

Viettel Construction (CTR) [BUY +32.5%]

Update Report

Industry: Telecom Infrastructure

Report Date: March 3, 2022

Current Price: VND87,800

Target Price: VND115,300

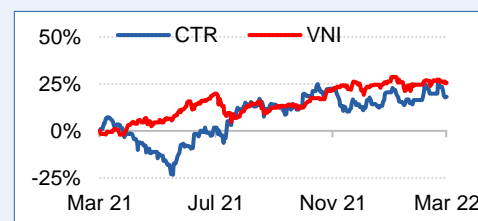
Previous Target Price: VND102,200

Upside to TP: +31.4%

Dividend Yield: 1.1%

TSR: +32.5%

	2021	2022F	2023F	2024F
Rev y/y	17.2%	18.3%	18.2%	16.8%
EPS y/y	35.7%	31.0%	17.6%	23.4%
EBITDA y/y	48.7%	42.0%	45.1%	33.2%
NPM	5.0%	5.6%	5.6%	5.9%
EBTDA margin	8.3%	10.0%	12.3%	14.0%
EV/EBITDA	12.2x	8.6x	5.9x	4.4x
P/E	25.9x	19.8x	16.8x	13.6x



Market Cap:	USD352mn
Foreign Room:	USD169mn
ADTV30D:	USD0.5mn
State Ownership:	65.7%
Outstanding Shares:	92.9 mn
Fully Diluted Shares:	92.9 mn

	CTR	Peers	VNI
P/E (ttm)	25.9x	11.0x	17.2x
EV/EBITDA (ttm)	12.2x	7.8x	14.2x
Net D/E	-0.4x	1.2x	N/A
ROE	31.7%	12.9%	15.6%
ROA	9.6%	4.9%	2.6%

Company Overview

Viettel Construction is a subsidiary of Viettel Group — the No. 1 telco in Vietnam. CTR provides construction, operation, system integration and infrastructure leasing services mainly for telecom carriers. CTR targets to become the largest telecom infrastructure leasing firm (towerco) in Vietnam by 2025.

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Robust growth outlook across segments

- We reiterate BUY as we expect CTR to capitalize on Vietnam's rising mobile data consumption thanks to its lucrative infrastructure leasing (towerco) business. In addition, CTR's construction and system integration businesses are growing fast, backed by its strong engineering expertise.
- We raise our TP by 13% as we lift our aggregate 2022F-2024F EBITDA by 32% mainly due to our higher projections for new telecom tower builds (towerco segment) and construction revenue.
- We project a 40% EBITDA CAGR for 2021-2024F — led by an 87% CAGR in towerco — as we expect CTR will expand its own tower count from 2,500 as of YE2021 to 9,400 by YE2024F. We forecast towerco's EBITDA contribution will widen from 22% in 2021 to 53% in 2024F.
- We value CTR using a mix of DCF and EV/EBITDA methods. Regarding the latter, we maintain a target of 16x for the towerco business (30% higher than the five-year average of emerging Asian towerco peers) and 7x-9x for other businesses.
- Key upside catalysts: Realization of Viettel Group's (CTR's parent) plan to transfer up to 15,000 of its ~45,000 towers to CTR in 2022-2025; higher small cell demand thanks to fast 5G rollout.
- Risks to our positive view: Slow mobile data consumption growth; Viettel prioritizing its ownership of towers instead of outsourcing to CTR; unwillingness to share towers among telcos.

New telecom tower builds and improving tenancy rates to elevate towerco EBITDA. We project CTR's own tower count will rise to ~4,800/9,400 towers by YE2022/YE2024 (vs 4,200/7,200 in our last Update Report), respectively, based on our assumptions that (1) Viettel will keep expanding its mobile network capacity to serve Vietnam's rising data consumption and (2) CTR will own at least ~60%-70% of Viettel's new towers. Apart from towers, CTR plans to expand its other telecom infrastructure assets such as distributed antenna systems and fibers.

Smart services such as smart cities and a widening contribution from residential construction to boost the system integration (SI) and construction segments, respectively. For 2021-2024F, we project respective EBITDA CAGRs of 27% and 23% for the construction and SI segments. CTR's competitive advantages in these segments lie in its deep engineering expertise and strong execution capabilities that were built from its leading telecom infrastructure business.

Viettel's telecom network expansion to drive CTR's operation segment. We project an EBITDA CAGR of 11% in 2021-2024F for this segment, which will be driven by Viettel's mobile telecom network expansion and fixed-line broadband subscriber growth in the domestic market along with contributions from overseas markets such as Cambodia and Myanmar. We expect Viettel's domestic mobile and fixed telecom networks will grow by low-single-digit and low-teen rates per annum, respectively.

2021: Earnings jump across segments

Figure 1: CTR's 2021 results

VND bn	2020	2021	YoY	VCSC comments on 2021
Revenue	6,359	7,454	17%	
Operation	3,369	4,164	24%	Mainly driven by Viettel's mobile telecom network expansion and fixed-line broadband subscriber growth in the domestic market and — to a much smaller extent — business in Cambodia and Myanmar. Home services, in which CTR provides home appliance maintenance services for domestic customers, accounted for 5% of 2021 revenue vs none in 2020.
Towerco	65	202	209%	This is a new business, but it is expected to be the primary growth driver of CTR going forward. Revenue rocketed on the back of new telecom tower builds and expansion of other telecom infrastructure such as distributed antenna systems (DAS) and fibers. Per our estimate, CTR's own tower count increased from ~1,100 at YE2020 to ~2,500 at YE2021.
Construction	1,615	1,952	21%	Thanks to a widening contribution from non-telecom construction sub-segments such as residential construction. Notable residential construction projects in 2021 were Louis City – Hoang Mai Phase 2 (contract value of VND415bn/USD18mn) in Hanoi, Aqua City Phase 2 (VND81bn/USD4mn) in Dong Nai and Danko (VND50bn/USD2mn) in Thai Nguyen.
System integration and others	1,309	1,137	-13%	Due to lower revenue from solar energy services. We note that demand for solar energy services (e.g., installation) peaked in H2 2020 as companies rushed to complete their projects before YE2020 to enjoy the Government's favorable tariffs.
Gross profit	475	626	32%	
Operation	168	219	30%	
Towerco	19	94	410%	
Construction	207	241	16%	
System integration and others	81	72	-11%	
EBITDA*	417	621	49%	
Operation	142	210	48%	
Towerco	39	138	252%	
Construction	179	216	21%	
System integration and others	58	58	-0%	
EBIT	327	466	42%	
PBT	345	472	37%	
NPAT-MI	274	376	37%	
EBITDA margin	6.6%	8.3%		
Operation	4.2%	5.0%		Underpinned by economies of scale.
Towerco	59.9%	68.3%		Thanks to a higher number of operational telecom towers.
Construction	11.1%	11.0%		
System integration and others	4.4%	5.1%		Lower relative contributions from trading-like revenue, in which CTR sells items such as solar panels, inverters and air conditioners.
NPM	4.3%	5.0%		

Source: CTR, VCSC; *VCSC's estimates for segmental EBITDA.

2022F: Towerco segment to spearhead strong growth

Figure 2: VCSC's 2022 forecasts

VND bn	2021	Old 2022F	New 2022F	YoY	VCSC comments on New 2022F
Revenue	7,454	8,936	8,815	18%	
Operation	4,164	4,661	4,608	11%	We expect Viettel's tower count in Vietnam to rise by a low-single-digit rate while Viettel's number of fixed-line subscribers will advance at a low-teen rate in 2022.
Towerco	202	351	418	108%	Tower (84% of 2022F towerco revenue; +164% YoY): We project CTR's own tower count will expand to 4,800 by YE2022 while the tenancy rate will remain at 1.05. Other asset leasing revenue (16% of 2022F towerco revenue; +5% YoY): We project CTR's fiber capacity will widen 10% to ~3,200 km by YE2022. We now assume that 5G small cells will start operation in 2023 instead of 2022 due to slower-than-expected progress in Vietnam's 5G spectrum licensing, which we now expect to be completed in late 2022. We raise our forecast because CTR's telecom tower expansion plans and leasing rates are tracking ahead of our expectations — the latter is mainly driven by surging prices of input materials such as steel, per CTR.
Construction	1,952	2,062	2,346	20%	Telecom construction revenue (49% of 2022F construction revenue) to grow 5%, which is partly aided by Viettel's 5G infrastructure development. Meanwhile, we project non-telecom construction (51% of 2022F construction revenue) will surge 40% on the back of residential projects as CTR gains more traction with its B2B clients (e.g., real estate developers) in addition to ramping up its activities in the household (B2C) segment.
System integration and others	1,137	1,862	1,444	27%	Growth to be propelled by smart services such as smart lighting systems and security camera systems as well as engineering and mechanical (M&E) services. We cut our forecasts mainly due to weaker-than-expected momentum in energy services.
EBITDA*	621	772	882	42%	
Operation	210	228	233	11%	
Towerco	138	251	317	130%	
Construction	216	194	259	20%	
System integration and others	58	99	73	27%	
EBIT	466	459	619	33%	Projected EBIT growth is slower than EBITDA growth mainly due to escalating depreciation expenses from the towerco business. We note that CTR applies an aggressive depreciation period of seven to 10 years for its towerco assets rather than their typical minimum useful lives of 10-15 years.
PBT	472	456	618	31%	
NPAT-MI	376	362	492	31%	
EBITDA margin	8.3%	8.6%	10.0%		
Operation	5.0%	4.9%	5.0%		
Towerco	68.3%	71.6%	75.8%		Thanks to a higher number of operational towers.
Construction	11.0%	9.4%	11.0%		
System integration and others	5.1%	5.3%	5.1%		
NPM	5.0%	4.1%	5.6%		

Source: CTR, VCSC; *VCSC's estimates for segmental EBITDA.



Valuation

We maintain a 50/50 mix of DCF and EV/EBITDA-based sum-of-the-parts (SoTP) methods to value CTR. We select the EV/EBITDA-based SoTP method due to CTR's diversified and capital-intensive businesses while the DCF method captures CTR's growth and cash generation abilities over the long term. Our selected peer group for CTR consists of towercos in emerging Asian markets.

For the DCF method, we use an unlevered/levered beta of 0.6/0.8 (vs 0.6/0.65 in our previous report) based on the average beta of CTR's peers that is weighted by CTR's segmental EBITDA contributions in 2022F-2026F. The rise in our levered beta is in accordance with the increases in our capex and in turn debt projections as we revise up our projections for the number of new tower builds and construction costs. Despite the increase in our beta and in turn cost of equity assumptions, our applied WACC edges down 20 bps to 9.1%, owing to an expansion of debt in our projected capital structure.

Our DCF valuation yields a higher fair value than our EV/EBITDA approach as the former better captures CTR's strong projected cash flow and earnings growth in the long term while our EV/EBITDA approach mainly reflects one-year forward earnings growth.

Figure 3: VCSC's estimate for CTR's beta

	2022F-2026F EBITDA contribution	Unlevered beta	Notes
Operation	17%	0.4	In line with the towerco segment's beta due to the close relationship between the two segments and the operation segment's predictable revenue streams.
Towerco	54%	0.4	Based on the five-year average of peer median betas.
Construction	23%	1.0	Equal to our beta for Vietnam's leading contractor Coteccons (HOSE: CTD).
System integration	7%	1.0	System integration business shares some similarities with the construction business such as project-based revenue and B2B clients.
Total	100%	0.6	
Target debt-to-capital		31%	2022F-2026F average.
CTR's levered beta		0.8	

Source: VCSC

Figure 4: Summary of VCSC's valuation for CTR

Method	Weighting	Fair value (VND/share)	Contribution (VND/share)
DCF	50.0%	131,412	65,706
EV/EBITDA-based SoTP	50.0%	99,198	49,599
Target price (VND/share)			115,300
Implied 2022F P/E @ TP			26.0x
Implied 2022F EV/EBITDA @ TP			11.5x

Source: VCSC

Figure 5: DCF valuation for CTR

Cost of capital	Current	Previous	FCFF (five years)	VND bn
Beta	0.8	0.65	PV of Free Cash Flows	470
Market risk premium	7.0%	7.0%	PV of Terminal Val (4.0% g)	11,156
Risk-free rate	5.5%	5.5%	PV of FCF and TV	11,625
Cost of Equity	11.0%	10.1%	+ Cash & ST investments	766
Cost of Debt	6.0%	6.0%	- Debt	180
Debt %	30.6%	13.9%	- Minority Interest	0
Equity %	69.4%	86.1%	Equity Value	12,212
Corporate Tax%	20.0%	20.0%	Shares (million)	92.9
WACC %	9.1%	9.3%	Value per share, VND	131,412

Source: VCSC

Figure 6: Cash flow projections for CTR

VND bn	2022F	2023F	2024F	2025F	2026F
Earnings before interest and tax	568	699	869	1,068	1,319
less: tax	-114	-140	-174	-214	-264
add: depreciation	263	517	755	993	1,200
less: net capex	-1,433	-1,575	-1,547	-1,561	-1,576
(increase) / decrease in NWC	212	253	319	310	162
Free cash flow	-503	-246	222	597	841
PV of FCF	-461	-207	171	422	545
Cumulative PV of FCF	-461	-668	-496	-75	470

Source: VCSC

Figure 7: Sensitivity analysis of our target price for CTR in relation to WACC and terminal growth rate in our DCF valuation, ceteris paribus

Target price (VND)		WACC				
		8.1%	8.6%	9.1%	9.6%	10.1%
Terminal growth (g)	2.0%	107,000	101,900	97,500	93,700	90,400
	3.0%	117,700	110,800	104,900	100,000	95,800
	4.0%	133,800	123,500	115,300	108,600	103,000
	5.0%	160,200	143,400	130,700	120,900	113,000
	6.0%	212,100	178,700	156,200	140,100	127,900

Source: VCSC

Figure 8: VCSC's SoTP valuation for CTR

VND bn	2022F average EBITDA	Attributed bonus & welfare allocation*	Target EV/ EBITDA (x)	Target EV	Notes to VCSC's target EV/EBITDA
Operation	233	21	9	1,904	Steady growth outlook, low margins. We maintain our target multiple of 16x, which is 30% higher than the five-year peer average of 12x. We believe this premium is justified by our forecast of an 87% EBITDA CAGR in 2021-2024F for CTR.
Towerco	317	29	16	4,613	Towercos in developed markets boast an average EV/EBITDA of 23x over the last five years.
Construction	259	23	7	1,649	Based on the five-year average of TTM EV/EBITDA of domestic contractors.
System integration	73	7	7	465	In line with the construction segment.
Total				8,632	
Net cash				586	
Target equity value				9,218	
Outstanding share count (million)				93	
Value per share (VND)				99,198	

Source: VCSC; *equivalent to 16.2% of annual NPAT-MI.



Comparable Peers

Figure 9: Towercos in emerging Asian markets

Name	Country	Market Cap (USD mn)	TTM Sales Growth (%)	TTM EPS Growth (%)	ROE (%)	ROA (%)	Net D/E (x)	TTM EBITDA margin (%)	TTM P/E (x)	TTM EV/EBITDA (x)	2022F EV/EBITDA (x)
China Tower	China	20,514	7	20	3.7	2.1	0.6	N/A	10.6	4.0	3.8
Indus Towers	India	7,690	196	93	29.8	12.7	1.1	52.6	9.8	5.4	4.8
Digital Telecom	Thailand	4,637	0	-12	7.9	6.2	0.2	N/A	11.0	N/A	13.3
Sarana Menara	Indonesia	3,675	8	32	33.2	8.2	1.8	86.3	14.7	10.2	9.7
Tower Bersama	Indonesia	4,636	15	41	17.8	3.5	2.5	83.1	45.9	19.2	17.6
Centratama	Indonesia	421	15	-728	-30.3	-9.0	1.3	N/A	N/A	N/A	N/A
Peer median		4,637	12	26	12.9	4.9	1.2	83.1	11.0	7.8	9.7
Peer mean		6,929	40	-92	10.4	4.0	1.3	74.0	18.4	9.7	9.8
CTR	Vietnam	352	17	36	31.7	9.6	-0.4	8.3	25.9	12.2	8.6

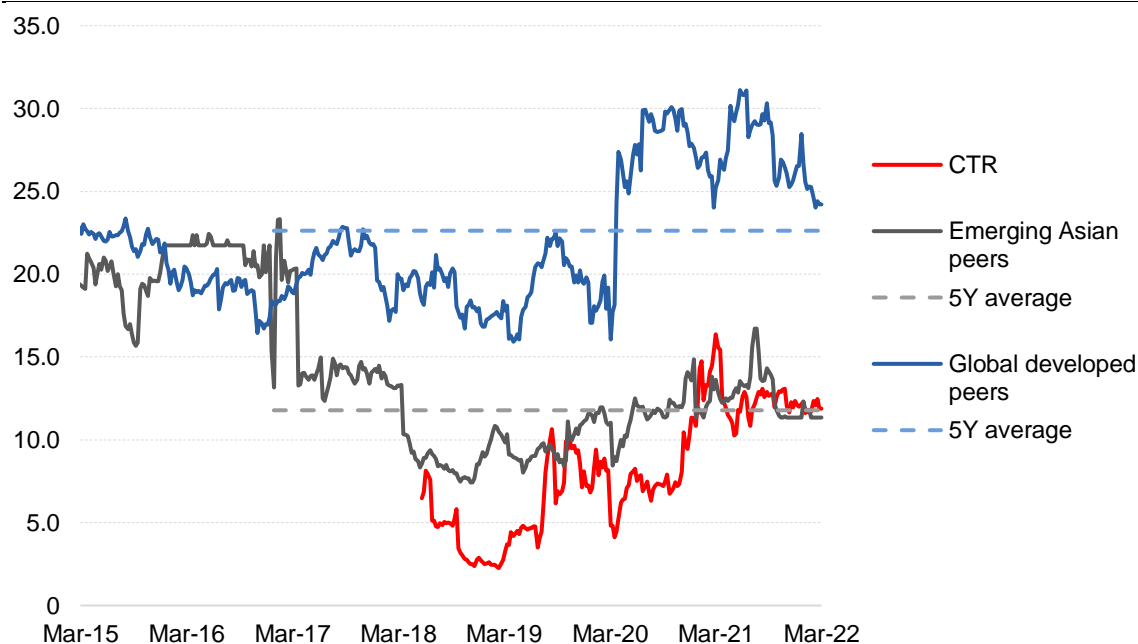
Source: Bloomberg, VCSC

Figure 10: Towercos in developed markets

Name	Country	Market Cap (USD mn)	TTM Sales Growth (%)	TTM EPS Growth (%)	ROE (%)	ROA (%)	Net D/E (x)	TTM EBITDA margin (%)	TTM P/E (x)	TTM EV/EBITDA (x)	2022F EV/EBITDA (x)
American Tower	US	105,542	16	52	56.0	4.4	5.5	67.1	40.3	29.2	26.7
Crown Castle	US	71,315	9	4	12.4	2.8	3.2	57.5	54.4	22.8	25.7
UNITI	US	2,691	2	N/A	N/A	0.8	N/A	69.9	29.8	10.1	8.9
SBA	US	32,885	9	N/A	N/A	3.1	N/A	64.9	97.8	32.0	29.1
JTower	Japan	746	12	35	3.9	2.1	-1.0	40.8	194.3	45.5	N/A
Cellnex	Spain	29,931	62	-164	-1.7	-0.6	0.7	73.6	N/A	23.2	19.8
INWIT	Italy	9,510	18	22	4.3	2.1	0.8	90.9	44.5	17.9	17.6
RAI Way	Italy	1,482	2	2	41.5	19.0	0.3	62.0	20.0	10.1	10.2
Peer median		32,885	9	35	12.4	2.8	3.2	64.9	54.4	29.2	26.2
Peer mean		31,763	16	-8	19.4	4.2	1.6	65.8	68.7	23.9	19.7
CTR	Vietnam	352	17	36	31.7	9.6	-0.4	8.3	25.9	12.2	8.6

Source: Bloomberg, VCSC

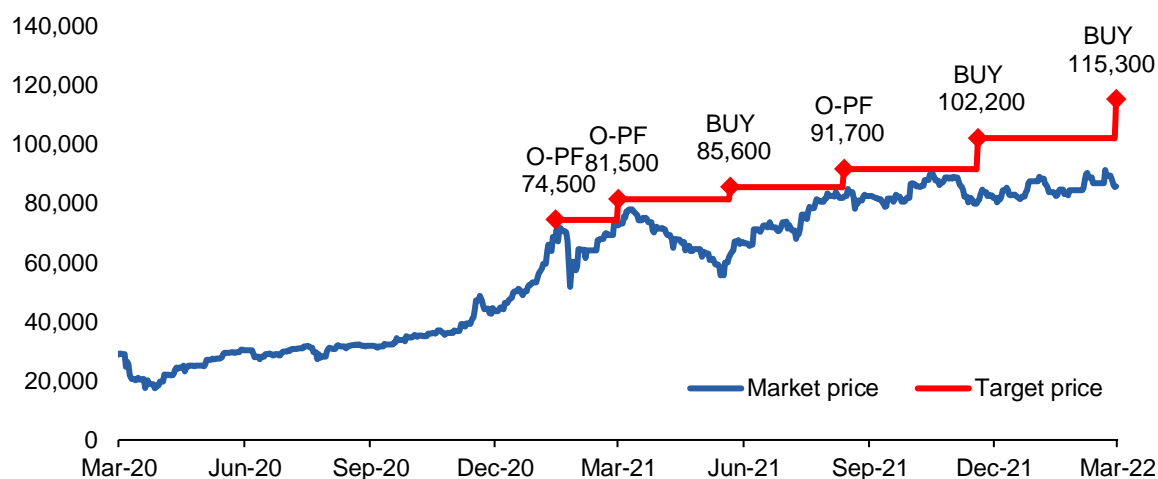
Figure 11: CTR's TTM EV/EBITDA vs peers (x)



Source: Bloomberg, VCSC

Recommendation History

Figure 12: Recommendation history; share prices (VND) adjusted for share splits



Source: CTR, VCSC

Glossary

	Full name or definition
2G/3G/4G/5G	Second/third/fourth/fifth generation mobile network
LTE	Long-term evolution or 4G network
GSM	2G network
UTSM	3G network
Sub-6	Spectrum that is below 6 GHz (6,000 MHz)
mmWave	Spectrum that is between 30 GHz and 300 GHz
DAS	Distributed antenna system
BTS	Base transceiver station
IoT	Internet of things



Financial Statements

P/L (VND bn)	2021	2022F	2023F	2024F
Revenue	7,454	8,815	10,424	12,178
COGS	-6,828	-8,010	-9,440	-10,970
Gross profit	626	806	984	1,208
Sales & Marketing exp	0	0	0	0
General & Admin exp	-161	-187	-221	-258
Operating Profit	466	619	763	950
Financial income	15	29	30	35
Financial expenses	-7	-30	-66	-87
- o/w, interest expense	-6	-30	-66	-87
Associates	0	0	0	0
Net other income/(loss)	0	0	0	0
Profit before Tax	472	618	727	897
Income Tax	-96	-126	-148	-183
NPAT before MI	376	492	579	714
Minority interests	0	0	0	0
NPAT less MI, reported	376	492	579	714
NPAT less MI, adjusted ⁽¹⁾	376	492	579	714

EBITDA	621	882	1,280	1,705
EPS basic reported, VND	3,389	4,441	5,221	6,442
EPS basic adjusted ⁽¹⁾ , VND	3,389	4,441	5,221	6,442
EPS fully diluted ⁽¹⁾ , VND	3,389	4,441	5,221	6,442
DPS, VND	1,000	1,300	1,500	1,900
DPS/EPS (%)	29.5%	29.3%	28.7%	29.5%

(1) Adjusted for one-offs

RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue growth	17.2%	18.3%	18.2%	16.8%
EBITDA growth	48.7%	42.0%	45.1%	33.2%
PBT growth	36.7%	31.0%	17.6%	23.4%
EPS growth, adjusted	35.7%	31.0%	17.6%	23.4%

Profitability ratios				
Gross Profit Margin	8.4%	9.1%	9.4%	9.9%
EBIT margin	6.2%	7.0%	7.3%	7.8%
EBITDA margin	8.3%	10.0%	12.3%	14.0%
NPAT-MI Margin, adj.	5.0%	5.6%	5.6%	5.9%
ROE	31.7%	33.4%	31.9%	32.1%
ROA	9.6%	10.6%	9.5%	9.6%

Efficiency ratios				
Days Inventory On Hand	33.1	27.1	25.2	23.5
Days Accts, Receivable	54.5	47.3	45.0	43.4
Days Accts, Payable	30.4	20.4	20.4	20.6
Cash Conversion Days	57.2	53.9	49.7	46.3

Liquidity/Solvency				
Current Ratio x	1.2	1.1	1.0	1.0
Quick Ratio x	1.0	0.9	0.8	0.8
Cash Ratio x	0.3	0.2	0.2	0.2
Debt / Assets x	0.0	0.1	0.2	0.2
Debt / Capital x	0.1	0.3	0.4	0.4
Net Debt / Equity x	-0.4	0.0	0.2	0.2
Interest Coverage x	72.5	20.7	11.6	10.9

Source: Company data, VCSC

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	666	596	705	824
ST investments	100	100	100	100
Accounts receivable	1,079	1,204	1,366	1,530
Inventories	567	621	680	730
Other current assets	621	721	837	960
Total Current Assets	3,034	3,243	3,689	4,143
Fixed assets, gross	1,308	2,741	4,316	5,863
- Depreciation	-381	-643	-1,160	-1,915
Fixed assets, net	928	2,098	3,156	3,948
LT investments	0	0	0	0
Other LT assets	16	10	3	-6
Total LT assets	944	2,108	3,158	3,941
Total Assets	3,978	5,350	6,847	8,084

Accounts payable	416	488	575	668
Short-term debt	31	36	42	49
Other ST liabilities	2,055	2,475	2,978	3,540
Total current liabilities	2,502	2,998	3,595	4,257
Long term debt	150	706	1,241	1,357
Other LT liabilities	14	14	14	14
Total liabilities	2,665	3,718	4,850	5,628

Preferred Equity	0	0	0	0
Share premium	0	0	0	0
Paid in capital	929	929	929	929
Retained earnings	383	703	1,067	1,527
Other equity	0	0	0	0
Minority interest	0	0	0	0
Total equity	1,313	1,633	1,997	2,456
Total liabilities & equity	3,978	5,350	6,847	8,084

Y/E shares out, mn	92.9	92.9	92.9	92.9
Y/E treasury shares, mn	0.0	0.0	0.0	0.0

Cash Flow (VND bn)	2021	2022F	2023F	2024F
Beginning Cash Balance	504	666	596	705
Net Income	376	492	579	714
Dep, & amortization	155	263	517	755
Change in Working Cap	-40	212	253	319
Other adjustments	94	-80	-94	-116
Cash from Operations	585	888	1,255	1,673

Capital Expenditures, net	-395	-1,433	-1,575	-1,547
Investments, net	-88	6	8	9
Cash from Investing	-483	-1,426	-1,567	-1,538

Dividends paid	-72	-93	-121	-139
Δ in Share Capital	0	0	0	0
Δ in ST debt	31	5	6	7
Δ in LT debt	132	556	536	116
Other financing C/F	-31	0	0	0
Cash from Financing	60	469	421	-17

Net change in cash	162	-70	109	118
Ending Cash Balance	666	596	705	824



VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + 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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