

Sector Note



Wood and wooden products

More challenges ahead

- Wood & wooden products (W&WP) 2023 outlook remains weak following sluggish demand in both U.S and EU markets.
- We expect W&WP companies to recover in 2024 thanks to cooling down the U.S mortgage rate and improving home supply in the U.S market.
- We rate NEUTRAL for the sector.

Some silver linings in the dark for export sectors

After decreased 6.8% yoy in 4Q22 due to weak orders, Vietnam export value extended the downward trend, fell 17% yoy in 2M23. However, we see positive signals from both domestic and global market. The Manufacturing Purchasing Managers' Index (PMI) of Vietnam, the U.S and China increased by 3.8 pts, 0.9 pts, 2.6 pts mom, respectively. While the inflation in the U.S and E.U are still high level but the downward trend remains.

But still more challenges for Vietnam wood and wooden products

In 2022, about 90% of Vietnam W&WP value was from export markets, 54% from U.S; followed by China with 13.4%. Thus, weak U.S macro outlook has weighed on residential property market and house construction. U.S mortgage rates climbed to 6.1%, highest level since 2011 while median home price rose 10.4% yoy in 4Q22 which dented the housing purchasing. The U.S Housing demand index plunged 48.1% yoy by Feb-23. We believe wooden furniture exporters which have large exposure to U.S market, like PTB, GDT, SAV will experience a drop of about 10 - 15% yoy in FY23F export revenue. While we expect that the GM of sector will edge down 0.6%-1% pts in 2023F due to lower average selling price.

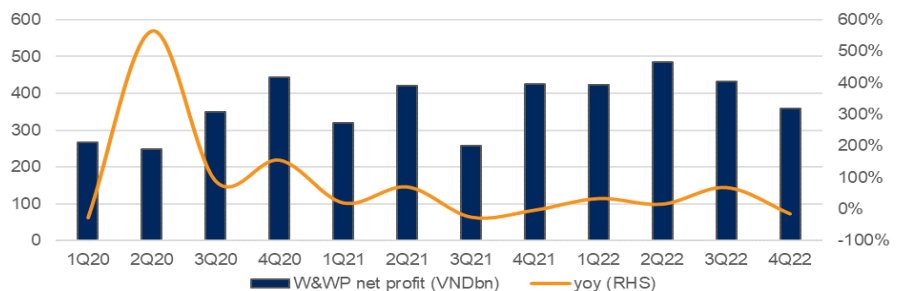
The demand will not recover until 2024

According to National Association of Home Builders, single-family home sales will fall to 744,000 units (-25.5% yoy) in 2023 before rebounding to 925,000 units in 2024. While Forest Economic Advisors expect the demand for softwood lumber in North America will fall 8.3% yoy in 2023, following a 1.6% drop in 2022, as end-use markets weaken, and a recession remains likely. This will be short-lived, however, with a 7.5% rise forecast in 2024 at 62.5 billion board feet (BBF).

We rate NEUTRAL for the sector

W&WP stock prices currently are traded at average TTM PE of 9.3x. We believe valuation of W&WP stocks are relatively fair as subdued global demand and margin pressure still persist at least by 4Q23. We think that the investor should wait for clearer recovery signals to invest in W&WP stocks. Upside catalyst is better than-expected inflation control in the US market. Downside risk is weaker-than-expected housing demand in the foreign market due to adverse macro developments.

Figure 1: Quarterly aggregated NP growth of W&WP companies



Source: Fiinpro, VNDIRECT RESEARCH

Analyst(s):



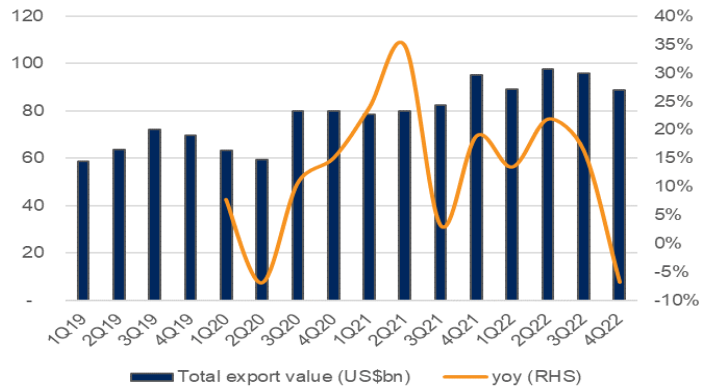
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Vietnam wood and wooden product industries snapshot in 2022

The export growth of major industries

Vietnam's export turnover in 2022 recorded positive results, reaching US\$371.5bn (+10.6% yoy) thanks to high contribution from main export industries such as textile and garment, wood and wooden product and shoe and sandals. Total export value of 3 industries achieved US\$62.2bn in 2022 (+6.01% yoy) thank to pent-up demand in the main export markets such as the U.S., E.U in post-Covid 19 period.



Sources: MOIT, VNDIRECT RESEARCH

Wood and wooden product export value

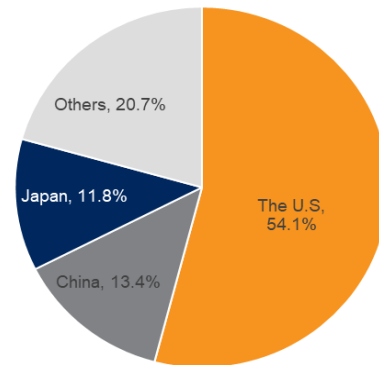
The W&WP export value in 4Q22 decreased 1.4% yoy and 6.9% qoq, to US\$3.6bn as weak demand of the U.S. market. High home price in the U.S. in 4Q22 affected to the demand of house buying and home furniture. Overall, W&WP export turnover in 2022 reach US\$15.8bn, fulfilling 95.7% of Vietnam Ministry of Agriculture and Rural Development 's guidance for 2022.



Sources: MOIT, VNDIRECT RESEARCH

W&WP export destination in 2022

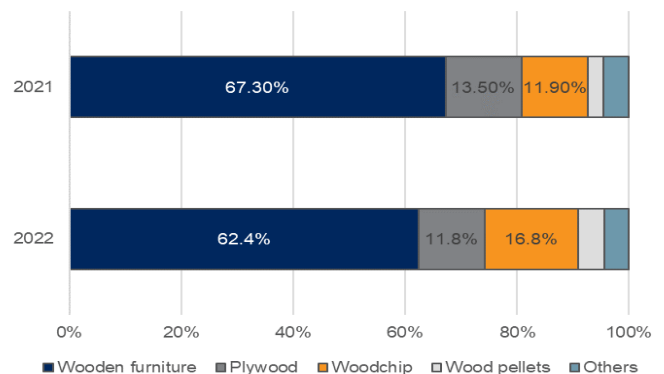
According to General Department of Vietnam Customs (GDVC), regarding the export mix by geographic regions in 2022, The U.S remained the largest importer of Vietnam W&WP with an import value of US\$8.6bn (-1.3% yoy) due to weak demand in 2H22. 2022 exporting to China and Japan markets reached US\$2.15bn and US\$1.89bn, increasing 43.8% yoy and 31.4% yoy, respectively.



Sources: GDVC, VNDIRECT RESEARCH

W&WP export by products in 2022

In 2022, wooden furniture is the main export item in the structure of W&WP, accounting for 62.5% of total export turnover. Woodchip is the second largest export product in 2022, reaching US\$2.6bn, (+54.4% yoy). The increasing scarcity of energy in many countries around the world is the main factor driving Vietnam's export growth of wood chips and pellets in 2022.



Sources: MOIT, VNDIRECT RESEARCH

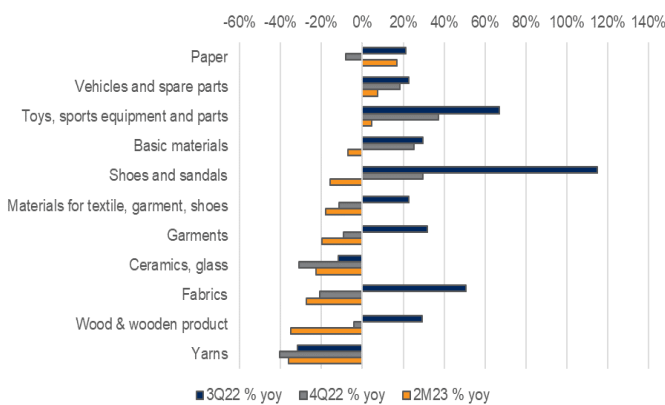
Some silver linings in the dark

Export industries are still on downward trending in the first 2M23

After weak 4Q22, the export value extended the downward trend, fell 17% yoy in 2M23. Textiles and garments, shoes and sandals and related products all showed negative results (-17.1% yoy), which is the results of weak demand from the U.S and the E.U. market, force the retailers to reduce inventory level. Wood and wooden products feel the heat from weak U.S housing market, fell 34.8% yoy. Basic material, the spotlight in most quarters of 2022, has started to see negative growth in 2M23 (-7.2% yoy).

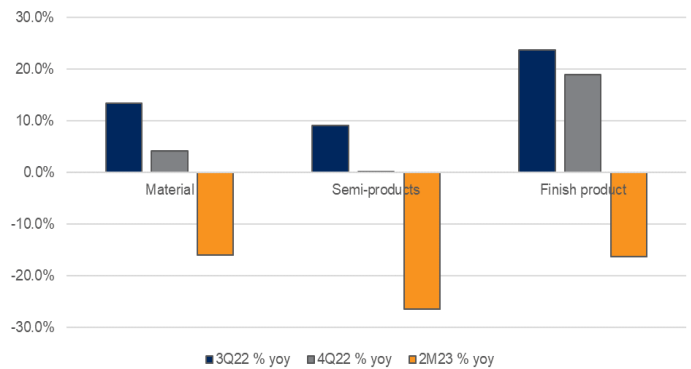
Paper, vehicles and spare parts, toys, sport equipment are a few export sectors still record positive value growth. Paper products is benefited from the re-opening of China market.

Figure 2: Export value of export industries dropped in 2M23



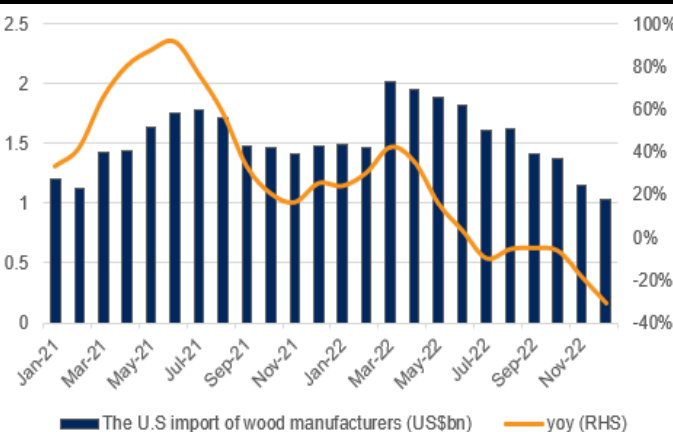
Source: Conference Board, VNDIRECT RESEARCH

Figure 3: Semi-product export value decreased 26.6% yoy in 2M23



Source: Bloomberg, VNDIRECT RESEARCH

Figure 4: W&WP import value of the U.S in Dec-22 decreased 30.4% yoy



Source: Tradingeconomic, VNDIRECT RESEARCH

Figure 5: Retail sale - Furniture and home furnishing stores increased 4.4% yoy in Jan-23



Source: U.S. Census Bureau (BOC), VNDIRECT RESEARCH

We see a few improving signals from both domestic and global markets

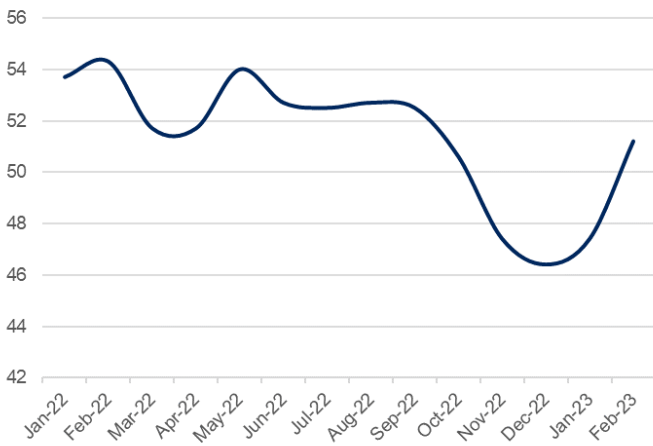
Vietnam: The Manufacturing Purchasing Managers' Index (PMI) of Vietnam's manufacturing industry rebounded from 47.4 points in January 2023 to 51.2 points in February 2023. Additionally, new export orders rose for a second

straight month on the back of improved international demand. Specifically, the total number of export orders in Feb-22 increased by 34.7% mom and 9.5% compared to Dec-22.

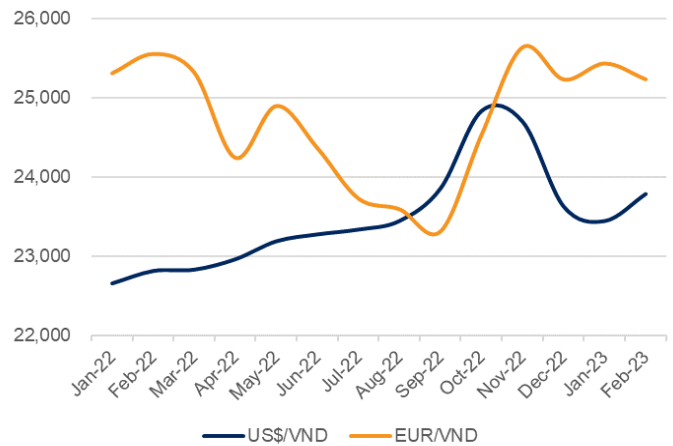
U.S market: S&P Global Manufacturing PMI for the US increased to 47.8 in Feb-23 from 46.9 in Jan-23, beating forecasts of 47.1. Although the exchange rate tends to cool down in 2M23, it will still be at a high level in 2023. We think that Vietnam's goods exports in 2023 will be under competitive pressure from other competitors such as China and India.

Figure 6: PMI of Vietnam's manufacturing industry increased from 47.4 points in Jan-23 to 51.2 points in Feb-23

Figure 7: US\$/VND increased slightly 1.4% mom in Feb-23



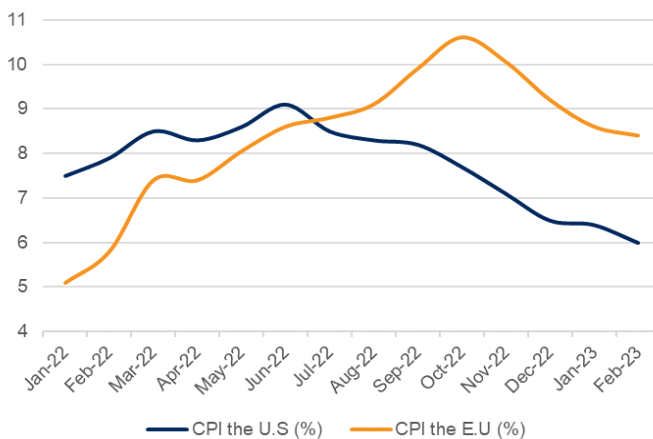
Source: Conference Board, VNDIRECT RESEARCH



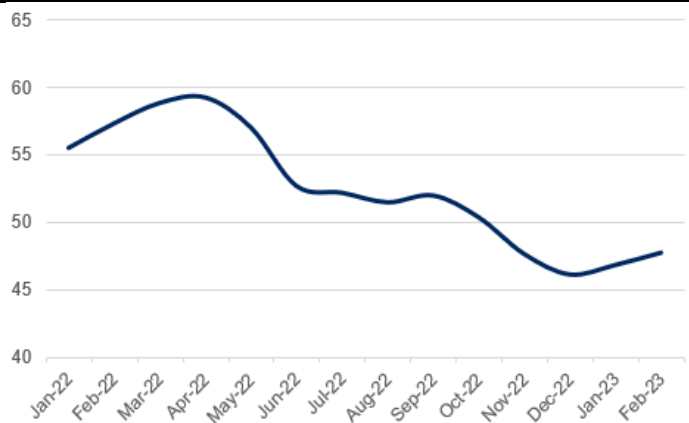
Source: Bloomberg, VNDIRECT RESEARCH

Figure 8: The CPI in the U.S cooled down in Feb-23

Figure 9: PMI for the U.S increased to 47.8 in Feb-23 from 46.9 in Jan-23



Source: Bloomberg VNDIRECT RESEARCH



Source: Bloomberg, VNDIRECT RESEARCH

Wood & Wooden products: More challenges ahead

W&WP companies hit hard by the shortage orders in 4Q22

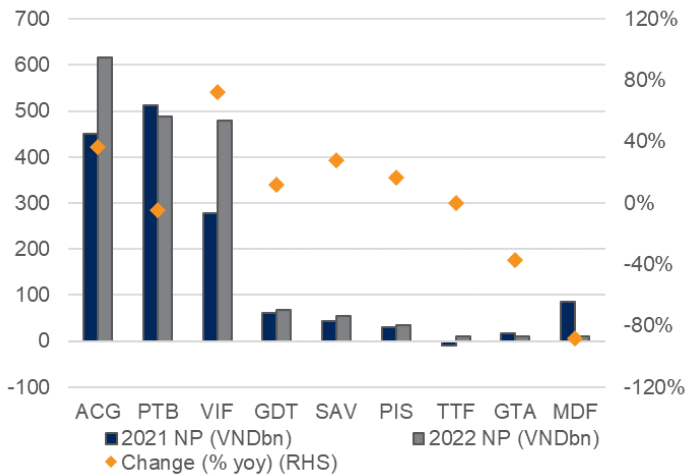
Based your estimate, 4Q22 aggregated revenue of listed W&WP companies increased slightly 2.8% yoy from low base 4Q21 when the factory has started operating again post-Covid-19.

Excluding ACG, GM's sector edged down 2.0% pts as W&WP companies decreased ASP in 4Q22 due to weak demand in the U.S. and E.U market. NP of domestic wood producers like ACG, VIF recorded positive business results in 4Q22, increasing 10.1%/39.0% yoy, respectively thanks to 1) higher selling price and economic of scale and 2) the recognition of profits from joint ventures. Whereas we see the deceleration in NP growth of the export wood company group in 4Q22. In which, PTB and SAV's NP decreased significantly 39.6% and 23.7% yoy, respectively. As a result, NP's W&WP sector in 4Q22 declined 15.5% yoy.

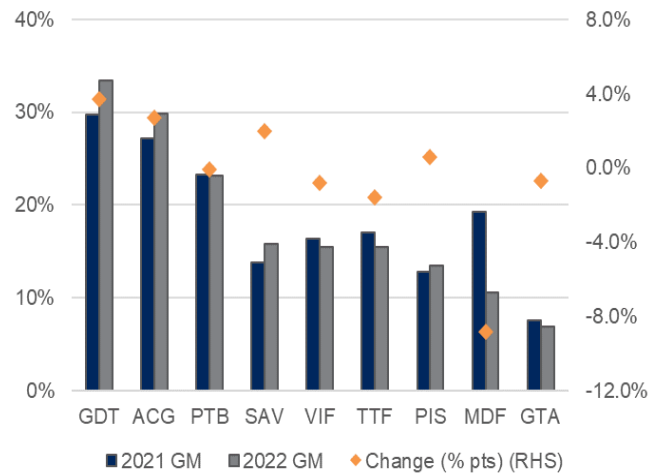
Overall, GM's of listed W&WP companies still increased slightly 0.7% pts yoy in 2022 thanks to positive result since 1H22. NP's wood sector in 2022 lifted 20.5% yoy, outpaced revenue growth (+13.2% yoy) mainly driven by the extraordinary income from VIF's profit from joint venture.

Figure 10: The change NP of W&WP companies in 2022 (unit: VNDbn)

Figure 11: Most of W&WP companies showed an expansion GM in 2022



Source: Fiinpro, VNDIRECT



Source: Fiinpro, VNDIRECT

FY23-24F outlook: More challenges in 2023

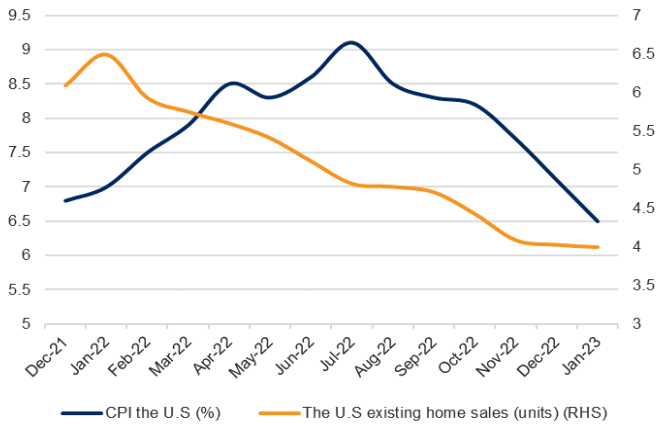
The demand will not recover until 2024

In 2022, about 90% of Vietnam W&WP value was from export markets, 54% from U.S; followed by China with 13.4%. Vietnam's residential construction activities slew down since 3Q22 due to rapidly weakening demand in the domestic real estate industry. Meanwhile, the sluggish macro outlook of both U.S. and the EU has weighed on residential property market and house construction. U.S mortgage rates climbed to 6.1%, highest level since 2011 while median home price rose 10.4% yoy in 4Q22 which dented the housing purchasing. According to National Association of Home Builders, the U.S Housing demand index plunged 48.1% yoy by Feb-23. We believe wooden furniture exporters which have large exposure to U.S market, like PTB, GDT, SAV will experience a drop of about 10 - 15% yoy in FY23F export revenue.

We expect W&WP companies to recover in 2024 thanks to cooling down mortgage rate and improving home supply in the U.S market. According to National Association of Home Builders, single-family home sales will fall to 744,000 units (-25.5% yoy) in 2023 before rebounding to 925,000 units in 2024. While Forest Economic Advisors expect the demand for softwood lumber in

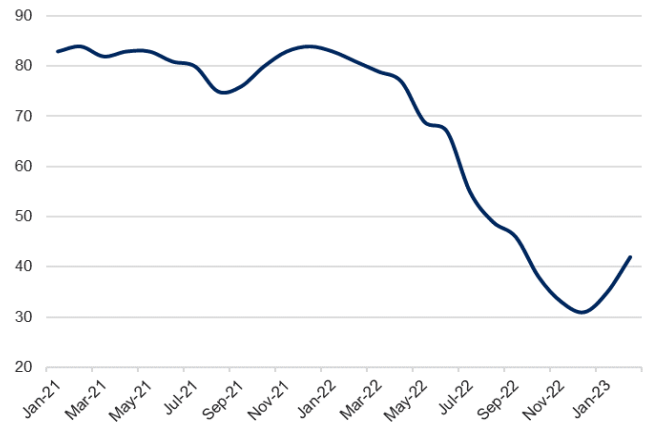
North America will fall 8.3% to a nine-year low in 2023, following a 1.6% drop in 2022, as end-use markets weaken, and a recession remains likely. This will be short-lived, however, with a 7.5% rise forecast in 2024 at 62.5 billion board feet (BBF).

Figure 12: Existing home sales in the U.S plunged 7.7% mom in Dec-22



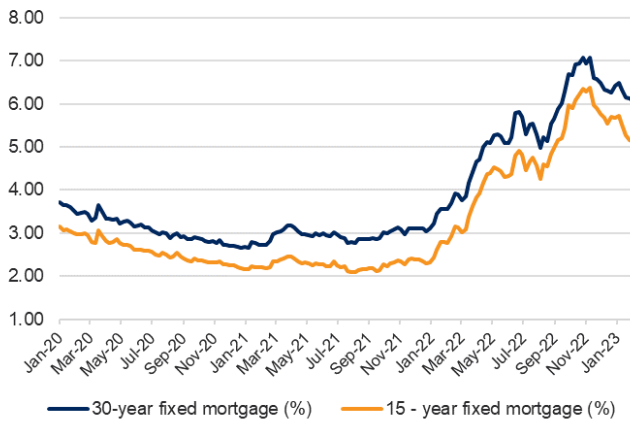
Source: Bloomberg, VNDIRECT RESEARCH

Figure 13: The U.S housing demand index recorded 42 pts in Feb-23



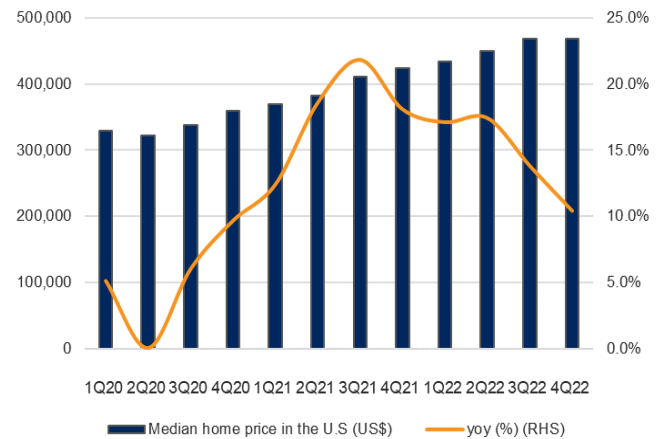
Source: U.S. Census Bureau, VNDIRECT RESEARCH

Figure 14: The 30-year fixed mortgage rates in the US stand at 6.09% in Feb-23



Source: Freddie Mac, VNDIRECT RESEARCH

Figure 15: The median home price reached US\$467,700 in 4Q22



Source: U.S. Bureau of Labor Statistics, VNDIRECT RESEARCH

We expect that W&WP companies' GM will edge down in 2023 before improving in 2024

The plywood price in Dec-22 reached US\$409/sheet (-14.6% yoy) due to weak demand in global market. We think that plywood price – main input material of W&WP industries will still remain at low level within US\$410/sheet to US\$415/sheet due to uncertain property market. Thus, we forecast plywood price to decrease 5%-10% yoy in 2023F. However, we expect that W&WP will have to reduce average selling price to attract more customers. As a result, we expect that the GM of sector will edge down 0.6%-1% pts in 2023F. We forecast PTB's revenue and NP in FY23F to decrease 5.8% yoy and 6.6% yoy. While ACG's export segment revenue and GM in FY23 will decline 10% and 0.6% pts yoy.

More challenges than advantages for Vietnam W&WP following the China's reopening

PMI in China rose to 52.6 in Feb-23. This was the first increase in factory activity since last July, and the highest reading in 8 months, after a shift in COVID policy. We expect China to fully reopen its economy soon in 2Q23F. China is the second largest wood importer of Vietnam, accounting for 13% of the total export value. However, 80% of Vietnam's total exports to China in 2022 are wood materials (HS44 code) with more than 20 products, mainly wood chips. Currently, woodchip exports to China are mainly small and unlisted enterprises. In contrast, China is Vietnam's main wood import market, accounting for 37% share in 2022. We think that the reopening of some of China's net exports can help reduce input costs of wood enterprises such as PTB, TTF, GDT.

On the other hand, China's reopening the economy could pose many challenges for wood furniture enterprises in 2023. Currently China is the main competitor of Vietnam in the U.S market. The two countries are even in terms of the U.S market share at 31% apiece. We expect that W&WP companies with high share of export to U.S such as PTB, NHT, GDT will face difficult in 2H23.

We rate NEUTRAL for the sector

W&WP stock prices currently are traded at average TTM PE of 9.3x. We believe valuation of W&WP stocks are relatively fair as subdued global demand and margin pressure still persist at least by 4Q23. We think that the investor should wait for clearer recovery signals to invest in W&WP stocks. Thus, we rate Neutral for the sector.

Figure 16: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	ACG	69,200	ADD	<p>(1) ACG's combined number of showrooms, distribution centers and agency showrooms hit 81 as of 4Q22 vs 51 as of end 3Q22. Management aims to have these contact points to cover all 63 provinces/cities in Vietnam by mid-2023 from 50 provinces/cities currently. We forecast ACG domestic revenue to increase 7.5% yoy despite the challenge of property market.</p> <p>(2) We are optimistic about ACG's long-term export revenue prospects (FY23-25F) as in 2Q22, ACG signed a partnership with the U.S. property arm of Sumitomo — a strategic shareholder of ACG — which should help to bolster ACG's exports going forward in FY23-24F.</p> <p>(3) Currently, ACG is traded at 8.3x PE 2023, which is a 47.1% discount to its 1-year average of 15.7x. We believe this valuation is attractive for a leading company in engineered wood in domestic market.</p>
2	PTB	48,200	HOLD	<p>(1) PTB aims to increase its quartz manufacturing business in 2023 as the company has expanded its customer base through trade fairs in the U.S in 3Q22. We forecast that quartz segment will grow 45%/23% yoy, contributing 12.4%/14.0% to PTB's revenue in FY23/24F.</p> <p>(2) We expect the demand to rebound in 1Q24F thanks to low base in 1Q23 and cooling down mortgage rate and home price in the U.S market which support for the recovery of PTB's core business (wood, stone).</p>

Source: VNDIRECT RESEARCH

Figure 17: FY23-24F earnings forecasts of stocks under coverage

Unit: (VNDbn)	ACG			PTB		
	2022	2023F	2024F	2022	2023F	2024F
Revenue	4,475	4,575	5,255	6,887	6,484	7,300
% growth	26.9%	9.5%	14.9%	6.5%	-5.7%	12.3%
Gross margin (%)	29.9%	28.2%	28.6%	22.4%	21.9%	22.1%
EBITDA margin (%)	22.3%	21.4%	21.0%	8.6%	7.2%	7.4%
Net profit (VNDbn)	616	652	758	487	455	531
% growth	36.4%	5.7%	16.2%	7.2%	-17.5%	14.1%
EPS (VND/share)	4,253	4,495	5,225	6,899	6,443	7,514
BVPS (VND/share)	30,699	31,414	32,300	39,118	46,104	52,893
D/E	0.20	0.29	0.22	0.60	0.90	0.72
Dividend yield (%)	6.6%	6.6%	6.6%	2.6%	2.6%	2.6%
ROAE (%)	6.1%	7.6%	7.9%	18.9%	15.1%	15.2%
ROAA (%)	3.3%	4.2%	4.1%	9.0%	8.9%	9.2%

Source: Fiinpro, VNDIRECT RESEARCH

Figure 18: Peer comparison in W&WP industries

Company	Ticker	Recom,	TP	Market cap		P/E (x)		P/B (x)		3 year-EPS growth		ROE (%)		ROA (%)	
				LC\$	US\$m	TTM	FY23F Current	FY23F	CAGR	TTM	FY23F	TTM	FY23F		
Phu Tai JSC	PTB VN	Hold	48,200	115	7.5	5.8	1.1	1	5.1	17.6	14.3	8.3	8.2		
An Cuong Wood JSC	ACG VN	Add	69,200	239	11.4	8.3	1.4	1.3	na	na	13.2	10.7	10.3		
Viet Nam Forestry Corporation JSC	VIF VN	na	na	201	9	na	1	na	11.6	9.6	na	8.4	na		
Geruco - Quang Tri Wood JSC	MDF VN	na	na	26	9.3	na	0.9	na	46	0.5	na	0.3	na		
Duc Long Gia Lai JSC	DLG VN	na	na	26	9.9	na	0.5	na	-645.1	-51.4	na	-13.8	na		
Thuan An Processing JSC	GTA VN	na	na	6	8.9	na	0.7	na	-18.2	5.1	na	2.0	na		
Average					11.5	9	1.9	7.2	4.9	-3.7	13.8	2.6	9.2		
Median					9.15	7.1	1.0	1.2	5.1	5.1	13.8	5.1	9.2		

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as in 13 Mar 2023)

Investment risks

Upside catalyst is better than- expected inflation control in the US market. Downside risk is weaker-than-expected housing demand in the foreign market due to adverse macro developments.

DISCLAIMER

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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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