

STOCK PITCH REPORT

Buy

September 1, 2021

Target price VND114,700

Upside/Downside	43.5
Current price (Dec 1, 2021)	VND80,000
Market cap (VNDbn)	6,141

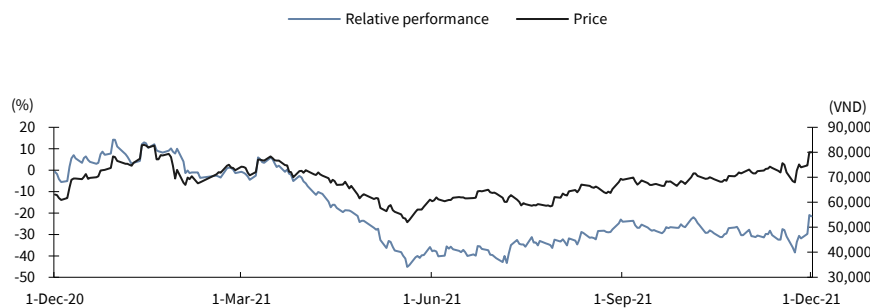
Trading data

Free float	50.6%
3M avg trading value (VNDbn/USDmn)	34.3/1.51
Foreign ownership left	45.91%
Major shareholder	Kustoshem (17.55%)

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net revenue (VNDbn)	23,733,028	14,558,086	8,787,879	21,337,772
Net revenue growth (%)	-16.9%	-38.7%	-39.6%	142.8%
Gross profit (VNDbn)	1,048,107	856,407	377,879	960,200
Gross profit margin (%)	4.4%	5.9%	4.3%	4.5%
Net profit (VNDbn)	710,917	334,554	132,502	426,207
Net profit growth (%)	-52.9%	-52.9%	-60.4%	221.7%
EPS (VND)	8,970	4,219	1,671	5,375
EPS growth (%)	-53.5%	-53.0%	-60.4%	221.7%
P/E (x)	8.9	19.0	47.9	14.9

Fig 1. CTD – Share price performance



Source: Fiinpro, KB Securities Vietnam

Coteccons Construction (CTD)

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INVESTMENT VIEWPOINT

We recommend BUY for CTD stocks of Coteccons Construction JSC with a target price of VND114,700/share on the expectations of its recovery from the low base thanks to rising contract values and its leading position in the construction industry.

INVESTMENT CATALYSTS

Positive outlook of the construction sector in the medium to long term. We believe that in the coming period, the construction industry will be supported by: (1) Recovery of the property market; (2) unblocked bottlenecks in public spending in the second half of 2021 and early 2022.

Recovering from the low base thanks to rising backlogs. The COVID-19 pandemic interrupted construction, putting enormous pressure on revenue and profit margin of CTD in the second and third quarters of 2021. However, CTD’s management said contract values in 9M2021 were beyond expectation at VND18,000 billion, which will boost CTD’s revenue growth in the coming period.

Benefiting from public projects. CTD is progressively expanding into infrastructure construction which will benefit considerably from promoted public investment.

Strong financial health, attractive valuation. CTD shares are now trading at a P/B of 0.73x, below that of the construction industry and CTD’s historical P/B. Given strong financial health, abundant cash balance, no debts, and its leading position in the industry, KBSV believes CTD shares should enjoy a higher valuation.

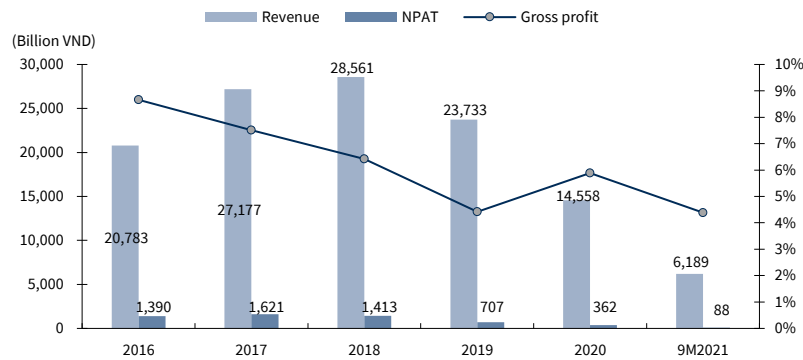
RISKS

Complicated developments of the COVID-19 pandemic would hinder the construction progress of backlogs as well as push input costs higher. CTD may have to make provisions for receivables from projects under predecessors.

BUSINESS PERFORMANCE

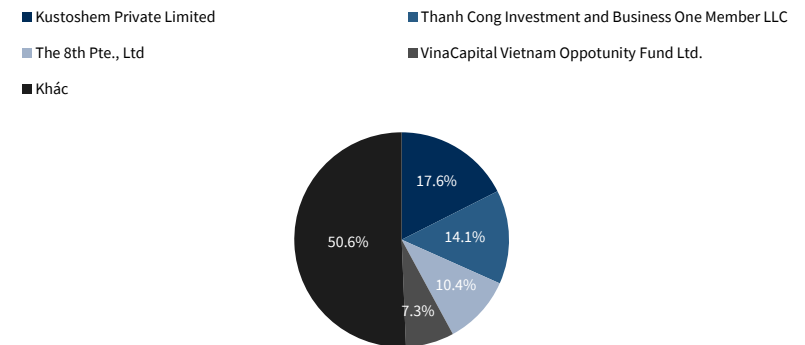
In the third quarter of 2021, CTD posted negative business results with gross profit of VND16.8 billion (-90.8% YoY) and revenue of VND1,070 billion (-61.9% YoY) due to: (1) the construction progress interrupted by Covid controls, (2) surging raw material prices, and (3) low contract values under backlogs from 2020 that made NPAT experience a loss of VND11.8 billion. After the first nine months of the year, NPAT reached VND87.6 billion (-76.3% YoY) on revenue of VND6,189 billion (-39.9% YoY).

Fig 2. CTD - Business results



Source: Coteccons Construction

Fig 3. CTD - Shareholder structure



Source: Coteccons Construction

INVESTMENT CATALYSTS

CTD is one of the leading construction businesses in Vietnam with a series of megaprojects nationwide as a general contractor of EPC (Engineering, Procurement and Construction) projects.

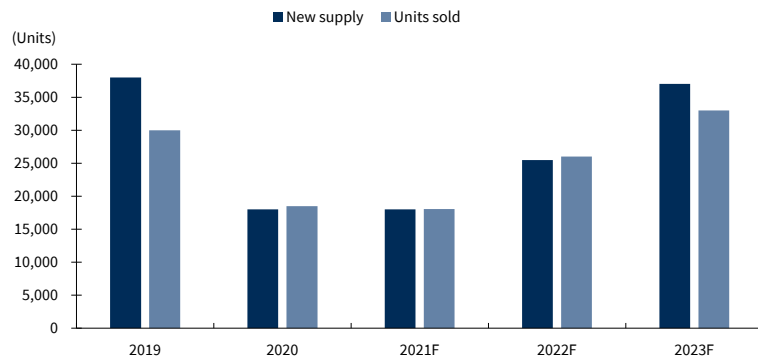
1. Positive outlook of the construction sector in the medium to long term

We expect the construction industry to rebound strongly in the coming period based on the following factors:

- **Recovery of the property market:** By the third quarter of 2021, new launches progressively recovered amid the COVID-19 pandemic. In Ho Chi Minh City, sold units in the first nine months of the year recorded 8,965, down 17% YoY due to falling supply, according to CBRE. Similarly, during the same period, social distancing measures adversely impacted marketing and handover of housing projects in Hanoi, making sold units reach only 10,981, down 1% YoY. However, we expect the property market to bounce back from the fourth quarter of 2021 based on the following reasons:
 - + New supply is expected to boom after a long time period compressed by stringent social distancing protocols. CBRE forecasted new launch and sold units in Hanoi may increase by 42% and 44% YoY to around 25,000 and 26,000 apartments in 2022, respectively. Meanwhile, new supply and sold units in Ho Chi Minh City are estimated to jump by 64% and 67% YoY to approximately 23,000 and 20,000 apartments in 2022 against the low levels of 2021.
 - + A low-interest rate environment would promote home or real estate loans. In the second half of 2021 and throughout 2022, lending rates in Vietnam and the world are forecasted to stay relatively low thanks to loose monetary policies and preferential credit packages, thus facilitating real estate lending.
- **Unblocked bottlenecks in public spending in the second half of 2021 and early 2022:** The total public investment capital disbursed nationwide in the first half of 2021 only fulfilled 36.8% of the year plan, up 10.2% over the same period. Slow disbursement can be explained by: (1) The spread of the COVID-19 pandemic has negatively impacted construction; (2) The design and calculations were detached from reality, so it takes time for changes and modifications, especially in the wake of escalating construction material prices; (3) Site clearance was tardy with some bottlenecks, and licensing procedures for construction operations were complicated. The government has proposed a number of solutions to speed up progress, such as securing raw material supplies, speeding up the payment, acceptance and settlement, and identifying

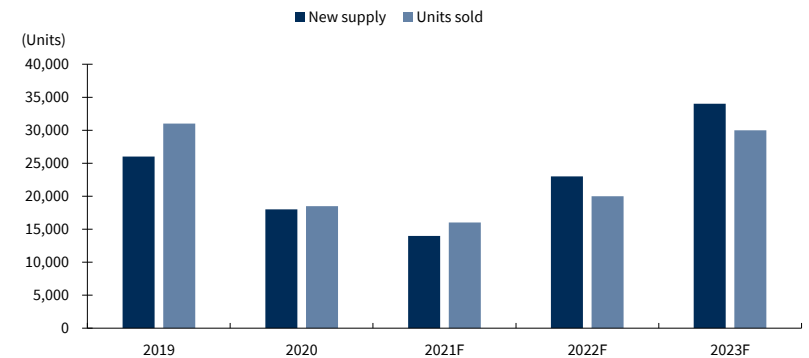
projects with slow investment disbursement so capital can be withdrawn from slow-moving projects and transferred to faster ones. Given the negative impacts of COVID-19 on economic growth, we believe that the disbursement rate will significantly improve by the end of 2021 and throughout 2022 to support the growth momentum. The total estimated investment sourced from the State budget in the 2021 – 2025 period is VND2.87 quadrillion, with the average capital allocated to a project being VND210.4 billion, 2.4 times higher than in the 2016–2020 period.

Fig 4. Hanoi – Forecast of new supply and sold units



Source: CBRE

Fig 5. Ho Chi Minh – Forecast of new supply and sold units



Source: CBRE

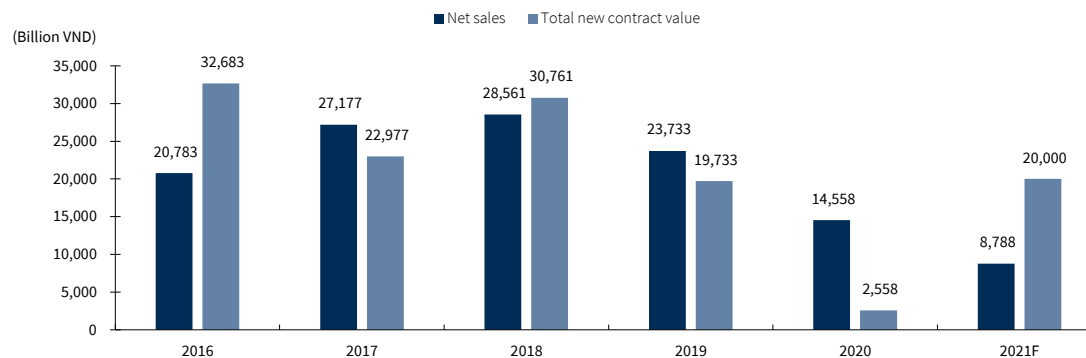
2. Recovering from the low base thanks to rising backlogs

Internal disputes dampened business results in the period of 2020–2021. Internal disputes and organizational structure changes in 2020 delivered a blow to CTD, as evidenced by a sharp fall in new contract values against a slight decrease in the previous year. Also, CTD had to boost provisions for accounts receivable in 2020 and set aside VND55 billion in 9M21. However, we expect the situation will improve in the near term thanks to:

- **High new contract values:** New contract values in the first nine months of 2021 approximate VND18 trillion, as shared by the BOD. We believe this figure will reach VND20 trillion by year’s end, nearing the level set by the BOD. Given such high level, the economic reopening and construction returning to normal, revenue is expected to turn positive from 2022.
- **The board’s capacity:** CTD won new bid packages from new customers, namely BIM, Ecopark, and BW Industrial, apart from familiar ones like Vinhomes as before, somewhat proving the capacity of the BOD to get valuable contracts for the

company. As a reputable and experienced enterprise in cooperation with big names like Kusto group, we believe that CTD will obtain many new projects, especially foreign-invested ones and those with high technical requirements.

Fig 6. CTD – Revenue and backlogs in the period of 2016–2021F



Source: Coteccons Construction, KB Securities Vietnam

3. Benefiting from public projects

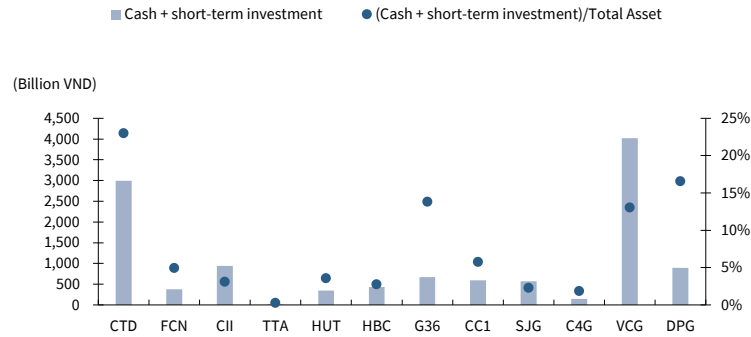
CTD’s management said the company plans to issue VND1,000 billion worth of bonds to supplement EPC projects. As a newcomer, CTD's strategy is to start from subcontractors to general contractors for each project. Despite higher barriers to entering infrastructure construction compared to civil construction due to the high technical requirements, we expect this segment to significantly contribute to the long-term profit growth of CTD, considering promoted public investment disbursement and CTD’s reputation and resources.

4. Strong financial health

Compared to its peers, CTD has a healthy balance sheet with liabilities to assets (L/A) ratio of 36.1% and without debts. We believe that was the core factor helping CTD to weather the pandemic storm which hampered the profit margin of the whole industry and was the firm foundation for the post-Covid strong recovery of the enterprise. Besides, CTD owns large amounts of cash and short-term investments, accounting for 23.0% of total assets, which is the highest in the industry and

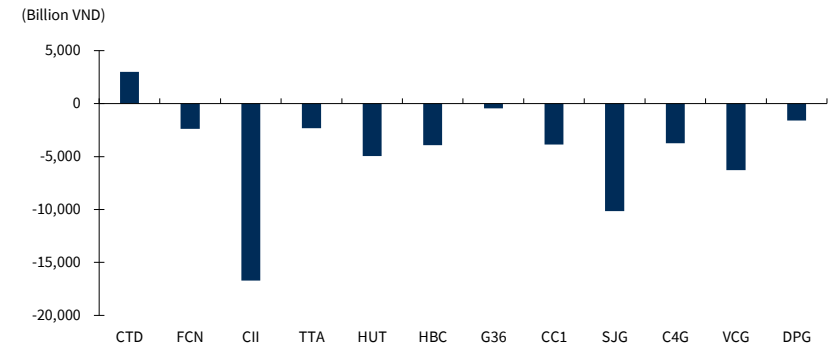
is the only one with positive net cash among businesses under our coverage. It helped to facilitate payment for investors and subcontractors, thus offering a competitive advantage in bidding and contract negotiation for CTD.

Fig 7. Vietnam – Cash + short-term investment to total assets of construction businesses in 3Q21 (VNDbn)



Source: Fiiipro, KB Securities Vietnam

Fig 8. Vietnam – Net cash (total cash + short-term investments – total liabilities) of construction businesses

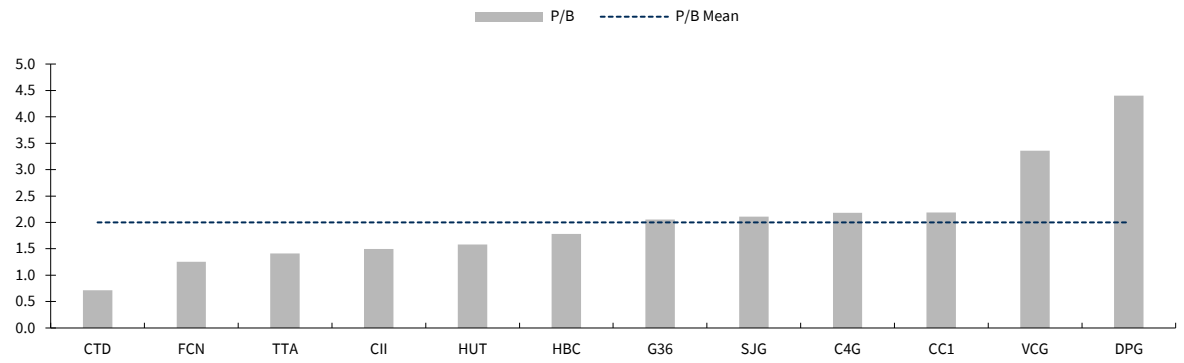


Source: Fiiipro, KB Securities Vietnam

5. Attractive valuation

CTD stocks are trading at VND80,000/share, equivalent to a trailing P/B of 0.75x, which is far below CTD's five-year average P/B of 1.3x and lower than P/B of other peers like Hoa Binh Construction Group (HBC) (1.7x), Ho Chi Minh City Infrastructure Investment (CII) (1.5x), and FECON CORPORATION (FCN) (1.3x). Given its leading position in the construction industry and expected strong recovery, CTD shares should enjoy a higher valuation.

Fig 9. Vietnam – P/B of construction businesses



Source: Fiiipro, KB Securities Vietnam

RISKS

- **Pandemic risk:** If the pandemic gets worse, CTD's business activities will be hard hit: (1) The construction progress will be behind schedule due to social distancing and (2) High raw material prices would dampen gross profit margin. KBSV assesses this risk as low to medium, given the high vaccination rates in Vietnam and the Government's experience in coping with the pandemic, the relaxation of social distancing measures to limit the negative impacts on the economy.
- **Rising provisions for receivables:** As short-term receivables represent 52.8% of total assets, it should be closely followed, especially in the context that the economy is still facing numerous pandemic-related challenges. From a conservative perspective, we forecast the company will set aside about VND200 billion per year in the period of 2022–2023 and keep it unchanged from 2024 onwards.

Forecast & Valuation

2021-22F BUSINESS RESULTS

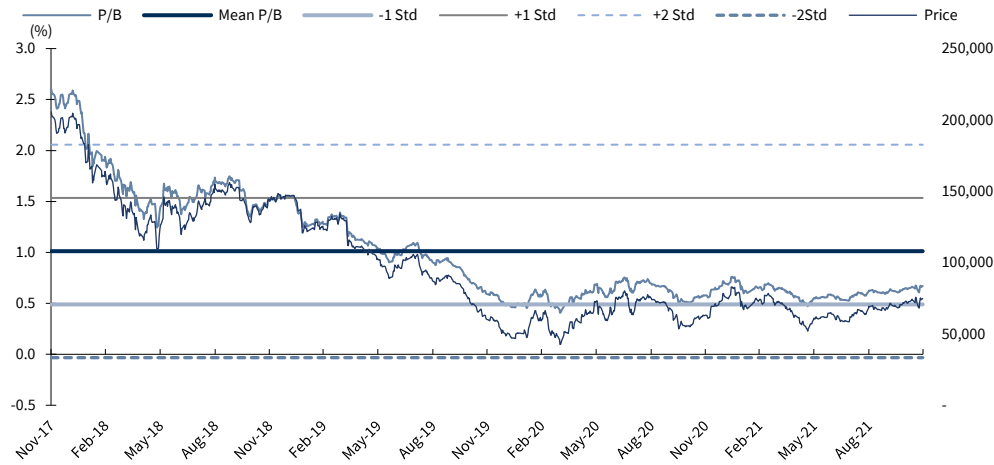
In 2021F, KBSV forecasts CTD's revenue of VND8,788 billion (down 39.6% YoY) and EAT of VND133 billion (down 60.4% YoY) due to the adverse impact of the pandemic on construction and surging raw material costs.

On the expectation of huge backlogs, we expect CTD to achieve positive business results in 2022F with revenue of VND21,337 billion (up 142.8% YoY) and EAT of VND426.2 billion (up 221.7% YoY).

VALUATION

Based on the two valuation methods DCF (discounted cash flow) and P/B with a ratio of 50:50, business outlook, and possible risks, we recommend BUY for CTD stocks with a target price of VND114,700/share, 43.3% higher than the closing price on December 1, 2021. CTD stocks are currently trading at a 2022 forward P/B of 0.73x. Given the great potential from rising backlogs, we give CTD a target P/B of 1.0x by year-end, equivalent to CTD's average P/B over the last four years and 50% lower than the average P/B of the construction industry, reflecting possible risks for CTD.

Fig 10. CTD – P/B performance in the period of 2017–2021 (x)



Source: KB Securities Vietnam

Fig 12. CTD – Target price according to FCFF valuation method (VND/share)

Assumption	Value
Re	11.1%
Risk-free rate	2.9%
Market premium	8.2%
Beta	1.0
Perpetual growth	2%
Estimated duration	6 years

Source: KB Securities Vietnam

Table 11. CTD – 2021F–2022F business results

VND bn	2019A	2020A	2021F	2022F
Net revenue	23,733	14,558	8,788	21,338
Cost of goods sold	22,685	13,702	8,410	20,378
Gross profit	1,048	856	378	960
Selling expense	0	0	0	0
G&A expense	459	656	448	627
Financial expense	0	0	0	42
Profit before tax	891	428	169	545
Profit after tax	711	334	132	426

Source: KB Securities Vietnam

Table 13. CTD – Target price according to valuation methods (VND/share)

Valuation method	Estimated price	Weight	Weighted price
FCFF	119,850	50%	59,900
P/B	109,800	50%	54,800
Target price			114,700

Source: 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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