

## QUANG NGAI SUGAR JSC (QNS)

**Current Price** VND125,000      **Target Price** VND142,000      **Dividend Yield** 0.68%      **Recommendation** HOLD      **Sector** CONSUMER GOODS

### Outlook – Short term



### Outlook – Long term



### Valuation



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### Price performance



Source: VNDIRECT

### Key statistics

|                             |         |
|-----------------------------|---------|
| 52w high (VND)              | 128,800 |
| 52w low (VND)               | 92,241  |
| Average daily turnover (3m) | 76,441  |
| Market cap (VND) billion    | 23,725  |
| Outstanding shares (m)      | 188     |
| Free float (%)              | 20      |
| Beta                        | 0.65    |

### Ownership structure

| Major shareholders | %     |
|--------------------|-------|
| Management         | 32.04 |
| Vinacapital        | 5.14  |
| Foremost Worldwide | 4.98  |

Source: VNDIRECT

**A dominant industry participant in soy milk with stable outlook thanks to vertical integration fuelled by steadily growing domestic consumption.**

**One of the most profitable F&B companies:** QNS's FY16 EBITDA margin was 26.5%, which was higher than VNM's (25%) and SAB's (17.5%). QNS's FY16 ROE of 43.3% and ROA of 25% is similar to VNM's (43.2% and 32.9%) and far above SAB's (33.8% and 22%).

**Strong performance in FY12-15, with a slight slowdown in FY16:** In FY12-15, the company delivered a CAGR of 18.3% in net sales and 25.1% in EBT, driven by the outstanding performances of soy milk and beer & beverage. Despite the sluggish FY16 performance (sales -7% yoy, EBT +14% yoy), we view operation growth thanks to its vertical integration strategy fuelled by steadily growing domestic consumption.

**Manufacturing expansion in late-FY16 is the next growth engine:** QNS has increased its capacity by 30% with the new soy milk plant in Binh Duong, and plans to tap into the southern market. A new biomass plant was also added to the An Khe sugar refinery plant which boosted its capacity from 12,000 to 18,000 tons per day (TMN). We expect topline to rise by 12.5% yoy to VND7,850bn in FY17 and 5.1% yoy to VND8,245bn in FY18.

**Upcoming dividend payment:** the company plans to pay cash dividend at a ratio of 20% (VND2,000/share) and bonus shares at ratio of 30% in Q2FY2017.

**Target price of VND142,000/share, initiate with HOLD:** Taking into account the share dividends, diluted EPS will be VND7,173 in FY17 and VND7,267 in FY18. Our target price of VND142,000 is based on SOTP as QNS is involved in several businesses. This translates into 19.8x FY17 P/E. The share price has jumped by 56.3% since listing on UPCOM in Dec 2016.

| Financial summary (VND) | 12-15A | 12-16A  | 12-17E | 12-18E |
|-------------------------|--------|---------|--------|--------|
| Revenue (bn)            | 7,785  | 6,971   | 7,850  | 8,245  |
| Revenue growth          | 24.6%  | (10.5%) | 12.6%  | 5.0%   |
| Gross margin            | 29.5%  | 33.1%   | 32.9%  | 33.0%  |
| Operating EBITDA (bn)   | 986    | 1,207   | 1,236  | 1,268  |
| Net profit (bn)         | 1,230  | 1,408   | 1,472  | 1,527  |
| Net profit growth       | 58.9%  | 14.5%   | 4.5%   | 3.7%   |
| EPS                     | 10,407 | 8,920   | 7,173  | 7,267  |
| BVPS                    | 18,492 | 20,846  | 20,305 | 22,282 |
| ROAE                    | 56.6%  | 43.2%   | 33.2%  | 29.1%  |

Source: VNDIRECT

**COMPANY PROFILE**

Founded in 1970s , the company was originally a sugar manufacturer with its own farm in Quang Ngai province, which is in the middle of Vietnam. The company was equitized in 2005 and was listed on UPCOM in Dec 2016. Currently, QNS is a non-stated-owned company involved in four core businesses: soy milk, sugar, confectionery and other beverages (beer, mineral bottled water).

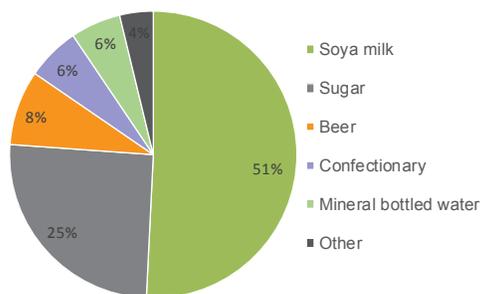
In overall, QNS uses vertical integration to manage their business. They control the soya bean farm and sugarcane plantation, self-supply sugar for milk and confectionary businesses. QNS also owns a subsidiary which distributes, transports, trades directly with retailer and manages a network of 150.000 POS and 600 sale staffs across the country.

Currently, Management control about 32% of company ownership, among of which Chairman Vo Thanh Dang and his relatives own 25% of stake. Most Management joined QNS since the beginning with average working experience of more than 10 years. We see that QNS’s business strategy was quite conservative over years. The company often set a modest target plan which was much lower than actual.

Vinacapital started to invest in QNS since 2015 then increased their stake to 5.1% after company’s listing. We expect that with the joining of foreign investors, QNS might improve the corporate governance and add more value to shareholders in the near future.

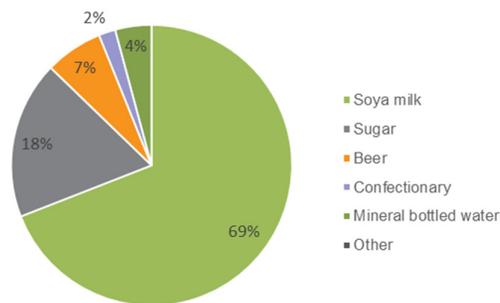
Between FY12 - FY16, QNS experienced a double-digit growth in sale, driven by the significant contribution of soy milk (51% of revenue and 69% of EBT). Sugar was the second most important business segment, accounting for 28% of its revenue and 18% of its EBT.

Revenue breakdown by businesses in FY2016



Source: QNS,VNDIRECT

Earnings before tax breakdown by businesses in FY2016



Source: QNS,VNDIRECT

**BUSINESS ACTIVITIES**

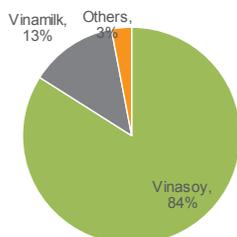
**The biggest soy milk manufacturer with 84% of market share.**

Soy milk is the principal milk alternative in Vietnam with nearly 650m litres consumed in 2015 (source: Tetra Pak). Currently, packed soy milk only accounts for 33% of market sale volume, as unpackaged

soy milk sales are very strong thanks to its affordable price. However, there has been a gradual shift away from unpackaged towards packaged products mainly thanks to rising consumer awareness of food safety and hygiene.

EIU Passport 2016 report showed that soy milk sale witnessed a CAGR 2011 - 2016 of 17.1%, far higher than liquid milk (13.2%) and powder milk (2%).

**Vietnam soy milk market share by 2015-end**



Source: AC Nielsen 2016

With such promising prospect, nowadays, Vietnam soy milk market became quite crowded with the attendance of nearly 5 local producers and other imported products from Thailand, Malaysia and Korea. However, as a pioneer, QNS has long dominated with approx. 84% of packed soy milk market share by 2015-end which is far ahead the next player Vinamilk (13%).

**Robust growth by focusing on niche market**

QNS started to produce soy milk and launched its first brand “Fami” since 2002. In 2005, QNS announced the next brand “Vinasoy” which marked a turning point for the company. Vinasoy successfully convinced consumers to use packaged products by its flavors and safety. Nowadays, QNS provides 6 soy milk products under 3 brands: Fami, Vinasoy and Soymen (newly launching in Dec 2016) for consumers of all ages.

**QNS’s soy milk brandnames**



Source: QNS

Vinasoy has applied the Tetra Alwin Soy technology - the most modern extraction technology - to continuously take extracts of soybeans. In terms of distribution network, QNS has 150,000 POS across country to trade directly with the company.

Between FY2012-2015, soy milk has delivered a robust growth rate of 34% per annum in sale and 42.3% in EBT. However, FY2016 witnessed a slowdown in sale because of 2 reasons: (1) the soy milk consumption has been weakened as the worries about GMO soy bean was raised in early 2016; (2) Vinasoy has to decrease the soy milk ASP in corresponding with slight downtrend of liquid milk price. Therefore, FY2016 soy milk sale slided by 1.5% while EBT slumped by 4.8%.

**Soy milk performance**

| FY                   | 2012  | 2013   | 2014  | 2015  | 2016  | CAGR       |
|----------------------|-------|--------|-------|-------|-------|------------|
|                      |       |        |       |       |       | 2012 -2016 |
| Capacity (mn litres) | 120   | 165    | 210   | 300   | 300   |            |
| Volume (mn litres)   | 124.5 | 134.3  | 192.8 | 241.7 | 244   | 18.3%      |
| Sale (VNDbn)         | 1,881 | 2,115  | 3,021 | 3,738 | 3,683 |            |
| sale growth (%)      | 57%   | 12.5%  | 42.8% | 23.7% | -1.5% | 26.9%      |
| Gross margin (%)     | 40.3% | 39.6%  | 40.5% | 40.5% | 40.0% |            |
| EBT (VNDbn)          | 397   | 356    | 660   | 851   | 810   |            |
| EBT growth (%)       | 65%   | -10.2% | 85.4% | 28.9% | -4.8% | 32.9%      |

Source: QNS,VNDIRECT

(\* ) Soy milk volume FY2016 was estimated by VNDIRECT

**Soy milk price survey**

| Product  | Producers | VND/200ml unit |
|----------|-----------|----------------|
| Fami     | Vinasoy   | 4,233          |
| Vinasoy  | Vinasoy   | 5,133          |
| Goldsoy  | Vinamilk  | 4,500          |
| Vinamilk | Vinamilk  | 4,200          |
| Nutifood | Nutifood  | 4,300          |

Source: VNDIRECT

**Higher ASP and ability to self-supply production materials bring premium margin among peers.**

Consumers appear to be willing to pay more for Vinasoy’s products than those of its other local competitors. According to our market survey of the 200ml bottled soy milk, Vinasoy sells for about 8-10% more than other products.

In addition, while other competitors have to import soy bean, QNS is able to self-supply both sugar and soy bean, which account for around 30% of COGS. 80% of soya bean material has been supplied from farms in the Highland of Vietnam where QNS signed long-term contracts with farmers. QNS supports farmers in terms of investment budget, seeds, plantation technique and quality control. Consequently, QNS enjoyed a stable gross margin at 40% over the past 5 years, even higher than Vinamilk (around 35% - 40% for all kind of milk products).

**New plant to penetrate into Southern market**

QNS’s current total capacity is 390mn liters with 3 plants located in each region of Vietnam.

| Plants                       | Region  | Year operation | Capacity (mn litres) |
|------------------------------|---------|----------------|----------------------|
| Vinasoy Quang Ngai           | Central | 2002           | 120                  |
| Vinasoy Bac Ninh             | North   | 2013           | 180                  |
| Vinasoy Binh Duong (stage 1) | South   | 2017           | 90                   |

Source: QNS,VNDIRECT

Binh Duong plant has commenced production the first stage in December last year and will be expanded to 180mn liters in the second stage in the next few years. Before launching the new one, 2 existing plants run at a utilization rate of around 80% - 85% and products have to be transported from Quang Ngai to Southern market which has increased the selling expenses.

Only 25% of QNS’s total sale generated from Southern market where the company faces fierce competition from Vinamilk and other local players such as Tribeco and Tan Hiep Phat. The new plant is expected to boost the volume growth in this promising regional market as well as to reduce the transportation cost for the next few years.

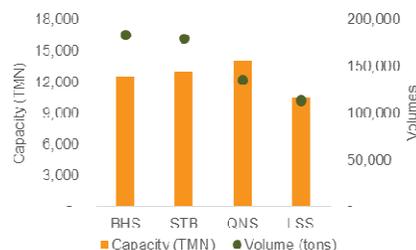
**Sugar – business influenced by climate change**

Currently, QNS is the third-largest sugar producer by volume, accounting for 11% of the market share. In spite of being the biggest in terms of capacity, QNS’s volume is lower than BHS and SBT since the company produces only RS sugar from sugar cane. Meanwhile, other players produce both RS and RE from raw sugar.

The company operates 2 refinery factories: Pho Phong in Quang Ngai province and An Khe in Gia Lai province, totaling capacity of 14,000 tons of sugarcane per day (TMN). Since Nov last year, An Khe factory expanded the daily capacity from 12,000TMN to 18,000TMN and became the largest sugar plant in Vietnam.

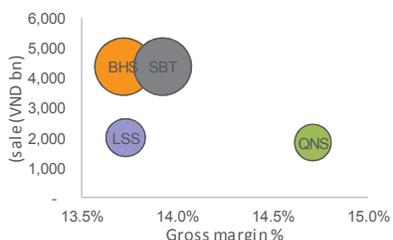
Sugarcane is supplied from 23,000 ha of plantation area, 60% of these farms cultivation are mechanized which deliver an average yield of 70 - 75 tons per ha. A majority of plantation area are owned by farmers and QNS support them in technique, seeds and loan

**Top 4 sugar producers in harvesting season 2015/2016**



Source:VSSA,VNDIRECT

**Sale and GM of QNS's sugar business veruss peers**



Source: VNDIRECT

financing. Alongside with the factory expansion, QNS has plans to also increase their farms up to 28,000 ha in 2017.

Between FY2011-FY2015, QNS's sugar sale increased at a healthy CAGR of 13.4% but gross margin fluctuated in a wide range due to the nature of the business. FY2016's sale decreased by 20.7% mainly due to the prolonged drought in 2016 which dampened both quality and quantity of sugarcane output. However, thanks to the rising of sugar price in FY2016, gross margin improved from 14.2% last year to 14.7%, smoothing the slide EBT to only 2.7%. Compared with others, QNS often experienced higher GM regarding to the relatively cheaper sugarcane price in the Middle.

**Sugar business performance**

| FY               | 2012  | 2013  | 2014   | 2015   | 2016   |
|------------------|-------|-------|--------|--------|--------|
| Sale (VNDbn)     | 1,525 | 1,828 | 1,653  | 2,324  | 1,842  |
| sale growth (%)  | 3%    | 19.9% | -9.6%  | 40.6%  | -20.7% |
| Gross margin (%) | 11.2% | 10.9% | 9.8%   | 14.2%  | 14.7%  |
| EBT              | 136   | 193   | 39     | 219    | 213    |
| EBT growth (%)   | 36%   | 41.9% | -79.8% | 461.5% | -2.7%  |

Source: QNS,VNDIRECT

**Biomass plant is a new bright spot**

In 2016, the company has completed a new 95MW biomass power plant in An Khe with investment capital of VND1,900bn. This plant may be the largest biomass plant in Vietnam.

When An Khe refinery factory expands daily capacity from 12,000 to 18,000 tons, it is able to create approx. 614,400 tons of sugarcane bagasse. About 114,400 tons of bagasse will be used for its operation power meanwhile the remaining will be allocated to the new biomass plant. Electricity is generated only during crop season (about 115 – 135 days) and sold to national grid. Currently, average price for biomass electricity is about 5.8 cent/kwh.

Roughly, a ton of sugar cane could generate about 50-60 kwh of electricity. We estimate that biomass plant's sale volume might reach 115 million kwh per year which add VND77bn for gross profit.

**QNS's other products**



Source: VNDIRECT

**Other businesses: Beer, soft drink and confectionery**

| FY                            | 2012  | 2013  | 2014  | 2015   | 2016  | CAGR 2012-2016 |
|-------------------------------|-------|-------|-------|--------|-------|----------------|
| Beer (VNDbn)                  | 534   | 551   | 541   | 607    | 612   |                |
| sale growth (%)               | 41%   | 3.1%  | -1.8% | 12.2%  | 0.9%  | 11%            |
| Confectionary (VNDbn)         | 396   | 440   | 440   | 371    | 436   |                |
| sale growth (%)               | 2.6%  | 11.1% | 0.1%  | -15.8% | 17.6% | 3%             |
| Mineral bottled water (VNDbn) | 284   | 368   | 380   | 409    | 409   |                |
| sale growth (%)               | 25.5% | 29.7% | 3.3%  | 7.6%   | 0.0%  | 13%            |

Source: QNS, VNDIRECT

Beer & beverage and confectionary account for 14% and 8% of total revenue, respectively. QNS has a beer factory with capacity of 100 million liters, producing “Dung Quat beer”, a local and low price brand name in Quang Ngai. Beer sale delivered a CAGR of 11% in FY2012-2016. However, beer business has experienced a slow sale in recent years due to the fierce competition. Sabeco also operates a same-size beer plant in Quang Ngai. For FY2016, beer contributed VND612bn (1% yoy) in revenue and VND78bn (-1.5% yoy) in EBT.

Mineral bottled water under brand name “Thach Bich” contributed VND409bn (0% yoy) in sale and VND49bn (9.6% yoy) in EBT in FY2016. Similarly to beer, this business expansion is limited as the company is running at full capacity.

“Biscafun” is also a local and low-price confectionary brand name of QNS. As the company to self-sufficient sugar, Biscafun enjoyed a gross margin about 25%, higher than HHC (~18%) and HNF (~ 20 - 22%). In FY2016, this business posted an 17.6% yoy growth in sale with VND436bn and 196% yoy growth in EBT with VND23bn thanks to exporting to new market, Russia.

**FINANCIAL ANALYSIS**

**One of the leading F&B companies in terms of profitability.**

**Sale and EBITDA margin in FY2012-2016**



Source: VNDIRECT

Between FY2012-2015, the Company’s revenue increased at a CAGR of 18.3% while EBT grew by CAGR of 25.1%, mainly driven by the outstanding performance of soy milk and beer & beverage.

For FY2016, total revenue posted a decrease by 7% due to the slowdown of soy milk and sugar businesses as we mentioned above. Nevertheless, thanks to the raising of ASP (except soy milk), EBT delivered a fairly good growth of 14%. Additionally, a reversal of VND90bn in R&D advance has lowered the SG&A expense in FY2016.

In terms of profitability, the company witnessed a significant improvement when operating profit margin and FY16 EBITDA margin came to 21.9% and 26.5%, respectively. QNS’s ROA and ROE achieved 24.9% and 43.3%, respectively, making QNS one of the leading F&B companies in terms of profitability.

**Profitability comparison among peers**

|     | EBITDA |        | Operating margin |        | ROE%   |        | ROA%   |        |
|-----|--------|--------|------------------|--------|--------|--------|--------|--------|
|     | FY2015 | FY2016 | FY2015           | FY2016 | FY2015 | FY2016 | FY2015 | FY2016 |
| QNS | 21.6%  | 26.4%  | 17.2%            | 21.7%  | 56.6%  | 43.3%  | 27.0%  | 25.0%  |
| VNM | 24.6%  | 25.0%  | 23.1%            | 23.8%  | 38.3%  | 43.2%  | 29.2%  | 32.9%  |
| SAB | 16.2%  | 17.5%  | 16.3%            | 18.6%  | 25.7%  | 33.8%  | 15.7%  | 22.0%  |
| BHS | 8.2%   | 10.9%  | 5.7%             | 6.8%   | 11.7%  | 13.7%  | 4.6%   | 5.4%   |
| BHN | 17.4%  | 14.7%  | 12.1%            | 10.9%  | 15.1%  | 12.3%  | 9.2%   | 7.3%   |
| SBT | 13.0%  | 13.2%  | 10.5%            | 7.2%   | 13.3%  | 11.0%  | 5.9%   | 4.4%   |

Source: VNDIRECT

**Healthy financing structure**

A majority of VND213bn long term debt is 5-year leasing contract to finance for the new Vinasoy Binh Duong project. The cost of this debt denominated in USD is 2.55% + Libor 3M. By FY2016-end, QNS’s short term debts is VND1,178bn fully covered by its working capital and cash. It should be noted that, short-term debt of a sugar producer always increase sharply by FY-end as it is the beginning of harvest season and the companies have to pay for farmers. Currently, Debt/Equity ratio is 36%.

QNS generated positive cash flow except in FY2016 when the company had significant investment with capex more than VND2,000bn. In 2017 – 2018, we see no large investments and this will allow the company to pay a more attractive dividend. By 2019, we expect QNS to implement the second stage of Vinasoy Binh Duong with an additional 90mn liters of capacity which increase the total capacity of soy milk up to 480mn liters.

**Benefit from tax incentives**

As an agriculture-related business, QNS is enjoying a low effective tax rate about 9.3% in FY2016 regarding to its subsidiaries: An Khe factory has a lifetime tax exemption while Pho Phong factory has a tax rate of 15%. Vinasoy Quang Ngai and Bac Ninh enjoy 50% tax incentives until 2018. The new Vinasoy Bind Duong factory has tax exemption in the two first years and tax rate of 10% from 2019 onwards. Hence, we estimate that the company’s effective CIT might climb up to nearly 11% from 2019.

### EARNINGS FORECAST & VALUATION

We estimate the company's revenue rising 12.6% yoy to VND7,850bn in FY2017 and 5.0% yoy to VND8,245bn in FY2018. In terms of net profit, we expect the company to post VND1,472bn (+5% yoy) and VND1,527bn (+4% yoy) for the next two years. Our forecast is based on these following assumptions:

#### Soy milk projection

| FY                   | 2016A | 2017E | 2018E | 2019E | 2020E | CAGR<br>2016 -2020 |
|----------------------|-------|-------|-------|-------|-------|--------------------|
| Capacity (mn liters) | 300   | 390   | 390   | 390   | 480   |                    |
| Utilization rate (%) | 81%   | 68%   | 71%   | 74%   | 65%   |                    |
| Volume (mn liters)   | 244   | 264   | 277   | 291   | 314   | 6.5%               |
| yoy%                 | 1%    | 8.0%  | 5.0%  | 5.0%  | 8.0%  |                    |
| Sale                 | 3,683 | 4,017 | 4,260 | 4,518 | 4,928 | 7.6%               |
| yoy%                 | -1%   | 9%    | 6%    | 6%    | 9%    |                    |
| Gross profit         | 1,473 | 1,567 | 1,662 | 1,762 | 1,873 | 6.2%               |
| Gross margin (%)     | 40.0% | 39.0% | 39.0% | 39.0% | 38.0% |                    |

Source: VNDIRECT

After the 1-stage of Vinasoy Binh Duong factory came on stream in Dec last year, we assume that QNS will start to implement the 2-stage in 2019. Consequently, the total capacity will increase up to 480mn liters by 2020.

Thanks to the promotion activities boosting Southern market, sale volume will increase by 8% yoy in 2018 and reach 315mn liters by 2020, presenting a CAGR 2016 – 2020 of 6.5%.

Gross margin is estimated to stabilize around 39% in 2017 – 2019, slightly lower than the average of 40% in period of 2014 - 2016 due to the depreciation of new factory. We believe that although the price of soya bean, plastic and paper surged last year, a Southern-located-factory will be able to offset the production material cost by saving transportation and inventory cost. Also, having self-sufficiency for 80% of the soya bean input is an advantage that will help stabilize gross margins. By 2020, we expect GM to decline to 38% due to higher depreciation from the new manufacturing facilities.

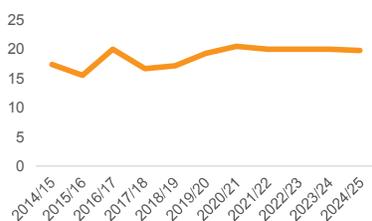
Hence soy milk will deliver a CAGR FY2016 – 2020 of 7.6% in revenue and 6.2% in gross profit.

#### Sugar projection

| FY                    | 2016A   | 2017E   | 2018E   | 2019E   | 2020E   | CAGR<br>2016 -2020 |
|-----------------------|---------|---------|---------|---------|---------|--------------------|
| An Khê                |         |         |         |         |         |                    |
| Harvesting (ha)       | 20500   | 23,000  | 23,000  | 23,000  | 23,000  |                    |
| Yields (tons/ha)      | 70      | 72      | 72      | 72      | 72      |                    |
| Capacity (TMN)        | 12,000  | 18,000  | 18,000  | 18,000  | 18,000  |                    |
| Pho Phong             |         |         |         |         |         |                    |
| Harvesting (ha)       | 2,500   | 2,600   | 2,600   | 2,600   | 2,600   |                    |
| Yields (tons/ha)      | 60      | 62      | 64      | 66      | 68      |                    |
| Capacity (TMN)        | 2,000   | 2,000   | 2,000   | 2,000   | 2,000   |                    |
| Sum of sugar business |         |         |         |         |         |                    |
| Total volumes (tons)  | 136,000 | 155,596 | 158,932 | 162,323 | 165,770 | 5.1%               |
| yoy%                  | -23%    | 14%     | 2%      | 2%      | 2%      |                    |
| Total sale            | 1,842   | 2,150   | 2,240   | 2,333   | 2,431   | 7.2%               |
| yoy%                  | -23%    | 17%     | 4%      | 4%      | 4%      |                    |
| Gross profit          | 271     | 296     | 317     | 320     | 345     | 6.2%               |
| Gross margin (%)      | 14.7%   | 13.8%   | 14.2%   | 13.7%   | 14.2%   |                    |

Source: VNDIRECT

USDA global raw sugar price forecast (US\$/ton)



Source: USDA

Both the An Khe and Pho Phong factories helped to improve farm efficiency as well as increased the mechanized cultivation area last year. In harvesting season 2016/2017, we expect the average yield of 72 tons per ha for An Khe and 62 tons per ha for Pho Phong. Together with the capacity expansion of An Khe factory, we expect the sugar volume of QNS to rise by 14% yoy in 2016/2017.

Basing on the forecast on global sugar price from USDA, we estimate that average selling price advance by 2% in 2017 resulting in sugar net sales of VND2,150bn in 2017, up 17% yoy .

In terms of COGS, we assume that sugarcane which bought from the farmers this harvesting season will surge by 5% yoy to VND1,000,000 per ton for An Khe and VND900,000 per ton for Pho Phong. In addition, the depreciation of An Khe plant expansion will decrease the gross profit margin to 13.8% in FY2017 from 14.7% of FY2016.

#### Other businesses projection

| FY                            | 2016A | 2017E | 2018E | 2019E | 2020E | CAGR<br>2016 -2020 |
|-------------------------------|-------|-------|-------|-------|-------|--------------------|
| <b>Beer</b>                   |       |       |       |       |       |                    |
| Sale                          | 612   | 637   | 662   | 689   | 717   | 4.0%               |
| yoy%                          | 1%    | 4%    | 4%    | 4%    | 4%    |                    |
| <b>Confectionary</b>          |       |       |       |       |       |                    |
| Sale                          | 436   | 467   | 486   | 505   | 526   | 4.8%               |
| yoy%                          | 18%   | 7%    | 4%    | 4%    | 4%    |                    |
| <b>Mineral bottled waters</b> |       |       |       |       |       |                    |
| Sale                          | 409   | 426   | 443   | 474   | 508   | 5.6%               |
| yoy%                          | 0%    | 4%    | 4%    | 7%    | 7%    |                    |

Source: VNDIRECT

#### Raising capital plan and dividend policy

For FY2016, the company plans to pay cash dividend at a ratio of 20% (VND2.000/share) and share dividend at ratio of 30%. For FY2017 onward, we expect that with healthy free cash flow, the company will keep a steady dividend payment policy at 40% per year. Additionally, based on company's guidance, we also forecast an ESOP by 3% of outstanding shares will be performed in FY2018.

#### Initiate with HOLD at target price of VND142,000, upside 13.6%.

As the company involves in diversified businesses, we adopt SOTP to calculate the target price of QNS.

#### SOTP Valuation

| Businesses              | NP<br>FY2017 | PE<br>multiple | Implied<br>value |
|-------------------------|--------------|----------------|------------------|
| Soy milk                | 946          | 19.1x          | 114,436          |
| Sugar                   | 292          | 8.0x           | 14,772           |
| Beer                    | 97           | 10.0x          | 6,116            |
| Other                   | 138          | 8.0x           | 7,006            |
| Implied value per share |              |                | <b>142,330</b>   |
| % upside/downside       |              |                | 13%              |

Source: VNDIRECT

For soy milk business, we choose Vinamilk and Vitasoy - a leading soy milk manufacturer in Hong Kong which are comparable to QNS in terms of profitability. However, in terms of market size, QNS is far behind so that we apply a discount of 15% to the average of PER for QNS sugar business valuation.

For brewers business, we select 4 beer producers currently listing on UPCOM which have the production size similarly to QNS. The average PER multiple is 10x.

For sugar business comparison, we found that SBT's valuation is relatively expensive more than other peers, BHS and LSS. Hence, we apply a PER multiple of 8x which is rather fair for an unstable nature business like sugar manufacturing.

Consequently, the implied value calculated by SOTP is VND142,330/share.

Alternatively, by discounted cash flow model, we find the target price as VND142,930/share.

#### Key assumptions

|                              |        |
|------------------------------|--------|
| 5-year government bond yield | 5.50%  |
| Beta                         | 0.65   |
| Equity risk premium          | 8.00%  |
| Cost of debt                 | 4.80%  |
| WACC                         | 10.30% |

Source: VNDIRECT

#### Discounted cash flow valuation

| (in VNDbn)              | 2017E          | 2018E | 2019E | 2020E | Terminal |
|-------------------------|----------------|-------|-------|-------|----------|
| Free Cash Flow          | 1,576          | 1,529 | 1,327 | 1,803 | 1,857    |
| PV of FCF               | 1,429          | 1,257 | 990   | 1,220 | 17,287   |
| Value of Firm           | 22,183         |       |       |       |          |
| Plus: Cash              | 1,525          |       |       |       |          |
| Less: Debt              | (1,142)        |       |       |       |          |
| Value of Equity         | 22,566         |       |       |       |          |
| Implied value per share | <b>142,930</b> |       |       |       |          |
| % upside/downside       | 13%            |       |       |       |          |

Source: VNDIRECT

In conclusion, we set target price at VND142,000/share, translating into 19.8x of diluted EPS FY2017 (take into account the share dividend by ratio of 30%).

#### Peer comparison

| Companies                | Market Cap | P/B         | P/E          | TEV/EBITDA | ROA          | ROE          |
|--------------------------|------------|-------------|--------------|------------|--------------|--------------|
|                          | 27/03/2017 | TTM         | TTM          | TTM        | FY2016       | FY2016       |
| <b>Soy milk business</b> |            |             |              |            |              |              |
| VNM                      | 205,663    | 9.3x        | 21.9x        | 17.6x      | 32.9%        | 43.2%        |
| Vitasoy                  | \$ 2,009   | 6.6x        | 22.9x        | 15.0x      | 14.3%        | 25.8%        |
| <b>Average</b>           |            | <b>7.9x</b> | <b>22.4x</b> |            | <b>23.6%</b> | <b>34.5%</b> |
| <b>Brewers business</b>  |            |             |              |            |              |              |
| BSP                      | 328        | 1.4x        | 8.6x         | 4.3x       | 9.0%         | 16.7%        |
| BSQ                      | 1,103      | 2.2x        | 14.8x        | 5.6x       | 7.3%         | 15.2%        |
| SMB                      | 909        | 2.1x        | 8.8x         | 4.5x       | 15.3%        | 24.3%        |
| WSB                      | 827        | 1.7x        | 8.1x         | 6.5x       | 10.7%        | 23.0%        |
| <b>Average</b>           |            | <b>1.9x</b> | <b>10.1x</b> |            | <b>10.6%</b> | <b>19.8%</b> |
| <b>Sugar business</b>    |            |             |              |            |              |              |
| SBT                      | 6,203      | 2.1x        | 20.2x        | 10.8x      | 4.4%         | 11.0%        |
| LSS                      | 970        | 0.6x        | 6.6x         | 2.6x       | 6.0%         | 9.2%         |
| BHS                      | 3,857      | 1.1x        | 7.8x         | 7.4x       | 13.7%        | 5.4%         |
| <b>Average</b>           |            | <b>1.3x</b> | <b>11.5x</b> |            | <b>8.0%</b>  | <b>8.5%</b>  |
| QNS                      | 23,725     | 6.1x        | 16.8x        | 12.9x      | 24.9%        | 43.2%        |

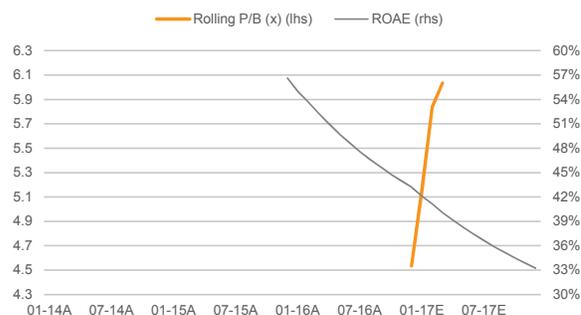
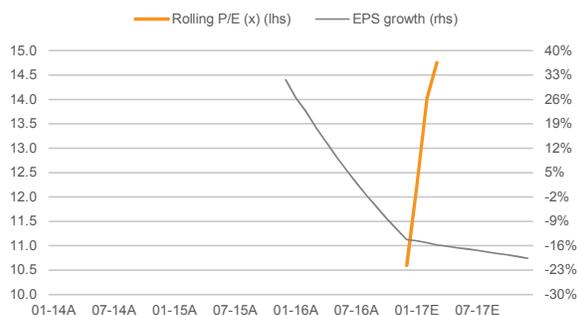
Source: VNDIRECT

#### RISK

**Soy milk:** Lower-than-expected sales of soymilk in Southern market. Rising raw material, packaging, labour and transportation costs. Food safety.

**Sugar business:** Climate change affects the sugarcane harvest yield. Furthermore, Vietnamese sugarcane is facing challenges from foreign competitors as upcoming free trade agreements will allow foreign sugar to enter the domestic market without much difficulty.

Valuation



**Income statements**

| (VNDbn)                              | 12-16A       | 12-17E       | 12-18E       |
|--------------------------------------|--------------|--------------|--------------|
| Revenue                              | 6,971        | 7,850        | 8,245        |
| Cost of sales                        | (4,663)      | (5,271)      | (5,527)      |
| Gen & admin expenses                 | (54)         | (196)        | (201)        |
| Selling expenses                     | (728)        | (797)        | (871)        |
| <b>Operating profit</b>              | <b>1,526</b> | <b>1,585</b> | <b>1,645</b> |
| Operating EBITDA                     | 1,207        | 1,236        | 1,268        |
| <b>Depreciation and amortisation</b> | <b>319</b>   | <b>349</b>   | <b>377</b>   |
| <b>Operating EBIT</b>                | <b>1,526</b> | <b>1,585</b> | <b>1,645</b> |
| Interest income                      | 73           | 83           | 69           |
| Financial expense                    | (77)         | (75)         | (60)         |
| Net other income                     | 31           | 30           | 30           |
| Income from associates & JVs         | 0            | 0            | 0            |
| <b>Pre-tax profit</b>                | <b>1,552</b> | <b>1,623</b> | <b>1,683</b> |
| Taxation                             | (144)        | (151)        | (156)        |
| Minority interests                   | 0            | 0            | 0            |
| <b>Net profit</b>                    | <b>1,408</b> | <b>1,472</b> | <b>1,527</b> |
| Adj. net profit to ordinary          | 1,408        | 1,472        | 1,527        |
| Ordinary dividends                   | (160)        | (994)        | (985)        |
| <b>Retained earnings</b>             | <b>1,248</b> | <b>478</b>   | <b>542</b>   |

**Cash flow statement**

| (VNDbn)                                     | 12-16A         | 12-17E       | 12-18E         |
|---|----------------|--------------|----------------|
| <b>Pretax profit</b>                        | <b>1,552</b>   | <b>1,623</b> | <b>1,683</b>   |
| Depreciation & amortisation                 | 319            | 349          | 377            |
| Other non cash gains/(losses)               | (289)          | 18           | 78             |
| Other non operating gains/(losses)          | (392)          | 53           | (129)          |
| Tax paid                                    | (144)          | (151)        | (156)          |
| Other operating cash flow                   | 107            | (70)         | 51             |
| <b>Change in working capital</b>            | <b>37</b>      | <b>70</b>    | <b>(51)</b>    |
| <b>Cash flow from operations</b>            | <b>1,189</b>   | <b>1,891</b> | <b>1,853</b>   |
| Capex                                       | (2,192)        | (369)        | (399)          |
| Proceeds from assets sales                  |                |              |                |
| Others                                      | 0              | (230)        | (39)           |
| Other non-current assets changes            | 604            | 0            | 0              |
| <b>Cash flow from investing activities</b>  | <b>(1,588)</b> | <b>(599)</b> | <b>(438)</b>   |
| New share issuance                          | 103            | 563          | 49             |
| Shares buyback                              |                |              |                |
| Net borrowings                              | (359)          | (250)        | (250)          |
| Other financing cash flow                   | (58)           | 7            | 2              |
| Dividends paid                              | (160)          | (994)        | (985)          |
| <b>Cash flow from financing activities</b>  | <b>(474)</b>   | <b>(674)</b> | <b>(1,184)</b> |
| Cash and equivalents at beginning of period | 1,009          | 137          | 755            |
| <b>Total cash generated</b>                 | <b>(872)</b>   | <b>618</b>   | <b>231</b>     |
| Cash and equivalents at the end of period   | 137            | 755          | 985            |

**Balance sheets**

| (VNDbn)                               | 12-16A       | 12-17E       | 12-18E       |
|---------------------------------------|--------------|--------------|--------------|
| Cash and equivalents                  | 137          | 755          | 985          |
| Short term investments                | 555          | 785          | 824          |
| Accounts receivables                  | 394          | 495          | 576          |
| Inventories                           | 522          | 505          | 530          |
| Other current assets                  | 171          | 157          | 82           |
| <b>Total current assets</b>           | <b>1,779</b> | <b>2,697</b> | <b>2,998</b> |
| Fixed assets                          | 1,849        | 1,869        | 1,891        |
| Total investments                     | 0            | 0            | 0            |
| Other long-term assets                | 2,497        | 2,497        | 2,497        |
| <b>Total assets</b>                   | <b>6,125</b> | <b>7,063</b> | <b>7,387</b> |
| Short-term debt                       | 1,178        | 978          | 778          |
| Accounts payable                      | 475          | 505          | 455          |
| Other current liabilities             | 317          | 426          | 458          |
| <b>Total current liabilities</b>      | <b>1,970</b> | <b>1,910</b> | <b>1,691</b> |
| Total long-term debt                  | 213          | 163          | 113          |
| Other liabilities                     | 32           | 39           | 41           |
| <b>Shareholders' equity</b>           | <b>3,910</b> | <b>4,951</b> | <b>5,541</b> |
| Minority interests                    | 0            | 0            | 0            |
| <b>Total liabilities &amp; equity</b> | <b>6,125</b> | <b>7,063</b> | <b>7,387</b> |

**Key ratios**

|                          | 12-16A  | 12-17E  | 12-18E |
|--------------------------|---------|---------|--------|
| <b>Dupont</b>            |         |         |        |
| Net profit margin        | 20.2%   | 18.8%   | 18.5%  |
| Asset turnover           | 1       | 1       | 1      |
| ROAA                     | 24.9%   | 22.3%   | 21.1%  |
| Avg assets/avg equity    | 2       | 1       | 1      |
| ROAE                     | 43.2%   | 33.2%   | 29.1%  |
| <b>Efficiency</b>        |         |         |        |
| Days account receivable  | 21      | 23      | 26     |
| Days inventory           | 41      | 35      | 35     |
| Days creditor            | 37      | 35      | 30     |
| Fixed asset turnover     | 4       | 4       | 4      |
| ROIC                     | 26.6%   | 24.2%   | 23.7%  |
| <b>Liquidity</b>         |         |         |        |
| Current ratio            | 1       | 1       | 2      |
| Quick ratio              | 1       | 1       | 1      |
| Cash ratio               | 0       | 1       | 1      |
| Cash cycle               | 24      | 23      | 30     |
| <b>Growth rate (yoy)</b> |         |         |        |
| Revenue growth           | (10.5%) | 12.6%   | 5.0%   |
| Operating profit growth  | 14.5%   | 3.9%    | 3.8%   |
| Net profit growth        | 14.5%   | 4.5%    | 3.7%   |
| EPS growth               | (14.3%) | (19.6%) | 1.3%   |
| <b>Share value</b>       |         |         |        |
| EPS (VND)                | 8,920   | 7,173   | 7,267  |
| BVPS (VND)               | 20,846  | 20,305  | 22,282 |
| DPS (VND)                | 854     | 4,077   | 3,961  |

Source: VNDIRECT

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