

INVESTMENT AND INDUSTRIAL DEVELOPMENT CORPORATION (BECAMEX IDC) – IPO NOTE

Quyet Nguyen Ngoc – quyet.nguyennhoc@vndirect.com.vn

Key statistics

| | |
|-----------------------|--------|
| Reference price (VND) | 31,000 |
| EPS (VND) | 990 |
| Free float (%) | 0 |
| Beta | NA |

Investment and Industrial Development Corporation (Becamex IDC, or simply Becamex), the biggest industrial park developer in Vietnam, is going public with an auction planned for 1st Dec 2017 on the Ho Chi Minh stock exchange. The company plans to offer 311.2 million new shares to the public at a reference price of VND 31,000/share.

Becamex has a reportedly huge, undeveloped land bank located in Binh Duong, a major population centre and emerging industrial hub with the second highest FDI disbursement nationwide and complete transportation links to HCMC and large ports in Southeast Vietnam. Binh Duong has found particular favour with Japanese FDI investors in Vietnam. Note that the company does not disclose the exact size of its land bank.

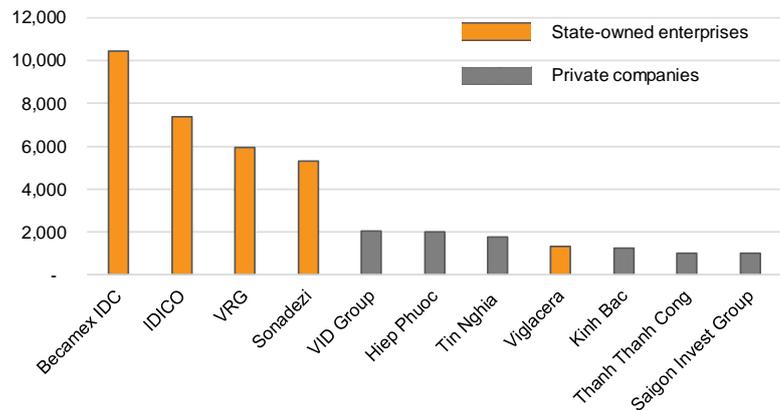
Becamex is a leading developer of industrial parks, residential housing and infrastructure with a 40-year track record. Over the past 40 years, since Vietnam's reunification, Becamex has expanded its operations through 28 subsidiaries and associates to a plethora of businesses including securities brokerage, insurance, construction, trading, telecommunication, concrete production, construction materials, mining, pharmaceuticals, healthcare and education. However, industrial parks, residential housing, and infrastructure development are still the core businesses of the company. Becamex has a good brand name with a solid track record of large project execution in Binh Duong province.

| Financial summary (VND) | 12-13A | 12-14A | 12-15A | 12-16A |
|-------------------------|--------|---------|--------|--------|
| Net revenue (bn) | 4,403 | 5,832 | 7,159 | 7,300 |
| Revenue growth | | 32.5% | 22.7% | 2.0% |
| Gross margin | 39.2% | 20.5% | 23.5% | 25.8% |
| EBITDA margin | 44.0% | 25.9% | 24.8% | 29.7% |
| Net profit (bn) | 1,278 | 552 | 587 | 787 |
| Net profit growth | | (56.8%) | 6.5% | 33.9% |
| Recurring profit growth | | (56.8%) | 6.5% | 33.9% |
| Basic EPS | 2,083 | 687 | 726 | 990 |
| Adjusted EPS | 2,083 | 687 | 726 | 990 |
| BVPS | 0 | 11,897 | 12,527 | 13,719 |
| ROAE | | 11.5% | 6.0% | 7.5% |

Source: Becamex

Largest industrial park (IP) developer in Vietnam. By late 2016, Vietnam had a total of 324 operating industrial parks covering a total area of 91,800 ha, of which 10,456 ha (11.9%) was being operated by Becamex, its subsidiaries and associates.

Comparison of IP area by IP developer in Vietnam



Source: Becamex

- Becamex's total industrial park area is around 10,456 ha, 41.9% higher than that of IDICO, another SOE and the second largest IP operator in the country. Becamex is currently operating 5 IPs with a total leasable area of 2,165ha.

Becamex's IP portfolio

| Industrial Park | Location | Launch year | Leasable area (ha) | Occupancy rate | Reference leasing price (USD/m2) |
|---------------------------------------|-------------------------------------|-------------|--------------------|----------------|----------------------------------|
| My Phuoc 1 Industrial Park | Ben Cat town, Binh Duong province | 2002 | 274 | 88.4% | 45 |
| My Phuoc 2 Industrial Park | Ben Cat town, Binh Duong province | 2005 | 344 | 96.4% | 45 |
| My Phuoc 3 Industrial Park | Ben Cat town, Binh Duong province | 2006 | 667 | 79.8% | 45 |
| Thoi Hoa Industrial Park (My Phuoc 4) | Ben Cat town, Binh Duong province | 2006 | 153 | 36.6% | 45 |
| Bau Bang Industrial Park (My Phuoc 5) | Bau Bang Dist., Binh Duong province | 2007 | 727 | 80.1% | 35 |
| Total | | | 2,165 | 80.6% | |

Source: VNDIRECT

- Besides, Becamex is the exclusive local shareholder of a flagship IP developer in Vietnam. Becamex owns 49% stake in Vietnam Singapore Industrial park JV Co. Ltd which is a 20-year-old joint initiative between Vietnam and Singapore. A consortium of Singaporean investors owns the remaining 51% of the JV, led by Semb Corp (47.3%) and other investors such as Mitsubishi, Ascendas and UOB Group). Vietnam – Singapore Industrial Park (VSIP) was initially developed in Binh Duong province and has since been expanded to Bac Ninh, Hai Phong, Quang Ngai, Hai Duong and Nghe An provinces with total area of 3,970ha. So far, the VSIP IP network has attracted 670 industrial projects with a total capital of USD 9.4bn (Sembcorp Annual Report 2016).

Vietnam-Singapore Industrial Parks

| Industrial Park | Location | Launch year | Total area (ha) | Occupancy rate | Reference leasing price (USD/m2) |
|-------------------|--------------------------------------|------------------|-----------------|----------------|----------------------------------|
| VSIP I | Thuan An town, Binh Duong province | 1996 | 500 | 100% | 100 |
| VSIP II | Tan Uyen dist, Binh Duong province | 2006 | 345 | 100% | 80 |
| VSIP Bac Ninh | Tu Son dist, Bac Ninh province | 2007 | 500 | 95% | 100 |
| VSIP II expansion | Tan Uyen dist, Binh Duong province | 2008 | 1,000 | 90% | 55 |
| VSIP Hai Phong | Thuy Nguyen dist, Hai Phong province | 2010 | 500 | 55% | 85 |
| VSIP Nghe An | Hung Nguyen dist, Nghe An province | 2017 | 375 | 5% | 38 |
| VSIP Quang Ngai | Son Tinh dist, Quang Ngai province | 2013 | 600 | 60% | 38 |
| VSIP Hai Duong | Cam Giang dist, Hai Duong province | 2015 | 150 | NA | 75 |
| Total | 7 VSIP located in 6 provinces | 1996-2017 | 3,970 | | |

Source: Becamex, VNDIRECT

Hybrid business model helps generate synergies. The company benefits from its presence in both the industrial and residential segments. Industrial parks generate residential catchment areas and help the company sell its housing products.

Becamex has 4 Industrial Park projects in the pipeline (located in Binh Duong and Binh Phuoc province). Of these, 2 projects are mixed-use developments comprising both industrial park and residential areas. Total investment for these projects over the next 10 years is estimated at VND 18,600bn. This creates a potential risk of higher future leverage as Becamex has historically tended to fund its projects with a significant amount of debt in the capital structure. (50% debt, 20% equity and 30% pre-sale prepayments).

Becamex's IP project in pipeline

| Project | Location | Launch year | Total area | Capital investment (VND bn) | Descriptions |
|---|--|-------------|------------|-----------------------------|---|
| Expansion of Bau Bang IP and urban area | Bau Bang and Dau Tieng district, Binh Duong province | 2017-2027 | 1,000 | 3,625 | 1,000ha IP, 1,200 ha resettlement area |
| Becamex IP and urban area | Chon Thanh dist., Binh Phuoc province | 2017-2035 | 4,633 | 21,256 | 2,448ha IP, 2,185ha resettlement area. The project is divided into 4 phases. Phase 1 and 2 has capital investment of VND 10,482bn on the site of 60% of total area. |
| Cay Truong IP | Ben Cat town, Binh Duong province | 2016-2020 | 700 | 3,026 | |
| Lai Hung IP | Ben Cat town, Binh Duong province | 2016-2020 | 600 | 1,500 | |
| Vinh Lap Phu Giao | Phu Giao dist, Binh Duong province | NA | 500 | NA | |
| VSIP III | North Tan Uyen dist, Binh Duong province | NA | 1,000 | 6,407 | |

Source: Becamex, VNDIRECT

In the infrastructure development segment, Becamex is a big name in Southeast Vietnam. Becamex has built an integrated value chain, comprising of design, building materials, and construction. Since 2010, Becamex has completed construction of My Phuoc – Tan Van road (60 km, VND 1,038bn), Tan Uyen road (20 km, VND 1,965bn), Binh Duong’s centralized administrative center (VND 2,591bn). Construction revenue from these projects was estimated to account for 2.3%, 2.1%, 1.7% and 2% of nationwide infrastructure in 2013, 2014, 2015 and 2016, respectively (source: BMI, Becamex).

Becamex has three major road development BOT projects in the pipeline. To meet the need of inter-regional connectivity between Tan Uyen town and 06 other districts and towns, the People’s Committee of Binh Duong province awarded the company several road projects (DT 743, DT 746, DT 747) which are to be developed using the Build-Operate-Transfer (BOT) model.

Road projects in the pipeline

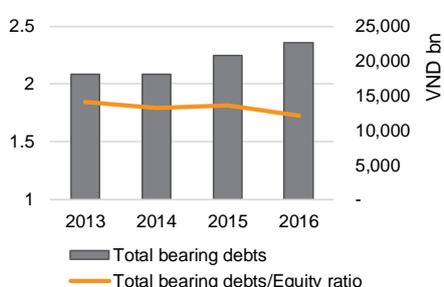
| Projects | Investment capital (VND bn) | Timeline | Location |
|----------|-----------------------------|-------------|--|
| DT 743 | 1,038 | 2015 – 2020 | Connecting Thuan An town and Di An town, Binh Duong province |
| DT 746 | 759 | 2012 – 2018 | Tan Uyen Town, Binh Duong province |
| DT 747B | 727 | 2012 – 2018 | Tan Uyen Town, Binh Duong province |

Source: Becamex

Becamex is the government’s “right hand” for development of urban area and social housing projects in Binh Duong. Becamex has been developing many major residential projects within Binh Duong province. While most of them are in the social housing segment, some other higher-priced residential projects seem unappealing to us as demand for mid-high end products in the area is not strong enough. The two largest on-going real estate projects are as follows:

- Binh Duong New City (1,000 ha) which is located 8km away from Thu Dau Mot city, is slated to become the CBD of Binh Duong city in the future. Starting from 2010, Becamex has been appointed the sole developer of this area with complete responsibility for building roads, Binh Duong’s centralized administrative center, Eastern International University, Sport center, and other ancillary infrastructure. However, both Becamex and Binh Duong’s government have so far failed to attract people to live here. In our opinion, the project will witness slow progress in the next 1-2 years.
- Becamex is the government-designated developer of social (low-income) housing projects within Binh Duong province. Accordingly, Becamex is developing 37 sub-projects with a total of 64,700 units which will house around 164,000 inhabitants, mostly blue-collar workers for the next 3 years. In the past 5 years, the company has delivered 10,000 units to buyers and is developing phase 2 with another 10,000 units.

Becamex is aggressively levered

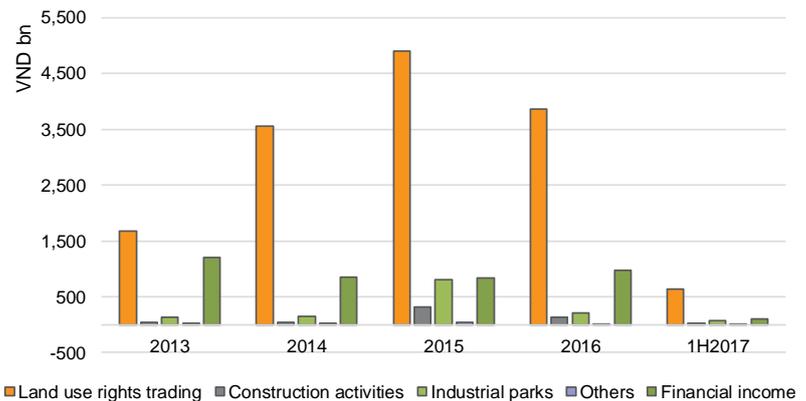


Source: VNDIRECT

High debt service cost takes a big chunk out of profits. Like any other infrastructure developer developing multiple projects at the same time, Becamex has huge capital needs. As a result, interest bearing debt to equity ratio has remained high at around 1.8x for the past 4 years. Consequently, interest expense accounted for 45.1%, 50.3%, 59.1%, and 66.1% of EBITDA in 2013, 2014, 2015 and 2016, respectively.

Business results for the first 6 months are a bit worrisome but it is premature to draw conclusions. So far, financial statements for 1H 2017 and 9M 2017 have not been released yet. However, Becamex announced some of its 1H 2017 P&L line items (see in diagram below), showing a slump in revenue across many segments. The company’s representative confirmed that most of revenue will come in 2H, however, we are unwilling to draw concrete conclusions until the financial statements have been released.

Revenue contribution by business activity and financial income



Source: Becamex

The IPO will be a two-stage process with a pure primary share issuance upfront, followed by a mix of primary and secondary share issuances to strategic investors in the second stage. Becamex is going to issue new shares through auction/strategic investor placements to increase its charter capital to VND 13,170bn by 2018. The proceeds will only partially satisfy the capital needs of projects in the pipeline, estimated at VND 10,400bn and VND 13,500bn in 2018 and 2019 respectively. The future shareholder structure depends on the success of the auction and strategic investor placements.

- The company is going public via an auction of 311.2 million new shares at a starting price of VND 31,000/share. Proceeds from the auction will amount to VND 9,647bn, accounted for in the balance sheet as VND 3,112bn new charter capital and VND 6,535bn share premium. In accordance with current regulations governing SOE equitizations, only the proceeds accounted for as new charter capital contribution will be retained by Becamex. The remaining proceeds that count as share premium will be used to pay equitization expenses and benefits for redundant employees which are unknown at this point. So we are unable to estimate the exact proceeds from the primary share issuance that will accrue to Becamex.
- The auction will take place on Ho Chi Minh Stock Exchange on 1st December 2017. After the auction, the unsold shares will be offered directly to registered investors via put through method. If there are unsold shares, Becamex will submit a plan to Binh Duong's People committee to alter the targeted charter capital.
- The price offered to employees will be the lowest successful bidding price realized at the public auction.
- A divestment and small primary share issuance to strategic investors will be held after completion of the public auction. The Government wants to maintain a minimum ownership of 51% in Becamex post strategic divestment and Binh Duong's People committee will be the representative for the government's ownership stake.

Tentative shareholder structure

| Shareholders' structure | Pre IPO | | | Post IPO | | | Post strategic divestment | | |
|-------------------------|--------------|--------------------|----------------|--------------------|--------------------|----------------|---------------------------|--------------------|----------------|
| | Shareholders | No. of shares (mn) | % ownership | Shareholders | No. of shares (mn) | % ownership | Shareholders | No. of shares (mn) | % ownership |
| | Government | 987.8 | 100.00% | Government | 987.8 | 75.75% | Government | 671.67 | 51.00% |
| | | | | Employees | 4.94 | 0.38% | Employees | 4.94 | 0.37% |
| | | | | Successful bidders | 311.21 | 23.87% | Successful bidders | 311.21 | 23.63% |
| | | | | | | | Strategic investors | 329.19 | 25.00% |
| Total | | 987.80 | 100.00% | | 1,303.94 | 100.00% | | 1,317.00 | 100.00% |

Source: Becamex IDC, VNDIRECT

Becamex seems to be attracting the attention of strategic investors due to its large land bank in Binh Duong, one of the fastest-growing industrial and urban areas in Vietnam. Although no names have been disclosed yet, we believe that multiple strategic investors have expressed an interest in participating the Becamex IPO.

The participation of new shareholders is expected to improve transparency, corporate governance and business performance. However, we see strategic investor impact on the business playing out only over the long-term as Becamex's business is closely linked to government development policy implying that a strategic investor may have limited degrees of freedom in making strategic and capital-budgeting decisions.

Investors should take note of dilution risks. The new share issuance via auction could cause significant dilution of earnings with only a fraction of the proceeds from the issuance accruing to the company. The huge capital needs of the company, as evinced by its project pipeline, implies that future primary share issuances are also imminent, creating further dilution risk even though the company has historically tended to use a debt-heavy capital structure to finance its projects.

Income statement

| (VNDbn) | 12-14A | 12-15A | 12-16A |
|--------------------------------------|--------------|--------------|--------------|
| Revenue | 5832 | 7159 | 7300 |
| Cost of sales | (4,634) | (5,479) | (5,417) |
| Gen & admin expenses | (330) | (376) | (418) |
| Selling expenses | (610) | (654) | (728) |
| Operating Profit | 258 | 651 | 736 |
| Operating EBITDA | 712 | 1070 | 1194 |
| Depreciation and amortisation | (454) | (419) | (458) |
| Operating EBITDA | 371 | 575 | 273 |
| Interest income | 371 | 575 | 273 |
| Financial expense | (361) | (658) | (842) |
| Net other income | 39 | 29 | 70 |
| Income from associates & JVs | 391 | 124 | 683 |
| Pre-tax profit | 698 | 720 | 920 |
| Taxation | (51) | (24) | (34) |
| Minority interests | (95) | (108) | (99) |
| Net profit | 552 | 587 | 787 |
| Adj. net profit to ordinary | 552 | 587 | 787 |
| Ordinary dividends | (867) | - | 673 |
| Retained earnings | -316 | 587 | 114 |

Balance sheet

| (VNDbn) | 12-14A | 12-15A | 12-16A |
|---------------------------------------|---------------|---------------|---------------|
| Cash and equivalents | 3,043 | 2,550 | 1,667 |
| Short term investments | 354 | 464 | 2,007 |
| Accounts receivables | 5,690 | 9,425 | 7,127 |
| Inventories | 21,205 | 23,130 | 26,270 |
| Other current assets | 469 | 646 | 279 |
| Total current assets | 30,761 | 36,215 | 37,350 |
| Fixed assets | 8,481 | 9,162 | 10,625 |
| Total investments | 7,286 | 5,827 | 8,153 |
| Other long-term assets | 738 | 960 | 1,118 |
| Total assets | 47,266 | 52,164 | 57,246 |
| Short-term debt | 6,724 | 7,138 | 7,474 |
| Accounts payable | 2,928 | 2,105 | 1,899 |
| Other current liabilities | 12,566 | 14,374 | 16,240 |
| Total current liabilities | 22,218 | 23,616 | 25,612 |
| Total long-term debt | 11,345 | 13,690 | 15,122 |
| Other liabilities | 2,684 | 3,294 | 3,463 |
| Share capital | 8,030 | 8,096 | 7,952 |
| Retained earnings reserve | (110) | 126 | (236) |
| Shareholders' equity | 9,553 | 10,142 | 10,909 |
| Minority interests | 1,465 | 1,423 | 2,141 |
| Total liabilities & equity | 47,266 | 52,164 | 57,246 |

Cash flow statement

| (VNDbn) | 12-14A | 12-15A | 12-16A |
|---|----------------|----------------|----------------|
| Cash flow from operating activities | (1,780) | (2,580) | 1,339 |
| Net profit before tax | 698 | 720 | 920 |
| Adjustment for: | - | - | - |
| Depreciation & Amortization | 454 | 419 | 458 |
| Provisions | 2 | 26 | 78 |
| Profits from investing activities | (685) | (585) | (889) |
| Interest expense | 358 | 633 | 789 |
| Operating profit before changes in WC | 802 | 1,198 | 931 |
| Changes in working capital | (2,582) | (3,778) | 408 |
| Net cash flow from investing activities | (1,784) | (740) | (3,181) |
| Purchases of fixed assets | (1,379) | (870) | (1,730) |
| Proceeds from disposal of fixed assets | 86 | 12 | 37 |
| Other investments | (491) | 118 | (1,488) |
| Net cash flow from financing activities | 1,487 | 2,822 | 959 |
| Proceeds from issuance of shares. | 733 | - | 6 |
| Proceeds from convertible bonds | - | (14) | (144) |
| Net borrowings | 1,621 | 2,836 | 1,771 |
| Dividend paid | (867) | - | (673) |
| Net cash flow | (2,077) | (497) | (883) |
| Cash and equivalents at beg of year | 5,120 | 3,043 | 2,550 |
| Cash and cash equivalents at end of year | 3,043 | 2,550 | 1,667 |

Key ratios

| | 12-14A | 12-15A | 12-16A |
|--------------------------|--------|--------|--------|
| Dupont | | | |
| Net profit margin | 9.5% | 8.2% | 10.8% |
| Asset turnover | - | 0.14 | 0.13 |
| ROAA | - | 1.2% | 1.4% |
| Avg assets/avg equity | - | 5.05 | 5.20 |
| ROAE | - | 6.0% | 7.5% |
| Efficiency | | | |
| Days account receivable | 356 | 481 | 357 |
| Days inventory | 1,670 | 1,541 | 1,775 |
| Days creditor | 231 | 140 | 128 |
| Fixed asset turnover | - | 0.81 | 0.74 |
| ROIC | 1.9% | 1.8% | 2.2% |
| Liquidity | | | |
| Current ratio | 1.38 | 1.53 | 1.46 |
| Quick ratio | 0.43 | 0.55 | 0.43 |
| Cash ratio | 0.15 | 0.13 | 0.14 |
| Cash cycle | 1,796 | 1,881 | 2,004 |
| Growth rate (yoy) | | | |
| Revenue growth | - | 22.7% | 2.0% |
| Operating profit growth | - | 152.0% | 13.1% |
| Net profit growth | - | 6.5% | 33.9% |
| EPS growth | - | 5.6% | 36.4% |
| Share value | | | |
| Basic EPS (VND) | 687 | 726 | 990 |
| BVPS (VND) | 11,897 | 12,527 | 13,719 |

Source: Becamex IDC

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- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Phuong Nguyen Mai, CFA – Director

Email: phuong.nguyenmai@vndirect.com.vn

Quyet Nguyen Ngoc – Senior Analyst

Email: quyet.nguyenngoc@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>