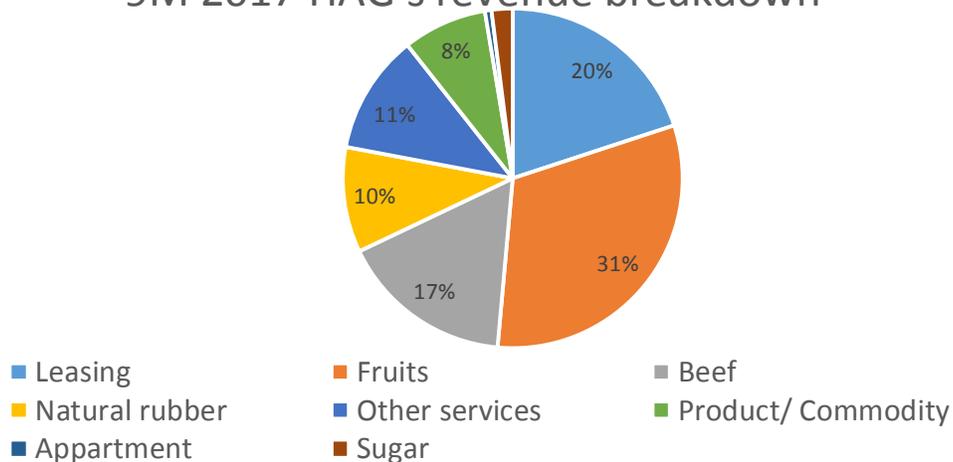


HAG's CURRENT STATUS

I will not spend too much time on the current financial status of HAG, as investors are already quite familiar with HAG. Here are some brief points:

- Mistakes in the past created a huge long-term debt at about VND23,000 bn (~ USD1 bn). The company is currently trying to restructure this debt.
- This huge debt led to larger interest expenses, which eroded its profit.
- Goodwill allocation: This will be around VND100bn-200bn (my estimation) in Q4, which will further erode the company's profit.
- The company's new strategy is to concentrate on fruits. The company's gross profit from fruits during Q3 was VND617 bn (49% of its total gross profit). HNG will have 20,000 Ha, which will include the following fruits: passion fruit, dragon fruit, banana, mango, longan, jack fruit, durian, avocado, grapefruit, and coconut.

9M 2017 HAG's revenue breakdown



FRUITS ARE THE NEW STORY

Exporting to China – Why China?

The obvious reason is the huge population of 1.39 bn people. According to a EIU report, the Chinese middle class will represent 75% of the total population in 2030. Currently, China imports US5.8 bn worth of fruit per year; within that, 80% of this includes tropical fruits (top 5 imports are bananas, dragon fruit, longan, durian, and grapes). Because of Vietnam's geographical advantage, it's easy and cheap to export to China, especially through cross-border trade, which is now more convenient with the highway.

What are their keys competitive advantages?

Economics of scale: A bigger scale results in more efficient infrastructure and machinery investments. The traditional business model for farmers includes a lot of middleman: Farmer >>> collector>>> transportation >>> wholesale >>> exporting >>> wholesale buyer. With a large enough volume, HAG is

able to reduce all of the middleman costs and export directly to wholesale buyers. Small exporters usually do not have much power to negotiate with partners, especially in terms of the payment method. The usual method is: the buyer deposits 10 – 20% of the contract value. However, the risk is when the price is unfavorable for the buyer, they could just walk away and forfeit their deposit. In the case of HAG, they are dealing with bigger importers (with their distribution channel) with higher creditworthiness and favorable payment methods (i.e. Letter of Credit)

What are their keys risks?

Beside financial debt as mentioned above, these are also other risks that they are facing:

Market concentration: The risk that China stops importing from Vietnam may impact HAG directly. However, given the current demand and political situation, the risk is relatively low since the technical barriers to enter China are low.

Changing demand: HAG signs a master contract and offtake contract with buyers before planting their trees. Therefore, the risk of changing demand of products is low.

Pests, insects and diseases: These things are unavoidable in tropical countries. However, with a well-established infrastructure, HAG will be able to apply modern techniques to limit insects and diseases.

Operation and execution: The big question for HAG is how they will be able manage this massive project. Who will be their “brain” to help them in both financial restructuring and building a detailed plan to execute this project smoothly?

LEADERSHIP IS WHAT HAG NEEDS

“A Leader is a dealer in hope” – Napoleon Bonaparte

HAG just announced that **Mr. Ly Xuan Hai** will join HAG as Head of Strategy. The market is excited about the news. Facebook was spammed with shares and congrats. So who is Mr. Hai, and why is this extremely good news for HAG?

Mr. Ly Xuan Hai was born in 1965 in Hanoi. He received a PhD in Math - Physics from the National University of Belarus, and later, a Master of Economics degree at the University of Paris Dauphine (France). Hai joined ACB in 1996 and was promoted to CEO in 2005. He was with ACB until the legacy issue happened in 2012. He is considered one of the best bankers in Vietnam, as well as one of the most well-respected leaders in the banking sector.



Mr. Ly Xuan Hai

I started my career as a financial institution analyst in ACB about ten years ago. During the time that I worked for ACB, in my impression, Mr. Hai could be described with these words: super intelligent (he got

PhD in Math and Physics), open minded, a fast decision maker, fair and hard-working. During his time, ACB transformed itself to the outstanding position with innovative and diversified products. Mr. Hai was the ideal model of leaderships that many people want to follow in ACB and the banking industry in general.



Dragon fruit – Banana – Grapefruit

Given the current situation of HAG, Mr. Hai's contribution, in my opinion, could be done in the following ways:

- **Debt restructuring negotiation:** Dealing with debt/ restructuring financial commitments/ negotiating with bankers is his expertise, and there's no doubt that he's one of the very best in Vietnam. Beside, all bankers either know him well or, I could say, have respect for him.
- **Talent recruitment:** It was not easy for HAG to recruit talent. But it is easier now with Mr. Hai on board. People will follow the leader who represents the values that they believe.
- **Strategy in line with execution:** The "fruit story" of HAG/HNG is not bad at all. We do have advantages to grow our tropical fruits and exporting to China and other countries. However, talking is always easy, while execution is much more challenging. Mr. Hai, with his long experience in developing ACB into a bank with one of the best services and operations, surely can add value to HAG's strategy. One point that is necessary to mention: he could build his team with talent middle managers that would certainly create value for HAG.
- **Public Image:** I strongly believe that Mr. Hai will be the wind of change that enhances the company's image. Previously, the public only knew Mr. Đức (Chairman) with many of his "strong" public speaking skills (e.g. football, importing sugar, selling land in highlands of Vietnam). Mr. Hai, on the other hand, has a much more elegant appearance.

People may argue that Mr. Hai could not do much as he is only on the strategy board. But I think his soft power is much more powerful than the hard power of his position.

HAG's Q4 results will not likely be very positive. However, from 2018 onward, HAG will gradually begin to improve. They have a plan to reduce the outstanding debt, which will include selling its Myanmar real estate project or selling some of its stake in HNG. With Mr. Hai on board, I think HAG's story will be much more reliable and more confident.

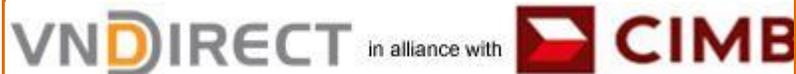


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