

Sector: Goods inspection

Investment opportunity report

March 31, 2014

Recommendation **OUTPERFORM**

Target price (VND) **20,800**

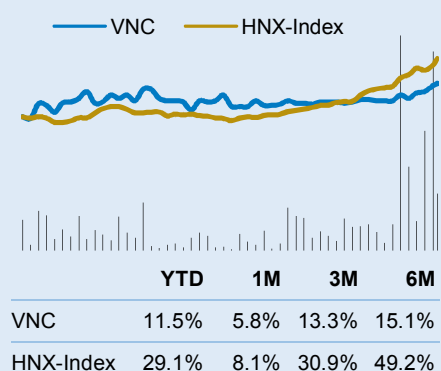
Market price (31/03/2014) **15,700**

Expected return **32%**

STOCK INFORMATION

Exchange	HNX
52-week price range	VND10.400 – 18,000
Capitalization	VND173 billion
Outstanding shares	10,499,955
10-day average volume	43,940
% foreign ownership	23.85%
Foreign ownership limit	49%
Dividend per share	VND1,400
Dividend yield	9.7%
Beta	0.48

PRICE MOVEMENT



Analyst

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Vinacontrol Group Corporation

Ticker: VNC

Reuters: VNC.HN

Bloomberg: VNC VN

Recording stable growth

A leading company in the field of goods inspection. VNC now holds the largest market share of approximately 40% in the field of goods inspection in Vietnam.

Stable business operations. Although Vietnam's economy has fallen into recession in the recent years, VNC's goods inspection activities have remained relatively stable. It recorded revenue growth of 9% in 2012 and 15% in 2013. Its net profit dropped by 32% in 2013 mainly because the Company extracted provision for receivables and the amount of tax arrears in 2011 and 2012.

Healthy financial situation. Being a consulting service provider with the workforce as the biggest asset, VNC has a healthy financial situation. The Company has no short-term and long-term liabilities.

High and stable dividend payout ratio. With stable business operations and low demand for fixed asset investment, VNC often offers high and stable dividend payment. Its dividend payout ratio was 12% in 2013 and is expected to be 14% in 2014.

2014 Prospects. In 2014, VNC is expected to have revenue of VND320.1 billion (up 7% yoy) and net profit of VND21.8 billion (up 36% yoy). EPS in 2014 is estimated to reach VND2,080.

Investment recommendation. We rate **OUTPERFORM** on this stock. VNC is the leading company with many years of experience in the field of goods inspection. Its operation is relatively stable despite the economic recession. VNC's FY2014 profit is expected to grow strongly compared to 2013. VNC is currently trading at a P/E of 7.25x, which is quite low compared to the average in the market.

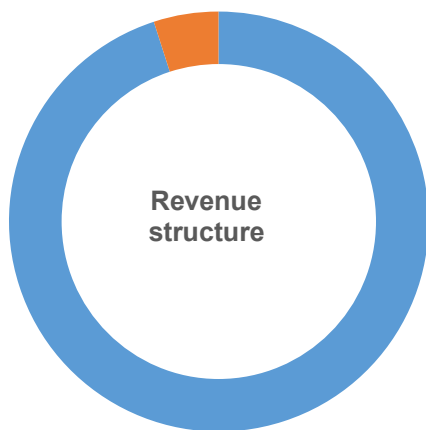
Risks. The biggest risk of VNC is the competition in the market, particularly competition from foreign companies. Currently, the biggest foreign company operating in the field of goods inspection in Vietnam is SGS Vietnam Co., Ltd., a multinational company with good reputation in the world market. SGS has the same market share with VNC in Vietnam.

Some financial indicators of VNC:

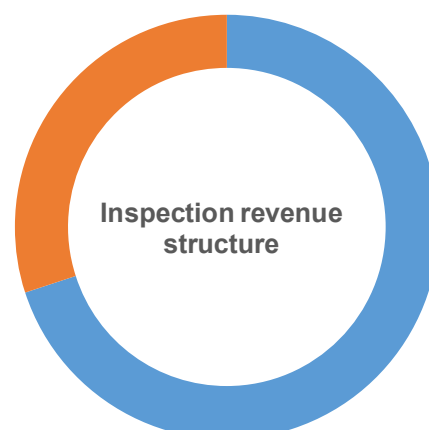
Norm	2011	2012	2013	2014F
Revenue (million VND)	239,887	261,287	299,737	320,680
EBITDA (million VND)	34,858	36,629	30,092	36,102
EBIT (million VND)	26,438	28,209	22,004	28,014
Net profit (million VND)	23,338	24,011	16,105	21,840
EPS (VND)	2,975	3,049	1,529	2,080
P/E (x)	5.28	5.15	10.27	7.55
P/B (x)	0.81	0.77	1.03	0.94
ROA (%)	11%	11%	7%	10%
ROE (%)	15%	15%	10%	13%

Introduction

Vinacontrol Group Corporation, formerly Vietnam Goods Inspection Company, established in 1957, is the first inspection organization in Vietnam. Revenue from inspection services contribute 95% to the Company's total revenue, of which inspection of import-export goods accounts for 70% of inspection revenue. In addition, Vinacontrol provides a wide range of other inspection services to meet the clients' increasing demand such as inspection of machinery and equipments, marine survey, petroleum products, asset appraisal, consultancy on construction verification, environmental appraisal, etc.



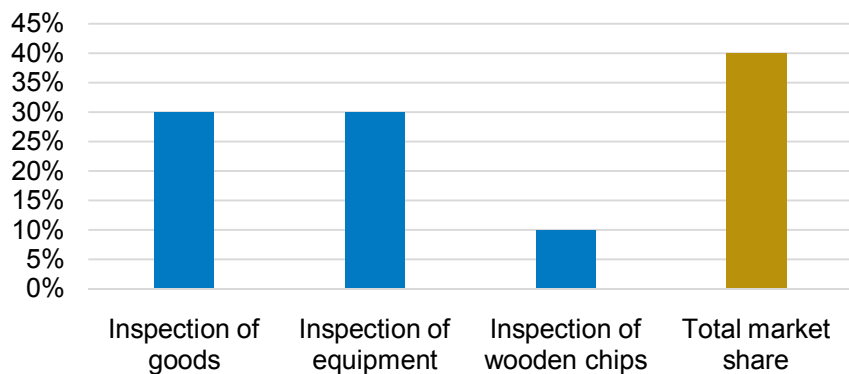
■ Revenue from inspection ■ Others



■ Inspection of import-export goods ■ Others

Investment highlights

Leading company in the field of goods inspection. VNC now holds the largest market share of approximately 40% in the field of goods inspection in Vietnam. Goods inspection services, which contribute 70% to the Company's revenue, account for 30% market share, machinery and equipment inspection has 30% market share, wooden chip inspection 10%. Although VNC no longer maintains its monopoly in the inspection service market, it still has relatively large market share, especially in the segment of goods inspection.

VNC's market share in inspection service


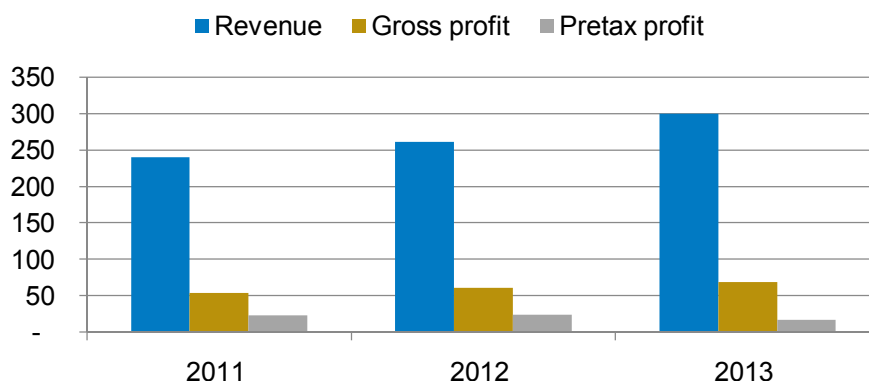
Source: Vinacontrol

Wide network across the country, with offices in Hanoi, Ho Chi Minh City, Danang, Can Tho, Quang Ninh and Haiphong. The biggest strength of VNC is its deep experience in the field of goods inspection, good competence of inspection and traditional relationship with universities and research institutes in Vietnam. In addition, because it is an equitized enterprise (currently the State owns 30% stake), VNC has advantages in doing business with State-owned enterprises.

There are not many large companies in the inspection service market. Currently, the biggest competitor of VNC is SGS Vietnam Co. Ltd., a highly reputable foreign-owned company headquartered in Switzerland and having branches in many countries in the world. At present, SGS has the same market share with VNC, approximately 40%. The remaining 20% market share is divided evenly to more than 100 other inspection organizations operating in Vietnam, but not all of them have sufficient human resources, material resources and laboratories meeting the requirements. In fact, there are only 10 enterprises capable of joining the competition in the inspection service market.

Stable business operations. VNC's operation depends largely on Vietnam's goods import-export activities. Although Vietnam's economy has fallen into recession in the recent years, VNC's goods inspection activities have remained relatively stable as Vietnam's goods import-export value has maintained stable growth. It recorded revenue growth of 9% in 2012 and 15% in 2013.

VNC's revenue and profit (bil.VND)



Its net profit dropped by 32% yoy in 2013 mainly because its administrative expense surged 63% in the year, from VND22 billion to VND36 billion. The Company had to extract provision worth VND14 billion in 2013, including VND7 billion for receivables and the remaining for tax arrears in 2011 and 2012. The reason for tax arrears payment is that the Company recorded reduction of corporate income tax in 2011 and 2012 in line with the State's provisions on tax incentives in case of share listing, but the Law on Corporate Income Tax 2009 states that listed companies are not subject to tax reduction from 2009. Therefore, under the law, VNC will have to pay back the tax incentive given in 2011 and 2012. Without provision for these items, VNC's FY2013 net profit would have increased by 11% against 2012.

Financial situation. The financial situation of VNC is relatively healthy, with the total liabilities/total asset ratio staying at 26%. The Company has no liabilities to banks. Its current ratio and quick ratio are higher than 1, reflecting high liquidity situation at VNC.

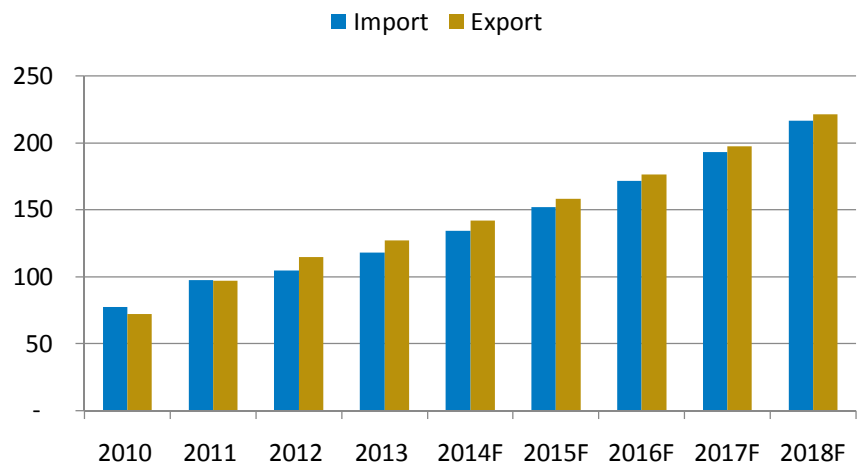
High and stable dividend payout ratio. With stable business operations and low demand for fixed asset investment, VNC often offers high and stable dividend payment. Its dividend payout ratio was 12% in 2013 and is expected to be 14% in 2014.

2014 Prospects

According to the BMI forecast, Vietnam's trade turnover is expected to expand growth in 2014, with export value to grow 14% and import value to grow 12%. As a result, VNC will have favorable conditions to develop its goods inspection services. In 2014, VNC is expected to have revenue of VND320.1 billion (up 7% yoy) and net profit of VND21.8 billion (up 36% yoy). EPS in 2014 is estimated to reach VND2,080.

The profit growth will be much higher than the revenue growth because the Company extracted VND14 billion worth of provision for receivables and tax arrears in 2013 (which led to a surge in administrative expense), so it will not have to extract more provision in 2014.

Import and export turnover (bil. USD)



Source: BMI

Investment recommendation

We rate **OUTPERFORM** on this stock. VNC is the leading company with many years of experience in the field of goods inspection. Its operation has remained relatively stable in the recent years despite the economic recession. Its prospects are also optimistic given positive forecasts on Vietnam's import-export activities. VNC's FY2014 profit and EPS are expected to grow strongly against 2013. With a projected EPS at VND2,080 in 2014, VNC is currently trading at a P/E of 7.55x, which is quite low compared to the average in the market.

REPORT COMMENTARY

Target price: is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE, FCFF, DDM); NAV-based valuation; comparative indicators (P/E, P/B, EV/EBIT, EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

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BVSC's recommendation system is based on the increase/decrease of the share price to the target price. There are three levels of recommendation with the corresponding difference in magnitude from low to high. Investors should be noticed that investment recommendations can be changed at the end of each quarter after BVSC's corporate reappraisal.

Recommendation levels	
Recommendation	Explanation
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price



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