

Recommendation: BUY

Nguyen Thi Kieu Hanh (FA)

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Target price	52,710
Closed price	47,800
Upside	10.3%

Nguyen Tuan Anh (TA)

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Target price	52,500
Cut loss	43,600

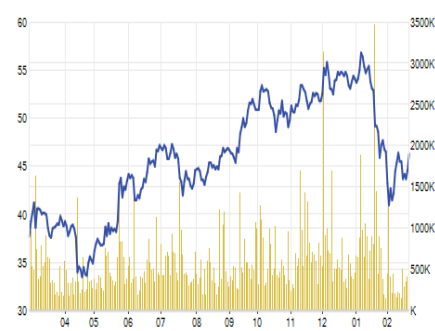
Market Data

Outstanding share	28
Mkt Cap	1,259
High of 52w	60,500
Avg Vol 10 days (share)	289,316
Foreign onwership	5.99%

Major shareholder

VCG forum one	6.7%
Vietnam Holding	3.7%
Deutsche Asset manager	3.1%
Asean Small cap	1.9%

Price chart (1 year)



Company Overview

CVT is a medium-sized tiles manufacturer with flexible production lines. Current production capacity of CVT is 18 million square meters of tiles and shingles per year, of which 40% is granite.

Other report [Link](#)

QUALITY & QUANTITY GROWTH

Valuation

We recommend **BUY** for CVT with a target price of VND 52,710/share based on comparable valuation method using target P/E of 8x, with the expectation on effectiveness of newly introduced lines of soluble salt absorbent granite, which has been put into operation since Feb 2018.

Outcome Forecast

BSC forecasts the production quantity of CVT in 2018 will increased by 20% YoY with the assumption that the new line fulfills 90% capacity in this year (this line has been put into operation since February and also throughout Tet holiday). Net revenue is expected to arrive at VND 1,470 billion (+24.6% YoY), EAT of VND 194 billion (+11.4% YoY) equivalent to EPS 2018 = VND 6,530/share (calculated on the outstanding shares right now and the assumption of 10% deduction of bonus & welfare funds; if estimation is based on number of shares after dividend issuance, EPS 2018 = VND 5,068/share), P/E fw = 7.3x – considerably lower than CVT's valuation after changing its listed stock exchange from HNX to HOSE.

Catalyst

The line of soluble salt absorbent granite (+21.4% current capacity) is expected to be CVT revenue driver in 2018.

Investment Risks

- Risk of operating new production line
- Risk of reducing price due to strong competition
- Risk of fuel price increases

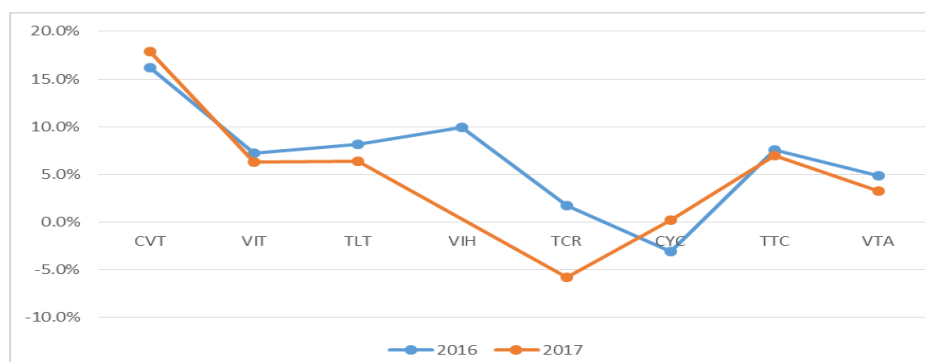
Corporate Update (details refer to page 2)

- (1) Soluble salt absorbent granite line has been put into operation since Feb 2018.
- (2) Maintaining reasonable profit margin compared to the average of listed firms in the industry.
- (3) Dividend payout plan: Estimate dividend ratio 45% by cash and stock.
- (4) Changing the land using purpose of factory CMC1.
- (5) Ambitious expanding plan : The firm intends to further invest in factory CMC3 producing tiles and porcelains between 2019-2020.

(1) Soluble salt absorbent granite line has been put into operation since Feb 2018.

This new line will add up 3 million m2 per year to capacity (equivalent to 21.4% current capacity of CVT) and raise the ratio of granite up to 41% the total capacity. According to the sectoral common trend, this new lines will be operated by natural gas, instead of coal. This will increase the fuel expense by VND 2,000/m2 per unit, but reduce the rate of depositions in the pipe, raising the ratio of grade A products and lowering the maintainance expense by VND 3000-4000/m2 compare to those lines ran by coal.

(2) Maintaining reasonable profit margin compared to the average of listed firms in the industry. Profit marginal ratios of CVT (gross profit margin, operating profit margin and net profit margin) are far higher than those of its listed rivals. In 2017, while all other firms realized the decrease in profit margin, CVT's profitability still got improved by enhancing the consumption rate of high-quality goods with higher price.



(Source: FiinPro)

(Note: For group of subsidiaries VGC: TTL: accumulation 9T2017, VIH: FS 2017 not available yet)

(3) Dividend payout method: The company is asking in shareholder's meeting for the approval of 2017 profit distribution plan with the payout rate would be 45%, of which 15% in cash and 30% by stock to ensure the capital needs for extending investments.

(4) Change the land using purpose of factory CMC1: Factory CMC 1 was invested by CVT 20 years ago, so long that the technology has become partly backward compared to nowadays, therefore it contributed only 15-25% to profit margin in 2017. Consequently, CVT plans to ask in shareholder's meeting for the approval of changing the using purpose of 75,000 m2 land from this factory (located in center of Viet Tri city) to build the urban areas or transfer to other partners.

(5) Ambitious expanding plan: CVT is proceeding the plan submission to People Committee of Phu Tho to ask for 50ha to build CMC3 factory w producing tiles and porcelains during 2019-2020.

(Note: Business result in Q1 usually take up to only 15-20% accumulatedly per annum owing to seasonal factors from the needs for constructing and finalizing housing works).

CVT- CMC Joint Stock Company
Financial Analysis
05/03/2018

BSC

Unit: billions	2014	2015	2016	2017	2018E
Net sales	607	680	1,118	1,180	1,470
Gross profit	124	132	263	287	376
Financial income	1	1	2	3	2
Financial exps	(22)	47,800	(37)	(29)	(44)
interest exps	(22)	(20)	(36)	(27)	(44)
Nguyen Tuan Anh (TA)	(6)	(7)	(5)	(8)	(37)
G&A exps	(29)	(30)	(41)	(42)	(53)
Operating profit	67	76	182	211	245
Net other income	(1)	4	9	7	-
EBT	66	80	190	218	245
Net income	51	62,000	152	174	194
Minority interests	-	40,500	-	-	-
Parents	51	63	152	174	194
EPS	3,168	2,892	7,523	6,172	5,068
Current asset	382	384	465	505	555
Cash and CE	152	75	149	88	74
Accounts receivable	49	26	34	53	50
Inventories	181	258	267	351	410
Other current assets	1	25	16	12	20
Non-current asset	274	548	541	697	769
LT receivables	-	-	-	-	-
Fixed assets (fa)	268	252	507	435	757
Price chart (1 year)	264	252	507	435	757
Finance lease fa	-	-	-	-	-
Intangible fa	-	-	-	-	-
LT incomplete assets	-	292	31	262	12
Other LT assets	6	4	3	-	-
Total asset	656	932	1,006	1,202	1,324
Total liabilities	415	642	619	666	646
Current liabilities	297	384	463	437	457
ST borrowings	177	199	241	175	178
Non-current liabilities	118	258	157	230	189
LT borrowings	118	258	157	229	189
Owner's equity	241	290	387	535	679
Company Overview	160	192	192	282	282
Retained earnings	51	63	152	174	224
Total resources	656	932	1,006	1,202	1,324
% yoy Revenue	2.76%	11.99%	64.32%	5.58%	24.60%
Gross margin	20.43%	19.34%	23.55%	24.33%	25.58%
Ir.exps / sale	3.64%	2.87%	3.21%	2.26%	2.99%
Sell exps / sale	1.02%	0.96%	0.46%	0.65%	2.50%
Admin exps / sale	4.83%	4.37%	3.71%		3.58%
Net profit margin	8.35%	9.21%	13.60%	14.76%	13.20%

- CVT's net revenue slightly rise by 5.6% YoY that results from increase in consumption coming from operation in full capacity of CMC 2.2 production line and increase in quantity of tiles (+21.4% YoY). One thing to consider is that the revenue of Q4/2017 declined 10% YoY, which had been explained by the firm due to the boosted consumption in the previous quarter. The total revenue for the second haft of 2017 still increased by 5.3% compared to the same period.

- Interest expense reduced by 26% as the fact that the company has actively repay loans (VND 1,018 bil), particularly the long-term loans (as estimated, the outstanding amount of debt used to invest in previous upgrading plan is now only around VND 70 billion, while new loan for CMC 2.3 line has 12-month payment in kind period).

- Inventory at the end of the year was high as the increase of material reservation for manufacturing. The figure for inventory at the end of Q4/2017 was VND 350.6 billion (+17.4% YoY), of which 63.1% is materials, especially for meeting the needs of enlarging capacity of new factory.

- Unfinished long-term asset at 31/12/2017 sharply increased VND 232 billion as the result of the investment in soluble salt granite production line. The total investment in that was approximately VND 370 billion.

- Payables for suppliers rose by 28.9% YoY, coming from the contract of machinery and device for CMC 2.3 production line and materials.

- Debts did not fluctuate much since the increment of the loan for CMC 2.3 production lines was offset by the decrease 27.4% of short-term liabilities.

- Equity increased 47% after the issuance of ESOP and stock dividend of 40%.

- Gross profit margin was slightly improved as the fact that CVT had taken initiative to raise the consumption ratio of big-size granite and tiles whose prices are higher than normal ceramics product; the estimated portion of granite consumption will increase from 20% to 28% and that of tiles will triple from 1% to 3% in 2017.

MỘT SỐ CHỈ TIÊU TÀI CHÍNH CƠ BẢN

2013 2014 2015 2016 2017

1. Liquidity ratio

Current ratio	0.77	1.29	1.00	1.01	1.15
Quick ratio	0.29	0.68	0.26	0.40	0.32

- Current ratio will be at safe level, slightly incremental in this year owing to short-term debt decreased.

2. Capital structure ratio

47800

Ca/TA	0.42	0.58	0.41	0.46	0.42
Nguyen Tuan Anh (TA)	0.58	0.42	0.59	0.54	0.58
Liabilities/TA	0.75	0.63	0.69	0.62	0.55
Liabilities/TE	3.01	1.72	2.22	1.60	1.25
CL/TA	0.55	0.45	0.41	0.46	0.36
NCL/TA	0.20	0.18	0.28	0.16	0.19

- The asset structure had shifted to long-term assets, contributed from CMC 2.3 line that is recently put into operation.

- Debt declined as the firm has proceeded to repay partly its long term debt as well as decrease revolver and using stock dividend instead of cash.

3. Operating efficiency ratio

62,000

Inventory turnover	-	40,500	2.50	3.26	2.89
Receivable turnover	-	135.95	108.93	144.84	166.20
Payable turnover	-	23.29	14.69	21.68	19.86
Days of inventory	-	117	146	112	126
Days of receivables	-	3	3	3	2
Days of payables	-	16	25	17	18
CCC	-	104	124	98	110

- Inventory of materials increases, reducing the speed of inventory turnover, finished goods inventory did fluctuate much.

- Short-term payables to suppliers were relatively high ~ 16.4% of total assets, helping CVT be able to make full use of commercial credit capital and quickly turn over the cash flow.

4. Profitability ratio

Net income/NSale	3.2%	8.3%	9.2%	13.6%	14.8%
ROE	15.4%	21.0%	21.6%	39.3%	32.6%
ROA	3.8%	7.7%	6.7%	15.1%	14.5%
Oper profit/NSale	4.0%	11.0%	11.2%	16.2%	17.9%

- Profitability was retained at higher level than other firms in the same industry.

- The investment in CMC 2.3 lines did not create any revenue this year, which reduced the return on assets.

- Good cost management, especially the reduction of financial costs improved the profitability from operating activities.

Price chart (1 year)

TA/TE	4.01	2.72	3.22	2.60	2.25
NSale/TA	1.20	0.93	0.73	1.11	0.98
EBIT/NSale	0.08	0.15	0.15	0.20	0.21
EBT/EBIT	0.51	0.75	0.80	0.84	0.89
Net income/EBT	0.75	0.77	0.78	0.80	0.80

6. Valuation multiples

PE	19.3	14.3	15.7	6.0	7.4
PB	3.0	3.0	3.0	2.3	2.4
EPS	2,358	3,168	2,892	7,523	6,172
BVPS	15,318	15,058	15,092	20,138	18,959

- The valuation criteria are relatively attractive compared to the industry. In our opinion, CVT's valuation was somehow revalued to be in line with its expansion.

7. Growth (%yoy)

Company Overview	34%	42%	8%	19%
Liabilities	13%	55%	-4%	8%
Sale	3%	12%	64%	6%
GP	55%	6%	100%	9%
NI	169%	24%	143%	15%
EPS	34%	-9%	160%	-18%

Technical highlights:

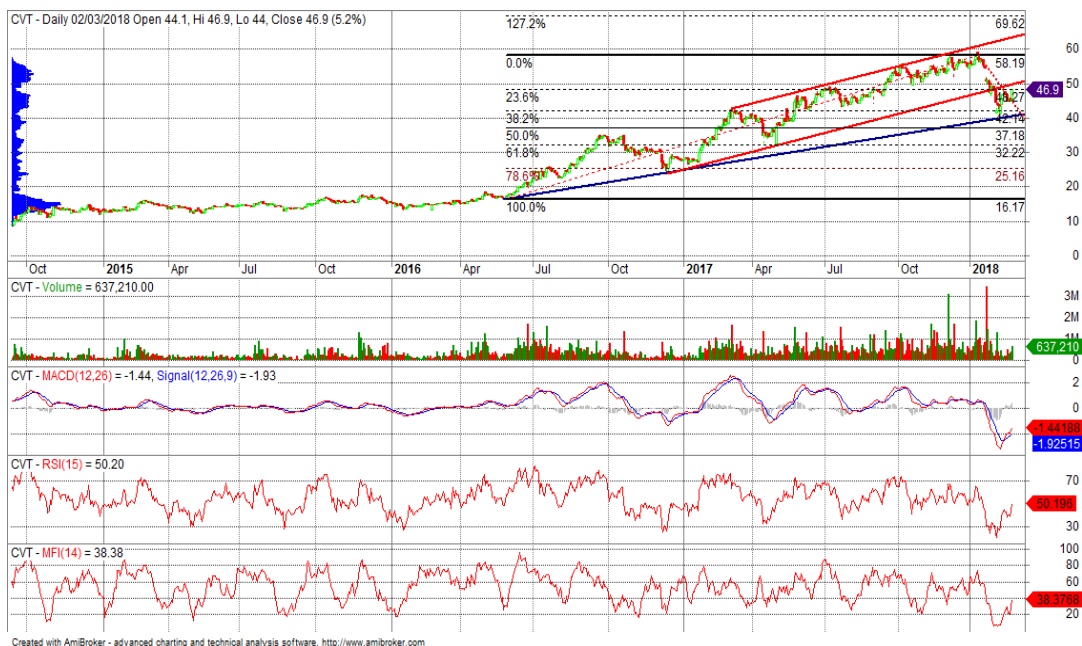
- Current trend: exit short-term downtrend
- MACD indicator: increase, diverge above the signal line
- RSI indicator: increase
- MFI indicator: increase

Outlook:

Currently, CVT share price has exited the short-term downtrend and has bias of returning to long-term uptrend. MACD indicator increases and diverges above the signal line, showing that the uptrend probably continues. RSI indicator increases, indicating the motive for price to go up. MFI indicator sharply increases, confirming the upward momentum. Investors are recommended to keep track of the stock price before the trend is made clear.

Recommendation: Purchase price: 46,900 – 47,800. If CVT returns to its long term uptrend, target price is 52,500, cut-loss price: 43,600.

Technical chart:



05/03/2018

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