

# Company Update Report

## VGC - Viglacera Corporation

25/02/2019

# BSC

### Recommendation TRACKING

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|               |        |
|---------------|--------|
| Target price  | 18,510 |
| Closing price | 20,500 |
| Upside        |        |

Le Quoc Trung (TA)

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|              |        |
|--------------|--------|
| Target price | 24,000 |
| Cut loss     | 18,000 |

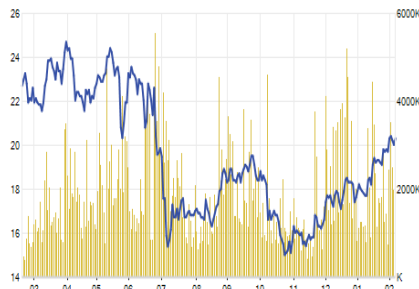
### Market data

|                          |         |
|--------------------------|---------|
| Outstanding share ('000) | 448,350 |
| Mkt Cap (VND bil)        | 8,967   |
| High of 52w              | 27,200  |
| Avg Vol 10 days (share)  | 19,930  |
| Foreign onwership        |         |

### Major shareholders (12/04/2018)

|                          |        |
|--------------------------|--------|
| Ministry of Construction | 53.97% |
| Dragon Capital           | 11.99% |

### Price chart



### Company Overview

VGC is the leading firm in building materials sector with a wide range of products including ceramics tiles, terracotta, construction glass and sanitary ware, which contributes up to 75% of revenue. Besides, VGC also owns a land bank of 3,850 hectares of industrial park, concentrating mainly in the Northern provinces, selected by many FDI enterprises and many residential real estate projects.

### Other reports

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## TRANSFERING STOCK EXCHANGE AND DIVESTMENT

### Valuation

We recommend TRACKING for VGC shares with a target price for 2019 of VND 18,510 based on sum of the parts valuation for the two main segments (1) construction materials (P/E method with the target multiple of 9x) and (2) real estate and industrial parks (IPs) (P/B method, target P/B of 1x).

### Business results forecast

BSC forecasts that VGC's net revenue in 2019 will reach VND 9,247 billion (+ 2.9% YoY), profit after tax is VND 622.7 billion (+ 10.9% YoY), equivalent to EPS = 1,242 VND/share, P/E fw = 16.3x

### Investment Highlights

**(1) Industrial parks leasing is potential, with the forecasted occupied area in 2019 is 90 hectares, revenue + 7% YoY.** As of June 30, 2018, VGC owns 9 industrial parks with the total area of 1,800 ha; the vacant area make up for 63% (over 1,100 ha), of which 350 ha is clearance site and 190 ha having infrastructure is ready for lease. In 2019, the company plans to invest in Yen My IP (Hung Yen, 280ha, expected to start construction in Q1/2019) and Yen Phong IIC (Bac Ninh, 200 hectares, expected to start Q2/2019) increasing the total IP area by 30% to capture the growing demand for IPs due to the shifting wave of production from China to Vietnam. The increase in the rent area will also favor IP operation segment (+12.9% YoY) with relatively high and stable profit margin (nearly 30%).

**(2) VGC has a diversified list of building material products with considerable scale** such as building glasses; tiles (3% market share of ceramic tiles and 12% with granite tiles), terracotta ; sanitary ware (11% of market share). Although the material market is not as favorable as 1-2 years ago, we assess that the fuel price (oil and gas) is expected to decrease (from 8-10%) in 2019 will help the company to improve profit margin.

### Catalyst

- Listed in HOSE in 2019.
- Divestment of state capital: The state ownership in Viglacera must be reduced to 0% in 2019 as planned.

### Investment Risk

- Rising competition in the building material segment.
- Fluctuating material prices
- Dependence on the real estate market.

### Company Update

**(1) Business results 2018:** Net revenue reached VND 8,984 billion (-2.3% YoY), NPAT for parent company shareholders reached VND 561.6 billion (-6.4% YoY), equivalent to EPS = VND 1,253/share (not taking the bonus and welfare fund into account).

**(2) Business plan 2019:** Consolidated revenue is 9,300 billion (+ 3.2% YoY), EBT is 950 billion (+ 12.7% YoY), expected dividend payout is 10%.

## Business update

### (1) Business results 2018:

- **Net revenue reached VND 8,984 billion (-2.3% YoY)**, 80% comes from construction materials (tiles, terracotta, building glass and sanitary wares), the rest comes from residential real estate and industrial parks.

| Segment                        | Revenue<br>2018<br>(billion) | % YoY |   | Gross<br>profit<br>margin | Gross<br>profit<br>margin |  |
|--------------------------------|------------------------------|-------|---|---------------------------|---------------------------|--|
| <b>Tiles</b>                   | 2,631                        | 29%   | Capacity increased by 2.5 million m2 (+ 11% YoY) from the new line of Viglacera Hanoi. Selling prices of some product types decreased by 3-7%, but the average price increased due to higher contribution of high quality | 23.6%                     | 22.2%                     | Decline selling price and rising fuel price (gas and coal) |
| <b>Terracotta</b>              | 2,211                        | -2%   | High level of competition, especially in building bricks  | 18.4%                     | 16.2%                     |  |
| <b>Glass</b>                   | 1,067                        | -19%  | Average selling price -20% YoY due to more tense competition and high base of 2017 due to supply shortage.  | 31.5%                     | 14.6%                     | Lower selling price, FO price (35-40% of cost) + 12% YoY   |
| <b>Sanitary ware</b>           | 1,051                        | 4%    |   | 29.9%                     | 25.8%                     |  |
| <b>Residential real estate</b> | 513                          | -41%  | The company mainly sold the remaining area in Dang Xa, Xuan Phuong, Bac Ninh, and some building for IP workers so the revenue is moderate   | 12.6%                     | 33.3%                     | Recorded in low - rise with higher gross margin.           |
| <b>Industrial parks</b>        | 720                          | -28%  | Area rented 102 ha (+ 4% YoY), the average rent decreased due to concentrated in the newly-invested industrial parks with low rent in Dong Van  | 28.8%                     | 38.2%                     |  |
| <b>IPs operation</b>           | 451                          | 34%   | High growth, stable according to the leased area  | 29.1%                     | 28.8%                     | High and relatively stable gross margin                    |

## Company Update

### (1) Business results 2018:

- The ratio of SG&A expenses was stable at 12.3% of revenue, which keep operating profit margin (EBIT) far from falling sharply (decline from 10.9% to 10.1%).
- Net profit after minority interests reached VND 561.6 billion (-6.4% YoY), equivalent to EPS of VND 1,253/share (not taking bonus and welfare fund into consideration).

### (2) Business plan 2019:

- Consolidated revenue will be 9,300 billion dong (+ 3.2% YoY), EBT reaches 950 billion (+12.7% YoY), and expected dividend is 10%.
- Operating Phu My ultra white floating glass project in Q4 / 2019, and investing in energy saving glass in Dap Cau in Q3/2019

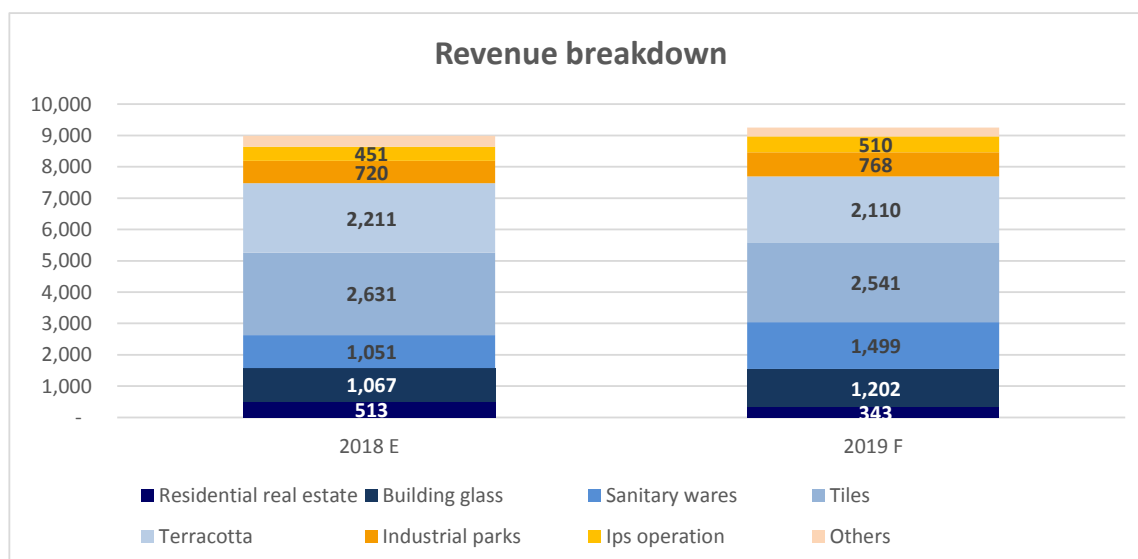
**(3) Divestment plan:** The valuation process has been completed, the company is waiting for a final decision from the Ministry of Construction about:

- Option: (1) matching orders in the stock exchange; or (2) auction
- Divestment rate: Currently, the Ministry has not approved to divest all the state owned capital in one time or to divest to 36% first and then to 0% in 2019.

### Business results forecast:

**BSC forecasts that VGC's net revenue in 2019 will reach VND 9,247 billion (+ 2.9% YoY),** the growth motivation comes from sanitary ware segment (+ 42.7%) after My Xuan porcelain factory operates stably; building glass (+ 12.7%) thanks to low-e output +50%, industrial parks operation (+12.9%) thanks to stable leasing area, industrial park leasing +6.7% with the assumption that occupied area increases by 90ha in 2019.

The gross profit margin will rise to 22.9% thanks to the support of lower oil prices, an increase in the average selling price of some construction materials such as glass and porcelain as a result of higher contribution of high quality products. **Net income is expected to reach VND 622.7 billion (+ 10.9% YoY), EPS = 1,242 VND / share** (under the assumption that the company will allocate 9% NI to bonus and welfare fund).



Source: BSC Research

**VGC - Viglacera Corporation**  
**Financial analysis**  
**25/02/2019**

**BSC**

|                              | 2014         | 2015         | 2016         | 2017         | 2018         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net revenue</b>           | <b>8,009</b> | <b>7,820</b> | <b>8,139</b> | <b>9,197</b> | <b>8,984</b> |
| <b>Gross profit</b>          | <b>1,598</b> | <b>1,717</b> | <b>1,979</b> | <b>2,141</b> | <b>2,012</b> |
| Financial revenue            | 39           | 32           | 85           | 78           | 139          |
| Financial expenses           | (247)        | (199)        | (202)        | (170)        | (208)        |
| Interest                     | (220)        | (161)        | (161)        | (151)        | (178)        |
| Selling expenses             | (490)        | (537)        | (561)        | (562)        | (635)        |
| General and administrative   | (419)        | (445)        | (550)        | (574)        | (471)        |
| <b>Operating profit/loss</b> | <b>482</b>   | <b>602</b>   | <b>803</b>   | <b>929</b>   | <b>840</b>   |
| Other loss/profit            | (29)         | (78)         | (34)         | (15)         | 2            |
| <b>Profit before tax</b>     | <b>461</b>   | <b>524</b>   | <b>769</b>   | <b>914</b>   | <b>843</b>   |
| <b>Profit after tax</b>      | <b>368</b>   | <b>407</b>   | <b>621</b>   | <b>722</b>   | <b>667</b>   |
| Minority interest            | 73           | 78           | 107          | 122          | 106          |
| Parent company profit        | 296          | 328          | 514          | 600          | 562          |
| <b>EPS</b>                   |              |              |              |              |              |

|                         |               |               |               |               |               |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Current assets</b>   | <b>6,092</b>  | <b>4,933</b>  | <b>5,364</b>  | <b>6,779</b>  | <b>6,051</b>  |
| Money and short-term in | 1,027         | 719           | 1,064         | 2,411         | 1,772         |
| Short-term receivables  | 1,263         | 1,324         | 1,233         | 1,289         | 1,084         |
| Inventories             | 3,672         | 2,761         | 2,920         | 2,896         | 3,041         |
| Other current assets    | 130           | 129           | 146           | 183           | 154           |
| <b>Long-term assets</b> | <b>6,225</b>  | <b>6,730</b>  | <b>7,626</b>  | <b>9,255</b>  | <b>10,439</b> |
| Long-term receivables   | 209           | 209           | 211           | 197           | 186           |
| Fix assets              | 3,014         | 3,066         | 3,171         | 3,737         | 3,923         |
| Long-term uncompleted i | 592           | 937           | 1,498         | 1,446         | 1,860         |
| Other long-term assets  | 394           | 355           | 300           | 282           | 400           |
| <b>Total assets</b>     | <b>12,317</b> | <b>11,663</b> | <b>12,989</b> | <b>16,034</b> | <b>16,490</b> |
| <b>Liabilities</b>      | <b>9,377</b>  | <b>8,361</b>  | <b>8,622</b>  | <b>9,315</b>  | <b>9,568</b>  |
| Short-term liabilities  | 5,696         | 4,750         | 4,433         | 4,319         | 4,517         |
| Short-term Debt         | 1,515         | 1,429         | 1,122         | 1,266         | 1,427         |
| Long-term liabilities   | 3,681         | 3,612         | 4,190         | 4,996         | 5,051         |
| Long-term Debt          | 993           | 811           | 1,024         | 877           | 683           |
| <b>Equity</b>           | <b>2,940</b>  | <b>3,302</b>  | <b>4,367</b>  | <b>6,720</b>  | <b>6,921</b>  |
| Contributed capital     | 2,645         | 2,645         | 3,070         | 4,484         | 4,484         |
| Undistributed profits   | 75            | 304           | 716           | 765           | 769           |
| <b>Total resources</b>  | <b>12,317</b> | <b>11,663</b> | <b>12,989</b> | <b>16,034</b> | <b>16,490</b> |

|                         |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|
| % yoy sales             | #N/A  | 12%   | 43%   | 51%   | 12%   |
| Gross profit margin     | 20.0% | 22.0% | 24.3% | 23.3% | 22.4% |
| Interest/Net revenue    | 2.7%  | 2.1%  | 2.0%  | 1.6%  | 2.0%  |
| Selling expenses/Net r  | 6.1%  | 6.9%  | 6.9%  | 6.1%  | 7.1%  |
| General and administrat | 5.2%  | 5.7%  | 6.8%  | 6.2%  | 5.2%  |
| Net profit margin       | 4.6%  | 5.2%  | 7.6%  | 7.9%  | 7.4%  |

- Revenue -2.3% YoY due to the main decline from real estate - IPs (-22.7% YoY) while construction materials segment increased slightly by 4.82%.

- Financial revenue + 80% YoY due to deposit + 71% YoY and dividends and profit increased sharply over the same period.

- SG&A expenses in the year remained at 12.3% of revenue: increasing selling expenses was offset by the declining G&A.

- Net profit -7.6% YoY, fulfilling 89% of the plan due to the decline in revenue and profit margin.

- Term deposits increased 2.5 times, accounting for 3.8% of total assets, helping financial revenue increase sharply in the year.

- Inventories + 4.5% YoY, remained stable at 18.4% of total assets.

- The ratio of uncompleted assets increased from 57.7% to 63.3%, due to the value of investment assets + 15.2% YoY from 120 ha IPs in 2018.

- Construction in progress + 28.6% YTD, mainly due to additional investments in Dong Van IV and Dong Mai industrial parks, autoclaved BTK brick projects.

- Short-term borrowings + 12.7% YTD, long-term loans - 22.1% YTD.

- As before 2016, the company recognized revenue from IPs throughout the lease term, so there are 3,096 billion unearned revenue on the balance sheet.

- Gross profit margin decreased due to difficulties in construction materials segment (1) glass segment: margin decreased from 31.5% to 14.6% due to selling price -20%, FO oil price (35-40% of total cost) + 12% ; (2) GPM of tiles segment decreased from 23.6% to 22.2% because selling price decreased by 7-8%.

**FINANCIAL RATIO**

|                                      | 2014   | 2015   | 2016   | 2017   | 2018  |
|--------------------------------------|--------|--------|--------|--------|-------|
| <b>1. Liquidity ratio</b>            |        |        |        |        |       |
| Current ratio                        | 1.07   | 1.04   | 1.21   | 1.57   | 1.34  |
| Quick ratio                          | 0.40   | 0.43   | 0.52   | 0.86   | 0.63  |
| <b>2. Capital structure ratio</b>    |        |        |        |        |       |
| CA/TA                                | 0.49   | 0.42   | 0.41   | 0.42   | 0.37  |
| NCA/TA                               | 0.51   | 0.58   | 0.59   | 0.58   | 0.63  |
| Liabilities/TA                       | 0.76   | 0.72   | 0.66   | 0.58   | 0.58  |
| Liabilities/TE                       | 3.19   | 2.53   | 1.97   | 1.39   | 1.38  |
| CL/TA                                | 0.46   | 0.41   | 0.34   | 0.27   | 0.27  |
| NCL/TA                               | 0.30   | 0.31   | 0.32   | 0.31   | 0.31  |
| <b>3. Operating efficiency ratio</b> |        |        |        |        |       |
| Inventory turnover                   | 1.7    | 1.9    | 2.2    | 2.4    | 2.3   |
| Receivable turnover                  | 8.5    | 8.9    | 9.7    | 11.2   | 11.1  |
| Payable turnover                     | 5.2    | 4.6    | 6.1    | 6.6    | 6.5   |
| Days of inventory                    | 212.6  | 192.4  | 168.3  | 150.4  | 155.4 |
| Days of receivables                  | 43.1   | 41.2   | 37.8   | 32.7   | 32.8  |
| Days of payables                     | 69.9   | 78.8   | 59.5   | 54.9   | 56.1  |
| CCC                                  | 185.8  | 154.7  | 146.6  | 128.2  | 132.1 |
| <b>4. Profitability ratio</b>        |        |        |        |        |       |
| Net income/NSale                     | 4.6%   | 5.2%   | 7.6%   | 7.9%   | 7.4%  |
| ROE                                  | 17.8%  | 13.0%  | 16.2%  | 13.0%  | 9.8%  |
| ROA                                  | 3.1%   | 3.4%   | 5.0%   | 5.0%   | 4.1%  |
| Oper profit/NSale                    | 6.0%   | 7.7%   | 9.9%   | 10.1%  | 9.4%  |
| <b>5. Dupont analysis</b>            |        |        |        |        |       |
| TA/TE                                | 5.68   | 3.84   | 3.21   | 2.62   | 2.38  |
| NSale/TA                             | 0.68   | 0.65   | 0.66   | 0.63   | 0.55  |
| EBIT/NSale                           | 0.08   | 0.09   | 0.11   | 0.12   | 0.11  |
| EBT/EBIT                             | 0.68   | 0.76   | 0.83   | 0.86   | 0.83  |
| Net income/EBT                       | 0.80   | 0.78   | 0.81   | 0.79   | 0.79  |
| <b>6. Valuation multiples</b>        |        |        |        |        |       |
| PE                                   | #N/A   | 14.2   | 11.0   | 12.8   | #N/A  |
| PB                                   | #N/A   | 1.5    | 1.4    | 1.2    | #N/A  |
| EPS                                  | #N/A   | 1,242  | 1,673  | 1,339  | #N/A  |
| BVPS                                 | #N/A   | 11,152 | 12,657 | 13,769 | #N/A  |
| <b>7. Growth ( %yoy )</b>            |        |        |        |        |       |
| TA                                   | 10%    | -5%    | 11%    | 23%    | 2.8%  |
| Liabilities                          | 144.6% | 12.3%  | 32.3%  | 53.9%  | 3.0%  |
| Sale                                 | 31.5%  | -2.4%  | 4.1%   | 13.0%  | -2.3% |
| GP                                   | 36.7%  | 7.4%   | 15.2%  | 8.2%   | -6.0% |
| NI                                   | 870.6% | 10.4%  | 52.7%  | 16.3%  | -7.6% |
| EPS                                  |        |        |        |        |       |

- The liquidity ratios decreased over the same period due to cash - 47%, receivables -16% whereas short-term debt + 4.5%

- The assets structure has shifted from short-term assets to long-term assets as the company increased its investment in industrial park infrastructure to meet rising demand.

- Debt ratio remained stable at 58%, equivalent to 2017 leverage ratio. The structure of short and long-term debt is relatively stable.

- Operational capacity indicators are stable compared to 2017.

-The average cash cycle increased slightly by 3%.

- Profitability ratios decreased over the same period due to the impact of lowering prices, increasing fuel costs as well as sales activities in some uncompleted areas.

**Technical highlights:**

- Current tren: Short-term accumulation.
- MACD trend indicator: Positive convergence.
- RSI indicator: about to touch overbought area.
- MA line: MA20 and MA50 both cut MA200.

**Outlook:**

VGC is in the middle-term recovery trend from the price range of 17. Current stocks have returned to the support level of the previous period. Stock liquidity fell below the 20-day average level when hitting this level, indicating a weak momentum. RSI ticked the overbought threshold and the MACD entered the converging cycle also supported the cumulative trend. 3 MA lines showed that the stock is in mid-term recovery trend with a strong support level at the price range of 18.5. Thus, VCG will accumulate in the price range of 18.5-20.5 before forming a new trend.

**Recommendations:**

Investors can open positions at the price range of 18.5-19 and take profit at the price of 24. Hold loss if the stock loses the price threshold of 18.

**Technical graph**



## **Disclosure**

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