September, 2018

Loc Troi Group JSC (UpCOM: LTG)

Slow growth but potential in the near term

Particulars (VND bn)	Q2-FY18	Q1-FY18	*+/-qoq*	Q2-FY17	*+/-yoy*
Net revenue	2,895	1,522	90%	2,429	19%
PAT	116	73	58%	125	-7%
EBIT	201	110	83%	177	14%
EBIT margin	7.0%	7.2%	-26bps	7.3%	-33bps

Source: LTG, RongViet Securities

1H2018 Result Update: Slow growth

- Revenue 1H2018 reached 45% of the plan for the whole year. The Crop Protection Chemicals (CPC) sector reached 43% and the agri-food-rice sector reached 47% of the plan. PAT decreased 2% YoY and reached 32% of the plan.
- There is a noticeable improvement in gross profit margin of the agri-food rice sector, up from 1.6% in 1H2017 to 7.6% in 1H2018.
- The CPC sector continued to grow steadily, with sales up 6% YoY in 1H, contributing 56% of total sales, gross margin decreased slightly to 33%.

2018: In need of working capital

- Agri-food sector: The gross profit margin started to increase in 1H2018, but it is not expected to stay at that level in 2H2018.
- Advertising costs are expected to increase sharply in 2H2018, thereby increasing selling expenses.
- Inventories and accounts receivable increased sharply, but payables did not increase proportionally, leading to a shortage of working capital. LTG has to rely on short-term loans, increasing interest expenses.
- We lower the 2018 NPAT forecast because LTG only completed 32% of the whole year plan.

Valuation and recommendation*: LTG's two main business sectors, CPC and agri-food are not expected to be potential drivers in the next five years. Regarding its core operation, CPC, the main contributor to LTG's performance, is able to maintain high gross margin but revenues will grow slowly. LTG owns high-quality rice products but needs time to penetrate the market. The restructuring process will need more time and cost to become efficient. Therefore, in the intermediate term, we expect LTG's growth potential to be limited.*

We evaluate LTG price at ***VND 39,500/share*** *and anticipate a cash dividend of VND 2,000 per share in the following 12 months, which results in a* ***12%*** *total return from the closing price on September 14th, 2018. We recommend to* ***ACCUMULATE*** *the stock.*

ACCUMULATE +12%

CMP (VND)	37,000
Target price (VND)	39,500
Cash dividend (VND)*	2,000

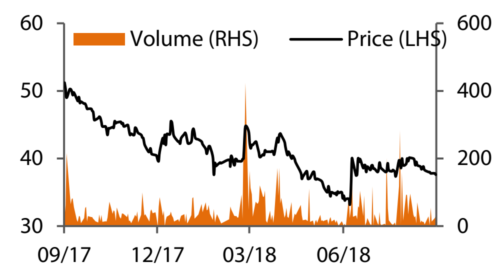
** Expected in the next 12 months*

Stock info

Sector	Basic Materials
Market Cap (VND billion)	2,519
Current Shares O/S	67,161,000
Avg. Daily Volume (in 20 sessions)	29,802
Free float (%)	99
52 weeks High	51,213
52 weeks Low	33,200
Beta	-0.07

	FY2017	Current
EPS	5,644	5,644
EPS growth (%)	28.5	28.5
Adjusted EPS	5,644	5,644
P/E	8.0	6.6
P/B	1.3	1.1
EV/EBITDA	6.6	5.9
Cash dividend	—	
ROE (%)	17.0	17.0

Price performance



Major Shareholders (%)

Marina Viet Pte. Ltd	25.2
People's Committee of An Giang province	24.2
Standard Chartered Private Equity (Singapore) Pte. Ltd	8.2
Foreign ownership room (%)	4.0

Trinh Nguyen
(084) 028- 6299 2006 – Ext 1331
trinh.nh@vdsc.com.vn

Trinh Le
(084) 028- 6299 2006 – Ext 1536
trinh.lx@vdsc.com.vn

Exhibit 1: Q2 2018 results

Particulars (VND Bn)	Q2-FY18	Q1-FY18	+/-(qoq)	Q2-FY17	+/-(yoy)	2Q-FY18	+/-(yoy)
Net revenue	2,895	1,522	90.2%	2,429	19.2%	4,418	8%
Gross profit	536	353	51.8%	495	8.3%	890	3%
SG&A	335	243	37.6%	318	5.2%	578	3%
Operating income	201	110	83.3%	177	13.8%	311	-6%
EBITDA	238	147	62.5%	215	11.1%	385	4%
EBIT	201	110	83.3%	177	13.8%	311	2%
Financial expenses	57	34	68.4%	39	45.2%	91	32%
- Interest Expenses	53	30	73.5%	33	57.6%	83	45%
Dep. and amortization	37	37	0.4%	38	-1.7%	74	11%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	144	88	63.0%	157	-8.2%	232	-4%
PAT	116	73	58.0%	125	-7.1%	189	-9%
(*) Adjusted PAT	116	73	58.0%	125	-7.1%	189	

Source: LTG, RongViet Securities

Exhibit 2: Q2 2018 performance analysis

Particulars	Q2-FY18	Q1-FY18	+/-(QoQ)	Q2-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	18.5%	23.2%	-4.7%	20.4%	-1.9%
EBITDA margin	8.2%	9.6%	-1.4%	8.8%	-0.6%
EBIT margin	7.0%	7.2%	-0.3%	7.3%	-0.3%
Net margin	4.0%	4.8%	-0.8%	5.1%	-1.1%
Adjusted net margin	4.0%	4.8%	-0.8%	5.1%	-1.1%
Turnover *(x)					
-Inventories	4	2	1.8	4	0.1
-Receivables	5.2	2.9	2.3	5.8	-0.6
-Payables	8	4	4.3	7	1.3
Leverage (%)					
Total debt/ equity	218.1%	164.2%	5,385bps	173.1%	4,500bps

Source: LTG, (*) Annualized turnover

Exhibit 3: Q3 2018 performance forecast

Particulars (VND B)	Q3-FY18	+/-(QoQ)	+/-(YoY)
Revenue	1,892	-35%	5%
Gross profit	437	-19%	-3%
EBIT	144	-29%	7%
NPAT	94	-19%	13%

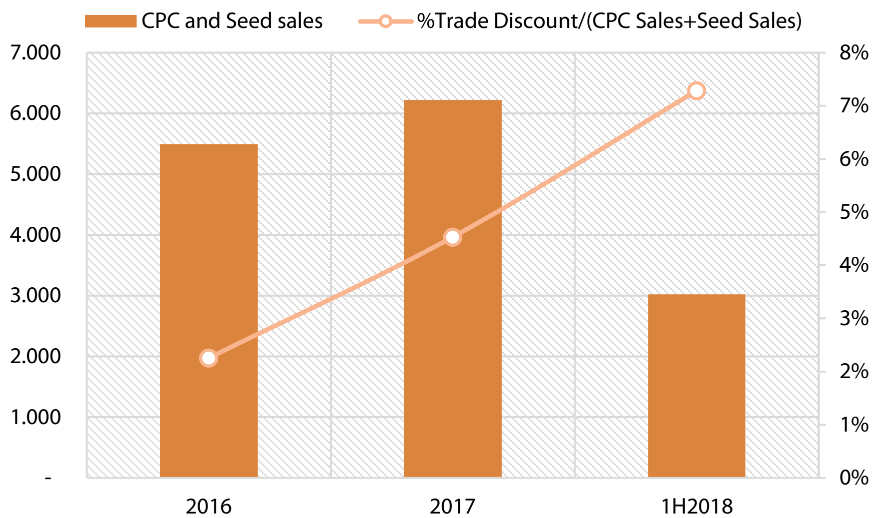
Source: LTG, RongViet Securities.

Updates

We forecast that advertising expenses will increase in the second half of 2018. The cost of advertising in 1H2018 only reached VND 92 bn while the figure was VND 378 bn in 2017. Loc Troi has a strategy to "promote marketing of key products through advertising programs, exhibitions, fairs, and bicycle tournaments to promote the Group's products both domestically and internationally."[1] Therefore, we forecast that LTG's selling expense will increase by 8% yoy to 960 billion, accounting for 10.5% of revenue.

LTG's trade discount for their retail agents is expected to increase. The trade discount rate over sales of CPC and seeds increased from 2.3% in 2016 to 4.5% in 2017, and only in the first half of 2018, the rate increased to 7.3%. Loc Troi switched to selling directly to retailers instead of selling through wholesalers in 2015's restructuring plan. Before the restructuring, they had about 300 wholesale agents. They plan to set up about 5,000 retail agents. There are about 2,000 ones which generate sales regularly. LTG also plans to increase the trade discount for their retail agents. We estimate a trade discount of 7% of CPC and seed gross sales in the next five years.

Figure 1: Trade discount



Source: LTG

CPC sector faces difficulties. There are some common disadvantages of the CPC industry. Firstly, annual market growth is estimated at only 2% to 4%. Secondly, government orientation is toward reduction of CPC usage. Lastly, China's policy change diminishes CPC output, which may lead Chinese import prices to increase in the near future. Therefore, despite LTG's leading position in the CPC market, we project that the CPC segment revenue will grow at a lower rate over the next five years.

LTG's rice storing cost can be reduced because rice contracts are renegotiated**.** Accordingly, buyers are required to receive the goods in a shorter time, reduce the storage cost. It implies that Loc Troi has the some negotiating power, which is expected to improve the rice segment's profitability in the next few years.

LTG's Big Field Model helps with rice output and quality control. LTG provides seeds and CPC to farmers at the beginning of the season. At the same time, there are "Farmers' Friends" who are Loc Troi's agricultural engineers and work closely with the farmers on the field. They advise and provide technical support to the farmers in order to reduce production cost and to monitor the field's condition and to ensure the quality of output products. At the end of rice seasons, Loc Troi transfers paddy from the field into their warehouse for free and use their milling factory to make rice. The farmers also have choice regarding buyers. It is reported by LTG that around 90% to 95% of farmers elect to sell to LTG. The company is able to ensure the quantity and quality of output products, and they can also increase the area of cultivation easily when there are favorable conditions such as suitable weather.

[1] *Loc Troi Annual Report 2017*

Decree No. 107/2018 / ND-CP is expected to loosen some requirements for rice exports. Decree 107/2018 / ND-CP will take effect from October 2018, replacing Decree 109/2010 / ND-CP. Some changes are listed below:

Decree 107/2018/ND-CP	Decree 109/2010/ND-CP
Having at least 1 specialized warehouse used for storing rice and paddy in conformity with the national standards and regulations on warehousing for storing rice and paddy issued by the competent agency in accordance with the Law on standards and technical regulations. No minimum capacity required.	Having at least 1 warehouse which can store *at least 5,000 tons* of paddies in conformity with the national standards and regulations on warehousing for storing rice and paddy issued by the competent agency in accordance with the Law on standards and technical regulations.
Having at least 1 facility for milling, grinding or processing of rice and paddy in conformity with national standards and technical regulations on facility for milling, grinding or processing of rice and paddy issued by the competent agency in accordance with provisions of the law on standards and technical regulations. No minimum capacity required.	Having at least 1 rice mill with an hourly capacity of *at least 10 tons of paddies* in conformity with national standards and technical regulations on facility for milling, grinding or processing of rice and paddy issued by the competent agency in accordance with provisions of the law on standards and technical regulations.
The warehouses, facilities for milling, grinding or processing of rice and paddy *may be owned by traders or can be leased from other individuals and organizations* under written leasing contracts in accordance with provisions of the law with the minimum term of 5 years.	The rice warehouse and mill must be *owned* by the trader and located in a province or centrally run city which has export commodity rice or an international seaport with rice export activities at the time the trader applies for a certificate.
Traders *only exporting organic rice, parboiling rice and multi-micronutrient fortified rice* do not need to meet the above mentioned business conditions and are allowed to export these types of rice without a certificate, do not have to reserve for circulation and have to report in accordance with regulations.	To export rice, a trader must fully satisfy above conditions.

In our opinion, the change of regulations on rice export requirements will create favorable conditions for small and medium enterprises, reduce barriers to entry and increase competition in rice export market. On the other hand, Loc Troi with the orientation of developing high-quality rice will benefit from not having to reserve.

VND in billions

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	7,783	8,687	9,147	9,724
COGS	6,167	6,806	7,035	7,483
Gross profit	1,616	1,881	2,112	2,240
Selling expense	628	889	960	1,021
G&A expense	427	321	457	486
Finance income	25	15	3	5
Finance expense	150	136	185	172
Other profits	27	17	56	56
Gain/(loss) from JVs	0	0	0	0
PBT	464	567	569	622
Prov. of tax	115	121	114	124
Minority's interest	2	0	0	0
PAT to equity S/H	347	446	455	498
EBIT	561	671	695	733

%

Financial ratio	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	-0.9	11.6	5.3	6.3
EBITDA	-3.8	18.1	4.7	5.6
EBIT	-7.4	19.6	3.5	5.6
PAT	8.8	28.5	2.0	9.5
Total assets	-3.9	7.0	10.8	5.9
Equity	3.3	7.8	16.7	9.7
Profitability (%)				
Gross margin	20.8	21.7	23.1	23.0
EBITDA margin	8.8	9.3	9.2	9.2
EBIT margin	7.2	7.7	7.6	7.5
Net margin	4.5	5.1	5.0	5.1
ROA	5.6	6.8	6.2	6.4
ROE	16.1	19.2	16.8	16.8
Efficiency (x)				
Receivable turnover	4.5	3.6	3.5	3.3
Inventory turnover	2.8	3.2	2.8	2.9
Payable turnover	3.2	3.8	3.7	3.8
Liquidity (x)				
Current	1.1	1.2	1.3	1.4
Solvency (%)				
Total debt/equity	92.1	102.1	95.1	90.0
Current debt/equity	88.6	92.6	84.9	80.8
Long-term Debt/equity	3.4	9.5	10.2	9.3

VND in billions

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	279	116	220	266
Short-term investments	25	27	27	27
Accounts receivable	1,733	2,381	2,631	2,964
Inventories	2,170	2,149	2,532	2,619
Other current assets	63	87	91	96
Property, plant & equipment	1,401	1,314	1,281	1,235
Acquired intangible assets	338	352	349	345
Long-term investments	0	33	33	33
Other non-current assets	149	128	134	141
Total assets	**6,159**	**6,588**	**7,299**	**7,726**
Accounts payable	1,904	1,801	1,886	1,946
Short-term borrowings	1,905	2,146	2,296	2,396
Long-term borrowings	74	220	277	275
Other non-current liabilities	52	40	42	44
Bonus and welfare fund	48	37	68	75
Technology-science, dev. fund	0	0	0	0
Total liabilities	**3,983**	**4,244**	**4,570**	**4,735**
Common stock and APIC	950	950	1,084	1,084
Treasury stock (enter as -)	0	0	0	0
Retained earnings	335	434	687	949
Other comprehensive income	180	174	174	174
Inv. and dev. fund	686	759	759	759
Total equity	**2,150**	**2,318**	**2,704**	**2,966**
Minority interest	**26**	**25**	**25**	**25**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019E
EPS (VND)	4,389	5,240	5,756	6,300
P/E (x)	n/a	8.6	6.5	6.0
BV (VND)	32,012	34,509	38,265	42,566
P/B (x)	n/a	1.3	1.0	0.9
DPS (VND/share)	3,000	3,000	2,000	2,000
Dividend yield	n/a	6.6%	5.3%	5.3%

Valuation model	*Price*	*Weight*	*Average*
FCFF	41,608	50%	20,795
PE	37,415	50%	18,707
Target price (VND)			**39,500**

Valuation history	*Price*	*Recommendation*	*Period*
10/02/2018	56,420	Buy	Intermediate
12/09/2017	64,230	Buy	Intermediate

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%

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.e Eximbank, 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 RongViet Securities 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

Bernard Lapointe
Head of Research
bernard.lapointe@vdsc.com.vn
+ 84 28 62992006 (1525)

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

Hieu Nguyen
Senior Analyst
hieu.nd@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Market Strategy
- Pharmaceuticals
- Aviation

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
- Food & Beverage
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1331)
- Steel
- Construction
- Technology

Son Phan
Analyst
son.pnt@vdsc.com.vn
+ 84 28 6299 2006 (1519)
- Utilities
- Natural Rubber

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
- Retails
- Consumer chemicals

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

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

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

Trinh Le
Analyst
trinh.lx@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Industrials

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.