

Private Circulation Only

10/11/2011

GIA LAI CANE SUGAR THERMOELECTRICITY JSC

On the fast track

Significant growths on the top – bottom line. SEC reported a +181% y-o-y 3Q11 revenue (3Q11: VND123 bn) and a 3.2x higher y-o-y NPAT (3Q11: VND21 bn). The impressive sales growth was contributed by the increase of selling volume (+127% y-o-y), ASP (+ 13% y-o-y), and other 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 transferred to 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 revised our FY11 earning forecast by 12% to VND103 bn (+71% y-o-y) based on the higher than estimated YTD results. We assumed that SEC will be 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, the increasing cane cost (from VND960/kg to VND1,040/kg) can wear away the core-business profit. GPM is expected to go down to 19%, consequently sugar production can put in EBT roughly VND14 bn. Interest expense should be compensated by the interests on deposit and lending (est., mainly from interest on farming investment), leading to minor negative financial results of VND-0.4 bn. Therefore, the 4Q11 NPAT is estimated at about VND11.4 bn. Thereby, the FY11 figures should include a revenue of VND578 bn (+95% y-o-y, ~ our previous estimate of VND575 bn) and an NPAT of VND103 bn (+71% y-o-y, 12% higher than the preceding).

Maintain NEUTRAL call at the revised target price of VND24,200. Our revised target price was pegged at a forward P/E of 4.1x, given the projected FY11 NPAT of VND103 bn (~ EPS of VND5,904). Although the target price offers 27% potential upside vs. the current level (VND19,000), low liquidity has been hardcoded in as a major weakness (ave. 3M volume of 3,200 shares). Hence, we retain our NEUTRAL recommendation for SEC.

Company financial summary

VND'bn	FY09	FY10	FY11F	FY11 – SEC target	9M11
Revenue	194	296	578	526	479
Pre-tax profit	43	67	122		108
Net profit	39	60	103	95	91
% change Yoy	-6%	52%	71%		67%
EPS (VND)	3,131	4,764	5,904		5,251
Cash dividend/share	1,500	1,500		1,500 - 2,500	
Div yield		6%		8% - 13%	
BV (VND)	12,230	14,147	15,155		14,502
ROA	18%	18%	21%		
ROE	26%	34%	45%		
P/E (x)		4.9	3.2		
P/BV (x)		1.7	1.3		

Source: PAC, SBS estimates

NEUTRAL



Price	VND 19,000
Previous	VND 21,500
Target	VND 24,200

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
Beta (x)	0.69
Book Value/Share (VND)	14,502

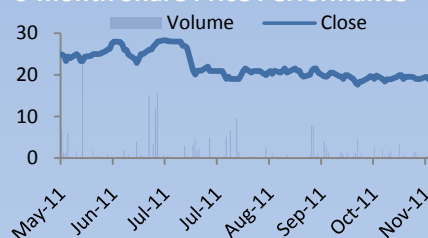
Major Shareholders

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)
Revenue	123	44	181%	-32%	479	233	105%	Revenue improved due to: <ul style="list-style-type: none"> • 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). • Others revenue was up from VND1 bn to VND13bn.
Gross profit	41	14	185%	-1%	139	77	82%	
GPM	33%	33%			29%	33%		<ul style="list-style-type: none"> • Sugar production (reducing from 98% to 90% of sales on the quarterly basis) pushed its GPM from 33% to 37% as production cost increased about 7% while the ASP enjoyed a 13% upward adjustment. • Other products (increasing contributions from 2% to 10% of sales on the quarterly basis) kept their GPM at about 1% (~ y-o-y).
Operating expense ratio	4.7%	4.6%			3.4%	2.9%		
Financial results	(5.2)	(5.1)			(14.0)	(8.6)		<ul style="list-style-type: none"> • Deposit and lending interests grew from VND0.13 bn to VND4.3 bn, which offset the rise on interest expense (from VND5.2 bn to VND9.4 bn). • Besides the higher rate, the augmented interest expense was mainly due to the boosted 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).
EBT	29.9	7.3	4.1x	7%	108.2	61.0	77%	
CIT	8.8	0.8	11x	198%	16.8	6.2	172%	<p>In the 2010/11 season, SEC increased crushing capacity from 2,000 to 2,500 tonnes of cane/day. However, profits generated from the additional capacity suffered a 25% CIT instead of the preferential 10%. Nevertheless, the company was being taxed with 10% CIT in the first half of 2011.</p> <p>Therefore, the CIT 3Q11 included VND4.8 bn of payable tax for this period (~ CIT of 16%) and about VND4 bn of tax arrears (based on the difference of above tax rates).</p>
Tax rate	29%	11%			16%	10%		
Net profit	21	7	3.2x	-16%	91	55	67%	
NPM	17%	15%			19%	24%		

Source: SEC, SBS est.



Increasing volume for the 2011/12 sugarcane season. According to SEC, the Company has enlarged its material areas to 6,800 ha (est., +31% y-o-y) with an improved yield of 65 tonnes/ha (+12% y-o-y). Extra capacity (from the previous 2,500 to 3,200 tonnes of cane/day) has also been invested. The Company will start harvesting on 15 Nov and producing on 20 Nov 2011. The crushing volume is anticipated at 442,000 tonnes, giving a sugar production of 44,200 tonnes this season, which is 52% higher than the FY11 target.

SEC's sugarcane season

	2009/10	2010/11	2011/12
Area (ha)	3,800	5,200	6,800
Yield (tonnes/ha)	45	58	65
Crushing volume (tonnes)	171,000	301,600	442,000

Source: 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 has been voted for the vice chairman position since 28 Sep 2011. Mr. De used to be SEC's vice chairman and Mr. Chuyen is NHS's chairman of BOD at present.



BALANCE SHEET (VND'bn)

	QIV-10	QI-11	QII-11	QIII-11
Assets	417.9	454.0	525.1	572.7
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
Resources	417.9	454.0	525.1	572.7
Liabilities	220.2	237.3	287.6	316.2
Current liabilities	104.0	97.3	115.6	44.6
Long-term liabilities	116.2	140.0	172.0	271.6
Equities	197.7	216.7	237.5	256.6
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

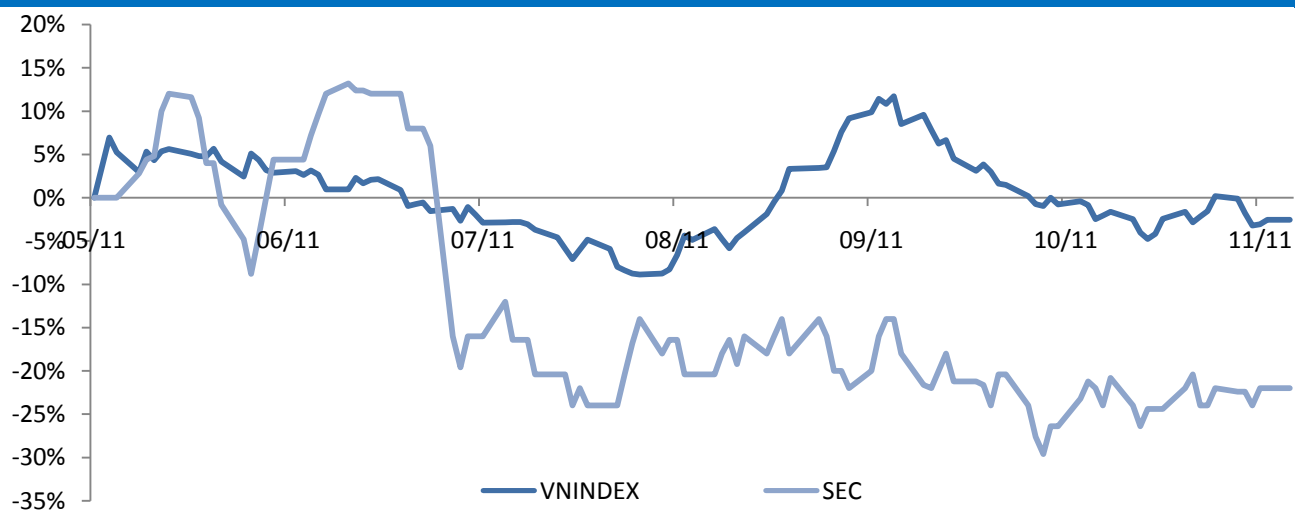
INCOME STATEMENT (VND'bn)

	QIV-10	QI-11	QII-11	QIII-11
Total Revenue	63.0	173.1	182.6	123.4
Net sales	63.0	173.1	182.6	123.4
COGS	51.7	116.9	141.0	82.3
Gross profit /(loss)	11.3	56.2	41.6	41.1
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
Net operating profit	5.9	50.5	28.1	30.1
Other income	0.0			
Other expenses	(0.0)	0.2	0.0	0.2
Profit /(loss) before tax	5.9	50.3	28.0	29.9
Corporate income tax	0.9	5.1	3.0	8.8
Profit after tax	5.0	45.2	25.1	21.1
Net profit	5.0	45.2	25.1	21.1

QUARTERLY RATIOS

	QI-11	QII-11	QIII-11
Growth rate			
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%
Profitability ratio			
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%
Management ratio			
Receivable outstanding days	2	0	1
Inventory outstanding days	86	55	10
Payable outstanding days	38	24	4
Liquidity ratio			
Current ratio	1.8	2.2	6.8
Quick ratio	0.7	1.5	6.6
Cash ratio	0.2	0.4	0.6
Capital Structure			
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%
Index per share			
PE	4.3	3.3	3.1
EPS (VND per share)	4526	5833	6329

% PRICE CHANGE: VNINDEX & SEC



Disclaimers

Report tracking

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