

Phu Tai JSC (PTB)

Exports on path to recovery in 2H23

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Revenue and NPATMI reached VND1,474 billion (-22% YoY) and VND106 billion (-32% YoY) respectively

In 2Q23, Phu Tai JSC (PTB) reported revenue of VND489 billion (+26% QoQ), backed by quarrying and producing artificial stone. Meanwhile, revenue from wooden furniture was VND732 billion (-1% QoQ) due to low consumption demand in the US. Gross profit margin hit 22% (+200 bps QoQ, -300 bps YoY), NPATMI was VND106 billion, corresponding to NPATMI margin of 7% (up 300 bps QoQ).

Stone and wood revenue should rebound in 2H23 on the recovery of consumption demand in the US

We assess PTB's artificial stone and wooden furniture segments will perform better in 2H23 as (1) new home construction recovered in July 2023, boosting demand for quartz stone, tile, and furniture and (2) falling inventories for five consecutive months since February 2023 and huge consumption demand during the year-end period will encourage furniture distributors to increase imports. Also, favorable USD/VND exchange rate will drive exports for PTB.

PTB will book revenue from Phu Tai Residence in 2024

By the end of 2Q23, the total value of the remaining condos at the Phu Tai Residence project reached VND235 billion, equivalent to an estimated unbilled booking of VND530 billion. We expect PTB will book this amount in 2024. Besides, the Phu Tai Central Life project, with the foundation completed and tunnel under construction, will be introduced to the market in 2Q24.

We recommend HOLD for PTB with a target price of VND67,300/share

Based on the SOTP valuation approach, we recommend HOLD for PTB with a target price of VND67,300/share, 12% higher than the closing price on September 21, 2023).

Hold maintain

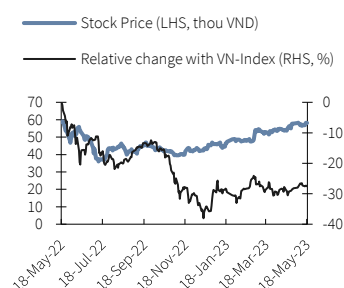
Target price	VND 67,300
Upside	12%
Current price (Sep 21, 2023)	VND 60,200
Consensus target price	VND 65,000
Market cap (VNDtn/USDbn)	0.39/0.16

Trading data	
Free float	60%
3M avg trading value (VNDbn/USDmn)	36.69/1.49
Foreign ownership	19.03%
Major shareholder	Le Vy (13.25%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	8	21	46	-3
Relative	5	13	31	-2

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	6,492	6,887	6,321	7,409
EBIT (VNDbn)	638	619	464	781
NPATMI (VNDbn)	512	487	378	625
EPS (VND)	10,532	7,162	5,649	9,332
EPS growth (%)	43%	-32%	-21%	65%
P/E (x)	6.3	5.6	8.4	5.1
P/B (x)	1.4	1.0	1.1	0.9
ROE (%)	23%	19%	13%	19%
Dividend yield (%)	21%	5%	5%	5%



Source: Bloomberg, KB Securities Vietnam

Business performance

Table 1. PTB – 1H22–1H23 business results

(VNDbn)	2Q2022	2Q2023	+/-%YoY	1H2022	1H2023	+/-%YoY	Comments
Revenue	1,898	1,474	-22%	3,617	2,884	-20%	
Stone	413	489	19%	746	877	18%	Stone revenue in the domestic and export markets increased by 28% and 24% QoQ, respectively. However, export prices of quartz stone to the US recorded a slight decrease of 2% QoQ.
Wood	992	732	-26%	1,944	1,470	-24%	Wood revenue decreased by 26% YoY in 2Q23 due to weak demand in the US market.
Toyota dealership	360	213	-41%	621	444	-29%	
Vehicle repair services	25	29	15%	48	59	24%	
Real estate	105	11	-90%	252	32	-87%	Real estate revenue in 2Q23 decreased by 90% YoY in the context of few transactions in the property market in 1H23.
Cost of goods sold	-1,429	-1,147	-20%	-2,749	-2,272	-17%	
Gross profit	469	327	-30%	868	612	-29%	
Stone	131	155	18%	233	260	11%	GPM of the stone segment reached 32% (+5% QoQ).
Wood	271	156	-42%	491	312	-36%	GPM of the wood segment reached 21% (flat QoQ).
Toyota dealership	19	4	-79%	28	10	-64%	
Vehicle repair services	4	6	70%	8	14	74%	
Real estate	44	4	-90%	104	13	-87%	
<i>Gross profit margin</i>	<i>25%</i>	<i>22%</i>	<i>-3%</i>	<i>24%</i>	<i>21%</i>	<i>-3%</i>	
Financial income	11	5	-50%	22	10	-55%	
Financial expense	-39	-33	-15%	-71	-69	-4%	
Borrowing costs	-26	-30	14%	-56	-62	11%	
Shared profits from associates	0	0		0	0		
SG&A	-214	-172	-20%	-414	-349	-16%	
<i>SG&A margin</i>	<i>11%</i>	<i>12%</i>	<i>0%</i>	<i>11%</i>	<i>12%</i>	<i>1%</i>	
EBIT	226	128	-43%	403	204	-49%	
Net other income	-32	-4	-87%	-29	-3	-88%	
PBT	194	124	-36%	374	201	-46%	
Pre-tax profit margin	10%	8%	-2%	10%	7%	-3%	
Corporate tax	-35	-17	-50%	-69	-32	-55%	
NPAT	159	107	-33%	305	169	-45%	
Net profit margin	8%	7%	-1%	8%	6%	-3%	
NPATMI	155	106	-32%	296	169	-43%	
NPATMI margin	8%	7%	-1%	8%	6%	-2%	

Source: Phu Tai JSC, KB Securities Vietnam

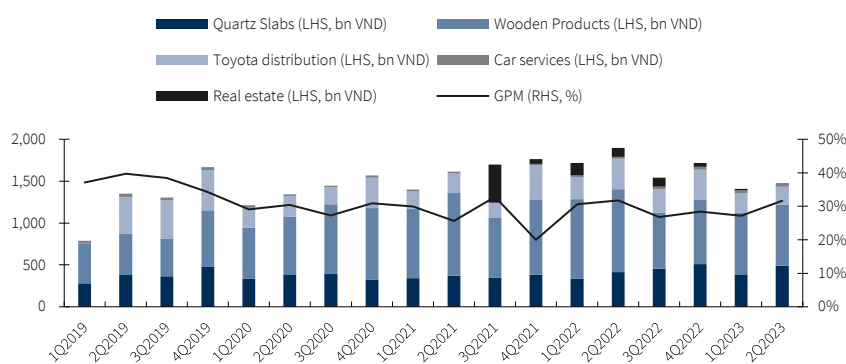
Growing demand for PTB's materials and favorable USD/VND exchange rate support core businesses in 2H23

In the US market (contributing 60% of PTB's overall revenue, 30-year mortgage rates continuously increased in line with the Fed's interest rate hikes, causing real estate transactions to decline from early 2022 until now. However, we expect that demand for PTB's materials will increase in 2H23 thanks to (1) furniture distributors promoting inventory to meet rising demand during the year-end period and (2) the real estate market in the US showing signs of recovery, proven by rising primary sales volume and new home construction starting to increase again in July 2023.

Besides, (3) rising USD/VND exchange rate will also positively impact PTB's business performance as most of PTB's input materials are self-sufficient or from domestic supplies. For wood products, PTB owns 40% of wood raw material, 30% is collected domestically, and the remaining 30% is imported from Paraguay, Uruguay, Brazil. For artificial stone, PTB owns granite quarries in Binh Dinh, Phu Yen, and Yen Bai.

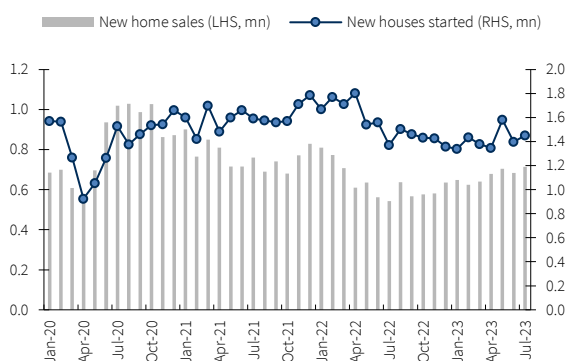
We note that high mortgage rates will likely affect furniture retail sales. However, we believe future impacts will be downplayed as distributors' inventories have decreased for five consecutive months since February 2023.

Fig 2. PTB – Revenue breakdown & GPM (VNDbn, %)



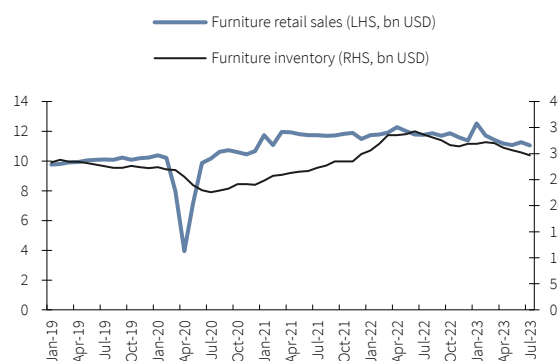
Source: Phu Tai JSC, KB Securities Vietnam

Fig 3. US – New home transactions & construction (million)



Source: US Bureau Census, Bloomberg, KB Securities Vietnam

Fig 4. US – Retail sales & inventory of furniture (USDbn)

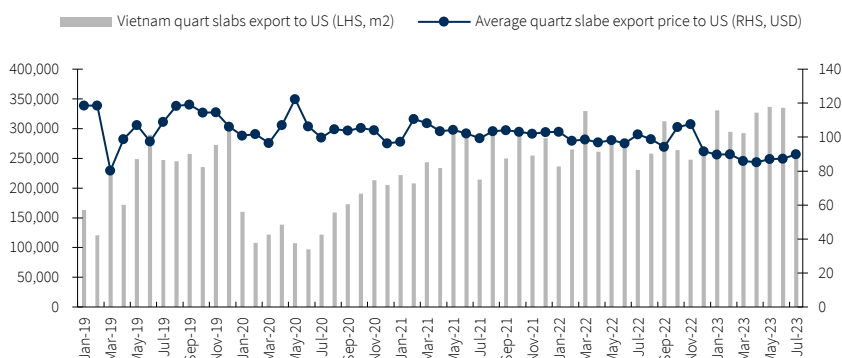


Source: US Bureau Census, Bloomberg, KB Securities Vietnam

Higher stone production capacity should help maintain stone GPM above 30% in 2023

PTB invested in expanding Phase 2 of the Dong Nai Quartz Stone factory at the beginning of the year, raising capacity by 225,000 m2/year to a total of 675,000 m2/year. We expect phase 2 to go into operation in 3Q23, thereby increasing PTB's production and supply capacity during the peak year-end period. We expect the quartz stone segment's GPM to sit at 30% in 2023 on growing consumption demand in the US in the second half of 2023.

Fig 5. Export volume and average export price of quartz stone to the US



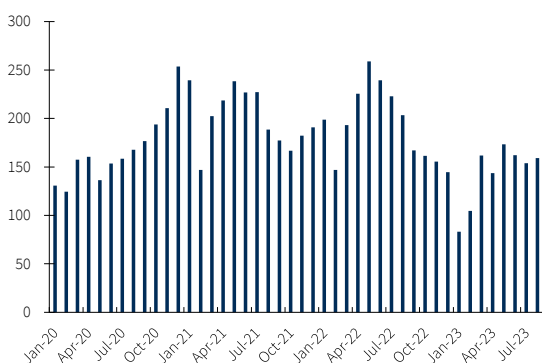
Source: USITC, KB Securities Vietnam

Wood exports improve in 2H23 as new orders return

Vietnam's wood products may be subject to anti-dumping and anti-subsidy duties by the US if their core uses peeled wood imported from China, at 183% and 23-195%, respectively. We believe PTB will not encounter too many difficulties with the U.S. Department of Commerce (DOC) investigation as it owns an FSC certificate verifying the origin of raw materials (70% of raw wood is from domestic supplies) with a closed production chain.

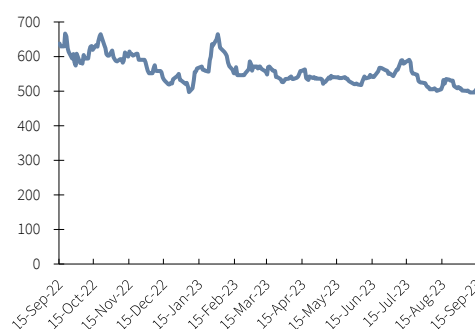
Regarding demand, export orders have been signed until December 2023, with shipment shortened to 2-3 months instead of 5-6 months as in 2022 since distributors strive to manage inventory well. We believe PTB can maintain the wood segment's GPM at 22% in 2023 when wood raw material prices are moving sideways.

Fig 6. Vietnam - Wood exports (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Fig 7. Global - Wood futures value (USD)



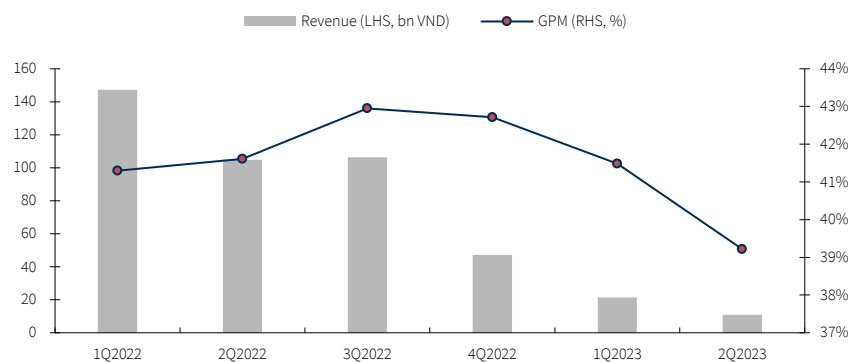
Source: CME, Bloomberg, KB Securities Vietnam

The absorption rate at Phu Tai Residence should reach 100% in 2024, and unbilled booking is estimated at VND530 billion

In 1H23, PTB recorded VND32 billion in revenue from real estate, primarily from the delivery of condos at the Phu Tai Residence project, with GPM touching 41% in the first half of 2023. By the end of 2Q23, the value of the remaining condos of this project reached VND255 billion, corresponding to an estimated unbilled booking of VND530 billion. PTB may book the majority of this amount in 2024 along with the gradual recovery of the housing market. For the Phu Tai Central Life project, PTB has completed the foundation and is

constructing the basement. We expect the project to be launched by the end of 2Q24.

Fig 8. PTB - Real estate revenue and GPM (VNDbn)



Source: Phu Tai JSC, KB Securities Vietnam

Forecast & Valuation

Table 9. PTB – 2022A–2024F business results

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Revenue	6,887	6,321	-8%	7,409	17%	
Stone	1,711	1,898	11%	2,047	8%	Stone revenue can improve thanks to rising export volume and domestic housing rebound from 2Q24.
Wood	3,383	3,216	-5%	3,676	14%	Phu Cat Wood Processing Factory Phase 3 is expected to start operation from 2024 to help improve capacity. Along with that, wood demand in the US should surge as large customers such as Masterland and Melissa & Doug increase inventory.
Toyota dealership	1,261	1,000	-21%	1,000	0%	
Vehicle repair services	109	100	-9%	100	0%	
Real estate	406	116	-71%	587	404%	PTB will book the remaining revenue from the Phu Tai Residence project and recognize revenue from the Phu Tai Central Life project from 3Q24.
Cost of goods sold	-5,346	-4,970	-7%	-5,743	16%	
Gross profit	1,540	1,350	-12%	1,666	23%	
Stone	500	573	15%	611	7%	Stone segment's GPM should remain above 30% for 2023 and 2024.
Wood	790	809	2%	968	20%	Stable wood raw material prices should help maintain GPM at 22% for 2023 and 2024.
Toyota dealership	49	30	-39%	30	0%	
Vehicle repair services	23	20	-14%	20	0%	
Real estate	170	235	38%	145	-38%	
<i>Gross profit</i>	<i>22%</i>	<i>21%</i>	<i>-1%</i>	<i>22%</i>	<i>1%</i>	
Financial income	45	27	-38%	86	212%	
Financial expense	-171	-155	-9%	-160	3%	
Borrowing costs	-111	-155	40%	-160	3%	
Shared profits from associates	0	0		0		
SG&A	-795	-759	-5%	-874	15%	
<i>SG&A margin</i>	<i>12%</i>	<i>12%</i>	<i>0%</i>	<i>11%</i>	<i>-1%</i>	
EBIT	619	464	-25%	781	68%	
Net other income	-5	-3	-27%	0	-100%	
PBT	614	460	-25%	781	70%	
Pre-tax profit margin	9%	7%	-2%	11%	3%	
Corporate tax	-112	-82	-26%	-156	90%	
NPAT	502	378	-25%	625	65%	
Net profit margin	7%	6%	-1%	8%	2%	
NPATMI	487	378	-22%	625	65%	

Source: KB Securities Vietnam

We recommend HOLD for PTB with a target price of VND67,300/share

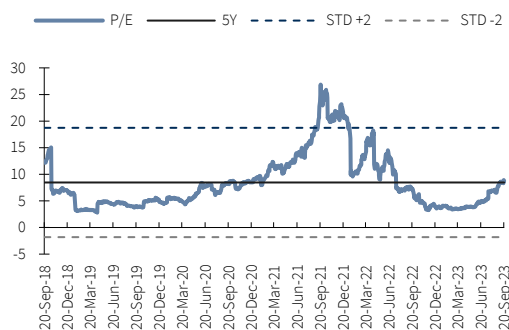
We apply the sum of the parts (SOTP) valuation method, including P/E multiple for core businesses and RNAV for two real estate projects. We find the fair price for PTB to be VND67,300/share, corresponding to an upside of 12% compared to the closing price on September 21, 2023.

Table 10. PTB – Valuation result

	Unit	Valuation method	Target	WACC	Value
Core businesses	VNDbn	P/E	12x		5,746
Real estate	VNDbn	DCF		8.1%	193
Enterprise value	VNDbn				5,940
Cash & short-term investments	VNDbn				266
Short-term & long-term debt	VNDbn				1,696
Equity value	VNDbn				4,510
Outstanding shares	million				66.9
Target price	VND/share				67,300
Current price	VND/share				60,200

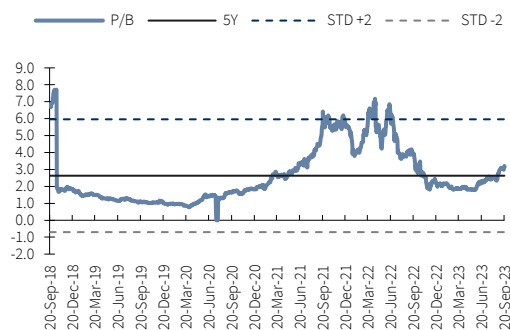
Source: KB Securities Vietnam

Fig 11. PTB – Historical P/E (x)



Source: Fiipro, KB Securities Vietnam

Fig 12. PTB – Historical P/B (x)



Source: Fiipro, KB Securities Vietnam

PTB – 2021A–2024F financials

Income Statement (bn. VND)					Balance Sheet (bn. VND)				
(Standard Report)	2021	2022	2023F	2024F	(Standard Report)	2021	2022	2023F	2024F
Net Revenue	6,492	6,887	6,321	7,409	TOTAL ASSET	5,431	5,238	5,707	5,932
Cost of Goods Sold	-5,039	-5,346	-4,970	-5,743	CURRENT ASSETS	3,180	3,055	3,259	3,336
Gross Profit	1,453	1,540	1,350	1,666	Cash and cash equivalents	136	272	582	936
Financial Income	61	45	27	56	Short-term investments	54	27	34	34
Financial Expenditure	-120	-171	-155	-151	Accounts receivable	929	793	672	661
Including: Cost of Borrowing	-99	-111	-155	-151	Inventories	1,859	1,757	1,622	1,364
Profit/(loss) from affiliated companies	0	0	0	0	LONG-TERM ASSETS	2,251	2,183	2,448	2,596
Selling expenditures	-550	-563	-569	-593	Long-term trade receivables	24	28	25	25
General and administrative expenditures	-205	-233	-190	-198	Fixed assets	1,780	1,796	1,924	2,072
Profit/(loss) from operating	638	619	464	781	Long-term incomplete assets	113	38	144	144
Other income	24	69	8	0	Long-term investments	0	6	5	5
Other expenditures	-11	-73	-12	0	Good will (before 2015)	0	0	0	0
Net Other Income	12	-5	-3	0	TOTAL LIABILITIES	3,040	2,477	2,658	2,292
Profit/(loss) from affiliated companies	0	0	0	0	Current liabilities	2,665	2,310	2,430	2,111
Profit/(loss) before tax	650	614	460	781	Trade accounts payable	620	418	477	499
Tax	-125	-112	-82	-156	Short-term borrowings	1,620	1,476	1,611	1,361
Profit/(loss) after tax	526	502	378	625	Other short-term liabilities	425	416	342	251
Minority Interest	0	0	0	0	Long-term liabilities	376	167	228	181
NPATMI	512	487	378	625	Long-term trade payables	0	0	0	0
					Other long-term liabilities	358	152	213	166
					Long-term borrowings	17	15	15	15
					OWNER'S EQUITY	2,391	2,761	3,049	3,640
					Paid-in capital	486	680	669	669
					Share premium	24	24	24	24
					Other funds	1,346	1,564	1,519	1,519
					Undistributed earnings	535	493	838	1,429
					State capital	0	0	0	0
					Interest of non-controlling shareholders	0	0	0	0
Operating Ratios					Main Ratios (x, %, VND)				
	2021	2022	2023F	2024F		2021	2022	2023F	2024F
Gross Profit Margin	22.4%	22.4%	21.4%	22.5%	Valuation Ratios				
EBITDA Margin	15.6%	14.6%	12.5%	15.3%	P/E	6.3	5.6	8.4	5.1
EBIT Margin	11.4%	10.6%	9.8%	12.6%	P/E (diluted)	6.3	5.6	8.4	5.1
PBT Margin	10.0%	8.9%	7.3%	10.5%	P/B	1.4	1.0	1.1	0.9
Operating Profit Margin	9.8%	9.0%	7.3%	10.5%	P/S	0.5	0.4	0.5	0.4
Net Profit Margin	8.1%	7.3%	6.0%	8.4%	P/Tangible Book	1.8	1.5	1.7	1.5
					P/Cash Flow	13.8	3.3	6.2	3.1
					EV/EBITDA	3.1	2.7	4.0	2.8
					EV/EBIT	4.3	3.8	5.2	3.4
Cash Flow Statement (Standard Report)					Management Efficiency				
	2021	2022	2023F	2024F		2021	2022	2023F	2024F
PBT	650	614	460	781	ROE%	23%	19%	13%	19%
Depreciation	276	279	173	202	ROA%	10%	9%	7%	11%
Profit/(loss) from investing	-15	-33	0	0	ROIC%	13%	11%	8%	12%
Cost of borrowing	99	111	155	151	Financial Ratios				
Profit/(loss) before changes in WC	1,025	1,004	788	1,133	Cash Ratio	0.1	0.1	0.2	0.4
(Increase)/decrease in receivables	-112	101	5	19	Quick Ratio	0.4	0.5	0.5	0.8
(Increase)/decrease in inventory	-419	91	135	259	Current Ratio	1.2	1.3	1.3	1.6
Increase/(decrease) in payables	-23	-267	59	23	Long-term borrowing/Owner's Equity	15%	5%	7%	5%
(Increase)/decrease in pre-paid expenses	-42	-6	0	0	Long-term borrowing/Total Asset	7%	3%	4%	3%
Sellable securities, cost of borrowing, tax	0	0	0	0	Short-term borrowing/Owner's Equity	68%	53%	53%	37%
Operating Cash Flow	160	735	511	1,035	Short-term borrowing/Total Asset	30%	28%	28%	23%
Purchases of fixed assets and other long term assets	-518	-283	-300	-350	Short-term payables/Owner's Equity	44%	30%	27%	21%
Proceeds from disposal of fixed assets	50	84	0	0	Short-term payables/Total Asset	19%	16%	14%	13%
Loans granted, purchases of debt instruments	0	-11	-7	0	Total payables/Owner's Equity	44%	31%	27%	21%
Collection of loans, proceeds from sales of debts instruments	100	0	0	0	Total payables/Total Asset	20%	16%	15%	13%
Investments in other entities	-4	0	0	0	Operating Ratios				
Proceeds from divestment in other entities	0	0	0	0	Receivables turnover	7.0	8.7	8.0	9.5
Dividends and interest received	9	1	0	0	Inventory turnover	3.1	3.0	2.9	3.8
Investing Cash Flow	-363	-209	-307	-350	Payables turnover	9.3	9.6	11.1	11.8
Proceeds from issue of shares	0	0	0	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	5,476	4,833	5,030	4,733					
Repayment of borrowings	-5,204	-5,185	-4,833	-5,030					
Finance lease principal payments	0	0	0	0					
Dividends paid	-100	-37	-33	-33					
Interests, dividends, profits received	0	0	0	0					
Financing Cash Flow	172	-389	106	-331					
Net increase in cash and cash equivalents	-32	137	310	355					
Cash and cash equivalents at the beginning o period	168	136	272	582					
Cash and cash equivalents at the end of period	136	272	582	936					

Source: Phu Tai JSC, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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