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PHU TAI GROUP – STRONGER BY ACQUIRING MORE GRANITE QUARRIES

MATERIAL SECTOR – A GOOD SECTOR TO INVEST

Material sector is not very attractive to foreign funds. Even though the companies in this sector are doing pretty well and the prices are relative cheap: **HPG** (EPS 5.93K; PE 5.09), **HSG** (EPS 8.92K; PE 5.49), **and NKG** (EPS 10.71K; PE 4.16). Many of the foreign funds said NO to material as they are afraid of the volatility of the commodity market.

However, if we give the sector a fair look, there are some of the reasons that make Vietnam material sector different from global trend are: (i) *Local demand is higher than local supply*, and (ii) *the sector is protected by import-tax* (iii) *better distribution network*.

Everyone who comes to Vietnam are mostly surprised because of the number of construction sites overall the country, especially in Hanoi and Hochiminh. It could be an easy guess that construction companies and construction material will be doing well and indeed, they did do well and will be continue doing well in the forthcoming time. One of the questions that people kept asking me is: *beside steel, cement what else would be a good investment in the construction material sector?*

STONE (GRANITE) AND WOOD (FURNITURE) – WHY NOT BOTH?

Stone-related material, especially granite, is widely used in interior design and local people love using them. Few years ago, granite was quite expensive and people used Chinese granite a lot. At first, Chinese granite looked similar (or even better, they had nice color) than local or imported granite. Chinese products are always cheap, that is their selling point. However, after 1-2 years using, the color gradually disappeared. And people realized that, there was no point buying Chinese granite as the replacement cost event much more. So, it is understandable that the demand for local granite is growing as high quality imported granite is expensive and only used for high class.

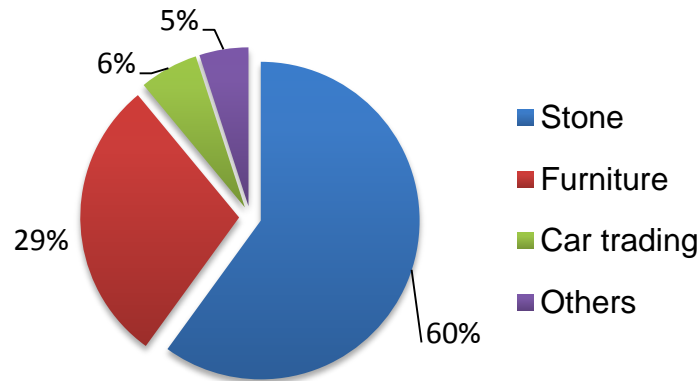
Let's have a look at the market leader for granite:

- Mid-cap company with market cap **USD120mil**
- ROE ~ 40%
- Growing business with dominant position.
- Three new factories built and operated in Q1 2017.
- **High entry barrier**: Acquisition cost of new quarry is extremely high due to costs of auction mining rights, site clearance compensation.
- They have 7 granite quarries with **total capacity more than 10,000,000m³**

PHU TAI – HOSE: PTB – was SOE company, they went public in 2004 and operated in three main businesses: granite producing, wood processing and car trade (Toyota).

I could say that even their background is SOE but PTB is well managed and their performance kept improving since listed on HOSE (chart below). Two main sources of income are stones producing and wood processing with accounted for 60% and 29% of gross profit respectively.

PTB Gross Profit



What would be the most attractive things about PTB?

- They have total 7 granite quarries which enough for mining for **20 years**.
- Stone revenue is growing **35% for the next two years**: (i) new factories (ii) New exporting market (Germany) (iii) marble product is increasing in capacity (up25%)
- Wood processing capacity will increase **32% in 2017-2018** with (i) new factory, adding 25% capacity (ii) new Japanese partner (iii) margin 17%.
- Our target price is **160k (upside 27%)** with assumption that the new factories could use up to 60% capacity.
- Ambition to grow by acquiring more quarries: PTB is **aiming to buy small companies with good**

quarries to improve their marketing share.

- They avoided the anti-dumping tax in Turkey because they could prove their costs are fair (Hoan Cau granite –PTB’s competitor - is not exempted from anti-dumping tax yet)
- PTB’s quarries are all **high valued** at quality and colors (white ivory, violet, black).

For conclusion, PTB is a good company with unique strength and is benefit from local growing real estate sector as well as exporting market. The current price is attractive. The downside is liquidity is low. If you are interested, please kindly inform us.



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