August, 2017

QUANG NGAI SUGAR JSC (QNS - UPCOM)

Picture mixed with light and darkness

Quang Ngai Sugar (QNS) is a leader in Vietnamese soymilk segment with 85% market share. We believe demand for soymilk, especially branded products, is still viable thanks to the consumer preference for quality and convenient products. Accordingly, we expect a 10% growth in this segment in upcoming years.

Regarding sugar segment, QNS owns An Khe plant, the biggest sugar plant in Vietnam with the capacity of 18,000 tonnes sugarcane per day. However, the raw material has not been sufficient for its full capacity. Moreover, domestic market will face many challenges when the government removes the tariff quota for sugar, following the agreement of ATIGA from the beginning of 2018.

Thanks to the dominating position in the soymilk market, QNS has been able to grow its revenue and net profit consistently. However, we have seen a rising competition since 2016, which puts the pressure on the selling price and slowdowns the growth. This explains the underperformance of its stock price after being listed. Nevertheless, in our opinion, the company still have "room" for improvement as long as the BOD shows more efforts. Thus, we forecast QNS's net profit to decrease slightly in 2017, but it should recover in 2018.

*We believe the fair price of QNS is around **VND87,400/share**. This target price, coupled with a VND2,500 cash dividend, yields a total return of **24.6%** (calculated based on the closing price on August 18, 2017) Therefore, we recommend investors to **BUY** the stock.*

Investment rationale:

- QNS is the leading player in Vietnam soy milk market.
- New factory in Binh Duong enables QNS to capture any opportunity to grow in the future.
- Since most important projects are completing, QNS's net cash flow will be relaxing in upcoming years.

Risk:

- Fierce Competition.

Key financial ratios

Y/E Dec(VND Bn)	FY2015	FY2016	FY2017F	FY2018F
Net revenue	7,785	6,972	8,415	9,260
%change	25%	-10,4%	20,7%	10,0%
PAT	1,230	1,410	1,353	1,601
% change	58.9%	14.6%	-4.0%	18.3%
Net margin (%)	15.8%	20.2%	16.1%	17.3%
ROA (%)	23.8%	23.0%	17.5%	18.1%
ROE (%)	47.2%	36.0%	26.3%	27.1%
EPS (VND)	7,924	8,937	6,460	7,641
Adjusted EPS (VND)	5,045	5,783	6,460	7,641
Book value (VND)	18,492	20,854	21,127	24,206
Cash dividend (VND)	3,000	2,000	3,000	3,000
P/E (x)	N/a	10.6	11.3	9.5
P/BV (x)	N/a	4.6	2.9	2.5

*Source: QNS, RongViet Research estimation, * Based on the price on August 18, 2017.*

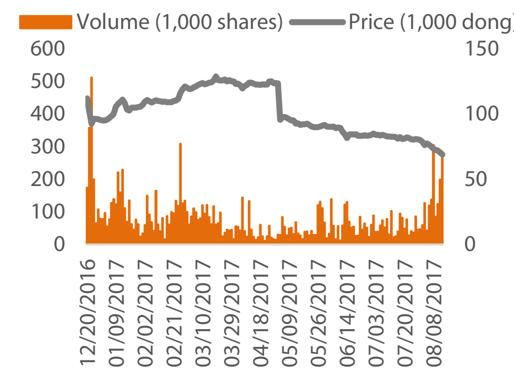
BUY

CMP (VND)	72,100
Target Price (VND)	87,400
Cash Dividend (VND)*	2,500

** Expected in the next 12 months*

Stock Info

Sector	F&B
Market Cap (VND billion)	16,675
Share O/S	205,3
Beta	1.36
Free Float (%)	64.3%
52 weeks high	128,400
52 weeks low	68,400
Average trading volume (20 sessions)	139,105



Performance (%)

	3T	1N	3N
QNS	-26%	N/a	N/a
F&B	14%	61%	244%
VN 30 Index	8%	16%	16%
VN Index	7%	18%	28%

Major sharholders (%)

Thanh Phat Ltd	15.8%
Vo Thanh Dang Group	7.6%
Foremost Worldwide Limited	5.2%
Foreigner Investor Room (%)	*41.8%*

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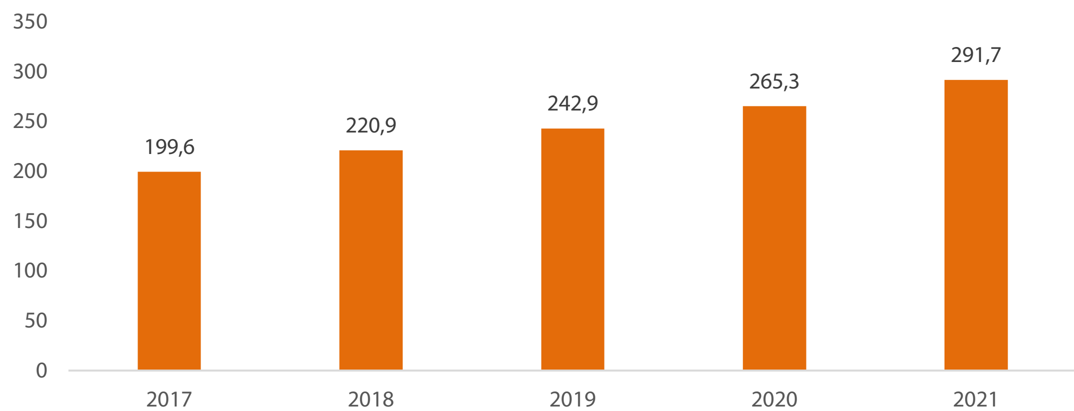
INVESTMENT RATIONALE

QNS is the leading player in Vietnam soy milk market

Soymilk is a traditional and widely consumed product in Vietnam for a long time. According to A.S. Louken's research, among many choices of drink, most Vietnamese prefer soymik just right after fruit juices. Along with the trend of plant-based, nutrient-rich product consumption, soymik sector saw a growth of 17% per year during 2011-2016.

Based on Tetra Pak's data, Vietnam is among the top soymik consuming countries in the world. However, two-thirds of soy drink comsumption is from homemade product, only one-thrid of that comes from branded one. Following the trend of fast-moving urban lifestyle and convenience food demand, branded soymik still have a obvious chance to take more market share from "street" soy drink. Therefore, branded soymilk is likely to maintain a CAGR of 10.1% in the next 5 years (2017-2021) (Euromonitor).

Figure 1: Soymilk consumption in 2017 - 2021 (thousand tonnes).



Source: Euromonitor

After dairy milk business failure, QNS shifted to other potential beverages, soymik, and then successfully exploited this segment, especially after the company was selected to participate in the "School Nutrition Program" sponsored by the US Department of Agriculture through the Red Cross (US and Vietnam). After the first brand "Fami" from 2003, the company renewed their brand awareness by changing Truong Xuan factory's name to Vinasoy Factory in 2004 and launched the second brand name "Vinasoy" in 2012. After the first brand "Fami" from 2003, the company renewed their brand awareness by changing Truong Xuan factory's name to Vinasoy Factory in 2004 and launched the second brand name "Vinasoy" in 2012.

Focusing on soy market from 2003, Quang Ngai Sugar affirmed their leadership few years later. According to the data compiled by Euromonitor, its market share increased from 50% to 85% during 2010 –2016. As a result, revenue recorded a CAGR of 35.3% and, in our opinion, here are the reasons:

(1) Building good brand awareness through "School Nutrition Program". Katar World Panel 2016 ranked "Fami" brand as the tenth among the best brands in the urban area (top 4 major cities) and second in the rural area.

Table 1: Ranking of beverage brand in Vietnam

Ranking	Urban area (top 4 major cities)	Rural area
1	Vinamilk	Vinamilk
2	Coca – Cola	Fami
3	Dutch Lady	Nescafe
4	Milo	Halico
5	Sting	Dutch Lady
6	Th True Milk	C2
7	Nescafe	Sai Gon Larger
8	C2	Wake-Up Café Sài Gòn
9	333	Coca – Cola
10	Fami	Milo

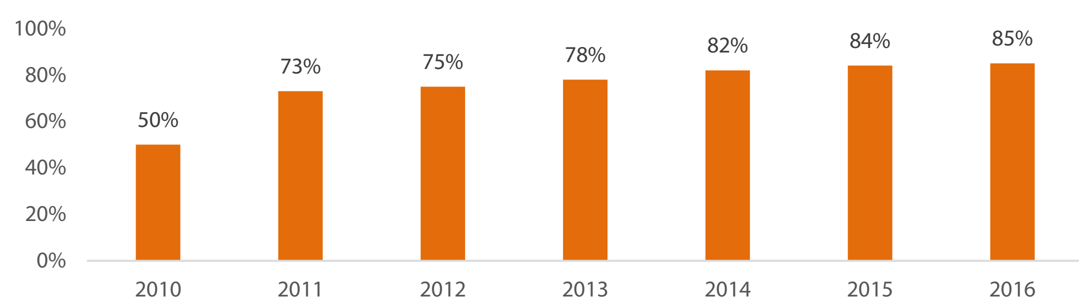
Source: Kantar World Panel 2016

(2) There has not been many players take part in the market due to its small size. Euromonitor's 2016 data showed that soymik's sales is a mere of 21.6% of dairy milk's. Moreover, there are only four producers, which are Quang Ngai Sugar, Vinamilk, Tan Hiep Phat, and Tribeco in this industry while there are more than 10 players in the dairy market.

(3) QNS pocesses a wide distribution channel with 150 distributors and 150,000 retailers, which is relatively large compared to other F&B companies' such as Kido Foods (70,000), FrieslandCampina (100,000), TH True Milk (130,000) and Vinamilk (212,000).

In the future, we believe that QNS will be able to maintain the leading position due to its current dominant market share, good brand awareness and wide distribution channel. Besides, the giant milk producer – Vinamilk has not shown intensive focus on the soy market, therefore, QNS can take advantage of the opportunity to reinforce its position in this industry.

Figure 2: Soymilk market share of Quang Ngai Sugar JSC.



Source: RongViet Research

New factory in Binh Duong enables QNS to capture any opportunity to grow in the future.

At the end of 2016, the third soymik plant started operating with a total capacity of 90 million liters for the first phase, increasing the total capacity of soymik of Quang Ngai Sugar by 30% to 390 million liters. After 6 months of operation, this factory has been running at 70% of its designed capacity. We believe that Quang Ngai Sugar has partly shifted its production from other plants in order to enjoy tax incentives and save on transportation costs. Specifically, the factory in Binh Duong has applied for the tax exemption policy for the first two years starting 2017 and 50% tax reduction for the next four years starting 2019. We estimate the new plant will contribute VND1,260 billion in revenue and VND504 billion in gross profit when fully running.

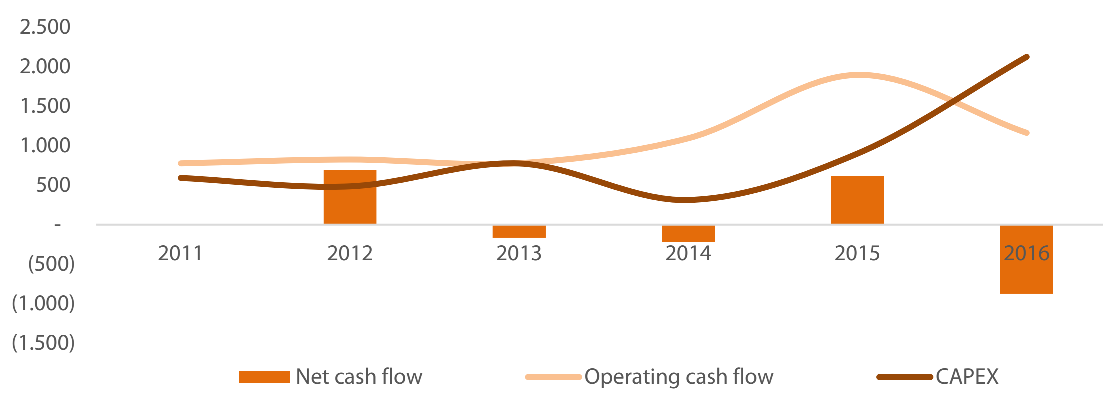
Southern market is a potential place with 36% of Vietnam's population. Therefore, the opening of a new factory in Binh Duong can help to boost the company's sales in this region, which accounts for roughly 35% of the total sales volume of the company, ranking second after the Northern market.

With the estimation of 10% in volume growth per year, we forecast 80% of designed capacity will be fullfilled at the end of 2018 and Quang Ngai Sugar can begin the second phase of Binh Duong Factory from 2019 with the same capacity as the first phase.

Since most important projects are completing, QNS's net cash flow will be relaxing in upcoming years.

Good performance from business significantly pushed operating cash flows from VND775 billion to VND1,160 billion in 2011-2016. However, huge investment on fixed assets resulted to a negative net cash flow in 2016. In details, the company spent a total of VND4,105 billion in 2013-2016 to invest in Bac Ninh soymik plant (VND650 billion), expansion of the An Khe sugar factory (VND1,600 billion), Binh Duong soymik factory phase 1 (VND400 billion on the investment plan of VND900 billion), and biomass power plant (VND1,200 billion on the investment plan of VND1,900 billion). Starting from 2017, the company's CAPEX will not be as great as it was before. Next projects (if have) would be Binh Duong soymik plant second phase and RE sugar production line. As a result, the net cash flow is expected to strengthen and QNS's shareholders could require a higher cash dividend.

Figure 3: Cash flow in 2011-2016 (Unit: VND billion)



Source: Quang Ngai Sugar Financial Report

RISK

Fierce Competition

As mentioned above, there were mainly four soymilk producers in the market: Quang Ngai Sugar, Vinamilk, Tribeco, and Tan Hiep Phat. In 2016, Nutifoods took part in this market by introducing Soymik NutiCanxi. Nutifood's market share is currently very small, compared to QNS but the company has collaboration with a vast soybean plantation owner in Vietnam as well as a large distribution channel. Besides, other foreign soymik brands have also appeared and distributed through super market and modern channel, namely Vitasoy, Homesoy and Soy Secretz.

Meanwhile, the current portfolio product of QNS is not diversifiled enough to increase its competitiveness. Aside from the traditional flavor of soybeans, there are two other flavors, namely FamiSocola and Vinasoy black sesame. On the other hand, in other markets, soymik producers like Alpro and Vitaysoy have five or six different flavors related to soymik.

INVESTMENT RECOMMENDATION

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Thanks to the dominating position in the soymilk market, QNS has been able to grow its revenue and net profit consistently. However, we have seen a rising competition since 2016, which puts the pressure on the selling price and slowdowns the growth. This explains the underperformance of its stock price after being listed. Nevertheless, in our opinion, the company still have "room" for improvement as long as the BOD shows more efforts. Thus, we forecast QNS's net profit to decrease slightly in 2017, but it should recover in 2018.

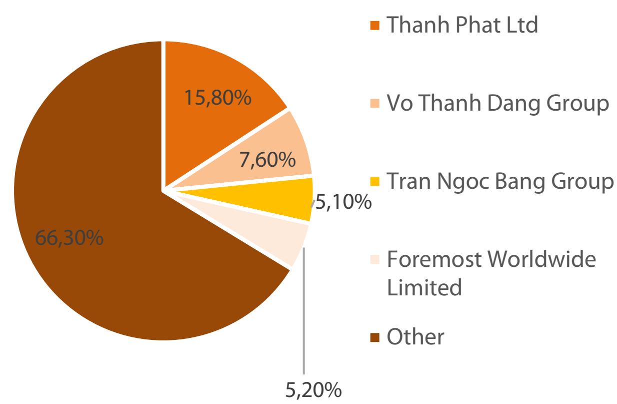
We believe the fair price of QNS is around **VND87,400/share**. This target price, coupled with a VND2,500 cash dividend, yields a total return of **24.6%** (calculated based on the closing price on August 18, 2017) Therefore, we recommend investors to **BUY** the stock.

COMPANY OVERVIEW

Quang Ngai Sugar JSC was formerly known as Quang Ngai Sugar that mainly produced RS and ethanol. Currently, the company is active in the production of soymik, RS sugar, beer, beverage, and confectionery. Moreover, the company is investing a biomass power plant in Gia Lai, which plans to produce electricity by the end of 2017.

At the end of 2016, 33.7% of total outstanding shares belonged to the four biggest shareholders and foreign ownership was around 6.95%, quite low for a big F&B company.

Figure 4: Shareholder structure



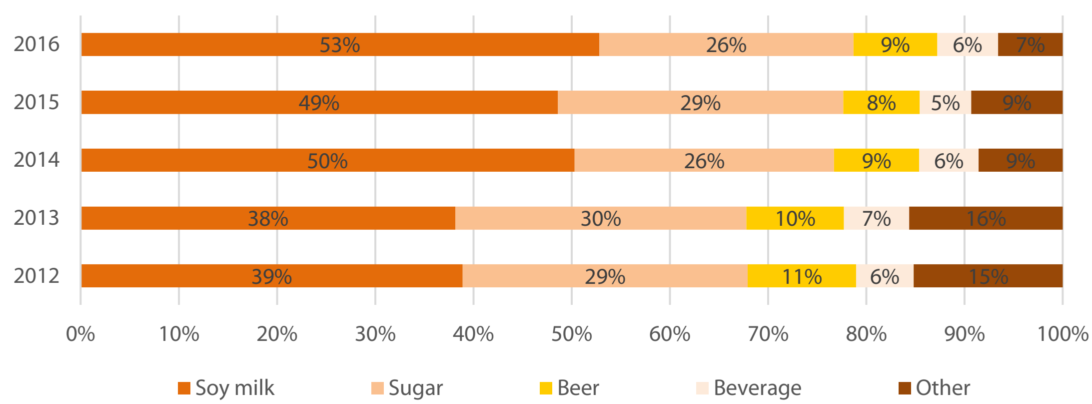
Source: RongViet Research

Note: Thanh Phat Ltd is 100% owned by Quang Ngai Sugar so all the QNS shares of Thanh Phat should be considered as treasury shares of Quang Ngai Sugar. As a result, the real ownership of other shareholders should be higer than the reported figure.

Business overview

Soymik and sugar accounts for 78% of total revenue. The remaining segments such as beer (Dung Quat Beer), beverage (Thach Bich mineral water) and confectionery (Biscafun) accounted for 22% of total sales and these products are mainly consumed locally due to their weak competitiveness.

Figure 5: Revenue structure



Source: RongViet Research

Soymik – Key Product

Quang Ngai Sugar runs soymik business with 2 main brands: Fami and Vinasoy. While Fami is targeted at children, Vinasoy is positioned as a product for women. In order to diversify its products, the company developed Pure Fami products and Calcium Fami, and Vinasoy - black sesame. Moreover, Quang Ngai Sugar also launched Soymen products for men to further expand consumer consumption although it seems to be not as successful as expected. As mentioned above, the Fami brand is popular in Vietnam as it ranks tenth in urban markets (4 major cities) and second in rural markets according to Karta World Panel's data in 2016.

Input cost

Packaging and soybean accounts for 80% of production cost, in which 30% comes from soybean. The other 20% of production cost belongs to depreciation, labor and services.

QNS is mainly using soybean from the Central Highland of Vietnam and partly from import. The company also co-operates with the farmers in order to be proactive about raw materials as well as quality assurance. Raw materials used are pure and non-GMO. In order to improve the product quality, Quang Ngai Sugar has been investing heavily in soybean plantation area and established soybean research centers to find out more suitable soybean varieties to improve productivity (with a target of 3 tonnes/ha).

Capacity

The company is now running three soymik plants, namely in the north (Tien Son - 180 million liters/year), central (Quang Ngai - 120 million liters /year), and south (Binh Duong - 90 million liters /year) with a total capacity of 390 million liters per year. The first phase of Binh Duong Factory is fulfilling 70% of its designed capacity. We expect the second phase with 90 million liters capacity will start operating in 2019 if the volume growth of soymik maintains a CAGR of 10% in the coming years. With three plants located in three regions, the company partly saves shipping costs.

Market and Position

The company mainly sells soymik through agency channels, while supermarket accounts for a small proportion. Currently, Quang Ngai Sugar has 150 distributors and over 150,000 retailers. In the early days, the company focused on the North market and only penetrated the South market in 2008, so its market share was divided by region with 40% of output coming from the North, 35% coming from the South and the rest of 25% from the Central. In addition, the long-term orientation of the company is Chinese market with a population 14 times higher than Vietnam and consumption of soymik per capita is only 0.08 liters/year while each Vietnamese consumes 3.3 liters/year.

QNS has been dominating the soymik market with 85% of the market share thanks to good brand awareness and wide distribution channel. The average soymik consumption increased by 20.2% in 2012-2016.

Figure 6: Other soymik brands in Vietnam

Vitaysoy *Soy Secretz* *Homesoy* *Nuti Canxi*

Source: RongViet Research

Sugar production: running the biggest sugar plant in Vietnam

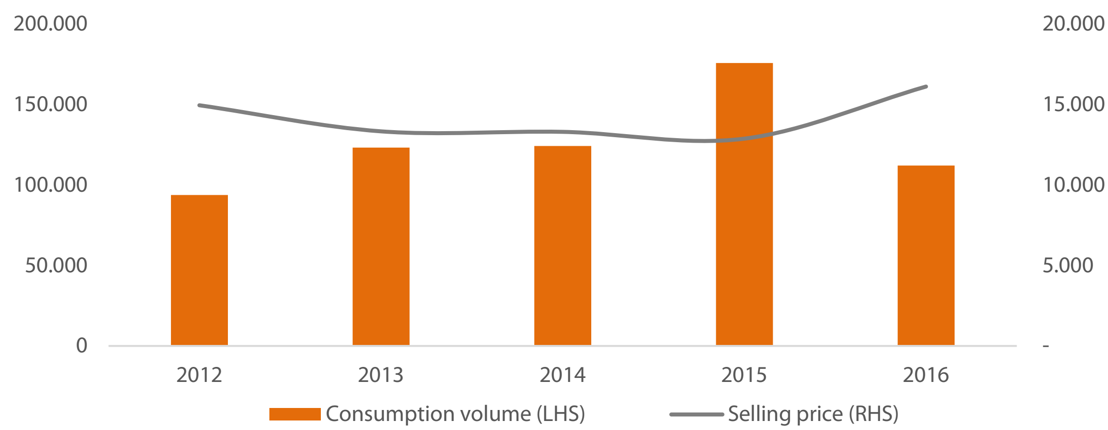
Product

Quang Ngai Sugar only produces RS to supply mainly to industrial customers. Besides, the company partly consumes RS sugar for internal production of soymik and confectinery.

The current capacity is 2,100 tonnes per day and expected to set up a RE production line with the capacity of 1,000 tonnes per day in the coming times. We believe that the company will build an RE brand to target the individual customers.

In 2019-2020, the company plans to triple its sugar consumption to 500,000 – 600,000 tonnes per year (including RE and RS). However, we still wonder about the potential market for additional production because a high production cost will weaken the competition of domestic sugar, especially when Vietnamese government removes the tariff rate quota for sugar according to an agreement of ATIGA from the beginning of 2018. We believe this ambitious plan relates to the new investment of RE production line, which is at the research stage. Accordingly, the company will import raw sugar from Thai Lan for refining. This can be considered as a good idea to deal with the competition when tariff rate quota is removed.

Figure 7: Consumption volume (tonnes) and selling price (VND/kg)



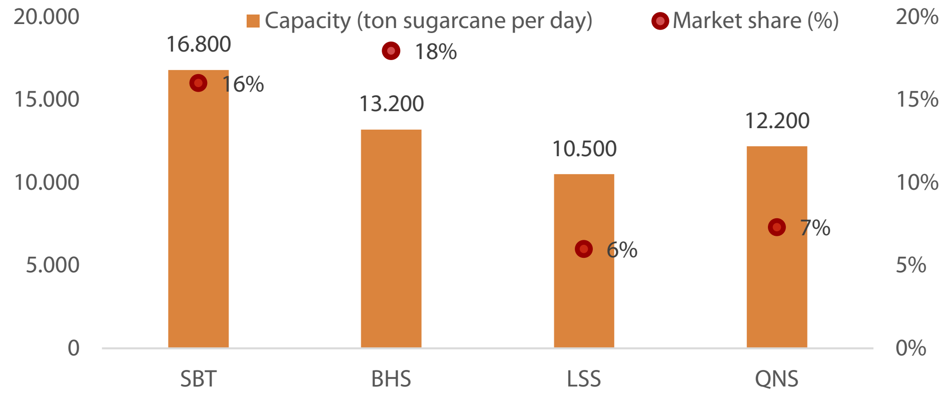
Source: RongViet Research

Factory and raw material

Currently, the company owns two sugar mills in Quang Ngai (Pho Phong factory) and Gia Lai (An Khe factory) with the total capacity of 20,200 tonnes of sugar cane (TMN). AnKhe factory has been upgraded to the capacity of 18,000 TMN, becoming the largest one in Vietnam.

The company is owning 3,200 ha of sugarcane in Quang Ngai and 26,000ha of sugarcane in Gia Lai In 2016-2017, total sugarcane is harvested at 1,6 million tonnes, fulfilling 90% of the company's demand. As a result, QNS is trying to expand its material area as well as apply technology to ensure the input for its sugar plants.

Figure 8: Capacity (LHS) and sugar market share of Quang Ngai Sugar (RHS) before upgrading An Khe Plant



Source: RongViet Research

Biomass plant to contribute to the business result from 2018

Along with expanding the capacity of An Khe Sugar Factory, the company has been investing a biomass power plant with a capacity of 95MW to utilize bagasse from sugar production. Annual electricity production is about 220 million kWh, of which over 80%-90% of the output is sold to EVN. Estimated selling price will be about 5.8 cents / kWh. The plant is expected to operate from the end of 2017 and early 2018 with revenue estimated at VND284 billion and PAT of VND143 billion. The plant can further improve sales and profit as more sugarcane bagasse material or use other alternative input to extend the operating time.

RISK

Sugar competition

The price of sugarcane in Vietnam over the past two years ranged from VND850,000 VND/tonne to VND1,100,000 million/tonne. Meanwhile, according to the USDA, the price of sugarcane in Thailand was around VND600,000/tonne due to its technological advantage and area, so the production cost of Thai sugar is cheap and of course, the selling price is more competitive than Vietnamese sugar. Therefore, if Vietnamese government removes the tariff rate quota for sugar accordance with ATIGA Argreement from the beginning of 2018, Thai sugar will enter Vietnam officially and create a strong competition to domestic products.

Table 2: Tariff rate quota

Time	2011-2017	2018 onward
Tariff rate in quota	5%	5%
Tariff rate off quota	80% - 100%	5%

Source: RongViet Research

FINANCIAL ANALYSIS

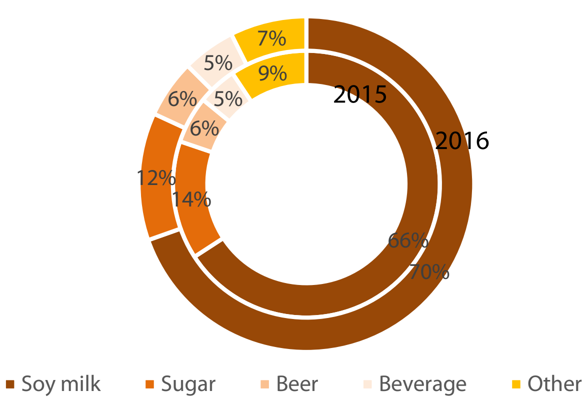
Positive growth in terms of revenue and net profit

The company performed well with CAGR of 9.5% in revenue and 18.8% in net profit in 2012-2016. Thanks to a bigger contribution of soymik (high gross margin – 40%) in revenue, net profit recorded a higher growth, compared to its sales.

In individual segments, soymik sales growth in 2012-2016 is 18.2%, with average volume growth of 20.2%. Gross profit margin is maintained at 40%. In 2016, sales fell 2% due to falling prices despite an 8% increase in volume.

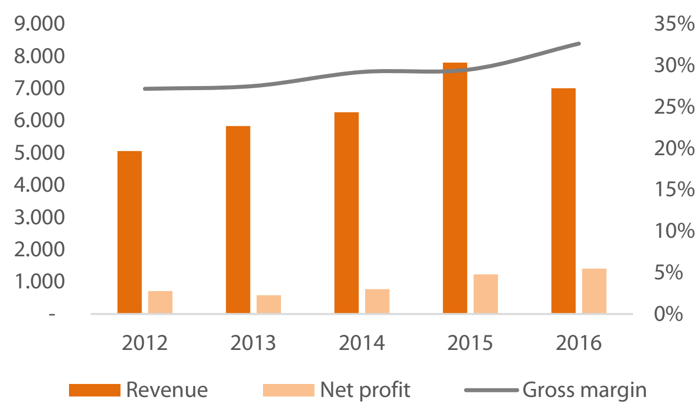
Meanwhile, Sugar's sales grew by an average of 6.5% in the period 2012-2016 with average consumption growth of 4.5%. For 2016, sales fell sharply by 20% as sugar consumption dropped in 2016, offsetting rising sugar prices due to El Nino's influence.

Figure 9: Gross profit structure in 2015, 2016



Source: RongViet Research

Figure 10: Revenue (VND billion), net profit (VND billion) and gross margin (%)



Source: RongViet Research

Profitability and liquidity

	2012	2013	2014	2015	2016
Profitability ratio (%)					
Gross profit margin	27.2	27.5	29.2	29.5	32.6
EBITDA margin	19.4	17.5	20.2	21.6	26.4
EBIT margin	15.7	13.9	15.1	17.5	22.1
Net profit margin	14.7	10.5	12.4	15.8	20.2
Activity ratio (x)					
Inventories turnover	10.7	10.5	9.0	12.2	10.8
Receivables turnover	17.3	17.9	24.7	16.1	12.7
Payable turnover	9.7	9.1	7.5	8.1	6.5
Cash conversion cycle (day)	17.6	15.0	6.9	7.4	6.3
Dupont analysis					
EBIT/Sales (%)	14.7	10.5	12.4	15.8	20.2
Sales/Total Asset (x)	1.6	1.4	1.6	1.5	1.1
Total Asset/Equity (x)	2.0	2.3	2.3	1.9	1.6
ROE (%)	47.3	33.8	44.6	47.2	36.0

Source: RongViet Research

The receivables turnover tends to decrease over the past 3 years mainly due to the influence from advance payments to suppliers. But looking deeply at the receivables account structure, the receivables from customers are quite stable at VND20 - 30 billion although sales keep~~s~~ increasing steadily during 2012-2016, which implies a good management of receivables.

ROE is continuously rising from 2013 to 2015 thanks to the high net margin and total asset turnover. However, lower total asset turover (because sales decreased in 2016) and the deleveraging pulled down ROE to 36%.

Solid financial position

Despite a heavy investment in fixed assets in 2012-2016, the leverage ratios continued to decline as the company mainly financed those projects by its operating profit. We estimate the company's financial positon will remain strong at least in the next three years because we have not seen any huge investment plans. The biggest investment may be from the RE sugar production line and the second phase of the Binh Duong soymik factory (VND200 billion as our estimation). With cash flow from business activities is over VND1,000 billion, Quang Ngai can fully finance the project without an additional debt.

Ratio (%)	2012	2013	2014	2015	2016
Total liabilities/Equity	101.3	132.5	127.4	98.3	56.6
Total liabilities/Total Asset	50.3	57.0	56.0	49.6	36.1
Short term liabilities/Equity	77.0	105.9	115.9	85.1	50.3
Long term liabilities/Equity	24.3	26.6	11.4	13.2	6.3
Short term liabilities/Total Asset	38.3	45.6	51.0	42.9	32.1
Long term liabilities/Total Asset	12.0	11.4	5.0	6.7	4.0

Source: RongViet Research

FORECAST

Table 3: Revenue and gross profit forecast of each segments

Unit: VND billion	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F
Revenue	**8,415**	**9,260**	**9,895**	**10,662**	**11,465**
Soy millk	*4,050*	*4,455*	*4,901*	*5,391*	*5,930*
Sguar	*2,679*	*2,867*	*3,068*	*3,282*	*3,512*
Beer	*606*	*618*	*630*	*643*	*656*
Beverage	*442*	*451*	*460*	*469*	*479*
Biomass	*66*	*284*	*298*	*312*	*326*
Other	*572*	*585*	*538*	*565*	*563*
Gross profit	**2,518**	**2,880**	**3,135**	**3,414**	**3,729**
Soy millk	*1,600*	*1,778*	*1,966*	*2,182*	*2,419*
Sguar	*416*	*460*	*507*	*558*	*611*
Beer	*130*	*132*	*135*	*138*	*140*
Beverage	*115*	*117*	*120*	*122*	*124*
Biomass	*33*	*143*	*156*	*170*	*193*
Other	*222*	*241*	*242*	*235*	*240*

Source: RongViet Research forecast

Soymik

We expect soymik's volume keeps growing at 10% till 2021 and gross margin staying at 40%. Moreover, we believe that the second phase of the Binh Duong plant will start in 2019 to meet the growth of the market, especially the South.

In the H1 2017, soymik generated VND1,843 billion in revenue, up 4.7% YoY. However, the gross profit margin dropped to 36.3% from 33.3% in the same period last year, bringing the gross profit to VND615 billion, down 3.7% YoY. However, we believe that revenue for the H2 2017 will be more positive and most of the depreciation expenses were recognized, leading to a higher gross margin in the H2 2017. As a result, gross profit will be better. We estimate QNS's sales and gross profit to come to VND2,207 billion and VND985 billion.

Sugar

In 2017, we assume that sugar sales volume may reach to 175,000 tonnes, the same as 2015. In 2016, El- Nino limited the supply of sugarcane, affecting the production output of QNS.

In term of selling price, after rising sharply in 2016 due to a shortage of supply, the selling price has fallen slightly this year. We estimate that QNS's selling price will be 5% lower than last year. From 2018, we project sugar consumption can post a CAGR of 7% but the selling price can hardly increase due to competition. Specifically, the Government will eliminate the tariff rate quota for the sugar sector from 2018 and the sugar from Thailand - at a lower cost will compete directly with domestic sugar products. In order to improve its competitiveness, QNS has been investing in raw material areas to improve productivity and reduce costs. At present, gross profit margin is maintained at 14% -15% and may be better when the company improves the productivity of the raw material area

For RE production line, QNS plans to import raw sugar from Thailand to refine so the gross margin, in our opinion will be low. Currently, we have not included it in our projection due to shortage of information.

In H1 2017, sugar segment recorded VND1,091 billion in revenue, up 14.6% YoY. However, the gross profit margin fell to 9.4% from 14% of the same period last year due to the increasing in depreciation cost from An Khe expansion plant. As a result, gross profit was only VND102 billion, down 22.8% YoY. Similar to soymik segment, the company often recorded most of depreciation expenses in H1 2017, leading to the bias numbers in business result. Thus, we expect a significantly higher profit for the remaining of this year. Specifically, sales and gross profit are estimated at VND1,588 billion and VND314 billion, respectively.

Beer, other beverages and confectionery

Beer, confectionery, and other beverages are considered as local products which QNS only intend to maintain its operation. Besides, we do not think that it is easy to expand the market. We assume these segments will gain a slight growth of 2% per year.

Biomass plant

The Biomass plant is expected to come online by the end of 2017. We forecast the revenue of VND284 billion and the net profit of VND143 billion, based on the assumption (1) selling price of 5.8 cents/kWh and electricity volume of 203 million kWh.

Forecast overview

In 2016, QNS had no recognization for Science and Development fund and reimbursed VND90 billion of this fund, so the G&A expense was only 0.6% of total revenue. In 2017, we assume that G&A expense/revenue will return to normal level.

Totally, we estimate revenue to increase by 20.6% to VND8,415 billion, but PAT slightly drops by 4% to VND1,353 billion, equivalent to 2017 EPS forward of VND6,460 (based on the 205.3 million outstanding shares).

Table 4: Earning forecast

	FY2015	FY2016	FY2017E	FY2018F
Revenue	**7,785**	**6,972**	**8,415**	**9,260**
COGS	5,487	4,697	5,897	6,380
Gross profit	**2,298**	**2,275**	**2,518**	**2,880**
Selling expense	736	715	842	926
G&A expense	229	44	168	185
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**	**1,487**	**1,779**
Tax expense	132	133	134	178
Minority interests	0	0	0	0
PAT	**1,230**	**1,410**	**1,353**	**1,601**
EBIT	1,333	1,516	1,508	1,769
EBITDA	1,680	1,840	2,031	2,312

Source: RongViet Research

VALUATION

QNS is going to run the biomass power plant which is a investment of VND1,900 billion, accounting for 27% of total assets of the company by the end of Q2/2017. This project would bring a stable cash flow to the business. However, we still wonder about the ability to grow by increasing capacity or adjusting selling price of electricity. Therefore, we eliminate the asset value of the biomass power plant when determining the value of the company's core business.

The biomass power plant: We assume that the life cycle of this project would be 20 years and the selling price of electricity could increase by 2% pa in 2018-2021, then 1% pa for the remaining time. With the cost of equity of 14.6%, the fair value of the biomass power plant is VND 1,980 billion, equivalent to VND 9,500 per share in QNS.

Table 5: 5 year cash flow from biomass plant

	2018	2019	2020	2021	2022
FCFE	266	279	293	307	311
Discount factor	0.87	0.76	0.66	0.57	0.5
Present value	231	211	192	175	154
Present cash flow	1,980				

Core business: We apply DCF method (FCFF) with assumptions (1) WACC of 12.1% (2) g of 1%.

Finally, the fair value of QNS is ~**VND87,400/share**, equivalent to 2017 forward P/E of **13.5x**.

We also note that the outstanding shares of QNS is 205.3 million shares, after excluding 38.5 million shares hold by QNS's subsidiary, Thanh Phat Ltd.

Besides, the company also plans to issue ESOP in 2017, based on these rules:

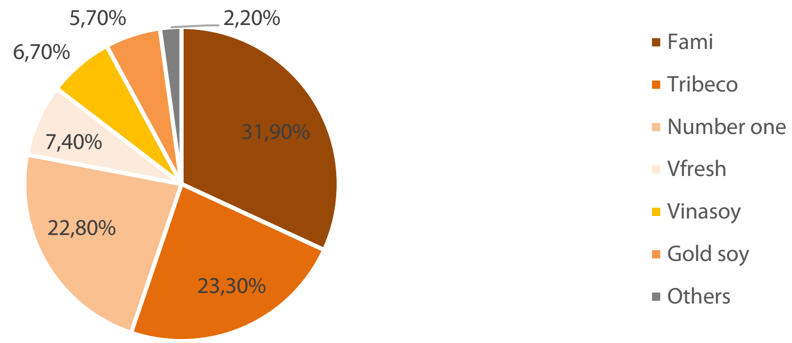
Growth of net profit and depreciation in 2017 (vs 2016)	At least 10%	At least 20%	At least 30%
ESOP ratio	1%	2%	3%
Issue price equals to the book value at 31/12/2017.			

SOY MILK INDUSTRY OVERVIEW

Dominated by four main players, in which QNS is leading.

There are mainly four soymilk producers in the market: Quang Ngai Sugar, Vinamilk, Tribeco and Tan Hiep Phat. In 2016, Nutifoods took part in this market by introducing Soymik Nuti Canxi. However, this company has not gained a lot of market share due to late penetration. In fact, the soymik market in Vietnam is currently dominated by Quang Ngai Sugar while Vinamilk, Tan Hiep Phat and Tribeco account for the rest.

Figure 12: Market share by brand



Source: Euromonitor

Drinking homemade milk – traditional habit

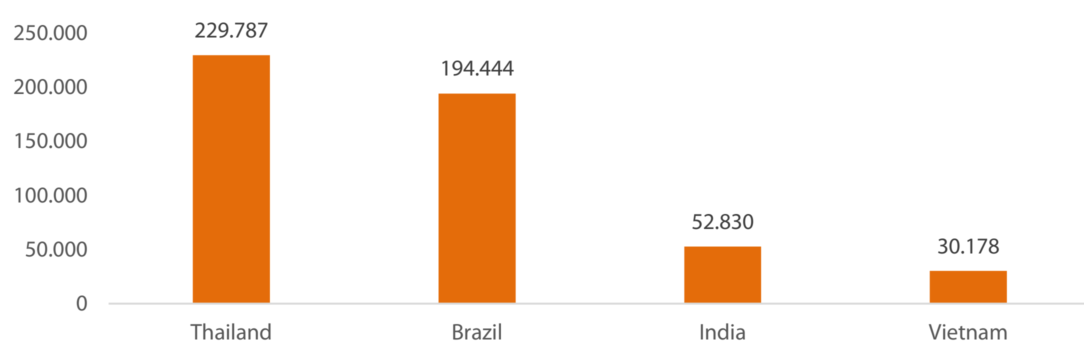
Vietnam is among the largest soymik consuming countries. According to Euromonitor, Vietnamese drinks 180,000 tonnes of soymik, ranking fourth in the world after China, Thailand, and the United States. Soymik is a longstanding product in Vietnam and consumers' habits are mainly using homemaded soymik products. Tetra Pak's report indicates that only 32% of the soymik, consumed in Vietnam, is branded products.

SUGAR INDUSTRY OVERVIEW

Many manufacturers but mostly small

In the 2015/2016 season, 41 sugar mills were in production with a total designed capacity of 155,300 tonnes of sugarcane per day and sugar output of around 1,237,300 tonnes, down 12.7% YoY. Compared to Thailand, the number of factories in Vietnam is equivalent but the production capacity is only 1/10. The largest sugar factory in Thailand can crush 40,000 tonnes of sugarcane per day, while An Khe Sugar Mill (the largest in Vietnam) is capable of handling only 18,000 tonnes of sugarcane per day.

Figure 13: Average capacity per sugar mill in 2015-2016 (thousand tonnes)

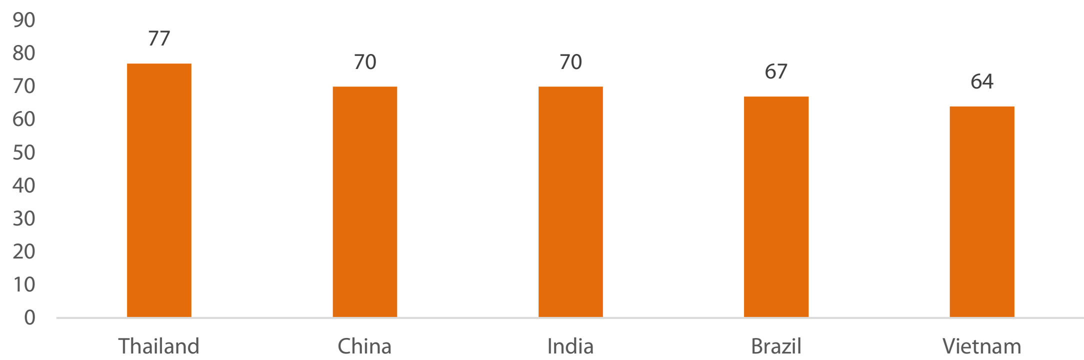


Source: RongViet Research

High production cost and low competition

In the 2015/2016 season, sugarcane area across the country fell 6.7 percent to 284,367 hectares, with sugarcane output at 18,300,000 tonnes, down 8 percent, corresponding to a capacity of 64.4 tonnes per hectare. The sugar industry in Vietnam is facing many difficulties in raw material areas and productivity. In recent 3 years, sugarcane area in Vietnam tends to decrease as sugarcane growers switch to other crops with higher efficiency. In addition, the application of mechanization to sugarcane production has not been widely applied, resulting in low yield of raw material.

Figure 14: Capacity of sugarcane material (tonnes/ha)



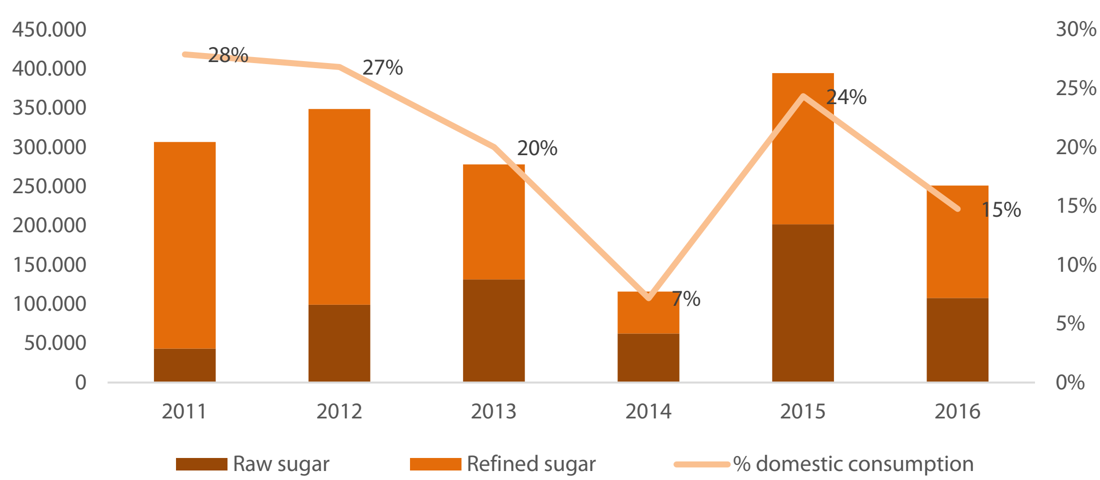
Source: RongViet Research

Besides, sugar content in Vietnam is still higher. In average, Vietnam needs 12 tonnes of sugarcane to produce one tonne of sugar while Thailand and Brazil only need 8-9 tonnes. Therefore, the cost of sugar production in Vietnam is much higher than other countries, leading to the lower competition.

Sugar industry may face difficulties from 2018

Vietnam sugar industry usually faces difficulties when Thailand's sugar – cheaper price, is imported. Under the ATIGA agreement, tariff rate quota will be removed from 2018, allowing Thailand's sugar to officially enter Vietnam in unrestricted quantities at a low tax rate.

Figure15: Imported sugar volume from Thailand (tonnes) and imported sugar/domestic consumption in Vietnam (%)



Source: RongViet Research, USDA

Unit: VND billion

INCOME STATEMENT	2015A	2016A	2017F	2018F
Revenue	7,785	6,972	8,415	9,260
COGS	5,487	4,697	5,897	6,380
Gross profit	**2,298**	**2,275**	**2,518**	**2,880**
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EBIT	1,333	1,516	1,508	1,769
EBITDA	1,680	1,840	2,031	2,312

Unit: %

FINANCIAL RATIO	2015A	2016A	2017F	2018F
Growth				
Revenue	24.6	-10.4	20.7	10.0
EBITDA	33.3	9.6	10.4	13.8
EBIT	42.6	13.7	-0.5	17.3
PAT	58.9	14.6	-4.0	18.3
Total Asset	31.1	18.4	26.0	14.8
Total Equity	50.3	50.0	31.7	14.6
Profitability				
Gross profit margin	29.5	32.6	29.9	31.1
EBITDA margin	21.6	26.4	24.1	25.0
EBIT margin	17.1	21.7	17.9	19.1
Net profit margin	15.8	20.2	16.1	17.3
ROA	23.8	23.0	17.5	18.1
ROIC or RONA	44.6	36.2	28.0	29.0
ROE	47.2	36.0	26.3	27.1
Efficiency (x)				
Receivables turnover	11.1	17.7	11.4	11.4
Inventories turnover	15.5	9.1	10.5	10.5
Payables turnover	7.9	6.2	7.7	7.7
Liquidity (x)				
Current	1.5	0.9	1.2	1.6
Quick	1.3	0.7	1.0	1.4
Financial Structure				
Total debt/ Equity	64.8	35.6	33.6	34.8
ST debt / Equity	57.1	30.1	30.3	32.7
LT debt/ Equity	7.7	5.5	3.3	2.1

Unit: VND billion

BALANCE SHEET	2015A	2016A	2017F	2018F
Cash and cash equivalents	1,009	137	1,090	2,229
Short term investment	1,168	555	400	600
Accounts receivable	702	395	738	812
Inventories	354	519	560	605
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**	**7,718**	**8,857**
Account Paybale	695	753	767	830
Short term borrowings	1,489	1,178	1,562	1,932
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**	**2,567**	**2,955**
Common stock and APIC	1,638	2,164	2,726	2,726
Treasury stock	-834	-834	-834	-834
Retained Earnings	1,482	2,198	2,807	3,478
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	322	384	452	532
Total Equity	**2,608**	**3,911**	**5,151**	**5,902**
Minority Interest	0,0	0,0	0,0	0,0
Total Resources	**5,171**	**6,124**	**7,718**	**8,857**

CASH FLOW STATEMENT	2015A	2016A	2017F	2018F
Profit before tax	1,362	1,543	1,487	1,779
Depreciation	358	341	523	543
Adjustment	104	(90)	40	91
Working capital	69	(634)	(434)	(235)
Net Operating CFs	**1,893**	**1,160**	**1,617**	**2,178**
Fixed Asset	(622)	(522)	(3,078)	(314)
Deposit, equity investment	(296)	(913)	-	-
Interest, dividend, cash profit received	-	-	-	-
Net Investing CFs	**(917)**	**(1,435)**	**(3,078)**	**(314)**
Capital	235	465	563	-
Debt	227	(298)	339	325
Dividend paid & other	(821)	(765)	1,513	(1,051)
Net Financing CFs	**(359)**	**(598)**	**2,415**	**(726)**
Net Cash flow	617	(872)	954	1,138
Beginning cash & equivalents	**392**	**1,009**	**136**	**1,090**
Effect of exchange rate	0,0	0,0	0,0	0,0
Ending cash & equivalents	**1,009**	**136**	**1,090**	**2,229**

COMPANY REPORT

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

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