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Nam Viet Corp (ANV)

3Q earnings miss on weak selling prices

Preliminary 3Q earnings miss as export prices remain sluggish

— Preliminary 3Q results missed our quarterly estimate by 37% as export prices continue to drag on overall profitability. Consolidated 3Q earnings fell by 74% YoY to VND40 billion on VND808 billion in revenue that was down by 28% YoY. We attribute weak performance to: 1) lingering pandemic impact that continues to contract export revenue, albeit less severe than our expectations; 2) lower domestic revenue from a saturated local market; and 3) delayed gross margin recovery with the prolonged industry-wide drop in export ASPs. Pandemic conditions dragged export revenue down by 34% YoY to VND572 billion but early recovery in the important China market still allowed exports to come in 10% above our forecast. Domestic revenue dropped by 8% YoY and fell for the first time since 1Q19 to VND236 billion given the saturated market. Industry-wide weakness in export ASPs – except for the modest pickup from China since September – continues to hinder gross margin recovery, which only widened to 13% versus our expectations for a 16% margin in 3Q but nonetheless improved over 2Q's 10%. Gross profit was down 55% YoY to VND107 billion.

Returning to overseas markets after 2Q's temporary shift to the domestic market

— China's recovery from September helped restore ANV's export revenue which accounted for 71% of total revenue in the current quarter and up sharply from 2Q's 44%. This contained ANV's aggressive shift to a domestic market to a single quarter, thereby reducing the company's exposure to a market suffering from weak prices since mid-2019.

Unlikely to meet 2020E's full-year earnings guidance but maintain BUY on ANV

— Year-to-date earnings of VND116 billion are still down 77% YoY and only at 58% of the company's full-year target. This comes despite revenue only being down 19% YoY to VND2,504 billion or 83% of its revenue plan. Full-year results are also likely to miss our 2020E earnings forecast of VND214 billion and the consensus of VND217 billion. Despite disappointing 3Q results – which could push back full earnings recovery to 2021E – we continue to believe ANV remains on track to restore profitability after export markets normalize from the pandemic. ANV's 3Q results only reflect one month of benefit from September's early recovery in China ASPs. Moreover, ANV's solar energy operations should also provide additional support to earnings recovery as revenue from this new business have ramped up to VND91 million in 3Q with gross margins high at 58%. We maintain our BUY recommendation on ANV and target price of VND21,700.

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Investment ratings & definitions

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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