

Industry: Sugarcane

Update Report

May 16, 2014

 Recommendation **NEUTRAL**

 Target price (VND) **11,800**

Market price (13/05/2014) 11,400

Expected return 4%

STOCK INFORMATION

| | |
|-------------------------|--------------------|
| Exchange | HSX |
| 52-week price range | VND11,400 – 14,580 |
| Capitalization | VND1,636 billion |
| Outstanding shares | 143,486,160 |
| 10-day average volume | 176,586 |
| % foreign ownership | 16.76% |
| Foreign ownership limit | 49% |
| Dividend per share | VND1,000 |
| Dividend yield | 8.8% |
| Beta | 0.73 |

PRICE MOVEMENT


| | YTD | 1M | 3M | 6M |
|----------|-------|--------|--------|-------|
| SBT | -8.1% | -13.0% | -10.2% | -8.8% |
| VN-Index | 1.8% | -14.4% | -9.9% | 3.6% |

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Thanh Thanh Cong Tay Ninh Joint Stock Company

Ticker: SBT

Reuters: SBT.HM

Bloomberg: SBT VN

High inventory, lower selling prices

Ending Q1/2014, SBT had revenue of VND452 billion, down 9.5% YoY, and net profit of VND29.4 billion, down 43% YoY, fulfilling 21% of the plan. Like many other sugar firms, SBT is suffering great pressure from excess supply in the market and high inventory.

Q2/2014 prospect is less optimistic than Q1/2014' due to seasonal factor. Its sales volume in Q2 is often 15% lower than in Q1. As a result, revenue and net profit are forecast to reach only VND384 billion and VND25 billion respectively.

- ❑ **Sales volume.** We forecast SBT's sales volume to reach 22,000 tons in Q2 and accumulated 47,000 tons in the first half of the year.
- ❑ **Selling prices will remain low.** Due to high inventory of the sugar industry, selling prices will unlikely increase in Q2. SBT's average selling price in Q2 is estimated at VND14 million/ton.
- ❑ **High input prices.** SBT purchases sugarcane at in-advance negotiated prices from farmers, so material prices are often 10% higher than the market average, estimated at more than VND1.05 million/ton, despite falling sugar prices.

2014 Forecast. SBT's has seen worse operating results. It targets to achieve revenue of VND2,096 billion and profit of VND160 billion in 2014, down 6% and 42% YoY respectively. Based on the Q1 result and the difficulties faced by the sugar industry, we estimate SBT's FY2014 revenue at only VND1,894 billion. However, net profit is likely to surpass the target and reach VND174 billion due to a possible provision reversal.

Dividend will decrease. Given poorer operating results, SBT has decided to pay a dividend rate at only 10% for 2013 (finished) and 5% for H1/2014, much lower than the payout ratio of 20%-30% in the previous years.

Recommendation. We rate **NEUTRAL** on SBT stock with a target price at **VND11,800/share**.

Financial indicators of SBT

| Norm | 2012 | 2013 | 2014F | Q2/2013 | Q2/2014F |
|--------------------------|-----------|-----------|------------------|---------|----------------|
| Revenue (million VND) | 1,960,829 | 2,220,040 | 1,894,377 | 413,164 | 384,100 |
| EBITDA (million VND) | 575,971 | 457,282 | 384,119 | 92,962 | 70,119 |
| EBIT (million VND) | 497,617 | 375,216 | 302,053 | 72,445 | 48,554 |
| Net profit (million VND) | 370,133 | 243,002 | 174,377 | 36,976 | 24,742 |
| EPS (VND) | 2,608 | 1,636 | 1,174 | 2,245 | 1,010 |
| P/E (x) | 4.68 | 7.46 | 10.39 | 5.43 | 12.07 |
| P/B (x) | 0.97 | 1.02 | 0.98 | 1.02 | 0.98 |
| ROA (%) | 26% | 15% | 8% | 13% | 5% |
| ROE (%) | 31% | 21% | 14% | 18% | 8% |

Q1/2014 Update Report
OWNERSHIP INFORMATION

| | |
|---------|--------|
| State | 0% |
| Foreign | 16.76% |
| Others | 83.24% |

MAJOR SHAREHOLDERS

| | |
|---------------------------------|--------|
| Thanh Thanh Cong Investment JSC | 24.57% |
| Dang Thanh Co. Ltd. | 24.43% |
| Gia Lai Electricity JSC | 6% |
| Halley Asian Prosperity | 5.95% |
| Vietnam Dairy Products JSC | 4.92% |
| Kinh Do Investment Co. Ltd. | 4.91% |

FINANCIAL FORECAST

| Income Statement | | | | | |
|-------------------------|-------|-------|-------|-------|-------|
| Unit (billion VND) | 2010 | 2011 | 2012 | 2013 | 2014F |
| Revenue | 1,104 | 2,050 | 1,961 | 2,220 | 1,894 |
| COGS | 720 | 1,447 | 1,591 | 1,939 | 1,676 |
| Gross profit | 384 | 603 | 370 | 281 | 218 |
| Financial revenue | 54 | 129 | 313 | 155 | 131 |
| Financial expense | 25 | 100 | 172 | 52 | 61 |
| Net profit | 345 | 553 | 370 | 243 | 174 |

| Balance Sheet | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Unit (billion VND) | 2010 | 2011 | 2012 | 2013 | 2014F |
| Cash & cash equivalents | 126 | 89 | 111 | 278 | 221 |
| Short-term financial investments | 140 | 125 | 202 | 119 | 217 |
| Short-term receivables | 274 | 512 | 730 | 1,175 | 1,040 |
| Inventories | 292 | 280 | 339 | 231 | 294 |
| Fixed assets | 680 | 653 | 646 | 638 | 633 |
| Long-term financial investments | 332 | 555 | 500 | 749 | 748 |
| Total assets | 1,957 | 2,323 | 2,634 | 3,250 | 3,204 |
| Short-term liabilities | 141 | 505 | 889 | 1,331 | 1,337 |
| Long-term liabilities | 26 | 24 | 49 | 78 | 57 |
| Equity | 1,790 | 1,794 | 1,696 | 1,841 | 1,810 |
| Total resources | 1,957 | 2,323 | 2,634 | 3,250 | 3,204 |

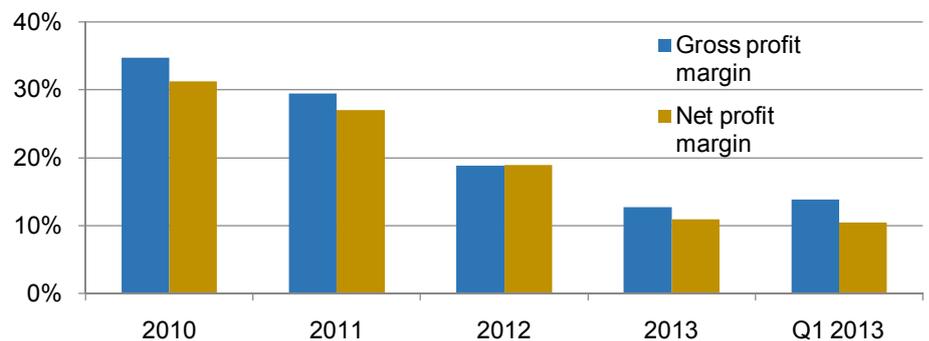
| Financial Indicators | | | | | |
|------------------------------------|--------|--------|--------|--------|--------|
| Norm | 2010 | 2011 | 2012 | 2013 | 2014F |
| Growth ratios | | | | | |
| Revenue growth (%) | 43% | 86% | -4% | 13% | -15% |
| Net profit growth (%) | 64% | 60% | -33% | -34% | -28% |
| Profitability ratios | | | | | |
| Gross profit margin (%) | 35% | 29% | 19% | 13% | 12% |
| Net profit margin (%) | 31% | 27% | 19% | 11% | 9% |
| ROA (%) | 18% | 26% | 15% | 8% | 5% |
| ROE (%) | 20% | 31% | 21% | 14% | 9% |
| Capital Structure | | | | | |
| Total liabilities/Total assets (%) | 0% | 14% | 27% | 33% | 34% |
| Total liabilities/Total equity (%) | 0% | 18% | 42% | 59% | 61% |
| Per share ratios | | | | | |
| EPS (VND/share) | 2,432 | 3,896 | 2,608 | 1,636 | 1,174 |
| Book value (VND/share) | 12,609 | 12,642 | 11,948 | 12,395 | 12,188 |
| Valuation ratios | | | | | |
| P/E (time) | 5.02 | 3.13 | 4.68 | 7.46 | 10.39 |
| P/B (time) | 0.97 | 0.97 | 1.02 | 0.98 | 1.00 |

Falling sales volume and prices in Q1/2014

Sugar inventory in the domestic market remained high. As of early April 2014, the amount of sugar inventory at factories and trading firms under the Vietnam Sugar and Sugar Cane Association (VSSA) reached 650,000 tons, an increase of nearly 150,000 compared to the same period of 2013.

SBT sold about 25,000 tons in Q1/2014. Selling prices also fell by 12% on-year to VND14 million/ton. Its inventory amount was estimated at 65,000 tons. Decreasing prices caused SBT's profit margin in Q1 to fall compared to the previous years. Its gross profit margin and net profit margin was 10.5% and 6.4% respectively.

Ending Q1/2014, SBT had revenue of VND452 billion, down 9.5% YoY, and net profit of VND29.4 billion, down 43% YoY, fulfilling 21% of the plan.



Q2/2014 prospect forecast to be less optimistic than Q1/2014' due to seasonal factor

Due to seasonal factor, SBT's sugar sales volume in Q2 is often 15% lower than in Q1.

- **Sales volume.** We forecast SBT's sales volume at only 22,000 tons in Q2 and accumulated 47,000 tons in the first half of the year due to low demand in Q2. Another reason is the high inventory incurred by the sugar industry.
- **Selling prices.** Due to high inventory of the sugar industry, selling prices will unlikely increase in Q2. SBT's average selling price in Q2 is estimated at VND14 million/ton.
- **High input prices.** SBT purchases sugarcane at prices negotiated in advance with farmers because it does not possess any material area but just supplies sugar cane sprouts and support to farmers. Currently, it is unable to actively reduce its purchasing price of sugarcane from farmers; if so, it may be difficult for SBT to prevent them from shifting to other plants. Particularly, sugar cane in Tay Ninh province is being

severely competed by manioc plant.

As a result, retaining material sources near the factory is very significant to SBT because the CCS ratio of sugar cane will decrease in case of slow processing, not to mention the surge in transportation cost if the materials area is located too far. For that reason, SBT has to maintain high purchasing price of materials despite slow sales. In the 2013/2014 crop, SBT had to purchase sugarcane at VND1.05 million/ton, 10% higher than the market price.

As a result, we forecast its revenue and net profit will reach VND384 billion and VND25 billion, respectively, bringing VND837 billion and VND54 billion accumulated in the first half of the year.

2014 Prospects

The VSSA and the Ministry of Agriculture and Rural Development have proposed the Ministry of Industry and Trade to allow export of 400,000 out of 650,000 tons of sugar inventory. If the proposal is approved, sugar firms including SBT can improve their revenue and profit significantly. Therefore, our estimates will be reviewed when the final decision of the proposal is announced. Based on the Q1 result and the market situation, we estimate SBT's FY2014 revenue at only VND1,894 billion. However, net profit is likely to surpass the target and reach VND174 billion due to a possible provision reversal.

Forecast on 2014's operating results

| Norm | 2013 | 2014F | % | Basis for forecasting |
|-------------------|-------|-------|------|--|
| | | | | The average selling price is estimated at VND14 million/ton in 2014. Sales volume is expected to fall by 10% against 2013, at 115,000 tons. |
| Revenue | 2,220 | 1,894 | -15% | Revenue from electricity trading will improve. According to Decision No. 24/2014/QD-TTg of Prime Minister dated March 24, 2014, the selling price of electricity from biomass power plants will be increased by 45% from 4 cents/kW to 5.8 cents/kW. |
| COGS | 1,939 | 1,676 | -14% | COGS will fall correspondingly with sales volume |
| Gross profit | 281 | 218 | -22% | |
| Financial revenue | 155 | 131 | -15% | |
| Financial expense | 52 | 61 | 17% | Reversal of provision worth VND53 billion for Bourbon An Hoa's debt. Regarding the debt of Bourbon An Hoa, the balance at the beginning of 2012 was nearly VND300 billion. In 2013, An Hoa paid back a part of the principal of VND166 billion. In 2013, a provision worth VND43 billion out of total VND96 billion was also reversed. As at end-March 2014, the value of the loan and its provision was respectively VND177 billion and VND53 billion. Given that the |

payment capacity of Bourbon An Hoa has been improved, we think that SBT can have VND53 billion provision reversal in 2014.

| | | |
|------------------------|-------|------------|
| Sales expense | 49 | 40 -18% |
| Administrative expense | 64 | 57 -11% |
| Net profit | 239 | 174 -27% |
| EPS | 1,636 | 1,174 -28% |

SBT plans to increase its power generating capacity from 24MWh to 34MWh. According to Decision No. 24/2014/QĐ-TTg of the Government dated 24/03/2014, the selling price of electricity from biomass power plants will be increased by 45% from 4 cents/kW to 5.8 cents/kW. Therefore, SBT plans to make an investment of \$5 million in equipments to increase its generating capacity from 24MWh to 34MWh. With the above capacity, SBT will be able to sell 100,000 MW to EVN annually, doubling the sales volume of 2013 and contributing VND120 billion into its annual revenue from power sector.

Ethanol project is expected to go into operation in 2015. SBT is boosting legal procedures to start construction of this plant as scheduled, with a total investment of \$20 million. This ethanol plant is expected to go into operation from August 2015 at a capacity of 100,000 liters per annum.

Investment recommendation

In the short-term, we assess that SBT and sugar firms will continue to face lots of difficulties due to low production capacity, uncompetitive prices and excess supply of sugar in the market. In the coming years, the sugar industry will have to bear great pressure from imported products as Vietnam will gradually remove protecting methods for the sugar industry in line with the commitments of WTO, AFTA and the upcoming TTP convention. For that reason, we rate **NEUTRAL** on SBT stock. SBT is among the leading companies in the industry, with revenue of approximately VND2,000 billion per year, ROE above 10% and dividend yield at about 8%. In addition, the ongoing investment activities will help diversify income for SBT. We estimate the target price of SBT at **VND11,800/share**.

REPORT COMMENTARY

Target price: is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE, FCFF, DDM); NAV-based valuation; comparative indicators (P/E, P/B, EV/EBIT, EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

RECOMMENDATION SYSTEM

BVSC's recommendation system is based on the increase/decrease of the share price to the target price. There are three levels of recommendation with the corresponding difference in magnitude from low to high. Investors should be noticed that investment recommendations can be changed at the end of each quarter after BVSC's corporate reappraisal.

| Recommendation levels | |
|-----------------------|--|
| Recommendation | Explanation |
| OUTPERFORM | Target price above 15% higher than market price |
| NEUTRAL | Target price between 0% and 15% higher than market price |
| UNDERPERFORM | Target price lower than market price |



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