

Horizon Securities

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No Coverage

Price (VND)*	14,000
Target price (VND)	N/A
Expected share price return	N/A
Expected dividend yield	7.1%
Expected total return	N/A

Stock Profile/Statistics		8-Jul-09
Ticker		N/A
Sector		Cement
Beta		N/A
Shares Outstanding		72,000,000
Market Capitalization	VND'mln	1,008,000
	US\$	56,686,537
Forex (VND/USD)		17,750
Foreign room (%)		49%
52K High/ Low (VND)	N/A	/
3-mth average daily tradin		N/A
Estimated free float		11.23%

Owership Structure	Percentage
State (EVN)	70.96%
Institutions	17.81%
Others	11.23%

*OTC price

Company Factsheet

Hoang Mai Cement (HNX: HOM): was established in 1995 on the North Central coast of Vietnam as a state-owned enterprise and was privatized in 2007. The company is primarily engaged in the production of clinker and Portland cement, PCB30 and PCB40. Hoang Mai has a total design capacity of around 1.3 million tons of clinker or 1.6 million tons of cement per year. The company's main market is in the Nghe An Province, in which the company holds approximately 70% market share. Vietnam Cement Industry Corporation (VICEM) is the major shareholder in Hoang Mai, which holds around 71% stake in the company. Other major shareholders include Vietfund Management Fund-VF2 (4.17%), VAM Funds (2.76%), PVFC Invest (2.5%) and PVFC (1.39%). **Hoang Mai Cement SJC stock will list on the Hanoi Stock Exchange (HNX) on July 9th 2009.**

Company highlights:

- At the end of 2007, the government put up for auction 17,794,800 shares that were bought at an average successful price of VND15,856 (US\$0.89).
- HOM's stock will list without any indications of a reference price. However, the stock was recently trading at around VND14,000 (US\$0.79) on the OTC market (12% below its auction price). Once listed, Hoang Mai will be among the five largest publicly traded cement companies.
- For 2009, management targeted VND1,220 billion (US\$69 million) revenues and VND83 billion (US\$4.5 million) net profits respectively. By the end of June 2009, the company recorded about VND655 billion (US\$37 million) in revenue and VND80 billion (US\$4.5 million) in net profit, representing 54% and 96% of management's full-year targets respectively.
- Historically, gross margins of Hoang Mai Cement have been maintained at around 30%, much higher than its peers, as the company has direct access to a limestone reserve and produces its own clinker. The company enjoys the highest gross profit/ton compared to peers of its size.
- As of 30 March 2008, total assets stood at VND2,400 billion (US\$135 million). The company has a total of VND907 billion (US\$17.48 million and €10.92 million) foreign debt on its balance sheet which makes earnings quite sensitive to forex risk.
- At its recent price on the OTC, HOM's stock is trading at US\$103 EV/ton; a 10% discount to its peers and near current replacement cost which we estimate at US\$106/ton. Amid the company's relatively modest capacity growth potential, we believe the share price reflects the fact the company operates in a second-tier province with poor access to faster growing first-tiers markets.

Company Note – Hoang Mai Cement JSC (HNX: HOM)

Valuation

As of the beginning of July 2009, HOM's stock was trading on the OTC market at around VND14,000 (US\$0.79) per share 12.9x FY08 earnings and 1.3x book value. Enterprise value per ton stood at US\$103 representing a 10% discount against industry average of US\$115 per ton. Amid the company's relatively modest capacity growth potential the share price reflects the fact the company operates in a second-tier province with poor access to faster growing first tiers markets where demand is more resilient.

Peer comparables

Company	Ticker	Mkt Cap	TEV	Lev. Beta	FY2008										Growth		
					Gross Margin	Net Margin	EPS	P/E	TEV/EBITDA	TEV/Ton	GProfit/Ton	P/B	ROA	ROE	Sales	Net profit	EPS
		US\$m	US\$m				US\$			US\$	US\$						
HATIEN 1 CEMENT JSC	HT1	95.1	293.0	0.84	12%	3%	0.04	21.7x	28.2x	114	6.8	1.7x	1%	8%	16%	-23%	-23%
BIM SON CEMENT JSC	BCC	87.3	254.7	0.82	20%	11%	0.13	7.2x	11.1x	111	9.6	1.3x	5%	18%	25%	55%	55%
HATIEN 2 CEMENT CO	HT2	75.4	103.3	0.93	22%	9%	0.07	12.1x	7.7x	74	11.2	1.4x	6%	12%	17%	99%	99%
BUT SON CEMENT JSC	BTS	75.2	221.2	0.83	24%	9%	0.06	12.8x	11.3x	159	11.9	1.2x	2%	9%	13%	3%	3%
Average		83.2	218.1	0.85	20%	8%	0.07	13.5x	14.6x	115	9.9	1.4x	4%	12%	18%	34%	34%
Median		81.3	238.0	0.84	21%	9%	0.07	12.5x	11.2x	113	10.4	1.4x	4%	10%	16%	29%	29%
HOANG MAI CEMENT JSC	HOM	56.7	143.9	N/A	30%	7%	0.06	12.9x	5.9x	103	13.6	1.3x	3%	10%	16%	N/A	N/A

Source: Horizon Securities

The Company

Established in 1995 in the North Central coast of Vietnam as a state-run enterprise Hoang Mai Cement was privatized at the end of 2007. The company is primarily engaged in the production of clinker and Portland cement PCB30 and PCB40. Hoang Mai has a total design capacity of around 1.3 million tons of clinker or 1.6 million tons of cement per year. The company's main market is in the surrounding areas of Nghe An Province, in which the company holds approximately 70% market share. Nghe An is the largest province in the North Central coast of Vietnam, but the province has the second lowest GDP per capita in the country. Economic growth in the past few years of over 10% pa. has pushed the yearly demand for cement in the region to around 1 million tons.

The Vietnam Cement Industry Corporation (VICEM)¹ is the major shareholder in Hoang Mai with about 71% stake in the company. Other major shareholders include Vietfund Management Fund-VF2 (4.17%), VAM Funds (2.76%), PVFC Invest (2.5%) and PVFC (1.39%).

Revenue

In 2008², HOM posted VND830 billion (US\$47 million) in revenue and VND59 billion (US\$3.3 million) in net income. The company's total sales volume reached approximately 1.4 tons of cement, almost 90% of its full capacity.

For 2009, management targets VND1,220 billion (US\$69 million) in revenue and VND83 billion (US\$4.5 million) in net profit. As of June 2009, the company reached about VND655 billion (US\$37 million) in revenue and VND80 billion (US\$4.5 million) in net income, representing 54% and 96% of full-year targets respectively. Total sales volume reached 180,000 tons of clinker and 706,000 tons of cement, or about 72% and 50% of the full-year target respectively.

¹ VICEM is an state-owned cement conglomerate that owns 10 subsidiaries and 5 joint ventures. www.vinacement.com.vn

² Fiscal year 2008 was from 1-April-08 to 31-December-08, as the company only start reporting from 1-April-08.

For 2010, we expect production of Hoang Mai to remain stable at the current level of around 1.3 tons of clinker as production reaches the plant's design capacity. According to management, HOM may be considering investing in a second cement plant in the same location after 2010 which probably will not come online before 2013-14. The new plant would produce around 2 million tons of cement per year. More details on the investment should be released after an upcoming board meeting.

Pricing

At-the-gate cement prices are typically “guided” by the Vietnam National Cement Association (VNCA), which members include VICEM and most major cement producers in Vietnam. However there is much less governmental control over retail and distribution markets. As a result cement retail prices are sometime 30%-50% higher than at-the-gate prices. Price disparities also happen between the North and South due to the regional shortage of cement typically prevalent in the South. Cement in Southern Vietnam is usually trading at a 20-30% premium over prices in the Northern and Central regions.

Currently, at-the-gate prices for Hoang Mai Cement average around VND739,476 (US\$41.67). According to the Ministry of Construction cement prices from the second half of 2009 are not likely to rise and additional supply should exceed demand growth.

Distribution

HOM's main market is in Nghe An Province and the North Central coast of Vietnam. The company has a distribution network of 25 wholesales distributors across Vietnam but most focusing within the Nghe An region.

Profitability

Historically, gross and operating margins of Hoang Mai Cement have been maintained at around 30% and 19% respectively, higher than industry averages, as the company has direct access to limestone reserves and can produce its own clinker. Net margin in 1H09 improved to 12% from 7% in 2009, as a result of lower financial expenses from foreign exchange. Of note, the company will continue to benefit from a special tax rate of 12.5% until 2016 thanks to a government tax incentive scheme.

Dividend

The company plans to pay VND1,000 (US\$5.60 cents) cash dividend per share 2009. The company expects to maintain a payout ratio of 80% in the coming years.

Balance Sheet

As of March 30th 2008, total assets stood at VND2,400 billion (US\$135 million). The company had a total of VND907 billion (US\$17.48 million and €10.92 million) foreign debt on its balance sheet; making earnings fairly subject to the forex.

Should the investment in the new production plant be approved, the company may need to increase capital and issue up to 48 million new shares. More details on the investment should be released following an upcoming board meeting.

Industry Analysis

Due to the fast development in infrastructure and construction sector, cement consumption in Vietnam has grown by more than 15% CAGR over the past ten years. Total cement demand reached 39.9 million tons in 2008 and expect to grow by 10-

11% for the years to come according to forecasts from the VNCA and local demand should reach about 44-45.5 million tons in 2009.

Historically, capacity expansion has been outpaced by demand growth. Total design cement capacity as of the end 2008 was around 35 million tons. Actual production at local cement companies has always exceeded designed capacity by 10-12%. However, as 18 new cement projects with a total capacity of 20.47 million tons, are expected to be finished and put into operation during 2009-2010 total capacity of the country will reach as much as 56.8 million tons give or take about 9% of total capacity from shaft kiln which could potentially be closedown. However, most of the additional capacity is located in the Northern provinces while demand in the South is growing much faster, regional supply-demand imbalance still remain.

Therefore, we believe there will be little room for cement price to grow in the coming years. A supply surplus would put pressure on local cement companies to either squeeze profit margins or reduce their production. Key winners in the market will be companies with (1) access to raw material resources, (2) closer to the two main markets, e.g Hanoi and Ho Chi Minh City and (3) better accessibility to low-cost means of transport. At the moment, the cheapest way of transportation of cement is by sea which cost around VND300,000 (US\$16.9) per ton from Hanoi to Ho Chi Minh City. Road transportation are more expensive, which are around VND500,000 (US\$28) to VND800,000 (US\$45) per ton.

Financial Highlights

Note that the company was equitized at the end of 2007, and fiscal year of 2008 was from 1st April 2008 to 31st March 2009.

Income Statement	2006A	2007A	2008A	2008E	1Q09A
			From 1/4/08 to 31/12/08	Annualized	
VND'mln					
Sales	847,308	951,170	830,429	1,107,239	271,572
COGS (incl. depreciation)	(530,385)	(676,805)	(577,703)	(770,271)	(193,171)
Gross profit	316,923	274,365	252,726	336,968	78,401
Sales and admin. expenses	(111,194)	(166,757)	(72,093)	(96,124)	(27,222)
EBIT	205,729	107,607	180,633	240,844	51,178
Financial income	2,019	15,726	6,513	8,684	7,050
Financial expense	(179,914)	(470,735)	(101,319)	(135,092)	(28,200)
In which: Interest expenses	(171,846)	(175,818)	(84,798)	(113,064)	(27,116)
Income from JV&A	-	-	-	-	-
Other profits	79	(6,604)	(27,314)	(36,418)	336
Taxes	-	-	-	-	-
Earnings to minority	-	-	-	-	-
Net income	27,912	(354,005)	58,513	78,018	30,364
				-	
Ratio Analysis	2006A	2007A	2008A		1Q09A
Revenue growth	4.56%	12.26%	N/A		N/A
Income growth	N/A	N/A	N/A		N/A
EPS growth	N/A	N/A	N/A		N/A
Gross Margin (%)	37.4%	28.8%	30.4%		28.9%
Operating Margin (EBIT) (%)	24.3%	11.3%	21.8%		18.8%
Net Margin (%)	3.3%	(37.2%)	7.0%		11.2%
Receivable turnover (times)	10.95	13.51	7.67		1.70
Payable turnover (times)	5.63	9.99	7.96		2.45
Inventory Turnover (times)	2.03	3.04	1.87		0.60
Current Ratio (x)	0.27	0.64	0.68		0.73
Cash to Current Debt (%)	4.6%	33.5%	6.7%		5.0%
CFO to Current Debt (%)	N/A	N/A	20.5%		N/A
Debt to Equity (%)	(363.0%)	472.1%	199.6%		209.7%
Net Debt Per Share (VND)	216,057	37,014	21,479		22,085
Book Value Per Share (VND)	(60,900)	9,161	11,078		10,770
Return on Assets (%)	1.2%	(13.0%)	2.4%		1.3%
Return on Equity (%)	(3.2%)	(74.1%)	7.3%		3.9%

Company Note – Hoang Mai Cement JSC (HNX: HOM)

Balance Sheet	2006A	2007A	2008A	1Q09A
VND'mln				
Cash & equivalents	71,246	325,161	45,738	35,844
Short-term investments	-	-	-	-
Account receivables	77,372	70,402	108,258	160,036
Inventories	261,717	222,495	308,372	323,084
Others	1,923	1,861	3,162	4,648
Current assets	412,257	619,919	465,530	523,613
Long- term receivables	-	-	-	-
Fixed assets	1,871,852	2,110,645	1,922,133	1,875,554
Investment in property	2,258	-	-	-
Long-term investments	-	-	-	-
Other long-term assets	2,258	2,541	2,186	2,193
Non-current assets	1,876,368	2,113,186	1,924,319	1,877,747
Total assets	2,288,625	2,733,104	2,389,849	2,401,360
Short term borrowings	1,300,297	538,492	478,467	495,084
Trade payables	94,222	67,740	72,557	78,757
Others	155,885	364,561	134,123	145,040
Current liabilities	1,550,405	970,794	685,147	718,881
Long-term loan & debt	1,608,554	1,284,584	907,051	907,051
Other long-term liabilities	-	-	-	-
Deferred tax liabilities	-	-	-	-
Non-current liabilities	1,608,554	1,284,584	907,051	907,051
Total liabilities	3,158,958	2,255,377	1,592,198	1,625,931
Paid in capital	142,912	521,479	720,000	720,000
Retained earnings	(795,589)	(48,013)	58,513	30,365
Other funds	(217,656)	4,261	19,138	25,064
Owners' equity	(870,333)	477,727	797,651	775,428
Minority interest	-	-	-	-

Cashflows Statement	2006A	2007A	2008A	1Q09A
VND'mln				
Net profit (loss) before tax	N/A	N/A	58,513	N/A
Net cash flows from operating	N/A	N/A	140,129	N/A
Net cash flows from investing	N/A	N/A	1,999	N/A
Net cash flows from financing	N/A	N/A	(125,150)	N/A
Net increase (decrease) in cash	N/A	N/A	16,978	N/A
Cash at beginning	N/A	N/A	28,761	N/A
Impact of exchange rate	N/A	N/A	-	N/A
Cash at end of year	N/A	N/A	45,738	N/A

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