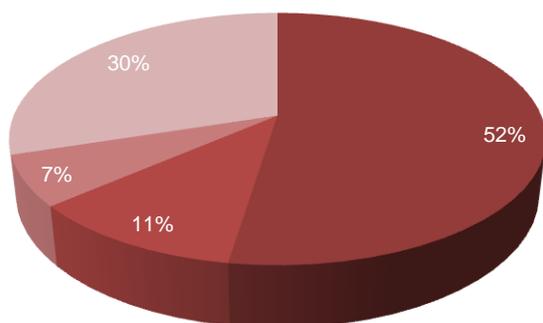
MID & SMALL CAP WATCH: Thien Long group (TLG: VN) Reliable brand with stable growth

Overview

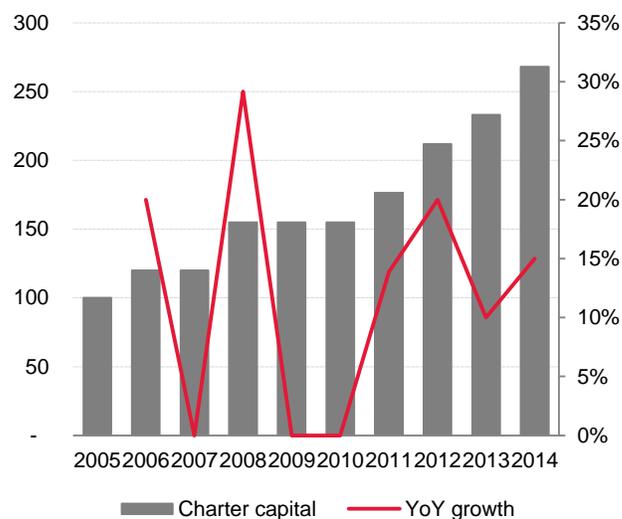
Thien Long is the largest manufacturer of stationery products in Vietnam. The company has four product categories: (1) writing instruments, (2) office supplies, (3) school supplies and (4) art supplies. TLG holds a dominant position in all four categories thanks to its reputable brand and an extensive distribution network. Writing instrument is the main revenue contributor (~50% of total sales in 2014) and in this segment, TLG holds a 65% market share in Vietnam.

The company was founded in 1981 and became a joint stock company in 2005 with a charter capital of VND 100 bn. It was later listed on the Ho Chi Minh City Stock Exchange (HOSE) in 2010 with a charter capital of VND 176.5 bn.

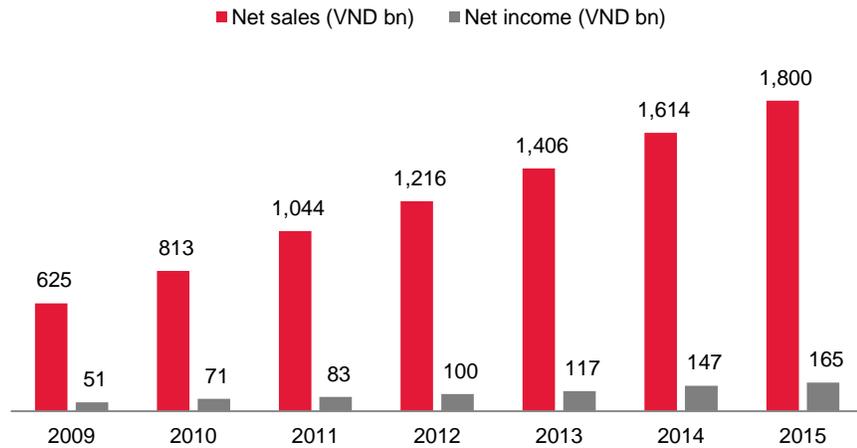
Shareholder structure



- Thien Long An Think Investment JSC (*)
- Vietnam Holding Limited
- Mr. Co Gia Tho (Chairman)
- Others



(* Mr. Co Gia Tho is also the Chairman of Thien Long An Think Investment JSC)



Source: TLG, SSIResearch

Subsidiaries

TLG has 4 subsidiaries and no joint venture

	Charter capital (VND bn)	Ownership
Thien Long Hoan Cau Trade and Service Ltd.	20	100%
Thien Long Long Thanh Trade and Manufacture Ltd.	80	100%
Southern Tan Luc Trade and Service Ltd.	20	100%
Northern Tan Luc Trade and Service Ltd.	10	100%

Source: TLG

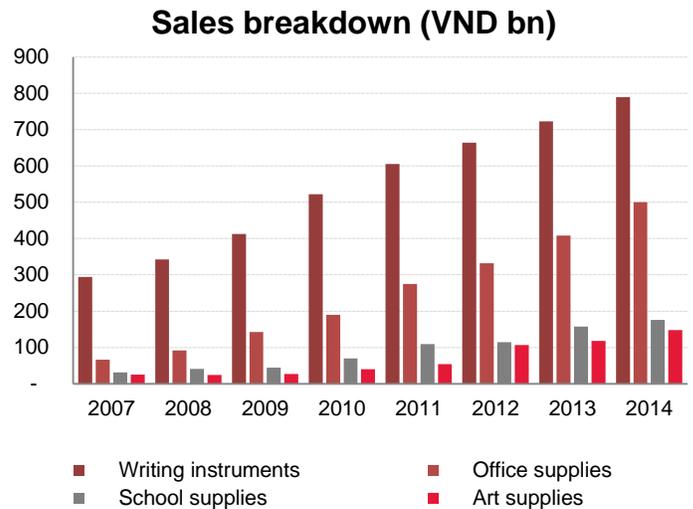
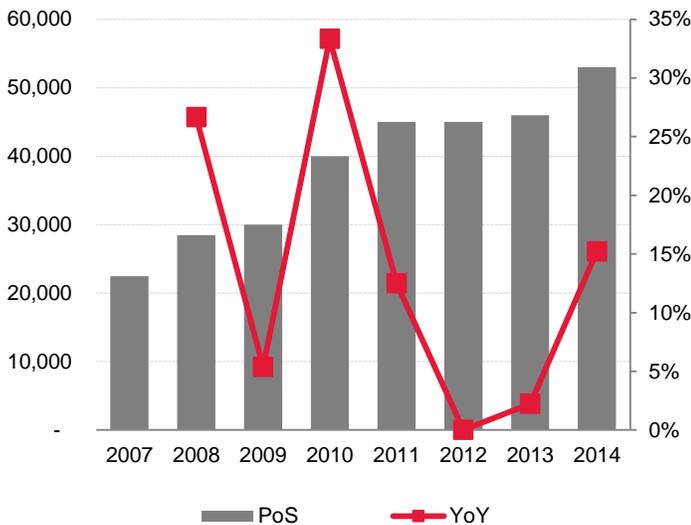
Distribution network

The Northern Tan Luc and Southern Tan Luc companies specialize in trading. These companies sell TLG's products and other fast-moving consumer goods (including food, beverages, gifts, toys, etc.) to distributors, wholesalers, retailers, supermarkets, hypermarkets, shopping malls, gift shops, bookstores, schools, government agencies, business organizations, hotels, restaurants and casinos. TLG's distribution network covers 63 cities and provinces and 53,000 PoS in Vietnam (vs. its competitor Hong Ha: 10,000 PoS). Internationally, TLG's products (under than brand FlexOffice and Colokit) are presented in 40 countries in 6 continents. This is considered one of TLG's competitive advantages as the company is able to export its own brands.

2014 results

Net sales reached VND 1,613.6 bn (+14.7% YoY and 101% FY target). Sale growth was mainly driven by higher selling volume which reached approx. 560 million units in 2014. TLG's products are sold at 53,000 PoS (vs. 2013: 46,000 PoS).

Net income reached VND 147.4 bn (+26.5% YoY and 113.4% FY target). Notably, net margin surpassed 9% for the first time in 2014 thanks to lower interest expense which reached VND 15 bn, a decline of 34% YoY. This stemmed from a combination of lower debt balance (from VND 249 bn at the end of 2013 to VND 198 bn at the end of 2014) and lower interest rate (from ~7% p.a. in 2013 to ~4% p.a. in 2014).



Source: TLG, SSIResearch

For **writing instrument**, TLG has a standard brand (TL) and a premium brand (Bizner). Sales reached VND 790 bn (+9.3% YoY) and represented 48.9% of sales in 2014. TLG maintained its 65% market share for writing instrument in Vietnam (vs. 2010: 55%) leaving their domestic competitors (Ben Nghe, Hong Ha) behind by a large gap thanks to its widespread distribution network. The company can also compete with foreign brands thanks to cheaper price and similar quality.

Office supplies (brand FlexOffice) are the second largest segment in terms of sales. In 2014, sales reached VND 500 bn, a 22.5% YoY increase compared to 2013. This segment has achieved strong growth over the years (CAGR reached 28.5% during the period 2009-2014) and consistently increased its contribution to net sales from

18.4% in 2008 to 31% in 2014. TLG considers office supplies a potential channel for future growth of the company.

Meanwhile, sales of **school supplies** (brand Ten Marks) reached VND 176 bn (+11.4% YoY) and represented 10.9% of sales in 2014. Sales of **art supplies** (brand Colokit) reached VND 148 bn (+25.7% YoY) and represented the remaining 9.2% of sales in 2014.

Dividend: For 2014, TLG paid 5% on par in June 2014 and will pay the remaining 15% on par (ex-date 3 July 2015) on 20 July 2015. TLG will also pay 10% stock dividend in 3Q15 (ex-date 3 July 2015).

2015 business plan

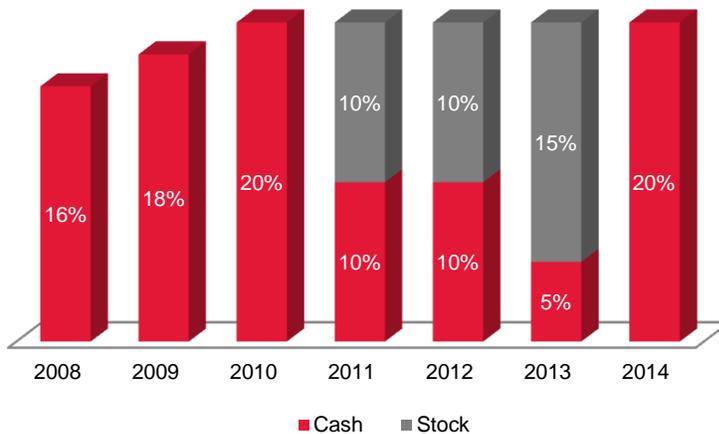
2015 financial targets

TLG aims to achieve VND 1,800 bn in net sales (+11.6% YoY) and VND 165 bn in net profit (+11.9% YoY) respectively. We believe these targets are quite conservative. Historically, TLG tends to exceed its financial targets. In 1Q15, TLG has achieved 20.2% of its sales target and 17% of its net income target.

Dividend is expected to remain stable at 20% on par which translates into a dividend yield of 2.86% p.a.

	2009	2010	2011	2012	2013	2014	2015P
Net sales (VND bn)	625	813	1,044	1,216	1,406	1,614	1,800
YoY growth	29%	30%	28%	17%	16%	15%	12%
% of target	106%	110%	105%	104%	102%	103%	
Net income (VND bn)	51	71	83	100	117	147	165
YoY growth	23%	39%	17%	21%	16%	26%	12%
% of target	102%	109%	83%	111%	106%	113%	

Dividend history



Source: TLG, SSIResearch

Demand outlook

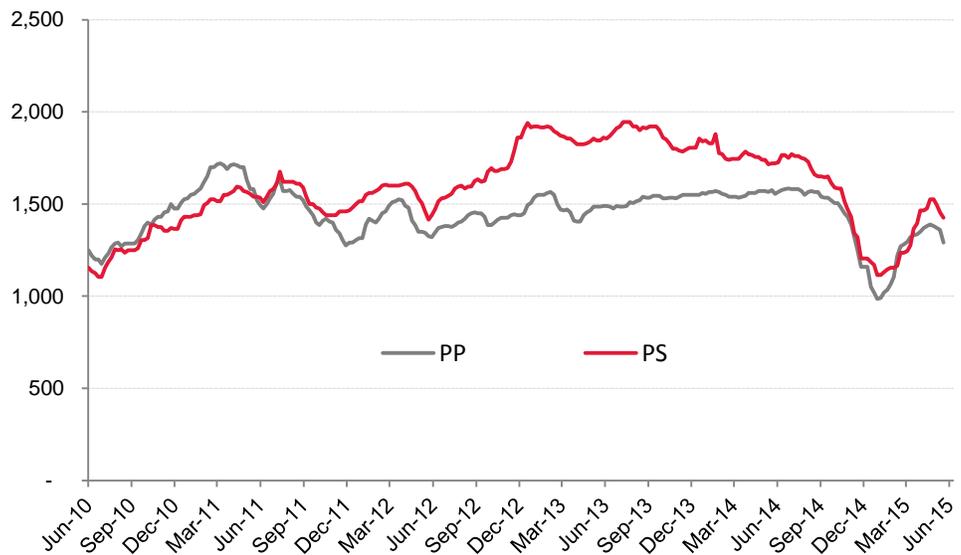
According to market intelligence firm Global Industry Analysts (GIA), the global market for stationery products is estimated to reach USD 226 bn by 2020. **Asia Pacific will be the most rapid growing market with a CAGR of 6.4% during the period 2015-2020.**

- Traditional stationery products (pens, pencils, etc.) will continue to be the main revenue generator. The key growth drivers for these products are increasing youth population and rising disposable income, which will spur spending on education and increase literacy rates.
- In addition, office supplies are considered a potential segment which will contribute a sizable share to the market. Office supplies will be supported by robust business development activities which will lead to increasing number of office establishments in the region.
- Technology development will continue to be a threat to the stationery market as the growing number of computers and gadgets reduces the needs for traditional writing instruments and paper-based products. However, in most developing markets where offices and schools are not equipped with digital devices,

stationery products will continue to be necessities. For this reason, demand for stationery products will grow at a moderate rate.

Raw material outlook

TLG’s main raw materials include pen nib, plastics bead - mainly Polypropylene (PP) & Polystyrene (PS) - and ink which are sourced from Korea, Japan, Germany and Vietnam. Plastics price is correlated to oil price, hence is subjected to uncertainties in the oil market. The United States Energy Information Administration (EIA) projects that the Brent crude oil price will average USD 61/b in 2015, a significant decline from 2014 average of USD 96/b, but will recover to USD 67/b in 2016. Assuming a similar outlook of plastics price, TLG’s gross margin will likely to expand in the short-term. In the long term, however, TLG’s management suggests that any effect will be even out as the company has to share the benefit with suppliers and customers.



Source: Bloomberg, SSIResearch

Investment view and Valuation

We believe that demand for stationery products in Vietnam will grow at a higher rate than the region average thanks to a large youth population and vigorous business activities in Vietnam. Our forecast for net sales is VND 1,848 bn in 2015 (+14.5% YoY) and VND 2,137 bn in 2016 (+15.6 YoY). We expect gross margin to expand in 2015 (37.5%) from 36.9% in 2014 then decline slightly in 2016 (37.0%) due to possible higher input prices. Our forecast for net income is VND 178 bn in 2015 (+21% YoY) and VND 206 bn in 2016 (+15.4% YoY).

Circular 200 regulates that bonus and welfare fund should be excluded from net earnings attributable to parent shareholders when calculating EPS. The rationale behind is that this fund belongs to the company's employees rather than common shareholders. This new accounting treatment is identical with international financial reporting practice. In our opinion, although EPS looks lower when apply the new regulation, we need to retrospectively re-calculate EPS in previous years in order to obtain annual EPS growth.

Subsequently, 2015 and 2016 EPS arrives at VND 5,752 and VND 6,283. TLG is being traded at 2015 PER of 12.2x and 2016 PER of 11.1x. A combination of DCF method (WACC 14.4% and terminal growth 4%) and RV method (target PER 12x) reveals a 1Y target price of VND 71,900/share, a 2.85% upside from current market price. However, given the positive prospect of stationary market in Vietnam and TLG's undeniable competitive advantage over its peers, the stock is worth investors' attention. We recommend long-term investors to buy at price weakness.

APPENDIX 1: ANNUAL FINANCIAL STATEMENTS

VND Billion	2013	2014	2015F	2016F
Balance Sheet				
+ Cash	176	317	393	427
+ Short-term investments	0	0	0	0
+ Account receivables	90	85	104	142
+ Inventories	456	425	504	585
+ Other current assets	12	12	13	15
Total Current Assets	734	838	1,014	1,169
+ LT Receivables	0	0	0	0
+ Net Fixed Assets	213	203	197	190
+ Investment properties	0	0	0	0
+ LT Investments	21	21	21	21
+ Goodwill	0	0	0	0
+ Other LT Assets	41	46	53	61
Total Long-Term Assets	275	270	271	272
Total Assets	1,009	1,108	1,285	1,442
+ Current Liabilities	344	335	381	402
<i>In which: ST debt</i>	<i>238</i>	<i>182</i>	<i>208</i>	<i>201</i>
+ Non-current Liabilities	30	36	38	44
<i>In which: LT debt</i>	<i>11</i>	<i>16</i>	<i>15</i>	<i>17</i>
Total Liabilities	374	371	419	447
+ Contributed capital	233	268	295	295
+ Share premium	128	128	128	128
+ Retained earnings	216	272	356	465
+ Other capital/fund	52	64	81	102
Owners' Equity	630	732	861	990
NCI	0	0	0	0
Total Liabilities & Equity	1,004	1,103	1,280	1,437
Cash Flow				
CFO	79	219	103	117
CFI	-9	-15	-20	-20
CFF	-45	-63	-7	-63
Net increase in cash	25	141	76	34
Beginning cash	151	176	317	393
Ending cash	176	317	393	427
Liquidity Ratios				
Current ratio	2.14	2.51	2.66	2.91
Acid-test ratio	0.77	1.20	1.30	1.41
Cash ratio	0.51	0.95	1.03	1.06
Net debt / EBITDA	0.43	-0.09	-0.54	-0.63
Interest coverage	8.32	13.89	21.51	23.99
Days of receivables	17.20	17.73	16.49	18.84
Days of payables	20.88	21.89	23.75	23.50
Days of inventory	180.50	157.89	146.69	148.08
Capital Structure				
Equity/Total asset	0.63	0.66	0.67	0.69
Liabilities/Total Assets	0.37	0.34	0.33	0.31
Liabilities/Equity	0.59	0.51	0.49	0.45
Debt/Equity	0.40	0.27	0.26	0.22
ST Debt/Equity	0.38	0.25	0.24	0.20

VND Billion	2013	2014	2015F	2016F
Income Statement				
Net Sales	1,406	1,614	1,848	2,137
COGS	-889	-1,018	-1,155	-1,342
Gross Profit	517	596	693	795
Financial Income	10	11	13	17
Financial Expense	-25	-17	-13	-14
Selling Expense	-192	-242	-286	-331
Admin Expense	-147	-162	-181	-209
Income from business operation	163	185	225	257
Net Other Income	2	6	4	4
Income from associates	0	0	0	0
Profit Before Tax	166	191	229	262
Net Income	117	147	178	209
Minority interest	0	0	0	0
NI attributable to shareholders	117	147	178	209
Basic EPS (VND)	4,503	4,951	5,752	6,389
BVPS (VND)	27,023	27,328	30,834	33,588
Dividend (VND/share)	500	2,000	2,000	2,000
EBIT	188	206	240	273
EBITDA	227	244	265	300
Growth				
Sales	15.6%	14.7%	14.5%	15.6%
EBITDA	5.8%	7.5%	8.9%	12.8%
EBIT	7.2%	9.6%	16.2%	13.8%
NI	16.4%	26.5%	21.0%	17.3%
Equity	14.1%	16.3%	17.5%	15.0%
Chartered Capital	10.0%	15.0%	10.0%	0.0%
Total assets	4.8%	9.8%	15.9%	12.2%
Valuation				
PER	8.5	9.6	12.2	11.0
PBR	1.6	1.9	2.3	2.1
P/Sales	0.7	0.9	1.1	1.0
Dividend yield	1.2%	3.8%	2.9%	2.9%
EV/EBITDA	4.7	5.3	7.1	6.3
EV/Sales	0.8	0.8	1.0	0.9
Profitability Ratios				
Gross Margin	36.8%	36.9%	37.5%	37.2%
Operating Margin	12.7%	11.8%	12.2%	11.9%
Net Margin	8.3%	9.1%	9.6%	9.8%
Selling exp./Net sales	13.6%	15.0%	15.5%	15.5%
Admin exp./Net sales	10.4%	10.1%	9.8%	9.8%
ROE	19.7%	21.6%	22.4%	22.6%
ROA	11.8%	13.9%	14.9%	15.3%
ROIC	15.6%	17.6%	18.6%	19.0%

APPENDIX 2: QUARTERLY FINANCIAL STATEMENTS

VND Billion	2Q14	3Q14	4Q14	1Q15
Balance Sheet				
+ Cash	218	286	317	318
+ Short-term investments	0	0	0	0
+ Account receivables	151	126	85	92
+ Inventories	507	428	425	414
+ Other current assets	10	8	9	14
Total Current Assets	886	848	837	837
+ LT Receivables	0	0	0	2
+ Net Fixed Assets	209	206	203	204
+ Investment properties	0	0	0	0
+ LT Investments	21	21	21	21
+ Goodwill	0	0	0	0
+ Other LT Assets	45	47	46	47
Total Long-Term Assets	275	274	270	274
Total Assets	1,161	1,122	1,106	1,111
Liabilities & Equity				
+ Current Liabilities	455	362	338	323
<i>In which: ST debt</i>	<i>243</i>	<i>211</i>	<i>182</i>	<i>188</i>
+ Non-current Liabilities	29	33	36	36
<i>In which: LT debt</i>	<i>9</i>	<i>13</i>	<i>16</i>	<i>16</i>
Total Liabilities	484	395	374	359
+ Contributed capital	233	233	268	268
+ Share premium	128	128	128	128
+ Retained earnings	253	302	273	292
+ Other capital/fund	64	64	64	64
Owners' Equity	677	727	732	752
NCI	0	0	0	0
Total Liabilities & Equity	1,161	1,122	1,106	1,111
Cash Flow				
CFO	8	108	68	10
CFI	-6	0	-11	-2
CFF	28	-40	-26	-7
Net increase in cash	30	69	31	1
Beginning cash	188	218	286	317
Ending cash	218	286	317	318
Liquidity Ratios				
Current ratio	1.95	2.34	2.47	2.59
Acid-test ratio	0.81	1.14	1.19	1.27
Cash ratio	0.48	0.79	0.94	0.98
Net debt / EBITDA	0.54	-0.79	-1.80	-2.78
Interest coverage	15.56	21.63	9.36	15.09

VND Billion	2Q14	3Q14	4Q14	1Q15
Income Statement				
Net Sales	433	496	371	363
COGS	-268	-312	-236	-231
Gross Profit	165	184	136	132
Financial Income	2	3	4	4
Financial Expense	-6	-4	-4	-4
Selling Expense	-63	-67	-67	-56
Admin Expense	-44	-41	-44	-39
Income from business operation	55	75	25	37
Net Other Income	4	1	0	1
Income from associates	0	0	0	0
Profit Before Tax	59	76	25	38
Net Income	46	58	20	28
Minority interest	0	0	0	0
NI attributable to shareholders	46	58	20	28
Key Metrics				
Basic EPS (VND)	1,955	2,492	747	1,049
BVPS (VND)	29,077	31,214	27,329	28,057
EBIT	63	79	29	41
EBITDA	63	79	66	41
Growth (YoY)				
Sales	23.9%	12.4%	14.3%	16.1%
EBITDA	31.8%	15.1%	2.8%	16.3%
EBIT	31.8%	15.1%	11.1%	16.3%
NI	33.7%	41.3%	54.8%	18.1%
Equity	16.2%	17.9%	16.4%	16.2%
Chartered Capital	10.0%	10.0%	15.0%	15.0%
Total assets	8.1%	6.2%	9.6%	9.2%
Profitability Ratios				
Gross Margin	38.1%	37.1%	36.5%	36.4%
Operating Margin	13.6%	15.8%	5.5%	10.3%
Net Margin	10.5%	11.7%	5.4%	7.7%
Selling exp./Net sales	14.5%	13.6%	18.0%	15.4%
Admin exp./Net sales	10.2%	8.3%	11.8%	10.7%
Capital Structure				
Equity/Total asset	0.58	0.65	0.66	0.68
Liabilities/Total Assets	0.42	0.35	0.34	0.32
Liabilities/Equity	0.71	0.54	0.51	0.48
Debt/Equity	0.37	0.31	0.27	0.27
ST Debt/Equity	0.36	0.29	0.25	0.25

Source: TLG, SSI Research

Analyst Certification

The research analyst(s) on this report certifies that (1) the views expressed in this research report accurately reflect his/her/our own personal views about the securities and/or the issuers and (2) no part of the research analyst(s)' compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

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Within 12-month horizon, SSIResearch rates stocks as either BUY, HOLD or SELL determined by the stock's expected return relative to the market required rate of return, which is 16% (*). A BUY rating is given when the security is expected to deliver absolute returns of 16% or greater. A SELL rating is given when the security is expected to deliver returns below or equal to negative - 8%, while a HOLD rating implies returns between negative - 8% and 16%.

Besides, SSIResearch also provides Short-term rating where stock price is expected to rise/reduce within *three* months because of a stock catalyst or event. Short-term rating may be different from 12-month rating.

Industry Rating: We provide the analyst' industry rating as follows:

- ❖ Overweight: The analyst expects the performance of the industry over the next 6-12 months to be attractive vs. the relevant broad market
- ❖ Neutral: The analyst expects the performance of the industry over the next 6-12 months to be in line with the relevant broad market
- ❖ Underweight: The analyst expects the performance of the industry over the next 6-12 months with caution vs. the relevant broad market.

**The market required rate of return is calculated based on 1-year Vietnam government bond yield and market risk premium derived from using Relative Equity Market Standard Deviations method. Our rating bands are subject to changes at the time of any significant changes in the above two constituents.*

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