

Coteccons (CTD)

Driven by diversification and expansion

March 4, 2024

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Core business maintained its growth momentum

In 2Q FY2024, Coteccons Construction (CTD) posted an operating income of VND47 billion (+172% QoQ), driven by (1) the increased contribution of the industrial backlog, along with the handover and profit recognition of previous projects with low gross margins and (2) selling, general, and administrative expenses (SG&A) down 33% YoY thanks to a 31% YoY reduction in provisioning.

Provision costs for receivables rose to 71% in 2Q FY2024

CTD has made full provisions for accounts receivable associated with Saigon Glory. We anticipate that provisioning for FY2024 will be manageable at VND104 billion.

CTD wholly acquired two aluminum & glass and electromechanical enterprises

In 3Q FY2024, CTD wholly acquired two businesses in the aluminum & glass and mechanical & electrical (M&E) sectors, with estimated gross margins of 15% and 3%, respectively. We expect these acquisitions to enhance CTD's competitive bidding capabilities, improve construction capabilities, and gradually drive industrial growth (M&E backlog accounting for 60–70% of an industrial project).

Industrial backlog is expected to approach 40% in FY2024–FY2025

The industrial backlog increased to 32% in 2Q FY2024. We anticipate this figure to further improve to 40% in the foreseeable future due to (1) proven and enhanced construction capabilities with the new M&E investment and (2) a solid financial foundation and ability to meet ESG requirements, providing an advantage in bidding for foreign-invested projects.

We recommend HOLD for CTD with a target price of VND76,600/share

We recommend a HOLD position for CTD with a target price of VND76,600 apiece, corresponding to an expected return of 7%.

Hold change

Target price VND76,700

Upside	7%
Current price (Mar 4, 2024)	VND72,000
Consensus target price	VND75,900
Market cap (VNDtn/USDbn)	0.69/0.28

Trading data

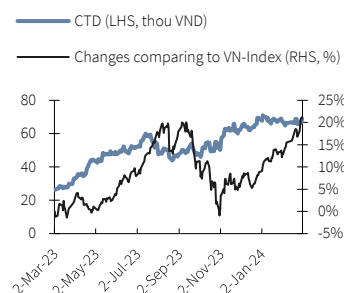
Free float	55%
3M avg trading value (VNDbn/USDmn)	923.6/4.7
Major shareholder	Kustoshem Private Limited (17.55%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	4	32	31	156
Relative	2	41	31	150

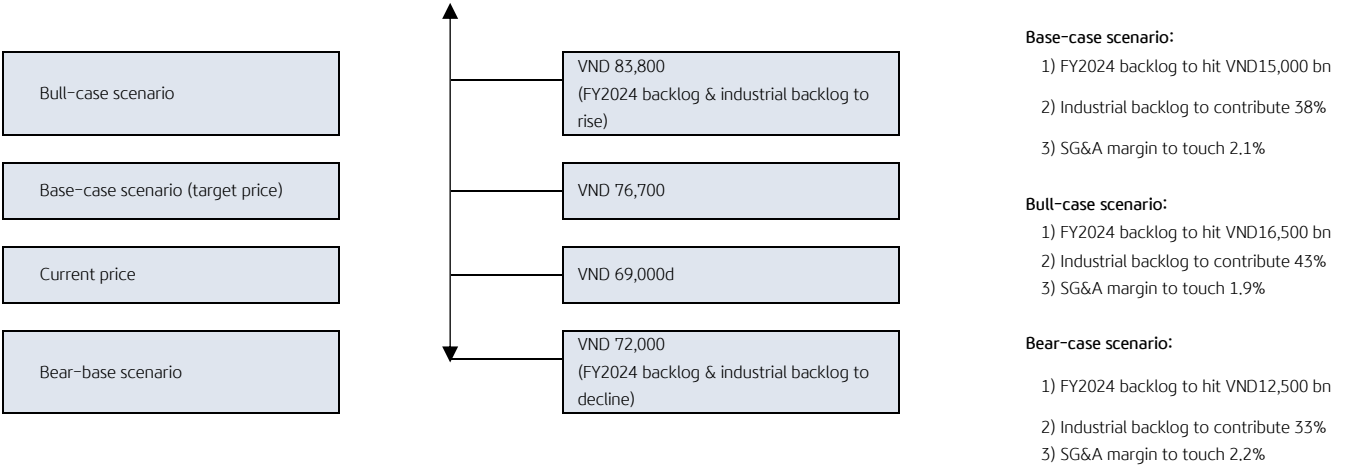
Forecast earnings & valuation

FY-end	FY 2022A	FY 2023A	FY 2024F	FY 2025F
Net revenue (VNDbn)	14,537	6,744	18,359	17,928
Operating income/loss (VNDbn)	-54	14	334	500
NPAT-MI (VNDbn)	21	52	321	448
EPS (VND)	263	663	3,102	4,320
EPS growth (%)	-13%	152%	368%	39%
P/E (x)	125.2	97.8	22.2	16.0
P/B (x)	0.3	0.6	0.8	0.8
ROE (%)	0%	1%	4%	5%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

Business performance

Table 1. CTD – Business results

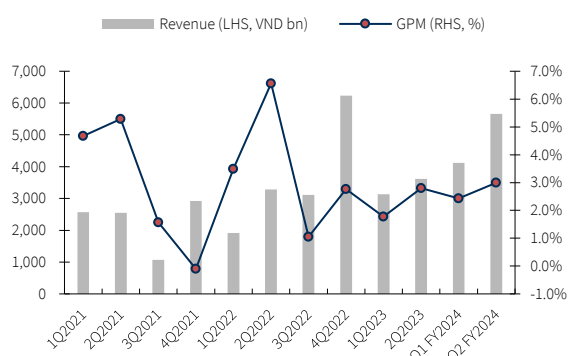
(VNDbn)	4Q2022	Q2 FY2024	+/-%YoY	2H2023	H1 FY2024	+/-%YoY	KBSV's comments
Revenue	6,230	5,660	-9.2%	9,344	9,784	4.7%	
Cost of goods sold	-4,024	-5,491	36.5%	-9,139	-9,514	4.1%	
Gross profit	172	169	-1.6%	205	269	31.6%	
Gross profit margin	2.8%	3.0%	23 bps	2.2%	2.8%	56 bps	GPM rose on (1) higher proportion of industrial backlog and (2) handover and profit recognition of all previous projects with low margins.
Financial income	70	67	-4.0%	153	169	10.2%	
Financial expenses	-59	-31	-48.3%	-103	-63	-38.8%	
Borrowing cost	-25	-22	-11.4%	-49	-46	-6.5%	
Shared profits from associates	-7	0	-100.0%	-13	0	-100.0%	
SG&A	-183	-122	-33.0%	-286	-205	-28.2%	Provision costs in 2Q FY2024 fell by 33% YoY.
SG&A margin	2.9%	2.2%	-77 bps	3.1%	2.1%	-96 bps	Excluding provision costs, the SG&A margin in 2Q FY2024 would drop by 35 bps YoY.
Operating income/loss	-7	89		-44	170		
Net other income	34	-1	-103.7%	68	-1	-101.9%	
Profit before tax	27	89	233.6%	24	176	638.7%	
PBT margin	0.4%	1.6%	115 bps	0.3%	1.8%	154 bps	
Corporate income tax	-8	-20		-8	-40	373.4%	
Net profit after tax	19	69	266.2%	15	136	784.0%	
NPAT margin	0.3%	1.2%	92 bps	0.2%	1.4%	122 bps	
NPAT-Mi	19	69	265.9%	15	136	784.5%	
NPAT-MI margin	0.3%	1.2%	92 bps	0.2%	1.4%	122 bps	

Source: Cotecons Construction, KB Securities Vietnam (CTD changes the fiscal year from July 1 to June 30 annually)

Core business maintained its growth momentum

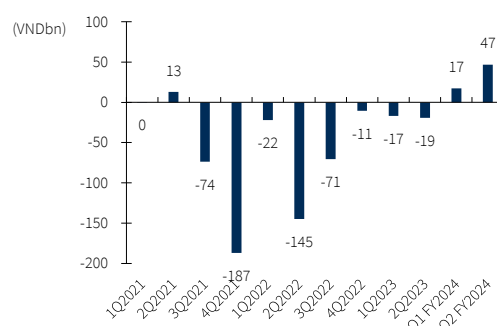
In 2Q FY2024, CTD's operating income improved further to VND47 billion from -VND11 billion in 2Q FY2023, driven by (1) a 23 bps YoY increase in the gross margin following the handover and profit recognition of previous industrial projects and (2) SG&A down 33% YoY due to a 31% YoY decline in provision costs. Excluding provisioning, the SG&A margin would drop by 35 bps YoY.

Fig 2. CTD – Revenue, GPM (VNDbn, %)



Source: Cotecons Construction, KB Securities Vietnam

Fig 3. CTD – Operating income (VNDbn)



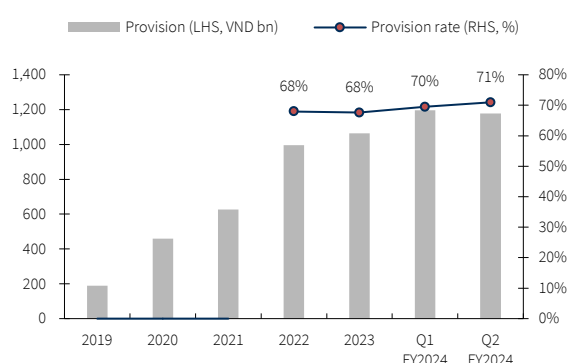
Source: Cotecons Construction, KB Securities Vietnam

The provision ratio continued to improve

In 1H FY2024, CTD set aside 100% of accounts receivable associated with Saigon Glory, further improving the provision ratio. By the end of 2023, CTD's total provision costs reached VND120 billion (below the initial target of VND180 billion). We anticipate that CTD can keep provision costs at VND104 billion in FY2024.

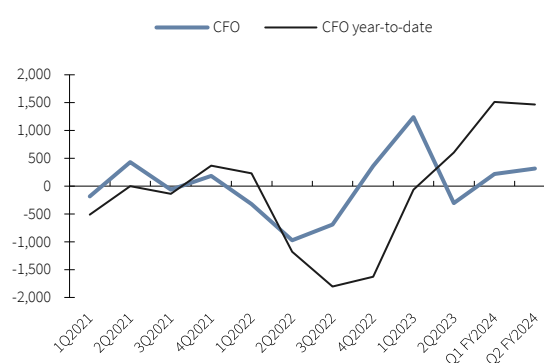
Furthermore, CTD's operating cash flow (CFO) continued to remain positive due to the implementation of payment guarantee policies with investors and back-to-back arrangements with subcontractors.

Fig 4. CTD – Provision costs, provision ratio (VNDbn, %)



Source: Cotecons Construction, KB Securities Vietnam

Fig 5. CTD – Operating cash flow (CFO)



Source: Cotecons Construction, KB Securities Vietnam

CTD wholly acquired two aluminum & glass and electromechanical enterprises

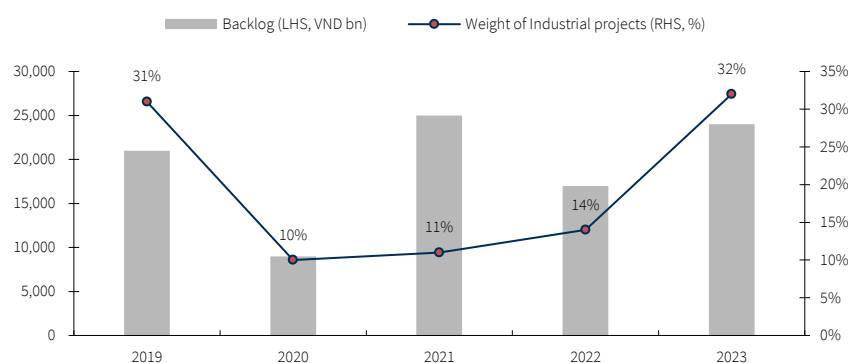
In 3Q FY2024, CTD acquired all capital contributions of two companies specializing in aluminum & glass and mechanical & electrical (M&E) fields, namely Sinh Nam Metal Vietnam Co., Ltd and UG Vietnam Mechanical and Electrical Co., Ltd (UG M&E). Sinh Nam Metal is engaged in providing aluminum and glass facade system design, manufacturing, installation and project management services for mid- and high-end projects. The company operates a 10,000 m² factory in Binh Duong, with daily capacities for windows, doors, and aluminum and glass facades reaching 300 m², 150 m², and 300 m², respectively. UG M&E, a foreign-invested company, operates in the electromechanical sector and has participated in the construction of significant projects in Singapore such as ION Orchard, Marina Bay Sands, and Jewel Changi Airport.

We estimate that the gross margins for the aluminum and glass and M&E segments are 15% and 3%, respectively. Moreover, we expect that investing in these two companies in new sectors will enhance CTD's competitiveness in bidding and its construction capabilities, particularly in the industrial sector (where M&E backlog represents 60–70% of the project value). However, we also note that it may take CTD one to two years to assimilate, prepare, and stabilize the operations of these two companies before the aluminum and glass, and M&E segments can significantly contribute to CTD's core business activities.

The growth momentum should come from the industrial segment, particularly foreign-invested projects

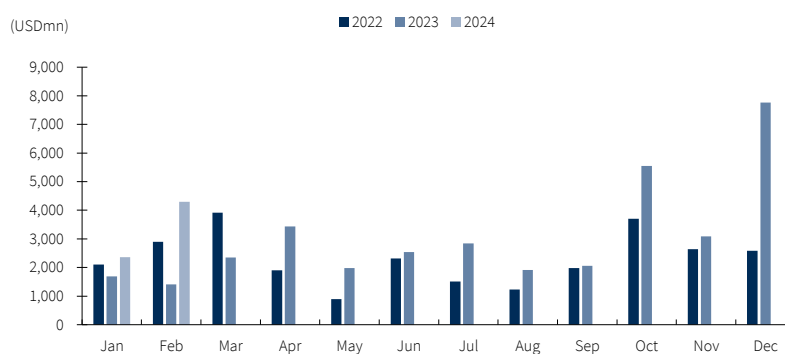
By the end of 2Q FY2024, industrial projects contributed 32% to CTD's backlog, compared to 21% in 1Q FY2024 (in line with our expectations). In the base case scenario, we anticipate that the industrial backlog will contribute 40% during the FY2024–FY2025 period, thanks to (1) outstanding construction capabilities validated by both domestic and international investors and (2) a robust financial foundation and the ability to meet and comply with ESG requirements, providing CTD with a competitive advantage when bidding for foreign-invested projects.

Fig 6. CTD – Backlog, industrial backlog proportion (VNDbn, %)



Source: Cotecons Construction, KB Securities Vietnam

Fig 7. Vietnam – FDI inflow in 2022–2024 (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Forecast

Table 8. CTD – FY24–25F business results

(VNDbn)	FY 2023A	FY 2024F	+/-%YoY	FY 2025F	+/-%YoY	KBSV's comments
Revenue	6,744	18,359		17,928	-2.3%	VND7,000 billion in revenue from the Lego project phase 1 will be booked in 3Q FY2024 – 1Q FY2025.
Cost of goods sold	-6,582	-17,822		-17,354	-2.6%	
Gross profit	162	537		574	6.8%	
Gross profit margin	2.4%	2.9%	53 bps	3.2%	27 bps	Driven by (1) rising proportion of industrial backlog and (2) handover and profit recognition of all previous projects with low gross margins
Deposit interest	108	274		321	16.9%	
Borrowing costs	-50	-103		-90	-12.3%	
Exchange gain/loss, others	55	68		60	-11.7%	
Shared profits from associates	-7	0		0		
SG&A costs	-193	-375		-305	-18.8%	
SG&A margin	2.9%	2.0%	-82 bps	1.7%	-34 bps	Minimizing provision costs helps to optimize SG&A.
Operating income/loss	14	334		500	49.7%	
Net other income	0	-1		0		
Profit before tax	69	408		560	37.3%	
PBT margin	1.0%	2.2%	120 bps	3.1%	90 bps	
Corporate income tax	-17	-86		-112	29.8%	
NPAT	52	321		448	39.3%	
NPAT margin	0.8%	1.8%	98 bps	2.5%	75 bps	
NPAT-MI	52	321		448	39.3%	
NPAT-MI margin	0.8%	1.8%	98 bps	2.5%	75 bps	

Source: KB Securities Vietnam

Valuation

We recommend HOLD for CTD with a target price of VND76,600/share

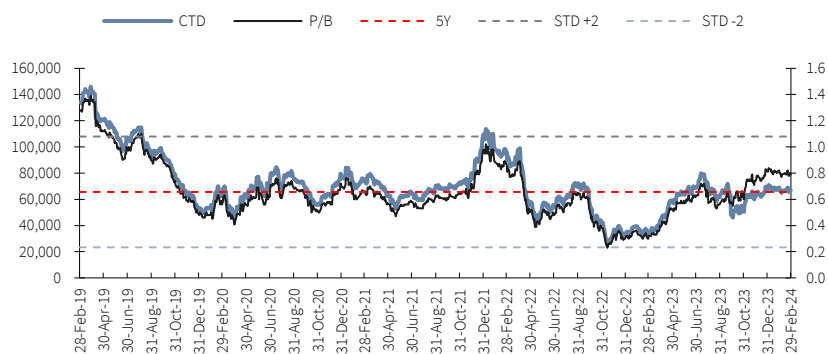
We recommend a HOLD position for CTD with a target price of VND76,600 apiece, corresponding to an expected return of 7% compared to the closing price on March 4, 2024.

Table 9. CTD – Valuation results

Valuation method	Unit	Weighting	Value
Assumptions			
Beta	x		1.4
Risk-free rate	%		4.7%
Risk premium	%		7.6%
WACC	%		14.4%
DCF			
Enterprise value (EV)	VNDbn		3,597
Cash & equivalents, short-term investments	VNDbn		4,611
Short & long-term debts	VNDbn		1,078
Equity value	VNDbn		7,129
Outstanding shares	million		1,036
Value per share	VND/share		68,794
P/B			
BVPS @ FY2024	VND		81,981
Target P/B	x		1
Value per share	VND/share		81,981
Weighting			
DCF	VND/share	40%	68,794
2024 forward P/B	VND/share	60%	81,981
Value per share	VND/share		76,700

Source: KB Securities Vietnam

Fig 10. CTD – Historical P/B (x)



Source: Cotecons Construction, KB Securities Vietnam

CTD – FY2022A–FY2025F financials

Income Statement (bn. VND) (Standard Report)					Balance Sheet (bn. VND) (Standard Report)				
	FY2022	FY2023	FY2024	FY2025		FY2022	FY2023	FY2024	FY2025
Net Revenue	14,537	6,744	18,359	17,928	TOTAL ASSET	18,965	21,375	23,796	23,639
Cost of Goods Sold	-14,050	-6,582	-17,822	-17,354	CURRENT ASSETS	17,465	19,884	21,936	21,739
Gross Profit	487	162	537	574	Cash and cash equivalents	1,064	1,883	3,357	2,270
Interest on Deposits	254	108	274	321	Short-term investments	1,780	2,180	1,768	1,768
Cost of Borrowings	-79	-50	-103	-90	Accounts receivable	11,231	12,079	12,705	13,469
Net gain/loss from foreign exchange and others	44	55	68	60	Inventories	2,838	3,148	3,274	3,400
Profit/(loss) from affiliated companies	-24	-7	0	0	LONG-TERM ASSETS	1,500	1,491	1,861	1,900
Selling expenditures	0	0	0	0	Long-term trade receivables	380	399	603	603
General and administrative expenditures	-735	-193	-375	-305	Fixed assets	560	523	573	612
Profit/(loss) from operating	-54	14	334	500	Long-term incomplete assets	48	33	120	120
Other income	94	2	6	0	Long-term investments	38	50	68	68
Other expenditures	-5	-2	7	0	Good will (before 2015)	0	0	0	0
Net Other Income	88	0	13	0	TOTAL LIABILITIES	10,751	13,103	15,203	14,599
Profit/(loss) from affiliated companies	0	0	0	0	Current liabilities	10,224	12,603	14,705	14,596
Profit/(loss) before tax	35	69	408	560	Trade accounts payable	5,060	5,196	6,032	6,810
Tax	-14	-17	-86	-112	Short-term borrowings	553	697	696	704
Profit/(loss) after tax	21	52	321	448	Other short-term liabilities	4,612	6,710	7,977	7,082
Minority interest	0	0	0	0	Long-term liabilities	527	500	498	2
NPATMI	21	52	321	448	Long-term trade payables	0	0	0	0
Operating Ratios					Other long-term liabilities	524	498	496	0
	FY2022	FY2023	FY2024	FY2025	Long-term borrowings	2	3	2	2
Gross Profit Margin	3.3%	2.4%	2.9%	3.2%	OWNER'S EQUITY	8,214	8,272	8,593	9,041
EBITDA Margin	0.1%	0.2%	1.8%	2.8%	Paid-in capital	788	788	1,036	1,036
EBIT Margin	-0.7%	-0.6%	1.4%	2.5%	Share premium	3,019	3,019	3,019	3,019
PBT Margin	0.2%	1.0%	2.2%	3.1%	Other funds	4,070	4,076	3,828	3,828
Operating Profit Margin	-0.4%	0.2%	1.8%	2.8%	Undistributed earnings	336	388	710	1,157
Net Profit Margin	0.1%	0.8%	1.8%	2.5%	State capital	0	0	0	0
Cash Flow Statement					Interest of non-controlling shareholders	0	0	0	0
(Standard Report)	FY2022	FY2023	FY2024	FY2025	Main Ratios				
PBT	35	69	408	560	(x, %, VND)	FY2022	FY2023	FY2024	FY2025
Depreciation	106	51	60	68	Valuation Ratios				
Profit/(loss) from investing	-352	-169	0	0	P/E	125.2	97.8	23.2	16.7
Cost of borrowing	79	50	103	90	P/E (diluted)	125.2	97.8	23.2	16.7
Profit/(loss) before changes in WC	388	61	571	718	P/B	0.3	0.6	0.9	0.8
(Increase)/decrease in receivables	-3,285	-986	-830	-764	P/S	0.2	0.8	0.4	0.4
(Increase)/decrease in inventory	-1,188	-308	-126	-126	P/Tangible Book	4.6	9.8	13.0	12.2
Increase/(decrease) in payables	2,860	2,228	836	779	P/Cash Flow	-1.6	5.5	5.8	-15.2
(Increase)/decrease in pre-paid expenses	-58	-1	0	0	EV/EBITDA	-77.6	82.5	25.2	18.8
Sellable securities, cost of borrowing, tax	-344	-64	832	-1,098	EV/EBIT	-289.6	360.1	22.0	14.9
Operating Cash Flow	-1,627	931	1,283	-492	Management Efficiency				
Purchases of fixed assets and other long term assets	-195	-40	-217	-108	ROE%	0%	1%	4%	5%
Proceeds from disposal of fixed assets	2	0	0	0	ROA%	0%	0%	1%	2%
Loans granted, purchases of debt instruments	-4,540	-1,769	0	0	ROIC%	0%	1%	3%	5%
Collection of loans, proceeds from sales of debts instruments	5,491	1,417	412	0	Financial Ratios				
Investments in other entities	-525	0	0	0	Cash Ratio	10%	15%	23%	16%
Proceeds from investment in other entities	183	0	0	0	Quick Ratio	138%	128%	121%	120%
Dividends and interest received	317	157	0	0	Current Ratio	171%	158%	149%	149%
Investing Cash Flow	733	-235	195	-108	Long-term borrowing/Owner's Equity	0%	0%	0%	0%
Proceeds from issue of shares	0	6	0	0	Long-term borrowing/Total Asset	0%	0%	0%	0%
Payments for share returns and repurchases	0	0	0	0	Short-term borrowing/Owner's Equity	7%	8%	8%	8%
Proceeds from borrowings	2,242	817	0	0	Short-term borrowing/Total Asset	0%	0%	0%	0%
Repayment of borrowings	-1,168	-700	-3	-488	Short-term payables/Owner's Equity	62%	63%	70%	75%
Finance lease principal payments	-1	0	0	0	Short-term payables/Total Asset	27%	24%	25%	29%
Dividends paid	0	0	0	0	Total payables/Owner's Equity	62%	63%	70%	75%
Interests, dividends, profits received	0	0	0	0	Total payables/Total Asset	27%	24%	25%	29%
Financing Cash Flow	1,073	122	-3	-488	Operating Ratios				
Net increase in cash and cash equivalents	180	818	1,474	-1,087	Receivables turnover	1.3	1.3	1.5	1.4
Cash and cash equivalents at the beginning of period	885	1,064	1,883	3,357	Inventory turnover	6.4	5.3	5.6	5.2
Cash and cash equivalents at the end of period	1,064	1,883	3,357	2,270	Payables turnover	1.6	3.5	3.2	2.7

Source: Cotecons Construction, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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