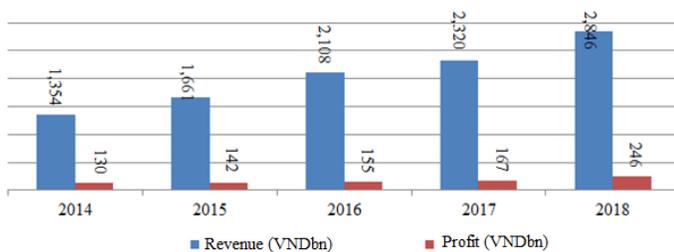




NEUTRAL

Company Overview

FECON Joint Stock Company was formerly known as FECON Underground Foundation and Underground Engineering Joint Stock Company, which was established in 2004. The company operates mainly in the field of foundation construction and underground works for multi-storey buildings construction, industrial constructions, transport works, irrigation works, constructing technical infrastructure of industrial parks and urban areas. FCN's major customers are Cotecons, Hoa Binh, LG ..



Market price statistic

High 52 Weeks (VND)	17,100
Low 52 Weeks (VND)	11,400
Average matched volume (10 days)	359,468

Company Overview

Market Cap (VNDbn)	1,565.96
Outstanding shares (mn)	119,54 mn
P/B	0.72
EPS	2,432
P/E	5.39

Profit margin

Net profit margin	9.87%
ROA	6.35%
ROE	14.46%

Financial indicators

Total debt/Total asset	0.55
Total debt/Owner's equity	1.22

Technical chart:



FECON CORPORATION- (HOSE) 10/2019

FCN –Renewable power projects will be the focus of FCN in the coming time

Investment facts

FCN is the leading professional contractor in Vietnam of construction techniques with a series of advanced, breakthroughs and high efficiency technologies. FCN has participated in many major and national key FDI projects such as: Formosa Iron and Steel Factory (Ha Tinh), Samsung High-Tech Complex (Thai Nguyen), the factory that manufacturing and assembling electronic hi-tech products of LG (Hai Phong), Nghi Son oil refinery... SBS rated FCN at Neutral level (see Recommendation for details).

Business highlights

Investment projects, especially renewable power projects, will be the focus of FCN in the near future

- FCN will focus part of its resources on investment, especially renewable electricity. After completing Vinh Hao 6 project, FCN is expected to continue developing new projects such as Wind Power Project in Gia Lai, VH6.2 Project, Binh Phuoc Solar Power Project. The investment into these projects are promised to bring stable and sustainable profits
- FCN will contribute capital from 33% -50%, will be prioritized for construction bidding, after finishing it will consider divesting or keeping. FCN expects that until 2023, its investments will contribute 50% to the total revenue of the company, in which renewable electricity accounts for 60%.

Important projects implemented in 2019

- In 2019, FECON will implement 3 thermal power projects, 1 petrochemical project, 1 underground drainage project and 3 Metro projects in Hanoi and Ho Chi Minh City. Metro line No. 3 of HN will be an important highlight

Strategic cooperation with Raito Kogyo

- Raito Kogyo becomes a major shareholder of FCN holding 17.13% of total outstanding shares. Raito Kogyo is one of the leading corporations of treating groundwater, sliding...
- FCN and Raito Kogyo will have strategic cooperation on many sides. Raito Kogyo will provide advanced technology for FCN and will actively seek contracts of overseas projects. FCN will provide personnel to implement the project.

Issue shares and expand foreign room

- FCN is planning to privately issue 25mn shares to strategic shareholders, offering price is VND22,000/share.
- The General Meeting of Shareholders has approved the expansion of foreign room for FCN's shares to 100% of charter capital.

Ambition to capitalize USD1bn and earn USD100mn NPAT by 2025

- FCN offers 2 scenarios to achieve the above target: 1) FCN will develop the project by 2031, the growth rate of NPAT is estimated at 11% and does not implement M&A. 2) FCN conducts M&A, the company will reach USD54mn of NPAT from growth through M&A, in addition to USD46mn generated from self-growth by 2023, 7 years earlier than the first scenario.
- From now until 2023, revenue is expected to grow 25% per year, while profit is expected to grow 9-10% on average.

Business Analysis

OPPORTUNITIES

- FCN and Raito Kogyo will carry out transport infrastructure projects, urban projects and underground water drainage projects in Hanoi and Ho Chi Minh City, projects on anti-landslides and natural disasters in Vietnam and some Southeast Asian countries. Japan has also been a major ODA partner for transport projects in Vietnam for many years
- Joining CPTPP will make FDI inflow into the market will continue to increase, bringing many opportunities for businesses with strengths in the field of industrial construction.

THREATS

- The characteristic of construction industry is a long construction period, the progress of disbursement of projects is still slow, this factor directly affects the financial situation, especially the solvency of the company. Cost of raw materials accounts for a large proportion of the total cost.
- Increasing competition pressure: foreign competitors have capital strength as well as high technology platform, strong brand

STRENGTH

- Large scale and construction capacity, having advantages when approaching national key projects
- To be pioneer in researching and applying scientific technology: help the company has many advantages in the field of foundation construction such as cutting time and costs of building.
- Concrete piles are provided internally at FCM are 5-10% cheaper than the market average price while concrete piles account for 20-50% of FCN's COGS.

WEAKNESS

- The rapid development, the assets came from short-term loans can bring difficulties for the company
- By the end of 2018, FCN's account receivables value was recorded at VND2,140bn, accounting for 45% of total assets, the number of receivable days is up to 274 days, relatively long and affecting the overall business activities of the company. A sharp increase in accounts receivable resulted in a negative cash flow from operating activities of VND 157bn, and this is the third consecutive year that this value recorded a deficit.

Comparison indicators of companies in the same sector:

Update 02/10/2019

Indicator	FCN	CTD	HBC	PHC	LCG
ROE (%)	14.46%	14.14%	16.28%	18.68%	14.72%
ROA (%)	6.35%	7.15%	3.37%	3.08%	5.43%
EPS	2,432	14,482	2,233	2,812	2,051
P/E	5.28	6.42	6.45	4.82	4.73
P/B	0.70	0.90	0.96	0.75	0.61
Liabilities/ Total asset	1.22	0.49	3.46	5.69	1.66

Investment risks

- FCN is investing in many areas, many of which are not strengths of FECON.
- The annual interest expense of about VND90bn, affects the business efficiency of the business
- The number of floating stocks is quite large. The projects that FCN plans to implement and sign have a large total investment value, requiring the company to have the corresponding capital scale in both joint ventures and EPC contractors. Increasing charter capital is inevitable, thus creating consequences and pressure to dilute stocks.

Valuation

(1) P/E comparison:

Current EPS is 2,432 and expected PE is 6 (average PE of leading companies is equivalent to 6).

Reasonable price of FCN: 14,592

(2) P/B comparison: Compare PB ratio of company with average PB of leading companies operating in construction industry

Average PB: 0.9; current BV of FCN: 16,940

Reasonable price of FCN: 15,246

Methods	Results	Proportion	Target price
P/E	14,592	50%	14,920
P/B	15,246	50%	

Recommendation - NEUTRAL

SBS commentary: FCN is a leading company in its sector with good construction capacity in the field of underground construction and weak foundation, so it has many advantages when approaching national key projects, with advanced technology and concrete piles are provided internally at FCM helps cut down time and costs. However, cash flow from businesses of the company has been consistently negative since 2014, besides the annual interest expense of about VND90bn and a large number of floating stocks. We assess that FCN still has great potential in the long term, but it still has many potential risks in asset structure. Therefore, although the valuation is higher than the current market price, SBS evaluates FCN at Neutral level

Recommendation: NEUTRAL

- The renewable power projects will be focused by FCN in coming time
- Set target to reach capital of USD1bn and profit after tax of USD100m in 2025.
- The fast growth, assets came from short term loans



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Analysts

Hoang Duc Viet

viet.hd@sbsc.com.vn

Nguyen Tuan Anh

anh.nt@sbsc.com.vn

Manager

Duong Hoang Linh

linh.dh@sbsc.com.vn

Sacombank Securities Company - Head office

278 Nam Ky Khoi Nghia Street, District 3, Ho Chi Minh City, Vietnam

Tel: +84 (8) 6268 6868 Fax: +84 (8) 6255 5957

www.sbsc.com.vn

Ha Noi Branch

6th-7th Floor, 88 Ly Thuong Kiet Street, Hoan Kiem District, Hanoi, Vietnam

Tel: +84 (4) 3942 8076

Fax: +84 (8) 3942 8075

SBS - Investment gateway