

Expectation of debt recovery

Recommendation Tracking

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Target price	20,100
Close price	18,650
Upside	7.77%

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Target price	23,900
Close price	18,000

Market data

Number of shares (m)	196.07
Capitalization (bil. VND)	3,657
Highest price in 52W	33,400
Trading volume average	2,295
Foreign ownership	20.96%

Major shareholders

Le Viet Hai	17.5%
PYN Elite Fund	15.8%
Deutsche Bank	4.5%
Lucerne Enterprise	4.5%

Price history (1 year)



Company Overview

Hoa Binh Construction Group Joint Stock Company is a company that constructs civil and industrial works with the proportion of revenue contributing over 80%, expanding the whole country and concentrating mainly in Ho Chi Minh City.

Other report

[\(link\)](#)

Valuation

We recommend Tracking HBC with a target price of VND 20,100/share based on the P/E method, with a target P/E of 6.5x (P/E median of construction VN = 7.6x). Closing price HBC on 03/29/2019 = VND 18,650/share - P/E T12M = 5.7x - P/B T12M = 1.3x.

Forecasting business results 2019

We forecast that HBC's Revenue and NPAT FY2019E will reach VND 19,404 billion (+6.6% yoy) and VND 614 billion (-4% yoy), equivalent to EPS FW 2019 = VND 3,099/share (deducted 5% B&WF), P/E FW = 6.3x and P/B FW = 1.2x.

Catalysts

1. HBC prepares to issue shares to strategic partners.
2. The company actively recovers debts to reduce customer receivables.

Risks

1. Construction industry will continue to face difficulties due to fierce competition.
2. Liabilities and short-term receivables increased causing cash flow from operation activities was negative.
3. Trend of shifting to property-medium segment makes construction gross profit margin shrink.

Update 2018 business results

EAT dropped sharply because of lower gross margin and higher interest expenses. Net revenue reached VND 18,203 billion (+13% yoy), EAT reached VND 627 billion (-27% yoy), equivalent to EPS 2018 = VND 3,246/shares (-51% yoy). Value of new and backlog contracts in 2018 reached VND 25,852 billion (+26.2% yoy) and VND 25,524 billion (+20.3% yoy).

The big risk of HBC coming from receivables has increased sharply.

We note that short-term receivables reached VND 11,104.5 billion (+20.8% yoy) mainly come from **(1)** Short-term receivable of customer reached VND 6,140.9 billion (+90.4% yoy); and **(2)** Receivables of construction contract schedule is VND 4,107.4 billion (-12.1% yoy). **(3)** Provision for bad debt in 2018 is still VND 63 billion, equivalent to 10.06% of NPAT, HBC continues to make provision for bad debt nearly VND 387 billion (+19% yoy).

Raising short-term debts make interest expenses increase sharply.

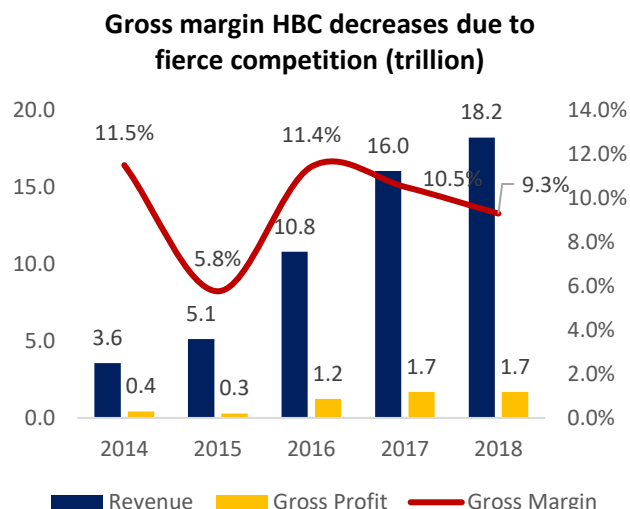
HBC's short term debts reached VND 12,967 billion (+ 12.45% yoy), with a financial leverage ratio of 4.4x, due to short-term debt increased VND 12,292.9 billion (+12.7% yoy). Thereby, interest expenses increased sharply to VND 306 billion (+15% yoy), causing net margin decrease to 3.4% in 2018 (5.4% in 2017). In Jan 2019, thanks to collect debt quickly, HBC's total outstanding loans reduced to VND 3,868 billion (-10.9% yoy). Thereby, we appreciate HBC positively if it continues to reduce the debt ratio in 2019, which will reduce the interest expenses to help net margin improve.

HBC also recently announced the private placement of shares for foreign partners to be completed in Q2/2019.

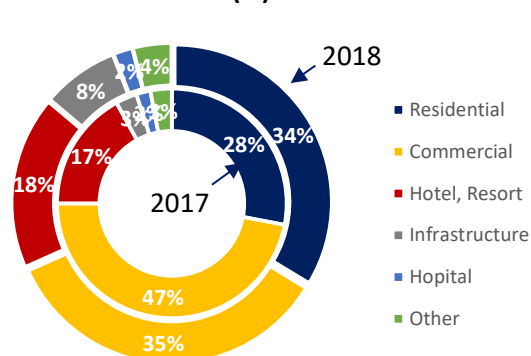
HBC expects to issue an additional 25 million shares about VND 500 billion of value, we assess that new capital will help HBC restructure corporate finance partly.

Update business results 2018

EAT dropped sharply because of lower gross margin and higher interest expenses. Net revenue reached VND 18,201 billion (+13% yoy), EAT reached VND 626 billion (-27% yoy) equivalent to EPS 2018 = VND 3,246/share (-51% yoy). Gross profit reached VND 1,692 billion (+0.35% yoy) with gross margin = 9.3%, lower than 10.5% in 2017 mainly because the profit margin of construction contracts decreased due to the fierce competition.



Revenue breakdown HBC 2017-2018 (%)



Source: BSC Research, HBC

Mixed-used commercial and residential projects account for 69% of HBC's construction revenue structure. In 2018, proportion of residential projects maintained at 35% compared to 2017 is 34%, but the weight of office and commercial buildings decreased by 35% compared to 47% of 2017. Additionally, HBC worked as a D&B contractor for Dung Quat Iron and Steel project for Hoa Phat in 2018 with a total value of basic construction contracts estimated at VND 10,000 billion, helping industrial projects weight increase to 8% (2017 was 2%). However, we note that the industrial projects weight will be reduced due to the completion of Dung Quat Iron and Steel project in 2019.

HBC's revenue from real estate projects reached VND 527 billion in 2018. Projects recorded revenue in 2018 including: Riva Park, Soho Premier, and Grand Riverside. In 2019, HBC will continue to complete and hand over the Ascent Lakeside project with the scale of 148 apartments, 69 officitel units and 372 m2 of trade (124 apartments have been sold) through which we expect the real estate segment. will maintain its contribution to HBC.

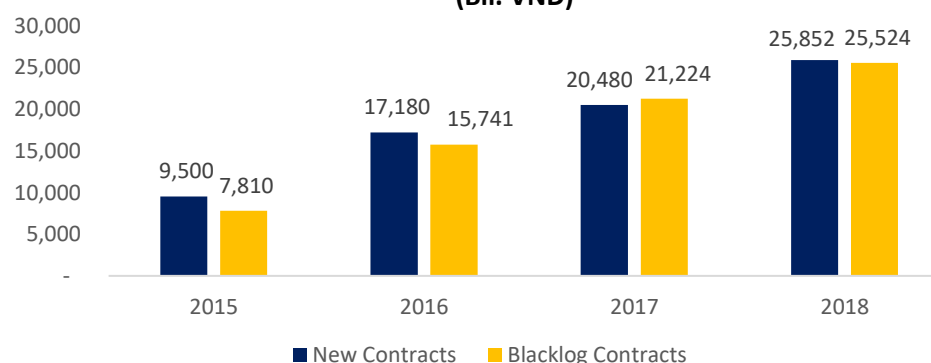
Real estate projects of HBC in the coming years:

No.	Projects	Size (unit)	Sold out	Rev 2018 (bil.)	Status	2018	2019	2020	2021
1	Riva Park	180	180	99	Completed	■			
2	Soho Premier	150	150	36	Completed	■			
3	Grand	175	162	392	Completed	■			
4	Ascent Lakeside	148 + 69 officetel + 372 m2 Commercial	124	-	Building to F.23		■		
5	Ascent Plaza	348 + 7,054 m2 Commercial	342	-	Legal Process			■	
6	Ascent Penta View	83 + 329 m2 Commercial	75	-	Legal Process			■	
7	Ascent Garden Homes	478 + 54 officetel	-	-	Legal Process			■	
8	Grand Central	48	-	-	Legal Process			■	
9	Ascent City View	294 + 46 officetel	-	-	Legal Process				■

Source: BSC Research, HBC

The value of new and backlog contracts in 2018 increased to VND 25,852 billion (+26.2% yoy) and VND 25,524 billion (+ 20.3% yoy) respectively. Vincyty's construction project contributed 15% of HBC total new contract estimated to VND 3,872.82 billion, of which: Vincyty Ocean Park (VND 2,470 billion), Vincyty Sportia (VND 1,076.82 billion), and Vinhomes Westpoint (VND 326 billion). The construction gross margin for Vincyty projects is usually lower about 5%, which has affected HBC's gross margin to 9.3% in 2018.

New and Backlog Construction Contract Value HBC 2015-2018 (Bil. VND)



Source: BSC Research, HBC

The big risk of HBC coming from receivables has increased sharply. We note that short-term receivables of 11,104.5 billion VND (+ 20.8% yoy) mainly from **(1)** Short-term receivables of customers reached 6,140.9 billion VND (+ 90.4% yoy); **(2)** Receivables according to construction contract progress is 4,107.4 billion VND (-12.1% yoy). However, in 1/2019, HBC actively collected debts of VND 2,900 billion, so we estimate that HBC's receivables from customers in 2019 may decrease to VND 9,604 billion (-13.5% yoy). **(3)** HBC has to make provision for bad debts of VND 387 billion (+ 19% yoy) and HBC has now introduced measures to reduce receivables such as pressure on investors, stop construction or sue, etc. Provision for bad debt of parent company in 2018 increased to VND 63 billion, equivalent to 10.06% of EAT. Additionally, total value of receivables of parent company reached VND 546 billion with debt age from 6 months to over 3 years at Dec 31th, 2018.

Raising short-term debts make interest expenses increase sharply. HBC's short term debts reached VND 12,967 billion (+ 12.45% yoy), with a financial leverage ratio of 4.4x, due to short-term debt increased VND 12,292.9 billion (+12.7% yoy). Thereby, interest expenses increased sharply to VND 306 billion (+15% yoy), causing net margin decrease to 3.4% in 2018 (2017 was 5.4%). In Jan 2019, thank to collect debt quickly, HBC's total outstanding loans reduced to VND 3,868 billion (-10.9% yoy). Thereby, we appreciate HBC positively if it continues to reduce the debt ratio in 2019, which will reduce the interest expenses to help net margin improve.

HBC also recently announced private placement to foreign partners to be completed in Q2/2019. HBC expects to issue 25 million shares estimated to VND 500 billion, so new capital will help HBC restructure corporate finance partly.

Forecast of business results 2019

We forecast Revenue and NPAT FY2019 will reach VND 19,404 billion (+ 6.6% yoy) and VND 614 billion (-4% yoy), equivalent to EPS of 2019 = VND 3,099 per share (minus 5% B&WF), P/E FW = 6.3x and P/B FW = 1.2x. We assume that value of new and backlog contracts in 2019 will reach VND 25,860 billion (+ 0.03% yoy) and VND 32,422 billion (+ 27% yoy). Gross profit margin 2019 decreased to 8.9% and interest expense was about VND 342 billion (+12% yoy).

Valuation

We recommend Tracking HBC with a target price of VND 20,100 per share with P/E target of 6.5x (P/E median of construction VN = 7.6x).

SUMMARY OF FINANCIAL STATEMENTS

	2014	2015	2016	2017	2018
Net Revenue	3,518	5,078	10,766	16,035	18,202
Goss profit	410	296	1,232	1,693	1,692
Financial income	70	87	103	119	61
Close price	(99)	(132)	(153)	(265)	(324)
Interest	(97)	(130)	(145)	(262)	(306)
Cost of sales	(9)	(26)	(105)	(62)	(70)
Enterprise Cost Man	(280)	(120)	(378)	(479)	(569)
Profit/loss of busin	89	114	704	1,031	781
Other Income (net)	(0)	7	11	46	20
profit before tax	89	120	715	1,077	801
profit after tax	69	83	568	860	627
Minority shareholder	(2)	(1)	1	0	(10)
Company profit	71	83	567	860	637
EPS	1,401	1,105	5,941	6,617	3,215

Revenue in 2018 reached 18.202 billion VND thanks to the increase in revenue from transitional contracts for 2018. Interest expenses reached 306 billion VND (+16.8% yoy), so the CPC reduced to 3.4%.

However, we note that the profit margin decreased to 9.3% due to the reduction in the gross margin of construction projects and the increase in raw material costs.

Short-term assets	4,958	6,146	9,900	11,586	13,509
Money and Short-ter	1,333	949	1,770	1,192	423
Short-term receivabl	3,032	4,212	6,775	9,105	11,105
Inventory	561	923	1,229	1,188	1,810
Other short-term Ass	31	62	126	102	172
Long term asset	845	1,145	1,550	2,342	2,388
Long term receivabl	94	9	38	35	56
Fixed assets	367	638	1,086	1,420	1,433
Long-term uncomple	46	42	25	54	41
Other long-term ass	70	179	223	446	495
Total asset	5,803	7,291	11,450	13,928	15,897
Liability	4,806	6,217	9,620	11,460	12,967
Short-term debt	4,489	5,806	8,886	10,827	12,293
Short-term loans	1,813	1,890	2,720	4,277	4,073
Long-term liabilitie:	317	411	734	634	674
Long-term loans	104	156	434	337	269
Equity	996	1,074	1,830	2,468	2,929
Capital	574	756	954	1,299	1,961
Undistributed profits	135	115	535	824	630
Total capital	5,803	7,291	11,450	13,928	15,897

We note that short-term receivables of HBC increased significantly to 11,105 billion VND (+21% yoy) and cash was only 423 billion VND (-64.5% yoy)

We note that short-term loans of HBC reached 12,293 billion VND(+13.5% yoy) due to bank loans to carry out pre-construction for projects.

% yoy DT	#N/A	66%	165%	367%	417%
Gross profit margir	12%	6%	11%	11%	9%
Interest / Net reven	3%	3%	1%	2%	2%
Selling expenses / N	0%	1%	1%	0%	0.4%
Enterprise manager	8.0%	2.4%	3.5%	3.0%	3.1%
Net profit margin	2.0%	1.6%	5.3%	5.4%	3.4%

GM and net profit both decreased by 9% and 3.4% respectively due to higher COGS and higher interest expenses.

FINANCIAL RATIO

	2014	2015	2016	2017	2018
1. Liquidity ratio					
Current ratio	1.10	1.06	1.11	1.07	1.10
Quick ratio	0.97	0.89	0.96	0.95	0.94
2. Capital structure ratio					
Ca/TA	0.85	0.84	0.86	0.83	0.85
NCA/TA	0.15	0.16	0.14	0.17	0.15
Liabilities/TA	0.83	0.85	0.84	0.82	0.82
Liabilities/TE	4.83	5.79	5.26	4.64	4.43
CL/TA	0.77	0.80	0.78	0.78	0.77
NCL/TA	0.05	0.06	0.06	0.05	0.04
3. Operating efficiency ratio					
Inventory turnover	8.0	6.4	8.9	11.9	11.01
Receivable turnover	5.2	7.1	7.6	6.6	4.22
Payable turnover	4.4	4.8	6.0	5.9	4.75
Days of inventory	45.4	56.6	41.2	30.8	33.14
Days of receivables	70.8	51.6	48.2	55.0	86.41
Days of payables	82.7	75.7	60.8	62.2	76.87
CCC	33.56	32.53	28.65	23.58	42.68
4. Profitability ratio					
Net income/NSale	2.0%	1.6%	5.3%	5.4%	3.4%
ROE	7.1%	8.0%	39.1%	40.0%	23.2%
ROA	1.3%	1.3%	6.1%	6.8%	4.2%
Oper profit/NSale	2.5%	2.2%	6.5%	6.4%	4.3%
5. Dupont analysis					
TA/TE	5.41	6.32	6.45	5.90	5.53
NSale/TA	0.67	0.78	1.15	1.26	1.22
EBIT/NSale	0.05	0.05	0.08	0.08	0.06
EBT/EBIT	0.48	0.48	0.83	0.80	0.72
Net income/EBT	0.77	0.69	0.79	0.80	0.78
6. Valuation multiples					
PE		20.5	3.8	3.4	5.7
PB		1.595	1.337	1.308	1.331
EPS		1,105	5,941	6,617	3,246
BVPS		14,202	16,937	17,316	13,862
7. Growth (%yoy)					
TA	22.8%	25.6%	57.0%	21.6%	14%
Liabilities	4.8%	7.9%	70.3%	34.8%	19%
Sale	2.5%	44.3%	112.0%	48.9%	14%
GP	31.2%	-27.9%	316.8%	37.3%	0%
NI	190.1%	20.4%	585.7%	51.4%	-27.1%
EPS					

We note that the Debt / Equity ratio has reached 4.4 times so the financial structure of the business is currently unbalanced.

The number of receivable days of HBC increased to 86.41 days, mainly due to HBC giving deferred payment to investors, which caused the business lines to decline.

Net profit margin reached 4.2%, a significant decrease compared to the past due mainly to the decrease in gross profit margin and higher interest expense.

We note EPS 2018 decreased by 51% to VND 3,246, making the current P/E valuation up to 5.7x

HBC_Hold in Short Term

Technical highlights:

- Current trend: HBC is still in the corrective zone in the short term and is likely to continue to be adjusted in the medium and long term
- MACD trend indicator: MACD moves down below the signal line and stays above the center line.
- RSI indicator: In the oversold area and tend to recover to the selling area
- MA lines: All MA lines continue moving downwards except for SMA20 and SMA50 upwards.

Outlook: HBC mobilized in the price range of 18-20 and within the region adjusted from the peak area of 21.1 in early March 2019. Stock liquidity in a positive state with an average liquidity of 20 sessions continued to increase. RSI moved in the oversold area, likely to return to the selling zone and support the possibility of recovering stocks and the MACD showed that HBC could be adjusted in the next sessions. Mobilizing SMA lines to turn down while SMA 20 and SMA 50 are pointing up, indicating that the correction will continue to be maintained in the medium and long term and is likely to recover in the short term. If stocks recover to above SMA20 and SMA 150 with positive liquidity, HBC will be able to recover to the price range of 21.1 - 25.49. If HBC continues to maintain its correcting momentum and falls below 17.9, HBC will be able to test the bottom of 15.35 - 17.2.

Recommendations: HBC is not suitable for short-term investment because it is in the corrected area. Investors can monitor this stock and consider opening a short-term position if HBC recovers above 20 SMA and SMA 150 with positive liquidity. Open position at the level of 20.45 - 22, take profit at the price range of 23.9 - 25.4, cut loss at 19.



Disclosure

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