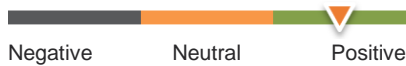


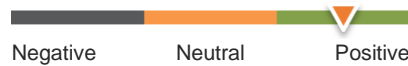
QUANG NGAI SUGAR JSC (QNS) – EARNINGS UPDATE

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

Outlook – Short term



Outlook – Long term



Valuation

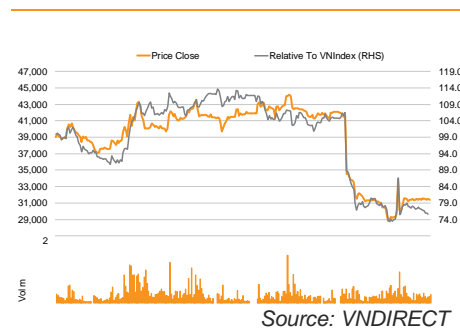


31 July 2019

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%	

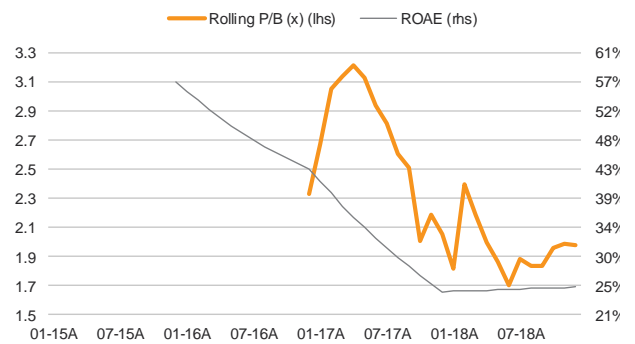
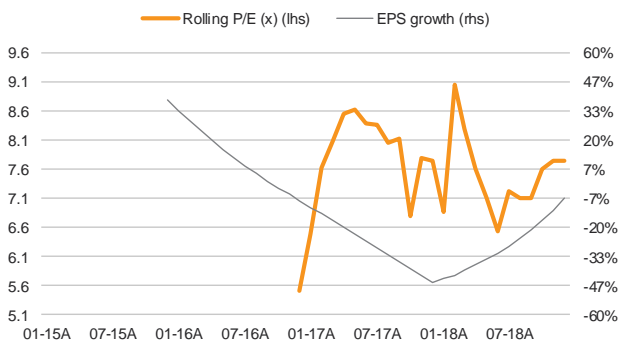
Source: VNDIRECT

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

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

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.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Nguyen Tien Duc – Analyst

Email: duc.nguyentien2@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>