Viet Capital Securities

# DIC Corp (HSX: DIG)

UPDATE

11 January 2011

## HOLD

**Target price** **VND37,000**

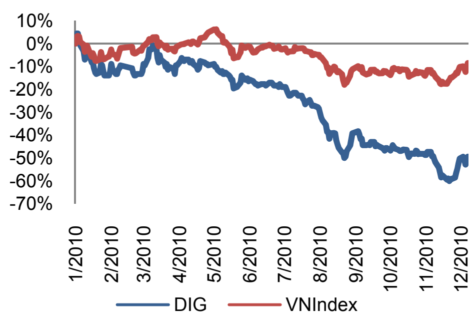
**Downside** **3.0%**

**Real estate**

| Key indicators | |
|---|---|
| Price (11 Jan 2011) | 38,100 |
| 52-week low | 84,000 |
| 52-week high | 31,400 |
| 30-day avg trading volume | 384,818 |
| Outstanding shares (mn) | 97.8 |
| Market cap (VND bn) | 3,894 |
| Market cap (USD mn) | 200 |
| Foreign room (shares mn) | 23.5 |

| Valuation | 2008 | 2009 | 2010F |
|---|---|---|---|
| EPS (VND) | 7,054 | 8,671 | 5,030 |
| EPS growth (%) | na | 23 | -42 |
| P/E (x) | na | 8.2 | 6.2 |
| P/B (x) | na | 3.2 | 1.6 |
| ROE (%) | na | 43 | 21 |
| ROA (%) | na | 19 | 13 |
| ROIC (%) | na | 34 | 18 |
| Debt/equity (%) | 44% | 20 | 21 |
| Dividend yield (%) | na | 2.8 | na |

| Price performance | 3M | 6M | 12M |
|---|---|---|---|
| Absolute % | -9.3 | -36.8 | -51.8 |
| Relative % | -14.0 | -33.1 | -42.0 |




| Ownership structure | % |
|---|---|
| State | 65.1 |
| Foreign investors | 24.8 |
| Individual investors | 10.1 |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See important disclosure at the end

## Fun in the sun and a round of golf?

We recently visited DIG in Vung Tau. Based on current market conditions and prices along with the status of the company's projects we estimate its NAV at VND3,584bn. At the closing price of VND38,100 (11/1/2011) DIG is trading at a 3% premium to our NAV estimate and 1.6x P/BV 2010F. Hence, we issue a **HOLD** rating for DIG stock with a target price of VND37,000 price share.

Our NAV estimate is reflective of currently depressed market conditions affecting the whole real estate industry. However in DIG, we see more upside than downside at this valuation given the company's inventory pipeline and a relatively strong liquidity position that will help advance the progress of its projects.

**Taking advantage of low cost land banks.** We estimate DIG has c. 260,361sqm of sfa (sellable floor area) under construction and/or development and will have c.102ha of mla (marketable land area) inventory in 2011. DIG benefits from low cost state granted land banks mostly compensated pre-Decree 69. We estimate DIG's average development cost per sfa at VND9mn/sqm and selling price per sfa at VND13mn/sqm, or c. 31% gross profit margin. The average cost of its mla is VND1.8mn/sqm inclusive of basic technical infrastructure while the average estimated market value is VND5.3mn/sqm, potentially producing 66% gross profit margin. We estimate the NPV of DIG's sfa at VND649bn (2-yr horizon WACC 20%) and the NAV of its mla inventory at VND2,588bn.

**Vung Tau, Dai Phuoc and Vinh Yen are the key areas of value.** DIG develops sfa to target the low-end residential segment in Vung Tau. The company's mla is concentrated in the proposed ecotourism areas of Dai Phuoc (c.15km SE of HCMC) and Vinh Yen (c.55km NW of Hanoi). The sfa/mla value of these three areas combine for 84% of our NAV estimate.

The company has been relatively successful in the low-end segment in Vung Tau having previously developed and completely selling out Seaview apartments and is on track to complete the Lakeside apartment project in 2011.

However, 2011 will mark the first time DIG puts Dai Phuoc and Vinh Yen mla up for sale to end-users. It remains to be seen whether access to waterfront views and golf courses, the main attractions in these two areas, will be enough to draw customers to this segment following a challenging year in the equities and real estate markets. Consequently, untested end-user demand for the leisure/resort segment in these two early development secondary cities is a potential downside risk to our valuation.

**2011 outlook: 20% EPS growth to VND6,000 EPS.** We estimate FY2011E net income at VND600bn eq. VND6,000 EPS, or 20% EPS growth with net income estimate including: Dai Phuoc 288ha LUR profit VND300b, remaining 70% of Lakeside project VND158bn, An Son Dalat (VND50bn, 100% of project), and financial investments VND80bn.

**2010F on target to generate VND5,000 EPS.** DIG is on target for VND500bn net income 2010 equivalent to VND5,000 EPS; it has reached VND487bn net income through the first 11 months of 2010. We estimate c.VND318bn net income was derived from the 288ha Dai Phuoc land bank LUR revaluation. This figure includes a negative VND146bn accounting adjustment that resulted in a net gain of VND14bn instead of a VND132bn deduction for the COGS for the Dai Phuoc LUR. The remaining contributions to net income include: financial investments 104bn, 30% of Lakeside VND68bn and construction and materials VND10bn.

# Company update

**Local developers still confident about the Ba Ria Vung Tau (BRVT) market, to develop products across all segments.**

In Vung Tau, besides DIG, we were able to meet with two other listed real estate developers to discuss market conditions in the area. For these developers the BRVT area is still an important and potentially rewarding market. BRVT area which also covers Phu My has the highest GDP per capita in the country with large industrials such as fertilizer, gas, oil and steel firms and sea ports operating in the area.

According to the developers, banks in Vung Tau have tighter lending policies with max LTV ratios around 50% cf. 70-80% in HCMC and HN. The developers point out that out-of- town speculators still play a notable role in the tourism-centric town of Vung Tau but at least now it is to a lesser extent. Since Decree 71 took hold, the transference of capital contribution contracts, the preferred investment instrument in the past for speculators, has been limited. Given the fact that under construction projects such as DIG's Lakeside apartment and Hodeco's 199 NTMK apartments (HSX: HDC) are around 75% sold despite unfavourable lending conditions and less speculation show the resiliency of the VT market and that real demand still exists in the low-end segment. Thus the majority of sfa under construction in the area continues to target this segment with prices ranging from VND10-14mn/sqm.

With relative success at the low-end, developers are beginning to test the mid and high-end segment. Another recently listed Vung Tau developer, UDEC (HSX: UDC) has under construction the Bau Sen building that will put c.59,000sqm of mid-end sfa starting at VND16mn/sqm to the market; DIG's own Thuy Tien apartments will add an additional 16,000 sqm. The recent launch of the Blue Sapphire Resort project being developed by Cotecland (HSX: CLG) and successful sales of over 80% of the initial 75 units available at prices exceeding VND25mn/sqm signal potential demand for premium properties in the area.

# Investment thesis

Our DIG NAV estimate is reflective of currently depressed market conditions affecting the whole real estate industry. However in DIG, we see more upside than downside at this valuation given the company's inventory pipeline and a relatively strong liquidity position that will help advance the progress of its projects.

**Project pipeline**

DIG broke ground on 75,840 sqm of sfa at the Phoenix and Thuy Tien apartment projects in 2010, an aggregate 33% more sfa and 50% higher estimated GDV (gross development value) than the current sfa and GDV at Lakeside apartment which wraps up early 2011. Also in 2011 DIG will have 102ha of available mla inventory consisting of DIG Dai Phuoc 36.6ha, Dai Phuoc JV 31ha, Vinh Yen South UA (urban area) 26ha, Hiep Phuoc, Dong Nai RA (residential area) 3.5ha, An Son Dalat Villas 2.9ha and Phu My RA 2ha. This is a significant increase in mla inventory cf. 2010, a transitional year in which the company used proceeds from the Dai Phuoc LUR revaluation profits to advance the progress of the aforementioned projects. Of the 102ha, c. 9ha has been already sold but not transferred awaiting completion of infrastructure (An Son Dalat 2.9ha and DIG Dai Phuoc 5.9ha).

Looking past 2011, DIG can further build up its mla inventory from land banks in Vinh Yen and Hau Giang with 382ha/447ha and 157ha/203ha left to be compensated, respectively. These two land banks can potentially provide 215ha of additional mla, or double the current mla inventory. We estimate DIG will require c. VND800bn to compensate the aggregate remaining acreage at Vinh Yen and Hau Giang at an average compensation cost of 150,000/sqm. We note DIG has relatively strong liquidity with c. VND743bn in cash and short-term investments at its disposal and a current ratio of 2.75x as of 3Q2010, an advantage as the company proceeds with compensation.

However, compensation costs have risen sharply, in particular, current compensation cost at Vinh Yen UA is >VND150,000/sqm cf. VND38,000/sqm in 2008, a 200% per annum increase. We expect compensation costs to continue to rise in Vinh Yen with recent developments within 2km of the project e.g. the Nov 2010 opening of the Heron Lake Golf Course and sales launch of land plots at VND7 – 8.5mn/$m^2$ in 2H2010 in the South Heron Lake UA. On the flip side, this will also lift market prices of the surrounding areas.

DIG has three more early-stage projects with an aggregate 720ha of land area: Cua Lap UA 94ha, Phuong Nam resort city 295ha and Long Tan ecotourism area 331ha. There has been little to no compensation progress in these projects to-date therefore we have not included them in our NAV estimates. However, once cleared these land banks could potentially add significant value to DIG's mla inventory. We estimate that every 1ha of mla can generate c. VND25bn in incremental net earnings for the company.

**Figure 1: DIG project pipeline**

| Projects – (ownership %) | Location | Total project LA | sfa / mla | Project status |
|---|---|---|---|---|
| **Developments (sfa)** | | | | |
| Lakeside apartments | BRVT | 11,601 sqm | 57,021 sqm | in progress |
| Gateway project site | BRVT | 17,000 sqm | 127,500 sqm | not started |
| Phoenix complex | BRVT | 15,071 sqm | 59,689 sqm | in progress |
| Thuy Tien Apartments | BRVT | 3,589 sqm | 16,151 sqm | in progress |
| **Land bank (mla)** | | | | |
| Dai Phuoc – DIG (100%) | Dong Nai | 98.3 ha | 36.6 ha | in progress |
| Dai Phuoc – VinaCap, Lotus (28 %) | Dong Nai | 22.4 ha | 3.1 ha | in progress |
| Dai Phuoc – VinaCap, others (28%) | Dong Nai | 178.2 ha | 20.0 ha | in progress |
| Dai Phuoc – JVs (22%) | Dong Nai | 8.8 ha | 77.6 ha | not started |
| An Son Dalat Villas | Dalat | 3.6 ha | 2.9 ha | in progress |
| Hiep Phuoc RA (38%) | Dong Nai | 21.5 ha | 3.5 ha | in progress |
| Vinh Yen South UA | Vinh Phuc | 446.9 ha | 26.0 ha | 65ha/447ha |
| Phu My RA (80%) | BRVT | 28.0 ha | 2.0 ha | 6ha/28ha |
| Hau Giang Ward 4 RA | Hau Giang | 203.0 ha | na | 46ha/203ha |
| East 3/2 street RA no. 1 | BRVT | 5.0 ha | na | not started |
| **Early-stage projects/ land banks** | | | | |
| Cua Lap urban area | BRVT | 94.0 ha | na | not started |
| Phuong Nam resort city | BRVT | 295.0 ha | na | not started |
| Long Tan ecotourism area | Dong Nai | 331.0 ha | na | not started |

*Source: DIG, VCSC research*

## Valuation

We value sfa under construction/development on a DCF-basis to determine the aggregate NPV of all projects. We value mla using estimated market prices based on the comparables approach. We value early-stage projects at book value which typically include acquisition or compensation costs.

**Figure 2: Summary of DIG valuation**

| | VND bn | Notes |
|---|---|---|
| Sellable floor area NPV | 649 | Lakeside, Phoenix, Gateway, Thuy Tien |
| Marketable land area NAV | 2,588 | An Son, Dai Phuoc, Hiep Phuoc, Vinh Yen |
| Early stage projects BV | 150 | Hau Giang and 3/2 street |
| Gross value of projects | 3,387 | |
| add cash and cash equivalents | 475 | 3Q2010 balance sheet |
| add short-term investments | 258 | 3Q2010 balance sheet |
| Enterprise value | 4,130 | |
| less short- and long-term debt | 546 | 3Q2010 balance sheet |
| Equity value | 3,584 | |
| **NAV per share** | **36.7** | **97.8 million shares outstanding** |
| **Implied P/BV x** | **1.5** | |

*Source: VCSC forecast, DIG BS 3Q2010*

### Sellable floor area valuation

DIG has a total of 260,321 sqm of sfa: 132,861sqm of sfa under construction and 127,500 sqm of sfa that can potentially be developed. We estimate the average development cost per sfa at VND9mn/sqm and selling price per sfa at VND13mn/sqm, or c. 31% gross profit margin. DIG benefits from low LUF (land use fees) which were agreed upon pre-Decree 69 and would be honoured thus the company is not materially impacted by this directive.

**Chi Linh, Vung Tau development**

The Chi Linh area (appendix for details) is a 99.7ha land bank granted by the government to DIG in 2003 with the provision that LUF be paid when the land is actually developed. To-date over 75ha of the land bank is already developed. Besides the on-going Lakeside apartment project there remains two other developable sites named Phoenix and Gateway on the Chi Linh land bank. Another 20ha has not been compensated and the company does not have any immediate plans to compensate this portion.

**Lakeside apartments**

The Lakeside project commenced in 2008 and will be complete in FY2011. Per DIG, 75% of the total units have been sold and that the company will book approx. 30% of the project in 4Q2010 and the remaining 70% in FY2011. We estimate the company has already transferred LURC for over 410 out of the total 756 units (55%) to customers as of the end of Nov 2010. The Lakeside project provides 57,021 sqm of sfa and have sold at an average price of VND13mn/sqm. We estimate the GDV (gross development value) at VND457bn, NPV at VND149bn and 29% net profit margin.

**Phoenix Complex**

On the first of the two developable sites, DIG commenced construction of the Phoenix Complex (one hotel and commercial and two condo towers) on 26,745 sqm of land area. The two condo towers will provide 59,869 sqm of sfa at an average selling price of VND14mn/sqm. Foundation construction was in progress as of December 2010. We estimate the GDV at VND479bn, NPV at VND195bn and 32% npm. Note we do not evaluate the hotel/commercial tower floor area because the company plans to manage and operate this property.

**Gateway site**

The other 23,933 sqm site of which 17,000sqm is developable was originally approved as a 34-storey high-rise mix-use project. DIG intended to transfer the Gateway project at USD500/sqm but has indicated to us that they will self-develop the plot.

We estimate at the current market price of c.VND12mn/sqm for residential space in this area other developers could not make enough profit at DIG's asking price for the land. The average net profit margin for real estate developers was 34% (Bloomberg trailing 12-month); a project on this site produces <20% for another developer. Furthermore, the LUF for the Gateway site agreed upon pre-Decree 69 would be honoured for DIG but not necessarily for a new developer.

In the absence of a fair market value, we chose to value the Gateway site on a DCF-basis. DIG has not made public plans for the Gateway site but we make reasonable assumptions based on other similar projects. We estimate the NPV at the Gateway site at VND218bn assuming the site can provide 127,500 sqm sfa (plot ratio 10x) at an estimated selling price of VND12mn/sqm.

**Thuy Tien apartment**

The Thuy Tien apartment project is located at 84 Tran Phu across from the western coastline of Vung Tau. The 3,589 sqm site was formerly home to a hotel operated by the company. DIG has torn down the hotel and is constructing in its place a 16-storey apartment tower that will provide about 16,161sqm of sfa. The foundation is complete on the site and we forecast the company will launch sales of the apartments in 2011. Given the coastline location, we estimate the GDV at VND167bn, NPV at VND87bn and 36% net profit margin. We assume a selling price of VND20mn/sqm which is in line with the Bau Sen project under construction that is located relatively further away from the eastern coastline. The Bau Sen building is currently being sold by UDC at prices ranging from VND16-20mn/sqm.

**Figure 3: NPV of sfa at Chi Linh projects and Thuy Tien**

| | **Gateway** | **Lakeside** | **Phoenix** | **Thuy Tien** |
|---|---|---|---|---|
| Project status (Dec 2010) | not started | 75% sold | foundation | foundation |
| Sfa selling price est. (VND mn/sqm) | 12.0 | 13.0 | 14.0 | 20.0 |
| Land area sqm | 17,000 | 11,601 | 15,071 | 3,589 |
| GFA sqm | 170,000 | 72,158 | 70,225 | 21,534 |
| Sfa sqm (est. 75% efficiency) | 127,500 | 57,021 | 59,689 | 16,151 |
| GDV (VND bn) | 1,530 | 741 | 836 | 323 |
| Development costs (VND bn) | 1,131 | 457 | 479 | 167 |
| Gross profit (VND bn) | 400 | 284 | 357 | 156 |
| net income (25% tax rate) | 300 | 213 | 267 | 117 |
| NPV (2-year horizon, WACC 20%) | 218 | 149 | 195 | 87 |
| **Total residential sfa (square metres)** | **260,361** | | | |
| **Total NPV of residential sfa (VND bn)** | **649** | | | |

*Source: VCSC forecast*

## Marketable land area valuation

Real estate developers that have large low-cost land banks such as DIG and Sudico (HSX: SJS) are not inclined to sell all their available mla inventory at once and instead opt to piecemeal their inventory when the market is favourable. However, our approach is to value the mla inventory at a market price that can be realised immediately in a fair transaction between buyer and seller at any given time the inventory is available for sale. We believe this method eliminates second guessing when the developer will sell the inventory and the need to apply discounts for liquidity and tvm. In valuing mla inventory, we assume the following:

1. Estimated selling prices are based on best available market price info of comparable properties with applicable discount/premium in consideration of location, view, project status etc.
2. An average VND1mn/sqm cost of basic technical infrastructure is calculated in our valuations.
3. An average 40% of total project land area is considered when calculating the potential mla acreage.
4. Only proportion of land belonging to the company by ownership that is compensated and projected to have land clearance and infrastructure complete within one year is calculated in available mla inventory.
5. Final estimated AV (asset value) is post 25% CIT.

We estimate the NAV of DIG's 102ha of mla inventory at VND2,588bn eq. VND2.6mn/sqm. Dai Phuoc and Vinh Yen MLA inventory accounts for two-thirds of the estimated NAV.

**Figure 4: NAV of DIG mla inventory**

| Project – (ownership %) | NAV (VND bn) | mla (ha) | Project LA (ha) | Clean LA (ha) |
|---|---|---|---|---|
| Dai Phuoc - DIG (100%) | 776 | 36.6 | 98.3 | 98.3 |
| Dai Phuoc - VinaCap, Lotus (28%) | 163 | 3.1 | 22.4 | 22.4 |
| Dai Phuoc - VinaCap, others (28%) | 295 | 20.0 | 178.2 | 178.2 |
| Dai Phuoc - JVs (22%) | 12 | 7.7 | 87.8 | 87.8 |
| An Son Dalat | 50 | 2.9 | 37.0 | 37.0 |
| Hiep Phuoc RA | 39 | 3.5 | 21.5 | 19.1 |
| Vinh Yen South UA | 1,205 | 26.0 | 447.0 | 65.0 |
| Phu My RA | 47 | 2.0 | 27.9 | 6.0 |
| **Total mla acreage (hectares)** | | **101.8** | | |
| **Total NAV of mla (VND bn)** | **2,588** | | | |

*Source: VCSC forecast*

**Figure 5: Summary of selling price assumptions**

| Project | VND mn/sqm | Basis for pricing / comparable project |
|---|---|---|
| Dai Phuoc - DIG land | 4.2 | market range 2.8 – 3.8mn/sqm Dong Nai area |
| Dai Phuoc - VinaCap, Lotus | 10.0 | VinaCapital Lotus township est. land prices |
| Dai Phuoc - VinaCap, others | 5.0 | 20% prem. cf. DIG land from Lotus rub-off effect |
| Dai Phuoc - JVs | 3.4 | 20% discount, slow progress no site clearance |
| An Son Dalat Villas | 5.6 | Avg price of units already sold |
| Hiep Phuoc, Nhon Trach | 3.0 | market range 2.8 – 3.8mn/sqm Dong Nai area |
| Vinh Yen South | 7.5 | 12% disc. cf. Heron Lake Resort@ VND8.5 mn/sqm |
| Phu My RA | 5.5 | estimated market price in area |

*Source: VCSC estimates*

**Dai Phuoc valuation**

Dai Phuoc land price is one of the main value drivers in our valuation model and we expect prices to be buoyant in 2011 as development and sales of VinaCapital's Dai Phuoc Lotus township progresses and the 18-hole golf course is completed. The Dai Phuoc Lotus township 332 villas on 22.4ha launched at VND12.5mn/sqm includes land and villa construction. The underlying value of the land is estimated at VND10mn/sqm. We expect this will have positive rub-off effect on surrounding land prices. Current mla selling price in the surrounding Dong Nai area has been hovering in the VND2.8 - 3.8mn range.

For our valuation model we divide the Dai Phuoc development (appendix for details) into separate land banks with pricing based on intended land purpose and project status. Land purposed for high-density construction such as mix-use high-rises will sell at a premium to residential plots. Furthermore, whether a project is started or not also affects pricing.

**Figure 6: Summary of Dai Phuoc development**

| | DIG mla (ha) | Price | Purpose | Status |
|---|---|---|---|---|
| Dai Phuoc – DIG* (100%) | 36.6 | 4.2 | residential | in progress |
| Dai Phuoc – VinaCapital, Lotus (28%) | 3.1 | 10.0 | leisure/resort | in progress |
| Dai Phuoc – VinaCapital (28%) | 20.0 | 5.0 | mix-use | not started |
| Dai Phuoc – JVs (22%) | 7.7 | 3.4 | no plan | not started |
| Total | 66.7 | 4.6 | | |
| Average cost per mla | | 1.8 | | |

*Source: VCSC estimates, (*) DIG already sold 59,360sqm at VND3.05mn/sqm price in 2009, not transferred*

**Vinh Yen valuation**

The mla at DIG's Vinh Yen UA represents 33% of our NAV estimate and is the second largest value driver in our model. Vinh Yen is located 30km northwest of Noi Bai International Airport and 55km of the Hanoi city centre. To the south of Vinh Yen is Heron Lake which is to be the centrepiece of several proposed tourist resorts. DIG's Vinh Yen UA project (appendix for details) is the second largest proposed at 447ha with only the Heron Lake Ecotourism project larger at 474ha being developed by Song Hong Travel and Commerce JSC. Two segments of the Heron Lake project is complete or in progress: the Heron Lake18-hole golf course opened in November 2010 and land plots at South Heron Lake Resort (39.5ha) launched in August 2010 followed by a second offering in November 2010 priced at VND7 - 8.5mn/sqm. DIG has just started site clearance and infrastructure while other developers are progressing much slower on their respective projects.

The progress of the Heron Lake Ecotourism area project is establishing market values in the area and driving compensation costs up rapidly. Current compensation costs for DIG at the Vinh Yen UA project is VND150,000/sqm cf. VND38,000/sqm, a 200% per annum increase since 2008. DIG has compensated 65ha/447ha at the project potentially providing 26ha of mla when site clearance and infrastructure is complete. We expect the company to hasten execution to put the Vinh Yen mla on the market to compete for buyers and to control the rising cost of compensation. Given tepid demand indicated by slow progress of projects in Vinh Yen, we believe a fair average market selling price for DIG's Vinh Yen mla is VND7.5mn/sqm, a 12% discount to the current asking price at South Heron Lake Resort.

## Risks to our valuation

Upside risk to our valuation is better-than-expected selling price of mla in Dai Phuoc and Vinh Yen. The potential realisation value of mla at these two projects accounts for c. 66% of our NAV estimate; every 5% increase in selling price at Dai Phuoc or Vinh Yen equates to c.2 - 2.5% increase in NAV. Additionally, sooner-than-expected land clearance and infrastructure completion at the Hau Giang project (46ha/203ha compensated in 3Q2010) could potentially add 18.4ha or a 18% increase in mla to our NAV calculation.

Downside risk (to our valuation is slower-than-expected sales at Dai Phuoc and Vinh Yen. DIG has not directly sold mla to end-users at either projects. End-user demand for leisure/resort residential land will be tested when sales at these two early development secondary cities are launched in 2011.

# Summary of Financials

| Income statement (VND bn) | 2008 | 2009 | 2010F |
|---|---|---|---|
| **Revenue** | **654** | **1,631** | **1,006** |
| COGS | 470 | 926 | 354 |
| **Gross profit** | **184** | **705** | **652** |
| Sales & marketing exp | 39 | 51 | 53 |
| General & admin. exp | 42 | 72 | 77 |
| **Operating Profit** | **102** | **582** | **522** |
| Net financial | 4 | -42 | 100 |
| Other income | 261 | 215 | 82 |
| **EBITDA** | **367** | **756** | **704** |
| Depreciation. & amortisation | - | - | - |
| **EBIT** | **367** | **756** | **704** |
| Interest expenses | 18 | 20 | 27 |
| **Profit before tax** | **349** | **736** | **677** |
| Tax | 93 | 124 | 169 |
| **NPAT** | **256** | **612** | **508** |
| Minority interest | -5 | 5 | 5 |
| **NPAT to common EH** | **261** | **607** | **503** |

| Balance sheet (VND bn) | 2008 | 2009 | 2010F |
|---|---|---|---|
| **Current assets** | **1,660** | **2,301** | **2,554** |
| Cash & equivalents | 293 | 1,040 | 485 |
| ST financial investment | 328 | 108 | 258 |
| Accounts receivable | 110 | 394 | 642 |
| Inventories | 825 | 668 | 936 |
| Other current Assets | 104 | 91 | 233 |
| **Long-term assets** | **1,022** | **1,280** | **1,336** |
| Fixed assets - net | 207 | 211 | 220 |
| Construction-in-progress | 23 | 37 | 50 |
| Other financial assets | 104 | 112 | 136 |
| Equity in associates | 571 | 842 | 868 |
| Other long-term assets | 117 | 78 | 62 |
| **Total assets** | **2,682** | **3,581** | **3,890** |
| | | | |
| **Total liabilities** | **1,979** | **1,175** | **1,414** |
| **Current liabilities** | **1,701** | **749** | **929** |
| Short-term debt | 39 | 65 | 70 |
| Accounts payables | 53 | 84 | 46 |
| Deferred expenses | 1,134 | 38 | 391 |
| Accrued expenses | 155 | 76 | 161 |
| Other current liabilities | 320 | 485 | 262 |
| **Long-term liabilities** | **278** | **426** | **485** |
| Long-term debts | 268 | 424 | 476 |
| Other long-term liabilities | 10 | 2 | 9 |
| | | | |
| **Total equity** | **704** | **2,409** | **2,609** |
| Charter capital | 370 | 700 | 1,000 |
| Additional paid in capital | 143 | 1,046 | 1,046 |
| Treasury stocks | - | - | -102 |
| Retained earnings | 105 | 480 | 521 |
| Other equity | 34 | 138 | 90 |
| Minority interest | 52 | 45 | 54 |
| **Total equity & liabilities** | **2,683** | **3,584** | **4,023** |

| Growth | 2008 | 2009 | 2010F |
|---|---|---|---|
| Revenue growth % | na | 149 | -38 |
| EBITDA growth % | na | 106 | -7 |
| EBIT growth % | na | 106 | -7 |
| NPAT growth % | na | 133 | -17 |
| EPS growth % | na | 23 | -42 |
| | | | |
| Gross margin % | 28 | 43 | 65 |
| EBITDA / Revenue % | 56 | 46 | 70 |
| EBIT / Revenue % | 56 | 46 | 70 |
| EPS (VND) | 7,054 | 8,671 | 5,030 |
| DPS (VND) | na | 2,100 | 1,000 |
| BVPS (VND) | 19,027 | 34,414 | 26,090 |

| Ratio analysis | | | |
|---|---|---|---|
| **Liquidity ratios** | | | |
| Current ratio | 1.0 | 3.1 | 2.7 |
| Quick ratio | 0.4 | 2.0 | 1.5 |
| | | | |
| **Profitability ratios** | | | |
| ROE % | na | 43 | 21 |
| ROA % | na | 19 | 13 |
| ROIC % | na | 34 | 18 |
| | | | |
| **Efficiency ratios** | | | |
| Act receivables turnover | na | 6.5 | 1.9 |
| Inventory turnover | na | 1.2 | 0.4 |
| Act payables turnover | na | 11.2 | 9.5 |
| | | | |
| **Leverage ratios** | | | |
| Total debt / total equity % | 44 | 20 | 21 |
| Total debt / total capital % | 11 | 14 | 14 |
| Interest coverage (x) | 6 | 30 | 26 |

| Valuation | | | |
|---|---|---|---|
| At market price | | | |
| P/E (x) | na | 8.2 | 6.2 |
| P/B (x) | na | 3.2 | 1.6 |
| EV/EBITDA (x) | na | 11.9 | 8.2 |

*Source: Bloomberg*

# Appendix

Appendix 1: Chi Linh development area 100ha


Appendix 2: Vung Tau

Appendix 3: Dai Phuoc development 464ha


Appendix 4: Location of Dai Phuoc

Appendix 5: Vinh Yen South urban area 447ha


Appendix 6: Location of Vinh Yen

## Analyst Certification

I, Tu Vu, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

## VCSC's Rating System and Valuation Methodology

**Absolute performance, long term (fundamental) rating key:** The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

| Equity rating key | Definition |
|---|---|
| **BUY** | If the target price is 20% higher than the market price |
| **ADD** | If the target price is 10-20% higher than the market price |
| **HOLD** | If the target price is 10% below or 10% above the market price |
| **REDUCE** | If the target price is 10-20% lower than the market price |
| **SELL** | If the target price is 20% lower than the market price |
| **NOT RATED** | The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company. |
| **RATING SUSPENDED** | The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock. |

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. It is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

**Target price:** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock, provided the necessary catalysts were in place to effect this change in perception within the performance horizon. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

**Valuation Methodology:** To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

**Risks:** Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

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