

Coteccons (CTD)

Making improvements despite general difficulties

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1Q23 NPAT reached VND22 billion on revenue of VND3,130 billion (+64% YoY)

Backlog by the end of 1Q23 is estimated to reach VND14,000 billion (excluding phase 1 of the Lego project)

The large amount of cash helps CTD improve its competitiveness and negotiation amid difficulties to the construction industry

HOLD recommendation for CTD stock, target price VND73,000/share

Hold update

Target price	VND73,000
Upside	13%
Current price (May 24, 2023)	VND64,800
Consensus target price	VND48,000
Market cap (VNDbn/USDmn)	4,727/0.2

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net sales (VNDbn)	9,078	14,537	18,975	20,089
Operating income/loss (VNDbn)	-7	-54	487	576
NPAT (VNDbn)	24	21	379	449
EPS (VND)	303	263	4,803	5,701
EPS growth (%)	-93	-13	1728	19
P/E (x)	361.5	125.2	13.5	11.3
P/B (x)	1.1	0.3	0.6	0.6
ROE (%)	0	0	5	5
Dividend yield (%)	0	0	0	10

Coteccons Construction (CTD) recorded more than VND3,000 billion in revenue in 1Q23 thanks to the timely implementation of backlog projects from 2022 and the optimization of operating costs and cutting provisions for devaluation of trading securities.

The construction of Lego project has started since the end of April 2023 given the People's Committee of Binh Duong province's license. We think that revenue from the Lego project should be included in CTD's backlog from 2Q23 and recorded in 2024 when the factory is handed over. We expect CTD's income from new contracts in 2023 to reach VND17,500 billion (including Lego project and other projects in 2023). 2023F NPAT should be improved thanks to a reduction in provisioning.

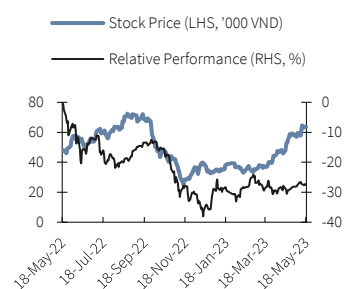
CTD's cash volume improved strongly in 4Q22 and 1Q23 as the company's ability to negotiate with subcontractors and arrange payables helped to increase competitiveness when bidding for projects. At the same time, this also helps to improve operating cash flow and increase the ability to generate financial income from deposits in the future. In the base scenario, we estimate CTD's 2023 financial income at VND330 – 370 billion.

We believe that CTD's potential in 2023 has been pretty much reflected in the stock price, so we update our recommendation to CTD with a forecast of 2024

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	1,586/67
Foreign ownership	48.47%
Major shareholder	Kustoshem
	17.55%

Share price performance

(%)	1M	3M	6M	12M
Absolute	33%	83%	124%	38%
Relative	32%	83%	114%	52%



Source: Bloomberg, KB Securities Vietnam

Table 1. CTD - 1Q23 business performance

	1Q22	4Q22	1Q23	+/-%YoY	+/-%QoQ	KBSV's notes
Revenue	1,913	6,230	3,130	64%	-50%	1Q23 revenue gained 64% with stable progress in 2022 projects (backlog value at the beginning of the year was VND17,000 billion).
COGS	1,846	6,058	3,074	67%	-49%	
Gross interest/loss	67	172	56	-17%	-68%	
Financial income	76	70	85	12%	21%	Financial income rose 21% QoQ thanks to the recognition of VND42 billion in deferred interest (+230% QoQ), and deposit interest was flat compared to 4Q22.
Financial expenses	12	59	32	168%	-46%	Financial expenses fell 46% as stock prices recovered in 1Q, so there is no provision for devaluation of trading securities in the quarter.
Interest expenses	11	25	24	119%	-2%	Interest expenses were flat compared to 4Q22
Earnings/loss from affiliates	5	7	6	11%	-21%	
SG&A expenses	89	183	72	-18%	-60%	CTD optimized staff costs and reduced provisioning
Operating income/loss	37	7	30	-18%		
Other net incomes	2	34	1	-100%	-100%	
Profit before taxes	39	27	29	-24%	10%	
Taxes	10	8	7	-24%	-8%	
Profit after taxes	29	19	22	-25%	17%	1Q23 results increased slightly compared to 4Q22 thanks to (1) optimization of operating expenses and (2) optimization of financial expenses in the provision for trading securities losses.

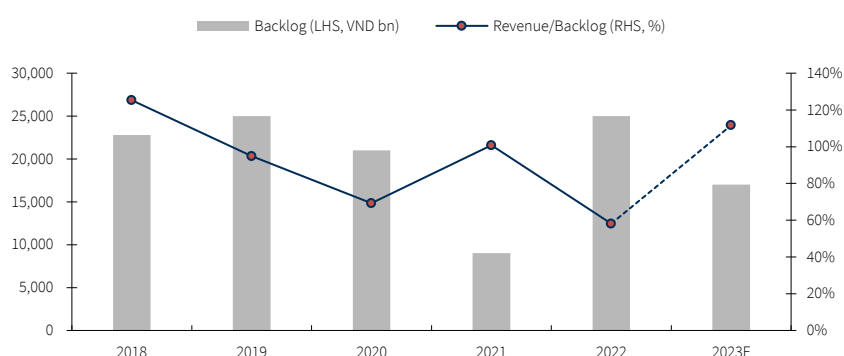
Source: Coteccons, KB Securities Vietnam

Investment catalysts

2023F revenue is VND18,975 billion (+31% YoY) thanks to (1) large backlog and (2) the increase in new large contracts

The value of backlog contracts from 2022 reached VND17,000 billion, which did not include the value of the newly signed Lego project (VND8,500 billion in phase 1). The Lego project is expected to come into operation from 3Q24 and bring in at least **VND3 trillion in revenue** this year thanks to its fast-track implementation capability. In 1Q23, CTD recorded 838 billion in prepayments.

Fig 1. CTD – Backlog value & 2023F revenue (VNDbn)

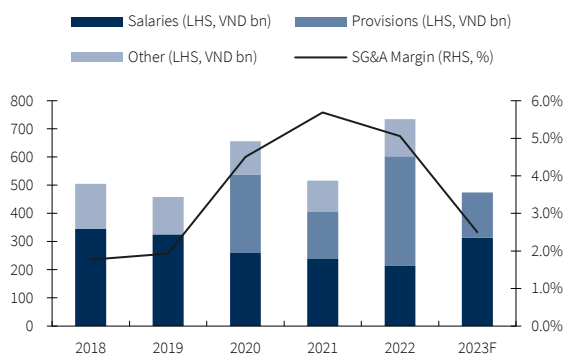


Source: Coteccons, KB Securities Vietnam

SG&A improved on lower provisioning in 2023

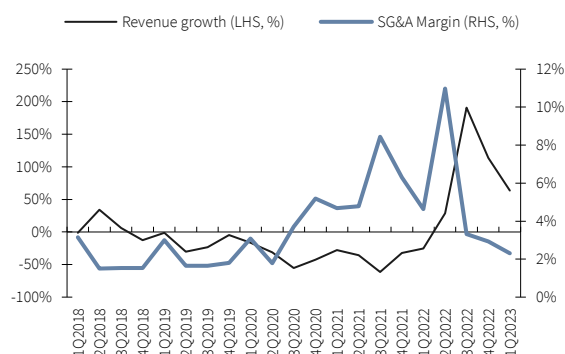
In 1Q23, CTD's SG&A expense were VND72 billion, decreasing 18% YoY or 60% QoQ. Correspondingly, CTD's SG&A margin was only 2.3% in 1Q and is on a decreasing trend. Although CTD has increased its staff on site by 25%, we believe that in the future CTD's SG&A margin can be kept in the range of 2–2.5% thanks to a reduction in provisioning after the restructuring period in 2020–2022.

Fig 2. CTD – SG&A and provision expenses (VNDbn)



Source: Coteccons, KB Securities Vietnam

Fig 3. CTD – Net revenue growth and SG&A margin (%)



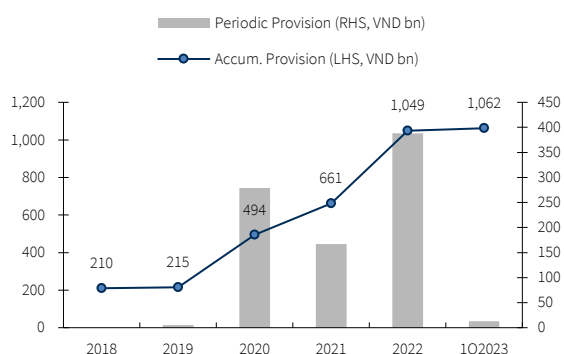
Source: Coteccons, KB Securities Vietnam

Accelerating provision in 2022 helped CTD's balance sheet become healthier

By 1Q23, CTD's value of bad debts hit VND1,360 billion (up 38 billion vs 4Q22). In 2022, the company proactively made provision for these bad debts (VND388 billion compared to VND167 billion in 2021 and VND279 billion in 2022), thereby helping loan loss coverage ratio (LLCR) reach 79.3% in 2022 and 78.1% in 1Q23. The increase and focus on provisioning in 2022 helped (1) CTD to have a healthier balance sheet when the NPL/total assets ratio tends to decrease (6.8% in 1Q23 vs 7.0% in 4Q22) and (2) CTD's business results to improve strongly in 2023 with provision expenses declining 30-50% YoY.

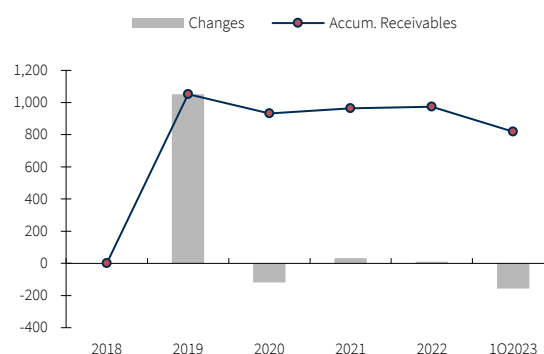
In addition, the debt collection from the Nam Hoi An project is happening on schedule in 1Q23 thanks to the strong recovery of the tourism industry. Accordingly, the value of receivables from this project reached VND818 billion (VND157 billion lower than 4Q22's). We assume that the recovery rate from Nam Hoi An is stable and CTD can collect 100% of this receivable in 2Q24.

Fig 4. CTD – Provision expenses (VNDbn)



Source: Coteccons, KB Securities Vietnam

Fig 5. CTD – Collection progress of receivables in Nam Hoi An project (VNDbn)

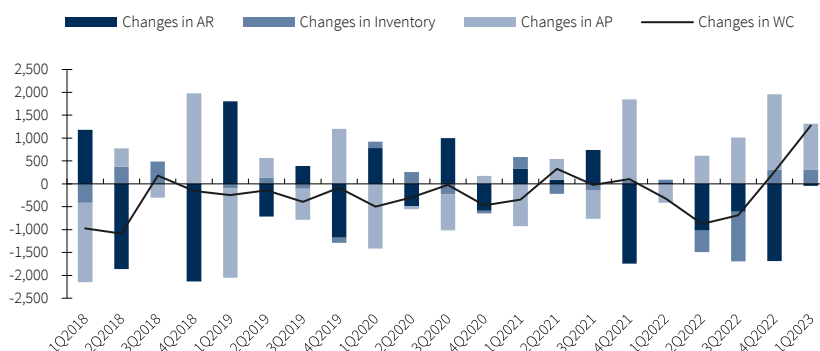


Source: Coteccons, KB Securities Vietnam

Optimized operating cash flow helps CTD increase financial income

We estimate CTD's financial income at VND330-370 billion, based on (1) an increase of VND455 billion in held-to-maturity investment, reaching VND2,047 billion in 1Q23 with operating cash flow of VND1,239 billion (payables gain by VND1,006 billion) and (2) high yield on financial investment (including savings and loans) (13%/year).

Fig 6. CTD – Changes in working capital (VNDbn)



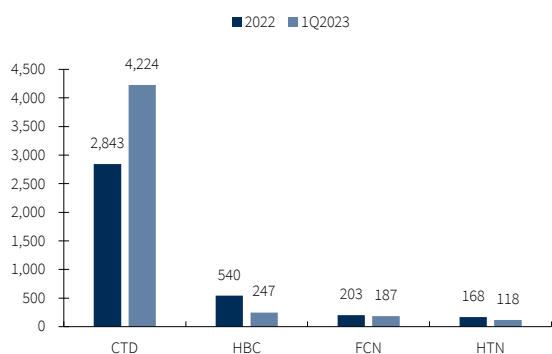
Source: Cotecccons, KB Securities Vietnam

The large amount of cash helps CTD improve its competitiveness when bidding for projects

We think CTD has a competitive advantage while the construction industry is currently affected by difficulties related to cash flow and capital sources of real estate businesses. With a large amount of cash, which was improved in the last two quarters (VND4,224 billion in cash and short-term Investment in 1Q23), CTD will have more room to balance the debts of subcontractors, thereby offering more suitable payment terms to the developers (possibly pay later with interests).

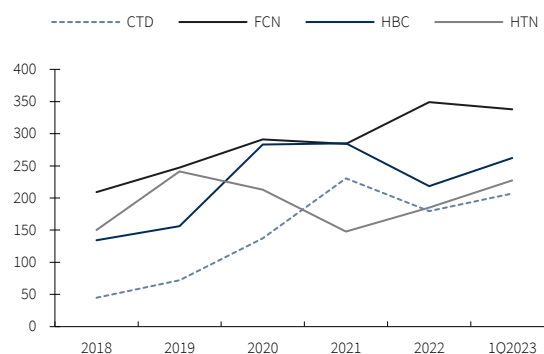
In the medium term, we expect CTD to maintain effective working capital management when increasing the proportion of backlogs of factory and industrial park projects financed by large FDI enterprises, maintain strong cash flows, and ensure debt collecting activities.

Fig 7. Vietnamese construction companies – Cash balance in 1Q23 (VNDbn)



Source: FiinPro, KB Securities Vietnam

Fig 8. Vietnamese construction companies – Cash conversion cycle (day)



Source: FiinPro, KB Securities Vietnam

Forecast & valuation

Table 2. CTD – 2023–2024F performance

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Revenue	14,537	18,975	31%	20,089	6%	In the base case, we expect CTD to achieve total new contract value of VND17,500 billion in 2023 (including phase 1 of the Lego project of VND8,500 billion) and an estimated 2024 backlog of VND15,500 billion.
COGS	14,050	18,254	30%	19,325	6%	
Gross interest	487	721	48%	763	6%	We expect gross margin to improve thanks to the focus on building factories and industrial parks with better GPM.
Financial income	381	333	-12%	365	9%	
Financial expenses	163	70	-57%	50	-29%	Financial expenses in 2022 skyrocketed as CTD made provision for devaluation of investments.
Interest expenses	79	70	-12%	50	-29%	We forecast a 12% decrease in interest expenses, which is mainly due to the interest expense on bond mobilization of VND500 billion from 1Q22.
Earnings/loss from affiliates	24	23	-3%	0		
SG&A expenses	735	474	-35%	502	6%	2023 operating expenses should go down 35% thanks to reduced provisioning
Operating income/loss	54	487		576	18%	
Other net incomes	88	1	-100%	0		
Profit before taxes	35	485	1294%	576	19%	
Taxes	14	105	661%	127	19%	
Profit after taxes	21	379	1728%	449	19%	

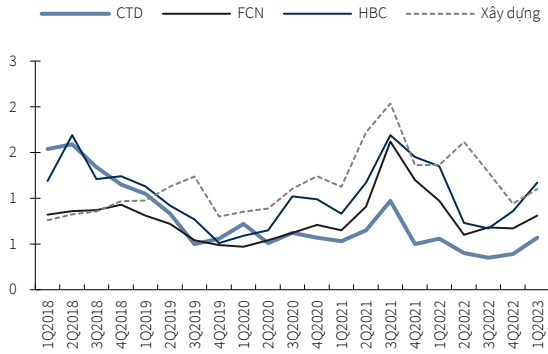
Source: Coteccons, KB Securities Vietnam

HOLD recommendation with a target price of VND73,000/share

We believe that CTD's short-term potential is already reflected in the stock price, therefore, we value CTD with a one-year vision. Using two methods P/E and P/B, we found the appropriate value of CTD, based on forecast business results of 2024. With P/E and target P/B of 10x and 0.8x respectively, we find the fair value for CTD is VND73,000/share, 13% higher than the closing price on May 24, 2023).

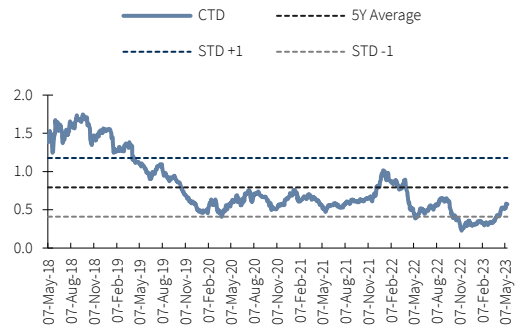
At the same time, when applying the Net – Net method, we find that the market capitalization of CTD as of May 24, 2023 (VND4,730 billion) is lower than the net value of current assets and liabilities of the company in 1Q23 (VND6,783 billion), which shows the attractiveness of CTD in the medium and long term.

Fig 9. Vietnamese construction companies – Comparison of P/B (x)



Source: FiinPro, KB Securities Vietnam

Fig 10. CTD – P/B valuation (x)



Source: Bloomberg, 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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