

**VINCOM JOINT STOCK COMPANY-VIC**

 Expected price: **104,000 VND**

PRIME LOCATION, LARGE LAND FUND

 Recommendation: **BUY**
**SHARE INFORMATION**

Market price (25/10/2010)	69,000
52 weeks low	44,270
52 weeks high	70,500
Market Cap (VND bil)	23,381
Outstanding shares	368,213,133
10-day average volume	117,293

**FINANCIAL INFORMATION**

Unit: VND billion	2009	2010E
Total asset	14,313.4	17,922
Owner's equity	2,066.9	4,116
Total revenue	1,974.4	1,200
Profit after tax	1,101.7	807

**FINANCIAL RATIOS**

Indicator	2009	2010E
Revenue growth	725.4%	-39.2%
Profit after tax growth	775.1%	-26.7%
Asset growth	137.7%	25.2%
Owner's equity growth	27.4%	99.2%
EPS growth	388.4%	-58.8%
Gross profit margin	72.8%	89.9%
Net profit margin	69.4%	68%
ROE	59.7%	26.1%
ROA	10.8%	5.0%

**VALUATION RATIOS**

Indicator	2009	2010E
EPS (dong/share)	5,328	2,192
P/E (x)	12.59	31.48
P/B (x)	6.66	6.17

**BUSINESS ACTIVITIES**

**Business activities.** VIC's main activities are to provide real estate services and products in high-end segment, at the prime location of major cities such as Hanoi, Hai Phong, and Ho Chi Minh City. Recently, VIC has expanded its business area to mining, building new urban area including other diverse products such as schools or hospitals....

**INFORMATION UPDATE**

In the first 9 months of 2010, VIC's revenue reached VND 509.8 billion and profit after tax was VND 228.7 billion. Accordingly, VIC completed 45.72% and 90.3% of the revenue and profit planed for 2010.

**INVESTMENT HIGHLIGHTS**

**Owning large land funds in prime locations and concentrating on premium segment of real estate.** VIC's advantage is getting land funds at prime locations so VIC mainly concentrates on premium segment with high profit margin. VIC provides three main types of product: office for lease, retail spaces for lease and luxury apartment. Currently, VIC owns approximatively 726 ha including 11 projects have been and will be deployed, mainly located in the center of Ha Noi and Ho Chi Minh city (see table in page 2).

**In 2010, revenue could reach about 1,192 bil. VND and profit after tax was 807 bil. VND, corresponding to 2010 EPS around 2,192 VND.** VIC's 2010 profit comes maily from the transfer of the entire project Vincom Financial Tower (About 840 bil. VND gross profit) and the remainder are from leasing activities of commercial center, retail and office leasing of Vincom City Tower building, Vincom Park Place, Vincom Center (about 1,072 bil. VND).

**A large number of projects guarantee VIC's incomes in the coming years.** A number of large and potential project such as Royal City (120,942 m<sup>2</sup>) in Thanh Xuan district (HN), Eco City (364,480 m<sup>2</sup>) in Hai Ba Trung district (HN); Trade center and apartments Viettronics (13,033 m<sup>2</sup>) in Dong Da district, Vincom Hai Phong (19,536 m<sup>2</sup>), Long Bien (4,800,000 m<sup>2</sup>), Vincom Village (1,911,900 m<sup>2</sup>) in Long Bien district (HN) ....will be deployed in the coming years.

**Pressure to pay high interest and principal debt.** VIC's long-term debt is 10,000 billion. In the two years 2010-2011, VIC will need about 1,000 billion every year to pay interest on their loans.

**INVESTMENT RECOMMENDATION**

*We recommend **BUY** for VIC shares. VIC has the advantage of a large land fund at prime locations, to raise capital and good experience in implementing projects. In addition, VIC has high and stable revenues from the lease activities in the 3 towers finished. Growth rates in the coming years could reach high levels with projects are already underway. According to our estimates, the value of VIC share is around **104,000 VND** per share, which means that VIC is being traded 40% under its intrinsic value.*

**Large fund land and projects at prime locations in major cities.** VIC owns many projects located in central areas of major cities such as Hanoi and Ho Chi Minh city. Currently, VIC is exploiting 315,388 m2 of office spaces and retail spaces for lease (VinCom City Tower, Vincom Center and Vincom Park Center); approximately 23,388 m2 apartments finished and ready for sale (Vincom Center), and approximately 691,798 m2 apartments is in progress (Royal City).

The company is also developing complex projects including residential, office for rent, hotel and commercial center in Hanoi (Thanh Xuan, Hai Ba Trung, Dong Da and Long Bien) and Ho Chi Minh City (Eden quadrangle). The total area of this project is around 700 ha.

VIC's project list									
Project		Location	Scale	Ground area	Capital estimated	% ownership	Revenue estimated	Gross profit margin estimated	Progress
<b>The project finished and in exploitation</b>									
1. Vincom City Tower	Commercial Center, Office, Apartment	Street Bà Triệu, Hà Nội	6,713 m2	71,577 m2		100%	280 bil/year	250 bil /year	Under exploitation
2. Vincom Park Place	Commercial Center, Apartment	Street Bà Triệu, Hà Nội	3,609 m2	56,824 m2		74.41%	100 bil /year	90 bil/year	Under exploitation
3. Vincom Center	Commercial Center, Office, Apartment	District 1, Hồ Chí Minh City	10,843 m2	186,937 m2		100%	Leasing revenue: 1,300 bil /year Sale apartment revenue: 3,800 bil	1,170bil/year Sale apartment profit: 2,700 bil	Under exploitation
4. Vincom Financial Tower	Office	Nguyễn Công Trứ, District 1	2,146 m2	31,300 m2		80%	1.460 bil	880 bil	Under negotiation for selling whole project
<b>On-going projects</b>									
5. Eden A	Commercial Center, Hotel	District 1, Hồ Chí Minh City	8,800 m2	113,050 m2	3,500 bil	100%			In compensation progress. Expected to start construction 2010
6. Royal City	Residential, Commercial Center, school	Nguyễn Trãi street, Thanh Xuân, HN	120,942 m2	1,216,885 m2	10,000 bil	51%			In construction. 1.400 appartments sold
7. Eco City	Residential, Commercial Center, school, hospital	Hai Bà Trưng, Hà Nội	364,480 m2	2,308,535 m2	20,000 bil	54.14%			Expected to start construction in 2010
<b>Projects will be implemented</b>									
8. Viettronics	Commercial Center, Office, Apartment	Nguyễn Chí Thanh, Đống Đa, Hà Nội	13,033 m2	211,456 m2	3,200 bil	49.9%			Approval in principal
9. Vincom Hải Phòng	Commercial Center, Office, Apartment	Ngô Quyền District, Hải Phòng	19,536 m2	161,777 m2	1,800 bil	90%			In planning
10. Vincom Village	Villas, Commercial Center, Apartment, School, Hotel	Long Biên, Hà Nội	1,911,900 m2	1,531,869 m2		51%			Expected to start construction in mid 2011
11. Long Biên	Commercial Center, school, villas	Long Biên, Hà Nội	4,800,000 m2			100%			Approval in principal

Source: VINCOM, BVSC

**Focus on high-end segment of the office leasing, retail spaces and apartments sales.** Due to owning a large fund land at prime locations in the big cities like Hanoi and Ho Chi Minh City so VIC has the advantage of developing high-end segment of the real estate industry with products such as office for rent, retail space and apartment. VIC has the capability to acquire many good projects at good location and has successfully deployed 3 projects such as: The VTC twin towers, Vincom Park Place and Vincom Center.

Although the apartments and retail space's supply is increasing, however, for the spaces in prime locations, situated in the center of the large urban areas, their consumption and prices will not be affected much due to limited supply.

**Office and retail space leasing activities:** Currently, VIC is exploiting three buildings: VTC, Vincom Park Place and Vincom Center with 63,145 m<sup>2</sup> of retail space and 91,131 m<sup>2</sup> of office leasing. Occupancy rates of retail space and offices in VTC and Vinpark has reached high levels (about 98%) and occupancy rates at Vincom Center reached 90% for the retail area and 40 % for office space.

According to our assessment, although retail space and office space supplies are increasing but mainly located in districts far from city center, so rental prices can be diluted. However, due to limited land fund at prime locations, rental prices couldn't be decreased and we believe that VIC can maintain its prices especially for its retail spaces.

Leasing revenue growth in 2011 mainly due to occupancy rate growth of office area in Vincom Center is expected to be 90%. From 2013, retail spaces and office areas will increase as Eden, Royal City, Viettronisc and Vincom Hai Phong would be completed. The 4 projects would contribute more than 320,000 m<sup>2</sup> space for lease and will bring stable income for VIC in the next coming years.

Retail space and office area							
Project	Retail space (m <sup>2</sup> )	Office area (m <sup>2</sup> )	Occupancy rate		Rental average (USD/m <sup>2</sup> /month)		Status
			Office	Retail space	Office	Retail space	
<b>Project on exploitation</b>							
Vincom City Tower	18,233	15,950	98%	98%	31	36	Under exploitation
Vincom Park Place	10,966	-	-	98%	-	39	Under exploitation
Vincom Center	33,946	75,181	40%	90%	40	80	Under exploitation
<b>On-going project</b>							
Eden	48,825						2013
Royal City	170,000						2014
<b>Project will be implemented</b>							
Viettronics	61,384	6,163					05-2013
Vincom Hai Phong	28,412	10,485					08- 2013
Eco City	352,726						2014
Vincom Village	312,585	178,120					2015
Long Bien	47,131						2017
<b>Total</b>	<b>1,084,208</b>	<b>285,899</b>					

Source: VIC, BVSC

**Premium apartment sales activities:** In 2009, VIC has sold 208 apartments in Vincom Park Place Tower; the total area sold is approximately 29,000 m<sup>2</sup> at an average price before tax of 3,686 USD/m<sup>2</sup>. VIC has more than 17,000 m<sup>2</sup> apartments area in Vincom Center, expected sales and accounted sales in 2011 with that price can reach about 8500 to 10,000 USD/m<sup>2</sup> (equivalent to revenue from 2,700 to 3,200 billion).

When the on-going projects are completed, 2 million m<sup>2</sup> apartments and villas will be offered in the market. Royal City project will give more than 680,000 m<sup>2</sup> of premium apartments, and 2 towers of this project have been sold with 300,000 m<sup>2</sup> at 2,000 USD/m<sup>2</sup> before tax. Eco City will have 1.4 million m<sup>2</sup> apartments, focus on medium segment. This project will be deployed at the end of 2010. Moreover, there will be an additional 100,000 m<sup>2</sup> floor area of premium apartment of Viettronics project at Nguyen Chi Thanh street and 87,000 m<sup>2</sup> of Vincom Hai Phong project.

Area of residential, villas and hotels					
	Appartment (m <sup>2</sup> )	Villas (m <sup>2</sup> )	Hotel (m <sup>2</sup> )	Average price (USD)	Status
Vincom Park Place	29,646			3,686	Under exploitation
Vincom Center	23,388			8,500-10,000	Under exploitation
Eden			32,025		Expected to start exploitation in 2013
Royal City	668,410			1,400 apartment sold, price 2,000 USD/m <sup>2</sup> before tax	Expected to start exploitation in 2014
Vincom Hải Phòng	87,428				Expected to start exploitation in 08-2013
Viettronics	104,014				Expected to start exploitation in 05-2013
Eco City	1,407,244				Expected to start exploitation in 2014
Vincom Village	356,170	493,440	17,060		Expected to start exploitation in 2015
Long Bien	557,976				Expected to start exploitation in 2017
<b>Total</b>	<b>3,234,276</b>	<b>493,440</b>	<b>49,085</b>		

Source: VIC, BVSC

**High financial expenses and pressure of repayment.** As in 30/06/2010, VIC's long-term debt is about 10,000 billion VND, of which about 2,400 billion bank debt and 7,600 billion bonds (of which \$100 million (nearly 2,000 bil. dong) is convertible bonds). With a large amount of long-term debt, interest expenses are big burden for VIC. According to our estimates, during 2010 - 2014, VIC will have to pay about 1,000 billion interest loans per year not including principal. These payments will create additional burdens on cash flow and financial costs of company in the coming years.

The bonds debts will mature in 2014 and BIDV loans will mature in 2019. Until now, nearly 8 million shares were converted among the total of 30 million shares may convert from the issuance of \$100 million convertible bonds. The rest expected to be converted until 2014.

VIC's repayment plan (bil VND)						
	2010	2011	2012	2013	2014	2015
<b>Payments</b>	<b>844</b>	<b>1,258</b>	<b>6,437</b>	<b>3,225</b>	<b>2,078</b>	<b>1,436</b>
<i>1, Principal</i>	-	150	4,622	2,300	1,731	1,300
Bonds			2,450	2,000	1,431	1,000
Long - term debts		150	2,172	300	300	300
<i>2, Interest expenses</i>	844	1,108	1,815	925	347	136

Source: VINCOM, BVSC

**In 2010, revenue could reach about 1,200 billion and net profit could reach around 807 billion.** Compared with 2009, revenue dropped 39.2% and net profit decreased 26.7%. The reason for this decline is in 2009, the company's revenue has accounted mutations from the apartment's sale in Vincom Park Place tower. In 2010, VIC has also transferred the Vincom Financial Tower but this transfer does not account in revenue but is accounted in financial revenue. In addition, interest expense in 2010 increased to 844 bil. VND compare to 300 bil. VND in 2009 which is also an important reason leading to the reduction VIC's income.

These main activities contribute into 2010's profits:

- **Transfer of Vincom Financial Tower project.** According to our estimates, sales value of Vincom Financial Tower project has contributed about 880 billion to financial profit of the company in 2010.
- **Leasing activity is expected to reach 1,191 bil. dong revenue and 1,072 bil. dong gross profits.** Revenue and profit from leasing activities comes mainly from three towers VTC, Vin Park and Vincom Center. Compared to 2009, leasing activities revenue increased 257% due to Vincom Center was put into the market on 30/04/2010.
- **Financial expenses surged.** VIC has issued bonds of more than 4,000 billion in the end of 2009 and the early of 2010, bringing the total long term debt of the company up to 10,000 bil. dong. Thus, in 2010, the company has suffered an additional interest expense of about 844 billion.

**Profit in 2011 will be likely to increase fast (about 172.8%).** The growth rate in 2011 will continue to be at high level, revenue may reach about 5,480 bil. dong and profit after tax can reach about 2,202 bil. dong. The major projects contributing to profits in 2011 are:

- **Gross profit from apartment sales is expected to reach 2,700 bil. VND.** Revenues from the apartment sales of Vincom Center, estimated to reach 3,800 bil. VND in revenue and 2,700 bil. VND in gross profit.  
In 2010, 1,400 apartments of Royal City project were sold at the average sale price of 2,000USD/m<sup>2</sup>. This amount has been transferred to the company but has not been accounted in revenue because the company only takes it in to account when apartments delivered to the customers (expected to be in 2013). Advanced amount received from this operation is estimated at USD 110 mil.
- **Gross profit from the office leasing and retail spaces may reach 1,439 billion, up 26%.** Revenue expected from spaces leasing at the towers will increase approximately 30%, the reason is Vincom Center will be exploited fully 12 months compared to 8 months of 2010. Moreover, the occupancy rate of 75,181 m<sup>2</sup> office spaces for rent in this tower is expected to reach 90% compared with only 40% of 2010.
- **Financial expenses in 2011 will be 1,100 bil. VND.** The interest expense is continued to be 1,000 bil. VND which comes from the company's long-term deb.

<b>VIC's financial results forecast (bil. VND)</b>		
	<b>2010E</b>	<b>2011F</b>
<b>Revenue</b>	<b>1,192</b>	<b>5,480</b>
- <i>Leasing activity</i>	<i>1,192</i>	<i>1,680</i>
▪ Vincom City Tower	265	280
▪ Vincom Park Place	73	100
▪ Vincom Center	853	1,300
- <i>Apartment sales</i>	-	<i>3,800</i>
▪ Vincom Center		3,800
<b>Gross profit margin</b>	<b>1,072</b>	<b>4,139.4</b>
- <i>Leasing</i>	<i>1,072</i>	<i>1,439</i>
▪ Vincom City Tower	239	246
▪ Vincom Park Place	65	68.4
▪ Vincom Center	768	1,125
- <i>Apartment sale</i>	-	<i>2,700</i>
▪ Vincom Center		2,700
<b>Financial revenue</b>	<b>1,460</b>	-
Revenue from Vincom Financial Tower's transfer	1,460	
<b>Financial expenses</b>	<b>1,464</b>	<b>1,108</b>
Cost price of Vincom Financial Tower	620	
Interest expense	844	1,108
<b>Management and sales fees</b>	<b>59.6</b>	<b>274</b>
<b>Profit before tax</b>	<b>1,009</b>	<b>2,757</b>
<b>Profit after tax</b>	<b>807</b>	<b>2,206</b>

*Source: BVSC*

**A large number of projects guarantee the VIC's incomes in the coming years.** Royal City project in Thanh Xuan, Hanoi, with an area of 120,942 m<sup>2</sup> is expected to contribute to the revenue in 2011. The complex Eco City in Hai Ba Trung district with 364,480 m<sup>2</sup> area focuses on medium segment. This project will be deployed at the end of 2010 and will contribute to VIC's revenue at least in 2014. In addition, Vincom Hai Phong Commercial center and apartments and Viettronics projects will contribute to VIC's revenue in the future. The two largest projects are expected to contribute revenue for a long time is Vincom Village (1,911,900 m<sup>2</sup>) and Long Bien, at Long Bien District with an area of 4,800,000 m<sup>2</sup>.

## **RISK**

*Risk of macro-economic policy changes.* The real estate market is strongly affected by macro-economic factors. Economic depression or tightened cash flow can lead to declines in real estate asset prices, low market liquidity or a frozen real estate market.

*Risk of depreciation due to supply surplus.* According to forecasts, to 2013, there will be a total of 1.3 million m<sup>2</sup> of retail space in Ho Chi Minh City and approximately 1 million m<sup>2</sup> in Hanoi. Increasing competition may affect rents and occupancy rates can be reduced. However, we appreciate that this risk

is low for VIC due to its prime locations and the supply limited in these types of location.

*Risk of high deb amount and, interest expenses.* Currently VIC's long-term debt at a high amount of VND 10,000 billion with more than VND 1,000 billion interest to pay since 2011. In addition, large fund projects and premium segment which is VIC focus to develop will need high amount of capital. The pressure to pay principal and interest will affect heavily on the business, also when the current loan matured (in 2014 all the corporate bonds will mature), VIC will also have to continue borrowing to develop their projects.

## SHARE VALUATION

The NAV method is applied to those projects which are owned by VIC while the DCF is applied to calculate money flow from office's leasing activities. The NAV is defined by the value of land own right for the projects have not started yet (Eden, Eco City, Viettronics, Vincom Village) or mark to market value for the finished and operating projects.

The Long Bien's project is not accounted in our valuation method due to the lack of information and the time scale of project (in the next 5 to 6 years). In addition, we also did not take into account the value of Vincom Hai Phong's project since its land own right is not owned by VIC and the project has not started yet.

The number of shares which are used in our valuation method, are included the convertible bond.

According to our valuation method, the fair value of VIC's share is expected at **104,000 VND/share**.

VIC shares valuation (Unit: VND)	
Value difference of Eden project	1.610.043.348.3733
Value difference of Eco City project	5.200.851.719.475
Value difference of Viettronics project	923.888.190.5738
Value difference of Vincom Village project	11.133.756.450.0000
Value difference of Vincom Center HCM project	5.922.212.397.292
Value difference of Royal City project	11.975.751.856.398
Value difference of Vincom Financial Tower project	630.000.000.000
Cash flow of VTC's rental value	881.430.080.416
Cash flow of VPP's rental value	341.949.472.084
<b>Owner's equity</b>	<b>2.066.943.051.048</b>
<b>Total value of shareholders</b>	<b>40.686.147.977.731</b>
Outstanding shares	368.213.113
Number of shares will be converted	24.639.399
<b>Price per shares</b>	<b>104.000</b>

APPENDIX: VIC BASIC INFORMATION

BVSC RECOMMENDATION			
History	Update date	Expected price	Recommendation

OWNERSHIP INFORMATION			
		<p>■ Domestic investors ■ Foreign investor</p>	
Major shareholder	Volume of shares	% ownership	Update date
Mr Phạm Nhật Vượng	84.987.270	42.57%	21/10/2009
Viet Nam Investment JSC	25.895.712	12.97%	01/12/2009
Mrs Phạm Thúy Hằng	10.599.508	5.36%	21/10/2009

FINANCIAL REPORT		
Unit (billion VND)	2008	2009
<b>Profit and loss</b>		
Revenue	239.2	1,974.4
Cost price	60.7	537.3
Gross profit	178.5	1,437.1
Financial Income	413.0	432.9
Financial Expense	316.0	378.0
Profit after tax	125.9	1,101.7
<b>Balance sheet</b>		
Current asset	2,373.8	7,528.5
Cash & cash equivalents	26.8	1,426.9
Court-term financial investments	1,630.5	4,898.0
Short-term receivables	489.3	1,007.8
Inventories	25.2	14.4
Other current assets	202.0	181.3
Non-current asset	3,647.8	6,784.9
Tangible fixed assets	27.3	39.1
Real estate investment	245.3	530.4
Long-term financial investments	937.9	1,446.7
Other long-term investments	206.5	275.6
Total asset	6,021.5	14,313.4
Liabilities	4,399.0	10,677.6
Current debts	1,102.0	1,466.9
Non-current debts	3,296.9	9,210.7
Owner's equity	1,622.5	2,066.9
Chartered capital	1,497.9	2,066.9
Total liabilities and owner's equity	6,021.5	14,313.4

FINANCIAL RATIOS		
Indicator	2008	2009
<b>Growth indicator</b>		
Revenue Growth (%)	32.7%	725.4%
Profit after tax growth (%)	-53.2%	775.1%
EPS growth (%)	-62.9%	388.4%
Total asset growth (%)	89.4%	137.7%
Owner's equity growth rate (%)	-16.1%	27.4%
<b>Profitability ratios</b>		
Gross profit margin (%)	74.6%	72.8%
Net profit margin (%)	59.2%	69.4%
ROA (%)	2.7%	10.8%
ROE (%)	7.1%	59.7%
<b>Capital structure ratios</b>		
Total debt/ Total assets (%)	73.1%	74.6%
Total debt/ Total owner's equity (%)	271.1%	516.6%
<b>Payment ratio</b>		
Current ratio (x)	2.15	5.13
Quick ratio (x)	2.13	5.12
<b>Operating ratios</b>		
Inventories turnover	4.79	27.14
Liabilities turnover	1.97	5.20
Accounts receivables turnover	50.89	11.31
<b>Per share ratio</b>		
EPS (dong/share)	1,091	5,328
Book value (dong/share)	13,523	10,354
<b>Price valuation ratio</b>		
P/E	63.24	12.59
P/B	5.1	6.66



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