

VINCOM (VIC)

Vietnam's Premier Real Estate Play

BUY – Price target: VND 120,000

Based on a detailed analysis of its announced projects, we estimate that the fully-taxed, fully-diluted and fully-discounted NAV per share of Vincom is VND120,520. This means that Vincom's shares are trading at a c. 50% discount to NAV, despite the huge potential of Vietnam's property market. As the largest real estate developer in Vietnam, Vincom is in a unique position to acquire land in prime locations and develop it successfully. It currently has 145,000 m² of property for lease, but over 5.5 million m² of property in various stages of development. We initiate with a buy recommendation and set our target price at VND120,000.

Vincom has completed three projects to date: Vincom City Towers and Vincom Park Place in Hanoi, and Vincom Center in Ho Chi Minh City. These three developments feature high-end office, commercial and residential space, with the latter being sold to recover the entire cost of the project. This pattern will generally be repeated in its current, and much larger, projects. For example, half of the floor space of its 1.2m m² Royal City project will be sold as residential space. This allows Vincom to quickly pay off its debts, while building up a substantial leasing portfolio. Assuming no new projects, by 2015 Vincom could be debt free, have \$2bn of common equity, and own 335,000 m² (net leaseable area) of offices and 1.1m m² of retail space which generates US\$400m in operating profits annually.

The key to success in property development is getting good land and the money to develop it. Vincom has a proven track record in acquiring land and running the gauntlet of government permits and licenses. It also has the money for its projects thanks to its close relationship to the state-owned Bank for Investment and Development of Vietnam (BIDV), its strategy of selling residences to recover its costs, its recent issue of a US\$100m CB, and the cash flow of its existing leasing portfolio.

Our projections look for Vincom's EPS to rise from VND1,943 in 2009 to VND38,651 by 2014. Annual net profits, however, can be greatly affected by the timing of the handover of property-for-sale. Assuming it books the sale of half of Vincom Center's residences this year, its EPS could be VND3,348, putting its shares on a PER of 18x. But we stress the primacy of NAV: Vincom's shares will increasingly be benchmarked against NAV, as the Vietnamese equity market becomes more familiar with this valuation parameter; and NAV will rise with increases in the development pipeline and/or increases in the pipeline's visibility.

	2009	2010F	2011F	2012F	2013F
Rental gross profits (\$m)	13.6	46.4	78.3	108.1	233.1
Sales gross profits (\$m)	49.6	58.8	58.8	115.8	367.6
Net profit (\$m)	40.1	63.0	76.9	112.5	370.0
EPS (\$)	0.10	0.17	0.21	0.31	0.93
EPS (VND)	1,943	3,348	4,082	5,975	18,106
EPS growth (%)		72%	22%	46%	203%
ROE (%)	37%	45%	37%	37%	62%
ROA (%)	8%	12%	12%	13%	26%
NAV/share (VND)		120,520			
PER (x)	31.4	18.2	14.9	10.2	3.4
PBR (x)	10.7	6.8	4.7	3.2	1.4
Dividend (VND)	282	nil	nil	nil	nil
Dividend yield (%)	0.5%	nil	nil	nil	nil

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Coverage initiation

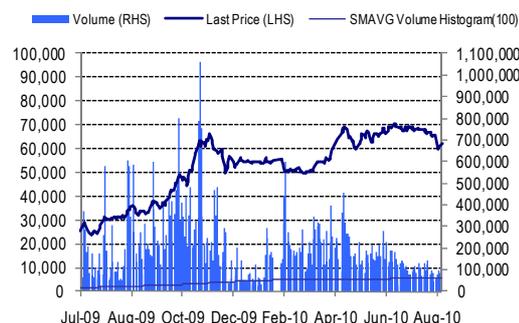
Recommendation	BUY
	HOSE:VIC
	Real Estate
Price (VND)	61,000
Price Target (VND)	120,000
Expected share price return (%)	97%
Expected dividend yield (%)	nil
Expected total return (%)	97%

Source: Bloomberg, Mekong Securities

Stock performance (%)

	YTD	1m	3m	6m
Abs	+10.35	-11.59	-4.69	+20.83
Rel	+27.36	+2.18	+8.99	+34.47

Source: Bloomberg



Ownership structure

Pham Nhat Vuong et al	56.6%
Vietnam Investment Corp	13.0%
Foreigners	27.3%

Stock statistics	31 Aug 2010
Bloomberg code	VIC VN
Last price	VND 61,000 / \$3.1
52-week range (VND)	32,150-70,500
Shares O/S (m)	367.3
Mkt Cap (VND bn)	22,404
Mkt Cap (\$ bn)	1.15
Est. free float (m shares)	112
3m avg daily vol (shares)	125,000
VND/USD	19,480
Index: VNIndex/HNX	429 / 118

Source: Bloomberg

Please refer to important disclosures at the end of this document

Overview

Vincom is the largest property developer in Vietnam. It has completed three projects and has another seven in various stages of development. When these are finished by 2015, Vincom will own approximately 1.4 m-2 of leaseable office and retail floorspace and will have sold 2.4m m-2 of property.

Vincom's strategy is to build integrated commercial, office and residential complexes, and then sell the residences to generate cash to recover the cost (and more) of the entire project. These means that its borrowing needs are generally short-term in nature. In fact, were Vincom not to develop any new projects beyond what it has announced, by 2015 the company would be completely debt free despite owning a large portfolio of property for lease.

Understanding the importance of finance, Vincom has built a close working relationship with the Bank for Investment and Development Vietnam (BIDV), one of the four largest state-owned banks in the country. It also became a pioneer among Vietnamese companies by financing itself in global capital markets through a US\$100m CB issue in late 2009. In addition, downpayments by residential property buyers of around 40% of the sales price can cover much of its construction costs.

Because Vincom is rapidly building up its property portfolio, its revenues and profits are "lumpy" in line with the booking of its residential property sales. Over time, leasing revenues will begin to dominate its cash flow, making valuing its businesses easier. What this means is that the investment opportunity for Vincom's shares is now, when there is still uncertainty surrounding the exact details of its projects, the timing of their launch, the outlook for sales and rents, and whether or not it actually acquires the land it plans to.

Our analysis of Vincom concludes that if Vincom completes its current projects as scheduled within the next five years, then its NAV per share is VND120,000 after factoring in taxes (using a 25% tax rate), dilution and discounting cash flow. At its current price of VND61,000, its shares are trading at half of NAV. Moreover, its NAV has substantial upside, as we have used cap rates on its properties between 10-14% and a fixed VND exchange rate to the US\$ at VND19,500. In other words, we have not factored in the benefits to NAV of falling discount rates/interest rates as the Vietnamese economy matures, nor have we factored in the benefits of a falling currency on its expenses.

Figure 1: NAV per share calculation

Post-tax gain on leasing properties (US\$ m)	1,260
Post-tax gain on properties for sale (US\$ m)	993
Cash on balance sheet (US\$ m)	379
Less debt on balance sheet (ex CB) (US\$ m)	414
Less Minority interests (US\$ m)	88
Net asset value (US\$ m)	2,401
Net asset value (VND m)	48,019,893
Shares outstanding (m)	367
Dilution from CB conversion (m)	31
Total shares outstanding (m)	398
NAV/share (VND)	120,520

Source: Mekong Securities

Company Background

Vincom was founded in May 2002 and went public in September 2007. Its first project was the Vincom City Towers, an office and commercial complex in Hanoi, completed in November 2004. It then completed Vincom Park Place, a residential and commercial property, on an adjacent site in August 2009. Most recently, in April 2010, it opened Vincom Center, an integrated office, commercial and residential property in the absolutely best location in Ho Chi Minh City.

The seed capital for Vincom's founders to engage in the capital-intensive real estate business came from Ukraine. In 1993 a group of Vietnamese students, who had just graduated from various universities in Moscow, decided to try their hand at capitalism. They set up a company called Technocom, which in 1995 began producing instant noodles in Ukraine under the Mivina brandname. They then proceeded to introduce other food-related products. Technocom today has a 90% market share of instant noodles in Ukraine, 80% for instant potatoes, and 20% for soup stock. The company eventually expanded to four factories with 3,000 employees, and also engaged in the development of supermarkets, offices and luxury apartments. In March 2010, Nestle bought the food-related businesses of Technocom for an undisclosed amount.

Owners, Managers, and Related Companies

The founder and major shareholder of Vincom is Mr. Pham Nhat Vuong, who was born in 1968. He owns 42.6% of Vincom's shares directly, plus an additional 5% through his ownership of 37% of Vingroup (Vingroup is an unlisted holding company). This made Mr. Pham the richest person in Vietnam in 2009. He serves on the company's Board of Management and has served as Chairman of Vingroup since 2004. His sister-in-law Ms. Pham Thuy Hang is also on the Board of Management. Combining Mr. Pham's 42.6% ownership with that of his wife and sister-in-law, over 51% of the shares of Vincom are in the hands of the founding family.

The Chairman and CEO of Vincom is Mr. Le Khac Hiep, age 54, who holds a PhD in Physics from Kharkov University in Ukraine. After spending ten years as a science researcher with the Vietnam Scientific Institute, he moved to the Prudential Life Insurance Company in 1994. He joined Vincom in 2004.

Vincom's sister company is Vinpearl, a Vietnam-listed company (ticker VPL), which specializes in resort development. Vinpearl owns a five star resort in Hon Tre Island of Nha Trang bay. Vingroup own 22.17% of Vinpearl.

One issue surrounding the company has been the level of loans made by Vincom to its board of directors and family members. The reason that the company made such loans is that it considered them safer than third party loans (most of these loans are secured by shares of Vincom) and the loans carry higher interest rates than bank deposits. As part of the process for issuing convertible bonds last year, management agreed that all loans will be repaid by the end of 2010, and most already have been.

Vincom has a policy of developing its own local managerial talent. While in its early years Vincom did not hesitate to employ foreigners in senior positions, over time it has filled these positions with Vietnamese with similar levels of competence and experience. Its staff is very young.

First Mover Advantages

Vincom boasts a number of strengths which should allow it to remain the industry leader in the real estate sector. First, it has the first mover advantage in that its Vincom City Towers was the first Class A office and commercial building in the country. Second, through this project and subsequent ones, it has gained experience in the real estate sector and has developed an experienced management team. Third, it has been able to source properties in prime locations as it has won the confidence of the government, which owns all the land in Vietnam. Fourth, it has financial strength owing to the success of its initial projects, relationship with BIDV, and overseas financing. Finally, it has created the premier brandname in Vietnam's real estate sector, allowing it to sell and rent its properties quickly and at premium prices.

The Growth Potential of Vietnam's Property Market

In comparison to the other countries of Asia, Vietnam has a quite undeveloped property market in terms of office and retail floorspace. Figure 2 below compares office space among some of the major cities of Asia. Ho Chi Minh City has just 253,340 m² of Grade A office floorspace, one-seventh of Bangkok despite having about the same population. This shortage of supply is one of the reasons that rents in Ho Chi Minh City are relatively high.

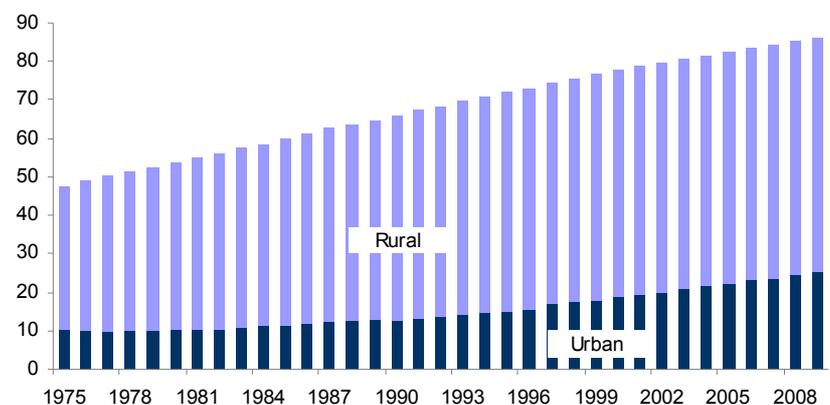
Figure 2: Comparison of office markets in Asian cities

	CBD Grade A Floor Space (m ²)	Rent (US\$/m ²)	Capital Value (US\$m ²)	Population (mil)
Ho Chi Minh City	39	n/a	7,123,000	39
Bangkok	19	2,873	6,355,000	19
Kuala Lumpur	47	11,852	4,869,000	47
Seoul	19	2,703	1,587,000	19
Jakarta	20	3,801	10,464,000	20
Hokong	14	1,941	9,038,000	14

Source: Mekong Securities

Given that the total population of Vietnam is 84 million, but 70% still live in rural areas, there is huge potential for Hanoi and Ho Chi Minh City to grow. Moreover, unlike aging Japan and China, 60% of Vietnam's population is under age 35. The conclusion is that if Vincom can build it, someone will buy or rent it.

Figure 3: Vietnam's urban and rural population (million people)



Source: CEIC, Mekong Securities

Developers Working Hard to Fill the Gap

The lack of office and retail space in Vietnam has not gone unnoticed. Currently Vietnam is in the midst of a building boom. The amount of retail space in Hanoi is forecast to reach 1,081,000 m-2 by 2012, up from just 214,500 m-2 in 2008, while the amount in HCMC will reach 1,097,000m-2 by 2012, up from 196,400 in 2008. However, only one-tenth of HCMC's new retail space will be in the CBD, where Vincom Center is located, and it is too early to know how much of this supply will ever be completed. Similarly in the office market, there will be 110,000m-2 of new Grade A supply in HCMC in the next 12 months and 75,000 m-2 of Grade B.

This new supply in combination with the global recession has resulted in falling rents and high vacancy rates in the office sector. According to CBRE, Grade A office rents in HCMC are now \$39/m-2 per month, while the vacancy rate is 15.6%. However, retail vacancy remains low. Department store rents were up 3.3% QoQ to \$108.8/m-2 per month and shopping centers were \$98.1/m-2 per month in HCMC CBD.

Figure 4: Overview of Hanoi and HCMC Property Markets

	Hanoi	HCMC
Shopping Centers		
Total Supply (m-2)	59,566	218,825
Vacancy Rate (%)	1.75	5.6
Avg Rent (\$/m-2)	54.62	120.9
Grade A Offices		
Total Supply (m-2)	116,680	253,340
Vacancy Rate (%)	7.51%	15.6
Avg Rent (\$/m-2)	39.66	39.13

Source: Mekong Securities

A Difficult Market to Develop

One of the reasons that Vietnam's property market has remained so undeveloped is the nature of land ownership. The Constitution of Vietnam provides that all land belongs to the people of Vietnam and is administered by the state for long-term use by the people. The State determines the land use period, land allocation, purpose of use, land taxes and land rental fees, which all embodied in the Land Use Rights of a property.

Land use rights may be allocated by the State, leased from the state, leased from an authorized lessor, or transferred. An enterprise may pay the land use fees for the entire land allocation period or elect to pay land rental in annual installments. Permanent Land Use Rights (essentially freehold) do exist and this is normally given for people's residences.

Property redevelopment in populated areas involves the relocation of incumbent residents and businesses. Under Vietnamese law it is typically the government's obligation to clear the site and then lease such land to the developer. However, the developer can choose to perform the land clearance itself and negotiate with the residents. The amount of compensation to be paid is also subject to government regulation. The situation in Vietnam is the exact opposite of China, where government officials and developers often collude to evict residents and farmers from their land with minimal compensation.

It is difficult to be a developer here because one cannot simply buy a landbank at an auction, as in Hong Kong or Singapore, and begin construction. Rather, the land has to be acquired through negotiation with a seller, who is often a state-owned enterprise, and then the developer has to navigate through a convoluted permit and licensing process. Normally it takes three years before ground breaking. As a result of this, Vietnam has only three major property developers: Vincom, Bitexco, and Hoang Anh Gia Lai (HAG).

Financing projects is also an issue. Foreign banks are not involved in lending to Vietnamese property developers, while local banks are relatively small and their loan portfolios are already over-exposed to real estate. Foreign property investors did make a push into Vietnam in 2007 and 2008, but then beat a hasty retreat when the Great Recession struck.

One of the good features of Vietnam is that owing to the steady depreciation of the Vietnam Dong, Grade A rents are mainly quoted in U.S. dollars. Customers can pay their rents with Vietnam Dong, using the selling exchange rate on the date of the transaction. This means that the cash flow from property is US\$ based.

Vincom's Property Development Portfolio

Because of the difficulties involved in acquiring large parcels of land in good locations, Vincom normally teams up with other parties (for example, state-owned companies who possess land) to form a joint venture company for each land redevelopment project. Vincom contributes money and expertise, and its partner contributes the land. As a consequence of this, many of Vincom's projects are either subsidiaries or associates of Vincom, often with subsidiaries of Vincom owning stakes in other subsidiaries. This makes analyzing Vincom and forecasting its future sales and profits rather combersome, which is why so few people bother.

Figure 5 shows the main features and ownership structure of Vincom's existing and announced projects. We will next look at each project individually before calculating the earnings and NAV of Vincom.

Figure 5: Vincom Property Development Portfolio

Project	Description	GFA (m-2)	Vincom owns (%)
Vincom City Towers	Office/retail/residential in Hanoi	71,557	100
Vincom Park Place	Residential/retail next to VCT in Hanoi	41,071	74.4
Vincom Center	Shopping mall/offices in HCMC	191,618	100
Eden A	Retail/hotel next to Vincom Center	105,668	100
Royal City	Residential and retail in Hanoi	1,216,834	51
Eco City	Residential and retail in Hanoi	2,308,535	55.95
Viettronics	Twin tower residential/retail in Hanoi	211,456	64
Vincom Financial Tower	Office in financial district of HCMC	31,784	80
Vincom Haiphong	Office/retail/residential in Haiphong	161,777	90
Vincom Village	Villas, retail, offices in HCMC	1,466,750	100

Source: Vincom, Mekong Securities

Vincom City Towers

Vincom City Towers is the original flagship building of the company, and until recently the main source of revenues. This twin tower complex is 21 stories tall with commercial space occupying the first six floors. The property sits on 6,713 m-2 of

land and has a 50 year leasehold. This was the first tower in Hanoi to combine both office and commercial space when it was completed in 2004.

Vincom sold one of the office towers to The Bank for Investment and Development of Vietnam (BIDV) in 2006 and agreed to turn over half the commercial space and 31% of the parking area to BIDV in 2052. Vincom earned revenues of VND394bn on this sale, which was more than the total cost of the land use rights and the construction (VND350 bn). The sale allowed Vincom to get back its original investment, and cement its relationship with one of Vietnam's largest state-owned banks. After 50 years, its lease with the government is automatically renewed if the building is still operational.

The office tower's net leasable area (NLA) is 15,900 m², and it rents out for around \$31/m², while the 18,000 m² of retail space rents for \$32 per month. The rent on the retail space is so low on average because the complex has 10 movie theaters on the sixth floor. Amazingly, Vincom City Towers represents about one-third of Hanoi's total shopping center floorspace.

Figure 6: Vincom City Towers



Source: Vincom

Vincom Park Place

Vincom Park Place is a 25 storey retail and residential complex built adjacent to the Vincom City Towers and completed in August 2009. Built on 3,609 m² of land, it has 10,829 m² of net leaseable area and 208 luxury apartments. The residential space was sold at the end of 2009 at an average price of \$3,445/m² before VAT. The proceeds of the sale were more than double the total construction cost (including land) of VND550bn. The retail space is completely leased out at around \$60/m²/month. In addition, Vincom collects a service charge fee to cover utilities of \$7/m²/month.

Figure 7: Vincom Park Place



Source: Vincom

Vincom Center

The Vincom Center project is located in District 1 in central Ho Chi Minh City with a total site area of 19,642 m², consisting of two plots of land, Lot A and Lot B. Both Lot A and Lot B have been identified as “Golden Sites” and earmarked as two of twenty such sites by the People’s Committee of Ho Chi Minh City for the development of landmark buildings in the city.

Vincom Center (on Lot B) is composed of high-end office, retail and residential space and an underground parking area. It comprises 25 floors above ground level and six floors below ground level and occupies a total land area of 10,842 sqm. The net leaseable area is: office 63,024 m², retail 36,927m², parking 29,500 and residential for sale of 15,000 m².

The Vincom Center Shopping Mall is the largest shopping mall in HCMC. It has 250 units on eight levels of retail and restaurant space. When it opened in April 2010, over 92% of its retail space was pre-leased at around \$81/m². The office leasing is progressing steadily and rents look to be \$32/m².

The residential apartments have not been launched for sale yet, as their sales price will have an impact on the compensation that must be paid to Lot A residents who are holding out against relocation. Compensation is reportedly as high as \$10,000/m² for those who are being relocated. We understand that buyers have been found for all of the residential properties at a price of around \$9,000/m². Revenues generated look to be only slightly less than the total cost of the project. The timing of the sale of the Vincom Center residences will be the major swing factor in 2010 sales and profits. For simplicity we have assumed half are sold in 2010 and half in 2011.

Figure 8: Vincom Center HCMC



Source: Vincom

Eden A

Eden A, to be built on Lot A adjacent to Lot B and the Vincom Center, is envisaged to involve the development of a five-star hotel, high-end office and retail space and an underground parking area, comprising nine floors above ground level and six floors below ground level. It will be connected by an underground link with the Vincom Center on the second, third and fourth basement levels.

We expect that the hotel in Eden A, which will have a gross floor area of 22,900 m², will be sold to pay for the rest of the development.

Figure 9: Eden A



Source: Vincom

Vincom Financial Tower

This 25-story tower sits on 2,156m² of land in HCMC and is envisioned to be an office building catering to financial institutions, as it is located in Vietnam's Wall Street. It will feature Grade A office space and sophisticated telecom facilities.

The tower will have a net lettable area of 26,000m², with the first three floors leased for \$50-120/m² and the office tower renting for \$25/m². Construction is to be completed later this year. Unlike other Vincom projects, space in this building will not be sold, so the property is not self financing. This leaves open the possibility that Vincom may be planning to sell the entire building in order to record some property sales gains in 2011.

Figure 10: Nguyen Cong Tru Project



Source: Vincom

The Royal City Project

The Royal City project involves the planned development of a high-end retail, residential, school and parking complex in the Thanh Xuan District of Hanoi, located approximately five kilometers from the center of Hanoi. This area is considered to be the western gateway to Hanoi and features convenient access to major highways.

Royal City will occupy a total land area of 120,945 m² and have a GFA of 1,216,000 m². The project will feature the largest shopping mall in Vietnam with a total GFA of 237,000 m², almost four times the existing floorspace in all of Hanoi (59,566 m² as of June). Royal City will also have schools with a GFA of 25,000 m², and residential property with a GFA of 668,000 m².

Construction of Royal City Project started in early 2010 and its foundation is scheduled to be completed by early September 2010. The project is expected to be completed and brought into use by end of 2013. For this reason, in our model we have booked all sales and profits from the sale of residential properties in 2013.

In June, Vincom commenced sales of two residential towers with a GFA of 270,000 (NFA of 202,000 m²). The sales price was around \$2,000/m² and it appears that 1,500 units were sold in just 10 days. The downpayments on these properties are normally set at 40% of the sales price, a figure that is about the same as the construction cost of these units. In other words, the buyers are financing the construction of the properties they are buying, substantially reducing Vincom's debt burden.

Figure 11: The Royal City Project



Source: Vincom

Eco City Project

The planned area for Eco-City is 37 hectares, located on the former site of a textile factory near Hanoi. Much emphasis has been placed on designing this project to be eco-friendly, including varying the heights of buildings to minimize late afternoon sunlight and having green areas, lakes and gardens.

Vincom is currently doing survey work for this project, and they will start once they receive the construction permit. Management is certain that they will get the land for this project.

Of the total 2.3m m² of GFA, 1.4m m² will be residential, 352,000 m² will be retail, 43,000 m² will be school, 6,000 m² will be hospital and 401,000 m² will be parking.

Figure 12: Eco City



Source: Vincom

Viettronics

This project is located on a 13,000 m² site in a good location in Hanoi with frontage on two streets. It will be a retail complex with two residential towers of 35 stories each. The GFA will be 213,000 m², with 100,000 m² for residential, 60,000 m² for retail and 53,000 m² for parking and others. The residential property is expected to sell for \$2,200/m².

Figure 13: Viettronics



Source: Vincom

The Vincom Hai Phong Project

The Vincom Hai Phong project involves the planned development of a high-end retail, office, residential, and car parking complex in the Ngo Quyen District of the city of Hai Phong. The city of Hai Phong is strategically located and serves as an important industrial and commercial center in the region. The site is one kilometer east from Hai Phong's central business district.

Expected to comprise a total land area of 19,536 sqm and a GFA of 161,000 m², it will have 28,000 m² of retail space, 10,500 m² of office space and 87,500 m² of residential apartments. Unfortunately, the project has been put on hold after the subprime crisis hit and may not be completed until 2013. The land was acquired in 2007.

Figure 14: The Vincom Hai Phong Project



Source: Vincom

Vincom Village

Vincom Village is planned as a mixed-use development on a 191 hectare (1.9m m²) site which spreads across four separate wards of the Long Bien District of Hanoi. It has direct frontage to Highway No. 5, which connects Hanoi with the nearby city of Hai Phong.

Vincom Village will have a total GFA of 1,466,750 m², including 863,935 m² of residential property. Unlike previous projects, some of this property will be detached housing. Retail space will amount to 273,000 m² and offices 178,000 m².

Figure 15: Vincom Village



Source: Vincom

Earnings Projections

We have chosen to analyze each project in its entirety, and then apply Vincom's effective ownership percentage to the project's earnings stream to derive the earnings that Vincom's common shareholders are entitled to. The resulting income statement will be different in form from that reported by Vincom, as we will not include sales and profits attributable to minority shareholders, but the net income attributable to common shareholders should be the same.

In producing our earnings projections we have assumed that developments are fully leased after one year of operation, that the VND to USD exchange rate remains flat at 19,500, that Royal City begins producing rents in 2013 and all residential properties are handed over in that year, that Vincom's average cost of borrowings is 12% for the next five years, that Vincom pays a normal 25% corporate tax rate, and that Vincom's \$100m CB converts into common shares by 2013 at a conversion price of VND60,000 per share.

Our analysis shows that Vincom's earnings will steadily grow until hitting a peak in 2014 when it books substantial gains on the sale of residential property in Eco City. Meanwhile, its borrowings will peak in 2013 at approximately \$1.1bn, which should not be an issue as its shareholders equity will be about \$920m at that time.

Figure 16: Vincom earnings model - US\$ m (based on % ownership)

	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Rental Gross Profits								
Vincom City Towers	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Vincom Park Place	1.1	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Vincom Center		28.3	56.6	56.6	56.6	56.6	56.6	56.6
Eden A				11.0	33.0	33.0	33.0	33.0
Royal City					47.1	47.1	47.1	47.1
Eco City					49.2	49.2	49.2	49.2
Viettronics				15.2	15.2	15.2	15.2	15.2
Vincom Financial Tower			3.6	7.2	7.2	7.2	7.2	7.2
Vincom Haiphong					6.7	6.7	6.7	6.7
Vincom Village						134.8	134.8	134.8
TOTAL	13.6	46.4	78.3	108.1	233.1	367.9	367.9	367.9
Sales Gross Profits								
Vincom Park Place	49.6							
Vincom Center		58.8	58.8					
Eden A				55.0				
Royal City					319.9			
Eco City						523.6		
Viettronics				60.8				
Vincom Haiphong					47.7			
Vincom Village						238.2	290.7	238.2
TOTAL	49.6	58.8	58.8	115.8	367.6	761.9	290.7	238.2
Other profits	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Total Gross Profits	66.9	108.8	140.8	227.6	604.4	1,133.5	662.3	609.8
Selling and distribution costs	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.3
Administrative expenses	5.4	6.0	6.5	7.2	7.9	8.7	9.6	10.5
Other expenses	0.2							
Operating profits	60.6	102.1	133.4	219.5	595.4	1,123.6	651.5	597.9
Net financial expense	9.9	18.1	30.9	69.4	102.1	70.5	(15.1)	(113.0)
Profit before tax	50.7	84.1	102.5	150.1	493.3	1,053.1	666.6	711.0
Income tax	10.6	21.0	25.6	37.5	123.3	263.3	166.7	177.7
Net income	40.1	63.0	76.9	112.5	370.0	789.8	500.0	533.2
Cash & equivalents	378.5	378.5	300.0	200.0	200.0	200.0	700.0	1,500.0
Investment properties								
Vincom City Towers	12.9	12.7	12.4	12.1	11.9	11.6	11.4	11.1
Vincom Park Place	7.0	6.9	6.8	6.6	6.5	6.3	6.2	6.1
Vincom Center	156.1	152.9	149.8	146.7	143.6	140.4	137.3	134.2
Eden A	43.7	87.4	132.5	129.8	127.2	124.5	121.9	119.2
Royal City			51.8	103.7	157.1	153.9	150.8	147.6
Eco City			101.5	203.0	307.6	301.4	295.3	289.1
Viettronics		16.6	33.1	50.2	49.2	48.2	47.1	46.1
Vincom Financial Tower	5.1	10.1	15.4	15.1	14.8	14.5	14.1	13.8
Vincom Haiphong			12.9	25.8	39.1	38.3	37.5	36.7
Vincom Village				178.4	356.7	540.5	529.7	518.9
TOTAL	224.8	286.6	516.2	871.3	1,213.5	1,379.7	1,351.3	1,322.9
Properties for sale								
Vincom Park Place	14.3							
Vincom Center	17.4	8.7						
Eden A		25.7	36.7					
Royal City		63.8	127.6	191.4				
Eco City			158.5	317.0	480.2			-
Viettronics	15.1	30.3	45.9					

	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Vincom Haiphong			23.0	45.9				
Vincom Village				265.7	541.9	541.9	265.7	
TOTAL	46.9	128.5	391.7	820.1		541.9	265.7	-
Investment in assoc. & JV	48.6	48.6	48.6	48.6	1,022.1	48.6	48.6	48.6
Other	77.7	77.7	77.7	77.7	77.7	77.7	77.7	77.7
TOTAL ASSETS	776.5	919.9	1,334.1	2,017.7	2,561.9	2,247.8	2,443.3	2,949.2
Financial liabilities at fair value	105.3	105.3	105.3	105.3	-	-	-	-
Downpayments on property	3.2	63.8	286.1	508.4	480.2			
Borrowings	413.8	433.6	548.6	897.3		476.1	171.6	144.3
Other	59.0	59.0	59.0	59.0	1,099.7	59.0	59.0	59.0
TOTAL LIABILITIES	581.3	661.7	999.0	1,570.0	1,638.9	535.1	230.6	203.3
TOTAL EQUITIES	195.2	258.2	335.1	447.6	922.9	1,712.7	2,212.7	2,745.9
Minority interests	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Equity	107.1	170.2	247.0	359.6	834.9	1,624.7	2,124.7	2,657.9

Source: Mekong Securities

Figure 17: Vincom earnings model - VND bn (based on % ownership)

	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Rental Gross Profits								
Vincom City Towers	222	243	243	243	243	243	243	243
Vincom Park Place	20	109	109	109	109	109	109	109
Vincom Center		552	1,104	1,104	1,104	1,104	1,104	1,104
Eden A				215	644	644	644	644
Royal City					918	918	918	918
Eco City					959	959	959	959
Viettronics				297	297	297	297	297
Vincom Financial Tower			70	140	140	140	140	140
Vincom Haiphong					130	130	130	130
Vincom Village						2,629	2,629	2,629
TOTAL	242	904	1,526	2,108	4,545	7,174	7,174	7,174
Sales Gross Profits								
Vincom Park Place	885							
Vincom Center		1,146	1,146					
Eden A				1,072				
Royal City					6,239			
Eco City						10,211		
Viettronics				1,185				
Vincom Haiphong					930			
Vincom Village						4,646	5,669	4,646
TOTAL	885	1,146	1,146	2,258	7,169	14,857	5,669	4,646
Other profits	66	72	72	72	72	72	72	72
Total Gross Profits	1,192	2,122	2,745	4,438	11,785	22,102	12,915	11,891
Selling and distribution costs	12	15	16	18	20	22	24	26
Administrative expenses	96	116	128	140	155	170	187	206
Other expenses	4	-	-	-	-	-	-	-
Operating profits	1,080	1,992	2,601	4,279	11,611	21,911	12,704	11,659
Net financial expense	176	352	602	1,353	1,992	1,376	(295)	(2,204)
Profit before tax	903	1,639	1,999	2,926	9,619	20,535	12,999	13,864

	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Income tax	190	410	500	732	2,405	5,134	3,250	3,466
Net income	714	1,229	1,499	2,195	7,215	15,401	9,750	10,398
Shares outstanding (m)	367.3	367.3	367.3	367.3	398.5	398.5	398.5	398.5
EPS	1,943	3,348	4,082	5,975	18,106	38,651	24,468	26,095
BPS	5,197	9,035	13,117	19,092	40,858	79,509	103,977	130,072
Cash	6,745	7,381	5,850	3,900	3,900	3,900	13,650	29,250
Investment properties								
Vincom City Towers	230	247	242	237	232	227	222	217
Vincom Park Place	125	135	132	129	126	124	121	118
Vincom Center	2,781	2,982	2,921	2,860	2,800	2,739	2,678	2,617
Eden A	779	1,705	2,584	2,532	2,480	2,429	2,377	2,325
Royal City	-	-	1,011	2,021	3,063	3,001	2,940	2,879
Eco City	-	-	1,979	3,959	5,998	5,878	5,758	5,638
Viettronics	-	323	646	978	959	939	919	900
Vincom Financial Tower	90	198	300	294	288	282	276	270
Vincom Haiphong	-	-	251	503	762	747	731	716
Vincom Village	-	-	-	3,478	6,956	10,539	10,329	10,118
TOTAL	4,006	5,589	10,065	16,991	23,662	26,903	26,350	25,797
Properties for sale								
Vincom Park Place	255							
Vincom Center	310	170						
Eden A		501	716					
Royal City			2,489	3,733	-	-	-	
Eco City			3,090	6,181	9,365	-	-	-
Viettronics	270	590	895					
Vincom Haiphong			448	896				
Vincom Village				5,182	10,567	10,567	5,182	
TOTAL	835	2,506	7,637	15,991	19,931	10,567	5,182	-
Investment in assoc. & JV	866							
Other	1,384							
TOTAL ASSETS	13,836	17,939	26,015	39,344	49,956	43,833	47,645	57,510
Financial liabilities at fair value	1,877	2,054	2,054	2,054	-	-	-	-
Downpayments on property	57							
Borrowings	7,374	8,456	10,698	17,498	21,444	9,284	3,346	2,814
Other	1,051	1,150	1,150	1,150	1,150	1,150	1,150	1,150
TOTAL LIABILITIES	10,358	12,904	19,481	30,616	31,959	10,434	4,496	3,964
TOTAL EQUITIES	3,477	5,035	6,534	8,729	17,997	33,398	43,148	53,546
Minority interests	1,569	1,717	1,717	1,717	1,717	1,717	1,717	1,717
Common Equity	1,909	3,318	4,817	7,012	16,281	31,682	41,431	51,829

Source: Mekong Securities

NAV Calculation

We calculated the NAV of Vincom as follows. First, we calculated the operating profits of each of its leasing properties. Second, we calculated the NOI of each property by adding back its depreciation charges. Third, we applied a cap rate of 10% for offices, 12% for shopping malls, and 14% for parking areas to those earnings. Fourth, we subtracted off the book value of the property to obtain the unrealized gain, assuming the property was financed with debt. Finally, we

discounted at 10% per annum any uncompleted buildings. A 25% tax rate was then applied to the sum of all the unrealized gains on all of Vincom's properties.

For its properties for sale, we calculated the gross profits on each project and then discounted back those profits and again applied a 25% tax rate. We used a 10% discount rate to reflect the fact that rents and sales proceeds are all priced in US dollars, so that US interest rates are more relevant than local rates.

The net asset value was arrived at by adding to these two figures the cash on the balance sheet as of Dec 2009, the book value of any properties under development, and then subtracting off debt (we converted the CB into common shares so it was no longer debt) and minorities. The net result was an NAV of US\$2,401 or VND48.0 trillion. On a fully diluted basis, this is VND120,520 per share.

Our NAV figure is very close to what Vincom's BPS will be in 2015, when its current projects will be completed and its leasing income will be generating about a 13% ROE.

Figure 18: Net asset value of properties for lease

	GFA(m2)	NLA(m2)	Rental rate (USD psm)	Annual rents (US\$m)	Annual expenses (US\$m)	Gross profit (US\$m)	NOI (US\$m)	Cap rate (%)	Asset value (US\$m)	Book value (US\$m)	NAV (US\$m)	Vincom owns (%)	Vincom's share (US\$m)	Pres. value (US\$m)
Vincom City Towers														
Retail	22,605	18,084	32	8.0	1.3	6.7	6.8	12	57	6	51	100	51	51
Office	19,879	15,903	31	6.9	1.1	5.7	5.8	10	58	5	53	100	53	53
Parking (slots)	8,832	137	150	0.2	0.3	(0.0)	0.0	10	0	2	(2)	100	(2)	(2)
Vincom Park Place														
Retail	13,536	10,829	60	8.7	1.2	7.5	7.7	12	64	9	55	74.4	41	41
Vincom Center														
Retail	56,538	36,927	81	38.1	3.7	34.4	35.4	12	295	51	244	100	244	244
Office	83,624	63,924	32	28.4	5.8	22.5	24.1	10	241	76	165	100	165	165
Parking (slots)	29,491	276	150	0.5	0.7	(0.2)	0.4	14	3	27	(24)	100	(24)	(24)
Other	2,729				0.1	(0.1)	(0.1)			2	(2)	100	(2)	(2)
Eden A														
Retail	41,080	26,702	90	30.4	3.3	27.2	28.5	12	237	66	172	100	172	142
Office	15,239	11,429	45	6.9	1.3	5.6	6.1	10	61	24	36	100	36	30
Parking (slots)	24,264	809	150	1.5	1.1	0.4	1.2	14	8	39	(31)	100	(31)	(25)
Other	2,156				0.1	(0.1)	(0.1)			3	(3)	100	(3)	(3)
Royal City														
Retail	237,104	189,683	40	101.6	19.2	82.4	85.1	12	709	133	576	51	294	221
School	25,000	25,000	25	7.5	0.4	7.1	7.4	10	74	14	60	51	31	23
Parking (slots)	286,275	9,750	80	7.5	4.7	2.8	6.0	14	43	161	(118)	51	(60)	(45)
Eco City														
Retail	352,726	229,272	35	115.6	26.8	88.7	93.0	12	775	215	560	55.95	313	235
School	43,239	34,591	20	8.3	0.8	7.5	8.0	10	80	26	54	55.95	30	23
Parking (slots)	401,600	1,000	60	0.6	5.0	(4.4)	0.5	14	3	245	(242)	55.95	(135)	(102)
Other	103,726				3.8	(3.8)	(2.6)			63	(63)	55.95	(35)	(27)
Vietronics														
Retail	61,384	39,900	50	27.8	5.3	22.5	23.4	12	195	44	151	64	97	80
Office	6,163	4,930	25	1.8	0.5	1.3	1.4	10	14	4	10	64	6	5
Parking (slots)	36,732	1,224	80	0.9	0.7	0.2	0.7	14	5	26	(21)	64	(13)	(11)
Other	6,163				0.3	(0.3)	(0.2)			4	(4)	64	(3)	(2)

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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