

Industry: Tourism & Hotel

IPO Introduction Report

August 2015

Charter capital after equitization	VND1,228 bil
Shares on offer	33,882,300
Auction date	13/8/2015
Initial price	VND10,600/share

REGISTRATION DEADLINE

Registration & deposit deadline	6/8/2015
Auction note deadline	11/8/2015

CAPITAL STRUCTURE

State	45.00%
Employees	0.41%
Strategic investors	27.00%
Public	27.59%

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Thang Long GTC Company Limited

Hold 35% stake in a chain of 5 Big C supermarkets in Hanoi and capital contributions to 5-star hotels

Thang Long GTC Company Limited is one of the members of Hanoitourist Corporation. GTC is known among leading companies in the tourism & hotel sector in Hanoi with a system of long-standing hotels. This is a reason why the upcoming initial public offering (IPO) of GTC on August 13, with more than 33.8 million shares on offer, is attracting great attention of investors. What is the attractiveness of GTC? We would like to give our assessments on the value of GTC in the following report:

First of all, among the biggest assets of GTC is a system of hotels possessed by GTC and 5-star hotels with capital contribution by GTC.

GTC made capital contributions to various 5-star hotels in Hanoi

1/. Hold 25% stake in InterContinental Hanoi Westlake Hotel

GTC owns a 25% stake in Nghi Tam Tourism Development Company Limited, the investor of InterContinental Hanoi Westlake Hotel (the remaining 75% held by Berjaya). The project was launched in 1992 and started operations in 2008 with a total investment of about US\$123 million. InterContinental Hanoi Westlake Hotel is located besides the West Lake and is one of the most luxurious hotels in Hanoi with all the utilities built on the lake.

Information about InterContinental Hanoi Westlake Hotel:

INTERCONTINENTAL HANOI WESTLAKE HOTEL

Standard: ★★★★★

Location: 1A Nghi Tam, Quang An Ward, Tay Ho District, Hanoi

Area: 7,899 m² land area and 24,088 m² water area in the Westlake

Number of rooms: 359

Rental: from US\$152.95/room/night

Utilities: Restaurant, bar, conference halls, etc.

BVSC made revaluation on the InterContinental Hanoi Westlake Hotel based on M&A deals in the past in Vietnam according to the number of rooms and hotel standard. The following 5-star hotels were traded at an average price of US\$331,516/room. The revaluation of the InterContinental Hanoi Westlake Hotel is estimated at US\$119,014,258, with the ownership of GTC at **US\$29,753,565**.

M&A deals of 5-star hotels in Vietnam									
Buyer	Seller	Hotel	Stand-ard	Year	Transaction value (million USD)	% ownership	Hotel value (million USD)	Number of rooms	Value/room (US\$)
Lotte	VinaCapital	Legend Saigon	5-star	2013	62.5	70%	89.29	238	375,150
Hanel	Daewoo	Daewoo Hanoi	5-star	2011	96.0	70%	137.14	411	333,681
N.A	VinaCapital	Sheraton Nha Trang	5-star	2013	42.0	67%	87.69	280	313,166
Berjaya Land	Faber Group	Sheraton Hanoi	5-star	2007	68.2	70%	97.43	299	325,848
Berjaya Land	N.A	InterContinental	5-star	2008	100	75%	133.33	377	353,669
N.A	VinaCapital	Metropole*	5-star		58.7	50%	117.40	364	322,527
N.A	VinaCapital	Hilton Hanoi Opera	5-star	2009	55.84	70%	79.78	269	296,570
Average:									331,516

*Based on the book value of VinaCapital

Revaluation of InterContinental Hanoi Westlake Hotel					
Number of rooms	Value (USD/room)	Hotel value (USD)	Ownership ratio	Ownership of GTC (USD)	Book value (USD)
359	331,516	119,014,258	25.00%	29,753,565	6,951,448

2/. Holding 30% stake of Hilton Hanoi Opera

Hilton Hanoi Opera, under the Opera Hotel Limited Company, is the joint venture of GTC (30%) and Vina Properties PTE. Ltd (70%) with a charter capital of US\$25 million. It has total investment capital of nearly US\$63 million.



HILTON HANOI OPERA HOTEL

Standard: ★★★★★

Location: 1 Le Thanh Tong, Hoan Kiem District, Hanoi

Land area: 5,504 m²

Number of rooms: 269

Rental: from US\$135/room/night

Utilities: Restaurant, bar, conference halls, etc.

Similar to the InterContinental Hanoi Westlake Hotel, the revaluation of the Hilton Hanoi Opera is estimated at US\$89,177,815, with the ownership ratio of GTC at 30% equivalent to a value of **US\$26,753,344**.

Revaluation of Hilton Hanoi Opera Hotel

Number of rooms	Value (USD/room)	Hotel value (USD)	Ownership ratio	Ownership of GTC (USD)	Book value (USD)
269	331,516	89,177,815	30%	26,753,344	7,413,495

3/. Mercure Hanoi La Gare Hotel

Mercure Hanoi La Gare is the 4-star hotel located in the centre of Hanoi, 5 minutes walk from Hang Co Station and 2 kilometers from Hoan Kiem Lake.



MERCURE HANOI LA GARE HOTEL

Standard: ★★★★★

Location: 94 Ly Thuong Kiet, Hoan Kiem District, Hanoi

Land area: 659.5 m² – House area: 5,104 m²

Number of rooms: 102

Rental: from US\$72/room/night

Utilities: Restaurant, bar, conference halls, etc.

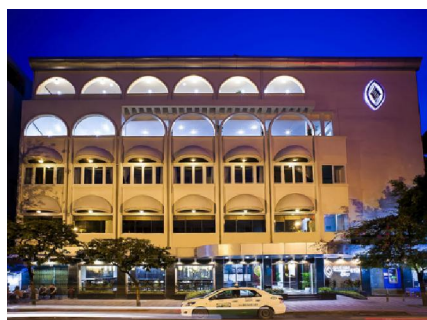
At present, VinaCapital is leasing Mercure Hanoi La Gare from GTC for 20 years for hotel business, but this hotel remains an asset of GTC. We refer to the 5-star hotels above with a discount of 25% to calculate a fair value for Mercure at **US\$25,360,977**.

Revaluation of Mercure Hanoi La Gare Hotel

Number of rooms	Value (USD/room)	Hotel value (USD)	Book value (VND)
102	248,637	25,360,977	14,832,912,075

4/. Eastin Easy GTC Hanoi

Eastin Easy GTC Hanoi is located on Quoc Tu Giam street, easy to move to many Government agencies and Vietnamese culture destinations.



EASTIN EASY GTC HANOI

Standard: ★★★★★

Location: 27 Quoc Tu Giam, Hanoi

Land area: 754 m² – House area: 4,220 m²

Number of rooms: 70

Rental: from US\$17/room/night

Utilities: Restaurant, bar, conference halls, etc.

According to the data on M&A deals of 3-star hotels in Hanoi, most of hotels are traded at around VND2.24 billion/room. With a scale of 70 rooms, the value of Eastin Easy GTC Hanoi is estimated at **VND156,701,091,810**.

M&A deals on 3-star hotels in Vietnam

Deal	Standard	Deal value (billion VND)	Number of rooms	Value/room (billion VND)	Figures
Hotel in Kim Ma, Ba Dinh	3-star	105	45	2.33	Area: 312 m ² , 11 floors
Hotel in Le Hong Phong, Ba Dinh	3-star	106	58	1.83	Area: 312 m ² , front 7m, 12 floors, 1 basement
Hotel in Hang Bo, Hoan Kiem	3-star	85	42	2.02	Area: 165 m ² , front 7m, 6 floors, 1 basement
Hotel in Hang Da, Hoan Kiem	3-star	105	42	2.50	Area: 186 m ² , 8 floors, 1 basement, front 9.1m
Hotel in Yet Kieu, Hoan Kiem	3-star	65	26	2.50	Area: 94m ² , front 4.5m
Hotel in Hang Bun street	3-star	80	36	2.22	Area: 250 m ² , front 7.7m
Hotel in Hang Dieu, Hoan Kiem	3-star	43	19	2.26	Area: 80m ² , 9 floors
Average				2.24	

5/. Pan Horizon Executive Residences

Pan Horizon Executive Residences is the joint venture between GTC (30%) and United Land & Trading PTE.,LTD (Singapore) (70%).


PAN HORIZON EXECUTIVE RESIDENCES

Standard: ★★★★★

Location: 157 Xuan Thuy, Cau Giay District, Hanoi

Land area: 1,756 m²

Scale: 89 apartments

Rental: from US\$66.98/apartment/night

Utilities: Japanese restaurant, pool, Gym, etc.

Due to inconvenient location of Pan Horizon, its discount rate is 30% over the price of 5-star hotels. The average price for Pan Horizon apartments is estimated at US\$232,061/apartment. GTC's ownership ratio of 30% is equivalent to a value of **US\$6,196,035**.

Revaluation of Pan Horizon Executive Residences

Number of rooms	Value (USD/room)	Hotel value (USD)	Ownership ratio	Ownership of GTC (USD)	Book value (USD)
89	232,061	20,653,449	30%	6,196,035	588,000

Hold a 35% stake in Big C supermarkets in Hanoi

GTC is holding a 35% stake in Thang Long Bourbon Supermarket Service And International Trading Limited Company. This joint venture operates for 50 years from 30/07/1999 with two business segments: supermarket (a chain of five Big

C supermarkets in Hanoi: Big C Tran Duy Hung, Big C The Garden, Big C Long Bien, Big C Me Linh and Big C Ho Guom newly launched in June 2015) and retail space leasing in Floor 1 – Big C Thang Long. GTC contributed to the joint venture by the land use rights of 35,180 m² (Grade A) at the crossroads of Tran Duy Hung road and belt road 3, plus a cash amount of US\$988,095. GTC also contributed 40,000 m² of land on Tran Duy Hung street over the past 8 years since 30/7/1999, which has so far expired.

1/. Supermarket business

We use Price to Sales method to value the supermarket business of the joint venture. Revenue of the joint venture is expected to reach VND3,000 billion in 2015 thanks to the launch of Big C Ho Guom in June 2015.

Business results of Big C Thang Long (5 supermarkets) - Unit: million VND						
Norm	2010	2011	2012	2013	2014F	2015F
Revenue	1,709,880	2,274,141	3,486,521	3,100,404	2,638,016	3,000,000
Expenses	1,525,421	1,998,302	3,257,360	2,831,949		
Pretax profit	181,473	275,839	229,161	268,455		
Net profit	133,323	203,984	170,508	195,691		

The Price to Sales ratios of retail supermarkets in the Asia region are collected and summarized as below:

Price to Sales ratios of some retail companies in Asia						
Ticker	Company	Price to Sales	Nation	Capitalization (USD)	Revenue (USD)	
121 HK Equity	CP LOTUS CORP	0.28	Hong Kong	255,870,720	1,771,107,633	
831 HK Equity	CONVENIENCE RET	0.65	Hong Kong	398,956,736	610,782,647	
002264 CH Equity	EW HUADU SUPER-A	0.63	China	684,540,352	1,130,655,844	
601116 CH Equity	SANJIANG SHOPP-A	0.94	China	693,230,272	717,809,688	
1025 HK Equity	WUMART-H	0.25	China	828,830,528	3,068,008,860	
5903 TT Equity	TAIWAN FAMILYMAR	0.86	Taiwan	1,510,537,984	1,849,717,054	
BIGC TB Equity	BIG C SUPERCENTE	1.13	Thailand	4,223,669,760	4,041,127,183	
CPALL TB Equity	CP ALL PCL	1.15	Thailand	12,008,468,480	11,017,143,599	
Average		1.04				

With an average Price to Sales ratio of 1.04, the valuation of GTC's supermarket business segment is as follows:

Valuation result	
Norm	Value
Joint venture's charter capital (USD)	10,921,469
Joint venture's charter capital (VND)	175,298,945,277
Number of shares	17,529,895

Revenue (VND)	2,638,016,207,242
Revenue/share	150,487
Multiple P/S (x)	1,04
Share price (VND/share)	156,976
Owners' equity (VND)	2,751,767,422,515

2/. 35.180 m² trade center on Tran Duy Hung street

Trade center system at Big C Thang Long includes 2 areas: 1st floor for leasing retail space with approximately 140 booths; 2nd floor for supermarket business with about 50,000 items. For valuation of this retail space, we base on some key assumptions as follows:

Some assumptions and valuation results of 35,180 m² trade center at Big C Thang Long	
Assumptions	Valuation results
- Land area: 35,180 m ²	320,228,764,902 VND
- Land use factor: 30% (minimum rate of The Ministry of Construction regulations for the project)	
- Commercial space area: 10,554 m ²	
- Operating time: 50 years from 30/7/1999	
- Rental: US\$35/m ² /month (Savills survey in Q2 / 2015, rental rates in shopping centers: US\$38-40/m ²)	
- Price growth on the market annually is equal to the inflation	
- Performance gain: 85% (According to Savills)	
- The project was exempted from land rent for 25 years from the date of 30/07/1999	
- Discount rate: 13.96%	

The valuation suggests a fair value of the 1st floor trade center Big C Thang Long at about **VND320,228,764,902**.

3/. Annual receipt US\$100,000 until 2049

In the capital contribution commitment, Vindemia SAS agreed to pay US\$100,000 per year to GTC until 30/07/2049. Discount this annual receipt to the present value is **VND**.

Total capital contribution by GTC into the joint venture is as follows:

Big C Thang Long venture's value	Unit: VND
- Supermarket chain business	2,751,767,422,515
- Leasing retail space	320,228,764,902
Total:	3,071,996,187,418
Ownership ratio of GTC (%)	35%
The value owned by GTC	1,075,198,665,596

Annual receipt of US\$100,000	18,901,469,787
Total investment in joint venture	1,094,100,135,384

Possess 40,000 m² of land at the crossroads of Tran Duy Hung Street and Belt road 3

The land is currently used as a contribution to Thang Long Property Company Limited with a charter capital of US\$15 million in which GTC holds a 35% stake (contribution equal to the value of land use rights of 40,000 m² above and cash amount of US\$3,643,160). The joint venture, with a lifespan of 42 years from 9/5/2008, is the investor of Time Square - the office-hotel-retail center complex with a total investment of US\$50 million. Currently, the project has yet been implemented, so we temporarily calculate the land contribution of GTC in this venture company, determined by the difference between GTC's rental and its leasing price from the State. According to regulations, GTC has to pay annual rent from the 18th year since 9/5/2008. The difference is determined at about **VND116,615,632,201**.

Some assumptions and valuation of 40,000 m² at Thang Long Property	
Assumptions	Evaluation results
- Land area: 40,000 m ²	116,615,632,201VND
- Land use factor: 35%	
- Operating time: 42 years since 9/5/2008	
- The unit price of state land: 2% for commercial business purposes than rent under the provisions of Decree No. 46/2014 / ND-CP based land Prices.	
- Rental: US\$4/m ² /month	
- Annual price growth in the market is equal to inflation rate	
- The project was exempted from land rent for 17 years from 9/5/2008	
- Discount rate: 13.96%	

Plot of land: 19,943 m² at 15-17 Ngoc Khanh, Hanoi

The plot of land with a total area of 19,943 m² including 2 blocks:

- ❑ Block 1: 5,800 m² built for apartments for sale. GTC retains only 1st and 2nd floors for leasing to a partner, the number of apartments from the 3rd floor and above were sold out.
- ❑ Block 2: 14,143 m², GTC has 29% capital contribution to Pacific Thang Long Company Limited by the land use rights of 12,066 m². The joint venture has a charter capital of US\$17 million for the purpose of building a complex of commercial & retail center, 18-floor office and 9-10-floor hotel. Up to now, the project has yet been implemented.

1/. Block of 1st & 2nd floor

We calculate this value based on future money flows from the leasing. Rental rate under the previous contract of GTC to its partner, Son Ha Group's Hiway supermarket, is about US\$13/m²/month. Leasing capacity is estimated at 90% as GTC is seeking secondary customers for overall leasing. Under the cash flow method, the valuation for the block of 1st & 2nd floors is about **VND67,192,876,937**.

2/. Capital contribution of 29% to Pacific Thang Long Company Limited

We also approach the valuation method for Pacific Thang Long by revaluation of the advantages of land rental as the project has yet been implemented, suggesting the following results:

Some assumptions and valuation of 12,066 m ² at Pacific Thang Long	
Assumptions	Valuation Result
- Land are: 12,066 m ²	84,424,926,581VND
- Land use factor: 70%	
- Operating time: 50 years from 31/12/2007	
- Rental: US\$8/m ² /month	
- Annual price growth in the market is equal to inflation rate	
- Discount rate: 13.96%	

Capital Tower at 109 Tran Hung Dao, Ha Noi

This property is currently owned by Thu Do Trading Investment & Tourism Joint Stock Company (GTC owns a 9.56% stake, equivalent to US\$2.9 billion).



CAPITAL TOWER

Standard: Class A office building

Location: 109 Tran Hung Dao, Hanoi

Land area: 2,200 m² - GFA: 36,000 m² - NSA: 23,107 m²

Scale: 23 floors, 3 basements, 6 lifts

Office rental: ~ US\$28/m²/month

Other utilities: car park, bar, restaurant, etc.

For the valuation of Capital Tower's office building and trade center, we base on the following assumptions:

Assumptions used to valuate Capital Tower		
Item	Office building	Trade center
Floor	7 to 20	1 to 6
Leasable area NSA (m ²)	16,730	7,146
Unit price for rent (USD/m ² /tháng)	28	40

Performance Rentals (%)	100%	95%
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The final valuation result for a fair value of Capital Tower is about VND625,831,150,459. The ownership ratio of 9.56% by GTC is equivalent to **VND59,829,457,984**.

Summary of Valuation

Using the NAV method, we calculate a fair value for each share of GTC based on its charter capital after equitization at about **VND28,866/share**.

REVALUATION OF THANG LONG GTC USING ASSET METHOD (UNIT: VND)		
Year	Book Value at 31/12/2014	Revaluation
SHORT-TERM ASSETS	279,930,142,267	279,930,142,267
Cash and cash equivalents	119,120,859,917	119,120,859,917
Short-term investments	10,000,000,000	10,000,000,000
The short-term receivables	148,992,912,167	148,992,912,167
Inventory	98,723,150	98,723,150
Other short-term assets	1,717,647,033	1,717,647,033
LONG-TERM ASSETS	615,923,517,536	3,428,102,514,191
Long-term receivables	558,528,763	558,528,763
Fixed assets	82,468,446,157	82,468,446,157
Real Estate Investments	41,378,826,263	610,977,681,766
- Cost, of which:	50,970,540,306	620,569,395,809
- Mercure Hotel	14,832,912,075	553,376,518,872
- Podium 15-17 Ngoc Khanh, Ha Noi Apartment	36,137,628,231	67,192,876,937
- Accumulated depreciation	(9,591,714,043)	(9,591,714,043)
Long-term financial investments	481,868,243,408	2,724,448,384,560
- Investments in associated companies and joint ventures, in which:	481,868,243,408	2,724,448,384,560
- Dai Chan Troi Joint Stock Company	9,615,939,192	135,197,478,924
- Tourism Limited Development Nghi Tam Village Company	109,568,649,593	649,222,778,676
- Trading and Services Hypermarket Bourbon Thang Long Limited Company	61,354,630,847	1,094,100,135,384
- Hotel and Opera theater Limited Company	116,658,634,800	583,757,974,810
- Thang Long Property Limited Company	87,122,298,976	116,615,632,201
- Thang Long Pacific Limited Company	93,334,760,000	84,424,926,581
- Tourist Trade Investment Capital Joint Stock Company	2,913,330,000	59,829,457,984
- Hanoi tourist Taxi Joint Stock Company	1,300,000,000	1,300,000,000
Other long-term assets	9,649,472,945	9,649,472,945
TOTAL ASSETS	895,853,659,803	3,708,032,656,458
LIABILITIES	163,292,903,611	163,292,903,611

OWNERS' EQUITY	732,560,756,192	3,544,739,752,847
Charter capital after equitisation		1,228,000,000,000
Number of shares (shares)		122,800,000
Share price (VND/share)		28,866

Investment Recommendation

Thang Long GTC owns many valuable assets. The valuation by asset method suggests owners' equity of Thang Long GTC at about **VND3,545 billion**, equivalent to **VND28,866/share**. However, we should note the limitations of this method that different assets will have different liquidity. Therefore, each asset after the valuation might be made more discount to compensate for the limitations in terms of liquidity and the specific discount will depend on the expectation/acceptance of risks of each investor. In our view, Thang Long GTC has highly valuable assets with convenient locations, clear legality and no disputes, etc., be easily transferred, contributed as capital or used for other purposes.

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.

RECOMMENDATION SYSTEM

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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