

## HOA BINH CONSTRUCTION AND REAL ESTATE CORPORATION (HBC-HOSE)

November 20th, 2015

### Analyst

Duc Tran - [ductm1@msi.com.vn](mailto:ductm1@msi.com.vn)

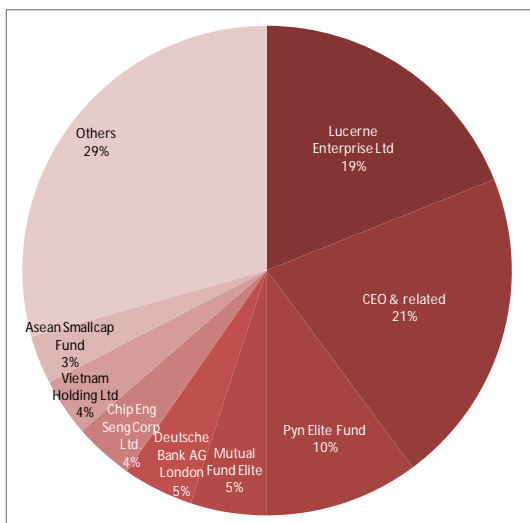
## RECOMMENDATION: BUY

### KEY INDICATORS

Current Price (VND)	18,500.0
Target Price (VND)	21,200.0
Upside Potential (%)	14.6
YTD Return (%)	73.5
1-Year Return (%)	59.5
Outperform/(Underperform) (%)	57.2
Market Cap (VND billion)	1,397.9
Outstanding Shares (million)	75.6
Dividend Yield (%)	8.1
P/E Trailing (x)	12.2
P/B (x)	1.3
P/E VN-Index (x)	13.0

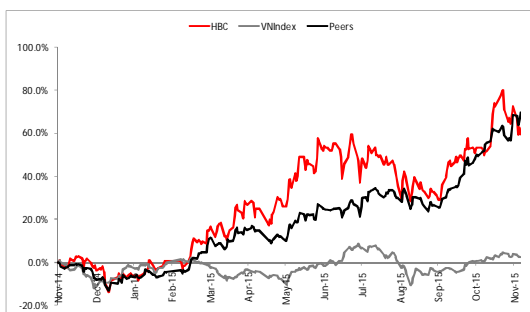
Source: HBC, MSI

### Ownership (updated November, 2015)



Source: Cafef, MSI

### Stock Performance



Source: HOSE, MSI

### COMPANY PROFILE

Hoa Binh Construction & Real Estate Corporation (formerly known as Hoa Binh Construction Office) was established on 27th September 1987. HBC is the first general contractors listed on the Ho Chi Minh Stock Exchange in 2006. HBC operations are focused in three main business areas: (1) Construction of civil, industrial and infrastructure; (2) Property investment and development (3) Pre-construction and construction-related services.

Having an excellent professional experience for more than 27 years in the field of construction, HBC specializes in high-rise construction projects and being well-known as a domestic contractor with capability of international works. It has been clearly dedicated through numerous projects performed by HBC and company is one of the main contractors with longest track record of participation in high rise construction projects in Vietnam, such as Vietinbank Tower, Saigon Centre, Time Square, RMIT, apartments in Phu My Hung, Keangnam Hanoi Landmark Tower and Times City. At present, HBC has signed many new projects with a total value of over VND5,000 billion in the first 6 months of 2015 and is expected to add another VND2,000 billion in the second half of this year. Thus, the total value of signed contracts for the period 2015-2016 is estimated at over VND7,000 billion. This naturally has led company to its solid planned growth into one of the most professional and fast growing contracting companies in Vietnam. In addition, HBC is spreading its wings regionally, as HBC has marked initial steps in penetrating Myanmar construction market which Gems Garden Condominium project, which has developed by HBC in the capital city of Yangon. HBC is currently in the midst of exploring other markets in the South East Asia geographical area.

### OWNERSHIP STRUCTURE

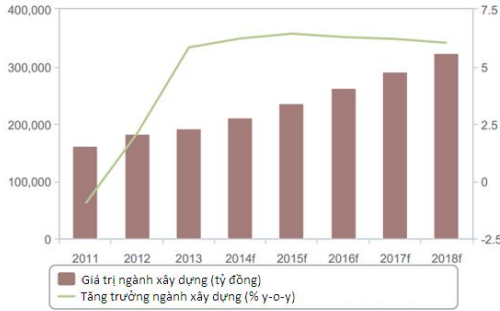
Shareholder structure of HBC consists of 47.9% foreign ownership and with no state ownership. Currently, Mr. Le Viet Hai - CEO of HBC and his family members owned 20.9% stake. Lucerne Enterprise Ltd is a large foreign shareholder holds 18.9% of HBC. Recently, PYN Elite Fund has continuously purchased HBC's shares and now holds 10.2%. In addition, there are other foreign shareholders, such as: Deutsche Bank AG London (4.6%), Chip Eng Seng Corporation Ltd (3.9%), Vietnam Holding Ltd (3.9%) and Asean Smallcap Fund (3.14%). The remaining shareholders are holding 29% stake of the Company.

### INVESTMENT HIGHLIGHTS

We expect the construction sector of HBC to achieve the growth rate exceeded both revenue and turn a profit in the future. Based on research and analysis of the company, we recommend to BUY HBC's stock for medium term goals as following reasons:

- HBC's shares are evaluated by the valuation method FCFF with the reasonable value of VND21,200, having the potential increase of 14.6% over the current price.
- HBC is a leading construction company in Vietnam and has become a preferred engineering, procurement and construction (EPC) contractor for mega projects that build Office complexes, shopping malls and residential apartment complexes in unique and contemporary design.
- Positive financial results in 9M.2015 including VND3,522.4 billion of net revenues (+42.7% y/y), net profit of VND56.2 billion (+ 349.6% y/y). For the whole year, we estimate net revenue of HBC will be around VND5060.4 billion (+43.8% y/y) and VND93.1 billion of net profit, up 31.3% compared to 2014.
- We expect HBC's revenue growth rate will be 14% per year and earnings growth rate at 30% per year for the period of 2016-2018.
- Positive outlook of the construction industry based on the rising demand of the real estate market thanks to the positive impact from policies of the Vietnamese Government, following the new law that allowed foreigners to own property in Vietnam and interest rates are at their lowest with VND30,000 billion supporting package for the construction and property sectors.
- HBC is one of the stocks being interested by a large group of investors, especially foreign investors. There are small rooms left for foreign investors, as foreign ownership has increased to 47.9%. Therefore, Circular 123 guidelines for opening rooms for foreign investor will have a positive influence to the percentage of foreign ownership and the share price of HBC.

## Construction Industry



Source: General Statistics Office of Vietnam, BMI

## CONSTRUCTION INDUSTRY IN VIETNAM

Construction sector in Vietnam is continuing to show signs of positive growth since 2014, compared with last two years 2012 and 2013. According to the General Statistic Office of Vietnam (GSO), the growth rate of construction sector increased by 6.6% within the first 6 months of 2015, compared to the growth rate of 6.11% in the same period of 2014. In addition, BMI - an independent research organization also predicted growth rate of Vietnam's construction industry will reach to about 6.4% in 2015 and an average rate 6.1% per year from 2016 to 2019. The reason for this claim, BMI stated that is mainly due to three factors will play an important role in promoting the growth of construction industry: (1) the Government aimed to boost investment and increased spending in infrastructure development through macroeconomic policies; (2) the recovery of real estate industry; (3) FDI inflows continue to rise at a positive level.

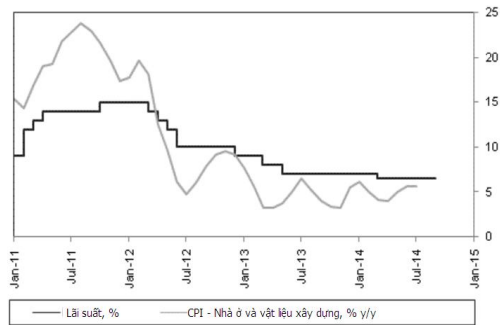
A loose monetary policy of Vietnam Central Bank is currently in favor of construction sector, with lending rates remained at 6.50%, the lowest in over a decade. Meanwhile, inflation is relatively stable, coupled with interest rate cuts in 2014 of the State Bank of Vietnam will have a positive impact on the economy in general and real estate market in particular and the monetary easing policy is also expected to extend until 2016. Accordingly, the strong fund disbursement of Government and FDI along with lower prices of raw material will also help Vietnam's construction industry enters a new growth cycle in 2015-2018. Apart from monetary policy, fiscal policy also has a positive direct effect on the construction industry. Specifically, a number of improvements in the Vietnam's law Bidding in regarding the selection of contractors as stated within Decree No.63/2014/ND-CP which foreign contractors are required to have a partnership with domestic contractors or use sub-contractors if it is a foreign tenderer when participate in international bidding in Vietnam, unless domestic contractors do not have full capability to participate in any part of bidding package. This is a very promising approach to support and improve the competitiveness of domestic contractors and also increase the opportunities for construction companies in the country participated in the projects invested by the State.

Another positive factor support for Vietnam's construction sector is the recovery of the real estate sector. According to a recent forecast by ADB, Vietnam's GDP growth is expected to reach 6.5% for 2015 and will be at 6.6% in 2016. In addition, Vietnam's per capita income is expected to increase to US\$3,000 by 2020 from its current level of US\$1,960 as stated in a recent survey by Boston Consulting Group. Therefore, the rise in income of Vietnam's consumers will boost demand for housing projects and trading business areas, such as trading centers and hotels. Domestic demand is increasing for manufactured goods may increase the demand for trading buildings. For civil construction sector, as reported by the Ministry of Construction, as of June 2015, there were 150 social housing projects have been implemented, in which up to 91 projects for low-income people with approximately 55,830 apartments. The report also shows that demand for social housing is increasing in the period 2012-2015 is 700,000 units, then by 2017 it will need another 200,000 units, and demand is mainly concentrated in big cities such as Hanoi, HCMC. Accordingly, social housing becomes indispensable demand and these figures mean greater public investments in the social housing market, therefore VND30,000 billion credit package to support social housing would quickly be disbursed.

In addition, an important element to boost the construction sector in Vietnam is continuing to receive a high level of interest from foreign investors from across the globe. Improved economic environment and political stability in the country would help to ensure FDI inflows to grow in a sustainable way. According to the General Statistic Office of Vietnam, Vietnam has attracted more than US\$17.1 billion newly and additionally registered capital in the first 9 months of 2015, 53.4% higher than the same period in 2014. FDI disbursement is estimated at nearly US\$10 billion, up more than 8% y/y, while the field of real estate business with 19 newly registered projects and 7 projects to raise capital with a total investment of newly registered and additional capital of US\$1.81 billion, accounted for 10.58% of total registered capital.

According to the surveys for the construction market of Davis Langdon & Seah, the leading company in consulting costs in the construction industry of Singapore, shows the average construction costs in 2015 for most of construction projects in Vietnam are generally lower than most countries in the region. Please refer to Appendix for average construction costs table in page 9 of this report.

## Interest rates and CPI in 5 years



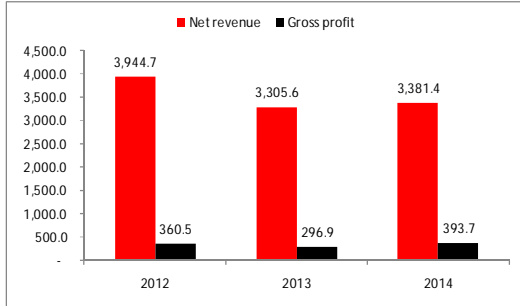
Source: General Statistics Office of Vietnam, SBV

## Construction Value of Residence and Trading Zone (2013-2019)



Source: BMI

## Revenue and Profit of Construction Sector (2012 - 2014)



Source: HBC, MSI

## OPERATING SEGMENTS OF HBC

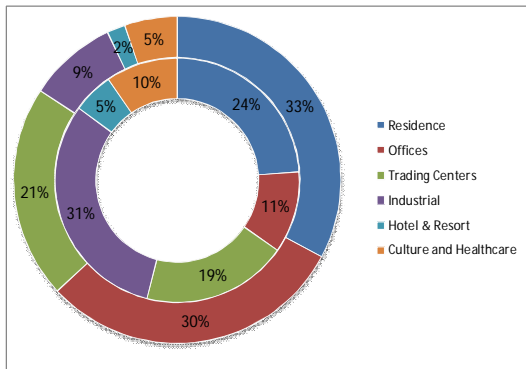
### Residential and industrial constructions

In the real estate market, construction activity is one of the stages of the production process that would depend on the demand of the housing market. Now the property market has begun to shift from one phase of recovery to the next as new projects under construction and other construction projects put on hold due to lack of funds to be revived, hence construction activity is expected to accelerate in the coming years. This is a great opportunity for all contractors, especially in residential and office building segments. Therefore, HBC has identified 2015 as the year to start new developments phase of 2015-2024, shift its business focus into the bidding for construction of high-rise buildings, super high-rise projects. Before 2010, the construction of the super high-rise buildings are performed by foreign companies, especially contractors from Korea as Kumho E&C, POSCO E&C, GS E&C, Hyundai E&C, Daewon, etc. However, in recent years, several local contractors, including HBC has taken the role of general contractor or prime contractor of the high-rise projects, with high quality standard.

In 2014, HBC has signed many large-scale projects, in particular HBC became the main contractor. For example: Vietinbank Tower project with 68-storey, 363 meters high. Also, in the international bidding for construction projects of Saigon Centre, HBC has been selected as the main contractor for the tunnel (6 floors, 28m deep) and 9 storeys high which invested by Keppel Land Vietnam - an investor from Singapore. Along with these two projects, HBC is also the prime contractor of reinforced concrete and building project at Discovery Complex (54 floors high in Hanoi). The contract value of this project is quite large, more than VND3,400 billion, however in 2015 the revenue from these large projects only accounted for about 40%, the rest will be booked in 2016.

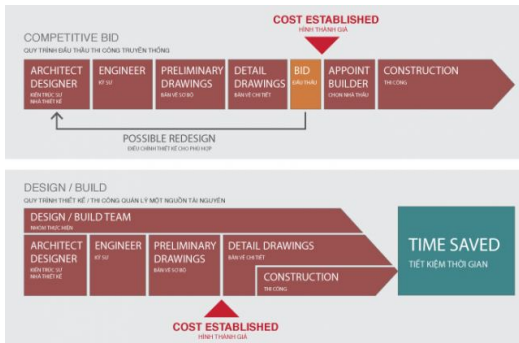
The total remaining contract value at the end of 2014 was VND5,000 billion (+ 492% yoy), including VND3,000 billion expected revenue will be transferred and booked in 2015. The main revenue contribution came from housing construction segment, office buildings, and industrial construction segment remained small proportion of the revenue structure of HBC. Based on the value of the signed contracts, the revenue structure of the HBC has showed a significant change, in which the revenue of industrial and hotels construction segment plummeted as it has shifted to housing, office buildings and trading center segments. In particular, the proportion of revenue from housing projects, office and trading center is accounted for 84.2%, compared with 54% in 2013, thanks to the contribution of major projects such as Vietinbank Tower, Estella Heights, Saigon Centre, Discovery Complex and SSG Tower. Meanwhile, the proportion of revenue from industrial, hotels, resorts and culture, projects decreased from 46% in 2013 to 15.8% in 2014.

## Sales Structure (Sector)



Source: HBC, MSI

## Differences between Traditional Construction Model and Modern Construction Model (D&B)



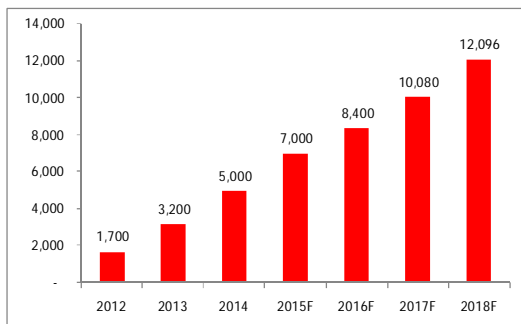
Source: SDecor

HBC also put efforts to improve the supply chain in the construction and keep moving toward Design-Build (D&B) – a procurement route where the main contractor is appointed to design and construct the whole works as opposed to the traditional contract. This approach has become more common in recent years and involve the client contracting with a single contractor to both provide a design and to build that design. Star Bay resort (North of Phu Quoc Island) is one of the first projects that HBC implemented in the form of main contractor for the D&B method. According to experts in the construction industry, said D&B method would reduce construction costs, saving at least 10% of the costs for client and reduce construction time by 30%, the ability to sell faster more than 30%. Meanwhile, for the construction companies, profit will be higher than other construction methods at least 2%. In Q1.2015, HBC has signed three contracts in the role of D&B contractor.

According to the discussion on August 2015 with HBC, company has signed new contracts with a total value of over VND5,000 billion in 1H.2015 and is expected to sign another VND2,000 billion in the second half of this year. Thus, the total value of contracts made in the period 2015-2016 is estimated to be over VND7,000 billion, such as Hai Dang City (VND 455 billion) invested by Hai DANG REI., JSC, Cuu Long apartment (VND1000 billion) invested by Saigon Cuu Long Corporation, Tan Son Nhat Airport- Terminal T2 (VND600 billion) by Airports Corporation of Vietnam, SHP Plaza (VND400 billion) by A Chau Paint & Chemical JSC, Holm Residences (VND382 billion) by Sapphire JSC and South Saigon Office (VND440 billion) with Mapletree Vietnam.

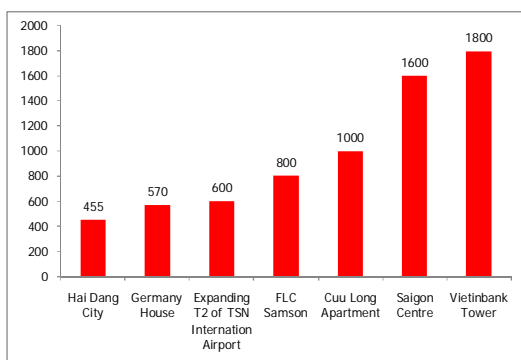
Corresponding to the increased in total value of contracts signed for new projects, revenue from major projects being implemented will significantly increase in the coming years, as construction companies often get paid in advance 10% - 20% depending on the value of the contract and the advance amount will be recovered gradually over the following payments.

## Total Value of Contracts in the Period 2012 –2018F (VND billion)



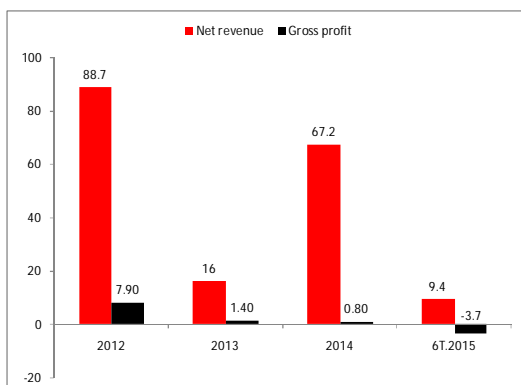
Source: HBC, MSI forecast

## Key Construction Contracts (VND billion)



Source: HBC, MSI

## Net Revenue and Gross Profit (VND billion)



Source: HBC, MSI

Net sales in the first 9 months of HBC in 2015 up 42.7% y/y, reached VND3,522.4 billion. However, gross profit decreased 21% y/y, reached VND199.2 billion due to the gross profit margin dropped sharply to 5.7% from 10.2% in the same period of 2014. According to the explanation from the company, HBC has recorded losses from three projects such as Vietinbank Tower, SSG Tower and Estella Heights. The actual construction costs of Estella Heights and SSG Tower were higher than projected cost due to construction works took longer than planned. Besides, Vietinbank Tower is currently the highest building in Vietnam (363m) and has been constructed according to LEED green building standards of United States and therefore HBC faced many difficult problems, such as temperature control of large concrete blocks, recalculate the possible and deformations and movement of reinforced concrete of high-rise buildings, have lead HBC to make some technical adjustments during the construction and accept to pay for cost difference (for more information, please refer to page 9).

For FY2015, we estimate that total amount of the current construction contracts and newly signed contracts that contribute to HBC's total revenue will be significantly increased thanks to outstanding business results in the first 9 months of 2015 and is expected to remain at a similar growth rate in the remaining months of this year. However, gross profit margin for construction segment of HBC tend to be declined as HBC has to offer competitive price when participate in bidding for large projects. In order to do this, company must have solution to enables material input costs to significantly reduce compared to other foreign companies. For example, HBC may offer bidding price for Vietinbank Tower project at VND3,500 billion and this is the lowest bidding price compared with VND5,300 billion of foreign construction companies. Vietinbank Tower has required to use new kind of construction material: glass fiber reinforced concrete (also known as GRC) instead of traditional concrete. HBC is importing raw materials and cooperating with a local firm in Vietnam to produce GRC in order to save cost.

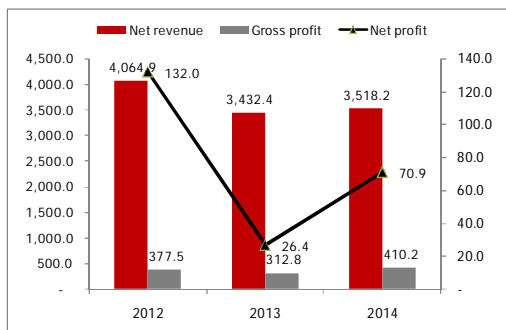
Additionally, HBC also related to an accident during the construction of the project site Saigon South Office in District 7 invested by Mapletree. HBC is the main contractor with construction contract worth of VND440 billion. Construction is currently suspended and police are investigating the cause of the collapse. This incident may affect the sales and profitability of HBC in the future. Under the plan, the construction period of this project is expected to be 400 days starting from 30 May 2015, so the revenue from this project will be recognized in 2016 and the insurance company will pay for risks incurred in construction process. However, HBC will have to bear the risk of late completion of the project and will be required to pay for damages.

### Real estate business

To expand operations and diversify the revenue sources for HBC, Hoa Binh House JSC (HBH) was founded in 2007 (chartered capital of VND135 billion) with the objective of developing a strong real estate business after the successful business of HBC in the field of construction. Currently, HBH has three real-estate trading platforms to distribute projects developed by HBC, office leasing, and rental management. In the field of office leasing, HBH has successfully maintained 100% occupancy rate of Pax Sky Office in District 3. At the end of 2014, rental revenue of Pax Sky Office reached VND25.3 billion. Moreover, taking advantage of available resources and the strength of experience in the field of construction of HBC, many real estate projects have been delivered by the HBH, such as: Green Park in Binh Tan district, Riverview Soho in Binh Thanh District and The Ascent at Thao Dien District 2. According to HBC executives, Green Park project (330 apartments) has sold more than 90%, while the sale progress in Ascent project appears to be better, as block 2 has been sold in the form of long-term lease and block 1 has been sold for more than 65%. However, the company has yet booked the revenue from Ascent project, due to estimated time to handling over to customer will be in Q4.2016 and HBC still must pay the costs of management and marketing for those two projects.

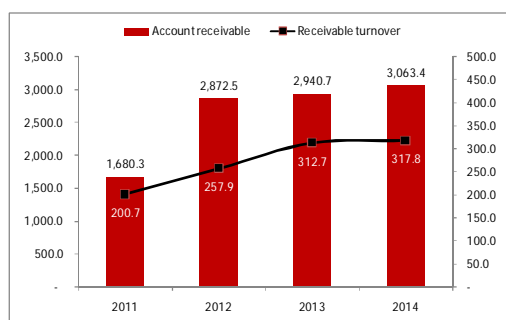
Over the first 9 months of 2015, HBC has recorded a proportion of revenue and profit from real estate business, which recorded revenue mostly contributed from the sale revenue of Green Park project as apartments handover has started since April 2015. Hence, the level of inventories have significantly reduced, as of 30/09/2015 real estate inventory is about VND107.3 billion, accounted for 11.9% of total inventories, down 9.9% YTD

## Business Performance 2012-2014 (VND billion)



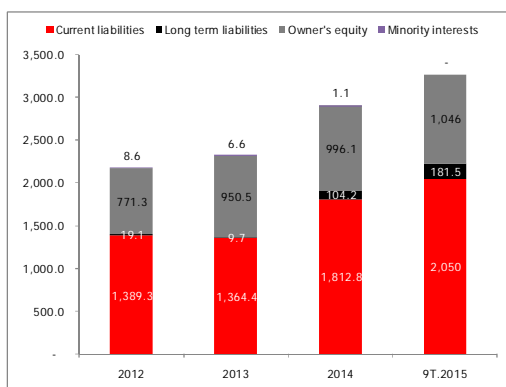
Source: HBC, MSI

## Account Receivables and Receivable Turnover



Source: HBC, MSI

## Total Resource Structure (VND billion)



Source: HBC, MSI

## FINANCIAL ANALYSIS

### Business results from 2012 to 2014

In 2012, revenue of HBC reached VND4,064.8 billion (+33% y/y) and VND132 billion of net profit (-11% y/y), the main reason due to the decline in operating profit margin. This is the year when the real estate market crashed, demand for housing and apartment was weak led to so many projects were put on hold, which caused construction costs to increase. Moreover, the intense competition in the industry makes bidding prices fell sharply. As a result, gross profit margin of HBC decreased to 9.3% from 13.7% in 2011.

In 2013, HBC sales plummeted amid gloomy housing market, in which sales reached VND3,432.4 billion, down 16% compared to the same period last year, completed 68% of the company plan for 2013. Net profit reached VND26.5 billion (-80% y/y) and completed only 14% of the plan. The main cause leading to reduced profit in 2013 was due to investors have difficulties in funding, which forced construction projects to put on hold or delayed. Besides, low demand for housing also has made it difficult for civil construction segment. Therefore, HBC has diverted its construction activities to industrial construction segment, in which the revenues proportion of industrial segment increased to 31.3% compared to 18.5% in 2012. Meanwhile, the housing segment declined from 32.4% to 23.9%.

In 2014, HBC has recorded positive business results with VND3,518.2 billion in revenue (+2.5% y/y). Net profit reached VND70.9 billion, up 168.3% over the same period, thanks to (1) customers started to make payment of outstanding receivables of construction contracts from the previous year; (2) the number of new projects steadily increased as new growth cycle in the construction sector has begun to recover following the signal of the real estate market. Moreover, net profit increased thanks to gross profit margin has improved from 9.1% to 11.7%. However, earnings in 2014 achieved much lower than the original plan which HBC has set, due to Company has been required to set additional provision of doubtful receivables for some customers, mainly for projects such as Formosa, Era Town (Duc Khai) and Dong Phuong and Kenton (Tai Nguyen).

Overall, the business situation of HBC has been markedly improved, gross profit margins increased thanks to reduced raw material costs and better costs management. However, there are concerns that might affect the business operations as the Company's debt ratio increased, while loans of HBC in 2014 reached to VND1,917 billion, up 39.5% compared to 2013. HBC has relied more on bank loans to finance for its development activities of the Company based on number of contracts signed with customers and the majority of these loans are short term loans. Besides, HBC is required to establish additional provisions for its outstanding receivables, whereby the end of 2014, total receivables was VND3,063 billion (+ 4.2% y/y) and HBC has to book VND157 billion provision for doubtful accounts receivable. The average number of days sales in receivable also increased rapidly over the years, to show the debt collection progress of HBC has faced many difficulties.

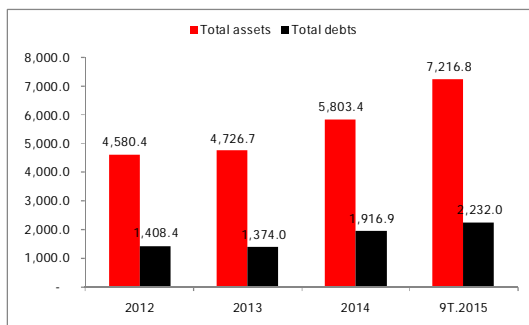
### Capital structure

Strong growth in sales revenue of HBC also makes bank loans and interest expenses increased. HBC's liabilities tend to increase during the period 2012-2015, showed the capital structure of the Company is increasingly risky for business. In particular, HBC relied more on debt financing make its business less efficient due to high financial costs. By the end of the first 9M.2015, total debt of the company was VND2,232 billion, up 16.4% from early this year and more than 58.5% compared to 2012. In which, short-term loans accounted for 91.9% of total loans. HBC's debt to total assets ratio at 30.9% and the debt to total equity ratio is 2.1 times.

Consequently, interest expenses increased to VND90.1 billion (+32.3% y/y). HBC's financial income in 9M.2015 reached VND64.8 billion, up 32% compared to the same period last year, while interest on deposits reached VND63.4 billion, accounted for 97.8% of total financial income. The core business activity of HBC is construction so the Company must maintain a minimum ratio of cash equal to 20% - 30% of current liabilities in the bank account in order to prove its financial capacity with investors when participate in bidding for construction projects. In particular, term deposits at banks of HBC reached VND1,064.5 billion, up 8.4% year to date and currently receive interest rate from terms deposits of 6 months.

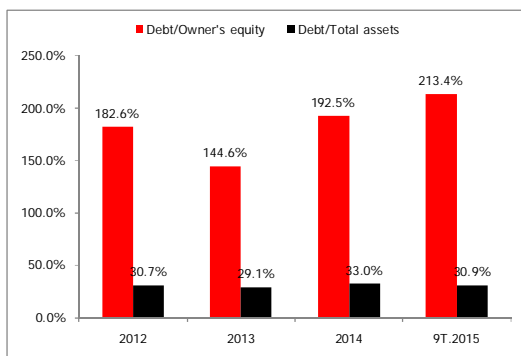
However, HBC has recorded a financial loss of VND39.1 billion compared to the loss of VND20.6 billion in the same period last year (+90.1% y/y), due to interest expense increased following the increased in bank loans as mentioned above, of which interest expenses increased from VND68.1 billion to VND90.1 billion (+32.3% y/y) and equivalent to 2.6% of total revenue.

## Total Assets and Total Liabilities (VND billion)



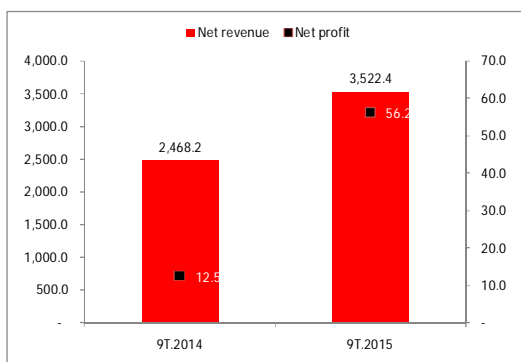
Source: HBC, MSI

## Debt/Owner's Equity and Debt/Total Assets



Source: HBC, MSI

## The first 9-month results (VND billion)



Source: HBC, MSI

We forecast that at the end of 2015 outstanding loans will reach to VND2,169.8 billion. The debt on total equity will be 2.1 times which is higher compared to 1.8 times in 2014. In 2016 – 2018 periods, we expect that HBC will gradually improve the quality of its capital structure by reduce its reliance on bank loans through better management of receivables and use part of the retained profits for re-investment into its business. Besides, the company also can take advantage of funds from the corporate bonds.

### Results of 9M.2015

Net sales of HBC in first 9 months of 2015 reached VND3,522.4 billion, up 42.7% y/y and completed 66.5% sales target in 2015. Meanwhile, net profit after tax significantly increased to reach VND56.2 billion (+349.6% y/y), achieved 31.2% of company's annual plan. Revenue rose involving revenues recognition from current projects being implemented and increased workload from new contracts that HBC was successfully tendered. In 9M.2015, HBC has recorded profits from major projects such as Vietinbank Tower, Saigon Centre, Estella Heights, .. Gross profit dropped to VND199.2 billion (-21.1% y/y), due to the gross profit margin decreased to 5.7% in 9M.2015 from 10.2% in 9M.2014. All of this is due to the contract signed last year with lower gross profit margins whereas HBC has to compete with other companies in the same industry by offer lower bidding prices. Besides, HBC also recorded losses during three construction projects - SSG Tower, Vietinbank Tower and Estella Heights, due to some costs incurred when handling some technical problems of these projects.

SG&A expenses reduced to VND92 billion (-58.4% y/y), thanks to the reversal of provision for doubtful receivables VND26.9 billion in 9M.2015, as this time last year HBC was required to make additional provision of VND59.3 billion.

Furthermore, short-term accounts receivable increased by 55.1% reached VND1,207.5 billion, which shows the volume of construction works need to be done by HBC increased quite high. Thus, account receivables turnover of HBC continued to decline in recent times, from 1.1 times in 2014 to 0.9 times in 9M.2015, this level is relatively low compared with other companies in the same industry. Receivables turnover is low which can lead to increased risk of payment and Company is required to establish additional provisions for doubtful accounts receivable. Generally, company is required to make additional provision under Vietnamese accounting standard, business is now required to establish a 30% provision for receivables overdue from 6 months to 1 year, 50% provision for receivables overdue from 1 to 2 year and 70% provision for receivables overdue from 2 to 3 years. For overdue accounts receivable over 3 years, VAS required to establish a 100% provision. At the time of 9M.2015, total accumulative provision was about VND228.4 billion, up 5.5% from earlier this year, equivalent to 5.6% of total accounts receivable. However, the majority of the receivables is the largest real estate company and has credibility with high solvency.

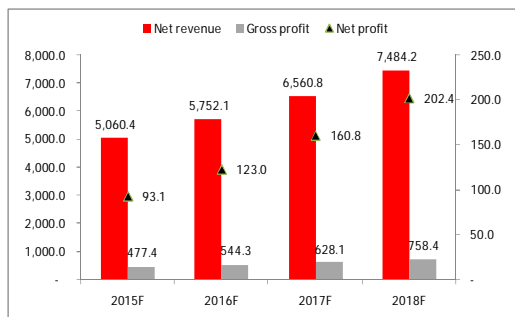
Related to current doubtful accounts receivables, HBC executives said that in 2015, HBC has recovery plans for two largest doubtful debts of 2014, including Formosa Ha Tinh project which executed by main contractors - Phu Khang with total debts of VND160 billion and Era Town project invested by Duc Khai Corp with total debts of VND80 billion. Phu Khang has agreed to pay VND10 billion per month since the beginning of 2015 to March 2016, in which VND70 billion was paid to HBC and VND80 billion provision for this project will be reversed. For Era Town project, Duc Khai would agreed to pay VND30 billion in cash and the rest will be debt-clearing in form of apartments has been completed within the project for HBC.

### Estimated Q4.2015 and 2015

With number of projects being implemented and the business condition of HBC, we estimate that HBC will reach VND1,537.9 billion in sales revenue in Q4.2015 (+10.1% y/y) and VND36.9 billion of net profit, down 37.1% compared to Q4.2014. For the whole year 2015, we expect the company will reach VND5,060.4 billion in revenue (+43.8% y/y) and VND93.1 billion of net profit, up 31.3% compared to 2014, corresponding to EPS forward will be VND1,248.6 and P/E forward of 14.8 times.

## Financial Prospects 2016F-2018F

(VND billion)



Source: HBC, MSI forecast

## Business Prospects in 2016 - 2018

The estimated total value of the contract may be made at Formosa Ha Tinh Industrial Park is VND3,500 billion for the period from 2015 to 2017. According to our assessment, the probability that HBC will be chosen as prime contractor for civil projects in industrial zones is very high, but the company has not officially announced the time of signing contract and project implementation.

Besides, HBC is in bidding process for construction contract for new projects of Novaland in the coming years, such as SABECO Tower, Madison and The Century, after HBC was very successful in executing the project for Novaland in previous period such as Sunrise City, Galaxy 9, and Icon 56. The expected total contract value to be concluded with Novaland in 2015 is about VND2,000 billion. Besides, HBC has been selected to execute the body and finishing works at German House projects with total contract value of over VND480 billion and is expected to be completed in June 2017.

Additionally, HBC will continue to expand its operations in Myanmar through cooperation with local contractors to implement a project contract with a net worth of US\$20 million over the period 2016-2017. Revenue and profit are evenly split between HBC and its partners in Myanmar. HBC is very confident about the market demand for construction in Myanmar with faster growing rate and higher profit margin.

For existing projects and strong position in the construction industry, we forecast that HBC will be capable to achieve sales growth of 14% per year and average profit growth rate of 30% per year for the period of 2016-2018

FINANCIAL SUMMARY	2012A	2013A	2014A	2015F	Plan 2015	2016F	2017F	2018F
Net Revenue (VND bil.)	4,064.9	3,432.4	3,518.2	5,060.4	5,300.0	5,752.1	6,560.8	7,484.2
Revenue Growth (%)	33.0	(15.6)	2.5	43.8	50.6	13.7	14.1	14.1
Net Profit (VND bil.)	132.0	26.4	70.9	93.1	180.0	123.0	160.8	202.4
Net Profit Growth (%)	(11.4)	(80.0)	168.3	31.3	153.7	32.1	30.7	25.9
Net Margin (%)	3.2	0.8	2.0	1.8	3.4	2.1	2.5	2.7
Total Asset (bil. VND)	4,580.4	4,726.8	5,803.5	7,161.4	N/A	7,714.6	8,436.8	9,296.6
Growth (% y/y)	39.4	3.2	22.8	23.4	N/A	7.7	9.4	10.2
Owner's Equity (bil. VND)	771.3	950.5	996.1	1,200.3	N/A	1,203.4	1,242.0	1,319.7
Growth (% y/y)	6.9	23.2	4.8	20.5	N/A	0.3	3.2	6.3
ROE (%)	17.1	2.8	7.1	7.8	N/A	10.2	12.9	15.3
ROA (%)	2.9	0.6	1.2	1.3	N/A	1.6	1.9	2.2
EPS (VND)	3,196.1	509.8	1,236.7	1,248.6	2,034.2	1,649.8	2,156.0	2,713.8
BVPS (VND)	18,672.2	18,322.7	17,362.7	16,094.7	N/A	16,136.3	16,653.7	17,695.5
Cash Dividend (VND)	1,000.0	1,000.0	500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0
P/E (x)	2.4	18.2	8.7	14.8	9.1	11.2	8.6	6.8
P/B (x)	0.4	0.5	0.6	1.1	N/A	1.1	1.1	1.0

Source: HBC, MSI forecast

## Peers Comparison

**CTD** is a leading company in the construction sector at the moment with the reputation of time and the construction schedule has been confirmed. CTD's chartered capital has increased to VND432 billion and market capitalization reached VND6,089.3 billion. Within the period 2006 to 2014, CTD's revenue increased by 9 times, equivalent to an annual growth rate of 37%. Currently, with the acquisition Unicons in 2013 (owned 51% stake), CTD is focusing on industrial construction segment. CTD is also one of the few domestic general contractor in Vietnam who can execute big project under Design & Build approach. CTD is also expanding into infrastructure segment through FCC when incorporation with FCN and CIENCO 1.

**Advantages:** CTD has Board of Director and Board of Management operate independently, prudent financial practices and effective debt management. CTD is a company with little or no debt on the books.

**FCN:** is one of the leading construction enterprises in Vietnam, accounting for over 30% of Northern market share. FCN is the first company successfully applied the Vacuum Consolidation Technology and the Centrifugal concrete piles prestressed Mac 800 following international standards. FCN is currently expanding the transportation infrastructure segment, which FCN currently holds 40% of ownership of FCC, along with CIENCO1 and CTD to implement BOT projects of the Ministry of Transport. Some vital projects may be mentioned in this year are Long Son Oil Refinery (VND300 billion), Thai Binh 1 Thermal Power Factory (VND 169 billion), and the Ha Noi Metro project (VND100 billion).

**Advantages:** FCN is the leading business in the field of underground construction with experience in infrastructure development and investment projects that come from the State budget and the FDI.

Company Name	Code	Price (VND)	Market Cap (VND bil)	EPS trailing (VND)	BVPS (VND)	P/E trailing (x)	P/B	Debts/OE	Debts/Total Assets	Gross Profit Margin 9M.2015	Net Profit Margin 9M.2015
CotecCons	CTD	141,000	6,089.3	11,725.7	68,416.9	12.0	2.1	0%	0%	7.6%	5.1%
Foundation Engineering and Underground Construction JSC	FCN	20,600	941.9	3,408.1	17,131.7	6.0	1.2	81%	26%	17.7%	7.7%
Hoa Binh Construction & Real Estate Corporation	HBC	18,500	1,397.9	1,520.2	14,023.7	12.2	1.3	213%	31%	5.7%	1.6%

Valuation method	Percentage	Share value	Market price	Potential
Free Cash Flow to Firm (FCFF)	100%	21,200		
P/B Multiple 1x	0%	-		
PE Multiple 12x	0%	-		
<b>Weighted average share value</b>		<b>21,200</b>	<b>18,500</b>	<b>14.6%</b>

WACC	
Cost of Equity (COE)	16.1%
Cost of Debt (COD)	8.7%
Tax	20.0%
WACC	9.6%
Growth rate	3.0%

## Valuation and Recommendation:

HBC is one of leading general contractor in the construction industry with a strong reputation and presence in the Vietnamese market. Besides the main core businesses of HBC is construction, HBC also expand into other related sectors, such as real estate, construction material supply, property consultants and design.

We expect HBC will have an improvement in construction activity, after the amendments of Property Law took full affects since the beginning of July 2015, the introduction of the new Decree on investment in the form of Public - Private Partnership (referred to as PPP) and detail regulations to implement several articles of Tender Law, and trade agreements have been signed such as the Trans-Pacific Partnership Agreement (TPP) and the strong recovery of Vietnam's real estate market will have a positive impact on the construction industry in the coming years.

We have applied Free Cash Flow to Firm (FCFF) as the valuation method to determine the fair value of HBC's share. We also take into consideration that as a firm grows, it becomes more difficult for it to maintain high growth rate and will grow at a lower rate until it can be sustained in perpetuity. Therefore, we have divide the firm's growth rate into 3 stages of growth — high growth cycle, stable growth and infinity growth. In particular, we assume average sales growth of HBC for the period 2016-2018 would be maintained at 14% per year. After a period of strong growth, the growth rate will fall by 3% per year and growing steadily at 3% per year from 2026 onwards. After discounting the cash flow of construction activities until the end of 2015, we determined the reasonable value of HBC shares is VND21,200 per share.

**Based on the above analysis, we recommend to BUY HBC's shares for medium term investments as following reasons:**

- HBC's shares are evaluated by the valuation method FCFF with the reasonable value of VND21,200, having the potential increase of 14.6% over the current price.
- HBC is a leading construction company in Vietnam and has become as preferred engineering, procurement and construction (EPC) contractor for mega projects that build Office complexes, malls and residential apartment complexes in unique and contemporary designs.
- The dividend is above 15% and the dividend yield on the stock price is expected at 8.1% in 2015 .
- Positive business results in the first 9 months of 2015 including VND3,522.4 billion of net revenue (+42.7% y/y) and net profit of VND56.2 billion (+349.6% y/y).
- We expect HBC's revenue growth rate will be 14% per year and earnings growth rate at 30% per year for the period of 2016-2018.
- HBC is the company with high winning ratio when bidding for large projects with more than 27 years of experience in the construction industry and the expected total value of the signed projects in 2015 will be over VND7,000 billion.
- Positive outlook of the construction industry based on the rising demand of the real estate market thanks to the positive impact from the policy of the Vietnamese Government, following the new law that allowed foreigners to own property in Vietnam and interest rates are at their lowest with VND30,000 billion supporting package for the construction and property sectors.

**There are also some concerns about HBC's stock:**

- Some of the Company's account receivables sharply increased and at high level, which showed HBC is still struggling in the recovery of bad debts from some investors, who have financial difficulties. Receivables lasted for so long create additional provision, thereby reducing the profitability of the business.
- Account receivables increased sharply, forcing HBC to relied more on bank loans, so the higher level of debt could add more pressures on HBC's financial position, which can lead to more bad debts and higher interest expenses.
- HBC's earnings depend on the recovery of the real estate market and the needs of construction projects, so the ability to achieve profitability as planned could be a challenge if the economy does not recover fast enough or has low credit growth, one of the main factors that supporting the growth of the real estate industry.
- The real estate business of HBC's subsidiary - Hoa Binh House - still has not improved.

## List of backlog projects transferring to 2015 and new signed projects

Project	Location	Start	Completion	Job	Contract value (including VAT) (VND)
ICON 56 apartment	District 4, HCMC	Apr-14	Sep-15	Structure, finishing works and M&E	170
Galaxy 9 apartment	District 4, HCMC	Apr-14	Nov-15	Foundation part, finishing works and M&E	350
Sunrise City (Central)	District 7, HCMC	Jan-13	Feb-15	Structure, foundation, basement and M&E	300
Discovery Complex	Cau Gay, Ha Noi	Jun-10	Mar-16	Basement and foundation, structure	515
Chung cư Nguyễn Kim - khu B	District 10, HCMC	Jun-14	Apr-15	Foundation construction	147
Capital Garden apartment	Ha Noi	Jul-14	Apr-15	Structure	170
Green Garden	District Binh Tân, HCMC	Apr-14	Mar-15	Unfinished and completion construction	268
Vietinbank Tower	Ha Noi	Dec-13	2017	Basement, reinforced concrete and steel structure body	1819
Saigon Centre	District 1, HCMC	Mar-14	Mar-16	Raw construction, completion and infrastructure, landscaping and M&E	1600
Tropic Garden	District 2, HCMC	Oct-13	Apr-15	Structure	170
SSG Tower (Pearl Plaza)	Binh Thanh District, HCMC	Oct-13	May-15	Structure	231
Estella Heights	District 2, HCMC	Apr-15	Oct-15	Structure	150
Intercontinental Resort Phu Quoc	Phu Quoc Island	Jan-15	Oct-15	Structure and finishing works	200
Star Bay Resort	Phu Quoc Island	Dec-14	Mar-16	Design & Building	528
JW Marriot Hotel	Phu Quoc Island	Dec-14	Dec-15	Structure	72
Holm Residences	District 2, HCMC	Sep-15	Sep-16	Building the villas	382
Lotte Mart - Go Vap	Go Vap District	Sep-15	May-16	Foundation piling and facade	70
The Ascent Condominiums	District 2, HCMC.	Jan-15	Dec-16	Design & Building	430
Depot Tham Luong	HCMC	Jan-15	Jun-16	Whole structure and architecture, M&E, technical infrastructure	173
International Airport Terminal 2	HCMC	Jun-15	Aug-16	Whole structure and architecture, M&E, technical infrastructure	600
Saigon South Office 1	District 7, HCMC	May-15	Aug-16	Structure, finishing works and M&E	440
SHP Plaza Hai Phong	Hai Phong	Mar-15	Nov-16	Structure and finishing work of CT1A, CT1B packages	400
FLC Samson Beach & Golf Resort	Thanh Hoa	Oct-14	May-15	Design & Building	800
Cuu Long Condominium	District 4, HCMC	Apr-15	Jul-05	The entire piling, foundation, structural, finishing and M&E	1000
German House	District 1, HCMC	Oct-14	Q3-2017	Basement and structure	570
Hai Đăng City	My Dinh, Ha Noi	Jul-15	Jul-17	The structure and finishing packages CT1A, CT1B	455

Source: HBC, MSI aggregated from multiple sources

## Construction costs (USD/m<sup>2</sup>)

	HO CHI MINH	BANGKOK	BRUNEI	JAKARTA	KUALA LUMPUR
<b>Apartments (USD/m<sup>2</sup>)</b>					
Middle-class apartments	595 - 745	385 - 580	672 - 855	825 - 1,133	670 - 760
High-class apartments	755 - 870	935 - 1,120	977 - 1,160	1,019 - 1,327	925 - 1,050
Townhouse	395 - 465	275 - 390	489 - 611	534 - 842	360 - 465
Luxury villas	455 - 555	910 - 1,115	824 - 1,008	812 - 1,120	970 - 1,170
<b>Office / Trading Center (USD/m<sup>2</sup>)</b>					
Middle-class office	695 - 815	735 - 845	641 - 794	825 - 1,133	660 - 735
High-class office	800 - 1,090	1,060 - 1,425	855 - 1,099	1,167 - 1,475	975 - 1,100
Middle-class trading center	500 - 600	655 - 785	641 - 837	801 - 1,108	570 - 630
High-class trading center	645 - 845	805 - 1,045	840 - 901	1,056 - 1,364	630 - 680
<b>Hotel (USD/m<sup>2</sup>)</b>					
3-star hotel	1,050 - 1,290	1,225 - 1,690	1,160 - 1,282	1,560 - 1,868	1,150 - 1,360
4-star hotel	1,290 - 1,565	2,125 - 2,455	1,466 - 1,679	2,200 - 2,508	1,570 - 1,750
5-star hotel	1,665 - 1,935	2,360 - 2,725	1,710 - 2,443	2,259 - 2,567	1,680 - 1,900
<b>Industry (USD/m<sup>2</sup>)</b>					
Single-storey factory	350 - 460	390 - 495	504 - 611	381 - 689	305 - 330
Light industry factory	350 - 460	525 - 585	N/A	518 - 826	330 - 365

Source: Davis Langdon & Seah, MSI

## **MARITIME SECURITIES INCORPORATION (MSI)**

**Website:** <http://www.msi.com.vn/>

### **Head Quarter**

Floor 1&3, TNR Tower Lang Ha  
88 Lang Ha Street, Dong Da District, Ha Noi  
Tel: (844) 3776 5929 - Fax: (04) 3776 5928

### **Ha Noi Branch**

Floor 9, TNR Tower Hoan Kiem  
115 Tran Hung Dao Street, Hoan Kiem District, Ha Noi  
Tel: (844) 3776 5929 - Fax: (04) 3822 3131

### **Ho Chi Minh City Branch**

Floor 2, TNR Tower Nguyen Cong Tru  
180-192 Nguyen Cong Tru Street, District 1, Ho Chi Minh City  
Tel: (848) 3521 4299 - Fax: (848) 3914 1969

## **RESEARCH DIVISION**

**Nguyen Mai Phuong**, CFA - Head of Research

Email: [phuongnm@msi.com.vn](mailto:phuongnm@msi.com.vn)

**Dr. Le Duc Khanh** - Head of Trading Strategy

Email: [khanhld@msi.com.vn](mailto:khanhld@msi.com.vn)

**Trinh Thi Hong** - Analyst

Email: [hongtt@msi.com.vn](mailto:hongtt@msi.com.vn)

**Phan Thi Ngoc Mai** - Analyst

Email: [maiptn1@msi.com.vn](mailto:maiptn1@msi.com.vn)

**Nguyen Ngoc Nam** - Analyst

Email: [namnn1@msi.com.vn](mailto:namnn1@msi.com.vn)

## **EQUITY RESEARCH - HCMC BRANCH**

**Vo Van Cuong** - Vice President of Equity Research

Email: [cuongvv1@msi.com.vn](mailto:cuongvv1@msi.com.vn)

**Tran Minh Duc** - Analyst

Email: [ductm1@msi.com.vn](mailto:ductm1@msi.com.vn)

**Bui Ngoc Lan Phuong** - Analyst

Email: [phuongbnl@msi.com.vn](mailto:phuongbnl@msi.com.vn)

## **INSTITUTIONAL CLIENT CENTER (ICC)**

**Phan Nguyen Hoan Quan** - Head of ICC

Email: [quanpnh@msi.com.vn](mailto:quanpnh@msi.com.vn)

**Chu Thi Minh Phuong** - Assisstant

Email: [phuongctm@msi.com.vn](mailto:phuongctm@msi.com.vn)

**DISCLAIMER:** *The information, forecasts and recommendations contained herein are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. However, excepting information about MSI ("Company"), MSI is not responsible for the accuracy of the information contained in this report. Expressions of opinion, forecasts and estimations only show the research analyst's personal views at issued time. Those statements are not recognized as the views of MSI and are subject to change without notice. MSI has no liability to update or fix this report under any circumstance as well as notice readers in cases that expressions of opinion, forecasts and estimations contained in this report change or become incorrect.*

*MSI may use the report's outcomes of research for trading securities itself with the status as a customer using the research product. MSI's Research Division operates as an independent research unit, and may trade for the company itself in accordance with professional analysts' suggestions in this report and may participate in securities transactions that are contradictory to the consultancy advice and points of view expressed in the report.*

*MSI's staff may have financial interests from relevant securities and financial tools mentioned in the report. This research report is written for the purpose of providing general advisory information to all customers without considering any risky tolerance, ability of risk, specific investment criteria, specific financial situation or any specific demand from any person, who receive or read this report. Investors must pay attention that stock price always changes, it may go up or down and all past happenings (if any) don't imply for future outcomes. MSI accepts no liability whatsoever for any direct or consequential loss from any use of this document or its content.*

*No part of this document may be copied, reproduced, republished or redistributed without approval document of MSI. Please note the source when quote contents approved by MSI.*