

## Listing information

Name: Foreign Trade Development and Investment Corporation of HCMC

Listed code FDC

Listed share 14,297,699

Outstanding shares 14,297,699

Listing bourse HOSE

First trading date 18-Jan-2010

Reference price VND40,000

Foreign ownership limit 49%

Source: Company

## Key Numbers (VNDmil)

2007

2008

Total assets 757,998 792,754

Owner's equity 115,512 234,444

Net sales 285,513 377,349

Pre-tax profit 25,301 16,802

After-tax profit 20,540 10,827

Source: Company

## Earnings model

VNDmn	FY2009	% y/y	FY2010	% y/y	FY2011	% y/y
Revenue	285,513	-24%	377,349	32%	472,106	25%
Pre-tax profit	88,258	425%	71,224	-19%	101,101	42%
Net profit	72,813	573%	53,418	-27%	75,826	42%
Pre-tax margin	31%		19%		21%	
Net margin	26%		14%		16%	
EPS	5,093	485%	3,736	-27%	5,303	42%
BVPS	15,837	-5%	16,139	2%	17,441	8%
ROA	8.4%		5.3%		7.2%	
P/E (at target price)	10.7		14.5		10.2	
P/B (at target price)	3.4		3.4		3.1	

VNDmm	FY2012	% y/y	FY2013	% y/y	FY2014	% y/y
Revenue	515,838	9%	531,546	3%	609,103	15%
Pre-tax profit	110,833	10%	124,652	12%	128,352	3%
Net profit	83,124	10%	93,489	12%	96,264	3%
Pre-tax margin	21%		23%		21%	
Post-tax margin	16%		18%		16%	
EPS	5,814	10%	6,539	12%	6,733	3%
BVPS	19,065	9%	21,148	11%	23,351	10%
ROA	7.8%		8.3%		7.9%	
P/E (at target price)	9.3		8.3		8.1	
P/B (at target price)	2.8		2.6		2.3	

Source: HSC estimates

## Main Ratios

2007

2008

## Liquidity

- Current ratio 1.40 1.17

- Quick ratio 0.35 0.32

## Profitability

- Gross margin 16.9% 22.5%

- Net margin 7.2% 2.9%

- ROE 24.1% 6.2%

- ROA 1.8% 0.7%

## Operating Efficiency

- Receivable turnover 4.30 4.44

- Inventory turnover 0.93 0.88

- Asset turnover 0.50 0.49

- Equity turnover 3.35 2.16

Source: Company

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## OUTPERFORM

- We rate Fideco as an outperform with a fair value price of VND54,286.
- Fideco (ticker FDC) will list 14,297,699 million shares on HOSE on 18<sup>th</sup> January 2010. The reference price will be VND40,000.
- This stock is valued at the reference price at a forward P/E of 7.85 times and a forward P/B of 2.5 times. Its peer comparables are trading at an average forward P/E of 16.2 times and P/B of 3.0 times.
- We forecast Fideco's revenues will grow 32% y/y in FY2010 however net profit will decline 27% y/y as the company won't enjoy extraordinary income from the Dong Binh Duong project and will pay full CIT.
- Over the next 5 years, we see growth in Fideco's import & export business. In addition, they have a very decent real estate pipeline and with a good execution record can generate substantial earnings therein.

## Investment conclusion

Fideco is a well managed real estate developer with prime properties located in HCMC's CBD. At the reference price the company is valued at a forward PE of 7.85 times which represents a substantial discount to its peers. We have valued the company at an adjusted NAV of VND54,286.

Foreign Trade Development and Investment Corporation of HCMC (Fideco) was established in 1989 with a traditional business import & export model. However the company has recently expanded into real estate development and financial investment. About 60% of earnings now come from real estate development and office leasing.

Fideco currently has a building for lease located on 1,124sqm in Ham Nghi Street (district 1) which is 100%-occupied at the average rent of US\$43 per sqm per month. And then they also own two other offices building in 26-28 Phung Khac Khoan street (district 1) which are also fully occupied and leased at the average rental of US\$17 per sqm per month. Additionally, the company plans to rebuild the current buildings in 26-28 Phung Khac Khoan street to become a mix-used building which will be then be let out at a much higher rent.

Fideco has a land bank totaling 58.4ha in district 2, Can Gio and Binh Duong province and a pipeline of residential area and industrial park in Trang Bang project (190ha in Tay Ninh province) and Tan Duc project (1,200ha in Binh Thuan province).

Fideco third business area is an import and export business. Currently, Fideco exports many kinds of products like agricultural products, building material and equipment, and consumer goods. They also import wheat to provide raw materials for their wheat flour operation. Export products include frozen seafood, agricultural products, ceramic pottery, and handicrafts.

Fideco has an associate company namely Hai Viet which processes seafood for export purpose. HSC believes that this division will show solid growth over the next five years thanks to some long-term contracts with customers.

In FY2008, the company posted fairly unimpressive results due to heavy provisions against stock investment losses. However, we understand FY2009 saw decent top line and bottom line growth partly due to the recovery of the stock market and partly due to higher earnings from the office for lease division. Fideco's building in Ham Nghi went into operation and they have also see some extraordinary income from the Dong Binh Duong project.

Looking forward the company has a strong pipeline of real estate projects and will also continue to see earnings growth in both the office for lease and trading divisions. To finance their current pipeline however, Fideco may have to increase debt in FY2010 resulting in higher interest expenses.

Correspondingly therefore, although FY2010 sales in our earnings model is forecasted to grow 7% and gross margin will increase slightly from 28.6% to 28.8%, pre-tax margin will sink to 14.5% from 19.2% leading to a 19% y/y decline in pre-tax profit.

From FY2011-2014, our earnings model forecasts that Fideco will see a CAGR of 7% for sales and 6% for net profit.

At the reference price, Fideco is trading at forward P/E of 7.85 times, which looks cheap compared to other listed peers with an average P/E of 16.2 times. However Fideco's P/B is only at 2.5 times compared to 3.0 times as an average for peers.

Therefore we recommend Fideco as an OUTPERFORM and an interesting holding for longer term investors based on a decent land bank and good pipeline of projects combined with a proven execution record.

## NAV calculation

Project	Total area (sqm)	Evaluated area	% owned by Fideco	Area owned by Fideco	Value (VNDmil)
Fideco Riverview Thao Dien	3,149	1,500	100%	1,500	16,020
Fideco Building	1,124	1,124	100%	1,124	806,960
Dong Binh Duong residential area	1,267,000	523,691	30%	157,107	314,215
Binh Trung Dong residential area	50,567	1,591	100%	1,591	17,506
Long Hoa eco-residential area	298,390	151,612	50%	75,806	151,612
Trang Bang residential area	1,900,000	-	30%	-	-
Tan Duc industrial park	9,000,000	-	100%	-	-
Tan Duc residential area	3,000,000	-	100%	-	-
<b>Total</b>					<b>1,306,312</b>

Source: HSC estimates

## Valuations

We see Fideco as basically a real estate company, and we use the NAV method as our primary valuation tool. We believe the NAV of a property developer better appraises the stock's value than other methodologies due to factors such as long lead times for development projects, timing of construction completion and the booking of earnings. However in addition we also use P/E, P/B and DCF valuation for reference purpose.

We rate Fideco as an OUTPERFORM with a fair value price of VND54,286.

## NAV valuation

We apply a discounted market price to value the company's land bank which consists of 5 strips of land totalling 584,135 sqm. For this approach we used comparative prices as close as possible to the area where the company owns land.

We value Fidecos' real estate projects using two different methods. To value the land bank owned by Fideco and not yet developed, we use the closest market prices.

This is based on our survey of market prices in nearby or adjacent to Fideco's project areas. We found information on offers to buy land from some well-known real estate websites and then contacted the sellers directly to confirm the prices. We also carried out some telephone interviews with real estate agencies and developers to get the current market price in each area where Fideco has land. We then took the most conservative price as a reference.

For Fideco Riverview Thao Dien, we only value the remaining area of 1,500sqm GFA which the company holds for lease. Meanwhile, we assessed Fideco Building's value including both the land price and the value of the building itself. For the Binh Trung Dong project, the

company has already sold out 95% and subsequently they bought back about 1,519sqm clear land from their clients. We value this area only. As for the two residential projects namely Dong Binh Duong and Long Hoa, we applied the current appraised market price for the cleared commercial area.

As for three other long-term projects namely Trang Bang, Tan Duc IP and Tan Duc residential area, we don't take them into account as the compensation progress hasn't started yet. Therefore the total land area of 13.9 million sqm for these three projects is valued at zero in our model.

After all this the NAV of the above projects is valued at VND1,306 billion.

And then we considered those projects which the company has already sold out to clients but still hasn't booked earnings yet. This includes Binh Trung Dong and Fideco Riverview Thao Dien. We simply calculated the net present value of these projects. We also apply this method for the buildings for lease in 26-28 Phung

NAV valuation	
NPV of current projects	88,038
NAV of future projects	1,306,312
Financial investment	124,013
Other assets	11,492
Cash	43,128
Total liabilities	(602,614)
Minorities interest	(172)
NAV	970,198
Total number of shares	14,297,699
NAV per share	67,857
Discount to NAV	20%
Target price	54,286

Source: HSC estimates

Peers comparables as of Jan 12<sup>nd</sup> FY2010

Company	Ticker	Outstanding shares	Market Cap (VNDbillion)	FY2008 P/E	FY2008 P/B	FY2009 P/E	FY2009 P/B
Hoang Anh Gia Lai Group	HAG	269,953,317	20,786	19.8	3.8	17.8	3.1
Thuduc House	TDH	25,250,000	1,603	7.8	1.6	11.0	1.4
Sudico	SJS	100,000,000	7,700	25.8	2.5	11.4	2.2
Tu Liem Housing	NTL	16,316,660	2,186	35.5	8.6	7.1	6.4
Binh Chanh Construction Investment JSC	BCI	54,200,000	3,252	25.9	3.0	17.9	2.7
Construction JSC No.5	SC5	10,319,993	614	17.6	3.3	18.2	3.1
Licogi 16 JSC	LCG	25,000,000	1,925	6.5	2.1	9.9	2.4
NBB Investment Corporation	NBB	15,400,000	1,140	20.6	2.7	15.5	2.6
Development Investment Construction JSC	DIG	70,000,000	5,145	10.4	4.4	9.4	4.1
Vinaconex	VCG	149,985,150	8,429	17.1	2.8	18.7	4.2
Tan Tao Investment Industry Corporation	ITA	203,803,760	7,174	14.3	1.0	24.0	1.5
Intresco	ITC	23,028,960	2,050	42.7	1.7	15.3	1.5
Peer average				19.7	3.2	16.2	3.0
FDC at reference price						7.9	2.5
FDC at target price						10.7	3.4

Source: HSC

Khac Khoan Street as the company doesn't own land in this area.

We are using a discount rate of 13.8% to calculate the net present value of projects. To get to this we use a risk free rate of 10.5%, a risk premium of 6.2% and beta of 1.0 leading to a cost of equity at 16.7%. We also calculate the after tax the cost of debt at 10.5%. Consequently, we calculate total NPV of these projects of VND88 billion.

Our valuation model shows that Fideco's NAV comes to VND67,857 per share, however given the current state of the property market and the liquidity of Fideco's future projects, we have taken a 20% haircut from the NAV to arrive at a fair value price of VND54,286.

We believe this approach is fairly conservative but also fair. The upside in the NAV of course will come from the 13.9 million sqm once this land has been compensated and is ready for development.

**DCF valuation**

We use a DCF valuation for reference purpose only because this method is very subjective as small changes in inputs can result in large changes in the value of company. According to our DCF valuation, Fideco share commands a price of VND44,500 on a WACC at 13.8%.

**P/B and P/E comparable**

Fideco's comparables in our list of choice include 12 listed property companies that are trading at an average P/E of 16.2x and P/B of 3.0x. At our target price of VND54,286, the company is valued at a P/E of 10.7x and P/B of 3.4x.

This means Fideco would trade at a discount of 34% to the peer average P/E and a premium of 13% compared to the peer average P/B.

Methodologies	Share price	Reference price	Potential upside
NAV Approach	54,286	40,000	36%
DCF Approach	44,500	40,000	11%
P/E Comparable	82,500	40,000	106%
P/B Comparable	47,512	40,000	19%

Source: HSC forecast

Sales breakdown	FY2006	FY2007	FY2008	FY2009F	FY2010F	FY2011F	FY2012F	FY2013F	FY2014F
Import & export	23%	17%	11%	10%	10%	11%	11%	11%	10%
Goods	67%	60%	59%	54%	52%	55%	51%	51%	45%
Office for lease	9%	4%	14%	23%	22%	23%	22%	22%	19%
Real estate	0%	18%	15%	12%	16%	11%	16%	17%	25%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, HSC forecast

## Earnings model

### Revenue and gross profit forecast

Fideco's revenue comes from 3 business segments including trading, import & export, office for lease and real estate development. With each division, we used a different method to assume sales in our model.

#### Trading, import & export (64% of FY2009 sales)

Revenues from this division includes revenue from import & export services and sales of goods from its subsidiary, Phuoc An food Co., Ltd in which Fideco hold 100% of chartered capital. Phuoc An produces all kinds of high quality wheat flour. In FY2009, revenue from this division is expected to account for 64% of total sales. For FY2009-2014, we forecast a CAGR of 5% for Fideco's import & export service and 2% for sales of wheat flour based on our view that the company has a stable customer base with long-term contracts. As for gross margin, we estimate flat growth for both gross margins of import & export services ranging from 3.7% to 5.3% and gross margin for wheat flour products of 4.8% over the forecast period of FY2009-2014.

#### Office for lease (24% of FY2009 sales)

We forecast revenue from the office for lease division based on our assumption on rental rates and occupancy rate for each building. With the advantage of excellent building location in the CBD, we think that this division will contribute stable earnings over the next few years. Revenue from this segment is expected to contribute 24% of FY2009 revenues.

**Building at 26 Phung Khac Khoan:** the company has rented the land from another company on a 15 year lease since 2004. They built a 6 storey office for lease and let 1,260 sqm to Apollo at the rental rate of US\$11 per sqm per month. From 2010 to 2014, we forecast the rental rate will grow at 2% per year leading to average sales growth of 2% per year with the assumption that the occupancy rate is unchanged at 100%.

**Building at 28 Phung Khac Khoan:** This 100%-occupied building is rented out at an average rental of US\$17 per

sqm per month, we expect annual revenue of this building to amount to VND11.2 billion per year. The company is depreciating this building over 25 years by the straight line method. We estimate revenue growth of this building will also be 2% y/y based on our assumption that average rental will increase 2% y/y while occupancy rate is stable at 100%.

**Fideco Riverview Thao Dien:** The company finished the Fideco Riverview Thao Dien project in FY2008 and 50% of the 1,500sqm space was leased at a rental rate of US\$15 per sqm per month. We estimate that the occupancy will increase from 50% to 80% by 2014, leading to a CAGR over the period of 12%.

**Fideco Building:** Although just in operation since September FY2008, the Fideco Building with 10.994 sqm of space is full thanks to a great location in district 1. The average rental is US\$43 per sqm per month and for the next 4 years, we forecast growth of 2% per year. Therefore, we expect revenue will also increase by 2% y/y.

#### Real estate development (12% of FY2009 sales)

For FY2009, we estimate revenue from real estate segment will account for 12% of total sales. Based on the construction progress of each property project, we estimate this segment will be a huge source of revenue in the forecast period of 2010-2014.

**Fideco Riverview Thao Dien:** Total revenue and earnings from this project was VND126 billion and VND54.8 billion respectively of which almost all were recorded in FY2008. In FY2009, the company has recorded about VND20 billion in revenues and VND7.6 billion in profit. We also forecast the balance of VND5 billion in revenues and VND1.9 billion in profit will be booked in FY2010.

**Dong Binh Duong residential area:** This project is expected to generate revenue and earnings from FY2011 to FY2013. Fideco will take profit in proportion with their stake of 30% in the JV and record it as financial income. However, we forecast strong revenue and earnings from this project in FY2009 and FY2010 thanks to the land use rights transfer to JV. In FY2009, the company re-

corded VND34.84 billion in revenue and VND19.75 billion in other income. The balance of VND69.7 billion in revenues is expected to be booked in FY2010.

**Binh Trung Dong residential area:** We expect that the company will finish this project next year and can book revenue and earnings between 2010-2013. HSC estimates total sales of VND93.39 billion, generating pretax profit of VND46 billion.

**Long Hoa eco-residential area in Can Gio:** With an estimated average selling price of VND2.6 million per sqm, we forecast total revenue of VND775.8 billion and total profit of VND383.5 billion. However Fideco contributed 50% to this project therefore only VND387.9 billion in revenue and VND191.75 billion in profit can be recorded in Fideco's financial statement from FY2012-FY2015.

Besides the above projects, Fideco is currently investing in some other projects like the Trang Bang residential area in Tay Ninh province, Tan Duc industrial park and a residential area in Binh Thuan province. However these projects have just been approved by the local government and not compensated yet, so we don't include any earnings from these projects in our earnings model.

We forecast total revenue will come to VND459.5 billion in FY2009 and grow slightly to VND492.6 billion in FY2010. We also forecast gross profit will amount to VND131.5 billion in FY2009 and then jump to VND141.9 billion in FY2010.

### Financial income and expenses

The company has a portfolio of stocks worth VND144 billion as of the end of FY2008 including both short-term and long-term holdings. For FY2008, Fideco reported a total of VND20.3 billion in financial income of which VND4.9 billion came from gains on investments. The company had to incur a provision of VND17.4 billion for stock devaluation in FY2008 as the stock market went down sharply. Furthermore, due to the devaluation of

VND to USD and the surge in interest rate, total financial expenses in FY2008 amounted to VND57.5 billion.

In FY2009 the company reversed VND4.1 billion in provisions and had capital gains of VND3.6 billion so far thanks to the recovery of the stock market. Based on our assumption that the company will have a strong cash position over the next 5 years, we assume that financial income will mainly come from interest, dividend income and capital gains. Thus financial income is estimated at VND7 billion in FY2009 and then VND10 billion in FY2010.

In addition, from FY2011-FY2013, we forecast Fideco will receive a huge dividend from the Dong Binh Duong project.

In FY2009-2014, we forecast Fideco will have to borrow more money from banks to finance projects such as Long Hoa, Dong Binh Duong, Trang Bang. However, a large portion of the interest payments will be capitalized in the projects. As a result we estimate financial expenses will come at VND34.6 billion in FY2009 and rise to VND44.3 billion in FY2010,

### SG&A expenses

In our model we assume SG&A expenses will remain stable at 8.1% of total revenue during the forecast period FY2010-2014. Meanwhile we estimate selling expenses will increase slightly from 1.2% to 1.5% from FY2010 as the company plans to expand their import & export markets over the next few years.

### Other income

In FY2009, the company had an extraordinary income of VND21.95 billion from the Dong Binh Duong project which was booked in other income. This led to very high pre-tax profit margin in FY2009 compared to FY2008. For FY2010-2014, in our base case earning model, we assume that the company will not have any extraordinary income.

### Corporate income tax

For FY2009, Fideco enjoyed the 30% reduction on income tax meaning a rate of 17.5%. From FY2010 to FY2014, Fideco will have to pay the full tax rate of 25%.

Fideco's gross profit margin



## Business operations and historical performance

Established as an import and export company since 1989, Fideco had grown and diversified in many businesses such as real estate development, office for lease and financial investment.

**Trading, import & export:** Currently, Fideco imports and exports under a customer's instruction on a commission basis. The exported products include frozen seafood, agricultural products, ceramic pottery, and handicrafts. As for imports, the main products are agricultural products, building material & equipment, and consumer goods. The annual import & export turnover is about US\$20 million, giving Fideco an average profit of just US\$50,000.

**Office for lease:** Fideco has been very successful in this segment with three 100%-occupied office buildings located in the CBD in HCMC. Fideco has 11,000sqm worth of office space for lease in Ham Nghi street at the average rental of US\$43 per sqm per month and about 5,000sqm for lease in Phung Khac Khoan street with the average rent of US\$17-20 per sqm per month.

**Real estate development:** Along with developing some buildings for lease in CBDs, Fideco has invested in some residential areas in HCMC and neighboring provinces like Binh Duong, Tay Ninh.

**Fideco Riverview Thao Dien:** Located on an area of 3,149sqm in district 2, this apartment building was in FY2008 with a GFA of 17,064sqm. The company sold 78 apartments at the average price of US\$650 per sqm and earnings of about VND54.8 billion has been booked in FY2008 and FY2009. Besides, the company has 1,500sqm space left for lease and to date 50% of this area has been leased at a rental rate of US\$15 per sqm per month.

**Dong Binh Duong residential area:** This project covers an area of 126.7ha in Binh Duong province with a total investment of VND812 billion. Until now, the company has completed compensation on 106.7 ha and received the land use rights license for 94.7ha. In FY2008, Fideco co-operated with VinaCapital to set up a joint venture company to invest in this project of which Fideco contributed 30%, equivalent to US\$2.6 million through land use rights. But the land use rights are valued at US\$8.7 million thus Fideco received in addition a cash payment of US\$6.1 million.

As a result, total profit from this land transfer is about US\$3.57 million of which US\$1.07 million will be booked as extraordinary income and the balance of US\$2.5 million will be recorded in operating profit.

**Binh Trung Dong residential area:** The 5ha project is located in district 2 with a total investment capital of VND87 billion. The company has sold 95% of the site area but earnings still haven't booked yet as the company can't transfer land to customers due to the difficulties in compensation the balance of 2,162 sqm.

**Long Hoa eco-residential area – Can Gio:** Fideco holds 50% stake in this project. With total investment of VND392 billion, this project is designed for high-end villas and retail center. The company started construction in December FY2009 and expects to complete the whole project in Q4, FY2015. This project is expected to generate earnings from FY2012.

**Financial investment:** Besides investing in many OTC stocks as a strategic shareholder such as Bao Long insurance, Golden Lotus securities JSC, Viet A bank, etc, Fideco also invested in listed stocks as short-term holdings. The total investment portfolio as of September 30th amounted to VND189 billion including VND21.8 billion in short-term investment, VND85.2 billion in joint-ventures & associates and VND82 billion in other long-term stocks.

The bad performance of the stock market in FY2008 resulted in huge provision against stocks losses totalling VND13.3 billion at the end of Q3 FY2009.

Land use rights - value	Unit: US\$mil	Unit: VNDbil
Current total book cost of land	5.12	89.00
Current market valuation of land	8.69	150.98
<b>Of which:</b>		
Contribution to joint venture	2.61	46.45
Sell the balance of the land (book as revenue)	6.08	104.53
Fideco contribution to the joint venture		
Increased investment in joint venture	2.61	46.45
Transfer of land use rights at cost	1.54	26.70
Gain on revaluation of land use rights (to be booked as other income)	1.07	19.75
Fideco sell land		
Revenue	6.08	104.53
Cost of land	3.59	62.30
Profit before tax	2.50	42.23
Profit after tax	1.87	31.68

Source: Fideco, HSC estimates

	3Q FY2008	3Q FY2009	% y/y	FY2009 Target	% Fulfilled
Net sales	288,090	329,058	14%	510,041	65%
Cost of goods sold	226,643	232,470	3%		
Gross profit	61,447	96,588	57%		
Financial income	21,524	7,125	-67%		
Financial expense	19,002	23,006	21%		
Net financial income	2,522	-15,881	-730%		
SGA expenses	22,477	33,557	49%		
Operating profit	41,491	47,149	14%		
Pretax profit	42,017	72,190	72%		
Net profit	41,584	60,887	46%	67,367	90%
Gross margin	21.3%	29.4%			
Pre-tax margin	14.6%	21.9%			
Net margin	14.4%	18.5%			

Source: Fideco

### First 9 months FY2009 result

In the first 9 months FY2009, Fideco posted net sales of VND329 billion, up 14% y/y and fulfilling 65% of the company's target while net profit came to VND60.9 billion (+46% y/y), accounting for 90.4% of this year's target. Gross margin improved from 22.5% in FY2008 to 29.4% in 3Q FY2009 thanks to an improvement from 7% to 8% in gross margin in the trading segment which contributed around 60% of total sales.

Compared to 3Q FY2008, financial income dropped from VND21.5 billion to VND7.1 billion mostly due to decrease in gains from selling stocks while financial expenses increased from VND19 billion to VND23 billion.

We can see that after the Fideco Building was finished in Q3 FY2008, most of the interest payments of the loans used to fund this project were rebooked as financial expenses leading to an increase in interest expenses from VND8 billion to VND16.5 billion although interest rates was down sharply compared to FY2008.

However, in Q4 FY2008, due to the stock market slow-down, Fideco had to take a huge provision of VND17.4 billion for their stock investment leading to high financial expenses of VND57.5 billion in FY2008.

As we mentioned above, thanks to extraordinary income from Dong Binh Duong project which was booked in Q3 FY2009, net margins surged to 18.5% compared to 14.4% in 3Q FY2008 and 2.9% in FY2008.

The financial position at the end of Q3 is quite solid with current ratio of 1.05 times compared to 1.17 times at the end of FY2008. Although improving compared to last year, debt/equity ratio was still high at 2.14 times. However we also note that total interest-bearing debt was only VND274.7 billion of the total debts of VND602.6 billion at the end of Q3.

The rest came from advances from customers and other payables that the company received from other investors to help them develop realty projects

## SWOT analysis

### Strength

- *Potential projects:* Fideco has 2 office buildings located on HCMC's CBD which will bring the company sustainable and stable cash flow in future. Furthermore, these building may generate huge extraordinary income in the future if the company chooses to sell out. The company also has some potential projects which are expected to contribute high margins such as the Long Hoa project with an expected gross margin of 49% and the Dong Binh Duong project with 30%.
- *Stable cash flow from trading segment:* Investing in property projects gives Fideco considerable earnings power but these projects take a long time to bear fruit and huge capital investment. This is one reason Fideco stays in the trading business to smooth their earnings year to year

### Weakness

- *Small capital leading to difficulties in participation in huge projects:* To access huge projects, the company needs have a corresponding large capital base to prove their strong financial position. Therefore, the company may have to increase owner's equity in the future to develop larger projects.

### Opportunity

- *Projects pipeline expected to bring Fideco significant earnings:* The company intends to expand the current building for lease in Phung Khac Khoan street and build a mixed use building with a total area of about 5,000sqm. Furthermore, the company has applied for a project at the Thu Thiem new urban area and would like to construct a complex building.
- *Good relationship with banks will help Fideco to access more capital:* Currently, Fideco has invested in some banks as a strategic partner hence they can get priority in mobilizing new capital to fund their projects.

### Threats

- *Delayed projects due to changing government's policies:* Long lead times risks that changes in policies can impede a project's progress.
- *Compensation cost has been increasing recently leading to lower margin:* Recently under the decision No. 69/2009/ND-CP promulgated on September 2009, the compensation cost increased from 1.5 times to 5 times.

## APPENDIX

### DCF Valuation

Free Cash Flow to Firm	2009F	2010F	2011F	2012F	2013F	2014F	2015 onward
EBIT	95,697	101,745	85,489	103,049	116,435	149,326	
- Tax on EBIT	(16,747)	(25,436)	(21,372)	(25,762)	(29,109)	(37,332)	
+ Depreciation and amortization	7,785	8,164	8,608	9,127	9,734	10,444	
+ Changes in WC	8,324	(55,432)	12,102	(10,875)	(8,350)	(21,631)	
- Capital expenditure	(5,227)	(5,960)	(6,811)	(7,798)	(8,945)	(10,277)	
FCFF	89,832	23,081	78,016	67,741	79,766	90,531	
Terminal value	-	-	-	-	-	-	785,309
Discounted FCFF	78,967	17,836	52,995	40,449	41,869	41,772	362,356
Company value	636,245						
Share price	44,500						

Source: HSC estimates

SUMMARY FINANCIAL DATA	FY2008	FY2009F	FY2010F	FY2011F	FY2012F	FY2013F	FY2014F
Revenue (VNDmn)	377,349	459,511	492,611	472,106	515,838	531,546	609,103
Revenue growth (%)	32.2%	21.8%	7.2%	-4.2%	9.3%	3.0%	14.6%
Net profit (VNDmn)	10,827	72,813	53,418	75,826	83,124	93,489	96,264
Net profit growth (%)	-47.3%	572.5%	-26.6%	41.9%	9.6%	12.5%	3.0%
EPS (VND)	871	5,093	3,736	5,303	5,814	6,539	6,733
EPS growth (%)	-78.4%	484.8%	-26.6%	41.9%	9.6%	12.5%	3.0%
BVPS (VND)	16,631	15,837	16,139	17,441	19,065	21,148	23,351
BVPS growth (%)	-3.6%	-4.8%	1.9%	8.1%	9.3%	10.9%	10.4%
INCOME STATEMENT	FY2008	FY2009F	FY2010F	FY2011F	FY2012F	FY2013F	FY2014F
Revenue	377,349	459,511	492,611	472,106	515,838	531,546	609,103
COGS	292,543	328,047	350,678	348,102	370,706	371,747	410,085
Gross profit	84,806	131,464	141,933	124,004	145,131	159,799	199,018
Net financial income	-37,202	-27,601	-34,308	11,984	3,819	4,132	-25,655
SG&A expenses	33,332	35,767	40,188	38,515	42,083	43,364	49,691
Operating profit	14,271	68,095	67,438	97,473	106,868	120,566	123,671
Profit before tax	16,802	88,258	71,224	101,101	110,833	124,652	128,352
Income tax	5,975	15,445	17,806	25,275	27,708	31,163	32,088
Net profit	10,827	72,813	53,418	75,826	83,124	93,489	96,264
BALANCE SHEET	FY2008	FY2009F	FY2010F	FY2011F	FY2012F	FY2013F	FY2014F
Cash	7,246	32,044	134,575	80,419	130,687	167,860	241,161
Short-term investments	5,742	7,495	8,035	7,701	8,414	8,670	9,935
Receivables	108,132	113,239	121,396	116,342	127,119	130,991	150,103
Inventories	319,924	364,497	389,642	386,780	411,896	413,053	455,650
Other current assets	1,829	5,552	4,691	3,593	4,848	4,652	5,191
Fixed assets	210,340	69,320	72,655	76,397	80,607	85,357	90,730
Investment properties	13,811	185,193	179,654	174,114	168,575	163,036	157,496
Long-term investments	120,935	166,212	166,212	166,212	166,212	166,212	166,212
Other long-term assets	4,796	6,155	5,735	5,870	6,365	6,395	7,339
Total assets	792,754	949,706	1,082,595	1,017,429	1,104,725	1,146,226	1,283,817
Short-term liabilities	379,712	509,317	496,257	493,195	532,587	533,781	597,666
Long-term liabilities	178,598	184,243	323,986	241,077	263,420	271,414	311,000
Owner's equity	234,444	256,146	262,352	283,157	308,717	341,030	375,151
Total liabilities	792,754	949,706	1,082,595	1,017,429	1,104,725	1,146,226	1,283,817

FINANCIAL RATIOS	FY2008	FY2009F	FY2010F	FY2011F	FY2012F	FY2013F	FY2014F
<b>Growth Rates (%)</b>							
Sales growth	32.2%	21.8%	7.2%	-4.2%	9.3%	3.0%	14.6%
Pre-tax profit growth	-33.6%	425.3%	-19.3%	41.9%	9.6%	12.5%	3.0%
Net profit growth	-47.3%	572.5%	-26.6%	41.9%	9.6%	12.5%	3.0%
<b>Internal Liquidity Ratios</b>							
Current Ratio	1.2	1.0	1.3	1.2	1.3	1.4	1.4
Quick Ratio	0.3	0.3	0.5	0.4	0.5	0.6	0.7
Cash Ratio	0.0	0.1	0.3	0.2	0.3	0.3	0.4
<b>Profitability Ratios (%)</b>							
Gross Profit Margin	22.5%	28.6%	28.8%	26.3%	28.1%	30.1%	32.7%
Pre-tax Margin	4.5%	19.2%	14.5%	21.4%	21.5%	23.5%	21.1%
Net Profit Margin	2.9%	15.8%	10.8%	16.1%	16.1%	17.6%	15.8%
Return on Assets (ROA)	0.7%	4.2%	2.6%	3.6%	3.9%	4.2%	4.0%
Return on Equity (ROE)	6.2%	29.7%	20.6%	27.8%	28.1%	28.8%	26.9%
<b>Operating Efficiency</b>							
Receivable Turnover	4.4	4.2	4.2	4.0	4.2	4.1	4.3
Inventory Turnover	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Payables Turnover	6.4	8.6	12.7	12.3	12.7	12.1	25.4
Equity Turnover	2.2	1.9	1.9	1.7	1.7	1.6	1.7
Total Asset Turnover	0.5	0.5	0.5	0.4	0.5	0.5	0.5
<b>Capital Structure</b>							
Debt/Equity	2.4	2.7	3.1	2.6	2.6	2.4	2.4
Debt/Total Assets	0.7	0.7	0.8	0.7	0.7	0.7	0.7

Project	Location	Total area (sqm)	Total investment capital (VND billion)	% stake owned by Fideco	Expected revenue (VNDbil)	Expected profit (VNDbillion)	Note
Fideco Riverview Thao Dien	District 2, HCMC	3,149	87.0	100%	108.8	54.8	Completed and sold out
Fideco Building	District 1, HCMC	1,124	176.9	100%			Completed, 100% occupied at the average rate of US\$43 per sqm per month
Dong Binh Duong residential area	Binh Duong	1,267,000	811.6	30%	1,271	352.8	under compensation (106.5 ha), waiting approval for master plan 1/500
Binh Trung Dong residential area	District 2, HCMC	50,567	87.0	100%	93.4	46.1	under compensation (47,000 sqm), under infrastructure construction
Long Hoa eco-residential area	Can Gio, HCMC	298,390	392.3	50%	576.1	233.8	clear land, master plan 1/500 was approved
Trang Bang residential area	Tay Ninh	1,900,000		30%			waiting approval for master plan 1/2000
Tan Duc industrial park	Ham Tan	9,000,000		60%			waiting approval for master plan 1/2000
Tan Duc residential area	Ham Tan	3,000,000		60%			waiting approval for master plan 1/2000

Source: HSC estimates

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