Company Update Report
EVE - Everpia Jsc
02/10/2018

BSC

Recommendation	HOLD
Hanh Nguyen Thi Kieu (FA)	
hanhntk@bsc.com.vn	
Target price	18,200
Current price	16,000
Upside	13.8%
Hung Tran Thanh (TA)	
hungtt@bsc.com.vn	
Target price	N/A
Cut loss price	N/A

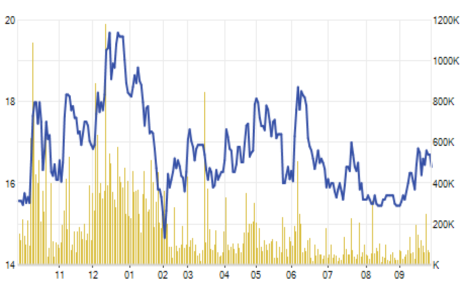
Market data

Number of share ('000)	39,548
Market capital (billion)	633
High of 52w	21,300
10-day average vol (share	142,041
Foreign onwership	63.10%

Major shareholders

Lee Jae Eun	17.72%
NH Investment & Securities Co., Ltd.	7.99%
Korea Investment Management Co.	5.28%

Price chart (1 year)



Company overview

Everpia is a textile firm with the two major products are bedding and padding, making up for 67% and 23% of the total revenue respectively. The market share of Everpia in those two segments are 22% and 25% (in 2017).

COME BACK

Valuation

We recommend HOLD for EVE with the target price of VND 18,200/share using P/E method with the target P/E of 8x – the average P/E of textile industry. The historical P/Es of EVE was often above the industry average, but after considering the growth and business prospects of EVE and the textile industry in general, we assess that the above P/E is reasonable.

Earnings forecast

BSC forecasts net revenue and EAT of EVE in 2018 will be VND 1,296 billion (+30.3% YoY) and VND 89.7 billion (+18% YoY, if excluding the provision and unemployment compensation for Korean workers in 2017) respectively, equivalent to EPS = VND 2,268/ share.

Risk

(1) Weather risk: The demand for two main EVE's products is padding & bedding (over 90% of revenue) are greatly influenced by weather as in 2016 hot weather made the consumption of these two products decreased significantly.
(2) Raw material price risk: Materials, mostly polyester and imported fabrics accounted for more than 70% of EVE's cost of goods sold.
(3) Exchange rate risk: Most materials were imported while export revenues accounted for only about 40%. In addition, EVE has had outstanding foreign currency loans of USD 5,347 million (representing 38.4% of debt on June 30, 2012) and USD 10.1 million of convertible bonds. An estimated 1% increase in the VND / USD exchange rate will cause EVE to record an unrealized gain/loss from foreign exchange rate of VND 2-2.5 billion.

Company Update

• Business results of 8M2018: Revenue reached VND 716.85 billion (+30.8% YoY), EAT was VND 55.2 billion (+26% YoY), in equivalent to 62.5% and 48% of the year plan, respectively.
• Outlook for the last 4 months of 2018 is positive: The bedding sector is forecasted to grow at 30% YoY, export orders are USD 1.57 million. Padding orders are expected to reach VND 93 billion for the last 4 months of 2018. Curtain, one of EVE's new product in 2018, has received the total order of VND 12 billion. However, we believe that Kingkoil spring mattress cannot contribute to the EVE's business results in 2018.
• Issuance of convertible bonds with low interest rates helps reducing financial expenses: The USD 10.1 million 5-year convertible bond with interest rate of 1% has been issued in September, 2018. After re-balancing financial structure, the company has decided to redeem 50 over 150 billion bonds issued to VCB in 2017, BSC estimates that this could save about VND 3 billion interest in 2018.

Other reports Link

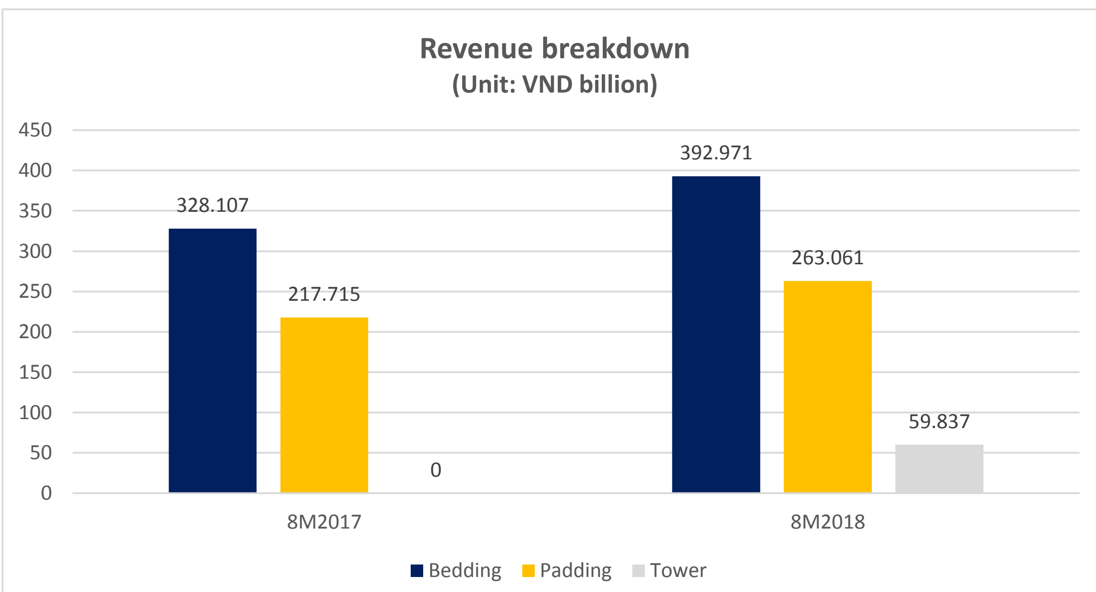
Business results 8M2018

Revenue reached VND 716.85 billion (+30.8% YoY), EAT was VND 55.2 billion (+26% YoY), in equivalent to 62.5% and 48% of the year plan respectively.

• **Padding segment (263 billion revenue, +20.8% YoY).** Domestic sales +20% YoY thanks to the new domestic customers, exports +21.2% YoY. The surge in padding sales in 2018 thanks to the increase in orders for jacket production.

• **Bedding segment (393 billion revenue, +19.8% YoY).** The key driver came from B2C (60% of revenue, +31.2% YoY) thanks to (1) the restructuring of agent system with more focus on quality and efficiency (closing agents whose area is under 50 m2), (2) early launch new collections, (3) efficiency the advertising campaign in 2017. B2B orders and exports slowed down (16.2% and 7.7% YoY respectively) as the company rejected unprofitable orders with low profit margin (below 12% for B2B and 8% for export). The online sales channel was down 56% due to severe competition, but the impact was not significant as the online sales accounted for only 5% of the total bedding sector.

• **New products:** In 8M2018, EVE recorded an additional 60 billion in net revenue from the towel sector after completely acquising Texpia in Q1/2018 in exchange for a loan of 60.77 billion (at 31/12/2017). Previously, Texpia's towel products mainly served the export market, however, since being bought by EVE, this product has been distributed domestically through EVE's stores, contributing 10% of this segment revenue in 8M2018



Source: Everpia

Positive outlook for the last 4 months of 2018

• **The bedding sector is forecasted to grow 30% YoY** thanks to the pre-orders of the new collection (+14% YoY) and the expectation of consumption in the last months of the year (favored by the weather - Q4 usually contributes 30-35% of the year's total revenue). We estimate that the advertising campaign in 2017 was effective that the bedding segment grew strongly in 8M2018. The company's 2-year extension advertising contract with Kim Tae Hee is expected to help the company enhance its image and consumers' recognition, thereby boosting sales in the coming years.

• **Padding segment:** Though it is not the season for padding (March - August annually), the company expects padding orders for the last 4 months will reach VND 93 billion (75% of which is export, the main market is South Korea), contributing 356 billion in revenue (+54% YoY).

• **New product development:** The new towel product in 2018 is expected to contribute about 100 billion sales to EVE (10% increase over Texpia's revenue in 2017). In addition, the curtain products will be distributed in October 2018, and is expected to contribute 12 billion from the pre-orders received. For KingKoil spring mattress, the company will import four samples from the US to probe the market reaction before officially import machinery and implement production. According to the schedule, by the end of 11/2018, the company will install and complete technology transfer, self-produce 5 samples while simultaneously import 2 luxury models for sale (50% to hotels and 50% to customers). BSC expects the mattress products will not be able to contribute to EVE's revenue in 2018.

We estimate that EVE will be able to fulfill its FY2011 sales target of VND 1,296 billion (+30.3% YoY) under the assumption that the bedding sector +23.1% YoY, padding +20% YoY, contributing 90 billion sales in 2018. Regarding profit target, we do not appreciate EVE's ability to complete, 2018 EAT is forecast to reach 89.7 billion (+18% YoY if excluding provision and unemployment insurance for Korean workers in 2017).

Issuance of convertible bonds with low interest rates helps reducing financial expenses. The Company has issued USD 10.1 million 5-year, convertible bonds to a Korean fund at the interest rate of 1%/year (the interest rate due in case the bondholders do not convert is 3.5%/year). The interest rate of this bond is lower than the interest rate of 7.5% of VND 150 billion bonds issued to Vietcombank in 2017. Therefore, after considering the capital structure, the company has decided to redeem 50 out of VND 150 billion bonds issued in the previous year. BSC estimates that this could help EVE save about 3 billion interest paid this year.

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Net sales	**223**	**276**	**345**	**235**	**267**
Gross profit	**70**	**95**	**113**	**81**	**80**
Financial income	3	7	1	6	7
Financial expense	(2)	(5)	(5)	(5)	(5)
Interest expense	(1)	(2)	(4)	(4)	(4)
Selling expense	(26)	(34)	(49)	(33)	(40)
G&A expense	(27)	(52)	(36)	(24)	(25)
Operating profit	**18**	**11**	**25**	**25**	**16**
Net other income	(1)	(0)	(0)	(0)	1
Profit before tax	**18**	**11**	**24**	**25**	**17**
Profit after tax	**14**	**9**	**19**	**20**	**13**
Minority interest	-	-	-	-	-
Parent company's shareholders interest	14	9	19	20	13

- Revenue 1H2018 +34% YoY thanks to (1) the bedding sector grew over 30% YoY thanks to marketing program in 2017 and favorable weather; padding + 20% YoY with new customers; additional towel revenue thanks to consolidate Texpia
- Gross profit margin decreased slightly from 32.5% to 32.1% mainly due to the increase in fiber price
- G&A expense -3.7% YoY but selling expense + 58.9% YoY, the revenue ratio increased from 12.3% to 14.5% as the company continued to extend its advertising contract with Kim Tae Hee (2 year-term, USD 500,000), as well as advertising campaigns for new products and restructuring the sale agency system.

Current assets	**849**	**1,005**	**976**	**1,027**	**1,011**
Cash & equivalent	145	311	319	359	321
Accounts receivable	261	265	255	211	229
Inventories	437	426	394	446	450
Other current assets	6	3	7	11	11
Non-current asset	**312**	**316**	**309**	**329**	**320**
LT receivables	2	1	1	1	3
Fix assets	288	287	276	294	289
LT incomplete assets	-	-	-	-	-
Other LT assets	18	25	29	31	25
Total asset	**1,161**	**1,321**	**1,285**	**1,355**	**1,331**
Total litabilities	**222**	**374**	**369**	**422**	**434**
Current liabilities	182	181	173	231	246
ST borrowings	94	80	55	97	148
Non-current liabilities	41	194	195	191	187
LT borrowings	36	185	30	176	172
Owner's equity	**938**	**947**	**917**	**933**	**898**
Paid-in cap	420	420	420	420	420
Retained earnings	302	311	330	350	320
Total resources	**1,161**	**1,321**	**1,285**	**1,355**	**1,331**

- Short-term borrowing receivable -84.1% YoY because in Q1/2018, the company had offset the receivable of VND 60.77 billion of Texpia to acquire all the assets of this associate company.
- Inventory +14% YTD because the company pushed the production of new models to 2019, so the company increased the stock of fabric; fiber reserve for production also increased due to rising padding export orders.
- Tangible fixed assets +5.2% YTD because of Texpia’s asset acquisition.

- Short-term debt increased by VND 130 billion compared to the beginning of the year, which aimed to meet the demand for raw materials. In September, the company spent $2 million (in 10.1 million convertible bonds) to increase its working capital, so we believe the company's short-term debt will decrease in the near future.

% yoy Revenue	-1%	16%	38%	56%	20%
Gross margin	31.4%	34.5%	32.8%	34.6%	29.8%
Ir.exps / sale	0.4%	0.8%	1.2%	1.7%	1.7%
Sell exps / sale	11.5%	12.2%	14.2%	13.9%	15.1%
Admin exps / sale	12.2%	18.9%	10.5%	10.2%	9.5%
Net profit margin	6.4%	3.4%	5.5%	8.7%	4.8%

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Financial analysis

02/10/2018

BSC

FINANCIAL RATIO

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
1. Liquidity ratio					
Current ratio	4.67	5.57	5.63	4.45	4.11
Quick ratio	2.23	3.19	3.32	2.47	2.23
2. Capital structure ratio					
Ca/TA	0.73	0.76	0.76	0.76	0.76
NCA/TA	0.27	0.24	0.24	0.24	0.24
Liabilities/TA	0.19	0.28	0.29	0.31	0.33
Liabilities/TE	0.24	0.40	0.40	0.45	0.48
CL/TA	0.16	0.14	0.13	0.17	0.18
NCL/TA	0.04	0.15	0.15	0.14	0.14
3. Operating efficiency ratio					
Inventory turnover	1.4	1.4	1.6	1.6	1.7
Receivable turnover	4.9	5.2	6.5	6.4	5.7
Payable turnover	16.4	10.3	17.1	11.2	13.1
Days of inventory	265.8	257	221	224	212
Days of receivables	73.9	70	56	57	64
Days of payables	22.3	35	21	33	28
CCC	317.4	292	257	249	248
4. Profitability ratio					
Net income/NSale	6.4%	3.4%	5.5%	8.7%	4.8%
ROE	7.0%	4.4%	5.5%	6.6%	6.7%
ROA	5.7%	3.4%	4.3%	5.0%	4.6%
Oper profit/NSale	8.2%	4.0%	7.1%	10.7%	5.9%
5. Dupont analysis					
TA/TE	1.25	1.29	1.29	1.29	1.36
NSale/TA	0.76	0.73	0.84	0.86	0.85
EBIT/NSale	0.10	0.07	0.07	0.08	0.08
EBT/EBIT	0.96	0.93	0.89	0.87	0.84
Net income/EBT	0.75	0.74	0.80	0.80	0.79
6. Valuation multiples					
PE	11.7	16.3	12.7	10.5	10.2
PB	0.8	0.8	0.7	0.7	0.7
EPS	1,547	1,060	1,213	1,519	1,512
BVPS	22,348	22,558	21,832	22,223	21,390
7. Growth (%yoy)					
Total assets	1%	19%	13%	24%	15%
Liabilities	2.8%	0.2%	-4.3%	-3.7%	-4.3%
Revenue	-1.4%	16.1%	37.7%	56.0%	19.8%
Gross margin	-11.8%	19.3%	36.8%	58.0%	13.5%
Net income	-49.0%	-71.2%	102.2%	126.6%	-10.7%
EPS		-31.49%	14.41%	25.25%	-0.50%

- Current ratio is maintained above 1 and is forecasted to improve in Q3/2018 thanks to the issuance of convertible bonds.

- Asset structure remained stable with current assets of more than 75% (inventory and receivables accounted for 34% and 17%)
- The short-term debt ratio increased sharply due to the demand for working capital while the long-term debt ratio remained stable since Q3/2017 at 14-15%. The funding structure in the coming time will be shifted from ST to LT capital after the successful issuance of convertible bonds.

- Increasing in inventory turnover offset the negative impact from slower receivable turnover, which helped to shorten the cash cycle. OCF <0 but cash flow tends to improve in the last quarter.

- Return indicators (ROS, ROA, ROE) decreased in Q2/2018 but slightly increased in 1H2018 compared to the same period last year because the increase of interest rate offset the effectiveness from G&A expense.

- Currently, EVE is trading at 0.7 book value, the current P/E is equivalent to a 3 year-average of 10.3x.

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