Ha Tien 1 Cement JSC (HT1 - HSX)

All knots untied

Particulars (VND bn)	Q3-FY15	Q2-FY15	*+/- qoq*	Q3-FY14	*+/- yoy*
Net Revenues	1,909.0	2,063.0	-7%	1.599.2	19%
NPAT	137.8	146.5	-6%	77.7	77%
EBIT	278.1	296.1	-6%	225.5	23%
EBIT margin (%)	14.6	14.4	21bps	14.1%	47bps

Sources: HT1, RongViet Research

- HT1 stand as the largest Vietnamese cement producer
- Supply and demand balance would benefit the Southern enterprises
- Exchange rate movement should not significantly affect HT1 2016 earnings

Outlook and Valuation

HT1 is one of the leading cement produces in the Vicem group and Vietnam as a whole. The Company focuses mainly in the southern regions, including the Mekong Delta and the Central Highlands. Thanks to its high quality, HT1's cement has been able to sell into many major transport projects of the country. Between 2011 and 2013, HT1 faced great difficulties from an oversupply of cement in the domestic market. Plus the allocation of unrecognized fx losses, bottom-line earnings were all but optimistic during this period. The strong recovery of the real estate market and construction activities along with the strengthening FDI inflows have been the driving forces for the jump in HT1's sales and volume during 2014 and 2015.

In 2016, the construction of many key infrastructure projects will likely be pushed and FDI inflows should continue to pick up now that TPP has been signed. This is expected to further support the demand for cement in HT1's main markets, thereby boosting the firm's sales volume. Besides, the decline in foreign-currency debt and the absence of significant fx losses should greatly reduce the financial costs. We estimated that 2015's net revenue and NPAT may go up ~15% and 161% from the previous year, respectively.

Using discounted FCFF and the relative value (P/E, EV/EBITDA) methods, with considering of the value of the land area of Thu Duc Grinding Plant we believe that the reasonable price for HT1 is VND 30.000 per share, 11.1% higher than the closing price on January 14, 2016. Therefore, we make recommendations ***NEUTRAL*** *the stock in* ***INTERMEDIATE TERM.***

Key financials

Y/E Dec (VND bn)	FY2013	FY2014	9M2015	FY2015E	FY2016F
Revenue	6,368.7	6,758.1	5,571.8	7,628.4	8,140.3
% chg	9,4	6,1	13,6	12,9	6,7
NPAT	2.5	304.9	534.6	750.9	766.0
% chg	-72.6	11947.4	487.5	146.2	2.0
Net margin (%)	0.0	4.5	9.6	9.8	9.4
ROA (%)	0.0	2.4		6.0	6.4
ROE (%)	0.1	8.8		18.6	16.4
EPS (VND)	13	966	1,681	2,361	2,409
Book value (VND)	10,053	11,679	13,278	13,774	15,583
Cash dividend (VND)					
P/E (x)	392.3	17.8		11.4	11.2
P/BV (x)	0.5	1.5		2.0	1.7

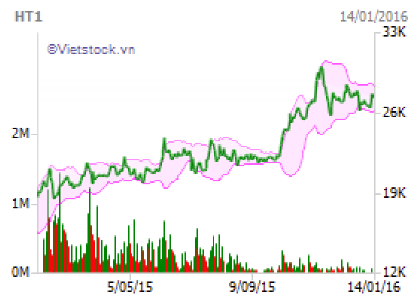
Sources: HT1, RongViet Research

NEUTRAL

Market Price (VND)	27,000
Target Price (VND)	30,000
Investment Period	INTERMEDIATE TERM

Stock Info

Sector	Building materials
Market Cap (VND bn)	8,585
Current Shares O/S	317,952,000
Beta	1.18
Free float (%)	20.3
52 weeks High	30,000
52 weeks Low	18,600
Avg. Daily Volume (in 20 sessions)	34,662



Performance (%)

	3M	1Y	3Y
HT1	9.8	39.9	527.9
Building material	26.5	151.0	n/a
VN30 Index	-6.3	-7.7	5.9
HSX Index	-6.3	-4.2	20.5

Major Shareholders (%)

Vietnam Cement Industry Corporation	79.3
Foreigner Investor Room	38.6

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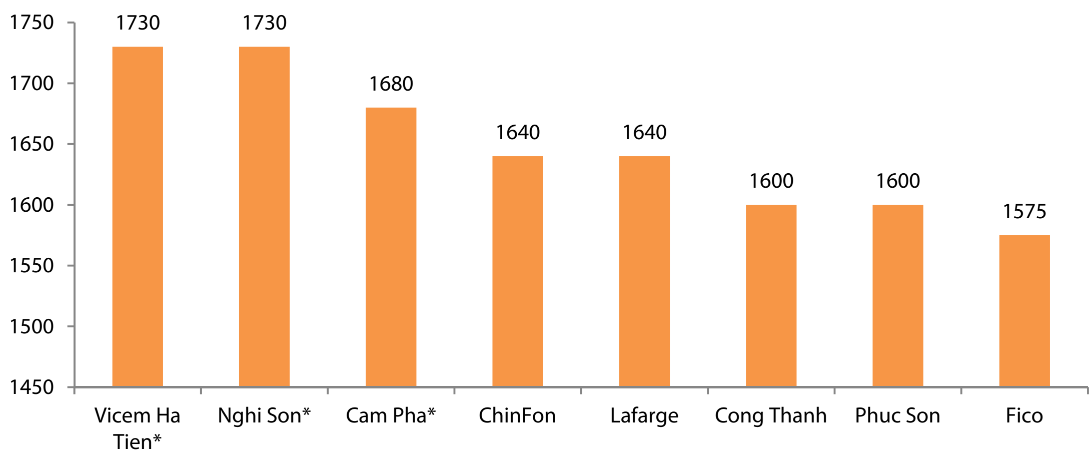
Being one of the leading cement companies in Vietnam, HT1 has made vigorous transformation since 2014

Ha Tien 1, the largest subsidiary of Vietnam Cement Industry Corporation (Vicem owns 79.7%), has the highest market share among Vicem members and ranks second in the industry, only after Vissai. With the advantages of over 70 distributors and 10,000 stores nationwide, the Company's targeted markets include South East region (32.87%), Mekong Delta (24.99%), and Highlands (22.98%). Additionally, HT1 also has a small part of revenue driven by exporting clinker to Cambodia (5-6%).

Currently, two cement plants and four grinding terminals undertake a design capacity of 4 million tons of clinker and 6.6 million tons of cement per annum. HT1's products are committed to providing high quality cements such as PC 50, PCB 40, mixed cement PCB 40 and cement MS-PCB 40…The leading position and high quality products support HT1 in term of participation in large-scale and high-tech infrastructure projects such as Long Thanh - Dau Giay Expressway, Cai Mep international terminal, Deo Ca tunnel…and many luxury real estate projects. Furthermore, HT1's selling prices stay higher than the others' in the industry.

Exhibit 1: Cement selling price in Ho Chi Minh city (Unit: thousand dong/ton)



*Source: Vicem, *Price of PCB 40*

Looking back at HT1's history, both output and revenue accelerated significantly in FY2010 because Binh Phuoc plant went into operation and HT1 successfully merged with HT2. However, the Company's earnings tumbled quickly during 2011-2013 period; revenues still increased but operating profit declined dramatically. Between 2012 and 2013, HT1 recorded operating losses of VND6.3 billion and VND4.9 billion respectively because (1) oversupply leaded to the decrease in selling prices while production costs such as coal, oil and electricity advanced; (2) interest rates took a hit and (3) the Euro and US dollar appreciated. As a result, the Company recorded huge foreign exchange losses those years. In more details, in the period of 2009-2011, Ha Tien 1 deployed large amounts of euro debt (EUR 116 million) to finance Binh Phuoc project and Ha Tien 2.2's acquisition. Because the euro rose sharply against VND, the Company had to allocate substantial foreign exchange losses (~ VND472 billion) at the end of 2010 in the 2011-2014 period.

Table 1: HT1's earnings results in the period 2007-2014 (Unit: billion dong)

Year	2007	2008	2009	2010	2011	2012	2013	2014
Volume (clinker + cement) (ton)	2,565,363	2,391,447	2,626,307	5,314,758	6,039,702	6,087,858	6,447,744	6,609,336
Growth in volume		*-6.8%*	*9.8%*	*102.4%*	*13.6%*	*0.8%*	*5.9%*	*2.5%*
Net revenue	2,192.9	2,536.8	2,816.8	4,251.2	5,280.7	5,823.9	6,368.7	6,758.1
Growth in net revenue		*15.7%*	*11.0%*	*50.9%*	*24.2%*	*10.3%*	*9.4%*	*6.1%*
Gross profit	243.1	243.1	525.6	721.3	1.469.9	1.349.8	1.429.6	1.333.7
Gains/Losses from financing activities	(16.2)	(70.2)	(71.7)	(293.6)	(1,020.8)	(854.8)	(1,018.9)	(454.1)
Operating profit	99.8	99.8	192.1	79.6	3.0	(6.3)	(4.9)	394.3
NPAT	100.3	100.3	160.6	54.3	(8.9)	9.2	2.5	304.9
Net margin	*4.6%*	*4.0%*	*5.7%*	*1.3%*	*-0.2%*	*0.2%*	*0.0%*	*4.5%*

Source: Financial statement

Up to now, HT1's issues has gradually been solved. Since 2014, real estate market and construction activities in the South have been rapidly picking up; as a result, the demand and price for cements have several improvements. Even during the cement oversupply crisis, many companies in the industry, especially HT1, applied the aggressive cost-cutting and energy efficiency strategies to lower COGS and increase profitability (Appendix 3). Meanwhile, the new low interest rate level helped HT1 cut its interest expenses by more than one third, from VND773 billion (FY2013) to VND523 billion (FY2014). More importantly, finishing allocation of currency losses from the previous period in 2014 would strongly improve HT1's financial status. As a result, in 2014, HT1 had a great jump in profitability indicators. For example, operating profit rose by 8,147% and NPAT climbed 122 times compared to 2013. (Table 1)

Table 2: 3QFY2015 and YTD Results

Particulars (VND bn)	Q3-FY15	Q2-FY15	*+/- (qoq)*	Q3-FY14	*+/- (yoy)*	9M2015	*+/-(yoy)*
Net Revenues	1,909.0	2,063.0	-7.5	1,599.2	19.4	5,571.8	*13.6*
Gross profits	440.5	433.5	1.6	259.2	69.9	1,229.1	*38.6*
SG&AC	82.6	52.9	56.0	122.3	-32.5	244.9	*-27.7*
Operating Income	358.0	380.6	-5.9	136.9	161.4	984.2	*750.3*
EBITDA	429.7	445.9	-3.6	382.6	12.3	1,458.2	*45.4*
EBIT	278.1	296.1	-6.1	225.5	23.3	1,008.1	*94.1*
Financial expenses	109.4	112.1	-2.5	212.9	-48.6	338.4	*-45.5*
- Interest Expenses	101.5	108.3	-6.3	125.8	-19.4	322.7	*-19.9*
Dep. and amortization	-151.6	-149.8	1.2	-157.1	-3.5	-450.1	*-7.0*
PBT	176.6	187.8	-5.9	99.6	77.3	685.4	*487.5*
NPAT	**137.8**	**146.5**	**-5.9**	**77.7**	**77.3**	**534.6**	***487.5***

Sources: HT1, RongViet Research

Table 3: 3QFY2015 performance analysis

Particulars	Q3-FY15	Q2-FY15	*+/- (qoq)*	Q3-FY14	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	23.1%	21.0%	206bps	16.2%	687bps
EBITDA Margin	22.5%	21.6%	89bps	23.9%	-142bps
EBIT Margin	14.6%	14.4%	21bps	14.1%	47bps
Net Margin	7.2%	7.1%	12bps	4.9%	236bps
Turnover *(x)					
-Inventories	6.2	6.4	-2.6%	5.7	8.7%
-Receivables	13.8	15.4	-10.6%	13.5	2.3%
-Payables	5.5	3.2	69.3%	3.4	61.9%
Leverage (%)					
Total Debt/ Equity	**1.9**	**2.0**	**-6.3%**	**2.6**	**-27.5%**

Sources: (*) Annualized turnover

In the first 9 months of FY2015, HT1's cement consumption volume reached 4.14 million tons, up 20% compared to the same period in 2014. In addition, the stability in price supported the revenue to increase by 13.6% and EBITDA margin to advance by 5.7 percentage points over the same period last year to 26.2%. The last quarter of a year is usually the peak season of building material companies, including cement segment. Therefore, we believe that HT1's outlook could remain positive in the last months of 2015.

Table 4: 9-month earnings results of typical listed cement enterprises

Item	HT1	BCC	BTS	HOM
Consumption volume (ton)	**4,140,176**	**2,621,794**	**1,888,766**	**1,226,348**
Growth in volume (%)	*20.0*	*-4.5%*	*18.6*	*-0.7*
Net revenue (billion dong)	**5,571.8**	**2,910.7**	**2,104.5**	**1,302.2**
Growth in revenue (%)	*13.6*	*-6.7*	*0.2*	*0.0*
Gross profit (billion dong)	**1,229.1**	**566.7**	**404.6**	**245.3**
Growth in gross profit (%)	*38.6*	*-11.0*	*-1.0*	*19.5*
Gross margin (%)	*22.1*	*19.5*	*19.2*	*18.8*
NPAT (billion dong)	**534.6**	**173.0**	**122.2**	**46.4**
Growth in NPAT (%)	*487.5*	*240.6*	*266.8*	*50.6*
Net margin (%)	*9.6*	*5.9*	*5.8*	*3.6*

Source: RongViet Research

Moreover, the euro's depreciation against the dollar and the dong helped HT1's financial cost in the first 9 months of 2015 decrease by 45.5% yoy. The outstanding debt in euro at the end of FY2015 was expected to be ~EUR 69 million. Using bid price of Vietcombank as a reference, the euro depreciated by 6.7% against the dong in FY2015. Besides, the booming of real estate and infrastructure projects in the South, especially Ho Chi Minh City, has created two-digit growth rates in volume and revenue.

In the medium term, HT1 is one of the companies benefit most from the growth in domestic cement consumption

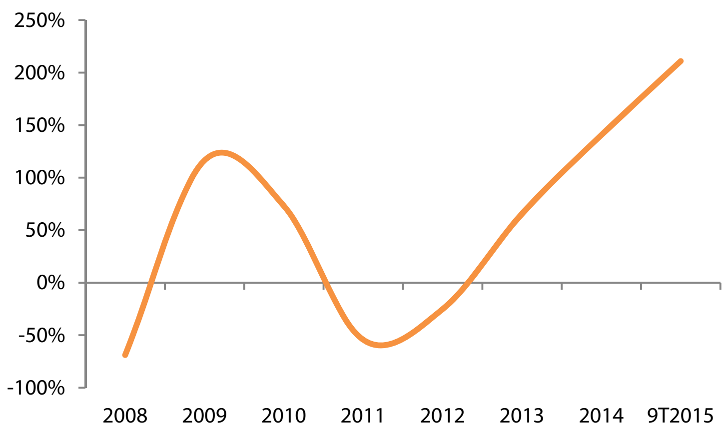
There are many factors supporting domestic cement consumption in medium tern

According to preliminary estimates from the Ministry of Construction, production value of the construction industry is estimated at VND975 trillion dong at the current prices, up 15% compared to

2014. The reasons include: (1) strong rebound in supply and liquidity of the real estate market, (2) the explosion in the number of transport infrastructure projects due to being encouraged and supported by the Government and (3) the FDI inflows. Particularly in the South area, many key infrastructure projects such as Ben Luc - Long Thanh, metro line 1 (Ben Thanh-Suoi Tien) and Thu Thiem 2, 3, 4 bridges are simultaneously being set or accelerated in construction progress. In addition, the years 2016 and 2017 are likely to be the peak of major infrastructure projects in the South such as Hanoi highway expansion (HCM), urban railway line 1 (Ben Thanh - Suoi Tien), Thu Thiem 2, metro line 2 (Ben Thanh-Tham Luong) and the completion of highway 1, 61, 63 and 80, etc.

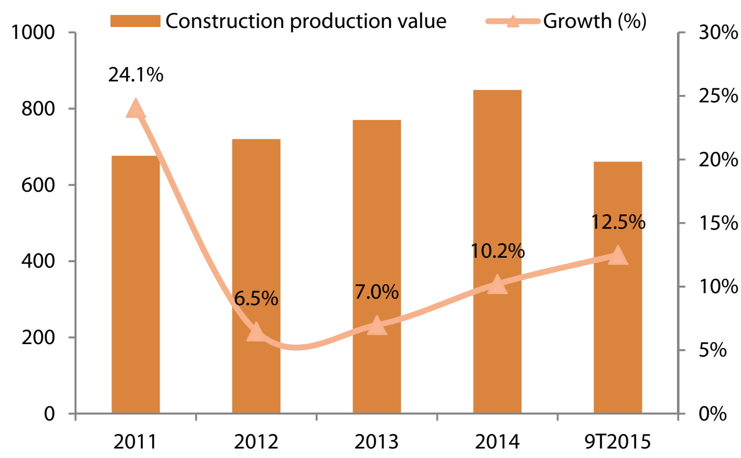
Besides, the property market has been no longer called as "warming" but should be "eventful". Liquidity in the market has turned back to the level of pre-crisis period. In the first 9 months of 2015, the successful real estate transactions in two biggest cities - Hanoi and Ho Chi Minh - achieved 30,000 units, equivalent to that of whole FY2014. The number of new projects is expected to increase toward the end of FY2015. In particular, Ho Chi Minh City might witness the explosion of the premium housing market with numerous projects such as The Masteri Thao Dien, Vinhomes Central Park, Sala urban area and a chain of Novaland projects.

Exhibit 2: Growths in apartments sold in HCM city



Source: CBRE

Exhibit 3: Construction production value, period 2011-2015 (Unit: Thousand billion dong)



Source: RongViet Research

Finally yet importantly, excessive FDI inflows and the shift in production from China to Vietnam in order to capture the TPP's opportunities are expected to increase building plants, factories and warehouses in industrial parks, high-tech zones… In the first nine months of 2015, Ho Chi Minh City ranked first for the numbers of new projects and total registered capitals (accounted for 15% of nationwide). Recently, Samsung announced that they will invest U$ 600 million in Phase 2 of Samsung HCMC CE Complex project in the Saigon Hi-Tech Park.

In the latest BMI (Business Monitor International) report, this well-known organization maintains its optimistic view on the prospects of construction industry in the following years. In particular, the construction value (included in the GDP) is expected to have a CAGR of 10.7%/year; production and consumption volumes of cement are forecasted to grow at ~4.3%/year until FY2020. Beside, the oversupply issue might deteriorate significantly with the annual surplus of about ~1.5 million tons (equal ~20-30% oversupply volume of the 2011-2013 period). We believe that the construction activities and the demand of building materials in the next 2-3 years still have room for enhancement.

In particular, the enterprises owning a good distribution network and large market share in developing area like HT1 might have big advantages over the others in the industry.

Table 5: The forecast in cement volume and other relating indicators

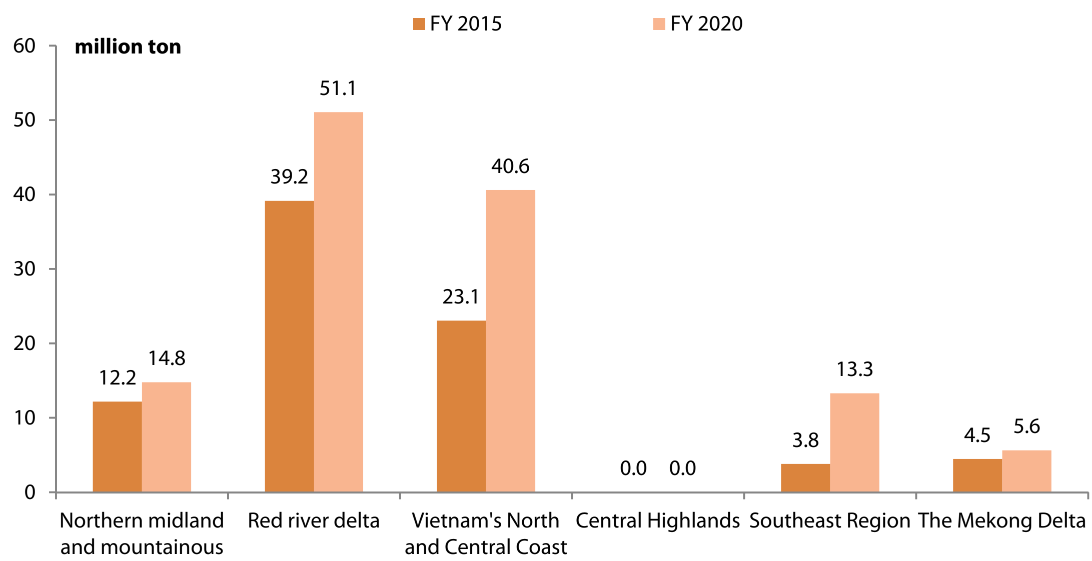
	2015F	2016F	2017F	2018F	2019F	2020F
Construction value (thousand billion dong)	229.92	252.51	280.57	311.26	345.04	382.39
- Growth in construction value (%)	*5.99*	*6.13*	*6.21*	*6.04*	*6.05*	*6.02*
Production cement volume (million ton)	65.13	68.38	71.34	74.73	77.70	80.63
- Growth in production cement volume (%)	*3.8*	*5.5*	*5.6*	*5.0*	*4.3*	*3.8*
Consumption cement volume (million ton)	64.14	67.30	70.16	73.43	76.28	79.07
- Growth in consumption cement volume	*5.6*	*4.9*	*4.2*	*4.7*	*3.9*	*3.7*

Sources: BMI, (*) Construction value added to GDP

The leading position in the South is a big advantage of HT1 facing imbalance of demand and supply of cement in Vietnam

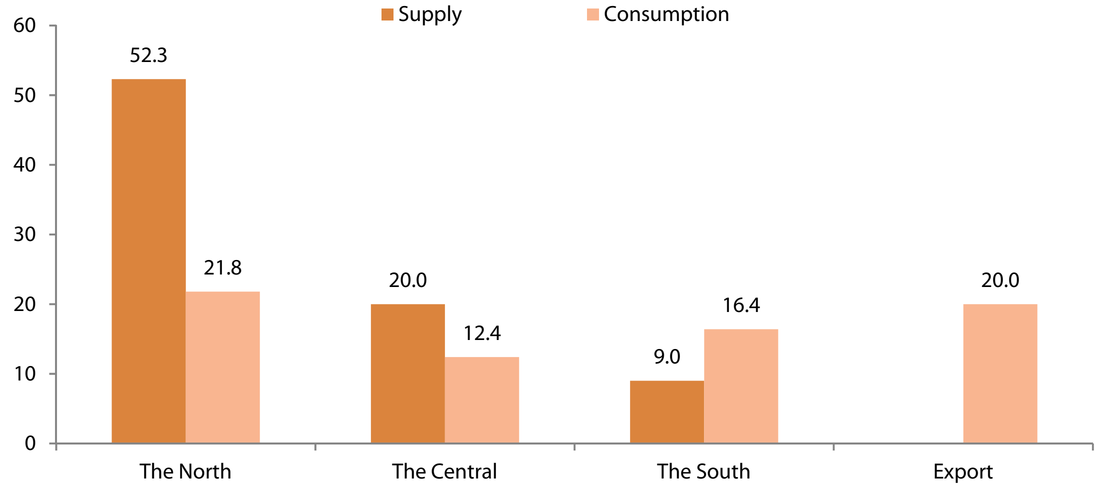
The distribution of supply and demand is naturally unequal in three areas of the country – the North, the Central and the South. On the side of supply, major cement sources are in the North because of numerous limestone mines. By the end of 2014, Northern area made up ~65% of Vietnam cement design capacity (82.2 million tons) but only 43% of domestic consumption. On the contrary, the South covered up to one third of domestic demand but a half of its supplies are from the other two regions. Based on Decision No. 1469/QD-TTg about the development of Vietnam's construction material industry through 2020, only 18.93 million tons, equivalent to 15% of total new supplies of the whole country (approximately 125.37 million tons), are added to the South market by 2020 (use design capacity of new plants for calculation).

Exhibit 4: New cement supply by region



Source: Decision No. 1469/QD-TTg development of Vietnam's construction material industry through 2020

Exhibit 5: Cement consumption and supply by region and cement export in 2014



Source: Vicem

Thanks to high-speed urbanization and on-growing construction projects, the Southern region is forecasted to have highest growth rate in cement consumption. In fact, in the first 9 months of 2015, cement consumption volume of this area rose by 18%, much higher than the North (2.5%) and the Central (-1.7%). The outlook in the medium and long terms remains positive and the South could preserve it first place in the growth of cement demand. Thus, looking at the imbalance of supply and demand at present and in the coming years, we believe that the pressure of competition in the South, the major market of HT1, could be significantly lower compared to other regions.

Relocation of Thu Duc grinding terminal could not significantly affect HT1's production

New grinding station may undertake the capacity of Thu Duc griding terminal

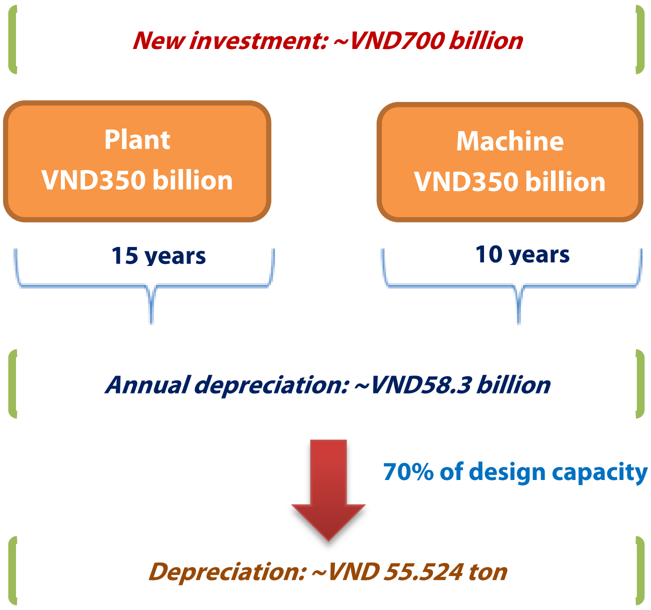
Under the Prime Minister's Decision 64/2003/QĐ-TTg, Thu Duc grinding terminal is on the have-to-relocate list due to causing heavy air pollution. The Company committed to finish relocation by the end of 2016. Initially, HT1 planned to move this terminal to Phu Huu grinding station (District 9, HCM) but did not receive the approval from the local government. Up to now, the Company has not determined a specific place to relocate Thu Duc grinding terminal.

In the worst-case scenario, we assume that HT1 could not find any suitable place and have to liquidate machines of Thu Duc. Even in that case, we believe that the closure of the terminal only has some small impacts on HT1's business performance. First of all, outdated technology (invested in 1974) lead to the utilization inefficiency of Thu Duc grinding terminal with less than 50%, significantly lower than the rate of whole system (81%). Secondly production volume of remaining grinding facilities can increase to a maximum of 120% design capacity and Ha Tien 1 intends to acquire a Ho Chi Minh-located grinding terminal (capacity: 1.5 million tons/year) in 2016.

Was the purchase the new grinding station become successfully, the Company might have to import a small amount of clinker. If including the new facility, total design capacity of HT1 could raise up to 7.1 million tons per year (excluding Thu Duc terminal). Meanwhile, two existing cement plants could produce clinker enough volume for only about 5.8-6.0 million tons of cement in a year. This means that HT1 might have to import about 0.7 million ton of clinker at an increase of 23% in COGS in case that market demand flourishes and the new grinding terminal operates at full capacity. However, growth in consumption could help offset the added cost.

In addition, the acquisition of alternative terminal in order to replace Thu Duc grinding terminal fully depreciated might increase several fixed costs. We estimated the depreciation expenses per year of a new grinding station (Exhibit …) and evaluated the impact of this cost to overall earnings of HT1. With the capacity of 7.1 million tons/year throughout the system, the new grinding terminal could only account for ~21% of total capacity. Assuming that the terminal only operates at 70% of design capacity, we estimated that the gross margin of HT1 only slightly decreased by 0.5%. If the new grinding plant is utilized at higher efficiency, the level of influence might even be lower due to the increase of output. Besides, the cost of buying an old terminal should be less expensive as the new one.

Exhibit 6: Depreciation expense of a new 1.5 million-ton-of-cement grinding terminal

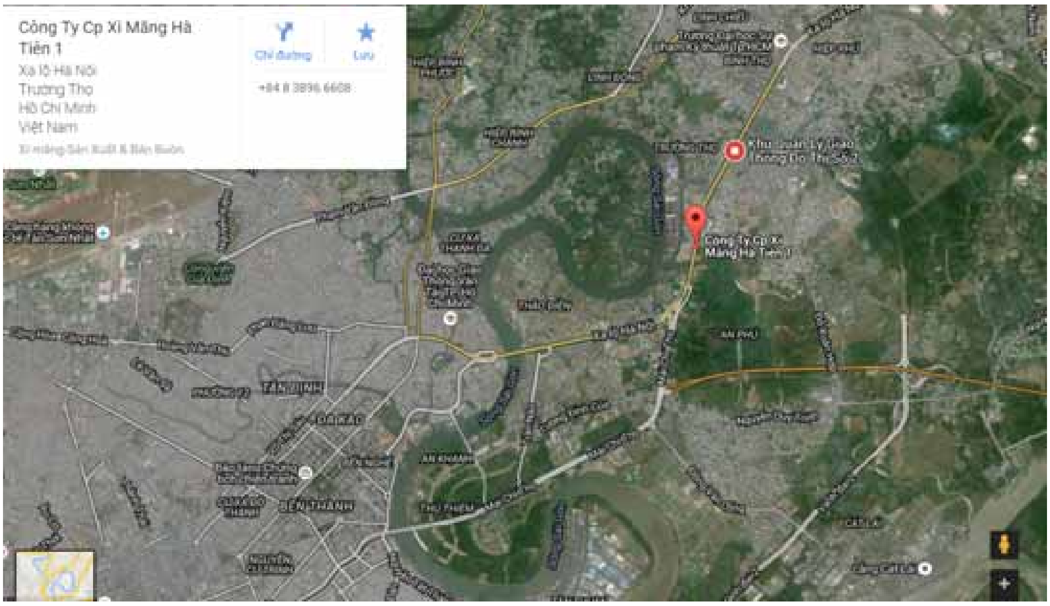


Source: RongViet Research

HT1 intends to develop Vicem Ha Tien complex

Thus, the decommission of Thu Duc grinding terminal could not be a big issue of HT1. The more considerable thing, in our view, is the land usage of Thu Duc terminal after relocation. As can be seen that the terminal is in a very favorable position, situated in front of Hanoi highway and at 10-15 minutes driving distance from Saigon Bridge, metro line system (Ben Thanh-Suoi Tien), Masteri Thao Dien, Vinhome, Thao Dien Gateway and the Estella. According to urban space development vision to 2025 approved by Ho Chi Minh government, Hanoi Highway is oriented to develop into residential areas and new urban areas.

Exhibit 7: Thu Duc grinding terminal



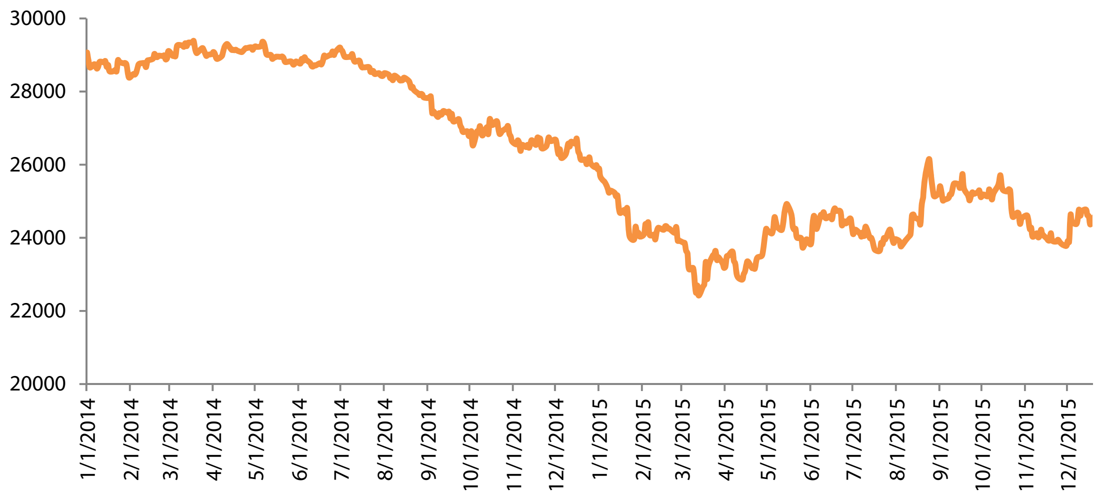
Source: Google map

It is known that Ha Tien 1 and Ha Tien Transport JSC have been authorized by the Ministry of Construction to develop the Vicem Ha Tien Complex on the area of 114,880 m^2, in which the area of HT1 is 106.614 m^2. The Company has found partners for the project, however, the details has not been announced yet. The market price of the areas near location of Thu Duc terminal is about VND27 million/m^2 for front positions and ~VND20 million/m^2 for the rest. However, the Company has to pay rent per annum. Therefore, if HT1 wants to buy right for land use, the Company might have to pay a large expense for conversion of land usage. We favor the possibility that HT1 might only contribute its investment rights to the project and its partner would pay land right. Despite lacking of detailed information, we estimate that the project value to HT1 might be about VND362 billion with assumption that HT1 would use the above cooperation method.

The effects of currency fluctuations on HT1 might be no longer significant providing that the core business is on good track

As mentioned above, Ha Tien 1 has a substantial debt balance in euros (~EUR69 million), therefore, the movements of the euro strongly affect the business results of HT1. The statistics showed that the European economies were still weak, evidence from low GDP (0.3% in Q3/2015) and inflation rate. As a result, the ECB might have to prolong stimulus programs. Therefore, we expect that currency exchange rate between EUR and US dollar might be around 1.00x at the end of FY2016. In 2016, assuming that the VND depreciates by 4% in against the dollar, the cross exchange rate of VND/EUR might drop by 3.7% compared with the end of 2015. In this scenario, HT1 might still record a foreign exchange gain of about VND 35 billion in 2016.

Exhibit 8: Exchange rate EURVND in the period2014-2015



Source: Bloomberg

Table 6: 2016's sensitivity of NPAT with VND/EUR exchange rate (Unit: billion dong)

EURVND at the end of the year	23,007	23,477	24,651	25,355
2016's unrecognized gain/loss in FX	64	41	(17)	(52)
2016's NPAT	795	792	730	702

Besides, lower outstanding debt could also improve HT1's profitability in financing activities. Using the current repayment plan, we estimate that HT1 is likely to pay ~ EUR 13.5 million per year and would be out of FX debt in 2020. As a result, interest expense of HT1 could be reduced by about 11% in 2015. However, we suppose that the dong borrowing interest rate might increase by 0.5% in 2016 compared with 2015. Therefore, in spite of reducing principal balance, FY2016's interest expense could be still slightly higher of about 1% over the previous year. With the above factors, we believe that the exchange rate fluctuations and increase in interest rate should not have significantly impacts on HT1's earnings as in the past.

On that basis, we estimated that the total cement sales volume in 2015 might increase by 16%; net sales and NPAT could be VND 7.628 and 751 billion (up ~13% and 146% yoy, respectively). The growth rate of net profit was forecasted to be higher than that of revenues because of enhancement of both EBITDA margin and financing perspective. We maintain our positive outlook on HT1's earnings result in the years 2016 to 2017 thanks to good prospect of real estate and infrastructure in the South. In our estimation, the sales volume could increase by 6.7%%, revenues could reach 8,140 billion (+ 6.7% against 2015) and NPAT is forecasted to be VND 766 billion (+2% yoy) in 2016.

Table 7: Main indicators of HT1 in the period 2011-2019F (Unit: billion dong)

Năm	2011	2012	2013	2014	2015E	2016F	2017F	2018F	2019F
Volume (cement + clinker) (ton)	4,042,488	4,452,345	5,201,119	5,348,653	6,113,451	6,397,910	6,701,684	7,021,130	7,140,137
Growth in volume	*7.5%*	*10.1%*	*16.8%*	*2.8%*	*14.3%*	*4.7%*	*4.7%*	*4.8%*	*1.7%*
Net revenue	5,280.7	5,823.9	6,368.7	6,758.1	7,628.4	8,140.3	8,627.4	9,154.2	9,452.3
Growth in net revenue	*24.2%*	*10.3%*	*9.4%*	*6.1%*	*12.9%*	*6.7%*	*6.0%*	*6.1%*	*3.3%*
Gross profit	1,469.9	1,349.8	1,429.6	1,333.7	1,647.7	1,717.6	1,829.0	1,940.7	2,003.9
Gains/losses from financing activities	(1,020.8)	(854.8)	(1,018.9)	(454.1)	(328.3)	(391.2)	(433.4)	(336.9)	(289.0)
Operating profit	3.0	(6.3)	(4.9)	394.3	960.1	952.0	1.007.4	1.191.9	1.289.5
Net income	(8.9)	9.2	2.5	304.9	750.9	766.0	809.9	956.4	1.034.9
Net margin	*-0.2%*	*0.2%*	*0.0%*	*4.5%*	*9.8%*	*9.4%*	*9.4%*	*10.4%*	*10.9%*
EBITDA	1,236.0	1,309.1	1,395.8	1,557.5	1,982.5	2,003.1	1,994.8	2,170.0	2,252.2
EPS (dong/share)	(45)	47	13	966	2,361	2,409	2,547	3,007	3,255
BVPS (dong/share)	8,938	9,524	10,053	11,679	13,774	15,583	16,930	19,437	21,892

Source: RongViet Research

Valuation

We combined three valuation methods including discounted cash flow (FCFF) and relative value methods (P/E, EV/EBITDA) to determine the fair value for HT1 with ratio of 50:30:20. In free cash flow to firm method, the discounted rates for the period 2015-2019 and the years after 2015 are expected to be 11.6% and 13.1%, respectively. The long-term growth rate of FCFF used in the model is 4.8%.

The P/E method applies the references from peers. The P/E ratio of top ten capitalization enterprises of building material sector is 9.0x. Considering the leading position and growth prospects of HT1, we believe that P/E at 10x is reasonable for HT1.

Table 8: P/E, EV/EBITDA ratios of top ten capitalization enterprises of building material sector

No	Ticker	Capitalization (billion dong)	P/E
1	BMP	5,776	11.7
2	NTP	3,421	9.7
3	VCS	3,049	8.0
4	BCC	1,311	4.4
5	BTS	938	4.4
6	NNC	756	6.6
7	VHL	611	5.9
8	HOM	471	8.2
9	VTV	434	9.7
10	CVT	426	6.4
	Average		**9.0**

Sources: FinPro, RongViet Research, use stock price on 14/1/2015

It is usually true for cement enterprises that depreciation expenses account for a big proportion in cost of goods sold (COGS). Simultaneously, HT1 deploys large debt to finance its fixed assets, therefore, we apply EV/EBITDA method to determine reasonable price for HT1. As we can see that the compound annual growth rate (CAGR) in the 2011-2014 period was quite stable at 8%. In addition, the accomplishment of distribution in foreign exchange losses could significantly reduce financial expenses for the Company from 2015.

EV/EBITDA reference from the emerging Asia Pacific region was 7.4x. Considering sovereign risk and size, we use the discount rate of 15% for HT1, which means the EV/EBITDA ratio in the model is 6.3x.

Table 9: 5-year EV/EBITDA of typical cement enterprises in Asia Pacific region

Company	Country	Market cap (billion dong)	5-year-average EV/EBITDATB
Maple leaf cement factory	Pakistan	8,553	8.2
Kohat cement co Ltd	Pakistan	8,980	4.7
Heidelberger cement Bangladesh	Pakistan	7,952	3.8
Tasek corp BHD	Bangladesh	9,027	10.5
Goldsun building materials	Malaysia	9,208	10.4
Southeast cement Co Ltd	India	9,923	8.1

Pakcem Ltd	Pakistan	10,733	5.9
Average			**7.4**

Source: Bloomberg

Combining three valuation methods above, the fair value of HT1 is determined at VND 30,000 per share, higher than the closing price on January 14, 2016. Therefore, we recommend **NEUTRAL** the stock in **INTERMEDIATE TERM**.

Table14: Valuation result

Method	Price	Weight	Average
FCFF	29,188	50%	14,594
P/E (FY2016)	24,811	30%	7,443
EV/EBITDA (FY 2016)	39,684	20%	7,937
Average		**100%**	**29,974**

Source: RongViet Research

OUTLOOK

HT1 is one of the leading cement produces in the Vicem group and Vietnam as a whole. The Company focuses mainly in the southern regions, including the Mekong Delta and the Central Highlands. Thanks to its high quality, HT1's cement has been able to sell into many major transport projects of the country. Between 2011 and 2013, HT1 faced great difficulties from an oversupply of cement in the domestic market. Plus the allocation of unrecognized fx losses, bottom-line earnings were all but optimistic during this period. The strong recovery of the real estate market and construction activities along with the strengthening FDI inflows have been the driving forces for the jump in HT1's sales and volume during 2014 and 2015.

In 2016, the construction of many key infrastructure projects will likely be pushed and FDI inflows should continue to pick up now that TPP has been signed. This is expected to further support the demand for cement in HT1's main markets, thereby boosting the firm's sales volume. Besides, the decline in foreign-currency debt and the absence of significant fx losses should greatly reduce the financial costs. We estimated that 2015's net revenue and NPAT may go up ~15% and 161% from the previous year, respectively.

Using discounted FCFF and the relative value (P/E, EV/EBITDA) methods, with considering of the value of the land area of Thu Duc Grinding Plant we believe that the reasonable price for HT1 is VND 30.000 per share, 11.1% higher than the closing price on January 14, 2016. Therefore, we make recommendations **NEUTRAL** the stock in **INTERMEDIATE TERM.**

APPENDIX 1: MAJOR INFORMATION ABOUT HT1'S PLANTS AND GRIDING TERMINALS

Name	Location	Cement (million ton)	Clinker (million ton)	Technology	Transportation (ton/day)
Binh Phuoc plant	Binh Long district, Binh Phuoc province	1.2	1.8	Polysisus and Haver Boeker (Germany)	3500 (road)
Kien Luong plant	Kien Luong district, Kien Giang province	1.8	2.2	Venotec - PIC (US - 1964) Polysisus (Germany- 1991)	4500 (waterway) 500 (road)
Phu Huu griding terminal	District 9 – Ho Chi Minh city	2.4		Loesche and Haver Boeker (Germany) ABB (Switzerland)	3000 (waterway) 4000 (road)
Thu Duc griding terminal	Thu Duc district - Ho Chi Minh city	1.8		Polysius (Germany) FCB (France) Haver Boecker (Germany)	5000 (road)
Cam Ranh griding terminal	Cam Ranh, Khanh Hoa province	0.85		Polysisus (Germany) ABB (Sweden)	1500 (road)
Long An griding terminal	Can Giuoc district, Long An province	0.85		Pfeiffer (Australia)	1.000 (waterway) 1.500 (road)

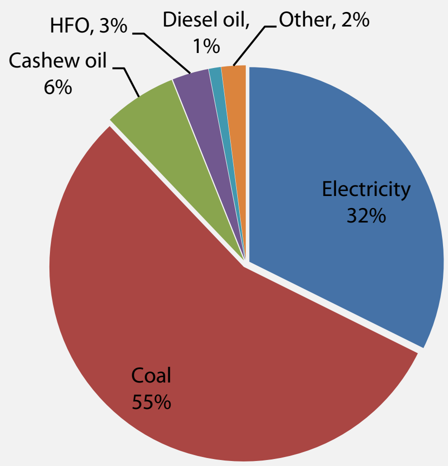
Source: HT1

APPENDIX 2: ADVANCED TECHNOLOGY IN CEMENT PRODUCTION IS THE COMPARATIVE ADVANTAGE OF HT1 TO ITS PEERS

In Vietnam, fuel costs account for 40-50% of the cost of cement; while this rate in other Southeast Asian countries is only about 30-35%. Higher fuel consumption rate of Vietnam is due to out-of-date production technology.

To reduce costs, many large cement enterprises, especially HT1, have promoted technological innovation and application of saving and reduced fuel consumption methods. Specifically, at the plant in Kien Luong, the Company uses alternative materials such as cashew oil (instead of HFO oil) to the furnace and applies waste heat recovery technology to provide 25-30% electricity for the plant, thereby reducing the COGS by 3-5%. With Binh Phuoc cement factory, FO-R oils, cashew nut shell are used to replace diesel oil. The company also uses the husks to replace HFO oil for drying cement Phu Huu grinding terminal. In addition, HT1 plans to use a part of coal from Indonesia, cheaper by 10%, to replace 20-30% of domestic coal.

Exhibit: The structure of HT1's energy types



Sources: HT1, RongViet Research

Thanks to above methods, the fuel consumption of HT1 is only 774 kcal/kg clinker on average, lower than many other peers such as BCC (~ 835 kcal/kg clinker), HOM (955 kcal/kg clinker), BTS (870 kcal/kg clinker)…Because consumption of thermal energy is directly proportional to the volume of coal and electricity in clinker production, therefore, low consumption rate should save significant fuel costs for the Company.

Table: Typical price per unit of some major energy types of HT1 (Unit: VND/kcal)

Type	Cashew nut shell	Indonesia coal	3C coal (VN)	Husk	FO-R oil	Cashew oil	HFO	DO
Consumption rate	0.3	0.38	0.44	0.57	1.1	1.1	1.3	1.6

Source: RongViet Research

Unit: billion VND

INCOME STATEMENT	FY2013	FY2014	FY2015F	FY2016F
Revenue	6,369	6,758	7,628	8,140
COGS	4,939	5,424	5,981	6,423
Gross profit	**1,430**	**1,334**	**1,648**	**1,718**
Selling Expense	302	321	100	98
G&A Expense	113	164	259	277
Finance Income	21	292	128	61
Finance Expense	1,040	746	457	452
Other profits	10	1	3	6
PBT	**5**	**396**	**963**	**958**
Prov. of Tax	3	91	212	192
Minority's Interest	0	0	0	0
NPAT	**3**	**305**	**751**	**766**
EBIT	**779**	**918**	**1,403**	**1,391**
EBITDA	1,396	1,558	1,983	2,003

Unit:%

FINANCIAL RATIO	FY2013	FY2014	FY2015E	FY2016F
Growth				
Revenue	9.4	6.1	12.9	6.7
Operating Income	19.5	-16.3	51.9	4.2
EBITDA	6.6	11.6	27.3	1.0
EBIT	-5.4	17.9	52.7	-0.8
PAT	-72.6	11,947.4	146.2	2.0
Total Assets	-1.5	-3.5	-3.9	-3.0
Equity	69.5	16.2	17.9	13.1
Internal growth rate	0.1	8.8	18.6	12.3
Profitability				
Gross profit/Revenue	22.4	19.7	21.6	21.1
Operating profit/ Revenue	15.9	12.6	16.9	16.5
EBITDA/ Revenue	21.9	23.0	26.0	24.6
EBITDA/ Revenue	12.2	13.6	18.4	17.1
Net margin	0.0	4.5	9.8	9.4
ROAA	0.0	2.4	6.0	6.4
ROIC or RONA	8.5	10.4	16.2	16.8
ROAE	0.1	8.8	18.6	16.4
Efficiency (x)				
Receivable Turnover	14.3	14.1	12.9	6.7
Inventory Turnover	5.1	5.6	51.9	4.2
Payable Turnover	3.3	3.2	27.3	1.0
Liquidity (x)			52.7	-0.8
Current	0.4	0.4	0.6	0.6
Quick	0.2	0.2	0.3	0.3
Solvency				
Total Debt/Equity	310.4	240.9	177.8	138.2
Current Debt/Equity	78.1	56.8	52.1	44.5
Long-term Debt/ Equity	179.1	137.2	94.5	62.8

Unit: billion VND

BALANCE SHEET	FY2013	FY2014	FY2015E	FY2016F
Cash and equivalents	202	219	396	430
Short-term investment	5	36	43	52
Receivables	463	497	572	635
Inventories	986	959	1,047	1,124
Other current assets	17	15	22	18
Total Current Asset	**1,673**	**1,726**	**2,079**	**2,259**
Tangible Fixed Assets	10,284	9,739	8,846	8,421
Intangible Fixed Assets	113	115	112	110
Construction in Progress	766	845	972	861
Investment Property	0	0	0	0
Long-term Investment	56	56	56	56
Other long-term assets	228	181	103	98
Goodwill	0	0	0	0
Long-term Asset	**11,447**	**10,936**	**10,090**	**9,546**
Total Asset	**13,120**	**12,662**	**12,169**	**11,805**
Payables	1,092	1,053	957	1,092
Other current liabilities	608	688	411	439
Current Debt	2,498	2,110	2,281	2,205
Long-term Debt	5,726	5,097	4,141	3,114
Other long-term liabilities	0	0	0	0
Total Liability	**9,923**	**8,948**	**7,789**	**6,850**
Owner's Equity	**3,197**	**3,714**	**4,380**	**4,955**
Capital	3,180	3,180	3,180	3,180
Retained Earnings	7	316	924	1,499
Funds & Reverses	149	149	206	206
Others	**0**	**0**	**0**	**0**
Total Equity	**3,197**	**3,714**	**4,380**	**4,955**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**13,120**	**12,662**	**12,169**	**11,805**

CASHFLOWSTATEMENT	FY2013	FY2014	FY2015E	FY2016F
Pretax Income	5	396	963	958
-Depreciation	617	639	580	612
-Adjustments	*996*	*506*	*0*	*0*
+/- Working capital	-437	-549	-754	-165
Net Operating CF	**1,181**	**991**	**789**	**1,404**
+/- Fixed Asset	-318	-155	189	-73
+/- Deposit, equity investment	0	0	78	5
Interest, cash dividend, shared profits received	6	-26	0	0
Net Investing CF	**-313**	**-181**	**266**	**-67**
+/- Capital	0	0	0	0
+/- Debt	-856	-794	-786	-1,102
Dividend paid + Other exp. from retained profits	0	0	-92	-199
Net Financing CF	**-856**	**-794**	**-878**	**-1,302**
+/- cash & equivalents	12	17	177	35
Beginning cash & equivalents	**190**	**202**	**219**	**396**
Impact of exchange rate	0	0	0	0
Ending cash & equivalents	**202**	**219**	**396**	**430**

COMPANY REPORT

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.

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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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