SONG BA CORP (SBA – HSX)

Growth season ahead

Particulars (VND bn)	3QFY14	2QFY14	% Chg. (qoq)	3QFY13	% Chg. (yoy)
Net revenue	67.0	26.3	155%	55.9	20%
NPAT	25.9	8.4	209%	22.4	16%
EBIT	37.0	15.5	138%	39.1	-5%
EBIT margin	55.2%	58.9%	-375bps	69.9%	-1,477bps

Source: SBA Financial statement, RongViet Securities' compilation and estimates

Attractive business performance in Q3/2014

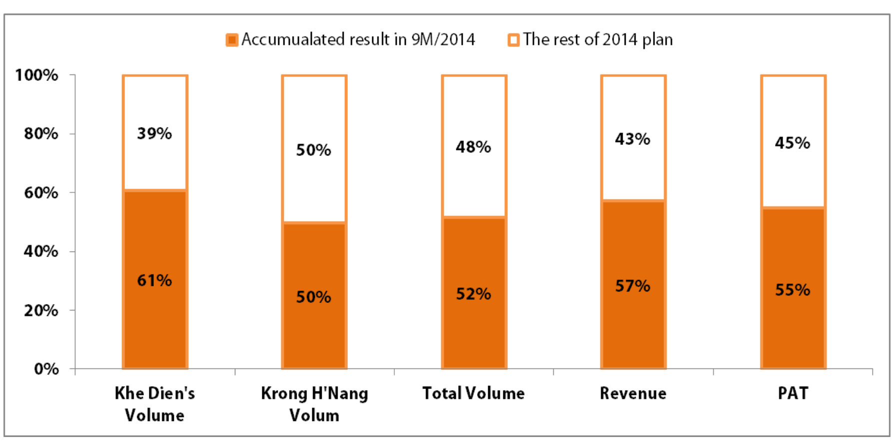
As driven by the raining season cycle, power price usually witnesses a decline in the third quarter of the year with the greatest impact felt by hydro-power plants applying the " avoidable cost schedule"(*). However, SBA's operating results were posted very positive withQ3 revenue and NPAT at VND67 billion and VND37 billion, up by 20% and 16% respectively. These encouraging results were attributable to an increase in both output and power selling price together with such factors as the Government support towards hydro-electric power projects regarding interest payment.

- SBA's power output in 3Q2014 increased to 52 million Kwh (+16% yoy) as a result of an 29-percent advancement in Krong H'Nang' power plant's output (49.5 million Kwh)
- Average power price in 3Q2014 climbed 3% over the one-year period, in which the price for Khe Dien plant under the "avoidable cost schedule " was approximately 574 VND/Kwh as compared to competitive market power price was 1290 VND/Kwh.
- A post-investment preferred interest rate package for Khe Dien hydropower plant of VND5 billion from the Vietnam Development Bank helped reduce Q3 interest expense by ~42%

9M2014 business result overview

In the nine months ended September 2014, revenue reached VND139 billion (+3% y.o.y) and NPAT VND41.9 billion, 4 times higher than a year earlier. Regarding energy production, SBA has completed 52% of its annual plan wherein Khe Dien and Krong H'Nang has fulfilled 61% and 50% of their respective plans.

Exhibit: Accumulated result in 9M/2014



*Source: SBA Financial statement, RongViet Securities' compilation and estimates, *As of 24/10/2014*

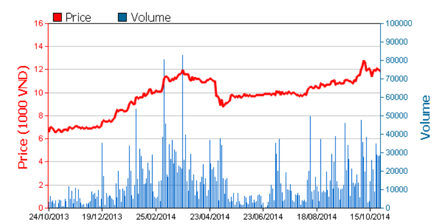
"Avoidable costs schedule" was published by the MOIT and came into force on January 01, 2014 based on production costs for the power generation unit with the highest costs in the national electricity system to generate 1 Kwh of electricity.

BUY

SBA (VND)	11,900
Target Price (VND)	14,500
Investment Period	Intermediate

Stock Info

Sector	Construction & Materials
Market Cap (VND bn)	717
Current Shares O/S	60,288,331
Beta	0.77
Free float (%)	25.8
52 weeks High	12,800
52 weeks Low	5,900
Avg. Daily Volume (in 20 sessions)	203,319



Peformance (%)

	3M	1Y	3Y
SBA	19	80	133
Construction & Materials	10.6	79	n/a
VN30 Index	-16	-4	23
VNIndex	-1	-15	-30

Major Shareholders (%)

Central Power Corporation (EVNCPC)	39.1
Foreigner Investor Room (%)	48.7

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Q4 result to "pump" whole-year earnings.

The cyclical nature of the hydropower sector dictates that most of a power plant's volume will fall in Q4. Therefore, we expects SBA's sale output to reach about 118 million Kwh, revenue about 134 billion VND and NPAT about 54.5 billion (up 20% as compared with 9M2014) in 4Q2014. For FY2014, our revenue and NPAT projections are 273 billion (+ 23% y.o.y) and 97.3 billion (+ 46% y.o.y) respectively. Such results mean that SBA may exceed both its annual revenue and NPAT plans - 235 billion and 78 billion respectively – approved at the most recent AGM. 2014 EPS should be approximately VND1,611.

Exhibit: Volume in 2014

Volume (thousand Kwh)	Q1-2014	Q2-2014	Q3-2014	Q4-2014E	2014E
Khe Dien	9,781	10,168	2,246	15,805	38,000
Krang H'Nang	26,949	13,157	49,546	95,830	185,482
Total	36,730	23,325	51,792	111,635	223,482

*Source: SBA Financial statement, RongViet Securities' compilation and estimates, *As of 24/10/2014*

Growth opportunity based on general prospect of electricity.

According to Vietnam's "Power sector planning VII", electricity consumption growth is forecasted to reach 14-16% in 2011-2015 and 11.5% in 2015-2020, implying a brighter prospect for all industry players, including SBA. The company has planned 2 new projects, namely Krong H'Nang Phase 2 and Song Tranh Phase1, with a combined capacity of 34 MW. The two new subsidiary plants will be able to provide an incremental 140 million Kwh of electricity output each year. In the short term, weather conditions still play a huge role in the expansion of electricity productions, for example, high rainfalls during the dry season.

However, what we have more expectations about is a possible boost to SBA's profits by an increase in power price as the result of the operation of the competitive power market. Vietnam is in a transition from an agricultural to an industrial – service economy, which likely leads to a surge in electricity demand and constant power shortage in the upcoming years. Finally, with a plan in the making to establish a competitive retail electricity market in Vietnam by 2023, the prospect of electricity price increase looks more realizable than ever.

Outlook:

Currently, Krong H'Nang hydropower plant (with a capacity 7 times as large as Khe Dien's), is already operating under the competitive power market mechanism. Consequently, a combination of on-going supply shortage and increasing power demand to meet economic growth targets promises a positive revenue expansion for SBA. However, we still have some concerns over the Company's ability to raise capacity given (1) little improvements in the construction progress of Krong H'Nang project (stage 2) and Song Tranh 1 due to an insufficiency of reasonable-cost capital and (2) the hydropower sector's inherent dependence on weather conditions.

We know that average P/E ratio for the hydropower industry is currently about 10x. Considering the size and growth ability of the SBA in the short term, we decide to lower the P/E ratio used for the stock's valuation to 9x. With that, the reasonable price of SBA should be around VND14.500/share, around 21.8% higher than the closing price on the most recent trading day (24/10/2014). For that reason, we rate the stock as **BUY** in the **INTERMEDIATE TERM**.

Exhibit: Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E
Net Revenues	168.7	222.1	273.3
% chg	-16.7%	31.7%	23.0%
PAT	18.7	66.6	97.1
% chg	-42.3%	256.1%	45.8%
EBIT margin (%)	11.1%	30.0%	35.5%
ROA (%)	1.3%	3.9%	6.0%
ROE (%)	4.8%	14.3%	10.8%
EPS (VND)	375	1,247	1,611
Adjusted EPS (VND)	310	1,105	1,611
Book value (VND)	8,909	11,327	18,453
Cash dividend (VND)	-	1,000	1,000
P/E (x)	12.5	6.2	7.4*
P/BV (x)	0.5	0.7	0.6*

*Source: SBA Financial statement, RongViet Securities' compilation and estimates, *As of 24/10/2014*

BRIEF UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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