

GTNFOODS JSC (GTN) – AGM NOTE

Market Price VND12,000	Target Price N/A	Dividend Yield 4.1%	Rating NOT RATED	Sector CONSUMER GOODS
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Outlook – Short term



Outlook – Long term



Valuation



26 April 2018

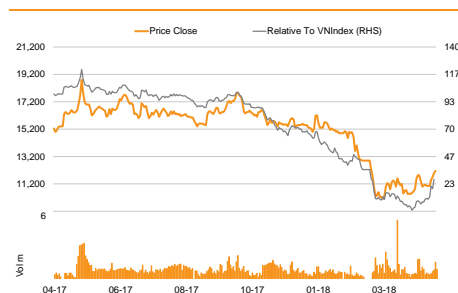
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Key changes in the report

➤ None

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	18,800
52w low (VND)	10,100
3m Avg daily volume (shares)	861,948
3m Avg daily value (VNDmn)	8,757
Market cap (VNDbn)	2,925
Outstanding shares (m)	250
Free float (%)	44
TTM P/E	75.2
Current P/B	1.2

Ownership

West Ocean Invest JSC	28.0%
TAEL Two Partners	22.0%
PENM IV Germany GmbH & Co. KG	6.0%
Others	44.0%

Source: VNDIRECT

We recently attended the AGM of GTN, an emerging conglomerate that has been focusing on the agriculture and food segments through the acquisitions of SOEs with strong brands but inefficient operations. The company expects 2018-2019 to be a major transitional period during which restructuring efforts in its subsidiaries will begin to pay off.

2017 growth driven by M&A activities. In 2017 GTN recorded impressive growth, with 107% growth in revenue and a 158% increase in NPAT-MI, which was mostly credited to the consolidation of Vietnam Livestock Corporation (VLC) which, in turn owns 51% of dairy producer Moc Chau Milk. VLC alone contributed ~60% to this year's net revenue and 87% to its consolidated gross profit. The company's gross margin also expanded from 4.3% to 11.6% due to the inorganic addition of higher margin businesses to its portfolio and the divestment of less profitable assets.

Divestment from its non-core businesses. In 2017, the company's two core businesses, dairy and tea, contributed to 78% of its net revenue. The company targets to increase this to 95% in 2018 through the divestment of non-core assets. GTN expects to realize financial gains worth VND400bn from these non-core divestments over 2018-2020.

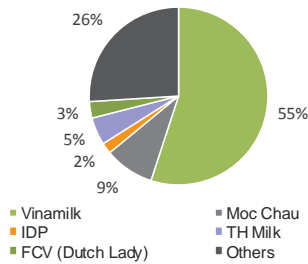
2018 earnings target might be achievable, though this depends on divestments. The company is targeting VND300bn in profit after tax (+97.5%) in 2018 of which VND160bn will be recurring in nature (+47%) and VND140bn will come from one-time gains on sales of non-core assets. We believe that the 47% growth in recurring profit is achievable, driven by a slight recovery in the livestock segment (from a VND40bn loss in 2017 to break-even in 2018) and lower provisions on tea inventory. However, the company's ability to meet its earnings target largely depends on the divestment process on which details remain scanty, at present.

1Q2018 results supported by the tea segment: The company estimates that it generated VND35bn in profit after tax in 1Q, including VND25bn from recurring sources and VND10bn from one-off financial gains (vs. 1Q2017's VND27bn recurring profit and VND27bn in one-off gains). The tea segment is said to have realized good results even though total Q1 recurring earnings declined. This would imply that other segments performed poorly in Q1, although no breakdown has been provided.

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	635	2,109	1,826	3,781
Revenue growth	416.7%	231.9%	(13.4%)	107.1%
Gross margin	8.4%	3.0%	4.3%	11.6%
EBITDA margin	21.2%	5.0%	4.2%	8.7%
Net profit (bn)	86	55	16	40
Net profit growth	268.0%	(36.5%)	(71.5%)	158.2%
Basic EPS	1,271	750	100	162
Adjusted EPS	1,271	750	100	162
BVPS	11,693	11,375	10,937	10,571
ROAE	11.5%	6.7%	0.9%	1.5%

Source: VNDIRECT

Figure 1: Market shares of leading companies in Vietnam's dairy market



Source: GTN, VNDIRECT

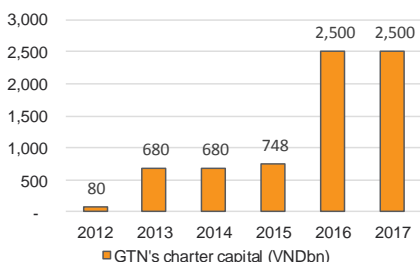
We expect that Moc Chau Milk (MCM), in which GTN holds a 37.6% stake indirectly through VLC, will be the main 2018 growth driver, contributing over 80% of 2018 revenue. GTN aims to increase its nationwide market share from the current 9% to 12-15% through the expansion of its cow herd from 23,000 cows to 35,000 by 2020 and accompanied by the expansion of its current distribution network in the northern region and rural areas. A push into central and southern Vietnam will also reduce the effect of seasonality (low demand in cold season) and lift sales. This expansion will be supported by a ramp-up in marketing activities to rebrand the company's products, which will certainly boost selling expenses. We have a few comments regarding this strategy:

(1) GTN does not currently have a very extensive distribution network with only 60,000 points of sales (POS) (compared to VNM's 251,000 POS and 55% market share). GTN's primary markets are in the north and the company has a limited presence in central and southern Vietnam. We see this as a relatively untapped opportunity.

(2) MCM did not previously have a strong focus on marketing activities and developing its brand name. We see potential in the company's new marketing and brand-building focus to improve market share. However, we are still rather concerned about the tough competition from other dairy companies, as leading players such as Vinamilk and TH True Milk are investing heavily in marketing and cultivating a similar "fresh and authentic" brand image, which will make it hard for MCM to differentiate its products.

GTN plans to increase its ownership in MCM to over 51% either directly through buying into a private placement directly issued by MCM or indirectly through the acquisition of an additional stake in VLC. VLC currently owns 51% of MCM and GTN owns 73.7% of VLC, hence currently GTN therefore indirectly holds a 37.6% stake in MCM. The capital injection could help VLC/MCM finance the construction of a new dairy plant, as the current plant will reach full capacity this year. GTN stated it would invest aggressively in its dairy unit using its substantial chest of around VND1,200bn in cash and short-term bank deposits (as of Dec 2017) and potential additional proceeds from divestments and non-core asset liquidations.

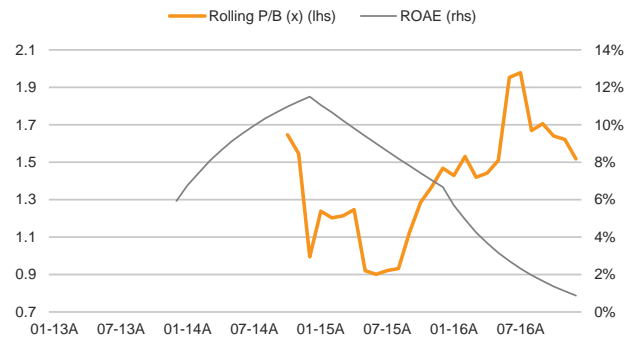
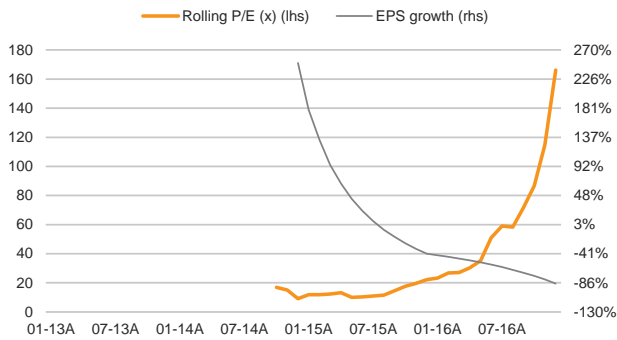
Figure 2: GTN has continuously raised capital over the past few years to finance its M&A activities



Source: GTN, VNDIRECT

We believe GTN's earnings growth could pick up starting 2018 as (1) the company begins to prioritize improving its core activities instead of acquiring new businesses; cash will be mainly used for investments in its milk and tea businesses. This also implies less dependence on capital raises to fund inorganic growth and, consequently, less EPS dilution than was seen in the 2014-2016 period. (2) The company has provisioned for tea inventory built up during the pre-equitization period and some non-core assets in 4Q2017, which implies that margins will improve in 2018. (3) In 2017, the company accelerated the downsizing of its pig farming operation, reducing its sow herd size by 70%, to limit the impact of the sharp decline in pig prices. With the slight recovery in pig prices in 1Q2018, GTN expects the pig farming segment to break-even in 2018.

Valuation



Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	2,109	1,826	3,781
Cost of sales	(2,046)	(1,747)	(3,342)
Gen & admin expenses	(15)	(52)	(146)
Selling expenses	(9)	(19)	(266)
Operating profit	39	7	27
Operating EBITDA	61	36	190
Depreciation and amortisation	(22)	(29)	(163)
Operating EBIT	39	7	27
Interest income	35	24	132
Financial expense	(16)	(25)	(6)
Net other income	4	7	9
Income from associates & JVs	6	11	(0)
Pre-tax profit	68	24	162
Tax expense	(11)	(8)	(10)
Minority interest	(2)	(0)	(112)
Net profit	55	16	40
Adj. net profit to ordinary	55	16	40
Ordinary dividends	0	(0)	(84)
Retained earnings	55	16	(44)

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	416	611	240
Short term investments	67	30	967
Accounts receivables	713	1,926	657
Inventories	124	74	400
Other current assets	19	21	38
Total current assets	1,339	2,662	2,301
Fixed assets	329	268	858
Total investments	384	529	539
Other long-term assets	49	47	1,104
Total assets	2,101	3,505	4,802
Short-term debt	391	79	41
Accounts payable	80	81	112
Other current liabilities	397	448	614
Total current liabilities	868	608	767
Total long-term debt	214	97	2
Other liabilities	22	19	219
Share capital	748	2,500	2,500
Retained earnings reserve	102	(13)	(117)
Shareholders' equity	851	2,734	2,643
Minority interests	147	47	1,171
Total liabilities & equity	2,101	3,505	4,802

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pre-tax profit	68	24	162
Depreciation & amortisation	22	29	163
Tax paid	(17)	(11)	(16)
Other adjustments	(407)	816	(1,109)
Change in working capital	10	(757)	1,186
Cash flow from operations	(324)	102	386
Capex	(35)	(13)	(106)
Proceeds from assets sales	11	0	34
Others	179	(1,419)	(108)
Other non-current assets changes	34	(20)	(342)
Cash flow from investing activities	189	(1,451)	(521)
New share issuance	0	1,999	0
Shares buyback	0	0	0
Net borrowings	540	(456)	(151)
Other financing cash flow	0	0	0
Dividends paid	0	(0)	(84)
Cash flow from financing activities	540	1,543	(235)
Cash and equivalents at beginning of period	11	416	611
Total cash generated	405	194	(370)
Cash and equivalents at the end of period	416	611	240

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	2.6%	0.9%	1.1%
Asset turnover	1.33	0.65	0.91
ROAA	3.4%	0.6%	1.0%
Avg assets/avg equity	1.93	1.56	1.54
ROAE	6.7%	0.9%	1.5%
Efficiency			
Days account receivable	59.5	36.8	11.1
Days inventory	22.2	15.6	43.6
Days creditor	14.3	17.0	12.2
Fixed asset turnover	7.59	6.12	6.72
ROIC	3.4%	0.5%	1.0%
Liquidity			
Current ratio	1.54	4.38	3.00
Quick ratio	1.40	4.26	2.48
Cash ratio	0.56	1.05	1.57
Cash cycle	67.4	35.5	42.5
Growth rate (yoy)			
Revenue growth	232%	(13%)	107%
Operating profit growth	0%	(83%)	293%
Net profit growth	(36%)	(71%)	158%
EPS growth	(36%)	(87%)	62%
Share value			
Basic EPS (VND)	750	100	162
BVPS (VND)	11,375	10,937	10,571

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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