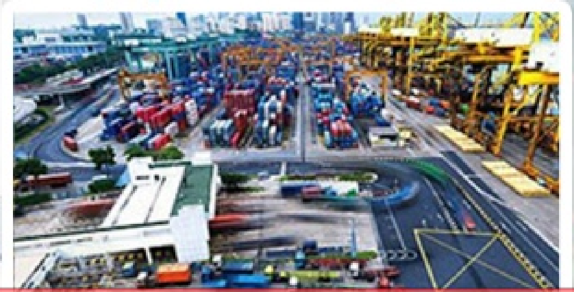
RONGVIET SECURITIES



Preliminary 2H2020 outlook

August 2020

RONG VIET SECURITIES

CONSTRUCTION INDUSTRY: Longing for new motivation

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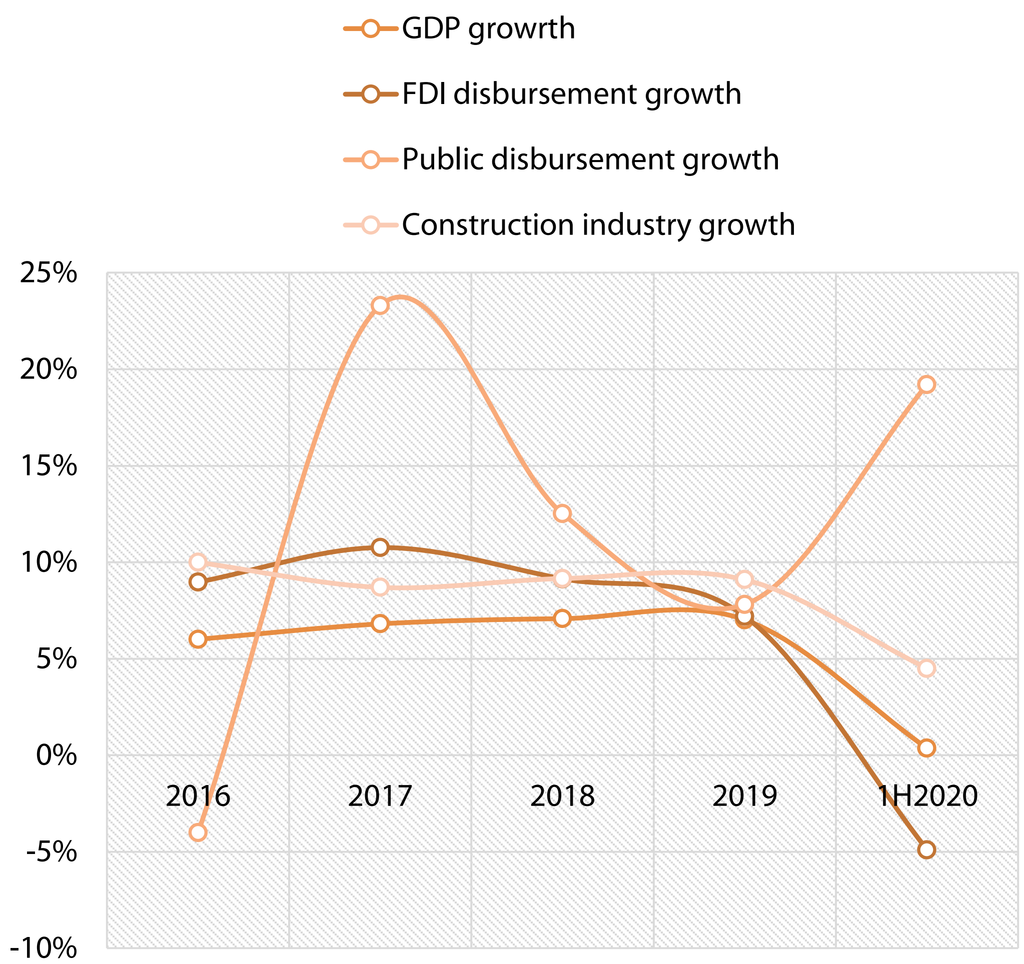
CONSTRUCTION INDUSTRY

Struggling with development as the residential segment is no longer the main growth driver

Figure 1: Construction industry value



Source: CBRE, RongViet Securities

The real estate market is lacking new residential projects

- New launches in HCMC went down by 60% YoY in 2Q2020, while that in Hanoi. The two large urban area launched a total of 18 projects during the quarter, a record low figure.

Commercial and industrial construction activities suffered from the COVID

- We expected these segments to spike to take over the residential's spot light, but it has turned out the opposite because of the pandemic.
- While current projects are being delayed, future projects might also get called off because of weak demand following the travel ban happening globally.

The last hope is in public investments into infrastructure

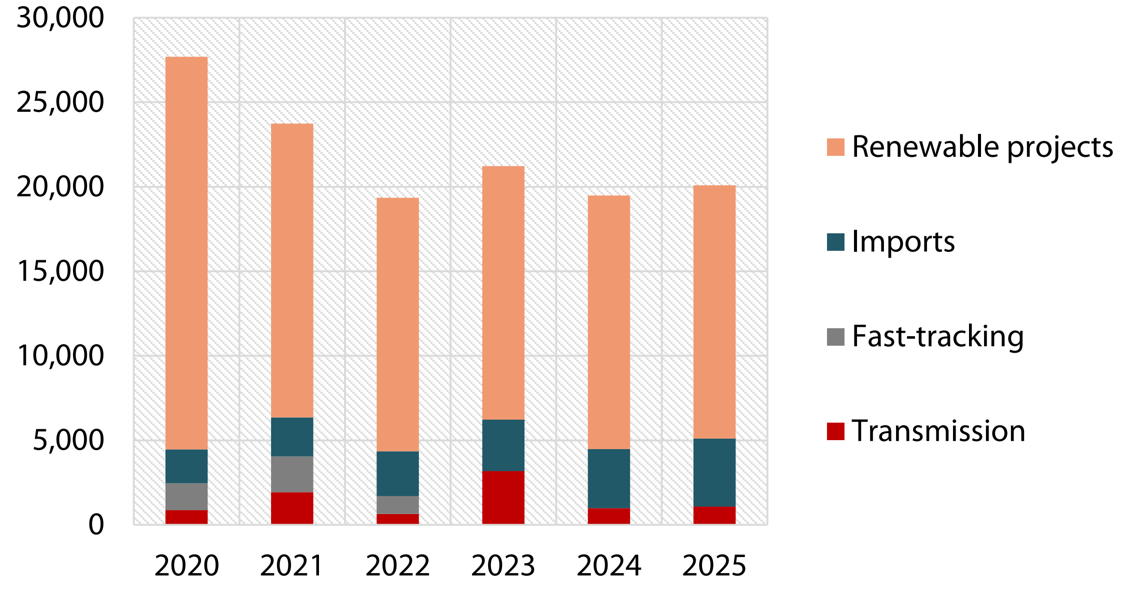
- Transportation infrastructure is practically the most potential growth driver, but large projects have just started their bidding process.
- Power construction has been blooming during the last few years and is continuing.
  - Lack of generation & transmission capacity means pressures on EVN's disbursements.
  - Renewable energy is attracting capital flows from public, private, local and global investors.

Not many choices, but some niche markets still offer opportunities

Power construction was going under the radar, but deserves more credits because of the consistent push from all sectors

- Fitch Solutions forecasts that despite COVID-19 impacting 2020's electricity demand, 2021-2029 demand has the potential to grow at a minimum 6% p.a. This means critical pressures on EVN's disbursement progress.
- The draft of Electricity Master Plan No.8 suggests a higher capacity from the renewable sector (32 GWs, +5GWs from the last master plan, 39% of total generation capacity). Subsidiary policies to the renewable energy sector have attracted investors. It is estimated that nearly VND 100 trillion is waiting to be disbursed in the next five years.
- We think power construction contractors will benefit the most from this trend. Our picks include PC1 and TV2.

Figure 2: Disbursement forecast



Source: NOAA, RongViet Securities

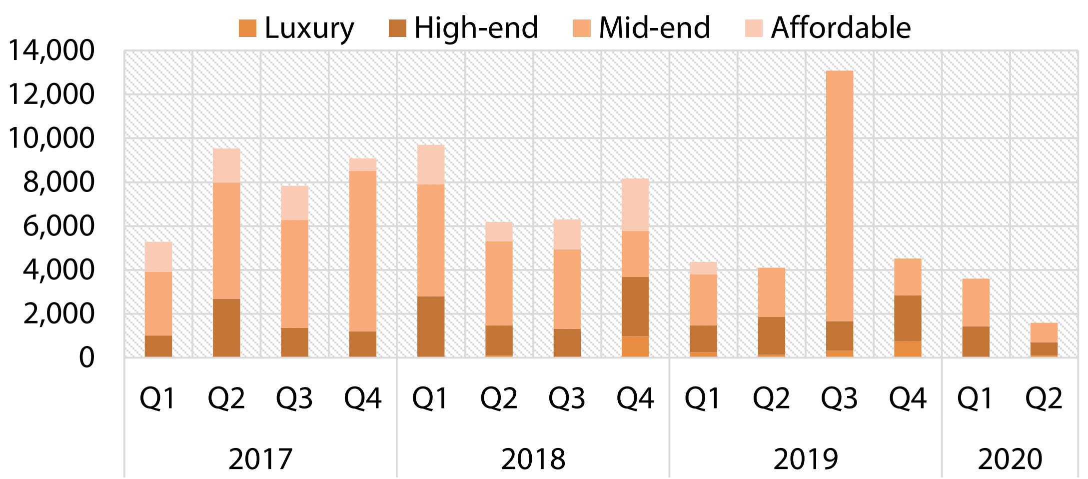
Table 1: EVN's project pipeline until 2025

	Project	Capacity (MW)	COD
1	TPP Duyên Hải 3 Expansion	1x660	2019
2	TPP Vĩnh Tân 4 Expansion	1x660	2019
3	ĐMT Sê San 4	49	2020
4	ĐMT Phước Thái 1	50	2021
5	HPP Ialy Expansion	2x180	2023
6	HPP Hòa Bình Expansion	2x240	2023
7	TPP Quảng Trạch 1	2x260	2023
8	Gas-Fired Combustion Ô Môn 4	1050	2023
9	Gas-Fired Combustion Dung Quất 1	750	2023
10	Gas-Fired Combustion Dung Quất 3	750	2024
11	Gas-Fired Combustion Ô Môn 3	1050	2025
12	HPP Trị An Expansion	200	2025
13	TPP Quảng Trạch 2	2x600	2025

Source: EVN, RongViet Securities

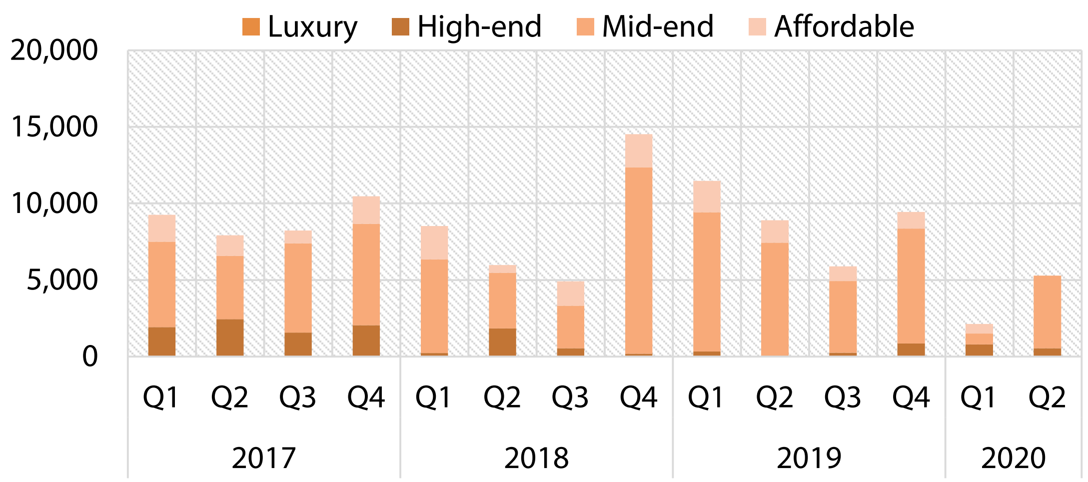
CONSTRUCTION INDUSTRY

Figure 3: HCMC condo new launches



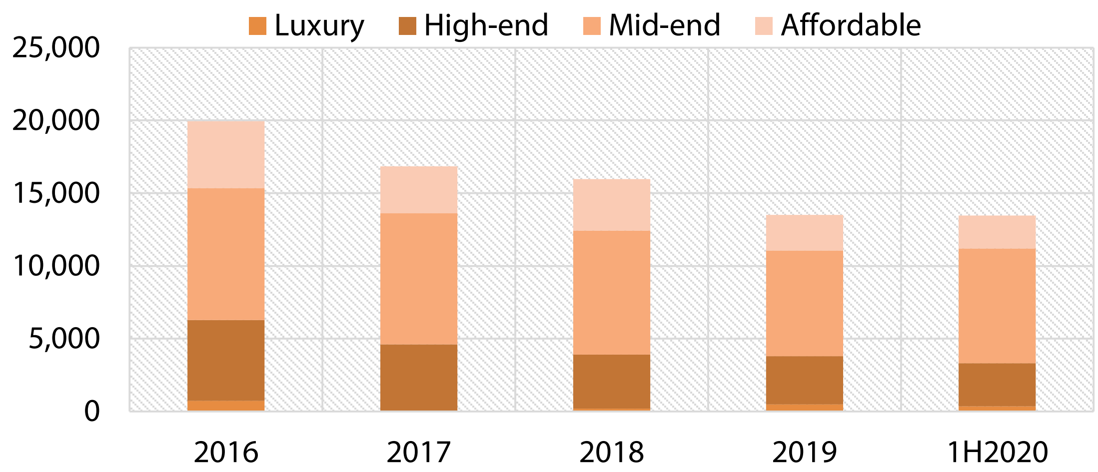
Source: CBRE, Rong Viet Securities

Figure 4: Hanoi condo new launches



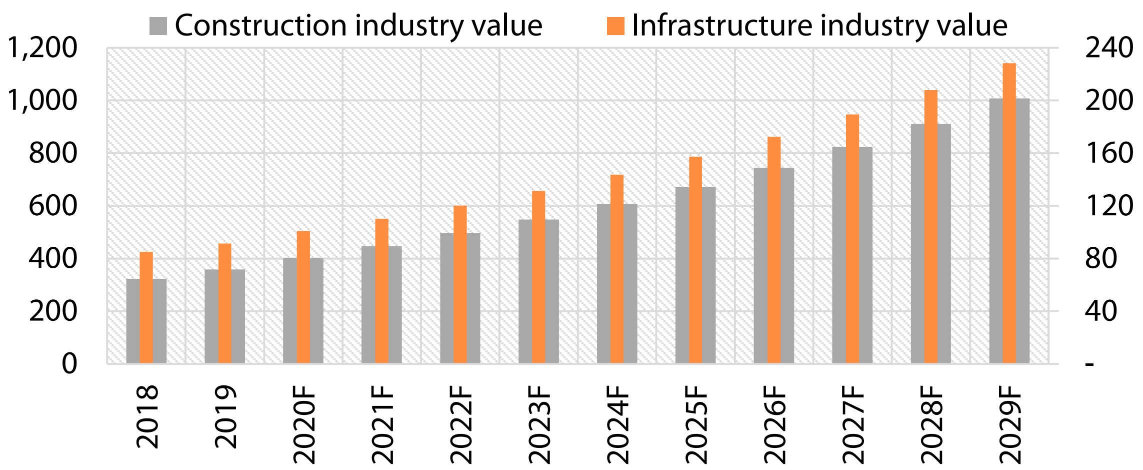
Source: CBRE, RongViet Securities

Figure 5: HCMC condo inventory



Source: CBRE, RongViet Securities

Figure 6: Construction & infrastructure industry value



Source: CBE, RongViet Securities

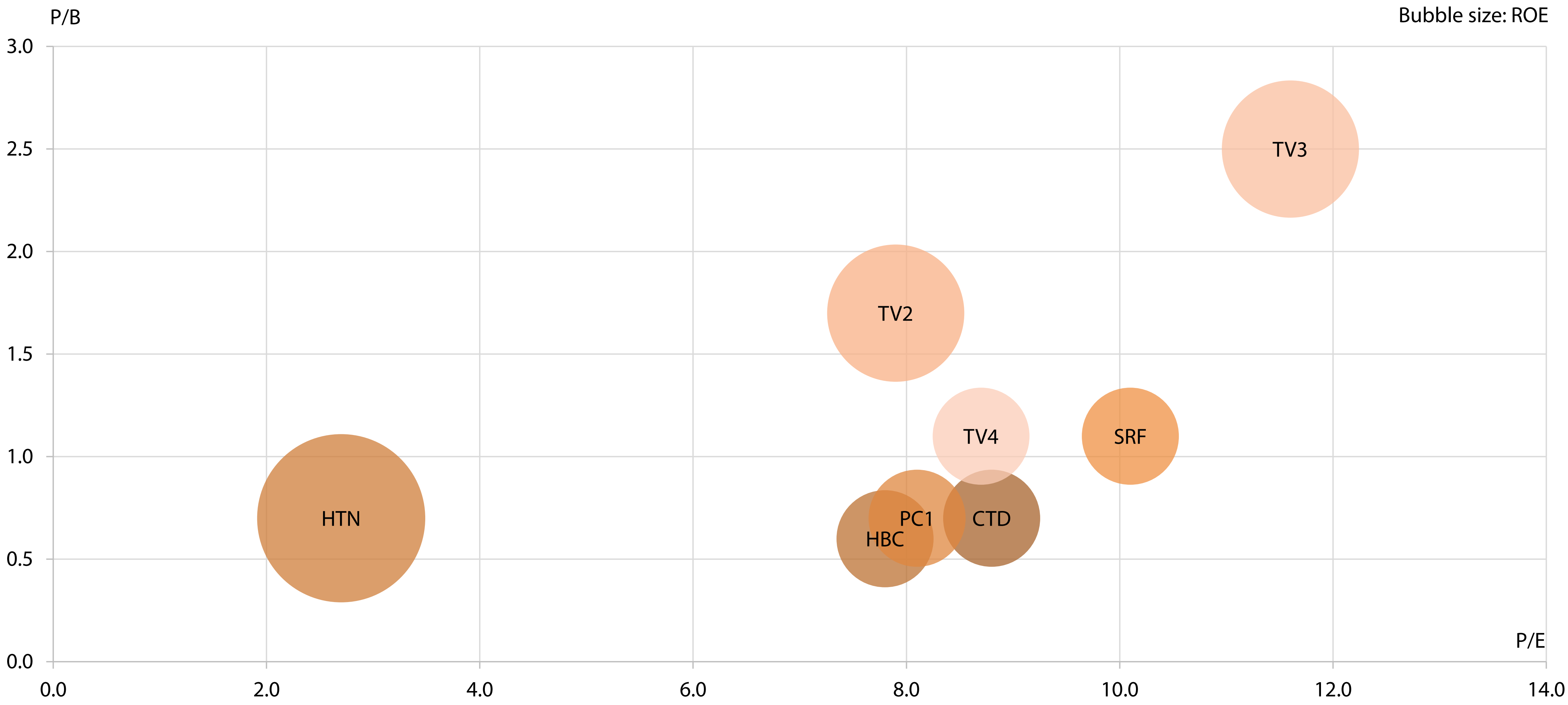
CONSTRUCTION INDUSTRY

Industry comparable: 1H2020 financials

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
CTD	258.84	#N/A	-25.0	8.3	4.1	3.4	-9.9	3.7	4.5	8.1	0.0	8.8	0.7
HBC	91.09	#N/A	-40.3	-40.4	5.6	3.3	-95.9	0.1	1.7	7.0	3.3	7.8	0.6
HTN	26.47	#N/A	3.6	58.2	12.3	11.9	54.9	6.7	4.3	29.7	8.1	2.7	0.7
PC1	120.35	27,200	-15.9	11.3	18.6	14.6	-4.8	8.4	4.0	9.0	0.0	8.1	0.7
SRF	19.75	#N/A	-8.7	-36.8	4.2	3.2	-79.6	0.9	2.5	9.0	14.8	10.1	1.1
TV1	11.41	#N/A	-20.5	1.4	19.3	5.2	-25.6	-21.3	-0.4	-2.4	0.0	-40.4	1.0
TV2	71.41	#N/A	-54.8	-23.6	11.2	9.9	-32.8	9.2	9.4	22.3	0.0	7.9	1.7
TV3	11.07	#N/A	25.8	98.4	4.0	2.1	272.1	4.9	8.2	20.8	3.2	11.6	2.5
TV4	8.03	#N/A	93.6	74.1	9.4	7.8	118.6	8.4	7.9	12.3	11.9	8.7	1.1

Source: Bloomberg, RongViet Securities. Share price as of 07 Aug 2020.

Industry comparable



Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 07 Aug 2020.

CTD – IT TAKES TIME TO REBUILD

OPPORTUNITIES

CTD remains the leader in the domestic civil construction market.

- Well-perceived reputation allows the company to win large bids from credible developers.
- The Coteccons Group (including Ricons) can expand their activities towards office buildings, factories, resorts and hotels to diversify from the housing market.
- CTD is able to maintain its backlog over USD 1 billion, one of the largest among rivals.

CTD is the only listed construction contractor to have zero debt.

- CTD has zero debt, an abundant cash hoard and strong operating cash inflows. It is able to pay annual cash dividends around VND 5,000 per share, which very few companies in the same industry can achieve.
- Ricons has the same financing structure.

RISKS

Recent conflicts between board members led to corporate governance risk.

- The unexpectedly turned down resolution to merge with Ricons (14% affiliate) tensed up the conflict.
- Similar issues happened in the past at CTD. Therefore, investors should also be concerned on future reoccurrence.

CTD's performance is slow since many large projects at prime locations got suspended.

- The situation is not for the company to control, thus is one of the major concerns.

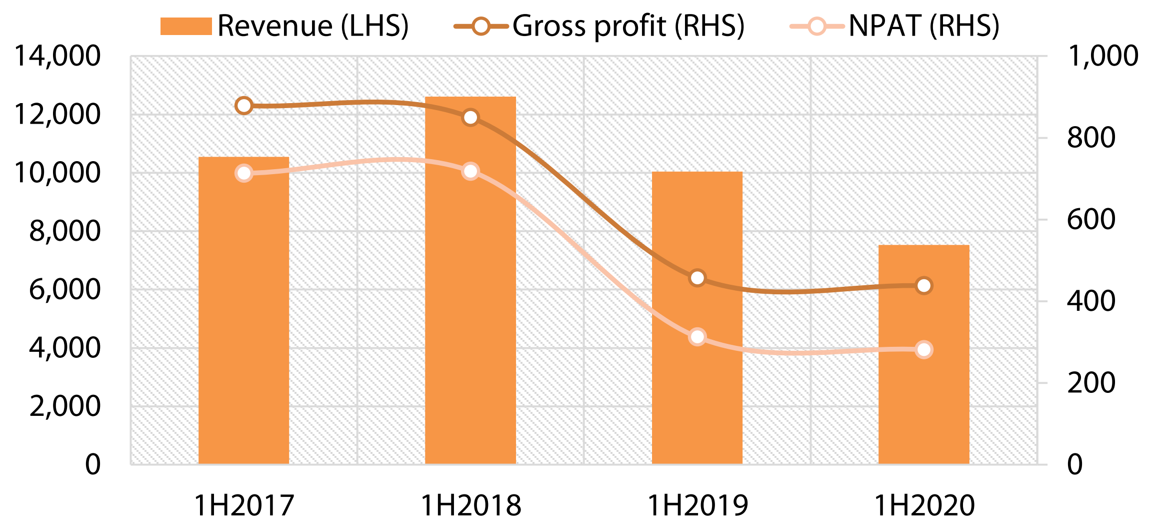
N/A	N/A
CMP (VND)	**78,600**
Target price (VND)	**N/A**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Industrials
Market Cap ($ mn)	258.8
Current Shares O/S (mn shares)	76.3
3M Avg. Volume (K)	680.9
3M Avg. Trading Value ($ mn)	2.2
Remaining foreign room (%)	2.4
52-week range ('000 VND)	44-103.8

FINANCIALS	**2016A**	**2017A**	**2018A**	**2019A**
Revenue (VND bn)	**20,783**	**27,153**	**28,561**	**28,574**
Growth (%)	*52.0*	*30.7*	*5.2*	*0.0*
NPATMI (VND bn)	**1,422**	**1,653**	**1,510**	**1,612**
Growth (%)	*94.1*	*16.2*	*-8.6*	*6.7*
ROA (%)	12.1	10.3	9.0	9.0
ROE (%)	22.8	22.6	19.0	17.7
EPS (VND)	16,248	18,882	17,017	18,411
Book Value (VND)	80,673	94,560	103,053	117,719
Cash dividend (VND)	5,500	5,000	5,000	5,000
P/E (x) (*)	9.1	9.9	7.9	5.6
P/B (x) (*)	2.1	2.2	1.5	0.5

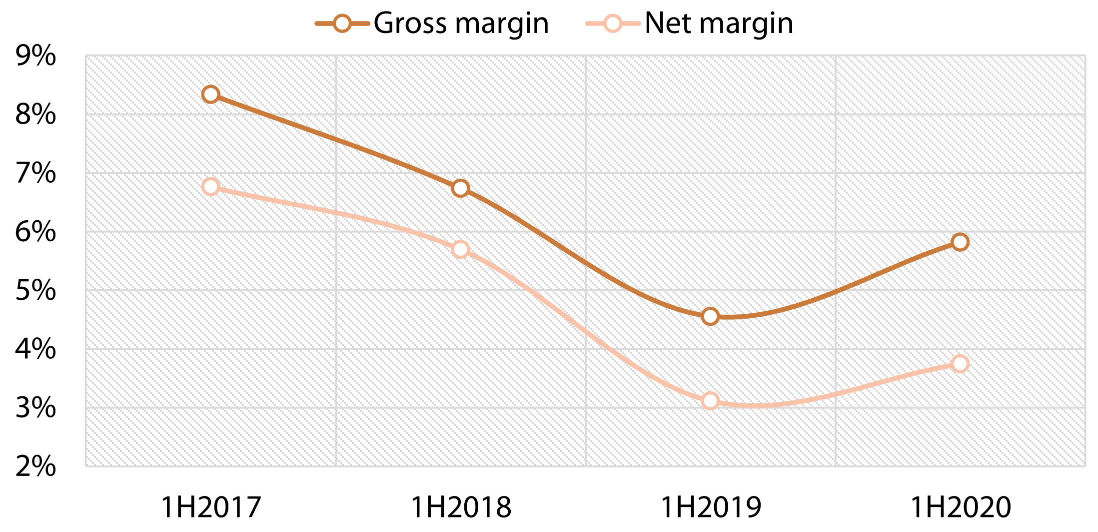
(*) Share price as of Aug 7th, 2020.

Figure 1: 1H2020 performance (VND bn)



Source: CTD, Rong Viet Securities

Figure 2: Gross and net margins



Source: CTD, Rong Viet Securities

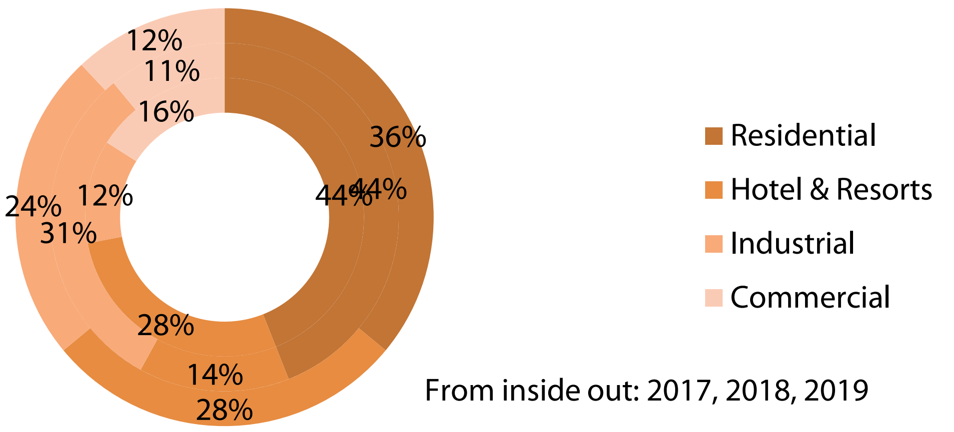
The housing market has yet to recover while resort real estate facesconsequences from COVID

- More than half of CTD's jobs still derive from the housing and resort markets, thus the downward trend in revenue continued in 1H2020 (-25% YoY).

Profitability has bottomed out

- After hitting bottom in 2Q2019, both gross and margin gradually picked up. After improving for the 4th consecutive quarters, 2Q2020 gross margin was 6.1% and net margin reached 4.0%, which we deem as the normal level.

Figure 3: Revenue breakdown per segment



Source:CTD, Rong Viet Securities

HBC- STILL BURNING CASH

OPPORTUNITIES

- **HBC remains among the top firms in the civil construction market.**
  - HBC has experience in large, complicated projects and has worked with numerous prestigious real estate developers.
  - HBC has the capacity and mindset to recover in terms of revenue once the real estate market bounces back.

RISKS

- **Unhealthy operating cash flows.**
  - Receivables have remained very high for the last two years, harming HBC's working capital. While revenue is decreasing, receivables are not doing the same, posing a high financial risk.
  - HBC's short and long term borrowings lead to higher interest expenses.
- **Real estate business, even though operated by subsidiaries and affiliates, causes HBC to be more dependent on the real estate market, which is highly cyclical.**

N/A N/A

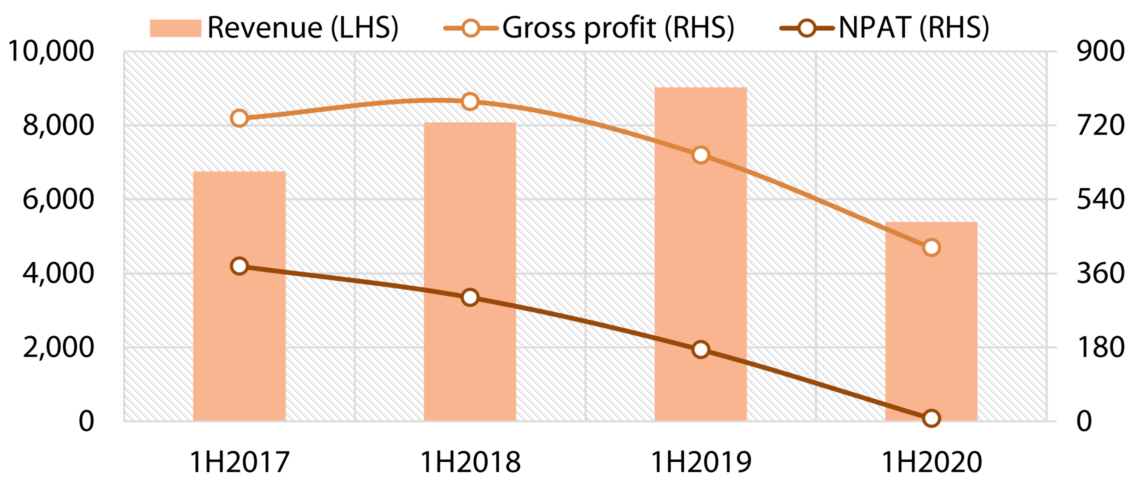
CMP (VND)	**9,140**
Target price (VND)	**N/A**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Industrials
Market Cap ($ mn)	91.1
Current Shares O/S (mn shares)	230.9
3M Avg. Volume (K)	5512.8
3M Avg. Trading Value ($ mn)	2.5
Remaining foreign room (%)	30.5
52-week range ('000 VND)	5.8-14.8

FORECAST	2016A	2017A	2018A	2019A
Revenue (VND bn)	**10,766**	**16,037**	**18,299**	**18,308**
Growth (%)	*112.0*	*49.0*	*14.1*	*0.0*
NPATMI (VND bn)	**567**	**859**	**630**	**1,040**
Growth (%)	*585.7*	*51.5*	*-27.9*	*65.1*
ROA (%)	5.0	6.1	4.0	6.4
ROE (%)	35.1	38.2	23.2	37.7
EPS (VND)	4,230	6,410	7,097	7,755
Book Value (VND)	16,937	17,316	13,850	13,897
Cash dividend (VND)	0	1,000	500	5,000
P/E (x) (*)	3.1	4.1	3.3	3.3
P/B (x) (*)	0.7	1.4	1.1	0.6

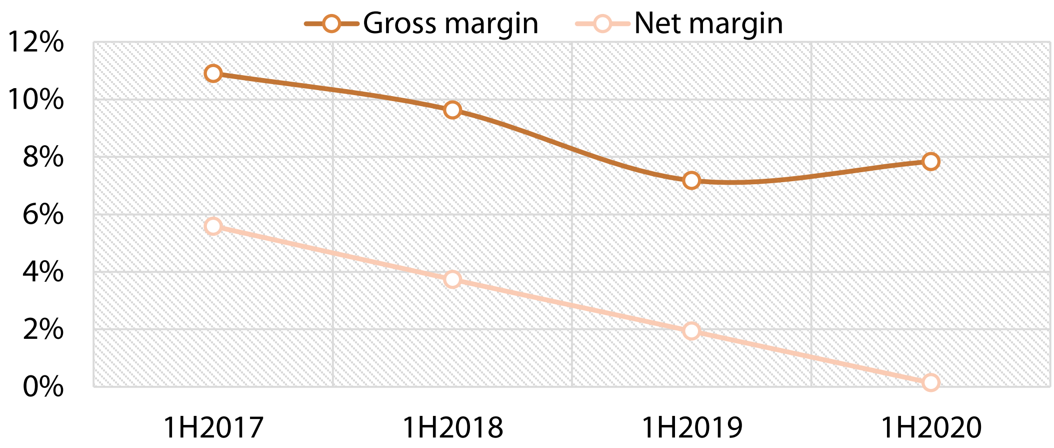
(*) Share price as of Aug 7th, 2020.

Figure 1: 1H2020 performance (VND billion)



Source: HBC, Rong Viet Securities

Figure 2: Gross and net margins



Source: HBC, Rong Viet Securities

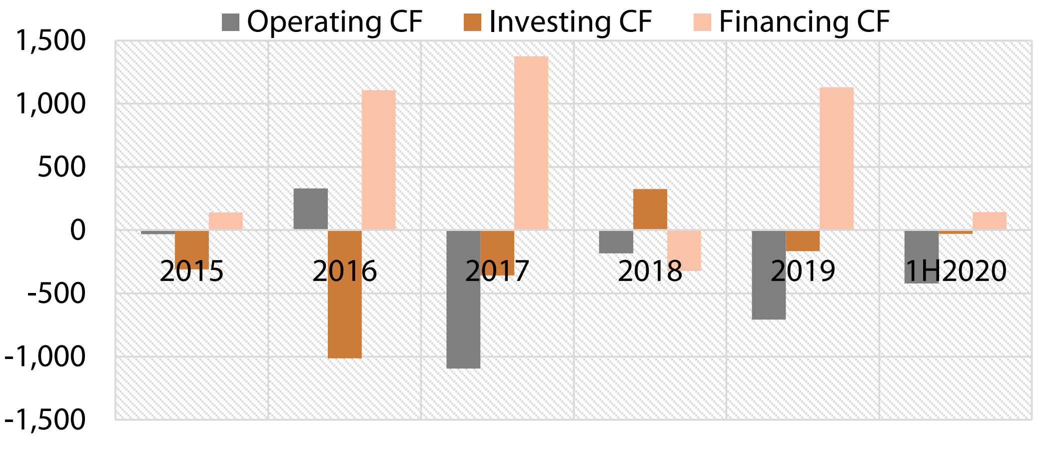
Both scale and profitability dropped

- Revenue decreased strongly by 40%, understandable because of the slowdown in the real estate market.
- Even though gross margin is not low, EBIT barely covered interest expenses as net margin is on a decreasing trend, reaching 0% in the last quarter.

Cash generation remains a critical problem

- HBC has pursued an aggressive business strategy, thus ended up having negative OCF most of the time, only compensating by taking up more loans. We have been maintaining our view for the past few years that this is the critical issue that needs to be addressed, in order to ensure the continuity of the business.

Figure 3: Cash flows (VND billion)



Source:HBC, Rong Viet Securities

TV2 – IN A GROWTH PHASE

INVESTMENT RATIONALE

- **TV2 benefits from growing investments in the electricity industry**. In order to add nearly 10,000 MW until 2030, EVN needs to disburse a total capex of up to USD 22 billion.
- **TV2's wide variety of service is the key advantage**. TV2 has the experience and capacity to join as a consultant for most of the projects in the pipeline. Besides, it also has EPC capacity, which allows the company to seize opportunities to scale up even further.
- **Strong financials distinguish TV2 from the rest**. TV2 has a sufficient amount of cash. It also brings about some financial income to improve the bottom-line.

RISKS TO OUR CALL

- Major risks to TV2 include the ability to add more EPC contracts to the current backlog to maintain the revenue level, which it has failed to do once in 1H2020.
- Belonging to the EVN's value chain, TV2 is highly dependent on EVN's disbursement progress.

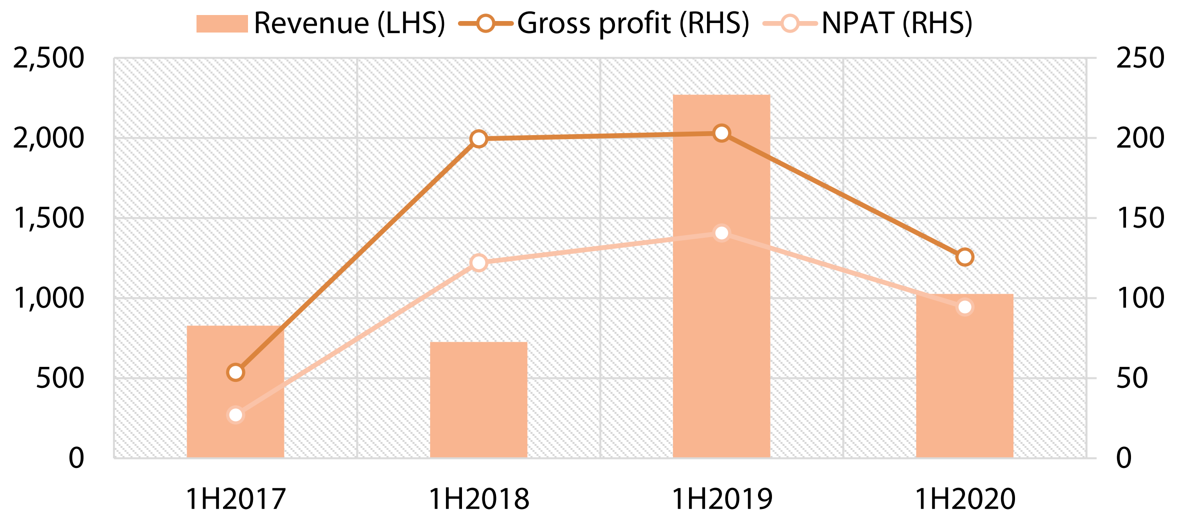
N/A	N/A
CMP (VND)	**45,940**
Target price (VND)	**N/A**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Industrials
Market Cap ($ mn)	71.4
Current Shares O/S (mn shares)	24
3M Avg. Volume (K)	97.9
3M Avg. Trading Value ($ mn)	0.3
Remaining foreign room (%)	0.7
52-week range ('000 VND)	45-96

FORECAST	2016A	2017A	2018A	2019A
Revenue (VND bn)	**1,647**	**1,647**	**1,647**	**1,647**
Growth (%)	*132.4*	*11.6*	*0.1*	*80.5*
NPATMI (VND bn)	**99**	**214**	**224**	**255**
Growth (%)	*74.3*	*115.7*	*4.5*	*13.8*
ROA (%)	6.8	13.7	10.2	6.8
ROE (%)	32.9	42.7	32.1	32.9
EPS (VND)	4,142	8,932	9,335	7,084
Book Value (VND)	8,404	13,929	19,382	25,854
Cash dividend (VND)	1,000	1,000	1,000	0
P/E (x) (*)	*10.6*	*3.9*	*7.9*	*7.3*
P/B (x) (*)	*3.4*	*1.6*	*2.3*	*2.0*

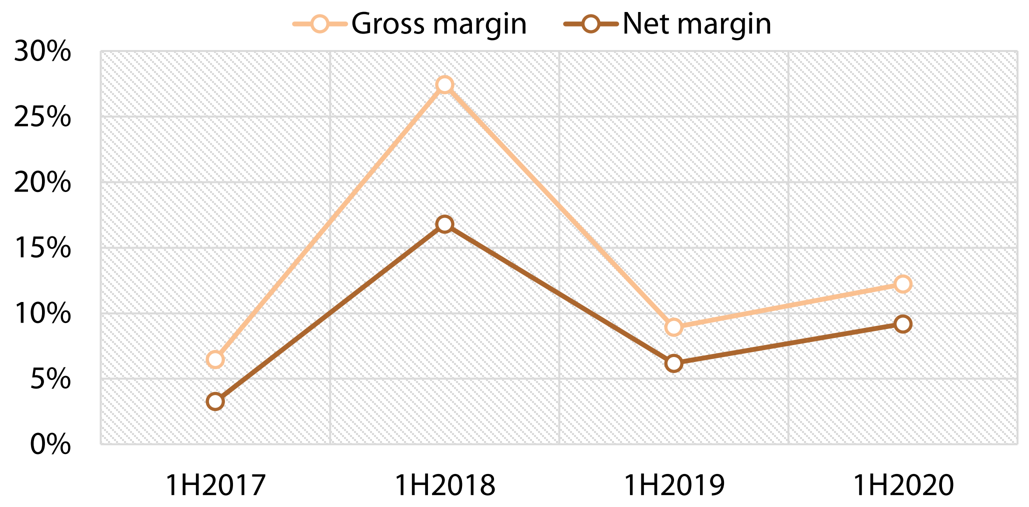
(*) Share price as of Aug 7th, 2020.

Figure 1: 1H2020 performance (VND billion)



Source: TV2, Rong Viet Securities

Figure 2: Gross and net margins



Source: TV2, Rong Viet Securities

Revenue slowed down compared to 2019

- 1H2019 was an exceptional period because of the surging solar power construction. Taking that aside, TV2 achieved a 5-year CAGR of nearly 50%, which was the highest among peers.
- TV2 dominates the consultancy field, participating in many of EVN's large projects.

TV2 is among the first beneficiaries and a leading indicator of the power construction industry

- Having established a certain level of market power, TV2 has taken advantage of the strong capital inflows into the electricity industry. Now that the company continuously expands its business line toward more complicated works (including EPC capacity), it is fully equipped to keep benefiting from the disbursements of both the private and public sectors into electricity projects.

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