

VINCOM JSC (HSX: VIC)

UPDATE

15 December 2010

SELL

Target price* VND81,000

Downside -24%

Real Estate

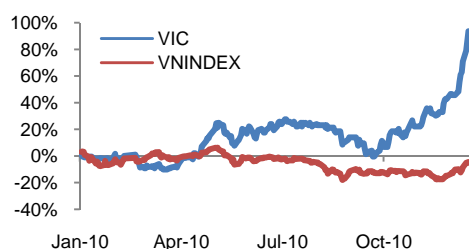
*Fully diluted price of convertible bond and upcoming issuance

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

An Truong, **Analyst**
an.truong@vcsc.com.vn
 T: +84 8 39143588 ext 141

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			
Equity value	35,696			
Outstanding shares	443,122,869			
Share price (VND)	80,555			

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
Total	1,531,839	1,225,471

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
Total cost	25,670
Villas	8,269
Apartments	5,968
Retail	5,238
Office, others	2,985
Stake	51%

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
Cash balance	(7,648)	979	1,705	13,603	2,008
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
Total value	5,679				

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

Balance (bn VND)	2009	2010F	2011F	2012F
Current asset	7,529	7,373	6,345	4,460
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
Non-current Asset	6,784	14,919	23,887	37,164
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
Total Asset	14,313	22,292	30,232	41,624
Liability	10,676	16,038	22,590	33,124
Current liabilities	1,466	5,443	11,061	21,714
Prepaid from customers	40	2,591	8,067	18,570
Other current liabilities	1,426	2,852	2,995	3,144
Long-term liabilities	9,210	10,595	11,528	11,410
Long term debt	9,014	9,117	8,220	5,398
Other long-term liabilities	196	1,478	3,309	6,012
Equity	2,067	4,602	5,982	6,822
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
Total Capital	14,313	22,292	30,232	41,624

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
Liquidity Ratios				
Current Ratio	5.14	1.35	0.57	0.21
Quick Ratio	4.33	0.92	0.35	0.09
Profitability Ratios				
ROE %	43	31	18	22
ROA %	8	7	4	4
ROIC %	8	11	7	8
Efficiency Ratios				
Days receivables	3	24	24	24
Days inventory	49	50	50	50
Days payables	2	2	2	2
Leverage Ratios				
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

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

Analyst Certification

I, An Truong, 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.

Contacts

Head office

67 Ham Nghi, District 1, HCMC
+84 8 3914 3588

Transaction office

136 Ham Nghi, District 1, HCMC
+84 8 3914 3588

Hanoi branch

18 Ngo Quyen St, Hoan Kiem District, Hanoi
+84 4 6262 6999

Transaction office

236 - 238 Nguyen Cong Tru, District 1, HCMC
+84 8 3914 3588

Research

Head of Research

Marc Djandji, M.Sc., CFA, ext 116
marc.djandji@vcsc.com.vn

Research Team

+84 8 3914 3588
research@vcsc.com.vn

Manager, Hoang Thi Hoa, ext 146

Senior Economist, Doan Thi Thu Hoai, ext 139

Senior Analyst, Truong Vinh An, ext 143

Senior Analyst, Dinh Thi Nhu Hoa, ext 140

Senior Analyst, Pham Cam Tu, ext 120

Analyst, Vu Thanh Tu, ext 105

Analyst, Hoang Huong Giang, ext 142

Analyst, Nguyen Thi Ngoc Lan, ext 147

Institutional Sales & Brokerage

Foreign Sales

Michel Tosto
+84 8 3914 3588, ext 102
michel.tosto@vcsc.com.vn

Vietnamese Sales

Nguyen Quoc Dung
+84 8 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Retail Sales & Brokerage

Ho Chi Minh City

Chau Thien Truc Quynh
+84 8 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi

Le Duc Cuong
+84 4 6262 6999, ext 333
cuong.le@vcsc.com.vn

Disclaimer

Copyright 2010 Viet Capital Securities Company. All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investor and retail clients of VCSC, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.