

LOCTROI GROUP (LTG) – EARNINGS UPDATE

Market Price VND38,950	Target Price VND66,200	Dividend Yield 7.7%	Rating ADD	Sector AGRICULTURE
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Outlook – Short term



Outlook – Long term



Valuation



9 February 2018

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Key changes in the report

- None

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	64,000
52w low (VND)	37,600
3m Avg daily volume (shares)	33,051
3m Avg daily value (VNDmn)	1,423
Market cap (VNDbn)	2,616
Outstanding shares (m)	67.2
Free float (%)	39.2
TTM P/E	6.1x
Current P/B	1.1x

Ownership

Marina Viet Pte. Ltd	25.2%
An Giang People's Committee	24.2%
Standard Chartered Private Equity	8.2%
Huynh Van Thon	3.2%
Others	39.2%

Source: VNDIRECT

In 2017, LTG saw better-than-expected revenue growth (+11.6% yoy) driven by a strong recovery in its CPC and rice segments. The company's net profit closely matched our forecast (+24.4% yoy) since gross margins were lower than our expectations. LTG is now trading at a TTM P/E of 6.1x, a deep discount to its peers, indicating an attractive entry point.

All core segments reported robust growth in 4Q17 on the back of favorable market conditions. LTG's revenue in 4Q surged 24% yoy while its net profit rose by 40% yoy to reach VND152bn. The Agrifood segment experienced a surge in revenue (+17% yoy), as the strong demand for rice exports in Oct and Nov pushed up export volumes and prices, which was favorable for LTG since it exports over 60% of its rice production. Meanwhile, the CPC segment recovered strongly (+23% yoy, vs. -24% yoy in 3Q17) due to improved weather conditions and the beginning of the Winter-Spring crop in LTG's primary market, the Mekong Delta region.

For 2017, LTG's net revenue rose by 12% yoy and gross margin increased by 70bps to 21.5%. Sales growth came from the general recovery in the market conditions mentioned above, while gross margin expansion could be attributed to: (1) higher contribution of high-margin CPC products and newly-introduced products, (2) the restructuring of the distribution channel in the seed segment, and (3) the successful clearance of old rice inventory (completed in 2Q17).

We expect LTG's gross margin to expand further in 2018, as the company continues to reap the benefits from its restructuring efforts completed in 2017 both in terms of product portfolio and distribution channels. Meanwhile, the Agrifood segment's margins should recover to the average levels seen before the market downturn in 2015-2016, which is almost double the current margin (at 3.7% in 2017), given the expected favorable conditions for rice exports this year. Data from the Ministry of Industry and Trade also supports this belief; Vietnam's rice exports in Jan 2018 grew by 57% yoy in volume (reaching 524,000 tonnes) and 74.2% in value (to US\$249mn).

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	8,857	7,856	7,783	8,689
Revenue growth	19.1%	(11.3%)	(0.9%)	11.6%
Gross margin	23.2%	22.1%	20.8%	21.5%
EBITDA margin	9.8%	8.2%	9.0%	9.2%
Net profit (bn)	504	319	347	432
Net profit growth	0.6%	(36.7%)	8.8%	24.4%
Recurring profit growth	0.6%	(36.7%)	8.8%	24.4%
Basic EPS	7,723	4,750	5,167	6,429
Adjusted EPS	6,565	4,037	4,392	5,465
BVPS	30,529	31,005	32,018	34,216
ROAE	27.8%	15.7%	16.4%	19.4%

Source: VNDIRECT

LTG is trading at a deep discount to its peers, at 6.1x TTM P/E compared to its peer average of 12.6x despite comparable return on assets and earnings growth. We anticipate no fundamental risks to the company's performance in 2018 (with expected 2018 EPS growth of 19.7% yoy), so this could be an attractive entry point for investors to take advantage of the cyclical recovery in the agriculture sector. We reiterate our ADD recommendation for now and will review our valuation in the upcoming weeks when the company discloses its audited financial statements and 2018 business guidance.

Figure 1: Peer comparison

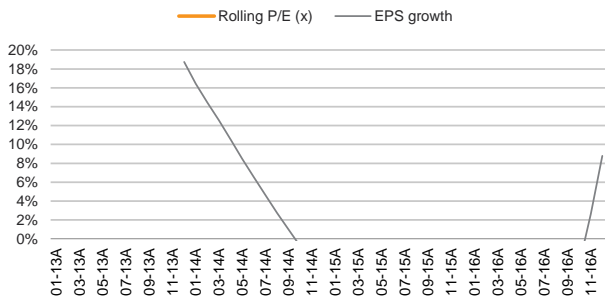
Company	Country	Market Cap (US\$ mn)	TTM NPAT growth (%)	TTM EPS growth (%)	TTM ROA (%)	TTM (ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)
HNG	Vietnam	226.4	N/A*	N/A*	2.8%	9.2%	1.4	5.6	0.5
PAN	Vietnam	267.9	44%	35%	7.6%	10.5%	0.2	16.1	2.2
NSC	Vietnam	73.3	20%	20%	13.7%	19.7%	0.1	8.0	1.8
HAI	Vietnam	39.4	-26%	-27%	1.7%	2.7%	0.3	12.9	0.4
SSC	Vietnam	40.4	79%	79%	15.6%	20.0%	0.1	20.2	2.7
LTG	Vietnam	115.2	24%	24%	6.8%	19.2%	1.0	6.1	1.1
Peer average			29%	27%	8.3%	12.4%	0.4	12.6	1.5
Peer median			32%	28%	7.6%	10.5%	0.2	12.9	1.8

*HNG incurred losses in 2016 but made profit in 2017.

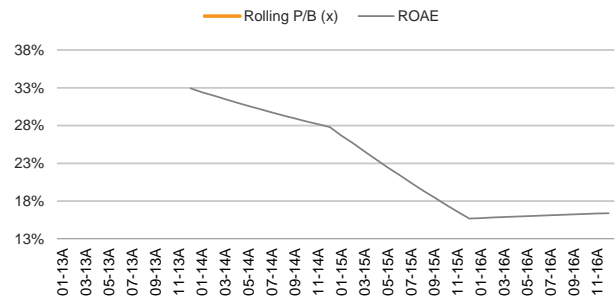
Source: VNDIRECT, Stoxxplus

Valuation

P/E (x) vs EPS growth



P/B (x) vs ROE



Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	7,856	7,783	8,689
Cost of sales	(6,119)	(6,167)	(6,821)
Gen & admin expenses	(441)	(427)	(323)
Selling expenses	(690)	(628)	(886)
Operating profit	606	561	659
Operating EBITDA	710	684	787
Depreciation and amortisation	(105)	(122)	(128)
Operating EBIT	606	561	659
Interest income	24	25	16
Financial expense	(205)	(150)	(141)
Net other income	0	27	17
Income from associates & JVs	0	0	0
Pre-tax profit	425	464	551
Taxation	(105)	(115)	(119)
Minority interests	(0)	(2)	(0)
Net profit	319	347	432
Adj. net profit to ordinary	319	347	432
Ordinary dividends	(196)	(91)	(290)
Retained earnings	123	256	141

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	190	279	116
Short term investments	0	25	27
Accounts receivables	1,526	1,733	2,362
Inventories	2,684	2,170	2,147
Other current assets	145	63	86
Total current assets	4,545	4,270	4,738
Fixed assets	1,761	1,739	1,677
Total investments	9	0	28
Other long-term assets	90	150	135
Total assets	6,406	6,159	6,578
Short-term debt	2,325	1,905	2,146
Accounts payable	1,270	1,545	1,356
Other current liabilities	271	407	483
Total current liabilities	3,866	3,857	3,984
Total long-term debt	372	74	220
Other liabilities	64	52	48
Share capital	672	672	672
Retained earnings reserve	282	335	415
Shareholders' equity	2,082	2,150	2,298
Minority interests	22	26	28
Total liabilities & equity	6,406	6,159	6,578

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	425	464	551
Depreciation & amortisation	105	122	128
Tax paid	(109)	(9)	(59)
Other adjustments	(16)	(284)	(50)
Change in working capital	(725)	767	(698)
Cash flow from operations	(320)	1,060	(128)
Capex	(384)	(163)	(132)
Proceeds from assets sales	7	18	30
Others	(0)	10	(33)
Other non-current assets changes	4	(22)	4
Cash flow from investing activities	(373)	(157)	(131)
New share issuance	91	3	2
Shares buyback	0	0	0
Net borrowings	812	(727)	384
Other financing cash flow	0	0	0
Dividends paid	(196)	(91)	(290)
Cash flow from financing activities	707	(815)	96
Cash and equivalents at beginning of period	176	190	279
Total cash generated	14	88	(163)
Cash and equivalents at the end of period	190	279	116

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	4.1%	4.5%	5.0%
Asset turnover	1.30	1.24	1.36
ROAA	5.3%	5.5%	6.8%
Avg assets/avg equity	2.97	2.97	2.86
ROAE	15.7%	16.4%	19.4%
Efficiency			
Days account receivable	67.0	79.6	96.5
Days inventory	160	129	115
Days creditor	75.8	91.7	72.5
Fixed asset turnover	4.82	4.45	5.09
ROIC	6.6%	8.4%	9.2%
Liquidity			
Current ratio	1.18	1.11	1.19
Quick ratio	0.48	0.54	0.65
Cash ratio	0.05	0.08	0.04
Cash cycle	151	117	139
Growth rate (yoy)			
Revenue growth	(11.3%)	(0.9%)	11.6%
Operating profit growth	(18.0%)	(7.4%)	17.4%
Net profit growth	(36.7%)	8.8%	24.4%
EPS growth	(38.5%)	8.8%	24.4%
Share value			
Basic EPS (VND)	4,750	5,167	6,429
BVPS (VND)	31,005	32,018	34,216

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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