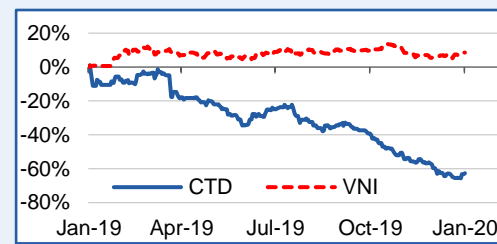



Coteccons (CTD) [MARKET PERFORM +8.3%]
Update Report

Industry	Construction		2019A	2020F	2021F	2022F
Report Date	January 30, 2020	Rev y/y	-16.9%	-18.7%	-3.8%	-10.6%
Current Price	VND52,900	NPAT-MI y/y	-52.9%	-18.9%	-6.0%	-7.9%
Current Target Price	VND54,300	EPS y/y	-53.4%	-18.9%	-6.0%	-7.9%
Last Target Price	VND62,500	GPM	4.4%	4.4%	4.4%	4.4%
Upside to TP	+2.6%	NPM	3.0%	3.0%	2.9%	3.0%
Dividend Yield	5.7%	P/B	0.5x	0.5x	0.4x	0.4x
TSR	+8.3%	P/E	6.0x	7.4x	7.8x	8.5x



			CTD	Peers	VNI
Market Cap	USD175.5mn	P/E (ttm)	6.0x	7.5x	15.3x
Foreign Room	USD3.4mn	P/B (curr)	0.5x	0.8x	2.2x
ADTV30D	USD217,000	Net D/E	-0.5x	0.4x	N/A
State Ownership	0.0%	ROE	8.7%	10.5%	14.8%
Outstanding Shares	76.2 mn	ROA	4.3%	2.8%	2.5%
Fully Diluted Shares	76.2 mn				

Company Overview

CTD is a well-known private construction contractor in Vietnam. The company has completed projects for both foreign and local developers, carrying out EPC and/or design and build.

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Margin recovers at end-2019; weak outlook remains

- We cut our target price by 13% to VND54,300 as we are more conservative on CTD's working capital projection and also apply a higher transparency discount rate while keeping our core earnings forecast unchanged. Nevertheless, we maintain our MARKET PERFORM rating for CTD as the share price has weakened by 22% over the last two months.
- CTD's full-year 2019 results were in line with our expectation. 2019 net revenue dropped 17% YoY to VND23.7tn (USD1.0bn) and NPAT-MI fell 53% YoY to VND711bn (USD30.9mn), which was driven by a lower amount of new contracts and falling gross margin compared to the previous year.
- We maintain our forecast of 2020F NPAT-MI (VND576bn/USD25.1mn) declining 19% YoY, mainly due to a significant drop in backlog transferred from the previous year.
- CTD's current valuation at a 2020F P/E of 7.4x looks fair, in our view, given the company's cloudy profit growth outlook and our concern regarding CTD's corporate governance due to limited disclosure of key information over the last five quarters.

We maintain our concern about CTD's ability to return its backlog to the 2015-2018 level. Per our estimation, CTD's newly-signed contract value in 2019 sank by 58% YoY to VND12.9tn (USD560.9mn), mainly due to limited new residential launches and ongoing competition from other private contractors. This decline resulted in CTD's end-2019 backlog (VND14.2tn/USD616.1mn) falling 43% vs end-2018 backlog (VND25tn/USD1.1bn, +10% YoY) while also causing CTD's 2019 revenue to drop 17% YoY. For 2020F, we maintain our assumption on CTD's newly-signed contract value of VND16.6tn/USD722.0mn, which is equivalent to a 29% YoY recovery from a very low base in 2019 as we expect domestic construction activities to gradually warm up in 2020F vs 2019F's low base while competition persists. We also note that we continue to be doubtful about CTD's ability to grow its construction backlog in near future back to the level experienced in 2015-2018 when CTD's newly-signed contract value averaged VND27.0tn/USD1.2bn per year.

We expect gross margin to stay at a low level. As we expected, CTD's gross margin continued to improve quarter-on-quarter, arriving at 4.5% in Q4 2019 vs 4.1% in Q3 2019 and a record low of 3.2% in Q2 2019. For full-year 2019, CTD's gross margin touched 4.4% vs 6.4% in 2018, which was still substantially low for CTD as main construction material prices softened throughout the year (i.e., 2019 average steel prices declined by ~10% YoY) and Ricons (which CTD owns 14.3% stake as of end-2019) was still able to deliver a high gross margin level of 6.0% in 2019 vs 6.4% in 2018 (more details in **Figure 4**). As a result, we maintain our projected 2020F gross margin for CTD at 4.4%.

Share price continues to suffer from weak market sentiment on unresolved management conflicts. Unresolved conflicts between CTD's management and its largest shareholder Kustochem (i.e., 2019's AGM recorded the cancellation of a long-awaited M&A plan for a share swap to own 100% of Ricons) and the rising concern over corporate governance due to limited disclosure of key information over the last five quarters have weighed on the sentiment toward CTD's share price.

2019 recap: Low results come in line with our expectation

Figure 1: 2019 results

VND bn	2018	2019	% YoY Growth	2019F	2019 as % of 2019F	VCSC comments for 2019 results
Revenue	28,561	23,733	-16.9%	22,685	105%	<p>* We attribute the YoY decline in 2019 revenue mostly to (1) a delay in construction progress in some of CTD's major projects and (2) lower new contract value signed during the year (equivalent to VND12.9tn/USD560.9mn or a 58% YoY drop based on VCSC's estimate) that was mainly due to limited new residential launches and ongoing competition from other private contractors.</p> <p>* CTD's management ceased to disclose details on the quarterly backlog throughout 2019. Nevertheless, we estimate CTD's end-2019 backlog at VND14.2tn (USD616.1mn), down 43% vs the announced backlog of VND25tn (USD1.1bn, +10% YoY) as of end-2018.</p>
Gross profit	1,833	1,048	-42.8%	998	105%	
SG&A expenses	-505	-459	-9.2%	-454	101%	
EBIT	1,328	589	-55.6%	544	108%	
Net financial income	321	264	-17.8%	268	99%	<p>* CTD has no interest-bearing debt.</p> <p>* Lower YoY due to lower interest received on lower cash balance. CTD's cash, cash equivalents and short-term cash deposits stood at VND4.0tn (USD175.8mn) as of end-2019, down 9% vs VND4.5tn (USD193.9mn) at end-2018.</p>
Net other income	127	34	-73.4%	50	67%	* Lower YoY as CTD booked a VND12.1bn (USD525,000) reversal of over-accrued construction costs in 2019 vs VND120bn (USD5.2mn) in 2018.
Shares of (loss) profit of associates	98	4	-95.8%	0	N/M	* Lower YoY due to a lower contribution from associates.
Profit before tax	1,873	891	-52.4%	862	103%	
NPAT	1,510	711	-52.9%	690	103%	* NPAT growth trailed revenue growth, which was mainly due to gross margin squeezing.
Gross margin %	6.4%	4.4%		4.4%		* CTD's gross margin continued to improve quarter-on-quarter, arriving at 4.5% in Q4 2019 vs 4.1% in Q3 2019 and a record low of 3.2% in Q2 2019. Nevertheless, this gross margin level is still considerably low for CTD, especially when compared to performance of Ricons (details in Figure 4).
SG&A as % sales	1.8%	1.9%		2.0%		
EBIT margin %	4.6%	2.5%		2.4%		
NPAT margin %	5.3%	3.0%		3.0%		

Source: Company's Q4 2019 financial statements, VCSC forecast

2020 outlook: Backlog declines drag revenue and earnings

Figure 2: 2020 forecast

VND bn	2019	2020F Revised	2020F Revised vs Old	2020F Revised vs 2019	VCSC assumptions for 2020F
Revenue	23,733	19,293	0.0%	-18.7%	* We maintain our 2020F newly-signed contract value assumption at VND16.6tn (USD722.0mn), which is equivalent to a 29% YoY recovery from a very low base in 2019.
Gross profit	1,048	849	0.0%	-19.0%	
SG&A expenses	-459	-386	0.0%	-15.9%	
EBIT	589	463	0.0%	-21.4%	
Net financial income	264	225	0.1%	-14.6%	
Net other income	34	32	2.2%	-4.4%	
Shares of (loss) profit of associates	4	0	0.0%	NM	
Profit before tax	891	721	0.1%	-19.1%	
NPAT	711	576	0.1%	-18.9%	
Gross margin %	4.4%	4.4%			* We maintain our flat gross margin assumption for 2020F, mainly due to ongoing competition.
SG&A as % sales	1.9%	2.0%			
EBIT margin %	2.5%	2.4%			
NPAT margin %	3.0%	3.0%			

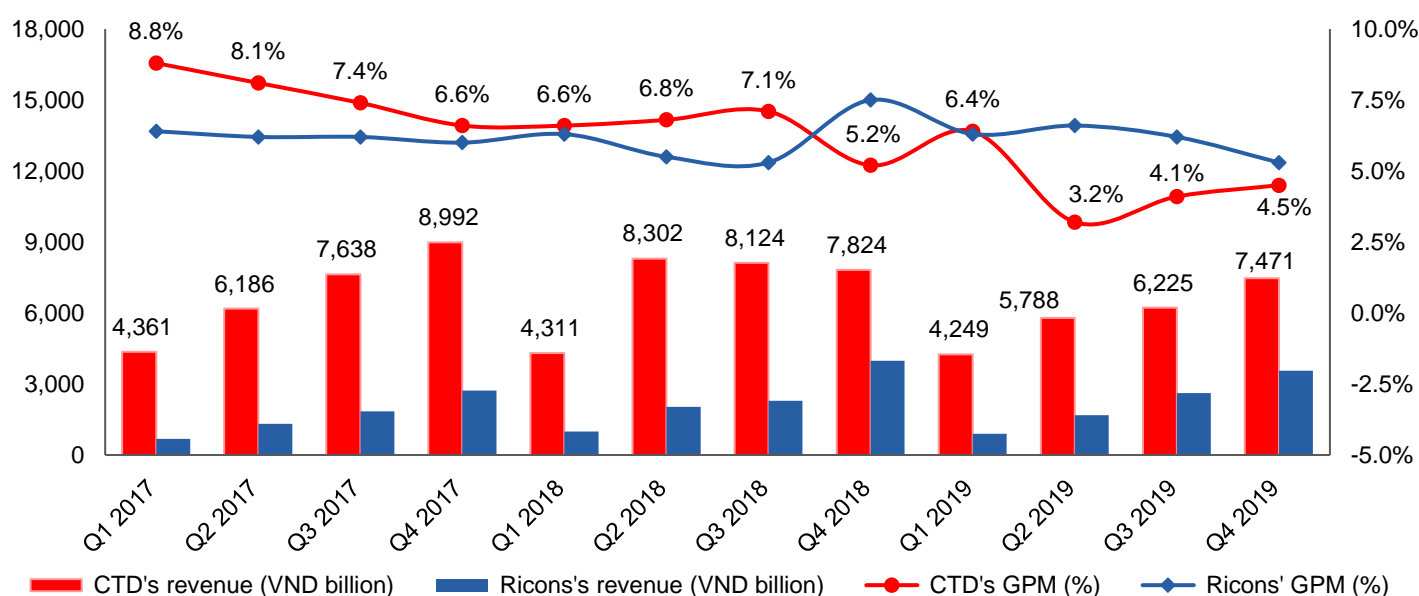
Source: Company's financial statements, VCSC forecast

Figure 3: Assumptions on CTD's annual newly-signed contract value and revenue recognition

(VND bn)	2018	2019	2020F	2021F	2022F	2023F	2024F
New contract value	30,759	12,900*	16,600	16,600	16,600	16,600	16,600
% YoY Growth	12%	-58%	29%	0%	0%	0%	0%
Revenue	28,561	23,733	19,293	18,563	16,600	16,600	16,600
% YoY Growth	5%	-17%	-19%	-4%	-11%	0%	0%

Source: VCSC forecasts. Note: * VCSC estimates for CTD's 2019 contract value data. From 2020F going forward, we assume CTD will not be getting significant new contracts from mega Vinhomes projects.

Figure 4: Quarterly revenue and gross margin of CTD and Ricons



Source: Company data, VCSC compilation

Figure 5: Signed contract value, 2013-2018 (VND tn)

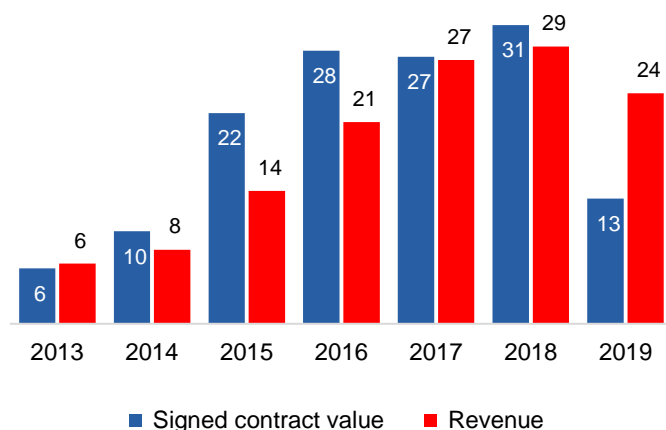
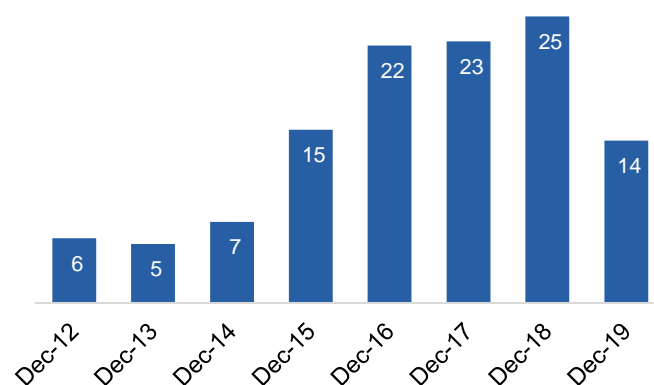


Figure 6: Backlog from 2012 to 2018 (VND tn)



Source: Company data, VCSC compilation. Note: VCSC estimates for 2019 contract value and backlog data

Figure 7: Revenue by project type

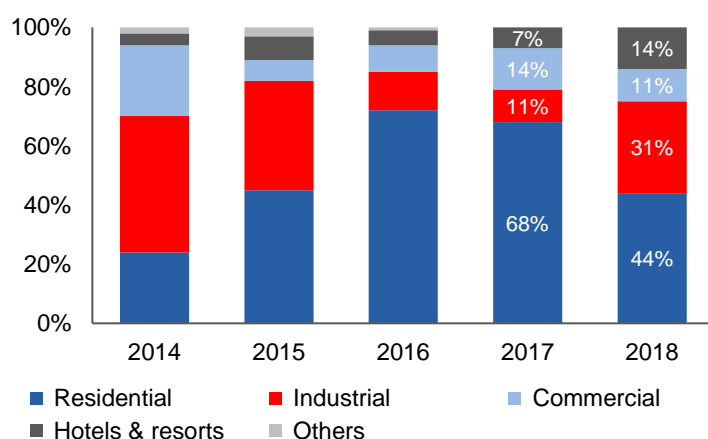
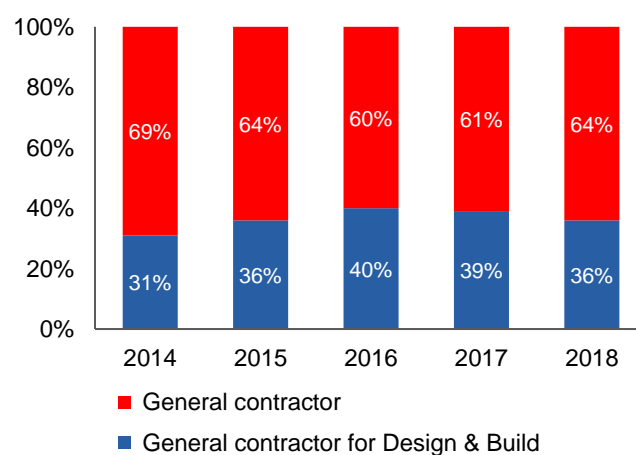


Figure 8: Revenue by contract type



Source: Company's data, VCSC compilation

Valuation

We continue to use a combination of the DCF (50% weighting) and P/E (50% weighting) methodologies to derive a target price of VND54,300/share for CTD. In this update report:

- We raise our transparency discount for CTD to 15% from the previous 10% as CTD has ceased to disclose key information (e.g., for updated backlog and construction progress at major projects) for an extended period of time (i.e., over the last five quarters).
- The DCF-derived valuation is 13% lower than in our last report as we are more conservative on our assumption for CTD's working capital while earnings forecasts were broadly unchanged.
- The P/E-derived fair price in this report is similar to our last report as we maintain our 2020F EPS forecast of VND7,178 and target P/E of 7.5x.

Figure 9: Valuation summary

Valuation method	Fair price	Weight	(VND/share)
DCF	73,900	50%	37,000
Target P/E at 7.5x	53,800	50%	26,900
Transparency discount (15%)			-9,600
Target price			54,300

Source: VCSC

Discounted cash flow (DCF)

Our valuation on CTD mostly reflects our expectations for its core construction business. Since 2016, CTD has aimed to invest in operating property (office projects), integration (acquisition of companies that support CTD's supply chain or its D&B model) and infrastructure. However, we have not seen any investment disbursed despite its large cash balance that includes proceeds from a November 2016 private placement of VND1.76tn (USD77mn). Hence, we continue to assume CTD's total investment capex of VND1.75tn (USD76.1mn) over 2020-2024F and a terminal growth rate of 1.0%.

Figure 10: Discounted cash flow

Key assumptions (VND tn)	2018	2019	2020F	2021F	2022F	2023F	2024F
Newly-signed contract value excl. VAT	30.8	12.9	16.6	16.6	16.6	16.6	16.6
Net revenue	28.6	23.7	19.3	18.6	16.6	16.6	16.6
% from construction services	100%	100%	100%	100%	100%	100%	100%
Gross profit margin %	6.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
EBIT margin %	4.6%	2.5%	2.4%	2.4%	2.4%	2.4%	2.4%
Net profit margin %	5.3%	3.0%	3.0%	2.9%	3.0%	3.0%	2.9%
FCF forecasts			2020F	2021F	2022F	2023F	2024F
Net income (VND bn)			576	542	499	493	476
+ Depreciation			115	126	138	153	158
- Working cap increase			-563	43	300	-87	-87
- Capex			-350	-350	-350	-350	-350
Free Cash Flow			-222	360	587	209	197
Present value of FCF			-196	281	405	127	106
Total PV of FCF			-196	85	490	617	723
Cost of Capital	Previous	Revised	DCF valuation			VND bn	
Beta	1.0	1.0	PV of 5Y FCF			723	
Market Risk Premium %	8.7%	8.7%	PV of Terminal Val			876	
Risk Free Rate %	4.5%	4.5%	PV of FCF and TV			1,599	
Cost of Equity %	13.2%	13.2%	Plus: Cash+STinv.			4,042	
Cost of Debt %	8.0%	8.0%	Less: Debt			0	
Corporate Tax Rate %	20.0%	20.0%	Value of Equity			5,641	
Debt-to-capital ratio % *	0.0%	0.0%	Current O/S (mn)			76	
WACC %	13.2%	13.2%	DCF value (VND/share)			73,900	
Terminal Growth Rate %	1.0%	1.0%					

Source: VCSC. Note: * CTD is debt-free

Figure 11: Sensitivity analysis of our target price for CTD in relation to DCF's WACC and terminal growth rate, ceteris paribus

Terminal growth rate %	WACC %						
	7.2%	9.2%	11.2%	13.2%	15.2%	17.2%	19.2%
0.0%	61,000	57,600	55,400	53,800	52,700	51,800	51,000
0.5%	61,800	58,100	55,700	54,000	52,800	51,900	51,100
1.0%	62,900	58,600	56,100	54,300	53,000	52,000	51,200
1.5%	64,000	59,300	56,400	54,500	53,200	52,100	51,300
2.0%	65,400	60,000	56,800	54,800	53,300	52,200	51,400
2.5%	67,100	60,700	57,200	55,000	53,500	52,400	51,500
3.0%	69,200	61,700	57,800	55,400	53,700	52,500	51,600

Source: VCSC

Figure 12: Sensitivity analysis of our target price for CTD in relation to assumptions for 2020F-2024F gross margin and annual newly-signed contract value, ceteris paribus

Newly-signed contract value per year (VND tn)	Gross margin %						
	2.9%	3.4%	3.9%	4.4%	4.9%	5.4%	5.9%
7.6	55,400	55,400	55,400	55,400	55,400	55,400	55,400
10.6	55,000	55,000	55,000	55,000	55,000	55,000	55,000
13.6	54,600	54,600	54,600	54,600	54,600	54,600	54,600
16.6	54,300	54,300	54,300	54,300	54,300	54,300	54,300
19.6	54,000	54,000	54,000	54,000	54,000	54,000	54,000
22.6	53,600	53,600	53,600	53,600	53,600	53,600	53,600
25.6	53,200	53,200	53,200	53,200	53,200	53,200	53,200

Source: VCSC

Peer P/E multiple

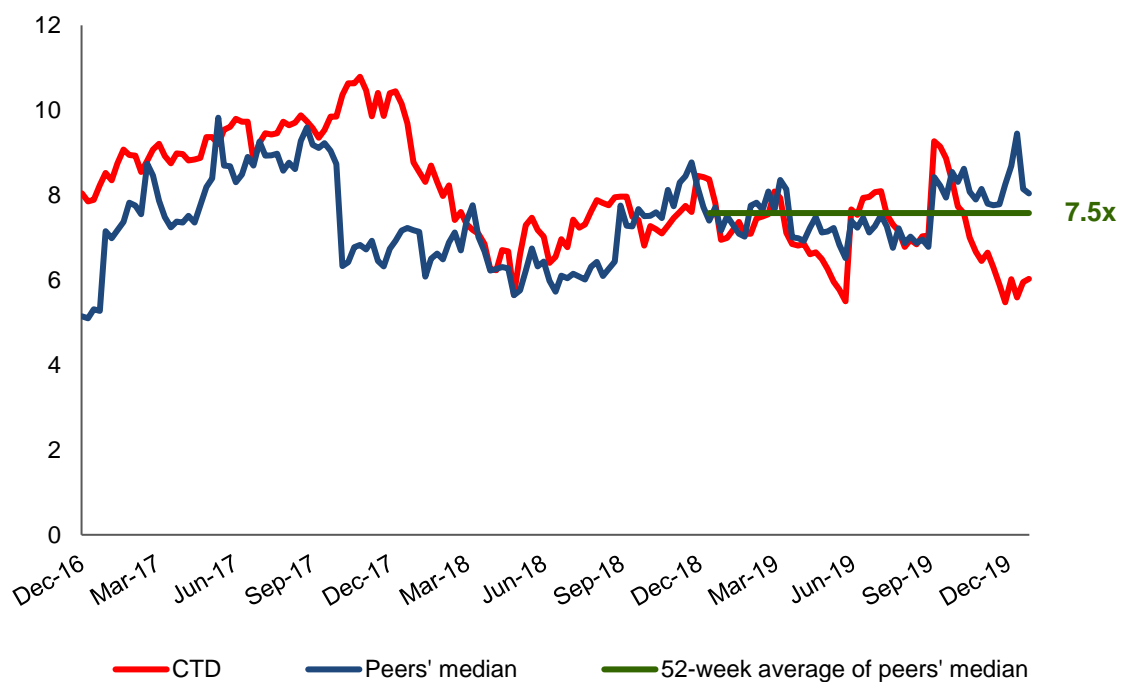
We select domestic construction companies to form a comparable universe for CTD. As CTD and its peer group are strongly correlated to each other while also being driven by expectations of domestic construction activity, we use a target P/E of 7.5x based on the 52-week average of the peer median.

Figure 13: Local peers

Ticker	Market cap	TTM Net Sales	Y-o-Y (%)	TTM NPAT	Y-o-Y (%)	Gross margin (%)	Net margin (%)	Net debt/Equity (%)	ROE (%)	ROA (%)	TTM P/E (x)	LQ P/B (x)
	USD mn	USD mn		USD mn								
VCG	492	412	-9.6	21	-37.4	12.4	5.1	8.0	10.4	3.4	16.6	1.7
HBC	109	803	1.9	19	-29.8	9.2	2.4	134.1	10.6	2.2	5.5	0.7
FCN	52	126	7.9	11	59.3	15.0	8.7	49.9	14.3	5.8	3.9	0.6
SC5	14	96	-13.9	1	-14.9	4.5	1.5	39.4	9.7	1.9	9.5	0.9
Average	166	359	-3.4	13	-5.7	10.3	4.4	57.8	11.2	3.3	8.9	1.0
Median	80	269	-3.9	15	-22.4	10.8	3.7	44.6	10.5	2.8	7.5	0.8
CTD	177	1,032	-16.9	31	-52.9	4.4	3.0	-47.7	8.7	4.3	6.0	0.5

Source: Bloomberg, VCSC

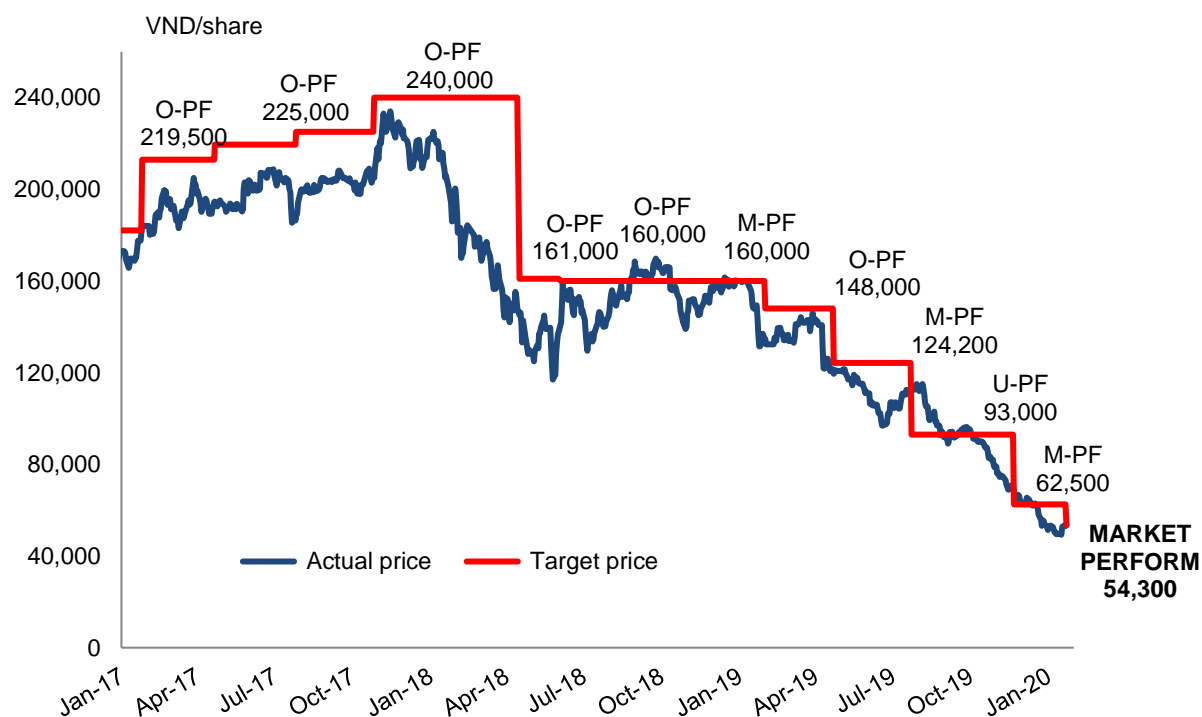
Figure 14: Historical LTM P/E



Source: Bloomberg, VCSC

Recommendation history

Figure 15: Historical VCSC target price vs share price



Source: Bloomberg, VCSC

Financial statements

P&L (VND bn)	2019	2020F	2021F	2022F
Revenue	23,733	19,293	18,563	16,600
COGS	-22,685	-18,445	-17,746	-15,870
Gross Profit	1,048	849	817	730
Sales & Marketing exp	0	0	0	0
General & Admin exp	-459	-386	-371	-332
Operating Profit	589	463	446	398
Financial income	264	225	203	199
Financial expenses	0	0	0	0
- o/w interest expense	0	0	0	0
Associates	4	0	0	0
Net other income/(loss)	34	32	28	26
Profit before Tax	891	721	677	624
Income Tax	-180	-144	-135	-125
NPAT before MI	711	576	542	499
Minority Interest	0	0	0	0
NPAT less MI, reported	711	576	542	499
NPAT less MI, adjusted	711	576	542	499

EBITDA	698	578	571	537
EPS reported, VND	8,852	7,178	6,745	6,215
EPS adjusted, VND	8,852	7,178	6,745	6,215
EPS fully diluted, VND	8,852	7,178	6,745	6,215
DPS, VND	3,000	3,000	3,000	3,000
DPS/EPS (%)	34%	42%	44%	48%

RATIOS	2019	2020F	2021F	2022
Growth				
Revenue growth	-16.9%	-18.7%	-3.8%	-10.6%
Op profit (EBIT) growth	-55.6%	-21.4%	-3.8%	-10.6%
PBT growth	-52.4%	-19.1%	-6.0%	-7.9%
EPS growth, adjusted	-53.4%	-18.9%	-6.0%	-7.9%

Profitability				
Gross Profit Margin	4.4%	4.4%	4.4%	4.4%
Op Profit, (EBIT) Margin	2.5%	2.4%	2.4%	2.4%
EBITDA Margin	2.9%	3.0%	3.1%	3.2%
NPAT-MI Margin, adj,	3.0%	3.0%	2.9%	3.0%
ROE	8.7%	6.7%	6.1%	5.4%
ROA	4.3%	3.7%	3.6%	3.4%

Efficiency				
Days Inventory On Hand	24.7	31.1	30.6	31.8
Days Accts, Receivable	137.3	158.2	153.0	158.9
Days Accts, Payable	83.5	80.2	70.4	71.0
Cash Conversion Days	78.4	109.1	113.2	119.6

Liquidity				
Current Ratio x	1.9	2.2	2.3	2.4
Quick Ratio x	1.7	1.9	2.0	2.2
Cash Ratio x	0.5	0.6	0.6	0.8
Debt / Assets	0.0%	0.0%	0.0%	0.0%
Debt / Capital	0.0%	0.0%	0.0%	0.0%
Net Debt / Equity	-47.7%	-40.8%	-40.8%	-43.4%
Interest Coverage x	N/M	N/M	N/M	N/M

B/S (VND bn)	2019	2020F	2021F	2022F
Cash & equivalents	801	354	486	844
ST investment	3,242	3,242	3,242	3,242
Accounts receivables	8,798	7,929	7,629	6,822
Inventories	1,626	1,516	1,459	1,304
Other current assets	261	212	204	183
Total Current assets	14,727	13,253	13,018	12,394
Fix assets, gross	1,405	1,755	2,105	2,455
- Depreciation	490	605	731	869
Fix assets, net	915	1,150	1,375	1,586
LT investment	394	394	394	394
LT assets other	162	132	127	113
Total LT assets	1,471	1,676	1,896	2,094
Total Assets	16,199	14,929	14,914	14,488

Accounts payable	4,571	3,537	3,306	2,870
Short-term debt	0	0	0	0
Other ST liabilities	3,139	2,552	2,455	2,195
Total current liabilities	7,710	6,089	5,761	5,065
Long term debt	0	0	0	0
Other LT liabilities	19	19	19	19
Total Liabilities	7,729	6,108	5,780	5,084

Preferred Equity	0	0	0	0
Paid in capital	793	793	793	793
Share premium	3,039	3,039	3,039	3,039
Retained earnings	1,029	1,377	1,689	1,960
Other equity	3,998	3,998	3,998	3,998
Minority interest	-54	-54	-54	-54
Total equity	8,415	8,767	9,080	9,350
Liabilities & equity	16,199	14,929	14,914	14,488

Y/E shares out, mn	76	76	76	76
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CASH FLOW (VND bn)	2019	2020F	2021F	2022
Beginning Cash Balance	553	801	354	486
Net Income	711	576	542	499
Dep, & amortization	109	115	126	138
Chge in Working Cap	-776	-583	40	291
Other adjustments	-372	20	3	9
Cash from Operations	-329	128	710	937
Capital Expenditures, net	-77	-350	-350	-350
Investments, net	836	0	0	0
Cash from Investments	759	-350	-350	-350
Dividends Paid	-229	-229	-229	-229
Δ in Share Capital	46	4	0	0
Δ in ST debt	0	0	0	0
Δ in LT debt	0	0	0	0
Other financing C/F	0	0	0	0
Cash from Financing	-183	-225	-229	-229
Net Change in Cash	248	-446	131	0
Ending Cash Balance	801	354	486	844

Source: Company's financial statements, VCSC forecasts

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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