

## Horizon Securities

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### CMC CORPORATION

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Stock Profile/Statistics		28-Jan-10
Ticker		<b>CMG</b>
Exchange		HOSE
Sector		Technology
Listing date		22-Jan-2010
Stock price (VND)		28,700
52 week High (VND)	1/22/2010	35,000
52 week Low (VND)	1/22/2010	28,500
Listed shares		63,536,267
Shares Outstanding		72,000,000
Free float		21,624,274
Market Capitalisation (US\$)		111,697,297

Owership Structure		30-Sep-09
Local		97.76%
Foreign		1.98%
<b>Major shareholders</b>		
MVI Investment Co., Ltd.		21.03%
My Linh Investment Co., Ltd.		21.03%
GELEXIMCO Company		13.22%
Agribank		5.04%
Bao Viet Group		5.04%

## Company Note

**CMC Corporation (CMG):** Established in 1993, the group operates three main businesses (information technology, telecommunication and e-business). With a chartered capital of VND720bln (US\$38.9mln), CMG is the second listed company in the technology sector, after FPT Corporation (FPT).

### Key points

- The group was equitized in 2007 with 13 founding shareholders and currently has more than 1,600 employees.
- Major shareholders hold more than 65% of CMG, in which MVI Investment Co., Ltd. and My Linh Investment Co., Ltd. are the largest shareholders.
- On January 22, 2010, CMG listed 63.54 million shares (88.2% of total outstanding shares) on HOSE with an initial reference price of VND35,000 (US\$1.89). The free float is around 34% of total listed shares.
- For 2009, the group reported revenues of VND3,428.6bln (US\$185.3mln) and net profits of VND121.7bln (US\$6.6mln), up 71% and 40% compared to 2008, respectively.
- The group projects revenues of VND5,146.6bln (US\$278.2mln) and net income of VND162.3bln (US\$8.8mln) in 2010, up 37% and 29% y-o-y, respectively. EPS is expected to be VND2,254 (US\$0.12) for 2010.
- At the end of 2009, CMG started construction on the CMC Tower project (24,000m<sup>2</sup>) at Cau Giay Urban Area (Hanoi) and completed the first stage (8,764m<sup>2</sup>) of an infrastructure project in the Sai Dong Hanel Industrial Zone (Gia Lam Dist., Hanoi).
- At VND28,700 (US\$1.55) per share, CMG will be valued at 12.7x FY2010 P/E, a 34% premium to its regional peers in the technology sector.

## Valuation

At VND28,700 (US\$1.55) per share, CMG will be valued at 12.7x FY2010 P/E, a 34% premium to its regional peers in the technology sector. Since its debut on HOSE, CMG has underperformed peers compared to the market (CMG fell by 18% while VN Index rose by 0.9%). The company listed shares on January 22, 2010 and closed unchanged at the reference price of VND35,000 (US\$1.89) on 117,370 shares (much higher than the 5-day average trading volume of 33,148).

**Figure 1. Quick valuation**

As of January 28, 2010,						
Reference price		VND28,700	(US\$1.55)			
Shares outstanding		72,000,000	shares			
Market cap		VND2,066bln	US\$111.7mln			
		<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Chartered Capital	VND'mln	635,262	635,262	720,000	720,000	800,000
Total Equity	VND'mln	662,841	671,934	918,990	1,159,056	1,576,360
Net revenue (*)	VND'mln	2,277,864	3,755,266	5,146,570	6,660,344	8,126,965
% growth	%		64.86%	37.05%	29.41%	22.02%
EBIT	VND'mln	117,733	217,332	337,359	464,688	604,962
Pretax profit (*)	VND'mln	111,238	146,966	207,425	304,084	424,607
Net profit	VND'mln	87,770	125,442	162,318	240,066	337,304
% growth	%		42.92%	29.40%	47.90%	40.50%
EPS	VND	1,382	1,975	2,254	3,334	4,216
Book Value per share	VND	10,434	10,577	12,764	16,098	19,704
ROE	%	13.24%	18.67%	17.66%	20.71%	21.40%
P/E	x	20.77x	14.53x	12.73x	8.61x	6.81x
P/B	x	2.75x	2.71x	2.25x	1.78x	1.46x

Source: HRS research, CMG

Note: Assumed there is no cash dividend in 2010-2012

(\*) Development project expense of integration area has been reclassified as COGS instead of operation expense, compare to previous financial statements, to suit characteristic of operation and forecast.

Net revenue and COGS include internal revenue and internal COGS.

## Company note – CMC Corporation (HOSE: CMG)

**Figure 2. Local peers comparison**

Company	Ticker	Mkt Cap	EV	Sales		Net margin		ROA		ROE		P/E		P/B	
				2008	Growth	2008	9M2009	2007	2008	2007	2008	2008	2009E	2008	2009E
		US\$m	US\$m	US\$m	%	%	%	%	%	%	%	x	x	x	x
FPT Corporation	FPT	607.4	648.8	885.5	21.4	6.4	4.1	16.4	17.2	38.9	35.5	10.7	8.8	3.8	3.8
CMC Corporation	CMG	111.7	151.1	108.2	80.6	4.3	1.8	7.5	5.2	10.9	12.9	20.8	14.5	2.8	2.7

Source: HRS research

Note: P/E and P/B calculations of FPT are based on current market cap.

**Figure 3. Regional peers comparison**

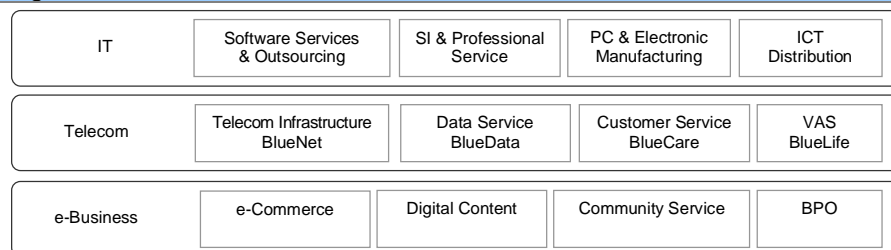
Company	Country	Mkt Cap	EV	FY2008				P/E				P/B		
				Sales	Net	ROA	ROE	2008	2009	2010E	2011E	2008	2009	2010E
		US\$m	US\$m	US\$m	margin	%	%	x	x	x	x	x	x	x
Zensar Technologies Ltd	India	136.8	n/a	194.7	8.2	13.6	22.4	8.6	8.13	n/a	n/a	1.9	2.7	n/a
SinoCom Software Group Ltd	China	147.8	79.3	84.5	19.9	18.0	21.5	8.8	10.5	8.6	8.6	1.9	2.2	1.4
Sinotel Technologies Ltd	China	126.4	127.3	52.1	29.7	22.4	28.0	8.2	6.01	5.9	5.3	2.3	1.6	1.2
Tanla Solutions Ltd	India	113.0	79.3	114.3	36.2	21.2	23.7	2.7	2.63	10.5	7.1	0.6	0.6	0.6
Yucheng Technologies Ltd	China	120.4	112.1	99.0	12.0	8.6	14.2	10.2	11.4	7.5	6.4	1.4	1.3	n/a
Key Asic Bhd	India	101.5	77.4	28.5	20.8	10.7	12.0	17.1	28.3	17.2	15.9	2.0	1.9	n/a
MIC Electronics Ltd	India	101.2	116.9	89.4	19.4	19.3	27.1	5.8	7.45	6.6	5.7	1.6	1.4	1.1
Geometric Ltd	India	82.9	n/a	120.8	6.6	8.0	12.6	10.4	n/a	11.3	9.9	1.3	3.7	2.3
Nucleus Software Exports Ltd	India	88.7	n/a	71.8	21.4	21.6	28.5	5.8	12.7	10.4	8.9	1.6	1.7	1.5
IT City PCL	Thailand	67.9	54.9	174.7	2.9	12.7	17.7	13.4	15.6	9.5	10.0	2.4	2.3	2.0
Omnitech InfoSolutions Ltd	India	47.3	50.7	32.8	19.3	20.7	28.2	7.5	6.64	5.9	5.2	2.1	1.8	n/a
SiS Distribution Thailand PCL	Thailand	52.8	81.8	360.2	1.7	10.1	26.0	8.5	8.19	9.6	n/a	2.2	1.9	1.8
MFEC PCL	Thailand	36.4	46.7	73.4	6.1	8.9	21.6	8.1	8.23	9.7	8.4	1.8	1.7	1.6
Average		94.1	82.6	115.1	15.7	15.0	21.8	8.9	10.5	9.4	8.3	1.8	1.9	1.5
Max		147.8	127.3	360.2	36.2	22.4	28.5	17.1	28.3	17.2	15.9	2.4	3.7	2.3
Min		36.4	46.7	28.5	1.7	8.0	12.0	2.7	2.6	5.9	5.2	0.6	0.6	0.6
Median		101.2	79.3	89.4	19.3	13.6	22.4	8.5	8.2	9.5	8.4	1.9	1.8	1.5
CMC Corporation	Vietnam	111.7	151.1	108.2	4.3	5.2	12.9	20.8	14.5	12.7	8.6	2.8	2.7	2.2

Source: HRS research, Bloomberg

### The Group

CMC Corporation (CMG), headquartered in Hanoi, was established in 1993 and operates three main businesses: information technology, telecommunication and e-business. In 1996, the group established a branch in Ho Chi Minh City (CMC SG).

**Figure 4. Main business fields**



Source: CMG

The group was equitized in 2007 with 13 founding shareholders, currently has a chartered capital of VND720bln (US\$38.9mln) and has more than 1,600 employees.

**Figure 5. Subsidiaries and affiliated companies**

No.	Company	Chartered capital VND'bln	Equity capital of CMG
1	CMC Integration System Co., Ltd.	50.00	100.00%
2	CMC Software Solutions Co., Ltd.	20.00	100.00%
3	CMS Computer Co., Ltd.	50.00	100.00%
4	CMC Distributions Co., Ltd.	100.00	100.00%
5	CMC Telecommunication Service Corporation	160.00	92.95%
6	CMC Information Security Corporation	6.00	99.67%
7	CMC Blue France SAS	5.40	100.00%
8	Segmenta - CMC Joint Venture Corporation	10.00	50.00%
9	CMC Telecommunication Infrastructure Corporation	40.00	49.00%

Source: CMG

In September 2009, the group was approved by the Ministry of Planning and Investment (MPI) to establish CMC Blue France SAS in France. This company will supply CMG's information technology outsourcing (ITO) and business process outsourcing (BPO) products into France and European markets.

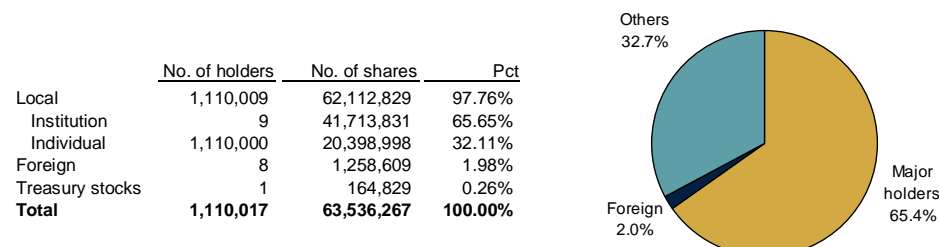
At the general shareholder's meeting, 8.3 million shares (289,510 shares in 2008 employee stock ownership plan (ESOP); 800,000 shares in 2009 ESOP and 7.2 million shares for foreign strategic partners) were approved but have not yet been realized.

The group listed 63.54 million shares (88.2% of total outstanding shares) on HOSE on January 22, 2010 with an initial reference price of VND35,000 (US\$1.89). The group is the second listed company in the technology sector, after FPT Corporation (FPT) with a free float of 21.62 million (34% of total listed shares).

### Ownership

MVI Investment Co., Ltd. and My Linh Investment Co., Ltd. are the largest shareholders, each with a 21% in stake in the group. Other major holders include ELEXIMCO Company (13%), Vietnam Bank for Agriculture and Rural Development (5%) and Bao Viet Group (5%).

**Figure 6. Shareholder structure as of September 30, 2009**

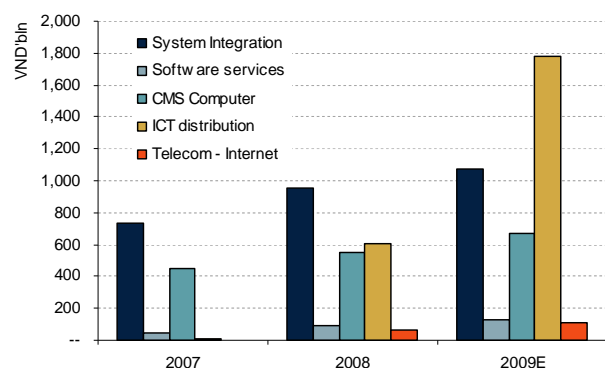


Source: CMG

## 2008-2009 results

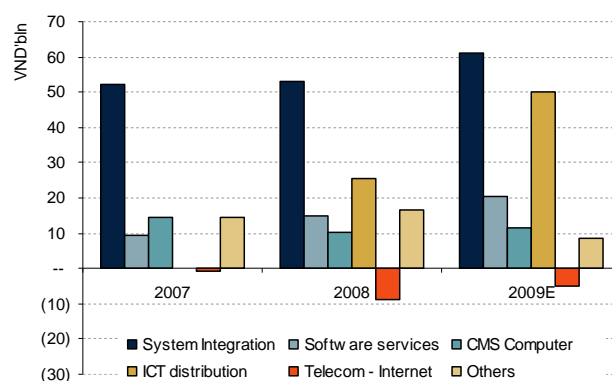
In 2008, the group recorded VND2,001.2bln (US\$108.2mln) in net revenues and VND86.9bln (US\$4.7mln) in net profits, largely due to strong revenue growth from systems integration (+30% y-o-y) and computer production (+23% y-o-y) segments. Revenues from these two segments accounted for 42% and 24% of total net revenues in 2008, respectively. In addition, IT-telecom contributed 27% of net revenues to the group in its first year of operations in 2008.

**Figure 7. Revenue breakdown**



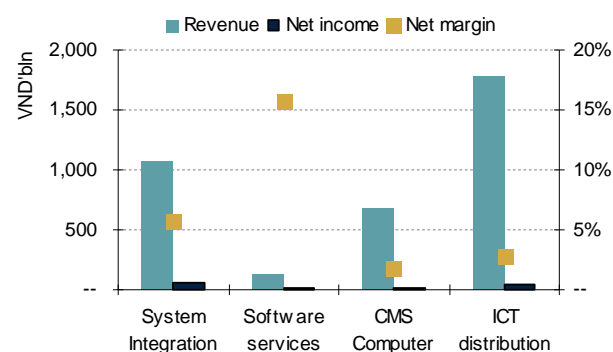
Source: CMG

**Figure 8. Net income breakdown**



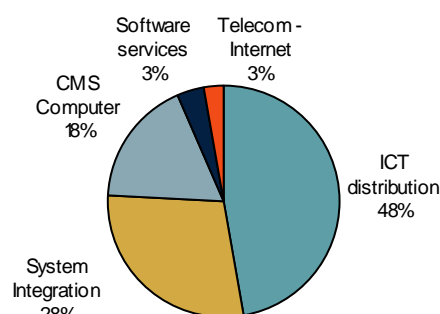
For 2009, the group reported revenues of VND3,428.6bln (US\$185.3mln) and net profits of VND121.7bln (US\$6.6mln), up 71% and 40% compared to 2008, respectively. For the year, systems Integration revenues are expected to grow only 12% compared to management's 30% target mainly due to the delay of public finance projects (total value of VND200bln (US\$10.8mln)). On the other hand, ICTs product distribution (laptops, mobiles, and peripherals) segment surged in 2009 (+191% y-o-y in revenue and +98% y-o-y in profit), driven by the development of a strong distribution network and market share growth.

**Figure 9. 2009E business results**



Source: CMG

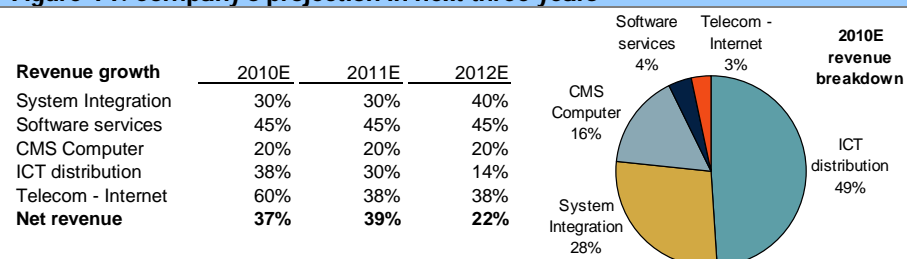
**Figure 10. 2009E revenue breakdown**



### 2010-2012 targets

The group projects revenues of VND5,146.6bln (US\$278.2mln) and net income of VND162.3bln (US\$8.8mln) in 2010, up 37% and 29% y-o-y, respectively. EPS is expected to be VND2,254 (US\$0.12) for 2010, which values the group at 12.7x P/E.

**Figure 11. Company's projection in next three years**



Source: CMG

### Investment projects

At the end of 2009, CMG started construction on the CMC Tower project (24,000m<sup>2</sup>) at Cau Giay Urban Area (Hanoi) and completed the first stage (8,764m<sup>2</sup>) of an infrastructure project in the Sai Dong Hanel Industrial Zone (Gia Lam Dist., Hanoi). The infrastructure project is a business cooperation between CMC Corporation (CMG) and Hanoi Electronics Corporation (Hanel). The second stage (4,382m<sup>2</sup>) of the project will begin in 2014 and provide space for technicians, application programmers and developing BPO services.

**Figure 12. Infrastructure investment projects**

	CMC Tower Project	Project in Sai Dong Hanel IZ	
<i>Unit: VND/bln</i>		1st stage	2nd stage
Total investment capital	326.68	56.31	18.58
Capital resource			
Own fund (35%)	114.34	19.71	6.50
Borrowings (65%)	212.34	36.60	12.08
Effectiveness			
Net present value (NPV)	155.01	9.05	
Internal rate of return (IRR)	21.95%	16.63%	
Payback period	7 years		

Source: CMG

## Financial Highlights

CONSOLIDATED INCOME STATEMENT				CONSOLIDATED CASHFLOW STATEMENT			
	FY2007	FY2008	9M2009		FY2007	FY2008	9M2009
Sales	1,108,066	2,001,186	2,091,062	Collections from AR	1,156,447	2,109,925	2,795,464
COGS	(917,977)	(1,682,441)	(1,818,544)	Payment for AP	(1,045,871)	(2,035,153)	(2,547,278)
Gross profit	190,090	318,745	272,518	Payment for employees salaries	(36,886)	(68,334)	(86,379)
S&A expense	(98,366)	(201,109)	(183,942)	Payment for interest expense	(17,509)	(22,029)	(41,042)
EBIT	91,723	117,636	88,576	Payment for enterprise tax	(3,691)	(19,222)	(20,951)
Financial income	14,343	26,743	11,697	Other cashflow s from operating	(191,401)	(363,758)	(124,496)
Financial expense	(17,803)	(32,972)	(54,301)	Net cash flow s from operating	(138,911)	(398,571)	(24,683)
Other Profits	1,754	866	225	Purchase of fixed assets	(16,351)	(110,364)	(116,459)
Income from JVs and associates	--	(1,036)	(2,871)	Disposals of fixed assets	1,711	276	-
EBITDA	54,837	49,303	2,197	Loans to other entities	(394,500)	(386,242)	(7,194)
EBT	90,017	111,238	43,326	Collections from other entities	150,000	626,858	10,700
Tax expense	(17,664)	(24,300)	(6,379)	Payments for investments	(3,728)	(188,917)	(78,613)
Net profit	72,353	86,938	36,947	Proceeds from sale of investments	10,218	16,500	-
EPS (VND)	3,246	2,564	n/a	Interest and dividends received	8,680	22,362	1,592
				Net cash flow s from investing	(243,970)	(19,525)	(189,973)
				Issuance of shares	544,756	12,202	-
				Capital redemption	(3,163)	-	(1,748)
				Borrow ings received	655,879	1,182,637	1,764,332
				Borrow ings repaid	(788,945)	(612,660)	(1,576,545)
				Dividends paid	(15,664)	(79,700)	(14,452)
				Net cash flow s from financing	392,863	502,479	171,587
				Net increase (decrease) in cash	9,982	84,383	(43,069)
				Cash at beginning	83,125	93,126	177,375
				Impact of exchange rate	19	(133)	107
				Cash at end of year	93,126	177,375	134,413
				KEY RATIOS			
				FY ended, 31 December	FY2007	FY2008	
				Revenue Grow th (%)	n/a	80.60%	
				Gross Margin (%)	17.16%	15.93%	
				Operating Margin (EBIT) (%)	8.28%	5.88%	
				Net Margin (%)	6.53%	4.34%	
				Net Income Grow th (%)	n/a	20.16%	
				Receivable turnover (days)	148.95	97.54	
				Payable turnover (days)	49.58	35.21	
				Inventory Turnover (days)	51.56	66.75	
				Current Ratio (x)	3.09	1.46	
				Cash to Current Debt (%)	30.75%	19.36%	
				Debt to Equity (%)	45.79%	147.05%	
				Cash Per Share (VND)	2,739	2,792	
				Net Debt (Cash) Per Share (VND)	6,187	12,760	
				Book Value Per Share (VND)	19,495	10,576	
				Return on Assets (%)	7.46%	5.21%	
				Return on Equity (%)	10.92%	12.94%	
				Unit: VND/mIn			
				FY ended, 31 December			
				Source: CMC			
CONSOLIDATED BALANCE SHEET							
	FY2007	FY2008	9M2009				
Current assets	935,239	1,334,977	1,316,482				
Cash	93,126	177,375	134,413				
Short term investment	244,500	4,008	10,398				
Account receivable	452,172	617,363	716,659				
Inventory	129,668	485,708	403,172				
Other current assets	15,774	50,523	51,841				
Non current assets	34,513	333,705	446,789				
Long- term receivables			422				
Fixed assets	20,112	132,191	243,241				
Long-term investments	2,877	173,941	182,184				
Other long-term assets	11,523	27,572	20,942				
TOTAL ASSETS	969,752	1,668,682	1,763,272				
Current liabilities	302,806	915,962	851,534				
Short term debt	104,866	607,351	652,532				
Account payable	124,704	199,855	135,808				
Advances from customers	15,404	34,099	33,948				
Other current liabilities	57,832	74,657	29,246				
Non current liabilities	691	72,133	214,286				
Long-term loan & debt	319	68,976	211,582				
Other long-term liabilities		2,339	2,172				
Provision	371	819	533				
Ow ner's Equity	662,841	671,934	691,246				
Chartered capital	340,000	635,363	635,363				
Share premium	248,000	14,774	14,776				
Treasury shares	(163)	--	(1,748)				
Undistributed earnings	71,108	21,502	44,622				
Other funds	3,897	295	(1,766)				
Minority interest	3,414	8,653	6,205				
TOTAL LIABILITIES & OWNER'S EQUITY	969,752	1,668,682	1,763,271				

Unit: VND'mln  
FY ended, 31 December  
Source: CMG

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