

3Q11 Results Review

11/3/2011

VITRANSCHART JSC

Vessel Disposal Offsets Operational Losses

Poor operating results in 9M11. Vitranschart (VST) reported a 9M11 consolidated revenue of VND1,420bn (-1.2% y-o-y) and NPAT of VND10bn (-84% y-o-y). Despite the slight decline in revenue, which was attributed to a lower freight rate of 6% compared to that of last year, GPM dropped markedly to 12.8% during this period from 21.4% in 9M2010, as a result of substantially higher input costs, especially direct labour cost (+34% y-o-y), and port-service and stevedoring charges (+33% y-o-y). As for financial expenses, the increase in interest expenses (+11%) was exacerbated by forex losses (18%).

Profit from disposal of vessels offsets operating loss. VST disposed of two vessels (Phuong Dong 1 and Phuong Dong 3) and recorded a disposal profit of VND107bn, sufficient to cover the VND91bn loss from its core business. It is noted that this VND91bn loss excludes a depreciation charge amounting to VND63bn in 3Q11 that VST got permission to postpone to 4Q11.

VST revises down 2011 earnings target. The company recently revised down its pre-tax profit target from VND85bn to VND10bn to incorporate the expected operating loss of VND6bn in 4Q11 and PBT from the disposal of VTC Star amounting to VND120bn.

Fleet expansion. According to the government's guidance, Vinalines will take delivery of 20 vessels that are currently being built from Vinashin. As a Vinalines' subsidiary, VST will get three new vessels from Vinashin – one handymax vessel (56,200 DWT, delivery slated for Dec 2012) and two handysize vessels (17,500 DWT each, one slated for Dec 2011 and the other for Dec 2012). The total investment cost for these three vessels is estimated at VND1.0-1.2trn.

Valuation. We applied the P/NAV method that takes into account the market value of its fleet and also used a lower P/BV, from which we derive a of VND4,706; representing a 2% discount to VST's current price of VND4,800.

NEUTRAL
MAINTAIN
Price
Target price
VND4,800
VND4,706
SHARE SUMMARY
Price

52-week high **VND12,600**
52-week low **VND4,600**
Average Volume **86,095**
Stock data

Issue shares **59,000,000**
Par value **VND10,000**
Market capitalisation **VND336bn**
Foreign limit **49.00%**
Foreign ownership **0.48%**
State-owned **60 %**

Source: SBS

FINANCIAL RATIOS (VNDbn)

Year	2009	2010	1Q11
Revenue	1,283	1,932	434
Gross profit (VNDbn)	190	420	33
Profit after tax (VNDbn)	60	95	-0.8
Total asset	2,798	3,325	3,188
ROE (%)	12.6%	13.1%	-0.1%
EPS (VND)	1,502	1,877	602

Source: SBS

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	2007	2008	2009	2010	2011F
Revenue (VNDbn)	1,408	2,136	1,283	1,932	1,741
Net profit (VNDbn)	98	192	60	95	(59)
% change y-o-y	188	96	-69	58	-162
Consensus net profit	98	192	60	93	(59)
EBITDA (VNDbn)	266	934	186	371	199
EPS (VND)	4,721	4,800	1,500	1,576	(1,000)
EBITDA per share (VND)	12,813	23,350	4,650	6,288	3,373
DPS (VND)	N/A	N/A	-	1,200	N/A
Dividend yield (%)	N/A	N/A	-	24.5	N/A
ROE (%)	20.3	38.2	12.2	13.1	(9.1)
ROA (%)	4.5	7.5	2.1	2.8	(1.9)
P/E (x)	N/A	N/A	3.3	3.1	N/A
P/B (x)	N/A	N/A	0.4	0.4	0.5

Source: VST, SBS estimates

VALUATION

We estimated the fair value (FV) per share of VST using a blended P/NAV and P/BV approach, and arrived at a target price (TP) of VND4,706 per share which is 2% lower than its market price (as at 2 Nov 2011) of VND4,800 per share.

Valuation - Summary		
Method	Weight	FV per share (VND)
P/NAV	70%	3,894
P/BV	30%	6,600
Average		4,706

- The market value of the company's fleet is calculated based on the: (i) value of recent transactions in Vietnam, and (ii) vessel price according to Bloomberg. For vessels that are more than 15 years old, we adopted the Light Displacement Ton (LDT) method and appraise them at their scrap values. For other vessels, we applied Bloomberg's prices.

No.	Name	Type	DWT	Year of built	LDT	Age	NAV - Fleet	
							USDm	VNDbn
1	Vien Dong 3	Bulk	6,523	2004	3,685	7	1.47	30
2	Vien Dong 5	Bulk	6,058	2005	3,423	6	1.37	28
3	VTC Star	Bulk	22,273	1990	8,874	21	3.55	73
4	VTC Sky	Bulk	24,260	1997		14	12.00	246
5	VTC Phoenix	Bulk	22,500	2008		3	21.10	433
6	VTC Ace	Bulk	24,157	1997		14	12.00	246
7	VTC Ocean	Bulk	23,492	1999		12	17.00	349
8	VTC Light	Bulk	21,964	1995	8,751	16	3.50	72
9	VTC Globe	Bulk	23,726	1995	9,453	16	3.78	78
10	VTC Dragon	Bulk	22,500	2007		4	21.10	433
11	VTC Sun	Bulk	23,581	1996	9,395	15	3.76	77
12	VTC Planet	Bulk	22,176	1993	8,835	18	3.53	72
13	VTC Tiger	Bulk	28,666	1998		13	12.00	246
14	VTC Glory	Bulk	23,620	1998		13	12.00	246
15	PMT 1	Tanker	1,250	2005	706	6	0.28	6
16	PMT 2	Tanker	1,250	2006	706	5	0.28	6
Total			297,996				128.73	2,639

Source: Bloomberg, SBS

P/NAV method	
Market value - fleet	2,639
Net book value - fleet	(2,741)
Excess value	(102)
Owner equity	649
NAV	547
No. of outstanding shares (mn)	59
NAV per share	9,271
P/NAV	0.42
FV per share	3,894

- Furthermore, we applied the P/BV method and used the trailing P/BV for six consecutive quarters to reflect one business cycle. We also chose regional bulk carriers that also own handysize vessels for comparison.



P/BV method	
Book value (at 30 Sep 2011)	649
No. of outstanding shares (mn)	59
BV per share	11,000
18-month trailing P/BV	0.60
FV per share	6,600

Source: SBS estimates

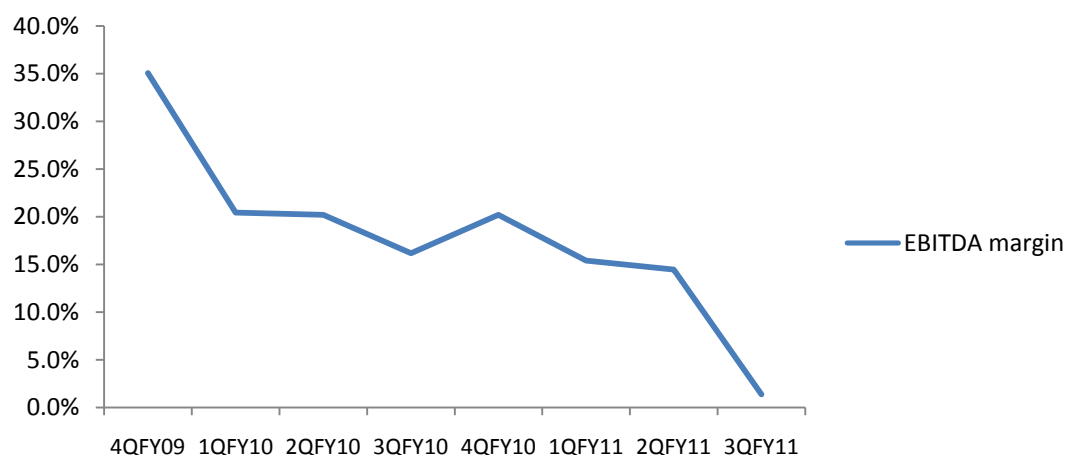
Capex plan

According to the government's guidance, Vinalines will take delivery of 20 vessels that are currently being built from Vinashin. As a Vinalines subsidiary, VST will get three new vessels from Vinashin – one handymax vessel (56,200 DWT, delivery slated for Dec 2012) and two handysize vessels (17,500 DWT each, one slated for Dec 2011 and the other for Dec 2012). Total investment costs for these three vessels are estimated at VND1.0-1.2trn. VST is financing these purchases with domestic VND borrowings at an average borrowing cost of 7-8% p.a. As at end-Sept 2011, the company's borrowings amounted to VND2,180bn, of which VND564 is short term and VND1,616 is long term, resulting in a debt-to-equity ratio of 3.36 times. With the delivery of the handysize 17,500 DWT vessel in Dec 2011, we expect the debt burden to increase by VND250bn. Given the questionable outlook for build carriers, we have doubts on whether VST will be able to fully utilise its fleet capacity in 2012.

EBITDA analysis

The EBITDA margin continues to disappoint amid declining freight charges and increasing input costs. Any improvement in freight charges is expected to directly benefit VST and other bulk carriers.

EBITDA margin



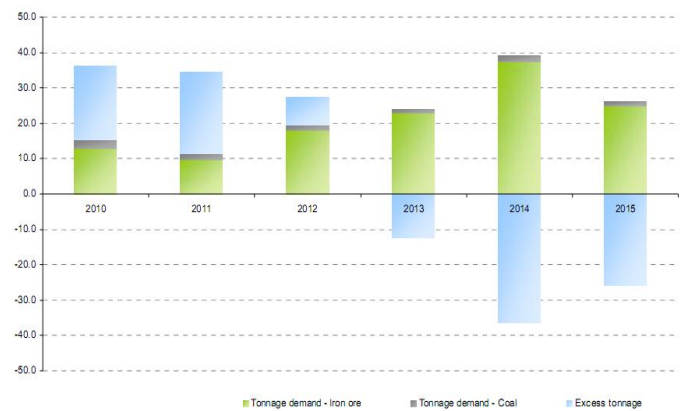
Source: VST, SBS



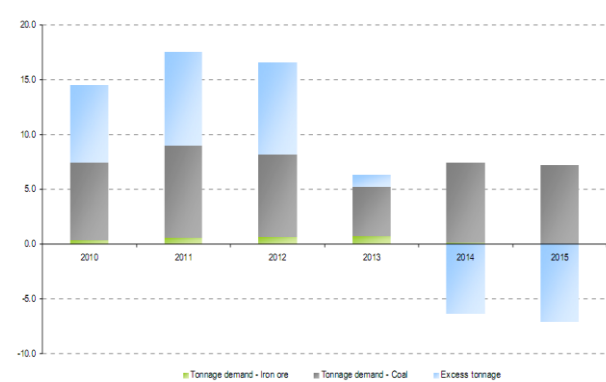
Industry outlook

According to statistics provided by Drewry Shipping Consultants (UK), the supply of bulk carriers in 2011 will increase approximately 14.7% to a total 616m DWT, while the demand these vessels is up only by 4.5-6% which is equivalent to 413 million DWT. This implies a capacity surplus of approximately 203 million DWT, which will have an adverse effect on freight charges.

Supply > Demand (capesize)



Supply > Demand (Panamax)



Source: Clarksons, DnB NOR Markets

BALANCE SHEET (VNDbn)

	2008	2009	2010
Assets	2,557.1	2,798.4	3,324.8
Current assets	459.2	294.3	366.6
Long-term assets	2,098.0	2,504.1	2,958.2
Fixed assets	2,051.6	2,472.1	2,907.2
Long-term investments	19.7		
Resources	2,557.1	2,798.4	3,324.8
Liabilities	2,053.8	2,305.6	2,601.2
Current liabilities	678.0	654.6	704.4
Long-term borrowings and liabilities	1,375.8	1,651.0	1,896.9
Equities	503.4	492.8	714.1
Owner's equity	482.2	477.9	708.0
Contributed capital	400.0	400.0	590.0
Capital surplus			0.1
Retained profits/(accumulated losses)	53.4		144.2

INCOME STATEMENT (VNDbn)

	2008	2009	2010
Net sales	2,135.6	1,283.2	1,931.9
COGS	1,899.0	1,093.5	1,511.8
Gross profit/(loss)	236.6	189.7	420.2
Financial income	73.7	60.8	61.8
Financial expense	221.3	171.7	306.4
Interest expense	111.0	102.8	153.5
Selling expenses	45.6	32.8	53.6
G&A expenses	49.8	44.7	68.2
Net operating profit/(loss)	(6.5)	1.1	53.7
Other income	284.3	118.6	83.1
Other expenses	11.6	39.4	9.2
Profit/(loss) before tax	266.3	80.4	127.6
Corporate income tax	75.7	9.6	36.3
Profit after tax	191.8	60.1	94.5
Net profit/(accumulated losses)	191.8	60.1	92.9

CASHFLOW STATEMENT (VNDbn)

	2008	2009	2010
Cash flows from operating activities			
Receipt from customers	266.3	80.4	1,853.0
Payments for providers	667.8	125.7	(1,187.7)
Interest paid	5.1	(4.3)	(143.3)
Other receipts from operating activities	(252.9)	(69.8)	300.8
Other payments for operating activities	815.1	245.3	(242.1)
Net cash generated from (pay to) operating	734.4	23.9	362.6
Cash flows from investing activities			
Payments for investments in other entities	(1,133.7)	(588.8)	79.7
Collections on investments in other entities			
Net cash generated from investing activities	(875.7)	(467.9)	(636.6)
Cash flows from financing activities			
Payments to settle debts			1,539.8
Payments of dividends	929.6	1,064.5	(1,298.5)
Net cash generated from (pay to) financing	396.8	255.9	241.1
Net cash flows during the period	255.5	(188.1)	(33.0)
Cash at the beginning		254.1	64.3
Cash at the end	254.1	64.3	32.5

YEARLY RATIOS

	2008	2009	2010
Growth rate			
Revenue growth rate	51.6%	-39.9%	50.6%
Gross profit growth rate	-8.3%	-19.8%	121.5%
Net profit growth rate	96.3%	-68.7%	54.7%
Total asset growth rate	16.4%	9.4%	18.8%
Equity growth rate	7.5%	-0.9%	48.1%
Profitability ratios			
Gross profit margin	11.1%	14.8%	21.7%
EBIT margin	17.7%	14.3%	14.5%
Profit before tax margin	12.5%	6.3%	6.6%
Net profit margin	9.0%	4.7%	4.8%
ROA	7.5%	2.1%	2.8%
ROE	39.8%	12.6%	13.1%
Dupont analysis			
Net profit margin (1)	9.0%	4.7%	4.8%
Asset turnover (2)	69.7%	83.5%	45.9%
Equity multiplier (3)	530.3%	585.6%	469.6%
ROE = (1)x(2)x(3)	39.8%	12.6%	13.1%
Management ratios			
Receivable outstanding days	6.4	13.3	14.8
Inventory outstanding days	8.5	24.9	20.7
Payable outstanding days	9.4	13.4	0.1
Asset turnover	0.8	0.5	0.6
Long-term asset turnover	1.0	0.5	0.7
Fix asset turnover	1.0	0.5	0.7
Liquidity ratios			
Current ratio	0.7	0.4	0.5
Quick ratio	0.6	0.3	0.4
Cash ratio	0.4	0.1	0.0
Capital structure			
Total debt/total equity	426.0%	482.5%	367.4%
Total debt/total asset	80.3%	82.4%	78.2%
Total asset/total equity	530.3%	585.6%	469.6%
Index per share			
PER			2.56
PBV			0.40
PS			0.12
EPS (VND per share)	6,312	1,502	1,877
Revenue/share (VND/share)	70,297	32,079	39,029
Book value (VND/share)	12,054	11,947	12,000



BALANCE SHEET (VNDbn)

	4Q10	1Q11	2Q11	3Q11
Assets	3,322.0	3,249.5	3,198.0	3,187.8
Current assets	363.7	351.8	358.6	353.9
Long-term assets	2,958.3	2,897.8	2,839.4	2,834.0
Fixed assets	2,907.2	2,849.4	2,789.7	2,792.8
Long-term investments				
Resources	3,322.0	3,249.5	3,198.0	3,187.8
Liabilities	2,600.6	2,520.8	2,533.6	2,520.9
Current liabilities	693.8	701.0	872.4	858.9
Long-term liabilities	1,906.8	1,819.7	1,661.2	1,662.0
Equities	712.0	719.3	655.8	657.4
Equity	705.9	717.5	645.9	648.7
Contributed capital	590.0	590.0	590.0	590.0
Capital surplus	0.1	0.1	0.1	0.1
Retained profits	142.1	148.5	59.2	58.7

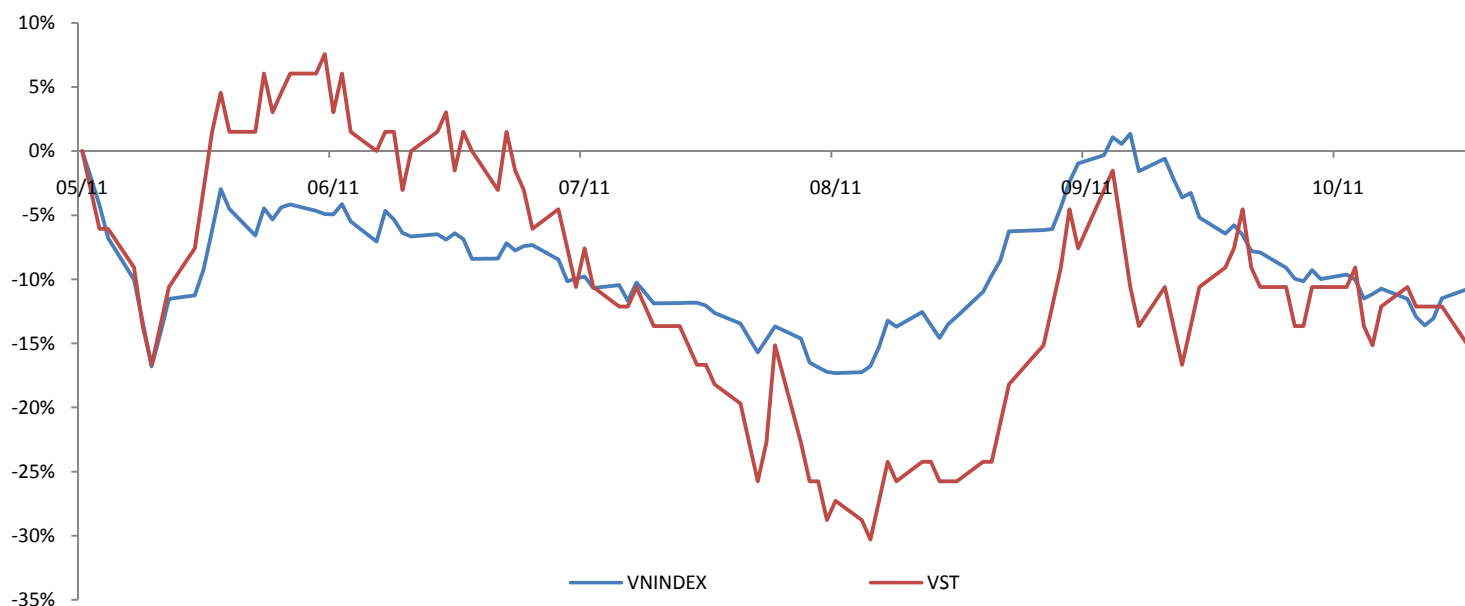
INCOME STATEMENT (VNDbn)

	4Q10	1Q11	2Q11	3Q11
Total Revenue	505.7	470.0	536.9	443.9
Net sales	495.1	460.7	525.6	434.1
COGS	392.8	367.8	468.5	400.8
Gross profit/(loss)	102.3	92.9	57.1	33.2
Financial income	16.4	12.7	8.7	3.7
Financial expense	96.4	75.9	70.9	59.1
Interest expense	37.4	42.8	45.7	40.8
Selling expenses	14.4	10.2	17.7	14.1
G&A expenses	23.4	15.5	19.1	17.1
Net operating profit	(15.5)	4.0	(41.9)	(53.4)
Other income	53.7	1.5	56.2	60.1
Other expenses	3.8	0.2	4.2	6.2
Profit/(loss) before tax	34.5	5.3	10.1	0.5
Corporate income tax	11.0	0.0	0.6	0.6
Profit after tax	25.7	3.9	7.5	(0.1)
Net profit	25.6	3.9	6.9	(0.8)

QUARTERLY RATIOS

	1Q11	2Q11	3Q11
Growth rate			
Revenue growth rate (y-o-y)	8.3%	1.4%	-13.6%
Gross profit growth rate (y-o-y)	8%	-47%	-73%
Net profit growth rate (y-o-y)	-84%	-79%	-107%
Profitability ratio			
Gross margin	20.2%	10.9%	7.7%
EBIT margin	10.4%	10.6%	9.5%
Net profit margin	0.9%	1.3%	-0.2%
ROA (4Q)	2.3%	1.5%	1.1%
ROE (4Q)	11.5%	7.2%	5.2%
Management ratio			
Receivable outstanding days	7	13	10
Inventory outstanding days	24	25	21
Payable outstanding days	0	0	0
Liquidity ratio			
Current ratio	2.1	2.1	0.5
Quick ratio	0.4	0.3	0.3
Cash ratio	0.1	0.0	0.1
Capital structure			
Total debt/total equity	351.3%	392.2%	388.6%
Total debt/total asset	77.6%	79.2%	79.1%
Total asset/total equity	452.9%	495.1%	491.4%
Index per share			
PER	3.4	5.6	8.0
EPS (VND per share)	1433	858	602

% PRICE CHANGE: VN.INDEX & VST



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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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