

Sector & Company Insights

Ceramic tiles, The Forgotten Sector

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Cycle and Stock Market

In general, the cyclical nature can be seen everywhere: from the enormous movement of the Earth around the Sun to tiny movement of the atoms, or from weather changes between 4 seasons to the tune of music. The stock market is where the cyclical nature shows the most. Stock price can drop to a value of a few coins or it could move up to a millions of VND. As long as business core returns, stock rebounding back after the end of gloomy business cycle is not rare.

Stocks and a tiny coin

Stocks have high cyclical move that is often classified as a note by the biggest opportunity often occurs when there is a phase difference between fundamentals and market prices. Usually there is a certain delay when business activities of enterprises have actually restored but stocks price often doesn't fully reflect (and vice versa). A lot of stocks in the Vietnam market in recent years has started to price in a glass of iced tea and no one cares. Surely investors don't forget the typical turnaround case of Vietnam stock market as TCM of 2013, HT1 of 2014 or the most recent is TMT of 2015. Usually the story doesn't end in a particular stock, but it also expands in this sector that makes up the battle of life be told to later generations investors.

Ceramic tile Industry and forgotten stocks

The story which BSC Research tells today is the first case appeared in the history of listed stock market, from negative equity switch off again profitable, even at very high EPS. It's the story of the ceramic tile sector.

BSC Research has closely followed this industry since Viglacera Corporation IPO only sold 19.47 million shares, equivalent to 25.3% (Link1, Link 2). Then we released in turn reports on businesses of VIT, CVT, TLT, TCR, TTC and expressed optimistic views for Ceramic Tile sector as in BSC Vietnam Sector Outlook in 2016 report (Link pages 24, 25) to see that the recovery of the sector was spreading.

With a developing country like Vietnam, which has a large population and demand for housing, commerce, consumers and potential developers, building material in general and tile products in particular will remain strong growth. In terms of valuation tile industry are at P/E FW ranging from 3-7 and PB popular from 0.63-1. Compared with global ceramic tiles stocks, according to the Bloomberg (close capitalization to Vietnam enterprises), we believe that the domestic ceramic tiles stocks are still at attractive price. Our positive recommendation still includes: VGC, VIT, CVT, TLT, TCR, TTC, etc.

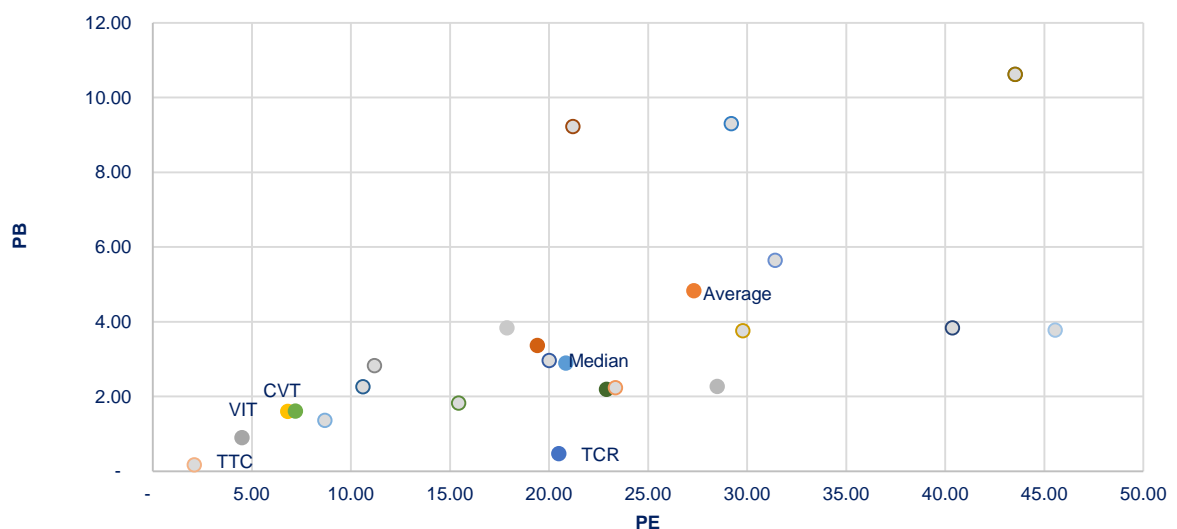
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Turnaround opportunities when sector is forgotten

We still maintain positive views on Ceramic Tiles Sector as in BSC Vietnam Sector Outlook in 2016 report (Link pages 24.25). The recovery from the core business activities of the enterprises of Tiles sector typically as VGC, VIT, CVT, TLT, TCR, TTC somewhat reinforces our judgment. BSC Research released in turn analysis report about the Tiles industry enterprises above. (Click on the code to update reports of BSC Research).

Chart 1
Ceramic tiles sector's PE and PB



Source: Bloomberg, BSC Research

Difficult period: Losses to negative equity

Tiles industry has long not get the attention of investors, partly because of difficulties in consumption during the period real estate frozen 2011-2013. The majority of enterprises of building materials, included ceramic tiles enterprises experienced consumption difficult period, domestic demand declined, in addition strong competition by imported tiles. Some businesses in this period also lost to negative equity.

Successful restructuring: Regain market share

Even when civil construction recovered, plus the projects began to enter completion stage, demand for ceramic tiles started to rise again. In addition, during the difficult years, many businesses had successfully restructured, improved product quality, lower costs, improved technology and distribution capabilities, gradually competed with imported tiles and regained domestic market and export. The results were that core business activities of many businesses improved tremendously. For the first time in history of listed stock market, had stock from negative equity which has not only profitable again, but also reached a high EPS.

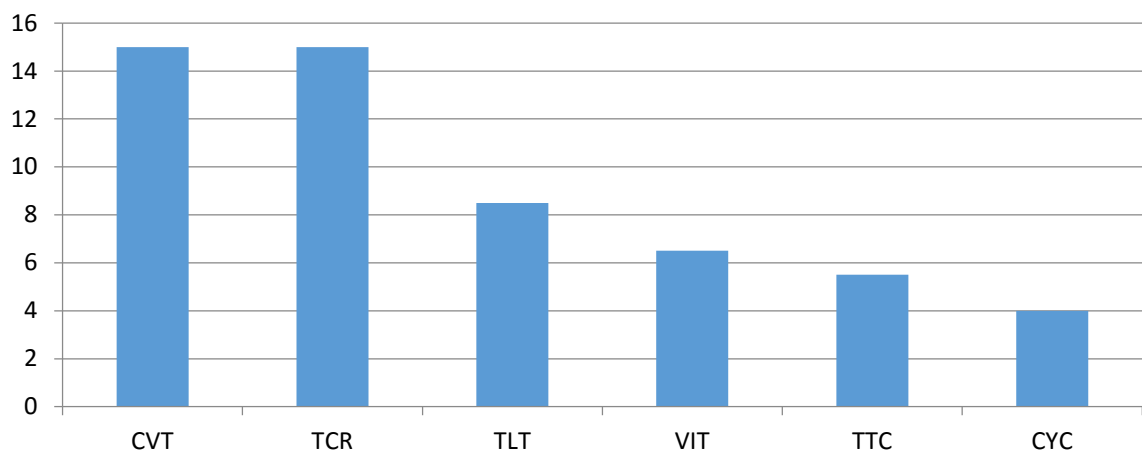
The market has not yet to assess the full potential

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Vietnam is one of the largest manufacturer of ceramic tiles in the World. Currently the production capacity of about 447 million m²/year and average operating capacity over 80% of design capacity, Vietnam ranks the eighth of 10 countries producing the world's largest ceramic tiles. Vietnam brick production businesses mostly have capacity under 10 million m²/year. Now, Prime Group is the largest enterprise with capacity of 75 million m²/year (in which 85% shares of SCG Thailand).

Chart 2

Listed companies' capacity (million m² per annual)



Source: BSC Research

Summary of enterprises' business results in 2015

There were 9 listed ceramic tiles enterprises, included 3 losers which are CYC, BHV and DAC. 6 enterprises which BSC released positive business results in 2015 as CVT, VIT, TTC, TLT, TCR and VGC.

- **VGC – Viglacera Corporation** is the largest building materials enterprises in Vietnam, with good business results growth compared to 2014, and this is also the parent company of several paving tiles businesses included TLT, VIT with a design capacity of 20 million m², large sales scale (included building materials, industrial zone and real estate). PE valuation at 6.8 and P/B of 1.1 were quite modest compared with the scale and business performance of the company.
- **CVT - CMC Joint Stock Company**, continued business results recovery trend from 2013, the prospects for 2016 will depend on consumers' ability and operate the second phase of plant CMC2. Even price increased in 2 consecutive years, the index P/E and P/B of CVT were still much lower than the average of stock market.
- **VIT - Viglacera Tien Son Joint Stock Company**, the business results in 2015 were continued to improve with main granite tiles products. The majority of tiles companies in 2014, 2015 were benefited from reduced depreciation costs, particularly VIT was still effective growth while increased depreciation rate. In addition, hoping in 2nd phase of Thai Binh factory, the valuation of VIT indicators will continue to improve in 2016.
- **TTC - Thanh Thanh Ceramic Tiles Joint Stock Company** was the company which had the second largest EPS 2015 among companies in the industry. The company's products had competitive price and good consumption in the domestic market, a part was exported. Valuation levels P/E of 4.3 and P/B of 1.0 times still made stock attractive.
- **TCR – Taicera Joint Stock Company** was the largest enterprise in ceramic tiles with revenue over VND 2000 billion in 2015. Profit index 2015 was not high due in part to the influence of the first 2 quarters of losses. Therefore, P/E of 9.5 times was not fully reflect the attractiveness of stock, in addition P/B of the highest discount rate of the sector was 0.6 times.
- **TLT – Viglacera Thang Long Joint Stock Company**, was the first enterprise which negative equity and EPS reached a very high level on listed stock exchange. This was improved the most with net sales 2015 of VND 442.6 billion (+14.3%) and PAT reached VND 34.78 billion (5.93 times more than in 2014). The biggest risk was accumulated losses of TLT even EPS 2015 reached VND 4,980 and planned EPS in 2016 at VND 5,100, it had yet to pay dividends to shareholders. However, with P/E of 3.3 times, TLT was still very attractive.

Ticker	Revenue 2015	Market price at 23/03/2016	EPS 12M	BVPS	PE 12M	PB
CVT	748	23,800	3,270	15,110	7.3	1.6
VIT	683	23,000	2,490	12,920	9.2	1.8
TTC	391	15,700	3,650	16,520	4.3	1.0
TCR	2,090	9,100	960	14,140	9.5	0.6
VGC	7,800	11,600	1,700	10,610	6.8	1.1
TLT	442	17,100	4,980	1,090	3.4	15.7

Investment Risks

Domestic Ceramic tiles market is competed by China. Because China is the largest ceramic tiles production in the World with quantity of 6 billion m² (account for 48.35% output of global), the geographical position borders Vietnam and cheap price, have created solid advantages for Chinese goods dominate the market. Particularly granite tiles, Chinese products account for 40-45% of the market (smuggled goods type 1 are cheaper about 15% than domestic goods).

Seasonality and cyclicity of the real estate business can make tiles demand fluctuations. However, tiles demand does not only come from the project commercial property and housing, but also from civil consumption. Therefore, the influence of slowing real estate sector is not too large.

Disclosure

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