



Value	Growth
Event	Momentum

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## Hong Kong Property/Cement

Reuters 0366.HK  
Bloomberg 366 HK

**Priced on 23 January 2008**  
HK HSI @ 24,090.2

**12M hi/lo** HK\$16.50/4.02

**12M price target** HK\$13.45  
**±% potential** +94%  
**Target set on** 23 Jan 08

**Shares in issue** 573.2m  
**Free float (est.)** 45.0%

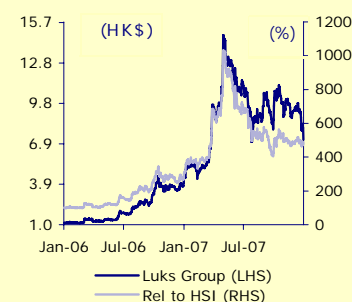
**Market cap** US\$510m

**3M average daily volume**  
HK\$20.7m (US\$2.7m)

**Major shareholders**  
Management 55.0%

### Stock performance (%)

	1M	3M	12M
Absolute	(24.9)	(19.3)	73.8
Relative	(13.8)	(1.6)	49.8
Abs (US\$)	(24.9)	(19.9)	73.6



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## Cementing growth

Luks remains one of our most convincing BUY ideas in small caps post a bullish presentation at CLSA's recent Investor Forum in Las Vegas, earnings insulation from macro conditions and recent market related price weakness. Luks is expecting another round of price increases in cement which should more than offset higher input costs and expects commercial rents to continue to soar. We also note recent insider buying activity (0.57% at HK\$7.48). We have upgraded our earnings forecast and valuation and reiterate BUY rating and new TP of \$13.45.

### Cement seeing price increases, production targets met

Luks expects margins to be firmer in 2008 in expectation of a US\$1.50/tn price increase to come through by 1Q08. This follows a US\$1.90 price increase in Dec 07, the second time in the year (confirmed by our sources). Combined, this more than offsets an estimated US\$3/tn increase in the cost of cement, largely due to higher coal and electricity charges. Management also confirm that they have met their production targets of 1.2m tns in 2007, a c40% increase over 2006 (when capacity was only 0.8m tns).

### Power in the tower

Luks' Saigon Trade Centre office tower should see strong rental reversions in 08, as spot rents have now soared to more than US\$45/sqm against an estimated average rent of only US\$28/sqm in 2007. We have assumed 50% of contracts will be renewed at US\$42/sqm in 2008, versus our earlier assumption of US\$37/sqm.

### Upside in residential property, but we are cautious on execution

Luks is now expecting significantly stronger sale prices for its projects. Management's guidance on pricing ranges from 25%-67% higher than our forecast for mid-premium end projects. Whilst we are generally positive on the property market in HCMC, we have left our pricing assumptions on these projects unchanged (20% discount to guidance), given the long dated nature of the developments and opaque process particularly in obtaining clear title.

### Valuation and earnings upgrade

Our sum of the parts valuation has increased to HK\$13.45 on the back of earnings upgrades to cement and office, offset marginally by a more conservative stance on residential property execution. Those more cautious on the value of undeveloped projects should note that recent price correction now means Luks is trading at a 53% discount to the value of its established businesses (cement + office + cash).

### Financials

Year to 31 Dec	05A	06A	07CL	08CL	09CL
Revenue (HK\$m)	313	374	537	751	922
Net profit (HK\$m)	60	59	153	274	614
EPS (HK¢)	12.3	12.0	28.5	47.9	107.1
EPS (% YoY)	62.5	(2.6)	138.0	68.0	123.7
CL/consensus(1)(EPS%)	-	-	100	106	110
PEX (@HK\$6.95)	56.6	58.1	24.4	14.5	6.5
Dividend yield (%)	0.4	1.6	1.5	1.8	2.0
FCF yield (%)	3.9	0.8	4.2	(6.4)	14.7
ROAE (%)	5.70	5.20	9.20	12.50	23.80

Source: CLSA Asia-Pacific Markets

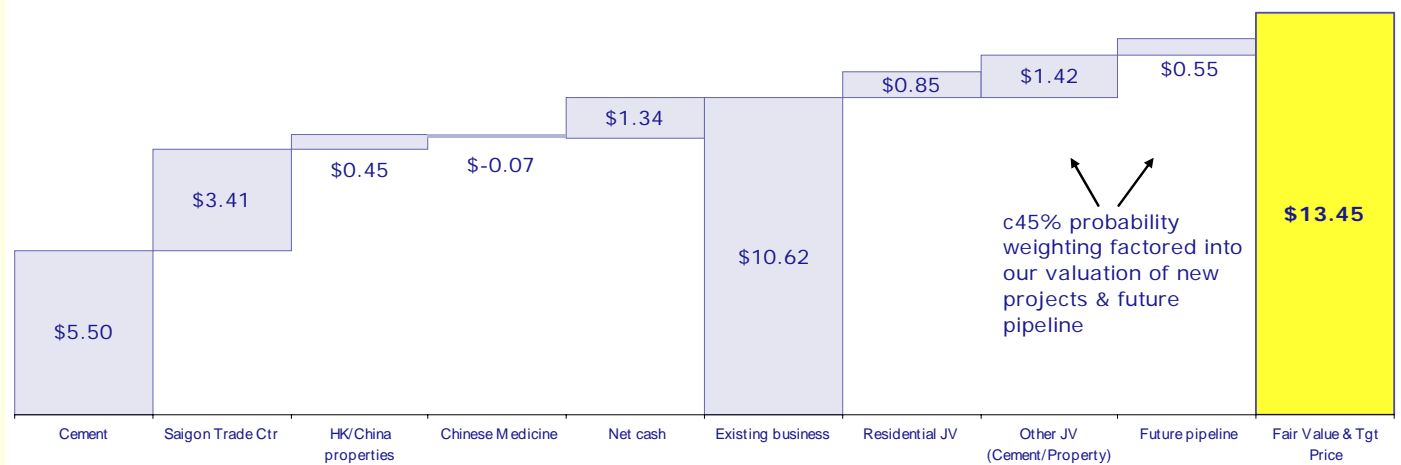
**Valuation summary**

Given the recent weakness in Luks share price (falling 16% since 1 Jan on an absolute basis), we think it's worth the key valuation drivers for the company.

At the current price, Luks is trading at a 53% discount to the value of its existing and established businesses of cement and office property, which we value at HK\$10.62 combined with the current cash position. In our view, further upside exist in the execution of future projects particularly in residential land bank development and further cement expansion. We currently ascribe only a 45% probability weighting to these projects given the long dated nature of the pipeline.

Figure 1

**Luks Group – sum-of-parts valuation**



Source: CLSA Asia-Pacific Markets

Figure 2

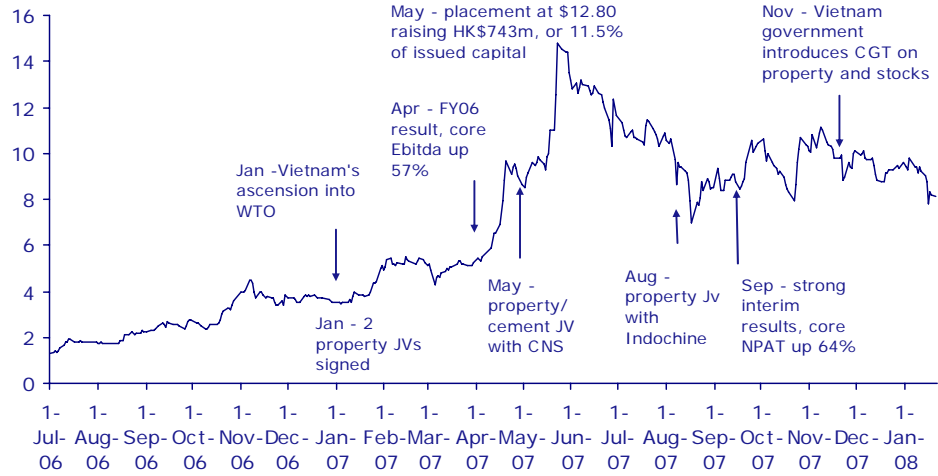
**Sum-of-parts key assumptions**

	Valuation approach	HK\$m	HK\$/shr
<b>Existing business:</b>			
Cement	DCF, implied EV/T: US\$146, based on 2.8MT capacity (1.5MT currently)	3,184	5.50
Saigon Trade Centre	NAV at US\$6,000/sqm, a premium to one-recent transaction for vacant land in CBD area for US\$4,000/sqm	1,972	3.41
Other properties	Reported book value	260	0.45
Chinese Medicine	DCF	-43	-0.07
Add: Net cash	FY07E	773	1.34
<b>Sub-total (existing business)</b>		<b>6,147</b>	<b>10.62</b>
<b>New projects:</b>			
Residential prop JV (Binh Chanh and Dist 2)	20% disc to DCF	493	0.85
CNS JV Cement, 45% interest	DCF, EV/T: US\$112, 50% probability	570	0.99
CNS JV Property, 30% interest	20% disc to DCF, 50% probability	41	0.07
Indochine JV Property, 95% interest	20% disc to DCF, 70% probability	213	0.37
Longer term projects	20% disc to DCF, 30% probability	318	0.55
<b>Total equity value</b>		<b>7,781</b>	
No of shares & options (m)			579
<b>Valuation per share</b>			<b>13.45</b>

Source: CLSA Asia-Pacific Markets

Figure 3

**Key events and share price performance**



Source: CLSA Asia-Pacific Markets

**Investment risks**

- Luks has entered into five JVs with local parties this year to develop property and build another cement production line. We acknowledge there is some uncertainty as to when the projects will be completed (all expected by 2010), which is why we have incorporated a probability weighted discount in our valuation for each of the projects (see valuation summary in body of this research report).
- Most of Luks' competitors in cement are indirectly state-owned. However we do not see this as a risk to Luks for two reasons. Firstly, Luks has been established in Vietnam for a long time (since mid-90s) and secondly, it has close relationships with the provincial governments, especially in Hue, where the company is a key contributor to the local industry. Recent events also confirm our view that the company is allowed to operate and grow in line with its state-owned peers.
- Vietnam is an emerging economy, and while there have been major reforms (ie, shift to free market), regulatory and legislative inefficiencies still need to be ironed out. Relevant to Luks and other companies in real estate in Vietnam, we find that regulations and processes in vacating existing tenants to be opaque and in our view increases the risk of delays (and costs) in property projects.

CLSA's *Dungeon & Dragon's* small-caps research team assists you in the hunt for individual stock investment opportunities. Our tools of the trade begin with frequent company visits followed by an assessment of franchise value, management, corporate governance and business risks. *D&D* is designed to provide you with the most informed and up-to-date view of the Asian small/mid caps universe on a regular basis.



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Small-caps research

**Summary P&L forecast (HK\$m)**

Year to 31 December	2005A	2006A	2007A	2008CL	2009CL
<b>Revenue</b>	<b>313</b>	<b>374</b>	<b>537</b>	<b>751</b>	<b>922</b>
Operating Ebitda	73	115	193	284	352
Operating Ebit	53	97	156	226	298
Interest income	3	5	16	29	23
Interest expense	(6)	(11)	(10)	(21)	(27)
Other items	37	3	5	137	550
<b>Profit before tax</b>	<b>87</b>	<b>94</b>	<b>167</b>	<b>371</b>	<b>844</b>
Taxation	(23)	(37)	(15)	(59)	(161)
Minorities and other	(3)	2	0	(38)	(69)
<b>Profit</b>	<b>60</b>	<b>59</b>	<b>153</b>	<b>274</b>	<b>614</b>

**Summary cashflow forecast (HK\$m)**

<b>Operating Ebit</b>	<b>53</b>	<b>97</b>	<b>156</b>	<b>226</b>	<b>298</b>
Depreciation/amort	20	19	37	57	54
Working capital - trade	14	58	(8)	(14)	(11)
Other operating items	146	5	99	481	792
<b>Operating cashflow</b>	<b>233</b>	<b>178</b>	<b>285</b>	<b>751</b>	<b>1,133</b>
Net interest/taxes/other	(6)	(42)	(9)	(51)	(165)
<b>Cashflow</b>	<b>227</b>	<b>136</b>	<b>276</b>	<b>700</b>	<b>968</b>
Capital expenditure	(93)	(108)	(120)	(953)	(381)
Acq/inv/disposals	(47)	1	0	0	0
<b>Free Cashflow</b>	<b>87</b>	<b>30</b>	<b>156</b>	<b>(254)</b>	<b>587</b>
Ord div paid/Other items	(178)	(31)	606	(433)	(368)
Decrease in net debt	(91)	(1)	762	(687)	219

**Summary balance sheet forecast (HK\$m)**

Cash & equivalents	133	127	939	525	646
Debtors - trade	20	25	51	72	88
Inventories - trade	13	19	14	21	26
Other current assets	0	0	0	0	0
Fixed assets	400	482	566	1,462	1,789
Intangible assets	94	16	16	16	16
Other term assets	691	925	925	925	925
<b>Total assets</b>	<b>1,351</b>	<b>1,594</b>	<b>2,511</b>	<b>3,021</b>	<b>3,489</b>
Short-term debt	58	77	111	294	228
Creditors - trade	25	20	34	47	58
Other current liabs	85	112	112	112	112
Long-term debt/CBs	63	38	55	146	113
Other long-term liabs	73	127	127	127	127
Minorities/other equity	0	(2)	(2)	(2)	(2)
Shareholder funds	1,046	1,221	2,074	2,296	2,853
<b>Total liabs &amp; equity</b>	<b>1,351</b>	<b>1,594</b>	<b>2,511</b>	<b>3,021</b>	<b>3,489</b>

**Ratio analysis (HK\$m)**

Revenue growth (%)	12.6	19.4	43.6	39.9	22.9
Op Ebitda growth (%)	11.6	57.2	67.5	46.8	24.2
Op Ebit growth (%)	347.3	82.5	61.3	45.0	31.8
Op Ebitda margin (%)	23.4	30.9	36.0	37.8	38.2
Op Ebit margin (%)	16.9	25.9	29.1	30.1	32.3
Net profit margin (%)	19.3	15.9	28.5	36.5	66.5
Dividend payout (%)	24.4	91.1	36.8	26.1	13.1
Tax rate (%)	26.8	39.0	8.8	15.9	19.1
Ebitda/net int exp (x)	25.2	20.7	(31.6)	(35.0)	90.2
Net debt/equity (%)	(1.1)	(0.9)	(37.3)	(3.7)	(10.7)
Gross debt/equity (%)	11.6	9.5	8.0	19.2	12.0
Net debt/op Ebitda (x)	(0.2)	(0.1)	(4.0)	(0.3)	(0.9)
Gross debt/op Ebitda (x)	1.7	1.0	0.9	1.6	1.0
Return on equity (%)	5.7	5.2	9.3	12.6	23.8
ROCE (%)	8.8	8.9	12.9	20.7	35.7
Return on assets (%)	4.5	4.0	7.4	9.9	18.9

Source: CLSA Asia-Pacific Markets

**Key to CLSA investment rankings:** **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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**Note: In the interests of timeliness, this document has not been edited.**

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