

What prospect does the future hold for exporting wooden furniture processing industry in 2014-2015?

Exports of wood: Plenty of good opportunities in the 2014-2015

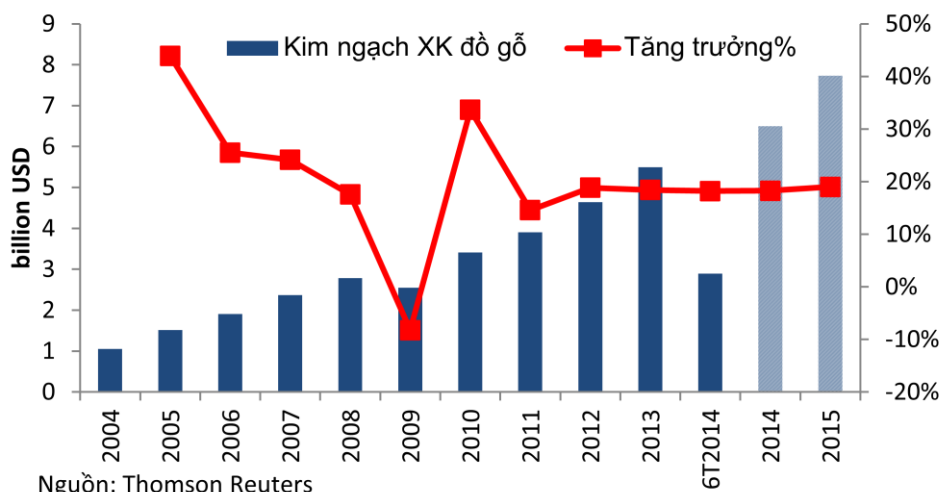
Vietnam is currently the world 6th and the ASEAN 1st country in exporting wooden furniture. According to calculations of Vietnam Wood and Forest Products Association, 2014 export turnover of wood processing industry can reach USD6.5 billion, up 18% compared with 2013. Exports turnover of wood and wooden products currently ranked 5th in Vietnam’s 10 key export industries. If we can come up with the right solution and effective supporting policies, Vietnam might be able to reach USD15-20 billion in exports value over the next 10 years.

Currently, wooden products of Vietnam have been present in over 100 foreign markets. The major importing markets of Vietnam (accounting for over 70% of total wooden furniture export turnover) are the United States, EU, China and Japan.

In the first 6 months of 2014, export turnover of processed wooden products reached about USD3 billion, many companies also have signed production contracts for the whole year so the 2014 export target of USD6.5 billion is highly attainable. The prospect of wood exports in 2014-2015 is very promising in markets such as Australia and some major ASEAN countries i.e: Singapore, Malaysia, Indonesia ...

The favorable conditions for Vietnam's wood processing industry:

- Many large wooden furniture importers have come to Vietnam to make orders rather than China due to much higher labor costs.
- The economic downturn in Europe has caused many factories in major wooden furniture manufacturing countries such as Italy, Germany, U.S. to downsize or even shut down their operation.
- Recovering domestic market: The percentage of interior products domestic sales of local enterprises has increased from 20% to 40% in revenue structure, while foreign products have gradually lost their advantage.
- Many important bilateral, multilateral agreements expected to be signed will create more favorable conditions for this industry: EU-Vietnam Voluntary Partnership Agreement (VPA/FLEGT) on management, development, processing and shipping of legal wood, along with the prospect from TPP, are expected to open up many growth opportunities for Vietnam's wood industry.



The listed companies expected to benefit from these opportunities:

Stock symbol	6-month price change	PE (x)	12-Month ROA	12-Month ROE	2013 Revenue	2013 Gross margin	EBITDA 2013	2013 Net income	Current EV/EBITDA
TTF.HM	28%	132	0%	1%	1,545.31	20%	250.15	3.87	10.8
DLG.HM	74%	36	--	--	801.76	11%	73.24	2.13	21.5
GDT.HM	13%	7	15%	22%	237.37	34%	52.04	36.36	4.4
DCS.HN	27%	67	1%	1%	153.41	10%	12.73	2.70	15.9
SAV.HM	10%	--	-1%	-4%	551.29	11%	16.84	4.16	15.5
GTA.HM	-7%	9	5%	8%	470.85	7%	21.32	11.71	3.2

Source: Thomson Reuters

In particular, two enterprises which are expected to grow strongly in the 2014-2015 period are Truong Thanh Furniture (**TTF**) and Duc Thanh Wood (**GDT**).

Truong Thanh Furniture (TTF)

In 2013, Profit After Tax of the parent company only reached VND2.8 billion and managed to execute only 50% of orders received due to shortage of working capital, resulting in delayed delivery and reduction orders quantity.

In 2014, TTF targets a total revenue of VND1,700 billion, consolidated profit of VND63 billion while maintaining interior production of over 55% in sales structure, annual growth of sales for domestic projects of at least 50% y/y; additional revenue for the domestic retail segment by at least VND20 billion by launching new product lines.

2014 financial restructuring plan:

- (1) Sell the VND543 billion debt at VCB to DATC. In particular, DATC will convert a portion of the debt into equity, the rest is structured into medium-term loan with preferential interest rate of about 7.8%/year. Thanks to DATC's policy, TTF will not have to pay the interest expense of VND65 billion.
- (2) Increase charter capital from VND735 billion to nearly VND1,296 billion to reduce outstanding loan and increase working capital.
- (3) Divest long-term investments: In 2014, the company expects to divest nearly VND100 billion of financial investment and liquidate several unused property assets.
- (4) In 2014 the company will exploit approximately 500ha of the total 10,000ha of mangrove forest; and about 1.000ha-3000ha/year from 2015 to 2022. Expected profit is approximately VND60 billion in 2014 and VND120-366 billion/year from 2015 onwards.

According to TTF, Q2 2014 Profit Before Tax reached VND75 billion (compared with VND20 million loss in Q2/2013 Profit Before Tax). 2014 Profit Before Tax plan of VND70.5 billion excludes the recorded interest expense of -VND115 billion from the debt restructuring process and profit from the exploitation

of 500ha of forest (~VND62 billion), while also excluding VND60 billion loss from the liquidation of Teak wood in inventory.

Consequently, 2014 Profit Before Tax is expected to reach VND186.5 billion compared to the VND4 billion loss in 2013.

Duc Thanh Wood (GDT)

In 2014 GDT targets a strong growth compared to 2013 (revenue VND253 billion +7% y/y, net income VND69.79 billion, +92% y/y). Notably, in 2014 business plan, GDT expects a profit of VND25 billion from transferring the land in My Phuoc 2, Binh Duong. Particularly, net profit from operating activities expected to reach VND 44.79 billion, +23% y/y.

Operating activities in 2014 are expected to grow based on the following factors:

- (1) The export market is expected to recover especially the Asian market (export sales accounted for 80% of total revenue in 2013).
- (2) Expand the domestic market along with better control of distribution policy, selling expenses and professionalizing the sales team. Currently, the distribution network of GDT reached 1,175 Points Of Sale across the country (647 toy stores and 528 household stores).

In Q2/2014, GDT achieved VND67,3 billion in net revenue, +18.5% y/y, VND13,73 billion in Profit After Tax, +73.8 y/y, equivalent to Q2/2014 EPS of VND1,324 / share. Summing up, in the first 6 months of 2014, GDT gained VND120,58 billion revenue+22.17% y/y; VND23,03 billion PAT +51.32% y/y, translating into EPS of VND2,220/share.

At the current price of VND27,600/share, GDT is trading at P/E of 7.4x, fairly cheap compared to other companies in the industry.

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