

HCMC Infrastructure Investment JSC

HOLD – Price target: VND41,900

We initiate coverage on Ho Chi Minh City Infrastructure Investment Joint Stock Company (HOSE: CII) with a **HOLD** recommendation and price target of VND41,900 (USD2.19). CII is Vietnam's only listed toll-road operator and a leading infrastructure developer. Our SOTP-derived price target represents a 3.7% premium to the closing price of VND40,400 (USD2.12) and provides an expected total return of 8.2% over the next 12 months. CII is currently trading at an undemanding PER of 6.9x its FY10E earnings estimates and a P/B of 2.5x, which is slightly higher than its domestic peers. However, we believe this is justified by the company's leading profitability performance, with ROE of 31.1%, compared with the domestic infrastructure sector average of 21.2%, and ROA of 13.8%, compared with 11.8%.

CII has secured six road BOT projects, which will provide visible revenue streams until 2045. Additionally, the company has ventured into the non-toll-based infrastructure field, such as water plants and industrial parks, and the residential real estate sector. We think CII's foray into a more diverse infrastructure portfolio is a logical progression to a more integrated infrastructure-investment company. We believe CII offers an attractive investment opportunity to buy-and-hold accounts that would benefit from its proven experience and track record, strong earnings potential from its diverse deal pipeline and its enduring relationship with local governments, which will help to unlock future opportunities.

We expect revenue from CII's core business to marginally increase to VND229 billion in 2010 due to rising toll fees from the Binh Trieu project before benefiting from a 50% rise in toll rates in 2011 (2011 revenue forecast: VND374 billion). The main income driver for the next three years will be its non-toll infrastructure and real estate portfolios, which will account for an average of around 50% of total revenue and 68% of EBIT between 2010 and 2013.

We expect CII to record net profit of VND440 billion in 2010, up 38.8% from VND316.7 billion in 2009. Our projection is 2.3% below the company's target of VND450 billion, primarily due to differences in valuation of the company's securities portfolio.

Coverage initiation

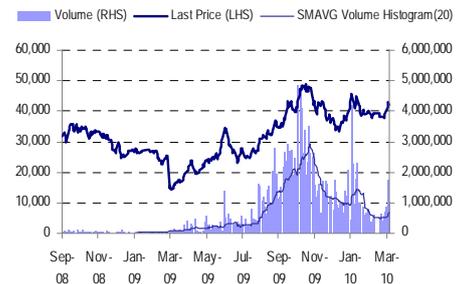
Recommendation	HOLD
	HOSE:CII
	Infrastructure Sector
Price (VND)	40,400
Price Target (VND)	41,900
Expected share price return (%)	3.7
Expected dividend yield (%)	4.4
Expected total return (%)	8.2

Source: Bloomberg, Mekong Securities

Stock performance (%)

	YTD	1m	3m	12m
Abs	2.7%	-5.6%	-8.2%	95.5%
Rel	-1.8%	-3.8%	-7.6%	17.8%

Source: Bloomberg



	2008	2009	2010F	2011F
Sales (VNDmn)	229,046	202,590	229,672	374,033
EBITDA (VNDmn)	181,326	375,533	201,585	334,656
Net income (VNDmn)	132,780	316,665	439,592	785,208
EPS (VND)	3,318	6,326	5,855	7,844
DPS (VND)	16%	20%	20%	20%
Sales growth (%)	29%	-12%	13%	63%
Net profit growth (%)	39%	138%	39%	79%

Source: CII, Mekong Securities

Stock Statistics	09 April 2010
52-week range (VND)	16,800 – 48,700
Shares O/S (mn)	75,081,000
Mkt cap (VNDbn)	3,033
Mkt cap (USDmn)	159
Foreign room (%)	18.0%
Est. free float	75,081,000
3m avg daily volume	924,000
VND/USD	19,100
Index: VNIndex/HNX	517/171

Source: Bloomberg

Company overview

One of the largest infrastructure investment companies in Vietnam, with a market cap of USD159 million

Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) is one of the largest infrastructure investment companies in the south, with a market capitalisation of VND3,033 billion (USD159 million). The company is primarily involved in the development, construction and operation of Ho Chi Minh City-based utilities and infrastructure projects. CII was founded in December 2001 as a joint stock company. In May 2006, CII listed 30 million shares on the Ho Chi Minh City Stock Exchange, followed by a convertible bond issue in September the same year worth VND131.5 billion (USD6.9 million), with a coupon of 8% maturing in three years and a conversion ratio of 1:76.

Since 2001, CII has been involved in 14 infrastructure projects, seven real estate projects and 10 companies with a total investment of up to VND9,100 billion. Infrastructure projects account for 73% of the initial outlay, real estate 23% and other financial investments a moderate 4%.

Investment rationale

We think CII presents an attractive opportunity, given the rapidly growing infrastructure sector, the company's excellent track record, strong core business and diverse deal pipeline.

Vietnam's infrastructure is in a poor state, indicating considerable room for further growth

Vietnam's infrastructure offers substantial growth potential, in our view. The country's robust economic growth has led to an urgent need for a good infrastructure. Vietnam's infrastructure is in a poor state, indicating considerable room for further growth. According to BMI, Vietnam has a total road network of 222,000km, the 20th largest globally. However, only 19% of this is paved. The Global Competitiveness Report released by the World Economic Forum indicates Vietnam's roads rank at 102 out of 134 countries surveyed. The country plans to develop 6,000km of expressways by 2025, with 261km to be built each year until 2025, at an estimated total cost of USD22.8 billion. In Ho Chi Minh City alone, a total amount of USD13.9 billion will be invested in roads, railways and waterways.

CII's toll-based business offers attractive upside potential

CII is the only publicly owned company in Vietnam operating in the toll-road sector. The company is also among the earliest entrants into the BOT/BOO segment and has emerged as a dominant player in offering toll-collection services through transfer of collection rights. Its toll-based business offers attractive upside, owing to projected increases in toll rates – rising 50% every five years from the current tariff, starting in 2011 – coupled with stable project flows. On the Hanoi Highway alone, CII was granted three collection rights, which will provide strong revenue streams until 2045.

CII benefits from its advanced collection technology, which reduces the total operating costs/toll fees ratio to approximately 6.2%, compared with the typical 8% limit stated in its BOT contracts. CII is one of the first toll collectors to switch to a computerised collection system and barcode technology. As of the end of 3Q08, only 16 of the 47 toll stations nationwide use bar-coded tickets and the single-stop practice, with the rest still manually collecting tolls. CII, on the other hand, adopted the single-stop approach in 2005 and is in the process of fully automating its collection system. The company has built several automatic lanes in Hanoi and Hung Vuong stations, allowing cars with built-in OBU's (on-board units) to travel through without stopping.

Unlike its competitors, which are mainly fully or partially state owned entities, CII benefits from the corporate structure of a publicly traded company, which provides it

CII has better access to various funding sources by leveraging its relationship with financial institutions

with better access to various funding sources. The company has developed good relationships with banks, equity funds and other financial institutions, many of which also have been the company's major shareholders. This makes it easier for CII to secure funding to finance its growing portfolio. CII's large capital base, coupled with projected profit realised from its securities and infrastructure portfolio over the next four years, puts it in an advantageous position to cope with the risks associated with the capital-intensive nature and long payback periods of infrastructure projects.

CII has an excellent track record and proven ability to execute infrastructure related projects

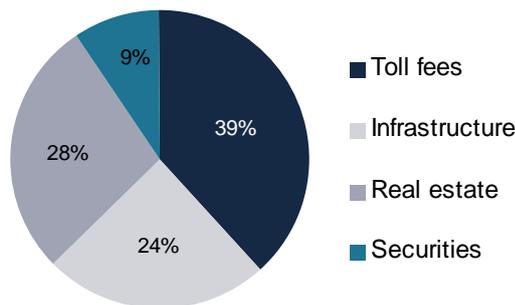
CII has secured a broad range of infrastructure projects in Ho Chi Minh City and neighbouring provinces. This is facilitated by its enduring relationship with local governments, especially the People's Committee of Ho Chi Minh City. CII's portfolio is fairly diverse, consisting of six toll-based BOT projects, five infrastructure and six real estate deals. We think CII's recent foray into a more diverse infrastructure portfolio is a logical progression to a more integrated infrastructure investment company.

Main business lines

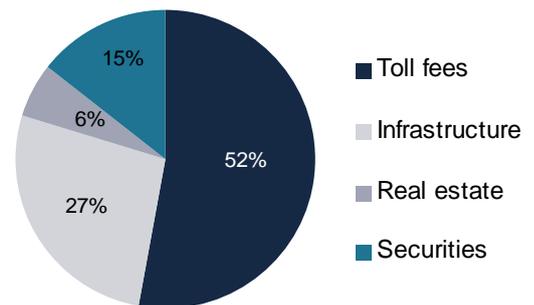
CII's portfolio can be segmented into four major verticals: toll-based projects, infrastructure development, real estate business and securities investments with a total equity commitment of VND3,466 billion (USD181.5 million).

Chart 1: Portfolio breakdown by committed capital

Chart 2: Value breakdown



Source: Mekong Securities



Source: Mekong Securities

CII is managing a toll-based portfolio of six projects with total equity commitment of USD69.5 million

Toll collection

CII has six toll-based BOT projects. The BOT Dien Bien Phu-Hanoi Highway & Kinh Duong Vuong and the BOT Binh Trieu projects are operational, and the Rach Chiec and the Phan Rang-Ninh Thuan projects are under construction. CII in November signed another BOT contract with the People's Committee of HCMC for the Hanoi Highway extension project. The construction phase is expected to be completed by the end of 2018. Information regarding the company's sixth project, the Inter-provincial Road No 25B project, remains limited at this time.

The company's total equity commitment for its toll-based projects stands at VND1327 bn (USD69.5 mn), or 39% of its portfolio value. The right to collect toll fees will expire in December 2013 for Dien Bien Phu and August 2014 for Kinh Duong Vuong. CII has been collecting toll fees for the Binh Trieu Bridge since 1 July 2009, and this right will expire in September 2014. The company was also granted a 12-year collection right for the Rach Chiec Bridge after the collection right for the Dien Bien Phu project expires in 2014. This will be followed by a collection right of about 26 years, beginning 1 January 2019, to recover the initial outlay to fund the Hanoi Highway extension project. The Phan Rang-Thap Cham-1A Highway project is expected to generate revenue for approximately 15 years starting from July 2011. We expect the total toll collection from

the company's first four BOT projects to reach VND7,684 billion (USD402 million) between 2010 and 2025.

Table 1: Toll revenue projections

PROJECT, VNDmn	2009	2010F	2011F	2012F	2013F	2014F	2015-2025F
Dien Bien Phu	123,492	127,197	196,519	202,415	208,487	-	
Kinh Duong Vuong	47,089	45,676	66,459	64,465	62,531	40,437	
Binh Trieu 2	27,842	56,798	86,902	177,279	180,825	138,331	
Rach Chiec Bridge	-	-	-	-	-	212,657	3,870,797
Phan Rang-Ninh Thuan	-	-	24,152	78,616	85,298	91,269	1,666,753
TOTAL	198,424	229,672	374,033	522,776	537,142	484,779	5,837,593

Source: CII, Mekong Securities

Infrastructure development

Investing in water plants, roads, bridges and industrial parks

CII has invested in a broad range of infrastructure projects, including water plants, bridges, roads and industrial parks. The company is investing in water plants in Thu Duc, Dong Tam and Kenh Dong with respective capacities of 300,000m³, 200,000m³ and 90,000m³. The output of all three plants will be sold directly to water-distribution companies under pre-signed wholesale contracts. The company's equity commitment for these three projects is VND465 billion (USD24.3 million)

CII contributed VND108bn to the BOO Kenh Dong, or 36% of the project's value. The construction works related to the BOO Kenh Dong is expected to be completed by 2Q10. Water from the plant will be distributed to communities in and around Cu Chi District that are experiencing clean-water shortages. The undertaking of the BOO Thu Duc is shared among six entities: HIFU, Construction Company 1, REE, Thu Duc House Development, WACO and CII, which owns 32%. The water plant is currently operating at an output of 100,000m³ per day. It is expected to reach its full daily capacity of 300,000m³ in June. CII owns 49% of the BOO Dong Tam, with total disbursement amounting to VND135.1 billion as of 31 August 2009. The BOO Dong Tam project is expected to begin operating in 2013.

In addition, CII contributed VND119.2bn (16%) to fund the construction of the Phu My Bridge. Construction work related to the Phu My Bridge has been completed, and toll collection is expected to commence this year. CII has recently reduced its ownership to slightly over 10%.

CII owns 30% of Hoa Phu JSC, which was founded to develop infrastructure for the Hoa Phu Industrial Zone. This project was granted a VND100bn loan from Ho Chi Minh City's budget at an interest rate of 5% for compensation and resettlement related works. As of the end of 2009, CII contributed VND24 billion to Hoa Phu JSC. The company will disburse the remaining VND6bn in 1Q10.

Real estate

CII has a sizeable pipeline of five real estate investments with total outlays of VND8,300 billion

CII has made a foray into the real estate segment. Despite its expertise in infrastructure, CII has built a sizeable pipeline of five real estate investments with total investment outlays of VND8,300 billion (CII's commitment is estimated at VND975bn). CII provided equity financing to real estate projects the Lugia Plaza Mixed Use Property, the Diamond Riverside Apartment Building and the 155 Nguyen Chi Thanh Apartment Block in exchange for ownership of 25%, 40% and 60%, respectively. It is also the 100% owner of the Tam Tan Resettlement Area and the Tan An Hoi Residential Area projects, with a total investment of VND5,114 billion.

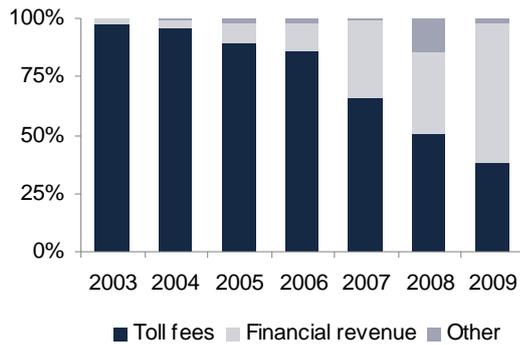
Securities investment

The value of CII's securities portfolio has increased almost sevenfold from nearly VND55 billion in 2006 to VND323 billion in 2009. Since the beginning of 2009, CII started realizing some of its equity investments and reducing provisions against stock price decreases, resulting in a sharp increase in income from financial activities. Its trading book consists of VND85 billion in Petroland (an infrastructure and urban investment company), VND70 billion in Lu Gia JSC (primarily involved in the design and installation of public and traffic lighting systems), and VND30 billion in Ho Chi Minh City Securities Company.

Earnings outlook

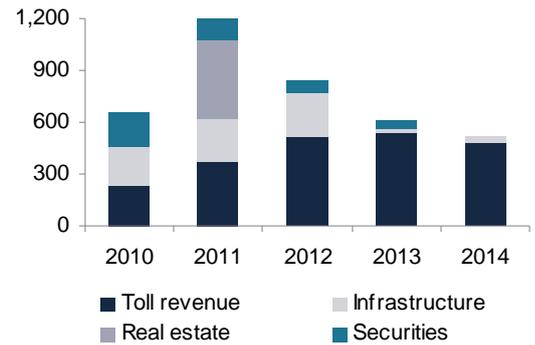
We think revenue from CII's core business will increase marginally to VND229 billion in 2010 due to rising toll fees from the Binh Trieu project before benefiting from a 50% rise in toll rates in 2011, which will increase revenue to VND374 billion in 2011. We estimate that in 2012, the company will see a significant pick up in revenue to VND522 billion, primarily from the Phan Rang-Ninh Thuan project and additional inbound toll revenue brought in by the Binh Trieu project.

Chart 3: Revenue drivers



Source: CII

Chart 4: Revenue projections (VNDbn)

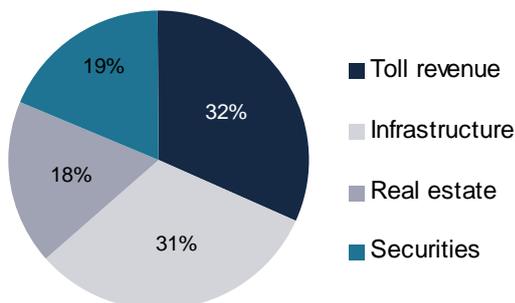


Source: Mekong Securities

Main income drivers for the next three years: non-toll infrastructure and real estate portfolios

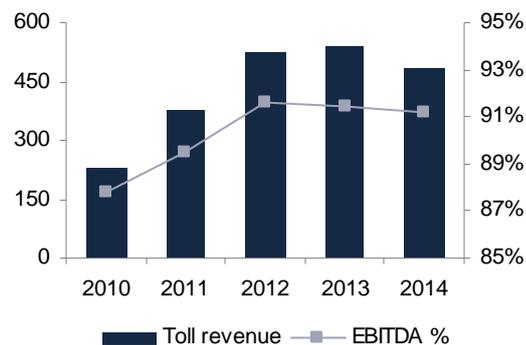
The main income drivers for the next three years will be CII's non-toll infrastructure and real estate portfolios. Toll collection made up 90% of CII's total revenue in 2005 before falling to 38% in 2009. The share of toll fees is expected to fall to 34% in 2010 and 31% in 2011 as the company plans to exit the majority of its current non-toll-related investments over the four-year period ending 2013. On average, we forecast that the toll-collection business will account for 50% of CII's revenue, and 31.8% of its EBIT from 2010 to 2013.

Chart 5: EBIT drivers (2010-13)



Source: Mekong Securities

Chart 6: Core business projections (VNDbn)



Source: Mekong Securities

We expect CII's net profit to rise 33.4% to VND422 billion in 2010, 6% below management's target

We expect CII's net profit to increase 38.8% to VND440 billion in 2010, up from VND316.7 billion in 2009. Our projection is 2.3% below the company's target of VND450 billion, primarily due to valuation differences of the company's securities portfolio.

Table 2: Projected P&L (VNDmn)

	2010F	2011F	2012F	2013F	2014F
Toll Revenue	229,672	374,033	522,776	537,142	482,694
O&M	28,087	39,377	43,732	46,145	42,732
Operating Profit	201,585	334,656	479,044	490,997	439,962
D&A	121,853	156,931	223,352	225,196	255,264
Toll-Based EBIT	79,732	177,725	255,692	265,802	184,698
Infrastructure	231,280	253,731	253,622	30,976	32,525
Real Estate	-	442,500	-	-	-
Securities	215,561	127,500	70,000	45,265	-
EBIT	526,573	1,001,456	579,314	342,043	217,223
Interest	73,891	88,926	109,965	105,435	99,891
PBT	452,682	912,530	469,349	236,608	117,331
Tax	13,090	127,322	12,323	8,768	-
PAT	439,592	785,208	457,026	227,840	117,331

* Unit: VNDmn, except for Value/Share

Source: Mekong Securities

Note: The above figures do not include projections of Tam Tan, Tan An Hoi, BOT Hanoi Highway extension, Inter-provincial Road No 25B and 152 Dien Bien Phu projects

Valuation

Dien Bien Phu (Hanoi Highway), Kinh Duong Vuong, Binh Trieu

CII was founded to collect toll fees for the Dien Bien Phu and Kinh Duong Vuong routes. The collection rights, scheduled to last 12 years, will expire on 31 December 2013 for Dien Bien Phu and 31 August 2014 for Kinh Duong Vuong.

The total cost related to the project was VND1,000 billion, funded by a 2.3 debt-to-equity ratio. We used historical traffic-growth rates to forecast traffic on the Hanoi Highway rising at a constant rate of 3% in the coming years, while we expect the Kinh Duong Vuong route to experience a 3% decline in traffic flow on an annual basis. We expect toll fees to grow an additional 50% starting from 2011. This assumption is based on the tariff agreement between CII and the People's Committees of Ho Chi Minh City as stated in contract No 01/2008/HDCN dated 2 December 2008. Maintenance costs will make up 2% of the total toll revenue, and management and other costs will be 10.7%. We also assume a 10% yoy inflation rate and a constant depreciation of VND78.4 billion.

CII was also granted the BOT Binh Trieu 2 project in March 2009. The scope of the project involves funding the second sub-project, implementing the third sub-project, improving and upgrading the Binh Trieu Bridge and constructing a toll booth on National Highway 13. The construction works related to the third sub-project commenced in May and are expected to finish in August. CII has earned approximately VND28 billion in toll revenues from outbound traffic since July. Beginning 2012, CII will start collecting fees in both directions, which will likely double its toll revenue from the project. The collection right will expire after a five-year and three-months concession period.

We assumed a 2% increase in traffic flows over the life of the project. We think the revenue of the Binh Trieu 2 project will increase to VND56.8 billion in 2010. The project should benefit from a 50% increase in toll rates in 2011 and from inbound traffic-toll revenue in 2012. We assumed depreciation would be 52% of total toll fees and O&M 10.7%. The inflation rate is projected at 10% annually.

Table 3: DBP, KDV and BT: Projected P&L and valuation

Profit & Loss Account	2010F	2011F	2012F	2013F	2014F
Dien Bien Phu	127,197	196,519	202,415	208,487	-
Kinh Duong Vuong	45,676	66,459	64,465	62,531	40,437
Binh Trieu	56,798	86,902	177,279	180,825	138,331
Toll Revenue	229,672	349,880	444,160	451,844	178,768
O&M	28,087	37,227	39,002	40,942	14,042
EBITDA	201,585	312,653	405,157	410,902	164,726
D&A	121,853	137,507	184,503	186,347	96,416
EBIT	79,732	175,146	220,654	224,555	68,310
Interest	63,122	63,122	63,122	63,122	63,122
PBT	16,609	112,024	157,532	161,432	5,188
Tax	1,526	6,297	8,573	8,768	-
PAT	15,083	105,727	148,959	152,665	5,188

DCF Valuation	2010F	2011F	2012F	2013F	2014F
PAT	15,083	105,727	148,959	152,665	5,188
D&A	121,853	137,507	184,503	186,347	96,416
Capex	-	-	-	-	-
Additional borrowing	-	-	-	-	(610,689)
FCFE	136,936	243,234	333,462	339,012	(509,086)
Value	440,440				
Value/share	5,866				

* Unit: VNDmn, except for Value/Share
Source: Mekong Securities

Rach Chiec Bridge

CII in December 2008 signed a concession agreement with the People's Committee of Ho Chi Minh City related to the Rach Chiec Bridge. According to the agreement, CII will fund the construction in exchange for the right to collect toll fees for 12 years starting in January 2014. The total cost related to the project is VND1,000 billion, funded by a debt-to-equity ratio of 2.3. We expect traffic on the Rach Chiec project to grow at an average rate of 2% over the project's life. Additionally, toll rates are expected to rise 50% every five years starting from 2011. Maintenance costs will make up 2% of the total toll revenue, and management and administration costs 8.8%. We also assume a 10% yoy inflation rate and a constant annual depreciation of VND120 billion.

Table 4: Rach Chiec: Projected P&L and valuation

Profit & Loss Account	2010F	2011F	2012F	2013F	2014F	2015F+
Toll Revenue	-	-	-	-	212,657	3,870,797
O&M	-	-	-	-	22,967	462,454
EBITDA	-	-	-	-	189,690	3,408,343
D&A	-	-	-	-	120,000	1,320,000
EBIT	-	-	-	-	69,690	2,088,343
Interest	3,015	5,114	8,789	10,070	10,070	-
PBT	(3,015)	(5,114)	(8,789)	(10,070)	59,621	2,088,343
Tax	-	-	-	-	-	85,958
PAT	(3,015)	(5,114)	(8,789)	(10,070)	59,621	2,002,385
DCF Valuation	2010	2011	2012	2013	2014	2015+
PAT	(3,015)	(5,114)	(8,789)	(10,070)	59,621	2,002,385
D&A	-	-	-	-	120,000	1,320,000
Capex	250,000	225,000	350,000	122,000	-	-
Additional borrowing	-	199,819	350,000	122,000	(700,001)	-
FCFE	(253,015)	(30,295)	(8,789)	(10,070)	(520,380)	3,322,385
Value	956,545					
Value/share	12,740					

* Unit: VNDmn, except for Value/Share
Source: Mekong Securities

Phan Rang-Thap Cham, HaNoi Highway Extension

The BOT Phan Rang-Thap Cham project is a joint undertaking of NBB (36%) and CII (64%). The scope of the project involves extending National Highway No 1A through Thap Cham in Phan Rang Province. The project was granted a concession period of approximately 16 years. Its construction is expected to be completed in July 2011.

The total cost related to the project is VND548 billion, funded by a debt-to-equity ratio of 2.3. We forecast traffic will increase at an average annual rate of 8.5% between 2011 and 2013, and 7% until July 2014. The BOT Phan Rang-Thap Cham project will also benefit from a 50% increase in toll fees in early 2012 and a further 50% in 2016.

Table 5: Phan Rang-Thap Cham: Projected P&L and valuation

Profit & Loss Account	2010F	2011F	2012F	2013F	2014F	2015F+
Toll Revenue	-	24,152	78,616	85,298	91,269	1,666,753
O&M	-	2,150	4,730	5,203	5,723	283,601
EBITDA	-	22,003	73,886	80,096	85,546	1,383,152
D&A	-	19,424	38,849	38,849	38,849	372,299
EBIT	-	2,578	35,038	41,247	46,698	1,010,853
Interest	-	19,290	36,654	32,243	26,699	31,373
PBT	-	(16,711)	(1,616)	9,004	19,998	979,479
Tax	-	-	-	-	-	43,793
PAT	-	(16,711)	(1,616)	9,004	19,998	935,686
DCF Valuation	2010F	2011F	2012F	2013F	2014F	2015F+
PAT	-	(16,711)	(1,616)	9,004	19,998	935,686
D&A	-	19,424	38,849	38,849	38,849	372,299
Capex	184,978	71,910	-	-	-	-
Additional borrowing	153,129	65,192	(37,232)	(47,853)	(58,847)	(221,895)
FCFE	(31,849)	(4,005)	-	-	-	1,086,090
Value	129,424					
CII's share	82,831					
Value/share	1,103					

* Unit: VNDmn, except for Value/Share

Source: Mekong Securities

CII will also gain a constant dividend of 14% of its equity commitment from the BOT Hanoi Highway Extension project between 2019 and 2043. The company will benefit from the difference between the target management and administration costs as stated in its BOT contract (8% of toll revenues) and the actual cash outflows (estimated at 5%). We value the Hanoi Highway extension project at VND2,445 per share at a required rate of return of 19%.

Non-toll-based infrastructure projects

CII plans to exit the BOO Thu Duc project in 2010, with total expected profit of VND208bn, or 2.3x its equity contribution. It plans to exit 50% of the BOO Dong Tam project in 2011 with total expected profit of VND93 billion, or 1.95x its equity contribution. CII will keep 50% of the BOO Dong Tam project and 100% of the BOO Kenh Dong project, which are expected to return respective annual after-tax dividends of VND14.8 billion and VND16.2 billion, equivalent to 15% of CII's equity commitment. The company's total disbursement to these three projects is estimated at VND352 billion. An additional VND113 billion will be disbursed in 2010.

CII plans to sell its VND29.7 billion holding in the BOT Phu My project in 2010. We expect the company to gain at least VND41.6 billion in profit from this transaction.

As of the end of 2009, CII has contributed VND24 billion for a 30% stake in Hoa Phu JSC. The company will disburse an additional VND6 billion in 1Q10 and plans to exit in 2012.

We used a discounted cash flow (DCF) method to value CII's stake in the BOO Thu Duc, BOT Phu My, Hoa Phu JSC and BOO Dong Tam projects. We value these investments at VND5,538/share, or 1.7x current book value. For the BOO Kenh Dong project and the 50% stake in the Dong Tam project, we used a Gordon Growth model with a 19% required rate of return and dividend growth rate of 10% to derive values of VND1,400/share and VND1,297/share, respectively.

Table 6: Non-toll-based infrastructure projects: Projected P&L and valuation

Profit & Loss Account	2010F	2011F	2012F
BOT Phu My bridge	71,280	-	-
Thu Duc water plant	160,000	208,000	-
Dong Tam (*)	-	29,531	162,422
Hoa Phu JSC	-	-	75,000
EBIT	231,280	237,531	237,422
Interest	1,400	1,400	1,400
PBT	229,880	236,131	236,022
Tax	11,564	10,400	3,750
PAT	218,316	225,731	232,272
DCF Valuation	2010	2011	2012
PAT	218,316	225,731	232,272
Capex	67,763	-	-
Additional borrowing	-	-	(13,336)
FCFE	150,553	225,731	218,936
Value	415,838		
Value/share	5,539		

* 50% of CII's committed share

** Unit: VNDmn, except for Value/Share

Source: Mekong Securities

With regards to the BOT152 Dien Bien Phu project, we forecast 20% ROE and 10% DPS to derive at a fair value of VND2,992/share.

Real estate

In 2011, CII plans to sell its 40% stake in the Diamond Riverside project for an estimated profit of VND160 billion. The company will also exit the 155 Nguyen Chi Thanh (60%) and the 70 Lu Gia (25%) projects at 2-2.5x its initial equity contribution, realizing profit of VND30 billion and VND25 billion, respectively. We do not take into account the potential upside brought in by the Tam Tan and Tan An Hoi projects as compensation and resettlement plans remain pending for approval by the local government.

Table 7: Real estate portfolio: Projected P&L and valuation

Profit & Loss Account	2010F	2011F
155 Nguyen Chi Thanh	-	60,000
Diamond Riverside	-	320,000
70 Lu Gia	-	62,500
EBIT	-	442,500
Interest	6,353	-
PBT	(6,353)	442,500
Tax	-	110,625
PAT	(6,353)	331,875
<hr/>		
DCF Valuation	2010	2011
PAT	(6,353)	331,875
D&A	-	-
Capex	-	-
Additional borrowing	(60,500)	-
FCFE	(66,853)	331,875
<hr/>		
Value	178,180	
Value/share (VND)	2,373	

* Unit: VNDmn, except for Value/Share
 Source: Mekong Securities

Other financial investments

We value CII's securities portfolio at VND458 billion, 1.4x its book value, using the book value approach for illiquid securities and market value for the remainder. CII in 2010 plans to sell its entire holdings in Viet A Bank, HSC, 577 and LGC for a profit of approximately VND182 billion. Other stakes in Investco and Petroland will be sold between 2010 and 2012. We think the profit realised from its securities portfolio will be a notable funding source to finance its infrastructure pipeline.

Table 8: Other financial investments: Projected P&L and valuation

Company, VND mn	2007 BV	2008 BV	2009 BV	Current MV
HCMC Securities Corporation	29,906	29,906	29,906	78,189
Construction Investment & Development JSC	12,375	12,375	12,375	20,000
HCMC Housing Development Bank	4,081	16,739	-	-
Viet A Bank	16,000	18,922	21,006	23,138
Saigon Tay Bac Investment & Development JSC	15,000	-	-	-
565 JSC	4,500	12,265	12,265	12,265
577 JSC	24,056	24,056	9,367	17,352
Lu Gia Electric & Mechanics JSC	14,090	70,273	70,273	96,882
Petroland	25,500	85,000	85,000	127,500
Nhan Luat JSC	28,000	28,000	28,000	28,000
Transport Construction Company 5	5,000	5,000	5,000	5,000
Construction Investment & Development - Bond	50,000	50,000	50,000	50,000
Total	228,508	352,536	323,192	458,326

Source: Mekong Securities

SOTP valuation

We used a sum-of-the-parts (SOTP) approach to value the entire business portfolio of CII. We used a DCF methodology to value its toll-based projects due to the relatively stable cash flows associated with the roads and bridges BOTs. We assume an ROE of 20% for utilities and real estate projects, and 15% for the remaining infrastructure deals. Our DCF calculations are done assuming a cost of equity of 19% and a cost of debt for infrastructure-related projects of 10.5%.

For the BOO Kenh Dong project and the 50% stake in the Dong Tam project, we used a Gordon Growth model with a 19% required rate of return and dividend growth rate of 10%. We value CII's equity using the book value approach for illiquid securities and market value for the remainder. We have not incorporated Inter-provincial Road No.25B or the Tam Tan and Tan An Hoi projects due to a lack of reliable information. We view additional clarity on the outcome of these projects as catalysts for potential upside revisions.

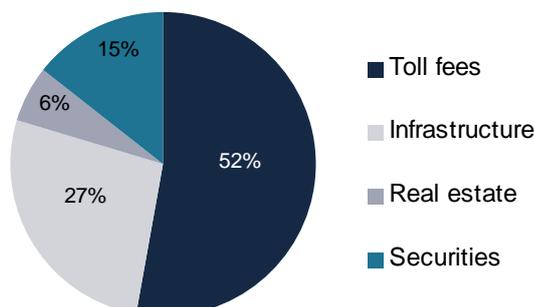
Our SOTP valuations peg CII's fair value per share at VND41,900 (USD2.19), which represents a 3.7% premium to the closing price of VND40,400 (USD2.12) and provides an expected total return of 8.2% over the next 12 months. The stock is currently trading at an undemanding PER of 6.9x its FY10 earnings estimates and a P/B of 2.5x. This is slightly higher than its domestic peers but justified by the company's leading profitability performance, with ROE of 31.1% and ROA of 13.8%, compared with the respective domestic infrastructure sector averages of 21.2% and 11.8%.

Table 9: Valuation

Toll fees	22,155
<i>HN/KDV/BT</i>	5,866
<i>Rach Chiec</i>	12,740
<i>Phan Rang</i>	1,103
<i>HN Highway extension</i>	2,445
Infrastructure	11,266
Real estate	2,373
Securities	6,104
Fair value/share	41,899

Source: Mekong Securities

Chart 7: Value breakdown



Source: Mekong Securities

Peer comparison

The company has no close comparables on the Vietnamese exchanges. The broader infrastructure sector has an average trailing PER of 12.3x. Compared with the broader sector, CII offers the highest ROE of 31.1%, while still having a relatively low PER. The company also provides above-average ROA at 13.8x against 11.8x for the sector. **We estimate CII is trading at a 78% discount to its sector peers, assuming a target PER of 12.3x and our FY10E EPS estimates of VND5,855.**

Table 10: Peer comparison

Ticker	KEY PLAYERS	Price (VND)	Market Cap (VNDbn)	Index Weight (%)	Avg Vol 30D (shares)	ROE (%)	ROA (%)	P/E (times)	P/B (times)	Foreign Ownership
HOSE:CII	HCMC INFRASTRUCTURE INVESTMENT	40,400	3,033	0.69	891,624	31.10	13.77	7.74	2.45	30.96%
HNX:VCG	VINACONEX	54,200	10,031	-	1,750,450	10.46	1.29	37.05	2.87	4.29%
HOSE:ITA	ITACO	38,200	7,866	1.78	1,082,765	15.7	10.62	12.54	1.54	27.89%
HOSE:PPC	PHA LAI THERMAL POWER JSC	17,500	5,690	1.29	567,762	22.94	7.89	6.89	1.42	16.82%
HNX:PVX	PETROVIETNAM CONSTRUCTION	28,700	4,305	-	2,273,240	13.28	4.40	16.66	2.11	4.04%
HOSE:VSH	VINH SON - SONG HINH HYDRO	15,300	3,155	0.72	901,419	14.86	12.93	10.64	1.56	8.01%
HOSE:CTD	COTEC CONSTRUCTION	140,000	2,583	0.59	67,343	22.70	15.46	-	-	33.26%
HOSE:LCG	LICOGI 16	76,500	1,913	0.43	847,753	26.69	14.56	6.23	1.82	11.30%
HOSE:PGD	PETROVIETNAM LOW PRESSURE GAS	50,500	1,667	0.38	248,340	40.86	25.95	9.09	3.50	1.67%
HOSE:TMP	THAC MO HYDROPOWER	16,700	1,169	0.26	12,448	-	-	7.52	1.52	0.49%
HOSE:TBC	THAC BA HYDROPOWER	16,800	1,067	0.24	81,125	16.88	15.56	9.54	1.58	2.20%
HOSE:NBB	NBB INVESTMENT CORP	88,500	1,315	0.31	61,104	17.49	6.92	11.68	1.69	19.35%
	Average	48,608	3,649	0.67	732,114	21.18	11.76	12.33	2.01	13.36%

Source: Mekong Securities, Bloomberg

Concerns

The majority of infrastructure developers in Vietnam are engaged in both project financing and construction. CII, on the other hand, outsources construction works to third parties and, as a result, may gain lower profit margins compared with companies that have their own construction arms. However, this can be considered an advantage to CII, to a certain extent. The company can select the best constructors in the market to ensure good quality and timeliness of its projects. Maintenance and repair costs are hence minimised.

Infrastructure and real estate projects are often associated with delays and execution difficulties

Infrastructure and real estate projects are often associated with delays and execution difficulties, often due to payment postponement as well as difficulties in compensation and resettlement. Although this has not caused any notable issues for CII, any project delay or late fund disbursement can impact its profitability.

The capital-intensive nature of infrastructure projects could put CII under pressure during the period of falling credit availability. The risk is mitigated by its strong partnership with a number of commercial banks, including the Vietnam Export Import Bank, Vietnam International Commercial Joint Stock Bank, Maritime Bank and Vietnam Development Bank, enabling CII to acquire long-term loans at preferential rates.

Appendix

Ownership

CII's ownership structure is well distributed across investor groups. Vietnamese private accounts are CII's largest investor group, holding up to 36.3% as of November 2009. The major shareholders in February included Ho Chi Minh City Urban Investment and Development Fund (HIFU), with ownership of 17.8%, Vietnam Dragon Fund Limited (5.4%) and Vietnam Enterprise Investment Ltd (9.7%). Eximbank, BIDV, VEIL and KITMC recently reduced their CII holdings significantly. Some 23.1% of the company is in the hands of foreign investors. Influential employees hold 29% of CII.

Table 11: Ownership structure as of 11 November 2009

	# of shareholders	# of shares owned	Ownership
Influential shareholders		14,501,666	29.0%
Vietnamese investors	3,451	23,984,218	47.9%
<i>Private</i>	3,397	18,317,616	36.6%
<i>Institutional</i>	54	5,666,602	11.3%
Foreign investors	516	11,568,116	23.1%
<i>Private</i>	479	838,236	1.7%
<i>Institutional</i>	37	10,729,880	21.4%
Total	3,967	50,054,000	100.0%

Source: CII

Management strategy

CII plans to continue strengthening its leading position in the Vietnamese toll market by providing equity financing to infrastructure projects and acquiring toll-collection rights. The company aims to increase its market share to 50-80% in the toll industry over the next three to five years. Concurrently, CII will focus on infrastructure projects with stable revenue inflows, including water distribution and telecommunications, as well as construction of new residential areas, industrial parks, health care centres, schools and sport centres.

Management intends to transform CII into a holding company structure, and will exit all investments with stakes of below 51% and reduce other stakes down to 51%. This will help to raise the capital necessary to fund its future projects. Particularly, CII will exit all of its real estate investments in 2010 and 2011, except for the Tam Tan and Tan An Hoi projects, whose profits will be realised in 2013. Management intends to sell its listed equity portfolio in 2010 and OTC stocks in 2011. As a result, CII forecasts it will gain VND3,647 billion from these divestitures over the next four years (VND579 billion in 2010, VND727 billion in 2011, VND980 billion in 2012 and VND1,361 billion in 2013).

Financial highlights

CII held up well during the global crisis, thanks to the defensiveness of the infrastructure sector and the government's commitment to upgrade the infrastructure network across the country. In 2009, toll fees decreased 12%, while income from financial investments rose 157%. After-tax income gained 138.5%, while total assets rose at a lesser rate of 24.5%. CII beat its revised 2009's profit target by 2%, which came in 3x higher than its initial expectation.

Overall, CII's financial position is sound, with ROE, ROA and EPS witnessing constant increases since 2004. ROE grew from 6.7% in 2004 to 17.1% in 2008 and 31.8% in 2009, and ROA increased from 3.2% in 2005 to 14% in 2009. Rising ROE is primarily driven by significant improvement in the net profit margin as income from financial activities accounts for an increasing proportion of the firm's total income.

Financial leverage ratios remain healthy as the long-term debt/equity ratio stabilised at 88% in 2009 from 0.95% in 2007.

CII has recently offered a 2:1 bonus issue to its current shareholders, increasing the number of shares outstanding to 75 million. The company plans to issue an additional 25 million shares to existing shareholders or strategic partner(s) at a minimum price of VND30,000.

Table 12: DuPont breakdown

Ratio	Description	2006	2007	2008	2009
ROE	Net income/Average equity	12.9%	16.7%	17.1%	31.8%
Tax burden	Net income/EBT	88.2%	89.4%	90.8%	88.7%
Interest burden	EBT/EBIT	58.7%	70.6%	80.7%	91.0%
EBIT margin	EBIT/Revenue	55.3%	85.5%	79.2%	193.7%
Asset turnover	Revenue/Average total assets	17.0%	12.7%	12.3%	9.0%
Leverage	Average total assets/Average equity	2.67	2.45	2.39	2.27

Source: Bloomberg, Mekong Securities

Project overview as of 31 December 2009

PROJECTS	Description	Total cost	CII's contribution	Start	Completion	Status	
I INFRASTRUCTURE		VNDbn					
Water plants							
1	Thu Duc	Plant located in Thu Duc district, HCMC with capacity of 300,000 m ³ /day. Pumping station capacity 315,000 m ³ /day located at Hoa An, Dong Nai river. Pipeline length: 25.7km, diameter: 2,000mm	1,487	32% (VND160bn)		06/2010	Currently pumping 100,000 m ³ /day, full capacity of 300,000 m ³ /day from 06/2010
2	Dong Tam (Tien Giang)	Part 1 (2007-10) capacity: 50,000m ³ /day, part 2 (2014) to increase capacity to 90,000m ³ /day.	1,412	52.5% (USD196.875bn)		2014	Operational from Q2/2010
3	BOO Kenh Dong	First pipeline connecting the plant to Tan Hiep water plant (length: 8.15km, diameter: 2,000m) and the second between An Suong junction and Tan Hiep plant (length: 3.1km, diameter: 1,800m). Total capacity: 200,000m ³ /day, Pumping station capacity: 214,000m ³ /day located at Cu Chi, HCMC	1,006	36% (VND108bn)		Q2/2010	
Bridges/Roads							
4	BOT Phu My Bridge	Connecting East Border road (District 2) and Nguyen Van Linh road (District 7). Length: 705m, height: 45m, width: 27.5m	1,806	16% (VND119.2bn)	9/9/2005	2/9/2009	Completed, pending for legal documents, toll collection expected soon, CII plan to exit in 2009, early 2010
5	Binh Trieu 2 - Subproject 3	Freyssinet Vietnam is constructor providing a 30 year guarantee Collection period: Five years, three months starting from 01/07/2009	231	100%	29/05/2009	30/08/2010	31/03/2009 CII and Transport department signed a BOT contract, construction commenced on 29/05/2009, expected completion date 08/2010
6	BOT Binh Trieu Bridge 2	Five subprojects: 1) Highway 13 extension from Binh Loi junction to Binh Phuoc junction, 2) construction of Binh Thieu 2 bridge, 3) Old Binh Thieu bridge extension, 4) upgrade Nguyen Xi road, and 5) widen Ung Van Khiem road to 30m		98.57% (VND69bn)			CII funded subproject 2
7	BOT Hanoi Highway Extension	Connecting Saigon 2 bridge and Dong Nai bridge Length: 15.7m, toll collection from 01/01/2019	2,288	99% (VND297bn)	Nov-09		28/09/2009 HCMC Committee approved the BOT contract, construction commenced in 11/2009
8	Rach Chiec Bridge	Collection right is worth VND1,000bn, starting from 01/01/2014 for 12 years between Saigon bridge and Binh Thai junction	1,000	100%	Q4/2008	Q4/2012	12/2008 CII signed a contract with Finance Office
9	BOT Dong Nai	Comprising three works: 1) Dong Nai bridge 23m from the old bridge (5 lanes, width: 20m, length: 461.6m); 2) Tan Van bridge on Hanoi highway Bien Hoa to HCMC (width: 15.75m, 4 lanes, height: 4.75m); 3) tunnel in Highway 1	1,255	5% (VND25bn)	Jun-08		Started construction in June 2009

1	Inter-province	from HCMC to Bien Hoa (width: 12m, 3 lanes, height: 4.75m)	612					19/05/1009 CII and HCMC Committee signed a contract to fund the project
0	25B-Part 2	Length: 5.36m from East-West Road (km 0+240) to Cat Lai ferry (km 5+600)						
1	Phan Rang- Thap Cham - 1A Highway	Extending 1A Highway through Thap Cham, Phan Rang province. Length: 8.3km, from km 1551+40 to km 1561+00 at Long Binh junction, Ninh Thuan province. Collection period: 15 years seven months 26 days	548	64% (VND105.6bn)	Q1/2009	2011		11/2008 Vietnam Road Administration, 577 Investment JSC & CII signed a BOT contract
1	Dien Bien Phu + Hung Vuong	Collection period is subject to adjustment if revenue changes +/-10%	1,000	00%(VND300bn)				Four years of collection left
2	Industrial Parks							
1	Hoa Phu Automobile	A venture between SAMCO, SINVESCO and CII to build infrastructure for Hoa Phu commercial park located at Cu Chi, HCMC, Area: 112ha		30% (VND30bn)				CII has invested VND24bn as of 09/2009
3	II REAL ESTATE							
	Residential							
1	Binh An	Binh An Ward, District 2, HCMC, Area: 65,000sqm	500	25% (VND70bn)				Infrastructure works completed, CII received principal payment of VND45.66bn and gained an initial profit of VND53.9bn
4								
1	NBB	Diamond Riverside, Ward 16, District 8, HCMC, Area: 40,000sqm	2,675	40% (VND190bn)	Q1/2010			CII has invested VND190bn, will exit in 2011 and expects to get a profit of VND137.5bn
5								
1	Tam Tan	Tan An Hoi Ward, Cu Chi District, HCMC, Area 17.86ha	1,012	100% (VND200bn)	Dec-07	Nov-13		
6								
1	Tan An Hoi	Tan An Hoi Ward, Cu Chi District, HCMC, Area 104.72ha	4,090	100% (VND500bn)	Dec-07	Nov-13		
7								
	Commercial							
1	152 Dien Bien Phu	152 Dien Bien Phu, Ward 25, Binh Thanh District, HCMC, Area: 6008sqm, construction area: 59,904sqm	1,378	90% (VND270bn)				
8								
1	70 Lu Gia	70 Lu Gia, District 11, HCMC, Area: 4,000sqm, construction area: 37,436sqm, 22 floors	350	25% (VND25bn)	May-08	Mar-11		CII invested VND25bn and expects to gain VND31.5bn profit
9								
2	155 Nguyen Chi Thanh							
0								

Financials

Consolidated balance sheet

Balance Sheet (VNDmn)	2008	2009	2010F	2011F	2012F
Cash & Cash Equivalents	17,810	89,867	65,130	708,571	1,476,156
Account Receivables	96,267	128,647	145,844	237,514	331,967
Inventories	502	2,108	504	554	610
Current Assets	144,221	414,254	468,354	1,409,206	2,074,026
Fixed Assets	632,147	655,468	1,036,356	1,176,334	1,302,982
Long-Term Investments	1,234,943	1,434,992	1,434,992	1,434,992	1,434,992
Total Asset	2,011,311	2,504,714	2,939,702	4,020,532	4,812,001
Current Liabilities	230,450	215,274	231,475	375,193	523,298
Non-Current Liabilities	917,015	1,066,007	1,158,712	1,424,125	1,723,971
Total Liabilities	1,147,465	1,281,281	1,390,187	1,799,318	2,247,269
Chartered Capital	400,200	500,540	750,810	750,810	750,810
Total Equity	863,846	1,223,433	1,549,516	2,221,215	2,564,732

Source: Mekong Securities, CII

Consolidated profit & loss account

Income Statement (VNDmn)	2008	2009	2010F	2011F	2012F
Net Revenue	229,046	202,590	229,672	374,033	522,776
COGS	44,452	14,750	3,525	3,878	4,266
Gross Profit	184,594	187,840	226,147	370,155	518,510
Net Financial Expenses	(68,177)	(287,222)	(372,951)	(734,805)	(213,657)
SG&A	106,470	118,116	146,415	192,430	262,818
EBIT	181,297	392,326	526,573	1,001,456	579,314
Pre-Tax Income	146,300	356,946	452,682	912,530	469,349
Income Tax	13,520	40,282	13,090	127,322	12,323
Net Income	132,780	316,665	439,592	785,208	457,026

Source: Mekong Securities, CII

Ratio analysis

	2005	2006	2007	2008	2009
Return					
ROE	7.7%	12.9%	16.7%	17.1%	31.8%
ROA	3.2%	4.9%	6.8%	7.1%	14.0%
EPS	949	1,590	2,395	3,318	6,326
Profitability					
COGS Margin	0.4%	0.3%	0.2%	19.4%	7.3%
Gross Profit Margin	99.6%	99.7%	99.8%	80.6%	92.7%
Sales Expenses/Net Revenue	62.9%	54.8%	57.1%	42.2%	50.1%
Administration Expenses/Net Revenue	2.1%	2.5%	4.6%	4.3%	8.2%
Depreciation/COGS		0.6%	0.5%	0.4%	0.5%
Operating Profit Margin	15.5%	30.4%	59.5%	63.5%	167.4%
Financial Revenue/Net Revenue	0.09	0.14	0.51	0.53	1.55
Interest/Net Revenue	24.9%	22.8%	25.1%	15.3%	17.5%
Net Profit Margin	17.0%	28.6%	54.0%	58.0%	156.3%

Ratio analysis (contd.)

	2005	2006	2007	2008	2009
Growth					
EPS Growth		167.6%	150.7%	138.5%	190.7%
Sales Growth		-0.3%	6.5%	29.1%	-11.6%
Asset Growth		24.9%	56.8%	17.6%	24.5%
Equity Growth		2.0%	107.9%	1.3%	54.3%
Solvency					
Current Ratio		0.09	0.46	0.63	1.92
Quick Ratio		0.04	0.38	0.55	1.51
Leverage					
Debt/Equity		1.93	1.19	1.46	1.06
Long Term Debt/Equity		1.32	0.95	1.17	0.88

Source: Mekong Securities, CII

Notes

Mekong Securities' Rating System

We currently use a three-tier recommendation system for the stocks in our formal coverage: BUY, HOLD, or SELL.

A **BUY** is applied when the expected total return over the next twelve months is at least 10%.

A **HOLD** is applied when the expected total return over the next twelve months ranges between -10% to 10%.

A **SELL** is applied when the expected total return over the next twelve months is -10% or worse.

These benchmarks are subject to change.

Expected Total Return (12 months) = [(Target Price - Current Price)/Current Price] + Forecast 12-month Dividend Yield.

Our Analyst's Methodology

Target price and expected total return

Initially, an analyst derives an expected 12-month target price using multiple valuation methodologies. Different valuation methods have been used, 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.

Once analysts derive a risk-adjusted valuation for a company under review, its current market price is then compared with the target price to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

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