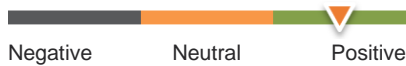


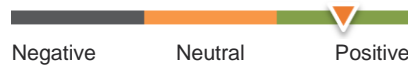
QUANG NGAI SUGAR JSC (QNS) – EARNINGS UPDATE

| | | | | |
|----------------------------------|-----------------------------------|-------------------------------|----------------------|---------------------------------|
| Market Price VND31,400 | Target Price VND44,300* | Dividend Yield 1.6% | Rating ADD | Sector CONSUMER GOODS |
|----------------------------------|-----------------------------------|-------------------------------|----------------------|---------------------------------|

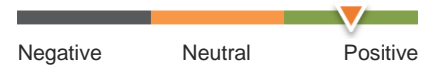
Outlook – Short term



Outlook – Long term



Valuation

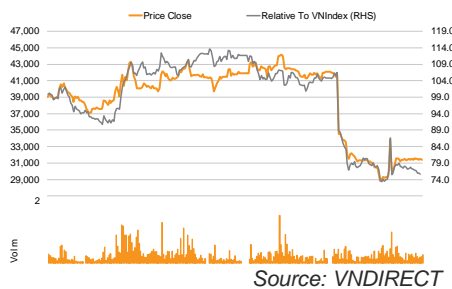


31 July 2019

Nguyen Tien Duc

duc.nguyentien2@vndirect.com.vn

Price performance



Key statistics

| | |
|------------------------------|---------|
| 52w high (VND) | 44,173 |
| 52w low (VND) | 28,800 |
| 3m Avg daily volume (shares) | 272,956 |
| 3m Avg daily value (VNDm) | 13,797 |
| Market cap (VNDbn) | 11,207 |
| Outstanding shares (m) | 253.0 |
| Free float (%) | 74.0 |
| TTM P/E (x) | 9.3 |
| Current P/B (x) | 1.9 |

Ownership

| | |
|----------------------------|-------|
| Thanh Phat Trading Ltd. | 15.8% |
| Foremost Worldwide Limited | 5.2% |
| Vo Thanh Dang | 5.0% |
| Others | 74.0% |

Source: VNDIRECT

1H19: Sweet soymilk – bitter sugar

Low sugar production spoiled soymilk's glory in 1H19. Soymilk revenue grew 13.2% yoy in 1H19 driven by a 10% rise in sales volume. We believe soymilk's better performance could be attributed to the recovery of dairy consumption in both urban and rural area and Vinasoy's new TV commercials. On the other hand, 1H19 sugar sales decreased 10.9% yoy, mainly due to a 6.4% yoy decline in average sugar price. Consequently, 1H19 QNS's revenue rose 2.5% yoy, fulfilling 50.7% of our full-year estimates. This is below our expectation as 1H results normally contribute 70-75% to the whole year revenue. 2Q is the peak season of sugar production and soymilk consumption.

Soymilk gross margin continue to advance. The average global soybean price decreased 12.4% yoy in 1H19 to US\$365/metric ton amid the U.S.-China trade tension, helping soymilk gross margin to expand 5.4% pts to 44.6%.

Sugar gross profit shrank amid lower commercial cane sugar (CCS) and price drop. A prolonged severe drought in An Khe, Gia Lai in 1H19 has reduced the CCS and cut down sugarcane harvesting volume by 25%-30%. At the same time, global sugar price drop in 1H19 has weighed down on QNS' ASP (-6.4% yoy). Consequently, 1H19 sugar GPM dropped 8.9% pts yoy to 4.1%.

Sugar production decreased and disbursement of refined sugar (RE) project slowed. We estimated that 2019 QNS' sugar production was down 38.5% yoy due to the drought and the firm had roughly 50,100 tonnes of sugar in stock at end of 1H19. QNS invested VND515bn so far in RE sugar project (36% of the total planned costs). The disbursement rate was slower than our expectation, thus the factory's trial run may face delays.

Higher administration costs and CIT rate offset better blended gross margin. Mixed performance of the soymilk and sugar segments drove QNS blended gross margin to advance 0.8% pts yoy to 27.6% in 1H19. SG&A as % of revenue edged up by 1.3% pts yoy to 12.4%, driven by higher salary for management staff and higher transportation and advertisement expenses. On the other hand, QNS's effective CIT rate in 1H19 rose 6.8% pts yoy to 17.6% since Bac Ninh soymilk plant's incentive period terminated. As a result, QNS posted VND521bn in 1H19 net profit, which was 7.3% below the same period last year, fulfilling 42.1% of our full-year forecast.

(*) Note: TP adjusted to reflect the 2018's stock dividend payment at the ratio of 100:20 made on May 5th 2019.

| Financial summary (VND) | 12-16A | 12-17A | 12-18A | 12-19E |
|-------------------------|---------|---------|--------|--------|
| Net revenue (bn) | 6,972 | 7,633 | 8,029 | 8,608 |
| Revenue growth | (10.4%) | 9.5% | 5.2% | 7.2% |
| Gross margin | 32.6% | 26.2% | 29.7% | 30.5% |
| EBITDA margin | 27.8% | 21.3% | 24.7% | 24.3% |
| Net profit (bn) | 1,410 | 1,027 | 1,238 | 1,394 |
| Net profit growth | 14.6% | (27.2%) | 20.6% | 12.6% |
| FD EPS | 5,572 | 4,058 | 4,893 | 5,510 |
| BVPS | 15,459 | 17,714 | 21,146 | 24,922 |
| ROAE | 36.8% | 21.7% | 22.7% | 22.9% |

Source: VNDIRECT

Figure 1: Result comparison

| VNDbn | 2Q19 | 2Q18 | %yoy chg | 1H19 | 1H18 | %yoy chg | 2019F | % vs our FY19F forecast | Comment |
|-----------------------|--------------|--------------|-----------------|--------------|--------------|------------------|----------------|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue | 2,073 | 2,376 | -12.7% | 4,073 | 3,973 | 2.5% | 8,029 | 50.7% | |
| +Sugar (VNDbn) | 414 | 689 | -39.9% | 1,046 | 1,173 | -10.9% | 2,251 | 46.5% | |
| ++Sales vol (tonnes) | 36,882 | 60,993 | -39.5% | 96,471 | 101,338 | -4.8% | 204,138 | 47.3% | Lower 1H19 sales volume due to lower production caused by serious drought |
| ++ASP (VND/kg) | 11,225 | 11,300 | -0.7% | 10,839 | 11,579 | -6.4% | 11,026 | 98.3% | ASP slightly decreased in 1H19 due to global sugar price trend |
| +Soymilk (VNDbn) | 1,189 | 1,095 | 8.6% | 1,985 | 1,754 | 13.2% | 3,863 | 51.4% | Soy milk sales volume increased by 10% yoy in 1H19 backed by recovery of dairy consumption in both urban and rural area (4M19 dairy sales volume +5.8% in urban area and +17.0% yoy in rural area according to Kantar World Panel) and positive impact of QNS's new TV commercials |
| +Other (VNDbn) | 469 | 591 | -20.6% | 1,043 | 1,046 | -0.3% | 1,915 | 54.4% | Biomass energy production in 1H19 fell due to lack of material caused by drought |
| Gross profit | 651 | 652 | -0.2% | 1,123 | 1,063 | 5.6% | 2,383 | 47.1% | |
| GPM | 31.4% | 27.5% | 3.9% pts | 27.6% | 26.8% | 0.8% pts | 29.7% | -2.1% pts | |
| +Sugar GPM | 3.8% | 11.2% | -7.4% pts | 4.1% | 13.1% | -8.9% pts | 12.3% | -8.2% pts | Lower sugar GPM in 1H19 due to drought reduced CCS |
| +Soymilk GPM | 45.7% | 40.1% | 5.6% pts | 44.6% | 39.2% | 5.4% pts | 43.6% | 1.0% pts | Soy milk GPM in 1H19 increased thanks to average soybean price slid by 12.4% yoy |
| +Other GPM | 19.5% | 23.7% | -4.1% pts | 18.6% | 21.3% | -2.8% pts | 22.0% | -3.4% pts | |
| SG&A | (215) | (228) | -5.5% | (507) | (444) | 14.2% | (1,032) | 49.1% | |
| SG&A as % of revenue | 10.4% | 9.6% | 0.8% pts | 12.4% | 11.2% | 1.3% pts | 12.9% | -0.4% pts | |
| Pre-tax profit | 443 | 416 | 6.5% | 632 | 630 | 0.3% | 1,400 | 45.2% | |
| EBT margin | 21.4% | 17.5% | 3.9% pts | 15.5% | 15.9% | -0.3% pts | 17.4% | -1.9% pts | |
| Tax | 77 | 47 | 62.9% | 111 | 68 | 62.8% | 182 | 61.1% | |
| Tax rate | 17.4% | 11.4% | 6.0% pts | 17.6% | 10.9% | 6.8% pts | 13% | 4.6% pts | Effective CIT rate increased by 8.1% pts as Bac Ninh soymilk plant incentive period ended |
| NPAT | 366 | 369 | -0.7% | 521 | 562 | -7.3% | 1,238 | 42.1% | |
| Net margin | 17.7% | 15.5% | 2.1% pts | 12.8% | 14.1% | -1.4% pts | 15.42% | -2.6% pts | |
| FD EPS (VND) | 1,026 | 1,033 | -0.7% | 1,459 | 1,574 | -7.3% | 3,974 | 36.7% | |

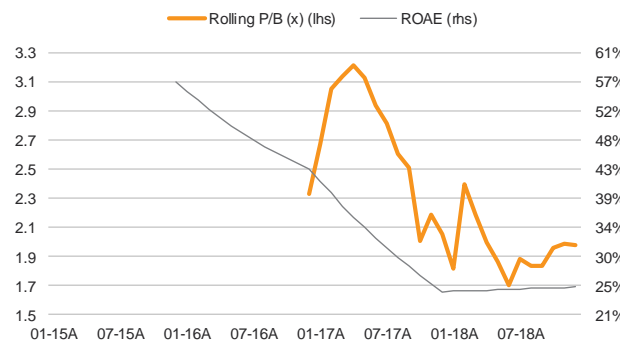
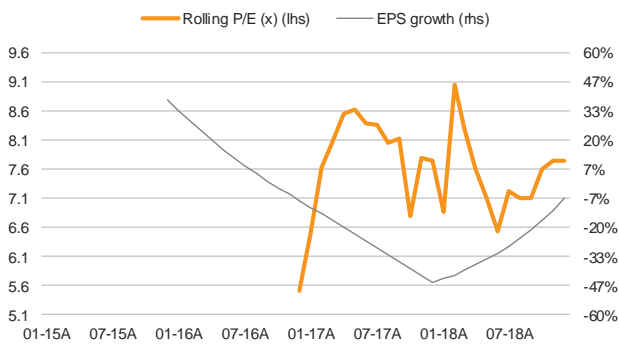
Source: VNDIRECT

Figure 2: Peer comparison

| Peers | Bloomberg Code | Market cap (US\$ m) | TTM NPAT growth (%) | TTM EPS growth (%) | ROA (%) | ROE (%) | D/E (x) | TTM P/E (x) | TTM P/B (x) |
|--------------------------------|----------------|---------------------|---------------------|--------------------|--------------|--------------|-------------|--------------|-------------|
| Inner Mongolia Yili | 600887 CH | 28,529 | 3.9% | 5.7% | 13.0% | 24.7% | 0.0x | 29.8x | 7.5x |
| Mengniu China | 2319 HK | 16,095 | 48.6% | 60.6% | 4.9% | 12.7% | 0.5x | 36.2x | 4.4x |
| Meiji Holdings | 2269 JP | 10,720 | 1.0% | 1.1% | 6.4% | 12.2% | 0.2x | 17.9x | 2.1x |
| Vietnam Dairy | VNM VN | 9,264 | 7.7% | 7.7% | 26.3% | 36.5% | 0.1x | 20.6x | 15.6x |
| Vitasoy International Holdings | 345 HK | 5,120 | 18.8% | -6.0% | 12.6% | 22.9% | 0.0x | 57.4x | 12.6x |
| Morinaga Milk Industry | 2264 JP | 1,973 | -11.2% | -11.2% | 3.3% | 8.6% | 0.6x | 15.2x | 1.3x |
| Average | | 11,950 | 11.5% | 9.6% | 11.1% | 19.6% | 0.2x | 29.5x | 7.2x |
| Quang Ngai Sugar | QNS VN | 482 | 10.3% | 10.3% | 14.5% | 20.5% | 0.3x | 9.3x | 1.9x |

Source: VNDIRECT, FiinPro

Valuation



| (VNDbn) | 12-17A | 12-18A | 12-19E |
|--------------------------------------|--------------|--------------|--------------|
| Net revenue | 7,633 | 8,029 | 8,608 |
| Cost of sales | (5,637) | (5,645) | (5,979) |
| Gen & admin expenses | (146) | (240) | (257) |
| Selling expenses | (697) | (792) | (849) |
| Operating profit | 1,153 | 1,352 | 1,523 |
| Operating EBITDA | 1,567 | 1,844 | 2,038 |
| Depreciation and amortisation | (414) | (493) | (515) |
| Operating EBIT | 1,153 | 1,352 | 1,523 |
| Interest income | 38 | 87 | 80 |
| Financial expense | (78) | (96) | (87) |
| Net other income | 26 | 57 | 61 |
| Income from associates & JVs | 0 | 0 | 0 |
| Pre-tax profit | 1,138 | 1,400 | 1,577 |
| Tax expense | (112) | (162) | (182) |
| Minority interest | 0 | 0 | 0 |
| Net profit | 1,027 | 1,238 | 1,394 |
| Adj. net profit to ordinary | 1,027 | 1,238 | 1,394 |
| Ordinary dividends | (366) | (367) | (439) |
| Retained earnings | 661 | 871 | 955 |

| (VNDbn) | 12-17A | 12-18A | 12-19E |
|---------------------------------------|--------------|--------------|--------------|
| Cash and equivalents | 528 | 418 | 1,043 |
| Short term investments | 751 | 1,699 | 1,249 |
| Accounts receivables | 289 | 468 | 698 |
| Inventories | 320 | 589 | 674 |
| Other current assets | 19 | 8 | 20 |
| Total current assets | 1,907 | 3,182 | 3,684 |
| Fixed assets | 4,852 | 4,601 | 5,001 |
| Total investments | 0 | 1 | 0 |
| Other long-term assets | 240 | 221 | 323 |
| Total assets | 6,999 | 8,006 | 9,009 |
| Short-term debt | 1,404 | 1,727 | 1,767 |
| Accounts payable | 540 | 446 | 386 |
| Other current liabilities | 401 | 455 | 517 |
| Total current liabilities | 2,345 | 2,628 | 2,669 |
| Total long-term debt | 145 | 0 | 0 |
| Other liabilities | 27 | 28 | 34 |
| Share capital | 2,438 | 2,926 | 2,926 |
| Retained earnings reserve | 2,135 | 2,465 | 3,362 |
| Shareholders' equity | 4,482 | 5,350 | 6,306 |
| Minority interest | 0 | 0 | 0 |
| Total liabilities & equity | 6,999 | 8,006 | 9,009 |

| (VNDbn) | 12-17A | 12-18A | 12-19E |
|---------------------------------------------|----------------|----------------|--------------|
| Pretax profit | 1,138 | 1,400 | 1,577 |
| Depreciation & amortisation | 414 | 493 | 515 |
| Tax paid | (116) | (138) | (182) |
| Other adjustments | 57 | 31 | 53 |
| Change in working capital | 131 | (246) | (279) |
| Cash flow from operations | 1,625 | 1,539 | 1,684 |
| Capex | (874) | (566) | (950) |
| Proceeds from assets sales | 0 | 0 | 0 |
| Others | (196) | (948) | 450 |
| Other non-current assets changes | 19 | 57 | (102) |
| Cash flow from investing activities | (1,051) | (1,457) | (602) |
| New share issuance | (0) | (0) | 0 |
| Shares buyback | 0 | 0 | 0 |
| Net borrowings | 222 | 389 | 40 |
| Other financing cash flow | (64) | (252) | (58) |
| Dividends paid | (339) | (328) | (439) |
| Cash flow from financing activities | (182) | (191) | (457) |
| Cash and equivalents at beginning of period | 137 | 528 | 418 |
| Total cash generated | 391 | (110) | 625 |
| Cash and equivalents at the end of period | 528 | 418 | 1,043 |

| Key ratios | 12-17A | 12-18A | 12-19E |
|--------------------------|---------|--------|--------|
| Dupont | | | |
| Net profit margin | 13.5% | 15.4% | 16.2% |
| Asset turnover | 1.16 | 1.07 | 1.01 |
| ROAA | 15.6% | 16.5% | 16.4% |
| Avg assets/avg equity | 1.56 | 1.53 | 1.46 |
| ROAE | 24.5% | 25.2% | 23.9% |
| Efficiency | | | |
| Days account receivable | 1.04 | 3.91 | 7.68 |
| Days inventory | 20.7 | 38.1 | 41.1 |
| Days creditor | 34.9 | 28.8 | 23.5 |
| Fixed asset turnover | 1.70 | 1.70 | 1.79 |
| ROIC | 17.0% | 17.5% | 17.3% |
| Liquidity | | | |
| Current ratio | 0.81 | 1.21 | 1.38 |
| Quick ratio | 0.68 | 0.99 | 1.13 |
| Cash ratio | 0.55 | 0.81 | 0.86 |
| Cash cycle | (13.2) | 13.2 | 25.3 |
| Growth rate (yoy) | | | |
| Revenue growth | 9.5% | 5.2% | 7.2% |
| Operating profit growth | (24.0%) | 17.2% | 12.7% |
| Net profit growth | (27.2%) | 20.6% | 12.6% |
| EPS growth | (27.2%) | 20.6% | 12.6% |
| Share value | | | |
| FD EPS (VND) | 4,058 | 4,893 | 5,510 |
| BVPS (VND) | 21,836 | 21,146 | 24,922 |

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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- 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.

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- 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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