

STOCK PITCH REPORT

**Buy**

June 25, 2021

**Target price VND112,900**

Upside (%)	31.3
Current price (June 23, 2021)	86,000
Market cap (VNDbn)	4,096

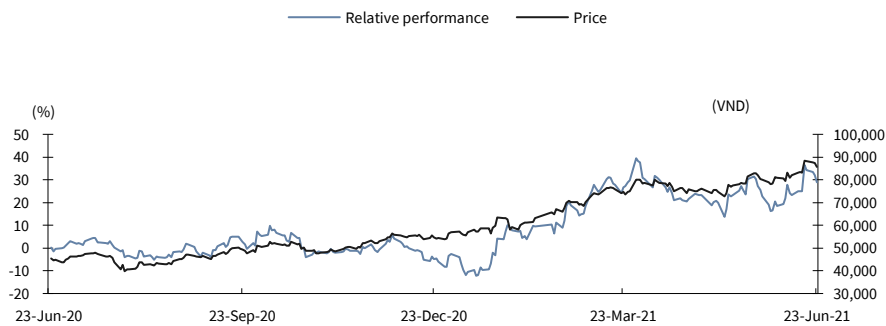
**Trading data**

Free float (%)	68.6
3M avg trading value (VNDbn)	12.7/0.1
Foreign ownership (%)	30.74
Major shareholder	Le Vy 12.27%

**Forecast earnings & valuation**

FY-end	2019	2020	2021F	2022F
Net sales (VNDbn)	5,549	5,601	7,243	8,161
Earnings/loss (VNDbn)	17.6%	0.9%	29.3%	12.7%
Profit attributable to parent (VNDbn)	1,031	1,141	1,598	1,816
EPS (VND)	18.6%	20.4%	22.1%	22.3%
EPS growth (%)	457	379	552	639
P/E (x)	14.3%	-17.0%	45.6%	15.6%
P/B (x)	8,958	7,377	10,741	12,418
ROE (%)	13.2%	-17.7%	45.6%	15.6%
Dividend yield (%)	9.6	11.7	8.0	6.9

**Fig 1. Share price performance**



Source: Bloomberg, KB Securities Vietnam

**Phu Tai JSC (PTB)**

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**INVESTMENT VIEWPOINT**

We recommend BUYING PTB shares with a target price of VND112,900 per share with the expectation that business results will continue to grow impressively thanks to increasing demand for wood products, expanding export markets, and positive sales of Phu Tai Residence project.

**INVESTMENT CATALYSTS**

**The demand for wooden indoor and outdoor furniture for export has increased sharply.**

PTB's wood sales were strongly improved in the last period, following the general trend of the market when Vietnam's exports to the US rose. We expect the wood segment to continue to grow, based on the following factors: (1) Strong demand in the US market; (2) rising prices of imported wood in the US; and (3) benefits from the US-China trade war.

**PTB would expand production scale through Phu Cat project.** In August 2020, the company approved the Phu Cat Binh Dinh indoor wood furniture processing factory project with a total investment of VND429 billion. It is estimated that after completing phases 1 and 2 of Phu Cat factory, the total capacity of PTB's wood processing factories will reach nearly 80,000 products a year, up 26% in capacity vs 2020.

**PTB would recording revenue from Phu Tai Residence project.** The construction of Phu Tai Residence started in Quy Nhon, Binh Dinh province from 2019. We expect Phu Tai Residence to bring in VND1,112 billion in revenue and VND192.5 billion in profit in 2021 and 2022.

**RISKS**

The resurgence of the Coronavirus may make PTB suspend operating business activities. The US likely impose import tariffs against Vietnamese wood products.

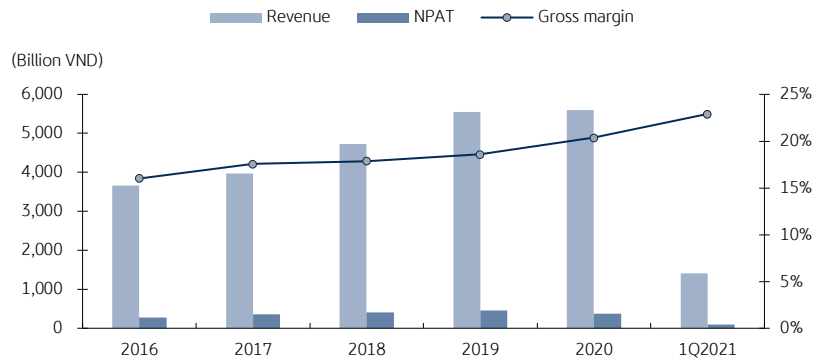


## BUSINESS PERFORMANCE

**1Q2021, Revenue and NPAT increased by 15.6% YoY and 60.1% YoY respectively**

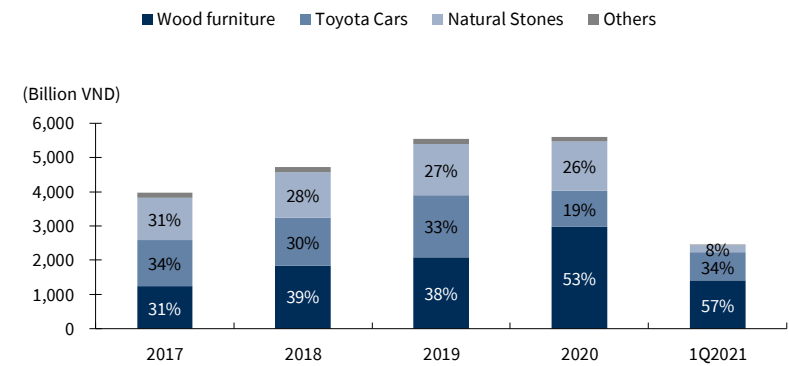
In 1Q21, PTB recorded positive business results with revenue of VND1,403 billion, up 15.6% YoY, driven by wood revenue (+36.1% YoY). Revenue from stone segment increased slightly 2.1% YoY, and car sales decreased by 15.0% YoY. Gross profit margin improved to 22.9% (+290 bps QoQ, +360 bps YoY) mainly thanks to the increase in wood product prices and low inventory. 1Q net profit rose 60.1% YoY to VND102.5 billion.

Fig 2. PTB – Business performance in 2016 – 1Q21



Source: Phu Tai JSC

Fig 3. PTB – Revenue structure in 2016 – 1Q21



Source: Phu Tai JSC

## INVESTMENT CATALYSTS

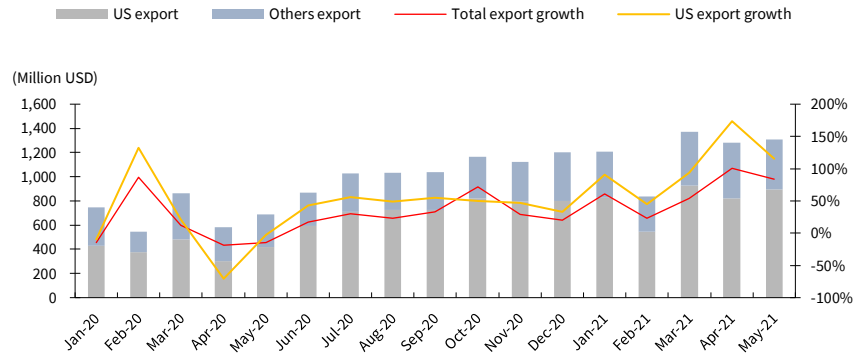
PTB has three main business segments, including: (1) raw wood and refined wood production and distribution, (2) natural stone production and distribution (including granite, marble and crushed stone); and (3) Toyota cars distribution. Recently PTB has gradually focused on the wood segment with high growth potential in the long term.

### 1. The demand for wooden indoor and outdoor furniture for export has increased sharply

PTB's wood business results have improved, following the general trend of the market when Vietnam's exports to the US increased sharply. Export turnover to the US in May reached USD895.5 million, doubling the figure of the same period last year (Figure 4). We expect PTB's wood business to continue to grow thanks to the following factors:

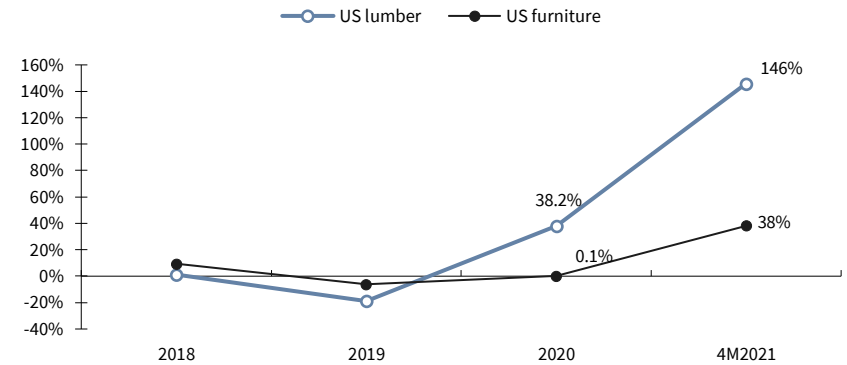
- **The demand for wood and wooden furniture in the US market surged despite the worrying pandemic situation:** The US 4M21 imported volume of sawn timber increased 146% YoY. In addition, the import turnover of indoor furniture also jumped to 38% YoY in 4M21 (Figure 5). The policy of cutting mortgage interest rates made the US construction and real estate market busy again, reflected in a 31% YoY rise in the number of licensed construction projects in 5M221 (Figure 6). The need to renovate houses when people spend a lot of time staying home also boosts the demand for wooden furniture.
- **The prices of imported wood in the US and Japan have been increased:** As of May 2021, the US import wood prices gained 75.8% YTD and 155.3% YoY (Figure 7). The reason for this is the difference between supply and demand. America and Japan are experiencing a shortage of wood supply when factories have to close or suspend production due to the pandemic. The capacity of wood factories and workshops in the US recently cannot meet the surging demand for wood, causing the spike in the prices of imported wood to this country.
- **The US-China trade war increases the US's demand for importing wood and wood products from Vietnam:** The US is the leading importer of Vietnamese wood and wood products in recent years (60% in 2020 despite the pandemic). Vietnam's wood export turnover to the US in 2020 rose 34.37% YoY to USD7.4 billion, making Vietnam the leading wood exporter. Meanwhile, Chinese indoor furniture have been imposed the 25% tariffs by the US since 2018, and 228 Chinese wood and wood products are subject to 28% tax rate, making export turnover down 25% YoY to USD7.33 billion in 2020.

**Fig 4. Vietnam – Export turnover growth of wood products in 2019–2021 (% YoY)**



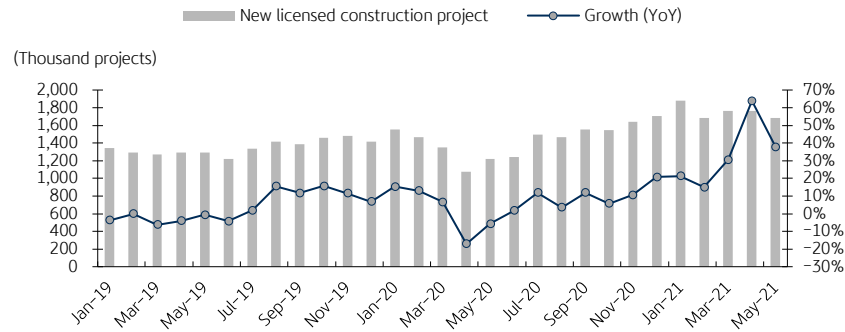
Source: General Statistics Office

**Fig 5. US – 4M21 import turnover growth of indoor & outdoor wooden furniture (% YoY)**



Source: Bloomberg

**Fig 6. US – The growth of the number of houses licensed for building (% YoY)**



Source: Bloomberg

**Fig 7. US – Imported wood and wood product prices (USD)**



Source: Bloomberg

## 2. PTB would expand production scale through Phu Cat project

In August 2020, the company approved the Phu Cat Binh Dinh indoor wood furniture processing factory project with a total investment of VND429 billion (including 30% equity capital and 70% bank loan). The total land area is 52,149 m<sup>2</sup> with two three-storey workshops. The construction process is divided into three phases: Phase 1 has an investment of VND201 billion to build a factory which should be put into operation in 1Q21; phase 2 has an investment of VND34 billion to build a warehouse and a drying furnace system which should be run from 2Q21; and phase 3 has an investment of VND194 billion, which is expected to operate from the 3Q21. After completing phases 1 and 2 of Phu Cat factory, the total capacity of PTB's wood processing factories may reach nearly 80,000 products per year, up 26% vs 2020. This will ensure the growth of the wood segment, especially for furniture products which have high gross profit margin.

### 3. PTB would recording revenue from Phu Tai Residence project

The construction of Phu Tai Residence started in Quy Nhon, Binh Dinh province from 2019. This is a 33-storey apartment project with 622 apartments and 12 commercial apartments. Up to now, PTB said it has sold about 45% of the project's apartments and expected to sell 70% of the total units by the end of 2021 and deliver them in 3Q21. We expect Phu Tai Residence to bring in VND1,112 billion in revenue and VND192.5 billion in profit, equally divided between 2021 and 2022.

Fig 8. PTB – The location of Phu Tai Residence project



Source: Phu Tai JSC

Fig 9. PTB – The master plan of Phu Tai Residence project



Source: Phu Tai JSC

## RISKS

- **The resurgence of the Coronavirus may make PTB suspend operating business activities.** If this happens, PTB may hardly finish orders from customers and sign new contracts with partners.
- **The US likely impose import tariffs against Vietnamese wood products.** The common phenomenon of Chinese wood firms transferring goods to Vietnam and then exporting to the US to avoid taxes and Vietnam's wood export turnover increasing sharply since the US-China trade war made our country's wood industry one of the most targeted markets investigated for anti-dumping and trade fraud lawsuits. Especially in 2020, the US Department of Commerce (DOC) launched an investigation to apply anti-tax evasion measures to plywood products of Vietnam. However, we assess this risk is low in the near future because PTB's products are all natural wood that has FSC to verify the origin and production process by international standards.



## VALUATION

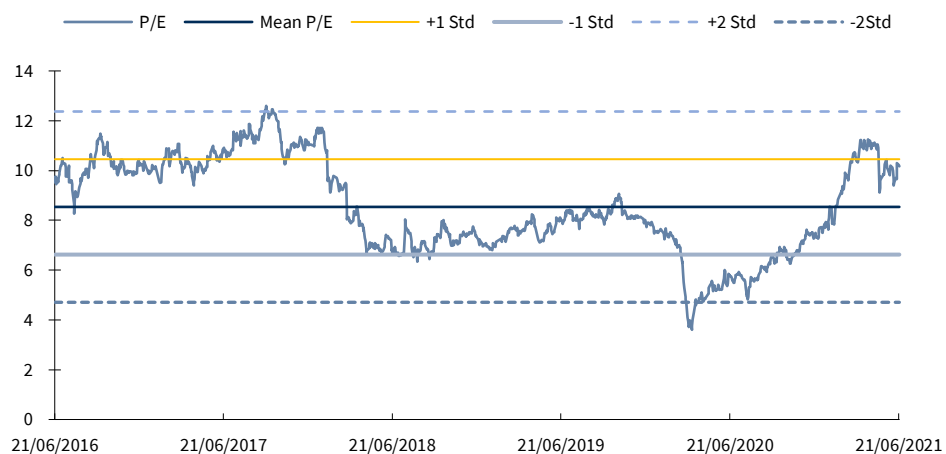
### 2021F PERFORMANCE

From a cautious point of view, we still keep gross profit margin at a moderate level due to the unknown information on export wood prices of PTB and forecast that 2021 earnings will reach VND552 billion (up 45.6% YoY) on revenue of VND7,243 billion (up 29.3% YoY) thanks to strong demand in export markets and profit from Phu Tai Residence project.

### VALUATION

After assessing business prospects and possible risks, we recommend BUYING PTB shares with the target price of VND112,900 per share, 31.3% higher than the closing price on June 25, 2021 (based on the FCFE and P/E methods). PTB shares are currently traded at 2021F P/E of 8.0x. We expect the reasonable P/E for PTB at the end of 2021 is 10.5x, equivalent to the average STD+1 P/E of PTB in the last five years.

Fig 10. PTB - P/E in 2016 - 1Q21 (x)



Source: Phu Tai JSC

Table 12. PTB - FCFE valuation

	Assumption
Re	10.3%
Rf	2.9%
Risk premium	8.2%
Beta	0.90
Perpetual growth	3%
Forecast period	6 years

Source: Phu Tai JSC

Table 11. PTB - 2021-2022F performance

	2019	2020	2021F	2022F
Revenue	5,549	5,601	7,243	8,161
COGS	4,518	4,460	5,645	6,345
Gross profit	1,031	1,141	1,598	1,816
Selling expense	224	422	601	671
Administration expense	185	197	268	302
Financial expense	97	106	87	98
PBT	550	462	673	778
<b>NPAT</b>	<b>457</b>	<b>379</b>	<b>552</b>	<b>639</b>

Source: Phu Tai JSC

Fig 3. PTB - Target price according to FCFE and P/E method (VND)

Methods	Estimated price	Weight	Price per weight
FCFE	112,900	50%	56,450
P/E	112,800	50%	56,400
<b>Target price</b>			<b>112,900</b>

Source: Phu Tai JSC

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**Investment ratings & definitions**

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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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