



Hoa Binh Construction Group JSC. (HOSE: HBC)

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Revenue and net profit of HBC in 2H2018 is expected to reach VND 11,500bn ((+23.9% yoy) and VND 692 bn (+42.9% yoy, including earnings from project transferring), profit from core business is projected to be VND 418bn (-13.6% yoy).

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Therefore, we recommend a HOLD to HBC with a target price of VND21,900/share, equivalent to estimated PE of 6.0x. This price is considered reasonable based on HBC's business conditions, 1H2018 performance as well as 2H2018 outlook of construction sector.

Hold

Target price	VND21,900
Upside (Downside)	(3.5%)
Current price (14-09-2018)	VND22,700
Market cap (VNDbn)	VND4,431

Trading data

Outstanding share	194,774,977
Avg. Daily volume (3 months)	1,224,652
% Foreign owned	22%
Dividen	VND500

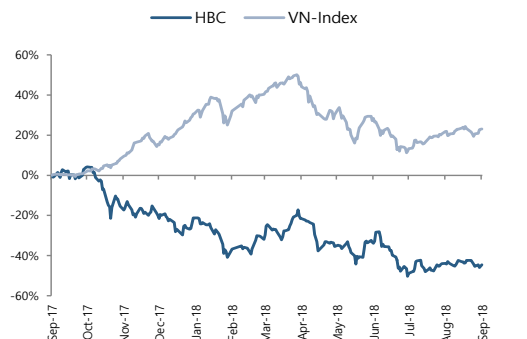
Trading performance

(%)	1M	3M	6M	12M
HBC	0%	-16%	-20%	-43%
VNINDEX	3%	-4%	-13%	23%

Earning forecast and valuation

VND Billion	2016A	2017A	2018F
Revenue	10,766	16,037	19,681
Growth (%)	112.0%	49.0%	22.7%
Gross profit	1,232	1,686	1,775
Gross profit margin(%)	316.8%	36.8%	5.2%
Net profit	568	861	736
Growth (%)	585.7%	51.5%	-14.5%
EPS	3,760	6,745	3,794
P/B	2.1	2.8	1.5
P/E	8.1	6.6	6.0

Source: HBC, KBSV



Source: Fiiipro

1H2018 Performance Update

HBC's 1H2018 revenue reached VND 8,079bn (+19.6% yoy, completing 41.1% of annual plan) and net profit reached VND 294.6bn (-22.0% yoy, completing 30% of annual plan).

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Book to Bill ratio remained high at 1.6x (1.4x in 1H2017), and was greater than that of CTD at 1.1x in the same period.

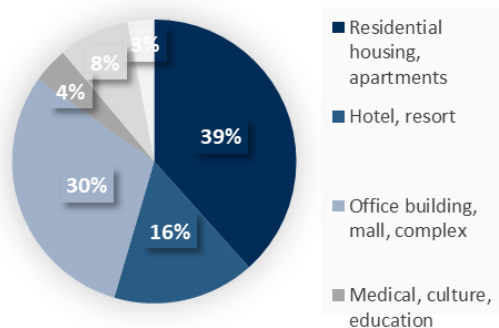
The value of Contract Backlog signed at the end of Q2.2018 reached VND 24,184bn (+42% yoy, excluding VAT) in which newly signed contracts in 1H2018 valued at VND 13,173bn (+60% yoy, excluding VAT). Book to Bill ratio remained high at 1.6x (1.4x in 1H2017), and was greater than that of CTD at 1.1x in the same period. By the end of August 2018, HBC had won 54 construction biddings.

Table 1: Outstanding projects to be completed in 2018 (VND bn)

No.	Name	Estimated completion time	Contract value (Excluding VAT)	Accumulated revenue until 30.06.2018	Expected 2H2018 revenue
1	Empire City	2018	2,761	-	287
2	Imperia Sky Garden	2016	2,366	1,009	351
3	Flora Mizuki	2017	1,342	124	383
4	Hoa Phat Dung Quat	2017	1,284	704	580
5	Lancaster Lincoln – Body part	2018	1,265	-	173
6	Alma Resort	2018	1,213	11	476
7	Office building LIM III	2017	1,192	136	446
8	Riviera Point – Body part	2017	948	392	294
9	High-rise building at Phu Huu, Dist.,9	2017	896	508	180
10	Song Ngoc Apartment	2016	869	574	285

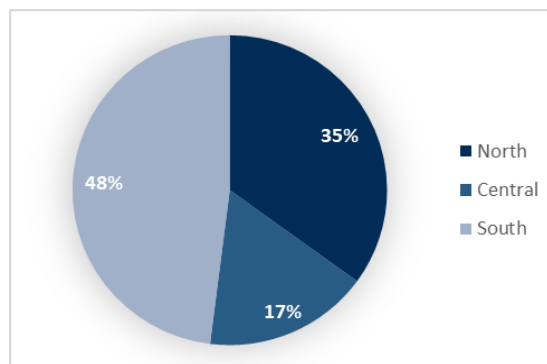
Source: HBC

Figure 1: 1H2018 Revenue structure



Source: HBC

Figure 2: 1H2018 Revenue structure by region



Source: HBC

2H2018 Earning forecast

HBC plans to transfer its shares in 3 real estate project , average profit is VND 100bn). Total pre-tax profit from the transferring is expected to reach VND 342bn.

HBC’s board of management has a plan to transfer its shares in 3 real estate projects: 1C project (total square is 5,286m2, expected profit is VND 155bn), Long Thoi project (total square is 30,209m2, expected profit is VND 87bn) and Phuoc Loc Tho project (total square is 40,058m2, expected profit is VND 100bn). Total pre-tax-profit of the transferring is estimated to be VND 342bn. HBC expects a total winning value of VND 16,000bn in 2H2018.

HBC sets its target for 2H2018 revenue and net profit to be VND 11,500bn (+23.9% yoy) and VND 692bn (+42.9% yoy, including earnings from project transferring), profit from core business is projected to be VND 418bn (-13.6% yoy).

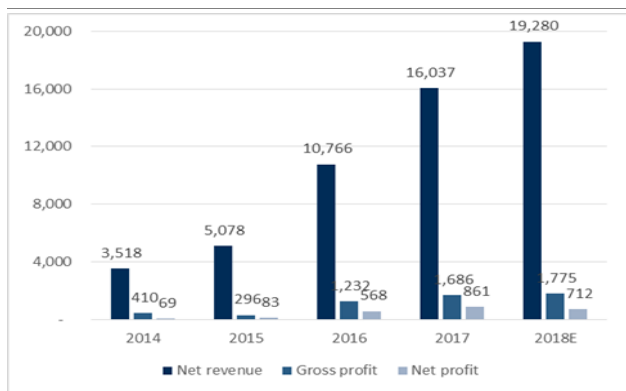
HBC sets its target for 2H2018 revenue and net profit to be VND 11,500bn (+23.9% yoy) and VND 692bn (+42.9% yoy, including earnings from project transferring), profit from core business is projected to be VND 418bn (-13.6% yoy). Expected revenue and net profit of the Company for the year 2018 is VND 19,280bn (+ 20.2% yoy) and VND 986bn (14.6% yoy, including earnings from project transferring), expected net profit from core business is VND 712bn (-17.3% yoy).

Reduction in gross profit market results from a rise in price of input materials and insurance expense, and a drop in selling price due to intensive sector competition.

Gross profit margin 2018 is estimated to reduce from 10% in 2017 to 9% compared to that of CTD at 7.4% in 2018. Reduction in gross profit margin results from a rise in price of input materials and insurance expense, and a drop in selling price due to intensive sector competition. Estimated gross profit is VND 1,775bn (+5.2% yoy), selling and administration expense to revenue ratio maintains high at 3.3%, in which estimated expense is VND 643bn. Financial expense is projected to go up by 12.4%, reaching VND 302bn due to an increase in borrowings for working capital from VND 2,719bn in early 2017 to VND 4,279bn in early 2018.

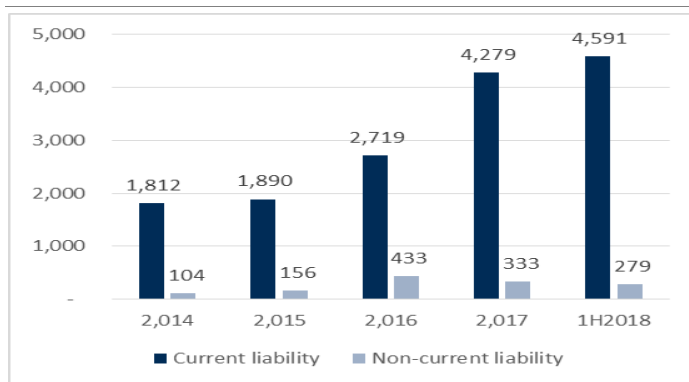
We believe that HBC will achieve its revenue and profit target from core business for 2018 with a revenue of VND 19,280bn (+20.2% yoy) and profit of VND 712bn (-17.3% yoy).

Figure 3: Revenue and net profit over years (VND bn)



Source: HBC, estimated profit excluding abnormal profit

Figure 4: HBC liability (VND bn)



Source: HBC

Equity issuance scheme

HBC is planning to issue 49 million shares by the latest in Q1.2019, equivalent to 25% of charter capital to strategic shareholders. Estimate price at issuance is no less than 2.5 times of book value.

HBC is planning to issue 49 million shares by the latest in Q1.2019, equivalent to 25% of charter capital to strategic shareholders. Estimated price is no less than 2.5 times of book value at the time of issuance. This issuance is expected to increase charter capital to supplement for business activities. If the search for strategic shareholders is successful, it will reduce the borrowing burden for HBC and make its financial structure healthier.

PMS development: provide tools for planning, risk detection, progress tracking, document recording and document storing; and also helps managers detect arising problems and make necessary adjustments in order to keep up with the project progress and adhere to budget.

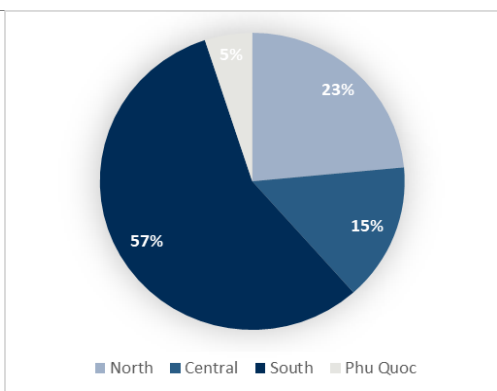
Management quality improved thanks to PMS (Property Management System): HBC has been developed PMS since early 2017. The system provides tools for planning, risk detection, progress tracking, document recording and document storing. In addition, it helps managers detect arising problems and make necessary adjustments in order to keep up with the project progress and adhere to budget. In construction sector, the larger the company, the harder the cost and risk management. PMS can facilitate this work, therefore, it will be a vital tool in gradually improving HBC’s efficiency.

International market strategy

HBC will expand to Middle East countries, invest in and build branches in Laos, Cambodia and Myanmar.

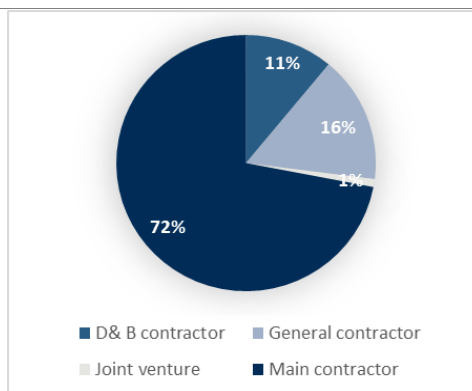
HBC will expand to Middle East countries, invest in and build branches in Laos, Cambodia and Myanmar. Particularly, the Company will focus on Kuwait, Myanmar as the main contractor and general contractor for projects.

Figure 5: Winning bid ratio 8M2018 by region



Source: HBC

Figure 6: Winning bid ratio 8M2018 by type of contract



Source: HBC

HBC is currently having two partners that are HOT engineering and UGCC. Total estimated value of the first project is VND 28bn, from Mar 2018 to Nov 2018. HBC is currently having two partners that are HOT engineering and UGCC. In particular, the Company is in the progress to make a contract of providing labors and managing labors for UGCC as a subcontractor in order to gradually get familiar with construction setting abroad and prepare resources to join joint venture projects. Total estimated value of the first project is VND 28bn, from Mar 2018 to Nov 2018.

Contracts with high winning probability in coming time:

+ Arabia market: 3000-apartment project in Dammam - Saudi Arabia. Signed a contract with a local company to be general contractor.

+ Romania market: signed joint venture agreement with BTD Company to deploy a project of residential and office buildings for rent in Romania. This is a general joint venture contractor with a total value of Euro 100mn.

+ Kuwait market: 40 12-storey buildings, total value of VND 7000bn. Joining a joint venture with UGCC but UGCC failed due to high price. HBC entered a second bidding round with HOT. This is considered a potential project.

+ Myanmar market: signed a strategic cooperation agreement with Kajima to construct the first project worthy of USD 450mn, projected to start in Nov 2018.

Valuation

HBC is trading around PE trailing of 5.7x and PE forward 2018 of 6.1x (excluding abnormal profit from project transferring).

HBC is trading around PE trailing of 5.7x and PE forward 2018 of 6.1x (excluding abnormal profit from project transferring). Under financial structure containing lots of risks, there has been a y-o-y rise in the ratio of cash and term deposits of VND 615bn to total current liability of VND 4,500bn which is used for financing receivables (accounting for 82.2% of total current liability by the end of Q2.2018). The Company likely face liquidity risk when the receivables are not recovered in time. In addition, factors including intense competition among contractors, a rise in insurance expense and a slowdown in real estate market due to increasing interest rate and limited credit for real estate sector will adversely impact the construction companies like HBC.

Therefore, we recommend a HOLD with a target price of VND 21,900/share, equivalent to PE target of 6.0x.

Therefore, we recommend a **HOLD** with a target price of **VND 21,900/share**, equivalent to PE target of 6.0x, which is a reasonable price based on HBC's business conditions, 1H2018 performance and 2H2018 outlook of construction sector. However, the Company still obtain various long-term advantages, constantly rising y-o-y backlog ratio with Book-to-Bill ratio by June 2018 to be 1.6x, higher than that of its competitor CTD of 1.1x. Moreover, a great number of developers place trust in HBC to deploy many of their huge and potential projects including Vingroup, Novaland, Mik..., which will increase HBC's working volume in the future.

Balance Sheet

VND bil	2015	2016	2017	1H2018
CURRENT ASSETS	6,146	9,900	11,693	11,722
Cash and cash equivalents	949	1,770	1,192	591
Accounts receivable	4,212	6,775	9,191	9,697
Inventory	923	1,229	1,180	1,307
Other current assets	62	126	131	126
LONG-TERM ASSETS	1,145	1,550	2,305	2,307
Long-term trade receivable	9	38	35	40
Fixed assets	638	1,086	1,420	1,437
Long-term cost of working progress	42	25	54	44
Long-term investment	276	177	385	378
Other long-term assets	179	223	411	406
TOTAL ASSETS	7,291	11,450	13,998	14,030
LIABILITIES	6,217	9,620	11,531	11,404
Current liabilities	5,806	8,886	10,905	10,775
Short-term borrowing	1,890	2,720	4,279	4,590
Long-term liabilities	411	734	626	629
Long-term borrowing	156	434	334	279
OWNER'S EQUITY	1,074	1,830	2,467	2,625
TOTAL RECOUCES	7,291	11,450	13,998	14,030

Income Statement

VND bil	2015	2016	2017	1H2018
Net sales	5,078	10,766	16,037	8,079
COGS	(4,782)	(9,534)	(14,351)	(7,302)
Gross profit	296	1,232	1,686	777
Financial income	87	103	121	35
Financial expenses	(132)	(153)	(269)	(151)
In which: Interest expenses	(130)	(145)	(266)	(149)
Gain (loss) from joint ventures	8	4	26	(2)
Selling expenses	(26)	(105)	(58)	(38)
General and admin expenses	(120)	(378)	(473)	(260)
Operating profit (loss)	114	704	1,034	359
Other income	30	19	49	15
Other expenses	(23)	(7)	(10)	(2)
Net other income (expenses)	7	11	40	12
Net income (loss) before tax	120	715	1,074	371
Net income	83	568	861	297
Minority interests	(1)	1	1	(4)
Atributable to parent company	83	567	859	301

Cash Flow Statement

VND bil	2015	2016	2017	1H2018
Net income before tax	120	715	1,074	371
Depreciation and amortization	96	157	211	120
Provisions	(34)	164	107	41
Profit (loss) from investing activities	(90)	(81)	(132)	(20)
Interest expenses	130	145	266	149
Operating profit (loss) before changes in Working capital	222	1,101	1,526	662
(Increase)/decrease in receivables	(947)	(2,538)	(2,541)	(525)
(Increase)/decrease in inventories	(357)	(65)	29	(127)
Increase/(decrease) in payables	1,381	2,294	569	(416)
(Increase)/decrease in prepaid expenses	(108)	(59)	(182)	14
Net cash inflows/(outflows) from operating activities	(32)	329	(1,095)	684
Purchases of fixed assets	(374)	(602)	(589)	(135)
Proceeds from disposal of fixed assets	8	4	23	11
Loans granted, purchases of debt instrument	(326)	(455)	(82)	(72)
Collection of loans, proceeds from sales of debt instrument	351	28	361	453
Proceeds from divestment in other entities	(5)	(119)	(170)	(3)
Dividends and interest received	36	131	99	33
Net cash inflows/(outflows) from investing activities	(310)	(1,013)	(357)	287
Proceeds from issue of shares	97	10	11	-
Proceeds from borrowings	4,136	6,338	8,840	5,822
Repayment of borrowings	(4,007)	(5,231)	(7,380)	(5,565)
Dividends paid	(86)	(10)	(97)	(62)
Net cash inflows/(outflows) from financing activities	140	1,107	1,374	194
Net increase in cash and cash equivalents	(202)	423	(78)	(202)

Source: HBC

Investment Rating for Company**Buy:** +15% or beyond**Hold:** between +15% and -15%**Sell:** -15% or beyond**DISCLAIMER**

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