

CANDON HYDRO POWER (SJD – HSX)

Nine-month result over whole year guidance thanks to favorable weather

Particulars (VND bn)	3QFY13	2QFY13	% Chg. (qoq)	3QFY12	% Chg. (yoy)
Net revenue	138.0	75.6	82.7%	136.6	1.0%
NPAT	73.7	44.7	65.0%	61.4	20.1%
EBIT	84.2	54.0	56.0%	85.1	-1.1%
EBIT margin	61.0%	71.4%	-1045 bps	62.3%	-134 bps

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

Favorable weather and trimmed financial cost amplified Q3 earnings. The operation of the hydropower plants in the South depends greatly on the volume of water flowing through their gears, which tends to maximize in the third quarter. As the result, Southern hydropower firms usually see the highest quarterly revenue in Q3. With regard to SJD, the company's Q3 revenue was posted VND138 bn and profit-after-tax (PAT) VND73.7 bn, up by 83% and 65% from the previous quarter. Also on the year-on-year basis, NPAT climbed 20% thanks a reduction in interest cost whereas revenue hardly varied. In mid June 2013, the post-investment-support loan from VDB came due, causing 9-month financial cost to drop 61% compared to the same period of 2012.

For FY2013, revenue is expected to flat while PAT growing at an annual 7% thanks to interest cost reduction. The rainy season may extend to November, thus average power production in October and November is expected to equate to the third quarter average. Fourth-quarter production is estimated 105 million KWh and revenue VND57.8 bn. The 4Q2013 NPAT is according projected at VND23 bn, which account for just one-third that of Q3. FY2013 total revenue and NPAT are estimated VND317.8 bn and VND159.5 bn, which are 12.5% above SJD's revenue guidance and 28% higher than its NPAT target. The forecasted EPS is VND4,446.

As for the capital structure, SJD prepaid the post-investment-support loan granted by the Vietnam Development Bank (VDB). Being a BOT project from the start, SJD received a ten-year, preferred-rate, post-investment-support loan from VDB. The company finally had the loan erased from its balance sheet on June 16, 2013, which left SJD with now only two sums of long-term debt. The first one is in foreign currency loan, being worth more than VND100 bn with a preferred rate of 1.25% (USD lending rate), disbursed from the ODA fund of ADB; the assistance dues in FY2034. The second amount came from a bond issuance to Vietinbank, valued at VND100 bn and maturing in October 2014. With the total balance working capital and short-term investment of VND290 bn, it should be an easy ride making payment when the bonds due in 2014 while covering the ADB loan interest.

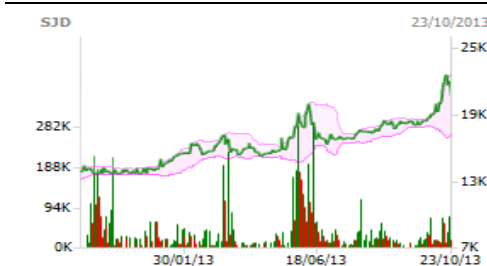
Merger with RHC is to be initiated in 2014. As part of the restructuring planning of Song Da Group, SJD has planned to merge with two other hydropower plants, namely RHC and NLC. Regarding to the deal with NLC, however, Song Da has not reached a common voice with minority shareholders, urge the groups to proceed with the RHC deal first. According to this plan, SJD will offer their shares to exchange RHC shares at a one-to-one conversion ratio.

MONITOR

CMP (VND) 20,800

Stock Info

Sector	Electricity
Market Cap (VND bn)	746
Beta	0.47
Free float (%)	15.5
52 weeks High	22,600
52 weeks Low	12,600
Avg. Daily Volume (in 20 sessions)	23,316



Performance (%)

	3M	1Y	3Y
SJD	27.8%	70.1%	135.0%
Electricity	-3.8%	-27.5%	N/A
VN30 Index	0.6%	19.6%	N/A
HSX Index	-0.9%	26.3%	12.7%

Shareholders pattern (%)

Song Da Group	51.0
Vietnam Infrastructure Holding Limited	14.5
Mutual Fund Elite (Non-Ucits)	8.0
Vietnam Investments Fund I, L. P.	6.2
Dinh Quang Chien	4.9
<i>Giới hạn sở hữu còn lại của NĐTNN (%)</i>	18.4

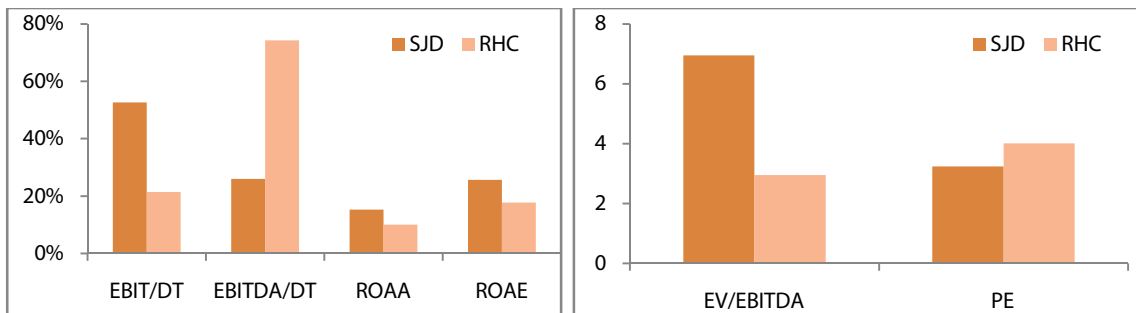
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RHC may be unlisted from Hanoi Stock Exchange in December 2013 and officially become an SJD's subsidiary from 2014. Taking into account the operating characteristics of both players, we see that SJD is bigger in scale and has higher EVN-offered selling price. The operating efficiency of SJD thus is better than that of its counterparty. Before depreciation and amortization, however, RHC's efficiency ratios are quite better than those SJD. Besides, RHC is not under pressure of debt; its long-term debt balance at June 30, 2013 was posted as little as VND4 bn. Consequently, we are neutral about this deal for the time being. We expect instead that the merger will help SJD manage SG&A expenses effectively enough to maintain its operating ratios at the current levels.

Grasp 01: Financial and valued ratios at December 30th 2012



Source: SJD Financial statement, RongViet Securities' compilation and calculation

Outlook:

With above considerations, we see that investing in SJD now has certain some advantages. Firstly, the dividend yield has been maintained at a quite attractive level; the average yield in the period between 2010-2012 was recorded 13.8%. Besides, starting FY2014, when a large portion of long-term debt matures, SJD is under almost no pressure of debt, which should to make room for higher dividend payout. Secondly, the Company enjoys a preferable income tax rate at 5% for a seven-year period from June 2012 to June 2018, and 20% onward. Last but not least, with forward PE of only 4.9x, the stock appears quite attractive when compare with many of its peers such as VSH, TBC and TMP. Meanwhile, the great shortcoming of SJD is its low liquidity. In fact, the stock trades at an average of only 20,000 shares each session. In conclusion, we recommend SJD as a stock suitable for long-term investors who looks forward to lucrative dividends. In a long-term view, we are concerned that the restructuring process in Song Da Group may require SJD to merge with other subsidiaries of Song Da, whose operation may be similar in nature but just not as efficient.

Exhibit 01: Key financials

Y/E Sep (VND bn)	FY2011	FY2012	FY2013E	FY2014F(**)
Net sales	287	345	318	334
% chg	34.8	20.1	-7.8	5.0
Net profit	90	155	160	135
% chg	27.3	72.1	3.0	-15.6
Net margin (%)	31.3	44.9	50.2	40.3
EPS (VND)	2,508	4,317	4,446	3,751
Book value (VND)	15,401	18,308	21,032	12,846
Dividend (VND)	1,500	1,500	2,000	2,000
P/E (x)*	8.3	4.8	4.7	5.5
P/BV (x)*	1.4	1.1	1.0	1.6
ROA (%)	15.2	17.5	18.1	17.8
ROE (%)	16.8	25.6	22.6	22.1

Source: SJD Financial statement, RongViet Securities' compilation and estimates, *As of 17/10/2013

(**) The forecasted has not accounted for RHC merge.

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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