PHU TAI JSC (PTB – HSX)

A Bright Prospect For PTB's Wood Processing Business

Particulars (VND bn)	Q2-FY17	Q1-FY17	+/- qoq	Q2-FY16	+/- yoy
Net revenue	1,020	923	11%	949	8%
PAT	88	60	45%	54	64%
EBIT	109	75	46%	72	51%
EBIT margin	10.7%	8.1%	259 bps	7.6%	306 bps

Source: PTB, RongViet Research

PTB maintained business growth in the first half of 2017. PTB recorded a rise by 11% in the H12017 revenue compared with the same period of 2016. There was an impressive growth in wood and stone segments revenue, which increased 26.8% YoY and 14.7% YoY, respectively, while the car segment has slowed down by decreasing 2.7% YoY. In spite of having the highest gross profit margin, the earnings from stone products have diminished since Q3 2016; reaching only 30.7%, lower than 33.9% of the prior-year period results. By contrast, the GPM of wood segment improved significantly from 11.3% in Q1 2017 to 21% in Q2 2017, and slightly went up to 87 bps over the same period of 2016. Overall, PTB has fulfilled 41% of its year target, equivalent to VND177 billion (+29% YoY).

Wood segment holds a bright prospect. Regarding PTB's business performance, we can see the earning from wooden products has been improving recently. After restructuring as well as making full use of Vina G7's inherent advantages, it is bringing in big revenue for PTB in the export wood furniture business, with an estimated revenue of VND250 billion in 2017. Besides, Phu Cat wood processing plant was put into operation completing the value chain, and estimated to contribute VND180 billion sales each year. Moreover, as PTB owns many large quarries and continually raise the production capacity of the plants, we believe its stone segment will keep pace with the growing demand for high-quality stone tiles. Notwithstanding, we consider that this segment's gross margin has continuously decreased since the company raised their investment amount and is facingintense competition with Chinese products hike. Although the automobile market has been slowing down since the ASEAN - car imported tax rate would be reduced to 0% in 2018, the decline in 2017's sales will be offset by a large bonus received from Toyota because of its increase on premium rate.

Valuation and Recommendation: *Regarding the H1 2017 performance and the three main business segments' outlook, we have slightly revised upward from the latest update. Revenue and PAT in 2017 are estimated at VND4,174 billion (+ 14% YoY) and VND359 billion (+ 35% YoY), respectively. In 2018, we expect that PTB's sales will grow by 15% YoY to VND4,875 billion and PAT will be VND427 billion, equivalent to EPS of VND11,860. Even though stable growth rates and annual dividends attract investors, we would carefully consider PTB's future growth prospects, which are still not commensurate with the investment expansion. Based on the above rationales, we rate* ***NEUTRAL*** *on PTB's stock with the target price of VND138,700/share.*

**The adjusted target price after the issuance date is VND121,400/share.*

NEUTRAL

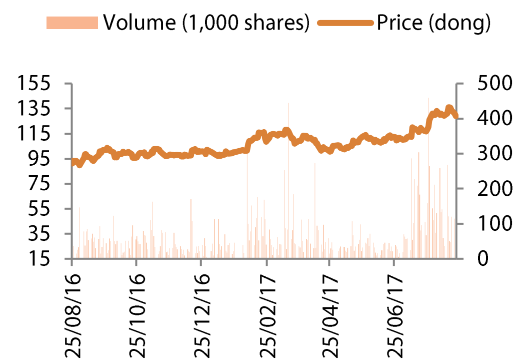
CMP (VND)	129,000
Target Price (VND)	138,700

Stock Info

Sector	Construction& Materials
Market Cap (VND B)	3,344
Current Shares O/S	25,920,194
Beta	1.02
Free float (%)	58.43
52 week High	136,000
52 week Low	90,100
Avg. Daily Volume (20 sessions)	52,200

	FY2016	Current
EPS	9,109	9,878
EPS Growth (%)	16.4	8.4
P/E	11.3	12.5
P/B	3.4	4.4
EV/EBITDA	6.9	8.3
Cash Dividend	0.8	0.9
ROE (%)	34.6	33.8

Price performance



Major Shareholders (%)

Le Vy	10.4
Le Van Thao	7.4
Le Van Loc	5.5
Foreign ownership room (%)	14.8

Thu Le

(028) - 6299 2006 – Ext 1521

Thu.lta@vdsc.com.vn

Exhibit 1: Q2/2017Results

Particulars (VND bn)	Q2-FY17	Q1-FY17	+/- (qoq)	Q2-FY16	+/- (yoy)	H1-FY17	+/-(yoy)
Net Revenue	1,020	923	10.5%	949	7.5%	1,943	10.7%
Gross Profit	164	141	15.9%	133	23.5%	305	17.8%
SG&A	55	67	-17.7%	60	-9.2%	44	5.4%
Operating Income	109	75	45.9%	72	50.7%	261	32.2%
EBITDA	143	112	28.0%	100	43.3%	255	23.2%
EBIT	109	75	45.9%	72	50.7%	184	27.7%
Financial Expenses	9	9	1.9%	11	-19.7%	18	-1.9%
- Interest Expenses	8	8	6.4%	9	-2.8%	16	7.2%
Depreciation and Amortization	34	37	-8.0%	28	23.9%	71	13.0%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	105	71	48.6%	67	58.0%	176	33.7%
PAT	88	60	45.3%	54	64.0%	142	29.4%
(*) Adjusted PAT	88	60	45.3%	54	64.0%	142	

Source: PTB, RongViet Research

Exhibit 2: Q2/2017Performance Analysis

Particulars	Q2-FY17	Q1-FY17	+/- (qoq)	Q2-FY16	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	16,1%	15,3%	0,7%	14,0%	2,1%
EBITDA Margin	14,0%	12,1%	1,9%	10,5%	3,5%
EBIT Margin	10,7%	8,1%	2,6%	7,6%	3,1%
Net Margin	8,6%	6,5%	2,1%	5,6%	3,0%
Adjusted Net Margin	8,6%	6,5%	2,1%	5,6%	3,0%
Turnover *(x)					
-Inventories	6,5	6,0	0,5	7,5	(1,0)
-Receivables	8,5	7,9	0,6	9,1	(0,6)
-Payables	12,0	10,9	1,1	15,2	(3,2)
Leverage (%)					
Total Debt/ Equity	121,1%	131,7%	-10,6bps	149,3%	-28,2bps

Source:PTB, (*) Annualized turnover

Exhibit 3: Q3/2017 Performance Forecast

Particulars (VND bn)	Q3/2017	+/- QoQ	+/- YoY
Revenue	1,029	0.9%	27.6%
Gross Profit	168	2.6%	14.9%
EBIT	105	-3.7%	20.1%
NPAT	84	-4.2%	19.1%

Source: PTB, RongViet Research

Updates:

PTB holds an extraordinary general meeting of shareholders in August 2017 to approve the plan of issuing shares to increase the capital.

The company will use total amount obtained (expected at VND216.8 billion) to purchase additional equipment and machine for Phu Cat Wood Processing Plant (VND62.8 billion) and Dien Tan - Khanh Hoa stone processing factory (VND 35.5 billion). The remaining amount of about 128.4 billion will be added to working capital. As we have known, PTB also has some plans to use that remaining amount to extend the stone-mining business.

The total number of shares scheduled to release is around 6.48 million shares at the price of VND35,000 per share and offered to buyers according to two methods. To 1.3 million shares issued to employees under ESOP, shareholders will be limited transfer within two years since completing the release. By contrast, 5.2 million shares issued to existing shareholders in the ratio of one for five are freely transferable.

Early warning of difficulty seeing demand the stone products.

Because of seasonal factors, we expect that the revenue growth would be much higher in last two-quarters of 2017. Furthermore, PTB has adjusted Granida's management structure and quarried at its two quarries since the third quarter of this year. According to the plan, PTB will build a stone processing factory on the ground of Granida's old plant in early September. Besides, Khanh Hoa stone processing factory was completed in May 2017 and is estimated to produce approximately 500,000 square meters of Granite stone per year.

Nevertheless, the slowdown in revenue growth indicates that the continuous expansion in exploiting capacity as well as processing of stone products is not keep up with the demand. Therefore, we do not hold a positive outlook in the stone segment.

Phu Cat wood processing factory expects to contribute significantly to the wood segment's performance.

According to the General Department of Customs, Vietnam exports wood and wood products valued at $ 3.6 billion in the first half of 2017, increasing 14% over the same period in 2016. The largest importer was the US with $ 1.5 billion (+ 19% YoY), followed by China and Japan.

Along with the bright prospect of timber export, PTB had a great stead forward when putting Phu Cat wood processing plant into operation in August 2017 to complete the value chain as well as actively controlling input quality of its wooden products. As the main product of the factory is plywood, it will be the input materials for G7, Thang Loi, and Dong Nai plants, and then approached the export market in the future. In four months' time, it is estimated that the sales from the plant will contribute about VND70 billion–VND80 billion to the company's revenue. With the main raw materials such as Acacia and Eucalyptus wood purchased from the Central and Northern regions, which have the low price, we hold the view that the gross profit generated from this plant operation will contribute significantly to raise the gross profit margin of the wood segment in the future.

Table: Estimated Business Result of Phu Cat Wood Processing Plan

Particulars	2017*	2018	After 2018
Capacity (m3)	13,503	35,000	45,000
Revenue (VND bn)	70.10	181.71	233.62
COGS (VND bn)	51.93	133.69	168.63
Gross Profit (VND bn)	18.17	48.02	65.00
GPM (%)	25.9	26.4	27.8

*Source: RongViet Research estimated, *since 1/8/2017*

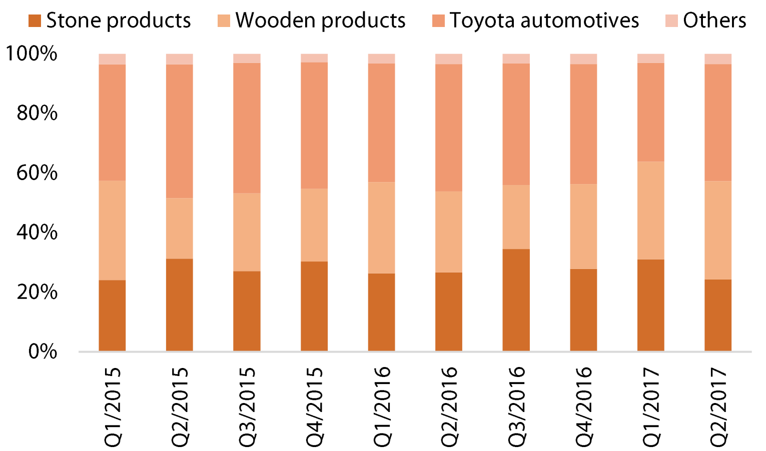
However, according to the statistics of the Forest Products Association of Binh Dinh, there is a 50% shortage of local and imported wood supply for the province's wood processing industry, especially Acacia and Eucalyptus. Therefore, the recent proposal of the Vietnam Administration of Forestry to suspend the export of logs and sawn timber from domestic plantations will guard the supply of timber for domestic firms in general and PTB in particular.

Read more at Analyst Pinboard on 08/08/2017 - PTB – Some Updates on Phu Cat Wood Processing Plant.

PTB's Automobile Sales Look Bleak in The Second Half of 2017

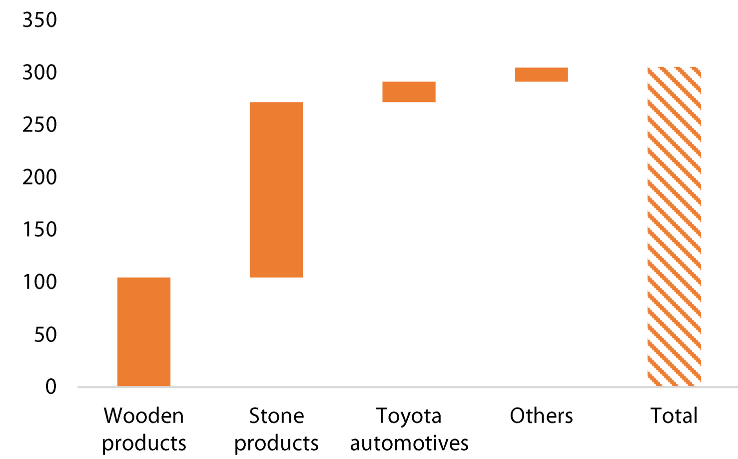
According to VAMA statistics, the market witnessed a surge of 19% YoY in Toyota, increasing its market share from 18% last June to 22% June 2017. PTB, one of Toyota dealers, sold 1,048 units in the first six months of 2017, fulfilling 47% of its year target. However, according to our forecast, the automobile segment will slow down in the next six months because most of the Toyota vehicles distributed by PTB are imported from ASEAN countries, , on which buyers would take advantage of the 0% applicable tax rate next year. Notwithstanding the outperformance of wood and stone products, the automobile segment contributed to total gross profit of only approximately 3%. Thus, the decline in sales due to lower demand will not affect significantly the profitability of PTB in 2017. Moreover, in spite of the reduced car price, Toyota has currently raised the premium rate to encourage its distributors. It is likely that PTB will record a large bonus this year. PTB is under the process of getting approval from Toyota Vietnam to open a new car showroom, but this plan would not be approved within the year 2017.

Quarterly Revenue Structure of PTB in 2015 - 2017



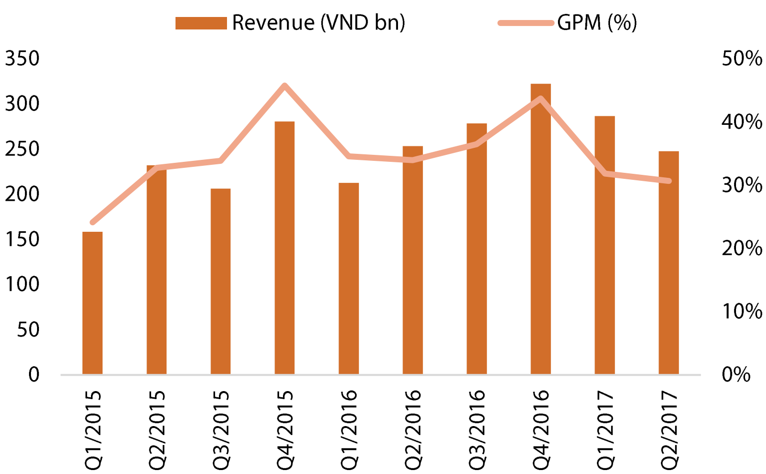
Source: PTB, RongViet Research

Gross Profit Structure by Segments in H1 2017



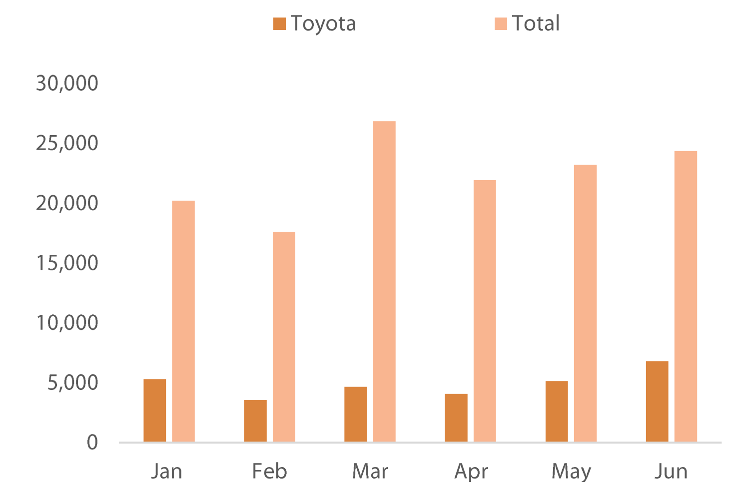
Source: PTB, RongViet Research

Quarterly Revenue and GPM of Stone Segment in 2015 - 2017



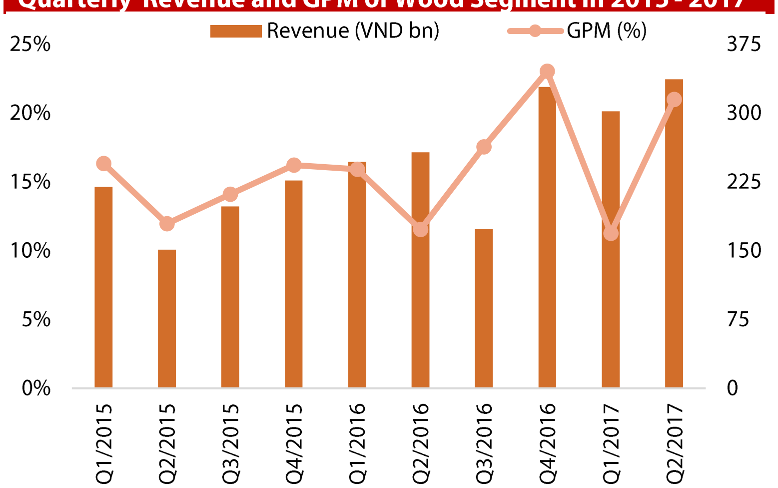
Source: PTB, RongViet Research

Toyota Vietnam 's Sales in H1 2017



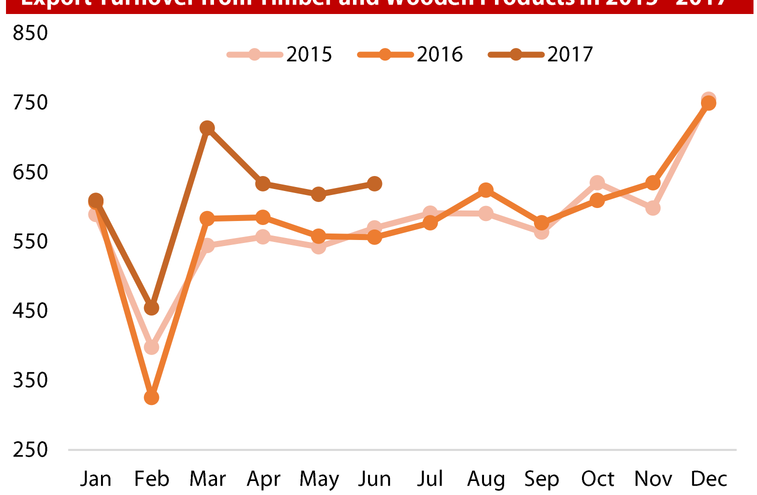
Source : VAMA, RongViet Research

Quarterly Revenue and GPM of Wood Segment in 2015 - 2017



Source: PTB, RongViet Research

Export Turnover from Timber and Wooden Products in 2015 - 2017



Source: Customs, RongViet Research

VND billion

INCOME STATEMENT	FY2015	FY2016	FY2017E	FY2018F
Revenue	3,046	3,662	4,174	4,875
COGS	2,594	3,076	3,462	4,034
Gross profit	451	586	713	841
Selling Expense	109	134	165	181
G&A Expense	88	99	95	111
Finance Income	10	10	20	16
Finance Expense	37	36	41	45
Other profits	7	11	11	12
PBT	236	338	443	532
Prov. of Tax	52	59	71	88
Minority's Interest	10	13	13	17
PAT to Equity S/H	173	265	359	427
EBIT	255	353	453	548
EBITDA	351	477	615	746

%

FINANCIAL RATIO	FY2015	FY2016	FY2017E	FY2018F
Growth				
Revenue	24.2%	20.2%	14.0%	16.8%
Operating Income	48.1%	36.1%	28.9%	21.4%
EBITDA	51.5%	38.4%	28.2%	21.2%
PAT	55.5%	52.8%	35.4%	19.0%
Total Assets	13.8%	45.8%	32.4%	12.9%
Equity	47.4%	52.1%	56.3%	24.0%
Profitability				
Gross margin	14.8%	16.0%	17.1%	17.2%
EBITDA margin	11.5%	13.0%	14.7%	15.3%
EBIT margin	8.4%	9.6%	10.8%	11.2%
Net margin	5.7%	7.2%	8.6%	8.8%
ROA	14.0%	14.6%	15.0%	15.8%
ROE	34.5%	34.6%	30.0%	28.8%
Efficiency				
Receivable Turnover	12.8	8.2	8.3	8.3
Inventory Turnover	7.1	5.8	5.6	5.3
Payable Turnover	11.1	10.3	10.5	10.0
Liquidity				
Current	1.2	1.1	1.6	1.7
Solvency				
Total Debt/Equity	95.1%	89.5%	67.4%	50.8%
Current Debt/Equity	93.4%	87.4%	60.2%	46.0%
Long-term Debt/Equity	1.6%	2.1%	7.2%	4.7%

VND billion

BALANCE SHEET	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	152	34	484	339
Short-term investments	25	44	44	44
Accounts receivable	237	449	501	585
Inventories	367	531	623	767
Other current assets	34	53	59	65
Property, plant & equipment	401	605	588	802
Acquired intangible assets	13	27	25	22
Long-term investments	0	0	0	0
Other non-current assets	13	68	75	82
Total assets	**1,241**	**1,811**	**2,397**	**2,706**
Accounts payable	234	298	329	403
Short-term borrowings	470	668	720	683
Long-term borrowings	8	16	86	70
Other non-current liabilities	2	3	3	3
Bonus and Welfare fund	10	29	29	29
Technology-science, dev. fund	0	0	0	0
Total liabilities	**724**	**1,014**	**1,167**	**1,189**
Common stock and APIC	144	216	389	389
Treasury stock (enter as -)	0	0	0	0
Retained earnings	170	261	519	806
Other comprehensive income	186	285	285	285
Inv. and Dev. Fund	2	3	3	3
Total equity	**503**	**765**	**1,195**	**1,482**
Minority Interest	**15**	**32**	**35**	**35**

VALUATION RATIO	FY2015	FY2016	FY2017E	FY2018F
EPS(dong)	9,392	10,931	11,716*	11,860*
P/E (x)	8.4	11.3	10.54	10.54
BV(dong)	35,935	36,863	36,889	45,749
P/B (x)	2.2	3.4	2.1	1.7
DPS(dong/cp)	-	1,000	1,000	3,000
Dividend yield (%)	-	0.98	0.82	2.47

** based on the weighted average of outstanding shares after issuance date.*

VALUATION MODEL	Price	Weight	Average
FCFF	127,106	33%	41,945
P/E	124,972	33%	41,657
SOTP	113,250	33%	37,750
Target price (dong)			**121,352**

VALUATION HISTORY	Price	Recommendation	Period
08/06/2017	128,800	Accumulate	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)

Ha My Tran
Deputy Manager
my.tth@vdsc.com.vn
+ 84 28 62992006 (1309)
- Macroeconomics

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
- 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

Ha Trinh
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

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

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