



Trading chart



Investment view

Investment view	Hold
Target price (dong)	11.763
Market price	11.300
1-month outlook	Tăng
3-month outlook	Tăng
6-month outlook	Tăng

Trading information

Outstanding share	317,952
Market cap (bil)	3.593
Book value (bil)	3,197
Foreign ownership (%)	1.34
Market price (d/share)	11.300
10-day average trading volume (share)	1463982
Lowest price 52 weeks (d)	4.700
Highest price 52 weeks (d)	12.500
+/- last 7 days	+15,3%

INVESTMENT HIGHLIGHTS

The cement sector's outlook has been regarded as bad due to oversupply for the last 3 years. However, there have been improvements recently. Total production capacity of the whole sector in 2013 reached 73 million tons while cement consumption was estimated at 61 million tons.

- The cement consumption in the first quarter of 2014 has increased by 6.7% compared to the same period of 2013, which is the highest growth in recent years. Exports increased significantly to balance supply - demand at the prices that brought profit to the cement companies.
- The price of VICEM cement is expected to increase slightly in 2014. Motivation for the climb comes from the equitization of VICEM before 2016. However, the increase will not create much impact on the competitiveness of VICEM. At the same time, the CPI's lowest level in the last 13 years in combination with the consumption recovery will also create favorable condition for the climb in cement prices in 2014.

HT1 is the largest company in cement sector and obtains effective core-business. With the capacity of 6.8 million tons of cement per year and consumption volume of 5.2 million tons in 2013, HT1 is the largest company in cement sector with the market share of 8.05%. Two most important factors for the growth of revenue and profitability of HT1 are output growth and rise in cement prices. At the current production which is equivalent to only 70% of capacity, revenue will rise sharply when the cement demand increases. Its sales grew by 20% annually for the last 5 years with EBIT margin of nearly 16% which created the huge amount of core earnings (EBIT) for the company.

The biggest risk of HT1 comes from financial expenses which significantly reduce net profit. Because of high financial leverage and a large portion of debts are foreign currencies, the company has to pay huge interest expenses and foreign exchange losses annually. A large portion of core earnings was used to pay financial expenses which strongly lowered net profit. In 2013, core earnings reached 1,014 billion while interest expenses and foreign currency loss were 1,057 billion, as a result, net profit was only 2.5 billion dong.

Investment recommendation: as the largest company in the cement industry, HT1 is expected to have great chance to growth when the cement industry recovers. We recommend buying HT1 at 12 months target price of VND 11,763.

Financial information	2010	2011	2012	2013	Q 1/2014
Revenue (billion dong)	4.251	5.281	5.824	6.369	1.578
% growth y-o-y	50,9%	24,2%	10,3%	9,4%	-0.9%
Total asset (billion dong)	11.812	12.921	13.314	13.120	12.894
Equity (billion dong)	1.827	1.778	1.885	3.196	3.308
Outstanding shares (mil d)	163	197	197	316	316
Net income (million dong)	60.41	-8.941	9.234	2.531	1.988
EPS (d/cp)	370	-45.17	46.65	8	
EBIT margin (%)	9%	19%	15%	16%	16%
ROE	3,31%	-0.50%	0,49%	0,08%	0,06%
ROA	0,51%	-0.07%	0,07%	0,02%	0,02%

Source: HT1 financial report

Assistant analyst

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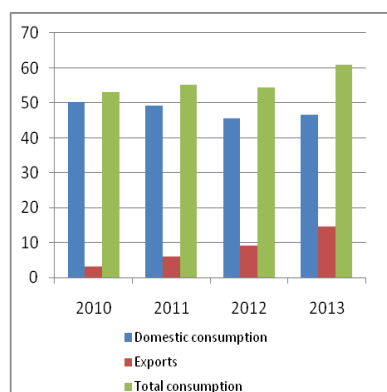
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SECTOR OUTLOOK

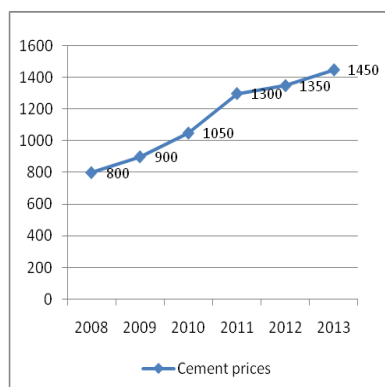
Graph 1: consumption structure

(mil ton)

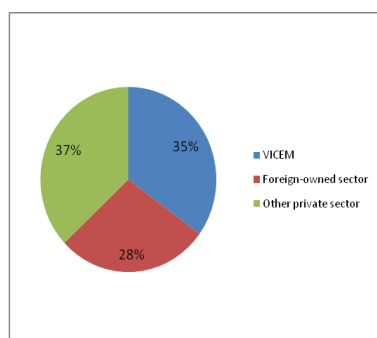


Graph2: Northern cement price

(thousand/ton)



Graph 3: cement market share 2013



The cement sector is facing oversupply situation. While domestic demand grows at slow speed, export is considered as a solution to balance supply - demand.

In 2013, the capacity of Vietnam's cement sector was about 73 million tons and the manufacturers are operating at an average of 85% the designed capacity. An additional 5 production lines is expected to go into operation with the capacity of 7 million tons, increasing the total capacity to 80 million tons. During 2015 and 2016, there will not be any more cement projects being approved.

Meanwhile, cement consumption in 2013 was only 61 million tons (equal to 84 % of the capacity). Due to difficulties of the construction industry and the real estate market, domestic demand for cement increased slightly. Domestic consumption in 2013 was only 46.5 - 47 million tons, an increase of 2-3 % compared to that of 2012. According to The Vietnam Cement Association 's estimate, the domestic cement consumption in 2014 will increase by 2 to 3% compared with that of 2013 . Consumption of the first quarter rised by 6.7%, showing higher potential growth than predicted.

Cement export: cement and clinker export in 2013 was estimated at 14.9 million tons, an increase of 60% compared with 2012. The exporting price of cement and clinker were estimated at USD 55 per ton and USD 40 per ton (FOB) respectively. The exporting price was the same as the domestic price. Therefore, export was not only profitable for the company but also an effective solution to balance supply - demand in Vietnam

Cement price is likely to rise in 2014

The retail price of cement in Oct 2013 increased by 100,000 VND/ton. The price in the North increased from 1.35 million/ton to 1.45 million/ton, an increase of 7.4%. Selling price at factories of companies belongs to VICEM was around 1,000,000 - 1.050.000/ton (northern region) and in the southern, the selling price at factories reached 1.200.000 dong/ton.

VICEM cement prices are more likely to rise in 2014 due to the following reasons:

- Currently, the net profit of companies belonging to VICEM is very low. On the other hand, during 2014 and 2015, VICEM is required to equitize in accordance with the government regulation. Effective equitization depends largely on the sales and profit of its subsidiaries. This can only be achieved through increase in cement consumption and cement price. However, increase in cement consumption is less likely to happen and most companies belonging to VICEM have been producing at nearly designed capacity which makes it difficult to increase production. Therefore, increase in cement price is more likely to be done.
- The increase in price will not reduce the competitiveness of VICEM in cement sector. In fact, these companies are suffering losses in terms of economic efficiency (ROE is lower than banking rate). Therefore, a general trend is that all cement companies in the sector want to raise price to increase profit.
- Low CPI facilitates increase in cement price. Indeed Vietnam cement price has increased by a small amount in recent years. According to our forecast, because Vietnam CPI is quite high in previous years, the increase in cement price will be intervened by the government to keep CPI at desired level. Currently, CPI is expected to remain low in the near future. As a result, increasing cement price may be accepted easily.

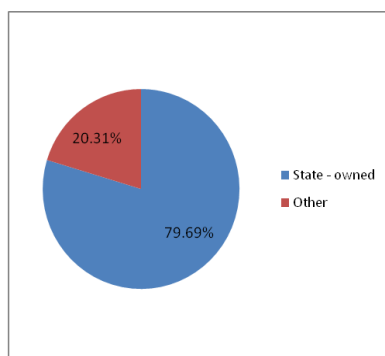
Input costs are forecast to continue to rise in 2014

Accounting for the largest proportion of clinker expenses are: coal, fuel and electricity. In which coal and fuel account for 48%, electricity accounts for 16% production costs. In 2014, electricity price is expected to rise by about 10%, causing cement price to increase by about 1.5 % while coal price will not rise much.

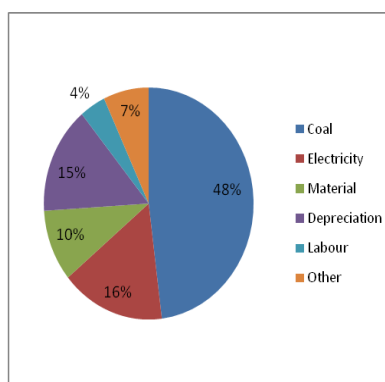
Updating cement sector in the first quarter of 2014. Domestic consumption was estimated at 10.23 million tons, an increase of 0.65 million tons (6.7 %) compared with the same period in 2013. This is a positive sign of cement consumption. Meanwhile, cement price reduced slightly by 30,000 to 40,000 dong per ton.

CORE BUSINESS OPERATION

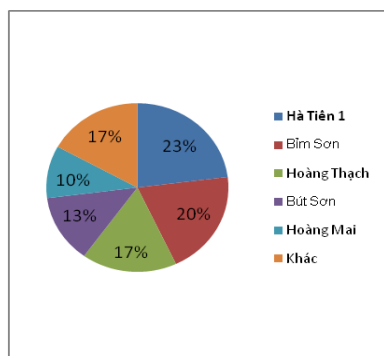
Graph 4: HT1 ownership structure



Graph 5: Cost structure of clinker



Graph 6: Cement market share in VICEM



Position of HT1 in the cement sector

- As the largest cement company in the sector. Currently, the company's market share is 23% in VICEM and approximately 8.05% in cement sector.
- Strong brand in the Southern region.
- Strategic location: Ha Tien 1 is located in Ho Chi Minh City where cement demand is quite large and transportation to other provinces around is convenient. On the other hand, in this region, HT1 does not have many competitors. The key competitor is Holcim, which has a smaller scale than Ha Tien 1. This is a great opportunity for HT1, especially when cement demand has been recovered.

Manufacturing activity

Before merging with Ha Tien 2, Ha Tien 1 had confronted with many difficulties in terms of production materials (clinker was imported from abroad and transported from the north, HT1 incurs high costs and high risks). Particularly, due to consumer markets division between the two companies, HT1's cement is consumed only in some areas in the south, which consequently leads to the inefficiency and low profits for the company.

After the merge, the company took advantage of the abundant raw materials of Ha Tien 2 and also expanded the market to the whole southern region. Hence, the company's performance has achieved good results as revenue growth is high with an average annual rate of 20% over the past 6 years and profit margin from core business activities is rather good (EBIT margin), at nearly 15% in recent years, the highest rate among the cement companies under VICEM.

Designed capacity: In 2012, HT1 had the capacity of 2.8 million tons of clinker and 6 million tons of cement. In 2013, Ha Tien project 2.2 was put into operation, increasing capacity to 4.1 million tons of clinker and 6.8 million tons of cement. Thus, in 2012 the company produced clinker at 110% of capacity and cement production at 70% of capacity. In 2013, it was 93% and 65% respectively. According to the 2014 plan, clinker and cement production will increase and be expected to reach 100% and 73% respectively.

Sản xuất và tiêu thụ	Năm 2012	Năm 2013	Kế hoạch 2014
I. Sản lượng sản xuất (tấn)			
1. Xi măng	4,204,365	4,375,340	4,940,000
2. Clinker	3,095,232	3,818,382	4,200,000
II. Sản lượng tiêu thụ (tấn)			
1. Tiêu thụ xi măng	4,137,274	4,364,679	4,900,000
- Tiêu thụ trong nước	3,963,393	4,166,804	4,600,000
- Xuất khẩu	173,881	197,875	300,000
2. Tiêu thụ Clinker	315,071	836,440	800,000

Growth drivers (Catalysts)

Two main growth drivers of Ha Tien 1 are output and cement prices, in which output is the most important factor. The output depends largely on the construction industry recovery in the southern region. In the long term, demand for cement in southern region is forecasted to be very large when economy recovers, particularly when special economic zone in Phu Quoc comes into operation, the growth of cement selling of HT1 will be very high. The ability to raise prices in 2014 also contributes to revenue growth and profitability of the company.

Investment Risks

- Output Risk

The company's performance depends greatly on cement demand. If cement demand in the Southern region do not increase in the future, the company will continue to face problems of low profitability.

- Input prices Risk

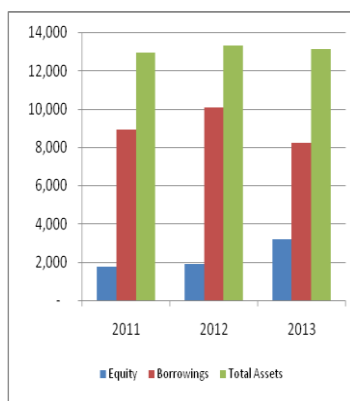
Price of coal and electricity which are the two main ingredients in cement production costs has risen sharply in 2013, and is forecasted to continue in 2014, leading to high production costs and profit margins reduction of the company.

- Exchange rate risk

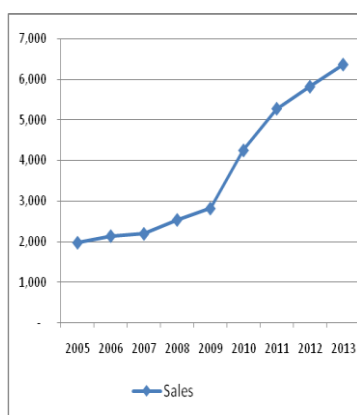
The company has owed long-term loans of foreign banks in the dollar value of 2,500 billion. Therefore, exchange rate fluctuations will affect its profit.

FINANCIAL ANALYSIS

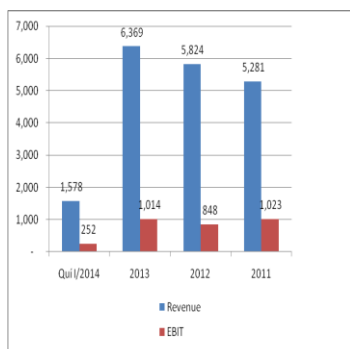
Graph 7: Capital structure (billion dong)



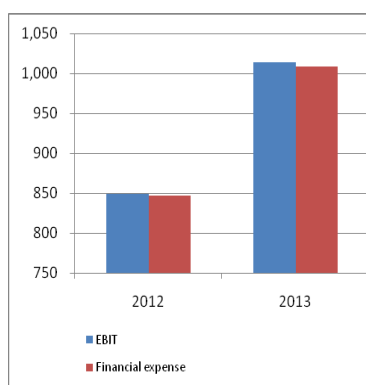
Graph 8: Sales growth 2005-2013 (billion)



Graph 9: Sales and EBIT (bil d)



Graph10: EBIT and financial expense (billion dong)



1. CORE BUSINESS ANALYSIS

1.1. Capital Structure & performance

Capital Structure

Prior to 2014, HT1 has used very high financial leverage, equity accounted for only 14 % of total capital. At the end of 2013, the company issued 120 million shares to the parent company to turn the debt of 1,200 billion dong into equity. As a result, equity ratio rose to 24 % of total capital. But the figure was still low. Total short-term and long-term debts by the end of 2013 were 8,224 billion out of 13.120 billion of total capital, causing high financial burden on the company.

Asset utilization (sales/total assets)

The effectiveness has showed improvements, total assets turnover increased from 44% in 2012 to 49% in 2013 but remained much lower than other companies in industries such as Bim Son (64%) and Hoang Mai (78%). This is mainly because the company still produces at 70 % of the designed capacity

1.2. Revenue & profit analysis

Revenue Growth

Annual revenue grew at an average rate of 20% in the last 5 years. Regarding the difficulties of the cement industry, downturn in the construction industry and real estate market in 2013, sales still increased by 9.4% compared to that of 2012. If the cement market flourishes, revenue will continue to grow strongly in the coming years due to its potential.

Profitability Analysis

Core business activities generated high operating profit margin (EBIT margin). EBIT Margin of the first quarter of 2014 and of 2013 increased slightly to nearly 16% compared with 14.6 % in 2012, which was the highest figure among listed cement companies. This suggests that the core business of HT1 is very effective, creating high and stable operating profit of approximately 15% of annual revenue.

Net income: While the operating profit of the company is quite high, reaching nearly 1,014 billion, net profit was very low in 2013. In 2012 and 2013, the company's ROE were 0.5 % and 0.1 % respectively, equivalent to a net profit of 9 billion and 2.5 billion over equity of 1900 billion and 3200 billion. This is due to the fact that the financial costs are very high. Specifically, in 2013, operating profit was 1,014 but interest expense amounted to 773 billion and foreign exchange losses were 284 billion.

Net profit would be improved if the company solves two problems: one is to increase the consumption of cement; the other is to reduce debt, which reduces interest expense and foreign exchange losses. Meanwhile, the core business activities generate large and stable operating profits. HT1 will achieve higher net income and outperforms the cement companies in the industry.

2. OPERATING & FINANCIAL INVESTMENT ANALYSIS

In 2010 and 2013 the company put Binh Phuoc and Kien Luong projects into operation respectively. These two projects were funded in part by foreign currency loans (EUR and USD) and at the present the company is still allocating the exchange rate difference into business results. As of Jan 2014, the remaining allocation in the previous years of 208 billion will be transferred to the continuing business results in 2-3 years. HT1's current amount of foreign currency debts (in EUR and USD) worth \$2,428 billion. The loan will be paid annually by the company until 2020 - 2021 and it still bears the exchange rate risk.

3. ITEMS THAT SHOULD BE PAID MUCH ATTENTION(Mar 31, 2014)

Inventory of 268 billion dong: Cement is a kind of material that can be easily damaged within 2 or 3 months, so in reality, the finished-goods inventory of cement companies is very low and the production amount is consumed quickly. In case of HT1, these finished-goods inventories are much likely to have low quality and

cannot be sold but company did not recognize provision for impairment.

Long-term financial investments in BRC & TXM shares worth \$ 56 billion in the balance sheet. However, considering market prices, these investments only worth about 30 billion. The recognition of 56 billion is higher than the real value, but the company has not made the provision for these investment and made a loss in the income statement.

Fundamental indicator 2013	HT1	BCC	BTS	CCM	HOM	HVX	SCJ
Capital structure							
Debt/equity	2,5	3,26	3,44	0,5	0,78	2,7	0,5
Total asset/equity	3,96	5,41	5,16	1,98	2,33	3,56	2,07
Total asset structure							
Fixed assets/ Total assets	87,25 %	78,85%	82,54%	39,94%	66,32%	81,03%	74,14
Current assets/Tota asset	12,75 %	21,15%	17,46%	60,06%	33,68%	18,97%	25,86%
Liquidity ratios							
Quick ratio	0,14	0,34	0,22	0,59	0,36	0,54	0,59
Current ratio	0,4	0,64	0,4	1,28	0,74	0,77	1,28
Activities performance							
Days sales outstanding	20	10	7,81	2,96	12,12	10,15	2,96
Days inventory outstanding	5,1	5	5,98	2,73	3,58	16,7	2,73
Days payables	5,26	4,87	5,64	3,81	8,58	9,75	3,81
Profitability ratios (%)							
Gross profit margin	22.4%	22,75%	20,2%	17,49%	14,24%	14,73%	9,94%
Operating profit margin	15,92 %	13,99%	11,61%	9,81%	4,74%	6,88%	4,76%
ROE	0,1%	6,33%	-3,1%	6,76%	0,18%	-7,72%	-4,18%
ROA	0.02%	1,17%	-0,6%	3,41%	0,08%	-2,17%	-2,02%

Nguồn: BSC tổng hợp

INVESTMENT RECOMMENDATION

EQUITY VALUATION

Enterprise value (EV) of HT1 is expected to generate pre-tax profit of 1,050 billion each year (to calculate EV we should remove all the finance income and expense-EV will equal EBIT) . With an average tax rate of about 22 %, the remaining income investors receive each year from the entire enterprise is:

$$1050 * (1 - 22\%) = 819 \text{ billion}$$

Investors gave out the EV to earn 19 billion annually. This investment is considered riskier than investing in government bonds so there will be premium to cover this excess risk. We suppose return from investing in HT1 is 7 % annually.

Thus, the enterprise value is:

$$EV = 819 / 0.07 = 11,700 \text{ billion}$$

$$HT1 \text{ market capitalization} = 11.700 + 56 + 237 - 8223 = 3.740 \text{ billion.}$$

With a total of 317.952 million shares outstanding, the fair value of HT1 is VND 11,763 per share.

Two motivation for revenue & profitability growth of HT1 are output growth and rising cement price. Consumption growth depends largely on the recovery of the Southern construction sector. With only 70 % of current production capacity, as demand increases, it will bring larger sales to the company as well as create higher operating income. The increase in cement price can also help to improve HT1 business. However, in the next years the company will be facing financial problems of high financial costs which will reduce net income.

Demand for cement will be higher when the Southern economy recovers, especially Phu Quoc economic zone. Therefore, HT1 is an attractive stock for long-term investors

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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