



KB Securities

Dry Cell and Store Battery JSC (PAC: Hose)

Optimistic sales growth and rising sales expenses balanced out

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Net profit halved over the same period despite strong sales growth.

In Q2.2018 Pinaco's net sales reached VND798 bn, up 14.8% y / y and gross profit was VND 114.28 bn, up 20.2% over the same period, resulting from an increase in gross profit margin of 2.5 ppt. The key factor driving up GPM was the increase of 15% in battery price y/y.

However, due to an irregular income of VN 25bn from the relocation of Gia Phu factory in Q2.2017 taking up almost a half of pretax profit, NPAT suffered a fall of more than 50% to VND 27.7bn this quarter, which if excluded would ease the decrease in pretax-profit to only 11.8%.

Rising expenses put stress on the bottom line

Remarkably, SG&A expense/net sales ratio rose from 6% to 10% over the same period, which also hit net profit. As shared by PAC, due to intense competition, the company had to change its sales policy, boosting marketing activities, leading to higher selling expense and rising sales discount.

Financial income – coming from interest income – decreased VND2.7 bn to VND12.5 bn. Meanwhile, financial expense – mainly borrowings and exchange losses was of VND13.1 bn, posting an increase of VND1.3 bn over the same period, of which the interest expense was nearly VND9 bn, up VND3.7 bn.

First half's result still remains on track for PAC whole year's guidance .

Cumulatively, ending the first 6 months. Net sales posted VND1,527 bn (+10.2% y/y), in which domestic sales and export sales increased 9.5% and 12.9%, respectively, and both remain its proportion in net sales over the last period. Profit before tax was VND 71.3 bn, completing 49.2% of the plan and after-tax profit reached 57.2 bn VND, declining 26% compared to the profit achieved in the first half of last year.

Buy maintain

Target Price (VND)	49,700
Upside/Downside	+28%
Current price (July 23th, 18)	VND38,900
Market Cap (bn)	VND1,831

Trading Data

Outstanding shares	46,471,707
Avg Daily Vol (3M, shares)	16,338
Foreign ownership	29.84%
	Vinachem - 51.4%
Major shareholders	The Furukawa Battery Co., Ltd - 4.53%

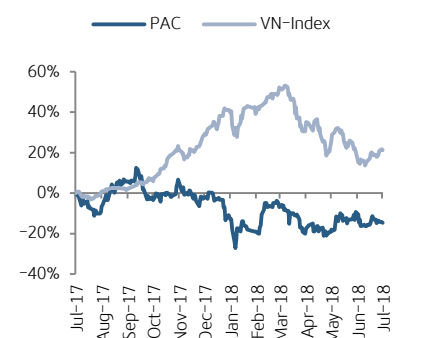
Performance

(%)	1M	3M	6M	12M
PAC	-5.4	1.5	-2.7	-14.7
VN-Index	0.6	-10.3	-13.4	+21.2

Forecast earnings & valuation

FY-end	2017A	2018F	2019F
Net revenue	2,612.9	3,064.7	3,371.1
Gross profit	316.3	429.1	573.1
NPAT	128.5	137.2	216.8
NPAT Growth	(31.5)	6.7	58.0
EPS	2,766	2,952	4,665
PER (x)	14.1	13.2	8.3
PBR (x)	2.8	2.8	2.1
ROE (%)	19.9%	21.0%	25.6%

Source: PNJ, KBSV estimate



Source: Fiin Pro

Table 1: Business Performance in 1H.2018

VND bn	Plan of 2018	1H.2018	1H.2017	% Y/Y	% Plan
Net sales	3000	1527.3	1386.9	10%	51%
Gross profit		196.6	169.8	16%	
Financial expense		22.3	18.2	-23%	
Selling expense		98.6	78.2	26%	
G&A expense		27.7	22.0	26%	
Operating profit		70.3	69.7	1%	
Profit before tax	145	71.3	101.4	-30%	49%
Profit after tax		57.2	77.0	-26%	

Table 2: Valuation models

Valuation Methods	Weighting	Share Value	Contribution	Market Price	Potential growth	WACC
FCFF	100%	49,689	49,689			COE 20.0%
						COD 7.7%
						Tax Rate 20.0%
						WACC 16.4%
Weighted Average Share Value			49,700	38,900	28%	Growth 2.0%

Business earnings forecast in 2018

Our projections for FY2018's net sales and NPAT are of VND 3,064bn (+17.2% y/y) and VND 137.2bn (+6.7% y/y), respectively for following reasons:

Storage battery volume for replacement in 2018 rises 12% YoY. Demand for storage battery for replacement is growing along with the increasing vehicle consumption, particularly passenger cars grew at a CAGR of 19.8% over the last five years. For the next 3 years, we are optimistic about continuing growth possibility as Import tax on vehicles made in ASEAN having reached 0% which would increase new cars consumption.

PAC aims to upgrade its storage battery capacity by 50% by FY2020. Currently, PAC is operating at capacity of 1.9 million Kwh, (+26.6% y/y) which support growth this year. In the future, the company plans to build a new factory nearby their existing Nhon Trach factory to boost capacity to 3 million Kwh, (+50% y/y) at a cost of VND 1,200 billion. They are currently seeking Vinachem approval for this.

Vinachem's divestment plan in PAC is hinted to happen in Q4.2018, though there is no official announcement yet. Vinachem expects to reduce its stake to under 50%. We believe the divestment plan would be a positive catalyst for the stock along with fairly good earning result in Q1.2018.

Currently, PAC is trading at 2018 PER of 13.2x and 2019 PER of 8.3x. We revise down our NAPT estimate by 15% due to a higher than expected selling expense for FY2018. We maintain our recommendation BUY for PAC as we are still optimistic about the rising battery storage demand.

Investment Rating for Company

Buy: +15% or beyond

Hold: between +15% and -15%

Sell: -15% or beyond

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