

OVERWEIGHT

Target Price 60,520 VND
Closing Price 53,500 VND
 15/09/2017

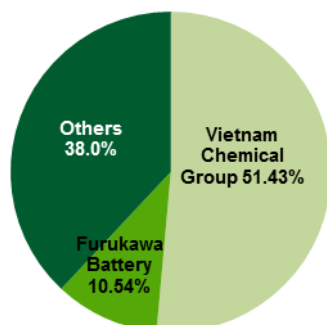
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Co. Profile

Ticker	PAC
Chartered capital (billion dong)	464.717
Outstanding shares (million)	46.471
Market cap (billion dong)	2,323
22 week range (dong)	30,355~57,000
3 month average volume	119,210
Beta	0.18
Foreign own	24.72%
First listing date	12/12/2006

Major shareholders

Vietnam Chemical Group	51.43%
Furukawa Battery	10.54%
Others	38.00%



Big potential from highly increasing market demand

Business results in 6 months 2017

According to checked Q2/2017 Finance report, Southern Batter Pinaco saw over 56 billion dong of EAT, nearly twice higher than same period. So the total EAT in the first 6 months is nearly 77 billion. In which, selling revenue increased by 22% YoY. In detail, battery and car battery revenue increased by nearly 17.9% and 16.4%.

COGS also increased strongly by 26% because input materials increased strongly which led to a lower gross profit. However, EAT still increased by 54% YoY to over 77 billion dong. The reason is that selling and management expenses both dropped strongly along with the irregular income of 25 billion dong compensation and support for moving the factory in District 6, HCMC.

2017 annual shareholder meeting of the company has approved 2017 business targets with revenue of 2,750 and profit of 165 billion. Trying to pay a minimum dividend of 15%.

Other than that, Southern Battery PAC has agreed to choose Furukawa Battery (FB) Limited as strategic partner by consulting shareholders in writing. Currently, Furukawa Battery holds 10.54% chartered capital of the company.

Growing motivation

Southern Battery will invest to raise the batter productivity to 2.2 million kWh/year and arrange the production plan to 2 factories in Dong Nai. Moreover, **the project of investing in the 30 ton per day lead powder factory** in Dong Nai Batter Factory number 2: leader board has approved the project and it is not at the phase of choosing contractor.

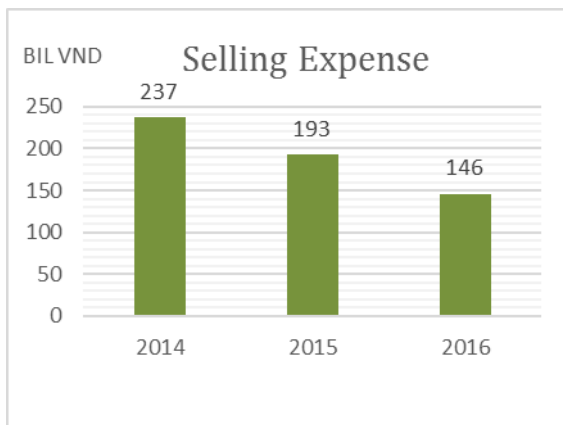
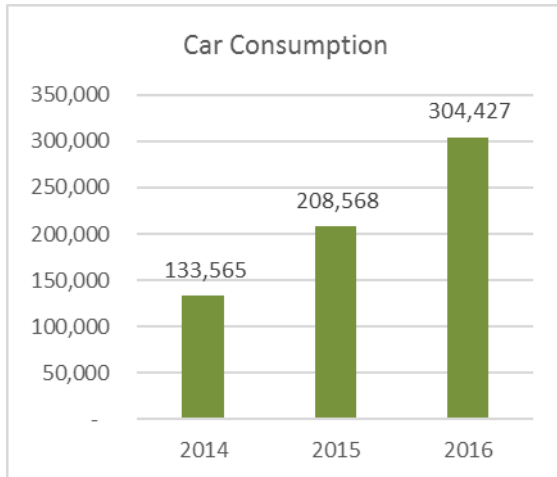
Market demand increased stably

Old batteries need to be replaced. For the life circle of the product (2-3 years depending on using conditions), the replaced batteries consumption depends directly on number of car and motorbike in use. According to statistics, number of car consumption of the market in 2014, 2015, and 2016 reached 133,565; 208,568; and 304,427 pieces with an average growth speed of about 50% YoY. Average price for each batter product is about 1,150,000 to 3,500,000 VND. With about 50% market share for electric battery box in cars, the battery box replacing volume in 2017 and 2018 is expected at over 320,000 pieces. This will contribute about 600 billion dong of revenue for Southern Battery PAC in the next phases.

New battery products for new cars. In 2017, car import tax drops with the impact from ATIGA free trade agreement and the Government polices, so number of cars consumed in the year is expected to increase strongly which will last for a few years (about 20%/year).

So, number of battery consumption is expected to increase accordingly.

Section growing prospect, with the information of Vingroup executing on Car and motorbike production complex Vinfast in Dinh Vu – Cat Hai Economic Zone (Hai Phong). The designed capacity of the complex is 500,000 pieces a year in 2025. The main product of Vinfast is electrical cars and motorbike with Vietnam brand. In first phase, Vinfast will manufacture 5 seat cars and 7 seat cars for electric car product. Currently, PINACO products are being supplied to big automobile manufacturers like **Thaco, Ford, Hyundai, Mercedes**



Benz, Honda, Yamaha, Suzuki... With Vingroup's commitment, the company **will support and cooperate with Vietnam manufacturers** so they can manufacture and develop the spare parts together, step by step reaching the localization rate of 60%, being active in the technology and moving toward the exporting to regional countries. With about 50% market share of car battery, PAC might be hugely benefited from this ambitious plan.

Moreover, China is preparing to end the fuel and diesel car selling. China Ministry of Industry is suggesting a progress to stop manufacturing and selling traditional fuel cars, pushing on the electric technology development. Last year, China has surpassed America to become biggest electric car market. These reports didn't state the specific date, but Beijing is placing pressure on car manufacturers to push on electric car development. China is PAC's traditional export market.

Electric car revenue; fuel and electric car has increased by 50% in 2015 to 336,000 pieces, about 40% global demand.

So, with the industry developing trend and the global growth prospect, there will be positive influence on PAC production in near future.

Sustainably developing by lowering expenses. In the last few years, Pinaco has step by step carried out the resource saving policy in each manufacturing step, not only lowering the price but also saving natural resources and it is helpful for managing management expense. This is clearly reflected on the expense management direction in 2014-2016 and the recent Q2/2017 finance report, since both selling and management expenses dropped strongly. In detail:

- Selling expense dropped by 6% YoY
- Management expense dropped by 38% YoY.

Risks

COGS increased by 27.7% YoY because lead and zinc price increased. In the cost structure, material cost (lead, zinc, cadimi) accounts about 60-65%, in which, the company must import about 50% zinc and 65-70% lead materials, so the price change on these 2 materials on world market will see direct influence on PAC business efficiency. Input material price is increasing gradually from the beginning of 2017 until now, and this trend is expected to last throughout the year, so 2017 COGS is expected to be higher than 2016.

In the first 6 months, PAC hasn't raised selling price, to improve the situation, the company has lowered the trade promotion by 17.2% YoY and lowered the management and selling expenses.

Recommending OVERWEIGHT

COGS increased strongly by over 27% in the first 6 months since material price increased but the company hasn't raised the selling price which saw bad influence on the company's gross profit. Being cautious, we assume that the company will keep this selling price so parent company EAT in 2017 is expected at about 165 billion (-11% YoY), equivalent with EPS forward 3.558 and P/E forward 14.x.

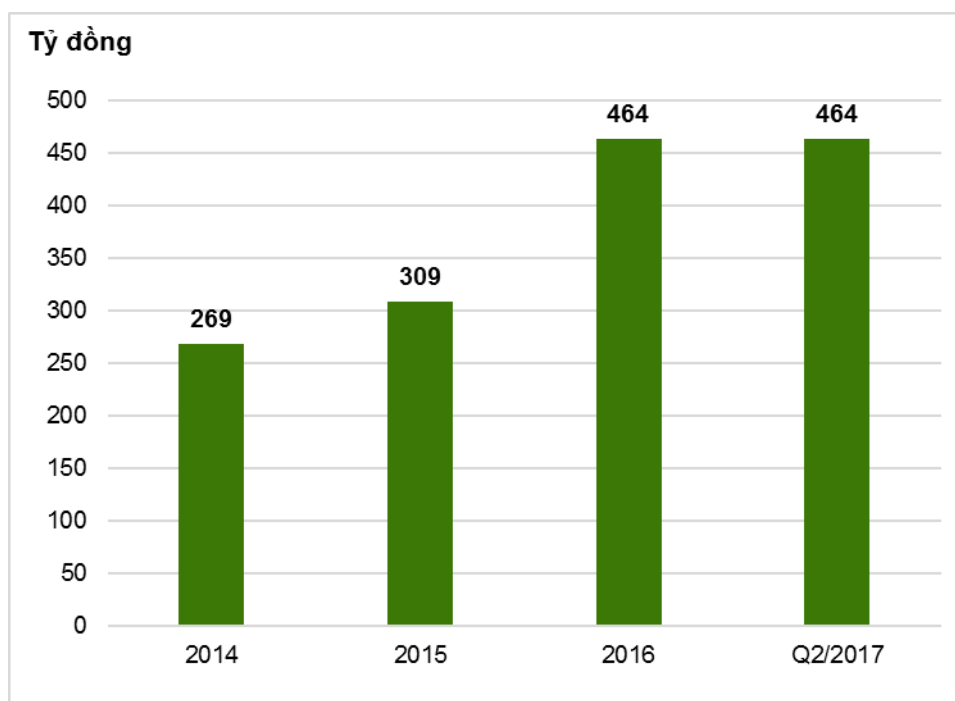
However, with the industry growing prospect and the possibility of upgrading the battery productivity to 2.2 million kWh/year at the end of the year, along with the investment in lead powder factory, it will help lowering the dependence on import materials, and we recommend **OVERWEIGHT** on PAC for middle and long-term target. With one year P/E target of 17.x, we expect that the reasonable price for PAC is 60,520 dong/share.

Company Profile

Southern Battery JSC (PINACO), previously named Southern Battery Company, was decided to be established by Chemical Department (current Vietnam Chemical Group) on April 19, 1976. On May 25, 1993, in accordance with Government Resolution number 388 on re-establishing SOEs, the Ministry of Heavy Industry (current Ministry of Industry and Trade) has established the decision number 304/QĐ/TCNSĐT to re-establish Southern Battery (PINACO) directly under Vietnam Chemical Corporation.



Capital Raising progress (billion dong)



Source: PHS summarization

Financial Ratios (billion dong)

Income statement	2014	2015	2016	2017 E
Net revenue	2,026.3	2,116.8	2,290.9	2,779.9
COGS	1,648.8	1,744.4	1,864.9	2,271.3
Gross profit	377.5	372.4	426.0	508.6
Selling expense	237.4	193.3	146.7	168.7
Management expense	36.7	38.4	45.1	37.9
Operational profit	103.4	140.7	234.2	220.0
Finance profit	-7.8	-19.7	4.2	5.0
Loan interest expense	18.7	9.6	13.7	18.3
Earnings before tax	95.6	121.0	238.4	208.4
Earnings after tax	74.5	90.5	187.7	165.4
Parent company EAT	74.6	90.5	187.7	165.4
Balance sheet	2014	2015	2016	2017 E
Current Assets	867.2	890.6	1,250.7	1,604.9
Cash and Cash Equivalents	200.6	132.7	107.6	261.4
Short term Financial Investment	145.0	200.0	466.8	508.3
Short term Account Receivables	61.4	109.9	93.9	114.0
Inventory	448.5	437.1	562.4	685.0
Other Current Assets	11.7	10.9	19.9	36.2
Non-current Assets	384.5	373.6	426.5	481.6
Long term Account Receivables	0.0	0.0	0.0	0.0
Fixed assets	370.1	315.7	303.8	331.9
Real estate investments	0.0	0.0	0.0	0.0
Capital Construction in Process	0.0	8.5	44.7	70.7
Long term Financial Investments	3.6	3.6	32.5	32.5
Other long term assets	10.8	45.8	45.5	46.5
Good Will	0.0	0.0	0.0	0.0
Total Assets	1,251.7	1,264.2	1,677.2	2,086.5
Liabilities	740.2	758.1	1,046.8	1,274.9
Short term Liabilities	736.1	754.0	1,046.0	1,273.9
Long term Liabilities	4.1	4.1	0.8	1.0
Owners equity	511.5	506.1	630.4	811.5
Common stocks	0.0	0.0	0.0	0.0
Minority Interest	1,251.7	1,264.2	1,677.2	2,086.5

Cash flow	2014	2015	2016	2017 E
Net operating	41.4	146.7	234.1	368.3
Net Investing	24.5	-63.6	-341.1	-385.6
Net Financing	-65.1	-152.1	82.1	171.1
Net during the period	0.7	-69.0	-24.9	153.8
Cash at beginning	200.0	200.6	132.7	107.6
Cash at end of year	200.6	132.7	107.6	261.4
Valuation	2014	2015	2016	2017 E
EPS (VND)	2,763	2,920	4,040	3,558
BVPS (VND)	17,793	15,344	12,951	17,463
P/E				14.6
P/B				3.0
Financial ratios	2014	2015	2016	2017 E
Capital Structure				
Current assets/ Total assets	69%	70%	75%	77%
Non-Current assets/Total assets	31%	30%	25%	23%
Debt/Equity	145%	150%	166%	157%
Debt/Total assets	59%	60%	62%	61%
Interest coverage ratio	5.1	12.6	17.4	11.4
Liquidity				
Current ratio	1.2	1.2	1.2	1.3
Quick ratio	0.6	0.6	0.6	0.7
Efficiency				
Inventory Days	97.9	90.2	108.6	108.6
Receivables Days	10.9	18.7	14.8	14.8
Payables Days	63.5	19.7	18.2	13.7
Current assets turnover	2.2	2.4	2.1	1.9
Fixed assets turnover	5.2	6.2	7.4	8.7
Total assets turnover	1.5	1.7	1.6	1.5
Profitability				
Gross margin	19%	18%	19%	18%
Operating margin	5%	7%	10%	8%
Net profit margin	4%	4%	8%	6%
ROE	15%	18%	30%	20%
ROA	6%	7%	11%	8%

Source: PAC and PHS estimation

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Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%

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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