RONGVIET SECURITIES

ROCK CONTRUCTION INDUSTRY – Strong demand from 2H2020

Construction rock is an essential material in public infrastructure and residential projects. Rock products are mainly derived from magma, sedimentary and metamorphic rocks. Demand for construction rock is served locally due to high transportation costs and large local reserves. There are four main factors that determine the selling price of the products: supply and demand, mine location, stone quality and color.

Demand for houses in the Southwest region continues to be healthy. The demand for construction rocks in the Southwest region has been largely served by the Southeast mines in the past few years. Among the 13 provinces in the Mekong Delta region (or Southwest region), only An Giang and Kien Giang have rock quarries. Although over the past ten years the number of newly built houses and the number of square meters of built houses in the Mekong Delta region have always been higher than in the Southeast region, the percentage of households without a home in that region is still the highest in the country. Despite of the same starting point of 5.7 per thousand households without their own house in both regions in 2009, this figure decreased to 1.2 per thousand in the Southeast region, while the number was 4.2 per thousand in the Mekong Delta region at the end of 2019. For current quarries of listed enterprises, mine clusters near Dong Nai river such as Thanh Phu, Thien Tan, Tan My may have an advantage of delivering from the Southeast to the West. In particular, VLB and CTI are the two companies that own the largest rock reserves in these areas.

Public investment has shown signs of rising again. Although the transportation demand between the two areas of Ho Chi Minh City and Southwest region is high, only 40 km of expressways (Ho Chi Minh City - Trung Luong) has been built in the South among the total 1,000 km of highways in Vietnam. Understanding the necessary of infrastructure in the South, by the end of 2019, the Government closely instructed to secure capital for the Trung Luong - My Thuan Expressway project. For highway projects to the Southwest region, rock quarries of VLB, CTI, DHA and KSB near Dong Nai river area could deliver to these projects by waterway. While mine clusters in the Tan Cang area would be favored once Long Thanh Airport project starts construction. In addition, these mines could provide rocks once the Dau Giay - Phan Thiet highway begins construction, although the location is not as favorable as the Soklu mines of VLB or Xuan Hoa mine of CTI.

Replacing Tan Dong Hiep and Nui Nho quarries. According to our estimates, Tan Dong Hiep and Nui Nho accounts for about 10% market share of construction rock in the Southern region. However, after two successful renewals, the two quarries have officially stopped mining since the end of 2019. Currently, mining enterprises in these two areas such as KSB, NNC and C32 can only collect the leftover during the process of restoration of the environment. As a result, the supply from these two quarries will decrease in 2020 and 2021 and will completely disappear afterwards. Based on the quality of rock and location, the Tan Cang mine cluster in Bien Hoa, Dong Nai emerges as the main candidate to replace the two quarries. A number of listed companies own quarries in this cluster such as VLB, DHA, CTI, DND and DGT. Among them, VLB has the largest area with a long-term exploitation license.

Notable stocks in the industry

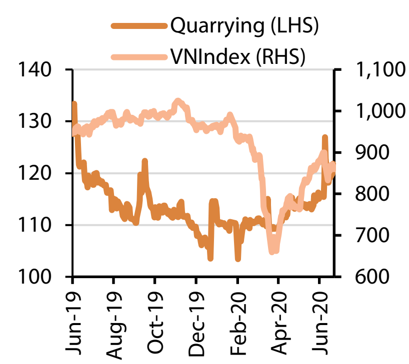
Ticker	Recommendation	Market cap (Bn VND)	Avg. Daily Volume (20 days)	Target price	ROE (%)	ROA (%)	Dividend yield (%)
DHA	MONITOR	449	14,995	n/a	21.9	18.8	9.4
KSB	MONITOR	1,274	1,448,015	n/a	25.6	8.3	0

Positive

Sector	Basic Materials
Sub sector	Quarrying
Market cap (Billion VND)	32,321
% over total market cap	0.8

Price movement

%	1M	3M	12M
DHA	-4.4	11.9	-4.1
KSB	9.2	88.9	4.9
Quarrying	6.9	10.4	2.3
VNIndex	0.8	30.4	-10.7



Nguyen Tien Hoang

(028) - 6299 2006 – Ext 1538

hoang.nt@vdsc.com.vn

Lai Duc Duong

(028) - 6299 2006 – Ext 1522

duong.ld@vdsc.com.vn

Construction rock in South Vietnam

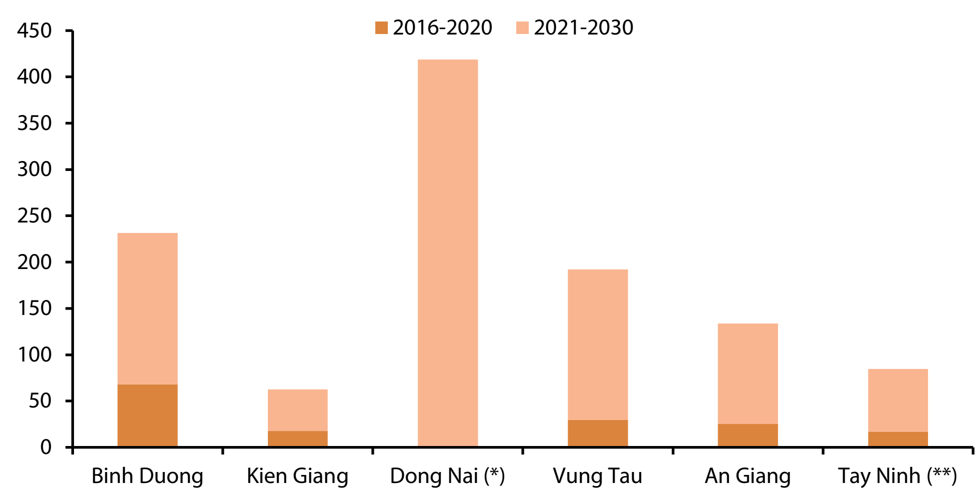
Currently, listed companies in the construction rock industry operate mainly in the Southern region. Therefore, our note will focus on this region.

Construction rock is an essential material in public infrastructure and residential projects. Products are mainly derived from magma, sedimentary and metamorphic rocks. There are currently hundreds of rocks derived from these three rocks, but only some common stones are used as construction rock such as basalt, andesite, granite, rhyolite and gravel.

Demand for construction rock is served locally due to the characteristics of the rock and local rock reserves. Construction rock has high density, which can reach up to 3,500 kg / m3, resulting in high transportation costs. As a result, the selling price at agencies may be a couple times higher than at the mines. Meanwhile, the current reserves in the Southern region are still very large and can completely meet the demand for construction rocks in the long run. Hence, we believe that in the coming years, the demand for rock in the Southern region will continue to be served by local suppliers.

Among the Southern provinces that have rock mining, Dong Nai and Binh Duong possess the largest planned reserves of over 480 mn m3 and 230 mn m3, respectively. Most of the quarries of listed companies such as VLB, KSB, NNC, DHA or CTI are located in these two provinces. Meanwhile, only An Giang and Kien Giang have rock mining with planned reserve of 130 mn m3 and 60 mn m3, respectively, among 13 provinces in the Mekong Delta region.

Figure 1: Mining rocks in the South (mn m3)



Source: Rong Viet Securities

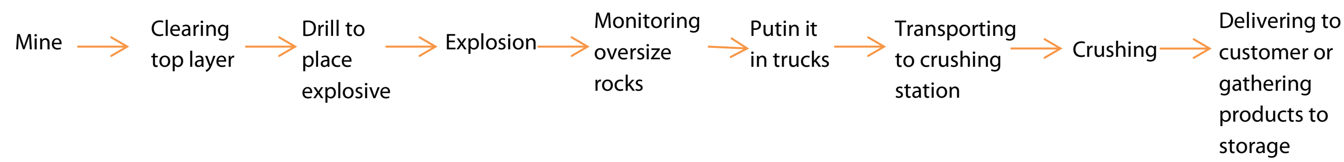
(*): 2016-2030; (**): 2016-2035

Mining and delivering construction process. The process of quarrying and processing rock will often go through five basic steps:

(1) Clearing the top layer at the mines
(2) Deleting weathered rocks by drilling
(3) Using explosives to break rocks before transporting them to rock crushing stations
(4) Crushing rock to required size such as 1*2, 2*4, etc. (**Table 1 for more details**)
(5) Garthering product to storage or delivering products to customers

It can be seen that the process of mining and processing construction rock does not require too much technology. Therefore, rock quality among companies is almost not much different in the same mining area.

Figure 2: From mining to delivering rocks



Source: DHA, Rong Viet Securities

Table 1: Products of crushing rocks and its usage

Product type	Size (mm)	Usage
"Da mi"	0 to 5	"Da mi" is a by-product created during crushing other types of rocks. It is used in the composition of hot and cold asphalt or in making block bricks, etc.
0*4	0*(5 to 40)	The product is used in building new roads or fixing part of a road. In addition, it is also used as material for backfilling in construction.
1*2	10*25	The product is used as a material in concretes to build high-rise buildings, airport, wharves, national highways, etc.
4*6	40*60	This stone is used as a base for bricks, floor tiles and an additive to concrete.
Rip rap	100 to 300	The product usually does not have a uniform size. Its usage is quite similar with 4*6 type.

Source: DHA, NNC, Rong Viet Securities

Essential factors for the selling price

There are four main factors that determine the selling price of rock products: supply and demand, mine location, stone quality and color. The supply in the Southeast region is quite abundant as Dong Nai and Binh Duong provinces alone had 56 mining licenses by the end of 2017, mainly in Thuong Tan, Tan My, Thanh Phu, Thien Tan and Tan Cang area. Meanwhile, competition is lower in Binh Phuoc quarries of DHA and NNC, Xuan Hoa quarry of CTI and Phuoc Vinh quarry of KSB. However, the market for these mines is limited versus those mines near the center of Dong Nai and Binh Duong. On the other hand, high quality rock such as andesite will often cost more than sandstone. Additionally, the green color of the rock is also preferred over black or yellow.

Figure 3: Selling price of "1*2" at mines

Source: Google map, Rong Viet Securities

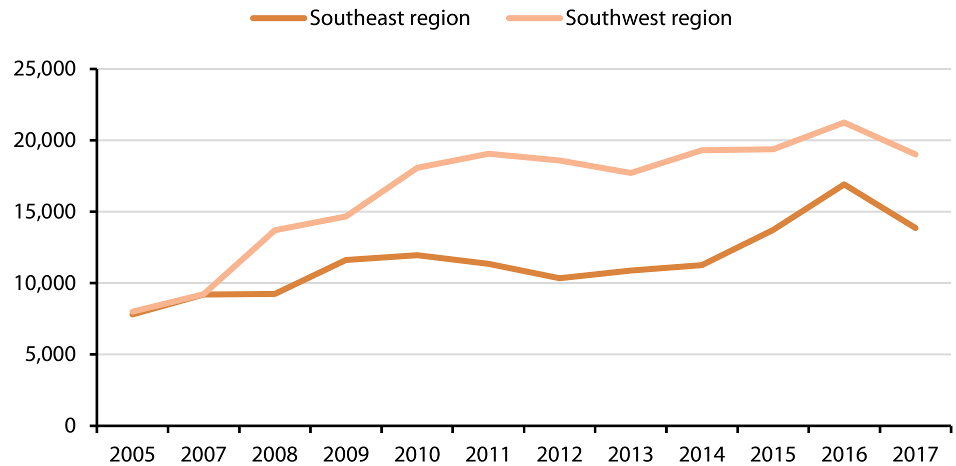
Demand for construction rock will start to rise from 2H2020

Demand for rock in the Southern region correlates with local construction activities. According to FPTS 2016 statistics, the Southwest accounts for 49% of the total consumption of the whole Southern region, followed by the provinces of Ho Chi Minh City (26%), Binh Duong (10%) and Dong Nai (8%). Housing demand in the Mekong Delta provinces has been high for many years as the number of houses built was even 1.4 times that of the Southeast region in 2017.

Housing demand in the Southwest region remains high

Although over the past ten years the number of newly built houses and the number of square meters built in the Mekong Delta region have always been higher than in the Southeast region, the percentage of households without their own house in the area remains the highest in the country. Moreover, despite of the same starting point of 5.7 per thousand households without their own house in both regions in 2009, this figure decreased to 1.2 per thousand in the Southeast region, while the number was 4.2 per thousand in the Mekong Delta region at the end of 2019. For current quarries of listed enterprises, mine clusters near Dong Nai river such as Thanh Phu, Thien Tan, Tan My may have an advantage of delivering from the Southeast to the West. In particular, VLB and CTI are the two companies that own the largest rock reserves in these areas.

Figure 4: Completed housing area by region (m2)



Source: GSO, Rong Viet Securities

Public investment has shown signs of rising again

Although the transportation demand between the two areas of Ho Chi Minh City and Southwest region is high, only 40 km of expressways (Ho Chi Minh City - Trung Luong) has been built in the South among the total 1,000 km of highways in Vietnam. Understanding the necessary of infrastructure in the South, by the end of 2019, the Government closely instructed to secure capital for the Trung Luong - My Thuan Expressway project.

- According to our update, the Trung Luong - My Thuan Expressway project is completed at more than 40% as of the end of April 2020 and is expected to be completed in early 2021
- My Thuan Bridge II project to connect the two sections of Trung Luong - My Thuan and My Thuan - Can Tho highways also started in late February 2020 and is expected to be finished in 2023
- In addition, according to the plan approved by the Prime Minister, the Lo Te - Rach Soi route will be upgraded to an expressway by connecting Cao Lanh route and Vam Cong bridge to create another expressway to the West region besides the Ho chi Minh – Trung Luong – My Thuan – Can Tho expressway. The construction progress of this route is at 80% of volume in February 2020 and is expected to open for traffic in September 2020. The road building for local residents that are around this expressway will also start soon.
- Meanwhile, the expressway (Dau Giay - Phan Thiet) connecting Ho Chi Minh City with the SouthCentral Coast provinces has just been approved by the National Assembly to switch to public investment project from BOT. The construction land is expected to be provided to constructors in May 2020. According to the Ministry of Transport, the project could start in the third quarter of 2020.
- The Prime Minister is also interested in the Long Thanh airport project. In an online meeting in early April 2020 with the Prime Minister, the leaders of Dong Nai province committed to complete land clearance in 2020 and provide it to investors (ACV) before the second quarter of 2021. Additionally, ACV expects to start construction in May 2021 and finish in December 2025. The total investment of the project is over VND 111 trillion on an area of 1,810 ha

For the highway projects to the Southwest region, rock quarries of VLB, CTI, DHA and KSB near Dong Nai river area could deliver to these projects by waterway. While mine clusters in Tan Cang area would be favored as the Long Thanh Airport project begins construction. In addition, these mines could provide rocks once the Dau Giay - Phan Thiet highway starts construction, although the location is not as favorable as the Soklu mines of VLB or Xuan Hoa mine of CTI.

Table 2: Highways and roads in the South according to Decree 326/QĐ-TTg

					Distance (km)			Capital (Billion VND)		
	Order	Highways/ roads	Distance (km)	Lanes	2020	2030	After 2030	2020	2030	After 2030
North-South Expressway to the East	1	Phan Thiet - Dau Giay	98	4-6	98			29,400		6,860
	2	Dau Giay - Long Thanh	43	6-8	43					
	3	Long Thanh - Ben Luc	58	6-8	58					
	4	Ben Luc - Trung Luong	40	8	40					
	5	Trung Luong - My Thuan	54	6	54			17,148	9,500	
	6	My Thuan - Can Tho	38	6	38			10,640	5,700	
North-South Expressway to the West	1	Tinh Binh Phuoc	102	4-6		102			12,240	12,750
	2	Chon Thanh - Duc Hoa	84	4	84					
	3	Duc Hoa - Thanh Hoa	33	4			33			4,290
	4	Thanh Hoa - Tan Thanh	16	4			16			2,080
	5	Tan Thanh - My An	25	4			25			3,250
	6	My An - Nut giao An Binh	25	4	25					
	7	Nut giao An Binh - Lo Te	51	6	51					
	8	Lo Te - Rach Soi	57	6	57					
In the South	1	Bien Hoa - Phu My - Vung Tau	76	4-6	46	30		13,340	14,200	
	a	Bien Hoa - Phu My	46	6	46			13,340	4,600	

	b	Phu My - Vung Tau	30	4		30			9,600	
	2	Dau Giay - Lien Khuong - Da Lat	208	4	19	123	66		20,000	48,040
	3	HCMC - Thu Dau Mot - Chon Thanh	69	6-8		69		24,150		
	4	HCMC - Moc Bai	55	6-8		55		17,600		
	5	Chau Doc - Can Tho - Soc Trang	200	4			200			74,000
	6	Ha Tien - Rah Gia - Bac Lieu	225	4			225			83,250
	7	Can Tho - Ca Mau	150	4			150			30,000
Beltway in HCMC	1	Beltway 3	89	6-8	42	47		16,800	18,920	20,093
	2	Beltway 4	198	6-8	45	153		21,000	77,500	
Total			1,994	32	700	579	715	150,078	158,060	284,613

Source: Goverment, Rong Viet Securities

Rising demand for industrial parks in 2021

Upgrading public infrastructure not only helps to increase the demand for rocks but it also attracts investment in building factories, industrial parks, resorts and so on. Although Vietnam has an abundant workforce and cheap labor costs, many investors are always concerned about the infrastructure. Especially in the South, infrastructure investment has not kept pace with the region's economic growth for many years. The Northern region, where infrastructure has been developed for years, recorded occupancy rates of over 91% compared to 83% of the Southern region by the end of 1Q2020, according to CBRE.

Currently most countries are still reporting new Covid-19 cases, hence international flights routes have not been reopened. As a result, demand for industrial parks in the South is also affected. However, with a base case of Covid-19 being fully controlled this year and international flights being able to reopen gradually thereafter, the demand for leasing industrial zones may rebound sharply next year. Vietnam in particular and Southeast Asia in general are considered as an alternative destination for China. In the past two years, as the US-China relationship has become worse, Vietnam has recorded more and more companies moving factories from China or opening branches in Vietnam to diversify their supply. Especially after the Covid-19 epidemic outbreak, while the US-China tensions rose, the image of Vietnam in the eyes of international investors improved. Furthermore, the free trade agreements such as EVFTA would help Vietnam to attract more FDI.

Binh Duong province currently has 28 industrial parks and is expected to add seven with a scale of 5,600 ha. Similarly, Dong Nai province's leaders are proposing to add nine industrial parks with an area of over 5,000 hectares, though currently only 31 out of 35 planned industrial parks are in operation. Half of the proposed scale is in the Long Thanh district. Meanwhile, Long An province has leased about 2.2 thousand hectares out of the total of 11.4 thousand hectares in the plan with an occupancy rate of over 85%, according to Official Letter No. 1748 / TTg-CN. The demand for industrial parks near HCMC in provinces such as Dong Nai, Binh Duong and Long An will continue to remain high. This is an opportunity for rock quarries in two areas such as Dong Nai and Binh Duong.

Replacing Tan Dong Hiep and Nui Nho quarries

According to our estimates, Tan Dong Hiep and Nui Nho account for about a 10% market share of construction rock in the whole Southern region. However, after two successful renewals, the two quarries have officially stopped mining since the end of 2019. Currently, the mining enterprises in these two areas such as KSB, NNC and C32 can only collect the leftover during the process of restoration of the environment. As a result, the supply from these two quarries will decrease sharply in 2020 and 2021, and will completely disappear afterwards. Based on the quality of rock and location, the Tan Cang mine cluster in Bien Hoa, Dong Nai emerges as the main candidate to replace the two quarries. A number of listed companies own quarries in this cluster such as VLB, DHA, CTI, DND and DGT. Among them, VLB has the largest area with a long-term license.

Table 3: Quarries of listed companies

Ticker	Quarries	District	Province	Area (ha)	Reserves in 2019 (m3)	Maturity	Depth (m)	Capacity (m3)	Type of rock	Production in 2019 (m3)
VLB	Thien Tan 2	Vinh Cuu	Dong Nai	65.0	133,567,000 (2016)	2039	-80	1,500,000	Sandstone	6,123,942
	Thanh Phu 1	Vinh Cuu	Dong Nai	90.7		2042	-80	1,800,000	Sandstone	
	Soklu 2	Thong Nhat	Dong Nai	50.0		2036		400,000	Bazal olivine	
	Soklu 5	Thong Nhat	Dong Nai	23.0		2025		500,000	Bazal olivine	
	Tan Cang 1	Bien Hoa	Dong Nai	108.8		2038	-60	1,500,000	Andesite	
KSB	Tan Dong Hiep (*)	Di An	Binh Duong	23.0	1,471,498	2019	-150	2,341,858	Andesite	2,279,197
	Thien Tan 7	Vinh Cuu	Dong Nai	12.0	4,548,053	2035				409,147
	Phuoc Vinh	Phu Giao	Binh Duong	29.6	2,919,261	2023		1,200,000	Granodiorite	1,732,833
NNC	Tan My	Bac Tan Uyen	Bình Dương	41.0	17,832,073	2029		1,500,000	Sandstone	1,095,687
	Nui Nho (*)	Di An	Binh Duong		1,855,305 (2018)				Andesite	
	Mui Tau	Hon Quan	Bình Phước		22,509,268 (2018)	2041	-20	1,000,000	Granodiorite	
DHA	Tan Cang 3	Bien Hoa	Dong Nai	21.7	4,955,720	2037	-60	490,000	Andesite	620,899
	Thanh Phu 2	Vinh Cuu	Dong Nai	20.0	7,463,532	2026	-80	818,000	Sandstone	1,268,044

	Nui Gio	Dong Phú	Bình Phước	18.5	6,341,768	2038		300,000	Andesite	314,506
C32	Tan Dong Hiep (*)	Di An	Binh Duong	20.0						
CTI	Tan Cang 8	Bien Hoa	Dong Nai	36.0	15,000,000	2033		800,000		650,000
	Xuan Hoa	Xuan loc	Dong Nai	20.0	18,000,000	2034		500,000		80,000
	Thien Tan 10 (Doi Chua 3)	Vinh Cuu	Dong Nai	75.0	26,600,000	2035		900,000		400,000
DND	Thien Tan 5	Vinh Cuu	Dong Nai	27.8	1,273,007	2020		240,000		203,155
	Tan Cang 5	Biên hòa	Dong Nai	25.2	11,140,000			1,000,000		859,189
MDG	Tan My	Bac Tan Uyen	Binh Duong	40.0		2029		1,200,000		1,000,000
BMJ	An Binh	Phu Giao	Binh Duong	37.3			-20	800,000		731,291
DGT	Tan Cang 4	Long Thành	Dong Nai	25.7			-60	640,124		

Source: Rong Viet Securities, FPTS

(*) Out of license by end of 2019

Risks

Because the rock industry correlates with local construction activities, this industry is subject to the business cycle. However, in addition to common risks like other industries, the rock industry is subject to strict supervision from state agencies with regulations and fees.

According to financial statements from companies in the industry, fees related to the mining sector account for an average of 14% of revenue. In particular, the three main types of fee in the field of mining rock are the natural resource consumption tax, the environmental protection fees and royalties. The natural and resource consumption taxes are often the largest cost for companies in this industry. The resource tax rate in the calculation structure also tends to increase in the long term and may increase to a maximum of 15% from the current 10% under the current Law on Resources Tax. The cost of granting mining rights (royalties) has just been added by the State since 2013. In general, taxes and fees of the State tend to increase to supplement the State Budget's revenue and to avoid wasteful of non-renewable resources. (For more detail about fees)

In addition, local authorities scrutinize the process of obtaining new quarrying permits, extension permits or deeper mining permits. Presently, the process of applying for permits takes more and more time as environmental requirements are a big concern. To mine a new quarry, companies would need to join an auction. Meanwhile the exploration of reserves can take several years and in case the rock quality or reserves are not as expected, this would cause cost companies a fortune.

On the other hand, there is currently no product that can replace rocks in an economical way. Although developed countries have used steel slag and cast-iron slag as an alternative, this trend in Vietnam is still underdeveloped and more research is needed to put it into practice.

HOA AN JSC (HSX: DHA)

Stable company with favorable mine location

1st quarter earning results: In-line with the plan

DHA's first quarter revenue was VND 71 billion, down 3% YoY, but gross profit did not change compared to the same period last year due to a 4% YoY's decrease in cost of goods sold. This may come from the decline in oil and electricity prices in the first quarter. Administrative expenses increased 7% YoY, causing a 1% YoY drop in NPAT to VND 16 bn. By the end of the first quarter, DHA completed 23% of the revenue plan for 2020 and 27% of the profit before tax plan.

More specifically, the main quarry, Thanh Phi 2, recorded a 14% YoY growth in profits, offsetting the sharp decline in profits of Nui Gio (-21% YoY) and Tan Cang 3 (-14% YoY). While the Nui Gio and Thanh Phu 2 fields have completed over 30% of the pre-tax profit plan for 2020, Tan Cang has completed 24% of the EBT 2020 plan.

Expectations in 2H2020 and for the next few years: strong demand and favorable locations

DHA's main quarry, Thanh Phu 2, is conveniently located close to the Dong Nai River and delivers easily to the Southwest provinces or riverside districts of Ho Chi Minh City. Meanwhile, the Tan Cang 3 quarry perfectly fits the quality and location requirements to benefit from the shutdown of the two quarries of Tan Dong Hiep and Nui Nho. The supply from Tan Dong Hiep and Nui Nho will decrease in 2020 and will no longer be from 2022. The production in Tan Cang 3 was 81% of capacity in 2019, up from 69 % in 2018. Meanwhile the Nui Gio quarry has received a license to increase its capacity to 300,000 m3 / year, an increase of 50%. The consumption market of Nui Gio is currently quite less competitive.

The schedule for constructing the two expressways connecting Ho Chi Minh City and the Southwest in late 2020 and early 2021 would boost demand for rocks. The location of those projects is quite favorable for Thanh Phu 2.

Prudent plan for 2020

Facing challenges from the Covid-19 epidemic, the company set a prudent target for 2020 with a 9% and 10% YoY decrease in revenue and profit before tax, respectively. Although profit after tax is expected to decrease by 12%, DHA plans to pay cash dividends similar to the plan in 2019. In fact, DHA decided to pay 30% cash dividends from NPAT 2019. The company will pay 15% cash for the remaining dividends of 2019 and 5% cash in advance from NPAT 2020 on June 4th 2020 (payment date).

Investment plan in 2020

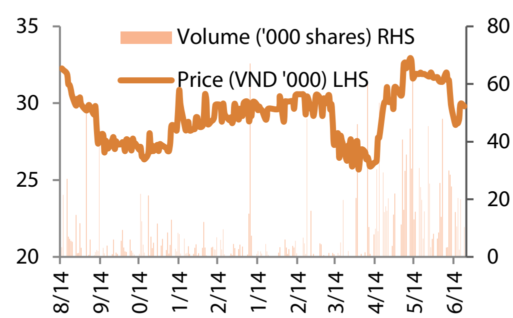
DHA will continue to complete the legal procedure for a deeper permit from the current depth of 60 meter to 80 meter at the Tan Cang 3 quarry. Once it is done, the company would add 4 mn m3 to 9 mn m3 in reserve at the quarry.

MONITOR

Market price (VND)	30,500
Stock info	
Sector	Quarrying
Market Cap (VND billion)	449
Current Shares O/S	14.7
Avg. Daily Volume (in 20 sessions)	14,995
Free Float (%)	N/A
52 weeks High	33,070
52 weeks Low	25,689
Beta	0.11

	FY2019	Current
EPS	4,222	4,596
EPS Growth (%)	5.6	8,9
Diluted EPS	4,222	4,596
P/E	9.4	6.6
P/B	1.6	1.1
EV/EBITDA	1.9	4.2
Cash div. yield (%)	9.4	9.8
ROE (%)	20.7	17.4

Price performance



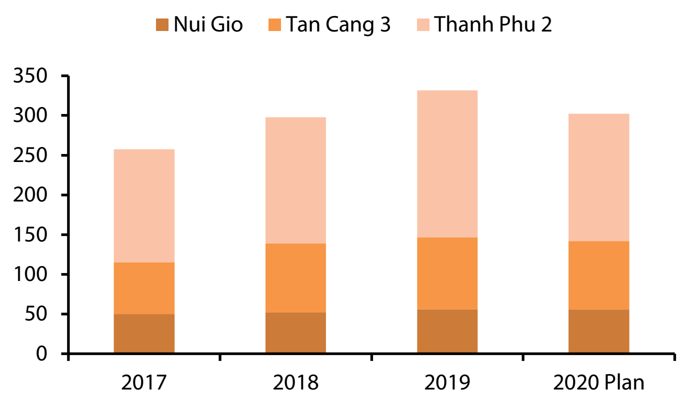
Major shareholders (%)

FICO	25.5
NGUYEN VAN THANH	23.8
CONSTRUCTION INV COR	13.5
Foreign ownership room (%)	39.6

Analyst's opinion

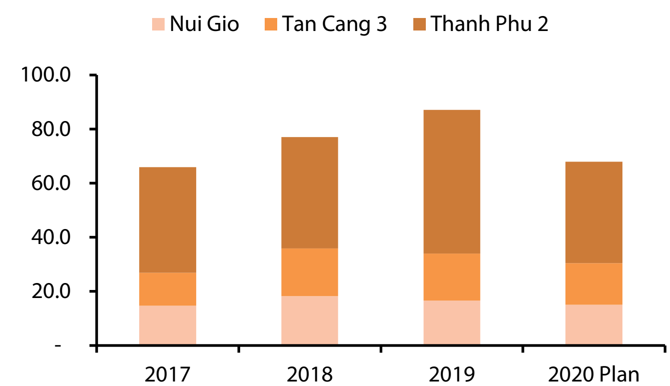
DHA's quarries are in favorable positions as the demand for rocks in the South rises again. Hence, the abundant reserves of its quarries would help the company maintain revenue and profit for at least the next five years. Currently, DHA does not finance its capital thanks to the steady positive cash flow from operating activities while their investments are not too large. DHA is trading at a 6.6x PE, around the five-year average PE of 6.5x. We believe that DHA is trading at a reasonable level for this year as revenue and profit of 2020 will be affected by Covid-19. We expect that revenue and profit could recover strongly in 2021. However, a notable point is about the cross-ownership between DHA and C32, the major shareholder of DHA since 2016. DHA has continuously increased its ownership in C32 in the last two years.

Figure 5: Revenue by quariries of DHA (Billion VND)



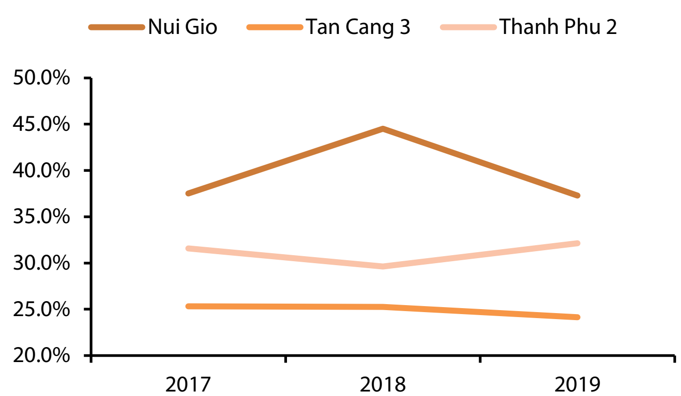
Source: DHA, Rong Viet Securities

Figure 6: EBT by quarries of DHA (Billion VND)



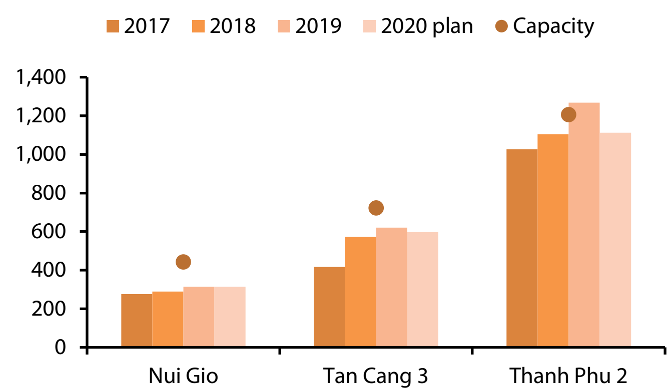
Source: DHA, Rong Viet Securities

Figure 7: Gross market by quarries



Source: DHA, Rong Viet Securities

Figure 8: Production (thousand m3)



Source: DHA, Rong Viet Securities

Billion VND

INCOME STATEMENT	FY2017	FY2018	FY2019	FY2020E
Revenue	258	298	332	302
COGS	177	206	229	210
Gross profit	**80**	**92**	**102**	92
Selling expenses	0	0	0	0
G&A expenses	14	15	15	18
Financial income	10	7	9	5
Financial expense	-	-	-	-
Other income/loss	0	0	0	0
PBT	**76**	**84**	**96**	**80**
Tax expense	15	16	16	16
Minority interests	-	-	-	-
PAT	**61**	**68**	**80**	**64**
EBIT	66	77	87	74
EBITDA	139	160	171	85

FINANCIAL RATIOS	FY2017	FY2018	FY2019	FY2020E
Growth (%)				
Revenue	31.8	15.6	11.3	-8.8
EBITDA	37.7	14.9	6.8	-50.3
EBIT	67.0	16.9	13.1	-15.0
PAT	23.2	10.6	18.7	-20.6
Total assets	4.7	9.6	1.7	3.1
Total equity	7.4	8.0	0.2	4.3
Profitability (%)				
Gross margin	31.2	31.0	30.8	30.5
EBITDA margin	54.1	53.7	51.6	28.1
EBIT margin	25.6	25.9	26.3	24.5
Net margin	23.7	22.7	24.2	21.1
ROA	16.0	16.1	18.8	14.5
ROE	17.1	17.5	21.9	15.8
Efficiency				
Receivables turnover	3.5	4.4	4.9	4.5
Inventories turnover	759.3	961.0	1.583.6	764.2
Payables turnover	9.3	8.9	8.1	8.6
Liquidity (x)				
Current	10.0	9.6	8.9	12.1
Finance Structure				
Total debt/equity	0	0	0	0
ST debt/equity	0	0	0	0
LT debt/equity	0	0	0	0

Billion VND

BALANCE SHEET	FY2017	FY2018	FY2019	FY2020E
Cash and cash equivalents	75	96	69	116
Short-term investments	26	37	88	88
Accounts receivable	73	68	67	68
Inventories	0	0	0	0
Other current assets (inc. non-trade receivables)	17	22	26	22
Property, plant & equipment	60	56	48	21
Acquired intangible assets (inc. Goodwill)	64	59	54	49
Long-term investments	0	0	0	0
Other non current assets	67	81	74	77
TOTAL ASSETS	**383**	**419**	**427**	**440**
Accounts payable	19	23	28	24
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other short-term liabilities	3	4	5	5
Bonus and Welfare fund	2	6	7	7
Total liabilities	**25**	**33**	**40**	**36**
Common stock and APIC (additional paid in capital)	210	210	210	210
Treasury stock	-1	-1	-12	-12
Retained earnings	61	85	90	107
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	89	93	99	99
TOTAL LIABILITIES AND EQUITY	**358**	**386**	**387**	**404**

VALUATION RATIO	FY2017	FY2018	FY2019	FY2020E
EPS (VND)	3,899	3,997	4,222	3,876
P/E (x)	8.5	9.9	9.4	10.2
BV (VND/cp)	23,663	25,555	25,600	26,703
P/BV (x)	1.4	1.6	1.6	1.5
DPS (VND/cp)	2,500	3,000	3,000	2,000
Dividend yield (%)	7.6	9.9	9.4	6.9

BINH DUONG MINERALS & CONSTRUCTION JSC (HSX: KSB)

Utilizing medium term resources for the long-term plan

1st quarter earnings results: interest expense weighs on results

KSB's first quarter revenue was equivalent to the same period last year at VND 296 bn and was not much affected by Covid-19. However, the company's profit before tax decreased by 9% YoY due to a 66% YoY increase in interest expenses, although the company reduced its selling expenses by 27% YoY. KSB currently has only completed 21% and 16% of its revenue and EBT plan for 2020, respectively.

Striving to be the largest supplier in the South

KSB is planning to acquire a company with a large rock quarry reserve in the Dong Nai area. If the deal is successful, KSB could have reserves of more than 150 mn m3, which is six times the current reserve. Quarries of the target company are in a favorable position to benefit from public investment projects or industrial park projects in the South. The consumption market of the target company is also very diverse as one of its quarries is located near the Dong Nai river. Additionally, KSB plans to complete the legal procedure for the Tam Lap mining license with reserves of more than 10 mn m3, which is expected to start mining in 2021.

Prospects from the industrial park: KSB is developing the Dat Cuoc industrial park (Tan Uyen, Binh Duong) with a plan of 551 hectares. The steady cash flow from leasing industrial land in the short and medium term is the main source for the company to complete the acquisition of the target company. After having filled 130 hectares of Phase I in Dat Cuoc Industrial Zone in previous years, KSB leased another 45 hectares from the expanded Phase I in 2019. Is expects to lease the remaining of 45 hectares in 2020. Moreover, KSB has received a permit to compensate the remaining of more than 180 hectares for the expanded Phase II.

2020 plan: Reality

The company plans a 9% YoY increase in operating revenue while a 4% YoY decrease in profit before tax. Revenue and profit of the rock segment is forecasted to decrease because of the fall in supply of the Tan Dong Hiep quarry. In contrast, the industrial leasing segment is expected to offset that in 2020 and in the next few years. KSB set targets for revenue and PBT of the industrial park segment in 2020 at VND 474 and VND 122 bn, respectively.

Analyst's opinion

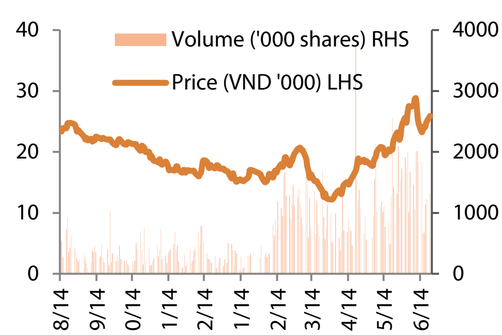
KSB plans to utilize short-and-medium term resources for its long-term plan as the company leases the Dat Cuoc Industrial Park to finance M&A. Based on the value that KSB plans to pay for the deal, we think this is a long-term profitable investment. However, it means KSB may retain earnings for the next few years instead of paying dividends. KSB is currently trading at a PE of 4.4x, lower than the five-year average PE of 6.9x. We believe that the market has not fully reflected the long-term prospect of KSB. The biggest risk to KSB is probably that the acquisition continues to stall. The target company is considered as KSB's long-term strategy as the remaining high-quality rock reserves with favorable location is low.

MONITOR

Market price (VND)	23,800
Stock info	
Sector	Quarrying
Market Cap (VND billion)	1,274
Current Shares O/S	53.5
Avg. Daily Volume (in 20 sessions)	1,448,015
Free Float (%)	N/A
52 weeks High	28,800
52 weeks Low	12,200
Beta	1.12

	FY2019	Current
EPS	5,286	6,159
EPS Growth (%)	-3.1	16.5
Diluted EPS	5,286	6,159
P/E	4.3	3.9
P/B	1.0	0.9
EV/EBITDA	3.3	4.5
Cash div. yield (%)	0	-
ROE (%)	25.6	26.8

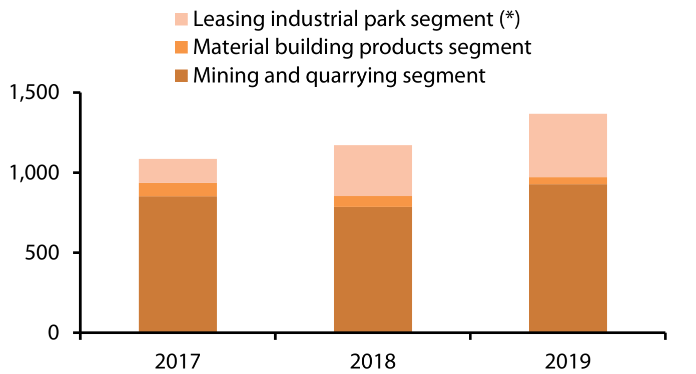
Price performance



Major shareholders (%)

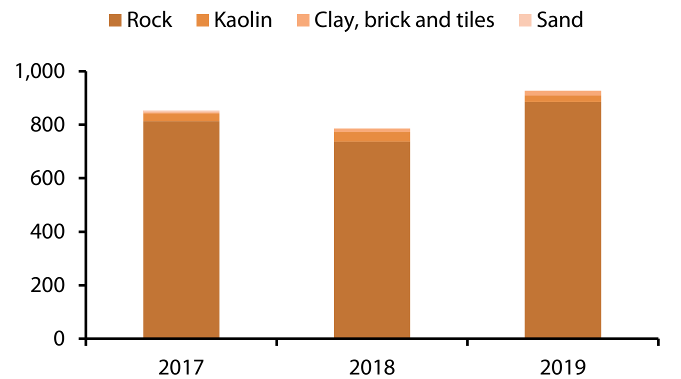
DREAM HOUSE INVEST C	27.0
PXP VIETNAM EMERGING EQUITY	4.76
LE THI NGOC NU	4.68
Foreign ownership room (%)	37.7

Figure 9: Revenue by segment



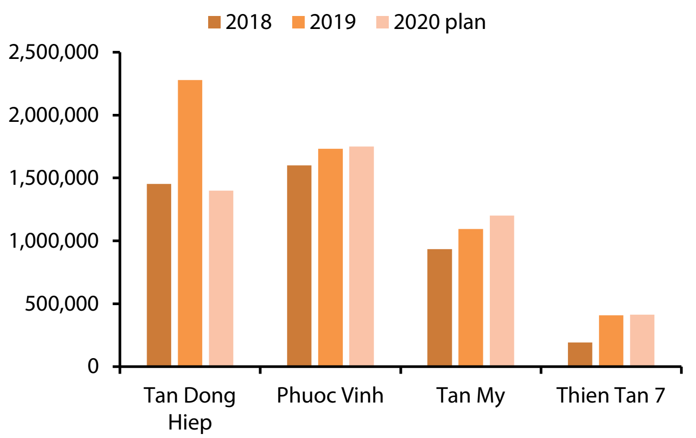
Source: KSB, Rong Viet Securities, (*): revenue in 2017 came from selling residencial projects

Figure 10: Revenue of mining resouces segment by products



Source: KSB, Rong Viet Securities

Figure 11: Production by rock quarries(m3)



Source: KSB, Rong Viet Securities

Table 4: Investment plan for 2020

	Plan	Area (ha)	Expenses (Billion VND)
1	Compensation expense for the remaining area at expanded Phase I	13.4	107.9
2	Infrastructure expense at expanded Phase II	212.3	127.9
3	Compensation expense at expanded Phase I	100.0	808.0
4	Wastewater treatment infrastructure cost of expanded Phase II		40.5
5	Administration cost at the expanded Phase Ii		430
6	Fixing infrastructure		4.2
	Total		1,088.7

Source: KSB, Rong Viet Securities

Billion VND

INCOME STATEMENT	FY2017	FY2018	FY2019	FY2020E
Revenue	1,094	1,169	1,314	1,575
COGS	660	598	673	904
Gross profit	**434**	**571**	**641**	**671**
Selling expenses	60	74	89	107
G&A expenses	47	84	88	106
Financial income	15	22	32	7
Financial expenses	0	30	77	59
Other income/loss	6	8	2	2
PBT	**415**	**403**	**537**	**403**
Tax expenses	70	82	85	81
Minority interests	0	0	0	0
PAT	**277**	**327**	**330**	**322**
EBIT	327	412	464	459
EBITDA	352	462	519	527

FINANCIAL RATIOS	FY2017	FY2018	FY2019	FY2020E
Growth (%)				
Revenue	28.7	6.8	12.4	19.9
EBITDA	29.9	31.3	12.4	1.5
EBIT	31.8	26.2	12.5	-1.1
PAT	34.7	18.0	0.9	-2.4
Total assets	46.9	102.5	36.7	4.2
Total equity	24.5	34.3	26.6	21.0
Profitability (%)				
Gross margin	39.7	48.8	48.8	42.6
EBITDA margin	32.1	39.5	39.5	33.4
EBIT margin	29.8	35.3	35.3	29.1
Net margin	25.3	28.0	25.1	20.5
ROA	19.4	11.3	8.3	7.8
ROE	36.6	32.1	25.6	20.7
Efficiency				
Receivables turnover	4.6	0.8	0.7	1.1
Inventories turnover	10.4	11.9	6.2	11.0
Payables turnover	6.8	1.0	0.7	1.0
Liquidity (x)				
Current	7.1	2.7	1.5	1.7
Finance Structure				
Total debt/equity	-	0.6	0.7	0.6
ST debt/equity	-	0.1	0.5	0.2
LT debt/equity	-	0.5	0.2	0.4

Billion VND

BALANCE SHEET	FY2017	FY2018	FY2019	FY2020E
Cash and cash equivalents	316	125	140	324
Short-term investments	67	0	0	0
Account receivable	237	1,498	2,008	1,467
Inventories	64	50	108	82
Other current assets (inc. non-trade receivables)	9	77	97	110
Property, plant & equipment	510	761	1,039	1,576
Acquired intangible assets (inc. Goodwill)	1	96	67	61
Long-term investments	0	33	44	44
Other non current assets	227	257	456	459
TOTAL ASSETS	**1,431**	**2,897**	**3,959**	**4,125**
Account payable	97	577	928	916
Short-term borrowings	0	72	669	250
Long-term borrowings	0	540	277	627
Other short-term liabilities	534	637	736	720
Bonus and Welfare fund	41	49	60	52
Total liabilities	**672**	**1,876**	**2,670**	**2,565**
Common stock and APIC (additional paid in capital)	468	538	538	538
Treasury stock	0	0	-2	-2
Retained earnings	245	411	643	881
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	46	69	111	144
TOTAL LIABILITIES AND EQUITY	**1,431**	**2,897**	**3,959**	**4,125**

VALUATION RATIOS	FY2017	FY2018	FY2019	FY2020E
EPS (VND/cp)	5,035	5,454	5,286	5,032
P/E (x)	8.5	4.2	4.3	4.5
BV (VND/cp)	16,205	18,940	23,974	29,007
P/B (x)	2.6	1.2	1.0	0.8
DPS (VND/cp)	2,500	0	0	0
Dividend yield (%)	0.6	0	0	0

SECTOR 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.

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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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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Steel
- Construction
- Utilities

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance
  Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Natural Rubber
- Agriculture

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Steel

Khoa Ngo
Analyst
khoa.nc@vdsc.com.vn
+ 84 28 6299 2006 (1519)
- Retails

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

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