

Horizon Securities

Research team

Hoc Nhan

Analyst

hocnhan@horizonsecurities.com

COTECCONS GROUP

**Head Office:** 194/2 Nguyen Trong Tuyen, Ward 8,
Phu Nhuan District, HCM City**Tel:** 84-(8) 399 791 68**Fax:** 84-(8) 399 791 67**Email:** coteccons@vnn.vn**Website:** <http://www.coteccons.vn/>

Stock profile/statistics		21-Jan-10
Bloomberg Ticker		CTD
Sector	Construction & Materials	
Price (VND)		114,000
USD/VND		18,474
Share Outstanding		18,450,000
Par (VND)		10,000
Market Capitalization (VND mln)		2,103,300
Foreign room/ limit (%)	43.5 /	49.0
52 week High/ Low (VND)	116,000 /	113,000

Ownership Structure (%)		30-Sep-09
Local		73%
Foreigner		27%

Institutional	44%
Individual	56%

Major Owners	
Indochina Holding Group	10%
FICO (state-owned)	7%
Vietnam Property Fund	6%
Vietnam Dragon Fund	6%
Nguyen Ba Duong	6%

Company Note

Coteccons Group (CTD) - Established as a division of Technical Construction and Building Material Company (part of Building Material Corporation No.1), Cotec Construction (Coteccons) was equitized in 2004 and listed 18.45mln shares on HOSE with a reference price of VND95,000 (US\$5.3) on 20 Jan 2010. The free float is around 11.27mln shares (61.1% of total listed shares)

The Company provides construction services for the industrial, office, residential and hotel sectors. As of 9M2009, the Company has generated revenues of US\$76mln (up 18% y-o-y) and net income of US\$9mln (up 81% y-o-y). Coteccons plans on broadening its core business to include real estate investments and development in the future.

Key points:

- At a price of VND114,000 (US\$6.2) per share, CTD will be valued at 9.5x FY09 P/E and 2.0x FY09 P/B, a 48% and 3.3% discount, respectively, to its local peers.
- From 2006-2008, the company has achieved revenue CAGR of 30%, twice as high as the growth rate for the construction industry during the period. CTD is the 9th largest construction contractor in Vietnam based on revenues in 2008.
- CTD's better than market revenue growth in the past 3 years can be attributed to the rise in FDI disbursements during that the period.
- Gross profit margins improved from 9% in 2008 to 14% through 9M2009, driven by the decline in raw material inputs. We expect a return to normalized gross margins of between 9%-11% in 2010 as raw material prices pick up from a recovering economy.
- CTD has a strong balance sheet and manages its cash more efficiently (54-day cash conversion cycle) compared to its competitors.
- CTD has built up a large back-log for 2010 and 2011, securing 79% of its targeted revenues for the respective years. The Company projects revenues of VND2,150bln (US\$116mln) and net income of VND200bln (US\$11mln) in 2010 and revenues of VND2,400bln (US\$130mln) and net income of VND225bln (US\$12mln) in 2011. EPS is expected to be VND10,840 and VND12,195 for 2010 and 2011, respectively.
- CTD plans to expand its core construction business into real estate investing and development. At the end of 3Q09, CTD had invested VND129bln (US\$7mln) in 7 real estate joint-ventures (20%-50% ownership). These projects include the Botanic II luxury apartments and Saigon Airport Plaza.

Valuation

At a price of VND114,000 (US\$6.2) per share, CTD will be valued at 9.5x FY09 P/E and 2.0x FY09 P/B, a 48% and 3.3% discount, respectively, to its local peers.

Figure 1. Quick valuation

Quick Valuation							
As of January 21, 2010							
Market Price	114,000	VND		6.4	US\$		
Share Outstanding	18,450,000	shares		18,450,000	shares		
Market Cap	2,103	VND'bln		118,163	US\$mIn		

		2006	2007	2008	2009E	2010E	2011E
Chartered Capital	VND'mIn	\$35,000	\$120,000	\$120,000	\$184,500	\$184,500	\$184,500
Net revenue	VND'mIn	823,960	1,344,701	1,823,189	1,950,000	2,150,000	2,400,000
% growth			63%	36%	7%	10%	12%
Pre-tax profits	VND'mIn	55,575	143,203	167,402	254,725	270,000	305,000
% growth			158%	17%	52%	6%	13%
Net profits	VND'mIn	55,575	125,385	144,187	220,739	200,000	225,000
% growth			126%	15%	53%	(9%)	13%
EPS	VND	275,809	14,442	12,016	11,964	10,840	12,195
Book Value per share	VND	27,145	66,592	74,674	55,853	64,231	71,939
Dividend per share	VND	N/A	N/A	N/A	2,000	2,000	2,000
ROE	%	58%	16%	16%	21%	17%	17%
P/E	x				9.5x	10.5x	9.3x
P/B	x				2.0x	1.8x	1.6x
EV/EBITDA	x				7.1x	6.1x	5.4x

Source: HRS research, Coteccons

Figure 2. Peers Comparison

							2008					Valuation Metric					
												P/E		EV/EBITDA		P/B	
							Name	Country	US\$/share	TSO (mm)	Market cap	TEV	Beta	Gross margin	Net Margin	ROA	ROE
%	%	%	%	US\$	x	x								x	x	x	x
Local		US\$		US\$m/in	US\$m/in		%	%	%	%	US\$	x	x	x	x	x	x
PETROVIETNAM CONSTRUCTION	VIETNAM	\$1.4	150	\$203	\$340	N/A	9%	5%	2%	5%	\$0.03	19.7x	9.9x	N/A	N/A	2.2x	N/A
CONSTRUCTION JSC NO 5	VIETNAM	3.2	10	33	58	1.2	8	4	3	18	0.18	18.2	9.3	10.3	5.3	3.2	3.0
HOA BINH CONSTRUCTION	VIETNAM	1.9	15	29	38	1.1	10	1	1	1	0.03	23.8	8.7	11.8	7.4	0.9	1.0
DESCON CONSTRUCTION CORP	VIETNAM	1.4	10	14	13	1.0	8	2	3	6	0.06	11.3	N/A	N/A	N/A	1.4	1.3
Average						1.1	9%	3%	2%	8%	\$0.08	18.2x	9.3x	11.0x	6.3x	1.9x	1.7x
Median						1.1	9	3	3	6	0.05	18.9	9.3	11.0	6.3	1.8	1.3
Regional																	
TODA CORP	JAPAN	\$3.6	323	\$1,152	\$1,367	1.0	7%	1%	1%	2%	\$0.13	N/A	23.7x	18.1x	15.0x	0.5x	0.6x
ITALIAN-THAI DEVELOPMENT PCL	THAILAND	0.1	4,194	391	972	1.7	2	(6)	(5)	(21)	(0.02)	N/A	40.8	9.9	9.0	1.0	1.0
PENTA-OCEAN CONSTRUCTION CO	JAPAN	1.1	246	262	995	1.0	8	1	1	5	0.11	N/A	19.8	6.2	7.6	0.4	0.4
SINO THAI ENGR & CONSTR PCL	THAILAND	0.2	1,186	231	232	1.4	4	1	1	4	0.00	33.7	21.5	8.4	7.0	1.7	1.8
EKOVEST BHD	MALAYSIA	0.4	142	64	79	1.3	9	4	3	5	0.04	24.2	27.8	6.7	7.1	0.7	0.7
TOTAL BANGUN PERSADA	INDONESIA	0.0	2,750	56	27	1.4	6	1	1	4	0.00	9.7	9.3	2.3	2.3	1.2	1.1
SYNTEC CONSTRUCTION PCL	THAILAND	0.0	1,600	42	47	2.1	7	5	7	16	0.01	8.1	5.7	4.2	3.6	0.8	0.7
NAWARAT PATANAKARN PUB CO LT	THAILAND	0.0	2,485	31	37	1.6	7	6	7	15	0.00	10.3	20.5	5.9	6.2	0.7	0.7
Average						1.4	6%	1%	2%	4%	\$0.03	17.2x	21.1x	7.7x	7.2x	0.9x	0.9x
Median						1.4	7	1	1	4	0.00	10.3	21.0	6.5	7.1	0.8	0.7
COTEC CONSTRUCTION JSC	VIETNAM	\$6.2	18	\$114	\$90	N/A	9%	8%	12%	16%	\$0.42	9.5x	10.5x	7.1x	6.1x	2.0x	1.8x

Source: HRS research

The Company

Established as a division of Technical Construction and Building Material Company (part of Building Material Corporation No.1), Cotec Construction (Cotecons) was equitized in 2004 and will list 18.45mln shares on HOSE with a reference price of VND95,000 (US\$5.3) on 20 Jan 2010. The free float is around 11.27mln shares (61.1% of total listed shares)

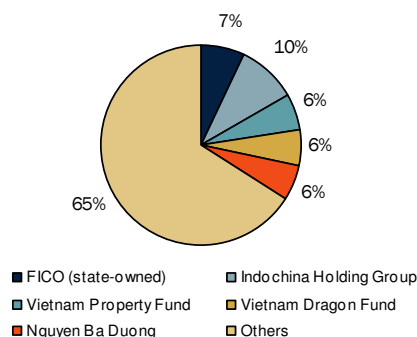
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Ownership

Indochina Holding group has the largest ownership position with 9.8%, followed by Building Material Corporation No.1 (Fico) with 6.9%, Vietnam Property Fund Ltd (5.9%), Vietnam Dragon Fund Ltd (5.7%) and Mr. Nguyen Ba Duong – Chairman and CEO of Cotecons (5.7%).

Figure 3. Shareholder Structure as of 30 September 2009

	No. of shares	Pct.
Local	13,399,230	73%
Foreigner	5,050,770	27%
Institutional	8,149,815	44%
Individual	10,300,185	56%
Total	18,450,000	100%
Major Owners		
FICO (state-owned)	1,266,000	6.86%
Indochina Holding Group	1,800,000	9.76%
Vietnam Property Fund	1,089,090	5.90%
Vietnam Dragon Fund	1,050,000	5.69%
Nguyen Ba Duong	1,058,800	5.74%
Others	12,186,110	66.05%
Total	18,450,000	100%



Source: Cotecons

Business Overview

Cotecons (CTD) provides construction services in four main areas, namely industrial, office, residential and hotels. From 2006-2008, the company has achieved revenue CAGR of 30%, twice as high as the growth rate for the construction industry during the period. CTD is the 9th largest construction contractor in Vietnam based on revenues in 2008 (according to Vietnam report and Vietnamnet ranking).

Figure 4. Growth in past 3 years

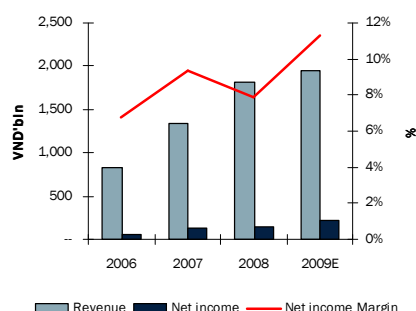
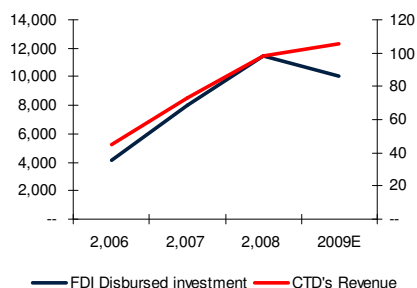


Figure 5. Correlation between FDI disbursement and CTD's Revenue



Source: HRS research, Cotecons

CTD's better than market revenue growth in the past 3 years can be attributed to the rise in FDI disbursements during that period. From 2006-2008, FDI disbursements grew from US\$4,100bln to US\$11,500bln, a CAGR of 41% and this was the main capital driver behind many industrial projects. As a result, the industrial segment became CTD's largest segment and made up 51% of total revenues and 57% of gross profits in 2008. In 2009, revenues from the industrial segment declined due to a reduction in FDI inflows stemming from the economic crisis. Consequently, CTD shifted its resources to office buildings, hotel & resorts and luxury apartments in order to utilize its top-down construction technique. CTD is the first construction company in Vietnam to apply this technique, which reduces construction time (by 20-30%) and ultimately labor costs and interest expense on the project. Projects such as the Saigon Happiness Square (completed in 18 months vs 24-month target) and Everich (completed in 13 months vs. 14-month target) are examples of CTD's efficiency. Through 9M2009, revenues have been more evenly distributed with residential (22% of revenues), office (30% of revenues) and hotels (21% of revenues) making up a larger percentage of total revenues.

Figure 6. Revenue Structure

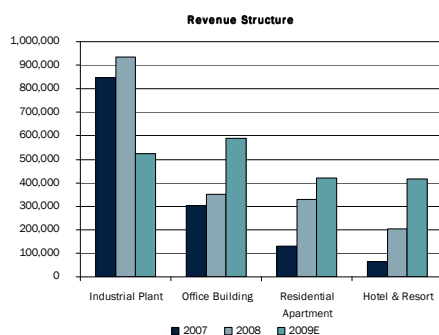
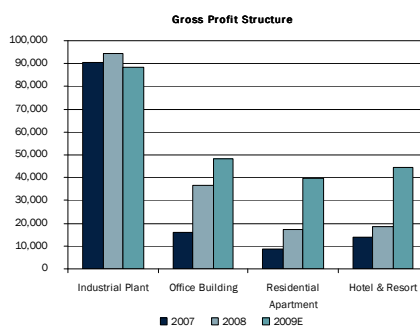


Figure 7. Gross Profit Structure



Source: HRS research, Cotecccons

Profitability

Gross profit margins improved from 9% in 2008 to 14% through 9M2009, driven by the decline in raw material inputs. According to the Ministry of Construction, the Construction COGS Index decreased 8.7% in the first nine months of 2009 while revenues (Construction Price Index) decreased by only 6.4%. We expect a return to normalized gross margins of between 9%-11% in 2010 as raw material prices pick up from a recovering economy.

Figure 8. Gross Margin

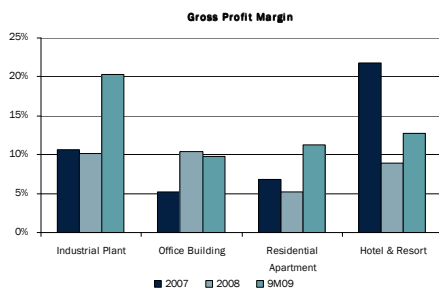
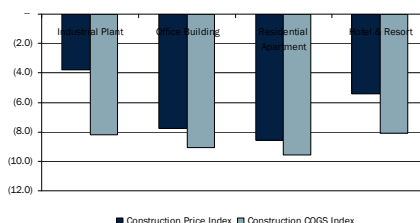


Figure 9. % change of Construction Price Index and Construction COGS Index 2008-3Q09



Source: HRS research, Cotecccons, Ministry of Construction

Company Note - Coteccons (HOSE: CTD)

Balance Sheet

CTD has a strong balance sheet and manages its cash more efficiently (54-day cash conversion cycle) compared to its competitors. We believe that CTD's strong brand name, accelerated construction process and high standard of quality have given the company increased negotiating leverage when transacting with suppliers and customers.

Figure 10. Balance Sheet Analysis

9M09	CTD	HBC	SC5	DCC
Accts Receivable days	37	84	59	75
Accts Payables days	14	35	27	36
Inventory Turnover days	30	61	288	88
Cash Conversion Cycle	54	109	320	127
Current Ratio (x)	1.9x	1.2x	0.1x	1.4x
Cash to Debt (x)	1.3x	0.2x	0.1x	0.8x
Debt to Equity (%)	0.3%	1.4%	5.3%	0.8%

Source: HRS research, Companies Financial Report

As of the end of September 2009, CTD had VND415bln (US\$22mln) cash on hand, providing the company with financial flexibility to invest in potential real estate projects.

2010-2011 Outlook

CTD had built up a large back-log for 2010 and 2011, securing 79% of its targeted revenues for the respective years. The Company projects revenues of VND2,150bln (US\$116mln) and net income of VND200bln (US\$11mln) in 2010 and revenues of VND2,400bln (US\$130mln) and net income of VND225bln (US\$12mln) in 2011. EPS is expected to be VND10,840 and VND12,195 for 2010 and 2011, respectively.

Figure 11. Major Contracts Pipeline in 2010-2011

No. Name	Investor	Value VND'bln	2009				2010				2011			
			1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
A/ Industrial Plant														
Tan Son Nhat International Airport Cargo	SCSC	\$450												
A Chau Sai Gon Food Material Plant	A Chau JSC	N/A												
B/ Office Building														
Coteccons Office Center	Coteccons Group	200												
Nam A Bank Office Building	Nam A Bank	97												
C/ Luxury Apartment														
Kenton Residence	Tai Nguyen Co. Consultant	475												
H18 Riverpark Residence	Phu My Hung	350												
Carina	Hung Thanh	355												
VRG River View	Vietnam Rubber Group	77												
Diamond Island	Binh Thien An	N/A												
The Everich II	Phat Dat	N/A												
Lan Phuoc MHB Tower	Lan Phuoc & MHB	N/A												
D/ Hotel & Resorts														
Marble Mountain	Indochina Land	1,172												
Ocean Villas	VinaCapital	350												
Liberty 6 Hotel	Liberty Que Huong	31												
Total		\$3,557												

Source: HRS research

CTD plans to expand its core construction business into real estate investing and development. At the end of 3Q09, CTD had invested VND129bln (US\$7mln) in 7 real estate joint-ventures (20%-50% ownership). These projects include the Botanic II luxury apartments and Saigon Airport Plaza. CTD had also invested VND200bln (US\$11mln) in the Coteccons Office Tower, its first 100% owned office and residential building. The 10,000 sqm office is expected to open in Dec 2010, generating an estimated US\$2.4mln of annual revenue. We will continue monitoring the progress of these projects and provide an update as it becomes available.

Financial Highlights

Income Statement	2006	2007	2008	3Q09
	VND'mln	VND'mln	VND'mln	VND'mln
Sales	\$823,960	\$1,344,556	\$1,823,189	\$1,447,681
COGS (incl. depreciation)	(761,893)	(1,215,601)	(1,656,424)	(1,251,227)
Gross profit	62,067	128,955	166,765	196,454
Sales and admin. expenses	(13,811)	(22,878)	(33,890)	(20,525)
EBIT	48,256	106,077	132,875	175,929
Income from financial activities	5,873	35,520	35,619	33,795
Expense from financial activities	(885)	(111)	(4,118)	(22,243)
In which: Interest expenses	(852)	(88)	(81)	0
Income from JVs & associates	0	0	0	0
Other profits	2,331	1,717	3,026	1,241
Taxes	0	(17,818)	(23,215)	(30,901)
Net income	55,575	125,385	144,187	157,821
Depreciation and amortization	N/A	5,017	9,611	9,941
EBITDA	N/A	111,094	142,486	185,870

Cashflow Statement	2006	2007	2008	3Q09
	VND'mln	VND'mln	VND'mln	VND'mln
Direct				
Collections from AR	\$817,476	\$1,453,059	\$2,175,086	\$1,369,062
Payment for AP	(454,575)	(886,478)	(1,312,000)	(857,949)
Payment for employees salaries	(13,717)	(26,946)	(36,775)	(47,538)
Payment for interest expense	(885)	(88)	(81)	0
Payment for enterprise tax	(56)	(5,628)	(26,723)	(12,556)
Other cash inflows from operating	28,478	47,291	110,738	31,651
Other cash outflows from operating	(371,066)	(708,197)	(913,042)	(422,384)
Net CF from operating	5,655	(126,987)	(2,797)	60,286
Net CF from investing	(3,811)	(128,564)	12,274	(16,272)
Net CF from financing	(17,996)	597,285	0	9,000
Net change in cash	(16,152)	341,734	9,477	53,014
Cash at beginning of year	26,843	10,691	352,430	361,909
Exchange rate fluctuation	0	5	3	0
Cash at end of year	10,691	352,430	361,910	414,923

Balance Sheet	2006	2007	2008	3Q09
	VND'mln	VND'mln	VND'mln	VND'mln
Cash & equivalents	\$10,691	\$352,430	\$361,910	\$414,923
Short-term investments	0	80,000	77,638	119,624
Account receivables	119,029	173,192	154,408	237,352
Inventories	47,002	100,476	149,512	128,005
Others	7,456	10,416	15,386	37,621
Current assets	184,178	716,514	758,854	937,525
Non-current assets	39,674	252,121	397,224	415,077
Total assets	223,852	968,635	1,156,078	1,352,602
Trade payables	38,061	61,745	56,656	82,891
Short term borrowings	0	0	0	0
Others	90,446	105,778	198,883	257,543
Current liabilities	128,507	167,523	255,539	325,846
Non-current liabilities	0	0	47	28
Total liabilities	128,507	167,523	255,586	325,874
Paid in capital	35,000	120,000	120,000	184,500
Retained earnings	21,070	93,988	96,631	143,854
Other funds	38,937	585,115	679,452	698,374
Owners' equity	95,007	799,103	896,083	1,352,602
Minority interest	0	0	0	0

Ratio Analysis	2006	2007	2008	3Q09
				VND'mln
Revenue Growth (%)	N/A	63.2%	35.6%	18.2%
Gross Margin (%)	7.5%	9.6%	9.1%	13.6%
Operating Margin (%)	5.9%	7.9%	7.3%	13.0%
Net Margin (%)	6.7%	9.3%	7.9%	10.9%
Net Income Growth (%)	N/A	125.6%	15.0%	70.7%
Accts Receivable days	50.0	37.9	29.8	37.1
Accts Payables days	18.2	15.0	13.0	13.7
Inventory Turnover days	11.3	22.1	27.5	30.4
Current Ratio (x)	1.4x	4.2x	2.9x	1.9x
Cash to Debt (X)	0.1x	2.6x	1.7x	1.3x
Debt to Equity (%)	1.4%	0.2%	0.3%	0.3%
Return on Assets (%)	43.1%	17.8%	12.5%	12.6%
Return on Equity (%)	101.6%	23.7%	15.7%	16.4%

Source: HRS research, Coteccons

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194 Nguyen Cong Tru Street, 5th Floor
District 1, Ho Chi Minh City
Vietnam

Tel: +848 3914 7027 Fax: +848 3914 7020
Email: info@horizonsecurities.com