

## 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

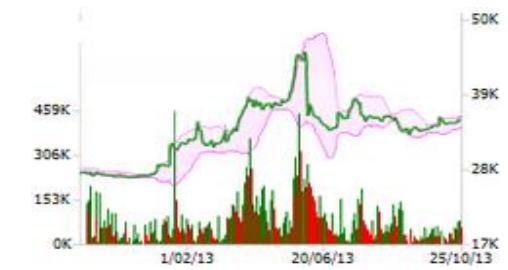
### Accumulate

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

Investment Period	Intermediate
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### 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
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
<b>Profitability Ratios (%)</b>					
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)bps	8.8	(330)bps
Adjusted Net Margin					
<b>Turnover (Quarterly) (x)</b>					
-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
<b>Leverage (x)</b>					
Total Debt/ Equity	1.1	1.0	0.1	1.3	-0.2

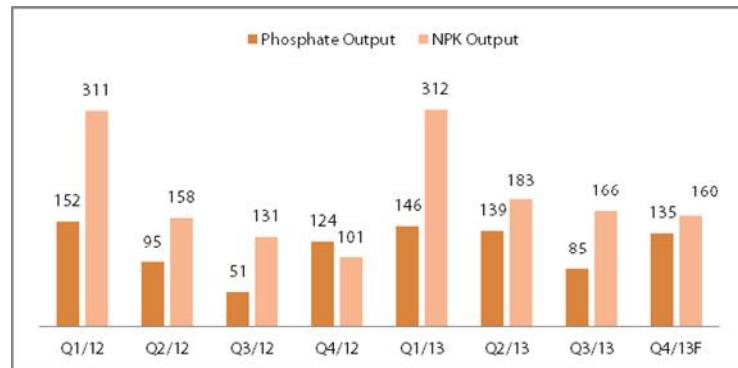
Source: LAS, RongViet Securities

**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.

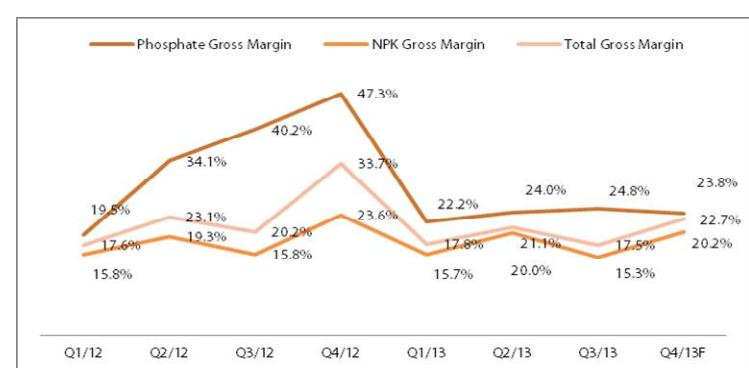
From a year ago, however, the company grew up to 26% in sales, driven mostly by its fresh aggressiveness in selling activities. Phosphorus fertilizers and NPK output volumes added 65% and 72% from the previous year to 85,000 and 166,000 tons respectively.

**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



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	BALANCE SHEET		2011A	2012A	2013E	2014F
Revenue		4,056.2	4,494.9	5,311.7	5,509.3	Cash and equivalents		285.3	240.2	456.5	627.9
COGS		3,257.3	3,495.0	4,272.9	4,451.3	Short-term investment		-	-	-	-
<b>Gross profit</b>		<b>798.9</b>	<b>999.8</b>	<b>1,038.8</b>	<b>1,058.0</b>	Receivables		370.7	264.3	424.9	440.7
Selling Expense		219.9	290.1	311.6	330.6	Inventories		1,282.5	1,983.5	1,751.9	1,825.0
G&A Expense		110.0	140.5	158.1	165.3	Other current assets		30.9	36.5	40.0	41.5
Finance Income		17.5	11.9	12.3	17.5	<b>Total Current Asset</b>		<b>1,969.4</b>	<b>2,524.4</b>	<b>2,673.4</b>	<b>2,935.1</b>
Finance Expense		98.8	71.5	62.5	56.3	Tangible Fixed Assets		201.3	149.4	114.9	44.0
Other profits		11.3	15.0	10.3	12.0	Intangible Fixed Assets		1.8	1.5	1.1	0.8
<b>PBT</b>		<b>399.0</b>	<b>524.7</b>	<b>529.2</b>	<b>535.4</b>	Construction in Progress		44.7	68.8	33.0	133.0
Prov. of Tax		99.3	130.6	132.3	133.8	Investment Property		-	-	-	-
Minority's Interest		-	-	-	-	Long-term Investment		9.1	9.1	9.1	9.1
<b>PAT to Equity Shareholder</b>		<b>299.7</b>	<b>394.1</b>	<b>396.9</b>	<b>401.5</b>	Other long-term assets		2.6	5.0	5.0	5.3
EBIT		489.2	589.7	591.7	591.6	<b>Long-term Asset</b>		<b>259.5</b>	<b>233.7</b>	<b>163.1</b>	<b>192.2</b>
EBITDA		588.3	674.4	681.5	662.8	<b>Total Asset</b>		<b>2,228.9</b>	<b>2,758.1</b>	<b>2,836.5</b>	<b>3,127.3</b>
%						Payables		409.4	454.0	534.1	556.4
%						Other current liabilities		159.0	225.0	249.6	258.9
FINANCIAL RATIO		2011A	2012A	2013E	2014F	Current Debt		648.2	839.4	690.5	716.2
<b>Growth</b>						Long-term Debt		95.8	24.7	-	-
Revenue		12.4	10.8	18.2	3.7	Other long-term liabilities		5.1	-	-	-
Operating Income		1.2	21.4	0.0	-1.2	<b>Total Liability</b>		<b>1,317.5</b>	<b>1,543.1</b>	<b>1,474.3</b>	<b>1,531.6</b>
EBITDA		16.4	14.6	1.1	-2.7	<b>Owner's Equity</b>		<b>875.2</b>	<b>1,201.1</b>	<b>1,350.3</b>	<b>1,583.7</b>
EBIT		24.6	20.6	0.3	0.0	Capital		540.5	648.6	778.3	778.3
PAT		4.1	31.5	0.7	1.2	Retained Earnings		300.8	482.7	464.4	662.0
Total Assets		19.7	23.7	2.8	10.3	Funds & Reverses		-	-	-	-
Equity		18.4	33.3	12.1	17.1	<b>Others</b>		<b>36.2</b>	<b>13.9</b>	<b>11.9</b>	<b>12.0</b>
Internal growth rate		21.0	16.4	17.7	15.4	<b>Total Equity</b>		<b>911.4</b>	<b>1,215.0</b>	<b>1,362.2</b>	<b>1,595.8</b>
<b>Profitability</b>						Minority's Interest		0.0	0.0	-	-
Gross margin		19.7	22.2	19.6	19.2	<b>TOTAL RESOURCE</b>		<b>2,228.9</b>	<b>2,758.1</b>	<b>2,836.5</b>	<b>3,127.3</b>
Operating Income/Revenue		11.6	12.7	10.7	10.2	<b>CASH FLOW STATEMENT</b>		<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014F</b>
EBITDA/ Revenue		14.5	15.0	12.8	12.0	Net Income		299.7	394.1	396.9	401.5
EBIT/ Revenue		12.1	13.1	11.1	10.7	-Depreciation		99.1	84.6	89.8	71.2
Net margin		7.4	8.8	7.5	7.3	-Adjustments		-65.0	29.0	-68.0	-30.0
ROAA		14.6	15.8	14.2	13.5	+/- Working capital		-318.9	-489.6	172.3	-58.9
ROIC or RONA		32.0	35.0	30.5	27.1	<b>Net Operating CFs</b>		<b>14.9</b>	<b>18.1</b>	<b>591.0</b>	<b>383.9</b>
ROAE		35.7	37.1	30.8	27.1	+/- Fixed Asset		-55.6	-33.3	-19.2	-100.0
<b>Efficiency</b>						+/- Deposit, equity investment		-	-	-	-
Receivable Turnover		10.9	14.2	15.4	12.7	Interest, dividend, cash profit received		17.5	11.9	12.3	17.5
Inventory Turnover		3.1	2.1	2.3	2.5	<b>Net Investing CFs</b>		<b>-38.1</b>	<b>-21.4</b>	<b>-6.9</b>	<b>-82.5</b>
Payable Turnover		6.6	5.6	5.8	5.6	+/- Capital		-	-	-	-
<b>Liquidity</b>						+/- Debt		76.0	120.2	-173.6	25.7
Current		1.6	1.7	1.8	1.9	Dividend paid		-99.0	-162.0	-194.0	-155.7
Quick		5.4	4.5	3.8	3.0	<b>Net Financing CFs</b>		<b>-23.0</b>	<b>-41.8</b>	<b>-367.6</b>	<b>-130.0</b>
<b>Solvency</b>						+/- cash & equivalents		-46.3	-45.0	216.4	171.4
Total Debt/Equity		144.6	127.0	108.2	96.0	<b>Beginning cash &amp; equivalents</b>		<b>331.6</b>	<b>285.3</b>	<b>240.2</b>	<b>456.5</b>
Current Debt/Equity		71.1	69.1	50.7	44.9	Impact of exchange rate		-	-	-	-
Long-term Debt/ Equity		10.5	2.0	0.0	0.0	<b>Ending cash &amp; equivalents</b>		<b>285.3</b>	<b>240.2</b>	<b>456.6</b>	<b>627.9</b>

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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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