

TICKER: VCF (HSX)

VIANCAFÉ BIEN HOA JOINT - STOCK COMPANY

FIRST UPDATED

RECOMMENDATION **SELL**

CONSUMER GOODS – CONFECTIONERY

VALUATION VND73,000

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Price (03/10/11)	VND95,000
High price (52 weeks)	VND100,000
Low price (52 weeks)	VND42,800
Outstanding shares	26,579,135
Ave trading volume/trading day (10 last trading days)	11,466
Mkt cap (bln VND)	2,525
Trailing P/E(x)	11.5
P/BV (30/06/11) (x)	3.6

Price chart (52 weeks)



Source: HSX

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This report is updated from the VCF analysis report released by Rong Viet Securities on March 8<sup>th</sup>, 2011.

Based on conservative forecast of revenues, VCF is evaluated at price of about VND73,600 per share, equivalent to market capitalization of VND1,956.2 billion. This price is higher around 50% than the price estimated in the first report, but lower 29% than the reference price on October 5<sup>th</sup>, 2011.

According to analyst's opinions, although it is forecasted that cafe processing sector is very potential, that VCF's business results grow stable, and that its financial ratios are better and better, its current price is overvalued. The analyst recommends that investors should sell VCF at market price and buy it back when its price decreases by 25% - 30% for long term investment.

Fundamental financial ratios

Unit: bln VND

Items	2010	6T2011	KH2011	2011F
Revenues	1,301.7	721.8	1,927	1,589.2
Profit before tax	178.3	135.6	154	244.5
Profit after tax	161.3	122.5	139	220.9
Chartered capital	265.8	265.8	-	265.8
Equity	578.9	657.9	-	752.6
Total assets	728.8	753.7	-	921.4
ROE (%)	27.4%	-	-	29.2%
ROA (%)	22.1%	-	-	24.0%
EPS (VND)	9,257	4,610	-	8,312
Book value (MND)	21,780	24,753	-	28,316
Dividend (%)	15%	8%	15%	15%

Source: VCF, Rongviet Securities

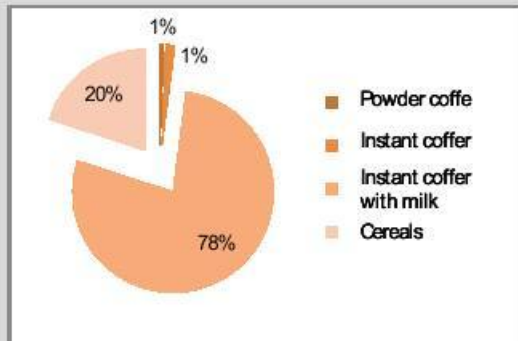
### UPDATES AND FORECASTS

There is a big change in VCF's shareholder structure. This can have impacts on its business results. In May 2011, VinaCafe reduced ownership percentage of VCF from 50.26% to 37.3% aimed at restructuring its portfolio.

In September 2011, MASAN Consumer Corporation (MSC) offered officially to buy 13,320,000 shares of VCF, equivalent to 50.11% of VCF's chartered capital at price of VND80,000 per share from September 12<sup>th</sup>, 2011 to October 11<sup>th</sup>, 2011. It is believed that there is much probability that this deal will succeed. MSC is able to become a controlling shareholder of VCF in the near future.

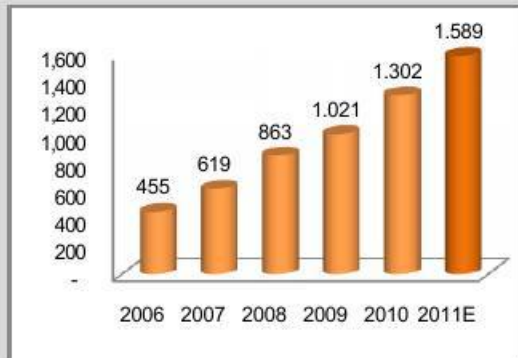
It is expected that after M&A, MSC will give VCF support of brand name popularization and marketing policies. In addition, MSC will advise VCF using idle cash effectively, instead of depositing in banks. With MSC's nationwide distribution system, strong financial resources, and experience in consumer market, it is expected that VCF will grow stronger and stronger.

**Revenue structure in products in first 6 months of 2011**



Source: VCF, RongViet Securities

**Revenue in 2006 - 2011 (VND bln)**



Source: VCF, RongViet Securities

There is an increase in exports in the first half of 2011. VCF's revenues mainly come from 2 key products such as instant coffee and nutritious cereal in the first 6 months of the year. Generally, there is not much change in revenue structure. Revenues from Instant coffee with milk and nutritious cereal contribute about 78% and 20% of total revenues, respectively. Instant coffee and powder coffee account for only 2% of total revenues.

However, exports are on an uptrend. Export outputs achieve 1,500 tons in the first 2 quarters of 2011, increase of over 200% compared to the same period of last year. It is obvious that exports are VCF's right strategy when a new factory will run in second quarter of 2012 with capacity more 3 times than existing one.

Consumption output	2009	2010	2011KH	6T2011
Coffee products	13,741	16,310	19,475	7,272
Domestic consumption	12,464	15,009	17,975	5,772
Exports	1,277	1,301	1,500	1,500
Nutritious cereal	3,546	4,509	5,350	1,939
Total	17,287	20,819	24,825	9,211

Source: VCF, RongViet Securities

Revenues still keep growing but are not able to achieve sales target. VCF sets a target that 2011 revenues increase by 48%, compared to 2010. This is quite high growth while growth of CAGR was about 23.4% in period of 2006 – 2010.

VCF's revenues achieve VND721.8 billion in the end of second quarter, increase of 27% compared to the same period of 2010. Increase in revenues is made by both output and price which grow by 10% and 16%, respectively, compared to the same period of last year.

Consumption output is about 9,211 tons in the first 6 months of 2011, completing 37% of output target. Regularly, consumption output will rocket up in the 2 last quarters of the year, achieving about 12,000 tons.

VCF put sell price up in April with 8% for coffee products and 6% for nutritious cereal products this year. From now to the end of the year, VCF will not increase sell price if there is no change in the market.

It is forecasted that VCF's estimated revenues are about VND1,589 billion in 2011, completing about 80.5% of sales target.

Profitability is improved significantly in the first 6 months of the year. It is forecasted that the profitability is still high in the end of the year. Almost of input costs go up, compared to the beginning of the year. Because of good forecast, however, VCF reserved materials and signed future contracts at good prices for producing products from now to October 2011. In addition, increase in sell price still accepted by consumers lifts profit margin from 5.3% to 26.1%, compared to the same period of last year.

Currently, global and domestic price of coffee bean is on a downtrend. Coffee price is now about VND44.3 million a ton. It is expected that the price will increase to VND45 - VND47 million a tons before November 2011 harvest.

It is forecasted that prices of input materials such as coffee, milk powder, and RE sugar are not much change from now to the end of the year. It is expected that VCF will maintain gross profit margin of 25.6%. Estimated gross profit will be about VND406.4 billion in 2011.

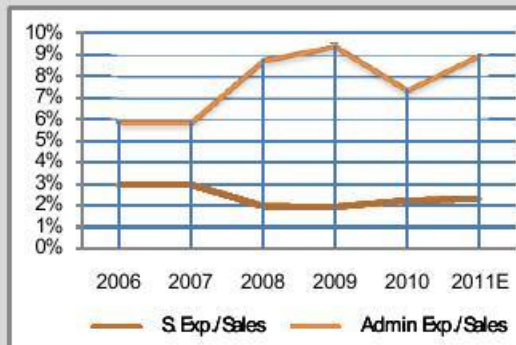


**Profitability**

	2009	2010	6T11	2011E
GP. margin	24.6%	21.0%	26.1%	25.6%
O.P. margin	13.4%	12.6%	17.8%	14.3%
N.P. margin	13.3%	12.4%	17.0%	14.0%
ROE	30.4%	27.4%	-	29.3%
ROA	27.6%	22.1%	-	24.1%

Source: VCF's financial statements, RongViet Securities

**Selling and admin expenses to revenues in 2006-2011**



Source: VCF's financial statements, RongViet Securities

Selling expense rockets up because VCF is expanding its market share. Selling expense increases by around 45.8% while revenue grows by over 27%. Proportion of selling expense to revenue is 7.8%, increase of 1% compared to the same period of 2010. This is because there is a change in VCF's selling policy such as increase in discount and promotion programs. VCF will keep launching promotion programs on vacations and executing campaigns of brand name popularization. It is forecasted that selling expense will increase by 8% - 10% compared to the beginning of the year.

VCF has many opportunities to do this strategy because (1) profit can be in excess of 40% - 60% of the target; (2) MSC, who is able to become VCF's controlling shareholder, is considered as an enterprise that has much experience in taking up market share of competitors. It is expected that market share of instant coffee will accelerate significantly in the future.

VCF has much probability of exceeding 40-60% of the target. It achieved net profit of VND122.5 billion, increase of 60% compared to the same period of last year, completing 88% of the target in the first half of the year. Business activities are expected to be good in the second half of 2011. It is forecasted that net profit will be about VND220.9 billion in 2011, increase of 37% compared to 2010. It is equivalent to EPS of VND8,312 per share with outstanding shares of 26,579,100.

Forecast of Sales and profit (VND bln)					
Items	2011	2012	2013	2014	2015
Net sales	1,589	1,945	2,366	2,851	3,426
Profit before tax	244,5	245,5	326,5	420,3	523,7
Net profit	220,9	221,9	293,9	378,3	471,3
EPS (VND/share)	8,312	8,349	11,057	14,231	17,732

**Balance sheet**

In the end of second quarter of the year, VCF's cash and cash equivalent decrease by over 50% compared to the beginning of the year because of constructing a new factory and investing in equipment and materials.

Inventories increase strongly due to forecast of high increase in input price

There is not much change in fixed assets. It is expected that the third instant coffee processing factory will run as of the second quarter of 2012. VCF paid VND63 billion for this project.

Because VCF has large amount of idle cash, it does not use borrowings. Therefore, debt ratios have a little change. However, they will go up as of 2012 because VCF can borrow VND280 billion to finance new projects.

**VALUATION**

WACC will be 21% for period of 2011 – 2015 and 19% for 2015 afterwards. Indefinite growth rate of FCFF is 7.5%.

Forecast of cash flows (VND bln)	2011	2012	2013	2014	2015
Net profit	220.9	221.9	293.9	378.3	471.3
+ Depreciation	19.4	46.1	46.7	47.3	47.9
+ interest cost	-11.7	23.3	7.5	-3.9	-21.8
CF before change in working capital	228.6	291.4	348.1	421.6	497.4
Change in working capital	-50.2	-60.2	-33.1	-79.2	-113.3
Investments	-157.5	-448.8	-6.9	-7.4	-6.5
FCFF	21.0	-217.6	308.1	335.1	377.5

Financial structure

Items	'09	'10	6M11	2011E
<b>Asset structure (%)</b>				
Cash/Total assets	3.4	3.8	24.7	18.8
Receivable/TA	19.1	15.6	23.2	15.5
Inventories/TA	21.5	27.0	41.0	25.6
F. assets/TA	9.8	6.9	7.0	20.8
<b>Capital structure (%)</b>				
C. liabilities/TA	5.9	16.0	9.9	14.9
T. debt/TA	9.1	19.3	12.7	17.8
ST borrowings/TA	0.0	2.2	0.0	1.9
LT borrowings/TA	0.0	0.0	0.0	0.0

Source: VCF's financial statement, RongViet Securities

P/E and P/B of some firms in the sector

Ticker	Mkt cap (VND bln)	Trailing P/E	P/B 31/12/10
VNM	46,711	11.5	4.2
KDC	4,194	14.5	1.1
SBT	1,070	3.5	1.0
LSS	1,729	3.0	1.2
BHS	547	4.2	1.2
BBC	185	3.8	0.3
SCD	113	5.9	0.8

Source: RongViet Securities

Generally, VCF is equivalent to VNM and KDC in terms of market share, brand name, and stable business. However, VCF's scale is smaller than they are. In addition, profitability of coffee processing sector is not higher than that of beverage and confectionery. Therefore, VCF's P/E and P/B is about 8.5x and 2.5x.

Unit: VND

Model	Price	Weight	Average
FCF	74,499	50%	37,250
P/E	74,812	25%	18,703
P/B	70,790	25%	17,698
Average price		100%	73,650

Some financial ratios of outstanding companies

Ticker	Market Cap (VND bln)	Revenues 2010 (VND bln)	Net profit 2010 (VND bln)	EPS (VND) 4Q	BV 30/06/2011	Trailing P/E	P/BV 26/09/11	1 <sup>st</sup> half 2011			
								Revenues (VND bln)	%plan	Net profit (VND bln)	%plan
VNM	46,710.9	15,752.9	3,615.5	11,175.1	30,544	11.5	4.2	9,956	48%	2,291	64%
KDC	4,194.3	1,933.6	578.6	2,446.0	31,776	14.5	1.1	1,513	36%	42	10%
LSS	1,070.0	1,338.2	301.5	7,232.5	23,182	3.0	0.9	994	60%	214	63%
SBT	1,729.1	1,104.3	345.2	3,930.3	13,225	3.5	1.0	1,014	63%	307	83%
BHS	546.7	2,004.5	145.9	7,432.4	26,682	4.2	1.2	1,108	51%	43	39%
SCD	184.5	365.8	26.1	2,510.4	18,402	5.9	0.8	201	48%	9	43%
BBC	112.8	787.8	41.8	3,170.5	35,146	3.8	0.3	386	39%	13	28%

Source: Stoxx, Rong Viet Securities



APPENDIX

	Unit: VND bln			
INCOME STATEMENT	2008A	2009A	2010A	2011E
Net sales	863.0	1,020.7	1,301.7	1,589.2
COGS	690.8	769.3	1,028.8	1,182.9
Gross profit	172.2	251.4	272.8	406.4
Selling expenses	75.7	96.1	95.9	143.0
Admin. expenses	16.9	19.6	29.0	36.6
Operating profit	79.6	135.7	147.9	226.8
Profit from Finance	19.9	0.9	16.2	2.2
Other income	14.2	10.4	14.1	15.5
EBIT	114.1	148.7	180.3	247.3
Profit before tax	113.7	147.0	178.3	244.5
Corporate income tax	8.5	11.0	17.0	23.6
Minority interest	-	-	-	-
Profit after tax	105.2	136.0	161.3	220.9

	Unit: %			
FINANCIAL RATIOS	2008A	2009A	2010A	2011E
Revenues	39.3%	18.3%	27.5%	22.1%
Operating profit	-5.4%	70.4%	9.0%	53.3%
EBIT	4.1%	30.4%	21.2%	37.2%
Profit before tax	5.0%	29.3%	21.2%	37.2%
Profit after tax	-2.9%	29.3%	18.6%	37.0%
Total assets	-48.8%	25.9%	48.2%	26.4%
Owner's equity	-46.6%	30.8%	31.4%	28.8%
Growth rate of firm	30.8%	30.4%	27.4%	23.9%
Profitability				
GP margin	20.0%	24.6%	21.0%	25.6%
O.P margin	9.2%	13.3%	11.4%	14.3%
EBIT profit margin	13.2%	14.6%	13.9%	15.6%
PBT margin	13.2%	14.4%	13.7%	15.4%
PAT margin	12.2%	13.3%	12.4%	13.9%
ROA	26.9%	27.6%	22.1%	24.0%
ROIC or RONA	29.8%	29.4%	26.4%	28.2%
ROE	30.8%	30.4%	27.4%	29.2%
Activity ratios				
Receivable turnover	9.7	10.8	11.4	11.1
Inventory turnover	4.9	7.3	5.2	5.0
Payable turnover	20.2	26.7	10.2	9.9
Fix asset turnover	16.3	21.2	25.9	8.3
Total asset turnover	2.2	2.1	1.8	1.7
Liquidity ratios				
Current ratios	8.9	15.3	5.8	5.2
Quick ratio	5.1	5.4	4.5	3.8
Cash ratio	2.5	8.2	3.1	1.2
Solvency ratios				
T. debt/Equity	14.2%	10.0%	24.0%	21.7%
T. debt/T. asset	12.5%	9.1%	19.3%	17.8%
ST debt/Equity	1.0%	0.0%	2.8%	2.4%
LT debt/Equity	0.5%	0.0%	0.0%	0.0%

	Unit: VND bln			
BALANCE SHEET	2008A	2009A	2010A	2011E
Cash	24.1	16.9	27.8	168.9
ST financial investment	72.2	218.2	331.9	166.0
Accounts receivable	89.3	94.1	113.8	143.0
Inventories	142.4	105.6	196.7	236.6
Other current asset	8.7	7.0	6.1	6.7
<b>C. Assets &amp; ST investments</b>	<b>336.7</b>	<b>441.9</b>	<b>676.4</b>	<b>721.2</b>
Fixed assets	35.5	30.9	32.9	174.2
Cost	151.0	154.4	164.5	317.8
Depreciation	(115.5)	(123.6)	(131.6)	(143.6)
Intangible asset	17.3	17.3	17.3	17.3
Cost	17.3	17.3	17.3	17.3
Depreciation	-	-	-	-
Construction in progress	1.1	1.9	2.2	8.7
Real estate investments	-	-	-	-
LT financial assets	-	-	-	-
Others LT assets	-	-	-	-
F. assets & LT financial assets	54.0	50.1	52.4	200.3
<b>TOTAL ASSET</b>	<b>390.7</b>	<b>492.0</b>	<b>728.8</b>	<b>921.4</b>
Accounts payable	37.8	28.8	116.8	137.9
Cash paid in advance	9.9	8.5	80.4	94.6
Other accounts payable	24.3	20.3	20.2	25.4
ST borrowings	3.6	-	16.2	17.9
LT accounts payable	10.9	15.8	24.1	26.5
LT borrowings	1.8	-	-	-
Other LT borrowings	9.1	15.8	24.1	26.5
<b>TOTAL LIABILITIES</b>	<b>48.7</b>	<b>44.6</b>	<b>140.9</b>	<b>164.4</b>
Equity	326.9	441.9	578.9	752.6
Contributed capital	141.8	141.8	265.8	265.8
Capital surplus	68.1	68.1	30.0	33.0
Treasury stocks	-	-	-	-
Retain earnings	17.6	116.8	150.8	305.4
Development fund	83.5	99.3	109.6	119.3
Financial reserve fund	15.9	15.9	22.7	29.2
Others	-	-	-	-
Other funds	15.2	5.5	9.0	4.4
Total equity	342.0	447.4	587.9	757.0
Minority interest	-	-	-	-
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>390.7</b>	<b>492.0</b>	<b>728.8</b>	<b>921.4</b>

Fundamental ratios	2008A	2009A	2010A	2011E
Outstanding shares (million)	14.2	14.2	26.6	26.6
Market price (VND)	N/A	N/A	N/A	72,000
EPS (VND)	8,238	9,594	9,257	8,312
BV (VND)	23,060	31,170	21,780	28,316
Dividend (VND)	N/A	N/A	N/A	1,500
P/E(x)	N/A	N/A	N/A	8.7
P/B(x)	N/A	N/A	N/A	2.5
Dividend Yield (%)	N/A	N/A	N/A	2.1

### Recommendation

- Recommend 'BUY': when reasonable price is 25% - 30% higher than market price.
- Recommend 'SELL': when reasonable price is lower than market price.
- Recommend 'HOLD': investor can either keep or sell PET when profits reach an expected level.

### Introduction

Viet Dragon Securities Corporation (Viet Dragon) is one of the leading securities companies in Vietnam's stock market that provide a wide range of services including Brokerage, Financial and Investment Advisory, Underwriting, Depository.

Viet Dragon was founded in December 2006 by the leading financial and commercial institutions such as Vietnam Export and Import Commercial Joint Stock Bank (Eximbank), Saigon Trading Group (Satra), and Vietnam's famous financiers. In August 2010, It raised chartered capital to VND349.8 billion from initial capital of VND100 billion and become the company that has strong financial capacity in Vietnam's securities market.

Currently, Viet Dragon provides a lot of services and products to all investors such as individuals, institutions, funds domestically and overseas.

After three years of operation, Viet Dragon has built a prestige brand name in the Vietnam's securities market. It was awarded "Vietnam Leading Stock Brand" for 3 consecutive years (2008, 2009, and 2010). Its stock is officially listed on HNX under VDS ticker on May 25<sup>th</sup>, 2010.

Research and Investment Advisory Department: Provide clients with macro and securities market researches, Investment strategic reports, industrial and company reports, and monthly, weekly, daily reports.

### RongViet Securities's network

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