

Vinaconex – MEC (VCM)

- Previously Vinaconex JSC's Manpower Center, officially established in 03/05/2007;
- Main activities: manpower exports, vocational training, commercial import – export, national and international travel tourism, office for rent, and manufacturing wooden pellet for export, of which, manpower exports is key activity.
- 3 founding shareholders: Vietnam Construction and Import-Export Joint Stock Corporation (VINACONEX), VIMECO Mechanical and Trading Joint Stock Company (VIMECO), and Chairman Than The Ha, account for 48.96% of charter capital;
- Companies under VCM's control: Vinaconex Trading Jsc. (VINATRA) – hold 51%, and Vinaconex Trading and Manpower Development Jsc. (VINAMEX) – hold 68.77%.
- In 2009, Vinaconex – MEC's earning after tax reached VND21.7 billion out of VND30 billion of charter capital. Company's revenues were mostly from commercial import – export activities, however manpower exports have higher profit margin;
- Company's advantages: (i) company's leading position, (ii) expand real estate business with supports from Vinaconex, (iii) inherit Vinaconex brand.
- We used 2 methods: Discounted Cash Flow (DCF) and comparables (P/E) to evaluate VCM. The estimated share price for VCM is VND41,400/share.

Ticker	VCM
Exchange	HNX
Listing day	11/5/2010
Target price (VND)	41,400
No. of share outstanding	3,000,000
Market cap at target price (bn)	124
EPS 2009 (VND)	7,000
BVPS 2009 (VND)	17,000

Shareholders	No. of shares	% ownership
VINACONEX	1,326,000	44.2%
VIMECO	130,000	4.3%
Others	1,544,000	51.5%
Total	3,000,000	100.0%

CEO & Chairman Than The Ha

Chief Accountant Nguyen Tien Dat

Head Office

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Nhan Chinh urban area, Thanh Xuan, Hanoi

COMPANY OVERVIEW

Vinaconex Trading and Manpower Joint Stock Company (Vinaconex-MEC), (previously Vietnam Construction and Import – Export Corporation's Manpower Export Center) was officially established in 03 May 2007.

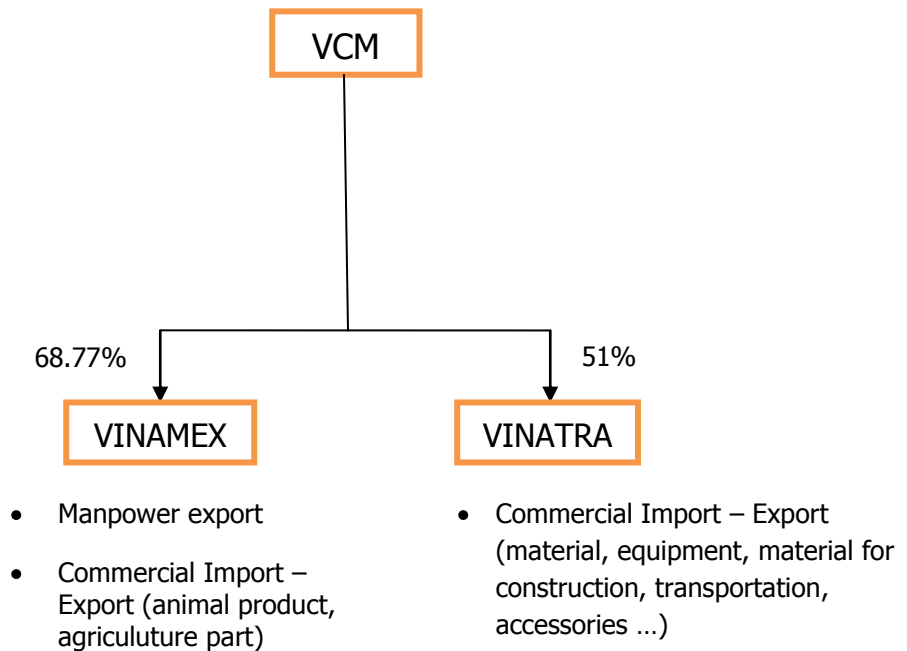


Table 1: Parent – subsidiaries organization structure

Company's revenues come from 2 main sources: manpower exports and import – export of goods. Although manpower export's revenue covered only 19.48% of 2009's revenue, with high profit margin, it contributed major revenue (61.5%).

In addition, VCM is constructing wood pellets manufacturing factory for export purpose at Phu Tho province. With annual capacity of 30,300 tons, annual average revenue of VND40 billion, the factory is expected to generate profit since QIV/2010. The Company also owns 2 office buildings for rent at Vinaconex Commercial Center – No. 8 Quang Trung street, Ha Dong and N05 project – Southeast Tran Duy Hung urban area, Cau Giay, Hanoi. Tourism is one of company's activities, however it does not contribute much to revenue, mainly serving for Vinaconex JSC and its subsidiary companies.

INVESTMENT THESIS

A leader in the manpower export area

Among 160 licenced companies, Vinaconex MEC is considered to be one of the leaders in labour exports, according to the Ministry of Labour – Invalid and Social Affairs. In 2009, when the word economy encountered financial crisis, VMC still sucessfully exported 2,156 people, covering 2.95% of market share. As from the Department of Overseas Labour's statistical data, in QI/2010 number of labours working overseas was 16,851 people, of which VMC exported 382 people – making up 2.27%.

Moreover, the Company was choosen by the Deparment of Overseas Labour as a pioneer to take labour from poor province to work overseas. VCM receives financial aid from the Government to carry out vocational training. VCM has advantages in the visa granting procedures compared to other peers. It is the only agency facilitated by the Ministry of Public Security to issue passports. The Company can gather all files of labours and submit to the Ministry of Public Security to issue passport, instead of individually taking charge.

In addition, thanks to the professional process of selecting and training labour, all labours of the Company are well-disciplined, complete the labour contract and experienced no trouble abroad. Hereby, VINACONEX MEC brand is gaining more and more reputation in the market.

Opportunities to expand the real estate business

VCM owns 2 offices for rent areas at Vinaconex Center – No.8 Quang Trung Street, Ha Dong, and N05 project – Southeast Tran Duy Hung urban area, Cau Giay, Hanoi. Due to the small area, this contributes partly to the Company's revenues (0.3%). At the moment, the Company intends to invest more in the real estate focusing on offices for rent. One of the Company's advantages in this field is its priority to buy new projects from the parent company.

Inherit VINACONEX brand

Right from the establishment in 1988, VINACONEX was assigned to manage staff and labours in the field of construction who worked in countries namely Bulgaria, Czech, URRS, Iraq. During more than 20 years of operations, the Company has exported nearly 70,000 labours, engineers and specialist to work in more than 20 countries over the world with diverse groups of industries. With the initial status of a labor-exporting centre of VINACONEX, the Company not only inherits the brand VINACONEX which is of longstanding reputation but also receives assistance in term of manpower supply. Composition of the Executives Board and the Board of the Company include those who have worked for many years in the import and export field of Vinaconex. Long-term relationship of the parent company with authorities, government departments and foreign partners also contribute significantly to the growth and success of VCM.

RISK ASSESSMENT

Labor-export market presents numerous risks

- (i) *The dependence upon the socio-economic conditions pose the risk of labour reduction*

The socio-economic condition of countries over the world, especially countries in high demand of importing labor, directly impacts on the performance of the Company. The 2008 and 2009 financial crisis has plunged the world economy into the recession period. Countries over the world had to implement labor-cut solutions, mainly focusing on several fields such as construction, production, manufacture, services which conventionally are advantages of Vietnamese exported laborers. In addition to the reduced number of exported laborers, laborers working abroad are also at risk of compulsory labor contract termination. In the year 2009, there were 73,028 exported laborers nationwide, decreasing by 16.09% compared to that of 2008.

However, in order to keep tight control of the economic climate's impacts on macro economy, the Company has kept a tight contact with external partners in view of making predictions on labour needs of the year regarding the impact of economic crisis. Therefore, although still suffer impacts of the recession, labour export turnover of VCM, in a sharp contrast, increased 58.4% compared to that of 2008.

- (ii) *Challenges from quality of exported laborers*

Labour market currently is mixed, redundancy of manual labor supply and lack of high - skilled labor supply. In response to needs, VCM has a system of two qualified schools for vocational training, skill-enhancement, language-fostering, oriental education for engineers, managers and labors prior to working abroad. At present, high - skilled labor staff of the Company has amounted to 2,000 people in case the need for manual workers decreases, the Company still have supply of skillful laborers, in order to achieve the Company's targeted revenue.

- (iii) *Confidence of laborers in labor export companies*

In response to the imperative need of many people hoping for a job overseas, numerous companies were established in some provinces and cities to cheat the laborers. Victims are usually poor laborers who face difficulties and are in need of working abroad but unskilled and of low intellect. Forms of fraud are usually fake certificates, records, labor contracts to get service charges, deposits of workers. This substantially influence companies which work legally. However, due to inherited VINACONEX brand with over 20 years of operations in the field of labor export, the Company bears little risk from these defamatory affairs.

The growth rate depends on good import and export activities with low profit

In the year 2009, the revenue from goods import and export accounted for 78.9%, with only 5% profit margin. In the meantime, exports of labour, although contributed only 19.5% total revenues, had very high profit margin – 61.5%. In the years of 2010 – 2012, together with the potential of revenue from manpower exports standing still and potential 10% increasing annually of revenue from import – export activities, the growth of VCM is traded off by the erosion of the gross and net profit margin, which could reduce the attractiveness of the Company.

FINANCIAL ANALYSIS 2009

(mil VND)	2008A	2009A
Revenue	97,425	182,572
Manpower supply	22,453	35,569
Import - Export	69,277	144,096
Services	5,695	2,907
Net income	10,737	21,682
Charter capital	20,000	30,000
Total assets	267,042	220,025
Short-term loans	39,343	59,994
Long-term loans	138,451	146,528

Table 2: VCM's operation status in 2008 - 2009

Revenue

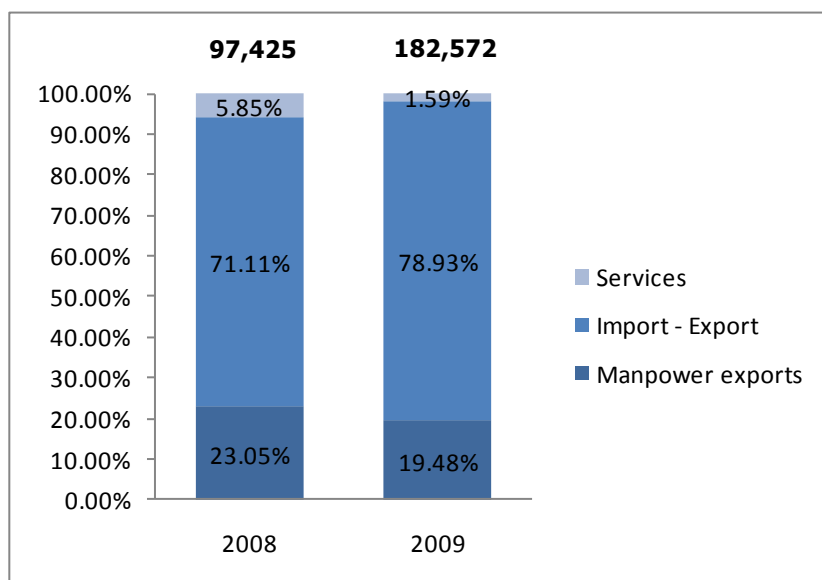


Table 3: Revenues from each market line (%)

Despite 2009 crisis, revenue from manpower exports still increased 58.4% compared with 2008.

In 2009, due to the contract of supplying cast iron pipe for developing water supply network at southwest Hanoi project with total value of above USD3 million and other contracts that VINATRA subsidiaries signed, revenue from import – export of goods significantly increased (108%) compared with 2008.

Moreover, VCM also supply services including: offices for rent at Vinaconex Commercial center, travel tours for Vinaconex subsidiaries. Revenues from this business line decreased since the number of tours organized decreased. This activity contributes almost nothing to VCM's income.

Expense

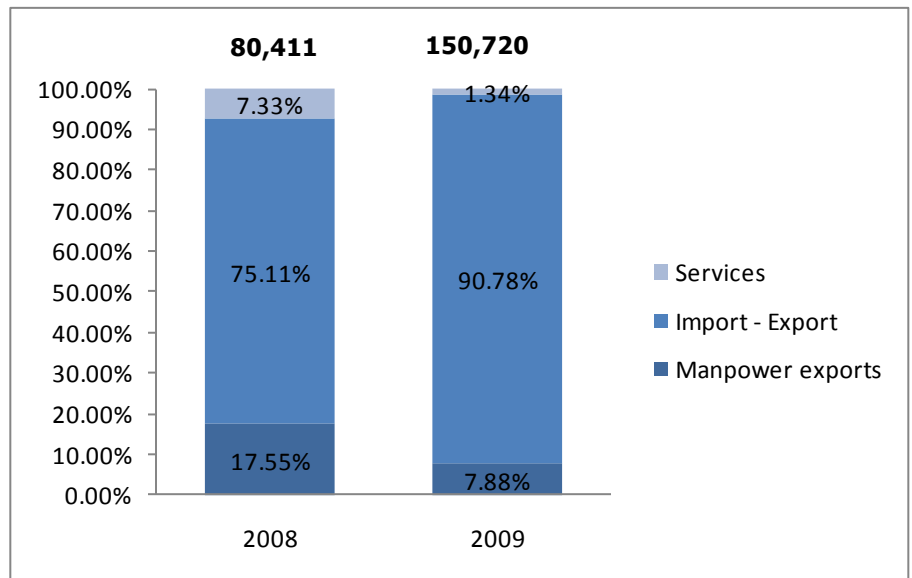


Table 4: Expenses allocated to each market line (%)

In 2009, expense for manpower exports decreased nearly 50% compared to 2008 due to changes in expense recognition. For instance, wages of VCM's employees works overseas was allocated to each market in 2008, however, in 2009, this expense is recorded to admin expense, making manpower exports expense significantly declined.

While goods export's revenue increased 108%, its expenses increased 126.5% compared to 2008. Rationale is VINATRA's expanding cast iron pipe import, so gross profit margin was lower than average accordingly.

Short – term and long – term loans

By 31/12/2009, short – term loans accounted for VND60 billion approximately, for 2 main activities including prepaid expense for 2 subsidiaries and visa granting – ticket cost for labours.

Meanwhile, long – term loans covered large proportion, about 2.5 times. In fact, it was not the Company's borrowings, it turned out to be deferred revenues from services' fee, deposit ... Due to the feature that contracts often spread over years, these deferred revenues were recorded to long – term loans.

FINANCIAL PROJECTION 2010 – 2012

	2010E	2011E	2012E
Revenue (mil VND)	179,600	226,750	247,050
Manpower exports	35,000	36,750	36,750
Import - Export	130,000	143,000	157,300
Wood pellets	10,000	40,000	46,000
Office for rent	600	3,000	3,000
Tourism	4,000	4,000	4,000
Gross Profit (mil VND)	38,180	42,955	49,470
Net income (mil VND)	22,406	23,205	27,232
Charter capital (bn VND)	30	40	50

Table 5: Projection for 2010 - 2012

- Revenue:**

- Labour exports:* Estimated that in 2010 labour exports will not be good, estimated revenue is 35 billion VND, of which parent company's revenue is the same to 2009. Revenue will be expected to increase 5% in 2011 and unchanged in 2012;

No.	Contract	Quantity	Revenue (USD)	Contract period
I	LIBYA			
1	LBCD	431	203,520	2/2008 - 2/2010
2	GALVAO	1,091	214,525	2/2009 - 8/2011
3	AG	503	151,820	8/2009 - 8/2011
4	WAHA	2,027	868,400	2009 - 2011
5	HANIL	1,504	548,350	2009 - 2011
6	Andrade Guitierrez	503	311,620	2010 - 2012
II	ALGERIA	874	623,340	5/2007 - 5/2010

Table 5: Manpower exports contracts in 2010 – 2012

- Goods import – export:* Since the developing water supply network at southwest Hanoi project completed, expected revenue reach only VND130 billion, increase 10% annually;
 - Wooden pellets:* expected that wooden pellets manufacturing factory will be in operation in QIV/2010, it expected revenue will VND10 billion in 2010. In 2011, with full capacity, expected revenue is VND40 billion, after that revenue will grow 15%, with profit margin of 20%;
 - Offices for rent:* From Vinaconex commercial center's office for rent, 2010's office revenue expected to be VND600 million, equal to 2009. However in 2011, with the offices of N05 southeast Tran Duy Hung urban area, Cau Giay, Ha Noi, expected revenue for 2011 – 2012 will be approximately VND3 billion annually;
 - Tourism services:* Expected not much volatility compared to 2009.

- **Cost of goods sold:**

- Expected cost of goods sold unchange, details as follow: labour exports accounts for 30% of revenue, goods import – export accounts for 95% of revenue, offices for rent covers 33% of revenue, tourism services covers 98% of revenue.
- Regards to wooden pellets business, expected cost of goods sold at first year covers 80% revenue, in 2011 – 2012 cost of goods sold declines to 80% and 70% respectively.

- **Financing profits:** mostly come from deposit interest rate, expected next years' financing profits only make up VND10 billion due to decreasing interest rate.
- **Sales and admin expense:** expected sales and admin expense increase 6% due to increase of labour wages. However, in terms of % revenue, it will increase at a decreasing rate.
- **Tax:** 25% as regulation.
- **Charter capital:** unchange in 2010, raised to VND40 billion in 2011, and VND50 billion in 2012 by issuing shares to existing shareholders and employees, and a small part from previous year's retained earning.

VALUATION

We evaluated VCM based on 2 method: DCF (Discounted Cash Flow) and relatively compare with other peers of same sector (P/E).

Discounted Cash Flow (DCF):

We have some assumptions to compute future cashflow (details in next page), based on (i) past performance and expectation future performance, (ii) discussion with VCM and (iii) SMES' estimation on sector's average.

(million VND)		2008A	2009A	2010E	2011E	2012E
EBIT		1,502	14,940	20,262	23,940	29,310
- Tax	25%	(376)	(3,735)	(5,065)	(5,985)	(7,327)
+ Depreciation		2,723	1,833	2,333	2,833	3,333
- CAPEX		(32,229)	(21,607)	(1,500)	(1,500)	(1,500)
- Increase in working capital			(6,771)	(2,343)	(2,828)	(1,198)
FCF			(15,340)	13,686	16,460	22,618
Cashflow after 2012						140,670
Firm's value	108,508					
Net debt (end of 2009)	(21,638)					
Equity's value	130,146					
No. of shares outstanding	3,000,000					
Share price	43,382					

VCM's stock price based on DCF method is **VND 43,382** per share.

Comparables:

We also used listed peers' P/E to generate VCM's value. Since VCM focuses on 2 main fields: labour exports and goods import – export, average P/E is calculated based on revenue weighted average of those 2 major fields:

Name	Ticker	No. of shares outstanding	Price (*) (VND)	Market cap (bn VND)	P/E 2009
Manpower Exports Sector					
Song Da SIMCO JSC	SDA	9,099,821	57,100	520	14.04x
Average					14.04x
Goods Import - Export					
Produce and Trading Metal JSC	KKC	5,200,000	50,800	264	9.11x
Vietnam National General Export - Import JSC No.1	TH1	8,892,592	58,900	524	6.63x
Thien Nam Trading Import Export Corporation	TNA	7,999,749	41,300	330	12.71x
Binh Thanh Import Export Production and Trade JSC	GIL	9,839,818	38,000	374	6.68x
SMC Investment Trading JSC	SMC	14,652,745	34,800	510	6.99x
Average					8.42x

(*) Closing price at 27/4/2010

Table 7: Listed companies in the same sectors

EPS 2009 (VCM) = 7,000

P/E price = VND39,395

Summary: Using 2 methods's average, VCM's stock value is VND41,400.

	2008A	2009A	2010E	2011E	2012E
Assumptions:					
Working capital					
Receivables turnover (days)	70	57	64	64	64
Inventory turnover (days)	16	39	28	28	28
Payables turnover (days)	17	44	31	31	31
Other current assets (% revenue)	5.85%	5.23%	5.23%	5.23%	5.23%
Other current liabilities (% revenue)	19.50%	12.30%	12.30%	12.30%	12.30%
CAPEX	32,229	21,607	1,500	1,500	1,500
CAPEX for the purpose of operation expansion			-	-	-
CAPEX for the purpose of operation maintenance			1,500	1,500	1,500
Depreciation					
Newly acquired assets depreciation (year)			3	3	3
Calculation (mil VND)					
Working capital	(11,398)	(4,627)	(2,284)	544	1,742
Change in working capital		6,771	2,343	2,828	1,198
Depreciation	2,723	1,833	2,333	2,833	3,333
Existing assets			1,833	1,833	1,833
Newly acquired assets			500	1,000	1,500
Other financial ratios					
10 years - T-bill interest rate (rf - risk free rate)	12.40%	(1)			
Beta	1	(2)			
MRP (market risk premium)	6%	(3)			
WACC	18.40%				
g	2.00%	(4)			

(1) 10 years – T-bill interest rate dated 4/5/2010;

(2) Beta = 1 since VCM is in a high cyclical sector – assume that beta at average long-term;

(3) MRP: long-term global average;

(4) G = 2% long-term global average.

Table 8: Assumptions used in DCF method

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