

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 |

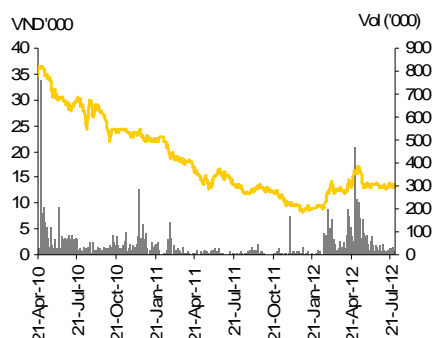
Major Shareholders:

| | |
|------------------|------|
| 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 & STEEL-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 | |
| Average | | | 11.7 | 6.3 |
| POM VN Equity | POMINA STEEL CORP | 117 | 9.7 | 5.3 |

Source: Bloomberg

PROFIT AND LOSS (VND)

| FYE 31 Dec | 2009 | 2010 | 2011 | 2012E | 2013E |
|------------------------------|--------------|---------------|---------------|---------------|---------------|
| Sales | 7,539 | 11,203 | 11,995 | 11,447 | 14,423 |
| COGS exclude Dep. | -5,961 | -9,624 | -10,559 | -10,238 | -12,714 |
| Depreciation | -163 | -224 | -227 | -288 | -438 |
| Gross profit | 1,415 | 1,355 | 1,210 | 921 | 1,271 |
| Operating exp. | -52 | -66 | -102 | -114 | -144 |
| EBIT | 1,363 | 1,289 | 1,107 | 806 | 1,127 |
| 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 |
| PBT | 782 | 685 | 429 | 392 | 777 |
| Income tax | -125 | -25 | -24 | -59 | -117 |
| Minority interest | -151 | -2 | -1 | -1 | -1 |
| Net profit | 505 | 658 | 404 | 332 | 659 |
| 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 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Total assets | 6,005 | 7,664 | 8,673 | 8,654 | 9,219 |
| 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 |
| Total liabilities | 3,785 | 4,837 | 5,806 | 5,558 | 5,688 |
| 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 |
| Shareholders' equity | 1,981 | 2,821 | 2,855 | 3,090 | 3,525 |
| 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 |
|-----------------------------|--------------|-------------|---------------|-------------|-------------|
| Operating cash flow | -963 | -107 | 849 | 573 | 792 |
| 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 |
| Investment cash flow | -981 | -281 | -1,525 | -100 | -100 |
| 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 |
| Financing cash flow | 2,483 | 632 | 106 | -389 | -435 |
| 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 |
| Net cash flow | 539 | 244 | -570 | 84 | 258 |

KEY RATIOS

| FYE 31 Dec | 2009 | 2010 | 2011 | 2012E | 2013E |
|------------------------------|--------|--------|--------|--------|--------|
| Growth (% YoY) | | | | | |
| 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 |
| Profitability (%) | | | | | |
| 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 |
| Stability | | | | | |
| 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 |
| Per share data (VND) | | | | | |
| 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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|--|--------------------------|---|
| Adex = Advertising Expenditure | FCF = Free Cashflow | PE = Price Earnings |
| BV = Book Value | FV = Fair Value | PEG = PE Ratio To Growth |
| 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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