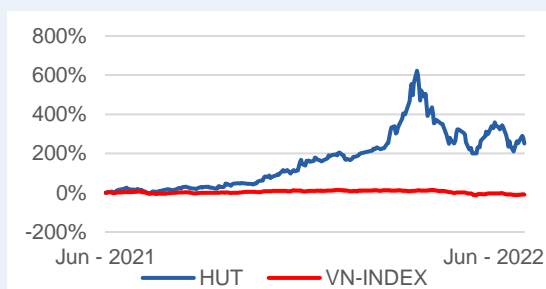


# Tasco JSC (HUT) [NOT RATED]

# Company Visit Note

<b>Industry:</b>	<b>Infrastructure</b>		<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Report Date:</b>	<b>July 1, 2022</b>	Rev Growth	-2.6%	-32.2%	16.0%
<b>Current Price:</b>	<b>VND26,600</b>	EPS YoY	-30.6%	-543.1%	N.M.
<b>Dividend Yield:</b>	<b>0.0%</b>	GPM	30.9%	11.3%	32.2%
		NPM	4.8%	-31.3%	7.1%
		EV/EBITDA*	13.9x	34.2x	37.8x
		ROE	6.7%	-2.1%	5.0%
		PER*	12.2x	N.M.	152.1x

\* Valuations based on historical share prices — except 2021, which is based on current share price.



			<b>HUT</b>	<b>Peers</b>	<b>VNI</b>
Market Cap:	USD403.2mn	PER (ttm)	52.7x	23.4x	13.3x
Foreign Room:	USD198.6mn	P/B (curr)	2.4x	0.8x	2.0x
ADTV30D:	USD6.1mn	Net D/E	1.2x	1.6x	N/A
State Ownership:	0.0%	ROE (ttm)	5.0%	4.5%	15.6%
Outstanding Shares:	348.6 mn	ROA (ttm)	1.7%	0.9%	2.5%

## Company Overview

Tasco JSC (HNX: HUT) is a leading transportation infrastructure construction enterprise in northern Vietnam. HUT is currently the largest electronic toll collection (ETC) system developer in Vietnam as it operates 104 of 114 ETC booths in the country.

**Ha Bui**  
Analyst  
[ha.bui@vcsc.com.vn](mailto:ha.bui@vcsc.com.vn)  
+84 28 3877 1043 ext. 364

**Duc Vu**  
Senior Manager  
[duc.vu@vcsc.com.vn](mailto:duc.vu@vcsc.com.vn)  
+848 3914 3588 ext. 363

## Ambitious restructuring plan

- We provide an update on Tasco JSC (HNX: HUT), which is a leading transportation infrastructure construction enterprise in northern Vietnam. HUT has planned a major restructuring of its business activities in 2022-2027.
- HUT's revenue marginally improved to VND239.9bn (+0.5% YoY) in Q1 2022 despite revenue of the real estate segment plummeting to VND8bn (-70% YoY). However, HUT recorded NPAT-MI of VND89bn (+486.8% YoY) due to surge in financial income thanks to its 51% divestment from T-Hospital.
- HUT is currently trading at a TTM PER of 52.7x and LQ PBR of 2.4x — 125% and 202% premiums vs our selected peer group medians of 23.4x and 0.8x, respectively, which could reflect the higher expectations of investors regarding the company's business restructuring moving forward.
- HUT's 2022G revenue guidance is VND 11,400bn (+1,210% YoY), which is achievable if (1) the business restructuring successful, (2) the remainder of the T-Hospital divestment is on track and (3) electronic toll collection (ETC) becomes commonly used.
- Risks: (1) Delay in use of ETC systems; (2) dilution risk from upcoming stock issuance (see pages 9-10).

**Application of ETC systems will directly benefit HUT's operating results.** Although ETC booths began to be piloted in 2016, the new toll collection method did not become popular among drivers due to (1) their habits of using manual toll collection (MTC) and (2) several issues with ETC systems lowering the motivation for drivers to try ETC. However, the Government has encouraged the use of ETC system and piloted the full use of ETC systems at select toll plazas, which has stimulated the installation of ETC ID cards among drivers. As a result, we expect ETC systems to become a more popular method of toll collection moving forward and ultimately replace traditional MTC systems, which would benefit HUT as the company operates 91% of ETC booths in Vietnam.

**Successful restructuring plan will benefit HUT in both the short and long term.** At HUT's 2022 AGM, management stated that it plans to restructure its board of directors and business activities (see pages 8-11). If the company can successfully complete (1) the full divestment from the healthcare segment and (2) its plan to acquire SVC Holdings in exchange for new shares in HUT — which would result in the consolidation of SVC Holdings' subsidiary Saigon General Service Corp (HOSE: SVC) — HUT's revenue and operating profit would jump. Over the long term, management believes that the restructuring plan will enable HUT to develop an ecosystem in which complementary business segments can mutually support each other.

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## Company Overview

We provide and update on the company following our last report, [HUT – Focus on real estate will support growth and ease dilution risk](#), published November 27, 2017. We again provide a brief company background and history; new developments are discussed starting on page 8.

**Tasco JSC (HNX: HUT)** — formerly known as Nam Ha Bridge Team — was established in 1971. Starting as a State-owned enterprise, HUT transformed its business model into a JSC in November 2000. The company has operated in transportation infrastructure construction since its establishment and previously diversified its business activities by expanding into several new industries (healthcare, tax services and food & beverage, among others). Currently, HUT specializes in operating toll plazas (BOT/ETC), infrastructure construction and real estate and has side businesses that include electrical installation and other services.

**Figure 1: HUT overview**

Company Overview						
VND bn		<b>Tasco JSC (HNX: HUT)</b>				
Revenue in 2021 = 873.6						
Gross Profit in 2021 = 280.0						
		Toll collection	Service*	Real estate	Construction	Electrical
2021	Revenue	625.5	149.9	56.1	13.0	2.2
	% total revenue	74.7%	17.2%	6.4%	1.5%	0.2%
2021	Gross profit	222.1	47.1	9.3	0.5	1.1
	% total profit	79.3%	16.8%	3.3%	0.2%	0.4%

Source: HUT, VCSC. Note: \* Service includes Tasco service, healthcare service and ETC ID card installation.

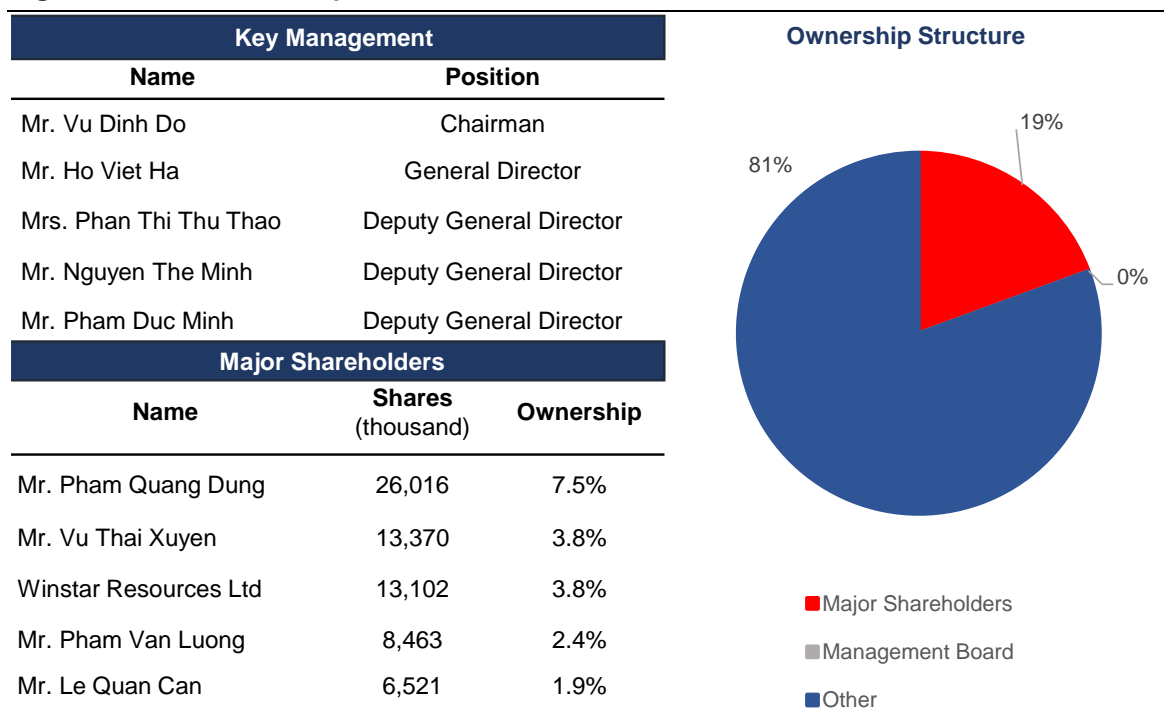
## Fragmented shareholder structure

**HUT has a fragmented shareholder structure with ~72% of its total stake owned by individual investors.** Mr. Pham Quang Dung is the largest shareholder of the company as he has a 9.68% stake. However, with Mr. Dung's resignation as chairman in October 2021, there are no members of the board of directors (BOD) or management board that are among HUT's major shareholders. Specifically, the current chairman, vice chairman and BOD members do not hold or only hold a relatively small proportion of HUT's stake.

**Figure 2: HUT's old BOD vs new BOD as of end H1 2022**

Title	Old BOD	New BOD	Date of transition	Note
Chairman	Mr. Ho Viet Ha	Mr. Vu Dinh Do	April 2022	
Vice chairman	Mr. Nguyen Huy Tuan	Mr. Ho Viet Ha	April 2022	Chief executive officer (CEO)
		Mr. Nguyen Danh Hieu	April 2022	
		Mr. Tran Duc Huy	April 2022	
		Mr. Nguyen The Minh	April 2022	
BOD member	Mrs. Pham Thi Chi	(Resigned)	April 2022	Mr. Pham Quang Dung's daughter
	Mrs. Tran Thi Thanh Tan	Phan Thi Thu Thao	April 2022	
	Mrs. Tran Hai Yen	Dinh Duc Tung	April 2022	

Source: HUT, VCSC


**Figure 3: HUT's ownership structure as of H1 2022**


Source: HUT, VCSC

## One of Vietnam's leading transportation infrastructure construction companies

**HUT is a leading transportation infrastructure construction company in northern Vietnam.** As a leading enterprise in the infrastructure construction segment, the company has received several public-private partnership (PPP) contracts. The infrastructure construction segment (including toll collection and construction) has typically accounted for the highest proportion of the company's total revenue.

The company handles three types of PPP contracts: build-transfer (BT), build-operate-transfer (BOT) and build-own-operate (BOO). For BOT and BOO projects (which are used for toll collection), HUT is allowed to operate the toll stations for a period of time (agreed upon in the contract) to recoup its investment and receive profit. Meanwhile, HUT will transfer projects under BT contracts back to the Government after completion and receive compensation by the approval from the Government to deploy other projects.

**Figure 4: HUT's transportation infrastructure construction contract type**

HUT's infrastructure construction contract type			
Contract type	Build-Transfer (BT)	Build-Operate-Transfer (BOT)	Build-Own-Operate (BOO)
Construction	Private sector	Private sector	Private sector
Operation	Government	Private sector	Private sector
Ownership	Government	Private sector during construction, then the Government	Private sector during contract, then the Government
Benefit for private sector	Government allows the private sector to have other project for payment	Governments let the private sector operate the project for a period of time (agreed upon in the contract)	Government lets the private sector operate the project for a period of time (agreed upon in the contract)
HUT's current projects	Le Duc Tho BT project	BOT 39 in Thai Binh Province; BOT Dong Hung-Thai Binh	ETC booths operated by HUT's subsidiary VETC

Source: HUT, VCSC

**HUT is the biggest BOT & ETC developer in Vietnam.** In terms of revenue from toll collection, HUT is the among the largest BOT developer in the country. The company currently operates five toll plazas, four of which are located in northern Vietnam and link Hai Phong with Nam Dinh and Thai Binh provinces. The company decided to stop the investing in new BOT projects in 2017 due to a fixed IRR of ~11.5% and remains operating its initial BOT projects without new investment in this segment. Notably, the BOT Highway 10 (Dong Hung – Thai Binh) put into operation in 2021 is a replacement for Tan De BOT (operated in 2014) which was supposed to be operate in 12.3 years.

**Figure 5: HUT's BOT projects under operation**

Project	Location	Total investment (VND bn)	HUT's stake	Commencement of operation	Concession period (years)
BOT Highway 21	Nam Dinh – Thai Binh	487	100%	August 2009	17.2
BOT Highway 1A	Quang Binh	1,829	100%	July 2015	16.8
BOT Highway 39	Thai Binh	483	51%	January 2017	18
BOT Highway 10	Hai Phong	2,813	100%	January 2019	16
BOT Highway 10	Dong Hung – Thai Binh	434	100%	June 2021	7

Source: HUT, VCSC

The company established VETC JSC in 2015 to research and apply ETC systems in Vietnam with American radio frequency identification (RFID) technology. In July 2016, VETC JSC successfully signed a BOO contract with the Government to install ETC booths in Vietnam. Currently, HUT has installed and operated ETC systems for 104/114 toll booths and 535 lanes in Vietnam, which accounts for approximately 91% of toll booths in Vietnam using ETC systems, according to Vietnam Expressway Corporation Chairman Mr. Truong Viet Dong.

### Real estate projects have shown limited progress

**HUT's current real estate projects have been postponed.** As mentioned in our November 2017 report [HUT – Focus on real estate will support growth and ease dilution risk](#), the company planned to focus on real estate as a new core business. However, this plan did not go well because HUT's ongoing projects have been postponed while the latest projects mostly recorded revenue in 2016-2018. As a result, the real estate segment has recorded relatively low results since 2018. Notably, all of the company's current projects are under administrative formalities and/or land clearance and have recorded almost no progress since 2018.

**Figure 6: HUT's ongoing real estate projects**

Project	Location	Total investment (VND bn)	Total area (ha)	Current status
Foresa My Dinh	Nam Tu Liem	3,000	31.4	Land clearance & administrative formality
48 Tran Duy Hung project	Cau Giay	685	0.2	Land clearance & administrative formality
Apartment building for foreign affairs' employees	Cau Giay	2,366	1.4	Administrative formality
Duong Dinh Nghe office building	Cau Giay	700	0.3	Administrative formality

Source: HUT, VCSC

**Expectations for real estate remains high thanks to well-positioned land bank.** Since HUT's most recent business restructuring period in 2015, the company's strategy has focused on gaining access to valuable land for real estate activities by pursuing Government BT projects. Through this method, HUT has built nearby infrastructure in exchange for Government land, which has helped to (1) reduce acquisition costs and (2) accelerate the land clearance process. As a result, some of the company's ongoing projects are located in well-positioned locations. In fact, Foresa My Dinh and 48 Tran Duy Hung project's land bank are the compensation for the construction of Le Duc Tho BT project. To date, HUT's ongoing projects are all located in Hanoi, including the two aforementioned projects and two other projects located in Cau Giay.

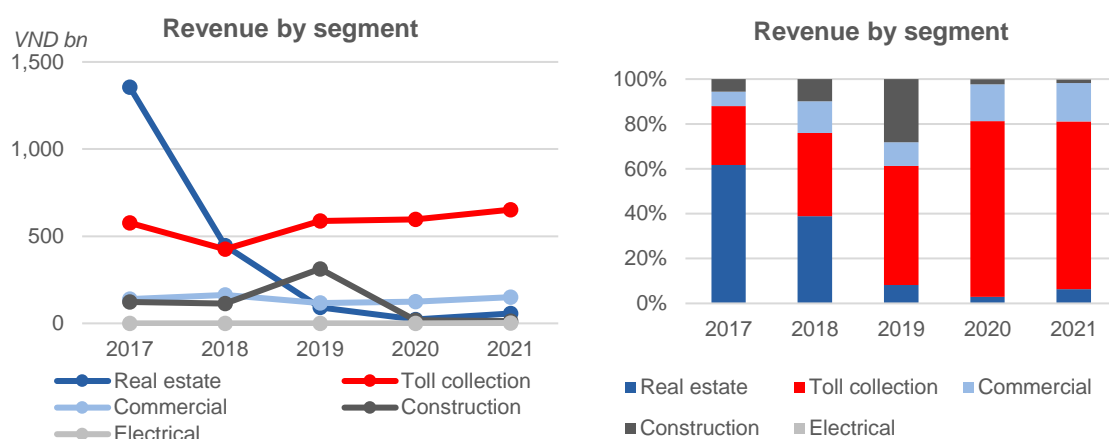
As all of the company's ongoing real estate projects have not started construction, we believe the real estate segment will not flourish in 2022. However, management aims to achieve revenue of VND2.9tn from its real estate projects in 2023-2024.

## Historical Performance

**Toll collection has been HUT's main source of revenue since 2019.** In 2016-2018, the company's main source of revenue was real estate as the Foresa Xuan Phuong Villa, Xuan Phuong Residence and South Building all finished construction and were put on sale. However, all of HUT's current real estate projects have been delayed. As a result, the toll collection segment accounted for the largest proportion of revenue in 2019-2021.

Despite the high fluctuation of revenue from the real estate segment, all other segments provided relatively stable cash inflows for HUT in 2017-2021, implying that the real estate segment is the launching pad for HUT's annual operating results while other segments provide stable cash inflows. As the real estate segment has recorded weak operating profit since 2019 due to the postponement of projects, HUT's overall operating profit has been weak.

**Figure 7: HUT's revenue by segment in 2017-2021**

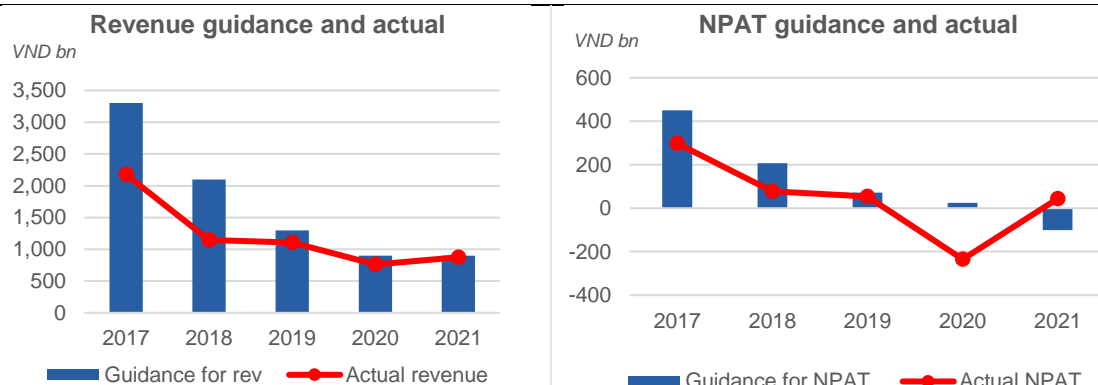


Source: HUT, VCSC

**HUT has set ambitious guidance every year but mostly failed to achieve it.** Even though the company has set its guidance lower annually, it has mostly not achieved its targets. According to management, the company's failure to achieve its guidance is primarily due to delayed payments from clients and other BOT investors as well as the unfamiliarity of car owners with the new ETC systems.

In 2017-2021 period, 2021 was the only year that the company was able to achieve its revenue guidance and surpass its NPAT guidance. While this could be viewed as a sign of the company actually measuring its ability and having achievable plans, we believe this achievement was not the result of a more effective operating plan. In fact, the reason why the company was able to achieve its guidance was because HUT divested from non-core businesses including two of its subsidiaries three of its affiliates in 2021 and focused its resources on key segments instead. HUT therefore recorded a ~7x increase in financial revenue at end-2021.

**Figure 8: HUT's guidance vs its actual revenue and NPAT in 2017-2021**



Source: HUT, VCSC



## Q1 2022 Recap

**Revenue edged up to VND239.9bn (+0.5% YoY) in Q1 2022.** As the company's core business is infrastructure construction (toll collection & construction), the relaxation of COVID-19 restrictions has had a positive impact on the company's operating profit. Revenue from toll collection edged up to VND179bn (+3.2% YoY) as restrictions were lifted and in turn lead to increased demand for transportation as people had been unable to travel for a significant period. In addition, revenue from the construction segment soared ~240% YoY as construction activities resumed following the end of COVID-19 restrictions. However, the real estate segment's revenue plunged due to (1) the delay in administrative formality and in construction of current projects and (2) all existing projects being mostly sold out. As a result, HUT recorded only a marginal 0.5% YoY increase in revenue for Q1 2022.

**Figure 9: HUT's Q1 2021 and Q1 2022 results**

VND bn	Q1 2021	Q1 2022	YoY	VCSC's comments
<b>Revenue</b>	<b>239</b>	<b>240</b>	<b>0.5%</b>	
<i>Real estate</i>	28	8	-70.2%	Plummeted as all real estate projects are pending and there are almost no projects left to sell.
<i>Toll collection</i>	174	179	3.2%	Slightly improved thanks to (1) the end of COVID-19 restrictions and (2) increased number of ETC identification cards.
<i>Services</i>	33	40	22.3%	
<i>Construction</i>	4	12	239.7%	
<i>Electrical</i>	0	0	N/A	
Sales deductions	-2	0	103.5%	
COGS	-146	-141	-3.7%	
<b>Gross profit</b>	<b>91</b>	<b>99</b>	<b>9.5%</b>	
SG&A expense	-30	-38	26.7%	
Share or profit from associates and JVs	0	2	555.4%	
<b>Operating profit</b>	<b>60</b>	<b>63</b>	<b>4.4%</b>	
Net financial income (expenses)	-82	51	N.M.	Soared as HUT divested 51% of its stake in T-Hospital
Other income (expenses)	0	0	N/A	
<b>PBT</b>	<b>-22</b>	<b>114</b>	<b>N.M.</b>	
Tax expense	-3	-26	-775.4%	
<b>NPAT</b>	<b>-25</b>	<b>88</b>	<b>N.M.</b>	
Minority interests	-1	-1	-42.1%	
<b>NPAT-MI</b>	<b>-23</b>	<b>89</b>	<b>N.M.</b>	
<b>GPM</b>	<b>38.0%</b>	<b>41.4%</b>	<b>3.4 pts</b>	
<b>NPM</b>	<b>-9.7%</b>	<b>37.2%</b>	<b>46.8 pts</b>	

Source: HUT, VCSC

**GPM and NPM improved in Q1 2022.** In Q1 2022, the company successfully improved its overall operating profit by (1) increasing revenue and (2) cutting down on COGS. As a result, GPM improved 3.4 pts YoY to 41.4% in Q1 2022. Thanks to the divestment from T-Hospital — HUT's subsidiary in the healthcare segment — the company's net financial income surged to VND51bn from a negative base in Q1 2021. Therefore, NPAT-MI rebounded to VND89bn while NPM climbed to 37.2% (+46.8 pts YoY).

## Outlook

We expect HUT to benefit from (1) the increased installation and use of ETC systems and (2) the potential business restructuring to diversify the company's business activities.

### ETC — the future of toll collection

**The number of cars with ETC ID cards jumped in 2022.** ETC system is less time consuming and more efficient compared to MTC system. Despite these advantages, people have been slow to adopt the new technology. However, the Government and ETC-related companies have deployed free ETC card installation and have also fined vehicles without ETC ID cards that use ETC lanes, which has increased the number of ETC ID cards from 2.3 million cars (51% of cars in Vietnam) at end-2021 to 3.2 million cars (69% of cars in Vietnam) as of end-June 2022. Moreover, the Directorate for Roads of Vietnam (DRVN) decided to pilot the application of a 100% ETC system for the Hanoi – Hai Phong highway starting on June 1, 2022 for 32/62 lanes and all six toll booths. As a result, we expect the number of ETC IDs card to continue increasing at a fast rate moving forward.

**The number of cars using ETC lanes skyrocketed in 2022, taking over a portion of traditional MTC usage.** Even though ETC booths have been experimented since 2015, this type of toll collection has only recently become more popular. The increase in the number of cars using ETC lanes so far this year has been thanks to (1) heightened promotion and (2) the Government's desire to increase the application of ETC systems. As mentioned earlier, the Government and DRVN have fined cars that do not have ETC ID cards and use ETC lanes; in addition, full use of ETC lanes on the Hanoi – Hai Phong Highway started in June 2022. These decisions from the Government and DRVN have increased the number of cars with ETC ID cards to 3.2 mn cars (70% of cars in Vietnam) as of end-June 2022. As a result, the use of ETC lanes jumped from 30%-35% of total vehicles to 61%-65% of total vehicles that use the Hanoi – Hai Phong Highway. As the operator of 104/114 ETC booths in Vietnam and due to its potential to become one of the main domestic car dealers (via its plan to earn full ownership in SVC Holdings, which is mentioned later in this report), we expect HUT to be the main beneficiary of (1) increased ETC ID card installation and (2) the familiarity of drivers with ETC systems moving forward.

**HUT won the bidding to install ETC systems on four highways of Vietnam Expressway Development Investment Corp (VEC).** In June 2022, HUT won VEC's bidding package to install ETC systems with a bid of VND694bn, beating Viettel Construction JSC and BON JSC. According to the contract terms, HUT will install ETC systems on four highways that VEC manages (which have to be completed by the end of July 2022) and operate them within 64 months.

### Restructuring of business activities to support future earnings

**HUT plans to implement substantial changes in its initial business lines in 2022-2027.** At the company's April 2022 AGM, HUT announced its plan to divest from the healthcare segment and develop three additional business lines: (1) an auto dealership, (2) insurance and (3) luxury resorts. Management believes that its planned new ecosystem called "Foundation of life" can fulfill the majority demand for investment of Vietnamese clients, including demand for (1) transportation & transportation infrastructure and (2) future needs of insurance and resort tourism.



**Figure 10: HUT's new ecosystem — "Foundation of life"**


Source: HUT, VCSC

**HUT plans to issue new shares in 2022 as preparation for its future restructuring plan.** With the restructuring of its businesses to build the "Foundation of life" ecosystem, HUT will divest from the healthcare segment and participate in the insurance industry. The company has proposed to issue 116 million new shares to raise an additional ~VND1.2tn worth of stock (at par value of VND10,000/share) to finance Tasco Land Ltd., Co, and buy a new insurance company. Specifically, VND550bn will be used to finance Tasco Land Ltd., Co and upcoming real estate projects while VND612bn will be used to buy an insurance company. The new share issuance will be via rights issue with an exchange rate of 3:1 (i.e., for every three shares owned, an investor has the right to purchase an additional share). HUT has not yet announced the insurance company it will purchase.

HUT plans to issue an additional 544 million shares in October 2022 to acquire SVC Holdings. HUT targets to acquire 100% of SVC Holdings with these new shares at an exchange rate of 1:1 (i.e., for every share of SVC Holdings stock held by initial shareholders, they will receive one share of HUT).

**Figure 11: HUT's current charter capital increase plan**

Reasons	Share issuance (mn shares)	Worth (VND bn)	Methodology	Exchange rate	Planned commencement
Increase capital in Tasco Land Ltd. co	55	550	Rights issue	3:1	Q3 2022
Buy/invest in an insurance company	61	612	Rights issue	3:1	Q2 2022
Exchange for 100% stake in SVC Holdings	543.9	5,439	Issue new stock to acquire SVC Holdings	1:1	October 2022
<b>Total</b>	<b>660.1</b>	<b>6,601</b>			

Source: HUT, VCSC

**The acquisition of SVC Holdings for new shares is a bold move for HUT to enter the auto dealership industry.** HUT plans to acquire SVC Holdings — the biggest shareholder of SVC (~54% total stake) — for new shares in HUT. SVC is the biggest auto dealer in Vietnam as it has ~11.2% of the domestic auto market share and distributes 12 automobile brands, per Vietnam Automobile Manufacturers' Association (VAMA). According to SVC's management, the company accounted for 22% domestic market share of Toyota, 33% domestic market share of Ford and 8% domestic market share in the luxury car segment (as the sales agency of Volvo) as of end-2021.

**Figure 12: SVC Holdings' subsidiaries**

Subsidiaries	Ownership (%)	Business activities	Note
Saigon General Service Corp (HOSE: SVC)	54.1%	Distributor of 12 car brands Real estate developer	SVC ownership as of Q1 2022
Savico Hanoi JSC	100%	Distributor of Toyota and Ford Operator of Long Bien SVC Megamall	• 70% stake of SVC Hanoi.
Bac Au Automobile Corp	80.0%	Distributor of Volvo	• 39.8% stake of Bac Au Automobile Corp.
Dana Ford Ltd., Co.	59.8%	Distributor of Ford	• 40.3% stake of Dana Ford Ltd., Co.

Source: Viettime.vn, SVC, VCSC

If HUT acquires SVC Holdings, SVC would become HUT's indirect subsidiary. However, as SVC Holdings and its other subsidiaries (apart from SVC) are not listed, it is difficult to estimate the extent of potential EPS dilution or enhancement from this proposed acquisition for HUT shareholders.

**Figure 13** shows an initial rough estimate based on (1) an assumption that SVC contributes 100% of SVC Holdings' NPAT, (2) applying the proposed share swap retrospectively to 2021 reported profits, and (3) ignoring the other (smaller) share issues and investments shown in **Figure 11** and any potential synergies.

With an additional ~544 million HUT shares and combined NPAT of VND175bn, we estimate a retrospective 2021 EPS for the combined companies of VND178 — slightly higher than HUT's reported 2021 EPS of VND175. However, this may be viewed as a conservative indication of future earnings if (1) there is a material contribution to profits from the other three subsidiaries of SVC Holdings and (2) HUT is able to achieve positive synergies (e.g., via cost savings or enhanced revenue via cross-selling to each company's customer bases). However, we note that SVC experienced negative NPAT growth with a CAGR of -11% in 2018-2021; in addition, there is always some execution risk with substantial M&A transactions.

**Figure 13: HUT's estimated 2021 EPS under M&A scenario with SVC Holdings**

		NPAT (VND bn)	NPAT of combined company (VND bn)	Total shares (million)	EPS (VND)
Before M&A	Tasco JSC	61	61	349	175
After M&A	Tasco JSC	61	175	893	178
	SVC Holdings*	114			

Source: HUT, SVC, VCSC. Note: \*Assuming SVC accounted for 100% of SVC Holdings' recorded profit; the estimation uses HUT and SVC's data as of end-2021.

HUT has also shown ambition to import new luxury car brands to Vietnam and expand its market share in the luxury car segment. According to management, the company's 2022 year-end target is to bring at least one new luxury car brand to Vietnam, which we believe shows the future scope of the company to target and develop an affluent customer base. In 2022 and 2023, the company expects its automobile dealership segment to become the main contributor in terms of revenue at 96% and 91%, respectively.

**Figure 14: HUT's guidance for future revenue**

Segment	Unit	2022	2023	2024*
Auto dealership	VND bn	10,944	32,760	27,020
Others	VND bn	456	3,240	11,580
Total revenue	VND bn	11,400	36,000	38,600

Source: HUT, VCSC. Note: \* HUT expects that growth in other segments will be driven by growth in the insurance segment.

**Insurance is a new business segment that HUT expects to add value to its whole ecosystem.**

At its 2022 AGM, the company mentioned its desire to enter insurance industry with a focus on non-life insurance. According to management, insurance has high potential due to 1) currently low spending on insurance by Vietnamese people, (2) increasing living standards in Vietnam and (3) the "Foundation of life" ecosystem that HUT is developing. With its entry into the insurance segment, HUT expects to improve the experience of its customers by being able to provide additional services such as car insurance and home insurance. According to management, HUT is completing the M&A process with a currently operating insurance company and has nearly completed negotiation. Therefore, we expect the insurance company's name to be disclosed in H2 2022.

**Luxury resorts are expected to bring stable cash inflows after the restructuring.** For the 2022-2027 restructuring, HUT has decided add luxury resorts to its new ecosystem. Per management, the additional cash from upcoming stock issuance that will be is used to finance Tasco Land — a subsidiary of HUT operating in real estate segment — will be used to invest in Ninh Van Bay Travel Real Estate JSC (HOSE: NVT). Specifically, NVT is the owner & operator of two luxury resorts: Six Senses Ninh Van Bay and Ana Mandara Villas Da Lat. These luxury resorts are expected to record stable cash inflows — especially as people have started to travel again after COVID-19. Notably, the revenue of Six Senses Ninh Van Bay and Ana Mandara Villas Da Lat jumped 55% and 57% in 5M 2022, respectively. Positive operating results are expected moving forward as demand for travel remains high.

As HUT is targeting the middle and upper-class customers with its current business restructuring, the luxury resort segment could benefit from cross selling thanks to the newly achieved upper-class customer base. We believe this is a doable plan as SVC Holdings' customer base is mostly middle and upper class, so HUT will only need to develop the existing customer base. Additionally, both of NVT's resorts are well known, which should make it easier to proceed with the cross-selling plan.

**At HUT's April 2022 AGM, management stated that the company will divest from the healthcare segment.** In Q1 2021, the company divested 51% of its total stake in T-Hospital, which recorded VND117bn of financial income. According to management, the company will continue its plan to fully divest from the healthcare segment with a target to complete the divestment by end-2022. As a result, we expect the company to record at least ~VND112bn from the divestment by the end of this year. At the AGM held in April 2022, management also announced it will not proceed the construction of a new hospital as stated in the 2021 annual report.

## Company Guidance

**Management targets to increase 2022G gross revenue by 1,210% YoY.** Specifically, HUT targets to increase its revenue to VND11,400bn in 2022F. We believe this ambitious guidance shows the company's belief in (1) the current restructuring of its BOD and business ecosystem as well as (2) the post-COVID economic recovery. In 2022, revenue will mainly come from the automobile dealership segment (96%), whereas other segments will only account for 4% total revenue, per management. Even though a 12x increase in revenue appears ambitious, HUT could achieve this guidance if it can successfully complete its stock conversion plan with SVC Holdings that would include SVC Holdings' operating results in HUT's 2022 consolidated financial statement.

**The company has a more conservative view for NPAT in 2022G.** HUT raised its guidance for NPAT to VND250bn (+466% YoY) in 2022G. We believe the lower guidance for NPAT compared to revenue is due to (1) the company's concern regarding high construction material prices that that could harm the construction and real estate segments' profit margins and (2) BOT and ETC projects that are still under a depreciation period, thus leading to high expenses. Despite these concerns, we find the company's NPAT 2022 guidance to be still ambitious — even with the HUT's potential restructure plan. However, if (1) the stock conversion plan with SVC Holdings and (2) the divestment T-Hospital divestment are successful, we believe the company can reach or even surpass its 2022 guidance.

**Figure 15: HUT's guidance for 2022G (VND bn)**

Indicator	2021	2022G	% change
Revenue	870	11,400	1,209.8%
NPAT	44	250	466.2%

Source: HUT, VCSC

## Valuation

For peer references, we select listed Vietnamese players operating in the same segments as HUT. As infrastructure construction and real estate are the company's main businesses, we have selected Vietnamese players in these segments as HUT's peers. However, as there is not an identical enterprise in the market that participates in both the infrastructure construction and real estate segments, we have separated the peers by business segments and calculated the blended median for all of the companies to compare with HUT.

**HUT is currently trading at a TTM PER of 52.7x and LQ PBR of 2.4x — a 125% and 202% premium to its respective peer group medians.** We believe HUT's high PER and PBR reflect the high expectations of investors regarding the company's future earnings from its restructuring, leading to merger with SVC Holdings and year-end financial statement consolidation with SVC.

**Figure 16: Peer comparison**

Ticker	Mkt Cap (USD mn)	TTM Sales Growth (%)	TTM EPS Growth (%)	ROE (%)	ROA (%)	Net D/E	NPM (%)	LQ PBR (x)	TTM PER (x)
<b>Transportation infrastructure</b>									
IJC VN Equity	181.1	(22.8%)	(7.9%)	13.8%	7.5%	0.3x	29.3%	1.2x	8.9x
CII VN Equity	187.6	(55.5%)	2404.9%	6.1%	1.0%	1.9x	11.9%	0.8x	13.7x
CTI VN Equity	31.8	(17.8%)	N/A	(0.6%)	(0.2%)	2.2x	(0.9%)	0.7x	N/A
FCN VN Equity	91.4	3.0%	(65.2%)	1.8%	0.6%	0.7x	1.3%	0.8x	37.8x
<b>Median</b>	<b>136.3</b>	<b>(20.3%)</b>	<b>(7.9%)</b>	<b>4.0%</b>	<b>0.8%</b>	<b>1.3x</b>	<b>6.6%</b>	<b>0.8x</b>	<b>13.7x</b>
<b>Real estate</b>									
HDG VN Equity	415.3	6.4%	N/A	5.0%	1.7%	1.2x	19.9%	2.4x	52.7x
HDC VN Equity	187.6	(55.5%)	2404.9%	6.1%	1.0%	1.9x	11.9%	0.8x	13.7x
DRH VN Equity	31.8	(17.8%)	N/A	(0.6%)	(0.2%)	2.2x	(0.9%)	0.7x	N/A
<b>Median</b>	<b>187.6</b>	<b>(17.8%)</b>	<b>2404.9%</b>	<b>5.0%</b>	<b>1.0%</b>	<b>1.9x</b>	<b>11.9%</b>	<b>0.8x</b>	<b>33.2x</b>
<b>Blended median</b>	<b>162.0</b>	<b>(19.0%)</b>	<b>1198.5%</b>	<b>4.5%</b>	<b>0.9%</b>	<b>1.6x</b>	<b>9.2%</b>	<b>0.8x</b>	<b>23.4x</b>
<b>HUT VN Equity</b>	<b>415.3</b>	<b>6.4%</b>	<b>N/A</b>	<b>5.0%</b>	<b>1.7%</b>	<b>1.2x</b>	<b>19.9%</b>	<b>2.4x</b>	<b>52.7x</b>

Source: Bloomberg, VCSC (Data as of June 28, 2022)

## Downside Risks

**Adoption of ETC systems could be slower than expected.** Because ETC systems are new, there have been several problems that contractors have to deal with and fix. Moreover, the installation of ETC ID cards in vehicles has been also slower than expected due to (1) people's habits of using MTC systems, (2) people claiming that they only drive around the city and have no need to install an ETC ID card, and (3) incidents with the ETC booths causing drivers not to use ETC lanes.

**Upcoming stock issuance could lead to EPS dilution.** HUT is planning a major restructuring of its business activities as well as raising an additional 660 million shares. By the time share the issuance is complete, HUT's number of outstanding shares will jump from 389 million to ~1 billion. According to HUT, auto dealership is anticipated to be company's main source of revenue and account for 96% and 91% revenue in 2022 and 2023, respectively. With our rough estimation of EPS dilution in **Figure 13**, we believe 2022 EPS could be diluted when the stock conversion plan proceeds if the increase in NPAT cannot outpace the increase in the total number of outstanding shares.

## Financial Statements

P&L (VND bn)					B/S (VND bn)				
	2018	2019	2020	2021		2018	2019	2020	2021
<b>Revenue</b>	<b>1,136</b>	<b>1,107</b>	<b>751</b>	<b>870</b>	Cash & equivalents	143	146	219	642
COGS	-824	-765	-665	-590	ST investments	60	61	47	73
<b>Gross Profit</b>	<b>312</b>	<b>342</b>	<b>85</b>	<b>280</b>	Accounts receivable	1,667	1,852	975	1,411
Sales & Marketing exp	-34	-15	-28	-63	Inventories	79	38	124	78
General & Admin exp	-147	-112	-121	-103	Other current assets	169	214	97	86
<b>Operating Profit</b>	<b>131</b>	<b>215</b>	<b>-64</b>	<b>114</b>	<b>Total Current assets</b>	<b>2,118</b>	<b>2,311</b>	<b>1,463</b>	<b>2,291</b>
Financial income	99	105	60	241	Fixed assets, gross	3,849	6,916	7,635	7,676
Financial expenses	-142	-257	-238	-308	- Depreciation	-935	-1,153	-1,396	-1,631
- o/w interest expense	-140	-256	-197	-308	Fixed assets, net	2,913	5,763	6,239	6,045
Associates	2	13	-11	6	LT investments	484	500	351	353
Net other income/(loss)	4	-3	5	-3	LT assets other	5,317	2,444	2,106	2,127
<b>Profit before Tax</b>	<b>94</b>	<b>73</b>	<b>-247</b>	<b>50</b>	<b>Total LT assets</b>	<b>8,714</b>	<b>8,707</b>	<b>8,696</b>	<b>8,525</b>
Income Tax	-28	-28	4	-6	<b>Total Assets</b>	<b>10,831</b>	<b>11,018</b>	<b>10,158</b>	<b>10,815</b>
<b>NPAT before MI</b>	<b>66</b>	<b>45</b>	<b>-243</b>	<b>44</b>	Accounts payable	521	519	491	417
Minority Interest	12	9	8	17	Short-term debt	62	66	98	102
<b>NPAT less MI, reported</b>	<b>77</b>	<b>54</b>	<b>-235</b>	<b>62</b>	Other ST liabilities	1,074	1,075	606	726
<b>NPAT less MI, adjusted<sup>(1)</sup></b>	<b>76</b>	<b>53</b>	<b>-235</b>	<b>61</b>	<b>Total current liabilities</b>	<b>1,657</b>	<b>1,659</b>	<b>1,195</b>	<b>1,245</b>
EBITDA	310	437	187	366	Long-term debt	5,431	5,535	5,412	5,137
EPS reported, VND	285	197	-875	175	Other LT liabilities	580	609	591	627
DPS, VND	0	0	0	0	<b>Total Liabilities</b>	<b>7,667</b>	<b>7,803</b>	<b>7,198</b>	<b>7,008</b>
DPS/EPS (%)	0%	0%	0%	0%	Preferred equity	0	0	0	0
<sup>(1)</sup> Adjusted for bonus & welfare					Paid-in capital	2,686	2,686	2,686	3,486
					Share premium	85	85	85	85
					Retained earnings	273	329	81	146
					Other equity	116	120	122	122
					Minority interest	4	-5	-13	-31
					<b>Total equity</b>	<b>3,164</b>	<b>3,215</b>	<b>2,961</b>	<b>3,808</b>
					<b>Liabilities &amp; equity</b>	<b>10,831</b>	<b>11,018</b>	<b>10,158</b>	<b>10,815</b>
					Actual Y/E shares, mn	268.6	268.6	268.6	348.6
RATIOS					CASH FLOW (VND bn)				
	2018	2019	2020	2021		2018	2019	2020	2021
<b>Growth</b>					<b>Beginning Cash Balance</b>	<b>324</b>	<b>143</b>	<b>146</b>	<b>219</b>
Revenue growth	-47.8%	-2.6%	-32.2%	16.0%	Net Income	77	54	-235	62
Op profit (EBIT) growth	-73.3%	64.1%	-129.8%	N.M	Dep, & amortization	179	222	251	252
PBT growth	-74.4%	-22.5%	-438.9%	N.M	Change in Working Cap	236	47	463	-69
EPS growth	-74.8%	-30.6%	-542.3%	N.M	Other adjustments	-165	-252	-336	-460
					<b>Cash from Operations</b>	<b>327</b>	<b>71</b>	<b>143</b>	<b>-215</b>
					Disposal fixed assets	1	3	13	0
					Capital Expenditures, net	-720	-195	-52	-60
					Other investments	153	4	60	167
					<b>Cash from Investments</b>	<b>-566</b>	<b>-188</b>	<b>21</b>	<b>108</b>
					Dividends Paid	-120	0	0	0
					Δ in Share Capital	0	0	0	800
					Δ in ST debt	43	4	32	4
					Δ in LT debt	135	104	-123	-275
					Other financing C/F	-1	13	0	0
					<b>Cash from Financing</b>	<b>57</b>	<b>120</b>	<b>-91</b>	<b>529</b>
					<b>Net Change in Cash</b>	<b>-182</b>	<b>4</b>	<b>73</b>	<b>422</b>
					Effect of exchange rate	0	0	0	0
					<b>Ending Cash Balance</b>	<b>143</b>	<b>146</b>	<b>219</b>	<b>642</b>

(Figures may not sum up due to rounding)

Source: Company data, VCSC



## 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
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## Contacts

### Corporate

[www.vcsc.com.vn](http://www.vcsc.com.vn)

#### Head Office

Bitexco Financial Tower, 15th Floor  
2 Hai Trieu Street, District 1, HCMC  
+84 28 3914 3588

#### Head Office

Vinatex Building, 1st & 3rd Floor  
10 Nguyen Hue Street, District 1, HCMC  
+84 28 3914 3588 (417)

#### Transaction Office Dong Da

9 Nguyen Ngoc Doan,  
Dong Da District, Hanoi  
+84 24 6262 6999

#### Hanoi Branch

109 Tran Hung Dao  
Hoan Kiem District, Hanoi  
+84 24 6262 6999

#### Transaction Office Ham Nghi

16th Floor, Doji Tower, 81-83-83B-85 Ham Nghi Street  
District 1, HCMC  
+84 28 3914 3588 (400)

#### Transaction Office ABS

Sailing Tower, 8th Floor,  
111A Pasteur Street, District 1, HCMC  
+84 28 3914 3588 (403)

### Research

**Research Team:** +84 28 3914 3588  
[research@vcsc.com.vn](mailto:research@vcsc.com.vn)

**Alastair Macdonald, Head of Research, ext 105**  
[alastair.macdonald@vcsc.com.vn](mailto:alastair.macdonald@vcsc.com.vn)

#### Banks, Securities and Insurance

##### Long Ngo, Associate Director, ext 123

- Truc Ngo, Analyst, ext 116
- Ngoc Huynh, Analyst, ext 138
- Nga Ho, Analyst, ext 516

#### Macro

##### Luong Hoang, Manager, ext 364

- Nguyen Truong, Senior Analyst, ext 132

#### Consumer

##### Nam Hoang, Manager, ext 124

- Ha Huynh, Analyst, ext 185
- Nhan Nguyen, Analyst, ext 139

#### Oil & Gas and Power

##### Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Manager, ext 135
- Thang Hoang, Analyst, ext 196

#### Real Estate and Infrastructure

##### Hong Luu, Senior Manager, ext 120

- Dang Thai, Senior Analyst, ext 149
- Thuc Than, Analyst, ext 174

#### Materials and Industrials

##### Vy Nguyen, Manager, ext 147

- Vinh Bui, Analyst, ext 149

#### Retail Client Research

##### Duc Vu, Senior Manager, ext 363

- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363
- Ha Bui, Analyst, ext 364

### Brokerage and Institutional Sales & Trading

#### Tuan Nhan

##### Managing Director, Brokerage & Institutional Sales & Trading

+84 28 3914 3588, ext 107  
[tuan.nhan@vcsc.com.vn](mailto:tuan.nhan@vcsc.com.vn)

#### Quynh Chau

##### Managing Director Brokerage

+84 28 3914 3588, ext 222  
[quynh.chau@vcsc.com.vn](mailto:quynh.chau@vcsc.com.vn)

#### Dung Nguyen

##### Director Institutional Sales & Trading

+84 28 3914 3588, ext 136  
[dung.nguyen@vcsc.com.vn](mailto:dung.nguyen@vcsc.com.vn)