

# HUU LIEN ASIA CORPORATION (HLA) - UPDATE

## OVERVIEW

Huu Lien Asia Corporation (HLA) was established in 1978 with the initial trade name "Huu Lien", specializing in bike's accessories.

The company officially operated as a joint stock company since 2001 and rapidly became one of the leading steel pipe producers and suppliers in Vietnam. HLA's current key business activities include producing and trading steel pipe products such as original black pipe and stainless pipe, and other flat steels.

HLA was then listed on Hose in Oct-2008 with the registered charter capital of VND 190 bn. The company is going to increase this charter capital to VND 328 bn by early next year through the issuance of 3.8 million bonus shares and 10 million additional shares for strategic shareholders.

## GENERAL INFORMATION

Industry	Basic Materials - Steel
Listed	HOSE
Ticker	HLA
Charter Cap (VND bn)	190.0
52-week highest price (VND)	48,800
52-week lowest price (VND)	10,000
Avg trading vol in 10 days	171,168
Price (01/12/2009) (VND)	30,600
Market Cap (VND bn)	581.4

## VALUATION MEASURE

ROA 2009 (%)	6.3
ROE 2009 (%)	29.2
ROIC 2009 (%)	7.2
P/E 2009 (x)	6.8
P/B 2009 (x)	2.0

## COMPANY HIGHLIGHTS

### The leading steel pipe brand name in Vietnam

HLA is one of the largest steel pipe producers and distributors in Vietnam, specializing in original black pipe and stainless pipe. According to VSA's statistics, HLA holds the largest proportion of 16.2% of domestic steel pipe market share within the first 10 months of 2009. About 85% of the company's steel pipe products are consumed domestically, mainly in the South and the Central Highland. Exportation accounts for 15% of HLA's sales volume with such key markets as Cambodia, Singapore, Australia and the US.

### Strong improvement in steel consumption brought positive financial result in the first 9 months 2009

Ending the first 9M-2009, HLA reported VND 1,871.7 bn net revenue and VND 66.7 bn net income, up by 35% in revenue and 45.7% in income compared to 9M-2008. With this performance, HLA has achieved 102.7% revenue plan and 94.1% profit plan for the year 2009. Strong consumption improvement was key driver to HLA's sales revenue increase. Indeed, HLA's average price decreased 53% while sales volume of steel pipe products in 9M-2009 almost reached 64,000 tons, indicating more than 159% increase from the same period last year, helping HLA push revenue up by 35%.

Gross margin 9M-2009 was 11.2%, equivalent to the margin achieved in 9M-2008. However, if excluding the reversal of VND 85.8 bn provision for inventory devaluation gross margin in 9M this year only reaches 6.7%. COGS per unit decreased 48% while average selling price per unit reduced by a larger proportion (53%) in 9M-2009 was key factor causing lower margin compared to 9M-2008. In addition to provision reversal, lower expense ratios including S&A expenses and interest expense over revenue in 9 months this year partly contributed to higher net income. As a result, HLA ended 9M-2009 with VND 66.7 bn net profit, indicating a 45.7% increase from the same period last year. The company's net margin 9M-2009 was 3.6% versus 3.3% in 9M-2008.

### Flexibly using raw material supply sources, aim to increase purchasing part of materials domestically to reduce risks related to import activities.

Key materials used for steel pipe production are flat steels like CRC and HRC, which are almost imported from oversea. Therefore, the company faces many risks related to import activities such as fluctuations in material prices during the transportation time, fluctuations in foreign exchange rate and shipping costs. After Posco (Korea) officially operated in Vietnam in September 2009 providing CRC product, HLA has bought part of it materials here and aims to increase the proportion of domestic supplies in the coming time to reduce risks related to import activities. Using domestic supply sources also help HLA have better management of materials needed for its production process and reduce shipping costs.

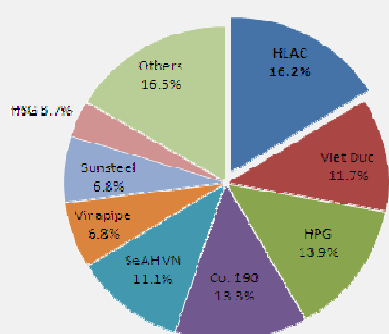
### Extensive distribution network with a high qualified and diversified product portfolio

HLA owns an extensive distribution network with more than 1,000 retails concentrated in the South and the Central Highland. With a diversified product portfolio varying in shapes, sizes and thickness, HLA ensures satisfying different needs of customers. The company currently uses modern production technology to provide consumers with high quality and high-tech products.

## FINANCIAL PERFORMANCE 9M09

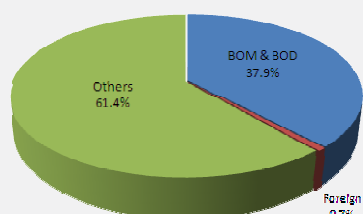
Net revenue (VND bn)	1,871.7
Gross profit (VND bn)	210.4
Net profit (VND bn)	66.7
Gross margin (%)	11.2
Net margin (%)	3.6
EBITDA margin (%)	7.4
Debt/Equity (%)	317.3
ROA trailing (%)	4.0
ROE trailing (%)	18.7
EPS (VND)	3,510
BPS (VND)	15,451

## STEEL PIPE MARKET SHARE IN 10M-2009



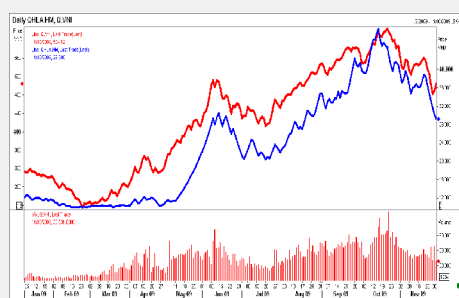
Source: VSA

## OWNERSHIP STRUCTURE



Source: Hose & HLA

## SHARE PRICE PERFORMANCE



Source: Reuters

## Focusing on expansion and investment in core business and real estate is the company's business strategy in the coming time

Plan to move the current production factory to new location in Long An will be started next year 2010. The displacement is expected to take at least 2 years to finish so that the company's production activity is not strongly impacted. In the meantime, HLA also invests to enhance the capacity of current production lines for such key products as original black pipe, stainless pipe, and galvanized pipe.

Furthermore, HLA will use the land of current factory for its real estate project named Huu Lien Asia Complex. With total area of over 54,000 m<sup>2</sup> at the original cost of VND 46 bn, the land will be developed into a complex including 7 blocks and expected to take 6 years to complete. We currently do not have enough information on the project's detailed plans and investment costs to analyze the feasibility and contribution of the project to the company's revenue and profit.

## 2009 Outlook – forecast of VND 2,414 bn net revenue and VND 83.3 bn net profit, over passing 32.4% revenue plan and 17.5% income plan.

After increasing quite well in quarter 3, domestic steel price started adjusting down in October while consumption was also much lower than in previous months. Presently, domestic steel price has improved due to the influence of VND depreciation over the USD. Consumption is also expected to be better in the last couple months yet in general it is difficult for consumption in Q4 to remain as high as in the previous two quarters. HLA still has enough materials for production in Q4 so that fluctuations in material prices and exchange rate recently would not have direct and strong impact on the company performance in the last few months. We therefore anticipate that HLA is able to achieve VND 2,414 bn in net revenue and VND 83.3 bn in net income for the year 2009, surpassing 32.4% revenue plan and 17.5% profit plan.

## 2010 Outlook – double-digit growth in the top line along with the industry recovery... however the bottom line is hurt by high interest expense

Global and domestic steel industry is expected to recover stronger and remain more stable in 2010, which is a favourable condition for steel companies. Especially, the steel pipe sector is considered to firmly grow at 12-15% per annum. We therefore forecast revenue of HLA for the year 2010 to increase by 15.5% to VND 2,788 bn, based on the assumptions of 5% increase in sales volume and 10% increase in price.

The company currently has high debt/equity ratio of over 3x, which are mainly short term debts needed for working capital. Recently, increase in basic interest rate caused lending rate to be higher while government's interest rate supporting policy will end soon. Hence, with such high borrowing amounts, interest expense of HLA in 2010 will significantly increase and negatively affect the company's bottom line. We anticipate that net income of HLA for the year 2010 will be VND 91bn, a 9.3% up from the previous year's forecasted result.

Furthermore, HLA will execute 3.8 million bonus shares and issue additional 10 million shares in 2010 to increase charter capital to VND 328 bn. As a result, the company's earning per share ending 2010 will be diluted and hence lower than the previous year regardless of higher income.

## Recommendation

Being the leading steel pipe company with high brand name and prestige coupled with investment projects focusing on core business, we are confident in HLA's ability to operate and develop stably in the coming time. At the current price of VND 30,600/share, HLA is trading at the P/E forward 2009 of 6.8x. The company's P/E forward 2010 is about 9x (taken into account the dilution of additional share issuance to strategic shareholders), which is quite attractive and can be considered for investment decision.

## SUMMARY OF HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

INCOME STATEMENT (VND bn)	2007A	2008A	9M 2009	2009F	2010F
Net revenue	1,032.0	1,842.6	1,871.7	2,414.0	2,788.1
COGS	932.1	1,720.2	1,661.3	2,142.4	2,481.5
Gross profit	99.9	122.4	210.4	271.6	306.7
Net operating profit	74.9	69.0	176.4	228.6	256.5
Profit before tax	45.6	(17.9)	92.9	113.3	121.3
Tax	15.4	1.4	25.0	28.3	30.3
Minority Interest	0.1	0.5	1.2	1.7	1.8
<b>Net profit</b>	<b>30.2</b>	<b>(19.9)</b>	<b>66.7</b>	<b>83.3</b>	<b>91.0</b>

BALANCE SHEET (VND bn)	2007A	2008A	9M 2009	2009F	2010F
<i>Current assets</i>	<i>476.5</i>	<i>714.6</i>	<i>1,127.7</i>	<i>1,089.4</i>	<i>1,132.3</i>
Cash & cash equivalents	31.4	21.6	74.3	115.9	108.8
Short term financial investments	3.1	19.2	19.6	23.8	-
Provision for short term financial investment	-	-	-	-	-
Receivables	182.0	311.9	530.5	478.2	514.1
Inventory	241.7	319.6	473.1	440.2	475.9
Provision for inventory devaluation	-	(85.8)	-	-	-
Other current assets	18.2	42.4	30.1	31.4	33.5
<i>Non-current assets</i>	<i>223.9</i>	<i>246.9</i>	<i>247.8</i>	<i>242.7</i>	<i>448.1</i>
Fixed assets	205.8	228.0	215.4	208.9	413.3
Long term financial investments	-	-	11.2	11.2	11.2
Provision for long term financial investments	-	-	-	-	-
Other long term assets	18.1	18.9	21.2	22.7	23.6
<b>TOTAL ASSETS</b>	<b>700.3</b>	<b>961.5</b>	<b>1,375.5</b>	<b>1,332.2</b>	<b>1,580.3</b>
Current liabilities	395.5	683.4	1,039.9	995.3	990.0
Short term debt	275.3	555.5	900.9	845.7	816.8
Payables	120.2	127.9	134.0	149.5	173.2
Non-current liabilities	32.6	30.4	37.0	35.3	40.2
Long term debt	28.0	18.6	30.6	30.6	35.0
Other long term liabilities	4.7	11.7	6.4	4.7	5.2
<b>TOTAL LIABILITIES</b>	<b>428.2</b>	<b>713.8</b>	<b>1,071.9</b>	<b>1,030.6</b>	<b>1,030.2</b>
<b>OWNER'S EQUITY</b>	<b>269.6</b>	<b>233.2</b>	<b>293.6</b>	<b>285.4</b>	<b>532.1</b>
Charter capital	183.0	190.0	190.0	190.0	328.0
Treasury stock	-	-	-	-	-
Capital surplus	64.5	75.0	75.0	75.0	137.0
Retained earnings	22.1	(38.6)	24.9	16.2	58.0
Other sources & funds	-	6.8	3.7	4.2	9.1
Minority Interest	2.6	14.5	10.0	16.2	18.0
<b>TOTAL CAPITAL</b>	<b>700.3</b>	<b>961.5</b>	<b>1,375.5</b>	<b>1,332.2</b>	<b>1,580.3</b>

CASH FLOW STATEMENT (VND bn)	2007A	2008A
Profit before tax	45.6	(17.9)
Operating profit before changing working capital	86.9	176.2
Net cash flow from operating activities	(76.9)	(206.8)
Net cash flow from investing activities	(33.8)	(39.2)
Net cash flow from financing activities	122.6	236.1
Net cash inflow/outflow	11.9	(9.8)
Beginning cash flow	19.5	31.4
Ending cash flow	31.4	21.6

KEY FINANCIAL RATIOS	2007A	2008A	9M 2009	2009F	2010F
Net revenue growth rate (%) y-o-y	34.4	78.6	35.0	31.0	15.5
Net income growth rate (%) y-o-y	253.1	(165.9)	45.7	-	9.3
Gross margin (%)	9.7	6.6	11.2	11.3	11.0
Net margin (%)	2.9	(1.1)	3.6	3.5	3.3
ROA (%)	4.3	(2.1)	4.0	6.3	5.8
ROE (%)	11.2	(8.5)	18.7	29.2	17.1
EPS (VND)	1,650	(1,047)	3,510	4,384	2,774
EPS growth rate y-o-y (%)	170.1	-	45.7	-	(36.7)

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