

# COMPANY UPDATE

**HCMC INFRASTRUCTURE  
INVESTMENT JSC- CII**

JANUARY 5, 2009

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# Ho Chi Minh City Infrastructure Investment JSC (CII)

## COMPANY PROFILE

Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) was established in 2001 by two major co-founders, HIFU and INVESCO. The Company's core business is traffic toll fee collection, in addition to financial investment in public infrastructure projects and real estate trading. CII was listed on HOSE in May 2006, and has been considered as one of the biggest players in infrastructure investment sector. The Company is taking the right to collect toll fees at Ha Noi Highway and Kinh Duong Vuong route.

## GENERAL INFORMATION

Sector	Infrastructure
Listed	HOSE
Ticker	CII
Charter Cap. (VNDbn)	400.2
52-week highest price	57,710
52-week lowest price	22,270
Average trading vol in 10 days	35,084

## VALUATION MEASURES

Price (05/01/2009)	27,000
Market Capital (VNDbn)	1,081
EPS (2008)	3,502
P/E (2008)	7.7
P/B (2008)	1.2
ROE 2008 (%)	17.3
ROA 2008 (%)	7.2

## INVESTMENT HIGHLIGHT

### **An industry of the Government's top priority and huge incentives.**

Upgrading infrastructure has been identified as an urgent and vital task for the country for sustainable growth in the future. Therefore, the government has promulgated numerous policies to stimulate the industry through encouraging privatization of infrastructure projects, tax incentives as well as source of funding, which CII can enjoy for future development.

**A leader in a niche market segment.** CII's business model is relatively unique - investing in infrastructure projects by buying the use right to collect toll fees from the Government. This is a niche market in which there have been just a few players participated so far, and CII stands out as the market leader with its well-known brandname, management experience, established reliability with the authority to secure profitable deals in traffic toll right and service.

**Sustainable cashflow from core business.** Toll fees from two existing roads, Hanoi Highway and Kinh Duong Vuong, provide the company a stable stream of revenue till the year 2014, estimated at VND 700mn per day. For the year 2009, direct toll fee collection from Binh Trieu 2 Bridge project will promise to generate an incremental cashflow for the company in 2009 once the terms are finalized. Moving forward, Rach Chiec Bridge project, targeted to complete and operate in 2014, will be the substitute for Ha Noi Highway and Kinh Duong Vuong, of which toll fee collection rights will expire at that time.

**Lower interest rates and stimulus package of the Government will pave way for project pipeline of CII.**

**Binh Trieu Bridge 2.** CII is in final stage of negotiating the terms for the right to collect toll fees at Binh Trieu Bridge 2 directly with purchase price of VND 800bn. It expects to reach final agreements in the beginning of 2009. The company currently delivers the service to collect one-way toll fees for the City's budget since November 2006, which contributed annual income of around VND 36bn.

**Phan Rang-Thap Cham BOT Project.** In November 2008, CII signed a construction contract under BOT terms to broaden the bypass of National Road No 1A in Phan Rang-Thap Cham City with total investment cost of VND 548bn.

**Rach Chiec Bridge Project.** Moving to December, the company signed a new contract to construct Rach Chiec Bridge and collect toll fees for 12 years commencing 2014. The project's investment cost is estimated at VND 1,000bn and will be disbursed over a 4-year period from 2009 to 2012 upon schedule of completion. In addition, CII is currently involved in 10 large-scale infrastructure investment projects in roads and bridges, water plants, and industrial parks.

## FINANCIAL RATIOS 9M/2008

Revenue (VNDbn)	184.9
Net Income (VNDbn)	113.5
Gross margin (%)	76.1
Net margin (%)	61.4
EBITDA margin (%)	80.5
Total Debt/Total Equity (%)	120.2
EPS (VND)	

## OWNERSHIP STRUCTURE

State (%)	0
Foreign (%)	47.6
Others (%)	52.4

## SHARE PRICE PERFORMANCE



Source: Reuters

## FINANCIAL HIGHLIGHT

**Revenue and profit in 2008 in line with company's plan.** For the first three quarters, CII posted VND 184.9bn in revenue and VND 113bn in net profit, up 39.5% and 39.2% yoy, respectively. Revenue growth was driven by the sale of 50 apartments at 225 Ben Chuong Duong while revenue from core business increased by only 7% compared to the same period last year. In Q3/2008, dramatic increase in financial income was realized from selling and booking profits from some of its real estate projects. This ensured the company will end the year achieving its profit target.

We note that in Q3/2008, the company recorded a sizable amount of VND 1,160bn in long-term financial investments, which consist of VND 143bn in stock, VND 50bn in corporate bonds, and VND 967bn in other investments. CII purchases OTC shares of companies in which it plays the role of strategic partners at prices much lower than market price. As with other investments, CII participates in urban infrastructure projects and real estate and plans to liquidate their shares in these projects when they are ready for operation. Hence, despite of the big downturn in the Vietnam financial market in 2008, the company does not need to make provision for potential financial losses at the end of the year.

**Stable outlook for 2009.** The Company plans for 20% revenue growth in 2009, with the add-on of the direct toll fee collection on Binh Trieu 2 Bridge. Meanwhile, CII also intends to sell some of the company's real estate projects like Dien Bien Phu Tower, Hoan Thanh Tower, and 577 Garden 1 project to smooth financial income. However, there will be not much change in the bottom line as tax exemption will expire in 2009.

## VALUATION

CII is now traded at a P/B 2008 of 1.3x and P/E 2008 of 7.7x, making the company quite a candidate to consider in the portfolio for long term investors, given stable cashflow from traffic fee collection, the roll-over of infrastructure project pipeline and future potential gains from investments in other infrastructure and real estate projects.

## RELATED RISKS

**Fundings for projects is the biggest challenge.** To finance the company's exhaustive list of many projects, the company has to mobilize an estimate of VND1,000bn per year. With no plan to issue additional shares, CII will have to rely on loans from banks, debt instruments, and liquidation of the company's investment projects to raise capital. Even though the credit market has loosened recently, making it easier to borrow and the stimulus packages are expected to be in great help for the infrastructure industry, the amount is still a sizable number. And prolonged funding cycle could eventually hurt the bottom line.

## SUMMARY OF HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

INCOME STATEMENT (VND Bn)	2006A	2007A	9M 2008A	2008E
Revenue	166,623	129,634	184,917	229,765
Cost of goods sold	457	385	44,110	44,424
Gross profit	166,166	177,039	140,807	185,340
Operating Profit	70,552	67,658	59,463	79,824
Profit before tax	54,061	107,124	123,811	155,712
<b>Profit after tax</b>	<b>47,689</b>	<b>95,819</b>	<b>113,531</b>	<b>140,141</b>

BALANCE SHEET (VND Bn)	2006A	2007A	9M 2008A	2008E
Cash	10,841	15,721	10,050	60,000
Short term receivable	9,478	55,913	165,469	165,451
Inventory	250	12,668	43,326	43,326
Other current asset	-	-	2,633	3,272
Fixed asset	573,473	515,099	464,513	446,575
Long term investment	482,852	1,072,263	1,160,478	1,160,478
Other long term assets	14,364	37,892	62,752	62,879
<b>TOTAL ASSET</b>	<b>1,091,380</b>	<b>1,709,684</b>	<b>1,909,348</b>	<b>1,941,979</b>
<b>Liabilities</b>				
Short term loans	146,549	45,992	153,000	157,639
Payables	82,715	137,979	82,165	83,963
Long term debt	489,926	734,034	817,525	817,111
<b>Equity</b>				
Chartered capital	300,000	400,000	400,200	400,200
Treasury stock	-	-	-30,695	-30,695
Capital Surplus	-	249,307	249,307	249,307
Retain Earnings	39,655	89,005	123,694	150,304
Other fund	32,535	35,359	42,119	42,119
<b>Minority Interest</b>	<b>-</b>	<b>19,090</b>	<b>72,032</b>	<b>72,032</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,091,380</b>	<b>1,709,684</b>	<b>1,909,348</b>	<b>1,941,979</b>

FINANCIAL RATIO	2006A	2007A	9M 2008A	2008E
Revenue growth (%)	-0.3%	6.5%	39.4%	29.5%
Gross profit margin (%)	99.7%	99.8%	76.1%	80.7%
Operating profit/sales (%)	28.6%	54.0%	61.4%	61.0%
ROA (%)	4.4%	5.6%	5.9%	7.2%
ROE (%)	12.8%	12.4%	14.5%	17.3%
EPS (VND)	1,590	2,395	2,837	3,502
EPS growth (%)	67.6%	50.7%	29.0%	46.2%

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