

BRIEFREPORT

Oct 16, 2014

ASIA- PACIFIC INVESTMENT JSC

Code: API (HNX) | Industry: Real Estate/Financial Investment

Recommendation

Target Price (5years) (VND)
Current Price (VND)
Expect Return

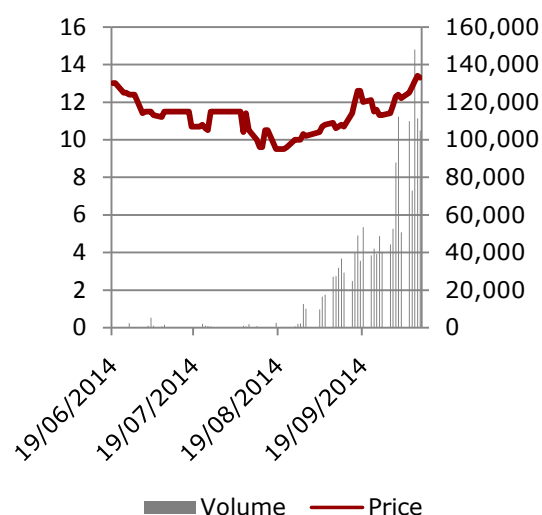
BUY

67,955
13,300
394%

We value API at 67,955VND per share. The current price is 13,300 VND hence we recommend long-term value investors to buy stocks of API.

In short-term, Vietnam's macro economy has been more stable thanks to the government's efforts. The stock market is recovering rapidly. We expect the real estate sector to outperform market in the near future.

PRICECHART



TRADING STATISTIC

Current Price (VND):	13,300
EPS (VND):	1,520
P/E:	8.73
Book Value (VND):	10.480
Beta:	0.27
Average Trading Volume:	89,440
Listed Shares:	26,400,000
Outstanding Shares	26,400,000
Market Cap (Bil VND):	351.12

SHAREHOLDER STRUCTURE

Nguyen Do Lang	15.08%
Asean Small Cap Fund	9.50%
Dang Thanh Tu	7.03%
Nguyen Thi Hong Cuc	4.67%
Huynh Thi Mai Dung	3.78%

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Highlights:

- ❖ **API has a very good strategy and many high potential projects.** API now owns more than 600 hectares of unoccupied land in prime locations. The company's strategy focuses on the segment of industrial parks and urban areas to supply infrastructures, factories, and homes for real demands from companies and local people. It is applying model of Ecopark, the most successful real estate project in Vietnam, to develop its own projects. In 2014, API is trying to finish 3 very profitable projects: Green Life Urban Zone in Hue, Tuc Duyen Urban Zone in Thai Nguyen and Da Hoi Industrial Zone in Bac Ninh.
- ❖ **API's financial situation is stable.** The company does not rely on bank loans hence it has been able to create a strong financial structure despite many difficulties in the real estate sector. In early 2014, the total amount of debts is VND9.5 billion which equals to only 2% of total assets. This creates advantages for API because it has flexibility in financing its future projects.
- ❖ **The company's outlook is tied to the recovery of the real estate market.** Companies in this sector experienced the most challenging period in recent years. However, in 2014, the real estate has started showing signs of recovery, creating more opportunities for real estate companies such as API. Therefore, the company's prospects are quite good, given the recovery of the economy and the real estate market.

Risk & Weakness:

- ❖ **The real estate market has yet reached its peaks:** inventories remain high, especially in the segment of medium and high level. API is actively stretching the construction schedule, adjusted for investment purposes at some major projects. On the other hand, the company faces a significant risk of competition from firms in the same segment, particularly in the low-income segment.

Financial Summary

Items	2011	2012	2013	2014F	2015F
Net Revenue (bil VND)	-	-	-	200.00	500.00
+/- yoy (%)	-	-	-	-	150.0%
Net Profit (bil VND)	5.70	(20.10)	45.95	20.00	50.00
+/- yoy (%)	-77.8%	-452.6%	-328.6%	-56.5%	150.0%
Total Asset (bil VND)	404.70	424.23	505.36	606.43	727.72
+/- yoy (%)	51.5%	4.8%	19.1%	20.0%	20.0%
Owner Equity (bil VND)	252.55	232.45	277.86	297.86	347.86
+/- yoy (%)	2.3%	-8.0%	19.5%	7.2%	16.8%
Liabilities/Total Asset	37.6%	45.2%	45.0%	50.9%	52.2%
Gross Profit Margin	-	-	-	20.0%	0.0%
Net Profit Margin	-	-	-	10.0%	10.0%
EPS (VND)	973	216	1,740	758	1,894
ROA	1.7%	-4.9%	9.1%	3.3%	6.9%
ROE	2.3%	-8.3%	16.5%	6.7%	14.4%

COMPANY BACKGROUND

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History

Asia - Pacific Investment JSC was founded in 2006. The company has been for only 7 years but it is known as one of the most prestige urban and industrial real estate development in Vietnam. Currently, API owns and develops many large real estate projects in various provinces and cities in Vietnam. API's strategy is to invest on projects at locations with highest growth potential.

API's stocks are listed and traded on HNX from 13/09/2010. Since its inception, the company has increased its charter capital 2 times, details on the table below:

Time	Charter Capital (Million VND)
07/2006	22,950
02/2007	220,000
07/2009	264,000

API's current charter capital is VND264 billion. API's size is small compared to other real estate companies in Viet Nam.

Shareholder Structure

As of 06/30/2014, the largest shareholders of API includes Mr. Nguyen Do Lang, Board Chairman, holds 15.08% of total charter capital, Asean Small Cap Fund holds 9.5% of total charter capital, and Mr. Dang Thanh Tu holds 7.3% of total charter capital.

Shareholders	Holding Portion	Date
Nguyen Do Lang	15.08	30/06/2014
Asean Small Cap Fund	9.50	25/11/2013
Dang Thanh Tu	7.30	29/04/2014
Nguyen Thi Hong Cuc	4.67	03/04/2014
Huynh Thi Mai Dung	3.78	30/06/2014

90.5% of API's outstanding stocks is owned by domestic investors, the other 9.5% is owned by foreign investors.

Management

API's Chairman is Mr. Nguyen Do Lang and CEO is Mr. Nguyen Duy Khanh. Mr. Nguyen Do Lang, born in 1974, holds Master degree at the University of Trento (Italy) and Mr. Nguyen Duy Khanh holds Master degree of business administration

BOM	Name	Other Position
Chairman	Nguyen Do Lang	
BOM Member	Nguyen Duy Khanh	CEO
BOM Member	Tran Vu Phuong	
BOM Member	Huynh Thi Mai Dung	Deputy CEO
BOM Member	Dang Anh Tuan	
Independent Member	Dao Ngoc Thanh	CEO of Ecopark
Independent Member	David Roes	CEO of ASCF

Recently, API has just promoted Mr. Dao Ngoc Thanh (Chairman of CSC and CEO of Ecopark) and Mr. David Roes (CEO of Asean Small Cap Fund) to be its independent BOM members. This brought API's corporate governance one step nearer the international standard. Specially, Mr. Thanh's reputation, connections and knowledge in Vietnam real estate market will help API to develop its projects in the most efficient and profitable way just like what he did with Ecopark, the biggest and the most successful real estate project in Vietnam.

EARNING MODEL

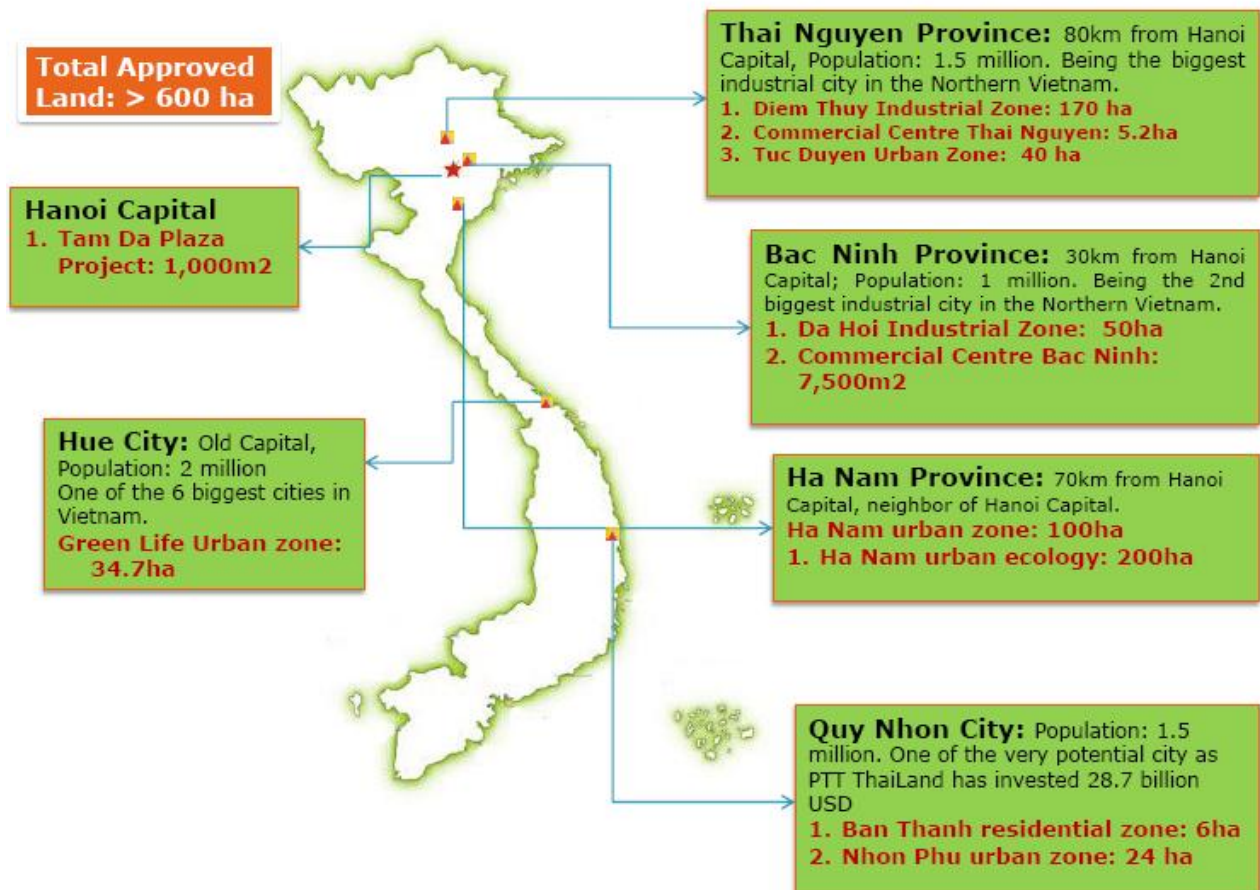
The company has a clear development strategy. API's projects, which amount to total of 600 hectares, are all located in high per-capita-income cities such as Ha Noi, Bac Ninh, Thai Nguyen, Ha Nam, Hue, and Quy Nhon. These projects have low cost and favorable geographical positions. All projects are developed with the policy of exchanging land for infrastructures to reduce initial investment costs.

API is currently investing in three segments: industrial park, commercial center and urban area. API's 2 industrial parks are favorably located to attract foreign companies. Projects in urban areas are located in prime location in big cities, where real demands for housing are high.

The largest strength in API's strategy is that most of its projects are located in secondary cities in Vietnam such as Thai Nguyen, Bac Ninh, Ha Nam, and Hue. These locations require low cost for development and target real demands of foreign companies and local people. Therefore, they will create strong and stable cash flow. This smart strategy was successfully employed by Mr. Wang Jianlin who invested in real estate in secondary cities in China and became the second richest man in that country. Using the same approach plus its management's specialties in this market, API will probably create huge profits and become one of the biggest real estate company in Vietnam.

Another feature in the company's strategy is to merge and acquire companies in the same sector with good projects at low prices. Applying this strategy, in 2013 API acquired 20% of IDJ and became its largest shareholder.

Summary of API's Projects



In 2014, API are focusing on completely developing 3 profitable projects: Green Life Urban Zone in Hue, Tuc Duyen Urban Zone in Thai Nguyen and Da Hoi Industrial Zone in Bac Ninh. Detailed information of all projects are listed on the table below

Project Name	Area (ha)	Location	Description	Progress	Target Customer
Greenlife Project	35	Hue City	This is a big project. It is located very close to the center of Hue City and many public utilities. The estimated profit is \$16.5 million in 3 years	In progress	Middle class in Hue
Tuc Duyen UrbanZone	40	Thai Nguyen City	This project is located at a prime location. It is very close to many public utilities. This project is expected to create profit of \$18 million in 4 years	In progress	Middle class in Thai Nguyen City
Da Hoi Industrial Zone	50	Bac Ninh City	This is an industrial project. It is located 30 km away from Ha Noi, and on the biggest economicly developed triangle in North Vietnam. It is expected to create profit of \$16 million in 4 years	In progress	Foreign companies
Diem Thuy Industrial Zone	170	Thai Nguyen	An industrial project, it is on Thai Nguyen, very close to Samsung Thai Nguyen. Total estimated profit is \$15 million	In progress	Foreign companies
Commercial Centre Bac Ninh	0.75	Bac Ninh	This project is located at golden are of Bac Ninh. NAV is \$3.7 million	To be built	Retail companies
Commercial Centre Thai Nguyen	5	Thai Nguyen	It is located in central area of Thai Nguyen, close to many public utilities	To be built	Retail companies
Tam Da Plaza	0.1	Ha Noi	This project is located at center of Hanoi. Its NAV is \$5 million	To be built	Retail companies
Ha Nam Urban Zone	100	Ha Nam	It is located in Ha Nam Province, 60km away from Ha Noi	To be built	Middle class in Ha Nam
Ha Nam Urban Ecology	200	Ha Nam	It is located in Ha Nam Province, 60km away from Ha Noi	To be built	Middle class in Ha Nam
Ban Thanh Residential Zone	6	Quy Nhon	It is located in Quy Nhon where Thailand's top energy firm, PTT Pcl, is planning to invest \$28.7 billion	To be built	Middle class in Quy Nhon
Nhon Phu Urban Zone	24	Quy Nhon	It is located in Quy Nhon where Thailand's top energy firm, PTT Pcl, is planning to invest \$28.7 billion	To be built	Middle class in Quy Nhon

Overview of Real Estate Market

The economy is still growing slowly despite the fact that the real estate market has been showing positive signs of recovery from 2010 crisis. Many companies in real estate sector are trying to stimulate demands and boost sales to reduce inventories. According to CafeLand, the supply of apartments in the lower segments will grow rapidly especially in the next quarters. Hanoi market will welcome nearly 5,000 apartments from 10 projects and HCM is expected to have more than 1,700 apartments (according to a report from Savills). Increasing supply while demand remains the same makes competition more intense, especially in the intermediate and lower segment.

Most high-end apartment, low-rise building, and land projects' sale prices decrease from 10% to 30%. At the same time, the number of successful transactions in the market is increasing in the last months of 2013. Number of transactions in the fourth quarter of 2013 doubled those of first and second quarter, especially in small affordable apartment segment.

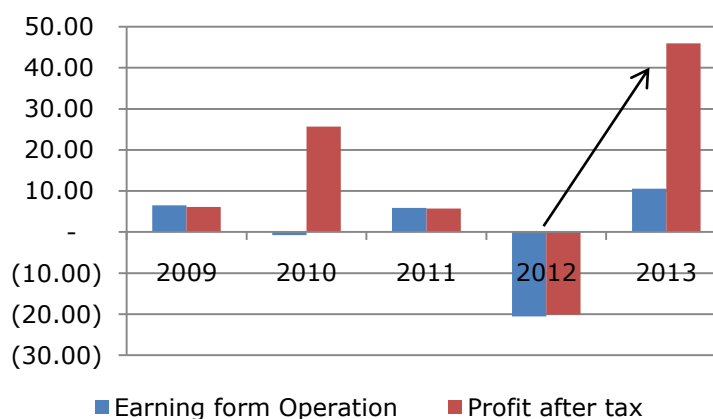
The real estate market still conceals many risks. After the crisis, the unfully recovered economy and investors' low confidence in the real estate market have led to lower investments in this sector. Credit for this sector is still strictly regulated, and the government's credit package is not really effective at the moment.

FINANCIAL ANALYSIS

Business Results

Unit: Bil VND	2009	2010	2011	2012	2013
Net Revenue	-	-	-	-	-
+/- yoy (%)	-	-	-	-	-
Gross Profit	-	-	-	-	-
+/- yoy (%)	-	-	-	-	-
Earning form Operation	6.48	(0.78)	5.86	(20.55)	10.55
+/- yoy (%)	-	-112%	-849%	-451%	-151%
Net Profit	6.12	25.68	5.70	(20.10)	45.95
+/- yoy (%)	-	320%	-78%	-453%	-329%
EPS	232	973	216	(761)	1,740

Since its inception in 2006, API has battled and survived many unfavorable conditions in Vietnam real estate market. API has also managed to create profitable cash flow by selling parts of its projects to customers. That is very impressive for a young real estate company, given the down going trend in this sector. However, according to the company's management, these revenues were recorded as revenues from financial activities because of some burdens in Vietnam's accounting law system. That explains how the company was able to increase its total assets by almost VND300 billion in the last 5 years without revenues from operation, increasing debts or equity.



Net profit of API reached its highest level in 2013 so far because of 2 reasons: (i) The company started to sell its real estate products, contributing 10.55 bil of income from operation. (ii) By revaluation its investment in IDJ, API had 34.13 bil from its investments in associates and joint ventures.

In 2014, API has started selling a number of its projects, expecting to create more revenues. 2 industrial park projects are expected to deliver biggest revenues for the company. New revenues from operation activities will help API to have more financial strengths.

Currently, API are focusing on developing its industrial parks and building brands for its projects. In the first half of 2014, the company has invested more than VND50 billion to completely develop infrastructures at its Thai Nguyen industrial park. On the other hand, API is trying to build and market a new brand, Azura, for its projects. It also hired a new foreign Marketing director to help the company to get more customers from oversea. These efforts will probably translate into higher profits in the future.

Quality of Assets

API's industrial park projects are not affected much by the real estate market dynamics. Thanks to increasing waves of FDI invested into Vietnam in recent years, these projects will generate significant revenues.

With respect to urban area and commercial center projects, API is employing the strategy of exchanging land for infrastructures to reduce capital needs. These project aims to supply housing in secondary cities around Hanoi.

Major financial investments include VND60.2 billion invested in equity investment firm International Finance & Enterprise Development IDJ (IDJ). API is the largest shareholder of IDJ which owns the Grand Plaza building, Hanoi Academy.

Assets	Location	Charter Capital (billion VND)	Holding portion
Hanoi Academy	Ciputra Urban Area	125	32%
Grand Plaza	Tran Duy Hung Street	22	45%
Hong Duong Luong Son – Hoa Binh Project	Hoa Binh province	35	100%

The decision to invest in IDJ of API is for the following purposes:

- API can apply the model Hanoi Academy School into the API's projects
- Buying good assets at discounted prices is always a good strategy
- With the largest number of shares at the moment, API will join into the Board Management of IDJ to make benefit for both IDJ and API.

Quality of Capital

Low financial leverage ratio of 0.82 is an API's strength especially compared to other companies in the real estate sector. Currently, API does not depend on debts, having only VND9.5 billion of debt only 2% compared to VND505 billion of assets at the beginning of 2014.

Low financial costs enabled the company to withstand many unfavorable developments in the real estate market in recent years.

Future Cash Flow

Revenues from industrial parks, urban areas sales in 2014 will play an important role in the structure of API's next year's cash flow.

Lower interest rate is an advantage for API. Using lower cost debts at the moment will help API to expand its operation and increase its return on equity.

VALUATION

Because of uncertain cash flow of a typical real estate and financial investment company, in this section, we will use NAV calculation method to value price of API's stock. Projects that are in progress and ready for sales including apartments and villas, will be valued using Net Present Value method (NPV) with a discount rate of 11%. Projects that are in the first stage of development, will be valued using Cost of Assets (CA) method.

Project Name	Area (ha)	Price \$/m2	Valuation Method	Value of Assets
Commercial Centre - Thai Nguyen	5	400	NPV	16,320,000
Tuc Duyen Urban Zone - Thai Nguyen City	40	300	NPV	71,300,000
Diem Thuy Industrial Zone - Thai Nguyen	170	41	NPV	58,700,000
Da Hoi Industrial Zone - Bac Ninh City	50	150	NPV	65,000,000
Commercial Centre Bac Ninh – Bac Ninh	0.75	500	CA	56,000
Greenlife Project - Hue Province (On Going Project)	35	150	NPV	40,600,000
Tam Da Plaza - Ha Noi	0.1	5,000	NPV	4,000,000
Ha Nam Urban Zone (Licensed)	100	250	CA	53,500
Ha Nam Urban Ecology	200	100	CA	23,700
Ban Thanh Residential Zone - Quy Nhon	6	100	CA	28,500
Nhon Phu Urban Zone - Quy Nhon	24	100	CA	30,000
Total Assets Rights	631			256,111,700

Or 5,378,345,700,000 VND

Because of huge capital requirement for completion of API's projects, we expect a dilution ratio of 1:3 in the next 5 years.

	Book value as of 30/06/2014	Revaluation
Current Assets	172,523,439,931	172,523,439,931
Long-term Assets	380,644,848,256	5,488,108,932,144
- Construction on Progress	270,881,616,112	5,378,345,700,000
Total Assets	553,168,288,187	5,660,632,372,075
LIABILITIES	278,604,906,024	278,604,906,024
OWNERS' EQUITY	274,563,382,163	5,382,027,466,051
Number of Outstanding share	26,400,000	79,200,000
Share price (VND/share)	13,300	67,955

With this valuation, we recommend investors to buy API at current market price with upside potential of 394% in the investment horizon of 5 years.

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