

Company update

Rangdong Light Source and vacuum flask (RAL)

21st September 2018

BSC

Recommendation

BUY

Tuoi Tran (FA)

tuoih@bsc.com.vn

Target Price	124,200
Current Price	103,800
Upside	20%

Trần Thành Hưng (TA)

hungtt@bsc.com.vn

Target Price	N/A
Cut loss	N/A

Market Data

Outstanding Share (Mil shares)	11.5
Mkt Cap (VND Bil)	1,194
High of 52w	153,500
Avg Vol 10 days (share)	5,651
Foreign Ownership	2.98%

Major Shareholders (%)

Công đoàn RAL	42.96%
Lê Thị Kim Yến	15.13%
Lê Đình Hưng	9.2%
Quỹ đầu tư CK VN	5.85%
Indochina Capital VN Holdings	3.97%

Price chart (1 year)



Overviews

RAL is the leading firm engaged in lighting bulb and vacuum flask manufacture in Vietnam.

[Other reports: Link](#)

Valuation

We recommend **BUY** RAL with the target price of VND 124,200/share, upside 20% under P/E method. Currently, RAL is traded at VND 103,800/share, equivalent to P/E trailing of 7.54x, much lower than other peers and VNIndex.

Earnings forecast

BSC forecast that RAL's revenue and EAT in 2018 will be VND 3,470 billion (+6.1% yoy) and VND 225 billion (+5.13% yoy) respectively. EPS will be VND 14,694, after deducting 25% welfare and bonus fund.

Company Update

- Net revenue reached VND 1,498 billion, gained 5.98% yoy and EAT is VND 80 billion, (-3.77% yoy) in 1H2018.
- Profit margins have improved. Operating margin increased to 8.55% in 1H2018, higher than the margin of 8.09% of DQC.
- RAL got new export contracts to Srilanka (10 million lamps) and Cuba.
- The asset value of Ha Dinh, its headquarter, (57,000sq.m) is not recorded in the balance sheet.
- RAL ask for shareholders's approval for real estate as new business segment.
- RAL make 25% cash dividend payment for the first time in 2018, ex-right date was 05, September 2018.

Catalyst

- Earnings continue to grow.
- Selling or building office at Ha Dinh street.

Risks

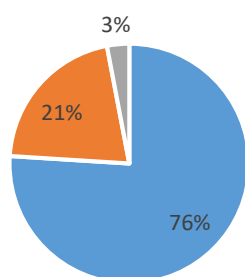
- High competition, especially with Chinese enterprises, negatively affects the consumption of RAL products.
- Cost of sales, promotion were substantial and continue to increase
- High receivables and inventory account may destroy profit margin and make negative cash flow of the company.

Company updates

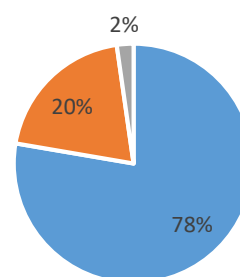
1H2018 performance. Revenue go up by 5.98% yoy to VND 1,498 billion. Gross profit margin continue to improve to 26.78% in 1H2018 from 24.7% in the same period 2017. However, due to fiercer competition, RAL boost its promotion and discount to customer by 20% yoy to VND 144 billion, in other words, selling expense increased by 20%, too, selling expenses/sales ratio was 14.68%. Therefore, net profit down by 3.77% to VND 80 billion.

Till August 2018, revenue go up to VND 1,940 billion (+ 4.5% yoy), in which, vacuum occupies a stable proportion at 21%, LED up to 57% while traditional products down to 19%. As stated in previous report, some production line of traditional products stop manufacturing in middle 2018. Driver growth of RAL is LED consumption.

1H2018 revenue structure



1H2018 gross profit structure



■ Lamps ■ Vacuum ■ Outsourcing

■ lamps ■ Vacuum ■ Outsourcing

Sources: RAL

Profit margins continue to improve. Gross profit margin increased from 20.54% in 2016 to 27.44% in 2017 and stood at 26.78% in 1H2018. Net operating margin improved from 7.55% in 2016 to 9.08% in 2017 and reached 8.55% in 1H2018. We expect that profit margin will be higher in the second half of the year, which is similar to many previous years. As we mentioned in the [RAL report](#), rising productivity continues to raise margins. Average labor productivity soared by 21% to VND1.5 billion per employee, while staff wages rose by 7.5% in 2017. The company set a target of a labor productivity growth of over 10%, while average income of employees up by over 5%. Operating margin of RAL is higher (8.55%) and is rising while the margin of DQC, a domestic rival, is 8.09% in 1H2018.

RAL got new export contracts. RAL won an international auction to supply 10 million LED lamps for Sri Lanka CEB power. As we know, the contract will be executed in 2018 and 2019, mostly in 2019. They also signed a selling contract with the Cuban Defense Ministry. Last year, RAL has supplied lamps to Almacenes Universales, Cuba customers. Export only accounted for about 11.81% of total revenue in 2017 and is expected to reach 50% by 2020.

RAL asks for shareholders' approval in writing for real estate as a new business segment. RAL's headquarters are located on a 57,000sq.m area in Ha Dinh Street, near the "Cao-Xa-La" (currently under construction by Vingroup, turning into a large metropolitan complex with an area of 11ha) and near Thuong Dinh Footwear Company. The Company has received a LURC certificate of land use rights and has the right to freely convert the purpose of the land. The land value is not currently recognized as an asset of RAL. In addition, the company owns 6 distribution branches in other provinces with land prices calculated according to the land price frame of the province.

We think that if the lands are transferred, RAL can record profit. However, it will take a lot of time for RAL to execute real estate activities. Our pricing only takes into account the core business of the company.

BSC forecast. We expect that sales will improve strongly in the 2H2018, especially in December, 2018 as Tet holiday coming. As we have seen for 6 years, RAL always exceed its target, sales was 4-20% higher and EBT was 37-110% higher than its plan. We forecast that net sales and EAT will reach VND3,470 billion (+ 6.1% yoy) and VND225 billion (+ 5.13% yoy) respectively. EPS reached VND 14,694, after deducting 25% of bonus and welfare fund. Some assumptions:

- LED output reaches 32 million units (+ 84% yoy), LED revenue reaches VND2,118 billion (+ 66% yoy).
- Traditional lamp sales will be VND441 billion (-61% yoy)
- Revenue will increase by 5% yoy to VND180 billion.
- Gross profit is 27.45%, equivalent to 2017. The net margin is 9.46% due to increasing labor productivity.

Valuation. On 20 September 2018, RAL was traded at VND 103,800 /share, equal to P/E FW of 7.06x after excluding 25% of bonus and welfare funds and P/B of 1.64x. As we stated in previous reports, RAL has not recorded its land use rights of its headquarter in Ha Dinh street and other branches as assets. Therefore, we think that, at current price, RAL was traded at attractive valuation. We use the P/E method to evaluate the business. Choosing the businesses that produces LEDs as reference.

- The P/E ratio was chosen as 8.45x, discounted 60% due to country risk and RAL's scale was modest compared to many comparable firms.
- EPS of 2018 after deducting bonus and welfare fund is VND14,694/share
- **Reasonable price of shares is VND 124,152/share, upside of 20%**

Company	Nation	Net Rev 12M (mn USD)	Operating margin	Gross margin	ROA LF	ROE LF	P/E	P/B
OSRAM LICHT AG	GERMANY	4,875.26	4.62	30.58	4.28	7.34	21.37	1.67
ACUITY BRANDS INC	UNITED STATES	3,576.50	11.22	41.25	11.83	21.17	20.88	4.02
WOOREE LIGHTING CO LTD	SOUTH KOREA	1,166.08	(3.90)	2.01	(1.69)	(16.18)	N/A	0.40
OPPLE LIGHTING CO LTD-A	CHINA	1,023.88	10.18	40.19	11.87	20.13	32.57	6.09
ZHEJIANG YANKON GROUP CO L-A	CHINA	824.86	3.49	20.64	5.58	10.34	14.59	1.47
NVC LIGHTING HOLDINGS LTD	CHINA	634.91	12.42	27.49	4.52	8.05	6.92	0.66
IWASAKI ELECTRIC CO LTD	JAPAN	514.85	(8.68)	30.05	0.78	2.01	24.17	0.48
KUMHO ELECTRIC CO LTD	SOUTH KOREA	271.90	1.11	14.27	5.67	24.06	N/A	0.45
BEACON LIGHTING GROUP LTD	AUSTRALIA	184.26					15.50	N/A
OCEAN'S KING LIGHTING SCIE-A	CHINA	177.35	7.26	67.47	9.04	10.03	24.42	2.37
SHENZHEN MINKAVE TECHNOLOG-A	CHINA	100.71	31.54	52.66	13.68	26.19	32.43	7.68
LIGHTING AND EQUIPMENT PCL	THAILAND	84.78	6.35	32.14	3.40	8.21	14.29	1.15
RAL	VN	147.49	9.14	27.17	9.02	31.14	6.53	2.11
DQC	VN	48.41	9.03	24.56	7.16	9.79	8.69	0.90
Mean			7.29	30.85	6.04	9.57	19.80	1.67

Sources: Bloomberg, BSC research

Financial analysis

Unit: VND bil	2015	2016	2017	1H2018	2018F
Net sales	2,659	2,939	3,270	1,498	3,470
Gross profit	482	604	897	400	952
Financial income	28	18	19	5	15
Financial exps	(65)	(51)	(48)	-31	(56)
interest exps	(47)	(44)	(47)	-28	(56)
Profit from its subsidiaries	-	-	-	-	-
Sell exps	(219)	(285)	(501)	-319	(514)
G&A exps	(102)	(97)	(99)	-53	(110)
Operating profit	125	189	268	101	287
Net other income	1	0	3	1	(2)
EBT	126	189	271	102	285
Net income	94	147	214	80	225
EPS	6,735	10,747	15,439	6,987	14,694

Net sales was up 5.98% yoy in 1H2018 due to volume increased while average selling price downed. Revenue of manufacturing products soared by 10% to VND 1,450 billion while outsourcing units decreased by 53.59% to VND 43 billion

Selling expenses inflated by 20%, selling expense/ sales maintain high due to 20% increase in promotion expenses to VND 144 billion. This cost was even higher than RAL's EBT.

Current asset	1,795	1,871	2,179	2,252	2,298
Cash and CE	402	478	514	603	558
ST investment	186	246	260		250
Accounts receivable	203	302	668	705	708
Inventories	1,002	842	723	903	767
Other current assets	0	2	13	41	14
Non-current asset	192	226	202	282	241
LT receivables	1	1	1	1	1
Fixed assets (fa)	169	222	200	275	233
Net value of property	-	-	-	-	-
LT incompleted	0	0	0	4	0
LT investment	-	-	-	-	-
Other LT assets	21	2	2	2	7
Total asset	1,986	2,097	2,381	2,533	2,539
Total liabilities	1,446	1,481	1,698	1,806	1,779
Current liabilities	1,445	1,480	1,698	1,805	1,778
ST borrowings	1,154	1,091	1,204	1,366	1,346
Non-current liabilities	1	1	1	1	1
LT borrowings	1	1	1	1	1
Owner's equity	540	616	739	727	760
Paid-in cap	115	115	115	115	115
Retained earnings	77	124	191	81	203
Total resources	1,986	2,097	2,437	2,533	2,538

Cash and cash equivalents were large, accounting for 24% of total assets of the company at the end 1H2018.

RAL maintain its high receivable at VND 705 billion, in which, receivable from Gia Loc Phat was VND 156 billion (31% sales), Cuba partner was VND 103 billion.

Inventories expanded sharply by 25% ytd, remarkably, finished products up 65% to VND 287 billion, materials and incompleted go up, too. RAL should focus on controlling receivable and inventories.

The value of fixed assets was low, many assets were quickly depreciated and almost fully depreciated. Annual depreciation expense was low, about VND 55 billion.

The value of the Ha Dinh land was not recorded as fixed assets in BS.

The company mainly borrowed short-term loans, and sponsored working capital.

For many years, RAL has not increased its chartered capital.

% yoy Revenue	2%	11%	11%	5.98%	6.10%
Gross margin	18.1%	20.5%	27.4%	26.78%	27.45%
lr.exps / sale	1.8%	1.5%	1.4%	1.86%	1.61%
Sell exps / sale	8.2%	9.7%	15.3%	14.68%	14.83%
Admin exps / sale	3.8%	3.3%	3.0%	3.55%	3.16%
Net profit margin	3.5%	5.0%	6.5%	6.78%	8.27%

Net profit margin has improved constantly due to (1) increase in labor productivity by more than 10%, while staff salaries have inflated by only 7.5%; (2) Samsung branded products generated higher margins.

Financial analysis

	2014	2015	2016	2017	1H/2018
1. Liquidity ratio					
Current ratio	1.17	1.24	1.26	1.32	1.25
Quick ratio	0.47	0.55	0.69	0.89	0.72
2. Capital structure ratio					
Ca/TA	0.91	0.90	0.89	0.92	0.89
NCA/TA	0.09	0.10	0.11	0.08	0.11
Liabilities/TA	0.78	0.73	0.71	0.70	0.71
Liabilities/TE	3.53	2.68	2.40	2.30	2.48
CL/TA	0.78	0.73	0.71	0.70	0.71
NCL/TA	0.00	0.00	0.00	0.00	0.00
3. Operating efficiency ratio					
Inventory turnover	1.9	1.9	2.5	3.0	2.8
Receivable turnover	19.2	18.8	15.8	8.4	7.9
Payable turnover	24.1	15.9	18.0	15.6	16.9
Days of inventory	185.2	185.2	142.1	118.7	129.6
Days of receivables	18.8	19.1	22.7	42.8	46.5
Days of payables	15.0	22.6	20.0	23.0	21.5
CCC	200.5	201.6	162.5	159.3	154.5
4. Profitability ratio					
Net income/NSale	2.5%	3.5%	5.0%	6.5%	5.4%
ROE	13.0%	17.4%	23.9%	29.0%	31.1%
ROA	2.9%	4.7%	7.0%	8.8%	8.6%
Oper profit/NSale	3.8%	4.7%	6.4%	8.2%	6.9%
5. Dupont analysis					
TA/TE	4.53	3.68	3.40	3.30	3.49
NSale/TA	1.14	1.34	1.40	1.34	1.36
EBIT/NSale	0.06	0.07	0.08	0.10	0.10
EBT/EBIT	0.57	0.73	0.81	0.85	0.84
Net income/EBT	0.74	0.74	0.78	0.79	0.79
6. Valuation multiples					
PE	6.54	7.26	8.39	8.43	4.9
PB	0.85	1.04	1.68	2.03	1.4
EPS	5,708	6,735	10,747	15,439	18,384
BVPS	43,856	46,977	53,561	64,244	63,230
7. Growth (%yoy)					
Total assets	29%	-13%	6%	16%	11.01%
Liabilities	40%	-19%	2%	15%	12.14%
Sales	13%	2%	11%	11%	5.98%
Gross Profit	23%	-13%	25%	49%	14.91%
NI	-23%	43%	57%	46%	-3.77%

Healthy liquidity ratios owing to good cash and cash equivalents.

Short-term assets account for a large proportion of total assets. Long-term assets have been fully depreciated.

The company mainly borrows short-term loans.

The receivables turnover and inventory turnover is slowing down which lead to negative cash flow.

Gross margin and EAT surged much more than net revenue as the result of increasing labor productivity.

Disclosure

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