

AGRICULTURE AS A TRADITIONAL BUSINESS

Vietnam is considered an agricultural country which was rooted up to 5,000 years. In the *Complete annals of Đại iệt (Đại Việt Sử Ký)* - the First official historical books of Vietnam – Vietnamese is considered heir of “the God Farmer” (or Shennong in Mandarin). Rice field is typical landscape through Vietnam, from little mountain city Sapa with terraced rice field to Ca Mau Province with “endless rice field”.



Historically, rice field was used as a defensive strategy. In 13th century, the Khan from Mongolia could not win Tran Dynasty on their expedition. The reason is because of the rice field. Well, The Khan's Horse wagon got stuck in those rice field and their cavalries moved as slow as a buffalo when reaching the wet-sticky-flooding rice field.

Back to our current status, in the end of 2015, **44% of Vietnam labor force is in the agriculture sector** and accounted for 12.8% of GDP. Productivity started to increase from 4.2 tons/ha in 2000 to 5.8 tons/ha in 2015 thanks to better seeds, fertilizers and crop protection chemicals. The productivity could be even higher if the farmers could (i) *maximize the farming area* (ii) *increase the level of using machine (agrimotor, reaping machine...)* (iii) *improving farming techniques*.

AGRICULTURE AS A EXPORTING BUSINESS

As a tropical country with fertile lands, Vietnamese always want agriculture to become the key sectors that could help to push up export. Vietnam ranked *No.1 in cashew and peeper exporting as well as No.2 in coffee and cassava* exporting globally. The current trend in start-up community is also concentrated in solution for agriculture. However, theses start-ups are hard to reach a sizeable business as land is expensive in Vietnam. Even though I like the ideas from start-ups but to be fair, I would rather place my money on existing (large cap) agricultural companies those are innovative. Who could benefit both from new solutions as well as their based platform.

Figure 10: Export Value of Some Agriculture Products and Their Worldwide Ranking (2015)



We do have some good names that related to agriculture e.g. seed, fertilizer, CPC, packing and processing... What will be a good investment that could capture the potential of the whole agricultural value chain? Talking about the value chain as a whole, the good solution for productivity must be able to synergy separate parts to benefit from them. We do have some good picks for Fertilizer (DPM, BFC...), seed (NSC, SSC...), CPC (VFG), farming and processing (PAN, NAF) but which stock that could really benefit from own the value chain?

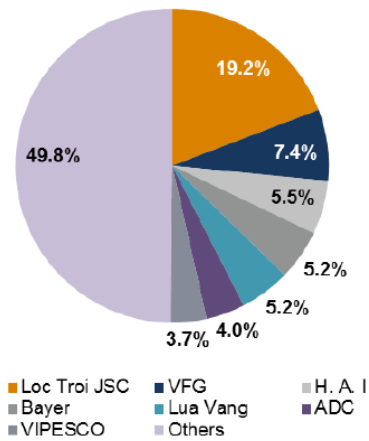
TOP 35 LARGEST COMPANIES THAT OWNED THE AGRICULTURE VALUE CHAIN



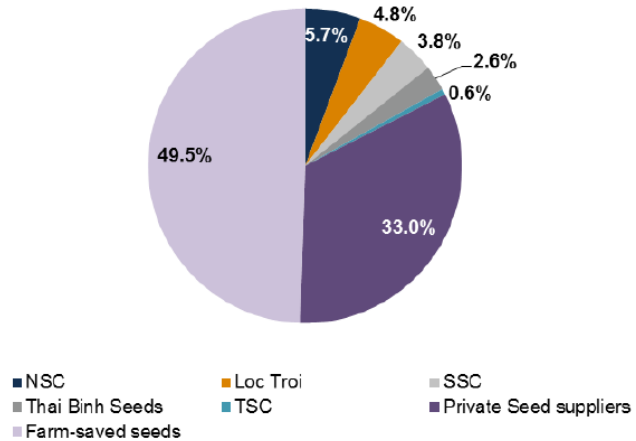
Loc Troi Group is filling for listing on UPCOM and the expected listing date is early June 2017 and on HOSE thereafter. And if you have interest in agriculture, you probably do not want to miss this ticker in your portfolio:

- **Top 35 largest companies on HOSE** by market capitalization if listed and the only company with such size in Vietnam agriculture sector;
- **Estimated PE 2017 forward is 10.3** which is very attractive compared to peers, currently being traded at 15.x PE;
- **The one and the only company owning a fully vertically integrated value chain** via controlling agricultural inputs and production through the large scale rice farming model, which ensures the rice outputs of high and consistent quality.

Market Share of CPC Companies in Vietnam (2015)



Market Share of Seed Companies in Vietnam (2015)

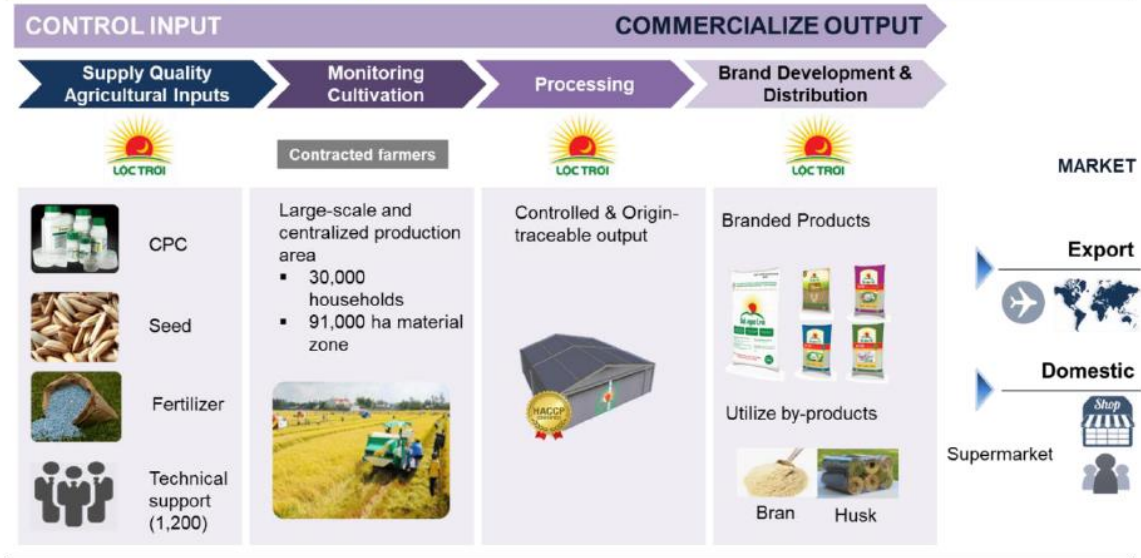


Dominant position in the CPC and seed segments thanks to a nation-wide distribution network covering about 25% total number points of sale and producing more than VND1,000 billion in cash flow in 2017, increasing at CAGR 2017F – 2021F of 13%

- Leading supplier of agricultural inputs:
 - **The largest CPC manufacturer and distributor in Vietnam** with almost 20% market share, far exceeding the second player's
 - **The second largest seed supplier in Vietnam** with more than 20% of the rice seed market in Mekong Delta.
- Robust and nation-wide distribution network in Vietnam, and expanding to Cambodia
 - **22 branches and 01 subsidiary in Cambodia**
 - **More than 5,000 distributors of agrochemicals and seeds nationwide** (out of a total 20,000 distributors), a robust platform to provide all kinds of agricultural inputs to farmers, so as to realize the goal to provide “total solutions” to farmers
- The seed and CPC Segments are playing the roles of cash generators, providing more than VND1,000 billion of cash in 2017, equivalent to a 13% CAGR during the period of 2017 and 2021

The vertically integrated rice platform has gone through the initial investment phase and shown promising growth in both the top and bottom lines: Leveraging strengths in the CPC and Seed segments, the Company has successfully developed a unique and sustainable agricultural platform with c.30,000 contracted farming households and c.91,000 ha of material zone to capture huge potential upsides of the Food – Rice segment started with rice and expanding into other major crops.

Figure 3: Loc Troi Group's Vertically Integrated Farming Model



Source: Loc Troi JSC

For conclusion, please keep a closed look for Loc Troi Group for the obvious reason that they are probably the **most suitable tickers in the sectors with large CAP, high potential and relatively cheap compared to peers.**



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VNDIRECT in alliance with CIMB

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