Shinhan Securities

Before you invest, ask us!

Loc Troi Group JSC.

04/29/2021

Ticker	**LTG**
RATING	**BUY**
Current price (VND)	**30,400**
Target price (VND)	**39,100**
Upside	**28.6%**

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COMPANY INFORMATION

Industry	Chemicals
Stock Exchange	UPCOM

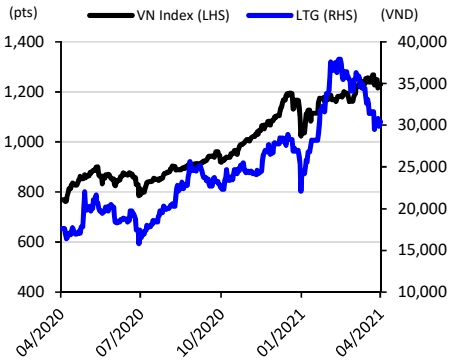
STOCK TRADING DATA

VN INDEX	1,230
Market Cap. (bn VND)	2,450
Outstanding Shares (1mn)	81
Free Floating Shares (1mn)	51
52-week High (VND)	38,500
52-week Low (VND)	16,000
Avg. Trading Volume (mn)	0.7
Avg. Reading T/O (bn VND)	20

LTG's PERFORMANCE VS VN INDEX

(%)	3M	6M	12M
Absoulute	24.6	28.8	65.2
Relative	8.2	(5.0)	5.4

STOCK PRICE PERFORMANCE



INVESTMENT THESIS

1. Core business:

- LTG is one of the only two Vietnamese enterprises owning a vertical integrated agricultural value chain from manufacturing seed to selling its own branded rice products.

2. Customer:

- Plant protection chemicals (PPCs) & Seed: Mekong River Delta farmers - the largest rice growing region in Vietnam;
- Rice: Domestic and foreign (China, Philippines and Europe, etc.) medium & high-end consumers.

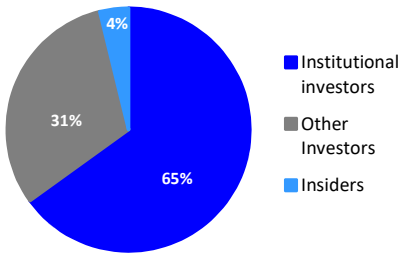
3. Investment opinion:

- In rice segment (accounting for ~28% of 2020 revenue), LTG has the leading market share in the branded rice line (2019: 5.7%). The reasons are: 1) The vertical integrated value chain advantage ensures the high quality and traceable rice products; and 2) The highest production capacity which includes 5 rice plants (capacity of 1 million tons / year) and 6 seed plants. In the background of the room to upgrade market share remains large, this is an advantage that helps LTG promotes the sell of the branded rice products which is attracting mid & high-end customers (the segment is increasing in Vietnam population structure). In addition, rice revenue growth is also supported by the recovery of export channel thanks to the global trade agreements (eg: EVFTA) and the smooth of global supply chain post Covid-19 pandemic. We expect the rice sales to grow by +42.9%YoY in 2021, equivalent to 37% of total sales.
- In PPCs (accounting for ~58% of 2020 revenue), LTG has the largest market share (2019: 20%) thanks to its advantages: 1) The integrated production and consumption model linking with farmers; and 2) The largest production capacity with 3 factories (capacity of 52,000 tons/year) and 2 agricultural research centers. We believe that the company will maintain its leading position in the PPCs industry, leading to a stable profit margin (~30%) for this business segment.
- Net profit is expected to rise by +6.6%YoY to VND390 bn in 2021. The main assumptions: 1) Gross profit margin (rice and seed) will be improved due to the boost in sales of the branded products; and 2) Higher financial profit (expected to be VND65.2 bn in 2021 from VND23.3 bn in 2020) due to higher savings.
- The historical P/E of LTG shares fluctuated between 6.0x - 7.0x in the period of 2017-2020, lower than the industry average P/E (8.0x). Based on our optimistic 2021 growth expectations, we project LTG's 2021 P/E of ~ 8.1x, implying a target price of VND39,100, resulting in a ~+28.6% profit compared with the market price of VND30,400 as of April 28th, 2021.

4. Risks

- LTG is affected by the phases of climate pattern (El Nino & La Nina), which is a typical risk of the agricultural sector. These phenomena reduce rice output and increase production costs.
- PPCs segment has been declining sharply over the years (-8%/year in revenue) due to the changes in production method of farmers and the increasing trend of natural product comsumption. This puts a huge pressure on LTG's business results if the rice segment would not grow fast enough to compensate for the decrease of the PPCs segment (accounting for 82% of gross profit).

SHAREHOLDER STRUCTURE



FINANCIAL INFORMATION

(%)	2017	2018	2019	2020	2021F
Sales (bn VND)	**8,687**	**9,052**	**8,310**	**7,506**	**8,189**
OP (bn VND)	631	741	642	628	608
Operating profit margin	7.3	8.2	7.7	8.4	7.4
NP (1bn VND)	**414**	**412**	**331**	**366**	**390**
Net profit margin	4.8	4.5	4.0	4.9	4.8
BPS (VND)	28,374	30,885	32,221	34,727	34,727
PER(x)	8.6	6.0	6.0	7.2	6.3
PBR(x)	1.3	0.8	0.7	0.8	0.9
ROE	15.9	14.7	11.1	11.5	12.9
EPS (VND)	4,370	4,362	3,495	3,858	4,839

(*) Database information provided by Bloomberg

[FLASHNOTE]

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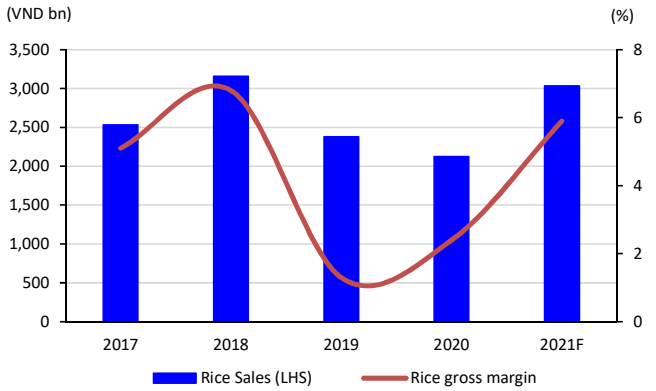
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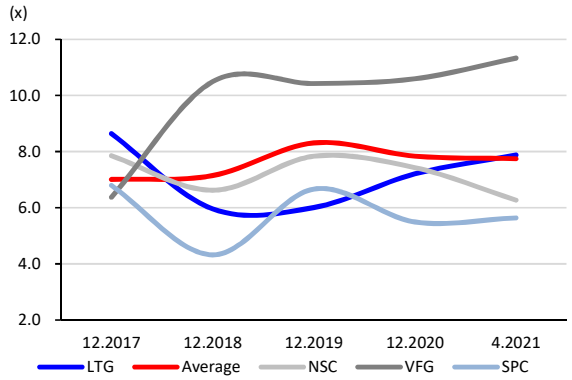
Recommendation History



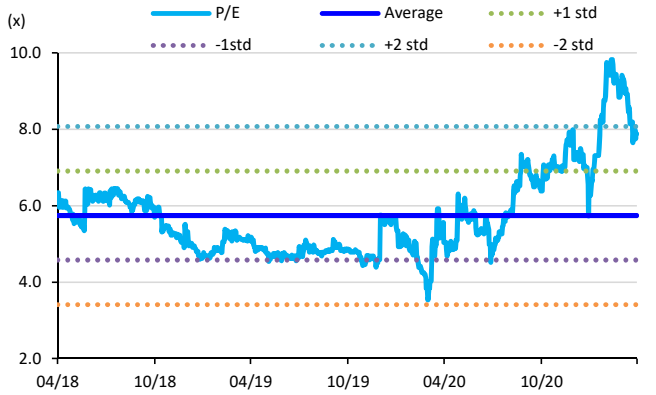
Investment points



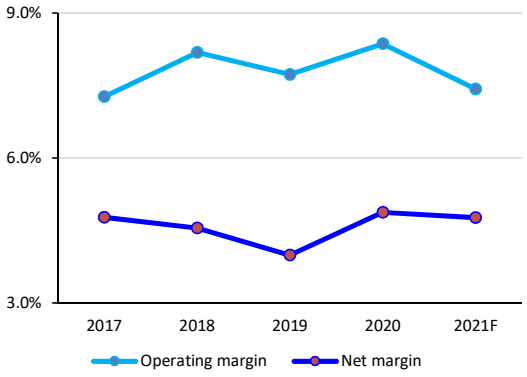
Relative valuation peers' PE



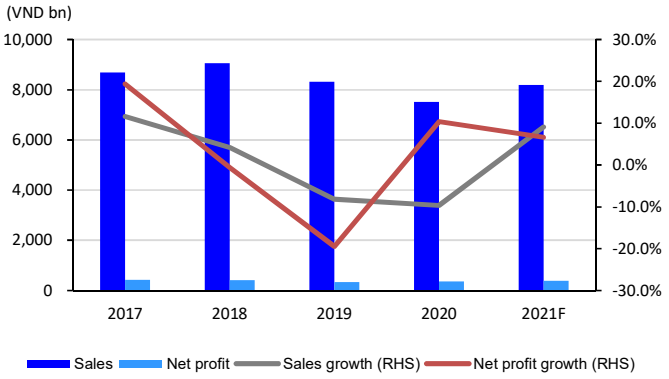
Average P/E 3 years of LTG



Operating and net margin over the years



Revenue - profit over the years



(*) Database information provided by Bloomberg



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