



TRADING GRAPH



INVESTMENT RECOMMENDATION

Investment View	Buy
Target Price	18,035
Market price (10/09/2014)	11,400
Prospect 3M	Increase
Prospect 6M	Increase
Prospect 9M	Increase

TRADING INFORMATION

Outstanding (mil shares)	95.66
Market Cap (bil)	1091
BVPS	12,890
Foreign Ownership (%)	1.83%
Current price (đ/share)	11,400
Avg 10 days (shares)	436,146
Lowest Price 52 Wk (VND)	4,800
Highest Price 52 Wk (VND)	11,500
+/- 7 days	30.59%
+/- 1 Month	35.37%

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STRONG BUY IN MEDIUM AND LONG-TERM

We continue to maintain a **STRONG BUY** recommendation in medium and long-term with BCC stock as previous report dated Dec 9th, 2013 ([link](#)), and the target price for 1 year investment term is 18,035 VND / share (an increase of 58.20% compared with the price on Sep 10th, 2014) based on FCFF valuation approach.

As positive investment view with HT1 and cement industry, we evaluate the profit picture as well as the prospect of BCC shares will be vastly improved from the year 2014. In addition, BCC shares will have improving profit results because of foreign exchange factors like HT1 and PPC. With EPS in 2014 is forecast at VND1,614, BCC shares are being traded at PE forward 7.06x, much lower than the PE of HNX 15.18x. In details:

(1) BCC will soon complete the allocation of foreign exchange losses in the construction phase of the new line: these losses of about VND98.29 billion on June 30th 2014, the company said it will allocate VND37 billion per quarter in the year 2014 in order to complete this work in early 2015. Excluding these amounts, the profit of BCC would have an immediate impact in 2014.

(2) BCC will have financial income from exchange rate differences with the remaining long-term debt by EUR discount: according to semi-annual audit report, as of the date June 30th 2014, BCC had long-term debt of EUR64.61 million. At present, many large banks have forecast the EUR continuing to decline; we estimate that BCC will have financial income of about VND73 billion in the year 2014.

(3) Domestic cement consumption of BCC is maintained stable and ranked the fourth (after Holcim, Ha Tien 1 and Nghi Son), according to the Vietnam Cement Association, domestic consumption accrued to 18/08/2014 of BCC reached 1.96 million tons, commissioned about 400 thousand tons of exports (cumulative to August) with USD55-60 USD / ton of cement and 35-37 USD / ton clinker. New market in Quang Ngai is developing fast with consumption of 30,000 tons/month (BCC began developing this market since the beginning of this year).

2014 earnings forecast: We expect net sales in 2014 will reach VND4,838 billion (+29.76% yoy), PAT of parent company will reach VND154.41 billion (the same period in 2013 was VND-21.62 billion), EPS 2014 will be VND1,614/share and surge to VND3,253/share in 2015 when the company fulfills its duty to allocate foreign exchange rate loss (EUR/VND is calculated under EUR/USD and USD/VND forecast by Credit Suisse Group, BNP Paribas and Standard Chartered).

Financial Ratios	2010	2011	2012	2013	6T2014
Net Rev (bil đ)	2,720.75	3,287.08	3,516.34	3,728.69	2,107.77
% y-o-y	12.31%	20.82%	6.97%	6.04%	
Total asset (bil đ)	5,715.15	6,052.78	5,727.62	5,784.88	5,738.10
Equity (bil đ)	1,008.31	1,034.90	1,143.59	1,124.85	1,232.70
Charter Capital (bil đ)	956.61	956.61	956.61	956.61	956.61
Gross profit (bil đ)	486.86	877.83	800.06	708.95	455.01
PAT (bil đ)	54.68	49.57	68.90	(27.81)	33.21
% y-o-y	-72.40%	-9.36%	39.01%	-140.36%	
Gross margin	17.89%	26.71%	22.75%	19.01%	21.59%
ROE	5.42%	4.79%	6.02%	-2.47%	2.69%
ROA	0.96%	0.82%	1.20%	-0.48%	0.58%

(Source: BCC Financial Statement)

UPDATING BUSINESS OPERATIONS

BCC has the 2nd highest capacity in Vicem, just after Ha Tien 1. BCC is using 2 clinker furnaces, 5 cement production lines in Thanh Hoa, 1 cement grinding plant in Quang Tri and 1 cement grinding plant in Quang Ngai. The total maximum capacity is about 5 million tons of cement / year.

The main market of BCC is the North and the Central of Vietnam. In which, the company focuses in Thanh Hoa, Ha Noi and Ha Tinh. BCC has the highest cement consumption in the Central region. This year, BCC started selling in Quang Ngai market with Dai Viet cement grinding plant, capacity of 1200-1500 tons/day, the company said it has the cement consumption of 30 thousand tons per months in this market.

Gross margin of BCC is the highest among the listed cement company. First 6 months of 2014, BCC reported business results with net sales reached VND2,107.77 billion (up 16.25% yoy), gross profit margin reached 21.59%. The financial ratios of BCC are pretty good compared to the cement industry. Based on the 2014 audited semi-annual financial statements, BCC's financial liquidity is quite good with current ratio and quick ratio of 0.5 and 0.29 respectively. About operational capabilities, BCC had inventory turnover at the highest level in the group, reaching 3.35, while the account payable turnover at the lowest level (2.33) show the advantage of the company in using working capital.

Financial ratios comparison table

1H2014	Equity (bil dong)	Total Asset (bil dong)	Current ratio	Quick ratio	Inventory Turnover	AR Turnover	AP Turnover	Gross margin	ROA	ROE
BCC	1,233	5,738	0.50	0.29	3.35	5.40	2.33	21.59%	0.60%	2.78%
HT1	3,319	12,660	0.42	0.16	2.88	8.80	2.33	18.99%	0.10%	0.40%
BTS	927	4,780	0.41	0.23	2.84	4.10	3.15	19.16%	0.18%	0.95%
HOM	872	1,978	0.74	0.37	2.30	4.81	3.76	16.45%	1.25%	2.84%

(Source: Audited semi-annual financial reports 2014)

With the prospect of cement consumption, the allocation of foreign exchange loss in the construction phase will be completed no later than the first quarter 2015 and the possibility of EUR further down against major currencies due to the low interest rates and quantitative easing policies, we evaluate BCC will have strong mutations, starting from the first quarter 2015.

We evaluate the profit of BCC will increase strongly after completing the allocation of foreign exchange loss. Foreign exchange loss in the construction phase of the new line will be fully allocated in early 2015. According to the Official Letter No.3456/BTC-TCDN of the Ministry of Finance dated 26/3/2008, this foreign exchange loss will be accounted under the Equity and amortized within a maximum period of 5 years. As of the date of completion construction phase of the new line, the total loss was VND348.78 billion; the company said the last time to complete the allocation will be May 2015. As of June 30th 2014, foreign exchange loss remaining VND98.29 billion, the company expected to allocate about VND37 billion per quarter in 2014. Therefore, we believe that the Company will complete this loss allocation in Q1-2015. We evaluate the completion will have a positive impact, improving company's profit.

Financial income of BCC is expected to increase significantly as the EUR is on the decline. According to audited semi-annual financial reports, long-term debt of BCC was about EUR64.61 million; we estimate the change in the exchange rate in 2014 will help BCC to gain of about VND73 billion. In addition, during the first week in September, the ECB had decided to cut 10 basis points for the three policy rates, the new rates will come into force on 10/09, therefore, it will reduce Euribor, saving financial cost for BCC.

FINANCIAL STATEMENTS FORECAST

2014 earnings Forecast: We expect net sales in 2014 will reach VND4,838 billion (+29.76% yoy), PAT of parent company will reach VND154.41 billion, EPS 2014 will be VND1,614 and surge to VND3,253 in 2015 when the company fulfills its duty to allocate foreign exchange loss (the rate EUR/VND is calculated under the forecasted rate EUR/USD and USD/VND of Credit Suisse Group, BNP Paribas and Standard Chartered).

In details:

- **Cement production and consumption.** According to the plan on development of Vietnam building materials until 2020 and orientation to 2030, domestic consumption will reach 56 million tons of cement and clinker in 2015 and up to 93 million tons in 2020. We forecast with a domestic market share of over 8% in recent years, domestic consumption of BCC will reach about 4 million tons in 2014 and increase to 4.9 million tons in 2018. Selling prices of cement and clinker are also assumed to increase by 5% each year.
- **Financial income and expense.** We conduct forecasting EUR/VND and Euribor to assess the impact on financial income and expense of BCC. With the currency pair EUR/USD we use forecasts of Credit Suisse Group to forecast for the period 2014 – 2018 and the pair USD/VND we use forecasts of BNP Paribas and Standard Chartered to calculate the impact of the exchange rate to pre-tax profits of the company. With Euribor, we cut down 10 basis points compared with the current rate for the next period.
- **Investment plan from the year 2018.** The company plans to invest grinding plant with capacity of 1.5 million tons, investment amount of VND800 billion to replace cement grinding plant 2,3,4 after completing EUR long-term debt in 2018, we also reflects the impact of investment plan in the forecast of in progress construction costs in 2017 and 2018.

We note that the forecasts are based on conservative EUR trend estimates of Credit Suisse Group, BNP Paribas and Standard Chartered.

BCC VALUATION

Investment recommendation: *We continue to maintain a **STRONG BUY** recommendation in medium and long-term with BCC stock, and the target price for 1 year investment term is 18,035 VND/ share (an increase of 58.20% compared with the price on Sep 10th, 2014) based on FCFF valuation method. With EPS in 2014 is forecast at VND1,614, BCC shares are being traded at PE forward 7,06x, much lower than the PE of HNX is 15,18x. In the medium and long term, we evaluate the completion of allocating foreign exchange loss in the construction phase of new manufacturing line and the declining EUR will have significant effects to the profitability of the enterprise as well as the prospect of BCC shares.*

FCFF Valuation Model:

For valuating BCC stock price, we use the 2 stages FCFF valuation model:

Stage 1 (2014-2018): During this stage, the profitability picture of BCC will be improved when the company completes foreign exchange loss in the construction phase in the year 2015. Also the decline of EUR together with interest rates cut by ECB will have impacts on financial income as well as saving financial expense for the company.



With the weight of 50/50 for each case of USD/VND forecast, a reasonable price for 1 BCC share will be VND18,035, an increase of 58.20% compared to the price on Sep 10th 2014.

WACC	
Rm	11.75%
Rf	6.33%
beta	1.14
ke	12.51%
kd	6.15%
E/A	24.84%
D/A	75.16%
Tax rate	22%
WACC	6.72%
g	2.50%

(Source: BSC)

Forecasting EUR/VND, we calculate on the basis of 2 reference forecast pairs EUR/USD and USD/VND as follows:

Firstly, we use the forecast rate of Credit Suisse Group for the currency pair EUR/USD.

Credit Suisse Group forecast					
USD/EUR	2014	2015	2016	2017	2018
Forecast	1.28	1.22	1.23	1.23	1.23

Secondly, with the pair USD/VND, we use two data sources of BNP Paribas and Standard Chartered for the valuation of BCC:

Case 1: Using the USD/VND forecast by BNP Paribas, the reasonable price for 1 share will be VND17,959.

BNP Paribas					
	2014	2015	2016	2017	2018
Forecast	21,300	21,600	21,600	21,700	21,700

Case 2: Using the USD/VND forecast by Standard Chartered, the reasonable price for 1 share will be VND18,111.

Standard Chartered					
	2014	2015	2016	2017	2018
Forecast	21,350	21,200	21,100	21,000	20,800

Stage 2 (the long-term growth): with conservative view, we believe that in the long term, the company will increase by 2.5%.

APPENDIX 1

BCC Share Valuation with FCFF model

Case 1: USD/VND forecast by BNP Paribas

Sensitivity Analysis	g	WACC						
		5.22%	5.72%	6.22%	6.72%	7.22%	7.72%	8.22%
Price	0.0%	10,393	5,843	2,023	(1,232)	(4,039)	(6,484)	(8,634)
	0.5%	15,024	9,605	5,129	1,371	(1,831)	(4,592)	(6,998)
	1.0%	20,755	14,164	8,832	4,430	732	(2,418)	(5,134)
	1.5%	28,027	19,804	13,320	8,075	3,743	105	(2,994)
	2.0%	37,562	26,963	18,872	12,493	7,332	3,071	(509)
	2.5%	50,607	36,348	25,919	17,959	11,682	6,604	2,411
	3.0%	69,541	49,188	35,158	24,897	17,064	10,887	5,890
	3.5%	99,511	67,825	47,798	33,992	23,894	16,186	10,107
	4.0%	154,138	97,326	66,144	46,436	32,848	22,911	15,325
	4.5%	285,111	151,096	95,184	64,497	45,100	31,727	21,947
	5.0%	1,023,805	280,015	148,115	93,086	62,882	43,791	30,629

Case 2: USD/VND forecast by Standard Chartered

Sensitivity Analysis	g	WACC						
		5.21%	5.71%	6.21%	6.71%	7.21%	7.71%	8.21%
Price	0.0%	10,532	5,975	2,149	(1,111)	(3,921)	(6,370)	(8,523)
	0.5%	15,171	9,742	5,260	1,496	(1,711)	(4,476)	(6,885)
	1.0%	20,912	14,309	8,968	4,559	855	(2,299)	(5,020)
	1.5%	28,199	19,959	13,463	8,209	3,871	227	(2,877)
	2.0%	37,755	27,132	19,026	12,635	7,465	3,196	(389)
	2.5%	50,835	36,539	26,087	18,111	11,822	6,735	2,535
	3.0%	69,829	49,413	35,346	25,062	17,213	11,025	6,020
	3.5%	99,918	68,109	48,020	34,177	24,057	16,333	10,244
	4.0%	154,837	97,727	66,424	46,654	33,032	23,072	15,471
	4.5%	286,913	151,785	95,579	64,773	45,316	31,909	22,106
	5.0%	1,042,573	281,790	148,794	93,475	63,154	44,004	30,807

(Source: BSC)

APPENDIX 2 – Income Statement Forecast

Using forecast by BNP Paribas	2013	2014	2015	2016	2017	2018
1. Total Revenue	3,893.35	5,066.34	5,809.64	6,506.19	6,987.57	7,434.10
2. Deductible Revenue	164.66	(227.99)	(261.43)	(292.78)	(314.44)	(334.53)
3. Net Revenue	3,728.69	4,838.35	5,548.21	6,213.41	6,673.13	7,099.56
4. COGS	3,019.75	3,886.31	4,452.06	4,960.87	5,348.28	5,690.57
5. Gross Profit	708.95	952.04	1,096.14	1,252.53	1,324.85	1,408.99
6. Financial Income	9.13	83.35	42.15	4.72	8.79	8.99
7. Financial Expense	381.45	389.60	234.26	181.54	157.40	89.09
- Interest expense	275.33	239.73	207.88	179.52	155.38	87.07
8. Selling expense	195.84	290.30	332.89	403.87	400.39	461.47
9. Administrative expense	174.20	165.54	189.82	279.60	300.29	319.48
10. Operating Profit	(33.41)	189.96	381.31	392.23	475.56	547.93
11. Other revenues	89.54	62.33	71.47	80.04	85.96	91.46
12. Other expenses	82.48	54.23	62.19	69.65	74.80	79.58
13. Other Profit	7.06	8.10	9.28	10.40	11.17	11.88
14. NI (net loss) from joint ventures/associated companies						
15. PBT	(26.36)	198.05	390.59	402.63	486.73	559.81
16. Current income tax expense	1.45	43.57	85.93	88.58	107.08	123.16
17. Deferred income tax expense						
18. PAT	(27.81)	154.48	304.66	314.05	379.65	436.65
18.1 Minority Interest	(6.19)	(1.21)	1.24	1.57	1.65	2.16
18.2 PAT of parent company	(21.62)	155.69	303.42	312.48	378.00	434.49

Using forecast by Standard Chartered	2013	2014	2015	2016	2017	2018
1. Total Revenue	3,893.35	5,066.34	5,809.64	6,506.19	6,987.57	7,434.10
2. Deductible Revenue	164.66	(227.99)	(261.43)	(292.78)	(314.44)	(334.53)
3. Net Revenue	3,728.69	4,838.35	5,548.21	6,213.41	6,673.13	7,099.56
4. COGS	3,019.75	3,886.31	4,452.06	4,960.87	5,348.28	5,690.57
5. Gross Profit	708.95	952.04	1,096.14	1,252.53	1,324.85	1,408.99
6. Financial Income	9.13	80.13	61.11	7.24	9.19	8.99
7. Financial Expense	381.45	389.67	233.35	180.80	156.92	89.06
- Interest expense	275.33	239.80	206.97	178.78	154.90	87.04
8. Selling expense	195.84	290.30	332.89	403.87	400.39	461.47
9. Administrative expense	174.20	165.54	189.82	279.60	300.29	319.48
10. Operating Profit	(33.41)	186.66	401.18	395.49	476.44	547.97
11. Other revenues	89.54	62.33	71.47	80.04	85.96	91.46
12. Other expenses	82.48	54.23	62.19	69.65	74.80	79.58
13. Other Profit	7.06	8.10	9.28	10.40	11.17	11.88
14. NI (net loss) from joint ventures/associated companies	-	-	-	-	-	-
15. PBT	(26.36)	194.76	410.46	405.89	487.60	559.84
16. Current income tax expense	1.45	42.85	90.30	89.30	107.27	123.17
17. Deferred income tax expense	-	-	-	-	-	-
18. PAT	(27.81)	151.91	320.16	316.59	380.33	436.68
18.1 Minority Interest	(6.19)	(1.21)	1.24	1.57	1.65	2.16
	0.00	-	-	-	-	-
18.2 PAT of parent company	(21.62)	153.12	318.92	315.03	378.68	434.52

(Source: BSC)



APPENDIX 3 – Balance Sheet Forecast

Using forecast by BNP Paribas	2013	2014	2015	2016	2017	2018
I – CURRENT ASSETS	1,156.83	1,542.69	1,755.96	1,913.12	2,050.69	2,110.68
1. Cash and cash equivalents	131.89	151.55	175.73	155.70	170.82	117.22
2. Short term financial investment	88.03	102.34	102.34	102.34	102.34	102.34
3. Account receivable	430.77	642.65	736.93	825.29	886.35	942.99
4. Inventory	475.34	620.83	711.92	797.27	856.26	910.98
5. Other current assets	30.80	25.31	29.03	32.51	34.91	37.15
II – NON – CURRENT ASSETS	4,628.05	4,298.30	4,014.34	3,730.00	3,542.61	3,344.69
1. Long term receivables	-	-	-	-	-	-
2. Fixed Asset	4,510.85	4,232.20	3,948.89	3,665.19	3,478.45	3,281.18
3. Goodwill	15.54	14.06	13.41	12.76	12.11	11.46
4. Real estate investment	-	-	-	-	-	-
5. Long term financial investments	-	-	-	-	-	-
6. Other long term assets	101.66	52.05	52.05	52.05	52.05	52.05
Total Asset	5,784.88	5,840.99	5,770.30	5,643.12	5,593.30	5,455.37
I - LIABILITIES	4,636.15	4,389.93	3,990.22	3,548.98	3,119.52	2,544.93
1. Current liabilities	2,391.65	2,939.03	3,203.51	3,391.71	3,086.99	2,520.57
2. Non-current liabilities	2,244.49	1,450.90	786.70	157.28	32.53	24.36
II - EQUITY	1,124.85	1,428.39	1,756.18	2,068.66	2,446.66	2,881.15
1. Common equity	1,124.85	1,428.39	1,756.18	2,068.66	2,446.66	2,881.15
2. Funding and other funds	-	-	-	-	-	-
III – MINORITY INTEREST	23.88	22.67	23.91	25.48	27.12	29.28
Total equity	5,784.88	5,840.99	5,770.30	5,643.12	5,593.30	5,455.37

Using forecast by Standard Chartered	2013	2014	2015	2016	2017	2018
I – CURRENT ASSETS	1,156.83	1,543.68	1,750.53	1,916.53	2,065.46	2,126.86
1. Cash and cash equivalents	131.89	152.54	170.31	159.12	185.59	133.41
2. Short term financial investment	88.03	102.34	102.34	102.34	102.34	102.34
3. Account receivable	430.77	642.65	736.93	825.29	886.35	942.99
4. Inventory	475.34	620.83	711.92	797.27	856.26	910.98
5. Other current assets	30.80	25.31	29.03	32.51	34.91	37.15
II – NON – CURRENT ASSETS	4,628.05	4,298.30	4,014.34	3,730.00	3,542.61	3,344.69
1. Long term receivables	-	-	-	-	-	-
2. Fixed Asset	4,510.85	4,232.20	3,948.89	3,665.19	3,478.45	3,281.18
3. Goodwill	15.54	14.06	13.41	12.76	12.11	11.46
4. Real estate investment	-	-	-	-	-	-
5. Long term financial investments	-	-	-	-	-	-
6. Other long term assets	101.66	52.05	52.05	52.05	52.05	52.05
Total Asset	5,784.88	5,841.98	5,764.87	5,646.53	5,608.07	5,471.55
I - LIABILITIES	4,636.15	4,393.49	3,971.86	3,536.92	3,118.13	2,544.93
1. Current liabilities	2,391.65	2,940.18	3,194.73	3,380.64	3,085.60	2,520.57
2. Non-current liabilities	2,244.49	1,453.31	777.13	156.28	32.53	24.36
II - EQUITY	1,124.85	1,425.82	1,769.11	2,084.13	2,462.82	2,897.33
1. Common equity	1,124.85	1,425.82	1,769.11	2,084.13	2,462.82	2,897.33
2. Funding and other funds	-	-	-	-	-	-
III – MINORITY INTEREST	23.88	22.67	23.91	25.48	27.12	29.28
Total equity	5,784.88	5,841.98	5,764.87	5,646.53	5,608.07	5,471.55

(Source: BSC)



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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