LOC TROI GROUP JSC (UpCOM: LTG)

Covid-19 negatively affected LTG's short term business

(VND bn)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- YoY
Net revenue	733	1,991	-63%	1,569	-53%
PAT	-39	42	-191%	56	-168%
EBIT	13	107	-88%	119	-89%
EBIT margin	1.7%	5.4%	-365bps	7.6%	-588bps

Source: LTG, Rong Viet Securities

1Q2020: Revenue dropped sharply, leading to a negative PAT

- 1Q net revenue was VND 733 billion (-53% YoY). This was due to the sharp drop in the revenue of the two main segments: pesticides and rice. Specifically, pesticide revenues fell by 64% YoY to VND 326 billion and rice was only VND 202 billion, down by 57% YoY. The main reasons were the negative impact of the drought, salinity and the Covid-19 epidemic.
- Although the gross profit margin (GPM) improved from 21.8% (1Q2019) to 24.3%, gross profit was only VND 178 billion (-48% YoY).
- Total expenses including interest, selling and G&A expenses decreased by 29% YoY, to VND 191 billion. However, due to the huge decline of revenue and gross profit, the net income recorded a loss of VND 39 billion, down VND 95 billion compared to 1Q2019.

2020 Outlook

The change in the rice segment from 2H2019 (stop selling non-branded rice) has reduced inventories. LTG has tried to tighten the debt policy with its pesticide distributors, thereby lowering down the amount of account receivable (AR). However, we note that the reduction in inventories and AR mainly came from the decrease in revenues instead of an improvement of inventories or AR turnover. The positive is that short-term debt will decrease, helping to reduce interest expenses and financial leverage risk. We expect that revenue and profit will recover in 3Q2020. We forecast that LTG can achieve VND 6,917 billion in net revenue (-16.8% YoY) and VND 283 billion in net income (-14.3% YoY) in 2020.

Valuation and recommendation

We highly value the effort of improving the inventory and account receivable situation that LTG has begun to implement in 2H2019. The unfavorable conditions of 1H2020 may slow down the restructuring process, but we expect that working capital and the quality of account receivable will improve in the next few years. In addition, we expect LTG's results to improve from 3Q2020 along with the recovery of the agriculture sector. Therefore, the unexpectedly low results may offer a chance for investors to consider accumulating the stock if the price drops to attractive levels.

We value LTG's target price at ***VND 22,300/share****, combined with a cash dividend that will lead to a return of* ***19%*** *compared to the closing price on July 13, 2020. We recommend to* ***ACCUMULATE*** *this stock.*

ACCUMULATE +19%

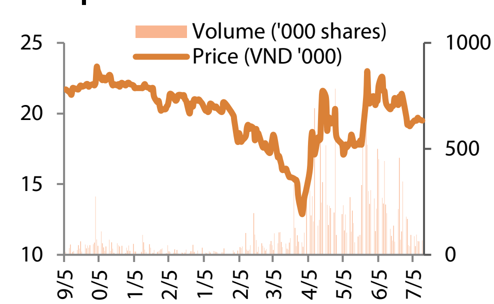
Target price (VND)	22,300
Current market price (VND)	19,500
Cash Dividend (VND)*	1,000

(*) Expected in the next 12 months

Stock Info	
Sector	Specialty chemicals
Market Cap (VND billion)	1,572
Current Shares O/S	80,593,340
Avg. Daily Volume (in 20 sessions)	125,243
Free float (%)	34
52 weeks High	23,291
52 weeks Low	12,900
Beta	0.97

	FY2019	Current
EPS	3,516	2,923
EPS Growth (%)	-19	-27
Diluted EPS	3,516	2,923
P/E	5.6	6.7
P/B	0.6	0.6
EV/EBITDA	4.3	4.8
Cash dividend yield (%)	7.6	-
ROE (%)	13	9

Price performance



Major Shareholders (%)	
Marina Viet Pte. Ltd	25.2
People's Committee of An Giang	24.2
Kingsmead Vietnam	6.0
Foreign ownership room (%)	4.8

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Exhibit 1: 1Q2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/-(qoq)	1Q-FY19	+/-(yoy)
Net revenue	733	1,991	-63.2%	1,569	-53.3%
Gross profit	178	381	-53.4%	343	-48.1%
SG&A	165	274	-39.8%	223	-26.0%
Operating income	13	107	-88.2%	119	-89.4%
EBITDA	54	153	-65.0%	158	-66.0%
EBIT	13	107	-88.2%	119	-89.4%
Financial expenses	57	48	18.6%	59	-2.9%
- Interest Expenses	26	28	-5.8%	45	-42.1%
Dep. and amortization	41	46	-11.6%	39	6.3%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	-36	75	-148.5%	77	-146.8%
PAT	-39	42	-190.8%	56	-168.3%
(*) Adjusted PAT	-39	42	-190.8%	56	-168.3%

Source: LTG, Rong Viet Securities

Exhibit 2: 1Q2020 Performance Analysis

Particulars	1Q-FY20	4Q-FY19	+/-(qoq)	1Q-FY19	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	24.3%	19.2%	5.1%	21.8%	2.4%
EBITDA Margin	7.3%	7.7%	-0.4%	10.1%	-2.7%
EBIT Margin	1.7%	5.4%	-3.6%	7.6%	-5.9%
Net Margin	-5.3%	2.1%	-7.4%	3.6%	-8.9%
Adjusted Net Margin	-5.3%	2.1%	-7.4%	3.6%	-8.9%
Turnover *(x)					
-Inventories	1	3	-1.8	2	-0.7
-Receivables	1.8	3.7	-2.0	2.7	-0.9
-Payables	1	4	-2.5	3	-1.8
Leverage (%)					
Total Debt/ Equity	131.9%	147.5%	-1,560bps	174.3%	-4,239bps

Source: LTG, Rong Viet Securities

Exhibit 3: 2Q2020 Performance Forecast

Particulars (VND Bn)	2Q-FY20	+/- qoq	+/- YoY
Revenue	2,353	221%	-16%
Gross profit	535	201%	-15%
EBIT	240	1,795%	-21%
NPAT	159	+196 billion	-17%

Source: Rong Viet Securities

Explanation of 2Q forecasts

+ Pesticides: revenue and gross profit were VND 1,411 billion and VND 432 billion, respectively.

+ Rice: revenue and gross profit were VND 638 billion and VND 38 billion, respectively.

+ Seeds: revenue and gross profit reached VND 241 billion and VND 57 billion, respectively.

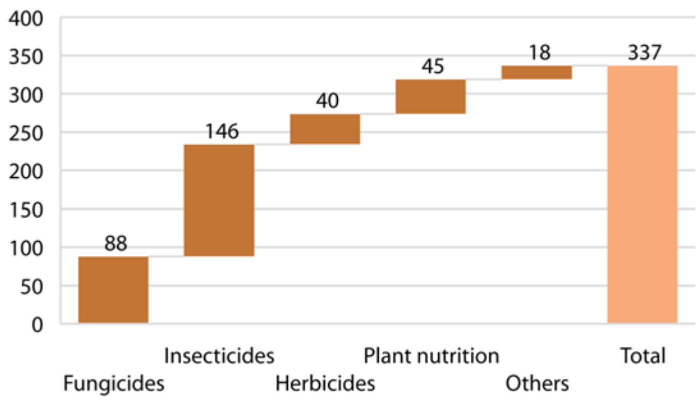
Update

Pesticides: revenue dropped because the agricultural sector faced many headwinds

1Q revenue of pesticides (CPC) was VND 326 billion, down by 64% YoY. Sales of all CPC products recorded a decrease, in which the two main products (fungicides and insecticides) went down by 77% YoY (to VND 88 billion) and 63% YoY (to 146 billion), respectively. In addition, sales of herbicides, plant nutrition and others also decreased by nearly 50% compared to 1Q2019.

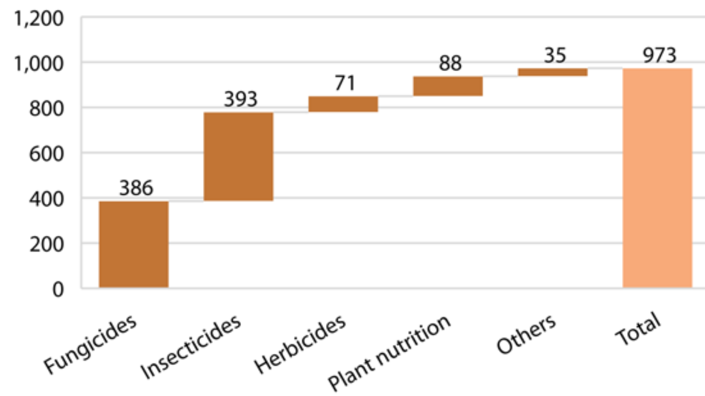
Selling prices did not change much in 1Q2020 after jumping in late 2019. Therefore, revenues dropped sharply due to the decrease in sales volume because of three main reasons: (1) The Covid-19 epidemic reduced trade between Vietnam and China (accounting for 22-24% of Vietnam's agricultural exports) since the end of January. That reduced agricultural production and the income of farmers, so they avoided purchasing CPC, except when it was really in need. (2) Drought and salinity damaged crops in many locations (mostly in the Mekong Delta – LTG's biggest business area). (3) By the end of 4Q2019, dealers already stocked products for 1Q of this year. However, due to the effects of Covid-19 and natural disasters, most dealers' selling activities were in difficulty. Thus, LTG encouraged distributors' sales instead of pushing sales KPIs.

Figure 1: Pesticides revenue by products 1Q2020 (VND billion)



Source: LTG, Rong Viet Securities

Figure 2: Pesticides revenue by products 1Q2019 (VND billion)



Source: LTG, Rong Viet Securities

Due to a sharp drop in revenue, gross profit reached VND 111 billion, down by 60% YoY. GPM recorded a slight improvement over the same period, reaching more than 34% (1Q2019 GPM was 31%), mainly due to a slight decrease of material prices, specifically:

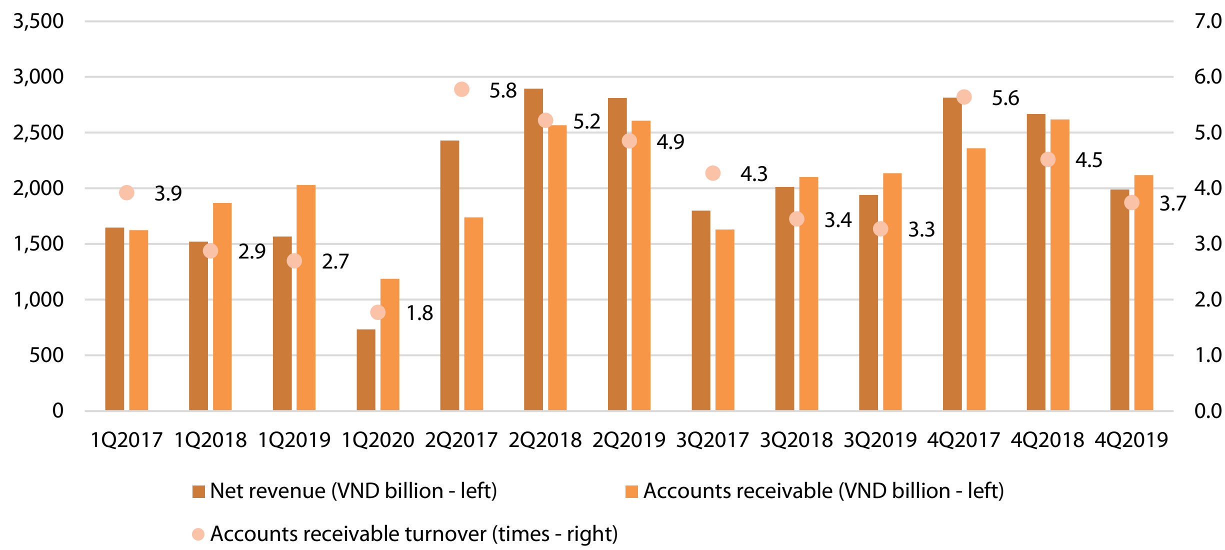
- Global brands pesticides (70-75% of LTG pesticides revenue): the demand for pesticides decreased in 1Q, so that Syngenta, Bayer and other brands lowered down their prices to support their partners, including LTG.
- Homemade pesticides (25-30% of LTG pesticides revenue) experienced a slight increase in input prices as the cost of raw materials imported from China increased by approximately 10%. Therefore, LTG rapidly diversified its material supplies by importing from India and Bangladesh. Finally, the cost of home-made pesticides did not increase much.

Changes in sales policy reduced the burden of accounts receivable

In previous years, after realizing that the pesticides market was saturated, LTG tried to improve its market share by expanding its distribution system and introducing "comfortable" payment policies. That led to a sudden rise of accounts receivable when many distributors were late their payments. Therefore, in the previous years, LTG has reviewed their level 1 agents by retaining agents that satisfy two conditions of good sales performance and timely repayment of debts. As a result, the number of level 1 agents was just over 400, down sharply from 1,300 at the end of 2018. Besides, the company has spent more time on supporting level 2 agents.

Although the new distribution policy has helped the accounts receivable decrease continuously since 4Q2018 but turnover has not improved yet. Therefore, we believe that it is still necessary to take more time to evaluate correctly the efficiency of LTG's working capital management.

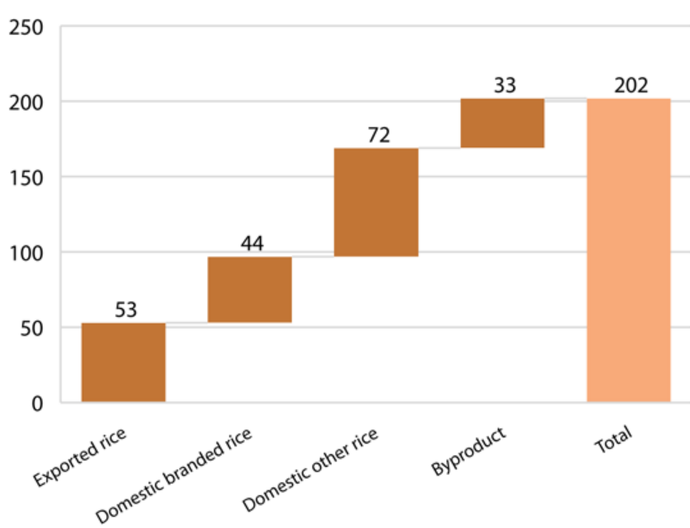
Figure 3: Changes in accounts receivable and revenue



Source: LTG, Rong Viet Securities

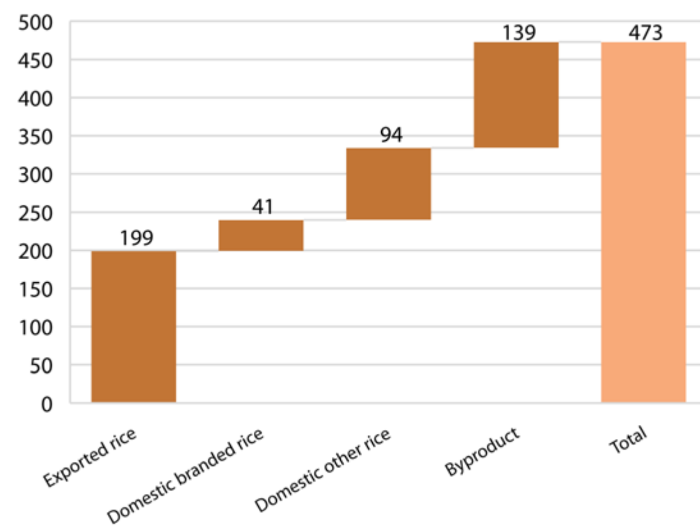
The rice segment did not perform better due to a drop in exports

Figure 4: Rice revenue by products 1Q2020 (VND billion)



Source: LTG, Rong Viet Securities

Figure 5: Rice revenue by products 1Q2019 (VND billion)



Source: LTG, Rong Viet Securities

Rice revenue reached VND 202 billion, down by 57% YoY.

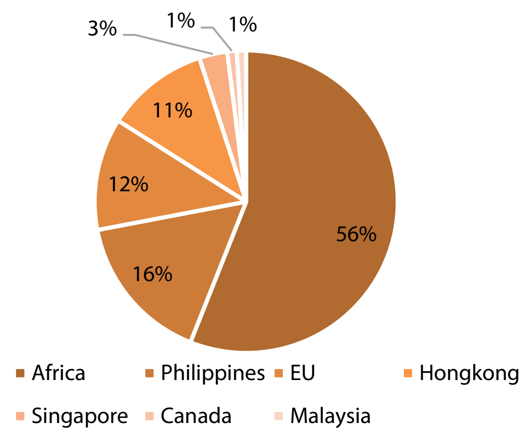
- Exported rice

Export sales decreased by 73% YoY, reaching VND 53 billion with sale volume down by 75% YoY as the main cause. The decline in exported volume came from three reasons, including (1) A decrease in exports to China because of changes in LTG's rice trading process, (2) Restricted export activities between countries due to Covid- 19 and (3) The Government requested a stop on exports from March 24 to ensure domestic food supply. Meanwhile, the selling price increased by 6% YoY due to a decline in global supplies as the major exporter – Thailand - lost its crop due to the drought, salinity and lack of irrigation water, while demand increased because of an robust demand from others countries to store more rice during the Covid-19 pandemic.

In 1Q, Africa was Loc Troi's largest import market (accounting for 56% of exports) while the Philippines accounted for only 16%. Africa increased imports from LTG because the local agriculture was devastated by locusts. At the same time, African countries also increased rice imports to preserve for the Covid-19 pandemic. In contrast, exports to the Philippines decreased as Loc Troi and its partners were unable to agree on a selling price as the Philippines partner wanted to maintain the old price while the 1Q price was much higher.

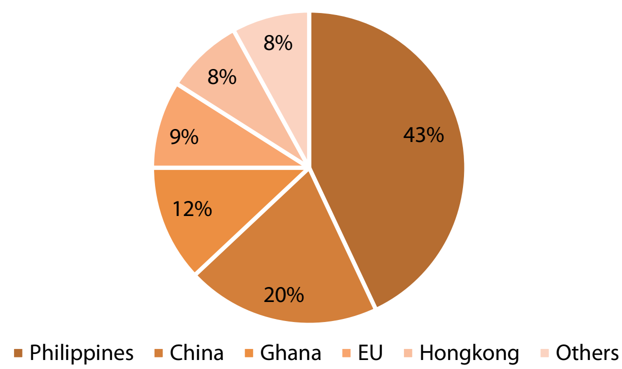
In 2020, LTG plans to export rice more moderately by stop stocking a large amount of rice. It could not sell as prices dropped. It is expected that LTG's exports of rice will decrease by 28% YoY and we believe that the GPM will improve from the negative level (in 2019) to approximately 5%.

Figure 6: Export markets of LTG in 1Q2020



Source: LTG, Rong Viet Securities

Figure 7: Export markets of LTG in 2019



Source: LTG, Rong Viet Securities

- Domestic rice

Domestic sales decreased by 14% YoY, to VND 116 billion. Domestic volume declined because the company has stopped selling un-branded rice since 3Q2019 to focus on developing branded rice. Sales of branded rice reached VND 44 billion, up by 7% YoY, while selling prices went up by 6% and volume increased by 1%. LTG is currently leading the domestic brand rice market with a market share of approximately 5-6%. We highly value the group's efforts in developing branded rice because this is a new and potential segment (with an average growth rate of 37% per year in the period of 2020-2024). Also, this opens up opportunities to export rice with higher prices as this is branded and originally traceable rice. Besides, the "other" domestic rice revenue decreased by 24% YoY, to VND 72 billion mainly due to the decrease in sales volume.

In terms of input prices, as both domestic and export demand increased, the price of rice purchased from farmers has also increased. Therefore, the GPM is now at 2.4%, slightly lower than the 2.8% of 1Q2019. Gross profit of the rice segment decreased by 64% YoY, to VND 4.8 billion.

Seeds segment: Revenue decreased by 8% YoY, to only VND 116 billion. The sale volume declined due to a fall in the agriculture sector, farmers did not invest in buying new seeds as they reused existing ones. Due to lower selling prices, the GPM has decreased from 29.2% (1Q2019) to 20.3%. Thus, gross profit decreased by 36% YoY, to VND 24 billion.

In general: The sharp drop in revenue caused the total gross profit to drop by 48% YoY (equivalent to VND 165 billion), to only VND 178 billion. Total expenses including interest, selling and G&A expenses decreased to only VND 191 billion, down by 29% YoY (equivalent to VND 77 billion). The reduction in costs was much smaller than the reduction in gross profit. Therefore, **PBT was recorded at VND -36 billion while 1Q2019 PBT was VND 77 billion.**

Other updates

Moving to HoSE: LTG realises that their business has been facing many difficulties due to the Covid-19 epidemic. Therefore, LTG decided to postpone its plan to be listed on HOSE to 2022 instead of 2019 as originally expected.

Transfer of real estate in the center of Ho Chi Minh City: The company is reconsidering as they may use it for other purposes.

Highlights: Rebuilding the distribution system of the pesticides segment and stopping selling non-branded rice in order to improve the level of accounts receivable and inventory management. As a result, the inventory turnover saw a slight improvement in 3Q and 4Q in 2019. Besides, thanks to the better payment conditions from LTG's suppliers, LTG also offered a better payment policy to their large distributor having a good payment history. Therefore, although the accounts receivable turnover slowed down, the cash conversion cycle in 2H2019 improved slightly compared to the same period in 2018.

The unfavorable conditions in 1H2020 may slow down the restructuring process. Therefore, we need more time to assess the changes in LTG's working capital management in the coming quarters before making projections about the impact of those new policies on the performance.

Table 4: Changes in working capital since 3Q2019

	3Q2019 (x)	3Q2019 versus 3Q2018 (%)	4Q2019 (x)	4Q2019 versus 4Q2018 (%)	1Q2020 (x)	1Q2020 versus 1Q2019 (%)
Inventory turnover (times)	2.5	**9%**	2.6	**1%**	0.8	-47%
Accounts receivable turnover (times)	3.3	-5%	3.7	-17%	1.8	-34%
Accounts payable turnover (times)	4.3	**-1%**	3.9	**-22%**	1.4	**-56%**
Cash Conversion Cycle (days)	172	**-4%**	143	**-3%**	375	50%
Short-term borrowings (VND billion)	2,332	-31%	1,970	-34%	1,995	-39%
Interest expenses (VND billion)	40	-14%	28	-40%	26	-42%

Source: LTG, Rong Viet Securities

Valuation

For 2020, we forecast that LTG's net sales and net income will be VND 6,917 billion (-16.8% YoY) and VND 283 billion (-14.3% YoY) respectively. The forecasts are based on the following assumptions:

	Net sales (VND billion)	Change YoY (%)	Gross profit margin (%)	Change YoY (%)
CPC segment	3,936	-16	30.6	+0.3
Rice segment	1,687	-35	6	+4.5
Seeds segment	753	-2	23.7	-1.1
Agriculture services segment	258		26.5	

In terms of valuation, we combine the P/E (40%) and FCFF (60%) methods in order to determine a fair value. We set a higher proportion for FCFF because LTG's business results in 2020 are not good as expected as they were negatively affected by the Covid-19 epidemic, Business results in the coming years will reflect more the ability of the company to perform well.

P/E method: we estimate that the CAGR of profit for the period of 2019-2024 is 6.4%/year, so that we determine LTG's reasonable P/E of 6.4x. The forecasted EPS of 2020 is VND 2,989, so that the appropriate value of this method is VND 19,176/share.

FCFF method: we used the following assumptions: (1) WACC is 11.6% and (2) the long-term growth rate of CF is 0.6%.

Therefore, the fair value of LTG is **VND 22,300 per share**, coupled with a VND 1,000 cash dividend. This would yield a total return of **19%** (calculated based on the closing price on July 13th, 2020).

Table 5: LTG valuation

Valuation model	Weight (%)	Price (VND)
FCFF	60%	24,402
P/E	40%	19,176
Target price (rounded)		**22,300**

Source: Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	9,031	8,310	6,917	7,419
COGS	7,098	6,608	5,331	5,710
Gross profit	1,934	1,701	1,587	1,710
Selling Expense	866	735	681	715
G&A Expense	349	324	368	382
Finance Income	20	19	22	24
Finance Expense	194	242	177	156
Other profits	5	40	10	18
PBT	549	463	397	503
Prov. of Tax	135	128	110	139
Minority's Interest	3	4	4	4
PAT to Equity S/H	412	331	283	360
EBIT	718	642	538	613
EBITDA	865	797	698	779

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	4.0%	-8.0%	-16.8%	7.3%
EBITDA	12.7%	-7.8%	-12.5%	11.5%
EBIT	13.8%	-10.7%	-16.1%	13.9%
PAT	-0.8%	-19.7%	-14.3%	26.9%
Total Assets	17.0%	-15.3%	-2.3%	4.3%
Equity	7.4%	4.3%	6.2%	6.7%
Profitability (%)				
Gross margin	21.4%	20.5%	22.9%	23.0%
EBITDA margin	9.6%	9.6%	10.1%	10.5%
EBIT margin	8.0%	7.7%	7.8%	8.3%
Net margin	4.6%	4.0%	4.1%	4.8%
ROA	5.3%	5.1%	4.4%	5.4%
ROE	16.5%	12.7%	10.3%	12.2%
Efficiency				(times)
Receivable Turnover	3.5	3.9	4.7	3.4
Inventory Turnover	2.3	2.7	1.9	2.3
Payable Turnover	3.6	3.6	3.9	2.9
Liquidity				(times)
Current	1.2	1.3	1.4	1.5
Quick	0.6	0.6	0.6	0.8
Finance Structure (%)				
Total Debt/Equity	126.6%	75.9%	75.5%	52.7%
Current Debt/Equity	120.6%	75.9%	74.8%	51.3%
Long-term Debt/Equity	6.0%	0.0%	0.7%	1.3%

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	151	127	271	307
Short-term investments	0	17	6	6
Accounts receivable	2,594	2,118	1,483	2,176
Inventories	3,096	2,492	2,881	2,475
Other current assets	161	164	150	165
Property, plant & equipment	1,226	1,135	1,038	949
Acquired intangible assets	318	272	306	290
Long-term investments	36	39	39	39
Other non-current assets	126	163	201	241
Total assets	**7,708**	**6,526**	**6,376**	**6,649**
Accounts payable	1,966	1,837	1,376	1,988
Short-term borrowings	3,000	1,970	2,060	1,509
Long-term borrowings	150	0	20	40
Other non-current liabilities	30	26	37	40
Bonus and Welfare fund	47	67	97	102
Technology-science, dev. fund	0	0	0	0
Total liabilities	**5,193**	**3,900**	**3,591**	**3,679**
Common stock and APIC	1,084	1,084	1,084	1,084
Treasury stock (enter as -)	0	0	0	0
Retained earnings	564	693	845	1,019
Other comprehensive income	80	78	87	98
Inv. and Dev. Fund	760	740	740	740
Total equity	**2,488**	**2,596**	**2,756**	**2,941**
Minority Interest	**26**	**29**	**29**	**29**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	4,341	3,486	2,989	3,794
P/E (x)	6.3	7.8	6.5	5.1
BV (dong)	31,207	32,580	34,194	36,487
P/B (x)	0.9	0.8	0.6	0.5
DPS (dong/cp)	2,000	1,600	1,000	1,500
Dividend yield (%)	8.4%	7.6%	5.1%	7.7%

VALUATION MODEL	Price	Weight	Average
FCFF	24,402	60%	14,641
PE	19,176	40%	7,670
Target price (VND)			**22,300**

VALUATION HISTORY	Price	Recommendation	Period
2019/11/08	29,400	Buy	Intermediate
2019/04/04	29,400	Accumulate	Intermediate
2018/12/28	31,200	Accumulate	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%

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.

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