RONG VIET SECURITIES

ELC TECHNOLOGY COMMUNICATIONS CORP (HSX: ELC)

Expectations of Intelligent transport to support growth

- **Attractive growth potential from the large size scale of the Intelligent transport market.**
- **Telecommunication and National Security segments provide a stable revenue.**

ELC technology communications corporation is a competitive enterprise in the field of Intelligent transport, with experience in implementing many high-value bidding packages on providing solutions, installing ITS system equipment in Smart Urban areas and on highways.

In the medium and long-term, the East North-South Expressway is a critical project of the Government, the roads will implement the Intelligent Transport System (ITS), thanks to the digital transformation trend to monitor and operate traffic in the city and on expressways. This includes the installation of surveillance cameras and non-stop automatic toll collection. The total investment for the North-South expressway project is VND 265,000 billion, of which we estimate the total investment for ITS can be up to VND 9,500 billion. While the progress of the expressway projects is a factor to be closely monitored, we expect that the large scale of investment will be an opportunity for ELC to increase revenue and profits for the Intelligent transport segment significantly. This segment will be the main growth driver for ELC from 2022.

For ELC, we expect the Telecommunications and National Security segments to bring a steady revenue of VND 400 – 500 billion in the coming years due to the recurring nature of the services provided. Meanwhile, the growth potential of the Telecommunications segment in the long term will come from the next investment cycle of carriers as 5G coverage plans in Vietnam become clearer.

Therefore, we expect total revenue/PAT for 2022F to reach VND 908 billion (+38%)/VND 58 billion (+20% YoY). For 2023F, revenue/ PAT is expected to be VND 970 billion (+6% YoY)/VND 63 billion (+10% YoY)/VND 1,201. We also forecast three years CAGR of PAT in 2022F-25F of 9%.

Using the FCFF cash flow discount method (50%) and the target P/E factor of 15x (50%), we arrive at a **fair value per share of VND 16,100**, equivalent to an **expected return of -3%** (including an expected cash dividend of VND 600) based on the closing price on Aug 18th, 2022. We recommend to **ACCUMULATE** the stock.

Key financials

End year (VND bn)	FY2020	FY2021	FY2022	FY2023F
Net revenue	802	659	908	970
% growth	*-8.3*	*-17.8*	*37.8*	6.8
PAT	32	48	58	64
% growth	*6.5*	*51.5*	*19.7*	10.8
Net profit margin (%)	4.0	7.3	6.3	6.6
ROA (%)	2.1	4.2	4.4	4.7
ROE (%)	3.8	5.6	5.7	6.2
EPS (VND)	624	946	1,092	1,215
BV (VND)	16,546	16,828	14,537	14,853
Cash dividend (VND)	0	600	600	0
P/E (x)	14.6	27.3	21.6	19.5
P/BV (x)	0.5	1.5	1.2	1.2

Source: ELC, Rong Viet Securities. Based on the closing price on 08/18/2022

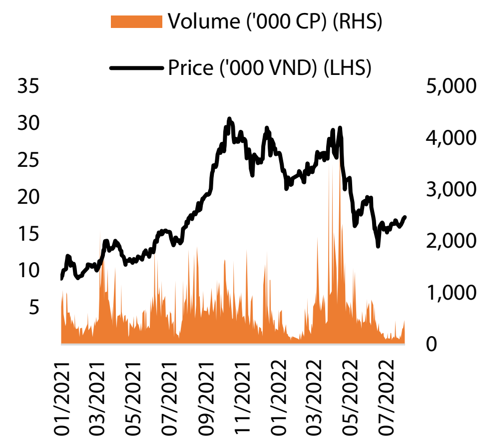
ACCUMULATE -4%

Market price (VND)	17.350
Target price (VND)	16.100
Cash dividend (VND)*	600

(*) – Forecast for the next 12 months

Stock Info

Sector	Technology
Market Cap (VND Bn)	883.6
Current shares OS (Million)	50.9
Beta	0.9
Free Float (%)	60
52 weeks high	30,850
52 weeks low	12,700
Average trading volume (20 sessions)	361,900



Performance (%)

	3M	1Y	2Y
ELC	-4%	-2%	204%
VN30 Index	1%	-13%	65%
VN-Index	3%	-6%	50%

Major shareholders (%)

Phan Chien Thang	9,4
DT&T Investment Co., Ltd	6,1
Tran Hung Giang	5,87
Nguyen Manh Hai	5,83
Foreigner investor room (%)	45,3

Quan Cao

084) 028 – 6299 2006 – Ext 2223

quan.cn@vdsc.com.vn

Investment thesis

The growth of the Intelligent Transport (IT) segment is considerable thanks to the policy of applying technology to traffic management and administration

The North-South expressway critical project is a "big cake" but only for a small number of enterprises

The North-South Expressway is a critical project of the Government in the medium and long-term with a total investment of VND 265,000 billion, including an estimated for the period 2017 – 2021 of VND 118,716 billion and the period 2021 – 2025 of VND 149,660 billion. The cost estimates were prepared in 2017 and 2022, respectively. Currently, the East North-South Expressway project is being implemented in parallel phases with 23 component roads (Tables 1 and 2), each of which will have four lanes. According to the plan, the routes will apply high technology, and implement intelligent transport system (ITS) and electronic toll collection (ETC).

Table 1: The East North-South Expressway in the period of 2017 – 2021

Route	Expected completion	Connecting Provinces	Length (Km)	No.of lane	Total investment (VND Bn)
Cao Bo - Mai Son	Completed	Nam Dinh – Ninh Binh	15	4	1,612
Mai Son – QL45	2022	Ninh Binh – Thanh Hoa	63	4	14,703
QL 45 - Nghi Son	2023	The territory of Thanh Hoa province	43	4	7,769
Nghi Son - Dien Chau	2023	Thanh Hoa – Nghe An	50	4	8,648
Dien Chau - Bai Vot	2024	Nghe An – Ha Tinh	50	4	13,596
Cam Lo - La Son	2022	Quang Tri - Thua Thien Hue	102	2	7,900
Nha Trang - Cam Lam	2023	The territory of Khanh Hoa province	29	4	5,131
Cam Lam - Vinh Hao	2024	Khanh Hoa – Ninh Thuan – Binh Thuan	91	4	15,013
Vinh Hao - Phan Thiet	2022	The territory of Binh Thuan province	106	4	19,648
Phan Thiet - Dau Giay	2022	Binh Thuan – Dong Nai	98	4	19,571
My Thuan 2 Bridge	2023	Tien Giang – Vinh Long	7	6	5,125
Total			**654**	**42**	**118,716**

Source: Resolution No. 52/2017/QH14, Rong Viet Securities

Table 2: The East North-South Expressway in the period of 2021 – 2025

Route	Expected completion	Connecting Provinces	Length (Km)	No.of lane	Total investment (VND Bn)
Bai Vot - Ham Nghi	2025	The territory of Ha Tinh province	36	4	7,403
Ham Nghi - Vung Ang	2025	The territory of Ha Tinh province	54	4	10,185
Vung Ang – Bung	2025	Ha Tinh – Quang Binh	58	4	11,785
Bung – Van Ninh	2025	Department OF Quang Binh province	51	4	10,526
Van Ninh - Cam Lo	2025	Quang Binh – Quang Tri	68	4	10,591
Quang Ngai - Hoai Nhon	2025	Quang Ngai – Binh Dinh	88	4	20,898
Hoai Nhon - Quy Nhon	2025	The territory of Binh Dinh province	69	4	12,544
Quy Nhon – Chi Thanh	2025	Binh Dinh – Phu Yen	62	4	12,298
Chi Thanh – Van Phong	2025	Phu Yen – Khanh Hoa	51	4	10,601
Van Phong – Nha Trang	2025	The territory of Khanh Hoa province	83	4	12,906
Can Tho – Hau Giang	2025	Can Tho – Hau Giang	37	4	9,768
Hau Giang – Ca Mau	2025	Hau Giang – Ca Mai	72	4	17,485
Total			**729**	**48**	**146,990**

Source: Resolution No. 44/2022/QH15, Rong Viet Securities

Typically, an ITS applied on highways will be divided into three separate arrays:

- Traffic surveillance system: CCTV system along the route, vehicle detection camera, weighing in motion, electronic signage system and operation center.
- Toll collection: ETC.
- The auxiliary array includes a transmission system, a power supply system, and a loudspeaker system.

Based on JICA's "Integration of ITS in the Northern Area" in 2015, the cost to build an ITS for equipment/materials costs, installation costs, bidding costs, estimated testing costs is VND 3.8 billion/km (excluding building construction costs, ETC and weighing in motion). Combined with the inflation factor and the total length of the East North-South expressway projects (nearly 1,400 km), we estimate the investment cost for the ITS is about VND 4.8 billion/km**, the total investment capital for the ITS is about VND 7,150 billion.**

Table 3: Cost estimates for ITS of JICA Northern Roads in 2015

Route	Total value* (VND Bn)	Length (Km)	Estimated unit price (VND bn/Km)
Mai dich – Thanh Tri	146.3	27	5.4
Lang – Hoa Lac	134.7	28	4.8
Phap Van – Cau Gie	63.6	30	2.1
Cau Gie - Ninh Binh	65.3	50	1.3
Hanoi – Bac Giang	93.7	46	2.0
Inner Harmony – Ca Lo Bridge	89.3	16	5.6
Ca Lo Bridge - Bac Ninh	91.6	17	5.4
Total	**813.2**	**214**	**3.8**

Source: JICA, Rong Viet Securities, (*) Excluding the cost of building construction, ETC and weighing in motion

Based on the value of the bidding packages to provide and install equipment for the ETC system on the expressways, we estimate that every 18km of road will build a toll station; on average, there will be 9 toll lanes/station and the unit price for construction will be VND 3 billion/toll lane. Therefore, we assume the investment cost for **ETC on the North-South expressway at about VND 2,265 billion.**

Table 4: ETC on expressways in Vietnam

Route	Length (Km)	Toll station	No. of ETC lane	Winning value (VND bn)	Unit price (VND bn/lane)
Ha Noi – Hai Phong	105.5	6	32	126	3.9
Cau Gie - Ninh Binh	56	3	15	27	1.8
Tổng	**161.5**	**9**	**47**	**153**	**3**

Source: Rong Viet Securities

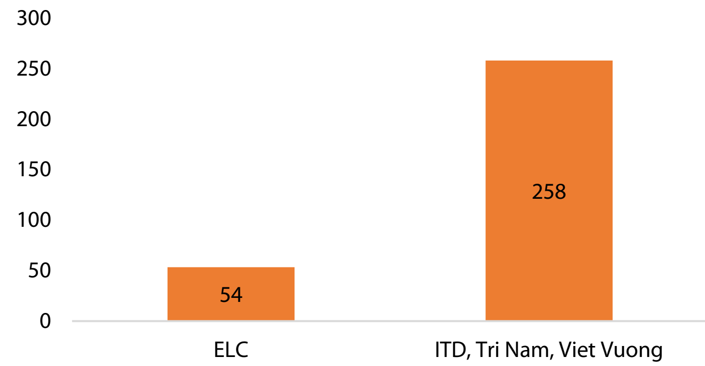
Therefore, we estimate the scale for **ITS (including ETC) is about VND 9,415 billion.**

ELC is one of the few enterprises supplying and installing its systems on the expressway.

Throughout the development process in IT, ELC has demonstrated its capacity and experience when implementing many projects to supply and install ITS (Table 5). Currently, there are about four suppliers installing ITS on roads in Vietnam: ELC, ITD, Viet Vuong, and Tri Nam. Based on the information published by the Ministry of Planning and Investment, the cumulative value of winning bidding packages on ITS of ELC reached VND 53.5 billion, lower than the remaining three enterprises because, in 2019, the ITD – Tri Nam – Viet Vuong three-member consortium won the package of designing, supplying and installing the ETC under the Hanoi - Hai Phong Expressway Project worth VND 126 billion.

These enterprises have also worked together on many projects to supply and install ITS equipment. We believe that, for a North-South expressway project, enterprises of the same sector will start in the form of a joint venture to implement a bidding package because, compared to the size of enterprises, the workload is relatively large. Therefore, we assess that, when combined with other enterprises, ELC is fully capable of achieving at least one project per year during the completion phase of the North-South Expressway.

Figure 1: Total bid-winning value* in the last three years (VND billion)



Source: Ministry of Planning and Investment, Rong Viet Securities, (*) The bid winning value includes the form of the joint venture

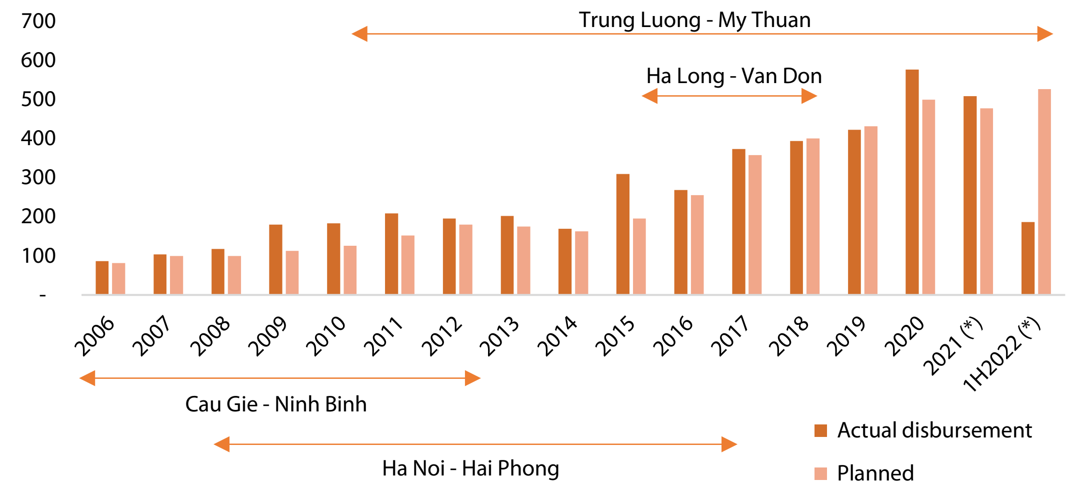
Table 5: ELC expressway ITS projects won the bid

Package	Project	Contractor/Investor	Year	Value (VND bn)
Repair and upgrade its equipment for Cau Gie - Ninh Binh expressway	Repair and upgrade its equipment for Cau Gie - Ninh Binh expressway	Vietnam Expressway Development and Investment Corporation	2022	13.25
Construction and installation of electronic toll collection equipment (ETC) in phase 2 of the project	Upgrade and expand National Highway 13 from Km 62+700 (Binh Duong province boundary) to Km 95+000 (Binh Long town)	Quang Minh Construction Technology Consulting Limited Company	2022	13.29
Supply and installation of non-stop automatic toll collection equipment	Investment and construction of Cau Gie - Ninh Binh Expressway	Vietnam Expressway Development Investment Corporation	2019	27
Supply and installation of automatic vehicle weighing system equipment at the intersection of IC17, IC4, Km6 toll station on Noi Bai – Lao Cai route	Investment and construction of Noi Bai – Lao Cai Expressway	Vietnam Expressway Development and Investment Corporation	n/a	n/a
Purchase Front – end imported equipment to deploy some toll stations	Autonomous ETC and vehicle load control project nationwide – Phase 1 applicable to National Highway 1 and Ho Chi Minh Road crossing the Central Highlands	VETC Automated Toll Collecting Company Limited	n/a	n/a
Finalize the design, supply and installation of the intelligent transportation system – Dinh Vu weighing station	Investment in construction of Hanoi – Hai Phong motorway	Vietnam Expressway Development and Investment Corporation	n/a	n/a
Designing, providing solutions, equipment and installing ETC of the remaining lanes of the three toll stations	ETC and controlling vehicle load nationwide – Section 1 spikes apply to National Highway 1 and Ho Chi Minh Road section through the Central Highlands in the form of BOO CONTRACT	VETC Automated Toll Collecting Company Limited	n/a	n/a

Source: ELC, Ministry of Planning and Investment, Rong Viet Securities

The rate of capital disbursement for expressway projects is usually slower than planned…

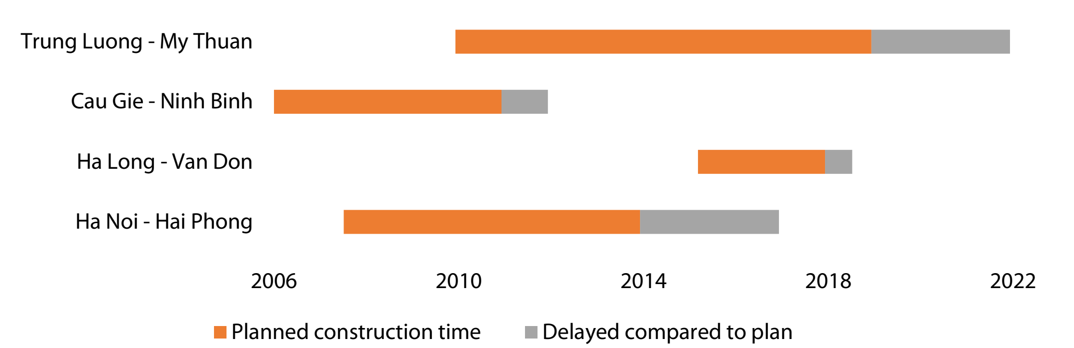
Figure 2: Investment and development expenditures during the construction of highways (VND trillion)



Source: Ministry of Finance, Rong Viet Securities, (*) Development investment expenditures not yet settled

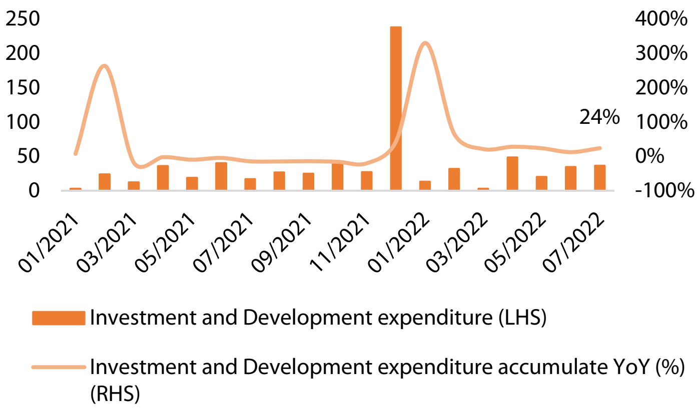
In the North-South expressway project in the period of 2017 – 2021, roads were behind schedule compared to the original approval due to many factors. The slow rate of disbursement of investment capital, prolonged land clearance process, material prices at the time of construction increased beyond the initial cost estimate.

Figure 3: Time to complete expressway projects in Vietnam



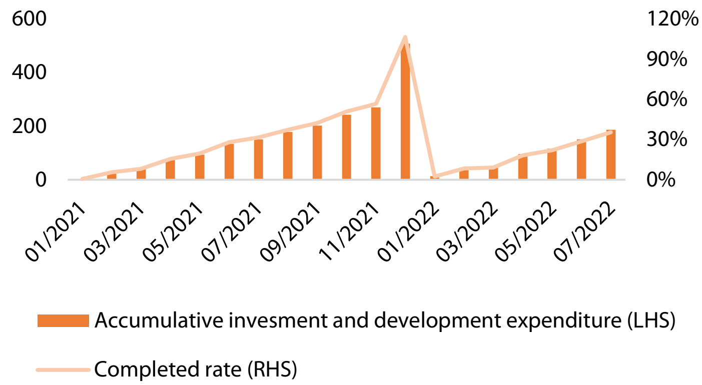
Source: Rong Viet Securities

Figure 4: Investment and development expenditures from the state budget (VND trillion)



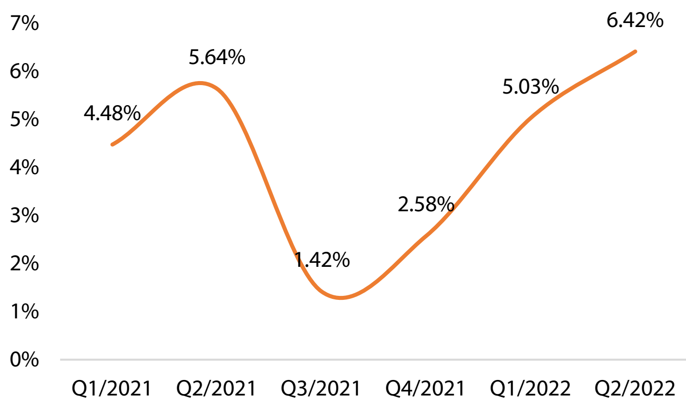
Source: GSO, Rong Viet Securities

Figure 5: Investment and development expenditures from the accumulated state budget (VND trillion)



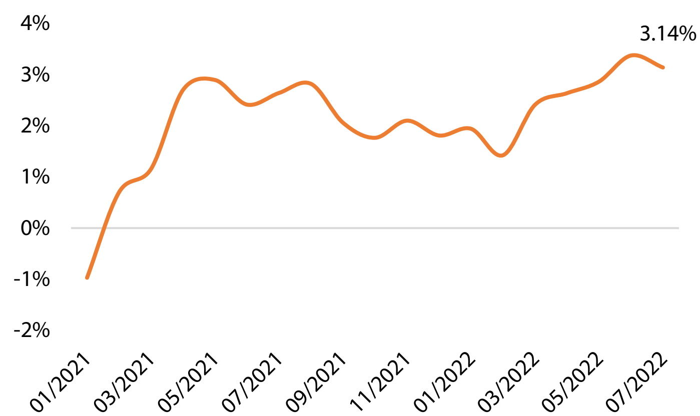
Source: GSO, Rong Viet Securities

Figure 6: Total GDP growth (YoY %)



Source: FiinPro, Rong Viet Securities

Figure 7: Inflation rate (YoY %)

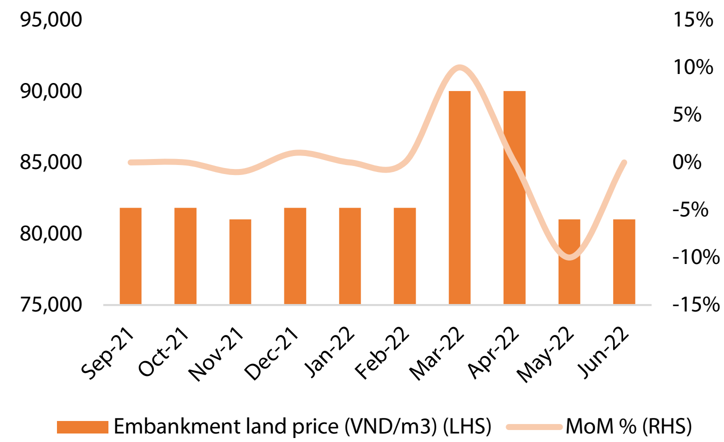


Source: FiinPro, Rong Viet Securities

The rate of disbursement of public investment capital is often unplanned. We think that the implementation plan for investment and development will also be difficult to complete this year because:

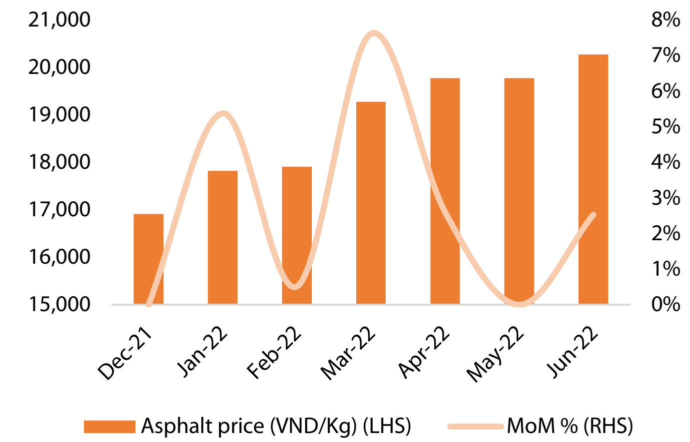
- The disbursement rate of investment capital to the end of Q2/2022 is relatively low compared to the plan: Disbursement of investment capital from the state budget 1H/2022 grew 24% YoY, reaching VND 187 trillion, but only 36% of the project was completed.
- Policies to support the economy should go hand in hand with exchange rate stability and inflation control below the 4% threshold. If the public investment is further boosted, inflation will rise beyond the Government's control while GDP growth throughout the year is expected to remain as planned. Q2/2022 Vietnam's GDP growth reached 7.72% YoY, the highest Q2 SPLY since 2011, accumulating 6T/2022, growing 6.42% YoY due to tourism, industrial production, retail and consumption sectors recovering well after the COVID – 19 pandemic. Rong Viet's GDP growth forecast is 7.3%, exceeding the target of 6.5%.
- The rapid rise in the price of construction materials led contractors to actively extend the implementation time, waiting for things to cool down. In the situation that the construction and installation costs exceed the original cost estimates, the contractor shall have the right to propose an adjustment to the costs. It will also take a long time to reevaluate the cost estimate, which will also extend the project completion time.

Figure 8: Evolution of land prices in Binh Thuan province



Source: Binh Thuan Department of construction, Rong Viet Securities

Figure 9: Price evolution of asphalt Shell 60/70 Singapore Binh Thuan province



Source: Binh Thuan Department of construction, Rong Viet Securities

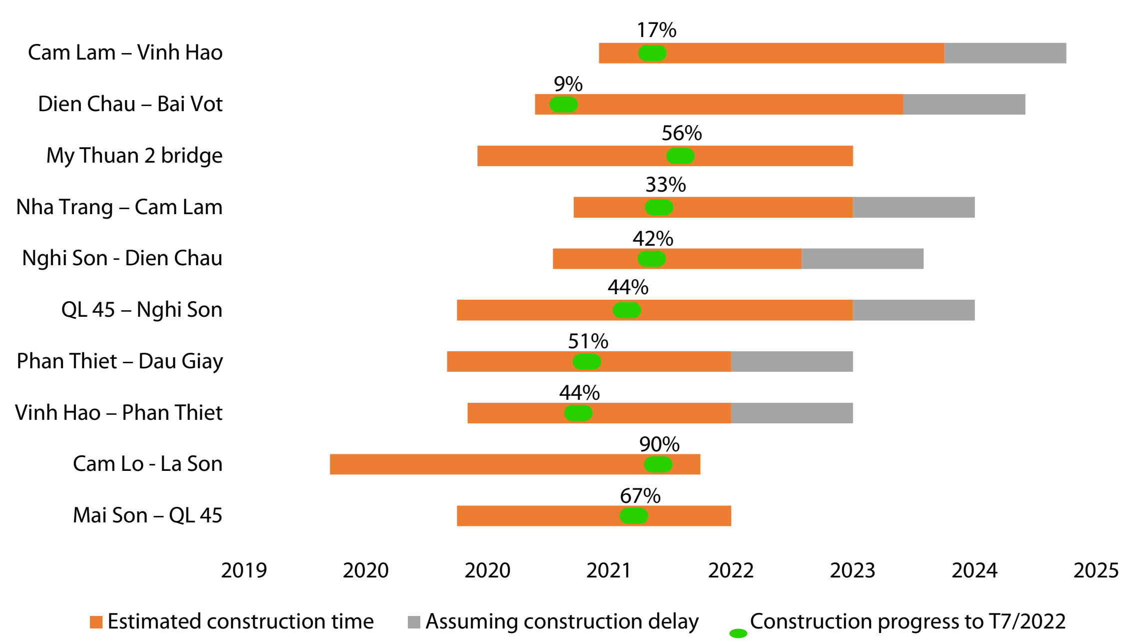
However, in comparison with the previous period, the Government has also made changes to the mechanism to shorten the completion time of the expressway project, such as (1) Directing the Ministry of Transport to actively guide and handle local problems in the process of site clearance; (2) The Prime Minister office decided to appoint contractors for the whole package of construction and installation of component roads.

In general, we are concerned that the progress of disbursement of public investment will affect the certainty of the implementation time of the package and record revenue of IT services related to ELC.

… but the potential to record revenue from IT is still huge with about 10 expressways to be completed in the next three years.

We expect the routes of the North-South Expressway Phase 1 to be completed in the next three years (Figure 10).

Figure 10: Routes scheduled to be completed in the next three years



Source: Rong Viet Securities

We assume that each year, ELC can win 1 – 2 packages of supply and installation of equipment on the above-mentioned highways, thereby contributing significantly to the growth of the IT segment.

The suitable business strategy to help ELC acquire more Intelligent transport packages in urban areas

Vietnam's plan for the period 2021 – 2030 will include the installation of Surveillance Camera systems in all 63 provinces and at the same time improve and upgrade existing systems, and develop applications in urban traffic management. The scale of projects on ITS in urban areas from 2022 - 2026 is very large. According to ELC, the estimated **market size is up to VND 6,000 billion**, including the following items: command center, traffic security and safety monitoring system, smart parking management system, smart city data center, sanctions monitoring system, AI Camera system.

Figure 11: ELC Intelligent Transportation Operations Center

Source: ELC

Figure 12: ELC's AI Camera device

Source: ELC

Viettel, VNPT is dominating the market in the field of Smart Urban thanks to its superiority in scale, resources, capacity and experience. VNPT has implemented more than 40 Smart Operation Centers for provinces/cities across the country, and Viettel has signed a cooperation agreement with 30 provinces/cities in applying smart urban construction technology.

Figure 13: VNPT's Intelligent Transport Operations Center

Source: VNPT

Figure 14: Viettel's Intelligent Transport Operations Center

Source: Viettel Solutions

ELC hardly competes directly with large corporations such as Viettel, VNPT. Instead, ELC choses to focus on smaller items of smart urban construction projects such as providing surveillance and sanction management software solutions, providing Surveillance Camera equipment, or becoming a subcontractor to provide hardware equipment for the large companies mentioned above (Table 6).

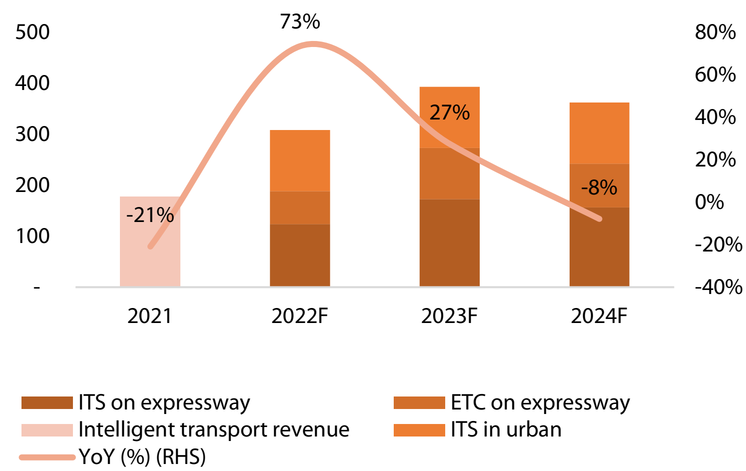
Table 6: Typical ITS in Smart Urban packages implemented by ELC

Package	Project	Investor	Year	Value (VND Bn)
Rehabilitation of the Command Center, construction of peripheral infrastructure and supply and installation of hardware and software equipment and rental of transmission lines	Building a command center, traffic security and safety monitoring system in Thanh Hoa province	Thanh Hoa Public Security	2020	74.8
Construction and installation of equipment and software for the Smart Urban Surveillance Camera system in Yen Bai province	Construction of smart urban infrastructure in Yen Bai province	Office of the Provincial People's Committee.	2020-2021	117.5
Pilot installation of security cameras in Bac Ninh city	Construction of smart urban infrastructure in Bac Ninh province	Bac Ninh City Urban Management Department	2022	16.8

Source: ELC, Ministry of Planning and Investment, Rong Viet Securities

We assume that every year ELC will receive a package for the supply and installation of ITS in the city, which will be implemented in the form of a consortium, **with revenue of VND 120 billion/year.**

Figure 15: Estimated revenue of the IT segment (VND billion)



Source: ELC, Rong Viet Securities

The Telecommunications and National Security segments provide a stable revenue

The Telecommunications segment in the period before 2017 used to be the main area of activity, contributing a large proportion of the revenue structure in the range of 43% - 58%. However, in 2017, when the telecommunications carriers completed the technical infrastructure for 4G coverage in Vietnam, the demand for ringtones, waiting music, voice messages, etc., was no longer high, causing a decline in revenue. Currently, ELC is providing services on network infrastructure, wireless and wired transmission solutions DWDM/Viba/Metro, telecommunications fare calculation services and value-added services (VAS). We believe that the expectation for the implementation of 5G coverage throughout Vietnam is unclear in the coming years, so ELC will only use certain resources for the Telecommunications segment. The Telecommunication's segment revenue in the coming period will come from annual contracts such as providing DWDM/Viba/Metro transmission equipment for Viettel and upgrading the SDC system for Mobifone. We believe that the revenue of the segment will remain stable at about VND 200 – 300 billion/year.

The National Security segment is a specific and confidential business. Large projects will be undertaken by the military telecommunications group Viettel. ELC will take over smaller projects in accordance with its capacity and experience. Currently, ELC is providing solutions for information security, network monitoring, vessel monitoring systems, specialized equipment in defense, etc. Based on historical data, we forecast that the results of the National segment will remain stable, with annual revenue in the range of VND 250 – 300 billion.

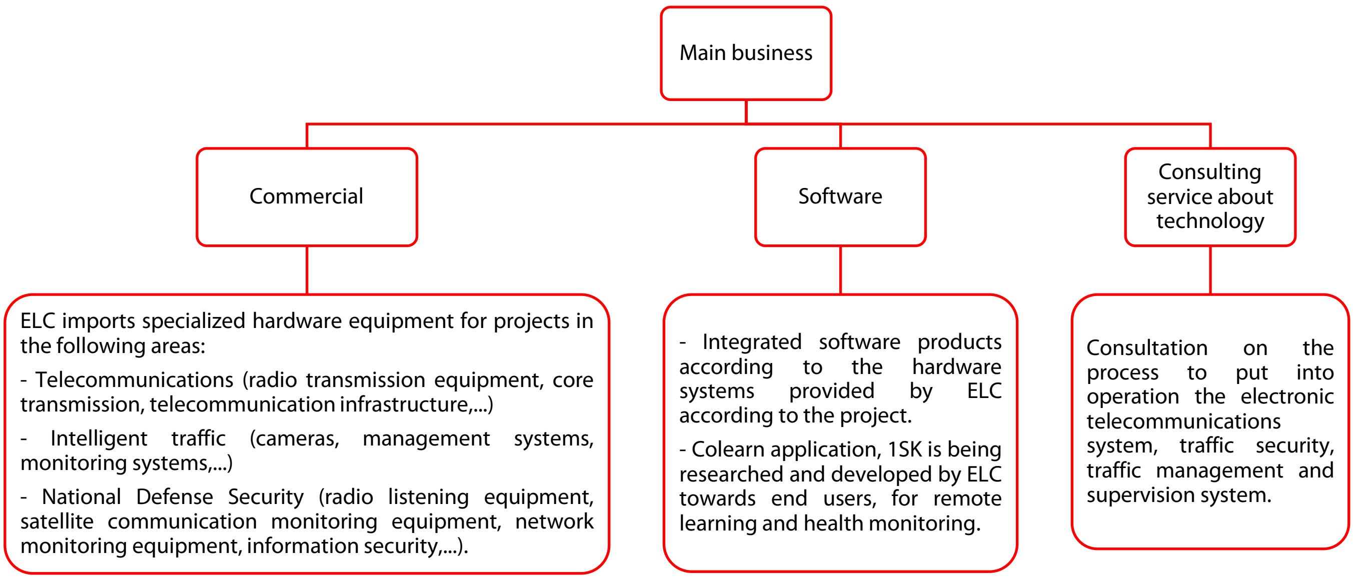
Overview of the business

ELC was established in 1995 in Hanoi as one of the technology companies operating in Vietnam with strengths in software products and system integration for network service providers, technical services for telecommunications, security, defense and transportation.

Business model

The main business model of ELC is to provide machinery and hardware for telecommunications projects, public investment through commercial forms. The hardware system that the company providesis also integrated with the corresponding software developed by ELC.

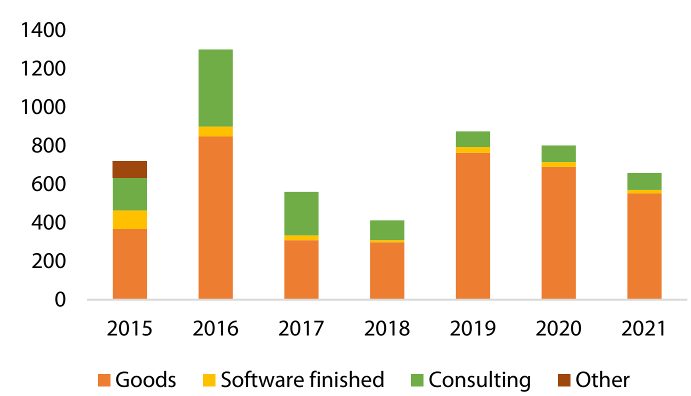
Figure 16: ELC's main businesses



Source: ELC, Rong Viet Securities

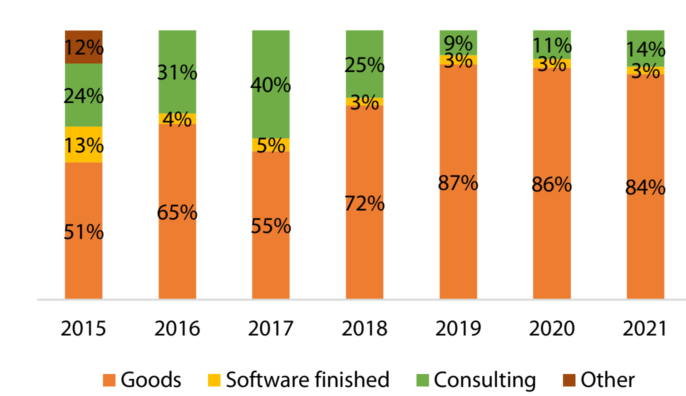
Due to the commercial characteristics of projects, the proportion of goods (hardware equipment) always accounts for a very large proportion of ELC's revenue structure. Finished software and services - developed by ELC and accompanied by the equipment and goods supplied to the project - contributed approximately 15% to the turnover in the last three years.

Figure 17: Revenue by type of goods/services (VND billion)



Source: ELC, Rong Viet Securities

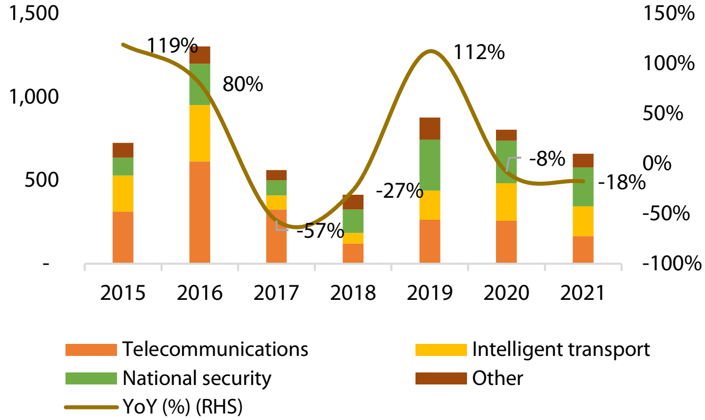
Figure 18: Revenue structure by type of goods



Source: ELC, Rong Viet Securities

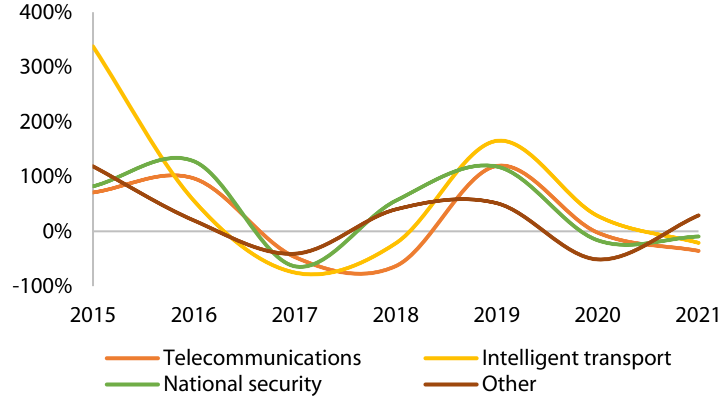
Main business segments

Figure 19: Revenue by segments (VND billion)



Source: ELC, Rong Viet Securities

Figure 20: Growth rate of revenue by segments



Source: ELC, Rong Viet Securities

(1) Telecommunications

ELC has implemented many projects in the field of Telecommunications for major carriers such as Vinaphone, Mobifone, Viettel, and Vietnamobile such as Equipping North-South Backbone transmission network equipment, missed call system, ringtone and waiting music for the foreign markets of Viettel; equipping coverage enhancement equipment for Duyen Hai area, MobiFone island network; equipping additional power systems for BTS stations.In the period before 2017, ELC focused resources on developing the field of Telecommunications. ELC worked on projects related to providing value-added services (VAS), SMS, standby music, installation of BTS power systems for major carriers such as Mobifone and Viettel. Since thenthe demand for telecommunications services declined. Projects to install BTS power systems were completed to cover 4G in the whole country. Revenue from ELC's Telecommunications segment also followed the general trend and slumped.

(2) Intelligent transport

ELC is an enterprise with experience in implementing many bidding packages under intelligent transport projects in urban areas and on highways. ELC is now a provider of weighing in motion and electronic toll collection solutions.

In 2015 – 2016, localities across the country started to build ITS in urban areas, which helped ELC's Intelligent transport segment grow impressively with revenue of VND 217 billion (+334% YoY) and VND 338 billion (+56% YoY).

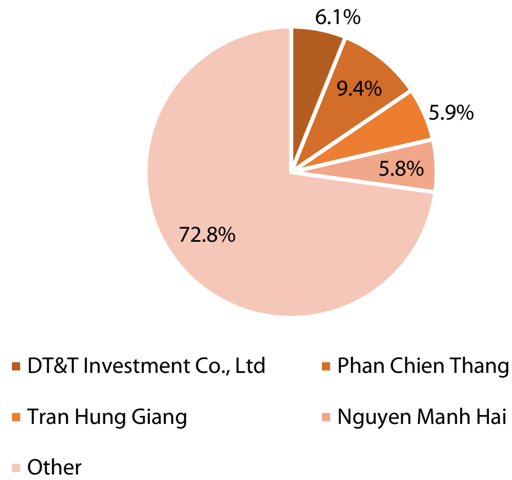
The 2021 business result of IT only reached VND 178 billion, a decrease of 21% YoY due to the implementation of the social distancing policy against Covid – 19 affecting the process of investment and construction of transport projects in 2021. In ELC's revenue structure, IT still contributes a large proportion of over 25% over the years.

(3) National security

ELC is one of the few private enterprises operating in this particular business sector after being granted a certificate of eligibility by the General Department of Defense Industry (Ministry of Defense) to participate in defense industry activities in Vietnam in 2015. ELC has been providing communication, transmission solutions,surveillance, tracking, interception (satellite/radio); Specialized products for defense security: eVision Military, Eyesea, UAV, USV,information security and network surveillance. The National Security segment has always contributed for over 30% of revenue in recent years.

Shareholder structure

Figure 21: Shareholder structure of ELC



Source: FiinPro, Rong Viet Securities

The shareholder structure of ELC as of July 2022 includes:

- Mr. Phan Chien Thang – Chairman of the Board of Directors, currently holds the highest percentage of shares at 9.4%. The other two members of the Board are Mr. Tran Hung Giang and Nguyen Manh Hai who hold 5.87% and 5.83%, respectively. The members of the Board mentioned above are all founding shareholders of ELC in 1995.
- DT&T Investment Co. operating in the field of electronic components, telecommunications, currently owns 6.1% as the only major institutional shareholder.Mr. Phan Chien Thang was formerly the president of DT&T Investment.

Figure 22: History of stock trading of the Board of Directors from 2021 to present

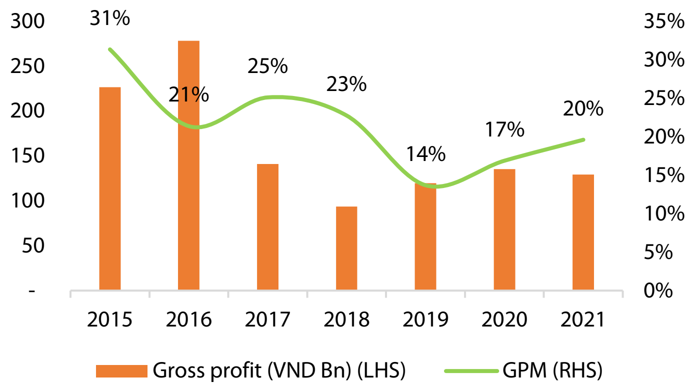
Source: ELC, Rong Viet Securities

Financial analysis

Changes in revenue structure resulting in improved gross profit margin

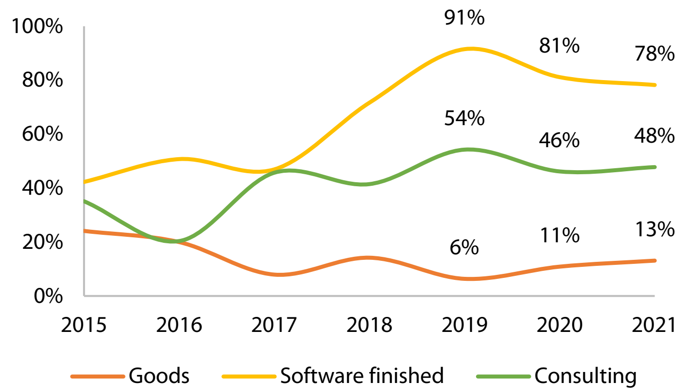
The commercial activity in the field of National Security and Intelligent Transport has a higher gross profit margin (about 20 -25%) than in the field of Telecommunications (about 15%), thanks to the increase in the share of revenue of these two areas of activity (from 55% to 62%).The contribution of Consulting Services has helped the overall gross profit margin of ELC improve from 14% - 20% in the last three years.

Figure 23: Gross margin (VND billion)



Source: ELC, Rong Viet Securities

Figure 24: Gross profit margin by product types

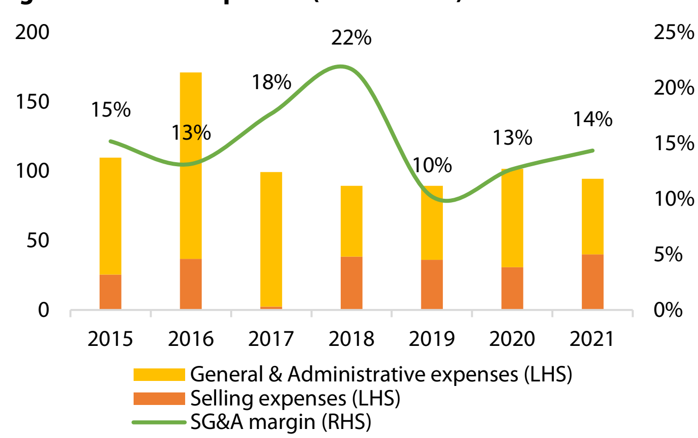


Source: ELC, Rong Viet Securities

ELC has good control over operating expenses. In the last five years, ELC's operating expenses have fluctuated around VND 90-100 billion annually, the majority of which are salary expenses for sales and management. In 2017 and 2018, ELC's operations encountered difficulties due to the fact that the Telecommunications segment was considered to be materially revenue impaired, causing the operating cost/revenue ratio to skyrocket. In the last three years, this has been maintained at a steady rate of about 13%.

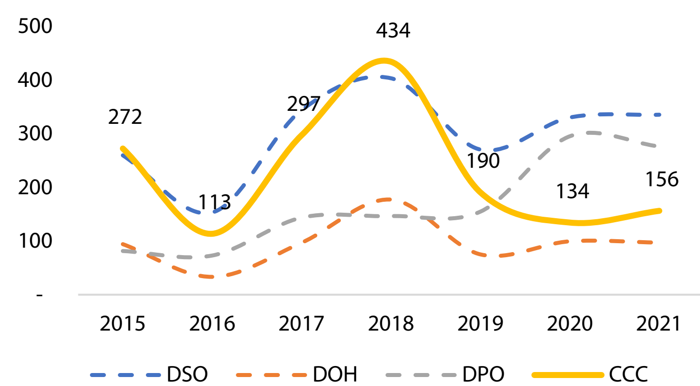
The cash conversion cycle lasts because of the specific nature of the project. A characteristic of ELC is that many state capital investment projects are implemented by the enterprise, so the procedure for disbursement of payments is relatively time-consuming. The number of days of cash conversion has been on a gradual upward trend over the last three years.

Figure 25: SG&A expenses (VND billion)



Source: ELC, Rong Viet Securities

Figure 26: Cash conversion cycle (day)



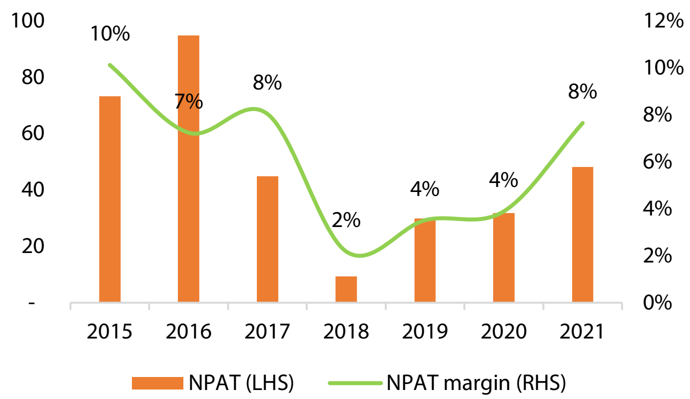
Source: ELC, Rong Viet Securities

Increase in NPAT due to recognition of the investment in associated companies

ELC recorded NPAT in 2021 of VND 48 billion (+51% YoY) thanks to the profit of VND 16.6 billion from the purchase of 49% of shares of VFT Telecom JSC (the investment value was VND 13.9 billion lower than the book value of the investment of VND 30.5 billion). Thereby, the net profit margin of ELC improved from 4% to 8%.

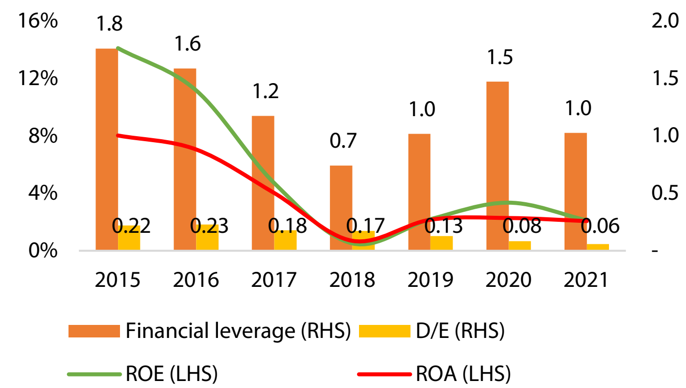
ROA is relatively low due to the proportion of accounts receivable which account for up to 48% of the total asset structure. Financial leverage (A/E) of ELC is at a safe level.The debt ratio (D/E) decreased from 0.22 in 2015 to 0.06 in 2021 because the company has completed the long-term loan payment of 101 billion VND of Lien Viet Post Bank. ELC only has short-term loans to supplement working capital for production and business.

Figure 27: NPAT and NPAT margin



Source: ELC, Rong Viet Securities

Figure 28: Profitability



Source: ELC, Rong Viet Securities

ELC owns real estate projects but is not legally completed

- Office building 15 Duy Tan, currently renting ½ of the usable area, rental rate from 18$- 22$/m^2. Annual revenue from leasing is 12 billion VND/year. Net profit margin is 70%. On average, a lease will last for five years.
- The construction project of the mixed building at 18 Nguyen Chi Thanh is owned by Vietnam Computer and Communications Joint Stock Company – an associated company of ELC. On the financial statements, the ownership of ELC at Vietnam Computer and Communications Joint Stock Company is 35.4%. However, according to the enterprise, the actual ownership rate is 64.3%, with the remaining 28.9% owned through related individuals. The other shareholder is Vietnam Electronics and Informatics Corporation (UPCOM: VEC) – this company is owned by SCIC with a holding rate of 87.97%. Currently, ELC does not have a specific license related to the implementation of the project.
- VFT Building, 72 Duong Ha Noi, Ha Dong, Hanoi has 34% shares of VFT. VFT owns land use rights of about 1ha.
- For two industrial area projects in Phu Xuyen and Thanh Oai, with an area of about 30 – 45 ha.Elcom is still working on the project documents.

Currently, ELC's real estate construction projects have not completed the legal procedures for construction. Therefore, we have not reflected the value of these real estate projects in the valuation.

Plan to increase charter capital to serve business activities in 2022

The dividend plan is based on shares at the rate of 15% from undistributed profits. The expected number of shares is 7,639,236.

Offering more shares to existing shareholders at the rate of 22% with the offer price of 11,500 VND/share; the expected number of issues is 11,204,213 shares. The expected proceeds from the issuance of about VND 129 billion will be used for two purposes:

- Additional working capital of VND 87 billion to buy goods, equipment, tools, materials and services for production and business.
- Using VND 42 billion for business expansion, Colearn, 1SK end-user services research (Section B3 – Appendix 1).

Risk to our call

Risks to the construction progress of the project

Installation of ITS equipment on expressways will take place after the completion of construction. Thus, the delay in construction progress will affect the bidding time and project implementation, potentially falsifying the timing of revenue recognition of ELC in our business results forecast.

Project procurement risks

Characteristics of projects with state capital are specific in terms of the use of relationships to win bids. Thus, it is not excluded that of unexpected factors affecting the results of winning packages.

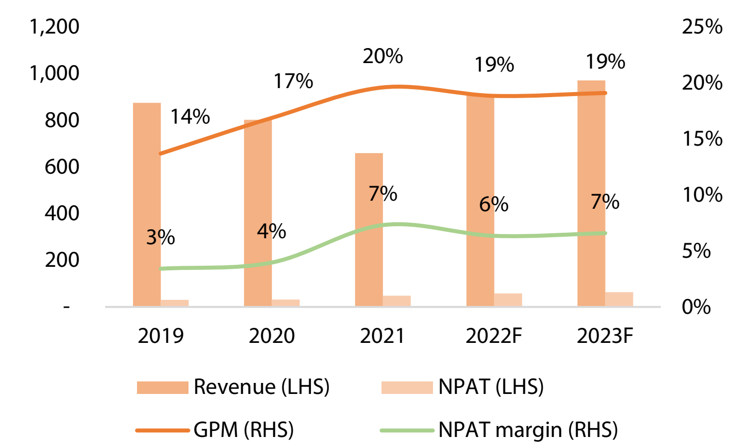
Forecasts

Table 7: Forecast 2022F/2023F

Unit: VND billion	2022F	YoY%	2023F	YoY%	Assumption
Net Revenue	**908**	**38%**	**963**	**6%**	
1. Telecommunications	261	58%	247	-5%	
2. National Security	265	14%	252	-5%	
3. Intelligent transport	308	73%	387	27%	
4. Others	74	-11%	78	6%	We assume revenue from other ELC services to remain stable in the range of VND 70 – 80 billion/year.
Gross profit	**171**	**32%**	**185**	**8%**	Goods always account for a high proportion of ELC's revenue with a relatively thin gross margin of about 12%. Given concerns about China closing in the first half of 2022, we believe this factor only slows down the import process without impacting the COGS of the ELC. The overall gross profit margin of the services will fluctuate by nearly 20%.
SG&A expenses	**103**	**9%**	**109**	**6%**	We assume that the SG&A expenses continue to remain stable at around VND 100 billion/year, accounting for about 7% of revenue.
EBIT	**69**	**101%**	**76**	**11%**	
Financial income	4	-64%	4	8%	
Financial expenses	2	-60%	2	5%	
Other income	-	-100%	-	0%	We assume that there will be no abnormal income in 2022F and 2023F.
Gain/(loss) from joint ventures	**1**	**-96%**	**1**	**31%**	We believe that the profit recorded from the acquisition of VFT's in 2021 is an infrequent one. We assume that the associated companies will contribute a small part of the consolidated business profit and no abnormal profit recorded in 2022F, 2023F.
LNTT	**71**	**21%**	**79**	**11%**	
NPATMI	**58**	**20%**	**64**	**11%**	
EPS (VND)	**1.092**	**21%**	**1.215**	**11%**	Not reflecting the increased number of shares in the dividend payment plan in shares and issued separately to existing shareholders.

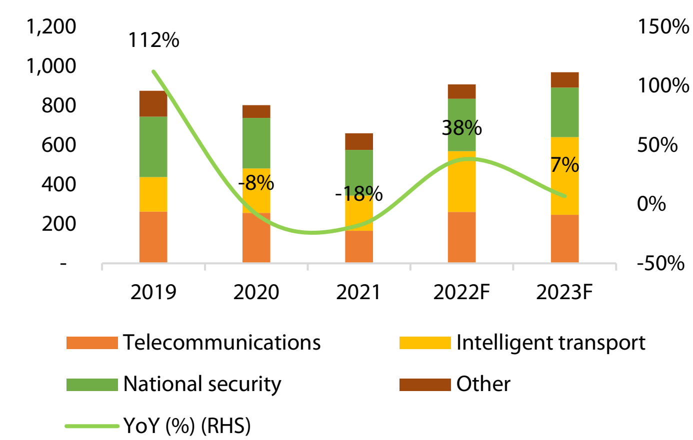
Source: Rong Viet Securities

Figure 29: Forecasts (VND billion)



Source: ELC, Rong Viet Securities

Figure 30: Revenue by segment (VND billion)



Source: ELC, Rong Viet Securities

Valuation

We use a combination of FCFF (50%) and P/E (50%) to determine the one-year target price. For the FCFF method, we applied an average cost of capital of 12.87% and growth rate of 2.8% to determine the value of the perpetual cash flow. For the P/E method, we apply a target P/E multiple of 15x with a forecast mid-2023F EPS of 1,154 VND/share. We arrive at a **fair value of 16,100 VND/share**, plus a cash dividend of 600 VND/share expected for 2022. This is **equivalent to a rate of return of -3%**, based on the closing price on Aug 18th, 2022.

Table 8: Valuation summary

Method	Valuation	Weighted	Contribution
FCFF **(WACC: 12,87%, g: 2,8%)**	14,898	50%	7,449
P/E (13x)	17,304	50%	8,652
Tổng		**100%**	**16.101**

Source: Rong Viet Securities

Table 9: Forecast FCFF

FCFF	2022F	2023F	2024F	2025F	2026F
Net income	58	64	55	55	87
+ D&A + Amortization of Goodwill	11	2	3	3	3
+ Interest * (1-T)	1	1	0	-	-
- Financial income	4	4	5	5	6
- Change in working capital	(7)	(21)	(42)	(23)	15
- Capex	20	3	3	3	3
FCFF	**52**	**80**	**92**	**73**	**66**

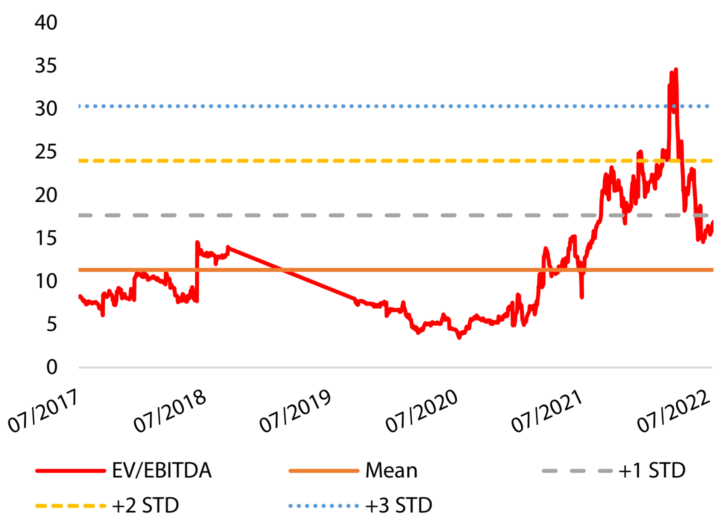
Source: Rong Viet Securities

Table 10: Weighted average Cost of capital

WACC		FCFF	Tỷ đồng
Beta	0.95	Cumulative Present Value of FCFF	273
Risk-free rate	2.6%	PV of Terminal Value	397
Equity risk premium	10.9%	(+) Cash and Cash Equivalents	102
Cost of equity	12.9%	(-) Debt	17
Cost of debt	5%	**Implied Equity Value**	759
Tax rate	18%	Number of shares (million)	51
D/(D+E)	0%	**Price per share**	**14,898**
E/(D+E)	100%		
WACC	**12.87%**		

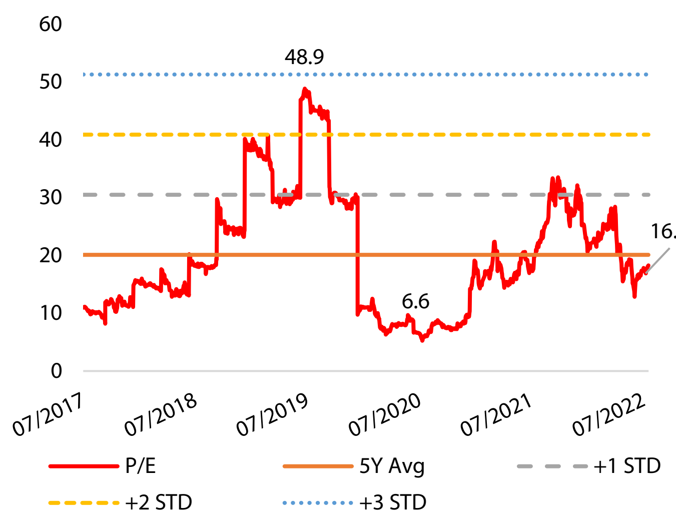
Source: Rong Viet Securities

Figure 31: ELC historical EV/EBITDA band



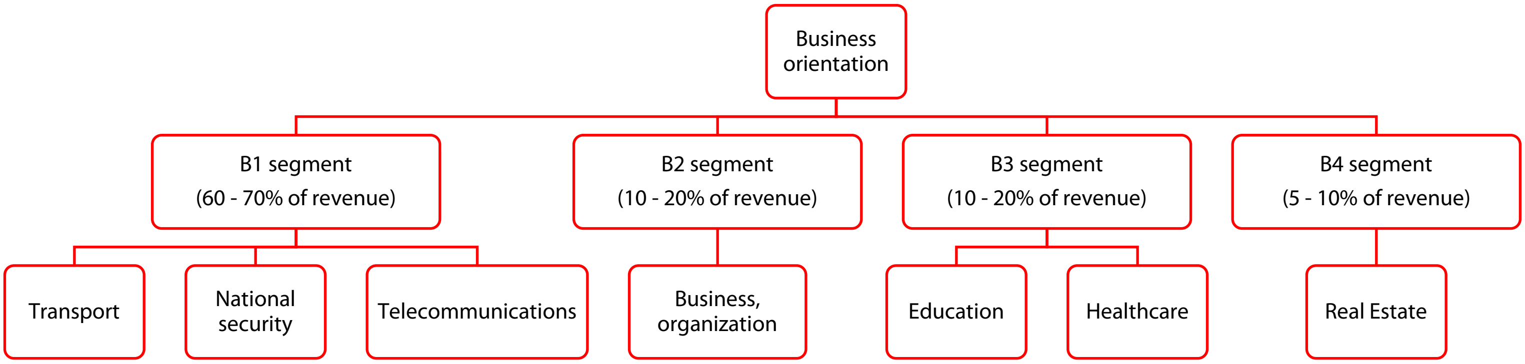
Source: Bloomberg, Rong Viet Securities

Figure 32: ELC historical P/E band



Source: Bloomberg, Rong Viet Securities

Appendix 1: Long-term development strategy with new business pillars



Source: ELC, Rong Viet Securities

Unit: VND bn

PL	2020A	2021A	2022F	2023F
Revenue	802	659	908	970
COGS	667	530	737	785
Gross profit	**135**	**129**	**171**	**185**
Selling expenses	31	40	37	40
G&A expenses	71	55	65	69
Financial income	13	11	4	4
Financial expense	7	5	2	2
Other income/loss	1	-2	0	0
Gain/(loss) from joint ventures	0	20	1	1
PBT	**40**	**59**	**71**	**79**
Tax expense	9	8	13	15
Minority interests	-1	2	1	1
PAT	**32**	**48**	**58**	**64**
EBIT	34	35	69	76
EBITDA	45	42	79	78

Unit: %

FINANCIAL RATIOS	2020A	2021A	2022F	2023F
Growth				
Revenue	-8.3	-17.8	37.8	6.8
EBITDA	-17.4	-7.3	89.4	-1.5
EBIT	10.8	2.6	98.8	10.6
PAT	6.5	51.5	19.7	10.8
Total assets	6.0	-23.4	15.1	2.5
Total equity	3.7	1.7	18.4	2.2
Profitability				
Gross margin	16.9	19.6	18.8	19.1
EBITDA margin	5.6	6.4	8.7	8.1
EBIT margin	4.2	5.2	7.6	7.8
Net margin	4.0	7.3	6.3	6.6
ROA	2.1	4.2	4.4	4.7
ROCE	3.9	3.9	6.6	7.2
ROE	3.8	5.6	5.7	6.2
Efficiency (x)				
Receivables turnover	1.2	1.2	1.7	1.8
Inventories turnover	2.9	3.8	4.0	4.1
Payables turnover	1.2	2.3	2.8	2.7
Liquidity (x)				
Current	1.9	3.3	3.7	3.6
Quick	1.5	2.8	3.0	2.9
Finance Structure				
Total debt/equity	8.2	3.7	1.4	0.4
ST debt/equity	7.5	3.7	1.4	0.4
LT debt/equity	0.7	0.0	0.0	0.0

Unit: VND bn

BS	2020A	2021A	2022F	2023F
Cash and cash equivalents	305	155	278	300
Short-term investments	24	27	27	27
Accounts receivable	643	556	540	530
Inventories	232	139	184	194
Other current assets (inc. non-trade	1	1	2	2
Property, plant & equipment	73	17	26	27
Acquired intangible assets (inc. Goodwill)	3	2	2	2
Long term investments	213	246	257	269
Other non-current assets	4	4	4	4
Total assets	**1,498**	**1,147**	**1,321**	**1,354**
Accounts payable	569	232	267	288
Short-term borrowings	63	31	14	5
Long-term borrowings	6	0	0	0
Other non-current liabilities	3	9	9	9
Bonus and Welfare fund	4	5	2	2
Technology-science development fund	0	0	0	0
Total liabilities	**645**	**277**	**293**	**303**
Common stock and APIC	598	596	801	801
Treasury stock	-3	-1	0	0
Retained earnings / accumulated deficit	201	216	166	188
Other comprehensive income / (loss)	5	5	5	5
Investment and Development Fund	41	41	41	41
Total equity	**843**	**857**	**1,014**	**1,036**
Minority interest	**11**	**13**	**14**	**14**

Unit: VND bn

CF	2020A	2021A	2022F	2023F
Profit before tax	40	59	71	79
-Depreciation	14	8	11	2
-Adjustments	5	(0)	-	-
+/- Working capital	205	(164)	(7)	6
Net Operating CFs	**265**	**(97)**	**75**	**88**
+/- Fixed Asset	1	98	(20)	(3)
+/- Deposit, equity investment	(4)	(103)	(11)	(11)
Interest, dividend, cash profit received	(0)	20	-	-
Net Investing CFs	**(3)**	**15**	**(32)**	**(14)**
+/- Capital	-	2	190	-
+/- Debt	(0)	(38)	(17)	(10)
Dividend paid & other	0	(32)	(93)	(42)
Net Financing CFs	**(0)**	**(67)**	**79**	**(52)**
Beginning cash & equivalents	**43**	**305**	**156**	**278**
+/- cash & equivalents	262	(150)	122	22
Ending cash & equivalents	**305**	**156**	**278**	**300**

Company Report

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Market Strategy
- Industrial Park

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

Tam Pham
Manager
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank
- Insurance

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- Aviation
- Logistics
- Market Strategy

An Nguyen
Senior Analyst
an.ntn@vdsc.com.vn
+ 84 28 6299 2006 (1541)
- Food & Beverage
- Automotive & Spare parts

Anh Tran
Senior Analyst
anh.tk@vdsc.com.vn
+ 84 28 6299 2006 (1544)
- Market Strategy
- Residential RE
- Construction

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Textile
- Fishery
- F&B

Thanh Nguyen
Analyst
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Bank
- Insurance
- Securities

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities
- Sea ports
- Logistics

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

Hung Le
Analyst
hung.ltq@vdsc.com.vn
+ 84 28 6299 2006 (1546)
- Industrial RE
- Market Strategy

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Quan Cao
Analyst
quan.cn@vdsc.com.vn
+ 84 28 6299 2006 (2223)
- Technology
- Pharmaceutical

Trang Tran
Assistant
trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

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