

Sector : Information Technology (Lastest Report: [Link](#)) | RETAIL RESEARCH

| | | | | | |
|-----------------------|------------|--|--|--|--|
| Recommendation | BUY | Electronics Communications Technology Investment Development Corporation (HSX: ELC) | | | |
| | | Update 3rd quarter business results | | | |

| | | | | | |
|-----------------------|---------------|---------------------------------|-----------|------------------------------|-------|
| Current price: | 28,500 | Date: | 2/11/2021 | Shareholder Structure | |
| Previous target price | 18,750 | Outstanding Shares (Million) | 51.5 | Phan Chien Thang | 8.71% |
| New target price: | 33,100 | Market Cap (VND billion) | 1,415 | DT&T Investment Co., Ltd | 6.10% |
| Dividend yield | | Avg. 10D Trading vol (thousand) | 808,410 | Tran Hung Giang | 5.87% |
| Upside | 16% | % Foreign float | 4.08% | Nguyen Manh Hai | 5.83% |

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Target Price: 31,000 VND
Cut Loss Price: 27,200 VND

VALUATION

BSC maintains **BUY** recommendation for ELC with a new target price for 2022 of VND 33,100 per share (upside 16% compared to the price of November 1, 2021) based on PE/FCFF methods and real estate valuation.

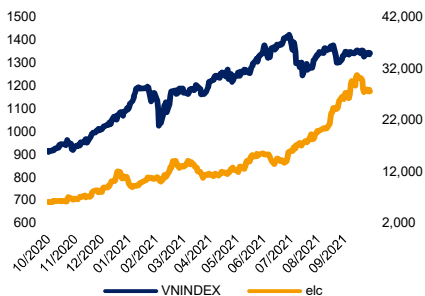
FORECAST OF BUSINESS RESULTS

In 2021, BSC expects revenue and profit after tax of ELC to reach 888 billion (+10.8% YoY) and 48 billion (+53.9% YoY). EPS 2021 reaches VND 881, P/E fw 2021 reaches 32.3.

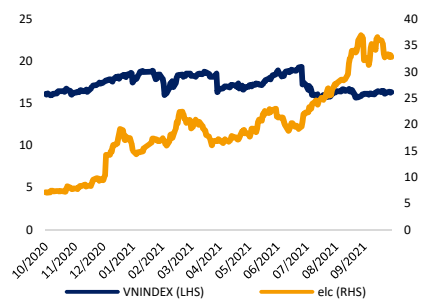
In 2022, BSC expects revenue and profit after tax of ELC to reach 1.506 billion (+69.5% YoY) and 78 billion (+62.0% YoY). EPS 2022 reaches VND 1,427, P/E fw 2022 reaches 19.9.

BSC estimates the net worth of the project at 18 Nguyen Chi Thanh is 260 billion.

ELC and VN-Index price comparison table



P/E comparison table of ELC and VN index



INVESTMENT THESIS

- ELC, the second market share in the Smart Transportation niche, expects strong business growth in the next two year as the Government focusing on smart transportation investment for road infrastructure.
- ELC is building an office complex at 18 Nguyen Chi Thanh

RISKS

Provision/Slow Collection
Depend on investment policy, disbursement progress of government and business

BUSINESS UPDATES

Third quarter business results of 2021 grew strongly thanks to strong revenue growth and reversing provision. Revenue and profit after tax in the third quarter reached 210 billion (+128% YoY) and 13 billion (+125% YoY), equivalent to completing 55% of the revenue plan and 82% of the profit plan after 3 quarters.

Gross margin plummeted from 28% to 9%. BSC believed that the gross margin decreased due to the high rate of COGS during the period.

Company reversing 9 billion bad debts related to the New Materials Technology Company. If the reversion is excluded, the profit before tax is equivalent to the same period.

| | 2020 | 2021 | Peer | VN-Index | | 2018 | 2019 | 2020 | 2021F |
|---------|------|------|------|----------|------------------|------|------|------|-------|
| PE (x) | 10.1 | 33.9 | 25.3 | 16.8 | Net Revenue | 412 | 874 | 802 | 888 |
| PB (x) | 0.4 | 1.7 | 2.4 | 2.4 | Gross Profit | 93 | 119 | 135 | 146 |
| PS (x) | 0.3 | 1.4 | 1.6 | 2.0 | Profit after tax | 8 | 30 | 31 | 48 |
| ROE (%) | 4% | 5% | 10% | 15.0% | EPS | 183 | 590 | 631 | 881 |
| ROA (%) | 3% | 4% | 5% | 2.4% | EPS Growth | -79% | 222% | 7% | 39% |

BUSINESS OVERVIEW

On December 15, 1995, Electronics Communications Technology Investment Development Corporation (the predecessor of Elcom) was established with the main activity of researching applied technology in the field of telecommunications. By 2003, Electronics Communications Technology Investment Development Corporation was established with a charter capital of VND10 billion.

After a difficult period of 2018-2020, ELC launched a new development strategy for the period of 2021-2025 with changes in business model:

(i) Growth target: ELC sets a targeted revenue of over VND 1,000 billion with profit growth of over 10% per year in the period of 2021 - 2023

(ii) Business model focusing on developing products such as: Connectivity Infrastructure, Platform Development, Development of Online Services aimed at business and end-user customers. The products will be restructured with different customer segments:

B1: Traditional products: Defense security - Transportation - Telecommunication

B2: Corporate customers: software and services in the niche market: The company has not announced products related to this segment)

B3: End-users (Focused in Education, Health): Testing 1SK (Health) and Colearn (Education)

| Product | Task | Notes |
|----------|---|---|
| Co learn | Online services providing learning support | https://colearn.vn/ |
| 1SK | Handle sending text messages to mobile subscribers from apps or from another subscription | https://www.facebook.com/1sk.vn/ |

THIRD QUARTER 2021 BUSINESS UPDATE

| Billion VND | Q3/21 | Q3/20 | % YoY | Comment |
|-------------------------|------------|-----------|-------------|---|
| Net Revenue | 210 | 92 | 128% | - Net revenue in the third quarter reached VND 210 billion, a sharp increase of 128% compared to the same period. Third-quarter net revenue came mainly from defense security. |
| Gross Profit | 19 | 26 | -27% | |
| Gross margin | 9% | 28% | | - Revenue structure in Q3: Defense security: 50%, Smart transportation: 25%, Telecommunications: 20% and Other: 5%. |
| Selling Expenses | (6) | (7) | -14% | |
| Administration Expenses | (3) | (14) | -78% | |
| SG&A/ Net Revenue | 4% | 22% | | - Gross margin plummeted from 28% to 9%. BSC attributed the decrease in gross margins due to the increased rate of COGS. In addition, the BSC believed that the segments with high gross margins (Transportation, Telecommunications) all decreased their proportion during epidemics. |
| EBIT | 17 | 6 | 183% | |
| Financial Revenue | 6 | 1 | 500% | |
| Financial Expenses | (2) | (0) | | |
| Profit Befor Tax | 15 | 6 | 150% | - In the third quarter of 2021, the company has reversed more than 9 billion related to the bad debt of the New Materials Technology Company (provision |
| Profit After Tax | 13 | 4 | 125% | |
| Profit After Tax margin | 6% | 4% | | |

but now collected money) If excluding the reversion, the profit before tax is equivalent to the same period.

Q4 2021 outlook: BSC expects disease control in Hanoi and northern provinces to help the company reimplement projects affected by the outbreak in the previous quarter.

EPS 215 93 131%

Source: ELC

BUSINESS OUTLOOK 2022

Maintain **POSITIVE** view in the previous report ([Link](#)), BSC expects ELC's business to grow strongly from the Smart Transportation Investment Package. In addition, ELC has positive information related to real estate projects.

a. ELC, the second market share in the smart transportation niche, expects business growth in the next two years thanks to the Government focusing on smart transportation investment for road infrastructure.

(i) **The Prime Minister approves the investment in the installation of surveillance cameras, traffic management command for security and order and handling of administrative violations with a total budget of 2,150 billion.** The project will prioritize the construction of monitoring systems in Hanoi and Ho Chi Minh City. Implementation period from 2021 to 2025 with 3 stages:

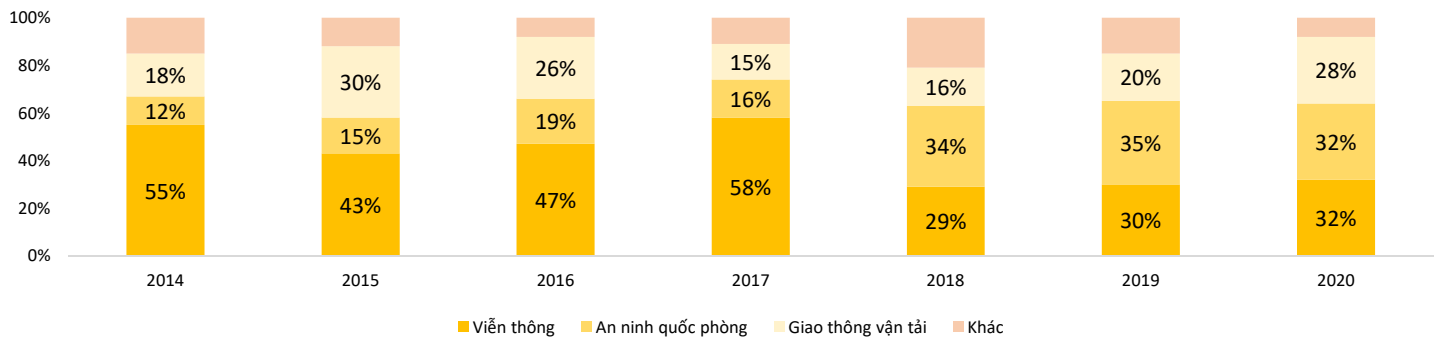
+ Phase 1: Investment in data center for connecting and sharing camera data with a budget of VND 850 billion.

+ Phases 2 and 3: Upgrading the Command Information Center and installing surveillance camera systems for the Traffic Police Department, Hanoi and Ho Chi Minh City Police. The total cost for the two phases is \$1,300 billion.

(ii) **The roads under the North-South expressway project will be installed smart transportation systems. The total value of technology bidding - focusing on services such as Smart Transportation, Executive Supervision, Automatic Toll Collection - is worth up to VND4,000 billion.** The company expects the profit margin of the tenders to range from 10% to 15%. The bidding period for technology packages is expected to start in the third quarter of 2021.

BSC believed that with two factors (i) and (ii), businesses operating in the field of Smart Transportation have many opportunities to participate in bidding and increase workload. ELC – with a long-standing corporate position and the second largest market share in this field has a great advantage in participating in smart transportation bidding packages in the near future.

Revenue structure by segment in 2014 - 2020



Source: ELC

b. The company plans to develop a golden land project at 18 Nguyen Chi Thanh

ELC owns the dominant ratio of the golden land at 18 Nguyen Chi Thanh through a subsidiary (the other shareholder is SCIC). ELC mentioned ELC has completed procedures at the Hanoi People's Committee on the plan to build a 25-storey office complex. Rental profit is expected to be between 40 and 50 billion per year. BSC estimates the project value is \$260 billion.

Office rental prices in some buildings on Nguyen Chi Thanh Street

| STT | Tòa nhà | Địa chỉ | Giá cho thuê (\$/m ²) |
|-----|------------------|----------------------|-----------------------------------|
| 1 | TNR Tower | 54A Nguyen Chi Thanh | 25\$ - 32\$ |
| 2 | M3 – M4 Building | 91 Nguyen Chi Thanh | 10\$ - 15\$ |
| 3 | M5 Building | 91 Nguyen Chi Thanh | 12\$ - 16\$ |

Nguồn: BSC tổng hợp

In addition, ELC said the company has other new real estate projects: 1 hectare of land near Bao Son Paradise, an industrial park that is carrying out procedures.

FORECAST AND VALUATION

Business results forecast in 2021: BSC reduced its business forecast due to the epidemic in the third quarter, causing delays in the implementation of smart transportation and telecommunications projects. BSC expects ELC's 2021 revenue and profit after-tax to reach 888 billion (+10.8% YoY) and 48 billion (+55% YoY).

Business results forecast in 2022: BSC expects ELC's revenue and profit after tax in 2022 to reach 1.506 billion (+70% YoY) and 78 billion (+62% YoY) thanks to (i) Smart transportation to grow strongly (2 times) (ii) The company does not provision bad debts as in 2020 (2020, ELC provisioned 13.6 billion bad debts, equivalent to 30% of profit after tax in 2020, related to two telecommunication projects of VNPT and Viettel).

ELC Business Results Forecast Table

| Unit: Billions | 2020A | 2021F | 2022F |
|---------------------------------------|------------|------------|--------------|
| Net Revenue | 802 | 888 | 1,506 |
| COGS | (666) | (742) | (1,257) |
| Gross Profit | 135 | 146 | 248 |
| <i>Gross margin</i> | 16.9% | 16.5% | 16.5% |
| Net financial Profit | 4 | 4 | 9 |
| Selling Expenses | (30) | (40) | (75) |
| <i>Selling expenses margin</i> | 3.8% | 4.5% | 5.0% |
| Administration Expenses | (69) | (49) | (83) |
| <i>Administration expenses margin</i> | 8.6% | 5.5% | 5.5% |
| Profit before tax | 40 | 62 | 100 |
| Profit after tax | 31 | 48 | 78 |
| EPS | 631 | 881 | 1,427 |

PE model: BSC continues to use the target P/E level for ELC of 17, which is 38% higher than the median PE level of the 2013-2020 business cycle which is 12.3 due to expectations of a sudden growth in the new business cycle during 2021-2023.

| PE method | 2020 | 2021F | 2022F |
|-----------------------|------|---------------|---------------|
| EPS | 628 | 881 | 1,427 |
| PE | | 17 | 17 |
| Giá trị hợp lý | | 15,100 | 24,300 |

Discounted cash flow model:

| Average capital expenditure | |
|-----------------------------|-------|
| Rf | 4% |
| Beta | 0.5 |
| Ke | 10.5% |
| Kd | 9% |
| E/A | 50% |
| Tax | 20% |
| WACC | 9.25% |
| g | 4% |

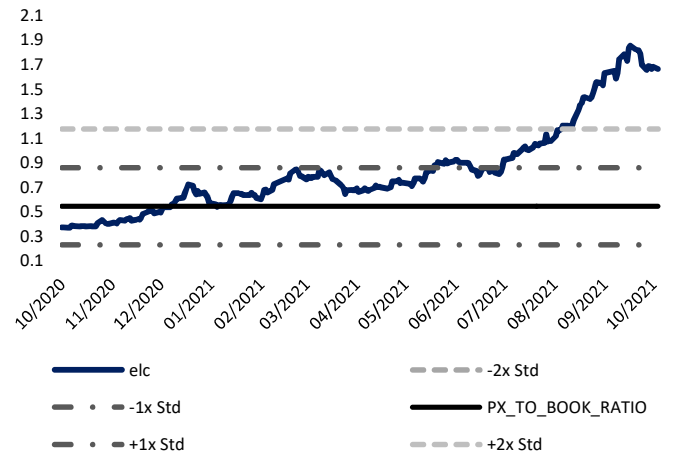
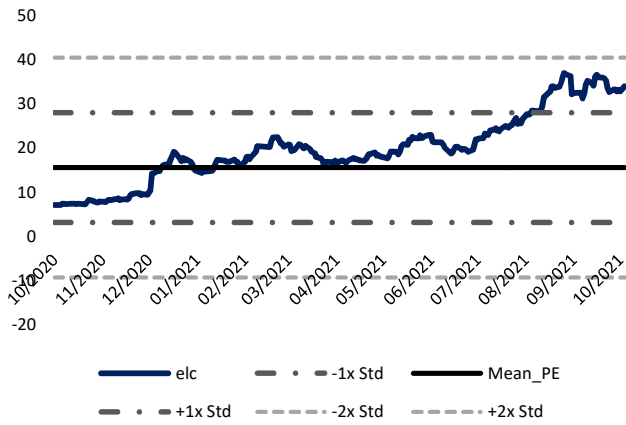
| | 2021F | 2022F | 2023F | Long-term |
|------------------------------|---------------|-------|-------|-----------|
| Free cash flow | -15 | -160 | 133 | 1,574 |
| Current value | 1,383 | | | |
| Total enterprise value | 1,712 | | | |
| Debt | 69 | | | |
| Equity | 1,643 | | | |
| Number of shares | 51,528 | | | |
| Value per share (VND) | 31,900 | | | |

| | Price | Weight | Average Price |
|----------------------------|--------|---------------------|---------------|
| FCFF | 31,900 | 50% | 15,950 |
| P/E | 24,300 | 50% | 12,150 |
| Real Estate Project | | | 5,000 |
| | | Target price | 33,100 |
| | | Current price | 28,500 |
| | | Upside | 16% |

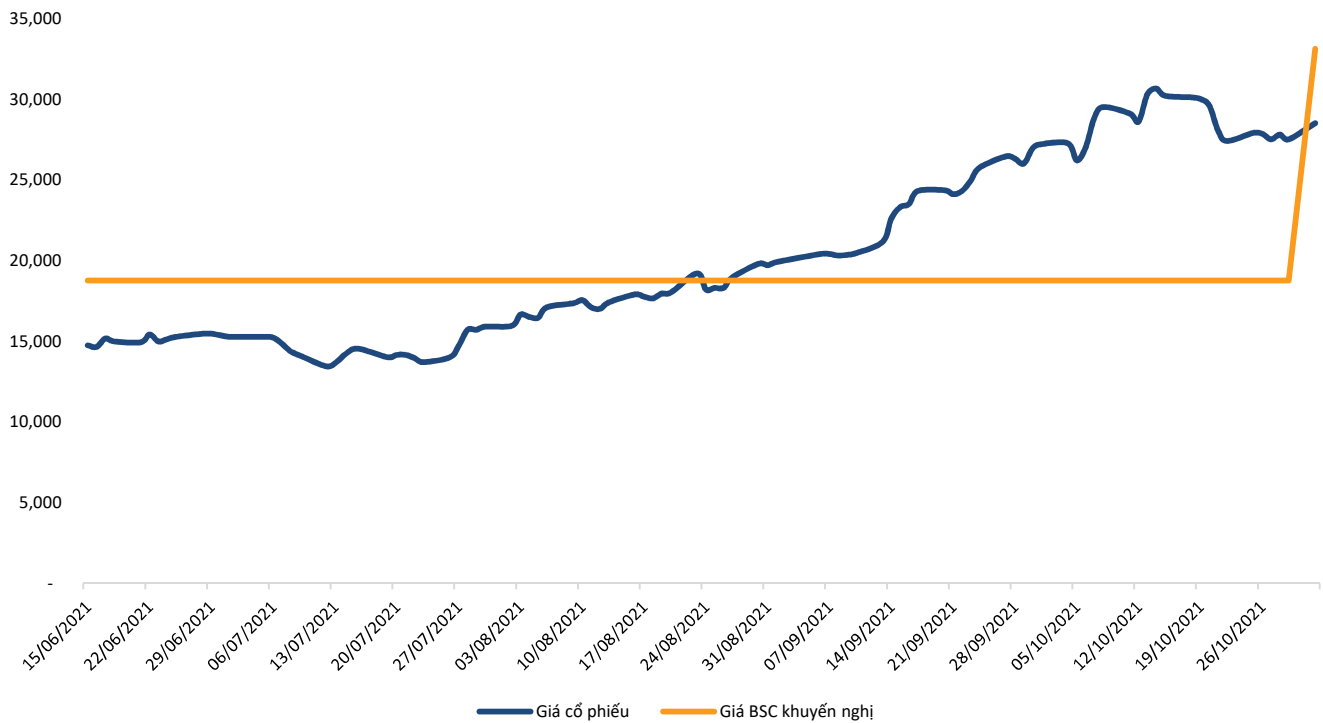
BSC reduced its recommendation from **BUY** to **POSITIVE** for ELC with a target price for 2022 of **VND33,100** per share after ELC price gained 96% increase from 14,500 in the previous report.

ELC PE

ELC PB



ELC SHARE PRICE FLUCTUATIONS AGAINST BSC'S RECOMMENDATIONS



Disclosure

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