

## Industrials

Initial Coverage

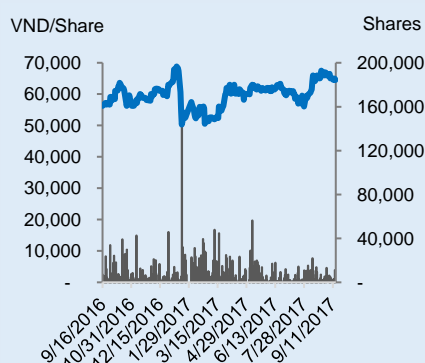
Sep 2017

Recommendation	<b>OUTPERFORM</b>
Target price (VND)	<b>92,800</b>
Market price (15/9/2017)	64,500
Expected profit	43.87%

### SHARES INFORMATION

Trading exchange	HNX
52-week price range	50,300-68,820
Market cap	697bil VND
Outstanding shares	10,800,000
10-day average volume	5,092
% foreign owned	14.98%
Foreign room	49%
Dividend per share	2,000
Dividend yield	3%
Beta	0.3

### PRICE MOVEMENTS



	YTD	1M	3M	6M
INN	0.8%	-2.3%	4.0%	7.3%
HNX-Index	28.4%	3.6%	6.3%	15.4%

Analyst

**Le Thanh Hoa**

(84 8) 3914.6888 ext 257

lethanhhhoa@baoviet.com.vn

# Agriculture Printing & Packing JSC

Ticker: INN

Reuters: INN.HN

Bloomberg: INN VN

## The Leading Packaging Company in the North

### Economic growth will boost domestic consumption

The recovery of the economy has resulted in consumers spending more on food, beverages, beauty and personal care items, enabling the packaging segment to grow much faster in the future. Vietnam Packaging Association (VINPAS) expects the packaging sector to grow by 15-20% per year in the coming years thanks to the strong growth in both domestic consumption and export demand.

### Vietnam still has lower packaging consumption compared to other regional countries.

Vietnam is far below other regional countries in terms of packaging consumption, especially in terms of the value. Vietnam has an annual packaging consumption of about 69 USD/person, lower than the world average consumption of 113 USD/person/year.

### INN is one of the leading companies in printing technology in the North.

For many years, INN has always been among the top four packaging companies in the North in terms of modern technology and competitiveness. In all product lines, INN always has the largest manufacturing capacity, modern technology and higher competitive advantage over its rivals. INN is also one of two companies that has achieved GMP standards for pharmaceutical packaging in the North.

### The factory expansion will help enhancing INN's production capacity.

During its 2015 AGM, the company approved the plan for investing VND270 billion to expand the factory in Hung Yen and enhance its production capacity of flexible packaging to 15,000 tons/year. This factory will likely go into operation in September of 2017. The extended factory will enjoy two years of tax exemption and 50% tax reduction for four subsequent years.

### The old machineries will be fully depreciated.

The machineries that the company invested in 2014 will be fully depreciated in 2017. Its depreciation cost in 2017 will be lower than the cost in 2016 by about VND23 billion. Although these machineries will be fully depreciated in 2017, they can still operate well to contribute to the overall revenue of the company.

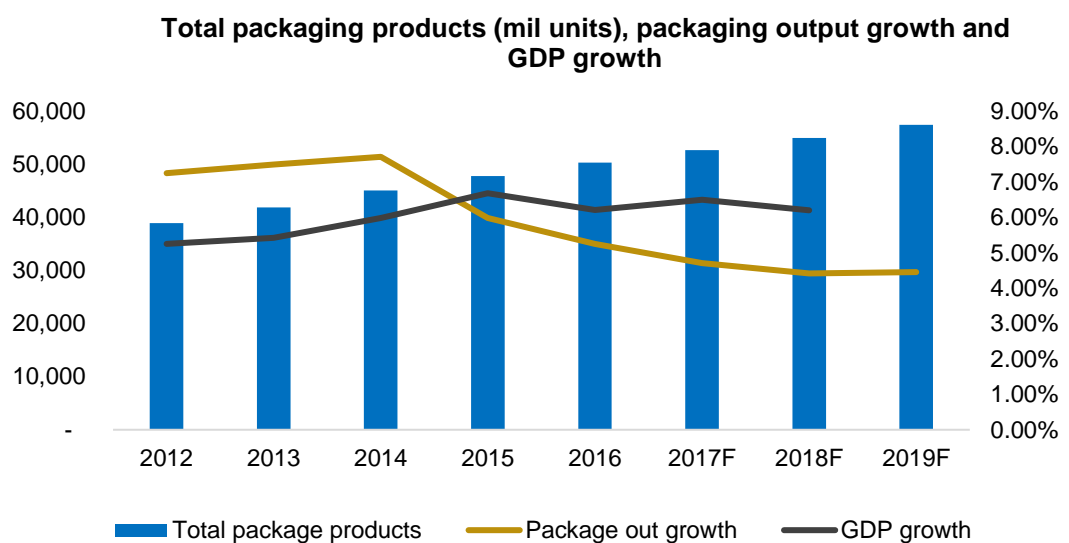
### Valuation and Investment Viewpoint.

By using the FCFE valuation method, we have calculated the intrinsic value for INN at VND92,800/share, equivalent to a 2018 forward P/E of 10.71x, nearly equal to the average P/E of the listed packaging companies. Therefore, have given INN an **OUTPERFORM** recommendation with a target price of VND92,800/share.

## Overview of The Packaging Industry

### Economic growth will help increase domestic consumption

The economy's recovery has prompted consumers to spend more on food, beverages, beauty and personal care products. Because foreign companies often like an economy with a young population and high growth rate, the FDI inflows to Vietnam have been rising in recent years. Accordingly, the packaging segment can have higher growth potential in the future. Vietnam Packaging Association (VINPAS) expects that the packaging sector will **grow by 15-20% per year in value** in the coming years, but only by 4-5% in output (according to Euro Monitor).

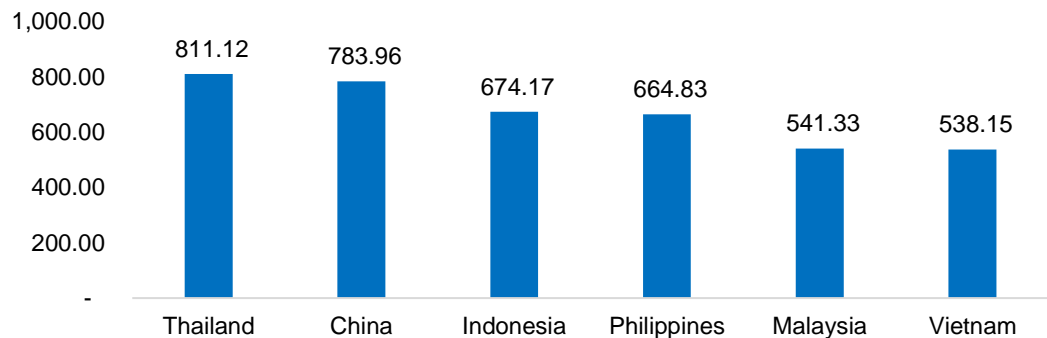


*Source: Euro Monitor, World Bank and General Statistics Office of Vietnam*

*(Note: the total packaging products are collected from the following segments: food, beverages, beauty and personal care, home appliances, cigarettes, tissues, medicines and dog/cat foods).*

### Vietnam still has a lower packaging consumption compared to other regional countries.

Vietnam is still far below other regional countries in packaging consumption. In 2016, each Vietnamese consumed an average of 538 packaging products, much lower than the average consumption per capita of 2 neighboring countries including China and Thailand. These markets consumed 784 and 811 products, respectively. The Vietnam's packaging industry is valued at about USD6.4 billion (Stoxplus, 2014), equivalent to about 69 USD/person/year, lower than the world average consumption of 113 USD/person/year (Statista, 2014). These figures displays that Vietnam's packaging industry has many growth opportunities ahead and leading companies like INN can continue to maintain high growth rates.

**Average Annual Consumption Per Capita**


Source: Euromonitor and BVSC

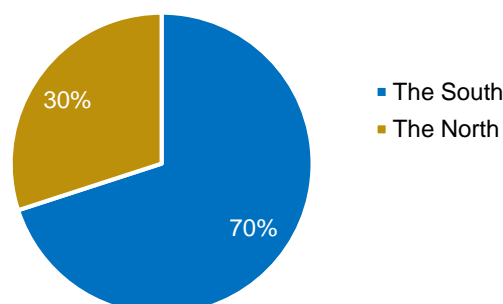
### The food segment tends to pay more attention to packaging

In recent years, Vietnamese people have had access to more health care information. Many scandals on dirty food, unsafe food and counterfeit food have been reported in the mass media, causing consumers to become more and more concerned about food hygiene and safety, especially in food and milk for children. Consequently, food manufacturers tend to focus more on high quality packaging, which has more beautiful design, higher quality, and detailed information about the products on the packaging. This results in consumers being more attracted to these products.

This shift will make small packaging companies that lack of investments in machinery, technology, and design, to face difficulties in terms of competition. Besides, the leading packaging companies, with more modern technology and available capital for investment to meet the increasing demands of customers, can benefit from this shift.

### The packaging industry is relatively large.

The USD6.3 billion packaging industry of Vietnam (according to Stoxplus in 2014) has many product groups, sizes, technologies, raw materials and qualities to serve the diversified customers. According to VINPAS, Vietnam now has nearly 1,000 packaging companies with different types of products such as paper packaging, carton, plastic, metal film, and PET plastic bottles. Many of them are small businesses. The fragmentation has resulted in a high competition in the packaging industry, especially in the south where 70% of the packaging businesses are located.

**Distribution of the packaging industry**


Source: Vinpas

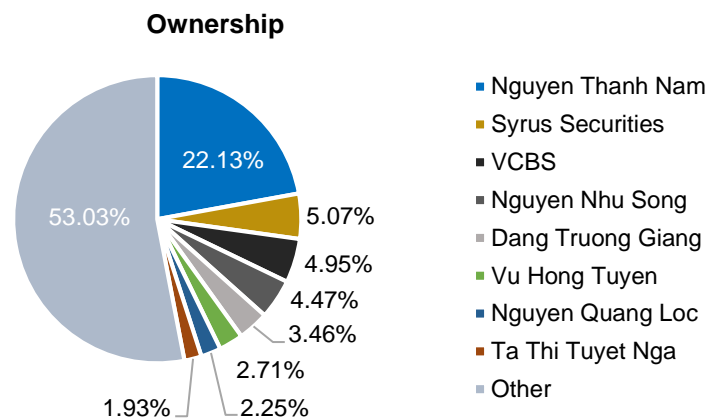
## Agriculture Printing and Packaging Joint Stock Company

### Company Overview.

Agricultural Printing and Packaging Joint Stock Company (INN) whose forerunner was a map-printing factory, was founded in 1969. The company was privatized in 2004 and listed on the Hanoi Stock Exchange in 2010 under the sticker INN. After 50 years of development, INN has become a leader in the packaging industry in the North.

### Shareholder Structure

Its biggest shareholder is also its BOD chairman cum General Director. The second biggest shareholder is Finansia Syrus Securities Public Company Ltd, a Thai company that recently become its major shareholder in 2017.



Source: Stockbiz

### The Management

The key management members joined INN after graduating from universities, and have more than 30 years experience of working for the company. They have worked in many positions from manufacturing to sales and finance. This gives the management team an insight into the company's production and business as well as a broad relationship with the industry and customers.

INN's management also holds about 37% of the company's shares. This is a motivation for their long-term commitment with INN for sustainable development.

### Subsidiary

INN only has one subsidiary called DAC Co., Ltd. This company has a charter capital of VND5.4 billion. INN holds 100% ownership in this company.

In 2011, INN acquired An Hung Multiple Component Film Manufacturing Company and renamed it to INN - Hung Yen Packaging Company Limited. By 2015, INN transformed this company into its Hung Yen Branch. The total area of Hung Yen branch is 51,000 m<sup>2</sup>, enough for future expansions.

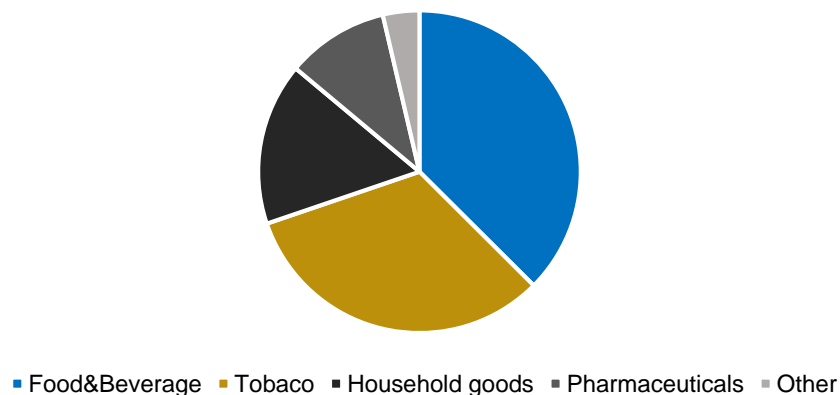
### Business Operations

INN mainly operates in printing, packaging and related services. Over 99% of its revenue comes from its core businesses. A small part of its revenue comes from leasing the real estate at No. 72 Truong Chinh street and the service land at GP4-13 (Ngoc Hoi Industrial Park).

The main products and services of INN:

- Providing printing and packaging products on paper materials, aluminum coated paperboard and paper, decals, plastic decals, E-wave carton boxes. The company can print on cigarette packets, light bulbs, medicine boxes, boxes for confectionary, tea and wine, etc.
- Printing flyers, brochures, magazines, labels and catalogs.
- Producing aluminum foil for the pharmaceutical industry.
- Creating Flexo printing plates for other entities.
- Designing and consulting products' packaging.
- Supplying materials and equipment related to the printing industry, including printing paper, printing ink, printing materials and printing wastes such as printed aluminum and waste paper.

#### Revenue Breakdown by Customers' Business Segments



Source: BVSC

INN's main customers mostly operate in the consumer goods segment:

- Companies in tobacco industry: Vinataba Thang Long, Vinataba Thanh Hoa, Vinataba Bac Son and Vinataba Saigon. The revenue from tobacco companies accounts for about 32% of INN's revenue. These companies mostly use INN's packaging for export products.
- Food and beverage companies: Orion, Hai Ha Confectionary, Huu Nghi, Sabeco, Halio, Hai Hung, Kinh Do, and Hai Cha. These companies contribute to about 38% of INN revenue.
- Pharmaceutical companies: Traphaco, Hoa Linh, Nam Ha, Mediplantex, Hanvet, etc. Pharmaceutical companies contribute to about 10% of INN's revenue.

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Over 80% of INN's revenue is from customers in the consumer goods segments. This is the key element that will help INN that will allow it to operate stably, like these consumer goods companies during an economic crisis.

**INN has the most modern printing technology in the North**

For many years, INN has always been among the top four packaging companies in the North in terms of modern technology and competitiveness. The company imports its technology and machinery from the countries with leading printing technologies such as Germany, England and Switzerland. In all products lines, INN always has the largest production capacity and the most modern technology in the North. INN has a team of experienced, well-trained and highly skilled staff.

According to the circulars No. 14/2012/TTBT and 2/2016/TT-BYT the primary packaging components (which will directly be used for domestic manufactured drugs) must be produced at the enterprises meeting GMP standards for pharmaceutical packaging, GMP-EU, PIC/S and FDA. Currently, INN is one of the two companies in the North that can achieve GMP standards for pharmaceutical packaging. The primary packaging components that INN are supplying are the aluminum foil for medicine blister packaging. This is a big advantage for INN to boost the sales of aluminum foil for medicine blister packaging as well as build its brand name in the North.

Besides the modern machinery technology, INN's high performance also results from its good production management. INN has applied the cost allocation to each production team, thereby enhancing the employees' awareness in materials saving as well as improving product quality. As a result, INN can have a higher gross profit margin than other similar rivals.

**The company's customer network has been expanding**

Being a long-standing state-owned enterprise, INN has won many contracts from the state-owned and equitized enterprises such as cigarette manufacturers, Rang Dong Light Sources and Vacuum Flask Joint Stock Company, Sabeco, and Halico. In addition, the high quality of its products and services have helped INN to maintain its long-term customer network and gain more customers with foreign capital such as Orion, Dorco, and Éloge France Vietnam.

The increasing emphasis on packaging to attract more customers will especially benefit companies with leading technology and services in the North such as INN. Therefore, we think INN can maintain the current strong growth rate and its leading position in the future.

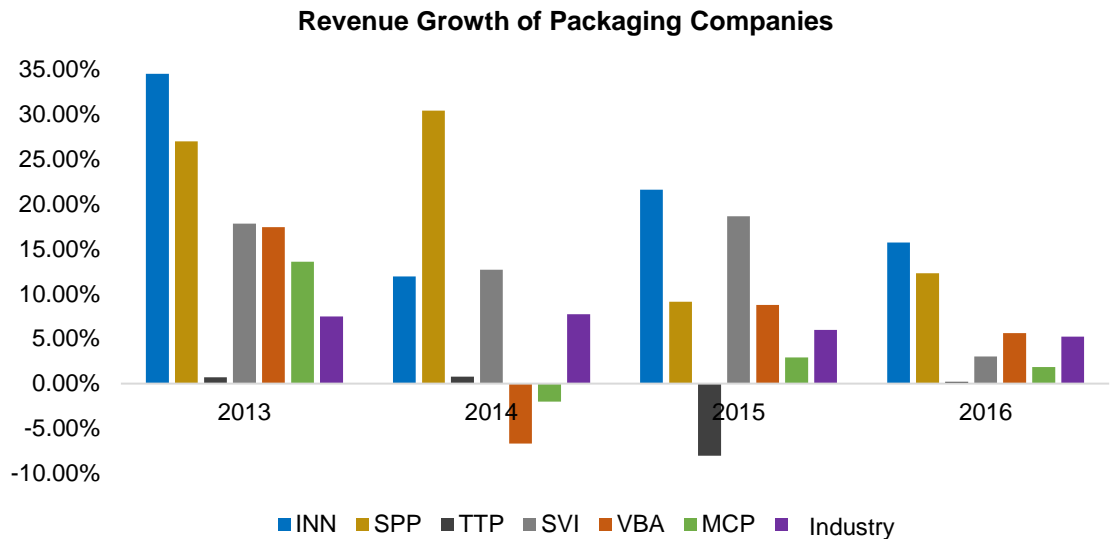
**INN's Growth has been Outpacing the Industry Average**

According to the Vietnam Printing Association, the packaging production, label printing, packaging and printing for the processing industry and export in the past few years have grown at a respectable rate of about 10%. Meanwhile, VINPAS has forecasted that the packaging industry will grow at 15-20% per year in the coming years.

With its leading position in the North, INN has grown robustly over the recent years with an average annual revenue growth of 31.5% since 2006. The growth rate of INN is superior to the

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industry average as well as the growth rates of most listed packaging enterprises. Therefore, we think INN can achieve its plan to double its revenue by 2019 to approximately VND1,800 billion.



*Source: Euromonitor and FSs*

### The factory expansion will help enhancing INN's production capacity.

To meet the increasing demands of customers, since 2010, INN has constantly invested in factory expansion with an annual investment of VND30-70 billion. In 2014, INN brought the new machinery and equipment in its expanded factory (worth more than VND100 billion) into operation. However, with the rapid growth of INN, this plant ran 3 shifts per day in 2016. The slow expansion of the factory resulted in the decline of INN's growth in 2016.

The company's 2015 AGM approved the investment plan of VND270 billion to enhance the production capacity of flexible packaging by 15,000 tons per year. As planned, the expanded plant went into operation in March 2017. However, a fire accident damaged the machinery and equipment and delayed the operation of this project. The fire cost about VND70 billion. However, INN has bought insurance and will likely receive 100% compensation for the damage. However, we also note that if the insurance company does not fully compensate for this damage, its profit will be reduced by VND10 billion.

Up to now, the company has overcome the problem and put this expanded plant into a trial run. This plant will likely come into operation in September 2017. The extended factory will enjoy two years of tax exemption and 50% tax reduction for four subsequent years. We believe that the company's position and the fast growth momentum of the packaging industry will enable this extended plant to work efficiently and help INN to grow strongly in the coming years.

### The old machineries will be fully depreciated.

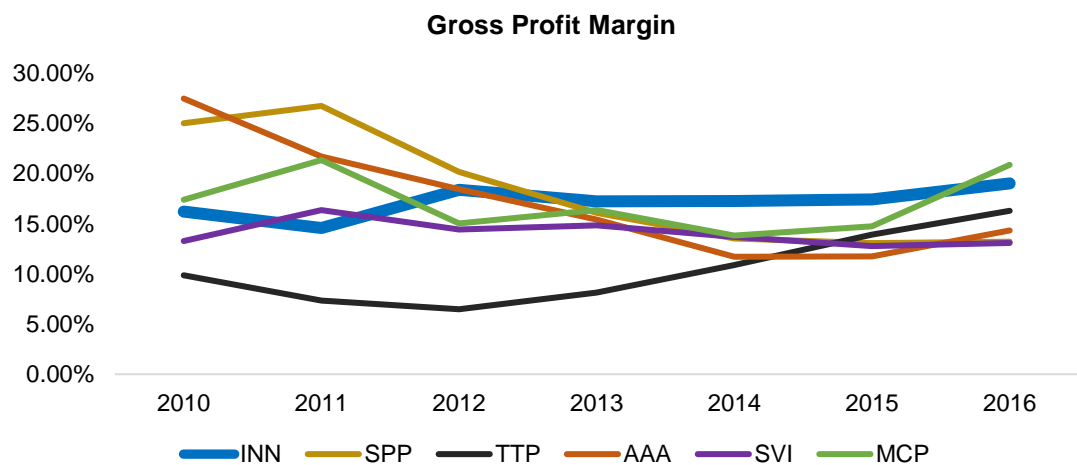
The machineries invested in 2014 will be fully depreciated in 2017. Its depreciation cost (for the machinery invested before 2016) will be about VND26.5 billion, lower than the depreciation cost in 2016 by about VND23 billion. Although these machineries will be fully depreciated in 2017,

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they can still operate well to contribute to the overall sales of the company. Moreover, the strong rise in capacity of the extended factory in 2018 will help reducing the depreciation cost per product.

### Its gross profit margin will remain high

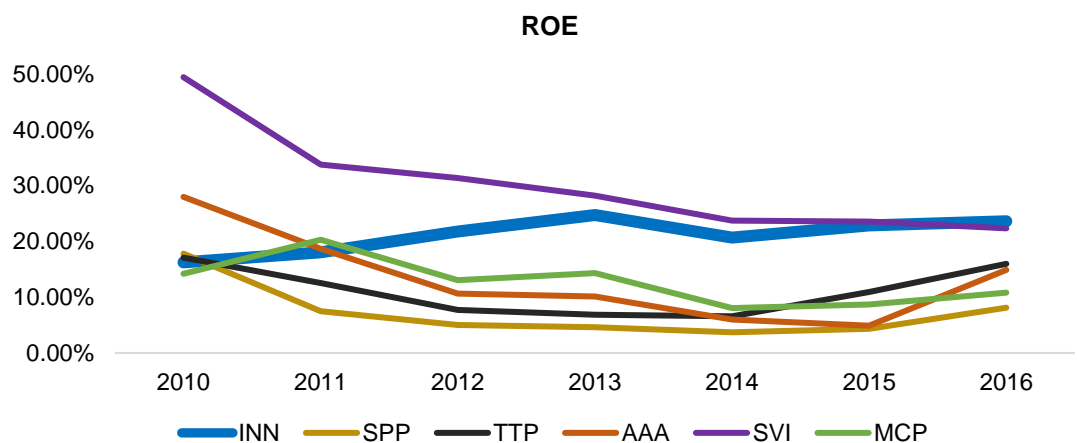
INN's gross profit margin has remained stable. Since 2012, INN's gross margin was much higher than most listed packaging enterprises. A high and stable profit margin has enabled INN to operate efficiently even in the difficult times and earn high returns during favorable market conditions.



Source: BVSC's Compilation

### High operating efficiency.

With a low leverage policy, INN uses a very small percentage of debt, which in turn keeps its financial costs at a very low level. A high profit margin and low financial costs have helped INN to have a higher return on equity than most companies in the industry. The plus point for INN is that its consistently high ROE ratio has been constantly improving over years





### Business result forecasts

A fire at its plant in Hung Yen has resulted in a six-month delay in this plant's operation. As a result, INN cannot grow as strongly as expected in 2017. In H1 2017, INN's revenue grew by 11.33% thanks to the company's timely installation of some new machines at Ngoc Hoi factory by the end of 2016. By putting the expanded plant in Hung Yen into operation in September 2017, INN's FY2017 revenue will likely increase by 14% to VND1,006 billion.

Its gross margin, although declining slightly in H1 2017, will likely improve in the second half of the year, bringing a FY profit margin of about 19%, equal to the profit margin in 2016. The new plant will not be able to run at full capacity in 2017, but INN's depreciation expenses can be reduced by VND23 billion in 2017 and the employees recruited in 2016 can work in the new factory.

We have forecast INN's 2017 net profit at around VND81 billion (+14% yoy), equivalent to an EPS of VND7,054/share. If INN cannot receive 100% compensation for the fire incident, its net profit may reduce to about VND72 billion (+1% yoy).

### Valuation and Investment Viewpoint

We used the FCFE valuation method with the following assumptions: (1) INN will maintain the high growth rates during 2017 – 2019; (2) From 2020-2024, the company will shift to stable growth rate; (3) Its cost of equity is 13.45%; (4) its long-term growth rate is 2%. Based on these assumptions, we have calculated the intrinsic value for INN at VND92,800/share, equivalent to a 2018 forward P/E of 10.71x, nearly equal to the average P/E of the listed packaging companies. Therefore, we have given INN an **OUTPERFORM** recommendation, with a target price of VND92,000/share ( 43.87% upside).

### Risk.

#### Weather Risk

The Northern region has a hot and humid climate. The humid climate will reduce the printing capacity and the hot climate will cause the paper to curl, which will make hard to be put into the printers.

#### Risk from the Major Customer

Vinataba Thang Long is the biggest customer of INN, contributing to about 28% of its total revenue. If INN loses this customer, its revenue and profit will be strongly affected. However, we think that this is not a significant risk since INN has had a long-term cooperation with Vinataba Thang Long and has a customized production line for orders from tobacco companies. Moreover, Vinataba Thang Long uses high-quality packages from INN for export products.

#### Competition Risk

The packaging industry has relatively high competition due to its deep fragmentation. In addition, foreign firms are increasing their presence in the packaging industry through both direct and indirect investments. In fact, there have been many large M&A deals in the recent

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years, the sellers of which are domestic companies. The participations of foreign and joint-venture companies with capital and technology advantages will intensify the competition in the packaging industry.

Foreign-invested enterprises are concentrated mostly in the South. In addition, INN is the leading packaging enterprise in the North. The company is not only capable of providing services to foreign companies in the North but can also compete to provide services to the companies in the South. Therefore, we think INN can compete fairly and maintain its leading position in the North in the coming years.

**FORECASTED FINANCIAL RATIOS**

<b>Profit and loss statement</b>					
<b>Unit (VND billion)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
Revenues	628	763	883	1,006	1,228
Cost of goods sold	519	630	715	815	1,001
Gross profit	108	133	168	191	227
Financial income	0	0	1	1	2
Financial expenses	(4)	(3)	(3)	(4)	(3)
Net income	46	59	71	81	100

<b>Balance sheet</b>					
<b>Unit (VND billion)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
Cash and cash equivalents	29	43	43	83	142
Accounts receivable – short-term	81	116	115	132	165
Inventories	59	65	63	73	93
Tangible fixed assets	159	106	94	232	201
Long-term investments	0	0	0	0	0
<b>Total assets</b>	<b>341</b>	<b>398</b>	<b>491</b>	<b>553</b>	<b>638</b>
Short-term loans	36	49	45	40	35
Long-term debt	5	0	17	14	10
Owners' equity	224	258	302	355	420
<b>Total resources</b>	<b>341</b>	<b>398</b>	<b>491</b>	<b>553</b>	<b>638</b>

<b>Financial ratios</b>					
<b>Items</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
<b>Growth</b>					
Revenue growth (%)	11.92%	21.59%	15.70%	14.00%	22.00%
Net profit growth (%)	9.09%	27.47%	20.82%	14.00%	22.74%
<b>Yield</b>					
Gross profit margin (%)	17.27%	17.43%	19.02%	19.00%	18.50%
Net profit margin (%)	7.38%	7.73%	8.08%	8.08%	8.12%
ROA (%)	15.04%	15.97%	16.03%	15.56%	16.75%
ROE (%)	23.42%	24.50%	25.47%	24.76%	25.77%
<b>Capital structure</b>					
Total liabilities to total asset (%)	12.10%	12.35%	12.57%	9.75%	7.09%
Total liabilities to owners' equity (%)	18.45%	19.04%	20.46%	15.22%	10.77%
<b>Per shares</b>					
EPS (VND/share)	4,011	5,113	6,188	7,054	8,659
Book value (VND/share)	20,712	23,891	27,941	32,832	38,853

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## CONTACTS

**Research & Investment Advisory Department, BAOVIET Securities Joint Stock Company**

### Equity Research

**Luong Luu**

Deputy Head of Research

luuvanluong@baoviet.com.vn

**Ha Nguyen**

Banking, Insurance

nguyenthuha@baoviet.com.vn

**Trang Che**

Fertilizer, Steel, Electricity

chethimaitrang@baoviet.com.vn

**Trang Phan**

Natural Rubber, Sugar

phanthuytrang@baoviet.com.vn

**Dung Nguyen**

Information Technology

nguyentiendung@baoviet.com.vn

**Phuong Le**

Deputy Head of Research

ledangphuong@baoviet.com.vn

**Ngoc Nguyen**

Real Estate

nguyenchihongngoc@baoviet.com.vn

**Hoa Le**

Building Materials

lethanhhoa@baoviet.com.vn

**Phu Truong**

Automobiles & Parts

truongsyphu@baoviet.com.vn

**Hang Ha**

Pharmaceutical

hathithuhang@baoviet.com.vn

**Hao Thai**

Water infrastructure

thaianhhao@baoviet.com.vn

**Minh Pham**

Garment & Textile

phamdachoangminh@baoviet.com.vn

### Macro & Market Research

**Binh Nguyen**

Deputy Head of Research

nguyexuanbinh@baoviet.com.vn

**Thang Bach**

Chief economist

bachngocthang@baoviet.com.vn

**Yen Tran**

Economist

tranhaiyen@baoviet.com.vn

**Anh Tran**

Market strategist

tranducanh@baoviet.com.vn

**Bach Tran**

Technical Analyst

tranxuanbach@baoviet.com.vn



## **BaoViet Securities Joint Stock Company**

### **Hanoi Headquarter:**

- No 8 Le Thai To, Hoan Kiem, Hanoi
- Tel: (84 4) 3 928 8080

### **Ho Chi Minh Branch:**

- 8 Floor, No 233 Dong Khoi, Dist 1, HCM city
- Tel: (84 8) 3 914 6888