

Hoa Binh Construction & Real Estate Corporation(HBC)

Company visit note 01/04/2015

Dividend (VND)	1,500
Dividend yield	8.4%

HBC: 2015- regaining trust

HBC announced positive business results in 2014, with net revenues of VND3,506 bn (+2.1 YoY) and profit after taxes (PAT) of VND71 bn (+170% YoY). Although PAT is up significantly compared to 2013, the results were only 70% of the revenue target and 41% of the profit target. In the last 3 years, HBC always set high profit targets, but always failed to meet these targets. In 2015, HBC's targets are VND 5,300 bn of revenue, and VND180 bn of PAT, an increase of 153% YoY for the latter, and equivalent to a forward EPS of VND3,423. Due to the recovery in the real estate and construction industries, HBC's big-ticket projects are still on track, and with new contracts also being signed, we believe that HBC can meet the profit target for this year. The year 2015 will be a pivotal year for HBC to regain the trust of investors after three difficult years in the construction industry.

KEY TAKEAWAYS FROM THE MEETINGS

HBC announced positive business results in 2014, with net revenues of VND3,506 bn (+2.1 YoY) and PAT of VND71 bn (+170% YoY), mainly from large projects such as Vietinbank Tower, Sora Gardens, Sunrise City, and An Giang hospital. However, the results are much lower than its target because some major projects in 2014 were postponed to 2015 by developers.

In 2015, HBC's targets are VND 5,300 bn of revenue, and VND180 bn of PAT. We believe that the HBC will accomplish this target based on three reasons. (1) projects, which were contracted in 2014, continue with construction in 2015 carrying a value of VND5,000 bn and are on schedule. Vietinbank Tower's basement project, with a total value of VND800 bn, is expected to be completed in May 2015. The central portion of this project with a value of VND1,400 bn will be completed in mid-2017. The Saigon Center projects with a total value of VND 1,600 bn will be completed in 2016. HBC should maintain a gross margin of 10% for these projects. (2) In the first three months of 2015, HBC signed new contracts with a total value of VND3,000 bn. Moreover, new projects, that HBC is bidding on, and are expected to win, carry a value of VND2,000 bn. With many large contracts signed and implemented, HBC can minimize the risk that developers decide to postpone individual projects. (3) The ability to reverse provisions for doubtful receivables from the Phu Khang (Formusa project) and Duc Hai Corporation (Era Tower project). Total receivables from Phu Khang are VND160 bn, which HBC made provision for VND80 bn. In 2015 HBC collected VND20 bn, and is expected to receive VND10 bn per month. HBC is able to recover all of these receivables. For receivables from Duc Hai, Duc Hai has committed to pay 50% of this amount by cash (VND40 bn) at the beginning of April 2015. The remaining 50% of this amount will be also paid by cash gradually, or HBC will receive apartments from Duc Hai.

HBC plans to pay a cash or stock dividend of VND1,500 per share, equivalent to a dividend yield of 8.4%. This is an attractive dividend yield for a high growth potential company like HBC. The company has no plan to increase its capital in 2015, though the proportion of debt/equity ratio is somewhat high (1.8x). The company has access to debt with attractive interest rates of 6-7%, so HBC will continue to use debts to fund for projects in 2015.

OUR VIEW

With the current market price, HBC trades at a forward P/E of 5.2x, and P/B of 1.1x, lower than peers, and looks attractive given the potential growth of the Company in coming years. We believe that HBC's business results will be positive from 2015, based on not only internal resources of the company but also the recovery and growth of the real estate and construction industries. However, HBC has some risks related to delays constructing and the default risks of developers. HBC's receivable amounts are still at a relatively high levels.

Stock Performance



Trading data 01/04/2015

Current price (VND)	17,800
Authorised shares	52,579,084
Shares outstanding	53,396,077
Market cap. (VND bn.)	950
52-wk range	12,600-20,000
Average daily volume (3m)	514,923
Daily value (VND bn.)	8,238,768
Foreign ownership (%)	35.25
Foreign ownership limit %	49
Current room(shares)	18,402,680
Foreign room left (shares)	7,240,140

Tổng quan DN

Hoa Binh Construction & Real Estate Corporation (HBC) was founded on 27th September 1987. In 2006, Hoa Binh was the first general contractor listed on HOSE. At 31/12/2014, the company's total assets were VND 5,673 bn, net revenues were VND 3,506 bn.

Source: MBS research

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APPENDIX: ANNUAL FINANCIAL STATEMENTS

Income statement(VND bn)	2012	2013	2014	Balance sheet (VND bn)	2012	2013	2014
Net revenue	4,065	3,432	3,506	Current assets	3,761	3,986	4,912
Cost of goods sold	3,687	3,120	3,099	Cash and cash equivalents	606	755	677
Gross profit	378	313	407	Short-term investments	15	44	698
Financial income	36	41	70	Short-term receivables	2,872	2,941	3,123
Financial expenses	164	112	99	Inventories	221	212	355
Selling expenses	11	16	9	Other current assets	46	33	59
G&A	136	166	290	Non-current assets	820	741	761
Operating profit	103	60	79	Fixed assets	498	432	412
Other profit	17	-13	12	Investment properties			
Profit/Loss of investments in associates and joint ventures	37	-4	-3	Long-term investments	253	249	271
Profit before tax	157	44	88	Total assets	4,580	4,727	5,673
Net profit after tax	131	24	69	Liabilities	3,801	3,770	4,675
Earnings per share (VND)	3,648	599	1,371	Short-term liabilities	3,506	3,679	4,433
				Long-term liabilities	241	91	242
				Owner's equity	771	950	997
				Total owner's equity and liabilities	4,580	4,727	5,673

Source: MBS Research

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STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/current price
BUY	>=20%
OUTPERFORM	From 10% to 20%
MARKET PERFORM	From -10% to +10%
UNDERPERFORM	From -20% to -10%
SELL	<= -20%

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