

Equity Update | February 22, 2018

HOLD – 11.5 % Potential Upside

We maintain our HOLD rating to CTD but revise down our 12-month target price to VND 206,353 (+11.5% upside before dividend yield). We expect CTD result will face 2018 headwinds when it must take low-margin project orders together with 15% fall in 2017 newly signed contract.

2017 Review – FY2017 beats our forecast slightly but margin fell.

CTD posted 4Q17 performance with revenue of VND 8,968bn (+22% YoY) and net income of VND 462bn (+0.4% YoY). Gross profit achieved VND 569bn (-7% YoY) which continues to reflect a gross margin's downtrend. Gross margin of 6.3%, the lowest since 2009 and net margin of 5.2%, a 2-year low reflected our concern. Margins were hit partly due to building material's price hike (sand and steel). In addition, we think that both high-end residential and Condotel segments which had contributed predominantly to the Company revenue have been slowing down. CTD have to look for and accept contracts falling into residential mid-end and affordable segments that would yield lower margins.

For FY2017, the company beats our revenue estimate of VND 26,798bn slightly ([Price Hike of Construction Material Slides 3Q2017 Margin Down](#)). In particular, CTD reported VND 27,153bn (+30%YoY) in revenue and VND 1,652bn (+16% YoY) in earnings. Gross profit was VND 2,016bn (+12% YoY) which was also slightly higher than our estimate of VND 2,051bn. Full year gross margin of 7.4% and net margin of 6% were dragged down by 4Q's margins.

2018 Outlook – Headwinds from 15% fall in 2017 newly signed contract projects together with gross margin pressure.

The FY2018 backlog is estimated VND 22,802bn (+2% YoY) which was below our expectation of VND 24,050bn. We think the shortage was due to VinCity's delay in FY2017. In addition, 15% fall in newly signed contracts in FY2017 increase the backlog burn rate in FY18 and become a leading indicator for FY18 slowing revenue growth.

We forecast CTD will achieve a revenue of VND 30,462bn (+12% YoY) of which construction still accounts for 99.7%. We estimate new contract signed in FY18 will be VND 27,498bn. We forecast FY18's revenue would be contributed by 79% of backlog transferred from FY17 and 21% of new contracts in 2018.

We conservatively reduce full year gross margin to 7% to reflect our concern on residential high-end segment slow-down. Gross profit would be VND 2,150bn (+7% YoY). We still expect CTD to enjoy a strong financial income (VND 276bn), but this amount would be lower than in FY2017 as there will cash disbursements to new revenue platform. Net income arrives at VND 1,699bn (+3% YoY). EPS forward is VND 20,438.

Valuation. We revise down our 12-month target price for CTD to VND 206,353 (+11.5% potential upside before dividend yield.) using DCF method. A lower target price reflects our concerns over a not-yet-contribution of new growth platform while core business would witness thinner gross margin and slowing revenue growth.

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Target Price

12-month price target VND 206,353

Trading Data and Key Metrics

Ticker	CTD
Sector	Construction
Listed since	20-Jan-2010
Price as of Feb 21 st , 2018	VND 185,000
52-week range	249,000-171,000
Market cap (VND bn)	14,502
Shares outstanding (mn)	78.28
Free Float (mn)	45.42
10-day average volume	410,774
P/ BV (LTM)	1.94
P / E (LTM)	9.06
Dividend Yield	2.70%
Net Debt-to-Equity (x)	0.0x

Source: TVS, Thomson Reuters Data

Price Performance Chart



Source: TVS, Thomson Reuters Data

Company Description

Coteccons Construction JSC (CTD) is leading Vietnam-based Company engaged in construction industry. The company owned 100% stake in Unicons, specializing in construction services, equipment installation and construction material. Currently, CTD is leading construction pack through innovative design and build (D&B) model and disciplined project management. Around 98.88% revenue comes from construction services, while the rest are contributed by construction material supply service; real estate investment and construction equipment leasing services.

4Q2017 gross margin recorded 8-year low of 6.3% due to price hike of construction materials coupled with taking affordable project orders. We believe the margin will be hit harder in 2H2018 when the project time lag (from the backlog book to revenue recognition) is around 12-18 months

Ample Cash Fund doubled financial income of VND 325bn.

FY2017 Performance Review & 2018 Outlook

CTD announced 4Q17 performance with revenue of VND 8,968bn (+22% YoY) and net income VND 462bn (+0.4% YoY). Gross profit achieved VND 569bn (-7% YoY) which continues to reflect a gross margin's downtrend. 4Q17's EPS was VND 5,733.

Gross margin of 6.3%, the lowest since 2009 and net margin of 5.2%, a 2-year low reflected our concern. Margins were hit partly due to building material's price hike (sand and steel). In addition, we think that both high-end residential and Condotel segments which had contributed predominantly to the Company revenue have been slowing down. CTD have to look for and accept contracts falling into residential mid-end and affordable segments that would yield lower margins. We expect that CTD's margins will be hit stronger in 3Q18 and 4Q18 reflecting this situation.

For FY2017, the company beats our revenue estimate of VND 26,798bn slightly ([Price Hike of Construction Material Slides 3Q2017 Margin Down](#)). In particular, CTD reported **VND 27,153bn** (+30%YoY) in revenue and **VND 1,652bn** (+16% YoY) in earnings. Gross profit was **VND 2,016bn** (+12% YoY) which was also slightly higher than our estimate of VND 2,051bn. Full year gross margin of 7.4% and net margin of 6% were dragged down by 4Q's margins. FY17 EPS was VND 20,436. CTD is traded at 8.7x P/E.

Residential projects still account for the biggest revenue contribution while industrial construction increased its share to 17% of total revenue. We believe industrial sector will play a bigger role in coming years, as we believe Vietnam remains an attractive FDI destination due to stable macro, expanding high-skilled workers and a booming middle class. We anticipate seeing both stronger FDI inflows and disbursement in 2018 due to expectations of the TPP's conclusion (now called CP-TPP) in 1H18 and on-going Government's effort on cutting red tape and improving business conditions.

Ample Cash Fund led to higher-than-estimated financial income. CTD ended FY17 with VND 3,311bn (+66% YoY) of Cash & Cash Equivalents. Although margins were dropped, CTD's core strengths of efficiency and financial management are still maintained. This helped financial income to double last year's number and impressively achieve VND 325bn.

Figure 1: Key Financial Ratio

Financial Ratio	2013	2014	2015	2016	2017
ROE	12.8%	14.3%	24.6%	30%	24.4%
ROA	6.9%	7.6%	11.6%	14.5%	11.9%
Account Receivable Turnover	3.5	3.6	5.7	7	5.7
Inventory Turnover	18.1	27.3	19	16.6	16.1
Account Payable Turnover	7.2	7.1	8.5	7.3	6.4
Cash Conversion Cycle	14.4	23.8	16.2	16.3	15.4

Source: CTD, TVS Research

On one hand, the big jump in financial income offered relief to the net income against the drop of gross profit. However, too much increase in Cash & cash equivalents should be seen under cautious eyes as CTD may have under-utilized cash because of a drop in value of new contracts. Furthermore, cash disbursement is still awaited to spend on targets for diversification purpose.

FY2018 revenue growth is slowing due to VinCity's delay and 15% fall in 2017 newly signed contract.

FY2018 Outlook

D&B Backlog. The FY2018 backlog is estimated **VND 22,802bn** (+2% YoY) which was below our expectation of VND 24,050bn. We think the shortage was due to VinCity's delay in FY2017. In addition, 15% fall in newly signed contracts in FY2017 increase the backlog burn rate in FY18 and become a leading indicator for FY18 slowing revenue growth.

Figure 2: FY2018 Backlog

<i>VNDbn unless otherwise stated</i>	2017	2016	Change (%)
Backlog from previous year (1)	22,457	10,739	109%
New contracts signed in year (2)	27,498	32,500	-15%
Total contracts value (1+2)	49,955	43,239	16%
Revenue	27,153	20,782	31%
Backlog transferred to next year	22,802	22,457	2%

Source: CTD, TVS Research

Operating properties: CTD continues its endeavor to find new drivers for growth. As a long awaited move, the company finally announced to invest in five office and residential projects in HCMC. The first project in Phu Nhuan district was groundbreaking on 25 Jan 2018.

Project	CTD's stake	GFA (sqm)	Segment
Office tower - CBD	50%	36,000	High-end
Office tower- CBD	50%	25,000	High-end
Residential project - dist.2	20%	n/a	Mid-end
2 Phan Đình Giót - Phu Nhuan dist.	30%	20,000	Mid-end
Residential project - dist.12	50%	n/a	Affordable

Source: CTD, TVS Research

We estimate CTD would spend VND 630bn for the three office projects' construction. CTD would carry out construction contracts for all these five projects and acquire 20% - 50% stakes to become co-developers. We believe it is a wise move to switch its surplus cash to invest in these projects, as these would earn higher yield than bank interest while the mid-end and affordable residential projects attached with the Coteccons brand name would attract attention from buyers. Yet, the first office project in Phu Nhuan district would not come to operation before 3Q19.

Integration: CTD is still in a process of expanding to upstream of the value chain by acquiring one furniture and one aluminum company. This is a part of strategy to enter into affordable housing segment where gross margin is relatively low.

Infrastructure: In FY17, CTD did not have new project but CTD is having talks with Taisei Corporation for potential cooperation. We think CTD would still push forward into this sector because CTD can utilize its strong cash position and to compensate for residential sector seeing slow down.

For 2018 outlook, we forecast CTD will achieve a revenue of **VND 30,462bn** (+12% YoY) of which construction still accounts for 99.7%. We estimate new contract signed in FY18 will be equal to that of FY17, which is **VND 27,498bn**. We forecast FY18's revenue would be attributed by 79% of backlog transferred from FY17 and 21% of new contracts in 2018. For comparison, we estimate that FY17's revenue were attributed by 65% of previous year's backlog and 45% of

We expect revenue and earnings recorded VND 30,462bn (+12% YoY) and 1,699bn (+3% YoY) respectively in FY2018.

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new contracts in FY17.

We conservatively reduce full year gross margin to 7% to reflect our concern on residential high-end segment slow-down. Gross profit would be VND 2,150bn (+7% YoY). We still expect CTD to enjoy a strong financial income (VND 276bn), but this amount would be lower than in FY2017 as there will cash disbursements to new growth platform. Net income arrives at VND 1,699bn (+3% YoY). EPS forward is VND 20,438. CTD is traded at 8.7x PE forward.

VALUATION

We reduce our target price for CTD to **VND 206,353 (11.5% upside)** using DCF method. A lower target price reflects our concerns over a not-yet-contribution of new growth platform while core business witness thinner gross margin and slowing revenue growth.

We have factored the five new projects of Operating Properties sector into DCF model. Below are our DCF-based valuation. Our DCF-model arrives **fair value of VND 206,353** when we use WACC of 14.57% based on current build-up equity premium method. The terminal growth rate is 2% in line with Vietnam equity market.

Figure 3: DCF – based valuation model

<i>VNDbn unless otherwise stated</i>	Indicator	2018F	2019F	2020F	2021F	2022F
EBIT		2,123	2,285	2,446	2,595	2,754
Tax Paid	20%	(425)	(457)	(489)	(519)	(551)
EBIAT		1,698	1,828	1,957	2,076	2,203
<i>Adjust for:</i>						
Depreciation & Amortization Expense		88	122	151	161	161
Change in Net Working Capital		(139)	(153)	(161)	(169)	(169)
Capital Expenditure		682	307	200	200	200
Free Cash Flow to Firm (FCFF)		1,243	1,796	2,069	2,206	2,333
WACC	14.57%					
Present Value of FCFF		1,098	1,383	1,391	1,294	1,195
Cumulative Present Value of FCFF	6,361					
Growth rate	2.00%					
Required return	14.57%					
Terminal Value	18,930					
Present Value of Terminal Value	9,699					
FCFF	16,062					
Less : Total Debt*	-					
Total Share	77,839,844					
Price per Share (VND)	206,353					

SUMMARY FINANCIALS

Earning Model VND bn	2014A	2015A	2016A	2017A
Net sales	7,633.6	13,669	20,782	27,153
Cost of sales	7,077.7	12,557	18,983	25,137
Gross profit	555.9	1,111.8	1,799.4	2,016
Selling expenses	88.35	186.54	283.94	374.7
General administration expenses	109.86	161.76	0.00	-
Other operating income/(expenses)	-0.07	-25.18	-	-
EBITDA	376.19	819.40	1,553.3	1,698.6
Depreciation & Amortization	16.54	14.51	15.20	19.9
EBIT	341.24	774.20	1,500	1,622
Net interest income/(expenses)	0.00	0.00	0.00	-
Net investment income	-9.27	-	-	-
Others (recurring)	10.08	38.16	58.65	74.9
Pretax Profit	464.29	926.67	1,762.9	2,060.7
Income tax	106.82	193.87	340.92	408.1
Tax rate (%)	23.01	20.92	19.34	19.8
Minorities	182.15	0.00	0.00	-
Net Income	357.47	732.80	1,422	1,653
EPS (basic VND, reported)	5,827.1	11,077.2	25,803	20,436
Weighted shares outstanding (mn)	56.18	57.12	52.35	76.8
DPS (VND)	3,563	3,918.75	4,750	
Dividend Payout ratio (%)				
Dividend cover (X)	1.64	2.83	4.35	

Growth and Margin (%)				
Sales Growth (%)	23.33%	79.06%	52.04%	31%
EBITDA Growth (%)	27.39%	117.81%	89.57%	9%
EBIT Growth (%)	32.2%	126.88%	93.78%	7%
Net Income Growth (%)	27.72%	105%	94.05%	16%
EPS Growth (%)	27.31%	90.10%	132.9%	-1%
Gross Margin (%)	7.28%	8.13%	8.66%	7%
EBITDA Margin (%)	4.93%	5.99%	7.47%	6%
EBIT Margin (%)	4.47%	5.66%	7.22%	6%
Net Income Margin (%)	4.29%	4.63%	6.50%	6%

Cash flow Statements (VNDbn)	2014A	2015A	2016A	2017
Net Income	464.29	926.67	1,762.9	2060.7
Adjustments for:				
Depreciation and amortization	34.95	45.20	53.05	79.2
Change in inventories	-18.34	-706.68	-189.58	-632.9
Change in trade receivables	-220.26	-969.29	-915.95	2,581
Change in trade payables	28.20	2,345.11	838.46	3,087
Other operating cash flow	-158.28	-412.47	-643.60	-861.5
Cash flow from operations	130.56	1,228.53	905.31	1152
Net Capital expenditure	-31.83	-242.23	-188.76	-214.6
Acquisition	-	-	-	-
Divestures	-	-	-	-
Other investments, net	103.28	83.11	139.75	205.7
Cash flow from investing	-208.85	-114.48	1,988.4	566.3
Equity issued	-	45.82	1,875.3	-21.1
Net borrowings	-	-	-	-
Dividends to shareholders	-63.37	-167.26	-257.19	-382.7
Cash flow from financing	-72.14	-121.45	1,618.1	-403.8
Net cash flow	-149.49	992.60	535.01	13145
Opening cash	619	469	1,462	1997
Closing cash	469	1,462	1,997	3,311

Source: TVS model, Thomson Reuters data

Balance Sheet (VNDbn)	2014A	2015A	2016A	2017
Cash and equivalents	469.02	1,461	1,996.6	3311.1
Financial investment	629.08	928.10	2,675	2478.5
Accounts receivable	2,165	2,824	3,851.5	6616.1
Inventory	269.59	1,051	1,240.9	1873.8
Prepaid expenses, other CA	125.4	220.9	179	184.67
Total current assets	3,658	6,486	9,943.1	14464.3
Property and equipment				
At cost	355.18	623.31	761.23	998.7
Less accumulated depreciation	-200.17	-235.25	-268.32	-325.3
Net property and equipment	155.01	388.06	511.27	673.4
Net intangibles	99.67	99.52	92.45	94.14
Total investments	886.04	584.75	792.84	427.3
Other long - term assets	64.45	256.89	401.24	354.7
Total Assets	4,863	7,815.1	11,740.9	16013.8
Account Payables	975.59	1,962.4	3,228.15	4630.8
Short-term debt	0.00	0.00	NULL	NULL
Other current liabilities	1,164.2	2,596.8	2,267.1	4065.4
Total Current Liabilities	2,139.7	4,559.1	5,495.3	8696.2
Long-term debt	0.00	0.00		
Other long-term liabilities	196.08	13.43	12.04	10.9
Total long-term liabilities	196.08	13.43	12.04	10.9
Stockholders' equity	2,527.2	3,242.5	6,233.5	7306.7
Common Equity	422.00	468.58	770.50	770.5
Treasury shares	-1.74	-1.74	-1.74	-22.8
Capital surplus	869.14	1,385.2	2,958.55	2958.6
Retained earnings	560.15	639.05	1,435.2	1741.5
Budget sources and other funds	677.70	751.42	1,070.1	1858.9
Minority interest	182.15	-	-	-
Total liabilities and equity	4,863.0	7,815.1	11,741	16013.8
Capitalized leases	-	-	-	-
Capital employed	2,723.3	3,256	6,245.5	7317.6

Ratios (%)				
ROE (%)	13.56	23.09	30.01	24.4
ROA (%)	7.59	11.56	14.54	11.9
ROIC (%)	14.52	25.28	29.93	24.4
Inventory days	13.39	19.25	22.10	22.7
Receivable days	100.02	66.79	58.78	70.5
Payable days	51.43	42.82	50.04	57.2
Asset Turnover (x)	1.6x	2.2x	2.1x	2.0
Net debt/equity (x)	-0.4x	-0.7x	-0.7x	-0.8
Interest cover - EBIT(x)	0.0x	-	-	24.4

Valuation (Multiples)				
EV / EBITDA (x)	3.9x	5.8x	6.0x	6.8x
P/E (x)	7.3x	10.4x	7.1x	11x
Dividend Yield (%)	8.33	3.42	na	na
P/B (x)	1.0x	2.2x	2.3x	2.4x

Source: TVS model, Thomson Reuters data

ANALYST CERTIFICATION

I, **Son Nguyen**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

RATING and VIEWS

Buy (B), Neutral (N), Sell (S) – Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

TVS Investment Research: Equity Rating Definitions

12-month rating	Definition
Buy	Total Stock's Return Potential > 15%
Neutral	Total Stock's Return Potential between (-15%) and 15%
Sell	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
Buy	Stock price expected to rise within three-month because of a specific catalyst or event
Sell	Stock price expected to fall within three-month because of a specific catalyst or event
Not-rated	The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target.

RATING HISTORY and TARGET PRICE

Issued Date	Research	Recommendation	Market Price (VND)	01-year target price (VND)
Feb 22 nd 2018	Update	HOLD	185,000	206,353
Nov 27 th 2017	Update	HOLD	230,700	255,493
Sept 06 th 2017	Update	BUY	208,200	255,467
Mar 23 rd 2017	Update	HOLD	208,500	235,547

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