

3V Capital Limited

Flash Note

7 Sept 2007

Luks Group (Vietnam) (0366.HK, HK\$ 8.40, BUY) - Further enhancing land bank in Vietnam

With the newly JV formed, Luks added around 160k sqm GFA to its land bank. With expected improvement in transportation, we estimate the ASP of the residential portion to stand at US\$800/sqm. Recent halt in licensing new cement production line may possibly delay Luks' cement capacity expansion. Earnings estimates are cut to factor in the delay. Using sum-of-part valuation, we come up with a new NAV of HK\$15.28 per share. Trading at 45% discount to NAV, Luks is still a bargain. Maintain BUY. Target price is revised to HK\$13.45, premised on a 12% discount to NAV.

New Land Acquired in Ho Chi Minh City. Partnered with local developer Indochine, Luks will develop a piece of land in District 89 of Ho Chi Minh City. Luks will inject HK\$116.7m for its 95% stake into JV. With total GFA of around 160k sqm, the site is planned to be developed into a high-end residential project. We expect the project to be divided into 2 phases to be completed in 09 and 10 respectively. Based on our estimation, NAV of the project is estimated to be HK\$275m (HK\$262m attributable).

Possible slow down in cement expansion. Vietnam government has halted licensing new cement production lines, aiming to keep new cement supply to grow in a steady pace. We expect Luks' expansion plans, including one 1.5mt cement production line and additional 1.5mt grinding capacity for JSCC, may be postponed. We expect new cement production line to be add in late 2008. Therefore, we trimmed our forecast of JSCC's 2009 net profit from HK\$243m to HK\$79m.

Target price: HK\$13.45. We cut our 08 earnings by 35% due to the possible delay of expansion. For 2009, as contribution from the new JV offsets the drop in JSCC's profit, earnings estimate is lifted by 9%. Trading at 45% discount to NAV of HK\$15.28, Luks is still a bargain. Leveraged on its exposure cement production and property development, Luks is the best proxy for Vietnam's robust growth in economy. We reset our target price from HK\$16.45 to HK\$13.45, 12% discount to our estimated NAV. Maintain BUY.

Earnings Summary

| Y/E: Dec 31 | 2006 | 2007F | 2008F | 2009F |
|--------------------|--------|-------|-------|-------|
| Net profit (HK\$) | 200(*) | 152 | 332 | 588 |
| Core EPS (HK\$) | 0.35 | 0.26 | 0.58 | 1.03 |
| EPS growth (%) | 296.4 | -24.3 | 118.7 | 77.2 |
| P/E (x) | 24.0 | 31.7 | 14.5 | 8.2 |
| DPS (HK\$) | 0.08 | 0.1 | 0.11 | 0.12 |
| Dividend yield (%) | 1.0 | 1.2 | 1.3 | 1.4 |

(*) Revaluation gain and impairment of goodwill included

Source: 3V Capital

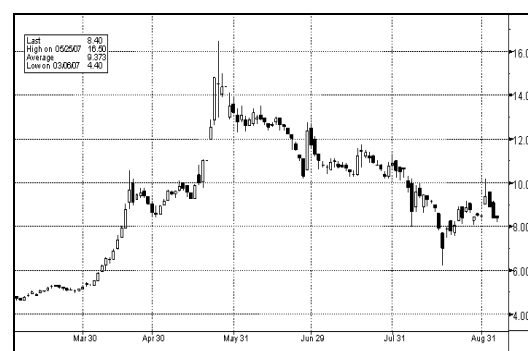
Company Background

Founded in 1975, Luks started its investment in Vietnam early in 1991 by forming a JV with a local SOE for plywood processing in Ho 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. Cemtrn 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-related side effects.

Company Data

| | |
|----------------------|-----------------------|
| Share price | HK\$8.40 (US\$1.08) |
| Hang Seng Index | 24,050 |
| Shares issued | 573.2m |
| Market cap | HK\$4,815(US\$617) |
| Avg daily vol (shrs) | 2.6m |
| 52-week Hi | HK\$ 16.50 (US\$2.12) |
| 52-week Lo | HK\$ 2.11 (US\$0.27) |
| Price/book | 3.95x |
| Net debt/equity | 2.05% |
| 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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New Land Acquired in Ho Chi Minh City. Luks announced to form a JV with Indochine, a Vietnamese property developer. Indochine will inject a piece of land with GFA of 159,737sqm. Luks will inject HK\$116.7m for its 95% stake into JV. Located in District 9 of Ho Chi Minh City, the site is planned to be developed into a high-end residential project with commercial area. Although it is still under developed, it is estimated that infrastructure to have substantial improvement after the commence operation of a highway which will be connected to downtown in 2008. Traveling time could be shortened from 45 minutes to 20 minutes.

New project valued at HK\$275m. We expect the project to be divided into 2 phases, with phase 1 and phase 2 to be completed in 2009 and 2010 respectively. To be conservative, we estimate only 160,000sqm of GFA will be sold with villa and high-end residential area in 1:3 ratio. ASP is expected to reach US\$800/sqm, close to the ASP of Luks' another project in An Lac Ward, while the villas are expected to be sold at US\$1,800/sqm. Based on our estimation, NAV of the project is estimated to be HK\$275m (HK\$262m attributable).

Possible slow down in cement expansion. Originally, Luks planned to add a new 1.5mt cement production line in 2008 after transferring its own line to JSCC, its joint-stock company with Saigon Industry Corporation. Also, the company is applying approval to expand the capacity of its cement production line which will be transferred to JSCC production line from 1.5mt to 3.0mt in 2008. However, these expansion plans may be postponed as Vietnamese government recently halted licensing new cement projects, aiming to keep new cement supply to grow in a steady pace. We estimate Luks and JSCC's expansion to be postponed to late 2008. Therefore, we trimmed our forecast of JSCC's 2009 net profit from HK\$243m to HK\$79m.

Sales volume estimation changes

| Y/E: Dec (HK\$m) | 2006 | 2007F | 2008F | 2009F |
|----------------------------|------|-------|-------|-------|
| New estimations | | | | |
| Luks own sales volume (kt) | 748 | 1,260 | 1,400 | 2,000 |
| JSCC's sales volume (kt) | 0 | 0 | 750 | 1,500 |
| Old estimations | | | | |
| Luks own sales volume (kt) | 748 | 1,260 | 1,980 | 2,340 |
| JSCC's sales volume (kt) | 0 | 0 | 1,500 | 3,000 |

Source: 3V Capital

Target price: HK\$13.45. We cut our 08 earnings by 35% due to the possible delay of expansion. For 2009, as contribution from the new JV offsets the drop in JSCC's profit, earnings estimate is lifted by 9%. We apply 30x 09 PER to value Luks' cement business while using DCF method to value the property projects, we come up with a new NAV of HK\$15.28 per share. Trading at 45% discount

to NAV, Luks is still a bargain. After the share placement in May, share price has retreated 50% from the top as the Vietnam mania seems cooled down. However, leveraged on its exposure cement production and property development, Luks is the best proxy for Vietnam's robust growth in economy. We reset our target price from HK\$16.45 to HK\$13.45, 12% discount to our estimated NAV. Maintain BUY.

Fair Value Estimates

| Asset | Valuation benchmark | Value HK\$m |
|--|---------------------|--------------|
| Cement | 30x 08 PER | 4,568 |
| Properties investment (Vietnam) | 6% cap rate | 903 |
| Properties investment (Others) | Book value | 260 |
| Properties Development | DCF @10% discount | 634 |
| JSC (Cement) | 30x 08 PER | 1,582 |
| JSC (Properties) | DCF @10% discount | 352 |
| Net cash | | 463 |
| Total | | 8,762 |
| No. of shares (m) | | 573 |
| Estimated fair value share (HK\$) | | 15.28 |

Source: 3V Capital

Earnings Projection

| Y/E: Dec (HK\$m) | 2006 | 2007F | 2008F | 2009F |
|---------------------------|------------|------------|--------------|--------------|
| Turnover | | | | |
| Cement | 275 | 459 | 518 | 761 |
| Property investment | 91 | 109 | 126 | 189 |
| Property Sales | 0 | 0 | 436 | 970 |
| Chinese Medicine | 4 | 5 | 5 | 5 |
| Others | 4 | 2 | 2 | 2 |
| Total | 374 | 575 | 1,087 | 1,927 |
| EBIT | | | | |
| Cement | 78 | 135 | 152 | 224 |
| Property investment | 302 | 109 | 126 | 189 |
| Property Sales | 0 | 0 | 257 | 476 |
| Chinese Medicine | (8) | (6) | (4) | (3) |
| Others | (25) | (25) | (25) | (25) |
| Total | 347 | 213 | 507 | 860 |
| Impairment of goodwill | (78) | 0 | 0 | 0 |
| Share results from j.c.e. | (3) | 0 | 98.9 | 122.0 |
| Net finance cost | (6) | (7) | (8) | (8) |
| PBT | 261 | 206 | 499 | 852 |
| Tax | (63) | (49) | (125) | (213) |
| MI | 2.1 | (5) | (42) | (51) |
| Net profit | 200 | 152 | 332 | 588 |

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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