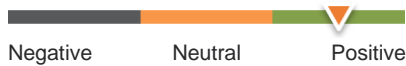


## JAPAN VIETNAM MEDICAL INSTRUMENT JSC (JVC) – VISIT NOTE

<b>Market Price</b> VND4,600	<b>Target Price</b> N/A	<b>Dividend Yield</b> 0.00%	<b>Rating</b> NOT RATED	<b>Sector</b> HEALTH CARE
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### Outlook – Short term



### Outlook – Long term



### Valuation



29 March 2018

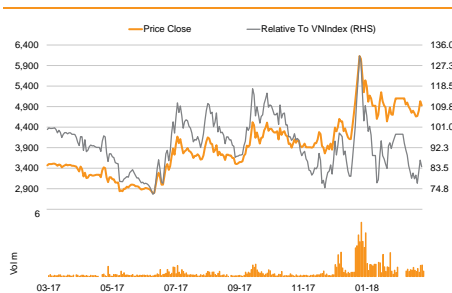
Anirban Lahiri

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**On March 28th, we visited Mr. Son, the CEO of JVC to get a deeper scoop on the company's ongoing turnaround efforts and its future strategy.**

The company has clearly split its business into 4 distinct operating units with each having independent P&Ls and leadership. These include medical device sales, consumables sales, affiliate services (profit-sharing) and mobile clinics. Management now considers consumables sales and affiliate services to be the core businesses as the conventional core business – medical device sales – has not fully recovered yet from the reputational blows dealt by the former Chairman's arrest.

### Price performance



Source: VNDIRECT

**The still young mobile clinics business is an indirect play on manufacturing FDI growth into Vietnam.** The company's foray into mobile clinics had garnered a lot of interest back in the day but seemed to have fallen off the radar as JVC battled to resurrect its core devices business following the arrest of the former Chairman. However, it is heartening to note that this is now a priority again for the company. Intriguingly, the mobile clinics are targeted at providing health checkups for factory employees in key industrial zones to help their employers meet the mandatory annual health check-up requirements for all workers in accordance with Vietnam's labor law. This constitutes an interesting indirect play on the growth of industrial parks and zones in Vietnam. Moreover, this revenue stream is inherently recurring in nature.

### Key statistics

52w high (VND)	6,130
52w low (VND)	2,790
3m Avg daily volume (shares)	1,166,937
3m Avg daily value (VNDmn)	5,954
Market cap (VNDbn)	518
Outstanding shares (m)	112.5
Free float (%)	45.0
TTM P/E	26.4
Current P/B	0.97

**The ongoing Vinamed-Mediplas investigation should not have a direct impact on JVC.** Management downplayed the impact of this investigation as it pertains to another business owned by JVC's current Chairman, Mr. Huy and therefore has no direct bearing on JVC, itself. Therefore, the investigation will impact sentiment on JVC but is unlikely to have a material impact JVC's business.

### Ownership

DI Asian Industrial Fund	19.4%
PYN Elite Fund	11.0%
Vietnam Equity Holding	6.3%
Others	63.3%

Source: VNDIRECT

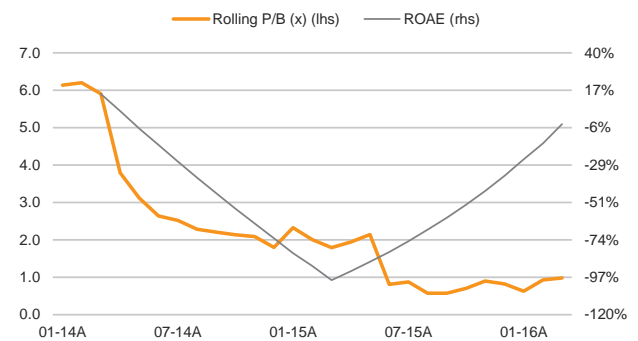
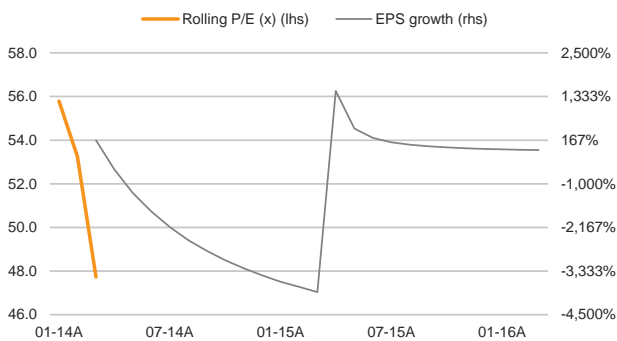
Financial summary (VND)	03-13A	03-14A	03-15A	03-16A
Net revenue (bn)	594	923	507	499
Revenue growth		55.4%	(45.0%)	(1.6%)
Gross margin	29.3%	33.1%	0.7%	18.8%
EBITDA margin	31.0%	37.6%	(245.3%)	9.2%
Net profit (bn)	42	178	(1,336)	(32)
Net profit growth		326.5%		
Recurring profit growth		323.5%		
Basic EPS	118	313	(11,874)	(282)
Adjusted EPS	118	313	(11,874)	(282)
BVPS	2,686	2,516	11,306	4,543
ROAE		14.9%	(98.9%)	(3.6%)

Source: VNDIRECT

**Hitachi still remains a key supplier for JVC but growing relationship with Sakura to help penetrate a new segment of the devices market.** JVC still sources its diagnostic imaging medical devices primarily from Hitachi while it is mainly sourcing consumables from Fuji Film. However, management highlighted the growing relationship with another Japanese OEM, Sakura, through which JVC is able to supply sterilization apparatus and equipment (CSSD) to its client hospitals. Sterilization equipment sales constitute a growing niche as these equipment are essential for any hospital and, therefore, demand is being directly spurred by the steady expansion in hospital capacity across Vietnam.

**Affiliate service model helps address dwindling government funding for public hospitals but could be asset-intensive.** The CEO highlighted the new regulation mandating that all public hospitals in Vietnam be financially independent, going forward, with limited financial assistance from the state. This is pressuring public hospitals to “up their game” through investment in better equipment and services to attract more patients while paradoxically also crimping their ability to make heavy upfront investments in medical devices and equipment without government financial assistance. JVC’s affiliate services business can benefit from these trends as it allows public hospitals to invest in state-of-the-art diagnostic imaging devices without making upfront investments. JVC supplies and installs the diagnostic devices in the hospitals and shares the profits generated from provision of diagnostic services with the hospital. This model will help JVC expand the demand base for medical devices but expansion is likely to be asset-heavy as JVC will need to purchase and take ownership of the devices, under this model.

## Valuation



## Income statement

(VNDbn)	03-14A	03-15A	03-16A
Net revenue	923	507	499
Cost of sales	(617)	(504)	(405)
Gen & admin expenses	(38)	(1,159)	(71)
Selling expenses	(5)	(36)	(49)
<b>Operating profit</b>	<b>262</b>	<b>(1,192)</b>	<b>(27)</b>
Operating EBITDA	332	(1,117)	44
<b>Depreciation and amortisation</b>	<b>(70)</b>	<b>(75)</b>	<b>(71)</b>
<b>Operating EBIT</b>	<b>262</b>	<b>(1,192)</b>	<b>(27)</b>
Interest income	1	1	0
Financial expense	(48)	(134)	(7)
Net other income	16	(11)	4
Income from associates & JVs	0	0	0
<b>Pre-tax profit</b>	<b>230</b>	<b>(1,336)</b>	<b>(30)</b>
Taxation	(53)	0	(2)
Minority interests	0	0	0
<b>Net profit</b>	<b>178</b>	<b>(1,336)</b>	<b>(32)</b>
Adj. net profit to ordinary	178	(1,336)	(32)
Ordinary dividends			
<b>Retained earnings</b>	<b>178</b>	<b>(1,336)</b>	<b>(32)</b>

## Balance sheet

(VNDbn)	03-14A	03-15A	03-16A
Cash and equivalents	503	48	26
Short term investments	15	0	0
Accounts receivables	945	668	169
Inventories	308	265	80
Other current assets	24	15	3
<b>Total current assets</b>	<b>1,794</b>	<b>996</b>	<b>278</b>
Fixed assets	463	523	461
Total investments	13	112	(0)
Other long-term assets	14	42	26
<b>Total assets</b>	<b>2,285</b>	<b>1,673</b>	<b>764</b>
Short-term debt	470	22	14
Accounts payable	29	113	75
Other current liabilities	178	119	76
<b>Total current liabilities</b>	<b>677</b>	<b>254</b>	<b>164</b>
Total long-term debt	92	58	27
Other liabilities	85	89	62
Share capital	844	1,125	1,125
Retained earnings reserve	304	(275)	(1,035)
<b>Shareholders' equity</b>	<b>1,430</b>	<b>1,272</b>	<b>511</b>
Minority interests	0	0	0
<b>Total liabilities &amp; equity</b>	<b>2,285</b>	<b>1,673</b>	<b>764</b>

## Cash flow statement

(VNDbn)	03-14A	03-15A	03-16A
<b>Pretax profit</b>	<b>230</b>	<b>(1,336)</b>	<b>(30)</b>
Depreciation & amortisation	70	75	70
Tax paid	(34)	30	(34)
Other adjustments	(26)	1,281	34
<b>Change in working capital</b>	<b>(238)</b>	<b>(369)</b>	<b>36</b>
<b>Cash flow from operations</b>	<b>3</b>	<b>(319)</b>	<b>76</b>
Capex	(53)	(9)	(43)
Proceeds from assets sales	75	2	3
Others	(14)	184	1
Other non-current assets changes			
<b>Cash flow from investing activities</b>	<b>8</b>	<b>178</b>	<b>(39)</b>
New share issuance	329	0	0
Shares buyback	0	0	0
Net borrowings	137	(346)	(16)
Other financing cash flow	(2)	32	(43)
Dividends paid	(28)	0	0
<b>Cash flow from financing activities</b>	<b>436</b>	<b>(314)</b>	<b>(59)</b>
Cash and equivalents at beginning of period	57	503	48
<b>Total cash generated</b>	<b>447</b>	<b>(456)</b>	<b>(21)</b>
Cash and equivalents at the end of period	503	48	26

## Key ratios

	03-14A	03-15A	03-16A
Dupont			
Net profit margin	19.3%	(263.3%)	(6.3%)
Asset turnover	0.47	0.26	0.41
ROAA	9.1%	(67.5%)	(2.6%)
Avg assets/avg equity	1.64	1.46	1.37
ROAE	14.9%	(98.9%)	(3.6%)
Efficiency			
Days account receivable	271	367	357
Days inventory	182	192	72
Days creditor	17.4	82.0	67.8
Fixed asset turnover	2.03	1.03	1.02
ROIC	8.9%	(98.8%)	(5.7%)
Liquidity			
Current ratio	2.65	3.93	1.69
Quick ratio	2.19	2.88	1.20
Cash ratio	0.76	0.19	0.16
Cash cycle	436	477	362
Growth rate (yoy)			
Revenue growth	55.4%	(45.0%)	(1.6%)
Operating profit growth	92.9%		
Net profit growth	326.5%		
EPS growth	165.9%		
Share value			
Basic EPS (VND)	313	(11,874)	(282)
BVPS (VND)	2,516	11,306	4,543

Source: VNDIRECT

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<b>Description:</b>	Excellent	Very Good	Good	N/A	

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#### 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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