

HOSE - Vietnam
Electronic & Electrical Equipment

Overweight

Price(2011/07/28):VND 19,300

Target Price: VND 22,200

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Key Data

Chartered capital (VND bn)	82.8
Outstanding shares (mil shares)	8.3
52-week price range (VND)	17,600 ~31,800
Market cap (VND bn)	159.9
Total assets (Q2/11) (VND bn)	383
Net Value (Q2/11) (VND bn)	167
(QFII) Total Room (mil shares)	4.1
(QFII) Current Room (mil shares)	3.7
Foreign Holding (%)	4.3%
EPS 2011E (VND)	3,539
P/E	5.5
P/B	1.0
Cash dividend % (Face Value)	16%
Dividend yield (%) (Dividend/Market price)	8%
ROE 2011E(%)	18.0%
ROA 2011E(%)	7.9%

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

Gross margin to be eroded by higher depreciation expenses

■ **Company profile:** LGC is one of the local leading manufacturers of lamps, lamp posts and lighting systems for public construction works. LGC is also involved in real estate investments.

■ **Industry overview:** The increasing urbanization and the Government's spending on infrastructure are expected to be the company's sales drivers. Low-priced products from China are expected to be potential competitors.

■ **Earnings:** In the last 3 years, LGC's sales grew 56% per annum and that of net profit grew at the pace of 65% / year. Average net margin in this period was 17%. Last year, LGC posted 218 bn VND in sales, up 42.9% yoy and net profit of 37.5 bn VND, up 30.4% yoy.

■ **2011 outlook:** In the first half of 2011, LGC reported sales of 112 bn VND and net profit of 16 bn VND. After the company put into operation a new plant in 2010 with an investment of 82 bn VND, its depreciation expense for the new facility rose. Together with the current inflationary pressure of the economy, COGS-to-sales ratio is expected to rise and gross margin may be eroded this year. In Q2/2011, COGS accounted for 78% sales, higher than that of whole year 2010 at 72%. Lu Gia building is expected to start generating sales from Q3/2011.

■ **Strengths:** Healthy cash flow from operations.

■ **Weaknesses:** Declining liquidity ratios

■ **Valuation:** LGC's stock is trading at 19,300 VND / share, near its 52-week low We initiate an Overweight rating on LGC with a target price of VND 22,200, implying a P/E multiple of 6(x) EPS 2011E.

Financial Abstract:

(VND bn)

Year	Revenue	(%)	Net Profit	(%)	Outstanding Shares	EPS (VND)	P/E (x)	ROE	ROA
2008	89.6	52.1%	13.8	272.6%	6,065,250	2269	4.9	12.5%	4.5%
2009	152.8	70.4%	28.8	109.1%	7,907,050	3,640	9.3	19.8%	7.6%
2010	218.4	42.9%	37.5	30.4%	8,283,600	4,530	6.5	24.4%	9.4%
2011E	229.6	5.1%	29.3	-21.9%	8,283,600	3,539	5.5	18.0%	7.9%
2012E	250.7	9.2%	35.7	21.9%	8,283,600	4,315	4.5	19.7%	9.6%

■ Financial Statements (VND bn)

Income statement	2008	2009	2010	2011e	2012e	Cash flow	2008	2009	2010	2011e	2012e
Net Sales	89.6	152.8	218.4	229.6	250.7	Total profit before tax	-	-	-	33.7	41.1
Cost of goods sold	75.6	110.7	157.2	181.4	193.1	Non-cash items	-	-	-	9.3	10.3
Gross profit	14.0	42.1	61.2	48.2	57.5	Changes in net working capital	-	-	-	28.9	-14.7
Selling Expenses	2.3	4.1	4.5	4.6	5.3	Net operating cash flow	34.3	21.8	67.7	71.9	36.7
Managing Expenses	6.7	6.7	6.2	5.7	7.2	Net Investing cash flow	-49.7	2.1	-13.2	4.3	-15.6
Operating profit	5.1	31.4	50.5	37.9	45.1	Net Financing cash flow	-33.2	-20.9	-55.9	-74.4	-20.7
Non operating profit	16.8	0.5	0.0	0.0	0.0	Net Cash during the period	-48.6	3.0	-1.4	1.8	0.4
Interest expense	0.0	1.2	4.0	4.2	4.0	Cash at beginning of year	51.0	2.4	5.4	4.0	5.7
Total profit before tax	21.9	30.7	46.5	33.7	41.1	Cash at end of year	2.4	5.4	4.0	5.7	6.2
Corporate Income Tax	8.1	1.9	9.0	4.4	5.4	Financial ratios	2008	2009	2010	2011e	2012e
Profit after Tax	13.8	28.8	37.5	29.3	35.7	Capital Structure					
Balance sheet	2008	2009	2010	2011e	2012e	Current assets/Total assets	28%	17%	23%	22%	24%
Current Assets	96.7	69.8	88.9	78.2	93.0	Non-Current assets/Total assets	72%	83%	77%	78%	76%
Cash and Cash Equivalents	2.4	5.4	4.0	5.7	6.2	Debt/Total assets	59%	63%	60%	53%	50%
Short term financial investment	20.0	0.0	0.0	0.0	0.0	Equity/Total assets	41%	37%	40%	47%	50%
Short term Account Receivables	33.5	21.6	43.6	38.3	43.3	Interest coverage ratio	na	26.6	12.7	9.0	11.3
Inventory	34.9	35.6	37.4	30.2	40.4	Liquidity					
Other Current Assets	5.9	7.3	3.9	4.0	3.1	Current ratio	1.2	0.7	0.8	0.7	0.7
Non-current Assets	242.8	344.7	295.9	283.6	292.8	Quick ratio	0.8	0.3	0.5	0.4	0.4
Long term Account Receivables	0.3	0.0	0.0	0.0	0.0	Cash conversion cycle (Days)	268.5	135.7	115.8	83.0	99.9
Fixed assets	242.5	332.9	293.0	283.6	292.9	Operating CF/Sales	0.4	0.1	0.3	0.3	0.1
Other long term assets	0.0	11.8	2.9	0.0	0.0	Operating CF/Interest expense	na	18.2	17.0	17.2	9.2
Total Assets	339.6	414.5	384.8	361.8	385.8	Operating CF/Short term debt	0.4	0.2	0.6	0.6	0.3
Liabilities	201.4	262.6	229.5	191.4	193.9	Free CF (VND bn)	7.1	-5.5	40.5	44.7	9.5
Short term Liabilities	81.4	104.5	108.8	118.8	127.2	Efficiency					
Long term Liabilities	120.0	158.2	120.7	72.6	66.7	Inventory Days	166.4	115.6	85.7	60.0	75.2
Owners equity	138.2	151.9	155.2	170.4	191.9	Receivables Days	134.4	50.9	71.9	60.0	62.2
Common stocks	75.3	82.8	82.8	82.8	82.8	Current assets turnover	0.9	2.2	2.5	2.9	2.7
Expenditures and Other Funds	62.9	69.1	72.4	87.6	109.0	Fixed assets turnover	0.4	0.5	0.7	0.8	0.9
Total Equity	339.6	414.5	384.8	361.8	385.8	Total assets turnover	0.3	0.4	0.6	0.6	0.6
DuPont Analysis (ROE Breakdown=1x2x3)	2008	2009	2010	2011e	2012e	Profitability					
Net profit margin (1)	0.15	0.19	0.17	0.13	0.14	Gross margin	15.6%	27.5%	28.0%	21.0%	23.0%
Total assets turnover (2)	0.26	0.37	0.57	0.63	0.65	Operating margin	5.6%	20.5%	23.1%	16.5%	18.0%
Leverage (3)	2.46	2.73	2.48	2.12	2.01	Net profit margin	15.4%	18.8%	17.2%	12.8%	14.3%
Investment Valuation ratios	2008	2009	2010	2011e	2012e	Effective tax rate	37.1%	6.2%	19.3%	13.1%	13.1%
P/S	1.3	1.0	0.7	0.7	0.6	ROE	12.5%	19.8%	24.4%	18.0%	19.7%
P/B	0.8	1.0	1.0	0.9	0.8	ROA	4.5%	7.6%	9.4%	7.9%	9.6%
P/CF (Operating)	3.4	7.0	2.4	2.2	4.4						
PEG 1 ratio (PE/Sales growth)	na	na	0.1	0.1	0.2						
PEG 2 ratio (PE/EPS growth)	na	na	0.2	0.3	0.8						

Source: LGC and PHS's estimates

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