

# HA TIEN 2 CEMENT JOINT STOCK COMPANY (HT2)

## COMPANY RESEARCH UPDATE

### GENERAL

Ha Tien 2 Cement JSC (HT2) was established in 1964 and has been through a period of accumulation and development to successfully build up "Ha Tien 2 cement" brand-name. Until 01/2008, HT2 officially operated as a joint stock company and then listed on HOSE in 03/2009 with registered charter capital of VND 880bn.

HT2 is one of the leading cement manufacturers and suppliers in the South. The Company holds nearly 30% market share in the Mekong Delta region in 2008. Current factory's capacity includes 1.2 million tons of clinker and 1.1 million tons of cement per year. HT2 is pursuing an important project to enhance production capacity to meet market demand as well as to expand its market share.

### BASIC INFORMATION

Industry	Basic materials
Listed	HOSE
Ticker	HT2
Charter Cap (VND bn)	880
52-week highest price (VND)	17,700
52-week lowest price (VND)	13,500
Avg trading vol in 10 days	394,988

### VALUATION MEASURES

Price (25/06/2009)	15,800
Market Cap (VND bn)	1,390
EPS trailing (VND)	1,445
P/E trailing (x)	10.9
P/E forward 2009 (x)	9.9
P/B (x)	1.4
EV/EBITDA 2009 (x)	5.4

### FINANCIAL RATIOS Q1-2009

Net revenue (VND bn)	355.2
Net income (VND bn)	38.1
Gross margin (%)	27.2
Net margin (%)	10.7
EBITDA margin (%)	30.2
Debt/Equity (%)	73.9
EPS (VND)	433
ROA (%)	6.3
ROE (%)	12.9

### COMPANY HIGHLIGHTS

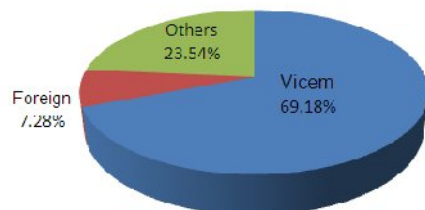
- **A leading cement company in the Mekong Delta region with strong brand-name and wide distribution network** – HT2 leads the cement market in the Mekong Delta region with 28.7% market share in 2008, up by 2% from 2007. The Company has been successful in creating "HT2 cement" brand-name which is familiar and wins consumer's trust. HT2 currently owns a wide distribution network over the Mekong Delta region with 41 distributors and many other retailers. The company also targets to broaden its distribution network and markets to the South West area.
- **Having initiative in producing clinker for cement manufacturing** – HT2 has a significant advantage over its peers in the South as the company owns large limestone mines (key materials for clinker production) which can provide enough raw materials for the company's clinker production during the next 50 years at the factory's capacity of 2.4 million tons/year. Meanwhile, current clinker production line of HT2 only has a capacity of 1.2 million tons/year and will reach 2.4 million tons/year in 2012.
- **Cement market in the South has great potential for growth, which is a favourable condition for the company's capacity enhancement** – Most of cement manufactories are located in the North where there are abundant limestone material sources. Although demand for cement in the South accounts for nearly 40% of total domestic demand, cement corporations in the South have not yet met this demand. As a result, the South market still has room for potential growth which is a favourable condition for HT2 when the new HT2 – Long An grinding station with capacity of 500,000 tons of cement/year comes into operation in Q2-2009. Besides that, HT2 is actively deploying the HT2.2 cement manufactory project which has the capacity of 1.26 million tons clinker and 600,000 tons cement per year. The project is expected to operate at the beginning of 2012 in order to enhance the company's supply capability, to widen its market share, and to generate higher revenue and income for the company.

### 2008 Financial Performance

Ending 2008, HT2 achieved VND 1,362bn in net revenue, increasing by 26.7% compared to 2007. Accounting for the highest proportion in revenue structure was cement with 80.4%, followed by clinker with 18.8%. High revenue growth rate in 2008 was contributed by the increases in both price and sales volume. Average cement and clinker selling prices in 2008 rose about 18.9% and 13% compared to the previous year, respectively. At the same time, sales volume was up by 8.3% from 2007.

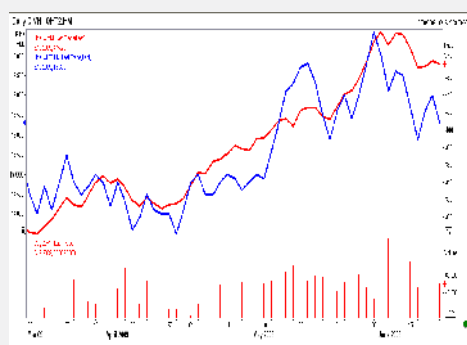
Gross margin was also greatly improved from 13.8% in 2007 to 21.9% in 2008. HT2 had changed key fuel used in clinker production process from MFO to charcoal, hence the fuel costs could be reduced by 75%. The company also added more additive in the cement grinding stage to reduce about 0.033 tons of clinker over 1 ton of manufactured cement on average. Moreover, HT2 is more flexible in controlling production costs thanks to having appropriate raw material reserve policy while being able to self-produce clinker for cement manufacturing. Net income in 2008 therefore reached VND 118.2bn, strongly up by 112.7% compared to 2007.

## OWNERSHIP STRUCTURE



Source: HT2 Annual Report 2008

## SHARE PRICE PERFORMANCE



Source: Reuters

### ■ Financial performance in Q1-2009 and 2009 Outlook

Ending Q1-2009, HT2 had a satisfactory performance with VND 355.2bn in net revenue, up by 20.5% and VND 38.1bn in net income, up by 30.8% compared to the same period of 2008. Gross margin in Q1-2009 was 27.2% versus 21.9% in Q1-2008. Increasing sales price together with the improvement in production technique were key supporting factors for gross margin increase.

Total loans of HT2 as end of Q1-2009 were VND 726.3bn, which were mostly used to finance for two major projects – the new HT2 – Long An grinding station with total investment cost of VND 531bn and the HT2.2 cement manufacturing project with total investment cost of VND 3,040bn. Interest expenses on loans for these two projects are capitalized as long as the projects are under construction. However, the HT2 – Long An grinding station project was completed and operated in April 2009 so interest expense of HT2 will be largely increased this year. Besides, HT2 is working on the HT2.2 cement manufactory project so that the companys' long term loans are expected to increase up to VND 1,750bn by end of this year.

HT2 is quite confident in setting its 2009 targets including VND 1,982bn in net revenue and VND 146bn in net income, which are higher than 2008 revenue and income by 45.5% and 23.5%, respectively. Due to the cement industry cycle, revenue and earnings in Q1 are usually lower than those in other quarters. However, HT2 achieved 17.9% of the target revenue and 26.1% of the target income in Q1-2009. The Company's performance in Q2-2009 is expected to be much better than in the previous quarter thanks to the recovery of the construction industry and the stimulus package of the government. Moreover, the operation of the HT2 – Long An grinding station right in the high season would greatly assist the company in exploiting the potential market, improving supply capability and competitiveness to push up the bottom line performance.

### ■ Recommendation:

Currently, increases in electricity and charcoal prices will influence cement production costs; however, an increase of 10% in selling price would be able to partly offset the increases in production costs and ensure good profitability ratios for HT2. As a result, we believe that HT2 can achieve this year profit target.

With the market price of VND 15,800 per share, P/E forward 2009 and P/B of HT2 are 9.9x and 1.4x, respective, compared to the industry average of 10.5x and 1.4x. EV/EBITDA 2009 of HT2 is quite attractive at 5.4x. Especially, HT2 has the highest gross margin (27.2%) compared to its peers and to the industry average of 22.7%. Other profitability ratios such as net margin, ROA and ROE are also at a high level. Having satisfactory performance in Q1-2009 together with a large scale and efficient operation, and stable earnings generation each year, HT2 is a typical cement company that could be considered for investment decision.

## HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

INCOME STATEMENT (VND bn)	2006A	2007A	2008A	Q1-2009A	2009F
Net Revenue	1,027.6	1,074.9	1,362.0	355.2	1,667.1
COGS	915.5	926.9	1,064.3	258.7	1,297.0
Gross profit	112.2	148.0	297.7	96.5	370.1
Operating profit	70.4	76.0	170.7	50.8	203.1
EBT	73.6	77.1	173.4	50.8	187.7
<b>Net income</b>	<b>55.8</b>	<b>55.6</b>	<b>118.2</b>	<b>38.1</b>	<b>140.8</b>

BALANCE SHEET (VND bn)	2006A	2007A	2008A	Q1-2009A	2009F
Current Assets	493.6	964.1	939.3	1,019.8	897.1
Cash & Cash equivalents	220.4	286.4	205.4	215.6	166.7
Short-term financial investments	4.2	4.2	4.2	-	-
Receivables	67.8	308.3	284.6	312.0	295.7
Inventory	200.9	360.8	437.0	485.2	426.4
Other current assets	0.3	4.3	8.1	7.0	8.3
Non-current Assets	243.4	659.3	1,025.2	1,004.8	2,266.5
Fixed assets	183.4	577.7	953.0	934.6	2,203.3
Construction in progress	87.2	180.0	234.7	262.9	1,051.8
Long-term financial investments	59.8	-	-	-	-
Other long-term assets	0.3	81.6	72.2	70.1	63.2
<b>TOTAL ASSETS</b>	<b>737.1</b>	<b>1,623.4</b>	<b>1,964.5</b>	<b>2,024.6</b>	<b>3,163.6</b>
Short term liabilities	185.8	256.1	380.4	384.1	424.0
Short term debts	24.3	34.6	69.5	69.5	69.5
Payables	161.5	221.5	311.0	314.7	354.5
Long term liabilities	40.3	431.6	636.4	657.1	1,747.6
Long term debts	24.5	415.3	636.0	656.8	1,747.2
Owners' Equity	511.0	935.6	947.8	983.3	992.0
<i>Charter Capital</i>	428.9	880.0	880.0	880.0	880.0
<i>Capital Surplus</i>	-	-	1.8	1.8	-
<i>Retained Earnings</i>	0.0	48.4	57.5	95.6	82.0
<b>TOTAL CAPITAL</b>	<b>737.1</b>	<b>1,623.4</b>	<b>1,964.5</b>	<b>2,024.6</b>	<b>3,163.6</b>

KEY FINANCIAL RATIOS	2006A	2007A	2008A	Q1-2009A	2009F
Net revenue growth rate (%) y-o-y	0.9	4.6	26.7	20.5	22.4
Gross margin (%)	10.9	13.8	21.9	27.2	22.2
Net margin (%)	5.4	5.2	8.7	10.7	8.4
Net income growth rate (%) y-o-y	(11.8)	(0.3)	112.7	30.8	19.1
ROA (%)	7.6	3.4	6.0	6.3	4.4
ROE (%)	10.9	5.9	12.5	12.9	14.2
Debt/Equity (%)	9.6	48.1	74.7	73.9	183.1
EPS (VND)	1,300	632	1,343	433	1,600
EPS growth rate (%) y-o-y	(20.9)	(51.4)	112.7	30.8	19.0
BPS (VND)	11,913	10,632	10,770	11,174	11,273
BPS growth rate (%) y-o-y	(6.4)	(10.8)	1.3	3.7	4.7

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