

Coteccons (CTD)

ESG is a growth driver

May 20, 2024

Analyst Nguyen Duong Nguyen
emailaddress@kbsec.com.vn

NPAT in 3QFY24 hit VND105 billion (+52% QoQ, +375% YoY)

In 3Q FY2024, Coteccons Construction JSC (CTD) recorded VND58 billion from low value M&A transaction of UG M&E Vietnam Limited (UGVN), helping NPAT increase by 52% QoQ or 375% YoY. It is worth noting that the core business of CTD continued to improve when net GPM reached 3.5% (+50 bps QoQ; +171 bps YoY).

NPLs dramatically increased in the quarter, CTD may need to raise provisioning in the next quarters

Net NPL value was VND928 billion, increasing VND426 billion compared to the end of 2QFY24. New NPLs in the period largely arose from bidding packages and contracts signed before 2022, investors had issues with cash flow as the recovery speed of the residential real estate market/resort is still slow.

The main growth driver comes from FDI projects

With leading construction capacity, a solid financial foundation, and the ability to meet the ESG requirements in construction of foreign investors, CTD should further increase the backlog of foreign-invested projects in the coming time. KBSV believes that increasing the proportion of revenue in FDI projects is the right strategy when (1) industrial projects with high GPM are the main driving force for profit growth of the core business; and (2) projects of FDI investors will help CTD limit the risk of arising bad debts.

BUY rating with the target price VND85,000/share

We gave a BUY recommendation for CTD with the target price of VND85,000/share, corresponding to PBR valuation = 1x and expected profit margin 20% compared to the closing price on May 20, 2024

Buy change

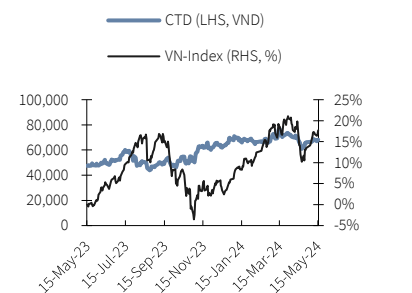
Target price	VND85,000
Upside	20%
Current price (May 20, 2024)	VND 70,700
Consensus target price	VND 75,900
Market cap (VNDtn/USDbn)	0.68/0.26

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	125.25/5.04
Foreign ownership	44.9%
Major shareholder	Kustoshem Private Ltd. (17.6%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	3.3	1.8	10.0	43.9
Relative	0.2	-2.5	-3.9	26.2

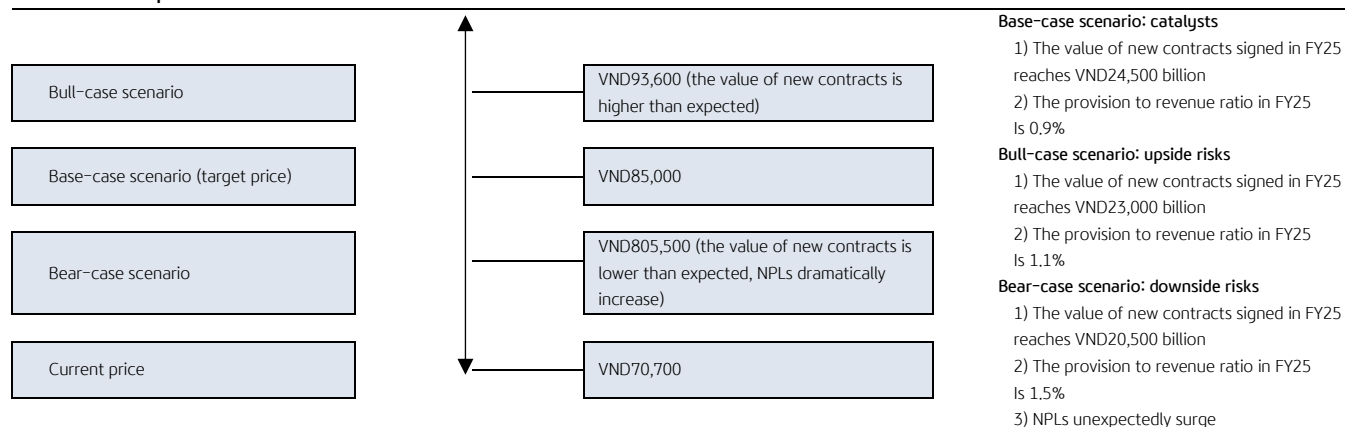
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	14,537	6,744	19,964	23,558
Operating income/loss (VNDbn)	-54	69	244	420
NPAT-MI (VNDbn)	21	52	292	336
EPS (VND)	263	663	2,820	3,243
EPS growth (%)	-13%	152%	326%	15%
P/E (x)	125.2	97.8	25.1	21.8
P/B (x)	0.3	0.6	0.9	0.8
ROE (%)	0%	1%	3%	4%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	18,359	17,928	19,964	23,558	8.7%	31.6%
EBIT	169	269	189	196	11.1%	-27.7%
NP after MI	321	448	292	336	9.0%	25.0%

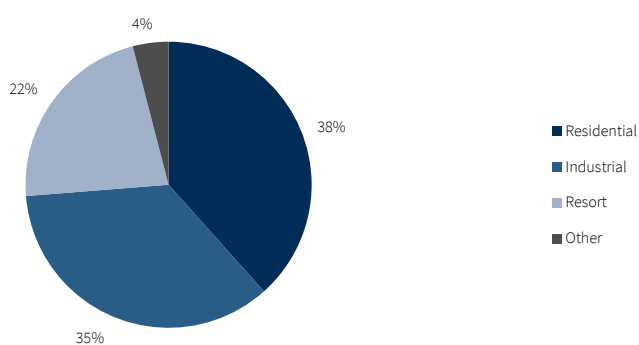
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	19,964	23,558	16,187	18,119	23.3%	27.2%
EBIT	189	196	79	147	153.5%	46.9%
NP after MI	292	336	242	282	27.8%	26.7%

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Business operation

CTD is a leading enterprise in the construction field in Vietnam, majoring in M&E of residential, industrial and infrastructure projects. Its construction capacity is affirmed after the cooperation with local and international giants such as Vinhomes, Vinfast, and Lego.

Source: Cotecons Construction, KB Securities Vietnam

3QFY24 performance updates

Table 1. CTD – 9M FY24 business results

(VNDbn, %)	1Q23	3Q FY24	+/-%YoY	3Q22-1Q23	9M FY24	+/-%YoY	Notes
Revenue	3,130	4,666	49.1%	12,473	14,450	15.8%	
COGS	-5,491	-4,445	-19.0%	-12,213	-13,960	14.3%	
Gross profit	56	221	297.1%	260	490	88.3%	
<i>Gross profit margin</i>	1.8%	4.7%	296 bps	2.1%	3.4%	130 bps	Net GPM reached 3.5% (+171 bps YoY) thanks to the increased proportion of revenue from the industrial segment and recognition of most projects before 2022 with low profit margins.
Financial income	85	42	-50.7%	238	210	-11.5%	
Financial expenses	-32	-11	-64.2%	-135	-75	-44.8%	
Profits from affiliates	-6	0	-99.8%	-19	0	-99.9%	
SG&A	-72	-181	149.5%	-358	-386	7.7%	Provision expenses hit VND94 billion, increasing for four consecutive quarters.
Operating profit/loss	30	136	352.4%	-14	240		
Other income	-1	66		67	65	-3.9%	3Q FY24 recorded a profit from the low value M&A transaction of UGVN (VND58 billion).
PBT	29	136	364.0%	53	312	486.9%	
<i>PBT margin</i>	0.9%	2.9%	198 bps	0.4%	2.2%	173 bps	
CIT expenses	-7	-31		-16	-71	353.0%	
NPAT	22	105	375.5%	37	241	543.1%	
<i>NPAT margin</i>	0.7%	2.2%	154 bps	0.3%	1.7%	137 bps	
NP after MI	22	105	374.8%	37	241	542.7%	

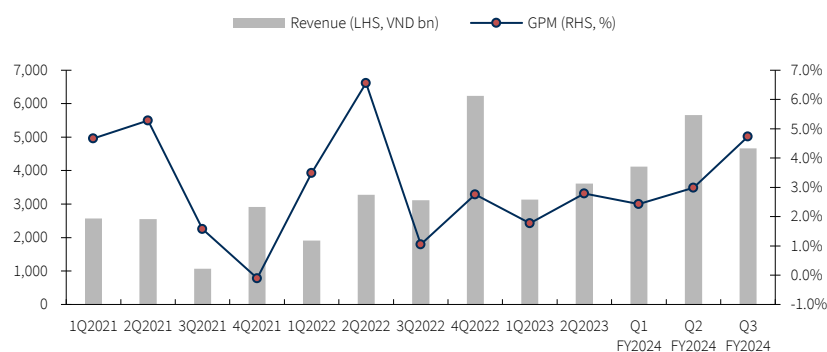
Source: Coteccons Construction, KB Securities Vietnam

NPAT surged after merging two subsidiaries

NPAT of CTD was VND105 billion (+52% QoQ, 375% YoY) with other net income of VND66 billion thanks to profits from a negative goodwill during the merger process of UGVN (VND58 billion).

Reviewed GPM in 3Q FY24 reached 3.5% (+50bps QoQ, +171bps YoY) thanks to completing, handing over and accounting for most old projects (before 2021) with GPMs. We see this as a good point and expect CTD's core business operations to continue to improve with GPM reaching 3.6–3.8% in the FY25/FY26 thanks to (1) higher proportion of revenue from the industrial segment and (2) more revenue contribution from new projects with better GPMs.

Fig 2. CTD – Revenue & GPM in 3QFY24 (VNDbn, %)

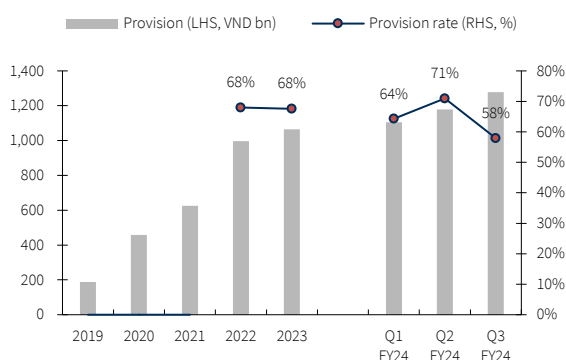


Source: Coteccons Construction, KB Securities Vietnam

CTD may increase provisioning again

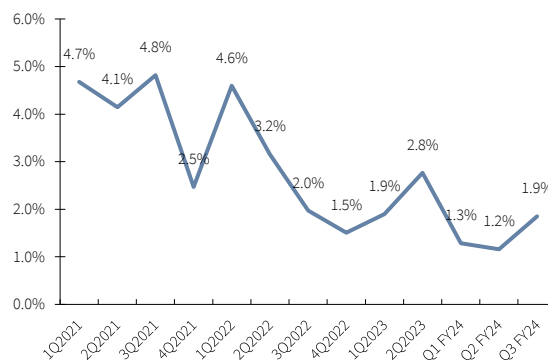
CTD recorded an increase in net NPL in 3Q (up 93% QoQ to VND928 billion), arising mainly from projects signed before 2022. Provision expenses have increased four months straight, hitting VND94 billion (allocated at Le Meriden Da Nang project). Due to the sudden increase in bad debt, we believe that CTD will proactively increase provisioning soon. In our valuation model, we estimate CTD's provision expense in FY25 at VND260 billion (+5% YoY), corresponding to a provision to revenue ratio of 1.1%.

Fig 3. CTD – NPL and provision (VNDbn, %)



Source: Coteccons Construction, KB Securities Vietnam

Fig 4. CTD – SG&A & provision margin (%)

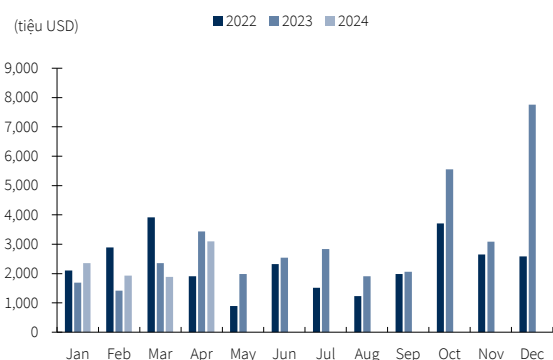


Source: Coteccons Construction, KB Securities Vietnam

The main growth driver in FY25 will come from FDI industrial projects, taking advantage of early ESG implementation

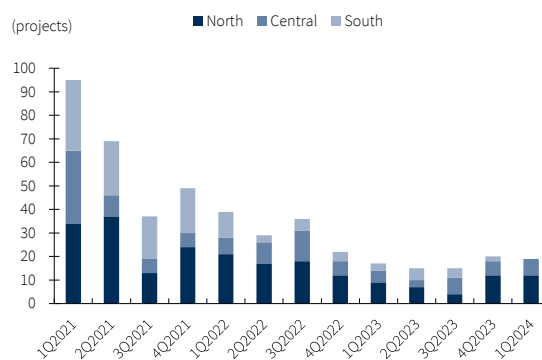
By the end of 3Q FY24, the newly signed contract value of CTD hit VND19,000 billion, and the backlog planned to transfer to FY25 is estimated at VND24,000 billion. The value of new contracts in FY25/FY26 should reach VND23,000 and VND25,000 billion respectively, driven by stable FDI inflows and a recovering restate market. For foreign-invested projects, in addition to top construction ability and healthy financial status, we think CTD has a competitive advantage in bidding thanks to early application of ESG and the compliance with LEED standards (energy saving, water efficiency, CO2 emission reduction, and so on). Regarding domestic backlog, the most hardship of the real estate market has passed as the number of newly licensed projects has bottomed out in 2Q–3Q23 (Figure 5). KBSV believes that the real estate market will gradually rebound in 2H24, the job supply for construction businesses will also improve accordingly.

Fig 5. Vietnam – Registered FDI (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – Number of newly licensed projects (unit)



Source: Ministry of Construction, KB Securities Vietnam

Forecast & valuation

Table 7. CTD – FY2024–2025F results

(VNDbn, %)	FY2023	FY2024	+/-%YoY	FY2025	+/-%YoY	Notes
Revenue	6,744	19,964	196.0%	23,558	18.0%	FY25 revenue rises 18% with an estimated backlog of VND24,000 billion and newly signed value of VND23,000 billion.
COGS	-6,588	-19,302	193.0%	-22,804	18.1%	
Gross profit	157	683	336.3%	847	24.0%	FY25 GPM gains 18bps thanks to (1) increasing the proportion of industrial revenue and (2) gradually accounting projects signed after 2022 with higher GPMs.
<i>Gross profit margin</i>	2.3%	3.4%	110 bps	3.6%	18 bps	
Financial income	66	207	213.6%	252	21.8%	
Financial expenses	-25	-95	273.0%	-88	-7.2%	
Profits from affiliates	19	75	306.8%	60	-20.3%	
SG&A	-7	0		0		
Operating profit/loss	-193	-551	185.9%	-592	7.3%	The increase in provision costs is attributable to bad debts arising from projects before 2022.
Other income	69	244	255.6%	420	72.0%	
PBT	0	65		0		
<i>PBT margin</i>	69	376	447.5%	420	11.6%	
CIT expenses	1.0%	1.9%	87 bps	1.8%	-10 bps	
NPAT	-17	-84	408.6%	-84	0.0%	
<i>NPAT margin</i>	52	292	459.9%	336	15.0%	
NP after MI	0.8%	1.5%	69 bps	1.4%	-4 bps	

Source: Coteccons Construction, KB Securities Vietnam

Valuation: BUY rating with target price VND85,000 apiece

The fair value of CTD should be VND85,000/share, corresponding to a profit margin of 14% compared to the closing price on May 17, 2024. The basis for our target price adjustment is to move the valuation time to FY2025 and apply a PBR of 1x for CTD, expecting a big improvement in CTD's core business and asset quality thanks to strict risk management policies and proactive provisioning for old projects.

Fig 8. CTD – P/B (x)



Source: FinPro, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Manager
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.