



## Company Report: VICOSTONE Joint Stock Company (HNX: VCS)

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### VCS Update Report: Fairly valued

VCS shares generally have positive developments in the first few months of 2024, increasing from a price of VND55,000/share at the end of 2023 to a 52-week high of VND73,600/share (during the trading session) and VND72,100/share (closing price) on March 29, 2024. However, from March 29, 2024 until now, the stock price trended down and is currently at VND61,900/share (closing price on April 23, 2024).

In fiscal year 2023, VCS recorded VND4,353.9 billion net revenue, equivalent to a decrease of 23.08% yoy and completing 92.4% of the annual plan. PBT reached VND 999.4 billion, equivalent to a decrease of 27.4% yoy and completing 94.3% of the annual plan. The Annual General Meeting of Shareholders on April 12, 2024 approved the business plan for 2024 with a consolidated net revenue target of VND4,602.6 billion and a profit before tax target of VND 1,033.9 billion, equivalent to a yoy increase of 5.71% and 3.45% respectively. Currently, VCS has not published Q1 business results, but at the Annual General Meeting of Shareholders, the Chairman of the Board of Directors said that in Q1/2024, the company's operations "show growth" and "this is a positive sign."

We use the discounted residual operating income valuation method and updated projections regarding VCS to value VCS shares and give a target price of **VND59,500/share**. This valuation is equivalent to a P/E forward of 10.02x. Based on the target price and the current price of the stock (VND61,900/share), we give a **NEUTRAL** recommendation for VCS stock.

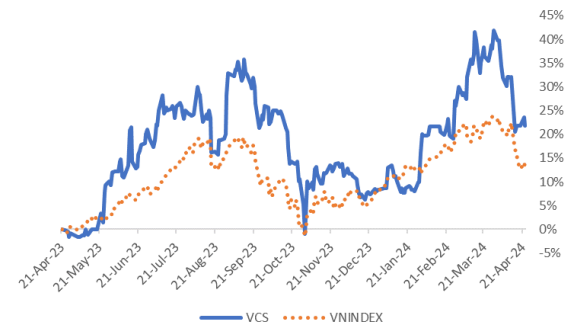
Recommendation: **NEUTRAL**

6-18m TP:  
(24 Apr 2024) **VND59,500**

6-18m TP:  
(05 Dec 2023) VND73,200

Current price: VND61,900

Price performance (12m)



Price change	1M	3M	12M
%	-10.68	11.73	21.85
% VN Index change	-8.15	-0.46	12.90
Avg price (VND)	66,862	64,552	60,136

Sources: Guotai Junan (VN), investing.com

Year	Net Sales (VND b)	PATMI (VND b)	Assets (VND b)	Equity (excl. MI) (VND b)	EPS (VND)	ΔEPS (%)	DPS (VND)	ROAA (%)	ROAE (%)
2020A	5,659.6	1,428.4	6,055.3	3,857.8	8,251	1.69	2,000	24.55	39.10
2021A	7,070.1	1,772.1	6,892.9	4,874.2	9,890	19.86	4,000	27.37	40.59
2022A	5,660.3	1,148.7	6,589.9	4,868.7	6,425	-35.04	6,000	17.04	23.58
2023A	4,353.9	846.4	6,468.2	4,985.8	5,041	-21.54	4,000	12.96	17.18
2024F	4,702.2	950.0	6,944.0	5,352.5	5,938	17.79	N/A	14.17	18.34

Outstanding shares (million shares)	160	Major shareholders (%)	Phenikaa Group 84.15
Market cap (VND b)	10,048	Free float (%)	20
3m average matched volume (million shares)	0.2	ROAA trailing 4Q (%)	12.96
52w high/low (VND)	73,600/48,500	ROAE trailing 4Q (%)	17.18

Sources: the Company, FiinPro X, investing.com, Guotai Junan (VN)

## UPDATING OPERATING RESULTS, AGM, AND OTHER NEWS

**Operating results in 2023:** VCS recorded net revenue in fiscal year 2023 reaching VND4,353.9 billion, equivalent to a decrease of 23.08% yoy and completing 92.4% of the annual plan. PBT reached 999.4 billion VND, equivalent to a decrease of 27.4% yoy and completing 94.3% of the annual plan. VCS's operating results achieved in 2023 were higher than our forecasts in the report dated December 5, 2023. Exports still contribute nearly 90% of Vicostone's revenue and the largest market is the US market (contributing 60% of revenue). Domestic revenue reached about VND500 billion, accounting for 11.5% of total revenue.

**Business plan for 2024:** The Annual General Meeting of Shareholders on April 12, 2024 approved the business plan for 2024 with a target consolidated net revenue of VND4,602.6 billion and a profit before tax target of VND1,033.9 billion, equivalent to an increase of 5.71% yoy and of 3.45% yoy respectively. The Board of Directors assesses that this is not an easy goal but rather a relatively challenging one. These targets are lower than our projections on December 5, 2023. We decided to adjust our forecasts based on the business plan the company set out.

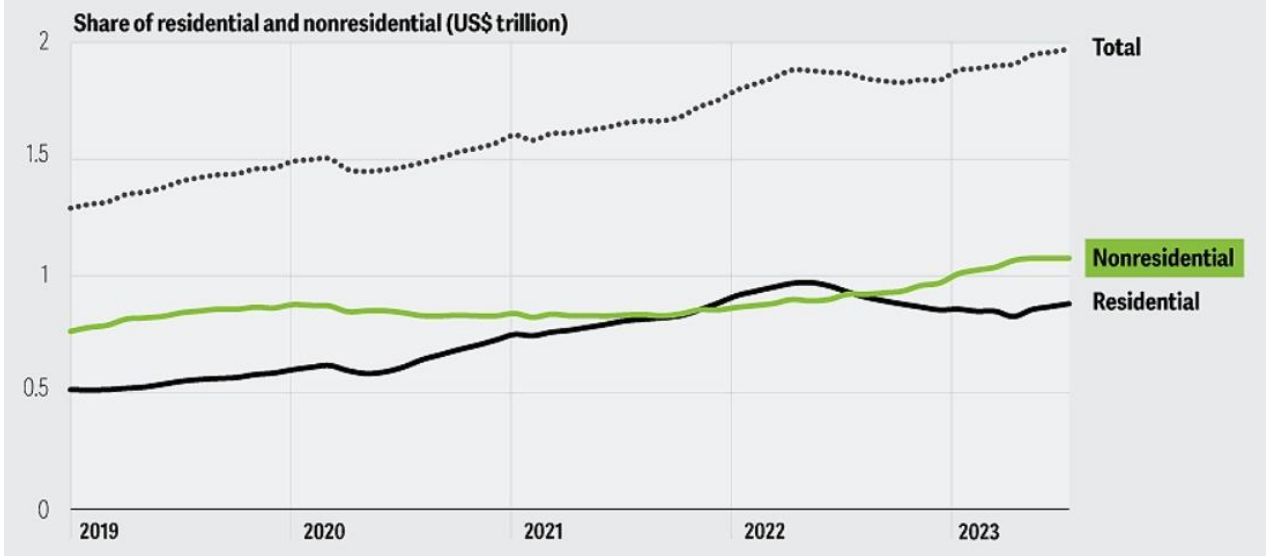
According to the plan, export revenue will only increase slightly compared to last year, because the company believes that the US market will recover slowly. The domestic revenue plan is similar to last year result because the company assesses that domestic consumption will not yet prosper in 2024.

**Preliminary business results Q1/2024:** Currently, VCS has not announced Q1 business results, but at the Annual General Meeting of Shareholders, the Chairman of the Board of Directors said that in Q1/2024, the company's operations "show growth" and "this is a positive sign."

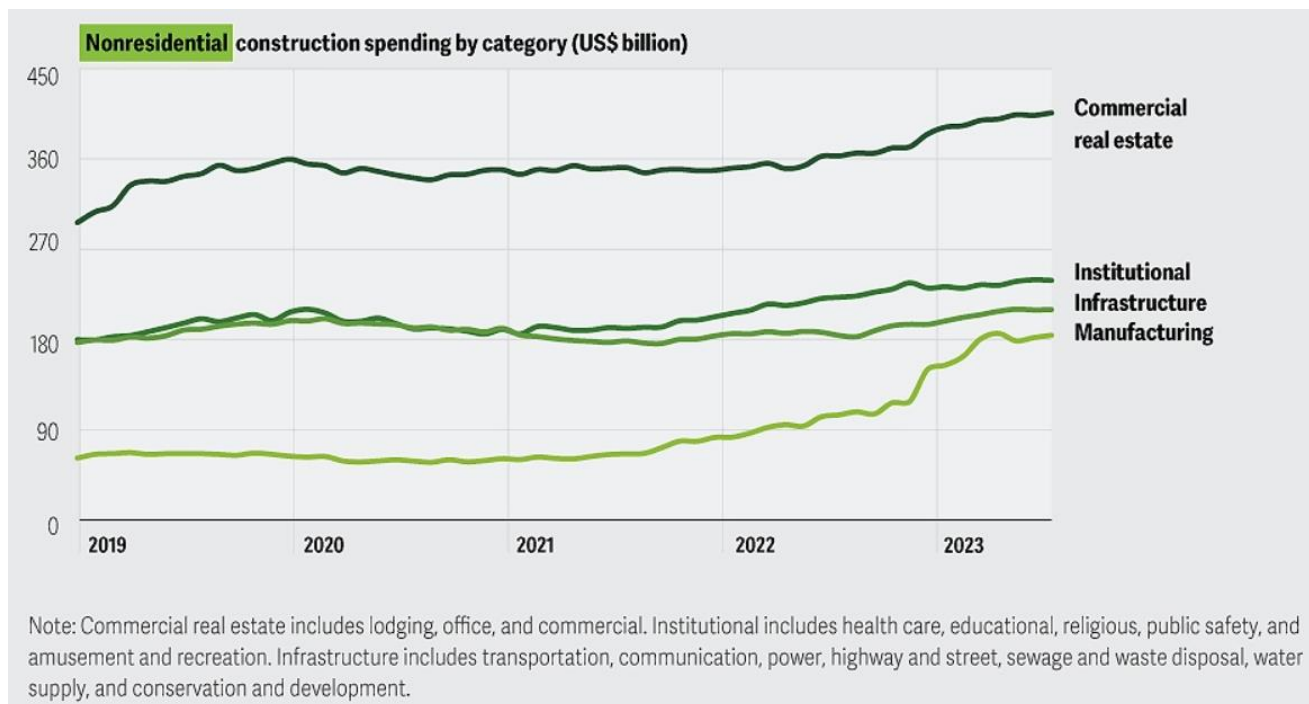
### Other news and comments:

- The company reports that the current and future competitive situation is quite fierce. Due to competitive pressure, VCS has had to reduce product prices by about 20% from 2019 to the present. However, Mr. Ho Xuan Nang, Chairman of the Board of Directors, said the company will limit price reduction from now on to ensure operational efficiency. The company will focus on high-end product lines and compete through product quality.
- According to the summary report of the Ministry of Construction, the production and consumption of construction materials in 2023 decreased compared to 2022, in which the production of tiles decreased by 15% and consumption of tiles decreased by 25%. Competitive pressure is fierce as the number of artificial quartz stone manufacturers in the world continues to increase. According to our research on the prospects of the Vietnamese construction materials industry in 2024, although we assess that the construction materials industry has a positive prospect this year, there will be differentiation in the industry. Companies producing construction stone, asphalt, and cement can benefit from the disbursement of public investment capital. For a company that produces high-end tiles and depends on exports like VCS, perhaps 2024 will not be a favorable year. Also, geopolitical risks and natural disasters in 2024 may cause disruption to the global supply chain, affecting VCS's export business.
- Facing challenges, the company is determined to continue the strategy of localizing input materials and optimizing costs. We maintain our opinion that this strategy will help gradually improve VCS's gross margin in the coming years.
- According to Deloitte's 2024 US construction industry outlook report, the US construction industry is expected to recover, but the driving force for recovery comes from factory construction (thanks to the CHIPS Act). Housing construction, on the other hand, is expected to recover quite slowly. Therefore, we cannot expect a recovery of the housing market in the US. A positive trend for VCS is that commercial real estate spending in the US trended up 2023 after a flat period of 2020-2022. However, based on the comments from business management, we assess that the US market will recover slowly in the near future.

## Total construction spending will likely continue to grow in 2024, driven heavily by the manufacturing and infrastructure categories



Total construction spending divided by residential and non-residential construction in the US (Sources: Deloitte). The driving force of the US construction industry in 2024 is expected to come from non-residential construction.



Total nonresidential construction spending divided by commercial real estate, institutional, infrastructure, and manufacturing construction (Sources: Deloitte). Commercial real estate construction spending can be a driving force to help VCS recover and grow its revenue in the following years.

- According to the 2023 Annual Report, last year, VCS launched 8 new products to diversify its product portfolio and meet design needs. Regarding the US market, the company report that in addition to reduced consumption demand and fierce competition, this market is also facing risks related to anti-dumping/anti-subsidy lawsuits on products imported from Vietnam. The US has applied anti-dumping and anti-subsidy measures on artificial stone products imported from China, India, and Turkey. The Chairman of the Board of Directors said that VCS has prepared to respond to an investigation from the US (if any).

- In 2023, the VICOSTONE® brand was included in the Top 100 most valuable brands in Vietnam for the 7th consecutive time (organized by Brand Finance (UK)).

## UPDATING PROJECTIONS, VALUATION, RECOMMENDATION

(unit: VND b)	2023E	2024F	2025F	2026F	2027F	2028F	2029F
<b>NET SALES</b>	4,200.0	5,040.0	5,796.0	6,491.5	7,140.7	7,714.5	8,288.3
<b>%net sales growth</b>	-25.8%	20.0%	15.0%	12.0%	10.0%	8.04%	7.44%
<b>GROSS PROFIT</b>	1,200.0	1,562.4	1,883.7	2,207.1	2,499.2	2,700.1	2,900.9
<b>%gross margin</b>	28.6%	31.0%	32.5%	34.0%	35.0%	35.0%	35.0%
<b>SG&amp;A</b>	220.0	355.0	372.8	391.4	411.0	431.5	453.1
<b>EBIT</b>	980.0	1,207.4	1,511.0	1,815.7	2,088.3	2,268.6	2,447.8
<b>AVG INVESTED CAP</b>	5,450.5	5,600.0	5,796.0	5,901.4	6,491.5	6,708.2	6,906.9
<b>NET SALES/AVG IC</b>	0.77x	0.90x	1.00x	1.10x	1.10x	1.15x	1.20x
<b>WACC</b>	N/A	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%

Financial forecast for VCS on December 5, 2023 (GTJASVN Research). Additionally, we assumed  $\omega = 0.925$ .

We adjust some assumptions about VCS and adjust VCS's financial projections as follows:

- Changing assumptions about WACC: we adjust VCS's WACC to increase from 11.0% to 12.7% because VCS uses mainly equity capital and we assess that VCS will limit the use of debt capital in the long term based on our assessment of the company's capital needs.
- Changing the assumption about  $\omega$ : we assess that VCS's products have a lot of potential and the business has certain advantages, however, VCS will be under competitive pressure in the long term, and we decided to adjust  $\omega$  downward from 0.925 to 0.91.
- We adjusted VCS's Sales to Average Invested Capital ratio. Due to receiving the transfer of the polyester resins factory from Phenikaa as well as new investment in phase 2 of this factory (we forecast it will be implemented in 2025), we forecast this ratio of VCS will be at lower levels compared to the previous period and will only be at 0.85x in the 2025-2026 period. However, this ratio will gradually improve after 2026 and may reach 1.30x in 2029.
- We readjust VCS's net revenue forecast, %gross margin, SG&A based on updated news about the business's operations.

(unit: VND b)	2023A	2024F	2025F	2026F	2027F	2028F	2029F
<b>NET SALES</b>	4,353.9	4,702.2	5,266.4	5,951.1	6,665.2	7,331.7	7,918.3
<b>%net sales growth</b>	-23.1%	8.0%	12.0%	13.0%	12.0%	10.0%	8.0%
<b>GROSS PROFIT</b>	1,220.9	1,410.7	1,685.3	2,023.4	2,266.2	2,529.4	2,731.8
<b>%gross margin</b>	28%	30%	32%	34%	34%	34.5%	34.5%
<b>SG&amp;A</b>	215.2	249.2	279.1	309.5	346.6	373.9	403.8
<b>EBIT</b>	1,005.7	1,161.4	1,406.1	1,713.9	1,919.6	2,155.5	2,328.0
<b>AVG INVESTED CAP</b>	4,920.5	4,949.7	6,195.8	7,001.3	6,732.5	6,488.2	6,091.0
<b>NET SALES/AVG IC</b>	0.88x	0.95x	0.85x	0.85x	0.99x	1.13x	1.30x
<b>WACC</b>	N/A	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%

Updated financial forecast for VCS on April 24, 2023 (GTJASVN Research). Additionally, we adjust  $\omega = 0.91$ .

We use the discounted residual operating income valuation method and the updated projections to value VCS shares and give a valuation of **VND59,500/share**. This valuation is equivalent to a P/E forward of 10.02x. Based on the stock's valuation and current price, we give a NEUTRAL recommendation for VCS stock.

## INVESTMENT RISKS

The Australian Federation of Labor decided to ban its member organizations from importing, manufacturing, and using engineered quartz surfaces in August 2023. There is currently no information that engineered quartz products may be banned in the US and EU markets, however we assess that this risk needs to be monitored. The company reported that the State of California, USA has launched a Emergency Temporary Standard on Silica at the end of 2023 and will apply this standard in 1 year for engineered stone products with silica content above 0.1 % and also natural stone with silica content above 10%. This standard provides several stricter requirements and regulations for manufacturers in the US.

The US real estate and construction market may recover more slowly than expected. Besides, the level of competition in this market is also increasing due to the participation of Chinese suppliers. There is a risk that VCS will lose market share in this important market.

Risk of conflicts of interest between dominant shareholders and minority shareholders: VCS is a subsidiary of Phenikaa Group and the parent company holds 84.2% control of VCS. We want to highlight this issue to investors.

Valuation risk: Our stock valuation is based on several assumptions about the Company's business operations. These assumptions cannot be completely correct. In addition, the company's ever-changing internal and external environment may cause the information and assumptions used in our valuation as well as our valuation result in this report to no longer be appropriate after the report is released.

**COMPANY RATING DEFINITION**

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
<b>Buy</b>	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
<b>Accumulate</b>	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
<b>Neutral</b>	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
<b>Reduce</b>	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
<b>Sell</b>	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

**SECTOR RATING DEFINITION**

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
<b>Outperform</b>	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
<b>Neutral</b>	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
<b>Underperform</b>	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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