

**Vietnam: Industrials**
**11 May 2021**
**TTF VN**
**Not Rated**
**Close 10 May 2021**

 Price VND 6,930  
 12M Target N/A

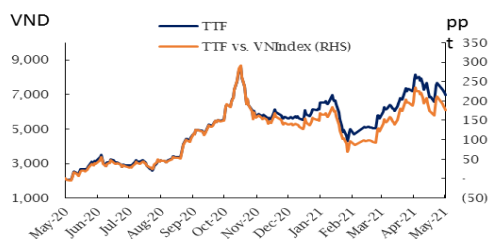
**What's new?**

- ▶ 2021E PBT guidance is set at VND 59 bn, almost 3 times that of 2020, underpinned by a 167% jump in revenue to VND 2 trn.
- ▶ 1Q2021 revenue increased by 22.3% YoY to VND 312.4 bn, but TTF posted a net loss of VND 40bn.
- ▶ Management aims to drive profit margin by adding distribution and design capabilities.

**Our view**

- ▶ The main risk of TTF that we need to emphasize is the going concern issue given that they haven't settled overdue debt.
- ▶ Chairman Mr Mai Huu Tin has a strong financial and management background, which will play a crucial role in TTF's recovery.
- ▶ So while it is not too optimistic to conclude that TTF has overcome the worst, investors may need to wait for confirmation of a turnaround.

**Company profile:** Truong Thanh Furniture (HSX: TTF) is a furniture manufacturer and a potential recovery story. The company's sales are distributed between the domestic market (50% of FY2020 revenue) and exports (50%). Management targets increasing export orders to 65% of 2021E sales.

**Share price performance relative to VNI**


Market cap	US\$94mn
6M avg. daily turnover	US\$1.6mn
Outstanding shares	311mn
Free float	88%
FINI ownership	0.3%
Major shareholders	9.3%
2020 P/E	63.7x
2020 EV/EBITDA	16.9x
Trading platform	HOSE
FOL Room	38%

**Financial outlook (VND bn)**

Year to Dec	2018A	2019A	2020A	2021E*
Sales	1,045	721	1,225	2,025
Op. profit	-864.1	-773.1	79.0	143.9
Net profit	-715.1	-897.0	35.2	47.2
EPS (VND)	-3,333	-3,269	113	152
EPS chg (%)	nm	nm	nm	34.3
P/E (x)	nm	nm	61.3	45.6

Note: 2021 financials are based on the company's guidance.

Source: Fiiipro, Company guidance for 2021E

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Bloomberg code: YUTA

**TRUONG THANH FURNITURE JSC (TTF VN)**
**A potential turnaround story?**

**Is 2021E the start of a recovery?** 2021E revenue guidance is set at VND 2 trn, representing a 167% YoY jump, with exports to account for 65% of revenue (up from ~50% in 2020) and the remainder attributable to the domestic market. Management guides for 2021E PBT of VND 59 bn, up almost 3 times from 2020. TTF's management is fairly confident in achieving these targets based on current orders in hand.

**Moving up the value chain.** Historically, TTF has been a low-margin furniture manufacturer. Management is aiming to expand the company's profit margin by adding distribution and design capabilities. Specifically, they target ASPs of USD 80,000 per container, up from the current USD15,000 per container.

**The new leader is a high profile entrepreneur.** Chairman Mai Huu Tin is also a vice chairman of Kien Long Bank (KLB VN, Not rated) and chairman of U&I Investment JSC, a multisector conglomerate in Binh Duong province. With his strong financial and management background, the new chairman should play a crucial role in TTF's prospective recovery.

**Raising capital.** At the AGM, shareholders approved the issuance of 59.5 million convertible preference shares with a fixed annual cash dividend of VND1200 per share, equivalent to a 17% yield, and a conversion price of VND 10,000 per share. The total capital raise is VND c595bn, most of which will be used to cover overdue debt and for working capital.

**1Q2021 results.** 1Q2021 revenue increased by 22.3% YoY to VND 312.4 bn, but while 1Q21 gross margin expanded by 2 ppt YoY to 11.5%. However, TTF posted a net loss of VND 40bn because of decreased other income to VND 1.6bn in 1Q21, down from VND 58.4 bn in 1Q20.

**Main risk.** The key risk for TTF shareholders is the going concern issue. The company's auditors, E&Y, note that TTF has overdue debt of VND 123bn, which should be resolved after the convertible prefs are issued.

**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.**

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## TTF: Company profile

TTF is a self-branded manufacturer of interior and exterior furniture for housing and hospitality construction. Specifically, TTF specializes in wooden doors, flooring, sofas, and kitchen cabinets. Its products are distributed to both the Vietnamese market (50% of FY2020 revenue) and export markets (50% of revenue).

TTF has established a strong and diversified client foundation among domestic property developers and hospitality operators as well as domestic and international furniture retailers. This represents a change that started from 2017, prior to which they largely focused only on low margin manufacturing for export.

**Fig. 3: TTF diversified customer foundation**



Source: TTF

**Moving up the value chain.** Given the company's history, TTF is commonly perceived to be a low margin manufacturer. However, management disclosed its strategy to move up the value chain by introducing inhouse design capabilities and renovating its manufacturing facilities. They target increasing their product value from c USD15,000 per shipping container to c. USD 80,000 per container, which of course represents a higher profit margin than they have enjoyed historically.

**TTF also wants to penetrate the retail sector.** Management shared their intention of purchasing a 20% take Natuzzi Singapore, a distributor of high-end Italian furniture with responsibility for the entire Asian market ex-China. Although we have little information about Natuzzi Singapore, TTF believes that this strategic partnership should boost purchase orders and allow them to leverage Natuzzi's distribution network in Asia (ex-China). Regardless of whether this plan goes through, management aims to increase its export business in 2021 based on existing orders, with export revenue to account for about 65% of total revenue in 2021E.

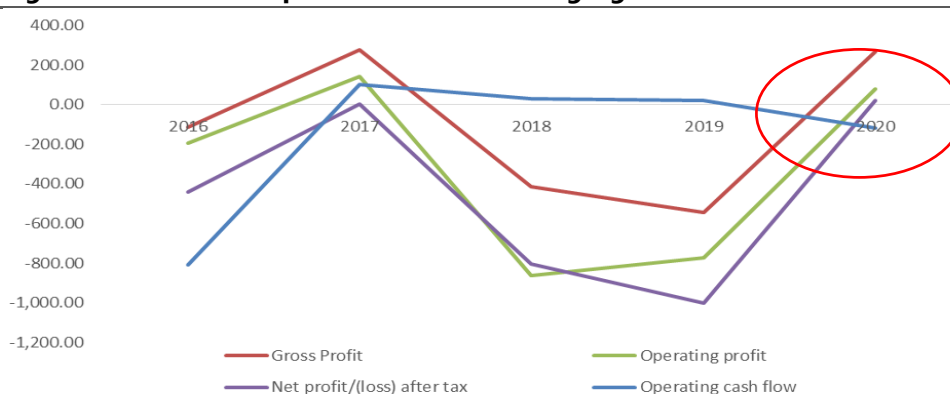
## TTF: A potential turnaround?

TTF has exhibited signs of improvement in its financial performance under the current management, which took over in 2017. Specifically, TTF posted net losses of -VND 715bn in 2018 and -VND 897 bn in 2019 but a net profit of VND 35 bn in 2020.

Specifically, the net loss of VND 715bn in 2018 was attributable to inventory writedowns (VND 260bn); provisioning for bad debts (VND 292bn); and losses from non-core businesses, including losses from forest sales (VND 6bn) and real estate (VND 11.5bn). In 2019, TTF again booked inventory writedowns of VND 351bn, which partly drove the annual net loss of VND 897bn during that year.

However, TTF's performance appears to have improved in 2020 on strong export orders. Operating profit reached VND 79bn in 2020 from the losses of VND 773bn in 2019 and VND 864 in 2018. Net profit reached VND 35 bn vs the the previous year's loss of VND 897bn. However, it should be noted that TTF booked non-recurring other income gains of 58.7bn, which was from the previous chairman as compensation for misconduct.

**Fig. 3: TTF's financial performance is showing signs of a turnaround**

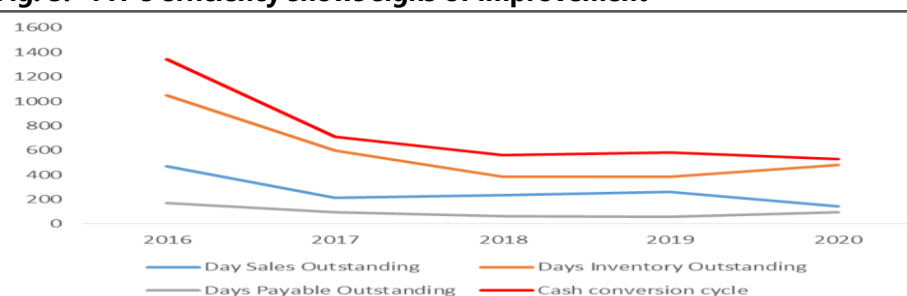


Source: Fiinpro

TTF's 2021E revenue guidance is set at VND 2 trn, representing a 167% YoY jump, with exports to account for 65% of revenue (up from ~50% in 2020), and the rest to the domestic market. Guidance on 2021E profit before tax is set at VND 59 bn, almost 3 times that of 2020. TTF's management is very confident in achieving these targets based on existing orders which are sufficient to fill the company's capacity until yearend.

TTF is also exhibiting signs of improvement in terms of its efficiency. Specifically, the company's cash conversion cycle has become healthier over the past several years, underpinned by improved receivable turnover and inventory turnover. However, 30% of inventory is tied up as collateral (VND123bn) and forest development expenses (VND106bn), which are not ready for manufacturing. So while it is not too optimistic to conclude that TTF has overcome the worst of the financial difficulties inherited from the previous management, prospective investors may need to wait for confirmation that this is a turnaround opportunity.

**Fig. 3: TTF's efficiency shows signs of improvement**



Source: Fiinpro

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## Risks

**The main risk of TTF that we need to emphasize here is the going-concern issue.** The auditors, E&Y, have pointed out that TTF has overdue debts worth of VND 123bn at Dong A Bank that were attributable to the old management (i.e., before 2017). In addition, 2020 equity is negative (-VND 584bn) due to cumulative losses of VND 3 trillion. We understand that this is again mainly due to the old management, which left the company with substantial bad assets (i.e., worthless inventory and debt-in-arrears) that must be worked out over time. The current management expects to resolve the remaining overdue debt this year, after the new issue in 2021. As at the end 2020, gross debt reached VND507bn, a slight increase of 2.6% YoY (although revenue increased by 68.6% YoY to VND 1.2 trn).

**Dilution from new issuance.** AGM has approved the issue of 59.5 million convertible preference shares at VND 10,000 per share with fixed annual cash dividend of VND1200 per share, equivalent to a 17% yield. The total capital raise is VND c595bn, most of which will be used to repay their overdue debt (i.e., c.VND 160bn for Dong A Bank) and new working capital. In addition, TTF will issue another 40.5mn convertible preferred shares at VND 10,000 per share with a fixed annual cash dividend of VND650 per share (6.5% yield) and a conversion price of VND 10,000. The second convertible pref issuance is intended to cover the VND405bn in debt extended to the company by an individual. The net result of the two issuances (VND1 trillion) represents potential dilution from an additional 100m shares, representing c.33% of existing outstanding shares.

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