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Market Review

The VN-Index increased 5.0% this week on hopes that interest rates may fall significantly soon. Those expectations for falling interest rates benefited the real estate sector which saw impressive gains in several names including: DIG (22.1%), LCG (19.4%), ITA (17.6%), DIC (17.1%), HAG (15.5%), NTL (14.8%), to name a few. Trading volume soared from \$94m the previous week to \$179m.

Two things helped bolster the belief that interest rates will fall soon: 1) February CPI came in at 16.4% y-o-y, a further decrease from January's 17.3% figure and 2) several banks announced their intentions to decrease lending rates. Recently it seems as if banks (especially the SOCB's) are trying to outdo each other to announce lending rate cuts. We assume these PR measures are aimed at keeping in good graces with the government but we wonder how many new loans are actually being made at the announced lower interest rates. That said, the liquidity situation has clearly eased and it's our understanding that it's now possible for typical businesses to borrow working capital at interest rates around 20% - which would have been difficult at the end of 2011.

Another caveat about hopes for falling interest rates is that energy prices are likely to rise again soon in Vietnam. Despite the steep increase in oil prices over the last month, retail gasoline prices in Vietnam are unchanged. Gas sells for considerably less in Vietnam than in surrounding countries and we estimate that the current price is subsidized by about 6%, depending on how you look at the various taxes imposed. The petrol stabilization fund is nearly depleted and we don't expect oil price to decline significantly given that the prospects for a hard landing in China now seem remote and given the on-going tensions with Iran. Higher gasoline prices seem inevitable, as do higher electricity prices. Although electricity prices were raised 5% at the end of December retail electricity prices in Vietnam are still subsidized by more than 20%

In more encouraging news there was discussion in the local press that state-owned enterprises will focus on their core business in the future and will publish their profit and loss figures going forward. EVN said it will liquidate all of its assets in real estate, securities, banking and insurance, although its attempt to sell its 5.3% stake in ABBank to HDBank was blocked by the central bank for unknown reasons.

Company News

STB – There were more developments in the ongoing Sacombank takeover battle. Eximbank (EIB) announced that it has sufficient shareholder support to re-appoint STB's board of directors, a claim which STB denies. See **Page 2**.

REE – \$150m market cap real estate developer and air conditioner maker REE, announced that its 2011 revenue growth was flat, though profits increased by 40%, thanks to a 100%-increase in financial income over the year. Since the real estate market is moribund, we assume that the profits came from REE's holding of 3.7% of STB shares, which were sold in December 2011. STB's share price increased by 45% in 2H2011 due to the ongoing takeover battle for the company.

In Focus

SBT – \$90m market cap Bourbon Tay Ninh Sugar is Vietnam's second largest sugar refiner, trading around 4x 2012 earnings with a 14% dividend yield. Earnings increased 68% in 2011. We reiterate our **BUY** rating (p. 2)

Key Indices

Index	Last	% Chg	Vol (\$m)
VN-Index	423.43	5.0	1797.7
HNX-Index	67.07	8.6	134.2

Company News

Sacombank Takeover Update

Analyst: Ngo Bich Van

Here is a recap of the latest developments of the ongoing Sacombank (STB) takeover battle over the last few weeks:

Eximbank (EIB) has entered the fray by purchasing 9.6% of STB's shares from ANZ. Since EIB is our favourite pick in the banking sector, we were initially concerned by the idea that the highly-professional EIB would attempt to merge with hyper-aggressive STB. However, we now view the EIB purchase of 9.6% of the shares as either some form of a "Greenmail" attempt or that EIB is acting on behalf of more powerful interests behind the scenes.

The good thing about EIB entering the picture is that it increases the possibility that STB could end up with a serious professional management team with deep banking experience after the dust is settled.

Here's an update of the latest developments over the last week:

- EIB announced that it has the support of 51% of the STB shareholders and is asking for a new election of the 7-member Board of Directors and the 3-member Board of Supervisors. These votes will enable the EIB group to nominate 5 members in total to the BoD and the BoS, although it is not clear yet how the 5 members would be allocated between the two governing boards (our understanding is that the BoD has more power than the BoS).
- For the incumbent STB group to reject EIB's nominations, it would need the support of 30% of STB's shareholders. We assume that STB's management has delayed the April 20th AGM to buy time in order to secure the support. The STB group has made claims publicly that it has enough votes to block EIB. However, in our view, any statements from the management of STB should be viewed with scepticism.
- We do not know as yet if the Thanh family who currently runs STB (also the largest shareholders until recently) would be able to secure the votes to block the nominations of the EIB group. Assuming that the STB group does not have enough votes, what could be the consequences?
- There is market talk that the current CEO of ACB, Ly Xuan Hai, would take over as CEO of STB. Even if he does not take over the running of the bank, it is very likely that a more professional management team (in one form or another) will end up running the bank. With the recent exits of ANZ and the IFC, the level of serious banking expertise in its upper echelons is the lowest among the large banks in Vietnam (click [here](#) to see our August 2011 STB report, "Back to a Kinda Family Business")
- The consequence of a more professional management team is likely to be more earnings stability – which should be very good news for STB's shareholders. Our current rating on the bank is "Hold" due to concerns over asset quality and earnings volatility. However, valuation is attractive at 1.3 P/B and 8.7 P/E versus expected earnings growth of over 20% for 2012. A management revamp could be the catalyst need to push the shares significantly higher; they have already increased in value by 60% over the last eight months due to takeover speculations.

In Focus

Bourbon Tay Ninh Sugar Lower 2012 Forecast but Cheap Valuation

Analyst: Hoa Nguyen Trung
[Click here to see full report](#)

Reiterate BUY. Sugar refiner SBT has favourable growth prospects, cheap valuation at 4x FY12 PER and an attractive 14% dividend yield. Though the outlook for 2012 is weak, we believe that the stock still offers nearly 40% upside potential, which is underscored by the company's recent share buyback programme that retired 10% of the outstanding shares. Note that our target price was computed using fairly conservative assumptions (18% WACC, etc).

Impressive FY11 performance. SBT's profit increased 58% y-o-y in FY11 to VND545b (US\$26m), driven by 85% sales growth and 63% volume growth. Gross margin shrank from 34% in FY10 to 29% in FY11 because the cost of purchase of sugarcane rose by 25% whereas selling price (ASP) increased by just 8%.

Falling gross margins in 2012. SBT's gross margins should fall further, from 29% in FY11 to 25% in FY12 due to a 10% increase in the price SBT pays its sub-contracted farmers for sugarcane. The 35% price hike over 2011-2012 reflects competition from other crops for the land of those farmers. The decline in gross margins in 2012 should reduce profits by 16% y-o-y to VND458b (US\$2m).

Moderate medium-term outlook. We forecast SBT's profits to grow 7% CAGR over FY12-FY16 because the company's generous financial support to sub-contracted farmers should help increase its contracted sugarcane farmland from 14,000ha to 21,000ha by 2015. Securing raw materials is a major problem in the industry and SBT's expanded farmland will allow it to raise its refinery capacity utilisation from 70% to 100%. Finally, SBT is the most efficient sugar producer, which gives us confidence in its medium-term growth prospects.

Fears about sugar oversupply overblown. There is currently an oversupply of sugar in Vietnam but we believe the problem is temporary and that the surplus will be consumed by the end of the current season. Also, 70% of SBT's output is sold to packaged food and beverage makers who have a strong demand for sugar.

SBT 2011 Business Performance

VND bn	FY2010	FY2011 target	FY2011 performance	% y-o-y growth	% of the target
Sales volume (tons)	59,268		96,925	63.5	
Revenue	1,104	1,600	2,050	85.7	128.1
Gross profit	384		603	57.2	
<i>Gross margin</i>	34.8%		29.4%		
SG&A expense	(43)		(64)	47.9	
<i>% of revenue</i>	3.9%		3.1%		
Net financial income	29		21	-27.8	
Pretax profit	370		563	51.9	
Net profit	345	370	546	58.1	147.5
<i>Net margin</i>	31.3%		26.6%		
EPS (VND)	2,432		3,845	58.1	

Source: SBT

The Most Efficient Sugar Manufacturer in Vietnam

The sugarcane farmland that SBT sub-contracts yields 70 tons/ha versus the national average of 60 tons/ha, and SBT's 9,000 ton/day refinery is one of only five sugar

refineries in Vietnam which exceed the critical 6,000 tons/day capacity level, after which economies of scale start to really kick-in.

These cost advantages explain why SBT's gross margin is the second-highest in the industry after LSS, and why its ROE is the second-highest after outlier SEC (this is a very small company with limited information available so we are not clear how the company achieves a high ROE given its relatively low net margin).

Peer Comparisons (2011)

	SBT	LSS	BHS	SEC	NHS
Revenue (VND bn)	2,050	1,578	2,564	552	782
Net profit (VND bn)	546	392	147	98	80
Gross margin (%)	29.4	34.9	10.5	27.5	18.2
Net margin (%)	26.6	24.8	5.7	17.8	10.2
Shareholders' equity (VND bn)	1,787	1,378	548	254	272
Return on equity (%)	30.5	28.4	26.8	38.6	29.4

Source: Company financial statement

Top 50 by Market Capitalization		Market Cap	Volume	P/E	P/B	Net Margin	D/E	ROE	Foreign Room	Emg MC (2)	One Year % change (3)	Three Month % change
		(\$m)	(\$k)	Ratio	Ratio	%	%	%	(1) %	(H/M/L)		
VCB	BANK FOR FOREIGN TRADE OF VIET	3,125	533	13	1.9	27	301	17	19%	L	-1	18
VIC	VINCOM JSC	2,953	550	15	7.0	35	120	52	19%	M	7	40
MSN	MASAN GROUP CORP	2,670	471	28	3.5	28	45	15	9%	M	42	-7
VNM	VIET NAM DAIRY PRODUCTS JSC	2,441	282	12	4.1	20		41	-19%	H	58	-1
CTG	VIETNAM JOINT STOCK COMMERCIAL	2,398	389	7	1.8	27	383	27	28%	L	12	20
BVH	BAO VIET HOLDINGS	1,959	308	43	3.6	5	13	10	5%	L	-23	-1
ACB	ASIA COMMERCIAL BANK/VIETNAM	1,030	347	8	1.7	41	666	22	0%	L	3	15
EIB	VIET NAM EXPORT-IMPORT COMMERC	996	812	7	n/a	48	324	14	0%	L	35	28
STB	SAIGON THUONG TIN COMMERCIAL J	916	1,588	5	1.3	35	182	15	18%	L	43	32
HAG	HAGL JSC	619	696	11	1.4	37	116	12	-3%	M	-44	24
MBB	MILITARY COMMERCIAL JOINT STOC	606	685	5	1.2	47	319	22	28%			
FPT	FPT CORP	565	367	6	2.1	4	72	36	-19%	H	3	11
DPM	PETROVIETNAM FERTILIZER & CHEM	551	409	4	1.4	34	5	29	6%	L	-16	4
SQC	QUY NHON MINING CORP	444	1	115	n/a	27	3	1	41%		10	0
PVD	PETROVIETNAM DRILLING AND WELL	423	219	8	n/a	11	128	19	-4%		-15	14
HPG	HOA PHAT GROUP JSC	371	340	6	1.0	7	81	18	-6%	L	-23	21
PVF	PETROVIETNAM FINANCE JSC	314	187	12	1.0	22	232	7	15%	L	-48	18
SSI	SAIGON SECURITIES INC	294	808	60	1.2	9	36	13	-18%	L	-29	8
VCG	VIET NAM CONSTRUCTION AND IMPO	269	493	8	1.6	3	239	12	42%		-46	13
KDC	KINH DO CORP	234	208	12	1.1	7	12	17	-9%	M	-26	19
PVS	PETROVIETNAM TECHNICAL SERVICE	221	232	5	n/a	5	153	26	34%		-31	17
KBC	KINH BAC CITY DEVELOPMENT SHAR	202	77	103	n/a	6	76	29	7%		-54	38
DHG	DHG PHARMACEUTICAL JSC	195	34	9	2.9	17	2	32	-19%	M	34	3
SHB	SAIGON - HANOI COMMERCIAL JOIN	189	365	3	0.7	33	475	15	29%	L	-20	26
PVI	PVI HOLDINGS/VIETNAM	187	97	8	0.8	15	10	10	0%		7	13
PVX	PETROVIETNAM CONSTRUCTION JSC	186	995	8	0.9	3	70	25	41%		-41	21
ITA	TAN TAO INVESTMENT INDUSTRY CO	164	399	7	0.6	27	39	12	15%		-33	37
REE	REFRIGERATION ELECTRICAL ENGIN	156	482	6	0.8	28	6	15	-14%		-5	20
OGC	OCEAN GROUP JSC	151	407	9	0.9	13	32	22	21%		-39	28
IJC	BECAMEX INFRASTRUCTURE DEVELOP	150	418	10	1.0	24	22	16	20%		-31	19
SJS	SONGDA URBAN & INDUSTRIAL ZONE	135	232	19	1.5	45	75	23	-2%	M	-46	75
VCF	VINACAFE BIEN HOA JSC	135	26	13	3.9	14		33	28%	H	129	9
PPC	PHA LAI THERMAL POWER JSC	134	92	n/a	0.9	0	263		16%		-25	31
POM	POMINA STEEL CORP	119	8	6	n/a	3	134	27	23%		-42	22
NVB	NAM VIET COMMERCIAL JSB	114	2	12	0.7	26	117	7	30%	L	-5	4
PNJ	PHU NHUAN JEWELRY JSC	113	239	10	n/a	1	96	21	-11%	H	20	10
KLS	KIM LONG SECURITIES CORP	106	1,302	12	0.9	48		8	40%	L	-17	11
PHR	PHUOC HOA RUBBER JSC	106	40	3	n/a	32	13	44	16%		-23	22
DPR	DONG PHU RUBBER JSC	103	10	3	1.1	47	2	54	-5%		-21	16
HBB	HANOI BUILDING COMMERCIAL JOIN	103	403	3	0.4	37	459	14	20%	L	-49	-4
DIG	DEVELOPMENT INVESTMENT CONSTRU	97	132	8	0.8	12	23	19	7%		-29	27
PDR	PHAT DAT REAL ESTATE DEVELOPME	97	10	12	1.4	6	112	22	29%	M	-50	-18
QCG	QUOC CUONG GIA LAI JSC	93	8	23	0.8	-9	38	17	17%	L	-30	14
GMD	GEMADEPT CORP	92	58	18	0.5	0	37	6	2%		-26	12
CII	HCM CITY INFRASTRUCTURE INVEST	90	112	12	1.5	82	120	29	1%		-34	19
VSH	VINH SON - SONG HINH HYDROPOWE	89	160	5	0.7	77	21	13	8%		-27	-9
SBT	SUCRERIE DE BOURBON TAY NINH	88	85	4	1.1	27	19	31	24%	L	18	31
HCM	HO CHI MINH CITY SECURITIES CO	81	95	7	0.8	42	10	11	-19%	L	-17	6
HVG	HUNG VUONG CORP	80	97	4	0.8	6	101	12	23%		24	26
VHC	VINH HOAN CORP	73	6	5	1.3	9	45	27	5%		28	14

(1) approximate values updated monthly

(2) our subjective assessment of how exposed the company is to the emerging middle class story

(3) * Indicates listing less than 1 year ago

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