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CTD recorded a loss of VND3.5 billion in 3Q and may continue to lose for the whole year 2022

Coteccons (CTD) recorded another loss in 3Q, valued at VND3.5 billion compared to a loss of VND23.8 billion in 3Q and VND11.8 billion 3Q21 due to (1) high raw material prices and (2) difficulties to domestic construction activities (for example, high competition makes construction investors have to compete in bid prices). 9M22 NPAT of the parent company reached VND1.8 billion (-97.9%YoY). CTD made provision of VND299 billion in administrative expenses, 5.4 times higher than the same period last year, of which receivables are more than VND242 billion from D'Capitale project developed by Tan Hoang Minh Group. CTD's 2022 full-year business results are forecasted to lose about VND181 billion due to (1) increased provisioning and (2) general difficulties of the industry in 4Q.

2023 business outlook continues to face many challenges, besides expectations from public investment

CTD may face many challenges from (1) the civil real estate industry's difficulties in the period of 2022-2023, (2) high competitiveness of the construction industry, and (3) worrying quality of receivables as the company must constantly made provision for bad debts. We estimate the backlog value in the period 2023-2026 to reach VND18,000 billion, much lower than the period 2016-2018. The bright spot for CTD's operations is the acceleration of public investment in 2023 when other growth drivers in 2023 weaken, causing public investment to return as a fulcrum.

BUY recommendation – Target price VND40,000/share

Based on the valuation results, we recommend BUY for CTD stocks with a target price of VND40,000/share, upside 23%.

Buy

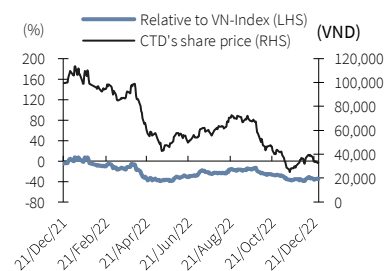
Target price	VND40,000
Upside	23%
Current price (Dec 26, 2022)	VND32,550
Consensus target price	VND37,500
Market cap (VNDbn/USDmn)	2.4/0.1

Trading data	
Free float	66.1%
3M avg trading value (VNDbn/USDmn)	22.1/0.9
Foreign ownership	0
Major shareholder	Kusto (17.6%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	8	-51	-40	108
Relative	5	-37	-22	107

Forecast earnings & valuation

FY-end	2020	2021	2022F	2023F
Net sales (VNDbn)	14,558	9,078	11,238	12,432
Operating income (VNDbn)	428	23	-207	-2
NPAT of the parent company (VNDbn)	334	24	-181	22
EPS (VND)	4,219	303	-2,283	283
EPS growth (%)	-53%	-93%	na	na
P/E (x)	7.7	107.5	-14.3	115.0
P/B (x)	0.3	0.3	0.3	0.3
ROE (%)	4.0%	0.3%	-2.3%	0.3%
Dividend yield (%)	3		0	0



Source: Bloomberg, KB Securities Vietnam

3Q22 business performance

CTD recorded a loss of VND3.5 billion in 3Q22

CTD's 3Q net revenue was VND3,113.5 billion (+190.8%YoY). There is another loss in 3Q profit, valued at VND3.5 billion compared to a loss of VND23.8 billion in 3Q and VND11.8 billion 3Q21

The company's gross profit margin (GPM) continued to shrink significantly to only 1.0% due to (1) high raw material prices and (2) difficulties to domestic construction activities (for example, high competition makes construction investors have to compete in bid prices).

9M22 NPAT of the parent company reached VND1.8 billion (-97.9%YoY) on revenue of VND8,307 billion (+34.2% YoY), of which VND7,700 billion came from the revenue backlog of 2021, and VND600 billion came from projects signed in 2022. Business results reached 9.6% and 55.3% of the respective full-year targets.

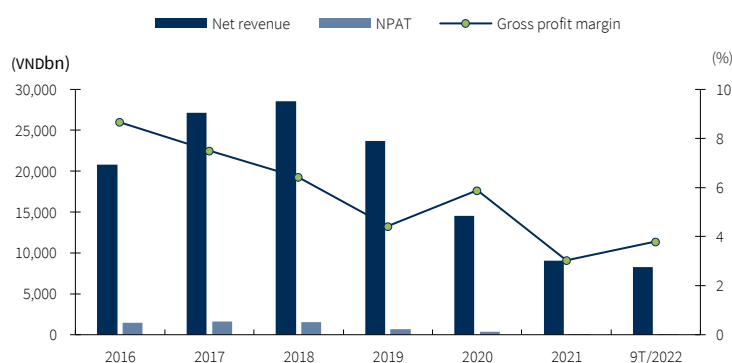
CTD made provision of VND299 billion in administrative expenses, 5.4 times higher than the same period last year, of which receivables are more than VND242 billion from D'Capitale project developed by Tan Hoang Minh Group.

Table 1. CTD – Business performance over the years

(VNDbn)	3Q2022	3Q2021	+/-%YoY	9M2022	9M2021	+/-%YoY
Net revenue	3,113	1,070	191%	8,306	6,189	34%
Gross profit	32	16	100%	314	271	16%
<i>Gross profit margin</i>	1.0%	1.5%	-0.5ppt	3.8%	4.4%	0.6
Financial income	83	77	8%	310	192	61%
Financial expenses	(44)	(2)	2,100%	(103)	(3)	3,333%
G&A expenses	(103)	(90)	14%	(552)	(332)	66%
Operating profit	(36)	(8)	350%	(46)	106	-143%
Net other income	33	(3)	-1,200%	54	10	440%
PBT	(3)	(11)	-73%	8	116	-93%
PAT	(3)	(11)	-73%	2	87	-98%
NPATMI	(3)	(11)	-73%	2	87	-98%

Source: Coteccons, KB Securities Vietnam

Fig 2. CTD – Business results in 2016–9M22



Source: Coteccons, KB Securities Vietnam

The civil real estate industry will still face many challenges in the period of 2022–2023

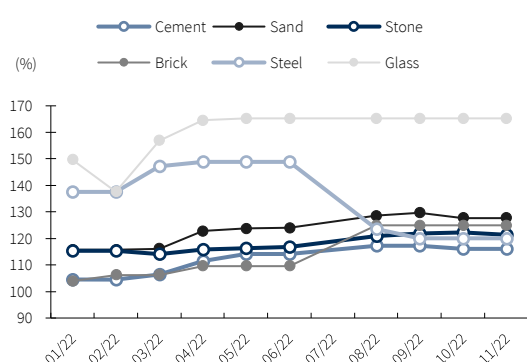
CTD's business results have reflected the difficulties that the construction industry is facing. In particular, the real estate industry faces many challenges when 1) home loan interest rates are expected to climb further as rising deposit rates affect homebuyers' borrowing needs. (2) Legal issues often take a long time and there are many risks that may slow down the process of approving and granting project construction permits. (3) Investors also have more difficulties in accessing capital due to limited loans banks into real estate and unstable bond market. In addition, interest rates are expected to stay high, which should significantly affect the financial health of real estate developers, making it difficult to execute construction contracts according to regulations on schedule.

In addition, we believe that the civil construction industry has low entry barriers, so new businesses are constantly increasing. Large enterprises like CTD will also have to lower their bids to increase their competitiveness, so GPM would be affected.

High provisioning costs affect CTD's profit

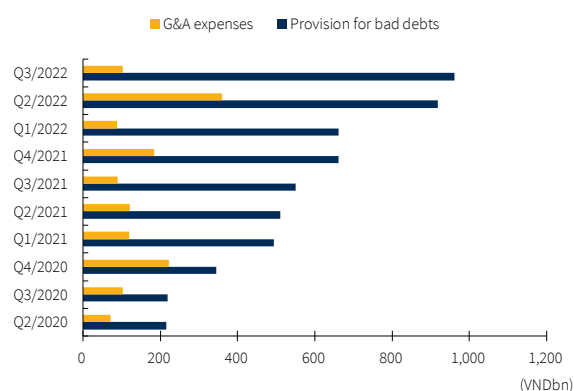
The quality of CTD's receivables is also a concern as the company constantly has to make provision for bad debts. By the end of 3Q22, CTD has made provision of VND960.7 billion for customers' receivables that the company has recorded from 2020 and earlier (including Viet Star Investment Co., Ltd. of Tan Hoang Minh, Minh Viet Investment JSC and some other investors). High provision expense affected CTD's profit.

Fig 3. Vietnam – 2022 building material prices to 2020 prices ratio (%)



Source: HCM Department of Construction, KB Securities Vietnam

Fig 4. CTD – Provision and administrative expenses (VNDbn)



Source: Coteccons, KB Securities Vietnam

Backlog value is not likely to grow as strong as in the previous period

In the first three quarters of 2022, CTD won a series of high-end projects with large investment capital such as Ecopark CT06 building, Doji Land's Diamond Crown, and Lego Factory. New backlog value of CTD (excluding MoU contracts and contracts that are not implemented) reached VND17,700 billion. We expect that the new backlog value will help CTD's business results from 2023 to recover after the significant provision of outstanding receivables.

Given the current difficulties, we estimate the backlog value in the period of 2023–2026 to reach VND18,000 billion, much lower than the period of 2016–2018.

Table 5. CTD – Some noticeable projects CTD won in 9M22

Project	Developer
Ecopark Sky Forest Residences	Ecopark
Diamond Crown Hai Phong	Doji Land
Vinhomes Q9 Subzone 3	Vingroup
The Emerald 68	Le Phong
LEGO factory	LEGO
Hoa Phat Dung Quat 2	Hoa Phat
Charm Resort Ho Tram	Charm Group

Source: Coteccons, KB Securities Vietnam

Fig 6. CTD – Lego Factory in Binh Duong



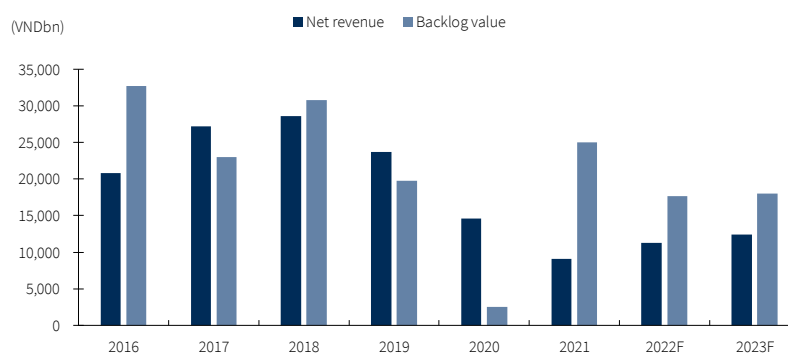
Source: Coteccons, KB Securities Vietnam

Fig 7. CTD – Diamond Crown in Hai Phong



Source: Coteccons, KB Securities Vietnam

Fig 8. CTD – Newly signed backlog and recorded revenue (VNDbn)

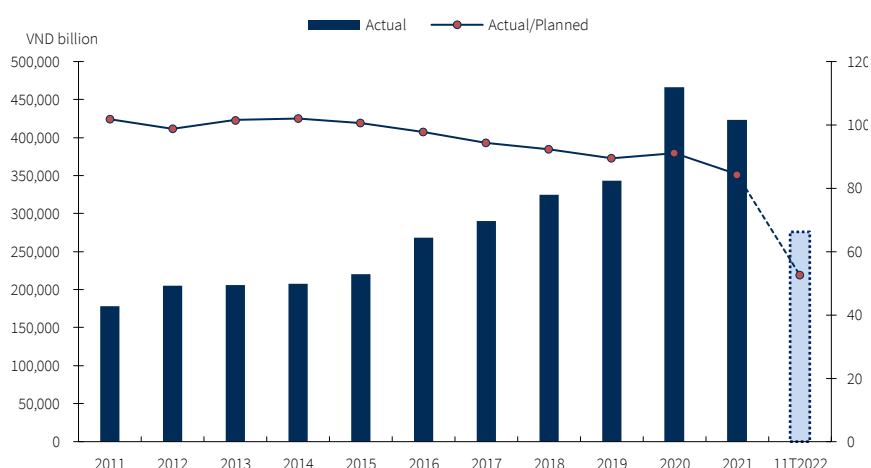


Source: Coteccons, KB Securities Vietnam

Boosted public investment is a bright spot for CTD's business activities

Public investment is considered an economic booster and has spillover effects on other sectors in the long term. Disbursement of public investment capital in the first 11 months of 2022 reached VND275.9 trillion, equal to 52.5% of the full-year plan. For 2023, the National Assembly approved the 2023 public investment plan with a total capital of over VND700,000 billion, up 25% compared to the 2022 plan. The rate of disbursement of public investment is expected to improve to 80% of the plan (compared to the forecast of 65% in 2022), helping to clear the bottlenecked capital in the treasury and supporting the economy's liquidity. The driving forces to promote public investment for 2023 include lower commodity prices of construction material and low disbursement rate base in 2022 (as 2022 is the second year of implementing the five-year public investment plan, so the disbursement rate is usually low). Furthermore, other growth drivers of 2023 may become weaker, so public investment would be the mainstay of the economy.

Fig 9. Vietnam – The disbursement progress of public investment (VNDbn)



Source: Vietnam General Statistics Office

Forecast & valuation

2022 KBSV estimates CTD's 2022 revenue to reach VND11,238 billion (+24% YoY), and profit of the parent company may record a loss VND181 billion as the company promoted provision for outstanding receivables from 2020.

2023 2023E NPAT would recover to VND28 billion after provisioning most of the receivables in 2022, and revenue is VND12,342 billion (+11% YoY).

BUY recommendation with the target price of VND40,000/share

Using the DCF valuation method, we set a target price for CTD at VND40,000/share, equivalent to an upside of 23% vs the closing price on December 27, 2022.

CTD's share price has experienced a big correction of more than 50% in the last three months. The stock is currently trading at a 2023F P/B of 0.32x, partly reflecting the bleak outlook of the construction industry in the coming time. Although CTD's valuation is quite attractive, the outlook for the construction industry in general and CTD in particular is unclear. Therefore, short- and medium-term trading activities need strict risk management.

Table 10. CTD – 2022–2023F business results

	2020	2021	2022F	2023F
Net revenue	14,558	9,078	11,238	12,432
Gross profit	856	275	337	429
<i>Gross profit margin</i>	5.9%	3.0%	3.0%	3.4%
Selling expenses	0	0	0	0
G&A expenses	656	516	804	529
Financial expenses	0	13	146	266
PBT	428	38	-182	28
NPAT-MI	334	24	-181	22

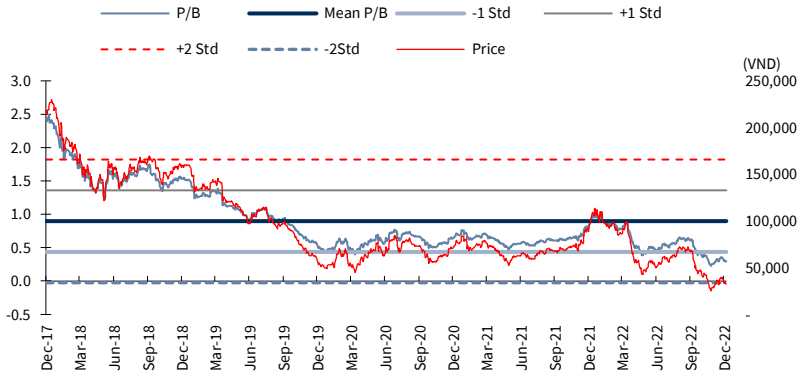
Source: Coteccons, KB Securities Vietnam

Table 11. CTD – Valuation

Re	14.1%	Enterprise value (VNDbn)	1,483
Rf	4.8%	+ Cash (VNDbn)	3,163
Market premium	7.8%	- Net debt (VNDbn)	1,463
Beta	1.20	Equity value (VNDbn)	3,183
Perpetual growth	2%	Outstanding share	79,385,585
Estimated duration	6 years	Target price	40,000

Source: KB Securities Vietnam

Fig 12. CTD – P/B history (x)



Source: KB Securities Vietnam

CTD – 2020A–2023F financials

Income Statement					Balance Sheet				
(VND billion)	2020A	2021A	2022F	2023F	(VND billion)	2020A	2021A	2022F	2023F
Net sales	14,558	9,078	11,238	12,432	TOTAL ASSETS	14,157	13,925	17,010	17,820
Cost of sales	13,702	8,803	10,901	12,004	CURRENT ASSETS	14,727	12,868	12,751	16,699
Gross Profit	856	275	337	429	Cash and cash equivalents	801	1,397	885	927
Financial income	228	277	406	365	Short-term investments	3,242	1,981	2,401	2,221
Financial expenses	0	13	146	266	Accounts receivable	8,798	7,648	7,425	10,218
of which: interest expenses	0	1	110	199	Inventories	1,626	1,492	1,692	2,960
Gain/(loss) from joint ventures	-27	-30	-20	-20	LONG-TERM ASSETS	1,471	1,290	1,174	1,121
Selling expenses	0	0	0	0	Long-term trade receivables	0	0	0	0
General and admin expenses	656	516	804	529	Fixed assets	866	765	716	631
Operating profit/(loss)	428	23	-207	-2	Long-term incomplete assets	161	162	185	185
Other incomes	39	58	73	81	Long-term investments	394	365	335	318
Other expenses	13	12	28	31	Goodwill	0	0	0	0
Net other income/(expenses)	27	45	45	50	LIABILITIES	7,729	5,759	5,677	9,798
Net accounting profit/(loss) before tax	428	38	-182	28	Current liabilities	7,710	5,753	5,675	9,270
Corporate income tax expenses	243	73	124	0	Trade accounts payable	4,571	3,307	3,133	0
Net profit/(loss) after tax	335	24	-182	23	Short-term unrealized revenue	55	45	38	0
Minority interests	0	0	-1	0	Short-term borrowings	0	0	2	2,438
Attributable to parent company	334	24	-181	22	Long-term liabilities	19	6	3	527
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	1	2	0	0
					Long-term borrowings	0	0	0	525
					OWNER'S EQUITY	8,470	8,399	8,248	8,023
					Paid-in capital	793	793	793	794
					Share premium	3,039	3,039	3,039	3,039
					Undistributed earnings	1,029	365	315	0
					Other funds	3,998	4,667	4,667	0
					Minority interests	54	54	55	55

Margin ratio				
(%)	2020A	2021A	2022F	2023F
Gross profit margin	5.9%	3.0%	3.0%	3.4%
EBITDA margin	3.7%	1.6%	0.3%	2.7%
EBIT margin	2.9%	0.4%	-0.6%	1.8%
Pre-tax profit margin	2.9%	0.4%	-1.6%	0.2%
Operating profit margin	2.9%	0.3%	-1.8%	0.0%
Net profit margin	2.3%	0.3%	-1.6%	0.2%

Cash Flow Statement				
(VND billion)	2020A	2021A	2022F	2023F
Net profit/(loss) before tax	428	38	-182	28
Depreciation and amortisation	109	108	105	102
Profit/loss from investing activities	-274	-201	-203	0
Interest expense	0	0	1	199
Operating profit/(loss) before changes in Working Capital	718	662	252	330
(Increase)/decrease in receivables	312	1,008	378	-366
(Increase)/decrease in inventories	-183	104	-198	27
Increase/(decrease) in payables	-997	-2,077	-60	-582
(Increase)/decrease in prepaid expenses	187	61	57	-326
Interest expense	0	-130	129	0
Net cash inflows/(outflows) from operating activities	-339	-567	421	-1,372
Purchases of fixed assets and other long term assets	-77	-5	-47	-63
Proceeds from disposal of fixed assets	10	8	0	0
Loans granted, purchases of debt instruments	-4,709	-3,853	-4,621	0
Collection of loans, proceeds from sales of debts instruments	5,374	4,981	3,761	0
Investments in other entities	-164	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	334	261	226	0
Net cash inflows/(outflows) from investing activities	769	1,392	-681	-63
Proceeds from issue of shares	50	0	0	0
Payments for share returns and repurchases	-4	0	-178	0
Proceeds from borrowings	0	0	555	0
Repayment of borrowings	0	0	-555	0
Finance lease principal payments	0	0	-1	0
Dividends paid	-229	-229	-74	-79
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-183	-229	-253	1,421
Net increase in cash and cash equivalents	248	596	-512	-15
Cash and cash equivalents at the beginning of period	553	801	1,397	942
Cash and cash equivalents at the end of period	801	1,397	885	927

Key ratios				
(x, %, VND)	2020A	2021A	2022F	2023F
Multiple				
P/E	7.7	107.5	-14.3	115.0
P/E diluted	7.7	107.5	-14.3	115.0
P/B	0.3	0.3	0.3	0.3
P/S	0.2	0.3	0.2	0.2
P/Tangible Book	0.2	0.2	0.2	0.1
P/Cash Flow	-4.6	6.1	-2.5	-1.9
EV/EBITDA	4.8	18.0	86.2	7.8
EV/EBIT	6.0	65.8	-35.8	11.4
Operating performance				
ROE	4.0%	0.3%	-2.3%	0.3%
ROA	2.4%	0.2%	-1.1%	0.1%
ROIC	4.8%	0.3%	-2.1%	0.2%
Financial structure				
Cash Ratio	223.7%	224.7%	188.6%	180.1%
Quick Ratio	191.5%	188.7%	139.6%	136.4%
Current Ratio	58.7%	57.9%	37.6%	34.0%
LT Debt/Equity	0.0%	0.0%	6.5%	6.5%
LT Debt/Total Assets	0.0%	0.0%	3.1%	2.9%
ST Debt/Equity	0.0%	0.0%	11.6%	30.4%
ST Debt/Total Assets	0.0%	0.0%	5.5%	13.7%
ST Liabilities/Equity	68.5%	68.8%	104.0%	115.6%
ST Liabilities/Total Assets	40.6%	40.8%	49.4%	52.0%
Total Liabilities/Equity	68.6%	68.8%	110.5%	122.1%
Total Liabilities/Total Assets	40.7%	40.8%	52.5%	55.0%
Activity ratios				
Account Receivable Turnover	1.8	1.2	1.3	1.3
Inventory Turnover	8.8	5.5	4.7	4.0
Account Payable Turnover	4.1	2.9	2.4	2.7

Source: Cotecons, KB Securities Vietnam

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Investment ratings & definitions

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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