March 28th, 2023

Shinhan Securities



Duc Thanh Wood Processing JSC.

[Vietnam / Personal and Household Goods]

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

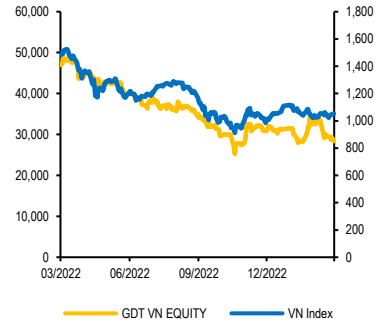
BUY

Update Report

Target price (12 months)	**VND 44,400**
Current price (27/03/23)	VND 28,400
Upside/downside (%)	56%

VNINDEX		1,052
P/E market (23F,x)		10.0
Market Cap (bn VND)		605.0
Outstanding shares (mn)		21.3
Free-Floating (mn)		8.9
52-Wk High/Low (VND)		42.0
90-day avg. trading volume (mn)		51,818
90-day avg. turnover (bn VND)		25,909
Foreign ownership (%)		23.8
Major shareholders (%)	Ha Thi Hue	27.58
	America LLC	5.05

Performance	3M	6M	12M
Absolute (%)	-8.0	-21.1	-42.6
Relative to VN-Index (%)	-11.6	-13.1	-13.5



Source: Bloomberg

Open account

[Analyst]

Phuc Nguyen

☎ (84-28) 6299-8025

✉ phuc.nlh@shinhan.com

Ly Bui – Head of Research

☎ (84-28) 6299-8029

✉ ly.btt@shinhan.com

Riding the waves

Update recommendation BUY, target price VND 44,400

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. Based on the FCFF and DDM methods, we update the target price of GDT at VND 44,400 equivalent to an expected return of 56%. 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 consolidating the business results from furniture segment will boost GDT's revenue and profit in the coming time.

We joined the AGM of Duc Thanh Wood and pointed out some of the key notes, plans regarding GDT as below:

1. Business results in 2022

- In the difficult context of 2022, despite not completing the 2022 target due to the decrease in export orders, GDT still reported positive results, with double-digit growth.
- Revenue recorded VND 399.8 billion (+18.1% YoY), of which mainly coming from export income, contributing 81.5% of total revenue. Domestic revenue accounted for 15%; the remaining came from other segments (warehouse rental; sale of wood chips, scrap). GPM recorded 33.3%, improving from 29.9% in 2021. GP and NPAT in 2022 reached VND 133.2 billion (+31.5% YoY), VND 69.3 billion (+14% YoY) in that order. The company respectively completed 80% (of VND 500 billion in revenue) and 73% (of VND 94.3 billion in NPAT) 2022 target.
- Besides, GDT proposes the cash dividend rate in 2022 at 30% (revised down from 40%, on the purpose of expanding production). Currently, the company has paid a portion (10%) at the end of 2022, and is expected to settle the remaining dividend in April 2023 (10%) and June 2023 (10%).

2. Outlook in 2023

Plan for 2023: Revenue and NPAT will reach VND 520 billion and VND 83.2 billion, correspondingly (+30% and +20% compared to 2022 actuals). Noticeably, GDT will consolidate the business results of Duc Tam Wood Company (operating in the field of furniture production) in 2023FY. This furniture segment is estimated to bring in VND 100 billion for the parent (approximately 19% of the total target revenue). Currently, GDT has export orders until May 2023, but the company assesses that the situation in 2023 is still difficult.

GDT has been restructuring, reducing debt, applying ERP into the operating and managing process, plus expanding the factory. If all 4 factories operate at full capacity, GDT's revenue can reach VND 700-750 billion.

Expected dividend is 30% in 2023. If the business condition in the following years goes well, the company is expected to maintain the cash dividend rate at 40% as in previous years.

New breeze to the BOD: Mr. Nguyen Hoang Ngan was appointed as an Independent Member of the BOD of GDT. Mr. Ngan used to be the GD of Binh Minh Plastic JSC (HoSE: BMP), and is still the Vice Chairman of BMP's BOD. His experience and knowledge at BMP - a company having 100% business domestically, will enhance the domestic market along with the long-standing export strength of Duc Thanh Wood.

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

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**399.8**	**517.7**	**610.7**	**747.8**	**842.2**
Operating profit (bn VND)	87.8	108.1	129.3	162.7	191.1
Net profit (bn VND)	**69.3**	**85.9**	**102.7**	**128.9**	**151.8**
EPS (VND)	3,499	3,842	4,591	5,765	6,787
BPS (VND)	13,160	16,149	16,537	18,186	19,828
OPM	22%	21%	21%	22%	23%
NPM	17%	17%	17%	17%	18%
ROE	**23%**	**23%**	**28%**	**31%**	**34%**
PER (x)	9.2	11.7	9.6	7.1	5.6
PBR (x)	2.4	2.8	2.7	2.3	1.9
EV/EBITDA (x)	6.3	11.0	8.9	6.7	5.4

Source: Company data, Shinhan Securities Vietnam

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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 44,400 - equivalent to a return of 56%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**13.3**
Risk-free rate (%)	4.0
Equity risk premium (%)	11.13
Beta	0.6
Debt cost (%)	3.3
The cost of equity(%)	10.7
Debt-to-equity ratio	0.05
Total debt (VND billion)	29.9
Discount for Lack of Marketability (%)	3

Source: Company data, Shinhan Securities Vietnam

FCFF method					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	85.9	102.7	128.9	151.8	170.7
Plus: After-tax interest expense	1.4	1.0	1.0	1.5	1.6
Plus: Depreciation & Amortization	8.6	8.7	9.1	9.3	10.1
Minus: Change in working capital	-22.1	-15.9	-22.3	-16.9	-16.8
Minus: CapEx	2.6	2.4	2.5	2.6	9.7
Free Cash Flow (FCF)	**71.2**	**94.0**	**114.2**	**143.0**	**155.9**
Discount rate	0.9	0.8	0.7	0.6	0.5
PV of FCF	62.9	73.2	78.5	86.7	83.4
Growth rate	1%				
Present value of long-term value	683.1				
Enterprise value	1,067.8				
Debt	29.9				
Cash and cash equivalents	46.1				
Number of shares outstanding (million)	22.4				
Target price (VND)	**48,500**				

Source: Company data, Shinhan Securities Vietnam

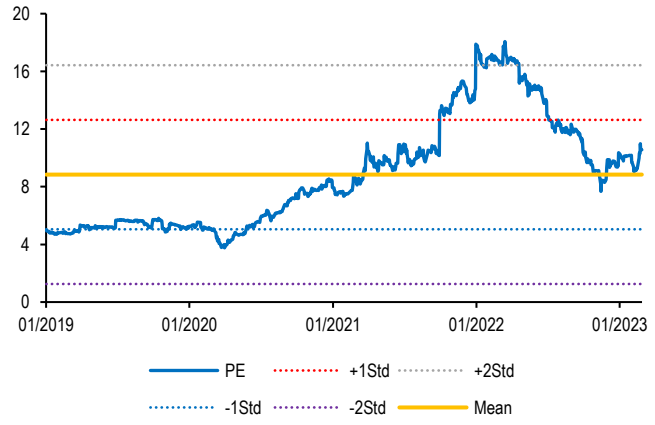
Since GDT has a history of highly paid and consistent cash dividend, we use the DDM method and weigh it higher than the FCFF method. We discount all the estimated dividend streams that shareholders will receive in the forecast years, assuming a reasonable annual dividend payout (based on GDT's payment history) of VND 3,000-5,000/share over the 2023-2027 period.

DDM method

(Unit: billion VND)	2023F	2024F	2025F	2026F	2027F
Dividend paid	60.5	88.6	88.6	110.7	110.7
Present value of dividend paid	54.6	72.3	65.3	73.7	66.6
Dividend terminal growth	0%				
Present value of terminal value	623.1				
Net present value of dividend flows	**955.7**				
Number of shares outstanding (million)	22.4				
Target price (VND)	**42,700**				

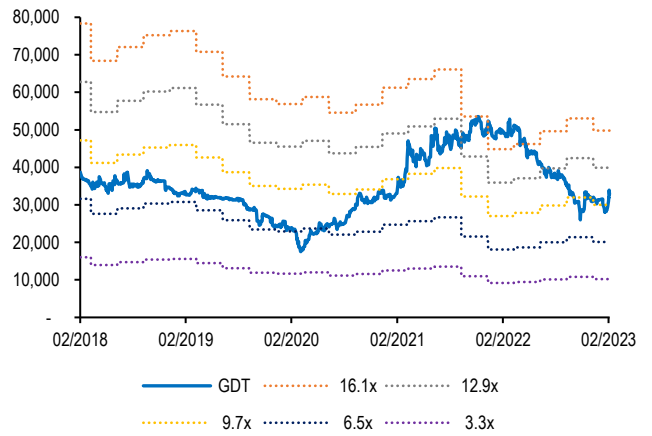
Source: Company data, Shinhan Securities Vietnam

PER in 5 years of GDT



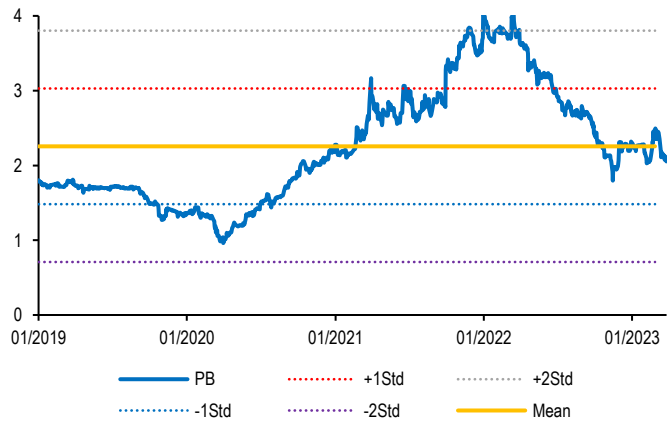
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of GDT



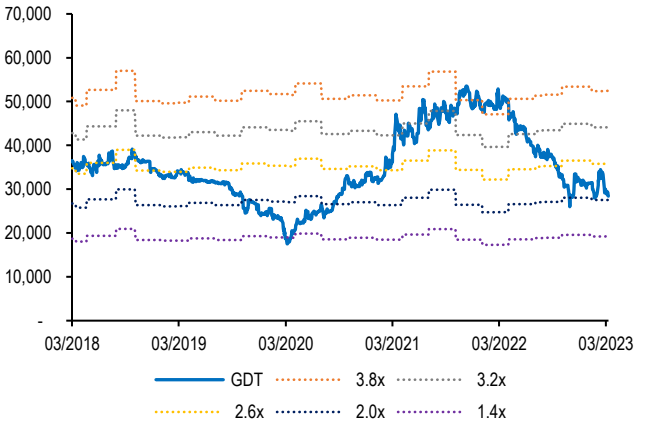
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR in 5 years of GDT



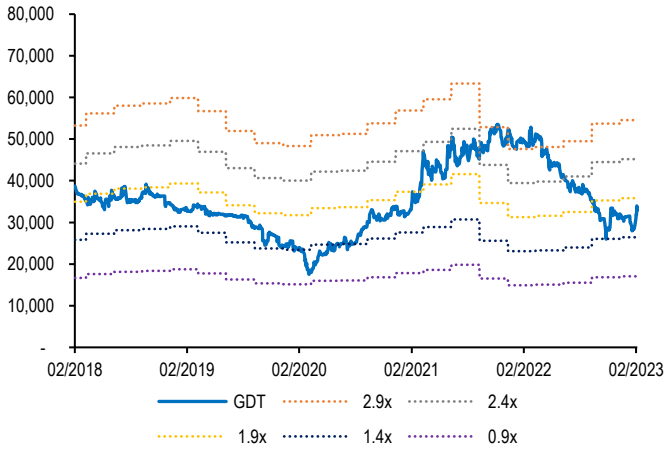
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of GDT



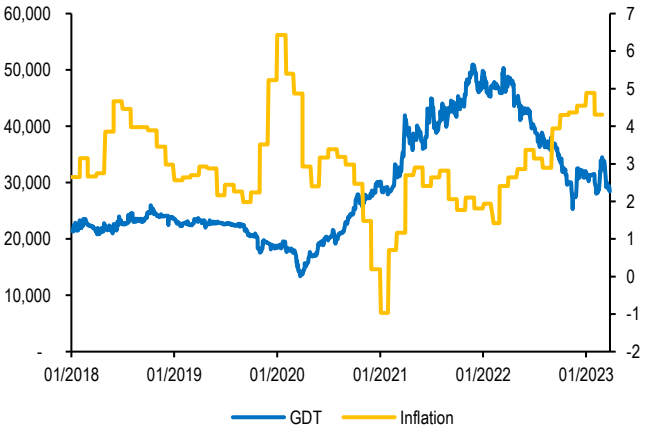
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PSR in 5 years of GDT



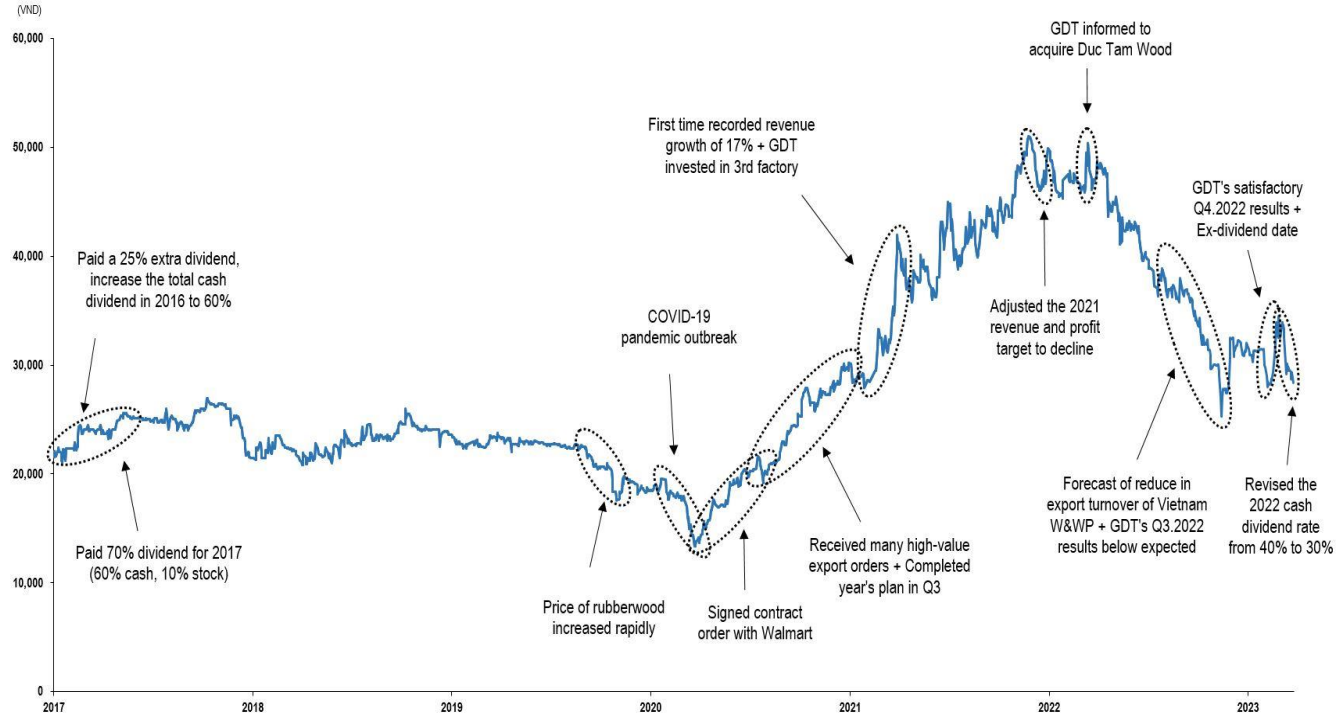
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation between stock price and Vietnam inflation rate



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events of GDT



Source: FinPro, 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**	**475**	**510**	**585**
Current assets	220	289	337	375	454
Cash & equivalents	8	20	138	134	150
Short-term financial asset	91	27	28	39	56
Accounts receivable	27	145	53	61	74
Inventories	94	97	119	141	174
Other current assets	8	6	10	11	13
Non-current assets	152	104	138	135	130
Net fixed assets	97	97	131	128	123
Investment assets	22	0	0	0	0
Other long-term assets	34	7	8	7	7
Total liabilities	**116**	**112**	**124**	**151**	**190**
Current liabilities	111	108	118	145	185
Accounts payable	15	24	29	36	42
Short-term borrowings	61	30	30	42	54
Others	36	54	59	68	89
Non-current liabilities	4	4	5	5	6
Long-term borrowings	0	0	0	0	0
Other financial liabilities	4	4	5	5	6
Total shareholders' equity	**265**	**294**	**361**	**370**	**407**
Capital stock	180	197	226	226	226
Capital surplus	6	6	9	9	9
Other capital	15	-3	9	7	6
Retained earnings	64	94	117	128	165
Non-controlling interest equity	0	0	0	0	0
*Total debt	61	30	30	42	54
*Net debt (cash)	(39)	(16)	(136)	(132)	(152)

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**34**	**1**	**117**	**75**	**98**
Net profit	76	87	108	129	162
D&A expense	6	8	8	9	9
(Gain) from investing activities	(13)	(11)	(15)	(14)	(15)
Change in working capital	(14)	(69)	(22)	(16)	(22)
Others	(21)	(14)	38	(33)	(35)
Cash flow from investments	**38**	**81**	**41**	**1**	**(4)**
Change in fixed assets	(5)	(17)	(3)	(2)	(3)
Change in investment assets	29	86	28	(11)	(17)
Others	15	11	15	14	16
Cash flow from financing	**(65)**	**(70)**	**(40)**	**(80)**	**(79)**
Change in equity	8	-	21	-	-
Net borrowing	(2)	(31)	1	11	12
Dividends	(71)	(39)	(62)	(91)	(91)
Others	(1)	(1)	-	-	-
Change in total cash	**7**	**11**	**118**	**(3)**	**16**
Beginning cash	1	8.5	19.5	137.7	134.4
Change in FX rates	0.2	(0.1)	0.1	0.1	0.1
Ending cash	8	20	138	134	150

Source: Company data, Shinhan Securities Vietnam

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**339**	**400**	**518**	**611**	**748**
Growth (%)	(15.9)	(17.4)	27.0	10.6	17.9
COGS	(237)	(267)	(364)	(423)	(517)
Gross profit	**101**	**133**	**154**	**187**	**231**
GPM (%)	29.9	33.3	29.7	30.7	30.9
SG&A	(38)	(51)	(56)	(69)	(80)
Operating profit	**63.5**	**82.6**	**98.2**	**118.2**	**150.9**
Growth (%)	(26.7)	30.1	18.9	20.4	27.7
OPM (%)	18.7	20.7	19.0	19.4	20.2
Non-operating profit	13	4	10	11	11
Financial income	17	15	18	18	19
Financial expense	(4)	(10)	(8)	(6)	(7)
In which: interest expenses	(1)	(2)	(2)	(1)	(1)
Net other non-operating profit	(0.2)	(1.2)	(0.3)	(0.4)	(1.0)
Pre-tax profit	**76**	**87**	**108**	**129**	**162**
Income tax	(16)	(18)	(22)	(26)	(33)
Net profit	**61**	**69**	**86**	**103**	**129**
Growth (%)	(24.0)	14.0	24.1	19.5	25.6
NPM (%)	18.0	17.3	16.6	16.8	17.2
Controlling interest	61	69	86	103	129
Non-controlling interest	0	0	0	0	0
EBIT	**77**	**89**	**109**	**130**	**163**
Growth (%)	(23.4)	14.8	23.4	18.9	25.3
EBIT Margin (%)	22.8	22.2	21.1	21.3	21.8
EBITDA	**84**	**96**	**118**	**139**	**172**
Growth (%)	(20.8)	15.2	22.3	17.7	23.9
EBITDA margin (%)	24.7	24.1	22.8	22.7	23.0

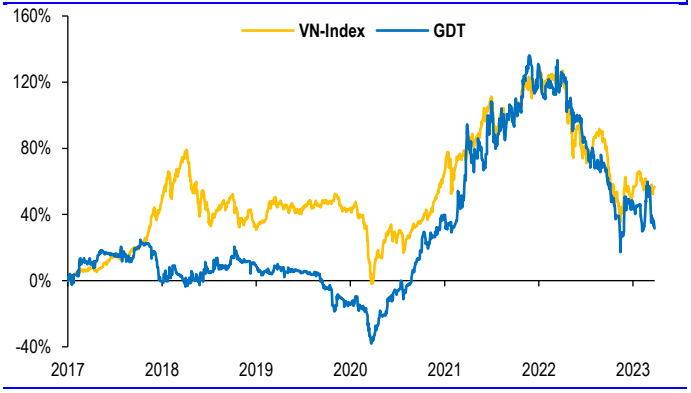
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	3,340	3,499	3,842	4,591	5,765
BPS (VND)	12,459	13,160	16,149	16,537	18,186
PER (x)	14.9	9.2	11.6	9.5	7.0
PBR (x)	4.0	2.4	2.8	2.6	2.2
EV/EBITDA (x)	10.1	6.3	9.1	7.2	5.4
Dividend payout ratio (%)	117	87	70	86	69
Dividend yield (%)	8	10	6	9	10
Profitability					
EBITDA margin (%)	24.7	24.1	22.8	22.7	23.0
OPM (%)	18.7	20.7	19.0	19.4	20.2
NPM (%)	18.0	17.3	16.6	16.8	17.2
ROA (%)	16.3	17.6	18.1	20.1	22.1
ROE (%)	22.9	23.5	23.78	27.7	31.7
Stability					
Debt to equity ratio (%)	22.9	10.1	8.4	11.2	13.2
Net debt ratio (%)	(46.1)	(16.8)	(115.0)	(95.0)	(88.6)
Cash ratio (%)	89.3	42.8	140.1	119.6	111.7
Interest coverage ratio (x)	81.3	50.8	64.7	104.3	124.8
Activity (%)					
Working capital turnover (days)	76	114	93	61	58
Inventory turnover (days)	127	131	122	127	127
Receivable turnover (days)	28	25	27	27	27

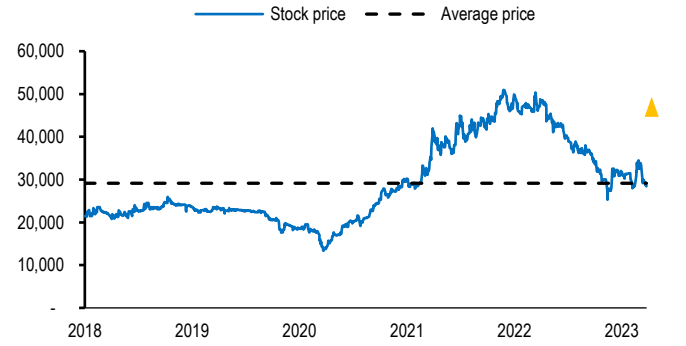
Source: Company data, Shinhan Securities Vietnam

Duc Thanh Wood Processing JSC (GDT VN)

Share price



Target price



Date	Rating	Target price (VND)	TP gap (%) Mean	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
27/03/2023 (Updated report)	BUY	44,400	28.7	-9.0/75.7

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

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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