

BUY(unchanged)

Quangngai Sugar JSC (UpC: QNS)

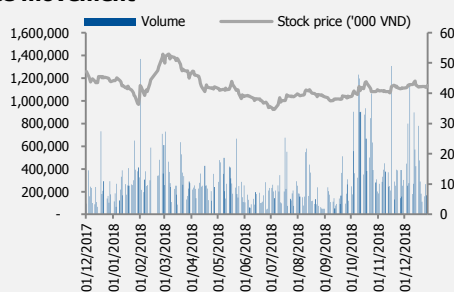
Report date	Mar. 22, 2019
Current price	VND 42,400
Target price	VND 55,200
Upside	30%
Bloomberg	QNS VN Equity
Market cap	VND 12,405bn
	USD 528mn
52 weeks movement	VND 35,100
	VND 53,600
Average daily value	VND 14bn
	USD 0.6mn
FOL	37.18%
Current FO	11.82%

Modest growth but attractive

Our takeaway

- Sugar segment experienced strong recovery in 2018 thanks to a stable global sugar price while raw material price went down. We expect gross margin will be maintained over the next several years based on a solid sugar price recovery (as mentioned in previous report).
- Soymilk sale volume saw modest growth of 4% despite two new product lines in late 2018, due to a quite weak milk consumption demand.

Price movement



What's new

FY18 net profit increased by 23% YoY, higher than our expectation of 8%, thanks to positive margin improvement of soymilk manufacturing and sky-high sugar productivity. Soymilk gross margin for 2018 reached 43.6%, up 4.4 pts and sugar gross profit rose fourfold with GPM increasing from 3.3% to 12.3%.

Reducing FY19 and FY20 earnings forecast due to a gloomy market.

- Seemingly, there is no sign of stronger milk consumption demand in the short term. We estimate soymilk selling volume will increase slightly by 6% and 5% in FY19 and FY20 respectively, instead of 16% and 12% as previous projections. For the long term, we remain positive on rising demand thanks to a rising middle class.
- Sugar segment will enjoy a margin stability underpinned by a solid sugar price rebound. GPM is maintained at 12.5% in FY19 with sugar price increase of 7%.
- Overall, we are reducing our FY19 and FY20 earnings by 5% and 12% respectively.

Stock performance	1M	3M	12M
QNS (%)	-11%	-8%	-24%
VN-Index (%)	-4%	-12%	-9%

Source: Bloomberg

Major Shareholder

Thanh Phat Trading	15.8%
--------------------	-------

Valuation

We revise our 12-month target price downward from VND 58,900 to VND 55,200 (30% upside) but maintain our BUY recommendation. QNS is currently trading at forward 2019 P/E of 7.4x, a discount compared with its peers' forward 2019 P/E mean of 28.2x.



Le Khanh Tung

(+84) 335 699 989

tung.lekhanh@mbs.com.vn

Unit: VND billion	FY17	FY18E	FY19F	FY20F
Revenue	7,633	8,029	8,611	8,947
EBIT	1,153	1,352	1,524	1,564
Net profit	1,026	1,238	1,409	1,497
Net profit (basic)	1,026	1,238	1,409	1,497
EPS (VND)	4,168	5,010	5,721	6,077
EPS growth rate (%)		21%	14%	6%
P/E (x)	9.3	8.8	7.4	7.0
EV/EBITDA (x)	8.1	7.3	6.0	5.6
DPS (VND)	1,500	1,500	1,500	1,500
Dividend yield (%)	4%	4%	4%	4%
P/B (x)	1.9	2.0	1.6	1.4
ROE (%)	23%	21%	22%	20%
Net debt/equity (%)	35%	32%	19%	11%

Source: MBS Research

Financial Update

QNS posted its 4th quarter financial statement with whole-year results as follows:

- Revenue increased by 11% thanks to the sugar segment soaring (+63% YoY).
- Gross profit increased by 23% because sugar segment profit returned to black after suffering a loss in 4Q2017.
- Net profit increased by 31% since selling expenses was flat and G&A expenses increased considerably.

Net profit for FY2018 increased by 23% YoY, higher than our expectation of 14%, thanks to positive margin improvement of soymilk manufacturing and sky-high sugar productivity.

Note: Annually, QNS's profit margin in the 4th quarter is usually higher than full-year margin as QNS does not expense soymilk segment depreciation in its 4th quarter results.

Table 1: Company financial results

VND bn	FY18	FY17	Y/Y chg%	FY18 MBS Estimate	% Diff	4Q18	4Q17	Y/Y chg%
Revenue	8,029	7,633	5.2%	7,999	0.4%	1,884	1,698	11.0%
Cost of goods sold	(5,645)	(5,637)	0.1%	(5,904)	-4.4%	(1,177)	(1,122)	4.9%
Gross profit	2,383	1,996	19.4%	2,095	13.7%	706	576	22.6%
<i>GPM (%)</i>	29.7%	26.1%	3.6ppts	26.2%	3.5ppts	37.5%	33.9%	3.6ppts
Selling expenses	(792)	(697)	13.6%	(721)	9.8%	(154)	(154)	0.0%
G&A expenses	(240)	(146)	64.4%	(152)	57.9%	(81)	(39)	107.7%
EBIT	1,351	1,153	17.2%	1,222	10.6%	471	383	23.0%
<i>EBIT margin (%)</i>	16.8%	15.1%	1.7ppts	15.3%	1.5ppts	25.0%	22.6%	2.4ppts
Financial profit/(expenses)	(9)	(41)		4		8	-3	
Other profit/(expenses)	57	26		0		31	1	
Profit Before Tax	1,400	1,138	23.0%	1,226	14.2%	510	381	33.9%
Income tax expenses	(162)	(111)	45.9%	(123)	31.7%	(60)	-38	57.9%
Minority interest	0	0		0		0	0	
Net profit for shareholders	1,238	1,027	20.5%	1,103	12.2%	450	343	31.2%
<i>NPM (%)</i>	15.4%	13.5%	1.9ppts	13.8%	1.6ppts	23.9%	20.2%	3.7ppts

Source: Company data, MBS Research

Table 2: Performance by segments

VND bn	FY18	FY17	Y/Y chg%	4Q18	4Q17	Y/Y chg%
Revenue	8,029	7,633	5.2%	1,884	1,698	11.0%
Soy milk	3,862	3,885	-0.6%	966	970	-0.4%
Sugar	2,251	1,867	20.6%	496	305	62.6%
Others	1,915	1,880	1.9%	421	424	-0.7%
Gross profit	2,383	1,996	19.4%	706	575	22.8%
Soy milk	1,685	1,522	10.7%	527	519	1.5%
Sugar	277	61	354.1%	75	(15)	-600.0%
Others	421	441	-4.5%	104	99	5.0%
GPM (%)	29.7%	26.1%	3.6ppts	37.5%	33.9%	3.6ppts
<i>Soy milk</i>	43.6%	39.2%	4.4ppts	54.6%	53.5%	1.1ppts
<i>Sugar</i>	12.3%	3.3%	9.0ppts	15.1%	-4.9%	20.0ppts
<i>Others</i>	22.0%	23.5%	-1.5ppts	24.7%	23.3%	1.4ppts

Source: Company data, MBS Research

Earnings Model & Valuation

For FY19 and FY20, we adjusted our earnings forecasts downward to VND 1,409bn and VND 1,497bn respectively, earnings growths to 14% and 6% respectively, from 19% and 18% previously.

- Soymilk segment will see a relatively weak growth. We estimate soymilk sale volume will increase slightly by 6% and 5% in FY19 and FY20 respectively, versus 16% and 12% in previous projection, while product price will suffer a decrease of 1.5% and 0.6% respectively.
- Sugar segment will enjoy a margin stability underpinned by a solid sugar price rebound. GPM is maintained at 12.5% in FY19 with sugar price increase of 7%.

We revise our 12-month target price downward from VND58,900 to VND55,200 (30% upside), maintaining our BUY recommendation.

VND bn	New		Previous		% Diff	
	FY19F	FY20F	FY19F	FY20F	FY19F	FY20F
Revenue	8,611	8,947	8,864	9,559	-3%	-6%
Gross profit	2,612	2,707	2,534	2,830	3%	-4%
Selling expenses	(836)	(878)	(795)	(862)	5%	2%
G&A expenses	(251)	(264)	(159)	(167)	58%	58%
Financial profit	41	98	47	114	-13%	-14%
Other profit						
EBT	1,565	1,663	1,627	1,915	-4%	-13%
EAT	1,409	1,497	1,464	1,724	-4%	-13%
Net profit	1,409	1,497	1,464	1,724	-4%	-13%
EPS (VND)	5,721	6,077	5,946	6,998	-4%	-13%

Source: MBS Research

VND bn	FY19F	FY20F	FY21F	FY22F	Terminal year
Net profit	1,409	1,497	1,590	1,643	
Free Cash Flow	1,778	1,832	1,910	1,952	13,498
WACC%	14.5%				16.7%
PV of Free Cash Flow	1,553	1,397	1,272	1,136	7,856
	13,215				
Cash	2,117				
Debt	(1,727)				
Enterprise Value	13,605				
Target value per share (VND)	55,200				

Source: MBS Research

We do not apply multiple valuation due to a lack of comparable peers. Instead, we use it for comparison purpose only. QNS is currently trading at forward FY19 P/E of 7.4x, which is 70% discounted versus its peers' forward FY19 P/E mean of 28.2x, while its profitability and dividend yield are relatively superior.

Company	Country	Market Cap (USD mn)	ROE	Dividend yield	EV/EBITDA	P/E
Quang Ngai Sugar JSC	Vietnam	543	21.9%	3.5%	6.4	8.6
Vitasoy Int'l	Hong Kong	4,626	24.8%	1.2%	28.2	48.4
Dali Foods	China	9,160	26.1%	3.6%	10.2	16.2
Kikkoman Corporation	Japan	9,748	10.3%	0.8%	20.8	39.7
Average			20.8%	2.3%	16.4	28.2

Source: Bloomberg, MBS Research

Investment highlights

Prospects by segments

Soy milk segment is a line in the milk product portfolio with the market share of about 10%. Consumption demand is still relatively weak in the short term. For the long term, we believe milk consumption demand will increase thanks to the booming middle class that will surpass 33 million by 2020. With stronger demand, new marketing strategies and potentials from new plants, QNS will reclaim their growth sustainability.

Sugar segment saw a strong recovery in 2018 with sky-high productivity and decreased material price. We expect gross margin to maintain for the next several years based on a solid sugar price rebound.

Biomass energy plant was constructed in 2018 to enhance the closed supply-chain of sugar manufacturing (burning bagasse to generate electric and protect environment). From 2019, the plant is expected to contribute more than 200mn kWh to the national electrical grid, earning an annual free cash flow of nearly VND 300bn.

Fresh cash generation after significant investments

CAPEX will slow down from 2019 as biomass plant was completed at the beginning of 2018 (the investment was deployed mostly in 2017). Biomass plant is part of an investment campaign of QNS including 3 projects: soymilk plant in Binh Duong (2016-2017), An Khe sugar plant expansion (2017) and the biomass plant (2017-2018). The investment size of the campaign was approximately 3,300 billion.

Table 6: QNS's major projects	Investment size (VND bn)					
	2013	2014	2015	2016	2017	2018
Soy milk plant – Bac Ninh province	284		178			
Soy milk plant – Binh Duong province				309	98	
Sugar plant expansion		650	175		1,112	
Biomass plant						1,814
Total	284	650	354	309	1,210	1,814

Source: Company data, MBS Research

We forecast that QNS will not have major investments in the next two years and hence large fresh cash generation for the shareholders is probable.

Key risks

Risk of weak soymilk demand regardless of new products performance. Soymilk revenue has been virtually flat for 4 years and selling volume just increased by 4% YoY in 2018. Since launched in 4Q2018, the two new soymilk product lines contributed less than 1% into total volume of QNS, leaving a concern that product innovation is not enough to push up the dairy/soymilk consumption demand.

Risk of competition. Soymilk market is highly profitable and hence attracts big milk players to entry, such as VNM, Nutifood, Vitasoy (Hongkong), etc., who directly compete against QNS. The management team has adopted new strategies to maintain QNS's decent growth rate and high market share.

CONTACT: Equity Research**MBS Equity Research**

Phạm Thiên Quang – (Quang.PhamThien@mbs.com.vn – Tel: 0988906163) - Department Head

Nguyễn Thị Huyền Dương – (Duong.NguyenThiHuyen@mbs.com.vn – Tel: 0982268088) – Southern Area Team Leader

Real Estate, Insurance**Dương Đức Hiếu**

(Hieu.DuongDuc@mbs.com.vn – Tel: 0904046289)

Banking**Nguyễn Thị Quế Anh**

(Anh.NguyenThiQue@mbs.com.vn – Tel: 0908762227)

Construction Materials**Nguyễn Bảo Trung**

(Trung.NguyenBao@mbs.com.vn – Tel: 0988739505)

Aviation**Nguyễn Nam Khoa**

(Khoa.NguyenNam@mbs.com.vn – Tel: 0912323051)

Pharmacy, Natural Rubber**Nguyễn Đăng Thiện**

(Thien.NguyenDanq@mbs.com.vn – Tel: 0909917939)

Fisheries**Nguyễn Thanh Danh**

(Danh.NguyenThanh@mbs.com.vn – Tel: 0354358427)

STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

MB SECURITIES (MBS)

Established since May 2000, MBS was one of the first 5 securities firms operating in Vietnam. After years of continuous development, MBS has become one of the leading securities company in Vietnam, providing a full range of services including: brokerage, research and investment advisory, investment banking and capital markets underwriting. MBS's network of branches and transaction offices has been expanded and operated effectively in many major cities such as Hanoi, Ho Chi Minh City, Hai Phong and other strategic areas. MBS's clients include individual investors and institutions, financial institutions and enterprises. As a member of the MB Group, including MB Land, AMC, MB Capital, VIET R.E.M Joint Stock Company, and MB Finance. MBS is able to leverage substantial human, financial and technological resources to provide its clients with tailored products and services that few securities firms in Vietnam can match.

MBS is proud to be recognized as:

- A leading brokerage firm – ranked No.1 in terms of brokerage market share since 2009.
- A renowned research firm with a team of experienced analysts that provides market-leading research products and commentaries on equity markets and the economy.
- A trusted provider of investment banking services for corporate clients.

MBS HEAD OFFICE

MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi
 Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600
 Website: www.mbs.com.vn

DISCLAIMER: Copyrights. MBS 2014, ALL RIGHTS RESERVED. Authors have based this document on information from sources they believe to be reliable but which they have not independently verified. The views expressed in this report are those of the authors and not necessarily related, by any sense, to those of MBS. Neither any information nor comments were written for advertising purposes or recommendation to buy / sell any securities. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying recording, or otherwise, without the prior written permission of MBS.