

**GIA LAI CANE SUGAR THERMOELECTRICITY**
**Farming & Fishing**

## TAKE PROFIT

<b>TARGET PRICE</b>	<b>18,200</b>
LAST TARGET PRICE	19,600
CURRENT PRICE	22,300

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**STOCK STATISTICS**

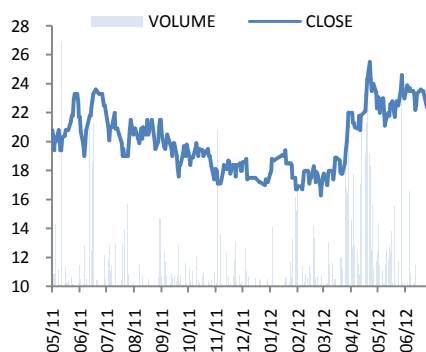
<b>Bloomberg Ticker</b>	<b>SEC VN Equity</b>
Outstanding shares (m)	17.4
Market Cap (VNDbn)	396
52W Price range	25.5-15.2
3M Average Volume	1,713
Beta	1.1
Foreign ownership (%)	0.4

**MAJOR SHAREHOLDERS**

Gia Lai Electricity JSC	64.7%
NHS	11.5%
STB	10.3%

**STOCK PERFORMANCE**

	3M	6M	12M
Relative (%)	22%	23%	10%
Absolute	4.1	4.3	2.0


**FY12 revenue and profits insisting on opposition**

**Preliminary 2Q12 EAT of VND18 bn (-28% y-o-y).** SEC will not release its official 2Q12 report until month-end. However, since our last conversation with SEC, the management has hinted that the Company may record revenue of VND223 bn (+22% y-o-y) and EAT of VND18 bn (-28% y-o-y). The Company will possibly generate a cumulative VND450 bn (+26% y-o-y) for its 1H12 top line and a corresponding EAT of VND45 bn (-36% y-o-y), thereby achieving 55% and 54% of its FY12 sales and EAT targets, respectively.

**Ability to exceed the planned profit by 5%.** The company is likely to reach 45,000 tonnes in sales volume (in which 15,000 tonnes were produced in Nov and Dec 2012 for the 2012/13 season). Despite the low performance in 1H12, SEC expects to surpass its EAT plan of VND83 bn by 5%, rooted in higher sugar consumption with better price (about 500 – 1,000/kg higher than 1H12's) in 2H12 for the mid-Autumn and new year festival. Unlike previous years with first quarter's profits making up 50% - 60% of full-year figures, earnings this year may be evenly distributed among all quarters, as stated by its representative. Thanh Thanh Cong currently consumes approximately 70% of SEC's volume.

**Revising down our FY12 earning forecast.** Although we raised our revenue projection by 9% (to VND803bn), most of these gains reside in other activities which has much inferior profit margin compared to that of the main sugar operation. Such core shifting, combined with a projected 4% lower ASP, ultimately lowered our EAT estimate by 7% (to VND85bn), in spite of the possible 30% FY12 CIT cut in accordance with Resolution 13/NQ-CP. Our revised FY12 EAT, which is similar to SEC's target, is still 14% below the FY11 performance.

**Downgrade to TAKE PROFIT at lower target price of VND18,200.** We trim our target price for SEC by a slight 7% to VND18,200, pegged to a 3.8x P/E (25% discount from the industry P/E due to its illiquidity) and FY12 EPS of VND4,865. Our target price reflects a downside potential of 18% from the current price of VND22,300. Therefore, we downgrade our call on SEC to TAKE PROFIT, and investors may accumulate at lower levels.

Year-end Dec 31	FY09	FY10	FY11	FY12F	FY12 - SBT target
Revenue	194	296	553	803	824
Pre-tax profit	43	67	111	100	108
Net profit	39	60	99	85	83
% change YoY	-6%	52%	65%	-14%	
EPS (VND)	3,127	4,138	5,678	4,869	
DPS	1,500	1,500	2,200	3,500	
Div Yield		6%	13%	15%	
Book value (VND)	12,591	13,628	14,866	17,735	
ROA	18%	18%	19%		
ROE	26%	34%	43%	28%	
P/E (x)		5.7	3.1	4.7	
P/BV (x)		1.7	1.2	1.3	

Source: SEC and SBS forecasts

**Preliminary  
2Q12 EAT of  
VND18 bn (-28%  
y-o-y)**

Since our last conversation with SEC, the management has hinted that the Company may record revenue of VND223 bn (+22% y-o-y) and EAT of VND18 bn (-28% y-o-y) in 2Q12. Remnants of the top line progression are just 'dust in the wind.' The sales increment relies mostly on other revenue which has a relatively small profit margin. The main sugar production seems stuck in a low ASP of VND16,000/kg (after VAT, est., -8% y-o-y or similar to q-o-q), and selling volume might slide below that of 2Q11 by a small margin. Interest expenses may turn a little sour to VND13bn in 2Q12 (+38% y-o-y), according to SEC. The Company will possibly generate a cumulative VND450 bn (+26% y-o-y) for its 1H12 top line and a corresponding EAT of VND45 bn (-36% y-o-y), thereby achieving 55% and 54% of its FY12 sales and EAT targets, respectively.

## REVIEW: 2012/1Q

VND'bn	1Q12	1Q11	y-o-y	q-o-q	Comment on 1Q12 (y-o-y)
Revenue	227	173	31%	3.1x	Revenue improved due to a 51% increase in selling volume (from 8,900 to 13,500 tonnes), which offset a 12% decrease in ASP (from VND17,400 to VND15,400/kg).
Gross profit	46	56	-19%	3.4x	
GPM	20%	32%			GPM was down mainly on weaker ASP.
Operating expense ratio	3%	3%			
Financial results	(5.2)	(1.4)			Interest expenses surged from VND6.6 bn to VND13.1 bn, eroding the rise on deposits and lending interest. It was onwing to the boost in short-term loans (ave., from VND41 bn to VND90 bn) and long-term loans as well (ave. from VND127 bn to VND208 bn, which was used to expand capacity from 2,500 to 3,200 tonnes of cane/day for 2011/12 season.)
EBT	34	45	-25%	11x	
Tax rate	21%	10%			Being subject to a higher preferential CIT of 12.5% on profits generated from its previous capacity of 1,800 tonnes of cane/day (compared to 5% in FY11). Other external income is subject to a CIT of 25%.
EAT	27	45	-40%	11x	
NPM	12%	26%			

Source: SEC, SBS estimates

\* The negative net cash flow in 1Q12 (VND5 bn) was largely due to upgrading capacity from 2,500 to 3,200 tonnes of cane/day. However, it was 10 times lower y-o-y on the higher loans received.

## EARNINGS FORECAST

Revising down  
our FY12  
forecasted  
earnings by 7%  
to VND85 bn

We raise our projection on SEC's FY12 revenue by 9% to VND803 bn, yet decrease its EAT estimate by 7% to VND85 bn. During our revision, we have made the following changes:

- **A 4% decrease in ASP**, leading to a lower GPM of 21% (compared to previous forecast of 24%). Although sugar prices could potentially rise by 5% - 10%, especially in 3Q12 due to the high demand for the mid-Autumn festival, our latest forecast of VND16,500/kg is still relatively high compared to the up-to-date figure of round VND15,300/kg in 1H12. However, we expect *better other sales to make up for the remainder of our projected total sales*.
- **Compensation for the higher interest burden.** We expect further increment on SEC's long-term loans, since the company plans to upgrade its capacity from 3,200 to 3,500 tonnes of cane/day; however, the improved interests on deposit and farming investment will perhaps net off with interest burden incurred from more loans. The total investment for this project will be approximately VND50 bn, 70% of which will be funded by loans. The Company is in the process of machinery procurement. Besides, its long-term interest rate is now down to roughly 15% and short-term one stands at 13% (in accordance with Circular 14/2012/TT-NHNN, supplemented by Circular 20/2012/TT-NHNN issued on 8 June 2012), said the Company's representative.
- This year, **SEC is eligible for a 30% CIT cut** in accordance with Resolution 13/NQ-CP (pertaining to manufacturing companies that employ a large number of workers) issued on 10 May 2012.

## RECOMMENDATION

TAKE PROFIT

**Downgrade to TAKE PROFIT, with lower target price of VND18,200.** Based on the weaker FY12 EPS of VND4,865 and target forward P/E of 3.8x (25% discount from the industry P/E due to its illiquidity), we reduce our target price by 7% to VND18,200. In FY11 Company Update, we recommended NEUTRAL at target price of VND19,600 on 12 Mar 2012, while the market price was VND17,800. Since then, it has been up by 25% to the current point of VND22,300. Therefore, we downgrade our recommendation on SEC to TAKE PROFIT. Investors may accumulate at lower levels, as our target price represents a 18% potential downside from the current price.

## OTHER NOTES

The 2012/13  
season

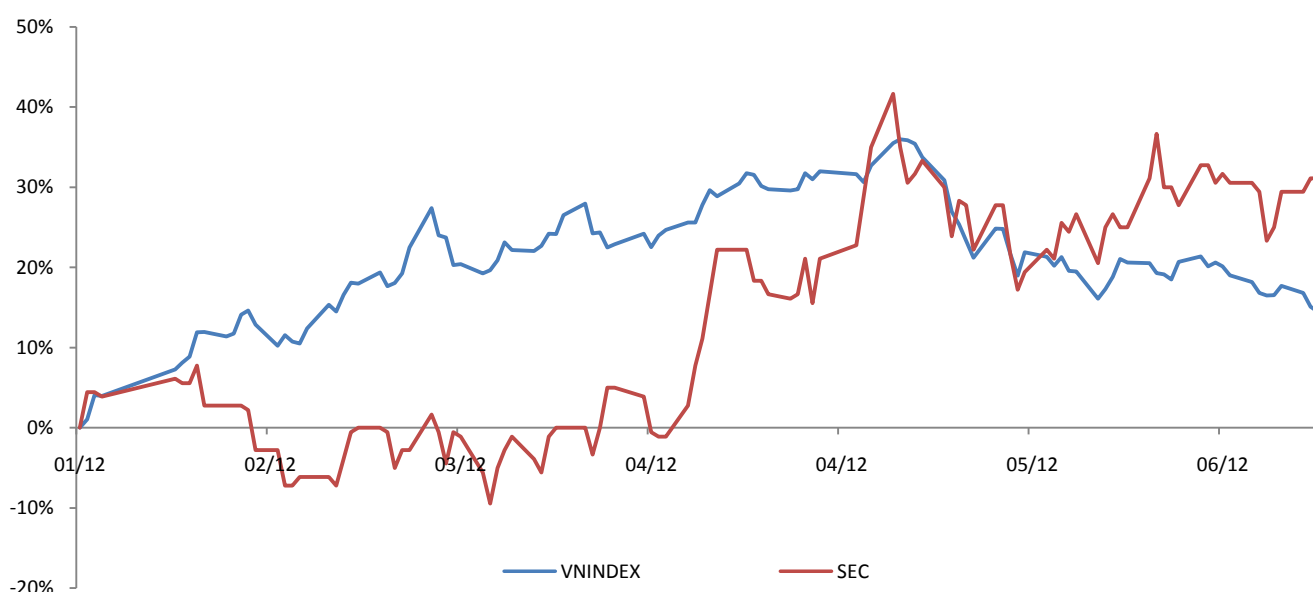
**Expanding sugarcane area to 8,200 ha for the 2012/13 season.** SEC has brought its average investment up by 19% to VND21 m/ha with its material areas expansion, from 7,000ha to 8,200ha. The company also anticipates a slight improvement on cane yield for the upcoming harvest. Without negative alteration in yield, we expect these areas to fully supply the SEC's upgraded capacity of 3,500 tonnes of cane/day.

**Delay in  
increasing its  
charter capital**

At the AGM 2012, SEC had passed the plan to raise its charter capital from VND174 bn to VND209 bn. New shares will be issued to existing shareholders at par price and at a 5 to 1 ratio. The company has already handed in its registration documents to the State Securities Commission of Vietnam. However, as one of the SSC's requirements, SEC still needs to get the issuance plan's purpose approved at the general meeting of shareholders level. Thus, SEC may possibly postpone this plan until next year.

**Cash dividend**

SEC says it will pay cash for its FY12 dividend of 35% - 40% on chartered capital, offering an attractive dividend yield of nearly 15% at the current market price.



## BALANCE SHEET (VND bn)

	2009	2010	2011
<b>Assets</b>	<b>263.9</b>	<b>418.0</b>	<b>613.8</b>
Current assets	167.3	141.2	248.7
Long-term assets	96.6	276.8	365.1
Fixed assets	93.6	265.4	336.9
Long-term investments	0.7	7.4	19.1
<b>Resources</b>	<b>263.9</b>	<b>418.0</b>	<b>613.8</b>
<b>Liabilities</b>	<b>105.1</b>	<b>220.3</b>	<b>397.7</b>
Current liabilities	61.7	104.2	200.2
Long-term borrowings and liabilities	43.4	116.2	197.5
<b>Equities</b>	<b>158.8</b>	<b>197.7</b>	<b>216.1</b>
Owner's equity	158.8	196.6	216.1
Contributed capital	126.1	145.1	174.1
Capital surplus			
Retained profits/(accumulated losses)	29.3	40.1	12.2

## INCOME STATEMENT (VND bn)

	2009	2010	2011
<b>Net sales</b>	<b>193.7</b>	<b>296.2</b>	<b>552.8</b>
COGS	145.5	208.2	400.4
<b>Gross profit /(loss)</b>	<b>48.2</b>	<b>88.0</b>	<b>152.4</b>
Financial income	4.3	5.9	23.1
Financial expense	1.4	17.3	42.3
Interest expense	1.4	17.0	38.5
Selling expenses	1.0	0.4	5.6
G&A expenses	7.2	9.0	16.1
<b>Net operating profit /(loss)</b>	<b>42.9</b>	<b>67.2</b>	<b>111.4</b>
Other income	1.0	0.2	0.0
Other expenses	0.6	0.3	0.5
<b>Profit /(loss) before tax</b>	<b>43.2</b>	<b>67.1</b>	<b>111.0</b>
Corporate income tax	3.8	7.1	12.1
<b>Profit after tax</b>	<b>39.4</b>	<b>60.0</b>	<b>98.8</b>
<b>Net profit/(accumulated losses)</b>	<b>39.4</b>	<b>60.0</b>	<b>98.8</b>

## CASHFLOW STATEMENT (VND bn)

	2009	2010	2011
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax	205.4	330.2	537.8
Depreciation and amortisation	(146.7)	(211.9)	(446.9)
Allowances and provisions	(0.5)	(17.6)	(41.8)
Profits/(losses) from investing activities	11.2	7.7	6.8
Operating profit before changes in WC	(22.3)	(19.2)	(17.5)
CF from operating activities	34.7	64.9	3.5
<b>Cash flows from investing activities</b>			
Receipt/payments for additions to assets	0.5	0.2	
Receipt/payments for investments in entities		(13.5)	(14.3)
CF from investing activities	(75.6)	(98.0)	(139.2)
<b>Cash flows from financing activities</b>			
Proceeds from equity issued	118.4	146.7	533.8
Proceeds from long-term borrowings	(40.0)	(49.2)	(420.5)
CF from financing activities	52.9	78.5	91.5
Net CF during the period	12.0	45.4	(44.1)
Cash at the beginning	5.6	17.7	63.1
Cash at the end	17.7	63.1	19.0

## YEARLY RATIOS

	2009	2010	2011
<b>Growth rate</b>			
Revenue growth rate	4.5%	52.9%	86.6%
Gross profit growth rate	-4.7%	82.5%	73.2%
Net profit growth rate	-6.1%	52.2%	64.7%
Total asset growth rate	61.6%	58.4%	46.8%
Equity growth rate	6.4%	23.8%	9.9%
<b>Profitability ratios</b>			
Gross profit margin	24.9%	29.7%	27.6%
EBIT margin	23.0%	28.4%	27.0%
Profit before tax margin	22.3%	22.7%	20.1%
Net profit margin	20.4%	20.3%	17.9%
ROA	14.9%	14.4%	16.1%
ROE	24.8%	30.5%	45.7%
<b>Dupont Analysis</b>			
Net profit margin(1)	20.4%	20.3%	17.9%
Asset turnover (2)			
Equity multiplier (3)	166.2%	212.6%	284.1%
ROE = (1)x(2)x(3)	24.8%	30.5%	45.7%
<b>Management ratios</b>			
Receivable outstanding days	-	2.1	35.8
Inventory outstanding days	106.2	68.6	72.0
Payable outstanding days	5.9	40.9	5.8
Asset turnover	0.7	0.7	0.9
Long-term asset turnover	2.0	1.1	1.5
Fix asset turnover	2.1	1.1	1.6
<b>Liquidity ratios</b>			
Current ratio	2.7	1.4	1.2
Quick ratio	2.0	1.0	0.8
Cash ratio	0.3	0.6	0.1
<b>Capital Structure</b>			
Total debt/Total Equity	66.2%	112.1%	184.1%
Total debt/Total Asset	39.8%	52.7%	64.8%
Total asset/Total Equity	166.2%	212.6%	284.1%
<b>Index per share</b>			
PE	7.55	5.33	3.81
PBV	1.88	1.74	1.88
PS	1.54	1.08	0.68
EPS (VND per share)	3,127	4,426	6,195
Revenue/share (VND/share)	15,355	21,841	34,642
Book value (VND/share)	12,586	13,553	12,412

## BALANCE SHEET (VNDbn)

	QII-11	QIII-11	QIV-11	QI-12
<b>Assets</b>	<b>525.1</b>	<b>576.2</b>	<b>613.8</b>	<b>637.5</b>
Current assets	255.7	282.1	248.7	255.5
Long-term assets	269.4	294.1	365.1	382.0
Fixed assets	254.5	279.1	336.9	353.8
Long-term investments	5.3	5.1	19.1	19.3
<b>Resources</b>	<b>525.1</b>	<b>576.2</b>	<b>613.8</b>	<b>637.5</b>
<b>Liabilities</b>	<b>290.4</b>	<b>326.9</b>	<b>359.5</b>	<b>399.4</b>
Current liabilities	118.4	168.1	162.0	179.2
Long-term liabilities	172.0	158.8	197.5	220.2
<b>Equities</b>	<b>234.7</b>	<b>249.3</b>	<b>254.3</b>	<b>238.1</b>
Equity	234.7	249.3	254.3	238.1
Contributed capital	145.1	174.1	174.1	174.1
Capital surplus				
Retained profits	70.8	46.6	51.5	30.2

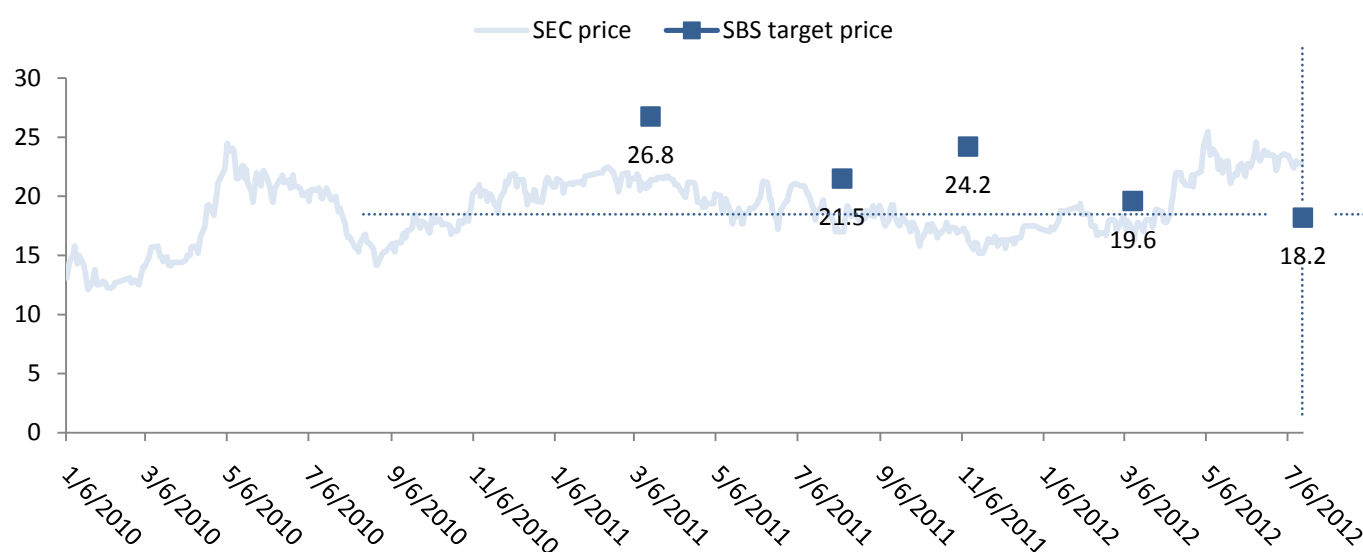
## INCOME STATEMENT (VNDbn)

	QII-11	QIII-11	QIV-11	QI-12
<b>Total Revenue</b>	<b>182.6</b>	<b>123.4</b>	<b>73.7</b>	<b>226.6</b>
<b>Net sales</b>	<b>182.6</b>	<b>123.4</b>	<b>73.7</b>	<b>226.6</b>
COGS	141.0	82.3	60.2	180.9
<b>Gross profit /(loss)</b>	<b>41.6</b>	<b>41.1</b>	<b>13.5</b>	<b>45.8</b>
Financial income	1.9	6.8	9.2	8.0
Financial expense	9.3	12.4	14.0	13.3
Interest expense	9.3	12.4	13.2	13.1
Selling expenses	2.3	2.4	0.4	1.1
G&A expenses	3.8	3.3	5.2	5.3
<b>Net operating profit</b>	<b>28.1</b>	<b>29.8</b>	<b>3.1</b>	<b>34.1</b>
Other income			0.0	
Other expenses	0.0	0.2	0.0	0.0
<b>Profit /(loss) before tax</b>	<b>28.0</b>	<b>29.6</b>	<b>3.1</b>	<b>34.1</b>
Corporate income tax	3.0	8.8	0.6	7.1
<b>Profit after tax</b>	<b>25.1</b>	<b>20.8</b>	<b>2.5</b>	<b>27.0</b>
<b>Net profit</b>	<b>25.1</b>	<b>20.8</b>	<b>2.5</b>	<b>27.0</b>

## QUARTERLY RATIOS

	QII-11	QIII-11	QIV-11	QI-12
<b>Growth rate</b>				
Revenue growth rate (Y-o-y)	180.5%	180.6%	17.0%	30.9%
Gross profit growth rate (Y-o-y)	240%	185%	19%	-19%
Net profit growth rate (Y-o-y)	443%	219%	-51%	-40%
<b>Profitability ratio</b>				
Gross margin	22.8%	33.3%	18.3%	20.2%
EBIT margin	20.5%	34.0%	22.1%	20.8%
Net profit margin	13.7%	16.9%	3.4%	11.9%
ROA (4Q)	18.7%	19.5%	17.3%	12.8%
ROE (4Q)	39.2%	43.1%	39.4%	30.9%
<b>Management ratio</b>				
Receivable outstanding days		1	67	11
Inventory outstanding days	55	10	120	92
Payable outstanding days	24	4	10	2
<b>Liquidity ratio</b>				
Current ratio	1.8	1.8	1.4	1.8
Quick ratio	1.4	1.6	1.0	0.4
Cash ratio	0.4	0.2	0.1	0.1
<b>Capital Structure</b>				
Total debt/Total equity	123.7%	131.1%	141.4%	167.7%
Total debt/total asset	55.3%	56.7%	58.6%	62.6%
Total asset/total equity	223.7%	231.1%	241.4%	267.7%
<b>Index per share</b>				
PE	4.0	3.7	4.0	5.2
EPS (VND per share)	5833	6311	5865	4516

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
Company Update	10/11/2011	NEUTRAL	VND 24,200	VND 19,000
Company Update	12/03/2011	NEUTRAL	VND 19,600	VND 17,900
<b>Company Update</b>	<b>18/07/2012</b>	<b>TAKE PROFIT</b>	<b>VND 18,200</b>	<b>VND 22,300</b>



## 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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