LAM SON SUGAR JSC (HSX: LSS)

Initiation

24 December 2010

ADD

Target price **VND39,600**

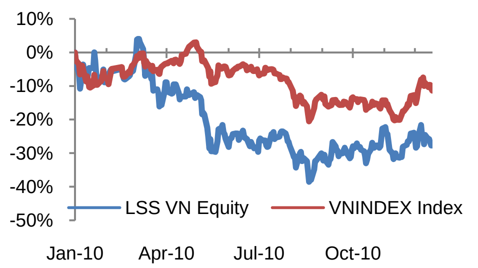
Upside **16%**

Sugar sector

Key indicators	
Price (24/12/2010)	34,100
52-week low	28,700
52-week high	50,000
30-day avg trading vol shares	93,406
Outstanding shares (mn)	30.0
Market cap (VND bn)	1,023
Market cap (USD mn)	51.2
Foreign room (shares mn)	10.0

Valuation	2009	2010F	2011F
EPS (VND)	5,444	6,047	5,352
EPS growth (%)	133	11	(11)
P/E (x)	6.3	5.6	6.4
P/B (x)	1.4	1.3	1.1
ROE (%)	25.7	27.6	19.0
ROA (%)	17.5	21.3	15.5
ROIC (%)	22.2	23.6	17.7
Debt/Equity (%)	15.1	3.1	5.0
Dividend yield (%)	7.3	5.0	5.0

Price performance	3M	6M	12M
Absolute %	4	(3)	(2)
Relative %	(1)	5	(1)



Ownership structure	%
Owner State %	21.5
Foreign investors	5.8
Individual investors	72.7

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See important disclosure at the end

Rising Sugar Prices Give Investors a Sugar High

We initiate coverage on one of Vietnam's largest sugar producers, Lam Son Sugar (HSX: LSS), with an **ADD** recommendation and target price of VND39,600 per share on 16% EPS CAGR FY2012-2015E. The company is currently trading at an undemanding 6.4x FY11E PER. Our DCF-derived price target of VND39,600 implies a forward P/BV (FY11E) of 1.3x and forward PER of 7.4x. Lam Son Sugar accounts for c. 10% of the country's total sugar supply. In 2010, running near full capacity LSS produced 76,000 tonnes of sugar from 702,000 tonnes of sugarcane input.

Sugar highs should continue driven by global structural changes

We are optimistic about the long-term prospects of sugar as a commodity on account of structural global changes which include critical stock-to-use levels, the ban on GM sugar beets in the US, increasing ethanol consumption, the removal of subsidies by European Union and rising demand from China and India. Further, oil price trends will also influence the price of sugar as higher oil prices will impact the extent of cane diversion to ethanol. We believe these global structural pressures at play will underpin prices at least through 2012.

Domestic demand driven by strong growth in the F&B sector

The growing middle class demographics of Vietnam has increased demand for processed foods with a high sugar content. As consumer tastes change with wealth, sugar will be a proportionately large beneficiary. Over the last five years domestic sugar demand has out passed supply. Demand has registered a 5-year CAGR of 3.8% while domestic supply has only grown by 2.4% per year creating a gap of c. 400,000 tonnes of sugar per year that must be met by imports. Imported sugar accounts for 30% of the total domestic consumption. With an average per capita consumption of 15kg/person/year, there is ample room for growth before reaching the world annual average of c. 25kg per capita. We are optimistic about the strong demand growth in the out-of-home segment, which encompasses all sorts of F&B companies. In Vietnam, these buyers are growing c. 15-20% per year. For LSS, this segment represents 55% of its top line and encompasses heavyweight clients such as Coca Cola, Pepsi, Vinamilk, and Kinh Do.

Low national inventories will underpin domestic prices

In the last two years, national sugar inventories failed to reach the levels they were in 2007 at 393,000 tonnes equivalent to c. 3.2 months of demand. As the harvesting season has begun, national sugar inventories have slightly increased in November 2010 from a 3-year low of 20,000 tonnes reached the previous month. As we enter the processing season we must expect stocks to build up. However, as demand remains strong we expect inventory issues to drive Vietnam's sugar prices higher in the near term.

Capacity expansion continues at one of the country's most efficient sugar mills

LSS is one of the few sugar mills in Vietnam with both sufficient production capacity and sugarcane input to run its factory near full capacity. Currently the factory is running at about 96% capacity. The company's current mills are using equipment over 20 years old. However by 2012, the company will revamp one of its mills with a modern, more efficient mill from one of South Africa's leading processing equipment supplier which will increase aggregate sugar production by 40% to 93,000 tonnes sugar annually.

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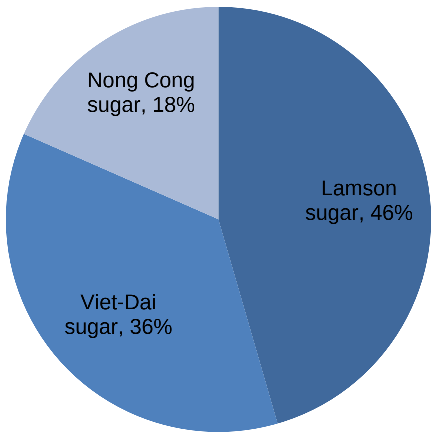
LSS – Vietnam's largest sugar producer

Sugar production in Thanh Hoa accounts for 25% of total domestic sugar production and 50% in the North central areas. Currently, there are three sugar mills/refineries in Thanh Hoa province with total crushing rate of 14,500 tonnes per day.

LSS is one of the largest sugar producers in Vietnam producing c. 10% of the country's sugar supply. In 2010, running near full capacity LSS produced 76,000 tonnes of sugar from 702,000 tonnes of sugarcane. LSS has the 3rd highest design crushing rate of 7,500 tonnes of sugarcane per day among domestic sugar mills. LSS acquires sugarcane from farmers who cultivate the plant on nearly 14,000ha of land mainly in the Thanh Hoa province.

Figure 1: Thanh Hoa sugarcane cultivation area by mills

Lam Son's sugarcane cultivation area spreads across 11 western districts of Thanh Hoa province. Annual total average sugarcane area is 14,000 ha in which the production of sugarcane harvest is estimated from 660,000 to 750,000 tonnes per year.



Source: LSS, Thanh Hoa province

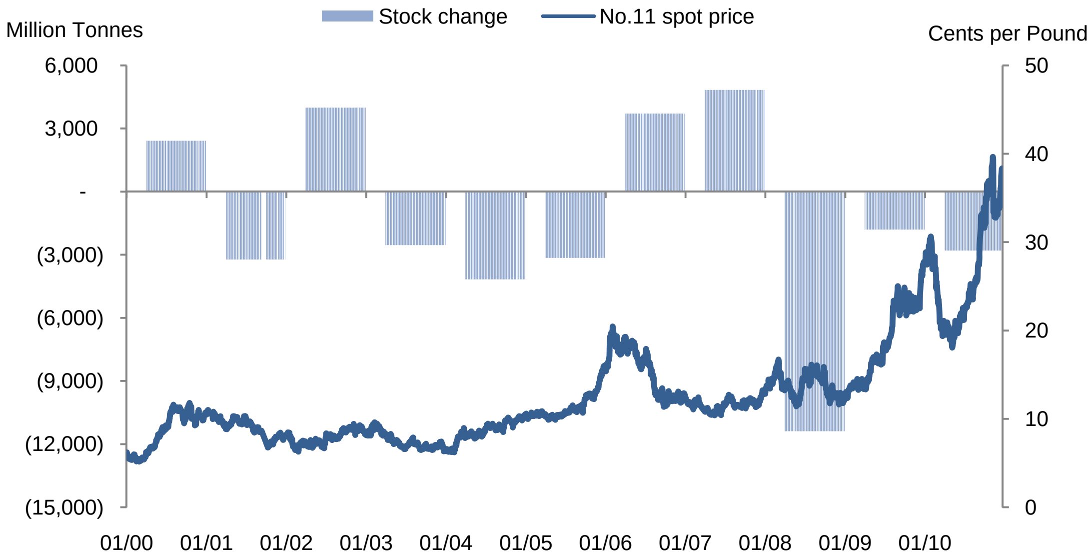
Investment Thesis

Sugar highs should continue on the back of low global inventories

The world sugar market has gone through turbulent times in the last three years due to a series of supply side developments in producing countries. In the previous two seasons global inventories have shrunk by a cumulative 13.2 million tonnes. There are growing fears that the 2009/10 season will result in the third consecutive year of global under supply with consensus forecasting a deficit of c. 2.8 million tonnes. Exacerbating the situation in a low stock environment, is the fact that stock-to-use ratios are at critical levels, by far the lowest they have been in the last 35 years, as global demand remains robust.

Moreover, extreme weather conditions around the world have wrecked havoc on sugar supplies driving prices to record levels. In 2010, after hitting multi-year highs of 30.6 cents per pound in February, prices collapsed to nearly 18 cents per pound in May, to finally end the year near 40 cents per pound. Developments in Brazil and India, two of the world's largest producers have been key drivers of price volatility. Sugar production in the Central South of Brazil is falling fast as the processing season which typically runs from April to December is coming to an end. As the Central South enters its off-peak season, we could expect lower supplies from the world's largest exporter until next year's harvest. Despite India's better than expected 2010/11 crop, the government will most likely focus on the country's internal demand before offloading any excess onto global markets. Considering the current low supply environment we are in, any exports from India would be quickly absorbed by global demand.

Figure 2: Global stock changes



Source: Bloomberg

Now, Australia, the third largest exporter, has slashed its 2010/11 sugar export forecast by 25% after eastern cane fields were flooded during harvesting, destroying crops and decimating yields to their lowest level in 25 years.

In August 2010, a US federal court ruling banned the planting of genetically modified (GM) sugar beetsfor the 2011/12 growing season.We believe this ban on GM sugar beets is a game changer for global sugar dynamics as (I) about half of US sugar supplies come from sugar beets, (II) the Roundup Ready seeds produced by Monsanto account for c. 95% of sugar beets in the US, and (III) the US is the second largest net importer of sugar in the world. Monsanto has already appealed the ban of its seed technology, and a temporary hold on the decision was approved. However, in the meantime, US farmers are already preparing to sew non-GM plants next spring. The USDA estimates a 37% reduction in next year's sugar beet crop, which will we believe have far reaching consequences on sugar supplies for at least two more years when a court-ordered environmental impact study will be completed sometime in 2012.

We are optimistic about the long-term prospects of sugar as a commodity on account of structural global changes which include critical stock-to-use levels, the ban on GM sugar beets in the US, increasing ethanol consumption, the removal of subsidies by European Union and rising demand from China and India. Further, oil price trend will also influence the price of sugar as higher oil price will influence the extent of cane diversion to ethanol. We believe these global structural pressures at play will underpin prices at least through 2012.

Adding support to our argument of tight physical supplies which should underpin prices is the fact that sugar futures have recently shifted into backwardation. The physical sugar market has a cash premium over future delivery. On 23 December, the Sugar No.11 spot-month March 11 contract hit a new multi-year high of 33.98 cents per pound and was trading at a 3.5 cents spread cf. the nearby May 11 futures contract.

Figure 3: NYMEX No. 11 sugar futures

Month	Close
MAR 11	.3398
MAY 11	.3045
JLY 11	.2657
OCT 11	.2450
MAR 12	.2357

Source: CME Group

Domestic demand driven by strong growth in the F&B sector

The growing middle class demographics of Vietnam has increased demand for processed foods with a high sugar content. As consumer tastes change with wealth, sugar will be a proportionately large beneficiary. We are optimistic about the strong demand growth in the out-of-home segment, which encompasses all sorts of F&B companies. In Vietnam, these buyers are growing c.15-20% per year. For LSS, this segment represents 55% of its top line and encompasses heavy weight clients such as Coca Cola, Pepsi, Vinamilk, and Kinh Do.

Cultivation area is declining while Vietnam sugar consumption is rising adding pressure on domestic inventories

Over the last five years domestic demand has out passed supply. Demand has registered a 5-year CAGR of 3.8% while domestic supply has only grown by 2.4% per year creating a gap of c. 400,000 tonnes of sugar per year that must be met by imports. Imported sugar accounts for 30% of the total domestic sugar consumption. With an average per capita consumption of15kg/person/year, there is ample room for growth before we reach the world average of c. 25kg per capita/year.

Figure 4: Vietnam sugar supply and demand

Unit: '000 tonnes

Year	2010F	2011F	2012F	2013F	2014F
Sugar production	904	1,133	1,169	1,213	1,260
Sugar consumption	1,469	1,551	1,630	1,715	1,825
Sugar net trade balance	(565)	(418)	(461)	(502)	(565)

Source: BMI, Vietnam Sugar Association

In the last two years, national sugar inventories failed to reach the levels they were in 2007 at 393,000 tonnes equivalent to c. 3.2 months of demand. As the harvesting season has begun, national sugar inventories have slightly increased in November 2010 from a 3-year low of 20,000 tonnes reached the previous month. As we enter the processing season we must expect stocks to build up. However, since demand remains strong we expect inventory issues to drive Vietnam's sugar prices higher in the near term.

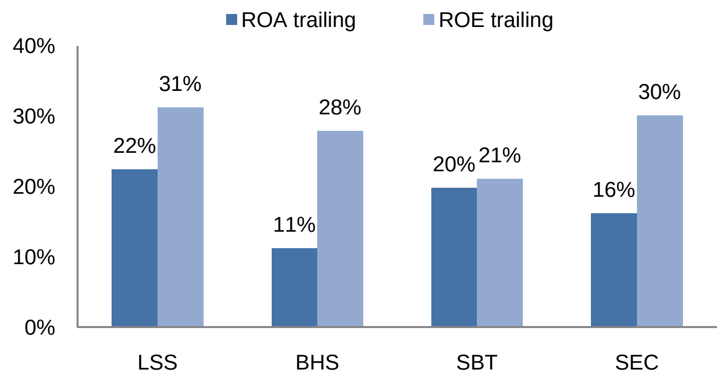
Capacity expansion continues at one of the country's most efficient sugar mills

LSS is one of the few sugar mills in Vietnam with both sufficient production capacity and sugarcane input to run its factory near full capacity. Currently the factory is running at about 96% capacity. The company's current mills are using equipment over 20 years old. However by 2012, the company will revamp one of its mills with a modern, more efficient mill from one of South Africa's leading processing equipment supplier which will increase aggregate sugar production by 40% to 93,000 tonnes sugar annually.

LSS currently has one of the highest sugarcane cultivation yields at 53 tonnes sugarcane/ha cf. the 50 tonnes/ha domestic average and sugar conversion ratio of c. 108kg sugar/tonnes sugarcane cf. the 84kg sugar/tone of sugarcane domestic average. In the 2009/10 season which typically runs from October to April, LSS produced 77,000 tonnes of sugar from 663,000 tonnes of sugarcane, attaining a conversion ratio of 108kg sugar per tonne of sugarcane; one of the most efficient rates among domestic sugar mills. Its mill can produce 780 tonnes of sugar per day. Running on average 105 days per harvest year LSS has the capacity to produce 80,000 tonnes of sugar annually.

Figure 5: ROA & ROE trailing comparable

Trailing ROE and ROA is relatively high cf. peers.



Source: Bloomberg, VCSC

We believe the company's strategy to invest in drip technology and in its new mill will enable it to raise sugarcane cultivation yields and conversion ratios far beyond domestic peers. LSS is assisting farmers by offering subsidies and low-interest loans so that farmers can invest in drip irrigation systems to improve yields. Drip irrigation systems use about 50% less water and 30% less fertilizer than traditional flood irrigation methods in use now and can potentially increase sugarcane yields by as much as c. 25%.Thanks to improvements in technology we expect LSS to be able to increase yield by at least 2% per annum from 53 tonnes sugarcane/ha to 66 tonnes sugarcane/ha by 2015. Based on 14,500ha of cultivation area, this would supply c. 960,000 tonnes of sugarcane enough sugarcane input to run both its mills near full capacity.

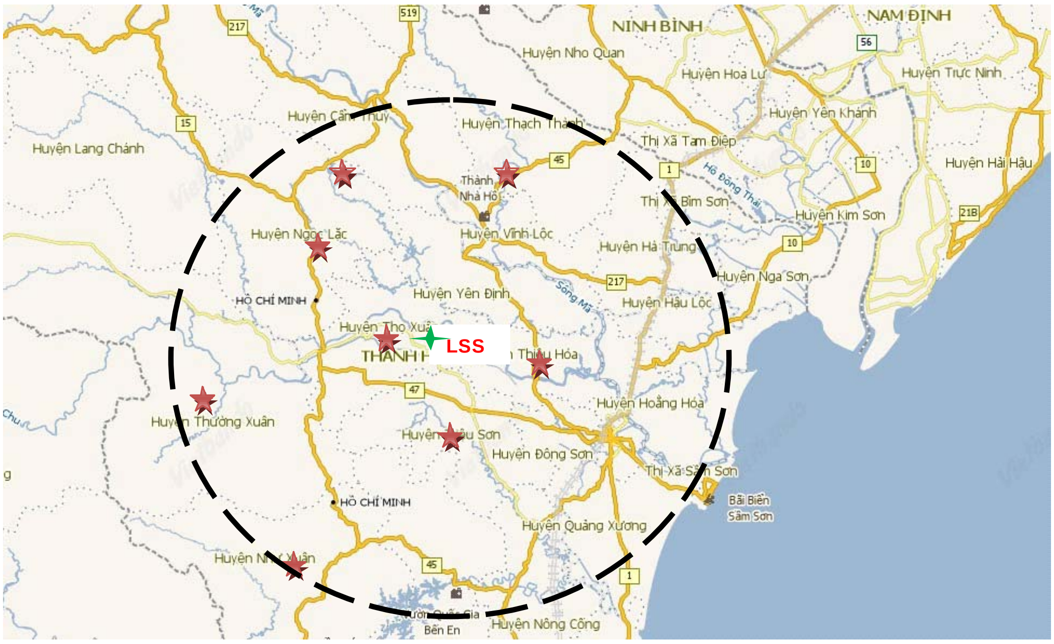
Diversification of products helps maximize performance

Lam Son's product line consists of three types of sugar: brown sugar, refined standard sugar(RS) and extra refined sugar (RE). Unlike other sugar companies that focus exclusively on the production of refined sugar, LSS can produce all three product types. Moreover, Lam Son's sugar which has low humidity and is high-quality is very popular with its customer base. Depending on the market demand, LSS can prioritise production to maximize efficiency.

LSS plans to secured a cultivation area of c. 14,000ha which will ensure raw material supply

Like most of its peers, LSS has signed contracts to provide capital, fertilisers and sugarcane breeds to farmers and purchase the cane in return. However, LSS is one of only eight that subsidise up to c. 10% of farmers' cultivation costs to encourage them to plant sugarcane rather than switching to alternative crops. In addition, LSS is the only mill/refinery that is investing in drip technologies for farmers. We believe that LSS' capacity expansion plans should assure farmers that their sugarcane crops, typically planted for at least 4-5 years, will be purchased in the future. We think LSS can secure a stable cultivation area of about 14,000ha against a decline in sugarcane cultivation areas in the rest of the country.

Figure 6: Lam Son's sugarcane area



sugar cane cultivation area of LSS

Source: LSS, Google maps

Earnings Outlook

Since the beginning of 2010, domestic sugar prices increased c. 30% not only impacted by global pressures, but driven by unseasonably dry weather in the Mekong Delta, and by shrinking cultivation areas coupled with robust domestic demand. In short, domestic prices have been function of a growing supply demand imbalance. Owing to high sugar prices, LSS' revenue for the first nine months of 2010 increased 10% to VND893bn, while NPAT jumped 85% to VND204bn. We expect fully year revenues to grow 17% to VND1,290 billion in 2010 with net income up 48% toVND242 billion driven by global sugar prices.

For the 2010/11 crop, the cost of sugar production increased by 12% cf. the 2009/10 crop due to higher sugarcane prices. In 9M2001, sugar production is about 60,000 tonnes, equivalent to 9M2009.

Figure 7: Gross profit (VND bn) and gross profit margin trend

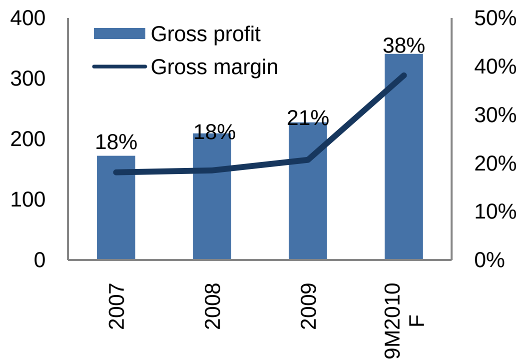
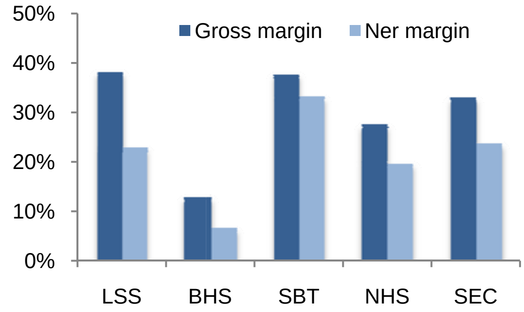


Figure 8: Gross profit margin and net operating profit margin in 9M2010



Source: LSS, VCSC

We forecast LSS's production volume to increase to 9% in 2011, on greater capacity utilisation combined with increases in sugarcane cultivation area, sugarcane yield and sugar conversion rates. In 2012, the upgrade of the second sugar mill will be complete by then, we expect the sugar conversion ratio to increase from 110 kg of sugar to 116 kg of sugar per tonne of sugarcane.

Figure 9: LSS sales estimates

	2010F	2011F	2012F	2013F	2014F
Sugar production volume (tonne)	75,884	82,897	93,221	101,837	109,067
Selling price (VND/kg)	16,546	17,374	17,721	18,076	18,437
Sugar revenue (VND bn)	1,256	1,440	1,652	1,841	2,011
Ethanol revenue (VND bn)	5	6	8	12	16
Others revenue (VND bn)	30	33	36	40	44
Total revenue	**1,291**	**1,479**	**1,697**	**1,892**	**2,071**

Source: VCSC

Production cost and gross margin

Thanks to its partnerships with farmers, we forecast the company's cultivation area will increase by 2% per year reaching 14,500 hectares by 2015. Improvements from drip irrigation and better sugarcane breeds will enable LSS' farmers to obtain cultivation yields of 66 tonnes per hectare in 2015, up 24% compared to 2010.

Figure 10: LSS gross profit estimates

	2010F	2011F	2012F	2013F	2014F
Area (ha)	13,200	13,464	13,733	14,008	14,288
Sugarcane volume (T)	702,625	752,512	805,940	863,162	924,446
Sugarcane productivity (T/ha)	53	56	59	62	65
Sugar convert ratio (kg sugar/T sugarcane)	108	110	116	118	118
Sugar production volume (T)	75,884	82,897	93,221	101,837	109,067
Cost of goods sold (VND bn)	**869**	**1,061**	**1,306**	**1,477**	**1,611**
Gross profit (VND bn)	**422**	**419**	**391**	**415**	**460**

Source : VCSC

Capital expenditures and capital structure

Lam Son is planning to invest in three major projects including the upgrading of its second sugar factory, the application of technological equipment for starch ethanol, and sugarcane yield improvement projects. The total investment for these projects is estimated at VND1,030 billion which are all expected to be completed in 2012. From now until then, we expect investment in capital assets to increase as well as working capital needs, which will increase short-term loans and interest expenses to a degree affecting LSS' capital structure and bottom line during the next five years. However, we expect the debt-to-equity ratio to decrease as the projects come into operation and earnings stabilise.

In the fourth quarter of 2010, the company sold 10 million shares to strategic investors to raise VND258bn for its investment projects.

Valuation

Our price target for Lam Son Sugar of VND39,600 is based on a DCF methodology that assumes a market risk premium of 7.6% and a risk-free rate of 11.7%. We assume a beta of 1.24, leading to a WACC of 19.1%. We estimate free cash flow to equity for LSS until 2015 and assume a long term sugar price of VND18,800/Kg. The nature of the industry leads us to apply a terminal growth rate of 4%. We also analyse the DCF price sensitivity to WACC and long term sugar prices.

WACC assumptions

2-stage DCF assumptions	Growth	Terminal
Cost of equity %	21.1	16.4
Cost of debt %	15.0	10.0
Tax %	25.0	25.0
Target D/E %	25.0	5.9
WACC %	19.1	15.9
Terminal Growth of FCFF %		4

The company is currently trading at an undemanding 6.4x FY11E PER. Our DCF-derived price target of VND39,600 implies a forward P/BV (FY11E) of 1.3x and forward PER of 7.4x.

DCF Valuation

Unit: VND bn.

	2010F	2011F	2012F	2013F	2014F	2015F
EBIT	337	294	250	260	288	328
Less: Corporate income tax	81	71	50	53	64	77
Plus: Depreciation	60	63	108	85	65	64
Less: Increase in NWC	92	(6)	72	33	30	3
Less: CAPEX	148	580	466	-	-	-
FCFF	84	(288)	(230)	259	260	312
PV	**84**	**(242)**	**(162)**	**153**	**129**	**149**
Terminal value	2,736					
Equity value	1,585					
Diluted number of share (mn units)	40					
Share price	**39,613**					

We assess our DCF-derived target price against LSS' historical EV/EBITDA valuation

Lam Son Sugar has historically traded at an average 1-year forward EV/EBITDA of 4.4x over the last 3 years. Currently, the stock is trading at a 10% discount. Considering the structural upturn in the sugar cycle and the company's capacity improvements, we believe our target price of VND39,600 is at a 4% premium above the stock's historic 1-year forward EV/EBITDA.

Sensitivity Analysis

Terminal growth % \ WACC%	17%	18%	19%	20%	21%
2%	34,532	34,438	34,350	34,266	34,188
3%	36,959	36,865	36,777	36,693	36,615
4%	39,796	39,702	39,613	39,530	39,451
5%	43,154	43,060	42,972	42,888	42,810
6%	47,193	47,099	47,011	46,928	46,849

Sugar price (VND/kg) \ Production capacity (tonnes)	70,000	73,500	77,175	81,034	85,085	89,340	93,807
15,000	32,548	34,176	35,884	37,679	39,563	41,541	43,618
15,750	34,176	35,884	37,679	39,563	41,541	43,618	45,799
16,538	35,884	37,679	39,563	41,541	43,618	45,799	48,089
17,364	37,679	39,563	41,541	43,618	45,799	48,089	50,493
18,233	39,563	41,541	43,618	45,799	48,089	50,493	53,018
19,144	41,541	43,618	45,799	48,089	50,493	53,018	55,668
20,101	43,618	45,799	48,089	50,493	53,018	55,668	58,452

Sugar price (VND/kg) \ P/E multiple	5.5	5.8	6.1	6.4	6.7	7.0	7.4
15,000	29,333	30,799	32,339	33,956	35,654	37,437	39,309
15,750	30,799	32,339	33,956	35,654	37,437	39,309	41,274
16,538	32,339	33,956	35,654	37,437	39,309	41,274	43,338
17,364	33,956	35,654	37,437	39,309	41,274	43,338	45,505
18,233	35,654	37,437	39,309	41,274	43,338	45,505	47,780
19,144	37,437	39,309	41,274	43,338	45,505	47,780	50,169
20,101	39,309	41,274	43,338	45,505	47,780	50,169	52,677

Risks to our valuation

Risks from material supply. The annual output of sugar cane materials is largely affected by impacts of the weather. In years of storms or draughts, sugar cane productivity can be affected, causing decrease and shortage in material supply for production. Other than that, the material area will be reduced if the farmers switch from planting sugar canes to other crop plants. The decrease in sugar cane output shall lead to decrease in sugar output.

Risks from financial investments. As of 30/09/2010, total value of short-term investment and long-term investment were VND 251 billion dongs, in which investment in stocks and contributions was VND174 billion. Financial investment ratio one is around 22% total assets. In the case that there are disadvantageous developments in the securities market, affecting the prices of stocks that LSS is holding, the Company shall have to make a provision for devaluation of securities investment, which leads to a decrease in profit of the company. In 9M2010, Lam Son provided 19 billion provisioning for financial investment.

In the period 2007-2009, the proportion of financial investment on the total assets is around 30%. Potential risks from financial investments are relatively high. In our opinion, Lam Son would be better off using this money to invest in its core business. In the first 9 months of 2010, financial investment decreased 22% due to the liquidation of Sacomreal shares (HNX:SCR). In Q3/2010, Lam Son provisioned VND11bn for financial investment due to the fall in the stock market. Lam Son plans to increase the ownership percentage of Thanh Hoa Tourism JSC from 32.3% to 70%. Thus, the forecasted financial investment ratio is still around 30%.

Furthermore, in the next five years Lam Son is expected to enter into tourism by investing in construction of Samson hotels, and in developing shopping centers and high-rise office buildings in Thanh Hoa city as well as Lam Kinh ecotourism area. In our view the Company should focus on its core businesses in order to generate stable cash flow in light of concerns regarding slower economic recovery, a cool real estate market and difficulties in the stock market.

Thanh Thanh Cong JSC (TTC) may overtake Vietnam's sugar industry
Over the last few months Thanh Thanh Cong, one of the leading privately-owned sugar trading companies in Vietnam and its related companies have acquired significant stakes in five of the largest sugar manufacturers, namely SBT (64%), BHS (32%), NHS (29%), SEC (11%) and LSS (6%). Total market share of these companies adds up to about 32% of the whole country's consumption. Meanwhile, imported sugar accounts for 30% of total consumption and 38% are from small sugar mills (34/40 companies). Therefore, after the acquisition, TTC has become the largest sugar distribution company in Vietnam. Though at this stage it is still unclear what TTC's end game is with these acquisitions, it is fair to say that such sector consolidation may create a formidable rival for LSS.

Appendix 1: Peer comparison in Vietnam

Description	LSS	BHS	SBT	NHS	SEC
Chartered capital (VND bn.)	400	185	1,420	81	126
Price @24/12/2010	34,100	33,800	14,000	37,900	26,900
Market capital (VND bn.)	1,364	626	1,987	307	339
Revenue 9M 2010	893	1,354	792	406	233
Increase y-o-y (%)	*10*	*106*	*45*	*56*	*36*
Profit after tax 9M 2010	204	87	263	79	55
Increase y-o-y (%)	85	10	125	76	51
Gross margin 9M 2010 (%)	38	13	38	27	33
Net margin 9M 2010 (%)	23	6	33	20	24
P/E trailing (x)	5.3	4.9	5.5	3.1	5.8
P/B trailing(x)	1.2	1.4	1.2	1.2	1.8
ROA trailing (%)	22	11	20	25	16
ROE trailing (%)	31	28	21	39	30
EV/Capacity (x)	7.3	13.9	12.7	6.3	16.1
EV/EBITDA (x)	4.0	5.3	6.7	4.0	N/A
Profit after tax 2010F	242	58	320	94	55
P/E 2010F	5.6	10.8	6.2	3.3	6.2

Source: Bloomberg, VCSC

Appendix 2: Sugar peer valuation comparison

Description	Sao Martinho SA	Shree Renuka Sugars Ltd	KhonKaen Sugar Industry PCL	Balrampur Chini
Ticker	SMTO3 BZ Equity	SHRS IN Equity	KSL TB Equity	BRCM IN Equity
Last price	14.7	2.1	0.4	1.8
Market cap (US$ mn)	1,661.3	1,428.7	663.0	478.6
P/E	24.8	9.3	63.9	10.2
P/B	1.6	4.0	2.4	1.9
ROE	5.3	18.9	3.5	19.6
ROA	2.6	7.4	1.3	7.5
EV/EBITDA	8.2	6.0	19.4	6.2
EV/Capacity	52.5	48.8	78.8	8.3

Source: Bloomberg

Appendix 3: Tariff on imported sugar of Vietnam in the implementation of CEPT/AFTA agreements 2006-2013

Type of sugar (%)	2006	2007	2008	2009	2010	2011	2012	2013
Raw sugar								
Cane sugar	*30*	*30*	*20*	*10*	*5*	*5*	*5*	*5*
Beet sugar	*5*	*5*	*5*	*5*	*5*	*5*	*5*	*5*
Refined sugar	**40**	**30**	**20**	**10**	**5**	**5**	**5**	**5**

Source: Ministry of Finance

Appendix 4: Tariff on imported sugar under TRQ commitments of Vietnam

Type of sugar	Initial imported sugar (tonnes)	Tax rate (%) In-quota tariff rate	Tax rate (%) Out-of-quota import tariff rate	Period
Raw sugar	55,000	25	85	2009
Refined sugar	55,000	60	85	2009

Source: Vietnam's commitments upon the WTO accession

LSS: Summary of Financials

Income (bn VND)	2008	2009	2010F	2011F	2012F
Net Revenue	1,132	1,100	1,291	1,479	1,697
Cost of Goods Sold	(923)	(872)	(869)	(1,061)	(1,306)
Gross Profit	**209**	**227**	**422**	**419**	**391**
Selling Expenses	(18)	(20)	(22)	(25)	(29)
Admin. Expenses	(30)	(51)	(85)	(104)	(119)
Operating Profit	**161**	**157**	**314**	**290**	**243**
Financial Revenue	28	42	52	34	32
Financial Expenses	(82)	31	(28)	(30)	(25)
Other Income	4	(1)	(1)	-	-
EBITDA	**158**	**273**	**397**	**357**	**358**
Depr.& Amort.	(48)	(45)	(60)	(63)	(108)
EBIT	**110**	**228**	**337**	**294**	**250**
Interest Expenses	(16)	(16)	(15)	(9)	(49)
Profit before Tax	**94**	**212**	**323**	**285**	**201**
Tax	(21)	(49)	(81)	(71)	(50)
NPAT	**73**	**163**	**242**	**214**	**150**
Minority Interest	(3)	-	-	-	-
NPAT to Common	**70**	**163**	**242**	**214**	**150**

Balance (bn VND)	2008	2009	2010F	2011F	2012F
Cash & Equivalents	30	160	69	46	93
ST Financial Invest	30	124	419	69	69
Accounts Receivable	174	159	217	226	288
Inventories	119	124	133	163	233
Other Current Assets	16	17	35	40	46
Current Assets	**369**	**585**	**874**	**545**	**729**
Fixed Assets (At Cost)	1,109	1,072	1,083	1,163	2,269
Depreciation (accum)	(848)	(876)	(939)	(1,003)	(1,113)
CIP	1	1	140	670	-
LT Investments	227	205	98	98	98
Other LT assets	9	11	18	19	30
Long-term assets	**499**	**413**	**401**	**947**	**1,284**
Total assets	**867**	**998**	**1,275**	**1,493**	**2,013**
ST Debts	104	84	26	30	102
Accounts Payables	96	160	135	179	239
Current Liabilities	**200**	**244**	**161**	**209**	**340**
LT Debts	73	22	7	30	323
LT Payables	2	1	1	-	-
Other LT Liabilities	1	23	55	56	58
Total liabilities	**276**	**290**	**223**	**295**	**720**
Charter Capital	300	300	400	400	400
Capital Surplus	115	115	281	281	281
Treasury Stocks	(10)	(10)	(1)	(1)	(1)
Retained Earnings	16	135	372	518	613
Other Equity	149	160	-	-	-
Minority Interest	21	8	-	-	-
Total Equity	**591**	**708**	**1,052**	**1,198**	**1,292**
Total Equity & Liability	**867**	**998**	**1,275**	**1,493**	**2,013**

Growth	2008	2009	2010F	2011F	2012F
Revenue growth %	19	(3)	17	15	15
EBITDA growth %	21	73	45	(10)	0.3
EBIT growth %	(16)	107	48	(13)	(15)
NPAT growth %	6	15	19	14	9
EPS growth %	(16)	133	11	(11)	(30)
Gross margin	18	21	33	28	23
EBITDA/Revenue	14	25	31	24	21
EBIT/Revenue	10	21	26	20	15
EPS (VND)	2,339	5,444	6,047	5,352	3,762
DPS (VND)	1,500	2,500	1,700	1,700	1,400

Indicators	2008	2009	2010F	2011F	2012F
Liquidity Ratios					
Current Ratio	1.84	2.40	5.44	2.61	2.14
Quick Ratio	1.25	1.89	4.61	1.83	1.46
Profitability Ratios					
ROE %	12	26	28	19	12
ROA%	8	18	21	15	9
ROIC %	12	22	24	18	12
Efficiency Ratios					
Days receivables	13	14	18	16	22
Days inventory	47	52	56	56	65
Days payables	23	25	15	20	25
Leverage Ratios					
Debt / equity	31	15	3	5	33
Debt / Cap employ	20	11	3	4	21
Interest coverage	6.7x	14.4x	23.2x	33.0x	5.1x
BVPS (1,000 VND)	19,708	23,609	26,289	29,942	32,304

Valuation	2008	2009	2010F	2011F	2012F
At market price of	34.1	34.1	34.1	34.1	34.1
P/E	14.6x	6.3x	5.6x	6.4x	9.1x
P/B	1.7x	1.4x	1.3x	1.1x	1.1x
EV/EBITDA	7.4x	3.5x	3.3x	3.9x	4.7x
Dividend yield %	4.4	7.3	5.0	5.0	4.1
At target price of	39.6	39.6	39.6	39.6	39.6
P/E	16.9x	7.3x	6.6x	7.4x	10.5x
P/B	2.0x	1.7x	1.5x	1.3x	1.2x
EV/EBITDA	8.4x	4.1x	3.9x	4.5x	5.3x
Dividend yield %	3.8	6.3	4.3	4.3	3.5

Source: LSS, VCSC

Analyst Certification

I, Hoa Dinh, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

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