

Sector: Construction | CONSTRUCTION RESEARCH

Recommendation

**BUY**

**Coteccons Construction JSC (HSX: CTD)**  
**AFTER THE RAIN COMES SUNSHINE**

Current price: **77,000**  
Previous target price: **-**  
New target price: **97,900**  
Dividend yield: **1.3%**  
**Upside**: **28%**

Date: 06/12/2021  
Outstanding Shares (Million): 79,300,000  
Market Cap (VND billion): 5,909  
Avg. 6M Trading vol: 684,410  
% Foreign float: 45.91%

**SHAREHOLDER STRUCTURE**  
Kustocem Pte. Ltd. 17.6%  
TNHH MTV KD & ĐT Thành Công 14.1%  
The8th Pte. Ltd. 10.4%  
VinaCapital 7.0%

**Construction Research:**

Lam Viet  
[vietl@bsc.com.vn](mailto:vietl@bsc.com.vn)

**Technical Analyst:**

Le Quoc Trung  
[trunglq@bsc.com.vn](mailto:trunglq@bsc.com.vn)

Target price: 89,000 VND  
Stop-loss price: 72,800 VND

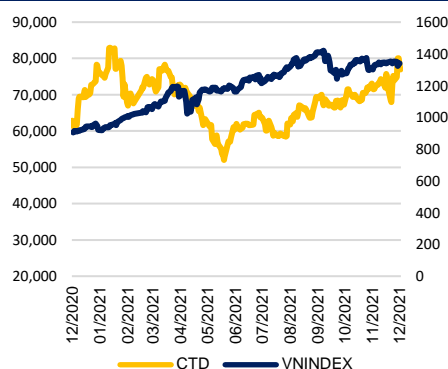
**VALUATION**

We recommend **BUY** for **CTD** with target price of **VND 97,900/share**, upside +28% compared to price on December 3, 2021 by P/B method and 15% discount

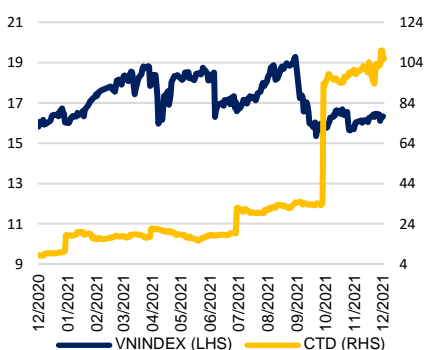
**FORECAST OF BUSINESS RESULTS**

BSC forecasts CTD's revenue and net profit in 2022 will reach VND 16.118 billion (+61% YoY) and VND 716 billion (+230% YoY), EPS fw = VND 9,026 and P/E fw=8.5, P/B fw= 0.67.

**Price comparison between CTD and VN index**



**P/E comparison between CTD and VN index**



**INVESTMENT THESIS**

- Corporate restructuring begins to show results in 2022.
- Recovered from low base, high new contract value and improved profit margin.
- Positive outlook of construction industry in medium and long term.
- Attractive valuation relative to the industry.

**RISKS**

- The Covid-19 epidemic will affect construction work.
- High cost of raw materials.
- Risk of provisioning comes from receivables from projects from the old management period.

**COMPANY UPDATE**

- 9M2021 business results: CTD's net revenue and NPAT in the first 9 months of 2021 reached VND 6,189 billion (-39.9% YoY) and VND 87 billion (-76% YoY) respectively due to (1) the epidemic affecting construction work, (2) high cost of raw materials and (3) provisioning for short-term bad debts reached VND 55 billion (12.3 times higher than the same period last year).

	2020	2021F	Peer	VN-Index
PE (x)	18.3	28.2	21.8	17.1
PB (x)	0.73	0.72	1.2	2.7
D/E (%)	-40	-60	48	N/A
ROE (%)	4.0	2.5	5.2	2.6
ROA (%)	2.4	1.7	1.5	16.1

	2019	2020	2021F	2022F
Net Sales	23,733	14,558	10,040	16,118
Gross Profit	1,048	856	472	983
NPAT	711	335	217	716
EPS	8,320	4,219	2,734	9,026
EPS Growth	-55%	-49%	-35%	230%

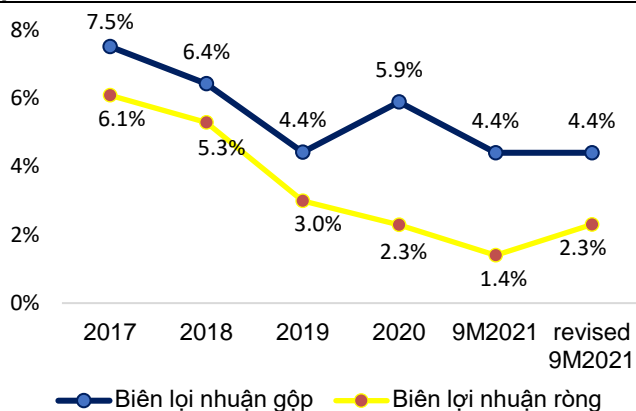
## COMPANY UPDATE

**9M2021 business results:** CTD's net revenue reached VND 6,189 billion (-39.9% YoY) – completing 56% of the 2021 target and VND 87 billion (-76% YoY) in profit after tax – completing 46% of the 2021 target with major support by stable financial revenue. CTD's core business results are less positive because (1) the epidemic has strongly affected construction work in the southern provinces, (2) the backlog to 2020 is not high (reaching VND 9,000 billion, -57% YoY), (3) gross profit margin decreased (4.4% in 9M/2021 compared to 5.9% in the same period last year) due to high raw material prices and high competitive pressure, (4) forecasting costs. short-term bad receivables is 12.3 times higher than the same period in 2020. We estimate CTD's revenue and net profit in 2021 will reach VND 10,040 billion (-31% YoY) and VND 217 billion (-35% YoY) respectively. YoY) due to the workforce has completely returned to work and works have been resumed in Q4/2021.

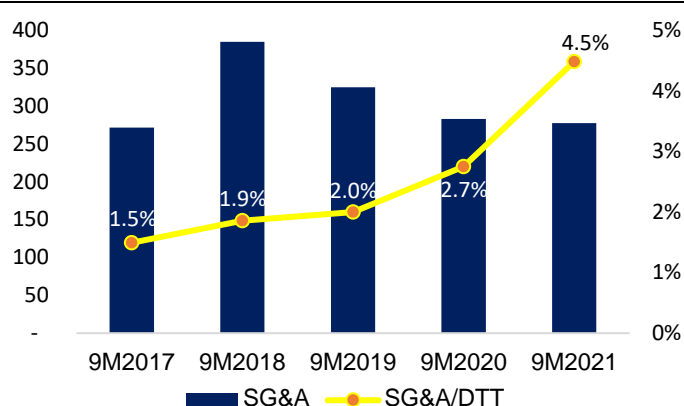
Billion VND	2020	2019	% YoY	9T21	9T20	% YoY	2021P	Comment
<b>Net revenue</b>	<b>14,589</b>	<b>23,733</b>	<b>(39%)</b>	<b>6,189</b>	<b>10,301</b>	<b>(40%)</b>	<b>17,413</b>	<b>Update 9M/2021 business results:</b>  Revenue and NPAT in the first 9 months of 2021 reached VND 6,189 billion (-40% YoY) and VND 87 billion (-76% YoY), respectively.  The main reason comes from the interruption of construction progress due to the epidemic, low backlog to 2021 and high cost of raw materials, so EBIT is negative 62 billion and CTD has profit after tax thanks to financial revenue.  9M2021 has recorded positive signals from the value of new contracts signed in the first 9 months of the year reaching VND 17,400 billion.
Gross profit	856	1,048	(18%)	271	606	(55%)		
GPM	5.9%	4.4%		4.4%	5.9%			
SG&A expenses	656	459	43%	333	283	(18%)		
SG&A/ Net revenue	4.5%	1.9%		5.4%	2.7%			
EBIT	201	589	(66%)	(62)	323	(120%)		
Financial revenue	228	264	(14%)	193	173	11%		
Financial expenses	-	-		3	30	(1%)		
PBT	428	891	(52%)	116	471	(75%)		
<b>NPAT</b>	<b>335</b>	<b>711</b>	<b>(53%)</b>	<b>87</b>	<b>370</b>	<b>(76%)</b>	<b>340</b>	
NPM	2.3%	3.0%		1.4%	3.6%			

During the period of business transfer and restructuring, Cotecons has accelerated the review and re-evaluation of debt recovery risks from Q4/2020. This provision comes from a number of investors who have difficulty in cash flow due to the epidemic and also foreign investors who have travel restrictions, so they cannot retest and settle the works. Excluding the effect of the provision made in 9M2021, the core business results as well as SG&A/Net revenue 9M2021 are in line with the past stable period and our expectations. Accordingly, SG&A expenses in 9M2021 will reach VND 282 billion, stable compared to 2017-2020 (mainly labor costs) and SG&A/Net revenue ratio of 4.5% (higher than 1.5%-2.7%). in the period 2017-2020 because the revenue in 9M/2021 is low compared to the same period in previous years). In our opinion, CTD will thoroughly review and make provision for short-term receivables from customers of the old management in 2021 to comprehensively restructure, ready for the booming period from 2022.

### Gross profit margin and NPAT for the period 2017-present



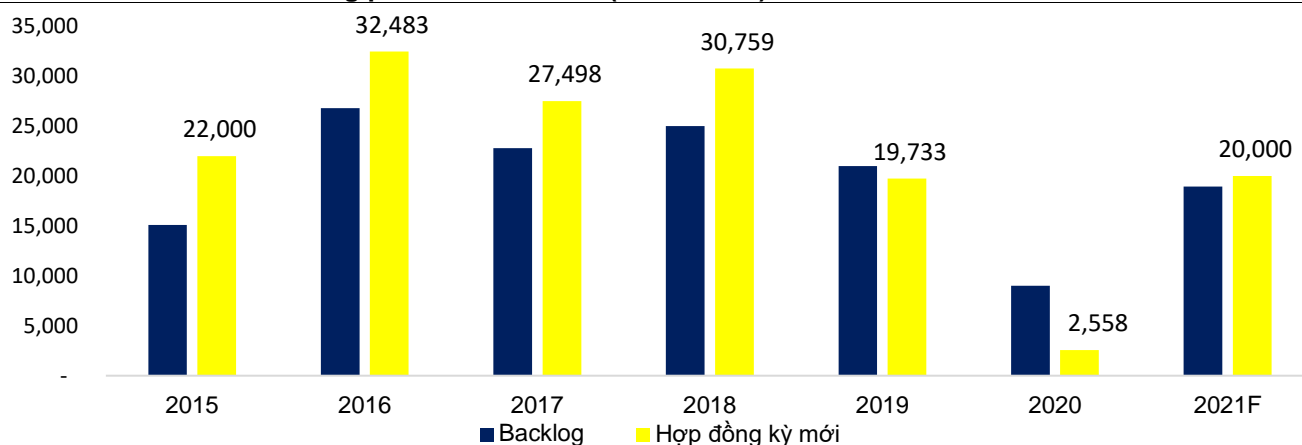
### SG&A expenses after provision adjustment



Source: Coteccons, BSC Research

The value of new contracts signed by the end of Q3/2021 reached VND 17,400 billion (compared to VND 11,000 billion in the whole year of 2020) which is a positive sign after the restructuring period, although it is still quite low compared to the period 2015- 2018 (on average, new registrations are VND 28,185 billion/year). BSC forecasts the value of new contracts signed for the whole year of 2021 will be VND 20,000 billion with the backlog transferred to 2022 at VND 18,960 billion. The expanded customer portfolio (including new names such as BIM Land, Ecopark, Dat Xanh Group, Hyatt, etc.) will reduce the risk of having to make provision for a group of customers and spread the risks on a smaller scale.

### New contract value and backlog period 2015-2021F (VND billion)



Source: Coteccons, BSC Research

### Major contracts signed in 2021

Project	Address	Estimated completion time	Total project investment	Package value	Investor
Opal Skyline	Binh Duong	-	-	1,000	Dat Xanh Group
Intercontinental Residences Halong Bay	Quang Ninh	Q4/2022	2,070	-	BIM Land Real Estate Company
Lancaster Luminaire	Ha Noi	Q2/2022	1,741	750	Trung Thuy Corporation & Toshin
Lancaster Legacy	HCMC	-	3,500	-	Trung Thuy Corporation
Hyatt Regency	Vung Tau	-	31,320	-	Hyatt Corporation
Dolce Penisola	Quang Binh	2023	-	1,200	Osen Fuji Tourism Service JSC
Ecopark Swan Lake Residence	Hung Yen	-	-	4,000	Ecopark Corporation
HT-Pearl	Binh Duong	2023	-	1,000	HT-Pearl Housing Investment & Construction Co., Ltd
Wind power plant	Tien Giang	Q4/2021	6,741	2,000	Tien Giang Wind Power JSC

Source: Coteccons, BSC Research

**A healthy financial position can help a company win new contracts.** The net amount of VND 2,990 billion and no debt helps CTD be able to provide construction contracts with terms to support the investor such as no advance and the investor will pay an additional interest in proportion to the interest rate. bank rate. That is an advantage of CTD over competitors in the same industry such as HBC (net debt of VND 3,928 billion) or FCN (net debt of VND 2,389 billion).

**The new leadership's vision is towards sustainable development, market expansion and multi-fields.** At the AGM in 2021, CTD approved a plan to issue VND 1,000 billion of non-convertible bonds to diversify business activities, participate in bidding projects for infrastructure construction, EPC construction and installation, renewable energy... rather than depending on just one cyclical segment. Although being the leading construction company in Vietnam, Coteccons only accounts for 7% market share in the construction industry, the growth potential is still huge and even bigger when CTD is involved in the infrastructure construction segment. With the existing brand and resources, we expect the infrastructure construction segment to make a significant contribution to CTD's growth in the future.

## 2022 OUTLOOK

**BSC forecasts revenue and NPAT in 2022 to reach VND 16.118 billion (+61% YoY) and VND 716 billion (+230% YoY), EPS fw=9,026/share and PE fw=8.5, PB fw=0.67 base on assumptions** (1) the value of new contracts in 2021 and 2022 will reach VND 20,000 billion and VND 22,000 billion, respectively thanks to the positive outlook of the construction - real estate industry, (2) gross profit margin will increase from 4.7% to 4.7%. 6.1% and (3) the provisioning cost will be better when the epidemic stabilizes in 2022, helping to improve the financial situation of investors.

We believe that the effective internal restructuring process from 2022 along with a low base in 2021 will be the main driving force for CTD's growth in 2022.

Billion VND	2019	2020	2021F	2022F
<b>Net revenue</b>	<b>23,733</b>	<b>14,589</b>	<b>10,040</b>	<b>16,118</b>
%YoY	-17%	-39%	-31%	61%
COGS	22,685	13,701	9,568	15,134
<b>Gross profit</b>	<b>1,048</b>	<b>856</b>	<b>472</b>	<b>983</b>
SG&A expenses	459	656	452	371
<b>EBIT</b>	<b>589</b>	<b>200</b>	<b>20</b>	<b>612</b>
Financial revenue	264	228	245	231
Financial expenses	-	-	-	-
<b>PBT</b>	<b>891</b>	<b>428</b>	<b>271</b>	<b>895</b>
<b>NPAT</b>	<b>711</b>	<b>335</b>	<b>217</b>	<b>716</b>
<b>Basic EPS (VND)</b>	<b>8,320</b>	<b>4,219</b>	<b>2,734</b>	<b>9,026</b>
<b>GPM</b>	<b>4.4%</b>	<b>5.9%</b>	<b>4.7%</b>	<b>6.1%</b>
<b>NPM</b>	<b>3.0%</b>	<b>2.3%</b>	<b>2.2%</b>	<b>4.4%</b>
<b>ROE</b>	<b>8.4%</b>	<b>4.0%</b>	<b>2.5%</b>	<b>7.8%</b>

Source: Coteccons, BSC Research

## VALUATION

In our opinion, as a leader in the construction industry, CTD has **an attractive valuation** as it is trading at P/B 0.74x lower than CTD's 5-year P/B average is 1.3x as well as compared to P/B of peers such as HBC (1.4x), FCN (1.2x), SC5 (1.0x).

Compare with other companies in the industry

	% Revenue growth (TTM)	% NPAT growth (TTM)	% GPM	% NPM	Net debt/VCSH	ROE	ROA	PE	P/B
HBC	-17.6	-59.1	6.6	0.8	117.1	2.8	0.7	70.6	1.4
FCN	1.3	-7.9	15.0	3.8	48.0	5.2	1.7	21.8	1.2
SC5	28.5	-5.6	5.2	1.9	45.0	9.0	1.5	9.7	1.0
<b>Median</b>	<b>1.3</b>	<b>-7.9</b>	<b>6.6</b>	<b>1.9</b>	<b>48.0</b>	<b>5.2</b>	<b>1.5</b>	<b>21.8</b>	<b>1.2</b>
<b>Mean</b>	<b>4.1</b>	<b>-24.2</b>	<b>8.9</b>	<b>2.2</b>	<b>70.0</b>	<b>5.7</b>	<b>1.3</b>	<b>34.0</b>	<b>1.2</b>
<b>CTD</b>	<b>-41.2</b>	<b>-91.3</b>	<b>5.0</b>	<b>0.5</b>	<b>-36.9</b>	<b>0.6</b>	<b>0.4</b>	<b>97.6</b>	<b>0.7</b>

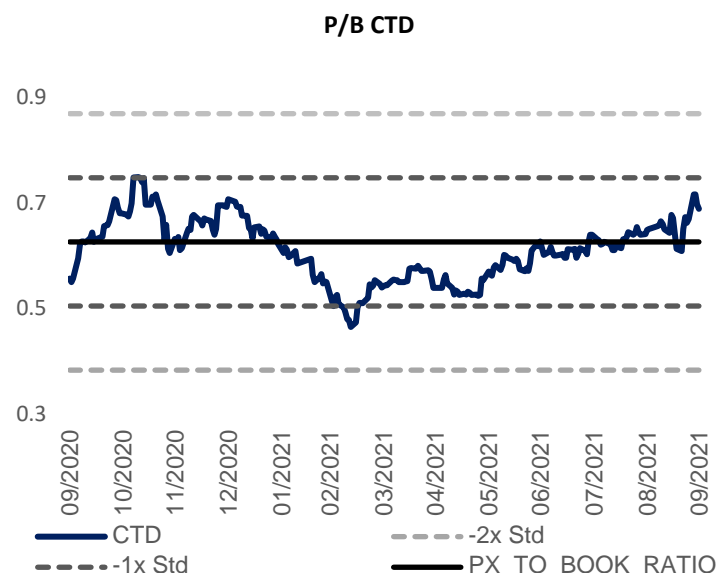
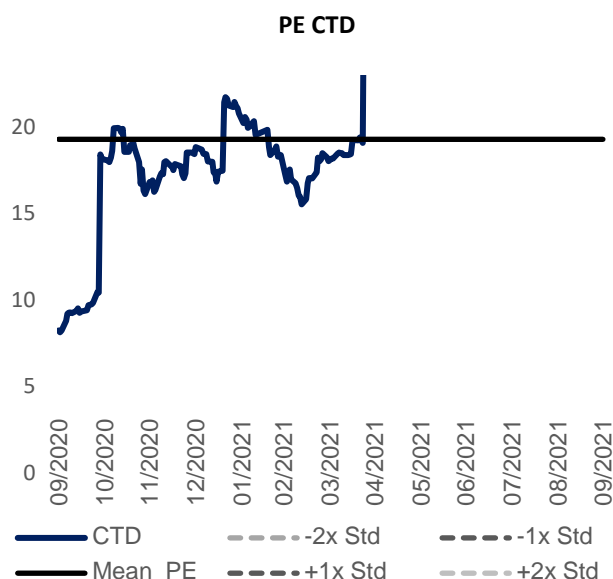
Source: Bloomberg, BSC Research

We recommend **BUY** for CTD with a target price of VND 97,900, upside 28% (including dividend yield of 1.3%) compared to the closing price on December 3, 2021 by P/B method with P /B target 1.0x - based on positive expectations for 2022 - and a risk discount of 15%.

**P/B method**

<b>Book value 2022F</b>	<b>9,129</b>
Target PB (times)	1.0
<b>Enterprise value</b>	<b>9,129</b>
Risk discount rate	15%
<b>Enterprise value after discount</b>	<b>7,760</b>
<b>Target price for 2022</b>	<b>97,900</b>
Expected dividend yield	1.3%
Upside compared to the price on December 3, 2021	28%

Source: BSC Research



Source: BSC Research

## Disclosure

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*

### BSC Headquarters

BIDV Tower, 10th & 11th Floor  
35 Hang Voi, Hoan Kiem, Hanoi  
Tel: +84439352722  
Fax: +84422200669

### Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor  
District 1, HCMC  
Tel: +84838218885  
Fax: +84838218510

<https://www.bsc.com.vn>  
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