

## 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>     | <b>1,868</b>  | <b>2,698</b>  | <b>2,617</b>  |
| <b>BVPS (VND)</b>    | <b>14,698</b> | <b>15,572</b> | <b>17,355</b> |
| <b>ROE (%)</b>       | <b>15.30%</b> | <b>17.83%</b> | <b>15.90%</b> |
| <b>P/E</b>           | <b>25.0</b>   | <b>10.4</b>   | <b>13.1</b>   |
| <b>P/B</b>           | <b>3.2</b>    | <b>1.8</b>    | <b>2.0</b>    |
| <b>EV/EBITDA</b>     | <b>16.1</b>   | <b>7.8</b>    | <b>9.8</b>    |

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 |
| Financial ratios                            | 2Q08      | 3Q08      | 4Q08*     | 1Q09      | 2Q09      |
| <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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