

SONG DA CORPORATION – IPO NOTE

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IPO information

Expected date of IPO	Dec 25, 2017
Initial price (VND/share)	11,000
Shares on offer (shares)	219,678,000
% of current outstanding shares	48.8%
Structure	Secondary and Primary
Asset valuation (VNDbn)	18,550
2016 Book Value of Equity (VNDbn)	4,939
Chartered Capital (VNDbn)	4,500

Key statistics

Market cap @ initial price (VNDbn)	4,950
2016 EPS (VND)	797
2016 ROE	4.6%
2016 P/E (*)	13.8x
2016 P/B (*)	1.0x

(*) Calculated based on initial price

Expected ownership after IPO

Public	48.8%
ESOP	0.2%
State	51.0%

Song Da Corporation will hold an IPO auction on December 25th, 2017. Song Da is a specialist in construction of hydropower plants, participates in road and civil construction, and is currently one of the largest construction players in the market. Song Da's operating performance has been strong historically, although over-diversification and the slowdown in nationwide hydropower capacity addition have taken a toll on recent performance.

IPO scheduled for December 25th, 2017.

Song Da Corporation received approval from the government for its privatization in June this year, and will carry out an IPO auction on Dec 25th, 2017. The corporation will offer a 48.82% stake to the public (equivalent to 219.7mn shares) at an initial price of VND11,000/share. The company has not yet announced a specific listing date.

The offering will include both primary and secondary shares. The number of secondary shares will be 219,096,100, as a state divestment. Song Da will also issue 581,900 new shares during the IPO as a primary offering. There will be no placements to strategic investors and, any interested parties, will need to go through the IPO auction process. After the IPO, Song Da will issue 822,000 ESOP shares.

Song Da is the market leader in hydropower plant construction in Vietnam.

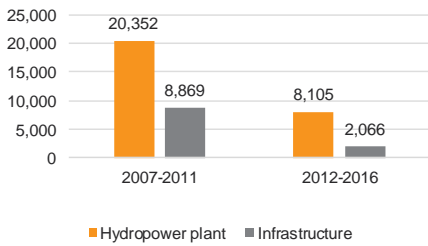
Song Da Corporation currently accounts for 85% of the market in the hydropower plant construction segment, making it the largest contractor in this sector. With more than 55 years of experience and a track record of building many strategic hydropower plants such as Son La (2,400MW), Hoa Binh (1,920MW), Lai Chau (1,200MW), the corporation can be considered a dominant player in this sector. Song Da has acted as the complete Engineering, Procurement and Construction (EPC) contractor in the majority of the construction projects it has undertaken in the past.

The demand for hydropower plant construction is shrinking, as most of the exploitable capacity in Vietnam has already been tapped so far (close to 90%). The emphasis of the revised Power Development Plan VII (PDP 7) has shifted towards increasing thermal power plant capacity (gas and coal), which requires specific expertise that Song Da lacks. Moreover, the growing presence of Chinese contractors in Vietnam is also a looming threat for the company. Song Da has been trying to combat this threat by expanding its operations throughout the region, notably in Laos and Cambodia.

Diversification into road and infrastructure construction does not necessarily play to Song Da's strengths.

Song Da has been moving into various adjacent construction segments, mainly infrastructure (road). Song Da takes part in civil construction, electrical engineering and irrigation systems construction but at much smaller scale. Expansion into other construction segments should partly help it withstand growing headwinds in its core hydropower plant construction business. However, judging from experience and technology, Song Da is far less competitive than other

Figure 1: Value of construction project order booking value historically (VNDbn)



Source: VNDIRECT

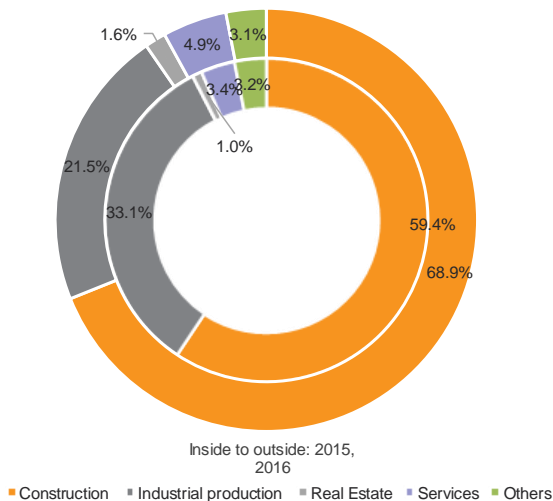
contractors who specialize in infrastructure construction such as Cienco 5, Cienco 4, 319 Corporation (under Ministry of National Defense). Song Da also has been encountering strong competition from other domestic and foreigner contractors in these segments. Therefore, hydropower plant construction is still “bread-and-butter” for Song Da.

The current order backlog at parent level is approximately VND627bn. The order backlog at subsidiary level is not disclosed by the company.

Construction and EPC contracting account for more than 60% of total revenue each year, while industrial production is another key contributor to its revenue. We believe this segment generates revenue through sales of industrial equipment and construction materials.

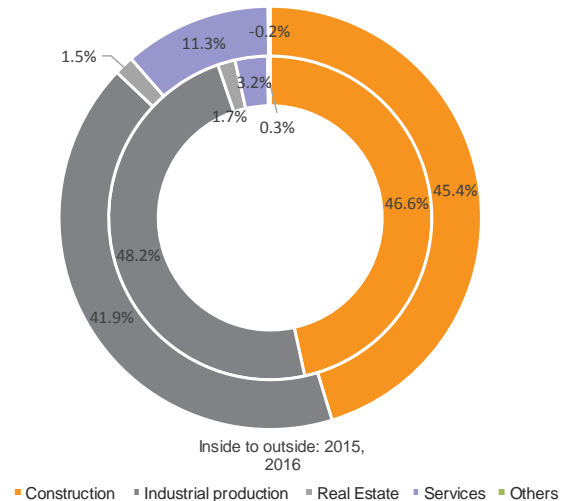
As Song Da indirectly owns 692MW of hydropower capacity through its associate and subsidiaries, we believe that revenue from hydropower production is accounted for under services revenue. However, revenue from hydropower production only contributes around 2% of total revenue, so this is not a major business line.

Figure 2: Revenue by segment (%)



Source: Song Da Corporation

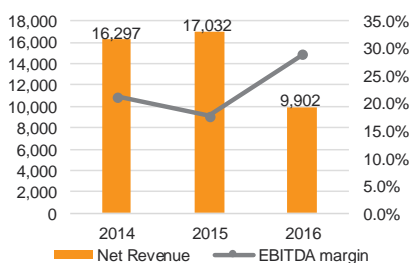
Figure 3: Gross profit by segment (%)



Source: Song Da Corporation

Song Da plans to divest its stake in several subsidiaries and associates to focus on its core construction business.

Figure 4: Net revenue (VNDbn) and EBITDA margin development



Source: VNDIRECT

Song Da has been trying to divest its stake in multiple subsidiaries and associates and focus on a few profitable business lines, as it had historically invested in many non-core industries such as cement, steel manufacturing, equipment installation, and rubber production. As Song Da’s expertise lies in hydropower plant and infrastructure construction, we believe that this is a reasonable move to improve the currently low returns on capital. Many of these subsidiaries and associates companies are operating at a loss – such as Song Da 12 JSC (S12) and Ha Long Cement JSC – or realizing very low profit margins – such as Song Da 3 JSC (SD3).

Song Da completed a large chunk of divestments in 2015, and the results of these divestments were evident in 2016 financial performance. The company’s EBITDA margin in 2016 rose from 17.7% to 28.9% mostly due to an expansion in gross margins from 14.7% in 21.3%. Net margin slightly improved from 2.7% in 2015 to 5.9% in 2016, as the company divested from some of its associates, generating one-time financial gains of VND264bn.

Currently, Song Da has 12 subsidiaries and 11 associates. The company is also a financial investor (minority stake with no voting rights) in 13 other companies, and plans to divest its holdings in three of these companies, which are stated in the table below.

Figure 5: Song Da's holding structure

Name	Ownership Percentage (%)	Note
Subsidiary		
Song Da Infrastructure Co., Ltd.	100.0	
Song Da 3 JSC	51.0	
Song Da 4 JSC	65.0	
Song Da 5 JSC	64.2	
Song Da 6 JSC	65.0	
Song Da 9 JSC	58.5	
Song Da 10 JSC	62.3	
Song Da Consulting JSC	51.0	
Se San 3A Hydropower JSC	51.0	
Can Don Hydropower JSC	51.0	
Nam Chien Hydropower JSC	58.6	
Song Da Investment Construction and Fire Prevention JSC	51.0	
Associates		
Song Da 2 JSC (*)	40.8	
Song Da 11 JSC	26.9	Received permission to divest entire stake
Song Da 12 JSC (*)	49.0	Received permission to divest entire stake
Song Da Mechanical - Assembling JSC (*)	46.2	
Song Da Urban Investment Construction and Development JSC	30.0	Received permission to divest entire stake
Song Da Urban & Industrial Zone Investment and Development JSC	36.3	Received permission to divest entire stake
Viet - Lao Power JSC (*)	44.8	
BOT Interstate Highway No.2 JSC	28.7	
Song Da - Uerir Construction Consulting Co., Ltd.	50.0	
Phu Rieng - Kratie Rubber JSC	25.0	
Khanh Hoa House Development JSC	36.0	Received permission to divest entire stake
Financial investments		
Song Da Mining JSC	17.6	
Song Da - Hoang Lien Hydropower JSC	13.8	Received permission to divest entire stake
Vinaconex Power Development and Construction Investment JSC	8.9	
Song Da Electrical Engineering JSC	1.7	
Son Tra - Song Da Hydropower JSC	10.0	
North Electricity Development and Investment JSC No 1	0.9	Received permission to divest entire stake
DakDrinh Hydropower JSC	1.3	Received permission to divest entire stake
Hai Ha Industrial Zone Investment and Development JSC	7.0	
Song Da Dat Vang JSC	5.0	
Song Da Nha Trang JSC	2.7	
Song Da Sao JSC	5.0	
Coecco Rubber Industry JSC	2.9	
Dung Quat Investment and Development JSC	n/a	

(*) Song Da holds less than 50% stake but has the majority voting right

Source: Song Da Coporation

Transfer of debt from Ha Long Cement JSC to Vietnam Cement Industry Corporation (VICEM) will partially reduce Song Da's currently high leverage.

Figure 6: Song Da's borrowings on behalf of Xi Mang Ha Long

Bank	Amount (VND bn)	Foreign currency
NIB	338.4	EUR
Natixis	733.4	EUR
ADB	650.6	USD
Ministry of Finance	1261.6	EUR

Source: VNDIRECT

By the end of 2016, Song Da had VND17,704bn in debt, and VND12,251bn of this was long-term debt. All of the long-term debt are borrowings in foreign currency through Nordic Investment Bank (NIB), Natixis Bank, Asian Development Bank (ADB), and Vietnam Development Bank (VDB). 17% of the total borrowings were made on behalf of Ha Long Cement JSC, which was a 65.76%-owned subsidiary of Song Da until Feb 2016. On Feb 2016, Song Da let VICEM take over its representation on the Board of Ha Long Cement JSC as the first step towards divesting from the company. However, the actual transaction between the two parties to transfer stake from Song Da to VICEM has not yet been consummated and borrowings

undertaken by Song Da on behalf of Ha Long Cement are yet to be transferred by Song Da to VICEM. The stake transfer process is purportedly underway. If we exclude the borrowings on behalf of Ha Long Cement JSC, Song Da's debt/equity ratio decreases from 2.3x to 1.9x as of the end of 2016. The timing of the procedure for the completion of stake transfer is unclear, however, and we believe this will take a while given that nearly 2 years have elapsed since the transaction was initiated.

Valuation based on the initial price looks cheap prima facie, but there are no clear growth drivers or catalysts on the horizon

Song Da is currently the largest hydropower plant contractor in the market, and is also capable of undertaking other types of construction for infrastructure and civil projects. Therefore, it is difficult to find a close peer in the market. Based on the 2016 P/B, Song Da looks cheap compared to other construction companies. On the contrary, its 2016 P/E looks much higher than the peers. This apparent anomaly is due to Song Da's low ROE and ROA, relative to peers. Given its high leverage and unclear growth outlook, the current valuation of Song Da is reasonable. Divestment of the subsidiaries and associates will only bring one-off earnings for Song Da, and cannot support sustained earnings growth in the long-run. While the corporation's prospects depends on the results of restructuring through associate and subsidiary divestments, the impact of these initiatives is difficult to gauge at this juncture.

Figure 7: Peer comparison

Company	Country	Market Cap (mn US\$)	2016 NPAT growth (%)	2016 EPS growth (%)	2016 ROA (%)	2016 ROE (%)	2016 D/E (x)	2016 P/E (x)	2016 P/B (x)
CTD	Vietnam	735.0	113.5	88.6	14.5	28.5	0.0	8.7	2.3
VCG	Vietnam	433.7	23.8	23.9	2.2	8.2	0.6	12.3	1.0
HBC	Vietnam	279.6	579.3	539.6	6.1	37.6	1.7	5.7	1.8
PC1	Vietnam	195.2	24.1	-50.6	7.8	18.7	0.5	7.9	1.4
CC1	Vietnam	96.4	-48.6	n/a	0.8	6.2	2.7	19.5 (**)	0.9 (**)
Song Da	Vietnam	218.1 (*)	29.6	29.6	1.1	4.6	2.3	13.8 (*)	1.0 (*)
Peer Average		348.0	138.4	150.4	6.3	19.8	1.1	10.8	1.5
Peer Median		279.6	24.1	56.2	6.1	18.7	0.6	8.7	1.4

(*) Market cap, 2016 P/E and 2016 P/B are calculated based on the initial offering price of VND11,000/share

(**) 2016 P/E and 2016 P/B are calculated based on the initial offering price of CCI at VND14,200/share

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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