RONGVIET SECURITIES

SEPTEMBER, 2016

CUONG THUAN IDICO JSC (CTI – HSX)

Growth catalysts come one after another

- **A small firm making a statement in BOT development sector**
- **Earnings result grows with operation of new BOT projects**
- **Securing stone supply helps higher business effectiveness and serves long-term startegy**
- **Low interest rate environment and strong toll cashflow boost up projects return and allay concern on leverage**

Outlook and Valuation:

Cuong Thuan Investment Development IDICO JSC specializes in infrastructure construction in Southeastern Vietnam and Dong Nai province. The firm's vision to become a BOT project developer is first executed following the success of BOT Vo Nguyen Giap project in 2014. CTI has also been actively acquiring stone quarries in Dong Nai to secure this resources supply in the future. In short and medium term, CTI's earnings growth would be driven by strong performance from current and new BOT projects thrown in one after another. Stably improved stream of toll cash flow would allay concerns on CTI's high leverage.

In the long-run, construction stone business expects to play a greater role in the firm's total performance supported by FDI led investments in the area plus planned kick-off of mega Long Thanh airport in 2019 while stone supply from adjacent Binh Duong province reducing. Considering all above analysis, CTI shall be fairly valued at ***VND36,000/share*** *and we therefore recommend investors to* ***"Accumulate"*** *the share for* ***"Mid-term"*** *horizon (upside 15% from current market price).*

Key financials

Y/E Dec (VND bn)	FY2014	FY2015	FY2016F	FY2017F
Net Revenues	722	830	1,120	1,321
% chg	30%	15%	35%	18%
PAT	49	68	120	140
% chg	191%	37%	77%	16%
PAT margin (%)	7%	8%	11%	11%
ROA (%)	2%	2%	3%	3%
ROE (%)	17%	16%	21%	19%
EPS (VND)	1,425	1,957	2,656	3,084
Adjusted EPS (VND)	1,093	1,502	2,656	3,084
Book value (VND)	12,132	13,117	16,318	17,542
Cash dividend (VND)	1,000	1,500	1,600	2,000
P/E forward (x)	0	74	10	10
P/B forward (x)	0	11	2	2

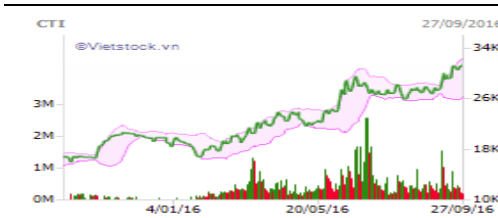
*Sources: CTI, RongViet Research estimated. * Accounted for welfare provision expense (5%) and computed based on total share number 42.9 mil shares.*

ACCUMULATE

CMP (VND)	31,200
Target Price (VND)	36,000
Investment Period	**Mid-term**

Stock Info

Sector	Infrastructure
Market Cap (VND bn)	1,259
Current Shares O/S	42,999,999
Beta	0.8
Free float (%)	62
52 weeks High	31,200
52 weeks Low	14,700
Avg. Daily Volume (in 20 sessions)	570,000



Source: Vietstock

Performance (%)

	3M	1Y	3Y
CTI	12	121	533
Infrastructure	9	125	162
VN30 Index	4	11	22
VN Index	5	16	38

Major Shareholders (%)

Nguyen Xuan Quang and related persons	16.0
Victory and Vietnam Investment Property	12.0
Kingsmead VietNam	4.8
Foreigner Investor Room (%)	34.5

Hoang Nguyen

(084) 08- 6299 2006 – Ext 1319

hoang.nh@vdsc.com.vn

A small firm making a statement in BOT development sector

Cuong Thuan IDICO (CTI-HSX) started as an infrastructure constructor with initial chartered capital of only VND 4 bil in 2000. Vision to operate an integrated infrastructure value chain, the firm gradually increases its construction material self-sufficiency and upgrades to become a developer of BOT infrastructure project. In 2014, CTI put into operation its first BOT project (Vo Nguyen Giap road project) at the total invested capital of nearly VND1,500 bil. The success of this particular project helps the fledgling CTI build its credibility and is a springboard to venture deeper into the highly demanded infrastructure development sector.

Model: CTI's business value chain

Source: RongViet Research compiled

The firm's umbrella consists of 03 subsidiaries and 2 associates. Basically, most of the subsidiaries were established to facilitate the management, operating and maintenance of BOT projects executed by CTI. At the same time, CTI is step-by step acquiring stone quarries around Dong Nai to serve its long-term strategy. However, we think that it is not until 2018 onwards that we could see a clear contribution from this particular business due to the existence of adjacent better quality stone quarries Tan Dong Hiep (Binh Duong) whose mining license expires at the end of 2017.

Table 1: List of subsidiaries and associates

Subsidiaries	Chartered capital (bil VND)	CTI ownership	Operation
Dong Thuan JSC	305	83.1%	Operating BOT VO Nguyen Giap
IDICO Dong Nai Building material JSC	60	55.8%	Building material business
BOT Highway 91 JSC	282	59.6%	Operating BOT Highway 91
Associates	**Chartered capital (bil VND)**	**CTI ownership**	**Operation**
BOT An Thuan Phat JSC	60	30%	Operating BOT road for transporting building material
Viet Thuan Phat JSC	20	35%	

Source: RongViet Research compiled

The firm has gone through multiple phases of raising chartered capital during its 16 year-operation. The latest one, occurred in 2Q2016, saw it raise approximately VND220 bil by issuing 10 mil new shares (new chartered capital VND429.9 bil). Shareholder structure mainly comprises of company founders, employees and recently participation of financial institutions. The relatively large shareholding of founders at the firm would be positive in aligning the interest of the firms' management and ordinary shareholders.

Operation of new BOT projects creates continuous earnings growth driver

In an effort to increase private sector participation in public projects, Vietnam Government issued Decision 15/2015/ND-CP to encourage private enterprises, investors to invest in public infrastructure projects under the Public-Private partnership cooperation (so called PPP). Statistics from Ministry of Transportation showed *the government funding afforded only 37% of total required funding for infrastructure in 2011-2015 period. The need for more funding just gets more intense coming into 2016-2020 period given the double funding amount for infrastructure building required and contracting government budget. Under that cooperation, BOT (Build-Operating-Transfer) and BT (Build- Transfer) have been the two most popular modes used currently.*

BOT projects are mostly financed at the rate of 80:20 or 85:15 (bank debt: equity). BOT investors, after finalizing investment cost to relevant authorities, are allowed to set up toll stations to get paid back at a certain number of years depended on total investment cost (usually over 10 years). The BOT road projects would usually bring stable stream of cash flow to investors and benefit from growing traffic passing by. More importantly, beginning from FY2016, BOT projects under MOT control would have toll fee revised every 3 years according to Circular 159/2013/TT-BTC to accommodate inflations. Also, new BOT projects are subject to preferential 10% CIT regime under Decision 218/2013/ND-CP (of which the first 4 years would be tax free and receiving 50% tax exemption in the following 9 years ~5%).

The firm is running three BOT projects currently (including BOT Local road 16, BOT Vo Nguyen Giap road and BOT Highway 91-91B) with two new BOT projects coming into play during 2017-2018 period. Basically, CTI already got used to this type of business since it bought the entire stake at BOT local road 16 (in Dong Nai) project dated back to FY2006 from Cienco for VND86 bil. However, it is BOT Vo Nguyen Giap project started collecting road toll in 07/2014 be its first BOT project since joining infrastructure development sector. The firm took this successful project as a foundation to partner with State owned Sonadezi in the second BOT project to upgrade Highway 91-91B in Southwest Vietnam. While other BOT players have relatively stable earnings results after projects enter road toll collection phase, CTI's earnings performance differently would receive continuous growth catalyst as new BOT projects coming into place (Table 2).

Table 2: CTI's BOT projetcs timeline

Name of projects	2006-2013	2014	2015	2016	2017	2018	2019	2020	2021-2032
BOT Local road 16									
BOT Vo Nguyen Giap									
BOT Highway 91 & 91B									
BOT road for transporting building material									
BOT 319 road in Long Thanh									

Source: RongViet Research compiled

Table 3: CTI's BOT projetcs by details

No.	BOT projects	Location	Total investment (VND billion)	Start to collect toll	Toll collection end	Toll collection length	CTI's ownership
			On operation				
1	BOT Local road 16	Binh Duong – Bien Hoa	85	2006	2020	14 yrs	100%
2	BOT Vo Nguyen Giap	Bien Hoa – Dong Nai	1,500	07/2014	08/2027	13 yrs 1 month	83.1%
3	BOT Highway 91 & 91B	An Giang – Can Tho	1,700-2,000	+ HW 91: 04/2016 + HW 91B: 10/2016 (planned)	2033	17 yrs 9 month	59.6%
			On construction				
4	BOT road for transporting building	Bien Hoa – Dong Nai	150	2Q/2017 (planned)		10-12 yrs	30%

	material						
5	BOT 319 road in Long Thanh	Long Thanh –Dong Nai	700	Expected in 2018			
6	Buy stake at BOT highway 51 (negotiating)	Dong Nai – Vung Tau					

Source: RongViet Research compiled

BOT local road 16 project is 10Km long connecting Binh Duong province from Local road 743 and Highway 1K on the side of Dong Nai province. Traffic here mainly comprises of trucks carrying construction materials from surrounding stone quarries (Tan Dong Hiep and Tan Cang). Yearly toll revenue is stable at VND40-45 bil. CTI would have to undertake periodical overhaul for this project in 2018. The cost estimates to be VND 64 bil (or 40% total project cost). So, this particular project's GPM could reach the highest 67% in 2017 (2016: 605) and then average at 60-62% till the final year of this project in 2020.

Table 4: Estimated NAV of BOT local road 16	
WACC	10.7%
NPV of FCFF at the start of FY2017	77 bil VND
Debt at the start of FY2017	Nil
NAV	77 bil VND
NAV computed on CTI ownership (100%)	77 bil VND

Source: RongViet Research estimated

BOT Vo Nguyen Giap road (Dong Nai) is the entirely new project developed to resolve current traffic pressure on National highway 1A running across the province. It targets vehicles having journey from Binh Duong, central Dong Nai and HCMC heading to Southern central coast of Vietnam (via three ways Vung Tau junction). 2016 road toll revenue is projected to increase 58% yoy to VND307 bil after this project's toll fee was revised up according to Circular 37/2014/TT-BTC. This particular project has depreciation expense based on yearly toll revenue. Toll revenue performance has been robust despite located in the area having Long Thanh – Dau Giay expressway project passing by. This means CTI project's main traffic component are from the locality which has a good organic growth supported by increasing industrial activities (Long Thanh, Long Duc and Tinh Nghia IZ) and rising rate of urbanization (new public facilities such as Bien Hoa Int'l hospital, Phuoc Tan, Binh Minh residential areas). In addition, Ministry of Transportation's new policy in mid-2014 on truckload control nationwide also means higher road traffic. We estimate this project's road toll revenue growth would align with growth in cargo movement in the area of 5-7%/year projected by BMI during 2016-2020.

Table 5: Estimated NAV of BOT Vo Nguyen Giap road	
WACC	10.7%
NPV of FCFF at the start of FY2017	1,590 bil VND
Debt at the start of FY2017	1,155 bil VND
NAV	435 bil VND
NAV computed on CTI ownership (83.1%)	361 bil VND

Source: RongViet Research estimated

BOT Highway 91-91B upgrading project is done in partnership with State owned Sonadezi. This is the vital road linking Vietnam largest rice farming province of An Giang with Southwest Vietnam's economic center Can tho. Therefore, the projects stands to benefit from rising industrial activities and trade of agriculture products in the area. The whole project is structured into 2 phases. Phase 1

(Highway 91) was completed and started collecting road toll from April 2016 and Phase 2 (Highway 91B) expected in October 2016. We estimate this project's toll revenue would jump from VND86 bil in 2016 to VND 186 bil in 2017 after running the entire year. Similar to BOT Von Nguyen Giap project, this BOT depreciation expense is to be calculated based on annual toll revenue.

Table 6: Estimated NAV of BOT HW 91 & 91B	
WACC	10.7%
NPV of FCFF at the start of FY2017	1,961 bil VND
Debt at the start of FY2017	1,443 bil VND
NAV	517 bil VND
NAV computed on CTI ownership (59.6%)	308 bil VND
Source: RongViet Research estimated	

BOT road specialized for transporting construction material basically serves the traffic from stone quarries epically Tan Cang mine. The project has total estimated investment of VND 150 bil and expects to go into operation from 2Q/2017. It expects to contribute VND20 bil /year in toll revenue.

Table 7: Estimated NAV of BOT road for transporting building material	
WACC	10.7%
NPV of FCFF at the start of FY2017	154 bil VND
Debt at the start of FY2017	127 bil VND
NAV	27 bil VND
NAV computed on CTI ownership (30%)	8 bil VND
Source: RongViet Research estimated	

Also, the firm expects to complete the construction of **new BOT 319 road project in mid 2018**. The project broke ground in late 2015 but has faced difficulty in terms of slow land clearance progress. It is located at the epicenter of industrial activities connecting traffic from Nhon Trach IZ to seaports in the locality. Also, BOT 319 road project which is built to connect to Long Thanh –Dau Giay expressway would allow traffic from HCMC and Dau Giay to travel to Nhon Trach in a shorter journeys and vice versa. Total investment cost is estimate din the region of VND 700 bil.

In short, BOT project developers would enjoy stable earnings from road toll and rising traffic would be the main growth factor across project life. In addition, BOT project's toll fee, under MOT control, is to get revised every 03 years to absorb annual inflation according to Circular 159/2013/TT-BTC starting from FY2016 (in the year of 2016,2019,2022, etc). As a result, the only way to create growth catalyst for earnings result of BOT developers is to put in operation new projects and that is what CTI is undertaking at the moment.

High need of infrastructure investment in Dong Nai province in the long-term

Dong Nai, the largest province (6,000Km2) in Southeastern Vietnam's important economic hub, sits at the main gate for the whole area and HCMC using National Highway 1A. The province is blessed with a river system which facilitates cost effective waterways transport from Dong Nai central down to seaports via Dong Nai port (Dong nai river); Go Dau, Phu My, Thi Vai port (Thi Vai river) and Long Tau canal. So, large lank bank for industrial – residential development which is geographically advantaged would serve as Dong Nai's competitive advantage in attracting FDI.

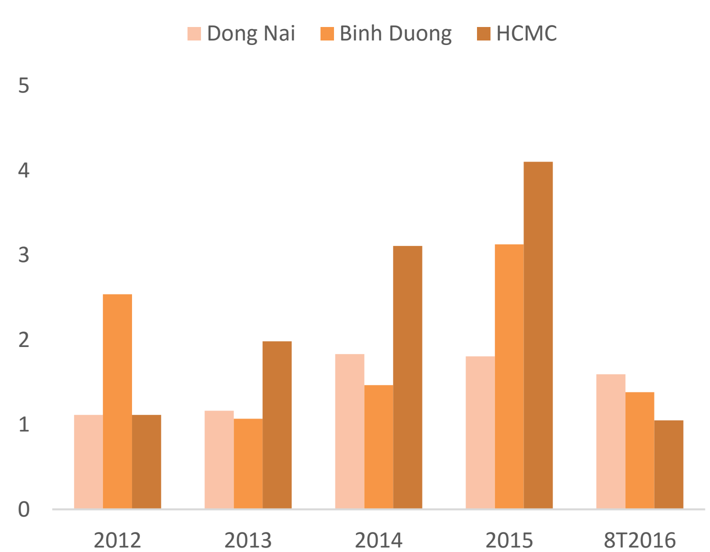
Insufficient investments in industrial infrastructures and after-port facilities (Depot, warehousing) are hampering FDI flow to Dong Nai. This leads to overcapacity in Cai Mep- Thi Vai deep seaports as manufacturers choose Cat Lai port (Ho Chi Minh city) for export and import to minimize trucking fees. To address this, Dong Nai authority is determined to implement the economic and social development master plan for Dong Nai according to Prime Minister Decision 734/TTg on May 27 2015. The plan prioritizes investments in infrastructures that would serve national projects such as Long Thanh airport and Cai Mep deep seaport. Also, more investments in in the road systems linking industrial parks (IPs) and seaports, seaport and after seaport facilities as well as regional road networks are of high importance. Total funding needed during the period is VND330 trillion (Government funding accounting for 7-8.5%) whose major use would be on developing industrial and public infrastructure (57-58%)

Table 8: DongNai's main public infrastructure projects from 2016-2025

No.	Name of projetcs	2016-2020	After 2020
1	Long Thanh int'l airport	x	x
2	Expressways projects passing the province	x	x
3	Bien Hoa- Vung tau railroad	x	x
4	Ports in Dong Nai, Nha Be, Long Tau, Thi Vai river	X	
5	Vo Nguyen Giap road	x	
6	Hoa An bridge	X	
7	Bui Van Hoa road upgrade	X	
8	Hiep Hoa bridge – Bien Hoa city	X	
9	Vuon Mit – Song Cai local road	X	X
10	Vuon Mit intersection	X	X
11	River road along Cai river along NH1A – Tran Quoc Toan	X	
12	An Hao bridge	X	
13	Ruong Tre – Tho An road	X	
14	Nhon Trach port network	X	
15	Road connecting D.9 HCMC and Nhon Trach	X	
16	Highway 56 going to Cam My town	X	
17	Project to resolve congestion at Tan Hoa point – Bien Hoa	x	x

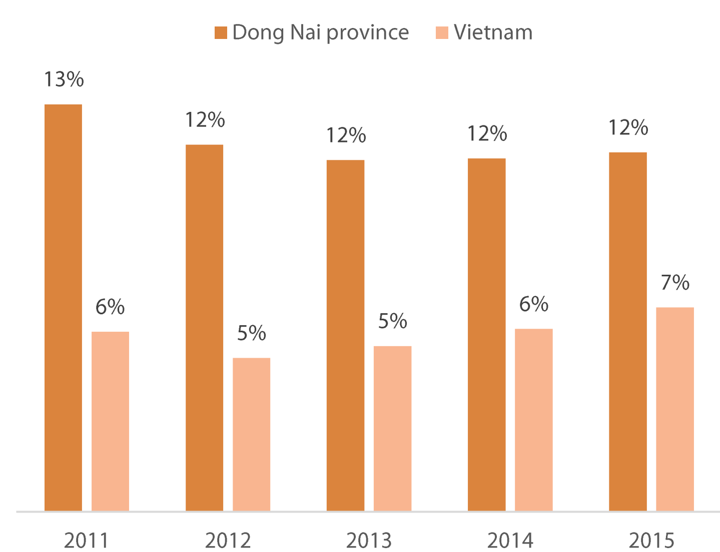
Source: Decision 734/QD-TTg

Graph 1: FDI (registered) in Southeastern Vietnam province



Source: RongViet Research compiled

Graph 2: GDP of Dong Nai province and Vietnam



Source: RongViet Research compiled

The contrasting theme of high need for investments on public infrastructure and contracting government budget means private sector funding has to play a far larger role now. For this reason, BOT developers such as CTI are presented with great opportunities in the years ahead.

Increase construction material sufficiency would help CTI integrate its value chain in the long-term

Beside developing BOT projects, CTI is in a bid to higher its construction stone self-sufficiency. This material is the main input for CTI's business. Currently, CTI owns 04 stone quarries with total reserve up to 28 mil tons. The mining license for each mine last 14-15 years. As a result, the average mining volume per year could reach up to 2 mil tons. . However, the firm is currently exploiting around 500k m3 of stones in 2016 (equal 750k tons) mainly serve the construction of its own projects and volume sold to third party remains small.

The acquisition of stone quarries and experience in producing concrete products for construction purposes would gradually lift up CTI's effectiveness by saving cost. We believe that the construction stone business would gradually play a greater role in the firm's bottom line from 2018 onwards driven by demand from industrial development, massive national projects (Dau giay-Phan Thiet expressway and Long Thanh project planned to kick off in 2019) and decreasing stone supply from adjacent quarries in Binh Duong (mining licenses expiring at the end of 2017).

Table 9: Construction stone miners

Miners	Name of quarries	Location of quarries	Estimated annual mining volume (m3)	In reserve (mil m3)	Granted mining length
CTI			**600,000-800,000**	**27.8**	
	Binh Loi	Vinh Cuu – Dong Nai	600,000 -800,000	4.0	2033
	Xuan Hoa	Xuan Loc – Dong Nai		3.9	2030
	Tan Cang 08	Bien Hoa – Dong Nai		4.6	2035
	Doi Chua 03	Vinh Cuu – Dong Nai		15.2	2033
DHA			**1,700,000**	**18.1**	
	Hoa An	Bien Hoa – Dong Nai	106,000		Closed in Jan 2016
	Tan Cang 03	Bien Hoa – Dong Nai	320,000	5.4	2024
	Nui Gio	Biinh Phuoc	155,000	6.7	2025
	Thanh Phu 02	Vinh Cuu – Dong Nai	1,100,000	5.9	2026
	Thuong Tan	Tan Uyen– Binh Duong	76,000		Transferred in 2015
KSB			**3,200,000**	**38.4**	
	Tan Dong Hiep	Di An – Binh Duong	2,057,000	4.2	Close in late 2017
	Phuoc Vinh	Phu Giao –Binh Duong	670,000	1.1	Dec 2017
	Tam Lap	Phu Giao –Binh Duong	Seeking licence	13	Dec 2028
	Tan My	Tan Uyen– Binh Duong	600,000	20	2029
C32			**900,000**	**2.0**	
	Tan Dong Hiep	Di An – Binh Duong	900,000	2.0	Close in late 2017
NNC				**21**	
	Nui Nho	Di An – Binh Duong		4	Close in late 2017
	Mui Tau	Dong Phu– Binh Phuoc		17	2030

Source: RongViet Research compiled

Under Vietnam construction material master plan to 2030 (Decision 1469/QD--TTg on 22/8/2014), Southeastern area (HCMC, Binh Duong, Dong Nai and Ba Ria Vung Tau province) is the second largest market for construction stone in Vietnam. Total construction stone volume needed estimates to rise to 45 mil cubic meter in 2020 from 31 mil cubic meter in 2015 (equivalent to CARG of 7.8%/year). Sources of stone supply are mainly from Binh Duong (Tan Dong Hiep mine) and Dong Nai (Tan Cang, Thien Tan) transported through Dong Nai river.

Given the rough and tough nature of stone products, location of stone quarries, is also a vital factor beside stone quality itself. In other words, stones extracted from mines that are close to river port (exploiting waterways transport) and point of consumption would be more competitive. For CTI quarries, majority of its stone reserves situated in Bien Hoa city (Tan Cang and Doi Chua) and within 30Km radius to Southeastern Vietnam's major projects would bring CTI big advantage in the long-term.

Map: Location of major stone quarries in Dong Nai and Binh Duong province

Source: RongViet Research compiled

Earnings forecast

CTI's earnings are forecast based on 3 main businesses including (1) road toll revenue, (2) construction activities and (3) construction material business (stones and concrete products)

Toll collection activity

2016 toll revenue would be supported by the upward revised toll fee for BOT Vo Nguyen Giap project (toll fee up 60% from 1/1/2016) and two toll collection stations of BOT Highway 91-91B go into operation. Regarding BOT Highway 91-91B, the first toll station has started collecting toll from 4/2016 (mostly toll revenue of VND7 bil) and the second station is to get approval for collecting toll expectedly in 10/2016. So, toll revenue in 2016 is projected to record VND435 bil (up 83% yoy). In 2017, the entire year operation of 2 toll stations in BOT Highway 91-91B and the planned operation of new BOT road for material construction transport (in 2Q/2017) could push up the toll revenue up by 31%yoy to VND570bil.

Table 10: Estimated BOT road toll revenue in 2016-2020 period

Projects	2015	2016	2017	2018	2019	2020
BOT Local road 16	43	45	46	47	49	51
BOT Vo Nguyen Giap	193	307	316	316	316	316
BOT Highway 91 & 91B		81	181	192	229	236
BOT road for transporting building material			15	30	31	31
Total (VND billion)	**236**	**433**	**558**	**585**	**625**	**634**

Source: RongViet Research estimated

CTI is speeding up the progress of new project BOT 319 road (connecting to Expressway Long Thanh – Dau Giay) after successfully raise approximately VND220bil from share issues. We expect this project to start collecting toll mid 2018 with an estimated annual toll revenue of VND150 bil. Given the project's startegic location lying at the heart of Dong Nai's industrial manufacturing Nhon Trach- Long Thanh IZ and crossing Long Thanh expressway, the potential of this project could be way higher than forecasted. We forecast toll revenue contribution in total revenue would go up to 57-58% in 2020 from the current 35%.

Construction activities

Construction activities remains CTI's main business pillar making up 50-60% at the current. Since FY2011, the firm construction activity mainly serves its own BOT projects. In 2016, CTI prioritizes to finish remaining workload of BOT Highway 91-91B and BOT road for transporting material. Total construction revenue expected to record is VND 560 bil in 2016 (VND450 bil from BOT 91-91B and VND50 bil value of BOT road for transporting material).

In 2017, revenue could increase 10% yoy thanks to the construction of BOT 310 road (estimated to record VND150 bil) and social housing project (~VND200 bil in revenue). In longer run, this particular business would still be CTI's main pillar driven by the rising industrial activities in Dong Nai industrial parks and following urbanization in the area.

Building material business

This particular business still has small contribution of 10% revenue of CTI now. We project CTI's construction stone sales volume to grow 8% p.a in line with the Ministry of Construction's master plan on building material to 2020 (Decision 1469/QD-TTg). If breaking ground as plan in 2019, Long Thanh international project in Dong Nai Province could push up demand and hence higher growth rate of 10%/year.

Likewise, CTI's concrete products sales would be driven by growing infrastructure investment in the province. Nevertheless, given the product's high supply, sales contribution is estimated in the region of VND70-80 bil per year.

Strong cash flow from road toll stations is able to well service debt liability and dividend payment

Basically, BOT project is highly levered and financed significantly by bank loans. According to Decision 108/ND-CP/2009, BOT projects under VND1,500 bil has to be funded at least 15% from owner equity and the rest by debt. Not an exception, CTI's debt amount has surged from average VND60-70 billion (before 2010) to VND1,750 bil in 2014 after the firm completed its first BOT VO Nguyen Giap project (total investment cost of VND 1,400bil). That figure could reach upto VND3,300bil as the firm looks to put into operation BOT Highway91-91B project late in 2016. As a result, the majority of debt taken by CTI for financing BOT projects as detailed in the below table.

Regarding Binh Minh and Phuoc Tan residential resettlement project (related to BOT Vo Nguyen Giap road), nearly VND300 bil out of VND456bil borrowing is prepaid amount by Government body and the rest arranged by CTI. With plan to hand over Minh Minh project in 2017 and Phuoc Tan in 2018, CTI's balance sheet would become healthier and allows the firm the financial room to take on new projects.

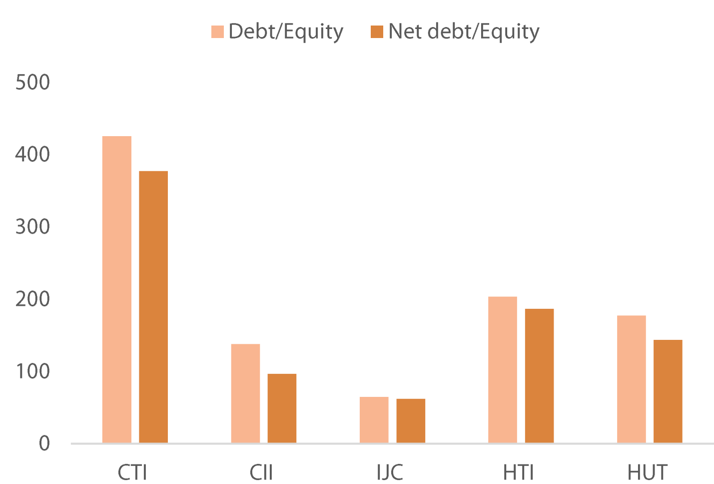
Table 11: CTI's borrowings

	2016F	2017F	2018F	2019F	2020F
Tổng dư nợ BOT	2,339	2,774	2,961	2,784	2,601
BOT Vo Nguyen Giap	*1,066*	*980*	*894*	*801*	*702*
BOT Highway 91 & 91B	*1,229*	*1,431*	*1,419*	*1,407*	*1,395*
BOT road for transporting building material	*44*	*122*	*112*	*100*	*89*
BOT 319 road in Long Thanh	-	*240*	*535*	*475*	*415*
Residential resetlement	456	293	54		
Others (mining + receivables)	220	383	290	268	207
Total	**3,017**	**3,451**	**3,307**	**3,054**	**2,809**

Source: RongViet Research estimated

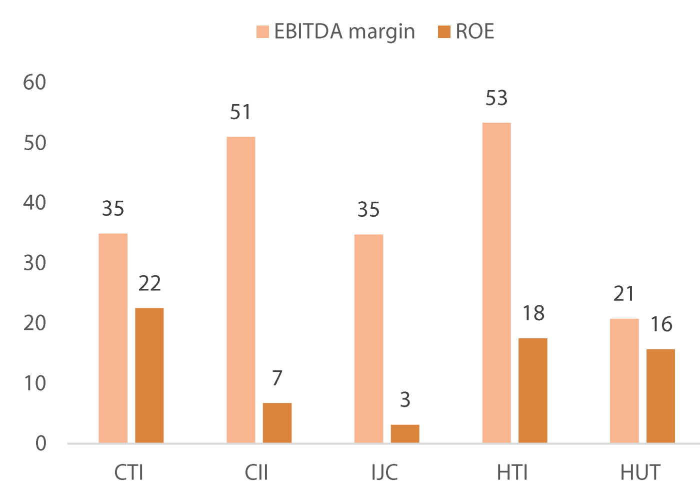
Debt servicing ability is one of the biggest concerns for firm favoring high leverage. However, due to the BOT project nature whereby BOT developers would be guaranteed a certain profitability level with debt and interest are repaid based on actual toll revenue of each year. Therefore, cash flow for BOT developers are pretty much guaranteed (after deducting operating expense, interest and principal repayment) even in case of higher leverage ratio. We computed CTI would record VND165 bil in 2016 and VND252 bil in 2017 in terms of interest expense for its BOT projects. We believe CTI's cash flow would get stronger down the years supported higher efficiency of current road toll stations and participation of new projects during 2016-2020 period.

Graph 3 : Peers ' leverage (on 30 June 2016)



Source: RongViet Research compiled

Graph 4: Peer's profitability (%) (12M trailing to 30 June 2016)



Source: RongViet Research compiled

Outlook and Valuation:

Cuong Thuan Investment Development IDICO JSC specializes in infrastructure construction in Southeastern Vietnam and Dong Nai province. The firm's vision to become a BOT project developer is first executed after the success of BOT Vo Nguyen Giap project in 2014. CTI has also been actively acquiring stone quarries in Dong Nai to secure this resources supply in the future. In short and medium term, CTI's earnings growth would be driven by strong performance from current and new BOT projects thrown in one after another. Stably improved stream of toll cash flow would allay concerns on CTI's high leverage.

In the long-run, construction stone business expects to play a greater role in the firm's total performance supported by FDI led investments in the area plus earlier kick-off of mega Long Thanh airport in 2019 while stone supply from adjacent Binh Duong province reducing. Considering all above analysis, CTI shall be fairly valued at **VND36,000/share** and we therefore recommend investors to **"Accumulate"** the share for **"Mid-term"** horizon.

Table 12: Peers comparison

Ticker	Name of company	Market cap	Revenue	P/E	P/B
HTI VN Equity	Idico Infrastructure Development Jsc	455	391	7.0	1,1
CII VN Equity	HO CHI MINH City Infrastructure Development Jsc	7,075	1,507	26.3	1,8
IJC VN Equity	Becamex Infrastructure Development Jsc	2,111	616	23.2	0,7
HUT VN Equity	Tasco Jsc	2,088	2,976	6.2	0,9
	Average			**15.6**	**1.1**

Nguồn: Bloomberg, RongViet Research compiled

VND Billion

INCOME STATEMENT	2014	2015	2016F	2017F
Revenue	722	830	1,120	1,321
COGS	-538	-575	-722	-799
Gross profit	**184**	**255**	**398**	**522**
Selling Expense	-8	-11	-11	-13
G&A Expense	-46	-50	-67	-79
Finance Income	1	2	1	2
Finance Expense	-74	-115	-165	-270
Other profits	1	5	2	3
PBT	**59**	**85**	**158**	**164**
Prov. of Tax	-9	-12	-18	-9
Minority's Interest	0	5	20	16
PAT to Equity Shareholder	**49**	**68**	**120**	**140**
EBIT	**131**	**197**	**323**	**434**
EBITDA	186	284	462	618

FINANCIAL RATIO	2014	2015	2016F	2017F
Growth				
Revenue	30%	15%	35%	18%
Operating Income	181%	49%	65%	34%
EBITDA	132%	52%	63%	34%
EBIT	191%	50%	64%	34%
PAT	191%	37%	77%	16%
Total Assets	44%	29%	28%	13%
Equity	109%	8%	62%	8%
Internal growth rate	6%	4%	9%	7%
Profitability				
Gross profit/Revenue	25%	31%	36%	40%
Operating profit/ Revenue	18%	23%	29%	33%
EBITDA/ Revenue	26%	34%	41%	47%
EBIT/ Revenue	18%	24%	29%	33%
Net margin	7%	8%	11%	11%
ROAA	2%	2%	3%	3%
ROIC or RONA	9%	9%	11%	12%
ROAE	17%	16%	21%	19%
Efficiency				
Receivable Turnover	364%	458%	922%	1035%
Inventory Turnover	-377%	-548%	-662%	-672%
Payable Turnover	-195%	-188%	-217%	-250%
Liquidity				
Current	0.8	0.5	0.8	0.8
Quick	0.6	0.4	0.6	0.7
Solvency				
Total Debt/Equity	498%	618%	473%	502%
Current Debt/Equity	124%	90%	52%	83%
Long-term Debt/ Equity	307%	443%	378%	374%

VND Billion

BALANCE SHEET	2014	2015	2016F	2017F
Cash and equivalents	179	110	292	560
Short-term investment	6	47	0	0
Receivables	243	120	123	132
Inventories	118	92	126	112
Other current assets	24	30	0	0
Total Current Asset	**570**	**400**	**542**	**804**
Tangible Fixed Assets	116	113	133	101
Intangible Fixed Assets	997	1,341	2,688	2,925
Construction in Progress	738	1,298	705	760
Investment Property	0	0	0	0
Long-term Investment	10	8	8	8
Other long-term assets	114	121	117	119
Long-term Asset	**1,975**	**2,881**	**3,651**	**3,914**
Total Asset	**2,544**	**3,281**	**4,193**	**4,718**
Payables	130	189	217	240
Other current liabilities	117	176	84	99
Current Debt	498	391	364	627
Long-term Debt	1,229	1,919	2,653	2,824
Other long-term liabilities	20	0	0	0
Total Liability	**1,994**	**2,675**	**3,318**	**3,790**
Owner's Equity	**400**	**433**	**702**	**754**
Capital	330	330	430	430
Retained Earnings	50	80	125	172
Funds & Reverses	11	13	17	23
Others	**0**	**0**	**0**	**0**
Total Equity	**400**	**433**	**702**	**754**
Minority's Interest	150	174	174	174
TOTAL RESOURCES	**2,544**	**3,281**	**4,193**	**4,718**

CASH FLOW STATEMENT	2014	2015	2016F	2017F
Profit before tax	59	85	158	164
-Depreciation	56	87	139	185
-Adjustments	*72*	*108*	*165*	*270*
+/- Working capital	-319	5	-216	-218
Net Operating CFs	**-133**	**286**	**246**	**400**
+/- Fixed Asset	-658	-862	-913	-445
+/- Deposit, equity investment	-6	-41	0	0
Interest, dividend, cash profit	1	2	0	0
Net Investing CFs	**-663**	**-901**	**-913**	**-445**
+/- Capital	165	0	100	100
+/- Debt	639	583	707	434
Dividend paid & other	0	-36	-22	-86
Net Financing CFs	**804**	**547**	**785**	**448**
+/- cash & equivalents	8	-69	118	404
Beginning cash & equivalents	**171**	**179**	**110**	**292**
Impact of exchange rate	0	0	0	0
Ending cash & equivalents	**179**	**110**	**292**	**560**

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.
The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.
The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 20 Broad Street 26th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through VDSC. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

Company Report

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.eEximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006 Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

NhaTrang Branch

50Bis Yersin - NhaTrang

Can Tho Branch

08 Phan Dinh Phung –CầnThơ

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.