

BIEN HOA SUGAR JSC

Stable FY12 bottom line on better consumption

NPAT increased by 13% y-o-y in 4Q11 and nearly unchanged for FY11. BHS's 4Q11 top and bottom lines came at VND939 bn (+44% y-o-y or +81% q-o-q) and VND67 bn (+13% y-o-y or +78% q-o-q), respectively. Cumulatively, the company has shown revenue of VND2,565 bn (+28% y-o-y) and a net profit of VND147 bn (+1% y-o-y). Such gains were mainly attributed to a 25% improvement on average selling price (ASP) (est. from VND14,600/kg to VND18,300/kg) and a 17% growth in selling volume (est., from 98,288 to 115,000 tonnes). However, the decrease in GPM (from 12.4% to 10.5%) and financial profit (from VND-29 bn to VND-45 bn) kept earnings virtually unchanged. Overall, compared to its FY11 target, BHS has generated 18% more sales and 9% more EBT, which were also, in that order, 8% and 10% higher than our FY11 estimates.

Setting FY12 profit targets similar to those of FY11. The company has planned for an increase in revenue target (of VND2,900 bn, +13% y-o-y) with expectation of higher selling volume (of 153,500 tonnes, +15% y-o-y); however, EBT was planned only for a tiny gain of +1% y-o-y, reaching VND162 bn.

Estimating FY12 earnings of VND145 bn (-2% y-o-y). We have projected BHS's sugar sales in FY12 to reach VND2,701 bn (+12% y-o-y), based on the estimated selling volume of 148,900 tonnes (including 131,400 tonnes of production output and 17,500 tonnes of trading volume) at an ASP of VND18,100/kg, which bring total sales toward VND2,798 bn (+9% y-o-y). The core-business should be able to provide VND222 bn to EBT using a profit margin of 8%. Interest expense is anticipated at VND92 bn, which may expose BHS to a negative financial profit of VND47 bn. The NPAT may eventually reach VND145 bn.

NEUTRAL at the target price of VND21,700. We revised up our target price for BHS from VND19,400 (pegged a 4.5x P/E and estimated FY11 EPS) to VND21,700, pegged to a 4.5x P/E and FY12 EPS of VND4,821. Our target price is offering an upside potential of 15% from the current level (of VND18,800). Therefore, we maintain our NEUTRAL call in this stock.

Company's Financial Summary

VND'bn	FY09	FY10	FY11	FY12F	FY12 - BHS target
Revenue	1,189	2,005	2,565	2,798	2,900
Pre-tax profit	128	166	160	175	162
Net profit	120	146	147	145	-
% change YoY		21%	1%	-2%	
EPS (VND)	6,480	7,871	4,908	4,821	
DPS	2,500	3,500	3,500		
Div Yield	10%	11%	20%		
Book value (VND)	23,124	27,023	18,821	23,642	
ROA	16%	15%	13%		
ROE	32%	31%	28%	20%	
P/E (x)	3.8	4.0	3.5	4.0	
P/BV (x)	1.1	1.2	0.9	0.8	

Source: BHS and SBS forecasts

NEUTRAL

Price	VND 18,800
Target Price	VND 21,700
Previous	VND 19,400

Farm & Fishing

Investing in sugarcane farm and production sugar from cane and raw sugar. 75% of products is distributed to corporate users.

Stock Statistics

Bloomberg Ticker	BHS VN
Issued Share Capital (VNDbn)	300
Market Cap (VND bn)	563
52W Price range (VND'1,000)	14.9 19.8
Average Volume ('000)	15.2
YTD Returns (%)	(3.1)
Net Gearing (x)	0.42
Beta (x)	0.79
Book Value/share (VND)	18,821

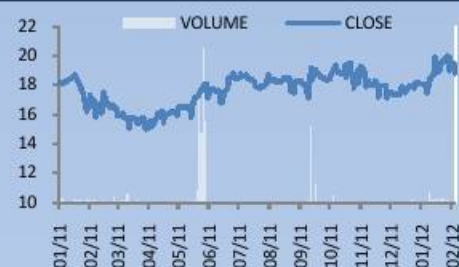
Major Shareholders

Bourbon Tay Ninh Sugar	22.7
Sacombank	10.0
Vinasugar II Co, Ltd.	11.1

Share Performance (%)

Month	Absolute	Relative (%)
1M	0.6	3%
3M	0.2	1%
6M	0.8	4%
12M	1.9	11%

6M Share Price Performance ('000)



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4Q11's Earnings Review

VND'bn	4Q11	4Q10	y-o-y	q-o-y	FY11	FY10	y-o-y	Comments
Revenue	939	650	44%	81%	2,565	2,005	28%	Revenue grew strongly on selling volume increase. Volume was up about 47% y-o-y (from 34,600 to 51,000 tonnes) but it was offset with a 1% step-down of ASP to arrive a 44% growth of revenue.
Gross profit	76	76	0%	12%	270	249	8%	
GPM	8.1%	11.7%			10.5%	12.4%		GPM of both sugar production and sugar trading were falling: (i) GPM of sugar production (accounting for 73% and 89% of total sales in 4Q10 and 4Q11, respectively) was down from 14.4% to 9.1% due to production cost rise. (ii) GPM of sugar trading (accounting for 23% and 8% of total sales in 4Q10 and 4Q11, respectively) decreased from 4.6% to -2.4%.
Operating expense ratio (on sales)	2.5%	1.9%			2.9%	2.7%		
Financial profit	7.9	1.7	4.5x		(45)	(29)		The rise of financial profit came from: i) Higher deposit interests (from VND0.3bn to VND5 bn). ii) Interest on farming investment went up, from VND9.7 bn to VND11.3 bn. iii) The reduction of interest expense, from VND9.4 bn to VND7.5 bn. iv) The VND1.2 bn reversal of provision for losses on the 1.44m STB shares (4Q10 - provision of VND0.6 bn)
Other profit	10.1	0.1	88x	13x	10.9	0.2	67x	Selling 34-35 ha of sugarcane land for farmers
NPAT	67	59	13%	78%	147	146	1%	
NPM	7.1%	9.1%			5.7%	7.3%		

Source: BHS, SBS



Commendable FY11 results

Revenue was VND2,565 bn (+ 28% y-o-y) and NPAT was VND147 bn (+1% y-o-y) in FY11. The disparity growth between sales and profit was attributable to:

- **Growing revenue:** i) Production sugar sales (account for 71% and 82% of FY10 and FY11 revenue) was up 47% due to a 25% improvement on ASP (est., from VND14,600/kg to VND18,300/kg) and a 17% rise in selling volume (est., from 98,288 to 115,000 tonnes, including the 95,000 tonnes consumed in domestic market and 20,000 tonnes exported. ii) Sales of trading sugar (account for 24% and 12% of FY10 and FY11 revenue) decreased by 35%, mainly owing to a 34% reduction on selling volume (from 28,900 to 19,000 tonnes). iii) Other revenue was nearly doubled from VND72 bn to VND139 bn.
- **GPM decreased from 12.4% (FY10) to 10.5% (FY11)**, because: i) GPM of sugar production consumed in domestic market was slightly down from 15.1% to 14.1%, and then the almost breaking-even export has dragged the overall GPM to 12.3%. ii) Inefficient sugar trading recorded a GPM dilution, from 4.9% to -6.1%. iii) GPM of other activities went up from 5.9% to 17.3%.
- **Financial loss was up from VND29 bn to VND45 bn.** The significant increase of interest expense (from VND43 bn to VND72bn) offset the improvement of i) deposit interest (from VND4 bn to VND8 bn), ii) farming investment (from VND12 bn to VND22 bn) and iii) gain of securities investment and received dividend (from VND1 bn to VND5bn).
- **Other profit rose from VND0.2 bn to VND10.9 bn**, mostly announced in 4Q11.
- **CIT was down from 12% to 8%**, because in 2010 BHS bore an extra VND4 bn for the unpaid tax from all the years before.

The actual FY11 figures turned out 8% higher than our estimated revenue and 14% higher than forecasted earnings, mostly due to i) 9% higher selling volume, ii) 30% lower financial loss and iii) unusual other profit of VND11 bn.

Outlook FY12

Approved exportation of 150,000 tonnes sugar via cross-border trades

Up to 15 Feb 2012, total sugarcane crushing volume mounted up to 7.6m tonnes (+12% y-o-y), equivalent to 636,200 tonnes of sugar (+9% y-o-y). From 15 Jan to 15 Feb 2012, total selling volume was 116,400 tonnes (-20% y-o-y), and inventory reached 209,700 tonnes (-8% y-o-y) by 15 Feb 2012. Selling price has decreased by 2% to VND16,000 – 17,400/kg from the previous month (or -13% y-o-y).

According to The Ministry of Agriculture and Rural Development (MARD), total sugar supply would be 1.57m tonnes (including production, inventory and import under WTO agreement) in FY12. Market demand is estimated at about 1.4m tonnes and 100,000 tonnes of inventory at the end of season. Thus, the excess supply can reach 70,000 tonnes, without taking into account smuggling sugar. Therefore, MARD and Ministry of Industry and Trade have approved exportation of 150,000 tonnes via cross-border trades and unlimited conventional trades – said Mr. Nguyen Thanh Long as chairman of Vietnam Sugar Association. Besides, sugar companies may receive temporary supports from these two ministries to keep 6-month storage of 200,000 tonnes, yet they are still waiting for the green light from higher-up.

Receiving an overseas investment certificate of planting and manufacturing sugarcane in Cambodia with the following details:

- **Business name:** Tay Ninh Fratie Sugar Co., Ltd.
- **Operation scale:** i) planting 10,000ha, supplying 440,000 – 560,000 tonnes of sugarcane/year, ii) building a factory with a capacity at least 3,200 tonnes of sugarcane/day and a production of 45,000 – 55,000 tonnes of sugar/year.
- **Total investment** of USD23.8 m, equivalent to VND496 bn, of which VND100 bn will be for production lines.
- **Operating time** of 70 years.

According to BHS, a total area of 8,500 – 8,700 ha has been granted. The company has paid VND39 bn, equaling to 70% of service expense in FY11. In FY12, BHS plans to pay off the rest of service fee, sign land leasing contract, and begin reclaim land. Sugarcane sales would only start by FY15. The investment could be mainly funded by equity.

Increasing production capability

The total areas, including both investments and other coverage, could reach 12,000 ha (+19% y-o-y) in 2011/12 season. The company is expecting 65 – 68 tonnes of sugarcane/ha, which can bring about over 700,000 tonnes of crushing volume. Besides, BHS plans to use 70,000 tonnes of raw sugar (+17% y-o-y). Thus, the production sugar is anticipated at 136,000 tonnes (+18% y-o-y) in the current season.

Estimating FY12 earnings of VND145 bn (-2% y-o-y)

Core-business profit

Based on the current market outlook, we expect a slightly lower consumption volume of 131,400 tonnes, which is 3% lower than the BHS's target. With 17,500 tonnes of trading volume, total selling volume could be 148,900 tonnes (+11% y-o-y). For FY12, we apply ASP of VND18,100/kg (-3% y-o-y, excluding the import segment). Hence, sugar sales would be VND2,701 bn (+12% y-o-y), leading to total revenue of VND2,798 bn (+9% y-o-y).

GPM for FY12 is estimated at 12%; GPM for sugar production is 12.9%, based on a 3% increase on sugarcane cost and a 3% decrease on ASP.

Financial profit – higher working capital can lead to higher interest expense, which would turn a negative profit of VND47 bn.

Tax – BHS is subjected to CIT of 15% for its core-business. FY12 is the last year which the company is subjected to preferential CIT. Since FY13, tax rate would return to normal level of 25%. Other income outside core-business is subjected to CIT of 25%.

Financial forecast FY12

	FY08	FY09	FY10	FY11	FY12F	FY12 - BHS target
Selling volume (tonnes)	93,636	102,531	127,188	134,000	148,929	153,500
Production		84,866	98,288	115,000	131,429	136,000
Trading		17,665	28,900	19,000	17,500	17,500
Revenue	790	1,189	2,005	2,565	2,798	2,900
COGS	740	1,028	1,756	2,295	2,462	
Gross profit	50	162	249	270	336	
Selling expense	19	19	26	33	57	
G&A expense	20	26	29	42	57	
Core-business profit	11	118	194	194	222	
Financial profit	(55)	10	(29)	(45)	(47)	
Other profit	0	0	0	11	-	
Pre-tax profit	(43)	128	166	160	175	162
Tax	0	8	20	13	31	
Net profit	(43)	120	146	147	145	
EPS	(2,335)	6,480	7,871	4,908	4,821	

Source: BHS, SBS forecasted

Valuation and recommendation

With the closed price on 28 Feb 2012 at VND19,500, BHS is traded at FY11 P/E of 4.0x. Book value on 31 Dec 2011 was VND18,821/shares, equaling to P/B of 0.9x. FY11 dividend was set at VND3,500/shares, in which VND2,000/shares was already paid on 30 Nov 2011. The remaining VND1,500/shares would give a dividend yield of 8%.

Comparable Analysis

	BHS	SBT	LSS	NHS	SEC
Assets	1,282	2,315	2,184	597	614
Equity	565	1,788	1,423	281	259
Revenue	2,565	2,050	2,039	782	553
GPM	11%	29%	30%	18%	28%
NPM	6%	27%	20%	10%	18%
ROA	13%	26%	22%	16%	19%
ROE	28%	30%	32%	31%	43%
Cổ tức (VND/CP)	3,500	2,000	2,000 - 2,500	3,000	1,500 - 2,500
EPS	4,908	3,974	8,298	9,928	5,673
BV	18,821	13,623	28,454	34,716	14,866
P (28/2/2012)	18,800	14,000	22,100	28,000	17,900
Tỷ suất cổ tức (DY)	19%	14%	9% - 11%	11%	8% - 14%
P/E	3.8	3.5	2.7	2.8	3.2
P/BV	1.0	1.0	0.8	0.8	1.2

Source: SBS collected_data is based on FY11 results

BHS has entered side way trend since Jan 2010 with the fluctuation from VND16,300 to VND21,100 with relative low liquidity in recent months. In comparison with SBT's operation scale, market position and dividend yield, BHS is fair with P/E of 4.5x. Based on estimated FY12 EPS of VND4,821, the target price is set at VND21,700 which is 15% higher than current price (of VND18,800) and not too far from the above range. Thus, we maintain our **NEUTRAL** call in this stock.

BALANCE SHEET (VND'BiI)

	QI-11	QII-11	QIII-11	QIV-11
Assets	1,516.7	1,518.7	1,356.2	1,281.7
Current assets	1,156.0	1,130.7	857.6	769.8
Long-term assets	360.7	388.0	498.6	512.0
Fixed assets	263.5	288.0	364.8	406.5
Long-term investments	26.6	24.0	29.6	30.8
Resources	1,516.7	1,518.7	1,356.2	1,281.7
Liabilities	983.4	1,014.3	816.3	717.1
Current liabilities	868.2	888.1	687.9	612.0
Long-term liabilities	115.2	126.1	128.4	105.1
Equities	533.3	504.4	539.9	564.6
Equity	520.9	494.5	532.1	548.5
Contributed capital	185.3	185.3	185.3	300.0
Capital surplus	154.5	154.5	154.5	39.8
Retained profits	127.7	71.5	109.1	125.5

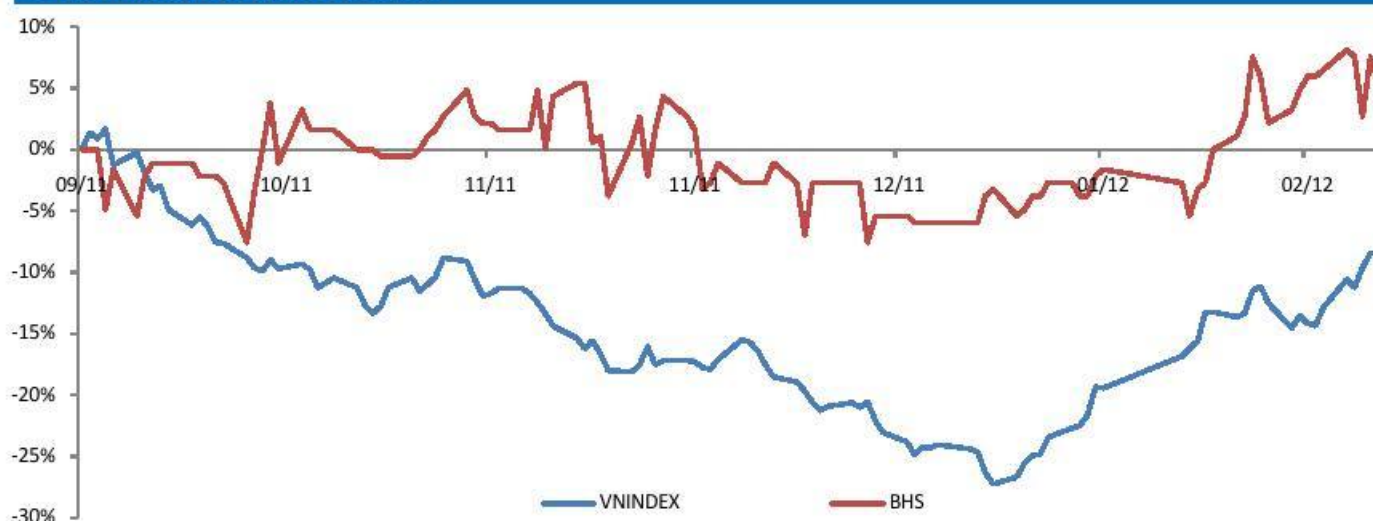
INCOME STATEMENT (VND'BiI)

	QI-11	QII-11	QIII-11	QIV-11
Total Revenue	612.7	496.0	518.2	939.1
Net sales	612.4	495.6	517.9	938.7
COGS	530.8	451.4	450.2	862.6
Gross profit /(loss)	81.5	44.3	67.7	76.1
Financial income	10.4	5.2	3.0	16.4
Financial expense	22.1	33.4	16.3	8.5
Interest expense	16.3	30.1	18.4	7.5
Selling expenses	10.8	4.6	5.5	11.8
G&A expenses	15.9	7.2	7.4	11.9
Net operating profit	43.1	4.3	41.6	60.2
Other income	0.0	0.0	0.8	10.5
Other expenses		0.0	0.1	0.4
Profit /(loss) before tax	43.1	4.3	42.4	70.3
Corporate income tax	4.4	0.4	4.7	3.2
Profit after tax	38.7	3.9	37.7	67.0
Net profit	38.7	3.9	37.7	67.0

QUARTERLY RATIOS

	QI-11	QII-11	QIII-11	QIV-11
Growth rate				
Revenue growth rate (YoY)	35.4%	25.9%	1.5%	44.4%
Gross profit growth rate (YoY)	25%	9%	1%	0%
Net profit growth rate (YoY)	29%	-81%	5%	13%
Profitability ratio				
Gross margin	13.3%	8.9%	13.1%	8.1%
EBIT margin	9.7%	6.9%	11.7%	8.3%
Net profit margin	6.3%	0.8%	7.3%	7.1%
ROA (4Q)	13.2%	10.6%	10.3%	10.4%
ROE (4Q)	32.1%	28.0%	27.3%	28.1%
Management ratio				
Receivable outstanding days	10	5	11	5
Inventory outstanding days	141	173	112	35
Payable outstanding days	6	44	44	14
Liquidity ratio				
Current ratio	1.3	1.3	1.2	1.3
Quick ratio	0.4	0.3	0.4	0.7
Cash ratio	0.1	0.1	0.0	0.3
Capital Structure				
Total debt/Total equity	188.8%	205.1%	153.4%	130.7%
Total debt/total asset	64.8%	66.8%	60.2%	56.0%
Total asset/total equity	291.2%	307.1%	254.9%	233.7%
Index per share				
PE	2.3	2.6	2.6	2.8
EPS (VND per share)	8335	7432	7526	6881

% PRICE CHANGE: VN.INDEX & BHS



Report tracking

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
Company note	04/09/2008	N/A	N/A	VND 20,000
Company Update	29/07/2011	SELL	VND 29,500	VND 32,100
Company Update	10/11/2011	NEUTRAL	VND 19,400	VND 18,500
Company Update	29/02/2011	NEUTRAL	VND 21,700	VND 18,800

Sacombank-SBS Research Investment Ratings

Buy: Share price may exceed 15% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 15% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 15% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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