

## PHU NHUAN JEWELLERY JSC (PNJ)

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Another market-leading, quality consumer growth stock

BUY - Price target: VND35,000

Although 72% of PNJ's sales come from investment demand for gold bars, the company makes 80% of its gross profit from jewellery sales, in which it has the number one market share (20%+) of the c. \$600m national jewellery market, sold through its own 130 retail stores and more than 3,000 wholesalers covering all of Vietnam's 63 provinces. As such, we view the stock as an attractive consumer growth story that is well-set to continue to grow its market share long-term.

PNJ's management team is an experienced and well-motivated one, owning a combined 40% of the shares. They have been in the jewellery business for two decades.

The company has invested heavily in its distribution network, which has led to higher levels of debt in recent years (net debt to EBITDA has risen from 1.8x to 3.4x in the past two years); but we think this has been a wise strategy that will help it maintain its market-leading position for many years to come.

PNJ covers all segments of the branded jewellery market, from the CAO and Jemma brands at the high end through to its newly-launched Yabling brand at the low end. It is strongest in the mid-market; the main "PNJ Gold & Silver" retail trading name is a well established one in the minds of Vietnamese consumers.

The company's trading business in gold bars operates on very thin margins, but does not in our estimation use an unreasonable amount of capital. One reason for having it is to ensure a supply of gold for its jewellery business. Given that its presence is not noticeably depressing ROA or ROE, we don't view this business negatively.

PNJ's non-core businesses either have been (seafood) or are planned to be (gas) divested. We view this move to focus exclusively on the core as a sound one.

PNJ's historic growth record is excellent: its four year CAGR of sales and net profit is 66% and 64% respectively; while for the coming five years we are estimating 17% and 22%. However, it would be better for PNJ if the gold bull market subsides: its input prices rise with gold, and this is difficult to fully pass on and slows jewellery demand. Hence in 2010, net profits were flat despite sales being up 34%.

VND bn except where stated	2008	2009	2010E	2011E	2012E
Gross sales (VND bn)	4,204	10,291	13,799	16,292	19,209
EBITDA (VND bn)	188	272	239	384	514
Net income (VND bn)*	132	220	220	286	382
EPS (VND)	2,146	4,090	4,415	4,772	6,368
EPS growth (%)	13.4%	90.5%	7.9%	8.1%	33.4%
DPS (VND)	2,600	2,425	2,000	2,000	2,000
PER (x)	6.7	4.5	6.3	5.8	4.4
EV/Sales (x)	0.5	0.2	0.2	0.2	0.1
PBR (x)	0.9	1.1	1.6	1.4	1.1
ROE (%)	14.3%	23.1%	21.6%	25.4%	28.5%
ROIC (%)	10.0%	13.6%	11.9%	13.0%	14.4%

\*before minorities

### Coverage initiation

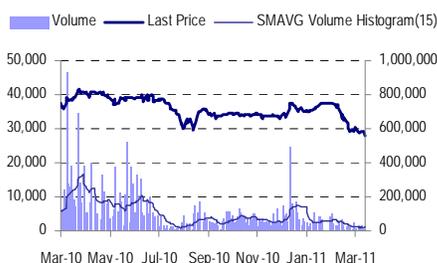
Recommendation	BUY
	HOSE:PNJ
	Jewellery sector
Price (VND)	27,900
Price Target (VND)	35,000
Expected share price return (%)	25.4%
Expected dividend yield (%)	7.2%
Expected total return (%)	32.6%

Source: Bloomberg, Mekong Securities

### Stock performance (%)

	YTD	1m	3m	12m
Abs	-15%	-23%	-25%	-26%
Rel	-11%	-22%	-23%	-18%

Source: Bloomberg



Source: Bloomberg, Mekong Securities

### Ownership Structure

	Dec 2010
CEO - Ms Dung	10%
BOD & employees	30%
Other domestic investors	27%
Deutsche Bank & Deutsche AM	6%
Vietnam Azaleah Fund Ltd	5%
Viet Trust Investment	1%
Other foreign investors	21%

### Stock Statistics

	21 Mar 2011
Last price (VND)	27,900
52-week range (VND)	27,900 – 50,000
Shares O/S (m)	60.0
Mkt cap (VND bn)	1,674
Mkt cap (USD m)	80
Est. free float (m)	29.3
3m avg daily volume (\$k)	188
VND/USD	20,800
Index: VNIndex / HNX	468/94

Source: Bloomberg

Industry overview

Vietnam's traded gold market rose 11% by volume and 41% by value in 2010, to 82 tonnes and \$3.27bn respectively. Breaking this value down, investment demand grew by 50% and jewellery by 11%. In volume terms, it is notable that the jewellery market actually contracted by 11%. Perhaps 400-800 tonnes of gold are held by Vietnamese citizens, or around \$17-35bn worth (versus GDP of c. \$100bn). There is only a small gold mining industry in Vietnam, accounting for less than 5% of annual traded volume in the country. The companies licensed to import and export gold are state-owned Saigon Jewellery Co, PNJ, Doji, Sacombank Jewellery Co, and Agribank Jewellery Co. We estimate that legal imports of gold and gems in 2010 were \$595m, or 18% of total traded value (based on Vietnam General Statistics Office data).

**Chart 1: Vietnam gold demand by volume and value**

	2009	2010E	YoY (%)
<b>Volume (tonnes)</b>			
Jewellery	16	14	-11%
Investment	58	68	17%
Total	74	82	11%
<b>Value (USD m)</b>			
Jewellery	502	558	11%
Investment	1,814	2,713	50%
Total	2,316	3,271	41%

Source: World Gold Council (WGC)

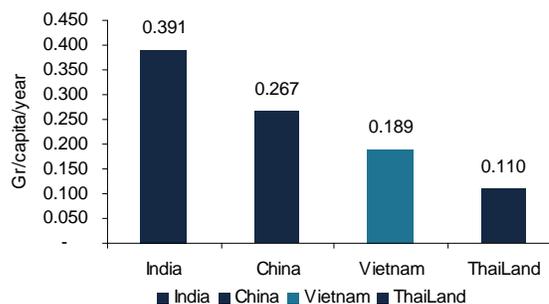
Vietnam's jewellery industry has grown in value by 7% pa since 2005. On the face of it this might sound OK, but actually is rather poor: the growth rate of nominal GDP has been over twice this rate. We attribute this only modest jewellery growth rate to the great bull market in gold: rising input costs and therefore end product prices have restrained demand growth. It is also apparent that jewellery just isn't as popular in SE Asia as it is in China or India (Chart 3).

**Chart 2: VN's jewellery market size, quarterly**



Source: World gold council (WGC)

**Chart 3: VN's jewellery consumption per capita**

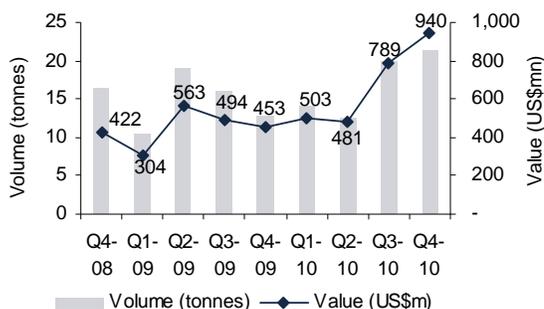


Source: World gold council (WGC)

Gold bar investment demand has in recent years been surging; in 4Q2010 it was up 67% YoY to 21.4m tonnes. Recent years have seen decreasing confidence in the dong on account of high inflation and a 25% depreciation in its value versus the dollar in under three years. Meanwhile, the global phenomenon of hyper-easy monetary policy

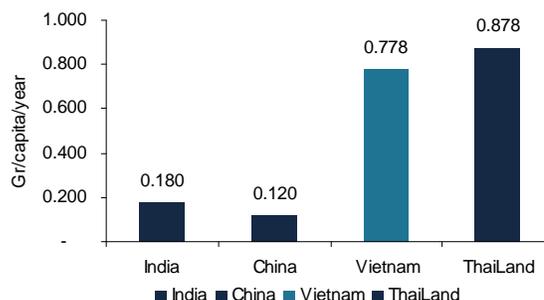
has sustained a great commodities bull market, such as in gold – with investors trying to hedge against the loss in value of paper money. The Vietnamese are fully on this bandwagon. The Vietnamese gold investment market in 2010 alone was perhaps worth \$2.71bn (up 50% YoY; 2007-10: up 21% pa). So, whereas in jewellery the Vietnamese are pixies compared to the Chinese and Indians, in gold investment demand we are big (some four times more investment per capita per year than these two countries), as per Chart 5 below. This is at least partially due to Vietnam's torrid 20<sup>th</sup> century history, which ingrained a habit of trust in gold compared to the whims of political paper money and the banking system.

**Chart 4: VN's gold investment market size, quarterly**



Source: World gold council (WGC)

**Chart 5: VN's gold investment trading per capita pa**

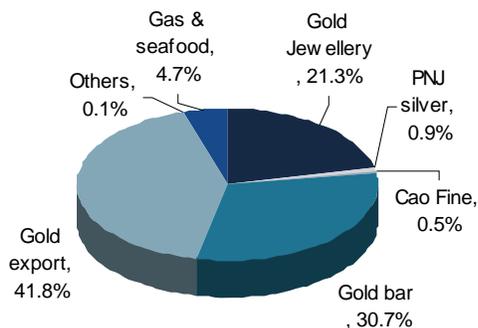


Source: World gold council (WGC)

### Company / stock overview

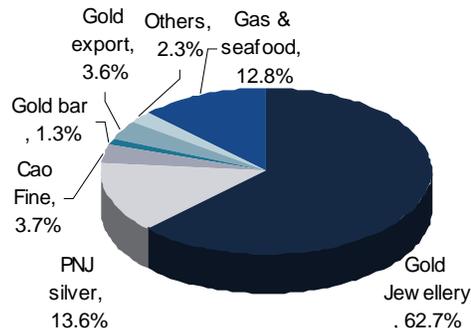
Established in December 1988 as Phu Nhuan Jewellery Shop, equitized in January 2004 and listed in March 2009, PNJ is a market-leading manufacturer of jewellery products for the domestic Vietnamese market. The product range includes gold and silver jewellery, and includes precious stones such as diamonds, rubies, sapphires, pearls and semi-precious stones such as topaz, citrine, and amethyst. The portfolio includes rings, earrings, pendants, bracelets and necklaces. The company is also in the gold bar pressing and trading business, which accounts for most of its total sales but only c. 5% of its gross profit. Initial chartered capital of VND40bn in 2004 rose to VND600bn by September 2010. Out of 60m shares, the free float is about 49%. The foreign room left on the stock (before it reaches the 49% foreign shareholding limit) is 16%.

**Chart 8: Breakdown of total sales, 2010**



Source: PNJ, Mekong Securities

**Chart 9: Breakdown of gross profit, 2010**

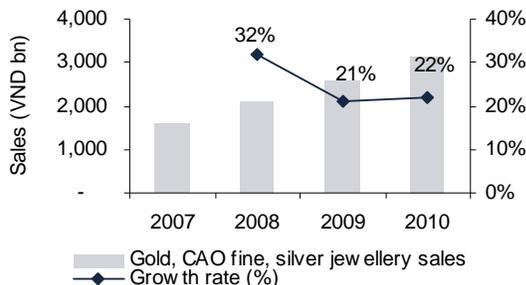


Source: PNJ, Mekong Securities

**PNJ's jewellery products** mainly focus on the middle segment of the market. PNJ market share is 20% of Vietnam's gold jewellery market (21% of total company sales, 63% of gross profit) and 60% of Vietnam's much smaller silver jewellery market (1% and 14% respectively). Additionally there are upmarket sales under the premium 'CAO' brand (0.5% and 3.7% respectively).

PNJ jewellery has had a sales CAGR of 20% in 2006-2010; and 37% in 2010 alone. PNJ has been a consistent market share gainer in a market that has grown at only a third of PNJ's rate over these years.

**Chart 10: Annual historic growth in jewellery sales**



PNJ's jewellery products are nearly wholly sold in domestic market; exports account for only 3%. However, management aims to increase this ratio to 10%.

A key PNJ strength is product design and quality, with the company employing over 1,000 skilful goldsmiths for handcrafted jewellery. New and repeat customer orders are both strong.

PNJ has an exclusive distribution network across all 63 provinces nationwide; as of September 2010, they have 15 branches, 126 retail stores and more than 3,000 wholesalers. Geographically, there are 22 stores in the North, 7 stores in Central, 90 stores in Ho Chi Minh City & Southeast and 7 stores in the Mekong Delta. PNJ plans to open 30-40 new retail stores per year, aiming to have a total of 250 retail stores in five years and 500 in seven years. This rate of store opening might amount to capex of c. VND50bn (maybe VND2.3bn per store), or perhaps 36% of PNJ's total capex in the

coming years. PNJ's 2010 jewellery sales per store were, we estimate, around VND12bn (based on annualised PNJ store numbers).

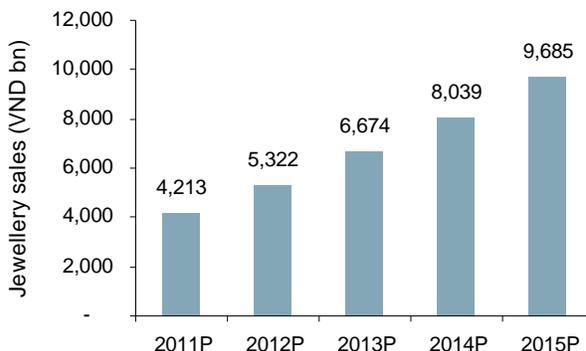
PNJ currently has two factories with total capacity of up to 3m pieces per year. They are planning a new factory in Go Vap district with total investment capital of VND80bn, which will have capacity of another 4.5m pieces, planned to be on-line by 2012. The likely ROI looks attractive; there will be potential incremental sales of perhaps VND2trn, which might convert to annual operating profit of VND200bn (operating profit margin 10%, which is our estimate of the existing OPM of the jewellery business), all for an investment of only half this amount. With this big capacity rise, PNJ can meet all customer demand.

PNJ's already-strong distribution network is being broadened by an additional retail brand, Yabling - lower cost jewellery for teenagers - as well as jewellery-related accessories for women - launched in 2010 under the Jemma brand name.

We expect the whole market to accelerate to perhaps 10% pa growth during 2011-15, as part of Vietnam's middle class consumption boom; for PNJ itself, we believe it will grow at c. 20% and thus take further market share away from competitors. We believe it will be successful in all segments of the market – high, low and mid.

Its main competitors in jewellery are Minh Chau (300 points of sales) and Doji (10 retail stores), both private unlisted firms from the North. PNJ in contrast is stronger in the Central and Southern regions of the country.

**Chart 11: Our PNJ jewellery sales forecasts, 2011E-2015E**



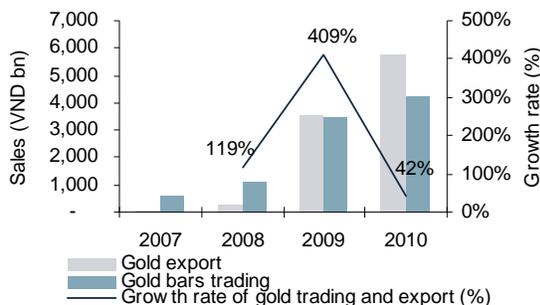
Source: PNJ, Mekong Securities

**PNJ's gold bar business** trades under the brand name 'Phoenix PNJ – DongA Bank' gold bars (the Chairwoman of PNJ is also a co-founder of unlisted Dong A Bank). PNJ has only 2% market share, but has grown strongly (sales up by nine times in the two years to 2010); this business is dominated by state-owned Saigon Jewellery Co (SJC) which has a 90% market share. At 73% of PNJ's 2010 sales but only 5% of gross profit, this business operates on a tiny gross margin of only 0.17%-0.34%. PNJ's 2010 gold bar sales were up 11% YoY at VND4,242bn and its gold export sales rose 65% to VND5,765bn (the US, Denmark and Germany are major markets).

From 1 Jan 2011, there is a new export tax on gold jewellery and gold bars of between 0% and 10%. According to Decree 174/1999/ND-CP dated 9 December 1999, in order to import and export raw gold material over 3kg, firms must have State Bank of Vietnam permission. The government has an ongoing campaign to discourage gold and dollar use

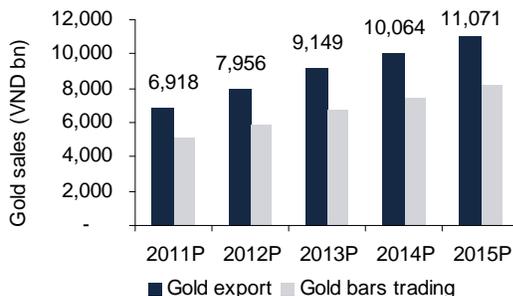
and thereby shore up the value of the dong. We are not worried about this for PNJ, given the extremely thin profitability of this business.

**Chart 12: Historic growth in gold bar and gold export sales**



Compared to the recent annual growth rate in the gold bar investment market of c. 21% (2007-10), it seems likely that this business will slow down somewhat in the coming years, if our optimistic view of improvement in Vietnamese government economic policymaking proves correct. Therefore we have pencilled in 13% pa growth in this business, with PNJ retaining its market share.

**Chart 13: Projections for gold bar and gold export sales**



Source: Mekong Securities

**Non-core businesses:** PNJ own a 70% share of Dai Viet Energy JSC. Dai Viet’s brand name, Vinagas, is in the top five in the domestic and industrial gas sector. Gas accounted for 3% of total sales in 2010; the market grew at a CAGR of 41% during 2007-10, but PNJ has not kept up this pace. The company is trying to sell this business this year.

In seafood, PNJ owned 58% of S Gfisco from 2008 (1% of PNJ sales), but sold this stake in 2010, with this company having underperformed its market. We believe they got out at a very modest gain on the original investment.

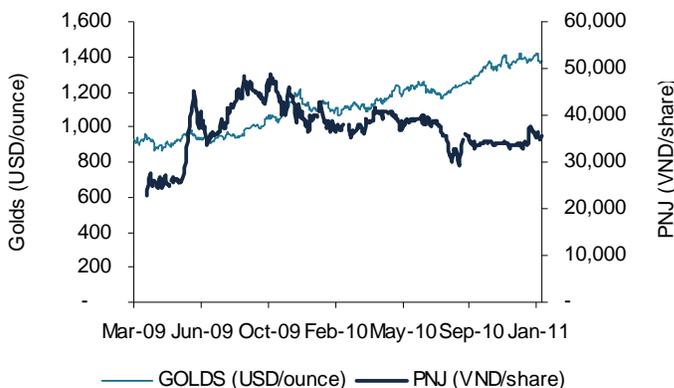
PNJ also has long term investments in other sectors – banking, real estate and fuel. The total investment asset is VND728bn, which is 29% of YE2010 PNJ total assets and 69% of shareholders equity. These investments generated income of VND77bn income in 2010, a cash yield of a little over 10%. Sadly, this is yet another case of a Vietnamese listed company taking a “portfolio” approach to its listed vehicle, rather than focusing wholly on its core business. We and doubtlessly others will constantly urge PNJ to not

continue succumbing to this folly: in the long run the multiple ascribed to PNJ shares, and therefore the company's total value, would benefit.

**Chart 14: PNJ's financial investments, Dec 2010**

	Investment value (VND bn)
<b>Stock investment</b>	<b>486</b>
Dong A bank	357
M&C Corp (real estate)	65
Que Huong Liberty Hotel	41
Kinh Do real estate JSC	23
<b>Joint-venture investment</b>	<b>231</b>
Saigon fuel JSC	139
Dong A land JSC	92
<b>Bond investment</b>	<b>12</b>
Bond	2
Hoang Minh Giam Project	10

**Chart 15: Good for PNJ if the gold bull market subsides**



### Valuation

For our PNJ DCF, we have applied a 13.8% WACC (cost of equity 16.3%: risk free rate 11%, risk premium 7%, beta 0.76) and 5% terminal growth rate. The DCF generates a central result of VND35,000. DCFs are for mindless teenagers without brains and therefore we do not attach much if any importance to this number. It is simply shocking that so many financial professionals often do. The only thing a DCF can do is tell you when a share price has gone completely haywire to crazily high or crazily low – but this only happens rarely.

**Chart 16: DCF Valuation**

DCF Financial model	2011E	2012E	2013E	2014E	2015E
FCF	52,719	204,011	259,871	332,998	389,117
Discount factor	1.0	1.1	1.3	1.5	1.8
Present value of given year's FCF	52,719	179,818	199,907	221,095	222,107
PV of FCF 2010-14	875,646				

Terminal growth rate	5.0%
PV of terminal value	2,060,181
<b>DCF valuation per share (VND)</b>	<b>35,000</b>

### Peer comparison

PNJ is Vietnam's only listed jewellery stock. We have therefore had a look at some Indian and Hong Kong ones:-

**Chart 17: Peer group valuation comparison**

Peer comparisons, 2009 data	Company	Price (US\$)	Mkt cap (US\$m)	EPS (US\$)	P/B (x)	P/E (x)	Net Profit Margin (%)
SGJ IN Equity	SHREE GANESH JEWELLERY HOUSE	3.77	228.61	0.68	NA	4.75	4.66%
RENJ IN Equity	RENAISSANCE JEWELLERY LTD	1.67	31.83	0.57	0.62	6.08	3.11%
860 HK Equity	MING FUNG JEWELLERY GP LTD	0.09	268.69	0.00	1.44	15.96	2.04%
TJL IN Equity	THANGAMAYIL JEWELLERY LTD	3.61	49.58	0.22	1.49	9.84	3.52%
417 HK Equity	TSE SUI LUEN JEWELLERY INTL	0.78	164.21	0.06	0.74	7.82	5.35%
SURJ IN Equity	SU-RAJ DIAMONDS & JEWELLERY	1.14	76.38	0.41	0.39	3.71	1.40%
<b>Unweighted Average</b>		<b>1.84</b>	<b>136.55</b>	<b>0.32</b>	<b>0.94</b>	<b>8.02</b>	<b>3.35%</b>
PNJ VN Equity	PHU NHUAN JEWELLERY JSC	1.87	112.00	0.21	1.47	5.93	2.14%

Source: Bloomberg, PNJ, Mekong Securities

### Our Concerns

\* The major raw material for the company is gold, accounting for 90% of the company's CoGS. The company cannot simply pass on this cost to jewellery customers and easily retain its margins. So the bull market in gold has amounted to a headwind for PNJ. If the gold bull market keeps roaring ahead, the investment case for PNJ is definitely weaker than would otherwise be the case. It is a tribute to the company's overall quality that it has been able to grow its jewellery business so well over the past few years in this environment.

\* This is a low-margin company, with overall net profit margin of 2.1% in 2009 and 1.6% in 2010. Now, most of this low margin is caused by the innate low margins (0.17%-0.34% gross) of the gold bar trading and gold export business. The jewellery business has pretty reasonable margins, at around 11% for gold jewellery, 30% for CAO fine jewellery and 62% for silver jewellery on the gross level. Although higher gold jewellery gross and operating margins would be desirable, we are reassured by the business's capital efficiency: the low capex cost of its new plant compared to the sales and profits that should flow from it, and the achieved ROE in recent years in the low 20s.

\* The non-core investing cannot but be viewed as negative. It is a major part of the balance sheet. The company would be immediately much better viewed by the

investment community if these investments were disposed of. However, disposing of Dong A Bank - two thirds of the total investment portfolio – seems unlikely, given the board-level links and the business cooperation in jointly branded gold bars. It is a concern that the company in 2010 has increased investment in new non-core businesses.

PNJ MODEL	Price (VND):	27,900	Target (VND):	35,000	Mkt cap:	1,673,976	BUY		
<b>Jewellery sector</b>									
(VND m except where stated)	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	
Jewellery	2,373,830	2,285,147	3,123,004	4,212,655	5,321,707	6,674,104	8,038,585	9,684,859	
Gold Bar & Gold export	1,121,000	7,374,757	10,007,793	12,009,352	13,810,754	15,882,367	17,470,604	19,217,665	
Service and Accessories	8,420	13,102	15,007	69,509	76,161	83,744	92,424	102,395	
Gas & Bottle Gas	461,972	464,335	503,188	500,000	-	-	-	-	
Seafood	239,013	153,162	149,656	-	-	-	-	-	
<b>Gross sales</b>	<b>4,204,236</b>	<b>10,290,503</b>	<b>13,798,649</b>	<b>16,291,515</b>	<b>19,208,623</b>	<b>22,640,216</b>	<b>25,601,613</b>	<b>29,004,919</b>	
<b>Total Net Sales</b>	<b>4,178,849</b>	<b>10,256,300</b>	<b>13,752,190</b>	<b>16,237,366</b>	<b>19,144,777</b>	<b>22,564,965</b>	<b>25,516,519</b>	<b>28,908,513</b>	
<i>Sales growth (%)</i>	76%	145%	34%	18%	18%	18%	13%	13%	
CoGS	3,828,809	9,755,444	13,205,159	15,484,820	18,196,200	21,442,779	24,242,420	27,459,014	
Gross profit	350,040	500,855	547,031	752,546	948,577	1,122,186	1,274,098	1,449,499	
<i>Gross profit margin (%)</i>	8.4%	4.9%	4.0%	4.6%	5.0%	5.0%	5.0%	5.0%	
SG&A	187,437	246,592	324,809	383,506	452,175	532,956	602,668	682,783	
<i>SG&amp;A as % of sales</i>	4.5%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
<b>EBITDA</b>	<b>188,230</b>	<b>271,898</b>	<b>239,004</b>	<b>384,068</b>	<b>514,454</b>	<b>609,968</b>	<b>695,390</b>	<b>793,898</b>	
<i>EBITDA margin (%)</i>	4.5%	2.7%	1.7%	2.4%	2.7%	2.7%	2.7%	2.7%	
<i>EBITDA growth rate (%)</i>	36%	44%	-12%	61%	34%	19%	14%	14%	
Depreciation	25,627	17,635	16,782	15,029	18,053	20,738	23,960	27,182	
Bad debt provs, other costs (net)	0	0	0	0	0	0	0	0	
<b>Operating profit</b>	<b>162,603</b>	<b>254,263</b>	<b>222,221</b>	<b>369,040</b>	<b>496,402</b>	<b>589,230</b>	<b>671,430</b>	<b>766,716</b>	
<i>Operating profit margin (%)</i>	3.9%	2.5%	1.6%	2.3%	2.6%	2.6%	2.6%	2.7%	
Extra Income	34,117	60,343	107,621	85,510	88,646	92,335	95,519	99,177	
Net interest expenses	30,210	39,885	56,846	72,796	75,620	70,610	57,886	45,375	
<i>Net interest as % of avg net debt</i>	9.0%	7.8%	7.4%	8.8%	10.3%	12.2%	17.1%	158.0%	
<i>Interest cover (x)</i>	5.4	6.4	3.9	5.1	6.6	8.3	11.6	16.9	
Tax	35,529	54,552	52,014	95,439	127,357	152,739	177,266	205,130	
<i>Effective tax rate (%)</i>	21%	20%	19%	25%	25%	25%	25%	25%	
Tax rebate	883	(336)	(718)	-	-	-	-	-	
<b>Net profit</b>	<b>131,864</b>	<b>219,832</b>	<b>220,264</b>	<b>286,316</b>	<b>382,071</b>	<b>458,217</b>	<b>531,797</b>	<b>615,389</b>	
<i>Net profit margin (%)</i>	3.2%	2.1%	1.6%	1.8%	2.0%	2.0%	2.1%	2.1%	
<i>Net profit growth (%)</i>	14.7%	66.7%	0.2%	30.0%	33.4%	19.9%	16.1%	15.7%	
<i>Net profit to equity holders of the parent</i>	125,564	204,492	220,729	286,316	382,071	458,217	531,797	615,389	
Cash earnings	157,490	237,466	237,047	301,344	400,124	478,954	555,757	642,570	
Number of shares (m, year-end)	30.0	40.0	60.0	60.0	60.0	60.0	60.0	60.0	
Average number of shares (m)	30.0	33.3	50.0	60.0	60.0	60.0	60.0	60.0	
<b>EPS (VND)</b>	<b>4,185</b>	<b>6,135</b>	<b>4,415</b>	<b>4,772</b>	<b>6,368</b>	<b>7,637</b>	<b>8,863</b>	<b>10,257</b>	
<i>EPS growth (%)</i>	-24%	47%	-28%	8%	33%	20%	16%	16%	
Cash EPS (VND)	5,250	5,937	3,951	5,022	6,669	7,983	9,263	10,710	
Bonus factor	2.0	1.5	1.0	1.0	1.0	1.0	1.0	1.0	
<b>EPS-Adj - bonus factor</b>	<b>2,146</b>	<b>4,090</b>	<b>4,415</b>	<b>4,772</b>	<b>6,368</b>	<b>7,637</b>	<b>8,863</b>	<b>10,257</b>	
<i>EPS-Adj growth (%)</i>	13%	91%	8%	8%	33%	20%	16%	16%	

<b>Key cashflow and balance sheet items</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Increase in working capital	-129,263	94,938	82,132	131,498	120,777	144,566	124,666	143,233
Capex for fixed and long term assets	260,071	94,467	90,881	107,592	65,566	58,224	69,869	69,869
Joining capital in other companies - none core business	129,802	125,568	198,717					
Other cashflow items	398	254	-6,248					
<b>Free cash flow</b>	<b>(102,721)</b>	<b>(77,252)</b>	<b>(140,931)</b>	<b>62,255</b>	<b>213,780</b>	<b>276,165</b>	<b>361,222</b>	<b>429,469</b>
Share issues	0	0	0	0	0	0	0	0
Dividends paid	78,000	97,000	119,998	119,998	119,998	119,998	119,998	119,998
Increase in net debt	180,721	174,252	260,930	57,744	-93,782	-156,167	-241,224	-309,470
<b>Net debt, end of year</b>	<b>336,444</b>	<b>510,696</b>	<b>771,625</b>	<b>829,369</b>	<b>735,587</b>	<b>579,421</b>	<b>338,197</b>	<b>28,726</b>
Enterprise value	2,010,420	2,184,672	2,445,602	2,503,345	2,409,563	2,253,397	2,012,173	1,702,702
<b>Shareholders' equity</b>	<b>913,559</b>	<b>991,438</b>	<b>1,045,564</b>	<b>1,211,881</b>	<b>1,473,954</b>	<b>1,812,172</b>	<b>2,223,971</b>	<b>2,719,361</b>
BVPS (VND)	30,452	24,786	17,426	20,198	24,566	30,203	37,067	45,323
Net debt / equity (%)	37%	52%	74%	68%	50%	32%	15%	1.1%
Net debt / EBITDA (x)	1.8	1.9	3.2	2.2	1.4	0.9	0.5	0.0
<b>Total assets</b>	<b>1,683,132</b>	<b>2,025,655</b>	<b>2,467,400</b>	<b>2,797,514</b>	<b>3,309,999</b>	<b>3,604,876</b>	<b>3,971,909</b>	<b>4,386,083</b>
<b>Key return and valuation ratios</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
ROE (%)	14.3%	23.1%	21.6%	25.4%	28.5%	27.9%	26.4%	24.9%
ROA (%)	10.5%	13.7%	9.9%	14.0%	16.3%	17.0%	17.7%	18.3%
ROIC (%)	10.0%	13.6%	11.9%	13.0%	14.4%	14.8%	15.2%	15.5%
WACC (%)	15.9%	16.1%	17.5%	12.4%	13.5%	14.6%	15.9%	16.3%
EVA (%)	-5.9%	-2.5%	-5.7%	0.6%	0.9%	0.2%	-0.7%	-0.8%
PER (x)	6.7	4.5	6.3	5.8	4.4	3.7	3.1	2.7
EV/EBITDA (x)	10.7	8.0	10.2	6.5	4.7	3.7	2.9	2.1
EV/FCF (x)	-19.6	-28.3	-17.4	40.2	11.3	8.2	5.6	4.0
PBR (x)	0.9	1.1	1.6	1.4	1.1	0.9	0.8	0.6
PSR (x)	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1
EV/sales (x)	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1

## Mekong Securities' Rating System

We currently use a three-tier recommendation system for the stocks in our formal coverage: BUY, HOLD, or SELL.

A **BUY** is applied when the expected total return over the next twelve months is at least 10%.

A **HOLD** is applied when the expected total return over the next twelve months ranges between -10% to 10%.

A **SELL** is applied when the expected total return over the next twelve months is -10% or worse.

These benchmarks are subject to change.

Expected Total Return (12 months) = [(Target Price - Current Price)/Current Price] + Forecast 12-month Dividend Yield.

### Our Analyst's Methodology

#### Target price and expected total return

Initially, an analyst derives an expected 12-month target price using multiple valuation methodologies. Different valuation methods have been used, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA).

Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

Once analysts derive a risk-adjusted valuation for a company under review, its current market price is then compared with the target price to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

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