

FY11 Results Review

March 22nd, 2012

HCMC Infrastructure Investment

FY11 Profit Down Sharply

Meeting 33% FY11 target. The company failed to meet its FY11 target due to high interest expenses and a decline in financial income. Its FY11 toll road revenue rose 2.6% y-o-y, meeting only 94% of its forecast. This flat performance was attributed to lower traffic volumes despite the higher tariffs in 2011. CII posted a flattish FY11 y-o-y revenue growth of 0.4% to VND198bn, while net profit plunged 65% y-o-y. These numbers include negative adjustments of VND315bn to net financial income and VND36bn income from joint venture and associates, which resulted in a net negative impact of VND246bn to net profit. It also recorded substantial proceeds of VND592bn from hiving off its investments in Thu Duc Water BOO JSC, Viet A Bank and Saigon High-tech Park in 2011. However, this was offset by the VND494bn in the form of financial expenses and provisions for financial investments, of which interest expenses accounted for 32% of the total. Consequently, CII's net profit came in at VND130bn, fulfilling only 33% of its FY11 target.

2012 outlook: CII's revenue will continue to be stem from three toll road stations it operates as its core business in the near term. The Hanoi Highway station will ensure a stable income stream until 2050, thanks to the Rach Chiec Bridge and Hanoi highway expansion. The toll collection for Kinh Duong Vuong and Binh Trieu 2 stations will expire in 2014. Meanwhile, the Thap Cham station is still under construction and will commence operation in April 2012. Management announced that it is divesting its investments in the Kenh Dong water plant for VND151bn and the Dong Tam water plant as well. CII will transfer its investments at their original prices to Tien Giang province shareholders.

Valuation: Management expects FY12 total revenue and net profit to amount to VND594bn and VND282bn respectively. However, we foresee CII posting a profit before tax of VND200bn, of which VND55bn will be from toll road income and VND145bn from financial and other income. CII is expected to post a 2012 forward EPS of VND2,565 per share and a forward PER of 11 times. We employ the PER method to derive our one-year target price of VND32,400 (USD1.54), which represents a 7% premium over the current price of VND30,300 (USD1.44).

Company financial summary	In VND'bn, year-end December				
	FY09	FY10	FY11	FY12F	FY13F
Revenue	203	198	199	242	215
Net profit	316	377	131	193	46
% change Yoy	138%	19%	-65%	47%	-76%
EPS (VND)	7,428	5,165	2,064	2,565	614
DPS (VND)	2,000	1,800	1,800	1,800	1,800
Div yield	7%	6%	6%	6%	6%
ROA	32%	29%	10%	16%	4%
ROE	7%	6%	6%	6%	6%
P/E (x)	3.9	5.7	14.2	11.4	47.7
P/BV (x)	1.2	1.6	1.8	1.7	1.9

Source: SBS estimates

NEUTRAL

Price VND 30,300
Target VND 32,400

Stock Statistics

Bloomberg Ticker	CII VN
Outstanding shares (VNDm)	75.1
Market Cap (VNDbn)	2,194
52W Price range (VND)	36.5 - 15.2
3M Average Volume ('000)	259
Beta (x)	0.79
Foreign ownership	30

Major Shareholders

HFIC	16.34%
HN highway JSC	9.99%
Binh Trieu road JSC	9.99%
Jacar Capital Fund	4.75%
Franklin	4.40%

Share Performance

Month	Absolute	Relative
1M	(23%)	(20%)
3M	(41%)	(36%)
6M	(41%)	(34%)
12M	(47%)	(38%)

6-month Share Price Performance



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2011 FINANCIAL HIGHLIGHTS

Figure 1: P&L (VNDbn)	FY10	FY11	Y-o-y%
Revenue	198	199	0%
Gross profit	174	168	-4%
% GPM	88%	84%	-4%
Financial income	413	98	-76%
Profit before tax	461	136	-71%
Net profit	377	131	-65%
% Net profit margin	190%	66%	-125%

Source: CII, SBS

Toll road business: 2011 toll road revenue reached VND194.9bn (not including VAT), up 2.6% over the same period in 2010, meeting 94.4% of the company's 2011 target. In particular, the Hanoi Highway station recorded revenue of VND107bn, down 7% y-o-y, fulfilling 90% of its 2011 target. The Kinh Duong Vuong station chalked up revenue of VND36.7bn, up 1% y-o-y, while the revenue from Binh Trieu 2 station hit VND51bn, up 32.6% y-o-y, and exceeded its 2011 target by 1.4%.

Although tariffs have been adjusted from 1 July 2011, the toll road revenue for FY11 did not increase significantly compared with the previous year, as the volume of cars has declined sharply owing to the difficult economic environment.

- Hanoi highway station: This station cannot charge vehicles using the provincial highway 25B and Phu My Bridge (total refund in 2011 was VND6bn, or an average of VND178 m/day). Its toll road revenue was also affected by regulations that limit the number of heavy trucks crossing Saigon Bridge and the opening of the Thu Thiem Tunnel. Hence, 2011 revenue declined 7.01% y-o-y.
- Kinh Duong Vuong station: Revenue was hurt as the completion of the East West Avenue provided motorists with an alternative route. As the 2HFY11 revenue did not increase significantly compared with the first half of the year, toll road revenue for 2011 only ticked up by 1.07% y-o-y.
- Binh Trieu 2 station: Revenue surged 32.69% y-o-y, mainly owing to the closure of Binh Trieu 1 and Binh Trieu 2 from 14 June to 4 Sept 2010 for repairs. Stripping this out, turnover only increased slightly by 0.78%.

Financial income:

CII also recorded substantial proceeds amounting to VND592bn from hiving off its long-term investments in 2011. However, this was offset by the negative impact of VND494bn arising from financial expenses and provisions for financial investments, of which interest expenses made up 32%.

Figure 2: Book value of CII's Long Term divestments (bn)	FY10	FY11
Thu Duc Water BOO JSC (TDW)	328	98
Viet A Bank	21	0
Saigon high-tech park	20	0
Co Me project	60	2
565 JSC	20	5
Song Luy Bridge project	6	5
Residential in Binh An, Dist 2	22	17
Total	476	127

Source: CII, SBS

2012 OUTLOOK

Toll road business: Operating three toll road stations, CII's revenue will continue to be driven by its core toll road business in the near term. The Hanoi Highway will ensure a stable income stream until 2050, thanks to the Rach Chiec Bridge and Hanoi highway expansion. Toll collection from the Kinh Duong Vuong and Binh Trieu 2 stations will expire in 2014. Meanwhile, the Thap Cham station now under construction will commence operation in April 2012. We forecast that CII will record a FY12 revenue of VND236bn for its toll road business as it will enjoy higher tariffs for 12 months in FY12, as opposed to only 6 months for FY11 as well as revenue contribution from its upcoming Thap Cham – Phan Rang toll road.

Investment business

Figure 3: CII projects in the pipeline	Investment cost (VNDbn)	Type	Time
Infrastructure			
HN highway expansion (BOT) (15.7 km)	2,288	BOT	Completion by April 2013
Binh Trieu 2 Bridge station	1,254	BOT	July 2009-Oct 2014
Provincial highway 25B (2nd stage) (5.360 m)	625	BT	Completion by May 2012
Rach Chiec Bridge	1,000	BOT	Completion by Dec 2012
Sai Gon bridge	1,102	BT	April 2012-Jan 2014
Real estate			
BOT building 152 DBP Str.	1,256	BOT	2011-2013
155 Nguyen Chi Thanh Apartment	165		2007-2011

Source: CII, SBS

CII will shelve the launches of two residential projects at Tan An Hoi and Tam Tan. Management has also announced that it is divesting its investments in the Kanh Dong water plant for VND151bn as well as Dong Tam water plant. CII will transfer its investments at their original prices to Tien Giang province shareholders. We forecast CII will raise proceeds of VND295bn from its financial investments in 2012.

VALUATION

Management expects FY12 total revenue and net profit to come in at VND594bn and VND282bn respectively. However, we foresee CII posting a profit before tax of VND200bn, of which VND55bn will come from toll road income and VND145bn from financial & other income. CII is expected to post a 2012 forward EPS of VND2,565 per share and a forward PER of 11 times. Using a PER valuation, we derive a one-year target price of VND32,400 (USD1.54), which represents a 7% premium over the current price of VND30,300 (USD1.44).

Figure 4 : PE Valuation, 2012E data	CII
Net income (VNDm)	192,888
Number of shares (year-end)	75,141,000
EPS (VND)	2,567
Regional average PE	13.3
Discounted (%)	5%
Regional average PE after discounted	12.6
Share price (VND)	32,400

Source: SBS

Figure 5: Peer comparison, 2012 data	Name	Mkt Cap (\$)	P/E	ROE (%)	DIV Yield (%)
177 HK Equity	JIANGSU EXPRESS CO LTD-H	4,875.77	12.78	15.79	5.39
JSMR IJ Equity	JASA MARGA (PERSERO) TBK PT	3,667.17	25.67	16.48	2.14
576 HK Equity	ZHEJIANG EXPRESSWAY CO-H	3,206.22	10.46	13.46	6.46
600350 CH Equity	SHANDONG EXPRESSWAY CO LT-A	2,745.98	8.27	12.65	2.88
107 HK Equity	SICHUAN EXPRESSWAY CO-H	1,744.07	7.92	13.37	-
600269 CH Equity	JIANGXI GANYUE EXPRESSWAY -A	1,469.55	8.35	11.46	2.51
JPIN IN Equity	JAYPEE INFRATECH LTD	1,375.11	4.75	42.48	2.01
548 HK Equity	SHENZHEN EXPRESSWAY CO-H	1,222.24	7.96	8.71	5.69
995 HK Equity	ANHUI EXPRESSWAY CO LTD-H	1,134.93	7.49	15.14	5.13
600033 CH Equity	FUJIAN EXPRESSWAY DEVELOPM-A	1,093.42	16.78	5.90	3.97
600020 CH Equity	HENAN ZHONGYUAN EXPRESSWAY-A	910.28	18.43	4.99	3.72
000900 CH Equity	XIANDAI INVESTMENT CO LTD-A	901.20	6.70	18.49	1.40
600106 CH Equity	CHONGQING ROAD & BRIDGE CO-A	828.81	14.69	20.78	0.61
000828 CH Equity	DONGGUAN DEVELOPMENT HLDGS-A	762.59	12.88	12.25	3.88
ILFT IN Equity	IL&FS TRANSPORTATION NETWORK	754.65	8.76	21.62	1.79
LTK MK Equity	LINGKARAN TRANS KOTA HLDGS	685.23	17.66	27.00	4.13
200429 CH Equity	GUANGDONG PROVINCIAL EXPR-B	597.93	12.29	7.11	4.61
000916 CH Equity	HUABEI EXPRESSWAY CO LTD-A	573.87	16.93	5.69	2.40
601188 CH Equity	HEILONGJIANG TRANSPORTATIO-A	552.41	32.67	4.40	0.62
601518 CH Equity	JILIN EXPRESSWAY CO LTD-A	533.23	15.81	12.37	1.76
BECL TB Equity	BANGKOK EXPRESSWAY PUB CO	526.71	11.47	7.46	6.43
600368 CH Equity	GUANGXI WUZHOU COMMUNICATI-A	522.91	9.63	14.23	1.85
600035 CH Equity	HUBEI CHUTIAN EXPRESSWAY-A	515.54	9.27	11.16	2.29
CMNP IJ Equity	CITRA MARGA NUSAPHALA PER PT	457.58	9.29	3.02	0.35
000548 CH Equity	HUNAN INVESTMENT GROUP CO-A	321.23	30.30	4.64	1.23
CIIC US Equity	CHINA INFRASTRUCTURE INVESTM	18.40	7.80	9.86	-
Average		1,230.66	13.27	13.10	2.82

Source: Bloomberg, SBS

BALANCE SHEET (VNDm)

	1Q11	2Q11	3Q11	4Q11
Assets	4,453,789	4,617,790	4,856,299	5,016,820
Current assets	1,452,698	1,540,950	1,577,266	1,656,303
Long-term assets	3,001,091	3,076,840	3,279,034	3,360,517
Fixed assets	1,459,255	1,656,402	1,829,208	2,130,436
Long-term investments	1,510,851	1,379,153	1,403,043	1,182,483
Resources	4,453,789	4,617,790	4,856,299	5,016,820
Liabilities	2,974,454	3,437,067	3,599,636	3,746,448
Current liabilities	867,439	1,077,000	1,033,930	856,082
Long-term liabilities	-	-	-	-
Equities				
Equity	1,418,222	1,152,778	1,209,288	1,231,544
Contributed capital	1,397,166	1,152,778	1,209,288	1,231,544
Capital surplus	-	-189,815	-227,779	-232,174
Retained profits	-	-	-	-

INCOME STATEMENT (VNDm)

	1Q11	2Q11	3Q11	4Q11
Total Revenue	50,067	43,781	53,611	51,382
Net sales	50,067	43,781	53,611	51,382
COGS	8,505	7,177	7,831	7,445
Gross profit /(loss)	41,562	36,604	45,780	43,937
Financial income	128,094	86,632	117,873	263,261
Financial expense	49,024	192,801	17,362	236,618
Interest expense	36,542	36,719	42,569	469,760
Selling expenses	26,277	23,932	24,059	26,795
G&A expenses	3,518	4,769	2,803	13,086
Net operating profit	90,837	(98,267)	119,429	30,699
Other income	64	41	1,971	(53)
Other expenses	7	5	4	553
Profit /(loss) before tax	90,894	(98,231)	121,396	30,093
Corporate income tax	13,001	(13,001)	1,646	3,229
Profit after tax	77,893	(85,230)	119,750	26,863
Net profit	77,890	(49,431)	102,191	32,943

QUARTERLY RATIOS

	1Q11	2Q11	3Q11	4Q11
Growth rate				
Revenue growth rate (y-o-y)	-6.4%	-15.6%	27.7%	1.3%
Gross profit growth rate (y-o-y)	-11.3%	-17.6%	15.5%	2.0%
Net profit growth rate (y-o-y)	5.8%	-122.5%	133.9%	-14.5%
Profitability ratio				
Gross margin	83.0%	83.6%	85.4%	85.5%
EBIT margin	254.5%	-140.5%	305.8%	972.8%
Net profit margin	155.6%	-112.9%	190.6%	64.1%
ROA (4Q)	10.5%	2.8%	3.9%	3.5%
ROE (4Q)	26.5%	8.1%	13.0%	13.1%
Management ratio				
Receivable outstanding days	631	762	608	488
Inventory outstanding days	1,516	1,827	1,858	1,714
Payable outstanding days	2	11	0	16
Liquidity ratio				
Current ratio	1.7	1.4	1.5	1.9
Quick ratio	1.5	1.3	1.4	1.8
Cash ratio	0.2	0.4	0.3	1.0
Capital Structure				
Total debt/Total equity	209.7%	298.2%	297.7%	304.2%
Total debt/total asset	66.8%	74.4%	74.1%	74.7%
Total asset/total equity	314.0%	400.6%	401.6%	407.4%
Index per share				
PER		30.5	19.0	19.0
EPS (VND per share)	2664	817	1311	1311

Disclaimers

Report tracking

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
N/A				

SBS Research Guide to Investment Ratings

Buy: Share price may exceed 15% 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 +/- 15% 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 15% over the next 12 months

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

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