

## INTERNATIONAL DEV. & INV. CORP (IDI) – EARNINGS UPDATE

<b>Market Price</b> 12,900VND	<b>Target Price</b> 26,600VND	<b>Dividend Yield</b> 8.5%	<b>Rating</b> ADD	<b>Sector</b> FISHERY
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### Outlook – Short term



### Outlook – Long term



### Valuation



7 November 2018

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**IDI is on track to achieve our profit forecast for FY18F as surging ASPs more than offset export volume weakness.**

IDI reported 3Q18 net revenue of VND1,428bn (-3.8% yoy) and net profit of VND145.4bn (-1.3%) with a slowdown in Pangasius fillet export volume. We estimate that the export volume in 9M18 declined by 12% yoy while the 9M18 average export price of Pangasius fillet increased by 35% yoy, thus lifting Pangasius fillet export value over 9M18 to VND2,407bn (+18% yoy).

**Positive 9M18 business results.** IDI achieved VND4,265bn in 9M18 net revenue (+23.8% yoy, completing 62.2% of IDI's plan and 60.5% of our FY18 forecast) and VND462.0bn in net profit (+105.5% yoy, fulfilling 79.7% of IDI's plan and 70.1% of our FY18 projection). Overall GPM expanded to 16.5% in 9M18 (vs 11.8% in 9M17) as the average Pangasius export price surged by 35% yoy while input prices were well-controlled as IDI in-sourced 95% of raw fish inputs.

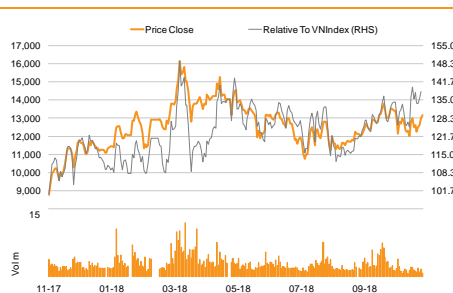
**Vietnam Pangasius exports to major markets saw impressive growth led by ASP hikes on the back of surging demand.** Vietnam's total Pangasius exports in 9M18 reached US\$1.6bn, up 22.6% over the same period last year. 9M18 Pangasius export value to China, US and ASEAN was US\$377m (+30.8% yoy), US\$369m (+42.9% yoy) and US\$146m (+44.0% yoy) respectively.

**We suspect that IDI has been slow to record some of its revenue in 3Q18, as evinced by a sharp rise in inventories.** IDI's inventory days outstanding at end of 3Q18 spiked to 57 days of sales from 37 days of sales at the end of 2Q18 and versus 48 days at end of 3Q17.

**IDI plans to pay VND1,100 per share cash dividend and 9% stock dividend in Nov 2018.** The expected record date is 9 Nov 2018 while expected payment is 28 Nov 2018.

**On track to meet our profit forecast for FY18F.** IDI will boost Pangasius export volume in 4Q18 as that is the peak consumption season driven by festive holidays. IDI estimates that 1,000 Pangasius containers (approximately 15,000-16,000 tonnes of Pangasius fillet) will be delivered to customers in 4Q18, equivalent to about 50% of total export volume in 9M18.

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	16,150
52w low (VND)	10,000
3m Avg daily volume (shares)	2,841,892
3m Avg daily value (VNDm)	36,664
Market cap (VNDbn)	2,343
Outstanding shares (m)	182
Free float (%)	35
TTM P/E (x)	4.1
Current P/B (x)	0.9

### Ownership

Sao Mai Group (ASM)	51.1%
Lê Thanh Thuận	5.5%
Lê Văn Chung	3.4%
Others	40.0%

Source: VNDIRECT

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	2,543	4,041	5,327	7,047
Revenue growth	20.0%	58.9%	31.8%	32.3%
Gross margin	14.2%	8.3%	12.1%	15.2%
EBITDA margin	8.2%	5.9%	10.1%	16.0%
Net profit (bn)	100	94	338	659
Net profit growth	10.8%	(5.7%)	257.4%	95.2%
Recurring profit growth	1.7%	(1.9%)	274.2%	93.1%
Basic EPS	1,392	675	1,859	3,629
Adjusted EPS	1,392	675	1,859	3,620
BVPS	12,415	11,844	12,229	12,911
ROAE	10.8%	5.6%	15.4%	28.9%

**Sao Mai Group (ASM, NOT RATED) wants to buy 27m IDI shares** and the transaction will be consummated between 2 Nov 2018 and 30 Nov 2018 through order matching and put-through transactions. If the transaction is successful, ASM will raise its stake in IDI from 51% to 66%.

**IDI is trading at more than a 40% discount to peers** with a TTM P/E of 4.1x and TTM P/B of 0.9x, much lower than the average local peers P/E of 6.9x and P/B of 1.8x. This discount is due to market concerns about IDI's corporate governance. We will revisit our forecasts and adjust our valuation in the upcoming report.

**The key risk is corporate governance** as the chairman of IDI is also the president of ASM. The delayed recognition of revenue in the third quarter of this year coming right before the planned increase in ASM's stake in IDI could be perceived as a symptom of this inherent conflict of interest.

Figure 1: Comparison of Financial Results

FYE (VNDbn)	3QFY18	yoy 9MFY18		vs our forecast		Comments
		chg		chg		
<b>Net revenue</b>	<b>1,428.9</b>	<b>-3.8%</b>	<b>4,265.2</b>	<b>12.8%</b>	<b>60.5%</b>	
<i>Pangasius fillet</i>	807.2	-9.9%	2,405.1	17.9%	65.3%	Export volume is lower than our projection. We estimated that the 9M18 export volume decreased by about 12% yoy while the 9M18 average export price increased by 35% yoy. However, FY18 revenue of Pangasius fillet segment can meet our forecast as IDI expects to boost Pangasius export volume in 4Q18
<i>Fish feed</i>	251.2	1.2%	701.8	-7.9%	43.2%	Rising competition in the fish feed market (especially with imported products) caused a decline in fish feed sales volume
<i>Fish meal/Fish fat</i>	326.1	-3.5%	1,053.6	10.4%	63.8%	By-product output volume decreased in tandem with export volume of Pangasius fillet (fish meal and fish fat are produced by the by-products from Pangasius fillet processing)
<b>Gross profit</b>	<b>236.0</b>	<b>0.2%</b>	<b>710.7</b>	<b>59.8%</b>	<b>66.4%</b>	
<i>Gross margin</i>	16.5%	+0.6pts	16.7%	+4.9pts	+1.5pts	Higher GPM than our forecast as the 9M18 average export price is 6.6% higher than our forecasted price
Selling expenses	46.1	-4.6%	121.8	4.8%	64.8%	
G&A expenses	10.7	23.0%	35.9	34.0%	53.6%	Following the lower-than-expected revenue growth
<b>Operating profit</b>	<b>179.2</b>	<b>0.3%</b>	<b>553.0</b>	<b>83.3%</b>	<b>67.8%</b>	
Pre-tax profit	162.9	5.1%	504.6	113.4%	71.6%	
<b>Net profit</b>	<b>145.4</b>	<b>-1.3%</b>	<b>462.0</b>	<b>105.7%</b>	<b>70.1%</b>	

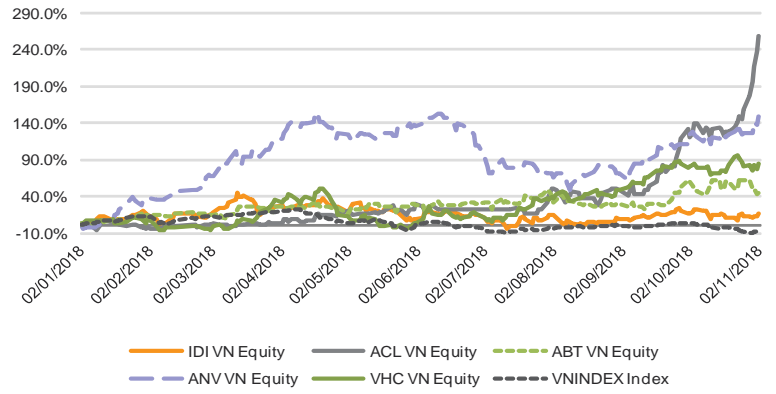
Source: IDI, VNDIRECT

Figure 2: Pangasius exporters valuation comparison

Company	Country	Market Cap (US\$m)	TTM NPAT growth	TTM EPS growth	TTM ROA	TTM ROE	D/E	TTM P/E	Current P/B
VHC	Vietnam	391	153.1%	150.9%	22.7%	37.4%	0.4	7.4	2.4
ANV	Vietnam	136	253.6%	104.7%	12.5%	24.9%	0.9	8.8	2.1
ACL	Vietnam	28	596.2%	596.2%	4.9%	15.0%	1.1	4.4	1.5
ABT	Vietnam	19	250.6%	250.6%	14.1%	16.7%	0.1	6.8	1.1
<b>Average</b>					<b>13.6%</b>	<b>23.5%</b>	<b>0.6</b>	<b>6.9</b>	<b>1.8</b>
<b>Median</b>					<b>13.3%</b>	<b>20.8%</b>	<b>0.6</b>	<b>7.1</b>	<b>1.8</b>
<b>IDI</b>	<b>Vietnam</b>	<b>111</b>	<b>105.7%</b>	<b>105.8%</b>	<b>9.7%</b>	<b>23.7%</b>	<b>1.1</b>	<b>4.1</b>	<b>0.9</b>

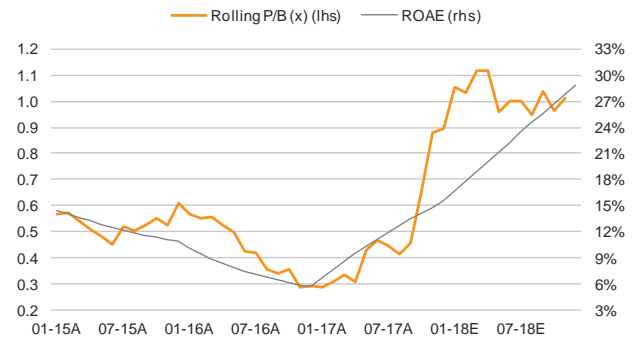
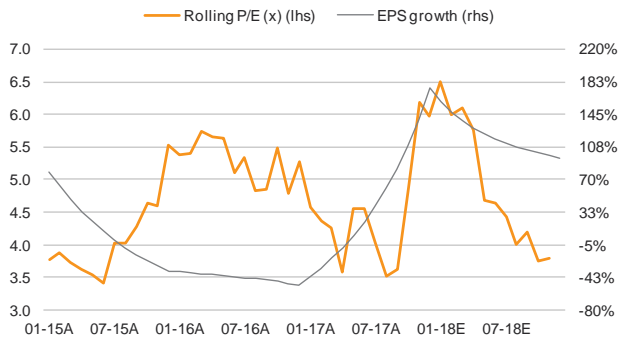
Source: VNDIRECT

**Figure 3: Stock price performance of Pangasius exporters**



Source: VNDIRECT

**Valuation**



**Income statement**

(VNDbn)	12-16A	12-17A	12-18E
Net revenue	4,041	5,327	7,047
Cost of sales	(3,708)	(4,681)	(5,977)
Gen & admin expenses	(42)	(39)	(67)
Selling expenses	(134)	(164)	(188)
<b>Operating profit</b>	<b>158</b>	<b>443</b>	<b>816</b>
Operating EBITDA	158	443	997
<b>Depreciation and amortisation</b>	<b>0</b>	<b>0</b>	<b>(182)</b>
<b>Operating EBIT</b>	<b>158</b>	<b>443</b>	<b>816</b>
Interest income	91	115	128
Financial expense	(152)	(195)	(251)
Net other income	5	(1)	6
Income from associates & JVs	3	0	7
<b>Pre-tax profit</b>	<b>106</b>	<b>361</b>	<b>705</b>
Tax expense	(6)	(18)	(36)
Minority interest	(5)	(5)	(10)
<b>Net profit</b>	<b>94</b>	<b>338</b>	<b>659</b>
Adj. net profit to ordinary	94	338	659
Ordinary dividends	0	(270)	(546)
<b>Retained earnings</b>	<b>94</b>	<b>68</b>	<b>113</b>

**Balance sheet**

(VNDbn)	12-16A	12-17A	12-18E
Cash and equivalents	168	460	338
Short term investments	1,416	568	497
Accounts receivables	1,872	1,677	1,933
Inventories	485	523	548
Other current assets	38	46	44
<b>Total current assets</b>	<b>3,979</b>	<b>3,273</b>	<b>3,360</b>
Fixed assets	606	768	1,009
Total investments	14	0	0
Other long-term assets	482	1,696	2,457
<b>Total assets</b>	<b>5,081</b>	<b>5,737</b>	<b>6,826</b>
Short-term debt	2,009	2,473	3,121
Accounts payable	235	209	344
Other current liabilities	111	229	305
<b>Total current liabilities</b>	<b>2,355</b>	<b>2,912</b>	<b>3,769</b>
Total long-term debt	574	604	712
Other liabilities	0	0	0
Share capital	1,816	1,816	1,816
Retained earnings reserve	187	204	307
<b>Shareholders' equity</b>	<b>2,151</b>	<b>2,221</b>	<b>2,345</b>
Minority interest	0	0	0
<b>Total liabilities &amp; equity</b>	<b>5,081</b>	<b>5,737</b>	<b>6,826</b>

**Cash flow statement**

(VNDbn)	12-16A	12-17A	12-18E
<b>Pretax profit</b>	<b>106</b>	<b>361</b>	<b>705</b>
Depreciation & amortisation	57	56	55
Tax paid	(10)	(6)	(36)
Other adjustments	59	80	132
<b>Change in working capital</b>	<b>(515)</b>	<b>(162)</b>	<b>(314)</b>
<b>Cash flow from operations</b>	<b>(303)</b>	<b>329</b>	<b>542</b>
Capex	(558)	(189)	(327)
Proceeds from assets sales	26	0	8
Others	(1,028)	(72)	(404)
Other non-current assets changes	0	0	0
<b>Cash flow from investing activities</b>	<b>(1,561)</b>	<b>(261)</b>	<b>(723)</b>
New share issuance	833	0	0
Shares buyback	0	0	0
Net borrowings	750	524	635
Other financing cash flow	(19)	(30)	(30)
Dividends paid	0	(270)	(546)
<b>Cash flow from financing activities</b>	<b>1,563</b>	<b>224</b>	<b>60</b>
Cash and equivalents at beginning of period	469	168	460
<b>Total cash generated</b>	<b>(300)</b>	<b>292</b>	<b>(122)</b>
Cash and equivalents at the end of period	169	460	338

**Key ratios**

	12-16A	12-17A	12-18E
<b>Dupont</b>			
Net profit margin	2.3%	6.3%	9.4%
Asset turnover	0.94	0.98	1.12
ROAA	2.2%	6.2%	10.5%
Avg assets/avg equity	2.54	2.47	2.75
ROAE	5.6%	15.4%	28.9%
<b>Efficiency</b>			
Days account receivable	71.1	47.4	42.3
Days inventory	47.9	40.7	33.5
Days creditor	23.2	16.3	21.0
Fixed asset turnover	5.93	7.76	7.93
ROIC	2.0%	6.4%	10.7%
<b>Liquidity</b>			
Current ratio	1.69	1.12	0.89
Quick ratio	1.48	0.94	0.75
Cash ratio	0.67	0.35	0.22
Cash cycle	95.8	71.8	54.8
<b>Growth rate (yoy)</b>			
Revenue growth	58.9%	31.8%	32.3%
Operating profit growth	(15.0%)	179.6%	84.3%
Net profit growth	(5.7%)	257.4%	95.2%
EPS growth	(51.5%)	175.4%	95.2%
<b>Share value</b>			
Basic EPS (VND)	675	1,859	3,629
BVPS (VND)	11,844	12,229	12,911

Source: VNDIRECT

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- 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.*

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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.

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Definition:

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- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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