

**Vietnam: Construction Materials**
**4 March 2020**
**GKM VN**
**Not Rated**
**Close 3 Mar 2020**

Price VND 15,800  
12M Target N/A

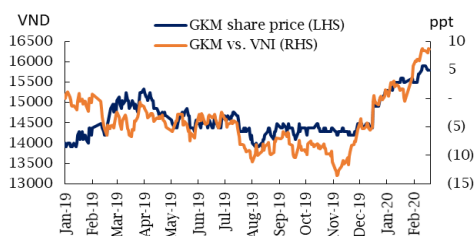
**What's new?**

- ▶ We spoke with management at GKM, which is moving from bricks into higher margin quartz-based engineered stone.
- ▶ The company plans VND 50 bn of debt financing in 2H20 to double its engineered stone capacity to 250,000 sqm.
- ▶ GKM guides for consolidated FY2020 PAT of VND16.2bn, a five-fold increase YoY.

**Our view**

- ▶ The global quartz market should post volume CAGR of 5.5% in 2018–2021, thus delivering stronger volume growth than that of alternatives products.
- ▶ Capacity expansion may result in increased leverage. FY2020E net debt/equity may double to 61% as a result.
- ▶ Trailing valuations appear high, but 2019 financials do not reflect the product shift.

**Company profile:** GKM produces environmentally friendly unheated bricks. Its traditional products are unprofitable, with gross margin of as low as 16% and net margin of 3.3% in 2019. The company is moving up the value chain into higher margin quartz-based engineered stone.

**Share price performance relative to VNI**


<b>Market cap</b>	<b>US\$10mn</b>
<b>6M avg. daily turnover</b>	<b>US\$0.1</b>
<b>Outstanding shares</b>	<b>15mn</b>
<b>Free float</b>	<b>79%</b>
<b>FINI ownership</b>	<b>0%</b>
<b>Major shareholders</b>	<b>25%</b>
<b>Asset/equity</b>	<b>1.8x</b>
<b>2019A P/E</b>	<b>75.3x</b>
<b>2019A P/B</b>	<b>1.4x</b>
<b>Trading platform</b>	<b>HNX</b>
<b>FOL Room</b>	<b>49%</b>

**Financial outlook (VND bn)**

Year to Dec	2016A	2017A	2018A	2019A
Sales	124	154	128	144
Op. profit	7	12	11	10
Net profit	3	15	5	3
EPS (VND)	698	3,288	324	210
EPS chg (%)	23.9	371.2	(90.1)	(35.2)
P/E (x)	22.6	4.8	48.8	75.3
ROE (%)	6.0	25.1	4.0	1.8
Div. yield (%)	–	–	–	–
DPS (VND)	–	–	–	–

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Bloomberg code: YUTA

## Khang Minh Bricks (GKM VN)

### New product shift to lift profit margin?

**Penetrating into high margin quartz-based engineered stone.** GKM's new products to be launched in March 2020 target natural stone replacement and luxury interiors in the domestic market. According to management, the new products are 50% cheaper than alternative natural stone, but gross margin should be about 50% with net margin of 20%.

**Expanding production capacity.** The new production line has annual capacity of 120k sqm. Total investment is VND 150bn, of which VND 30bn is funded with debt. Management states that the breakeven point is 40k sqm. The company plans a VND 50bn debt financing in 2H20 for a second production line that would double its annual capacity to 250k sqm. FY2020E net debt/equity may double to 61% as a result.

**FY2019 PATMI declined by 32% YoY to VND 3.1bn** despite a 12.7% YoY increase in revenue to VND 143bn. However, unheated bricks generated just 16.7% gross margin and 2.2% net margin due to intense competition in traditional products. The YoY PATMI decline was also partially due to the 43% YoY increase in SG&A to VND 13.8bn, which was attributable to its expansion into the stone business.

**Company guidance.** Management expects quartz-based products to generate VND70bn in revenue and VND9bn in PAT in 2020. GKM guides for consolidated FY2020 PAT of VND16.2bn, a five-fold increase YoY. Looking forward, management forecasts PAT of VND51.9bn in 2022, equivalent to 77% CAGR in 2020–22.

**Our view.** According to US researcher Freedonia, the global quartz market should post volume CAGR of 5.5% in 2018–2022, thus delivering stronger volume growth than solid surface (2.9%), laminates (1.5%), and natural stone (2.2%). However, revenue contribution from the new products to GKM's FY2019 income statement was low, which explains the stock's apparently rich valuation of 75x TTM PE and 1.4x 2019 P/B.

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**PROFIT AND LOSS (VND bn)**

<i>FY Dec 31 (VND'bn)</i>	2016A	2017A	2018A	2019A
<b>Revenue</b>	<b>124</b>	<b>154</b>	<b>128</b>	<b>144</b>
Cost of goods sold	(107)	(133)	(107)	(120)
<b>Gross profits</b>	<b>17</b>	<b>21</b>	<b>21</b>	<b>24</b>
Operating expenses	(10)	(9)	(10)	(14)
<b>Operating profits</b>	<b>7</b>	<b>12</b>	<b>11</b>	<b>10</b>
Net interest expenses	(3)	(4)	(4)	(4)
Net investments income/(loss)	-	-	-	-
Net other incomes	(0)	8	(1)	(1)
<b>Pretax profits</b>	<b>4</b>	<b>17</b>	<b>6</b>	<b>5</b>
Income taxes	(1)	(2)	(2)	(2)
Minority interests	-	-	-	-
<b>Net profits</b>	<b>3</b>	<b>15</b>	<b>5</b>	<b>3</b>
<i>Core earnings</i>	<i>3</i>	<i>15</i>	<i>5</i>	<i>3</i>
EBITDA	14	21	20	22
EPS (VND)	698	3,288	324	210

**KEY RATIOS**

	2016A	2017A	2018A	2019A
<b>Growth (% YoY)</b>				
Sales	37%	25%	(17.3)	12.7
Operating profit	(61.5)	65.7	(10.2)	(6.5)
EBITDA	(14.8)	9.3	3.1	35.4
Net profit	(76.1)	371.2	(69.0)	(32.0)
Basic EPS (VND)	(76.1)	371.2	(90.1)	(35.2)
<b>Profitability ratio (%)</b>				
Gross margin	14.0	13.6	16.1	16.7
Operating margin	6.0	7.9	8.6	7.1
EBITDA margin	60.3	52.9	66.0	79.3
Net margin	2.5	9.6	3.6	2.2
ROA	2.9	10.7	2.2	1.1
ROE	6.0	25.1	4.0	1.8
<b>Stability</b>				
Net debt/equity (x)	48.7	93.0	5.8	32.0
Int. coverage (x)	2.7	3.2	2.8	2.4
Int. &ST debt coverage (x)	0.4	0.4	0.3	0.3
Cash conversion days	68.0	81.1	155.4	167.4
Current ratio (X)	1.3	1.2	2.3	1.8
Quick ratio (X)	1.3	1.0	2.0	1.5
Net cash/(debt) (VND mn)	(26)	(60)	(10)	(55)
<b>Efficiency</b>				
Days receivable outstanding	130	120	172	192
Days inventory outstanding	16	29	59	74
Days payable outstanding	78	68	75	99

Source: Company data, YSVN

**BALANCE SHEET (VND bn)**

<i>FY Dec 31 (VND'bn)</i>	2016A	2017A	2018A	2019A
<b>Total assets</b>	<b>120</b>	<b>155</b>	<b>254</b>	<b>304</b>
Cash & cash equivalents	6	5	45	28
ST Investment	-	-	-	-
Accounts receivable	51	56	77	89
Inventories	4	17	17	31
Other current assets	17	19	23	31
Net fixed assets	34	38	72	102
Others	8	21	20	23
<b>Total liabilities</b>	<b>66</b>	<b>91</b>	<b>87</b>	<b>133</b>
Current liabilities	59	78	71	99
Accounts payable	30	20	24	40
ST debts	24	52	39	48
Long-term liabilities	7	12	16	35
Long-term debts	7	12	16	35
Others	-	-	-	-
<b>Shareholder's equity</b>	<b>54</b>	<b>64</b>	<b>167</b>	<b>171</b>
Share capital	45	45	142	149
Treasury stocks	-	-	-	-
Others	-	-	-	-
Retained earnings	9	19	17	13
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**CASH FLOW (VND bn)**

<i>FY (VND'bn)</i>	2016A	2017A	2018A	2019A
<b>Operating cash flow</b>	<b>12</b>	<b>(7)</b>	<b>(92)</b>	<b>(46)</b>
Net income	3	15	5	3
Dep, & amortisation	6	7	8	12
Change in working capital	6	(28)	(20)	(16)
Others	(4)	(1)	(85)	(45)
<b>Investment cash flow</b>	<b>(16)</b>	<b>(22)</b>	<b>(43)</b>	<b>1</b>
Net capex	(16)	(15)	(44)	(0)
Change in LT investment	0	-	0	-
Change in other assets	0	0	0	1
Cash flow after invt.	(4)	(29)	(135)	(45)
<b>Financing cash flow</b>	<b>5</b>	<b>28</b>	<b>96</b>	<b>35</b>
Change in share capital	-	-	105	7
Net change in debt	5	32	(10)	28
Change in other LT liab.	-	(5)	-	-
<b>Net change in cash flow</b>	<b>1</b>	<b>(1)</b>	<b>40</b>	<b>(17)</b>
Beginning cash flow	5	6	5	45
<b>Ending Cash Balance</b>	<b>6</b>	<b>5</b>	<b>45</b>	<b>28</b>

**KEY METRICS**

	2016A	2017A	2018A	2019A
PE (x)	22.6	4.8	48.8	75.3
Diluted PE (x)	22.6	4.8	48.8	75.3
PB (x)	1.3	1.1	1.3	1.4
EBITDA/share	16,630	18,172	5,948	7,669
DPS	-	-	-	-
Dividend yield (%)	-	-	-	-
EV/EBITDA (x)	1.3	1.6	2.8	2.5
EV/EBIT (x)	13.2	10.7	21.2	28.2

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