

# 3V Capital Limited

## Flash Note

21 Apr 2008

### Luks Group (Vietnam) (0366.HK, HK\$ 6.46, BUY) - Concrete results delivered

Luks showed solid results from cement business and rental from Saigon Trade Centre. Core net profit doubled from HK\$41m to HK\$95. With the new 1.3mt cement line to start operation in 2H08, cement segment sees robust growth to continue. Coupled with a 20% growth in rental income from Saigon Trade Centre, Luks is expected to double its net earnings again in 2008. However, keen competition in Vietnam's property market adds uncertainty to Luks JV formation. Trading at 39% discount to NAV, Luks is still a bargain. Maintain BUY. Target price is revised to HK\$10.67.

#### Cement business and rental income maintains high growth.

Luks showed solid results from cement business and rental from Saigon Trade Centre. Core net profit doubled from HK\$41m to HK\$95. With the new 1.3mt cement line to start operation in 2H08, cement segment is expected to record 45% growth in FY08. However, gross margin is expected to decline 26% due to higher raw material and tariff. Meanwhile, average monthly rental of Saigon Trade Centre is expected to rise 20% to US\$36/sqm with occupancy rate nearly reaches 100% in FY08.

**Uncertainty in JVs.** Except the property development JV in Binh Chanh, we see risk on Luks might fail to complete the acquisition due to keen competition. Therefore, we apply 50% discount on the remaining 3 JVs. On the other hand, development in the cement JV with CNS also sees delay. Expected start of production is expected to shift to 2010. We tend to use a more conservative measure on this segment by applying an EV/t of US\$100/t, plus a 50% discount to the NAV of cement JV.

**Target price: HK\$10.67.** We cut our 08 and 09 earnings by 41% and 56% after stripping off the contribution from two property development JV and lowering estimation for the cement JV. Applying 30x 09 PER on Luks' own cement business and 6% cap rate on rental income of Saigon Trade Centre, together with the value of property and cement JVs at 50% discount, our NAV estimation is revised to HK\$10.67. Trading at 39% discount to NAV of HK\$10.67, Luks is still a bargain. We reset our target price from HK\$13.45 to HK\$10.67, Maintain BUY.

#### Earnings Summary

Y/E: Dec 31	2006	2007	2008F	2009F
Net profit (HK\$)	200(*)	95	195	285
Core EPS (HK\$)	0.35	0.17	0.34	0.50
EPS growth (%)	296.4	-52.6	105.2	46.1
P/E (x)	18.5	39.0	19.0	13.0
DPS (HK\$)	0.08	0.08	0.1	0.1
Dividend yield (%)	1.2	1.2	1.5	1.5

(\*) Revaluation gain and impairment of goodwill included

Source: 3V Capital

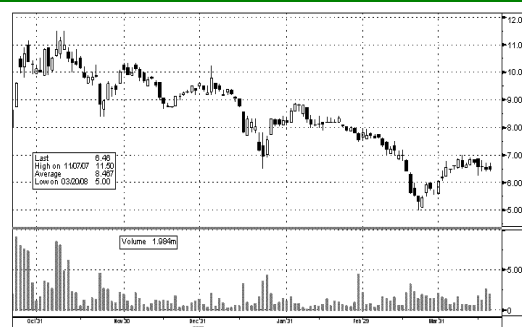
#### Company Background

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. Cement 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-induced side effects.

#### Company Data

Share price	HK\$6.46(US\$0.83)
Hang Seng Index	24,198
Shares issued	573.2m
Market cap	HK\$3,702(US\$475)
Avg daily vol (shrs)	1.3m
52-week Hi	HK\$ 16.50 (US\$2.12)
52-week Lo	HK\$ 5.00 (US\$0.64)
Price/book	1.64x
Net debt/equity	Net cash
Major shareholder	
- KT Holdings	10.94%
- Mr. K.T. Luk	33.07%
- Ms. Cheng Cheung	9.59%

#### Stock Performance



Source: Bloomberg

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**Fair Value Estimates**

Asset	Valuation benchmark	Value HK\$m
Cement	30x 09 PER	3,209
Properties investment (Vietnam)	6% cap rate	1,440
Properties investment (Others)	Book value	260
JV (Binh Chanh)	DCF @10% discount	93
Other prop. dev. JV	DCF@ 10% discount	201
JSC (Cement)	50% discount to NAV	
	EV/t @US\$100/t	325
JSC (Properties)	DCF @10% discount	45
	50% discount to NAV	
Net cash		540
<b>Total</b>		<b>6,114</b>
No. of shares (m)		573
Estimated fair value share (HK\$)		10.67

Source: 3V Capital

**Earnings Projection**

Y/E: Dec (HK\$m)	2006	2007F	2008F	2009F
<b>Turnover</b>				
Cement	275	403	620	858
Property investment	91	326	141	156
Property Sales	0	0	0	155
Chinese Medicine	4	5	5	5
Others	4	7	2	2
<b>Total</b>	<b>374</b>	<b>740</b>	<b>768</b>	<b>1,176</b>
<b>EBIT</b>				
Cement	78	110	161	223
Property investment	302	279	141	156
Property Sales	0	0	0	105
Chinese Medicine	(8)	(3)	-3	-3
Others	(25)	(31)	-25	-25
<b>Total</b>	<b>347</b>	<b>355</b>	<b>274</b>	<b>456</b>
Impairment of goodwill	(78)	0	0	0
Share results from j.c.e.	(3)	(2)	0	0
Net finance cost	(6)	4	(7.5)	(8.0)
<b>PBT</b>	<b>261</b>	<b>356</b>	<b>267</b>	<b>448</b>
Tax	(63)	(56)	(67)	(112)
MI	2.1	3	(5.0)	(51.2)
<b>Net profit</b>	<b>200</b>	<b>303</b>	<b>195.0</b>	<b>284.9</b>

Source: The Company, 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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