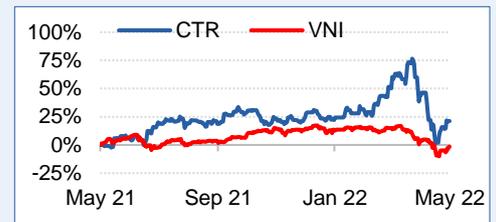


Industry: Telecom Infrastructure

Report Date: May 30, 2022

Current Price:	VND82,400
Target Price:	VND116,400
Previous Target Price:	VND115,300
Upside to TP:	+41.3%
Dividend Yield:	1.2%
TSR:	+42.5%

	2021	2022F	2023F	2024F
Rev y/y	17.1%	21.5%	20.9%	19.2%
EPS y/y	35.6%	27.8%	13.4%	23.8%
EBITDA y/y	49.2%	35.3%	38.3%	30.6%
NPM	5.0%	5.3%	5.0%	5.2%
EBTDA margin	8.4%	9.3%	10.6%	11.7%
EV/EBITDA	11.4x	8.4x	6.1x	4.6x
P/E	24.4x	19.0x	16.8x	13.6x



Market Cap:	USD330mn
Foreign Room:	USD142mn
ADTV30D:	USD3.7mn
State Ownership:	65.7%
Outstanding Shares:	92.9 mn
Fully Diluted Shares:	92.9 mn

	CTR	Peers	VNI
P/E (ttm)	23.3x	11.6x	13.8x
EV/EBITDA (ttm)	10.9x	9.0x	12.5x
Net D/E	-0.3x	1.9x	N/A
ROE	31.4%	12.6%	15.9%
ROA	10.4%	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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Attractive valuation against strong growth outlook

- 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 quickly growing backed by its strong engineering expertise.
- We keep our TP nearly unchanged as our 9% cut in aggregate 2022F-2024F EBITDA due to the towerco segment's lower-than-expected investment costs — and in turn leasing rates — being offset by (1) lower upfront capex and (2) rolling our TP from YE2022 to mid-2023.
- We project a 35% EBITDA CAGR for 2021-2024F — led by a 70% CAGR in towerco — as we project 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 44% in 2024F.
- We find CTR's 2022F-2023F EV/EBITDAs of 8.4x/6.1x compelling given its robust EBITDA growth outlook and rising contribution from towerco. Based on Bloomberg data, towercos in emerging Asian/developed markets boast five-year average EV/EBITDAs of 12x/23x, respectively.
- Key upside catalysts: Realization of parent company Viettel Group's 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.

Towerco EBITDA to surge on new telecom tower builds and improving tenancy rates. We forecast CTR's own tower count will rise to ~4,800/9,400 towers by YE2022/YE2024, respectively, which is based on our assumptions that (1) Viettel will continue to expand 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. Additionally, CTR plans to expand its other telecom infrastructure assets such as distributed antenna systems and fibers.

Smart services 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 25% and 27% for the construction and SI segments. CTR's competitive advantages lie in its deep engineering expertise, strong execution capabilities and wide presence across Vietnam that were built from its leading telecom infrastructure business.

Viettel's telecom network expansion to drive operation. We project an EBITDA CAGR of 14% in 2021-2024F for this segment that is mainly driven by Viettel's mobile telecom network expansion domestically along with contributions from overseas markets. We expect Viettel's domestic mobile and fixed telecom networks will grow by mid-single-digit and mid-teen rates per annum, respectively.

Q1 2022: Earnings jumped thank to telecom-related segments, construction

Figure 1: CTR's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	VCSC comments on Q1 2022
Revenue	1,750	2,001	14%	
Operation	900	1,264	40%	Total operation revenue growth was partly inflated by reclassification. Like-for-like revenue surged 24% YoY in Q1 2022, per CTR. Telecom operation revenue (94% of Q1 2022 revenue) surged 22% YoY thanks to 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. According to the Ministry of Information and Communication, Vietnam's fixed-line broadband subscriber base grew 14% YoY as of March 2022. Home services — in which CTR provides home appliance maintenance services for domestic customers — surged 61% YoY and accounted for 6% of Q1 2022 revenue.
Towerco	40	65	64%	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 ~2,500 at YE2021 to ~2,600 as of end-Q1 2022.
Construction	439	383	-13%	Due to revenue reclassification. Like-for-like construction revenue surged 114% YoY in Q1 2022 as CTR expanded its residential construction business.
System integration and others	371	290	-22%	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	124	151	22%	
Operation	51	63	23%	
Towerco	13	27	114%	
Construction	36	43	21%	
System integration and others	24	18	-28%	
EBITDA*	127	155	22%	
Operation	46	56	21%	
Towerco	24	41	72%	
Construction	34	41	23%	
System integration and others	23	16	-28%	
EBIT	88	112	27%	
PBT	90	112	23%	
NPAT-MI	72	88	23%	
EBITDA margin	7.2%	7.7%		
Operation	5.2%	4.4%		
Towerco	60.9%	64.1%		Thanks to a higher number of operational telecom towers.
Construction	7.7%	10.8%		Thanks to larger contribution from residential construction.
System integration and others	6.1%	5.6%		
NPM	4.1%	4.4%		

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

2022F: We trim EBITDA forecast by 4% mainly due to lower towerco investment cost, revenue projection

Figure 2: VCSC's 2022 forecasts

VND bn	2021	Old 2022F	New 2022F	YoY	VCSC comments on New 2022F
Revenue	7,454	8,815	9,049	22%	
Operation	4,164	4,608	5,065	21%	We expect Viettel's tower count in Vietnam to rise by a single-digit rate while Viettel's number of fixed-line subscribers will advance at a double-digit rate in 2022. We raise our projections thanks to better-than-expected sales momentum, which we attribute mainly to Viettel's fixed-line subscribers.
Towerco	202	418	350	74%	Tower (82% of 2022F towerco revenue; +114% YoY): We project CTR's own tower count will expand to 4,800 by YE2022 while the tenancy rate will maintain at 1.05. Other asset leasing revenue (18% of 2022F towerco revenue; +2% YoY): We project CTR's fiber capacity will widen 10% to ~3,200 km by YE2022. We lower our forecast because CTR's new investment costs and leasing rates are lower than of our expectations and the company's initial plans due to tower type mix, per CTR.
Construction	1,952	2,346	2,291	21%	Telecom construction revenue (43% of 2022F construction revenue) to slide 7% due to slow 5G deployment and CTR owning more infrastructure directly (i.e., recognized as towerco assets instead of construction revenue). Meanwhile, we project non-telecom construction (57% of 2022F construction revenue) will surge 55% 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. We raise our forecasts as construction revenue exceeded our expectations.
System integration and others	1,137	1,444	1,344	18%	Growth to be propelled by smart services such as smart lighting systems and security camera systems and engineering & mechanical (M&E) services. We cut our forecasts mainly due to weaker-than-expected momentum in energy services.
EBITDA*	621	882	843	35%	
Operation	210	233	253	13%	
Towerco	138	317	253	83%	
Construction	216	259	259	27%	
System integration and others	58	73	78	35%	
EBIT	466	619	599	28%	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	618	603	29%	
NPAT-MI	376	492	480	29%	
EBITDA margin	8.3%	8.6%	9.3%		
Operation	5.0%	4.9%	5.0%		
Towerco	68.3%	71.6%	72.2%		Thanks to a higher number of operational towers.
Construction	11.0%	9.4%	11.3%		
System integration and others	5.1%	5.3%	5.8%		
NPM	5.0%	4.1%	5.3%		

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



Valuation

In this Update Report, we roll our TP forward to mid-2023 vs YE2022 as previously. 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 0.6/0.8 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. Our applied WACC edges up 20 bps to 9.3% owing to lower debt in our projected capital structure as we trim the investment costs of the towerco segment.

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		16%	2022F-2026F average.
CTR's levered beta		0.7	

Source: VCSC

Figure 4: Summary of VCSC's valuation for CTR

Method	Weighting	Fair value (VND/share)	Contribution (VND/share)
DCF	50.0%	121,627	60,813
EV/EBITDA-based SoTP	50.0%	111,249	55,625
Target price (VND/share)			116,400
Implied 2022F/2023F P/E @ TP			26.9x/23.7x
Implied 2022F/2023F EV/EBITDA @ TP			12.3x/8.9x

Source: VCSC

Figure 5: DCF valuation for CTR

Cost of capital	Current	Previous	FCFF (five years)	VND bn
Beta	0.8	0.8	PV of Free Cash Flows	630
Market risk premium	7.0%	7.0%	PV of Terminal Val (4.0% g)	10,198
Risk-free rate	5.5%	5.5%	PV of FCF and TV	10,828
Cost of Equity	11.0%	11.0%	+ Cash & ST investments	649
Cost of Debt	6.0%	6.0%	- Debt	175
Debt %	27.2%	30.6%	- Minority Interest	0
Equity %	72.8%	69.4%	Equity Value	11,302
Corporate Tax%	20.0%	20.0%	Shares (million)	92.9
WACC %	9.3%	9.1%	Value per share, VND	121,627

Source: VCSC

Figure 6: Cash flow projections for CTR

VND bn	2022F	2023F	2024F	2025F	2026F
Earnings before interest and tax	549	647	807	993	1,200
less: tax	-110	-129	-161	-199	-240
add: depreciation	244	460	640	821	972
less: net capex	-1,047	-1,200	-1,174	-1,193	-1,214
(increase) / decrease in NWC	44	82	100	77	64
Free cash flow	-320	-141	212	500	782
PV of FCF	-306	-124	170	366	523
Cumulative PV of FCF	-306	-429	-259	106	630

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%	109,000	104,500	100,700	97,400	94,500
	3.0%	118,400	112,400	107,300	103,000	99,300
	4.0%	132,100	123,500	116,400	110,600	105,700
	5.0%	154,100	140,300	129,700	121,400	114,600
	6.0%	194,800	169,000	151,000	137,700	127,400

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	271	22	9.0	2,241	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	354	29	16.0	5,189	Towercos in developed markets boast an average EV/EBITDA of 23x over the last five years.
Construction	291	24	7.0	1,871	Based on the five-year average of TTM EV/EBITDA of domestic contractors.
System integration	88	7	7.0	563	In line with the construction segment.
Total				9,864	
Net cash				474	
Target equity value				10,338	
Outstanding share count (million)				93	
Value per share (VND)				111,249	

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	20,629	7	17	3.7	2.4	0.5	N/A	10.8	3.7	3.7
Indus Towers	India	6,937	99	69	33.5	13.7	0.8	53.8	8.4	4.8	4.4
Digital Telecom	Thailand	4,358	-0	-5	7.3	5.7	0.2	N/A	11.6	N/A	13.2
Sarana Menara	Indonesia	3,380	16	21	30.9	6.8	3.5	80.1	14.0	13.2	12.3
Tower Bersama	Indonesia	4,294	17	62	17.9	4.0	2.9	81.9	34.8	17.3	16.9
Centratama	Indonesia	437	27	18	-29.8	-4.1	7.7	N/A	N/A	N/A	N/A
Peer median		4,326	16	19	12.6	4.9	1.9	80.1	11.6	9.0	12.3
Peer mean		6,672	27	30	10.6	4.8	2.6	71.9	15.9	9.8	10.1
CTR	Vietnam	330	14	33	31.4	10.4	-0.3	8.5	23.3	10.9	8.4

Source: Bloomberg, VCSC; data as of May 30, 2022

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	116,211	20.1	37.2	57.0	4.5	5.5	69.2	43.9	25.0	28.5
Crown Castle	US	81,206	11.7	57.1	17.2	3.8	3.2	58.0	53.9	28.3	28.4
UNITI	US	2,676	3.0	N/A	N/A	3.7	N/A	77.9	14.0	9.1	8.9
SBA	US	36,495	12.5	214.2	N/A	4.4	N/A	63.7	73.3	33.8	31.3
JTower	Japan	982	20.4	27.2	5.8	3.1	-0.9	40.2	192.9	65.4	N/A
Cellnex	Spain	32,020	61.5	-170.4	-3.8	-1.2	0.9	72.2	N/A	23.5	24.4
INWIT	Italy	10,856	6.8	29.7	4.7	2.3	0.9	90.1	46.8	19.5	19.7
RAI Way	Italy	1,577	3.6	3.7	39.5	18.3	0.5	61.6	21.6	11.0	10.9
Peer median		36,495	12.5	47.1	17.2	3.8	3.2	63.7	53.9	28.3	28.4
Peer mean		35,253	17.5	28.4	20.1	4.9	1.7	66.6	63.8	26.9	21.7
CTR	Vietnam	330	14	33	31.4	10.4	-0.3	8.5	23.3	10.9	8.4

Source: Bloomberg, VCSC; data as of May 30, 2022

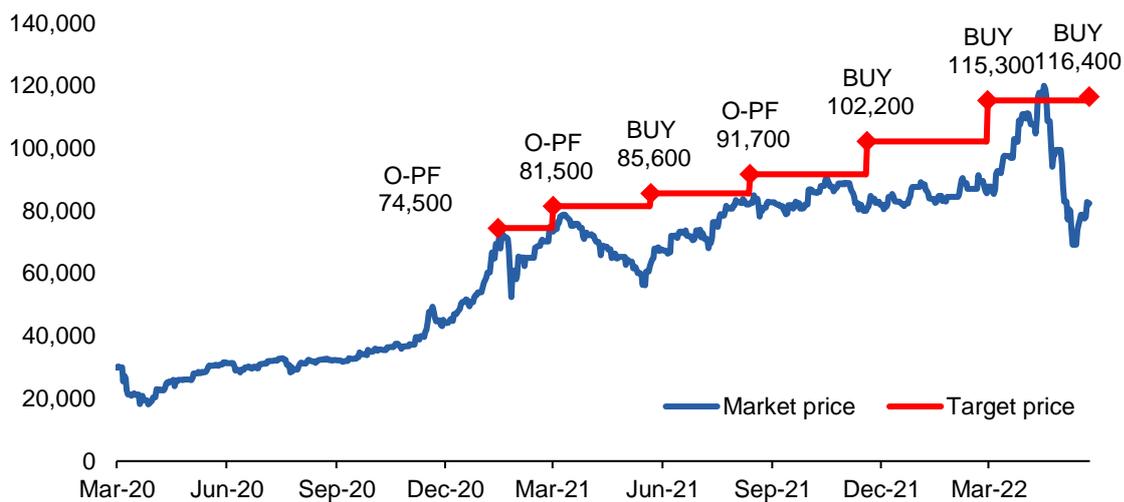
Figure 11: CTR's TTM EV/EBITDA vs peers (x)



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	7,447	9,049	10,944	13,048
COGS	-6,819	-8,260	-10,008	-11,893
Gross profit	628	789	935	1,155
Sales & Marketing exp	0	0	0	0
General & Admin exp	-161	-190	-230	-274
Operating Profit	467	599	705	881
Financial income	13	30	31	37
Financial expenses	-7	-24	-52	-70
- o/w, interest expense	-6	-24	-52	-70
Associates	0	0	0	0
Net other income/(loss)	-1	-1	-1	-1
Profit before Tax	472	603	684	846
Income Tax	-96	-123	-140	-173
NPAT before MI	375	480	544	673
Minority interests	0	0	0	0
NPAT less MI, reported	375	480	544	673
NPAT less MI, adjusted ⁽¹⁾	375	480	544	673
EBITDA	623	843	1,165	1,521
EPS basic reported, VND	3,384	4,326	4,906	6,073
EPS basic adjusted ⁽¹⁾ , VND	3,384	4,326	4,906	6,073
EPS fully diluted ⁽¹⁾ , VND	3,384	4,326	4,906	6,073
DPS, VND	1,000	1,300	1,400	1,800
DPS/EPS (%)	29.6%	30.1%	28.5%	29.6%
(1) Adjusted for one-offs				
RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue growth	17.1%	21.5%	20.9%	19.2%
EBITDA growth	49.2%	35.3%	38.3%	30.6%
PBT growth	36.6%	27.8%	13.4%	23.8%
EPS growth, adjusted	35.6%	27.8%	13.4%	23.8%
Profitability ratios				
Gross Profit Margin	8.4%	8.7%	8.5%	8.9%
EBIT margin	6.3%	6.6%	6.4%	6.8%
EBITDA margin	8.4%	9.3%	10.6%	11.7%
NPAT-MI Margin, adj.	5.0%	5.3%	5.0%	5.2%
ROE	31.6%	32.7%	30.4%	31.0%
ROA	9.6%	10.4%	9.2%	9.3%
Efficiency ratios				
Days Inventory On Hand	33.1	27.7	27.7	27.9
Days Accts, Receivable	54.6	48.2	47.8	47.2
Days Accts, Payable	30.4	20.0	20.0	20.2
Cash Conversion Days	57.3	55.9	55.5	54.9
Liquidity/Solvency				
Current Ratio x	1.2	1.1	1.1	1.1
Quick Ratio x	1.0	0.9	0.9	0.9
Cash Ratio x	0.3	0.2	0.2	0.2
Debt / Assets x	0.0	0.1	0.2	0.1
Debt / Capital x	0.1	0.3	0.3	0.3
Net Debt / Equity x	-0.4	-0.1	0.1	0.1
Interest Coverage x	72.7	24.5	13.7	12.5

Source: Company data, VCSC

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	666	613	742	884
ST investments	100	100	100	100
Accounts receivable	1,079	1,311	1,556	1,819
Inventories	567	687	832	989
Other current assets	621	755	913	1,088
Total Current Assets	3,034	3,466	4,142	4,880
Fixed assets, gross	1,308	2,356	3,556	4,730
- Depreciation	-381	-624	-1,084	-1,724
Fixed assets, net	928	1,731	2,472	3,006
LT investments	0	0	0	0
Other LT assets	16	10	2	-7
Total LT assets	944	1,741	2,474	2,998
Total Assets	3,978	5,207	6,616	7,878
Accounts payable	416	504	610	725
Short-term debt	31	37	45	53
Other ST liabilities	2,055	2,498	3,020	3,601
Total current liabilities	2,502	3,038	3,675	4,380
Long term debt	150	534	970	1,094
Other LT liabilities	14	14	14	14
Total liabilities	2,665	3,586	4,659	5,487
Preferred Equity	0	0	0	0
Share premium	0	0	0	0
Paid in capital	929	929	929	929
Retained earnings	383	692	1,028	1,462
Other equity	0	0	0	0
Minority interest	0	0	0	0
Total equity	1,313	1,622	1,957	2,391
Total liabilities & equity	3,978	5,207	6,616	7,878
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	613	742
Net Income	375	480	544	673
Dep, & amortization	155	244	460	640
Change in Working Cap	-40	44	82	100
Other adjustments	95	-78	-88	-109
Cash from Operations	585	690	997	1,304
Capital Expenditures, net	-395	-1,047	-1,200	-1,174
Investments, net	-88	7	8	9
Cash from Investing	-483	-1,041	-1,192	-1,164
Dividends paid	-72	-93	-121	-130
Δ in Share Capital	0	0	0	0
Δ in ST debt	31	6	8	8
Δ in LT debt	132	384	437	123
Other financing C/F	-31	0	0	0
Cash from Financing	60	298	324	2
Net change in cash	162	-53	128	142
Ending Cash Balance	666	613	742	884

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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