

OVERWEIGHT

Target price VND 16,400
Current price VND 14,500

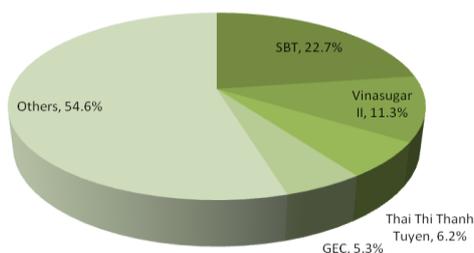
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Co. Profile

Ticker	BHS
Charter Capital (VND bil)	300
Outstanding shares (mil)	30
Market Capital (VND bil)	459
52W range (VND)	24,600 – 11,200
Ave. trading volume 3M	37,510
Beta	1.04
Foreign Ownership	6.35%
First listing date	20/12/2006

Major shareholders

SBT	22.7%
Vinasugar II Co, Ltd.	11.3%
Thai Thi Thanh Tuyen	6.2%
Gia Lai Electricity Jsc (GEC)	5.3%



Price movement

	3M	6M	12M
Absolute	-1.4	-2.6	-0.5
Percentage (%)	-8.4%	-14.5%	-3.2%



Expectation of positive contribution from the last quarter

• **Low 9M12 bottom line despite higher consumption:** In 3Q12, the company recorded revenue of VND654 bil (+26% yoy or -5% qoq) and EBT of VND33 bil (-22% yoy or 2.4 times higher qoq), which translated into a EAT of VND28 bil. Revenue growth was mainly contributed by an increase in selling volume. However, weaker gross profit margin (GPM) marked an opposite trend on y-o-y profits. On the other hand, vis-à-vis the previous quarter, the Mid-Autumn festival demand has pushed selling price up and allowed GPM showed a strong improvement to move back to the middle level in history. Therefore, EAT note down a significant rise in comparison with 2Q12. Within 9M12, BHS has generated a top line of VND2,037 bil (+25% yoy) and a corresponding EBT of VND84 bil (-6% yoy), thereby achieving 71% and 52% of its FY12 sales and EBT targets, respectively.

• **Ability to complete FY12 plans:** BHS has shown strong confidence upon its FY12 revenue with the expectation of exceeding target by 10%. Nevertheless, the company concerns the profit target will not be attained in just one favorable quarter, unless the 4Q12 sugar selling price can remain as high as 3Q12's.

• **Our FY12 earnings forecasts:** Given a better selling volume expectation from the high demand of Tet holidays, we estimate that 4Q12 revenue will be around VND1,050 bil (+12% yoy or +60% qoq). However, most of increased volume will be attributed to both trading and temporary imports for re-export activities which have much inferior profit margin compared to that of the main production sugar sales. Thus, BHS's GPM could be reduced to 8.3% in 4Q12. Nonetheless, we expected a better 4Q12 financial profit, EBT of VND64 bil (-9% yoy or +93% qoq), to be made by collecting the interest revenue from farming investment which is mainly recognized in the last quarter of every year. As a result, our forecasted EBT and EAT for the whole year stood at **VND148 bil (-7.5% yoy) and VND129 bil (-13% yoy)r.**

• **No change for the better expectation in FY13:** BHS's sugar sales FY13 might reach VND2,464 bil, based on lower ASP, bringing total sales toward VND3,036 (aligned with FY12 estimation). Nonetheless, GPM can be maintained amid the decreasing production costs. Hence, the core-business should be able to provide VND142 bil to EBT and generate a profit margin of 4.7%. This profit result would possibly compensate for the bouncing back interest expense from higher long-term loans. The EAT may ultimately reach **VND98 bil**, which is 24% lower than the anticipated FY12's.

• **BUY at the target price of VND16,400:** We set our target price for BHS at VND16,400, pegged to a combination of P/E (70% weight with a 4.5x P/E and estimated FY13 EPS) and P/B (30% weight with a 1.0x P/B and estimated FY13 book value) methods. Our target price is suggesting an upside potential of 13% from the current level (of VND14,500). Therefore, we place our **BUY** call on this stock.

(bil VND)	1H11	3Q11	1H12	3Q12	Co's plan	2012E	2013E
Net Revenue	1,108	518	1,383	654	2,880	3,087	3,036
% gross margin	11%	13%	7%	11%		8%	8%
% OP margin	4%	8%	4%	5%		5%	4%
EBT	47	42	51	33	162	148	131
EAT	43	38	44	28		129	98
% growth YoY	-16%	5%	4%	-25%		-13%	-24%
% growth QoQ		9.7x		2.4x			
EPS (TTM)	7,432	7,526	4,971	4,660		4,087	3,124
BVPS	26,682	28,715	18,099	19,043		20,489	21,613
P/E	4.1	4.1	3.7	3.7		3.7	4.9
P/B	1.1	1.1	1.0	0.9		0.7	0.7

(*) EPS and BV in FY12, FY13 was anchored in 5% higher outstanding shares as BHS plans to issue additional shares followed ESOP in 4Q12
 Source: SBT, PHS

3 Q 1 2 review

Better selling volume was still key momentum

Revenue improved, compared to the same period last year, mainly due to:

- A 26% yoy growth in sugar sales was credited to a 28% increase in selling output (from 27,500 to 35,094 tons of sugar), which offset a 2% lower average selling price (ASP).
- Other income was 2.4 times yoy higher (from VND10 bil to VND24 bil).

GPM is back to the middle point in history

GPM is reduced by 1.9 percentage points (from 13.1% in 3Q11 to 11.2% in 3Q12) owing to:

- GPM of sugar trading (accounting for 5% and 13% total sales in 3Q11 and 3Q12, respectively) was significantly down from 7.7% to 0.7% on weaker ASP, while sugar production (accounting for 92% and 83% total sales in 3Q11 and 3Q12, respectively) still maintained its GPM at 13%.
- Other operation (accounting for 2% and 4% total sales in 3Q11 and 3Q12 respectively) recorded a GPM decrease to 4% (compared to 10% in 3Q11).

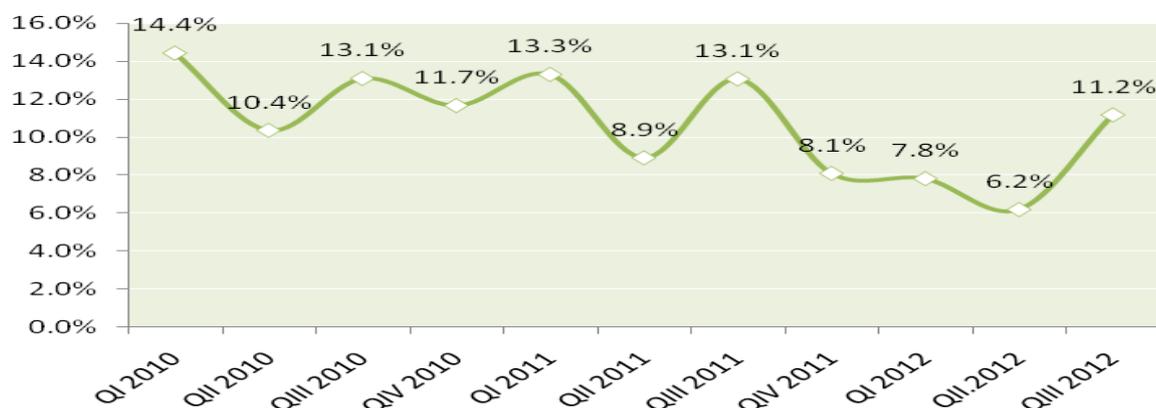
However, in comparison with the last quarter, the Company has made an improvement in GPM from the shocking 6.2% in 2Q12. The rise of GPM was propelled by a 5% qoq rise in company's domestic selling price of produced sugar, in contrast to the 6% drop in market sugar price over the third quarter. The relative strong pricing capability mainly attribute to the following reasons:

- Corporate customers such as VNM, VCF, etc, kept BHS filled with high demand and enjoy a high product price amid Mid-Autumn festival. The wholesale selling price remains at the high of VND18,200/kg.
- Strong brand name and large retail market shares are preserving the price of VND20,000/kg.

Higher CIT

BHS has been subjected to a doubled corporate income tax rate (CIT) of 15% on core business (in comparison with 7.5% in FY11).

BHS's gross profit margin



Source: BHS, PHS

4 Q 1 2 outlook

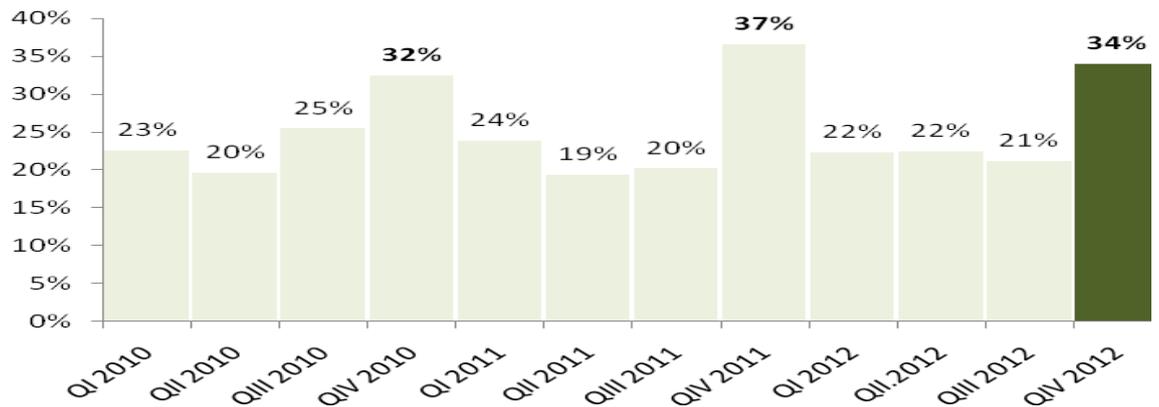
Trading and temporary imports for re-export activities will narrow the GPM

We expect a 17% yoy upsurge in selling volume and a stable qoq selling price with high demand of material sugar for Lunar New Year in 4Q12. However, the output may include large proportion of trading activities and temporary imports for re-export segment, which have much inferior profit margin compared to that of the main sugar operation, based on:

- Trading volume reached about 18,000 tons in 9M12, which exceeded 3% of its full-year target.
- About 17,000 tons of sugar imported in 1Q12 needs to be re-exported in 4Q12, otherwise the company will be subjected an extremely high tariff of 80% - 100%.

Therefore, in spite of our projection on BHS's 4Q12 revenue of VND1,050 bil (+12% yoy or +60% qoq), core-business profit will possibly record a slower step up, rooted in a lower core-business profit margin. The fourth quarter normally makes a great contribution of 32% - 37% of total annual sales.

BHS's revenue structure (in term of the contribution of each quarter)

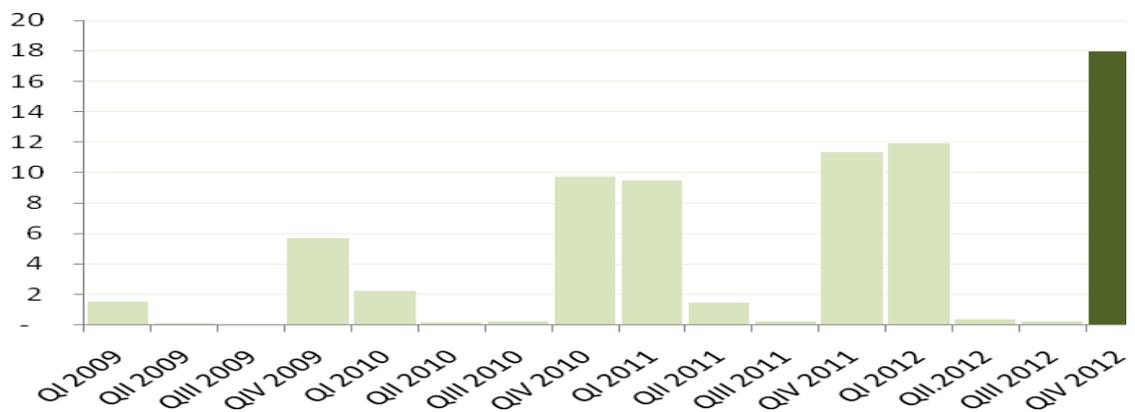


Source: BHS, PHS

Financial profit could turn out of the red zone

We anticipated positive financial profits by collecting higher interest revenue from farming investment. BHS usually funds about 45% - 55% of planting costs to farmers and mainly recognized high gain in the first and fourth quarter as the cultivators begin to harvest.

BHS's interests on farming investment (VND'bil)



Source: BHS, PHS

Cutting in FY12 CIT

BHS enjoys a 30% cut in FY12 CIT in accordance with the Resolution 29/2012/QH13 (pertaining to agricultural manufacturing companies that employ a large number of workers) on 21 June 2012.

As a results, we have forecasted BHS's revenue of VND3,087 bil (+20% yoy) and EBT of VND148bil (-7.5% yoy), which are 7.2% higher than its FY12 sales target yet 8.4% lower than its EBT one. It may well be translated into a bottom line of VND129bil (-13% y-o-y).

FY13 prospect

Increasing production capability

The total areas, including both investments and other coverage, could reach 11,000ha (+10% yoy) in the 2012/13 season. The new areas are mainly located in Cambodia border. We expect a yield of 61 – 65 tons of sugarcane/ha with the relatively favorable weather conditions. In additional to purchasing quantity from non-invested areas, it can bring about 749,600 tons of crushing volume (+19% yoy) and approximately 64,400 tons of sugar .

Except for enlarging the material area, the company has also invested in two major projects:

- Upgrading the production lines of its Tay Ninh and Tri An factories to be able to directly produce refined sugar from Dec 2012.
- Getting bigger capacity of Tri An plant to reach 2,500 tons of cane/day (+25% yoy), increasing the total capacity to 6,500 tons/day (+8% yoy).

Therefore, in our view, the higher sugarcane area could cover approximately over 90% of Tay Ninh and Tri An

capacity. However, *the Bien Hoa refinery might only sustain a 60% utilization rate*, due to (i) the lack of raw sugar from Tay Ninh and Tri An factories and (ii) inability to buy the outside raw sugar to lift Bien Hoa mill utilization while the total demand is flat.

Thus, we anticipate raw sugar purchase of 76,000 tons, in which quota volume of 20,000 tons is granted being imported. In total, the production sugar is estimated at 140,400 tons in the next season.

BHS's total sugarcane areas (ha)



Source: BHS, PHS

Maintaining GPM with the positive move of production costs

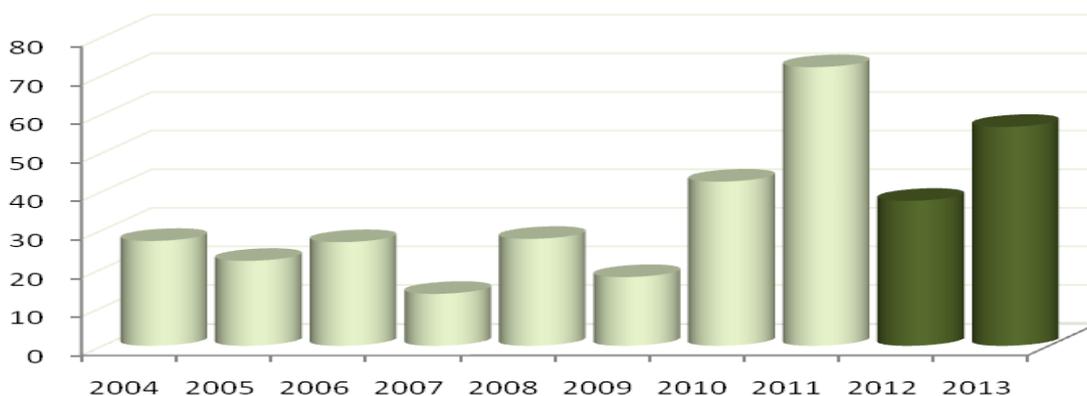
Despite projecting a 19% higher sugar output refined from sugarcane, *consumption volume may not follow suit due to the strategy applied by BHS to narrow its temporary imports for re-export business*. Hence, sugar sales may be VND2,858 bil (-2% yoy), rooted in a lower selling price, possibly leading to total revenue of VND3,036 bil (-2% yoy).

However, in spite of the downward trend of sugar price, BHS's GPM may well be retained at 8.4%, anchored in a lower production cost after upgrading the production lines of its Tay Ninh and Tri An factories.

Interest expenses rebound

BHS may increase its long-term loans in 4Q12 to fund the two above projects. The total investment in these plans is approximately VND130 bil, 70% of which could be funded by loans.

BHS's interest expenses (VND'bil)



Source: BHS, PHS

Full CIT

FY12 is the last preferential year for BHS. From FY13, the CIT will return to the normal level of 25%.

As a result, our forecasted FY13 EBT of VND131 bil may translate into an EAT of VND98 bil. These figures are 11% and 24% lower than our FY12 projection, in that order.

Valuation and recommendation

Multiple method

BHS has entered a downward trend since May 2012 with relative low liquidity in recent months. *BHS is fair priced with P/E of 4.5x and P/B of 1.0x, which are 10% discounted from the expected ones of industry. It is founded that, on comparison with other peers, not only its advantages, including operation scale, market position and dividend yield, but also the disadvantages of (i) low liquidity and (ii) the recent cases related to the Dang Van Thanh's family may*

possibly make some changes in BHS's management situation.

We do not apply the FY12 expected figures to our valuation, as we think the current price has already reflected company's good performance in FY2012. Rooted in estimated FY13 EPS of VND3,124 and book value of VND21,613 (anchored in 5% higher outstanding shares as BHS plans to issue additional shares followed ESOP in 4Q12), the target price is set at **VND16,400** (P/E of 70% weight and P/B of 30% weight). It is **12% higher than current price of VND14,500**. Thus we put our **BUY** call in this stock.

Comparable Analysis (TTM)

	BHS	SBT	LSS (*)	NHS (**)	SEC	KTS
Assets	1,772	2,389	2,785	929	633	142
Equity	571	1,719	1,276	341	266	119
Revenue	2,976	2,088	2,187	749	639	260
GPM	8%	21%	21%	15%	20%	17%
NPM	5%	19%	13%	11%	10%	10%
ROA	9%	18%	12%	11%	10%	18%
ROE	25%	23%	23%	26%	24%	22%
Dividend (VND/share)	2,000	2,000	2,500	3,000	2,200	n/a
EPS	4,660	3,139	5,812	2,653	3,590	6,638
BV	19,043	13,440	25,513	11,225	15,307	30,523
P (13/11/2012)	14,500	15,900	14,400	12,600	19,800	36,200
Dividend yield	14%	13%	17%	24%	11%	
P/E	3.1	5.1	2.5	4.7	5.5	5.5
P/BV	0.8	1.2	0.6	1.1	1.3	1.2

(*) LSS's data was based on 1H12 financial report as the company has not released 3Q12 one yet.

(**) NHS's data is based on 3Q12 financial report of its parent company, yet it is usually not different from the consolidating results.

Source: PHS collected_data is based on 3Q12 results

Financial ratio (bil VND)

Income statement	2010	2011	2012E	2013E	Financial ratios	2010	2011	2012E	2013E
Net sales	2,005	2,565	3,087	3,036	Growth rate				
Cost of goods sold	1,756	2,295	2,830	2,780	Revenue growth rate	69%	28%	20%	-2%
Gross profit	249	270	257	256	Gross profit growth rate	54%	8%	-5%	-1%
Operating costs	55	75	117	113	Net profit growth rate	21%	1%	-13%	-24%
Financial income	18	35	44	45	Total asset growth rate	15%	26%	13%	4%
Financial expense	46	80	36	57	Equity growth rate	17%	13%	14%	5%
Interest expense	43	72	38	57	Profitability ratios				
Operating profit	166	149	148	131	Gross profit margin	12%	11%	8%	8%
Profit before tax	166	160	148	131	EBT margin	8%	6%	5%	4%
Profit after tax	146	147	129	98	Net profit margin	7%	6%	4%	3%
Balance sheet	2010	2011	2012E	2013E	ROA	15%	13%	9%	7%
Total asstes	1,015	1,282	1,451	1,506	ROE	31%	28%	21%	15%
Current assets	618	770	809	878	DuPont Analysis				
Cash & equivalent	59	179	77	82	Net profit margin(1)	7%	6%	4%	3%
Receivables	255	252	269	294	Asset turnover (2)	2.1	2.2	2.3	2.1
Inventories	299	333	389	381	Equity multiplier (3)	2.0	2.3	2.2	2.2
Long-term assets	397	512	643	628	ROE = (1)x(2)x(3)	31%	28%	21%	15%
Long-term receivables	66	42	59	64	Management ratios				
Fixed assets	277	407	539	520	Receivable outstanding days	45	36	32	35
Resources	1,015	1,282	1,451	1,506	Inventory outstanding days	52	50	50	50
Liabilities	514	717	806	825	Payable outstanding days	26	34	34	34
Short-term loans	225	362	311	313	Asset turnover	2.1	2.2	2.3	2.1
Account payables	174	250	262	257	Long-term asset turnover	5.4	5.6	5.3	4.8
Long-term loans	115	104	232	254	Fix asset turnover	7.4	7.5	6.5	5.7
Equities	501	565	645	681	Liquidity ratios				
Chartered capital	185	300	315	315	Current ratio	1.5	1.3	1.4	1.5
Share premium	154	40	40	40	Quick ratio	0.8	0.7	0.7	0.9
Development investment funds	43	65	85	100	Cash ratio	0.1	0.3	0.1	0.1
Retained profit	103	125	150	153	Capital Structure				
Cash flow	2010	2011	2012E	2013E	Total debt/Total Equity	103%	127%	125%	121%
Net operating cash flow	147	165	(7)	58	Total debt/Total Asset	51%	56%	56%	55%
Net investing cash flow	(40)	(106)	(124)	(14)	Total asset/Total Equity	203%	227%	225%	221%
Net financing cash flow	(134)	61	29	(39)	Index per share				
Net cash flows	(27)	120	(102)	5	PE	4.1	3.5	3.7	4.9
Cash at the beginning	86	59	179	77	PBV	1.2	0.9	0.7	0.7
Cash at the end	59	179	77	82	PS	0.3	0.2	0.2	0.2
					EPS	7,871	4,908	4,087	3,124
					Cash earning/share	3,171	5,960	2,438	2,598
					Book value	27,023	18,821	20,489	21,613

Source: BHS and PHS's expectation

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