INNOVATIVE TECHNOLOGY DEVELOPMENT CORPORATION (ITD – HSX)

Growth dynamics from development of transport infrastructure

- Attractive growth thanks to ITS segment
- ITS – future prospects are based on development of expressway network
- Solid experience and large market share in providing automatic toll collection
- Potential ITS projects in Ho Chi Minh City market

Outlook:

ITD – The Company has solid experience in providing technology solutions for transportation sector, especially automatic toll collectors. Therefore, ITD would benefit from expressway expanding and upgrading plans. Besides, with senior managers' experiences and wide network, we expect ITD to participate actively in potential ITS projects in HCM from 2016-2020. In 2016, ITD owns large backlog value which is estimated at about VND650 billion at beginning of year 2016 and expected to increase by VND450 billion in this year.

Therefore, if ITD's projects are implemented timely, the company would be able to record VND830 billion of revenue and VND65.5 billion of earning after tax, giving VND3,400 EPS. In 2016, number of share outstanding increases by 28% (including 20% stock dividend, 5% ESOP and 3% VSOP). Basic EPS (not adjusting for stock dividend) should be VND4,100. Using historical PE and comparable PE of peers, we use PE of 8.5x for ITD in this year, equivalent to the intrinsic value of VND34,900 per share, 20.3% higher than closed price of VND29,000 (27/7/2016). The recommendation for ITD is to **BUY** for the **Intermediate** term.

Key financials

EoY (VND bn)	FY2014	FY2015	FY2016E	FY2017F
Net Revenue	466.4	627.8	830.1	954.6
% chg	-27.2%	34.6%	32.2%	15.0%
NAT	8.4	46.2	65.6	80.3
% chg	-47.4%	447.7%	42.0%	22.3%
Net profit margin (%)	1.8%	7.4%	7.9%	8.4%
ROA (%)	1.8%	9.2%	11.4%	12.3%
ROE (%)	4.3%	20.5%	21.9%	22.0%
Adjusted EPS (VND)	661	3,076	3,346	4,092
Book value (VND)	15,377	16,605	17,535	19,626
Cash dividend (VND)	0	0	1,000	2,000
P/E (x)	14.1	5.7	8.5	7.0
P/BV (x)	0.6	1.1	1.6	1.5

*Source: ITD's financial statements and Rongviet Research's accumulation, * as price at 27/7/2016*

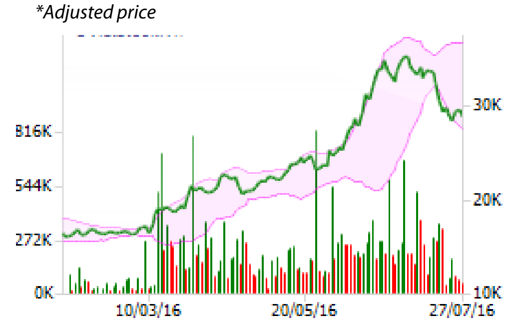
BUY

Market price (VND)	29,000
Target price (VND)	34,900
Investment period	Intermediate

Stock Info

Sector	Technology
Market Cap (VND bn)	455
Current Shares O/S	15,323,408
Beta	0.55
Free float (%)	40
52 weeks High*	34,400
52 weeks Low*	13,600
Avg. Daily Volume (20 sessions)	235,000

**Adjusted price*



Price performance (%)

	3M	1Y	3Y
ITD	41	101	779
Technology	5	11	113
VNIndex	16	6	31
VN30 Index	12	2	16

Major Shareholders (%)*

Nguyễn Văn Hiệp	13.17
Kiểu Phong Ltd, Co.	10.94
Doãn Thị Bích Ngọc	9.88
Kingsmead Vietnam and Indochina Growth Master Fund	8.27
Kiểu Phong Ltd, Co.	6.74
America LLC	5.44

** As of 22/02/2016*

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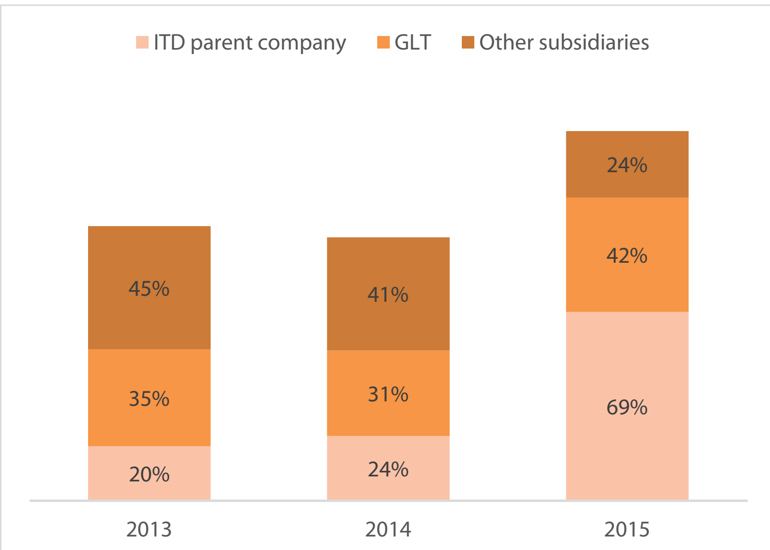
Attractive growth thanks to ITS segment

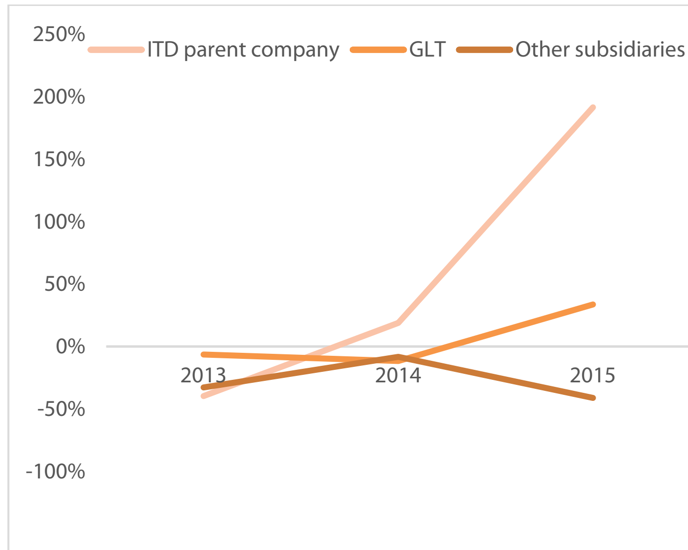
Innovative Technology Development Corporation (ITD) operates as a holding group that includes the parent company and 11 subsidiaries. Among these subsidiaries, Global Electrical Technology Corporation (GLT-listed in HNX) is the largest contributor to ITD's consolidated revenue and net income. In 2015, GLT contribution to ITD's revenue and net profit was about 31%. Besides, the revenue and net profit of the remaining subsidiaries seem to be not as positive as their total revenue and net profit which have gradually dropped year by year. However, the main driver for ITD's growth is the parent company which focuses on intelligent transportation system (ITS) segment, especially providing automatic toll collection solutions and equipment for expressway network. In addition, GLT which specializes in providing base transceiver station (BTS), solutions for data centers, is another key factor for ITD's earnings growth.

Figure 1: Revenue structure by parent company and its subsidiaries in 2012-2015



Source: ITD, Rongviet Research

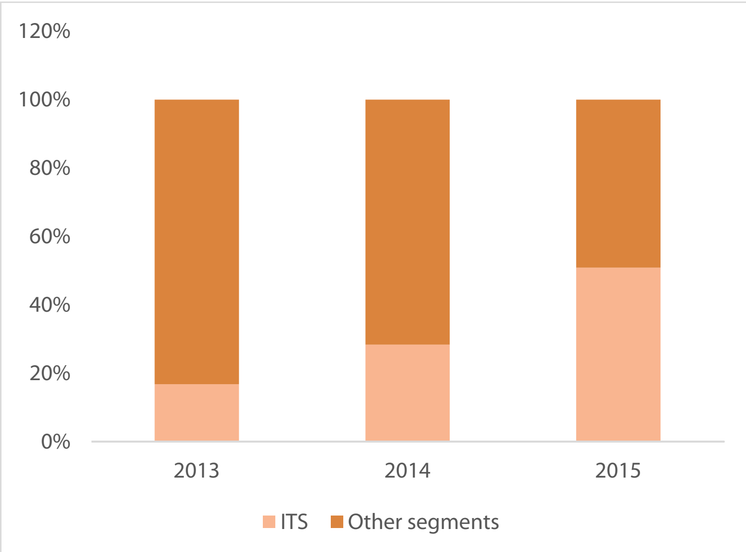
Figure 2: Revenue growth of parent company and its subsidiaries in 2012-2015



Source: ITD, Rongviet Research

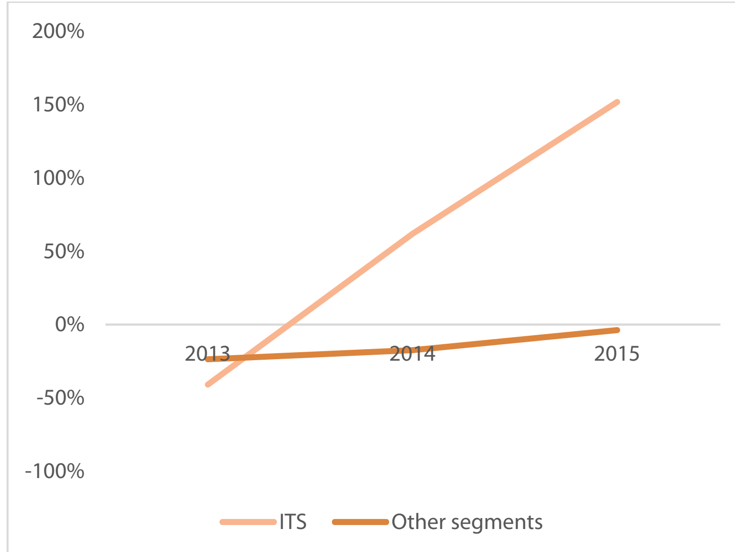
Robust growth is concentrated on ITS segment. Currently, ITD operates on four main segments, including ITS, Electrical Technical Infrastructure (ETI), Electrical-Control-Instruments (ECI) and Information-Communication Technologies (ICT). Among them, ITS achieved fast growth phase from 2014. The proportion of ITS in ITD's total revenue is currently at 67%. Furthermore, the Company is believed to hold about 80% of market shares in toll collection market.

Figure 3: Revenue structure by segment



Source: ITD, Rongviet Research

Figure 4: Revenue growth by segment



Source: ITD, Rongviet Research

Financial health has improved remarkably. In 2012-2014, ITD faced many issues in business operation as they could not sign large contracts in the ITS segment as well as other segments. Moreover, the Company had to record high financial allowance for the failure of QEC project (this project was to build the electrics equipment manufactory). However, this loss was completely booked by 2014 with total accumulated allowance value of over VND61 billion (2012-2013). Besides, the turning point for ITD appeared in 2014 as the market demand has been lifted up. Since 2014, the government has resumed large capital expenditure at expressway network as well as promoted capital for modernized nationwide transportation system (such as: upgrading North-South railing system, National ways…). Therefore, the financial efficiency of ITD is improving significantly thanks to growth in market demand.

Table 5: Some key financial ratios

Indicator	2012	2013	2014	2015
Operation income (million dong)	87,095	38,340	30,174	83,669
EPS (dong)	3.922	1.280	661	3.076
Net margin	6%	3%	2%	7%
ROE	35%	14%	10%	28%

Source: ITD, Rongviet Research

2016-2020 outlook

ITS – future prospects are based on development of expressway network. According to Decision 326/QD-TTg dated on 01/03/2016, Vietnam expressway network would include 21 routes with total length of 6,411 kilometers. Particularly, the North-South expressway includes two main routes with total length of 3,083 kilometers. The North expressway includes 14 routes with total length of 1,368 kilometers. The Central and Highland expressway includes 3 routes with total length of 264 kilometers. The South expressway includes 7 routes with total length of 983 kilometers. Besides, there are some other expressways around Hochiminh city and Hanoi city.

Table 6: Some main expressway routes under construction in 2016-2020

Under construction	Length (km)	Capex (million USD)	Period
North-South expressway network	**1.097**	**10,183**	
Da Nang – Quang Ngai	130	1,148	2012 - 2016
Long Thanh –Ben Luc	58	1,038	2012 - 2017
Nha Trang – Phan Thiet	226	1,638	2010 - 2020
Ninh Binh – Thanh Hoa	121	1,160	2014 - 2018
Phan Thiet – Dau Giay	98	742	2013 - 2017
Quang Tri – Da Nang	182	1,128	2015 - 2019
Thanh Hoa – Ha Tinh	97	911	2012 - 2015
Trung Luong – My Thuan – Can Tho	92	1,225	2013 - 2018
Norhthern expressway network	**809**	**2,283**	
Hoa Lac – Hoa Binh	26	117	2014 - 2016
Noi Bai – Ha Long – Mong Cai	294	0	2015 - 2020
Thai Nguyen – Cho Moi (Bac Can)	28	135	2014 - 2016
Southern expressway network	**76**	**558**	
Bien Hoa – Vung Tau	76	558	2014 - 2018

Source: Rongviet Research

ITD has solid experience and large market share in providing automatic toll collection. In this market, ITD is estimated to account for 80% of total market share so the company could have more advantage than other players such as Cadro and ELC. Besides, the size of this market is predicted to become much larger in 2016-2020 with the forecasted length of new expressway at 1900 kilometers, equivalent to nearly VND5,700 billion of capex. As a result, the competitiveness of this segment in the future is relatively low.

Particularly in this year, we expect ITD to sign additional large toll collection contracts, especially for Da Nang-Quang Ngai route. The tender result will be announced later this year and implemented in the following year.

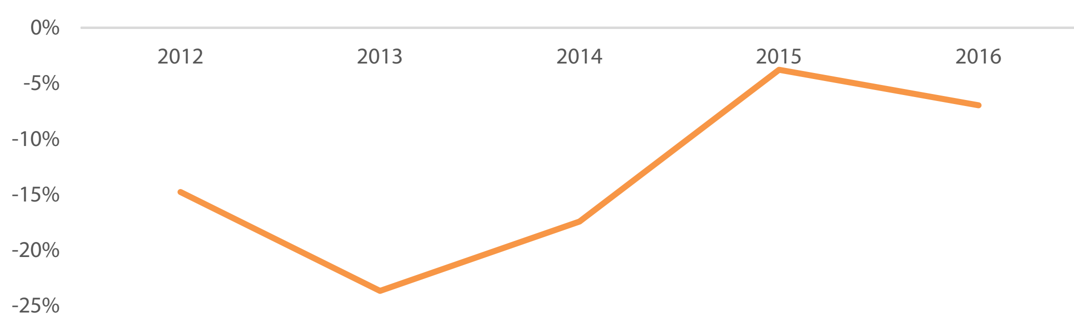
Based on historical ITD's large-value contracts, we estimate the value of toll collection contract is about VND150 billion per 50 kilometers. This actual figure could fluctuate in a wide range compared to this estimation due to many factors such as: rising competitiveness, number of lanes, development of technology…

ITD also has more advantages than other enterprises (ELC, Cadro that both locates in Hanoi city) in Ho Chi Minh market since it is located in this area. Regarding of launching ITS solution, the more understanding of local system a company could possess, the more suitable solutions that company could implement. Besides, ITD has signed memorandum of understanding (MoU) with foreign ITS partners (from Japan and Korea). These MoUs are considered as the initial preparation of ITD for future jobs in ITS market, especially in Ho Chi Minh. Some potential demand could be from implementing ITS for metro system, security camera monitor system, traffic control system… HCMC authorities planned to invest over USD300 million in transportation monitor system for the period of 2016-2020. Therefore, Ho Chi Minh ITS market is becoming very attractive and worth paying attention to.

Investment risks

Subsidiaries laden business structure. Currently, the firm owns 11 subsidiaries which makes it difficult for financial investors to monitor and track performances of those. Of notice, earnings performances of these subsidiaries have been on the decline testified by ITD's 2015 subsidiaries revenue falling by 4%.

Figure 7: Total revenue growth of ITD's subsidiaries



Source: ITD, Rongviet Research

Rely on disbursement progress of infrastructure projects. ITD's road toll projects highly depend on actual progress of public infrastructure projects, hereby expressways. At the end of 2016, we estimate ITD's backlog to have the remaining value of VND 350 billion (excluding Da Nang-Quang Ngai project which worth about VND 200 billion). Therefore, any delay in the progress of key expressways projects (outlined above) may slow down ITD's earnings growth in FY2017.

2016's business results forecast

Table 8: Assumptions

Assumptions
Growth forecast
- Other segments: decrease by 7%, including: ETI (0%), ICT (-20%) and EC&I (-10%).
- ITS: grow by 65%, with other assumptions: 70% of 2015's remaining backlog is booked in 2016 and 30% of new backlog is booked
Results
2016 revenue: VND 830 billion
PAT for parent shareholders: VND 65.6 billion
Diluted EPS: VND 3,400

Source: Rongviet Research

Table 9: Large ITS projects in period of 2014-current

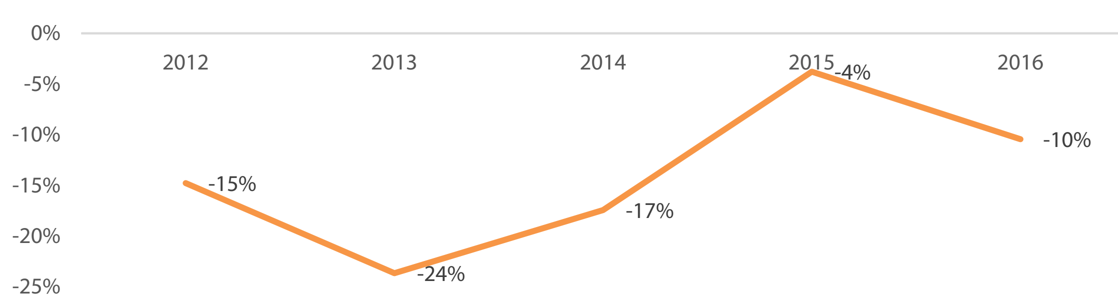
Project name	Description	Current position
Trung Lương – HCM expressway	39 million USD (~800 billion dong) (40km)	Completed (03/2015)
HCM-Long Thành-Dầu Giây expressway	~200 billion dong (55km)	Completed (12/2015)
Hà Nội – Hải Phòng expressway	~350 billion dong (105 km)	Completed (12/2015)
	100 billion dong for an additional lane	Expected to be completed in 2016
National way No.1 toll collection project (VETC/Tasco)	>200 billion dong (19 stations)	Signed and under constructed
HCM ITS package in 2016	250 billion dong	Estimate of analyst
Đà Nẵng – Quãng Ngai expressway	>200 billion dong	Estimate of analyst

Source: Rongviet Research

Revenue should increase by 32% underlined by a large backlog value and newly added contracts on the horizon. Under our estimate, ITD has VND650 billion worth of backlog. We expect the majority of that would be recognized as revenue this year observing ITS project's usual implementation duration within 12 months. So, we assume 70% of the backlog to be booked this year. Besides, if the bidding results of Da Nang-Quang Ngai and HCM ITS package coming out successfully, ITD's backlog could add another VND 450 billion. If including the VETC/TASCO package, the total value of large contracts already signed in 2016 is about VND650 billion. Out of that, we expect that 30% of new backlog value could be recorded in revenue. Under these assumptions, revenue for ITS segment in 2016 should be VND 543 billion, up by 70% yoy.

Slow improvements from other segments. Other segments expect to contribute 35% to ITD's 2016 total revenue. We actually excluded the 2015 extraordinary gain from GLT in our above estimate and forecasted GLT's revenue and net profit in 2016 to achieve VND 190 billion and VND 22 billion, respectively.

Figure 10: Revenue growth of other segments (not including ITS segment)



Source: Rongviet Research

Valuation

ITD – The Company has solid experience in providing technology solutions for transportation sector, especially automatic toll collectors. Therefore, ITD would benefit from expressway expanding and upgrading plans. Besides, with senior managers' experiences and wide network, we expect ITD to participate actively in potential ITS projects in HCM from 2016-2020. In 2016, ITD owns large backlog value which is estimated at about VND650 billion at beginning of year 2016 and expected to increase by VND450 billion in this year.

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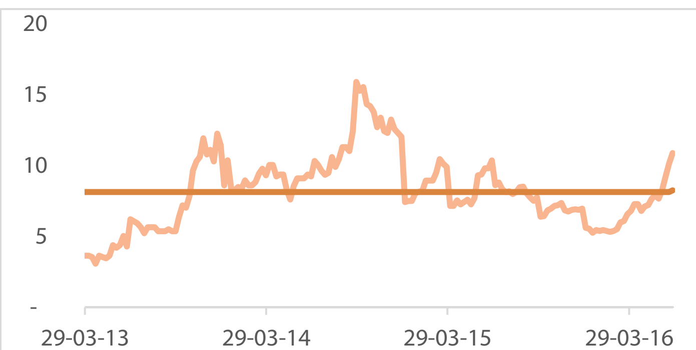
Figure 11: ITD historical PE



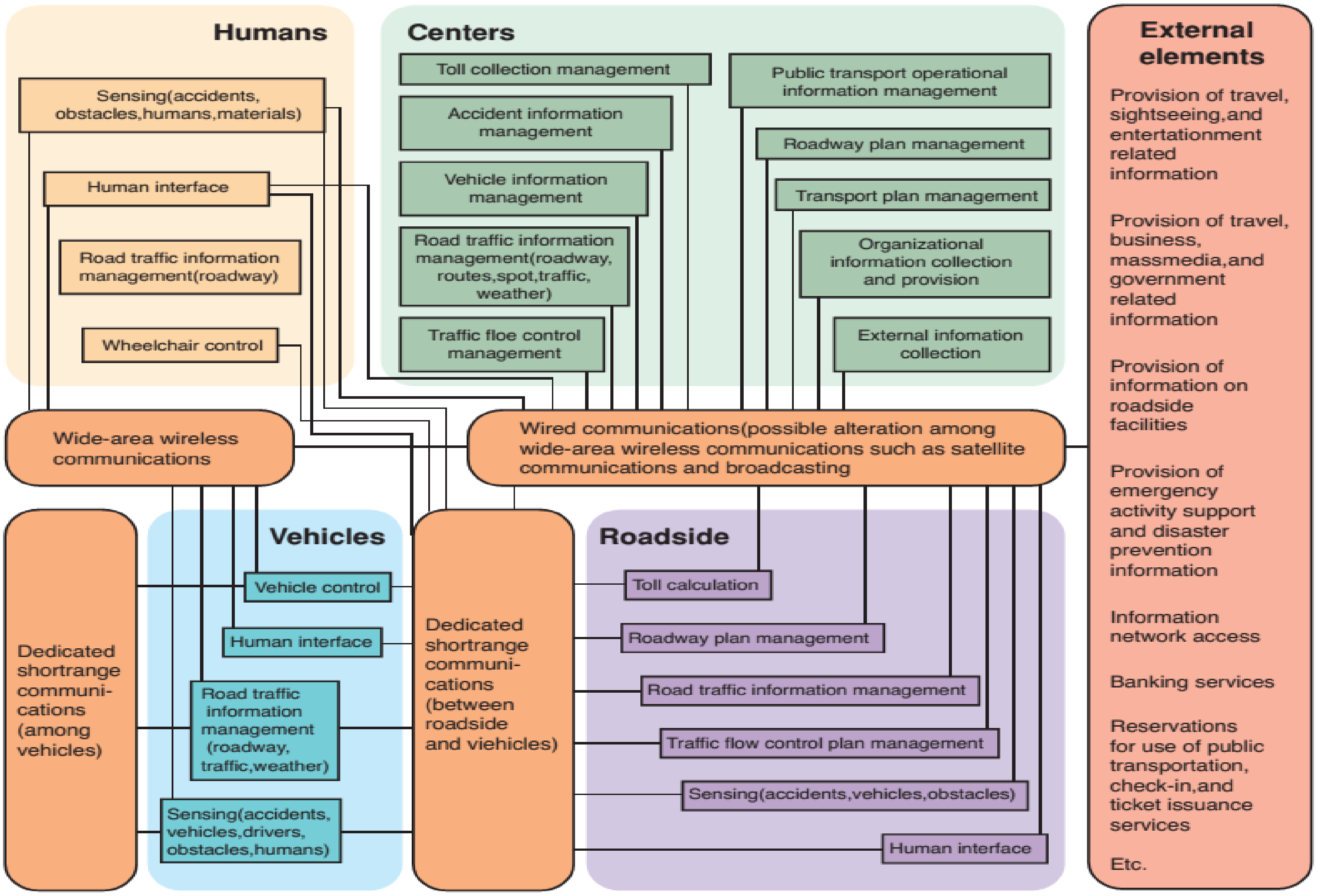
Source: Bloomberg, Rongviet Research

Table 12: ITD comparables

	Market cap (million dong)	Debt/Equity	ROE	ROA	P/E
ITD	499,543	19.3	20.3	8.7	6.9
FPT	18,833,117	76.8	21.4	7.9	10.1
CMG	887,652	36.2	13.8	5.6	9.8
ELC	1,014,132	35.3	10.7	6.4	13.2
VAT	67,348	52.6	17.9	8.4	4.3
Average	**4,260,358**	**44.0**	**16.8**	**7.4**	**8.9**

Source: Bloomberg, Rongviet Research

Appendix: ITS System Architectures (ITS)



Source: ITS System Architectures for Developing Countries của WB, Rongviet Research

As the above architectures chart, we realize that Vietnam has initially implemented some nodes of this structure, for example:

- Replacing manual toll collection system by automatic system (ETC)
- Upgrading current weigh system to WIM system (an automatic system)
- Building camera network to collect traffic data
- Building ITS for the National railing system
- Some functions of ITS (such as: road traffic information management, traffic flow control,…) are supplemented to new roadways (expressway network, road tunnels)

Therefore, in next years, in major cities (Ho Chi Minh City and Hanoi City), we expect some functions of the ITS system would be set up. For example: public transport operational information management, camera network to collect information for the ITS system, road traffic information management (roadway, routes, traffic, whether)… In addition, the building of centers for centralizing single functions of ITS systems is also expected to invest.

Besides, according recent announcements from HCMC governors, we believe that this city could be the first pilot for implementing ITS system in Vietnam. As the experience of South Korea, they also built the ITS infrastructure on city-by-city basis. The first pilot was in Kwa-chon (started in 1998 with the capex of USD75 million) and then expanded to other large cities such as Daejon, Jeonju, Jeju in 2000-2002.

Unit: billion VND

INCOME STATEMENT	FY2013	FY2014	FY2015F	FY2016F
Revenue	466.4	627.8	830.1	954.6
COGS	351.2	450.6	599.9	706.4
Gross profit	**115.2**	**177.1**	**230.2**	**248.2**
Selling Expense	31.5	45.0	63.9	66.8
G&A Expense	53.5	48.5	58.1	62.0
Finance Income	8.1	3.9	3.5	3.5
Finance Expense	13.7	4.9	6.5	7.5
Other profits	5.9	-0.7	0.0	0.0
PBT	**28.4**	**82.0**	**105.2**	**115.3**
Prov. of Tax	8.8	17.8	21.0	23.1
Minority's Interest	11.2	18.0	18.5	12.0
NPAT	**8.4**	**46.2**	**65.6**	**80.3**
EBIT	**34.8**	**85.5**	**110.7**	**121.8**
EBITDA	42.7	92.3	118.1	130.9

Unit:%

FINANCIAL RATIO	FY2013	FY2014	FY2015F	FY2016F
Growth				
Revenue	-27.2%	34.6%	32.2%	15.0%
Operating Income	-21.3%	177.3%	29.3%	10.3%
EBITDA	-55.5%	116.0%	28.0%	10.8%
EBIT	-57.9%	146.0%	29.4%	10.1%
PAT	-47.4%	447.7%	42.0%	22.3%
Total Assets	1.1%	15.0%	15.4%	11.1%
Equity	-0.7%	29.6%	35.2%	11.9%
Internal growth rate	4.3%	20.5%	15.4%	11.3%
Profitability				
Gross profit/Revenue	24.7%	28.2%	27.7%	26.0%
Operating profit/ Revenue	6.5%	13.3%	13.0%	12.5%
EBITDA/ Revenue	9.2%	14.7%	14.2%	13.7%
EBITDA/ Revenue	7.5%	13.6%	13.3%	12.8%
Net margin	1.8%	7.4%	7.9%	8.4%
ROAA	1.8%	9.2%	11.4%	12.3%
ROIC or RONA	10.9%	26.0%	31.1%	29.6%
ROAE	4.3%	20.5%	21.9%	22.0%
Efficiency (x)				
Receivable Turnover	3.3	3.7	3.8	3.3
Inventory Turnover	7.5	5.6	4.2	4.2
Payable Turnover	2.9	3.4	3.5	3.6
Liquidity (x)				
Current	2.9	2.1	2.4	2.4
Quick	2.6	1.5	1.6	1.7
Solvency				
Total Debt/Equity	66.9%	87.2%	68.3%	68.3%
Current Debt/Equity	13.3%	21.7%	12.1%	12.4%
Long-term Debt/ Equity	0.0%	0.0%	0.0%	0.0%

Unit: billion VND

BALANCE SHEET	FY2013	FY2014	FY2015F	FY2016F
Cash and equivalents	55	96	116	91
Short-term investment	54	36	0	0
Receivables	154	187	249	334
Inventories	40	121	162	177
Other current assets	71	9	10	10
Total Current Asset	**373**	**449**	**537**	**612**
Tangible Fixed Assets	51	49	44	38
Intangible Fixed Assets	31	30	30	31
Construction in Progress	0	0	0	0
Investment Property	1	1	1	0
Long-term Investment	1	0	0	0
Other long-term assets	6	6	7	7
Goodwill	2	2	2	2
Long-term Asset	**93**	**87**	**82**	**76**
Total Asset	**466**	**536**	**619**	**688**
Payables	65	104	120	141
Other current liabilities	39	56	66	67
Current Debt	26	55	42	48
Long-term Debt	0	0	0	0
Other long-term liabilities	1	7	7	7
Total Liability	**131**	**222**	**235**	**263**
Owner's Equity	**196**	**254**	**344**	**385**
Capital	128	153	196	196
Retained Earnings	104	137	183	224
Funds & Reverses	0	0	0	0
Others	**0**	**0**	**0**	**0**
Total Equity	**196**	**254**	**344**	**385**
Minority's Interest	45	32	40	40
TOTAL RESOURCES	**373**	**508**	**619**	**688**

CASHFLOWSTATEMENT	FY2013	FY2014	FY2015F	FY2016F
Pretax Income	41.2	74.1	105.2	115.3
-Depreciation	8.0	6.8	7.5	9.1
-Adjustments	*0.6*	*19.2*	*4.7*	*4.3*
+/- Working capital	-14.7	-87.5	-98.9	-101.1
Net Operating CF	**35.1**	**12.5**	**18.5**	**27.6**
+/- Fixed Asset	0.0	-2.6	-1.4	-0.2
+/- Deposit, equity investment	4.1	22.2	0.0	0.0
Interest, cash dividend, shared profits received	4.2	4.7	0.8	0.6
Net Investing CF	**8.2**	**24.3**	**-0.6**	**0.4**
+/- Capital	0.0	-13.7	42.5	0.0
+/- Debt	-27.5	28.4	5.5	5.8
Dividend paid + Other exp. from retained profits	0.0	-10.9	-45.0	-58.7
Net Financing CF	**-27.5**	**3.8**	**3.0**	**-52.9**
+/- cash & equivalents	15.8	40.6	20.8	-24.8
Beginning cash & equivalents	**39.3**	**55.1**	**95.9**	**116.3**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**55.1**	**95.7**	**116.3**	**91.5**

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 which 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.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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