November, 2018

QUANG NGAI SUGAR JSC (Upcom: QNS)

Improving itself

Particulars (VND B)	Q3-FY18	Q2-FY18	*+/-qoq*	Q3-FY17	*+/-yoy*
Net revenue	1,661	2,004	-17.1%	1.556	6.8%
PAT	47	73	-35.2%	57	-17.2%
EBIT	97	154	-37.1%	119	-18.8%
EBIT margin	5.8%	7.7%	-185bps	7.7%	-184bps

Source: QNS, RongViet Securities

Q3/2018 result: Both soymilk and sugar pushed overall revenues and gross margins up

For Q3/2018, QNS had good results in term of sales which increased by 7.9% to VND2,170 bn due to (1) a 6.3% increase in revenue from soymilk to VND 1,140 bn (2) a rise of 23.5% in revenue from sugar to VND 111 bn. The soymilk segment recorded a slight drop in selling volume, compensated by a higher selling price. The sugar segment experienced a significant consumption growth - 50%, mitigating a low selling price. Higher sales plus an improvement in the overall gross margin from 23.8% to 28.5% boosted the company's net profit to VND231 bn, up 19.1% YoY.

2018 outlook: fair results in Q4 will imply a good year for QNS

In Q4/2017, the sugar segment incurred a loss due to high production costs and a decreasing in the selling price. However, the production cost in 2018 has gone down, generating profit for this segment despite a low sugar price.

The company launched new soymilk products in Q3/2018 to diversify its portfolio and increase its competitiveness in this sector. We expect the new products to add more volume to the total soymilk consumption in Q4/2018 when QNS starts to distribute this product through supermarkets as well as convenience stores. QNS tends to record most of its expenses in 9M so the Q4's profit normally reaches the highest level for the year.

Based on a good 9M performance and a forecasted positive result in Q4, we project that revenue and net profit will be VND 8,481 bn (+11.1% YoY) and VND 1,234 bn (20.1% YoY) for 2018, respectively.

Valuation and recommendation

QNS is trying to improve its two main segments with different strategies: soymilk (diversification) and sugar (competitiveness). However, it is necessary to develop, change itself to stay in existence and keep growing. In our opinion, the BOD is doing well. In 2019, we forecast that QNS will continue to post positive results thanks to the contribution of new soymilk products and profitability of the sugar segment.

We maintain our positive view for QNS with the target price of ***VND60,200*** *per share, plus cash dividend of VND1,500, generating a total return of* ***45%****, compared to the closing price on Nov 21st 2018. So* ***BUY****!*

BUY	**+45%**
CMP (VND)	42,300
Target price (VND)	60,200
Cash dividend (VND)*	1,500

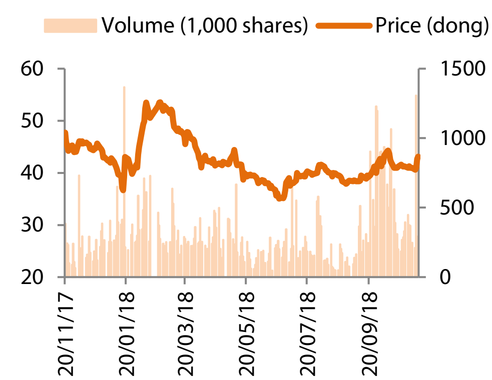
** Expected in the next 12 months*

Stock info

Sector	Food & Beverage
Market Cap (VND billion)	12,609
Current Shares O/S	246,296,826
Avg. Daily Volume (in 20 sessions)	423,212
Free float (%)	62.6
52 weeks High	53,640
52 weeks Low	35,620
Beta	0.77

	FY2017	Current
EPS	4,985	3,617
EPS growth (%)	-27.4	-12.7
Adjusted EPS	4,154	3,617
P/E	9.0	11.1
P/B	2.1	2.5
EV/EBITDA	6.1	8.5
Cash dividend	1,500	1,500
ROE (%)	22.9	23.5

Price performance



Major Shareholders (%)

Thanh Phat Ltd	15.8
Vo Thanh Dang	7.9
Foremost Worldwide Limited	4.9
Foreign ownership room (%)	37.4

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Exhibit 1: Q3 2018 results

Particulars (VND B)	Q3-FY18	Q2-FY18	+/-(QoQ)	Q3-FY17	+/-(YoY)	3Q-FY18	+/-(YoY)
Net revenue	2,170	2,377	-8.7%	2,011	7.9%	6,145	3.4%
Gross profit	618	652	-5.3%	479	29.0%	1,677	18.1%
SG&A	352	229	53.9%	251	40.5%	797	22.4%
Operating income	266	424	-37.3%	228	16.4%	880	18.0%
EBITDA	266	663	-59.9%	304	-12.5%	1,262	5.8%
EBIT	266	424	-37.3%	228	16.4%	880	14.4%
Financial expenses	27	28	-3.4%	20	39.6%	75	21.1%
- Interest Expenses	25	26	-1.4%	1	1793.3%	71	66.8%
Dep. and amortization	53	240	-100.0%	75	-100.0%	381	-9.8%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	265	416	-36.4%	218	21.4%	890	15.4%
PAT	231	369	-37.3%	194	19.1%	788	17.6%
(*) Adjusted PAT	231	369	-37.3%	194	19.1%	788	

Source: QNS, RongViet Securities

Exhibit 2: Q3 2018 performance analysis

Particulars	Q3-FY18	Q2-FY18	+/-(QoQ)	Q3-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	13.7	13.9	-25bps	14.6	-95bps
EBITDA margin	7.0	8.7	-166bps	8.9	-189bps
EBIT margin	5.8	7.7	-185bps	7.7	-184bps
Net margin	2.8	3.6	-79bps	3.7	-82bps
Adjusted net margin	2.8	3.6	-79bps	3.7	-82bps
Turnover *(x)					
-Inventories	3.6	3.7	-0.1	3.0	0.6
-Receivables	6.3	9.1	-2.8	7.1	-0.8
-Payables	7.7	10.0	-2.3	8.1	-0.4
Leverage (%)					
Total debt/ equity	191.4	205.4	-1.399bps	193.3	-192bps

Source: QNS, (*) Annualized turnover

Exhibit 3: Q4 2018 performance forecast

Particulars (VND B)	Q4-FY18	+/-(QoQ)	+/-(YoY)
Revenue	2,305	5.9%	33.6%
Gross profit	750	21.3%	24.7%
EBIT	503	89.5%	34.4%
NPAT	446	93.0%	34.0%

Source: QNS, RongViet Securities.

Update:

Fami Go is just the beginning of a new strategy

Although the revenue of soymilk increased by 6.3% in Q3/2018, the 9M number slightly decreased by 1%. As per our calculation, the total selling volume was down 4.7% in the first nine month of the year versus the same period in 2017 following the downtrend in the dairy sector. To solve the problem, QNS has launched two new products with flavors of red bean/sticky rice and black sesame/sticky rice to diversify its product mix besides the traditional ones like Vinasoy Sesame or Fami Canxi. We expect the new products to add more volume to the total soymilk consumption in Q4/2018 when QNS starts to distribute through supermarkets as well as convenient stores. These new products will contribute six mn liters to the total soymilk consumption this year and another 40 mn liters in 2019. Currently, we hope that QNS can deliver 280 mn liters of soymilk to the market in 2018, slightly up 1.5%.

With the strength in soybean, QNS will focus on R&D to launch other products in the future. Even with a 84% market share, QNS has not touched more than 50% of households in rural area and 65% of households in urban area. Based on a population of 95 mn and QNS's soymilk consumption of 280 mn liters in 2018, the average soymilk consumption of QNS per capita is around 2.9 liters/year. While the soymilk consumption per capita in Vietnam is 6.8 liters/year. So there is still a huge market for the company to expand its sales.

Sugar segment to post profit amid low sugar price

The production cost of sugar in 2018 (including depreciation) is around VND10,000 per kilogram thanks to a low sugarcane's price . As a result, the company is able to profit from the segment even though the RS sugar price dropped to VND 10,800 per kilogram. Due to the recovery in sugar prices recently, we believe that this segment will post a better result in Q4, compared to the previous quarter.

Will issue ESOP for 2018

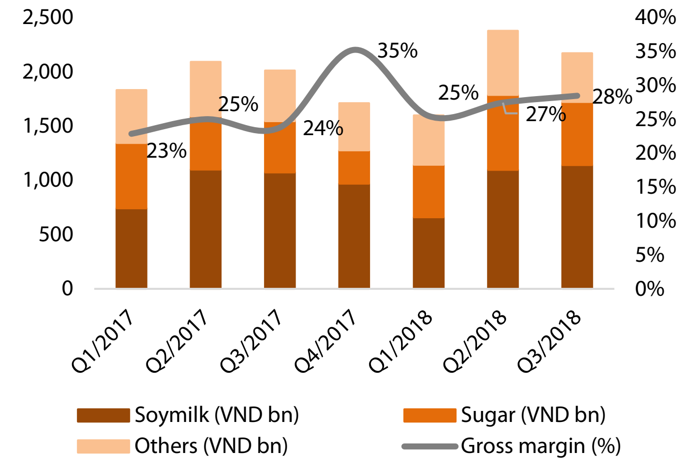
After failing the requirement for ESOP in 2017, we believe that QNS will issue 2% of total outstanding shares for ESOP in 2018 (around 5 mn shares), based on the 23.8% growth in net profit and depreciation for 2018. And these shares will be locked within 3 years.

Table 1: ESOP plan

Growth in net profit + depreciation	% outstanding share
>= 10%	1%
>= 20%	2%
>= 30%	3%

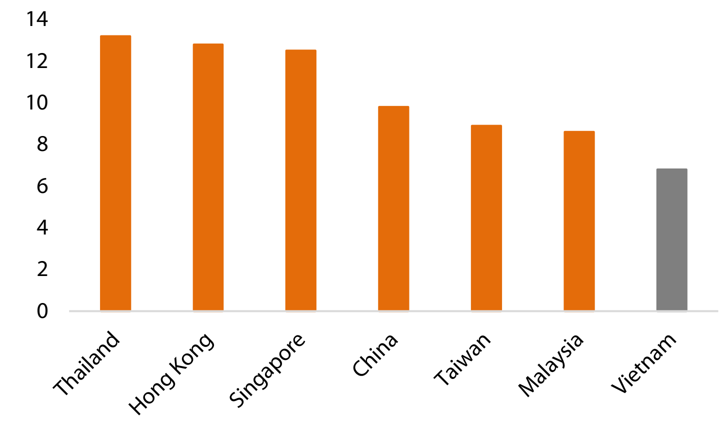
Source: QNS

Figure 1: Revenue breakdown (LHS) and gross margin (RHS)



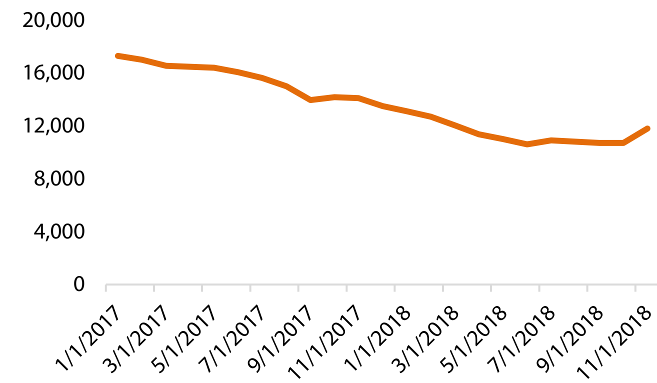
Source: QNS

Figure 2: Soymilk consumption per capita (liter/person/year)



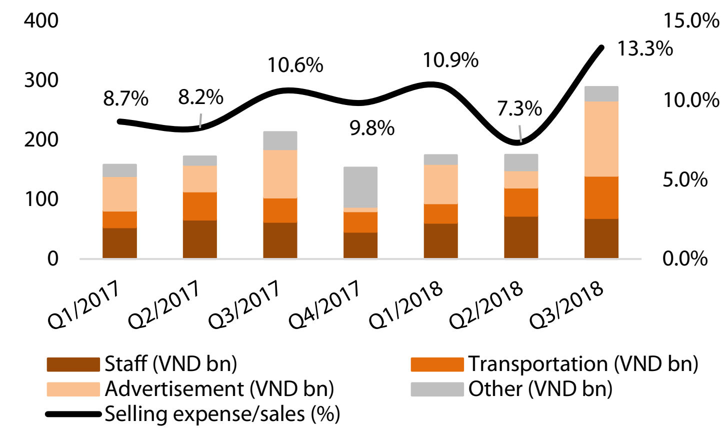
Source: Tetra Compass

Figure 3: Domestic RS price (VND/kg)



Source: Rong Viet Securities complied

Figure 4: Selling expense breakdown (LHS) and selling expense/sales (RHS)



Source: QNS

VND in billions

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	6,972	7,633	8,481	8,948
COGS	4,697	5,637	6,054	6,394
Gross profit	**2,275**	**1,996**	**2,427**	**2,554**
Selling expense	715	697	874	895
G&A expense	44	146	170	179
Financial income	73	38	39	91
Financial expense	77	78	77	93
Other income/loss	31	26	26	26
Gain/(loss) from JV	0	0	0	0
PBT	**1,543**	**1,138**	**1,371**	**1,504**
Tax expense	133	112	137	150
Minority interests	0	0	0	0
PAT	**1,410**	**1,027**	**1,234**	**1,353**
EBIT	1,516	1,153	1,384	1,480
EBITDA	1,840	1,567	1,922	2,057

%

Financial ratio	FY2016	FY2017	FY2018E	FY2019F
Growth (%)				
Revenue	-10.4	9.5	11.1	5.5
Operating income	9.6	-14.9	22.7	7.0
EBITDA	13.7	-24.0	20.0	7.0
PAT	14.6	-27.2	20.2	9.8
Total assets	18.4	14.3	19.6	21.0
Equity	50.0	14.6	33.7	17.6
Profitability (%)				
Gross margin	32.6	26.2	28.6	28.5
EBITDA margin	26.4	20.5	22.7	23.0
EBIT margin	21.7	15.1	16.3	16.5
Net margin	20.2	13.5	14.6	15.1
ROA	23.0	14.7	14.7	13.4
ROE	36.0	22.9	20.6	19.2
Efficiency (x)				
Receivable turnover	17.7	26.4	11.4	11.4
Inventory turnover	9.1	17.6	11.0	11.0
Payable turnover	6.2	6.3	7.2	7.2
Liquidity (x)				
Current	0.9	0.8	1.5	1.7
Solvency (%)				
Total debt/equity	35.6	34.6	26.0	30.9
Current debt/equity	30.1	31.3	24.7	30.9
Long-term Debt/equity	5.5	3.2	1.3	0.0

VND in billions

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	137	528	1,663	3,150
Short term investment	555	751	600	600
Accounts receivable	395	289	744	784
Inventories	519	320	551	582
Other current assets	170	19	100	100
Tangible fixed assets	4,119	4,845	4,572	4,752
Intangible fixed assets	0	7	7	7
Long term investment	0	0	0	0
Other non-current assets	229	240	240	240
Total asset	**6,124**	**6,999**	**8,476**	**10,215**
Account payable	753	899	843	890
Short term borrowings	1,178	1,404	1,481	2,178
Long term borrowings	213	145	76	1
Other non-current liabilities	17	18	19	20
Bonus and welfare fund	37	42	42	42
Technology -science dev fund	15	9	21	35
Total liabilities	**2,213**	**2,517**	**2,483**	**3,166**
Common stock and APIC	2,164	2,726	3,214	3,214
Treasury stock	-834	-834	-834	-834
Retained earnings	2,198	2,135	3,098	4,086
Other comprehensive income / (loss)	0	0	0	0
Investment and development fund	384	454	516	584
Total equity	**3,911**	**4,482**	**5,994**	**7,049**
Minority interest	-	-	-	-
Total resources	**6,124**	**6,999**	**8,476**	**10,215**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019F
EPS (VND)	6,874	4,985	4,909	5,392
P/E (x)	8.5	9.0	8.7	7.9
BV (VND)	24,765	21,829	24,328	28,619
P/B (x)	2.4	2.1	1.8	1.5
DPS (VND/cp)	2,000	1,500	1,500	2,500
Dividend yield	3.4%	3.3%	3.5%	3.5%

Valuation model	*Price*	*Weight*	*Average*
DDM	65,700	50%	32,850
PE	54,700	50%	27,350
Target price (VND)			**60,200**

Valuation history	*Price*	*Recommendation*
21/08/2017	61,800	Buy
05/12/2017	72,800	Buy

** Adjusted price*

RONGVIET SECURITIES

RESULTS UPDATE

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%

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