

Private Circulation Only

10/11/2011

## GIA LAI CANE SUGAR THERMOELECTRICITY JSC

### On the fast track

**Significant growth in the top – bottom line.** SEC reported a +181% y-o-y in 3Q11 revenue (3Q11: VND123 bn) and a 3.2x higher y-o-y in NPAT (3Q11: VND21 bn). The impressive sales growth was contributed by increase of selling volume (+127% y-o-y), ASP (+13% y-o-y) and others sales, as well. Despite the rise of interest expense (from VND5.2 bn to VND9.4 bn), deposit and lending interest went up respectively (from VND0.13 bn to VND4.3 bn), keeping stable financial results. Thus, most of the positive contribution at the top line growth was affected in the bottom line. Cumulatively, revenue reached VND479 bn (+105% y-o-y) and NPAT of VND91 bn (+67% y-o-y) in 9M11, completing 96% of SEC's FY11 target.

**Revising forecasts.** We have revising our FY11 earning forecast by 10% to VND101 bn (+68% y-o-y) on the higher than estimated YTD results. We assume that SEC is able to consume 5,800 tonnes of sugar from 2011/12 season with ASP of VND17,000/kg, giving sugar sales of VND99 bn in 4Q11. However, cane cost increasing can wear away the core-business profit. GPM is expected to go down to 15%, consequently sugar production can put in EBT of VND11 bn. Interest expense should be compensated from deposit and lending (est., mainly from interest on farming investment), leading to minor negative financial results of VND-0.4 bn. Therefore, 4Q11 NPAT is estimated about VND9.2 bn. As this result, FY11 revenue will stand at VND578 bn (+95% y-o-y, ~ our previous estimate of VND575 bn) and NPAT of VND101 bn (+68% y-o-y, 10% higher than the preceding).

**Maintain HOLD call at revised target price of VND23,700.** Our revised target price pegged at a forward P/E of 4.1x with FY11 NPAT projected at VND101 bn ~ EPS of VND5,780. Despite the target price offers 25% potential upside vs the current level (VND19,000), low liquidity is still SEC coded-share's weakness (ave. 3M volume of 3,200 shares). Hence, we retain our HOLD recommendation for SEC.

**Change in BOD chairman.** Mr. Phung Nguyen Au De was elected as the Chairman of BOD, instead of Mr. Luong Dinh Quang and Mr. Thai Van Chuyen was voted for vice chairman since 28 Sep 2011. Mr. De used to be SEC's vice chairman and Mr. Chuyen is NHS's chairman of BOD at present.

### Company financial summary

VND'bn	FY09	FY10	FY11F	FY11 – SEC target	9M11
Revenue	194	296	578	526	479
Pre-tax profit	43	67	118		108
Net profit	39	60	101	95	91
% change Yoy	-6%	52%	68%		67%
EPS (VND)	3,131	4,764	5,780		5,251
Cash dividend/share	1,500	1,500		1,500 - 2,500	
Div yield		6%		8% - 13%	
BV (VND)	12,230	14,147	15,031		14,502
ROA	18%	18%	20%		
ROE	26%	34%	44%		
P/E (x)		4.9	3.3		
P/BV (x)		1.7	1.3		

Source: PAC, SBS estimates

HOLD



Price  
Previous  
Target

VND 19,000  
VND 21,500  
VND 23,700

### Gia Lai Cane Sugar Thermoelectricity

The company has investments in sugar farms and producing sugar from cane. 100% of its products is distributed to corporate users.

### Stock Statistics

Bloomberg Ticker	SEC VN
Outstanding shares (VNDbn)	174
Market Cap (VNDbn)	671,049
52W Price range (VND)	30,000-17,600
3M Average Volume ('000)	3.2
YTD Returns (%)	(18.9)
Net Gearing (x)	0.5
Altman Z-Score	N/A
ROCE/WACC	N/A
Beta (x)	0.69
Book Value/Share (VND)	14,502

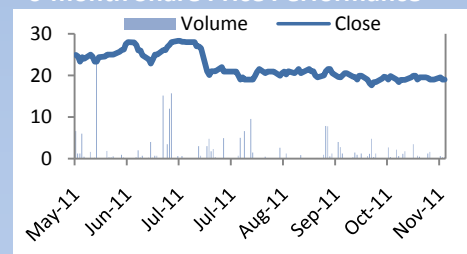
### Major Shareholders

Gia Lai Electricity JSC	52.3
Dang Thanh Co., Ltd	10.9
Sacombank	10.3

### Share Performance (%)

Month	Absolute	Relative
1M	(0.2)	(1.0)
3M	(0.9)	(4.5)
6M	(1.9)	(9.2)
12M	(4.8)	(20.3)

### 6-month Share Price Performance



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## 3Q11's earnings review table

VND'bn	3Q11	3Q10	y-o-y	q-o-q	9M11	9M10	y-o-y	Comment on 3Q11 (y-o-y)
<b>Revenue</b>	123	44	181%	-32%	479	233	105%	<b>Revenue improved due to:</b> <ul style="list-style-type: none"> <li>• ASP increased by 13% (from VND15,600/kg to VND17,600/kg), as well as a 127% rise in selling volume (from 2,780 tonnes to 6,300 tonnes).</li> <li>• Others revenue was up from VND1 bn to VND13bn.</li> </ul>
<b>Gross profit</b>	41	14	185%	-1%	139	77	82%	
<b>GPM</b>	33%	33%			29%	33%		<ul style="list-style-type: none"> <li>• GPM for sugar production (from 98% to 90% of sales) rose from 33% to 37% as production cost increased about 7% vs the 13% upward adjustment in ASP.</li> <li>• GPM for other products (from 2% to 10% of sales) stood at about 1% (~ y-o-y).</li> </ul>
<b>Operating expense ratio</b>	4.7%	4.6%			3.4%	2.9%		
<b>Financial results</b>	(5.2)	(5.1)			(14.0)	(8.6)		<ul style="list-style-type: none"> <li>• Deposit and lending interest grew from VND0.13 bn to VND4.3 bn, which offset the rise of interest expense (from VND5.2 bn to VND9.4 bn).</li> <li>• Besides higher rate, the augment of interest expense was mainly owing to boosting long-term loans (ave. from VND121 bn to VND222 bn), which is anticipated to use for farming investment and expanding capacity (from 2,500 to 3,200 tonnes of cane/day).</li> </ul>
<b>EBT</b>	29.9	7.3	4.1x	7%	108.2	61.0	77%	
<b>CIT</b>	8.8	0.8	11x	198%	16.8	6.2	172%	CIT 3Q11 is estimated to include VND3.7 bn of tax arrears, leading to higher tax rate.
<b>Tax rate</b>	29%	11%			16%	10%		
<b>Net profit</b>	21	7	3.2x	-16%	91	55	67%	
<b>NPM</b>	17%	15%			19%	24%		

Source: SEC, SBS est.



## BALANCE SHEET (VND'bn)

	QIV-10	QI-11	QII-11	QIII-11
<b>Assets</b>	<b>417.9</b>	<b>454.0</b>	<b>525.1</b>	<b>572.7</b>
Current assets	141.1	177.0	255.7	301.1
Long-term assets	276.8	277.0	269.4	271.7
Fixed assets	265.4	259.8	254.5	256.7
Long-term investments	7.4	6.9	5.3	5.1
<b>Resources</b>	<b>417.9</b>	<b>454.0</b>	<b>525.1</b>	<b>572.7</b>
<b>Liabilities</b>	<b>220.2</b>	<b>237.3</b>	<b>287.6</b>	<b>316.2</b>
Current liabilities	104.0	97.3	115.6	44.6
Long-term liabilities	116.2	140.0	172.0	271.6
<b>Equities</b>	<b>197.7</b>	<b>216.7</b>	<b>237.5</b>	<b>256.6</b>
Equity	196.6	210.7	234.7	253.7
Contributed capital	145.1	145.1	145.1	174.1
Capital surplus				
Retained profits	40.1	45.7	70.8	64.7

## INCOME STATEMENT (VND'bn)

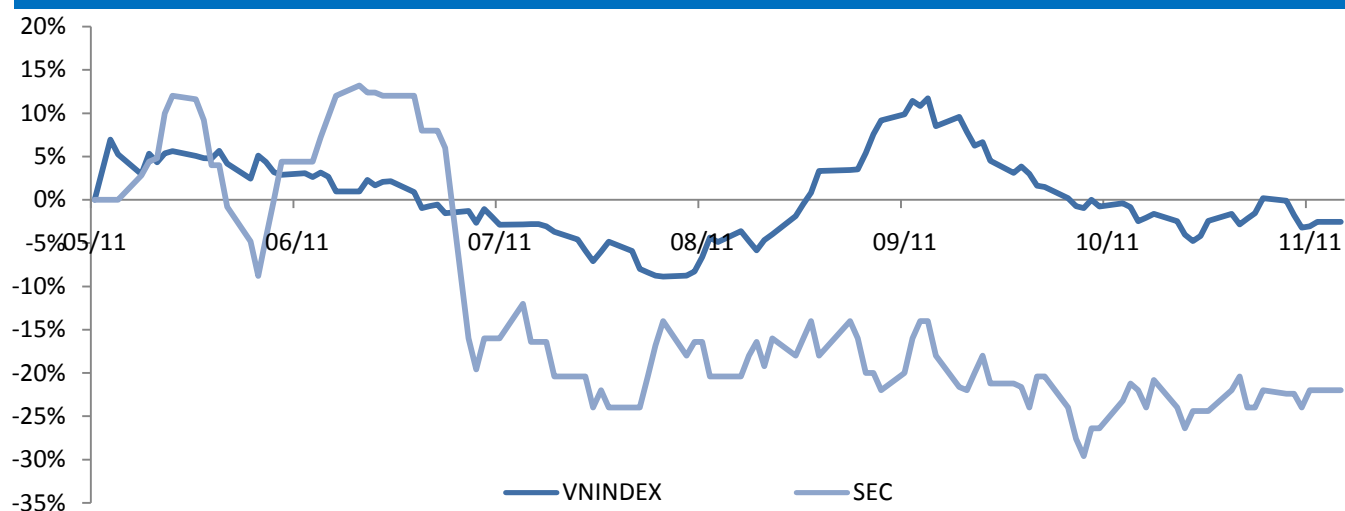
	QIV-10	QI-11	QII-11	QIII-11
<b>Total Revenue</b>	<b>63.0</b>	<b>173.1</b>	<b>182.6</b>	<b>123.4</b>
<b>Net sales</b>	<b>63.0</b>	<b>173.1</b>	<b>182.6</b>	<b>123.4</b>
COGS	51.7	116.9	141.0	82.3
<b>Gross profit /(loss)</b>	<b>11.3</b>	<b>56.2</b>	<b>41.6</b>	<b>41.1</b>
Financial income	3.3	5.2	1.9	4.3
Financial expense	6.0	6.6	9.3	9.4
Interest expense	5.7	6.6	9.3	9.4
Selling expenses	0.1	0.5	2.3	2.4
G&A expenses	2.6	3.9	3.8	3.4
<b>Net operating profit</b>	<b>5.9</b>	<b>50.5</b>	<b>28.1</b>	<b>30.1</b>
Other income	0.0			
Other expenses	(0.0)	0.2	0.0	0.2
<b>Profit /(loss) before tax</b>	<b>5.9</b>	<b>50.3</b>	<b>28.0</b>	<b>29.9</b>
Corporate income tax	0.9	5.1	3.0	8.8
<b>Profit after tax</b>	<b>5.0</b>	<b>45.2</b>	<b>25.1</b>	<b>21.1</b>
<b>Net profit</b>	<b>5.0</b>	<b>45.2</b>	<b>25.1</b>	<b>21.1</b>

## QUARTERLY RATIOS

	QI-11	QII-11	QIII-11
<b>Growth rate</b>			
Revenue growth rate (YoY)	39.5%	180.5%	180.6%
Gross profit growth rate (YoY)	13%	240%	185%
Net profit growth rate (YoY)	4%	443%	223%
<b>Profitability ratio</b>			
Gross margin	32.5%	22.8%	33.3%
EBIT margin	32.9%	20.5%	31.8%
Net profit margin	26.1%	13.7%	17.1%
ROA (4Q)	15.4%	18.7%	19.6%
ROE (4Q)	31.2%	39.2%	43.0%
<b>Management ratio</b>			
Receivable outstanding days	2	0	1
Inventory outstanding days	86	55	10
Payable outstanding days	38	24	4
<b>Liquidity ratio</b>			

Current ratio	1.8	2.2	6.8
Quick ratio	0.7	1.5	6.6
Cash ratio	0.2	0.4	0.6
<b>Capital Structure</b>			
Total debt/Total equity	112.7%	122.5%	124.6%
Total debt/total asset	52.3%	54.8%	55.2%
Total asset/total equity	215.5%	223.7%	225.7%
<b>Index per share</b>			
PE	4.3	3.3	3.1
EPS (VND per share)	4526	5833	6329

## % PRICE CHANGE: VN.INDEX & SEC



# Disclaimers

## Report tracking

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
Initial coverage	18/03/2011	HOLD	VND 25,000 – VND28,500	VND 28,000
Company Update	08/08/2011	HOLD	VND 21,500	VND 19,000

## SBS Research Guide to Investment Ratings

**Buy:** Share price may exceed 15% over the next 12 months

**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 +/- 15% 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 15% over the next 12 months

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

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