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*For the year 2016, the net profit is estimated to be VND 117.4 billion, equivalent to 2016 EPS fw of VND 7,340.*

*With a closing price on 2nd Nov 2016 of VND 50,100 per share, the P/E fw is 6.83x, relatively attractive valuation.*

**Viglacera Ha Long Joint Stock Company** specializes in manufacturing brick and tile, with 3 main products: bricks, tiles and flooring tiles (Cotto and Clinker).

**VHL growth in 4Q2016 and 2017 will mainly come from:**

- Changes in the product mix towards increasing the proportion of tiles product up to 80%;
- The operation of Clinker Line 2 since Sep 2016.

**Note that,** the fuel cost (coal and oil, accounting for 20% of total cost) tends to increase again, along with labor costs (15% total cost with Cotto, 30% with brick) increase due to the change in social insurance policies. The increase in those costs will affect the company's gross margin in the near future. Concentrated shareholder structure and relatively low liquidity with an average trading volume in 10 sessions of 17,022 shares are also minus points of the VHL stock.

**Earnings results:** In 3Q2016, revenues reached VND 447.96 billion (+13.1% yoy), the gross margin was slightly lower than that of the same period, reaching 17.7% (gross margin in 3Q2015 was 20.7%) due to a slight discount in slack season (lunar July). EAT reached VND 28.3 billion (+6.8% yoy).

Accumulated in 9M2016, revenues reached VND 1320.5 billion (+18.02% yoy), 20.7% gross margin (in 9M2015: 18.4%). The reason are (1) Stability in producing Cotto tiles at Clinker line 1 (The line has operated since May 2015); (2) Increasing the proportion of products having high profit margin (cotto, tiles). EAT reached VND 85.7 billion (+13.7% yoy), completing 77.6% of the 2016 plan.

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**Bricks and tiles (~ 50% of revenues):** VHL has 2 brick & tile factory including Tiêu Giao Plant (Capacity of 180 million standard units per year) and Hoanh Bo Plant (Capacity of 90 million standard units per year) which are operating full capacity. Currently, the proportion of tile is high at about 65% of total output after VHL converted half of Hoanh Bo plant from bricks into tiles in 2015. The company plans to convert the remaining lines into tiles in early 2018, increasing the tiles rate up to 80% of capacity. Halong tile is one of the high-end products having strong consumption in Vietnam market, with roughly 5-6

times higher price than the brick price (calculated for a standard unit) and relatively good gross margin ( more than 20%) compared to brick (10-15%).

**Flooring tiles (cotto and clinker) (50% of sales):** VHL owns 2 factories including Gieng Day Cotto factory with a capacity of 7.5 million m2 per year and 2 Clinker Lines (which can produce both Cotto and Clinker production) with capacity of 2 million m2 per year each line, where 2 line have operated since May 2015 and Sep 2016 respectively. VHL cotto tiles accounted for relatively large market share, about 60%, and have high gross margin (15-17%). The new Clinker product has very good physical and chemical properties and 2.5-3 times higher price per m2 compared to cotto tiles. However, the cotto market has been not developed yet, so the two Clinker production line continues to produce 100% of Cotto products.

**Materials: *About clay*,** VHL stored for 6 months of stable production. In the long term, VHL has large raw material mines, such as Xich Tho mine, meeting the clay needs of 25-30 years. Clay price is basically stable over the years. ***About fuel*,** VHL uses Diesel oil for tiles production and gasified coal for the remaining products. Upward trend in oil prices and coal prices (+6% in coal price) in recent months may affect the margin of VHL in the coming time because of the high proportion of fuels in production costs (~20%).

**Product consumption:** VHL mainly sells product through the subsidiary Viglacera Ha Long one member limited company and the associated companies Viglacera Trading Corporation. 92-95% of sales comes from domestic market, which is mainly the northern market (accounted for 84-87% of revenues). Immediately collecting money policy and the 10-12% agency discount make customer receivables to be at very low levels.

## *Disclosure*

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