



INDUSTRY: INDUSTRIALS

SECTOR: HEAVY CONSTRUCTION

ICB code: 2357

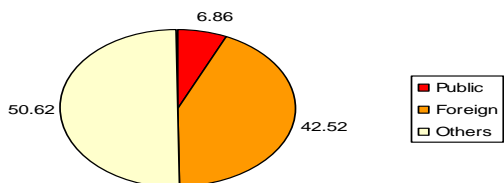
Bloomberg Ticker: CTD VN

Date: 08/07/2010

Stock Data

Stock price at 08/07/2010 (VNĐ)	78.000
Price range in 52 weeks (VNĐ)	75.000-150.000
Average price in 3 months	107.024
Average Volume in 3 months	49.419
No. of shares outstanding	30.750.000
Market Cap (billion VNĐ)	1439,1
Market Weight	0,30%
Available Room for foreign investors	1.991.400
Ownership structure	
• Public	6,86%
• Foreign	42,52%
• Others	50,62%

Ownership Structure:



Source: VCBS

Price Chart



COTEC CONSTRUCTION JOINT STOCK COMPANY- COTECCONS (CTD)

Overview

COTEC Construction Joint Stock Company - COTECCONS (CTD) is the leading company in the construction industry of Vietnam with several outstanding competitive advantages of different aspects from structural engineering expertise, advanced specialised equipment, reputational goodwill to financial and human capital strength.

As far as the current price of 78,000 VNĐ (08/07/2010) is considered, CTD stock is significantly undervalued by the market comparing to its current capability. Possible reasons would be due to the cautiousness of investors after the recent crash and the tendency of short-term surfing on penny stocks.

RECOMMENDATION: Buy CTD stock at the current price for 6 months. The price of exit should be 108.049 VNĐ based on the valuation.

Financial ratios of CTD over the years:

	2007	2008	2009	1Q2010	2010F
Net Revenue (billion VNĐ)	1.345	1.823	1.962	577	2.300
Earning after tax (billion VNĐ)	125	144	228	52	210
Total Assets (billion VNĐ)	969	896	1.098	1.148	
Shareholders' Equity (billion VNĐ)	799	896	1.098	1.148	
Debt ratio (%)	17,50	0,00	0,00	0,00	0,00
Net profit margin (%)	9,33	7,91	11,62	8,98	9,13
ROA (%)	21,03	15,46	22,88	4,62	
ROE (%)	28,05	17,01	22,88	4,62	
BV (VNĐ)	66.592	49.782	60.230	62.236	
Basic EPS (VNĐ)	14.442	12.016	12.516	13.745	8.126
P/E	5,40	6,49	6,23	9,53	9,59

Company's performance in quarter 1/2010

Revenue from operating activities has shown a great increase. The value is up to 577 billion VNĐ for the first quarter indicating a 48,14% as compared to the same quarter last year. This growth is explained by the fact that CTD had won several significantly large construction contracts in the early of this year and some of them have been initiated in the first three months of the year such as:

- The AB package of Marble Mountain Beach Resort with value of 910 billion VNĐ and starting date on 15/01/2010
- The next four packages of the Ocean Villas project at the value of 360 billion dong and the commencement day on 18/01/2010
- Lan Phuong MHBR Tower commencing on 16/01/2010
- The EverRich II starting on 14/01/2010 and other projects with decent sizes

Nonetheless, earnings from operating activities decreased by 9,12% as compared to quarter 1/2009. This financial result is likely caused by the increased prices of



Major shareholders of CTD at 08/07/2010:

Major holders	Shares holding	%
Nguyễn Bá Dương	1,764,667	5.74
VN Dragon Fund Ltd	1,750,000	5.69
VN Property Fund Ltd	1,815,150	5.90
IndoChina Holding Group	3,000,000	9.76
Cty TNHH TM Ánh Sáng	2,110,000	6.86
Red River Holding	1,607,683	5.23

Nguồn:CTD

Basic Financial Ratios

	2007	2008	2009
Gross Revenue (billion VNĐ)	1.345	1.823	1.962
YoY(%)	62%	36%	8%
Earning after tax (billion VNĐ)	125	144	228
YoY(%)	126%	15%	58%
Total Assets (tỷ VNĐ)	969	896	1.098
YoY(%)	333%	19%	53%
Shareholders' Equity (billion VNĐ)	799	896	1.098
YoY(%)	741%	12%	22%
Debt ratio (%)	17,50	0,00	0,00
Net Profit Margin (%)	9,33	7,91	11,62
ROA(%)	21,03	15,46	22,88
ROE (%)	28,05	17,01	22,88
EPS ¹ (VNĐ)	14.442	12.016	12.516
YoY(%)	-95%	-17%	4%

Company Overview

Before its establishment, COTECCONS was originally a Construction Division which was a part of Construction Corporation No.1 of Ministry of Construction. On 30/07/2004, business license no. 1242QD/BXD was signed by the Ministry of Construction to privatize the Division to a joint stock company. After that Coteccons was officially established on 24/08/2004 with authorized share capital of 15,2 billion VND. On 20/01/2010, CTD was officially registered on Ho Chi Minh Stock Exchange with face vale of 10000 VND and opening matched price of 95000 VND. Currently the company registered capital has gone up to 30,75 billion VND.

The company specializes in providing services in

building materials and fuels, which served as the company's major inputs.

Among building materials, steel prices have experienced extraordinary changes. In the beginning of January 2010, steel selling prices was within 11,1 to 12,1 million dong/ton, however, in the early of April, steel prices had reached the level of 17 million dong/ton. According to the Vietnam Steel Association, the main reason for the changes in prices is due to the speculation of steel companies along with the increased prices of steel billets and steel in general in the world market. Besides, the prices of cement and other building materials also rised slightly due to high demand for construction and increased prices of inputs used to produce those materials.

Chart of Steel Index on NYSE for the trailing 12 months:



Source: Bloomberg

As long as fuels and power are concerned, electricity price was adjusted up 6,8% and there were the continuous fluctuations of oil and petrol prices in the first three months of the year. These facts also contributed to the difficulties facing the firm in controlling input costs.

Overall, all these changes made COGS grow faster than revenue (54,60% compared to 48,14%), hence, Gross profit margin fell from 15,45% to 11,76% and Net income after tax fell by 9,12% when compared to the first quarter of 2009.

A part from that, the fact that administrative expenses went up to 17,8 billion VND (a 245,24% rise as compared to the same quarter last year) is also one of the cause of the fall in net income. However, this drastic increase in administrative costs was not due to inefficiency of cost control but rather caused by the increase in the company's size and capacity compared to those in first quarter of 2009. Actually, the administrative expenses in the previous quarter (fourth quarter of 2009) were already 16,1 billion.

Net profit before tax increased 85,26% as compared to first quarter of 2009. However, major part of the rise was coming from the company's financial income whereas Provision for deterioration of investments actually fell by 26 billion dong. The gap of this quarter and last-year same quarter was created by the fact that there was a record of 23,5 billion increase in the provision account in first quarter of 2009 as opposed to a fall of 2,7 billion in quarter 1/2010. In fact, if compared to the previous quarter (Q4/2009), net profit before tax actually decreased slightly by 6,76%.

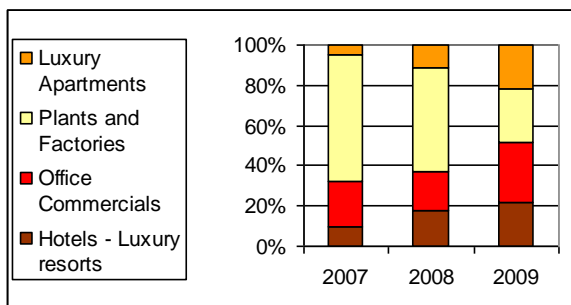
¹ Basic EPS



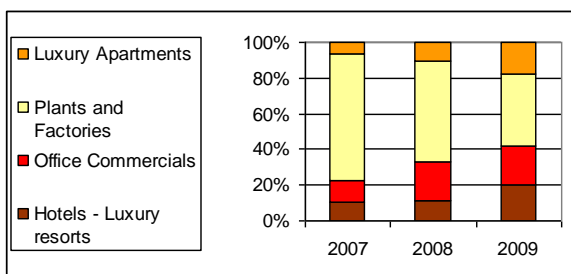
construction, installation, layout design and consultation of large residential and industrial projects such luxury housing, commercial building, factories, hotels and resorts. In addition, CTD also expanded its scope to area such as infrastructures, traffic, water irrigation and real estates.

Since its establishment, the company has been developing and growing at an astonishing pace with many impressive achievements. Extremely notable was the fact that CTD received the Title of no.1 construction company in the private company group awarded by Vietnam Report in three consecutive years 2007, 2008 and 2009. Moreover, the company also showed great leadership and cost controlling ability during economic downturn. The obvious example is that in the year 2009, while many construction companies incurred losses, CTD still had a successful year with a surprising jump in profit.

Revenue Structure with respect to product:



Net Income Structure with respect to product:



Source: VCBS

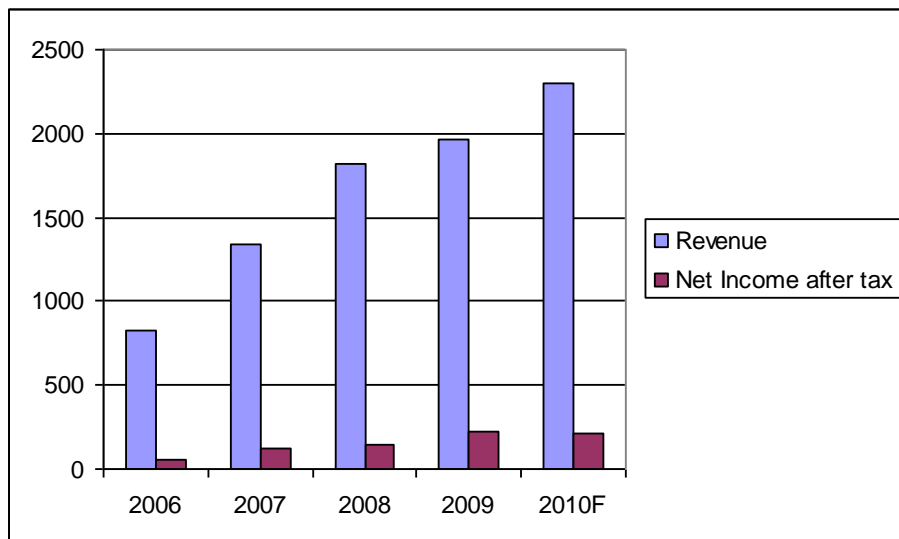
Major construction contracts

City Garden



Nonetheless, in general, the company performance has satisfied the budget for 2010. Specifically, gross revenue of the first quarter reached 577 billion dongs achieving 25,1% of 2010 budget (2300 billion) and net income after tax was 51,8 billion which accounted for 24,7% of the budget (210 billion). The fact that net income after tax is lower than 25% of the budget is reasonable since revenue and profit of the first quarter are always the lowest in a year as far as construction industry is concerned.

Revenue and Net Income after tax over years (billion dongs):



Source: VCBS

Expectations for 2010

Inputs for construction industry are mainly building materials such as steel, iron, cement and others. Thus, fluctuations in prices of those materials will have major effects on companies' performance.

During the past few months (May and June), the prices of steel and cement had experienced sharp falls. Supply has exceeded demand. Particularly, steel price had been readjusted down several times, and it almost reached its bottom with the price approximately 12 million dongs/ton. Main reasons was the competition of steel price in the world and the fall in price of steel billets imported. According to recent news, in June, world steel prices fell by 5,1%. Steel consultancy organization MEPS of England predicted that steel prices will continue to fall in the end of the year. Vietnam Steel Association also stated that due to steel production licenses were issued without serious considerations in the market since 2005, most steel plants and factories are experiencing excess capacity which leads to the imbalance of supply and demand currently.

Under the quietness of prices for building materials, the COGS of COTECCONS is expected to be improved significantly in the later quarters of this year. Another good news is that, with the advantage of its own reputation and goodwill, CTD had won several large contract in the first six months of the year. Important recent projects include the City Garden project (HCMC) with tender size up to 953 billion dongs, the commercial Indochina Plaza Hanoi with price of 417 billion dongs and the Tricon Tower with tender price of 250 billion dongs. Overall, total size of all contracts that CTD was awarded and initiated up to now have gone up to the value of 5600 billion VND. This would help stabilize the revenue and cash flows of the company in the next two years and also confirm once again the leading role of the company in construction industry.

As a result of the doubled effects of the facts above, earnings after tax of CTD in 2010 may well exceed the budget (210 billions dongs) if all projects go as planned.

Structure of Revenue and profit of CTD has changed dramatically over recent years.



Address: 59 Ngô Tất Tố st., Bình Thạnh district, HCMC
 Invest: City Garden Apartment Ltd và COTECCONS
 Area: 23.000 m²
 Tender size: 953 billion dong\$

Diamond Island



Address: District 2, HCMC
 Investor: BTA Development Investment
 Current stage: stage 1 expected to complete in 20 months, has commenced on 02/09/2009

Marble Mountain Beach Resort



Address: Hòa Hải, Ngũ Hành Sơn, Đà Nẵng city
 Investor: Indochina Land
 Tender size: 1.172 billion dong\$

The Ocean Villas



Before 2009, both revenue and income of CTD mainly came from industrial project such as building manufacturing plants and factories. However, this structure has gradually moved from industrial projects to other areas in a more balanced way: revenue of each products accounted for more than 20% of total revenue. At the moment, revenue from Commercial Office projects is the highest accounted for 30,2% of the total; on the other hand, net income from industrial projects is still ranked first among the four (40,05%). Overall, this change is a good improvement since it helps diversify the risk of investing heavily in one activity and open the chance for CTD to compete with companies in different market segments.

In addition, the company also invests in real estates in forms of direct and joint investments:

- Cotecons Office: 232 Dien Bien Phu st, Binh Thanh District, HCMC, expected to finish and commence operations in November/2010. The company will use 2-3 floors for its own office and the rest is for rent.
- Property rights for three area of land on Dien Bien Phu street (109/8A, 236/2, 236/6), Binh Thanh District, HCMC with the intention of opening for renting after finishing construction. The current Book Value is 64,66 billion VND
- Other projects of joint investment: Botanic Garden in district 7 (HCMC), Saigon Airport Plaza at Tan Binh district (HCMC) and so on.

No revenue has been officially recorded for this source of investment, however, real estate investment is directed to be one of the two main strategies (the other is construction activities) of CTD in the future and help diversify the risks in its core activities (construction).

As far as the future of construction industry is concerned, demand for accommodation in Vietnam is still very high. According to the result of the Investigation of Population of Accommodations in Vietnam, given the population growth of 1 million people per year, Vietnam will need 19 million square metres of accommodation areas a year. However, there has been a sign of slowing-down in demand of commercial office. The reason is supply almost exceeds demand which can be evidenced by an 11% fall in office rental price as compared to the same quarter last year. As long as manufacturing plants and factories is concerned, the source of demand still grows in a stable manner since Vietnam is currently in the state of industrialization. In a overall view, with the current demand, construction industry will remain one of the industries with highest GDP growth and promise a stable revenue stream for respectable companies in the industry.

Ratio Analysis (2009):

Stock ticker	CTD	CNT	HBC	DIG	SD5	SJS	SC5	SD7
Net Revenue (billion dong\$)	1.962	2.709	1.825	1.631	1.197	1.177	1.132	1.060
Inventory turnover in days	45	24	119	294	149	44	263	108
Account Receivable Turnover in days	38	64	32	56	57	32	42	63
Account Payable Turnover in days	26	27	25	33	33	61	23	64
Cash Conversion cycle	57	60	127	318	173	15	282	107
Current Ratio	1,73	1,16	1,24	3,07	1,42	2,22	1,30	1,13
Quick Ratio	1,22	0,76	0,49	2,06	0,50	1,83	0,19	0,44
Cash Ratio	0,80	0,15	0,23	1,53	0,11	1,66	0,05	0,20
Debt to Equity ratio (%)	0,00	325,0	59,7	20,3	92,4	25,2	159,8	53,2
ROA (%)	15,6	3,1	4,2	19,4	9,0	32,3	3,4	4,4
ROE (%)	22,9	21,3	9,8	40,2	34,5	49,7	18,2	13,4

Source VCBS

Companies with similar sales generating ability in the industry were chosen to



Address: Sơn Trà – Điện Ngọc, Ngũ Hành Sơn District, Đà Nẵng city
 Investor: Vina Capital
 Area: 21 ha, 97 villas
 Tender size: 360 billion dong

Indochina Plaza Hanoi



Address: 239 Xuân Thủy st., Cầu Giấy district, Hà Nội
 Investor: Ha Noi Residential & Commercial Centre
 Tender size: 417 tỷ đồng

Tricon Tower



Address: Song Phương commune, Hoài Đức District, Hà Nội
 Investor: Minh Viet Investment Joint Stock Company (MVI)
 Area: 17.211 m²
 Tender size: 250 billion dong

compare with CTD.

The Cash Conversion Cycle of CTD is shorter than other companies. This indicates that CTD has great speed of implementing construction projects and decent efficiency in debt collecting. This will help boost up the process of changing inventory into sales and converting sales into cash (both inventory turnover in days and account receivable turnover in days of CTD are at the top three). Since most CTD's customers are large companies which have great financial strength and always invest in large-scale projects with careful preparations and considerations, debt was collected with few problems.

Moreover, short-term insolvency is always in control. In order to keep up with the growth in revenue, CTD's current assets and current liabilities have the tendency to increase over years where great jumps were shown in 2007 and 2009, nonetheless, all short-term insolvency ratios are at a decent level. For example, current ratio, quick ratio and cash ratio are all ranked third in the group of 8 similar stocks.

The significant difference between CTD and the others is that it has almost no financial risks. The debt to equity of the company is close to zero since it uses no financial leverage. Although this choice took away the tax advantage of interest expenses and lowers the profitability ratios ROE, this ratio was still ranked third in the group of related companies. This also indicates CTD has chosen a sustainable and safe path as the main strategy for its long-term growth. It is quite understandable since with the current financial health, the company has enough capital to take on large projects without using debt financing.

Stock Valuation

Based upon the Multiple method, i.e comparing different price ratios (P/E, P/B, P/EBITDA and P/S) of similar companies in the industry (with revenue from 1000 to 3000 billion dong) at the end of the year 2009, CTD stock is valued at 89.728 dong/share (after adjusted for the stock bonus and 10% dividend paid). Therefore, compared to the market price, CTD is 15 percent below its true value.

Given the expected revenue and net income after tax for the year 2010, the expected price of CTD is valued at 108.049 VND. When compared with the current price of 78.000 VND in the market, expected return at year end would be 38,5%.

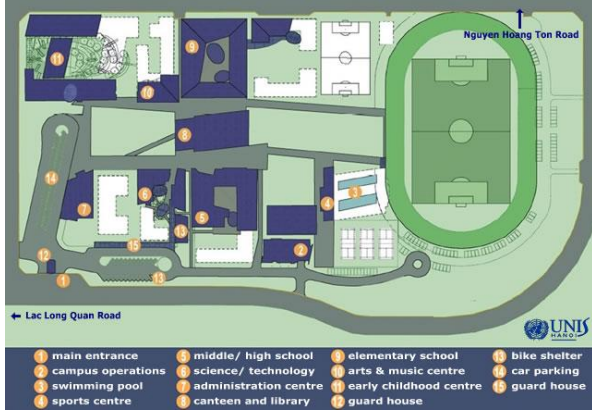
Price related ratios related companies in the industry:

	P/E	P/B	P/S	P/EBITDA
CNT	6,16	1,54	0,10	4,07
HBC	10,90	1,01	0,33	6,14
DIG	6,92	2,71	2,58	8,53
SD5	5,24	1,83	0,37	1,31
SJS	9,89	3,95	6,50	7,25
SC5	16,91	2,73	0,62	12,39
SD7	10,23	1,32	0,45	3,34
Average	9,46	2,15	1,56	6,15

Source: Bloomberg



United Nation International School of Ha Noi



Address: Phu Thuong st, Tay Ho district, Hanoi
 Area: 7500 m²
 Tender price: 125 billion VND

Valuation of CTD's current price:

Method	Average	Related multiple factors	Current Value
P/E	9,46	13.745	130.088
P/B	2,15	62.236	134.032
P/EBITDA	6,15	20.455	125.764
P/S	1,56	137.454	214.969
Multiple			151.213
Adjusted for the stock bonus and 10% dividend paid on 25/05/2010			89.728

Source: CTD & VCBS

Valuation of expected price of CTD at the end of 2010:

Method	Average	Expected Earnings/ Net Revenue for 2010	Weighted average no. of Shares in the year 2010	Expected EPS & Sales at 31/12/2010	Estimated price
P/E	9,59	210.000.000.000	25.842.669	8.126	76.907
P/Sales	1,52	2300.000.000.000	25.842.669	89.000	139.190
Average					108.049

Source: CTD & VCBS

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