

HOANG ANH GIA LAI INTERNATIONAL AGRICULTURE JSC (HNG)

July 21, 2015



LISTING NOTE

Current price (7/20/2015)	VND	33,500	
Reference price:	VND	28,000	
Bloomberg ticker: HNG VN	Exchange:	HSX	
Industry:	Agriculture		
Outstanding shares	708,143,895		
Market Cap (VNDbn)	23,723		
Free Float (shares)	563,122,700		
LTM Avg Trading Vol	440,870		
Foreign-owned Ratio (%)	0.7%		
EPS (VND)			
2015 Management target	1,652		
2014	1,901		
2013	1,510		
	2011-14 CAGR	2015F VNDbn	
Revenues	277.37%	6,174	
EBITDA	488.29%	N/A	
Net income	244.60%	1,170	
LTM	HNG	Peer	VNINDEX
P/E	17.62	7.82	13.19
P/B	1.96	1.16	1.88
EV/EBITDA	24.06	N/A	8.91
Debt/ Equity	1.01	N/A	0.99
Profit margin	34.3%	N/A	10.3%
ROA	5.0%	5.6%	2.7%
ROE	11.6%	14.1%	15.0%

(*) Peer's ratios are weighted between rubber, sugar cane, and beef cattle peers. The weighting ratios are based on 2015's gross profit forecast by HNG's management.

Company Description:

Hoang Anh Gia Lai International Agriculture JSC (abbreviation: HAGL Agrico) (HSX code: HNG) was established in 2010 when its parent company, Hoang Anh Gia Lai JSC (HAG), restructured its organization.

Business activities: (i) growing and processing natural rubber, (ii) growing and processing palm oil, (iii) growing and processing sugar and sugar products, (iv) growing corn, (v) raising beef and dairy cattle. The company has also engaged in airport construction activities.

2014 results: total assets of VND16,971 billion (USD783 million), total equity of VND6,868 billion (USD317 million), net revenues of VND2,212 billion (USD102 million), and net profit of VND759 billion (USD3.5 million).

- ❖ On July 20, 2015, all 708,143,895 of Hoang Anh Gia Lai International Agriculture JSC (HNG)'s outstanding shares were listed on the Ho Chi Minh Stock Exchange (HSX) with a reference price of VND28,000 per share.
- ❖ At the closing price of VND33,500 per share on July 20, 2015, the market cap value of HNG would be VND23,723 billion (USD1,090 million), making it one of the largest companies on HSX, even bigger than its parent company Hoang Anh Gia Lai JSC (HAG).
- ❖ HNG is a subsidiary company of HAG, which manages all of HAG's agriculture businesses. Currently HNG has a total land bank of around 88,238 hectares, of which 44 percent is natural rubber plantation, 34 percent is used for palm oil, seven percent for sugar cane, and 15 percent for cattle.
- ❖ The value of rubber trees and palm oil is very large, but not yet generating much profit, as the rubber and palm trees are still young and productivity is still very low.
- ❖ HNG's sugar cane has high productivity, allowing high profit margins. Before 2014, sugar cane made up the biggest portion of the company's profits, generating large cash flow while other businesses were still in investment periods.
- ❖ Cattle is HNG's new business that the company started in 2014, and which began to generate profit in Q2/2015. Although having no prior experience, HNG expects this business to contribute the biggest portion to revenues and profit in 2015 and 2016. HAG has a large land bank and available food for raising cattle that creates many advantages in developing this business.
- ❖ Though the potential for the company is high with future contributions from rubber, palm oil, and cattle, its P/E and P/B are much higher than its peers in the natural rubber, sugar cane, and beef cattle industries.

Please see important disclosure information at the end of this report

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COMPANY OVERVIEW

A subsidiary of HAG, established in 2010.

Hoang Anh Gia Lai International Agriculture JSC (abbreviation: HAGL Agrico) (ticker: HNG) was established in 2010 when its parent company, Hoang Anh Gia Lai JSC (ticker: HAG), restructured its organization. Most subsidiaries of HAG which operate agriculture businesses were grouped and transferred to HNG for management.

HNG currently manages a huge land area of about 88,000 hectares in Vietnam, Laos, and Cambodia. The company engages in five main businesses: (i) growing and processing natural rubber; (ii) growing and processing palm oil; (iii) growing and processing sugar; (iv) growing corn; and (v) raising beef and dairy cattle.

HNG's geographical location of agricultural activities



HNG's operation is centered in the Indochina triangle of Vietnam, Laos, and Cambodia, and within a radius of 250km, making it easier to manage.

Source: HNG, HAG, VPBS

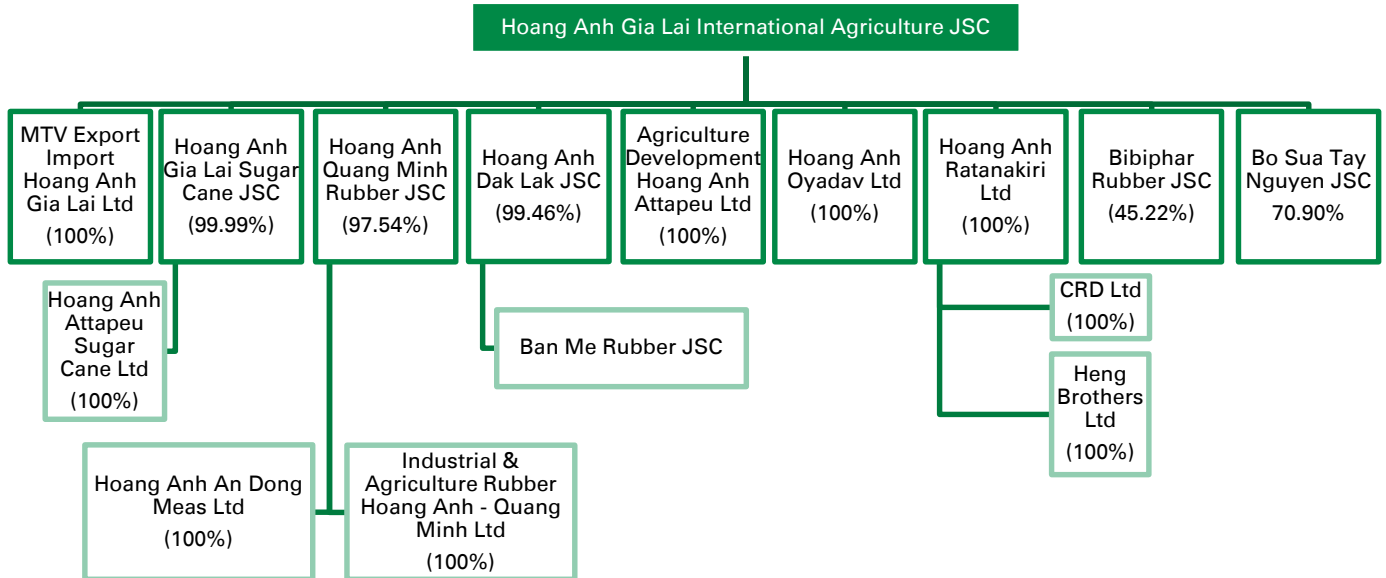
HNG's agricultural land bank

(hectares)	Total	Rubber	Sugar cane	Palm	Cattle
All areas	88,238	38,428	6,165	30,000	13,645
Laos	39,188	24,563	6,165	3,380	5,080
Cambodia	42,691	11,471		26,620	4,600
Vietnam	6,359	2,394			3,965

Source: HNG

Organization

At present, HNG has 14 subsidiaries, with six companies in Vietnam, five in Cambodia, and three in Laos. HNG also has one affiliated company.

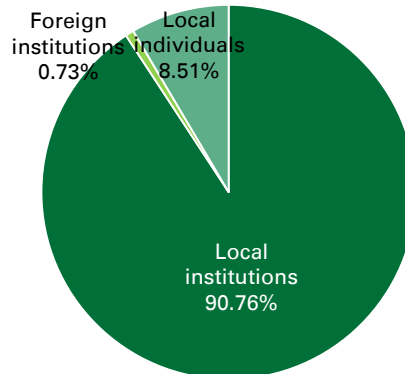


Source: HNG's prospectus

Shareholders and ownership

Before listing, HNG had 21 shareholders. Hoang Anh Gia Lai JSC (HAG) was the biggest shareholder with 79.52 percent, with each of the other shareholders owning less than five percent.

Shareholder structure as of June 15, 2015



Source: HNG

BUSINESS ACTIVITIES

Rubber

HNG started planting rubber trees in Attapeu, Laos, with an initial area of 438 hectares. The area has been repeatedly expanded, reaching 38,428 hectares by the end of 2014. The company has launched a factory for processing rubber with a capacity of 25,000 tonnes per year. HNG expects to construct two other factories when the output of rubber increases. The two main rubber products are SVR 3L and SVR 10.

HNG's rubber tapping area (ha)

Year	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Tapping area	3,021	6,072	6,547	12,508	19,058	26,234	33,786

Source: HNG

Sugar

HNG's sugar cane plantation is concentrated in Attapeu, Laos, with a current area of 6,165 hectares. HNG's sugar canes have high productivity at 120 tonnes per hectare, and commercial cane sugar (CCS) up to 12 percent. The average numbers for Vietnam are 65-70 tonnes per hectare and CCS of 8.2 to 10.2 percent.

Palm oil

HNG began planting palm trees in 2012. At the end of 2014 the company had already planted 17,300 hectares, and in 2015 HAG plans to expand palm plantation area to 30,000 hectares. HNG expects to begin harvesting palm trees in 2016.

HNG's palm tree harvesting area (ha)

Year	2016F	2017F	2018F	2019F
Harvesting area	3,736	7,356	17,303	30,000

Source: HNG

Corn

HNG began planting corn in 2014 with an area of 5,000 hectares. The corn sector contributed a significant portion of the growth of revenues in 2014, however in 2015 HNG reduced corn plantation area to 3,000 hectares and reserved land for its cattle business. HNG plans to use all its corn output for raising cattle, thus it is expected there will be no revenue from the corn business in 2015.

Cattle

HNG began to raise cattle in 2014. At present, the number of beef cattle is about 90,000, and the number of dairy cattle around 5,000. HNG expects to sell 80,000 beef cattle in 2015 and increase the number of beef cattle to 150,000 by the end of 2015.

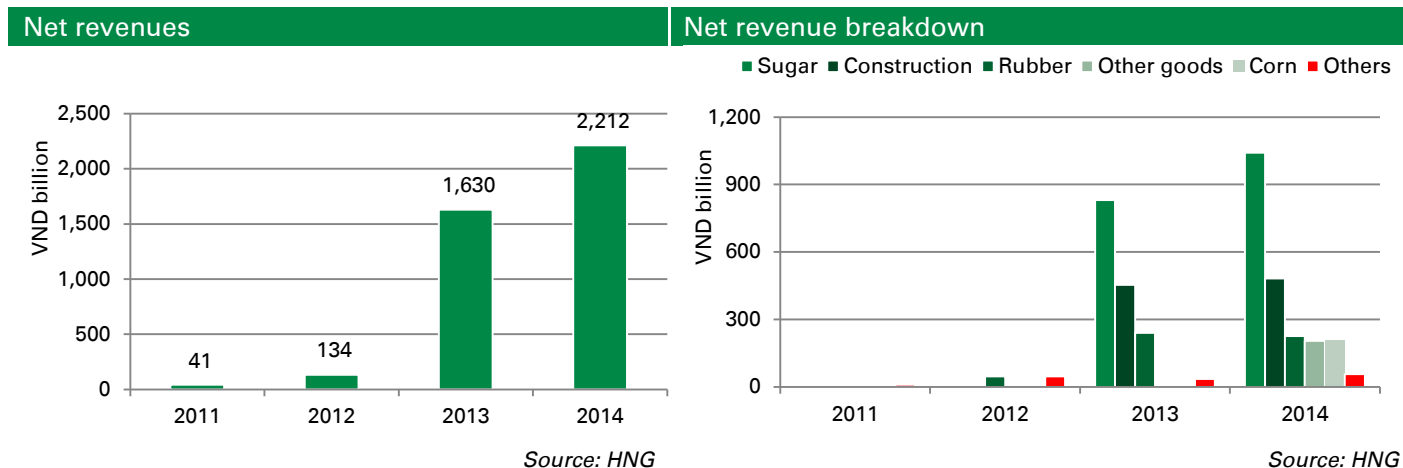
Construction

Revenues from this non-core segment mainly came from two airport projects in Laos: Attapeu and Nongkhang. No information about other projects has been released.

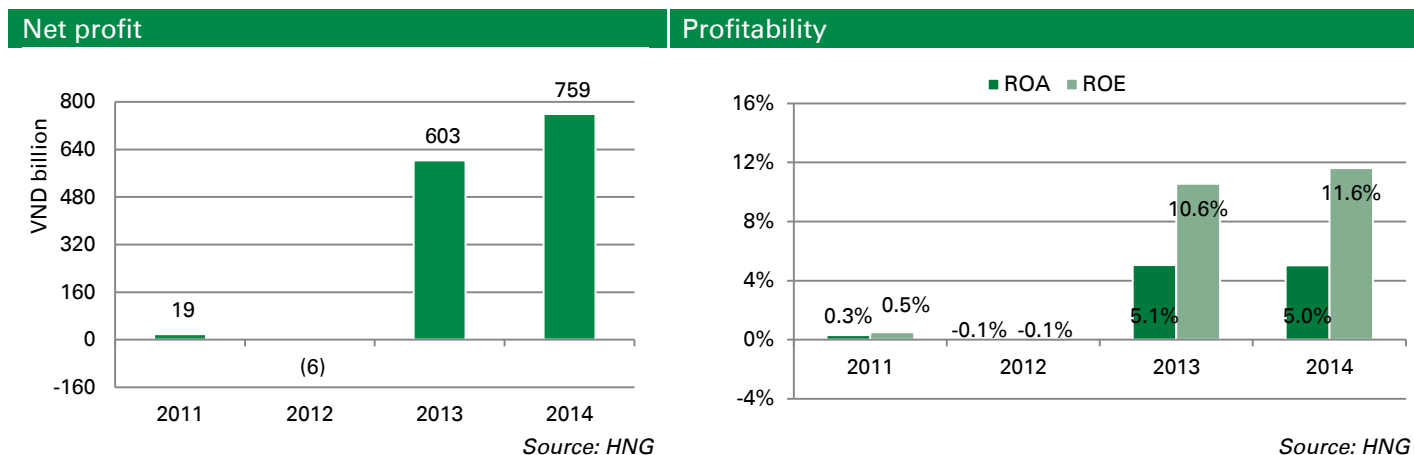
FINANCIAL PERFORMANCE

GROWTH AND PROFITABILITY

Net revenues have increased exponentially from 2011 to 2014. In 2014, net revenues reached VND2,212 billion (USD102 million). The sugar business contributed the biggest portion of revenues, 47.1 percent in 2014, followed by the construction business that made up 21.8 percent.



Net profit has increased significantly over the last four years, however the ROA and ROE ratio are still at low levels. Although the value of rubber trees and palm oil trees make up a very large portion of fixed asset value, those assets have not yet generated good profits as the trees are still young and productivity is low.

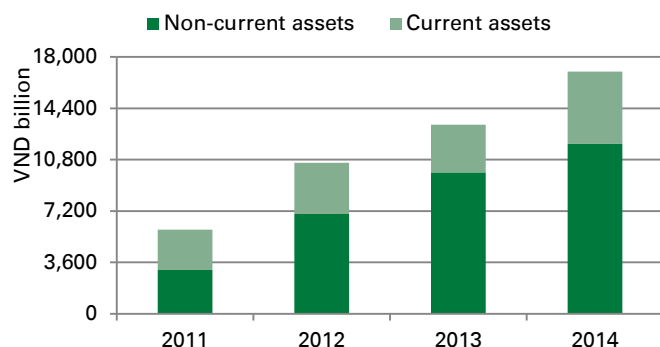


ASSET EVALUATION

Total assets saw sharp growth with CAGR of 42.3 percent from 2011 to 2014. Most of the increase in total assets came from fixed assets. Total assets came in at VND16,971 (USD783 million) as of December 31, 2014.

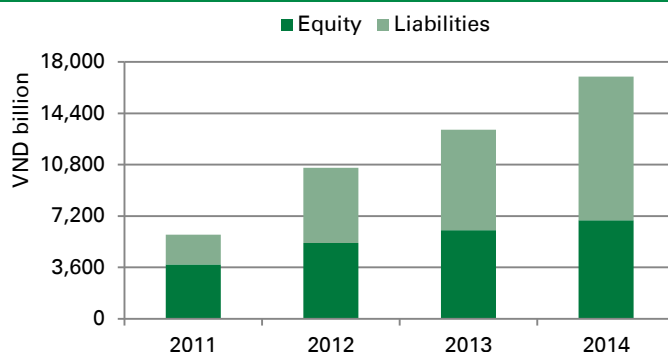
The growth of liabilities has outpaced equity over the period. As of December 31, 2014 liabilities were VND10,080 billion (USD465 million) and equity was VND6,890 (USD318 million), for a liabilities-to-assets ratio of 59.4 percent.

Total assets



Source: HNG, VPBS

Liabilities vs. equity



Source: HNG, VPBS

LIQUIDITY AND SOLVENCY

Total debt to equity ratio has increased steadily over the last four years. As of December 31, 2014, HNG had VND3,739 billion (USD172.5 million) in short-term loans and VND3,621 billion (USD167 million) in long-term loans.

Liquidity and solvency ratios

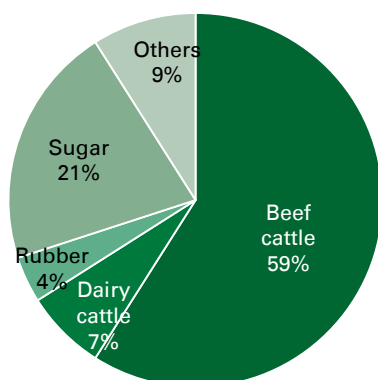
	2011	2012	2013	2014
Current ratio	2.4 x	4.0 x	1.6 x	0.8 x
Quick ratio	2.0 x	3.4 x	1.2 x	0.6 x
Total liabilities/Total assets	35.2%	49.8%	53.1%	59.4%
Total borrowings/Equity	23.5%	42.9%	41.3%	43.4%
EBIT/Interest expense	(32.6)x	0.3 x	4.2 x	3.6 x
EBITDA/ Total borrowings	0.0 x	0.0 x	0.2 x	0.2 x

Source: HNG, VPBS

BUSINESS PLAN

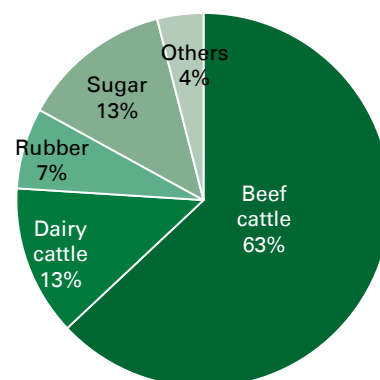
HNG plans to attain net revenues of VND6,174 billion (USD285 million) and profit before tax of VND1,500 billion (USD69.2 million) in 2015. For 2016, net revenues are planned to reach VND9,685 million (USD44.7 million), and profit before tax VND3,100 billion (USD143.0 million). HNG expects the new beef cattle business to contribute the biggest portion to net profit in 2015 and 2016.

Gross profit structure in 2015



Source: HNG

Gross profit structure in 2016



Source: HNG

1H2015 business results

HNG achieved profit before tax of VND597 billion (USD27.5 million) in 1H2015. Beef cattle began to generate profit in Q2/2015, but makes up about 34 percent of total 1H2015 profit before tax. By the end of Q2/2015, HNG had sold 18,000 beef cattle, and the company expects to sell another 60,000 beef cattle in 2H2015.

VALUATION

The reference price is VND28,000 per share and stock price closed at VND33,500 per share on the listing date of July 20, 2015. At the price of VND33,500 per share, HNG's market cap is VND23,723 billion (USD1,090 million); 2015 P/E is 20.28x, 2015 P/B is 2.30x, and Q1/2015 P/B is 3.40x. (2015 EPS and book value are based on the company's estimates)

Stock price (7/20/2015)	EPS 2015	Est. Book value 2015	Book value Q1/2015	P/E 2015	P/B 2015	P/B Q1/2015
33,500	1,652	14,578	9,858	20.28	2.30	3.40

Source: HNG, VPBS

Peer comparison

HNG's P/E and P/B ratios are much higher than its peers in the natural rubber, sugar, and beef cattle sectors.

HNG		Rubber Sector		Sugar cane Sector		Beef cattle Sector	
2015 P/E	2015 P/B	LTM P/E	LTM P/B	LTM P/E	LTM P/B	LTM P/E	LTM P/B
20.28	2.3	8.57	0.80	11.85	0.96	6.33	1.26

Data as of July 20, 2015. Source: HNG, Bloomberg, VPBS

Natural rubber sector

Ticker	Market Cap (VNDbn)	P/E	P/B
PHR VN	1,554	6.87	0.69
DPR VN	1,348	6.87	0.62
TNC VN	200	8.65	0.65
HRC VN	806	13.87	1.54
TRC VN	731	6.60	0.50
Average	928	8.57	0.80
Median	867	7.72	0.67

Data as of July 20, 2015. Source: Bloomberg

Sugar cane sector

Ticker	Market Cap (VNDbn)	P/E	P/B
SBT VN	2,095	14.56	1.14
BHS VN	989	10.38	1.11
LSS VN	700	13.68	0.47
NHS VN	936	11.01	0.96
SLS VN	194	9.64	1.09
Average	983	11.85	0.96
Median	936	11.01	1.09

Data as of July 20, 2015. Source: Bloomberg

Beef cattle sector

Valuation method	Relative	VN-Index	Target
P/E	0.48	13.2	6.33x
P/B	0.67	1.88	1.26x

Peer comparison

Company	Country	Market cap	P/E		EV/EBITDA		P/B	
			LTM	Rel.	LTM	Rel.	LTM	Rel.
Regional peers		(USDmn)	Time	Time	Time	Time	Time	Time
CHAROEN POKPHAND FOODS PUB	Thailand	4,901	14.06	0.72	16.72	1.38	1.38	0.69
HUAT LAI RESOURCES BHD	Malaysia	70	7.92	0.47	5.73	0.59	1.14	0.59
UNITED FOOD HOLDINGS LTD	China	14	2.52	0.17	0.61	0.04	0.06	0.05
NHC FOODS LTD	India	3	10.88	0.48	14.08	1.10	1.14	0.37
HANIL FEED CO LTD	South Korea	39	11.27	0.65	17.52	2.07	0.79	0.76
SUNJIN CO LTD	South Korea	241	13.63	0.78	13.76	1.63	1.62	1.57
SINO AGRO FOOD INC	China	240	2.42	0.13	2.61	0.21	0.55	0.19
ZAMBEEF PRODUCTS PLC	Zambia	100	N/A	N/A	N/A	N/A	0.58	1.11
Average			8.96	0.48	10.15	1.00	0.91	0.67
Median			10.88	0.48	13.76	1.10	0.96	0.64

Data as of July 20, 2015. Source: Bloomberg

If we take the relative P/E and P/B ratios of the regional peers and multiply by the VN-Index averages of 13.19x and 1.88x respectively, then the result would be a targeted P/E ratio of 6.33x and P/B ratio of 1.26x. These would equate to share prices of VND10,500 and VND18,400 per share. Both of these are much lower than the reference price of VND28,000 per share and price of VND33,500 per share closing on July 20, 2015.

CONCLUSION

HNG owns huge rubber, sugar, and palm oil areas, but these assets currently do not generate good profits for the company as they are still young and their productivity is still low. Although the potential for earnings is very high once these trees mature, HNG has significant current challenges due to low agricultural prices. Most profits in the next two years should proceed from new beef cattle business.

At current share price, the 2015 P/E and P/B are estimated to be high compared to its peers in the natural rubber, sugar cane, and beef cattle sectors.

Income Statement (VND billion)	2011A	2012A	2013A	2014A
Net Revenue	41	134	1,630	2,212
<i>Growth rate</i>		224%	1121%	36%
Cost of Goods Sold	33	94	715	1,184
Gross Profit	8	40	915	1,028
<i>Gross Profit Margin</i>	21%	30%	56%	46%
Total Selling Expenses	3	6	14	16
<i>% sales</i>	6.9%	4.1%	0.9%	0.7%
Total General & Admin Expenses	19	31	57	87
<i>% sales</i>	47%	23%	4%	4%
EBITDA	6	40	987	1,132
<i>EBITDA Margin</i>	14%	30%	61%	51%
Depreciation	19	37	143	208
EBIT	(14)	3	844	925
Financial income	43	9	74	38
Financial expenses	3	11	237	270
Interest Expense	0	10	202	255
Net Financial Income/Expense	40	(2)	(163)	(232)
Pretax Income	27	2	679	771
Income Tax Expense	6	(1)	(6)	11
<i>Effective Tax Rate</i>	23.30%	-40.56%	-0.94%	1.48%
Profit after tax	21	3	685	759
Minority Interests	2	9	83	0
Net Income	19	(6)	603	759
<i>Net Profit Margin</i>	50%	2%	42%	34%
Average Number of Shares (million)	289	365	399	399
EPS (VND)	64	(18)	1,510	1,901
Balance Sheet (VND billion)	2011A	2012A	2013A	2014A
Current Assets				
Cash & Near Cash Items	378	1,524	150	47
Short Term Investments	-	-	-	-
Accounts & Notes Receivable	2,010	1,510	2,283	3,716
Inventories	377	480	798	1,141
Total Current Assets	2,815	3,577	3,343	5,061
Long-Term Assets				
Gross Fixed Assets	304	801	3,015	4,519
Accumulated Depreciation	34	66	190	383
Net Fixed Assets	270	735	2,825	4,136
Total Long-Term Assets	3,075	6,994	9,899	11,909
Total Assets	5,890	10,571	13,241	16,971
Current Liabilities				
Accounts Payable	6	220	102	126
Short Term Borrowings	476	165	690	3,739
Total Current Liabilities	1,167	888	2,115	6,293
Long Term Liabilities				
Long Term Borrowings	908	4,371	4,779	3,621
Total Long Term Liabilities	908	4,371	4,922	3,787
Total Liabilities	2,075	5,260	7,037	10,080
Equity				
Share Capital & APIC	2,890	3,647	3,991	3,991
Retained Earnings	12	6	609	1,277
Other Equity	819	1,572	1,583	1,601
Total Shareholders' Equity	3,721	5,225	6,182	6,868
Minority Interest	94	86	22	22
Total Liabilities & Equity	5,890	10,571	13,241	16,971

Cash Flows (VND billion)	2011A	2012A	2013A	2014A
Cash From Operation Activities	22	320	547	(559)
Cash From Investing Activities	(2,501)	(2,922)	(3,803)	(1,802)
Cash From Financing Activities	2,837	3,747	1,883	2,258
Beginning Cash Balance	21	378	1,524	150
Net Changes in Cash	358	1,146	(1,374)	(103)
Expected Ending Cash Balance	378	1,524	150	47

FINANCIAL RATIOS	2011A	2012A	2013A	2014A
Margin				
Gross profit margin	20.6%	29.8%	56.1%	46.5%
EBIT margin	-33.2%	2.4%	51.8%	41.8%
EBITDA margin	13.5%	30.3%	60.5%	51.2%
NPBT margin	65.3%	1.5%	41.6%	34.8%
Net profit margin	45.0%	-4.8%	37.0%	34.3%
Profitability				
ROA	0.3%	-0.1%	5.1%	5.0%
ROE	0.5%	-0.1%	10.6%	11.6%
Dupont analysis				
Asset turnover (times)	0.0 x	0.0 x	0.1 x	0.1 x
Asset/Equity	158.3%	184.0%	208.7%	231.5%
Net profit margin	45.0%	-4.8%	37.0%	34.3%
ROE	0.5%	-0.1%	10.6%	11.6%
Liquidity and solvency				
Current ratio	2.4 x	4.0 x	1.6 x	0.8 x
Quick ratio	2.0 x	3.4 x	1.2 x	0.6 x
Total liabilities/Total assets	35.2%	49.8%	53.1%	59.4%
Total borrowings/Equity	23.5%	42.9%	41.3%	43.4%
EBIT/Interest expense	(32.6)x	0.3 x	4.2 x	3.6 x
EBITDA/ Total borrowings	0.0 x	0.0 x	0.2 x	0.2 x

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