

Vicostone (VCS)

Expecting a rebound from the US market

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1Q23 revenue and profit were subdued

Vicostone's 1Q23 NPAT reached VND190 billion (-48.7% YoY) on revenue of VND1,033 billion (-35.87% YoY). The difficult global economic situation affects the export revenue of VCS. Rising inflation makes businesses and households cut spending. Besides, high interest rates and raw material costs also hit the real estate and construction sectors.

VCS expects a recovery from the US market

In May 2023, the number of houses getting construction permits and starting construction in the US rose sharply again. The number of newly built houses reached 1,631 units, higher than the expected 21% MoM increase. This bodes well for building materials and quartz exporters like VCS. In the revenue structure, the US market accounts for 65% of revenue from the company's main export markets.

Lower polyester resin prices help to improve VCS's GPM

The prices of polyester resin have a close correlation with the prices of crude oil. Crude oil prices decreased by 6% in 1Q, leading to the fall of world polyester resin prices. Global polyester prices have dropped by 10% YTD, which helps to improve the profit margin for VCS. We estimate that for every 10% change in input plastic prices, the COGS of VCS will fluctuate in the same direction by 3-4%.

BUY recommendation with a target price of VND72,600/share

Based on VCS's FCFF and P/E results, business outlook, and possible risks, we recommend BUY for VCS stock. The target price is VND72,600, 22.6% higher than the price on June 22, 2023.

Buy maintain

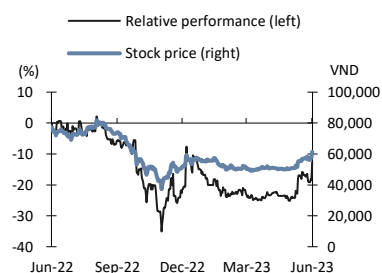
Target price	VND72,600
Upside	22.6%
Current price (Jun 22, 2023)	VND 59,200
Consensus target price	VND 73,000
Market cap (VNDtn/USDbn)	9,904

Trading data	
Free float	11.7%
3M avg trading value (VNDbn/USDmn)	6.32
Foreign ownership	3.06%
Major shareholder	A&A Green Phoenix (84.16%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	22.3	22.3	18.3	-18.1
Relative	16.8	13.9	11.2	-11.1

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	7,070	5,660	4,674	5,489
Operating income (VNDbn)	2,116	1,382	1,198	1,584
NPAT of parent company (VNDbn)	1,772	1,149	1,007	1,329
EPS (VND)	9,890	6,425	6,293	8,306
EPS growth (%)	20%	-35%	-2%	32%
P/E (x)	11.4	8.7	11.5	8.7
P/B (x)	3.7	1.8	2.8	2.5
ROE (%)	0.4	0.2	0.2	0.2
Dividend yield (%)	4%	11%	4%	6%



Source: Bloomberg, KB Securities Vietnam

1Q23 performance updates

1Q23 revenue and profit were subdued

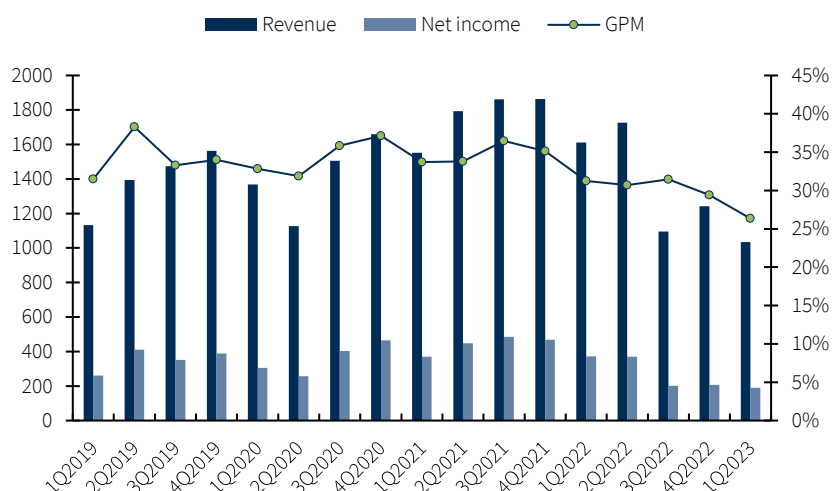
VCS's 1Q23 NPAT reached VND190 billion (-48.7% YoY) on revenue of VND1,033 billion (-35.87% YoY). The difficult global economic situation affects the export revenue of VCS. Rising inflation makes businesses and households cut spending. Besides, high interest rates and raw material costs also hit the real estate and construction sectors.

Table 1. VCS – 1Q23 results

(VNDbn)	1Q2022	1Q2023	+/-%YoY	KBSV's notes
Revenue	1.612	1.034	-36%	Net revenue declined due to a decrease in finished products and goods sold. Consumption demand in major markets such as the US and Europe is affected by inflation and economic stagnation.
Cost of goods sold	-1,108	-761	-31%	
Gross profit	503	272	-46%	
Gross profit margin (%)	31.2%	26.3%	-16%	Gross profit margin decreased due to high raw material prices in line with oil prices and was affected by low consumption demand in the main export markets. Polyester resin prices in 2022 are 18% higher on average than in 2021.
SG&A costs	-71	-47	-35%	
% SG&A/sales	4.43%	4.52%	2%	
Operating income	441	226	-49%	
Financial income	25	19	-24%	
Financial expenses	-11	-14	23%	
Other incomes (net)	0	0		
Profit before taxes	441	225	-49%	
Profit after taxes	371	190	-49%	

Source: Vicostone, KB Securities Vietnam

Fig 2. VCS – Revenue and profit in 2019–2023 (VNDbn)



Source: Vicosstone, KB Securities Vietnam

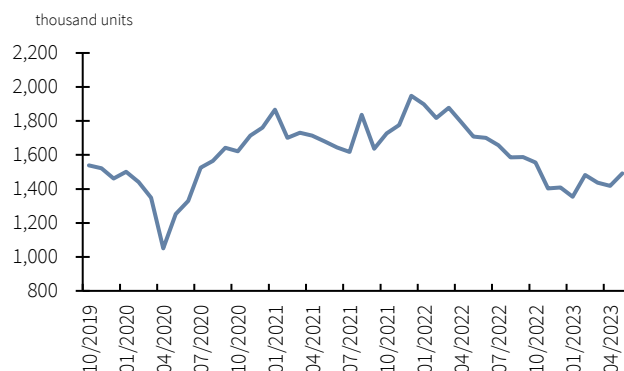
VCS expects a recovery from the US market

In May 2023, the number of houses getting construction permits and starting construction in the US rose sharply again. The number of newly built houses reached 1,631 units, higher than the expected 21% MoM increase. This bodes well for building materials and quartz exporters like VCS. In the revenue structure, the US market accounts for 65% of revenue from the company's main export markets. We expect VCS to improve export revenue from this market in the second half of 2023.

In the long term, the US market still has a lot of potential. According to Freedonia, the market size in 2022 is estimated at USD28.5 billion, of which quartz accounts for about 20%, equivalent to USD8.7 billion of Countertop market share. The growth rate is forecasted to reach 5.9% CAGR in the period 2020–2025. Growth in demand will be a premise for VCS to take advantage and increase exports to this market.

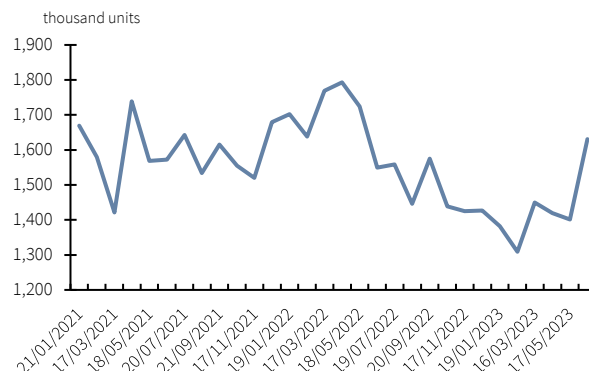
The total import value of quartz to the US by the end of April 2023 decreased by 23.7% YoY but the value of imports from Vietnam increased by 1.1%. Vietnam's export price to the US market is still higher than average despite a sharp decline before due to competition. However, we still believe that it is necessary to pay attention to the risk of the US imposing tariffs on Vietnamese products in the context that the volume of imported artificial quartz from our country into the US has increased significantly since 2019.

Fig 3. US – Number of new house building permits (unit)



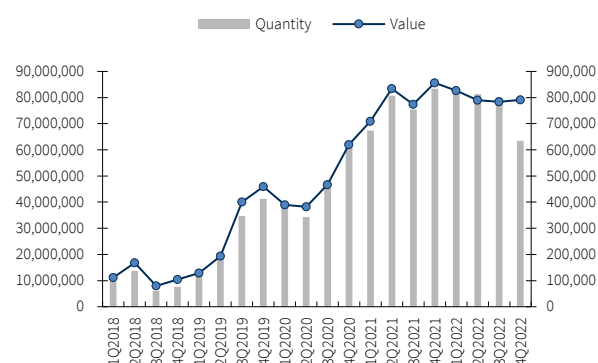
Source: Census Bureau, KB Securities Vietnam

Fig 4. US – Number of newly built houses (unit)



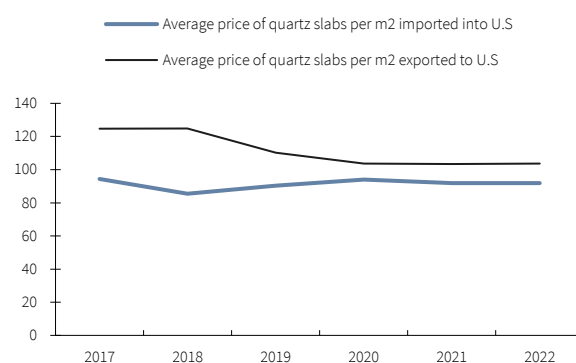
Source: Census Bureau, KB Securities Vietnam

Fig 5. Vietnam – Quartz volume exported to the US (m²)



Source: USITC, KB Securities Vietnam

Fig 6. Vietnam – Estimated average price of quartz exported to the US (USD/m²)



Source: USITC, KB Securities Vietnam

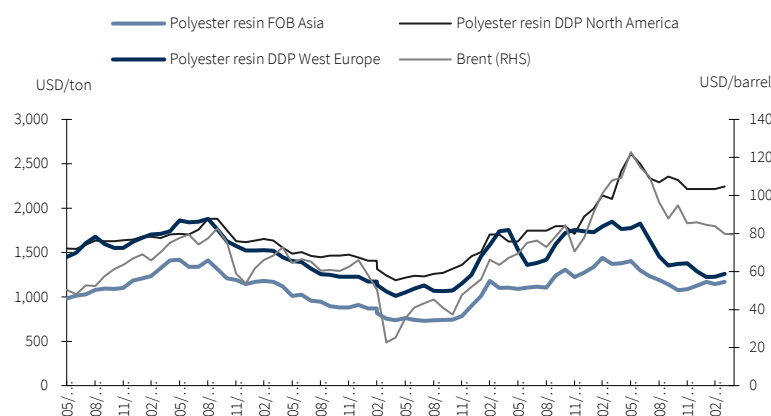
Lower polyester resin prices help to improve VCS’s GPM

The prices of polyester resin have a close correlation with the prices of crude oil. Crude oil prices decreased by 6% in 1Q, leading to the fall of world polyester resin prices.

Global polyester prices have dropped by 10% YTD, which helps to improve the profit margin for VCS. Polyester resin is an input material that accounts for 7% of the volume of quartz but costs about 40% of the finished product. We estimate that for every 10% change in input plastic prices, the COGS of VCS will fluctuate in the same direction by 3-4%.

Phenikaa chemical plant’s self-made polyester resins helped VCS reduce input costs. However, price fluctuations in the world market still affect the cost of production of VCS, but the volatility will be low and better controlled.

Fig 7. Global – Prices of polyester resin and Brent oil (USD/ton, USD/barrel)



Source: Bloomberg, KB Securities Vietnam

Table 8. VCS – 2023F business results

(VNDbn)	2022	2023F	+/-%YoY	KBSV's notes
Revenue	5,660	4,674	-36%	Revenue declined as export prospects to the US, Europe and Australia markets were affected by concerns about the gloomy economy, sluggish real estate and construction.
Cost of goods sold	3,917	3,244	-31%	
Gross profit	1,743	1,430	-46%	
Gross profit margin (%)	30.8%	30.6%		We believe that gross profit margin will only decrease slightly in 2023 due to (1) polyester resin price tends to go down in the same direction as oil price (2) VCS can control its own costs better.
SG&A costs	-321	-234	-35%	
% SG&A/sales	-5.7%	-5.0%		
Operating income	1,382	1,198	-13%	
Financial income	98	63	-36%	
Financial expenses	-137	-62	-55%	
Other incomes (net)	-5	-7	31%	
Profit before taxes	1,377	1,185	-14%	
Profit after taxes	1,149	1,007	-12%	

Source: Vicostone, KB Securities Vietnam

Forecast & valuation

**Valuation: BUY – target price
VND72,600/share**

We used free cash flow on firm (FCFF) and P/E, weighting 50-50, to give VCS a BUY recommendation with a target price of VND72,600/share, equivalent to a 22.6% upside compared to the closing price on June 22, 2023.

Table 9. VCS – FCFF valuation

Cost of Equity	11%	Present value of terminal value (TV)	6,522
Risk-free rate	5%	Total present value in 2023–2028 (PV)	8,994
Market risk premium	8%	Total present value	15,515
Beta	1	Value of owner equity	15,185
Terminal growth	3%	Number of outstanding shares (thousand shares)	160,000,000
		Equity/share (VND)	94,906

Source: KB Securities Vietnam

Table 10. VCS – Final valuation

Method	Forecast price	Proportion	Proportional price
FCFF	94,906	50%	47,433
P/E (8x)	50,343	50%	25,171
Target price (rounded)			72,600
Current price (June 22, 2023)			59,200
Upside			22.6%

Source: KB Securities Vietnam

Fig 11. VCS – P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

VCS – 2021A–2024F financials

Income Statement					Bảng cân đối kế toán				
(VND billion)	2021	2022	2023F	2024F	(Tỷ VNĐ)	2021	2022	2023F	2024F
Net sales	7,070	5,660	4,674	5,489	TỔNG CỘNG TÀI SẢN	6,893	6,590	6,676	7,063
Cost of sales	4,608	3,917	3,244	3,705	TÀI SẢN NGẮN HẠN	5,829	5,541	4,106	4,422
Gross Profit	2,463	1,743	1,430	1,784	Tiền và tương đương tiền	1,048	1,107	1,410	3,034
Financial income	62	98	63	111	Giá trị thuần đầu tư ngắn hạn	60	0	0	0
Financial expenses	-89	-137	-62	-37	Các khoản phải thu	2,448	1,750	1,447	1,784
of which: interest expenses	-57	-50	-62	-37	Hàng tồn kho, ròng	1,990	2,578	1,827	2,017
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	TÀI SẢN DÀI HẠN	1,064	1,049	2,570	2,640
Selling expenses	-272	-255	-187	-220	Phải thu dài hạn	0	0	0	0
General and admin expenses	-47	-67	-47	-55	Tài sản cố định	1,037	975	2,550	2,621
Operating profit/(loss)	2,116	1,382	1,198	1,584	Tài sản dở dang dài hạn	0	0	0	0
Other incomes	4	4	3	3	Đầu tư dài hạn	0	0	0	0
Other expenses	-23	-9	-9	-14	Lợi thế thương mại	0	0	0	0
Net other income/(expenses)	-18	-5	-7	-10	NỢ PHẢI TRẢ	2,019	1,721	1,303	1,026
Income from investments in other entities	0	0	0	0	Nợ ngắn hạn	1,872	1,628	1,210	883
Net accounting profit/(loss) before tax	2,097	1,377	1,185	1,563	Phải trả người bán	252	80	102	229
Corporate income tax expenses	-325	-229	-178	-235	Người mua trả tiền trước	7	7	7	7
Net profit/(loss) after tax	1,772	1,149	1,007	1,329	Vay ngắn hạn	1,479	1,341	937	468
Minority interests	0	0	0	0	Nợ dài hạn	146	93	93	143
Attributable to parent company	1,772	1,149	1,007	1,329	Phải trả nhà cung cấp dài hạn	0	0	0	0
					Người mua trả tiền trước dài hạn	0	0	0	0
					Doanh thu chưa thực hiện	0	0	0	0
					Vay dài hạn	146	93	93	143
					VỐN CHỦ SỞ HỮU	4,874	4,869	5,372	6,037
					Vốn góp	1,600	1,600	1,600	1,600
					Thặng dư vốn cổ phần	0	0	0	0
					Lãi chưa phân phối	3,166	3,161	3,664	4,329
					Vốn Ngân sách nhà nước và quỹ khác	0	0	0	0
					Lợi ích cổ đông không kiểm soát	0	0	0	0
Margin ratio					Key ratios				
	2021	2022	2023F	2024F	Multiple				
Gross profit margin	34.8%	30.8%	30.6%	32.5%	P/E	11.4	8.7	11.5	8.7
EBITDA margin	40.3%	33.3%	29.8%	31.2%	P/E diluted	11.4	8.7	11.5	8.7
EBIT margin	30.5%	25.2%	26.7%	29.2%	P/B	3.7	1.8	2.8	2.5
Pre-tax profit margin	29.7%	24.3%	25.3%	28.5%	P/S	2.6	1.6	2.5	2.1
Operating profit margin	29.9%	24.4%	25.6%	28.9%	P/Tangible Book	3.7	1.8	2.8	2.5
Net profit margin	25.1%	20.3%	21.5%	24.2%	P/Cash Flow	16.5	7.5	9.2	4.2
					EV/EBITDA	8.4	6.2	7.0	4.9
					EV/EBIT	8.9	6.7	9.2	6.0
Cash Flow Statement					Operating performance				
(VND billion)	2021	2022	2023F	2024F	ROE	36%	24%	19%	22%
Net profit/(loss) before tax	2,097	1,377	1,185	1,563	ROA	25.7%	17.4%	15.1%	18.8%
Depreciation and amortisation	128	129	387	347	ROIC	39.5%	27.4%	25.0%	44.3%
Profit/loss from investing activities	-14	-22	-22	-22	Financial structure				
Interest expense	57	50	62	37	Cash Ratio	0.46	0.26	0.25	0.40
Operating profit/(loss) before changes in Working Capital	2,285	1,582	1,612	1,926	Quick Ratio	0.49	0.26	0.25	0.40
(Increase)/decrease in receivables	-649	809	698	303	Current Ratio	2.33	2.27	2.37	2.45
(Increase)/decrease in inventories	22	-597	-588	751	LT Debt/Equity	3%	2%	2%	2%
Increase/(decrease) in payables	-67	-189	-172	22	LT Debt/Total Assets	2%	1%	1%	2%
(Increase)/decrease in prepaid expenses	1	0	0	0	Debt/Equity	30%	28%	17%	8%
Net cash inflows/(outflows) from operating activities	1,095	1,192	1,257	2,762	Debt/Total Assets	21%	20%	14%	7%
Purchases of fixed assets and other long term assets	-41	-61	-47	-55	ST Liabilities/Equity	38%	33%	23%	15%
Proceeds from disposal of fixed assets	0	0	0	0	ST Liabilities/Total Assets	27%	25%	18%	13%
Loans granted, purchases of debt instruments	-60	0	0	0	Total Liabilities/Equity	41%	35%	24%	17%
Collection of loans, proceeds from sales of debts instruments	0	60	0	0	Total Liabilities/Total Assets	29%	26%	20%	15%
Investments in other entities	0	0	0	0	Activity ratios				
Proceeds from divestment in other entities	0	0	0	0	Account Receivable Turnover	2.9	3.2	3.2	3.1
Dividends and interest received	14	22	0	0	Inventory Turnover	2.3	1.5	1.8	1.8
Net cash inflows/(outflows) from investing activities	-87	21	-47	-55	Account Payable Turnover	18.2	56.1	24.3	17.0
Proceeds from issue of shares	1	0	0	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	2,826	2,560	50	100					
Repayment of borrowings	-2,935	-2,752	-454	-518					
Finance lease principal payments	0	0	0	0					
Dividends paid	-642	-959	-503	-664					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	-750	-1,151	-908	-1,083					
Net increase in cash and cash equivalents	258	62	303	1,624					
Cash and cash equivalents at the beginning of period	790	1,045	1,107	1,410					
Cash and cash equivalents at the end of period	1,048	1,107	1,410	3,034					

Source: Vicostone, 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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