

HOSE - Vietnam
Materials and Construction
2011.06.22

Overweight

Price(2011/06/21): VND 12,000

Target Price: VND 16,800

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Key Data

| | |
|---|----------------|
| Chartered capital (VND bn) | 329 |
| Outstanding shares (mil shares) | 32.9 |
| 52-week price range (VND) | 11,700 ~26,800 |
| Market cap (VND bn) | 394.8 |
| Total assets (Q1/11) (VND bn) | 1,382 |
| Net Value (Q/11) (VND bn) | 426 |
| Total Room for foreign investors (mil shares) | 16.121 |
| Current Room for foreign investors (mil shares) | 13 |
| Foreign Holding (%) | 9.5% |
| EPS 2011E (VND) | 3,593 |
| P/E | 3.3 |
| P/B | 0.9 |
| Cash dividend % (Face Value) | 15% |
| Dividend yield (%) (Dividend/Market price) | 13% |
| ROE 2011E(%) | 16.3% |
| ROA 2011E(%) | 6.8% |

*The holding cap for foreign strategic investors is 49%. For banking sector the cap is 30%.

2011 interest expense to increase due to higher loans last year

- Company profile:** BT6 businesses include manufacturing building materials (57% of sales) and construction (37%).
- Industry overview:** To maintain the average GDP growth rate of 7% per annum from 2011-2015, local infrastructure will gain an investment priority as it is one of the bottlenecks for Vietnam's economic development.
- Earnings:** BT6's sales in 2007-2010 grew 15% per annum while that of net profit grew at a faster pace of 63%. BT6's 2010 sales were reported at 1,113 bn VND, up 48% yoy and net profit was posted at 95.8 bn VND, up 21% yoy.
- Last year,** building materials prices increased, partly resulting from inflation, making COGS accounting for more percentage in sales. Besides, there was management expense hike, most of which came from pay rise and increased office leases. These two effects reduced 2010 net profit margin to 8.6% from 10.5% a year earlier. ROE increased a little. However, DuPont analysis showed that ROE rise was mainly due to using financial leverage.
- 2011 outlook:** In Q1/2011, financial numbers from parent company showed its sales reached 246 bn VND, up 118% yoy and net profit in parent company was 16.9 bn VND, down 17% yoy. We expect that in 2011 BT6 could continue its sales growth but net profit could have a decline due to interest expense burden resulting from using financial leverage last year.
- Strengths:** BT6 is a growing company in a growing industry in Vietnam.
- Weaknesses:** BT6's sales grew 48% yoy in 2010 while account receivables increased very fast at 78% yoy. This led to high receivable build-up and part of this was financed by loans. This contributed to higher debt and 2011 interest expenses would be higher than that of last year.
- Valuation:** We initiate an Overweight rating on BT6 with a target price of VND 16,800, implying a P/E multiple of 5 (x) EPS 2011E.

Financial Abstract:

(VND bn)

| Year | Revenue | (%) | Net Profit | (%) | Outstanding Shares | EPS (VND) | P/E (x) | ROE | ROA |
|-------|---------|--------|------------|--------|--------------------|-----------|---------|-------|-------|
| 2008 | 844.2 | 22.4% | 36.1 | -3.7% | 10,997,800 | 3,284 | 18.0 | 11.6% | 5.3% |
| 2009 | 748.8 | -11.3% | 78.9 | 118.6% | 10,997,800 | 7,178 | 8.6 | 22.6% | 12.0% |
| 2010 | 1,113.1 | 48.7% | 95.8 | 21.3% | 10,997,800 | 8,709 | 8.0 | 22.8% | 10.0% |
| 2011E | 1,255.2 | 12.8% | 78.9 | -17.7% | 21,948,900 | 3,593 | 3.3 | 16.3% | 6.8% |
| 2012E | 1,357.1 | 8.1% | 100.4 | 27.3% | 32,900,000 | 3,050 | 3.9 | 19.1% | 9.0% |

This report is for reference only and investors should be responsible for their own investment decisions.

Financial Statements (VND bn)

| Income statement | 2008 | 2009 | 2010 | 2011e | 2012e | Cash flow | 2008 | 2009 | 2010 | 2011e | 2012e |
|--|-------------|-------------|-------------|--------------|--------------|---------------------------------|-------------|-------------|-------------|--------------|--------------|
| Net Sales | 844.2 | 748.8 | 1,113.1 | 1,255.2 | 1,357.1 | Total profit before tax | 47.3 | 105.0 | 135.7 | 105.0 | 133.6 |
| Cost of goods sold | 738.6 | 612.4 | 930.6 | 1,038.6 | 1,125.1 | Non-cash items | 43.7 | 5.7 | 29.1 | 52.9 | 41.9 |
| Gross profit | 105.6 | 136.4 | 182.5 | 216.6 | 232.0 | Changes in net working capital | (131.9) | 98.0 | (178.8) | (150.8) | (43.2) |
| Selling Expenses | - | 0.9 | 12.2 | 15.0 | 13.8 | Net operating cash flow | (40.9) | 208.7 | (13.9) | 7.2 | 132.3 |
| Managing Expenses | 24.6 | 38.2 | 68.1 | 106.6 | 109.0 | Net Investing cash flow | (22.5) | (65.2) | (92.3) | (125.6) | 31.5 |
| Operating profit | 81.0 | 97.3 | 102.2 | 94.9 | 109.2 | Net Financing cash flow | 36.0 | (121.4) | 180.8 | 99.2 | (149.6) |
| Non operating profit | (22.2) | 11.5 | 53.9 | 47.7 | 51.6 | Net Cash during the period | (27.4) | 22.0 | 74.6 | (19.3) | 14.2 |
| Interest expense | 11.5 | 3.7 | 20.3 | 37.7 | 27.1 | Cash at beginning of year | 37.2 | 9.8 | 47.5 | 122.0 | 102.8 |
| Total profit before tax | 47.3 | 105.0 | 135.7 | 105.0 | 133.6 | Cash at end of year | 9.8 | 31.8 | 122.0 | 102.8 | 117.0 |
| Corporate Income Tax | 10.4 | 28.8 | 33.2 | 26.1 | 33.3 | Financial ratios | 2008 | 2009 | 2010 | 2011e | 2012e |
| Profit after Tax | 36.1 | 78.9 | 95.8 | 78.9 | 100.4 | Capital Structure | | | | | |
| Balance sheet | 2008 | 2009 | 2010 | 2011e | 2012e | Current assets/Total assets | 64% | 55% | 63% | 69% | 74% |
| Current Assets | 416.0 | 366.4 | 787.6 | 755.4 | 829.5 | Non-Current assets/Total assets | 36% | 45% | 37% | 31% | 26% |
| Cash and Cash Equivalents | 9.8 | 31.8 | 122.0 | 102.8 | 117.0 | Debt/Total assets | 51% | 43% | 59% | 54% | 52% |
| Short term financial investment | 7.7 | 10.0 | 26.0 | - | - | Equity/Total assets | 49% | 57% | 37% | 46% | 48% |
| Short term Account Receivables | 258.3 | 245.0 | 469.9 | 474.6 | 513.1 | Interest coverage ratio | 5.1 | 29.2 | 7.7 | 3.8 | 5.9 |
| Inventory | 139.1 | 77.8 | 159.1 | 162.2 | 175.7 | Liquidity | | | | | |
| Other Current Assets | 1.1 | 1.8 | 10.6 | 15.8 | 23.7 | Current ratio | 1.7 | 1.5 | 1.2 | 1.4 | 1.5 |
| Non-current Assets | 234.3 | 301.5 | 453.1 | 337.3 | 296.1 | Quick ratio | 1.1 | 1.2 | 0.9 | 1.1 | 1.2 |
| Long term Account Receivables | - | - | 0.4 | - | - | Cash conversion cycle (Days) | 150.0 | 134.5 | 143.0 | 128.0 | 118.5 |
| Fixed assets | 87.4 | 81.1 | 200.6 | 132.8 | 86.5 | Operating CF/Sales | (0.0) | 0.3 | (0.0) | 0.0 | 0.1 |
| Real estate investments | - | 9.7 | 6.5 | 12.3 | 6.5 | Operating CF/Interest expense | (3.6) | 56.0 | (0.7) | 0.2 | 4.9 |
| Long term Financial Investments | 145.8 | 207.5 | 179.0 | 179.0 | 179.0 | Operating CF/Short term debt | (0.2) | 0.9 | (0.0) | 0.0 | 0.2 |
| Other long term assets | 1.1 | 3.2 | 25.5 | 25.5 | 30.6 | Free CF (VND bn) | (143.9) | 105.7 | (116.9) | (95.8) | 29.4 |
| Total Assets | 650.3 | 667.9 | 1,240.8 | 1,092.6 | 1,125.6 | Efficiency | | | | | |
| Liabilities | 332.7 | 286.8 | 730.6 | 585.7 | 584.1 | Inventory Days | 67.8 | 45.8 | 61.6 | 56.2 | 56.2 |
| Short term Liabilities | 249.3 | 241.0 | 681.3 | 545.7 | 560.1 | Receivables Days | 110.1 | 117.8 | 152.0 | 136.1 | 136.1 |
| Long term Liabilities | 83.4 | 45.9 | 49.3 | 40.0 | 23.9 | Current assets turnover | 2.0 | 2.0 | 1.4 | 1.7 | 1.6 |
| Owners equity | 317.6 | 381.1 | 457.9 | 506.9 | 541.5 | Fixed assets turnover | 9.7 | 9.2 | 5.5 | 9.5 | 15.7 |
| Common stocks | 110.0 | 110.0 | 110.0 | 329.0 | 329.0 | Total assets turnover | 1.3 | 1.1 | 0.9 | 1.1 | 1.2 |
| Expenditures and Other Funds | 207.6 | 271.1 | 347.9 | 177.9 | 212.5 | Profitability | | | | | |
| Total Equity | 650.3 | 667.9 | 1,240.8 | 1,092.6 | 1,125.6 | Gross margin | 13% | 18% | 16% | 17% | 17% |
| DuPont Analysis (ROE Breakdown=1x2x3) | 2008 | 2009 | 2010 | 2011e | 2012e | Operating margin | 10% | 13% | 9% | 8% | 8% |
| Net profit margin (1) | 0.04 | 0.11 | 0.09 | 0.06 | 0.07 | Net profit margin | 4% | 11% | 9% | 6% | 7% |
| Total assets turnover (2) | 1.30 | 1.12 | 0.90 | 1.15 | 1.21 | Effective tax rate | 22% | 27% | 24% | 25% | 25% |
| Leverage (3) | 2.05 | 1.75 | 2.71 | 2.16 | 2.08 | ROE | 12% | 23% | 23% | 16% | 19% |
| Investment Valuation ratios | 2008 | 2009 | 2010 | 2011e | 2012e | ROA | 5% | 12% | 10% | 7% | 9% |
| P/S | 0.2 | 0.2 | 0.1 | 0.2 | 0.3 | | | | | | |
| P/B | 0.4 | 0.3 | 0.3 | 0.5 | 0.7 | | | | | | |
| P/CF (Operating) | (3.2) | 0.6 | (9.5) | 36.8 | 3.0 | | | | | | |
| PEG 1 ratio (PE/Sales growth) | na | na | 0.5 | 0.2 | 0.2 | | | | | | |

Source: BT6 and PHS's estimates

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Neutral (N) = Expected to in line with the local market by +10%~ -10%

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