

THANH THANH CONG TAY NINH SUGARCANE J.S.C (HSX: SBT)

Nhan Pham Senior Analyst Email: nhanpld@fpts.com.vn Tel: (84) - 86290 8686 - Ext: 7593	Market price:	12.200	-18%	-7%	0%	+7%	+18%
	Target price:	15.400	Sell	Reduce	Neutral	Add	Buy
	+/-:	+26,2%					
	Dividend yield:	8,2%					
							BUY

Historical price volatility, 07/2012 – 07/2014



Initiating coverage with a BUY recommendation

We conducted an initial report on Thanh Thanh Cong Tay Ninh Sugar J.S.C (code: SBT), which is currently listed on Ho Chi Minh Securities Exchange (HSX). Using DCF methodology to derive the company's intrinsic value, we are inclined to suggest that this stock is being undervalued or in other words, its market price is not fully reflecting its potential. According to our valuation model, the reasonable price is estimated at **VND 15,100 per share**. In the perspective of medium and long-term investor, we recommend a **BUY** as a **24.8%** upside is an acceptable margin of safety.

Market profile	Jul, 17 th 2014
Current price	12,200
52-week high (VND/share)	14,000
52-week low (VND/share)	11,400
Listed shares	148,480,000
Outstanding shares	143,506,160
3M average volume	129,330
% foreign ownership	17.24
Chartered capital (VND bn)	1,485
Market cap. (VND bn)	1,751

Business Overview	
Name	Thanh Thanh Cong Tay Ninh Sugarcane JSC
Address	Tan Hung ward, Tan Chau district, Tay Ninh province
Core product	RE sugar, molasses, electricity
Main cost	Cane, labour
Competitive advantage	Large and stable clients, high plant capacity and cane area, close cooperation with farmer
Key risk	Cane cost, sugar price

Main shareholders	Prop. (%)
Thanh Thanh Cong Investment JSC	24.56%
Thuan Thien Trading and Investment Ltd	24.43%
Halley Sicav-Halley Asian Property	6.23%
Gia Lai Electricity JSC	6.00%
Dang Huynh Uc My	4.95%
Vietnam Dairy JSC	4.92%
Kinh Do Ltd	4.91%
Others	24.00%

The total revenue and EAT for FY2014 are expected at VND **2,167 bn** (-2.4% YoY) and **VND199 bn** (-16.7% YoY) respectively, representing the 2014 EPS at **1,341 VND/share** (-16.7% YoY). It can be seen that the firm's performance in 2014 is forecasted to keep running under pressure by a downward trend in global and local sugar price as well as supply surplus. We are however expecting a cyclical recovery on the sugar industry since it is one of the most significant catalysts to watch in the foreseeable future, along with our estimate on the local demand of sugar to value company's prospect in the medium and long-term horizon. The expected revenue growth rate for the period FY2014 – FY2023 is **4.2% per annum**.

- SBT is the largest sugar firm in the Southeast Vietnam in term of production, locating its mill near by many industrial parks in the key economic zone Ho Chi Minh City - Dong Nai - Binh Duong.
- The firm is now investing in a 15.000 ha sugarcane acreage and operating a 9,800 tcd plant which can help achieve the economies of scale. Despite having difficulty in cane area expansion, SBT is focusing on profound development by researching into new cane seeds, merging land to create large sample fields, applying mechanization to increase cane yield and commercial cane sugar (CCS).
- The capacity of raw sugar refinery is about 30,000 – 35,000 tonnes per annum which helps lessen an impact of its seasonal activity. SBT will be also expanding the electric capacity from 24 MWh to 34 MWh to catch up with the Decision 24/2014/QĐ-TTg on supporting the selling price of biomass energy.
- The industrial and beverage grade ethanol project, put into operation in the 2015/16 crop is expected to decrease SBT's sugar production cost by VND 500 per kg.

VALUATION USING FCFF METHOD

DCF assumption	Value	Valuation synthesis	unit	Value
WACC 2014	13.5%	Forecasted duration	year	9
2014 Cost of debt	7.9%	Total PV of cash flow	billion	2,004
2014 Cost of equity	16.9%	(+) Cash & ST investments	billion	376.0
Risk free rate	8.7%	(-) Short & Long term debt	billion	1,007
Market Risk premium	5.0%	Equity value	billion	1,373
2014 Beta	0.78	Minority interest	billion	15.2
2014 - 2023 RevenueCAGR	4.2%	Investment in subsidiaries	billion	748.5
Terminal growth rate	1.0%	Total equity value	billion	2,107
Marginal tax rate*	10%	Outstanding shares	million	142.3
* 10% for the entire business life				
12M TARGET PRICE (vnd/share)				15,430

RELATIVE VALUATION

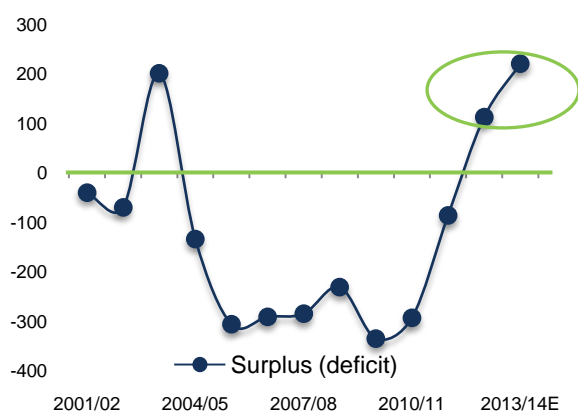
Name	Nation	Market Cap. (USD mil)	Revenue (USD mil)	12M ROE (%)	P/E	P/B	EV/EBITDA
THANH THANH CONG TAY NINH	Vietnam	83.0	103.1	13.5	7.3	0.9	6.4
SUEDZUCKER AG	Germany	4171.2	10315.4	8.6	7.1	0.6	4.7
SAO MARTINHO SA	Brazil	2026.0	684.3	6.5	29.8	1.9	7.2
AGRANA BETEILIGUNGS AG	Austria	1680.5	4058.6	9.6	7.7	0.7	4.7
ILLOVO SUGAR LTD	South Africa	1226.7	1307.9	14.9	13.6	1.9	6.8
MSM MALAYSIA HOLDINGS BHD	Malaysia	1068.5	683.0	14.1	10.7	1.4	6.0
KHON KAEN SUGAR INDUSTRY PCL	Thailand	732.4	542.2	14.8	10.9	1.6	12.2
DANGOTE SUGAR REFINERY PLC	Nigeria	666.5	647.9	23.3	10.0	2.3	3.0
MITSUI SUGAR CO LTD	Japan	538.8	967.5	8.9	6.7	0.6	4.6
ROGERS SUGAR INC	Canada	398.9	521.3	14.1	11.9	1.6	8.0
VICTORIAS MILLING CO INC	Phillipines	262.1	106.0	31.1	11.8	3.2	5.0
KHONBURI SUGAR PCL	Thailand	191.9	190.2	16.1	11.4	1.5	5.5
ROXAS HOLDINGS INC	Phillipines	146.9	171.5	8.5	9.7	0.9	4.7
NEW TOYO INTERNATIONAL HLDGS	Singapore	104.2	225.2	9.9	9.0	0.8	4.6
TAIWAN FRUCTOSE CO LTD	Taiwan	82.7	51.0	11.9	10.5	1.2	16.2
ANDHRA SUGARS LTD	India	65.4	178.3	7.9	7.7	0.6	3.7
TOYO SUGAR REFINING CO LTD	Japan	54.7	144.6	6.9	7.3	0.5	6.3
SAKTHI SUGARS LTD	India	39.5	327.9	25.7	0.3	0.1	7.5
BIEN HOA SUGAR JSC	Vietnam	35.8	132.3	5.3	14.7	0.9	12.3
PONNI SUGARS ERODE LTD	India	22.7	27.8	15.9	7.3	1.1	10.9
GIA LAI CANE SUGAR THERMOELE	Vietnam	20.5	28.2	16.0	11.5	0.9	8.6
HARISCHANDRA MILLS PLC	Sri Lanka	17.2	20.0	18.4	18.4	2.3	10.3
FARAN SUGAR MILLS LTD	Pakistan	9.1	47.5	38.5	4.2	1.2	0.8
AL-NOOR SUGAR MILLS LTD	Pakistan	8.0	69.7	5.7	7.5	0.4	4.9
SHAHMURAD SUGAR MILLS LTD	Pakistan	5.4	51.2	9.7	5.9	0.6	3.6
EASTERN SUGAR & INDUSTRIES	India	1.0	0.9	14.1	7.9	0.1	102.2
Median P/E					9.7		
Median P/B						0.9	
Median EV/EBITDA							6.0
Method of P/E comparables			7.7	8.7	9.7	10.7	11.7
EPS 2014 (VND/share)	1,376		10,564	11,939	13,315	14,691	16,066
Method of P/B comparables			0.4	0.6	0.9	1.1	1.4
BPS 2014 (VND/share)	12,756		5,016	8,205	11,394	14,583	17,772
Method of EV/EBITDA			5.5	5.7	6.0	6.2	6.5
EBITDA 2014 (VND bn)	382		12,729	13,400	14,070	14,740	15,411
Average price			vnd/share		12,926	SBT	

Source: FPTS; Bloomberg

Financial statistics and forecast for 2013 – 2018F

Key figures	Unit	2013	2014F	2015F	2016F	2017F	2018F
Revenue	bil	2,220	2,167	2,187	2,473	2,480	2,480
Gross profit	bil	281	308	365	346	359	447
Net income	bil	239	196	244	211	219	294
EPS	VND/share	1,679	1,376	1,711	1,414	1,478	2,010
DPS	VND	1,000	1,000	1,200	1,000	1,100	1,500
DPS/EPS	%	60%	73%	70%	71%	74%	75%
Revenue growth	%	13.2%	-2.4%	0.9%	13.1%	0.3%	0.0%
Gross profit growth	%	-24.1%	9.5%	18.8%	-5.4%	4.0%	24.3%
Net income growth	%	-35.4%	-18.1%	24.4%	-13.3%	3.9%	34.1%
Gross margin	%	12.7%	14.2%	16.7%	14.0%	14.5%	18.0%
ROE	%	13.5%	10.5%	12.6%	10.6%	10.7%	13.9%
ROA	%	8.1%	6.1%	7.7%	6.6%	6.7%	8.7%
P/E	time	7.3	8.9	7.1	8.6	8.3	6.1
P/B	time	1.0	1.0	0.9	0.9	0.9	0.8

Source: f - FPTTS

1. KEY BUSINESS RISK
Local supply - deficit


Source: FPTTS

1.1. Oversupply resulting in high inventory and decreasing sugar price.

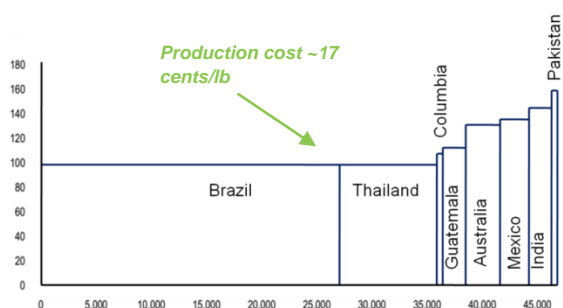
According to Ministry of Agriculture and Rural Development (MARD), local sugar mills have crushed 16.15 million tonnes of sugarcane (-162,900 tonnes YoY) and produced 1.585 million tonnes of sugar (+77,030 tonnes YoY) in the end of the 2013/14 crop. The beginning inventory is 167,000 tonnes and quota-imported volume is 77,200 tonnes. Hence total local supply is around 1.84 million tonnes while total demand is expected at 1.4 million tonnes and 200,000 tonnes are being exported to China. Consequently, the ending inventory is approximately 200,000 tonnes. However, we expect it to be higher due to the amount of 300,000 tonnes of smuggled sugar from Thai Lan this season and the difficulty of unofficial export to China these days.

In the other hand, Vietnam only has flexible timeline from 01/01/2015 to 2018 to remove tariff quota and imply a zero import tax rate for sugar, which is considered as one of the biggest threats for the local sugar industry in the near future.

1.2. Competition risk resulting from the notably high production cost.

With cane price accounting for more than 90% (excluding by-products credit), sugar production cost in Vietnam varies at a

Sugar production cost relative to Brazil and export in '000 metric tonnes



Source: LMC; USDA

relatively high level from 517–611 USD/tonne depending on sugar types (*RE, RS or raw sugar*). It is much higher than the reference price of ICT Futures Raw Sugar #11 (~370 USD/tonne) and LIFFE White Sugar #5 (~470 USD/tonne).

Although SBT is one of the local biggest sugar firms, its production cost for refined sugar is remaining high at about 588 USD/tonne. Operating in the Southeast, SBT is kept under pressure by smuggled sugar from Thailand. In the season 2013/14, raw sugar production cost at this second largest exporter is only 375 USD/tonne and the white sugar FOB price is about 599 USD/tonne (USDA), which is even lower than the sugar cost at the Tay Ninh - based firm.

1.3. Raw material risk

The fluctuation of cane price and the stability of cane area have a great impact on business performance of every sugar firm. Cane growing is a highly cyclical agricultural activity that is easily replaced by other crops such as rubber and cassava. Whenever cane is grown too much and its supply is too high resulting in sugar surplus, cane price is forced to drop. Decreasing income will lead farmer to switch to alternative crops. In fact, SBT has also suffered a drop in its cane area by 1,000 ha in the season 2013/14.

2. SBT AT A GLANCE

SBT's location



Source: SBT

2.1. Long-established history beginning as a joint – venture

Bourbon Tay Ninh Sugar Limited Company was set up on July 15th, 2005 as a joint – venture between French Société de Bourbon, Sugar II and Tay Ninh Sugar Company. In 2008, the firm was listed on HOSE with the code being SBT. By the end of 2010, Bourbon Group had transferred all of its shares to its Vietnamese partners including Thanh Thanh Cong being a large shareholder with 24.5% interest. On Dec 2nd, 2013 the company decided to change the name to Thanh Thanh Cong Tay Ninh J.S.C.

2.2. Geographical location and regional supply – demand

The company's factory and cane area is based in Tay Ninh province, close to the Southeast key economic zone. By 2012, this region not only made up to 16.3% of the national population but also has a highest population growth rate at 3.2% per annum due to an immigration wave from other regions across the country. The Southeast is a dynamic region gathering many economic, industrial, commercial, service and technological centres; access to the rest of the south and even gate to the world; developed urban infrastructure as well as surrounded by many large industrial zones.

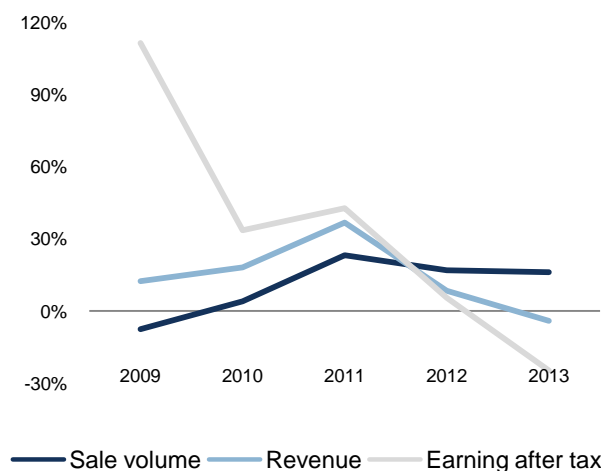
In term of sugar consumption, the Southeast is at the highest level

Map of local sugar mills



Source: VSSA

Plan and result comparison, 2009 - 2013



Source: SBT; compiled by FPTs

over the country owing to: (1) a large proportion of the country's food processing (*Vinamilk, Pepsi Co, CocaCola, Dutch Lady, Nestle, Vinacafe, etc*) takes place in the South; (2) Incomes and urbanization rate are higher; (3) Hot weather stimulates beverage consumption. Three reasons above help explain why the sugar consumption per capita in this region reached 30 kg/person/year in 2012 compared to the national average at 16 kg/person/year. Total sugar demand in the Southeast is estimated at 430.000 – 500.000 tonnes per annum (LMC).

In term of sugar supply, this region concentrates five plants with capacity summed up to 19,500 tcd and provides approximately 200,000 tonnes of sugar per annum. In addition, there is an amount of 300,000 to 500,000 tonnes smuggled from Thailand via Laos and Cambodia borderline every year which is cheaper than Vietnamese sugar by 2,000 – 3,000 VND/kg.

** It can be seen that the supply – demand in the Southeast is currently quite balanced and a momentum for growth is relatively low unless regional firms could seek for other markets such as the North, the Central or export.*

2.3. Management ability

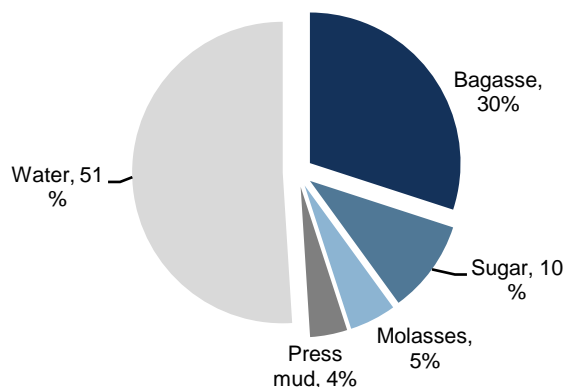
The BoM includes five members which are all experienced experts at both business and agricultural aspects. Similarly, three members in the BoD used to played important roles in several sugar corporations and SBT itself beforehand. We are however concerned about their independent decision making skills as they are also in charge of other sugar firms as well as companies which place in a value chain of the sugar industry.

Regarding their management skills, we assess them by conducting a simple statistic which values a difference between SBT's business plan in the beginning and its performance in the end of each financial year from 2009 to 2013. As can be seen from three categories (*production volume, revenue and EBT*) during the past five years, we suggest that a large deviation can imply that the company's ability to forecast and control impact of selling price fluctuation on its core business is quite low.

2.4. Main product is Refined Extra sugar while By-products help decrease COGS.

Refined Extra (RE) sugar has a Pol degree of over 99.9% and a colour of less than 15 Icumsa. This type serves as raw material for major industrial players in Food and Beverage (*F&B*) sector because it is purer and whiter than Refined Standard (*RS*) sugar. Nevertheless, raw sugar and RS sugar can also be used in many F&B SME due to their cheaper prices than that of RE sugar (*in 2014: 2,000 – 3,000 VND lower per one kilogram*).

Sugarcane By-products

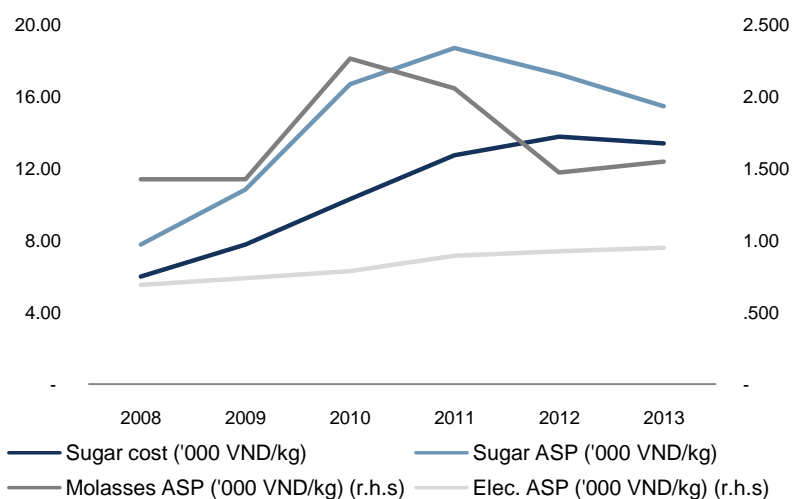


Source: FPT S

Molasses is used primarily for production of rectified spirit and extra neutral alcohol. It accounts for ~5% per tonne of sugarcane crushed. This by-product, along with electricity, is treated as a credit against sugar production cost. SBT's molasses selling price is about 1,700 VND/kg.

Electricity: Bagasse (30-33% per tonne of sugarcane crushed) is used as a combustible in furnaces to produce steam which is used to generate power. The power generated is used in processing sugarcane and surplus power is supplied to the national grids. On average, one tonne of cane can produce 50-70 MW. On 24th Mar 2014, the Prime Minister approved Decision No. 24/2014/QĐ-TTg on supporting the development of biomass power project in Vietnam, in which biomass power purchase price is adjusted to VND 1,220/kWh (5.8 cents/kWh, excluding VAT, and will be adjusted according to fluctuations in exchange rate of VND/USD). SBT is one among those sugar firms that could benefit from this Decision.

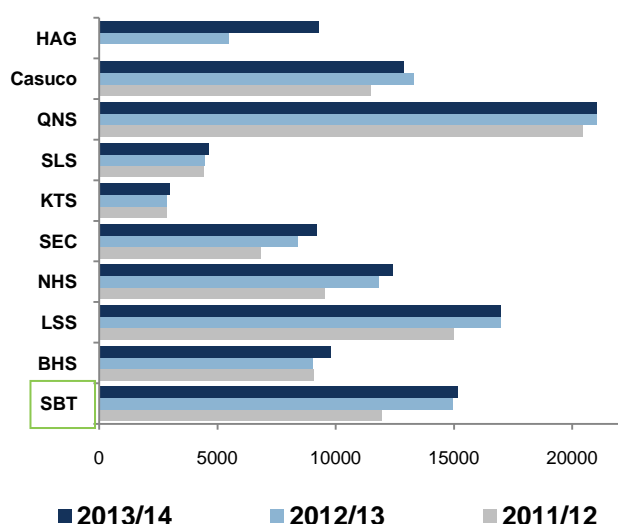
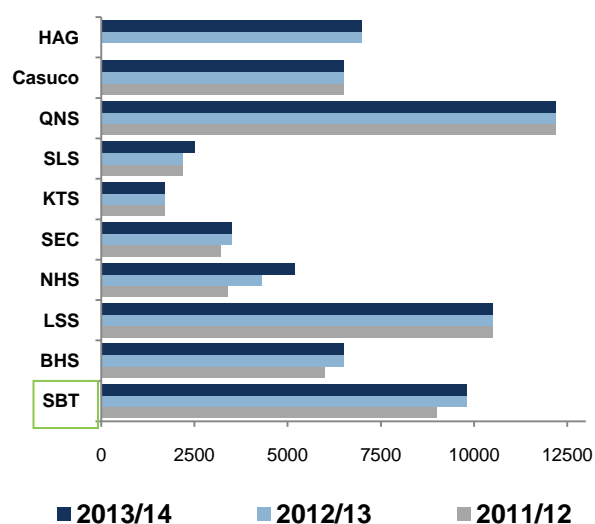
Production cost and selling price, 2008 - 2013



Source: SBT; compiled FPT S

2.5. The company's leading position in the industry

SBT is the largest RE sugar producer in the Southeast region and the location of its mill is near major industrial parks in the triangle economic zone of HCMC - Dong Nai - Binh Duong, thus the business has advantages on price and supply capacity. With the design capacity of 9,800 tcd and cane growing area of 15,000 ha in the 2013/14 crop, SBT is a large-scale firm among 40 local sugar companies. In the 2012/13 crop, SBT produced 133,070 tonnes of RE sugar, representing 8.6% of the nation output. Regarding to RE sugar local suppliers, SBT is one of eight major firms that are able to produce this type of sugar apart from Viet Dai, La Nga, Bien Hoa, KCP, NIVL, Nghe An T&L and LSS.

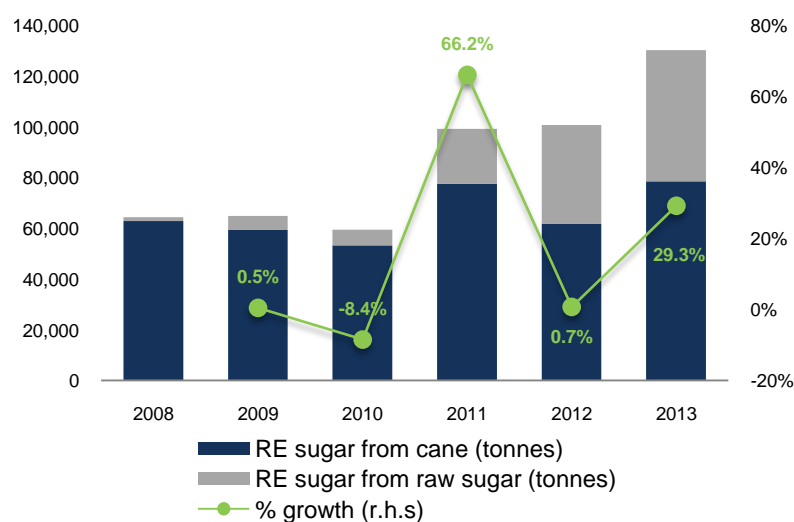
Sugarcane growing area (hectares)

Design capacity (tonnes/day)


Source: compiled FPTs

2.6. Production capacity

RE sugar from cane: The design capacity is 9,800 tcd, which allows the mill to crush up to 1.3 million tonnes of cane during the crop from November to April. Consequently, the output of RE sugar could reach 100,000 – 120,000 tonnes per annum. However, the plant's actual capacity in the 2013/14 crop was only 8,200 tcd, accounting for only 84% of total capacity.

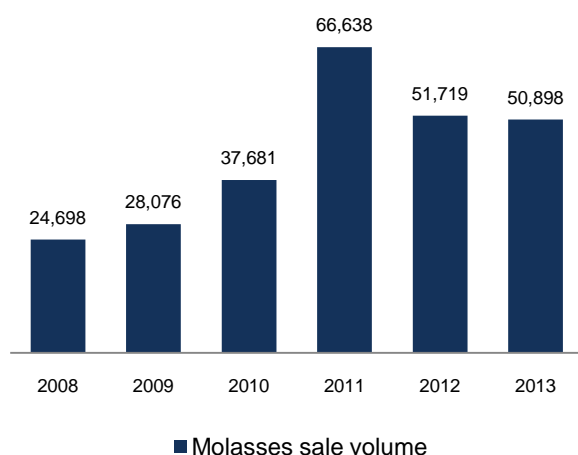
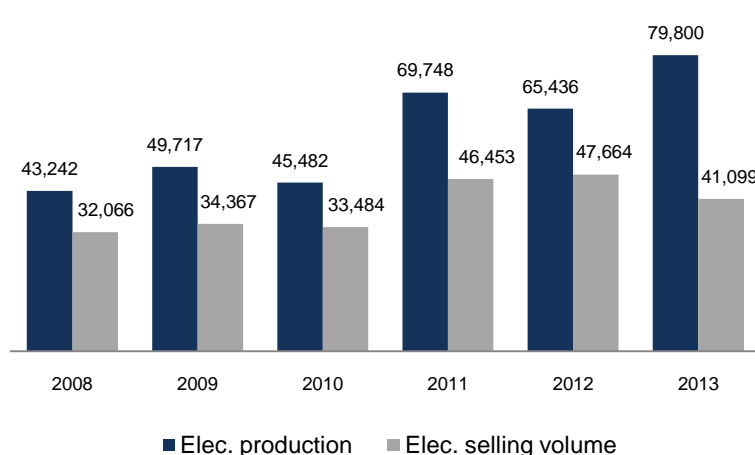
RE sugar from raw sugar: Besides producing sugar from cane, SBT could also purchase raw sugar from other sugar plants to refine RE. Sugar cost shows a very little difference between producing from cane and from raw sugar (~12,500 VND/kg). After the Affinage project was put into operation, SBT is able to refine 30,000 – 35,000 tonnes of RE from raw sugar every year.

Sugar production, 2008 - 2013


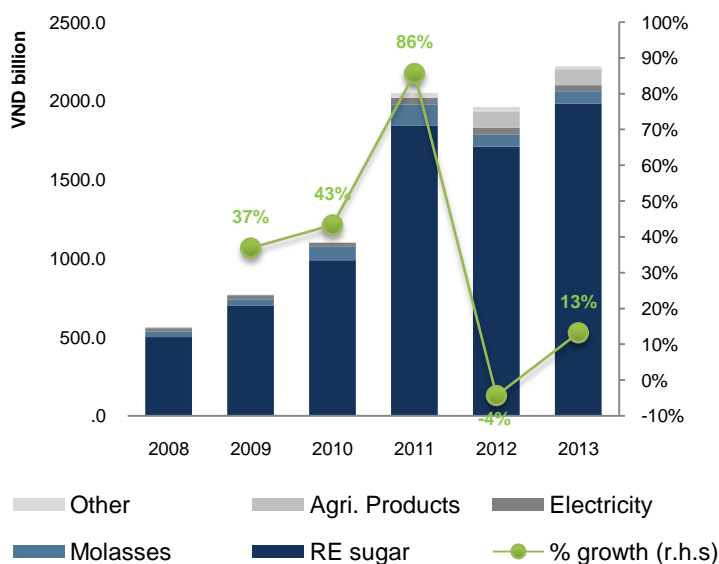
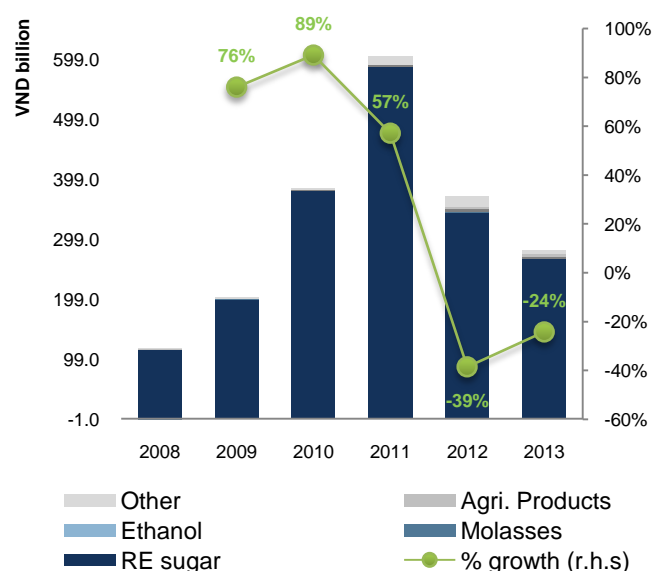
Source: SBT; FPTs

Molasses: the production volume is about 40,000 – 50,000 tonnes per annum depending on its cane crushing volume. Furthermore, the molasses output is also up to SBT's sugar conversion ratio in each crop. If its CCS is high then molasses volume will be low relatively and vice versa. In the 2013/14 crop, the firm's molasses conversion ratio was around 4.6%.

Electricity: the power plant has the capacity to export 24 MWh and electricity is generated during the crop time (115 – 135 days). Currently, 40% of its electricity is used to power the mill while the remaining quantities are exported to the national grids. SBT's sale volume is about 47,000 MW per annum.

Molasses sale volume (tonnes), 2008 – 2013

Electricity volume (MWh), 2008 - 2013


Source: SBT; compiled by FPT

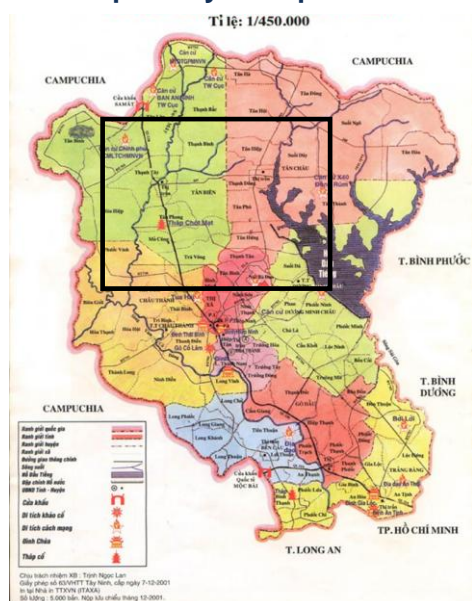
Total revenue, 2008 – 2013

Gross profit, 2008 - 2013


Source: SBT

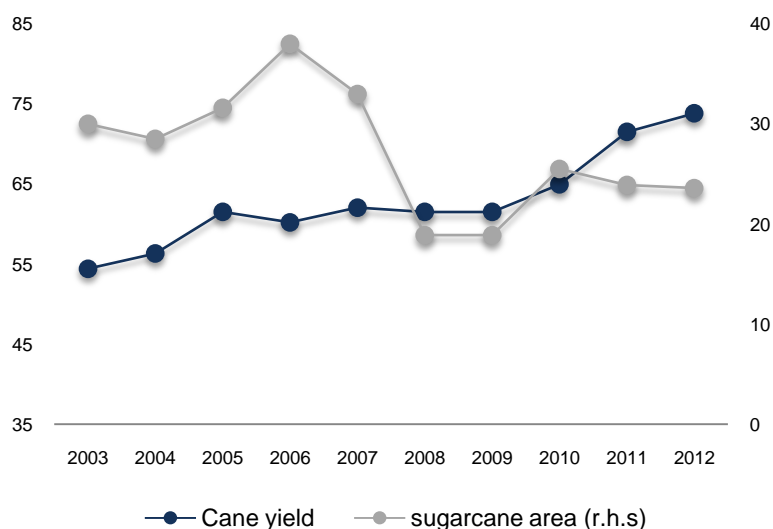
2.7. Sugarcane growing area

SBT's cane area is located in 04 districts of Tay Ninh province, especially in Tan Chau and Tan Bien district. Whereas the sugarcane acreage in Tay Ninh has showed a slump under great pressure of other crops such as rubber and cassava during the past ten years; the cane yield still kept improving significantly. This is the area of high ground with rainy season of 6 months and dry season of 6 months each year. If the issue of water source for irrigation in dry season is solved, it is very favourable for sugarcane growing. However there is little potential for expansion due to three following reasons: (1) Farmer's profit from cane growing activity is becoming less attractive compared to alternative crops; (2) the regional average disposal income per capita is on an upward trend and farmers turn out richer; (3) a rapid urbanization and industrialization comes from neighbouring economic zones.

Map of Tay Ninh province



Cane yield (tonnes/ha) and sugarcane area ('000 ha) in Tay Ninh, 2003 - 2012

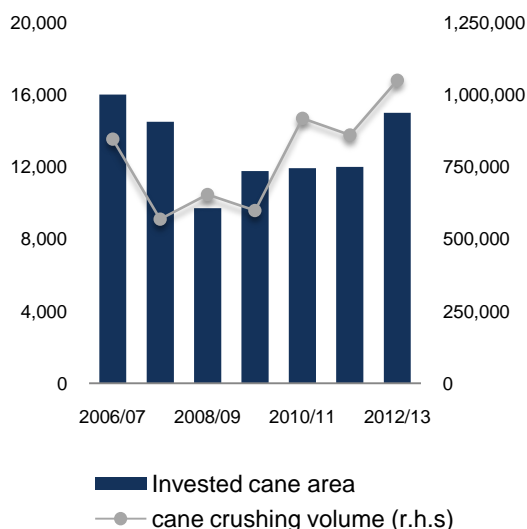


Source: SBT; compiled by FPTs

SBT's harvesting area in the 2013/14 crop is estimated at 15,600 ha and could drop to below 15,000 ha next season due to a declining cane purchase price and the competition posed by other crops. We expect that SBT would only be able to preserve its prevailing cane area (14,000-15,000 ha) within the next five years while the ability to expand is less likely. However we also think about the possibility that SBT could acquire some neighbouring sugar plants which would appear to suffer from the foreseeable elimination in the industry, such as Nuoc Trong Sugar J.S.C (capacity: 1000 tcd; cane area: 2,700 ha).

In 2012, SBT and Bien Hoa Sugar J.S.C (BHS) announced their projects to develop cane area in Svay Rieng, Cambodia and the firm said that 2,281 ha were already planted. However, it turned out that these projects did not work really well. BHS has recently

SBT's invested cane area and cane crushing volume over the crops



Source: SBT

admitted that its investment in Cambodia was transferred to a third party after a long delay.

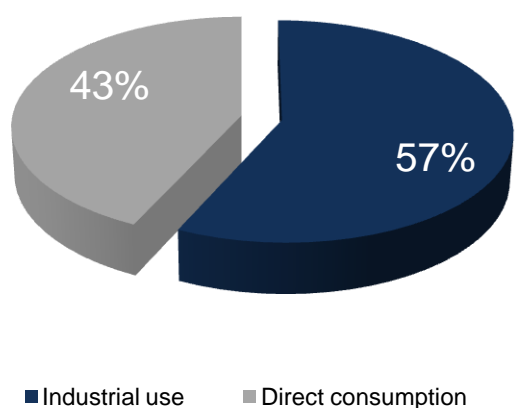
The cane yield of SBT has fluctuated greatly in these recent crops under effect of weather instability as well as miscalculation during the process of cane area switch with BHS. In the 2013/14 crop, the actual yield only reached 59 tonnes per hectare; however the average CCS was up to 9.5%.

Cane seeds: SBT's sugarcane seeds mainly originated from other countries around the world, especially Thailand and this is just a short-term solution as they cannot meet crop needs due to low adaptability. In the medium and long-term, we expect the establishment of Thanh Thanh Cong Sugarcane Research & Application J.S.C (*SBT: 24% of interest*) would help the firm focus on cross-bred and variety development for sustainable growth after 8-10 years.

Mechanization process: SBT is now having six large sample fields and planning to own at least 3,000 hectares of cane growing area for better material control and mechanization. Such stages as cane planting, harvesting and transporting are being improved to minimize labour costs and curtail shipping time from field to mill in order to reduce the firm's sugar production costs.

2.8. Distribution channel and consumption by type of client

Domestic consumption breakdown, 2012



Source: LMC

SBT mainly developed its B2B distribution channel to clients including F&B processing companies and sugar trading companies. Pepsi, Vinamilk, Trung Nguyen and URC are among its large customers. Revenue attributable to industrial clients accounts for 90-95% of the firm's total revenue while the rest of it comes from its two retail brands, Mimosa and Bonsu.

There is a huge difference between SBT and the country in term of indirect/direct consumption proportion. It is estimated that industrial end users account for around 57% of the national demand while direct consumption make up 43% (LMC). Relying on wholesale channel might help SBT save its SG&A expenses but could lead to a risk of losing customers if its selling price is less competitive. To be noticed, the level of competition in the Southeast is much higher than that of the North and Centre. Refined sugar, as an agricultural product, shows a little to no product differentiation among many suppliers; hence price is the key driver to sales.

2.9. Notable project

Food alcohol plant

In March, 2014 SBT announced a VND189 bn investment in Thanh Thanh Cong Ethanol production and trading JSC, representing 90% of interest at this new company. The alcohol

project, which costs US\$ 20 mil, is expected to have a design capacity of 100,000 liters per day and go into operation in the 2015/16 crop.

Food-grade ethanol (*not industrial-grade*) is used in alcohol drinks production and its distillation is more complex than that of fuel ethanol as the majority of toxic components must be removed. This type can be produced using molasses, a by-product in sugar manufacturing.

With an ethanol/molasses conversion ratio of 0.26 and molasses/cane ratio of 4.6% at SBT, we expect the firm to produce up to 12-13 million litres of ethanol per annum. It would appear that to fulfil the design capacity of 21 million litres, SBT would have to purchase around 35,000 tonnes of molasses apart from self-supplying. We find it easy for the firm to do so since SBT has a close relationship with Thanh Thanh Cong Trading JSC, which is also the member of Thanh Thanh Cong Group. This trading company purchases more than 200,000 tonnes of molasses from many related sugar mills (*SBT, BHS, NHS, SEC, etc.*) every year.

The project is considered as one step to extend SBT's value chain and the firm said that its sugar production cost would be able to drop by at least 500 VND/kg when the plant is put into operation. As we know, molasses already helps decrease the cost by 850 VND/kg. SBT also revealed that the ethanol output would be guaranteed by its foreign partner. We guess that this partner is a party to hold the rest 10% stake of Thanh Thanh Cong Ethanol production and trading JSC.

Curent ethanol distilleries that uses molasses as a feedstock

Distillery	Location	Capacity (mln lt/yr)	Owner	Status
Lam Son	Thanh Hoa	25	Lam Son Sugar	Operating
NIVL	Long An	10	NIVL	Operating
Kim Ha Viet	Tuy Hoa	n/a	Kim Ha Viet	Operating

Source: LMC

Power capacity increase

SBT is planning to upgrade its boilers to 45 bars and increase its capacity from 24 MW to 34 MW in order to take advantage of Decision No. 24/2014/QĐ-TTg on supporting the development of biomass power project. This project will cost US\$5 mil and is expected to help increase the electricity production by 36% and generate VND36 bil more in revenue every year.

2.10. Financial investment

SBT's investment portfolio was worth more than VND 75 bn in Mar, 31th 2014, including investments in sugar associates and in Thanh Thanh Cong Industrial Zone JSC (former Bourbon An Hoa Corporation).

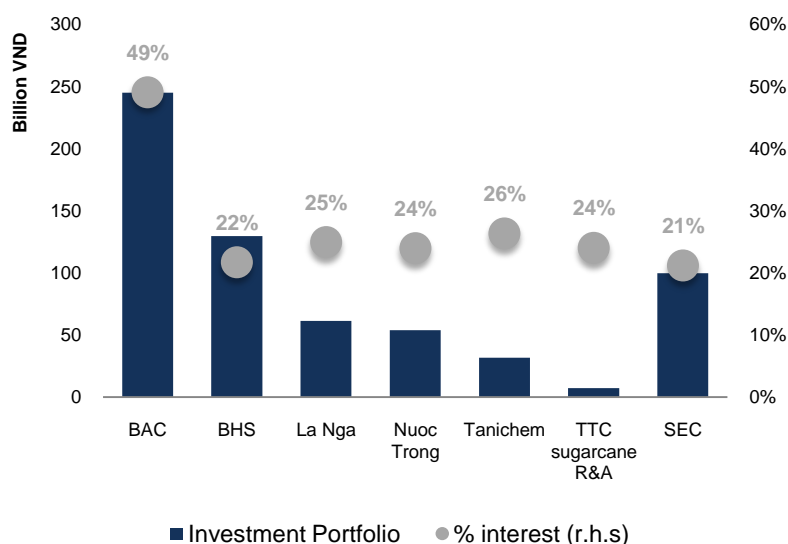
Map and overview of Thanh Thanh Cong industrial zone



Information	Detail
Industry area	760 ha
Industrial area for build up factories	447.98 ha
Administration and service areas	15.02 ha
Technical area	15.27 ha
Green trees area	119.50 ha
Transportation area	162.05 ha
Land condition	Height as 7 meters above the sea level, ground code as +1.9 meters above the Hon Dau, with the compressive strength as + 0.85
Infrastructure	Main road: 125 meters; Internal road >=23 meters Water supply: 37,000 m ³ /day night

Source: Viipip.com; Bourbonanhhoa.com

Financial Investment Portfolio



Source: SBT

- Regarding investments in associates, we expect to witness several changes in the near future. In particular, after the merger plan between Ninh Hoa Sugar JSC and Bien Hoa Sugar JSC (est. Oct, 2014) the SBT's interest in BHS would be diluted from 22% to 15.9% and the latter would no longer be the former's associate. Furthermore, there would be another M&A plan between SBT and Gia Lai Canesugar and Thermoelectricity JSC (SEC) leaked out recently that could result in SEC fully owned by SBT. However the swap ratio is still unclear and it is expected to take at least 4-6 months for the deal to be done. In our point of view, this merger would benefit SBT due these following reasons:

(1) Expand the market to the Centre and further in the fact that the South's market is already self-sufficient.

(2) Increase the supply of raw sugar totalling 54,000 tonnes per annum for SBT to refine. The firm's Affinage project is capable of refining 30,000 to 35,000 tonnes.

(3) There is little or no impact on the firm's cane supplying and crushing capacity since the distance between SBT and SEC prevents them from co-operation in production. Cane stalk has to be transported to mills within 16 hours in order to avoid losing sugar content.

- Thanh Thanh Cong Industrial Zone is located in An Hoa Village, Trang Bang district, Tay Ninh Province, bordered by Vam Co

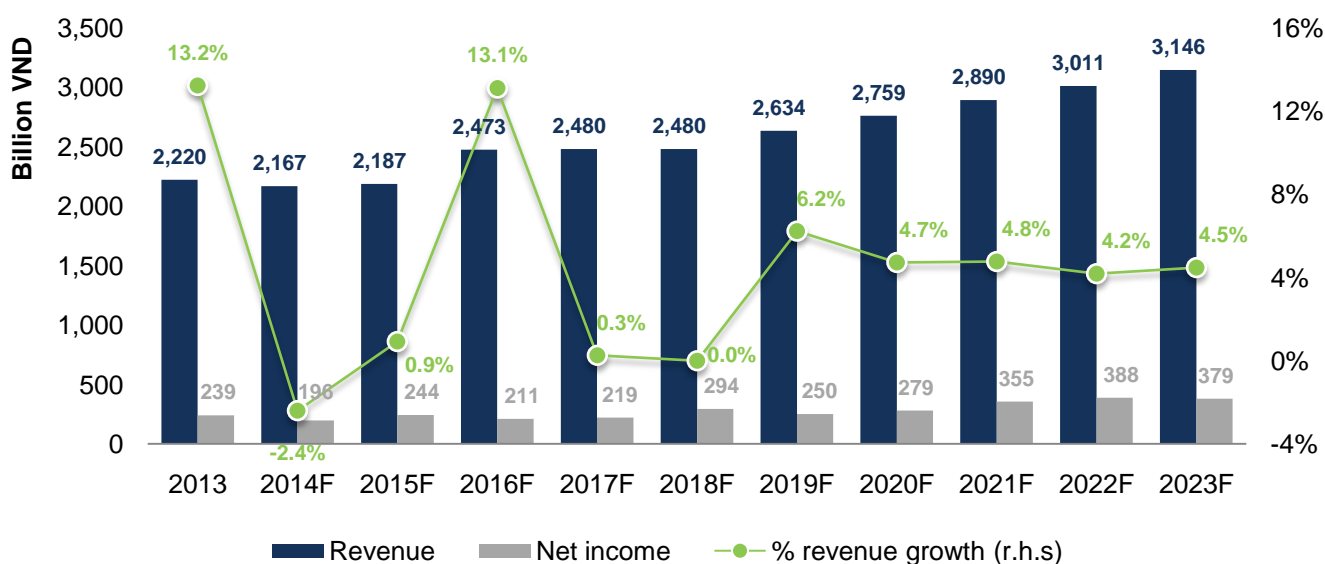
Dong River and Trans-Asia highway (*extending from Vietnam to Cambodia, Thailand, China, etc*). This main highway connects Ho Chi Minh City to Moc Bai international border gate and Cambodia, which is creating favourable conditions to assist investors to access and penetrate the raw materials area and the potential market in domestic and regional countries. With this location, it becomes the connecting point of resources from Trans-Asia economies. SBT has 49% of interest in this associate, representing an investment worth VND245 bn, along with a loan of VND171.5 bn and a provision of VND52.9 bn on Dec, 31th 2013. SBT recently said that the zone's net income for 2013 was VND15 bn with 10% occupancy rate and it is expected to completely repay SBT's loan in 2015. We also came to inspect the zone in Jan, 2014 and realized that the occupancy rate is quite low and it is still under construction.

3. PROSPECTIVE ANALYSIS

3.1. Catalyst

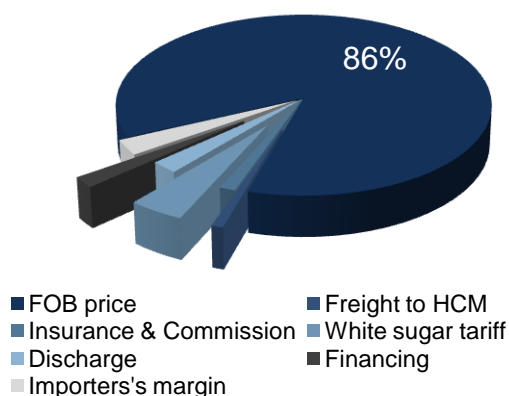
We believe that, medium and long-term potential of the local industry and SBT in particular depends heavily on the removal of two protection measures on the basis of aggregate commitments agreed in CEPT/AFTA, which are tariff and quota. There is still some uncertainty about the exact timing of when trade barriers with ASEAN will be removed. However, when implemented, it means that the Vietnam market will be entirely exposed to duty-free sugar imports in the future. In theory, this should take place in 2015, but there is a risk that this could not be until 2018. We are inclined to assume that the latter deadline is more reasonable (*Refer to Appendix 3 and [FPTS's sugar industry report](#)*).

Forecasted revenue and net income, 2013 – 2023F

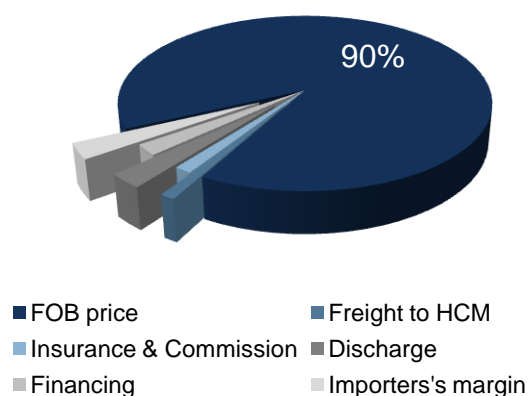


Source: SBT; f- FPTS

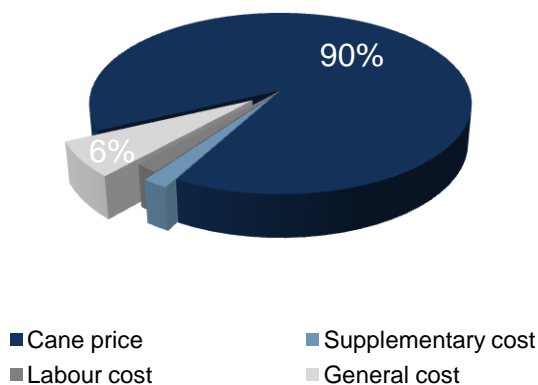
Thai import sugar's cost breakdown, from 2014F



Thai import sugar's cost breakdown, from 2018F



Sugar production cost breakdown, 2014F (excl. credits)



Source: f- FPTS

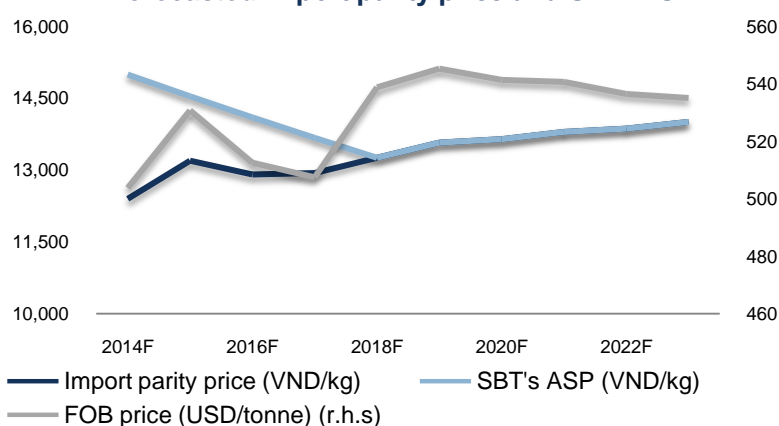
3.2. Sugar production

Average selling price (ASP)

Based on the forecast of sugar price in OECD – FAO Agricultural Outlook 2013-2022 report, we estimate SBT' ASP by linking to cost of importing white sugar from Bangkok, Thailand to HCMC, Vietnam by sea.

In the period of protection (*est. 2018*), SBT's ASP is supposed to be higher than the import parity and the cost of illegal imports. However, we expect the gap to gradually vanish afterward when the local market is fully exposed to duty-free sugar imports.

Forecasted import parity price and SBT' ASP



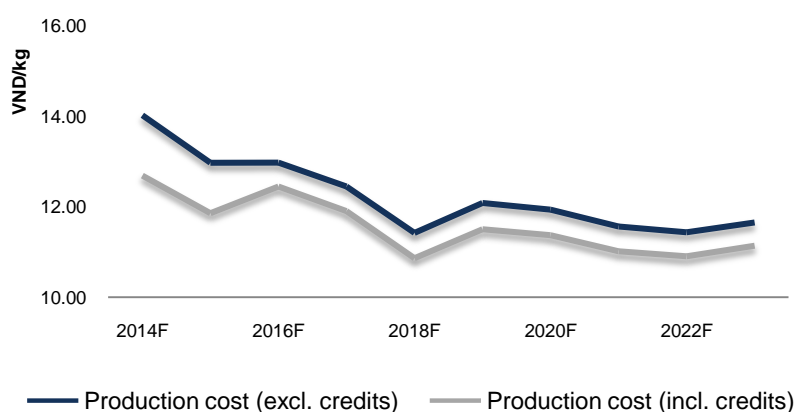
Source: f- FPTS

Average production cost

Over 90% of sugar production cost is cane price. We expect that SBT's cane price would vary based on the Government's recommendation that the cane price is at least 60% of the sugar ex-factory price.

Such by-products as molasses and electricity are treated as credit against production costs. However when the ethanol project goes into operation from 2016 onwards, we will exclude the molasses credit from our decomposition of sugar production cost.

Forecasted sugar production cost



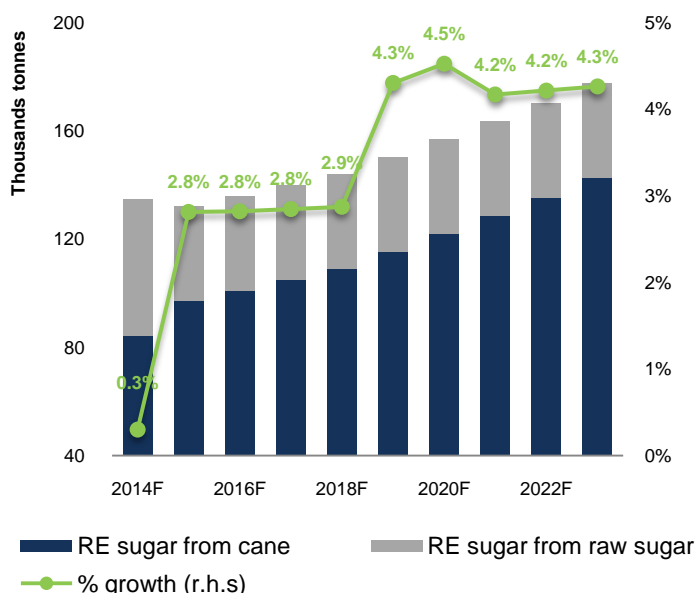
Source: FPTS

Sale volume

We expect that SBT's sugar sale volume will grow at 3.64% CAGR within the next ten years, which is much lower than the rate of the last six years (14.8%). The sale volume growth rate is forecasted based on these assumptions as follows:

- Cane area expansion: 2% per annum from 2018
- Cane yield growth rate: 3.08% per annum, equal to historical growth rate in Tay Ninh province during the last ten years.
- Sugar content improvement: the target sugar content is 12 CCS by 2020, according to Prime Minister's decision No.26/2007/QĐ-TTg on "Approving the planning on sugarcane and sugar development up to 2010 and orientations toward 2020".
- Design capacity: fulfil the current capacity of 9,800 tcd by 2018.
- Refinement from raw sugar: 30.000 – 35.000 tonnes per annum
- Consumption per capita and national consumption are assumed to grow at around 3.7% and 4.7% per annum for the period 2014 – 2023 (refer to Appendix 2).

Forecasted sugar production, 2014F – 2023F



Forecasted sugar revenue and gross profit, 2014F – 2023F



Source: f- FPTS

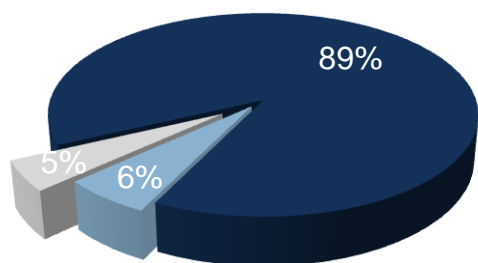
3.3. Ethanol production

Ethanol's ASP

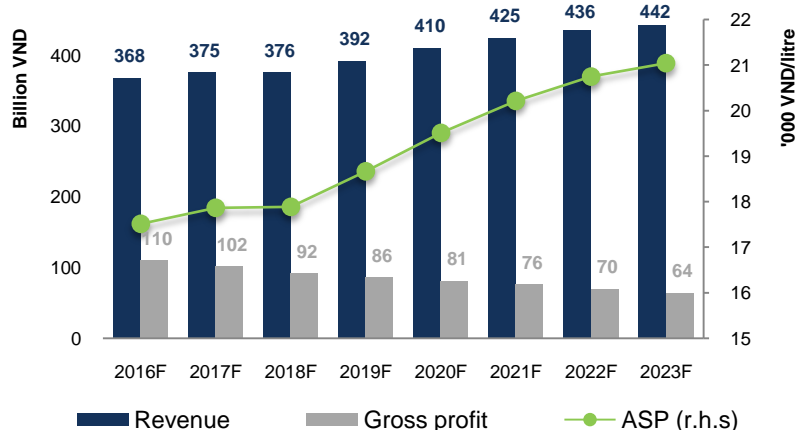
We also apply the parity method to calculate the cost of Thai imported ethanol to Vietnam (*F.O.B price, freight, tax, etc*), based on the forecast of ethanol price in OECD – FAO Agricultural Outlook 2013-2022 report.

This product will be sold from 2016 onwards and according to SBT, its output is guaranteed by the firm's foreign partner. The

initial gross margin of the ethanol project is expected at around 30%, which is similar to that of local firms such as LSS, NIVL, etc. However we expect it to decrease over the long term and reach 14-15%, referring to ethanol business of Raizen (Brazil) and other companies around the world.

Thai import ethanol cost breakdown, 2016F


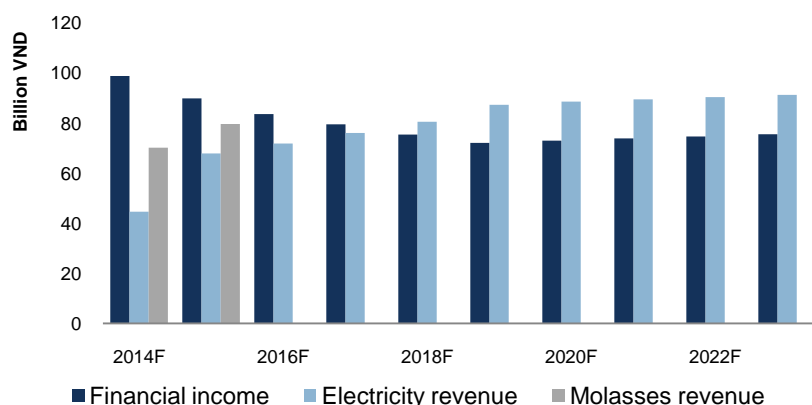
■ Thai Ethanol price ■ Freight to HCM ■ Tariff

Forecasted ethanol revenue, ASP and gross profit, 2016F – 2013F


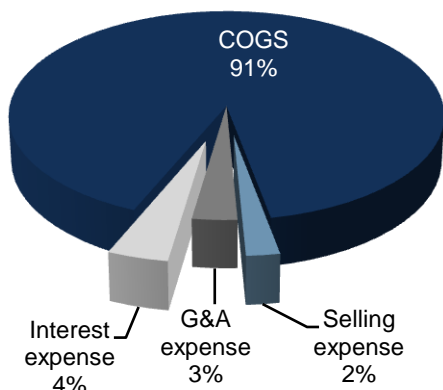
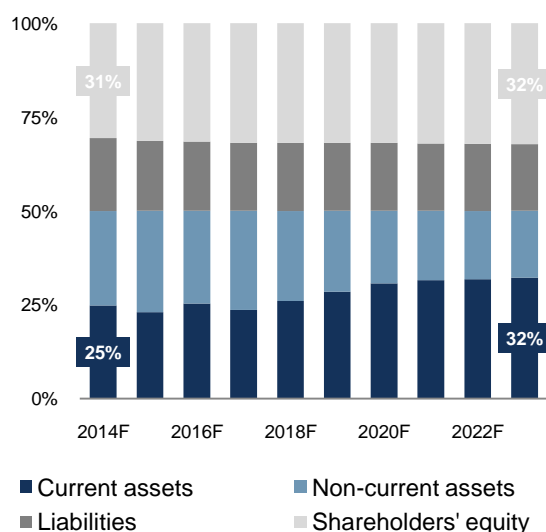
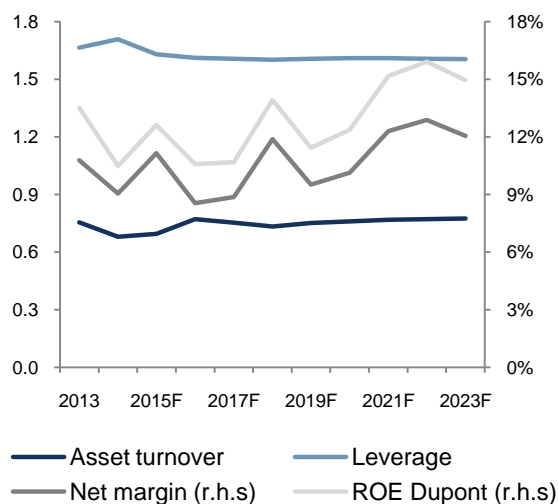
Source: f- FPTS

3.5. Other revenues

- Electricity: with the plan to upgrade the capacity to 34MW, SBT would be capable to produce up to 90,000 MWh per annum. Apart from 29% of electricity powering the mills, the rest could be sold to the national grid at 5.8 cents/kWh. One thing to be considered is that a volume of bagasse must be guaranteed to produce steam.
- Financial income generated from:
 - + Interest received from farmers is forecasted based on invested capital per hectare (VND21 mil) and interest rate (1.125%/month)
 - + Dividend received from financial investments (excl. BAC)
 - + Interest received from related parties

Forecasted other revenues, 2014 – 2023F


Source: f- FPTS

Cost structure, 2014F

Assets and Resources structure, 2014F – 2023F

Dupont three factors


Source: SBT; f-FPTS

3.6. Cost structure

- As we expect the distribution channel of SBT to remain stable at 90% B2B and 10% B2C and the firm would be still focusing on wholesale clients, Selling and G&A expenses are expected to level off at 2.1% and 2.9% of revenue respectively.
- Interest expense is expected to make up a main proportion of financial expenses. Due to the firm's business characteristics, SBT is required to maintain a high level of short-term debt to make payment to farmer for cane purchase. We forecast its annual interest expense based on its debt balance, short-term rate of 7.9% and long-term rate of 10.5% per annum. Besides, we also expect SBT to reverse its provision on loan provided to Thanh Thanh Cong industrial zone (*former name: BAC*) within 2-5 years that could help decrease its financial expenses.
- COGS is mostly attributable to sugar, ethanol and electricity production.

3.7. Assets and Resources structure

- Since SBT always has to make prepayment to farmers before every crop, its accounts receivable is expected to make up 25%-30% of total assets. Because the end of financial year falls into the middle of crop, inventory probably accounts for 10%-11% of total assets. The firm's fixed assets would seem to increase due to the upgrade of power plant and the operation of ethanol factory, along with investments to maintain the mill's efficiency after fully depreciated (*est. 2021*). Meanwhile, SBT's investment portfolio is supposed to change if the deal with SEC appears to happen.
- Resources structure of SBT is expected to remain stable at 32% of liabilities and 68% shareholders' equity in long-timeframe. We believe that the firm would continue using short term loan to fund its working capital in the following years due to specific characteristics of a sugar manufacturer.

3.8. Dupont analysis

Based on our Dupont analysis, ROE would be on an upward trend during the forecasted period due to: (1) Net margin is expected to gradually rise from 10.8% to 12% owing to the improvement in sugar and ethanol production; (2) Assets turnover would seem to be higher, from 0.75 in 2013 to 0.77 by 2023F because the growth in revenue is expected to excess that in total assets (41.7% compared to 27.6%) over the next ten years.

APPENDIX 1: FUTURE PROSPECTS OF THE INDUSTRY *(Refer to FPT's sugar industry report)*
The world

During this period, the total sugar supply grew by 2.1% per annum while the total sugar demand only grew about 1.9% per annum. In the last four seasons, excess of supply over demand has been causing the highly increasing stock. However, **the international sugar market are forecasted to get improved slightly from 2013 onwards** when the demand growth rate would appear to excess that of supply side (2.3% compared to -0.7% per annum).

The sugar outlook depends on the following factors:

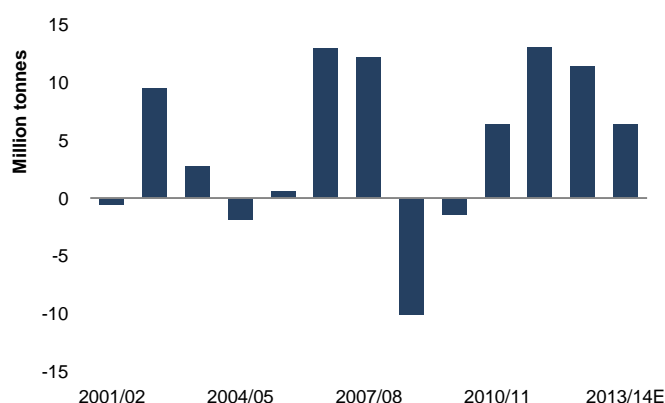
- There is now nearly a 75% chance of an El Nino event by the Fall 2014. This greatly affects sugarcane planting at such tropical countries as Brazil, Thailand, India and Indonesia. It is more likely that **sugar price will increase** during the second half of 2014.
- Sugar price is on its medium downward trend while ethanol price is on the opposite direction; this fact turns out a motivation for mills in Brazil **restructure using sugarcane from producing sugar to ethanol**. Ethanol production is expected to achieve average growth rate of 6% per annum until 2022.
- Developed countries' needs will be slowed down because of consuming awareness while emerging economies or developing countries with young and crowded population such as **China, India and Indonesia would be key drivers for growth**. The world sugar production is expected to achieve 210 million tonnes on 2020/21 crop.
- Sugar substitute market is on small- scale and still unable to solve the harmful effects of sweetener overconsumption.

Vietnam

It would appear that at the end of 2013/14 season the accumulated inventory is extremely high due to the excess of local production over its demand. Export is delayed and depends only on Chinese consumption whereas the low-cost smuggled sugar from Thailand easily floods across the domestic market. **We find it really hard for the locals to solve the supply surplus in short term.**

The prospect of the domestic sugar industry depends on:

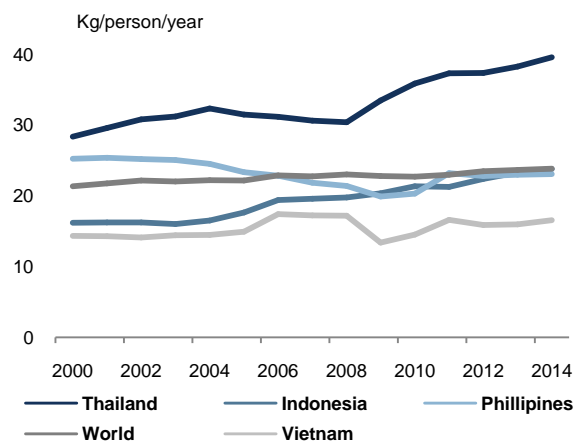
- Local supply and sugar import from Thailand will be affected if El Nino happens by the Fall 2014.
- **The rising demand from China would help release inventory.** However we are worrying about a stuck at the Vietnam – China frontier these days
- **Smuggled Thai sugar makes up more than 15% of total sugar supply.** Solving this problem would help balance local demand and supply.
- Sugar retail price is way too different from its wholesale price. Solving the problem of intermediary will improve the gross margin of sugar firms.
- The high sugarcane feedstock cost is caused by the low level of mechanization. **It is forced to raise farming mechanization rate** to reduce the production cost and enhance the competitive advantage.
- The demand is expected to keep **rising because the sugar consumption per capita is as low as 16 kg/year/person**. The average global level is at 23 kg/year/person in 2013.
- Domestic sugar industry will continue to be supported **by the Government**, even if the protection no longer exists.

Global surplus - deficit

Domestic surplus - deficit


Source: FPTs

APPENDIX 2: FORECAST ON LOCAL SUGAR CONSUMPTION, 2014F – 2023F

Per capita sugar consumption by country, 2000 - 2014



Source: Bloomberg; FPTs

We believe that local sugar consumption depends heavily on the level of per capita consumption and population growth rate. In term of per cap. cons., we refer to Indonesia in 2004 based on these similarities as follows:

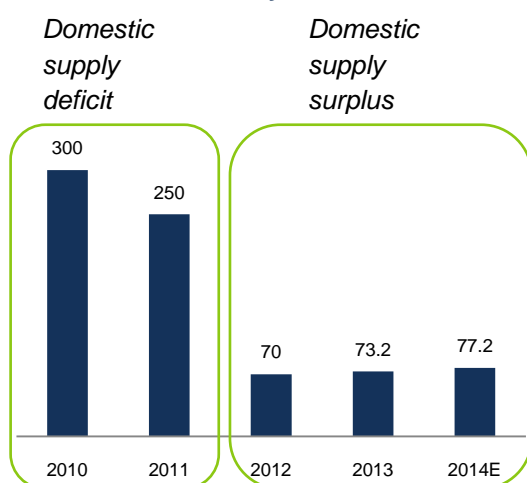
- Indonesia GDP per capita (PPP) in 2004 was 2,980 USD/person/year.
- Per capita sugar consumption in Indonesia in 2004 was 16.5 kg/person/year.
- Indonesia is a sugar imported country with a very large population.

Thus we expect that the growth in Vietnam per capita sugar consumption for 2014F-2023F would be similar to that of Indonesia during 2004-2013, which was 3.7% per annum. With this growth rate, the per capita sugar consumption in Vietnam would reach 23 kg/person/year by 2023, equivalent to the global level.

After adding the population growth factor, we forecast the growth rate of local sugar consumption at **4.7% per annum** over the period 2014F-2023F. From 2023F onwards, since the local per cap. cons. is expected to equal the world average, we forecast the growth rate of local demand at **1% per annum**, which is also the expected population growth.

APPENDIX 3: THE EXISTING PROTECTIONS AND POTENTIAL RISK OF FREE TRADE AGREEMENTS

Quota-imported sugar (thousand tonnes) over the years



Source: FPTs

Two tariffs are applied for sugar within quota, for sugar originating from ASEAN countries (*CEPT/AFTA*) and for non-ASEAN countries (*WTO commitments*). The amount of quota is controlled by the Ministry of Industry and Trade with the aim to put priority on domestic demand-supply balance and avoid large inventories. Since the price of imported sugar adding tax rate of 5% is still lower than sugar produced locally and quota is also limited, so far setting quota has been encountering many inadequacies and lack of publicity. Meanwhile, sugar imported beyond quota is subject to quite high tariff in the range of 80 - 100% depending on sugar type.

Thus, until now, Vietnam is applying two measures of protection for the sugar industry, that is, tariff and quota. However, according to ATIGA signed in 2009 (*the first comprehensive agreement of ASEAN to adjust merchandise trade within the association and was built on the basis of aggregate commitments agreed in CEPT/AFTA as well as other related agreements, protocols*), trading liberalization includes the elimination of import bans, termination of tariff quota and switching to trade tariffs in goods. For sugar products, Vietnam only has flexible timeline from 01/01/2015 to 2018 to remove tariff quota (*Article 20*). We are inclined to assume that the latter deadline is more reasonable.

HISTORICAL AND FORECASTED FINANCIAL FIGURES

Income statement					Balance sheet				
	2012	2013	2014F	2015F		2012	2013	2014F	2015F
Revenue	1,960,829	2,220,040	2,166,760	2,186,760	Assets				
- Cost of goods sold	1,590,814	1,939,059	1,859,080	1,821,289	+ Cash & equivalent	110,670	277,786	281,150	210,849
Gross profit	370,015	280,981	307,680	365,472	+ Short-term investments	202,459	118,542	94,833	71,125
- Sales & marketing	40,496	48,588	46,085	46,511	+ Accounts receivable	729,503	1,116,751	801,404	808,802
- General & admin	56,958	64,477	62,935	63,516	+ Inventories	339,388	230,952	318,669	312,191
Operating profit	272,561	167,916	198,659	255,445	+ Other current assets	39,270	52,881	52,881	52,881
- Financial gains/(losses)	216,780	198,266	107,397	98,410	Total current assets	1,421,290	1,796,912	1,548,937	1,455,847
- Net non-op gains	5,037	0	0	0	+ Gross fixed assets	1,613,206	1,686,163	1,792,481	1,792,481
EBIT	497,618	371,219	306,056	353,856	- Accum. depreciation	-1,073,162	-1,148,679	-1,223,202	-1,302,110
- Interest expense	75,346	95,728	85,577	80,953	+ Net fixed assets	540,044	537,484	569,278	490,370
EBT	422,272	275,491	220,479	272,903	+ Long-term investments	499,582	748,566	748,491	748,491
- Income tax expense	52,138	36,486	24,666	29,385	+ Other long-term assets	13,256	7,638	6,070	6,070
Profit after tax	370,134	239,005	195,813	243,517	Total long-term assets	1,213,105	1,453,139	1,576,837	1,709,464
- Minority interests	0	0	0	0	Total Assets	2,634,395	3,250,051	3,125,774	3,165,311
Net Income to common	370,134	239,005	195,813	243,517	Liabilities & Equity				
EPS (VND/share)	2,870	1,679	1,376	1,711	+ Accounts payable	164,852	312,905	190,489	194,310
EBITDA	577,903	447,837	381,679	433,863	+ Short-term borrowings	714,178	1,001,678	1,006,647	968,154
Depreciation	80,285	76,618	75,623	80,008	+ Bonus, welfare	10,439	16,447	13,443	14,945
Revenue growth	-4.4%	13.2%	-2.4%	0.9%	Current liabilities	889,469	1,331,030	1,210,579	1,177,409
Operating profit growth	-49.5%	-38.4%	18.3%	28.6%	+ Long-term debt	49,166	78,297	0	0
EBIT growth	-19.7%	-25.4%	-17.6%	15.6%	+ Other LT liabilities	0	0	0	0
EPS growth	-33.6%	-41.5%	-18.1%	24.4%	Total LT liabilities	49,166	78,297	0	0
Profitability ratios	2012	2013	2014F	2015F	Total Liabilities	938,635	1,409,327	1,210,579	1,177,409
Gross margin	18.9%	12.7%	14.2%	16.7%	+ Total preferred equity	0	0	0	0
Profit after tax margin	18.9%	10.8%	9.0%	11.1%	+ Addtl paid in capital	7,594	14,732	14,732	14,732
ROE DuPont	21.2%	13.5%	10.5%	12.6%	+ Share capital	1,289,787	1,423,423	1,423,423	1,423,423
ROA DuPont	15.0%	8.1%	6.1%	7.7%	+ Retained earnings	398,377	402,570	456,040	528,747
* EBIT Margin	25.4%	16.7%	14.1%	16.2%	+ Minority interest	0	0	21,000	21,000
* Tax burden	87.7%	86.8%	88.8%	89.2%	Total equity	1,695,758	1,840,725	1,915,195	1,987,902
* Interest burden	84.9%	74.2%	72.0%	77.1%	Liabilities & equity	2,634,395	3,250,051	3,125,774	3,165,311
* Asset turnover	0.79	0.75	0.68	0.70					
Leverage ratio	1.42	1.66	1.71	1.63					
ROIC	16.6%	8.4%	9.3%	11.1%					
Efficiency ratios	2012	2013	2014F	2015F	Cash flow	2012	2013	2014F	2015F
Days inventory on hand	97.2	151.8	135.0	135.0	Beginning cash	88,726	110,672	277,786	281,150
Days AR outstanding	71.1	53.7	62.6	62.6	Net Income	422,272	275,491	220,479	272,903
Days AP outstanding	11.1	20.7	16.0	16.0	+ Depreciation	81,280	84,426	75,623	80,008
Cash conversion cycle	157.2	184.7	181.6	181.6	+ Other non-cash adjust.	-306,588	-261,986	6,132	-129,659
Inventory turnover	5.1	6.8	6.8	5.8	+ Changes in non-cash	-309,225	-104,590	136,503	38,696
Liquidity/Solvency	2012	2013	2014F	2015F	Cash from Operations	-112,261	-6,659	438,737	261,948
Current ratio	1.60	1.35	1.28	1.24	+ Disposal fixed assets	5,797	3,016	0	0
Quick ratio	1.22	1.18	1.02	0.97	+ Capex	-89,832	-79,837	-259,634	-212,635
Cash ratio	0.12	0.21	0.23	0.18	+ Change in investments	-14,093	165,922	-75	0
Debt-to-assets	0.29	0.33	0.32	0.31	+ Other investments	264,924	-188,613	40,006	89,690
Debt-to-capital	0.31	0.37	0.35	0.33	Cash from Investing	166,796	-99,512	-219,703	-122,946
Debt-to-equity	0.45	0.59	0.53	0.49	+ Dividends paid	-447,450	-204,418	-142,342	-170,811
Short-term debt to equity	0.31	0.38	0.32	0.31	+ Change in capital	30,450	161,074	0	0
Long-term debt to equity	0.02	0.02	0.00	0.00	+ Change in ST debt	386,375	287,500	4,969	-38,493
Interest coverage ratio	6.60	3.88	3.58	4.37	+ Change in LT debt	31,268	29,131	-78,297	0
Valuation ratios	2012	2013	2014F	2015F	+ Other financing act.	-33,232	0	0	0
Price-to-earnings (P/E)	4.3	7.3	8.9	7.1	Cash from Financing	-32,589	273,287	-215,671	-209,303
Price-to-book value (P/B)	0.9	0.9	0.9	0.9	Net changes in cash	21,946	167,116	3,364	-70,301
EV / EBITDA	4.9	6.4	2.7	2.3	Ending cash	110,672	277,788	281,150	210,849
Book value per share	13,148	12,932	13,307	13,818	<i>Units in VND m</i>				

RECOMMEND AND EXPLANATION

This recommendation based on the difference between targeted value and market value of each stocks in order to provide appropriate information for investors in 12-month investment period from recommend day.

The expected at 18% is estimated based on 12-month government bond rate in addition to market risk premium in Vietnam.

Recommendation	Explanation
12 months period	
Buy	If targeted price is higher than market price 18%
Add	If targeted price is higher than market price about 7%-18%
Monitor	If targeted price compared to market price is within -7%-7%
Reduce	If targeted price is lower than market price from -7% to -18%
Sell	If targeted price is lower than market price -18%

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At making this analysis report time, FPTTS and analyst do not hold any SBT stock.

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