

FECON CORPORATION

(FCN VN)

Trading Buy
(Update)

Target price:
VND13,600
Upside: +10.7%)

Poised to benefit from wave of investment in infrastructure

Mirae Asset Securities (Vietnam) LLC.
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Investment thesis

- Fecon Corporation (FCN) is one of Vietnam's leading contractors in underground and infrastructure construction, benefitting from cooperation in human resources, technology and capital with Japanese partner-Raito Kogyo.
- Thanks to its technological complexity, underground and infrastructure construction is more profitable than residential construction, with higher gross margin.
- We are concerned by the increase in the company's charter capital in 2016–2019, which rose at a higher rate than that of its revenue and net profit, causing the share dilution over recent years.

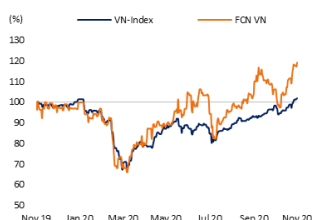
9M20 earnings results, FY20 forecast.

- **9M20 earnings results:** FCN recorded 9M20 revenue and after-tax profit (NPAT) of VND2,019bn (+12% YoY) and VND83bn (-43% YoY), respectively, with EPS of VND591/share (-61% YoY). NPAT and EPS declined because the company recorded a financial income of approximately VND100bn from the sale of its 60% stake in Vinh Hao 6 JSC to Acwa Power (Saudi Arabia) and the sale of 35% its stake in FECON Underground Construction JSC to Raito Kogyo (Japan).
- **FY20 forecast:** We forecast full-year revenue of VND3,358bn (+8.6% YoY, achieving 84% of fiscal plan) and NPAT of VND194bn (-8.5% YoY, achieving 83% of fiscal plan), with EPS of VND1,645/share (-12% YoY, achieving 100% of fiscal plan). The declines in NPAT and EPS are due to the postponements by project investors, as well as the impact of Covid-19.
- As of the end of October 2020, total new backlogs signed in 2020 have reached VND4,506bn, achieving 82% of fiscal plan in AGM 2020.

Valuation and recommendation

- We maintain our Trading Buy recommendation and the target price of VND13,600 for FCN, based on the the FCFF valuation method. We expect the company to benefit considerably from the acceleration in government spending on industrial & energy-producing infrastructure.

Key data



Share price (11/25/2020, VND)	12,300	Market cap (VND bn)	1,452
NP (20E, VND bn)	194	Shares outstanding (mn)	118
Consensus NP (20E, VND bn)	N/A	Free float (%)	71.0
EPS growth (20E, %)	-11.7	Foreign ownership (%)	51.4
P/E (20E, x)	7.5	Beta (12M)	1.1
Market P/E (20E, x)	15.7	52-week low (VND)	6,500
VN-Index	996	52-week high (VND)	12,450

Share performance

(%)	1M	6M	12M
Absolute	12.3	33.0	24.0
Relative	8.7	17.4	22.0

Earnings and valuation metrics

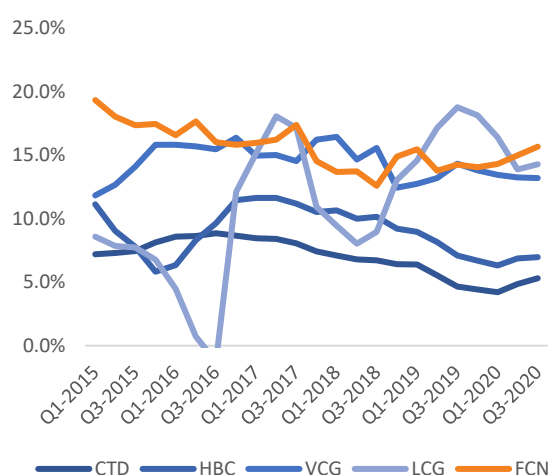
FY()	2017H	2018H	2019H	2020E	2021F	2022F
Revenue (VND bn)	2,320	2,846	3,091	3,358	3,648	3,963
Gross profit (VND bn)	337	428	434	488	530	576
Gross profit margin (VND bn)	14.5%	15.0%	14.1%	14.5%	14.5%	14.5%
NP (VND bn)	178	249	212	194	166	213
EPS (VND)	3,019	2,957	1,863	1,645	1,409	1,806
ROE (%)	10.7%	11.3%	8.6%	7.6%	6.1%	7.3%
P/E (x)	4.1x	4.2x	6.6x	7.5x	8.7x	6.8x
P/B (x)	0.5x	0.6x	0.6x	0.6x	0.5x	0.5x

Source: Company data, Mirae Asset Securities (Vietnam) LLC Research estimates

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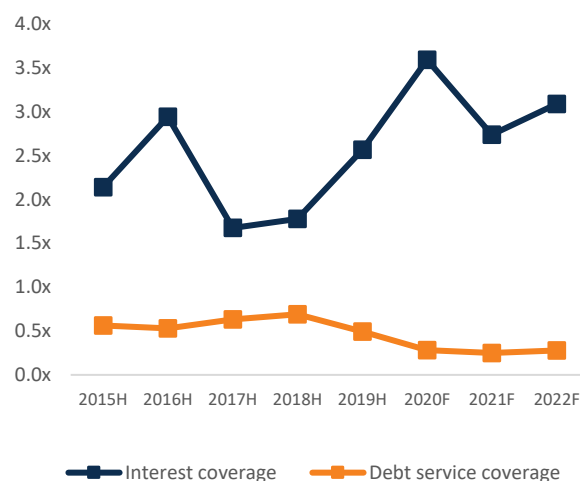
Investment thesis

Figure 1. Companies' Gross profit margin in Construction Industry



Source: Company data

Figure 2. FCN's forecasted solvency ratios



Source: Company data

Figure 3. New projects signed in 9M20

Stt	Investor	Bidding Package	Months of construction	Location	Value (VNDbn)
1	N/A	Build infrastructure and Quang Binh BT wind power plant	11	Quang Binh	700
2	REE Corporation	Build bridges and underground work	12	Tra Vinh	490
3	Golden City 2 Construction JSC	Buid basic structure and finishing of Toyota Display Center	9	Lam Dong	121
4	Ha Noi Transport Construction Management Unit	Building open & closed cellar	6	Ha Noi	293
5	Vietnam PowerChina Limited Company	Wind power plant, substation 110kV	12	Soc Trang	439
6	Thai Binh Duong Group	Build infrastructure and Thai Hoa wind power plant	9	Binh Thuan	255
7	Huyndai E&C - Ghella	Construct tunnel: Voi Phuc-Tran Hung Dao	18	Ha Noi	650

As of the end of October 2020, total new backlogs signed in 2020 have reached VND4,506bn, achieving 82% of fiscal plan in AGM 2020

FY20 estimate and valuation

1. Discounted cash flow method

- FCN recorded 9M20 revenue and after-tax profit (NPAT) of VND2,019bn (+12% YoY) and VND83bn (-43% YoY), respectively, with EPS of VND591/share (-61% YoY).
- Gross margin from 9M19 to 9M20 improved from 14.1% to 16.2% (+210bps YoY) and we expect this gross margin of 14.5% for 2020.

Table 1. Discounted cash flow method

	Category	2020E	2021F	2022F
	Net Income	194	166	213
+	Depr & Amort	50	51	53
+	Interest after tax	75	96	102
+	Capex	80	(67)	(21)
+	Net change in WC	(277)	(208)	(226)
=	Unlevered free cash flow	122	38	120
	Present value of FCF	112	29	79

Source: Mirae Asset VN Research

Table 2. Discounted cash flow method

Category	Value	Category	Value
Terminal year EBITDA (2022E)	447	Enterprise value	2,857
EV/EBITDA	9.0x	Less: total debt	1,448
Terminal value (2022E)	4,020	Less: preferred stock	0
Present value of TV	2,636	Less: Non-controlling interest	256
Present value of CF	220	Plus: Cash & ST investment	454
Enterprise Value	2,857	Implied equity value	1,607
Implied equity value			1,607
Shares outstanding ¹			118,029,323
Implied share price (VND/cp)			13,617

Source: Mirae Asset VN Research

¹ As of November 13, 2020

Fecon Corporation

Comprehensive Income Statement (Summarized)

(VNDbn)	2019H	2020E	2021F	2022F
Revenue	3,091	3,358	3,648	3,963
Cost of Sales	2,657	2,870	3,118	3,387
Gross Profit	434	488	530	576
Finance Income	211	16	16	16
Interest expense	179	94	119	127
SG&A	184	168	219	198
Operating Profit	281	243	208	266
Operating Profit (Adj)	281	243	208	266
Non-Operating Profit	(5)	-	-	-
Pretax Profit	277	243	208	266
Income Tax	65	49	42	53
Profit from Continuing Operations	212	194	166	213
Profit from Discontinued Operations	-	-	-	-
Net Profit	212	194	166	213
Controlling Interests	212	194	166	213
Non-Controlling Interests	-	-	-	-
EBITDA	537	387	378	447
FCF	28	122	38	120
EBITDA Margin (%)	17.4%	11.5%	10.4%	11.3%
Operating Profit Margin (%)	14.05%	14.5%	14.5%	14.5%
Net Profit Margin (%)	6.8%	5.8%	4.6%	5.4%

Cash Flows (Summarized)

(VNDbn)	2019H	2020E	2021F	2022F
Net Profit	212	194	166	213
Non-Cash Income and Expense				
Depreciation & Amortization	76	50	51	53
Provision	-	-	-	-
Others				
Chg. in Working Capital				
Chg. in AR & Other Receivables	(419)	(177)	(297)	(322)
Chg. in Inventories	(155)	(54)	(63)	(68)
Chg. in AP & Other Payables	425	(46)	151	164
Cash Flows from Op Activities	(29)	(33)	9	40
Chg. in PP&E	(77)	80	(67)	(21)
Chg. in intangible asset	-	-	-	-
Chg. in other long-term investment	84	(200)	-	-
Chg. in other long-term assets	-	-	-	-
Cash Flows from Inv Activities	(125)	(120)	(67)	(21)
Share issuance	568	-	-	-
Share buyback	-	-	-	-
Dividend paid	(57)	-	-	-
Net cash from borrowing/repay debts	307	314	97	109
Cash Flows from Fin Activities	197	314	97	109
Net cash change	44	162	39	128
Beginning Balance	193	236	398	437
Ending Balance	236	398	437	564

Source: Company data, Mirae Asset Vietnam Research forecasts

Balance Sheet statement (Summarized)

(VNDbn)	2019H	2020E	2021F	2022F
Current assets	4,502	4,894	5,292	5,810
Cash & Cash Equivalents	292	454	492	620
ST receivables	2,571	2,793	3,034	3,296
Prepaid expenses	107	107	107	107
Other ST receivables	687	642	697	757
Inventory	675	730	793	861
Other ST assets	171	171	171	171
Fixed-assets	678	548	564	533
Other long-term assets	311	511	511	511
Total assets	5,647	6,110	6,525	7,012
Liabilities	3,192	3,460	3,708	3,981
Short-term payables	846	890	967	1,051
Short-term advances	127	134	145	158
Tax obligation	123	123	123	123
Employee expenses	13	13	13	13
Other ST liabilities	828	730	793	862
Short- & long-term debts	1,134	1,448	1,544	1,653
Other LT liabilities	122	122	122	122
Equity	2,456	2,650	2,816	3,029
Share capital	1,195	1,195	1,195	1,195
Share premium	418	418	418	418
Retained earnings	301	495	661	874
Non-controlling interest	541	541	541	541
Total Liabilities & Equity	5,647	6,110	6,525	7,012

Forecasts/Valuations (Summarized)

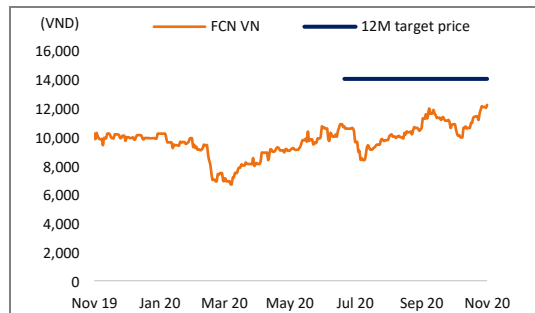
	2019H	2020E	2021F	2022F
P/E (x)	6.6x	7.5x	8.7x	6.8x
P/CF (x)	52.9x	12.0x	39.0x	12.2x
P/B (x)	0.6x	0.6x	0.5x	0.5x
EPS (VND/share)	1,863	1,645	1,409	1,806
CFPS (VND/share)	232	1,022	315	1,007
BVPS (VND/share)	20,544	22,165	23,557	25,340
DPS (VND/share)	-	-	-	-
Dividend yield (%)	-	-	-	-
Revenue Growth (%)	8.6%	8.6%	8.6%	8.6%
EBITDA Growth (%)	-22%	-28.0%	-2.2%	18.1%
Gross Margin Growth (%)	2%	12.4%	8.6%	8.6%
EPS Growth (%)	-37.0%	-11.7%	-14.3%	28.2%
DSO (days)	343	364	359	359
DIO (days)	113	110	109	109
DPO(days)	91	99	89	89
ROE (%)	8.6%	7.6%	6.1%	7.3%
ROA (%)	4.1%	3.3%	2.6%	3.1%
ROIC (%)	2.9%	5.1%	3.9%	4.7%
Debt/Total Assets (%)	20%	24%	24%	24%
Debt/Equity (%)	46%	55%	55%	55%
Interest coverage ratio (x)	2.6x	3.6x	2.7x	3.1x
Debt service coverage (x)	0.5x	0.3x	0.2x	0.3x

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company (Code)	Date	Rating	Target Price
Fecon JSC (FCN VN)	November 27, 2020	Trading Buy	13,600



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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