

May, 2019

Duc Thanh Wood Processing JSC (GDT - HSX)

Long term Value in Household Goods Segment

- **Long runway – GDT's size is just a fraction of the household wooden product market**
- **Global sustainable demand for household products**
- **Alignment of interests - Owners-operators**

GDT is a traditional manufacturer of kitchenware, household utensils, home furniture and kid toys made of rubber wood, MDF and plywood. GDT business is fundamentally strong with good management who has successfully steered the company through the global financial crisis and economic recession. From 2007 to 2018, GDT's business has grown consistently with revenue and EPS CAGR of 10% and 14%, respectively.

Exposed to the sizeable global market, GDT still has growth potential. Demand from key export markets such as Japan and Korea have been sustainable, implying a high likelihood of continued steady growth in North Asia. Management was able not just to maintain but increase ROE over time, from 16% in 2007 to 35% in 2018.

The Le family founded the company in 1991 and hold 40% of the shares. The family has a proven track record and history of equally rewarding shareholders with predictable stock or cash dividends.

History shows GDT can generate FCFE of VND 70 Bn to VND 80 Bn per year. The current market cap implies a valuation of 8x FCFE or 7x trailing P/E with potential EPS growth 10%-12%/year. Despite a lack of upside catalysts, we believe GDT is a good value opportunity, especially considering the current 13% dividend yield. GDT's dividend payout ratio is around 90%.

Due to rising labor costs, GDT may report a slowdown in earnings growth in 2019. However, we believe its long-term earnings power will remain and an off-year like this could give investors an opportunity to **ACCUMULATE** the stock at more attractive prices. Otherwise, the stock provides stable income in the late cycle. We estimate the valuation range for GDT at **VND 39,500-52,300/share**, using FCFE and P/E method (7x) but recommend investors to apply a personal discount rate as the stock is very illiquid.

Key financial ratios

Y/E Dec (VND Bn)	FY2017	FY2018	FY2019E	FY2020F
Net revenue	362	390	433	476
%change	11.9	7.6	11.0	10.0
PAT	101	90	93	102
% change	5.6	-11.4	3.3	10.5
Net margin (%)	28.0	23.0	21.4	21.5
ROA (%)	28.9	26.1	26.0	27.4
ROE (%)	39.5	34.7	34.9	36.5
EPS (VND)	5,878	5,492	5,652	6,122
Adjusted EPS (VND)	5,116	5,472	5,652	6,122
Book value (VND)	17,192	15,779	16,202	17,094
Cash dividend (VND)	6,000	5,000	5,000	6,000
P/E (x)	8.0	7.6	6.9	6.3
P/BV (x)	2.7	2.6	2.4	2.3

Source: GDT, Rong Viet Securities * Based on the price on May 24, 2019.

ACCUMULATE +15%

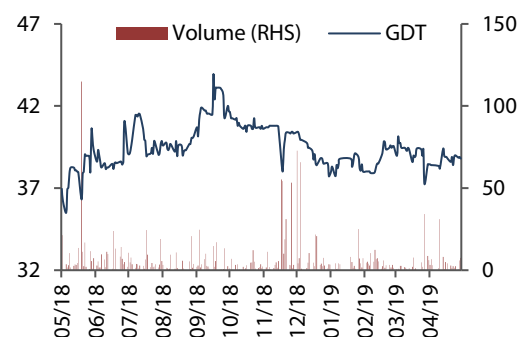
Market price (VND)	38,500
Target price (VND)	39,500

Cash Dividend (VND)*	5,000
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* Expected in the next 12 months

Stock Info

Sector	Consumer Goods
Market Cap (VND Bn)	634
Share O/S (Mn)	16.3
Beta	0.1
Free Float (%)	28
52 weeks high	43,949
52 weeks low	35,503
Average trading volume (20 sessions)	4,825



Performance (%)

	3M	1Y	3Y
GDT	-1	5	34
VN30 Index	-1	-5	44
VN-Index	2	1	57

Major shareholders (%)

Ha Thi Hue (CEO mother)	28.4
Vietnam Holding Limited	4.8
Vu Tuyet Phuong	4.3
Remaining Foreign Room (%)	25.7

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Long runway – GDT's size is just a fraction of the household wooden product market

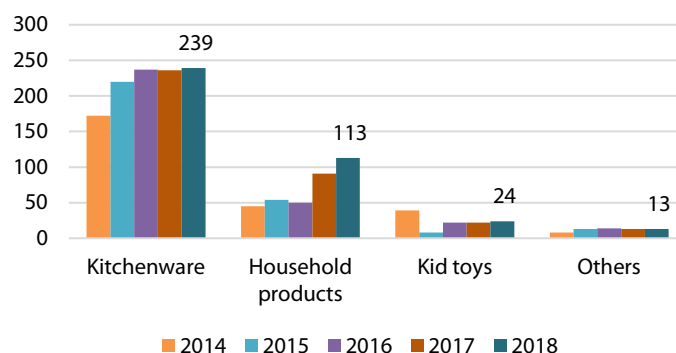
GDT is a manufacturer of kitchenware, household utensils, home furniture and kid toys made of rubber wood, MDF and plywood. The company mainly provides outsourcing service for foreign clients. Accordingly, exports account for over 80% of GDT's revenue.



Figure 1: GDT revenue structure (%)



Figure 2: GDT revenue by products (Bn VND)

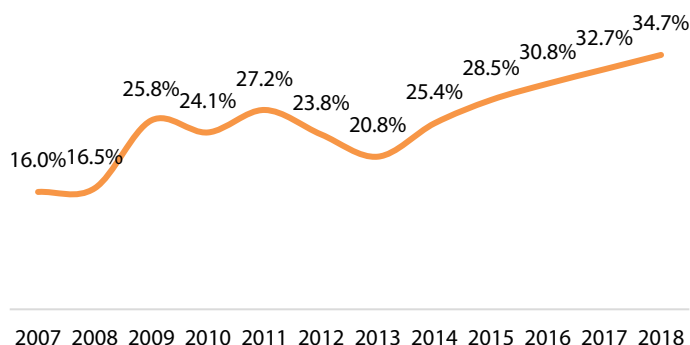


Source: GDT, Rong Viet Securities

This niche market is very fragmented. Most Vietnamese manufacturers run small facilities; whose products hardly meet export requirements. Most of GDT's competitors come from China and Thailand, but we believe they do not compete head to head. The reason is these small item products have a wide range of form and detail that meet different taste of customers. Therefore, outsourcing demand is not restricted to just one product and competition cannot be define as 'fierce'. This allowed GDT to maintain and increase ROE over time from 16% in 2007 to 35% in 2018 (Figure 3).

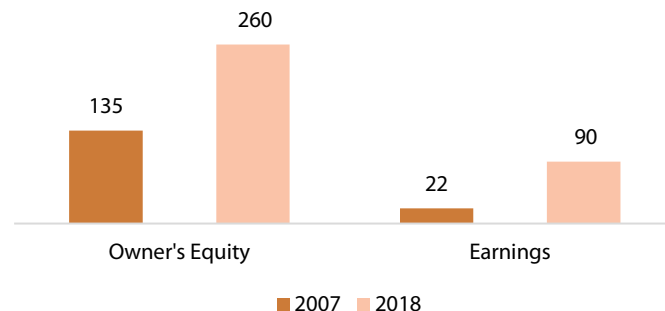
The market size is large. In 2018, Japan and Korea alone imported USD 332 Mn (VND 7,600 Bn) of wooden table- and kitchenware. GDT, a big well-known company in this segment, has a revenue of only VND 400 Bn (USD 17.2 Mn) in 2018. Thus, there is room for further growth.

Figure 3: GDT's ROE (adjusted for abnormal profit)



Source: GDT, Rong Viet Securities

Figure 4: GDT changes in Equity and Earnings (Bn VND)

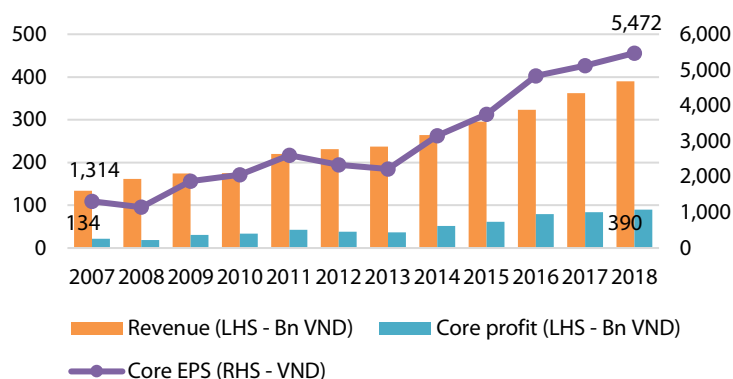


The business also requires little capital. In 2007, GDT had VND 135 Bn in Equity and generated earnings of VND 22 Bn. In 2018, it had VND 260 Bn in equity, generating earnings of VND 90 Bn. So, over this 12 years period, the company only needed to increase capital by VND 135 Bn to generate a total of VND 620 Bn in earnings (Figure 4). Maintenance capex is minor.

Global sustainable demand for household products

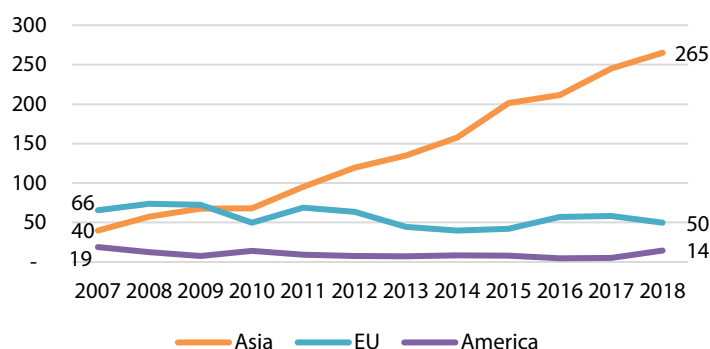
GDT's business is fundamentally strong with good management who has successfully steered the company through the global financial crisis and economic recession. From 2007 to 2018, GDT's business has grown consistently with revenue and EPS CAGR of 10% and 14%, respectively. The company has set up a loyal customer base, without heavily depending on one. Several biggest customers account for only 30% of total sales.

Figure 5: GDT revenue and earnings 2007-2018



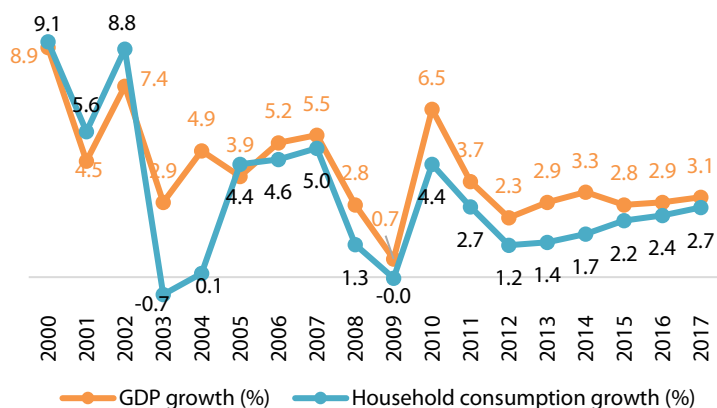
Source: GDT, Rong Viet Securities

Figure 6: GDT export revenue by geography (Bn VND)



Even in 2008-2009, GDT still managed to grow thanks to demand from Asia (mainly Japan and Korea). Figure 7 to Figure 10 illustrate that even in periods of slow/negative growth in these countries (2008-2009 and 2014-2016), demand for wooden kitchenware is very stable. Vietnam is only second to China in the list of big suppliers.

Figure 7: Growth data in Korea 2000-2017



Source: ADB

Figure 8: Growth data in Japan 2000-2017

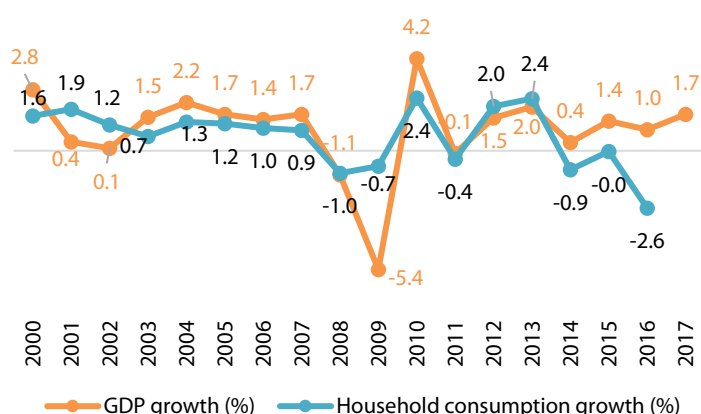
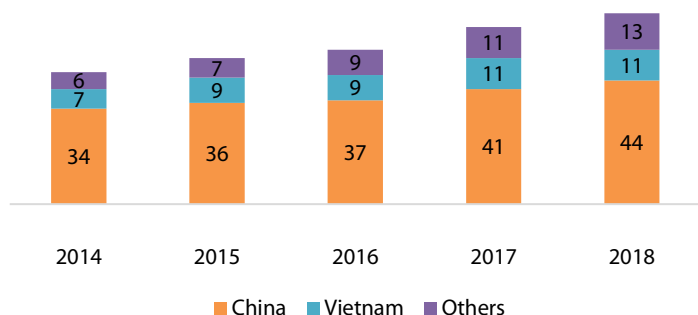
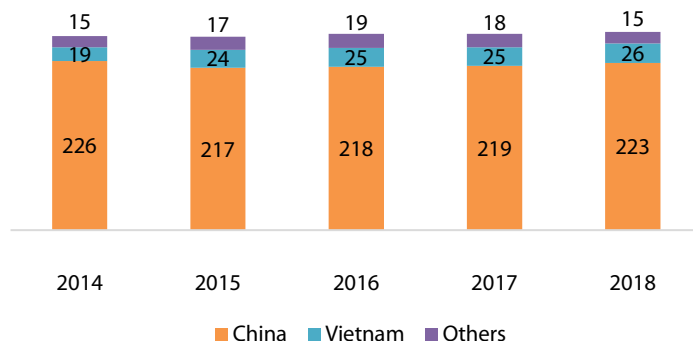
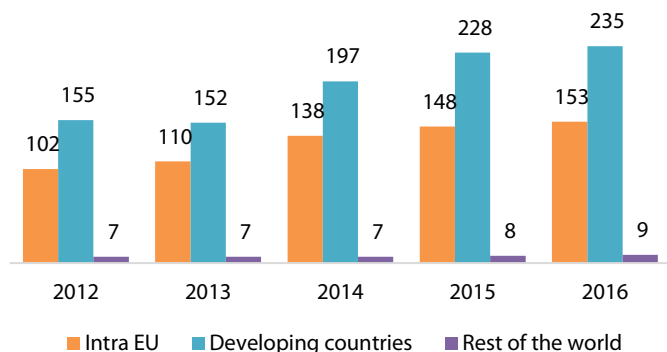


Figure 9: Korea imports of wooden tableware & kitchenware (Mn USD)

Figure 10: Japan imports of wooden tableware & kitchenware (Mn USD)


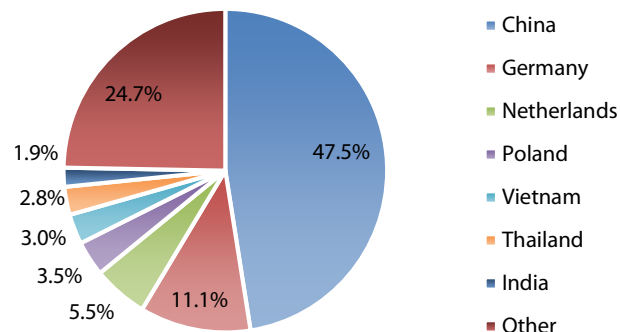
Source: Trademap

Europe market – high potential but locked for now

Meanwhile, demand in Europe shows a gradually increase. European imports of wooden table- and kitchenware increased from €264 million in 2012 to €398 million in 2016 (equivalent to VND 9,600 Bn), an average annual growth rate of 11%.

Figure 11: European imports of wooden tableware and kitchenware (€ million)


Source: Trademap

Figure 12: Market share of suppliers of wooden tableware and kitchenware in Europe (2016)


The figure shows that Europe is a very potential market. However, Vietnam only accounts for 3% of total imports (around 300 VND Bn) despite being one of the leading developing country suppliers. The reason is that many European customers demand FSC certification. This means that the material of the product needs to come from a forest and supply chain that is managed responsibly, certified by FSC (Forest Stewardship Council). Unfortunately, no rubber plantation in Vietnam are FSC-certified at the moment. This remains a bottleneck problem for GDT, as rubber wood is the company's main material. GDT is working on BSCI certification, which potentially offers better chances to tap into the European market.

Price of Input material is not worrisome

30%-40% of GDT's COGS is rubber wood. Rubber wood's price has surged 40% in 2017-2018 period due to limited supply, caused by:

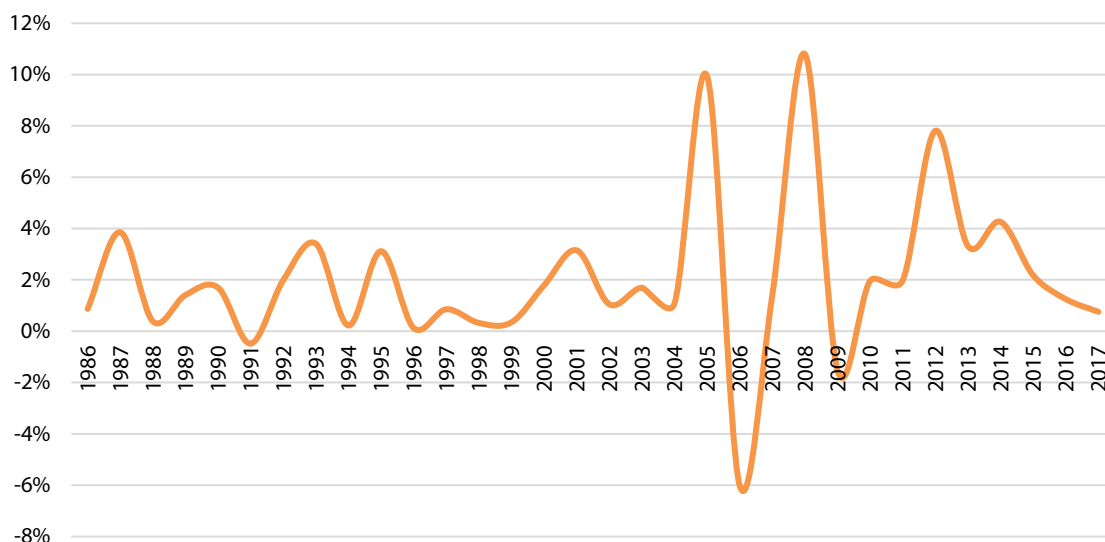
- Vietnam's decision to shut down natural forest harvest in 2016
- China's logging ban in natural forest in 2016
- Malaysia imposed ban on rubber wood export in 2017

As a result, Chinese traders came to Vietnam to purchase rubber wood, driving up the price. However, at the present, we do not see any similar factors that could push the rubber wood price further. The reasons are as follows.

First, supply should be stable thanks to expanding rubber area

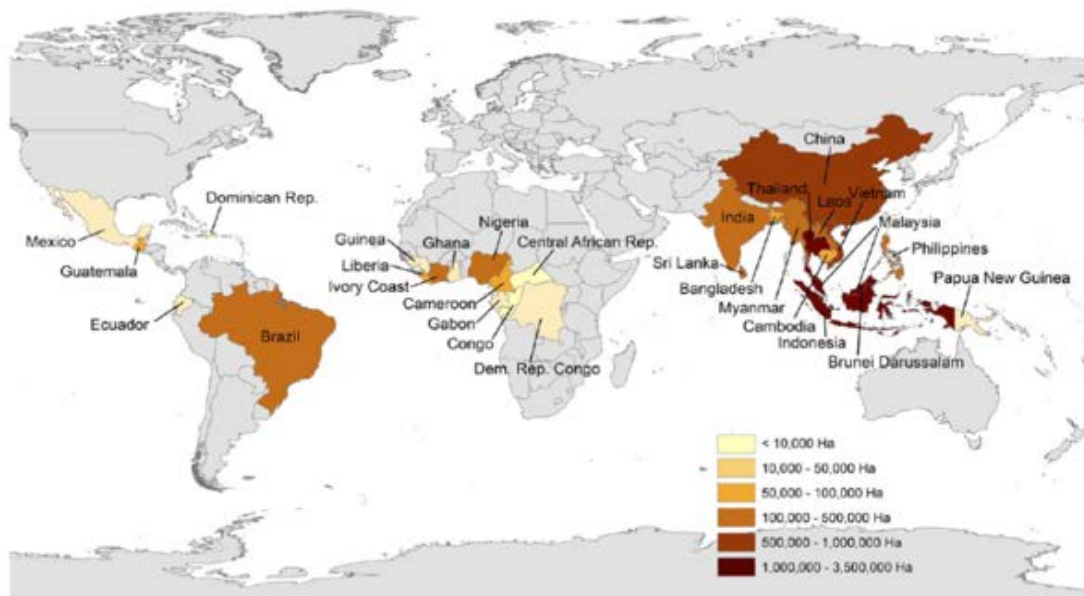
We examine seven countries with the largest rubber area in the region: Indonesia, Thailand, Malaysia, Vietnam, China, India, and the Philippines. Their total harvested area was 5.3 Mn ha in 1985, and grew gradually almost every year, reaching 9.9 Mn ha in 2017 (Figure 13). This will be a stable source of rubber wood. A rubber tree would be tapped for its latex for about 25 years, after which its productivity drops drastically and is cut down for wood.

Figure 13: Growth YoY of rubber harvested area of seven countries (Indonesia, Thailand, Malaysia, Vietnam, China, India, and Philippines) in 1985-2017 period (%)



Source: FAO, Rong Viet Securities

Figure 14: Rubber producing country map



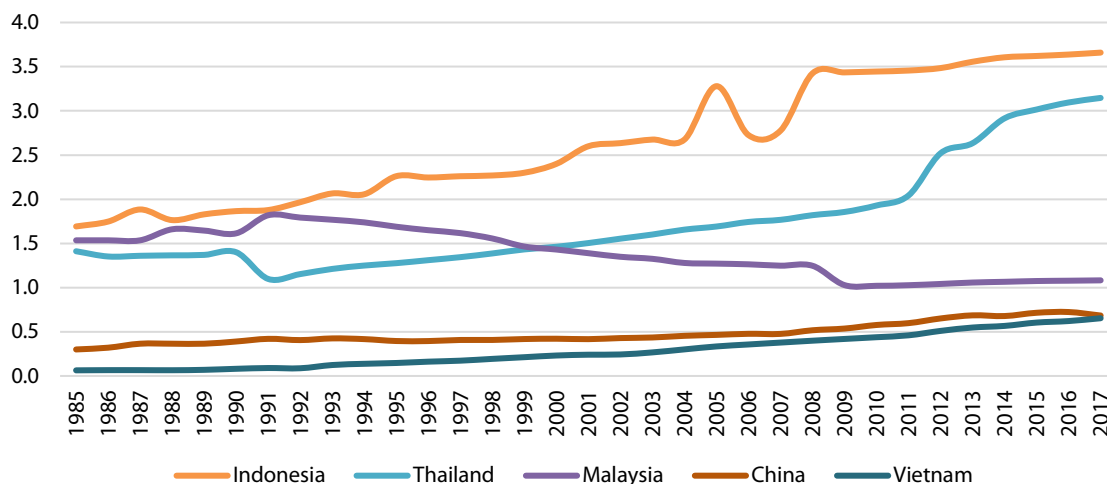
Source: Research Gate

In Vietnam, it is estimated that there are about 25,000 ha of old rubber trees to be cut down each year, providing 4.5 Mn cu. m of rubber wood. Most of them are supplied by Vietnam Rubber Group.

Second, it is unlikely that other countries will impose a ban on rubber wood exports like Malaysia

Of the biggest rubber producing countries, Malaysia is the only one experiencing a decline in rubber area (Figure 15). Meanwhile, its domestic demand for rubber wood has increased in recent years as the country is now the world's eighth largest furniture exporter. As a result, Malaysia has banned the export of rubber wood to support its domestic furniture industry.

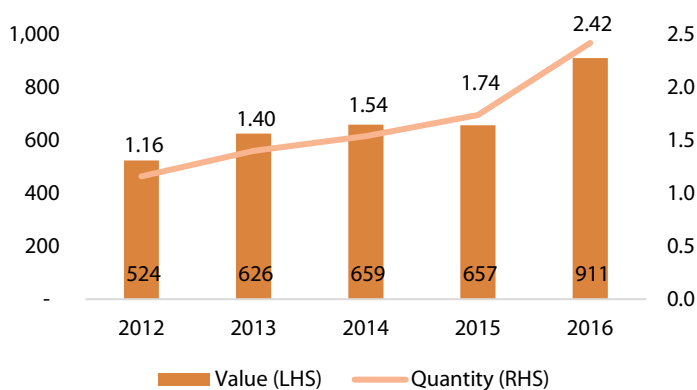
Figure 15: Rubber harvested area of several countries in 1985-2017 period (Ha)



Source: FAO

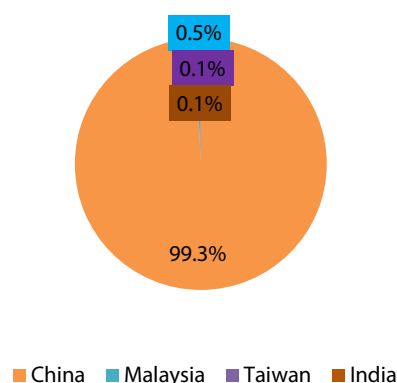
In Thailand and Indonesia, the rubber area is much larger and still increasing gradually. Thailand is a major exporter of rubber wood, shipping over 65% of its rubber wood production abroad.

Figure 16: Value (Mn USD) and quality (Mn Ton) of Thai rubber wood export

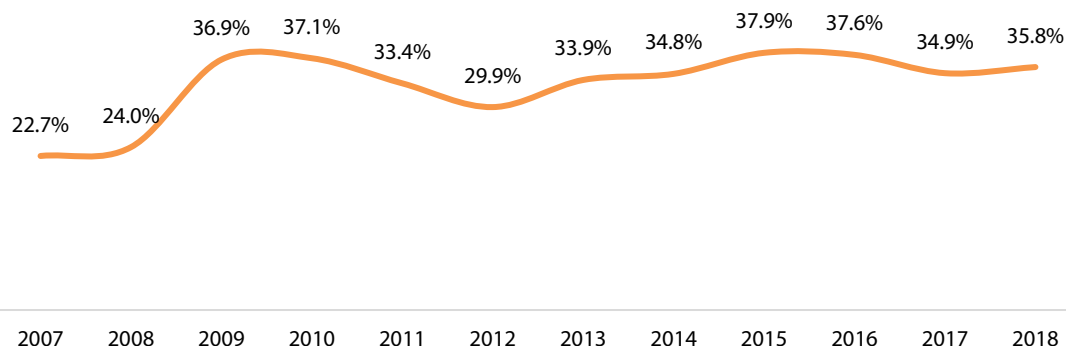


Source: EIC analysis based on Trademap data

Figure 17: Importers of Thai rubber wood in 2016



Even if the price of rubber wood somehow increases further, we think the impact will not be big. In fact, GDT's gross margin only decreased slightly in 2017-2018 despite a 40% surge in its input price (Figure 18) as the company is able to pass these increases on to its customers.

Figure 18: GDT gross margin 2007-2018


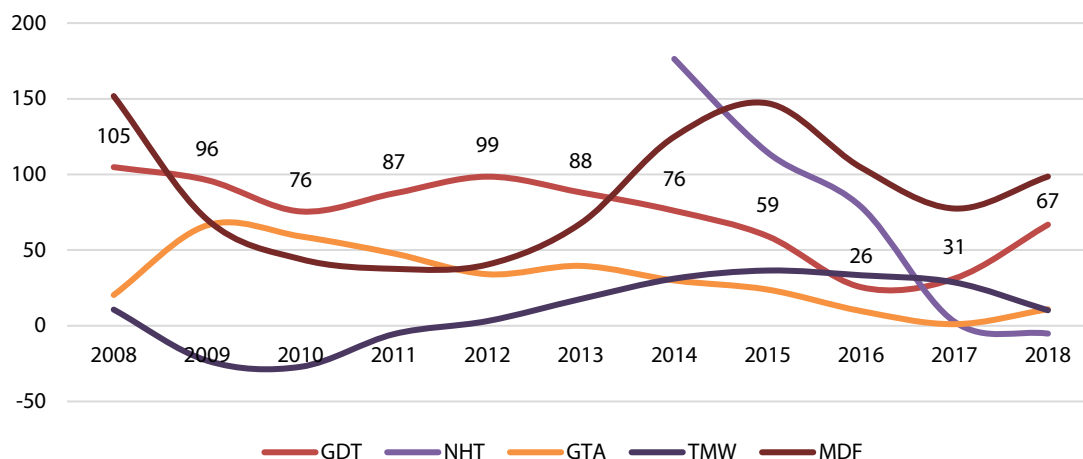
Source: GDT, Rong Viet Securities

In a positive scenario, the fact that the US impose tariff on China wood products could result in lower demand of rubber wood from China. Malaysia may also lift the ban in the future, although the chance is very slim.

Owners-operators

GDT started as a small private wood processing company, founded by Mr. Ba Le in 1991. In 1993, his daughter, Ms. Lieu Le took over the business. She has led the company through two great recessions in 1997 and 2007, while many others went out of business.

Ms. Lieu is well known for her resourcefulness, negotiation skills, and cost control. Her conservative management style is reflected in GDT's Inventory and receivables, which are very well-controlled over the years. Its cash conversion cycle is similar to its peers (Figure 19), but none of the peers has revenue growing at the rate of GDT.

Figure 19: Cash conversion cycle of GDT and peers (days)


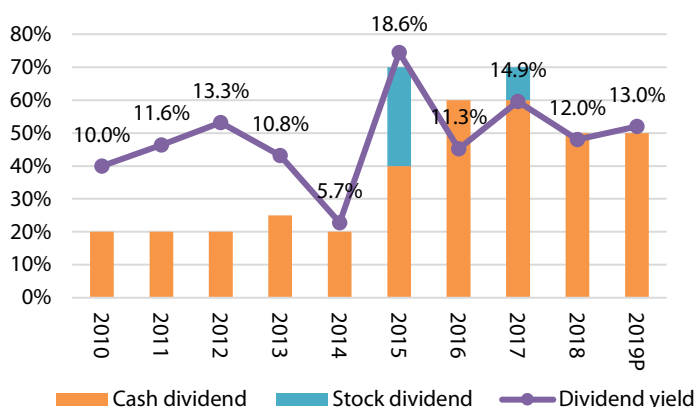
Source: Rong Viet Securities

Although conservative management has its merit, we would still like to see management a little more aggressive on expanding the business and pursuing growth in the future. GDT still operates two factories in Ho Chi Minh and Binh Duong (Table 1), running at 80% capacity. Fixed asset investments are negligible (Figure 20). Since 2015, as the company does not need new capital, it paid almost all of its earnings back to shareholders (Figure 21 and 22).

Table 1: List of GDT factories

Factory	Area	Capacity	Year of operation
Phan Huy Ich, HCM	7,800 m2	2,500 m3/year	2003
Tan Uyen, Binh Duong	30,000 m2. Upgrade to 38,000 m2	6,000 m3/year	2005. Upgrade in 2014

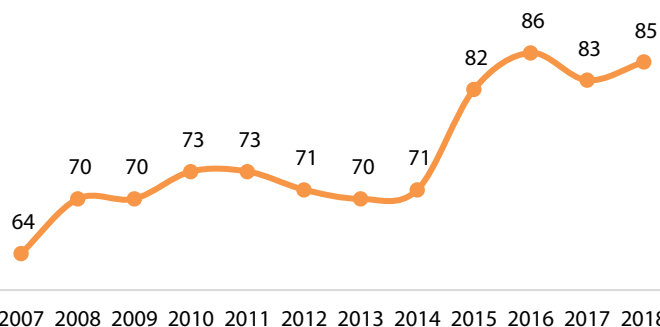
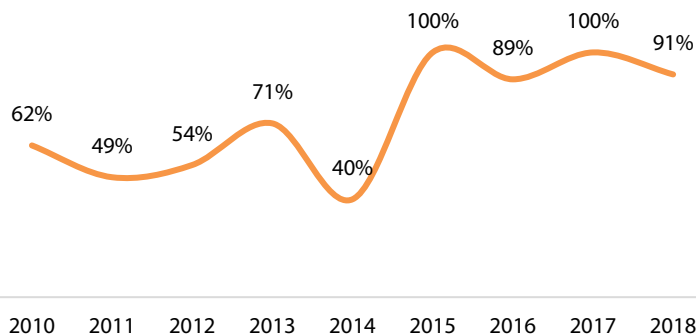
Source: GDT

Figure 21: GDT dividend payment history


Source: GDT, Rong Viet Securities

Currently, the Le family is still the largest shareholder, holding around 40% of the shares. They have a clear incentive to increase the value of the business. Outside shareholders are treated well. Information is communicated openly with shareholders and with high transparency. Investors should see it when contacting the IR department or attending the AGM.

To motivate employees, GDT will increase wages in 2019. These costs will be attributed to expenses instead of withdrawn from the bonus & welfare fund to enjoy tax benefits, affecting 2019 earnings. The management cares little for the short-term and is concerned with the business' longevity. We could not ask for more.

Figure 20: GDT's tangible fix assets at cost (VND Bn)

Figure 22: GDT dividend payout ratio


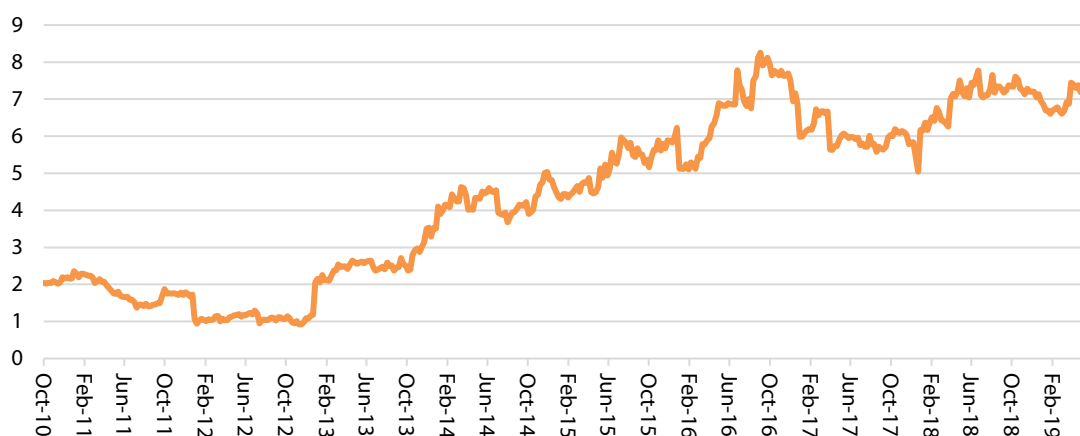
Earnings forecast and Valuation

Due to rising labor costs, GDT could report a slowdown in earnings growth in 2019. However, as discussed above, we believe its long-term earnings power will remain. The company can generate a free cash flow of VND 70Bn to VND 80Bn per year. A drop in earnings in 1Q 2019 is not a major issue as GDT customers just decided to shift the delivery schedule from 1Q to 2Q and 3Q 2019.

We acknowledge that GDT's business is labor intensive. To motivate employees, GDT had ESOP of 5% outstanding share at par value in 2015, 2016, and 2018. Despite the ESOP, GDT has grown its EPS at CAGR of 14% for 11-year-period. We expect it can grow EPS at least 10%-12% in years to come.

While EPS grew at 14% per year, GDT's stock price quadrupled since listing (CAGR: 21%). The P/E has rallied quite a bit and we do not expect any further multiple expansion.

Figure 23: GDT's historical P/E trailing



Source: Bloomberg

For our one-year target price, we estimate the valuation range around VND 39,500 – 52,300 per share. We use FCFE method (WACC 12.5%, terminal growth 0.5%) and P/E method (7x)

Table 2: Valuation result (VND per share)

Method	Value
FCFE	52,300
P/E (7x)	39,500

Unit: VND billion

PROFIT & LOSS STATEMENT	FY2017	FY2018	FY2019E	FY2020F
Revenue	362	390	433	476
COGS	236	250	286	314
Gross profit	126	140	147	162
Selling expenses	17	17	19	21
G&A expenses	19	21	22	23
Financial income	14	12	12	12
Financial expense	1	3	2	2
Other income/loss	22	1	1	1
Gain/(loss) from JV	0	0	0	0
Profit Before Tax	125	112	116	128
Tax expense	24	23	23	26
Minority interests	0	0	0	0
Profit After Tax	101	90	93	102
EBIT	90	102	105	117
EBITDA	95	106	109	120

Unit: %

FINANCIAL RATIO	FY2017	FY2018	FY2019E	FY2020F
Growth				
Revenue	11.9	7.6	11.0	10.0
EBITDA	4.9	11.9	1.9	10.8
EBIT	6.9	12.9	3.3	11.1
PAT	5.6	-11.4	3.3	10.5
Total assets	2.2	-1.9	3.5	5.3
Total equity	-0.4	0.9	2.7	5.5
Profitability				
Gross margin	34.9	35.8	34.0	34.0
EBITDA margin	26.3	27.3	25.1	25.3
EBIT margin	25.0	26.2	24.4	24.6
Net margin	28.0	23.0	21.4	21.5
ROA	28.9	26.1	26.0	27.4
ROCE	33.6	37.8	38.1	39.9
ROE	39.5	34.7	34.9	36.5
Efficiency				
Receivables turnover	11.4	9.5	10.5	10.5
Inventories turnover	4.0	3.2	3.7	3.6
Payables turnover	5.2	5.4	5.6	5.9
Liquidity				
Current	3.8	4.0	3.9	4.1
Quick	3.0	3.0	3.0	3.0
Finance Structure				
Total debt/equity	13.9	10.6	10.4	9.8
ST debt/equity	13.9	10.6	10.4	9.8
LT debt/equity	0.0	0.0	0.0	0.0

Unit: VND billion

BALANCE SHEET	FY2017	FY2018	FY2019E	FY2020F
Cash and cash equivalents	1	17	8	13
Short-term investments	206	158	180	180
Accounts receivable	32	41	41	45
Inventories	59	78	77	88
Other current assets (inc. non-trade receivables)	7	4	4	4
Property, plant & equipment	31	32	31	30
Acquired intangible assets (Inc. Goodwill)	12	11	11	11
Long term investments	0	0	0	0
Other non-current assets	3	3	3	3
Total assets	351	344	356	374
Accounts payable	46	46	51	53
Short-term borrowings	36	28	28	28
Long-term borrowings	0	0	0	0
Other non-current liabilities	3	4	4	4
Bonus and Welfare fund	9	8	8	10
Technology-science development fund	0	0	0	0
Total liabilities	94	85	90	94
Common stock and APIC	155	170	170	170
Treasury stock	-1	-1	-1	-1
Retained earnings	83	71	78	93
Other comprehensive income	0	0	0	0
Investment & Development Fund	19	19	19	19
Total equity	256	259	266	280
Minority Interest	0	0	0	0
CASH FLOW STATEMENT	FY2017	FY2018	FY2019E	FY2020F
Profit before tax	125	112	116	128
Depreciation	0	1	3	3
Adjustments	(32)	(8)	0	0
Change in Working capital	(49)	(59)	(18)	(39)
Net Operating CFs	44	47	101	92
Change in Fixed Asset	4	(2)	(2)	(2)
Change in Deposit, equity investment	29	58	(22)	0
Interest, dividend, cash profit	0	0	0	0
Net Investing CFs	32	56	(24)	(2)
Change in Capital	(1)	14	0	0
Change in Debt	14	(8)	0	0
Dividend paid & other	(96)	(93)	(86)	(86)
Net Financing CFs	(82)	(87)	(86)	(86)
Beginning cash & equivalents	4	1	17	8
Change in cash & equivalents	(6)	16	(9)	5
Ending cash & equivalents	1	17	8	13

Company Report

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

ABOUT US

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