

## Unrated

Share price: 13,300 VND  
Target price: NA

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### Stock Information

**Description:** Vietnam's leading construction steel company with 16% market share in 2011.

Ticker:	POM VN
Shares Issued (m):	186.3
Market Cap (US\$ m):	117.0
3-mth Avg Daily Vol. (US\$ m):	0.03
VN Index:	415.0
Free float (%):	15.0

### Major Shareholders:

THEP VIET CO LTD	60.7
XUAN CHIEU DO	12.0
VAN KHANH DO	3.0

### Key indicators

ROE – annualised (%)	14.2
Net cash (VND b):	-4,050
NTA/shr (VND):	18,766
Interest cover (x):	4.1

### Historical Chart



### Performance:

52-week High/Low VND17,200 / VND8,900

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute(%)	0.8	-20.1	26.0	-12.7	42.4
Relative(%)	2.6	-8.7	17.8	-14.6	20.7

## Pomina Steel Corp (POM) Capacity Expanded by 50%

**Growth from capacity expansion and industry consolidation.** POM put a new factory into operation in July, which increased its construction steel production capacity 50% to 1.5m tonnes p.a. We believe that consolidation in the industry is inevitable because two-thirds of the local steelmakers have obsolete factories and far higher production costs than POM. The company's recent capacity expansion and the cost advantages derived from the use of new equipment should allow POM to sustain its growth at the expense of inefficient domestic peers.

**Vietnam's Most Modern Electric Arc Furnace (EAF) Steel Mill.** POM's steel factory uses advanced "Consteel System" EAF technology from Italy's Tenova. This modern EAF technology has significant advantages over older EAF mills: electrical energy savings of about 30%/tonne; 1–2% increase in scrap yield; cost reductions for manpower; and other cost advantages. All these factors give POM an estimated 5% cost advantage over its domestic EAF peers.

**Margin pressure has bottomed out.** POM's gross margin compressed from 12% in 2010 to about 2% in 2Q12 due to an 11% rise in scrap prices while selling prices remained flat. Also, the slowdown in the economy lowered POM's capacity utilization rate to 70% which raised fixed costs per unit. Margin pressures have now abated and we believe POM's profit margins are likely to drift higher as both input costs and financial expenses are falling.

**Cyclical recovery from 2013.** The government's aggressive monetary stimulus should get GDP growth back to its long-term average rate of 7% from 2013, which will boost construction activity. We believe that Vietnam's substantial infrastructure development requirements, an annual urbanisation rate of 3.4% and the continued build-out of Vietnam's industrial base will lead to an annual growth of 9% in construction steel consumption over 2012–2020.

**Fair valuation and attractive dividend yield.** POM trades at a FY12 PER of 7.5x and its 11% dividend yield is attractive, but there are caveats including financial risks and opaque inter-group transactions.

### POM – Summary Earnings Table

FYE 31 Dec (VND b)	2009	2010	2011	2012F	2013F
Revenue	7,539	11,203	11,995	11,447	14,423
EBITDA	1,526	1,513	1,334	1,095	1,565
Recurring Net Profit	505	658	404	332	659
Recurring Basic EPS (VND)	2,693	3,511	2,157	1,772	3,516
EPS growth (%)	13.4	30.3	-38.6	-17.8	98.4
DPS (VND)	0	500	2,000	1,500	1,500
PER	4.9	3.8	6.2	7.5	3.8
EV/EBITDA (x)	4.3	4.3	4.9	5.9	4.1
Div Yield (%)	0.0	3.8	15.0	11.3	11.3
P/BV(x)	1.1	0.9	0.9	0.8	0.7
Net Gearing (%)	124.4	105.5	141.8	124.7	108.2
ROE (%)	25.4	23.3	14.2	10.7	18.7
ROA (%)	8.4	8.6	4.7	3.9	7.3

Source: Kim Eng

## Frustrating performance in 2Q12

POM's revenue contracted by 2% YoY to VND1,624b in 2Q12 due to a 2.6% decrease in volumes. POM's gross margin plunged from 7.3% in 2Q11, despite a 7% decline in scrap prices, because: 1) a lower factory utilisation rate raised fixed costs per unit; and 2) other input costs also increased substantially (the company did not disclose any other specific details). Furthermore, net financial income also fell by 45% YoY to VND163b. As a result, net profit for the quarter decreased by 55% YoY to VND174b.

For the first half of 2012, POM achieved VND3,080b in revenue and VND141b in net profit, dropping by 7% and 70% YoY, respectively. We expect things to pick up slightly in 2H12 in tandem with the economic recovery; so we do not expect the full-year results to be such negative. We forecast that POM's 2012 revenue will fall by 4.6% YoY to VND11.4t (USD545m) and net profit will decline by 18% YoY to VND332b (USD15.8m).

## High leverage and FX risk

POM's D/E ratio is 1.4x, 70% of which is USD-denominated. This exposes POM to serious interest rate and FX risks. In 2011, interest expenses of VND272b and FX losses of VND317b were 60% of EBIT, which eroded away a significant portion of the company's operating profit.

## Opaque inter-group transactions

POM buys part of its raw materials from Viet Steel Company, which together with various proxies, hold 85% of POM's outstanding shares. Viet Steel and POM also hold an equal stake in Pomina Trading Company, the sole distributor of POM's steel products.

POM has yet to disclose the price of the materials that it buys from its parent company, or the discounts that it offers to the trading company to distribute its products. This lack of transparency leads to concerns over potential transfer pricing abuses and also makes it difficult to forecast POM's business performance.

## Peer comparison table

Tickers	Companies	Market Cap	Trailing PE	Forward PE
UTTM IN Equity	UTTAM GALVA STEELS LTD	140	10.6	
IMFA IN Equity	INDIAN METALS & FERRO ALLOY	126	11.2	
MSW MK Equity	MALAYSIA STEEL WORKS KL BHD	61	14.3	4.4
SMELT MK Equity	MALAYSIA SMELTING CORP BHD	121	10.1	5.1
MCS TB Equity	M.C.S. STEEL PCL	105	9.7	6.5
CSP TB Equity	CSP STEEL CENTER PCL	32	11.2	
KRAS IJ Equity	KRAKATAU STEEL PERSERO TBK	1265	12.3	10.9
GDST IJ Equity	GUNAWAN DIANJAYA STEEL TBK	94	16.0	
002652 CH Equity	SUZHOU YANGTZE NEW MATERIA-A	160	13.3	
600581 CH Equity	XINJIANG BA YI IRON & STEE-A	699	13.6	
HPG VN Equity	HOA PHAT GROUP JSC	387	10.3	4.6
VIS VN Equity	VIETNAM - ITALY STEEL JSC	28	8.3	
<b>Average</b>			<b>11.7</b>	<b>6.3</b>
<b>POM VN Equity</b>	<b>POMINA STEEL CORP</b>	<b>117</b>	<b>9.7</b>	<b>5.3</b>

Source: Bloomberg

## PROFIT AND LOSS (VND)

FYE 31 Dec	2009	2010	2011	2012E	2013E
<b>Sales</b>	<b>7,539</b>	<b>11,203</b>	<b>11,995</b>	<b>11,447</b>	<b>14,423</b>
COGS exclude Dep.	-5,961	-9,624	-10,559	-10,238	-12,714
Depreciation	-163	-224	-227	-288	-438
<b>Gross profit</b>	<b>1,415</b>	<b>1,355</b>	<b>1,210</b>	<b>921</b>	<b>1,271</b>
Operating exp.	-52	-66	-102	-114	-144
<b>EBIT</b>	<b>1,363</b>	<b>1,289</b>	<b>1,107</b>	<b>806</b>	<b>1,127</b>
Net financial incomes (loss)	-536	-593	-665	-422	-356
Net Income (loss) fr. jv	0	2	-1	20	20
Net extraordinaries	-45	-13	-13	-11	-14
<b>PBT</b>	<b>782</b>	<b>685</b>	<b>429</b>	<b>392</b>	<b>777</b>
Income tax	-125	-25	-24	-59	-117
Minority interest	-151	-2	-1	-1	-1
<b>Net profit</b>	<b>505</b>	<b>658</b>	<b>404</b>	<b>332</b>	<b>659</b>
EBITDA	1,526	1,513	1,334	1,095	1,565
EPS	2,693	3,511	2,157	1,772	3,516

## BALANCE SHEET (VND b)

FYE 31 Dec	2009	2010	2011	2012E	2013E
<b>Total assets</b>	<b>6,005</b>	<b>7,664</b>	<b>8,673</b>	<b>8,654</b>	<b>9,219</b>
Current assets	3,974	5,669	4,933	5,105	6,011
Cash	558	801	232	316	574
ST investment	0	0	0	0	0
Inventories	2,047	2,469	2,531	2,451	2,702
Trade receivable	1,227	1,741	1,943	1,882	2,173
Others	143	657	227	456	561
Other assets	2,030	1,995	3,741	3,550	3,209
LT Investment	1	13	57	57	57
Net fix assets	1,869	1,820	3,518	3,326	2,986
Others	160	163	166	166	166
<b>Total liabilities</b>	<b>3,785</b>	<b>4,837</b>	<b>5,806</b>	<b>5,558</b>	<b>5,688</b>
Current liabilities	2,822	4,050	4,268	4,020	4,307
Trade payable	573	611	1,289	1,154	1,441
ST borrowings	2,058	2,992	2,744	2,632	2,630
Others	191	447	235	235	235
Long-term liabilities	963	787	1,538	1,538	1,381
Long-term debts	963	787	1,538	1,538	1,381
<b>Shareholders' equity</b>	<b>1,981</b>	<b>2,821</b>	<b>2,855</b>	<b>3,090</b>	<b>3,525</b>
Paid in capital	1,620	1,874	1,874	1,874	1,874
Reserve	361	947	981	1,216	1,651
Minority interests	230	6	6	6	6

## CASH FLOW (VND b)

FYE 31 Dec	2009	2010	2011	2012E	2013E
<b>Operating cash flow</b>	<b>-963</b>	<b>-107</b>	<b>849</b>	<b>573</b>	<b>792</b>
Net profit	505	658	404	332	659
Depreciation	163	224	227	288	438
Change in working capital	-2,008	-978	270	-63	-321
Others	376	-11	-52	16	16
<b>Investment cash flow</b>	<b>-981</b>	<b>-281</b>	<b>-1,525</b>	<b>-100</b>	<b>-100</b>
Net capex	-980	-283	-1,480	-100	-100
Change in investment	-1	2	-45	0	0
Change in other assets	0	0	0	0	0
Cash flow after Investment	-1,944	-388	-676	473	692
<b>Financing cash flow</b>	<b>2,483</b>	<b>632</b>	<b>106</b>	<b>-389</b>	<b>-435</b>
Change in share capital	320	28	-14	0	0
Net change in debt	2,315	686	490	-112	-158
Others	0	0	0	0	0
Div paid	-152	-82	-369	-276	-276
<b>Net cash flow</b>	<b>539</b>	<b>244</b>	<b>-570</b>	<b>84</b>	<b>258</b>

## KEY RATIOS

FYE 31 Dec	2009	2010	2011	2012E	2013E
<b>Growth (% YoY)</b>					
Sales	4.3	48.6	7.1	-4.6	26.0
Operating profit	18.5	9.5	8.6	7.3	14.0
EBITDA	19.4	9.9	8.8	8.2	14.3
Net profit	13.4	30.3	-38.6	-17.8	98.4
EPS	13.4	30.3	-38.6	-17.8	98.4
<b>Profitability (%)</b>					
Gross margin	18.8	12.1	10.1	8.0	8.8
Operating margin	18.1	11.5	9.2	7.0	7.8
EBITDA margin	20.2	13.5	11.1	9.6	10.9
Net margin	8.7	5.9	3.4	2.9	4.6
ROA	8.4	8.6	4.7	3.8	7.1
ROE	25.4	23.3	14.2	10.7	18.7
<b>Stability</b>					
Gross debt/equity (%)	1.5	1.3	1.5	1.3	1.1
Net debt/equity (%)	1.2	1.1	1.4	1.2	1.0
Int. coverage (X)	9.0	6.2	4.1	2.3	3.4
Int. & ST debt coverage (X)	0.6	0.4	0.4	0.3	0.4
Cash flow int. coverage (X)	-6.4	-0.5	3.1	1.6	2.4
Cash flow int. & ST debt (X)	-0.4	0.0	0.3	0.2	0.3
Current ratio (X)	1.4	1.4	1.2	1.3	1.4
Quick ratio (X)	0.7	0.8	0.6	0.7	0.8
Net cash/(debt) (VND m)	-2,464	-2,977	-4,050	-3,853	-3,438
<b>Per share data (VND)</b>					
EPS	2,693	3,511	2,157	1,772	3,516
CFPS	-5,140	-572	4,530	3,057	4,226
BVPS	12,229	15,050	15,231	16,485	18,807
SPS	40,221	59,764	63,992	61,065	76,942
EBITDA/share	8,143	8,071	7,118	5,839	8,349
DPS	0	500	2,000	1,500	1,500

Source: Company, Maybank KE

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Stephanie Wong | CEO, Maybank Kim Eng Research

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CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
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