

DIC Corp

 September 19th

Company Visit Update

Lower FY11 target

DIC Corp held an investor meeting with investors last Thursday to update on its business performance and prospective plan. Here are the takeaways:

Company tones down FY11 earnings target by 36% to VND320 billion after ugly 1H11 results. DIC Corp's 1H11 revenue and after-tax profit came in at VND289bn (-32% y-o-y) and VND22.5bn (-84% y-o-y) respectively, with 55% of the earnings attributed to its core property development business (mostly from sales of its Lakeside Apartment project). Since the 1H11 earnings comprised only 4.5% of its full-year target, DIC Corp slashed its target revenue by 27% and that for profit after tax by 36% from the approved target at the beginning of the year. Consequently, the revised revenue is cut to VND900bn while after-tax profit is lower at VND320bn. The reason was mainly due to slower-than-expected progress of project sales as well as the company intentionally stretching its development plans.

FY2011 and FY2012 rely heavily on Nam Vinh Yen project, with an estimated 2011 consolidated net earnings of VND301.5bn: We estimate Dic Corp's net income at approximately VND301.5bn, at a basic EPS 2011 equivalent to VND 3,015 per share (charter capital of VND1,000bn). Its key earnings contributors are Nam Vinh Yen project (VND280bn) and Lakeside Apartment project (VND48bn).

Short-term sector catalysts limited but a value stock BUY. We admit that the stagnancy in the real estate market could continue due to dwindling money going into real estate as well as the still-high interest cost. However, we believe that the long-term secular trends driving growth of the residential segment remain positive. It is believe that the current difficulties will flush out the "unprofessional" developers, leaving behind professional companies like DIC Corp. We continue to recommend that long-term investors accumulate this stock at a lower target price of VND29,200, based on a 40% discount to our NAV estimate of VND48,700/share. We think the stock's downside risk is limited at this point. At this target price, the stock will be trading at a FY11 PE of 9.7 times and PB of 1.13 times, offering a 28.6% potential share price upside.

Company Financial Summary

In VND billions, year-end December

	FY08	FY09	FY10	FY11F
Revenue	653.7	1,631.1	1,194.5	1,295.3
PATMI	299.7	573.2	449.0	301.5
% change YoY		191%	(21.7%)	-33%
EPS (VND)	8,100	8,189	4,590	3,015
DPS	6,216	3,000	3,100	3500
Div yield	34.7%	16.8%	17.3%	15.63%
ROA	12.0%	17.4%	13.0%	11.27%
ROE	44.1%	25.4%	19.9%	11.67%
P/E (x)	2.2	2.2	3.9	7.53
P/BV (x)	1.0	0.6	0.7	0.88

Source: SBS estimates

BUY	MAINTAIN
Price	VND 22,700
Target Price	VND 29,200
Previous	-

Stock Statistics

Bloomberg Ticker	DIG VN Equity
Outstanding shares (mn)	97.8
Market Cap (VND bn)	2,220
52W Price range	43,900 – 15,000
3M Average Volume ('000)	166
Beta	1.13
Foreign ownership (%)	24.8

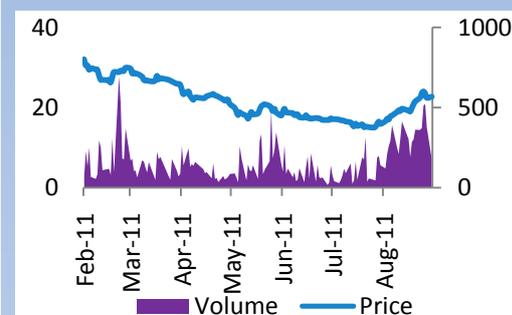
Major Shareholders

Song Da Group	56.72%
VOF Fund	6.62%

Share Performance (%)

Month	Absolute	Relative (%)
1M	7,300	45.91
3M	4,400	23.40
6M	(6,700)	(22.41)
12M	(21,800)	(48.44)

6M Share Price Performance ('000)



Source: SBS, Bloomberg

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Figure 1: NAV Estimates

	Book value	NAV
VND bn	31-06-2011	Aug-11
Current assets		
Cash & cash equivalents	316.56	316.56
Short-term investment	69.00	69.00
Account receivables	1,075.76	1,075.76
Inventories	1,045.21	2,939.18
Other current assets	76.66	-
Total current assets	2,583.19	4,400.50
Non-current assets		
Tangible fixed assets	18.96	18.96
Intangible fixed assets	0.57	0.57
Construction in progress	21.96	37.24
Long-term investments	1,235.52	1,663.48
Other non-current assets	7.47	-
Total non-current assets	1,284.48	1,720.25
Total assets	3,867.67	6,120.75
Total debts	1,358.08	1,358.08
NAV	2,509.59	4,762.67
No of outstanding shares	98	98
NAV per share (VND/share)	25,653	48,700
Discount		40%
Target price		29,200

Source: SBS estimates

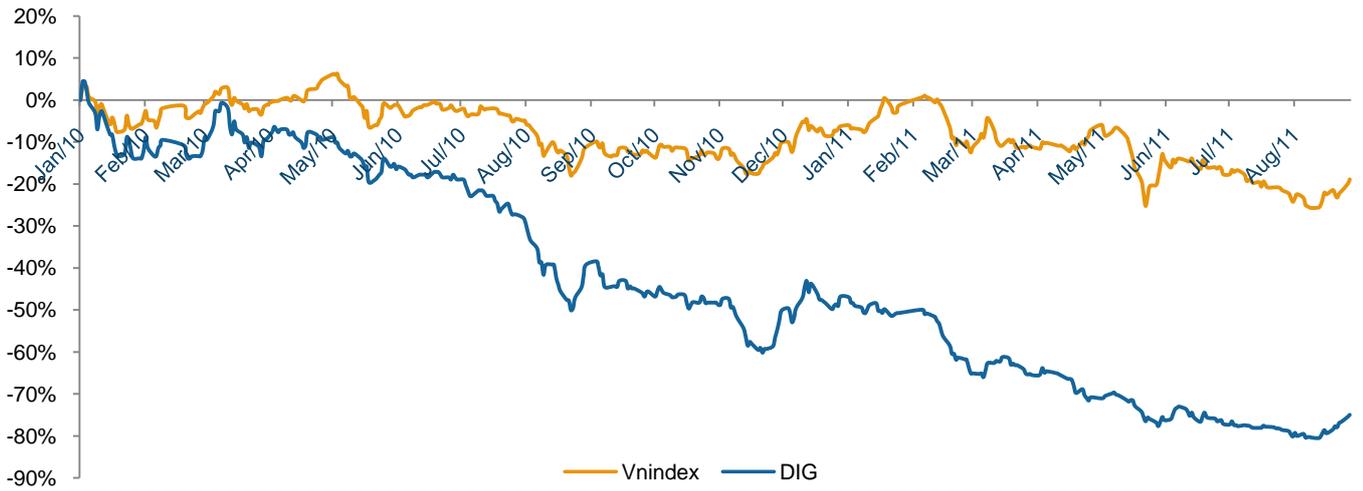
Figure 2: 1H2011 Result table (VND bn)

	1H11	1H10	Y-o-Y change	Comments
Revenue	289.0	424.5	-32%	Due to macroeconomic concerns and policy impact on physical residential prices. Therefore, The company can only records the revenue from Lakeside apartment project for RE segment in 1H2011
EBIT	47.8	169.8	-72%	
Net interest	(12.9)	(5.0)	158%	
Associates	(6.0)	18.8	-132%	
PBT	28.9	183.6	-84%	
Tax	(7.7)	(44.1)	-83%	
MI	1.2	(1.0)	-222%	
Net profit	22.5	138.5	-84%	
NP Margin (%)	8%	33%		<i>Income in 1H2011 come from condominium projects with lower margin than land projects</i>
EPS (VND)	230	1,416	-84%	
DPS (VND)				
EBIT Margin	17%	40%		

Source: SBS estimates

Other key Updates

- Registered to sell treasury stocks and increase charter capital to VND 1,300bn through 30% share dividend and stock bonus.** DIC Corp plans to sell its 2.2m treasury shares in 3Q2011 as well as pay out bonus shares (at 10:3) and a VND500/share cash dividend around end-Oct 2011. We estimate that the sale of treasury share would result in a loss of approximately VND50bn for DIG as the average cost of the treasury shares is VND47,000/share, which will be debited directly as equity value. DIC Corp's outstanding shares will increase to 130m after this move.
- Update on progress of key projects:**
 - Nam Vinh Yen Residential Area.** The company has increased the compensated area up to 120 hectare and targeting to complete 195 ha in the first phase this year. The company has sold 7.6 ha for a total revenue of VND670bn (gross profit margin of 50%), and plans to sell 1 hectare more in second half of the year.
 - An Son Hill Villa.** The company delayed booking its revenue and profit to year 2012 in order to stretch the progress of infrastructure and housing construction works.



BALANCE SHEET (VND'BiI)

	2008	2009	2010
Assets	2,484.9	3,407.5	3,960.3
Current assets	1,666.5	2,297.5	2,704.1
Long-term assets	818.4	1,110.1	1,256.2
Fixed assets	40.2	43.1	42.6
Long-term investments	722.3	1,040.7	1,202.2
Resources	2,484.9	3,407.5	3,960.3
Liabilities	1,801.7	1,033.4	1,347.9
Current liabilities	1,531.6	627.0	975.4
Long-term borrowings and liabilities	270.1	406.4	372.5
Equities	683.2	2,374.1	2,612.4
Owner's equity	678.4	2,331.9	2,577.5
Contributed capital	370.0	700.0	1,000.0
Capital surplus	142.9	1,045.7	1,045.7
Retained profits/(accumulated losses)	136.3	491.9	495.8

INCOME STATEMENT (VND'BiI)

	2008	2009	2010
Net sales	372.6	1,212.0	898.7
COGS	233.7	589.0	311.8
Gross profit /(loss)	138.9	622.9	586.9
Financial income	94.0	91.5	143.9
Financial expense	32.5	32.9	45.1
Interest expense	7.5	4.1	6.6
Selling expenses	5.2	11.9	7.4
G&A expenses	28.5	54.1	58.6
Net operating profit /(loss)	166.6	615.6	619.6
Other income	251.5	100.5	70.1
Other expenses	8.8	0.5	6.2
Profit /(loss) before tax	409.3	715.7	683.5
Corporate income tax	110.2	122.4	170.1
Profit after tax	299.1	593.3	513.4
Net profit/(accumulated losses)	299.1	593.3	513.4

CASHFLOW STATEMENT (VND'BiI)

	2008	2009	2010
Cash flows from operating activities			
Receipt from customers	474.8	258.6	405.3
Payments for providers	(260.0)	(426.4)	(448.7)
Interest paid	(7.0)	(4.1)	(6.5)
Other receipts from operating activities	31.0	144.7	52.2
Other payments for operating activities	(82.5)	(299.2)	(255.9)
Net cash generated from (pay to) operating	135.0	(446.6)	(335.8)
Cash flows from investing activities			
Payments for investments in other entities	2.6	0.3	0.1
Collections on investments in other entities	(40.7)	(180.5)	(140.5)
Net cash generated from investing activities	(281.1)	90.9	(173.8)
Cash flows from financing activities			
Payments to settle debts	21.9	199.7	88.1
Payments of dividends	(100.5)	(55.3)	(29.6)
Net cash generated from (pay to) financing	(124.6)	1,098.7	(97.8)
Net cash flows during the period	(270.7)	742.9	(607.4)
Cash at the beginning	551.0	283.7	1,026.6
Cash at the end	283.7	1,026.6	419.2

YEARLY RATIOS

	2008	2009	2010
Growth rate			
Revenue growth rate	185.2%	225.3%	-25.9%
Gross profit growth rate	284.9%	348.6%	-5.8%
Net profit growth rate	1023.4%	98.4%	-13.5%
Total asset growth rate	16.3%	37.1%	16.2%
Equity growth rate	83.4%	243.7%	10.5%
Profitability ratios			
Gross profit margin	37.3%	51.4%	65.3%
EBIT margin	111.9%	59.4%	76.8%
Profit before tax margin	109.8%	59.1%	76.1%
Net profit margin	80.3%	49.0%	57.1%
ROA	12.0%	17.4%	13.0%
ROE	44.1%	25.4%	19.9%
Dupont Analysis			
Net profit margin(1)	80.3%	49.0%	57.1%
Asset turnover (2)	15.0%	35.6%	22.7%
Equity multiplier (3)	366.3%	146.1%	153.6%
ROE = (1)x(2)x(3)	44.1%	25.4%	19.9%
Management ratios			
Receivable outstanding days	83.4	106.5	334.3
Inventory outstanding days	1159.4	374.7	1098.6
Payable outstanding days	1738.6	19.8	401.4
Asset turnover	0.1	0.4	0.2
Long-term asset turnover	0.5	1.1	0.7
Fix asset turnover	9.3	28.1	21.1
Liquidity ratios			
Current ratio	1.1	3.7	2.8
Quick ratio	0.6	2.7	1.8
Cash ratio	0.2	1.6	0.4
Capital Structure			
Total debt/Total Equity	265.6%	44.3%	52.3%
Total debt/Total Asset	72.5%	30.3%	34.0%
Total asset/Total Equity	366.3%	146.1%	153.6%
Index per share			
PE			3.2
PBV			0.75
PS			1.83
EPS (VND per share)	8,083	11,089	6,040
Revenue/share (VND/share)	10,070	22,654	10,572
Book value (VND/share)	18,335	33,313	25,775

BALANCE SHEET (VND'Bi)				
	QIII-10	QIV-10	QI-11	QII-11
Assets	3,669.7	3,964.8	3,820.4	3,865.1
Current assets	2,523.2	2,710.4	2,524.5	2,580.6
Long-term assets	1,146.6	1,254.4	1,295.9	1,284.5
Fixed assets	43.0	42.6	42.0	41.5
Long-term investments	1,093.2	1,200.4	1,246.4	1,235.5
Resources	3,669.7	3,964.8	3,820.4	3,865.1
Liabilities	1,234.2	1,348.9	1,293.3	1,341.0
Current liabilities	774.9	976.4	882.8	910.3
Long-term liabilities	459.2	372.5	410.5	430.7
Equities	2,435.6	2,615.9	2,527.1	2,524.1
Equity	2,421.9	2,580.8	2,504.1	2,506.1
Contributed capital	1,000.0	1,000.0	1,000.0	1,000.0
Capital surplus	1,045.7	1,045.7	1,045.7	1,045.7
Retained profits	389.6	497.0	422.4	424.4

INCOME STATEMENT (VND'Bi)				
	QIII-10	QIV-10	QI-11	QII-11
Total Revenue	121.4	536.8	74.0	48.6
Net sales	120.8	536.8	74.0	48.6
COGS	(109.0)	253.3	45.7	19.1
Gross profit /(loss)	229.8	283.6	28.3	29.5
Financial income	30.0	26.3	21.2	26.9
Financial expense	1.6	17.5	1.5	41.9
<i>Interest expense</i>			1.5	8.5
Selling expenses	0.0	7.4	2.4	2.3
G&A expenses	13.5	18.9	12.5	8.8
Net operating profit	244.7	266.1	33.2	3.4
Other income	69.8	4.2	0.0	0.0
Other expenses	0.5	5.6	0.7	1.4
Profit /(loss) before tax	314.0	264.7	32.5	2.0
Corporate income tax	78.5	47.3	8.1	
Profit after tax	233.0	217.4	24.4	2.0
Net profit	233.0	217.4	24.4	2.0

QUARTERLY RATIOS			
	QIV-10	QI-11	QII-11
Growth rate			
Revenue growth rate (YoY)	29.1%	-45.5%	-53.9%
Gross profit growth rate (YoY)	20%	-65%	-52%
Net profit growth rate (YoY)	20%	-53%	-97%
Profitability ratio			
Gross margin	52.8%	38.2%	60.7%
EBIT margin	49.3%	46.0%	21.7%
Net profit margin	40.5%	32.9%	4.2%
ROA (4Q)	15.7%	14.5%	12.4%
ROE (4Q)	23.8%	22.0%	19.0%
Management ratio			
Receivable outstanding days	141	958	1,486
Inventory outstanding days	338	1,944	4,987
Payable outstanding days	65	655	1,266
Liquidity ratio			
Current ratio	3.3	2.8	2.8
Quick ratio	1.8	1.8	1.7
Cash ratio	0.4	0.4	0.3
Capital Structure			
Total debt/Total equity	52.3%	51.6%	53.5%
Total debt/total asset	34.0%	33.9%	34.7%
Total asset/total equity	153.6%	152.6%	154.2%

Sacombank-SBS Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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