



Coteccons Construction JSC (CTD-HOSE)



Our experience drives us forward

Tran Van Thao—Analyst

thaotv@kbsec.com.vn

21 August 2018 (Update)

Net profit went down due to increases in material price, labor cost and a fall in contribution of design & construction segment.

In 1H2018, CTD recorded a revenue of VND 12,613bn (+19.6% yoy) and a net profit of VND 718bn (+0.7% yoy).

Despite a significant soar in revenue, net profit saw a decline as gross profit margin dropped from 8.4% in 1H2017 to 6.7% in 1H2018. This resulted from a reduction in contribution of design and construction contracts, a hike in input material price and pressure from domestic competition.

In addition, G&A expense increased sharply to VND 260bn (+41.3% yoy) since labor cost rose as a result of adjustments of basic salary and insurance fee starting 1 Jan 2018.

Value of newly signed contracts in 1H2018 reached VND 13,900bn.

Total number of newly signed contracts in 1H2018 reached VND 13,900bn (including: Vinfast, Hoa Phat Dung Quat Steel Complex, Casino Hoi An), down by VND 14,000bn compared to that of 1H2017. transferred contracts until Q2/2018 valued at VND 24,000bn (compared to VND 23,000bn at the end of 2017).

Vincity will be a key drive for the growth of CTD in coming years.

CTD has signed a contract to be the main contractor for upcoming projects of Vingroup (Vincity Gia Lam, Vincity Tay Mo Dai Mo, Vincity New Saigon Q9), expected to start construction in Q3.2018. Vincity will be the main source of revenue for CTD in the period of 2019 – 2020. Book-to-bill ratio which reached 1.1x in 1H2018, likely decline to 1.

Buy

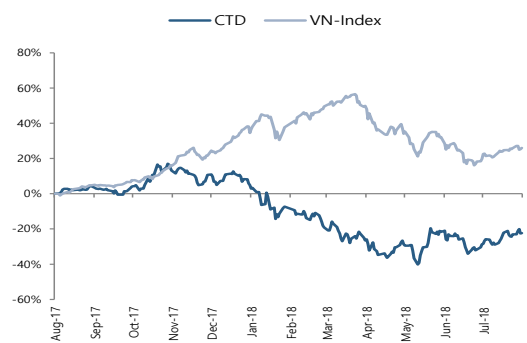
Target price	VND193,000
Upside/Downside	26.8%
Current price (21-08-2018)	VND152,500
Market cap	VND11,978 bn

Trading data	
Outstanding share	78,288,394
Ave. daily trading volume (3M)	202,242
Foreign own	42.4%
Dividend	VND5,000

Performance				
(%)	1M	3M	6M	12M
CTD	5%	9%	-15%	-23%
VNINDEX	4%	-4%	-11%	26%

Earning forecast and valuation

VND Billion	2016A	2017A	2018F
Revenue	20,782	27,153	31,513
Growth (%)	52.0%	30.7%	16.1%
Gross profit	1,799	2,016	2,206
Gross profit margin (%)	61.9%	12.1%	9.4%
Net profit	1,422	1,652	1,698
Growth (%)	113.5%	16.2%	2.8%
EPS	18,901	21,271	21,670
P/B	2.4	2.5	1.4
P/E	9.7	9.8	7.1



Source: KBSV

Contribution of industry segment revenue improved from 10% (1H2018) to 28% as revenue from Vinfast and Hoa Phat Dung Quat was recorded, which resulted in residential segment dropping from 72% to 52% in 1H2018.

M&A plan in coming time: the Company stated to spend VND 4,500bn in implementing M&A plan in coming time. In our opinion, it is likely that CTD will merge with Ricon in 2019 after Ricon becomes a listed company by the end of 2018. If the plan is on schedule, it is estimated that CTD’s revenue may reach over VND 50,000bn in 2019.

Convestcons (100% owned by CTD, founded in March 2017 with charter capital of VND 119bn, its core businesses are real estate brokerage and trading) is expected to invest in 2 office buildings (construction is projected to begin in Q2.2019) and 1 residential project.

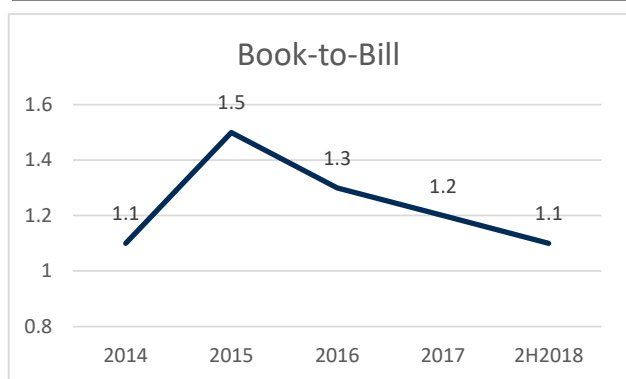
We estimate CTD’s revenue and net profit in 2018 to be VND 31,513bn (+16.1% yoy) and VND 1,698bn (+2.8% yoy). We assume that gross profit margin for the year is 7% due to a slight rise of input materials by year-end, intense domestic competition, 26% increase of labor cost owing to new insurance policy. CTD is currently trading at P/E forward 2018 of 7.1x. We **recommend a BUY** for CTD with a **target price of VND193,000/share**, equivalent to estimated PE of 9.0x.

We highly appreciate the positive prospect in coming years as CTD merges with its affiliate to become “One Coteccons”, Vincyty is the Company’s key drive for growth (Vincyty Gia Lam and Vincyty Park were granted investment certificates from People’s Committee of Hanoi with a total investment of VND 167,400bn, expected to launch by this year-end) and financial structure remains healthy (no long-term debt and cash taking 30.8% of total assets).

We recommend a BUY for CTD with a target price of VND193,000/share

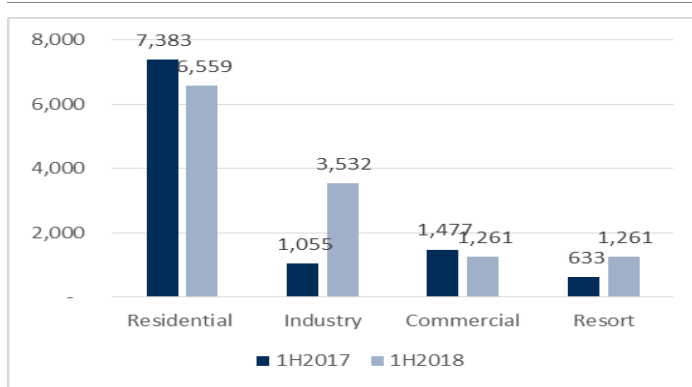
Long-term prospect: megers of affiliates, main contractor of Vincyty, sound financial structure.

Figure 1: Book-to-Bill ratio



Source: KBSV research

Source 2: Revenue by segment



Source: CTD, KBSV research

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

This report has been prepared for informational purposes only, and does not constitute an offer or solicitation of a contract for trading. Opinions in this report reflect professional judgment at this date based on information and data obtained from sources KBSV considers reliable. However, KBSV does not guarantee that the information and data are accurate or complete, and, therefore, this report is subject to change without prior notice. Individual investments should be made based on each client's own judgment and we expressly disclaim all liabilities for any investment decisions and any results thereof. This report is a copyrighted material of KBSV and, thus, it may not be reproduced, distributed, or modified without the prior consent of KB Securities. This report is not prepared for academic purposes and any third party wishing to quote from it for academic publications should receive the prior consent of KBSV.

KB SECURITIES VIETNAM (KBSV)**Head Office:**

Floor 1&3, Sky City Tower, 88 Lang Ha Street, Dong Da District, Ha Noi, Vietnam

Tel: (84) 24 7303 5333 - Fax: (84) 24 3776 5928

Ha Noi Branch

Floor 9, TNR Tower Hoan Kiem, 115 Tran Hung Dao Street Hoan Kiem District, Ha Noi, Vietnam

Tel: (84) 24 3776 5929 - Fax: (84) 24 3822 3131

Ho Chi Minh City Branch

Floor 2, TNR Tower Nguyen Cong Tru

180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (84) 28 7303 5333 - Fax: (84) 28 3914 1969

CONTACT INFORMATION**Institutional Client Center:** (84) 28 7303 5333 - Ext: 2556**Private Client Center:** (84) 24 7303 5333 - Ext: 2276**Hotmail:** ccc@kbsec.com.vn**Website:** www.kbsec.com.vn