

# **GTNFoods Joint Stock Company (HSX: GTN)**

Better earning, strong balance sheet after restructuring

**Duy Pham**

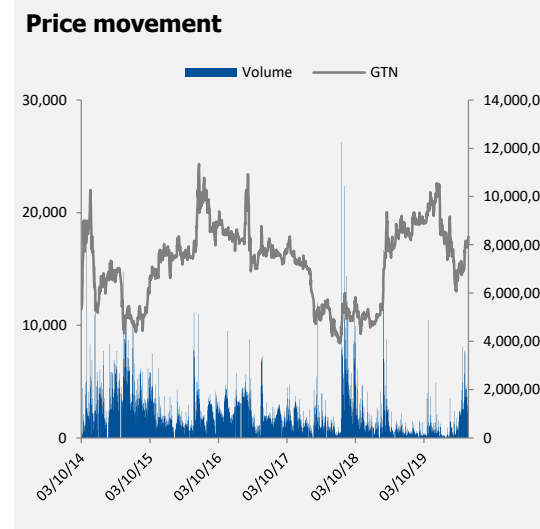
(+84) 98 669 6617

Duy.PhamViet@mbs.com.vn

## Investment thesis

We view GTN as an attractive investment opportunity based on:

- Focus on core business activities is the premise for growth. In 2019, GTN have divested non-core investments in GTNfarm, GTNfoods Asset Mining Company, and GTNfoods Consumer Goods Company. The divestment has generated about VND 1,000bn cash available to fund more efficient projects.
- The participation of VNM in GTN's BOD and BOM strengthen the management team. With 75% stake in GTN, VNM has their key people involving in the operation of GTN to improve the profitability of Moc Chau Milk.
- An opportunity to enter the Chinese market. China is the second largest dairy consumption country in the world, however, domestic supply only meets 75% of its demand. After more than six years of negotiations, the protocol on the export of Vietnamese dairy products to China was signed on April 2019. China has controlled the spread of the virus and life is returning to normal in much of China, seeing more demand for domestic consumer food. At the moment, there are 5 brands permitted to export dairy products to China including Vinamilk, TH true MILK, Nutifood, Moc Chau Milk and Hanoimilk.
- Raw materials' price is expected to be maintain at low point in short term, which will lend a helping hand to improve the gross profit margin in FY20.
- We unrated GTN as the enterprise restructuring plans have not been disclosed yet.



## Company data (26/05/2020)

Current Price	VND 16,900
Target Price	N/A
Upside	N/A
Bloomberg	GTN VN
Market cap	VND 4.270 bn USD 185.6 mn
52 weeks movement	VND 13,100 – VND 21,800
Average daily value	VND 27 bn USD 1.17 mn
FOL	100%
Current FO	1.23%

Unit: VND billion	FY17A	FY18A	FY19A	FY20F
Revenue	3,781	3,008	2,970	2,910
Operating profit	153	113	7	152
EAT	152	105	13	126
EAT (basic)	152	105	13	126
EPS (VND)	160	32	-248	199
EPS growth rate (%)		-80%	-875%	125%
P/E (x)	100	325	-72	85
Dividend yield (%)	0%	0%	0%	0%
P/B (x)	1.5	1.2	0.9	0.7
ROE (%)	1.2%	0.21%	-1.8%	0.88%
Debt/equity (%)	4.6%	0.9%	0.8%	0.0%

Source: MBS Research

Source: GTN, MBS Research

## Opportunities in the Chinese market

China is the 2nd largest dairy consumer in the world (after the United States), with a total market value of USD 60bn. In 2018, China's average per capita milk consumption reached 22.5kg/year, but the domestic supply only met 75% its demand, according to China's Ministry of Agriculture.

Moc Chau Milk used to export to China via border trade with a quota of 25,000 tons/year. The Protocol signed in 2019 allows Moc Chau Milk exporting through official channels along with Vinamilk, TH true MILK, Nutifood, and Hanoimilk.

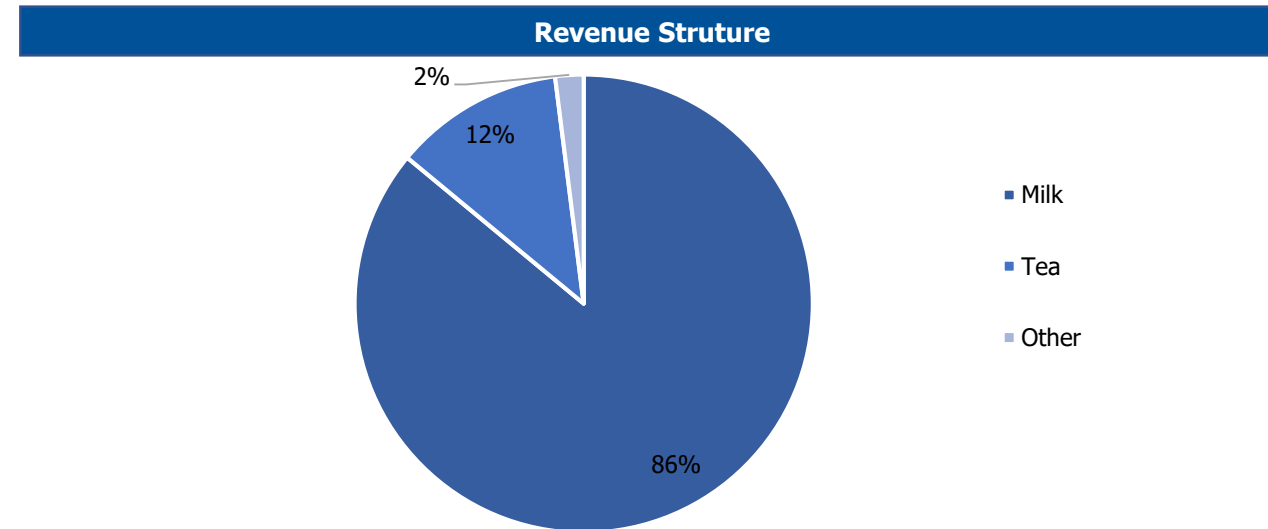
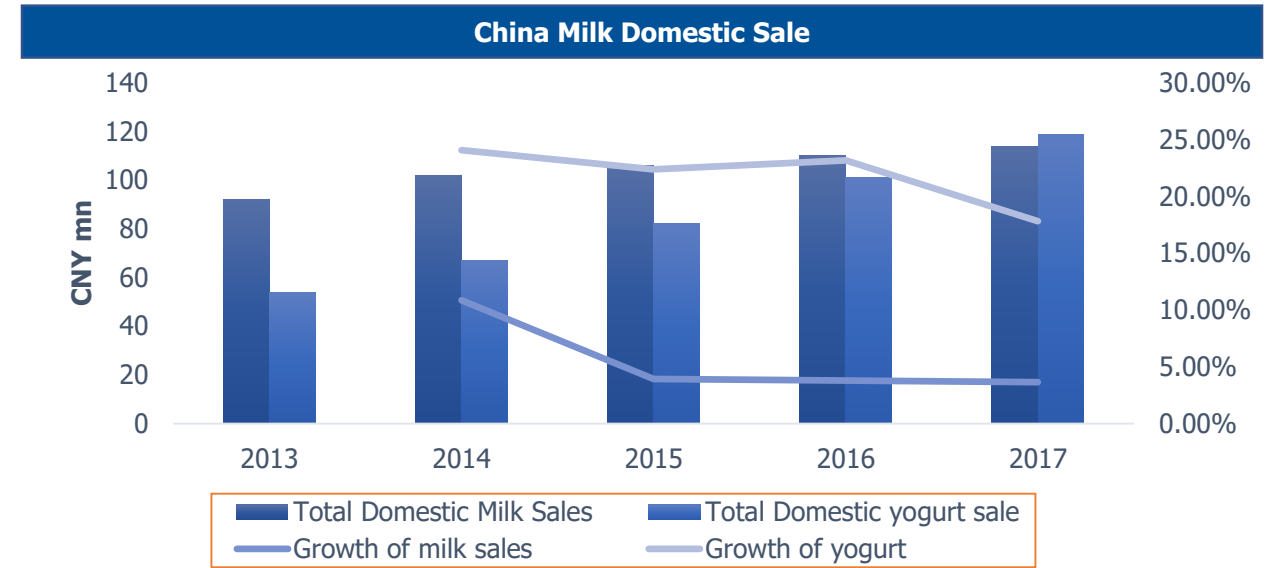
VNM expects to double its milk volume exported to China by the end of 2020, and also designates Chinese market as one of its three largest export markets in the next 3-5 years. With the advantages in milk production and processing, distribution channels supported by VNM, we believe that Moc Chau Milk will sustain its growth in both revenue and profit.

## Focus on core business activities is the premise for growth

VNM raised its ownership in GTN to 75% from 41% in December 2019. With the participation of the major shareholder VNM, GTN has accelerated the restructuring process of divestments from non-core investments. Accordingly, GTN handed over the entire 99.99% holding in GTN Agricultural Joint Stock Company (GTNfarm), 99.95% holding in GTNfoods Asset Exploitation Company, and 100% holding in GTNfoods Consumer Goods Company. Restructuring is expected to enhance governance and VND 1,000bn cash available from divestment will be invested in more efficient projects. GTN will focus on improving the efficiency of Moc Chau brand, applying advanced technology in new farms.

As a good dairy brand in the North and Northern Central regions in Vietnam, Moc Chau Milk is the main revenue and profit source of GTN, accounting for 86% of FY19 revenue and 100% of gross profit. Moc Chau Milk owns more than 2,000 dairy cows. The herd size has grown 14% a year on average and the average productivity has reached 25 liters of milk per cow a day. GTN plans to build a new farm of at least 4000 cows. GTN currently has 13 dairy farms nationwide and 1 farm in Laos.

GTN does not announce specific plan for Vilico. We expect that more information related to the restructuring will be released in late of 3Q20. Regarding the land located in Minh Khai Street, GTN will develop an office in the next 1 - 2 years.



## Forecast and valuation

In 2020, we estimate EAT at VND 126bn, in which the parent company's net profit will increase sharply to VND 67bn, compared to a loss of VND 66bn in FY19. Our positive estimation for NPAT is based on (i) the improvement of gross profit margin thanks to a 18% yoy lower raw material price and taking advantage of VNM's distribution channel, (ii) a significant growth in financial income from short-term deposits.

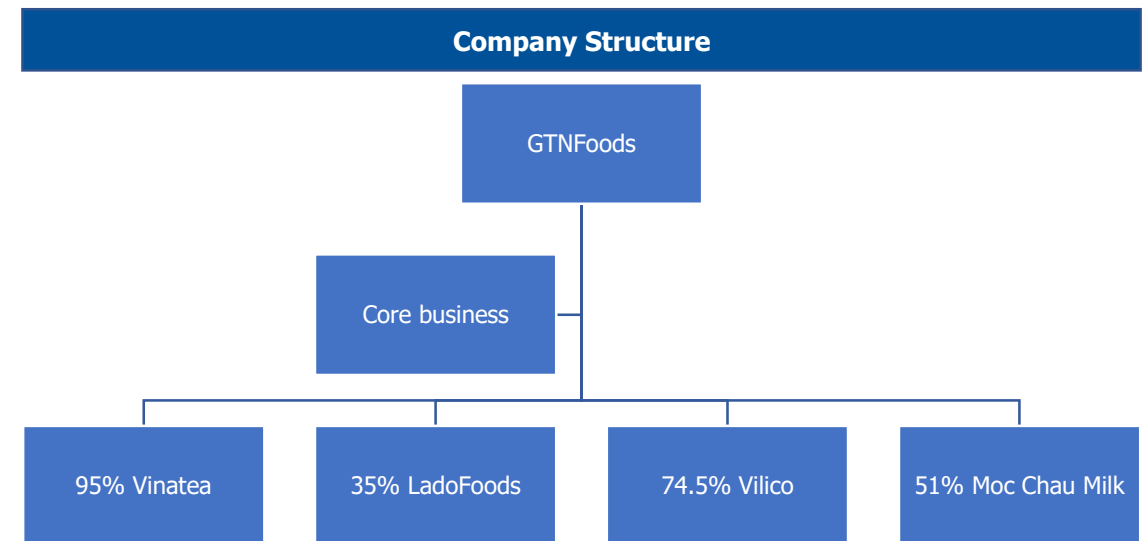
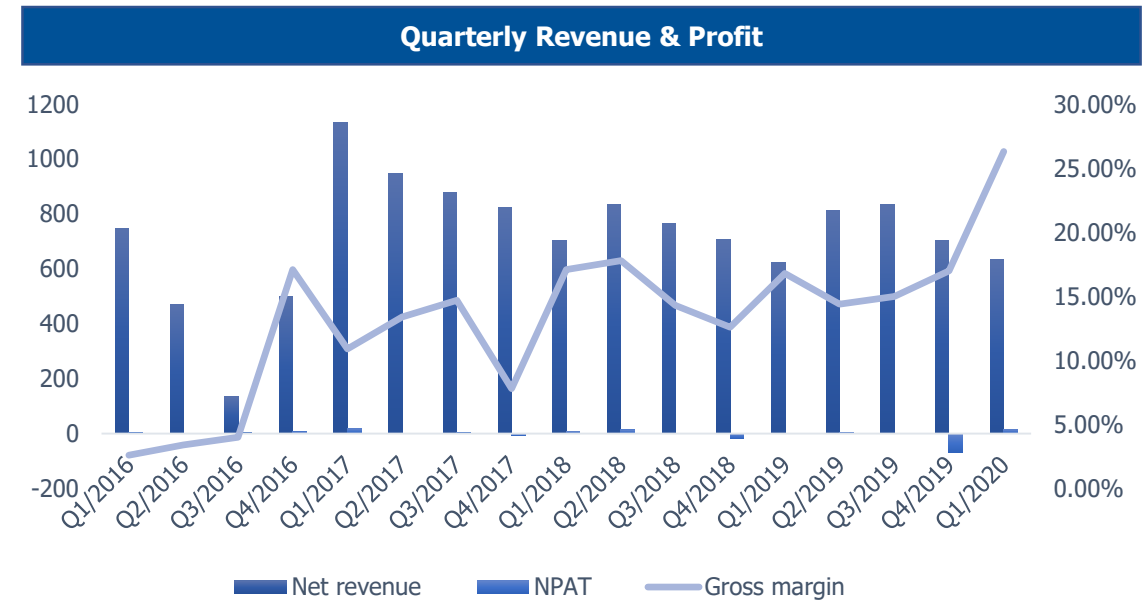
The gross margin of GTN will be improved, however, it is hard to be as high as that of VNM as (i) VNM has more products with better margin and (ii) Moc Chau's productivity per cow is 7% lower than VNM ones. VNM aims to increase Moc Chau fresh milk margin to the same level as VNM fresh milk. GTN currently will not focus on expanding product portfolio and the increase in revenue in following years will mainly come from expanding distribution channel.

The company plans to reposition the Moc Chau brand. As the initial target, VNM will develop Moc Chau Milk to increase its competitiveness with TH True Milk, hence, we believe BOD will earmark Moc Chau brand for middle class in the future, leading to an increase in selling price of products.

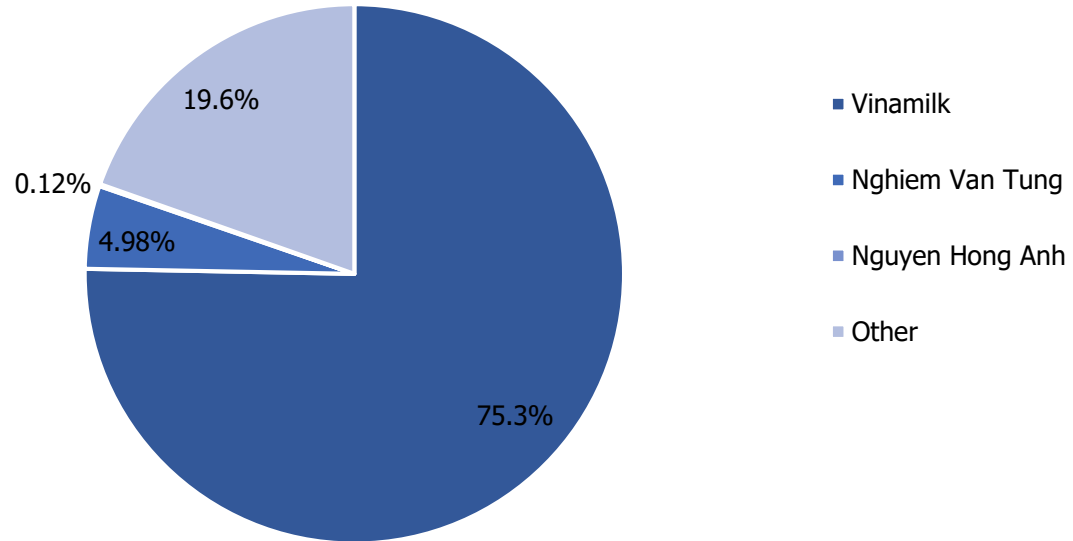
### 1Q20 EAT was 130% yoy higher thanks to deposit interest

GTN recorded a revenue of VND 633bn (+1.6% yoy) and EAT of VND 40bn (+130% yoy) thanks to:

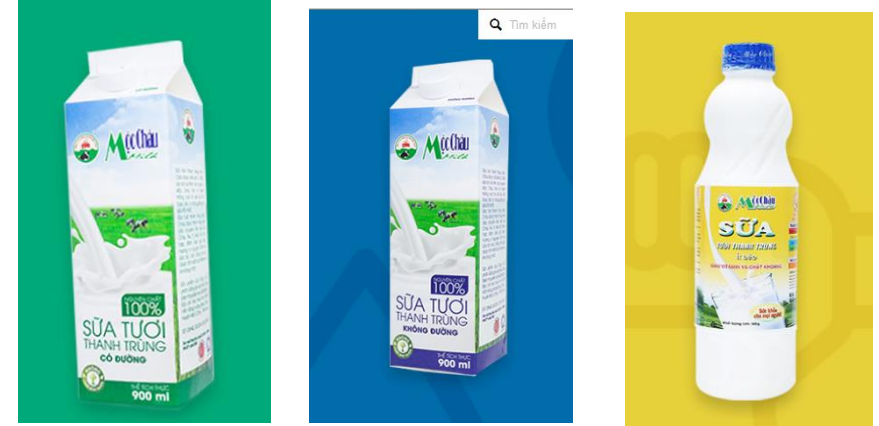
- (i) Significant improvement in gross profit margin from 16.8% to 26.3% owing to low raw materials' price.
- (ii) An increase in short-term deposits from VND 690bn at the end of 2019 to VND 1,929 bn at the end of March 2020 brought about VND 29bn of deposit interest income (+127% yoy).



## Shareholders structure



## GTN Products

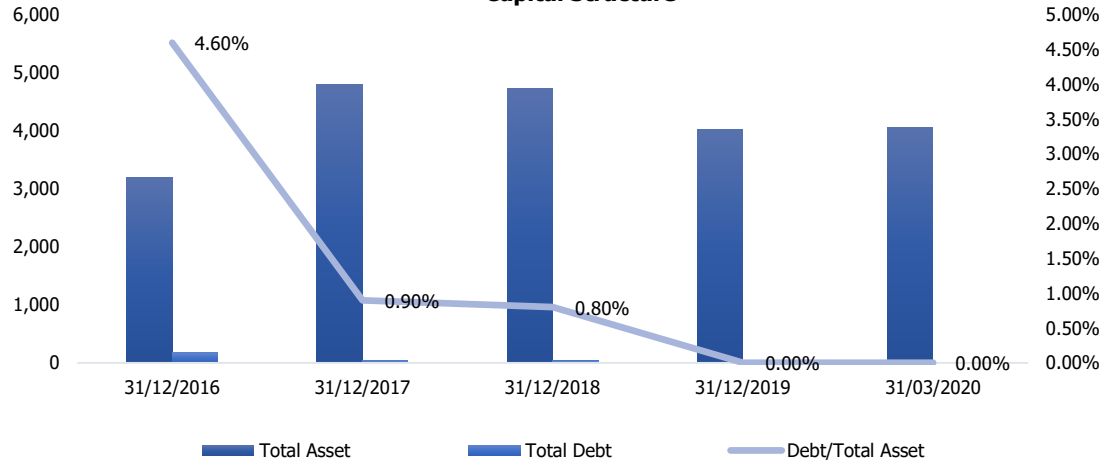


## FY20 plan

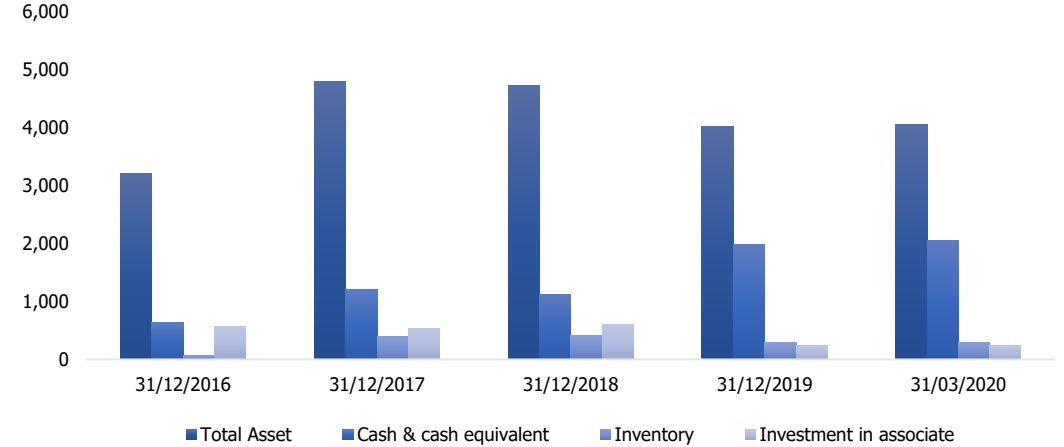
Items	Unit	FY19	FY20P	Compared to 2019
Revenue	Bil VND	2,970	2,909	100%
NPAT	Bil VND	15.1	159	1052%
EAT	Bil VND	12.6	99	786%

## Balance Sheet

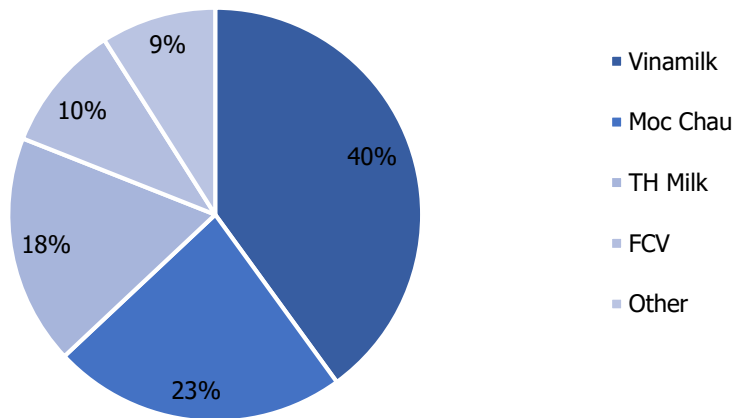
### Capital Structure



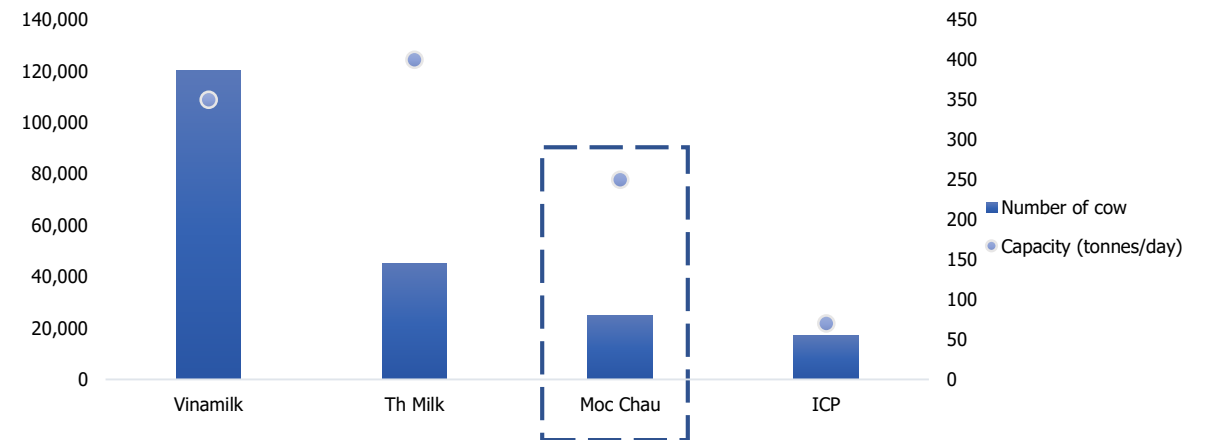
### Asset Structure



## Milk Market Share in Northern Vietnam



## Number of cow and capacity



# GTNFoods Joint Stock Company (HSX: GTN)



<b>Income Statement</b>				<b>Balance sheet</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>		<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>1. Revenue</b>	<b>3,788</b>	<b>3,014</b>	<b>2,976</b>	<b>ASSET</b>	<b>4,802</b>	<b>4,730</b>	<b>4,025</b>
2. Revenue deductions	7	6	5	<b>A. CURRENT ASSET</b>	<b>2,301</b>	<b>2,404</b>	<b>2,397</b>
<b>3. Net revenue</b>	<b>3,781</b>	<b>3,008</b>	<b>2,970</b>	I. Cash & cash equivalent	240	257	1,289
4. Cost of goods sold	3,342	2,541	2,504	II. Short term investments	967	865	690
<b>5. Gross profit</b>	<b>439</b>	<b>468</b>	<b>467</b>	III. Short term payables	657	846	102
6. Financial income	132	105	84	IV. Inventories	400	410	297
7. Financial expense	6	11	17	V. Other current assets	38	25	18
In which: Interest expense	5	1	2	<b>B. NON-CURRENT ASSET</b>	<b>2,500</b>	<b>2,326</b>	<b>1,628</b>
8. Associates gain/loss	0	12	-18	I. Long term payables	5	29	0
9. Selling expense	266	302	343	II. Fixed assets	829	649	480
10. General Administration expense	146	158	166	1. Tangible fixed assets	828	649	478
11. Operating profit	153	113	7	2. Intangible fixed assets	0	0	0
12. Other income	36	25	35	III. Investment property	0	16	0
13. Other expense	27	19	27	IV. Work in progress	29	31	0
14. Total other gain/loss	9	6	9	V. Long term investments	539	602	234
<b>15. Profit before tax</b>	<b>162</b>	<b>119</b>	<b>15</b>	1. Investment in associate	286	344	210
<b>16. Net profit after tax</b>	<b>152</b>	<b>105</b>	<b>13</b>	2. Investment in others	257	253	33
<b>Profit after tax for mother company</b>	<b>40</b>	<b>8</b>	<b>-62</b>	VI. Other non-current assets	682	630	591
				VII. Good will	417	371	323
<b>Financial ratio</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,802</b>	<b>4,730</b>	<b>4,025</b>
EPS	160	32	-248	<b>A. LIABILITIES</b>	<b>988</b>	<b>966</b>	<b>469</b>
BVPS	15,254	15,055	14,224	I. Current liabilities	767	756	288
<b>Profit ratio (%)</b>				1. Short-term payables	112	115	59
EV/EBIT	23.0	20.0	303.0	2. Deferred revenue	50	24	28
Gross margin	11.6	15.6	15.7	3. Other short-term liabilities	564	579	201
Net margin	4.0	3.5	0.2	4. Short term borrowing	41	38	0
ROEA	1.2	0.2	-1.8	II. Long term liabilities	221	210	181
ROAA	1.0	0.2	-1.5	<b>B. SHAREHOLDERS' EQUITY</b>	<b>3,814</b>	<b>3,764</b>	<b>3,556</b>
<b>Growth (%)</b>				I. Share capital	3,814	3,764	3,556
Revenue growth rate	107.7	-20.4	-1.3	1. Share capital	2,500	2,500	2,500
NPAT growth rate	153.1	-80.4	-935.0	8. Developing fund	14	24	6
<b>Liquidity (.x)</b>				10. Retain earning	27	10	-209
Cash ratio	0.3	0.3	4.5	11. Non minorities interest	1,171	1,102	1,042
Quick ratio	1.6	1.5	6.9	II. Other fund	0	0	0
Current ratio	3.0	3.2	8.3				
<b>Operating efficiency (day)</b>							
Receivables turnover	14.4	13.9	8.9				
Inventories turnover	25.9	58.2	51.6				
Payables turnover	10.5	16.3	12.7				