

VIETNAM TEXTILE INDUSTRY

Support from FTAs



Key points

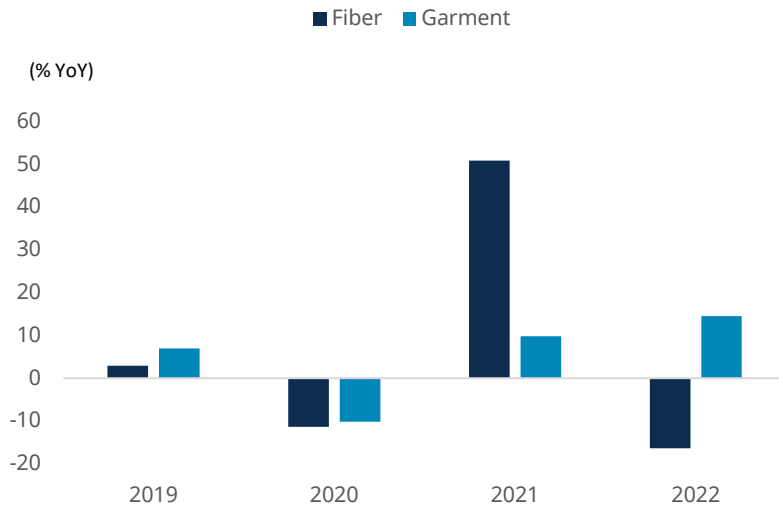
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2022 Overview

Apparel segment: Solid growth, expanding market share in key markets

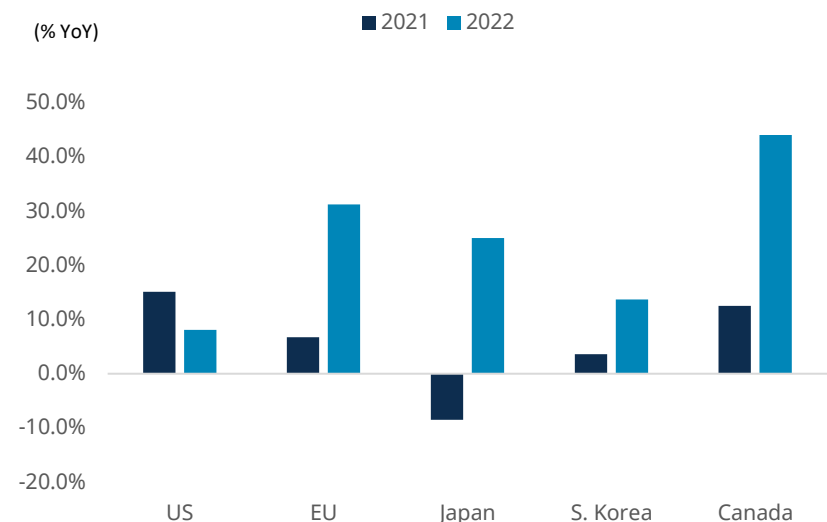
- Vietnam's textile exports continued to perform well in 2022, with an estimated export value of US\$37.6bn, representing a 14.5% YoY increase. Key markets, such as the US, EU, Japan, and South Korea recorded growth, with the EU and Canada, supported by the EVFTA and CPTPP, showing significant growth of 31.2% YoY and 44% YoY, respectively. The Japanese market also recorded a strong increase, after several years of stable or declining performance.
- The market share of Vietnamese fashion products in major markets, such as the US and Japan, expanded positively, reaching 18.3% and 15.6%, respectively, compared with a respective 17.6% and 14.1% in 2021. However, the market share of Vietnamese goods in Korea decreased slightly, to 31.1% from 31.8% in 2021. The garment industry saw a strong recovery in 2022, with a positive IIP index in the garment sector and a strong employment index. However, in the latter part of the year, there was a shortage of orders and decline in sales, leading to reduced production.
- The majority of listed apparel companies recorded positive revenue growth, with companies such as TNG, MSH, VGT, TCM, HTG, and EVE showing double-digit growth. Some companies, including TCM, HTG, and EVE, recorded a significant increase in profit after tax.

Vietnam textile export value growth



Source: GSO, Mirae Asset Vietnam Research

Export value growth in key markets



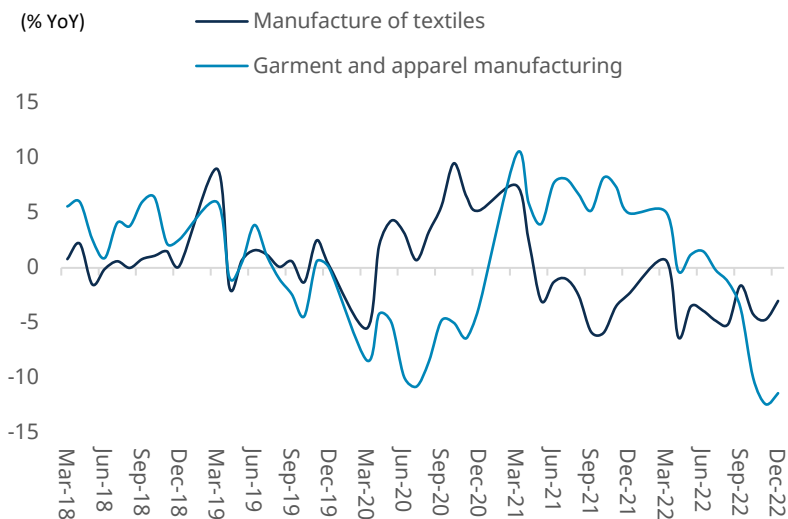
Source: VN Customs, Mirae Asset Vietnam Research

2022 Overview (cont'd.)

Yarn segment: Exports decline due to influence of China market

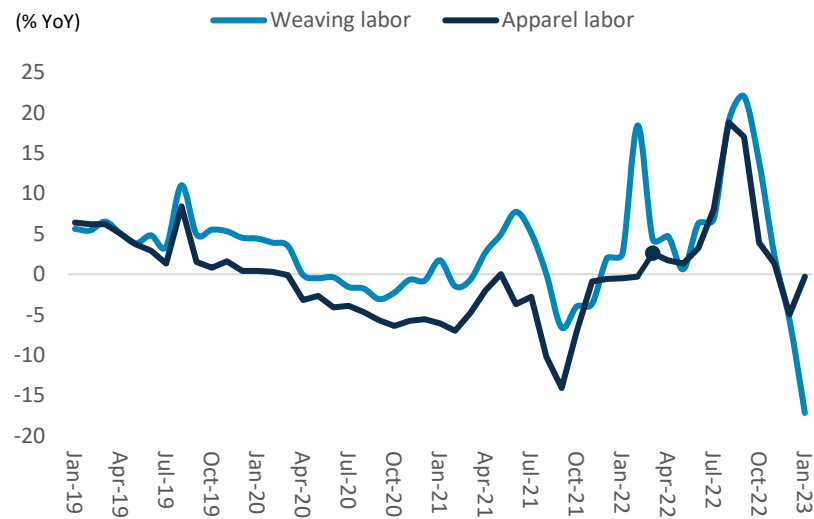
- The yarn industry in 2022 encountered challenges, due to the prolonged implementation of the “Zero COVID” policy in its primary market, China. The estimated export value of yarn from Vietnam in 2022 was US\$4.7bn, a decrease of 16.4% YoY. Exports to China, which constituted 46.8% of the total export proportion, were estimated at US\$2.2bn, a decrease of 24.1% YoY. Other markets also saw significant declines, such as Korea (-14.6% YoY).
- Domestic consumption of yarn products showed a decline as well, with the consumption index of the textile segment decreasing by 7.7% YoY, while inventories of textile products increased by 29.3% YoY. The Textile Employment Index has experienced a sharp decline since end-3Q22, and is estimated to decrease by 17.3% YoY in January 2023.
- Textile and garment production in China — another major contributor to the yarn industry — recorded a decline. By December 2022, China's textile and apparel production volume fell by 3% YoY and 11.4% YoY, respectively. Tensions in the US-China trade and political relationships resulted in a decline in China's textile and garment export market share to Western markets, negatively impacting the growth of the textile industry and causing weak demand for input yarn.
- Global demand for textiles was affected by the challenging economic conditions, as inflation in Vietnam's primary export markets remained high and central banks continued to raise interest rates. Additionally, the cotton price at the beginning of February returned to the average level of the period 2012–2019, which was around US\$80/lb, indicating declining demand within the textile supply chain.

China textile production volume growth



Source: Bloomberg, Mirae Asset Vietnam Research

Vietnam textile labor employment index



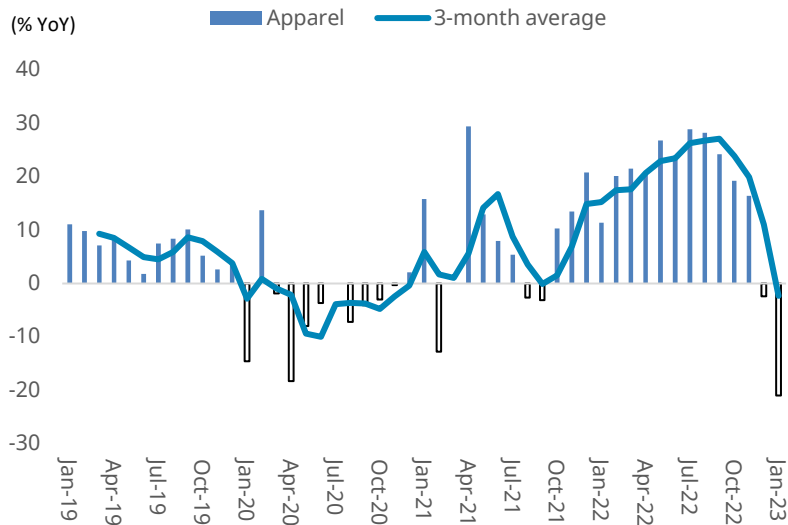
Source: GSO, Mirae Asset Vietnam Research

Weakening demand in 2023

High interest rates and inflation put pressure on consumption demand

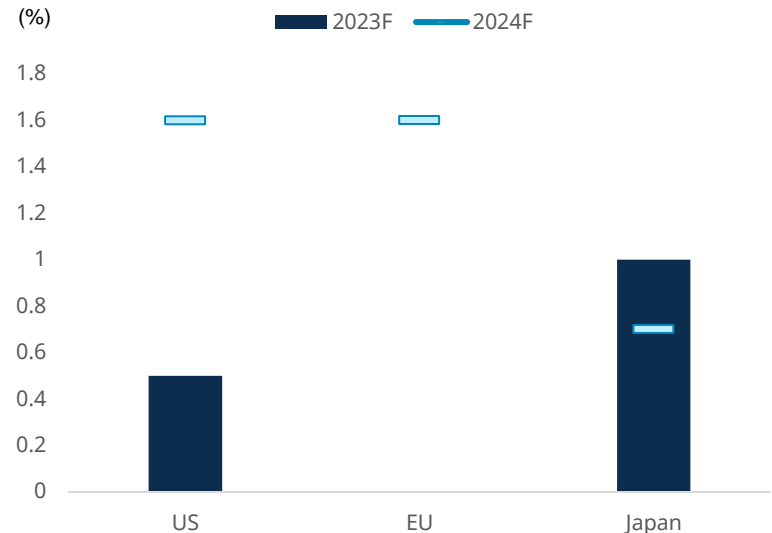
- The first month of 2023 saw a marked decrease in textile and garment exports, due to growing concerns over a potential economic recession. The Lunar New Year holiday and the high comparative figures from the same period in 2022 also played a role. As a result, exports of yarn and textile products experienced a sharp decline, with reported decreases of -47.8% YoY and -30.7% YoY, respectively, amounting to an estimated value of US\$247mn and US\$2.5bn. In particular, the yarn segment recorded its lowest export value in the same period since 2018.
- The Index of Industrial Production for the apparel segment displayed a pronounced decrease of -21% YoY in January, representing the sharpest decline since the onset of the COVID-19 pandemic in 2020 and the fifth consecutive month of decline for this index, indicating weak demand.
- The World Bank's forecast for GDP growth in 2023 in major consumer markets, such as the US, EU, and Japan, are low, compounded by central banks increasing interest rates around the world, raising concerns about a potential recession. The CPI in December 2022 in key markets, such as the US and EU, remains well above target levels, putting pressure on consumer demand and demand for textiles. Consumer confidence indexes in major centers are at or near levels seen during the financial crisis.
- Additionally, the uncertain economic environment has increased short-term counterparty risks, along with declining demand in key export markets.

Vietnam garment IIP



Source: GSO, Mirae Asset Vietnam Research

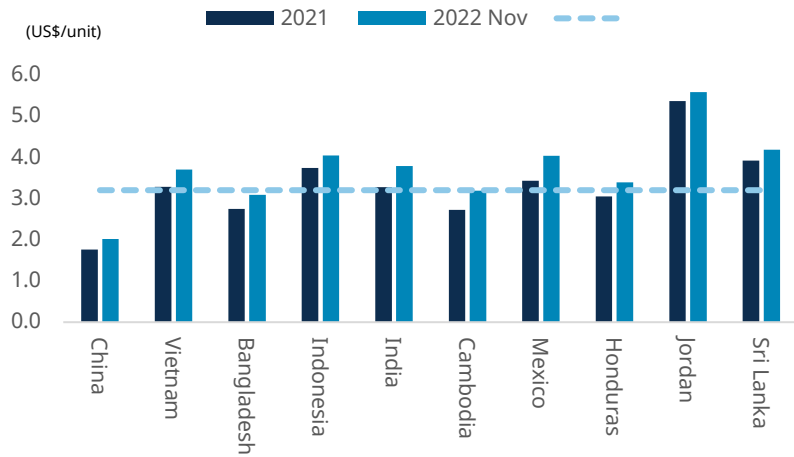
Forecast GDP growth in key markets



Source: WB, Mirae Asset Vietnam Research

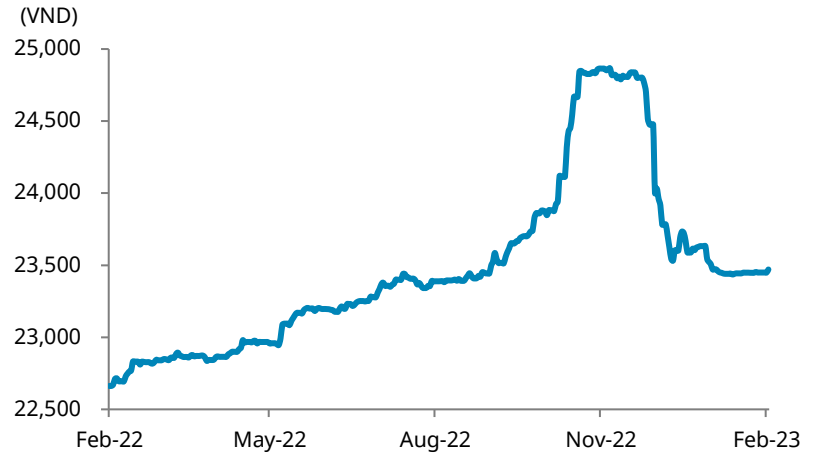
Weakening demand in 2023 (cont'd.)

Vietnam's average garment export price in the US



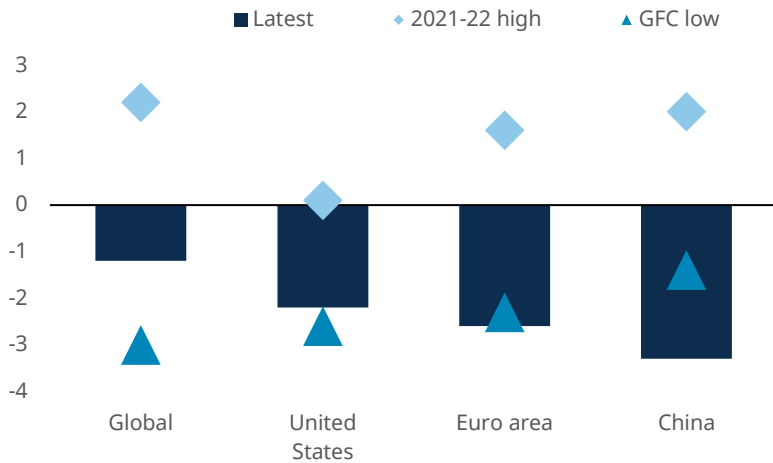
Source: OTEXA, Mirae Asset Vietnam Research

US\$/VND ratio



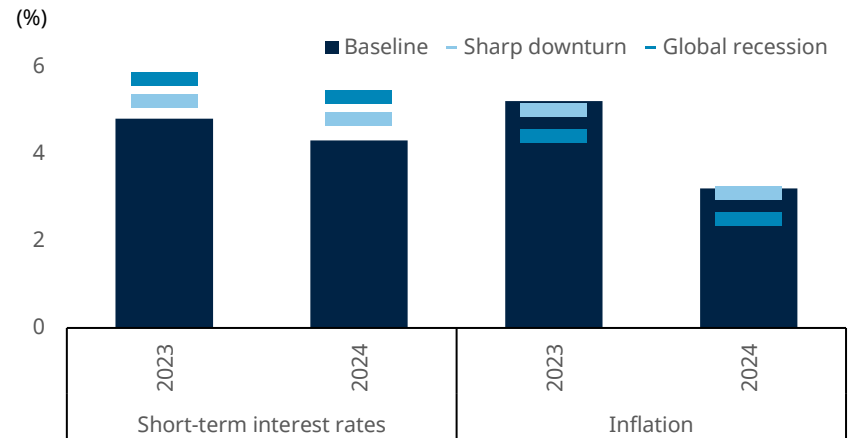
Source: Bloomberg, Mirae Asset Vietnam Research

Consumer confidence



Source: WB, Mirae Asset Vietnam Research

Interest rates and inflation scenarios



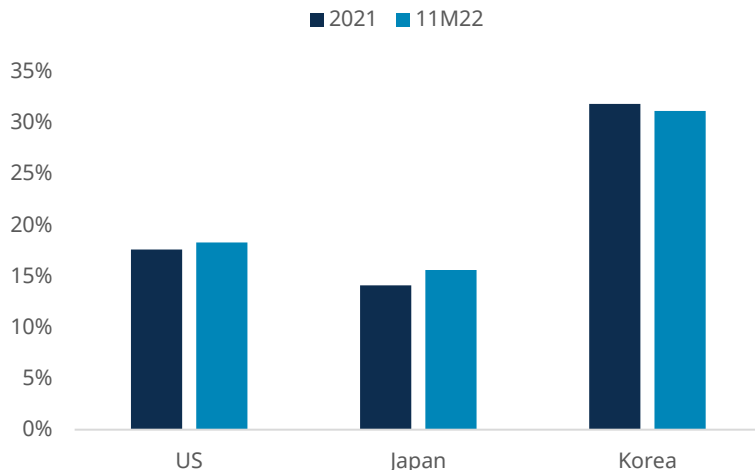
Source: WB, Mirae Asset Vietnam Research

Support signals

Reduced input costs; sea freight back to normal; FTAs support exports

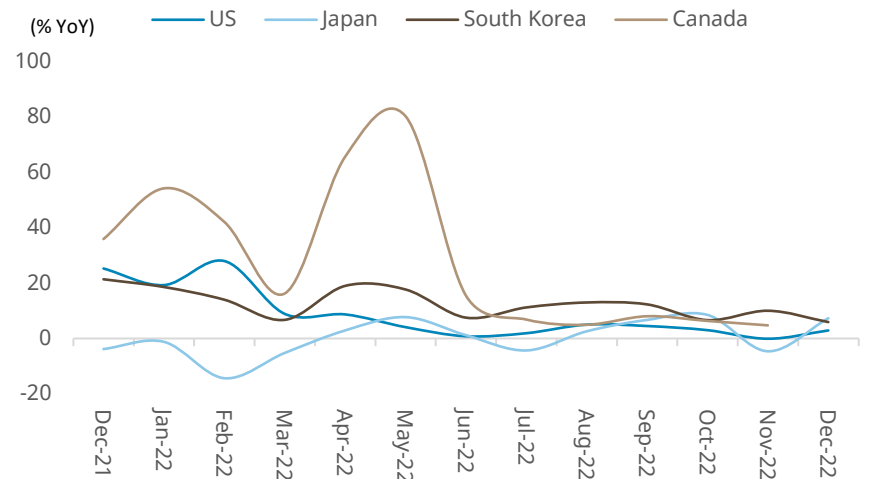
- Despite the unfavourable economic outlook, Vietnam's textile industry in 2023 still enjoys some favourable conditions. Fashion retail sales in major markets continue to experience growth, demonstrating that consumers' demand for fashion remains intact, despite the bleak economic outlook.
- The impact of the global economic slowdown has caused a decline in the input costs of the textile industry, including raw material prices and shipping costs, which benefits businesses by enabling cost control and profit margin preservation in the face of high inflation and declining output prices.
- Additionally, the easing of pandemic restrictions reduces pressure on the supply chain, supporting export-import activities in the textile and garment industry. The stabilization of the US\$/VND exchange rate also contribute to minimizing the negative impact on export-import activities. The European Union is also offering import tax reductions for goods exported from Vietnam according to the EVFTA roadmap, which enhances the competitiveness of Vietnam's textiles and garments in comparison with rivals such as Bangladesh and Pakistan. Furthermore, solid growth in Canada and Mexico, which are part of the CPTPP, signals that the agreement is likely to continue to promote effective trade relations.
- We forecast that Vietnam's garment export value in 2023 should fluctuate between -4% and +2%, while yarn exports are expected to remain stable in comparison with 2022.

Vietnam market share



Source: Country statistics, Mirae Asset Vietnam Research

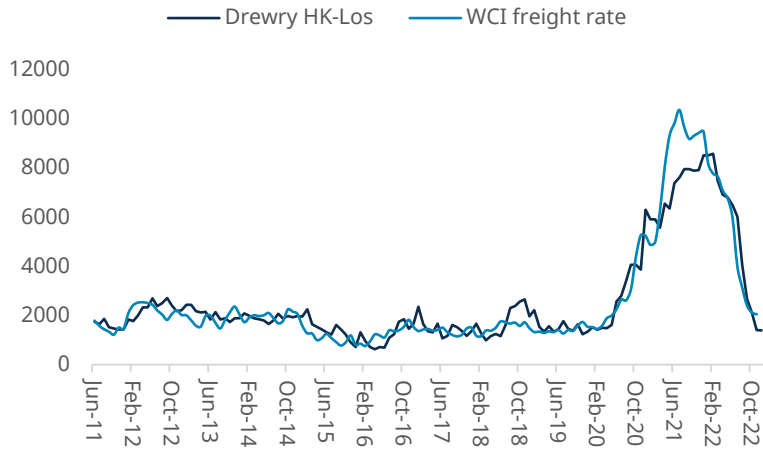
Fashion retail growth



Source: Bloomberg, Mirae Asset Vietnam Research

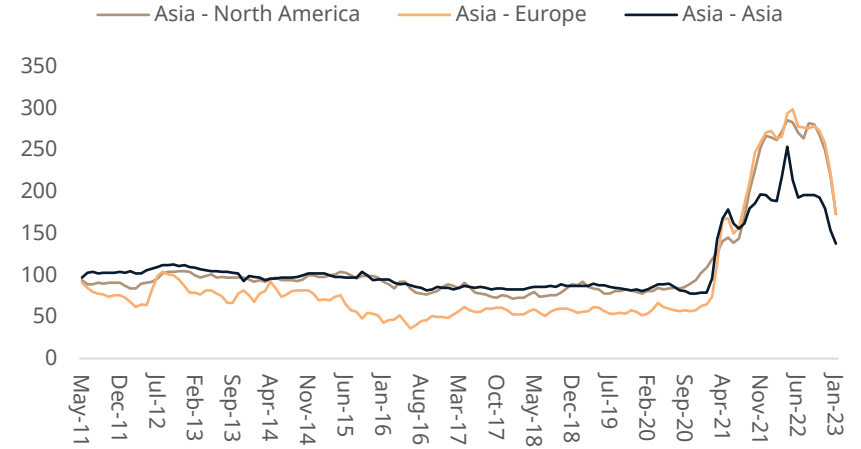
Support signals (cont'd.)

Shipping rate indexes



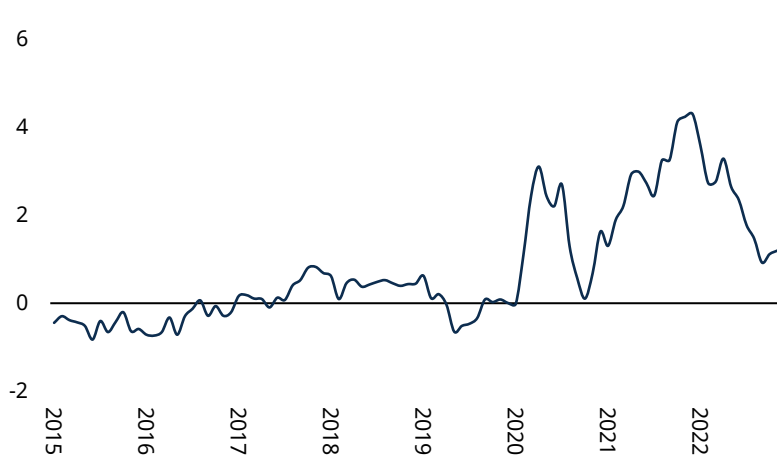
Source: Bloomberg, Mirae Asset Vietnam Research

Container rates



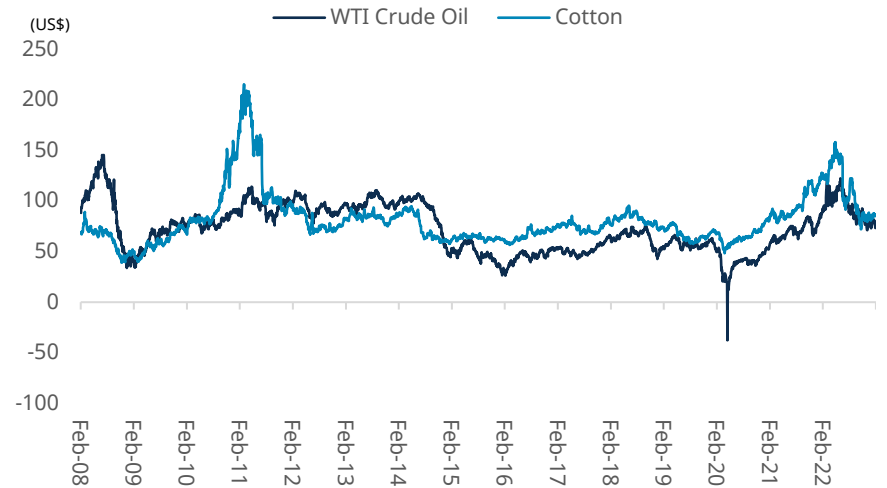
Source: Bloomberg, Mirae Asset Vietnam Research

Global supply chain pressures



Source: WB, Mirae Asset Vietnam Research

Textile input price



Source: Bloomberg, Mirae Asset Vietnam Research

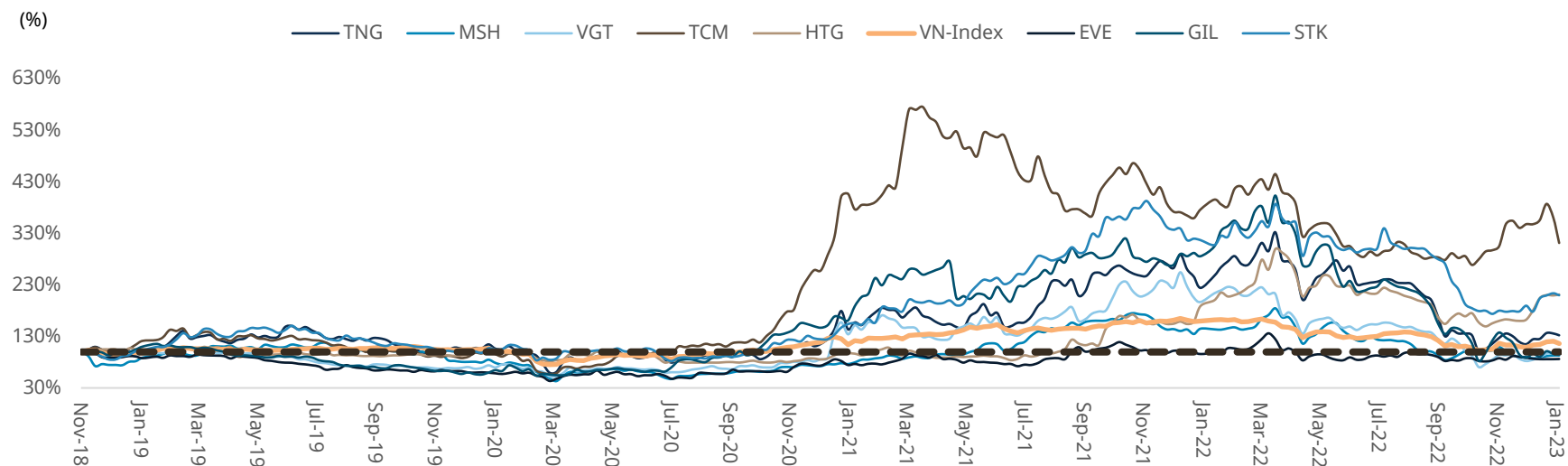
2022 business results and stock performance

Listed textile company performances

Ticker	TTM PE	TTM PB	2022 revenue growth(% YoY)	2022 NPAT growth(% YoY)	Price change YTD (%)	Relative performance YTD (%)
TNG VN	5.6	1.1	24.4	25.5	18.8	14.0
MSH VN	6.9	1.5	16.3	-23.6	0.6	-4.2
VGT VN	7.8	0.9	14.7	-19.2	24.2	19.4
TCM VN	17.1	2.1	22.7	95.7	-6.6	-11.4
HTG VN	5.4	1.6	33.1	33.1	22.6	17.8
EVE VN	5.9	0.6	17.9	54.4	-4.2	-9.0
GIL VN	3.1	0.5	-23.7	9.3	6.3	1.5
STK VN	9.4	1.5	3.6	-13.7	3.6	-1.2

Source: Bloomberg, Company data, Mirae Asset Vietnam Research

Stock performance from 2018



Source: Bloomberg, 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%		

Ratings and Target Price History (Share price (—), Target price (→), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

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Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul)

One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia

District 8, Treasury Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-54
Jakarta Selatan 12190
Indonesia

Tel: 62-21-5088-7000

Mirae Asset Securities Mongolia UTsk LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.

Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil

Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) JSC

7F, Le Meridien Building
3C Ton Duc Thang St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)

Mirae Asset Capital Markets (India) Private Limited

Unit No. 506, 5th Floor, Windsor Bldg., Off CST
Road, Kalina, Santacruz (East), Mumbai – 400098
India

Tel: 91-22-62661336

Institutional Sales Contact: [Steven Derek Brown, Head of Institutional Sales](mailto:steven.brown@miraeasset.com.vn) E: steven.brown@miraeasset.com.vn