

OVERWEIGHT

Target price 30,000 VNĐ
Closing price 22,000 VNĐ
12/06/2017

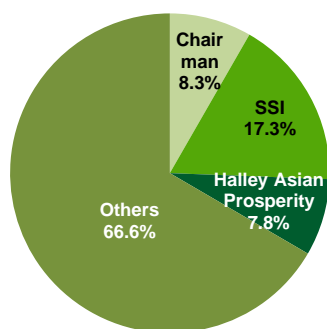
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Co. profile

Ticker	ELC
Charter Capital (VND bln)	465
Outstanding shares (mln)	46.5
Market Capital (VND bln)	1,023
52W range (VND)	20,650~21,800
Ave. trading volume 3M	144,820
Beta	0.51
Foreign Ownership	21.17%
First listing date	13/10/2010

Major shareholders

Saigon Securities JSC	17.3%
Phan Chien Thang (President)	8.3%
Halley Sicav - Halley Asian Prosperity	7.8%



Price movement

	3M	6M	12M
Absolute	-1.28	-4.1	2.4
(%)	-5.5%	-15.8%	12.3%



Positive long-term growing prospect

2016 and Q1/2017 results increased strongly YoY

In 2016, **net revenue for the first time in constructing progress, Elcom reached revenue of 1 trillion dong** at 1,301 billion, reaching 130.4% target, up strongly by 80% YoY. EAT is 94.1 billion, reaching 109% target, up by 28.7% YoY. In detail:

- Revenue from Telecommunication still contributed the most in total revenue with 47%, up by 100% YoY, reaching 136% year target.
- National Defense and Security and Transportation contributed 19% and 26% total revenue.
- Especially in high-tech section, the company has finished research procedure, seeking cooperation with prestigious partners in the region to develop high-tech application products and solutions. Elcom has started seeing successes with A-Z solution for high-tech agriculture to supply to customers.

In 2017, Elcom's business strategy is to strengthen the revenue weight of telecommunication from 47% to 52%, National Defense and Security stays at 19%, transportation will drop to 19%, high-tech agriculture and other sections stay at 10%.

Q1/2017, Elcom saw a revenue growth of 30% to 102 billion. Besides, loan interest expense also dropped strongly from 1.74 to 0.48 billion in Q1/2017 since the company has paid part of the loan in 2016.

Growing motivation

The transmission system for 4G service is forecasted to grow since internet suppliers are focusing on developing and exploiting this service in 2017. This expects to contribute remarkably in telecommunication revenue this year since ELC has finished the contract of supplying equipments for North-South Optical cable route for Mobifone in 2016 and is starting the contract on building this project in 2017. The project with a total length of 2,800km sees a value of about 1,800 billion dong in BOT, and internal rate of return (IRR) is about 20% at the least. For recorded value on the contract alone, ELC can receive about 225 billion dong of revenue each year from this project.

Besides, the company is also researching to develop products to prepare for **Big data trend** and cloud computing to serve domestic mobile network suppliers. Comparing to the world, this market in Vietnam is only at initial state with strong developing potential.

With forecast that smart transportation system in Vietnam still has strong developing potential which will be first deployed on **North-South highways with total current length of 2,200 km and expected 1,300 km new build until 2020**. In 2017, ELC will also continue deploying **Vessel Traffic Service (VTS) system** for port system all over the country. Currently, only 3/30 vessel routes using smart system for management, market value is about 2 trillion dong. Revenue target will be 257 billion, down by 24% YoY. Expectedly, transportation section will be influence by transportation projects tending to slow down under the management of new Minister.

Defense and Security technology modernization trend will continue favoring and opening opportunities for ELC to develop solutions and products to supply to customers while there are many threats on net security. Defense and Security section sets revenue target at 256 billion, up by 3.6% YoY.

High-tech agriculture section sets revenue target at 135 billion, up by 30% YoY. Currently, ELC is supplying solutions for flower and vegetable net

house for PAN's projects. The company will finish 2 net house models to meet the demand of planting many types of vegetable including the complete house system and controlling and nurturing system in Q2/2017.

In conclusion, we think that Elcom's profit target is quite cautious with revenue target of 1,350 billion and EAT of 108 billion dong, up by 4% and 15% YoY. According to our estimation, the company will see revenue of about 1,400 billion and parent company EAT will be 122.9 billion. However, to reach this profit, the company must improve gross margin to 25.8% from 21.3% in 2016. The motivation for this improvement is that the projects that ELC is deploying are all new system integration so initial expense will be higher, seeing influence on profit/revenue rate. However, in 2017, this will get better since the projects will be deployed in the steps following initial ones, so Elcom is forecasted to see a strong profit growth.

Recommending OVERWEIGHT. We estimate that parent company EAT in 2017 is 122.9 billion, equivalent to EPS forward 2017 of 2,640 dong/share. With current price of 22,000 dong/share, ELC is trading at P/E 2017 of 8.3x, quite attractive comparing to 11.2x of 2016, as well as section average (14.x) and general market (17.x). Therefore, we recommend overweight with target price of 30,000 dong and profitability of 36%.

Company Profile

On December 15, 1995, Electronics Communications Technology Investment Development Joint Stock Company (ELCOM) was founded in accordance with Decision number 2200/GPUB of Hanoi City People's Committee.

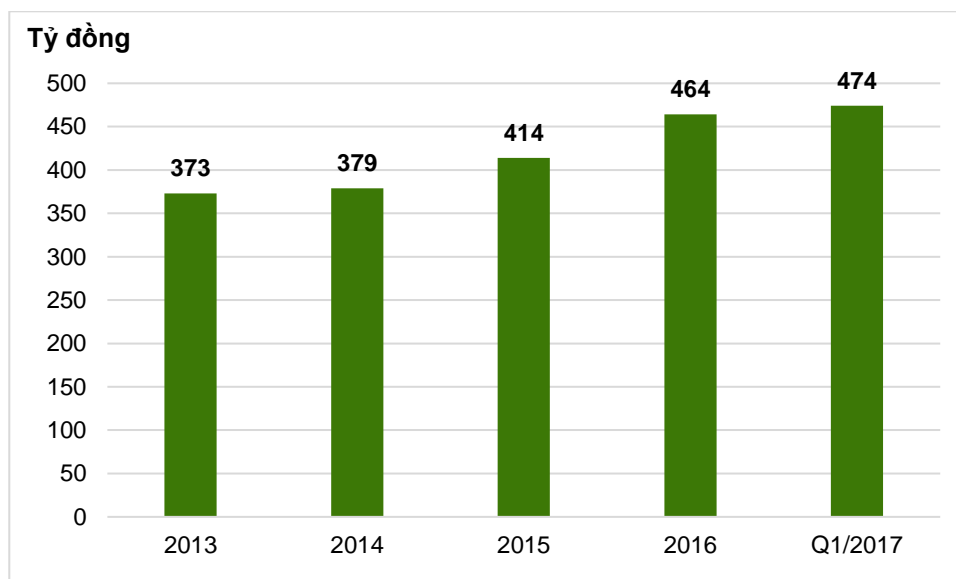


On March 24, 2010, the company raised chartered capital to 177 billion dong, in which, successful private issuance total par value is 29.76 billion dong for many big institutes like Saigon Securities JSC, SSI Vision Fund, and SME Securities, total mobilization from this private issuance is over 177 billion dong.

In 2012, opening Elcom Corp. building in 15 Duy Tan, Hanoi and establishing New Generation Biology Technology (NG.BIOTECH), introducing eBop product.

In 2013, successfully researching and testing unmanned aerial vehicle (UAV) and unmanned surface vessel (USV), officially introducing television entertaining device eBop, a breaking through community product in family entertaining section. Developing product systems with large scale and high complication like: ITS – intelligent transporting system and VTS – vessel traffic service system.

Capital raising progress (billion dong)



Source: PHS summarization

Financial ratio (VND bln)

Income statement	2014	2015	2016	2017 E
Revenue	330.6	723.3	1,301.6	1,423.4
Cost of goods sold	204.7	496.6	1,023.5	1,055.2
Gross profit	125.9	226.7	278.1	368.2
Selling Expenses	14.1	25.4	36.8	40.2
Managing Expenses	48.3	84.4	134.4	146.9
Depreciation	27.1	32.7	33.4	31.3
Operating profit	36.5	84.1	73.6	149.7
Finance profit	-0.8	-28.9	4.6	5.1
Interest expense	6.2	4.3	10.7	10.6
Total profit before tax	64.4	87.4	111.6	146.1
Enterprise income tax	2.5	14.2	17.4	22.0
Profit after Tax	61.8	73.1	94.1	124.1
Profit after Tax of parent company	64.1	73.2	94.7	122.9
Balance sheet	2014	2015	2016	2017 E
Current Assets	700.2	723.8	837.7	948.1
Cash and Cash Equivalents	54.4	70.8	102.9	152.7
Short term Financial Investment	19.3	7.2	4.8	4.8
Short term Account Receivables	478.7	476.7	607.1	663.9
Inventory	113.0	165.5	119.7	123.4
Other Current Assets	34.8	3.6	3.3	3.3
Non-current Assets	388.0	416.8	322.7	346.2
Long term Account Receivables	0.0	95.2	57.7	63.1
Fixed assets	221.4	156.3	127.7	144.8
Real estate investments	0.0	0.0	0.0	0.0
Capital Construction in Process	0.0	19.1	6.2	5.2
Long term Financial Investments	138.6	127.3	128.0	129.9
Other long term assets	21.6	14.6	3.0	3.2
Good Will	6.5	4.3	0.0	0.0
Total Assets	1,088.2	1,140.6	1,160.5	1,294.3
Liabilities	388.7	417.7	374.4	385.9
Short term Liabilities	345.8	295.3	282.6	291.3
Long term Liabilities	42.9	122.4	91.8	94.7
Owners equity	681.9	722.9	786.1	908.4
Minority Interest	0.0	0.0	0.0	0.0
Total Equity	1,088.2	1,140.6	1,160.5	1,294.3

Cash flow	2014	2015	2016	2017 E
Net operating	-12.1	-16.8	127.9	107.0
Net Investing	-63.9	-33.1	-14.7	-15.7
Net Financing	28.0	66.2	-81.5	-41.5
Net during the period	-48.0	16.4	31.7	49.8
Cash at beginning	102.1	54.4	70.8	102.9
Cash at end of year	54.4	70.8	102.9	152.7
Valuation	2014	2015	2016	2017 E
EPS (VND)	1,690	1,770	2,040	2,640
BVPS (VND)	17,512	17,150	16,740	19,500
P/E	6.8	8.4	11.2	11.3
P/B	0.6	0.8	1.3	1.5
Financial ratios	2014	2015	2016	2017 E
Capital Structure				
Current assets/ Total assets	64%	63%	72%	73%
Non-Current assets/Total assets	36%	37%	28%	27%
Debt/Equity	57%	58%	48%	43%
Debt/Total assets	36%	37%	32%	30%
Interest coverage ratio	10.4	20.5	10.4	13.7
Liquidity				
Current ratio	2.0	2.5	3.0	3.2
Quick ratio	1.6	1.9	2.5	2.8
Efficiency				
Inventory Days	198.7	120.0	42.1	42.1
Receivables Days	521.3	237.3	167.9	167.9
Payables Days	315.4	131.7	49.6	45.4
Current assets turnover	0.5	1.0	1.7	1.6
Fixed assets turnover	1.7	3.8	9.2	10.4
Total assets turnover	0.3	0.6	1.1	1.1
Profitability				
Gross margin	38%	31%	21%	26%
Operating margin	11%	12%	6%	11%
Net profit margin	19%	10%	7%	9%
ROE	9%	10%	12%	14%
ROA	6%	6%	8%	10%

Source: ELC, PHS's estimation

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Overweight (OW) = Expected to outperform the local market by >10%

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

Underweight (UW) = Expected to underperform the local market by >10%.

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

Performance is defined as 12-month total return (including dividends).

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