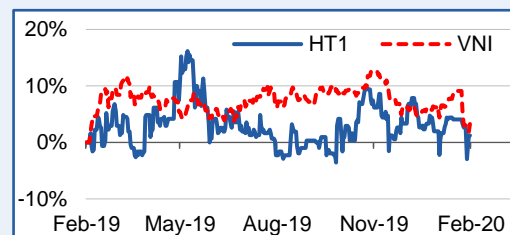



VICEM Ha Tien (HT1) [BUY +37.7%]
Update Report

Industry	Cement		2019	2020F	2021F	2022F
Report Date	February 7, 2020					
Current Price	VND14,450	Rev y/y	5.5%	1.4%	1.4%	1.4%
Target Price	VND18,900	EPS y/y	17.5%	0.7%	3.5%	3.9%
Last Target Price	VND18,900	GPM	17.7%	16.8%	16.7%	16.5%
Upside to TP	+30.8%	NPM	8.4%	8.4%	8.5%	8.7%
Dividend Yield	6.9%	EV/EBITDA	4.1x	4.2x	4.3x	4.2x
TSR	+37.7%	P/B	1.0x	1.0x	0.9x	0.9x
		P/E	8.7x	8.6x	8.4x	8.0x

Market Cap	USD239.7mn		HT1	Peers*	VNI
Foreign Room	USD101.9mn	EV/EBITDA	4.1x	5.8x	N/A
ADTV30D	USD56,900	P/B (curr)	1.0x	1.1x	2.2x
State Ownership	79.7%	Net D/E	44.1%	16.6%	N/A
Outstanding Shares	381.5 mn	ROE	14.1%	11.2%	13.5%
Fully Diluted Shares	381.5 mn	ROA	7.1%	6.5%	2.2%

* regional peers


Company Overview

HT1 is one of the largest domestic cement companies in Vietnam. The company is the leader in the South with around 30% market share and has 10% market share throughout Vietnam. It is 80% owned by the State-owned Vietnam Cement Industry Corporation (VICEM).

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Stable sales volume; falling interest expenses continue

- We reiterate our BUY rating for HT1 and maintain our target price at VND18,900/share. We keep our earnings forecasts broadly unchanged despite better-than-expected Q4 2019 results as we are conservative about slow-moving domestic construction activities in Q1 2020 amid the recent coronavirus outbreak.
- We keep our 2020F cement sales volume growth forecast of 1.5% YoY and 2020F gross margin assumption unchanged amid HT1's ongoing proactive pricing strategy to expand margins in certain regions as we believe industry oversupply and the coronavirus outbreak could weigh on margin expansion. Hence, we maintain our 2020F NPAT-MI forecast of VND750bn (USD32.6mn, +1 YoY).
- We continue to expect decreasing interest expenses to support HT1's 2020F NPAT-MI despite a 5% decrease in our EBIT forecast as the company pays down its FX-denominated debt in 2020F.
- Upside opportunity: stronger-than-expected sales volume and production cost optimization.
- Downside risk to our positive view: higher-than-expected input costs (i.e., coal and electricity).

We maintain a modest growth forecast for 2020F sales volume amid an industry oversupply. HT1's 2019 cement sales volume recorded healthy growth of 7% YoY (equivalent to 7.3 million tons), which was 4% higher than our expectation. Nevertheless, we maintain our 2020F cement sales volume growth forecast of 1.5% YoY (equivalent to 7.4 million tons). Slower sales volume growth in 2020F vs that of 2019 reflects our conservativeness in HT1 sales progress as 1) Vietnam's cement industry will remain oversupplied for the foreseeable future due to new capacity that is expected to come online during the period from 2019-2021 (details on Page 5); and 2) the coronavirus outbreak that could potentially lead to slow-moving domestic construction activities in Q1 2020.

We expect HT1's proactiveness in pricing strategy will support margins. Per our discussion with HT1's management, the company has actively increased its selling prices in regions where the company has strong demand in order to earn higher profitability. This strategy resulted in improving gross margins in Q3 2019 (19.5% vs 14.8% in Q3 2018) and Q4 2019 (19.3% vs 17.8% in Q4 2018). We view this as justifiable given that HT1 has already secured healthy sales volume growth that allows the company to balance between volume growth for profitability. However, we expect ongoing competition that has resulted from industry oversupply, along with a possible disruption in Vietnam's cement exports to China due to the recent coronavirus outbreak, should put certain pressures on gross margin expansion. Hence, we maintain HT1's 2020F gross margin assumption of 16.8%.

Falling interest expenses continue to support earnings. HT1's long-term FX-denominated debt fell to EUR9.2mn and USD0.9mn by end-2019 vs EUR23mn and USD6mn at end-2018. We continue to expect HT1 to fully pay down these long-term debts in 2020F, which would help to reduce HT1's interest expenses by 21% YoY in 2020F. Hence, we forecast 2020F NPAT-MI growth of 1% YoY to outpace the EBIT growth forecast of -5% YoY.

2019 recap: Bright finish for 2019 on all fronts

Figure 1: 2019 results

VND bn	2018	2019	% YoY Growth	2019F	2019 as % of 2019F	VCSC comments
Net revenue	8,378	8,839	5.5%	8,653	102%	* For full-year 2019, HT1's cement sales volume achieved positive growth of 7% YoY, equivalent to 7.3 million tons. * Domestic competition continued to ease in 2019, partly due to increasing export activities (more details on page 5).
Gross profit	1,403	1,564	11.4%	1,473	106%	
SG&A expenses	-328	-375	14.1%	-350	107%	
EBIT	1,075	1,189	10.6%	1,122	106%	
FX gain/loss	6	15	140.3%	0	N/M	* FX-denominated debt fell to EUR9.2mn and USD0.9mn by end-2019 vs EUR23mn and USD6mn at end-2018. The EUR depreciated 4.2% against the VND in 2019.
Non-operating gain/loss	7	-35	N/M	-42	N/M	* There were additional expenses in Q3 2019 as HT1 celebrated its 55 th anniversary of establishment.
Interest exp.	-276	-238	-13.5%	-205	116%	* Declining long-term debt balance as HT1 paid down its long-term FX-denominated debts.
PBT	812	931	14.6%	875	106%	
NPAT-MI	634	745	17.5%	700	106%	
Recurring NPAT-MI	623	761	22.1%	734	104%	
EBITDA	1,803	1,877	4.1%	1,868	100%	
Gross margin %	16.7%	17.7%		17.0%		* As HT1 has actively increased its selling prices in regions where the company has strong demand in order to earn higher profitability, HT1's cement sales volume stayed flat at 1.88 million tons in Q4 2019 vs 1.90 million tons in Q4 2018 and its gross margin jumped to 19.3% in Q4 2019 vs 17.8% in Q4 2018. We see this selling strategy as justifiable given that HT1 has already secured robust sales volume growth (+10% YoY in 9M 2019) that allows the company to balance between volume growth for profitability. Input cost and selling price: * Electricity prices increased by 8% on March 20, 2019. * Input coal prices inched up by around 3% in 2019 vs 2018. * After raising HT1's average selling prices in March 2019 to partly mitigate the impact of rising electricity costs, HT1 continued to increase selling prices in Q3 and Q4 2019 in some regions where the company has strong demand. Ha Long outsourcing: HT1 outsourced ~8% of its total cement sales volume in 2019 to the Ha Long grinding station (equivalent to ~560,000 tons) vs a ~10% proportion in 2018. Lower outsourced volume to Ha Long also partially supported gross margin. Product mix: Bulk cement's share of total sales volume maintained ~31% in 2019 vs ~25% in 2018. Bulk cement typically carries a lower margin than bag cement.
SG&A as % sales	3.9%	4.2%		4.1%		
EBIT margin %	12.8%	13.5%		13.0%		
NPAT-MI margin %	7.6%	8.4%		8.1%		
Recurring NPAT-MI margin %	7.4%	8.6%		8.5%		
EBITDA margin %	21.5%	21.5%		21.6%		

Source: Company's financial statements, VCSC forecasts

Note: Recurring NPAT-MI excludes forex and non-operating gain/loss

2020 outlook: Declining FX-denominated debts drive earnings growth

Figure 2: 2020 forecasts

VND bn	2019	2020F Revised	2020F Revised vs Old	2020F Revised vs 2019	VCSC assumptions for 2020F
Net revenue	8,839	8,963	2.1%	1.4%	<p>* We maintain our cement sales volume growth forecast of 1.5% YoY (equivalent to 7.4 million tons) despite better-than-expected Q4 2019 results as we are conservative about slow-moving domestic construction activities in Q1 2020 amid the coronavirus outbreak in early 2020.</p> <p>* We maintain flat ASP assumption given the industry's ongoing competition and an oversupplied landscape.</p>
Gross profit	1,564	1,507	2.4%	-3.7%	
SG&A expenses	-375	-382	5.6%	1.9%	* We expect SG&A expenses to increase faster than volume growth as HT1 spends more on strengthening its distribution network amid ongoing local competition.
EBIT	1,189	1,125	1.3%	-5.4%	
FX gain/loss	15	0	0.0%	N/M	* We keep our expectation that HT1's remaining FX-denominated debt balance as of end-2019 of VND274bn (USD11.9mn) will be paid down in 2020F.
Non-operating gain/loss	-35	0	0.0%	N/M	* Assuming no non-operating gain/loss.
Interest exp.	-238	-188	9.6%	-21.3%	* A declining long-term debt balance continues to reduce interest expenses in 2020F vs 2019.
PBT	931	937	-0.2%	0.7%	
NPAT-MI	745	750	-0.2%	0.7%	* Decreasing interest expenses support NPAT-MI growth of 0.7%, despite a 5.4% slide in EBIT forecast.
Recurring NPAT-MI	761	750	-0.2%	-1.4%	
EBITDA	1,877	1,876	0.1%	-1.1%	
Gross margin %	17.7%	16.8%			<p>Input costs and selling prices: We expect gross margin to normalize from H2 2019's high level during which decreasing coal prices helped to push up margin.</p> <p>Ha Long outsourcing: We maintain our assumption for outsourced volume of 600,000 tons (equivalent to 8% of 2020F's total forecast cement sales volume).</p> <p>Product mix: We maintain a bulk cement contribution to total sales volume in 2020F to 30%, which is the same level of 2019.</p>
SG&A as % sales	4.2%	4.3%			
EBIT margin %	13.5%	12.5%			
NPAT-MI margin %	8.4%	8.4%			
Recurring NPAT-MI margin %	8.6%	8.4%			
EBITDA margin %	21.5%	20.9%			

Source: Company's financial statements, VCSC forecasts.

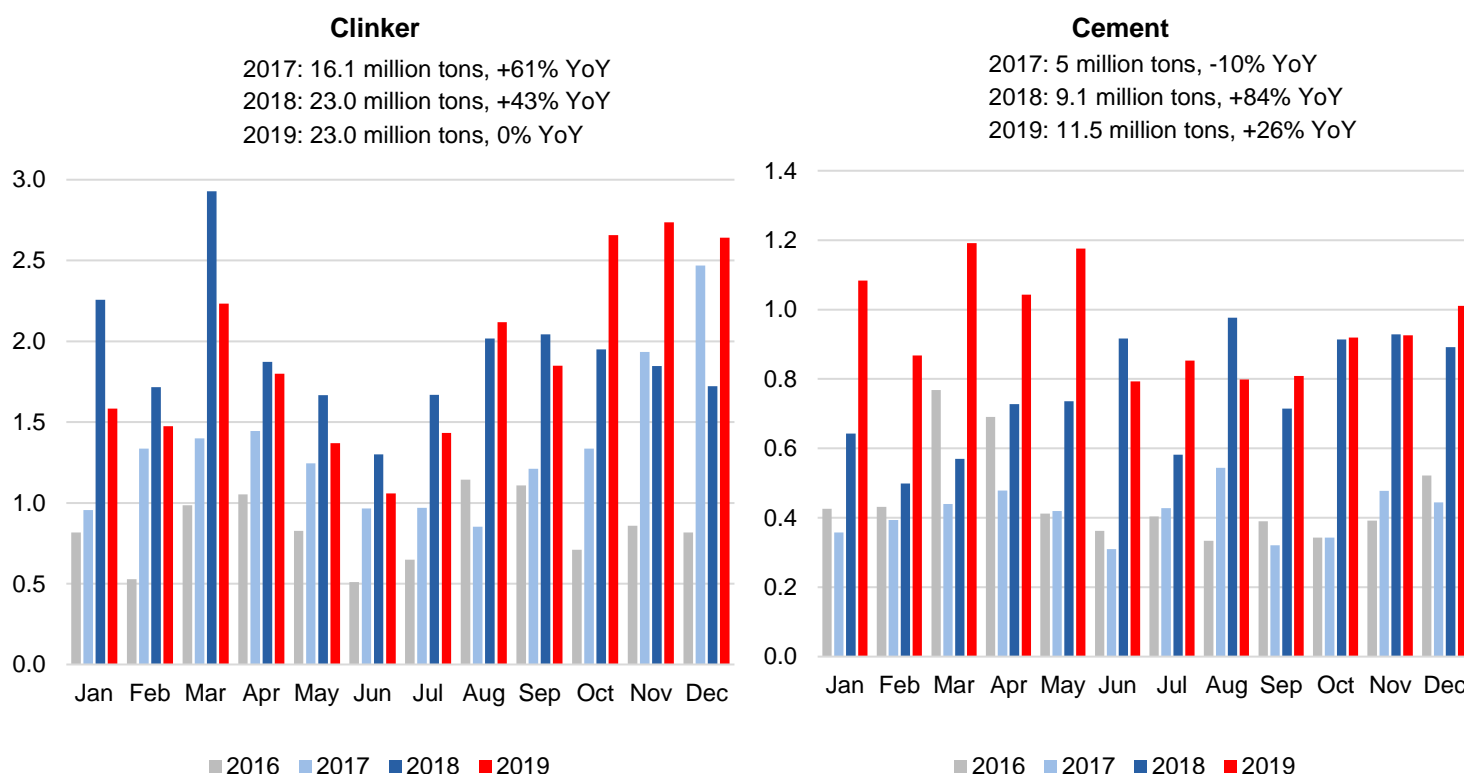
Note: Recurring NPAT-MI excludes forex and non-operating gain/loss

Industry update: Market oversupply will persist

In 2019, the total volume of Vietnamese clinker and cement exports grew 7% YoY vs strong growth rates of 52% in 2018 and 36% in 2017. Meanwhile, 2019 exported cement volume grew 26% YoY while exports of clinker stayed flat against a high base in 2018.

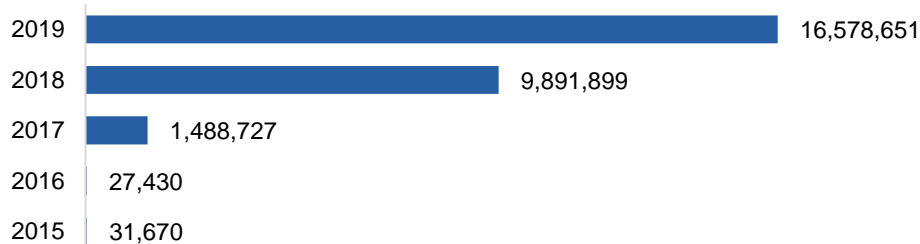
Nevertheless, Vietnam's total exports of clinker and cement to China in 2019 continued to earn strong growth of 68% YoY to reach 16.6 million tons as China has been restructuring its supply-side in heavy industries (including steel and cement) since early 2017. China's proportion of Vietnam's total clinker and cement export volume jumped from 7% in 2017 to 31% in 2018 and to 48% in 2019. This increase has effectively reduced competition between local cement producers, especially from northern cement producers, to southern cement producers like HT1.

Figure 3: Vietnam's exported clinker and cement volume (million tons)



Source: Vietnam National Cement Association (VNCA), VCSC compilation

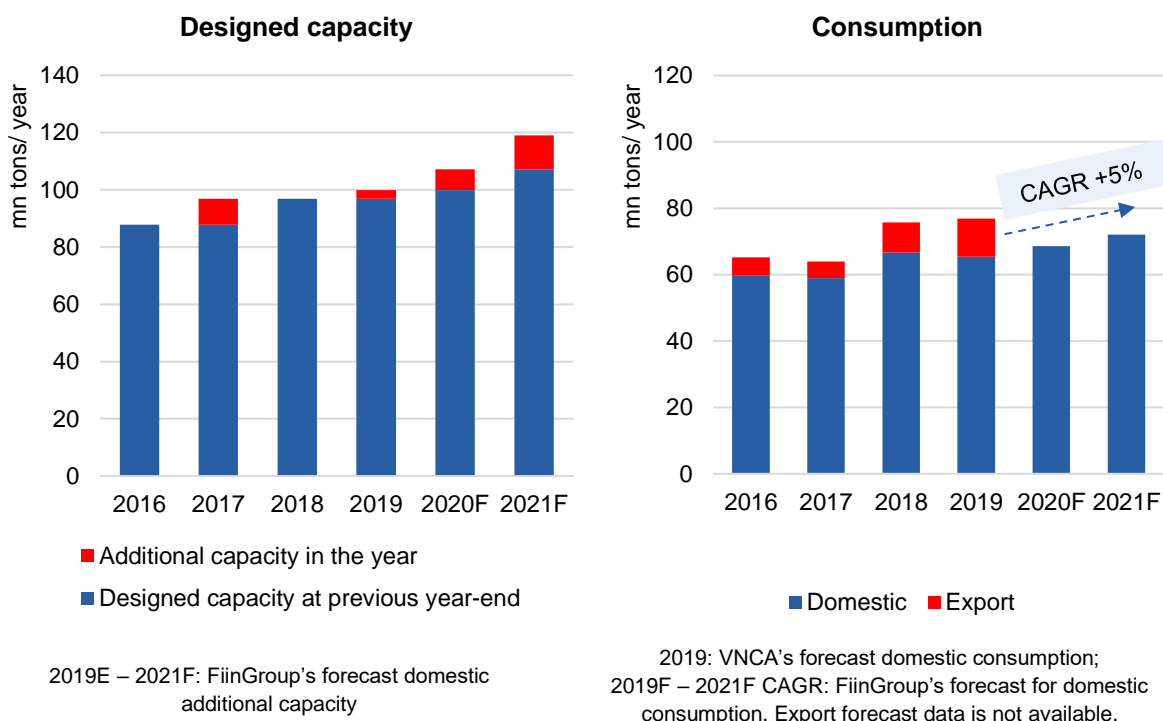
Figure 4: Vietnam's total exports of cement and clinker to China (tons)



Source: Vietnam Customs, VCSC compilation

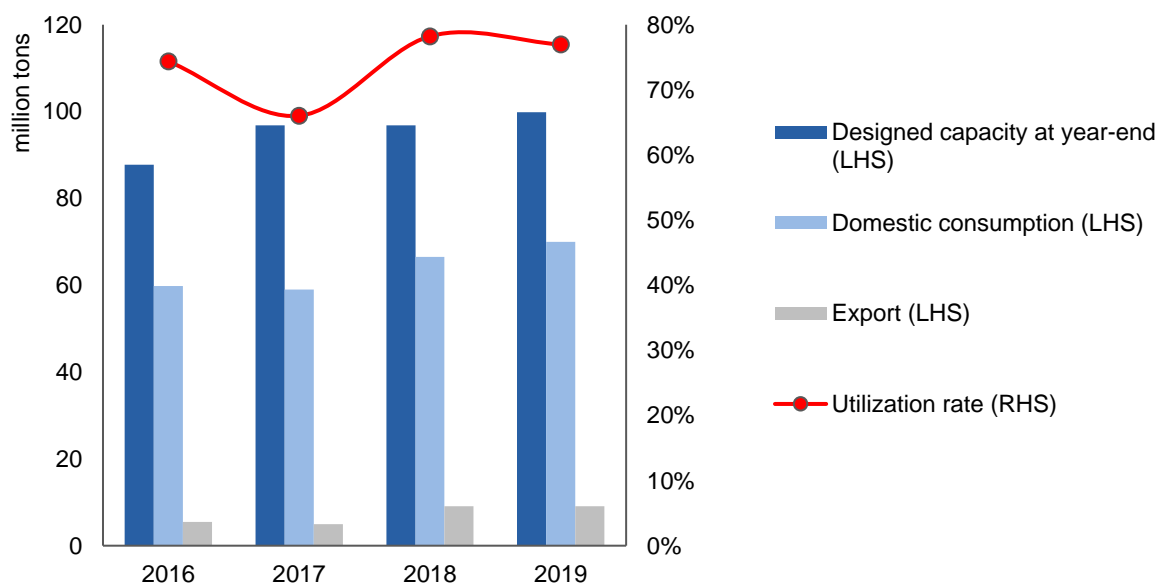
We maintain our view that Vietnam's cement industry will remain oversupplied for the foreseeable future as new capacity is expected to come online, even though there is healthy growth in both domestic consumption and export demand. According to the Vietnam National Cement Association (VNCA) and FiinGroup (previously StoxPlus - a financial data and industry research provider), an additional 22 million tons of new cement capacity is expected to come online during 2019-2021, which is equivalent to 23% of the nation's total designed capacity at the beginning of 2019. Despite domestic demand being expected to grow at a CAGR 5% during the same period, this new capacity should keep Vietnam's cement industry utilization rate at ~70%.

Figure 5: Vietnam's cement industry supply-demand dynamic



Source: VNCA, FiinGroup, VCSC compilation

Figure 6: Vietnam's cement industry supply-demand dynamic



Source: VNCA, FiinGroup, VCSC estimate

Valuation

We continue to use a pure DCF valuation to derive a target price of VND18,900 per share for HT1. This DCF-derived fair value is equivalent to our last report; we keep our 2020-2024F broadly unchanged despite better-than-expected Q4 2019 results as we are conservative on slow-moving domestic construction activities in Q1 2020 amid the recent coronavirus outbreak.

We see the pure DCF valuation approach as the most suitable methodology for HT1 due to the company's strong and stable cash generation; as a result, we do not use peer multiples as a direct input to our target (illustrated by the selected regional peer valuations in **Figure 10** below).

Figure 7: Valuation summary

Valuation method	Fair price	Weight	(VND/share)
DCF	18,900	100%	18,900
Target price			18,900

Source: VCSC

Figure 8: Five-year DCF assumptions

Assumptions	2020F	2021F	2022F	2023F	2024F
EBIT (VND bn)	1,125	1,120	1,115	1,109	1,103
- Tax	-225	-224	-223	-222	-221
+ Depreciation	751	716	743	771	800
- Capex	-179	-273	-277	-280	-284
- Working cap increase	-307	-191	-226	-218	-232
Free Cash Flow	1,164	1,148	1,133	1,160	1,166
Present value of FCF	1,049	932	829	765	693
Total PV of FCF	1,049	1,981	2,810	3,576	4,269

Cost of Capital	Previous report	Revised	DCF valuation	VND bn
Beta	1.0	1.0	PV of Free Cash Flow	4,269
Market Risk Premium %	8.7	8.7	PV of Terminal Val (0% growth)	5,312
Risk Free Rate %	4.5	4.5	PV of FCF and TV	9,581
Cost of Equity %	13.2	13.2	Plus: Cash	831
Cost of Debt %	9.0	9.0	Less: Debt	3,182
Corporate Tax Rate %	20.0	20.0	Value of Equity	7,229
WACC %	11.0	11.0	Current O/S (mn)	381.5
Debt-to-capital ratio %	36.1	37.2	DCF value per share (VND)	18,900

Source: VCSC

Figure 9: Sensitivity analysis of our target price for HT1 in relation to DCF's WACC and terminal growth rate, ceteris paribus

Terminal growth rate %	WACC						
	9.0%	9.5%	10.0%	11.0%	11.5%	12.0%	12.5%
0.0%	19,500	19,400	19,200	18,900	18,800	18,700	18,500
0.5%	20,100	20,000	19,800	19,500	19,400	19,200	19,100
1.0%	20,700	20,600	20,400	20,200	20,000	19,900	19,700
1.5%	21,400	21,300	21,100	20,800	20,700	20,600	20,400
2.0%	22,200	22,000	21,900	21,600	21,400	21,300	21,200
2.5%	23,000	22,800	22,700	22,400	22,300	22,100	22,000
3.0%	23,900	23,700	23,600	23,300	23,200	23,000	22,900

Source: VCSC

Figure 10: Regional peers

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y %	TTM NPAT (USD mn)	Y-o-Y %	Net debt/Equity %	ROE %	ROA %	TTM P/E	LQ P/B	EV/EBITDA
Holcim Philippines	Philippines	1,288	612	-12.0	51	34.7	14.7	11.2	6.5	24.3	2.5	12.5
Lucky Cement	Pakistan	991	772	10.3	59	-31.2	21.8	8.3	4.0	17.5	1.4	13.1
West China Cement	China	917	970	26.1	191	14.6	-0.3	17.0	10.1	4.9	0.8	4.0
Cahaya Mata Saraw	Malaysia	578	430	-0.2	51	-21.2	-13.9	8.3	4.9	11.3	0.9	N/A
Bestway Cement	Pakistan	406	355	-1.6	57	-34.5	40.9	25.6	14.9	7.7	1.1	4.8
CHC Resources	Taiwan	405	305	6.0	29	10.8	30.8	18.4	8.5	13.7	2.4	8.9
Ruentex Engineer	Taiwan	281	324	20.8	19	2.5	20.2	15.0	5.9	14.4	2.4	14.1
Asia Cement	South Korea	224	718	-0.8	33	135.3	73.8	4.9	2.0	7.1	0.3	5.6
Hsing Ta Cement	Taiwan	202	245	19.8	32	35.2	-4.8	15.8	10.1	6.2	0.9	2.7
Asia Holdings	South Korea	191	1,371	6.1	49	5.2	46.7	4.7	2.0	5.6	0.3	5.7
Fauji Cement	Pakistan	147	137	-9.3	16	-38.8	10.7	18.2	13.0	9.8	1.1	3.8
Kohat Cement	Pakistan	112	105	11.6	14	-22.2	16.6	10.6	6.9	8.8	0.9	6.0
Korea Cement	South Korea	82	61	-17.3	1	-64.7	5.9	4.0	2.8	59.2	1.1	18.9
Average		448	493	4.6	46	2.0	20.3	12.5	7.1	14.6	1.2	8.3
Median		281	355	6.0	33	2.5	16.6	11.2	6.5	9.8	1.1	5.8
Ha Tien 1	Vietnam	240	384	5.5	32	17.5	44.1	14.1	7.1	7.4	1.0	4.1

Source: Bloomberg, VCSC

Recommendation history

Figure 11: Historical VCSC target price vs share price (VND/share)


Source: Bloomberg & VCSC. Note: Historical target prices adjusted for changes in shares outstanding

Financial statements

P&L (VND bn)	2019A	2020F	2021F	2022F
Revenue	8,839	8,963	9,090	9,219
COGS	-7,275	-7,457	-7,577	-7,698
Gross Profit	1,564	1,507	1,514	1,521
Sales & Marketing exp	-160	-164	-168	-172
General & Admin exp	-215	-218	-226	-233
Operating Profit	1,189	1,125	1,120	1,115
Financial income	27	0	0	0
Financial expenses	-272	-188	-150	-108
- o/w interest expense	-238	-188	-150	-108
Associates	0	0	0	0
Net other income/(loss)	-13	0	0	0
Profit before Tax	931	937	970	1,007
Income Tax	-186	-187	-194	-201
NPAT before MI	745	750	776	806
Minority Interest	0	0	0	0
NPAT less MI, reported	745	750	776	806
NPAT less MI, adjusted	745	750	776	806

EBITDA	1,897	1,876	1,836	1,858
EPS reported, VND	1,659	1,671	1,730	1,796
EPS adjusted, VND	1,659	1,671	1,730	1,796
EPS fully diluted, VND	1,659	1,671	1,730	1,796
DPS, VND	1,200	1,000	1,000	1,000
DPS/EPS (%)	72%	60%	58%	56%

RATIOS	2019A	2020F	2021F	2022F
Growth				
Revenue growth	5.5%	1.4%	1.4%	1.4%
Op profit (EBIT) growth	10.6%	-5.4%	-0.4%	-0.5%
PBT growth	14.6%	0.7%	3.5%	3.9%
EPS growth, adjusted	17.5%	0.7%	3.5%	3.9%

Profitability				
Gross Profit Margin	17.7%	16.8%	16.7%	16.5%
Op Profit, (EBIT) Margin	13.5%	12.5%	12.3%	12.1%
EBITDA Margin	21.5%	20.9%	20.2%	20.2%
NPAT-MI Margin, adj,	8.4%	8.4%	8.5%	8.7%
ROE	14.1%	13.7%	13.5%	13.3%
ROA	7.1%	7.5%	8.1%	8.8%

Efficiency				
Days Inventory On Hand	34.4	37.0	39.4	41.9
Days Accts, Receivable	19.5	20.5	22.2	25.2
Days Accts, Payable	59.3	56.3	48.6	44.6
Cash Conversion Days	-5.4	1.2	13.1	22.5

Liquidity				
Current Ratio x	0.5	0.6	0.7	0.8
Quick Ratio x	0.3	0.4	0.4	0.5
Cash Ratio x	0.2	0.2	0.2	0.2
Debt / Assets	31.0%	27.1%	21.5%	16.2%
Debt / Capital	37.2%	32.0%	25.5%	19.1%
Net Debt / Equity	44.1%	32.8%	22.3%	12.4%
Interest Coverage x	4.9	6.0	7.5	10.4

Source: Company's financial statements, VCSC forecasts.

B/S (VND bn)	2019A	2020F	2021F	2022F
Cash & equivalents	818	802	700	694
ST investment	13	13	13	13
Accounts receivables	492	513	595	679
Inventories	717	794	843	923
Other current assets	14	14	14	14
Total Current assets	2,053	2,136	2,165	2,322
Fix assets, gross	14,641	14,820	15,093	15,370
- Depreciation	-6,808	-7,559	-8,275	-9,018
Fix assets, net	7,833	7,262	6,819	6,352
LT investment	26	26	26	26
LT assets other	353	353	353	353
Total LT assets	8,212	7,640	7,197	6,730
Total Assets	10,265	9,776	9,363	9,053

Accounts payable	1,257	1,042	975	907
Short-term debt	2,375	2,103	1,743	1,463
Other ST liabilities	450	456	462	469
Total current liabilities	4,081	3,600	3,180	2,838
Long term debt	808	543	272	0
Other LT liabilities	15	15	15	15
Total Liabilities	4,904	4,158	3,467	2,853

Preferred Equity	0	0	0	0
Paid in capital	3,816	3,816	3,816	3,816
Share premium	71	71	71	71
Retained earnings	851	1,077	1,323	1,592
Other equity	615	646	678	712
Minority interest	9	9	9	9
Total equity	5,361	5,618	5,896	6,200
Liabilities & equity	10,265	9,776	9,363	9,053
Y/E shares out, mn	382	382	382	382

CASH FLOW (VND bn)	2019A	2020F	2021F	2022F
Beginning Cash Balance	776	818	802	700
Net Income	745	750	776	806
Dep, & amortization	708	751	716	743
Chge in Working Cap	13	-307	-191	-226
Other adjustments	-1,033	-113	-116	-121
Cash from Operations	1,210	1,081	1,184	1,203

Capital Expenditures, net	-76	-179	-273	-277
Investments, net	13	0	0	0
Cash from Investments	-66	-179	-273	-277
Dividends Paid	-457	-382	-382	-382
Δ in Share Capital	0	0	0	0
Δ in ST debt	255	-272	-360	-280
Δ in LT debt	-911	-264	-272	-272
Other financing C/F	12	0	0	0
Cash from Financing	-1,102	-918	-1,013	-933

Net Change in Cash	41	-16	-102	-7
Ending Cash Balance	818	802	700	694

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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