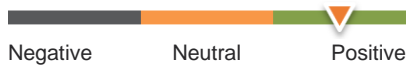


QUANG NGAI SUGAR JSC (QNS) – EARNINGS UPDATE

Market Price VND42,000	Target Price VND53,200	Dividend Yield 1.2%	Rating ADD	Sector CONSUMER GOODS
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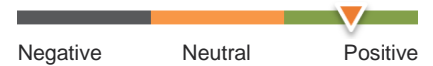
Outlook – Short term



Outlook – Long term



Valuation



6 May 2019

Nguyen Tien Duc

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A mixed showing with favorable top line but weak bottom line.

1Q19 top-line performance exceeded our expectations. QNS posted 1Q19 net revenue of VND2,000bn (+25.2% yoy), fulfilling 24.9% of our full year forecast, driven by strong performance of all facets: sugar (+30.5% yoy), soymilk (+20.7% yoy), and other businesses (+26.2% yoy). It should be noted that Q1 is the low season of QNS, normally contributing about 20-23% to the whole year revenue, thus, 1Q19 revenue was above our forecast.

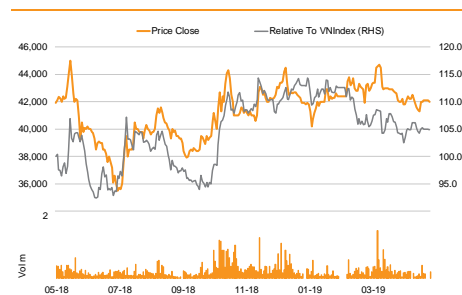
Lower input price boosted soymilk gross margin. 1Q19 global soybean ASP decreased 14.1% yoy amid trade tension between U.S-China, which helped soymilk GM expanding by 5.4% pts.

However sugar business was hurt by gross margin compression. 1Q19 GPM of sugar segment shrank by 11.4% pts due to lower average selling price (-11.7% yoy) and higher depreciation expense (+87.0% yoy). QNS tends to book depreciation corresponding to manufacturing season of sugar factories, normally lasting from Jan to Jun every year. This year, QNS' sugar factories operated from Jan to Apr due to shortage of material caused by drought-induced lower sugarcane productivity, thus FY19 depreciation expense of sugar business was largely allocated in 1Q.

SG&A expense spike and blended gross margin compression dampened earnings. The mixed performance of sugar and soymilk segment drove blended GM to contract 1.9% pts to 23.6% in 1Q19. SG&A expenses increased 34.7% yoy, outpacing sale growth due to higher advertisement expense and increasing transportation cost. In addition, effective tax rate inched up 8.1 % pts to 18.2% as tax incentive period of Bac Ninh soymilk plant ended. Consequently, QNS reported its net profit of VND154bn (-18.1 yoy).

So far the refined extra (RE) sugar factory construction costs 26% of planned budget. We believe the project construction is on track, which is expected to commence trial run in 4Q19, then start contributing to QNS' revenue since 1Q20.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	45,000
52w low (VND)	35,500
3m Avg daily volume (shares)	284,434
3m Avg daily value (VNDmn)	12,251
Market cap (VNDbn)	12,283
Outstanding shares (m)	253.0
Free float (%)	80.0
TTM P/E (x)	8.9
Current P/B (x)	2.1

Ownership

Thanh Phat Trading Ltd.	15.8%
Foremost Worldwide Limited	5.2%
Vo Thanh Dang	5.0%
Others	74.0%

Source: VNDIRECT

Financial summary (VND)	12-16A	12-17A	12-18A	12-19E
Net revenue (bn)	6,972	7,633	8,029	8,608
Revenue growth	(10.4%)	9.5%	5.2%	7.2%
Gross margin	32.6%	26.2%	29.7%	30.5%
EBITDA margin	27.8%	21.3%	24.7%	24.3%
Net profit (bn)	1,410	1,027	1,238	1,394
Net profit growth	14.6%	(27.2%)	20.6%	12.6%
FD EPS	5,572	4,058	4,893	5,510
BVPS	15,459	17,714	21,146	24,922
ROAE	36.8%	21.7%	22.7%	22.9%

Source: VNDIRECT

Figure 1: Result comparison

VNDbn	1Q18	1Q19	%yoy	% vs our FY19F forecast	Comment
			chg		
Revenue	1.597	2.000	25,2%	24,9%	
+Sugar	484	632	30,5%	28,1%	
++Sales vol (tonnes)	40.889	59.589	45,7%	29,2%	
++ASP (VND/kg)	11.840	10.600	-11,7%	-3,9%	ASP was lower due to global and regional sugar price trend
+Soymilk	659	795	20,7%	20,6%	Sale volume of soymilk increased inline with better performance of major FMCG companies in 1Q19. (Note that both VNM and SAB reported high revenue growth rate of 8.8% yoy and 19.6% yoy respectively in the same period)
+Other	454	573	26,2%	29,9%	- Beer, bottled water, confectionery sales grew inline with other FMCG companies as above. - Biomass energy plant ran at full capacity brought higher revenue (VND78bn in 1Q19 compared with VND15bn same period last year)
Gross profit	407	472	17,4%	19,8%	
GPM	25,5%	23,6%	-1,9% pts	-6,1% pts	
+Sugar GPM	15,7%	4,4%	-11,4% pts	-7,9% pts	QNS tends to book depreciation corresponding to manufacturing season of sugar factories, normally lasting from Jan to June every year. This year, QNS' sugar factories operated from Jan to Apr due to shortage of material caused by drought-induced lower sugarcane productivity, thus FY19 depreciation expense of sugar business was largely allocated in 1Q.
+Soymilk GPM	37,6%	43,0%	5,4% pts	-0,6% pts	1Q19 average soybean price decreased 14.6% yoy due to global price trend, caused by unsolved trade conflict between The U.S (world's largest soybean exporter) and China (world's biggest soybean importer)
+Other GPM	18,3%	21,8%	3,6% pts	-0,1% pts	
SG&A	216	291	34,9%	28,2%	
SG&A as % of revenue	13,5%	14,6%	1,0% pts	1,7% pts	- Advertisement and promotion (A&P) expense as % of revenue rose 1.7% pts yoy to 5.8% in 1Q19. - Transportation spending as % revenue increase 0.4% pts yoy to 2.4% in 1Q19
EBITDA	333	461	38,5%	24,7%	
EBITDA margin	21%	23%	2,2% pts	-0,2%	
Pre-tax profit	209	189	-9,9%	13,5%	
EBT margin	13%	9%	-3,7% pts	-8,0% pts	
NPAT	188	154	-18,1%	12,5%	
Net margin	11,8%	7,7%	-4,1% pts	-7,7% pts	Effective CIT rate increase by 8.1% pts as Bac Ninh soymilk plant's tax incentive period ended.

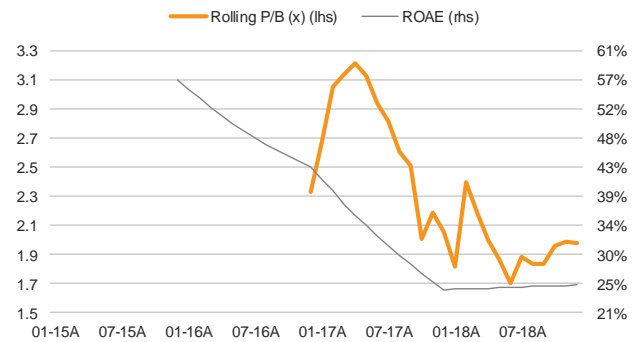
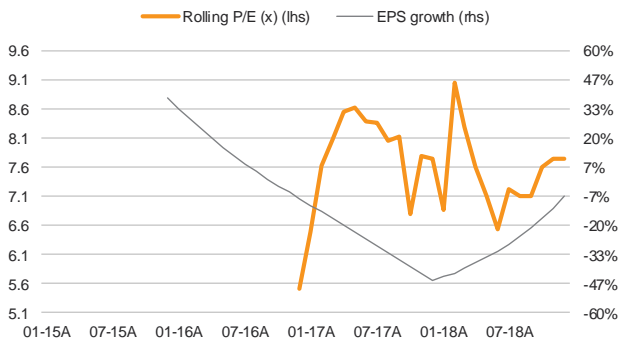
Source: VNDIRECT

Figure 2: Peer comparison (Data as of 02 May 2019)

Peers	Market	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	TTM P/B (x)
Beverage									
VNM	Vietnam	9,734.8	2.5%	2.5%	26.9%	35.7%	0.1x	21.9x	7.8x
SAB	Vietnam	6,720.3	-8.9%	-8.9%	18.6%	24.8%	0.0x	36.5x	9.1x
VCF	Vietnam	208.0	7.7%	7.7%	28.0%	39.7%	0.3x	8.1x	3.2x
SKV	Vietnam	23.4	22.2%	22.2%	15.0%	25.8%	0.3x	6.7x	1.7x
Average		5,554.4	0.5%	0.5%	24.5%	33.4%	0.1x	18.3x	6.7x
Sugar									
SBT	Vietnam	413.2	4.6%	4.6%	2.6%	7.3%	1.5x	21.2x	1.5x
SLS	Vietnam	16.8	-59.1%	-59.1%	4.4%	11.8%	1.2x	6.9x	0.8x
KTS	Vietnam	3.8	20.1%	20.1%	2.5%	6.3%	1.4x	8.8x	0.6x
Average		215.0	-27.3%	-27.3%	3.5%	9.5%	1.3x	12.3x	1.2x
QNS	Vietnam	521.0	20.6%	20.6%	14.6%	23.5%	0.6x	8.9x	2.1x

Source: VNDIRECT, FiinPro

Valuation



(VNDbn)	12-17A	12-18A	12-19E
Net revenue	7,633	8,029	8,608
Cost of sales	(5,637)	(5,645)	(5,979)
Gen & admin expenses	(146)	(240)	(257)
Selling expenses	(697)	(792)	(849)
Operating profit	1,153	1,352	1,523
Operating EBITDA	1,567	1,844	2,038
Depreciation and amortisation	(414)	(493)	(515)
Operating EBIT	1,153	1,352	1,523
Interest income	38	87	80
Financial expense	(78)	(96)	(87)
Net other income	26	57	61
Income from associates & JVs	0	0	0
Pre-tax profit	1,138	1,400	1,577
Tax expense	(112)	(162)	(182)
Minority interest	0	0	0
Net profit	1,027	1,238	1,394
Adj. net profit to ordinary	1,027	1,238	1,394
Ordinary dividends	(366)	(367)	(439)
Retained earnings	661	871	955

(VNDbn)	12-17A	12-18A	12-19E
Cash and equivalents	528	418	1,043
Short term investments	751	1,699	1,249
Accounts receivables	289	468	698
Inventories	320	589	674
Other current assets	19	8	20
Total current assets	1,907	3,182	3,684
Fixed assets	4,852	4,601	5,001
Total investments	0	1	0
Other long-term assets	240	221	323
Total assets	6,999	8,006	9,009
Short-term debt	1,404	1,727	1,767
Accounts payable	540	446	386
Other current liabilities	401	455	517
Total current liabilities	2,345	2,628	2,669
Total long-term debt	145	0	0
Other liabilities	27	28	34
Share capital	2,438	2,926	2,926
Retained earnings reserve	2,135	2,465	3,362
Shareholders' equity	4,482	5,350	6,306
Minority interest	0	0	0
Total liabilities & equity	6,999	8,006	9,009

(VNDbn)	12-17A	12-18A	12-19E
Pretax profit	1,138	1,400	1,577
Depreciation & amortisation	414	493	515
Tax paid	(116)	(138)	(182)
Other adjustments	57	31	53
Change in working capital	131	(246)	(279)
Cash flow from operations	1,625	1,539	1,684
Capex	(874)	(566)	(950)
Proceeds from assets sales	0	0	0
Others	(196)	(948)	450
Other non-current assets changes	19	57	(102)
Cash flow from investing activities	(1,051)	(1,457)	(602)
New share issuance	(0)	(0)	0
Shares buyback	0	0	0
Net borrowings	222	389	40
Other financing cash flow	(64)	(252)	(58)
Dividends paid	(339)	(328)	(439)
Cash flow from financing activities	(182)	(191)	(457)
Cash and equivalents at beginning of period	137	528	418
Total cash generated	391	(110)	625
Cash and equivalents at the end of period	528	418	1,043

Key ratios

	12-17A	12-18A	12-19E
Dupont			
Net profit margin	13.5%	15.4%	16.2%
Asset turnover	1.16	1.07	1.01
ROAA	15.6%	16.5%	16.4%
Avg assets/avg equity	1.56	1.53	1.46
ROAE	24.5%	25.2%	23.9%
Efficiency			
Days account receivable	1.04	3.91	7.68
Days inventory	20.7	38.1	41.1
Days creditor	34.9	28.8	23.5
Fixed asset turnover	1.70	1.70	1.79
ROIC	17.0%	17.5%	17.3%
Liquidity			
Current ratio	0.81	1.21	1.38
Quick ratio	0.68	0.99	1.13
Cash ratio	0.55	0.81	0.86
Cash cycle	(13.2)	13.2	25.3
Growth rate (yoy)			
Revenue growth	9.5%	5.2%	7.2%
Operating profit growth	(24.0%)	17.2%	12.7%
Net profit growth	(27.2%)	20.6%	12.6%
EPS growth	(27.2%)	20.6%	12.6%
Share value			
FD EPS (VND)	4,058	4,893	5,510
BVPS (VND)	21,836	21,146	24,922

Source: VNDIRECT

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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