

BIEN HOA SUGAR JSC

BUY

TARGET PRICE	21,700
LAST TARGET PRICE	21,700
CURRENT PRICE	17,900

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STOCK STATISTICS

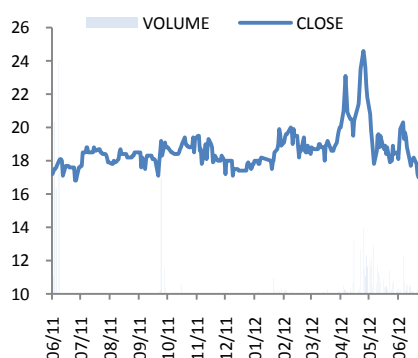
Bloomberg Ticker	BHS VN Equity
Outstanding shares (m)	30
Market Cap (VNDbn)	510
52W Price range	14.9-22.3
3M Average Volume	86,200
Beta	1.2
Foreign ownership (%)	6.1

MAJOR SHAREHOLDERS

Bourbon Tay Ninh Sugar	22.7%
Vinasugar II Co, Ltd.	11.3%
Thai Thi Thanh Tuyen	6.2%

STOCK PERFORMANCE

	3M	6M	12M
Relative (%)	-11	-1	-3
Absolute	(2.2)	(0.1)	(0.6)



Low 1H12 Performance Despite Higher Consumption

2Q12 EAT of VND10bn–11bn expected. BHS' 2Q12 results are not expected to come out until month-end. However, in its last conversation with us, management hinted that the company may record a 20% improvement in 2Q12 revenue to VND595bn. The seasonality effect has been more vivid lately, which is exhibited by the decreasing contribution of the first six months to its yearly revenue, from 40% in 2009 to 35% in 2010 and finally to 29% in 2011. Thus, we estimate BHS might generate EBT of about VND12 bn - 13 bn in 2QFY12, equivalent to EAT of VND10bn–11bn (~3x higher y-o-y), based on (i) the market price of sugar has not improved significantly since 1Q12, and (ii) interest expenses of around VND13bn in 2Q12 (nearly doubled q-o-q, but was still 57% lower y-o-y, according to BHS). BHS will possibly generate a cumulative VND1,285bn (+16% y-o-y) for its 1H12 top line and a corresponding EBT of VND50bn–51bn (+6% y-o-y), thereby achieving 45% and 31% of its FY12 sales and EBT targets, respectively.

The likelihood of BHS meeting its target. The company is likely to reach 153,500 tonnes in sales volume (including 136,000 tonnes in production and 17,500 tonnes in trading), rooted in higher sugar consumption since the beginning of the year. However, price fluctuation is still an unpredictable factor, and BHS has yet to comment on its ability to achieve its earnings target.

Retaining our FY12 earnings forecast. We maintain our EAT projection of VND145bn. Despite lower contribution from its core business operation, we expect better financial profits, based on: (i) a 2% lower ASP, (ii) interest expenditure of VND67bn (~27% lower than the previous figure), and (iii) the assumption that BHS is eligible for 30% cut in FY12 CIT in accordance with Resolution 13/NQ-CP. Our revised FY12 EBT of VND167bn, which is 3% above BHS' target, still translates into an EAT of VND145bn (-2% y-o-y).

Upgrade to BUY at unchanged target price of VND21,700. We reiterate our target price for BHS at VND21,700, pegged to a 4.5x P/E and FY12 ESP of VND4,821. Our target price reflects an upside potential of 21% from the current price of VND17,900. Therefore, we upgrade our call on BHS to BUY.

Year-end Dec 31	FY09	FY10	FY11	FY12F	FY12 - BHS target
Revenue	1,189	2,005	2,565	2,798	2,880
Pre-tax profit	128	166	160	167	162
Net profit	120	146	147	145	-
% change y-o-y		21%	1%	-2%	
EPS (VND)	6,480	7,871	4,908	4,821	
DPS	2,500	3,500	3,500	2,000	
Div Yield	10%	11%	20%	12%	
Book value (VND)	23,124	27,023	18,821	23,508	
ROA	16%	15%	13%		
ROE	32%	31%	28%	20%	
P/E (x)	3.8	4.0	3.5	3.6	
P/BV (x)	1.1	1.2	0.9	0.7	

Source: BHS and SBS forecasts

VND'bn	1Q12	1Q11	y-o-y	q-o-q	Comment on 1Q12 (y-o-y)
Revenue	691	612	13%	-26%	The y-o-y growth result was mixed between: (i) a 26% - 27% y-o-y growth in sale volume (from 28,700 to 36,200 tonnes) and (ii) a 9% - 10% lower ASP
Gross profit	54	82	-34%	-29%	
GPM	8%	13%			While GPM of sugar production (accounting for 84% - 85% total sales) was down from 19% to 8% on weaker ASP, trading operation (accounting for 7% of total sales) recorded an improvement with GPM of 1% (compared to -50% in 1Q11 when the Company had to make provisions for devaluation of inventories).
Operating expense ratio	4%	4%			
Financial results	12	(12)			The rise of financial profit came from: <ul style="list-style-type: none"> Higher deposit interest (from VND1.1bn to VND4.3bn). Interest on farming investment went up from VND9.5bn to VND12bn. The reduction of interest expense (from VND16.3bn to VND7.7bn). The VND2bn reversal of provision for selling 1.44m STB shares (1Q11 - provision of VND2.7bn)
Other profit	(0.02)	0.02			
EBT	38	43	-12%	-46%	
CIT	13%	10%			Tax rate for manufacturing increased from 7.5% (FY11) to 15% (FY12).
EAT	33	39	-15%	-51%	
NPM	5%	6%			

Source: BHS, SBS estimates

* The negative net cash flow in 1Q12 (~ VND76bn) was largely due to the repayment of short-term loans (~ VND247bn). This is in contrast with the increase in short-term borrowings in others companies. It was due to (i) limited material inventory, and (ii) sales policy change affecting prepayment and price.

EARNINGS FORECAST

Retaining our FY12 forecasted earnings

We maintain our projection on BHS' FY12 revenue and EAT at VND2,798bn and VND145bn respectively, with lower contribution from its core-business operation, based on:

- **A 2% decrease in ASP**, leading to a lower GPM of 10% (compared to previous forecast of 12%). Although sugar prices could potentially rise by 5% - 10%, especially in 3Q12 due to the high demand for the mid-Autumn festival, the lower price of temporary imports for re-export of about 23,300 tonnes could reduce the overall ASP. However, the slightly better selling volume should be enough to maintain the projected total sales.
- **We are revising lower BHS' interest expenses revised downwards by -27% to VND67bn.** While we expect higher interest expenditure in the remaining quarters, our latest forecast is still relatively high compared to the up-to-date figure of around VND20.7bn in 6M12. Nevertheless, we expect BHS' long-term loans to increase, since the Company plans to upgrade the production

lines of its Tay Ninh and Tri An factories to be able to directly produce refined sugar from 1Q13. According to BHS' representative, the total investment for this project will be approximately VND114bn, 70% of which could be funded by loans.

- **SBT is eligible for a 30% cut in FY12 CIT** in accordance with Resolution 13/NQ-CP (pertaining to manufacturing companies that employ a large number of workers) issued on 10 May 2012.

RECOMMENDATION

BUY call

Upgrade to BUY call, with the unchanged target price of VND21,700. Based on the unchanged FY12 EPS of VND4,821 and target forward P/E of 4.5x, we maintain our target price at VND21,700, which represents a 21% potential upside from the current level (VND17,900). Therefore, we upgrade our recommendation on BHS to BUY.

OTHER NOTES

The 2012/13 season

Roughly 10,200ha of sugarcane for the 2012/13 season. BHS' sugarcane areas in the Tay Ninh province, which include the regions in the Tay Ninh and Svay Rieng provinces along the Cambodia-Vietnam border, might be reduced by 2% to 6,200 ha. However, the 6% expansion in Tri An Province to 4,000 ha will probably compensate for this loss. Bear in mind that BHS only invests in roughly 50% of the cane area in Tri An Province, with the rest belonging to the farmers it trade with. Without negative alteration in cane yield, we expect these areas to keep BHS' utilisation rate at a high level.

Project delay: Kratie, Cambodia

Delay in planting and manufacturing project in Kratie, Cambodia. In FY11, BHS received an overseas investment certificate from the Ministry of Planning & Investment of Vietnam for the project, worth a total investment of USD23.8m, equivalent to VND496bn. A specific state-owned area of 8,725 ha was converted into private property in Feb 2012. The land leasing contract was supposed to be finalised in April and May 2012. However, BHS is currently still negotiating the detailed terms of the contract. According to its representative, BHS has not invested any further capital into this venture since the beginning of the year. Thus, we are not taking into account any significant expenses incurred in this project in our FY12 forecast.



BALANCE SHEET (VND'Bił)

	2009	2010	2011
Assets	884.7	1,015.2	1,281.7
Current assets	532.6	618.0	752.9
Long-term assets	352.1	397.2	528.9
Fixed assets	263.8	277.5	406.5
Long-term investments	34.4	29.2	30.8
Resources	884.7	1,015.2	1,281.7
Liabilities	456.2	514.4	733.2
Current liabilities	331.8	399.3	628.1
Long-term borrowings and liabilities	124.4	115.2	105.1
Equities	428.5	500.8	548.5
Owner's equity	425.5	496.7	548.5
Contributed capital	185.3	185.3	300.0
Capital surplus	154.5	154.5	39.8
Retained profits/(accumulated losses)	53.0	103.4	125.5

INCOME STATEMENT (VND'Bił)

	2009	2010	2011
Net sales	1,189.4	2,004.5	2,564.6
COGS	1,027.6	1,755.8	2,295.0
Gross profit /(loss)	161.9	248.7	269.7
Financial income	13.6	17.8	35.0
Financial expense	3.3	46.4	80.4
Interest expense	17.8	42.5	72.2
Selling expenses	18.8	26.0	32.7
G&A expenses	25.5	28.6	42.4
Net operating profit /(loss)	127.9	165.5	149.1
Other income	0.3	4.8	11.4
Other expenses	0.0	4.6	0.5
Profit /(loss) before tax	128.1	165.7	160.0
Corporate income tax	8.0	19.8	12.8
Profit after tax	120.1	145.9	147.2
Net profit/(accumulated losses)	120.1	145.9	147.2

CASHFLOW STATEMENT (VND'Bił)

	2009	2010	2011
Cash flows from operating activities			
Receipt from customers	1,219.5	2,181.0	2,726.7
Payments for providers	(991.4)	(1,401.0)	(1,730.7)
Interest paid	(16.3)	(42.4)	(76.8)
Other receipts from operating activities	2,126.2	3,846.1	460.3
Other payments for operating activities	(2,304.8)	(4,350.1)	(1,108.9)
Net cash generated from (pay to) operating	(15.3)	146.8	164.7
Cash flows from investing activities			
Payments for investments in other entities	0.0	4.7	2.0
Collections on investments in other entities	(1.2)	(26.3)	(1.9)
Net cash generated from investing activities	(25.5)	(40.0)	(105.5)
Cash flows from financing activities			
Payments to settle debts	624.6	973.6	1,440.3
Payments of dividends	(498.7)	(1,044.6)	(1,316.9)
Net cash generated from (pay to) financing	107.5	(133.5)	60.8
Net cash flows during the period	66.6	(26.7)	120.0
Cash at the beginning	19.6	86.1	58.8
Cash at the end	86.1	58.8	178.8

YEARLY RATIOS

	2009	2010	2011
Growth rate			
Revenue growth rate	50.5%	68.5%	27.9%
Gross profit growth rate	221.7%	53.6%	8.4%
Net profit growth rate	377.5%	21.5%	0.9%
Total asset growth rate	47.8%	14.7%	26.3%
Equity growth rate	28.5%	16.7%	10.4%
Profitability ratios			
Gross profit margin	13.6%	12.4%	10.5%
EBIT margin	12.3%	10.4%	9.1%
Profit before tax margin	10.8%	8.3%	6.2%
Net profit margin	10.1%	7.3%	5.7%
ROA	13.6%	14.4%	11.5%
ROE	28.2%	29.4%	26.8%
Dupont Analysis			
Net profit margin(1)	10.1%	7.3%	5.7%
Asset turnover (2)	134.4%	197.5%	200.1%
Equity multiplier (3)	207.9%	204.4%	233.7%
ROE = (1)x(2)x(3)	28.2%	29.4%	26.8%
Management ratios			
Receivable outstanding days	25.1	7.8	6.7
Inventory outstanding days	71.5	62.2	53.0
Payable outstanding days	2.6	10.3	21.0
Asset turnover	1.3	2.0	2.0
Long-term asset turnover	3.4	5.0	4.8
Fix asset turnover	4.5	7.2	6.3
Liquidity ratios			
Current ratio	1.6	1.5	1.2
Quick ratio	1.0	0.8	0.7
Cash ratio	0.3	0.1	0.3
Capital Structure			
Total debt/Total Equity	107.2%	103.6%	133.7%
Total debt/Total Asset	51.6%	50.7%	57.2%
Total asset/Total Equity	207.9%	204.4%	233.7%
Index per share			
PE	2.62	2.16	2.80
PBV	0.74	0.63	0.93
PS	0.26	0.16	0.16
EPS (VND per share)	6,480	7,871	6,068
Revenue/share (VND/share)	64,185	108,168	105,694
Book value (VND/share)	22,959	26,801	18,285

BALANCE SHEET (VNDbn)

	QII-11	QIII-11	QIV-11	QI-12
Assets	1,518.7	1,356.2	1,281.7	1,256.3
Current assets	1,130.7	857.6	769.8	740.9
Long-term assets	388.0	498.6	512.0	515.4
Fixed assets	288.0	364.8	406.5	406.7
Long-term investments	24.0	29.6	30.8	9.0
Resources	1,518.7	1,356.2	1,281.7	1,256.3
Liabilities	1,014.3	816.3	717.1	675.7
Current liabilities	888.1	687.9	612.0	569.8
Long-term liabilities	126.1	128.4	105.1	105.9
Equities	504.4	539.9	564.6	580.5
Equity	494.5	532.1	548.5	580.5
Contributed capital	185.3	185.3	300.0	300.0
Capital surplus	154.5	154.5	39.8	39.8
Retained profits	71.5	109.1	125.5	157.5

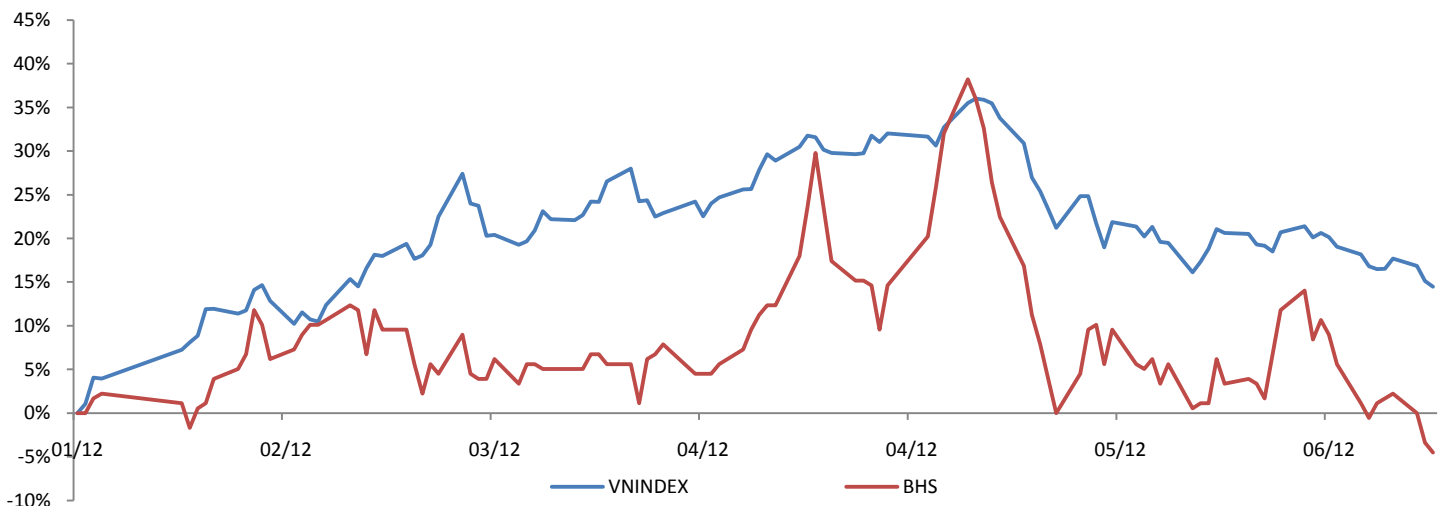
INCOME STATEMENT (VNDbn)

	QII-11	QIII-11	QIV-11	QI-12
Total Revenue	496.0	518.2	939.1	690.9
Net sales	495.6	517.9	938.7	690.5
COGS	451.4	450.2	862.6	636.4
Gross profit /(loss)	44.3	67.7	76.1	54.1
Financial income	5.2	3.0	16.4	17.7
Financial expense	33.4	16.3	8.5	5.7
Interest expense	30.1	18.4	7.5	7.7
Selling expenses	4.6	5.5	11.8	19.2
G&A expenses	7.2	7.4	11.9	9.1
Net operating profit	4.3	41.6	60.2	37.8
Other income	0.0	0.8	10.5	0.4
Other expenses	0.0	0.1	0.4	0.4
Profit /(loss) before tax	4.3	42.4	70.3	37.7
Corporate income tax	0.4	4.7	3.2	5.0
Profit after tax	3.9	37.7	67.0	32.7
Net profit	3.9	37.7	67.0	32.7

QUARTERLY RATIOS

	QII-11	QIII-11	QIV-11	QI-12
Growth rate				
Revenue growth rate (Y-o-y)	25.9%	1.5%	44.4%	12.8%
Gross profit growth rate (Y-o-y)	9%	1%	0%	-34%
Net profit growth rate (Y-o-y)	-81%	5%	13%	-15%
Profitability ratio				
Gross margin	8.9%	13.1%	8.1%	7.8%
EBIT margin	6.9%	11.7%	8.3%	6.6%
Net profit margin	0.8%	7.3%	7.1%	4.7%
ROA (4Q)	10.6%	10.3%	10.4%	10.4%
ROE (4Q)	28.0%	27.3%	28.1%	26.2%
Management ratio				
Receivable outstanding days	5	11	5	5
Inventory outstanding days	173	112	35	57
Payable outstanding days	44	44	14	34
Liquidity ratio				
Current ratio	1.8	1.8	1.4	1.8
Quick ratio	0.3	0.4	0.7	0.6
Cash ratio	0.1	0.0	0.3	0.2
Capital Structure				
Total debt/Total equity	205.1%	153.4%	130.7%	116.4%
Total debt/total asset	66.8%	60.2%	56.0%	53.8%
Total asset/total equity	307.1%	254.9%	233.7%	216.4%
Index per share				
PE	2.3	2.3	2.5	2.9
EPS (VND per share)	7432	7526	6881	5823

% PRICE CHANGE: VN.INDEX& BHS



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
Company Update	10/11/2011	NEUTRAL	VND 19,400	VND 18,500
Company Update	29/02/2011	NEUTRAL	VND 21,700	VND 18,800

SBS Research Guide to Investment Ratings

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

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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