

CMC CORPORATION (CMG)
HIGHLIGHTS

The Government determines information technology (IT) as one of the most important industry in industrialization and modernization of the country. IT industry of Vietnam is growing fast with an average annual growth rate of 25% in the 2005 – 2008 period. As GDP growth forecasted to remain high in the coming years, IT market in Vietnam is very prospective.

CMC is one of the leading companies in Vietnam's IT industry. CMC is currently one of the companies holding the largest market share in producing and assembling computer under CMS trademark, system integration and software service.

Competitiveness in the industry. With 16 years of experience in IT business, CMC has built its name and relationship with many large partner on the world. Besides, experienced management and well-trained experts are also CMC's competitive advantages.

CMC's strategy is to focus on main businesses which are IT and telecommunication. CMC focuses its resources to develop IT and telecom for making assistance between the two to maintain a fast and sustainable development of the Corporation.

Investment view. *We highly appreciate CMC's current position in Vietnam IT industry as well as its prospect. With market potential together with ongoing projects, CMC is capable to maintain high revenue and profit growth rate in the coming years. We recommend investors consider to invest in CMG at the per share price of VND 38.000 for strategic or long term investment purpose.*

STOCK INFO

Code	CMG
Stock exchange	HOSE
First day listed price	35,000
Expected price (VND)	38,000
Chartered Capital (VND billion)	635
Volume of outstanding shares	63,536,267
EPS 2009	1,973
P/E 2009 (x)	19.3

OWNERSHIP STRUCTURE

Domestic shareholders	97.76%
<i>Corporate</i>	65.65%
<i>Individual</i>	32.11%
Foreign shareholders	1.98%
Treasury stock	0.26%
Total	100%

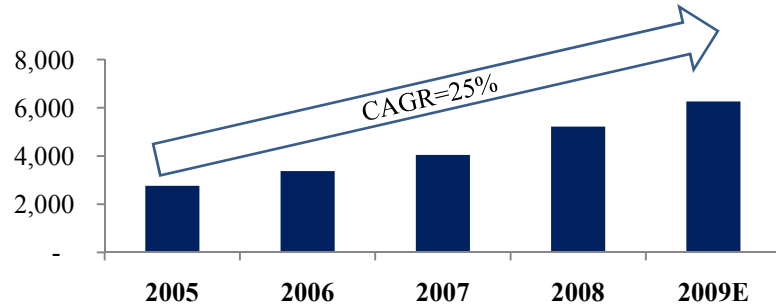
Key financial indicators:

	2008A	2009E	2010E	2011F	2012F
Chartered capital	635,262	635,262	720,000	720,000	800,000
Net Revenue	2,277,864	3,747,506	5,145,658	6,659,250	8,125,651
Net Profit After Tax	88,419	125,324	164,198	236,853	325,626
EPS (VND/share)	2,564	1,973	2,281	3,290	4,070
ROA	5.3%	6.7%	8.0%	9.9%	12.0%
ROE	13.0%	19.7%	23.9%	29.7%	35.9%
P/E (**)	14.9	19.3	16.7	11.6	9.4

(*) P/E calculated as expected price

I. AN OVERVIEW OF INFORMATION TECHNOLOGY INDUSTRY IN VIETNAM

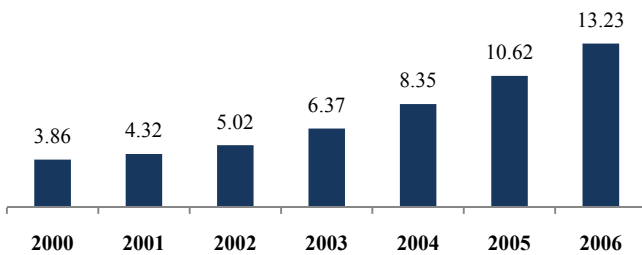
Market size and growth rate. Vietnam IT industry is having a strong growth. In the period of 2005 – 2008, Vietnam IT industry’s annual growth rate reached 25% while world’s average is only 5.5%. Vietnam is currently in the top three markets that have highest growth rate in the Asia Pacific area (excluding Japan).



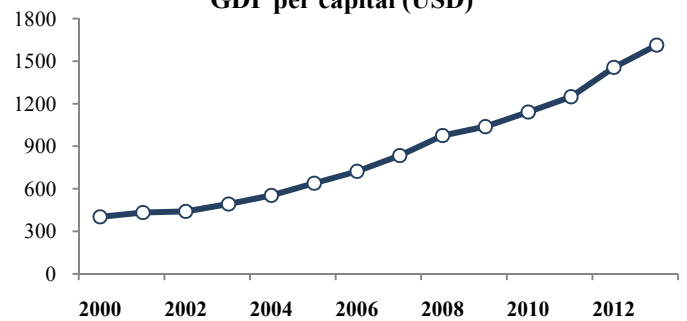
Source: HCA, MIC, BVSC

Growth potential. Spending on IT of Vietnamese has been increasing fast in the recent years. IT spending per capita has a growth rate of 22.8% in the period of 2000 – 2006. With GDP forecasted to keep high growth in the coming years, IT market in Vietnam is very prospective.

IT spending per capital (USD)

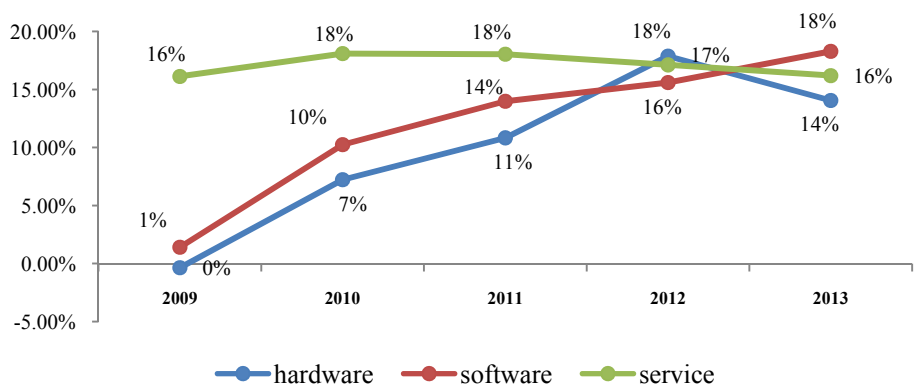


GDP per capital (USD)



Source:HCA, GSO

IT industry growth forecast



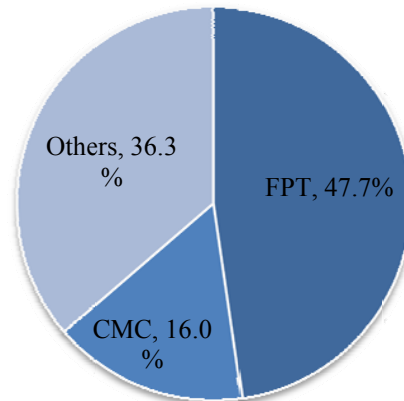
Source: IDC

1. System integration (SI)

Market size. In 2008, total market value from system integration is approximately 340 million USD. FPT is the leader in terms of market share, the 2nd and the 3rd are CMC and HPT, both of which are enjoying high growth rate and in the expansion stage.

Competition. Large enterprises with high experience in the industry and the well-trained staff dominate the market share of system integration. Two leaders in the field accounted for more than 60% market share in 2008, which are FPT (47.7%) and CMC (16%) market share.

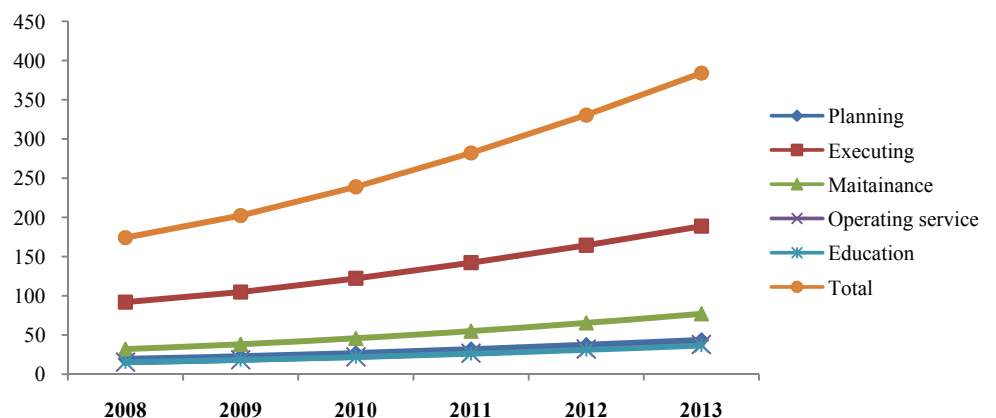
System integration market share in 2008



Source: Ministry of Information and Communication (MIC)

Market prospect. IT infrastructure and application of Government and enterprises in Vietnam is at low level compared to other countries in the region and in the world. Especially, bank and finance, insurance, securities with their high demand for modernization are the potential field for IT companies to expand into.

IT service growth rate forecast

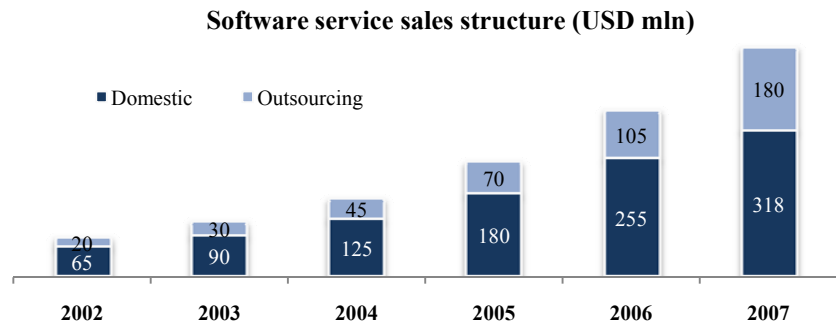


Source: IDC

2. Software service

Market size and growth rate. Vietnam software sector in the recent years has a fast development in both terms of size and the number of staff with an average annual growth rate of 42.4% in the period of 2000 – 2007.

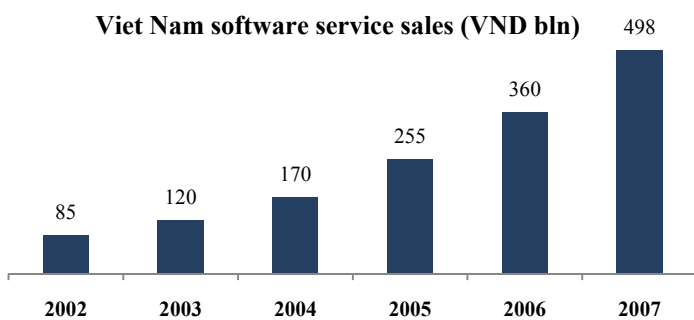
Vietnam started exporting software from 1997 to three main markets, which are the US, EU and Japan. Software sector is now contributing around 36% revenue to Vietnamese IT sector and there is still much room for growth as the world’s demand for software process is still large.



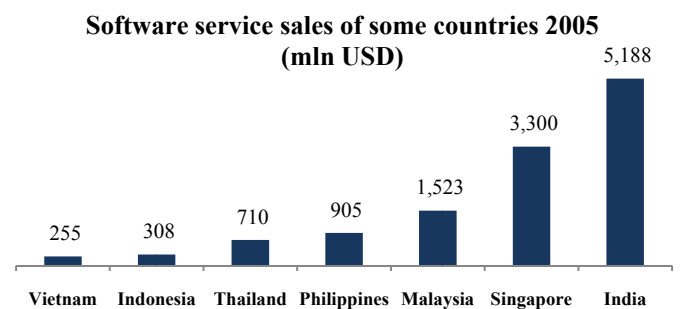
Source: HCA

Competition. In fact, Vietnamese enterprises such as FPT, CMC, CSC, Tuong Minh, Lac Viet etc. are not directly compete as these companies sign contracts with different foreign partners and the demand for software outsourcing is massive.

Sector growth potential. Vietnam software sector is at its primary stage and its market size is still small compared to other countries’ in the region with developed software industry like India, Malaysia or Singapore.



Source: ICT outlook 2007

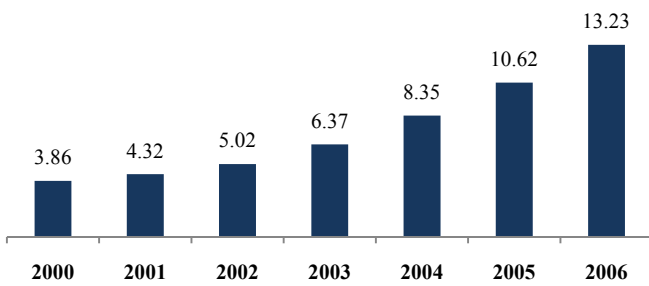


Source: Indonesia Computer Association

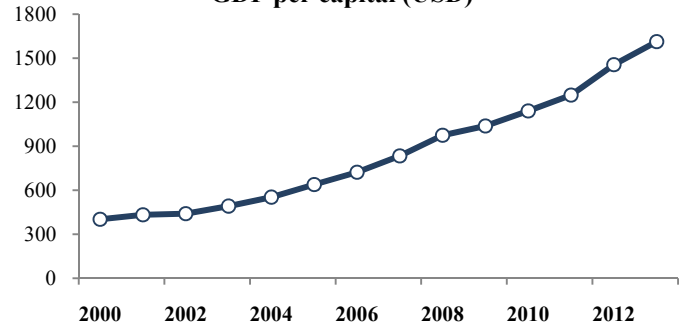
3. IT product distribution

Market size and growth rate. Vietnamese spending on IT has been growing fast in the recent years, enjoyed an annual average growth rate of 22.8% over the period of 2000 – 2006. Annual IT spending per capita of Vietnamese was USD 3.68 in 2000 and quickly increased to USD 13.23 in 2006. This uptrend is partly attributable to improved capita income in the recent years.

IT spending per capital (USD)



GDP per capital (USD)



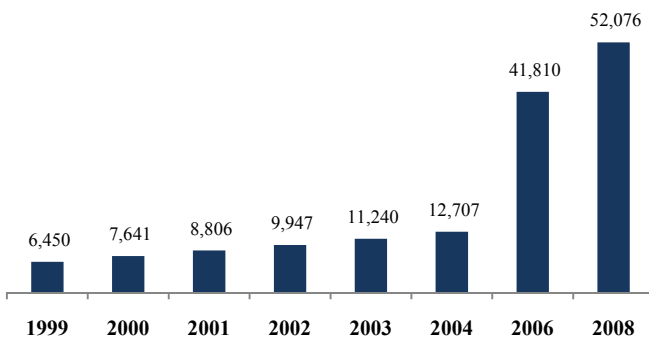
Source: HCA, GSO

Competition. The competition in the market for IT and Telecom equipment distribution is quite severe with the participation of many local companies. Companies that have strong distribution system are namely FPT, Petrosetco, Tran Anh etc. In addition, from 2009 the Government gives permission for FDI companies to join the market. This will create more pressure to local companies as foreign companies are financially strong.

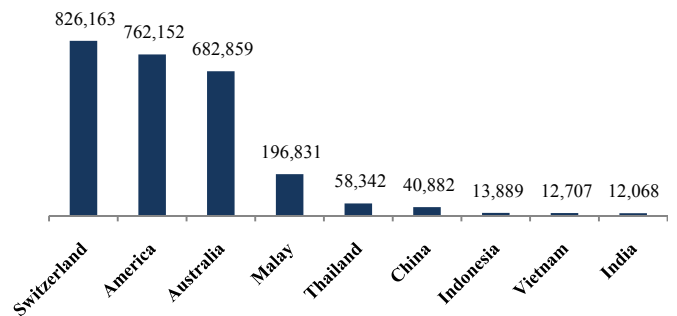
Sector prospect.

Computer market in Vietnam is considered as the most dynamic market in the Asia Pacific area as Vietnam has young population and high proportion of pupils and students in total population (around 26%) - this is the target customer group with high demand for IT products. Compared to many countries in the region and in the world, Vietnamese IT literacy is still low, leaving high potential for the sector to develop.

Number of PC on 1 million habitants (units)



Number of PC on 1 million habitants of some countries 2004

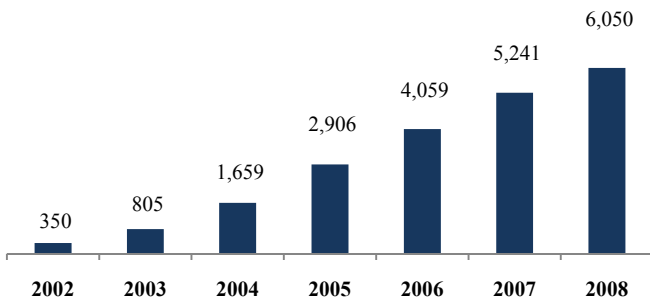


Source: World Development Indicators

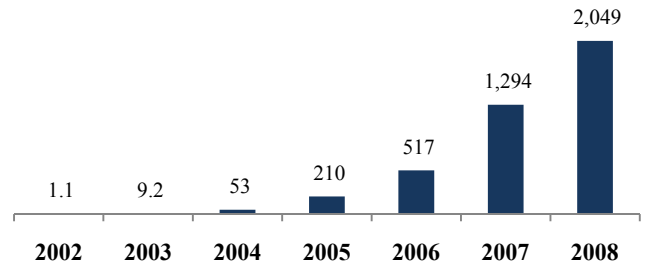
4. Internet – Telecommunication

Market size and growth rate. In the period of 2000 – 2008, the annual growth rate of number of internet subscribers in Vietnam reached 61%, in which broadband internet subscribers’ number grew averagely by 251% per year, from 1,100 in 2002 to more than 2 million in 2008.

Number of internet subscribers (1.000 units)



Number of internet broadband subscribers (1.000 units)



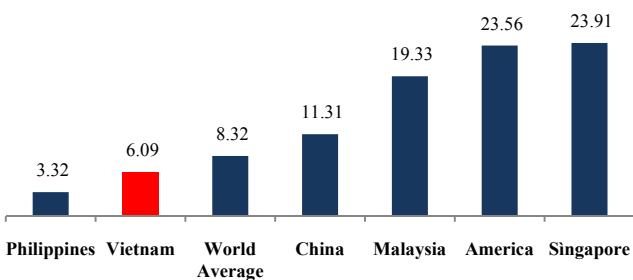
Source: MIC, ITU

Competition. Currently, the 3 largest internet suppliers that are VNPT, Viettel, FPT Telecom are holding approximately 90% market share. According to the statistics from Ministry of Information and Telecommunications, as at December 2009, there are 49 enterprises doing business in Internet services supply (ISP) field, among which there is a clear distinction between the market leaders and the others.

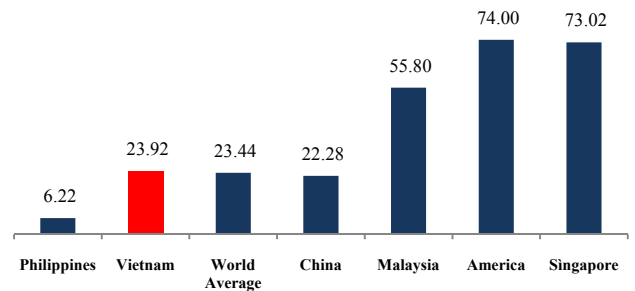
As investment in broadband infrastructure requires large capital, long payback period, the competition is mostly among the companies with strong financial background.

Growth potential. The popularity of internet in Vietnam has reached the average level of the world; however, it is still much lower than that of some other countries in the region such as Malaysia (55.8%) and Singapore (73%). According to a forecast of BMI, the number of internet broadband subscribers in Vietnam will achieve an annual growth rate of 49.1% in the period of 2009 – 2013.

Number of internet subscribers/100 people (%)



Number of internet users/100 people (%)



Source: MIC, BMI

II. CMC CORPORATION

CMC Corporation was transformed into a joint stock company in February 2007 with 8 member companies covering 5 main businesses: System integration; software service, computer producing and assembling under CMS brand name; ITC products Distribution; Telecom-internet service. Currently, CMC is the second largest IT corporation after FPT.

Main businesses including:

Business area	Main competitors
System integration	FPT-SI, HPT Computer technology
Information and Telecommunication products distribution	FPT Distribution, Petrosetco (PSD)
Computer producing and assembling	FPT-Elead, VTB, Hanel
Software services	FPT-Software, CSC, Misa etc.
Internet and telecommunication services	VNPT, Viettel, FPT Telecom

1. System integration

CMC System Integration Limited (CMC SI) has been operating in this business since 1995. Products include system integration, software development, Information technology services, ERP deployment consulting services for finance and banking sector, insurance, education. The product range has continuously been expanded to potential areas like telecommunications, small and medium size enterprises etc.

CMC’s position in the industry. CMC ranks the second in the system integration field with 16% market share in 2008, with a total sale of USD 70.6 million. Currently, the two leading companies that are FPT SI and CMC SI hold up to 60% total market share. Among companies operating in this field, FPT and CMC are the two companies that have their business spread all over the market and vertically categorized into Government, Telecommunications, Education, Finance, Corporate etc.

Rank of system integration companies by revenue in 2008

Sequence	Companies
1	FPT Information Technology System
2	CMC Technology Corporation
3	Sao Bac Dau Technologies JSC
4	HPT Computer Technology Services JSC
5	Tinh Van Technology JSC
6	Mat Bao Trading and Services JSC
7	Vietnam Data Communication Company(VDC)
8	Vietnam Shinil Technology JSC
9	Viet Nhat Telecommunication Technology JSC
10	Vietnam Vodaele Limited

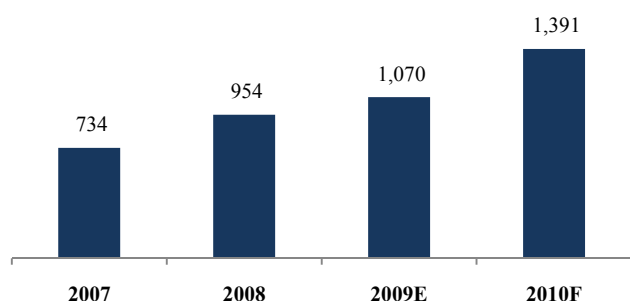
Source: HCA

Competitiveness. CMC is experienced in deploying and rendering IT solutions and services; especially large, complicated and hi- tech solutions. The company now employs hundreds of well-trained engineers and officers with recognized qualifications awarded by leading technology partners like Microsoft, Cisco, IBM, HP etc. Besides, the company also gets the support from these partners in the course of deploying system integration.

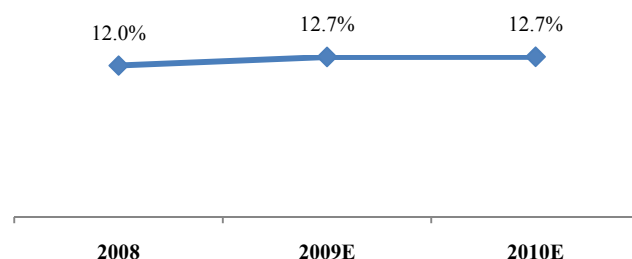
Revenue and gross profit margin

Revenue from system integration has grown rapidly in the past few years. Over the period 2007-2009, revenue growth is 46% on average. System integration contracts are normally signed on the 1st quarter, executed in 2nd and 3rd quarter, recorded in 4th quarter, therefore revenue and profit from this activity is normally recorded to book in the 4th quarter. Gross profit margin of this field is stable and expected to maintain around 12%-13% in the years to come.

System integration sales (VND bln)



Gross profit margin (%)



Source: CMC

2. Software service

CMC Soft has started its business since 1996. After 10 years, the company has become one of the largest software service renderers over the country. CMC has established 2 software subsidiaries in France and Japan to approach and find new software and PBO contracts in the two largest markets that are Japan and EU.

Products and services supplied by CMC Soft:

Products type	Name	Function
Package Service	eDocman	Software solution to manage documents for corporate clients: Government Offices, organizations and enterprises. This is the strategic product of CMC.
	Electronic library	Electronic library and digital library service for universities
	Smart University	E-learning, online study solution for students
	CPC, Antivirus	Non life software solution, Information safety solution
Solutions on request	Filenet, ERP, ECM etc	Solutions to clients in banking, insurance, customs, taxation, government, education, telecommunication sector.
Software Outsourcing	ITO, BPO	Software processing for Japan, Europe and America market

Source: CMC

Position in the industry: CMC Soft is in the top 2 and has the most rapid growth in 2008 among software companies in Vietnam.

Rank of software service by revenue in 2008

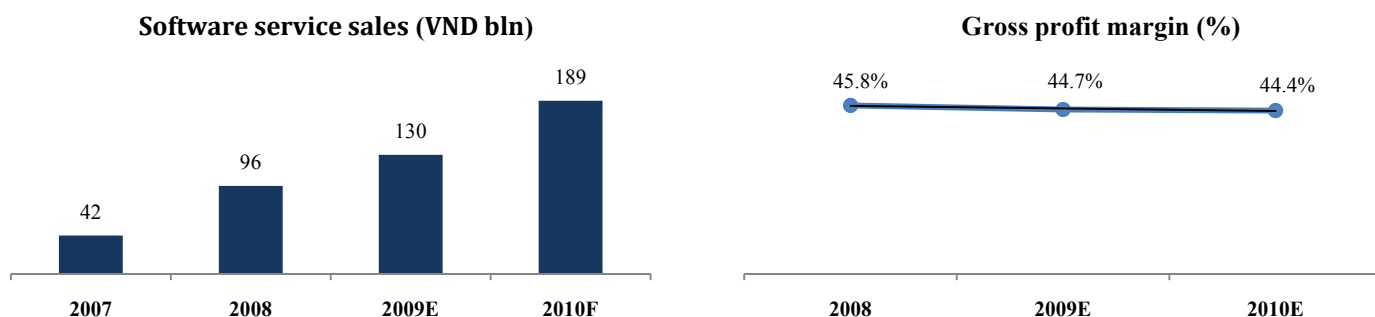
Sequence	Company
1	FPT Software JSC
2	CMC Technology Corporation
3	Tuong Minh Service Company
4	Vietnam Computer Science Consulting Limited
5	HPT Computer Technology JSC

Sources: HCA

Competitiveness. CMC is advantageous with 15-year experience in software services field. Besides, the company always updates its software development processes, and introduces quality control models on international standards like CMMI-3, ISO 27001, ISO 9001:2000 etc; and co-operates with leading technology firms in the world like Microsoft, IBM, Oracle, SAP etc; which has given the company a strong competitiveness.

Revenue and Gross profit margin

Revenue from software service has grown rapidly in the past few years. Over the period 2007-2009, revenue annual growth rate is 210% on average. Gross profit margin of this field expected to maintain stable at around 44% in the coming years.



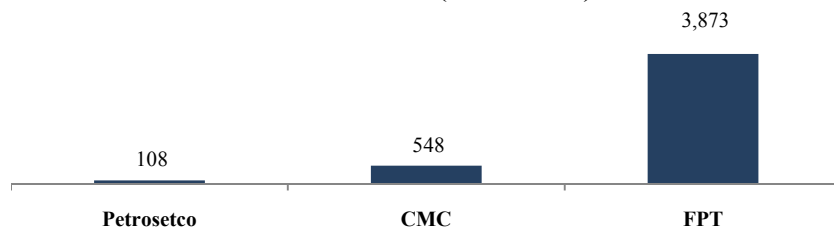
Source: CMC

1.3. Distribution

CMC Distribution started business since October 2007. Main products distributed by CMC are mostly computers of famous brand like HP, Acer etc. Other products include Sony Ericsson mobile phones, 3Come, Sony, Emerson Network Power telecom equipments.

Position in the industry. Revenue from computer distribution of CMC ranks the second in Vietnam. Products distributed by the company, mostly computers of famous brands, are consumed very well.

Revenue from computers and telecom equipment distribution in 2008 (VND billion)



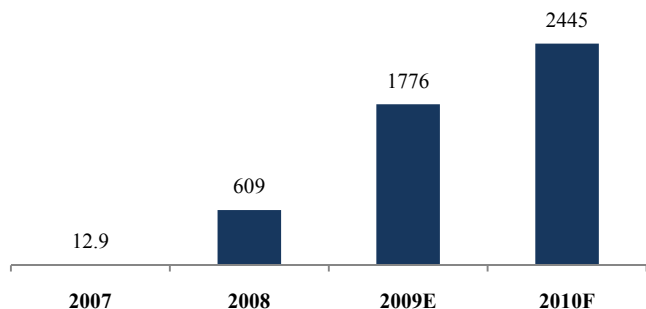
Sources: FPT, CMC, Petrosetco

Competitiveness. A strong competitiveness of CMC is based on an over 16-year experience of doing business in the field and a strong relationship with international partners. Besides, the company also develops the system “connected distribution channel” all over the country, in which all the management, distribution and services rendering process is built and standardized on a comprehensive supply chain management system.

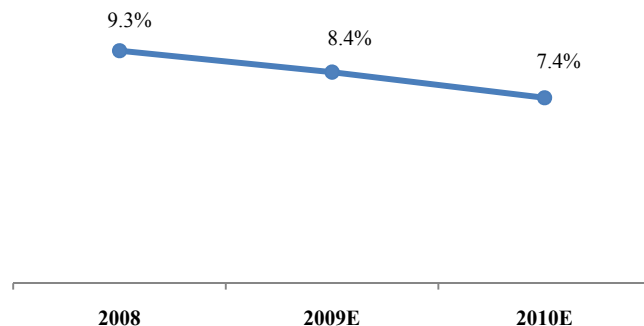
Revenue and Gross profit margin

Revenue from software service has grown rapidly in the past few years. In 2009, revenue increased by 192% from that of 2008. Gross profit margin of this field is on downward trend and will stabilize in the next few years to the industry average level of 7% - 8%. This is the common characteristic of all distribution companies such as FPT and Petrosetco are maintaining the same margin.

IT distribution sales (VND bln)



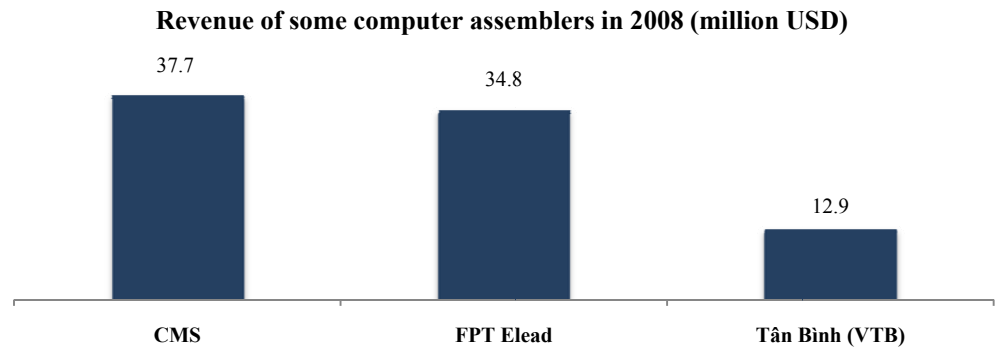
Gross profit margin (%)



1.4. Computer manufacture.

CMS Computer started business in May 1999 with main business focused on producing and assembling computers under a Vietnamese brand name “CMS”, and distributing IT products.

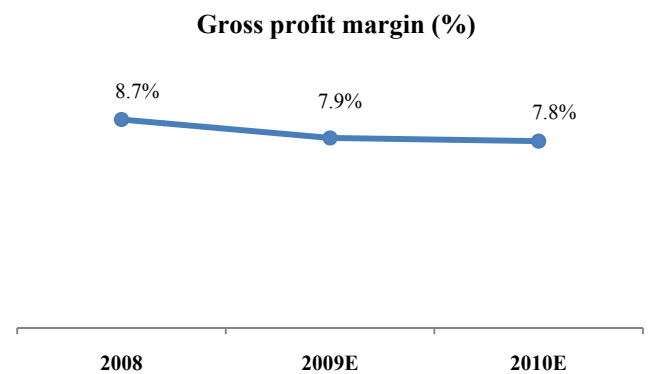
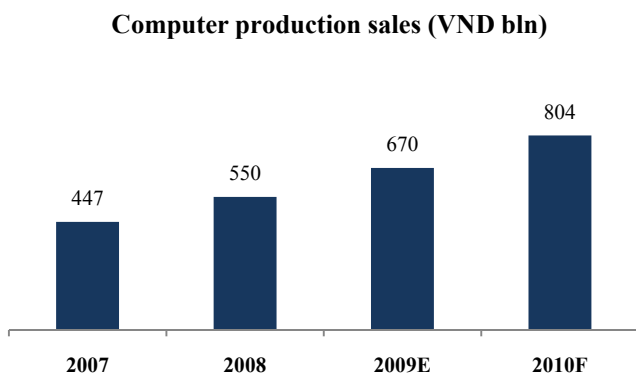
Position in the industry. CMS is the leading Vietnamese computer brand name in 2008. Among the companies producing and assembling computers under Vietnamese brand name, CMS is leading in terms of market share. In 2008, CMS revenue reached USD 37.7 million, higher than the other famous brand name FPT Elead with USD 34.8 million of revenue.



Sources: Ministry of Information and Communication

Competitiveness. CMS’s competitiveness is its modern production technology of ISO 9001 standard and laboratories of international standard (ISO IEC 17025:2001). The continual launch of new products has helped maintain the company’s first position among Vietnamese brand computer in the past 10 years.

Revenue and profit margin: Revenue from computer assembling enjoyed rapid growth in the past few years. Over the period 2007-2009, revenue from producing and assembling computers annual growth rate is 50% on average. Gross margin expected to maintain around 7% -8% in the coming years.



Source: CMC

Market. CMS sells computers via 2 distribution channels: retail sale and project sale, in which retail sale makes up 75% total revenue.

1.5. Telecom- internet

CMC telecom service company started in Oct 2007. Its strategic products and services include: internet-telecom service, value added service, data center service, customer care service.

Ranking in the industry and competitiveness. This is a new business of CMC. Therefore, the rank of the company in the industry is still modest. Currently, 03 main business fields contributing the most to revenue are: data center, internet and value added service. Revenue

of internet service currently is contributed by leased line service. The Company has started supplying internet service for corporate clients since 2010. Short term business strategy of CMC is to focus on corporate clients with signed contract in 2010 such as supplying internet service to businesses at HCM industrial park in 2010. Its longterm strategy will expand to businesses on both corporate and household clients.

Revenue growth and gross profit margin. As this is a new business, the initial investment cost is high, revenue scale is still small. Profit before tax in 2008 is negative nearly VND 9 billion, and 2009 is negative about VND 5 billion. However, this business is showing its potential in the next few years when internet service supplying projects for corporate clients in 2010 will bring profit for the Company.

Indicators	2008	2009E	2010F
Internet-telecom service sales (VND billion)	67	107	241
COGS (VND billion)	65	94.8	193
Gross profit margin (%)	2.3%	11.7%	20%

Source: CMC

Analysis of CMC business development strategy in the next years

CMC business development strategy in period of 2009-2012 is to continue to focus on the 3 main business lines including: information technology (IT), Telecom and eBusines.

Focus on the traditional business lines. With expertise and 16 years experience of success on information technology projects, CMC continues to invest and develop the main businesses instead of spreading to other fields. This strategy will help the company keeps their resources focused on investing in advatageous business lines.

CMC sets priority to invest in the businesses that have growth potential and high gross margin. The main business lines that CMC continues to develop in the next years are system integration, software outsourcing and telecom. This strategly is in line with the common trend in the IT industry of the world, and will help enhance the company's operating profit margin in the future.

III. INVESTMENT ACTIVITIES

Investment projects in telecommunications:

CMC is currently deploying projects into telecommunication for the period of 2009-2012 with total investment capital estimated at VND 1,000 billion. The company will invest in telecommunication infrastructure with modern technology FTTx – GPON and cable network. It is expected that in 2010, CMC's cable network will be deployed in Hanoi and Hochiminh City, and in other big cities in the following years.

Some financial indicators of the project for the period 2009-2012

	2009	2010E	2011E	2012E
Investment capital	144,974	199,979	324,690	404,355
Revenue	107,807	241,567	332,993	460,335

CMC ANALYSIS REPORT

Gross profit margin	13,561	62,902	104,173	174,238
Profit after tax	(6,620)	435	13,191	34,012

Source: CMC

Financial investment activities:

Beside the main business lines, CMC also has financial investment in Bao Viet Joint Stock Commercial Bank and in Bac Ha International University.

Company Name	Capital (billion)	% Chartered capital (%)
Bao Viet Bank	148.5	9.9
Bac Ha International University	2	5.4

Source: CMC

Infrastructure and real estate investment activities:

▪ *CMC Tower Project:*

Total investment capital: VND 326 billion, of which owner's capital make up 35%, the remaining is commercial bank loan. Expected payback period is 7 years.

Project location: Cau Giay urban area, Ha Noi. The building has 19 storeys with total floor area of about 24,000 sqm.

The tower is expected launch in 2010 and bring about an annual net profit of VND 15 billion per for the Company (with 11 floors for lease).

▪ *Technical infrastructure at Hanel-Sai Dong Industrial Park.*

This project cooperated with Ha Noi Electronic company (Hanel). The time line is splitted into 02 phases:

Phases	Total capital (billion)	Construction Square (m ²)	Finished Time
Phase 1	55.3	8,764	2009
Phase 2	18.5	4,382	2014

Source: CMC

Project location: Sai Dong B Industrial Park, Gia Lam, Ha Noi. The building has 3 storeys, total floor area is about 13,146 sqm.

Total investment capital: VND 73.8 bln, owner's capital is 35%, remaining is commercial bank loan.

IV. ANALYSIS AND FINANCIAL FORECAST

1. Financial Analysis

Revenue of CMC increased remarkably in the past years: Revenue in 2009 of the Company raised 204% compared to year 2007. This high growth rate comes from the revenue growth of IT distribution activities started at the end of year 2007. Besides, other businesses like system integration, software, computer production and assembly also maintain good growth rate and greatly attribute to the general revenue growth.

The proportion of the main business lines is shifting significantly over the years. The revenue proportion of IT distribution increased considerably from 1.0% in 2007 up to 47.3% in 2009 as the IT distribution makes up large revenue and grows rapidly. On the contrary, the traditional business lines such as system integration, computer manufacturing & assembling and software service still maintain growth rate; however, the proportion of these business has shown the trend of gradual decrease over the past years.

The trend of shifting proportion of the main business lines:

The business lines	Year 2007		Year 2008		Year 2009	
	Value (VND million)	Proportion (%)	Value (VND million)	Proportion (%)	Value (VND million)	Proportion (%)
1. System integration	734,573	59.4%	954,762	41.9%	1,070,000	28.5%
2. IT distribution	12,930	1.0%	609,409	26.8%	1,776,370	47.3%
3. Computer assembly	447,361	36.2%	550,241	24.2%	670,760	17.9%
4. Software service	42,568	3.4%	96,267	4.2%	130,692	3.5%
5. Telecom			67,185	2.9%	107,444	2.9%

In the business plan of the Company to year 2012, the proportion of IT distribution will gradually decrease and stabilize at 45-47% of total revenue instead of increasing like in the past years. The proportion of internet-telecom in total revenue will increase as the Company starts speeding up internet supplying service since 2010 besides Data Center service business.

Gross margin of the main business lines of CMC:

The business lines	2008	2009E	2010F
1. System integration	12.0%	12.7%	12.7%
2. IT distribution	9.3%	8.4%	7.4%
3. Computer assembly	8.7%	7.9%	7.8%
4. Software service	45.8%	44.7%	44.4%
5. Telecom	2.2%	11.7%	26.0%
6. Others	0.0%	0.0%	49.6%
Gross Margin	11.6%	10.9%	12.5%

Source: CMC

2. Business and production plan for the period of 2010-2012

	2008A	2009E	2010E	2011F	2012F
Net revenue	2,277,864	3,747,506	5,145,658	6,659,250	8,125,651
Cost of goods sold	2,013,123	3,338,362	4,503,568	5,799,211	6,998,336
Gross profit	264,741	409,144	642,091	860,039	1,127,315
Financial income	16,595	10,491	3,282	4,689	6,096
Financial expense	23,090	81,421	133,203	165,280	186,438
Operating expense	147,008	192,608	304,787	395,417	522,432
Profit before tax	111,238	145,606	207,383	304,031	424,541
Corporate income tax	23,468	21,693	45,096	64,005	87,287
Profit after tax	87,770	123,914	162,287	240,026	337,254
Minority's interests	(649)	(1,411)	(1,911)	3,173	11,628
Net profit after tax	88,419	125,324	164,198	236,853	325,626

Source: CMC

INVESTMENT VIEW

We uses discounted cashflow method to evaluate the appropriate price of CMG with the following assumption:

- Valuation model: Free Cash Flow to Equity (FCFE)
- Growth rate of CMC in the stable period: 5%/ per year
- Discounted rate: 17.5%

The valuation result of CMG is **VND 38,000 per share**

DISCLAIMER

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