Phu Tai JSC (HOSE: PTB)

Wooden Exports to Drive Mid-Term Growth

- **Timber exports to boost mid term growth**
- **Restructuring in stone expected to maintain growth amid challenges**
- **Healthy financials and stable business performance**

Phu Tai JSC is one of the few listed firms that specializes in stone and wood exploitation. During 2014-18, stone was on average its core business, accounting for 28.0% of revenue and 57.3% of gross profit. Stability in mining efficiency due to huge reserves and diversification of sales helped gross margin remain at ~33.1%. Stone consumption is levelling off but the long-term outlook remains positive given the ramp-up in infrastructure works and real estate supply, including residential, tourism & office projects. Ample reserves (53 mil m^3, 13 quarries) and suitable strategies, including boosting exports (28.5% of sales) and better product mix, are expected to bring an average growth of 13% in production and gross profit in 2019-23.

Wood is witnessing a tremendous growth of 25.7% of which, exports made up 37.7%, 3.8 times higher than the country's average. The US-China trade dispute will continue to push export orders to the US in the mid-term. Further growth should come from the EU market, especially the UK driven by the VPA/FLEGT and EVFTA agreements. The high rate of self-supply of legal raw materials with good traceability certified by FSC-CoC and increasing automation are the internal driving forces for growth. Rong Viet projects wood sales growth of 15.5% and gross profit contribution to increase from 29.7% (2014-18) to 35.3% (2019-23).

We like PTB's ability to accumulate quarries given its more than 10 years of experience and healthy financials. Efforts in restructuring personnel and production processes in both wood and stone segments should favor a sustainable growth. Automobile dealership and relating service, thanks to Toyota's dominant market share (circa 24.8%) and PTB in the central region (average of 28.9%) are expected to bring a stable annual cash flow of VND 80 - 120 billion.

*Rong Viet likes PTB's long-term prospect based on its solid ability for scaling up. Debt financing was enhanced for new quarries, machinery and working capital. The financial structure improved as the D/E ratio decreased from 1.53x (2014) to 0.96x (6M2019). Operating performance was impressive with NPAT CAGR of 28.1%. Using SoTP method, we come up with a fair value of **VND 86,600**, suggesting a current FY2019 P/E of 6.8x and a total return of 27%, based on the closing price on September 20. We then recommend a **"BUY"** for this stock.*

Key financial ratios

Y/E Dec (VND Bn)	FY2017	FY2018	FY2019F	FY2020F
Net revenue	3,971	4,719	5,552	6,179
%change	8.5	18.8	17.7	11.3
PAT	345	385	476	593
% change	29.8	11.6	23.7	24.7
Net margin (%)	8.7	8.2	8.6	9.6
ROA (%)	13.3	11.3	12.2	12.0
ROE (%)	32.9	23.9	26.7	27.4
EPS (VND)	13,934	8,227	10,061	12,542
Book value (VND)	40,411	33,071	37,669	45,695
Cash dividend (VND)	860	1,092	3,181	2,392
P/E (x)	9.4	7.4	6.8	5.4
P/BV (x)	3.1	1.8	1.9	1.5

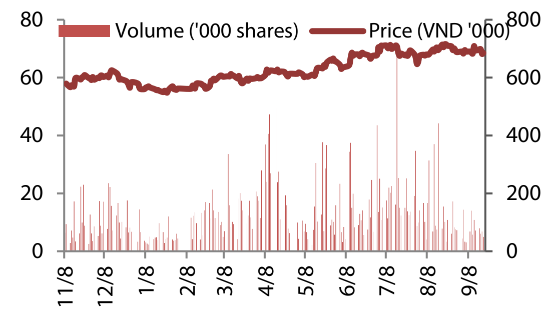
Source: PTB, Rong Viet Securities. Based on the closing price on September 20th, 2019.

BUY +27%

Market price (VND)	68,200
Target price (VND)	86,600

Stock Info

Sector	Building Materials
Market Cap (VND Bn)	3,287
Share O/S (Mn)	47.3
Beta	0.61
Free Float (%)	74.3
52 weeks high	71,500
52 weeks low	54,512
Average trading volume (20 sessions)	83,258



Performance (%)

	3M	1Y	2Y
PTB	2.2	27.3	-11.2
VN30 Index	5.4	-4.8	15.0
VN-Index	3.9	0.3	22.7

Major shareholders (%)

Le Vy	12.2
Le Van Thao	7.5
Le Van Loc	5.9
Remaining Foreign Room (%)	*28.3*

Thu Pham
(084) 028 - 6299 2006 – Ext: 1520
thu.pa@vdsc.com.vn

Duong Lai
(084) 028 - 6299 2006 – Ext: 1522
duong.ld@vdsc.com.v

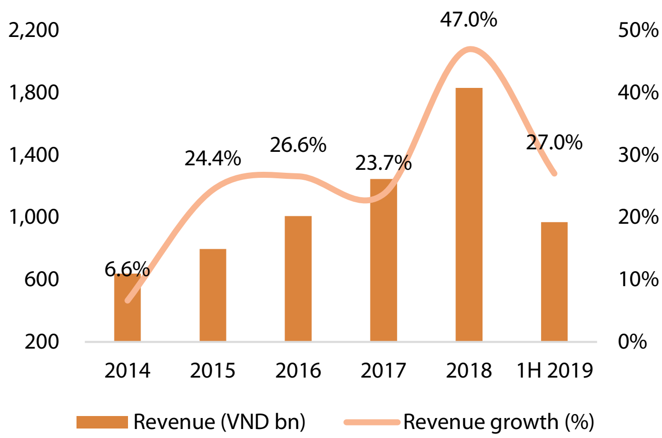
Wood exports to boost mid-term growth

Timber exploitation and trading is one of Phu Tai's three main businesses, accounting for an average of 29.9% of revenue and profit during 2014-18. Exports made up 65.8% of sales and saw a 37.7% increase in sales during this period. Products were mixed equally from interior and exterior furniture, including tables, chairs, cabinets, beds and sofas.

Figure 1: Wood furniture products

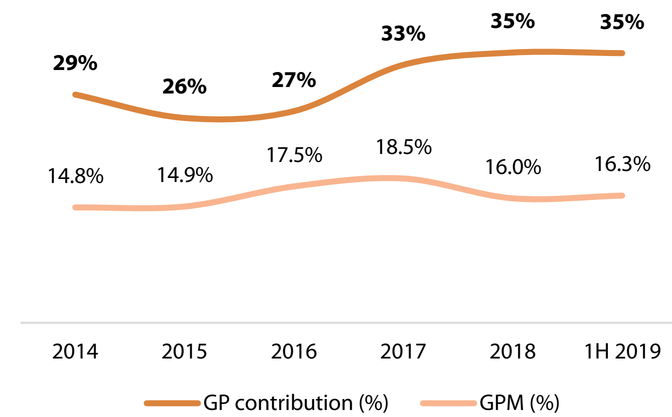
Source: PTB

Figure 2: Timber revenue and growth



Source: PTB

Figure 3: Timber gross margin and profit contribution



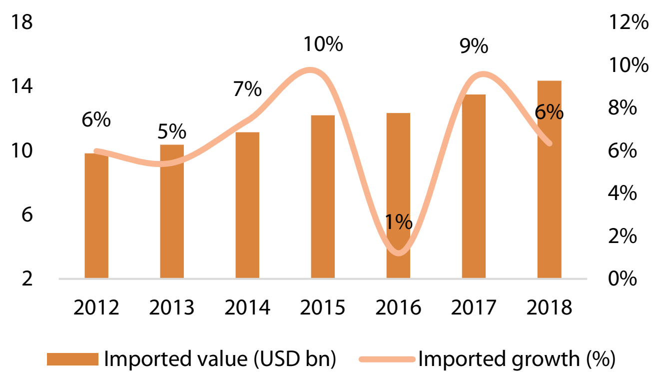
Source: PTB

Opportunities in both the short and long term for timber exports. In the short term, the US - China trade dispute is shifting US orders to Vietnam. Further down the line exports to the EU market will be driven by the VPA/FLEGT, EVFTA or Vietnam's Forest Law.

US timber orders are being shifted from China to Vietnam

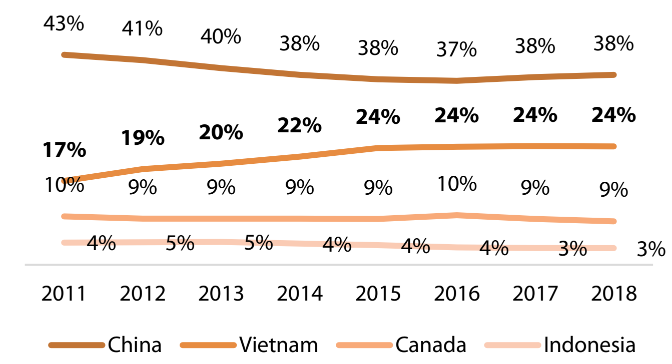
The US is the world's largest timber importer with VND 12 billion on average (2012 - 2018). Imported value grew 6.5% per year. In which, China and Vietnam are the top two exporters, accounting for 39% and 22% respectively. In fact, Vietnam's market share increased from 17% to 24% while that of China fell off to 38% from 43% during this period.

Figure 4 : US's timber imported value and growth



Source: ITC

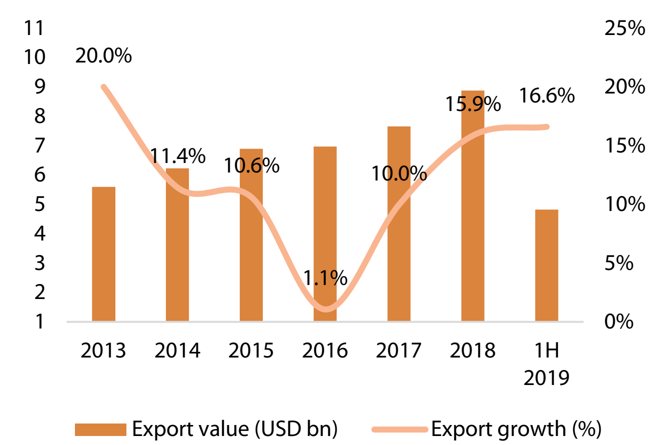
Figure 5: Biggest timber importers to the US (%)



Source: ITC, Rong Viet Securities

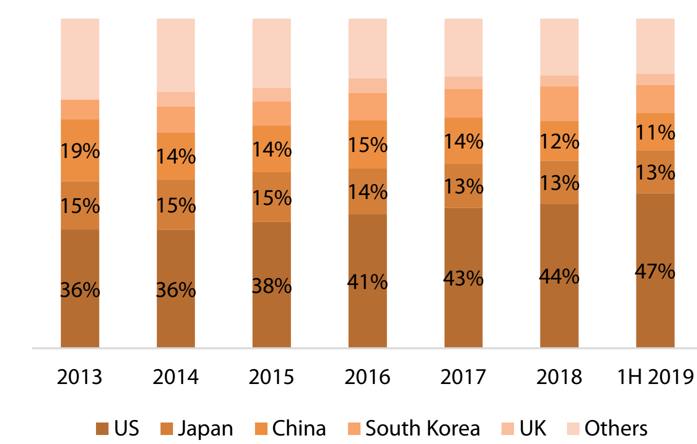
The US is Vietnam's largest timber importer, accounting for an average of 40% of Vietnam's export value (2013-2018). This number increased to 47% in 6M 2019 after the trade dispute took place. Vietnam's timber export market is quite concentrated with the US, Japan, China and South Korea accounting for 77% of value (2013-2018). Contribution of export value from the US market increased from 36% (2.01 billion USD) in 2013 to 44% (3.9 billion USD) in 2018. Meanwhile, Japan and China each maintained at 13 - 14% of export value and reported an annual growth of 5%.

Figure 6: Vietnam's timber export value and growth



Source: Vietnam Customs

Figure 7: Vietnam's timber export market breakdown (%)



Source: Vietnam Customs

The US substantial demand and a 25% tariff imposed on a USD 200 billion goods package (including wood and wood products) imported from China (from September 24, 2018) has boosted US import orders from Vietnam. Vietnam's wood exports rose 15.9% in 2018, the highest growth level in the last five years.

Vietnam's total wood exports reached USD 4.82 billion in 1H 2019, up 16.6% y/y. The US market made up 47% of exports in value terms, equivalent to 2.25 billion USD, according to GSO. This displayed a 32.2% YoY growth and was two times higher than the industry's average of 17.8%. Meanwhile, Japan is the second largest export market at USD 632 million (+20% YoY).

Wood export will also be boosted by long term drivers

The US, EU, Japan and South Korea are Vietnam's top wood importers. Thus, the standards for quality are demanding and raw material's traceability is stringent. Vietnam benefits from the prestige and quality of exported wood improving, cemented by (1) increasing domestic supply given about 26 million cubic metre of wood from domestic planted forest, serving 75% of total demand in 2018, according to the

Handicraft and Wood Industry Association of HCMC and (2) sustainable connection between export enterprises and afforestation households.

We also see the EU market as promising, underpinned by some agreements, as followed:

i. **Vietnam-EU VPA FLEGT(1,2) entered into force on June 1st, 2019**. The agreement has been negotiated between Vietnam and the EU since 2010. Under the VPA, Vietnam develops Timber Legality Assurance Systems to verify that its timber exports are legally produced, attested by a set of procedures and requirements, by means of FLEGT licenses. The EU shall accept such timber shipments from Vietnam if they are covered by FLEGT licenses.

   Thereby, qualified wood export enterprises and approved by a Vietnamese agency will be exported directly to the EU market and not through any additional censorship from the EU;

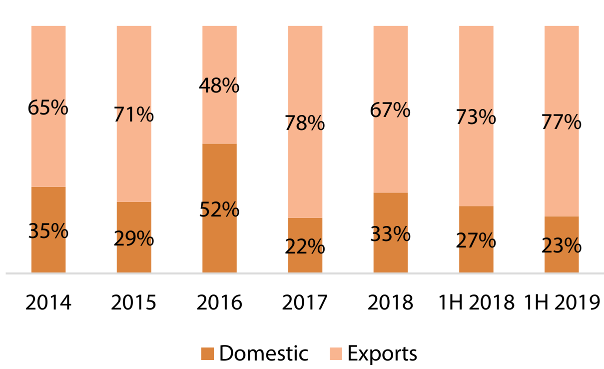
ii. **Forthcoming EVFTA.** The trade and investment agreements were signed in June. The FTA is expected to get signed by 2020-21. Imported timber tariffs should come down to zero when EVFTA is in place, creating cost-advantages for Vietnam's imported timber into the EU.

We believe PTB is one of the beneficiaries, seeing (1) its US market dominance; (2) sustainable export orientation; (3) stable supply of raw materials and (4) increasing production capacity.

Grasping the chance of increasing US orders

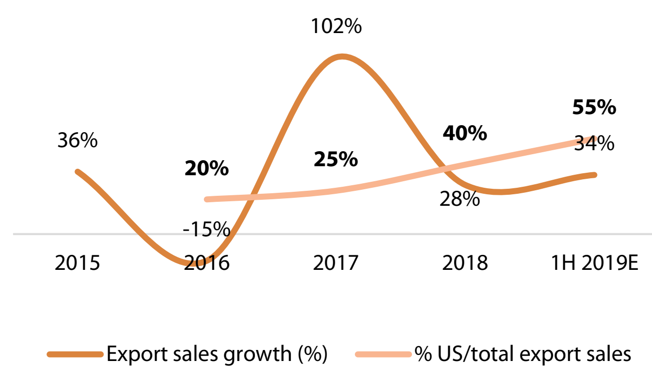
Export activities make up 66% of PTB's timber revenue. Top importers are the US and UK. The US market share was 40% of total exports in 2018. This proportion rose considerably to 55% in 1Q 2019.

Figure 8: Timber sales breakdown (%)



Source: PTB

Figure 9: Export sales growth and proportion of US market (%)



Source: PTB, Rong Viet Securities

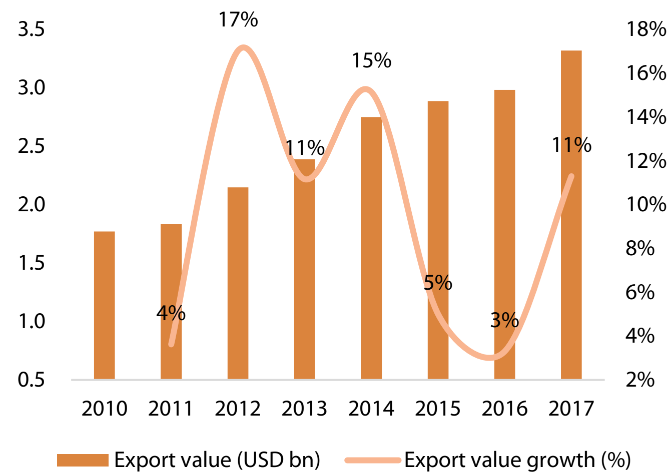
Some changes are needed to sustain exports

Quality standards become more critical as orders increase. Some changes are being conducted in timber, including increasing optimization, cutting labor costs and product quality.

- **Collect orders from major clients.** Orders from major clients often include a few HS codes. Collecting such orders that have homogeneous characteristics allows better specialization. This also requires less investment on plants and equipment. PTB currently has 10 large clients whose contracts vary from USD 3 - 7 million per year. The company got three new clients in 2018. Names include Masterbrand whose contract is estimated at USD 3 - 4 million as well as B&Q PLC (a subsidiary of Kingfisher PLC).
- **Shift a bit towards indoor furniture.** The structure of interior and exterior products is pretty well balanced. This ratio however is being adjusted by the company. Indoor furniture is expected to have a dominant proportion of 60:40 when Thang Loi and Vina G7 plants expand. According to PTB, indoor furniture has less codes of products and its production is considered to be less

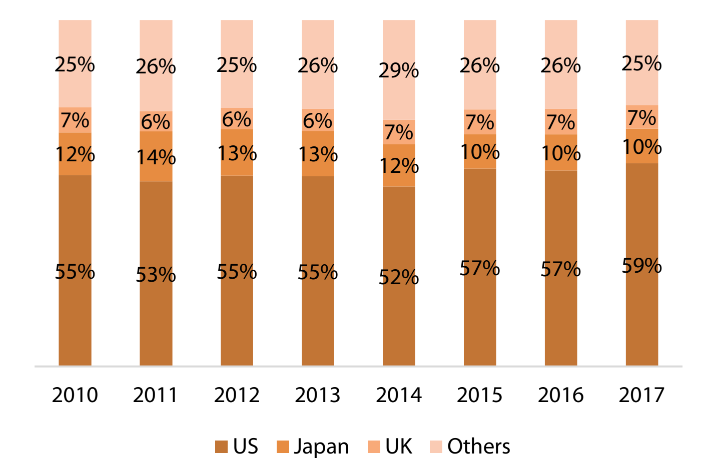
labor-intensive. These changes are expected to eliminate the risk of labor shortage and to reduce production costs.

Figure 10: Vietnam furniture export value and growth



Source: ITC, Rong Viet Securities

Figure 11: Vietnam's furniture export market breakdown (%)

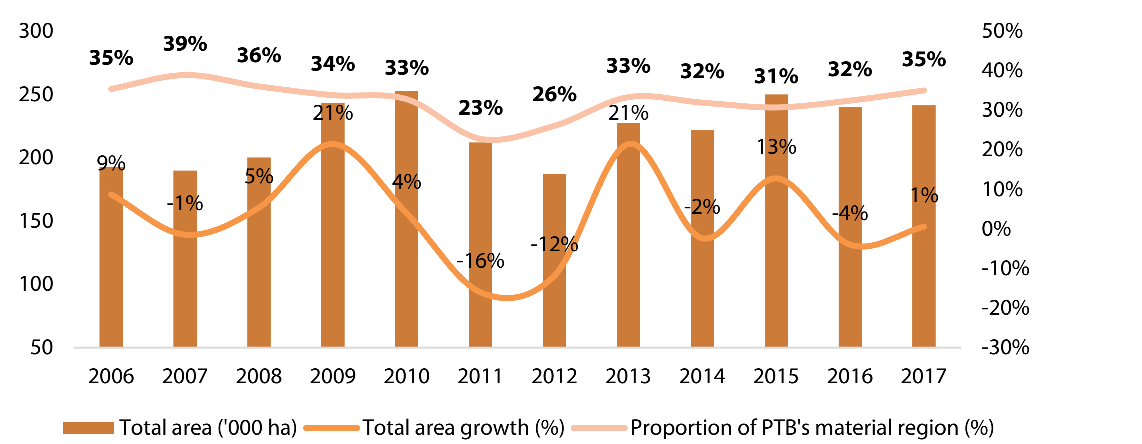


Source: ITC, Rong Viet Securities

Growing domestic supply of raw material is one advantage

Vietnam's area for raw material plantation, in general, has been increasing. According to HAWA, domestic supply from new plantation forest reached 26 million cubic meter, equivalent to 75% of consumption demand in 2018. For Phu Tai, the majority of its raw materials are pinewood for indoor furniture and acacia and eucalyptus for outdoor products. In 2019, PTB is using about 75% of domestic wood materials and 25% of imports, which are mainly MDF (Medium Density Fiberboard), HDF (High Density Fiberboard). The main material timber area of the company is located in the Central Highlands and South-Central regions. We estimate that the new plantations areas account for an average of 33% of the nationwide total (2005 - 2017) and grew about 3% per year.

Figure 12: Vietnam's plantation forest ('000 ha) and proportion of PTB's material region area (%)



Source: GSO, Rong Viet Securities

Phu Tai's raw material for timber got the FSC-CoC (Forest Stewardship Council-Chain of Custody) - a certificate for enterprises that have material inputs and quality certified. This is an advantage in exporting to developed markets such as the US and the EU.

Capacity is being expanded for new orders

Expansion is taking place for serving increasing orders since 2018. The company invested ~80 billion to increase the processing capacity of refined wood from 25,000 m^3/year to 30,000 m^3/year on an additional area of 5 ha at the Phu Cat plant. In 2019, PTB is also planning to expand 5 ha and increase processing capacity to 45,000 m3 / year at Phu Cat factory. The estimated investment cost for this expansion is VND 132 billion. Current operating capacity is around 65%, providing ~18,000 m^3/year of materials for three processing plants: Thang Loi, Dong Nai and Vina G7.

Besides, additional capacity shall come from the Thang Loi plant. The company is investing to increase the factory at Thang Loi. The total investment for this expansion is VND 86 billion and will be in operation in 2H 2019. Vina G7 is expected to increase capacity to specifically serve MasterBrand's orders.

Figure 13: Wood production process

Phase 1: Embryo materials processing

- Phu Cat plant for processing raw materials
- Annual capacity: 30,000 m^3 (end-2018)
- Tentative capacity: 45,000 m^3 (2019)

Phase 2: Machining and finishing works

- Three processing plants: Thang Loi, Dong Nai, Vina G7
- Total estimated capacity: 34,000 m^2 (2019)

Source: PTB, Rong Viet Securities

In 1H 2019, PTB posted wood revenue of VND 969 billion (+27% YoY), of which exports accounted for 77%, corresponding to VND 745 billion (+34% YoY). The robust sales came from new orders from the EU, especially the UK, and increasing order sizes from existing US clients. Export is supposed to have more room for growth given PTB's current modest export market shares, estimated at around 1% of Vietnam's total export value during 2014-18. The escalating number of orders from the US and EU are the main drivers pushing export growth in the mid term. However, the process of boosting capacity to meet orders will not occur quickly due to constraints relating to the availability of labor and progressive automation.

We assume that PTB's wood production capacity will operate at 90% by 2020 and reach full utilization from 2022 (excluding new investments after 2019). Rong Viet arrives an average revenue growth of 18% in wood segment during 2019-23. We expect more automated stages in production to lessen labor cost (accounting for 13 - 17% of wood's COGS) and operating costs. Gross margin is thus assumed to see a slight improve from 16.6% in 2019 to around 17.5% since 2022.

Restructuring in stone expected to foster long-term growth

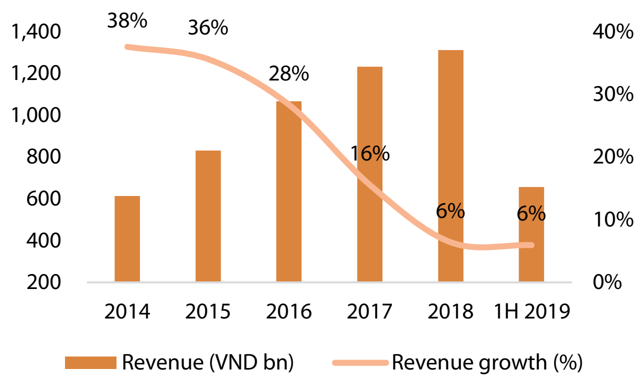
Stone has been PTB's leading segment as it made up 28% of revenue and 57% of gross profit in the period of 2012-18. Gross margin fluctuated around 32 - 37%. Its primary product is paving stone made by the granites and marble. Others include garden stone and gravestone.

Figure 14: Main stone products

Black granite | Paving stone | Marble | Gravestone

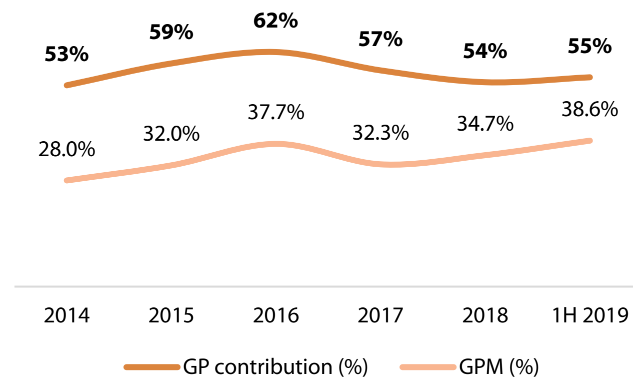
Source: PTB

Figure 15: Stone revenue and growth



Source: PTB

Figure 16: Gross margin and GP contribution

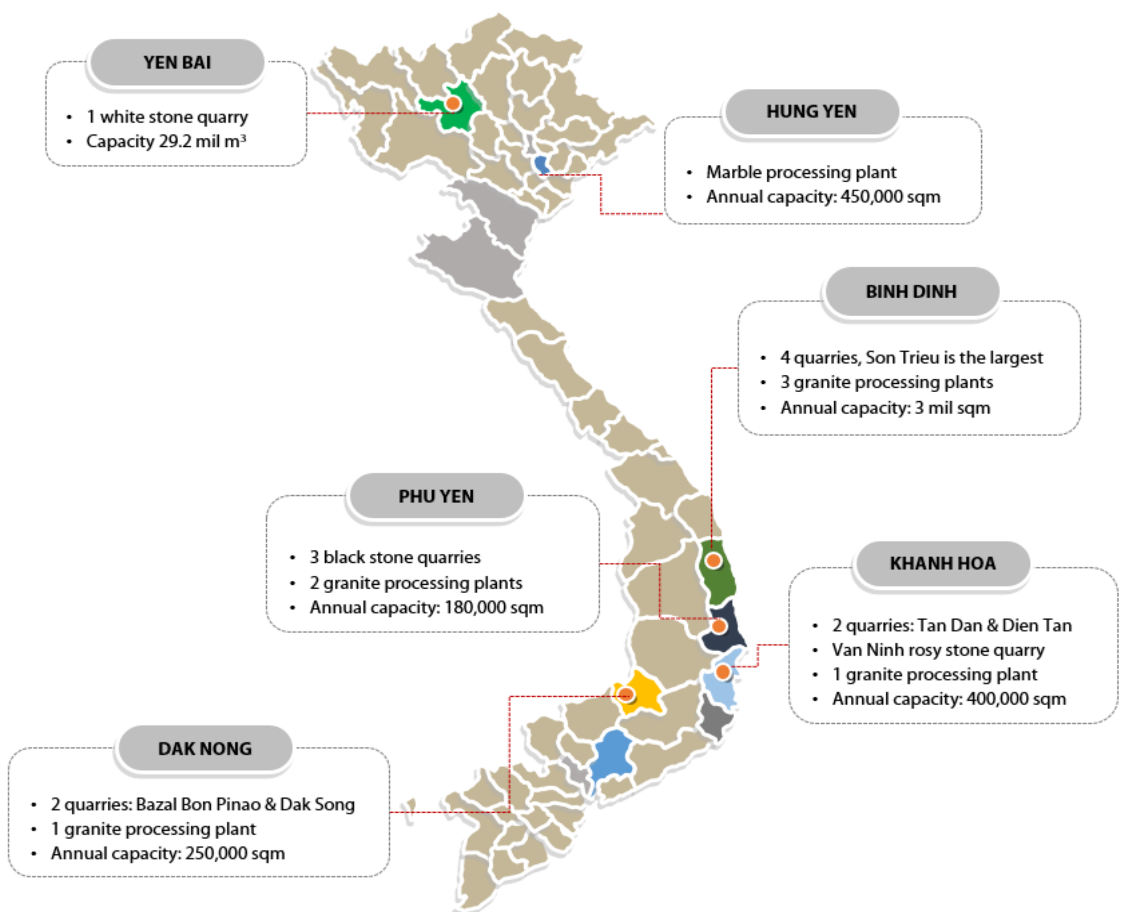


Source: PTB

Ample reserves ensure adequate supply in the long term

Consecutive M&A for accumulating quarries has been one of PTB's prominent traits. Acquiring record was tracked with two new quarries per year, cultivating current abundant reserve of 53 million m^3 under 13 quarries. We also learn that there are two more quarries to come in 2019. PTB's granites supply rounds up in its quarries in Khanh Hoa and Binh Dinh; whereas the marbles, accounting for a smaller part of production volume, settle in the northern ones such as Yen Bai and Hung Yen.

Figure 17: Phu Tai's stone quarries



Source: PTB, Rong Viet Securities compiles

In early 2019, Phu Tai acquired a black and a white stone quarries by purchasing stakes in Thanh Chau LLC (Dong Xuan, Phu Yen) and Son Phat Trading and Service LLC (Van Ninh, Khanh Hoa). The company plans to bring the factory served the black stone quarry into operation in 3Q 2019.

Restructure product mix to boost sales and cut costs

Most of Phu Tai's stone products are consumed in HCMC and Hanoi through a number of agents, as its clients. Slowing residential supply in these two markets and intense competition from imported Chinese stones has been weakening Phu Tai's stone sales. In particular, stone segment is seeing sales growth diminished, from an average of 34% in 2014-16 to 16% in 2017 and 6% in 2018. Residential supply and number of units sold decreased by 10% and 12% in 2018 in HCMC and Hanoi respectively, per CBRE. Further, a major part of the market supply is believed to be Chinese imported stone.

However, restructuring efforts on product mix and plants are expected to encourage stone sales and maintain its average growth of 10.6% in 2019-23. This strategy includes:

(1) **Restructuring product mix in order to boost sales.** Residential supply is slowing down, causing a sharp drop in stone demand, especially the high-ends. Focusing on popular-and-more-diverse products is an option to maintain sales. Some changes that are taken place:

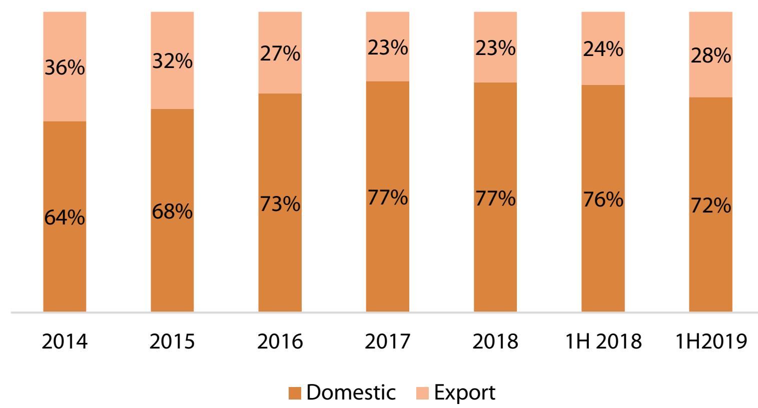
- Increasing the proportion of garden stone, pavement stone, craft stone and gravestones for export. Most of these products are used in buildings, resorts, offices, etc., the absorption is therefore relatively more stable compared to those used for residential projects.
- Expanding export markets other than Turkey. Export is becoming more crucial when domestic demand fell off. Turkey has made up 50% of PTB's export value, on average. New export market should curtail concentration risks and fluctuations of the Turkish market. Potential markets include Germany, Poland and Hungary with mostly slabs and Asian markets including Japan and Thailand with gravestones.

  Besides, PTB is also building a quartz stone factory with an annual capacity of 500,000 sqm. The plant expects to come into operation since mid-2020. According to Phu Tai, 95% of the output is for exports. Some potential markets such as Canada, USA and Australia. The total investment is expected to be VND 300 billion.

(2) **Revamping plants in order to cut cost and improve margins.** Each quarry is designed with a processing plant. Expanding exports with diverse types of product requires effective management of production stages in order to cut costs. Increase specialization in production is currently one of the top priorities.

Vietnam's stone market, in general, is quite fragmented and has been facing tough competition. Application for mining license is also challenging, requiring such exploitation experience and healthy financials. We believe that Phu Tai is a relatively competitive compared to other smaller-scale players. This allows Phu Tai to have an advantage in M&A activities. We expect the stone segment will grow at 10.6% on average in 2019-23.

Figure 18: Stone revenue breakdown, by market (%)

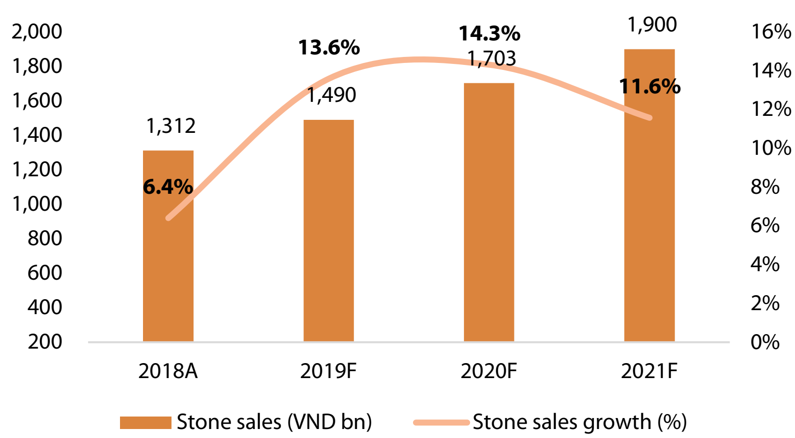


Source: PTB

In 1H 2019, PTB saw a 11% growth in stone segment, of VND 377 billion, contributing 55% to gross profit. Export sales jumped sharply to 186 billion dong, up 24%, the highest increase within 3 years. Exports to the EU (Poland, Germany, Hungary) and Asia countries (Japan, South Korea) were reported to increase by 12% and 40% respectively in the first six months. Gross margin also witnessed a surprised improve from 33.9% in 2018 to 38.6% in 1H 2019, as a result of increasing exports and better product mix.

Rong Viet projects average sales growth and gross margin to reach 11% and 37% respectively in 2019-23. We expect short term demand to come from tourism projects (resorts, …) in Binh Dinh, Phu Yen and Khanh Hoa. Residential supply in HCMC and Hanoi, meanwhile, will still be the long term drivers.

Figure 19: Forecasted sales and growth in stone segment

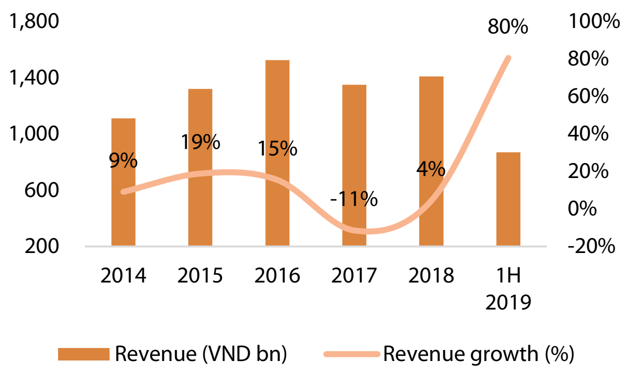


Source: Rong Viet Securities

Stable revenue stream from automobile dealership

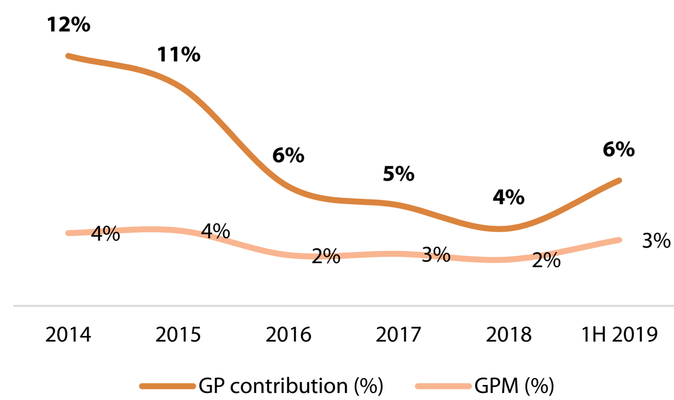
Phu Tai is one of Toyota's major distributors in Binh Dinh - Da Nang with an average of 2,025 units sold per year. The company owns 2 showrooms in Da Nang and Binh Dinh. This segment accounts for 39% of revenue and 8% of gross profit during 2014-18, on average.

Figure 20: Auto sales and growth



Source: PTB

Figure 21: Gross margin and gross profit contribution (%)

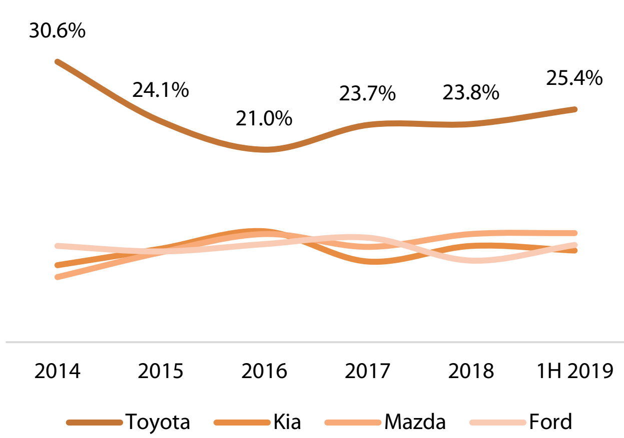


Source: PTB

Automobile sales and the number of unit sold in 1H 2018 dropped significantly due to the Decree 116/2017/ND-CP on ensuring technical quality and environmental protection with domestic and imported cars. In 2019, the number of unit sold is expected to skyrocket based on increasing supply and aggressive target of unit sold from Toyota. Sales volume should be escalating given (1) a majority of importers having met the requirements of Decree 116 and (2) ATIGA Agreement to encourage imported vehicles. Toyota market share also recorded at the highest level in the last five years, up from 23.8% in 2018 to 25.4% in 6M 2019.

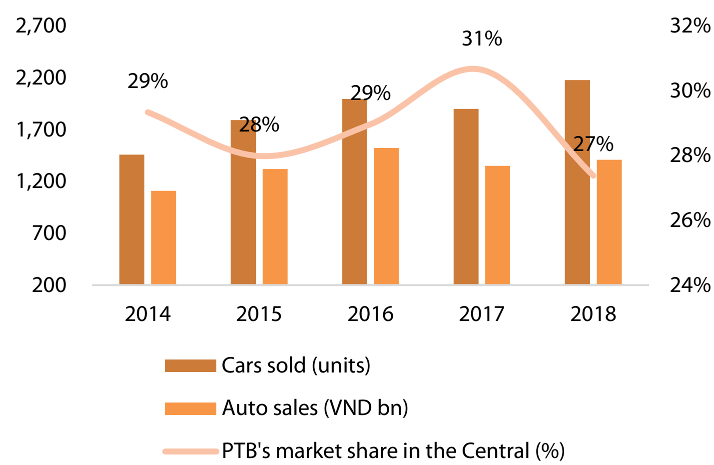
Albeit its relatively low gross margin, of around 3%, we think the automobile business will be generating an annual cash flow of 80 - 120 billion VND in thanks of Toyota's dominant and stable market share, of around 25%. Also, Phu Tai has been seeing an average of 29% of market share in the central region.

Figure 22: Toyota's market share (%)



Source: VAMA

Figure 23: Auto sales and PTB's market share in the central



Source: PTB, Rong Viet Securities's estimates

The very first residential project is on the way

PTB's very first residential project was transferred from Hoang Anh Gia Lai JSC (HSX: HAG). The company started construction works since July and plans to launch in 4Q 2019. Phu Tai Residence possesses a favorable standing, amid three main roads (Le Duc Tho, Luu Huu Phuoc and Dang Van Ngu) in Quy Nhon city, Binh Dinh.

This is a non-core business project. We understand that the company might have the opportunity to obtain the project at a reasonable price and expected to bring some added value. We however think this project is an add-on catalyst and will not have any great contribution to the company.

Rong Viet expects the project will start contributing revenue and profit from 2021 when PTB starts to hand over. We assume the average selling price to range from VND21 - 25 million per sqm and gross margin is around 32 - 37%.

Table 1: Project's information

Phu Tai Residence			
Total area	5,830 sqm		
GFA	79,775 sqm		
NLA	49,670 sqm		
Size	622 units, 51 – 88 sqm 12 shophouses		
Timeline			
	2019	**2020**	**Since 2021E**
Sale launch	■		
Construction	■	■	
Handover			■

Source: PTB

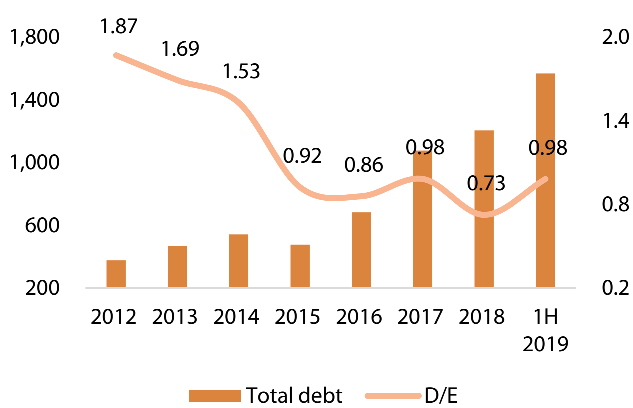
Figure 24: Phu Tai Residence's location

Source: PTB

Healthy finance and stable business performance

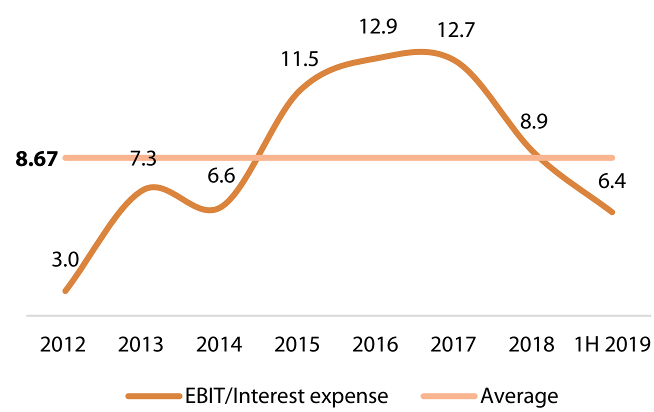
The financial structure improved though debt financing was enhanced for expansion works, especially in accumulating quarries and investment in plants and equipment. Debt/equity ratio decreased from 1.86x in 2012 to 0.96x in 1H2019. Besides, solvency was maintained at a safe level as interest coverage ratio was recorded at 8.67x on average, during 2012-19.

Figure 25: Total debt (VND bn) and D/E (times)



Source: PTB

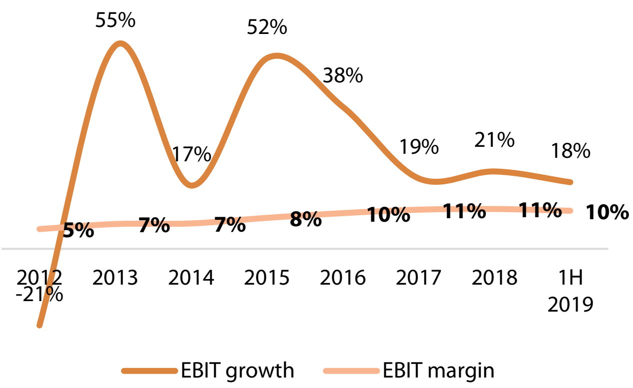
Figure 26: EBIT/Interest expense (times)



Source: PTB

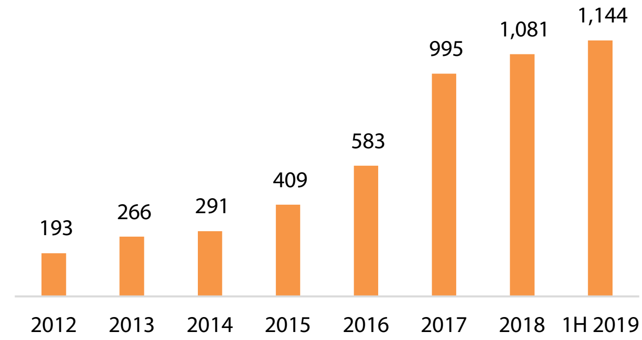
Business performance was impressive. EBIT growth averages 26% and EBIT margin was around 8% (2012-18). Fixed assets, including machinery, equipment and transport vehicles, grew 5.67x and accounted for an average of 30% of total assets during this period.

Figure 27: EBIT growth & EBIT margin (%)



Source: PTB

Figure 28: Fixed assets (VND bn)



Source: PTB

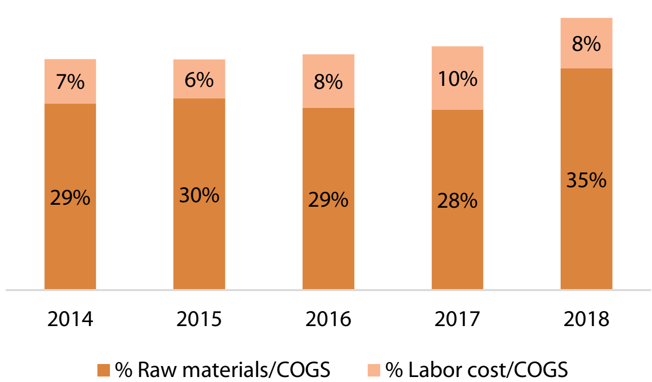
Further, increasing cash dividend is an attractive plus. PTB paid a 32% (per charter capital) cash dividend in 2018 and expects to maintain this cash payout in the coming years.

In 2019, PTB will continue to need large capital for (1) restructuring products and factories; (2) Phu Tai Residence. Therefore, we believe that the company's debt will increase sharply in 2019-20.

Risks

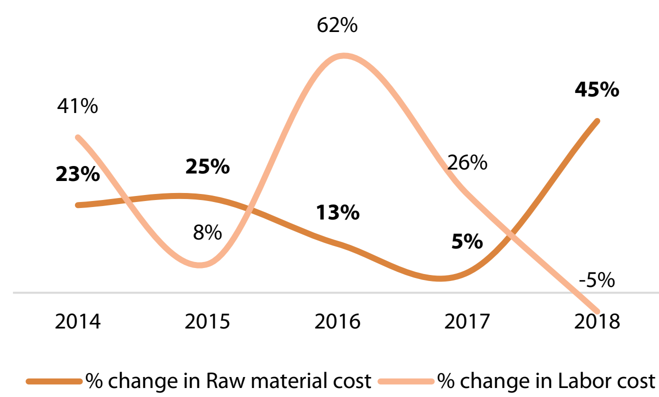
- **Shortage of labor force and fluctuations in raw material prices.** For all business segments, we estimate that raw material and labor costs account for 30% and 8% of COGS respectively. Most of PTB's wood material is relatively stable in terms of supply and input prices given its FSC-CoC certification. However, 25% of the supply have been imported (mainly the MDF and HDF) and there may be large price fluctuations. Both stone and wood businesses are labor intensive; respectively accounted for 32% and 61% of the company's labor, respectively. In particular, the scarcity of labor for timber production, at some points such as after the holidays, may affect the company's ability to fulfill orders. Besides, transportation and logistics costs also account for the majority of cost of goods in these two segments.

Figure 29: % raw materials & labor cost in COGS (%)



Source: PTB, Rong Viet Securities's estimates

Figure 30: Change in raw material & labor cost expense (%)



Source: PTB, Rong Viet Securities's estimates

- **Unexpected tariffs imposed from the US**

Forecast and Valuation

PTB's 2019 business plan was set with revenue of VND 5,865 billion (+23% YoY) and NPATMI of VND 458 billion (+15% YoY). For 2019, our forecast arrives at revenue of VND 5,552 billion (+18% YoY) and NPAT of VND 476 billion (+27% YoY). We assume:

- Increasing stone exports to Japan and the EU to help the segment grow by 14%;
- Increasing orders from the US and UK to drive wood segment to grow by 23%;
- The number of vehicles sold increased from Toyota and market share improved from 23.8% (2018) to 25.4% (6M 2019), helping the revenue of automobile distribution increase by 13%;
- Phu Tai Residence will start contributing revenue and profit from 2021 when the company starts handing over products.

Table 2: Forecasted revenue breakdown (VND billion)

	2018A	2019F		2020F	
	(VND bn)	(VND bn)	+/- YoY	(VND bn)	+/- YoY
Stone segment	1,312	1,490	14%	1,703	14%
Wood segment	1,831	2,255	23%	2,575	14%
Auto dealership (*)	1,408	1,595	13%	1,684	6%
Total revenue	**4,722**	**5,552**	**18%**	**6,179**	**11%**

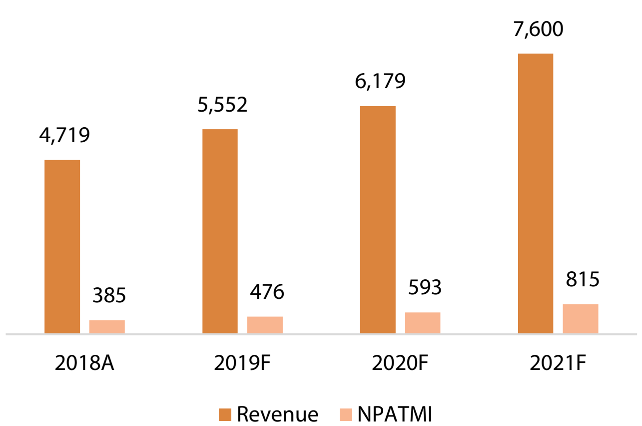
(*) not including servicing revenue

Source: Rong Viet Securities

We also assume:

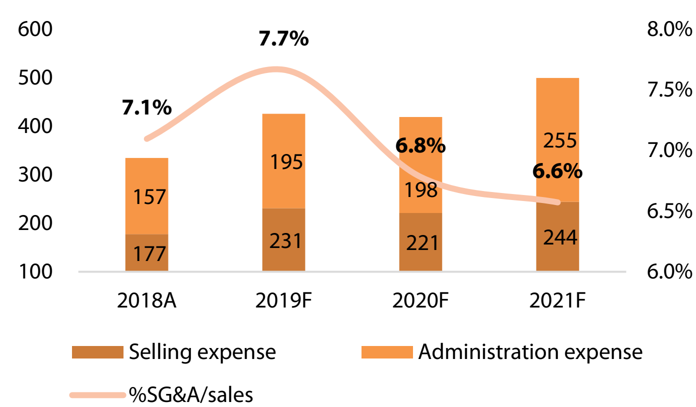
- SG&A expense to increase 27% to VND 426 billion; SG&A/sales ratio increased from 7.1% in 2018 to 7.7% in 2019;
- Financial expenses to increase by 23% to VND 82 billion due to increasing debt financing for newly investment and Phu Tai Residence.

Figure 31: Forecasted revenue and NPATMI (VND bn)



Source: Rong Viet Securities

Figure 32: SG&A expense (VND bn)



Source: Rong Viet Securities

Rong Viet uses the Sum-of-the-parts method to value the stock:

- We use FCFF and weighted P/E for valuing its core business:
  - We use the FCFF method (WACC of 12.06% and a sustainable growth rate of 2.0%) for three main segments, including the stone based on PTB's ability to accumulate quarries steadily (2 quarries per year) and abundant reserves (53 mil m^3) which are expected to ensure long-term growth.

- We use the weighted P/E multiple from peers for each business segment. Weights are based on the proportion of gross profit contribution of our 2019-20 forecasts.

- We use the DCF method for Phu Tai Residence, PTB's residential project.

We came up with a fair value per share of **VND 86,600** for the PTB stock, suggesting a current FY2019 P/E of 6.8x and a total return of 27%, based on closing price on September 20, 2019.

Table 3: Peers in stone segment, in USD

Ticker	Name	TTM PER	TTM PBR	ROE LF	ROA LF	Market Cap	TTM Revenue	D/A LF
600256 CH Equity	GUANGHUI ENERGY CO LTD	13.4	1.5	11.2	3.4	3,161,749	23,303,334	51.6
ASIIL IN Equity	ASI INDUSTRIES LTD	4.0	0.4	9.1	4.4	2,599,115	907,259	37.9
BSM US Equity	BLACK STONE MINERALS LP	12.6	3.6	38.1	19.4	163,618	3,011,159	25.3
AGI IN Equity	ARO GRANITE INDUSTRIES LTD	7.3	0.4	5.5	3.0	1,724,365	712,215	37.5
GLTK IN Equity	GLITTEK GRANITES LTD	3.9	0.2	N/A	N/A	210,106	32,968	46.1
VPROP IN Equity	VIKAS PROPPANT & GRANITE LTD	1.9	0.9	N/A	N/A	527,721	1,847,539	15.7
Mean		**7.2**	**1.2**	**16.0**	**7.6**	**1,397,779**	**4,969,079**	**35.7**

Source: Bloomberg, Rong Viet Securities

Table 4: Peers in wood segment, in USD

Ticker	Name	TTM PER	TTM PBR	ROE LF	ROA LF	Market Cap	TTM Revenue	D/A LF
MDF VN Equity	QUANG TRI MDF GERUCO WOOD FA	18.7	0.7	3.7	1.9	20,179,868	45,819,965	47.2
APLY IN Equity	ARCHIDPLY INDUSTRIES LTD	15.2	0.5	3.3	1.6	8,440,908	47,272,246	28.8
SKN TB Equity	S.KIJCHAI ENTERPRISE PCL	7.9	0.7	8.8	7.0	55,228,640	47,672,107	14.0
FLB MK Equity	FOCUS LUMBER BHD	6.4	0.6	9.6	8.9	25,297,536	44,657,882	N/A
TLD VN Equity	THANG LONG URBAN DEVELOPMENT	6.0	0.6	9.9	6.3	4,894,748	13,393,995	17.2
Mean		**10.8**	**0.6**	**7.1**	**5.1**	**22,808,340**	**39,763,239**	**21.4**

Source: Bloomberg, Rong Viet Securities

Table 5: Peers in automotive dealerships, in USD

Ticker	Name	TTM PER	TTM PBR	ROE LF	ROA LF	Market Cap	TTM Revenue	D/A LF
IMPL IN Equity	INDIA MOTOR PARTS & ACCESSOR	19.6	0.8	4.4	4.0	116,368,344	74,995,450	1.2
NHF MK Equity	NEW HOONG FATT HOLDINGS BHD	14.5	0.5	3.5	2.8	54,426,236	64,414,294	7.7
SMOT SL Equity	SATHOSA MOTORS PLC	14.1	1.1	8.1	2.2	10,555,074	65,143,101	49.2
NDR TB Equity	ND RUBBER PCL	11.9	0.6	6.3	3.7	14,619,220	28,824,401	15.1
HHS VN Equity	HOANG HUY INVESTMENT SVC JSC	4.1	0.2	5.7	5.1	31,306,090	34,322,627	N/A
Mean		**12.9**	**0.6**	**5.6**	**3.6**	**45,454,993**	**53,539,975**	**14.6**

Source: Bloomberg, Rong Viet Securities

Table 6: Combined PER

	% GP contribution 2019-20	Peers' TTM PER	PER contribution
Stone segment	52.3%	7.2x	3.8x
Wood segment	35.5%	10.8x	3.8x
Automotive	5.4%	12.9x	0.7x
Sum			**8.3x**

Source: Bloomberg, Rong Viet Securities

Table 7: Valuation (VND)

Method	Proportion	Price	Contribution
FCFF	50%	82,529	41,264
P/E (8.3x)	50%	83,661	41,831
Residential project			3,548
Target price			**86,642**

Source: Rong Viet Securities

Unit: VND billion

PROFIT & LOSS STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	3,971	4,719	5,552	6,179
COGS	3,274	3,876	4,485	4,974
Gross profit	**697**	**843**	**1,067**	**1,205**
Selling expenses	178	177	231	221
G&A expenses	98	157	195	198
Financial income	12	27	14	15
Financial expense	37	67	82	87
Other income/loss	29	7	15	17
Gain/(loss) from JV	0	0	0	0
Profit Before Tax	**424**	**475**	**589**	**731**
Tax expense	63	75	95	115
Minority interests	17	15	18	23
Profit After Tax	**345**	**385**	**476**	**593**
EBIT	420	508	642	786
EBITDA	556	678	804	936

Unit: %

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth				
Revenue	8.5	18.8	17.7	11.3
EBITDA	16.6	21.8	18.6	16.5
EBIT	19.0	20.9	26.3	22.5
PAT	30.1	11.6	23.7	24.7
Total assets	42.6	31.7	14.7	26.4
Total equity	37.0	53.4	10.9	21.3
Profitability				
Gross margin	17.6	17.9	19.2	19.5
EBITDA margin	14.0	14.4	14.5	15.2
EBIT margin	10.6	10.8	11.6	12.7
Net margin	8.7	8.2	8.6	9.6
ROA	13.3	11.3	12.2	12.0
ROCE	33.7	28.6	31.1	30.6
ROE	32.9	23.9	26.7	27.4
Efficiency				
Receivables turnover	7.7	6.5	7.0	6.7
Inventories turnover	4.5	3.8	3.9	3.1
Payables turnover	9.1	7.9	8.0	5.0
Liquidity				
Current	1.1	1.3	1.3	1.3
Quick	0.5	0.7	0.7	0.7
Finance Structure				
Total debt/equity	102.9	75.0	80.9	75.3
ST debt/equity	93.2	70.4	71.7	62.9
LT debt/equity	9.8	4.6	9.2	12.4

Unit: VND billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	55	67	137	326
Short-term investments	49	158	158	173
Accounts receivable	518	731	792	919
Inventories	721	1,020	1,149	1,582
Other current assets (inc. non-trade receivables)	72	120	144	173
Property, plant & equipment	1,030	1,145	1,341	1,563
Acquired intangible assets (Inc. Goodwill)	48	46	44	43
Long term investments	0	4	4	4
Other non-current assets	88	109	128	142
Total assets	**2,581**	**3,399**	**3,898**	**4,927**
Accounts payable	360	490	560	999
Short-term borrowings	976	1,131	1,277	1,359
Long-term borrowings	102	74	164	269
Other non-current liabilities	3	9	9	10
Bonus and Welfare fund	44	35	35	35
Technology-science development fund	0	0	0	0
Total liabilities	**1,485**	**1,738**	**2,045**	**2,671**
Common stock and APIC	260	648	648	648
Treasury stock	0	0	-83	-83
Retained earnings	338	387	528	776
Other comprehensive income	446	567	681	811
Investment & Development Fund	4	5	7	8
Total equity	**1,047**	**1,607**	**1,782**	**2,161**
Minority Interest	**49**	**54**	**71**	**94**

CASH FLOW STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Profit before tax	424	475	589	731
Depreciation	149	150	162	150
Adjustments	6	55	0	0
Change in Working capital	(363)	(530)	(239)	(265)
Net Operating CFs	**216**	**150**	**512**	**616**
Change in Fixed Asset	(548)	(230)	(323)	(334)
Change in Deposit, equity investment	49	(228)	0	0
Interest, dividend, cash profit	508	8	0	0
Net Investing CFs	**9**	**(451)**	**(323)**	**(334)**
Change in Capital	43	227	(83)	0
Change in Debt	394	127	28	(84)
Dividend paid & other	(133)	(42)	(64)	(9)
Net Financing CFs	**304**	**312**	**(119)**	**(93)**
Beginning cash & equivalents	**34**	**55**	**67**	**137**
Change in cash & equivalents	529	11	70	189
Ending cash & equivalents	**55**	**67**	**137**	**326**

Company Report

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.eEximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongVietSecurities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Deputy Manager
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Market Strategy

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Steel
- Construction

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Market Strategy
- Consumer discretionary
- Pharmaceuticals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Thu Pham
Analyst
thu.pa@vdsc.com.vn
+ 84 28 6299 2006 (1520)
- Industrial Real Estate
- Infrastructure & BOT

Thao Dang
Analyst
thao.dtp@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Food & Beverage
- Textiles

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance
- Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Vy Nguyen
Analyst
vy.ntk@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Automobile & Parts

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1283)
- Natural Rubber
- Agriculture

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.
The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.
The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Rong Viet Securities Corporation (Rong Viet), with headquarters in Ho Chi Minh City, Vietnam. Rong Viet is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Rong Viet has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Rong Viet.

Rong Viet is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at 575 Fifth Avenue, 27th Floor, New York, NY 10017. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Rong Viet. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Rong Viet is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Tellimer") provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer's conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.