

EXECUTIVE SUMMARY

Founded in 1993 and well known for its computer manufacturing segment (CMS-Computer), today known as CMG, is the second largest IT firm in Vietnam. It conducts business in almost all segments (except wireless telecommunications) in the IT & Telecommunication industry. Total sales amounted to 3,454 bn VND and net income reached 147 bn VND in 2009.

Strengths/Opportunities:

- ❖ Transparent business model focusing on one industry, IT & Telecom.
- ❖ Experienced & energetic board of directors & managers.
- ❖ The second largest in terms of system integration & software. The fastest growing software firm in 2008. In our view, these are the two segments in which, provided CMG can seize upon all the opportunities, it could fairly compete with the largest firm, FPT and challenge its first position in the future.
- ❖ The best computer manufacturer in Vietnam. CMS is the only computer brand name among 30 trademarks being conferred with the "National trademark" of the Government of Vietnam.

Risks/Weaknesses

- ❖ Worsening profitability & solvency ratios. Cash ratio is low, signaling CAPEX might have been too aggressive.
- ❖ Decreasing margin ratios and higher competition level and FX risks in distribution segment.
- ❖ Increasing competition in almost all fields: system integration, computer manufacturing and telecommunication.
- ❖ Niche telecommunication is more limited than the traditional market. We need more time to watch and judge this segment.

Evaluation and Investment Recommendation

- ❖ With P/E 2010 of 11.25x and EPS 2010 of 2,620 VND, we estimate the CMG's stock price to be 29.475 VND. P/E 2011 and 2012 are 9.15x and 7.72x respectively.
- ❖ Dilution risk: CMG is negotiating with a partner on a private placement for its shares. The dilution rate is about 10% and the deal is expected to conclude later this year or early next year.
- ❖ As of 27/04/2010, CMG's share price closed at 30.000 VND, marginally higher than our recommended price. At this price, PE2010 of CMG is 11.45x. Besides, FPT share price closed at 88,500 VND on 27/04/2010, PE 2010 of 10.05x. Our current estimate is that, using average earning YoY growth rate over the next 3 years, CMG's (diluted) EPS growth rate is about 15% and that of FPT is about 13%. Hence, as far as PEG ratio is concerned, 10% higher for CMG's PE ratio is reasonable. However, FPT's financial ratios in all perspectives are considerably better than those of CMG. **Hence, we express a NEUTRAL view on CMG stock.** It is worth mentioning that CMG's market cap is as small as 1/7 of that of FPT, hence CMG's short-term price movements might be sharper and longer. Investors can consider it as a good small-cap IT stock, an alternative for FPT, if the price falls further.

Nguyen Cong Hiep

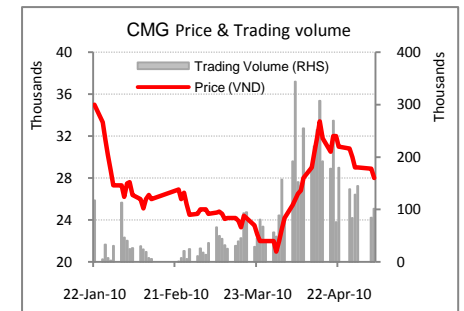
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STOCK INFO

	05/05/10
Price (VND)	28,000
Current Share Outstanding	63,536,267
Market Cap (VND Bln)	1,779
Foreign Owner Ratio (%)	3.86%
State Owner Ratio (%)	0%
ROE	17%
ROA	6%

CMG's volume & Price Performance



Source: Reuters, SSI Research

Valuation

	2009	2010E
P/E	14.22	10.69
P/B	2.32	1.91
Dividend yield	n.a	n.a
EV/ EBITDA	n.a	n.a

Estimate

	2009	2010E
Revenue (mil VND)	3,429	4,760
Earnings (mil VND)	125	160
EPS	1,969	2,620
Dividend Rate	n.a	n.a

1. IT & Telecom Industry Overview

In 2009, the IT industry was only slightly influenced by the economic recession. According to Vietnam Software Association (Vinasa), despite difficult economic conditions in 2009, total sales of the IT sector in Vietnam reached 6.2 billion USD, up 20%, of which, total sales of Telecom companies reached 77.5 billion VND, up 61% YoY. This was a very encouraging results as during the last 10 years, the average annual growth rate was 20 – 25% for IT industry, 30 – 35% for software industry and in recent years, 60 - 70% for digital content industry (source: Vinasa). Another significant success in 2009 was that Vietnam's IT Industry Competitiveness Index (conducted by EIU) hiked from 61 to 56 globally, mainly due to a better infrastructure and regulation environment, while most countries in the region dropped.

With regard to the software outsourcing segment, Ho Chi Minh City is at 5th place and Hanoi at 10th position of the Top 50 Emerging Outsourcing Cities of the World (Global Services-Tholons, 2009). Vietnam became the 3rd biggest partner of Japan in software outsourcing, just after China and India (CICC Report, 2008).

The reasons behind all of these high growth and achievements are: low labor cost making our software outsourcing bid very attractive, consistently high economic growth (even during the global economic crisis), keeping ICT spending at a stable growth rate (approximately 12% annually);

Government's priority to create a pro-growth environment for the IT industry, making it one of the pioneering industries; and last but not least

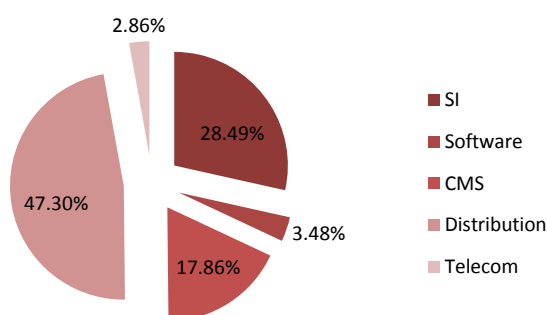
a large and young population; eager to learn (literacy popularity is 95%) making Vietnam a very promising country for telecom firms (mobile phone penetration rate is over 100% with an internet user penetration rate of 25%; well above the average rate of the ASEAN region).

Vietnam Software Association estimates the growth rate of the industry to be 30% this year. We believe this plan is achievable. Our 2010 outlook for the industry and beyond, is very positive because we believe those supportive factors above will remain and there are new positive factors: Telecom segment continues its high growth as large telecom firms continue to expand businesses overseas (Laos, Cambodia, Haiti, Cuba, etc), broadband internet sales will account for a bigger portion, resulting in higher sales. 3G technology will further boost the demand for digital content & data service segment. The software outsourcing sector will recover as the global economy improves.

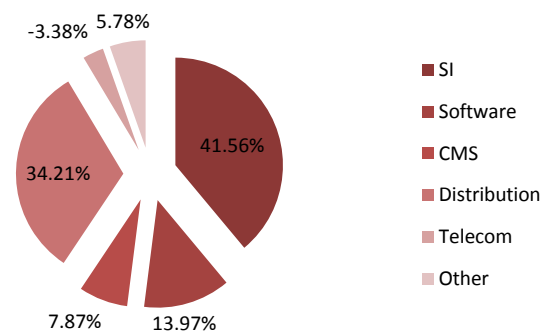
2. CMC Business Overview

Founded in 1993 and well known for its computer manufacturing segment (CMS-Computer), today known as CMG, is the second largest IT firm in Vietnam. It conducts business in almost all segments (except for wireless telecommunication) in the IT & Telecommunication industry. CMG's model is similar to that of FPT with five main business areas: System Integration, Software, Telecommunication (internet provider & data services), IT-Satellite Product Distribution and Computer Manufacturing. Total sales amounted to 3,454 bn VND and net income reached 147 bn VND in 2009.

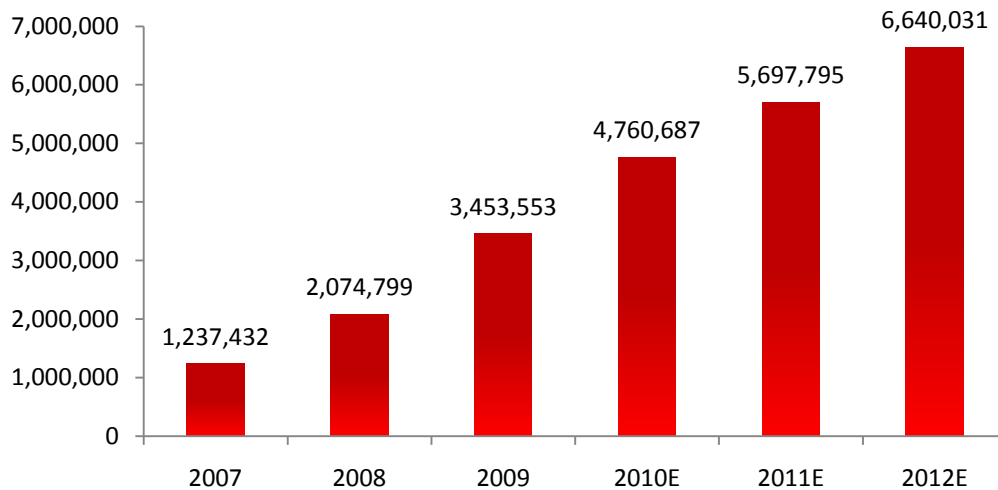
2009 Sales Breakdown



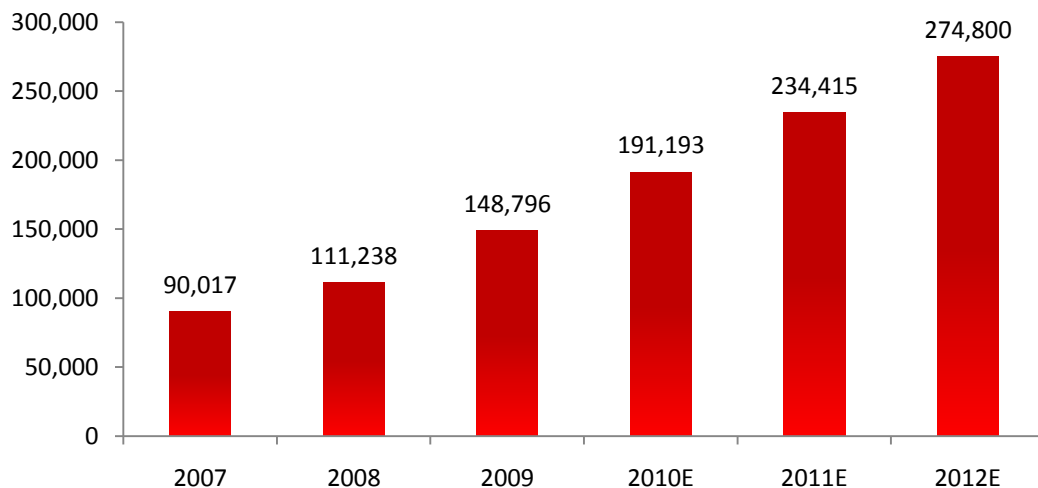
2009 Net Profit Breakdown



Total Revenue (Mil VND)



Total PBT (Mil VND)



Sources: CMG's Financial Statements, SSI Estimates

After 17 years of operation and development, CMG's system integration segment currently contributes the largest portion towards net profit (41.56%) and the second largest contribution towards total sales (28.49%). However, the IT product distribution segment, launched as recently as 2007, now contributes the greatest portion towards sales (47.3%) and the second largest contribution towards PBT (34.21%). Even though CMS Computer was the core business, at the time CMG was founded, CMS is still the computer brand name for which CMG is best known and its contribution towards PBT was just around 8% in 2009.

As of 31/12/2009	Business Area	Chartered Capital (bn VND)	Ownership	CMC's Owner Equity (bn VND)
CMC Corp (Holding)		720		635
CMC SI	Providing complete solutions, consulting, designing integrated solution services, IT training & IT products	50	100%	50.00
CMS Computer	Producing & assembling computers, distributing IT products	50	100%	50.00
CMC Soft	Software production, supply of software solutions, software outsourcing services, ERP solutions	20	100%	20.00
CMC Distribution	Distributing IT & Telecommunication products	100	100%	100.00
CMC Infosec	Providing solutions, software, system confidential services, information safety & security services	6	100%	6.00
CMC Blue France	Supplying information technology outsourcing (ITO) & business process outsourcing (BPO)	5.6	100%	5.60

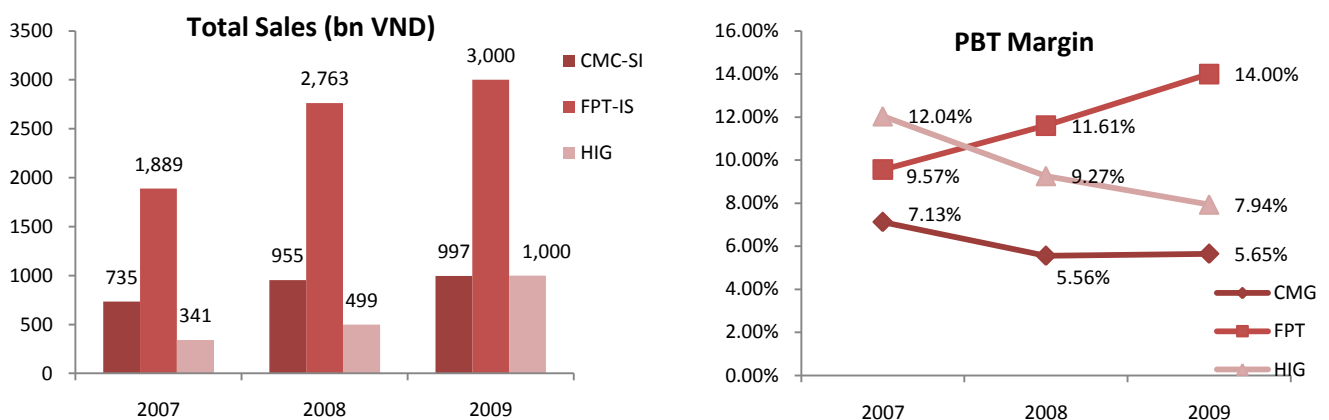
CMC Telecom	Supplying fixed telecommunication services & internet, e-commercial services, added services, digital content services, storing & exploiting database	160	92.95%	96.85
CMC Telecom Infrastructure	Establishing network infrastructure & supplying fixed telecommunication & internet services	40	49%	19.60
CMC Segmenta JV	Producing software, supplying ERP software services of SAP, providing training and advanced software consulting manpower	10	50%	5.00
Bac Ha University	Education	37	5.40%	2.00
Bao Viet Bank	Banking and Finance	1500	9.90%	148.50

Sources: CMG's Prospectus

Within the IT industry in Vietnam, in terms of scale, CMG is considered the second firm after FPT.

3. Business Analysis & Assumption

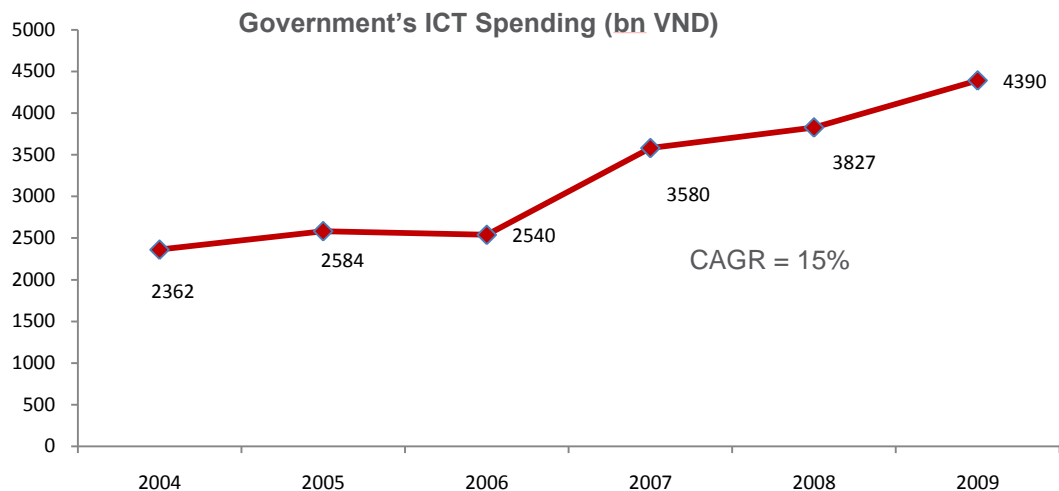
CMC - System Integration: Positive Outlook, Market Average Future Growth



Sources: FPT's, CMG's, HIG's Financial Statements, SSI Estimates

- ❖ **System integration is the core business segment of CMG.** CMC-SI's sales and profit, which are dominant compared to other business segments, accounted for 28.49% of CMG's total sales (just after CMC-Distribution, 47.3%) and 41.56% of CMG's total net profit. Even though CMC-SI's sales growth remains at a high level, its pace is slowing down: 100% in 2007, 30% in 2008 and just 12% in 2009. Some obvious reasons for this slow down are, difficult economic condition in the time period of 2008 – 2009 and delayed projects in 2009. Another reason worth mentioning is increasing competition from new and smaller SI firms (about 2500 firms in Vietnam are in the IT industry), since the entry barrier is quite low.
- ❖ According to HCA, CMG ranks the 2nd in the field of system integration in Vietnam. Being a partner with big global software & hardware vendors, having a wide customer base and good relationships with government offices/clients are the key competitive advantages in this field. We see CMG in a good shape according to these criteria.
 - In term of software, applications and operating systems, CMG is a golden partner of Microsoft & Symantec. In terms of network, database and ERP products, CMG is the partner of Cisco, IBM and SAP.
 - CMG has experience and products in a wide range of IT solutions targeted at financial, insurance, banking and education sectors in addition to government offices. Brand name and relationship are important. CMG is pretty well-known for its solutions for Ministry of Finance, the Treasury, General tax Department, Agribank, Techcombank and the Bao Viet Group, etc.
- ❖ **Outlook for CMC-SI:** We forecast CMG-SI's growth in 2010 to be 21% and 17.6% in average over the period of 2010 – 2012. The reasons are:

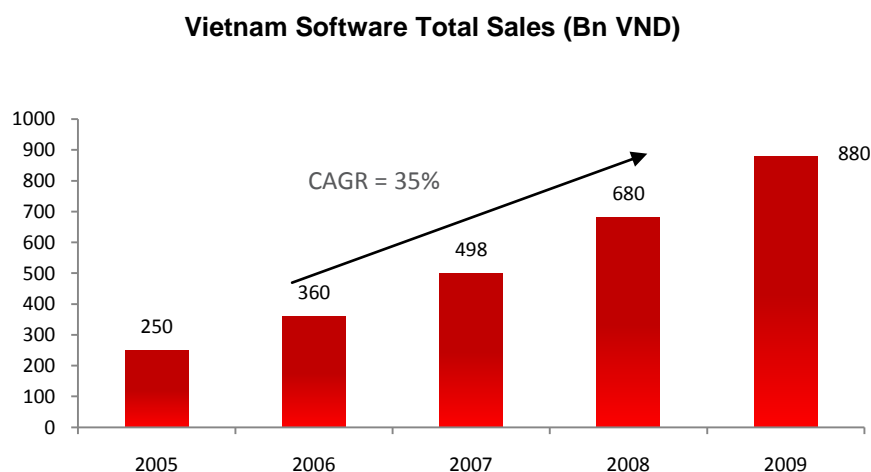
- Apart from the client group of government departments, demand from financial institutional clients is cyclical. Hence we expect to see CMC-SI's sales performance influenced by macro-economic conditions. In 2010 though, CMC-SI's performance will pick up a high growth rate of about 21% because: 1) as the general economy recovers, institutional clients speed up IT spending and 2) delayed projects (due to clients' poor financial position in 2009), with the total estimated value of 200 bn VND, will be executed in early 2010.
- Over a longer period of time of 3 – 5 years, we expect CMC-SI to continue growing because of its good brand name & leading position in the market. Other reasons behind this expectation are a wide customer base and good connections with clients, together with government creating a pro-growth environment for the IT industry. However, because of high competition and low barrier entry we assume CMC's sales growth will gradually approach the market average of about 15%. This growth rate is coupled with government's ICT spending growth and GDP growth.



Source: Vinasa

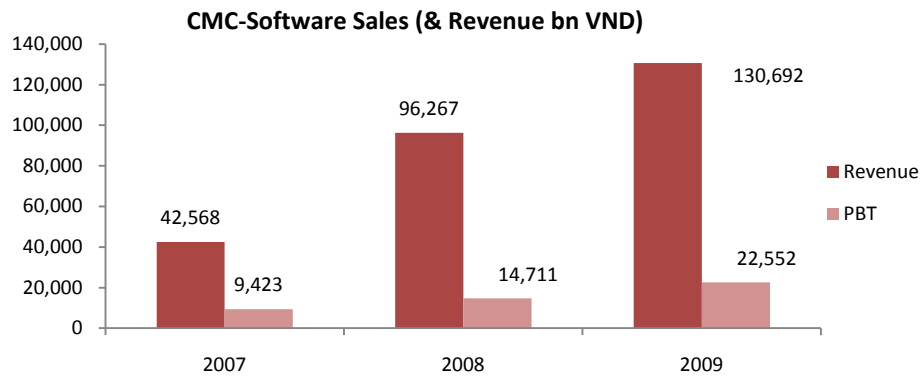
- As far as profit margin is concerned, this is where a good brand name and a cross IT sector corporation will benefit. System integration contains 3 components: hardware, software and services. In the past, hardware played the dominant part (85% sales, net margin of 7%) for CMG-SI. But as the IT and software industry in Vietnam evolves, big IT solution provider firms like CMG & FPT will be able to increase the portion of software and services (CMG's net margin in software and services is 25% - 30%), bringing higher profit margin. However, being the 2nd player in the market, we still forecast CMC-SI's profit margin and the pace of profit margin growth to be maintained at a lower rate than those of FPT-IS to stay competitive and because of its smaller capacity in software and services areas.

CMC – Software Solutions: We Expect Positive Result as CMC's Move to Increase Sales Portion from Outsourcing Segment

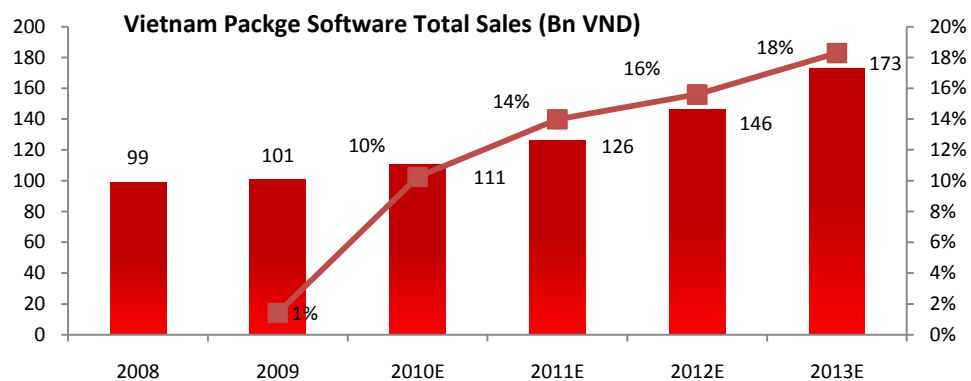


Source: Vinasa

- ❖ CMC-Software and other software firms have been enjoying a supportive developing environment, created by the government & high historical growth. CAGR of software segment in Vietnam was about 35% for the period from 2005 to 2009. Software firms face strong competition; however, big firms like FPT-Software, CMC-Software, TMA Solutions, etc have been enjoying high growth, thanks to the stable domestic sales growth, government's pro-growth policies for the IT industry and outsourcing market expansion. Among all business segments run by CMC, software is the segment which has been experiencing highest growth lately (126% in 2008 and 36% in 2009). CMC-Software received the prize for the software enterprise having achieved the highest growth in 2008 awarded by MIC. In Vietnam, according to HCA, CMC-Soft ranks 2nd in the field.



Sources: FPT's, CMG's Financial Statements, SSI Estimates



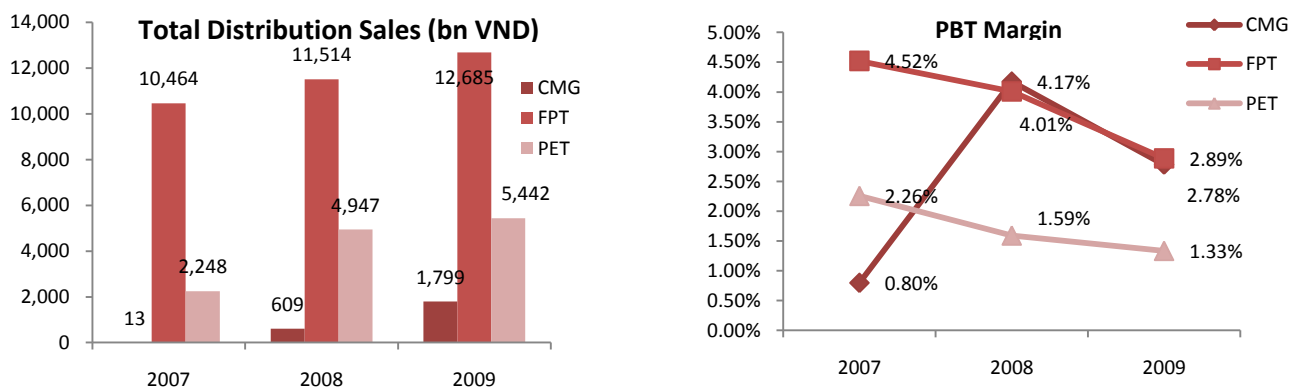
Source: IDC

- ❖ Our outlook for CMC-Software, together with the industry in general, is positive and its business shift of a higher portion to the outsourcing market and digital content contributes to this view.
 - Unlike FPT-Software where the outsourcing market accounts for 85% of total sales, CMC-Software's market divides pretty evenly between: outsourcing market, domestic market and package software. It is hard to deny that CMC-Software is well known for its package software like eDocman, iLib, IU, CMC antivirus, etc. On the one side, we see that CMC should further develop the package software segment, to build upon its brand name and make it stand out. This would further contribute to business stability in difficult economic conditions. On the other hand, we are positive on CMC-Software's plan to boost the outsourcing market and digital content segment.
 - Moving towards the outsourcing segment will help to make possible CMC-Software's aspirations to achieve high growth of 30% - 50% in the coming time. Unlike the domestic package software market which is forecast to just grow at the rate of 10% - 15% annually and face many challenges like copyright issues and high competition, we still see so much more room in the outsourcing market for firms in Vietnam. Considering the large size of the Japanese market, where Vietnam is the 3rd biggest outsourcing partner and accounts for approximately 50% of the total software outsourcing sales in Vietnam, our market share is just around 1%. CMC software outsourcing market now mainly focuses on the Europe market (France & Belgium) and a small portion from the Japan market. We expect to see an increase in share of the Japan market, where

Vietnamese firms are already well known together with the high potential markets like North American and APAC region.

- Going for digital content is another potential direction. In the last 3 years, the average growth of this segment, in Vietnam, was 60%. With the boom of 3G technology and web2.0, Morgan Stanley expects to see the high growth remain and peak around 2011 – 2012 in the Asian Pacific region. CMC's developing products in this area, focusing on e-business, e-commerce and VAS, will also be part of this trend.
- As we have mentioned above, CMC-Software plans to increase the sales portion from software outsourcing and digital content and for a Vietnamese firm, they still have an enormous potential in these two areas. We forecast a high growth rate for CMC-Software in the next 3 years with the average growth rate of 30% - 40%, in line with the company's forecast. (Note that, this is also the average growth rate that IDC forecasts for the software industry in general). A Couple of years ago, FPT-Software faced challenges in the domestic market because of high competition and copyright issues. They then changed direction to the outsourcing market and became successful. We have reasons to believe we will see the same success story happen to CMC-Software.
- It is also worth mentioning the scale gap between the 1st (FPT-Soft) and the 2nd (CMC-Soft) in the software industry. Currently, FPT-Software's total sales are as much as 6 times higher than CMC-Soft's. As far as profit margin is concerned, we see a decreasing trend for firms in the software segment, due to high competition from as many as over 2500 IT firms in Vietnam. However, the market for both CMC and FPT is quite big, especially when they both have moved to the software outsourcing market. Our view is that the opportunity for CMC-Software to challenge the 1st position of FPT exists, but it might take a long time.

CMC Distribution: The Cash Cow for CMC Corp. to Further Grow in other IT Core Businesses



Sources: FPT's, PET's, CMG's Financial Statements, SSI Estimates

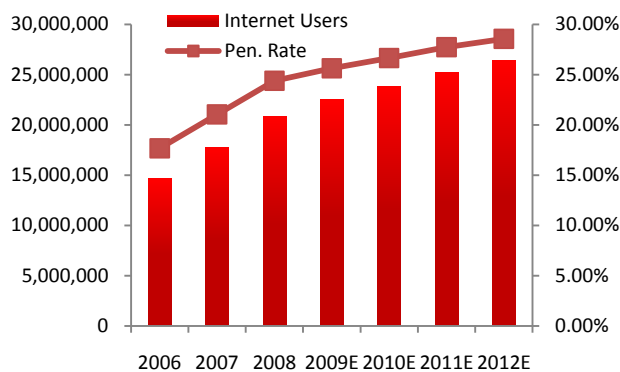
- ❖ Started in 2007, distribution quickly became the segment that brings the most sales (47.3%) and the second most net profit (34.21%) for CMG. Sales growth was abnormally high in 2008 and 191% in 2009. Our view is that even though the profit margin trend for distribution firms is clearly decreasing due to strong competition, this business has been a cash cow for CMC Corporation to further invest in other core IT businesses, returning a higher profit margin. Currently, CMC Distribution's ROE is about 50%, which is still much higher than that of the corporation as a whole (17%).
- ❖ Even though adding distribution business marked up CMG's earning to a new level and was necessary, our future outlook for this business is neutral.
- The negative side is that, with the VND continuing to be under pressure (down 10% last year against the USD) in the coming years, high competition and the risk of a high interest rate, 2+% (and decreasing trend of), PBT margin is somewhat fragile. This requires the firm to carefully manage FX reserve and interest rate expense. Among the three big distribution firms above, PET has the lowest distribution net profit margin. But we do not have that much concern for PET. Because PET is a distribution agent of Nokia where the supplier will always leave a fixed margin for PET and PET has better source of USD, thanks to its export oriented

parent corporation, the Petro Vietnam. However, FTG & CMG Distribution are more trading agents that face high debt ratios and FX risks.

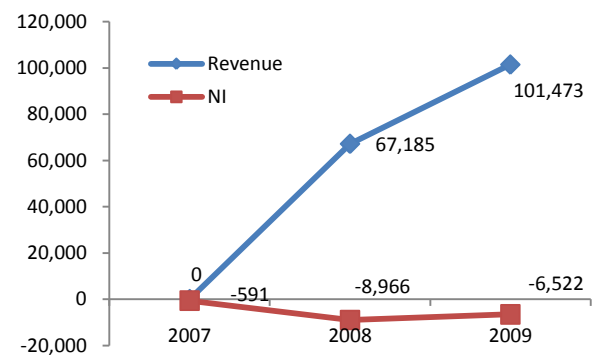
- The positive side is that CMC-Distribution currently focuses mostly on laptop distribution and last year, its biggest market share was for HP products with Acer products in second place (expected to be in first place this year). As stated in annual reports, market share for ICT product distribution is about 25% for FTG and 20% for PET. According to HCA, CMC-Distribution ranks the second, so its market share falls in the range of 20% - 25%. With a wide distribution network (250 distributing agents for IT products and 300 agents for mobile products) in 63 provinces and potential to expand to distributing products of other brands, we still see room for CMC-Distribution to grow.
- We stay with CMC-Distribution's plan to grow 30% in 2010 (est. 25% for the retail sector). For the longer term though, we expect this growth to drop to a level of 5% - 10%, while profit margins continue to be squeezed. In our view, CMG might want to consider building handset products themselves, like FPT is doing. This reduces FX risks and increases synergy between segments (e.g. CMC-Software). However, with the CMC brand name being not as popular as FPT and high competition from Chinese brands, this is not a certain business bet.

CMC – Telecom: Niche Market seems to be the Only Choice

Internet Statistics in Vietnam



CMC-Telecom Sales & PBT (Mil VND)



Sources: VNNIC, HCA, CMG's Financial Statements, SSI Estimates

- ❖ Joining the internet market late, there is not much room left in the traditional internet market for CMC-Telecom. Niche market seems to be the only choice for CMG to join the telecommunication market. CMG joined this market in 2007 and this is the 3rd consecutive year it has experienced net loss. Even though its revenue increased rapidly (60% in 2009), CMC's market share (0.03% according to VNNIC) is nowhere compared with those of VNPT, Viettel and FPT-Telecom. Further, at this point, we are observing declining growth rates in both dial-up and broadband internet users in Vietnam. Even though, we still see much potential in the broadband segment (as the growth rate remains high, above 40% in 2009 and 2010), there is not much room left for a new ISP due to high competition (as 3 big firms have already become established in 63 provinces) with enormous initial investment in infrastructure. In this situation, CMC-Telecom's strategy of co-operating with big ISPs and focusing on the niche market seems to be the only satisfactory strategy.
- ❖ In the short-term, CMC-Telecom's sales will continue to have high growth for 2 – 3 years. In the long-term, we need more time to watch and judge as running in the niche telecommunication market is popular overseas but still new domestically.
- The last-mile broadband internet cable is traditionally metallic. CMC-Telecom's strategy is finding industrialized zones, business groups and government offices to provide last-mile optical fiber internet connection (FTTx & GPON) and then bundle value added services. CMC has finished setting up two main telecommunication hubs in Hanoi and Hochiminh city. Our initial view on CMC-Telecom's business is that, while big firms like VNPT, Viettel and FPT-Telecom can get hundreds of new clients every time they expand their infrastructure to a new geographical region, CMC-Telecom's expansion is based upon finding separated big institutional clients.

- In the short-term, we see CMC-Telecom's sales still being able to maintain the high-growth rate, as its market share (0.03%) is still small. The company's plan for sales growth of 124%, 68% and 34% in the coming 3 years is doable. However, these high rates are not that significantly high compared to other already-big telecom firms' growth plan. We estimate FPT-Telecom's (its sales in 2009 30 times higher than CMC's sales) sales to grow at 40% - 50% in the coming 3 years. Viettel & VNPT have also started providing FTTx internet services. FPT was the first to provide FTTH (the highest level for FTTx). With FPT's expansion to 63 provinces and its ability to provide a competitive bundle & value added services, as CMC-Telecom does, competition in this field will be more tense. For a snapshot, FPT-Telecom's number of FTTH subscribers is about 120,000 and total sales from these subscribers is about 6 times higher than CMC-Telecom's sales.
- CMG has announced its purchase of 43.8% of Netnam. We think this is a good move to expand CMG's market share by reaching Netnam's existing subscribers. Netnam (a non-infrastructure ISP)'s market share is currently about 1.14%. By becoming the only strategic partner of Netnam, CMG can now provide to Netnam's current subscribers, not only internet services but also added services.
- As far as gross profit is concerned, we believe CMC-Telecom will start realizing profit starting 2011. and on as much portion of depreciation for initial investment was realized. Also, the number of clients will increase. However, since CMC-Telecom does not own an international internet line and have to lease the main domestic line between Hanoi and Hochiminh city, we expect its gross margin will continue to be lower than those of the big three. Currently FPT-Telecom's PBT margin is around 27% and decreasing over time. Our initial assumption for CMC-Telecom's PBT margin to increase from around 5% in 2010 to 15% in 3 year's time.

Other Sources of Income:

- ❖ CMS Computer: Even though computer manufacturing profit contribution has been squeezing over years (from 15.98% in 2007 to 7.87% in 2009), it is still CMC's spiritual child and CMS is the computer brand name for which CMC is well known.
 - CMS is the only computer brand name among 30 trademarks being conferred with the "National trademark" of the Government of Vietnam. This is the only business segment that CMC beats FPT. CMS's sales have consistently grown above 20% since 2007, above the average growth of the hardware industry in Vietnam, 10% - 15%. The major clients for CMS computers are government offices, education and training departments of Middle and South of Vietnam and some global development projects funded by World Bank and ADB.
 - The long-term downside of this segment is high competition from foreign manufactured computers. Since Vietnam joined the WTO, the government has loosening the barrier to foreign vendors. A new wave of cheap computers & laptops (Dell, Acer, Hp, etc) and ASEAN manufactured desktop computers directly compete with CMS computers. It is obvious that our computer technology is still in a pioneering phase and the only criterion which helps CMS computers to stay competitive, is the cheaper price. Furthermore, software copyright issues have become more serious in Vietnam. All of these factors make CMS Computer face sharply decreasing net profit margin from 3.22% in 2007 to 1.89% in 2008 and 1.72% in 2009.
 - Our outlook is based upon CMS's pool of clients which are mostly government offices and organization where domestic computers have advantage owing to the low price and CMS's close relationship with the clients. CMS's sales will keep growing, but the pace will gradually approach the average of forecasted growth rate of the hardware segment and ICT spending in Vietnam, 10% - 15%, or even lower. The net profit margin will continue the down trend to as low as 1.7% in 2010.
- ❖ CMC Tower:
 - Built on an area of 3000 m2 in Cau Giay and commenced in May 2007, the tower was completed at the end of 2009. It has 19 floors, 6 of which, it is planned, will be occupied by CMC offices. The remainder will be rented out. The total floor area is about 24,000 m2. The tower is equipped with uniform high technology equipment and high speed internet transmission of 2Mbps.

- The total initial investment was 327 bn VND, of which 114 bn VND was from CMC's own fund. The company estimates the NPV of the project is 155 bn VND and the payback period is 7 years. Our initial assumption is that, when the building is fully occupied, the total contributed revenue is 60 bn VND and the total PBT of 15 bn VND. In 2010, effectively half of the space will be occupied.
- ❖ **Financial Income:** Owing to low solvency ratios and low cash ratio, we assume that the company will not have significant financial investment & CAPEX in the next 2 years. CMG currently has long-term investment in Vijasgate, Bac Ha University and Bao Viet bank. In 2009, these investments did not return income. In 2010 and onward, we estimate Bao Viet bank will pay dividends around 5%, equivalent to a dividend income of 7.5 bn VND.
- ❖ **Income from joint venture & associate companies:** CMG contributed 50% capital to CMC Segmenta and Hannel project. In 2009, loss from these investments was 2.3 bn VND. Company estimates the net income from these investments to be about break even this year and to start realizing profit after that. We stay with the company estimate for now.
- ❖ **Consolidated Figures (Mil VND):**

CMG - Revenue	2007	2008	2009	2010E	2011E	2012E
CMC - SI	734,573	954,762	996,968	1168425	1367057	1572116
CMC - Soft	42,568	96,267	130,692	182,969	256,156	358,619
CMS	447,361	550,241	668,420	798,613	938,192	1,083,402
CMC - Distribution	12,930	609,409	1,799,032	2,338,742	2,806,490	3,227,463
CMC - Telecom	0	67,185	101,473	170,475	228,436	296,967
Other				101,464	101,464	101,464
Total	1,237,432	2,074,799	3,453,553	4,760,687	5,697,795	6,640,031
g		67.67%	66.45%	37.85%	19.68%	16.54%

CMG - PBT	2007	2008	2009	2010E	2011E	2012E
CMC - SI	52,351	53,055	56,334	67,135	79,872	93,400
CMC - Soft	9,423	14,711	22,552	27,445	35,862	46,620
CMS	14,388	10,416	11,874	12,778	14,073	15,168
CMC - Distribution	103	25,426	50,027	58,469	61,743	64,549
CMC - Telecom	-591	-8,966	-6,522	0	17,500	29,697
Other	14,343	16,596	14,531	25,366	25,366	25,366
Total	90,017	111,238	148,796	191,193	234,415	274,800
g		23.57%	33.76%	28.49%	22.61%	17.23%

Sources: CMG's Financial Statements, SSI Estimates

4. Ratio Analysis

Decreasing profitability margins

CMG	2007	2008	2009
Gross profit	17%	16%	13%
SG&A expense	9%	10%	6%
EBIT	8%	6%	6%
Pre-tax profit	8%	6%	4%
Net earnings	7%	4%	4%
ROE		13%	17%
ROA		7%	6%

Source: CMG Financial Statements

We see a clear downtrend in CMG's profitability ratios in the period from 2007 to 2009. Noticeably, all gross profit margin, EBIT margin and NI margin have been decreasing sharply. There are 3 reasons for this: 1) recently aggressive CAPEX (for the CMC building and CMC-Telecom) resulted in high depreciation and financial expenses. This can be seen as the pace of decrease in gross profit and EBIT margins is slower than that of PBT & NI margins, 2) distribution segment's low profit margin of around 2% pulled down the overall margin and 3), as the second largest firm (after FPT) in the IT industry, CMG products & services must be priced lower to be more competitive. CMG's profitability ratios are now half those of FPT.

Uptrend in efficiency ratios

CMG	2007	2008	2009
Op. Working capital ratio	57%	21%	15%
Days' receivables		97.54	87.13
Days' inventory		66.8	57.3
Days' payables		29.06	23.48

Source: CMG Financial Statements

Recently, CMG appears to be more efficient, reflected in decreasing working capital ratio, days' receivable and days' inventory. However, we would still expect to see these figures to drop much further, because compared to FPT, CMG's days' receivables and inventory are as much as twice those of FPT. As CMG has started the distribution business, inventory and receivable management becomes more critical to minimize provision and FX losses.

Worsening trend in solvency ratios

CMG	2007	2008	2009
Current Ratio	309%	146%	144%
Quick Ratio	261%	87%	101%
Cash Ratio	31%	19%	14%
Liabilities-to-equity ratio	46%	145%	181%
Interest coverage	610%	607%	415%

Source: CMG Financial Statements

Even though liquidity ratios (current & quick ratios) remain at a safe level, we are concerned about the cash position of CMG. While the firm continuously increased the portion of debt in the capital structure from 2007 to 2009, cash ratio has been decreasing sharply to a low level of 14%. This signals that CAPEX might have been too aggressive. Besides, the interest burden appears to be high, reflected in low interest rate coverage. At about the same debt/equity portion as FPT, CMG's interest coverage ratio is much lower. This is because CMG has a lower profitability ratios & higher borrowing interest rate.

5. Evaluation and Investment Recommendation

Strengths/Opportunities

- ❖ Transparent business model focusing upon one industry, IT & Telecom. Operating across almost all areas of the industry helps the company maintain stability in different economic conditions and creates synergy among business areas.
- ❖ Experienced & energetic board of directors & managers.
- ❖ The 2nd largest in terms of system integration & software. The fastest growing software firm in 2008.

Risks/Weaknesses

- ❖ Worsening profitability & solvency ratios. Cash ratio is low, signaling CAPEX might have been too aggressive. In about 2 years, profitability ratios are expected to increase, but remain low. (Currently PBT margin is around 4%, the lowest among listed IT firms).
- ❖ Niche telecommunication is more limited than the traditional market. We need more time to watch and judge this segment. There is still room for development but their margins and other ratios

Diverse customer base, consisting of government offices, schools, financial institutions and manufacturing companies. In our view, system integration & software are the two segments that, provided CMG is able to seize all the opportunities, could fairly compete with the biggest firm, FPT and challenge the 1st position in the future.

- ❖ The best computer manufacturer in Vietnam. CMS is the only computer brand name among 30 trademarks being conferred with the “National trademark” of the Government of Vietnam.
- ❖ In this initial coverage, we use P/E method to evaluate the value of CMG stock. Since CMG’s business model is complex, including subsidiaries operating in different sectors in the industry, we find peer PE for each sector and then sum them up. The number of peers for CMG’s subsidiaries in the Vietnamese stock market is limited. Hence, we look out for companies listed in other frontier markets (except for distribution segment and “other” segment, we collect peers domestically).
- ❖ For example, to calculate a reference PE for CMC-Software, we see how much (%) PE of the software sector is currently at premium or discount, with the PE of the foreign market we collect data for that sector. We then apply that premium/discount amount to our current est. PE 2010 for Vietnam market (11.71x).

Segments	Weight ^(*)	P/E	Premium/Discount
CMC – SI	37.49%	11.98	2.31%
CMC – Soft	14.82%	11.74	0.23%
CMS	5.85%	11.98	2.31%
CMC - Distribution	25.26%	9.54	-18.53%
CMC - Telecom	5.99%	12.72	8.64%
Other	10.60%	10.80	-7.77%
P/E 2010		11.25	

Sources: Bloomberg, SSI estimates

(*)We calculate weight based on the portion of average earning of that segment in the average total earning of CMG for the next 3 years.

- ❖ With P/E 2010 of 11.25x and EPS 2010 of 2,620 VND, we estimate the CMG’s stock price to be 29,475 VND. P/E2011 and 2012 are 9.15x and 7.72x respectively.

❖ Recommendation & Risks:

- Our greatest concerns with CMG are its worsening profitability and solvency ratios. Even though profit margin ratios are expected to rise, starting 2011 (our detail forecast above), they will remain low. Regarding the business structure, we are positive on CMC’s 2 main segments: IS and Software, neutral on CMS and distribution. For the telecom segment, niche market is the only choice for CMG to join the telecom market, but we need more time and data to evaluate the business. The two business fields that required the most capital investments, distribution and telecom, are experiencing fragile profit margin or even negative.
- Dilution risk: CMG is negotiating with a partner on a private placement for its shares. The dilution rate is about 10% and the deal is expected to conclude later this year or early next year.
- From the market perspective, as of 27/04/2010, CMG share price closed at 30,000 VND, a little higher than our recommended price. At this price, PE2010 of CMG is 11.45x. Besides, FPT share price closed at 88,500 VND on 27/04/2010, PE 2010 of 10.05x. Our current estimate is that, using average earning YoY growth rate in the next 3 years, CMG’s (diluted) EPS growth rate is about 15% and that of FPT, about 13%. Hence, as far as PEG ratio is concerned, 10% higher for CMG’s PE ratio is reasonable. However, FPT’s financial ratios in

all perspectives are far better than those of CMG. Hence, we express a **NEUTRAL** view on **CMG stock**. It is worth mentioning that CMG's market cap is as small as 1/7 that of FPT, hence CMG's short-term price movements might be sharper and longer. Investors can consider it as a good small-cap IT stock, alternative for FPT.

Appendix

INCOME STATEMENT	2007	2008	2009
Net sales	1,108,066,251,870	2,001,185,793,637	3,428,591,255,054
CGS	917,976,749,624	1,682,440,599,935	2,997,646,449,812
Gross profit	190,089,502,246	318,745,193,702	430,944,805,242
Selling expense	72,466,138,770	126,162,963,175	121,547,491,978
G&A expenses	25,900,197,893	74,945,904,291	95,774,250,628
Total operating expenses	98,366,336,663	201,108,867,466	217,321,742,606
Operating profit (EBIT)	91,723,165,583	117,636,326,236	213,623,062,636
Financial income	14,342,922,806	26,742,838,277	14,292,540,535
Financial expense	17,803,402,529	32,971,579,974	78,336,483,138
Interest expense	17,646,748,549	22,137,295,175	48,056,202,188
Gain/Loss from financial activities	(3,460,479,723)	(6,228,741,697)	(64,043,942,603)
Other income	5,715,528,039	4,201,813,784	3,547,031,526
Other expense	3,961,394,257	3,335,338,873	1,694,058,082
Gain/Loss from other activities	1,754,133,782	866,474,911	1,852,973,444
Earnings before income tax provision	90,016,819,642	112,274,059,450	151,432,093,477
Income tax provision	17,663,972,621	24,300,355,944	27,078,926,459
Net earnings	72,352,847,021	87,973,703,506	124,353,167,018

BALANCE SHEET	2007	2008	2009
<i>Unit: VND</i>			
Current Assets	935,239,378,359	1,334,977,183,381	1,684,010,888,115
Cash & cash equivalent	93,125,904,662	177,375,396,960	158,780,929,264
Short-term Investment	244,500,000,000	4,007,700,000	4,988,740,000
Accounts Receivable	452,171,604,831	617,363,264,837	1,019,556,326,610
Inventories	129,668,136,876	485,707,860,563	455,153,839,507
Other current assets	15,773,731,990	50,522,961,021	45,531,052,734
	-	-	-
Fixed Asset Long-term investment	34,512,653,847	333,704,842,380	486,176,764,400
Long-term receivables	-	-	-
Fixed Assets	20,112,295,316	132,191,228,484	285,523,226,088
Property Investment	-	-	-
Long-term financial Investment	2,877,044,400	173,941,206,092	175,540,294,099
Other Assets	11,523,314,131	27,572,407,804	25,113,244,213
Total Assets	969,752,032,206	1,668,682,025,761	2,170,187,652,515
LIABILITIES	303,497,129,829	988,095,421,816	1,397,968,124,268

Total current liabilities	302,806,584,170	915,962,388,255	1,168,515,815,055
Short-term Debt	104,866,329,697	607,351,172,990	869,353,140,160
Accounts Payable	124,703,734,309	199,854,933,348	181,817,473,548
Payroll	2,657,131,070	17,060,238,230	18,413,513,564
Income Taxes	26,177,055,301	39,921,766,047	54,480,008,135
Other current liabilities	44,402,333,793	51,774,277,640	44,451,679,648
	-	-	-
Long-term Liabilities	690,545,659	72,133,033,561	229,452,309,213
Long-term debt	319,200,000	68,975,670,626	228,948,610,665
Other long-term liabilities	371,345,659	3,157,362,935	503,698,548
EQUITY	666,254,902,377	680,586,603,945	772,219,528,247
Owners' Equity	658,944,519,910	671,639,204,529	765,304,908,316
Chartered Capital	340,000,000,000	635,362,670,000	635,362,670,000
Capital Surplus	248,000,000,000	14,774,304,339	14,775,692,560
Other Funds	-	-	(5,258,216,385)
Retained Earnings	71,107,539,910	21,502,230,190	122,227,142,141
Other resources and fund	3,896,760,762	294,536,939	406,965,647
Minority interest	3,413,621,705	8,652,862,477	6,507,654,284
TOTAL LIABILITIES AND EQUITY	969,752,032,206	1,668,682,025,761	2,170,187,652,515

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