

LOCTROI GROUP (LTG)

Current Price VND51,800	Target Price VND72,570	Dividend Yield 5.7%	Recommendation BUY	Sector Agribusiness
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Outlook – Short term



Outlook – Long term



Valuation



18 August 2017

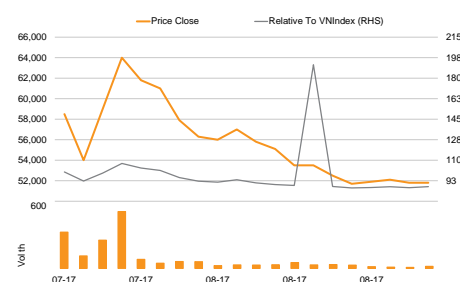
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Key changes

- FY17 gross margin decreased by 0.5bp
- FY17 net profit decreased by 6.9%
- Target price reduced by 6.9%

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	64,000
52w low (VND)	51,700
Average daily turnover (3m)	29,108
Market cap (VND) billion	3,478
Outstanding shares (m)	67.9

Ownership

Marina Viet Pte. Ltd	25.21%
An Giang People's Committee	24.15%
Standard Chartered Private Equity	8.18%
Huynh Van Thon	3.16%

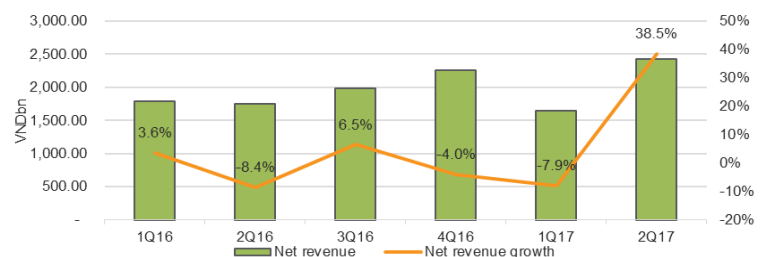
Source: VNDIRECT

Financial summary (VND)	12-14A	12-15A	12-16A	12-17E
Revenue (bn)	8,857	7,856	7,783	8,086
Revenue growth	28.9%	(11.3%)	(0.9%)	3.9%
Gross margin	23.2%	22.1%	20.8%	23.2%
Operating EBITDA (bn)	923	927	828	1,043
Net profit (bn)	504	319	347	478
Net profit growth	8.9%	(36.7%)	8.8%	37.7%
Basic EPS	7,805	4,820	5,167	7,115
Adjusted EPS	6,634	4,097	4,392	6,048
BVPS	30,809	31,335	32,400	36,302
ROAE	27.6%	15.5%	16.2%	20.7%

Agrifood Segment's 1H17 result was below our expectation but other segments showed more signs of recovery, contributing positive growth in both top line and bottom line. We reduce our target to VND72,570/share due to lower forecast in net profit but maintain our recommendation BUY.

2Q17 witnessed highest growth in 6 recent quarters with 38.5% yoy in net revenue and 78.7% in net profit. Top line result supports recent announcement of LTG's chairman about the recovery in FY17 after difficult years. For further information, LTG has suffer 3 on 5 latest quarters with negative growth (yoy) in net revenue.

Figure 1 Net revenue growth 1Q16-2Q17



Source: LTG, VNDIRECT estimation

It's a bit early to say that LTG has successfully bounced back in 2Q17, but if they're able to maintain positive growth in 2H17, it is safe to assume that the hardest time has passed.

Figure 2 Loc Troi's 2H17 consolidated business results

VNDbn	2Q16	2Q17	+/- yoy	1H2016	1H2017	+/- yoy
Net revenue	1,754	2,429	38.5%	3,541	4,075	15.1%
COGS	1,444	1,933	33.9%	2,847	3,211	12.8%
Gross profit	310.4	495.4	59.6%	694.4	864.5	24.5%
Gross margin	17.7%	20.4%		19.6%	21.2%	
Financial incomes	5	3	-26.6%	16	10	-38.4%
Financial expenses	35	39	13.2%	67	69	2.2%
Interest expenses	32	33	4.7%	61	57	-6.6%
Selling expenses	70	226	224.4%	238	385	61.7%
General Administration expenses	125	93	-25.8%	201	176	-12.6%
EBT	86	157	83.3%	207	254	23.2%
Net profit	70	125	78.7%	159	196	23.5%

1H17 net revenue reached VND4,075bn (+15.1% yoy), completed 52% our current FY17 forecast thanks to 2-digit growth in all 3 major segment. Gross margin lifted up to 21.2% (vs 1H16 of 19.6%) as the result of improvement in GM of CPC and Seed segment.

Figure 3 LTG's 1H revenue breakdown

	1H16	1H17	+/- yoy	% versus our forecast for FY17
Net revenue	3,541	4,075	15.1%	52%
CPC segment	1,970	2,319	17.7%	49%
Agrifood segment	1,191	1,333	12.0%	59%
Seed segment	260	339	30.5%	60%
Packaging	76	67	-11.8%	41%
Others	44	17	-62.3%	20%

Source: VNDIRECT

Figure 4 LTG's 1H gross margin by major segments

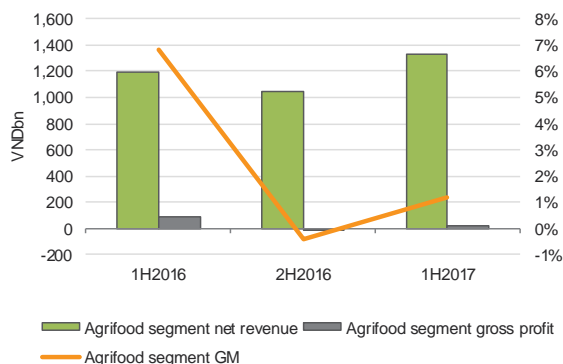
	1H16	1H17	New assumption for FY17
Gross margin	19.6%	21.2%	23.20%
CPC segment	28.7%	31.8%	31.00%
Agrifood segment	6.8%	1.2%	3.10%
Seed segment	11.3%	22.0%	22.00%
Packaging	18.0%	18.0%	18.00%

Source: VNDIRECT

Key points on major sectors' 1H performance:

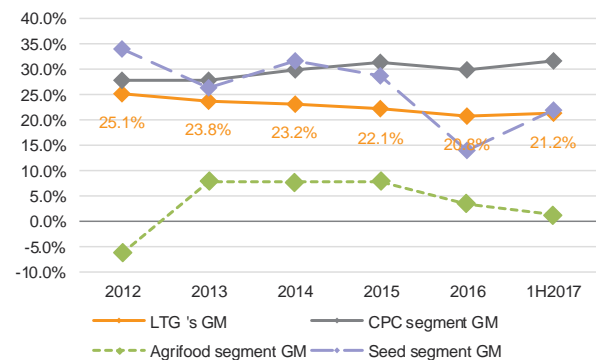
- **CPC segment** continued to be the cash generator of Loc Troi with contribution of 56% in LTG's net revenue and 85% gross profit. Gross margin was higher than expected (1H's GM of 31.8%) so we increase our assumption for FY17 GM of CPC from 29.7 to 31.0%.
- **Weak performance of Agrifood segment was caused by slow progress in old rice clearance.** Despite of growth in revenue, gross margin of Agrifood segment plummeted to 1.2% (vs 1H16 of 6.8% and 2H16 of -0.4%).
Gross margin of Agrifood segment can recover in last 6 months to average level of FY14-16 (~7%). According to LTG, they had completed the clearance in 2Q, and the margin of Agrifood segment will go up in upcoming quarters.
- **Seed segment reported most positive results** with 30% growth yoy and doubled the gross margin vs 1H2016, in line with our forecast.

Figure 5 Agrifood segment performance in 2016-2017



Source: VNDIRECT

Figure 6 LTG's gross margin FY12-17



Source: VNDIRECT

Selling expenses rose 224.4% yoy in 2Q2017 as the result of sale promotion program launched in this quarter. The program caused the advertising and promotion expenses reached VND114.6bn (compared with 2Q16 of VND9bn). For further information, LTG usually has 2 sale promotion per annum.

LTG reported 1H's selling expense of VND385bn (+61%yoy), equivalent to 55% of our forecast for whole year.

Forecast and recommendation:

With key changes noted above, we remain our forecast for FY17's net revenue of VND8,086bn (+3.9% yoy) but decrease the net profit forecast to VND478bn (6.9% lower than previous report) due to poor performance of Agrifood segment in 1H17.

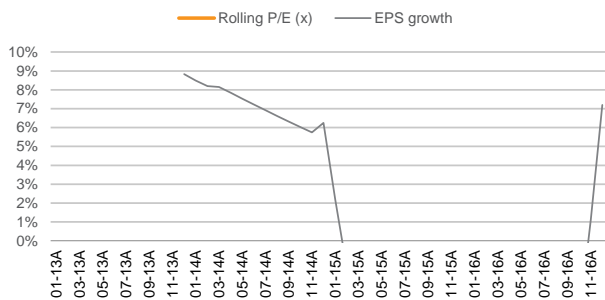
For FY18, we expect top line could grow by 6.8% yoy (to VND8,635bn) and bottom line's growth of 14.0% yoy (VND544bn).

With EPS FY17 decreasing to VND6,048 and our target P/E of 12.0x maintained; **we lower our target price for LTG to VND72,570/share** (previous target was VND77,940/share).

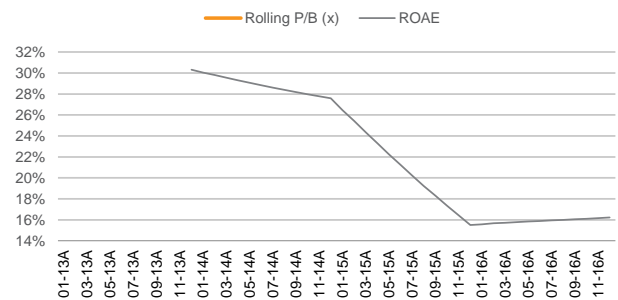
Since the first trading day in UPCOM on July 24th, LTG's stock has decreased by 12% and it is now trading at the market price of VND51,800 (on Aug. 18th). At this price, LTG are trading with P/E 2017 of 8.6x and P/E 2018 of 7.4x. **We maintain our recommendation BUY for LTG with upside of 40%.**

Valuation

P/E (x) vs EPS growth



P/B (x) vs ROE



Income statements

(VNDbn)	12-15A	12-16A	12-17E
Revenue	7,856	7,783	8,086
Cost of sales	(6,119)	(6,167)	(6,210)
Gen & admin expenses	(441)	(427)	(458)
Selling expenses	(690)	(628)	(695)
Operating profit	606	561	722
Operating EBITDA	927	828	1,043
Depreciation and amortisation	(321)	(267)	(321)
Operating EBIT	606	561	722
Interest income	24	25	26
Financial expense	(205)	(150)	(136)
Net other income	0	27	29
Income from associates & JVs	0	0	0
Pre-tax profit	425	464	640
Taxation	(105)	(115)	(160)
Minority interests	(0)	(2)	(2)
Net profit	319	347	478
Ordinary dividends	(196)	(91)	(201)
Retained earnings	123	256	276

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17E
Pretax profit	425	464	640
Depreciation & amortisation	105	122	196
Other non cash gains/(losses)	101	47	16
Other non operating gains/(losses)	116	97	109
Tax paid	(109)	(9)	(160)
Other operating cash flow	(82)	(114)	29
Change in working capital	(875)	452	137
Cash flow from operations	(320)	1,060	967
Capex	(384)	(163)	(176)
Proceeds from assets sales	7	18	11
Others	4	(12)	0
Other non-current assets changes	(0)	(0)	0
Cash flow from investing activities	(373)	(157)	(164)
New share issuance	91	3	0
Shares buyback	0	0	0
Net borrowings	812	(727)	(229)
Other financing cash flow	0	0	0
Dividends paid	(196)	(91)	(201)
Cash flow from financing activities	707	(815)	(430)
Cash and equivalents at beginning of period	176	190	279
Total cash generated	14	88	373
Cash and equivalents at the end of period	190	279	652

Balance sheets

(VNDbn)	12-15A	12-16A	12-17E
Cash and equivalents	190	279	652
Short term investments	0	25	0
Accounts receivables	1,526	1,733	1,629
Inventories	2,684	2,170	2,261
Other current assets	145	63	83
Total current assets	4,545	4,270	4,624
Fixed assets	1,558	1,563	1,543
Total investments	9	0	0
Other long-term assets	294	326	347
Total assets	6,406	6,159	6,514
Short-term debt	2,325	1,905	1,604
Accounts payable	1,270	1,545	1,724
Other current liabilities	271	407	461
Total current liabilities	3,866	3,857	3,789
Total long-term debt	372	74	220
Other liabilities	64	52	67
Shareholders' equity	2,104	2,176	2,438
Minority interests	0	0	0
Total liabilities & equity	6,406	6,159	6,514

Key ratios

	12-15A	12-16A	12-17E
Dupont			
Net profit margin	4.1%	4.5%	5.9%
Asset turnover	1.30	1.24	1.28
ROAA	5.3%	5.5%	7.5%
Avg assets/avg equity	2.94	2.94	2.75
ROE	15.5%	16.2%	20.7%
Efficiency			
Days account receivable	67.0	79.6	70.7
Days inventory	160	129	133
Days creditor	76	92	101
Fixed asset turnover	5.47	4.99	5.21
ROIC	6.6%	8.4%	11.2%
Liquidity			
Current ratio	1.18	1.11	1.22
Quick ratio	0.48	0.54	0.62
Cash ratio	0.05	0.08	0.17
Cash cycle	151	117	102
Growth rate (yoy)			
Revenue growth	(11.3%)	(0.9%)	3.9%
Operating profit growth	(18.0%)	(7.4%)	28.7%
Net profit growth	(36.7%)	8.8%	37.7%
EPS growth	(38.2%)	7.2%	37.7%
Share value			
EPS (VND)	4,820	5,167	7,115
Adjusted EPS (VND)	4,097	4,392	6,048
BVPS (VND)	31,335	32,400	36,302
DPS (VND)	2,915	1,349	3,000

Source: VNDIRECT

VNDIRECT RECOMMENDATION

The recommendation is based on the total expected return of the stock, calculated by the percentage difference between the target price and the market price at the date of the report. Unless otherwise specified, stock recommendations have an investment horizon of 12 months.

BUY	Target price is 15% or more higher than current market price
HOLD	Target price is between 10% below to 15% above current market price
SELL	Target price is 10% or more lower than current market price

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