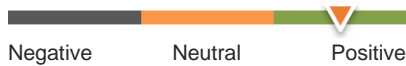


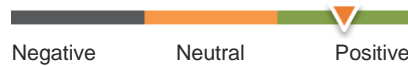
QUANG NGAI SUGAR JSC (QNS) – UPDATE

Market Price VND43,500	Target Price VND53,200	Dividend Yield 3.45%	Rating ADD	Sector CONSUMER GOODS
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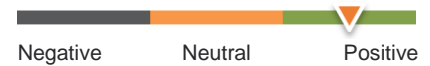
Outlook – Short term



Outlook – Long term



Valuation

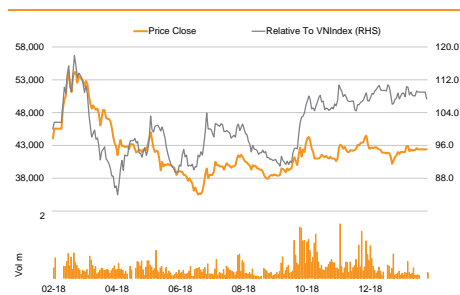


12 February 2019

Nguyen Tien Duc

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Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	54,213
52w low (VND)	35,500
3m Avg daily volume (shares)	293,462
3m Avg daily value (VNDmn)	12,469
Market cap (VNDbn)	12,670
Outstanding shares (m)	253
Free float (%)	80
TTM P/E (x)	8.9
Current P/B (x)	2.1

Ownership

Thanh Phat Trading Ltd.	15.8%
Foremost Worldwide Limited	5.2%
Võ Thanh Đăng	5.0%
Others	74.0%

Source: VNDIRECT

QNS announced its FY18 results (unaudited) with earnings exceeding our expectations. We expect strong growth to continue in 2019 and maintain our BUY recommendation.

FY18 net revenue growth of 5.2% was in line with our projections with sugar segment the main contributor. Sugar segment revenue grew 20.6% on the back of a 57.8% sales volume expansion and despite ASP decreasing by 23.6% yoy. The new An Khe plant, which started production in mid-December 2017, was the key driver for a sharp increase in sales volume, which led to an 80% growth in total RS sugar production capacity. Soymilk revenue, on the other hand, saw muted growth (-0.6%) due to weaker sales volume (the company doesn't reveal absolute figures) impacted by a general slowdown in the FMCG sector growth.

FY18 EBT growth reached 23.0% yoy, higher than expectations and supported by blended GPM improvement. Blended GPM expanded by 3.2% pts to 29.7% due to GPM improvements in both the Sugar segment (+9.0% pts supported by lower sugar cane price) and Soymilk segment (+4.5% pts backed by lower depreciation and lower soybean price) combined with lower GPM from the "Other" segment (-1.2% pts). Besides, financial and other income increased to VND48bn in 2018 from negative VND15bn in 2017, helping EBT growth outpace revenue growth.

We forecast annual revenue and net profit growth of 7.2% and 12.6% in 2019, respectively, driven by rising sugar prices. The Sugar segment is expected to be the main driver for 2019 with revenue forecasted to grow by 15.5% due to a 5.0% increase in production output and 10.0% higher ASP as global sugar prices are projected to recover on the back of planned supply cuts by Brazil and Thailand. Soymilk, on the other hand, is forecast to see 5.0% sales growth thanks to management's premiumisation strategy, which we think can succeed. This strategy is led by the launch of the nutrient-rich breakfast replacement product FAMI GO priced at a 44% premium to the regular FAMI soymilk product.

We maintain our ADD recommendation on QNS with target price of VND53,200. We use a sum-of-the-parts valuation method, with each part being valued using a target P/E multiple applied to our 2019 forward EPS. Our target P/E multiples for the Soymilk, Sugar and Other segments are 10.7x, 7.0x and 8.1x, respectively, in line with the peer average for each. Our TP translates into an implied 2019 P/E of 9.7x. At current market price, the stock also carries a reasonable cash dividend yield of 3.45%.

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%

Figure 1: Comparison of financial results

FYE (VNDbn)	4Q18A	yoy	FY18A	yoy	FY18A vs forecast	Comment
		chg		chg	chg	
Revenue	1,884	10.2%	8,029	5.2%	-1.6%	
+Sugar	496	62.5%	2,251	20.6%	-4.6%	
++Sales vol (tonnes)	47,779	98.9%	204,138	57.8%	-0.4%	Sales volume in 4Q18 and FY18 increased sharply yoy thanks to support of An Khe Sugar plant capacity expansion in 2018 (Capacity rose 80% yoy and total production volume surged 71.8% yoy)
++ASP (VND/kg)	10,375	-18.3%	11,026	-23.6%	-4.2%	Sugar price fell continuously from middle 2017 to end of 3Q18 and recovered slightly in 4Q18
+Soymilk	967	-0.3%	3,863	-0.6%	-1.7%	In 4Q18, we believe soymilk sales volume was lower than the same period of the previous year due to a slowdown in the FMCG sector which began in 4Q17 (According to Nielsen). Even though the company didn't disclose actual data for both ASP and sales volume, we think QNS sales volume decreased by about 1% yoy in the quarter and ASP was higher yoy due to a change of product mix after Fami Go product launch in 3Q18 (with price +44% higher than ordinary Fami product). Revenue declines were stemmed in 4Q18 versus in 9M18 leading to better revenue growth of the Soymilk segment in FY18 compared with 9M18.
+Other	421	-2.9%	1,915	1.3%	2.4%	QNS didn't reveal data for Other segment in detail but we believe the reason for lower revenue in 4Q18 yoy was lower sales volume due to the impact of a slowdown in the FMCG sector. For FY18, revenue also grew thanks to additional contribution of bio-energy in 1H18 (Bio-energy factory closes from May to December each year following sugar cane crop season)
Gross profit	706	17.4%	2,383	17.9%	1.8%	
GPM	37.5%	2.3% pts	29.7%	3.2% pts	1.0% pts	
+Sugar GPM	15.1%	20.0% pts	12.3%	9.0% pts	-1.7% pts	GPM of 4Q18 higher yoy due to lower sugar cane price (-16.7% yoy) and reversal of provision for inventory devaluation according to QNS. GPM of FY18 higher than in FY17 due to lower sugar cane price.
+Soymilk GPM	43.2%	-10.3% pts	43.6%	4.5% pts	2.8% pts	4Q18 soymilk GPM decreased sharply yoy as QNS did not book depreciation expense in 4Q17 (one-off event). But for FY18, soymilk GPM increased compared to FY17 thanks to lower depreciation as two soymilk factories in Quang Ngai plant finished depreciating and the company had lower average raw material price.
+Other GPM	21.0%	-1.5% pts	22.0%	-1.2% pts	0.7% pts	We believe both 4Q18 and FY18 GPM of the Other segment saw reductions compared to the same periods of the previous year due to lower GPM of beer product, impacted by a sharp increase of annual average malting barley (+28.9% yoy) and aluminium price (+7.2% yoy).
Pre-tax profit	510	36.6%	1,400	23.0%	8.5%	
EBT margin	27%	5.2% pts	17%	2.5% pts	1.6% pts	
NPAT	450	34.9%	1,238	20.6%	8.3%	
Net margin	23.87%	4.4% pts	15.42%	2.0% pts	1.4% pts	
FD EPS (VND)	1,777		4,893			

Source: VNDIRECT

Figure 2: 2019 forecast result

FYE (VNDbn)	FY18A	FY19F	Comment
			Chg
Revenue	8.029	8.608	7,2%
+Sugar	2.251	2.600	15,5%
++Sales vol (tonnes)	204.138	214.345	5,0%
			Higher 2019 sales volume due to higher expected demand
++ASP (VND/kg)	11.026	12.129	10,0%
			We expect 10.0% higher ASP as global sugar prices are projected to recover on the back of planned supply cuts by Brazil and Thailand
+Soymilk	3.863	4.056	5,0%
			We think premiumisation strategy can succeed, led by the launch of the nutrient-rich breakfast replacement product FAMI GO which is priced at a 44% premium to the regular FAMI soymilk product and backed by a rebound of the FMCG sector in 2019
+Other	1.915	1.953	2,0%
Gross profit	2.383	2.629	10,3%
GPM	29,7%	30,5%	-0,9% pts
+Sugar GPM	12,3%	15,0%	2,7% pts
			QNS decreased purchasing price of sugar cane in the 2018-2019 crop season by 12.5% from the previous season. This may result in higher GPM when sugar prices increase.
+Soymilk GPM	43,6%	44,6%	1,0% pts
			Annual average soybean price is expected to be lower in 2019 vs 2018 due to unresolved US-China trade war despite Chinese resumed purchasing American soybean recently. (We note that China resumed purchases of US soybeans from 23 December 2018. However, global soybean prices made a weak recovery of 3% after three weeks because the purchase volume in the first order was only 1.1m tonnes compared to the market's expectation of 5m to 8m tonnes. According to the US Soybean Association, there were no further notable increases in purchases from China. As such, the 2019 soybean price is expected to recover only slow from its dramatic fall in 2018, leading to a lower average price in 2019, per our expectations.)
+Other GPM	22,0%	22,0%	0,0% pts
Pre-tax profit	1.400	1.577	12,6%
EBT margin	17,4%	18,3%	0,9% pts
NPAT	1.238	1.394	12,6%
Net margin	15,4%	16,2%	0,8% pts
FD EPS (VND)	4.893	5.510	12,6%

Source: VNDIRECT

Figure 3: SOTP Valuation

	%EBT	NPAT FY2019	FD EPS FY2019	Target P/E (x)	Target price (VND)
Soymilk	68.8%	923	3,647	10.7	39,139
Sugar	14.8%	227	896	7.0	6,260
Others	16.3%	244	965	8.1	7,840
			Total target price:		53,238

Source: VNDIRECT

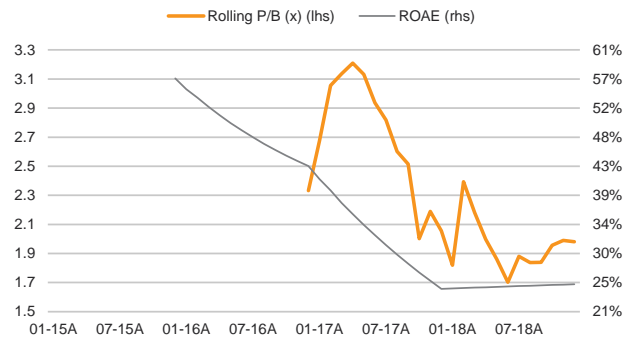
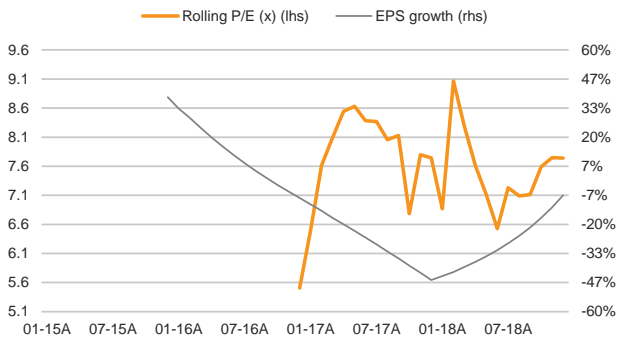
Figure 4: Peer comparison

Peers	Market	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	TTM P/B (x)
Soymilk									
VNM	Vietnam	10,297.1	-2.5%	-2.5%	26.8%	38.2%	0.0x	23.6x	9.0x
VCF	Vietnam	176.7	71.8%	71.8%	28.9%	45.6%	0.2x	6.4x	2.9x
SKH	Vietnam	33.0	467.9%	467.9%	18.5%	26.3%	0.1x	7.0x	1.9x
SKV	Vietnam	21.3	21.3%	21.3%	11.1%	26.5%	0.3x	6.2x	1.6x
SAF	Vietnam	18.3	22.4%	22.4%	20.3%	31.8%	0.2x	10.5x	3.3x
Average		2,109.3	116.2%	116.2%	21.1%	33.7%	0.2x	10.7x	3.7x
Sugar									
SLS	Vietnam	18.2	-50.0%	-50.0%	8.9%	21.1%	1.0x	4.4x	0.9x
KTS	Vietnam	4.4	-70.2%	-71.0%	2.9%	7.1%	0.9x	9.5x	0.7x
Average		11.3	-60.1%	-60.5%	5.9%	14.1%	1.0x	7.0x	0.8x
Others									
Beer									
BSP	Vietnam	10.3	-29.4%	-29.4%	10.5%	16.6%	0.3x	6.0x	1.0x
Electricity									
SJD	Vietnam	62.0	-1.1%	-1.1%	13.2%	18.4%	0.3x	7.5x	1.5x
HJS	Vietnam	19.0	-0.9%	-0.9%	10.2%	15.2%	0.4x	9.6x	1.5x
Confectionary									
BBC	Vietnam	44.3	13.2%	13.2%	9.3%	12.7%	0.0x	9.4x	1.1x
Average		33.9	-4.5%	-4.5%	10.8%	15.7%	0.2x	8.1x	1.3x
QNS	Vietnam	521.0	20.6%	20.6%	14.6%	23.5%	0.6x	8.9x	2.1x

(Data: 12 Feb 2019)

Source: VNDIRECT, FiinPro

Valuation



Income statement

(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

Balance sheet

(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

Cash flow statement

(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)	17,714	21,146	24,922

Source: VNDIRECT

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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.

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Definition:

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- 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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