

**VINH SON – SONG HINH HYDROPOWER JSC**


<b>Ticker</b>	<b>VSH</b>
<b>Exchange</b>	<b>HOSE</b>
<b>Industry</b>	<b>Energy - Electricity</b>

**RECOMMENDATION: HOLD**  
Target price: VND 34,300/share

**FINANCIAL HIGHLIGHTS**

Items	2007	2008	2009F
Revenue (VND bil)	370.2	483.7	482.1
Gross margin (%)	54.6	63.3	61.0
Net profit (VND bil)	256.8	370.9	359.9
<b>EPS (VND)</b>	1,868	2,698	2,617
<b>BVPS (VND)</b>	14,698	15,572	17,355
<b>ROE (%)</b>	15.30%	17.83%	15.90%
<b>P/E</b>	25.0	10.4	13.1
<b>P/B</b>	3.2	1.8	2.0
<b>EV/EBITDA</b>	16.1	7.8	9.8

Source: HBBS

**MARKET STATISTICS**

Items	2007	2008	2009(*)
52 week range (VND)			43,000 - 24,200
Average 30-day volume	0.67%	-3.06%	4.27%
Average 90-day volume	2.02%	-9.17%	12.80%
Outstanding shares (million)	137.5	137.5	137.5
Market Cap (VND bil.)	6,421	3,850	4,716
Average daily volume (1000)	154	139.6	177.7

Source : Reuter, HBBS  
(\*): 02/01/2009-31/07/2009

**As of 2Q09, VSH fulfilled 63.5%, 76.2% and 81.2% of the year targets for electricity revenue, financial income and profit, respectively. Currently, the water levels in reservoirs are sufficiently maintained. Thus, VSH is likely to exceed the revenue and profit targets for the year.**

**We forecast VSH's 2009 EPS at VND 2,617. Currently, the average PE of Vietnam's power industry is at 11x, and that of the region is 18x. We expect VSH's price at VND 34,300/share, equivalent to PE of 13.2x i.e a premium of 20% over the average PE of Vietnam's power industry for its competitive selling price, stable business operation and the recovery signals of Vietnam's economy.**

**BACKGROUND INFORMATION**

- ✓ **Product and Services**  
+ **Hydropower**
- ✓ **Ownership**  
+ **The State : 54.55%**  
+ **Foreign investor: 29.24%**  
+ **Others: 16.21%**
- ✓ **Main market (Vietnam)**  
+ **100% finished product is sold to Electricity of Vietnam Group (EVN)**
- ✓ **Main Competitor**  
+ **Thac Ba Hydropower JSC**  
+ **Pha Lai Thermal Power JSC**
- ✓ **2009 projection**  
+ **Electricity revenue: VND 425 billion**  
+ **Financial income: VND 86 billion**  
+ **Pre-tax profit: VND 291.1 billion**
- ✓ **1H09 results**  
+ **Electricity revenue: VND 269 billion**  
+ **Financial income: VND 65.5 billion**  
+ **Pre-tax profit: VND 236.4 billion**

Date of issue: 05/08/2009

## **Merchandise power production and sales**

### *Hiking demand for electricity consumption*

For the first 6 months of 2009, VSH's electricity output reached VND 520 million KWh, equivalent to 2% of EVN's output. The national demand for electricity consumption rebounded strongly as 2Q09 merchandise electricity sales increased by 11.3% from one year earlier, much higher than 1Q09's level of 3.79%. Obviously, VSH in particular and EVN in general are benefiting from the economic recovery.

### *Favorable weather conditions*

As of 30/07/09, the water levels at Vinh Son A, B, C and Song Hinh reservoirs still meet technical requirements for normal operation. Merchandise electricity output fulfilled 75.7% of the year plan. In the mean time, July's output exceeded 3Q09's plan by 40.7%. We therefore expect that VSH can well fulfill the year plan on electricity sales. In 2009 VSH also upgraded Vinh Son A reservoir to raise its reserve capacity for additional electricity output of 35 million Kwh/year from 3Q10.

### *New power sale contracts have not been signed*

Selling price for 2009 is temporarily calculated at 90% of the previous price because the new contract has not been put through. However, it is possible that the contract price will be around the previous level or higher as EVN had raised its selling prices to end-users by around 8.92% on average over last year. Moreover, the Government has just issued a direction to the Ministry of Industry and Trade to prepare a proposal to restructure the power market in which power price will be subject to the market movement.

## **2009 plan**

### *Ability to meet the revenue and profit targets*

VSH estimated 2009 total revenue of VND 510.30 billion, and after tax profit of VND 291.1 billion. In which, merchandise electricity sales contributes VND 424.73 billion and financial income provides VND 86 billion. Apparently, VSH can fulfill its plan on financial income as the company's lending and trust funds valuing VND 840 billion. Most of these investments have fixed interest rate of over 10%. The company can also make its plan for merchandise power owing to the stable electricity production. In 1H09, VSH made 63.5%, 76.2% and 81.2% of the year plan on electricity revenue, financial income and profit, respectively.

## **Progress of new hydro-electricity projects**

### *Fund raising pressure will increase significantly from 2011, and mostly from bank loans*

At the end of May 09, the Prime Minister has approved the production plan of Thuong Kon Tum hydro-electricity project. VSH will start the project in early October. Capital needs will hike since 2011 to fund the installation of main machines. VSH will have to raise funds by borrowings, bond and share issuances.

## **Notes on 1H09's financial reports**

### *Low financial investment risk – financial income will decline from 3Q09*

Over 95% of investments are deposits and trust funds at fixed interest rates of over 9%. From 3Q09, interest income will decrease by nearly VND 10 billion/quarter against previous quarters as the interest rate on the VND 500 billion loan to EVN has been reduced to 10%, from the previous level of 17%.

### *Impact of VND/USD exchange rate on financial expenses*

At present, VSH owes a debt of USD 15.25 million to fund Song Hinh and Vinh Son Plants. From 2010 afterwards, VSH will pay USD 1.35 million per year on average. Thus, VND/USD exchange rate volatility is not likely to have a strong impact on the company.

### *Phase 2 of 2008 dividend payment at the rate of 8%*

VSH paid a dividend for phase 2 of 2008 in cash at the rate of 8%, equivalent to VND 110 billion in total in 2Q09.

**FINANCIAL STATEMENTS**

<b>INCOME STATEMENT</b>	<b>Q2'08</b>	<b>Q3'08</b>	<b>Q4'08*</b>	<b>Q1'09</b>	<b>Q2'09</b>
Net revenue	150,565	55,788	132,384	138,470	131,286
Growth rate (%)	3.9%	-62.9%	137.3%	4.6%	-5.2%
Cost of goods sold	44,355	43,233	47,012	44,254	46,604
Cost of goods sold/net sales (%)	29.5%	77.5%	35.5%	32.0%	35.5%
Selling expense and administration expense (SG&A)	2,309	1,526	4,905	2,324	1,994
SG&A / net sales (%)	1.5%	2.7%	3.7%	1.7%	1.5%
Operating profit	103,901	11,029	80,468	91,892	82,688
EBITDA	1,516,284	-1,336,478	1,570,893	160,949	154,688
EBITDA/net revenue (%)	1007.1%	-2395.6%	1186.6%	116.2%	117.8%
EBIT	116,238	63,568	95,638	123,350	116,815
EBIT/net sales (%)	77.2%	113.9%	72.2%	89.1%	89.0%
Financial income	12,341	52,497	30,758	31,476	34,062
Financial expense	2,806	2,961	17,466	2,280	1,509
Net financial income	9,535	49,535	13,292	29,195	32,553
Net financial income/net revenue(%)	6.3%	88.8%	10.0%	21.1%	24.8%
Other net income	-5	43	13	-18	65
Profit before tax	113,431	60,607	94,097	121,069	115,306
Profit before tax/net revenue	75.3%	108.6%	71.1%	87.4%	87.8%
Corporate income tax	0	0	-739	0	0
Profit after tax	113,431	60,607	94,836	121,069	115,306
Minority interest	0	0	0	0	0
Net profit after tax (NPAT)	113,431	60,607	94,836	121,069	115,306
Net profit margin (%)	75.3%	108.6%	71.6%	87.4%	87.8%
EPS	825	441	690	881	839

(\*): 4Q09 financial report is adjusted in line with audited financial report

<b>Cash flow statement</b>	<b>2Q08</b>	<b>3Q08</b>	<b>4Q08*</b>	<b>1Q09</b>	<b>2Q09</b>
Net profit	113.431	60.607	94.836	121.069	115.306
Depreciation	1.400.046	-1.400.046	1.475.255	37.599	37.873
Changes in working capital	22.153	-10.724	-31.107	-28.649	2.289
Other cash from operating activities	-5	43	13	-18	65
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1.525.288</b>	<b>-1.404.660</b>	<b>1.529.346</b>	<b>98.543</b>	<b>121.406</b>
Investments in fixed assets	-1.326.135	1.430.072	-1.442.955	-5.561	-9.659
Other investments	-307.659	-42.503	115.283	-13.368	64.062
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-1.633.794</b>	<b>1.387.569</b>	<b>-1.327.672</b>	<b>-18.930</b>	<b>54.403</b>
Increase/decrease in operating capital	0	0	0	0	1
Paid dividend	-10.419	-143	-138.181	-3.020	-111.628
Increase/decrease in short-term debts	-72.516	1.141	52.441	-8.000	-52.495
Increase/decrease in long term debts	-107	107	-89.194	0	0
Others					
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-83.042</b>	<b>1.105</b>	<b>-174.934</b>	<b>-11.021</b>	<b>-164.121</b>
Changes in cash in the period	-191.547	-15.987	26.739	68.593	11.688
Beginning cash balance	228.784	37.236	21.250	47.989	116.582
Ending cash balance	37.236	21.250	47.989	116.582	128.270

Balance sheet	2Q08	3Q08	4Q08*	1Q09	2Q09
<b>CURRENT ASSETS</b>	953.283	1.029.475	993.926	1.136.286	1.114.113
Cash and cash equivalent	37.236	21.250	47.989	116.582	128.270
Short-term financial investment	830.685	925.685	825.685	870.685	840.685
Short-term receivables	60.822	58.056	99.350	122.831	118.810
Inventories	24.078	24.029	20.832	25.957	26.200
Other current assets	461	455	69	231	148
<b>NON CURRENT ASSETS</b>	1.552.549	1.522.075	1.489.325	1.457.131	1.428.917
Long term receivables	0	0	0	0	0
Fixed assets	1.541.121	1.510.647	1.478.057	1.446.020	1.417.805
Investment property	0	0	0	0	0
Long term financial investments	10.419	10.419	9.969	9.813	9.813
Other non current assets	1.008	1.008	1.299	1.299	1.299
<b>TOTAL ASSETS</b>	2.505.832	2.551.550	2.483.250	2.593.416	2.543.030
<b>LIABILITIES</b>	380.534	365.788	340.833	332.950	278.884
Short-term liabilities	66.526	51.781	115.838	107.956	53.896
Long term liabilities	314.007	314.007	224.994	224.994	224.988
<b>OWNER'S EQUITY</b>	2.125.298	2.185.762	2.142.418	2.260.466	2.264.146
Owner's equity	2.124.017	2.184.624	2.141.120	2.259.307	2.262.766
Chartered capital	1.374.943	1.374.943	1.374.943	1.374.943	1.374.943
Share premium	370.660	370.661	370.661	370.660	370.661
Treasury stocks	0	0	0	0	0
Other reserves	379.695	440.159	396.815	514.864	518.542
Minorities interest	0	0	0	0	0
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	2.505.832	2.551.550	2.483.250	2.593.416	2.543.030
<b>Financial ratios</b>	<b>2Q08</b>	<b>3Q08</b>	<b>4Q08*</b>	<b>1Q09</b>	<b>2Q09</b>
<b>Quarterly growth rates</b>					
Net revenue	3,9%	-62,9%	137,3%	4,6%	-5,2%
Gross profit	4,3%	-88,2%	580,0%	10,4%	-10,1%
Profit from operating activities	3,5%	-89,4%	629,6%	14,2%	-10,0%
Net profit	11,1%	-46,6%	56,5%	27,7%	-4,8%
<b>Profit margin (%)</b>					
Gross profit margin	71%	23%	64%	68%	65%
Operating profit margin	69%	20%	61%	66%	63%
EBITDA/net revenue	1007,1%	-2395,6%	1186,6%	116,2%	117,8%
Net profit margin	75,3%	108,6%	71,6%	87,4%	87,8%
ROA	9,1%	4,8%	7,5%	9,5%	9,0%
ROE	10,9%	5,6%	8,8%	11,0%	10,2%
<b>Financial leverage</b>					
Total liabilities/Total assets	15,2%	14,3%	13,7%	12,8%	11,0%
Total liabilities/equity	17,9%	16,7%	15,9%	14,7%	12,3%
<b>Efficiency</b>					
Days of receivables	40	97	54	73	84
Days of inventory	49	51	44	48	51
Days of payables	6	7	1	5	6
Cash cycle	82	141	97	117	129

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