

15 December 2010

## SELL

**Target price\*** VND81,000

**Downside** -24%

### Real Estate

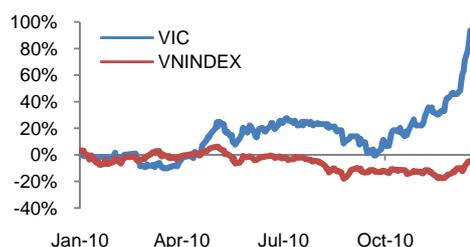
\*Fully diluted price of convertible bond and upcoming issuance

#### Key indicators

Price (15 Dec 2010)	107,000
52-week low	49,630
52-week high	107,000
30-day avg trading vol shares	227,285
Outstanding shares (mn)	368.6
Market cap (VND bn)	39,448
Market cap (USD mn)	1,992
Foreign room (shares mn)	12.3

Valuation	2009	2010F	2011F
EPS (VND)	2,436	3,905	2,383
EPS growth (%)	774	60	-39
P/E (x)	43.9	27.4	44.9
P/B (x)	19.1	8.6	7.9
ROE (%)	43	31	18
ROA (%)	8	7	4
ROIC (%)	8	11	7
Debt/Equity (x)	4.36	1.98	1.37
Dividend yield (%)	1	1	1

Price performance	3M	6M	12M
Absolute %	91	62	94
Relative %	15	21	98



Ownership structure	%
BoD and related persons	54.8
Institutional investors	23.8
Others	21.4

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## Increase target price; downgrade to SELL

We recently met with VIC's management at their headquarters and visited their ongoing projects in both Hanoi and Ho Chi Minh City. Financial results are on track and the company is pursuing aggressive expansion of its projects. We learned from management the company is actively working towards developing its Vincom Village which we believe should start generating sales in 2012. We are raising our target price to **VND81,000** from VND70,000 to reflect new projects in the pipeline. However, considering the recent rally and a 78% increase since our initiation, we believe the stock is overvalued at current level and does not offer any near-term re-rating triggers. Downgrade to **SELL**.

### Impressive revenue increases in Q3-2010

VIC posted VND309bn in revenue and VND51bn in net income (after MI) in Q3-2010 cf. VND183bn revenue and VND105bn net profit (after MI) in Q2. The additional VND126bn in revenue, an increase of 69%, came from Ho Chi Minh City's Vincom Center which began operations in May 2010. The third quarter numbers reflect the office occupancy which reached 20%.

### Fourth quarter results should buoy up FY2010

In the fourth quarter, we expect VIC to record a number of important, but some of which one-off transactions, including the sale of office space and condos at its Ho Chi Minh City Vincom Center, the sale of the Vincom Financial Tower, and the sale of Xavinco. We expect FY2010 net income to increase 60% to VND1,523bn cf. VND1,101 in FY2009.

### Revised valuation

We revised our valuation assumptions to reflect some of the changes taken place both at VIC and within the business environment in the last quarter. These include (i) the assumption of condo selling prices, (ii) VIC's increased ownership of Eco City and the expected sale/development horizon at the project, (iii) retail occupancy at Royal City, and (vi) value contribution from Vincom Village. The revised target price as a result is raised to VND81,000, an increase of 15.7% c.f. the target price upon initiation, but 24% discount to the current market price. We note that the revised share price has taken into account potential dilution (approximately 15%) from the upcoming issuance before VIC lists in Singapore. We think the stock is overvalued at the moment and consequently downgrade its rating from HOLD to SELL.

See important disclosure at the end

### VALUATION REVISION

We raise our SOTP-derived target price to VND81,000 on a fully-diluted basis, to incorporate the company's expansion potential and better-than-expected execution of management's strategies. However, considering the recent run-up in stock price, a 78% increase since our initiation, we downgrade to SELL.

### Valuation summary

SOTP VALUATION	Value (VND bn)	Value per share (VND)	Breakdown (%)	Method
Vincom City Towers	1,119	2,526	3%	DCF
Vincom Park Place	336	758	1%	DCF
Vincom Financial Tower	394	889	1%	DCF
Vincom Center	6,739	15,208	19%	DCF
Eden A	4,179	9,431	12%	DCF
Royal City	5,296	11,951	15%	DCF
Eco City	9,620	21,709	28%	DCF
Viettronics	1,357	3,062	4%	DCF
Vincom Village	5,679	12,817	16%	DCF
Enterprise value	34,719	78,352	100%	
Net cash	2,594			
Minority interest	1,618			
<b>Equity value</b>	<b>35,696</b>			
Outstanding shares	443,122,869			
<b>Share price (VND)</b>		<b>80,555</b>		

We revised our SOTP-derived target price in view of the following:

- Condo price assumption:** It has become clearer to us that Hanoi's real estate market very much resembles the situation in Ho Chi Minh City five years ago, and consequently land price appreciation rate is likely to slow down over the next five years. Therefore, we adjusted our assumptions on price increase of condos in Hanoi from 7% down to 3% per annum in view of the rapid increase in supply which resulted from fast urbanization and expansion of Hanoi in recent months. For example, the completion of the extension of Le Van Luong Street recently, which facilitates convenient transportation to Ha Dong, has spurred the supply of townhouses and condos projects. Recent CBRE data shows that there are currently more than 100,000 townhouses and condo units in Hanoi offered in new projects. This number may double over the next two to three years, providing an additional accommodation to approximately 1/10 of the population of Hanoi, and getting close to the current new supply in Ho Chi Minh.
- Eco City Project:** VIC has increased its ownership in Eco City from 51% to 77% in the third quarter by increasing its stake in Ngoc Viet Real Estate JSC, a major shareholder in Eco City project. VIC bought 34.2% ownership of Ngoc Viet Real Estate JSC, raising its stake in Ngoc Viet to 70% and effectively owning 77% of Eco City project.

Concurrently, VIC accelerated its clearance process. The company expects to finish clearance by the end of 2010 and receive land use rights in early 2011, which enables VIC to start selling in Q1/2011. Management expects to complete this project by the end of 2014, but we think it will take until 2015 at the earliest because of the scale of the project – 3 times of Royal City. We shorten the sale horizon for Eco City from 7 years to 5 years accordingly.

3. **Royal City:** From management we learned the company has already received registrations to lease c. 140,000sqm of a total 262,000sqm at its Royal City retail center. As a result, we increase our assumption on retail occupancy in first year to 80% from 50% previously. We also expect occupancy to reach 90% and 95% in the two subsequent years. Sales of condos are going on as planned, so we leave the previous assumptions unchanged.
4. **Vincom Village:** As VIC has made remarkable progress in developing this project by establishing a financing solution for its development, we have incorporated it into our valuation along with the share dilution that results from the issuance. The company intends to accelerate the clearance process on this promising location c. 7km from Hanoi CBD, in the fourth quarter of 2010. Further, VIC is planning a share issuance before it lists on the Singapore Exchange and will use the proceeds for Vincom Village.

### Vincom Village Project

Project information	GFA (m2)	NSA(m2)
Land area	1,911,900	1,911,900
Villas	493,440	394,752
Apartments	356,140	284,912
Retail	312,585	250,068
Office	178,120	142,496
Others	191,554	153,243
<b>Total</b>	<b>1,531,839</b>	<b>1,225,471</b>

### Cost assumptions

Cost of investment	VND bn
Land clearance+LUR	7,648
Infrastructure	1,912
Construction	
Villas	3,553
Apartments, Office, Others	8,972
Professional fee	1,252
Buffer	2,334
<b>Total cost</b>	<b>25,670</b>
Villas	8,269
Apartments	5,968
Retail	5,238
Office, others	2,985
<b>Stake</b>	<b>51%</b>

### Vincom Village cash flow forecast (VND bn)

Year	2011F	2012F	2013F	2014F	2015F
Cash outflow	7,648	1,912	7,402	15,855	1,639
Capex	7,648	1,912	5,370	10,740	-
Operating expense		-	452	1,758	969
Tax		-	1,580	3,356	669
Cash inflow	-	2,891	9,107	29,458	3,647
Villa sale		2,166	6,876	20,357	
Apartment sale		725	2,231	6,441	
Retail, Office, others				2,660	3,647
<b>Cash balance</b>	<b>(7,648)</b>	<b>979</b>	<b>1,705</b>	<b>13,603</b>	<b>2,008</b>
VIC's FCFF	(3,900)	499	869	6,938	1,024
Discount rate	20%	20%	20%	20%	20%
PV of FCFF	(3,250)	347	503	3,346	412
Terminal value					10,755
PV of terminal value					4,322
<b>Total value</b>					<b>5,679</b>

### Financing solution

Upon issuing more shares to finance for the project, VIC outstanding shares will increase to 443Mn from 389Mn (post-dilution of convertible bonds). We have assumed that the issuing price is VND 75,000, which is a good discount to the current price on a conservative basis. In case VIC is able to issue at a higher price e.g. current market price, the amount of issued shares will drop to 37Mn from the estimated number 53Mn. However, this uncertainty of potential share dilution does not have a material impact on the target share price.

### Upcoming issuance

Expected amount (USD Mn)	200
Amount in (VND Bn)	4,000
Target price (VND)	75,000
Shares to be issued	53,333,333

## VIC: Summary of Financials

Income (bn VND)	2009	2010F	2011F	2012F
<b>Net Revenue</b>	<b>1,974</b>	<b>1,992</b>	<b>2,418</b>	<b>3,162</b>
Cost of Goods Sold	537	817	609	799
<b>Gross Profit</b>	<b>1,437</b>	<b>1,684</b>	<b>1,809</b>	<b>2,363</b>
Operating Expenses	122	300	182	206
<b>Operating Profit/EBIT</b>	<b>1,315</b>	<b>2,340</b>	<b>1,627</b>	<b>2,157</b>
Depr. & Amort.	16	56	101	101
<b>EBITDA</b>	<b>1,331</b>	<b>2,396</b>	<b>1,728</b>	<b>2,259</b>
Financial Income	444	318	267	256
Interest Expenses	378	627	473	426
<b>Profit before Tax</b>	<b>1,384</b>	<b>2,030</b>	<b>1,421</b>	<b>1,987</b>
Tax	283	508	355	497
<b>NPAT</b>	<b>1,101</b>	<b>1,523</b>	<b>1,065</b>	<b>1,490</b>
Minority Interest	203	83	9	17
<b>NPAT to Common</b>	<b>898</b>	<b>1,439</b>	<b>1,056</b>	<b>1,473</b>

Balance (bn VND)	2009	2010F	2011F	2012F
<b>Current asset</b>	<b>7,529</b>	<b>7,373</b>	<b>6,345</b>	<b>4,460</b>
Cash and equivalent	2,772	2,632	2,680	1,864
Internal lending	3,580	2,387	1,193	0
Other current assets	1,177	2,354	2,472	2,595
<b>Non-current Asset</b>	<b>6,784</b>	<b>14,919</b>	<b>23,887</b>	<b>37,164</b>
Investment in properties	4,486	9,270	14,737	22,926
Office/Retail properties	3,497	6,033	8,120	11,349
Residential properties	989	3,237	6,617	11,578
Other non-current asset	2,298	2,413	2,534	2,660
<b>Total Asset</b>	<b>14,313</b>	<b>22,292</b>	<b>30,232</b>	<b>41,624</b>
<b>Liability</b>	<b>10,676</b>	<b>16,038</b>	<b>22,590</b>	<b>33,124</b>
<b>Current liabilities</b>	<b>1,466</b>	<b>5,443</b>	<b>11,061</b>	<b>21,714</b>
Prepaid from customers	40	2,591	8,067	18,570
Other current liabilities	1,426	2,852	2,995	3,144
<b>Long-term liabilities</b>	<b>9,210</b>	<b>10,595</b>	<b>11,528</b>	<b>11,410</b>
Long term debt	9,014	9,117	8,220	5,398
Other long-term liabilities	196	1,478	3,309	6,012
<b>Equity</b>	<b>2,067</b>	<b>4,602</b>	<b>5,982</b>	<b>6,822</b>
Charter capital	1,996	3,686	4,431	4,431
Treasury stocks	(1,898)	(1,081)	(1,081)	(1,081)
Retained earnings	1,969	1,997	2,632	3,472
Minority interest	1,568	1,651	1,661	1,677
<b>Total Capital</b>	<b>14,313</b>	<b>22,292</b>	<b>30,232</b>	<b>41,624</b>

Growth	2009	2010F	2011F	2012F
Revenue growth %	725	1	21	31
EBITDA growth %	NA	80	-28	31
EBIT growth %	2827	78	-30	33
NPAT growth %	774	60	-27	39
EPS growth %	774	60	-39	39
Gross margin %	73	85	75	75
EBITDA/Revenue %	67	120	71	71
EBIT/Revenue %	67	117	67	68
EPS (VND)	2,436	3,905	2,383	3,325
DPS (VND)	1,057	572	952	1,428

Indicators	2009	2010F	2011F	2012F
<b>Liquidity Ratios</b>				
Current Ratio	5.14	1.35	0.57	0.21
Quick Ratio	4.33	0.92	0.35	0.09

Profitability Ratios	2009	2010F	2011F	2012F
ROE %	43	31	18	22
ROA %	8	7	4	4
ROIC %	8	11	7	8

Efficiency Ratios	2009	2010F	2011F	2012F
Days receivables	3	24	24	24
Days inventory	49	50	50	50
Days payables	2	2	2	2

Leverage Ratios	2009	2010F	2011F	2012F
Debt / equity	4.36	1.98	1.37	0.79
Debt / Cap employ	0.63	0.41	0.27	0.13
Interest coverage	3.48	1.82	1.49	2.19

BVPS (1,000 VND)	10,356	12,486	13,499	15,396
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Valuation	2009	2010F	2011F	2012F
At market price of	107,000	107,000	107,000	107,000
P/E	43.9x	27.4x	44.9x	32.2x
P/B	19.1x	8.6x	7.9x	6.9x
EV/EBITDA	36.4x	20.3x	32.2x	23.4x
Dividend yield %	1.0%	0.5%	0.9%	1.3%
At target price of	81,000	81,000	81,000	81,000
P/E	33.2x	20.7x	34.0x	24.4x
P/B	14.4x	6.5x	6.0x	5.3x
EV/EBITDA	29.2x	16.3x	25.5x	18.3x

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