DA NUI NHO JSC (NNC – HSX)

Stone industry - Firm base for intermediate

Item (VND bn)	Q2-FY16	Q1-FY16	*+/- qoq*	Q2-FY15	*+/- yoy*
Net revenue	149.4	116.4	28%	127.8	17%
NPAT	52.8	38.1	39%	25.9	104%
EBIT	66.1	47.4	39%	34.3	93%
EBIT margin	44.2%	40.8%	348bps	26.8%	1,740bps

Source: RongViet Research

- *Focusing on gravel segment resulted in outstanding business performance*
- *Growth potential is high thanks to the momentum from infrastructure construction activities and major real estate projects*
- *Even if Nui Nho mine has to be closed, NNC still possesses several advantages*
- *Valuation is relatively attractive*

Da Nui Nho JSC (HSX: NNC) specializes in mining and processing gravel products in the South. Along with optimistic growth momentum of infrastructure and real estate sectors, the ownership of Nui Nho mine has strongly supported NNC's earnings. Stone consumption volume increased at CAGR of 18.6%/year during 2012-2015 period and may remain positive in long term.

According to mining license, Nui Nho quarry might expire at the end of 2017. We favor the scenerio that NNC could extend license duration. In the worst case, NNC's earnings could be stable until 2020 thanks to the large stone reserves. We estimate that revenue and NPAT of NNC in 2016 may achieve VND 606 and 189 billion respectively, equivalent to the increases of 19% yoy and 53% yoy.

Using NAV and DDM valuation methods, we believe that the reasonable price for NNC is VND94,400/share, 7.2% higher than the closing price on October 05, 2016. Therefore, we recommend **NEUTRAL** with NNC in the **LONG TERM**.

Key financials

Y/E Dec (VND bn)	FY2014	FY2015	3M2016	FY2016E	FY2017F
Net Revenues	392.2	507.9	265.8	605.6	692.5
% chg	21.3%	29.5%	22.7%	19.2%	14.4%
PAT	104.3	123.4	90.8	188.6	218.4
% chg	44.7%	18.4%	81.3%	52.8%	15.8%
EBIT margin (%)	26.6%	24.3%	34.2%	31.1%	31.5%
ROA (%)	35.5%	33.1%		43.3%	41.1%
ROE (%)	53.2%	48.0%		58.2%	52.6%
EPS (VND)	7,292	8,635	5.059	10,555	12,220
Adjusted EPS (VND)	5,834	8,635	5.059	10,555	12,220
Book value (VND)	17,396	21,700	22,444	22,040	28,461
Cash dividend (VND)					
P/E (x)	4.7	5.3	19,2	8.3	7.2
P/BV (x)	2.0	2.1	3,2	4.0	3.1

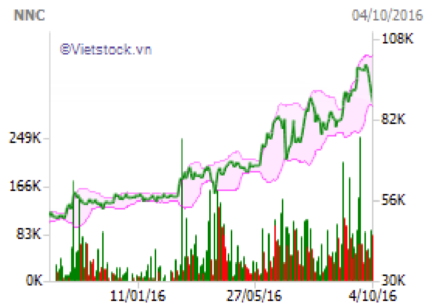
*Sources: NNC, RongViet Research estimated. *closing price on 04 October 2016.*

NEUTRAL

CMP (VND)	88,100
Target Price (VND)	94,400
Investment Period	**LONG-TERM**

Stock Info

Sector	Building Material
Market Cap (VND bn)	1.447
Current Shares O/S	16,440,202
Beta	0.46
Free float (%)	58.36%
52 weeks High	97,000
52 weeks Low	39,000
Avg. Daily Volume (in 20 sessions)	81,088



Source: Vietstock

Performance (%)

	3M	1Y	3Y
NNC	22.5	116.1	387.3
Building Materials	22.6	72.1	n/a
VN30 Index	4.5	14.0	19.9
VN Index	5.6	21.7	37.5

Major Shareholders (%)

Binh Duong Building Materials and Construction Company Ltd	37.73
Thai Binh Investment JSC	15.83
Foreigner Investor Room (%)	28.62

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Focusing on gravel segment resulted in outstanding business performance and efficiency

Da Nui Nho JSC (HSX: NNC) is one of the largest companies in mining and processing construction stone products in the South of Vietnam. Currently, NNC has two mines including Nui Nho (Binh Duong province) and Tan Lap (Binh Phuoc province) with total approval area to be about 20 million m^3. Accordingly, Nui Nho is the main quarry of the Company and accounts for 85-90% of total revenue as well as profit after tax (PAT). Main markets are Ho Chi Minh City, Binh Duong, Dong Nai, Binh Phuoc and Mekong River Delta provinces.

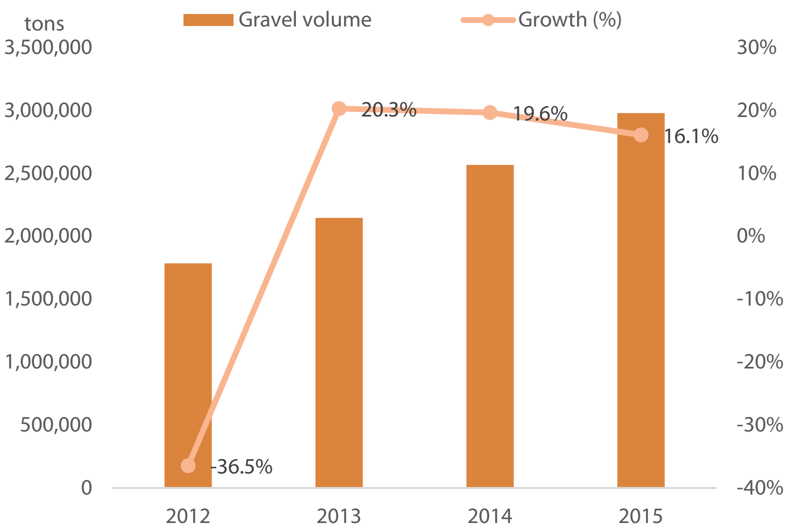
Table 1: Basic information about NNC's gravel quarries

Quarry	Location	Approved mining area	Used mining area	Remaining reserve	Expire in	Remaining time
Nui Nho	Di An, Binh Duong	27.5 ha	27.5 ha	>4 million m^3	31/12/2017	1.5 years
Tan Lap	Tan Lap, Binh Phuoc	51 ha	7 ha	18 million m^3	31/12/2030	14.5 years

Source: NNC

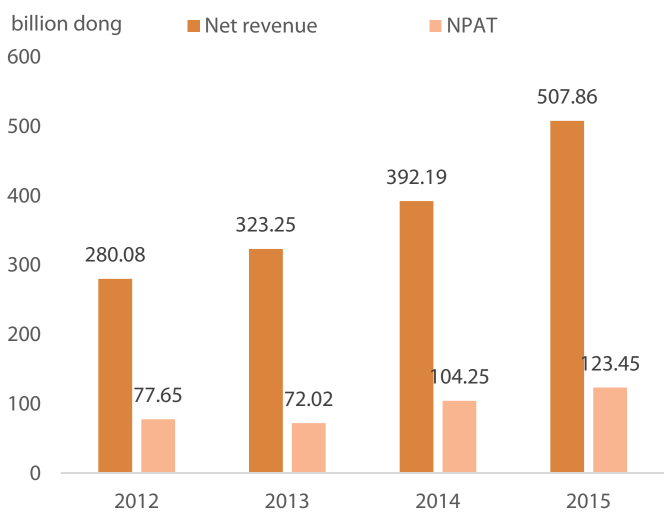
Thanks to the recovery of real estate sector and construction activities, the business results of NNC experience significant improvement. NNC's sales volume increased at CAGR of about 18.6% in the period of 2012-2015. Favorable geographical position along with higher demand of stones has supported strongly the rise in prices. The average selling price in 1H2016 was 9% higher than this during the same period last year. Profit growth has been lower than improvement in sales since NNC had several additional mining license fees for the period from July 1st, 2011 to December 31st, 2014 based on new tax policy and additional land tax during the period between 2007 and 2014 in Other expenses (VND 18.4 billion).

Graph 1: The selling volume of NNC



Source: Annual report

Graph 2: Business results of NNC



Source: Annual report

Since establishment, NNC always focused on aggregate mining. Because its major quarry, Nui Nho, has been operating for a long time, this mine reached the state of stable quality and lower mining costs than new quarries. In addition to favorable location, gross profit margin of Nui Nho is high, nearly 50%.

Tan Dong Hiep quarry of KSB and C32 also has high efficiency as Nui Nho mine. However, these companies also have other business segments such as construction or building materials with lower profit margin. Although DHA focuses on aggregate mining, the quarrying cost is quite high due to having to uncover the ground level and less advantageous position than quarries in Di An District (Binh Duong province).

Table 2: Business results of some construction stone companies in the first half of FY2016

Item		NNC	KSB	DHA	C32
Revenue		265.8	404.7	91.0	233.8
	Growth in revenue	*22.7%*	*11.4%*	*-0.8%*	*2.4%*
Gross profit		116.0	160.2	27.4	69.2
	Gross margin	*43.6%*	*39.6%*	*30.1%*	*29.6%*
NPAT		98.8	89.9	23.0	49.3
	Growth in NPAT	*81.3%*	*38.9%*	*-21.5%*	*103.0%*
	Biên LNR	*37.2%*	*22.2%*	*25.3%*	*21.1%*
ROE		54.1%	26.6%	12.9%	25.1%
ROA		42.5%	17.6%	11.6%	21.5%
P/E(*)		**8,9**	11,4	12,7	7,4

Source: RongViet Research, (*) stock price as of October 04, 2016

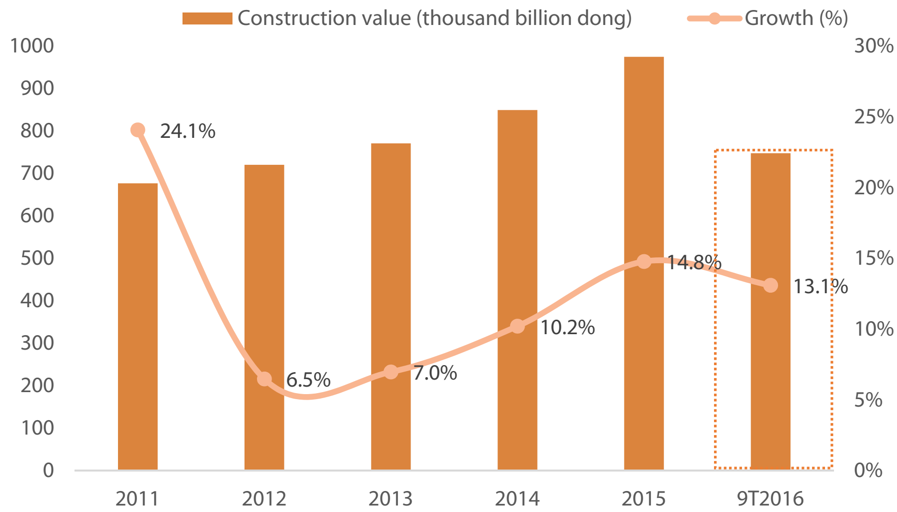
VND 103 billion investment to hold 10% ownership in Binh Duong Building Materials and Construction Company Ltd (M&C Binh Duong) is the indirect way that NNC utilized to be able to cooperatively mine at M&C Binh Duong's gravel quarries. Binh Duong M&C specializes in construction and building materials (brick, sand). This company has mining licenses at 4 quarries including Tan My, Thuong Tan and 2 mines in Phu Giao. The reserve capacity of each quarry is about 10 million m^3 and is expected to start mining at the end of 2016.

With strong financial health (cash and cash equivalent to charter equity is 0.5 times) and stable ROE of 10%, the investment in M&C Binh Duong could create a higher return than bank deposit for NNC. In addition, M&C Binh Duong is going to be listed in HOSE (ticker: MVC) next year. Meanwhile, the participation of new private shareholders could increase efficiency of MVC's businesses, then NNC's return.

Growth potential is high thanks to the momentum from infrastructure construction activities and major real estate projects

Demand outlook for the following years still depends on construction, especially infrastructure and real estate markets in the South. According to General Statistics Office of Vietnam, construction value in the first 9 months of 2016 achieved VND 747.4 trillion, increased by 13.1% yoy. This is a relatively positive increase compared to the previous years (Figure 3) and this growth rate could be maintained in the next 2-3 years. The main reasons are: (1) the strong growth of national transportation infrastructure projects thanks to government supports, (2) the real estate recovery in terms of supply and liquidity, and (3) FDI flows. In particular, several key infrastructure projects in the South such as Metro line 1, 2, 3 and 4, Long Thanh - Dau Giay Highway, Vo Van Kiet street, Thu Thiem tunnel, the inner road and Sai Gon 2 Bridge are just started or being in peak season. Those factors will support NNC's businesses.

Graph 3: The construction value in the period 2011-9M2016



Source: GSO

According to the report of the Planning and Investing Department, Binh Duong (20% of NNC's revenue) and Ho Chi Minh City (accounted for 60-70% of NNC's sales) place 4th and 5th respectively in new capital registration in the first 8-month. Moreover, Binh Duong aims to be a municipality by 2020. Therefore, the volume of infrastructure and social construction should remain high. This is also a strong support for sales prospects of NNC in long term.

Table 3: Some big projects of Binh Duong in the period 2015-2020

No	Projects	Captital
1	BOT Dong Phu – Binh Duong	VND1,480 billion
2	My Phuoc – Bau Bang Line	VND1,500 billion
3	My Phuoc – Tan Van Road Phase 2	VND541 billion
4	DT 743 road expansion	VND1,329 billion
5	Bau Bang industrial park and residential area	

Source: RongViet Research

Even if Nui Nho mine has to be closed, NNC still possesses several advantages

As mentioned above, Nui Nho quarry plays an important role in NNC's business performance. In particular, Nui Nho quarry contributed up to 85% of NNC's sales volume, revenue and gross profit. Thanks to good selling price and stable consumption, the net profit margin (~30%) is much higher than Tan Lap quarry (10%). According to building material development master plan for 2016-2020 of Binh Duong province, Nui Nho and Tan Dong Hiep quarries will be closed at the end of 2017. Therefore, the possibility of license extension for the next 2-3 years could significantly impact on NNC's business outlook.

As observed, most of gravel companies in Di An area are confident in successfully extending the license based on (1) significant number of infrastructure projects in Ho Chi Minh City and Binh Duong province and (2) higher gravel transportation costs could surge construction expenses, then worsening budget deficit or being less attractive for private investments and (3) the deeper mining is feasible. For example, Tertiary and Clipper quarries (U.S) even operate at 500 feet depth (~152m).

Assuming that mining license is extended to 2019-2020, NNC's output could still grow at CAGR of 7.7% in the 2016-2020 period. In spite of higher mining costs (at greater depth), NNC could partly transfer the additional costs to the selling prices.

Table 4: Projected business results using positive scenarios

	Unit	*2016F*	*2017F*	*2018F*	*2019F*	*2020F*
Sales volume	*m^3*	3,187,548	3,678,841	3,897,757	4,075,324	4,283,501
Growth in sales volume	%	20.2%	15.4%	6.0%	4.6%	5.1%
Nui Nho quarry	*m^3*	2,714,559	3,040,306	3,131,515	3,194,145	3,226,087
Tan Lap quarry	*m^3*	472,989	638,535	766,242	881,178	1,057,414
Revenue	*VND bn*	606	706	761	805	855
Growth in revenue	*%*	19.2%	16.7%	7.7%	5.8%	6.3%
NPAT	*VND bn*	189	222	268	285	303
Growth in NPAT	*%*	53.1%	17.8%	20.4%	6.4%	6.6%
EPS*	*VND*	10,555	12,434	14,970	15,925	16,980

*Source: RongViet Research, * exclude social warefare 8%*

In case that Nui Nho quarry has to close at the end of 2017, NNC could maintain a part of its sales until 2020 thanks to abundant storage. According to the mineral law, mining companies are permitted to buy a certain amount of explosives based on licensed annual production. With extensive mining experience, NNC could save ~25% of total required explosives compared to legal quota (0.4 kg/ton). Thus, actual output is usually higher than licensed production, helping NNC to store a part of mining stone for upcoming years. In addition, large manufacturing area allows NNC to keep a high volume of raw stone.

Till now, NNC have accumulated about 2.5 million m^3 of raw stone and finished products. Besides, wide processing area (about 33ha) enables NNC to continue storing an addition of 2.5 million m^3 of processing and finished products for the following year. Large storage capacity could be considered as an advantage of NNC compared to other peers such as C32 and KSB when Tan Dong Hiep quarry of these enterprises could only store about 1 year of production. In addition, the renovation and restoration of Nui Nho mine after the license expiry might increase NNC reserved volume by 1 million m^3.

Table 5: Storing capacity of listed construction company having mines in Di An District, Binh Duong

	Processing area	**Maximum reserve capacity**	**Year Reservation**
NNC	~33 ha	6 million m^3	3 years
KSB	8.36 ha	2.5 million m^3	1 year
C32	<5ha	0.6 million m^3	0.5 year

Source: RongViet Research

Besides, Tan Lap quarry could increase mining capacity to cover part of Nui Nho output. This new quarries are just exploiting about 7.5 ha in total licensed are of 51 ha. The expiration period is quite long (15 years). Quality of Tan Lap mine is relatively equivalent to Nui Nho mine but its location to be far from Ho Chi Minh City (80km) is the main reason why sales volume of this mine is still modest. When mines having advantageous position such as Nui Nho and Tan Dong Hiep mine close, the shift to longer distance quarry should be the inevitable trend. Hence, prospects for consumption at Tan Lap mine is expected to improve. The consumption output of this quarry grew by 18.8%/year during 2012-2015. Gross profit margin of Tan Lap mine also gradually improved from 18% (2015) to 20% (2016). More importantly, NNC is actively looking for some new mines and is in negotiation process.

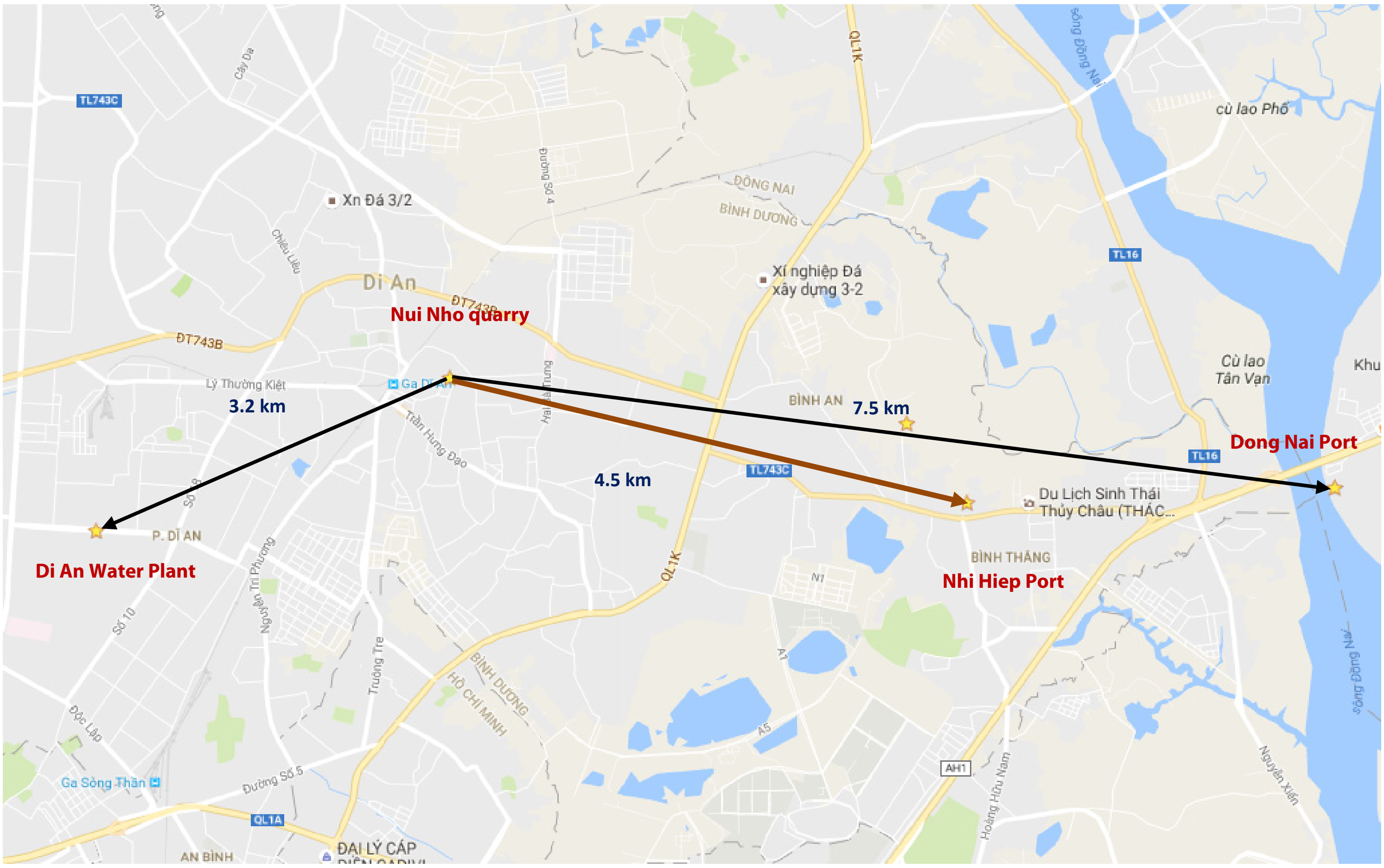
Table 6: Projected business results in pessimistic scenario

	Unit	2016F	2017F	2018F	2019F	2020F
Sales volume	m^3	3,187,548	3,600,900	3,486,765	2,611,637	2,135,833
Growth in sales volume	%	20.2%	13.0%	-3.2%	-25.1%	-18.2%
Nui Nho quarry	m^3	2,714,559	2,986,015	2,687,413	1,612,448	886,846
Tan Lap quarry	m^3	472,989	614,886	799,351	999,189	1,248,986
Revenue	VND bn	606	692	677	504	409
Growth in revenue	%	19.2%	14.4%	-2.3%	-25.6%	-18.7%
NPAT	VND bn	189	218	237	176	144
Growth in NPAT	%	53.10%	15.8%	8.6%	-25.6%	-18.7%
EPS*	VND	10,555	12,220	13,277	9,875	8,032

*Source: RongViet Research, * exclude social ware fare of 8%*

NNC could switch the functions of Nui Nho mine: the mining area (28.1 ha) could contain a large amount of water (22.48 million m3) while the production area (33ha) can be used for warehousing services. Nui Nho quarry is 4km away from Di An water plant so NNC could negotiate to supply surface water as a part of replacement for Dong Nai River (10km from Di An water). In addition, a large processing area allows NNC to provide warehousing services for Nhi Hiep port and Dong Nai port thanks to favorable position (less than 10km). The cargo volume through these ports is projected to increase gradually. Besides, under the supports of the major shareholder, Thai Binh JSC (15.83%) which is experienced in logistic services at Tan Van area, the leasing prospect is relatively positive. However, revenue from new business segments will be quite small compared to mining and the starting time is unclear.

Graph 4: Nui Nho mine location



Source: google map

Valuation is relatively attractive

We estimate 2016 sales volume of NNC to reach 3.2 million m3, of which Nui Nho quarry will account for 85.2%. Revenue and NPAT could be VND 606 and 189 billion, up by 19% yoy and 53% yoy. In 2017, revenue may go up by 14% and profit after tax could reach VND 218 billion, equivalent to 2016 EPS of VND12,220/share.

One characteristic of mining sector is that the reserve will deplete over time. Therefore, we used net asset value method (NAV) to determine the value NNC's share price with 70% possibility of being extended the mining license at Nui Nho mine to 2020. Combined with dividend discount model (DDM), the reasonable price of NNC is VND 94,400/share, 7.2% higher than the closing price on October 05, 2016. Therefore, we recommend **NEUTRAL** with NNC in the **LONG TERM**.

Table 7: Valuation result

Method	Price	Weight	Average
NAV	93,078	50%	46,539
DDM	95,775	50%	47,887
Average			**94,426**

Source: RongViet Research

Outlook

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VND Billion

INCOME STATEMENT	2014	2015	2016F	2017F
Revenue	392	508	606	692
COGS	252	322	361	411
Gross profit	**141**	**186**	**244**	**282**
Selling Expense	3	3	4	5
G&A Expense	11	10	10	12
Finance Income	7	7	8	10
Finance Expense	0	1	1	1
Other profits	0	-18	0	0
PBT	**134**	**161**	**236**	**273**
Prov. of Tax	30	37	47	55
Minority's Interest	0	0	0	0
PAT to Equity Shareholder	**104**	**123**	**189**	**218**
EBIT	**134**	**161**	**236**	**274**
EBITDA	138	165	241	278

FINANCIAL RATIO	2014	2015	2016F	2017F
Growth				
Revenue	21.3	29.5	19.2	14.4
Operating Income	-30.9	0.5	14.5	20.0
EBITDA	34.8	19.2	46.3	15.6
EBIT	36.8	20.4	46.5	15.8
PAT	44.7	18.4	52.8	15.8
Total Assets	44.0	15.2	18.0	25.4
Equity	40.4	24.7	27.0	29.1
Internal growth rate	14.9	17.3	27.8	26.9
Profitability				
Gross profit/Revenue	35.8	36.6	40.4	40.7
Operating profit/ Revenue	34.2	35.3	39.3	39.7
EBITDA/ Revenue	35.2	32.4	39.8	40.2
EBITDA/ Revenue	34.2	31.8	39.0	39.5
Net margin	26.6	24.3	31.1	31.5
ROAA	35.5	33.1	43.3	41.1
ROIC or RONA	61.4	59.5	71.5	64.7
ROAE	53.2	48.0	58.2	52.6
Efficiency				
Receivable Turnover	28.6	37.9	37.7	35.5
Inventory Turnover	3.0	2.5	2.6	2.8
Payable Turnover	3.8	3.5	3.4	3.8
Liquidity				
Current	2.98	3.15	3.00	3.67
Quick	1.72	1.90	1.62	2.35
Solvency				
Total Debt/Equity	42.3	40.1	30.2	26.4
Current Debt/Equity	8.7	0.0	0.0	0.0
Long-term Debt/ Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2014	FY2015	FY2016E	FY2017F
Cash and equivalents	77	108	48	130
Short-term investment	72	83	99	119
Receivables	12	15	18	21
Inventories	122	136	141	152
Other current assets	5	1	1	1
Total Current Asset	**288**	**342**	**306**	**424**
Tangible Fixed Assets	13	11	16	16
Intangible Fixed Assets	7	6	5	5
Construction in Progress	0	0	0	0
Investment Property	0	0	0	0
Long-term Investment	0	0	103	103
Other long-term assets	39	40	43	45
Long-term Asset	0	0	0	0
Total Asset	**59**	**58**	**166**	**168**
Payables	**347**	**400**	**472**	**591**
Other current liabilities	18	19	23	27
Current Debt	58	89	79	89
Long-term Debt	20	0	0	0
Other long-term liabilities	0	0	0	0
Total Liability	0	6	7	8
Owner's Equity	**97**	**114**	**109**	**124**
Capital	**229**	**285**	**362**	**468**
Retained Earnings	132	132	164	164
Funds & Reverses	81	92	96	146
Others	16	62	102	157
Total Equity	**0**	**0**	**0**	**0**
Minority's Interest	**229**	**285**	**362**	**468**
TOTAL RESOURCES	0	0	0	0

CASH FLOW STATEMENT	326	400	472	591
Profit before tax	FY2014	FY2015	FY2016E	FY2017F
-Depreciation	134	161	236	273
-Adjustments	4	3	4	5
+/- Working capital	*86*	*-111*	*0*	*0*
Net Operating CFs	-83	-15	-61	-56
+/- Fixed Asset	**142**	**38**	**179**	**221**
+/- Deposit, equity investment	5	-9	-7	-5
Interest, dividend, cash profit	-72	-86	-105	-2
Net Investing CFs	8	7	3	4
+/- Capital	**-12**	**-25**	**-109**	**-3**
+/- Debt	68	0	33	0
Dividend paid & other	20	-20	0	0
Net Financing CFs	-186	20	-163	-136
+/- cash & equivalents	**-98**	**-11**	**-130**	**-136**
Beginning cash & equivalents	31	1	-60	83
Impact of exchange rate	**76**	**77**	**108**	**48**
Ending cash & equivalents	0	0	0	0

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RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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