

Technology industry

AGM Notes 2017

April 25, 2017

 Recommendation **N/A**

 Target price (VND) **N/A**

 Market price (25/04/2017) **23,200**

 Expected return **N/A**
STOCK INFORMATION

Exchange	HSX
52-week price range	18,000 – 28,240
Capitalization	VND1,099 bil
Outstanding shares	47,474,375 shares
10-day average volume	142,992 shares
% foreign ownership	20.81%
Foreign ownership limit	49%
Dividend per share	1,200
Dividend yield	5.2%
Beta	0.51

PRICE MOVEMENT

	YTD	1T	3T	6T
ELC	12.7%	-1.4%	-1%	-15.1%
Vn-index	9.1%	1.9%	5.6%	6.3%

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Electronics Communications Technology Investment Development., JSC

Ticker: ELC Reuters: ELC.HM Bloomberg: ELC VN

Prudent plan for 2017 amid potential growth

2016 earnings result recorded an impressive growth

Business line	FY 2016	%yoy
Telecommunication	611	96%
Intelligent transportation	338	55%
National defense and security	247	128%
Hi-tech agriculture	104	N/A
Total revenue	1,301	80%
Profit after tax	94	28.7%
Dividend ratio	12%	N/A

In 2016, ELC achieved a revenue of VND1,301 billion, fulfilling 130.4% of the plan, up 80% yoy. Meanwhile, profit after tax last year was VND94.1 billion, fulfilling 109% of the plan, up 28.7% yoy. ELC's business lines successfully fulfilled the target, of which telecommunication made the greatest contribution with a revenue growth of 100%, accounting for 47% of total revenue. Intelligent transportation and national security and defense also posted a positive growth of 55% yoy and 128% yoy respectively. In 2016, ELC also participated in hi-tech agriculture sector with the launch of a comprehensive package of membrane solution for agriculture which generated a revenue of VND104 billion in the first year. The company plans to pay dividend at 8% in cash and 7% in shares for employees.

2017 Plan is relatively prudent amid the company's potential growth.

ELC plans to reach a revenue of VND1,350 billion, a net profit of VND108 billion, up 4% yoy and 15% yoy respectively. Dividend payout ratio is forecast at 12% in 2017. From our view, this is a prudent plan, while ELC can totally exceed this target next year.

- **Telecommunication is targeted to reach a revenue of VND702 billion, up 15% yoy.** Network provider will focus on developing and operating 4G service in 2017. As a result, transmission system must be expanded with higher capacity. ELC has completed the bidding package of providing equipment for the North-South Fiber Optic Cable Link project launched by Mobifone in 2016. Currently, the company is implementing the construction package of this project in 2017, which is expected to significantly contribute telecommunication revenue this year. Revenue of telecommunications this year. The total length of the cable is 2,800 km and the project is carried out in the form of BOT during 8 years with a contract price of around VND1,800 billion. The company's internal rate of return (IRR) is estimated at no

less than 20%. Regarding value on the contract alone, ELC can record a revenue of roughly VND225 billion from this project each year. The success of this project will help ELC win other big transmission projects in the future. In addition, the company is also doing research and developing products to catch up with Big data or cloud computing trends to support domestic mobile network operators. Vietnam telecommunication market is at an early age and still have an enormous growth potential compared to global markets

- ❑ **Revenue from transportation is targeted to reach VND257 billion, down 24% yoy.** ELC believes that this business line will be affected by a freeze on transportation projects by the new minister. However, intelligent transportation system in Vietnam still has great growth potential and will be implemented on the North-South expressway with a total length of 2,200 km and an investment on new construction of 1,300 km system until 2020. ELC will also develop Vessel Traffic System (VTS) for the nation's port system in 2017. Currently, only 3 out of 30 maritime routes in Vietnam use smart system for management, market value is estimated at about VND2,000 billion
- ❑ **The company sets a target revenue of VND256 billion for national security and defense, up 3.6% yoy.** Turbulent situation along with the modernization of national security and defense technology will continue support ELC to develop solutions and products for customers.
- ❑ **High-tech agriculture is targeted to generate a revenue of VND135 billion, up 30% yoy.** Currently, ELC is providing membrane solutions for growing flower and vegetables of PAN's projects. The company will complete two membrane forms for a variety of plants, including housing system and controlling-caring system by Q2/2017. Regarding the organization, ELC will complete the system in terms of solution, design, production, construction and quality management to launch these products in Q3/2017 and provide massive from 2018 onwards.

Shareholders also approved issuing 116,000 bonus shares for employees in the AGM. In addition, through the ESOP, ELC will also provide its employees with 2.3 million shares, accounting for 4.8% of the company's shares. The issuance will be divided into 3 phases during 2018-2020

Recommendation

All projects that ELC is running are new integrated systems projects which usually have low operating margin in the first one to two due to high costs of development. However, after winning expansion contracts, the costs will be reduced, increasing operating margin. From 2017 onwards, we believe that profit of ELC will spike when next stages of the project are carried out, following the key stage. The business plan for 2017 is relatively prudent as we believe that ELC is fully capable of fulfilling and exceeding this target. 2017 P/E forward in correspondence with current target is 11.7x. However, given the large growth potential of ELC, we believe that this is a relatively attractive price for investment.

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