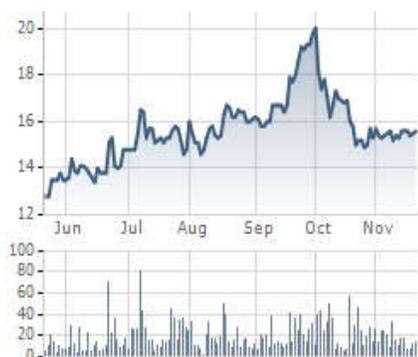


VINH KHANH CABLE PLASTIC CORPORATION (VKC-HNX)

Specific report 28/11/2016

Recommendation	Buy
Target price (VND)	26,860
Upside	~63%
Cash dividend (VND)	1,500
Dividend yield	

6 months shares movement chart



Shares Information, date 25/11/2016

Current price (VND)	16,500
No. of listed share	20,000,000
Chartered cap. (VNDbn)	200
Market Cap. (VNDbn)	330
52 weeks avg. (VND)	9,800-20,500
% foreign holdings	16.88%
% foreign ownership limit	49%

Financial indicators:

Criteria	2013	2014	2015
EPS (vnd)	238	700	1.394
BVPS (vnd)	12,295	12,517	13,085
Dividend (vnd)	1,000	1,500	1,000
ROA (%)	0.6%	2.1%	3.9%
ROE (%)	1.9%	7.0%	13.3%

Core business:

Manufacturing and trading tires, plastic pipes, telecommunication cables, fiber optic cables; in which the commercial tire business aspect's sales revenue accounts for 70% of the total revenue. The company's priority market concentrates in Ho Chi Minh city and southern parts of Vietnam.

Source: MBS

POSITIVE BUSINESS OUTLOOK

Vinh Khanh Cable Plastic Corporation (VKC) is a high growth enterprise specialized in two fields: telecommunication cables manufacturing and tires distribution. As the sole distributor of Chengshin'sMaxxis tire for the past 23 years, VKC has been holding an important position in the tubeless tires for motorbikes and heavy duty trucks market. Additionally, VKC is now one of the top enterprises in producing cables and telecommunication materials supplied toVNPT, FPT and Viettel. In the fiber optic cables business segment (which is an important and profitability segment), VKC has gained a significant market share in the total demand of FPT and VNPT. Moreover, VKC is restructuring the plastic producing segment. With the suitable strategy development, we expect the firm's profit to experience positive growth in the future.

Unit: billion VND	2015	2016F	2017F	2018F
Net sales	1,056	1,210	1,336	1,469
PBT	58	64	70	77
PAT	45	49	54	60
EPS (VND)	2,250	2,355	2,467	2,585
ROA (%)	3.9	5.4	5.6	5.9
ROE (%)	13.3	17.9	18.8	19.7

INVESTMENT THESIS

■ The Prospect of automobile tires and tubes industry in Vietnam during 2016-2018.

Vietnam is in the process of reducing taxes on automobiles imported from ASEAN countries. 2017 is coming soon in a month, which is the point that automobiles import duty from ASEAN falls to 30% and promising to drop to 0% as of 1/1/2018. The automobiles market is expected to be in full swing that will boost the automobiles industry to expand in the near future. The demand for car tyres will significantly increase in medium term due to the reduction of automobiles import tariff. This is good news for automobiles producers and distributors.

2016 is said to be the year of strong growth in automobiles industry. The total number of sales for the whole market is 242,681 up to October 2016, increasing by 30% in comparison with the same period last year. Specifically, commercial automobiles increase by 29% and special-purpose vehicles increase by 40%. With the remarkable results in the first 10 months of this year, the automobile market is expected to keep growing, and the total automobile consumption will possibly exceed the number 300,000 in the end of this year due to high demand.

■ VKC is the sole distributor of Chengshin tire

Chengshin is a Taiwan tire producer that holds a priority position in the tubeless tire market in Vietnam. VKC has been the exclusive distributor of Chengshin'sMaxxis tire for 23 years. VKC sets up and maintains a distribution system that spread out the southern parts of Vietnam to Da Nang. The tubes and tire business substantially affects the company's revenue. Especially in 2015, the tire distribution business's revenue gained 735 billion VND, made up 70% of the total revenue. In the first 9 months of 2016, the tire distribution business's revenue has gained 586.3 billion VND, increases by 7.63% compared to the same period last year. With the exclusive advantages, we believe that the tire distribution business will continue to grow at the rate of 10% in 2016, gaining approximately 808.6 billion VND.

■ Leading telecommunication cable producer and the plan of expanding export market

The telecommunication cable products demand has grown moderately during the years. This business aspect brings the company the highest gross profit margin. The main product line includes LAN cables, fiber optic cables, telecommunication cables, electronic wires. VKC is the main supplier for the big telecommunication groups such as FPT, Hanoi and Ho Chi Minh Posts

and Telecommunications Group. Moreover, the export process to Philippines, Japan, Taiwan is stable. We believe that Japan and Philippines are VKC's potential market in the telecommunication cables business. VKC is planning to expand the market to Germany, Korea, Mexico that contributes to the stable revenue growth of the company in this cable aspect.

■ **The cost of fiber optic cables production decreases due to the falling of copper price**

Since 2011, the world's copper price has been considerably decreased from 10,190 USD/ton to 5,868 USD/ton. Goldman Sachs predicts that copper price will fall to 4,500 USD/ton in the end of 2016, while UBS's prediction is 5,070 USD/ton in 2017 (due to the weakness in China's commercial data, causing some concern about the its metal material demand). In the near future, we believe the copper price may experience a slightly rise, but still remain at a low level. Currently, the copper material price constitutes approximately 65% of the Company's telecommunication cables cost, therefore low copper price will have a significant positive effect on VKC's cables gross profit margin.

■ **Maintaining high payout ratio of cash dividend in recent years**

VKC always remain a high payout ratio of cash dividend in comparison with monetary value (yearly payout ratio: 10-15%). In the first 6 months of 2016, VKC has paid the cash dividend of 2015 with the rate of 15%. With the promising growing business, VKC plans to raise the payout ratio respectively 15%, 20% and 20% in 2016, 2017, and 2018.

■ **Rocketed operating result in 2015**

The operating result in 2015 grown dramatically with the revenue of 1,055 billion VND, increased 24.4% in comparison with 2014. The gross profit margin of VKC was 79.4 billion VND, grown 37% compared to the last period. The improvement of profit margin is also due to the improvement of gross profit rate. That is, the gross profit rate of VKC in 2015 was 7.5%, when that in 2014 was 6.8%. The gross profit margin improves because of the falling of input material's price (price of copper decreased in 2015). With the growth of revenue and gross profit, VKC's profit after tax was 22.6 billion VND, increased 99% compared to 2014.

■ **Operating result prediction in 2016**

In the third quarter of 2016, net revenue was 286.6 billion dong, increased 2% compared with the same period. The gross profit was 28.76 billion VND, increased 10.3 billion VND compared with the same period last year. Selling expenses increased 3.2 billion VND, administrative cost increased 1.3 billion VND compared to the same period. Profit after tax was 10.28 billion VND, approximately doubling in comparison with the third quarter of 2015.

Accumulated for the first 9 months of 2016, the company's revenue is 861.1 billion VND, increases 14% compared to the same period, completing 71.1% plan of the year. The priority revenue comes from tires distribution business aspect (586 billion VND), cables business aspect (242.6 billion VND), and plastic business aspect (32 billion VND). Gross profit: tires business aspect (32 billion VND), cables business aspect (53.5 billion VND). In conclusion, the profit after tax is 34.1 billion VND, grows 151% compared to the same period, completes 77% plan of the year.

Operating result will continue to be positive: the outlook business of VKC will continue to grow due to:

- **The stable growth of tires distribution business aspect (growth rate > 10%).** VKC is the sole distributor of Chengshin's tires, with a wide range of customer network. The domestic automobiles market continues to have positive growth, with the total revenue of the whole market in the first 10 months of 2016 increases 30% compared to the same period last year. With the positive growth of automobiles market, the demand for tubes and tires is expected to remain a rapid growth in the recent years.
- **VKC is the main cable supplier for big companies.** VKC is the priority supplier for many telecommunication groups such as VNPT, Viettel, FPT. The biggest clients of VKC are FPT and VNPT with the yearly cables product quantity accounts for 100% and 75%.
- **Semi-sensitive product.** VKC mainly provides fiber optic cables for the household line segment. As holding a special segment and being the priority distributor for many big groups, VKC has many advantages to expand market share.
- **Benefiting from the low maintenance of copper price.** Copper is the core input material in the production process of VKC (account for 65% of the products' cost). VKC keeps up with the long term copper import contracts (related to LME copper price). We expect in the next 5 years, the copper price will slightly increase but remains at a low

level. With positive operating result and significant business outlook, we brightly believe that VKC will complete the plan with revenue of 1,210 billion VND and profit after tax of 45 billion VND (EPS = 2,250 VND/share).

■ **Valuation**

We use 2 valuation methods: FCFE and FCFF, the reasonable value of VKC stocks is 26,860 VND/share. Therefore we suggest buying VKC stock at current price with the upside potential of 63% compared to the price 16,500 VND/share in 25/11/2016.

Valuation methods		
Method	Proportion	Price
FCFE	50%	13,041
FCFF	50%	13,855
Total		26,897

FCFE and FCFF methods:

According to FCFE and FCFF valuation method, the reasonable value of VKC stock is respectively 26,083 VND/cp and 27,710 VND/cp due to the following theorems:

- VKC is the sole distributor of Chengshin tires. With the potential growth rate of the domestic automobiles business, we expect the distribution business will continue to grow substantially at the rate of 10-15%/year. Therefore, this is one of the main factor in VKC's revenue and profit in the recent times.
- VKC is the main supplier for the big telecommunication groups such as FPT, Hanoi and Ho Chi Minh Posts and Telecommunications Group. Moreover, the export process to Philippines, Japan, Taiwan is remained to be stable. We believe that Japan and Philippines are VKC's potential market in the telecommunication cables business aspect. VKC is planning to expand the market to Germany, Korea, Mexico that contribute to the stable revenue growth of the company in this aspect.
- Benefiting from the reduction of input price, as the prediction of low maintenance in the price of copper (account for 65% of the input material) until 2020, therefore improve the profit margin.
- Operating result in the first 9 months positively grows with revenue of 861.1 billion VND (+14%yoy) and net profit increases 151% compared to the same period (34.1 billion VND)
- Stable growth of operating result during the following year, and the estimated average growth rate is 10%-15% in the period 2016-2020.

I. Company Overview

VinhKhanh Cable-Plastic Corporation was established in 1995, with the charter capital of 5.3 billion VND. The current charter capital is 200 billion VND. The company is specialized in manufacturing and trading tires, plastic pipes, telecommunication cables, fiber optic cables; in which the commercial tire business aspect's sales revenue accounts for 70% of the total revenue. The company's priority market concentrates in Ho Chi Minh city and southern parts of Vietnam.

During the last 23 years of development, VinhKhanh has expanded the scale with the network system of 4 subsidiaries in Ho Chi Minh, Vinh Long, Can Tho, Da Nang and one representative office. It is worth noticing that VKC has step by step changed the business structure, concentrate on the two priority aspects that is tires distribution and telecommunication cables. Nowadays, VKC has the ability to provide average amount of 120,000 LAN cables buckets, 120,000km dropwires, 1,000,000 kg of copper, 10,000 tons of plastic and 360,000 km fiber optic cables. Under VCOM brand, the company manufacture to serve the export market such as Japan, Asean market.

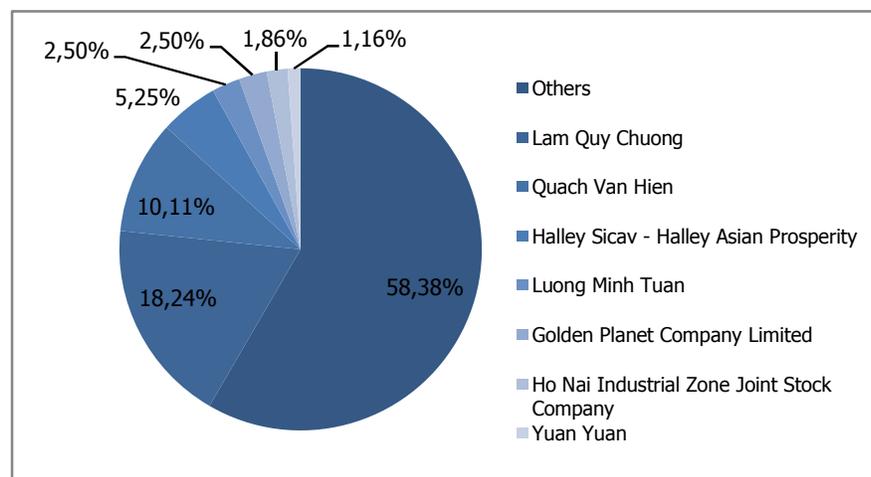
The company's stocks were listed at the Hanoi Stock Exchange in 16/11/2010 and have been officially traded since 08/12/2010 (stock code: VKC).

In 2016, the company changed the location from 63/1 sub-district 1 to no.854, 1K Highway, Chau Tho neighborhood, Binh An District, Di An Village, Binh Duong province – a convenient area for transportation and customer trading.

■ The company's position:

- + VKC has been the sole distributor of Chengshin in Vietnam for 23 years.
- + VKC is one of the cables suppliers that provide telecommunication cables through the country, supply 60% cable demand of VNPT.
- + VKC is the only company in Vietnam that produce LAN Patch cord CAT 6 that meets the international standards, and is regularly considered consuming by Japan, Philippines.
- + VKC is the first company in Vietnam to receive international certificate of UL (Underwriters Laboratories) and ETL (Edison Test Laboratories) as well as the company that export telecommunication cable products in Vietnam to Japan market. The average amount of product per year: 480,000 buckets of LAN cables, 60,000 km dropwires, 320,000 km fiber optic cables .
- + The advantage of VinhKhanh's plastic pipes is the huge size type of pipes that can serve mostly every water supply and drainage construction works, telecommunication as well as electronic works.
- + VKC owns 5 manufacturing line of PVC plastic pipes and 3 production line of PE pipes, in which one has been invested since 2009 that produce PE pipe 1200. The PVC plastic pipe is from 21 OD to 400 OD.

■ Shareholders structure 11/01/2016



Source: cafef

The number of VKC's outstanding shares is 20 million, in which the 3 biggest shareholders are Mr. Lam Quy Chuong (18.24% holding), Mr. Quach Van Hien (10.11% holding) and the foreign corporation Halley Sicav - Halley Asian Prosperity (5.25% holding).

■ **Business strategy and production plan of VKC**

At the annual general meeting 2016, VKC has published the production and business plan for 2016, with the revenue of 1,210 billion VND, increases 14.6% compared to 2015, and 44.3 billion VND of net profit, increasing 95.7% compared to 2015; cash dividend ratio is 15%. The company agreed to set target to achieve the annual growth rate of 10% and the average revenue of 1,300-1,500 billion VND per year, from 2016 to 2020.

VKC has planned to research new products such as LAN cables, invisible fibercables,... These are the priority products that have prospects to growth and are highly demanded in the market. Moreover, with LAN cables product, VKC tends to develop the Overseas Export Market OEM.

VKC has developed the inventory system for VNPT and FPT in Vietnam, and planned to buy one more warehouse in Tan An, Long An for cables and tires storage and plastic manufacturing.

VKC will expand the export market of product consumption to Myanmar, European countries such as Germany...

2. Business performance of VKC

VKC is specialized in manufacturing and trading variety of products, in which the priority business aspects are: Chengshin tires exclusive distribution, telecommunication cables manufacturing, plastic manufacturing.

■ **Main product:**

Automobile tire:



Telecommunication cable:



Fiber optic cable:



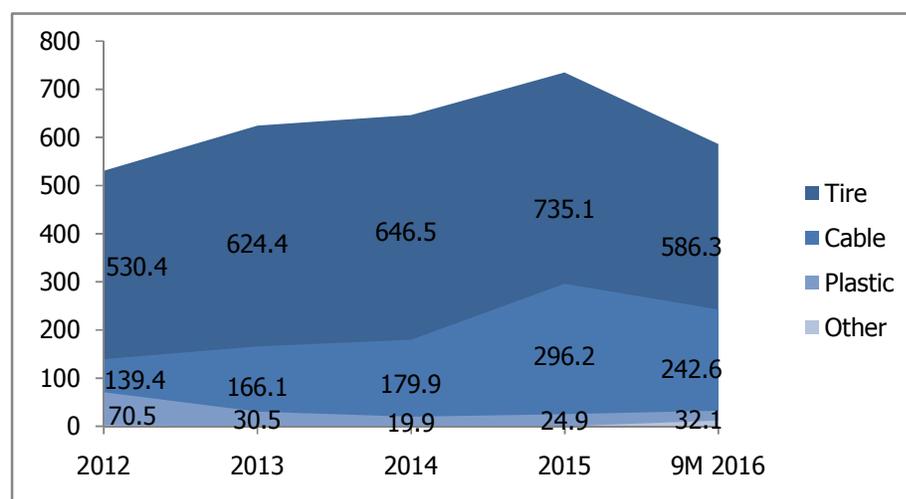
Plastic pipe:



■ Net sales and gross margin structure of VKC

Net sales of business segment:

Unit: billion VND



Source: VKC

The net sales from trading and service accounts for more than 99% of the total revenue, in which the tire distribution aspect always holds a significant ratio.

The tire distribution business holds about 70% of VKC's total revenue. The tire distribution's revenue tends to rise from 530.4 billion VND in 2012 to 735.1 billion VND in 2015. In the first 9 months of 2016, the tire distribution has brought in 586.3 billion VND.

The revenue of tire manufacturing business experiences a significant upward trend, increases from 139.4 billion VND in 2012 to 179.9 billion VND in 2014, and jump to 296.2 billion VND in 2015. In the first 9 months of 2016, the business's revenue is 242.6 billion VND.

In the recent years, VKC has made some movements: increase the percentage of tire distribution and tire manufacturing aspects, decrease the percentage of plastic manufacturing aspect. There is a downtrend in the revenue of plastic manufacturing, as the revenue fell from 70.5 billion VND in 2012 to 24.9 billion VND in 2015. In the first 9 months of 2016, the revenue of plastic manufacturing aspect is 32.1 billion VNDs.

Gross margin of business segment:

No.	Segment	2014		2015		9M 2016	
		Gross Margin	%	Gross Margin	%	Gross Margin	%
1	Tire	44.69	77%	55.34	70%	53.5	60%
2	Plastic	(9.17)	-16%	(3.46)	-4%	3.1	4%
3	Cable	22.38	39%	27.56	35%	31.9	36%
Total		57.9	100%	79.4	100%	88.5	100%

According to the gross profit, tires distribution business aspect holds the priority ratio of 60-77%, then it comes to the cables manufacturing aspect (35-39%). This means that VKC concentrates in developing these two businesses, not to mention the positive earning capacity of plastic manufacturing aspect after the production line's improvement, which account for 4% of the gross profit.

We assess that the tires distribution business aspect will bring a significant growth of revenue, a stable profit in the short run. But in the long run, the telecommunication cables aspect will be the priority growth of the company.

Production quantity over the years

No.	Segment	Unit	2014	2015	Q3/2016	2016F
1	Tire	Unit	5,209,103	5,923,241	1,577,824	6,515,565
2	Plastic	Kg	830,221	1,037,810	260,425	1,141,591
3	Tire	M	133,283,059	219,114,377	72,556,057	241,025,815

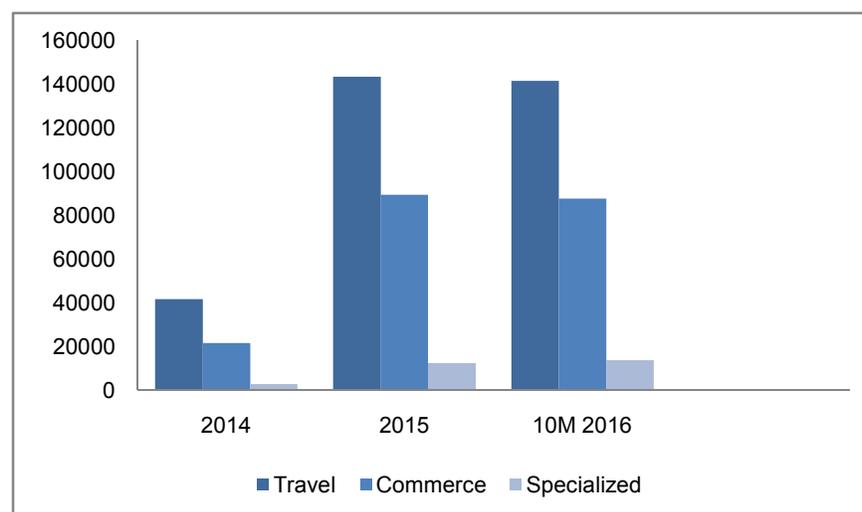
Source: VKC

A. PROSPECTIVE GROWTH OF THE AUTOMOBILES DISTRIBUTION DUE TO THE POSITIVE DOMESTIC AUTOMOBILES MARKET.

- **The prospect of automobile tubes and tire business in Vietnam in the period 2016-2018.**

Vietnam is in the process of reducing taxes on automobiles imported from ASEAN countries. 2017 is coming soon in a month which is the point that automobiles import duty from ASEAN falls to 30% and promising to drop to 0% as of 1/1/2018. The automobiles market is expected to be in full swing that will boost the automobiles industry to expand in the near future. The demand for car tyres will significantly increase in medium term due to the reduction of automobiles import tariff. This is good news for automobiles producers and distributors.

Car sales in Vietnam in 10M 2016 (Unit: vehicles)



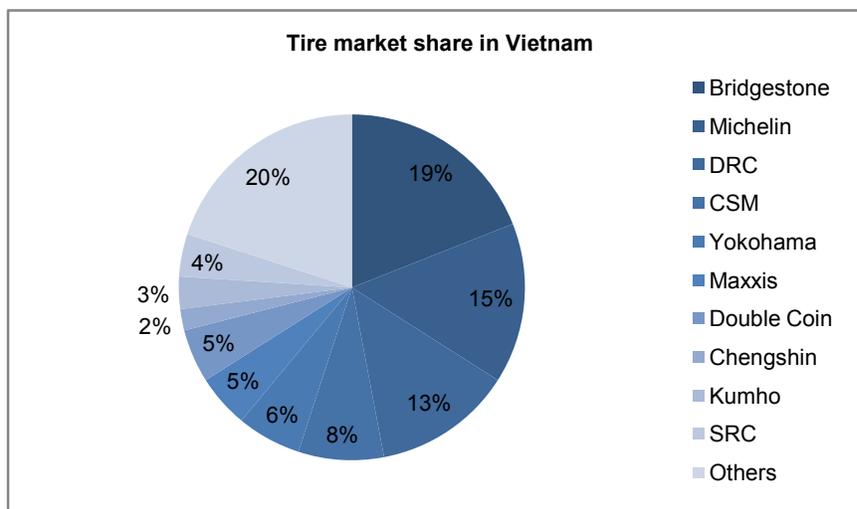
Source: VAMA

2016 is said to be the year of strong growth in automobiles industry. The total number of sales for the whole market is 242,681 up to October 2016, increases by 30% in comparison with the same period last year. Specifically, travelling car increase by 31%, commercial automobiles increase by 29% and special-purpose vehicles increase by 40%. With the remarkable results in the first 10 months of this year, the automobile market is expected to keep growing, and the total automobile consumption will possibly exceed the number 300,000 in the end of this year due to high demand

For the long run prospects, we assess that the tire distribution aspect has a potential development as the domestic automobiles industry is expected to have a rapid growth in consumption quantity, due to some advanced policies such as reducing the registration fee in the big cities, as well as the reduction in automobiles import tariff from ASEAN country and the government's automobiles development planning.

- **VKC ranks 7th in the market share of the domestic automobile tire distribution**

61% market share of the automobile tire belongs to Bridgestone (import), Michelin (import), Danang Rubber Joint Stock Company (DRC), Casumina (CSM) and Yokohama. The rest belong to some private tire company and imported product. About the tubes and tire product consumed in the domestic market, Casumina holds the highest market share of 33%, DRC holds 25%, SRC 10%, the remain 31% belong to the other company. **Chengshin and Maxxistire hold 7% market share of automobile tire of the whole country.**



Source: VAMA

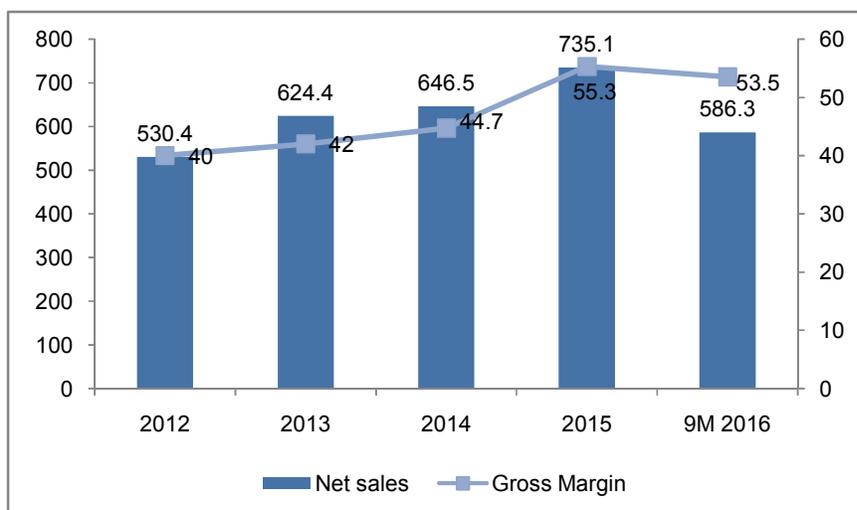
■ **Chengshintire exclusive distribution brings VKC the highest revenue**

Chengshin is a Taiwan tire producer that holds a priority position in the tubeless tire market in Vietnam. VKC has been the exclusive distributor of Chengshin's Maxxistire for 23 years. VKC sets up and maintains a distribution system that spreads out the southern parts of Vietnam to Da Nang.

VKC distribute Chengshintire for mortorbikes and heavy trucks. The revenue and gross profit of tirekeep on growing with a stable rate, hold a significant ratio in the total revenue of VKC.

Revenue – Gross margin of Tire business aspect 2012- Sept 2016

Unit: billion VND



Source: VKC

Revenue and gross profit from tire distribution has a stable growth, holding a remarkable ratio in the total revenue of VKC. The tire distribution aspect account for 70% of the total revenue. The revenue of tire distribution increases from 530.4 billion VND in 2012 to 735.1 billion VND in 2015. The first 9 months of 2016, the tire business aspect brings VKC 586.3 billion VND.

Gross profit from tire business aspect has brightly risen from 40 billion VND in 2012 to 55.3

billion VND in 2015. In the first 9 months of 2016, this aspect's gross profit reaches 53.5 billion VND, increases 96.7% compared to 2015.

- **Due to the prospects of domestic automobile industry along with the positive business performance of the company, we expect the tire distribution aspect's revenue to reach 808.6 billion VND this year, increasing 10% compared to the same period. In the following years, the revenue of this aspect will bestable with the rate of 8-10%/year.**

B. POTENTIAL GROWTH OF VKC'S TELECOMMUNICATION CABLES PRODUCTS.

Telecommunication cable product remains its stability over the years. The main product line includes LAN cables, fiber optic cables, electric wire, copper wire,.

▪ **Prospects from Telecommunication market**

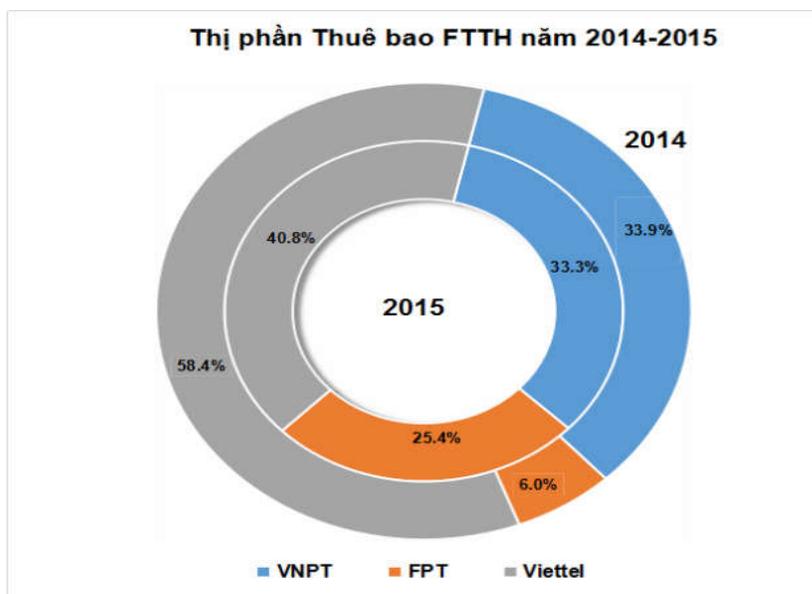
Telecommunication has been chosen to be the key force to develop Information Technology by the Ministry of Communication and Information in the period of 2015-2020, with the target growth rate is 1.2-1.5 times greater than GDP's growth rate, the total revenue reaches 15-17 billion VND, accounted to 6-7% of GDP.

In the first 9 months of 2016, the telecommunication aspect's revenue is estimated to be 285.3 billion VND, increases 7.7% compared to the same period in 2015. In which, the permanent Internet broadband subscriber is estimated to be 8.8 million subscribers, increases 23.4% compared to the same period in 2015. People that use internet account for more than 50% of the population. The number of fiber optic cables subscribers has had a significant increase since 2015, as FPT officially finished the fiber cables improvement project in Hanoi and Ho Chi Minh.

The moving trend in using copper cables Internet to fiber optic cables Internet is very popular in the world. Fiber optic cables have many advantages in data line speed, the stability and high security. Being ahead of the trend, recently, many telecom providers in Vietnam such as VNPT, Viettel, FPT have actively switched from copper cables to fiber optic cables in Hanoi, Ho Chi Minh city and other big cities in order to provide the best selection to customer in such a time of Internet explosion.

According to the Ministry of Information and Communication's report, FPT Telecom is the telecom provider that has the fastest growth of fiber optic cable subscribers. In comparison with 2014, the market share of FPT has been four times bigger in 2015.

Market share of fiber optic cable subscriber 2014-2015



Source: VNTA

Statistics from Akamai show that, in the first quarter of 2016, Vietnam has the highest growing rate of high speed Internet broadband using fiber optic cables (>10Mbps, >15Mbps) in the Asia-Pacific area. Moreover, Vietnam is a country that has a low ratio of Internet subscriber/population, therefore there is a lot of growing prospect in the near future.

■ **The main input material in producing cable's cost continues to fall in the period 2011-2016**

Input materials directly affect VKC's profit and revenue. The ratio of raw material/ price of plastic product and telecommunication cables is very high, account for about 90% of the product price, in which copper, steel, plastic and fiberglass are the main material. Therefore, price fluctuation can cause a very remarkable effect to the product price as well as VKC's business result.

We believe that the gross profit margin of VKC will be greatly improved in the future when the price of copper remains at a low level recently. VKC's products are exclusively protected as being exported to Philippines, so that the company hasn't changed the price of copper cables since 2011. Moreover, the cable business revenue increases fast, in the first 9 months of 2016, this sector's revenue accounts for 28.17% of the total revenue, when it is only 21.3% in 2014.

Chart 7: Material of cables manufacturing's costs decline in 2011-2016

Unit: USD/ton

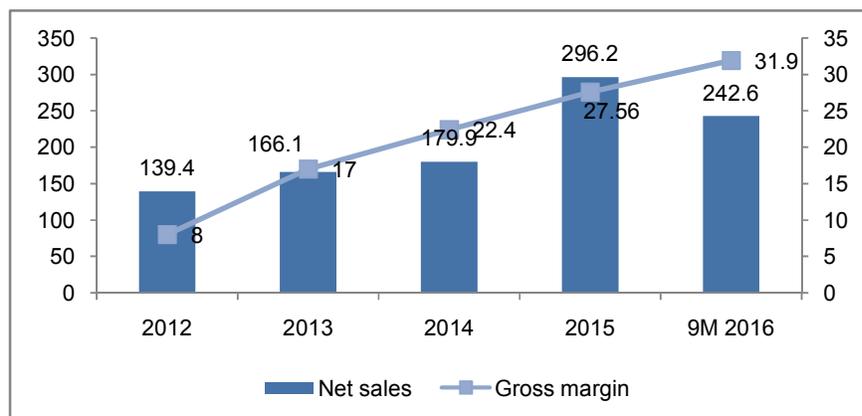


Source: Bloomberg

Since 2011, the world's copper price has been considerably decreased from 10,190 USD/ton to 5,868 USD/ton. Goldman Sachs predicts that copper price will fall to 4,500 USD/ton in the end of 2016, while UBS's prediction is 5,070 USD/ton in 2017 (due to the weakness in China's commercial data, causing some concern about the its metal material demand). In the near future, we believe the copper price may experience a slightly rise, but still at a low level. Currently, the copper material price constitutes approximately 65% of the Company's telecommunication cables cost, therefore the low remaining of copper price will have a significant positive effect to VKC's cables gross profit margin.

Revenue – Gross Profit of Cable Business aspect 2012- Sept 2016

Unit: billion VND



Source: VKC

The revenue of Cable business continues to grow recently, increasing from 139.4 billion VND in 2012 to 298.2 billion VND in 2015. In the first 9 months of 2016, revenue is 242.6 billion VND and continues to increase in 2015 (64,7% compared to 2014), mostly due to the cables sale activity.

In the segment connected from the provider to household, VKC provides 100% the demand of

FPT's fiber cables, 80% of VNPT and 5% of Viettel. The fiber cables quantity reaches 16,000 km -17,000 km cables/month. VKC's fibercables has many advantages compared to other competitors. In the future, FPT will expand to the market to Myanmar, Campuchia, along with the development of VNPT thorough the country, the demand for VKC's fiber cables is expected to keep on growing.

Gross profit of this aspect tends to increase, from 8 billion VND in 2012 to 27.5 billion VND in 2015, and reaches 31.9 billion VND in the first 9 months of 2016, thanks to the reduction of input material's cost.

■ **VKC intensifies the ability of Telecommunication cable export.**

Philippines market highly appreciates the quality of VKC's telecommunication cables product. VinhKhanh's products have been used in many constructions in manila, Baguio, Laoag... Moreover, VKC's telecommunication design has registered trademark for 7 years in the Philippines market since 2015, so that we expect to have a stable source of telecommunication product in the near future.

VinhKhanh maintains the advantage of exporting to Japan with the specialty product line: LAN cables (type: Slim, Flat) and its featured functions such as the round and small design of cable that reduce the effect of outsider force in the cables' twist, easy for construction as well as the standard parameter test and FLUKE DTX-1800 CAT6, satisfy the demand of high speed transmission-line.

VKC's export aspect remains a stable growth. Beside Philippines and Japan, VKC has successfully exported 2 batches of goods to Taiwan and Thailand. VKC exports 3,000 buckets of LAN cables/month to Thailand, which makes the revenue of cables aspect, increase 6 billion VND/month.

These are the company's new market that will bring more prospects to VKC's cable business aspect. The export revenue is expected to reach 4.5 million USD in 2016 (increase 300% compared to 2015).

- **With the reduction of input material's cost and the growing of export activities, the revenue of cable aspect reaches 355.4 billion VND, increases 20% compared to 2015. In the near future, this will continue to be the priority aspect that brings revenue and profit.**

■ **Update VKC's cable product**

Lan cable

VinhKhanh Corp. has got NOKIA MAILLEFER, KOBELCO, PAN-PIONEER tandem lines and other modern equipments, made in Germany and Japan. The company supplies a wide range of LAN cable, such as Cat 3, Cat 5, Cat 5e, Cat 6, Cat 6A, Cat 6e, from 4 pairs to 100 pairs. VCOM LAN cable is produced by advanced technology and ISO standards, UL is soon to be exported to America.

Fiber optic cable

In order to meet the technology change in telecommunication industry, VinhKhanh Corp. has been interested in researching in producing fiber optic cable. With the brand name of VCOM, which satisfies some requests on technical requirements, such as attenuation, performance temperature, dispersion.

Telecommunication cable

VinhKhanh Corp. has started to manufacture telecommunication cable since 1997, then invested and expanded in this industry from 2003, and telecommunication cable has become one of the company's key products. VinhKhanh Corp. has been supplying 4 main categories of this cable as following: Self- supported copper telecommunication cable, burried copper telecommunication cable, inside wire, dropwire.

Electric wire

Vietnam has been integrating and developing while the demand of construction materials, including power cable and electric wire, is strongly increasing day by day. With the development and prosperity in Vietnam, VinhKhanh Corp. has also engaged in producing power cables and electric wires under the brand name of VCOM and CAVIK, has been supplying VC, VCm, VCmt, CV, CVW, DWV,...

Copper line

VinhKhanh Corp. has invested in many manufacturing devices and has the ability to supply a

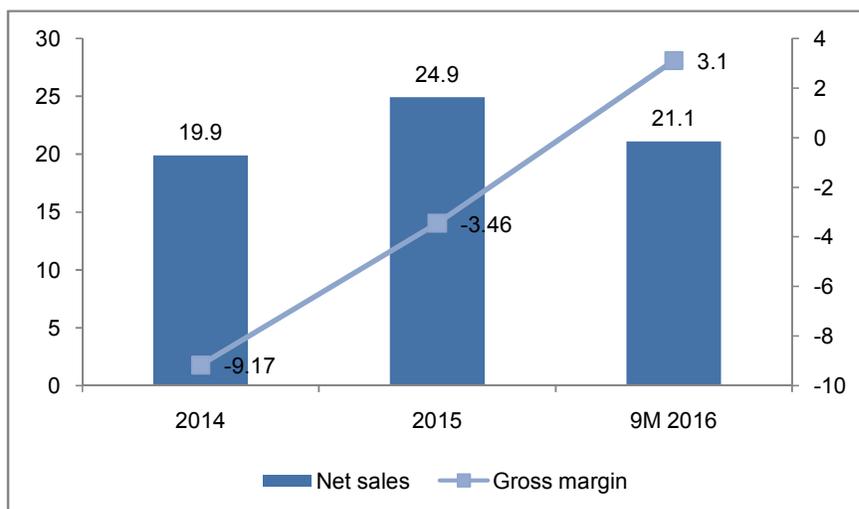
variety of copper line, from 2.6mm to 0.1 mm

C.PLASTIC MANUFACTURING ASPECT: THE RESTRUCTURING IMPROVE GROSS MARGIN

The gross profit of plastic aspect has been significantly improved in the first 9 months of 2016.

Revenue – Gross margin of plastic business aspect 2011- Sept 2016

Unit: billion VND



Nguồn: VKC

After a period of researching and developing new products, the revenue and gross profit have improved significantly. Revenue increases from 19.9 billion VND in 2014 to 32.1 billion VND in the first 9 months of 2016. The gross margin is also positive, reaches 3.1 billion VND.

III. Stock valuation

We use valuation methods FCFE and FCFF, the reasonable value of VKC stocks is 26,860 VND/cp. Therefore we suggest buy VKC stock at current price.

FCFE and FCFF valuation methods

Theorems:

- VKC is the sole distributor of Chengshintire. With the potential growth rate of the domestic automobiles business, we expect the distribution business will continue to grow substantially at the rate of 10-15%/year. Therefore, this is one of the main factor in VKC's revenue and profit in the recent times.
- VKC is the main supplier for the big telecommunication groups such as FPT, Hanoi and Ho Chi Minh Posts and Telecommunications Group. Moreover, the export process to Philippines, Japan, Taiwan is remained to be stable. We believe that Japan and Philippines are VKC's potential market in the telecommunication cables business aspect. VKC is planning to expand the market to Germany, Korea, and Mexico that contributes to the stable revenue growth of the company in this aspect.
- Benefiting from the reduction of input price, as the prediction of low maintenance in the price of copper (account for 65% of the input material) until 2020, therefore improve the profit margin.
- Operating result in the first 9 months positively grows with revenue of 861.1 billion VND (+14%yoy) and net profit increases 151% compared to the same period (34.1 billion VND). We expect the company to reach the growth rate of revenue of 15% (1,210 billion VND) and the profit's growing rate to reach 98.4% (45 billion VND) in 2016. Net profit ratio in 2016 is 3.7% (in 2015 is 2.1%).
- Stable growth of operating result during the following year, and the estimated average growth rate is 10%-15% in the period 2017-2020. (Expected growing rate of revenue: 10%/year, respectively 1,226 billion VND, 1,469 billion VND, 1,616 billion VND and 1,778 billion VND; net profit: 49.5 billion VND, 54.4 billion VND, 60 billion VND and 66 billion VND).
- The company is planning to invest in transforming and repairing cables and plastic factories in order to boost the productivity to 30,000 km of cables/month and 500 tons of plastic/month.

➤ The cash dividend payout ratio is expected to be 15% in 2016 (dividend yield: 8.4%).

Theorems	Long term bond yield	Rf	8,0%
	Market yield	Rm	11,0%
	Beta	β	0,54
	Discount rate(CAPM)	k	9,6%

FREE CASH FLOW TO EQUITY METHOD (FCFE)

Target	Unit	2016	2017	2018	2019	2020	2021	2022	2023
LNST	Billion	45	49.5	54.4	59.8	65.8	72.4	77.5	81.3
Investment	Billion	33	19.2	20.1	21.1	22.2	23.3	24.5	25.7
Assets Depreciation	Billion	20.5	10.8	11.3	11.9	12.5	13.1	13.7	14.4
Changing the charter capital	Billion	34.6	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5
New debt-Old debt	Billion	17.2	4.4	4.7	4.9	5.1	5.4	5.7	6
FCFE	Billion	15.1	46.6	51.4	56.7	62.6	69	73.9	907.5
PV FCFE, GTKT	Billion	15.1	42.5	42.8	43.1	43.3	43.6	42.6	477.1
Sum (+)TM	Billion				522.4				
Number of coupon	Million cp				20				
PVf	VND				26,083				

FREE CASH FLOW FOR FIRM METHOD (FCFF)

Target	Unit	2016	2017	2018	2019	2020	2021	2022	2023
LNST	Billion	45	49.5	54.4	59.8	65.8	72.4	77.5	81.3
Investment	Billion	33	19.2	20.1	21.1	22.2	23.3	24.5	25.7
Depreciation	Billion	20.5	10.8	11.3	11.9	12.5	13.1	13.7	14.4
Changing the charter capital	Billion	34.6	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5
FCFF	Billion	-2.2	42.2	46.8	51.8	57.4	63.6	68.2	1.043.9
PV FCFF, GTKT	Billion	-2.2	38.5	38.9	39.3	39.8	40.2	39.3	548.8
Sum (+)TM (-) debt	Billion				555				
Number of coupon	Million cp				20				
PVf	VND				27,711				

Valuation methods

Method	Proportion	Price
FCFE	50%	13,041
FCFF	50%	13,855
Total		26,897

P&L statement				FINANCIAL INDICATORS			
UNIT: BILLION VND					2013	2014	2015
	2013	2014	2015	Solvency ratios			
Sales Revenue	821	848	1.056	Current ratio	1,13	1,15	1,12
Revenue deductions	0	2	0	Quick ratio	0,61	0,64	0,66
Net revenue	821	846	1.056	Cash ratio	0,20	0,19	0,26
COGS	764	788	976				
Gross Profit	57	58	79	Operation efficiency ratios			
Financial Revenue	2	1	2	Acc.t receivable turnover	6,25	5,00	6,74
Financial activities expenses	22	16	18	Debt collection days	57,62	72,06	53,38
Interest expenses	20	17	17	Inventory turnover	4,55	4,31	5,14
Sales expenses	16	15	18	Inventory turnover days	75,59	82,02	63,60
Administrative expenses	13	14	16	Total assets turnover	1,67	1,57	1,84
Operating profit	7	14	30	Fixed assets turnover	7,68	8,31	9,14
Other income	0	3	1	Owner's equity turnover	5,14	5,21	6,21
Other expenses	2	2	1				
Other profit	(2)	1	(1)	Leverage ratios			
Profit/loss in associated company/joint venture	0	0	0	Short-term assets/Total Assets	76,5%	80,5%	78,7%
Profit before taxes	5	15	29	Long-term assets/Total Assets	23,5%	19,5%	21,3%
Current business income tax charge	2	3	7	Debt ratio	67,5%	70,0%	70,4%
Deferred business income tax charge	(0)	0	0	Debt ratio/EQ	207%	233%	238%
Profit after taxes	3	11	23	Short-term liabilities/Total Assets	67,4%	70,0%	70,1%
Lợi ích của cổ đông thiểu số	0	0	0	Short-term liabilities/Short-term Assets	88,2%	86,9%	89,1%
PAT of parent company	3	11	23	Short-term liabilities//EQ	207%	233%	237%
				Long-term liabilities/Total Assets	0,0%	0,0%	0,3%
SHORT TERM ASSETS	376	436	453	Long-term liabilities/Long-term Assets	0,2%	0,0%	1,4%
Cash	65	72	107	Long-term liabilities/EQ	0,1%	0,0%	1,0%
Short term financial investment	0	0	0				
Receivables	131	170	157	Profitability ratios			
Inventory	172	193	187	Gross margins	6,9%	6,8%	7,5%
Other	7	1	3	Profit from operating activities	0,8%	1,6%	2,8%
				Other income	-0,2%	0,1%	0,0%
LONG TERM ASSET	116	105	122	PBT	0,6%	1,8%	2,8%
Long term receivables	0	0	0	PAT	0,4%	1,3%	2,1%
Fixed assets	107	102	116	ROA	0,6%	2,1%	3,9%
Real estate investment	0	0	0	ROE	1,9%	7,0%	13,3%
Long term financial investment	6	0	0	Other income/PBT	-31,7%	6,3%	-1,7%
Commercial advantages	0	0	0	Income from operating activities/PBT	131%	93,7%	101%
Other	3	3	6				
TOTAL ASSETS	492	542	575	Other indicators			
				EPS	238	700	1.394
LIABILITIES	332	379	405	Dividend (VND)	1	1.5	1
Short term liabilities	331	379	404	Dividend payout	420%	214%	71,7%
Short term borrowings and liabilities	207	229	228	Dividend yield	4,3%	5,2%	3,8%
Trade creditors	117	141	163	Dividend growth		50,0%	-33,3%
Deferred revenue	1	1	2	Book value	12.295	12.517	13.085
Long term liabilities	0	0	2				
Long term borrowings and liabilities	0	0	2				
OWNER'S EQUITY	160	163	170				
Paid-in capital	130	130	130				
Share premium	0	0	0				
Treasury stock	0	0	0				
Retained earnings	16	20	26				
Other fund	14	13	14				
TOTAL LIABILITIES AND EQUITY	492	542	575				

Contact Research officer:

Tran Hoang Son

Son.tranhoang@mbs.com.vn

Do Bao Ngoc

Ngoc1.dobao@mbs.com.vn

Pham Van Quynh

Quynh.phamvan@mbs.com.vn

Recommendation ratings: The ratings is built on difference between target price and price at the day release

Rating	UPSIDE
BUY	>=20%
OUTPERFORM	From 10% to 20%
FAIR VALUE	From -10% to +10%
UNDERPERFORM	From -10% to - 20%
SELL	<= -20%

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