June, 2018

COTECCONS CONSTRUCTION JSC (HSX:CTD)

"Safety First"

(VND bn)	Q1-FY18	Q4-FY17	+/- qoq	Q1-FY17	+/- yoy
Net revenue	4,311	8,968	-52%	4,361	-1%
PAT	290	462	-37%	301	-3%
EBIT	150	446	-66%	375	-60%
EBIT margin	3.5%	5.0%	-149bps	8.6%	-512bps

Source: CTD, RongViet Securities

2018 AGM update: Raising 2017 dividend and 2018 guidance

- Cash dividend for 2017 is revised from VND 3,000 to VND 5,000 per share.
- 2018 guidance was raised at the AGM but yet offers no growth due to limited backlog and rising labor costs.
- CTD expects construction demand growth to slow down due to restricted supportive policies granted real estate market companies.

***Valuation and Recommendation*:**

Despite struggling with growth, CTD is able to remain the leading construction contractor in Vietnam. Its superior construction capacity and financial health compared to its rivals have proven valuable. CTD is improving its internal strength by improving construction technology instead of engaging in price competition. In 2018, CTD's performance may stay flat or even decline. This is in line with the management's perceptions of the risks in the housing market, increasing competition and changes in wage policies. We like the strategy of focusing on capacity, winning large and complex bids to maintain its reputation rather than giving up profitability to achieve short-term revenue growth. Cash flow management and zero debt level are strong considerations to hold the stock at this point.

Raising cash dividends at the AGM was an example of the company's healthy financial conditions.

RongViet Securities has a CTD share value at **VND 160,100**, **12.3%** higher than the closing price on June 1, 2018. We recommend **ACCUMULATING** the stock. The target price was revised down from the 2018 Strategic Report published in February to reflect the long-term growth prospects of the business in the context of a declining growth in construction demand. Investors should also bear in mind that **CTD's share price has fallen nearly 40% since the beginning of the year**. Therefore, we also recommend considering the downside pressure caused by unfavorable news on the stock.

ACCUMULATE

CMP (VND)	142,600
Target Price (VND)	160,100
Cash dividend (VND)*	5,000

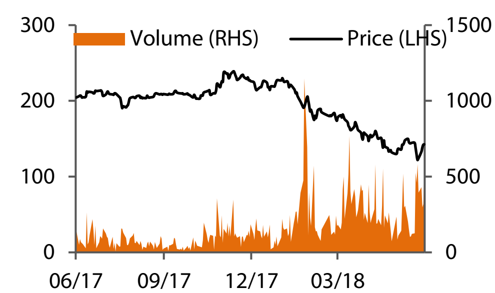
**Expected in the next 12 months*

Stock Info

Sector	Construction & Materials
Market Cap (VND billion)	9,636
Current Shares O/S	65,507,000
Avg. Daily Volume (in 20 sessions)	316,195
Free float (%)	83.3
52 weeks High	239,000
52 weeks Low	122,000
Beta	0.58

	FY2017	Current
EPS	20,436	20,255
EPS Growth (%)	-2.19	-4.88
Diluted EPS	20,436	20,255
P/E	11.08	7.26
P/B	2.37	1.50
EV/EBITDA	6.79	4.06
Cash dividend yield (%)	2.21	3.51
ROE (%)	23.19	21.97

Price performance



Major Shareholders (%)

KUSTOSHEM	17.8
Thanh Cong Com&Inv Ltd.	17.9
Indochina	7.0
Foreign ownership room (%)	8.8

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Exhibit 1: Q1/2018 Results

(VND bn)	Q1-FY18	Q4-FY17	+/-(qoq)	Q1-FY17	+/-(yoy)
Net revenue	4,311	8,968	-51.9%	4,361	-1.1%
Gross profit	286	569	-49.8%	382	-25.2%
SG&A	136	123	10.1%	95	43.1%
Operating income	150	446	-66.3%	287	-47.7%
EBITDA	175	469	-62.8%	389	-55.1%
EBIT	150	446	-66.3%	375	-60.0%
Financial expenses	-	0		-	-
- Interest Expenses	-	-	-	-	-
Dep. and amortization	25	23	7.4%	14	75.3%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	348	571	-39.1%	375	-7.3%
PAT	290	462	-37.2%	301	-3.5%
(*) Adjusted PAT	290	462	-37.2%	301	-3.5%

Source: CTD, RongViet Securities

Exhibit 2: Q1/2018 Performance Analysis

Particulars	Q1-FY18	Q4-FY17	*+/-(qoq)*	Q1-FY17	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	6.6%	6.3%	28bps	8.8%	-213bps
EBITDA Margin	4.1%	5.2%	-118bps	8.9%	-487bps
EBIT Margin	3.5%	5.0%	-149bps	8.6%	-512bps
Net Margin	6.7%	5.2%	158bps	6.9%	-16bps
Adjusted Net Margin	6.7%	5.2%	158bps	6.9%	-16bps
Turnover *(x)					
-Inventories	7.7	19.0	-11.2	12.7	-4.9
-Receivables	3.0	6.5	-3.5	5.0	-2.1
-Payables	2.1	4.6	-2.4	3.1	(1.0)
Leverage (%)					
Total Debt/ Equity	88.6%	119.0%	-3,041bps	76.0%	1,257bps

Source: CTD, (*) Annualized turnover

Exhibit 3: Q2/2018 Performance Forecast

Particulars (VND bn)	Q2-FY18	+/- qoq	+/- yoy
Revenue	6,801	58%	10%
Gross profit	480	68%	-3%
EBIT	373	149%	-8%
NPAT	372	28%	-10%

Source: CTD, RongViet Securities

Updates:

2018 Potential: Remaining powerful despite sluggish growth

CTD is able to maintain its leading position in the construction industry, illustrated by various projects of over VND 2,000 billion. Additionally, the company is focusing on improving internal strength with Design & Build and BIM applications, which is one of the important strategies to increase the market power and credibility towards clients.

Forecasting flat revenues and lower net income, CTD's management said that the company would participate in selective large and complex projects. As a result, new signings in the early months of 2018 decreased over the same period last year. Moreover, increasing social insurance costs for workers is the main reason for the decrease in the net profit target for 2018.

CTD is expected to maintain its net working capital on a neutral level and to spend on R&D and training to increase competitiveness while keeping borrowings at zero. The company has a vast cash stash. This an absolute strength in terms of financial health compared to the entire domestic construction industry.

2018 guidance was revised up at the AGM, but the new guidance still means no growth

(VND billion)	2017	Previous 2018 guidance	Yoy growth	Revised 2018 guidance	Yoy growth
Revenue	27,153	27,200	0%	28,000	3%
NPAT	1,653	1,400	-15%	1,500	-9%

CTD's backlog at the end of 2017 was VND 22,802 billion, 15% lower YoY. New signings in the first five months of 2018 were reported at the AGM to be lower than the same period last year. We estimated that CTD's backlog at the end of Q1/2018 could have even decreased more than 15% YoY. CTD's backlog was at VND 31,500 billion at the end of Q1/2017, record high thanks to many new contracts signed during the quarter. The slow in new jobs indicates that the demand for civil construction in Vietnam might be reaching its peak, creating a critical obstacle to the company's development as a general contractor.

Efforts are made to maintain its leading position in the construction industry:

Gaining clients' loyalty. 70% of Coteccons' work comes from existing clients. In addition, Coteccons' participation is said to facilitate the developers by offering higher housing price than neighboring projects. CTD is then likely to win the next bid from the same developer. Thus, by working with well-known developers who have large land banks such as Vingroup (HSX: VIC) and Sun Group, Coteccons can enjoy new jobs brought by these multi-project owners.

Maintaining the proportion of Design & Build jobs at nearly 40%.

The Design & Build model allows the developer to have a single contractor for design and construction. This provides benefits for both the project owner and the contractor, which are a shortened construction duration and an opportunity for the contractor to prove its strength and to create a good reputation.

Improving construction capacity by applying BIM (Building Information Modeling).

This model was developed in the 1970s and applied since 1985 in numerous developed countries, but it was not until the 21st century, that this mode was globally expanded. Superior to the traditional design of two-dimensional technical drawings, BIM not only shows the project in 3D (length, width and depth) but also in 4D (time) and 5D (cost). As such, BIM is an information sharing system among the design team, the construction team, subcontractors and developers, which is of great importance in complicated projects. According to management, the application of BIM in the Landmark 81 project (Vinhomes Tan Cang) was one of the crucial factors that enabled the general contractor to finish the project 45 days earlier than scheduled.

Changes in our projection and target price reflect the long-term growth potential of the business in the context of changes in demand for civil construction.

Compared with the latest CTD Result Update Report, we have changed some projections to reflect CTD's expectations:

Revenue growth is significantly lower than that during 2013-2017. CTD achieved double-digit revenue CAGR of 45% in the last five years but based on its revenue growth guidance of only 3% for 2018, we project that CTD's revenue growth for the next five years will decline strongly. We forecast that CTD's construction activity will achieve zero growth during 2019-2022, while consolidated revenue will grow at a minimum rate due to office leasing revenue.

Gross profit margin is going to decline. CTD is enjoying a higher gross profit margin than other companies in the industry are. However, the company said that gross margin will be reduced due to changes in the Social Insurance policy, leading to higher COGS as Coteccons group is managing a technical staff of up to 2,250 engineers.

We use a lower P/E ratio to reflect the risk of holding CTD shares. Compared to the target price determined in our 2018 Strategic Report using a P/E of 10x, we now determine that the correct P/E ratio should be 8.5x.

CTD does not increase the foreign ownership limit to 60%.

Merging related companies into the group was proposed at the AGM to eliminate conflicts of interest between shareholders of the parent company and related parties. Whereas it was not approved as a resolution, CTD's management announced they would propose a plan at the nearest shareholders' meeting. The merger target is Ricons Construction, of which CTD currently holds 14.9%.

VND billion

INCOME STATEMENT	FY2016	FY2017	FY2018F	FY2019F
Revenue	20,783	27,153	28,506	28,519
COGS	18,983	25,137	26,492	26,531
Gross profit	1,799	2,016	2,013	1,988
Selling Expense	2	0	0	0
G&A Expense	297	395	449	427
Finance Income	170	325	307	338
Finance Expense	0	0	0	0
Other profits	60	82	62	46
PBT	1,763	2,061	1,949	1,961
Prov. of Tax	341	408	390	387
Minority's Interest	0	0	0	0
PAT to Equity S/H	1,422	1,653	1,559	1,574
EBIT	1,500	1,622	1,564	1,561
EBITDA	1,554	1,701	1,661	1,790

%

FINANCIAL RATIO	FY2016	FY2017	FY2018F	FY2019F
Growth (%)				
Revenue	79.1	52.0	30.4	24.7
Operating Income	111.2	95.7	23.3	28.4
EBITDA	119.5	100.3	24.5	27.9
PAT	103.5	113.5	25.8	24.0
Total Assets	60.7	50.2	19.6	23.3
Equity	28.3	92.2	20.2	22.3
Profitability (%)				
Gross margin	8.1	8.7	8.5	8.6
EBITDA margin	5.8	7.5	7.1	7.3
EBIT margin	5.5	7.2	6.9	7.1
Net margin	4.9	6.8	6.6	6.6
ROA	8.5	12.1	12.7	12.8
ROE	20.5	22.8	23.9	24.2
Efficiency				
Receivable Turnover	5.2	6.0	5.9	5.9
Inventory Turnover	11.9	15.3	14.3	12.0
Payable Turnover	2.8	3.5	3.8	3.8
Liquidity				
Current	1.4	1.8	1.8	1.8
Finance Structure (%)				
Total Debt/Equity	0.0	0.0	0.0	0.0
Current Debt/Equity	0.0	0.0	0.0	0.0
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND billion

BALANCE SHEET	FY2016	FY2017	FY2018F	FY2019F
Cash and cash equivalents	1,997	3,311	3,405	2,380
Short-term investments	2,675	2,479	1,983	2,280
Accounts receivable	3,484	6,480	6,835	6,838
Inventories	1,241	1,874	1,854	2,211
Other current assets	547	321	300	330
Property, plant & equipment	589	723	2,167	3,478
Acquired intangible assets	92	94	93	92
Long-term investments	715	377	393	409
Other non-current assets	401	355	372	391
Total assets	**11,741**	**16,014**	**17,404**	**18,410**
Accounts payable	5,393	8,527	8,917	8,928
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	12	11	12	13
Bonus and Welfare fund	102	169	74	75
Technology-science, dev. fund	0	0	0	0
Total liabilities	**5,507**	**8,707**	**9,003**	**9,016**
Common stock and APIC	3,729	3,729	3,832	3,832
Treasury stock (enter as -)	-2	-23	-23	-23
Retained earnings	1,435	1,741	1,719	1,689
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	1,071	1,859	2,872	3,896
Total equity	**6,234**	**7,307**	**8,400**	**9,393**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	FY2016	FY2017	FY2018F	FY2019F
EPS (dong)	15,962	18,620	17,361	17,530
P/E (x)	9.9	8.5	8.2	8.1
BV (dong)	80,904	94,830	105,987	118,518
P/B (x)	2.3	1.9	1.3	1.2
DPS (dong/cp)	5,500	5,000	5,000	5,000
Dividend yield (%)	3.01%	2.74%	3.51%	3.51%

VALUATION MODEL	Price	Weight	Average
FCFF	171,559	50%	85,779
PE	148,698	50%	74,349
Target price (dong)			**160,100**

VALUATION HISTORY	Price	Recommendation	Period
15/03/2017	237,700	Accumulate	Long term
31/07/2017	251,200	Accumulate	Long term

RESULT UPDATE

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 that 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	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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