February 28th, 2023

Shinhan Securities



Duc Thanh Wood Processing JSC.

[Vietnam / Personal and Household Goods]

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

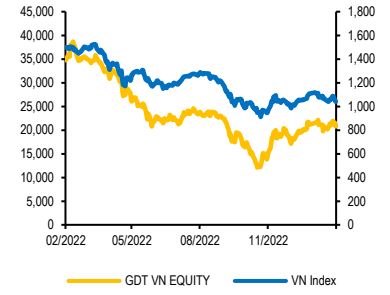
BUY

Update Report

Target price (12 months)	**VND 45,200**
Current price (27/02/23)	VND 32,500
Upside/downside (%)	39%

VNINDEX		1,021
P/E market (23F,x)		9.6
Market Cap (bn VND)		692
Outstanding shares (mn)		21.3
Free-Floating (mn)		10
52-Wk High/Low (VND)		54,300/25,900
90-day avg. trading volume (mn)		0.02
90-day avg. turnover (bn VND)		1
Foreign ownership (%)		19.8
Major shareholders (%)	Ha Thi Hue	27.58
	America LLC	5.05

Performance	3M	6M	12M
Absolute (%)	15.3	-12.6	-33.8
Relative to VN-Index (%)	10.2	7.8	-1.9



Source: Bloomberg

Firmly footsteps

Update recommendation BUY, target price VND 45,200

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. Based on the FCFF and DDM methods, we update the target price of GDT at VND 45,200 equivalent to an expected return of 39%. In 2023, revenue and NPAT of GDT are expected to continue growing thanks to the sustainable demand of exporting wood products, together with the prospective room expansion in the export market. Additionally, the company restructuring as well as closing the M&A deal will boost GDT's revenue and profit in the coming time.

Business results in 2022

The world macro events in 2022 negatively affected customers demand for GDT's wooden kitchen and household items. Specifically, high inflation in the main exporting countries of GDT (Korea, Japan) made consumers cut back on spending. High interest rates also affected the domestic currency in these countries to depreciate, increasing the selling price, and causing a reduction on demand towards discretionary products.

Despite a difficult year 2022 was, however, the total export value of wood and wood products (W&WP) of Vietnam continues to rank 6th in terms of goods export turnover, reaching 15.9 billion USD (+9% YoY), completing 99.7% of the target plan. Although W&WP exports faced many challenges in 2022, it showed that W&WP are still a group of stable and sustainable export goods.

In Q4.2022, Duc Thanh Wood Processing JSC reported net revenue increasing by 6% YoY, recorded at VND 97.2 billion, with GPM maintained at 30%. In 2022, GDT recorded revenue of VND 399.8 billion (+18% YoY), GPM maintained at a high level of 33.4%.

Noticeably, the fluctuating exchange rate also caused the company to experience exchange rate losses in 2022, which was 4.8 times higher than in 2021, directly affecting GDT's profit. However, the efforts of corporate restructuring, applying ERP system to the company operation, management, etc. will help GDT to accelerate its long term growth. Gross profit and NPAT in 2022 were at VND 133.6 billion (+32% YoY) and VND 69.1 billion (+13% YoY), respectively. The company completed 80% of the revenue and 73% of the NPAT 2022 target.

Outlook for 2023

In 2023, we expect GDT's consolidated revenue and NPAT to reach VND 650 billion (+62% YoY) and VND 104 billion (+51%), respectively. The main growth driver comes from the acquisition of Duc Tam Wood Company. Furthermore, under the high pressure of interest rates rise and exchange rate risks, GDT also actively restructured the company and reduced the proportion of debt at EY2022. Notably, Duc Tam Wood Company has also recorded no debt outstanding since the end of Q3/2022. The efforts of improving the corporate structure during this difficult time are the preparations, promising the strong and sustainable growth prospects from GDT in the coming time.

Risks: (1) Risks from prolonged global macro events; (2) Exchange rate risk;
(3) Risks from investing in new business.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**399.8**	**650.3**	**739.6**	**845.4**	**961.1**
Operating profit (bn VND)	87.8	131.5	156.3	183.7	220.9
Net profit (bn VND)	**69.1**	**104.6**	**124.3**	**145.7**	**175.5**
EPS (VND)	3,499	4,911	5,834	6,839	8,240
BPS (VND)	13,812	16,901	18,309	20,991	25,040
OPM	22%	20%	21%	22%	23%
NPM	17%	16%	17%	17%	18%
ROE	**11%**	**9%**	**10%**	**11%**	**11%**
PER (x)	9.2	9.4	7.4	5.9	4.6
PBR (x)	2.3	2.7	2.4	1.9	1.5
EV/EBITDA (x)	6.3	11.5	8.7	7.0	5.4

Source: Company data, Shinhan Securities Vietnam

[Analyst]

Open account

Phuc Nguyen

☎ (84-28) 6299-8025

✉ phuc.nlh@shinhan.com

Ly Bui – Head of Research

☎ (84-28) 6299-8029

✉ ly.btt@shinhan.com

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Valuation and Recommendation

We use "Free cash flows to the firm" (FCFF) and "Dividend discount model" (DDM) methods with the weights of 30% and 70%, respectively. We update our BUY recommendation with a target price of VND 45,200 equivalent to a return of 39%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**11.3**
Risk-free rate (%)	5.0
Equity risk premium (%)	11.13
Beta	0.6
Debt cost (%)	3.0
The cost of equity(%)	11.7
Debt-to-equity ratio	0.04
Total debt (VND billion)	29.87

Source: Company data, Shinhan Securities Vietnam

FCFF methods					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	104.6	124.3	145.7	175.5	203.0
Plus: After-tax interest expense	0.8	0.5	0.6	0.5	0.5
Plus: Depreciation & Amortization	8.7	8.9	9.3	9.3	9.9
Minus: Change in working capital	-25.9	17.1	16.6	20.0	24.4
Minus: CapEx	2.6	2.4	2.5	2.6	9.7
Free Cash Flow (FCF)	**137.4**	**114.3**	**136.4**	**163.0**	**179.4**
Discount rate	0.9	0.8	0.7	0.7	0.6
PV of FCF	123.5	92.3	98.9	106.3	105.1
Growth rate	1				
Present value of long-term value	1,031.1				
Enterprise value	1,557.4				
Debt	29.9				
Cash and cash equivalents	46.1				
Number of shares outstanding (billion)	21.3				
Target price (VND)	**73,900**				

Source: Company data, Shinhan Securities Vietnam

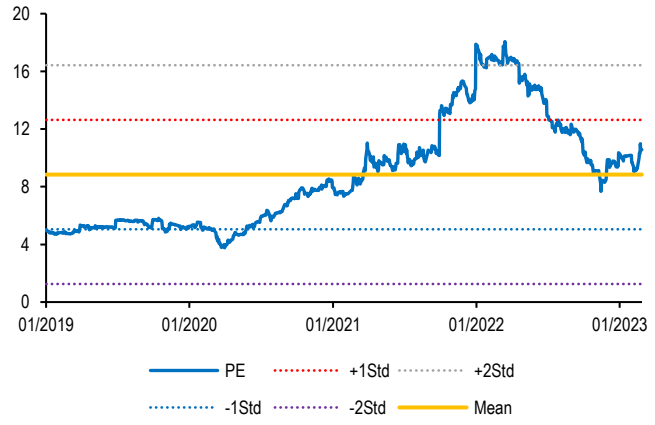
Since GDT has a history of highly paid and consistent cash dividends, we use the DDM method and weigh it higher than the FCFF method. We discount all the estimated dividend streams that shareholders will receive in the forecast years, assuming a reasonable annual dividend payout (based on GDT's payment history) of VND 3,000-4,000/share over the 2023-2027 period.

Mô hình định giá DDM

(Unit: billion VND)	2023F	2024F	2025F	2026F	2027F
Dividend paid	59.4	84.4	84.4	84.4	84.4
Present value of dividend paid	53.2	67.7	60.6	54.2	48.6
Dividend terminal growth	0%				
Present value of terminal value	416.2				
Net present value of dividend flows	**700.4**				
Number of shares outstanding (billion)	21.3				
Target price (VND)	**32,900**				

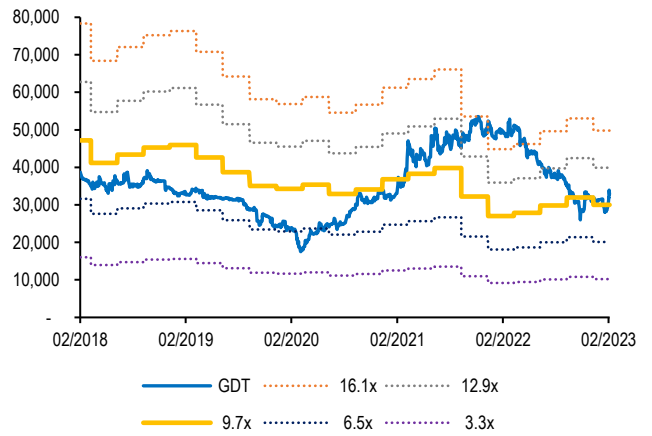
Source: Company data, Shinhan Securities Vietnam

PER in 5 years of GDT



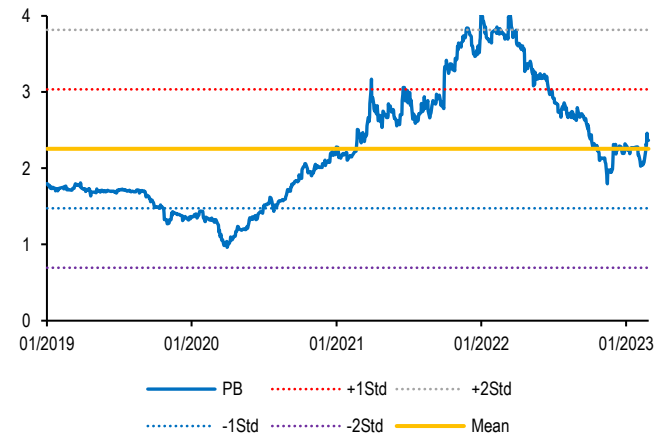
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of GDT



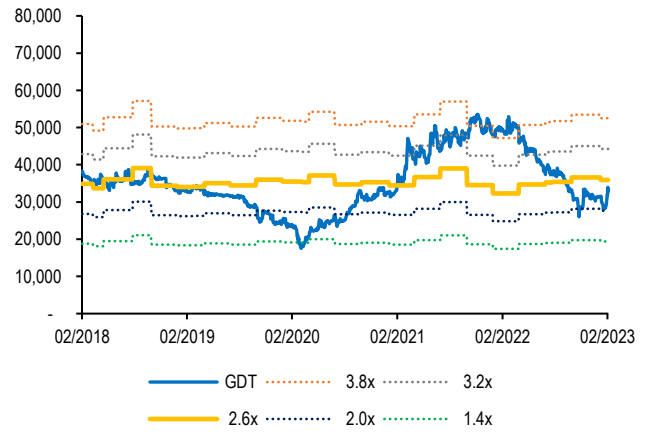
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR in 5 years of GDT



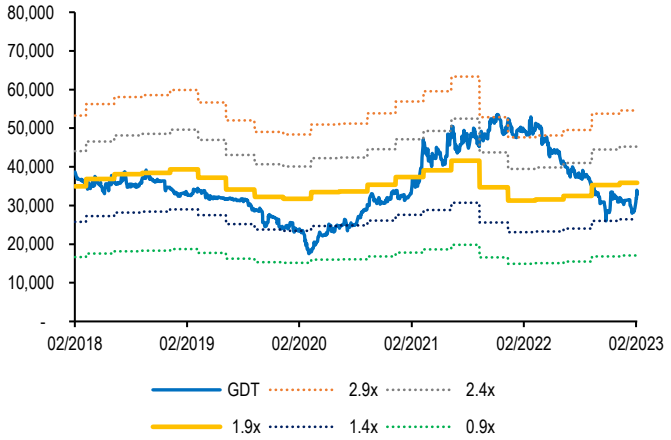
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of GDT



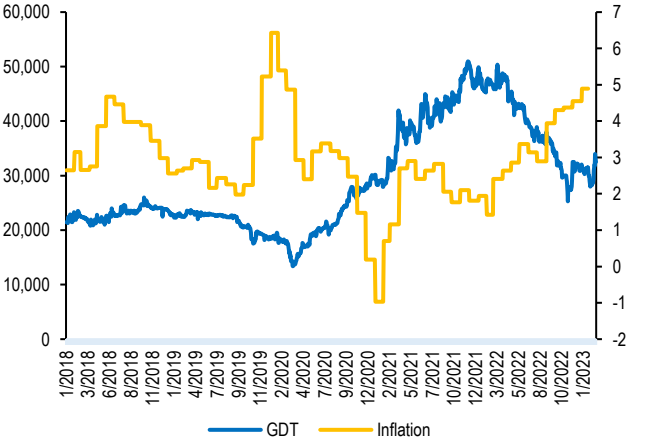
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PSR in 5 years of GDT



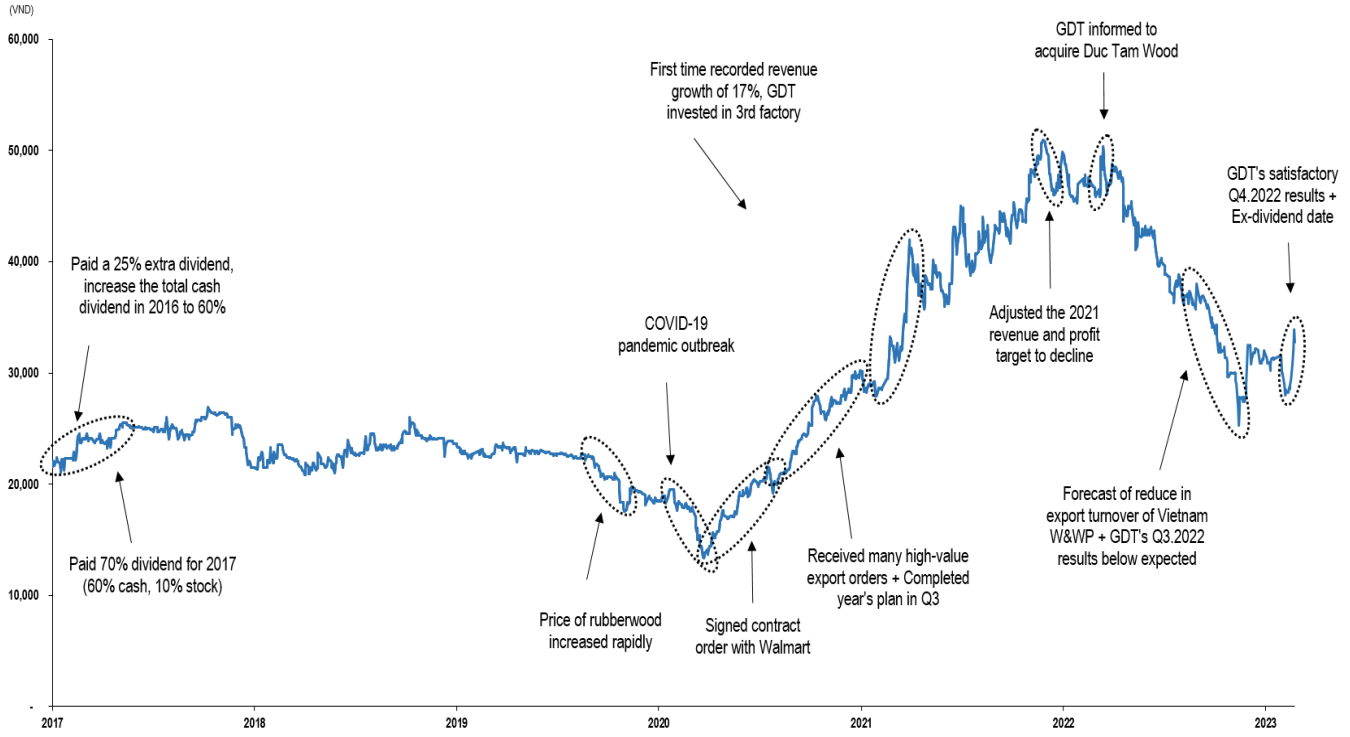
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation between stock price and Vietnam inflation rate



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events of GDT



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	**373**	**393**	**494**	**539**	**616**
Current assets	220	259	357	406	487
Cash & equivalents	8	22	81	118	149
Short-term financial asset	91	24	32	43	58
Accounts receivable	27	115	96	74	84
Inventories	94	97	148	171	197
Other current assets	8	6	12	13	14
Non-current assets	152	134	137	133	128
Net fixed assets	97	97	130	127	122
Investment assets	22	0	0	0	0
Other long-term assets	34	37	6	6	6
Total liabilities	**116**	**112**	**146**	**162**	**183**
Current liabilities	111	108	140	156	176
Accounts payable	15	24	38	43	47
Short-term borrowings	61	30	28	30	28
Others	36	54	74	83	101
Non-current liabilities	4	4	6	6	6
Long-term borrowings	0	0	0	0	0
Other financial liabilities	4	4	6	6	6
Total shareholders' equity	**265**	**294**	**360**	**390**	**447**
Capital stock	180	197	217	217	217
Capital surplus	6	6	5	5	5
Other capital	15	-3	2	-3	-3
Retained earnings	64	94	137	171	228
Non-controlling interest equity	0	0	0	0	0
*Total debt	61	30	28	30	28
*Net debt (cash)	(39)	(16)	(85)	(132)	(178)

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**34**	**(7)**	**126**	**95**	**120**
Net profit	76	87	131	156	183
D&A expense	6	7	9	9	9
(Gain) from investing activities	(13)	(16)	(11)	(14)	(15)
Change in working capital	(14)	(54)	26	(17)	(17)
Others	(21)	(31)	(29)	(39)	(39)
Cash flow from investments	**38**	**102**	**1**	**31**	**(1)**
Change in fixed assets	(5)	(14)	(3)	(2)	(3)
Change in investment assets	29	100	(8)	19	(14)
Others	15	16	11	14	16
Cash flow from financing	**(65)**	**(84)**	**(69)**	**(89)**	**(89)**
Change in equity	8	18	-	-	-
Net borrowing	(2)	(62)	(7)	1	(1)
Dividends	(71)	(39)	(61)	(89)	(88)
Others	(1)	(1)	-	-	-
Change in total cash	**7**	**12**	**58**	**37**	**31**
Beginning cash	1	8	22	81	118
Change in FX rates	0.2	1.8	0.5	0.2	0.3
Ending cash	8	22	81	118	149

Source: Company data, Shinhan Securities Vietnam

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**339**	**400**	**650**	**740**	**845**
Growth (%)	(15.9)	(17.4)	27.0	10.6	17.9
COGS	(237)	(266)	(456)	(511)	(584)
Gross profit	**101**	**134**	**195**	**228**	**262**
GPM (%)	29.9	33.4	29.9	30.8	31.0
SG&A	(38)	(51)	(70)	(84)	(91)
Operating profit	**63.5**	**82**	**125**	**144**	**171**
Growth (%)	(26.7)	29.6	51.3	15.9	18.3
OPM (%)	18.7	20.6	19.2	19.5	20.2
Non-operating profit	13	4	7	12	12
Financial income	17	15	14	17	19
Financial expense	(4)	(10)	(7)	(5)	(6)
In which: interest expenses	(1)	(2)	(1)	(1)	(1)
Net other non-operating profit	(0.2)	(1.2)	(0.4)	(0.5)	(1.1)
Pre-tax profit	**76**	**87**	**131**	**156**	**183**
Income tax	(16)	(18)	(27)	(32)	(37)
Net profit	**61**	**69**	**105**	**124**	**146**
Growth (%)	(24.0)	13.7	51.3	18.8	17.2
NPM (%)	18.0	17.3	16.1	16.8	17.2
Controlling interest	61	69	105	124	146
Non-controlling interest	0	0	0	0	0
EBIT	**77**	**88**	**132**	**156**	**183**
Growth (%)	(23.4)	14.4	49.4	18.5	17.1
EBIT Margin (%)	22.8	22.1	20.3	21.2	21.7
EBITDA	**84**	**96**	**141**	**165**	**193**
Growth (%)	(20.8)	14.5	46.9	17.5	16.4
EBITDA margin (%)	24.7	24.0	21.7	22.4	22.8

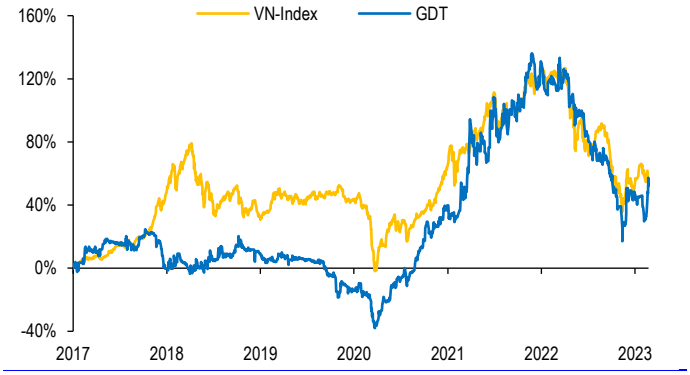
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	3,340	3,499	4,911	5,834	6,839
BPS (VND)	12,459	13,812	16,901	18,309	20,991
PER (x)	14.9	9.2	9.4	7.4	5.9
PBR (x)	4.0	2.3	2.7	2.4	1.9
EV/EBITDA (x)	10.1	6.3	11.5	8.7	7.0
Dividend payout ratio (%)	117	86	57	68	58
Dividend yield (%)	8	10	4	6	6
Profitability					
EBITDA margin (%)	24.7	24.0	21.7	22.4	22.8
OPM (%)	18.7	20.6	19.2	19.5	20.2
NPM (%)	18.0	17.3	16.1	16.8	17.2
ROA (%)	16.3	17.6	21.2	23.0	23.7
ROE (%)	22.9	23.5	29.0	31.8	32.6
Stability					
Debt to equity ratio (%)	22.9	10.2	7.7	7.6	6.3
Net debt ratio (%)	(46.1)	(16.9)	(60.4)	(79.6)	(92.5)
Cash ratio (%)	89.3	42.7	80.7	103.6	117.1
Interest coverage ratio (x)	81.3	50.6	133.4	241.4	265.6
Activity (%)					
Working capital turnover (days)	76	101	80	68	60
Inventory turnover (days)	127	131	123	127	127
Receivable turnover (days)	28	25	27	27	27

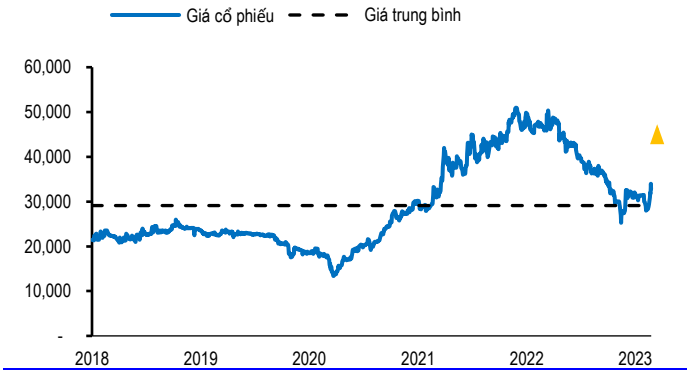
Source: Company data, Shinhan Securities Vietnam

Duc Thanh Wood Processing JSC (GDT VN)

Share price



Target price



Date	Rating	Target price (VND)	TP gap (%) TB	TP gap (%) Max/Min
09/09/2022 (Initiation)	BUY	52,200	4.6	-9.5/28.9
27/02/2023 (Updated report)	BUY	46,100	24.2	-8.4/82.4

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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Shinhan Investment Network

SEOUL
Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

NEW YORK
Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

Hong Kong
Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

Indonesia
PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599

Shanghai
Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

Ho Chi Minh
Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai Street,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

Ha Noi
Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District, Hanoi, Vietnam.
Tel : (84-8) 6299-8000