December, 2017

Viglacera Corporation JSC (HNX: VGC)

New Investments Strengthen Business Prospect

Particulars (VND B)	Q3-FY17	Q2-FY17	+/- QoQ	Q3-FY16	+/- YoY
Net revenue	2,517	2,261	11%	1,876	34%
PAT	185	175	6%	196	-6%
EBIT	259	307	-16%	235	10%
EBIT margin	10.29%	13.59%	-24%	12.50%	-18%

Source: VGC, RongViet Research

2017 performance: growth from core business segments

- In 9M 2017, total revenue and PAT were VND6,806 billion (+21%YoY) and VND537 billion (48% YoY), respectively.
- Construction materials continue to enjoy growing, especially building glass segment.
- In 2017, 95 ha of land area of industrial parks were sold, excluding a commitment of 100-ha lease from Samsung. Gross profit margin also increased by 7% compared to 2015 and 2016, reaching 40%.

2018 onwards: new investments bring more market share for VGC

VGC's management plans on new investment projects in diversified segment, including building glass, sanitary wares and granite tile sectors. In addition, new plants also upgrade product positioning to a higher level, which helps the company capture more market share and improve its gross profit margin. On the flip side, the construction materials' outlook tends to become more competitive, especially in tiles sector, which would result in a lower growth rate next year.

Regarding the industrial park business, we still hold a positive view on the sector. The company continues to enjoy stable growth and healthy cash flow, mainly generating from its two key projects, namely the expanded Yen Phong and Dong Van IV. Located in a strategic location and convenient traffic, these projects will be quickly filled up in the next period and add more profit to VGC.

***Valuation and recommendation**: We remain optimistic on our view on VGC's business based on its new investments in the coming years and stable cash flow from industrial parks. The new investment projects not only adds more capacity to the company's growth, but also upgrades the product positioning and captures new market share. The State's divestments may be a catalyst for VGC's stock price in next period.*

*We evaluate VGC price at **VND30,200/share** and anticipate a cash dividend of VND1,000 per share in the following 12 months, which results in a **16.4%** total return from the closing price on 04 December 2017 and we rate **NEUTRAL** on the stock as VGC rallied recently. This target price is higher than that in our initial report published in December 2016 because of updates from the company's current business results.*

NEUTRAL

CMP (VND)	26,800
Target price (VND)	30,200
Cash dividend (VND)*	1,000

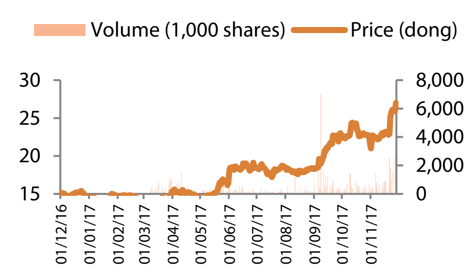
** Expected in the next 12 months*

Stock info

Sector	Construction materials
Market cap (VND B)	11,529
Current shares O/S	427,000,000
Beta	1.5
Free float (%)	24.8%
52 week high	27,000
52 week low	12,740
Avg. daily volume (20 sessions)	828,874

	FY2016	Current
EPS	1,673	1,858
EPS growth (%)		11.00%
P/E	12.4	14.8
P/B	1.4	2.0
EV/EBITDA	4.1	7.0
Cash dividend	400	950
ROE (%)	13.4	14.1

Price performance



Major Shareholders (%)

The Ministry of Construction	56.7
Vietnam Enterprise Investments Limited	3.3
Norges Bank	2.8
Foreign ownership room (%)	29.8

Duong Lai

(084) 028- 6299 2006 – Ext 1522

duong.ld@vdsc.com.vn

Exhibit 1: Q3 2017 results

Particulars (VND B)	Q3-FY17	Q2-FY17	+/- (qoq)	Q3-FY16	+/- (yoy)	3Q-FY17	+/-(yoy)
Net revenue	2,517	2,261	11.31%	1,876	34.1%	6,806	20.64%
Gross profit	540	546	-1.19%	501	7.8%	1,591	10.76%
SG&A	(281)	(239)	17.48%	(266)	5.5%	(767)	-2.44%
Operating income	233	283	-17.48%	339	-0.3%	755	32.51%
EBITDA	356	425	-16.30%	234	5.0%	1,140	18.68%
EBIT	259	307	-15.71%	339	10.4%	823	26.74%
Financial expenses	(47)	(40)	18.22%	235	-5.3%	(128)	-11.85%
- Interest Expenses	(42)	(34)	22.62%	(50)	-3.4%	(111)	-14.45%
Dep. and amortization	97	118	-17.82%	(43)	-7.3%	317	1.86%
PBT	264	267	-1.31%	231	14.22%	774	39.18%
PAT	185	175	5.50%	196	-5.59%	537	48.02%

Source: VGC, RongViet Research

Exhibit 2: Q3 2017 performance analysis

Particulars	Q3-FY17	Q2-FY17	+/- (qoq)	Q3-FY16	+/- (yoy)
Profitability ratios (%)					
Gross margin	21.44%	24.15%	-1,124bps	26.68%	-1,964bps
EBITDA margin	14.13%	18.79%	-2,480bps	18.06%	-2,176bps
EBIT margin	10.29%	13.59%	-2,428bps	12.50%	-1,772bps
Net margin	7.34%	7.75%	-522bps	10.43%	-2,962bps
Turnover (x)					
-Inventories	2.4	2.2	921bps	1.7	394bps
-Receivables	6.0	5.7	502bps	4.9	235bps
-Payables	8.9	8.3	758bps	7.1	262bps
Leverage (%)					
Total debt/ equity	143.90%	134.08%	733bps	213.16%	-3,249bps

Source: VGC,

Exhibit 3: Q4 2017 performance forecast

Particulars (VND B)	Q4 2017	+/- QoQ	+/- YoY
Revenue	2,031	-19.28%	-14.52%
Gross profit	602	11.58%	10.27%
EBIT	293	13.32%	39.47%
NPAT	257	38.96%	104.55%

Source: VGC, RongViet Research

Updates

New investment projects strengthen VGC's construction materials outlook

The ultra-white glass project in Vung Tau, a consortium of Viglacera, Idico, and China's Kaisheng Group, may be put into operation from Q1 2019 and expected to churn out 600 tonnes of glass per day. In the first year of operation, 90% of the facility's ultra-white output will be building glass product and 10% will be solar cells. This product mix can be changed over time to capture new trends in the solar energy industry. We estimate that the factory will operate under 30% of its design capacity in the first year and contribute VND400 billion to the total profit in a stable period.

Other existing building glass factories have been yielding positive results in 2017. Low-E plant, which has been operating since June 2016, has gradually improved its performance and currently runs at 60% of its design capacity. VFG plant started maintenance in the first 5 months of this year. After this period, the plant was back to operation, reaching full capacity and contributing around VND40 billion to VGC's profit in 2017. We expect that these factories will add more growth for VGC once they run at full capacity in the future. We suppose that the building glass segment in 2018 will not achieve a condition as favorable as in 2017. It is because (1) the building glass' selling price tends to have a lower growth rate after a period of temporary supply shortage in 2016 and H1 2017, and (2) competition will be tougher when the new Chu Lai factory, with a capacity of 1,200 tonnes per day, starts production next year.

In sanitary wares business, VGC maintains its 12% market share, given that all of its existing plants have operated under full capacity. In Q2 2018, My Xuan factory will come into operation, adding 750,000 more units per year, which helps VGC gain more market share. The factory focuses on high-end products for export purposes. We estimate that the factory will operate under 30% capacity in 2018 and contribute around VND250 billion in profit in a stable period.

The tile sector's picture is going to be more difficult in 2018 onwards. Currently, the industry faces strong price competition with many other manufacturers that are continuously upgrading thier capacity. In H1 2017, the gross margin of terracotta and roofing tiles sector saw a decrease of 5%, compared to last year's results. We suppose that the tile revenue will continue growing but at a slower pace and lower margin. The only catalyst for this segment is My Duc's tile factory, with a capacity of 2.4 million sqm of granite tile, which has been operating since July 2017. These factory produced products with higher quality along with selling price higher than its previous products. The management has set a break-even goal for the factory this year, which is a premise for the next coming years.

Launching of two key projects ensure stable cash flow in industrial park segment in 2018–2020

Based on the positive outlook of FDI flow in Vietnam in the coming years, we believe that VGC continues to generate healthy cash flow from this business line. Tien Son and Yen Phong IPs in Bac Ninh were fully leasable and gradually booked as revenue in the next 50 years, which guarantees stable income for VGC. Furthermore, two other key projects, namely the expanded Yen Phong in Bac Ninh and Dong Van IV in Ha Nam, will be the most potential projects with strategic location and convenient traffic. In the next 3 years, Samsung is committed with VGC to lease 100 ha in Bac Ninh for its expansion plan, which accelerates cash flow and occupancy rate for the expanded Yen Phong projects. Dong Van IV project, which is located on National Highway 38 and easily connected with routes like Highway 1 to Hanoi and Ha Noi–Hai Phong Express to Hai Phong Port, is considered to be another high potential project. Currently, two projects have an occupancy rate of only around 10%, and lease rate of USD70 per sqm and USD40 per sqm, respectively. We believe that these projects will be quickly filled up in the next period.

Divestment of the State may be a catalyst for stock price in 2018

Currently, the Ministry of Construction holds majority shares of VGC, equal to 57% stake. The state has a plan to sell its 20% stake in VGC in Q2 2018 and all the remaining stakes in 2019. This may be a catalyst for stock price in the short term. On the other hand, the divestment would have an effect on VGC's business prospects, as it will lose its competitive advantage of being owned by the State.

Valuation Summary

Project	Method	Effective NAV
Industrial Parks	DCF	**2,979**
Expanded Yen Phong	DCF	559
Dong Van IV	DCF	462
Other projects	DCF	1,959
Residential Properties		**724**
Thang Long No1 Phase 2	DCF	363
Dang Xa 2	DCF	120
Xuan Phuong	DCF	150
Other projects	DCF	91
Construction Materials	Multiples	**8,971**
(+) Cash and short-term investment		2,579
(-) Bank loans		(2,353)
Net Asset Value		**12,901**
Total outstanding shares		427,000,000
Price per share		**30,200**

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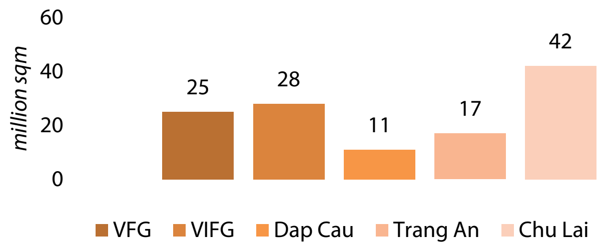
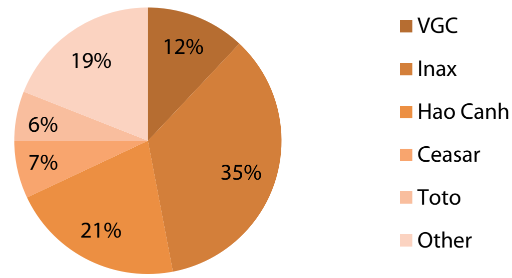
Appendix:

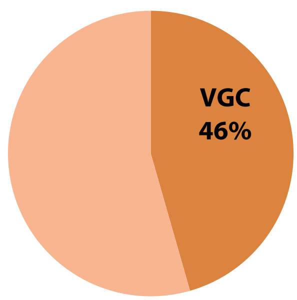
Viglacera leads Vietnam's building glass industry



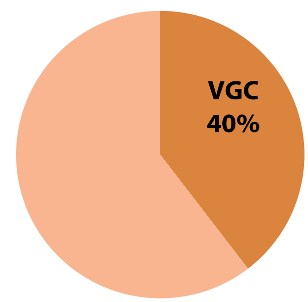
Sanitary market is dominated by foreign producers



Cotto tiles market share



Roofing tiles market share



VGC has 10 industrial parks with a total land area of 3,132 ha across six provinces and cities, of which around 1,700 ha is available for lease, equivalent to an occupancy rate of only 26%.

No.	Project	Location	Land area (ha)	Commercial land (ha)	Available land (ha)	% Occ
1	Tien Son	Bac Ninh	332	249	-	100%
2	Yen Phong	Bac Ninh	345	258	8	97%
3	Expanded Yen Phong	Bac Ninh	314	235	207	12%
4	Hai Yen	Quang Ninh	182	137	94	31%
5	Dong Mai	Quang NInh	160	120	109	9%
6	Phu Ha	Phu Tho	350	263	234	11%
7	Phong Dien	Hue	284	213	213	0%
8	Tien Hai	Thai Binh	446	335	324	3%
9	Yen My	Hung Yen	420	315	315	0%
10	Dong Van IV	Ha Nam	300	225	203	10%
	Total		**3,133**	**2,350**	**1,707**	**27%**

After selling the existing project, VGC will move to affordable house, namely Yen Phong, Tien Son and Kim Chung Social House projects. In addition, Thang Long No1 phase 2, with a total investment cost of above VND2,000 billion could be next catalyst for VGC in the period 2018-2020.

No.	Project	Location	Scale	Timeline
1	Thang Long No1 – phase 2	Hanoi	2 blocks of office and high-rise	2018 - 2020
2	Dang Xa 1	Hanoi	29 ha land area	2004 – 2017
3	Dang Xa 2	Hanoi	39 ha land area, 70 units left	2011 – 2020
4	Xuan Phuong	Hanoi	337 villas, 30 villas left	2011 - 2017
5	671 Hoang Hoa Tham	Hanoi	30 villas left	
6	Yen Phong Social House	Bac Ninh	51ha land area	2017 – 2020
7	Tien Son Social House	Bac Ninh	25ha land area	2017 – 2020
8	Kim Chung Social House	Bac Ninh	4ha land area	2017 – 2020

VND in billions

Income statement	FY2015	FY2016	FY2017E	FY2018F
Revenue	7,820	8,139	8,838	10,371
COGS	-6,103	-6,160	-6,645	-7,841
Gross profit	1,717	1,979	2,193	2,530
Selling expense	-537	-561	-529	-620
G&A expense	-445	-550	-490	-575
Finance income	32.26	85.43	85.43	85.43
Finance expense	-199	-202	-171	-171
Other profits	-78	-34	0	0
PBT	524	769	1,128	1,312
Tax expense	-118	-152	-195	-253
Minority's interest	78	107	140	159
PAT to equity S/H	328	514	793	901
EBIT	735	868	1,213	1,398
EBITDA	1,153	1,302	1,647	1,905

%

Financial ratio	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	(2.4)	4.1	8.6	17.3
Operating income	25.0	33.3	45.0	14.8
EBITDA	4.6	12.9	26.6	15.6
PAT	11.1	56.4	54.4	13.5
Total assets	(5.3)	11.4	11.1	18.2
Equity	12.3	32.3	10.0	14.0
Profitability (%)				
Gross margin	22.0	24.3	24.8	24.4
EBITDA margin	14.7	16.0	18.6	18.4
EBIT margin	9.4	10.7	13.7	13.5
Net margin	4.2	6.3	9.0	8.7
ROA	2.7	4.2	5.8	5.7
ROE	10.5	13.4	14.1	14.3
Efficiency (x)				
Receivable turnover	6.0	6.4	7.1	8.1
Inventory turnover	1.9	2.2	2.2	2.5
Payable Turnover	7.0	7.9	8.3	9.7
Liquidity (x)				
Current	1.0	1.2	1.3	1.5
Solvency (%)				
Total debt/equity	253.2	197.4	150.0	154.4

VND in billions

Balance sheet	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	708	1,054	1,609	1,853
Short-term investments	10	10	10	10
Accounts receivable	1,324	1,233	1,273	1,277
Inventories	2,761	2,920	3,118	3.204
Other current assets	192	146	135	137
Property, plant & equipment	3,066	3,171	3,171	3,834
Investment properties	1,913	2,130	3,280	4,768
Long-term incomplete assets	937	1,498	1,009	1,148
Long-term investments	250	315	260	275
Total assets	**11,663**	**12,989**	**14,426**	**17,050**
Accounts payable	1,014	1,045	1,096	1,052
Advances from customers	347	380	218	100
Short-term borrowings	1,429	1,122	1,355	1,302
Long-term borrowings	811	1,024	943	926
Unrealized revenue	2,630	2,887	2,791	2,695
Total liabilities	**8,361**	**8,622**	**8,816**	**10,350**
Common stock and APIC	3,287	4,300	4,300	4,300
Treasury stock (enter as -)	0	0	0	0
Retained earnings	304	716	1,318	2,123
Other comprehensive income	0	0	0	0
Total equity	**3,843**	**5,342**	**5,610**	**6,700**
Minority interest	**337**	**414**	**347**	**366**

Valuation ratio	FY2015	FY2016	FY2017E	FY2018F
EPS (VND)		1,673	1,858	2,109
P/E (x)		12.4	14.8	14.3
BV (VND)		12,510	13,761	15,691
P/B (x)		1.4	2.0	1.9
DPS (dong/cp)		400	950	1,000
Dividend yield (%)		2.29%	3.45%	3.31%

Valuation history	*Price*	*Recommendation*	*Period*
14/12/2016	17,800	Neutral	Long term

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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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Truc Doan
Head of Research
truc.dtt@vdsc.com.vn
+ 84 28 62992006 (1308)

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

Thien Bui
Senior Analyst
thien.bv@vdsc.com.vn
+ 84 28 6299 2006 (1321)
- Market Strategy
- Financial Services
- Personal Goods

Hoang Nguyen
Senior Analyst
hoang.nh@vdsc.com.vn
+ 84 28 6299 2006 (1319)
- Transportation
- Infrastructure
- Industrial Real Estates

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

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

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

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

Quang Vo
Analyst
quang.vv@vdsc.com.vn
+ 84 28 6299 2006 (1517)
- Market Strategy
- Basic Materials
- Personal Goods

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

Thu Le
Analyst
thu.lta@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Automobiles and Parts

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

Thuy Nguyen
Analyst
thuy.nb@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Electronic & Electrical Equipment
- Pharmaceuticals

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

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