

Construction-ICB 2357
08, June, 2016

COMPANY RESEARCH REPORT Cuong Thuan Idico Development Investment Corporation (CTI)



Investment view	STRONG BUY
Target price	31,800
Market price (08, June, 2016)	26,000
Prospect 3M	Increase
Prospect 6M	Increase
Prospect 9M	Increase

TRADING INFORMATION	
Shares outstanding (mil.)	33
Market capitalization	858
Book Value (VND. Bil)	606
Foreign owned	8.42%
Market price on 08, June, 2016	26,000
Average 10 day volume	258.275
52W minimum price	10,224
52W maximum price	26,000
+/- 7 days	7.9%
+/- 1 month	16%

Equity analyst

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INVESTMENT HIGHLIGHTS

We recommend Strong buy CTI at targeted price of VND 31,800 per stock (upside 22%). CTI are now traded at P/E FW and P/B of 10.31 and 1.63x, respectively. BOT toll collections provide stable, low risk revenue stream. Toll collections of new BOT projects and mining expansion of quarries in South East areas bring long-term prospect for CTI.

2016 performance forecast. Net revenue is forecasted at VND 1,329 billion (+60%), expected after-tax profit is VND 114 billion (+68% yoy), equivalent to 2016 diluted EPS of VND 2,521 per share.

BOT toll collections provide stable, low risk revenue stream. Until 2016, CTI collected toll on three main routes which have high vehicle traffic including national route 1A, national route 91 and provincial road 16. 2016 toll collections are anticipated at VND 563 billion. The characteristics of BOT toll collections are stable cash flow; high and guaranteed internal rate of return (IRR) of 12%-14%; financed by bank loans with long repayment period.

Expected rapid increase in BOT toll collections. (1) there will be more 2-3 toll routes namely, intersection No. 319 connecting Long Thanh-Dau Giay highway, specialized road for construction materials transportation, and national route No.51, which is in negotiation of acquiring 49% toll collection right. If success, CTI will operate 6 routes with 9 toll stations, which bring annual revenue of over VND 1,000 billion, much higher than 3 listed companies, namely, HTI, HUT and CII. (2) Toll for national route 1A will increase by the average of 70% since 1st January, 2016 and toll collections are adjusted every three years.

Potential mining of quarries. CTI owns three quarries including Tan Cang 8, Doi Chua 3 and Binh Loi which have the largest remaining reserve (up to 38 million m³), longest remaining mining period (until 2034) in South East areas. While, licenses of many quarries in the same area will be expired in the next 2 years. High demand of stone comes from large projects as Long Thanh International Airport and road expansion projects in Dong Nai and South East Area.

	2011	2012	2013	2014	2015	2016F
Net Revenue (bil.)	368	300	361	722	830	1,329
% y-o-y		-18%	20%	100%	15%	60%
Total asset (bil.)	785	1,174	1,745	2,544	3,281	4,778
Equity (bil.)	188	173	176	551	606	873
Charter Capital (bil.)	150	150	150	330	330	430
Outstanding Shares (mil.)	15	15	15	33	33	43
Net income	7	1	2	49	68	114
% y-o-y		-82%	87%	2033%	37%	68%
EPS	466	83	155	2,879	1,953	2,521
Book value	13,117	15,651	16,070	15,560	15,955	26,094
Gross Profit Margin	21%	19%	17%	25%	31%	35%
ROS	2%	0%	1%	7%	8%	9%
ROE	7%	1%	1%	14%	12%	15%
ROA	2%	0%	0%	2%	2%	3%

Sources: BCTC CTI, BSC research

COMPANY OVERVIEW

Overview	
Name	Cuong Thuan Idico Development Investment Corporation
Address	168KP11, An Binh, Bien Hoa City, Dong Nai province
Web site	http://cuongthuan.vn/
Tel	061.6291.081
Fax	061.6291.082
Chartered capital:	VND 330 billion
Core operation	<ul style="list-style-type: none"> - Construct civil, industrial and transportation construction. - Mechanical products and aggregates, concrete. - Mining, processing sand, gravel, stone, clay, etc

History

Year	Event
2000	Officially put into operation Name: Cuong Thuan Ltd., Chartered capital: VND 4.6 billion
2007	Converted to Joint stock company Be member of Vietnam Urban and Industrial zone development investment Corporation
2008	Rename as Cuong Thuan Idico Development Investment Corporation
2010	Listed on HOSE

Offering (VND.Bil)

Year	Event
2000	Chartered capital of VND 4.6 billion
2010	Listed on HOSE Chartered capital of VND 150 billion
2015	Public offering of 18 million shares Chartered capital of VND 330 billion

No	Subsidiaries	Chartered capital	% of capital
1	Dong Thuan investment Jsc.	305	83.1%
2	Mining and dealing construction materials of Dong Nai Idico Jsc.	60	55.78%
3	National route No.91 Can Tho – An Giang Investment Jsc.	282	59.57%

Large shareholders

No	Shareholders	Number of share	% of capital
1	Truong Hong Loan	4,114,000	12,47%
2	Kingsmead VN and Indochina Growth Master Fund	2,058,000	6.23%
3	Nguyen Xuan Hoa	1,927,069	5,84%
4	Nguyen Van Thuan	1,855,000	5.62%
Tổng cộng		9,954,069	30.16%

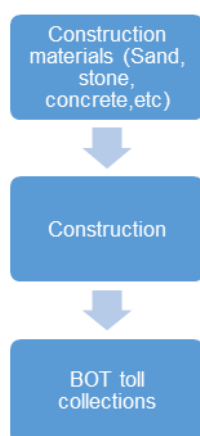
Shareholders structure on 24th, May, 2016

No.	Shareholders	Number of shares	% of capital	Number of shareholders	
1	State owned	-	0	0%	0
2	Insider holders	7,792,530	23.61%		
	- Board of Directors	6,017,000	18.23%		5
	- Comission Board	0	0%		
	- Board of management	1,775,530	5.38%		5
	- Staff				
3	Cổ đông bên ngoài	25,207,467	76.39%		
	- Domestic		68.48%		
	- Foreign		7.91%		
	Tổng cộng	32,999,997	100%		

(Sources: CTI)

BUSSINESS LONG TERM PROSPECTS

Bussiness model of CTI



Closed business model. (1) CTI is self-sufficient in almost input materials for construction (asphalt is the only main raw is purchased outside). (2) The company does roads and infrastructure constructions which are mainly for BOT projects. (3) Operating BOT projects and collecting tolls. BOT toll collections are important and stable sources of income of CTI, which contributes 29% of total revenue and 67% of gross profit of CTI in 2015. We analyze the main business activities of CTI as followings.

Net revenues	2012	2013	2014	2015
Construction materials	261	330	87	145
<i>Gross margin</i>	<i>13%</i>	<i>13%</i>	<i>21%</i>	<i>20%</i>
Construction	26	196	506	428
<i>Gross margin</i>	<i>6%</i>	<i>0%</i>	<i>14%</i>	<i>13%</i>
BOT toll collections	33	31	130	238
<i>Gross margin</i>	<i>69%</i>	<i>61%</i>	<i>74%</i>	<i>72%</i>
Others	6			19
<i>Gross margin</i>	<i>0%</i>			<i>6%</i>

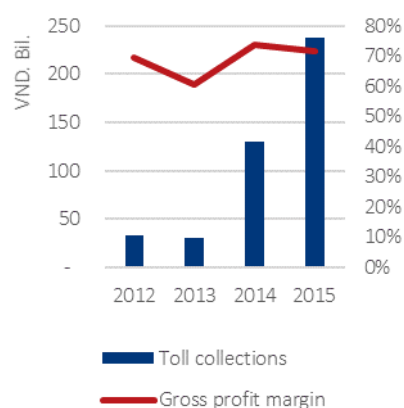
Sources: CTI

Common features of BOT transportation projects.

- **Primarily financed by bank loans.** About 80% of fund of BOT projects is from bank loans. As stipulated in Decree No. 15/2015/ ND-CP, the rate of minimum equity of investor is 15% for projects with scale of up to VND 1,500 billion and 10% for projects with the scale of over VND 1500 billion. Long repayment period responds with the payback period of each project.
- **Long toll collections period.** This period is determined based on the actual final value settlement of construction, the actual vehicle traffic, road tolls and determined internal rate of return (IRR, from 12% to 16%, generally). Toll collection period is usually long at about 10-11 years for projects which total investment up to VND 1,000 billion and about 20-30 years for projects which total investment of about VND 2000-3000 billion.
- **Road tolls are adjusted every three years.** The toll for each type of vehicle accords to schedule set by Ministry of Finance. Since 2016, every three years, the Ministry of Finance adjusted the toll based on the actual situation, the price index, the cost of routine repair, maintenance, overhaul and proposal by the Ministry of Transport.
- **Stable cash flow.** This is the basic characteristic of BOT projects. Low receivables, low inventories, therefor, the company hardly faces risk of bad debt.
- **High gross profit margin.** The gross profit margin of listed companies operating BOT construction are over 40% thanks to long depreciation period. Depreciation cost accounts for large proportion of cost of goods sold. In 2015, the depreciation cost accounts for 51% of total cost of CTI and 85% of cost of goods sold of toll collection of CTI.
- **Corporate Income Tax Incentive.** BOT transportation projects usually enjoy preferential corporate income tax at the rate of 10% within 15

Toll collection and gross margin of

BOT toll collection of CTI



Toll collection and gross margin of

BOT toll collection of listed firm in

2015

Firm	Number of toll stations	Toll collection (VND. Bil.)	Gross margin
CII	4	592	41%
HTI	6*	302	44%
HUT	3	207	45%
CTI	2	238	72%

Sources: Financial statements, BSC research, 1 main station and 5 sub stations

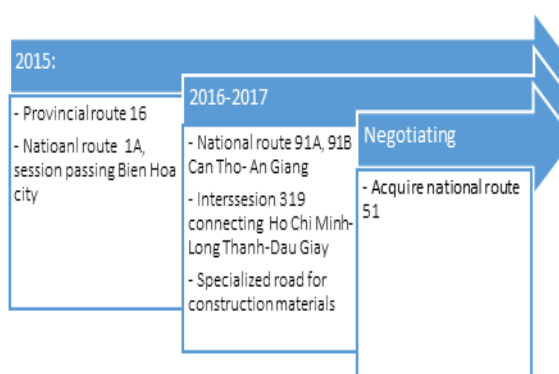
years. Meanwhile, companies which have new BOT investment will be exempted tax in 4 years and deducted 50% of tax rate in the next 9 years. The BOT projects of national route 1A (Bien Hoa City bypass) and national route 91 Can Tho – An Giang are both enjoy these incentives.

With all the features above, we find that, when operating BOT, companies face low risk thanks to low proportion of equity to total investment, stable cash flow and guaranteed IRR.

Rapid growth of toll collections. CTI and its subsidiaries currently operate two BOT route including provincial route No. 16 and national route 1A (Bien Hoa City bypass). In 2015, the total toll collection of CTI was VND 238 billion (+83% y.o.y) due to collecting toll of national route 1A in all year of 2015 while only month in 2014. Toll collections CTI is expected to keep growing rapidly in the coming period thanks to (1) operating 3 or 4 new BOT routes (2) increased by 70% of toll of national route 1A since 2016; (3) adjusted toll every 3 years.

New 3 or 4 BOT toll routes. In 2016, the company plans to put two toll stations, namely, national route 91A, 91B Can Tho – An Giang into operation. In 2017, CTI will start operating 2 new tolls, namely, specialized road for construction materials and the intersection 319 connecting Ho Chi Minh City – Long Thanh – Dau Giay highway. The company is negotiating to acquire 49% the right to collect toll on national route 51. If success, CTI and its subsidiaries will operate six BOT toll roads with nine toll stations, which create annual revenue of more than VND 1,000 billion, highest among listed companies operating BOT projects, namely, HTI, HUT and CII.

BOT toll route of CTI



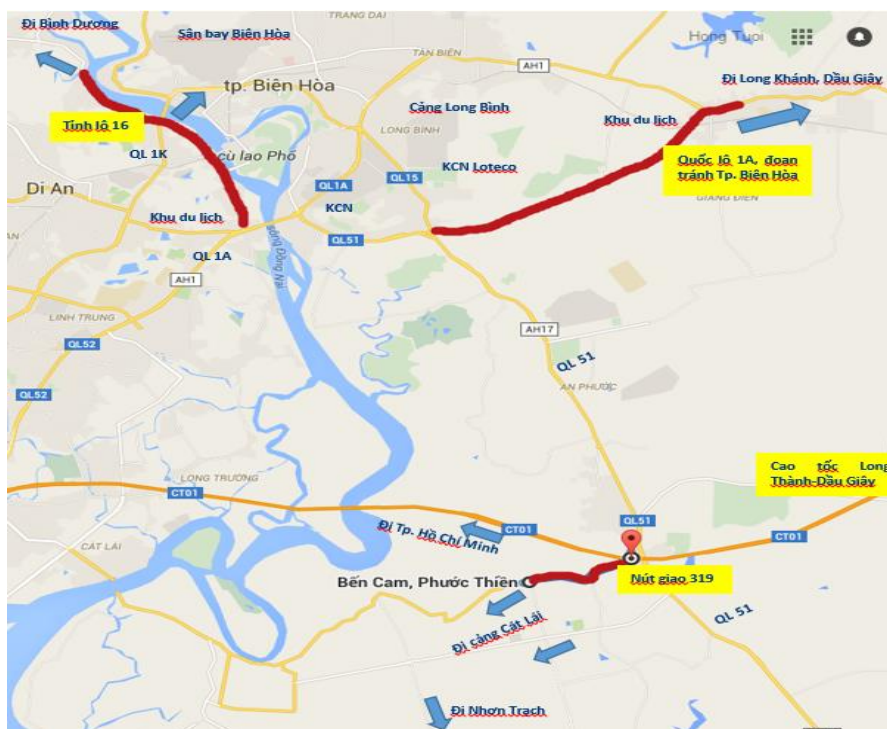
Sources: CTI, BSC research

Current and expected toll stations of CTI

No.	BOT routes	Owns	Location	Total investment (VND. Bil)	Number of toll stations	Toll period	2016 forecast toll collections (VND. Bil)
Operating							
1	Provincial route 16	100%	Collecting Binh Duong to Bien Hoa city, national route 1A, 1K	96	1	2006-2020	46
2	National route 1A, Bien Hoa city bypass	83.1%	Collecting Ho Chi Minh city, Bien Hoa city, Binh Duong	1.506	1	2014-2027	379
Constructing							
3	National route 91A, 91B Can Tho – An Giang	59.57%	Collecting Can Tho, An Giang, Campuchia	2.034	2	2016-2032 • QL91A: April, 2016 • QL91B: July, 2016	137
4	Specialized road for construction materials		Collecting 2 wards, namely, Phuoc Tan, Tam Phuoc, pass through 12 current mining quarries	200	1	2017-2029*	Expected put into operation in 2017
5	Intersession 319 collecting Ho Chi Minh – Long Thanh- Dau Giay highway	60%	Collecting Ho Chi Minh – Long Thanh- Dau Giay highway, collecting Ho Chi Minh, Cat Lai port, Nhon Trach, Bien Hoa city.	700	1	2018-02/2040	Expected put into operation in late 2017
Negotiating							
6	Expansion of national route 51				3		450-500*

Sources: CTI, *: CTI estimates

Toll stations of CTI in Dong Nai



Sources: Google maps, BSC research

(1) Provincial Road 16 is increasing profit margin.

- Toll right of this road was bought by CTI from Transportation construction 586 company in 2005. Total value of toll right which lasts till 2020 is VND 84 billion.
- **Location.** The road has the total length of 16.1 km. It connects Binh Duong with Bien Hoa City (Dong Nai), with national route 1A,

national route 1K, and provincial road 743C, which are high vehicle traffic roads. Toll collections was VND 44 billion in 2015 (+40%yoy). As expected CAGR of vehicle traffic is 6%, toll collection on provincial road 16 will continue to bring a stable income to CTI in the near future.

- **High profit margin continue to improve.** The gross margin reached 58% in 2015. As mentioned above, due to the characteristics of BOT projects, depreciation cost accounts for the largest proportion in the cost structure. Therefore, we expect the profit margin of provincial road 16 toll will rise from 2017 due to the toll collections right of this road will fully depreciated in 2016.

(2) The national route 1A (Bien Hoa City bypass) has significant rise in revenues.

- The project has the total estimated investment of VND 1,445 billion, in which, 80% of the value is financed by loans. IRR is 14%. Estimated pay-back period is 13 years (from July, 2014 to the end of June, 2027). The project has the length of 12.2 km with the beginning from national route 1A Km 1851+714 in Binh Minh Commune, Trang Bom District to Km5+000 in Phuoc Tan Commune, Bien Hoa City.
- **High vehicle traffic.** (1) The project solves the traffic congestion and accidents in national route 1A which runs through Bien Hoa City. National route 1A has large volume of vehicle traffic while its width is only 16-22m. (2) The route shortens distance from national route No. 1 to national route No. 51. (3) The route connects industrial zones which are separated by the national route No. 1. We note that vehicle traffic on national route 1A, Bien Hoa city bypass will decline after Long Thanh-Dau Giay highway go into operation.
- **CTI owns 83.1% total capital of Dong Thuan JSC.**, which operates and collects toll on national route 1A. This route contributed VND 98 billion of toll revenue in the last 6 months of 2014 and VND 194 billion in 2015 (+97% yoy). Toll revenue is expected to increase significantly because the toll has increased by the average of 70% from 1/1/2016. Toll period drop from 23 years to 13 years. This change does not affect IRR, but improve business performance of CTI in the next years. We forecast 2016 toll collections on national route 1A will reach VND 379 billion (+96% yoy).
- **High gross profit margin.** The margin was 75% in 2015. We believe that CTI will remain this high profit margin thanks to unit-of-production depreciation method since 2015. We note that scheduled repair and maintenance expenses recorded since 2016 will reduce net profit margin of CTI.

(3) National route 91A, 91B Can Tho – An Giang will contribute revenues from 2016.

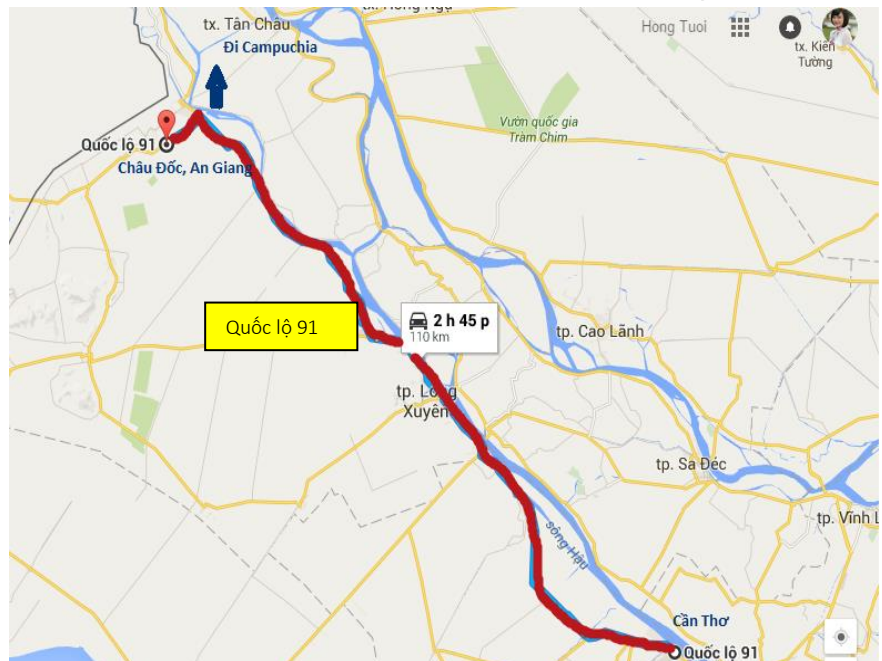
- The total estimated investment is VND 2,034 billion, in which, about 85% of that is financed by loans. The route includes two toll stations, namely, 91A and 91B with the total investment of VND 1,420 billion and VND 614 billion, respectively. IRR is 12%. The toll collections last



for 17 years 9 month, in which, toll collections on national route 91A started in April, 2016 and on national route 91B will begin from July, 2016.

- High vehicle traffic. The route which has length of 142 km is the only main road connecting Can Tho with An Giang, Campuchia. CTI sets 2 toll stations in this route. Average counted vehicle traffic from 18th to 22nd, October, 2013 was 4,884 vehicles, equivalent to 1.8 million vehicle per year. CTI estimate the vehicle traffic will increase by the average of 7% during 2016-2020, and by 6% during 2021-2025 and by 5% for the remaining life of the project.
- CTI owns 59.57% of 91 national route Investment JSC, which operates 2 toll stations on national route 91A, 91B. Toll collections is expected to reach VND 137 billion in 2016 and VND 297 billion in 2017. Expected gross profit margin is high (of 67%) and stable thanks to unit-of- production depreciation.

National route 91A, 91B Can Tho-An Giang



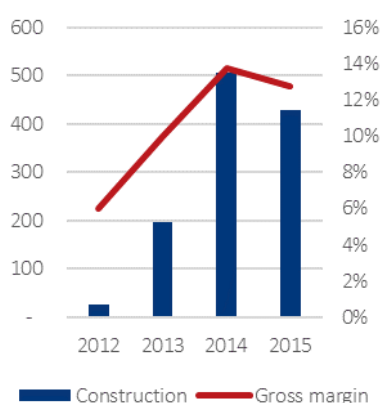
Sources: Google maps, BSC research

- (4) **Specialized road for construction materials.** Total investment of project is VND 200 billion. This project is scheduled to be completed in April, 2017. This is specialized road for vehicles which transport stone from Tan Cang quarries and near area (about 12 quarries). The road go through Phuoc Tan, Tam Phuoc communes. The pay-back period is over 12 years.
- (5) **Intersection 319 connecting to Ho Chi Minh City – Long Thanh – Dau Giay highway.** The total investment of the project is VND 700 billion. The length of the whole route is 9.46 km, the width is 16m. The road is planned to be completed at the end of 2017. This is the asterisk intersection where you can go to Ho Chi Minh City, Nhon Trach, Dau Giay and Bien Hoa City. The intersection 319 open a turn point to go to Nhon Trach district without through high vehicle traffic route, namely national rout 15, 51, a turn point to Long Thanh-Dau Giay highway. This route also shorten distance from Ho Chi Minh to Dong Nai, to Ba

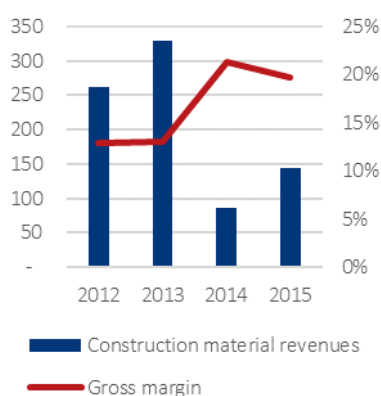
Ria-Vung Tau. Therefore, vehicle traffic is expected at high level. The scheduled toll collections last for 22 years and 2 months.

- (6) **Negotiating to acquire 49% of toll collections right on national route 51.** This route connects national route 15 with Bien Hoa City, Ho Chi Minh City and intersection 319 which connects Ba Ria-Vung Tau. There are three toll stations in this route. Estimated annual collections are about VND 450-500 billion, much higher than other current toll route of CTI. CTI has negotiated to purchase 49% of toll collection right of national route 51.

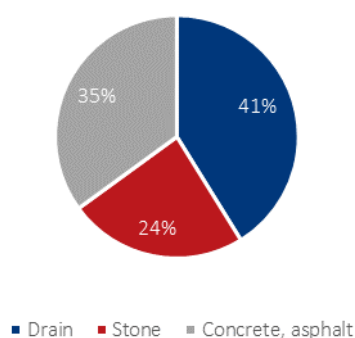
Revenue and gross margin of construction segment



Revenue and gross margin of construction material segment



Revenue structure of construction materials in 2015



Sources: CTI

Build BOT constructions.

High revenues. Total revenue from construction of CTI was VND 428 billion in 2015. This revenue is allowed to record under dispatch No. 11780/BTC-TCDN when parent company built BOT construction then its subsidiary collects BOT toll. 3 BOT projects will contribute construction revenues to CTI includes national route 91, intersection 319 connecting to Long Thanh-Dau Giay highways and specialized road for construction materials. In 2016, CTI expect to record VND 595 billion of revenue from building route 91 Can Tho – An Giang.

Profit margin. The gross profit reached 13% in 2015, slightly lower than in 2014 (14%). We believe that the profit margin of this segment of CTI will be stable around 13-15%.

Construction materials – the potential of quarry mining.

Revenue from construction materials reached VND 145 billion in 2015 (+68% yoy), significantly lower than 2012 and 2013. CTI provides building stone, drains and concrete. The current mining mainly serve CTI's demand. The gross profit margin of this segment was 20% in 2015, slightly declined from 21% in 2014.

Quarries – large reserve, long mining period.

- **CTI own 3 quarries**, namely, Tan Cang 8, Binh Loi and Doi Chua have large reserves. Compared with listed companies as KSB, DHA, NNC and C32, CTI has the largest reserve of stone with the long remaining mining time. The total remaining reserve is up to 38 million m³ (equivalent to KSB). The total capacity of CTI is 4.5 billion m³ per year, but the CTI's yield in 2015 was low, which was only 0.65 million m³ per year. Referring to stone price of DHA, KSB and NNC, the price is from VND 116.223 per m³ to VND 170.571 per m³. At the cautious level, we assume that the stone price of CTI's quarries equals to 90% the lowest price of the referred quarries (VND 107,338 per m³). Therefore, total value of remaining reserve of CTI would be VND 4,079 billion, and annual revenue at full capacity would be VND 483 billion.
- **Revenue of stone** was VND 35.46 billion. The quarry exploitation of CTI mainly serves the need of construction of the company. The company recorded the loss in this segment, gross profit margin of -3% in 2015. We believe that the performance of this segment will be improved when the company pushes to exploit and sell stone.

Profit before tax margin of DHA's quarries

Quarries	Profit before tax margin
Hoa An	52%
Tan Cang 3	2%
Nui Gio	15%
Thanh Phu 2	29%
Thuong Tan	3%

Sources: DHA

- **High demand of stone.** (1) Many large infrastructures such as Long Thanh International Airport, Bien hoa – Vung Tau highway, national route 1K expansion; national route 51 expansion, etc will start in near future. (2) Some mining licences of quarries around Binh Duong and Dong Nai as Tan Dong Hiep, Nui Nho, Phuoc Vinh will be expired in the next two years; (3) CTI's quarries located in key position, especially Tan Cang quarry is near national route 1A, national route 51, and Long Thanh Airport. Therefore, it is easy to transport stone to Dong Nai, Binh Duong, Ho Chi Minh City, Long Thanh airport, etc.

Quarries of listed firms

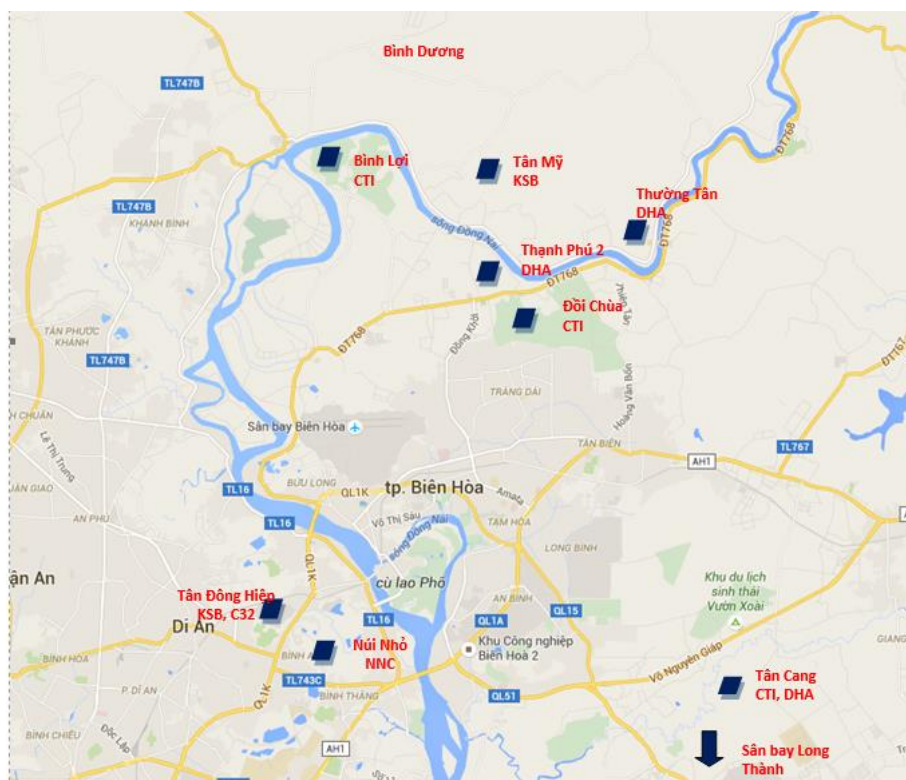
Firm/quarries	Location	2015 real output (m ³)	Remaining reserve (m ³)	Licences period	Average price /m ³
KSB		3,746,055	38,442,532		162,692
Tan Dong Hiep	Di An, Binh Duong	2,057,004	4,222,111	31/12/2017	
Phuoc Vinh	Phu Giao, Binh Duong	677,262	1,147,381	12/10/2017	
Tan My	Bac Tan Uyen, Binh Duong	600,129	20,073,040	28/8/2029	
Tam Lap	Reavenue and	Not mining	13,000,000	31/12/2028	
DHA		1,770,544	18,134,559		95.411
Hoa An	Bien Hoa, Dong Nai	106,294		đóng cửa 19/01/2016	
Tan Cang 3	Bien Hoa, Dong Nai	322,762	5,422,981	3/2024	117,258
Nui Gio	Binh Long, Binh Phuoc	155,077	6,745,848	8/2025	145,130
Thanh Phu 2	Thien Tan, Vinh Cuu, Dong Nai	1,109,976	5,965,730	9/2026	116,233
Thuong Tan	Tan Uyen, Binh Duong	76,435		Đã chuyển nhượng tháng 3/2015	
C32		908,115	2,000,000		N/A
Tan Dong Hiep	Di An, Binh Duong	908,115	2,000,000	2017	N/A
NNC		2,638,553	21,000,000		170,571
Nui Nho	Di An, Binh Duong		4,000,000	31/12/2017	
Mui Tau	Dong Phu, Binh Duong		17,000,000	31/12/2030	
CTI		650.000	38,000,000		N/A
Tan Cang 8	Phuoc Tan, Long Thanh, Dong Nai	650.000	28,000,000	2020	N/A
Doi Chua 3	Thien Tan, Vinh Cuu, Dong Nai			2033	N/A
Binh Loi	Vinh Cuu, Dong Nai		10,000,000	2034	N/A

Sources: CTI, KSB, NNC, DHA, C32

Concrete, asphalt production. CTI operates two concrete and hot asphalt concrete stations with the capacity of 90 tons per hour and 120 tons per hour. 2015 revenue of concrete was VND 51 billion, double 2014, but only 19% of 2013. The gross profit margin is high at 46%.

Drain production. CTI has applied three technology lines including: centrifugal technology with the capacity of 5 minutes/tube, JUMBO technology with the capacity of 3-5 minutes/tube and SOUVERAEN with the capacity of 2 minutes/tube. The diameter of tubes is from 300 to 2000 mm. The revenue of drain was VND 54 billion in 2015 (+45% yoy). The gross profit margin reached 10%, significantly increase from the level of 2% in 2014.

Quarries' location of KSB, DHA, C32, NNC and CTI



Sources: Google maps, BSC research

CORPORATE FINANCE

Revenue structure of CTI in 2015



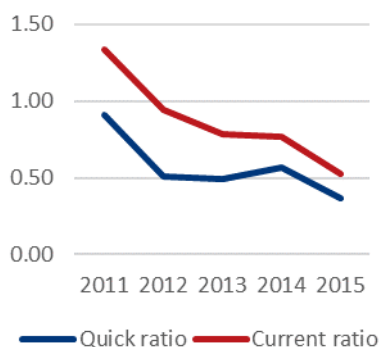
- merchandise sales
- Drain revenues
- Stone revenues
- Concrete, asphalt revenues
- Construction
- Toll collections of provincial road 16
- Toll collections of national route 1A

Revenue. The revenue was VND 830 billion in 2015 (+15%yoy). Because toll collections of national route 1A was recorded in whole 2015, while only last 6 month in 2014. Besides, the dispatch 11780/BTC-TCND allows CTI record revenue and net profit of BOT construction. The 2015 revenue and gross profit from construction was VND 428 billion and 595 billion, respectively. It is worth mentioning that the record of revenue and profit from the construction above does not bring cash flows as well as does not change the nature of the business activity. This improved the business performance in recent year, thereby increasing retained profit and reducing the financial leverage for CTI. However, toll collections right is recorded by construction revenue (instead of cost of goods sold), which lead to higher depreciation expenses, lower profit in the next periods.

High and improving operating efficiency. The gross profit margin reached 31% in 2015 and 1Q2016, much higher than in 2014 (25%) due to the improvement in the profit margin of construction material segment. The gross profit margin of toll collection segment was high at 58% for provincial road 16 and 75% for national route 1A. This segment will still be main source of income of CTI. 2015 after tax profit increased by 37% to VND 68 billion.

Asset allocation. Because the main activities of the company are construction and toll collections, therefore, long-term asset accounted for the average level of 74% of total assets during 2011-2015, and up to 88% in 2015. In particular, the remaining value of toll collections right of CTI is VND ,488

Liquidity of CTI from 2012-2015



Sources: CTI, BSC research

billion (including toll collections right on national route 1A and provincial road 16), occupying 45% of total asset of the company; the total value of construction in progress is VND 1,298 billion (including VND 778 billion for route 91 Can Tho An Giang), accounting for 40% total asset. Toll collection period last for 13-16.5 years with stable annual cash flow.

Capital structure. CTI uses large financial leverage with the A/E of 5.41x at the end of 2015. Excluding the retained profit from BOT construction, A/E of CTI could be 6.37x. Due to the characteristic of this industry, we are not concerned with the issue of high leverage. We note that CTI use a part of short-term capital to finance long-term assets, which could lead to liquidity exhausted for the company.

Low liquidity should be noted. The current ratio and quick ratio has been low and tended to decrease, reaching 0.37x and 0.53x at the end of 2015.

Stable Cash Flow. This is the advantage of the BOT operation due to the low receivables and inventories. The cash flow from operating activities in 2015 reached VND 291 billion. We note again that BOT constructions do not bring cash flow for CTI.

Fundermentals

	2011	2012	2013	2014	2015
Solvency					
Debt/Equity	2.01	4.46	6.19	3.14	3.81
Assets/Equity	4.18	6.77	9.92	4.62	5.41
Assets Structure					
Long-term Assets/Total Assets	45%	61%	71%	78%	88%
Short-term Assets/Total Assets	55%	39%	29%	22%	12%
Liquidity					
Quick Ratio	0.91	0.51	0.50	0.57	0.37
Current Ratio	1.34	0.94	0.79	0.76	0.53
Operational Capacity					
Days Inventory	64	136	83	32	27
Days Reveiables	80	245	222	96	66
Days Payables	18	56	125	87	80
Profitability					
Gross Profit Margin	21%	19%	17%	25%	31%
ROS	2%	0%	1%	7%	8%
ROE	7%	1%	1%	14%	12%
ROA	2%	0%	0%	2%	2%

Sources: BSC research

2016 PLAN

2016 plan of CTI

	Revenue (VND. Bil)	Net profit of parent shareholders (VND. Bil)
Parent firm	634	64,31
Dong Thuan Investment Jsc.	289,1	31,91
Natioanl route 91 Can Tho-An Giang investment Jsc.	122,14	9,92
Sum	1.045,24	107,14

Opeating plan:

The company set the targeted revenue of VND 1,045 billion, the net profit of shareholders of the parent company would reach VND 107 billion (+57% yoy), equivalent to 2016 diluted EPS of VND 2,488 per share. Notably, the increase by average of 70% of toll on rouate 1A in 2016 improve significantly CTI performance. The operation of 91A toll station from April, 2016 and 91B toll station from July, 2016 will contribute about VND 122.14 billion in 2016 and approximately VND 200 billion per year later.

CTI plans to purchase at least 49% of toll collections right on national route 51

2016 investment plan of CTI

No.	Projects	Total investment (VND. Bil)
1	intersection 319	700
2	Specialized road for construction materials	150
3	Tam Hoa social housing	325
4	Motor registration stations in the form of socialization	50
5	Others	30
Sum		1,255

Sources: CTI

which has three toll stations, annual revenue of about VND 450-500 billion/year, much higher than current toll station of CTI. The profit margin of road toll segment is high, therefore, the CTI performance will be improved significantly. CTI did not take into plan the possibility of that acquisition.

Investment plan. 2016 expected disbursement is VND 1,255 billion, in which, VND 700 billion for the intersection 319 and VND 200 billion for special road for construction materials. Those two projects promise to bring a stable toll collection to CTI once it is completed.

Charter capital raising plan. CTI shareholder meeting has approved the private placement plan of 30.3% of charter capital (equivalent to 10 million shares) at the price of not lower than VND 20,000 /share. This will add at least VND 200 billion in order to implement these projects above and pay company's due debt obligations.

2016-2021 EARNINGS FORECAST

We forecast consolidated business results of the company in terms of operating segments: (1) construction materials, construction and toll collections (the parent company and Mining and dealing construction materials of Dong Nai Idico Jsc.); (2) National route 1A toll collections (Dong Thuan Investment JSC) and route 91 toll collections (Highway 91 Can Tho – An Giang Investment JSC). At the cautious level, revenues and profits from BOT toll collections on the intersection 319 and on specialized road for construction materials and on route 51 (negotiating) does not take into our estimate.

2016 net revenue is forecasted to reach VND 1,329 billion (+60% yoy), the after tax profit for the parent company will reach VND 114 billion (+68% yoy), equivalent to 2016 diluted EPS of VND 2,521 per share.

Parent company and Mining and dealing construction materials of Dong Nai Idico Jsc. The revenue is estimated at VND 813 billion, the after-tax profit is estimated at VND 57 billion in 2016. 2021 net revenue and after-tax profit is forecasted at VND 216 billion and VND 30 billion. In 2021, toll collection right of provincial road 16 will expired. In details:

- Toll collection of provincial road 16. Vehicle traffic will increase by 6% until 2020 based on the growth rate of vehicle traffic in the Southern is 6% according to "Viet Nam Seaport Development Plan". This growth rate is lower than the current rate of 9.6% during 2012-2015.
- (2) The road toll will rise every three years with the expected increase of 12% based on the expected CPI growth of 4% per year.
- The revenue of construction is estimated at VND 595 billion in 2016 and VND 455 billion in 2017 for the route 91 construction. The gross profit margin will be 13%, which is equal to the profit margin in 2015.
- Construction material revenues will increase by an average of 5%/year, merchandise sales will rise by an average of 2% per year.
- We note that our forecast does not include the possibility of accelerate mining of existing quarries of CTI and the plan to acquire 49% of the toll collections right on national route 51.

Dong Thuan Investment JSC (toll collection of national route 1A). The company is entitled to collect toll on route 1A within 13 years (until the middle of 2027). IRR is 14%.

- The 2016 net revenue is anticipated to reach VND 379 billion due to the increase of 15% in vehicle traffic and the average increase by 70% in toll since 2016. The after-tax profit of shareholders of the parent company is expected to be VND 48 billion.
- We expect CAGR of vehicle traffic will be 10% during the period of 2016-2020, and then, at the cautious level, we forecast the CAGR will be 0%. Note that, vehicle traffic on route 1A dropped sharply after the completion of Long Thanh – Dau Giay Highway.
- Similar to the Provincial Road 16, the road toll will increase every three years by about 12% each time.
- The gross profit is anticipated to be stable (due to unit-of-production depreciation) at 62% (equal to the total investment/ breakeven revenue of the project). The interest expense is expected to reach VND 118 billion in 2016 and then decline due to the fall of outstanding loans.

National route 91 Can Tho-An Giang Investment Jsc. (91A, 91B toll collections). The toll collections right on route 91 will be implemented within 16.5 years from mid-2016 until the end of 2032. IRR is 12%.

- Net revenue is anticipated at VND 137 billion, after-tax profit of the parent company's share will be VND 9 billion in 2016. After that, profit of the parent company will increase gradually over the years.
- CAGR of vehicle traffic is expected at 8% during the period of 2016-2025 and stay at 5% after that. Similarly, road toll is expected to increase every three years with the rise of 18%.
- Gross profit margin is anticipated to be stable (due to unit-of-production depreciation) at 68% (equal to the total investment/ breakeven revenue of the project). The interest expense is forecasted to be VND 72 billion in 2016, then rise to VND 145 billion in 2017 because interest expense is not capitalized. After that, the interest will decline due to the decrease of outstanding loans.

VALUATION

WACC of parent company

Risk free rate	7.20%
Beta	0.52
Market risk	11.75%
Cost of equity	9.57%
Cost of debt	10.30%
Loans/ (loans + equity)	47%
WACC	8.99%

WACC of Dong Thuan investment Jsc

We value each business segment of CTI including: (1) Current operations (construction materials, construction, toll collections); (2) the potential of accelerating mining in quarries.

(1) Current operations.

We use FCFF model to evaluate those activities because of large financial leverage and stable annual cash flow.

Present cash flow from construction material, construction and toll collection on provincial road 16 is VND 841 billion.

The free cash flow is forecasted in two periods.

- Period 1: 2016 – 2021 (toll collection period on provincial road 16 will end in 2020). We note that our forecast does not include the cash flow from toll collections on the intersection 319 and the road for construction materials, therefore, we deduct initial investment of



Risk free rate	7.20%
Beta	1.02
Market risk	11.75%
Cost of equity	11.83%
Cost of debt	11%
Loans/ (loans + equity)	81%
WACC	9.56%

WACC of National route 91 Can Tho-An Giang Jsc.

Risk free rate	7.20%
Beta	1.33
Market risk	11.75%
Cost of equity	13.23%
Cost of debt	9%
Loans/ (loans + equity)	86%
WACC	8.05%

Sources: BSC research

these two projects from our cash flow estimate.

- Period 2: Long-term growth, based on anticipated CAGR of 2% of construction materials.

Weighted average cost of capital (WACC). We employ CAPM method to calculate the cost of equity with the 5 year beta of 0.52; the risk-free rate is 7.2%, equal to the yield of 7-year government bond; market yield is 11.75%. Then, the cost of equity is 10.3% and WACC is 8.99%.

FCFF of Dong Thuan Investment JSC (toll collections on route 1A). The present value of FCFF is **VND 1,794 billion**. WACC is calculated in the same method as parent company, in which, beta which is calculated by the pure play method is referred to beta of HTI (0.64) and adjusted in proportion of debt/equity ratio.

FCFF of National route 91 Can Tho – An Giang Investment JSC (toll collections on route 91A, 91B). Similar, the present value of FCFF is **VND 636 billion**.

Share price	
Present value of FCFF (VND)	3,270,546,689,133
(-) Debt	(2,791,317,034,613)
(+) Cash and equivalent cash	132,296,036,083
(+) Financial investment	47,388,700,000
Shareholder's value	656,942,640,801
Outstanding shares (mil)	42,999,997
Price per share	15,324

Sources: BSC research

Thus, the total present value of FCFF is VND 3.271 billion. Fair value of the current activities is **VND 15,324 per share**, excluding the cash flow from toll collection on intersection 319, specialized road for construction materials and route 51 (negotiating)

(1) Quarries.

Current mining only meet demand of CTI. Performance is not high with the gross profit margin of -3% in 2015. Compared with the other quarries of listed companies, we found that CTI's quarries have the high potential and CTI can improve its performance in the near future. Therefore, we employ a comparative approach, market capitalization/total estimated value of the remaining reserve to evaluate those quarries.

The estimated value of the remaining reserve of the quarries is calculated base on 2015 average stone price of reference companies. We assume the stone price of CTI will equals to 90% of the lowest price of listed companies (107,338 VNDs/m³). Therefore, estimated value of the remaining reserve is VND 4,079 billion.

At the cautious level, we set the the ratio of market capitalization/estimated value of the quarries is 0.17x corresponding to the lowest value among compared companies. Market value of CTI's quarries per share is **VND 16,465 per share**.

Firm	Remaining reserves	2015 average price (VND/m3)	Estimated value of remaining reserves (VND. Bil)	Market cap (VND. Bil)	Market cap/ Estimated value of remaining reserves
KSB	38,442,532	162,692	6,254	1,144	0.21
DHA	18,134,559	119,264	2,308	355	0.17
NNC	21,000,000	170,571	3,582*	875	0.27
CTI**	38,000,000	107,338	4,079	708	0.17

Nguồn: KSB, DHA, NNC, BSC research,

** based on 2015 price of every quarry*

*** based on aboved assumption*

Sesitive analysis of market value of quarries of CTI

		Market cap/ Estimated value of remaining reserves					
		0.09	0.12	0.17	0.18	0.21	0.24
Estimate output price	16,465	6,915	9,220	13,337	13,830	16,135	18,440
	86,943	7,683	10,245	14,819	15,367	17,928	20,489
	96,604	8,537	11,383	16,465	17,074	19,920	22,766
	107,338	9,391	12,521	18,112	18,782	21,912	25,042
	118,071	10,330	13,773	19,923	20,660	24,103	27,546
	129,878	11,363	15,150	21,915	22,726	26,513	30,301

Sources: BSC research

Cobining (1) and (2), the fair value of a CTI stock is VND 31,789, upside 22%.

We recommend **STRONG BUY** to CTI stock with the targeted price of VND 31,800 per share (upside 22%). Our valuation is based on the discounted FCFF method for the current activities of CTI and the comparison method for the market of quarries. Note that, our valuation is based on conservative assumptions: (1) did not take into account the cash flow from toll collection on the intersection 319 , on specialized road for construction material on route 51 (negotiating); (2) the stone price of CTI equals to 90% the lowest selling price of listed companies; the ratio of market capitalization/ estimated value of quarries equal to the lowest value among the companies compared. Toll collections provides stable and low risk revenue stream. Toll collections of new BOT projects and mining expansion of quarries in South East aeres bring long – term prospect for CTI.



APPENDIX 01: BALLANCE SHEET

	2016F	2017F	2018F	2019F	2020f	2021F
ASSETS						
A. Current assets	354	516	501	735	1,298	1,849
Cash and cash equivalents	63	65	79	240	387	530
Current financial Investments	-	150	150	200	600	1,000
Accounts receivable	146	148	129	140	147	151
Inventories	96	101	106	110	116	121
Other current asset	49	51	37	45	48	48
B. Long term assets	4,424	4,071	3,980	3,681	3,313	2,935
Long term receivable	4	4	4	4	4	4
Fixed assets	4,295	3,941	3,851	3,552	3,184	2,806
Intangible assets	90	66	41	50	17	(16)
Financial leases	-	-	-	-	-	-
Intangible assets	2,610	3,010	2,764	2,457	2,122	1,776
Assets in progress	1,595	866	1,046	1,046	1,046	1,046
	-	-	-	-	-	-
Long term investments	8	8	8	8	8	8
Other long-term assets	117	117	117	117	117	117
TOTAL ASSETS	4,778	4,586	4,481	4,416	4,612	4,784
LIABILITIES AND EQUITY						
A. Liabilities	3,905	3,392	3,141	2,777	2,606	2,395
Current liability	1,144	1,004	981	813	867	966
Long-term liability	2,761	2,388	2,160	1,963	1,739	1,430
B. Equity	873	976	1,077	1,297	1,564	1,833
LIABILITIES AND EQUITY	4,778	4,586	4,481	4,416	4,612	4,784

APPENDIX 02: FINANCIAL STATMENT

	2016F	2017F	2018F	2019F	2020f	2021F
Net revenues	1,329	1,397	1,019	1,232	1,334	1,313
Gross profit	463	584	571	705	766	741
Financial incomes	1	3	7	8	18	36
Financial expenses	(245)	(300)	(269)	(232)	(193)	(175)
Gain or loss from associated companies and joint ventures	-	-	-	-	-	-
Selling expenses	(8)	(8)	(9)	(9)	(10)	(2)
General and Administration Expense	(67)	(85)	(88)	(109)	(116)	(99)
Operating profit	144	193	212	362	465	500
Net other incomes	-	-	-	-	-	-
EBT	144	193	212	362	465	500
Net profit	130	181	201	345	436	470
Net profit for parent's share	114	151	157	265	336	355

(Sources: BSC research)

APPENDIX 03: ESTIMATED REVENUES AND GROSS PROFIT OF CTI FROM 2016-2021

Revenues	2016F	2017F	2018F	2019F	2020F	2021F
Merchandise sales	19	19	20	20	21	21
Drain production	63	66	69	73	76	80
Quarry mining	36	38	40	42	44	46
Concrete, asphalt production	53	56	59	62	65	68
Construction	595	455	-	-	-	-
Route 16	46	49	52	62	66	-
National route 1A	379	417	459	565	622	622
National route 91	137	297	320	408	441	476
Total	1,329	1,397	1,019	1,232	1,334	1,313

LN gộp từ các dự án	2016F	2017F	2018F	2019F	2020F	2021F
Merchandise sales	1	1	1	1	1	1
Drain production	6	7	7	7	8	8
Quarry mining	(1)	(1)	(1)	(1)	(1)	(1)
Concrete, asphalt production	25	26	27	29	30	31
Construction	76	58	-	-	-	-
Route 16	31	38	40	48	51	-
National route 1A	233	257	282	348	383	383
National route 91	92	199	214	273	295	319
Total	463	584	571	705	766	741

APPENDIX 04: TOLL FEE ON NATIONAL ROUTE 1A

No.	Vehicles	1/1/2015-31/12/2015			From 1/1/2016		
		Toll ticket (VND/ticker)	Monthly ticket (VND/month)	Quarterly ticket (VND/quarter)	Toll ticket (VND/ticker)	Monthly ticket (VND/month)	Quarterly ticket (VND/quarter)
1	Vehicles has less than 12 seats, trucks with loading capacity of under 2 tons and public buses.	20.000	600.000	1.600.000	35.000	1.050.000	2.850.000
2	Vehicles has from 12 s to 30 seats and trucks with load capacity from 2 to 4 tons	30.000	900.000	2.450.000	50.000	1.500.000	4.050.000
3	Vehicles has over 31 seats, trucks with loading capacity from 4 to 10 tons	44.000	1.320.000	3.550.000	75.000	2.250.000	6.050.000
4	Trucks with loading capacity from 10 to 18 tons, containers of 20 feet	80.000	2.400.000	6.500.000	140.000	4.200.000	11.350.000
5	Trucks with load capacity of over 18 tons and Containers of 40 feet	160.000	4.800.000	12.950.000	200.000	6.000.000	16.200.000

Sources: Circular No. 37/2014/TT-BTC



BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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