

Company Visit Note

Tan Tao Investment Industry Corporation

Tan Tao IP (ITA) is an industrial estate developer in the HCMC area with foreign ownership of 34.15%. Management plans to build a conglomerate that will diversify revenues by developing infrastructure (water, power, toll roads) in the medium term.

Key takeaways from the meeting:

- **Revenues increased 162.1% Y/Y in FY07:** This was due to the strong growth in the sales of industrial parks following an increase in demand from FDI companies. Revenues and profits in 1Q08 grew 43% Y/Y and 30% Y/Y to VND255.5 billion and VND101 billion, respectively.
- **The company issued a 100:15 share dividend in 1Q08:** Management expects to raise chartered capital by 5x to VND5 trillion (+US\$300 million) by end-FY09 and list a maximum of 200 million shares overseas.
- **Valuation:** The stock trades on a trailing FY07 P/E of 15.6x, which is at a premium to the market. ITA has outperformed the VNINDEX by 22% in the past month, but was down 9.3% in absolute terms.

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Reuters: ITA.HM, Bloomberg: ITA VM: Historical financial data

	FY05	FY06	FY07
Sales	313,192	352,763	924,713
Net income	109,742	148,773	369,652
EPS (VND)	1,805.04	2,493.29	4,433.55
DPS (VND)	0.00	0.00	0.00
Net debt (cash)/equity (%)	81.1	41.8	Net cash
Sales growth (%)	15.8	12.6	162.1
Net profit growth (%)	13.9	35.6	148.5
EPS growth (%)	33.6	38.1	77.8
ROE (%)	27.6	30.0	19.1
P/E (x)	38.2	27.7	15.6
P/B (x)	10.0	7.2	1.7
Dividend yield (%)	0.0	0.0	0.0

Source: Company reports, Bloomberg.

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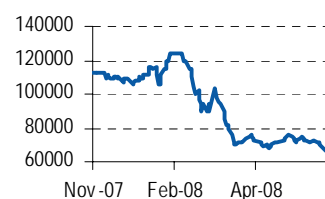
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ITA VM, Not Covered

VND68,000, 13 June 2008

Price chart



Source: Bloomberg.

One-year price performance

	1M	3M	12M
Absolute (%)	(9.3)	(28.4)	(36.1)
Relative (%)	21.9	24.9	80.9

Source: Bloomberg.

Company data

52-week range (VND)	126,087-67,000
Mkt cap. (VNDB)	7,935
Mkt cap. (US\$MM)	477
Shares O/S (MM)	115.0
Free float (%)	100
Daily liquidity (US\$MM)	0.3
Exchange rate (VND/US\$)	16,620
Index: VNI	372.68
Year-end	December

Source: Bloomberg.

Key takeaways from the meeting

Tan Tao Industrial Park Corporation (ITA VM)

Background and scope of business

ITA is among the leading industrial zone developers in Vietnam. Established in November 1996, its flagship 443 hectare project, Tan Tao Industrial Park, has received praise from government bodies and was a major success that set the company up for further expansion. Other projects cover a total area of +10,000 ha ranging from power plants to offices-for-lease and residential development. Given this large industrial development portfolio, ITA has strong demand from FDI and is well positioned to benefit from the VN government's recently unveiled US\$50 billion foreign investment pipeline

Strong industrial park sales; more in the pipeline

According to management, revenues increased 162.1% Y/Y in FY07 due to the strong growth in sales of industrial parks following an increase in demand from FDI companies. During the year, core business activities accounted for more than 80% of the company's revenues. According to management, the profits showed the company's commitment and focus on the core businesses. The company has not been affected much by the recent downturn in the property market as it has followed a strategy of creating its own market based on a strong FDI pipeline. Revenues and profits in 1Q08 grew 43% Y/Y and 30% Y/Y to VND255.5 billion and VND101 billion, respectively.

Tan Duc Industrial Park phase II continues on track

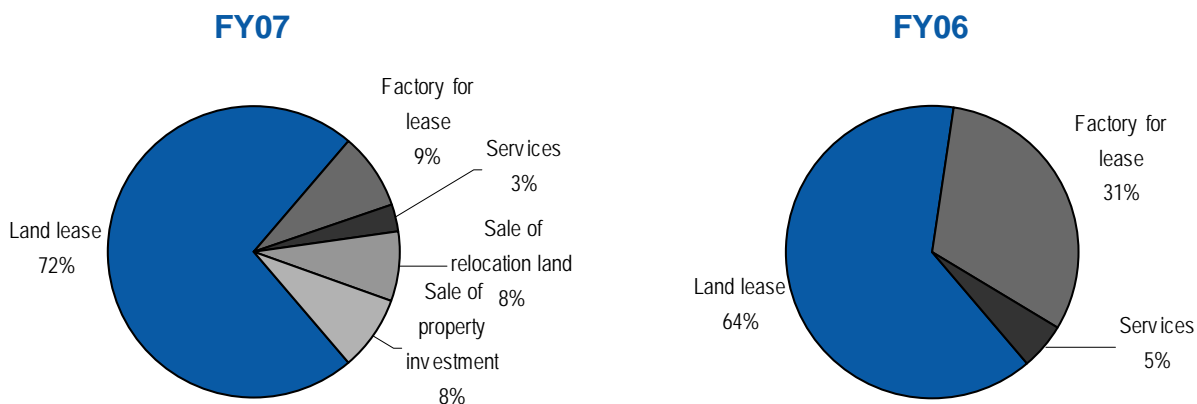
According to management, Phase II of the 535 hectare Tan Duc IP's compensation process will be completed very soon. 90% of the first and 50% of the second phase has been leased. The company is also building 250,000 sqm of factory and office, and plans to retain more than half (150,000 sqm) of the total area to lease out.

New IP projects: Hung Yen and Ha Nam IP

ITA has just been granted licenses to develop two IPs—of 712 hectares each—in the Hung Yen and Ha Nam provinces. Management stated that the Hung Yen Tan Tao Agrimeco IP will have phase one of 200 hectares and phase two of +500 hectares. The IP is located only 5km from the center of Hanoi City.

The Hanita IP has a total area of 712 hectares in Ha Nam province. According to management, ITA will hold a 75% stake in the VND1 trillion registered capital IP.

Figure 1: Revenue breakdown (FY06–FY07)



Source: Company reports.

Residential development has started to kick in

Despite the not-so-favorable property market, management strongly believes that its residential projects can be successful. Most of ITA's residential projects target company industrial parks and colleges. According to management, there are hundreds of executives from factories in its Tan Tao and Tan Duc IPs who currently have to commute back and forth to HCMC because there are no quality accommodations around the IP area. Thousands of workers are also looking for low-income accommodations near the industrial parks. Management expects demand to come mainly from these sources for the company's new residential area projects, which consist of both high/low-income housing and commercial centers.

Tan Tao E-City Corp. (40%)

ITA is completing the 1/500 master plan (a requirement for development of residential projects). The company is also dealing with current residents to buy 30 hectares of land within the project to get a head start in the compensation process.

Tan Duc E-City (80%)

The company is completing the infrastructure process for the relocation area of 74 hectares. ITA has also completed the sale of 30 relocation town houses for residents within the area, which brought in almost 8% of total revenues in FY07.

Infrastructure—Power plant

ITA officially signed contracts with Black & Veatch (US), FHDI China, and Electronic Construction Company No.2 for the construction of the 4,400 MW plant in the Kien Giang province. According to management, the estimated total investment for the power plant has been raised to US\$6.7 billion from US\$5 billion, to which ITA will contribute more than US\$200 million in equity. Moreover, there will be a US\$600 million deep water seaport to provide coal to the power plant.

High profit growth, yet shrinking margin

FY07 witnessed 148.5% Y/Y growth in pre-tax profit to VND459 billion. Revenues also grew to VND924.7 billion, +162% Y/Y. Management attributes the results to better-than-expected IP sales. However, the net margin shrank 220bp to 40%. ROE also decreased by more than 36% Y/Y due to an aggressive capital-raising exercise during the year through private placement, bonus and right issues.

Table 1: Gross margin breakdown (FY06 - FY07)

	FY07	FY06	Y/Y
Land lease	58.9%	64.4%	-8.6%
Factory for lease	56.5%	54.9%	2.8%
Services	22.9%	28.3%	-18.8%
Sale of relocation land	70.9%	NA	NA
Sale of property investment	44.5%	NA	NA
Total	42.7%	40.8%	4.7%

Source: Company reports.

Balance sheet and capital-raising

In 1Q08, the company issued a 100:15 share dividend. Management expects to raise chartered capital by 5x to VND5 trillion (+US\$300 million) by end-FY09 and list a maximum of 200 million shares overseas.

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Tan Tao Investment Industry Corp: Summary of financials

Profit and loss statement				Cash flow statement			
VND in millions	FY05	FY06	FY07	VND in millions	FY05	FY06	FY07
Revenues	313,192	352,763	924,713	EBIT	155,802	209,157	500,549
% change Y/Y	15.8	12.6	162.1	Depreciation & amortization	3,036	3,426	3,631
Gross margin (%)	55.0	59.2	57.3	Change in working capital	130,949	1,833	96,156
EBITDA	158,838	212,583	504,179	Taxes	25,784	35,934	89,631
% change Y/Y	23.8	33.8	137.2	Cash flow from operations	243,727	154,031	467,006
EBITDA margin (%)	50.7	60.3	54.5	Capex	-57,584	-9,878	-567,022
EBIT	155,802	209,157	500,549	Disposal/ (purchase)	0	0	0
% change Y/Y	28.5	34.2	139.3	Net interest	40,647	33,419	29,451
EBIT margin (%)	49.1	54.0	49.1	Free cash flow	-56,393	-68,608	503,330
Net interest	-40,647	-33,419	-29,451	Equity raised/ (repaid)	-64,321	1,194	2,402,192
Earnings before tax	135,526	184,707	459,284	Debt raised/ (repaid)	-161,473	-102,318	161,137
% change Y/Y	30.4	36.3	148.7	Other	30,974	-21,568	-2,465
Tax	25,784	35,934	89,631	Dividends paid	0	0	0
as % of EBT	19.0	19.5	19.5	Beginning cash	19,695	29,733	30,478
Net income (reported)	109,742	148,773	369,652	Ending cash	29,733	30,478	652,891
% change Y/Y	13.9	35.6	148.5	DPS (VND)	0.0	0.0	0.0
Shares outstanding (MM)	30	45	100				
EPS (reported) (VND)	1,805.04	2,493.29	4,433.55				
% change Y/Y	33.6	38.1	77.8				
Balance sheet				Ratio analysis			
VND in millions	FY05	FY06	FY07	%	FY05	FY06	FY07
Cash and cash equivalents	29,733	30,478	1,089,023	EBITDA margin	50.7	60.3	54.5
Accounts receivable	170,388	369,835	548,972	Operating margin	49.1	54.0	49.1
Inventories	57	731	594	Net profit margin	35.0	42.2	40.0
Others	28,599	11,714	43,896	SG&A/sales	5.9	5.2	8.1
Current assets	228,777	412,757	1,682,486	Sales per share growth	35.9	14.8	87.6
Long-term investments	941,999	962,809	2,141,654	Sales growth	15.8	12.6	162.1
Net fixed assets	81,967	88,420	654,244	Net profit growth	13.9	35.6	148.5
Total assets	1,252,995	1,464,145	4,701,999	EPS growth	33.6	38.1	77.8
Liabilities				Interest coverage (x)	3.8	6.3	17.0
Short-term loans	122,684	100,809	29,565	Net debt to total capital	43.1	28.4	Net cash
Payables	305,586	484,909	896,492	Net debt to equity	81.1	41.8	Net cash
Others	124,265	130,011	25,766	Sales/assets	25.7	26.0	30.0
Total current liabilities	552,535	715,729	951,823	Assets/equity	3.1	2.7	1.6
Long-term debt	248,551	168,107	400,488	ROE	27.6	30.0	19.1
Other liabilities	30,974	9,406	6,941	ROCE	18.3	25.6	21.9
Total liabilities	832,060	893,242	1,359,253				
Shareholders' equity	420,935	570,902	3,307,550				
BVPS (VND)	6,923.6	9,567.8	39,670.3				

Source: Company reports.