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Initiation

Target price VND14,200
Up 48%

Real estate

Market cap US\$17.4m
Shares outstanding 37.7m
12M High VND22,100
12M Low VND9,000

Foreign ownership 31%
Foreign limit 49%

Ownership (%)

Deutsche Bank AG 10.0
HFIC 8.9
Red River Holding 6.0
Mr. Le Chi Hieu (Chairman) 1.5
Others 73.6

Company Description

Thu Duc Housing Development Corp. (TDH) is one of Vietnam's leading real-estate developers. TDH was established in 1990 and has been better recognized by its partnership with Daewon to co-develop the Cantavil Hoan Cau and Cantavil Premier.

TDH's pipeline projects in 2013/14 mainly located in a densely inhabited area of District 9. Key value driver of the area is the Ha Noi Highway and the first Metro line, linking the area to the CBD.

Adapting to market reality

Thu Duc House, a mid-cap real estate developer with over 20 years of experience, has refocused its strategy towards small, affordable housing units where there is real buyer demand. The company has about 216,000 m-2 of ready-to-develop land bank, mostly located in District 9 of HCMC, and a rich pipeline of projects. We initiate coverage on Thu Duc House with a BUY rating, based on a RNAV derived target price of VND14,200.

Matching products with actual demand

Thu Duc House is changing its strategy to better match its products with actual market demand. TDH is adjusting the floor plan of its pipeline projects into smaller (50-90 m-2) and more affordable (VND500mn - VND1.5bn) grade C apartments. Grade C apartments accounted for more than 70% of successful transactions in 3Q (by Savills' research). Thus, we are not overly concerned about its sales outlook.

Conveniently located land bank

All of TDH's pipeline projects in 2013/14 are located along the Ha Noi Highway, making accessibility a key selling point. Moreover, Ho Chi Minh City has commenced building the first Metro line linking the CBD to Suoi Tien theme park. This will further enhance accessibility of District 9 and the value of TDH's project portfolio.

Land bank acquired at low cost and ready for development

To expand its land bank quickly and at low cost, TDH created joint ventures with textile companies, which had unused factory/warehouse land. This allows TDH to sell affordable units and still remain profitable. However, the downside to this strategy is that TDH has a controlling stake in only 64% of its total MLA/SFA. For its remaining land, TDH's ownership ranges from 30% to 49%, affecting TDH's pro-activeness in project development as well as in booking revenue and profits.

Constrained liquidity position, especially in FY2013

Our analysis of the company's financial situation as well as its projects shows that TDH could encounter an uncomfortable liquidity position in FY2012 with about a VND47 billion cash shortfall. Also, in October 2013 a convertible bond of VND209bn comes due, putting the company in a VND207bn of cash shortfall by our estimate. Therefore, TDH would have to liquidate some of their investments or rely more on leverage to satisfy its cash needs.

Earnings forecast

| | 2011A | 2012E | 2013E | 2014E |
|--------------------|-------|--------|--------|--------|
| Revenues (VND b) | 533 | 131 | 240 | 85 |
| EBITDA (VND b) | 136 | 106 | 169 | 118 |
| EBITDA margin (%) | 25 | 25 | 25 | 25 |
| Net profit (VND m) | 45 | 15 | 78 | 27 |
| EPS (VND) | 1,178 | 406 | 2,061 | 703 |
| NAV (VND) | | 14,175 | 16,734 | 18,545 |
| Debt/(D+E) (%) | 65 | 60 | 60 | 60 |

Investment thesis

BUY, target price of VND14,200 (47% upside)

What we like...

- Management is changing strategy to match products with actual market demand
- Conveniently located land banks along Ha Noi Highway and 1st Metro line
- Land bank acquired at low cost and ready for development.

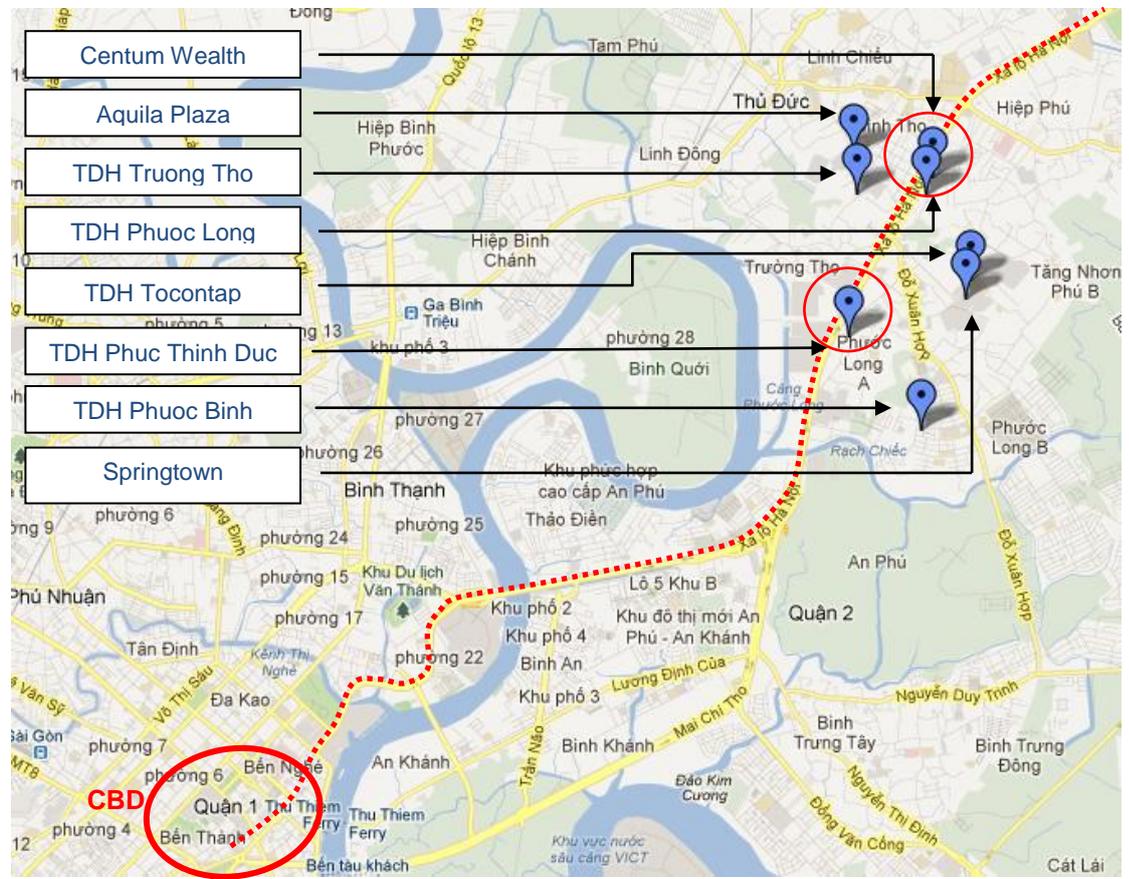
What we don't like...

- Large project portfolio under joint venturing model reduces TDH's decision power in both construction and monetisation of the projects.
- TDH is highly exposed to condominium sector where buyers have shown reluctance towards uncompleted projects due to the risk of prolonged delay.
- TDH may be in constrained liquidity position, especially in FY2013.

Conveniently located land bank. All of TDH's pipeline projects in 2013/14 are located along the Ha Noi Highway, which makes accessibility their key selling point. Moreover, the city has commenced building the first Metro line linking the CBD to Suoi Tien theme park, which would further enhance accessibility of District 9 and value of TDH's project portfolio.

Amongst TDH projects, TDH Phuc Thinh Duc, TDH Phuoc Long and The Centum Wealth will benefit the most from the metro line since they all are located just within 300 metres radius from the Highway (see figure 1). These projects are typically maximum 12 - 15 km away from the CBD (about 30 minutes driving distance). We consider this land bank well accessible and having the potential for TDH to match with the largest market demand which is small-sized (50 - 90 m²) and affordable (VND500mn - VND1.5bn) apartments.

Figure 1: Pipeline projects well located along the National Highway and Metro line (red dotted line)

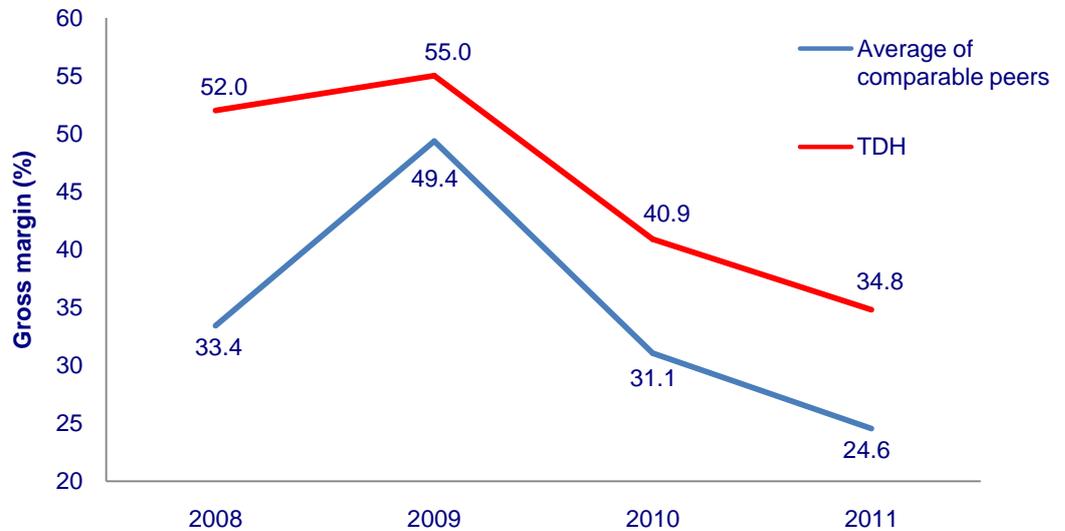


Source: TDH

Land bank acquired at low cost and ready for development at anytime. The strategy TDH used to expand its land bank is by creating joint ventures with textile companies who have unused factory/warehouse. In this way, TDH could expand its land bank quickly and at low costs compared to buying directly from residents and paying land use right (LUR) fees. With Decree 69 requiring LUR fees to be calculated based on market price, developers saw their land cost almost double. In addition, TDH's land bank is mostly clean and ready for development, hence allowing TDH to bring products to market faster than its competitors.

We put TDH in a snapshot comparison with NTL, SCR, KDH and NBB which we think are comparable in terms of market cap, product portfolio and strategy. TDH's higher gross margin in the last four years than the average of comparable peers provides support to our thesis of TDH's low land acquisition cost.

Figure 2: TDH had higher gross margins than comparable peers (NTL, SCR, KDH and NBB)



Source: TDH

As part of the due diligence process, we paid a visit to TDH’s project sites. The company claims to have paid 100% of LUR fees on the projects but due to the fact that the lands are not yet in need for construction, they are still either used as factory land with buildings or parking area.

Management is changing to match products with actual demand. In our talks with management, we learnt that the company is considering adapting its strategy to better match its products with what the market needs. TDH is adjusting the floor plan of its pipeline projects into smaller (50-90 m²) and more affordable (VND500 million - VND1.5 billion) apartments. According to a research by Savills, this category accounted for more than 70% of successful transactions in 2Q and will continue to dominate market; hence we believe the above changes are necessary.

In addition, as buyers have experience with condo projects for quite some time, the topic of quality has become more important than ever. TDH claims to have realised the importance of this issue right from its very first projects. Management believes that quality construction and management services upon completion of the property have been the key factors helping the company to sell their products to the public in the last couple of years, despite a premium selling price in comparison to nearby projects by other developers.

Land bank acquired under joint venturing model reduces TDH’s decision power in both construction and monetisation of the projects. TDH currently has controlling stake in over 64% of its total MLA/SFA. For the rest of the MLA/SFA in possession, TDH’s ownership ranges from 30% to 49%. We think this has had adverse effects on TDH’s pro-activeness in project development as well as in booking revenue and profit. We have observed that it is a usual practice that developers only receive their proportionate cash flow after their JVs have turned profitable or the projects are completely finished.

Furthermore, minority ownership also hinders TDH from monetising its stakes as we would visualise not many developers would want to buy just minority stake in a project. We think this

is a significant drawback for TDH given an outlook of cash shortage while the company cannot quickly liquidate its asset.

In contrast, we have seen cases where real-estate developers actively transferred a part or all of their projects to improve liquidity situation, mostly achievable since the company holds majority stake in the projects. A typical example is Khang Dien House (KDH), where the company successfully transferred 95% of its Spring Life project to Capitaland to reduce leverage and end with much more comfortable liquidity situation in FY2012.

TDH is highly exposed to condominium sector where buyers have developed some reluctance towards uncompleted projects. About 64% of TDH's available MLA/SFA is planned for condominium projects, which are being perceived as less attractive investment and more capital intensive than low-rise. Buyers' favour for newly launched projects has been substantially affected by concerns for undefined delay in construction. As such, condo developers are now experiencing difficulties in looking for funding from customer advance.

Weak sentiment and a large number of unabsorbed inventories (approximately 18,000 units as per CBRE's research) would put pressure on TDH since most of their pipeline projects are in early stage. If this negative sentiment persists, we believe TDH will need to rely more on leverage to finance the aforesaid projects, which is no longer as easy as it used to be when real estate remains the favoured candidate for bank loans.

Constrained liquidity position, especially in FY2013. From our analysis of the company's financial situation and projects, we think TDH could encounter an uncomfortable liquidity position in FY2012 with about a VND47 billion of cash shortfall. We are much more worried about FY2013 when convertible bond of VND209 billion comes due on October 2013.

The convertible bond currently now far out-of-the-money with conversion price of VND22,014/share which is more than a double of current price (VND9,500/share). Hence, we think that the probability of conversion next year is greatly reduced. In such case, the repayment of VND209 billion principal will put the company in about VND207 billion of cash shortfall, in our estimates.

According to management, the company is taking steps to monetise some of their non-core investments or rely more on leverage in order to satisfy the cash needs. However, TDH has not divulged any detail information so far.

Figure 3: Mismatched cash flow in FY2012 and 2013

| | 2012 | 2013 |
|------------------------------|-------------|--------------|
| PROJECT INFLOW | | |
| Cantavil Premier | 18 | 24 |
| Springtown - 38 land plots | 26 | 27 |
| Long Hoi - Ben Luc | 33 | 18 |
| TDH - Truong Tho | 14 | 38 |
| TDH - Phuoc Binh | 12 | 32 |
| TDH - Phuoc Long | 0 | 40 |
| TOTAL PROJECT INFLOW | 103 | 179 |
| DEBT OUTFLOW | | |
| Principal repayment | 51 | 285 |
| Interest expense | 42 | 42 |
| TOTAL DEBT OUTFLOW | 94 | 327 |
| PROJECT OUTFLOW | | |
| Cantavil Premier | 26 | 18 |
| Springtown - 38 land plots | 14 | 5 |
| Long Hoi - Ben Luc | 9 | 7 |
| TDH - Truong Tho | 1 | 1 |
| TDH - Phuoc Binh | 7 | 7 |
| TDH - Phuoc Long | 0 | 22 |
| TOTAL PROJECT OUTFLOW | 57 | 59 |
| TOTAL OUTFLOW | 151 | 386 |
| SHORTFALL | (47) | (207) |

Source: VCSC estimates

Project summary

TDH has been involved in 21 projects, of which two projects (TDH-Truong Tho and Phuoc Binh) were completed and mostly transferred. We estimate TDH's total land area at about 1,060,867 m² and MLA/SFA at 226,000 m².

Most of TDH pipeline projects (except for Long Hoi City) are located in densely populated area of District 9, Ho Chi Minh City. This respective area is enjoying good connection with the CBD by Ha Noi Highway and will be further facilitated by the first Metro Line, which is scheduled to complete by in 2017. District 9 will also be easily accessible with Phu My Hung of District 7 by the inner-ring road that is being built.

Thu Duc House (TDH)

BUY

Figure 4: TDH's projects are located in accessible, populated location in District 9 , Ho Chi Minh City.

| # | Project | Product | Infrastructure status | Land area (sqm) | Location | Clean land | LUR paid | Ownership |
|---|---|---------------------------|--|------------------|---------------------|------------|----------|-----------|
| 1 | TDH - Truong Tho | Condo | Completed | 6,994 | District 9 | 100% | 100% | 100% |
| 2 | TDH - Phuoc Binh | Condo | Completed | 2,325 | District 9 | 100% | 100% | 100% |
| 3 | TDH - Phuoc Long | Condo | Infrastructure in construction. | 3,573 | District 9 | 100% | 100% | 100% |
| 4 | Springtown (Phuoc Long B) | Villa & High-rise complex | 15/38 plots sold Working on infrastructure | 37,140 | District 9 | 100% | 100% | 67% |
| 5 | Centum Wealth | Condo | Early stage. | 11,582 | District 9 | 100% | | 49% |
| 6 | Cantavil Premier | Condo | Under construction. 30/36 floors completed 70% of 184 apartment sold | 11,170 | District 2 | 100% | | 40% |
| 7 | Long Hoi - Ben Luc | Land plot | - 1st phase (15.2ha): selling - 2nd phase (11.4ha): 90% compensated | 266,500 | Long An province | 100% | | 49% |
| 8 | TDH - Phuc Thinh Duc | Condo | Clean land. | 15,448 | District 9 | | | 70% |
| 9 | TDH - Tocontap | Condo | Clean land. Early stage | 11,634 | District 9 | 100% | | 65% |
| 10 | 217 - 219 Xo Viet Nghe Tinh | Complex | WIP | 607 | Binh Thanh district | 100% | | 45% |
| 11 | TDH - Binh Chieu | Condo | Early stage | 10,502 | Thu Duc district | 100% | | 51% |
| 12 | Aquila Plaza | Complex | Early stage | 12,667 | District 9 | 100% | | 30% |
| 13 | Minh Khai complex | Complex | Early stage | 28,726 | Ha Noi | - | | 14% |
| 14 | Lang Co | Complex | Early stage | 137,840 | Hue | - | | 100% |
| 15 | Dong Mai - Ha Noi residential area | Complex | Early stage. Waiting for 1/2000 | 2,250,000 | Ha Noi | - | | 15% |
| 16 | Relocating area for Tam Tan Cu Chi residence area | Complex | Early stage | 200,000 | Cu Chi | - | | 40% |
| 17 | Hiep Binh Chanh residential area | Land plot & Condo | Early stage. Compensation in progress | 103,000 | Thu Duc district | - | | 100% |
| 18 | La Sapinette | Hotel | Operating | - | Hue | - | | 72% |
| 19 | Market B | Market | WIP | 12,078 | Thu Duc district | - | | 100% |
| 20 | Market C | Market | WIP | 6,278 | Thu Duc district | - | | 100% |
| 21 | Binh Khanh - Thu Thiem residential area | Land plot & Condo | Postpone | 384,000 | Disctrict 2 | - | | 20% |
| TOTAL (Excluding <20% ownership projects) | | | | 1,060,867 | | | | |

Source: TDH, VCSC

Key project descriptions

The key projects that will deliver revenue and profits for TDH in 2012 & 2013 are the Cantavil Premier, Springtown, Long Hoi City, TDH-Phuoc Long and TDH-Phuc Thinh Duc. TDH has not divulged information regarding timing and floor plan of the other projects in the pipeline.

Cantavil Premier (TDH's ownership: 40%): The Cantavil project is an upper segment and relatively well-known project TDH co-developed with Korean partner Daewon, which holds the other 60%. The project is located along the Hanoi Highway, right at the border of District 2 and District 9, in an area surrounded by multiple high-end projects such as The Estella by Keppel Land, The Vista (upper medium segment) by CapitaLand. The key selling point of the project is not only location and quality neighborhood but also construction quality and accompanying convenience services such as in-house shopping mall and childcare services.

Management claims to have sold about 140 apartments out of 200 luxury apartments (NSA: 14,862 square metres) with above 60% collection up to 2Q (equivalent to VND180bn). Current asking price is around VND30 million/square metre. TDH will record shared profit from this project following equity method starting from 2013 after the project is completed and ready to transfer to end buyers.

Springtown (70%). The Springtown project is located on a 3.7-hectare land plot in Phuoc Long B ward in District 9. The project comprises of four smaller projects. The active one is Antigone commercial town, comprising of 38 land plots (100-176 m²/unit) on about 1 hectare area. The other three sub-projects are Primrose commercial centre, Magnolia office & apartment complex and The Camelia luxury condo building. Located in the middle of populated area is one of the selling points of this project aside from future facilities such as commercial and entertainment area in the complex.

We were advised by the management that they have successfully sold 15/38 plots and had collected about 60% of total sales value (equivalent to VND31bn). We learned that TDH is asking to convert the aforementioned Primrose from commercial centre into land-plots as this means more suitable to demand. Moreover, additional leverage will be minimized as upfront capital layout is greatly reduced whilst customer prepayment can be received quite early for land plots.

Long Hoi City (49%). The 27-hectare project is located in an area near Ben Luc town of Long An province, about 20 kilometres to the southwest of Ho Chi Minh City. The Trung Luong highway connecting HCM city and the Mekong Delta area, launched in 2011, is unarguably one of the value drivers for the project.

The first phase of the project (15.3 hectares) was launched with total 320 land plots. TDH with 49% ownership took 186 plots and had sold 100 plots at average price of about VND3mn/m². TDH expects to collect about up to 70% of sales value (VND50bn) FY2012. Current quoted price is from VND3mn/m². TDH can start to book sales and profit from 1Q of 2013.

Centum Wealth, TDH – Phuoc Long and TDH – Phuc Thinh Duc. We highly appreciate these three projects regarding their prime locations along the Ha Noi Highway (see figure 1 above). The three projects are in TDH pipeline in 2013 and 2014.

TDH-Phuoc Long (100%). The project is a 3.5 thousand m² project at Phuoc Long B, District 9. TDH originally planned to develop a 16-storey building with GFA of 20,000 m², offering 118 mid-end apartments and a commercial area. The project is currently in early infrastructure construction. TDH is adjusting the floor plan to smaller and more affordable

apartments and expects to launch in 2013. Management estimates gross profit margin at 50%.

Centum Wealth (49%). The project is located on a 1.2-hectare land at Phan Chu Trinh, District 9, about 500 metres to the north of aforementioned TDH-Phuoc Long. TDH was granted the investment certificate in mid-2010, by forming a JV with its renowned partner Deawon. TDH's holds 49% while the latter is holding 51%. TDH originally planned to develop a high-grade complex. However, the Company has yet to disclose detail floor plan. Since high-end properties are currently far from actual demand, we believe that TDH is not prioritizing the Centum now.

TDH-Phuc Thinh Duc (70%). TDH acquired the plum site by joining hand with Vinatex (ownership: 30%). The project is located on a 1.5-hectare area at District 9. The project plans to accommodate 2,700 inhabitants in 721 apartments and 30 penthouses. Total investment is estimated at about VND920 billion. The company let us know that they are trying to transfer its 70% stake in this project but did not divulge any information regarding the potential buyers.

Valuation

We initiate coverage on TDH with a BUY rating based on RNAV approach suggests a target price of VND14,200/share, implying an upside of 47% from the current price of VND9,600 (date: 01/11/2012).

Despite attractive upside potential, we think that investment decision should take into account the fact that trading at significant discount to fair value is the common phenomenon for the whole properties sector. The potential future value of land banks and pipeline projects is marred by persisting soft demand.

Our underlying assumptions are:

- Discount rate is 17.5% base on Re of 22%, Rd of 17% and 50-50 Debt/Equity mix.
- Installments are paid base on schedule 60% in the first year, 40% in the second year for Springtown, TDH-Truong Tho. Payment schedule for Long Hoi City, TDH-Phuoc Binh and TDH-Phuoc Long is 80% in the first year and 20% in the second year.
- MLA percentage of 40% for valuation of 2.6 hectare of Springtown and 35% for 11.4-hectare area of Long Hoi City (second phase).
- Projects are valued independently based on DCF, Market value or Carrying value and consolidated on actual ownership of TDH. We do not value some projects which are in early phase with insufficient information.
- We decided to add back the long-term investment since the balance is significant holding about 45% of TDH's total asset at 31 June 2012. However, we tried to reevaluate the listed portfolio base on current market price.

Thu Duc House (TDH)

BUY

Figure 5: Selling progress assumptions

| # | Project Name | Before 2012 | 2012 | 2013 | 2014 | 2015 |
|---|---------------------------------|-------------|------|------|------|------|
| 1 | Thu Duc House - Truong Tho | 75% | 10% | 15% | | |
| 2 | Cantavil Premier | 70% | 20% | 10% | | |
| 3 | Thu Duc House - Phuoc Binh | 65% | 20% | 15% | | |
| 4 | Thu Duc House - Phuoc Long | | | 30% | 40% | 30% |
| 5 | Springtown – Atigone (38 plots) | | 60% | 35% | 5% | |
| 6 | Long Hoi - Ben Luc Long An | | 30% | 20% | 30% | |

Source: VCSC estimates

Figure 6: Project valuation summary

| # | Project | Location | Ownership (%) | Land area (sqm) | Remaining MLA/SFA (sqm) | Valuation method | PV of remaining cash flows (VND bn) |
|--------------------------------------|---|----------------------|---------------|-----------------|-------------------------|------------------|-------------------------------------|
| 1 | TDH-Truong Tho | District 9 | 100 | 6,994 | 7,473 | DCF | 55 |
| 2 | TDH-Phuoc Binh | District 9 | 100 | 2,325 | 3,383 | DCF | 26 |
| 3 | TDH-Phuoc Long | District 9 | 100 | 3,573 | 11,812 | DCF | 14 |
| 4 | Springtown - Atigone - 38 plots | District 9 | 67 | 10,653 | 4,320 | DCF | 20 |
| 5 | Springtown (excluding Atigone) | District 9 | 67 | 26,488 | 7,099 | Market | 69 |
| 6 | Centum Wealth | District 9 | 49 | 11,582 | 2,270 | Market | 68 |
| 7 | Cantavil Premier | District 9 | 40 | 11,170 | 1,783 | DCF | 6 |
| 8 | Long Hoi City (1st phase) | District 2 | 49 | 152,500 | 23,503 | DCF | 24 |
| 9 | Long Hoi City (2nd phase) | District 2 | 49 | 114,000 | 22,344 | Market | 12 |
| 10 | TDH-Phuc Thinh Duc | Long An province | 70 | 15,448 | 55,643 | Cost | 4 |
| 11 | TDH-Tocontap | District 9 | 65 | 11,634 | 3,025 | Cost | 18 |
| 12 | Market B & C | Thu Duc | 100 | - | - | Cost | 35 |
| 13 | Hang Xanh complex | Binh Thanh District, | 45 | 607 | 2,656 | None | - |
| 14 | KCN Dong Mai - Ha Noi | Ha Noi | 15 | 2,250,000 | - | None | - |
| 15 | TDH-Binh Chieu | Binh Thanh District | 51 | 10,502 | 2,142 | None | - |
| 16 | Complex project at Minh Khai | Ha Noi | 14 | 28,726 | - | None | - |
| 17 | Lang Co resort | District 9 | 100 | 137,840 | - | None | - |
| 18 | Relocating area for Tam Tan Cu Chi residence area | Ha Noi | 40% | 200,000 | - | None | - |
| 19 | Aquila Plaza | Thu Duc | 30% | 12,667 | 1,520 | None | - |
| 20 | Binh Khanh-Thu Thiem residential area | District 2 | 20% | 110,563 | - | None | - |
| 21 | Hiep Binh Chanh residential area | District 2 | 100% | 99,000 | - | None | - |
| Total project NAV (VND bn) | | | | | | | 351 |
| Add book value of other CIP (VND bn) | | | | | | | 144 |
| Add long-term investments (VND bn) | | | | | | | 735 |
| Add liquid assets (VND bn) | | | | | | | 45 |
| Less debts (VND bn) | | | | | | | (741) |
| Equity value (VND bn) | | | | | | | 534 |
| Number of outstanding shares (mn) | | | | | | | 37.7 |
| NAV/share (VND) | | | | | | | 14,175 |

Source: VCSC

Figure 7: Discount comparison

| # | Company | Target price | Current price | Discount |
|---|------------|---------------|---------------|-------------|
| 1 | KDH | 22,500 | 11,600 | -49% |
| 2 | DIG | 19,000 | 12,300 | -35% |
| 3 | TDH | 14,000 | 9,600 | -31% |

Source: VCSC estimates

Although TDH is trading at 31% discount to RNAV derived target price, investors should be aware that other players are also in the same situation. In fact, TDH is the stock that has the lowest discount among our conviction list of the sector. This is currently a hard time for real-estate developers and that general phenomenon is weighing down the share price.

Company overview

Thu Duc Housing Development Corp. (TDH) was established in 1990 and listed in 2006. It is one of Vietnam's leading real-estate developers. TDH is also one of the pioneers of forging successful partnership with foreign developers. TDH brand name has been recognized by partnership with Daewon to co-develop the Cantavil Hoan Cau and Cantavil Premier.

The current Chairman cum CEO – Mr. Le Chi Hieu has been with the company for 18 years since 1994. He first joined TDH as a CEO in 1994 and then became Chairman in 2001. Since then, Mr. Hieu has lead TDH as a Chairman cum CEO until now. Moreover, he has also been a Board member of Ho Chi Minh Infrastructure Investment (HSX: CII) of which business mainly involves in Ho Chi Minh City's infrastructure projects. His vision and connection within Thu Duc District and surrounding area has largely supported TDH in expanding its land bank.

Risks

Prolonged soft demand outlook in Ho Chi Minh, especially condo segment. Ho Chi Minh primary condo market has recently been heated up by some price cut. However, this is not enough to attract buyers as they are still keeping a “wait-and-see” psychology. Unclear 2013 economy outlook weighs down buyers' sentiment, driving them away from taking mortgages and paying out large sum of cash.

However, we still seeing resilient activity in some projects with affordable price from reputable developers eg. Hoang Anh Thanh Binh (HAG Group), E Home 3 (Nam Long Corporation) or Sun View 3 (C.T Group, sold to Dat Xanh Group). Those projects offer small apartments (45 sqm – 80 sqm) at affordable price (VND10-12 mn/sqm) which are attractive to end buyers regardless of the projects' uncompleted status.

Oversupply of grade C apartments puts pressure on developers' primary sales. It is a common perception in developers that switching to grade C segment and lowering price is necessary to offload their inventories. This will consequently increase the overall supply in 2013 for Grade C apartments and thus put more pressure on developers to market their products to the market.

Financial Statements

Units: VND billion

| | 2009 | 2010 | 2011 | | 2009 | 2010 | 2011 |
|-----------------------------|-------------|-------------|-------------|--------------------------|--------|--------|--------|
| Income statement | | | | Balance sheet | | | |
| Revenue | 481 | 555 | 533 | Assets | | | |
| - Cost of goods sold | -217 | -328 | -348 | + Cash & equivalent | 98 | 104 | 49 |
| Gross profit | 265 | 227 | 185 | + Short-term investmer | 6 | 22 | 4 |
| - Sales & marketing | -1 | -12 | -20 | + Accounts receivable | 132 | 326 | 224 |
| - General & admin | -55 | -75 | -65 | + Inventories | 470 | 419 | 399 |
| Operating profit | 209 | 140 | 101 | + Other current assets | 185 | 260 | 257 |
| - Forex gains/(losses) | 0 | 0 | 0 | Total current assets | 890 | 1,130 | 933 |
| - Net non-op gains | 149 | 196 | 23 | + Gross fixed assets | 216 | 305 | 268 |
| EBIT | 358 | 336 | 124 | - Accum. depreciation | -26 | -28 | -36 |
| - Interest expense | -1 | -11 | -81 | + Net fixed assets | 189 | 277 | 232 |
| EBT | 357 | 325 | 43 | + LT investments | 0 | 0 | 590 |
| - Income tax expense | -58 | -79 | -12 | + Other long-term asse | 754 | 931 | 510 |
| Profit after tax | 299 | 246 | 31 | Total long-term assets | 943 | 1,208 | 1,332 |
| - Minority interests | -5 | 1 | 14 | Total Assets | 1,833 | 2,338 | 2,266 |
| Net income to SH | 294 | 246 | 45 | | | | |
| EPS (basic VND) | 9,327 | 6,507 | 1,178 | Debt & equity | | | |
| EBITDA | 358 | 349 | 136 | + Accounts payable | 29 | 13 | 28 |
| Depreciation | 0 | -13 | -12 | + Short-term debt | 65 | 300 | 260 |
| Revenue growth % | -19.7 | 15.3 | -3.9 | + Other short-term deb | 208 | 177 | 122 |
| Op profit growth % | -19.4 | -33.0 | -28.2 | Current liabilities | 303 | 489 | 410 |
| EBIT growth % | 26.8 | -6.0 | -63.2 | + Long-term debt | 90 | 270 | 358 |
| EPS growth % | -0.7 | -30.2 | -81.9 | + Other long-term debt | 160 | 89 | 83 |
| | | | | Total LT debt | 250 | 359 | 440 |
| Profitability ratios | 2009 | 2010 | 2011 | Total debt & equity | 553 | 849 | 850 |
| Gross margin % | 55.0 | 40.9 | 34.8 | + Preferred equity | 0 | 0 | 0 |
| NPAT margin % | 62.1 | 44.3 | 5.8 | + Addt'l paid in capital | 434 | 435 | 435 |
| ROE Dupont % | 26.0 | 17.7 | 2.1 | + Share capital | 379 | 379 | 379 |
| ROA Dupont % | 18.3 | 11.8 | 1.3 | + Retained earnings | 418 | 565 | 505 |
| * EBIT Margin % | 74.3 | 60.6 | 23.2 | + Minority interest | 50 | 110 | 97 |
| * Tax burden % | 83.7 | 75.6 | 71.9 | Total equity | 1,281 | 1,489 | 1,415 |
| * Interest burden % | 99.8 | 96.7 | 34.8 | Total debt & equity | 1,833 | 2,338 | 2,266 |
| * Asset turnover | 0.3 | 0.3 | 0.2 | Book value per share | 38,983 | 36,397 | 34,805 |
| Leverage ratio | 1.4 | 1.5 | 1.6 | | | | |
| ROIC | 23.6 | 14.1 | 1.5 | | | | |
| Efficiency ratios | | | | Cash flow | | | |
| Days inventory on hand | 729.1 | 495.1 | 429.4 | Beginning cash | 104 | 98 | 104 |
| Days AR outstanding | 74.9 | 150.5 | 188.3 | Net Income | 294 | 249 | 45 |
| Days AP outstanding | 34.7 | 23.3 | 21.5 | + Depreciation | 0 | 15 | 14 |
| Cash conversion cycle | 769.3 | 622.3 | 596.2 | + Other non-cash adj. | -327 | -322 | -25 |
| Inventory turnover | 0.5 | 0.7 | 0.9 | + Δ in non-cash | 0 | 0 | 0 |
| | | | | Cash from operations | -32 | -58 | 34 |
| Liquidity/Solvency | | | | + Disposal fixed asset: | 0 | 2 | 44 |
| Current ratio | 2.94 | 2.31 | 2.28 | + Capex | -83 | -66 | -27 |
| Quick ratio | 1.39 | 1.45 | 1.30 | + Δ in investments | 0 | 0 | 0 |
| Cash ratio | 0.32 | 0.21 | 0.12 | + Other investments | 37 | -187 | -76 |
| Debt/assets % | 0.08 | 0.24 | 0.27 | Cash from investing | -46 | -250 | -59 |
| Debt/capital % | 0.11 | 0.28 | 0.30 | + Dividends paid | -72 | -61 | -84 |
| Debt/equity % | 0.12 | 0.38 | 0.44 | + Δ in capital | 112 | 0 | 0 |
| ST debt/equity % | 0.04 | 0.13 | 0.11 | + Δ in ST debt | 51 | 235 | -40 |
| LT debt/equity % | 0.05 | 0.12 | 0.16 | + Δ in LT debt | 23 | 180 | 88 |
| Interest coverage ratio | 466.70 | 30.09 | 1.53 | + Other financing act. | 0 | 0 | 0 |
| | | | | Cash from financing | 73 | 314 | -30 |
| Valuation ratios | | | | Net changes in cash | -6 | 6 | -55 |
| Price-to-earnings (P/E) | 1.1 | 1.6 | 8.6 | Ending cash | 98 | 104 | 49 |
| Price-to-book (P/B) | 0.3 | 0.3 | 0.3 | | | | |
| EV / EBITDA | 5.9 | 5.5 | 8.5 | | | | |

Analyst Certification

I, Viet Vu, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

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| 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 |
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