RONG VIET SECURITIES

PRELIMINARY 2H2021 OUTLOOK

CONSTRUCTION

NEAR-TERM HEADWINDS

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1. Market overview 1H 2021- Still difficult for core business

- Double hit from escalated input materials price and Covid-19 disruption.
- Some companies used other segments to save their gross margin.

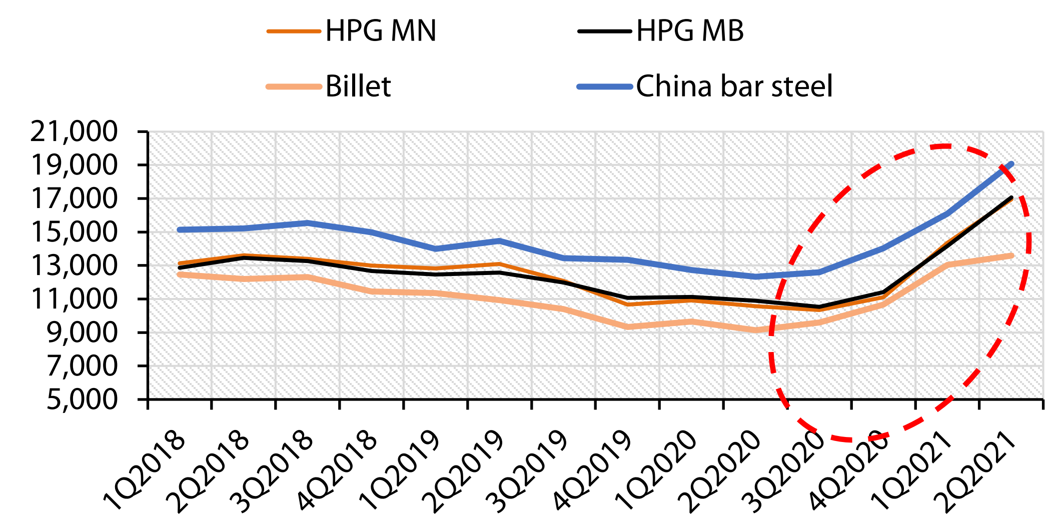
2. Market outlook 2H 2021- Find a new growth story

- Accelerated public disbursement in infrastructure is pivotal to uplift the industry.
- Investment opportunities are concentrated within some businesses.
- Risks: Complicated developments of the pandemic and slow disbursement of public investment.

The increase in material prices along with fierce competition shrank the profit margin of construction companies. However, some players found ways to escape.

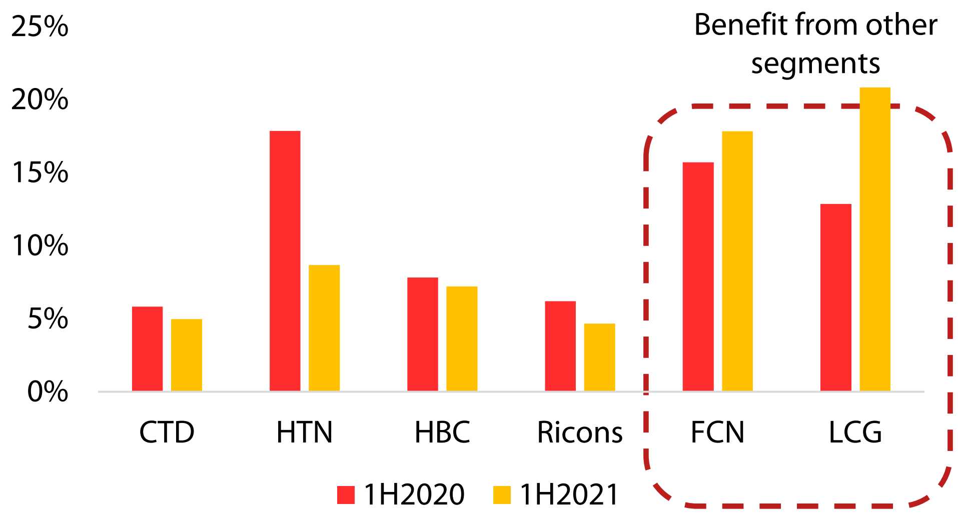
- According to the General Statistics Office of Vietnam (GSO), in 6M2021 the average price of housing construction materials and domestic gasoline prices increased by 5.03% YoY and 17.01% YoY, respectively.
- Steel price, accounting for 11% - 16% of input costs in construction projects surged (+40% vs end of 2020) and put pressure on gross margin. Consequently, several projects were forced to halt construction.
- Moreover, fierce competition explained the gross margin reduction in 1H 2021 (Figure 2). FCN and LCG recorded improved gross margin performance thanks to the contribution from other segments including real estate and energy infrastructure construction.

Figure 1: Price of steel products (VND per kg)



Source: HPG, RongViet Securities

Figure 2: Gross profit margin of construction firms in 1H 2021

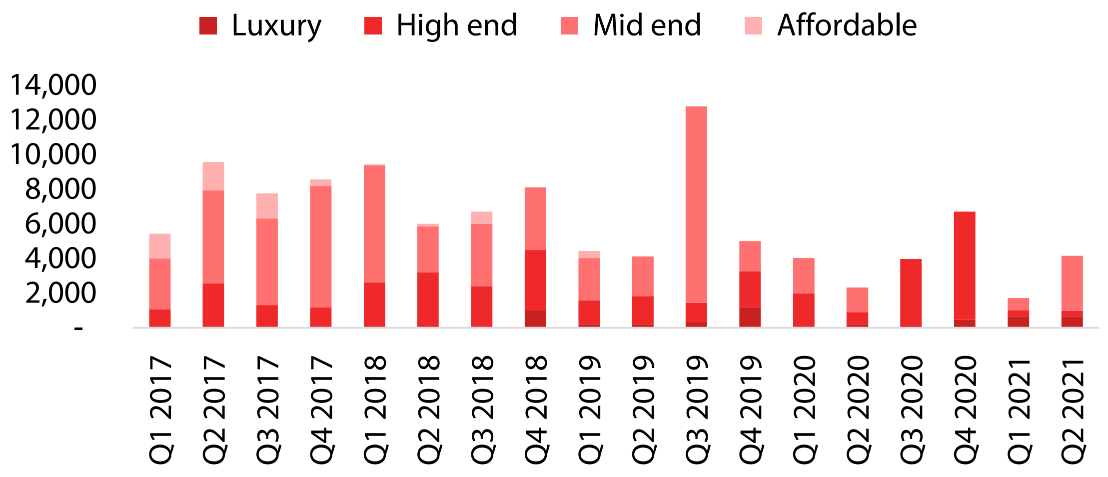


Source: RongViet Securities compiled

Freezing construction activities and project launching .

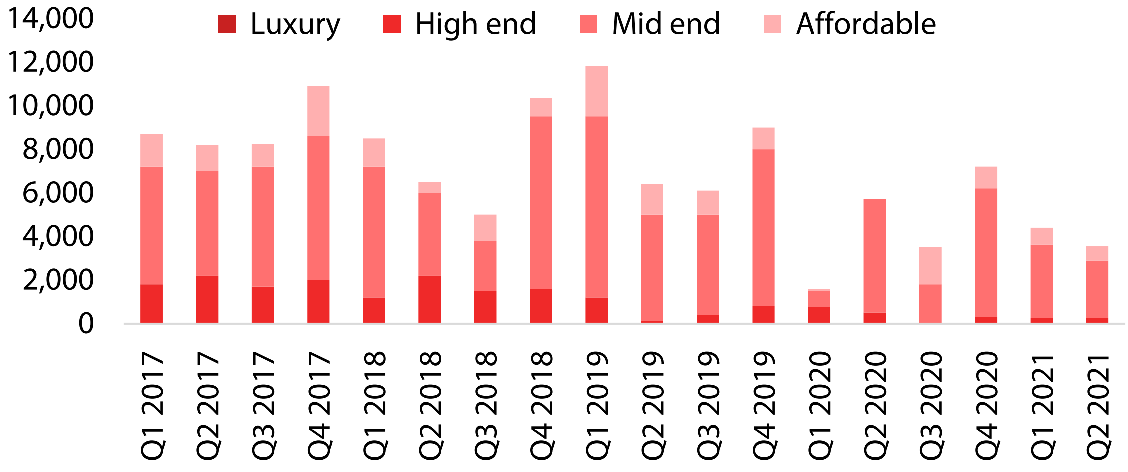
- According to CBRE, in 1H 2021, new launches in HCMC dropped 9% YoY while Ha Noi went up 10% but still lower from 2019 (Figure 3 and Figure 4). Covid-19 was a critical factor along with slow licensing procedures.
- Therefore, construction activities were limited given the delay of project launching and less workload to ensure health for employees during the pandemic.
- In July and August, the construction activities were further limited given the stringent lockdowns from Directive 16 of the Government in HCMC.

Figure 3: HCMC condo new launches (units)



Source: CBRE, Rong Viet Securities

Figure 4: Hanoi condo new launches (units)

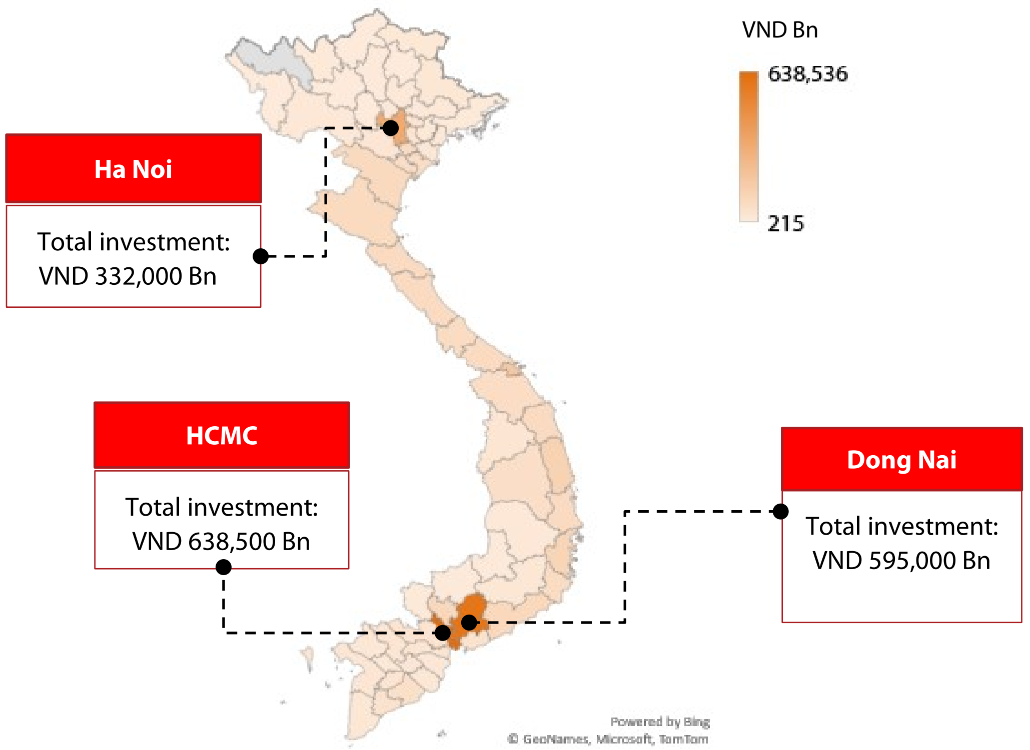


Source: CBRE, RongViet Securities

Vietnam's transport infrastructure sector will remain the largest driver of construction industry

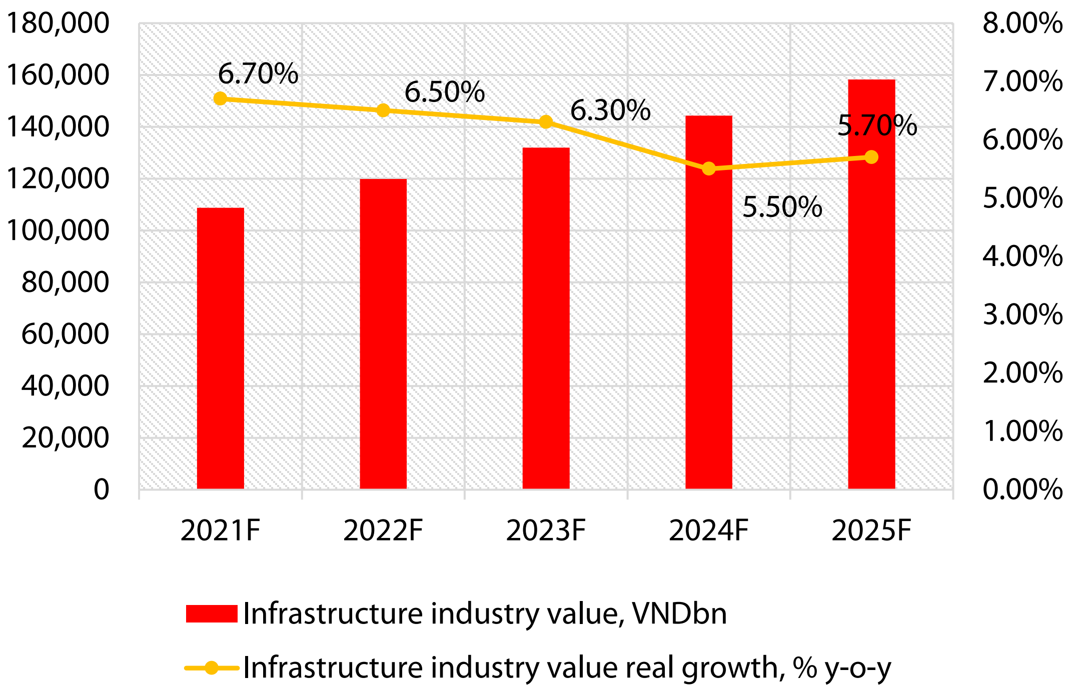
- Infrastructure projects are expected to boost the construction industry in the next five years. Per Fitch Solutions, the infrastructure industry value would reach VND 158,167 Bn in 2025 (or USD 6.8 Bn), implying CAGR of 10% during 2020 – 2025 (Figure 6).
- Strong government commitment and large pipeline of projects are key drivers. Specifically, the total investment plan for the 2021-2025 period is VND 2,870 Tn (+43% higher versus 2016 – 2020 period), including VND 1,500 Tn for key economic regions (Figure 5) and VND 1,370 Tn for other regions.

Figure 5: Planned infrastructure investment by provinces 2021-2025



Source: Rong Viet Securities

Figure 6: Infrastructure industry value (VND Bn)

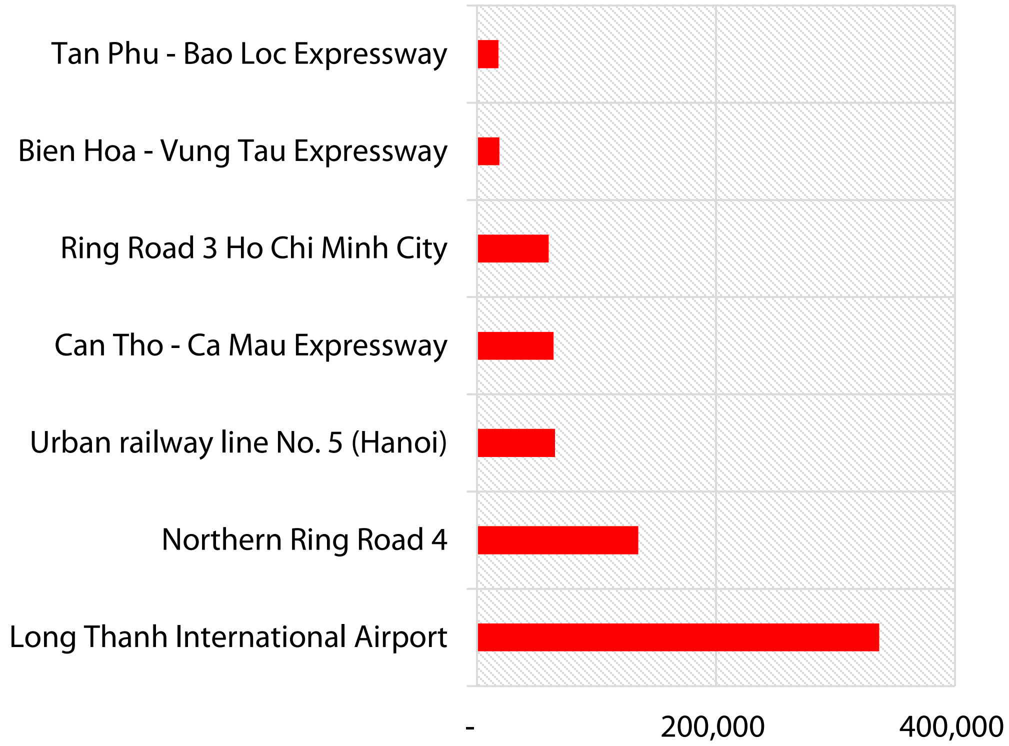


Source: Fitch Solutions

During 2021 – 2022, several large-scale projects are on the way

- Long Thanh Airport is the largest project. Construction kicked off in January 2021. For phase 1, 66% of land (~1,800 ha) is cleared. Phase 1 is expected to be completed in 2025. The total investment was USD 16 Bn (Figure 7).
- We expect that if these large-scale projects are ramped-up, it would likely to boost the construction industry.

Figure 7 : Notable infrastructure projects 2021-2022 (VND Bn)



Source: Rong Viet Securities

Figure 8: Update on projects to be implemented during 2021 - 2022

Project	Start Time	Status
Long Thanh International airport	January 2021	Under construction phase 1, combined with demining and clearing land
Ring Road 4 (North)	Q4/2021	Got investment approval, expected to construction in the end of 2021
Bien Hoa – Vung Tau Expressway	Q4/2022	Got investment approval, expected to construction in the Q4/2022
Tan Phu – Bao Loc Expressway	Q4/2022	Got investment approval, expected to start construction in 2022
Ring Road 3 Ho Chi Minh City	Q3/2022	Completed pre-feasibility report, expected to start construction in 2022
Can Tho – Ca Mau Expressway	2022	Submitted a pre-feasibility report, it is expected to start the construction of the Can Tho - Ca Mau phase in 2022
Urban railway line No.5 Hanoi	2022	Got investment approval, land clearance completed in 2022

Source: Fitch Solutions

Investment opportunities are concentrated within some businesses' own growth story

- In context of the hard time to win contracts given the fierce bidding process, businesses that do not go through the competition with other contractors or have new growth drivers by joining new construction segments.
- As mentioned earlier, infrastructure construction is quite promising supported by a strong pipeline monitored by the government. The focus is on building public infrastructure such as roads, highways . This would be expected to have the strongest growth per Fitch (Table1).

Table 1: Growth prospect of different segments in the construction industry in 2021F – 2025F

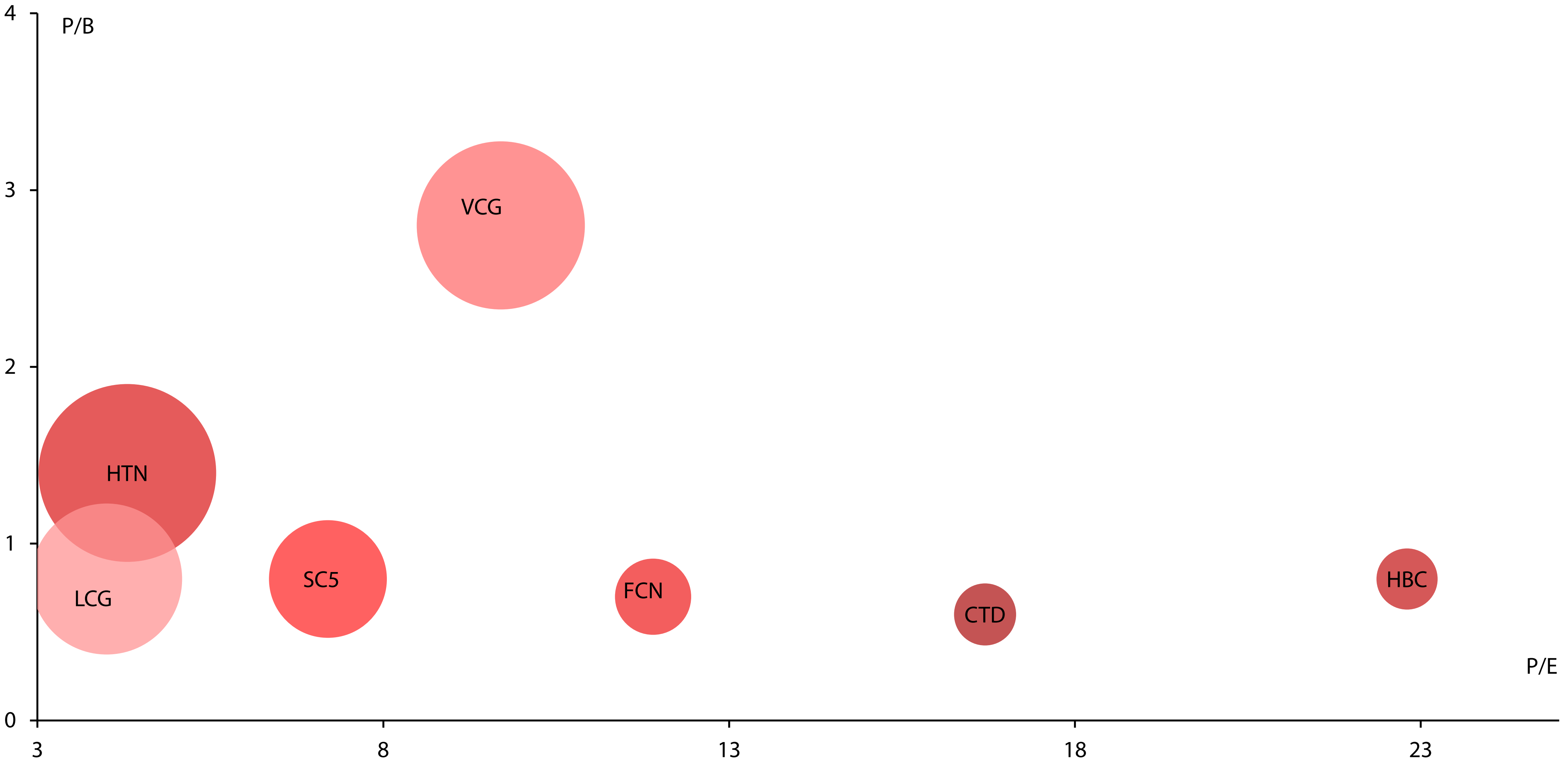
Industry	2020E	2021F	2022F	2023F	2024F	2025F
Roads and bridges	5.3%	9.3%	8.7%	7.5%	6.5%	6.6%
Railways	4.3%	6.7%	7.0%	7.2%	5.3%	5.4%
Airports	3.7%	4.0%	3.9%	3.8%	3.8%	3.9%
Energy and utilities	3.5%	4.8%	4,9%	5.5%	5.3%	5.7%

Source: Fitch Solutions

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	200.5	#N/A	-42.6%	-69.4%	1.8%	0.9%	-58.5%	2.3%	2.1%	3.3%	0.0%	16.7	0.6
HBC	132.9	#N/A	-25.1%	-34.9%	4.2%	2.1%	-47.1%	1.1%	0.9%	3.2%	0.0%	22.8	0.8
HTN	78.7	45,200	24.4%	n/a	0.0%	0.0%	28.5%	0.0%	0.0%	0.0%	0.0%	4.3	1.4
FCN	63.8	#N/A	5.0%	14.0%	11.9%	9.0%	0.2%	4.5%	2.0%	5.6%	0.0%	11.9	0.7
SC5	13.1	#N/A	16.1%	29.4%	4.2%	4.0%	135.1%	2.1%	2.0%	11.9%	0.0%	7.2	0.8
VCG	818.4	#N/A	-36.9%	n/a	-3.7%	-6.1%	73.0%	29.7%	6.6%	19.3%	0.0%	9.7	2.8
LCG	61.9	#N/A	35.8%	50.2%	14.7%	11.0%	110.2%	10.0%	6.0%	19.6%	0.0%	4.0	0.8

Source: Bloomberg, RongViet Securities. Share price as of 02 Aug 2021.

PE, PB AND ROE (TTM)

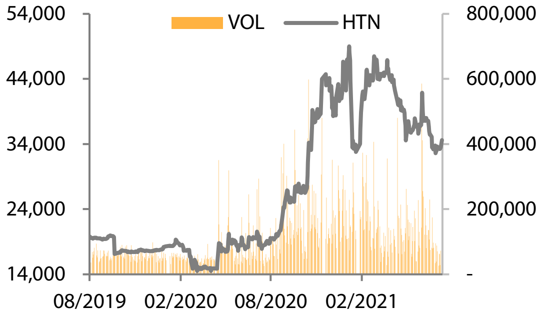


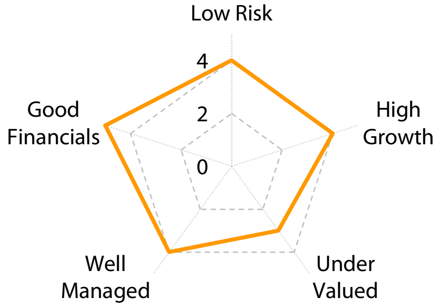
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 02 Aug 2021.

STRONG LEVERAGE ON HUNG THINH'S ECOSYSTEM

HSX: HTN

<ACCUMULATE: +12%> <MP: 40,250> <TP: 45,200>





STOCK INFO

Sector	Construction
Market Cap ($ mn)	78.7
Current Shares O/S (mn shares)	49.5
3M Avg. Volume (K)	133.2
3M Avg. Trading Value (VND Bn)	5.0
Remaining foreign room (%)	48.7
52-week range (VND)	17,900 - 49,000

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND Bn)	4,552	5,744	12,306
NPATMI (VND Bn)	345	225	493
ROA (%)	6.4	3.7	5.2
ROE (%)	39.4	27.7	28.7
EPS (VND)	10,281	4,807	9,948
Book Value (VND)	30,712	29,737	39,686
Cash dividend (VND)	1,800	-	-
P/E (x) (*)	3.1	8.9	4,0
P/B (x) (*)	1.1	1.4	1.0

INVESTMENT RATIONALES

Beneficiary from Hung Thinh's ecosystem

- Hung Thinh Incons is one of the leading contractors with nearly 15 years of experience. HTN conducted several iconic projects including Golden Bay (Nha Trang), Florita (District 7), SaigonMia (Binh Chanh), Vung Tau Melody (Vung Tau). HTN will be able to maintain its growth thanks to the projects of Hung Thinh Land (large backlog value of VND 37,030 Bn, or USD 1.6 Bn at YE 2020) without competing with other construction firms to win new contracts.

Outperformed gross margin and growth performance versus its peers

- Moreover, the advantage of knowing Hung Thinh Land product design and construction plan from the beginning and not going through fierce bidding process allowed Hung Thinh In cons to record superior revenue growth and higher gross margin than local peers.
- Looking forward to 2021, we believe earnings from the construction segment will strongly recover from the bottom of 2020 when key projects in Quy Nhon is still constructing without affecting by Directive-16. We estimate that HTN could post revenue of VND 5,744 Bn (or USD 249 Mn, +26% YoY) and NPAT-MI of VND 225 Bn (or USD 10 Mn,- 35% YoY).

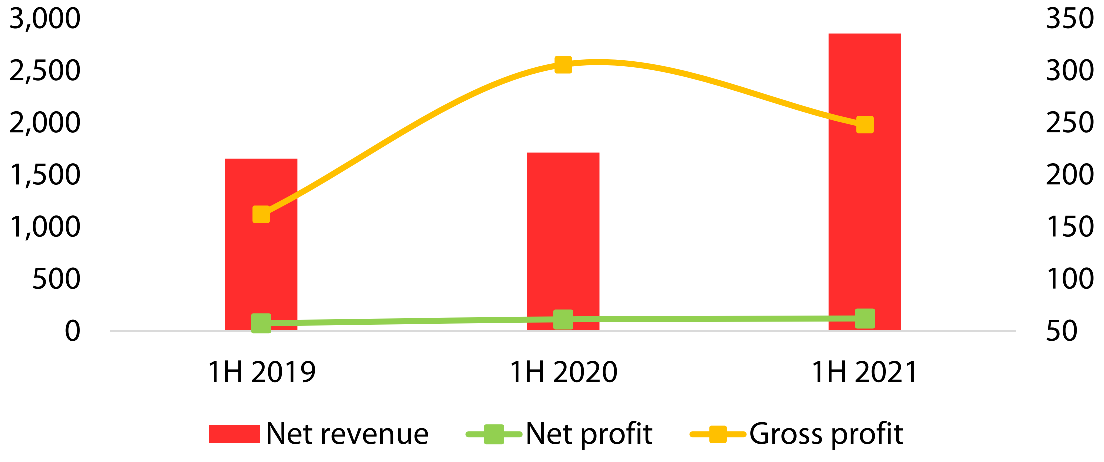
Potential upside from infrastructure construction segment.

- Expansion to infrastructure construction via strategic partnership with Deo Ca will allow revenue diversification and reduce the concentration risk (focus mainly on residential projects of Hung Thinh Land).

RISKS TO OUR CALL

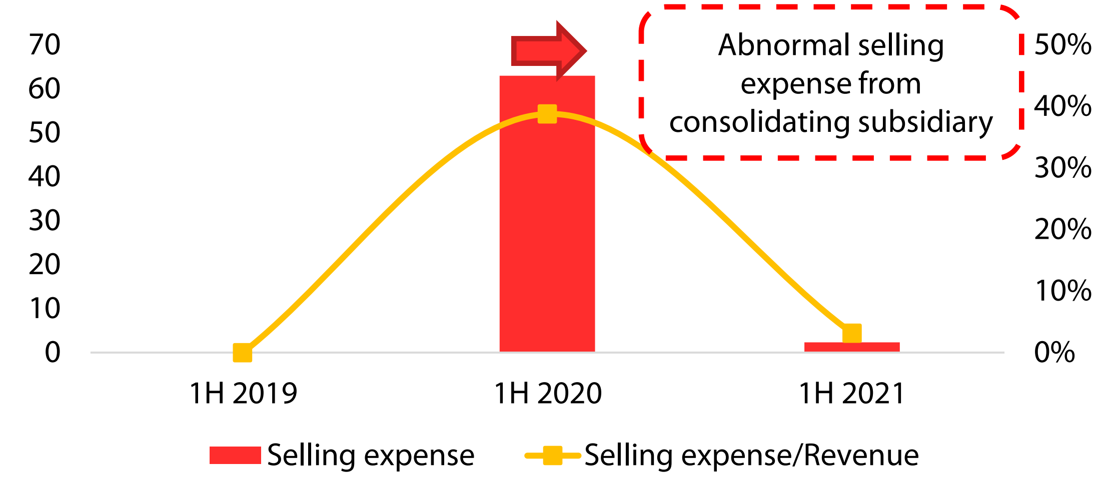
- Directive-16 implementation in the South can be extended for a longer time, hurting business in HCMC, Binh Dương, Dong Nai, Ba Ria-Vung Tau, Nha Trang.
- Cooling down of the real estate market.

Figure 1: Revenue (LHS), gross profit and net income (RHS) (VND bn)



Source: HTN, Rong Viet Securities

Figure 2: Selling expenses (VND bn)



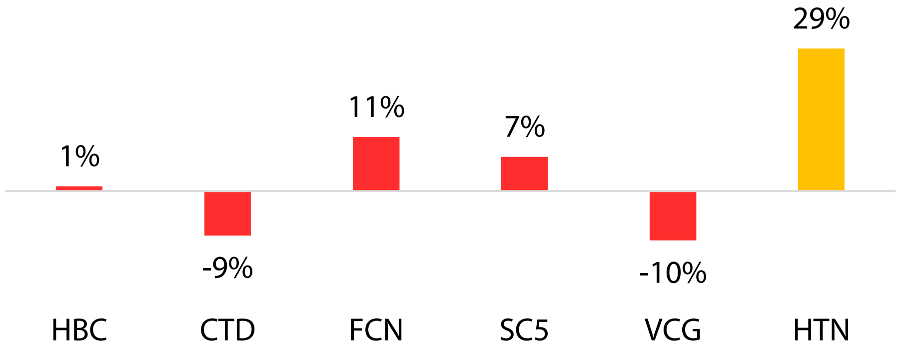
Source: HTN, Rong Viet Securities

In 1H 2021, HTN's net revenue was VND 2,855 billion (USD 124mn,+66.5% YoY), completing 68.3% of the 2021 target.

GPM shrank, but selling expenses also dropped strongly

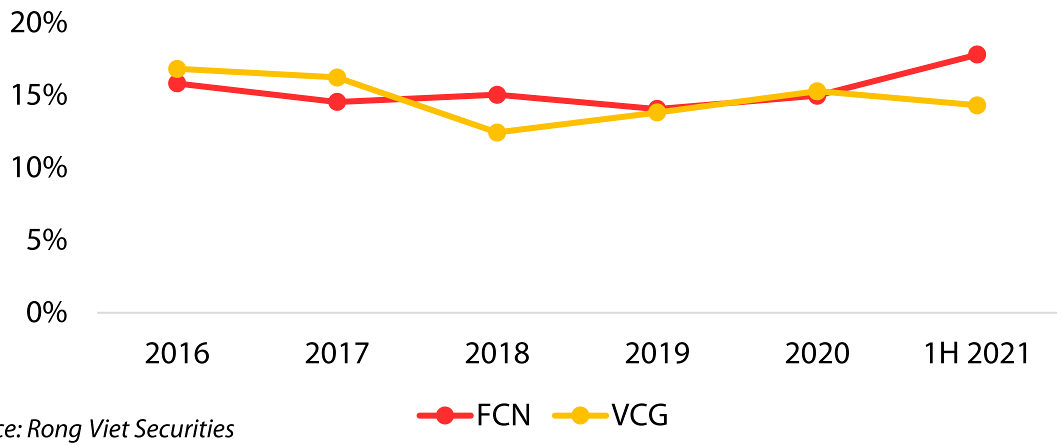
- GPM went from 18% in 1H2020 to 9% in 1H2021 given the lack of real estate revenue from the Richmond project.
- Hence, gross profit came at VND 248 Bn (USD 11 Mn, - 19% YoY).
- Selling expenses were reduced significantly from VND 63 Bn (or USD 2.7 Mn) in 1H 2020 to VND 2.4 Bn (or USD 103k) in 1H 2021 as abnormal selling expenses by consolidating the subsidiary Binh Trieu JSC was not booked in 1H 2021 given the lack of real estate revenue in the Richmond project.
- Net profit was still able to grow slightly and stayed at VND 120 Bn (or USD 5.2 Mn,+7% YoY).

Figure 3: Net revenue CAGR 2016 – 2020 of selected contractors



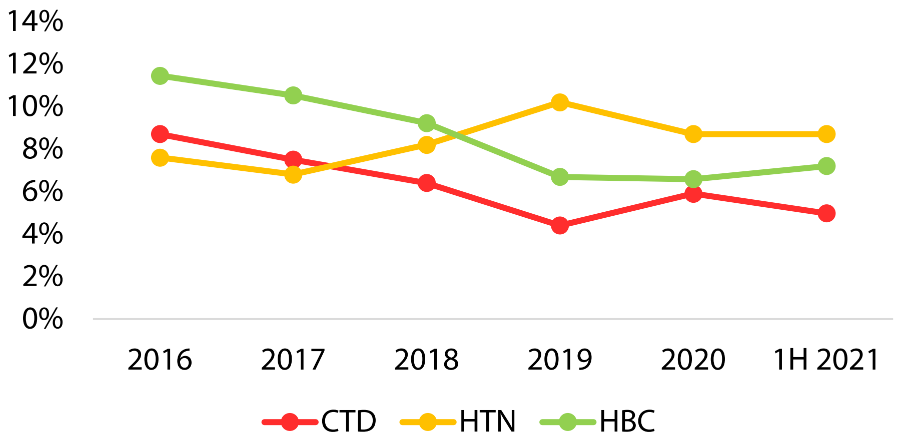
Source: HTN, Rong Viet Securities

Figure 5: Gross margin of infrastructure construction firms (2016 – 2020)



Source: Rong Viet Securities

Figure 4: HTN outperformed other local players on gross margin (%)



Source: Rong Viet Securities

Gross profit margin outpaced other civil construction players, namely HBC and CTD

- This superior performance is driven by its benefit from knowing the product design of Hung Thinh Corp and construction plan from the beginning, which helps HTN to reduce unnecessary costs.
- HBC and CTD still suffered from fierce competition while HTN secured most projects of Hung Thinh Land – real estate arm of Hung Thinh Corp will be constructed by Hung Thinh Incons.
- In the longer term, the strategic partnership with Deo Ca will allow HTN to diversify its revenue source and reduce the concentration risk, also expect for better margin.

Figure 6: Backlog of HTN from 2017 – 2020 (VND Bn)

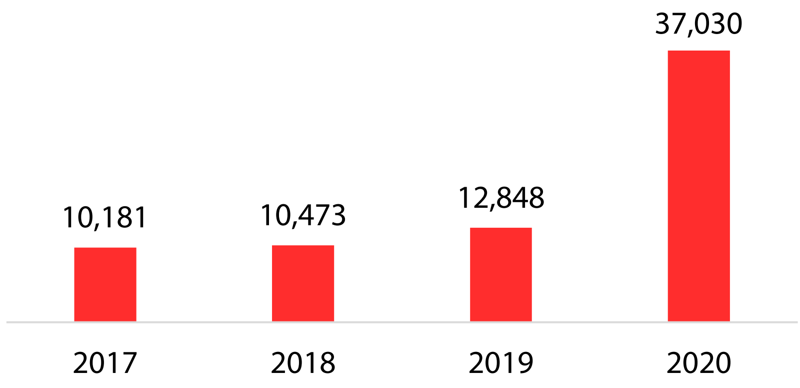
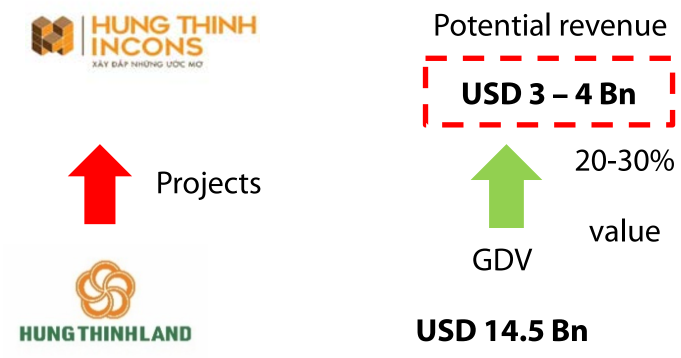


Figure 7: HTN benefits from HT Land



Source: HTN, Rong Viet Securities

2H2021: Social distancing would limit construction activities

- We reduce revenue of projects in the South regions given the stoppage of construction activities from Directive 16.
- We expect HTN to deliver a commercial center within Richmond project with estimated value of VND 230 Bn (or USD 10 Mn).
- 2021 NPAT was reduced by 35% given the smaller contribution of the real estate segment (in 2020 real estate revenue was VND 2,332 Bn or USD 100 Mn).

2022 outlook: Expecting stronger growth

- After the vaccination process is completed, we expect the ramp-up of construction activities.
- HTN would benefit from large projects of Hung Thinh Land (total GDV of USD 14.5 Bn). In the next three years, the large backlog as of YE 2020 of approx. VND 37,000 Bn (or USD 1.6 Bn) would be key a profit generator.
- Revenue and NPAT are expected to grow by 114% and 119%, respectively in 2022.

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