



Duc Thanh Wood Processing (GDT)

AGM Note

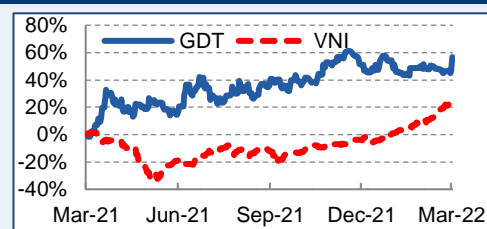
Industry:	Wood		2021	2022F	2023F	2024F
Report Date:	March 14, 2022	Rev growth	-15.4%	44.8%	16.8%	15.0%
Current Price:	VND55,800	EPS growth*	-27.2%	52.3%	21.7%	18.2%
Target Price**:	VND64,000	GPM	30.1%	31.8%	34.0%	35.3%
Upside to TP:	14.7%	NPM	17.9%	19.8%	21.2%	22.3%
Dividend Yield:	8.6%	EV/EBITDA	13.7x	8.3x	6.6x	5.4x
TSR:	+23.3%	P/CFO	27.8x	12.5x	8.8x	7.2x
Rating**:	BUY	P/E	16.7x	11.0x	9.0x	7.6x

Market Cap:	USD42.5mn
Foreign Room:	USD31.5mn
ADTV30D:	USD40,000
State Ownership:	0.0%
Outstanding Shares:	17.7 mn
Fully Diluted Shares:	18.6 mn
2021-2024F PEG	0.6

** Last updated on February 11, 2022

	GDT	Peers	VNI
P/E (ttm)	16.7x	10.7x	16.5x
P/B (curr)	3.7x	1.5x	2.5x
Net D/E	-10.8%	-3.0%	N/A
ROE (ttm)	22.7%	13.5%	15.5%
ROA (ttm)	15.6%	7.5%	2.6%

* Assuming dilution from ESOP and private placement



Company Overview

Duc Thanh Wood Processing JSC processes planted rubberwood into kitchenware, small houseware and toys. The company mainly exports to developed markets such as Japan, South Korea, Europe and the US.

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Strong recovery outlook; expansion into wooden furniture

We attended GDT's 2022 AGM in HCMC on March 12, 2022. Our key takeaways are as follows.

Approved proposals:

- GDT's business guidance for 2022 signals a strong recovery from COVID-19 disruptions on its manufacturing activities in H2 2021 — in line with our expectation. GDT's revenue/NPAT targets imply YoY growth of 47%/55% and account for 102%/97% of our forecasts.
- GDT's FY2021 dividend comprises of 1) a cash dividend of VND3,000/share — the first tranche of VND2,000/share was already paid in October 2021 — leaving VND1,000/share (1.7% dividend yield) to be paid in 2022; and 2) a 10% stock dividend (i.e., 10 existing shares will receive one additional share). A detailed timeline of the FY2021 second cash dividend tranche and stock dividend has not been announced.
- FY2022 dividend plan for VND4,000/share cash dividend (dividend yield of 7.0%).
- GDT will sell 259,000 treasury shares (1% of its outstanding shares) at VND40,000/share (30% discount vs current market price) to four individuals who are independent investors and have educational and business backgrounds in business administration, finance and consulting. According to GDT's management, the individuals have agreed to support GDT in developing its domestic business, which is currently underdeveloped. We note that domestic sales accounted for only 12% of GDT's 2021 revenue and have recorded almost no growth over the past decade.

Management believes the economic implications of the Russia-Ukraine conflict could hurt GDT's business in two ways:

- Input prices — especially paint and wood coatings — have been rising in accordance with higher petroleum prices. Nevertheless, management expects cost increases in input wood costs — GDT's biggest cost component — will be manageable over the short term because GDT has accumulated inventory that is equivalent to six months of production.
- Some Western customers' businesses could be disrupted, thus affecting their orders with GDT; however, no orders have been canceled or negatively impacted so far. We note that US and EU customers accounted for 21% of GDT's 2021 revenue.

Potential expansion into wooden furniture and medium-term outlook:

- GDT is negotiating to acquire a smaller business that produces wooden furniture. This business could cost USD3.0mn and generate USD5.0mn in annual revenue (33% of GDT's 2021 sales), per management. The business' factory is in Dong Nai Province (near HCMC). Per GDT, the owners of this business are acquaintances who are retiring.
- The wooden furniture industry is more fragmented and generates a lower return on capital on average compared to GDT's current business, which produces small wooden products — mostly wooden cutting boards. However, the size of the wooden furniture market is much larger.
- Given the above potential acquisition, we foresee potential upside to our profit forecasts but also dilution risk as management shared that GDT could raise capital to fund the above acquisition.

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + 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
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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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