

12 May 2020

Viglacera (VGC)

Industrial parks on fire

- Material segment is dampened by weak demand and COVID
- Strong growth pillar of industrial park segment from previous contracts
- BUY recommendation

Facts: Materials and industrial parks see divergence

Viglacera released 1Q20 revenue of VND2,374bn, up 4.6% YoY. While properties revenue grew to VND907bn, up 28.1% YoY and driven by industrial parks, material one contracted to VND1,467bn, down 6.0% YoY and of which (1) tile was VND496bn, down 10.9% YoY (2) terracotta was VND456bn, down 5.6% YoY (3) sanitary and glass were VND382bn, down 12.2% YoY.

Gross profit was VND534bn, up 9.1% YoY. For properties segment, gross profit soared to VND275bn, up 43.5% YoY. For material, gross profit narrowed to VND258bn, down 13.0% YoY. However, SG&A was VND278bn, up 23.4% YoY and which we estimate that of material segment increased by 29.5% YoY while properties segment increased by 14.7% YoY. As the result, NPAT of controlling interest went flat YoY at VND159bn.

Pros and cons: Industrials park continues to bear fruit

We believe the poor performance of material segment is due to weak construction industry amid COVID-19 pandemic. For properties segment, amazing results came from pre-sales contracts in 2019, of which short-term advances from customers was VND1,816bn, up 129.6% YoY, and long-term unrealized revenue was stable at VND2,910bn.

In 2Q20, we expect material segment will continue to slow down because of COVID-19-derived weak demand but properties segment will keep growing. Even though registered and disbursed FDI of manufacturing sector in 4M20 plunged by 43% YoY and 9.6% YoY, large short-term advances which we estimate at around VND1,700bn at the end of 1Q20 will guarantee 2020 profit.

Action: BUY recommendation

For 2020, we estimate VGC to record revenue of VND9,761bn, down 3.8% YoY, and net profit of VND658bn, up 1.5% YoY. We believe Viglacera will be a beneficiary of the away-from-China resettlement of the global producers. Using sum of the parts method, we evaluate VGC share at VND20,600 by the end of 2020. Including the VND1,000 cash dividend per share, total expected return is 27.7% at the current price of VND16,900. Therefore, we maintain **BUY** recommendation.

12M rating **BUY (Maintain)**

24M TP **20,600** from 21,700

Up/Downside **+27.7%** (incl 6% cash dividend)

Stock data

VNIndex (May 12, pt)	835
Stock price (May 12, VND)	16,900
Market cap (USD mn)	325
Shares outstanding (mn)	448
52-Week high/low (VND)	20,500/13,400
6M avg. daily turnover (USD mn)	0.17
Free float / Foreign ownership (%)	12.3/9.9
Major shareholders (%)	
Ministry of Construction	53.4
Gelex	25.0

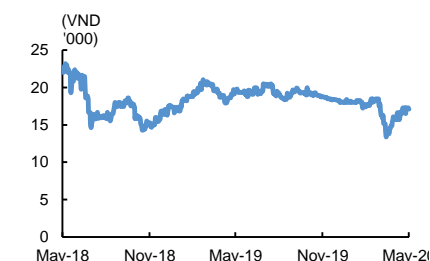
Valuation

	2019A	2020F	2021F
PE (x)	12.6	12.0	11.8
PB (x)	1.2	1.2	1.1
ROE (%)	10.5	10.7	10.5
DY (%)	5.8	5.8	5.8
EV/EBITDA (x)	4.8	4.5	4.7
EPS (VND)	1,362	1,422	1,451
BPS (VND)	13,921	14,437	15,016

Performance

	1M	6M	12M
Absolute (%)	0.1	(0.1)	(0.1)
Relative to VNIndex (%p)	0.0	0.1	0.0

Stock price



Source: Bloomberg

Vinh Chu

vinh.cd@kisvn.vn

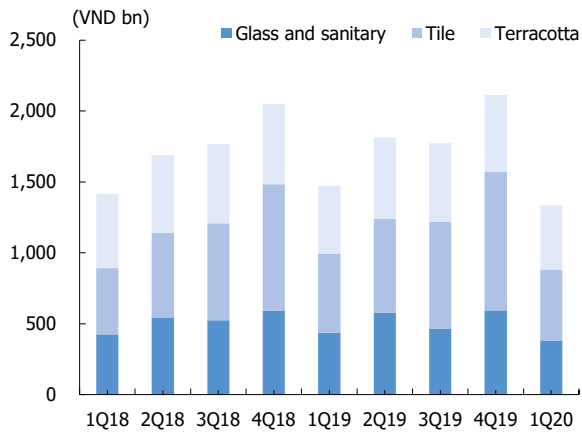
Table 1. Earnings trend and outlook

(VND bn, %, %p)

	2019				2020	2019	2020F	1Q20		
	1Q	2Q	3Q	4Q	1Q			QoQ	YoY	Consensus
Net sales	2,269	2,567	2,546	2,764	2,374	10,146	9,761	(14.1)	4.6	N.A
Material	1,561	1,847	1,928	2,063	1,467	7,456	6,705	(28.9)	(6.0)	
Properties	708	720	618	701	907	2,690	3,056	29.4	28.1	
Gross profit	489	619	671	641	534	2,420	2,295	(16.8)	9.1	
Material	297	385	425	469	258	1,577	1,386	(44.9)	(13.0)	
Properties	192	234	246	172	275	843	909	59.9	43.5	
Gross margin	21.5	24.1	26.3	23.2	22.5	23.9	23.5	(0.7)	0.9	
Material	19.0	20.9	22.0	22.8	17.6	21.1	20.7	(5.1)	(1.4)	
Properties	27.1	32.5	39.8	24.6	30.3	31.4	29.8	5.8	3.3	
Operating profit	266	315	295	223	258	1,100	1,080	15.3	(3.1)	
EBT	223	284	264	196	217	652	680	10.9	(2.9)	
Net profit	178	225	211	142	167	756	766	17.1	(6.2)	
NP of controlling interest	159	196	168	129	159	652	680	22.7	0.0	N.A
EBITDA	405	435	463	324	419	1,627	1,517	29.0	3.4	
EBITDA margin	17.8	16.9	18.2	11.7	17.6	16.0	15.5	5.9	(0.2)	
OP margin	11.7	12.3	11.6	8.1	10.8	10.8	11.1	2.8	(0.9)	

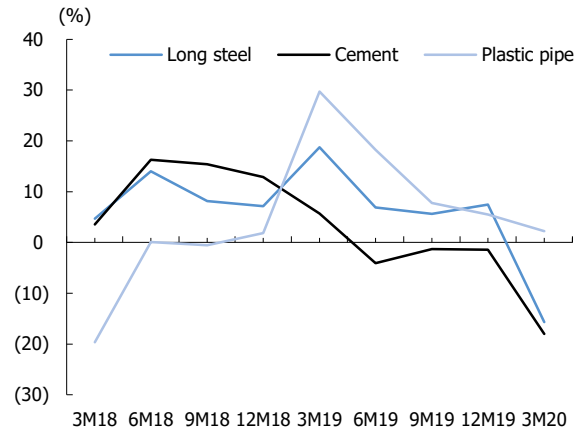
Source: Company data, KIS

Figure 1. Material revenue breakdown of Viglacera



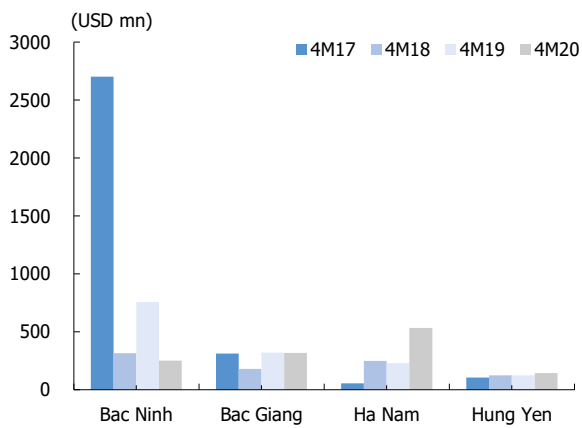
Source: VGC, KIS

Figure 2. Domestic consumption growth, YoY



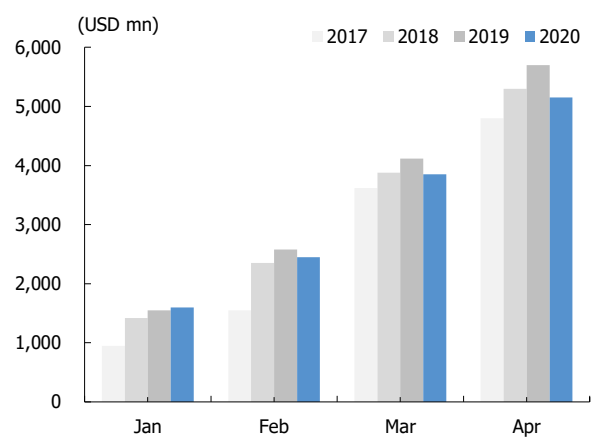
Source: VSA, VNCA, BMP, NTP, KIS

Figure 3. Registered FDI of Northern cities



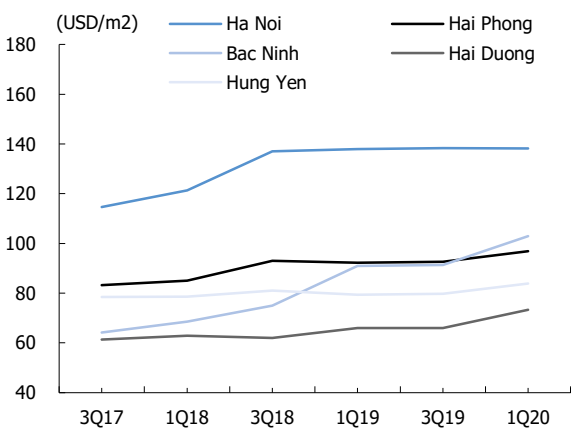
Source: MPI, KIS

Figure 4. FDI disbursement to Vietnam



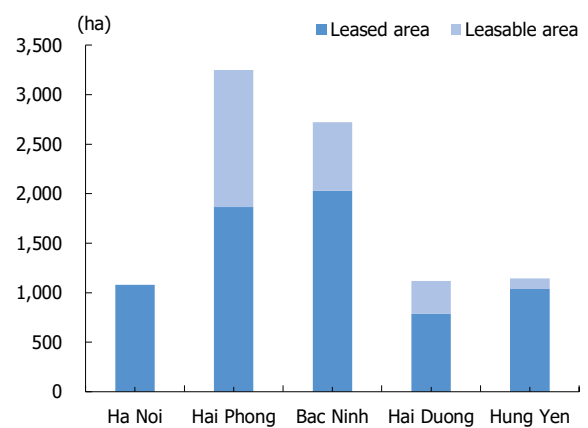
Source: MPI, KIS

Figure 5. Average land leased price in the North



Source: JLL, KIS

Figure 6. Industrial park area in the North, 1Q20



Source: JLL, KIS

Table 2. Fair value calculation

(VND bn, VND, %)

	2020F	2021F	Notes
1) Material part			EV/EBITDA multiple
EBITDA	808	869	
EV/EBITDA multiple	4.5	4.5	1-Y average EV/EBITDA of 3 leading material companies: Hoa Phat, Binh Minh and Ha Tien 1
Asset value of material part (A)	3,636	3,911	
2) Properties			RNAV and DCF
Industrial park	2,596		RNAV for leased IP and DCF for service activities, WACC = 15%, terminal growth rate = 4%
Residential projects	1,426		Book value at the end of 2019
Asset value of properties (B)	4,022		
3) Long-term investment			Book value
Long-term investment value (C)	792		
Total enterprise value (D) = (A) + (B) + (C)	8,449		
Net debt (E)	(1,677)		
Minority (F)	900		
Equity value (G) = (D) – (E) – (F)	9,226		
Number of shares (mn shares)	448		
Target price	20,600		
Annualized price return	21.8		
Expected dividend yield	5.9		
Annualized expected return	27.7	2020	

Source: Company data, KIS

■ Company overview

Viglacera Corporation is the leading construction material producer with over 40 years of operation. At the present, company's business can be separated into 2 segments, namely property including residential projects and industrial parks in the North, and construction material including building glass, tile, terracotta and sanitary wares.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	8,654	7,891	9,033	10,297	9,956
Cash & cash equivalents	2,411	1,774	2,801	3,823	3,404
Accounts & other receivables	1,486	1,288	1,393	1,395	1,366
Inventory	4,757	4,829	4,839	5,079	5,187
Non-current assets	6,915	8,104	10,191	9,257	9,116
Fixed assets	6,181	7,332	9,399	9,257	9,116
Investment assets	734	773	792	0	0
Others	465	538	664	664	664
Total assets	16,034	16,533	19,888	20,218	19,736
Advances from customers	176	268	1,933	1,558	1,747
Unearned revenue	3,018	2,989	2,998	2,998	2,653
Trade payables	2,666	2,869	4,317	4,722	4,306
Others	1,312	1,425	1,421	1,421	1,421
ST debt & due bonds	1,266	1,434	1,531	1,540	1,555
LT debt & bonds	877	675	634	607	329
Total liabilities	9,315	9,661	12,833	12,845	12,011
Controlling interest	6,116	6,166	6,241	6,473	6,717
Capital stock	4,484	4,484	4,484	4,484	4,484
Capital surplus	913	929	932	932	932
Other reserves	-46	23	2	2	2
Retained earnings	765	730	824	1,056	1,300
Minority interest	604	706	814	900	1,008
Shareholders' equity	6,720	6,872	7,055	7,373	7,725

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	1,441	1,550	4,290	993	1,539
Net profit	706	665	756	766	800
Dep'n & Amort'n	454	493	528	438	438
Net incr. in W/C	281	392	3,006	(211)	301
C/F from investing	(799)	(582)	(315)	496	(296)
Capex	(381)	(543)	(296)	(296)	(296)
Incr. in investment	(419)	(39)	(19)	792	-
C/F from financing	407	123	(1,463)	(929)	(944)
Incr. in equity	2,274	-	25	-	1
Incr. in debt	(1,351)	604	(972)	(1,040)	157
Dividends	(516)	(481)	(516)	(448)	(448)
C/F from others	-	-	-	-	-
Increase in cash	1,049	1,091	2,512	560	299

Income statement

(VND bn)

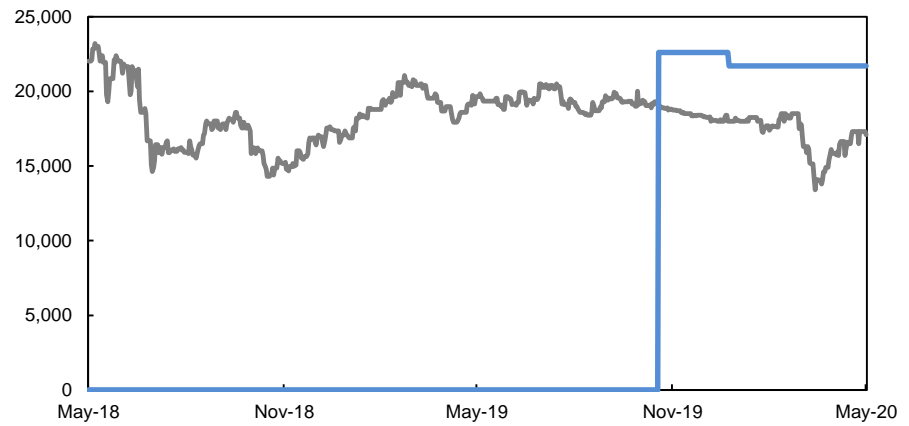
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	9,197	8,812	10,146	9,761	9,861
Operating profit	1,005	910	1,100	1,080	1,084
Financial income	78	137	98	88	121
Interest income	54	79	72	88	121
Financial expenses	170	202	211	153	146
Interest expenses	151	173	169	153	146
Other non-operating profit	(11)	28	(35)	(35)	(35)
Gains (Losses) in associates, subsidiaries and JV	16	3	3	-	-
Earnings before tax	898	844	967	980	1,023
Income taxes	192	180	211	214	223
Net profit	706	665	756	766	800
Net profit of controlling interest	600	565	652	680	693
EBITDA	1,459	1,403	1,627	1,517	1,522

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	1,295	1,183	1,362	1,422	1,451
BPS	13,641	13,753	13,921	14,437	15,016
DPS	950	950	1,000	1,000	1,000
Growth (%)					
Sales growth	13.0	(4.2)	15.1	(3.8)	1.0
OP growth	15.9	(9.5)	20.9	(1.8)	0.4
NP growth	24.1	(5.9)	13.8	1.3	4.5
EPS growth	82.5	(8.7)	15.2	4.4	2.1
EBITDA growth	12.1	(3.8)	16.0	(6.8)	0.3
Profitability (%)					
OP margin	10.9	10.3	10.8	11.1	11.0
NP margin	7.7	7.5	7.5	7.8	8.1
EBITDA margin	15.9	15.9	16.0	15.5	15.4
ROA	4.4	4.0	3.8	3.8	4.1
ROE	12.0	9.2	10.5	10.7	10.5
Dividend yield	5.6	5.6	5.8	5.8	-
Dividend payout ratio	73.4	80.3	73.4	70.3	68.9
Stability					
Net debt (VND bn)	(269)	336	(636)	(1,677)	(1,520)
Net debt/equity (%)	(4.0)	4.9	(9.0)	(22.7)	(19.7)
Valuation (x)					
PE	13.2	14.5	12.6	12.0	11.8
PB	1.3	1.2	1.2	1.2	1.1
EV/EBITDA	5.5	6.2	4.8	4.5	4.7

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
VGC	12 May 2020	Buy	20,600		
	03 Mar 2020	Buy	21,700		
	18 Feb 2020	Buy	22,600		



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15%p or more
- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 12 May 2020.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 12 May 2020

KIS Vietnam Securities Corp. has not issued CW with underlying stocks of Viglacera (VGC) and is not the liquidity provider.

Prepared by: Vinh Chu

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2020 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..