

19 December 2011



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NOT RATED

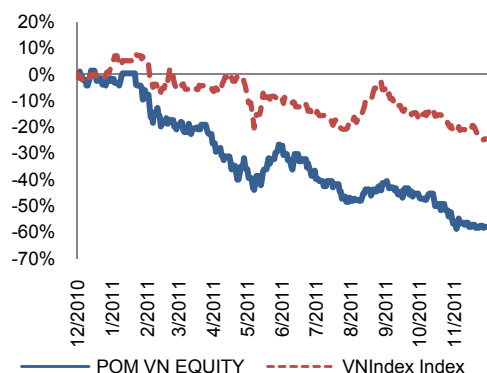
Steel

Key Indicators

Price @ 19 Dec 2011	10,600
52-week low	10,200
52-week high	28,900
Average 30 day trading value	7,989.2
Outstanding shares (mn)	186.3
Market capitalization (VND bil)	1,975.0
Market capitalization (USD mn)	94.0
Foreign ownership	7%

Valuation	2009	2010	2011F
EPS (basic)	3,640	3,511	2,639
EPS growth %	-59.1%	-3.6%	-25%
Dividend yield	0.0%	1.7%	14.1%
P/E (market)	N/A	7.3	4.0
P/B (market)	N/A	1.7	0.6
EV / EBITDA	N/A	5.7	N/A
ROE	51.6%	26.4%	16.4%
ROA	18.2%	9.7%	5.9%
ROIC	21.7%	11.2%	N/A
Debt-to-equity %	139.5%	133.7%	63.2%

Performance	3M	6M	12M
Absolute %	-28.9%	-42.4%	-62.4%
Relative %	-8.1%	-25.8%	-37.8%



Hard times ahead

Our meeting with management last week confirmed our view that the steel sector in general and Pomina in particular have had a very tough time in 2011, and that 2012 may not be much better. Resolution 11 to limit public investments depleted domestic demand and the steel sector shrank by approx. 8% in 2011.

In a decreasing sector, Pomina lost market share to its competitors (mainly Northern steel manufacturers) as its sales dropped c.13% this year. Profitability was hit hard by a double whammy of declining sales and increasing cost pressure. Decreasing sales and a utilization rate of below 66% ate into the company's economies of scale. Rampant inflation, the VND devaluation at the beginning of the year, and the price of scrap metal that increased c.27% YoY, forced COGS per ton up by as much as 25%. Unable to increase its ASP by more than 15% to pass through its cost increases onto its customers, Pomina's gross margin collapsed from c.16% early in the year to 7% today. Compared to Hoa Phat, the POM's margin is lower due to technological differences between electric arc and blast oxygen furnaces which lead to different exposures to global commodities prices.

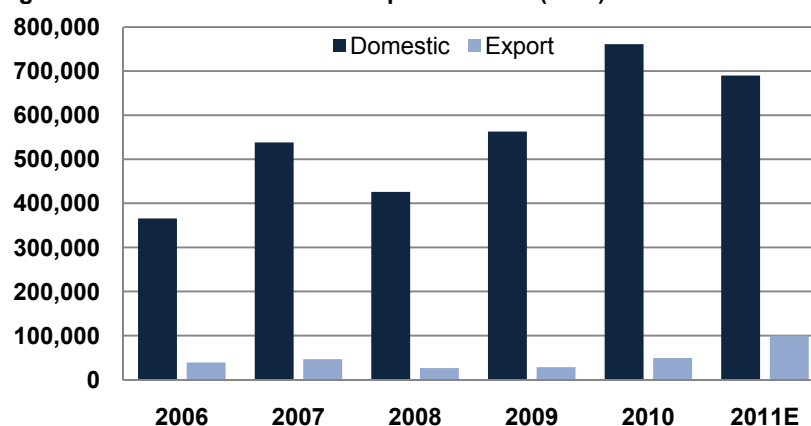
Figure 1: POM key figures & domestic steel price

	2009	2010	Q1/2011	Q2/2011	Q3/2011
Revenue (VND bn)	7,539	11,203	2,925	2,842	3,168
Gross profit (VND bn)	1,355	1,355	467	315	223
Gross profit margin	18%	12%	16%	11%	7%
Average steel market price (VND mn)	10.9	13.3	15.9	16.8	16.9

Source: Pomina, VCSC

Financial expenses were another reason for the worse-than-expected performance of POM in FY2011. Rising interest rates and the devaluation of the VND resulted in significant financial expenses increases of between VND650bn-VND700bn for FY2011, in which interest expenses could reach about VND260bn.

Figure 2: Pomina domestic and export revenue (tons)



Source: Pomina, VCSC

The saving grace for Pomina's sales this year was the resilient demand coming from Cambodia. The country has grown by leaps and bounds in recent years, and has been importing large quantities of steel for its construction and infrastructure projects. In 2011, though they still represent a small portion of the company sales, Pomina's exports to Cambodia grew 82% to 100,000 tons. Relying on external markets (mainly Cambodia) for growth, as Vietnam's economy continues to be sluggish, management optimistically expects to double exports in 2012.

Earning outlook

With accumulated sales volume of 610,000 tons in ten months, total sales volume in Q4 is estimated at around 165,000 tons with assumptions of stable selling price at VND15.5mn/ton. We estimated Q4 revenue at VND3,016bn and net profit of VND106bn for the last quarter. We estimate cumulative sales volumes for FY11 at 725,000 tons, decreasing by 10.5% YoY, resulting in FY11 revenue of VND11,952bn (+6.6% YoY) with net profit of VND492bn (-25.5% YoY), respectively.

We felt there were a few discrepancies from the meeting that are worth noting. Management claimed that it would reach FY11 net profit of VND600-650bn thanks to accelerating export volume to Cambodia in the final quarter of the year. However, given the first nine months net profit results of VND386bn (-37.3% YoY), the company would need to make a substantial turnaround with VND214-264bn in net profit in the last quarter. For 2012, we are hard pressed to find any catalyst for management's 2012 sales projections of 900,000 tons (+24% YoY) and net profit of VND739bn. Considering market conditions we have trouble justifying management's c.50% EPS growth next year to VND3,946.

The stock is now trading at 3.9x of its FY11E EPS of VND2,639/share which is higher than the sector's average P/E of 2.0x.

Analyst Certification

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Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
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