

## CIENCO4 GROUP (C4G) – UPDATE

<b>OTC Price</b>	<b>Fair Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND12,000	VND14,100	11.5% (*)	N/A	INDUSTRIALS

### Outlook – Short term



Not rated

### Outlook – Long term



Not rated

### Valuation



Not rated

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### Key changes:

- Reduction of FY18 SG&A expenses by 21.9% vs previous forecast
- Reduction of the infra. construction segment valuation/share to VND6,755 from VND7,049

### Key statistics

52w high (VND)	N/A
52w low (VND)	N/A
3m Avg daily volume (shares)	N/A
3m Avg daily value (m)	N/A
Market cap (bn)	1,200
Outstanding shares (m)	100
Free float (%)	36
TTM P/E (x) (**)	9.3
TTM EV/EBITDA (x) (**)	12.1

(\*\*) based on OTC price

### Ownership

Dung Hung Construction Jsc	21.0%
New Link Jsc.	21.0%
Thuong Hai Investment Co Ltd.	14.0%
Others	44.0%

Source: VNDIRECT

**Cienco4, an infrastructure (infra.) construction specialist, is going to list on the UPCOM in Dec-2018. We recently issued a [pre-listing note](#) but revisit our target price here as the recent stock market correction necessitates a de-rating of the company despite an upward revision to our 2018 earnings forecast.**

The company reported VND2,337bn in 9M18 revenue (-10.9% yoy), to come in at 75% of our new FY18F. However, due to a reduction in SG&A expenses (-31.7% yoy), as well as a postponement of a full booking of estimated loss from associates (-VND52bn), Cienco4 registered 9M18 net profit of VND131.5bn (+30.8% yoy). This net profit already exceeds 2% of our new full-year expectations. According to Cienco4, the 5.7% fall in revenue of the infra. construction segment resulted from late payment from the Ben Thanh – Suoi Tien project and delays in site clearance from the Mai Dich – South Thang Long project which led to delay of revenue recognition.

**VND52bn of loss from associates mainly due to stalled operations of BOT Thai Nguyen – Cho Moi.** According to Cienco4, due to public protests in BOT Thai Nguyen – Cho Moi, this BOT has been running at only 50% of operational capacity (1 out of 2 BOTs) since mid-2017. This disrupted the BOT operation and amounted to a huge loss for the company. We estimate that BOT Thai Nguyen – Cho Moi will incur a loss of around VND70bn on Cienco4's P & L in 2018. Together with profit from other BOTs, the total estimated loss from associates will be about VND52bn this year. However, according to Cienco4, and in line with our expectations, BOT Thai Nguyen – Cho Moi will resume normal operations at the beginning of 2019.

**We think the company will find it difficult to meet its 2018 guidance (VND5,200bn of revenue, +28.4% yoy and VND200bn of net profit, +50.4% yoy).** A decrease in infra. construction revenue and loss from associate BOT companies will probably be the main reasons for the company undershooting 2018 guidance. According to our estimation, after booking the loss from associates, Cienco4 will fulfill only 63% and 65% of its 2018 revenue and net profit guidance, respectively. In 2017, Cienco4 completed 53% and 72% of revenue and net profit guidance, respectively.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	5,030	4,049	3,298	3,655
Revenue growth	(18.2%)	(19.5%)	(18.5%)	10.8%
Gross margin	10.9%	12.6%	13.7%	15.7%
EBITDA margin	12.3%	13.5%	15.1%	18.1%
Net profit (bn)	168	133	129	263
Net profit growth	117.3%	(20.7%)	(3.5%)	104.0%
Recurring profit growth	117.3%	(20.7%)	(3.5%)	104.0%
Basic EPS	2,549	1,551	1,288	2,628
Adjusted EPS	2,549	1,551	1,288	2,628
BVPS	15,728	11,022	11,638	13,131
ROAE	17.1%	11.9%	11.4%	21.2%

Source: VND RESEARCH

**We revised up our FY18 net income forecast by +20.6% to VND129bn due to a 21.9% haircut in our FY18 forecast for SG&A expenses.** Cienco4 says it is reducing unnecessary costs to support profitability.

**We lower our fair price by 2.1% from VND14,400 to VND14,100 to reflect a contraction in market valuation multiples.** Average P/E and EV/EBITDA multiples (equal weight) of the infra. construction peer set have contracted from 6.9x to 5.1x and from 8.5x to 8.1x, respectively since our pre-listing report. We maintain our valuation for the toll road services and real estate segments.

**Potential upside catalysts** include 1) winning new mega-construction projects, 2) higher-than-expected BOT traffic volume.

**Downside risks** include 1) an increase in interest rates, 2) a lower-than-expected infra. construction revenue growth rate and traffic volume in BOT projects, 3) public protests hampering Cienco4's BOT operations, 4) real estate project execution failures due to limited prior experience, 5) not being awarded the Dien Chau – Bai Vot BOT.

*(\*) Dividend yield is calculated based on Cienco4's 2018 plan. Dividends will be paid fully in 2019, according to Cienco4.*

Figure 1: Comparison of financial results

FYE (VNDbn)	3QFY18	yoy chg	9MFY18	yoy chg	vs. old forecast	vs. revised forecast	Comments
Net revenue	1,162	-11.1%	2,338	-10.9%	58.2%	70.9%	Lower than our expectations because of lower infra. construction revenue
Gross profit	56	103.1%	284	0.4%	57.4%	62.9%	
Gross profit margin	4.8%	+2.7% pts	12.2%	+1.4% pts	-0.1% pts	-1.5% pts	
SG&A expenses	4	n/a	(57)	-31.7%	33.7%	43.1%	Lower than our expectations because Cienco04 managed its expenses tightly this year
Operating profit	60	181.4%	227	13.9%	69.7%	75.3%	
Pre-tax profit	67	229.2%	148	33.9%	117.6%	98.1%	Higher than our expectations because Cienco04 did not fully book its share of loss of investments in associates (-VND52bn)
Net profit	59	178.4%	132	30.8%	123.0%	102.1%	
EPS (VND)	594	178.4%	1,316	30.8%	122.6%	102.1%	

Source: VND RESEARCH

Figure 2: Earnings revision

FYE (VNDbn)	2017A	2018F		%change	Comments
		Old	New		
Net revenue	4,049	4,020	3,298	-18.0%	Driven by lower infra. construction revenue
Net revenue growth	-19.5%	-0.7%	-18.5%	-17.8% pts	
Gross profit	509	495	452	-8.7%	
Gross profit margin	12.6%	12.3%	13.7%	+1.4% pts	Driven by lower infra. construction revenue (infra.construction has the lowest GPM)
SG&A expenses	-170	-169	-132	-21.9%	Driven by tight budget management to maximise profit
EBIT	314	304	302	-0.7%	Driven by lower SG&A expenses
Pre-tax profit	212	186	210	12.9%	Driven by lower interest expense due to lower infra. construction revenue
Net profit	133	107	129	20.0%	
EPS (VND)	1,334	1,073	1,288	20.0%	

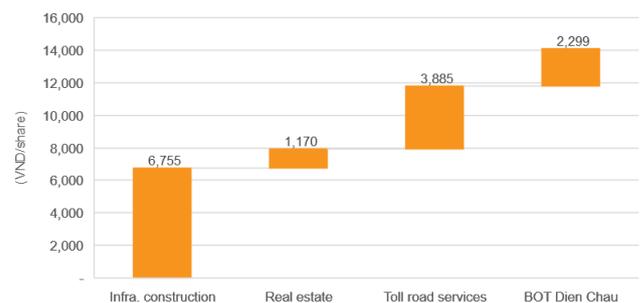
Source: VND RESEARCH

Figure 3: Valuation summary

Segment	Valuation Method	VND/share
Infrastructure construction	Relative valuation	VND 6,755
Real estate activity	DCF	VND 1,170
Toll road services activity (4 existing BOTs)	DCF	VND 3,885
BOT Dien Chau - Bai Vot	DCF	VND 2,299
Fair price		VND 14,100

Source: VND RESEARCH

Figure 4: Updated valuation (data as of 19/11/2018)



Source: VND RESEARCH

Figure 5: Peer comparison

Ticker	Market cap (VNDbn)	TTM NPAT growth	TTM EPS growth	ROA TTM	ROE TTM	D/E in 3Q18	TTM P/E	TTM EV/EBITDA
CII VN Equity	6,265	-95%	-95%	0.4%	1.7%	143%	N/A	21.6x
CTI VN Equity	1,547	18%	-2%	3.4%	12.5%	163%	10.7x	7.6x
HUT VN Equity	1,128	-50%	-61%	1.6%	5.2%	162%	6.8x	11.4x
HTI VN Equity	309	-11%	-11%	4.0%	15.8%	248%	4.5x	6.0x
Average				2.4%	8.8%	179%	7.3x	11.7x
Median				2.5%	8.9%	162%	6.8x	9.5x
<b>Cienco4</b>	<b>1,200</b>	<b>14%</b>	<b>14%</b>	<b>1.7%</b>	<b>11.3%</b>	<b>364%</b>	<b>9.3x</b>	<b>12.1x</b>

Source: VND RESEARCH, BLOOMBERG

Note: data as of 19/11/2018, Cienco4's market cap is calculated from OTC share price and CII's TTM P/E is 77x which we consider an outlier in the peer set

## Valuation

### Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	4,049	3,298	3,655
Cost of sales	(3,540)	(2,847)	(3,080)
Gen & admin expenses	(170)	(132)	(141)
Selling expenses			
<b>Operating profit</b>	<b>339</b>	<b>320</b>	<b>434</b>
Operating EBITDA	501	460	583
<b>Depreciation and amortisation</b>	<b>(162)</b>	<b>(140)</b>	<b>(149)</b>
<b>Operating EBIT</b>	<b>339</b>	<b>320</b>	<b>434</b>
Interest income	118	103	90
Financial expense	(255)	(225)	(227)
Net other income	10	13	12
Income from associates & JVs	(59)	(60)	(5)
<b>Pre-tax profit</b>	<b>152</b>	<b>151</b>	<b>304</b>
Tax expense	(18)	(18)	(37)
Minority interest	(0)	(4)	(5)
<b>Net profit</b>	<b>133</b>	<b>129</b>	<b>263</b>
Adj. net profit to ordinary	133	129	263
Ordinary dividends	(162)	(66)	(114)
<b>Retained earnings</b>	<b>(29)</b>	<b>63</b>	<b>149</b>

### Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	157	566	317
Short term investments	387	255	255
Accounts receivables	2,038	1,529	1,434
Inventories	762	573	479
Other current assets	33	27	30
<b>Total current assets</b>	<b>3,378</b>	<b>2,949</b>	<b>2,514</b>
Fixed assets	3,148	3,203	3,258
Total investments	433	381	376
Other long-term assets	440	259	287
<b>Total assets</b>	<b>7,398</b>	<b>6,792</b>	<b>6,435</b>
Short-term debt	1,577	1,990	1,528
Accounts payable	978	785	727
Other current liabilities	762	620	688
<b>Total current liabilities</b>	<b>3,317</b>	<b>3,396</b>	<b>2,942</b>
Total long-term debt	2,514	1,839	1,747
Other liabilities	401	327	362
Share capital	1,018	1,018	1,018
Retained earnings reserve	80	142	291
<b>Shareholders' equity</b>	<b>1,102</b>	<b>1,164</b>	<b>1,313</b>
Minority interest	62	66	71
<b>Total liabilities &amp; equity</b>	<b>7,398</b>	<b>6,792</b>	<b>6,435</b>

### Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
<b>Pretax profit</b>	<b>152</b>	<b>151</b>	<b>304</b>
Depreciation & amortisation	162	140	149
Tax paid	(23)	(26)	(26)
Other adjustments	126	153	(13)
<b>Change in working capital</b>	<b>(348)</b>	<b>369</b>	<b>195</b>
<b>Cash flow from operations</b>	<b>69</b>	<b>787</b>	<b>610</b>
Capex	(102)	(196)	(204)
Proceeds from assets sales	17	21	21
Others	(202)	125	(7)
Other non-current assets changes			
<b>Cash flow from investing activities</b>	<b>(287)</b>	<b>(50)</b>	<b>(191)</b>
New share issuance	0	0	0
Shares buyback			
Net borrowings	215	(261)	(555)
Other financing cash flow	(4)	(1)	0
Dividends paid	(162)	(66)	(114)
<b>Cash flow from financing activities</b>	<b>49</b>	<b>(329)</b>	<b>(668)</b>
Cash and equivalents at beginning of period	326	157	566
<b>Total cash generated</b>	<b>(169)</b>	<b>408</b>	<b>(249)</b>
Cash and equivalents at the end of period	157	566	317

### Key ratios

	12-17A	12-18E	12-19E
<b>Dupont</b>			
Net profit margin	3.3%	3.9%	7.2%
Asset turnover	0.55	0.46	0.55
ROAA	1.8%	1.8%	4.0%
Avg assets/avg equity	6.57	6.26	5.34
ROAE	11.9%	11.4%	21.2%
<b>Efficiency</b>			
Days account receivable	184	169	143
Days inventory	78.5	73.5	56.8
Days creditor	101	101	86
Fixed asset turnover	1.28	1.04	1.13
ROIC	2.5%	2.5%	5.6%
<b>Liquidity</b>			
Current ratio	1.02	0.87	0.85
Quick ratio	0.79	0.70	0.69
Cash ratio	0.16	0.24	0.19
Cash cycle	161	142	114
<b>Growth rate (yoy)</b>			
Revenue growth	(20%)	(19%)	11%
Operating profit growth	(8%)	(6%)	36%
Net profit growth	(21%)	(3%)	104%
EPS growth	(39%)	(17%)	104%
<b>Share value</b>			
Basic EPS (VND)	1,551	1,288	2,628
BVPS (VND)	11,022	11,638	13,131

Source: VNDIRECT

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### Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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