

OVERWEIGHT

Target price	32,800	VND
Closing price	26,800	VND
06/09/2017		

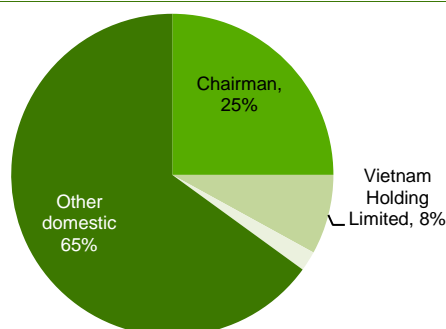
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Ticker profile

Ticker	NAF
Charter Capital (VND bln)	300
Outstanding shares (mln)	30
Market Capital (VND bln)	804
52W range (VND)	24,300-34,300
Ave. trading volume 3M	75,270
Beta	n/a
Foreign Ownership	10.5%
First listing date	7/10/2015

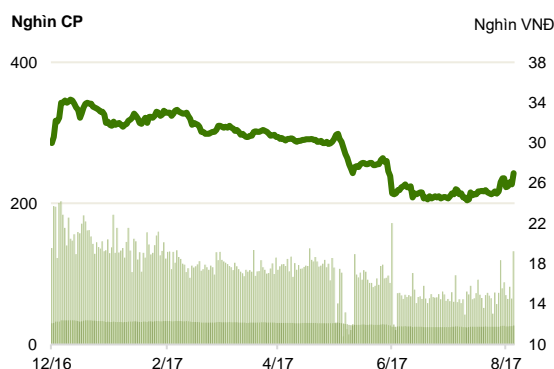
Major shareholders

Chairman	25%
Vietnam Holding Limited	8%
Others	67%



Price Movement

	3M	6M	12M
Absolute	2,000	3,300	3,000
(%)	+8%	-11%	-10%



The advantage in closed circle agriculture chain and the ability to infiltrate international market

Operation section

Currently, NAF main product is the value chain from passion fruit. In which, frozen concentrated passion fruit juice export contributes 63% total revenue and 45% profit. This value chain also includes with supplying passion fruit seedling, it accounts only 19% total revenue but brought 43% total profit. Passion fruit juice has lower profit margin than seedling, but it is an important product in the production value chain, helping boosting the seedling consumption. Moreover, it is NAF's main product on world market, creating a brand name for the group which is expected to bring high revenue. Beside passion fruit, gac is also another strategic product of NAF, NAF is currently the biggest gac exporter in America market.

6 months business results and 2017 forecast

NAF revenue in the first 6 months is 268.4 billion, up by 21.8% YoY, EAT increased by 63.5% YoY.

NAF works in agriculture, so the revenue depends majorly on harvesting season. With the main product being passion fruit which is harvested mainly in the last few months of the year, following previous years trend, revenue and profit in the last 2 quarters are expected to increase strongly. With Long An factory coming into operation in Q4, and positive prospect from many advantages, we forecast 2017 revenue growth at 25%.

Enterprise prospect

NAF is a potential enterprise with many advantages:

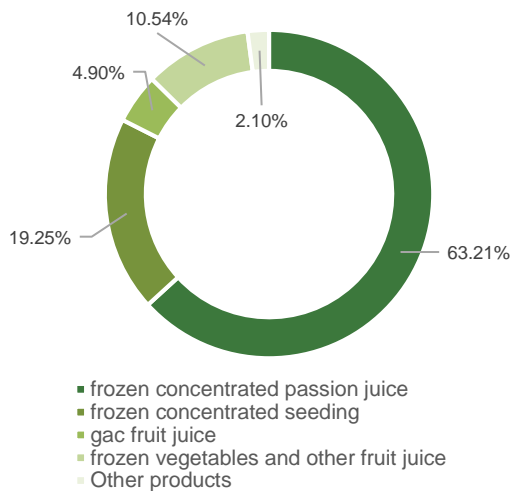
- Being at the top in fruit juice and frozen vegetable processing and export.

For both main products of passion fruit and gac, NAF takes the leading position. In which, NAF is the pioneer and leading enterprise of Vietnam in producing concentrated passion fruit juice which supplies about 8% total production all over the world, NAF is Asia biggest concentrated passion fruit supplier¹. For Gac products, NAF is also the pioneer and leading enterprise. Vietnam is world widest gac planting area, in which, NAF is world biggest exporter of gac puree in America.

- Closed agriculture value chain, being acting in materials source.

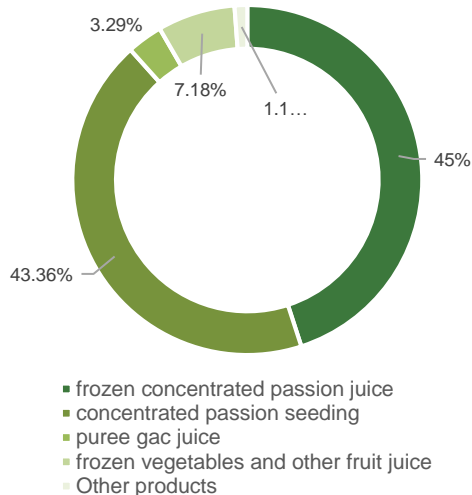
¹According to 2016 NAF annual report

2016 REVENUE STRUCTURE



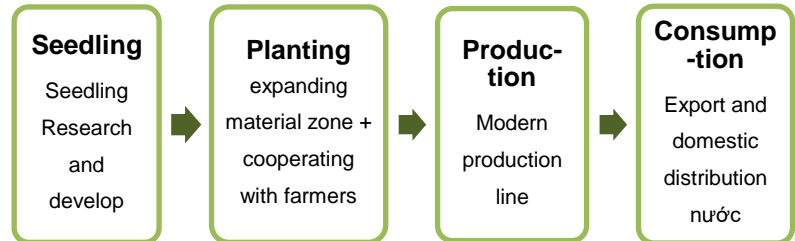
Source: NAF

2016 GROSS PROFIT STRUCTURE



Source: NAF

Food safety problem is becoming more and more important which is a life or dead problem for food and beverage business. Therefore, enterprises that can integrate a sustainable closed value chain will see better growing prospect. Currently, NAF is one of a few pioneer enterprises that can execute a closed agriculture chain:



SEEDLING: owns Nafoods Seedling Institute, NAF is Vietnam first and only enterprise that can produce purple passion fruit, disease clean, high productivity, and suitable with Vietnam land and climate conditions. The seedling institute's closed glass house system area is 5ha, producing 3.5 million seedlings a year, contributing a major revenue (over 19% total revenue in 2016) for the group, with highest profit margin among main products.

MATERIAL AREA: NAF owns a big material area of 650ha for passion fruit planting, 150ha for gac material development. Besides, NAF cooperates with many material areas with about 10,000 ha in contracted production. In 2016, NAF invested in 2 cooperated companies to develop more material area for fresh passion fruit in North East and Tay Nguyen regions, other than the main material area in Nghe An like previously.

PRODUCTION FACTORY: NAF now owns a 5ha processing factory in Nghe An, including one fruit juice production line with equipments imported from Germany and Italia at the productivity of 5,000 tons of products a year and one IQF² fruit and vegetable frozen line with equipment imported from Germany at productivity of 2,000 tons of products a year. The second factory in Long An will come into operation in Q4/2017, with fruit juice production line at 5,000 tons of products a year and IQF fruit and vegetable production line at 4,800 tons of products a year.

CONSUMPTION: NAF owns 5 subsidiary companies and cooperates with 6 others (Appendix1), in which, LMC Investment and Nafoods International One member Ltd. focus on trading and export.

²IQF (Individual Quick Freezing): Freeze individually, this is an advanced freezing technology widely used all over the world, as it can keep most quality of the frozen products.

➤ High ability for joining in international market

NAF is one of a few Vietnam brands that appear in many markets in the world, especially the ones with high requirements for agriculture products like Europe, America, and Japan. In 2016, NAF exported to 67 countries (according to NAF 2016 annual report).

➤ Ability for developing new products

Researching and developing new products is an outstanding advantage of NAF, along with the ability for cooperating with international partners. In 2016, NAF cooperated with manufacturers in Spain to introduce Juice Smile. In the first few months of 2017, NAF signed with Japan partner to develop a closed value chain from ginger; according to that, Japan partner takes responsibility for designing and consuming organixginger products, including IQF ginger slice, dried ginger, smashed ginger, salted ginger, and fresh ginger. NAF will take responsibility of investing and producing, with total investment of about 20 million USD. Besides, NAF has also signed with Laos partner to strengthen passion fruit and banana seedling supply and export. For Europe market, fresh passion fruit importer Switzerland has planned to sign with NAF with the prospect that NAF is trying to research the technology for individual paraffin packing to export fresh passion fruit to Europe, instead of just exporting frozen concentrated passion fruit juice. This project, if finished, will bring big profit for NAF since fresh passion fruit brings higher profit margin. In near future, NAF also plans to target China market, in the direction of auctioning on agriculture product exchanges.

Risks

➤ Weather risks

Being agriculture product producing and trading enterprise, NAF sees strong influence from disadvantaged weather conditions. For passion fruit, the temperature of above 35°C or below 10°C, the trees will die or don't reproduce, so suitable time for farming is from October to March, and the main harvesting season is at the end of the year. The company also invested in an automatic watering system to lower the damage from the heat. However, for cooperated materials, the high risks from weather change are hard to predict.

➤ High customer receivables

NAF's customer debt over revenue ratio is high, high receivable cycle showed that NAF's capital is being used by customers. The risk of receivables becoming hard-claimed debts must also be attended.

➤ Media risks

Food safety problem is now very sensitive. False rumors might immediately see influence on consumers and cause damage to the revenue. However, we think these risks on NAF are relatively low since the enterprise's direction is exporting with many international certifications³ that passed even picky markets' requirements.

➤ Operation risks

Closed business chain model needs a smooth and synchronize cooperation in the whole system. So there are risks in operation, if there is any part that doesn't do well, there will be influence on the whole system.

➤ Product consumption risks

Product consumption risks include with risks from competitors on international markets, risks from foreign partner consumption, lower export contracts, and risks from product transporting phase.

Evaluation

We evaluate NAF at 32,800 dong, basing on 2 methods: P/B (70% weight, 2017 expected P/B of 2.3x and 2017 expected BVPS) and P/E (30% weight, 2016 expected P/E of 18.8x and 2017 expected EPS). With current price of 26,800 dong, we recommend OVERWEIGHT on this code.

³ISO 22000:2005, AUN, BRC, HALAL, KOSHER, SGF, HACCP.

Company Profile

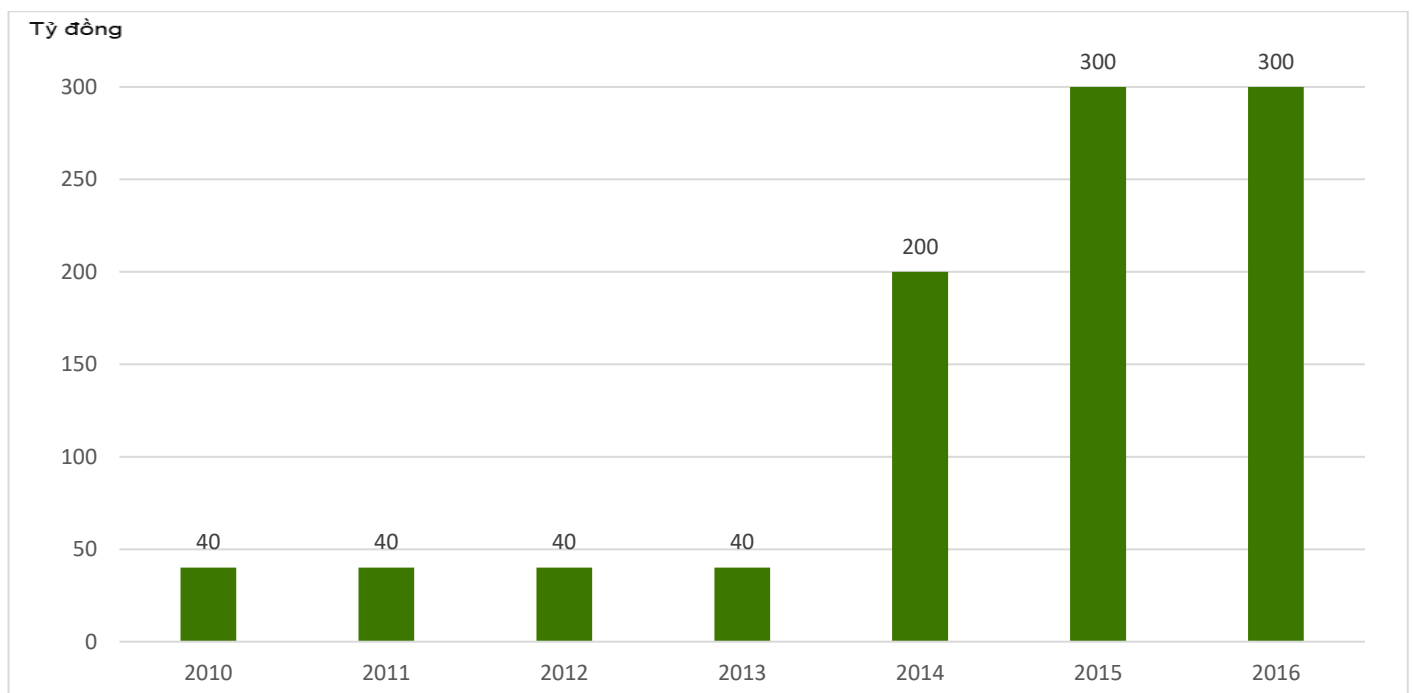
NAF was originally Thanh Vinh Limited Company, established on August 26, 1995, with core business being beverage production and distribution. With the pressure from foreign big beverage groups like Coca Cola and Pepsi, in 2003, the company decided to turn to fruit juice production and trading. In 2010, the company saw an important turn with strong revenue growth as it found the main product that has global competing power – passion fruit after a tough time focusing on pineapple products.

Currently, NAF has positioned itself in fruit juice and frozen fruit and vegetable export, with 2 main products passion fruit and gac, NAF has achieved outstanding achievements: Asia biggest concentrated passion fruit supplier, and biggest Gac puree exporters in America market.

NAF tends to become Vietnam and Asia pionerr group in closed agriculture value chain from seedling, farming, processing, exporting, and distributing to consumers.



Capital increasing progress (billion dong)



Source: NAF

Financial ratio (VND bln)

Income statement	2014	2015	2016	2017E
Revenue	292	531	461	576
Cost of goods sold	258	419	334	418
Gross profit	34	111	126	158
Selling Expenses	15	27	29	37
Managing Expenses	5	13	26	32
Operating profit	14	72	71	89
Non operating profit	6	-2	-3	-5
Interest expense	3	7	5	8
Total profit before tax	20	69	68	84
Profit after Tax	19	65	60	75
Profit after Tax of parent company	19	45	49	61
Balance sheet	2014	2015	2016	2017E
Current Assets	136	452	420	351
Cash and Cash Equivalents	21	30	17	23
Short term Financial Investment	15	33	33	33
Short term Account Receivables	75	336	310	249
Inventory	11	34	38	28
Other Current Assets	13	20	22	18
Non-current Assets	39	99	200	357
Long term Account Receivables	-	-	-	-
Fixed assets	24	28	89	169
Real estate investments	-	-	-	-
Capital Construction in Process	2	2	32	37
Long term Financial Investments	15	54	58	58
Other long term assets	1	16	20	20
Good Will	-	-	-	-
Total Assets	175	551	620	708
Liabilities	58	150	193	252
Short term Liabilities	58	142	186	243
Long term Liabilities	0	9	8	9
Owners equity	117	401	427	456
Minority Interest	104	300	300	300
Total Equity	-	20	11	14
Tổng Source vốn	175	551	620	708

Cash flow	2014	2015	2016	2017E
Net operating	-26	-9	-10	-4
Net Investing	-15	-175	-44	-46
Net Financing	58	192	41	56
Net during the period	17	9	-13	6
Cash at beginning	4	21	30	17
Cash at end of year	21	30	17	23
Valuation				
EPS (VND)	-	1,513	1,626	2,022
BVPS (VND)	-	13,363	12,208	13,173
P/E	-	19.4	18.3	18.8
P/B	-	2.2	2.4	2.3
Financial ratios	2014	2015	2016	2017E
Capital Structure				
Current assets/ Total assets	78%	82%	68%	50%
Non-Current assets/Total assets	22%	18%	32%	50%
Debt/Equity	50%	38%	45%	14%
Debt/Total assets	33%	27%	31%	36%
Interest coverage ratio	8.2	10.2	13.4	11.5
Liquidity				
Current ratio	2.3	3.2	2.3	1.4
Quick ratio	2.1	2.9	2.1	1.3
Efficiency				
Inventory Days	15.9	29.4	41.3	24.8
Receivables Days	94.2	230.8	245.7	157.7
Payables Days	29.4	16.2	18.5	14.8
Current assets turnover	2.1	1.2	1.1	1.6
Fixed assets turnover	12.4	19.0	5.2	3.4
Total assets turnover	1.7	1.0	0.7	0.8
Profitability				
Gross margin	12%	21%	27%	27%
Operating margin	5%	13%	15%	15%
Net profit margin	6%	12%	13%	13%
ROE	16%	16%	14%	16%
ROA	11%	12%	10%	11%

Source: NAF and PHS estimation

Appendix 1

LIST OF NAFOODS GROUP⁴ SUBSIDIARY AND COOPERATED COMPANIES

(As of June 30 2017)

1. Subsidiary companies

No	Company name	Main operation section	Location	Chartered capital	Owning rate
1	Nafoods Passion Fruit JSC	Seedling Planting and producing	Nghe An	60 billiondong	65%
2	LMC Investment JSC	Beverage and food trading	Hanoi	10 billiondong	65%
3	Tan Thang Gac JSC	Complex planting and farming	Nghe An	40 billiondong	65%
4	Southern Nafoods JSC	Juice and frozen fruit and vegetable production	Long An	120 billiondong	95%
5	Nafoods International one member Limited Company	Juice and frozen fruit and vegetable production and trading, seedling trading	Nghe An	60 billiondong	100%

2. Các công ty liên kết

No	Company name	Main operation section	Location	Chartered capital	Owning rate
1	Que Phong Medicine JSC	Spice and herb farming			
2	La Giang Agriculture JSC	Planting, farming	Ha Tinh	40 billiondong	30%
3	Tân Thang Farming	Cow and other livestocks farming	Nghe An	20 billiondong	30%
4	Nafoods Seedling JSC	Seedling production, planting services	Nghe An	60 billiondong	40%
5	Nafoods Pleiku JSC	Passion fruit farming and trading	Gia Lai	7 billiondong	35%
6	North East Nafoods JSC	Passion fruit farming and trading	Son La	4 billiondong	35%

⁴Nafoods Q2/2017 combined finance report

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Neutral (N) = Expected to in line with the local market by +10%~ -10%

Underweight (UW) = Expected to underperform the local market by >10%.

Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends).

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