

6 Sep 2023

# Vinaconex (VCG)

## Real Estate guided gross profit growth

### Record revenue in 2Q23

VCG's revenue doubled by +108% yoy, 132.4% qoq (VND4.5tn), and NPAT skyrocketed to VND130.3bn (+592% qoq) compared to 2Q22 loss of VND60.3bn. The construction revenue grew by 99% yoy to VND 2.5tn and the real-estate segment revenue soared by 378% yoy to VND1.5tn thanks to the handover of Green Diamond or Vinaconex Invest. Gross profit grew lower to VND430bn (+43.3% yoy, +36.6% qoq) due to the blended gross margin narrow (9.7%, -3.9%p yoy). Overall, the company achieved a VND6.5tn revenue (+85%yoy) and a VND149.1bn NPAT (-79%yoy), fulfilling 40/43% of its annual guidance.

### Real estate acts a new engine of gross profit growth

The real estate accounting for 25% of Vinaconex's revenue in 1H23 posted a fatter gross margin (GM) of 29% (+9%p yoy) than the construction division (60% of total revenue, GM: 2.1%, -3.3%p yoy). Hence, the gross profit of real estate division surged by 7.6x yoy (VND480bn, 64.5% of gross profit), offset by the construction's gross profit slump (VND81.4bn, -30.2% yoy). The company's A/R days plunged from 210 days in 1Q21 to 74 days in 2Q23. However, the inventory ballooned to VND6.7tn (+18% yoy) in 2Q23 but the inventory days persisted at 200-250 in 2Q22-2Q23.

### Interest expense looked risky but net gearing seemed brisk

Net bond issuance came in at VND5.4tn/3.8tn in 2021-2022, weighting on company's interest expense in 1H23 (VND430.9bn, +11% yoy). The revenue growth partially relieved the interest burden, pushing up the interest coverage to 5x in 2Q23 from 3.3x in 2Q22. The company replaced costlier bond balances with favorable short-term bank loans in 2Q23 and that could relieve the interest payment service in next quarters. The net gearing edged down from 2.27 in 2Q22 to 2.14 in 2Q23, relatively average for a capital intensive construction industry (CC1: 2.57x; CTD:1.58x; HHV: 3.21x)

### Valuation

Based on annual guidance, VCG is currently trading at forward PE of 18x, higher than 5-year average (14.5x), TTM PB of 2.1x, higher than the 5-year average (1.6x).

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2018A	9,731	689	491	46	(98.5)	26	599.1	1.1	1.6	8.1	5.9
2019A	9,502	786	684	1,598	3,343.3	203	17.4	13.4	1.6	10.1	4.3
2020A	5,551	(732)	1,605	3,579	124.0	801	7.8	(26.6)	1.7	22.7	1.3
2021A	5,749	655	394	2,473	(30.9)	1,092	11.2	18.5	1.6	7.0	8.9
2022A	8,453	637	782	1,715	(30.7)	1,227	16.2	28.0	1.4	10.6	4.8

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

Analysts who prepared this report are registered as research analysts in Vietnam but not in any other jurisdiction, including the U.S. PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS AT THE END OF THIS REPORT.

12M rating **Non Rated**

12M TP

Up/Downside

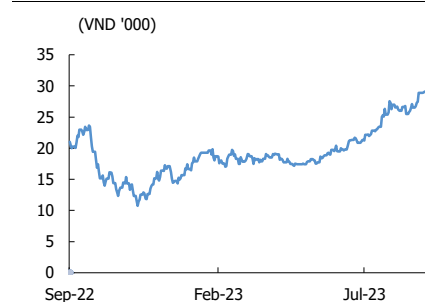
### Stock Data

VNIndex (06 Sep, pt)	1,246
Stock price (06 Sep, VND)	29,100
Market cap (USD mn)	646
Shares outstanding (mn)	534
52-Week high/low (VND)	29,100/10,728
6M avg. daily turnover (USD mn)	10.41
Free float / Foreign ownership (%)	47.6/7.8
Major shareholders (%)	
Pacific Holding Investment JSC	45.1

### Performance

	1M	6M	12M
Absolute (%)	7.8	61.7	38.6
Relative to VNIndex (%p)	5.9	39.2	39.4

### Stock price trend



Source: Bloomberg

### Research Department

researchdept@kisvn.vn

## Record-breaking revenue in 2Q23

VCG's revenue in 2Q23 doubled by 108% yoy, to VND4.5tn, the company recorded a positive NPAT of VND130.3bn compared to 2Q22 loss. The robust revenue growth was attributed to both of VCG's main business segments, construction and real estate. The construction segment grew by 99% yoy to VND 2.5tn and the real-estate segment surged by 378%yoy to VND1.5tn. the growth of the company's real-estate earnings can be attributed to the VCG's large-scale projects such as the Cat Ba Amanita resort complex and other residential/office projects like Green Diamond or Vinaconex Invest.

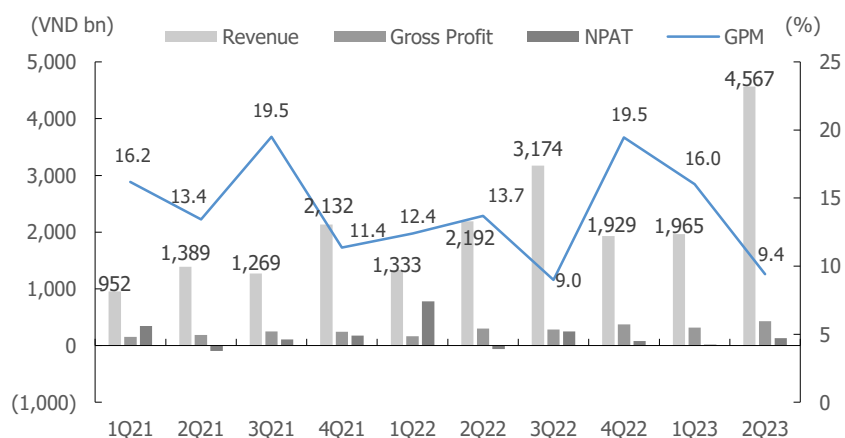
**Table 1. Vinconex's 2Q23 earning**

(VNDbn, %, %p)

	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY
<b>Revenue</b>	2,192	3,174	1,929	1,965	4,567	132.4	108
<b>Gross Profit</b>	300.2	285.4	375.5	314.8	430.0	36.6	43.3
<b>Gross Margin</b>	13.7	9.0	19.5	16.0	9.4	(6.6)	(4.3)
<b>NPAT</b>	(60.3)	249.4	80.2	18.8	130.3	592	N/A

However, the company's record-breaking revenue did not translate into gross profit growth. VCG gross profit only went up to VND430bn (+43.3% yoy, +36.6% qoq), this equates to a gross margin of 9.4% in 2Q23, a notable reduction compared to 2Q22 gross margin of 13.7%(-4.3%p). Meanwhile, thanks to the liquidation of real estate assets, Vinaconex booked an NPAT of VND130.3bn (+592%qoq), a significant improvement compared to the 2Q22 loss. Overall, in the first half of 2023, the company achieved VND6.5tn (+85%yoy) in revenue and VND149.1bn (-79%yoy) in NPAT, VCG has completed 40% and 43% of its revenue and NPAT guidance.

**Figure 1. VCG quarterly performance**



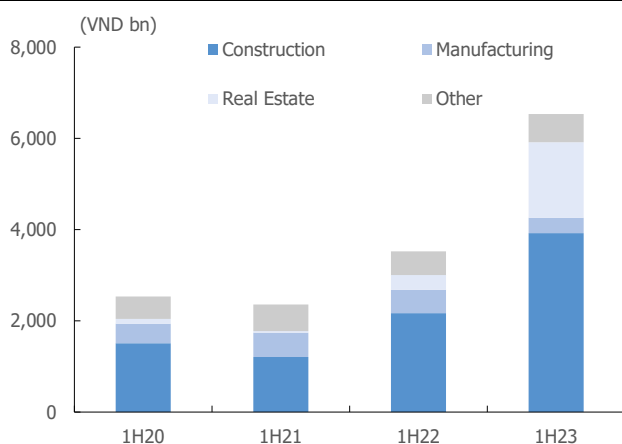
Source: Company data, FiinPro

In 1H23, Vinaconex was announced as the contractor for many parts of the North–South West Expressway –Phase 2 including Bai Vot – Ham Nghi, Vung Anh – Bung, and Quy Nhon – Chi Thanh. The VCG participated portions have a total length of 81km, valued at VND14.4tn. Vinaconex is also a participant in the VIETUR Consortium, the contractor of the VND35tn Terminal 1 of the Long Thanh International Airport. These projects will ensure to provide VCG with a continuous revenue stream from now to 2026.

### Real estate is the new growth engine

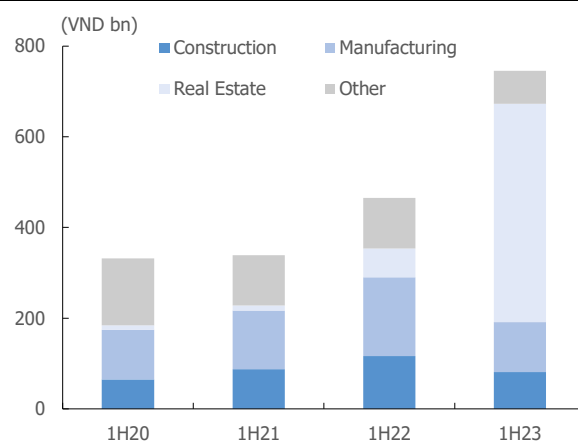
Though 60% of 1H23 revenue came from construction activities, it only generated 10.9% of the company's gross profit. Construction has the lowest gross margin of the company's business segment with at 2.1% in 1H23 (-3.3%p yoy). The real estate segment took up 25% of Vinaconex's revenue structure in 1H23, from 9% in 1H22. This segment was also more profitable than the company's traditional construction business, with the gross margin of 29% (+9%p yoy) in 1H23. The RE segment took up 64.5% of the gross profit, equivalent to VND481bn. This growth could be attributed to the synergy of the 2 business segments. Projects like Cat Ba Amatina or Kim Lan - Kim Vu Complex have Vinaconex as both the developer and contractors, reduced the projects bidding and overheads cost.

**Figure 2. Construction led the revenue growth**



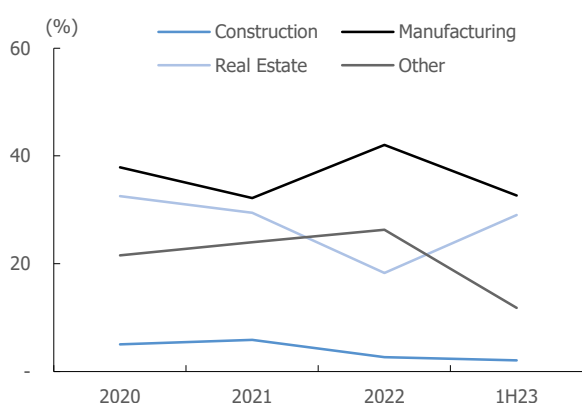
Source: Company data, FiinPro

**Figure 3. Real estate drove the gross profit growth**



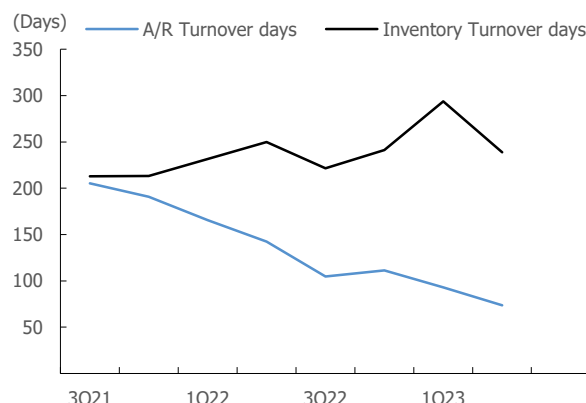
Source: Company data, FiinPro

**Figure 4. Business segment's gross margin**



Source: Company data, FiinPro

**Figure 5. VCG A/R and Inventory Turnover period**



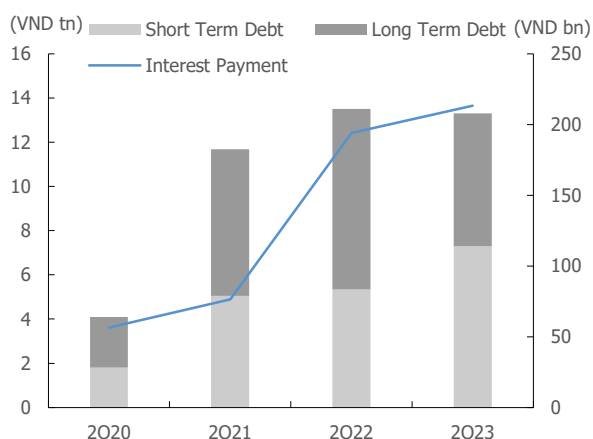
Source: Company data, FiinPro

This new synergy is best observed in the Account Receivable and Inventory turnover periods. The company's A/R turnover period has significantly decreased from 210 days in 1Q21 to 74 days in 2Q23. However, the products, both as projects under construction and completed projects, also remain in VCG inventory for a much longer period. The VCG Inventory ballooned to VND6.7tn (+18%yoy), and the inventory turnover days remained around 200-250 days. Though beneficial, this strategy exposed VCG to risk both as the developers and the contractors if the projects fail to sell.

### Higher interest expense but lower debt/equity in 2Q23

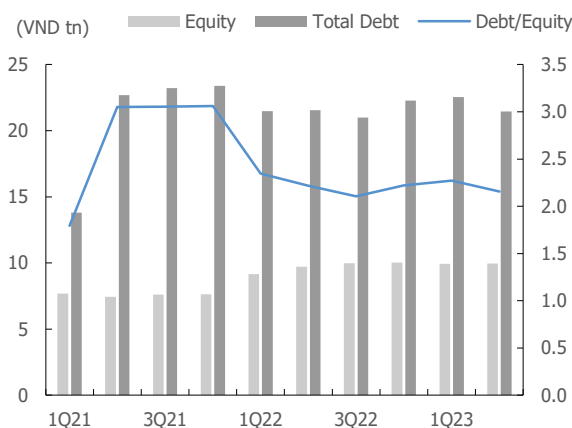
In 2021, issued VND5.4tn in bonds and another VND3.8tn in 2022, significantly raised the company's interest expense. Thanks to its expanded revenue, VCG was able to maintain a Debt Coverage ratio of 3.4-3.6, in 2023 the company began to replace it costlier bonds with short-term loans raising the Debt Coverage ratio to 5. The D/E ratio edged down from 2.27 in 2Q22 to 2.14 in 2Q23, relatively healthy for a capital intensive sector like construction and real estate. In comparison, D/E ratio of CC1, HHV, CTD and HBC are 2.57, 3.21, 1.58 and 26.57, respectively.

**Figure 6. VCG debt structure**



Source: Company data, FiinPro

**Figure 7. Debt of equity**

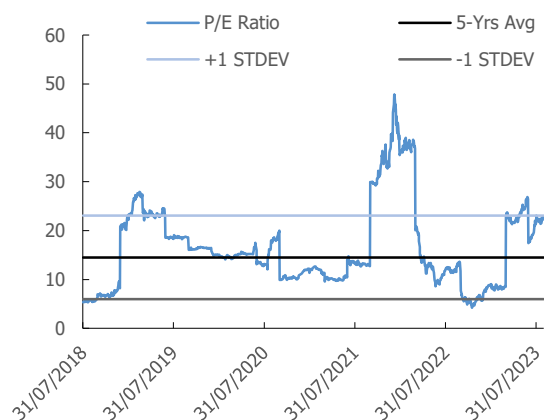


Source: Company data, FiinPro

### Valuation

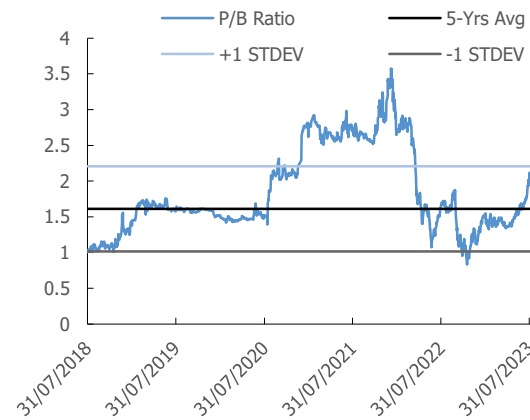
Based on annual guidance, VCG is currently trading at forward PE of 18x, higher than 5-year average (14.5x), TTM PB of 2.1x, higher than the 5-year average (1.6x).

**Figure 8. VCG's 5-year TTM PE**



Source: Company data, FiinPro

**Figure 9. VCG's 5-year TTM PB**



Source: Company data, FiinPro

### ■ Company overview

Vietnam Construction and Import-Export Joint Stock Corporation or Vinaconex (VCG) is one of Vietnam largest general contractor of civil construction, infrastructure and industrial construction. The company is also active as a property developer and construction material provider.

**Balance sheet**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021A	2022A
Current assets	12,370	12,055	13,397	21,296	19,324
Cash & cash equivalents	2,944	2,302	3,546	6,682	3,327
Accounts & other receivables	5,846	7,303	7,468	10,856	9,059
Inventory	3,435	2,321	2,220	3,466	6,430
Non-current assets	7,715	7,263	6,213	9,673	12,676
Fixed assets	2,672	2,442	2,582	2,564	2,684
Investment assets	3,363	3,497	2,713	4,261	9,506
Others	930	865	870	760	822
Total assets	20,085	19,318	19,610	30,969	31,999
Advances from customers	1,670	944	2,350	6,601	2,529
Unearned revenue	1,461	1,346	1,332	1,265	532
Trade payables	2,925	2,511	1,996	1,844	2,502
Others	2,574	2,117	2,482	1,953	3,058
ST debt & due bonds	2,106	2,220	2,141	5,047	5,345
LT debt & bonds	1,476	2,442	2,146	6,632	8,103
Total liabilities	12,212	11,580	12,447	23,342	22,069
Controlling interest	6,560	6,687	6,252	6,519	6,759
Capital stock	4,417	4,417	4,417	4,417	4,859
Capital surplus	355	355	355	16	16
Other reserves	997	968	967	248	201
Retained earnings	790	948	2,157	1,838	1,683
Minority interest	1,206	943	801	1,008	3,075
Shareholders' equity	7,873	7,738	7,163	7,628	9,931

**Cash flow**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021A	2022A
C/F from operations	(50)	(1,493)	(25)	394	(1,767)
Net profit	637.0	787.0	1,690	520.0	931.0
Dep'n & Amort'n	258.9	311.3	252.4	255.9	275.7
Net incr. in W/C	(946)	(2,591)	(1,967)	(382)	(2,974)
C/F from investing	243.9	340.7	2,864	(6,074)	1,886
Capex	(318)	(380)	(205)	(1,407)	(1,459)
Incr. in investment	562	721	3,069	(4,668)	3,346
C/F from financing	(1,089)	1,142	(2,186)	6,494	(1,222)
Incr. in equity	48.6	0.0	(1,644)	145.3	13.1
Incr. in debt	(412.2)	1,670	(364.8)	7,453	20,757
Dividends	(722.2)	(525.6)	(158.6)	(1,098)	(653.4)
C/F from others	(0.4)	0.0	(0.2)	3.2	0.0
Increase in cash	(894.9)	(10.8)	652.7	813.5	(1,102)

**Income statement**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021A	2022A
Sales	9,731	9,502	5,551	5,749	8,453
COGS	8,521	8,192	4,715	4,920	7,536
Gross profit	1,210	1,311	836	829	917
SG&A expenses	521	525	1,568	174	280
Operating profit	689	786	(732)	655	637
Financial income	260	250	3,046	527	1,080
Interest income	178	206	185	200	272
Financial expenses	294	313	277	499	765
Interest expenses	274	268	255	506	757
Other non-operating profit	48	102	83	12	61
Gains (Losses) in associates, subsidiaries and JV	90	141	7	23	(27)
Earnings before tax	793	965	2,127	719	985
Income taxes	156	179	437	199	55
Net profit	637	787	1,690	520	931
Net profit of controlling interest	491	684	1,605	394	782
EBITDA	26	203	801	1,092	1,227

**Key financial data**

FY-ending Dec.	2018A	2019A	2020A	2021A	2022A
Per-share data (VND, adj.)					
EPS	46	1,598	3,579	2,473	1,715
BPS	17,825	17,519	16,217	17,269	20,438
DPS	1,635	1,190	359	2,486	1,345
Growth (%)					
Sales growth	(10.7)	(2.4)	(41.6)	4	47
OP growth	(39.3)	14.0	(193.1)	(190)	(3)
NP growth	(98.5)	3,342.4	124.0	(31)	(24)
EPS growth	(98.50)	3,343.30	124.00	(30.90)	(30.70)
EBITDA growth	(37.3)	15.7	(143.7)	(290)	0.2
Profitability (%)					
OP margin	7.1	8.3	(13.2)	11.4	7.5
NP margin	0.2	7.4	28.5	19.0	9.9
EBITDA margin	9.7	11.5	(8.6)	15.8	10.8
ROA	3.1	4.0	8.7	2.1	3.0
ROE	8.1	10.1	22.7	7.0	10.6
Dividend yield	5.9	4.3	1.3	8.9	4.8
Dividend payout ratio	3,523.7	74.5	10.0	100.5	78.4
Stability					
Net debt (VND bn)	637	2,360	741	4,997	10,122
Net debt/equity (%)	10.0	30.0	10.0	70	100
Valuation (x)					
PE	599.1	17.4	7.8	11.2	16.2
PB	1.6	1.6	1.7	1.6	1.4
EV/EBITDA	14.1	13.4	(26.6)	18.5	28.0

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 6 Sep 2023.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 6 Sep 2023.

KIS Vietnam Securities Corp. has issued CW with underlying stocks of Vinaconex (VCG) and is the liquidity provider.

Prepared by: Research Department

## Global Disclaimer

### ■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

### ■ Country-specific disclaimer

**United States:** This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

**United Kingdom:** This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

**Hong Kong:** This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

**Singapore:** This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2023 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..