

NO-RATING

Current price: VND 63,000

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CONSUMER- VIETNAM

Key figures

Market cap (USD mn)	330
Market cap (VND bn)	7,531
Outstanding shares (mn)	120
52W high/low (VND 1,000)	74.5/31.3
Average 3M volume (share)	205,647
Average 3M value (USD mn)	0.59
Average 3M value (VND bn)	13.32
Foreign ownership (%)	40.62
State ownership (%)	0

Source: SSI Bloomberg

PAN Price & Trading Volume



Source: Bloomberg

Company Snapshot

PAN was founded in 1998 as a private company, and transitioned into a joint stock company in 2005 with an initial chartered capital of VND 6.2 bn. It acquired an 80% stake of Pan Pacific Hanoi JSC in 2005 in order to position itself nationwide in the industrial cleaning services segment.

2018 AGM Notes

We attended PAN's Annual General Meeting on 21 April 2018, with key takeaways from the meeting highlighted as below:

2018 business plan

VNDbn	2018	YoY growth
Consolidated net revenue	8,786	+116%
Consolidated net profit	538	+7%
Net profit attributable to parent company	293	-21%
Bonus and Welfare fund	5%	unchanged
Dividend on par	10%	N/A

Source: PAN

- For 2018, PAN targets consolidated revenue and net profit to reach VND 8.786tn (+116% YoY) and VND 538bn (+7%) respectively. Net income attributable to shareholders is targeted on a conservative basis to reach VND 293bn (-21% YoY). It should be noted that in 2017, PAN recorded VND 241bn in financial income thanks to the revaluation of the investment value in BBC after having gained controlling stakes in the company. Key revenue and net profit growth is to be mainly driven by (1) full consolidation of BBC for full year 2018 instead of just 6 months as in 2017, (2) consolidation of FMC in 2018 and (3) positive growth of the seed business (NSC) as well as new developments of Pan Food Manufacturing JSC.
- Regarding further outlook, PAN management aims to achieve a consolidated net revenue of \$1bn USD and net profit of \$95-100 mil USD by 2022 PAN will issue 2.5m in ESOP shares for select employees at VND 10,000/share, equal to 2.1% of its chartered capital. 50% of ESOP shares will be unlocked upon 2 years from the issuance date; the remaining 50% will become unlocked the following year.

Strategic partner and ongoing capital raising deal

PAN is still currently under negotiations with a potential strategic partner for a private placement deal, which is expected to be completed by July 2018. PAN's management disclosed that its partner is a reputable global distributor who will strongly support the company in terms of product distribution globally, e.g. rice, pangasius, shrimp, cashew nut, and other food products, as well as helping to improve product quality and other issues.

2018 M&A plan

PAN's management shared that the company will continue to execute another M&A deal in 2018, as well as increasing ownership in existing subsidiaries and associates. Funding sources will originate from both existing subsidiaries' own capital and capital raising activities

In the past, PAN M&A strategies focused on targeting at leading players in farm and food industry for acquisition purposes. Additionally, this year it will aim at companies with good but under-utilized assets that could be restructured post acquisition to achieve robust growth in the future

Dividend plans

PAN explained that it used the company's own capital for investments in 2017. This included the construction of a factory in baked goods products, which is part of the plan for Phase 1 of the Long An master plant., increasing ownership in BBC and 584 Nha Trang JSC, and acquiring Sao Ta Foods JSC (FMC: HOSE). Furthermore, the Company has earmarked capital for partial funding for new M&A deals in 2018, and therefore proposed not to pay out a 2017 dividend at the 2018 AGM. The proposal was approved by the AGM.

Regarding 2018 dividend plan, PAN targets to pay out a 10% dividend on par value for 2018, implying a 2% dividend yield based on the current price of VND 64,000/share.

2017 business review

In 2017, PAN achieved a consolidated revenue of VND 4.075tn, increasing by 48% YoY, surpassing 132% of the annual target. Impressive topline growth was mainly attributable to: (1) 88% YoY growth of the food business (PAN Food JSC), mainly driven by strong growth of Lafooco JSC (LAF: HOSE), as well as full consolidation of Bibica JSC (BBC: HOSE) from 3Q 2017; and (2) 15% YoY growth of the farm business (PAN Farm JSC).

Regarding bottom lines, PBT and net profit attributable to PAN parent company shareholders recorded on a respective basis VND 544bn, up 41 % YoY; and VND 372bn, up 45%YoY. Last year, significant profit sourced from the agriculture business (PAN Farm JSC), especially from the National Seed Company JSC (NSC: HOSE) and Southern Seed Company JSC (HOSE: SSC); better cost control leading to a reduced COGS of the food business and consolidation with BBC were key drivers for the bottom line growth. Excluding the above mentioned one-off item in 2017, PAN NPATMI should have grown by 8% YoY in 2017.

PAN Food: The confectionery, fishery, fish sauce, and cashew nut businesses together accounted for 63% of total PAN revenue in 2017 (vs 49% in 2016).

Confectionery: Including PAN Food JSC parent company, Pan Food Manufacturing JSC (PFM) and BBC

2017 business performance

VNDbn	Revenue	Gross profit	Operating profit	NPAT
PAN Food parent company	79.3	13.6	17.2	17
YoY	30%	74%	-8%	-8%
BBC	1,289.9	409.3	118.1	97
YoY	2%	-8%	13%	20%

Source: PAN

In 2017, PAN Food JSC parent company recorded revenue of 30% YoY, a by product of focusing on building its new distribution network for introducing new products such as Rosio sponge cake, Huro probiotics candy, PAN food moon cake, Bon ami cookies, Ban Mai rice, and other products.

PAN has been consolidating BBC since 3Q 2017. In 2017, BBC achieved net revenue and net profit of VND 1.289tn (up 2% YoY) and VND 97bn (up 20% YoY). Last year, BBC's selling expense to sales ratio declined to 18.6% from that of 22.4% in 2016, leading to an improvement in operating margin by 1.5pts to 9.1% in 2017 (vs that of 7.6% in 2016). As such, BBC bottom line growth was encouraging at 20% YoY, particularly given the drag in the form in revenue and gross profit growth of 2% YoY and -8% YoY, respectively.

PFM officially launched its new products from November 2017, distributing its products through PAN Food's network.

Fisheries: Including ABT and FMC

2017 business performance

VNDbn	Revenue	Gross profit	Operating profit	NPAT
ABT	383.7	48.1	32.9	28.2
YoY	-9%	-35%	-40%	-41%
FMC*	3,248.6	272	125.3	122.3
YoY	7%	8%	27%	30%

Source: PAN; * for financial year from 1st Oct 2016-30th Sept 2017

ABT businesses faced many difficulties in 2017 due to persistent issues of saltwater intrusion into its farming area since 2016, a fingerlings fish shortage in first months of 2017, and unfair competition in the clam market. As such, its 2017 net revenue and net profit declined by 9% YoY and 41% YoY, recording VND 384bn and VND 28bn, respectively. But in Q4/2017, when the new farming technology started being applied, ABT started seeing their margins improved – especially gross margin.

FMC became PAN's associate in November 2017, with a 20.1% ownership through ABT. In 2017, FMC reported net revenue of VND 2.349tn up 7% YoY and a net profit of VND 122bn, up 30% YoY, for financial year from 1st Oct 2016-30th Sept 2017. In 2017, FMC reported on a respective basis impressive export growth of 88% YoY and 74% YoY to the EU and America. Net profit advanced significantly, thanks to the success in shrimp farming which enlarged GPM in the process. In 2017, FMC recorded a net profit of VND 54bn from farming shrimp, vs. that of VND 16bn in 2016.

Cashew nut (LAF) and fish sauce (584 Nha Trang JSC)

2017 business performance

VNDbn	Revenue	Gross profit	Operating profit	NPAT
LAF	1,300.6	21.8	-5.7	4.1
YoY	48%	-61%	N/A	-83%
584 Nha Trang JSC	269.6	52.3	13.4	11.7
YoY	26%	12%	-3%	-4%

Source: PAN

Regarding LAF, in 2017 the company expanded exports in the EU and the US, with export growth of 90% in each market. As such, LAF revenue advanced by 48% YoY in 2017, posting VND 1.3 tn. However, due to a surge in cashew raw material costs corresponding with low productivity of cashew plantations in Vietnam, LAF bottom line declined by 83% YoY, achieving only VND 4bn last year.

PAN increased ownership in 584 Nha Trang JSC, from 22.4% to 31.86% in 2017. The associate achieved net revenue of VND 269.6bn, up 26% YoY; while net profit came to VND 11.7bn, declining by -4% YoY in 2017. The slight decline in net profit of the company was attributable to the ramp up in raw material inputs.

PAN Farm: Including the seed business (NSC) and flower plantation (PAN salad bowl JSC), it accounted for 37% of total PAN revenue (vs.48% in 2016).

2017 business performance

VNDbn	Revenue	Gross profit	Operating profit	NPAT	NPATMI
NSC	1,512.6	560.7	252.2	234.6	210.8
YoY	14%	12%	18%	22%	20%

Source: PAN

PAN Farm JSC revenue mainly originated from NSC in 2017, which recorded on a respective basis VND 1.512tn (+14% YoY) and VND 234.6bn (+22% YoY) in net revenue and net profit. NSC has a market tradition in achieving consistently sustainable growth, anchoring it as the leading seed company in the industry.

In 2017, PAN salad bowl JSC recorded modest revenue of VND 8bn, up 178% YoY, after more than 1 year of establishment.

Estimates

For 2018, we forecast PAN 2018 net revenue to achieve VND 9.705tn, up 132% YoY. Net profit will achieve VND 662bn (+32% YoY). NPATMI may reach VND 343bn (-7.7% YoY). EPS will be VND 2,708 (-7.7% YoY).

For 2019, we expect 2019 PAN core net revenue to achieve VND 12.007tn (+24% YoY). Net income may reach VND 747bn (+13% YoY). NPATMI might reach VND 381bn (+11% YoY). 2019 EPS is projected to reach VND 3,009 (+11% YoY).

At the current price of VND 63,000/share, PAN is trading on a respective basis 2018 and 2019 P/E levels of 23x and 21x, still lower when compared with average PER metrics of other Vietnamese consumer companies ranging from 25x-30x.

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- ❖ Neutral: The analyst expects the performance of the industry over the next 6-12 months to be in line with the relevant broad market
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**The market required rate of return is calculated based on 5-year Vietnam government bond yield and market risk premium derived from using Relative Equity Market Standard Deviations method. Our rating bands are subject to changes at the time of any significant changes in the above two constituents.*

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