

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	

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Target price	24,000
Cut loss	18,000

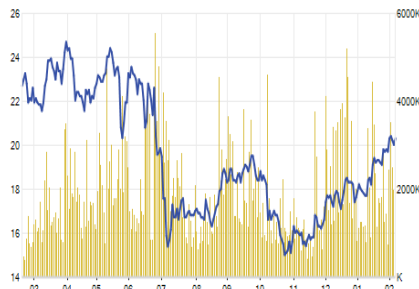
Market data

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.

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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 2018 (billion)	% YoY		Gross profit margin	Gross profit margin	
Tiles	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)
Terracotta	2,211	-2%	High level of competition, especially in building bricks	18.4%	16.2%	
Glass	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
Sanitary ware	1,051	4%		29.9%	25.8%	
Residential real estate	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.
Industrial parks	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%	
IPs operation	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

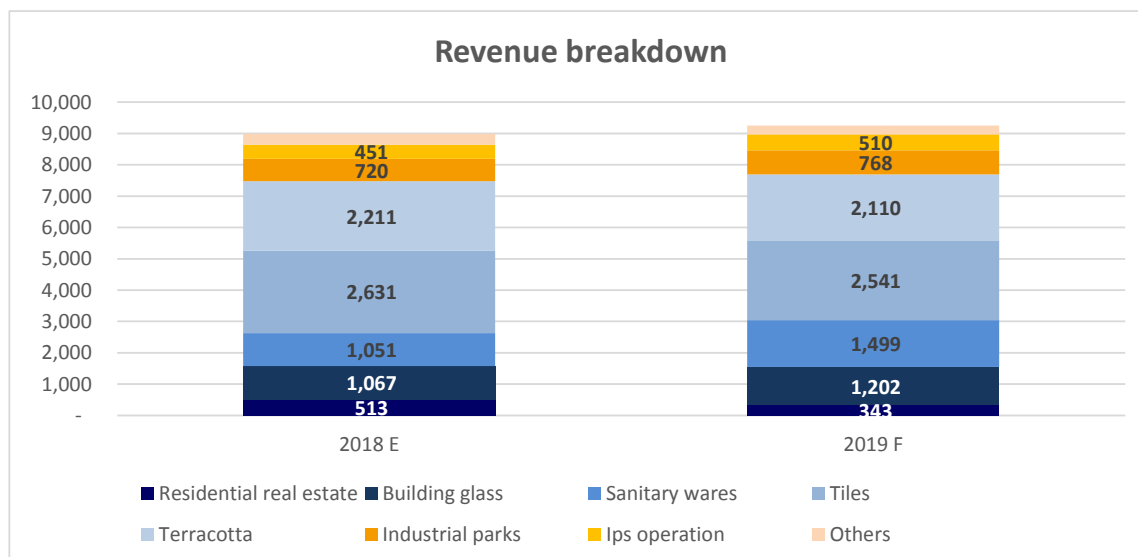
(3) Divestment plan: The valuation process has been completed, the company is waiting for a final decision from the Ministry of Construction about:

- 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
Net revenue	8,009	7,820	8,139	9,197	8,984
Gross profit	1,598	1,717	1,979	2,141	2,012
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)
Operating profit/loss	482	602	803	929	840
Other loss/profit	(29)	(78)	(34)	(15)	2
Profit before tax	461	524	769	914	843
Profit after tax	368	407	621	722	667
Minority interest	73	78	107	122	106
Parent company profit	296	328	514	600	562
EPS					

Current assets	6,092	4,933	5,364	6,779	6,051
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
Long-term assets	6,225	6,730	7,626	9,255	10,439
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
Total assets	12,317	11,663	12,989	16,034	16,490
Liabilities	9,377	8,361	8,622	9,315	9,568
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
Equity	2,940	3,302	4,367	6,720	6,921
Contributed capital	2,645	2,645	3,070	4,484	4,484
Undistributed profits	75	304	716	765	769
Total resources	12,317	11,663	12,989	16,034	16,490

% 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
1. Liquidity ratio					
Current ratio	1.07	1.04	1.21	1.57	1.34
Quick ratio	0.40	0.43	0.52	0.86	0.63
2. Capital structure ratio					
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
3. Operating efficiency ratio					
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
4. Profitability ratio					
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%
5. Dupont analysis					
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
6. Valuation multiples					
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
7. Growth (%yoy)					
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, VGC 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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