

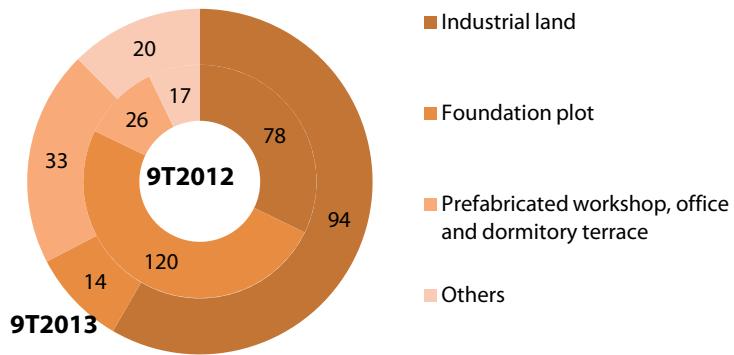
LHG CORP (FPT – HNX)

The finish line not in sight

Loss witnessed in Q3FY2013 due to financial activities. LHG's revenue reached VND32.3 bn in Q3, down by more than 47% y-o-y. The decrease resulted from a significant decline of resident land plot sales, which was over VND30 bn lower than the amount recorded a year earlier. Meanwhile, rents from workshops, office buildings and the dormitory terrace were mostly stable and industrial land rent was up 20% y-o-y.

LHG divested from a long-term investment in Vinh Tuong Industrial Join Stock Company for nearly VND8 bn in Q3 but had to record a loss of VND5 bn for the divestiture. Combined with high interest expense, the loss from financial activities mounted to VND15.8 bn, which resulted in a bottom-line loss ~VND11 bn in Q3.

Graph 01. Revenue of business segments (VND bil)



Source: LHG, Rongviet Securities database

For the nine-month period, LHG's revenue was posted VND161.1 bn, down by 29% y-o-y and fulfilling 44% of the annual guidance. Due to a reduced portion of land plot sales and a higher contribution of industrial land and prefabricated workshop rents, the profit-before-tax margin was up to 33% from 27%. As a result, PBT reached up 18% y-o-y to VND31.4 bn. NPAT, however, slightly decreased over the same period of last year VND14.5 bn.

LHG may fulfill only 69% of its whole year revenue target. LHG signed a contract for the rent of 3.3 ha of its industrial land in October. The deal may add about VND60 bn to LHG's sales in Q42013.

Regarding to land plots, LHG has opened another 200 plots (transferred from specialist condominium project) for sale since the end of September and has sold 70 ones.

| Particulars (VND bn) | 3QFY13 | 2QFY13 | % Chg. (qoq) | 3QFY12 | % Chg. (yoy) |
|----------------------|--------|--------|--------------|--------|--------------|
| Net revenue | 32.3 | 73.5 | -56.0% | 60.7 | -46.7% |
| NPAT | -11.4 | 12.1 | n/a | 7.1 | n/a |
| EBIT | 5.2 | 36.1 | -85.6% | 21.5 | -75.8% |
| EBIT margin | 16.1% | 49.1% | -3298 bps | 35.4% | -1932 bps |

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

MONITOR

CMP (VND)

9,400

Stock Info

| Sector | Real Estate |
|------------------------------------|-------------|
| Market Cap (VND bn) | 245 |
| Beta | 1.06 |
| Free float (%) | 100.0 |
| 52 weeks High | 15,100 |
| 52 weeks Low | 6,900 |
| Avg. Daily Volume (in 20 sessions) | 48,828 |



Performance (%)

| | 3M | 1Y | 3Y |
|-------------|------|-------|-------|
| LHG | 20.5 | -35.2 | -71.3 |
| Real Estate | | | |
| VN30 Index | 2.9 | 27.4 | n/a |
| VNIndex | 2.8 | 33.7 | 10.0 |

Shareholders pattern (%)

| | |
|-----------------------------|------|
| IPC | 45.6 |
| Jaccar Holdings | 17.1 |
| Viet Au Joint stock company | 12.7 |
| Sadeco | 10.0 |
| Foreigner investor room (%) | 31.1 |

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However, the payment is made in seven installments and the Company may not book revenue until customers have finished 95% of the total payment. Consequently, Q4FY2013 may only see revenue booked for 25 plots that had been sold previously. We expect the rents from prefabricated workshops and dormitory terraces to remain stable in the period.

Based on above estimations, we expect the LHG's Q4 sales to be around VND90 bn and the whole-year figure at VND253 bn or 69% of the Company's annual target. NPAT is expected at VND51.4 bn, equivalent to EPS of VND1,972.

Table 01. Land plot sales and dormitory terrace

| | Description | Total land area (ha) | Salable area (ha) | Salable in FY2013 | Remaining | |
|--|--------------|----------------------|-------------------|-------------------|-----------|--|
| Residence area - Resettlement | Resettlement | 37 | 6 | | | |
| | Commercial | | 12 | 40 plots | 0 | |
| Land plot – converted from specialist condominium: available for sale since the end of September 2013 | | | | 200 plots | 130 plots | |
| Worker dormitory terrace | | | 300 rooms | | 0 | |

Source: LHG, RongvietSecurities database

Large undeveloped industrial land bank, book-value-per-share 2.7 times higher than market price and retained earnings 1.13 times the size of shareholders' equity are the long-term investment attractions for LHG. Currently, along with two operating industrial zones namely Long Hau Industrial Zone (90 ha rentable area) and Extended Long Hau Industrial Zone (87 ha rentable area), LHG has 2,400 ha of land reserved for future development of Long Hau Industrial Zone. LHG's book-value-per-share as of December 31, 2012 was VND24,289 per share, 2.7 times higher than the market price on December 4, 2013 and its retained earnings at the end of 3QFY2013 was as much as VND295 bn. We consider these factors as the long-term investment attractions for the stock of LHG.

Table 02. Industrial Zones

| | Description | Total land (ha) | Rentable area (ha) | Renting | Remaining | Rental price |
|-------------------------|------------------------|-----------------|--------------------|---------|-----------|------------------------|
| Long Hau Current | Industrial land | 141,9 | 90 | 80 | 10 | 105 USD/m2/rent period |
| | Prefabricated workshop | | 50 | 50 | 0 | 5 USD/m2/month |
| Long Hau Expand | Industrial land | 108,5 | 87 | 47 | 40 | 105 USD/m2/rent period |
| | Prefabricated workshop | | 5 | 0 | 5 | 5 USD/m2/month |
| Long Hau 3 | Postponed | 2.400 | | | | |

Source: LHG, RongvietSecurities database

Outlook

To individual investors, stocks of industrial land developers are often less attractive than those other real estate firms. That explains why they have been standing on the sideline of the last rally of real estate stocks. Besides, as with the abovementioned forecast, there is a high chance that LHG will not meet its revenue target for FY2013 and EPS will likely go down. Such factors may restrain the stock from climbing high in the short-term. However, with its large undeveloped industrial land bank, high book value and substantial retained earnings, we consider LHG a potential candidate for long-term investment.

Exhibit 01: Key financials

| Y/E Sep (VND bn) | FY2011 | FY2012 | FY2013E | FY2014F |
|-------------------|--------|--------|---------|---------|
| Net sales | 365.2 | 259.1 | 252.7 | 278.0 |
| % chg | -7 | -29 | -2 | 10 |
| Net profit | 92.8 | 53.2 | 51.4 | 54.2 |
| % chg | -42 | -43 | -3 | 5 |
| Net margin (%) | 25.4 | 20.5 | 20.4 | 19.5 |
| EPS (VND) | 3,571 | 2,042 | 1,972 | 2,079 |
| Book value (VND) | 23,557 | 24,289 | 24,203 | 24,217 |
| Dividend (VND) | | | | |
| P/E (x)* | 2.6 | 4.6 | 4.8 | 4.5 |
| P/BV (x)* | 0.4 | 0.4 | 0.4 | 0.4 |
| ROA (%) | 5.5 | 3.1 | 1.9 | 1.4 |
| ROE (%) | 16.0 | 8.5 | 8.1 | 8.6 |

Source: LHG Financial statement, RongViet Securities' compilation and estimates, *As of 04/12/2013

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% to 10% | -15% to - 5% | <-15% |
| Long-term (over 6 months) | >30% | 15% to 30% | -10% to 15% | -15% to -10% | <-15% |

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