

HNX - Vietnam
Support services
2011.05.27

Overweight

Price(2011/05/27): VND 13,900

Target Price: VND 17,100

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Key Data

Chartered capital	VND 78.7 bn
Outstanding shares	7.8 mil shares
52-week price range	VND 12,700~ VND 33,300
Market cap	VND 109 bn
Total assets (Q1/11)	VND 182 bn
Net Value (Q1/11)	VND 142 bn
Foreigner's Total Room	3.8 mil shares
Foreigner's Current Room	2.2 mil shares
Foreign Holding	20 %
EPS 2011E	VND 3,420
P/E	4.1
P/B	0.7
Dividend yield (%) (Dividend/Market price)	12.2%
ROE 2011E(%)	15.5%
ROA 2011E(%)	14.1%

**The holding cap for foreign strategic investors is 49%. For banking sector the cap is 30%.*

Suggested as short term investment

■ **Company profile:** Vinacontrol is Vietnam's first inspection company, with branches covering big cities and sea ports.

■ **Industry overview:** In a growing economy like Vietnam, support services are growing. It is estimated that around 120 companies are operating in this sector.

■ **Earnings:** VNC's sales have grown steadily in the past 5 years. Last year, VNC earned sales of 213 bn VND in sales, up 38.5% yoy. However, this sale included also a gain from asset disposal. Excluding this effect, the company's sales could have grown 18% yoy. Also in 2010, net profit grew by 35.3% yoy, fueled by the gain from sales of assets.

■ **2011 outlook:** In the first quarter of this year, VNC reported 47 bn VND in sales, up 23.5% yoy but net profit was posted at 5.5 bn VND, down 6.6% due to an increase in management expenses. We expect this year's sales will likely be lower than that of last year as sales of last year included a non-recurring item. Excluding last year's effect, net profit in 2011 could be expected at 26.8 bn VND.

■ **Strengths:** VNC is an old-established and well-known brand in the field of inspection.

■ **Weaknesses:** The industry-wide competition is getting intense. The sector is facing more entrants with more focused inspection businesses, putting companies with extensive product lines under pressure.

■ **Valuation:** Though VNC will likely have an unfavorable earnings prospect this year, we think this stock is undervalued due to the overall market sentiment. We initiate an Overweight rating to VNC with a target price of VND 17,100, implying a P/E multiple of 5(x) EPS 2011E. We suggest VNC as short term investment.

Financial Abstract:

(VND bn)

Year	Revenue	(%)	Net Profit	(%)	Outstanding Shares	EPS (VND)	P/E (x)	ROE	ROA
2008	124.5	29.5%	17.2	-24.1%	7,826,800	2,195	5.7	16.6%	11.3%
2009	154.4	24.1%	25.1	45.9%	7,826,800	3,203	7.5	18.7%	15.8%
2010	213.9	38.5%	33.9	35.3%	7,826,800	4,333	5.2	22.5%	19.5%
2011E	207.5	-3.0%	26.8	-21.1%	7,826,800	3,420	4.1	15.5%	14.1%
2012E	195.5	-5.8%	23.7	-11.6%	7,826,800	3,023	4.6	12.3%	11.9%

■ Financial Statements (VND bn)

Income statement	2008	2009	2010	2011E	2012E
Net sales	124.5	154.4	213.9	207.5	195.5
Cost of goods sold	89.1	108.2	152.0	146.9	138.4
Gross profit	35.4	46.2	61.9	60.5	57.1
Financial activities Revenues	4.4	7.9	4.8	6.7	6.1
Financial Expenses	3.6	5.3	3.1	4.5	4.1
Selling Expenses	4.3	6.3	7.3	7.5	7.0
Managing Expenses	12.2	14.2	16.6	24.0	24.4
Net Profit from Operating activities	19.6	28.3	39.7	31.2	27.6
Other profits	0.3	0.2	0.0	0.2	0.1
Total profit before tax	19.9	28.6	39.7	31.4	27.7
Corporate Income Tax Expenses	2.7	3.5	5.8	4.6	4.1
Profit after Corporate Income Tax	17.2	25.1	33.9	26.8	23.7

Balance sheet	2008	2009	2010	2011E	2012E
Current Assets	109.6	108.3	110.0	105.5	110.3
Cash and Cash Equivalents	23.5	28.0	66.5	55.9	62.0
Short term financial investment	42.0	21.2	6.0	6.0	6.0
Short term Account Receivables	38.0	48.8	34.6	40.3	38.7
Inventory	1.2	1.2	0.2	0.7	0.7
Other Current Assets	5.0	9.1	2.7	2.5	3.0
Non-current Assets	47.8	52.4	77.0	85.9	94.4
Long term Account Receivable	0.0	0.0	0.0	0.0	0.0
Fixed assets	36.4	42.9	68.5	76.0	84.0
Real Estate Investment	0.0	0.0	0.0	0.0	0.0
Long term Financial Investments	7.6	6.4	6.4	6.4	6.4
Other long term assets	3.8	3.1	2.1	3.5	4.0
TOTAL ASSETS	157.4	160.7	187.0	191.4	204.7
Liabilities	29.9	20.0	25.7	8.4	2.5
Short term Liabilities	28.6	19.6	25.0	7.8	2.0
Long term Liabilities	1.2	0.4	0.8	0.6	0.5
Owners equity	127.6	140.7	161.3	183.0	202.2
Expenditures and Other Funds	1.8	-0.8	0.0	0.0	0.0
TOTAL EQUITY	157.4	160.7	187.0	191.4	204.7

Source: and PHS's estimates

■ Financial Statements (VND bn)

Financial ratios	2008	2009	2010	2011E	2012E
Capital Structure					
Current assets/Total assets	70%	67%	59%	55%	54%
Non-Current assets/Total assets	30%	33%	41%	45%	46%
Debt/Total assets	19%	12%	14%	4%	1%
Equity/Total assets	81%	88%	86%	96%	99%
Liquidity					
Current ratio	3.8	5.5	4.4	13.5	55.2
Quick ratio	3.8	5.5	4.4	13.4	54.8
Efficiency					
Inventory Days	4.8	3.9	0.5	1.7	1.7
Receivables Days	110.0	113.7	58.2	70.0	71.2
Current assets turnover	1.1	1.4	1.9	2.0	1.8
Fixed assets turnover	3.4	3.6	3.1	2.7	2.3
Total assets turnover	0.8	1.0	1.1	1.1	1.0
Profitability					
Gross margin	28%	30%	29%	29%	29%
Operating margin	16%	18%	19%	15%	14%
Net profit margin	14%	16%	16%	13%	12%
Effective tax rate	14%	12%	15%	15%	15%
ROE	17%	19%	22%	16%	12%
ROA	11%	16%	20%	14%	12%
DuPont Analysis (ROE Breakdown=1x2x3)					
Net profit margin (1)	0.1	0.2	0.2	0.1	0.1
Total assets turnover (2)	0.8	1.0	1.1	1.1	1.0
Leverage (3)	1.2	1.1	1.2	1.0	1.0
Investment Valuation ratios					
P/B	0.9	0.8	0.7	0.6	0.5
Price/Sales ratio	0.9	0.7	0.5	0.5	0.6

Source: and PHS's estimates

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Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%

Neutral (N) = Expected to in line with the local market by +10%~ -10%

Underweight (UW) = Expected to underperform the local market by >10%.

Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.
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