

29 Sep 2022

An Cuong Wood (ACG)

Pre-listing: Top tier in the wooden industry

An Cuong Wood (ACG) will be delisted on UPCoM, on September 28. As such, ACG is going to be listed on HOSE with its 135.85mn shares in the next few weeks. As one of the top players in the wood and wood products industry, ACG is also among the top-tier local manufacturers and suppliers of interior decoration materials.

Dominating the domestic markets

ACG is holding 55% domestic market share of decoration materials in the mid-range and high-end segments. They could diversify the distribution channels, mainly supply for project contractors and designers (contributing 42% of revenue), distributors (28%), and real estate projects of Vinhomes, Novaland, CapitaLand, Keppel land, etc (15%). ACG owns an area of 240,000 m² as 2 factories in Dat Cuoc Industrial Park, Binh Duong province.

Expanding capacity to ride on the buoyant market

ACG and Sumitomo-related company are reported to spend an investment of USD109mn to build a new MDF board (raw material for interior products) factory with a capacity of 400,000m³ in 4Q22F. Being completed in 3Q23F, the new plant (65% owned by ACG) could be the 4th largest MDF factory in Vietnam, lagging behind the plants of Kim Tin Group, Dongwha & Vietnam Rubber Group JV's and May Forestry JSC of TH Group. Per management, 50% of MDF board would be the internal source that could expand ACG's gross margin.

Optimistic 1H22 business result

ACG posted a VND1,914bn revenue (+12% yoy), contributed by 84% and 16% of domestic and export revenue, respectively. Since the ACG chose fat-margin orders, 1H22 GPM improved by 8%p to 29% in 1H22. As a result, NPAT surged by 17.3% yoy to VND278bn. The net margin increased 8bps of to 14.7%. The 1H22 revenue and NPAT fulfilled 45%/51% of 2022 guidance.

Valuation

ACG's share price was VND68,900 on last trading day in UPCoM, translating TTM PE of 18.4x and forward PE of 16.6x, lower than the median 1-year history at 19.9x. Compared with its rival, Thuan An Wood (GTA VN Equity, Non-rated) who is trading at 9.5x TTM PE, ACG's valuation is not cheap.

| Yr to | Sales | OP | NP | EPS | % chg | EBITDA | PE | EV/EBITDA | PB | ROE | DY |
|-------|----------|----------|----------|----------|--------|----------|------|-----------|-----|------|-----|
| Dec | (VND bn) | (VND bn) | (VND bn) | (VND) | (YoY) | (VND bn) | (x) | (x) | (x) | (%) | (%) |
| 2017A | 3,183.5 | 639.1 | 515.3 | 12,038.0 | - | 681.5 | 5.7 | 4.3 | 1.4 | 24.9 | 0.0 |
| 2018A | 3,873.0 | 629.3 | 505.2 | 6,290.0 | (47.7) | 698.2 | 10.9 | 8.3 | 2.2 | 19.8 | 0.0 |
| 2019A | 4,434.6 | 489.9 | 486.3 | 5,660.0 | (10.0) | 598.7 | 12.2 | 10.1 | 1.8 | 14.4 | 5.2 |
| 2020A | 3,753.6 | 467.8 | 491.9 | 5,613.0 | (0.8) | 582.2 | 12.3 | 10.8 | 1.7 | 14.0 | 4.4 |
| 2021A | 3,293.5 | 412.0 | 451.2 | 4,783.0 | (14.8) | 526.7 | 14.4 | 12.3 | 1.6 | 12.0 | 3.6 |

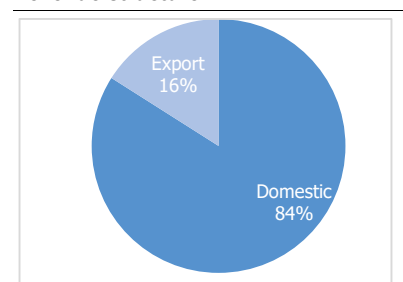
Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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Stock Data

| | |
|--------------------------------------|---------------|
| Company name | An Cuong Wood |
| Ticker | ACG |
| Scheduled listing day | |
| Reference price (VND) | 68,900 |
| Sector | Material |
| Sub-sector | Forestry |
| Paid-in capital (VND bn) | 1,358 |
| Listed shares | |
| Outstanding shares | 135,846,122 |
| Major shareholders (%) | |
| NC Vietnam Investment | 50.2 |
| Sumitomo Forestry Singapore | 19.7 |
| Whitlam Holding (JV Vinacapital-DEG) | 18.1 |
| Source: Fiiipro | |

Revenue structure 1H22



Source: Company data

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Business Overview

- Established in 2006, An Cuong Wood (ACG) specializes in wood manufacturing and distribution. Currently, ACG has a leading position in the industry, holding 55% of Vietnam’s market.
- ACG has 2 factories located in Dat Cuoc IP, Bing Duong Province with a total area of 240,000 sq m. Per management, 1st factory used over 100% total capacity while the 2nd factory is using 60% of total capacity. Factories’ capacity includes 1) wood panels: 24mn panels/year, 2) manufacture of components/interior products: 840,000 products/year, and 3) wood floor panels: 5,000,000 m2/year.
- ACG has a huge domestic customer list since they supply project contractors and designers (contributing 42% revenue), distributors (28%), and real estate projects of Vinhomes, Novaland, CapitalLand, Keppel land, etc. (15%). ACG joins in the retail segment by developing 13 showrooms and 2 franchises nationwide. In 2021, ACG spent VND500bn to acquire 12.97% shares of Thang Loi Group and 30% shares of Thang Loi Group’s subsidiary named Central Hill, a real estate developer. ACG became a strategic partner, supplying products for Thang Loi Group’s projects.

Figure 1. ACG revenue was mainly driven by domestic sale



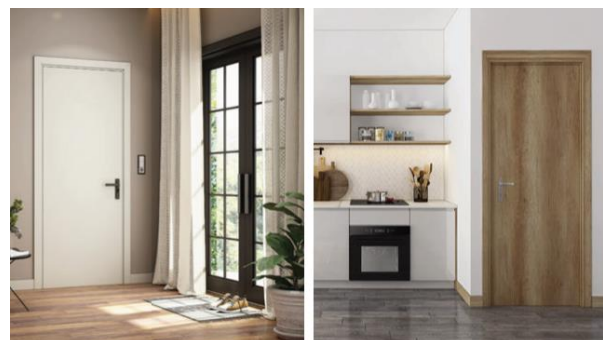
Source: Company data

Figure 2. MFC was used to make products, accounting 80% of furniture.



Note: MFC (Melamin Faced Chipboard) is a material to produce furniture
 Acrylic Panels is a material to produce furniture

Figure 3. ACG produced more than 1,000 doors per day with variety of materials



Note: Acrylic Panels is material to produce furniture, which is good-looking, luxurious
 Source: Company data,

Figure 4. Furniture with High gloss Acrylic panels



Source: Company data,

Figure 5. ACG updated the collection of floor with most trends globally



Note: Acrylic Panels is material to produce furniture, which is good-looking, luxurious
Source: Company data,

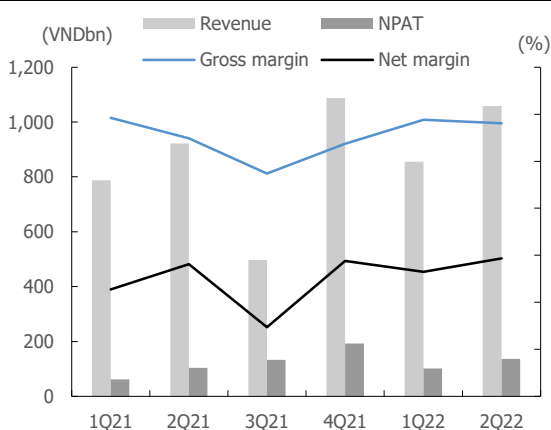
Expanding capacity in 2023F

- According to wooden associations, the wood and wooden industry in Vietnam will maintain a steady double-digit growth rate in 2023-25F, giving ample room for ACG to expand MDF's capacity by 400,000 m3 annually in 2023F. It could be a key growth catalyst for ACG in the next few years.
- Per management, 50% of MDF board of new plant would be the internal source that could expand ACG's gross margin.

Promising 1H22 financial results

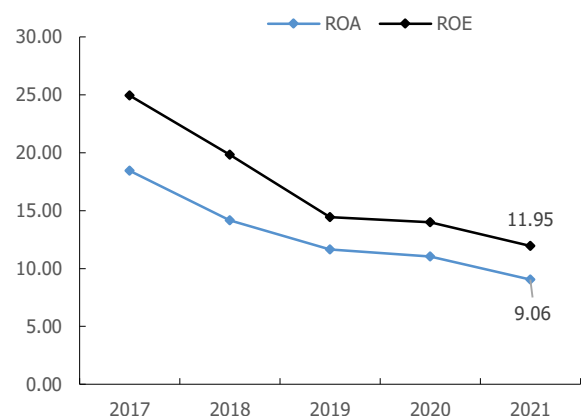
- ACG posted VND1,914bn revenue (+12% yoy), contributed by 84% and 16% of domestic and export revenue, respectively and VND278bn NPAT (+17.3% yoy). The 1H22 revenue and NPAT fulfilled 45%/51% of 2022 guidance.
- Since the ACG chose selective orders that have high GPM, thereby 1H22 GPM improved slightly by 0.8%p to 29%.
- ACG completed paying its 2021 dividends with 25% cash, 50% shares
- ROE dropped to 14.0% and 11.9% in 2020-2021, which was lower than average of previous years as 17% mainly dragged by thinner GPM amid COVID-19 diseases. Thanks to the improvement of GPM and net margin seen in 1H22, ACG expects the ROE could expand in 2022.

Figure 2. GPM improved in 1H22



Source: Company data,

Figure 3. ROA and ROE declined since COVID-19



Source: Company data

Appreciate shareholder structure

- From 2016 to 2019, Whitlam Holding Pte. Ltd (a Joint Venture of Vinacapital and KFW DEG in Singapore) and Sumitomo Forestry Singapore (a subsidiary of Sumitomo Forestry Group, indirectly owned by Sumitomo Group in Japan) invested USD28mn and USD58mn to expand 110,000 m2 of the cluster of 2 factories to total area of 240,000m2, renovate and spend for the facility.
- In July 2022 ACG incorporated to Sumitomo Forestry America to be the supplier for projects that Sumitomo Forestry America invests in US from 2022.
- Currently, Sumitomo Forestry Singapore and Whitlam Holding Pte. Ltd hold 19.7% and 18.1% shares, respectively.

Valuation

- ACG's share price was VND68,900 on last trading day in UPCoM, translating TTM PE of 18.4x and forward PE of 16.6x, lower than the median 1-year history at 19.9x. Compared with its rival, Thuan An Wood (GTA VN Equity, Non-rated) who is trading at 9.5x TTM PE, ACG's valuation is not cheap.

Figure 4. ACG PE



Source: Company data

Balance sheet

(VND bn)

| FY-ending Dec. | 2017A | 2018A | 2019A | 2020A | 2021A |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Current assets | 2,133 | 2,477 | 3,036 | 3,561 | 3,948 |
| Cash & cash equivalents | 593 | 512 | 1,027 | 1,733 | 1,627 |
| Accounts & other receivables | 534 | 579 | 689 | 695 | 941 |
| Inventory | 1,006 | 1,387 | 1,320 | 1,133 | 1,380 |
| Non-current assets | 369 | 758 | 812 | 638 | 811 |
| Fixed assets | 369 | 758 | 729 | 638 | 536 |
| Investment assets | 0 | 0 | 83 | 0 | 275 |
| Others | 293 | 333 | 331 | 254 | 223 |
| Total assets | 2,795 | 3,569 | 4,179 | 4,453 | 4,983 |
| Advances from customers | 204 | 203 | 173 | 233 | 206 |
| Unearned revenue | 0 | 0 | 0 | 5 | 4 |
| Trade payables | 288 | 294 | 254 | 245 | 289 |
| Others | 140 | 192 | 160 | 145 | 140 |
| ST debt & due bonds | 96 | 329 | 221 | 308 | 567 |
| LT debt & bonds | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 728 | 1,019 | 809 | 936 | 1,206 |
| Controlling interest | 2,067 | 2,550 | 3,371 | 3,517 | 3,777 |
| Capital stock | 428 | 803 | 859 | 877 | 877 |
| Capital surplus | 826 | 826 | 1,408 | 1,408 | 1,419 |
| Other reserves | 0 | 8 | 23 | 17 | 24 |
| Retained earnings | 813 | 913 | 1,080 | 1,215 | 1,457 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 2,067 | 2,550 | 3,371 | 3,517 | 3,777 |

Cash flow

(VND bn)

| FY-ending Dec. | 2017A | 2018A | 2019A | 2020A | 2021A |
|-------------------------|------------|-------------|------------|------------|--------------|
| C/F from operations | (252) | 205 | 424 | 828 | 81 |
| Net profit | 515 | 505 | 486 | 492 | 451 |
| Dep'n & Amort'n | 140 | 67 | 84 | 114 | 112 |
| Net incr. in W/C | (908) | (368) | (147) | 222 | (482) |
| C/F from investing | (564) | (512) | (138) | (200) | (200) |
| Capex | (509) | (457) | (55) | (100) | (100) |
| Incr. in investment | (55) | (55) | (83) | (100) | (100) |
| C/F from financing | 283 | 246 | 256 | (211) | 184 |
| Incr. in equity | 308 | 13 | 639 | 17 | 30 |
| Incr. in debt | 96 | 233 | (107) | 86 | 259 |
| Dividends | (122) | 0 | (275) | (315) | (105) |
| C/F from others | 1,126 | (20) | (27) | 290 | (172) |
| Increase in cash | 593 | (81) | 515 | 707 | (106) |

Income statement

(VND bn)

| FY-ending Dec. | 2017A | 2018A | 2019A | 2020A | 2021A |
|---|--------------|--------------|--------------|--------------|------------|
| Sales | 3,184 | 3,873 | 4,435 | 3,754 | 3,294 |
| COGS | 2,108 | 2,705 | 3,332 | 2,736 | 2,398 |
| Gross profit | 1,076 | 1,168 | 1,102 | 1,018 | 896 |
| SG&A expenses | 436 | 539 | 612 | 550 | 484 |
| Operating profit | 639 | 629 | 490 | 468 | 412 |
| Financial income | 29 | 37 | 79 | 110 | 154 |
| Interest income | 5 | 8 | 9 | 4 | 6 |
| Financial expenses | 9 | 18 | 20 | 19 | 24 |
| Interest expenses | 6 | 12 | 17 | 13 | 21 |
| Other non-operating profit | 24 | 29 | 72 | 102 | 150 |
| Gains (Losses) in associates, subsidiaries and JV | 0 | 0 | 0 | 0 | 0 |
| Earnings before tax | 663 | 654 | 554 | 562 | 546 |
| Income taxes | 147 | 149 | 68 | 70 | 95 |
| Net profit | 515 | 505 | 486 | 492 | 451 |
| Net profit of controlling interest | 515 | 505 | 486 | 492 | 451 |
| EBITDA | 682 | 698 | 599 | 582 | 527 |

Key financial data

| FY-ending Dec. | 2017A | 2018A | 2019A | 2020A | 2021A |
|----------------------------|----------|----------|----------|----------|----------|
| Per-share data (VND, adj.) | | | | | |
| EPS | 12,038.0 | 6,290.0 | 5,660.0 | 5,613.0 | 4,783.0 |
| BPS | 48,181.8 | 31,751.2 | 39,371.4 | 40,058.1 | 43,062.5 |
| DPS | 0.0 | 0.0 | 3,622.4 | 2,974.9 | 2,487.2 |
| Growth (%) | | | | | |
| Sales growth | - | 21.7 | 14.5 | (15.4) | (12.3) |
| OP growth | - | (1.5) | (22.2) | (4.5) | (11.9) |
| NP growth | - | (2.0) | (3.7) | 1.2 | (8.3) |
| EPS growth | - | (47.7) | (10.0) | (0.8) | (14.8) |
| EBITDA growth | - | 2.4 | (14.2) | (2.8) | (9.5) |
| Profitability (%) | | | | | |
| OP margin | 20.1 | 16.2 | 11.0 | 12.5 | 12.5 |
| NP margin | 16.2 | 13.0 | 11.0 | 13.1 | 13.7 |
| EBITDA margin | 21.4 | 18.0 | 13.5 | 15.5 | 16.0 |
| ROA | 18.4 | 14.2 | 11.6 | 11.1 | 9.1 |
| ROE | 24.9 | 19.8 | 14.4 | 14.0 | 12.0 |
| Dividend yield | 0.0 | 0.0 | 5.2 | 4.4 | 3.6 |
| Dividend payout ratio | 0.0 | 0.0 | 64.0 | 53.0 | 52.0 |
| Stability | | | | | |
| Net debt (VND bn) | 2.0 | 296.5 | 158.3 | 261.3 | 477.4 |
| Net debt/equity (%) | 0.1 | 11.6 | 4.7 | 7.4 | 12.6 |
| Valuation (x) | | | | | |
| PE | 5.7 | 10.9 | 12.2 | 12.3 | 14.4 |
| PB | 1.4 | 2.2 | 1.8 | 1.7 | 1.6 |
| EV/EBITDA | 4.3 | 8.3 | 10.1 | 10.8 | 12.3 |

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