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BIEN HOA SUGAR JSC

Better consumption helps sustain the top and bottom lines

The 3Q11 NPAT increased by 5% y-o-y. BHS has posted a top and bottom lines of VND518 bn (+1% y-o-y or +4% q-o-q) and VND38 bn (+5% y-o-y or 10x higher q-o-q), respectively. Such gains were mainly attributed to a 10% growth in selling volume (from 25,000 to 27,500 tonnes), a stable GPM of 13.1%, and a better financial result (from VND-16 bn to VND-13 bn). Cumulatively, the company has shown a revenue of VND1,626 bn (+20% y-o-y) and a NPAT of VND80 bn (-7% y-o-y) for 9M11, completing 66% of our estimates. Despite being 39% away from the finishing line, BHS expects to meet its target of VND147 bn in EBT by year-end 2011.

Revised forecasts. We have raised slightly our FY11 earning forecast up 7% to VND129 bn (-11% y-o-y) based on the YTD results. We have projected BHS's sugar sales in 4Q11 to reach VND740 bn, based on the estimated selling volume of 40,000 tonnes (including 4,000 tonnes of temporary import for re-export sugar and 36,000 tonnes of domestic consumption) at an average selling price (ASP) of VND18,500/kg. The core business (sugar production) should be able to provide VND66bn to EBT using a profit margin of 9%. Interest expense is anticipated at VND20 bn, which may expose BHS to a negative financial profit of VND11 bn. The NPAT could eventually reach VND49 bn in 4Q11. Thereby, the FY11 layout would entail a total sale of VND2,366 bn (+16% y-o-y), an EBT of VND145 bn (-13% y-o-y, ~ BHS's target of VND147 bn), and a NPAT of VND129 bn (-11% y-o-y).

NEUTRAL at the revised target of VND19,400/share. We revised up our target price for BHS to VND19,400, pegged a 4.5x P/E and EPS of VND4,312 (diluted). Our target price is offering an upside potential of only 5% from the current level (of VND18,500); therefore, we upgrade our call from SELL to NEUTRAL on this stock.

Good prospects for 2011/12 sugarcane season. According to BHS, the Company has expanded its material areas (in both Tay Ninh and Tri An) to 13,200ha (est., +32% y-o-y). A corresponding investment to enlarge capacity (from 4,000 to 6,000 tonnes of cane/day) has also been made. The production of sugar is anticipated at 106,500 – 111,800 tonnes in new season, which is 6% - 12% higher than FY11 target. We are going to update more details along with the FY12 forecast in our next report upon further information on the new season. At present, sugar harvesting has started on the Tri An area, while the Tay Ninh area needs to wait until mid-November 2011.

Company's financial summary

VND'bn	FY09	FY10	FY11F	FY11 – BHS target	FY12F
Revenue	1,189	2,005	2,366	2,171	1,626
Pre-tax profit	128	166	145	147	90
Net profit	120	146	129		80
% chg YoY		21%	-11%		-7%
EPS (VND)	6,480	7,871	4,312		4,328
DPS (VND)	2,500	3,500	2,000	3,500	
Div Yield (%)	10%	11%	11%	19%	
BV	23,124	27,023	18,403		29,136
ROE	28%	29%	25%		
ROA	16%	15%	11%		
P/E (x)	3.9	4.0	4.3		
P/BV (x)	1.1	1.2	1.0		

Source: SBT and SBS forecasts

NEUTRAL



Price	VND 18,500
Target Price	VND 19,400
Previous (dilluted)	VND 18,300

Farm & Fishing

Investing in sugarcane farm and production sugar from cane and raw sugar. 75% of products is distributed to corporate users.

Stock Statistics

Bloomberg Ticker	BHS VN
Issued Share Capital (VNDbn)	300
Market Cap (VND bn)	606
52W Price range (VND'1,000)	34.9 19.4
Average Volume ('000)	14.2
YTD Returns (%)	(9.8)
Net Gearing (x)	0.6
Altman Z-Score	N/A
ROCE/WACC	N/A
Beta (x)	0.79
Book Value/share (VND)	17,998

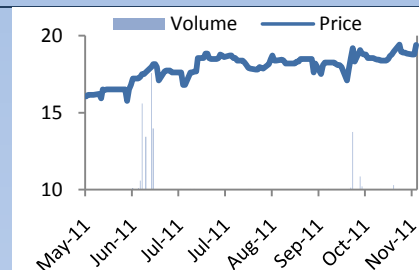
Major Shareholders

Bourbon Tay Ninh Sugar	22.7
Sacombank	10.0
Vinasugar II Co, Ltd.	11.1

Share Performance (%)

Month	Absolute	Relative (%)
1M	(1.8)	(9.0)
3M	(0.8)	(4.0)
6M	1.2	6.6
12M	(2.8)	(12.9)

6M Share Price Performance ('000)



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3Q11's Earnings Review

VND'bn	3Q11	3Q10	y-o-y	q-o-y	9M11	9M10	y-o-y	Comment on 3Q11 (y-o-y)
Revenue	518	510	1%	4%	1,626	1,354	20%	<ul style="list-style-type: none"> Sugar selling volume increased by 10% (from 25,000 to 27,500 tonnes), which was set-off by an 8% decrease in ASP. According to BHS, domestic sugar selling price was stable at VND19,600 - 19,700/kg for corporate customers and VND21,250 - 22,250/kg for retail segment. The 5,000 tonnes of temporary import for re-export sugar (with production cost of lower than VND12,000/kg) can only make the break-even point. Therefore, the 3Q11 ASP was dragged by the low selling price of the re-export segment
Gross profit	68	67	1%	53%	194	173	12%	
GPM	13.1%	13.1%			11.9%	12.8%		<ul style="list-style-type: none"> Sugar production (generating 62% and 92% of total sales in 3Q10 and 3Q11, respectively) adjusted its GPM down from 16.2% to 12.8% mainly due to the reduction of ASP. Sugar trading (generating 36% and 5% of total sales in 3Q10 and 3Q11, respectively) kept its GPM nearly unchanged at 7.7% (3Q10 ~ 7.0%)
Operating expense ratio (per sales)	2.5%	2.4%			3.2%	3.1%		
Financial profit	(13)	(16)			(53)	(30)		The VND4 bn reversal of provision for losses on the 1.44m STB shares (3Q10 - provision of VND3 bn) and received dividend of VND2 bn have offset the higher interest expense (from VND12 bn to VND18 bn).
NPAT	38	36	5%	10x	80	87	-7%	
NPM	7.3%	7.0%			4.9%	6.4%		

Source: BHS, SBS

Good prospects for 2011/12 sugarcane season. According to BHS, the Company has expanded its material areas (in both Tay Ninh and Tri An) to 13,200ha (est., +32% y-o-y). The Company is expecting 745,000 tonnes of crushing cane volume (+28% y-o-y) with improved CCS (commercial cane sugar). Investment for extra capacity (from 4,000 to 6,000 tonnes of cane/day) has also been made. The new production lines have been in the trial period since November 2011, and will operate fully by early 2012. With the above volume of crushing cane, the company plans to buy or import 50,000 tonnes of raw sugar. Thus, the production sugar is anticipated at 106,500 – 111,800 tonnes in the new season, which is 6% - 12% higher than the FY11 target.

2011/12 sugar cane season

	Tay Ninh	Tri An	Total	y-o-y
Cane area (ha)	8,700	4,500	13,200	32%
Crushing cane volume (tonnes)	435,000	310,000	745,000	28%
Production sugar (tonnes)			106,500 - 111,800	6% - 12%

Source: BHS, SBS est.



20,000ha sugarcane plantation project in Cambodia is still being reviewed by Ministry of Planning and Investment. At present, BHS has just developed 800ha of cane area along the Chau Thanh – Tay Ninh border (which is already accounted in the Tay Ninh cane area of 8,700ha).

Setting ex-right date of 9 Nov 2011:

- **Paying an interim dividend of VND2,000/share on 30 Nov 2011**, completing 57% of its FY11 cash dividend target of VND3,500/share.
- **Issuing bonus shares at a 61.9% ratio**, increasing chartered capital from VND185 bn to VND300 bn. The capital injection is being carried out with a mindset of improving the Company's negotiation powers, concerning especially with the sugarcane plantation project in Cambodia, which was already mentioned in the AGM 2011.

Thanh Thanh Cong (TTC) decreased its holding in BHS, from 22.2% (~ 4.1m shares) to 0%. However, we anticipated this portion could have been transferred to one of TTC's affiliates. Thus, the total influence of TTC and its affiliated companies is still a solid 63.3%.



BALANCE SHEET (VND'bn)

	QIV-10	QI-11	QII-11	QIII-11
Assets	1,006.4	1,516.7	1,524.1	1,356.2
Current assets	609.2	1,156.0	1,136.1	857.6
Long-term assets	397.2	360.7	388.0	498.6
Fixed assets	277.5	263.5	288.0	364.8
Long-term investments	29.2	26.6	24.0	29.6
Resources	1,006.4	1,516.7	1,524.1	1,356.2
Liabilities	505.6	983.4	1,019.7	816.3
Current liabilities	390.4	868.2	893.6	687.9
Long-term liabilities	115.2	115.2	126.1	128.4
Equities	500.8	533.3	504.4	539.9
Equity	496.7	520.9	494.5	532.1
Contributed capital	185.3	185.3	185.3	185.3
Capital surplus	154.5	154.5	154.5	154.5
Retained profits	103.4	127.7	71.5	109.1

INCOME STATEMENT (VND'bn)

	QIV-10	QI-11	QII-11	QIII-11
Total Revenue	650.5	612.7	496.0	518.2
Net sales	650.0	612.4	495.6	517.9
COGS	574.1	530.8	451.4	450.2
Gross profit /(loss)	75.9	81.5	44.3	67.7
Financial income	11.9	10.4	5.2	3.0
Financial expense	10.1	22.1	33.4	16.3
Interest expense	9.4	16.3	30.1	18.4
Selling expenses	5.2	10.8	4.6	5.5
G&A expenses	6.9	15.9	7.2	7.4
Net operating profit	65.6	43.1	4.3	41.6
Other income	0.1	0.0	0.0	0.8
Other expenses	0.0		0.0	0.1
Profit /(loss) before tax	65.7	43.1	4.3	42.4
Corporate income tax	6.4	4.4	0.4	4.7
Profit after tax	59.3	38.7	3.9	37.7
Net profit	59.3	38.7	3.9	37.7

QUARTERLY RATIOS

	QI-11	QII-11	QIII-11
Growth rate			
Revenue growth rate (YoY)	35.4%	25.9%	1.5%
Gross profit growth rate (YoY)	25%	9%	1%
Net profit growth rate (YoY)	29%	-81%	5%
Profitability ratio			
Gross margin	13.3%	8.9%	13.1%
EBIT margin	9.7%	6.9%	11.7%
Net profit margin	6.3%	0.8%	7.3%
ROA (4Q)	13.2%	10.6%	10.3%
ROE (4Q)	32.1%	28.0%	27.3%
Management ratio			
Receivable outstanding days	10	6	11
Inventory outstanding days	141	173	112
Payable outstanding days	6	45	44
Liquidity ratio			

Current ratio	1.3	1.3	1.2
Quick ratio	0.4	0.3	0.4
Cash ratio	0.1	0.1	0.0

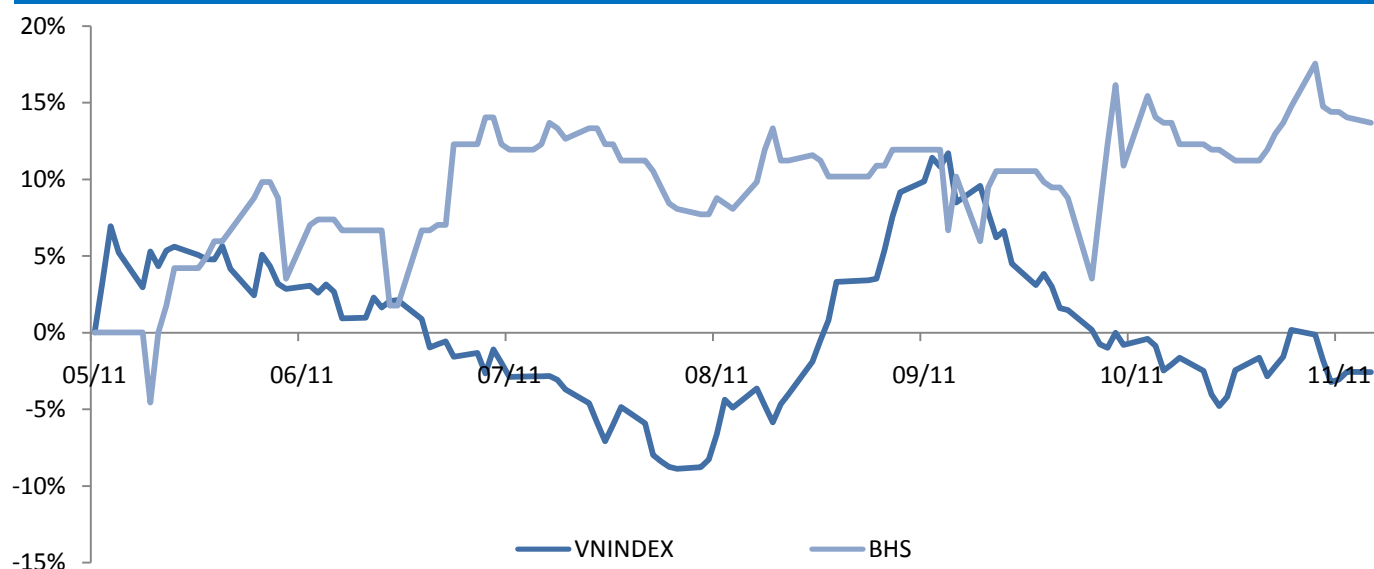
Capital Structure

Total debt/Total equity	188.8%	206.2%	153.4%
Total debt/total asset	64.8%	66.9%	60.2%
Total asset/total equity	291.2%	308.2%	254.9%

Index per share

PE	3.9	4.4	4.3
EPS (VND per share)	8335	7432	7526

% PRICE CHANGE: VN.INDEX & BHS



Report tracking

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
Company note	04/09/2008	N/A	N/A	VND 20,000
Company Update	29/07/2011	SELL	VND 29,500	VND 32,100

Sacombank-SBS Research 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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