

PHU TAI JSC (PTB)

Market Price	Target Price	Dividend rate	Recommendation	Sector
VND129,600	VND160,100	2.44%	BUY	INDUSTRIAL

Outlook – Short term



Outlook – Long term



Valuation



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From 2017, we expect positive growth from the exploitation and production of natural granite thanks to PTB's new factories. At the same time, wood production is forecasted to grow by 32% yoy thanks to new customers from Japan.

Granite reserves will be sufficient for PTB's exploitation activities in the next 20 years. Currently, PTB owns 7 granite quarries with guaranteed supply for the next 20 years. PTB's quarries are highly valued for their quality and rare colors (white ivory, violet, black).

Price performance



Source: VNDIRECT

Revenue from natural stone production is expected to maintain an annual growth rate of over 35% in the two years 2017-2018. (1) New factories put into operation by the end of 2016 are expected to maximize their capacity in 2017, raising the total capacity of the PTB from 3.5 million m² to 4.3 million m²; (2) New export customers from Germany, increasing output from Binh Dinh granite processing factory; (3) Marble output - whose price is double the price of granite, is expected to increase by 2.5 times in 2017 thanks to new Dong Nai factory Phase 2 and Hung Yen factory.

Wood production activity with new customers. We forecast that revenue in wood production will grow 32% annually in 2017 - 2018, thanks to the sales of the Vina G7 factory with new Japanese customers and the new Phu Cat factory will go into operation from Quarter 3, 2017. At the same time, gross profit margin maintains an average of 16%.

Key statistics

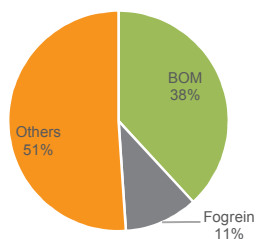
52w high (VND)	142,500
52w low (VND)	85,834
Average daily turnover (3m)	0,79tr
Market cap (VND) billion	2.704
Outstanding shares (m)	21.6
Free float (%)	48
Beta	0.8

Revenue of Toyota commercial vehicles are projected to grow 11% yoy in 2017. Thanks to the reduction of import tax in ASEAN region from 40% to 30%, PTB's sales of Toyota vehicles are expected to increase from 2,000 units per year to 2,300 units per year.

Risks: (1) Risks of competition with petty-imported Chinese stone products (imported through petty trade); (2) Influenced from cycle fluctuations of the real estates market; (3) Fees and taxes of mineral resources are increasing; (4) Risk of dilution.

We recommend BUY for PTB stock with a target price of VND 160,100/share with strong growth expectation from natural granite and wood production in the next two years.

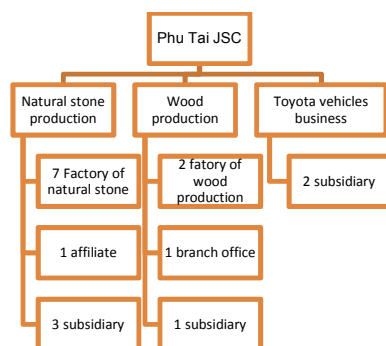
Ownership



Source: VNDIRECT

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Revenue (bn)	3.046	3.662	4.682	5.501
Revenue growth	24,2%	20,2%	27,9%	17,5%
Gross margin	14,8%	16,0%	16,7%	17,5%
Operating EBITDA (bn)	351	477	596	969
Net profit (bn)	184	278	363	463
Net profit growth	51,7%	51,5%	30,5%	27,5%
EPS	12.758	12.885	14.010	17.860
BVPS	34.908	35.399	42.512	45.294
ROAE	43,6%	43,9%	38,9%	40,7%

Source: VNDIRECT



Revenue structure of PTB

OVERVIEW

Phu Tai Company was originally a unit under Ministry of Defense. In 2004, equitization was carried out. PTB currently has 3 main business lines: granite production, wood production and Toyota vehicles sales.

In 2007, PTB purchased 51.91% of Phu Yen JSC., expanding the exploitation and production of granite, basal and marble in four localities is Binh Dinh, Khanh Hoa, Dak Nong and Phu Yen.

In 2013, The Board agreed to buy Tuan Dat Private Company and convert Tuan Dat into Tuan Dat Limited Company, expanding the production of natural stone products.

In December 2014, the Ministry of Defense fully divested from PTB. Individuals in the Board of Directors purchased the divestment of Ministry of Defense, raising the ownership of big individuals by 45%.

In 2015, they build a stone processing factory in Dong Nai, specializing in the production of granite and marble imported products.

In 2016, the company purchased 75% of the VinaG7 timber company to expand the production of wood furnitures. At the same time, two new branches were established namely the Hung Yen stone processing factory and the Binh Dinh processing factory.

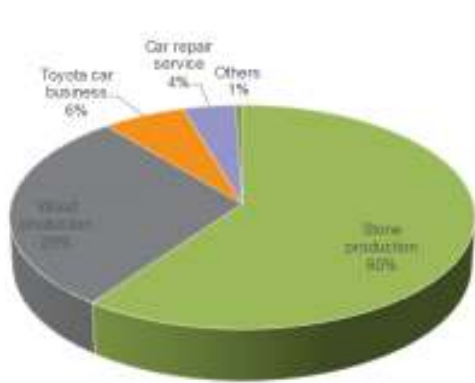
Experienced leaders. The key positions of the company have more than 20 years of experience with PTB. Among them, Mr Le Vy - Chairman of the Board, Colonel, has been in PTB for more than 30 years. Mr. Le Van Thao, graduated from Polytechnic University, Chairman of Binh Dinh Association of Stone Exploitation and Processing, has 20 years of experience in the field of granite production and exploitation.

BUSINESS ACTIVITIES

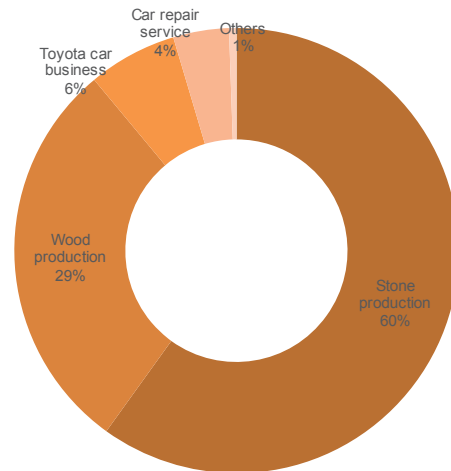
PTB's business activities focus on three main fields: (1) Exploitation and production of natural stone including granite, marble, stone crushed and stone handicrafts; (2) Wood production, mainly for export; (3) Trading Toyota with monopoly position in the Binh Dinh - Da Nang region.

Natural stone accounts for 27% of revenue but contributes 60% of gross profit. At the same time, timber production contributes 28% of revenue and 29% of gross profit. Toyota vehicles sales accounts for 42% of revenue but contributes only 6% of gross profit. In addition, other activities including repair and maintenance of Toyota vehicles contribute 3% of revenue and 4% of gross profit.

Gross profit structure of PTB



Source: PTB Financial statements



Source: PTB Financial statements

Exploitation and production of stone flooring – expected to be a surging growth, the major growth driver in the next 2-3 years.

PTB's stone production focuses on three main products: stone flooring (accounts for 88% of revenue), stone handicrafts (accounts for 4% of revenue) and stone crushed (accounts for 8% of revenue).

The supply for natural stone flooring in the country is plentiful.

According to the Viet Nam Stone Flooring Association, Vietnam has a total of 184,67 million m3 of stone flooring. In addition, the figures from the Ministry of Construction show that a total of potential stone reserves may reach 3.1 billion m3, of which granite is 86%, gabbro is 2.8% and marble is 0.8%. In Vietnam, the Central area is considered to be the "center" of granite with 80% of the country's total, concentrated mainly in Thanh Hoa, Nghe An, Binh Dinh, Khanh Hoa and Phu Yen. The area of Binh Dinh and Phu Yen is considered to be of good quality and beautiful colors, especially red, yellow (such as Binh Dinh and Khanh Hoa), blue and black (such as Phu Yen and Thanh Hoa) granite. The Northern area concentrates the marble quarry in Yen Bai but it is evaluated that the quality of stone is less competitive than imported stone.

The demand for stone flooring is forecasted to grow positively at 18% annually in the period of 2017-2018 thanks to prospects from real estates market.

Granite with high strength and waterproof, can be paved in the position of scratch, abrasion such as stairs, floors, facades, etc. are widely applied in paving. We assess that the demand for stone flooring consumption is growing according to: (1) Real estates market, mainly used in buildings; (2) The demand for high quality of hard materials, and colors is different from traditional stone flooring; (3) Speed of urbanization.

In addition, Vietnam's main export markets are Asia and Australia accounting for 46%, Europe accounts for 24%; in which, some main export countries as Belgium and Turkey, which are forecasted to remain stable after the decline in 2016.

According to the Government's planning, the demand for stone flooring will reach 30 million m2 by 2020, which is double of the amount in

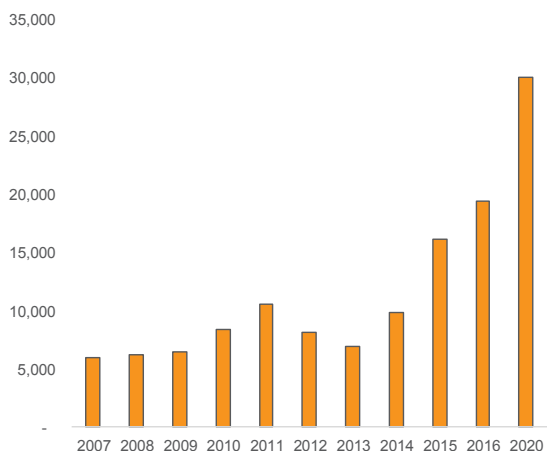
Some of the largest quarries of granite



Source: The Ministry of Construction

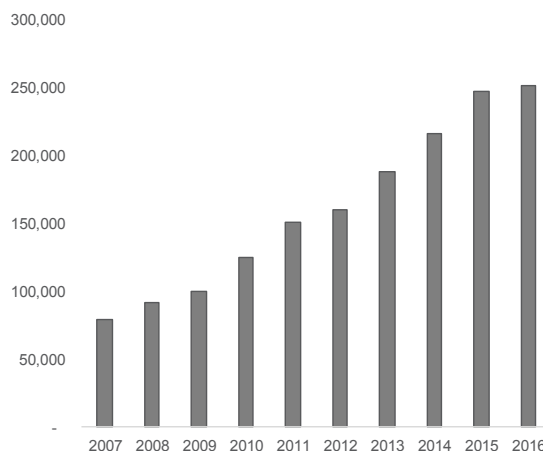
2015. Therefore, we forecast that the demand for stone flooring will increase by 18% annually on average in the period of 2017-2018.

Consumption of stone flooring Viet Nam 2007-2020F (mil m2)



Source: VNDIRECT collection

Export turnover of stone flooring of Vietnam 2007-2016 (mil USD)



Source: VNDIRECT collection

Regarding PTB's stone flooring production, we favorably evaluate based on the following points of view:

The advantage of owning quality quarries and rare colors, mining time is over 20 years. PTB currently owns seven granite quarries in Binh Dinh, Phu Yen, Khanh Hoa and Dak Nong with a total area of 81.2 hectares, total annual raw material capacity of 10 million m3. At the same time, 1m3 of raw material can be sawn into 30-40m2 finished products. We estimate that PTB's quarries have the following advantages: (1) The stone quality is assessed to have high hardness, which is in the "center" of the best quarries in the Central of Vietnam; (2) PTB owns a violet quarry and an ivory white quarry, which are judged to be rare and high value - twice as high as the common black stone; (3) Mining time is over 20 years. In which, quarries are open-pit, so mining reserves may be larger than published data.

Quarries of PTB

Quarry	Reserve (m3)	Capacity (m3)	Stone	Lifetime (year)
Son Trieu quarry	6.183.986		Building stone	>10
Nui Ngang quarry	1.878.186	10.000	Purple stone	>20
Hoan Cha quarry	230.191	na	Yellow stone	>20
Nui Loi Phu My quarry	2.862.810	8.000	White stone	>22
Bazal Daknong quarry	2.396.955	na	Bazal stone	>25

* Not including 2 new quarries in Khanh Hoa

Source: PTB prospectus

Mining output is projected to grow at an average of 26% annually during the period of 2017-2018 thanks to three new factories. By the end of 2016, early 2017, PTB put three new plants into operation including (1) Binh Dinh stone flooring factory with a capacity of 1 million square meters per year, main products are violet and white granite from the Phu Cat quarry and the Phu My quarry; (2) Dong Nai stone flooring processing factory, phase 2, with a total capacity of 400,000 square meters per year, main products are granite and marble imported products; (3) Hung Yen stone flooring processing factory has a capacity of 300,000 square meters per year with granite and marble imported products. With the operation of three new plants, PTB's total

Total capacity of PTB is **4.3** mil m2/year

capacity increased by 23% from 3.5 million square meters to 4,3 million square meters.

We have positive views on the operation of these three new plants with the following four key points: (1) Solve the problem of exceeding 20% existing capacity; (2) Most of the factories are located in a convenient location for transportation such as the Dong Nai factory near the Vung Tau port to serve the Southern market, the Hung Yen factory near the Hai Phong port to serve the Northern market, the Binh Dinh factory is located at the Phu Cat quarry, which helps to reduce transportation costs for PTB; (3) Reduce failure rates in the manufacturing process by 10% when cutting and grinding lines are imported; (4) Take advantage of tax incentives for imported monolithic stone products compared to imported finished stone products. Stone flooring output is projected to increase from 1.4 million square meters to 2.3 million square meters in 2017.

PTB stone flooring factories

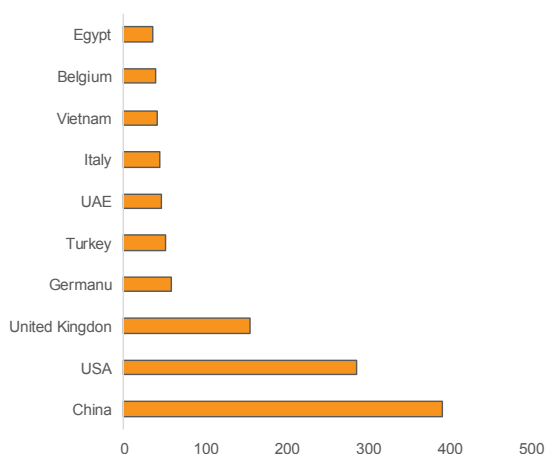
Factory	Capacity (m2)	Location	Stone
Dak Nong Factory	250.000	Dak Nong	Bazal stone
Khanh Hoa factory	250.000	Khanh Hoa	Purple and white stone
380 Enterprise	1.300.000	Binh Dinh	Black stone
Phu Yen factory	250.000	Phu Yen	Black stone
Nhon Hoa factory	500.000	Binh Dinh	Black and yellow stone
Binh Dinh factory	1.000.000	Binh Dinh	Purple and white stone
Dong Nai factory	400.000	Dong Nai	Granite and marble stone imports
Hung Yen factory	350.000	Hung Yen	Granite and marble stone imports

Source: VNDIRECT collection

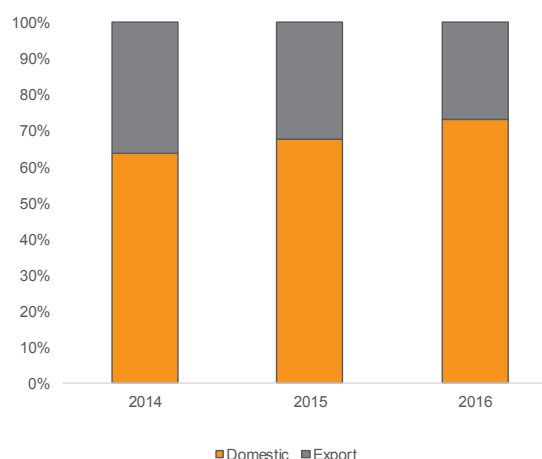
Advantage of export tax after proving the origin of stone. In February 2016, Turkey - accounting for 20% of the Vietnamese granite export market, decided to impose antidumping duties on imports from Vietnam at a rate of USD174 per tonne (equal to that of Chinese products). Of the 5 surveyed enterprises, two enterprises are still entitled with preferential 0% tax rate, including PTB. Meanwhile, PTB's main competitor, IBS, will be subject to the new tax. We evaluate that with proven origin and production facilities, it will be more favorable for PTB to develop European export markets. At the same time, PTB also expanded into Asian markets such as Myanmar and Cambodia.

We forecast that revenue from export will grow by 15% in 2017, coming from new customers in the German and Asian markets.

Export turnover of granite of some big markets in the world (mil USD)



Proportion of domestic and export revenue of PTB

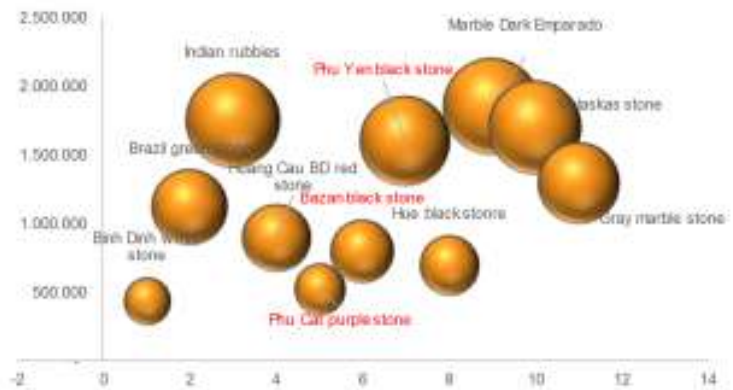


Source: VNDIRECT collection

Source: PTB prospectus

The expansion of high-value products: PTB has two main natural ashlar facing stone products. (1) PTB exploits granite and basalt products from the company's quarries for black stones type 2 with selling prices ranging from VND150,000/m², and purple stone and white stone products with the price of VND800,000 – VND1mn/m²; (2) Granite and marble products imported from India, Italy, Spain, Brazil, with selling price from USD500 – USD1,000 /m² in Dong Nai and Hung Yen factory. We believe that the diversification of products from the low-end segmentation to high-end segmentation helps PTB take full exploitation advantages by scale, reducing production waste, increasing operation efficiency.

Price of granite and marble (VND)



*Red color is the selling price of PTB stones

Source: hanoistone.com

Wood manufacturing – Expect from new products and customers

Wood manufacturing business line consists of 60% of exterior wood and 40% of interior wood at 3 factories: Thang Loi, Dong Nai and Vina G7. In the export market, 90% wood products are exported to European markets.

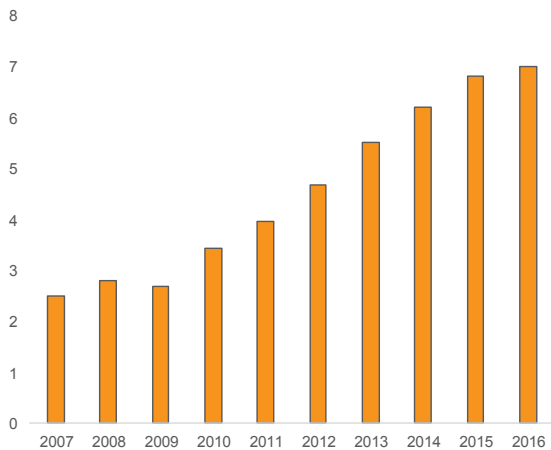
We estimate that PTB's wood processing will grow at an average annual rate of 32% in 2017-2018 thanks to the following factors:

Export wood products in Vietnam are expected to grow positively in 2017. According to the Vietnam Wood Association, export wood products are expected to grow by more than 10%, because: (1) the shifting of wood processing from China to Asian countries that includes Vietnam after China was imposed anti-dumping tax on the US market; (2) Free-trade agreements (FTAs) to boost exporting in Korea, UK...

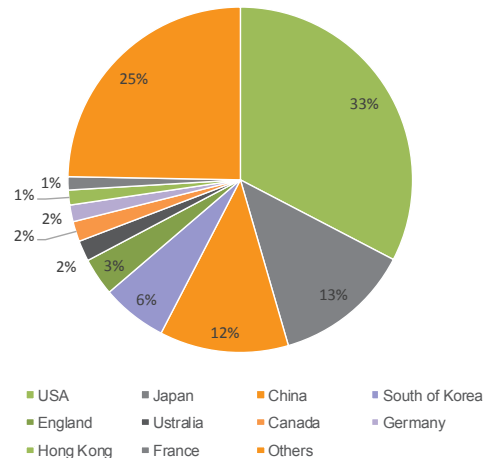
Total capacity of wood production is **20,000** m³/year

Export turnover of wood of Vietnam (mil USD)

Vietnam's main export markets for wood



Source: General Department of Customs

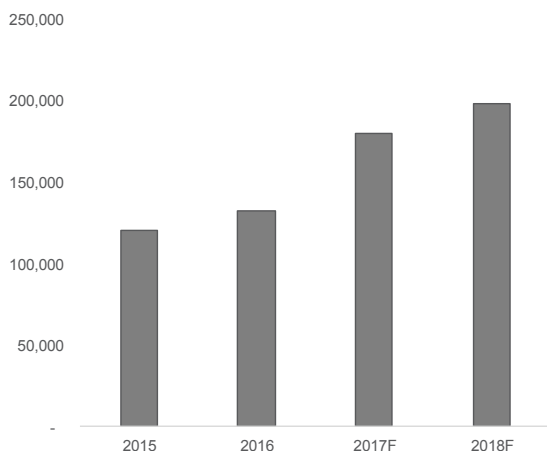


Source: General Department of Customs

Interior wood from Vina G7 to go up positively thanks to new customers. Vina G7 factory specializes in producing interior wood with a total capital of 200 containers/month. Currently, PTB owns 75% of Vina G7 with an investment value of VND41.8bn by the end of 2015. According to the company, PTB has more customers from interior wood sector at Vina G7 after 2 years of the market survey; thus revenue are expected to uplift VND240bn in 2017 equivalent to 35.5% and profit is expected to increase to VND7bn.

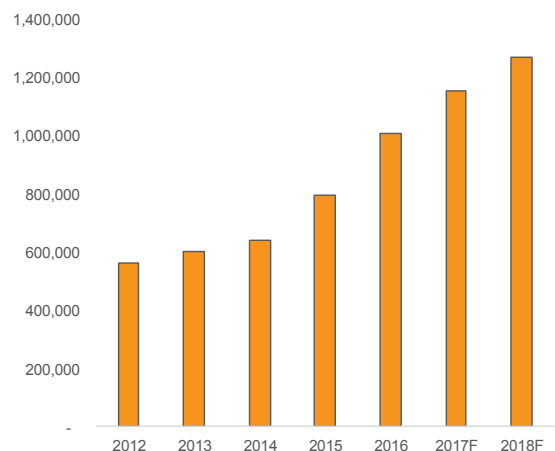
Maintain stable growth of 10% in 2 existing factories. At present, PTB has two factories: Thang Loi factory with capacity of 150 containers/month and DongNai factory with 30 containers/month. According to our assessment, the exterior wood processing operation had a positive growth of over 25% in 2015-2016 thanks to new customers in the US and Russia owing to the cheap labor-cost advantage of the shifting of wood processing from China to Vietnam. As expected, exterior wood consumption output maintains a 10% growth rate thanks to new customers from Germany and the maximum capacity in operating of existing factories.

Revenue of Vina G7 (mil VND)



Source: VNDIRECT forecast

Revenue of wood production (exclude Vina G7) (mil VND)



Source: PTB Financial statement

The margin is higher than industry average. The profit margin of wood manufacturing is higher than other companies in the industry by

Capacity of Phu Cat new plant
25.000 m3/year – stage 1.

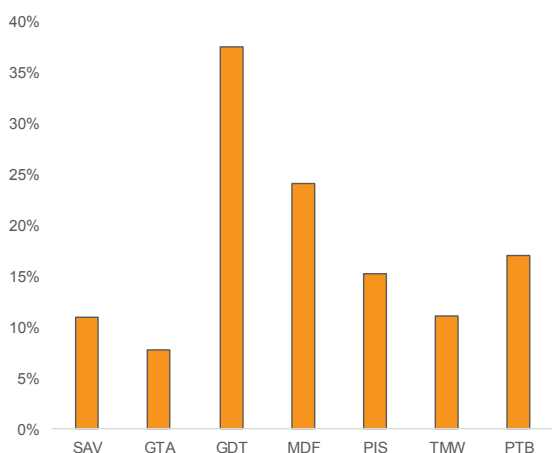
1-2%. As expected, wood manufacturing will continue to stand at 17% in gross margin in the period 2017 - 2018.

70% of wood materials is sourced domestically. 70% wood materials of PTB are from Binh Dinh and Gia Lai provinces such as acacia and melaleuca cajuputi... and obtain FSC certificate (Forest Stewardship Council – legal wood logs) for wooden origin.

Besides, PTB is planning to acquire 65% of Forexco - Forest Products Export JSC of Quang Nam from SCIC. Forexco’s advantage is owning 1,000 hectares of acacia plantations, which can help PTB expand its material source of wood manufacturing in the next years. In addition, we estimate that the acquisition of Forexco will boost manufacturing operation of exterior wood as Forexco is the outsourcing company for PTB.

Growth driver from new factory after 2018. In February 2017, PTB began to construct a new wood factory with a capacity of 25,000m3/year in stage 1 and 45,000m3/year in stage 2. The factory will come into operation in 1Q2018 with total investment of VND120bn. We forecast that the new factory will contribute to double the current revenue. As expected in 2019, this segment will reach VND1,000bn revenue with a capacity of >80%.

Gross profit margin of wood production companies in 2016 (%)



Source: VNDIRECT collection

Forecasting revenue and net income of Phu Cat new plant in 2018 (mil VND)

Capacity	Revenue	Earnings before tax
10%	119.961	8.857
20,0%	239.923	27.914
30,0%	359.884	46.972
40,0%	479.846	66.029
50,0%	599.807	85.086
60,0%	719.769	104.143
70,0%	839.730	123.200
80,0%	959.692	142.257
90,0%	1.079.653	161.315

Source: VNDIRECT forecast

Sales of Toyota cars – maintaining a monopoly position in central Hue – Da Nang – Binh Dinh.

In our view, Toyota’s sales business will have stable growth while old automobile repairing and trading will have more positive growth.

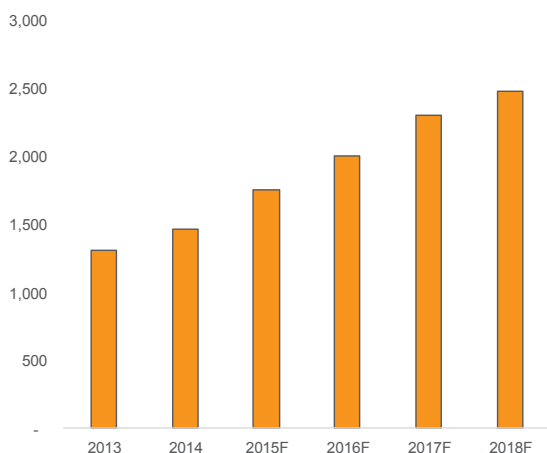
We expect automobile consumption volume to go up by 10% in 2017 and slow in 2018. According to VAMA’s forecast, the growth rate of Toyota automobile consumption will be maintained at 10% in 2017. Therefore, we forecast that PTB’s consumption volume will reach 2,300 automobiles (+15% YoY) in 2017 and 2,480 automobiles in 2018 with the new branch in Hue.

The profit margin has maintained at 3% per year. The profit margin has remained stable at 3% per year due. The gross profit is expected to reach VND50.2bn and VND54.3bn for 2017 and 2018, respectively.

Repairing service is expected to increase by 12% owing to the improvement in efficiency and expanding of old automobile

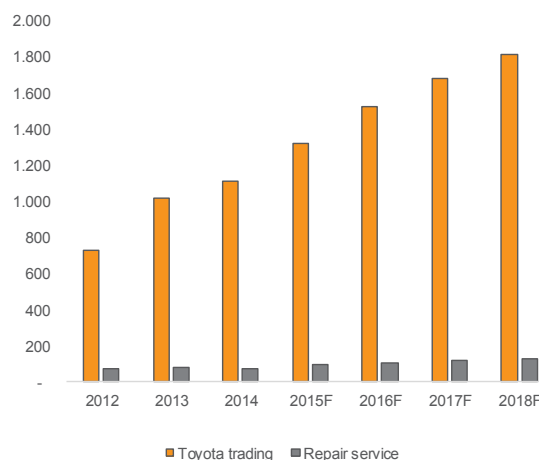
trading. According to the company, they will expand the old automobile trading. Simultaneously, the repairing service will be enhanced by optimizing the repairing time. As a result, it is forecasted that revenue in repairing service will increase by 12% in 2017 - 2018 and profit margin will improve from 17% to 22%.

The number of Toyota vehicles sold by PTB (vehicles)



Source: VNDIRECT

Toyota trading and repairing service revenue (bil VND)



Source: PTB Financial statement

FINANCIAL ANALYSIS

We evaluate that the stone and wood production segments have improved positively. Investment activities with little capital and long-term debt do not reduce the risk for PTB.

Improved profit margin

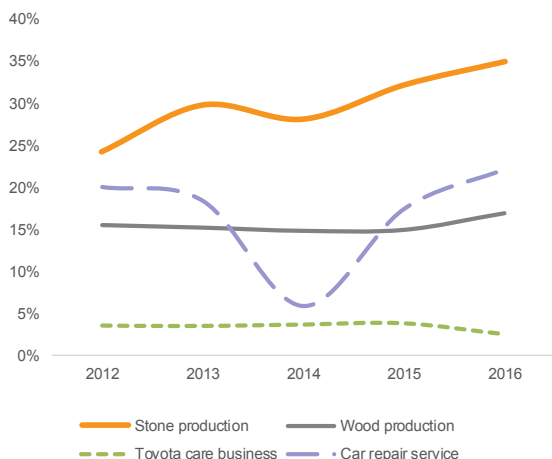
PTB’s profit margin improved significantly from 12.8% in 2013 to 16% in 2016, in which the stone manufacturing had the highest gross margin and increased from 12.8% to 35%. In addition, wooden manufacturing’s gross margin increased 15% to 17%. In our opinion, the reason for the significant improvement in profit margin is due to: (1) The expansion of stone manufacturing, which increased economy of scales; (2) The expansion of product ranges from low-end to high-end, contributing to improve the profit margin of stone manufacturing (3) The rearranging of human resources in wood production lines improves the efficiency of wood manufacturing.

The performance index has remained positive over the years

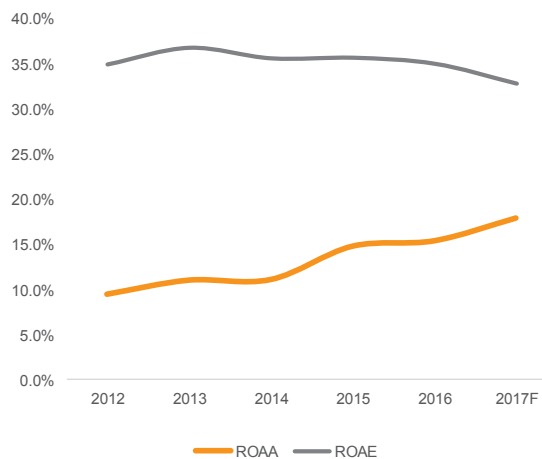
The ROE, ROA performance indexes are improved and maintained at over 32% and 17%. In comparison with listing company in the same industry, ROE of PTB is higher than the industry average at 26%.

Gross profit margin of PTB (%)

ROA and ROE of PTB (%)



Source: Financial statement of PTB

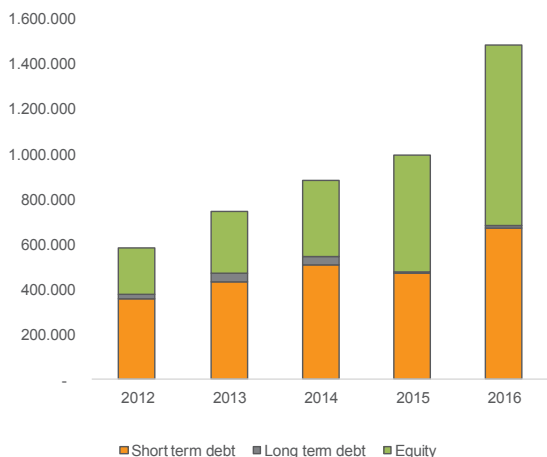


Source: Financial statement of PTB

No long-term debt

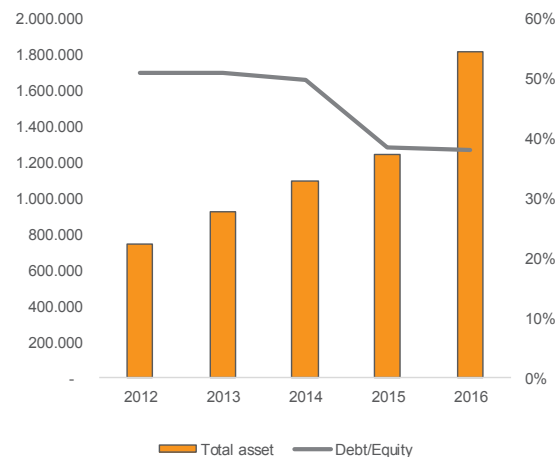
Debt/ total assets ratio in PTB fell from 50% in 2014 to 38% in 2016. Meanwhile, long-term debt accounted for 2%, short-term debt was used for deposit of import of Toyota automobiles. We appreciate that PTB's debt risk is quite low as investments are largely funded by owner's equity in Phu Cat stone and wood processing factories.

Debt and equity structure of PTB (mil VND)



Source: Financial statement of PTB

Total Debt/Total asset in 2012 - 2016



Source: Financial statement of PTB

BUSINESS RESULT

We forecast the company's 2017 revenue and EAT to reach VND4.681trl (+28% YoY) and VND363bn (+31% YoY) respectively based on these assumptions:

Revenue from stone production to increase by 53% YoY thanks to the fact that Dong Nai factory will operate at full capacity in the first phase and Hung Yen factory is planned to operate at 40% of its capacity, BinhDinh floor stone factory at 80% of its capacity. Selling price is assumed to have a slight raise of 5% due to high industry competition.

Wood production is expected to grow by 32% YoY, of which output from existing factories are expected to rise 10% thanks to the expansion of Thang Loi factory. Meanwhile, Vina G7's revenue is projected to increase by 35%.

Gross profit margin of stone production is maintained at 34%. We expect that cost of producing granite will be pushed up by 5% due to the increase of natural resources tax rate from 10% to 15% which will be passed on to consumers when demand for stone grows during the year. Meanwhile, timber production will maintain its profit margin of 17% thanks to new customers.

Admin expenses and selling expense are assumed to have a slight increase of 1% due to the new factories.

Projected EPS (fully diluted) of VND14,010/share and forward P/E is estimated at 8.8x, lower than the industry average of 10.12x.

Forecasting financial statement of PTB in 2017-2018

	2015	2016	2017F	2018F
Revenue	3.046	3.662	4.682	5.501
Stone production	826	1.007	1.539	1.837
Wood production	796	1.007	1.332	1.708
Toyota care business	1.320	1.524	1.676	1.810
Car repair service	95	108	119	128
COGS	2.594	3.076	3.900	4.535
Gross profit	451	586	782	965
Selling expenses	(109)	(134)	(180)	(212)
General and Admin Expenses	(88)	(99)	(129)	(152)
Profit before tax	236	338	454	579
Net profit after tax	183	278	363	463
EPS	12.036	12.261	14.010	17.860

Nguồn: VNDIRECT forecast

VALUATION

Using the FCFF valuation method with a WACC discount rate of 11%, we value the PTB's share at VND160,100/share, equivalent to P/E of 11.4x.

Valuation summary of PTB

FCF Model	2016	2017	2018	2019	2020	2021
FCFF (bil VND)		38	118	91	475	454
Discount factor		1,11	1,23	1,37	1,52	1,69
PV of FCFE (bil VND)		34	96	66	313	270
Terminal value (bil VND)						3.197
Firm value (bil VND)		3.976				
Debt (Bil VND)		603				
PV Equity value, cash, ST		3.459				
Equity value per share (VND)		160.112				

Source: VNDIRECT

RISK

High competition

We concern about competing with Chinese natural granite products. Besides, artificial floor tiles products are also one of the competitors against PTB's natural granite. However, we expect that the difference

in color and quality and the low selling price from second grade stone can help PTB in competition.

Influence from the cyclical movement of real estates market

We concern that high-end products such as imported granite and marble may be affected if real estate market declines in the future.

Cost and tax on the exploitation of mineral resources are increasing gradually

Natural resources tax on granite has had a rise from 10% to 15%. Meanwhile, the taxable price is calculated based on the selling price of the product. Therefore, we concern that in the future, the increasing costs and natural resources tax will affect PTB's production efficiency in exploiting stone.

Dilution risk

PTB plans to raise capital by 20% through the issuance of shares to existing shareholders at VND35,000/share. Meanwhile, it also approves the plan to issue ESOP 5% at VND35,000 to employees for the second time in 2 consecutive years. Therefore, it will affect the number of outstanding shares of PTB, especially the low-priced shares will affect PTB's share price movement in the future.

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