

# Ha Tien 1 Cement JSC (HT1: HOSE)



**MARKET PERFORM – 1Y Target Price: VND 17,100**

**Current price: VND 16,400**

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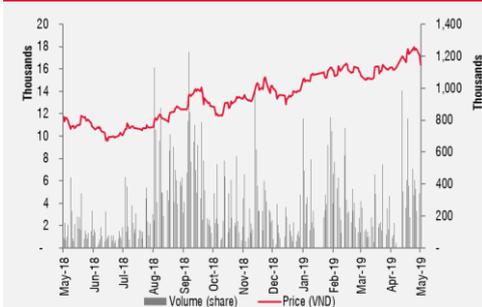
**MATERIALS - VIETNAM**

## Key figures

Market cap (USD mn)	268
Market cap (VND bn)	6,257
Outstanding shares (mn)	382
52W high/low (VND 1,000)	18.2/10.6
Average 3M volume (share)	270,363
Average 3M value (USD mn)	0.19
Average 3M value (VND bn)	4.43
Foreign ownership (%)	6.30
State ownership (%)	79.69
Management ownership (%)	N.a

Source: SSI Bloomberg

## HT1 Price & Trading Volume



Source: Bloomberg

## Company Snapshot

Founded in 1964, Ha Tien 1 was formerly known as Ha Tien Cement Factory in Southern Vietnam with designed capacity of 240,000 tons of clinker in Kien Luong – An Giang Province, and 280,000 tons of cement in Thu Duc – Ho Chi Minh City.

In 1993, Ha Tien Cement Factory was divided into two companies, including Ha Tien 1 (with designed capacity of 0.8mn tons of cement per year in Thu Duc), and Ha Tien 2 (HT2, with designed capacity of 1.1mn tons clinker and 0.5mn tons cement per year). HT1 was listed on the Ho Chi Minh City Stock Exchange (HOSE) in 2007 with a chartered capital of VND 870bn.

In 2010, HT1 merged with HT2 to form the biggest cement producer in Vietnam.

## EARNINGS UPDATE

### Positive earnings growth in 1Q19, with strong sales volume and lower forex loss

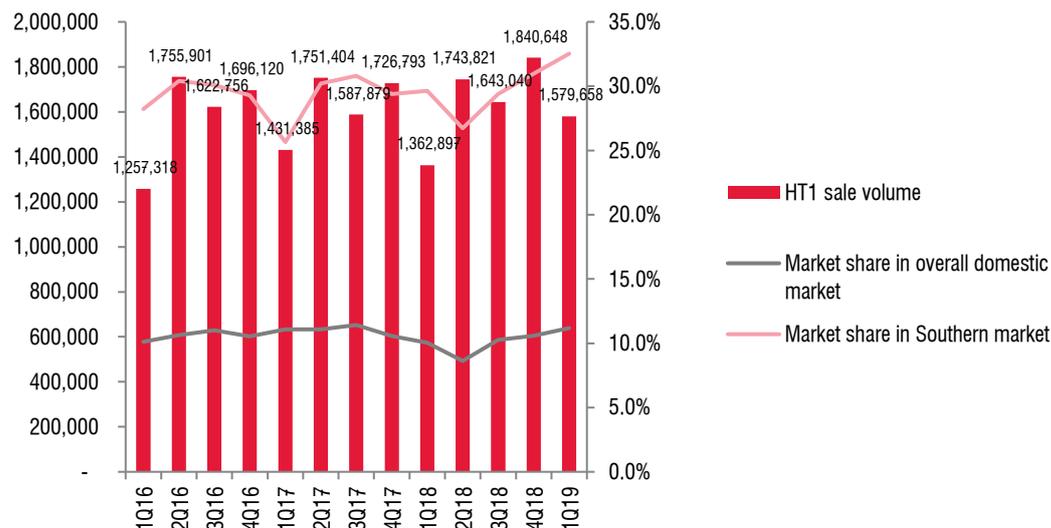
#### 1Q19 results

(bn VND)	1Q19	1Q18	YoY	4Q18	QoQ	% annual target completed	Margin			
							1Q19	1Q18	4Q18	2018
Net sales	1,999	1,840	8.6%	2,317	-13.7%	22%				
Gross profit	265	274	-3.3%	412	-35.7%		13.2%	14.9%	17.8%	16.4%
Operating profit	197	170	16.0%	342	-42.3%		9.9%	9.2%	14.7%	10.6%
EBIT	198	174	13.3%	339	-41.7%		9.9%	9.5%	14.6%	11.1%
EBITDA	374	355	5.2%	519	-28.0%		18.7%	19.3%	22.4%	19.9%
Pretax profit	135	102	32.0%	252	-46.6%	15%	6.7%	5.5%	10.9%	7.3%
Net income	106	82	29.3%	203	-48.1%		5.3%	4.4%	8.8%	5.9%
NI attributable to shareholders	106	82	29.2%	203	-48.1%		5.3%	4.4%	8.8%	5.9%

Source: HT1, SSI Research

**Significant volume growth in 1Q19:** HT1 revenue during Q1 came in at VND 1,999 bn, attaining a positive growth of 8.6% YoY. Cement sales volume in the recent quarter has risen by 15% YoY, which is higher than the overall growth of total domestic sales volume, as well as total sales in the southern market (4% and 6%). This result is driven by the company's focus in pushing sales through its project channel, where HT1 has a strong advantage in terms of its brand name compared to other competitors. It is reflected in the sale volume growth of bulk cement of over 40%YoY compared to the growth of 5% in bag cement. As a result, the market share of HT1 improved significantly from 10.1% in 1Q18 to 11.1% for Q1 this year.

## HT1 quarterly sale volume and market share



Source: Vietnam Cement Association

**Margin contraction due to change in product mix:** The gross margin dropped by 1.7 ppts to 13.2% from 14.9% in Q1 2018, due to a higher input cost and change in the product mix. The price of coal, which accounts for around 40% of clinker production costs, went flat YTD, but still increased by 15% on a YoY basis. Additionally, while the share of outsourced cement vs. total sales volume in Q1 2019 remained stable at 10% as was the case in 1Q18 last year, the share of bulk cement increased significantly from 28% in 1Q18 to 35% in Q1, as the company pushed the sales volume of large projects. As the profit margin of bulk cement can be 10% lower than bag cement, the increase in total revenue generated by bulk cement was a double-edged sword, as it also led to the decrease in overall margins.

**Net financial expenses continued to decline significantly** to VND 51 bn from VND 104 bn in 1Q18, thanks to both deleveraging and lower exchange rate losses. More specifically, interest expenses dropped by -13% from VND 72 bn to VND 63 bn, thanks to an ongoing long-term debt down payment of VND 974 bn over the last 4 quarters. In addition, the depreciation of EUR against VND by 1% also brought a foreign exchange gain of VND 15 bn in Q1 compared to a loss of VND 31 bn in 1Q18 last year, when the EUR appreciated by 3% against the VND.

Accordingly, PBT in Q1 reached VND 135 bn, attaining positive growth of 32% YoY. Excluding the impact from exchange rate loss, PBT would decrease by 10% due to the contraction in gross margin.

## 2019 plan

For 2019, HT1 set revenue and PBT target at VND 8,927 bn and 917 bn, equivalent to a positive growth of 6.6% and 13.8% respectively. Sales volume of cement and clinker are targeted at 7.2 mn tons and 650,000 tons, which increased by 5.6% and 17.6% YoY.

## Business outlook and earnings estimates

We expect the HT1 gross margin in the coming quarters to improve from the low base set in Q1. Although the electricity price has increased by 8% in March, we estimated that the recent 3% increase in the HT1 cement price can more than offset higher energy costs. On the other hand, sales volume growth may slow down in the coming time, as sales volume hit a low base in 1Q18, only to then recover in subsequent quarters last year.

We maintain our forecast for HT1 2019 revenue and PBT at VND 8.858 tn (+6% YoY) and VND 961 bn (+19% YoY). We expect cement sales volume in 2019 to reach 7.1 mn tons, equivalent to a YoY growth of 4%. We assume that the VND would depreciate against USD and EUR by 3% in 2019.

## Valuation and investment view

At the current price, HT1 is trading at PER 2019 and 2020 forwards of 9.0x and 8.7x respectively. We believe that the stock price has reflected the 2019 earnings recovery. We maintain our Market Perform rating for the stock, with a 1-year TP of VND 17,100/share based on a target PE and EV/EBITDA of 8x and 6x respectively.

## APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2017	2018	2019F	2020F
<b>Balance Sheet</b>				
+ Cash	347	776	807	1,439
+ Short-term investments	0	10	0	0
+ Account receivables	526	462	479	496
+ Inventories	832	654	685	712
+ Other current assets	18	28	27	28
<b>Total Current Assets</b>	<b>1,723</b>	<b>1,931</b>	<b>1,997</b>	<b>2,675</b>
+ LT Receivables	11	12	12	13
+ Net Fixed Assets	8,149	7,479	7,341	7,181
+ Investment properties	0	0	0	0
+ LT Assets in progress	957	990	990	990
+ LT Investments	40	27	0	0
+ Other LT Assets	199	199	211	219
<b>Total Long-Term Assets</b>	<b>9,356</b>	<b>8,705</b>	<b>8,555</b>	<b>8,403</b>
<b>Total Assets</b>	<b>11,080</b>	<b>10,636</b>	<b>10,552</b>	<b>11,078</b>
+ Current Liabilities	3,249	3,729	3,654	3,801
In which: ST debt	1,984	2,120	2,195	2,283
+ Non-current Liabilities	2,642	1,727	1,024	685
In which: LT debt	2,635	1,719	1,024	685
<b>Total Liabilities</b>	<b>5,890</b>	<b>5,455</b>	<b>4,678</b>	<b>4,486</b>
+ Contributed capital	3,816	3,816	3,816	3,816
+ Share premium	71	71	71	71
+ Retained earnings	923	767	1,459	2,178
+ Other capital/fund	380	527	528	528
Shareholders' Equity	5,189	5,181	5,873	6,592
<b>Total Liabilities &amp; Equity</b>	<b>11,080</b>	<b>10,636</b>	<b>10,552</b>	<b>11,078</b>
<b>Cash Flow</b>				
CF from operating activities	925	1,856	1,123	1,383
CF from investing activities	-35	-75	-473	-500
CF from financing activities	-1,028	-1,351	-619	-251
Net increase in cash	-139	429	30	632
Beginning cash	486	347	776	807
Ending cash	347	776	807	1,439
<b>Liquidity Ratios</b>				
Current ratio	0.53	0.52	0.55	0.70
Acid-test ratio	0.27	0.33	0.35	0.51
Cash ratio	0.11	0.21	0.22	0.38
Net debt / EBITDA	2.74	2.03	1.50	1.06
Interest coverage	2.93	3.92	5.15	5.81
Days of receivables	18.6	16.6	14.2	14.3
Days of payables	44.1	49.7	51.6	46.5
Days of inventory	43.3	38.9	33.4	33.5
<b>Capital Structure</b>				
Equity/Total asset	0.47	0.49	0.56	0.60
Liabilities/Total Assets	0.53	0.51	0.44	0.40

VND Billion	2017	2018	2019F	2020F
<b>Income Statement</b>				
<b>Net Sales</b>	<b>8,209</b>	<b>8,376</b>	<b>8,858</b>	<b>9,177</b>
COGS	-6,866	-6,973	-7,316	-7,610
<b>Gross Profit</b>	<b>1,343</b>	<b>1,403</b>	<b>1,542</b>	<b>1,566</b>
Financial Income	17	32	9	9
Financial Expense	-477	-314	-254	-219
<b>Income from associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Selling Expense	-123	-135	-142	-147
Admin Expense	-192	-188	-195	-211
<b>Income from business operation</b>	<b>568</b>	<b>798</b>	<b>961</b>	<b>998</b>
Net Other Income	32	8	0	0
Profit Before Tax	600	806	961	998
<b>Net Income</b>	<b>486</b>	<b>645</b>	<b>769</b>	<b>799</b>
<b>NI attributable to shareholders</b>	<b>488</b>	<b>645</b>	<b>769</b>	<b>799</b>
Minority interest	-2	0	0	0
Basic EPS (VND)	1,278	1,690	1,813	1,884
BVPS (VND)	13,577	13,555	15,370	17,254
Dividend (VND/share)	1,500	0	0	0
EBIT	912	1,082	1,193	1,206
EBITDA	1,631	1,810	1,830	1,866
<b>Growth</b>				
Sales	-0.3%	2.0%	5.8%	3.6%
EBITDA	-20.2%	11.0%	1.1%	2.0%
EBIT	-33.3%	18.6%	10.3%	1.1%
NI	-39.9%	32.7%	19.2%	3.9%
Equity	-0.1%	-0.2%	13.4%	12.2%
Chartered Capital	0.0%	0.0%	0.0%	0.0%
Total assets	-5.9%	-4.0%	-0.8%	5.0%
<b>Valuation</b>				
P/E	12.5	8.1	9.0	8.7
P/B	1.2	1.0	1.1	1.0
P/Sales	0.7	0.6	0.7	0.7
Dividend yield	9.4%	0.0%	0.0%	0.0%
EV/EBITDA	6.4	4.6	5.1	5.0
EV/Sales	1.3	1.0	1.1	1.0
<b>Profitability Ratios</b>				
Gross Margin	16.4%	16.8%	17.4%	17.1%
Operating Margin	10.6%	12.7%	13.5%	13.1%
Net Margin	5.9%	7.7%	8.7%	8.7%
Selling exp./Net sales	1.5%	1.6%	1.6%	1.6%
Admin exp./Net sales	2.3%	2.2%	2.2%	2.3%
ROE	9.4%	12.4%	13.9%	12.8%
ROA	4.3%	5.9%	7.3%	7.4%
ROIC	7.3%	9.2%	10.5%	10.3%

Source: Company, SSI forecasts

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**Buy:** Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

**Outperform:** Expected to provide price gains of up to 10 percentage points greater than the market over next 12 months.

**Market Perform:** Expected to provide price gains similar to the market over next 12 months.

**Underperform:** Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

**Sell:** Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

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