THE PAN GROUP (PAN: HOSE)

Current price: VND 30,900

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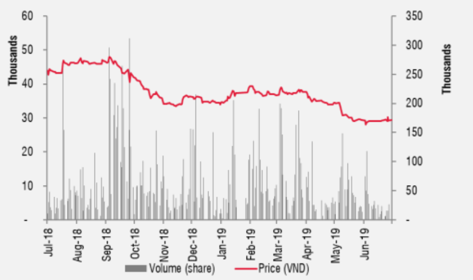
CONSUMER – VIETNAM

Key figures

Market cap (USD mn)	228
Market cap (VND bn)	5,288
Outstanding shares (mn)	170
52W high/low (VND 1,000)	49.6/28
Average 3M volume (share)	38,477
Average 3M value (USD mn)	0.05
Average 3M value (VND bn)	1.22
Foreign ownership (%)	45.19
State ownership (%)	0
Management ownership (%)	N.a

Source: SSI Bloomberg

PAN Price & Trading Volume



Source: Bloomberg

Company Snapshot

The PAN Group JSC (PAN:HOSE) was established in 2005 and since 2013 started its transformation to become a pioneering agriculture and food corporation offering trusted products and innovative solutions within an integrated value chain "3F" to serve Vietnamese consumers and go global. Its charted capital reached VND 1.7tn as of 2018-end and its total assets has grown 9 times in 2013-2019 via acquiring a numbers of leading companies in food sector (confectionery, nuts, fish sauces, fisheries) and farm sector (seed, flower, farm solution) namely National Seed Company, Bibica, Fimex, Aquatex Ben Tre, Vietnam Fumigation, etc (most of those companies are listed). During the period, PAN posted CAGRs in net revenue and net profit of 66% and 93% respectively. For 2018, sales breakdowns are 79% from food and 21% from farm

On track to deliver over the long haul

PAN aims to become a leading agriculture and food group in the region on the back of its sustainable 'Farm-Food-Family" supply chain and its advanced food production solution to provide safe, clean, and nutritious food products to domestic Vietnamese consumers and export clients alike. For a long-term outlook, PAN management aims to achieve a consolidated net revenue of $1 bn USD with a net profit of $95-100 mn by 2022. Growth will come from both organic growth prospects as well as M&A activities.

PAN has been on track with the strategy to increase stakes in subsidiaries and affiliates. On 15 July 2019, PAN has announced the plan to purchase up to 7.7mn shares of Bibica (BBC:HOSE), equivalent to 49.93% stake via a tender offer at VND 68,500/share to increase PAN's ownership in BBC from 50.07% to 100%. Lotte currently holds 44.03% stake in BBC. We view this as a great effort of the management as well as a positive move of the Group to consolidate interest in BBC and thus completely control one of the leading domestic confectionery company. During 2018 and 1H2019, PAN has also increased its holdings in Fimex VN (FMC: HOSE), Vietnam Fumigation Corporation JSC (VFG: HOSE), and 584 Nha Trang to continuously strengthen its farm and food platforms.

In 2018, PAN net revenue rocketed to VND 7.83 tn (+92.2% YoY), while making decent gains in terms of net profit (569 bn VND, +13.4% YoY). Net earnings to parent shareholders totaled VND 327 bn in 2018 (-12% YoY), exceeding the annual plan of VND 293 bn. Strong sales growth was thanks to M&A (via BBC & FMC), whereas the slower pace of net earnings post MI was due to lower financial income.

2018 in a nutshell was a mixed year for PAN. While agricultural business performance closely tracked management's plan, it was a favorable year for fishery export activities. Therefore, PAN subsidiaries ABT and FMC achieved a remarkable profit growth of 136% and 58% respectively, thanks to (1) a 23% YoY ASP increase in pangasius fillets and (2) increased FMC exports to the EU. The confectionery segment also exceeded average industry revenue growth thanks to capacity expansion and the new launches to tap rapidly growing demand for nutritional and fresh sponge cake and fortified candy. In contrast, 2018 was a setback year for the cashew nut business, impacted by the sharp drop in the export price sparked by the US-China trade war.

1H19 preview: Overall, PAN and its subsidiaries & affiliates are on track to achieve their annual plans. NSC's revenue and net profit decreased by -4.8% YoY and -7.1% YoY in 1H, on the impact of severe drought, especially in Southern Vietnam. Confectionery sales were flat YoY at VND 506n and net profit slightly declined by -4.3% YoY in 1H2019, yet the company expects sales will be much stronger in 2H when peak season comes, and from new launches (cracker, wafer). Cashew and fish sauces are doing well thanks to the company's focus on value-added improvements and premiumization. Respective revenue growth from fish and shrimp exports remained solid at 6% YoY and 1% YoY amid a declining ASP in 1H2019. FMC's interim result shows 40% YoY net profit growth for 1H2019.

2019 estimates: On a consolidated basis, we estimate The PAN Group in 2019 to achieve VND 8.61 tn in revenue (+10% YoY), with net earnings to parent shareholders amounting to VND 345 bn (+3.3% YoY), slightly higher than the management's guidance. It should be noted that we have not taken into account the possible stake increase in subsidiaries/associates (such as BBC, VFG, FMC, etc), which have been part of the growth driver for PAN in previous years.

Valuation: At current market prices, PAN is trading at 2019F P/E of 17.1x and 2019 EV/EBITDA of 4.4x. Currently, PAN valuations look more attractive than other consumer peers such as VNM (2019P/E of 22.8x and EV/EBITDA of 14.2x) and MSN (2019P/E of 20x and EV/EBITDA of 9.8x).

1. 2018 Performance and 1H2019 Preview

1.1 2018 Wrap up & 1H19 preview

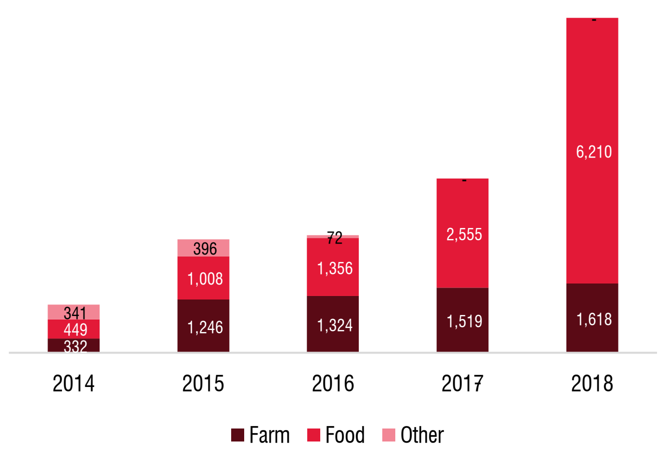
(bn VND)	2018	2017	YoY	% annual target completed	Margin	
					2018	2017
Net sales	7,831	4,075	92.2%	89.1%		
Gross profit	1,387	938	47.9%		17.7%	23.0%
Operating profit	683	531	28.8%		8.7%	13.0%
EBIT	756	570	32.6%		9.7%	14.0%
EBITDA	1,053	713	47.8%		13.5%	17.5%
Pretax profit	637	544	17.0%		8.1%	13.4%
Net income	564	503	12.2%	104.9%	7.2%	12.3%
NI attributable to shareholders	325	372	-12.7%	111.0%	4.2%	9.1%

Source: PAN, SSI Research

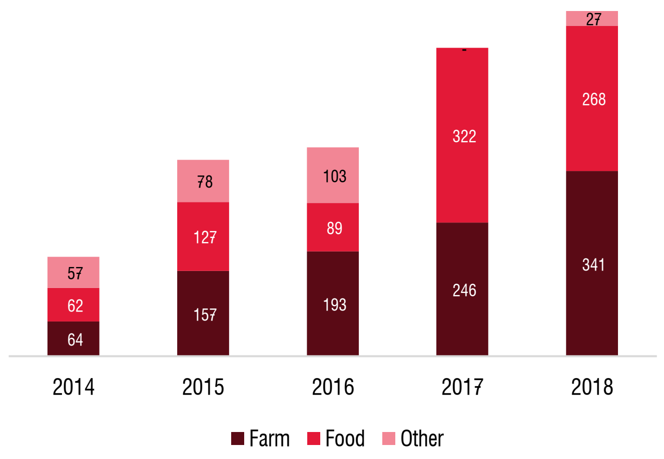
(bn VND)	1Q19	1Q18	YoY	4Q18	QoQ	% annual target completed	Margin			
							1Q19	1Q18	4Q18	2018
Net sales	1,579.0	1,705.2	-7.4%	2,413.3	-34.6%	15.0%				
Gross profit	328.3	293.5	11.9%	510.2	-35.7%		20.8%	17.2%	21.1%	17.7%
Operating profit	117.3	149.9	-21.8%	319.5	-63.3%		7.4%	8.8%	13.2%	8.7%
EBIT	126.7	165.4	-23.4%	360.1	-64.8%		8.0%	9.7%	14.9%	9.5%
EBITDA	202.0	233.7	-13.5%	433.3	-53.4%		12.8%	13.7%	18.0%	13.5%
Pretax profit	88.4	151.4	-41.6%	318.3	-72.2%		5.6%	8.9%	13.2%	8.1%
Net income	73.1	142.6	-48.7%	280.3	-73.9%	13.0%	4.6%	8.4%	11.6%	7.2%
NI attributable to shareholders	35.6	88.9	-60.0%	162.2	-78.1%		2.3%	5.2%	6.7%	4.3%

Source: PAN, SSI Research

Revenue breakdown 2014-2018 (bn VND)



PBT breakdown 2014-2018 (bn VND)



Source: PAN, SSI Research

In 2018, PAN achieved VND 7.83 tn in net revenue (+92.1% YoY) and VND 567 bn in net profit (+12.8% YoY). Net earnings to parent shareholders totaled VND 334 bn in 2018 (-10.2% YoY), exceeding the annual plan of VND 293 bn. Strong increase in net sales were thanks to (1) the full year consolidation of BBC (instead of only being counted for 4 months in 2017); (2) the consolidation of FMC (starting from February 2018). Meanwhile, a -10% YoY net earnings drop in 2018 could be traced to lower net financial income (-24.6% YoY). EBITDA posted 47.8% YoY growth on rising interest expense and goodwill amortization.

Q1 2019 results: The group achieved VND 1.58 tn in net sales (-7.4% YoY) and VND 73 bn in net profit (-48.7% YoY) in the first quarter of 2019. The sales decline was caused by lower revenue of the food segment (-8% YoY, mostly on strategic lower sales of LAF) and a 4.7% decrease in the agriculture segment. In the meantime, a sharp drop in PAN net profit in Q1 could be mainly traced to significantly lower financial income during the quarter (-72% YoY) from the lack of other financial income. More specifically, in Q1 2018, PAN recorded VND 77 bn in financial profit from negative goodwill (when the group increased its stake in FMC). *Should we exclude that financial income from Q1 2018, net profit would have increased by 10.6% YoY.*

1H19 preview: Overall, PAN and its subsidiaries and affiliates are on track to achieve their annual plan. NSC expects its revenue to decrease by -5% YoY, and for net profit to slightly taper off from the impact of a severe drought, especially in Southern Vietnam. Confectionery sales advanced by 3% YoY in 1H 2019, yet the company expects sales to be much stronger in 2H when the peak season comes and from new launches (cracker, wafer). Cashew and fish sauces are doing well thanks to the strategy to focus on value-added improvements and premiumization. Revenue growth from fish and shrimp exports remained solid at 6% YoY and 1% YoY respectively amid a declining ASP in 1H 2019. FMC's interim result shows 40% YoY net profit growth for 1H2019.

In terms of **M&A activities**, during 2018 and 1H 2019, PAN continued to increase its interest in subsidiary/associate positions:

- Increased ownership in FMC from 24.8% to 63.8%
- Increased ownership in NSC from 75.06% to 80.1% .NSC continues to further increase its stake in SSC from 74.9% to 94.7% in May 2018.
- Increased ownership in ABT from 72.8% to 78.3%.
- Acquiring a 41.9% stake of VFG.
- Increased ownership in 584 Nha Trang, from 32% at the end of 2017 to 43.2% in Q4 2018.

In June 2019, the group established a subsidiary in the form of PAN Consumer Goods (PAN CG), with its key business to distribute the group's products (both agriculture and food products), to then expand to other consumer goods products in the coming time. This is part of the group's steps to synergize its existing distribution network (consisting of more than 800 salespersons, 145,000 points of sales, and advantageous relationships with supermarkets, hypermarkets, minimarts, and convenience stores nationwide), leveraging its advanced technology.

By the end of 2018, PAN sold the remaining 20% stake in Pan Services to Nihon Housing (book value of VND 20 bn). By totally divesting from the cleaning services business, The PAN Group had completely transformed to become a food and farm company.

During 2018, PAN had successfully raised funds via (1) VND 1.135 tn in 5-year corporate bonds at a favorable fixed coupon of 6.8%, and guaranteed by Credit Guarantee and Investment Facility (CGIF) in September 2018 and (2) VND 817 bn in private issuance (10% stake) for Sojitz in September 2018. By year-end 2018, PAN charter capital had reached VND 1.361 tn (+15.6% YoY). We see that PAN has established a track record of fundraising successes: issuing a straight bond at a remarkably low coupon rate and executing a private issuance at a premium (issuance price of VND 61,000/share-equivalent to current price of ~VND 49,000 after adjust for bonus share of 25%, higher than the average market price in September 2018 of VND 58,000/share) have proven the group's credentials and strong expectation of investors regarding its long-term outlook.

1.2 Details on segment performance

In terms of sector-based performance, while agriculture business performance has tracked management's plan quite closely, 2018 was a favorable year for fishery exporting activities, and therefore PAN subsidiaries ABT and FMC achieved an impressive profit growth of 136% and 58% respectively thanks to the following aforementioned variables: (1) a 23% YoY ASP increase in pangasius fillets, and (2) Increased FMC exports to the EU. Confectionery also enjoyed a higher than industry revenue growth, thanks to capacity expansion and new launches to tap fast growing demand for nutritional and fresh sponge cake and fortified candy. 2018 was a negative year for the cashew nut business, due to the sharp drop in the export price as impacted by the US-China trade war.

PAN Farm:

For 2018, NSC consolidated revenue reached VND 1.693 tn (+6% YoY), surpassing the 2018 target by 4%. The gross profit margin narrowed slightly from 37.4% to 35.7% on the back of the change in product structure.

- Accounting for 60% of 2018 revenue**, paddy seed** revenue recorded a modest growth of 5% YoY due to a high base in 2017. In 2017, NSC added a few paddy seed types to its portfolio, thus justifying high revenue growth. Meanwhile, in 2018 NSC did not introduce any new seed to the market, due to delays in procedure to certify the patent, hence explaining slower growth.

- **Corn seed** revenue declined by -14% YoY to VND 377 bn, making up 22% of total revenue. The decrease can be attributed to (1) low NSC corn seed production and (2) low demand for corn seed in 2018. Following a period of dismal corn prices in 2017, NSC reacted by reducing its corn price production in 2018. In addition, the US-China trade war has made China stop importing US agri-products, including corn. As a consequence, US corn is being sold at a deeply discounted price, thus reducing the demand for Vietnamese corn seed.

- **Vegetable seed and milled rice** revenue increased impressively to VND 200 bn (+18% YoY) and VND 114 bn (+62% YoY). However, these segments made up a minor part of the overall sales mix, at 12% and 7% of revenue respectively.

2018 net income arrived at VND 252 bn (+8.5% YoY, falling short of the 2018 target by -1%), while net income to parent shareholders rose by a higher rate of 14.3% YoY to VND 239 bn due to the increase in ownership in SSC, from 74.9% to 94.66%.

In 1H2019, most agri-related firms located in the Southern part of Vietnam experienced a decline in revenue and earnings due to severe drought, and from tougher control placed by China on Vietnamese rice exports. Revenue growth of those firms (DPM, DCM, BFC, VFG, and LTG) ranged from -37% YoY to +13% YoY, while pretax profit growth shrunk across the board, ranging from -86% YoY to -12% YoY.

Nevertheless, **SSC** recorded VND 139 bn in revenue (+10% YoY) and VND 27 bn in pretax profit (+45% YoY) due to the delay of the Winter-Spring crop (the largest crop in a given year) from Q4 2018 to Q1 2019. SSC respectively comprised 39% and 45% of NSC Q1 2019 consolidated revenue and pretax profit, which arrived at VND 361 bn (-7% YoY) and VND 60 bn (+16% YoY). Negative impacts from the drought registered in the early months of 2019 will be more pronounced in Q2 earnings. The company expects NSC mid-year consolidated revenue and pretax profit at VND 947 bn (+6% YoY) and VND 123 bn (-9% YoY) respectively.

PAN Food

- **Confectionery:**

PAN confectionery sales totaled just VND 1.422 bn (+10.2% YoY) in 2018 amid low FMCG consumption in 2018 and stagnant sales of other consumer peers such as Vinamilk (-2% YoY), KDF (-14.6%YoY), Vinasoy (+3% YoY), Sabeco (+4.7% YoY), Habeco (-6.7% YoY), HHC (+7% YoY), etc.

BBC 2018 net profit reached VND 110 bn, advancing by 13.4% YoY. Cake and fortified candy, the two segments that PAN Food focuses on to cater to rising demand for nutritional confectionery, achieved initial results. These segments respectively achieved encouraging sales growth of 16% YoY and 14% YoY respectively in 2018. The new factory in Vinh Loc IP, which expands cake capacity from 3.8 mil tons to 9.4 mil tons per year commencing from November 2018, will foster growth for the PAN confectionery business in the coming years.

For 1H2019, **BBC** expects to deliver VND 520 bn in revenue (+3% YoY), thus completing 32.5% of its annual plan. Net profit is estimated to slightly decline compared to 1H2018, yet management is confident that results will pick up in 2H2019 when the high season comes (Mid-Autumn, Tet), and when the establishment of PAN Consumer Goods JSC (PAN CG) will optimize distribution and inventory control. The expected new launches such as crackers and wafers manufactured in Bibica Mien Tay factory starting in Q4 2019 will add more revenue to BBC.

- **Fisheries:**

ABT: PAN Food currently owns 78.3% of ABT after increased its stake through a public offering from 72.8% in Jan 2019. In 2018, ABT completed 99.4% and 153.2% of its revenue and pretax profit targets respectively. Revenue and PBT recorded growth of 3.2% YoY and 130.1% YoY respectively. ABT's gross profit margin(GPM) significantly expanded to 22.8% in 2018 from 12.5% in 2017 (the highest level achieved in the last 3 years), mainly thanks to (1) a +23% YoY average selling price (ASP) increase in pangasius fillets and (2) a strong increase in the export of value-added products (from 10% of revenue in 2017 to 19% of revenue in 2018). In terms of products, ABT witnessed strong growth in pangasius export turnover at 21.2% YoY, while export volume decreased slightly by 1.5% YoY. On the other hand, both export volume and export turnover of clams witnessed a decline at -23.7% and -24.8% YoY respectively. ABT continues to focus on the Japan market, and increase its share in export sales to 31.5% from 18% in 2017. Strong growth in the Japan market comes at the expense of slowdown in the EU market. It accounts for 52.8% market share, down from 61.8% in 2017.

ABT Q1 2019 revenue reached VND 103 bn, up +13% YoY. Q1 GPM improved to 20% from 18%. As a result, pretax profit reached VND 12.9 bn, up 27% YoY. 1H2019 revenue from fish exports is expected to reach VND 193 bn, up 6.2% YoY, of which export of pangasius accounts for 83%. ABT exhibited decent growth when compared to the sector, as Vietnam pangasius exports in 2019 up to May witnessed a decline of 0.9% YoY. ABT main exports markets such as Europe (47.5% of total revenue) and Japan (35%) remained resilient compared to the USA, which exhibited an annual decline of -23.4% YoY up to May. 1H2019 pretax profit is at VND 30bn, down -26% YoY, yet equivalent to 61% of annual guidance.

FMC: Up to present, PAN holds 63.8% in FMC - both directly and via ABT.

In 2018, revenue reached VND 3.832 tn, up 8.6% YoY, while pretax profit reached VND 194 bn, strongly up by 71% YoY. Such upbeat growth was mainly driven by an increase in GPM to a record high level of 10.3% in 2018, from 7.8% in 2017. In detail, growth was driven by:

- *Frozen shrimp*: Revenue reached VND 3.69 tn, up 8.8% YoY, and GPM improved to 9.8% (vs. 7.3% in 2017). GPM picked up in 2018, as the company was able to increase exports to the EU market. Total export turnover to the EU picked up strongly by 41% YoY, composing 41% of revenue from 29% in 2017. In 2018, shrimp imports from India into the EU was recalled, as traders could not meet import criteria, and shrimp from Vietnam were imported instead. In 2018, FMC shrimp exports to Japan fell by -15% YoY, reducing its share of total exports to 26% from 33%. Other traditional markets that witnessed a significant decline is the USA, at -49% YoY. Compounding the issue, the company's exports to the US normally contain a slim margin to begin with, usually made up by volume. These 3 markets account for 80% of total export turnover, significantly lower compared to the combined 89% market share back in 2017.FMC has chosen to focus on the EU market as it will have previous tariffs removed when the EVFTA becomes effective. On the contrary, the ASP of shrimp witnessed a sharp fall in 2018, especially in the US market, mainly due to oversupply from other competing countries such as India and Ecuador. The shrimp ASP declined following the -22% drop in the raw shrimp material price in June from January 2018, only to pick up gradually by the end of Q3 2018.

- *Frozen vegetable*: Revenue of frozen vegetables witnessed a moderate growth of 4.2% YoY to VND 123 bn, maintaining its share in total revenue at 3.2% (vs 3.4% in 2017). Frozen vegetables contain a high GPM (2018 GPM at 33% vs 2017 GPM at 32%), resulting from the fact that FMC mainly exports to the Japan market at premium prices and quality. According to FMC, it currently has no competitor in this niche segment in Japan, and the factory is operating at approx. full designed capacity.

FMC Q1 2019 revenue reached VND 757 bn, down -7% YoY mainly due to the decline in ASP of shrimp exports. Q1 revenue from shrimp exports reached VND 728 bn, down -7% YoY, while export volume was up 5.8% YoY to 3,106 tons. Revenue from agricultural products reached VND 37 bn, up +23% YoY. Q1 GPM improved to 10% from 8.5% back in Q1 2018. As a result, Q1 pretax profit reached VND 41 bn, up 23% YoY.

FMC's 1H 2019 revenue from shrimp exports is expected to reach VND 1.71 tn, up +1% YoY. Export volume increased by +7%, yet ASP was slightly down, tracing the general market. 1H 2019 pretax profit reached VND 95 bn, up 40% YoY and achieving 52% of business guidance.

- **Cashew nuts: A big hit from global cashew price drop**

In 2018, the cashew price dropped almost -20% YoY due to trade war concerns, according to MARD. The swelling tax rate for US agri-products such as almonds, macadamias, walnuts and cashews that China has levied upon US almonds has driven American-origin almonds back to the US domestic market, causing a reduction in cashew consumption in the world's largest cashew consumption market as well as a continuous price drop. As a result, the LAF processing and trading business was hit and incurred a loss. Meanwhile, sales of value-added cashews was a healthy niche, growing by 72.2% YoY thanks to stable demand from export markets such as Hong Kong, China, US, and EU in 2018. Domestically, the market accounted for 5% of total sales in 2018.

In 2018, LAF sales totaled only VND 572 bn (-56% YoY) and incurred a -63.6 bn VND net loss.

In Q1 2019, LAF revenue declined by -36% YoY, as starting from 2019 LAF had ratcheted back trading activities due to the continuous downtrend of the cashew price, and the company has a strategy to promote value-added products rather than the cashew commodity market. As a result, LAF eked out a VND 1.9 bn net profit in Q1 2019 vs. a net loss of VND -6 bn in Q1 2018.

In 1H 2019, cashew revenue is estimated to reach VND 159 bn (-29% YoY) on reduced trading activities, in which 80% of revenue came from value-added products. LAF is on track to deliver on its annual plan of VND

539 bn (-6% YoY) revenue and VND 12.6 bn net profit (vs. a -65 bn VND net loss in 2018) for 2019, since the majority of sales will fall in the second half of the year traditionally.

- **Fish sauce:**

Pan Food has raised its ownership in 584 Nha Trang from 32.4% at the end of 2017 to 43.2% since November 2018 via its private placement to invest in new packing plant. Fish sauce sales increased by +1.5% YoY in 2018 to reach VND 274 bn, accounting for 12% market share among traditional fish sauce options based on our estimates. Meanwhile, net profit increased by ~56.3% YoY to VND 18 bn mostly thanks to changed product mix (higher sales composition of high protein fish sauce).

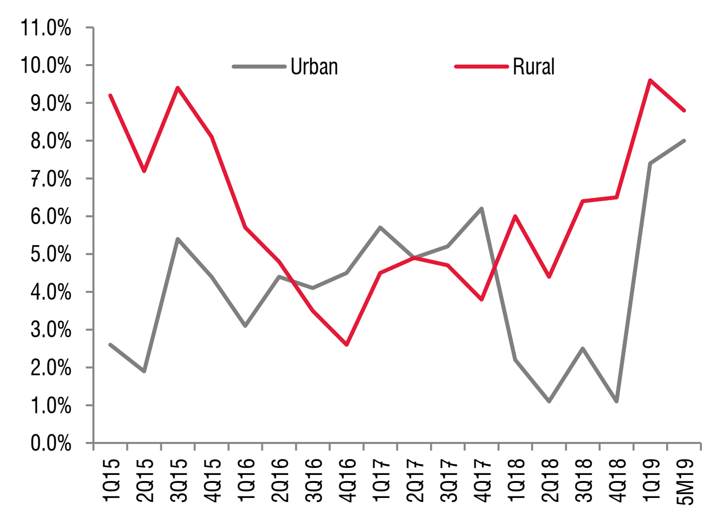
2. Outlook and 2019 Estimates

Farm: By the end of May 2019, the farm segment cultivated 4.279 million total ha of rice in total, a slight growth by 1.4% YoY, while total volume harvested increased by 2.1% to 15.75 million. In Southern Vietnam, the rice farming area specializing in summer-autumn rice increased by 4.5% to 1.131 million ha (YoY)(*Source: MARD – Viet Nam)*

The Vietnam seed market was estimated at $1.1 billion in total as of 2018, and expected to reach $1.765 billion in 2024. This yields a potential future of an attractive CAGR of 8.2% during the forecasted period. The grains and cereals seed segment was valued at $848 million as of 2018, implying a healthy CAGR of 7.7% during 2019 - 2024.

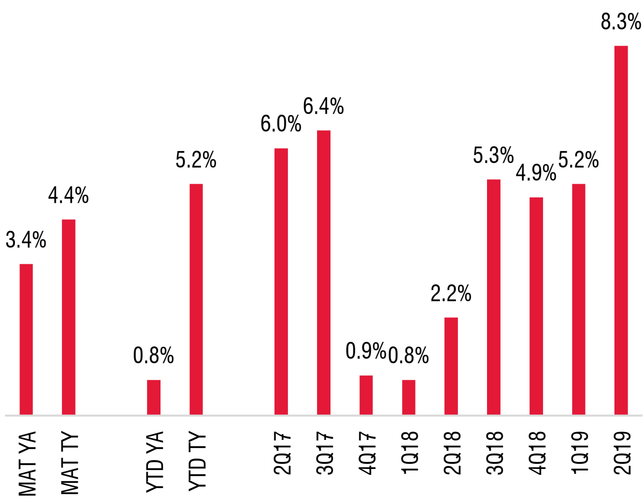
Foods: Vietnam's consumer sector is characteristic of strong growth potential thanks to favorable demographic factors. In the first half of 2019, FMCG consumption has been recovering from a weak year in 2018. According to Kantar Worldpanel, in the first 5 months of 2019, FMCG consumption grew 8% YoY and 8.9% YoY in the urban and rural market respectively. Data from Nielsen also shows positive quarterly growth of FMCG consumption of more than 5% in recent quarters; even positively reached 8.3% in 2Q2019. For a long-term outlook, Kantar Worldpanel forecasts that Vietnam's FMCG consumption will grow at 5-6% per annum during 2019-2022.

Quarterly FMCG growth in urban and rural



Source: Kantar Worldpanel

Quarterly FMCG growth



Source: AC Nielsen

Long-term financial targets: PAN aims at being a leading agriculture and food group in the region, led by its sustainable "Farm-Food-Family" supply chain and advanced food production solution in order to provide safe, healthy, and nutritional food products to Vietnamese consumers and subsequently export to the global market. For a long-term outlook, PAN management aims to achieve a consolidated net revenue of $1 bn USD and a net profit of $95-100 mn USD by 2022. Growth will come from both organic growth and M&A alike.

2019 Plan:

VND bn	2018A	2019P	YoY	PAN ownership (*)
PAN				
Revenue	7,832	10,513	34.2%	
NPAT	569	562	-1.2%	
BBC				**50.1%**
Revenue	1,422	1,600	12.5%	
NPAT	110	110	0.0%	
FMC				**63.8%**
Revenue	3,814	4,350	14.1%	
PBT	194	180	-7.2%	
ABT				**78.3%**
Revenue	398	400	0.5%	
PBT	74	50	-32.4%	
LAF				**80.5%**
Revenue	572	539	-5.8%	
NPAT	-65	12.6	N/a	
584 Nha Trang				**43.20%**
Revenue	274	297	8.4%	
NPAT	18	16.8	-6.7%	
NSC				
Revenue	1,693	1,781	5.2%	80%
NPAT	253	261	3.2%	
VFG				**41.9%**
	2,471	2,330	-5.7%	
	131	130	-0.8%	
Dividend (cash)		10%	N.m	

(*) as of Q1 2019; Source: Companies

2019 Estimates

Confectionery: With the new factory in Vinh Loc IP 2 running at 67% capacity as of December 2018, BBC will have more sponge cake to sell to the market. We maintain our opinion that sponge cake & cookies (especially premium products like Rosio, Bon Ammi) and fortified candy will continue to be a growth driver for the PAN confectionery business in the coming year. Accordingly, for BBC, we estimate sponge cake sales will grow by 25% in 2019 and 10% per year from 2020-2022.

Fortified candies revenue is estimated to increase by 20% in 2019 and 10% per year from 2020-2022. Besides the above, we estimate sales of biscuits, soft candy, and others (moon cake and other nutritional products) will grow at 5-10% YoY, while sales of pie and hard candy will be flat. Accordingly, we estimate PAN confectionery revenue to reach VND 1.597 tn in 2019, up 12.3% YoY.

Cashew: LAF will scale down its trading business starting from 2019 to reduce the risk of commodity fluctuation. In the meantime, the company will focus more on value-added products, like ready to eat cashew nuts and ready to eat mixed nuts, in order to boost profitability and revenue growth. We estimate that sales of value-added products will increase by 16.5% YoY in 2019, accounting for 68% of total LAF sales. We estimate LAF will post a net profit of VND 13 bn in 2019.

Fish sauce: We estimate 584 Nha Trang to post 12% sales growth and 25.4% net profit growth in 2019, fueled by the company's continuous focus on premiumization. Given rising disposable incomes and increased general awareness toward health, Vietnamese consumers have increasingly switched from industrially produced fish sauce to traditional fish sauce. In such a circumstance, a well-established and trustful brand like 584 Nha Trang (with already a 12% market share in the traditional fish sauce market) will have plentiful room to grow.

Fisheries: For 2019F, we estimate ABT profit before tax to reach 80.9 bn VND, up +10% YoY. Revenue is expected to increase by +3% YoY to VND 410 bn, resulting from an increase in pangasius export volume to 3,398 tons, up +2% YoY and an ASP increase of 5% YoY. For FMC in 2019F, we estimate pretax profit to reach VND 196 bn, down -21% YoY, as 2018 was set upon a high base. Our estimate is +9% above the company's target when comparing to earlier company guidance of VND 180 bn.

PAN Farm: For 2019, NSC targets revenue and net income to be VND 1.781 tn (+5% YoY) and VND 261 bn (+3% YoY) respectively. NSC will continue to acquire SSC up to 100% and plans to establish a Research and Development Centre, of which will focus on seed and the sustainable rice value chain. Production capacity for seed is 30,000 tons per year, while that for rice is 50,000-60,000 tons per year (Phase 1). Total capital investment is thus projected at VND 308 bn, in which construction and machinery costs tabulate to VND 218 bn and VND 90 bn respectively. The project is expected to commence operation starting October 2019.

VFG sets 2019 revenue and net income at VND 2.33 tn (-6% YoY) and VND 130 bn (flat YoY).

On a consolidated basis, we estimate The PAN Group in 2019 to achieve VND 8.61 tn in revenue (+10% YoY), with net earnings to parent shareholders amounting to VND 345 bn (+3.3% YoY), slightly higher than the management's target. It should be noted that we have not taken into account the possible stake increase in subsidiaries/associates (such as BBC, VFG, FMC, etc), which have been part of the growth driver for PAN in previous years.

Valuation

At the current market price, PAN is traded at 2019F P/E of 17.1x and 2019EV/EBITDA of 4.4x. Currently, PAN valuations look more attractive than its consumer peers such as VNM (2019P/E of 22.8x and EV/EBITDA of 14.2x) and MSN (2019P/E of 20x and EV/EBITDA of 9.8x).

Upside surprises: (1) Higher than forecasted sales of the various food segments (confectionery, cashew, fish sauce) on strong domestic demand and better export sales of fisheries; (2) possible growth and financial income from M&A

Downside risks: (1) Weak demand for PAN food products; (2) unfavorable weather that negatively impacts the farm business.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2016	2017	2018	2019F
Balance Sheet				
+ Cash	558	1,119	2,538	3,822
+ Short-term investments	444	512	246	247
+ Account receivables	435	618	795	303
+ Inventories	549	720	1,505	1,592
+ Other current assets	30	53	91	95
Total Current Assets	**2,015**	**3,022**	**5,175**	**6,059**
+ LT Receivables	0	0	0	0
+ Net Fixed Assets	668	1,712	3,126	3,381
+ Investment properties	2	2	0	0
+ LT Assets in progress	28	168	153	153
+ LT Investments	464	296	352	352
+ Other LT Assets	584	782	633	546
Total Long-Term Assets	**1,746**	**2,960**	**4,264**	**4,432**
Total Assets	**3,761**	**5,982**	**9,439**	**10,491**
+ Current Liabilities	758	1,383	1,780	1,929
In which: ST debt	*476*	*682*	*843*	*947*
+ Non-current Liabilities	80	434	1,687	1,825
In which: LT debt	*12*	*236*	*1,398*	*1,543*
Total Liabilities	**838**	**1,817**	**3,466**	**3,754**
+ Contributed capital	1,024	1,177	1,361	1,361
+ Share premium	1,021	1,021	1,677	1,677
+ Retained earnings	179	391	437	478
+ Other capital/fund	699	1,577	2,497	3,137
Shareholders' Equity	**2,923**	**4,166**	**5,972**	**6,654**
Total Liabilities & Equity	**3,761**	**5,982**	**9,439**	**10,491**
Cash Flow				
CF from operating activities	269	148	771	1,741
CF from investing activities	-338	-353	-511	-401
CF from financing activities	-36	694	1,160	66
Net increase in cash	**-105**	**490**	**1,420**	**1,406**
Beginning cash	729	558	1,119	2,538
Ending cash	**624**	**1,047**	**2,538**	**3,944**
Liquidity Ratios				
Current ratio	2.66	2.19	2.91	3.14
Acid-test ratio	1.90	1.63	2.01	2.27
Cash ratio	1.32	1.18	1.56	2.11
Net debt / EBITDA	-0.25	-0.19	-0.24	-0.70
Interest coverage	17.26	21.94	7.03	7.24
Days of receivables	53.4	38.8	29.8	32.9
Days of payables	21.1	21.9	17.1	17.9
Days of inventory	110.0	73.8	63.0	80.6
Capital Structure				
Equity/Total asset	0.78	0.70	0.63	0.64
Liabilities/Total Assets	0.22	0.30	0.37	0.36
Liabilities/Equity	0.29	0.44	0.58	0.56
Debt/Equity	0.17	0.22	0.38	0.37
ST Debt/Equity	0.16	0.16	0.14	0.14

VND Billion	2016	2017	2018	2019F
Income Statement				
Net Sales	**2,753**	**4,075**	**7,829**	**8,613**
COGS	-2,111	-3,137	-6,441	-7,013
Gross Profit	**642**	**938**	**1,387**	**1,600**
Financial Income	181	326	358	219
Financial Expense	-61	-42	-144	-154
Income from associates	0	0	41	22
Selling Expense	-173	-360	-546	-560
Admin Expense	-251	-340	-456	-474
Income from business operation	**380**	**544**	**627**	**698**
Net Other Income	5	0	10	1
Profit Before Tax	385	544	637	699
Net Income	**336**	**503**	**567**	**613**
NI attributable to shareholders	**257**	**372**	**334**	**345**
Minority interest	79	131	233	268
		23.5%	2.3%	3.3%
Adjusted EPS (VND)	1,370	1,692	1,732	1,788
BVPS (VND)	22,651	23,077	27,113	20,907
Dividend (VND/share)	1,000	0	0	1,000
EBIT	409	570	742	811
EBITDA	509	713	1,053	1,161
Growth				
Sales	3.9%	48.0%	92.1%	8.5%
EBITDA	11.3%	40.0%	47.8%	10.2%
EBIT	8.4%	39.5%	30.1%	9.3%
NI	6.8%	49.5%	12.8%	8.2%
Equity	7.6%	42.5%	43.4%	11.4%
Chartered Capital	1.5%	15.0%	15.6%	0.0%
Total assets	1.8%	59.1%	57.8%	11.1%
Valuation				
P/E	27.2	17.0	20.1	17.1
P/B	2.4	1.6	1.4	1.5
P/Sales	1.4	0.8	0.6	1.5
Dividend yield	2.7%	0.0%	0.0%	1.4%
EV/EBITDA	6.5	3.8	4.0	4.4
Profitability Ratios				
Gross Margin	23.3%	23.0%	17.7%	18.6%
Operating Margin	14.0%	13.0%	8.7%	8.4%
Net Margin	12.2%	12.3%	7.2%	7.1%
Selling exp./Net sales	6.3%	8.8%	7.0%	6.5%
Admin exp./Net sales	9.1%	8.3%	5.8%	5.5%
ROE	11.9%	14.2%	11.2%	9.7%
ROA	9.0%	10.3%	7.4%	6.2%
ROIC	10.7%	12.4%	9.9%	8.2%

Source: Company, SSI forecasts

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