April, 2019

Loc Troi Group JSC (UpCOM: LTG)

A long road ahead

Particulars (VND bn)	4Q-FY18	3Q-FY17	+/- qoq	4Q-FY18	+/- yoy
Net revenue	2,667	2,012	33%	2,816	-5%
PAT	177	45	297%	135	31%
EBIT	312	97	220%	193	62%
EBIT margin	11.7%	4.8%	685bps	6.8%	484bps

Source: LTG, RongViet Securities

4Q2018 business results: Improving gross margin and reducing selling expenses

- Net revenue 4Q2018 reached VND 2,667 bn (-5% YoY), NPAT reached 177 billion (+ 31% YoY), mostly due to improving gross profit margin and reducing selling expenses. The fourth quarter had the best business results, contributing 30% of net revenue and 33.8% of net profit in 2018. The company completed 92% and 70% of 2018's plan in term of revenue and net profit, respectively.
- The Crop Protection Chemicals (CPC) revenue reached VND 1,480 bn (-23.6% YoY), gross profit margin remained high at 38%, contributing 87% of gross profit.
- The rice revenue reached VND 992 billion (+ 51% YoY), but gross profit margin decreased by 2.4 percentage points to 1.8%, contributing 3% of gross profit.

2019 Outlook

- We forecast FY2019 net sales of VND 9,411 billion (+ 4% YoY) and NPAT of VND 425 bn (+3.5% YoY).
- The CPC revenue growth is forecasted at 3% because we expect this sector potential to be limited. The rice revenue growth is forecasted at a conservative level of 5% amid unclear export prospects and fragmented domestic market.

***Valuation and recommendation**: We assess that Loc Troi is a company with strong fundamentals and solid core business activities. The CPC sector has a low growth rate but it has a high gross profit margin and a leading position in the CPC market. The rice segment has improved both its gross profit margin and its revenue contribution to LTG but the efficiency has not been significant. Recently, the company has focused on developing and promoting its rice sector but due to objective reasons from the general market, this sector contribution is still modest. In addition, we believe that LTG's joint venture with Vien Thi Ho Nam in China in the context of its tightening of rice export conditions will bring advantages to the company compared to other traders.*

*In terms of valuation, LTG is trading at a quite attractive PE compared to other companies operating in the same industry. In addition, we think low liquidity is an obstacle to LTG stock price. The plan to switch to listing on HOSE is expected to bring a positive impact on the company stock. We estimate the fair price of LTG at VND **29,400**, which is **18%** higher than the closing price on March 26th, 2019. We have an **ACCUMULATE** recommendation for this stock.*

ACCUMULATE +18%

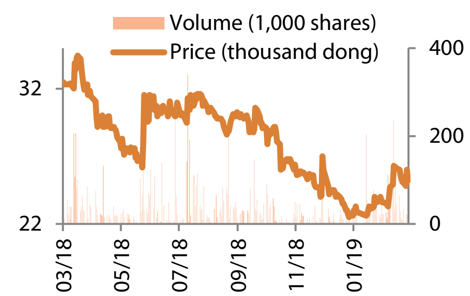
CMP (VND)	25,000
Target price (VND)	29,400

Stock info

Sector	Basic Materials
Market Cap (VND billion)	2,047
Current Shares O/S	80,593,000
Avg. Daily Volume (in 20 sessions)	58,321
Free float (%)	35
52 weeks High	34,448
52 weeks Low	22,500
Beta	0.2

	FY2017	FY2018
EPS	5,716	5,107
EPS growth (%)	10.6	-10.7
Adjusted EPS	6,640	5,107
P/E	4.4	4.9
P/B	0.7	0.8
EV/EBITDA	4.9	5.8
Cash dividend	2,000	-
ROE (%)	19.7	16.9

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 (%)	6.2

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Exhibit 1: Q4 2018 results

Particulars (VND Bn)	Q4-FY18	Q3-FY18	+/- (qoq)	Q4-FY17	+/- (yoy)
Net revenue	2,667	2,012	32.6%	2,816	-5.3%
Gross profit	655	391	67.4%	614	6.6%
SG&A	343	294	16.8%	421	-18.6%
Operating income	312	97	219.9%	193	61.8%
EBITDA	348	136	156.4%	217	60.7%
EBIT	312	97	219.9%	193	61.8%
Financial expenses	49	55	-9.6%	36	38.4%
- Interest Expenses	46	46	0.4%	33	39.1%
Dep. and amortization	36	38	-5.0%	24	52.1%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	266	53	399.5%	167	58.7%
PAT	177	45	297.0%	135	31.1%
(*) Adjusted PAT	177	45	297.0%	135	31.1%

Source: LTG, RongViet Securities

Exhibit 2: Q4 2018 performance analysis

Particulars	Q4-FY18	Q3-FY18	+/- (qoq)	Q4-FY17	+/- (yoy)
Profitability ratios (%)					
Gross margin	24.6%	19.4%	5.1%	21.8%	2.7%
EBITDA margin	13.1%	6.8%	6.3%	7.7%	5.4%
EBIT margin	11.7%	4.8%	6.8%	6.8%	4.8%
Net margin	6.6%	2.2%	4.4%	4.8%	1.8%
Adjusted net margin	6.6%	2.2%	4.4%	4.8%	1.8%
Turnover *(x)					
-Inventories	-	2	-2.3	4	-3.8
-Receivables	0.0	3.4	-3.4	5.6	-5.6
-Payables	-	4	-4.4	6	-5.9
Leverage (%)					
Total debt/ equity	199.1%	200.9%	-180bps	171.3%	2,787bps

Source: LTG, (*) Annualized turnover

Exhibit 3: Q1 2019 performance forecast

Particulars (VND B)	Q1-FY19	+/-(QoQ)	+/-(YoY)
Revenue	1,658	-38%	9%
Gross profit	332	-49%	-6%
EBIT	121	-61%	11%
NPAT	74	-58%	1%

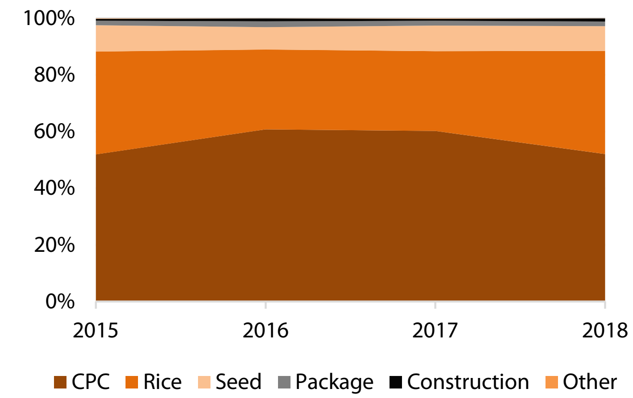
Source: LTG, RongViet Securities

Updates

Crop Protection Chemicals (CPC) segment is still the main contributor to the company

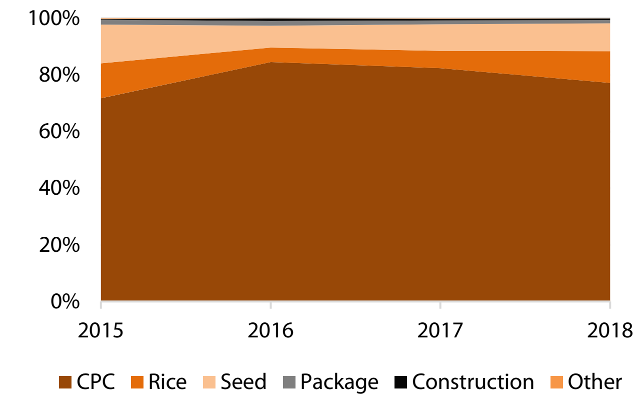
CPC revenue reached VND 4,933 bn (-8.8% YoY) due to the tendency of market saturation and the decrease in demand. However, thanks to its outstanding gross profit margin (GPM), CPC segment still contributed 52% to net revenue and 82% to gross profit in 2018. Meanwhile, although rice segment accounted for 36% of net revenue, its contribution to gross profit was only 6%. We still maintain our view that LTG will continue to depend heavily on CPC segment in the near future, especially when the difference in GPM between CPC segment and rice segment is too significant. The rice development story probably still needs more time to prove its effectiveness. We expect CPC demand will be difficult to rise when farmers consumption tends to reduce. Therefore, we forecast a growth of 3% in revenue and a slight reduction to 31% in GPM for this segment in 2019.

Figure 1: Structure of net revenue



Source: LTG, RongViet Securities

Figure 2: Structure of gross profit



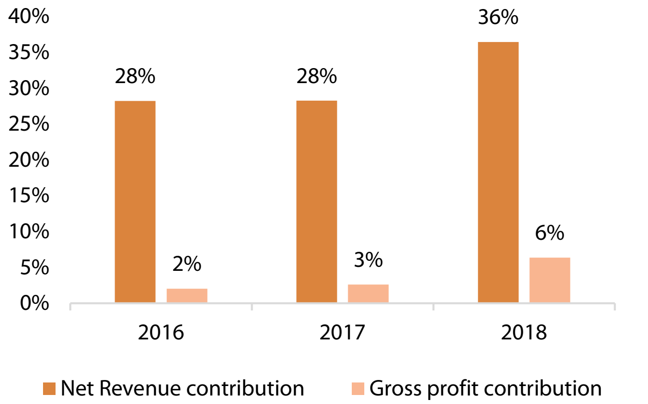
Source: LTG, RongViet Securities

Challenges await rice segment despite its continuous improvement

In 2018, rice revenue reached VND 3,448 bn (+36% YoY) thanks to the positive export result of Vietnam's rice industry. In 2018, rice export grew strongly, reached USD 3.03 bn (+16.1% YoY), 80% of which are high-quality rice. Rice export price in 2018 also rose by 11%, reached 502 USD/ton. Rice segment GPM has improved throughout the years, reaching 3.6% in 2018 compared to 1.9% in 2017. This segment gross profit accounts for 6% of the company one.

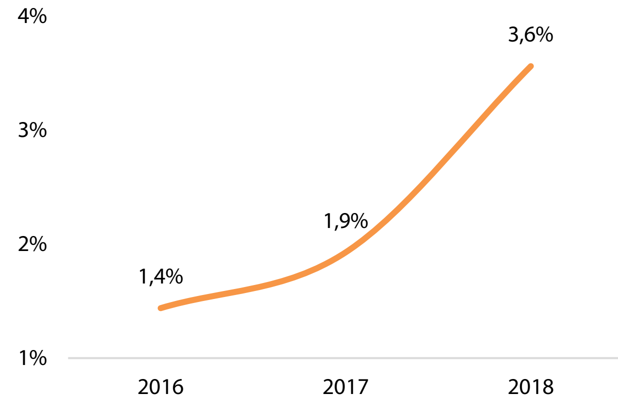
Currently, in the domestic market, Loc Troi has to face a huge challenge that consumers have a habit of using unbranded rice. A statistic shows there are 90% of the consumers purchasing rice without clear originality at the retail stores. At the same time, high-quality branded rice segment is very fragmented, in which there is a lot of competition from both domestic and foreign companies. Therefore, LTG needs more time and cost to build a domestic brand. Regarding export market, Thai Lan offers to sell rice at a lower price and traditional rice import market of Vietnam tend to promote the production for self-consumption. As a result, Vietnam formal exporters like LTG are difficult to raise its selling price especially when the national rice brand is not really strong. For those reasons, we believe that the growth rate for rice segment in 2019 will be quite modest. However, gross profit could remain at 3.6% in 2019.

Figure 3: Rice segment contribution to Net revenue and Gross profit



Source: LTG, RongViet Securities

Figure 4: Gross profit margin of rice segment

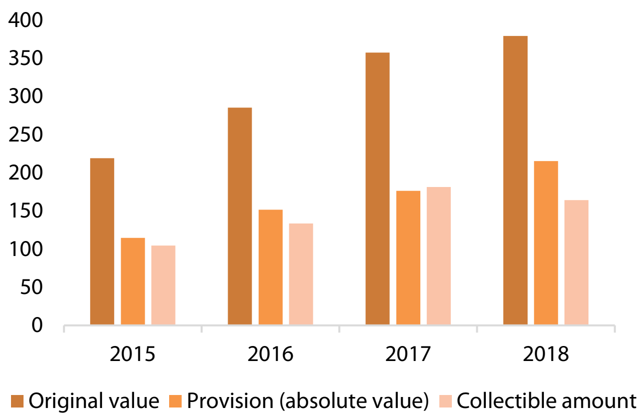


Source: LTG, RongViet Securities

Doubtful short-term receivables are not fully provisioned yet

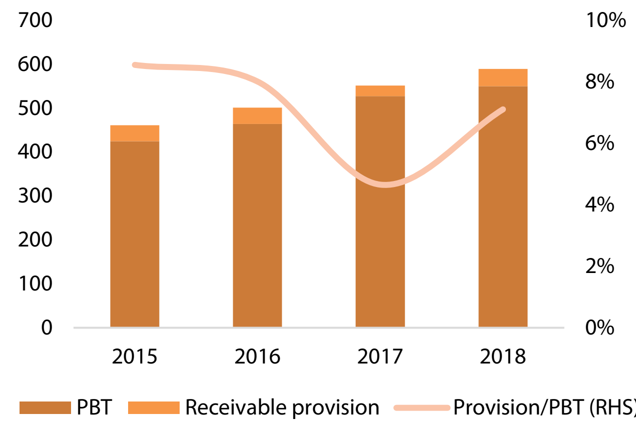
Others doubtful short-term receivables are worth VND 311 bn (+8.2% YoY) but its provisions are only VND 151 bn, the remaining recoverable value is about VND 160 bn. This receivable is mainly from the distribution agent system, but the information on overdue time has not been clearly provided by the company. In the case of the collecting ability of these doubtful debt becomes less favorable in the future, LTG may have to increase the provision for them, reducing the company's profit.

Figure 5: Doubtful short-term receivables



Source: LTG, RongViet Securities

Figure 6: Provision for short-term receivables and Profit before tax



Source: LTG, RongViet Securities

China tightens conditions for rice imports

China tightens the conditions for rice import such as fumigation time must be 120 hours; package and rice export samples must be accepted by China testing agency. This regulation will come into effect from mid-2019. We believe that such a move is indispensable in order to limit the rice import using informal entries and boost domestic production in China. Up till September 2018, there are only 19 companies allowed to export to this country (table 1), including Loc Troi. In addition, we believe that LTG's joint venture with Vien Thi Ho Nam in China in the context of its tightening of rice export conditions will bring advantages to the company compared to other traders.

Table 1: List of Vietnamese Rice Exporters Eligible For Export To China Market

No	Company name	Inspected Factory and Warehouse address
1	LOC TROI GROUP	Thoai Son district, An Giang Province
2	TVFOOD CO., LTD	Cho Moi district, An Giang Province
3	TRUNG AN HI-TECH FARMING JOINT STOCK COMPANY	Thot Not district, Can Tho city
4	TIN THUONG INVESTMENT TRADING JOINT STOCK COMPANY	Tan Phu district, An Giang province
5	THANH TIN SERVICE AND TRADE COMPANY LIMITED	Soc Trang province, Soc Trang city
6	PHAN MINH INVESTMENT PRODUCTION TRADING SERVICES CO., LTD	An Giang province, Long Xuyen city
7	TIEN GIANG FOOD COMPANY	Chau Thanh district, Tien Giang province
8	GENTRACO CORPORATION	Thot Not district, Can Tho city
9	VINACAM AGRIFOOD JOINT STOCK COMPANY	Thot Not district, Can Tho city
10	VINAFOOD II	Thot Not district, Can Tho city
11	DUONG VU COMPANY LIMITED	Thu Thua district, Long An province
12	VIET THANH COMPANY LIMITED	Long An province, Tan An city
13	KIEN GIANG TRADE AND TOURISM COMPANY	Giong Rieng district, Kien Giang province
14	VINAFOOD 1	Cho Moi district, An Giang province
15	TRUNG THANH PRIVATE ENTERPRISE	Co Do district, Can Tho city
16	VIET HUNG COMPANY LIMITED	Cai Be district, Tien Giang province
17	CAM NGUYEN RICE TRADING AND PROCESSING LIMITED COMPANY	Ben Luc district, Long An province
18	HUNG CUC COMPANY LIMITED	Dong Hung district, Thai Binh province
19	TAN THANH AN COMPANY LIMITED	Phu Tan district, An Giang province

Source: Vietnam Food Association (VFA), 11/09/2018

LTG plans to transfer real estate in the central area of Ho Chi Minh city

The company plans to transfer a plot of land in the central area of Ho Chi Minh City. We expect this profit will be recorded this year or next year. However, we do not include this extraordinary profit in the forecast. We believe that this transfer could be a short-term support factor for the company's share price in the coming time.

VND in billions

Income statement	FY2017	FY2018	FY2019F	FY2020F
Revenue	8,687	9,091	9,411	9,751
COGS	6,806	7,156	7,516	7,798
Gross profit	1,881	1,935	1,896	1,953
Selling expense	938	866	847	878
G&A expense	311	349	348	361
Finance income	15	22	13	14
Finance expense	136	195	182	174
Other profits	17	4	4	4
Gain/(loss) from JVs	0	-1	-1	-1
PBT	527	550	535	557
Prov. of tax	112	137	107	111
Minority's interest	0	2	2	2
PAT to equity S/H	415	411	425	443
EBIT	631	720	701	715

%

Financial ratio	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	11.6%	4.7%	3.5%	3.6%
EBITDA	12.3%	-1.5%	12.7%	2.2%
EBIT	12.5%	14.0%	-2.7%	2.0%
PAT	19.6%	-1.0%	1.6%	4.2%
Total assets	7.0%	16.8%	8.5%	2.6%
Equity	7.8%	7.2%	14.3%	13.0%
Profitability (%)				
Gross margin	21.7%	21.3%	20.1%	20.0%
EBITDA margin	8.8%	8.3%	9.1%	8.9%
EBIT margin	7.3%	7.9%	7.4%	7.3%
Net margin	4.8%	4.5%	4.4%	4.5%
ROA	6.3%	5.3%	5.0%	5.1%
ROE	17.9%	16.5%	22.2%	20.4%
Efficiency (x)				
Receivable turnover	3.6	3.5	3.1	3.2
Inventory turnover	3.2	2.4	2.4	2.3
Payable turnover	3.8	3.7	3.8	3.8
Liquidity (x)				
Current	1.2	1.2	1.3	1.4
Solvency (%)				
Total debt/equity	102.1%	126.7%	118.8%	97.8%
Current debt/equity	92.6%	120.7%	113.5%	94.1%
Long-term Debt/equity	9.5%	6.0%	5.3%	3.7%

VND in billions

Balance sheet	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	116	154	140	182
Short-term investments	27	20	100	110
Accounts receivable	2,381	2,620	3,053	3,092
Inventories	2,149	3,031	3,183	3,342
Other current assets	87	161	161	177
Property, plant & equipment	1,314	1,228	1,159	1,072
Acquired intangible assets	352	318	314	311
Long-term investments	33	36	34	33
Other non-current assets	128	124	200	240
Total assets	**6,588**	**7,692**	**8,345**	**8,560**
Accounts payable	1,801	1,954	1,972	2,046
Short-term borrowings	2,146	3,000	3,224	3,020
Long-term borrowings	220	150	150	120
Other non-current liabilities	40	30	70	74
Bonus and welfare fund	37	47	63	65
Technology-science, dev. fund	0	0	0	0
Total liabilities	**4,244**	**5,180**	**5,479**	**5,325**
Common stock and APIC	950	1,084	1,084	1,084
Treasury stock (enter as -)	0	0	0	0
Retained earnings	434	561	916	1,286
Other comprehensive income	174	80	80	80
Inv. and dev. fund	759	760	760	760
Total equity	**2,318**	**2,485**	**2,840**	**3,210**
Minority interest	25	26	26	26

Valuation ratio	FY2017	FY2018	FY2019F	FY2020F
EPS (VND)	4,369	4,331	4,402	4,587
P/E (x)	n/a	8.9	5.7	5.4
BV (VND)	28,758	30,838	35,241	39,828
P/B (x)	n/a	n/a	0,7	0,6
DPS (VND/share)	3,000	2,000	0	0
Dividend yield	n/a	8,0%	0,0%	0,0%

Valuation model	Price	Weight	Average
FCFF	27,400	50%	13,700
PE	31,400	50%	15,700
Target price (VND)			**29,400**

Valuation history	Price	Recommendation	Period
28/12/2018	31,200	Accumulate	Intermediate
14/09/2018	39,500	Accumulate	Intermediate
10/02/2018	56,420	Buy	Intermediate

RESULT 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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