



Duc Thanh Wood Processing (GDT) [BUY +33.7%]

Update Report

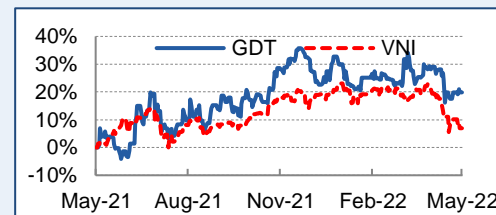
Industry:	Wood		2021	2022F	2023F	2024F
Report Date:	May 11, 2022	Rev growth	-15.4%	78.2%	12.5%	12.8%
Current Price:	VND50,800	EPS growth**	-25.6%	65.6%	13.7%	17.9%
Target Price:	VND63,700	GPM	30.1%	30.0%	31.0%	32.4%
Previous Target Price:	VND58,800	NPM	18.0%	18.0%	18.7%	20.0%
Upside to TP:	25.4%	EV/EBITDA	13.7x	7.2x	6.2x	5.1x
Dividend Yield:	8.3%	P/CFO	27.9x	13.6x	8.4x	6.8x
TSR:	+33.7%	P/E	16.4x	9.9x	8.7x	7.4x

Market Cap:	USD42.6mn
Foreign Room:	USD32.1mn
ADTV30D:	USD60,000mn
State Ownership:	0.0%
Outstanding Shares:	19.4 mn
Fully Diluted Shares*:	20.5 mn
2021-2024F PEG	0.5

* Adjusted for private placement and treasury share sales

	GDT	Peers	VNI
P/E (ttm)	16.1x	9.3x	14.1x
P/B (curr)	3.5x	1.2x	2.2x
Net D/E	-11.6%	-9.4%	N/A
ROE (ttm)	22.1%	13.3%	15.8%
ROA (ttm)	16.0%	6.6%	2.6%

** Adjusted for private placement, treasury share sales and ESOP



Company Overview

Duc Thanh Wood Processing JSC produces small wooden products such as chopping boards as well as large wooden furniture. The company mainly exports to developed markets such as Japan, South Korea, Europe and the US.

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New furniture factory adds to strong earnings rebound

- We maintain our BUY rating for GDT and raise our target price by 8% as we (1) incorporate the company's new furniture business into our forecast, (2) expect milder competition from China in the short term amid the country's strict COVID-19 containment policies, and (3) roll over our target price to mid-2023.
- We raise our aggregate 2022F-2024F NPAT by 6% due to factors (1) and (2) above. We forecast the new furniture business will contribute 6% to GDT's aggregate 2022-2024F NPAT.
- GDT's medium-term outlook is premised on (1) Vietnam's low labor costs that capitalize on trends of global supply chain diversification away from China, (2) GDT's small product business that enjoys mild competition as a niche market, and (3) ESG compliance that bolsters customer acquisition — especially in its secondary markets such as the US and the EU.
- GDT's valuation at 2022F/2023F P/E of 9.9x/8.7x looks attractive in our view as we believe the company deserves a premium vs a three-year average peer median of 8.2x given superior ROIC. In addition, we project an attractive cash dividend yield of 8%.
- Potential risks to our positive view: Labor cost inflation; rise in rubber timber costs amid contracting rubber plantations in Vietnam; downturn in the US housing market could dampen customer demand of the new furniture business; stricter ESG requirements from key export markets.

We expect a strong rebound in the small product business' revenue in 2022. Our conviction is backed by (1) a positive trend in customer orders in 4M 2022, (2) expected softer supply-chain disruptions from COVID-19 in Vietnam compared to 2021, and (3) milder competition from China in the short term amid the country's strict COVID-19 containment policies. To foster growth, GDT is adding equipment to its third factory, which will expand the production capacity of GDT's current products by 20%. Per management, the involved capex is small (e.g., ~VND10bn/USD430,000 per annum).

GDT's business is becoming less niche-focused due to a diversification into wooden furniture. The company's ROIC¹ has been superior to wooden furniture manufacturers, averaging 61% in 2017-2021; however, there was almost no revenue growth during the same period. Over the past two years, GDT's management has expressed its plan to grow more aggressively at the expense of profit margins and return on capital, which is evidenced by the company's recent foray into wooden furniture. In April 2022, GDT spent USD3mn to acquire 100% ownership of Duc Tam Wood Manufacturing and Exporting Ltd., a wooden furniture manufacturer in Dong Nai Province (near HCMC). This company's factory is operating at 80% capacity utilization and generating ~USD5mn in annual sales. This factory is set to begin contributing to GDT's earnings in Q3 2022. We forecast the new business' net profit margin and ROIC will reach only 8% and 13% in 2022 vs 18% and 65% of its small wooden product business, respectively.

¹ ROIC=EBIT*(1-Income tax rate)/Average(Equity + Debt – Cash – Short-term investments)

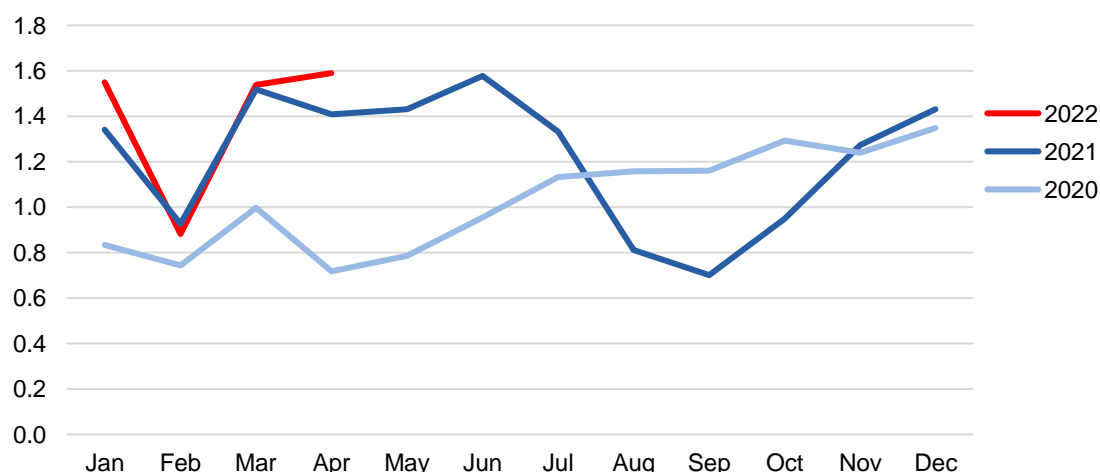
Q1 2022: Revenue recovery on track; GPM beat our expectation

Figure 1: GDT's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	Q1 2022 as % of 2022F old	VCSC comments
Revenue	100	108	8%	22%	Revenue growth mainly came from the EU, accounting for 25% of GDT's Q1 2022 revenue vs 16% in Q1 2021. We attribute this to the trend of global supply chain diversification away from China and GDT's obtainment of new ESG certificates in 2020, which helped it to gain new Western customers. As of April 21, GDT has received total customer orders worth USD10mn (VND230bn) that are slated for shipment in 2022.
Gross profit	33	35	6%	23%	
Selling expenses	-5	-5	-2%	21%	
G&A expenses	-9	-8	-9%	30%	G&A expenses declined despite higher sales because of lower bonuses for employees recognized in Q1 2021 following weak 2021 business results.
EBIT	20	23	13%	21%	
Financial income	3	4	29%	26%	
Financial expenses	-1	-1	32%	40%	
Other non-ops	0	0	N.M.	N.M.	
PBT	22	25	13%	21%	
NPAT	18	20	13%	21%	
Margins					
GPM	33.2%	32.4%			Q1 2021 GPM compressed as input wood price increased and GDT increasingly sacrificed profit margins for growth. Having said that, the company increased selling prices and its Q1 2022 GPM beat our expectation.
SG&A as % of sales	13.2%	11.4%			
EBIT margin	20.0%	21.0%			
EBITDA margin	21.8%	22.7%			
NPAT margin	17.9%	18.5%			

Source: GDT, VCSC

Figure 2: Vietnam's wood and wooden product exports (USD bn) returned to growth in late 2021 after slumping in July-October 2021 due to COVID-related supply chain disruptions



Source: Vietnam Customs, VCSC

2022 Outlook: Robust customer orders, new furniture business to elevate earnings growth

Figure 3: VCSC's forecasts for 2022

VND bn	2021	2022F old	2022F new	2022F new vs 2021	2022F new vs 2022F old	VCSC comments on 2022F
Revenue (VND bn)	339	490	603	78%	23%	
Small wooden products	339	490	506	49%	3%	Mainly thanks to a rebound in sales volume as we assume reduced COVID-related disruptions on production. Furthermore, we expect GDT's customer acquisition in the EU and US markets will continue to make progress. Meanwhile, the pandemic's disruptions on Chinese production have led us to raise our sales forecast.
Wooden furniture	0	0	100	N.M.	N.M.	Equivalent to 80% capacity utilization, which is the same level before GDT's acquisition of the business. We expect it will take time for GDT to reorganize management and reinforce relationships with furniture customers before it can improve capacity utilization as per its management's plans.
Gross profit	102	156	181	77%	16%	
Selling expenses	-15	-22	-27	78%	20%	Lifted by the new furniture business.
G&A expenses	-24	-26	-30	28%	16%	Lifted by expenses of the new furniture business, partly offset by lower expenses related to COVID-19 containment vs 2021.
EBIT	63	108	124	96%	15%	
EBITDA	70	115	132	89%	15%	
Financial income	17	17	16	-2%	-7%	
Financial expenses	-4	-4	-5	30%	29%	
Other non-operating items	0	0	0	-100%	N.M.	
PBT	76	122	136	78%	12%	
NPAT	61	97	109	79%	12%	
DPS, FY (VND)	3,200*	4,454*	4,200	40%	-6%	We trim our FY2022 DPS forecast despite higher earnings projections because we expect GDT to reserve more operational cash after its recent investment in the furniture business.
Margins						
GPM	30.1%	31.8%	30.0%			We expect flat 2022F GPM compared to 2021. GPM is supported by selling price hikes, economies of scale (including higher workforce utilization), and labor productivity improvements backed by investments in automation. However, these factors are offset by the contribution of the furniture, which has lower GPM than small products. This leads to us revising down our 2022F GPM to 30.0% compared to 31.8% as previously. For the small product business, we nudge up our GPM forecast because Q1 2022 GPM beat our expectation.
SG&A as % of revenue	11.4%	9.8%	9.4%			
EBIT margin	18.7%	22.0%	20.6%			
EBITDA margin	20.6%	23.4%	21.9%			
NPAT margin	18.0%	19.8%	18.0%			
Effective tax rate	20.4%	20.0%	20.0%			

Source: VCSC; *adjusted for the 10:1 stock split in January 2022.

Valuation

We continue to employ the dividend discount model (DDM) to arrive at a fair value for GDT given the company's consistently high payout ratios. In addition, the DDM model captures the dilution from GDT's potential ESOP issuances in the future as our projected EPS and in turn dividend per share (DPS) already factor in projected new ESOP shares to be issued.

The beta of 0.7 used in our DDM model is derived from a regression of the stock's three-year weekly returns against the weekly returns of the VN-Index.

Our reference peer group consists of wooden product manufacturers in Vietnam and other Asian countries.

In this report, we roll our target price to mid-2023 vs end-2022 previously.

Our target price implies 2022F/2023F P/E ratios of 12.4x/10.9x, which are higher than a three-year average of the peer median TTM P/E of 8.2x and GDT's three-year average TTM P/E of 9.1x. We believe the company deserves a valuation premium vs both its peers and its historical earnings multiples because of (1) GDT's much stronger ROIC vs peers and (2) our forecast of higher earnings growth for GDT over the next few years vs recent years.

Figure 4: Summary of VCSC's valuation for GDT

Cost of Capital	Previous report	Revised	DDM	VND
Beta	0.7	0.7	Present value of DPS paid during calendar years to 2026F	22,355
Market risk premium	7.0%	7.0%	Present value of terminal val (g=2%) per share	41,369
Risk-free rate	5.5%	5.5%	Fair value per share	63,725
Cost of equity	10.4%	10.4%		
Target price				63,700
Implied 2021/2022F/2023F P/E at TP				20.5x/12.4x/10.9x

Source: VCSC

Figure 5: VCSC's cash dividend projections for GDT

VND	2021	2022F	2023F	2024F	2025F	2026F
EPS, financial year	3,101	5,134	5,838	6,881	7,962	9,255
DPS, financial year*	3,000	4,200	5,600	6,700	7,600	9,100
DPS to be paid during calendar year*		3,100	4,900	6,200	7,100	8,300
Present value of DPS in calendar year		2,950	4,224	4,841	5,022	5,318
Cumulative PV of DPS paid during calendar year		2,950	7,175	12,016	17,038	22,355

Source: VCSC. * Based on GDT's historical norm, we assume GDT's cash dividends for each financial year will be paid in two tranches: one during the same calendar year and the other during the subsequent calendar year.

Figure 6: Sensitivity analysis of our target price for GDT in relation to cost of equity and terminal growth rate, ceteris paribus

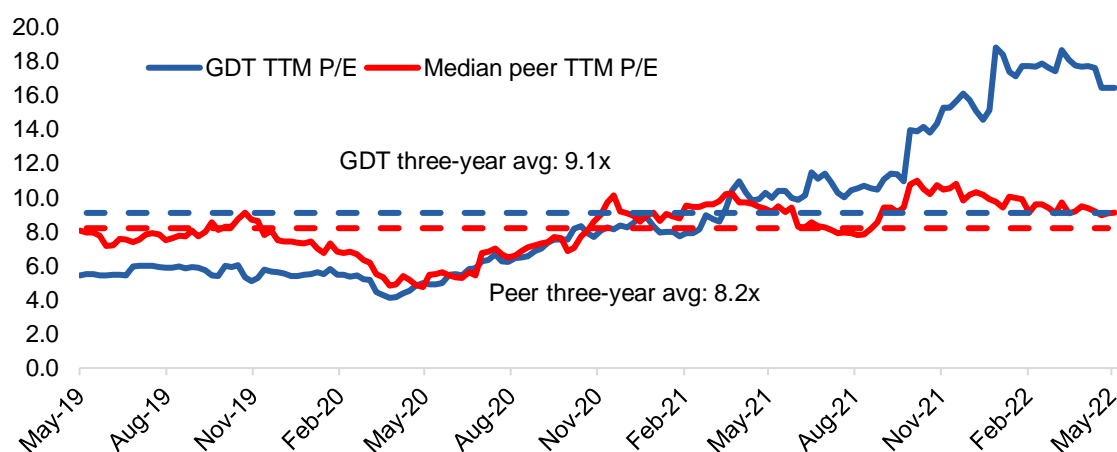
GDT Target Price (VND)		Cost of equity				
Terminal growth (g)		9.4%	9.9%	10.4%	10.9%	11.4%
	0%	60,100	57,500	55,100	53,000	51,100
	1%	65,000	61,800	59,000	56,400	54,100
	2%	71,300	67,300	63,700	60,600	57,900
	3%	79,500	74,300	69,800	65,900	62,500
	4%	90,700	83,600	77,700	72,700	68,300

Source: VCSC

Figure 7: Comparable universe

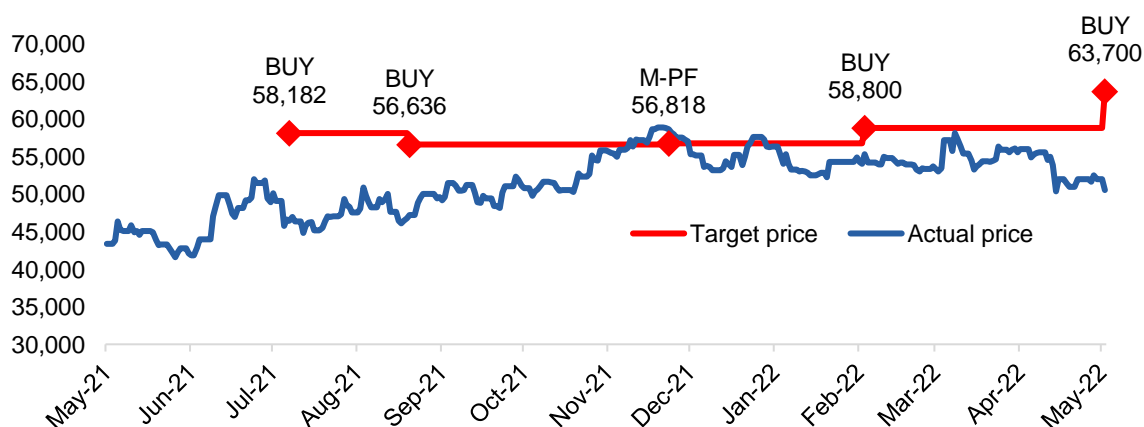
Company name	Country	Market Cap (USD mn)	TTM Sales Growth	TTM NPAT Growth	TTM ROE	TTM ROA	Net D/E	TTM GPM	TTM NPM	MRQ PBR	TTM EV/EBITDA	TTM PER
Integra Indocabinet Tbk Pt	Indonesia	301	85%	71%	16%	8%	66%	35%	10%	1.2x	6.4x	8.1x
S.Kijichai Enterprise Pcl	Thailand	210	69%	376%	28%	20%	-9%	44%	19%	2.3x	6.3x	9.3x
Phu Tai Corp	Vietnam	209	18%	39%	25%	10%	75%	22%	8%	1.9x	6.5x	8.4x
Truong Thanh Furniture Corp	Vietnam	183	44%	N/A	N/A	2%	-49%	17%	3%	10.6x	59.0x	76.6x
Lii Hen Industries Bhd	Malaysia	126	-20%	-49%	9%	6%	-25%	16%	5%	1.2x	6.4x	14.2x
Latitude Tree Holdings Bhd	Malaysia	66	-1%	-50%	4%	3%	-19%	12%	3%	0.5x	2.9x	8.7x
Homeritz Corp Bhd	Malaysia	55	0%	18%	13%	11%	-41%	N/A	15%	1.1x	3.6x	8.5x
Quang Tri Mdf Geruco Wood Fa	Vietnam	38	23%	243%	12%	7%	56%	19%	8%	1.2x	5.4x	10.3x
Nam Hoa Trading & Production	Vietnam	23	5%	-16%	23%	6%	81%	18%	6%	2.2x	9.0x	11.8x
Savimex Corp	Vietnam	17	7%	-10%	14%	8%	-5%	14%	4%	1.2x	5.7x	8.0x
Thuan An Wood Processing Jsc	Vietnam	7	-10%	-14%	9%	3%	-49%	8%	3%	0.9x	4.3x	9.8x
Median		66	7%	4%	13%	7%	-9%	17%	6%	1.2x	6.3x	9.3x
Average		112	20%	61%	15%	8%	7%	21%	8%	2.2x	10.5x	15.8x
Duc Thanh Wood Processing		43	-17%	-24%	22%	16%	-12%	30%	18%	3.5x	13.1x	16.1x

Source: Bloomberg, VCSC (as of May 11, 2022)

Figure 8: GDT's historical TTM PER vs peer median TTM PER


Source: VCSC, Bloomberg

Recommendation History

Figure 9: Historical VCSC target prices vs share prices (VND, adjusted for share splits)


Source: VCSC, Bloomberg

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F	BS (VND bn)	2021	2022F	2023F	2024F
Revenue	339	603	679	766	Cash & equivalents	1	86	107	115
COGS	-237	-422	-469	-517	ST investment	88	50	50	50
Gross Profit	102	181	210	248	Accounts receivable	27	66	74	84
Selling exp	-15	-27	-30	-34	Inventories	94	127	141	156
General & admin exp	-24	-30	-36	-39	Other current assets	4	12	14	15
Operating Profit	63	124	144	175	Total current assets	214	341	386	420
Financial income	17	16	19	22	Gross fixed assets	169	235	250	265
Financial expense	-4	-5	-5	-6	- Accumulated D&A	-72	-90	-101	-112
- o/w interest expense	-1	-2	-2	-2	Net fixed assets	97	145	149	154
Associates	0	0	0	0	LT investment	32	0	0	0
Net other income/(loss)	0	0	0	0	Other LT assets	38	36	37	38
Profit before Tax	76	136	158	191	Total LT assets	167	181	186	191
Income tax	-16	-27	-32	-38	Total Assets	381	522	572	611
NPAT before MI	61	109	127	153	Accounts payable	15	38	40	44
Minority interests	0	0	0	0	Short-term debt	61	93	105	117
NPAT less MI, reported	61	109	127	153	Other ST liabilities	36	48	54	61
NPAT less MI adjusted ⁽¹⁾	61	109	127	153	Current liabilities	111	179	200	223
EBITDA	70	132	155	187	Long-term debt	0	0	0	0
EPS basic reported, VND	3,101	5,134	5,838	6,881	Other LT liabilities	4	7	7	8
EPS basic adjusted, VND ⁽¹⁾	3,101	5,134	5,838	6,881	Long-term liabilities	4	7	7	8
EPS fully diluted, VND ⁽¹⁾	3,101	5,134	5,838	6,881	Total liabilities	116	186	207	231
DPS, VND	3,000	4,200	5,600	6,700	Preferred equity	0	0	0	0
DPS/EPS (%)	97%	82%	96%	97%	Share capital	180	188	199	199
⁽¹⁾ Adjusted for one-offs					Share premium	6	22	22	22
RATIOS	2021	2022F	2023F	2024F	Retained earnings	64	108	126	142
Growth					Other equity	15	18	18	18
Revenue	-15.4%	78.2%	12.5%	12.8%	Minority interest	0	0	0	0
EBIT	-26.7%	95.8%	16.2%	21.5%	Total equity	265	336	365	380
PBT	-23.7%	78.1%	16.6%	20.8%	Total liabilities & equity	381	522	572	611
EPS, adjusted	-25.6%	65.6%	13.7%	17.9%					
Profitability					Y/E Shares out (mn)	19.4	20.5	21.6	21.6
Gross Profit Margin	30.1%	30.0%	31.0%	32.4%	Y/E Treasury shares (mn)	0.3	0.1	0.1	0.1
Operating Profit Margin	18.7%	20.6%	21.3%	22.9%	CASH FLOW (VND bn)	2021	2022F	2023F	2024F
EBITDA Margin	20.6%	21.9%	22.8%	24.4%	Beginning Cash	1	1	86	107
Net margin, reported	18.0%	18.0%	18.7%	20.0%	Net Income	61	109	127	153
ROE	22.7%	36.1%	36.1%	41.1%	Dep. & Amortization	6	8	10	11
ROA	15.6%	24.1%	23.2%	25.9%	Δ in working cap.	-11	-45	-15	-15
					Other adjustments	-21	1	-4	-5
Efficiency					Cash from Operation	35	73	118	145
Days Inventory On Hand	128	96	105	105	Capital expenditure, net.	-5	-6	-15	-15
Days Acct. Receivable	37	28	38	38	Net other investments	37	20	0	0
Days Acct. Payable	25	21	29	29	Cash from Investment	32	14	-15	-15
Cash Conversion Days	139	103	113	114					
Liquidity					Dividends Paid	-71	-62	-104	-133
Current ratio	1.9	1.9	1.9	1.9	Δ in Share Capital	17	27	10	0
Quick ratio	1.0	1.1	1.2	1.1	Δ in ST debt	-2	33	12	12
Cash ratio	0.8	0.8	0.8	0.7	Δ in LT debt	0	0	0	0
Debt/Assets	0.2	0.2	0.2	0.2	Other financing C/F	-11	0	0	0
Debt/Capital	0.2	0.2	0.2	0.2	Cash from Financing	-67	-2	-82	-121
Net Debt / Equity	-0.1	-0.1	-0.1	-0.1	Net Changes in Cash	0	84	21	8
Interest Coverage x	66.8	80.6	72.6	78.7	Ending Cash	1	86	107	115

Source: VCSC, GDT; All EPS measures are adjusted for private placement, treasury share sales and ESOP. GDT plans to issue 840,000 shares in a private placement and sell 259,000 treasury shares to its suppliers and partners in 2022.



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%
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