October, 2017

IDICO

Quality Assets Await to Unlock

IDICO is one of Vietnam's most recognized infrastructure developers. Leveraged on its construction capability, the firm has expanded successfully into industrial parks and invested in toll road and hydropower projects. In the short term, industrial park services would be the firms' main earnings driver as continuous strength in FDI inflow expects to increase occupancy and lease rate for its low cost developed industrial parks. On the other hand, investments in toll road and hydropower are sustainable growth generators in the long run given their stable demand and strong operating cash flow. The firm also commands a solid financial position with 2/3 of debt tied to healthy cash generating projects.

The oversubscribed IPO of IDICO has recently shown investors' strong conviction on the firm's asset quality potential, which is further enhanced by the government's plan to divest stake below majority by the end of 2018. However, since the process to increase the asset efficiency requires time to materialize, we think the stock investment is more suitable for long-term investors in this case. Using the sum-of-parts valuation, we think the stock is fairly valued at ***VND33,500*** *per share (40% above the average successful bidding price).*

Investment rationale:

- Industrial park – main earnings growth driver in short and medium terms
- Toll roads – stable source of cash flow generation
- Hydropower – long-term sustainable growth
- Potential investment on manufacturing of industrial glass

Risk:

- Stalling FDI inflow slows down demand for industrial land
- Public reaction to BOT toll roads affects project return

Key financial ratios

Y/E Dec(VND Bn)	FY2015	FY2016	FY2017F	FY2018F
Net revenue	4,609	4,423	5,204	5,110
%change	17%	-4%	18%	-2%
PAT	203	389	347	302
% change	55%	91%	-11%	-13%
Net margin (%)	4	9	7	6
ROA (%)	2	3	2	2
ROE (%)	9	13	10	9
EPS (VND)	609	1,166	1,041	905
Adjusted EPS (VND)	609	1,166	1,041	905
Book value (VND)	7,826	11,747	10,766	11,087
Cash dividend (VND)			500	500
P/E (x)	29.5	15.4	17.3	19.9
P/BV (x)	2.3	1.5	1.7	1.6

*Source: IDICO, RongViet Research estimation, * Based on starting IPO price at VND18,000/share.*

BUY

CMP (VND)	
Target price (VND)	33,500
Cash dividend (VND)*	500

** Expected in the next 12 months*

Stock Info

Sector	Construction
Market Cap by IPO starting price (VND billion)	5,400
Share O/S after IPO	300,000,000

Performance (%)

	3T	1N	3N
Construction	34	54	
VN Index	8	22	39

Major sharholders – Pre IPO (%)

Ministry of Construction	100%
Foreigner Investor Room (%)	*49%*

Hoang Nguyen

(084) 028- 6299 2006 – Ext 1319

hoang.nh@vdsc.com.vn

INVESTMENT RATIONALE

Industrial park – main earnings growth driver in short and medium term

Industrial park (IP) services has been IDICO's most important business pillar since establishment. IDICO provides investors cleared industrial land with ready infrastructure to set up factory and manufacturing facility. The firm currently operates a portfolio of 10 industrial parks totally 3,316 ha and offers 2,270 ha leasable industrial land. Nine out of ten parks are ready for lease while Huu Thanh industrial park is undergoing site clearance and infrastructure construction in FY2017.

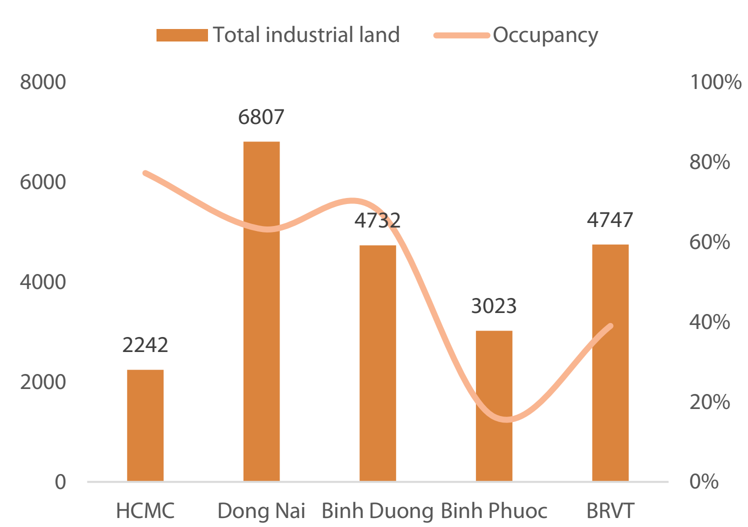
Foreign direct investment (FDI) is the main driver of industrial park business. Before FY2007–2008, a strong investment climate had seen IDICO lease out nearly 900 ha of industrial land, which was followed by a 6-year idle period caused by the global financial crisis. It was not until 2014 that investor demand gained back traction, which lasts up to the current time. At the end of FY2016, IDICO recorded 55% occupancy rate for its industrial parks.

Table 1: IDICO's portfolio of industrial parks

No	IP	Location	Total area (ha)	Start leasing	Total investment (VND B)	Industrial land (ha)	IL ratio	Occupancy (%)	Avilable IL (ha)
1	Nhon Trach 1	Dong Nai	426	1998	458	311	73%	92%	25
2	Nhon Trach 5		309	2004	328	205	66%	100%	0
3	My Xuan A	BR-VT	304	2000	342	229	75%	85%	34
4	My Xuan B1 – Conac		227	2002	543	152	67%	57%	65
5	Phu My II		620	2006	1600	372	60%	55%	168
6	Phu My II (expansion)		403	2016	1141	282	70%	0	282
7	Huu Thanh	Long An	524	2018	2463	366	70%	0%	367
8	Que Vo 2 (Phase 1)	Bac Ninh	269	2010	1480	188	70%	16%	158
9	Kim Hoa (Phase 1)	Vinh Phuc	50	2006	252	35	70%	100%	0
10	Cau Nghin	Thai Binh	184	2012	706	128	70%	4%	123
	Total		3,316		9,313	2,270			1,222

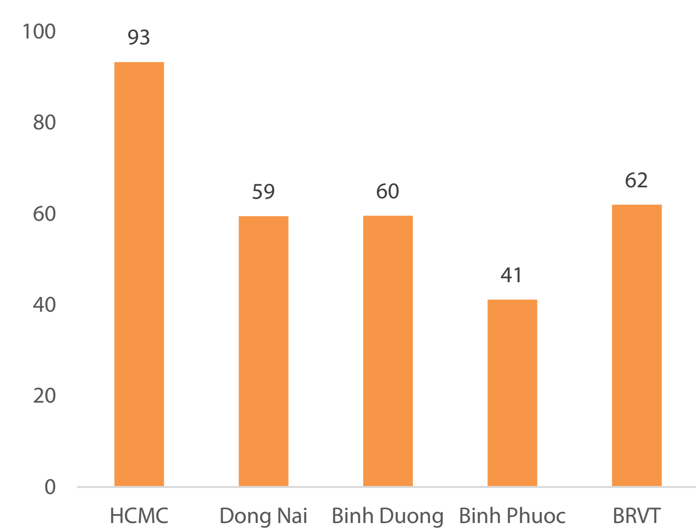
Source: RongViet Research compiled

Figure 1 : Leaseable industrial land (ha)



Source: RongViet Research compiled

Figure 2 : Average lease rate (USD/sqm)

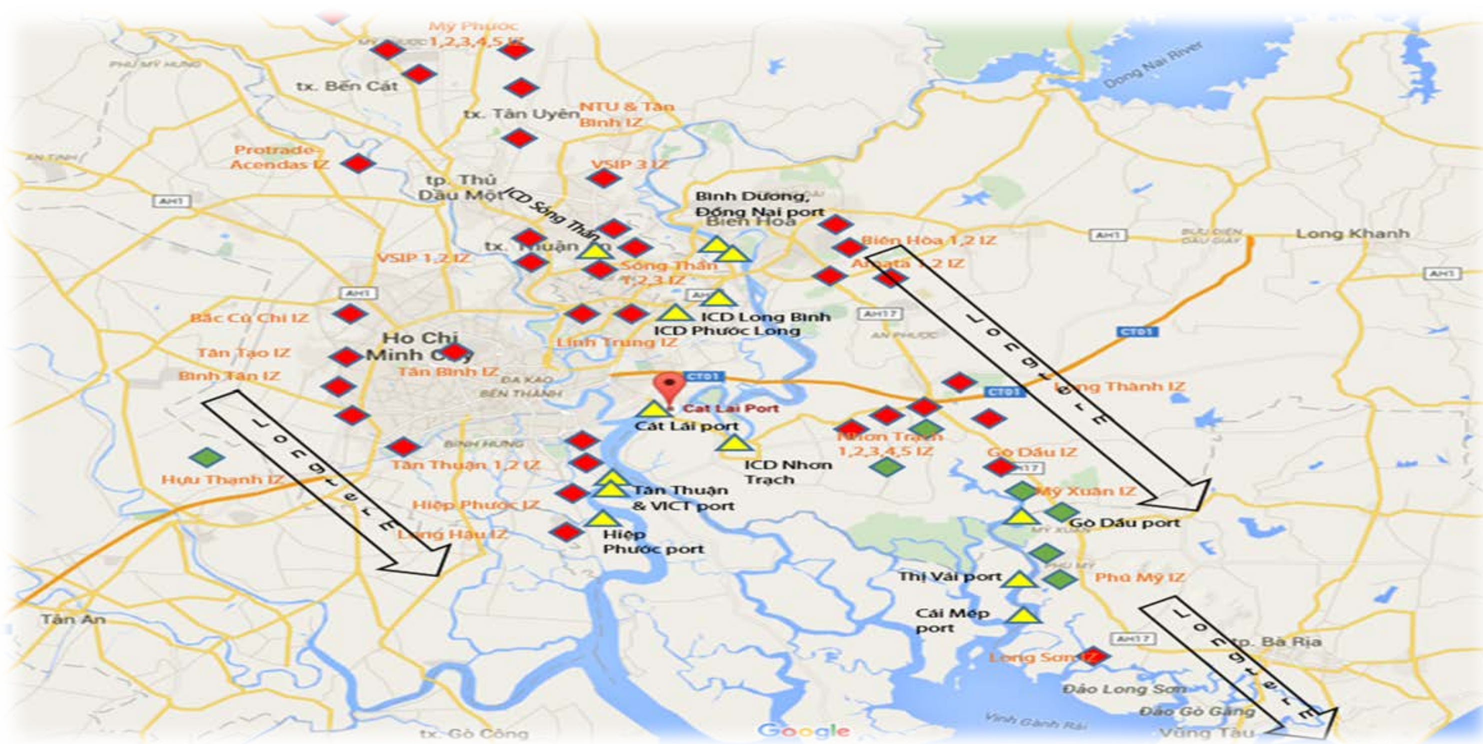


Source: RongViet Research compiled

Low-cost developed industrial land bank, which is largely located in southern Vietnam, is IDICO's comparative advantage. Blessed with a large available land bank, Southeastern region has been the favorite destination for FDI investors thanks to low set up cost, adjacent to input sources and close to ASEAN's major seaport hubs. According to Vietnam Foreign investment association, the four provinces (Ho Chi Minh City, Binh Duong, Dong Nai, Ba Ria-Vung Tau) attracted nearly ½ of the whole country's FDI. Therefore, with 85% industrial land bank located in Dong Nai and Ba Ria-Vung Tau, IDICO has the advantage in attracting a diverse range of FDI investors and industries. This is in contrast with the FDI flow to northern Vietnam industrial parks, which highly relies on giant electronics makers, namely SamSung, LG and Canon. In addition, except Huu Thanh IP, IDICO's industrial park cluster Nhon Trach 1 and 5 (Dong Nai) and Phu My 2 (Vung Tau) whose site clearance process was done in previous years means these IPs' cost is fixed at low base. Moreover, the solid soil base underneath these IPs would help the firm save maintenance cost in the future.

A gradual move of FDI from the region center to coastal Ba Ria-Vung Tau would drive up demand for industrial land in this area in the mid term. First, this is caused by rapid urbanization and rising industrial land occupancy in Ho Chi Minh City, Binh Duong and Dong Nai, leading to a scarcer area and expensive land cost for industrial activities. Secondly, the better-connected road networks developed in the outskirt areas (Long Thanh–Dau Giay, Upgrading HW51) help reduce the relative trucking time. These factors overall help close the competitiveness gap for IP developers in Ba Ria-Vung Tau compared to the other three provinces. However, in the short run, manufacturers in Vung Tau do face the awkward situation where they have to export/import cargo from Cat Lai port instead of the adjacent Cai Mep deep seaport, given the lack of surrounding logistic infrastructure investment (Depot, bondhouse). Together with insufficient cargo source, logistics agency will not be able to offer a competitive logistic package for producers located in Ba Ria-Vung Tau. However, in the long run, the reducing land bank and increasing traffic congestion in Southern Vietnam center would see a move of both FDI investors followed by logistics agency to pour more investments in Ba Ria-Vung Tau to catch up with new demand. When that happened, IDICO's land bank which is adjacent to Cai Mep seaport would be appreciating in price.

Figure 3 : IDICO's industrial parks (in green)



Source: RongViet Research compiled

IDICO's IP services income comes mainly from land leasing activity and related services (annual maintenance, fresh water distribution and water treatment). With occupancy rate of 61,7% at the end of FY2016, IDICO has 728 ha of remaining leasable industrial land (IL) that are ready for lease from 2017. When finishing site clearance for Huu Thanh IP (with total area of 524 ha), IDICO could add another 367 ha of industrial land and increase its leasable land bank to 1,095 ha. Assuming the average industrial land demand of 115 ha per year, the current land bank is sufficient for IDICO to lease for at least 9 years. At expected leasing rate of USD53 per sqm, industrial land lease activity could generate sales of VND1,380 billion per year. Apart from leasing revenue, IDICO also charges tenants the annual infrastructure maintenance cost (average USD0.5 per sqm) based on the leased area, water supply and treatment. The revenue contribution of these related services counts for nearly 55% of total annual IP services revenues.

Regarding result recognition, IDICO chooses to allocate industrial land lease based on the remaining duration of lease contract (40 years on average). Instead of recognizing full extent of land lease transaction that occurred under the one-time result recognition method, the allocation method helps the firm smoothen out revenue and avoids the risk of steep fall in revenue, especially in the real estate sector. Therefore, growth driver of revenue comes from additional lease of new land, as it would continue to be allocated into the preceding base. On the cost side, major costs of developing industrial park comprise infrastructure investment, land clearance and maintenance. To match the top line allocation, we believe the cost of IP development (site clearance plus infrastructure) would spread out over the lease duration just as how revenue is allocated. In addition, IDICO would have land use right (LUR) cost of its industrial parks almost entirely offset by the site clearance cost. As that, the remaining LUR cost the firm has to pay is estimated at VND80 -100 billion for land leased until the beginning of 2016.

Toll road – stable source of cash flow generation

Table 2: IDICO's BOT toll road projetcs

BOT Project	Ownership rate	Total investment (VND B)	Remaining operation duration	Status
An Suong – An Lac	47.5%	2,742	Until 2033	In operation
Ba Ria – Vung Tau Expressway	49.0%	3,971	Until 2030	In operation
Noi Bai – Vinh Yen	14.3%	755	Until 2023	In operation
AS-AL road to Long An		1,989		In preparation
Coastal road (Thai Binh – Hai Phong)		3,460		In preparation

Source: RongViet Research compiled

IDICO is currently investing two build-operate-transfer (BOT) toll road projects including BOT An Suong–An Lac (AS-AL) and BOT Ba Ria-Vung Tau (BVEC). The two projects are parts of a crucial transport network in southern Vietnam with BOT AS-AL located on Highway 1 via Ho Chi Minh City and BVEC situated on Highway 51. With alternative routes requiring further travel distance, these two roads therefore have the strong advantage in attracting traffic volume. In general, BOT projects of this kind have an average life from 10 to 15 years with return on equity fixed at 11–12% per year. To compensate for the long-term uncertainty, BOT project investment has notable characteristics of high stability and low risk. This stems from the stable nature of toll cash flow, which is less impacted by economic condition. The special mechanism allows investors to finance up to 85% project value by bank loans whose capital and interest payment schedule ties with actual annual toll collected. In addition, relatively low toll fees and tollbooth location set up right on the invested roads help these two projects avoid much public attention.

Out of the two projects, BOT AS-AL has been the greater earnings contributor in this segment so far. IDICO IDI (HSX:HTI), IDICO's subsidiary, is the chief investor and manager of this project. The whole investment of BOT AS-AL could be broken down into five phases (Table 03). The project was to upgrade and expand 16 km National Highway 1A via Hochiminh City. This road is deemed a vital transport link for the central and southeastern provinces to the Mekong Delta. The establishment of Ho Chi Minh City-Long Thanh-Dau Giay in 2015 was initially believed to impact on AS-AL traffic by capturing vehicle volume going from the Central region heading to the Mekong Delta. However, in fact, traffic and toll revenue performance of AS-AL booth continued to record growth which could be attributed to the road not having to cross densely populated inner city versus alternative route (My Thuy–Cat Lai port junction or District 2 An Phu Junction). In addition, AS-AL road is the nearest exit for vehicles traveling to the Mekong Delta from industrial zones in Binh Duong, Tay Ninh and central Dong Nai.

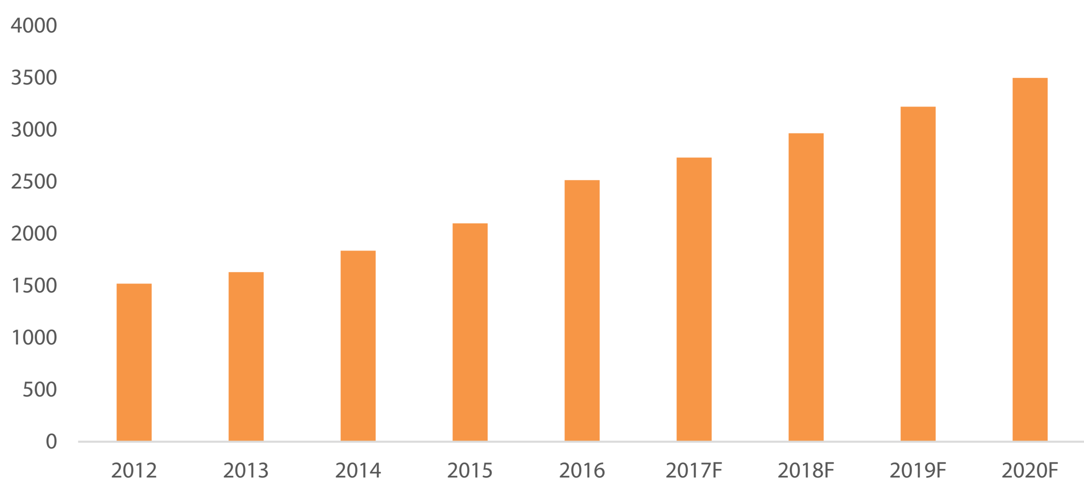
Table 3: BOT An Suong–An Lac toll road

Investment components	Total investment (VND BN)	Toll collection duration	Mode of return
Phase 1 – Expansion of current road	812	Jan 2005–Feb 2017	An Suong – An Lac toll booth
Phase 3 – Flyover on Provincial road 2	403	Jan 2015–Jan 2033	Increase toll at An Suong–An Lac tollbooth in 2015, 2020, 2025 and 2030 from January 2015.
Phase 2 – Flyovers on Provincial road 10	704	Feb 2017–Jan 2033	Extend toll collection duration of An Suong–An Lac toll booth from January 2017 to February 2033
Phase 4 – Flyovers at Go May junction	511	From 2020	Increase toll or extension of An Suong–An Lac toll booth duration
Phase 5 - Tan Ky – Tan Quy bridge	312	From 2018	Increase toll or Extend collection duration

Source: RongViet Research compiled

Regarding traffic prospect, the Ministry of Transportation estimates traffic on route from Ho Chi Minh City to Long An province (the city's closest neighbor to the Mekong Delta region) by passenger car unit (PCU) could grow annually 3.5% during 2011–2020 and 5.1% during 2021–2030. With its important trading link, we expect the project would have average annual traffic growth of 5% thanks to the growing FDI inflow and streamlining import tariff from 2018 pushing new auto sales. In the long run, traffic growth on AS-AL road is forecasted to be hampered once Ben Luc–Long Thanh expressway (part of Ring road 03) completes in late 2019. However, to impact significantly, other component projects of Ring road 3 also need to be ready for connection, which is restricted by the government's tight budget and slow disbursement rate. As a result, the risk of sharing traffic facing AS-AL is somehow further delayed into mid-term future.

Figure 4: Vietnam's registered vehicle number (in thousands)



Source: MOT & RongViet Research compiled

Toll fee increase is an important earnings growth catalyst for toll road operators as well. According to the BOT financial plan for Phase 3 (Flyover at provincial road 2), HTI's toll would be revised upward in 2020, 2025 and 2030 (after the first revision in 2015). Regarding Go May flyover project (completed in May 2017), HTI is still finalizing the BOT financial plan with the local government to decide whether the firm would extend collection duration of AS-AL project or increase toll fee. Despite the recent public lament, HTI's toll for cars under nine seats is being charged VND15,000 each time, which is low compared to the maximum VND35,000 in other projects.

For BVEC, IDICO currently holds 49% stake of the project company. The project was tasked to upgrade and expand the Highway 51 – the major road connecting coastal Ba Ria–Vung Tau and Ho Chi Minh City. The road's traffic has lots of room to grow as it runs through various industrial park clusters in Dong Nai (Bien Hoa 1-2, Nhon Trach 1-2-3-4-5) and Ba Ria-Vung Tau (Phu My, My Xuan). However, with its large upfront investment cost of VND3,971 billion, the project's operation result has not turned out as attractive as initially thought. Therefore, earnings results are still facing a hurdle to improve in the short-term even after running for 4 years. As a result, IDICO is planning to divest the entire stake at BVEC according to Document No.282/BXD-QLDN dated 19/02/2016. Assuming that the firm successfully divests its investment at book value, IDICO would receive VND150.7 billion in cash for re-investment.

Hydropower – long-term sustainable growth

Power distribution and supply, given its necessity basis, is earmarked by IDICO as a long-term sustainable growth driver. **Power distribution sub-segment** is provided by IDICO's subsidiary UDICO (HSX:UIC). UIC basically provides power to enterprises situated in IDICO's industrial parks. Despite generating annual sales of over VND2,000 billion, the intermediary nature of redistributing the power gives this particular business a humble average gross margin of around 3%. The growth factor would come from organic growth in demand from the rising number of enterprises in industrial parks as well as additional power distribution at new places.

Power supply in the form of hydropower plants is IDICO's target for long-term growth. The firm has experience in building hydro power and actually invested in three hydropower plants (Dakmi 4, Skrok Phu Mieng and Dakmi 3). With its capacity to build its own power plants, IDICO has managed to reduce the investment cost and deliver a lower cost of investment per megawatt compared to other hydropower plants in Vietnam. In fact, the average cost of investment per megawatt of IDICO is VND23.7 billion much lower than the industry average of VND28 billion. This also means lower debt financing and financial cost to service. Investment in hydropower plant is highly favored in the country since it can utilize the natural resource water at free cost and prove less environmental impact compared to thermal power. In the long run, especially after payment of the plant investment cost, profit performance from power generation would rise significantly since what the firm really has to spend is maintenance cost while significant part in the cost structure is fixed.

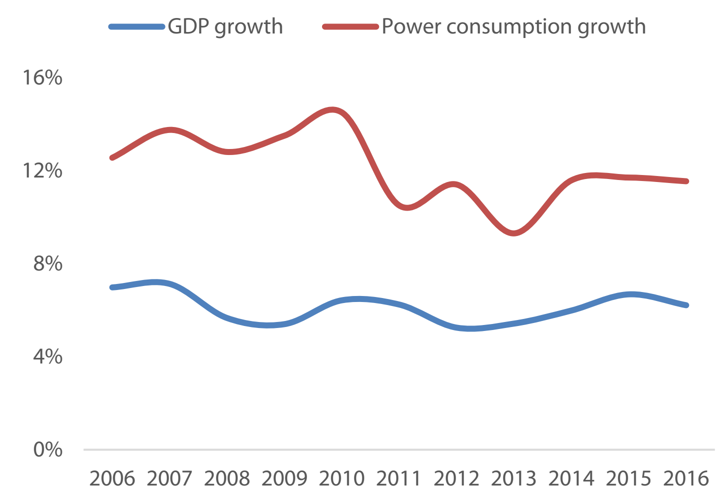
Table 4: IDICO's hydro power projects

Project name	Location	Capacity	Total investment (VND B)	Operating from	IDICO's ownership
Skrok Phu Mieng	Binh Phuoc	51MW	1,048	2006	51%
Dak Mi 3	Quang Nam	63MW	1,626	2017	100%
Dak Mi 4A, B	Quang Nam	190MW	4,547	2007	26%
Dak Mi 4C	Quang Nam	18MW	419	2008	26%

Source: RongViet Research compiled

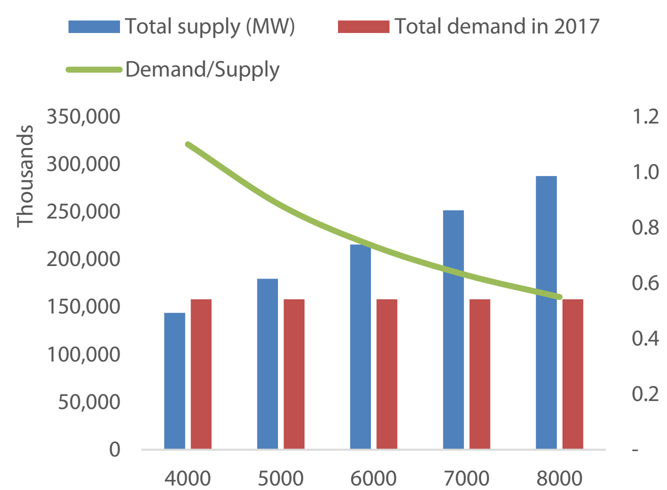
In July 2017, IDICO has managed to put into operation its third hydropower plant Dakmi 3 (Capacity: 63 MW). The investment cost of this project is estimated to be around VND1,500 billion (lower than the initial plan of VND1,600 billion). Dakmi 3, relatively similar to Dakmi 4, is situated in the Central region - Quang Nam province. The hydrology here may not be as good as in the northern places of the country but the firm is confident that the plant would have sufficient water in the reservoir to generate power in dry season. Apart from that, Skrok Phu Mieng plant (51 MW) and Dakmi 4 (208 MW), which run respectively in 2006 and 2012, are having their bank loan financing paid up significantly. For example, we expect Skrok Phu Mieng to reduce its borrowings to VND235 billion at the end of 2017 and pay up at the end of 2020. Running nearly 6 years later, we estimated Dakmi 4 debt financing could be reduced by ¼ the initial amount used to finance the plant construction. As a result, earnings performance of IDICO's hydro power segment will be entering a strong growth period from 2019 onwards.

Figure 5: Vietnam's power consumption growth



Source: RongViet Research compiled

Figure 6: Power demand/supply by hour of generation



Source: RongViet Research compiled

Potential investment on production of industrial glass

In July 2017, IDICO's JV broke ground factory to manufacture industrial glass in southern Ba Ria–Vung Tau. The respective shareholding of IDICO, Viglacera and a Chinese partner are 30%, 35% and 35%. The project's phase 1 (capacity of 600 tons/day) has estimated investment cost of VND2,600 billion, which is expected to run commercially in 18 months. The final output product is glass used for civil construction and solar panel manufacturing. Industry demand for glass is expected to grow 6.5% to 7% annually. On the supply side, the project carried out by IDICO is the first domestically invested glass production plant in Vietnam apart from Japanese invested Float VGI plant mainly served for export. The firms' project feasibility study suggests its break-even capacity at nearly 45% and IRR of 20%. In addition, IDICO and other joint investors have plan to invest in another BOT toll road whose estimated cost is VND3,460 billion. This project's main task is to build a brand new coastal road linking Hai Phong city and Thai Binh province. The suggested BOT financial plan shows the BOT project would have a duration of 23 years with an IRR of around 11%.

Considering business nature and demand prospect, IDICO's investment in glass production is rated more positive than the toll road project. Apart from the forecasted high demand for industrial glass, the glass manufacturing plant is favorably located right at the consumption point in southern bustling industrial and real estate market. In addition, the product marketing and sales could leverage on Viglacera's large retail and agency network across the country. In contrast, BOT toll road project, despite its stability and low risk, is bound by agreed financial terms including return on equity, IRR and toll collection duration.

RISK

Stalling FDI inflow to lower demand for industrial land

FDI investors play a crucial role in the industrial land absorption rate. The FDI flow is affected by many factors ranging from global economic condition, cycle and political situation at the country of origin. Similar to other industrial park developers, IDICO received busy orders before 2007 (the mark of GFCs) which was then followed by a 6-year idle period. However, with the economic landscape of Europe and America getting brighter, global economic health is rated more positively than in the previous year. Combined with relatively competitive operation cost, Vietnam is considered a favorite option for FDI investors. Therefore, the demand for industrial land could fluctuate depending on real disbursements but the risk of prolonged idle state is largely remote.

Public reaction to BOT toll roads may affect project return performance

In nature, the operation of a BOT toll road project has already received a three-side agreement (between the Ministry of Transportation, Bank and Investors) on clauses of annual return, collection duration and location of toll booth. However, public resentment regarding the location and toll fees of several toll roads across the country in recent months could lead to a risk of widespread investigation on other's BOT project. In the case of IDICO, the firm's major AS-AL project has its toll booth located right on the invested road at a relatively low toll fee charge (VND15,000/below-9-seat car) reducing greatly this particular risk.

Audit disclaimer on unconfirmed related-party transactions

This is regarding the auditors' disclaimer on possible inclusion of related-party transactions in IDICO's FY2016 consolidated financial statements. The fact that we are limited to publish information of eight related parties out of IDICO's corporate family (11 susidiaries, 4 associates and 3 dependent branches) makes it worth to call investor's attention for possible risk. Based on those published financials, we found the possible non-excluded related-party transactions in FY2016 were of insignificant amount (which arised mostly from the subsidiary provision for construction services to IDICO).

However, there could have been more related-party transactions that occured between IDICO and its subsidiaries (IDICO-URBIZ, IDICO-ICC and IDICO-QUE VO). This is due to these subsidiaries' business importance, activity scale focusing mainly on the development, and construction of industrial parks (IDICO's core segment). Recognizing this risk, we decided to value IDICO's enterprise value based on publicly available information of three main segments, namely industrial parks (valuation based on remaining land bank data and industry wide development cost), power business (Upcom:ISH and Upcom:UIC) and toll road (HSX: HTI).

INVESTMENT RECOMMENDATION

IDICO is one of Vietnam's most recognized infrastructure developers. Leveraged on its construction capability, the firm has expanded successfully into industrial parks and invested in toll road and hydropower projects. In the short term, industrial park services would be the firms' main earnings driver as continuous strength in FDI inflow is expected to increase occupancy and lease rate for its low cost developed industrial parks. On the other hand, investments in toll road and hydropower are sustainable growth generators in the long run given their stable demand and strong operating cash flow. The firm also commands a solid financial position with 2/3 of its debt tied to healthy cash generating projects.

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FINANCIAL ANALYSIS

Stable growing revenue and profit after tax

IDICO revenue is made up of 4 main segments including power business (50%), construction (24%), industrial park (13%) and toll road (7%). During 2014–2016, the firm has seen its revenue and profit after tax growing at an average rate of 15.3% and 35.6%, respectively. However, excluding the sales transaction of Dakmi 4 hydropower in 2015, revenue and profit after tax would have grown at respective 7.05% and 6.7% in the same period. This is unsurprising since IDICO's earnings performance over the last 3 years has been contributed mainly by the highly stable business segments such as toll road project and power business (including hydro power). These business segments' growth are seen to be in line with the economy's GDP growth rate. In addition, earnings growth from industrial park is not really reflected in this period given the chosen accounting allocation method used in this segment and the limited land lease activities in the period. However, IDICO's business growth rate is expected to be strengthened from 2016 onwards with strong influx of FDI and warming real estate market assisted by robust credit growth. Therefore, we expect that new sales of industrial land would be injecting growth pace into IDICO's performance.

Strong financial structure with majority of borrowings tied to healthy cash generating projects

At the end of Q2 2017, IDICO had a total of VND3,300 billion of bank loan. In breakdown, more than 2/3 of this loan is of long-term basis used to finance healthy cash generating hydropower and toll road projects. In Q3 2017, the firm has managed to put into operation its Dak Mi 3 hydropower project (requiring 70% debt financing for a total investment of VND1,500 billion). Together with stable growing cash flow at An Suong-An Lac toll booth, the commencement of Dak Mi 3 would highly ensure the firm's ability to meet debt and interest payments. The remaining 1/3 of the total loan is actually financing the development of industrial parks and small-scale real estate projects. Given the current high demand for industrial land and not more than 12 months in lease payment, the firm will be unlikely to face much concern on its debt settlement ability.

FORECAST

Regarding FY2017 results, we estimate IDICO's revenue and profit after tax to be VND5,204 (+17.7%Yoy) and VND347 billion (-10.5%YoY). However, excluding the one-off profit arising from Dak Mi 4 sales last year, IDICO's bottom line should have grown 19% compared to FY2016. The following segments are contributing to those results:

Industrial park services

At the end of 2016, we estimate IDICO would have leased a total of 1,175.4 ha of industrial land. Therefore, the remaining leasable area is 1,060 ha (including Huu Thanh IP). In breakdown, industrial park revenue is comprised of (1) allocated land lease revenue, (2) annual management fee and (3) water-related charges. We use the following assumptions to forecast the results of industrial park segment:

- The land bank is projected to be entirely absorbed in 9 years at an average of 118 ha per year.
- Average lease rate applied for 2017 is USD53 per sqm and USD63 per sqm for the total remaining sales and the expected lease collection duration is 12 months.
- On the cost side, cost related to industrial park development (LUR and construction) is depreciated based on the remaining duration of land lease contract (40 years on average). In addition, we make 1% provision for infrastructure maintenance every year. Gross margin contribution from water related services is assumed at 15%.
- We estimate the segment to record total revenue of VND705 billion (+19.5%YoY) in FY2017. In specifics, revenue from land lease and management fee accounts 45% of total proportion with the rest contributed by water related services. IDICO is allocating land lease revenue each year based on the lease contract length (40 years).
- In FY2018, we expect the segment revenue to grow by 18%YoY, thanks to new land lease revenue allocation and increase in related services revenue mentioned above.

Toll road (An Suong–An Lac project)

In 2017, we expect BOT AS-AL to record revenue of VND346 billion (+5%YoY) and PAT of VND76 billion. The main assumptions of FY2017 earnings forecast are:

- Traffic growth records positive 2% YoY and toll fee remains unchanged as previous year.

- Annual depreciation rate based on actual toll revenue applied is 35.2% (computed based on duration of AS-AL toll booth ending February 2033).
- Operating expense takes 12% of toll revenue. Maintenance expense provision is assumed at VND42 billion (equivalent to 2.5% of currently used BOT project asset).
- Interest expense financing project at Provincial 10 and 10B will no longer be capitalized from February 2017 as this project component started collecting tolls. Thus, 2017 total interest cost estimates to be VND73.7 billion (2016: VND28.6 billion).

For FY2018, toll revenue is estimated to increase 5%YoY and PAT could grow 10% compared to FY2017 assuming no change in the rate of depreciation, maintenance provision and operating expense. Despite the rise of bank borrowing estimates to VND1,230 billion at the end of 2018, the interest cost of Go May flyover which will be capitalized until the end of 2019 would not increase FY2018 total interest cost.

Power business

This business is broken down based on power distribution and hydropower plants.

- For power distribution, revenue growth is driven by the increasing power consumption of current and new enterprises in industrial parks. We estimate this sub-segment revenue would be growing steadily at 3%/year with a gross margin of 2.8%.
- On the other hand, hydropower business is expected to be the key earnings driver for this segment. From Q3 2017, IDICO will consolidate Dak Mi 3 performance (commenced operation in July 2017) besides Skrok Phu Mieng (holding 51% stake). We estimate this sub-segment would generate revenue of VND279 billion (+79%YoY) and profit after tax of VND55 billion (+220%). The strong earnings growth is driven by good hydrological condition in 2017 compared to previous year.

  In addition, the newly added Dak Mi 3 in Q3 2017 will also support revenue growth although it is not yet earning in the short term. In 2018, revenue and PAT are projected to grow 52% YoY and 63% YoY, respectively. The strong revenue growth will come from full-year operation of DakMi 3 in 2018 while earnings growth would be driven by expected better results of Skrok Phu Mieng plant from higher efficiency and reduced debt-financing level.

Table 5: Earning forecast (VND B)

	FY2015	FY2016	FY2017E	FY2018F
Revenue	**4,609**	**4,423**	**5,204**	**5,110**
COGS	4,115	3,923	4,527	4,381
Gross profit	**494**	**499**	**677**	**729**
Selling expense	46	55	68	66
G&A expense	176	170	182	179
Financial income	112	254	154	154
Financial expense	101	127	175	256
Other income/loss	18	129	0	0
Gain/(loss) from JV	0	0	41	41
PBT	**300**	**530**	**448**	**423**
Tax expense	30	81	35	42
Minority interests	67	60	66	80
PAT	**203**	**389**	**347**	**302**
EBIT	**392**	**650**	**623**	**680**
EBITDA	653	957	954	1,089

Source: RongViet Research

VALUATION

We use sum-of-parts valuation method to value an enterprise that is made up of various segments. We identify IDICO's three segments to be valued including (1) industrial park services, (2) power business, and (3) toll road as follows:

Business Segment	Valuation Method	Value (Unit: VND million)
Industrial park services	**DCF**	**5,905,993**
BOT toll road	**DCF**	**1,885,811**
Hydropower	**DCF**	**2,790,346**
Subtotal		10,582,150
Minus:		
Total borrowings @ 30 June 2017		3,267,419
Revalued minority interest		1,144,347
Add:		
Cash and cash equivalent		3,108,000
Retained cash from strategic share issue (46.7 million shares @VND18,000/share)		756,116
Total		**10,034,410**
Shares outstanding after IPO		300,000,000
Price per share (VND)		**33,500**
Source: RongViet Research forecast		

COMPANY OVERVIEW

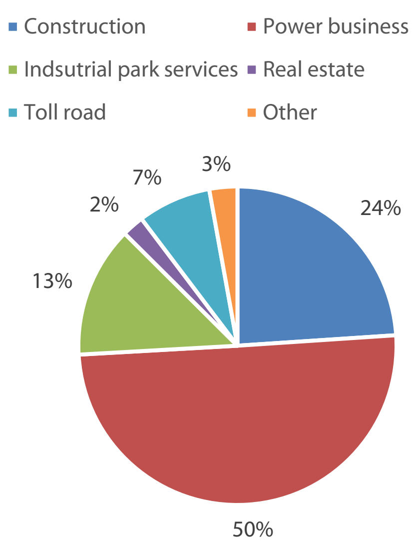
IDICO is a state-owned infrastructure developer in Vietnam with a chartered capital before IPO of nearly VND2,500 billion. Headquartered in Ho Chi Minh City, the firm has extensive business investments across the country. Building up from the core construction and industrial park development, IDICO started investing in toll road project and dedicated a large portion of its funds in hydro power business investment in recent years. Its revenue and gross profit structure are constituted as shown in Figures 8 and 9. As other SOEs, the firm's business has not fared as good as its peers. This has been partly caused by the recessionary period, which affected the firm's industrial park segment in the last 6 years. However, with good financial position and large base of potential assets, the firm's fortune is highly expected to materialize, as it should be after IPO.

Figure 7: IDICO's business value chain

Construction | **Toll roads** | **Industrial park services** | **Hydropower**

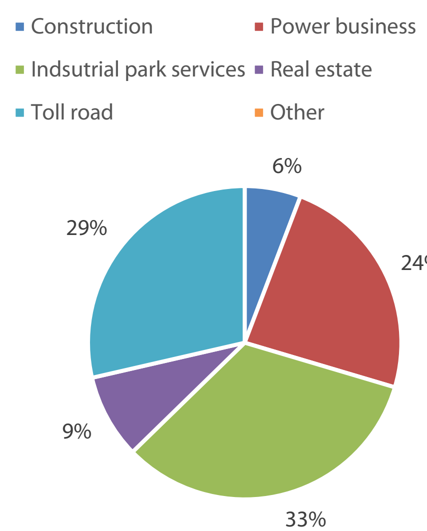
Source: RongViet Research compiled

Figure 8: IDICO's revenue structure



Source: RongViet Research compiled

Figure 9: IDICO's gross profit structure



Source: RongViet Research compiled

Regarding IPO, it will include the sales of government stake at the firm combined with additional share placement to strategic investors. According to the IPO plan approved by the prime minister, IDICO will have a chartered capital of VND3,000 billion after IPO. In particular, there will be 55.3 million shares offered (18.44%) to the public at the IPO date and 135 shares issued in private placement to strategic investors (45%) and ESOP 0.56%. That means the state will hold 36% stake at the firm after the IPO and strategic shareholding placement. After 31 December 2018, the government plans to divest the remaining 36% stake at the company. Its corporate structure is made up of eleven subsidiaries, four associates and three dependent branches.

Figure 10: List of subsidiary and associate companies

No	Name	Stock ticker	IDICO's stake	IDICO's voting right	Book value of investment (VND B)
			Subsidiaries		
1	IDICO-MCI	UPCOM:MCI	81.9%	81.9%	18.3
2	IDICO-UDICO	HSX:UIC	51.0%	51.0%	69.3
3	IDICO-LINCO	UPCOM:LAI	51.0%	51.0%	55.4
4	IDICO-CONAC	UPCOM:ICN	51.0%	51.0%	32.1
5	IDICO-INCO 10	UPCOM:I10	96.8%	96.8%	2.6
6	IDICO-INCON	HNX:INC	60.4%	60.4%	5.2
7	IDICO-SHP	UPCOM:ISH	51.0%	51.0%	267.5
8	IDICO-IDI	HSX:HTI	54.8%	54.8%	142.7
9	IDICO-URBIZ		100.0%	100.0%	397.3
10	IDICO-ICC		100.0%	100.0%	78.6
11	IDICO-QUE VO		52.5%	52.5%	31.9
			Associates		
1	BVEC		49.0%	49.0%	150.7
2	IDICO-LMI	LMI	20.1%	20.1%	18.2
3	DAKMI JSC		26.0%	26.0%	260
4	Phu My Industrial glass Ltd		30.0%	30.0%	5

Source: RongViet Research compiled

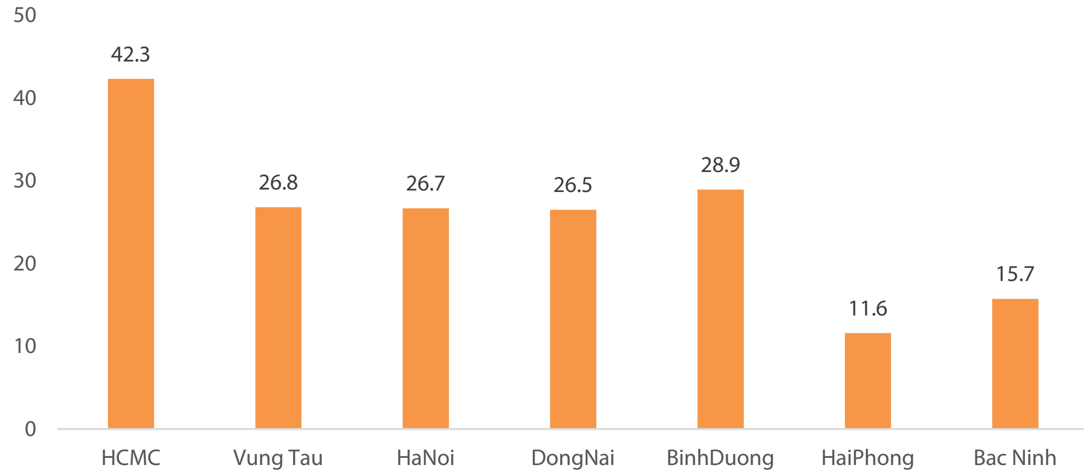
INDUSTRY OVERVIEW

Industrial park services

Investment in industrial parks has to follow the country master plan approved by prime minister based on Decision 1107/QĐ-TTg in 2006 and the revised Decision 2628/TTg-KTN in 2014. In August 2017, the Ministry of Planning & Investement announced that there are 328 industrial parks across Vietnam with total area of 96,300 ha and average occupancy of 51%.

The attractiveness of industrial parks is not only on competing land lease cost but also on the location and development stage of connected infrastructure. In 9M 2017, Vietnam has attracted a total of USD25.5 billion in registered FDI (+34.3% YoY). Meanwhile, disbursed FDI recorded USD12.5 billion (+13.4%YoY). However, the disbursement of FDI shows divergence when industrial parks in the southern area are becoming the largest FDI receiver (including Ho Chi Minh City, Dong Nai, Binh Duong, BR-VT) plus some special locations in the North such as Ha Noi, Hai Phong and Bac Ninh province. These places received USD168 billion worth of FDI, which accounts for 54% of this fund flow to Vietnam.

Figure 11: FDI to Vietnam by city/province (USD B)



Source: RongViet Research compiled

At current fast pace of urbanization, land fund for industrial park development within a parameter of 30km–40km from Ho Chi Minh City center becomes narrow, pushing up lease rate consequently. As a result, the investment fund flow is expected to move further out (parameter of 60km–70km) to places with totally better-developed infrastructure in northern Binh Duong (Bau Bang, My Phuoc, Tan Uyen Industrial park). Also, setting up plants near large seaports (Nhon Trach, Giang Dien IP in Dong Nai province; Long Hau, Hiep Phuoc in Logn An or Phu My and My Xuan in Ba Ria-Vung Tau) is another option. In the North, industrial parks in Bac Ninh, Thai Nguyen and Vinh Phuc province are the favorable places for electronics maker investments, thanks to its closer travel distance to Noi Bai airport. On the other hand, garment and other labor-intensive production prefer to locate plants in near seaports places such as Hai phong, Quang Ninh and Thai Binh.

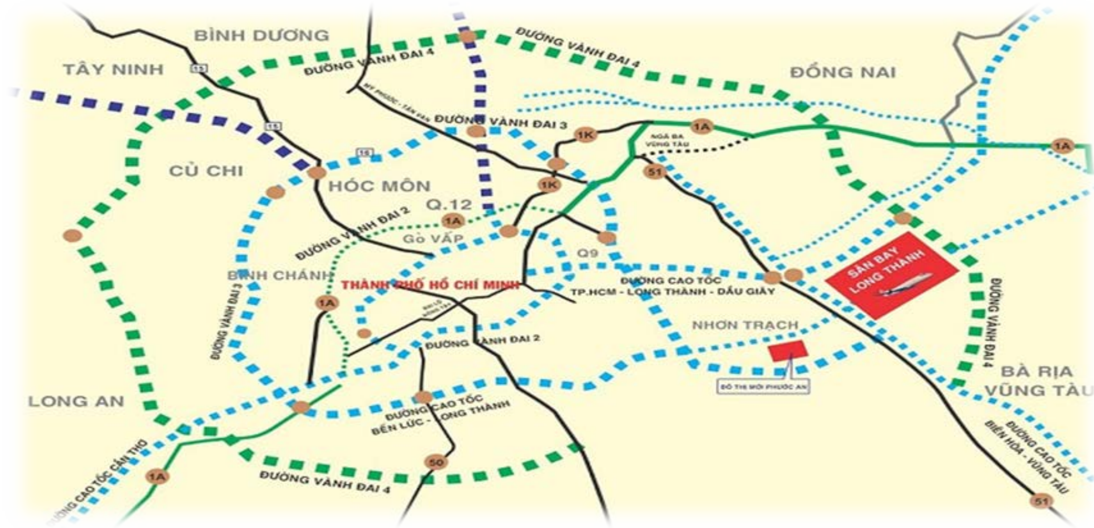
Hydro power plant

Power industry is considered as one of Vietnam's spearheading sectors with ample room for future growth. According to EVN, the country recorded on average 12.1% annual growth in power consumption, which is double the GDP growth rate. Currently, there are 113 power plants at total capacity of 36,000 MW in operation. Nonetheless, to keep up with future growth rate of consumption, the government has issued Decision 428/QĐ-TTg on national power generation master plan to 2030. In specifics, the plan is expected to see 10% CAGR in power supply in the period.

Noticeably, the Decision emphasized the focus of hydropower developement due to its evironemental friendliness and low cost production. In particular, hydropower supply capacity would increase 1.6 times to 27,800 MW in 2030 (CAGR ~4%). For the time being, we have 74 hydropower plants participating in competitive power market. Power plants participants are governed by Circular 56/TT-BCT dated 2014 and restricted to the ceiling selling price for hydropower plants revised annually by the Minsitry of Industry & Trade. In the Circular, hydropower plants with capacity below 150 MW have the advantage from relatively lower proportion of depreciation expense and labor cost.

Toll roads

Figure 12: Ring road system 02, 03 & 04 in Ho Chi Minh City



Source: RongViet Research compiled

According to the Ministry of Construction, Vietnam will need VND952,731 billion to meet infrastructure development demand during 2016–2020. However, in fact, government budget could only contribute 20% of the total figure. Therefore, to encourage private investment in public infrastructure, the Vietnamese government has issued Decree 15/2015/ND-CP on Public Private Partnership (PPP) investmentss. The Decree stipulates in details all modes of PPP investment and requirements of participants.

BOT investors, the most familiar option, will have the right to set up toll booth on the invested road according to the BOT contract and its financial plan. On the one hand, investment in infrastructure has the advantage of high stability at a fixed return ratio. However, investors have to trade off by long-term fund commitment given the project nature. In addition, recent road users' reaction on certain toll road projects raises further issue of resolving conflicts of interest by various parties involved such as road users, BOT investors, banks, and government agencies.

Unit: VND B

INCOME STATEMENT	2015A	2016A	2017F	2018F
Revenue	4,609	4,423	5,204	5,110
COGS	4,115	3,923	4,527	4,381
Gross profit	**494**	**499**	**677**	**729**
Selling expense	46	55	68	66
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Tax expense	30	81	35	42
Minority interests	67	60	66	80
PAT	**203**	**389**	**347**	**302**
EBIT	392	650	623	680
EBITDA	653	957	954	1,089

Unit: %

FINANCIAL RATIO	2015A	2016A	2017F	2018F
Growth				
Revenue	17%	-4%	18%	-2%
EBITDA	774%	47%	0%	14%
EBIT	32%	66%	-4%	9%
PAT	55%	91%	-11%	-13%
Total asset	5%	-5%	25%	11%
Total equity	2%	50%	-8%	3%
Profitability				
Gross profit margin	11%	11%	13%	14%
EBITDA margin	14%	22%	18%	21%
EBIT margin	9%	15%	12%	13%
Net profit margin	4%	9%	7%	6%
ROA	2%	3%	2%	2%
ROIC or RONA	3%	6%	5%	5%
ROE	9%	13%	10%	9%
Efficiency (x)				
Receivables turnover	1	2	6	5
Inventories turnover	5	5	5	5
Payables turnover	5	4	4	4
Liquidity (x)				
Current	5	3	3	3
Quick	4	2	3	2
Financial structure				
Total debt/ equity	433%	255%	368%	408%
ST debt / equity	24%	11%	21%	28%
LT debt/ equity	200%	68%	117%	116%

Unit: VND B

BALANCE SHEET	2015A	2016A	2017F	2018F
Cash and cash equivalents	688	2,550	1,470	1,463
Short term investment	222	314	2,301	2,301
Accounts receivable	5,005	739	1,041	1,022
Inventories	879	800	849	843
Other current assets	48	121	85	103
Tangible fixed assets	2,440	2,675	4,676	5,101
Intangible fixed assets	1,282	1,433	1,400	1,366
Long term investment	643	557	563	563
Other non current assets	1,903	3,329	3,350	4,768
Total Asset	**13,111**	**12,518**	**15,687**	**17,483**
Account payable	487	782	679	657
Short term borrowings	561	404	677	944
Long term borrowings	4,687	2,382	3,776	3,866
Other non-current liabilities	331	386	422	414
Bounus and welfare fund				
Unrealized revenue	4,092	5,040	6,318	7,690
Total Liabilities	**10,158**	**8,994**	**11,871**	**13,570**
Common stock and APIC	490	490	3,000	3,000
Treasury stock				
Retained earnings	144	120	162	224
Other comprehensive income / (loss)	511	620	39	74
Investment and development Fund				
Total equity	**2,348**	**3,524**	**3,230**	**3,326**
Minority interest	605	632	587	587
Total resources	**13,111**	**13,150**	**15,687**	**17,483**

CASH FLOW STATEMENT	2015A	2016A	2017F	2018F
Profit before tax	197	490	448	423
Depreciation	250	261	298	376
Adjustment	*-59*	*55*	*-5*	*76*
Working capital	37	-158	703	1,058
Net operating CFs	**424**	**649**	**1,444**	**1,933**
Fixed asset	-1,790	-2,971	-2,425	-2,271
Deposit, equity investment	72	879	-2,301	0
Interest, dividend, cash profit received	10.0	104.0	175.6	176.7
Net investing CFs	**-1,709**	**-1,988**	**-4,550**	**-2,094**
Capital	270	513	467	0
Debt	1,241	945	1,666	357
Dividend paid & other	0	-164	-195	-210
Net financing CFs	**1,511**	**1,294**	**1,938**	**147**
Net cash flow	227	-45	-1,168	-15
Beginning cash & equivalents	**360**	**577**	**2,550**	**1,470**
Effect of exchange rate	0	0	0	0
Ending cash & equivalents	**577**	**429**	**1,470**	**1,463**

COMPANY REPORT

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

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Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Truc Doan
Head of Research
truc.dtt@vdsc.com.vn
+ 84 28 62992006 (1308)

Ha My Tran
Deputy Manager
my.tth@vdsc.com.vn
+ 84 28 62992006 (1309)
- Macroeconomics

Lam Nguyen
Senior Strategist
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Conglomerates

Thien Bui
Senior Analyst
thien.bv@vdsc.com.vn
+ 84 28 6299 2006 (1321)
- Market Strategy
- Financial Services
- Personal Goods

Hoang Nguyen
Senior Analyst
hoang.nh@vdsc.com.vn
+ 84 28 6299 2006 (1319)
- Transportation
- Infrastructure
- Industrial Real Estates

Hieu Nguyen
Senior Analyst
hieu.nd@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Market Strategy
- Pharmaceuticals
- Durable Household Goods

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estates
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Food & Beverage

Trinh Nguyen
Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1331)
- Steel
- Construction
- Technology

Quang Vo
Analyst
quang.vv@vdsc.com.vn
+ 84 28 6299 2006 (1517)
- Market Strategy
- Basic Materials
- Personal Goods

Son Phan
Analyst
son.pnt@vdsc.com.vn
+ 84 28 6299 2006 (1519)
- Utilities
- Natural Rubber

Thu Le
Analyst
thu.lta@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Automobiles and Parts

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

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