

QUANG NGAI SUGAR JSC (QNS)

Current Price VND125,000 **Target Price** VND142,000 **Dividend Yield** 0.68% **Recommendation** HOLD **Sector** CONSUMER GOODS

Outlook – Short term



Outlook – Long term



Valuation



29 March 2017

Tran Khanh Hien

hien.trankhanh@vndirect.com.vn

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	128,800
52w low (VND)	92,241
Average daily turnover (3m)	76,441
Market cap (VND) billion	23,725
Outstanding shares (m)	188
Free float (%)	20
Beta	0.65

Ownership structure

Major shareholders	%
Management	32.04
Vinacapital	5.14
Foremost Worldwide	4.98

Source: VNDIRECT

A dominant industry participant in soy milk with stable outlook thanks to vertical integration fuelled by steadily growing domestic consumption.

One of the most profitable F&B companies: QNS's FY16 EBITDA margin was 26.5%, which was higher than VNM's (25%) and SAB's (17.5%). QNS's FY16 ROE of 43.3% and ROA of 25% is similar to VNM's (43.2% and 32.9%) and far above SAB's (33.8% and 22%).

Strong performance in FY12-15, with a slight slowdown in FY16: In FY12-15, the company delivered a CAGR of 18.3% in net sales and 25.1% in EBT, driven by the outstanding performances of soy milk and beer & beverage. Despite the sluggish FY16 performance (sales -7% yoy, EBT +14% yoy), we view operation growth thanks to its vertical integration strategy fuelled by steadily growing domestic consumption.

Manufacturing expansion in late-FY16 is the next growth engine: QNS has increased its capacity by 30% with the new soy milk plant in Binh Duong, and plans to tap into the southern market. A new biomass plant was also added to the An Khe sugar refinery plant which boosted its capacity from 12,000 to 18,000 tons per day (TMN). We expect topline to rise by 12.5% yoy to VND7,850bn in FY17 and 5.1% yoy to VND8,245bn in FY18.

Upcoming dividend payment: the company plans to pay cash dividend at a ratio of 20% (VND2,000/share) and bonus shares at ratio of 30% in Q2FY2017.

Target price of VND142,000/share, initiate with HOLD: Taking into account the share dividends, diluted EPS will be VND7,173 in FY17 and VND7,267 in FY18. Our target price of VND142,000 is based on SOTP as QNS is involved in several businesses. This translates into 19.8x FY17 P/E. The share price has jumped by 56.3% since listing on UPCOM in Dec 2016.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Revenue (bn)	7,785	6,971	7,850	8,245
Revenue growth	24.6%	(10.5%)	12.6%	5.0%
Gross margin	29.5%	33.1%	32.9%	33.0%
Operating EBITDA (bn)	986	1,207	1,236	1,268
Net profit (bn)	1,230	1,408	1,472	1,527
Net profit growth	58.9%	14.5%	4.5%	3.7%
EPS	10,407	8,920	7,173	7,267
BVPS	18,492	20,846	20,305	22,282
ROAE	56.6%	43.2%	33.2%	29.1%

Source: VNDIRECT

COMPANY PROFILE

Founded in 1970s , the company was originally a sugar manufacturer with its own farm in Quang Ngai province, which is in the middle of Vietnam. The company was equitized in 2005 and was listed on UPCOM in Dec 2016. Currently, QNS is a non-stated-owned company involved in four core businesses: soy milk, sugar, confectionery and other beverages (beer, mineral bottled water).

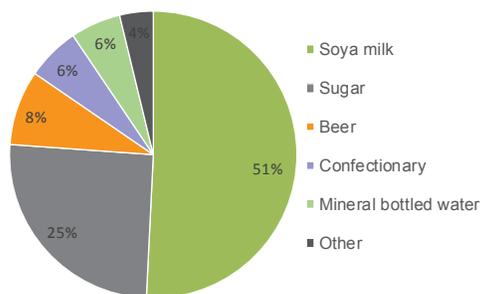
In overall, QNS uses vertical integration to manage their business. They control the soya bean farm and sugarcane plantation, self-supply sugar for milk and confectionary businesses. QNS also owns a subsidiary which distributes, transports, trades directly with retailer and manages a network of 150.000 POS and 600 sale staffs across the country.

Currently, Management control about 32% of company ownership, among of which Chairman Vo Thanh Dang and his relatives own 25% of stake. Most Management joined QNS since the beginning with average working experience of more than 10 years. We see that QNS’s business strategy was quite conservative over years. The company often set a modest target plan which was much lower than actual.

Vinacapital started to invest in QNS since 2015 then increased their stake to 5.1% after company’s listing. We expect that with the joining of foreign investors, QNS might improve the corporate governance and add more value to shareholders in the near future.

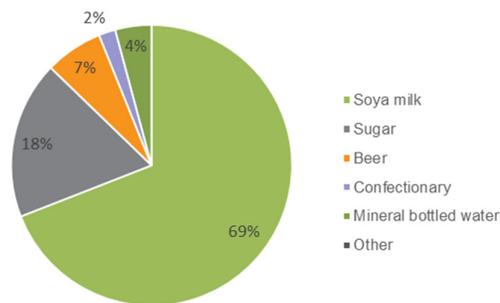
Between FY12 - FY16, QNS experienced a double-digit growth in sale, driven by the significant contribution of soy milk (51% of revenue and 69% of EBT). Sugar was the second most important business segment, accounting for 28% of its revenue and 18% of its EBT.

Revenue breakdown by businesses in FY2016



Source: QNS,VNDIRECT

Earnings before tax breakdown by businesses in FY2016



Source: QNS,VNDDIRECT

BUSINESS ACTIVITIES

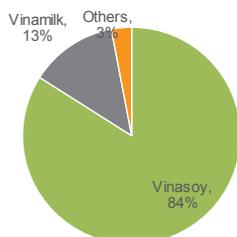
The biggest soy milk manufacturer with 84% of market share.

Soy milk is the principal milk alternative in Vietnam with nearly 650m litres consumed in 2015 (source: Tetra Pak). Currently, packed soy milk only accounts for 33% of market sale volume, as unpackaged

soy milk sales are very strong thanks to its affordable price. However, there has been a gradual shift away from unpackaged towards packaged products mainly thanks to rising consumer awareness of food safety and hygiene.

EIU Passport 2016 report showed that soy milk sale witnessed a CAGR 2011 - 2016 of 17.1%, far higher than liquid milk (13.2%) and powder milk (2%).

Vietnam soy milk market share by 2015-end



Source: AC Nielsen 2016

With such promising prospect, nowadays, Vietnam soy milk market became quite crowded with the attendance of nearly 5 local producers and other imported products from Thailand, Malaysia and Korea. However, as a pioneer, QNS has long dominated with approx. 84% of packed soy milk market share by 2015-end which is far ahead the next player Vinamilk (13%).

Robust growth by focusing on niche market

QNS started to produce soy milk and launched its first brand “Fami” since 2002. In 2005, QNS announced the next brand “Vinasoy” which marked a turning point for the company. Vinasoy successfully convinced consumers to use packaged products by its flavors and safety. Nowadays, QNS provides 6 soy milk products under 3 brands: Fami, Vinasoy and Soymen (newly launching in Dec 2016) for consumers of all ages.

QNS’s soy milk brandnames



Source: QNS

Vinasoy has applied the Tetra Alwin Soy technology - the most modern extraction technology - to continuously take extracts of soybeans. In terms of distribution network, QNS has 150,000 POS across country to trade directly with the company.

Between FY2012-2015, soy milk has delivered a robust growth rate of 34% per annum in sale and 42.3% in EBT. However, FY2016 witnessed a slowdown in sale because of 2 reasons: (1) the soy milk consumption has been weakened as the worries about GMO soy bean was raised in early 2016; (2) Vinasoy has to decrease the soy milk ASP in corresponding with slight downtrend of liquid milk price. Therefore, FY2016 soy milk sale slided by 1.5% while EBT slumped by 4.8%.

Soy milk performance

FY	2012	2013	2014	2015	2016	CAGR
						2012 -2016
Capacity (mn litres)	120	165	210	300	300	
Volume (mn litres)	124.5	134.3	192.8	241.7	244	18.3%
Sale (VNDbn)	1,881	2,115	3,021	3,738	3,683	
sale growth (%)	57%	12.5%	42.8%	23.7%	-1.5%	26.9%
Gross margin (%)	40.3%	39.6%	40.5%	40.5%	40.0%	
EBT (VNDbn)	397	356	660	851	810	
EBT growth (%)	65%	-10.2%	85.4%	28.9%	-4.8%	32.9%

Source: QNS,VNDIRECT

(*) Soy milk volume FY2016 was estimated by VNDIRECT

Soy milk price survey

Product	Producers	VND/200ml unit
Fami	Vinasoy	4,233
Vinasoy	Vinasoy	5,133
Goldsoy	Vinamilk	4,500
Vinamilk	Vinamilk	4,200
Nutifood	Nutifood	4,300

Source: VNDIRECT

Higher ASP and ability to self-supply production materials bring premium margin among peers.

Consumers appear to be willing to pay more for Vinasoy’s products than those of its other local competitors. According to our market survey of the 200ml bottled soy milk, Vinasoy sells for about 8-10% more than other products.

In addition, while other competitors have to import soy bean, QNS is able to self-supply both sugar and soy bean, which account for around 30% of COGS. 80% of soya bean material has been supplied from farms in the Highland of Vietnam where QNS signed long-term contracts with farmers. QNS supports farmers in terms of investment budget, seeds, plantation technique and quality control. Consequently, QNS enjoyed a stable gross margin at 40% over the past 5 years, even higher than Vinamilk (around 35% - 40% for all kind of milk products).

New plant to penetrate into Southern market

QNS’s current total capacity is 390mn liters with 3 plants located in each region of Vietnam.

Plants	Region	Year operation	Capacity (mn litres)
Vinasoy Quang Ngai	Central	2002	120
Vinasoy Bac Ninh	North	2013	180
Vinasoy Binh Duong (stage 1)	South	2017	90

Source: QNS,VNDIRECT

Binh Duong plant has commenced production the first stage in December last year and will be expanded to 180mn liters in the second stage in the next few years. Before launching the new one, 2 existing plants run at a utilization rate of around 80% - 85% and products have to be transported from Quang Ngai to Southern market which has increased the selling expenses.

Only 25% of QNS’s total sale generated from Southern market where the company faces fierce competition from Vinamilk and other local players such as Tribeco and Tan Hiep Phat. The new plant is expected to boost the volume growth in this promising regional market as well as to reduce the transportation cost for the next few years.

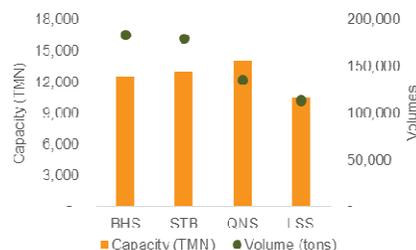
Sugar – business influenced by climate change

Currently, QNS is the third-largest sugar producer by volume, accounting for 11% of the market share. In spite of being the biggest in terms of capacity, QNS’s volume is lower than BHS and SBT since the company produces only RS sugar from sugar cane. Meanwhile, other players produce both RS and RE from raw sugar.

The company operates 2 refinery factories: Pho Phong in Quang Ngai province and An Khe in Gia Lai province, totaling capacity of 14,000 tons of sugarcane per day (TMN). Since Nov last year, An Khe factory expanded the daily capacity from 12,000TMN to 18,000TMN and became the largest sugar plant in Vietnam.

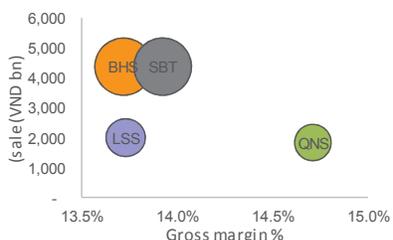
Sugarcane is supplied from 23,000 ha of plantation area, 60% of these farms cultivation are mechanized which deliver an average yield of 70 - 75 tons per ha. A majority of plantation area are owned by farmers and QNS support them in technique, seeds and loan

Top 4 sugar producers in harvesting season 2015/2016



Source:VSSA,VNDIRECT

Sale and GM of QNS's sugar business veruss peers



Source: VNDIRECT

financing. Alongside with the factory expansion, QNS has plans to also increase their farms up to 28,000 ha in 2017.

Between FY2011-FY2015, QNS's sugar sale increased at a healthy CAGR of 13.4% but gross margin fluctuated in a wide range due to the nature of the business. FY2016's sale decreased by 20.7% mainly due to the prolonged drought in 2016 which dampened both quality and quantity of sugarcane output. However, thanks to the rising of sugar price in FY2016, gross margin improved from 14.2% last year to 14.7%, smoothing the slide EBT to only 2.7%. Compared with others, QNS often experienced higher GM regarding to the relatively cheaper sugarcane price in the Middle.

Sugar business performance

FY	2012	2013	2014	2015	2016
Sale (VNDbn)	1,525	1,828	1,653	2,324	1,842
sale growth (%)	3%	19.9%	-9.6%	40.6%	-20.7%
Gross margin (%)	11.2%	10.9%	9.8%	14.2%	14.7%
EBT	136	193	39	219	213
EBT growth (%)	36%	41.9%	-79.8%	461.5%	-2.7%

Source: QNS,VNDIRECT

Biomass plant is a new bright spot

In 2016, the company has completed a new 95MW biomass power plant in An Khe with investment capital of VND1,900bn. This plant may be the largest biomass plant in Vietnam.

When An Khe refinery factory expands daily capacity from 12,000 to 18,000 tons, it is able to create approx. 614,400 tons of sugarcane bagasse. About 114,400 tons of bagasse will be used for its operation power meanwhile the remaining will be allocated to the new biomass plant. Electricity is generated only during crop season (about 115 – 135 days) and sold to national grid. Currently, average price for biomass electricity is about 5.8 cent/kwh.

Roughly, a ton of sugar cane could generate about 50-60 kwh of electricity. We estimate that biomass plant's sale volume might reach 115 million kwh per year which add VND77bn for gross profit.

QNS's other products



Source: VNDIRECT

Other businesses: Beer, soft drink and confectionery

FY	2012	2013	2014	2015	2016	CAGR 2012-2016
Beer (VNDbn)	534	551	541	607	612	
sale growth (%)	41%	3.1%	-1.8%	12.2%	0.9%	11%
Confectionary (VNDbn)	396	440	440	371	436	
sale growth (%)	2.6%	11.1%	0.1%	-15.8%	17.6%	3%
Mineral bottled water (VNDbn)	284	368	380	409	409	
sale growth (%)	25.5%	29.7%	3.3%	7.6%	0.0%	13%

Source: QNS, VNDIRECT

Beer & beverage and confectionary account for 14% and 8% of total revenue, respectively. QNS has a beer factory with capacity of 100 million liters, producing “Dung Quat beer”, a local and low price brand name in Quang Ngai. Beer sale delivered a CAGR of 11% in FY2012-2016. However, beer business has experienced a slow sale in recent years due to the fierce competition. Sabeco also operates a same-size beer plant in Quang Ngai. For FY2016, beer contributed VND612bn (1% yoy) in revenue and VND78bn (-1.5% yoy) in EBT.

Mineral bottled water under brand name “Thach Bich” contributed VND409bn (0% yoy) in sale and VND49bn (9.6% yoy) in EBT in FY2016. Similarly to beer, this business expansion is limited as the company is running at full capacity.

“Biscafun” is also a local and low-price confectionary brand name of QNS. As the company to self-sufficient sugar, Biscafun enjoyed a gross margin about 25%, higher than HHC (~18%) and HNF (~ 20 - 22%). In FY2016, this business posted an 17.6% yoy growth in sale with VND436bn and 196% yoy growth in EBT with VND23bn thanks to exporting to new market, Russia.

FINANCIAL ANALYSIS

One of the leading F&B companies in terms of profitability.

Sale and EBITDA margin in FY2012-2016



Source: VNDIRECT

Between FY2012-2015, the Company’s revenue increased at a CAGR of 18.3% while EBT grew by CAGR of 25.1%, mainly driven by the outstanding performance of soy milk and beer & beverage.

For FY2016, total revenue posted a decrease by 7% due to the slowdown of soy milk and sugar businesses as we mentioned above. Nevertheless, thanks to the raising of ASP (except soy milk), EBT delivered a fairly good growth of 14%. Additionally, a reversal of VND90bn in R&D advance has lowered the SG&A expense in FY2016.

In terms of profitability, the company witnessed a significant improvement when operating profit margin and FY16 EBITDA margin came to 21.9% and 26.5%, respectively. QNS’s ROA and ROE achieved 24.9% and 43.3%, respectively, making QNS one of the leading F&B companies in terms of profitability.

Profitability comparison among peers

	EBITDA		Operating margin		ROE%		ROA%	
	FY2015	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015	FY2016
QNS	21.6%	26.4%	17.2%	21.7%	56.6%	43.3%	27.0%	25.0%
VNM	24.6%	25.0%	23.1%	23.8%	38.3%	43.2%	29.2%	32.9%
SAB	16.2%	17.5%	16.3%	18.6%	25.7%	33.8%	15.7%	22.0%
BHS	8.2%	10.9%	5.7%	6.8%	11.7%	13.7%	4.6%	5.4%
BHN	17.4%	14.7%	12.1%	10.9%	15.1%	12.3%	9.2%	7.3%
SBT	13.0%	13.2%	10.5%	7.2%	13.3%	11.0%	5.9%	4.4%

Source: VNDIRECT

Healthy financing structure

A majority of VND213bn long term debt is 5-year leasing contract to finance for the new Vinasoy Binh Duong project. The cost of this debt denominated in USD is 2.55% + Libor 3M. By FY2016-end, QNS’s short term debts is VND1,178bn fully covered by its working capital and cash. It should be noted that, short-term debt of a sugar producer always increase sharply by FY-end as it is the beginning of harvest season and the companies have to pay for farmers. Currently, Debt/Equity ratio is 36%.

QNS generated positive cash flow except in FY2016 when the company had significant investment with capex more than VND2,000bn. In 2017 – 2018, we see no large investments and this will allow the company to pay a more attractive dividend. By 2019, we expect QNS to implement the second stage of Vinasoy Binh Duong with an additional 90mn liters of capacity which increase the total capacity of soy milk up to 480mn liters.

Benefit from tax incentives

As an agriculture-related business, QNS is enjoying a low effective tax rate about 9.3% in FY2016 regarding to its subsidiaries: An Khe factory has a lifetime tax exemption while Pho Phong factory has a tax rate of 15%. Vinasoy Quang Ngai and Bac Ninh enjoy 50% tax incentives until 2018. The new Vinasoy Bind Duong factory has tax exemption in the two first years and tax rate of 10% from 2019 onwards. Hence, we estimate that the company’s effective CIT might climb up to nearly 11% from 2019.

EARNINGS FORECAST & VALUATION

We estimate the company's revenue rising 12.6% yoy to VND7,850bn in FY2017 and 5.0% yoy to VND8,245bn in FY2018. In terms of net profit, we expect the company to post VND1,472bn (+5% yoy) and VND1,527bn (+4% yoy) for the next two years. Our forecast is based on these following assumptions:

Soy milk projection

FY	2016A	2017E	2018E	2019E	2020E	CAGR 2016 -2020
Capacity (mn liters)	300	390	390	390	480	
Utilization rate (%)	81%	68%	71%	74%	65%	
Volume (mn liters)	244	264	277	291	314	6.5%
yoy%	1%	8.0%	5.0%	5.0%	8.0%	
Sale	3,683	4,017	4,260	4,518	4,928	7.6%
yoy%	-1%	9%	6%	6%	9%	
Gross profit	1,473	1,567	1,662	1,762	1,873	6.2%
Gross margin (%)	40.0%	39.0%	39.0%	39.0%	38.0%	

Source: VNDIRECT

After the 1-stage of Vinasoy Binh Duong factory came on stream in Dec last year, we assume that QNS will start to implement the 2-stage in 2019. Consequently, the total capacity will increase up to 480mn liters by 2020.

Thanks to the promotion activities boosting Southern market, sale volume will increase by 8% yoy in 2018 and reach 315mn liters by 2020, presenting a CAGR 2016 – 2020 of 6.5%.

Gross margin is estimated to stabilize around 39% in 2017 – 2019, slightly lower than the average of 40% in period of 2014 - 2016 due to the depreciation of new factory. We believe that although the price of soya bean, plastic and paper surged last year, a Southern-located-factory will be able to offset the production material cost by saving transportation and inventory cost. Also, having self-sufficiency for 80% of the soya bean input is an advantage that will help stabilize gross margins. By 2020, we expect GM to decline to 38% due to higher depreciation from the new manufacturing facilities.

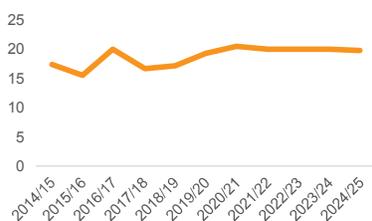
Hence soy milk will deliver a CAGR FY2016 – 2020 of 7.6% in revenue and 6.2% in gross profit.

Sugar projection

FY	2016A	2017E	2018E	2019E	2020E	CAGR 2016 -2020
An Khê						
Harvesting (ha)	20500	23,000	23,000	23,000	23,000	
Yields (tons/ha)	70	72	72	72	72	
Capacity (TMN)	12,000	18,000	18,000	18,000	18,000	
Pho Phong						
Harvesting (ha)	2,500	2,600	2,600	2,600	2,600	
Yields (tons/ha)	60	62	64	66	68	
Capacity (TMN)	2,000	2,000	2,000	2,000	2,000	
Sum of sugar business						
Total volumes (tons)	136,000	155,596	158,932	162,323	165,770	5.1%
yoy%	-23%	14%	2%	2%	2%	
Total sale	1,842	2,150	2,240	2,333	2,431	7.2%
yoy%	-23%	17%	4%	4%	4%	
Gross profit	271	296	317	320	345	6.2%
Gross margin (%)	14.7%	13.8%	14.2%	13.7%	14.2%	

Source: VNDIRECT

USDA global raw sugar price forecast (US\$/ton)



Source: USDA

Both the An Khe and Pho Phong factories helped to improve farm efficiency as well as increased the mechanized cultivation area last year. In harvesting season 2016/2017, we expect the average yield of 72 tons per ha for An Khe and 62 tons per ha for Pho Phong. Together with the capacity expansion of An Khe factory, we expect the sugar volume of QNS to rise by 14% yoy in 2016/2017.

Basing on the forecast on global sugar price from USDA, we estimate that average selling price advance by 2% in 2017 resulting in sugar net sales of VND2,150bn in 2017, up 17% yoy .

In terms of COGS, we assume that sugarcane which bought from the farmers this harvesting season will surge by 5% yoy to VND1,000,000 per ton for An Khe and VND900,000 per ton for Pho Phong. In addition, the depreciation of An Khe plant expansion will decrease the gross profit margin to 13.8% in FY2017 from 14.7% of FY2016.

Other businesses projection

FY	2016A	2017E	2018E	2019E	2020E	CAGR 2016 -2020
Beer						
Sale	612	637	662	689	717	4.0%
yoy%	1%	4%	4%	4%	4%	
Confectionary						
Sale	436	467	486	505	526	4.8%
yoy%	18%	7%	4%	4%	4%	
Mineral bottled waters						
Sale	409	426	443	474	508	5.6%
yoy%	0%	4%	4%	7%	7%	

Source: VNDIRECT

Raising capital plan and dividend policy

For FY2016, the company plans to pay cash dividend at a ratio of 20% (VND2.000/share) and share dividend at ratio of 30%. For FY2017 onward, we expect that with healthy free cash flow, the company will keep a steady dividend payment policy at 40% per year. Additionally, based on company's guidance, we also forecast an ESOP by 3% of outstanding shares will be performed in FY2018.

Initiate with HOLD at target price of VND142,000, upside 13.6%.

As the company involves in diversified businesses, we adopt SOTP to calculate the target price of QNS.

SOTP Valuation

Businesses	NP FY2017	PE multiple	Implied value
Soy milk	946	19.1x	114,436
Sugar	292	8.0x	14,772
Beer	97	10.0x	6,116
Other	138	8.0x	7,006
Implied value per share			142,330
% upside/downside			13%

Source: VNDIRECT

For soy milk business, we choose Vinamilk and Vitasoy - a leading soy milk manufacturer in Hong Kong which are comparable to QNS in terms of profitability. However, in terms of market size, QNS is far behind so that we apply a discount of 15% to the average of PER for QNS sugar business valuation.

For brewers business, we select 4 beer producers currently listing on UPCOM which have the production size similarly to QNS. The average PER multiple is 10x.

For sugar business comparison, we found that SBT's valuation is relatively expensive more than other peers, BHS and LSS. Hence, we apply a PER multiple of 8x which is rather fair for an unstable nature business like sugar manufacturing.

Consequently, the implied value calculated by SOTP is VND142,330/share.

Alternatively, by discounted cash flow model, we find the target price as VND142,930/share.

Key assumptions

5-year government bond yield	5.50%
Beta	0.65
Equity risk premium	8.00%
Cost of debt	4.80%
WACC	10.30%

Source: VNDIRECT

Discounted cash flow valuation

(in VNDbn)	2017E	2018E	2019E	2020E	Terminal
Free Cash Flow	1,576	1,529	1,327	1,803	1,857
PV of FCF	1,429	1,257	990	1,220	17,287
Value of Firm	22,183				
Plus: Cash	1,525				
Less: Debt	(1,142)				
Value of Equity	22,566				
Implied value per share	142,930				
% upside/downside	13%				

Source: VNDIRECT

In conclusion, we set target price at VND142,000/share, translating into 19.8x of diluted EPS FY2017 (take into account the share dividend by ratio of 30%).

Peer comparison

Companies	Market Cap	P/B	P/E	TEV/EBITDA	ROA	ROE
	27/03/2017	TTM	TTM	TTM	FY2016	FY2016
Soy milk business						
VNM	205,663	9.3x	21.9x	17.6x	32.9%	43.2%
Vitasoy	\$ 2,009	6.6x	22.9x	15.0x	14.3%	25.8%
Average		7.9x	22.4x		23.6%	34.5%
Brewers business						
BSP	328	1.4x	8.6x	4.3x	9.0%	16.7%
BSQ	1,103	2.2x	14.8x	5.6x	7.3%	15.2%
SMB	909	2.1x	8.8x	4.5x	15.3%	24.3%
WSB	827	1.7x	8.1x	6.5x	10.7%	23.0%
Average		1.9x	10.1x		10.6%	19.8%
Sugar business						
SBT	6,203	2.1x	20.2x	10.8x	4.4%	11.0%
LSS	970	0.6x	6.6x	2.6x	6.0%	9.2%
BHS	3,857	1.1x	7.8x	7.4x	13.7%	5.4%
Average		1.3x	11.5x		8.0%	8.5%
QNS	23,725	6.1x	16.8x	12.9x	24.9%	43.2%

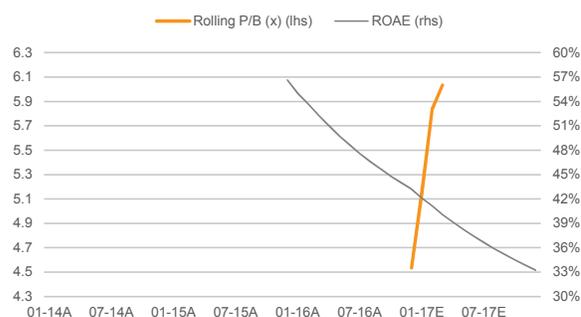
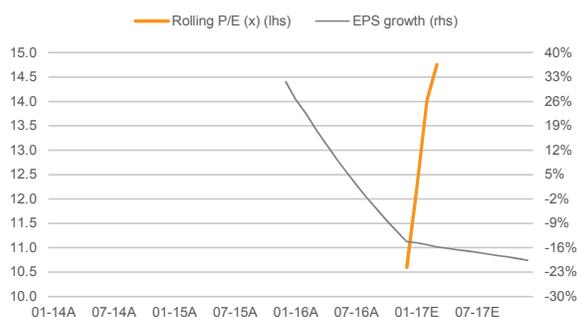
Source: VNDIRECT

RISK

Soy milk: Lower-than-expected sales of soymilk in Southern market. Rising raw material, packaging, labour and transportation costs. Food safety.

Sugar business: Climate change affects the sugarcane harvest yield. Furthermore, Vietnamese sugarcane is facing challenges from foreign competitors as upcoming free trade agreements will allow foreign sugar to enter the domestic market without much difficulty.

Valuation



Income statements

(VNDbn)	12-16A	12-17E	12-18E
Revenue	6,971	7,850	8,245
Cost of sales	(4,663)	(5,271)	(5,527)
Gen & admin expenses	(54)	(196)	(201)
Selling expenses	(728)	(797)	(871)
Operating profit	1,526	1,585	1,645
Operating EBITDA	1,207	1,236	1,268
Depreciation and amortisation	319	349	377
Operating EBIT	1,526	1,585	1,645
Interest income	73	83	69
Financial expense	(77)	(75)	(60)
Net other income	31	30	30
Income from associates & JVs	0	0	0
Pre-tax profit	1,552	1,623	1,683
Taxation	(144)	(151)	(156)
Minority interests	0	0	0
Net profit	1,408	1,472	1,527
Adj. net profit to ordinary	1,408	1,472	1,527
Ordinary dividends	(160)	(994)	(985)
Retained earnings	1,248	478	542

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Pretax profit	1,552	1,623	1,683
Depreciation & amortisation	319	349	377
Other non cash gains/(losses)	(289)	18	78
Other non operating gains/(losses)	(392)	53	(129)
Tax paid	(144)	(151)	(156)
Other operating cash flow	107	(70)	51
Change in working capital	37	70	(51)
Cash flow from operations	1,189	1,891	1,853
Capex	(2,192)	(369)	(399)
Proceeds from assets sales			
Others	0	(230)	(39)
Other non-current assets changes	604	0	0
Cash flow from investing activities	(1,588)	(599)	(438)
New share issuance	103	563	49
Shares buyback			
Net borrowings	(359)	(250)	(250)
Other financing cash flow	(58)	7	2
Dividends paid	(160)	(994)	(985)
Cash flow from financing activities	(474)	(674)	(1,184)
Cash and equivalents at beginning of period	1,009	137	755
Total cash generated	(872)	618	231
Cash and equivalents at the end of period	137	755	985

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	137	755	985
Short term investments	555	785	824
Accounts receivables	394	495	576
Inventories	522	505	530
Other current assets	171	157	82
Total current assets	1,779	2,697	2,998
Fixed assets	1,849	1,869	1,891
Total investments	0	0	0
Other long-term assets	2,497	2,497	2,497
Total assets	6,125	7,063	7,387
Short-term debt	1,178	978	778
Accounts payable	475	505	455
Other current liabilities	317	426	458
Total current liabilities	1,970	1,910	1,691
Total long-term debt	213	163	113
Other liabilities	32	39	41
Shareholders' equity	3,910	4,951	5,541
Minority interests	0	0	0
Total liabilities & equity	6,125	7,063	7,387

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	20.2%	18.8%	18.5%
Asset turnover	1	1	1
ROAA	24.9%	22.3%	21.1%
Avg assets/avg equity	2	1	1
ROAE	43.2%	33.2%	29.1%
Efficiency			
Days account receivable	21	23	26
Days inventory	41	35	35
Days creditor	37	35	30
Fixed asset turnover	4	4	4
ROIC	26.6%	24.2%	23.7%
Liquidity			
Current ratio	1	1	2
Quick ratio	1	1	1
Cash ratio	0	1	1
Cash cycle	24	23	30
Growth rate (yoy)			
Revenue growth	(10.5%)	12.6%	5.0%
Operating profit growth	14.5%	3.9%	3.8%
Net profit growth	14.5%	4.5%	3.7%
EPS growth	(14.3%)	(19.6%)	1.3%
Share value			
EPS (VND)	8,920	7,173	7,267
BVPS (VND)	20,846	20,305	22,282
DPS (VND)	854	4,077	3,961

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.

Phuong Nguyen Mai – Research Director

Email: phuong.nguyenmai@vndirect.com.vn

Tran Khanh Hien – Senior Analyst

Email: hien.trankhanh@vndirect.com.vn

VNDIRECT Securities Corporation

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

Tel: +84 439724568

Email: research@vndirect.com.vn

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