QUANG NGAI SUGAR JSC (UPCOM: QNS)

Earnings Recovery in 2018

Unit: VND billions	*Q3 FY17*	*Q2 FY17*	*+/- QoQ*	*Q3 FY16*	*+/- YoY*
Net revenue	2,011	2,098	-4.2%	1,931	4.1%
PAT	194	267	-27.3%	315	-38.5%
EBIT	228	315	-27.5%	346	-34.0%
EBIT margin	11.3%	15.0%	-3.7%	17.9%	-6.6%

Source: QNS, RongViet Research

Q3 2017 performance: sugar segment hurts Q3 2017 profit

In Q3 2017, revenue posted VND2,011B, slightly up 4.1% YoY while net profit plummeted VND194B, down 38.7% as the sugar segment recorded loss in Q3 2017. In details, the gross profit of this segment posted a loss of VND26B in Q3 2017, compared to a profit of VND97B in the same period last year due to the falling of sugar price. Averagely, the sugar selling price dropped 17% while the consumption volume significantly increased by 50%. Regarding the soymilk segment, the volume slightly climbed 4%, lower than the 2017 guidelines. The main reasons were the weak buying power in the dairy sector and the fierce competition in the southern Vietnam.

Outlook: earnings hit in 2017 and recover in 2018

For 2017 and 2018, we have adjusted our forecast to a lower level, compared to the initial one. In details, we estimate that the revenue will reach VND7,529B (+7.9% YoY) while the net profit may fall to VND923B (-34.5% YoY) in 2017. As there is no more "room" for reversing Science and Development Fund as well as the the poor profit figure of the sugar segment, earnings will hit the 2017 bottom line. In 2018, we expect the revenue and net profit to climb to VND8,155B (+8.3% YoY) and VND1,308B (+41.7% YoY), respectively.

Valuation and recommendation

Vietnam is one of the top soymilk consumer countries in the world but two-thirds of its consumption is homemade, which makes branded soymilk look attractive. As a leader in the soymilk market, QNS can enjoy the fast and covenient consumer trend to grow its soymilk segment.

About the sugar segment, QNS has been concentrating on improving the productivity of its sugarcane harvest to compete with Thai sugar since 2018. Besides, the company is also taking advantage of its brand name to participate in the retail sugar market.

*QNS share has been going down in 2017 because of the unexpected results. However, we see the current price is so attractive for its earnings recovery in 2018. So we keep a **BUY** rating for this stock. But the target price is adjusted to drop to **VND74,200** per share compared to the most recent report due to negative business results in 2017 and low projected growth rate in the soymilk segment. Including cash dividend of **VND3,000** per share, the total return is estimated at **34%**.*

BUY

CMP (VND)	57,600
Target price (VND)	74,200
Cash dividend (VND)*	3,000

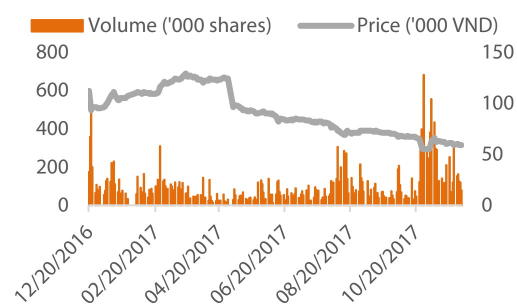
** Expected in the next 12 months*

Stock Info

Sector	F&B
Market cap (VND B)	14,409
Current shares O/S	205,247,355
Beta	3.7
Free float (%)	64.3%
52 week high	128,400
52 week low	53,000
Avg. daily volume (20 sessions)	188,905

	FY2016	Current
EPS	8,937	5,255
EPS growth (%)	12.7%	-41.5%
Adjusted EPS	5,783	5,255
P/E	10.6	11.2
P/B	4.6	3.4
EV/EBITDA	10.1	8.2
Cash dividend	2,000	3,000
ROE (%)	36.0%	31.4%

Price performance



Major shareholders (%)

Thanh Phat Ltd	15.8%
Vo Thanh Dang	7.7%
Foremost Worldwide Ltd	5.2%
Foreign ownership room (%)	*42,6%*

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Exhibit 1: Q3 2017 results

Particulars (VND billions)	Q2 FY17	Q1 FY17	+/- (QoQ)	Q2 FY16	+/- (YoY)	H1-FY17	+/-(QoQ)
Net revenue	2,011	2,098	-4.2%	1,931	4.1%	5,941	12.9%
Gross profit	479	523	-8.5%	593	-19.2%	1,421	-10.4%
SG&A	251	209	20.1%	247	1.5%	651	-11.6%
Operating income	228	315	-27.5%	346	-34.0%	770	-14.2%
EBITDA	304	501	-39.4%	422	-28.0%	1,193	2.1%
EBIT	228	315	-27.5%	346	-34.0%	770	-9.4%
Financial expenses	20	23	-14.0%	16	22.2%	62	6.3%
- Interest Expenses	*1*	*22*	*-93.9%*	*15*	*-91.1%*	*42*	*-24.0%*
Dep. and amortization	75	186	-59.6%	76	-0.6%	423	32.9%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	218	300	-27.3%	344	-36.6%	757	-15.3%
PAT	194	267	-27.3%	315	-38.5%	683	-13.8%
(*) Adjusted PAT	194	267	-27.3%	315	-38.5%	683	-13.8%

Source: QNS, RongViet Research

Exhibit 2: Q3 2017 performance analysis

Particulars	Q2-FY17	Q1-FY17	+/- (QoQ)	Q2-FY16	+/- (YoY)
Profitability ratios (%)					
Gross margin	23.8%	24.9%	-1.1%	30.7%	-6.9%
EBITDA margin	15.1%	23.9%	-8.8%	21.8%	-6.7%
EBIT margin	11.3%	15.0%	-3.7%	17.9%	-6.6%
Net margin	9.6%	12.7%	-3.1%	16.3%	-6.7%
Adjusted net margin	9.6%	12.7%	-3.1%	16.3%	-6.7%
Turnover *(x)					
-Inventories	6.3	5.6	0.6	6.7	(0.4)
-Receivables	28.0	32.3	-4.3	9.1	18.9
-Payables	7.6	8.2	-0.6	8.2	(0.6)
Leverage (%)					
Total debt/ equity	54.6%	65.7%	-11.1%	60.5%	-6.0%

Source: QNS

Exhibit 3: Q4 2017 forecast

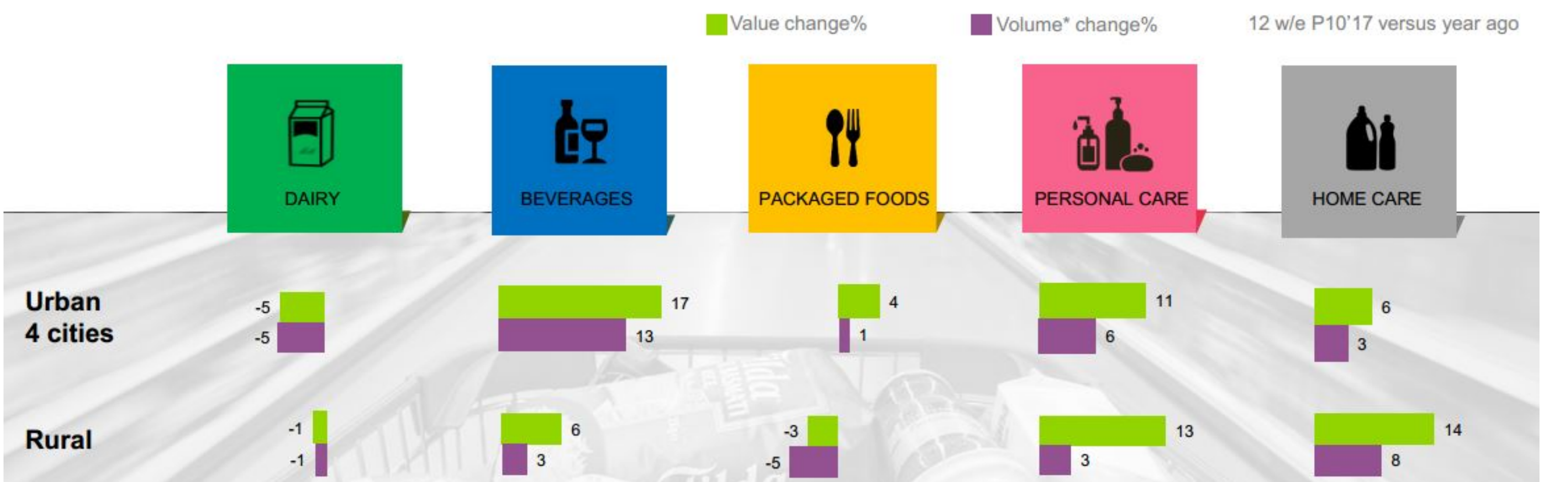
Particulars (VND B)	Q4 2017	+/-QoQ	+/-YoY
Revenue	1,595	-20.7%	-6.7%
Gross profit	529	10.5%	26.7%
EBIT	276	20.8%	-59.3%
NPAT	239	23.4%	-60.2%

Source: QNS, RongViet Research

Updates

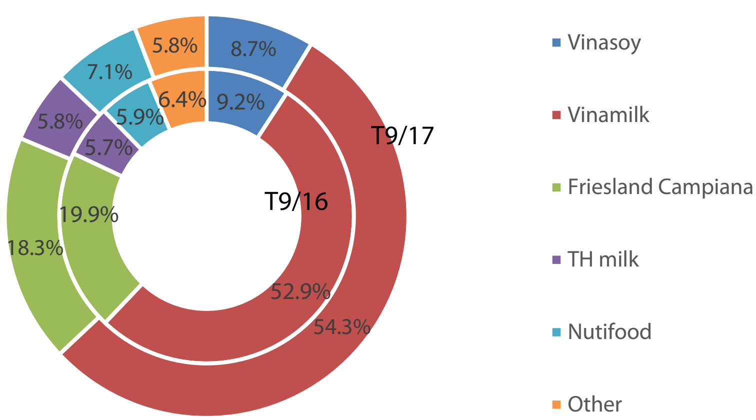
Weak growth from soymilk after 9M 2017. Till the end of Q3 2017, soymilk slightly grew 4%, lower than the 2017 guidelines (10%). The weak consumption from four urban cities and rural areas is the main reason explaining the poor performance of soymilk. According to Kanta Worldpanel, the dairy products growth from the four urban cities and rural areas was -5% and -1%, respectively. The other reason came from the fierce competition with Vinamilk and Nutifoods in southern Vietnam. Recently, Nielsen has shown that the southern market share of QNS for dairy products (including liquid milk, drinking yogurt, corn milk and soymilk) was reduced to 8.7% from 9.2%.

Figure 1: FMCG growth by sectors



Source: Kanta Worldpanel.

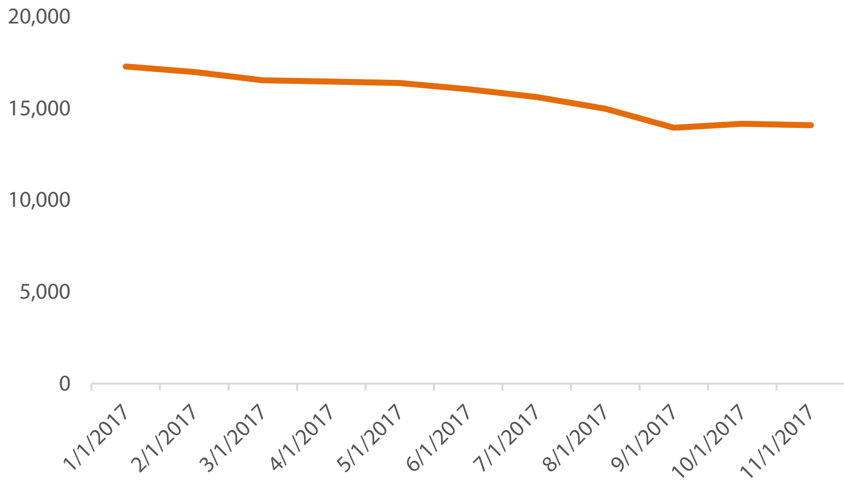
Figure 2: Southern market share of dairy products (including liquid milk, drinking yogurt, corn milk and soymilk) in Q3 2017



Source: Nielsen.

Sugar consumption volume increases but selling price drops. Compared to the same period last year, the average selling price of sugar has dropped 17%, which mainly affected 9M profit. However, the consumption recorded more than 50% growth, in line with our forecast.

Figure 3: Domestic sugar price (VND/kg)



Source: RongViet Reseach complied

Major change from soymilk in 2018. QNS is running marketing strategies to increase brand awareness in the southern Vietnam. So we expect that the soymilk can grow 6% for the whole 2017. In order to maintain its momentum, the company plans to launch new products next year while considering to export its products to China.

QNS to compete with Thai sugar. From 2018, Vietnam will remove tariff quota for sugar products under the ATIGA agreement. This means that the Thai sugar – which has a lower production cost – will enter Vietnam and compete directly with domestic products. However, the company is quite confident about its competitiveness as its sugarcane harverst productivity is equivalent to the average one of Thailand (74 tonnes per hectare).

Biomass to contribute to 2018 profit. With the expansion of An Khe Sugar Factory, QNS has invested a biomass plant with a capacity of 95MW. With the expected selling price of 5.8 cents/kWh, we estimate the biomass will contribute VND143B to the bottom line from 2018 onwards.

Unit: VND billions

INCOME STATEMENT	FY2015	FY2016	FY2017E	FY2018F
Revenue	7,785	6,972	7,529	8.155
COGS	5,487	4,697	5,580	5.733
Gross profit	**2,298**	**2,275**	**1,950**	**2.422**
Selling expense	736	715	753	815
G&A expense	229	44	151	163
Financial income	72	73	40	91
Financial expense	63	77	92	112
Other income/loss	20	31	31	31
Gain/(loss) from JV	0	0	0	0
PBT	**1,362**	**1,543**	**1,025**	**1.453**
Tax expense	132	133	103	145
Minority interests	0	0	0	0
PAT	**1,230**	**1,410**	**923**	**1.308**
EBIT	1,333	1,516	1,046	1.444
EBITDA	1,680	1,840	1,569	1.987

Unit: %

FINANCIAL RATIO	FY2015	FY2016	FY2017E	FY2018F
Growth				
Revenue	24.6	-10.4	8.0	8.3
EBITDA	33.3	9.6	-14.7	26.6
EBIT	42.6	13.7	-31.0	38.0
PAT	58.9	14.6	-34.5	41.7
Total asset	31.1	18.4	22.3	15.6
Total equity	50.3	50.0	30.4	17.4
Profitability				
Gross margin	29.5	32.6	25.9	29.7
EBITDA margin	21.6	26.4	20.8	24.4
EBIT margin	17.1	21.7	13.9	17.7
Net margin	15.8	20.2	12.3	16.0
ROA	23.8	23.0	12.3	15.1
ROE	47.2	36.0	18.1	23.3
Efficiency (x)				
Receivable turnover	11.1	17.7	11.4	11.4
Inventory turnover	15.5	9.1	10.5	10.5
Payable turnover	7.9	6.2	7.7	7.7
Liquidity (x)				
Current	1.5	0.9	1.2	1.7
Quick	1.3	0.7	1.0	1.5
Solvency				
Total debt/equity	64.8	35.6	31.2	30.9
ST debt/equity	57.1	30.1	27.9	28.8
LT debt/equity	7.7	5.5	3.3	2.1

Unit: VND billions

BALANCE SHEET	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	1,009	137	969	2,188
Short term investment	1,168	555	400	600
Accounts receivable	702	395	660	715
Inventories	354	519	529	544
Other current assets	8	170	100	100
Tangible fixed assets	1,740	4,119	4,601	4,282
Intangible fixed assets	2	0	0	0
Long term investment	0	0	0	0
Other non current assets	188	229	229	229
Total asset	**5,171**	**6,124**	**7,488**	**8,658**
Account payable	695	753	726	745
Short term borrowings	1,489	1,178	1,424	1,728
Long term borrowings	201	213	169	124
Other non-current liabilities	16	17	18	18
Bounus and welfare fund	36	37	37	37
Technology -science dev fund	128	15	15	15
Total liabilities	**2,565**	**2,213**	**2,387**	**2,667**
Common stock and APIC	1,638	2,164	2,726	2,726
Treasury stock	*-834*	*-834*	*-834*	-834
Retained earnings	1,482	2,198	2,779	3,603
Other comprehensive income / (loss)	0	0	0	0
Investment and development fund	322	384	430	496
Total equity	**2,608**	**3,911**	**5,101**	**5,991**
Minority interest	0	0	0	0
Total resources	**5,171**	**6,124**	**7,488**	**8,658**

VALUATION RATIO	FY2015	FY2016	FY2017E	FY2018F
EPS (VND)	7,924	8,937	4,405	6,242
P/E (x)	N/a	10.6	13.4	9.4
BV (VND)	18,492	20,854	24,847	29,178
P/B (x)	N/a	4.6	2.4	2.0
DPS (VND/share)	3,000	2,000	3,000	3,000
Dividend yield (%)	N/a	2.1%	5,1%	5,1%

VALUATION MODEL	Price	Weight	Average
FCFE	74,200	100%	74,200
Target price (VND)			**74,200**

VALUATION HISTORY	Price	Recommendation
21/08/2017	87,400	BUY

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	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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