

# 3V Capital Limited

## Flash Note

7 May 2007

### Luks Industrial (0366.HK, HK\$ 9.18, BUY) - More property projects to come in 2007

Luks' share price surged 63% after announcing its solid results for FY06. We are delighted to see Luks delivering continuous growth in cement business and better rental received from its Saigon Trade Centre in Vietnam. With a clear roadmap for property development, we believe Luks' new investment in residential projects in Vietnam to add more value to the company. We apply 30x 08 PER to value Luks' cement business and a 6% cap rate for its rental properties in Vietnam. Trading at 21% discount to NAV of HK\$11.68, Luks is still a bargain. Maintain BUY with target price raised to HK\$10.75, 8% discount to NAV.

**Solid results in FY06.** Luks' FY06 results should have caught investors' attention. Cement business delivered continues growth with EBIT rose 27% to HK\$78m, thanks to the partial higher efficiency of the existing line and higher ASP. Rental received also increased by 22%, benefiting from the higher occupancy rate and rental from the Saigon Trade Centre in Vietnam.

**New focus on residential projects in Vietnam.** With the existing 180k sqm GFA of residential projects on hand, Luks had made its important step into property development in Vietnam. The management has set a clear roadmap to develop 100k to 150k sqm residential GFA in Ho Chi Minh City per year. Therefore, Luks expects to acquire 400k sqm residential GFA of land reserve in this year. Assuming average margin of the previous projects, those 400k sqm GFA would bring about HK\$1.1b net profit to Luks.

**Target price upgraded to HK\$10.75.** We adjusted up Luks' 07 and 08 earnings by 18% and 12% based on higher efficiency of cement business and higher rental income. We apply 30x 08 PER to value Luks' cement business due to its robust growth ahead, together with a 6% cap rate for its rental properties in Vietnam, to come up a new NAV of HK\$11.68 per share. Trading at 21% discount to NAV, Luks is still a bargain. Maintain BUY with target price raised to HK\$10.75, 8% discount to NAV. We believe this thin discount is justified under the recent Vietnam mania as Luks' prime investments in Vietnam and strong profit growth ahead.

#### Earnings Summary

Y/E: Dec 31	2006	2007F	2008F	2009F
Net profit (HK\$)	200(*)	152	355	481
Core EPS (HK\$)	0.39	0.29	0.69	0.93
EPS growth (%)	296.4	n.a.	134.0	35.5
P/E (x)	23.6	31.2	13.3	9.8
DPS (HK\$)	0.08	0.1	0.11	0.12
Dividend yield (%)	0.9	1.1	1.2	1.3

(\*) Revaluation gain and impairment of goodwill included

Source: 3V Capital

#### Company Background

Founded in 1975, Luks started its investment in Vietnam early in 1991 by forming a JV with a local SOE for plywood processing in Hi Chi Minh City. It diversified into cement production in 1992 and later completed Saigon Trade Centre, an investment property in Ho Chi Minh City, in 1997. Cemtn is still the largest earning contributor of Luks, With production capacity currently at 780kt. A new production line, which started operation in Dec 06, sees capacity jump to 1.5mt. Saigon trade Centre has been providing stable rental income and its occupancy rate improved from 54% to 86% in 2005. In 2002, Luks started its Chinese medicine business by acquiring 10% stake in Vigconic Ltd, which develops and manufactures traditional Chinese medicine products. Luks later increased its stake in Vigconic to 75% in 2003. Major products include VI-28, for anti-aging purpose, and Vigchemo, which deals with chemotherapy-ld side effects.

#### Company Data

Share price	HK\$9.18 (US\$1.78)
Hang Seng Index	20,841
Shares issued (options adj.)	515.7m
Market cap	HK\$4,734(US\$607)
Avg daily vol (shrs)	3.0m
52-week Hi	HK\$10.58 (US\$1.36)
52-week Lo	HK\$ 1.12 (US\$0.14)
Price/book	3.89x
Net debt/equity	2.1%
Major shareholder	
- K.T. Luk	61.9%

#### Stock Performance



Source: Bloomberg

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## Earnings Projection

Y/E: Dec (HK\$m)	2006	2007F	2008F	2009F
<b>Turnover</b>				
Cement	275	459	754	1,003
Property investment	91	109	126	226
Property Sales	0	0	361	361
Chinese Medicine	4	5	5	5
Others	4	2	2	2
<b>Total</b>	<b>374</b>	<b>575</b>	<b>1,249</b>	<b>1,598</b>
<b>EBIT</b>				
Cement	78	135	222	295
Property investment	302	109	126	226
Property Sales	0	0	163	163
Chinese Medicine	(8)	(6)	(4)	(3)
Others	(25)	(25)	(25)	(25)
<b>Total</b>	<b>347</b>	<b>213</b>	<b>481</b>	<b>656</b>
Impairment of goodwill	(78)	0	0	0
Share results from j.c.e.	(3)	0	0	0
Net finance cost	(6)	(7)	(8)	(8)
<b>PBT</b>	<b>261</b>	<b>206</b>	<b>474</b>	<b>648</b>
Tax	(63)	(49)	(114)	(162)
MI	2.1	(5)	(5)	(5)
<b>Net profit</b>	<b>200</b>	<b>152</b>	<b>355</b>	<b>481</b>

Source: The Company, 3V Capital

## Fair Value Estimates

Asset	Valuation benchmark	Value HK\$m
Cement	30x 08 PER	4,526
Properties investment	6% cap rate on 08's rental	1,163
Properties Development	DCF	358
Net debt		(26)
<b>Total</b>		<b>6,021</b>
No. of shares (m)		491
Shares Options to Employees (m)		25
<b>Diluted no. of shares (m)</b>		<b>516</b>
<b>Estimated fair value share (HK\$)</b>		<b>11.68</b>

Source: 3V Capital

## Risk factors

Cement market is still under protection of the Vietnamese government. Luk's earnings of cement segment will be adversely affected if Vietnamese government lessens the control of the cement industry. Meanwhile, the fluctuation of Vietnam Dong may also affect Luks' earnings.

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