

Ha Tien 1 Cement JSC (HT1: HOSE)



MARKET PERFORM – 1Y Target Price: VND 16,500

Current price: VND 15,100

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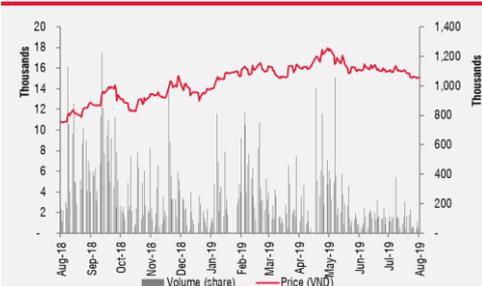
MATERIALS - VIETNAM

Key figures

Market cap (USD mn)	245
Market cap (VND bn)	5,685
Outstanding shares (mn)	382
52W high/low (VND 1,000)	18.2/11.5
Average 3M volume (share)	153,055
Average 3M value (USD mn)	0.11
Average 3M value (VND bn)	2.51
Foreign ownership (%)	6.35
State ownership (%)	79.69
Management ownership (%)	N.a

Source: SSI Bloomberg

HT1 Price & Trading Volume



Source: Bloomberg

Company Snapshot

Founded in 1964, Ha Tien 1 was formerly known as Ha Tien Cement Factory in Southern Vietnam with designed capacity of 240,000 tons of clinker in Kien Luong – An Giang Province, and 280,000 tons of cement in Thu Duc – Ho Chi Minh City.

In 1993, Ha Tien Cement Factory was divided into two companies, including Ha Tien 1 (with designed capacity of 0.8mn tons of cement per year in Thu Duc), and Ha Tien 2 (HT2, with designed capacity of 1.1mn tons clinker and 0.5mn tons cement per year). HT1 was listed on the Ho Chi Minh City Stock Exchange (HOSE) in 2007 with a chartered capital of VND 870bn.

In 2010, HT1 merged with HT2 to form the biggest cement producer in Vietnam.

EARNINGS UPDATE

Negative earnings growth in 2Q19 due to high base of exchange rate gain last year

2Q19 results

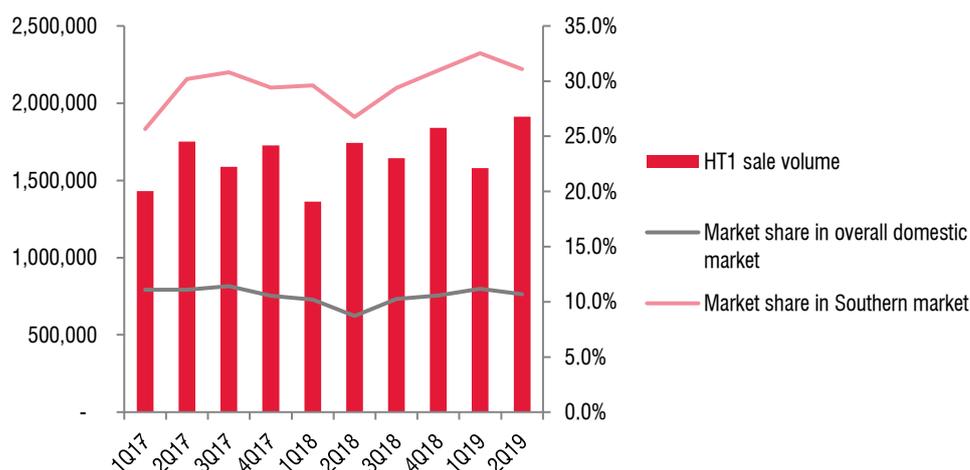
(bn VND)	2Q19	2Q18	YoY	1Q19	QoQ	% annual target completed	Margin			
							2Q19	2Q18	1Q19	2018
Net sales	2,368	2,205	7.4%	1,999	18.5%	49%				
Gross profit	431	420	2.6%	265	62.8%		18.2%	19.1%	13.2%	16.4%
Operating profit	321	372	-13.8%	197	62.8%		13.6%	16.9%	9.9%	10.6%
EBIT	321	373	-13.9%	198	62.7%		13.6%	16.9%	9.9%	11.1%
EBITDA	500	558	-10.3%	374	33.8%		21.1%	25.3%	18.7%	19.9%
Pretax profit	260	304	-14.5%	135	93.4%	43%	11.0%	13.8%	6.7%	7.3%
Net income	209	242	-13.8%	106	97.5%		8.8%	11.0%	5.3%	5.9%
NI attributable to shareholders	209	242	-13.8%	106	97.6%		8.8%	11.0%	5.3%	5.9%

Source: HT1, SSI Research

Encouraging sales volume growth amid market slow down: Revenue in Q2 '19 arrived at VND 2.368 tn, an increase by 7.4% YoY, with cement sales volume advancing positively by 9.4% YoY to 1.9 mn tons. This can be considered encouraging results, especially when considering the slowdown in the overall market. According to the Vietnam Cement Association, overall domestic consumption in general and consumption in the Southern market in particular dropped by -10.6% and -5.7% YoY in Q2 '18. Export volume also went flat in the first quarters of 2019, after having soared up in the previous 2 years.

HT1 bucking growth in sales volume amid the industry slowdown can be attributed to the company's increased participation in project bidding. Accordingly, the company's sales volume of bulk cement increased significantly by 28% YoY compared to 2.7% YoY in terms of bag cement. Compared to total domestic sales volume, market share of HT1 improved to 10.7% from 8.7% in Q2 '18.

HT1 sales volume and market share



Source: Vietnam Cement Association

Gross margin contraction due to change in product mix: Bulk cement usually carries a lower price of around 15% compared to bag cement, and is characteristic of a lower margin as well due to higher competition from other manufacturers. As a result, with the bulk cement share in total sales volume rising to 30% in Q2 '19 from 26% in Q2 '18 on the back of the company's strategy mentioned above as well as overall trend of consumers, the HT1 gross margin was reduced to 18.2% in Q2 '19 from 19.1% in Q2 '18. Consequently, gross profit increased at a lower rate of 3% YoY to VND 431 bn. However, it is worth mentioning that the gross margin in 2Q19 is still much higher than the average of 15.3% in the previous 3 quarters thanks to the increase of bag cement price by 3% in Apr.

Slimmer PBT growth from exchange rate: Nonetheless, PBT during these quarters dropped by 14.5% YoY or VND 44 bn (from VND 304 bn in Q2 '18 to VND 260 bn), mainly due to the increase in financial expenses.

Net financial expenses increased by VND 43.5 bn YoY to VND 77 bn in Q2 '19, due to the 2% VND depreciation against the EUR (compared to the previous appreciation of 5% in Q2 '18). However, the VND has bounced back by 2% against the EUR since July. The foreign debt balance of HT1 included EUR 16 mn and \$1.6 mn USD at the end of June 2019, and is expected to be fully paid in the next 1 ½ years. Excluding exchange rate effect, the company's PBT would increase slightly by 1.4% YoY, which was quite in line with gross profit growth (+2.6% YoY).

Cumulatively, HT1 revenue and PBT in 1H 2019 arrived at VND 4,367 tn (+8% YoY) and VND 395 bn (-3% YoY), accomplishing 49% and 43% of respective annual guidance. Exclude the effect from forex, PBT in 1H19 would drop by 2.4% YoY and is slightly lower than our expectation.

(bn VND)	6M2019	6M2018	YoY	% annual target completed	Margin		
					6M2019	6M2018	2018
Net sales	4,367	4,045	8.0%	49%			
Gross profit	696	694	0.3%		15.9%	17.2%	16.4%
Operating profit	518	542	-4.4%		11.9%	13.4%	10.6%
EBIT	519	548	-5.2%		11.9%	13.5%	11.1%
EBITDA	874	913	-4.2%		20.0%	22.6%	19.9%
Pretax profit	395	406	-2.8%	43%	9.0%	10.0%	7.3%
Net income	314	324	-2.9%		7.2%	8.0%	5.9%
NI attributable to shareholders	314	324	-3.0%		7.2%	8.0%	5.9%

Source: HT1, SSI

Earnings estimates

Given the above data, we finetune our forecast for HT1 2019 revenue and PBT from VND 8.858 tn and VND 961 bn to VND 8.791 tn (+5% YoY) and VND 921 bn (+14% YoY). We maintain a cement sales volume assumption in 2019 at 7.1 mn tons (+4%YoY), but slightly increase the weight of bulk cement in total sale volume from 28% to 30%. We also maintain the assumption that the VND will depreciate against EUR by 3% in 2019.

For 2020, we expect that cement sales volume growth would decelerate to 2% YoY due to the slowdown in the property market. Accordingly, revenue and PBT is expected to reach VND 8.971 tn (+2% YoY) and VND 980 bn (+5% YoY).

Valuation and investment view

At the current price, HT1 is trading at PER 2019 and 2020 levels of 8.6x and 8.1x respectively. We maintain our Market Perform rating for the stock, with a 1-year TP of VND 16,500/share based on a target PE and EV/EBITDA of 8x and 6x respectively. Although we think that the turnaround in HT1 business results has been largely reflected in the stock price, the cash dividend of 12% on par (equivalent to dividend yield of 8% and expected to be paid in November) can be a supportive catalyst for HT1 shareholders.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2017	2018	2019F	2020F
Balance Sheet				
+ Cash	347	776	248	214
+ Short-term investments	0	10	0	0
+ Account receivables	526	462	475	483
+ Inventories	832	654	683	697
+ Other current assets	18	28	27	28
Total Current Assets	1,723	1,931	1,432	1,422
+ LT Receivables	11	12	12	13
+ Net Fixed Assets	8,149	7,479	7,341	7,181
+ Investment properties	0	0	0	0
+ LT Assets in progress	957	990	990	990
+ LT Investments	40	27	0	0
+ Other LT Assets	199	199	210	165
Total Long-Term Assets	9,356	8,705	8,553	8,349
Total Assets	11,080	10,636	9,986	9,771
+ Current Liabilities	3,249	3,729	3,643	3,719
<i>In which: ST debt</i>	<i>1,984</i>	<i>2,120</i>	<i>2,188</i>	<i>2,234</i>
+ Non-current Liabilities	2,642	1,727	948	521
<i>In which: LT debt</i>	<i>2,635</i>	<i>1,719</i>	<i>948</i>	<i>521</i>
Total Liabilities	5,890	5,455	4,592	4,241
+ Contributed capital	3,816	3,816	3,816	3,816
+ Share premium	71	71	71	71
+ Retained earnings	923	767	979	1,116
+ Other capital/fund	380	527	528	528
Shareholders' Equity	5,189	5,181	5,394	5,530
Total Liabilities & Equity	11,080	10,636	9,986	9,771
Cash Flow				
CF from operating activities	925	1,856	1,104	1,421
CF from investing activities	-35	-75	-473	-500
CF from financing activities	-1,028	-1,351	-1,159	-954
Net increase in cash	-139	429	-529	-33
Beginning cash	486	347	776	248
Ending cash	347	776	248	214
Liquidity Ratios				
Current ratio	0.53	0.52	0.39	0.38
Acid-test ratio	0.27	0.33	0.20	0.19
Cash ratio	0.11	0.21	0.07	0.06
Net debt / EBITDA	2.74	2.03	1.67	1.49
Interest coverage	2.93	3.92	5.08	6.05
Days of receivables	18.6	16.6	14.3	14.5
Days of payables	44.1	49.7	51.6	47.0
Days of inventory	43.3	38.9	33.4	33.8
Capital Structure				
Equity/Total asset	0.47	0.49	0.54	0.57
Liabilities/Total Assets	0.53	0.51	0.46	0.43
Liabilities/Equity	1.14	1.05	0.85	0.77
Debt/Equity	0.89	0.74	0.58	0.50
ST Debt/Equity	0.38	0.41	0.41	0.40

VND Billion	2017	2018	2019F	2020F
Income Statement				
Net Sales	8,209	8,376	8,791	8,962
COGS	-6,866	-6,973	-7,294	-7,446
Gross Profit	1,343	1,403	1,497	1,516
Financial Income	17	32	21	18
Financial Expense	-477	-314	-248	-204
Income from associates	0	0	0	0
Selling Expense	-123	-135	-147	-150
Admin Expense	-192	-188	-202	-206
Income from business operation	568	798	921	974
Net Other Income	32	8	0	0
Profit Before Tax	600	806	921	974
Net Income	486	645	737	779
NI attributable to shareholders	488	645	737	779
Minority interest	-2	0	0	0
Basic EPS (VND)	1,278	1,690	1,757	1,858
BVPS (VND)	13,577	13,555	14,114	14,471
Dividend (VND/share)	1,500	1,200	1,200	1,500
EBIT	912	1,082	1,147	1,166
EBITDA	1,631	1,810	1,784	1,826
Growth				
Sales	-0.3%	2.0%	4.9%	1.9%
EBITDA	-20.2%	11.0%	-1.4%	2.4%
EBIT	-33.3%	18.6%	6.0%	1.7%
NI	-39.9%	32.7%	14.2%	5.7%
Equity	-0.1%	-0.2%	4.1%	2.5%
Chartered Capital	0.0%	0.0%	0.0%	0.0%
Total assets	-5.9%	-4.0%	-6.1%	-2.1%
Valuation				
P/E	12.5	8.1	8.6	8.1
P/B	1.2	1.0	1.1	1.0
P/Sales	0.7	0.6	0.7	0.6
Dividend yield	9.9%	7.9%	7.9%	9.9%
EV/EBITDA	6.4	4.6	4.9	4.8
EV/Sales	1.3	1.0	1.0	1.0
Profitability Ratios				
Gross Margin	16.4%	16.8%	17.0%	16.9%
Operating Margin	10.6%	12.7%	12.9%	12.9%
Net Margin	5.9%	7.7%	8.4%	8.7%
Selling exp./Net sales	1.5%	1.6%	1.7%	1.7%
Admin exp./Net sales	2.3%	2.2%	2.3%	2.3%
ROE	9.4%	12.4%	13.9%	14.3%
ROA	4.3%	5.9%	7.1%	7.9%
ROIC	7.3%	9.2%	10.5%	11.1%

Source: Company, SSI forecasts

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