

Lam Thao Fertilizers (LAS – HNX)

No growth spurt, still fertile

Particulars (VND bn)	3QFY13	2QFY13	% (qoq)	3QFY12	% (yoy)
Net Revenues	1,022.2	1,261.2	-19.0	811.2	26.0
EBIT	56.5	120.3	-53.0	52.9	6.8
PAT	89.0	174.3	-48.9	79.9	11.4
EBIT margin (%)	8.7	13.8	(510)bps	9.8	(110)bps

Source: LAS, RongViet Securities

Quarterly earnings slumped in Q3. Revenue and profits both headed down from the previous quarter. On a year-on-year basis these lines still saw growth though.

Output volume hiked thanks to aggressive sales and price cuts. We expect selling activities to keep up with the momentum in Q4.

The gross profit margin shrank both from a year and a quarter earlier. The driving force may have come from price cuts and shifts in the sales structure of products.

Cash in abundance. By Sept 30, LAS' cash pile has amounted to a record VND559.6 billion or an equivalence of 72% of the company's share capital. Assuming that investments for the new NPK line are delayed till 2015, we expect to see cash higher dividend than the initially planned 20 percent.

Outlook and valuation: There is little chance for a leap in LAS' Q4 earnings. The stable, less risky business and possibility of more lucrative dividend should support LAS share price before the company heads to the peak of its business cycle in next year's first half. With this report, we alter some of our assumptions and revise our target price from VND39,800/share in the previous update to VND39,000/share, effectively concluding with a ACCUMULATE recommendation for the stock.

Key financials

Y/E Dec (VND bn)	FY2011	FY2012	9M/FY2013	FY2013E	FY2014F
Net Revenues	4,056.2	4,494.9	4,156.1	5,311.7	5,509.3
% chg	12.4	10.8	13.0	18.2	3.7
PAT	295.6	395.0	325.4	396.9	401.5
% chg	4.2	33.6	4.2	0.5	1.2
EBIT margin (%)	7.3	8.8	7.8	7.5	7.3
EPS (VND)	6,896	6,782	4,181	5,099	5,159
Adjusted EPS (VND)					
Book value (VND)	15,984	18,450	16,485	17,349	20,348
Cash dividend (VND)	2,000	3,000		2,000	2,000
P/E (x)		4.1	6.0	6.9	6.8
P/BV (x)		1.5	2.2	2.4	1.7
ROA (%)	14.7	15.8		14.2	13.5
ROE (%)	37.6	38.0		30.8	27.1

Source: LAS, RongViet Securities, market price on 25/10/2013

Accumulate

CMP (VND)	35,300
Target Price (VND)	39,000

Investment Period Intermediate

Stock Info

Sector	Chemicals
Market Cap (VND bn)	2,747
Outstanding shares	77,832,000
Beta	1.1
Free float (%)	30.2
52 weeks High	39,000
52 weeks Low	20,900
Avg. Daily Volume (in 20 sessions)	38,109



Performance (%)

	3M	1Y	3Y
LAS	-1.7	116.3	N/A
Automobiles & Parts	3	N/A	N/A
VN30 Index	1.3	17.5	N/A
HSX Index	-0.6	21.8	-55.3

Major Shareholders (%)

Vinachem	69.8
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Foreigner Investor Room (%)	12.0
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Exhibit 1: 3QFY2013 and YTD Results

Particulars (VND bn)	3QFY13	2QFY13	% chg (qoq)	3QFY12	% chg (yoy)	9M/FY13	% chg (yoy)
Net Revenues	1,022.2	1,261.2	-19.0	811.2	26.0	4,156.1	13.0
Gross profits	179.2	266.6	-32.8	164.2	9.1	779.4	7.6
SG&AC	95.1	98.0	-3.0	84.9	11.9	314.7	14.1
Operating Income	84.2	168.6	-50.1	79.3	6.2	464.7	3.6
EBITDA	112.2	197.8	-43.3	103.9	8.0	549.6	3.9
EBIT	89.0	174.3	-48.9	79.9	11.4	478.4	3.8
Financial expenses	14.5	16.1	-9.8	11.2	29.5	48.5	0.8
- Interest Expenses	13.7	13.8	-1.1	9.3	46.8	44.5	0.9
Dep. and amortization	23.2	23.5	-1.5	24.0	-3.6	71.2	4.5
Non-recurring Items (*)							
Extraordinary Items (*)	2.5	3.3	-25.9	1.4	77.1	8.2	17.1
PBT	75.3	160.4	-53.0	70.6	6.8	433.9	4.2
PAT	56.5	120.3	-53.0	52.9	6.8	325.4	4.2
(*) Adjusted PAT							

Source: LAS, RongViet Securities

Exhibit 2: 3QFY2013 performance analysis

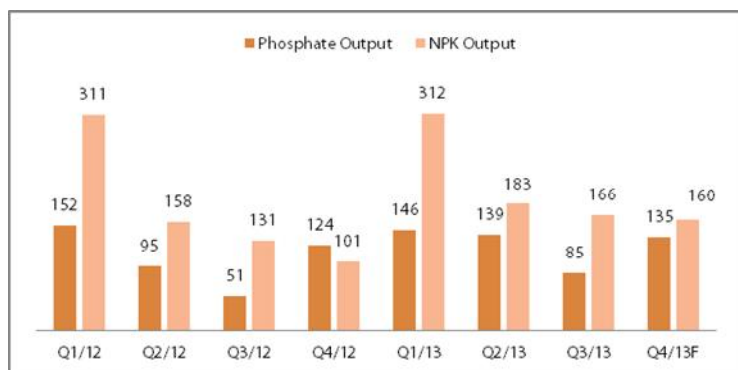
Particulars	3QFY13	2QFY13	% Chg. (qoq)	FY2012	% Chg
Profitability Ratios (%)					
Gross Margin	17.5	21.1	(360)bps	22.2	(470)bps
EBITDA Margin	11.0	15.7	(490)bps	15.0	(400)bps
EBIT Margin	8.7	13.8	(530)bps	13.1	(440)bps
Net Margin	5.5	9.5	(400)pbs	8.8	(330)bps
Adjusted Net Margin					
Turnover (Quarterly) (x)					
-Inventories	2.6	3.1	-0.5	2.1	0.5
-Receivables	6.8	8.8	-2.0	14.2	-7.3
-Payables	4.8	5.5	-0.7	5.6	-0.8
Leverage (x)					
Total Debt/ Equity	1.1	1.0	0.1	1.3	-0.2

Source: LAS, RongViet Securities

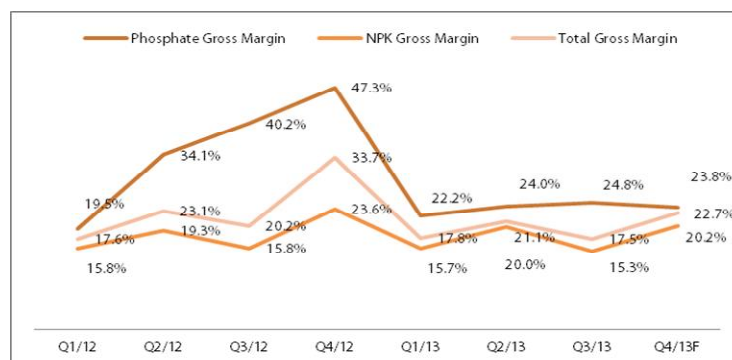
Sales dropped from Q2 as mandated by the business cycle while output still on the growth.

As noted in our previous update, there is a mid-year plunge in LAS' earnings patterns. The third quarter saw a cascade in phosphorus fertilizers consumption and a slight decline in NPK output. For the three-month period ending on Sept 30, revenue was posted VND1,022 billion, down by 19% from the previous quarter.

From a year ago, however, the company grew up to 26% in sales, driven mostly by its fresh aggressiveness in selling activities. Phosphorus fertilizers and NPK output volumes added 65% and 72% from the previous year to 85,000 and 166,000 tons respectively.

LAS' s quarterly output chart


Source: LAS, RongViet Securities

LAS' s quarterly gross margin chart


Source: LAS, RongViet Securities

Profitability shrank on eased selling prices and a shift in the product structure.

LAS compromised on its selling price in respond to a drop in raw material (S, SA and Potassium) prices while pushing selling activities. The gross profit margin thus contracted substantially from that of Q2.

Besides, we infer that there is a cyclical movement in the proportionate shares of high-concentration and low-concentration NPK fertilizers in LAS' output throughout the year. That should explain the fall of NPK gross profit margin in Q3 and the overall margin decrease to 17.5% from 21.1% Q2.

More active selling brought SG&As expenses up by 12% y-o-y so that Q3 sales expanded to a great extend but NPAT added only 7% to VND56.5 billion. For the 9-month period, revenue and NPAT were reported VND4,156 billion and VND325 billion, respectively fulfilling 86% and 100% of the annual targets.

Exhibit 3: 3QFY2013 Actual vs. Estimates

Particulars (VND bn)	Actual	Estimates	Var (%)
Net Revenues	1,022.2	913.1	-10.7
Gross profits	179.2	171.0	-4.6
EBIT	89.0	90.5	1.7
PAT	56.5	58.9	4.3

Source: RongViet Securities

Exhibit 4: 4QFY2013 Forecast

Particulars (VND bn)	4QFY13	%chg (qoq)	%chg (yoy)
Net Revenues	1155.6	13.0	41.4
Gross profits	262.0	46.2	-4.9
EBIT	109.0	22.4	-12.1
PAT	72.0	27.4	-7.6

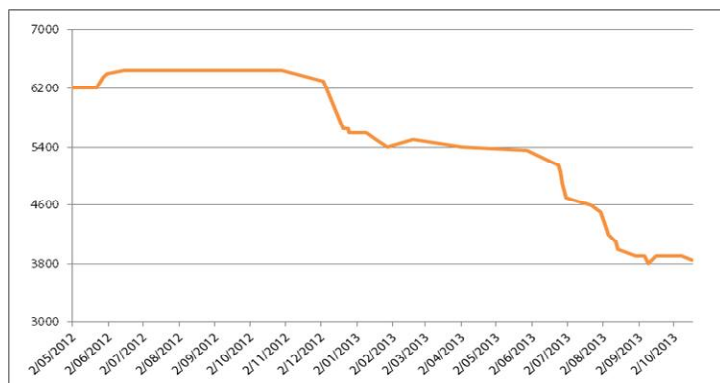
Source: RongViet Securities

Sales are seen positive and the gross profit margin may rebound in Q4.

We highly value the company's effort in to boost sales in Q3 given the unfavorable market conditions for fertilizer manufacturer in the trough of the business cycle. We expected to see further growth should the firm keeps its current stance considering demand for its fertilizer products often picks up later in the calendar year when the planting season of annual crops starts off. The total output in Q4 is projected at 295,000 tons, up by 17.5% from Q3 and 31% from a year earlier. Besides, the business cycle implies that higher weights will be applied for high-margin NPK products in Q4 sales, which should also elevate the gross profit margin of the whole NPK line to about 20.2%. The margin of Phosphorus fertilizers may remains around 23.8%, the mark it has been orbiting since the beginning of the year.

In general, we are rather positive about LAS' sales and profitability in Q4. However, also noted in our previous update, the costs recognition later in the year may lift selling expenses and gnaw away at profits. Q4 revenue and NPAT are estimated VND1.556 billion and VND72 billion, meaning a whole-year profits figure of VND397 billion and EPS of VND5,107.

SA price chart



Source: Vinacam

Kali price chart



Source: Vinacam

The year 2014 may not significant changes in business

Now that the growth of demand for fertilizers has yet to accelerate, LAS may not set off the installation of new NPK line next year. The current line is now running 17% above its the design capacity, leaving tight room for NPK output growth. We expect the output of this line around 826,000 tons and that of phosphorus fertilizers around 510,000 tons for 2014.

The prices of sulfur, SA and potassium move in conjunction with agriculture products prices, planting area size and the supply of fertilizers in the world market. The start button pressed for a large number high-tech fertilizer plants across the globe (US, Middle East, Canada, Russia, Belarus, China, Argentina, Jordan, Laos...) has driven prices downward and caused oversupply. Experts may have a point saying that fertilizer prices will slide further on the downside in the period between 2014 and 2015.

On the other hand, the fact that materials essential to the productions of fertilizers have grown substantially cheaper in the recent time may fuel bounces in prices during the year. Besides, the price of apatite (an input of phosphorus fertilizers) has picked up 10% so far this year. Therefore, there is a real possibility that Vinachem will adjust their price accordingly in coming years. We thus maintain our opinion that production cost for the phosphorus fertilizers and NPK line in increase 6% and 2% in 2014. Next year's revenue and NPAT is estimated VND5.509 billion and VND401 billion, translating into EPS of VND5.159.

Enlarged cash pile raise dividend expectation.

With a substantial amount capex set further into the future (at least until 2015 in our opinion), it is likely that LAS will increase its dividend payouts as it did last year. As announced in the AGM, 2013 dividend ratio was agreed at 20%, which we expected to be revised up to 30%. At the end of Q3, LAS' cash pile was reported VND550 billion, up by VND319 billion from the beginning of the year. In 2014 year-end, the amount may reach as high as VND627 billion.

Outlook and valuation: There is little chance for a leap in LAS' Q4 earnings. A solid, less risky business structure and the possibility of more lucrative dividend should support the LAS share price before the company heads to the peak of its business cycle in next year's first half.

With this report, we alter some of our assumptions and revise our target price from VND39.800/share in the last update to VND39.000/share and thus conclude with a ACCUMULATE recommendation for the stock.

Exhibit 5: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2013E	FY2014E	FY2013E	FY2014E
Revenue growth (%)	9.4	3.5	10.8	18.2
Volume growth (%)	2.9	0.4	10.5	0.8
Gross margin (%)	20.6	20.3	19.6	19.2
EBIT margin (%)	11.9	11.7	11.1	10.7

Source: RongViet Securities

Exhibit 6: Changes in Estimates

Particular (VND bn)	FY2013E			FY2014E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues	4,918.8	5,311.7	8.0	5,091.9	5,509.3	8.2
Gross profits	20.6	19.6	(110)bps	20.3	19.2	(110)bps
SG&AC	448.6	469.6	4.7	463.4	495.8	7.0
Operating Income	566.6	569.1	0.4	570.7	562.2	-1.5
Financial expenses	56.4	62.5	10.9	48.8	56.3	15.3
PBT	531.4	529.2	-0.4	549.4	535.4	-2.5
PAT	398.5	396.9	-0.4	412.0	401.5	-2.5
EBITDA	677.5	681.5	0.6	669.4	662.8	-1.0
EBIT	587.7	591.7	0.7	598.2	591.6	-1.1

Source: RongViet Securities

VND Billion

INCOME STATEMENT	2011A	2012A	2013E	2014F
Revenue	4,056.2	4,494.9	5,311.7	5,509.3
COGS	3,257.3	3,495.0	4,272.9	4,451.3
Gross profit	798.9	999.8	1,038.8	1,058.0
Selling Expense	219.9	290.1	311.6	330.6
G&A Expense	110.0	140.5	158.1	165.3
Finance Income	17.5	11.9	12.3	17.5
Finance Expense	98.8	71.5	62.5	56.3
Other profits	11.3	15.0	10.3	12.0
PBT	399.0	524.7	529.2	535.4
Prov. of Tax	99.3	130.6	132.3	133.8
Minority's Interest	-	-	-	-
PAT to Equity Shareholder	299.7	394.1	396.9	401.5
EBIT	489.2	589.7	591.7	591.6
EBITDA	588.3	674.4	681.5	662.8

%

FINANCIAL RATIO	2011A	2012A	2013E	2014F
Growth				
Revenue	12.4	10.8	18.2	3.7
Operating Income	1.2	21.4	0.0	-1.2
EBITDA	16.4	14.6	1.1	-2.7
EBIT	24.6	20.6	0.3	0.0
PAT	4.1	31.5	0.7	1.2
Total Assets	19.7	23.7	2.8	10.3
Equity	18.4	33.3	12.1	17.1
Internal growth rate	21.0	16.4	17.7	15.4
Profitability				
Gross margin	19.7	22.2	19.6	19.2
Operating Income/Revenue	11.6	12.7	10.7	10.2
EBITDA/ Revenue	14.5	15.0	12.8	12.0
EBIT/ Revenue	12.1	13.1	11.1	10.7
Net margin	7.4	8.8	7.5	7.3
ROAA	14.6	15.8	14.2	13.5
ROIC or RONA	32.0	35.0	30.5	27.1
ROAE	35.7	37.1	30.8	27.1
Efficiency				
Receivable Turnover	10.9	14.2	15.4	12.7
Inventory Turnover	3.1	2.1	2.3	2.5
Payable Turnover	6.6	5.6	5.8	5.6
Liquidity				
Current	1.6	1.7	1.8	1.9
Quick	5.4	4.5	3.8	3.0
Solvency				
Total Debt/Equity	144.6	127.0	108.2	96.0
Current Debt/Equity	71.1	69.1	50.7	44.9
Long-term Debt/ Equity	10.5	2.0	0.0	0.0

VND Billion

BALANCE SHEET	2011A	2012A	2013E	2014F
Cash and equivalents	285.3	240.2	456.5	627.9
Short-term investment	-	-	-	-
Receivables	370.7	264.3	424.9	440.7
Inventories	1,282.5	1,983.5	1,751.9	1,825.0
Other current assets	30.9	36.5	40.0	41.5
Total Current Asset	1,969.4	2,524.4	2,673.4	2,935.1
Tangible Fixed Assets	201.3	149.4	114.9	44.0
Intangible Fixed Assets	1.8	1.5	1.1	0.8
Construction in Progress	44.7	68.8	33.0	133.0
Investment Property	-	-	-	-
Long-term Invest ment	9.1	9.1	9.1	9.1
Other long-term assets	2.6	5.0	5.0	5.3
Long-term Asset	259.5	233.7	163.1	192.2
Total Asset	2,228.9	2,758.1	2,836.5	3,127.3
Payables	409.4	454.0	534.1	556.4
Other current liabilities	159.0	225.0	249.6	258.9
Current Debt	648.2	839.4	690.5	716.2
Long-term Debt	95.8	24.7	-	-
Other long-term liabilities	5.1	-	-	-
Total Liability	1,317.5	1,543.1	1,474.3	1,531.6
Owner's Equity	875.2	1,201.1	1,350.3	1,583.7
Capital	540.5	648.6	778.3	778.3
Retained Earnings	300.8	482.7	464.4	662.0
Funds & Reverses				
Others	36.2	13.9	11.9	12.0
Total Equity	911.4	1,215.0	1,362.2	1,595.8
Minority's Interest	0.0	0.0	-	-
TOTAL RESOURCE	2,228.9	2,758.1	2,836.5	3,127.3
CASH FLOW STATEMENT	2011A	2012A	2013E	2014F
Net Income	299.7	394.1	396.9	401.5
-Depreciation	99.1	84.6	89.8	71.2
-Adjustments	-65.0	29.0	-68.0	-30.0
+/- Working capital	-318.9	-489.6	172.3	-58.9
Net Operating CFs	14.9	18.1	591.0	383.9
+/- Fixed Asset	-55.6	-33.3	-19.2	-100.0
+/- Deposit, equity investment				
Interest, dividend, cash profit received	17.5	11.9	12.3	17.5
Net Investing CFs	-38.1	-21.4	-6.9	-82.5
+/- Capital				
+/- Debt	76.0	120.2	-173.6	25.7
Dividend paid	-99.0	-162.0	-194.0	-155.7
Net Financing CFs	-23.0	-41.8	-367.6	-130.0
+/- cash & equivalents	-46.3	-45.0	216.4	171.4
Beginning cash & equivalents	331.6	285.3	240.2	456.5
Impact of exchange rate				
Ending cash & equivalents	285.3	240.2	456.6	627.9

COMPANY RESEARCH 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% 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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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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