

## CUONG THUAN IDICO DEVELOPMENT INVESTMENT CORPORATION (CTI)

Market price VND30,400 Target price VND34,490 Dividend yield 5.59% Rating HOLD Sector Construction & Materials

### Short term outlook



### Long term outlook



### Valuation



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CTI has the advantage of being a closed supply chain for BOT projects, with products and services ranging from building materials (hot asphalt, construction quarries, and petrol stations) to construction and toll road services. In addition, its five BOT projects connecting the Dong Nai area will provide a stable revenue stream.

### Price Performance



The closed value chain is highly effective. CTI owns 5 construction quarries, 1 concrete sewer factory, 2 asphalt concrete mixing stations and 5 petrol stations along Vo Nguyen Giap road. As a result, CTI can actively source inputs for construction activities. The company's construction activities focus on BOT projects while also providing both medium-term and long-term maintenance.

Stable future income will be derived from 5 BOT projects connecting Dong Nai area. National Highway 1 bypasses Bien Hoa City, on which vehicle traffic growth is stable at 5% per year. The 91 National Highway project with a single road leading to Can Tho-An Giang commenced operation at the end of 2016 and is expected to bring about revenue of VND200 billion/year. In addition, CTI is currently implementing two small-scale BOT projects, namely a building material transportation road from the Tan Cang stone mines and the 319 Interchange project linking Nhon Trach industrial park to Long Thanh-Dau Giay expressway. We estimate total toll fees to reach VND681 billion when all 5 BOT projects come into operation by 2018.

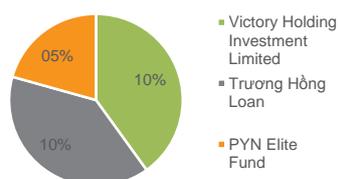
### Stock Profile

52-week high (VND)	34,200
52-week low (VND)	22,890
Average daily turnover (3M)	666,000
Market cap (billion VND)	1,854
Outstanding shares (million)	60.99
Free float (%)	40
Beta	0.6

Long-term viability of 4 construction quarries in Dong Nai. The total reserve of these 4 quarries is about 44.5 million cubic meters, mostly unexploited. We appreciate the firm's targeted increase in quarry investment in the next two to three years as demand for stone builds up on the back of infrastructure projects and increasing industry barriers to entry.

Investment risk: (1) Interest rate risk. A 1% increase in interest rate will lift interest expense by 12.5 billion dong. (2) Slower vehicle traffic given new routes. We believe that the Belt Road 3 and the Southern Inter-regional Highway system, when they commence operation, will affect traffic flow through the 319 road.

### Major Shareholders



Source: VNDIRECT

Financial summary (VND)	12-14A	12-15A	12-16A	12-17E
Revenue (bn)	392	830	1,027	1,220
Revenue growth	8.6%	111.9%	23.8%	18.8%
Gross margin	36.1%	30.7%	38.9%	38.3%
Operating EBITDA (bn)	145	218	452	448
Net profit (bn)	16	73	111	144
Net profit growth	600.3%	351.6%	51.1%	30.2%
Adjusted EPS	492	2,223	2,578	2,645
BVPS	10,645	13,217	16,381	18,476
ROAE	6.2%	18.6%	19.4%	15.5%

Source: VNDIRECT

## OVERVIEW

CTI is involved mainly in the field of construction and the operating of BOT projects as well as the construction stone business in Dong Nai province. The company will continue to expand into industrial zones in Long Thanh and tourism investment in “Dao O” with the BT (build – transfer) project.

CTI has 3 subsidiaries and an associate company. Due to the nature of construction, a new legal entity has to be set up for each BOT project. Hence, CTI has set up a joint venture with 2 subsidiaries: National Highway 1 bypasses Bien Hoa City is managed by Dong Thuan and the 91 National Highway province is managed by Can Tho-An Giang Highway 91 Investment JSC.

## BUSINESS ACTIVITIES

### A closed value chain from input to output

Cuong Thuan Idico JSC operates in 3 basic fields: (1) manufacturing and trading construction materials: sewer construction, hot mix asphalt concretes, petrol stations, construction stone; (2) construction: social housing projects and BOT projects; (3) operating BOT projects.

We believe these 3 fields help the company create a closed value chain from input to output, allowing the company to effectively manage construction timelines to ensure the quality of each project is of the same high standards.

### Concrete sewer production is expected to grow alongside the flood prevention project in Bien Hoa City

CTI owns 1 concrete sewer pipe machine, which 2 production lines of circular sewer pipes/ house (Souveraen) and 3 production lines of box sewer pipes/ houses (Jumbo and Mammot). The capacity of the machine, which began operation in 2006, is currently 300 pipes per day.

We are positive about sewer materials as: (1) demand for sewer construction is forecast by CTI to grow in the next 1-2 years as the People's Committee of Dong Nai Province has initiated a flood prevention project in Bien Hoa City valued at a total VND8,400 billion; (2) all sewer production lines have been depreciated. We project revenue growth to be 15% in the period 2017-2018.

### Construction business: mainly BOT projects and social housing

CTI is currently constructing 5 BOT projects and 2 social housing projects in the Binh Minh and Phuoc Tan resettlement areas. Total investment of the housing projects is VND167billion and VND303billion, respectively.

We are positive on CTI's in-house construction business as it (1) helps the company to actively manage the projects' progress; (2) provides a stable and revenue source by long-term maintenance BOT projects.

Revenue from construction activities is forecast to reach VND501billion in 2017 as the company has only one part of Project for road transporting building materials in Tan Cang quarries and Intersection 319 project left to complete.

Concrete sewer production revenue (bil VND) and GPM (%)



Source: FS of CTI

Construction activities revenue (bil VND) and GPM (%)



Source: FS of CTI

**5 stone quarries are expected to bring revenue for next 2-3 years**

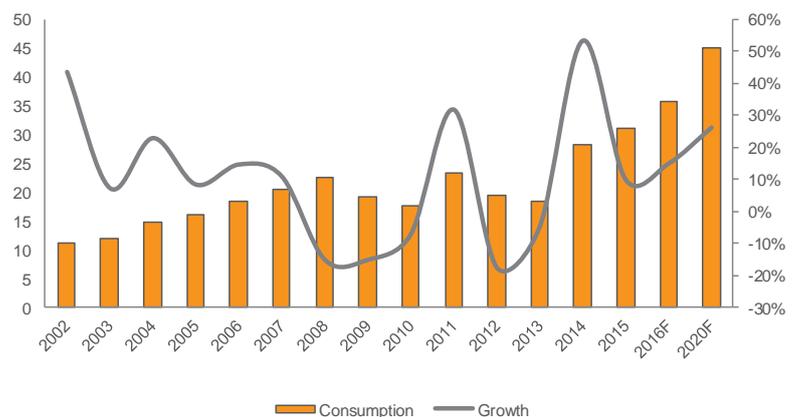
In its financial statement 2016, the company increased its investment in Tan Cang 8 stone mine for land clearance. In addition, according to the company's forecast for the next year, it will increase its ownership of the stone quarries Doi Chua 3 to 100%.

We are positive on the increase in ownership of the stone quarries in Dong Nai for the following reasons:

- (1) **Demand for construction stone is forecast to grow.** According to the development plan of the construction materials industry, demand for construction stone is expected to grow by 10%. Besides the real estate market, demand is also expected to come from key infrastructure projects in the South, such as Long Thanh Airport, Bien Hoa Expressway-Vung Tau, the Belt Routes 3 and 4 roads, etc.

Demand for construction stone 2002- 2020F

Unit: bil m3



Source: VNDIRECT collection

- (2) **High entry barriers.** In our opinion, the good quality quarries are located near the central areas of Ho Chi Minh City, Binh Duong and Dong Nai, such as Tan Dong Hiep and Nui Nho, of which licences will expire in the next 1-2 years. At the same time, the cost of bidding for mining rights, natural resources

and environmental taxes, environmental fees and clearance compensation cost will continue to increase.

- (3) **Tan Cang quarry is conveniently located near the Long Thanh Airport project.** The Tan Cang quarry consists of 9 quarries with a total reserve of 169million m<sup>3</sup>, of which CTI owns Tan Cang 8, a quarry that has a total reserve of 11.5million m<sup>3</sup> and accounts for 7% of Tan Cang group quarries's total reserves. It is also conveniently located near the National Route 51 and the CTI bypass and is almost untapped. We expect that the average consumption in Tan Cang quarry will increase by 20% and reach 1.5million m<sup>3</sup> in the next 2-3 years, thanks to the Long Thanh Airport project and the fact that licenses of other good quality conveniently located quarries will expire.
- (4) **Doi Chua, Xuan Hoa and Binh Loi quarries are CTI's 'savings' for the long term.** Three quarries have total reserves of 36.5 million m<sup>3</sup> and a mining period from 12 to 20 years. After CTI's ownership increase to 100%, these quarries will be an effective source for exploitation after the BOT projects stabilise.

However, we also concern that, in the short term, the cost of stone extraction will increase in the first 1-2 years due to **(1)** higher compensation cost to clear land for the processing area; **(2)** land cover cost, especially in Tan Cang, where the thickness of the soil layer is up to 18m; **(3)** The expense to increase CTI's shareholding to 100%. At the same time, quarry production is usually quite low in the first 1-2 years because of the soft stone layer, leading to low prices.

#### Quarres of CTI

Number	Quarry	Capacity (mil m <sup>3</sup> )	Exploitation Period (year)	Reserves (m <sup>3</sup> )	Area of exploitation (Ha)	% owner by CTI	Investment capital (billion VND)	Progression
1	Tan Cang 8	1	9.5	11,500,000	22.08	100%	114	Cover land is 12ha Compensation, clearance is 7ha
2	Tan Cang 9	1	12	11,300,000	27.6	40%	301	CTI transferred to An Phat JSC
3	Doi Chua 3	2	20	17,800,000	71	100%	88	Cover land is 10ha
4	Xuan Hoa	1	20	6,720,000	20	80%	118	Mine started production in November 2016
5	Binh Loi	1	11.5	8,770,000	40	Repurchase from Idico	315	Mine is not exploited

Source: VNDIRECT collection

### BOT projects bring stable revenue in long term

#### National Highway 1A-Bien Hoa City bypass, connecting Bien Hoa City gateway to Central Vietnam

The National Highway 1A-Bien Hoa City bypass includes the 12km Vo Nguyen Giap road and 10km National Route 1A. The toll road is located on National Highway 1A at the intersection from Bien Hoa to Phan Thiet. The purpose of the bypass is to prevent traffic jams in Bien Hoa City.

The total investment value of the project is VND1,400billion. The project period is 13 years 9 months starting from Jul 2014, with around 14% IRR.

Our assumptions for the National Highway 1A-Bien Hoa City bypass are based on the following factors:

**Project's Information**

Total Investment Capital (bil VND)	1,400
Project period (years)	13 years 9 months
% CTI owner	87%
Project's IRR	14%
Medium maintenance (years)	4
Long term maintenance (years)	12
Long term maintenance cost (bil V	1,000

Source: VNDIRECT

- (1) **Vehicle traffic increases.** The toll station is located at the intersection connecting Bien Hoa City and Phan Thiet City, where vehicle traffic is high and stable. In 2016, average vehicle traffic increased by 15% yoy. CTI expects vehicle traffic to go up by an average of 7% in the period 2017-2018.
- (2) **The toll fee is adjusted every 3 years.** Under the project's toll scheme, the average fee level increases every 3 years, with the first hike occurring in 2016. The next hike should be in 2019.

**Toll fee of vehicles on National Highway 1 bypass in Bien Hoa City**

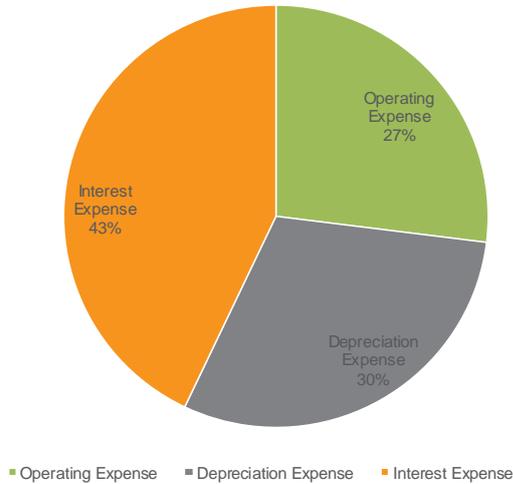
Unit: Thousand VND

Type of Traffic	Price ticket in 2015	Price ticket in 2016	% Increase in price
Car less than 12 seats, Truck less than 2 tons	20	35	75%
Car 12-30 seats, Truck 2-4 tons	30	50	67%
Car more than 31 seats, Truck 4-10 tons	44	75	70%
Truck 10-18 tons, Container 20F	80	140	75%
Truck more than 18 tons, Container 40F	160	200	25%

Source: Circular 37/2014/TT-BTC

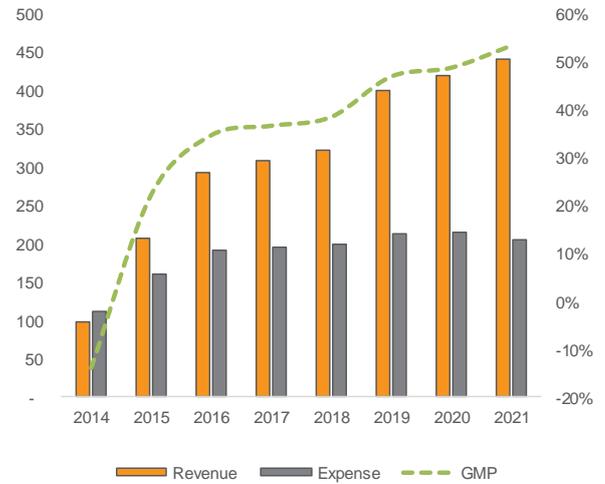
- (3) **Depreciation and administrative expenses on a fixed percentage of revenue support a stable gross profit margin.** According to accounting principles for BOT projects, depreciation and administrative expenses are booked at fixed rate of revenue throughout the life of the project. According to our calculations, depreciation/revenue ratio is 19.7% and administrative expense/revenue is 4%. This helps the company maintain a relatively stable gross profit margin throughout the life of the project.
- (4) **Accrual of long-term maintenance costs from 2016.** Long-term maintenance costs are the largest cost for a BOT project and are implemented at the end of the project life cycle. For National Highway 1A bypass in Bien Hoa, the long-term maintenance cost is about VND1,200billion. Therefore, the company has started accruing long-term maintenance expenses since 2016. The expense came up to VND26billion in 2016 and is estimated to reach VND37billion in 2017.

Structure of cost for National Highway 1A bypass in Bien Hoa



Source: VNDIRECT collection

Revenue and COGS of National Highway 1A bypass in Bien Hoa (bil VND)



Source: FS of CTI

**QL91B Project's Information**

Total Investment Capital (bil VND)	2,024
Project period (years)	17 years 9 months
% CTI owner	60%
Project's IRR	12%
Medium maintenance (years)	4
Long term maintenance (years)	12
Long term maintenance cost (bil V)	420

Source : VNDIRECT

**National Highway 91B project - the artery connecting An Giang to Can Tho**

The project to widen National Highway 91B An Giang-Can Tho: Total investment was VND2,024billion, of which CTI owned 60% and Sonadezi 40%. Loans accounted for 85.3% of total investment. The project period is 17 years 9 months and includes two toll stations from An Giang to the end in Can Tho. Station No.1 and No.2 started collecting toll fees in Apr and Nov 2016 respectively.

Our assumptions for the National Highway 91B project are based on the following factors:

- (1) Vehicle traffic is derived mainly from Long Xuyen, where the average growth rate of vehicle traffic is expected to be 7%.** The artery connecting An Giang to Can Tho, where the traffic is quite stable, gives it an advantage. Vehicle traffic is expected by the company to increase by 7% per year in the period 2016-2020. We estimate revenue from station No.1 Long Xuyen-Can Tho accounts for 82% of total vehicle traffic and traffic from Kien Giang accounts for 18% of total vehicle traffic.
- (2) The toll fee increase rate is 18% and is adjusted every 3 years.** According to Circular 150/2015 TT-BTC, the toll fees for National Route 91 is the lowest at VND35,000. At the same time, the average fee increase is 18%, carried out every 3 years starting from 2016. The average monthly revenue is expected to reach VND10.1billion during the first year.

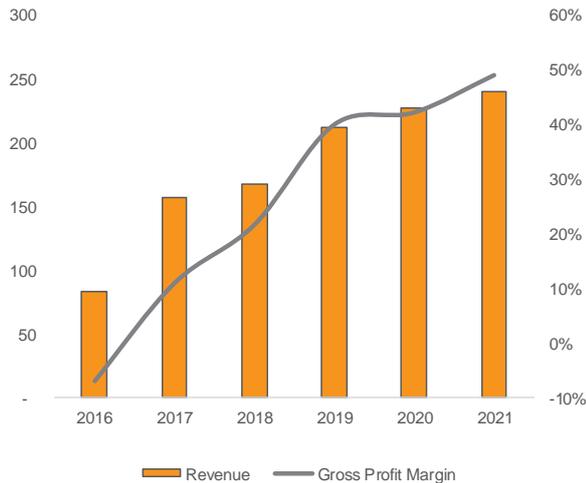
**Toll fee of vehicles National route 91B project**

Type of Traffic	Toll fee frame	Toll fees in National route 91B
Car less than 12 seats, Truck less than 2 tons, Bus	15,000 - 52,000	35,000
Car 12-30 seats, Truck 2-4 tons	20,000 - 70,000	50,000
Car more than 31 seats, Truck 4-10 tons	25,000 - 87,000	75,000
Truck 10-18 tons, Container 20F	40,000 - 140,000	140,000
Truck more than 18 tons, Container 40F	80,000 - 200,000	200,000

Source: Circular 150/2015 TT-BTC

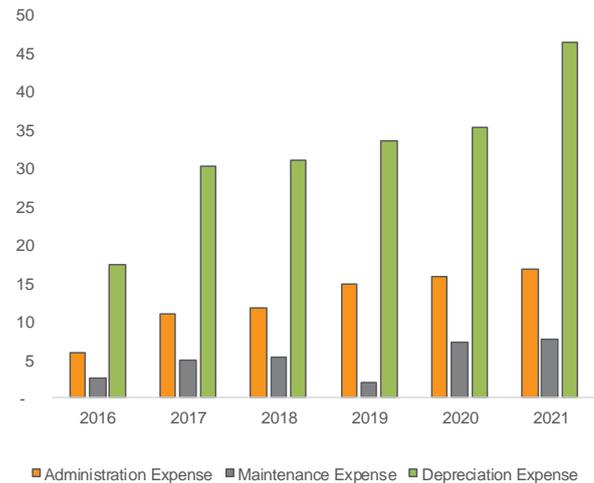
**Accrual of long-term maintenance costs from 2018.** Except for the cost of project management/ revenue ratio estimated at 7% , long-term maintenance is the major cost component. In particular, medium- and long-term maintenance will be carried out every 4 and 12 years, respectively. According to our estimate, long-term maintenance cost accrual on this project starts from 2018 with a value of about VND15billion.

Revenue (bil VND) and GPM of National Route 91B An Giang-Can Tho



Source: VNDIRECT forecasting

Cost of National Route 91B An Giang-Can Tho project (bil VND)



Source: VNDIRECT forecasting

**Project for road transporting building materials in Tan Cang quarries: low capital, high efficiency, solving transportation situation in the area**

The Tan Cang quarries consist of 9 quarries. Only 1 road goes through it, with the starting point connected to National Highway 51 and ending at the quarry of Dong Nai Material & Building Investment JSC. The total length of the route is 7km with capital investment of VND200billion, of which CTI contributed 87%. Note that this excludes the cost of clearance.

We think that the highlights of the project constructing a road to transport building materials in Tan Cang quarries include:

- (1) Low investment cost.** Due to the urgency of the project, Dong Nai People’s Committee will bear the cost of site clearance compensation so CTI only has to implement the construction. Therefore, the investment cost of the project is just VND200billion, 80% of which comes from loans.
- (2) An average of 10% increase in traffic volume during 2017-2020.** The Tan Cang quarry will be the main source for infrastructure projects in the Long Thanh area. Therefore, we forecast a 10% rise in traffic volume through this newly exploited quarry during 2017-2020.
- (3) The toll fee increases every 3 years.** The toll fee is expected to be VND40,000 for trucks from 10 to 18 tons, which accounts for 90% of the total number of vehicles going through the road. According to project details, the ticket price will increase by an average of 50% in the fourth year and 30% in the eighth year.
- (4) IRR is about 14%.** We estimate that due to the small capital incurred and the rapid increase in vehicle volume, the IRR is 14%.

**Transporting building materials in Tan Cang quarry's Information**

Total Investment Capital (bil VND)	200
Project period (years)	13
% CTI owner	87%
Project's IRR	14%
Medium maintenance (years)	4
Long term maintenance (years)	12
Long term maintenance cost (bil VND)	150

Source: VNDIRECT

**Toll fee in transporting building materials in Tan Cang quarries** Unit: thousand VND

Type of Traffic	From 1 year to 3 years	From 4 years to 8 years	From year 9 onwards
Car less than 12 seats, Truck less than 2 tons, Bus	15	22.5	30
Car 12-30 seats, Truck 2-4 tons	20	30	40
Car more than 31 seats, Truck 4-10 tons	25	37.5	50
Truck 10-18 tons, Container 20F	40	60	80
Truck more than 18 tons, Container 40F	80	120	160

Source: Circular 142/2014/NQ-HĐND

**Intersection 319 project - connecting Nhon Trach City to Long Thanh-Dau Giay Expressway, the fulcrum for the Long Thanh airport**

The project starts at the junction of Ben Cam Giao (Nhon Trach district) and DT 769 (now Ly Thai To street) while its end point intersects with Ho Chi Minh City-Long Thanh-Dau Giay expressway. The total length of the project is 9.46 km, of which the main route is 2.4 km long and connected to Long Thanh-Dau Giay expressway. Total investment value is VND670billion, of which 80% is from loans.

**(1) It is estimated that traffic volume will increase by 7% per year on average during the first five years of operation.**

CTI expects that the Long Thanh airport project will have a positive impact on Nhon Trach's real estate market. We believe traffic volume will increase, thanks to two sources: (1) the number of tourist vehicles going straight from Nhon Trach to the expressway instead of the existing 18km-long road, making up 70% of total traffic volume; and (2) the volume of trucks from Nhon Trach Industrial Park to National Highway 51 through existing road 25B, accounting for 30% of total traffic volume.

**(2) Projected revenue in the first year of operation (2018) is VND94billion.**

As this road was recently built, we forecast that revenue per month will be VND7.8billion, of which the major contribution will be from vehicles with less than 12 seats and a ticket price of VND35,000.

However, we are also concerned about the return rate of the project since it is a new road; there might be difficulties quantifying traffic volume. At the same time, the introduction of new routes, such as Ring Road 4, could reduce traffic volume on this road by 2020

**319 Traffic Intersection Project's Information**

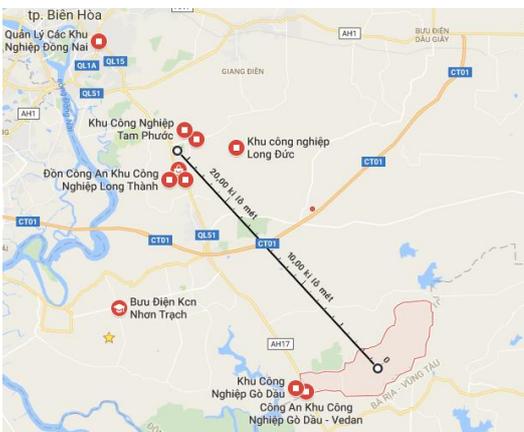
Total Investment Capital (bil VND)	670
Project period (years)	18
% CTI owner	87%
Project's IRR	12%
Medium maintenance (years)	4
Long term maintenance (years)	12
Long term maintenance cost (bil VND)	400

Revenue and GPM of Intersection 319 project (bil VND)



Source: VNDIRECT collection

**Location of Phuoc Binh industrial park**



**Efficiency of new projects**

**Motor vehicle registration station - positive effect on cash flow.** CTI's motor vehicle registration station in Dong Nai province has capacity of 120-130 vehicles per day and commenced operation on Sep 08, 2016. Note that CTI contributed 60% of the project's capital. Vehicle inspection season is mainly in October-December. The station is estimated to bring about VND30billion revenue per year.

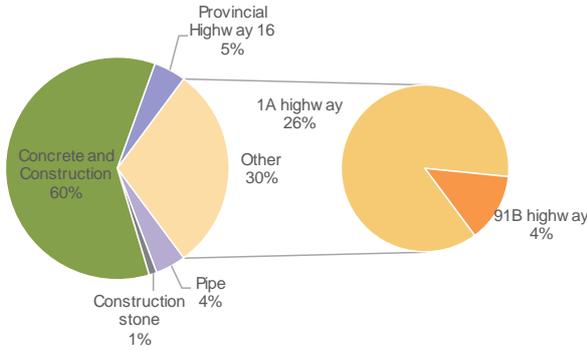
**640-ha Phuoc Binh-Long Thanh Dong Nai Industrial Park project.** At present, CTI is in the process of applying for an industrial park investment license. At the same time, CTI will participate in bidding for 216 hectares of public land located in the industrial park. Funding for the project may come from share issuance to increase capital and borrowings. We are positive about the company's involvement in industrial parks for the following factors: **(1)** Increasing demand for renting space in industrial parks in the future, thanks to increasing FDI inflows through trade agreements such as AFTA; **(2)** Dong Nai's industrial parks are well connected in terms of transportation, with a sea route through Cai Mep port and roads through National Highway 51 and to the western provinces; **(3)** There are not many areas suitable for building industrial parks. Currently, the 35 industrial parks in Dong Nai have an occupancy rate of over 70%.

Nevertheless, we are concerned about the progress of the project, the amount of funding required and execution as CTI has little experience in this area.

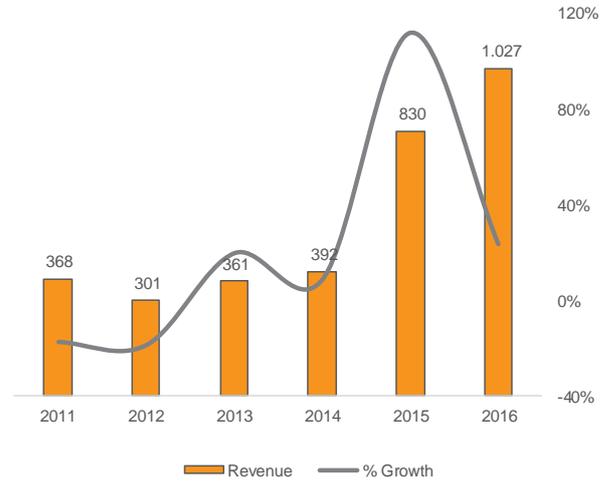
**FINANCIAL ANALYSIS**

At present, CTI’s main revenue sources are construction production (60% of total revenue) and toll services (35% of total revenue). Its overall revenue has grown rapidly over the past five years, with a CAGR of 188%.

Revenue structure of CTI



Revenue CTI 2011 - 2016 (bil VND)



Source: FS of CTI in 2016

Source: FS of CTI

In addition, the efficiency of BOT projects and borrowing costs determine 70-80% of the total project value. Therefore, we focus on analyzing the two main factors affecting CTI’s business performance.

**Ensured IRR from BOT projects**

Most CTI projects have a projected IRR of between 12% and 14%. If the actual return is lower, one of the following two adjustments might be made for BOT projects: (1) increase the toll fee of the project; (2) extend the project period. However, we believe that the actual return is often higher, thanks to (1) Savings on long term maintenance costs from utilizing the company’s own construction team; (2) Profits from prepaid deposits for overhaul costs.

**Business plan can be adjusted if borrowing rate exceeds the margin of 2% compared to the rate when the project was formulated.** BOT projects are characterized by high debt ratios. In fact, CTI projects have a debt ratio of 80%. In the company’s investment project plans, there is a risk clause that allows for the project to be adjusted when the interest rate exceeds 2%.

**1% interest rate fluctuation leads to VND12billion change in the company’s net profit**

CTI’s debt/total assets ratio is 70%, most of which are loans for BOT projects. Hence, interest rate fluctuations will have a huge impact on the performance of the company. We estimate that a 1% fluctuation in average interest rate will translate into a VND12billion movement in profit.

**Sensitivity analysis of CTI’s profit and interest rates (mil VND)**

		Interest rate						
		7.5%	8.5%	9.5%	10.5%	11.5%	12.5%	13.5%
Net income	2017	72,636	64,657	56,679	48,700	40,721	32,743	24,764
	2018	169,176	158,147	147,118	136,089	125,061	114,032	103,003
	2019	302,606	290,087	277,568	265,050	252,531	240,012	227,493
	2020	316,112	303,919	291,727	279,534	267,341	255,149	242,956

Source: VNDIRECT forecasting

## BUSINESS PERFORMANCE

### 2017 revenue is forecast to be derived mainly from 3 BOT projects

We expect FY2017 sales to come in at VND1,220billion (+18.8% yoy), of which: (1) Revenue from construction engineering is forecast at VND571billion (+13% yoy), derived from the building material transportation road project, part of the 319 Interchange project and low income housing projects; (2) Revenue from toll fee services is estimated at VND495billion (+20,1% yoy). (3) Revenue from sewer pipe production is estimated at VND94billion (+50% yoy), thanks to the increasing number of provincial infrastructure projects; and (4) Revenue from construction stone quarries is expected at VND58billion, derived mainly from Tan Cang 8 mine and Xuan Hoa mine.

**Gross margin is estimated at 38.3%.** We estimate operating expenses for the National Highway 91B project to be at a relatively low level as there is no advanced deduction for overhaul costs, resulting in a gross profit margin of 43.7%. At the same time, the gross margins for construction engineering and sewer pipe production remain at 14% and 21%, respectively. The depreciation expense of sewer pipe production will be reduced by VND15billion, thanks to the full depreciation of equipment at the sewer pipe plant.

**Administrative expense is about to increase due to operation of National Highway 91B.** The administrative expense/revenue ratio of the National Highway 91B project is estimated at 10% so total administrative expenses of the company will increase.

**2017 profit after tax is estimated to jump 29% yoy.** In our estimation, net profit after minority interest deduction is VND144billion, up 29% yoy. Accordingly, 2017 EPS is VND2,644 after CTI issued private placement 20 million shares in May 2017.

#### Forecasting financial statement of CTI

	2015	2016	2017F	2018F
Revenue	830	1.027	1.220	1.289
Cost of Goods Sold	575	628	752	773
Gross Profit	255	399	468	516
Selling Expense	11	5	16	16
Administration Expens	50	90	129	150
Interest Expense	111	175	157	177
Earning Before Tax	85	133	180	183
Net income	73	112	144	146

Source: VNDIRECT forecasting

Forecasted 2017 net  
profit : VND **144**  
**billion**

## VALUATION

We use NPV to value CTI's BOT projects and the Tan Cang 8 construction stone quarries based on its total investment costs. In the absence of detailed information regarding the other projects, we exclude all other assets from the valuation model.

Hence, CTI is valued at VND34,490 per share.

### CTI valuation

	NPV 2016	NPV 2017
BOT1A highway - bypass in Bien Hoa City	208	331
BOT 91B highway connection to An Giang to	581	609
BOT transporting building materials in Tan Cang	19	13
BOT 319 Traffic Intersection	190	215
Tan Cang 8 Quarry	114	114
Construction	266	266
<b>NPV/CP (VND)</b>	<b>32,817</b>	<b>34,490</b>

Source: VNDIRECT

## RISKS

### Risk of decreasing traffic flow due to additional new routes

In the future, Ring Road No.3 and the Southern Inter-regional Expressway (Ben Luc-Long Thanh expressway, Bien Hoa-Vung Tau Expressway) will commence operation, affecting traffic flow on National Highway 1A and road 319. We expect car traffic flow through road 319 to fall by 5% in 2020.

### Risk of investment in new projects

We are concerned about the return on investment and the payback period of the BT investment project in the Dao O tourism zone. As for the Phuoc Binh Industrial Park project, CTI has almost no experience in the field so if the company does not co-operate with experienced partners, the project will face a lot of difficulties in execution and attracting customers.

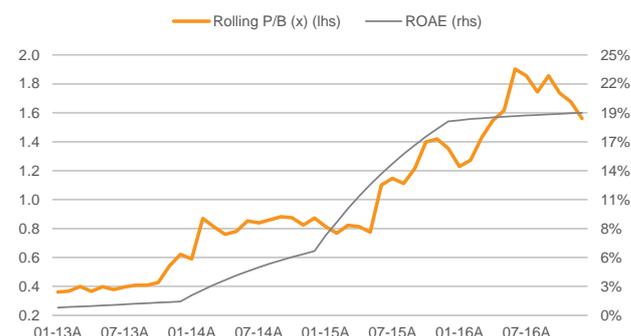
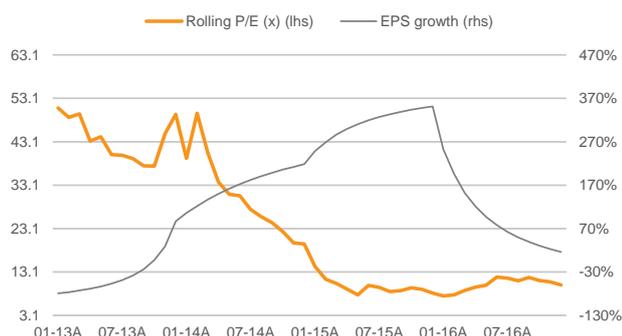
### Risk of higher interest rate

As we mentioned above, a 1% increase in borrowing cost will result in a reduction of VND12billion in net profit.

### Risk of dilution

CTI issued private placement 20 million shares in 2017 for investment into the Phuoc Binh Industrial Park and the Tri An Lake BT project.

**Valuation**



**Income statements**

(VNDbn)	12-15A	12-16A	12-17E
Revenue	830	1,027	1,220
Cost of sales	(575)	(628)	(752)
Gen & admin expenses	(50)	(90)	(129)
Selling expenses	(11)	(5)	(16)
<b>Operating profit</b>	<b>194</b>	<b>304</b>	<b>323</b>
Operating EBITDA	218	452	448
<b>Depreciation and amortisation</b>	<b>(24)</b>	<b>(149)</b>	<b>(125)</b>
<b>Operating EBIT</b>	<b>194</b>	<b>304</b>	<b>323</b>
Interest income	2	9	15
Financial expense	(115)	(178)	(157)
Net other income	5	(0)	0
Income from associates & JVs	(0)	(1)	0
<b>Pre-tax profit</b>	<b>85</b>	<b>133</b>	<b>181</b>
Taxation	(12)	(21)	(36)
Minority interests	(2)	(2)	
<b>Net profit</b>	<b>73</b>	<b>111</b>	<b>144</b>
Adj. net profit to ordinary	73	111	144
Ordinary dividends			
<b>Retained earnings</b>	<b>73</b>	<b>111</b>	<b>144</b>

**Cash flow statement**

(VNDbn)	12-15A	12-16A	12-17E
<b>Pretax profit</b>	<b>85</b>	<b>133</b>	<b>181</b>
Depreciation & amortisation	87	148	148
Other non cash gains/(losses)	0	0	0
Other non operating gains/(losses)	108	200	127
Tax paid	0	0	0
Other operating cash flow	0	0	0
<b>Change in working capital</b>	<b>5</b>	<b>(355)</b>	<b>(111)</b>
<b>Cash flow from operations</b>	<b>286</b>	<b>126</b>	<b>344</b>
Capex	(865)	(492)	(324)
Proceeds from assets sales	3	5	0
Others	(39)	51	(3)
Other non-current assets changes	0	0	0
<b>Cash flow from investing activities</b>	<b>(901)</b>	<b>(436)</b>	<b>(327)</b>
New share issuance	0	217	465
Shares buyback	0	0	0
Net borrowings	583	885	356
Other financing cash flow	0	(593)	(556)
Dividends paid	(36)	(56)	(64)
<b>Cash flow from financing activities</b>	<b>547</b>	<b>453</b>	<b>200</b>
Cash and equivalents at beginning of period	179	110	254
<b>Total cash generated</b>	<b>(69)</b>	<b>143</b>	<b>217</b>
Cash and equivalents at the end of period	110	254	470

**Balance sheets**

(VNDbn)	12-15A	12-16A	12-17E
Cash and equivalents	110	254	471
Short term investments	7	8	79
Accounts receivables	119	110	115
Inventories	92	66	69
Other current assets	32	32	44
<b>Total current assets</b>	<b>359</b>	<b>469</b>	<b>778</b>
Fixed assets	2,751	3,218	3,121
Total investments	53	24	346
Other long-term assets	125	137	237
<b>Total assets</b>	<b>3,288</b>	<b>3,847</b>	<b>4,481</b>
Short-term debt	374	287	229
Accounts payable	139	151	267
Other current liabilities	229	175	243
<b>Total current liabilities</b>	<b>742</b>	<b>613</b>	<b>739</b>
Total long-term debt	1,936	2,327	2,374
Other liabilities	0	22	22
<b>Shareholders' equity</b>	<b>436</b>	<b>704</b>	<b>1,164</b>
Minority interests	174	182	182
<b>Total liabilities &amp; equity</b>	<b>3,288</b>	<b>3,847</b>	<b>4,481</b>

**Key ratios**

	12-15A	12-16A	12-17E
<b>Dupont</b>			
Net profit margin	8.8%	10.8%	11.8%
Asset turnover	0.29	0.29	0.29
ROAA	2.5%	3.1%	3.5%
Avg assets/avg equity	7.34	6.26	4.46
ROAE	18.6%	19.4%	15.5%
<b>Efficiency</b>			
Days account receivable	52.2	39.1	34.5
Days inventory	58.4	38.4	33.4
Days creditor	88	88	129
Fixed asset turnover	0.37	0.34	0.38
ROIC	2.5%	3.2%	3.7%
<b>Liquidity</b>			
Current ratio	0.48	0.77	1.05
Quick ratio	0.36	0.66	0.96
Cash ratio	0.16	0.43	0.74
Cash cycle	22.1	(10.6)	(61.5)
<b>Growth rate (yoy)</b>			
Revenue growth	111.9%	23.8%	18.8%
Operating profit growth	121.0%	57.0%	6.2%
Net profit growth	351.6%	51.1%	30.2%
EPS growth	351.6%	16.0%	2.6%
<b>Share value</b>			
EPS (VND)	2,223	2,578	2,645
BVPS (VND)	13,217	16,381	18,476
DPS (VND)	2,500	1,000	1,700

Source: VNDIRECT

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