

COMPANY UPDATE

INVESTMENT AND TRADING OF REAL ESTATE JSC. INTRESCO

Jan 20th, 2011

SaigonBank Berjaya Securities JSC

Level 5 & 6, 2C Pho Duc Chinh Street

District 1, Ho Chi Minh City, Viet Nam

T: (84-8) 3914 3399 T: (84-8) 3914 3399

Website: www.sbbsjc.com.vn

Recommendation

BUY

Current Price

VND 22,300

Estimated NAV/share

VND 33,762

P/B (x)

0.8

Listed

HOSE

Symbol Stock

ITC

Sector

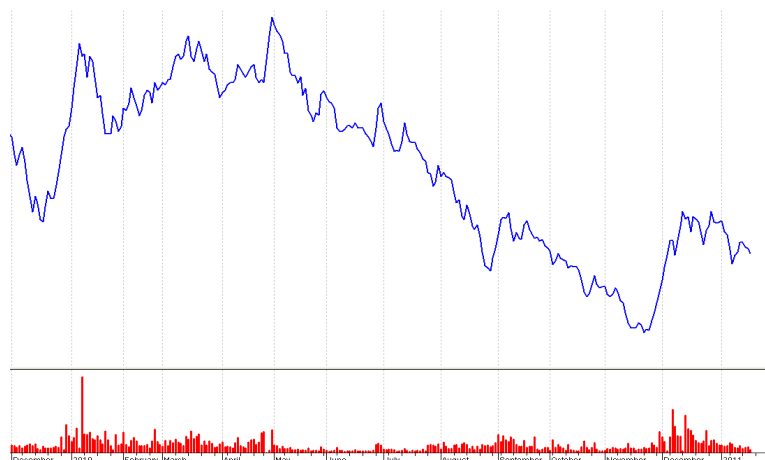
Real Estate

Market Capital (VND Bil.)

1,541

Outstanding shares

69,086,688



INVESTMENT HIGHLIGHTS

- **A huge bank land ensuring for long-term growth:** Currently, ITC is possessing a total landbank of 550 ha primarily locating in HCMC, Binh Duong and Tay Ninh. In HCMC, ITC owns several locations known as “gold places” in central area of HCMC and a large landbank in the suburban areas of HCMC to develop residential quarter.
- **Competitive advantage in input costs through ability of self-construction for its projects:** all of the Intresco’s projects are constructed by its 2 subsidiaries to lower input costs, which, in turn, helps the company can afford to offer lower selling prices than competitors from 10% to 15%.
- **Low internal profits-transferring risk thanks to simple organization structure:** the ITC’s organization structure is fairly simple, so its risk in shifting profits from subsidiaries to parent company is also low – this is a common method to shift profits to headquarter of many complex-structure corporations in Vietnam.
- **Under-average financial risk in relation to its peers:** the D/E ratio of Intresco is usually lower than 50%, quite safe compared to other companies in this sector.
- **Modest profit margin against other competitors due to:** (1) low selling prices; (2) revenues from construction business accounts for approximately 10-20% of total revenues; (3) inability to shift profits from subsidiaries to headquarter; and (4) weak capability of marketing department, so it has to compete via selling prices.
- **Attractive valuation multiple:** this stock is trading at 51% discount to our estimated NAV and P/B of 0.8x –the lowest level among listed real-estates companies on HOSE.

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ITC's operating performance in the first 9 months of 2010:

In the first 9 months of 2010, ITC attained VND435 billion in revenues (capturing to 44% of the 2010's target) and VND113 billion in EAT (occupying 59% of the 2010's target). The company's revenues and profits are mainly from properties business contributing VND375 billion (accounting for 86% in total revenues) which were recorded from such projects as: An Khang Building, Phong Phu residence, 6B residence, income from transferring Phuoc Kien project, 250-252 Building on Minh Khai street, Ha Noi, and 46 Lang Ha apartment. At present, all of the flats in Thinh Vuong Apartment have been sold already, and revenues will be recorded in Q4/2010 and 2011. Revenues from this project is estimated to reach about VND200 billion. ITC would attain lower revenues than the target as it has not put into operation the project Da Phuoc residence in Binh Chanh; the revenues from this project is forecasted to reach about VND300 billion.

Because the company issued successfully 23 million shares in Q2/2010, its shareholder's equity increased from VND1,322 billion to VND1.900 billion and plunged significantly its debt/equity ratio; this D/E ratio now is 23% (sagged from 49% in 2009).

Estimated performance in 2011:

In 2011, revenues of Intresco will be contributed mainly from 4 projects: 146 Nguyen Van Troi Building, Long Thoi residence, Da Phuoc, Dac Nong projects and a portion of unrecorded revenues of Thinh Vuong Building and 6B project. The projected revenues and EAT in 2011 are expected to VND1,130 billion and VND158 billion, respectively.

Nguyen Van Troi Apartment-Office-Commercial Building: has total area of 2,252 m², including 22 floors and 2 base floors with total floor area of 34,210 m². Total investment capital is forecasted to VND782 billion. Estimated revenues from selling this projects will be about VND930 billion. However, in 2010, the company is projected to record a revenues of about VND240 billion.

Long Thoi residence (Nha Be) has total area of 72ha in which total construction land is 49.7ha. The project will be developed to a complex area consisting: apartment, single villa, couple villa, semi-detached houses, school, health-care center, cultural center, public infrastructure and park. Total projected investment capital is estimated about VND1,173 billion. Particularly, total investment fund in phase 1 is about VND439 billion and corresponding revenues in this phase is expected about 774 billion VND. The recorded revenues in 2011 is approximately VND430 billion.

Da Phuoc residence with total land area of 12ha and ITC is possessing 50% of this project. Total investment fund is forecasted to VND264 billion. This project is expected to generate a revenues of VND300 billion.

Huge landbank assuring for long term growth

Established from the State-owned company belonging to the Saigon Real Estate

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Corporation, ITC possesses large land bank in favorable location of HCMC, such as 63 Ly Chinh Thang, 223 Hoang Van Thu, 146 Nguyen Van Troi. Besides, ITC also has some areas for lease in the Center of HCMC which generate the stable revenue. Currently, because the company has concentrated all the resources to develop the key projects, ITC has not yet made plans to develop these areas but in long term these will create significant growth for the company.

Figure 1: Areas for lease

Location	GFA (m ²)
18 Nguyen Binh Khiem – Dakao Ward – Dist.1	102
235 Xo Viet Nghe Tinh – Ward 17 – Binh Thanh Dist.	77
16 Nguyen Dinh Chieu – Dakao Ward – Dist.1	372
20 Nguyen Binh Khiem – Dakao Ward – Dist.1	85
Ground floor in An Cu Building – Dist.2	738
Office – Commercial Center in An Khang – Dist.2	N/A
26 Phung Khac Khoan – Dist.1	745
78 Vo Thi Sau – Dist.1	333
778 Nguyen Kiem – Phu Nhuan Dist.	71
6F Ngo Thoi Nhiem – Dist.3	456
68 – 70 Dong Du – Ben Nghe Ward – Dist.1	149
Trung Son Zone A - Kindergarten	2,946
Trung Son Zone D - Kindergarten	3,000
Trung Son Zone G – Middle school	7,780

Source: ITC

Landbank is amongst key factors for a property developer to grow. So, ITC always actively acquire new areas to expand the landbank and currently ITC has possessed the 550ha assuring for the growth for next 10 years.

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Figure 2: ITC Property Development Portfolio

Projects	Location	ITC ownership (%)	GFA (m ²)	Investment Capital (Mil.VND)
Gia Hoa Apartment	Binh Chanh	100%	3,167	13,431
E1 An Phu Building	Dist.2	100%	4,148	10,384
E4 An Phu Building	Dist.2	50%	7,540	18,850
Long Son Apartment	Dist.9	90%	24,855	N/A
Ly Chinh Thang Building	Dist.3	100%	6,582	2,670,000
Intrestco 6A Residence	Binh Chanh Dist.	100%	69,000	223,631
Eco Residence	Dist 9	100%	1,050,000	1,620,000
Tuong Binh Hiep Residence	Binh Duong Province	60%	339,103	525,574
Bau Rong Industrial Park	Tay Ninh Province	100%	1,500,000	N/A
Bau Hai Nam Industrial Park	Tay Ninh Province	100%	2,000,000	N/A
Nguyen Van Troi/ Hoang Van Thu Building	Phu Nhuan Dist.	100%	2,516	432,030
Long Thoi Residence	Nha Be Dist.	100%	556,000	818,402
Da Phuoc Residence	Binh Chanh	50%	118,407	264,219
Dac Nong Residence	Dac Nong Province	100%	N/A	N/A

Source: ITC

Competitive advantage in input costs through the ability of self-construction for its projects

The constructing enterprises No.1 and No.2 are able to execute all ITC projects, which decrease ITC's input costs and support the company to offer selling prices 10-15% lower than its competitors do. Therefore, in the frozen period of the real estate market, such as in 2009-2010, ITC successfully sold apartments in the An Khang, An Cu, 6B, Phong Phu, Thinh Vuong projects contributing significantly to the company profit.

Low internal profits-transferring risk thanks to the simple organization structure.

ITC's organizational structure is quite simple eliminating the risk of transferring profit from the subsidiaries to parent company - this is common method of shifting profits to parent company in many complex-structure corporations in Vietnam.

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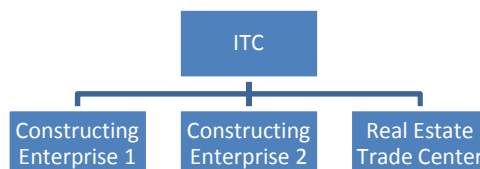
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Organizational Structure



The two constructing Enterprise 1 and 2 are responsible for designing, constructing ITC's projects and the external projects as well if being redundant resource. The center of trading real estate is responsible for marketing, selling the company products.

Under-average financial risk in relation to its peers

The capital structure is planned for the real estate projects as followings:

- 50% from equity.
- 20% from debt.
- 20% from mobilizing from partners and clients.
- 10% from working capital.

With such orientation, ITC have to maintain the Debt/Equity ratio lower than 50%, this ratio is quite safe compared with its peers.

Figure 3: Debt/Equity Ratio Comparison

	ITC	VIC	HAG	QCG	TDH	DIG
2009	49%	438%	111%	65%	18%	17%
Q3-2010	23%	270%	71%	17%	23%	23%

Source: SBB

In the context of high inflation, the State bank has implemented the tightening monetary policy which causes the high interest rate so the low the D/E ratio company which has less dependence on the loans and low financial cost will be more active in implementing projects to maintain the stable growth for the company.

Modest profit margin against other competitors

Figure 4: Gross Margin Comparison.

	ITC	VIC	HAG	QCG	TDH	DIG
2009	32%	69%	46%	13%	55%	43%
3Q-2010	19%	73%	49%	38%	34%	58%

Source: SBB

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Compared to the peers, its gross margin is relatively low. The main reason is that the company does not focus on the high-end class, thus the selling prices of ITC's products is quite competitive, making the profit margin low. In addition, the revenues from construction which account for 10 – 20% the total revenue also bring down the overall gross margin due to the gross margin of construction is quite low from 7 – 10%. Besides, we should not exclude the possibility of transferring the profit from subsidiary to parent company in the other developers whose organizational structures are complex and hard to control.

In the coming years, the company can improve its profit margin by developing the marketing department in order to sell its products without offering at low prices. Since ITC was established from a state-owned company, the sales strategy of the company is pretty passive with a weak marketing department.

Valuation basing on the NAV method.

We value the ITC basing on the NAV method. We divide the ITC projects into 3 groups then estimate the proportion asset value contributed from each group:

- Group 1: The projects revenues will be realized in 2011. Proportion asset value contributed by group 1 will be calculated basing on NPV and book value.
- Group 2: The projects with clearance landbank and the revenues will be realized in 2012, at the soonest. It is high risk when forecasting these project cash flows which fluctuate widely due to in the nature of Vietnam real estate market as well as changes in Government policy. In a conservative view, we estimate proportion asset value contributed from this group basing on the land value at this time. Currently, the real estate market is relatively quiet so we should not worry about the bubble in land price.
- Group 3: The projects on the clearance progress or waiting the licence. The proportion asset value contributed from group 3 is calculated basing on the book value.

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Figure 5: NAV Calculation (Unit: VND m)

Proportion Asset Value contributed from Group 1	1,306,800
Proportion Asset Value contributed from Group 2	321,468
Proportion Asset Value contributed from Group 4	525,800
Book Value from investment properties	98,106
Book Value from financial investments	402,651
Cash	116,264
Less Debt	438,587
NAV	2,332,502
Shares outstanding (shares)	69,086,688
NAV/share (VND)	33,762

Source: SBB

Investment Recommendation

ITC which possesses a stable growth associated with the huge landbank, as well as under-average financial risk, has the stock traded at 51% discount to our estimated NAV and its P/B of 0.8x – the lowest level among listed real estate companies on HOSE, so ITC should be considered to add in the investors' portfolio.

Figure 6: P/B of the listed real estate companies.

	ITC	VIC	HAG	QCG	TDH	DIG
BVPS (VND)	27,506	10,282	15,370	20,117	36,479	24,216
Price (VND)(20 Jan 2011)	22,300	90,500	55,000	25,600	32,000	38,000
P/B (x)	0.81	8.80	3.58	1.27	0.88	1.57

Source: SBB

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General Information

Company Overview

Intresco which was capitalized in 2000 with the initial chartered capital of VND25 billion, is one of the large property developer in HCM City with the current chartered capital of VND690.8 billion.

Revenue Structure

Properties business has the highest revenue percentage in the company's revenue structure (84.27% in 2009), followed by construction (9.75% in 2009); the rest revenues come from other services. The proportion of construction is continuously declining (accounting for 29.75% total sales in 2008) since the company has concentrated in serving ITC's internal works. All ITC's projects were constructed by itself; helping reduce input costs and making the company active on the process of project implementation.

The company's Development Orientation

With the guideline: diversify business types and ensure projects' quality – to meet a variety of housing needs and lifestyles of many customers. The company focuses on the following directions:

- Diversify its products to generate a stable cash flow.
- Continuously consolidate and supplement the human resources with qualified and experienced staff who have long-term organizational commitment.
- Link strategic corporate development to business strategy
- Short-term investments mix with long-term investments. In the near future plan, the company will generate revenues from stable sources: land, apartments, and offices for lease, and diversify service types in real estate. ITC will focus on developing sustainable products for upper-middle class market segment. At central area of HCMC, high-end products will be invested to make profits. The company will implement projects with many different time frames to exploit continuously until 2015.

Disclosure Appendix

SBBS Research Glossary to Investment Ratings:

Recommendations	Description
Buy	Share price may exceed 15% over the next 6 months
Neutral	Share price may fall within the range of +/- 15% over the next 6 months
Sell	Share price may fall by more than 15% over the next 6 months

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