

HNX - Vietnam
Support Services

**To be influenced by the
political unrest in Libya**

Underweight

Price(2011/05/31): VND 10,000

Target Price: VND 7,600

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Key Data

Chartered capital (VND bn)	30
Outstanding shares (mil shares)	3
52-week price range (VND)	8,900-42,000
Market cap (VND bn)	30
Total assets (Q1/11) (VND bn)	270
Net Value (Q1/11) (VND bn)	69
(QFII) Total Room (mil shares)	1.47
(QFII) Current Room (mil shares)	1.4
Foreign Holding (%)	0.5%
EPS 2011E (VND)	1,551
P/E	6.4
P/B	0.4
Cash dividend % (Face Value)	20%
Dividend yield (%) (Dividend/Market price)	20%
ROE 2011E (%)	7.0%
ROA 2011E (%)	1.8%

**The holding cap for foreign strategic investors is 49%. For banking sector the cap is 30%.*

■ **Company profile:** VCM's core business is labor exporting services. VCM also owns a vocational school to train laborers before sending them to work overseas.

■ **Earnings:** In the last two years, the company had a sales growth of 52%/year while that of net profit was at 54% per annum.

■ Though being an export company, VCM is not exposed to forex risks as the company collects service fees in Vietnam dong. Last year, VCM earned 225 bn VND in sales, up 23.5% and net profit was posted at 22.7 bn VND, up 12.9% yoy. We think this profit growth would not be sustainable as we do not see VCM's COGS recognition in quarter 2 of 2010.

■ **2011 outlook:** In Q1/2011, VCM reported sales of 50.5 bn VND, 380% yoy. However, net profit was only 0.3 bn VND, down 95% yoy. This result came from a surge in operating costs. Often, the cost for selecting labors for export accounts for a large proportion in COGS.

■ Due to the political unrest in Libya, at the end of March this year, over 2,900 labors under the management of VCM were sent back to Vietnam. This would influence VCM's business performance from the second quarter as offset to this decline is not likely in the short term. We expect this year profit and thus EPS will likely drop.

■ **Strengths:** Vietnam has a strong pool of laborers which is an abundant source for labor export companies like VCM.

■ **Weaknesses:** As a labor export company, VCM not only competes with local peers but also with those from other nations. Locally, over 160 companies have the licenses to offer labor export service, which makes the competition more intense.

■ **Valuation:** Due to unfavorable business outlook in 2011, we initiate an Underweight rating on VCM with a target price of VND 7,600, implying a P/E multiple of 5(x) EPS 2011E.

Financial Abstract:

(VND bn)

Year	Revenue	(%)	Net Profit	(%)	Outstanding Shares	EPS (VND)	P/E (x)	ROE	ROA
2008	97.4	na	10.3	na	1,300,000	7905.38	3.2	55.3%	9.3%
2009	182.6	87.4%	20.1	95.7%	2,800,000	7,184	3.5	45.3%	8.3%
2010	225.5	23.5%	22.7	12.9%	3,000,000	7,572	3.4	37.9%	8.5%
2011E	200.5	-11.1%	4.7	-79.5%	3,000,000	1,551	6.4	7.0%	1.8%
2012E	210.1	4.8%	7.3	56.1%	3,000,000	2,420	4.1	11.4%	2.8%

Financial Statement Projections (VND bn)

Income statement	2008	2009	2010	2011e	2012e	Cash flow	2008	2009	2010	2011e	2012e
Net Sales	97.4	182.6	225.5	200.5	210.1	Total profit before tax	na	na	na	7.8	12.1
Cost of goods sold	80.4	150.7	152.2	178.4	187.0	Non-cash items	na	na	na	(8.5)	(9.0)
Gross profit	17.0	31.9	39.6	22.1	23.1	Changes in net working capital	na	na	na	5.3	(5.4)
Selling Expenses	0.4	0.1	2.9	6.0	4.6	Net operating cash flow	na	24.8	(21.5)	4.5	(2.3)
Managing Expenses	15.1	16.8	12.0	18.0	16.6	Net Investing cash flow	na	(13.2)	(12.0)	(9.6)	14.0
Operating profit	1.5	14.9	24.8	(2.0)	1.9	Net Financing cash flow	na	(1.3)	14.9	(0.9)	8.4
Non operating profit	13.1	11.4	6.0	10.0	10.5	Net Cash during the period	na	10.4	(18.6)	(6.0)	20.1
Interest expense	-	-	0.3	0.3	0.3	Cash at beginning of year	na	124.1	131.3	113.2	107.2
Total profit before tax	14.6	26.4	30.4	7.8	12.1	Cash at end of year	na	135.0	113.2	107.2	127.4
Corporate Income Tax	3.9	4.7	5.1	3.1	4.8	Financial ratios	2008	2009	2010	2011e	2012e
Profit after Tax	10.3	20.1	22.7	4.7	7.3	Capital Structure					
Balance sheet	2008	2009	2010	2011e	2012e	Current assets/Total assets	73%	72%	78%	74%	78%
Current Assets	160.6	191.3	206.8	186.5	209.7	Non-Current assets/Total assets	27%	28%	22%	26%	22%
Cash and Cash Equivalents	39.3	135.0	113.2	107.2	127.4	Debt/Total assets	81%	77%	70%	75%	77%
Short term financial investment	93.3	1.8	19.5	19.5	19.5	Equity/Total assets	17%	19%	26%	25%	23%
Short term Account Receivables	18.7	28.7	45.0	37.3	39.3	Interest coverage ratio	na	na	102.4	30.1	44.3
Inventory	3.5	16.3	11.8	12.9	13.5	Liquidity					
Other Current Assets	5.7	9.5	17.2	9.5	10.0	Current ratio	4.1	3.2	1.6	1.6	1.7
Non-current Assets	59.4	75.7	59.3	65.6	60.9	Quick ratio	4.0	2.9	1.5	1.4	1.5
Long term Account Receivables	-	-	4.8	2.5	3.0	Cash conversion cycle (Days)	68.4	51.7	79.7	67.0	67.4
Fixed assets	13.6	33.2	13.7	24.3	19.1	Operating CF/Sales	na	0.1	-0.1	0.0	0.0
Real estate investments	29.2	29.3	27.9	27.9	27.9	Operating CF/Interest expense	na	na	-71.6	17.0	-8.2
Long term Financial Investments	13.0	10.4	10.4	10.4	10.4	Operating CF/Short term debt	na	0.4	-0.2	0.0	0.0
Other long term assets	1.0	0.5	0.5	0.5	0.5	Free CF (VND bn)	na	24.8	-21.5	4.5	-2.3
Total Assets	220.0	267.0	266.1	252.1	270.6	Efficiency					
Liabilities	177.8	206.5	185.6	187.8	207.5	Inventory Days	15.9	38.8	28.0	26.0	26.0
Short term Liabilities	39.3	60.0	130.6	119.9	127.1	Receivables Days	69.1	56.6	71.9	67.0	67.4
Long term Liabilities	138.5	146.5	55.1	67.9	80.5	Current assets turnover	0.6	1.0	1.1	1.1	1.0
Owners equity	37.2	51.6	68.3	64.3	63.0	Fixed assets turnover	7.2	5.5	16.5	8.2	11.0
Common stocks	26.0	30.0	30.0	30.0	30.0	Total assets turnover	0.4	0.7	0.8	0.8	0.8
Expenditures and Other Funds	11.2	21.6	38.3	34.3	33.0	Profitability					
Total Equity	220.0	267.0	266.1	252.1	270.6	Gross margin	17.5%	17.4%	17.6%	11.0%	11.0%
DuPont Analysis (ROE Breakdown=1x2x3)	2008	2009	2010	2011e	2012e	Operating margin	1.5%	8.2%	11.0%	-1.0%	0.9%
Net profit margin (1)	0.11	0.11	0.10	0.02	0.03	Net profit margin	10.5%	11.0%	10.1%	2.3%	3.5%
Total assets turnover (2)	0.44	0.68	0.85	0.80	0.78	Effective tax rate	26.7%	17.8%	16.6%	40.0%	40.0%
Leverage (3)	5.92	5.17	3.90	3.92	4.29	ROE	55.3%	45.3%	37.9%	7.0%	11.4%
Investment Valuation ratios	2008	2009	2010	2011e	2012e	ROA	9.3%	8.3%	8.5%	1.8%	2.8%
P/S	0.1	0.2	0.1	0.1	0.1						
P/B	0.3	0.5	0.4	0.5	0.5						
P/CF (Operating)	na	1.1	(1.4)	6.6	(13.1)						
PEG 1 ratio (PE/Sales growth)	na	na	na	0.2	0.9						
PEG 2 ratio (PE/EPS growth)	na	na	(1.6)	(0.2)	(0.1)						

Source: VCM and PHS's estimates

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Neutral (N) = Expected to in line with the local market by +10%~ -10%

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Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.
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