

07 May 2012



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ADD

Target price **27,000**
Upside **16.9%**

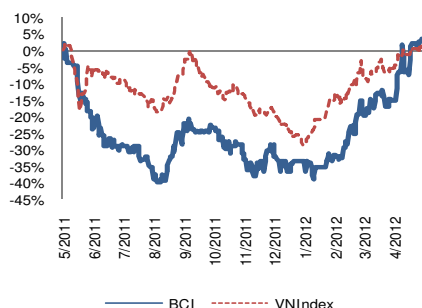
Real estate

Key Indicators

Price @ 05 April 2012	23,100
52-week low	13,444
52-week high	23,100
Avg. 30 day trading volume	68,230
Outstanding shares (mn)	72
Market capitalization (VND bn)	1,669
Market capitalization (USD mn)	79
Foreign ownership	33%

Valuation	2009	2010	2011
EPS (basic)	3,826	4,468	1,138
EPS growth %	65.3%	16.8%	-74.5%
P/E at market	6.0	5.1	20.0
P/B at market	1.0	0.8	1.0
EV / EBITDA	11.9	7.4	18.6
ROE	15.6%	17.1%	4.1%
ROA	7.5%	8.2%	1.9%
ROIC	12.5%	12.4%	2.9%
Debt-to-equity	35.1%	39.7%	41.7%

Performance	3M	6M	12M
Absolute %	22.6%	45.6%	3.7%
Relative %	15.0%	29.6%	1.8%



Ownership Structure

HFIC	27.90%
BOD, BOM	11.73%
Institutional investors	44.40%
Retail investors	15.97%

BCI: Past prudence still rewards

BCI remain in our real estate conviction list. We continue to recommend BCI with a NAV-derived target price of VND27,000, representing an upside of 16.9% despite the 50% price rally since our update report in November 2011. This target price is an upward revision from our previous valuation of VND22,900. We have incorporated progress on LUR finalization of key project Phong Phu 4 and approval progress of Tan Tao Central Urban Area as well as our reduced risk outlook for the whole real estate sector in the new valuation. The rating reflects our belief in an experienced and prudent management team that did not expose the company to excessive leverage – the same factor that has put a number of peers at the risk of a liquidity crisis.

2012 NPAT target looking low but we believe there is upside. For 2012 BCI set targets for revenue of VND996bn (+359%) and NPAT of VND150bn (+89.4%). The significant increase in revenue will be attributable to sale recognition of 70% stake in Phong Phu Industrial Park JSC (PPIP) that was completed in 1Q2012. Putting aside the effect of accepted accounting treatment on interest (to maximize the tax effect), we believe that BCI has been too prudent in the cost projection. We believe investors could expect some positive surprise in the bottom line.

Significant cash infusion from sale of PPIP stake. The contract value of the deal was at VND700 billion. After eliminating interco debts between the mother entity and PPIP, a net infusion of VND600bn cash would be available to BCI, significantly improving the company's liquidity position. Proceeds from the deal will be used for land clearance of Phong Phu 2, Phong Phu 4 and Corona City.

Improved debt position from sale of PPIP. Based on consolidated financial statements as at 31 December 2011 (before the sale), BCI had a debt/asset ratio of 18.7%, which was already low compared to industry market cap weighted average of 44.4%. The debt figure of VND802bn at that time, however, included VND125bn of loans from PPIP. If we exclude this amount from the debt balance, de-consolidate PPIP from the consolidated financial statements and add the outstanding cash collection from the transaction, the real debt/asset ratio would reduce to just 17.0%. While there have been positive signals from macro policies regarding bank credit for real estate lately, in reality, it takes much longer for interest rates to actually come down. Thus we trust having low debt remains a competitive advantage for BCI.

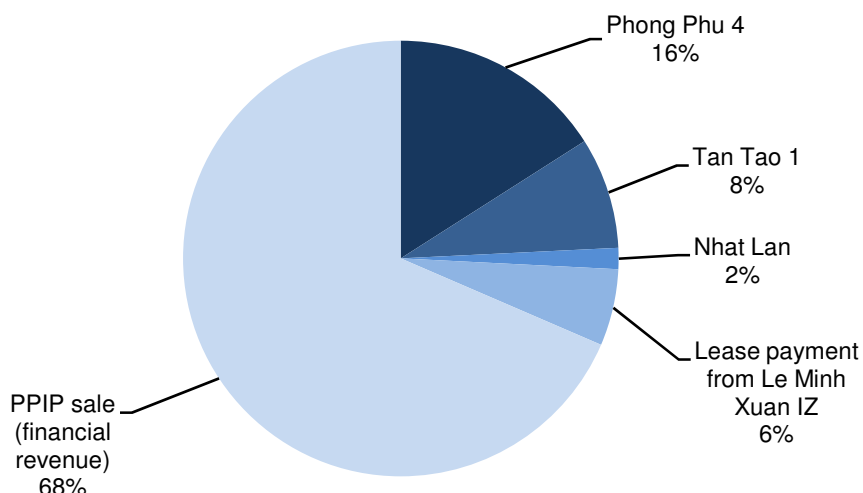
Double-sided benefits from State measures to support real estate. On one hand, real demand from retail customers looking for low-mid end products will improve thanks to new bank loan room being opened up. On the other hand, a good portion of BCI's client base is other developers who need to buy land to compensate for their own projects. As the market unthaws those developers will be motivated to speed up their projects and as a consequence BCI could also benefit.

The caveat, stock illiquidity. Despite being a ticker with good fundamentals, BCI appears to be much harder to invest in. BCI shares are tied up with HFIC and the BoD (39.3%) while institutional investors hold another 44.4%.

2012 earnings outlook

In 2012 BCI sets a target of VND966 billion for revenue and VND150 billion for net profit after tax.

Figure 1: 2012 sales target breakdown



In order to meet this sales target, BCI will need to succeed in selling further about 1ha of Phong Phu 4 and the 14 units left at Nhat Lan project, recognize the sale of 73 units of Tan Tao 1 (which has been sold and 50% instalment has been recorded as unearned revenue as at 31 December 2011) and recognize the sale of 70% stake in PPIP.

At the same time, however, expenses for 2012 would also be expected to increase significantly (+331% YoY) for the following reasons:

- the recognition of PPIP cost of VND245 billion.
- interest payment of about VND90 billion to be classified as expense vs. capital as before. This is an allowed accounting treatment which would help optimize tax payment for BCI.
- the remaining land clearance cost for Phong Phu 4 (7ha) is expected to increase remaining average unit cost by VND1 million per square meter of MLA, thereby increase COGS by VND100 billion in 2012 compared to what it should be recorded in 2011 for the same area sold.
- Tan Tao 1 project, which accounts for the increase in revenue in 2012 vs. 2011, has a cost margin significantly higher than Phong Phu 4 (which contributed the majority of revenue in 2011). Therefore total COGS will increase more than proportionately as justified by the increase in revenue in 2012.

We expect a capex spending of VND230 billion for 2012, including approximately VND200 billion for land clearance of remaining 7ha of Phong Phu 4, VND50 billion for land clearance of the remaining 1ha of Corona City and about VND30 billion for the completion of Tan Tao 1 building. The cash collection from PPIP will be covering these costs.

2012 Project update

In 2012 besides Phong Phu 4, Tan Tao 1 is expected to be a new project that contributes to cash collection and revenue recognition.

Tan Tao 1: BCI targets to complete this condo project in Q3 2012. To date BCI has sold 73 units and recorded instalment at VND33 billion (approximately 50% total contract value) as unearned revenue as at 31 December 2011. Although we do not expect the return from this project to be very high, the cash flows and consequently the remaining present value from the project should be quite significant to BCI in the 2012-2013 timeframe as most of the capex for this project has already been spent.

Phong Phu 4: In early 2012 BCI completed the land use fee payment for 50% of the project that is commercially developed by itself, allowing us to fully integrate it into the DCF valuation. As we learnt from the management, an independent valuator has also been contracted to support the finalization of the price for the other part that would be sold to Management Authority for Southern Area Development of HCMC (MASD) and we expect the result to be reported in Q2-Q3 2012. Once this can be completed we believe BCI will have another significant cash infusion for the company after the sale of PPIP in 2012.

An Lac Plaza: Similar to the deal with Phat Dat's EverRich I building, Lotte has shown interest in buying out the whole commercial area of the An Lac project by BCI to build its 3rd Lotte Mart in the western HCMC area. If the deal can go through, the commercial area will be increased to 6 storeys (currently 3) with net saleable floor area of roughly 10,000 sq. The estimated selling price is USD1,000 per square meter.

Figure 2: Summary of project status

Projects	Land area (m2)	Land Clearance Status	Project Status
Residential area			
Phong Phu 4	839,997	92%	- 50% to be sold to MASD - Of 50% self developed: 11ha has been sold. LUR fully paid
11A (Corona City)	181,600	92%	- No change since last update - Total LUR fees ~VND 150bn, has paid VND45bn
Phong Phu 2	1,329,200	55%	- No change since last update
Tan Tao Urban Area 320 ha	3,200,000	40%	- Approval from related authorities completed
Apartment building			
Tan Tao 1 - Apartment	12,621	100%	- To be completed in Q3 2012
An Lac Plaza	7,988	100%	- Foundation completed, may adjust design plan (to increase commercial area) depending on negotiation with Lotte Mart
Nhat Lan Apartment - 12FI	12,425	100%	- 14 units left
Industrial Zone			
Le Minh Xuan IZ - Extension	1,090,000	66%	- No change since last update
Others			
Dam Sen	59,238	80%	- Withdrawn
BCCI Office Bldg	2,526		- No change since last update

Valuation

We revised target price for BCI to VND27,000/share, representing an upside potential of 16.9% from current price of VND23,100. This also represented an upward revision from our previous target price of VND22,900 in November 2011.

Our upward price revision incorporated the following changes:

- We have been able to fully incorporate into the valuation the portion of Phong Phu 4 that BCI self-develops based on the finalization of LUR payment earlier this year.
- We reduced discount rate from 25% to 22.1% in commensurate with our assumption of 50-50 debt-equity financing mix at Re of 25% and Rd of 18%, which reflects our current assessment of risk factors for the sector.
- We revised the valuation of the condo projects according to the selling status and the latest price expectation set by the company. However, for An Lac project, we have yet modified the floor plan in accordance with the current negotiation between Lotte Mart and BCI to increase the commercial area and thus increase the NPV of the projects as the cash should be received earlier.
- We added the cost valuation of the Tan Tao Central Urban Area as the approval progress permitted us to reasonably incorporate it into the valuation.

Asset Value	Present Value (VND Mn)	Value per share (VND)	Break down (%)	Method
Phong Phu 4	430,684	5,960	18%	DCF
11 A - Land plot	173,713	2,404	7%	DCF
11A - High rise	89,100	1,233	4%	Cost
Tan Tao 1	205,769	2,847	9%	DCF
Nhat Lan	9,490	131	0%	DCF
An Lac	190,595	2,637	8%	DCF
Le Minh Xuan IZ	349,613	4,838	15%	DCF
Phong Phu 2	365,530	5,058	15%	Cost
Tan Tao RA	548,130	7,585	23%	Cost
Total	2,362,624			
Liquid assets 31 Dec 2011	524,021			
Cash collected from PPIP but has not been reflected on BS 31 Dec 2011	300,000			
Debts 31 Dec 2011	1,239,279			
Net Asset Value	1,947,366			
Outstanding shares	72,267,000			

NAV per share

26,947

Overall, we are positive on the company's fundamentals based on a combination of asset valuation and financial situation. On the flip side, we would like to remind investors to consider the concentrated holdings by institutions that have made BCI one of the most illiquid real estate tickers.

Figure 3: BCI Shareholder Structure

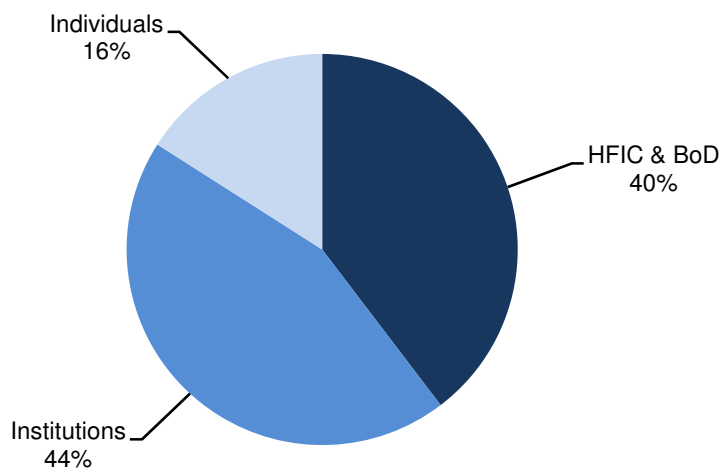
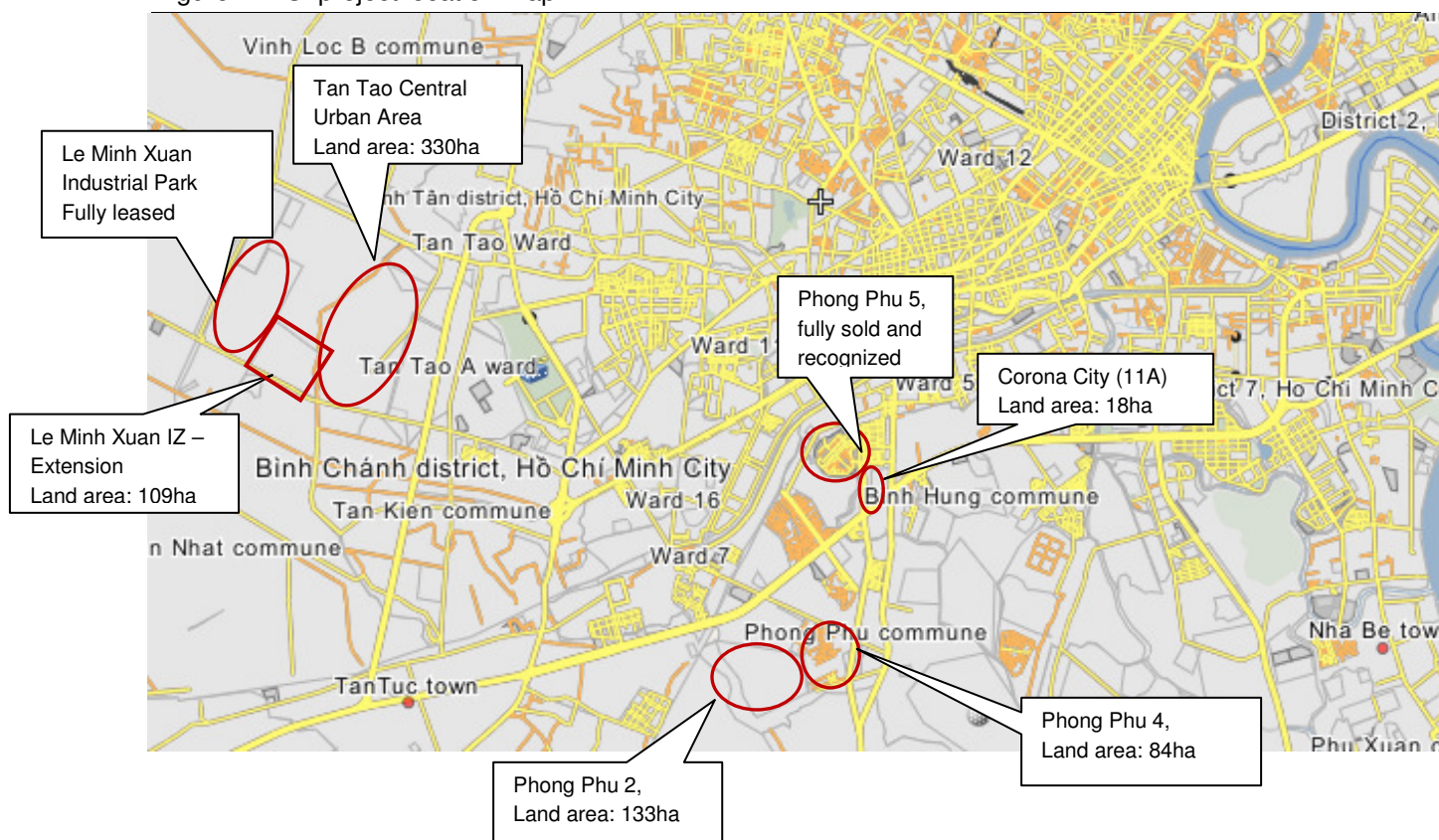


Figure 4: BCI project location map



Financial Statements

Income statement	2009	2010	2011	Balance sheet	2009	2010	2011
Revenue	441	797	217	Assets			
- Cost of goods sold	-185	-387	-99	+ Cash & near cash	181	179	295
Gross profit	256	410	118	+ ST investments	1	1	1
- Sales & marketing	-16	-13	-4	+ Accounts receivable	104	253	184
- General & admin	-35	-48	-45	+ Inventories	1,555	2,136	2,462
Operating profit	206	349	69	+ Other current assets	88	66	57
- Forex gains/(losses)	-4	-4	-8	Total current assets	1,929	2,635	2,999
- Net non-op gains	54	30	43	+ Gross fixed assets	1,050	1,151	1,201
EBIT	255	375	104	- Acc. depreciation	-25	-31	-38
- Interest expense	-7	-8	-7	+ Net fixed assets	1,026	1,120	1,163
EBT	248	367	97	+ LT investments	0	1	1
- Income tax expense	-41	-86	-18	+ Other LT assets	70	95	130
Profit after tax	207	281	79	Total long-term assets	1,095	1,216	1,295
- Minority interests	0	1	3	Total Assets	3,025	3,851	4,294
Net Income to common	207	283	82				
EPS	3,826	4,468	1,138	Liabilities & Equity			
EBITDA	268	382	111	+ Accounts payable	30	63	93
Depreciation	-13	-7	-7	+ ST borrowings	203	288	387
Revenue growth	-9.0%	80.7%	-72.8%	+ Other ST liabilities	406	455	703
Operating profit growth	10.8%	69.8%	-80.2%	Total current liabilities	639	806	1,183
EBIT growth	37.8%	46.8%	-72.1%	+ Long-term debt	279	476	416
EPS growth	65.3%	16.8%	-74.5%	+ Other LT liabilities	731	648	772
Profitability ratios	2009	2010	2011	Total LT liabilities	1,011	1,124	1,188
Gross margin	58.0%	51.4%	54.4%	Total Liabilities	1,650	1,929	2,371
Profit after tax margin	46.9%	35.3%	36.5%	+ Preferred equity	0	0	0
ROE DuPont	15.6%	17.1%	4.1%	+ Addt'l paid in capital	430	611	611
ROA DuPont	7.5%	8.2%	1.9%	+ Share capital	542	723	723
* EBIT Margin	57.9%	47.0%	48.2%	+ Retained earnings	218	396	400
* Tax burden	83.5%	76.6%	81.4%	+ Minority interest	185	193	189
* Interest burden	97.1%	97.9%	93.1%	Total SH equity	1,375	1,922	1,923
* Asset turnover	0.2	0.2	0.1	Total liabilities & equity	3,025	3,851	4,294
Leverage ratio	2.1	2.1	2.1				
ROIC	12.5%	12.4%	2.9%				
Efficiency ratios	2009	2010	2011	Cash flow	2009	2010	2011
Days inventory on hand	2,774.7	1,738.5	8,492.6	Beginning cash	50	181	179
Days AR outstanding	66.5	81.7	367.7	Net Income	207	283	82
Days AP outstanding	40.0	43.8	288.5	+ Depreciation	13	7	7
Cash conversion cycle	2,801.1	1,776.4	8,571.8	+ Other non-cash adj.	-27	-21	-206
Inventory turnover	0.1	0.2	0.0	+ Change in non-cash	-238	-758	-50
Liquidity/Solvency ratios	2009	2010	2011	Cash from Operations	-45	-490	-166
Current ratio	3.02	3.27	2.53	+ Disposal fixed assets	0	0	0
Quick ratio	0.59	0.62	0.45	+ Capex	-96	-108	-28
Cash ratio	0.28	0.22	0.25	+ Change in investment	0	0	0
Debt-to-assets ratio	0.16	0.20	0.19	+ Other investing	73	0	400
Debt-to-capital ratio	0.26	0.28	0.29	Cash from Investing	-23	-108	372
Debt-to-equity ratio	0.35	0.40	0.42	+ Dividends paid	-87	-43	-122
Short-term debt to equity	0.07	0.07	0.09	+ Change in equity	0	361	0
Long-term debt to equity	0.09	0.12	0.10	+ Change in ST debt	95	85	99
Interest coverage ratio	34.40	47.07	14.55	+ Change in LT debt	195	196	-60
Valuation ratios	2009	2010	2011	+ Other financing	0	0	0
Price-to-earnings (P/E)	6.0	5.1	20.0	Cash from Financing	199	596	-90
Price-to-book value (P/B)	1.0	0.8	1.0	Net changes in cash	132	-2	116
EV/EBITDA	11.9	7.4	18.6	Ending cash	181	179	295
Book value per share	21,953	27,352	23,988				

Analyst Certification

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Absolute performance, long term (fundamental) rating key: The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
SELL	If the target price is 20% lower than the market price
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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Target price: In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock, provided the necessary catalysts were in place to effect this change in perception within the performance horizon. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Valuation Methodology: To derive the target price, the analyst may use different valuation methods, 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.

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History of Recommendation

Date	Recommendation	Closing price	Target price
07 May 2012	ADD	23,100	27,000
28 Nov 2011	BUY	14,900	22,900