

Duc Thanh Wood Processing JSC.

[Vietnam / Household Furniture]

Bloomberg Code (GDT VN) | Reuters Code (GDT.HM)

BUY

Initiation Coverage

Target price (12 months)	**VND 59,400**
Current price (08/09/2022)	VND 41,750
Upside (%)	42.0%



[Analyst]

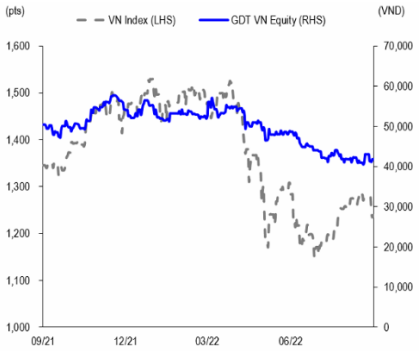
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VNINDEX	1,235
HNXINDEX	282
Market cap (mn VND)	808,490
Outstanding shares (mn CP)	19.4
Free float (mn CP)	9.1
Free Floating (%)	46.8
52-week high/low (VND)	60,000/40,150
90-day avg. trading volume (mn shares)	0.013
90-day avg. turnover (bn VND)	1
Foreign ownership (%)	10.75

Major shareholders (%)	Ha Thi Hue	27.53
	Korea Investment Management Co. Ltd.	10.04

Performance	3M	6M	12M
Absolute (%)	-13.9	-21.8	-20.5
Relative to VN-Index (%)	-8.3	-5.6	-13.8



Source: Bloomberg

Shinhan Securities

The dawn of a new era

Initiate coverage with BUY rating and target price of VND 59,400

Duc Thanh Wood Processing Joint Stock Company (HoSE: GDT) is a leading company in manufacturing and exporting kitchenware, homeware, and children's toys made from rubberwood in Vietnam. From a small wooden workshop established in 1991, GDT has become a well-known enterprise in the domestic market and international export. We initiate coverage of GDT with a BUY rating and a target price of VND 59,400, equivalent to a return of 42%, thanks to 1) the growth potential of both export and domestic market; 2) attractive dividends; 3) significant profitability, accompanied by considerably financial strength.

Huge potential for expansion of domestic and export markets

The export market for wood and wood products that GDT targets is sustainable, which has helped the company recover strongly after COVID-19. In addition, the domestic market still has a large room for expansion, helping GDT have the ability to grow domestically in line with the business's production expansion plan. The expected compound growth rate of GDT's revenue at around 11% per annum during 2022 – 2026.

Attractive dividends

GDT has continuously maintained its high cash dividend payment at a rate of VND 4,000-5,000/share per annum from 2015 until now. The attractive dividend yield is around 20% per year on average.

Significant profitability and solid financing health

GDT maintains a highly stable gross profit margin of around 30-35%. The debt ratio is low (all are short-term debts). GDT demonstrates strong financial potential when keeping a high level of cash and short-term deposits, ready to use 100% of its capital when buying fixed assets or financing M&A plans. In 2022, GDT plans to buy Duc Tam Wood Company, which produces wooden furniture for export. This company's business result is expected to be merged with GDT in the third quarter of 2022, promising to help GDT grow in revenue in the coming years.

Risks

1) Risks from global macro factors;
2) Exchange rate risk;
3) Risk from investing in new business.

Year to Dec.	2021	2022F	2023F	2024F	2025F
Revenue (bn VND)	**338.6**	**556.2**	**604.5**	**673.2**	**759.3**
OP (bn VND)	76.5	96.0	106.0	124.3	150.1
NP (bn VND)	**60.8**	**76.8**	**84.6**	**99.2**	**119.8**
EPS (VND)	3,340	3,877	4,274	5,012	6,054
BPS (VND)	14,760	13,507	13,455	13,502	14,574
OPM (%)	23%	17%	18%	18%	20%
NPM (%)	18%	14%	14%	15%	16%
ROE (%)	**23%**	**28%**	**31%**	**37%**	**41%**
PER (x)	16.9	14.4	12.6	10.1	7.8
PBR (x)	3.8	4.1	4.0	3.7	3.3
EV/EBITDA (x)	10.9	10.0	9.0	7.4	5.8

Source: Company data, Shinhan Securities Vietnam

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Industry overview and Company background

Export of Wood and Wood Products in 2021 and 1H2022

The fourth wave of the COVID-19 epidemic, which broke out at the end of April 2021 and lasted 6 months, has seriously affected the Vietnamese economy and the wood industry. Changes like social distancing, broken supply chains, business closures, rising raw material prices, solutions to live with the epidemic, 3 on the spot option, work from home, etc. made many people think that the wood industry would fall into recession or that the achievements of the industry in the past decade may reverse.

Through monetary policies, loans, credit, etc., supporting from the Government, the wood industry has had a strong acceleration in the last 3 months of 2021 (export value in the fourth quarter increased by 28.4% QoQ). These helped many wood enterprises gradually restore and stabilize production at the end of the year. The total export value of wood and wood products (W&WP) in 2021 reached USD 14.64 billion (+19.4% YoY), exceeding 1% of the initial plan. WP exports reached USD 10.9 billion (+13% YoY), accounting for 74% of the total W&WP export value (79% in 2020).

In 2021, W&WP continued to rank 6th in export turnover of goods in all sectors of Vietnam, were consumed in more than 140 countries; export turnover rose to the top of Southeast Asia and 2nd in Asia (after China), and 5th in the world. With this result, the wood products supplied from Vietnam account for about 6-7% of the world market share. Regarding the W&WP export market, the US continued to be the largest destination, recording its highest growth rate among other key W&WP export markets of Vietnam, reaching over USD 8.77 billion (+22.4 YoY; higher than the industry growth rate) and accounting for nearly 60% of the country's total W&WP export turnover. It is followed by China (USD 1.49 billion; +24.7% YoY), Japan (USD1.43 billion; +11% YoY) and South Korea (USD 0.9 billion; +8.5% YoY).

Vietnam W&WP export by markets

	2018	2019	2020	2021	6M.2022	CAGR 2018-2021
Total export W&WP turnover of Vietnam (USD bn)	**8.47**	**10.64**	**12.26**	**14.64**	**8.34**	**20%**
US	46%	50%	58%	60%	58%	31%
China	13%	11%	10%	10%	11%	12%
Japan	14%	12%	11%	10%	10%	8%
Korea	11%	7%	7%	6%	6%	-2%
UK	3%	3%	2%	2%	2%	-3%
Canada	2%	2%	2%	2%	2%	12%
Others	11%	14%	11%	11%	11%	17%

Source: GSO, Shinhan Securities Vietnam

Every year, wood and rubberwood products generate a turnover of USD 2–2.5 billion on average, accounting for about 16% of the total export turnover of W&WP, and are one of the three crucial commodities for export of the rubber industry. According to the Vietnam Rubber Association, the export turnover of the rubber industry in 2021, including natural rubber, rubber products, and rubberwood, would reach USD 9.5 billion (+20.8% YoY), of which rubber W&WP reached USD 9.5 billion (+20.8% YoY). Rubber W&WP reached USD 2.5 billion (+6.9% YoY), accounting for 17.2% of total W&WP export turnover.

Vietnam's wood industry has been integrating deeply with the world market, from exporting wood products to importing wood materials. This means that even a tiny change in international supply-demand will directly affect the production and business activities of many enterprises in the industry. In 2021, the US-China trade war continued and accidentally opened more opportunities for expanding export markets for Vietnamese wood products to the US. However, this war also brings some associated risks, with the increased frequency of trade frauds in some goods imported from China into Vietnam and then exported to the US.

Estimated export of W&WP in 2022 and prospects to 2030

Generally in 2022, Vietnam's economy has many signs of gradually recovering and growing after the COVID-19 pandemic. The consumption of goods increases thanks to: (1) the increase of FDI capital flow to Vietnam; (2) Vietnam's signing of many international agreements (FSC, CPTPP, EVFTA, VPA/FLEGT); (3) The initiative in production technology and input wood materials.

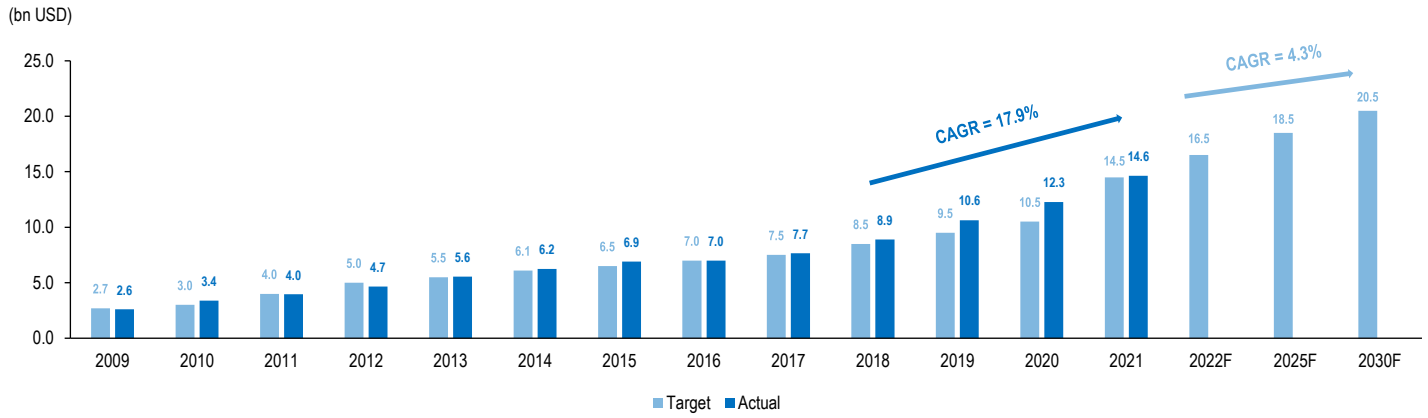
Export: Timber businesses will be affected compared to previous years due to cost-push factors, along with complicated developments in the operating policies of central banks around the world. The shortage of oil and energy supplies stemming from the Russia-Ukraine conflict also profoundly affects the US and EU countries. The spillover effect on the economic situation in many developed and developing countries in many aspects such as exchange rate, inflation, interest rate, and unemployment rate.

Rising prices also directly affect consumers' shopping behavior when people prioritize essential items and cut spending on luxury and non-essential goods. Therefore, the profit of both exporters and importers decreased. To partially improve the profit margins, manufacturers need to change, invest, apply technology, and optimize each type of cost and operating apparatus.

Revenue: It is expected that in 2022, orders will increase, but economic efficiency will depend on each business. The profit margin is still good for companies that have customer partners and order products from acacia, melaleuca, and rubber wood. However, except for rubber wood, due to the nature of being self-sufficient in domestic supply, enterprises using other imported wood saw a decrease in profit margin due to high costs. Typically, businesses have a ready-made customer file, so orders are maintained all year round and are often in a closed state of orders (except for small companies, poor management, unstable, and lack of workers). To meet new orders, companies must develop new products, models, samples, etc. (it takes about 6 months or more). Therefore, these companies will tend not to accept new orders, especially from new customers, because it takes time and reduces productivity (unless the company has plans to expand factories and production).

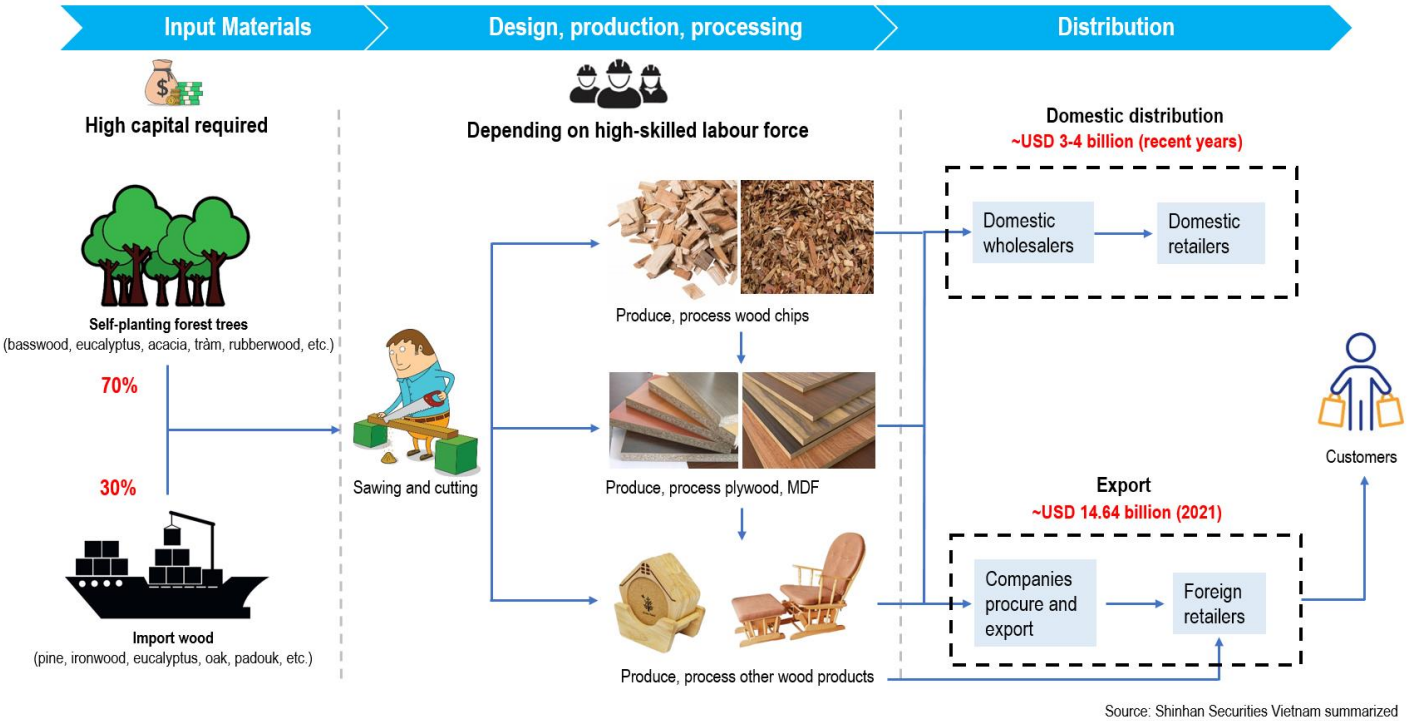
Vietnam has set the W&WP export value target in 2022 to reach USD 16.5 billion (+12.7% compared to the actual export in 2021), and the roadmap to 2025 and 2030 will be USD 18.5 billion and USD 20.5 billion, respectively. According to GSO, the total export turnover of W&WP in the first 1H2022 of Vietnam reached USD8.34 billion, completing 50.6% of the target plan, of which the total value of W&WP exports reached USD 5.99 billion (accounted for 72%). On average, in 2017-2021, after the first half of the year, Vietnam's total W&WP exports would complete 50-55% of the estimated initial plan of the year.
Updating the cumulative 7M/2022 result, the total W&WP export turnover reached USD 9.69 billion, completing 59% of the year plan, of which WP reached USD 7.05 billion (accounted for 73%).

Export turnover of Wood and Wood products of Vietnam



Source: Viforest, Shinhan Securities Vietnam

Wood Processing Value Chain



Source: Shinhan Securities Vietnam summarized

Company Background

Introduction

Duc Thanh Wood Processing JSC. (HoSX: GDT): One of the leading Vietnamese companies in manufacturing and exporting household items is known for wooden kitchenware, wooden housewares, and children's toys. From a small wooden workshop established in 1991, with a scale of several dozen employees, with a modest capital of VND 105 million and a turnover of several hundred million dong, GDT has become a well-known enterprise in the domestic market and international export, with a charter capital of nearly VND 200 billion and annual revenue of over VND 400 billion.

With more than 30 years of experience and a strategy to focus on niche markets, GDT's industry competition level is lighter than that of other wood companies. GDT only uses wood from planted forests and commits not to use natural wood, helping to contribute to environmental protection. GDT has been being invested by many large strategic organizations: Mekong Capital, PENM Partners, Vietnam Rubber Group, PYN Elite, KIM Investment, etc. Recently, GDT was honored to receive "Top 10 Strong Brands ASEAN 2022" and "Top 100 best products for families and children".

In 2009, Duc Thanh Wood was officially listed on the Ho Chi Minh City Stock Exchange with the stock code "GDT."

Production: 95% of products are made from rubber wood (mainly liquidated from rubber farms), plus a small part of yellow cotton Melaleuca wood, acacia wood, and a few types of industrial wood such as plywood and MDF. Completely domestically grown wood, so it is not affected much by fluctuations in costs like manufacturing enterprises using other raw wood sources. GDT also uses a lot of paints, wood surface coatings, and mild glue on finished products. In addition, the company focuses on using waste wood from the production of kitchen utensils and household appliances to make small-sized wooden toys, optimizing the number of raw materials and improving the gross profit margin.

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Revenue Structure

1. By product categories:

4 main categories: Kitchenware (cutting boards, racks, coasters, plates); Household appliances (hooks, shelves, small cabinets); Wooden toys; Baby furniture, and other items. GDT's leading product group is wooden kitchenware (accounting for about 60% of sales), typically cutting boards. Household furniture products are growing well and gradually accounted for more in the proportion of total revenue. Every year, GDT strives to improve its products, design, and market many new models.

Differentiation: GDT's products are mainly made of rubber wood, of clear origin, resistant to mold and bacteria growth, and have higher durability than other semi-floating products widely sold on the market. In addition, GDT focuses on ensuring the safety of users' health, especially products for children.



Kitchenware



Household products



Children's toys



Baby Furniture and other wooden products

Revenue contribution by product categories

	2017	2018	2019	2020	2021
Total net revenue (bn VND)	**362.2**	**389.8**	**341.8**	**400.4**	**338.6**
Kitchenware	65%	61%	67%	61%	57%
Household	25%	29%	26%	32%	34%
Toys	6%	6%	4%	4%	3%
Baby furniture and other items	4%	4%	3%	3%	6%

Source: Company's data, Shinhan Securities Vietnam

2. By markets:

Export: Export revenue accounts for 80-85% of GDT's total revenue, which is manufacturing, processing, and exporting orders from more than 50 countries. GDT meets rigorous standards for product quality, safety, and ESG compliance. Asia is GDT's primary market, mainly Japanese customers (Daiso Japan, Nitori, Fuji Furniture, etc.) and Korean customers (Lotte Mart, Fair Friends, MH & Co, A-Sung, etc.). The US is the largest and most demanding market. Despite being a new market, the number of orders is repeated many times (Costco, Amazon, Walmart, Kidkraft, The Container Store, etc.).

GDT's overseas partners are reputable importers who have maintained long-term cooperation. Therefore, when adverse events affect the economy or the wood industry, GDT's export revenue at those influenced markets is affected but not significantly. According to GDT, the company has a diverse and carefully selected customer base, so it is not too dependent on any customer. The 10 biggest customers only contribute ~40% of revenue.

Domestic: GDT's products are currently being sold on retail systems across the country (Co.op Mart, Lotte Mart, E-mart, Aeon, Con Cung stores chain, Me va Be stores chain), along with several online, big e-commerce channels (Lazada, Tiki, Shopee). In addition, GDT has a its own showroom named Winwinshop in Ho Chi Minh City to display and sell toys for children.

Logo of GDT brand

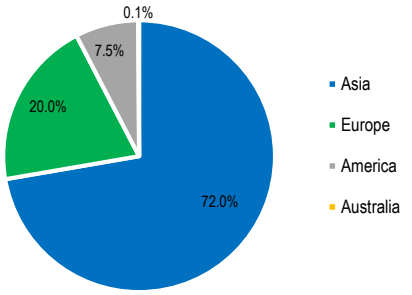
Gỗ Đức Thành

Kitchenware and household

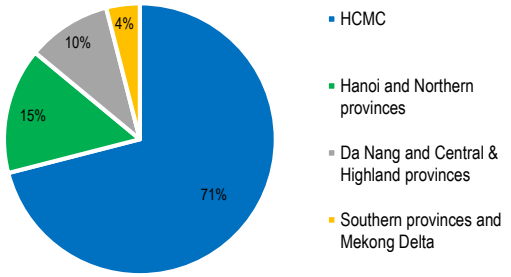
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Wooden toy products

The proportion of revenue contribution in export markets



The proportion of revenue contribution in the domestic market



Source: Company's data, Shinhan Securities Vietnam

Manufacturing factories

GDT has 4 factories, a total area of 71,800m^2; full capacity of about 8,500m^3 of finished wood/year for 2 factories in HCM and Tan Hiep factory. These 2 factories have almost reached their max production capacity.

Due to the characteristics of products having too many details and changing frequently, the company mainly uses semi-automatic technology. Advanced machinery and other specialized machines are imported from Taiwan, Italy, Switzerland, and some other developed countries. With a team of skilled workers, highly specialized, with years of experience in the wood processing industry, plus its modern technological lines, GDT is always ready to meet large orders, required high technicals with urgent delivering deadlines.

	Location	Size (m^2)	Capacity (m^3 finished wood per year)	Established year/starting acquired
HCM factory	Go Vap Dsit., HCMC	7,800	2,500	Established in 2003 (cum headquarter)
Tan Hiep factory	Tan Hiep Ward, Tan Uyen Dist., Binh Duong province	38,000	6,000	Established in 2005 Upgraded in 2014 (total capital of ~USD 2mn)
Khanh Binh factory	Khanh Binh Ward, Tan Uyen Dist., Binh Duong province	14,000	N/A	Completed acquired since Dec.2020 (100% equity financing ~VND58bn)
Duc Tam factory	Vinh Cuu Ward, Dong Nai province	12,000	N/A	Being acquired in 2022, 100% equity financing (~USD3mn). Estimated to complete in 3Q2022.

Source: Company's data, Shinhan Securities Vietnam

Khanh Binh Factory: GDT completed the purchase of the factory in December 2020 to expand production and grow revenue. After more than 1 year of investment, Khanh Binh factory mainly helps to expand the stock of raw materials and bring in a new annual rental revenue stream. After completing the acquisition of Duc Tam Export Wood Processing Co., Ltd (Duc Tam Wood) and stabilizing internal operations, GDT will flexibly promote production at Khanh Binh factory.

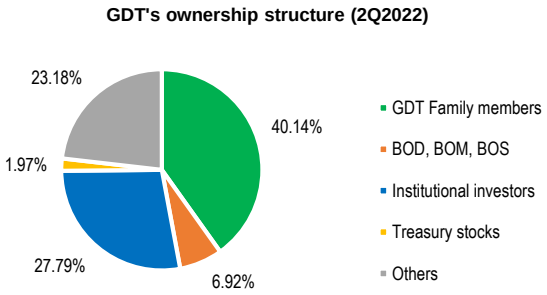
Duc Tam Factory: The acquisition of Duc Tam Wood - specializing in the production of furniture, beds, and cabinets for export, will help GDT continue to develop into the furniture segment. According to GDT, the owners of this Duc Tam Wood are former partners who are about to retire. It is estimated that GDT will use 100% of its equity capital to conduct the deal, valuing of USD3 million (~ 70 billion VND).

Duc Tam Wood already has a factory, warehouse, workers, and a stable operation line, with an estimated revenue of about USD 5 million per year (~ VND 120 billion), NPAT margin of 8-10 %. The acquisition of Duc Tam Wood helps GDT have more factories, machines, and facilities for production, as well as the associated partnerships and business opportunities. In addition, GDT's 30-year experience will help to enhance Duct Tam's operational processes, reduce costs, and create synergy, ultimately improving profit margins for both the subsidiary and the parent company.

Shareholder structure: GDT's key members are still the Le family, holding over 40% of the company's shares (reviewed financial statements 2Q2022)

Major shareholders	% ownership	Relationship with GDT
Ha Thi Hue	27.53%	Mother of Chair woman and GD
Nguyen Ha Ngoc Diep	6.01%	Member of BOD
Korea Investment Management	10.04%	Foreign investing fund

Source: Company's data, Bloomberg, Shinhan Securities Vietnam



Investment Thesis & Catalysts

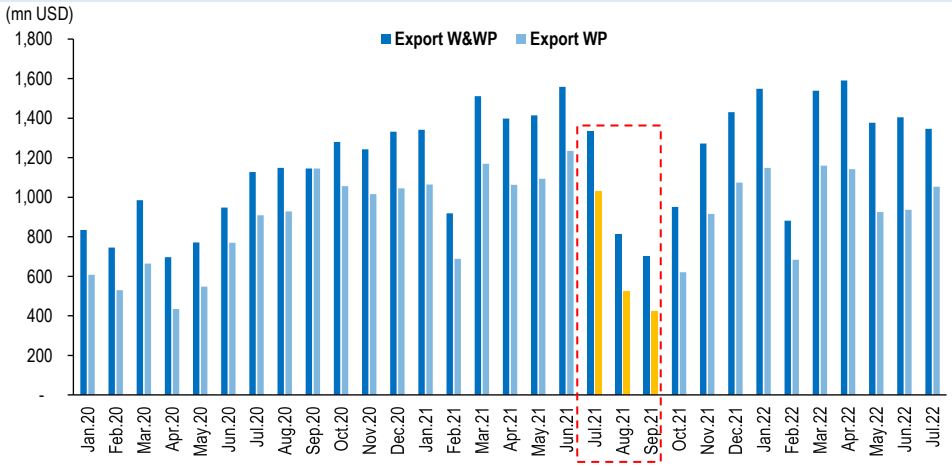
Huge potential for expansion of domestic and export markets

In 2021, Vietnam was affected by the COVID-19 epidemic, affecting the production, consumption, and export of wood and forest products. W&WP export value in July reached USD 1.33 billion (-14.4% MoM). Entering August and September, the export value was recorded at USD 0.8 and 0.7 billion, down 39.2% and 13.6%, respectively, compared to the previous month (decreased by 29.4% and 38.8% over the same period in 2020). Enterprises must temporarily close to comply with the Government's social distancing directive. With over 80% of revenue from exports, GDT was seriously affected when it had to suspend production from July 15 to November 4.

The recovery on export of W&WP

The strong recovery in export activities after the COVID-19 epidemic and sustainable demand has helped Vietnam's W&WP export turnover for the whole year of 2021 reach USD 14.64 billion (~+20% YoY) and complete 101% of the original plan (USD 14.5 billion).

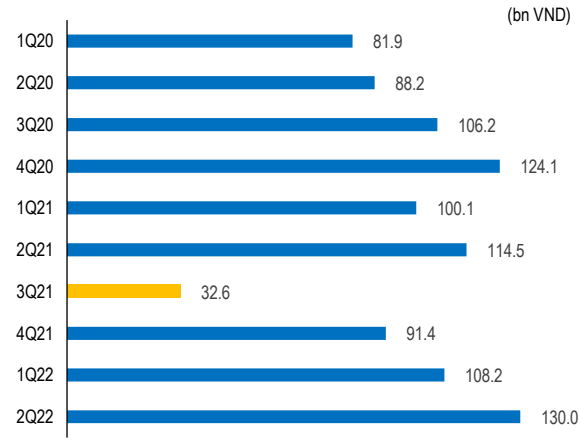
Vietnam's W&WP export turnover from January 2020 to July 2022



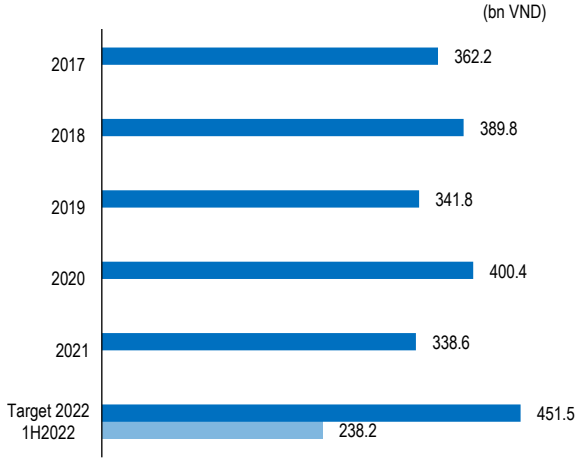
Source: Viforest, Shinhan Securities Vietnam

GDT also quickly recovered and increased production in the last 2 months of the year. Net revenue in 2021 reached VND 338.6 billion, completing 104% of the plan (VND 327.2 billion). In the 6M/2022 business results, net revenue reached VND 238.2 billion (+11% YoY), NPAT reached VND 44.6 billion (+20% YoY), respectively, completing 48% and 47% 2022 initial plan. This result shows clear signs of recovery and the market's sustainable demand for GDT's wood products.

GDT's quarterly revenue



GDT's annual revenue



Source: Company's data, Shinhan Securities Vietnam

Huge potential for expansion

1. Export market

Besides the Asian market, GDT has the opportunity to penetrate deeply into the CPTPP and EU markets after the free trade agreements such as CPTPP, EVFTA, and the VPA/FLEGT takes effect.

GDT also has the opportunity to expand the market because of the benefits of the US-China trade war. The US is imposing a 25% tax on wood products imported from China. In addition, China is implementing the Zero-COVID policy, leading to many orders moving from China to Vietnam and neighboring countries. At the same time, GDT has received the highest rank of the amfori BSCI (Business Social Compliance Initiative) of the FTA, helping to expand the customer base in different regions. Countries with stricter standards, especially from the US and EU markets, bring in orders that require more complexity and higher value, in line with the company's growth plan.

According to GDT, the completion of conditions and being granted international certificates such as C-TPA and BSCI recently helped GDT successfully sign contracts with many big partners such as Walmart, Costco, and Disney in the US market; expand market share in Europe.

2. Domestic market

In addition to the export market, GDT still does not ignore the domestic market, helping GDT to flexibly adjust its business plan when the export market faces difficulties in the short term. According to the "Project to develop a sustainable and effective wood processing industry in 2021-2030", the Government will create favorable conditions for the wood industry domestically, striving to reach USD5 billion by 2025 and USD6 billion by 2030 in domestic W&WP consumption value (average of recent years is USD~4 billion).

GDT's annual domestic revenue is stable but relatively low, averaging about VND55 billion (~USD2 million). This shows that there is still room for domestic consumption of wood products. Moreover, Vietnam's economy is growing, and household income is increasing. Therefore, families will gradually change their choice of buying utensils, including toys for children, usually imported from plastic imported from China, and switch to safer materials such as products made from rubberwood of GDT. The benefits of wooden toys on the Vietnamese market:

+ Compared with plastic toys, wooden toys are more durable;
+ Most wooden toys are produced domestically and tested by authorities, safer for children than toys of unknown origin.

Since 2017, GDT has paid more attention to the domestic market besides the export market. GDT continuously expands the domestic market, improves products, searches, and cooperates with domestic partners already having distribution networks and stores nationwide (Co.op Mart, Bach Hoa Xanh, Dien May Xanh, etc). Currently, GDT's products are sold in nearly 3,000 stores in 62 cities and provinces.

	2017		2018		2019		2020		2021	
	Points of sale	No. of provinces	Points of sale	No. of provinces	Points of sale	No. of provinces	Points of sale	No. of provinces	Points of sale	No. of provinces
The North	149	18	269	15	563	25	568	25	561	24
The Central	178	20	170	19	430	19	508	19	508	19
The Southeast	141	5	184	5	260	5	384	5	382	5
The Southwest	103	13	119	13	377	14	572	13	569	13
HCM City	471	1	475	1	797	1	861	1	875	1
Total points of sale:	**1042**		**1217**		**2427**		**2893**		**2895**	
+ Retail agencies	741		914		739		845		841	
+ Shopping centers, Supermarkets	300		302		1687		2047		2053	
+ Showroom (HCM)	1		1		1		1		1	

Source: Company's data, Shinhan Securities Vietnam

Revenue contribution by markets

	2017	2018	2019	2020	2021
Total Net revenue (bn VND)	**362.2**	**389.8**	**341.8**	**400.4**	**338.6**
- Export (% weight)	**308.9 (85%)**	**328.9 (84%)**	**276.6 (81%)**	**340.9 (85%)**	**286.5 (84%)**
+ Asia	67.7%	68.0%	67.0%	70.1%	61.3%
+ Europe	16.1%	12.7%	11.9%	13.3%	16.9%
+ America	1.4%	3.7%	2.0%	1.8%	6.3%
+ Australia	0.0%	0.0%	0.0%	0.0%	0.1%
- Domestic (% weight)	**50.0 (14%)**	**55.1 (14%)**	**60.2 (18%)**	**53.6 (13%)**	**42.5 (13%)**
+ HCM City	9.2%	9.8%	12.5%	9.3%	9.0%
+ Ha Noi and Northern provinces	2.1%	2.5%	2.5%	2.0%	1.9%
+ Southern provinces and Mekong Delta	1.5%	1.2%	1.1%	1.0%	0.5%
+ Da Nang and Central & Highland provinces	0.9%	0.6%	1.6%	1.1%	1.2%
- Others (rental, sale of wood chips and scrap)	**3.3 (1%)**	**5.8 (1%)**	**4.9 (1%)**	**5.8 (1%)**	**9.6 (3%)**

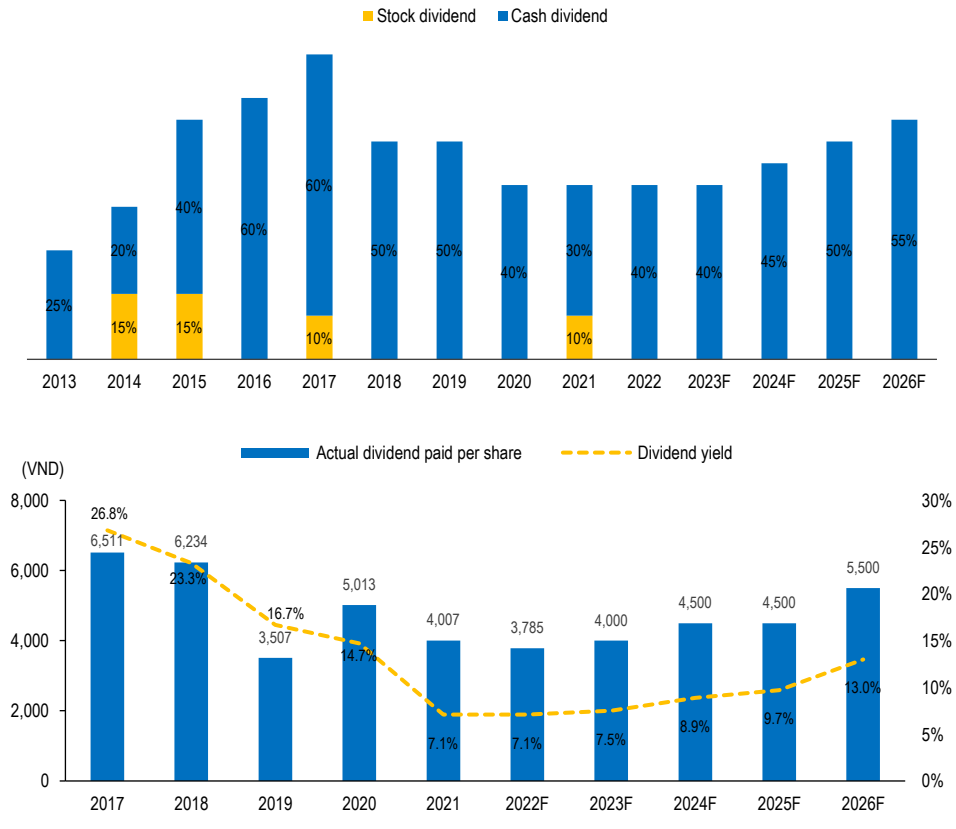
Source: Company's data, Shinhan Securities Vietnam

Attractive dividends

GDT pays cash dividends at a high and regular rate (40-50% per par value), maintained from 2015 until now. The attractive dividend yield per year, estimated at 20%/year on average in recent years, is much higher than the 12-month deposit interest rate at commercial banks in Vietnam (about 5-7%/year).

In addition, if GDT completes and exceeds its initial plan or has other non-recurring income, the company is willing to share and pay extra cash dividends to shareholders. Specifically, in the past, GDT bought 2 land lots in My Phuoc 2 and My Phuoc 3 industrial parks to serve the relocation of factories to My Phuoc Industrial Park (Binh Duong). However, according to GDT, due to some reasons, the project was not implemented. GDT completed the transfer of My Phuoc 2 land lot (100,000m^2), earning another VND 18.6 and 18.4 billion profit, respectively, in 2016 and 2017. GDT decided to pay an extra 25% cash dividends (per par value) compared to the 2016 plan (only 35%), totaling up to 60%. In 2017, the company still kept a cash dividend of 60%. According to GDT, the company already approved to transfer My Phuoc 3 land lot (4,877m^2), which is estimated to bring another income of ~VND 4.5-6 billion.

Historical and estimate of GDT's dividend payment rate



Source: Company's data, Shinhan Securities Vietnam

Cash dividend payout ratio in 2017-2021 period of GDT

Unit: VND	2017	2018	2019	2020	2021
EPS (VND/share)	6,464	5,492	4,276	4,584	3,340
Cash dividend	6,000	5,000	5,000	4,000	3,000
Dividend payout (%)	92.8%	91.0%	116.9%	87.3%	89.8%

Source: Company's data, Shinhan Securities Vietnam

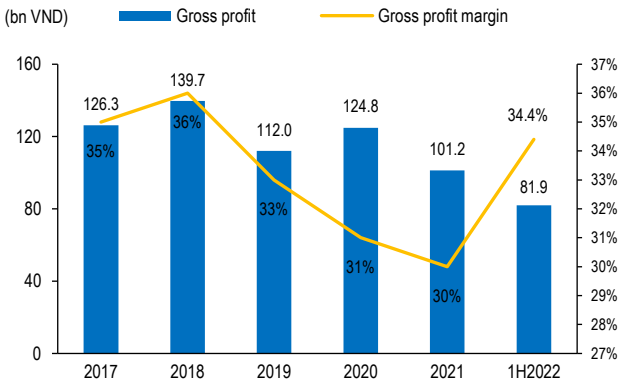
Significant profitability

Stable profit margin

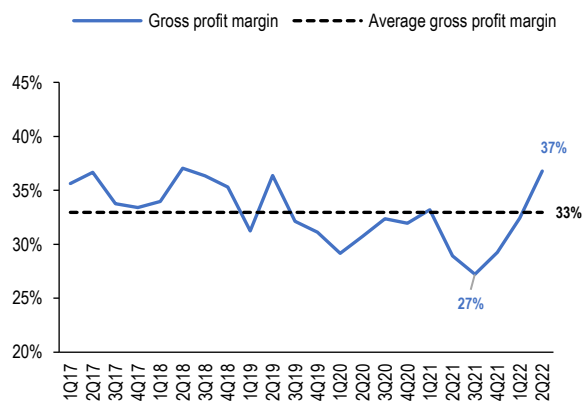
GDT maintained stable COGS at 65-69% with a high GPM of around 30-35%. More than 80% of total revenue from export markets have great and stable demand. GDT uses input materials such as bamboo and pre-processed wood with 100% domestic supply, minimizing the impacts from importing materials that fluctuate like other wood companies.

Producing products to end-use consumers helps GDT enjoy all the profits through processing. In addition, the company also focuses on using waste wood from the production of kitchen utensils and household products to make small-sized wooden toys, optimizing the raw materials and improving the GPM.

Gross profit of GDT by years

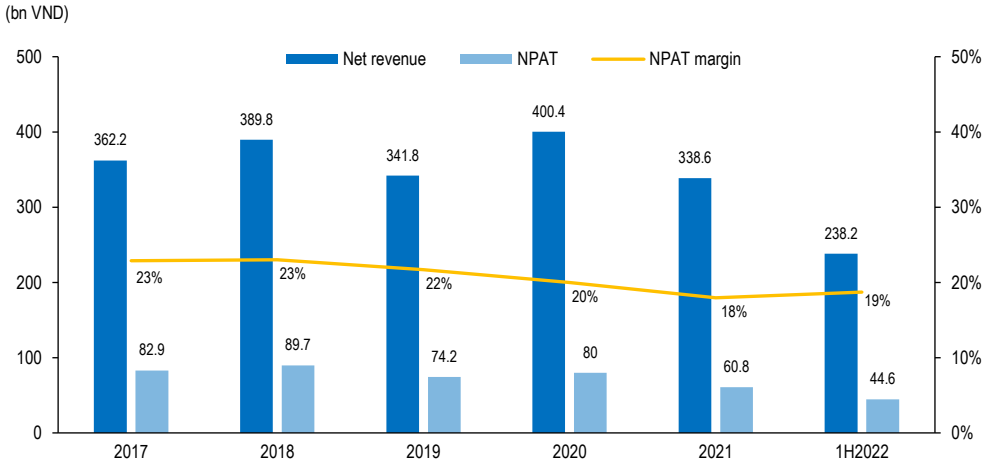


Gross profit margin by quarters from 2017 - 2Q2022



Source: Company's data, Shinhan Securities Vietnam

In 2017, GDT recorded other income from transferring My Phuoc 2 land lot (VND 18.4 billion). If this profit is excluded, NPAT margin is maintained at 20-23% every year.



Source: Company's data, Shinhan Securities Vietnam

High Return on Equity

GDT's ROE generally remained at a high level (over 20%) in 2017-2021 but tended to decrease in recent years. The DuPont 5-factor analysis model below shows that GDT's EBIT margin has reduced in recent years due to the increase in input material costs, plus the influence of COVID-19 in 2021.

GDT's experienced management team is the Le family and holds over 40% of GDT's ownership. Currently,

the GDT family team and other critical key members still stay with the firm, devote and contribute to GDT's growth. GDT is showing signs of recovery after COVID, together with investment plans to expand the factory and optimize management costs. ROE is promising to be improved.

DuPont 5-factor analysis

	2017	2018	2019	2020	2021	1H2022
ROE	**39.4%**	**34.6%**	**26.5%**	**29.4%**	**22.6%**	**30.8%**
NPAT margin	**27.9%**	**23.0%**	**21.6%**	**19.8%**	**17.7%**	**18.7%**
Tax burden (%)	80.8%	79.8%	80.0%	80.0%	79.7%	79.7%
Interest burden (%)	99.7%	99.8%	99.3%	99.2%	98.8%	98.6%
EBIT margin (%)	34.6%	28.8%	27.1%	25.0%	22.5%	23.8%
Asset Turnover	**1.03**	**1.13**	**0.88**	**1.00**	**0.89**	**1.18**
Financial leverage	**1.37**	**1.33**	**1.39**	**1.47**	**1.44**	**1.40**

Source: Shinhan Securities Vietnam

Solid financing health

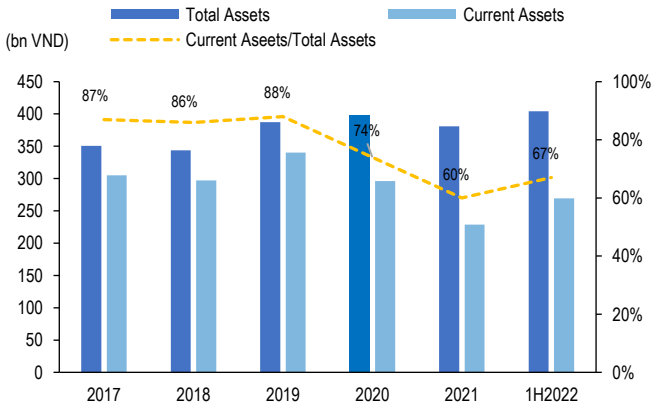
Highly liquid assets

GDT has maintained a high proportion of short-term assets for many years, helping the company manage the cash flow and working capital. However, this makes GDT always in a safe and defensive state. GDT's held-to-maturity investments are all short-term bank deposits (<12 months), having an average return of around 7%/year.

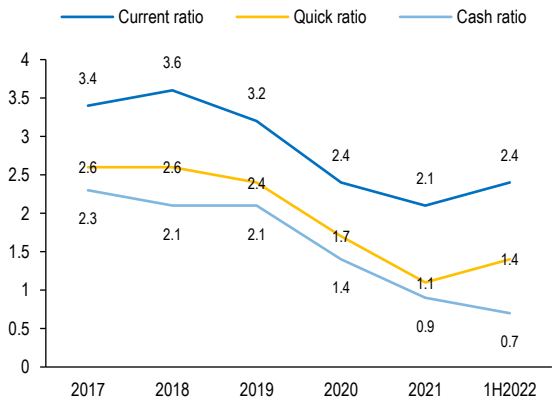
From 2017 to 2020, GDT always maintains a proportion above 70% for short-term assets over total assets. In which cash and short-term deposits at banks take over 40%.

However, from the end of 2020, GDT began gradually reducing the proportion of bank deposits. The company started to focus on investing in long-term assets (warehouse, machinery, factory expansion) and spending money on technology, implementing ERP systems, and optimizing costs and management processes.

Changes of Current assets to Total assets



Liquidity ratios of GDT



Unit: Bn VND	2017	2018	2019	2020	2021	1H2022
Cash and cash equivalents	0.7	17	8.7	0.9	8.5	13.1
Bank short-term deposit	206.1	157.7	217	171.5	90.9	67.6
% Total assets	59%	51%	58%	43%	26%	20%

Source: Company's data, Shinhan Securities Vietnam

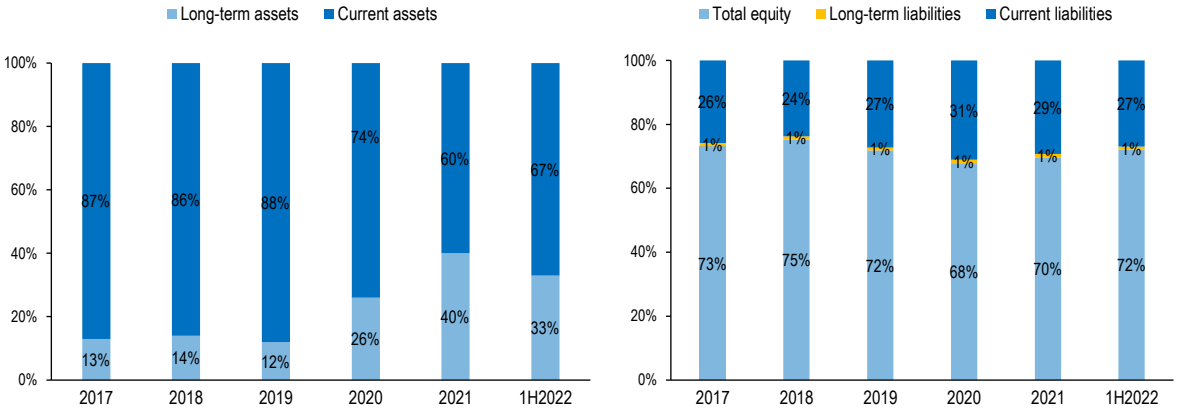
Low financial leverage

GDT's debt ratio is low; all are short-term debts for financing the company's working capital. In addition, the company's cost of debt is relatively low, ranging from 1.5% to 1.8%. GDT also demonstrates its financial solidity when it always maintains a high level of cash and short-term deposits. The management often uses 100% of its capital when buying fixed assets and machinery, even when conducting M&A deals, but still ensures the interests of shareholders, employee life, the firm's financial status, and other upcoming business plans.

With a low debt ratio, some long-term plans of GDT in the future can easily access bank loans to accelerate progress and reduce financial pressure.

	2017	2018	2019	2020	2021	1H2022
Short-term debt (bn VND)	35.6	27.5	60.4	62.8	60.8	67.4
EBIT/Interst expense (x)	327.9x	543.9x	147.6x	132.0x	81.3x	70.3x
Total debt/Total equity (%)	13.9%	10.6%	21.7%	23.2%	22.9%	23.3%
Total debt/Total asset (%)	10.2%	8.0%	15.6%	15.7%	16.0%	16.7%

Changes in asset structure of GDT in the period 2017-1H2022



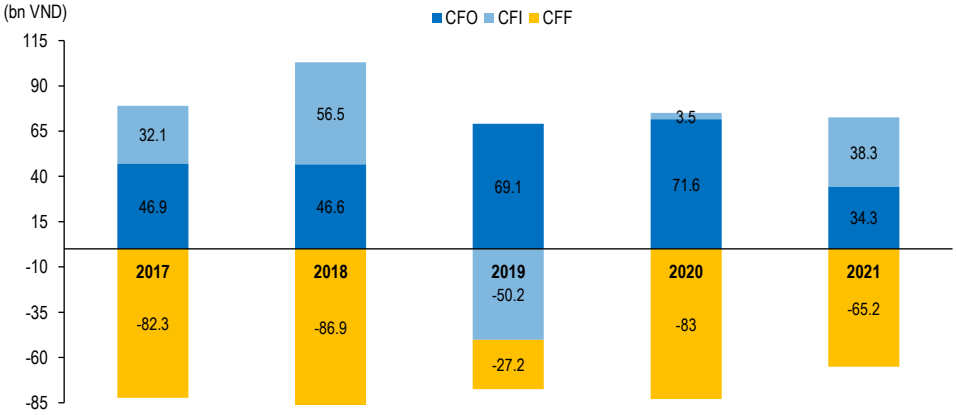
Source: Company's data, Shinhan Securities Vietnam

Positive cash flow from operating activities

GDT continuously proves its core business's effectiveness and the profit quality. Specifically, cash flow from business activities is always positive, about 70% of profit after tax on average. In addition, despite the recent difficulty of exporting W&WP, GDT still manages its working capital well. The company did try to control the net trade cycle and the appropriate purchase and sale policies while maintaining long-term relationships with partners and customers.

The rise in input materials price from 2018-2021, along with the complicated situation of COVID-19 in 2021, has caused the DIO of GDT to be relatively high. GDT usually stores sufficient materials to prepare for orders signed for production in the next 6 months to reduce the risk of a sudden spike in input material prices, affecting the final selling prices as well as the company's profit.

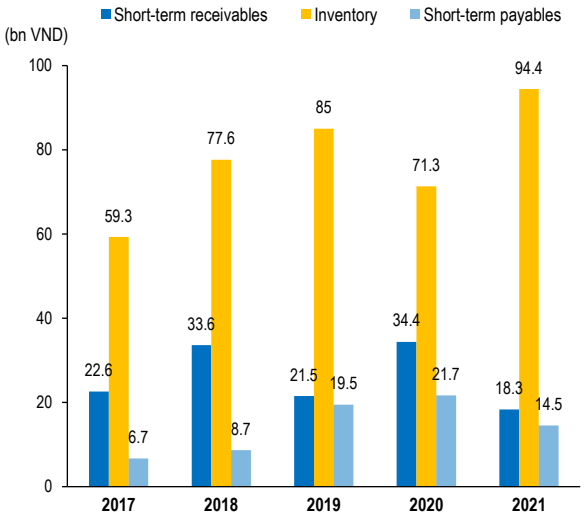
GDT's cash flow in 2017-2021 period



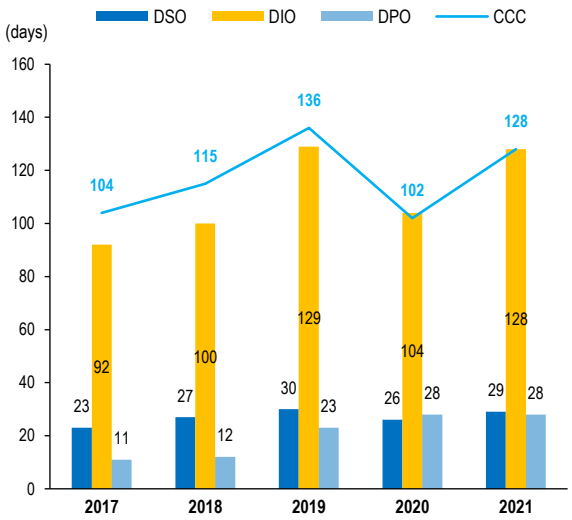
Note: CFO: Cash flow from operating activities
CFI: Cash flow from investing activities
CFF: Cash flow from financing activities

DSO: Days Sales Outstanding
DIO: Days Inventory Outstanding
DPO: Days Payable Outstanding
CCC: Cash Conversion Cycle

Movement of receivables, payables, inventory



DSO, DIO, DPO and CCC of GDT



Source: Company's data, Shinhan Securities Vietnam

Earnings estimate

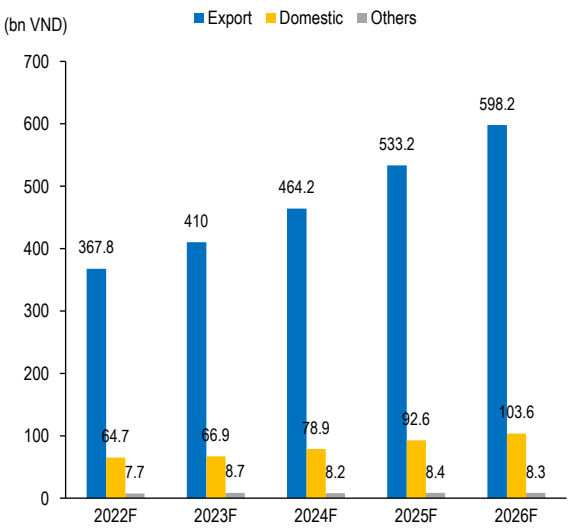
We expect Duc Thanh Wood's revenue in 2022 will recover and grow 64% compared to that in 2021, with a projected CAGR of 11% per year in the period 2022-2026 (already consolidating with Duc Tam Wood's result), thanks to 2 main factors:

1. Quick recovery of post-COVID

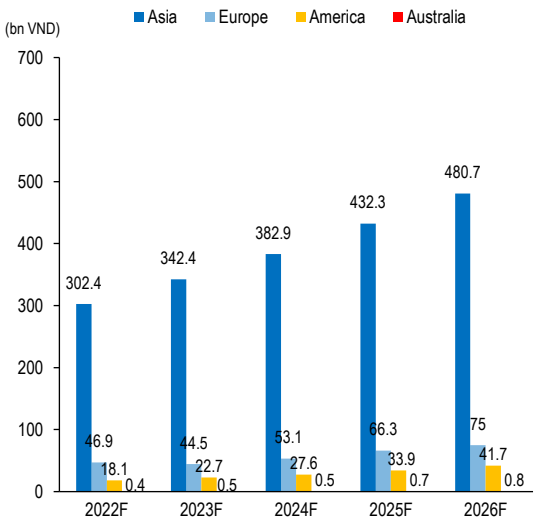
Due to COVID-19 in 2021, GDT has to close from July 15 to November 4 because of the social distancing directive. GDT then quickly recovered and increased production in the last 2 months of the year, reaching VND 338.6 billion in revenue for the whole year.

GDT has an average revenue of about 83-84% from exports to countries in Asia, Europe, America, and Australia. The forecast of export revenue in 2022-2026 is based on GDT's export market share in countries that GDT exports to and the forecasted growth of Vietnam's W&WP exports to those countries.

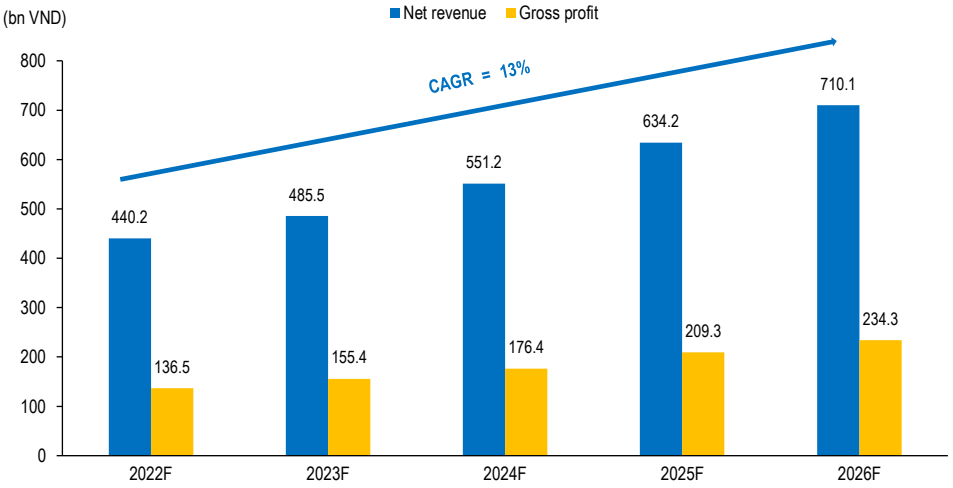
Revenue estimates by market segments



Export revenue estimates by region



Net revenue and gross profit estimates of Duc Thanh Wood in 2022-2026 period



Source: Shinhan Securities Vietnam

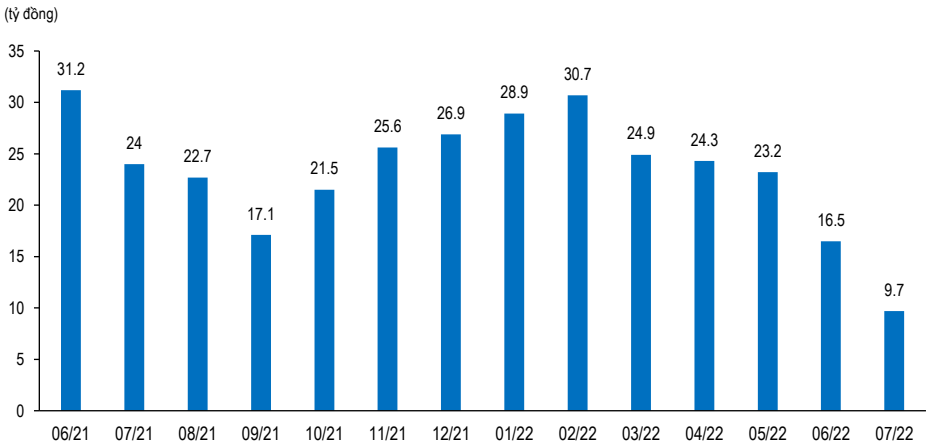
Updating the 6M/2022 business results (not yet consolidated results of Duc Tam Wood), GDT's net revenue and NPAT reached VND 238.2 billion and VND 81.9 billion (+11% and +23.4% YoY), respectively. This result completed 48% of GDT's 2022 revenue target (VND 500 billion) and 54% of our 2022 revenue forecast (VND 440.2 billion).

2. Motivation from Duc Tam wood factory

GDT expands into the furnishing business. Specifically, in 2Q2022, GDT has been carrying out procedures to acquire 100% ownership in Duc Tam Wood Production and Export Company Limited, located in Vinh Cuu district, Dong Nai province. The estimated deal size is about USD 3 million (~VND 70 billion), including all factories, machinery, assets, product designs, and existing customer and supplier relationships. Duc Tam Wood was established in 2001, specializing in manufacturing, trading, importing, and exporting wood to furniture.

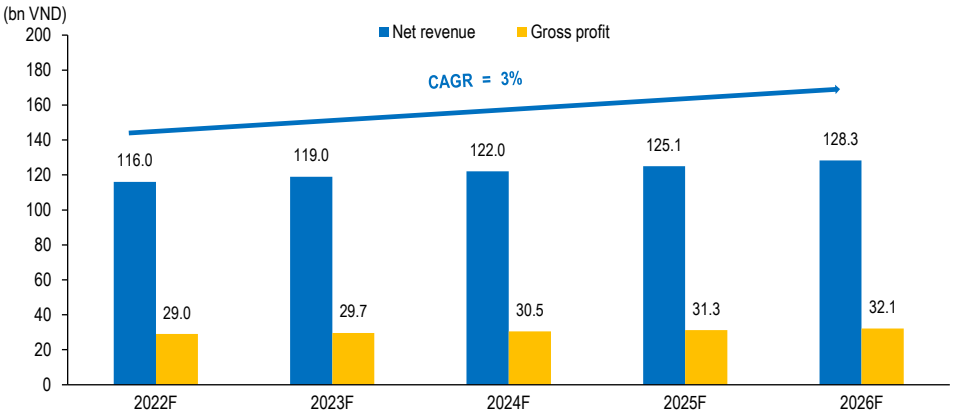
Considering the most recent months, Duc Tam Wood Company only has short-term debt (collateralized). After GDT's M&A and preparation for management in 2Q2022, the debt structure of Duc Tam Wood has been on a downward trend. The factory capacity is currently at ~80%. The annual revenue is ~USD 5 million (~VND 116 billion), with a reported NPAT margin of about 8-10%.

Monthly debt schedule of Duc Tam Wood from June 2021 to July 2022



Source: Credit Information Center Vietnam, Shinhan Securities Vietnam

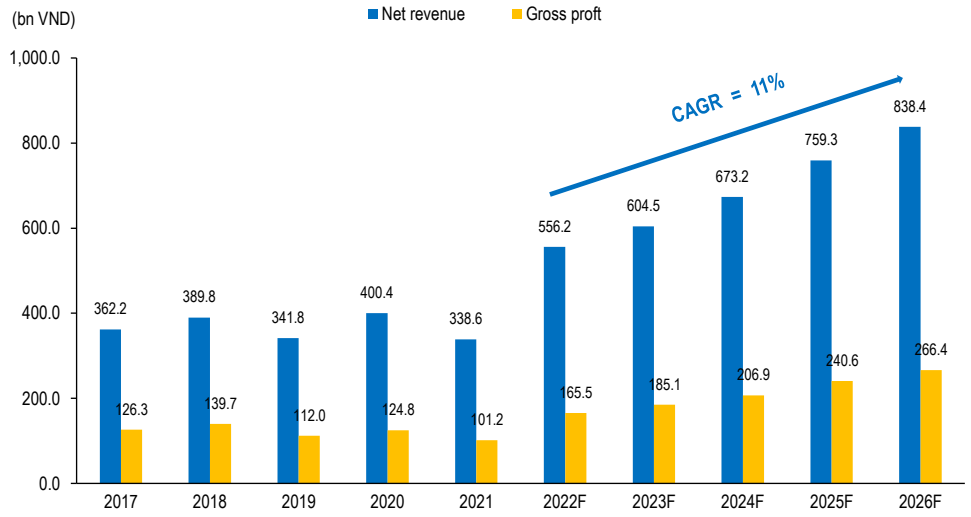
Net revenue and gross profit estimates of Duc Tam Wood in 2022-2026 period



Source: Shinhan Securities Vietnam

If everything sticks to the management's plan, Duc Tam Wood will be consolidated into GDT's 3Q2022 financial statement, contributing all revenue and profit to the parent's business results.

Duc Thanh Wood's Consolidated Business result Estimates in 2022-2026 period



Source: Shinhan Securities Vietnam

Consolidated revenue, profit prospective of Duc Thanh Wood (2021-2026F)

(Unit: billion VND)	2021	2022F	2023F	2024F	2025F	2026F
Net Revenue	**338.6**	**556.2**	**604.5**	**673.2**	**759.3**	**838.4**
Kitchenware	193.4	271.4	291.2	328.4	383.1	426.0
Household	114.5	135.1	155.7	177.4	200.7	227.0
Toys	10.5	16.8	18.2	19.6	23.5	26.1
Baby furniture and other items	20.3	132.9	139.3	147.8	152.0	159.3
Gross profit	101.2	165.5	185.1	206.9	240.6	266.4
Operating profit	76.5	96.0	106.0	124.3	150.1	168.9
Net profit	60.8	76.7	84.6	99.2	119.8	134.8
Profit margin (%)						
Gross profit margin	30%	30%	31%	31%	32%	32%
Operating profit margin	23%	17%	18%	19%	20%	20%
Net profit margin	18%	14%	14%	15%	16%	16%
Growth (YoY)						
Net Revenue	-15.4%	64.2%	8.7%	11.4%	12.8%	10.4%
Gross profit	-18.9%	63.4%	11.9%	11.8%	16.3%	10.7%
Operating profit	-23.1%	25.4%	10.4%	17.4%	20.7%	12.5%
Net profit	-24.0%	26.3%	10.2%	17.3%	20.8%	12.5%

Source: Company's data, Shinhan Securities Vietnam

Valuation and Recommendation

Initiate coverage with BUY call, target price of VND 59,400

We initiate coverage for Duc Thanh Wood Processing JSC. with a BUY recommendation and a target price of VND 59,400, equivalent to an increase of 42% from the current market price (September 8th, 2022). From a long-term perspective, Duc Thanh Wood is a worthy investment that can be considered for the following reasons:

1) Huge potential for expansion of domestic and export markets
2) Attractive dividend yield
3) Significant profitability and solid financing health

Valuation method

We apply a combination of Discounted Casf Flows valuation methods (DCF), including "Free cash flows to the firm" (FCFF) and "Dividend discount model" (DDM) with the weights of 30% and 70%, respectively.

For the FCFF method, we assume that the growth rate of GDT's export revenue will be equivalent to the projected growth rate of Vietnam's W&WP export value in each of GDT's main markets. In addition, based on the assumption that the 100% acquisition of Duc Tam Wood Company will be completed in 3Q/2022, GDT will consolidate the revenue (and related operating expenses) of Duc Tam Wood into its 2022 business results. The terminal growth rate of GDT is at 1%, assuming the company has passed its period of sudden growth and has no significant expansion of production or another business field.

Since GDT is a company with a history of paying high and consistent cash dividends, we decide to use DDM method with a higher weight than FCFF method. We discount all the forecasted dividend streams that shareholders will receive in the forecast year, assuming a reasonable annual dividend payout (based on GDT's payment history) from 4,000 - 5,500 VND/share in the 2022-2026 period.

For calculating the Weighted average cost of capital (WACC), we use the risk-free rate of the 10-year Vietnamese government bond yield at 3%. Beta is calculated based on historical data of the last 5 years of GDT and VNINDEX. We use CAPM to estimate the cost of equity (ke). The company's debt is low, mainly short-term debt to finance working capital. The cost of debt is 2% (kd).

FCFF method

(Unit: billion VND)	2H2022F	2023F	2024F	2025F	2026F
Net profit	76.8	84.6	99.2	119.8	134.8
Plus: After-tax interest expense	0.9	1.0	1.1	1.2	1.3
Plus: Depreciation & Amortization	8.5	10.1	10.3	10.3	10.4
Minus: Change in working capital	7.1	36.7	13.1	15.6	15.5
Minus: Capital expenditure	70.5	0.7	0.7	4.9	3.1
Free cash flows to the firm (FCFF)	**8.5**	**58.3**	**96.7**	**110.8**	**127.9**
PV of FCFF	7.8	51.2	77.9	81.9	86.6
Terminal growth	1.0%				
Present value of terminal value	1,087.7				
Enterprise value	**1,388.7**				
Minus: Debt	67.4				
Plus: Cash and cash equivalents	13.1				
Plus: Short-term investments	67.6				
Number of shares outstanding	19,794,536				
Target price (VND)	**70,800**				

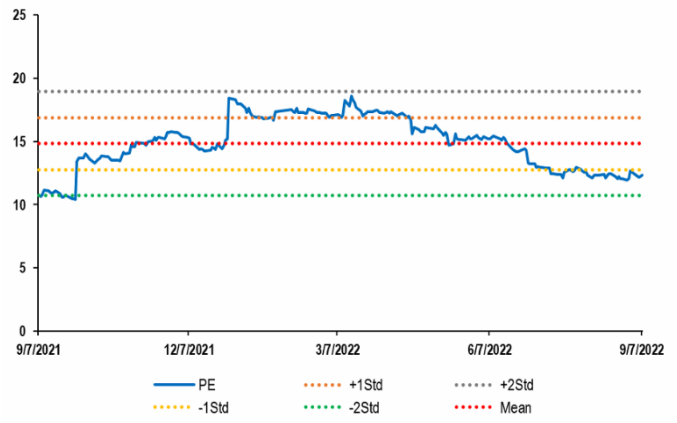
DDM method					
(Unit: billion VND)	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Dividend paid	74.2	78.4	88.2	88.2	107.8
Present value of dividend paid	67.6	68.3	70.0	63.9	71.2
Dividend terminal growth	0%				
Present value of terminal growth	737.5				
Net preset value of dividend flows	**1,078.5**				
Number of shares outstanding	19,794,536				
Target price (VND)	**54,500**				

WACC (%)	**9%**
Risk-free rate (Rf)	**3%**
Equity risk premium (ERP)	7.8%
Country risk premium (CRP)	3.6%
Beta	0.6
Cost of debt (kd)	2%
Cost of equity (ke)	9.7%
Debt/Total capital (%)	8%
Total debt (bn VND)	72

Method	**Weight**	**Appropriate target price (VND)**
FCFF	40%	70,800
DDM	60%	54,500
Final target price		**59,400**
Current market price (08/09/2022)		41,750
Estimate return (%)		**+42%**

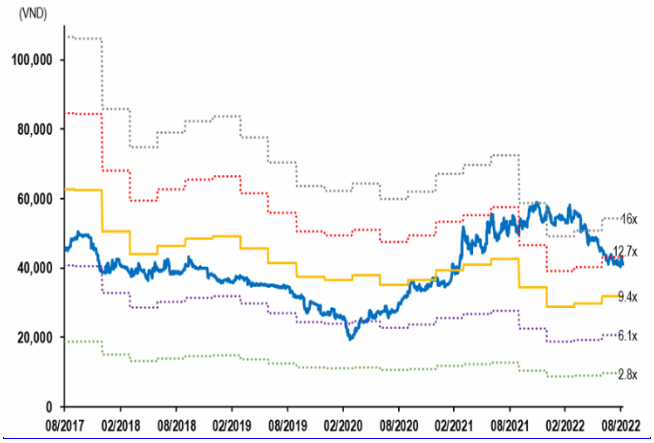
Source: Shinhan Securities Vietnam

GDT's 5 years PER



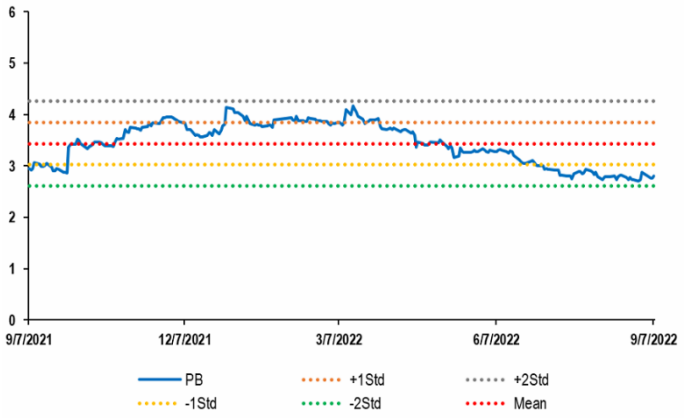
Source: Bloomberg, Company's data, Shinhan Securities Vietnam

PER band chart of GDT



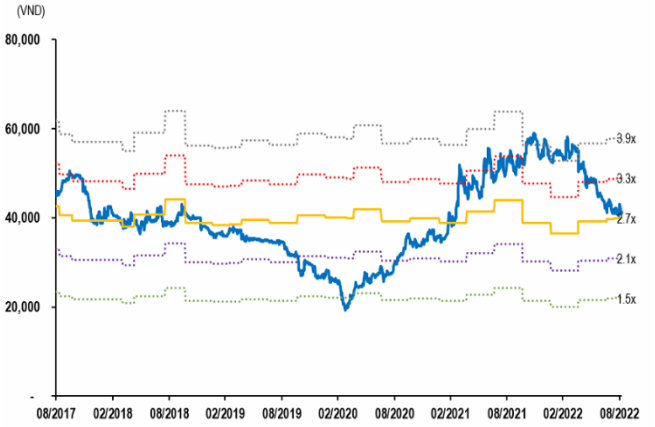
Source: Bloomberg, Company's data, Shinhan Securities Vietnam

GDT's 5 years PBR



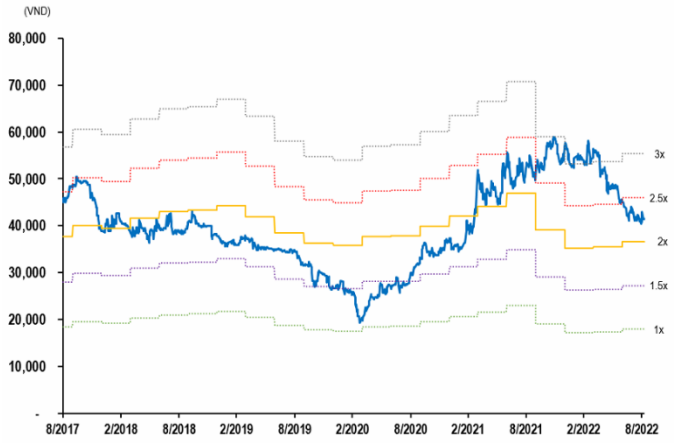
Source: Bloomberg, Company's data, Shinhan Securities Vietnam

PBR band chart of GDT



Source: Bloomberg, Company's data, Shinhan Securities Vietnam

GDT's 5 years PSR



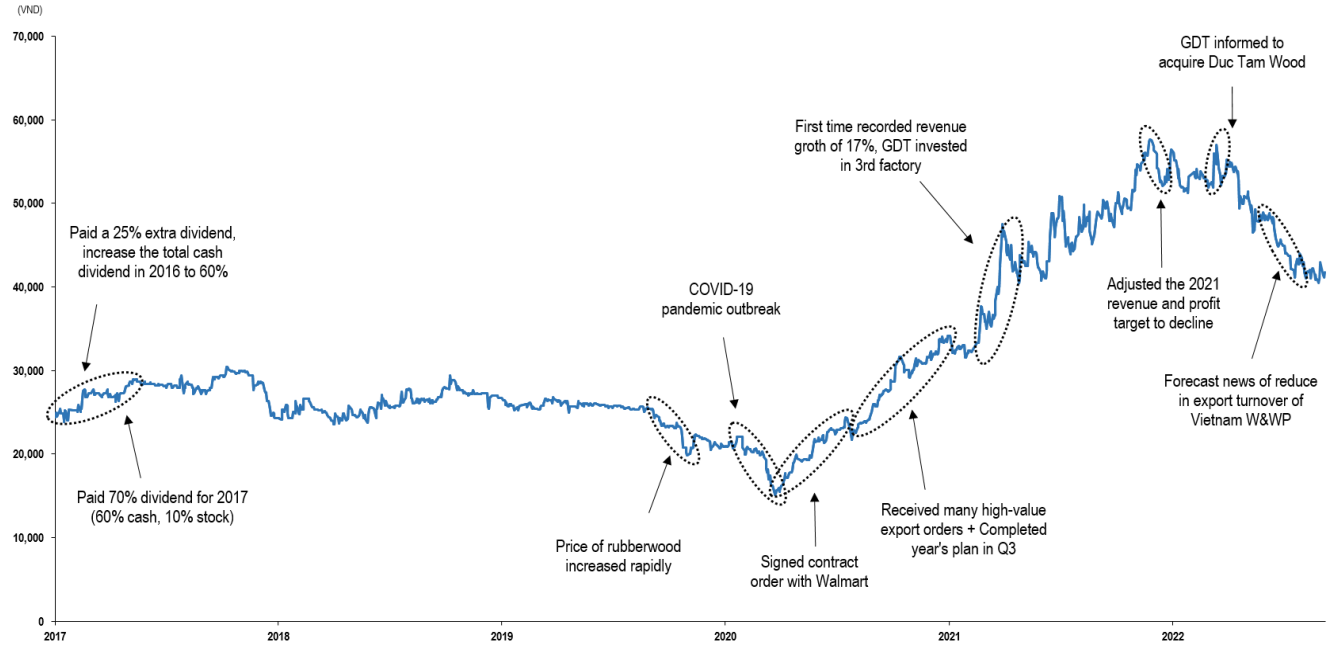
Source: Bloomberg, Company's data, Shinhan Securities Vietnam

Correlation between GDT stock price and Vietnam inflation rate



Source: Bloomberg, Company's data, Shinhan Securities Vietnam

Key events chart of GDT



Source: Company's data, Shinhan Securities Vietnam

Risks

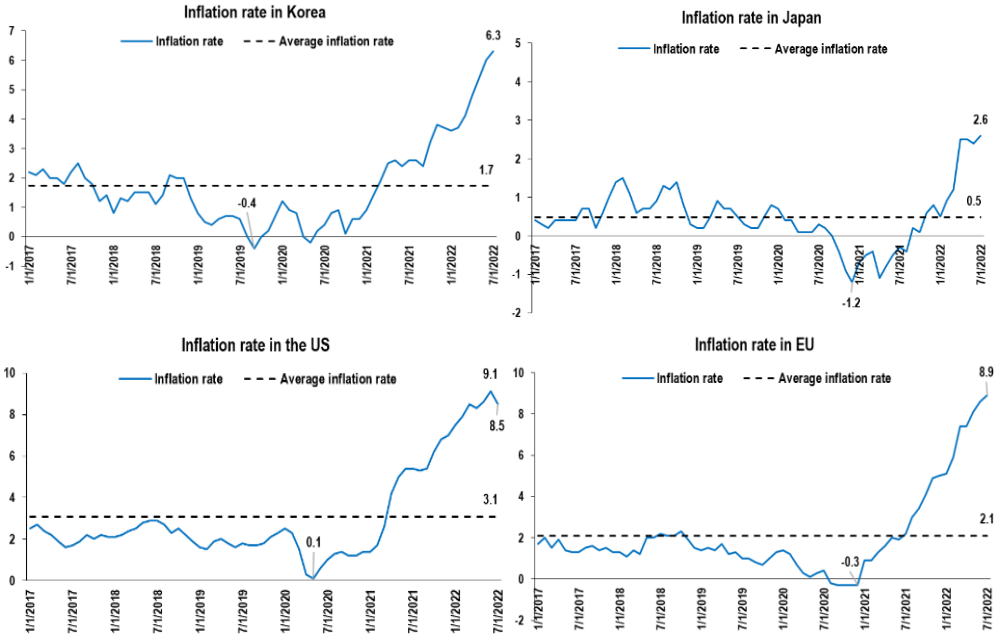
Risks from global macro factors

The global macro factors significantly influence companies whose revenue mainly comes from exports like GDT. Specifically, the US-China trade war increased the import costs from China, indirectly helping GDT have a sudden surge in revenue and profit in 2020. Many large customers have high demand in the market, such as the US, Australia, Japan, and European countries looking for alternative markets to reduce costs, notably Southeast Asia in general and Vietnam in particular.

In contrast, the Russia-Ukraine geopolitical tensions have severely affected oil supplies, leading to higher costs in many countries. State banks, which have not yet fully overcome the consequences of the COVID-19 epidemic in 2021, continue to face the risk of economic weakness. Mandatory actions to intervene in the decline of the national economy, like restrictive monetary policies, have led to increased inflation, accompanied by labor, production, and transportation costs.

Many countries warn that they will face the prospect of an economic recession when interest rates rise, but GDP growth is negative, accompanied by the rise of the unemployment rate. As a result, these influence the medium and short-term export of many enterprises selling discretionary goods, including GDT's wood products.

Inflation rates at Duc Thanh Wood's main export markets



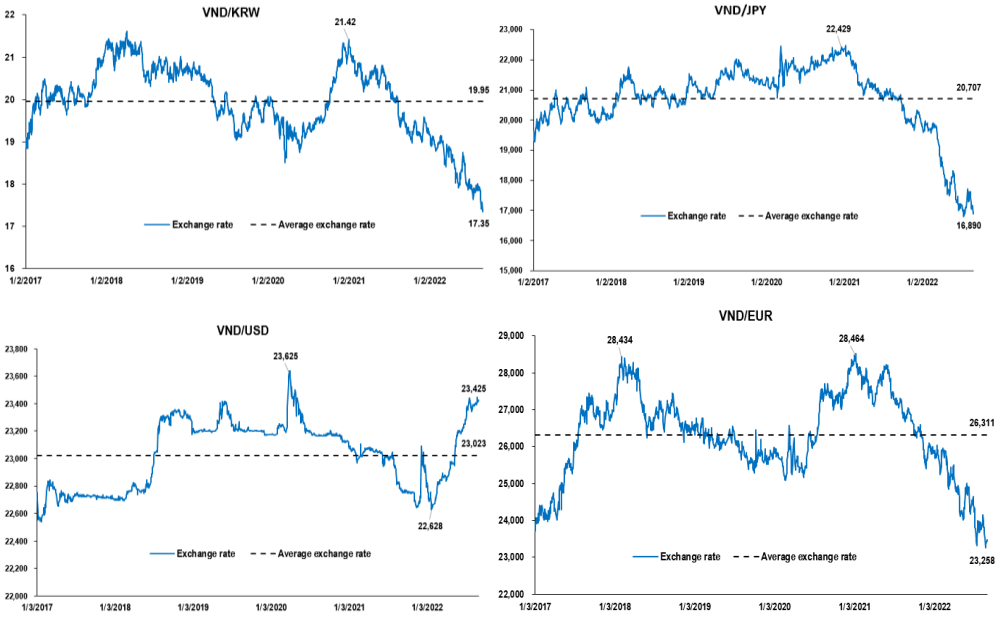
Source: Bloomberg, Shinhan Securities Vietnam

Exchange rate risk

The exchange rate between foreign currencies against VND depreciated, affecting import costs and forcing importers to increase retail prices. This reduces the demand for imported goods, especially discretionary goods like W&WP.

In addition, the depreciation of currencies at markets that GDT exports also affects the revenue and profit recorded through realizing from gain/loss from foreign exchange.

Exchange rate of quote currency in major export markets of Duc Thanh Wood against VND



Source: Bloomberg, Shinhan Securities Vietnam

Risk from investing in new business

After GDT acquired Duc Tam Wood, the synergistic values created after the M&A and the new business segment did not meet GDT's expectations, affecting the company's overall profit margin in the initial years.

Moreover, the current world economy affects consumers' spending ability and shopping needs for the new business segment of GDT. In the US market, high mortgage rates and slow construction progress are reasons that possibly push home prices in the US to record highs. The US median home price is more than $430,000 (+14.8% YoY and +60% over the past 5 years). Rising house prices accompany rising housing costs in the US market, affecting customer demand for GDT's new furniture business.

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Total assets	**399**	**381**	**410**	**438**	**453**
Current assets	296	229	247	285	310
Cash & equivalents	1	8	3	5	2
Short-term investment	172	91	64	69	75
Accounts receivable	34	18	34	46	52
Inventories	71	94	100	138	153
Other current assets	18	16	47	26	28
Non-current assets	103	152	163	153	144
Net fixed assets	98	97	159	149	140
Investment assets	0	22	0	0	0
Other long-term assets	5	34	4	4	4
Total liabilities	**128**	**116**	**143**	**172**	**186**
Current liabilities	124	111	138	167	181
Accounts payable	22	15	22	31	34
Short-term borrowings	63	61	72	76	80
Others	39	36	44	60	66
Non-current liabilities	4	4	5	5	5
Long-term borrowings	0	0	0	0	0
Others	4	4	5	5	5
Total shareholders' equity	**253**	**248**	**268**	**267**	**267**
Capital stock	171	180	199	199	199
Capital surplus	6	6	11	11	11
Treasury stock	(2)	(2)	(2)	(2)	(2)
Retained earnings	77	64	60	59	60
Non-controlling interest equity	0	0	0	0	0
*Total debt	63	61	72	76	80
*Net debt (cash)	(110)	(39)	5	1	3

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Revenue	**400.4**	**338.6**	**556.2**	**604.5**	**673.2**
Growth (%)	17.1	(15.4)	64.2	8.7	11.4
COGS	**(275.6)**	**(237.4)**	**(390.7)**	**(419.4)**	**(466.3)**
Gross profit	**124.8**	**101.2**	**165.5**	**185.1**	**206.9**
GPM (%)	31.2	29.9	29.7	30.6	30.7
SG&A	**(38)**	**(38)**	**(72)**	**(82)**	**(86)**
Operating profit	**86.6**	**63.5**	**93.3**	**103.1**	**121.4**
Growth (%)	8.9	(26.7)	46.9	10.6	17.7
OPM (%)	21.6	18.7	16.8	17.1	18.0
Non-operating profit	**13**	**13**	**3**	**3**	**3**
Financial income	17	17	8	8	8
Financial expense	(4)	(4)	(5)	(5)	(5)
In which: interest expenses	(1)	(1)	(1)	(1)	(1)
Net other non-operating profit	1	(0)	0	0	0
Pre-tax profit	**100.1**	**76.3**	**96.2**	**106.1**	**124.4**
Income tax	(20)	(16)	(19)	(22)	(25)
Net profit	**80.0**	**60.8**	**76.8**	**84.6**	**99.2**
Growth (%)	7.8	(24.0)	26.3	10.2	17.3
NPM (%)	20.0	18.0	13.8	14.0	14.7
Controlling interest	80.0	60.8	76.8	84.6	99.2
Non-controlling interest	0	0	0	0	0
EBIT	**100.8**	**77.3**	**97.3**	**107.4**	**125.8**
Growth (%)	8.0	(23.4)	25.9	10.4	17.1
EBIT Margin (%)	25.2	22.8	17.5	17.8	18.7
EBITDA	**105.7**	**83.7**	**105.8**	**117.5**	**136.0**
Growth (%)	7.7	(20.8)	26.4	11.1	15.7
EBITDA margin (%)	26.4	24.7	19.0	19.4	20.2

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Cash flow from operations	**71.6**	**34.3**	**76.6**	**52.7**	**89.2**
Net profit	100	76	96	106	124
Depreciation, amortization expense	5	6	8	10	10
(Gain)/loss from investing activities	(15)	(13)	(6)	(5)	(6)
Change in working capital	5	(14)	(7)	(37)	(13)
Others	(23)	(21)	(15)	(21)	(27)
Cash flow from investments	**3.5**	**38.3**	**(15.0)**	**30.7**	**0.4**
Change in fixed assets	(58)	(5)	(71)	(1)	(1)
Change in investment assets	46	29	49	25	(6)
Others	16	15	7	7	7
Free cash flow	**75.1**	**72.6**	**61.6**	**83.4**	**89.6**
Cash flow from financing	**(83.0)**	**(65.2)**	**(67.7)**	**(81.1)**	**(93.2)**
Change in equity	-	8	-	-	-
Sales of treasury shares	(1)	(1)	2	-	-
Net borrowing	2	(2)	11	4	4
Dividends & bonus to BOD	(85)	(71)	(81)	(85)	(97)
Change in total cash	**(8.0)**	**7.4**	**(6.1)**	**2.3**	**(3.6)**
Beginning cash	8.7	0.9	8.5	2.6	5.0
Change in FX rates	0.2	0.2	0.1	0.2	0.2
Ending cash	1	8	3	5	2

Source: Company's data, Shinhan Securities Vietnam

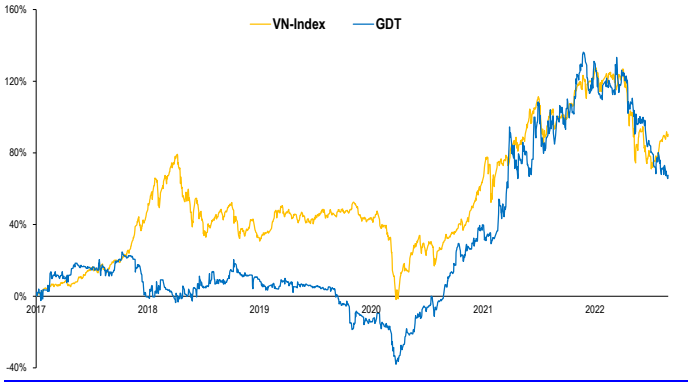
Key ratios

Year to Dec.	2020	2021	2022F	2023F	2024F
EPS (VND)	4,584	3,340	3,877	4,274	5,012
BPS (VND)	15,787	14,760	13,507	13,455	13,502
DPS (VND)	4,990	4,195	3,785	4,000	4,500
PER (x)	7.5	16.9	14.4	12.6	10.1
PBR (x)	2.2	3.8	4.1	4.0	3.7
EV/EBITDA (x)	4.4	10.9	10.0	9.0	7.4
Dividend payout ratio (%)	105.7	116.9	96.6	92.7	88.9
Dividend yield (%)	14.6	7.4	7.1	7.5	8.9
Profitability					
EBITDA margin (%)	26.4	24.7	19.0	19.4	20.2
OPM (%)	21.6	18.7	16.8	17.1	18.0
NPM (%)	20.0	18.0	13.8	14.0	14.7
ROA (%)	20.1	16.0	18.7	19.3	21.9
ROE (%)	29.4	22.6	28.4	31.4	36.7
Liquidity & Solvency					
Debt to equity ratio (%)	24.9	24.5	26.9	28.4	29.9
Net debt ratio (%)	(103.7)	(46.1)	5.0	1.1	2.4
Cash ratio (%)	139.1	89.3	48.3	44.5	42.4
Interest coverage ratio (x)	132.0	81.3	87.2	84.0	90.5
Activity					
Working capital turnover (times)	186	156	75	69	67
Inventory turnover (days)	104	128	120	120	120
Receivable turnover (days)	26	29	28	28	28

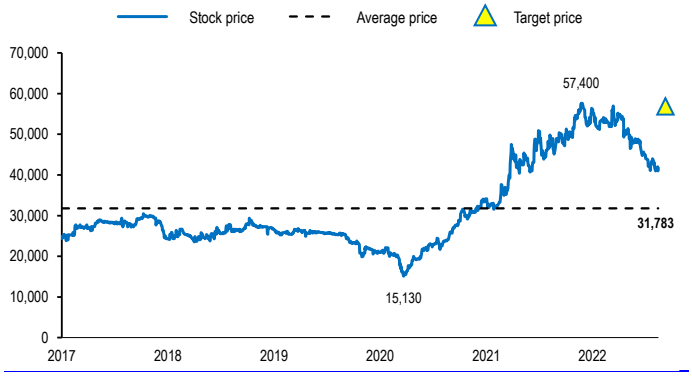
Source: Company's data, Shinhan Securities Vietnam

Duc Thanh Wood Processing JSC. (GDT VN)

Stock price



Target price



Date	Rating	Target price (VND)	Target price gap	
			Average	Max/Min
September 9th, 2022 (Initiation)	BUY	59,400	9,500	1,700/19,000

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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