

HOSE - Vietnam
Industrials

Gross margin to be eroded from higher COGS

Neutral

Price(2011/08/31):VND 8,700

Target Price: VND 10,100

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Key Data

Chartered capital (VND bn)	538.2
Outstanding shares (mil shares)	53.8
52-week price range (VND)	8,300~19,200
Market cap (VND bn)	468.2
Total assets (Q1/11) (VND bn)	1,577
Net Value (Q1/11) (VND bn)	723
Total Room for foreign investors (mil shares)	26.4
Current Room for foreign investors (mil shares)	23.8
Foreign Holding (%)	4.8%
EPS 2011E (VND)	-415.0
P/E	-21.0
P/B	0.6
Cash dividend % (Face Value)	0%
Dividend yield (%) (Dividend/Market price)	0%
ROE 2011E(%)	-2.42%
ROA 2011E(%)	-1.27%

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

■ **Company profile:** ALP's businesses include 4 business divisions: industrial production, infrastructure construction, real estate and financial investments. Its industrial production's products are paints, electrical equipment, elevators, and packaging, etc.

■ **Earnings:** ALP's has gone through some upheavals in the last 3 years. Its sales slowed in 2009 due to the impact of economic crisis and recovered in 2010. In spite of that, net profit has showed a 3-year increase. As ALP has continuously increased its capital, EPS has been diluted.

■ **2011 outlook:** In the first 2Q of 2011, ALP posted 1,035 bn VND in sales, up 194% yoy. This huge increase in the top line was attributed to a recent merger. Nonetheless, APL suffered from a net loss of 9.6 bn VND in the first half. 2Q costs of goods sold surged to 91.5% of sales, an increase from the 81% of 2010. Its financials also showed a 4 consecutive quarter increase in COGS. We expect ALP's gross margin might be eroded significantly this year due to higher COGS.

■ **Strengths:** sales growth after merger.

■ **Weaknesses:** Over-diversification might stretch the company's resources thin and dilute its brand name.

■ **Valuation:** ALP's stock price has been on downward trend since December of last year and now is traded at 8,700 VND/ share, below its par value. Its current price is also near its 52-week low and one-month average trading volume is 5,800 shares. We initiate a Neutral rating on ALP with a target price of VND 10,100, implying a P/B multiple of 0.6 (x) Book value 2011E.

Financial Abstract:

(VND bn)

Year	Revenue	(%)	Net Profit	(%)	Outstanding Shares	EPS (VND)	P/E (x)	ROE	ROA
2008	1,302	141.8%	22.9	-79.7%	34,500,000	663	12.1	3.3%	2.4%
2009	1,077	-17.2%	41.0	79.4%	41,410,200	990	10.3	5.7%	3.8%
2010	1,202	11.6%	68.7	67.5%	43,820,400	1,568	8.2	8.7%	5.0%
2011E	2,133	77.4%	-20.3	-129.5%	48,820,400	-415	-21.0	-2.4%	-1.3%
2012E	2,535	18.8%	60.0	396.3%	53,820,400	1,116	7.8	7.1%	3.5%

Financial Statement Projections (VND bn)

Income statement	2008	2009	2010	2011e	2012e	Cash flow	2008	2009	2010	2011e	2012e
Net Sales	1,301.5	1,077.2	1,202.1	2,132.8	2,534.7	Total profit before tax	35.7	51.4	97.5	(20.3)	68.9
Cost of goods sold	1,149.7	920.9	974.0	1,951.5	2,221.0	Non-cash items	(7.9)	14.6	13.1	16.0	25.6
Gross profit	151.8	156.3	228.0	181.3	313.8	Changes in net working capital	10.3	(30.5)	208.4	87.8	(30.9)
Selling Expenses	15.4	21.7	63.2	102.4	115.2	Net operating cash flow	38.1	35.4	319.0	83.5	63.6
Managing Expenses	33.8	51.7	59.0	98.1	119.6	Net Investing cash flow	(1.0)	(76.4)	79.9	(123.3)	(35.7)
Operating profit	102.6	82.9	105.8	(19.2)	79.0	Net Financing cash flow	(16.4)	65.6	(386.2)	22.9	7.7
Non operating profit	(56.8)	(18.2)	24.2	7.5	-	Net Cash during the period	20.7	24.6	12.7	(17.0)	35.5
Interest expense	10.1	13.3	32.5	8.5	10.1	Cash at beginning of year	7.3	28.1	53.1	77.1	60.1
Total profit before tax	35.7	51.4	97.5	(20.3)	68.9	Cash at end of year	28.0	53.1	77.1	60.1	95.6
Corporate Income Tax	0.4	2.4	12.5	-	8.8	Financial ratios	2008	2009	2010	2011e	2012e
Profit after Tax	22.9	41.0	68.7	(20.3)	60.0	Capital Structure					
Balance sheet	2008	2009	2010	2011e	2012e	Current assets/Total assets	48%	53%	62%	65%	69%
Current Assets	458.6	632.3	965.7	1,072.7	1,255.3	Non-Current assets/Total assets	52%	47%	38%	35%	31%
Cash and Cash Equivalents	28.0	53.1	77.1	60.1	95.6	Liabilities/Total assets	26%	40%	45%	50%	52%
Short term financial investment	0.1	0.3	263.4	289.7	318.7	Equity/Total assets	74%	60%	55%	50%	48%
Short term Account Receivables	261.3	383.0	382.8	407.9	477.8	Interest coverage ratio	4.6	4.8	4.0	(1.4)	7.8
Inventory	157.1	171.0	231.3	301.0	350.4	Liquidity					
Other Current Assets	12.1	24.9	11.1	14.0	12.8	Current ratio	1.9	1.4	1.7	1.5	1.5
Non-current Assets	494.5	563.3	585.6	573.1	559.1	Quick ratio	1.3	1.0	1.3	1.1	1.1
Long term Account Receivables	-	-	-	-	-	Cash conversion cycle (Days)	108.0	133.6	167.6	95.9	90.9
Fixed assets	84.7	112.8	107.1	93.3	81.8	Operating CF/Sales	0.0	0.0	0.3	0.0	0.0
Real estate investments	6.2	49.5	2.6	6.0	8.0	Operating CF/Interest expense	3.8	2.7	9.8	9.8	6.3
Long term Financial Investments	352.1	311.5	407.9	407.9	408.6	Operating CF/Short term debt	0.2	0.1	0.6	0.1	0.1
Other long term assets	51.5	89.5	68.0	66.0	60.7	Free CF (VND bn)	38.1	35.4	319.0	83.5	63.6
Total Assets	953.1	1,195.6	1,551.3	1,645.8	1,814.4	Efficiency					
Liabilities	246.0	473.2	695.2	824.8	951.3	Inventory Days	49.2	66.8	85.5	55.5	56.8
Short term Liabilities	240.4	463.3	570.7	724.9	849.0	Receivables Days	72.3	128.0	114.6	68.8	67.9
Long term Liabilities	5.6	9.9	124.5	99.8	102.3	Current assets turnover	2.8	1.7	1.2	2.0	2.0
Owners equity	707.1	722.4	856.1	821.1	863.2	Fixed assets turnover	15.4	9.6	11.2	22.9	31.0
Common stocks	390.0	438.2	438.2	538.2	538.2	Total assets turnover	1.4	0.9	0.8	1.3	1.4
Expenditures and Other Funds	317.1	284.2	417.9	282.9	325.0	Profitability					
Total Equity	953.1	1,195.6	1,551.3	1,645.8	1,814.4	Gross margin	11.7%	14.5%	19.0%	8.5%	12.4%
DuPont Analysis (ROE Breakdown=1x2x3)	2008	2009	2010	2011e	2012e	Operating margin	7.9%	7.7%	8.8%	-0.9%	3.1%
Net profit margin (1)	0.02	0.04	0.06	-0.01	0.02	Net profit margin	1.8%	3.8%	5.7%	-1.0%	2.4%
Total assets turnover (2)	1.37	0.90	0.77	1.30	1.40	Effective tax rate	1.0%	4.8%	12.8%	0.0%	12.8%
Leverage (3)	1.35	1.65	1.81	2.00	2.10	ROE	3.3%	5.7%	8.7%	-2.4%	7.1%
Investment Valuation ratios	2008	2009	2010	2011e	2012e	ROA	2.4%	3.8%	5.0%	-1.3%	3.5%
P/S	0.2	0.3	0.3	0.2	0.2						
P/B	0.4	0.5	0.4	0.5	0.5						
P/CF (Operating)	7.9	10.2	1.2	5.1	7.4						
PEG 1 ratio (PE/Sales growth)	na	na	0.3	(1.2)	0.2						
PEG 2 ratio (PE/EPS growth)	na	na	0.2	0.1	1.9						

Source: ALP and PHS's estimates

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