

19 September 2012



Update

Target price
Upside %

20,500
25

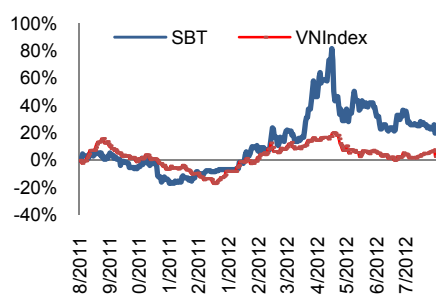
Sugar

Key Indicators

Price on 18 September 2012	16,400
52-week low	10,900
52-week high	23,800
Avg. 30-day trading volume	230,484
Outstanding shares (mn)	128
Market capitalization (VND bn)	2,251
Market capitalization (USD mn)	107
Foreign ownership %	7.2

Valuation	2011	2012F	2013F
EPS (basic)	3,896	2,914	3,581
EPS growth %	60.2	-25.2	22.9
Dividend yld %	22.4	8.8	8.8
P/E at mkt px	3.1	5.6	4.6
P/B at mkt px	1.0	1.2	1.1
EV / EBITDA	3.0	5.8	4.8
ROE	30.9	22.1	24.5
ROA	25.8	17.3	19.5
ROIC	28.0	18.7	21.1
Debt-to-equity	0.2	0.2	0.1

Performance	3M	6M	12M
Absolute %	-11.8	9.8	19.8
Relative %	-10.0	1.4	17.2



Ownership Structure

	%
Thanh Thanh Cong	27.5
Dang Thanh Co.	27.4
Vinamilk	5.5

Cambodia expansion to drive growth

We upgrade SBT from HOLD to BUY, raising our target price from 17,500 to 20,500. Our upward revision mainly reflects the company's plantation expansion in Cambodia which increases total sugarcane plantation area to 15,000 hectares, a 25% increase. We forecast revenue growth of 15% and net profit growth of 23% in 2013 thanks to the new plantation. We expect gross margins to increase by 200bp to 26% as SBT uses more in-house sugar instead of having to buy raw sugar inputs from others (which yields only 5% gross margins). Our target price does not include significant investments valued at VND190 billion in two sugar companies – La Nga Sugar (unlisted, 24.8% stake) and Bien Hoa Sugar (BHS, 22.7%) equal to an additional VND1,490/share.

We raise our DCF-derived target price to VND20,500 (25% upside – BUY). Although 1H2012 earnings results are weaker-than-expected (only 38% of our full year forecast), we think the Cambodia expansion is more material to our long-term view of the company's growth prospects and ultimately to our discounted cash flow derived target price. Assuming a long-term average sugar price of VND18,000/kg and gross margin of 26% (compared to a quarterly gross margin of 20.4%-41.7%), we estimate the company will generate free cash flow of VND382-582 billion for the FY12-FY16 period or about VND20,500/share. Given the stable cash flow, we think the company has room to raise their dividend from VND2,000/share to VND3,000/share or consolidate more sugar companies.

1H results fall short of our expectation. The company's 1H revenue increased by 16% yoy but net profit fell by 35% yoy, meeting 54% and 38% our full year forecast respectively. The numbers reflect an increase in volume sold but drop in selling price and rise in sugarcane input costs that squeezed gross margins down from 29% (FY2011) to 21% (1H2012). Accounting for these factors, we revise down our net profit forecast by 22% to VND414 billion (-25% yoy), leaving our revenue forecast unchanged at VND2,165 billion (+6% yoy). However, we forecast the company's revenue and net profit will bounce back in FY13, with revenue growth of 15% and net profit growth of 23%, mostly attributed to the new plantation in Cambodia.

Cambodia expansion: revenue driver and profit margin expander. The company expanded their plantation area by 3,000 ha in Cambodia. The plantation is strategically located near the company's processing factory in Tay Ninh and is ready for harvest in November. Sugarcane from the Cambodia plantation will be transported directly to the factory and will not be subjected to import taxes, only raw sugar (80% tax) and refined sugar (85% tax) are.

Figure 1: SBT's plantation area

	2010	2011	2012	2013
Plantation area (ha)	12,000	12,000	12,000	15,000
Yield (tonne/ha)	50	76	70	70
Sugar output (tonne)	53,346	77,791	74,048	92,560
Raw sugar (tonne)	6,234	21,788	27,000	27,000
Sugar sales volume (tonne)	59,268	98,490	99,698	118,210

Source: SBT, VCSC

Societe De Bourbon Tay Ninh (SBT)

BUY

SBT has cleaned up their balance sheet. At the end of FY2011, the company had VND510 billion long-term investments (22% of total assets) in another listed sugar company Bien Hoa Sugar (BHS) and non-core investments in Bourbon An Hoa, Sacombank (STB), and Sacomreal (SCR).

In 1H2012, the company sold their entire investments in STB and SCR at a total profit of VND110 billion but sold Bourbon An Hoa at an estimated loss of VND103 billion, pocketing a net VND7 billion from the transactions. The company then bought a 24.8% stake in La Nga Sugar (small sugar producer with capacity of 2,500 tonnes/day, or about a quarter of SBT's own capacity). We think the liquidation of the non-core (but family-related) investments and purchase of interests in peers improves investors' perception of the company's corporate governance. The company bought the La Nga Sugar stake for VND61 billion, which translates to 2011 P/E of 6.9x and P/B of 1.6x. The company still retains a 22.7% stake in BHS.

Figure 2: Changes in SBT's long-term investments in VND billion

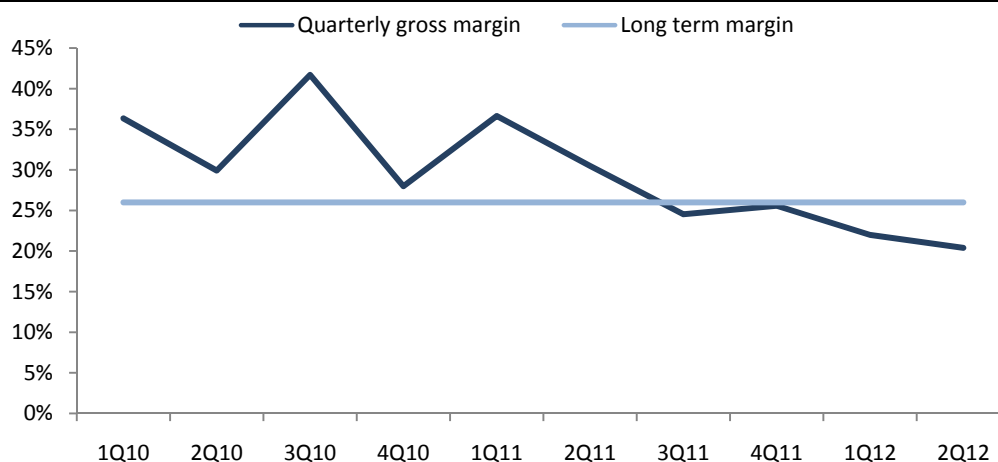
	FY11	1H12
Bourbon An Hoa	245	0
Bien Hoa Sugar	129	129
La Nga Sugar	0	61
STB	106	0
SCR	30	0
Total	510	190

Source: SBT, VCSC

Valuation

We reiterate the DCF method as the valuation methodology to value the company's core business. Given the volatility of sugar price and the sugarcane price, we value the company on the assumption of long-term sugar of VND18,000/tonne. At this long term pricing assumptions, the long term gross margin is equivalent to 26%, which is lower than the company's historical average gross margin of 30% for period 1Q10 – 2Q12.

Figure 3: SBT's quarterly gross margin versus long term margin



Source: SBT, VCSC

Societe De Bourbon Tay Ninh (SBT)

BUY

Based on the above assumption, we forecast the company will generate VND382-582 billion for period FY12-FY16. The large cash flow results from i) increase in net profit (attributable to the new plantation in Cambodia) ii) a low capex plan, and iii) nominal changes in working capital. We derive a target price of VND20,500/share from our DCF valuation.

Figure 4: SBT's FCFF (VND bn)

	2011	2012	2013	2014	2015	2016
EBIT	620	482	605	619	633	644
less: tax	-20	-48	-61	-62	-63	-64
add: depreciation	76	75	76	77	77	77
less: capex	-42	-40	-10	-10	-10	-77
(increase) / decrease in NWC	-184	-86	-98	-54	-55	-55
Unlevered free cash flow	450	382	512	569	582	524
PV of FCF		317	353	326	278	210
PV of terminal value	1,266					
Equity value	2,618					
Outstanding share (mn share)	128					
Share price	20,500					

Source: VCSC

Financial Statements

Units: VND billion

Income statement	2010	2011	2012	2013	Balance sheet	2010	2011	2012	2013
Revenue	1,104	2,050	2,165	2,498	Assets				
- Cost of goods sold	-720	-1,447	-1,634	-1,844	+ Cash & equivalent	126	89	422	642
Gross profit	384	603	530	653	+ Short-term investments	140	125	125	125
- Sales & marketing	-17	-25	-27	-31	+ Accounts receivable	81	180	144	166
- General & admin	-26	-38	-41	-47	+ Inventories	292	280	403	455
Operating profit	341	540	463	576	+ Other current assets	200	334	334	384
- Forex gains/(losses)	-1	-2	-2	-3	Total current assets	839	1,009	1,428	1,772
- Net non-op gains	50	82	21	32	+ Gross fixed assets	1,598	1,647	1,687	1,697
EBIT	390	620	482	605	- Accum. depreciation	-919	-994	-1,069	-1,145
- Interest expense	-20	-49	-22	-40	+ Net fixed assets	678	652	618	551
EBT	370	571	459	565	+ Long-term investments	100	281	281	281
- Income tax expense	-25	-18	-46	-56	+ Other long-term assets	339	381	136	136
Profit after tax	345	553	414	508	Total long-term assets	1,118	1,314	1,034	968
- Minority interests	0	0	0	0	Total Assets	1,957	2,323	2,462	2,740
Net Income to common	345	553	414	508	Liabilities & Equity				
EPS	2,432	3,896	2,914	3,581	+ Accounts payable	45	72	66	75
EBITDA	463	696	557	681	+ Short-term borrowings	2	327	327	327
Depreciation	-72	-76	-75	-76	+ Other ST liabilities	94	105	110	127
Revenue grow th %	43.3%	85.7%	5.6%	15.4%	Current liabilities	141	504	504	529
Operating profit grow th %	101.1%	58.4%	-14.2%	24.4%	+ Long-term debt	20	18	0	0
EBIT grow th %	67.1%	58.8%	-22.3%	25.6%	+ Other LT liabilities	6	6	6	6
EPS grow th %	64.4%	60.2%	-25.2%	22.9%	Total LT liabilities	26	25	6	6
Profitability ratios	2010	2011	2012	2013	Total Liabilities	167	529	510	536
Gross margin	34.8%	29.4%	24.5%	26.2%	+ Total preferred equity	0	0	0	0
Profit after tax margin	31.3%	27.0%	19.1%	20.3%	+ Addtl paid in capital	0	0	0	0
ROE Dupont	20.1%	30.9%	22.1%	24.5%	+ Share capital	1,419	1,419	1,419	1,419
ROA Dupont	18.2%	25.8%	17.3%	19.5%	+ Retained earnings	370	375	533	785
* EBIT Margin	35.3%	30.2%	22.2%	24.2%	+ Minority interest	0	0	0	0
* Tax burden	93.2%	96.8%	90.0%	90.0%	Total equity	1,790	1,794	1,952	2,204
* Interest burden	94.9%	92.1%	95.4%	93.3%	Liabilities & equity	1,957	2,323	2,462	2,740
* Asset turnover	0.6	1.0	0.9	1.0					
Leverage ratio	1.1	1.2	1.3	1.3					
ROIC	19.3%	28.0%	18.7%	21.1%					
Efficiency ratios	2010	2011	2012	2013	Cash flow	2010	2011	2012	2013
Days inventory on hand	149.8	72.2	76.3	84.9	Beginning cash	36	126	89	422
Days AR outstanding	24.2	23.3	27.3	22.6	Net Income	345	553	414	508
Days AP outstanding	20.2	14.8	15.5	13.9	+ Depreciation	73	79	75	76
Cash conversion cycle	153.9	80.7	88.2	93.6	+ Other non-cash adjust.	-40	-87	0	0
Inventory turnover	2.4	5.1	4.8	4.3	+ Changes in non-cash	41	-89	-86	-98
Liquidity/Solvency	2010	2011	2012	2013	Cash from Operations	419	456	402	486
Current ratio	5.95	2.00	2.83	3.35	+ Disposal fixed assets	1	0	0	0
Quick ratio	3.88	1.44	2.03	2.49	+ Capex	-5	-42	-40	-10
Cash ratio	0.90	0.18	0.84	1.21	+ Change in investments	0	0	0	0
Debt-to-assets (*)	0.01	0.15	0.13	0.12	+ Other investments	-51	-256	245	0
Debt-to-capital (*)	0.01	0.16	0.14	0.13	Cash from Investing	-55	-298	205	-10
Debt-to-equity (*)	0.01	0.19	0.17	0.15	+ Dividends paid	-184	-385	-256	-256
Short-term debt to equity	0.00	0.14	0.13	0.12	+ Change in capital	0	0	0	0
Long-term debt to equity	0.01	0.01	0.00	0.00	+ Change in ST debt	-88	325	0	0
Interest coverage ratio	19.55	12.73	21.79	14.98	+ Change in LT debt	-2	-2	0	0
Valuation ratios	2010	2011	2012	2013	+ Other financing act.	0	0	0	0
Price-to-earnings (P/E)	6.7	4.2	5.6	4.6	Cash from Financing	-274	-196	-274	-256
Price-to-book value (P/B)	1.3	1.3	1.2	1.1	Net changes in cash	90	-38	333	220
EV / EBITDA	4.2	3.0	5.8	4.8	Ending cash	126	89	422	642
Book value per share	12,609	12,642	13,753	15,531	<i>Units in VND bn</i>				

Societe De Bourbon Tay Ninh (SBT)

BUY

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
SELL	If the target price is 20% lower than the market price
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

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Valuation Methodology: To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

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Societe De Bourbon Tay Ninh (SBT)**BUY****History of recommendation**

Date	Recommendation	Closing price	Target price
19-Sep-12	BUY	VND16,400	VND20,500
13-Apr-12	HOLD	VND17,200	VND17,500
10-Feb-12	BUY	VND13,500	VND17,500
26-Jun-11	BUY	VND10,600	VND14,200