

Vietnam Construction and Import-Export Joint Stock Corporation (HSX: VCG)

- 2Q24 net profit (NP) increased by 8% yoy driven by improved GPM and declining financial expenses. 1H24 NP increased by 355% yoy from the low base last year.
- We expect FY24F NP to increase by 192% yoy due to improved GPMs of construction, better performance in water segment, and lower financial expenses. However, FY25F NP may decline by 10% yoy due to ongoing challenges of resort real estate segment.
- We recommend ADD for VCG with the target price of VND 24,100/share.

Improved GPM & lowered financial expense are key drivers for 2Q24 NP

In 2Q24, net revenue declined by 39% yoy due to a sharp decline of 98% yoy in the real estate segment, driven by a lack of follow-up projects. However, GPM improved to 12% (+1% pts yoy) as the construction GPM rebounded to 4% (+3% pts yoy). Moreover, financial expenses sharply declined by 59% yoy thanks to lower debt level and a cooling interest rate environment, therefore, 2Q24 net profit improved by 7% yoy. In 1H24, net profit increased significantly by 355% yoy from the low base last year.

FY24F net profit may increase by 192% yoy thanks to improved GPMs of construction and water segment, along with declining financial expenses

Construction backlogs are expected to reach VND18,736bn (+3% yoy) and VND19,486bn (+4% yoy) in FY24-25F, supported by government's higher disbursement of public investment and an improved real estate supply as legal bottlenecks are resolved. In FY24F, net profit may reach VND 1,177 bn (+192% yoy), based on (1) the construction GPM improved to 5% (compared to -2% in 2023), (2) Net profit of water segment rise by 18% yoy driven by rising water prices and (3) financial expenses sharply down 40% yoy thanks to lower interest rate. However, FY25F net profit is projected to reach VND 1,055 bn (-10% yoy), as Cát Bà Amatina project may see low absorption rates due to the sluggish resort real estate segment.

Recommend ADD with the target price of VND 24,100 VND/share

We believe VCG will benefit when the Government pushes public investment disbursement and the residential real estate sector has seen positive recovery. Water segment also grows promisingly, along with financial health of VCG has improved noticeably. Therefore, we recommend ADD for VCG using the SOTP method (WACC: 11.6%). Downside risks include (1) sluggish public investment disbursement and (2) a lower-than-expected recovery in resort real estate market.

Financial metrics	Dec-23	Dec-24	Dec-25	Dec-26
Net revenue	12,704	10,719	11,366	13,609
Net profit	403	1,177	1,055	2,139
Revenue growth	50.3%	-15.6%	6.0%	19.7%
Net profit growth	-36.4%	192.5%	-10.2%	125.8%
GPM	9.3%	19.9%	16.2%	24.2%
EBITDA	14.5%	24.8%	20.7%	27.7%
ROAE	6.9%	15.4%	11.0%	23.7%
ROAA	1.6%	3.8%	2.8%	5.9%
EPS (VND/share)	961	2,359	1,909	4,310
BVPS (VND/share)	13,569	17,292	17,464	18,866

Source: VCG, MBS Research forecast

ADD

Target price

VND 24,100

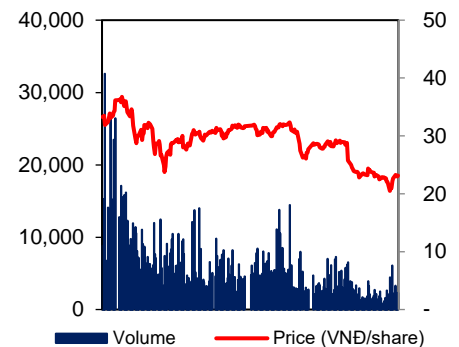
Upside

30%

Key changes in the report

n/a

Information



Source: FiinPro, MBS Research

Market price (VND)	18,400
Highest in 52w (VND)	26,200
Lowest in 52w (VND)	17,000
Market cap (VND bn)	10,015
P/E (TTM)	13.1
P/B	1.1
Dividend yield (%)	0%
Foreign ownership (%)	10.2%

Source: <https://s24.mbs.com.vn/>

Ownership Structure

CTCP Pacific Holding	45.1%
Foreign	10.2%
Others	39.7%

Source: <https://s24.mbs.com.vn/>

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Vietnam Construction and Import-Export Jsc (HSX: VCG)

Investment Thesis & Recommendation

Investment Thesis

- VCG benefits from winning bids on key public investment projects, such as the North-South Expressway and Long Thanh Airport, which are prioritized for implementation during FY24-25F. This is expected to drive the company's backlog growth by 3% and 4% in FY24-25F, respectively.
- Other business segments, such as water supply, have favorable growth prospects in 2024F, with water prices expected to increase by 13% yoy.
- The company is actively divesting from unprofitable investments, leading to gradual improvement in its financial health. By the end of 2Q24, VCG's debt-to-total assets ratio reached 31%, lower than the industry average of 36%.
- VCG's net profit is projected to grow by 192% YoY in 2024F, driven by positive performance in construction and water supply segments, coupled with a significant reduction in financial expenses.

Valuation

We recommend an **ADD** rating for VCG stock using the SOTP valuation method (WACC: 11.6%), we have determined the target price of VND 24,100/ share by the end of 2024F, representing a 30% upside potential.

Figure 1: Valuation by business segment

Sector	Method	Coefficient	Value	Ownership	Metric	Comment
Property	RNAV				10,783	
Include:						
Cai Gia Cat Ba project	DCF	WACC: 11.6%	15,176	51%	7,740	DCF used to value projects that already have clear legal status. It is expected that the project will promote sales since beginning of 2026.
Hoa Binh Residences	DCF	WACC: 11.6%	974	100%	974	
Phú Yên Residences	BV		826	100%	826	For projects that have not yet completed site clearance, book value is implemented.
"Mo Market" project	BV		640	100%	640	
Thien An - Dien Ngoc Residences	BV		253	100%	253	
Others	BV		351	100%	351	
Construction	P/E	8.x	2,037	100%	2,037	PE level of about 8.5, equal to the average of leading construction enterprises
Power					1396	
Include:						
Ngoi Phat Hydroelectric Plant	P/E	12.x	1,747	51%	891	P/E 12.x because segment have equal profits to the industry average
Dakba Hydroelectric Plant	P/E	12.x	510	99%	505	
Water Manufacturing	P/E	15.x	1,758	100%	1,758	P/E 15.x due to equal net profit growth to the industry average
Education	P/E	11.x	1181	100%	1181	Average PE in education sector
Office Leasing and Others	P/E	8.x	168	100%	168	
Total value of sectors					17,322	
Investment in Joint company					424	We discount the investment value in joint company by 40% because the largest investment, Cam Pha Cement, is recording losses.
Cash & cash equivalent					3,212	
Debt					8,104	The real estate segment's debt due to other segments has already calculated the equity value
Equity value					12,854	
No of shares					534,465,514	
Share Price (VND/share)					24,100	

Figure 2: Peer comparison

Company	Ticker	Current price	Target price	Recommendation	Capitalization	P/E (x)		P/B (x)		D/E		ROE (%)	
						TTM	2024F	TTM	2024F	TTM	2024F	TTM	2024F
Construction													
Fecon Joint Stock Company	FCN VN Equity	12,250	NA	NA	101	409.2	205.6	0.6	0.5	0.8	0.8	NA	2.5
Deo Ca Transport Infrastructure Investment Joint Stock Company	HHV VN Equity	10,900	NA	NA	198	13.1	12.6	0.7	0.6	1.9	2.0	4.2	4.6
Ho Chi Minh Infrastructure Investment Joint Stock Company	CII VN Equity	14,650	NA	NA	190	11.2	10.5	0.5	0.4	2.3	2.1	4.2	4.5
Cienco4 Group Joint Stock Company	C4G VN Equity	9,100	NA	NA	150	24.1	21.6	0.9	0.8	0.9	0.8	2.6	3.5
Cotecons Construction Joint Stock Company	CTD VN Equity	68,500	NA	NA	202	22.7	15.6	0.7	0.6	0.2	0.3	3.4	3.9
Average						96.1	53.2	0.7	0.6	1.2	1.2	3.6	3.8
Real Estate													
NoVa Real Estate Investment Group Joint NVL VN Equity		15,200	NA	NA	1,169	49	NA	0.8	NA	1.3	NA	1.6	NA
Phat Dat Real Estate Development Joint Stock Company	PDR VN Equity	26,700	NA	NA	778	32.2	NA	2.5	NA	0.3	NA	7.7	NA
Dat Xanh Group Joint Stock Company	DXG VN Equity	16,350	25,100	ADD	509	77	74.9	1.4	1.3	0.4	0.5	1.6	1.6
Khang Dien Housing Investment and BusKDH VN Equity		34,600	43,000	ADD	1,181	35.4	53.2	2.1	2.5	0.4	0.3	5.7	5.2
Construction Development Investment Jo DIG VN Equity		28,300	NA	NA	747	157.1	NA	2.6	NA	0.4	NA	2.2	NA
Vinhomes Joint Stock Company	VHM VN Equity	40,700	NA	NA	7,555	5.3	NA	1	NA	0.3	NA	15.3	NA
Average						56.9	53	1.6	1.4	0.5	0.5	5.6	2.8
Diversified Company													
Electrical Engineering Joint Stock Company	REE VN Equity	68,300	76,800	ADD	1,420	14.0	11.1	1.5	1.3	9.8	8.5	11.5	12.4
Ha Do Group Joint Stock Company	HDG VN Equity	26,200	33,900	ADD	351	9.6	6.7	1.4	1.1	5.2	7.5	12.3	16.6
Dat Phuong Group Joint Stock Company	DPG VN Equity	48,850	NA	NA	145	14.7	12.8	1.3	1.2	0.9	0.9	10.5	12.4
Average					639	12.8	10.2	1.4	1.2	5.3	5.6	11.4	13.8
Vietnam Investment and Import-Export Joint Stock Company	VCG VN Equity	18,250	19,300	ADD	450	13.1	12.4	1.1	1.0	0.9	0.8	6.8	7.2

Investment risks

- (1) Public Investment Disbursement falling out of expectations: The disbursement of public investment may decline due to ongoing challenges such as shortage of materials and delay in land clearance for key projects.
- (2) Gloomy in the Real Estate Market: A prolonged downturn in the resort real estate market could negatively impact the launch and sales of the strategic Cát Bà Amatina project.

2Q24 Business Performance

1H24: Achieved 70% of full-year guidance

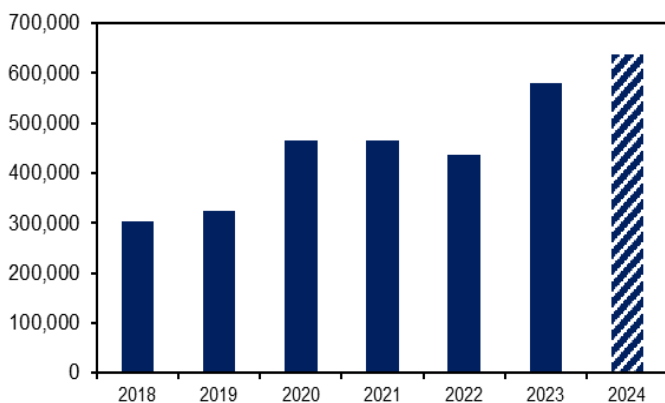
Figure 3: Business performance (Unit: VNDbn)

Performance metrics	2Q24	yoy	QoQ	1H24	yoy	Assessment
Revenue	2,805	-39%	6%	5,455	-17%	
Including:						
- Construction	2,123	-17%	56%	3,481	-13%	Q2 revenue from construction decreased by 17% yoy due to major projects being concentrated in the second half of the year. Real estate segment's performance declined sharply because in 2024F VCG delivered only a few products in Green Diamond project, while 2023 is the high base when VCG delivered 260 products in this project.
- Real estate business	42	-98%	-84%	312	-81%	Hydropower and industrial power supply showed better performance with hydropower growth due to favorable weather conditions. Other segments such as water production, office leasing show better performance due to the improved capacity.
- Industrial manufacturing	312	53%	65%	501	42%	Gross margin in Q2 declined yoy due to the less contribution of real estate segment. GPM increased 1% driven by core business segments, such as construction, improved.
- Others	323	24%	-53%	1159	52%	Construction margin improved due to a 10% yoy decrease in raw material prices, i.e. steel. Real Estate margin slightly reduced yoy due to the lower margin of the Cát Bà Amatina project compared to Green Diamond.
Gross profit	340	-18%	-51%	1,094	24%	
GPM	12%	+ 1% pts	- 16% pts	20.2%	+ 8% pts	
- Construction	4%	+3% pts	- 1% pts	3.9%	+2% pts	Financial revenue significantly decreased yoy due to low interest rates in 2024F. Financial expenses reduced due to lower borrowing costs and reduced debt levels. Interest expenses sharply decreased owing to a lower interest rate environment and reduced debt.
- Real estate business	44%	- 2% pts	- 0.8% pts	44.6%	-13% pts	In Q2, loss from associates increased by 30% due to underperformance in cement, construction, and BOT (sectors). Selling expenses decreased significantly due to the absence of costs related to real estate sales.
- Industrial manufacturing	35%	-2% pts	- 8% pts	34.1%	4% pts	
- Others	55%	3% pts	-3% pts	56.3%	-22% pts	G&A expenses were reduced due to a reversal of provisions of approximately 20 billion VND for project warranties.
Financial income	55	-50%	-20%	126	-33%	
Financial expenses	101	-59%	-25%	236	-9%	
<i>Including: interest expenses</i>	103	-52%	-23%	238	-8%	
Gain/(loss) from associates	(22)	+30%	+40%	(40)	-25%	
Selling expenses	1	-96%	-96%	26	-13%	
% Selling expenses /Revenue	0%	- 3%	- 3%	-0.5%	2%	
G&A expenses	75	-25%	-1%	154	-17%	
% G&A expenses/Revenue	-3%	-2%	-0.5%	-2.8%	-1 %	
Profit before tax	204	7%	-64%	772	196%	
Net profit	116	8%	-66%	580	355%	Net profit increased due to improved GPM in construction and significant reductions in financial and selling expenses.

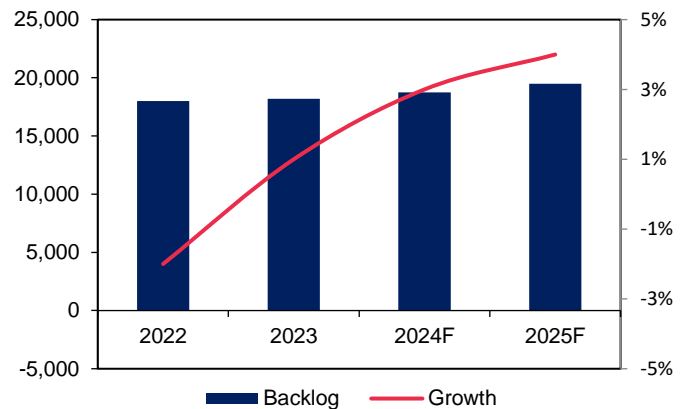
The government's plan to accelerate public investment disbursement and the recovery of the construction industry may positively impact VCG's outlook

VCG's construction backlog in the next period is expected to be robust, driven by the successful bidding for several prominent projects: Terminal T3 at Long Thành Airport, Component projects of the North-South Expressway, such as Bai Vot – Ham Nghi and Nghi Sơn – Dien Chau projects. We figure that these are key projects being accelerated during the FY24-25F period and could contribute approximately 40% to the company's backlog value.

Figure 4: Public investment disbursement target in 2024F (Unit: VNDbn) Figure 5: Construction backlog of VCG (Unit: VNDbn)



Source: VCG, MBS Research



Source: VCG, MBS Research

According to the government's 2024F plan, public investment disbursement is expected to grow by 12% yoy to reach 638,000 billion VND, with major contributions from strategic projects such as the North-South Expressway, Long Thành Airport, and Ring Road 3 (HCM City). In 1H24, public investment disbursement achieved about 37% of the annual target due to obstacles related to land clearance and shortages of materials like sand and construction stone. However, we believe that disbursement could improve in 2H2024F, reaching 85% of the target (+10% YoY), as some of these issues may be partially resolved based on:

- Land Law, effective from August 2024F, with specific regulations on land valuation, will provide a legal framework to address issues in compensation, land clearance, and land use conversion for public investment projects. We assess that the completion of land valuation and land use conversion will positively impact project timelines by resolving major obstacles. This regulation is expected to accelerate progress in certain components of the North-South Expressway, such as the Hoai Nhơn – Quy Nhơn and Van Ninh – Cam Lo sections.
- Moreover, the shortage of materials such as sand and construction stone has hindered progress in some project components, like Quang Ngai – Hoai Nhon and Hoai Nhon – Quy Nhon. The government forecasts that the North-South Expressway currently faces a shortage of about 26 million cubic meters of sand, causing delays in sections like Van Ninh – Cam Lo and Chi Thanh – Van Phong. However, solutions such as the use of marine sand for certain projects, granting new mining licenses, and increasing production capacity have been proposed to address these challenges.

Figure 5: Component projects of North-South Expressway in 2021 - 2025F

No.	Project	Length (km)	Total investment (Billion VND)	Time of construction				
				2022	2023	2024	2025	2026
1	Bai Vot - Ham Nghi	36	7,403					
2	Ham Nghi - Vung ang	54	10,185					
3	Vung Ang - Bung	58	11,785					
4	Bung - Van Ninh	51	10,526					
5	Van Ninh - Cam Lo	68	10,591					
6	Quang Ngai - Hoai Nhon	88	20,898					
7	Hoai Nhon - Quy Nhon	69	12,544					
8	Quy Nhon - Chi Thanh	62	12,298					
9	Chi Thanh - Van Phong	51	10,601					
10	Van Phong - Nha Trang	83	12,906					
11	Can Tho - Hau Giang	37	9,768					
12	Hau Giang - Ca Mau	72	17,485					

Figure 6: VCG's winning bids for projects on the North-South Expressway

No.	Project	Project	Total investment (Billion VND)	Time of construction					
				2021	2022	2023	2024	2025	2026
1	Package No. 11-XL: Construction work	Bai Vot - Ham Nghi	2,289						
2	Package No. XL03: Construction of section Km405+00 ÷ Km419+600 "Tender package No. 3.4:	Nghi Son - Dien Chau	886						
3	Construction of ground leveling and drainage works & survey, construction drawing design	Long Thanh Airport Phase 1	1,235						
4	"Tender package No. 11-XL: Construction work	Bai Vot - Ham Nghi	3034						
5	"Package XL01: Construction of section Km568+200 - Km600+700	Vung Ang - Bung Tuyen	1438						
6	"Package No. 03-XL: Construction of section Km0+00 to Km12+500	Quang - Ha Giang	898						
7	"Tender package No. 5.10 "Construction and installation of passenger terminal equipment"	Long Thanh Airport Phase 1	3924						
8	"Tender package No. 4.6 "Construction, equipment installation and preparation of construction drawings for runway construction.	Long Thanh Airport Phase 1	1414						

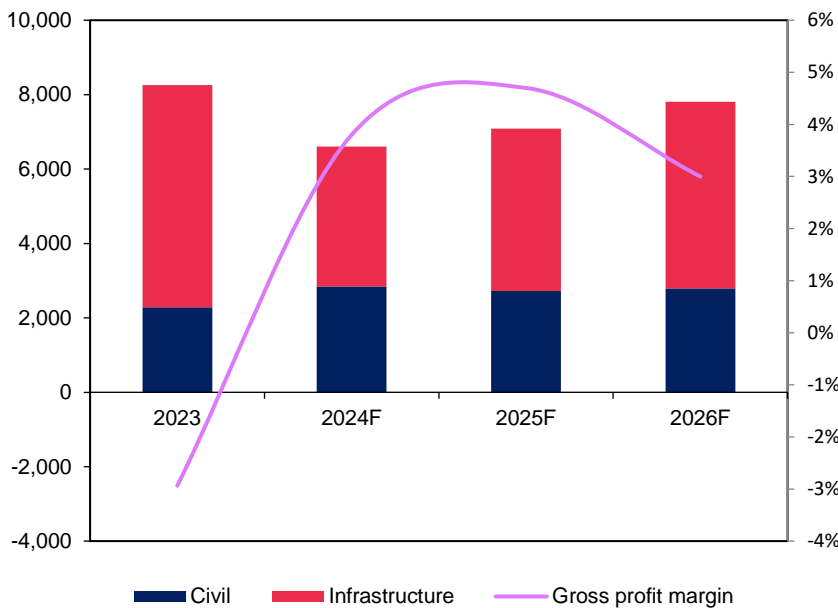
Additionally, the real estate supply, particularly in the apartment segment, is improving as certain projects have resolved issues related to land use fee determination. This is expected to positively impact project timelines. According to discussions with the company, developers are more optimistic as the market warms up, which in turn accelerates project progress and increases market supply. With the real estate market rebounding, we believe VCG's residential and industrial construction projects will be able to accelerate their implementation during the FY24-25F period.

Figure 7: VCG's awarded residential construction projects

No.	Bidding package	Bidding package	Total Investment (Billion VND)	Time of construction					
				2021	2022	2023	2024	2025	2026
1	"Tender package: Infrastructure Construction of Clean Industrial Park in Hung Yen province, Vietnam	Infrastructure of industrial park in Hung Yen province"	424						
2	Construction, supply and installation of home equipment B	Construction of Hanoi Children's Palace	337						
3	Package No. 18: Construction, supply and installation of construction equipment	Investment in construction of Hanoi Children's Hospital - phase I "	331						
4	Area Project (Cat Ba Amatina Project)	Cat Ba Amatina	4,406						
5	"Construction of Infrastructure and Architecture - Package PKG B	Vung Ang 2 Thermal Power Plant	503						
6	"Tender package: Construction and procurement, equipment installation for buildings No. 2, 3, 6 and some technical systems	Investing in the construction of Nam Dinh Provincial General Hospital	502						

In FY24-25F, VCG's backlog is estimated to reach VND 18,736 bn (+3% yoy) and VND 19,486 bn (+4% yoy) driven by key component projects of North-South expressway and Cát Bà Amatina residential project.

Hình 8: Revenue and GPM of construction segment (Unit: VNDbn)



Source: VCG, MBS Research forecast

According to our forecast, revenue from the construction sector in 2024F may reach 6,604 billion VND (-20% YoY) due to the focus on completing infrastructure projects in FY25-26F. Additionally, the gross profit margin is expected to improve to 5% (compared to -2% in the same period last year) due to a cooling in material prices. In the FY25-26F period, revenue is projected to grow by 4%/3% YoY to 6,811/7,088 billion VND, driven by the completion and acceptance of North-South Expressway component projects. The gross profit margin is anticipated to be 5.3% (+0.3% YoY) in 2025F and then decrease to 3% in 2026F due to a recovery in steel prices.

The real estate sector is weakening as the resort real estate projects still gloomy.

After completing the Green Diamond residential project, VCG's real estate sector is expected to decline during FY24-25F due to a lack of new projects to replace it. The Cat Ba Amatina resort project is anticipated to have low absorption rates due to: (1) the resort real estate sector not showing significant recovery amid legal issues and weak demand, and (2) the project's location not being in the central area of Cat Ba Island, making it difficult to attract tourists with various services.

Figure 9: Project Progress



Project Name: Cát Bà Amatina

- **Ownership:** 50%
- **Address:** Cái Giá Bay, Cat Ba Island, Hai Phong City
- **Scale:** 172 hectares with approximately 2,000 villas and townhouses
- **Main Product Line:** Townhouses and villas with a selling price of about 10 billion VND per unit
- **Sales Progress:** The Tùng Thu villa subdivision (160 villas and townhouses) was launched in 2010 and handed over in 2022. Currently, a new subdivision, including townhouses and land lots, is under development.
- **Construction Progress:** The project has reached the topping-out stage and is expected to be handed over starting from Q4/2024F.



Project Name: Urban Residential Area at Km3, Km4, Hai Yen Ward, Mong Cai City

- **Ownership:** 100%
- **Location:** Hai Yen Ward, Mong Cai City, Quang Ninh Province
- **Project Scale:** 44 hectares, including villas and townhouses
- **Implementation Progress:** Currently undergoing land clearance, but the progress is slow.
- **Construction Progress:** Expected to commence in 2025F.

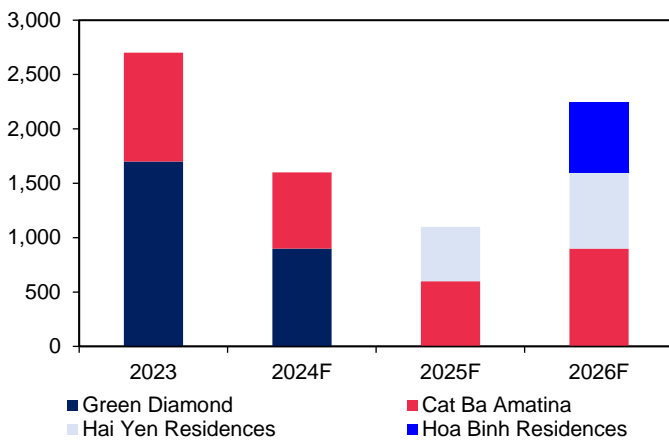


Project Name: Hoa Binh Boulevard Urban Area Project

- **Ownership:** 100%
- **Location:** Hai Hoa Ward, Mong Cai City, Quang Ninh Province
- **Project Scale:** 48 hectares, featuring townhouses, villas, and Ehomes
- **Implementation Progress:** Currently carrying out land clearance in some areas of the project, with the master plan (1/2000 scale) completed.
- **Construction Progress:** Expected to commence in 2025F.

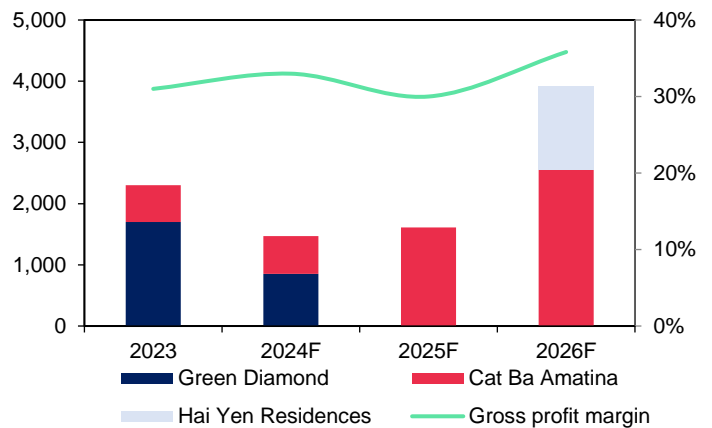
Assuming that the Cat Ba project achieves a low absorption rate due to the under-recovery of the resort real estate market and its unfavorable location, in 2024F, pre-sales are expected to reach VND 1,620 bn (-40% YoY), largely driven by the Green Diamond project sold in 2023. Moving into 2025F, we forecast that pre-sales could reach VND 1,100 bn (-31% YoY), primarily from 40 townhouses at the Cat Ba project and the launch of the Hai Yen residential area. Pre-sales are expected to grow by 105% YoY in 2026FF as the resort real estate market rebounds and the Hoa Binh Urban Area project is launched.

Figure 10: Pre-sale Real Estate (Unit: VNDbn)



Source: VCG, MBS Research

Figure 11: Revenue and GPM of real estate segment (Unit: VNDbn)



Source: VCG, MBS Research

According to our forecast, in FY24-25F, the company's real estate revenue will primarily come from the Cat Ba Amatina project, as it delivers the remaining products in the Tùng Thu subdivision including about 60 villas and townhouses (launched in 2010). For the subsequent subdivisions currently underway, the outlook may be less favorable given the sluggish resort real estate market and the project's less favorable location on Cat Ba Archipelago. For the urban residential project at Km3 and the Hoa Binh Boulevard Urban Area in Mong Cai, currently in the land compensation and clearance phase, VCG may not accelerate the project's progress due to limited market interest in peripheral real estate products. Thus, these 2 projects are expected to commence after 2025F.

Real estate revenue in 2024F could decrease by 36% YoY to 1,520 billion VND, mainly from the Green Diamond project, with a gross profit margin of about 41%. The Cat Ba project is expected to make a significant contribution starting from 2025F and 2026F, while the two residential projects in Mong Cai have yet to complete land compensation and clearance. Revenue is projected to be 1,520/1,941 billion VND (-34%/+27% YoY) with gross profit margins of 27%/36% during the 2025F-2026F period.

Hydropower: Positive outlook due to favorable weather condition

Currently, VCG's power capacity stands at 114 MW through its ownership of two hydropower plants: Ngòi Phát (84 MW) and Dak Ba (30 MW). From the second half of 2024F, we expect VCG's electricity output to improve due to the positive impact of the La Niña phase starting in Q3/24.

According to IRI, La Niña may return from August, expected to positively affect electricity consumption in 2H2024F. However, given that the Ministry of Industry and Trade is adjusting the proportion of Qm from 10% in 2023 to 2%, we anticipate that hydropower prices may decrease by 10% due to the reduced

market share for electricity in 2024F, impacting the company's profit margins. Looking ahead to 2025F-2026F, we expect the selling price to stabilize, with a cautious average annual increase of 1-2%.

Figure 12: VCG 's 2 hydropower projects



Project name: Ngòi Phát hydropower

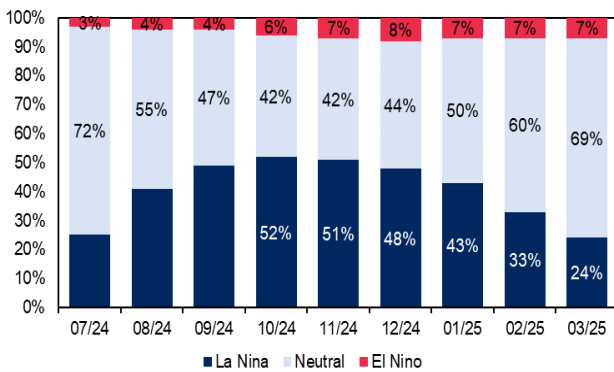
- **Ownership:** 51%
- **Address:** Lào Cai
- **Design Capacity:** 84 MW
- **Average Output:** 314 million KWH
- **Total Investment:** 2,068 billion VND
- **Completion Year:** 2014



Project name: Dak Ba hydropower

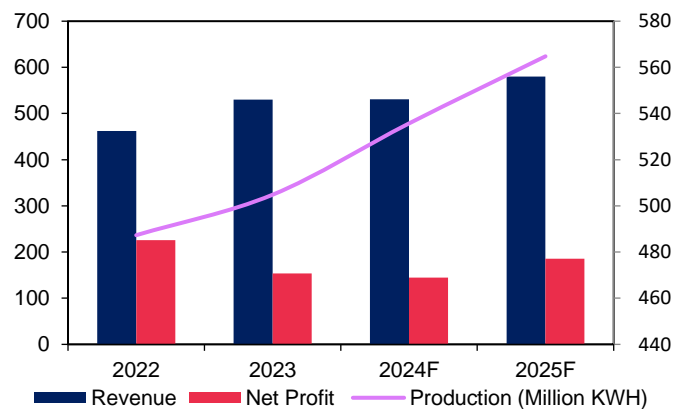
- **Ownership:** 100%
- **Address:** Quảng Ngãi
- **Design Capacity:** 30 MW
- **Average Output:** 100 million kWh
- **Total Investment:** 1,000 billion VND
- **Completion Year:** 2023.

Figure 13: High likelihood of La Niña returning from August 2024F.



Source: VCG, MBS Research

Figure 14: Revenue and GPM of electricity segment (Unit: VNDbn)



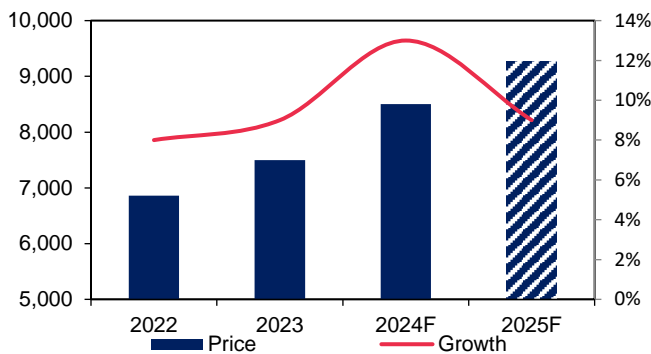
Source: VCG, MBS Research

This year, we forecast a 6% YoY growth in electricity output to 536 million kWh. However, revenue is expected to remain flat yoy at VND 531 bn due to a 10% yoy decrease in the selling price at the Ngòi Phát hydropower plant (70% of the output). The GPM is projected to decrease to 40% (-3% YoY) due to the reduced selling price. In 2025F, both output and revenue are anticipated to grow by 5% and 8% yoy, respectively, driven by a 2% yoy improvement in selling prices. Consequently, GPM is expected to increase to 42% (+2% yoy).

Positive outlook of clean water business thanks to the rapid growth of selling price

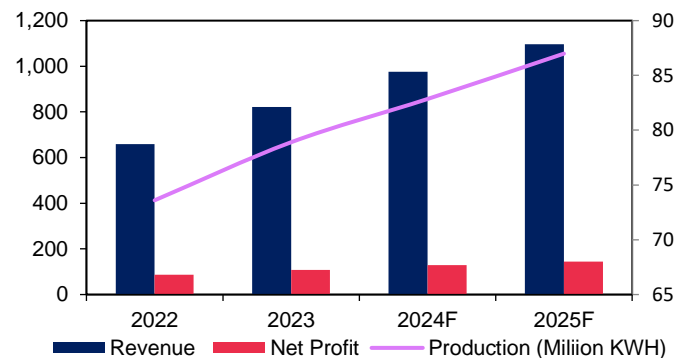
Revenue comes from Viwaco JSC (in which VCG holds a 51% stake), providing water to the western areas of Hanoi. According to the Hanoi Department of Construction, the demand for domestic water is expected to grow by 5% yoy. This growth is anticipated to positively impact VCG's water consumption due to infrastructure development and plans for some districts like Hoài Đức and Thanh Oai to become urban districts in 2025F-2026F. Additionally, the Hanoi People's Committee's recent water price adjustment has resulted in an average increase of 12% YoY for 2024F, which is expected to positively affect the company's profit margins. For 2025F, we provide a cautious forecast, predicting a price increase of around 8% YoY, consistent with the average increase over the past three years.

Figure 15: Selling price after tax in Hanoi justified in HN (Unit: VND/m³)



Source: VCG, MBS Research

Hinh 16: Revenue and net profit (Unit: VNDbn)



Source: VCG, MBS Research

We forecast water production is expected to grow at the same rate as the demand in Hanoi, around 5% YoY during 2024F–2025F. After a 13% yoy increase in prices in 2024F, we anticipate a conservative price rise of 8% YoY (the average increase over the past 3 years). Therefore, revenue is projected to reach VND 976 bn (+19% yoy) in 2024F, with a GPM of 24% (+3% yoy). In 2025F, due to a modest increase in water prices, revenue and GPM are expected to reach VND 1,047 bn (+12% yoy) and 26% (+2% yoy).

The company is narrowing its investment in joint ventures and affiliates to alleviate financial pressure

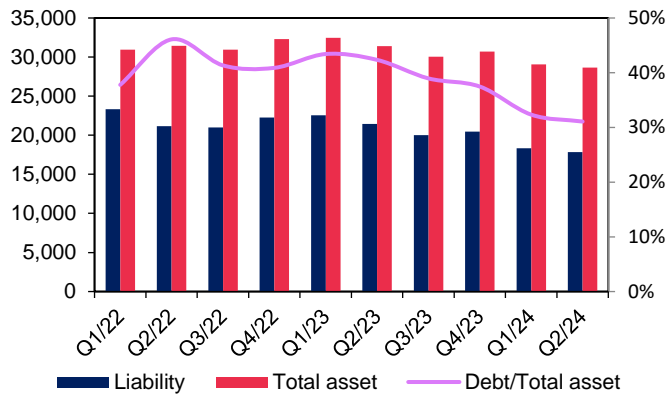
Figure 17: VCG has completed divestment from the Van Ninh Port project

Investment	2Q24		Q4/2023	
	Investment value (VND bn)	Ownership	Investment value (VND bn)	Ownership
Cam Pha Cement Jsc	137	30%	197	30%
Van Ninh International Port Jsc	-	0%	198	40%
BOT Hanoi - Bac Giang Investment Jsc	188	21%	172	21%
Thanh Cong Infrastructure Investment LLC	150	49%	150	49%
Vinasico Company	73	43%	74	43%
Other investment	125		117	
Total	673		908	

Source: VCG, MBS Research forecast

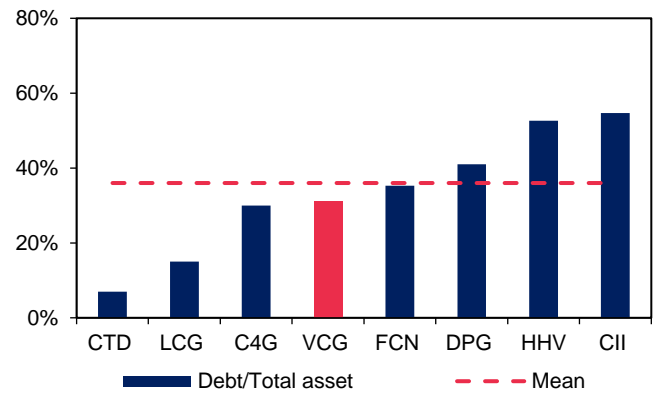
In 2Q24, VCG completed the divestment from the Vạn Ninh International Port project, recording a loss of about VND 17 billion. The company is conducting the divestment to reduce financial pressure, given the current inefficiency of its associated companies. Moreover, VCG withdrew VND 2,200 bn from its subsidiary VCR due to the lack of progress on the hotel construction at the Cát Bà Amatina project. This restructuring aims to alleviate financial pressure amid the sluggish recovery in the leisure real estate sector and the underperformance of associated companies. Since the beginning of the year, VCG has reduced its debt by repaying VND 1,500 bn in bonds and VND 1,050 bn in short-term loans.

Figure 18: VCG's better financial ratio YTD (Unit: VNDbn)



Source: VCG, MBS Research

Figure 19: Borrowings/total assets of industry



Source: VCG, MBS Research

VCG's capital structure has significantly improved YTD due to the reduction in debt. Amid the sluggish resort real estate market, the slow rollout of the Cát Bà Amatina project may help the company minimize interest burdens and allocate capital to construction projects. As of 2Q24, VCG's financial structure is notably healthier than the industry average, with a debt-to-total assets ratio of 31%, lower than the industry average of 36%.

We forecast VCG NP to increase 192%/-10% yoy in FY24-25F

Figure 20: Business performance forecast in FY24-25F (Unit: VNDbn)

Financial metrics	2023	2024F	yoy (%)	2025F	yoy (%)	Comment
Revenue	12,709	10,719	-16%	11,127	6%	
Including:						
- Construction	8,225	6,604	-20%	6,811	4%	Construction revenue may decrease by 20% yoy due to the high base in 2023 and strategic projects will start contributing from 2025F..
- Real estate	2,299	1,520	-34%	1,941	27%	Real estate continues to deliver about 80 townhouse and land lots sold in 2024F - 2025F. Due to the lower number of products delivered, real estate revenue is expected to decrease by 34% yoy in 2024F.
- Hydropower	530	531	0%	580	8%	Hydropower revenue stays stable in 2024F though selling prices declined by 6.8% yoy because supply is forecasted to increase by 5% và 2% yoy.
- Water	821	976	19%	1,097	12%	Revenue increased sharply due to increased supply and price following the adjustment of Hanoi People's Committee.
- Education	260	312	20%	358	15%	Revenue increase driven by expanding Ly Thai To education system and tuition fee adjusted up 5% yoy.
- Office leasing and others	574	626	+10%	599	-4%	
Gross profit	1,181	2,135	80%	1,841	-13%	Gross profit in 2024F increase sharply due to more contribution of construction
GPM	9%	15%	+ 6% pts	14.1%	- 0.9% pts	GPM in 2024F improved due to more positive growth of construction segment.
- Construction	-2%	5%	+ 7% pts	5.3%	+0.3% pts	Construction GPM improved due to low material costs like steel and enhanced bidding values thanks to more optimistic investors
- Real estate	32%	41%	+ 8% pts	26.7%	-14% pts	Real estate GPM grows driven by the delivery of the Green Diamond project with high selling prices amid a shortage of apartment supply.
- Hydropower	43%	40%	- 3% pts	42%	+2% pts	GPM declined because selling price declined by 7% yoy, recovering slightly in 2025F
- Water	21%	24%	+ 3% pts	26%	+2% pts	GPM improved due to a 13% yoy increase in water prices in 2024F, with a projected 7% increase in 2025F.
- Education	37%	37%	+ 0% pts	38%	+ 1% pts	GPM Remains stable as the system is in the process of expanding.
- Office leasing and others	45%	46%	+ 1% pts	46%	+ 0% pts	
Financial expenses	854	590	-31%	631	7%	Financial expense decreased due to lower interest rates; however, a slight increase is expected in 2025F as the company plans to expand its debt.
Including: Interest expense	833	570	-32%	610	7%	Interest expense significantly reduced due to lower interest rates and the company's reduction in debt yoy..
Gain/(loss) from associates	113	70	-40%	91	+25%	Loss declined in 2024F due to divestment from the Vạn Ninh Port project. In 2025F, losses are expected primarily from Cẩm Phả Cement due to debt pressure and weak demand.
Selling expenses	93	98	6%	104	6%	Selling expenses significantly reduced as no costs are recorded from real estate sales
% Selling expenses /Revenue	1%	1%		0.9%		
G&A expenses	113	70	-206%	88	6%	
% G&A expenses/Revenue	-3%	1%	-0.5%	0.7%	-1 %	
Profit before tax	556	1,777	128%	1,417	-20%	
Net profit	403	1,177	192%	1,055	-10%	2024F net profit is expected to grow due to (1) improved construction GPM and (2) a 31% yoy reduction in financial expenses. In 2025F, net profit is anticipated to decline due to a sharp decrease in real estate gross margins.

FINANCIAL REPORTS

Income statement	Dec-23	Dec-24	Dec-25	Dec-26	Cash flow statement	Dec-23	Dec-24	Dec-25	Dec-26
Net revenue	12,704	10,719	11,366	13,609	Pretax profit	556	1,777	1,417	2,786
Cost of sales	(11,523)	(8,583)	(9,525)	(10,318)	Depreciation & amortisation	338	307	323	315
Gross profit	1,181	2,135	1,841	3,292	Interest paid	843	570	610	672
Gen & admin expenses	79	(84)	(88)	(93)	Other adjustments	345	52	(525)	(1,908)
Selling expenses	(93)	(98)	(104)	(109)	Change in working capital	2,607	63	1,074	28
Operating profit	1,167	1,954	1,649	3,089	Cash flow from operations	3,648	1,416	1,986	960
Operating EBITDA	1,505	2,261	1,972	3,403	Capex	(784)	(1,121)	(953)	(1,037)
Operating EBIT	1,167	1,954	1,649	3,089	Proceeds from assets sales	616	-	-	-
Interest income	351	360	356	358	Cash flow from investing activities	(168)	(1,121)	(953)	(1,037)
Financial expense	(833)	(570)	(610)	(672)	New share issuance	39	-	-	-
Net other income	4	52	43	35	Net borrowings	(2,428)	247	878	1,023
Income from associates & JVs	(0)	(0)	(0)	(0)	Other financing cash flow	(36)	-	-	-
Pre-tax profit	556	1,777	1,417	2,786	Dividends paid	(96)	-	-	(0)
Tax expense	(171)	(586)	(425)	(669)	Cash flow from financing activities	(2,521)	247	878	1,023
Profit after tax	385	1,190	992	2,117	Cash and equivalents at beginning of period	1,710	2,670	3,212	5,123
Minority interest	(7)	13	(64)	(22)	Total cash generated	960	542	1,911	946
Net profit	403	1,177	1,055	2,139	Cash and equivalents at the end of period	2,670	3,212	5,123	6,069
Dividends paid	-	-	-	-					
Retained earnings	403	1,177	1,055	2,139					
Consolidated balance sheet	Dec-23	Dec-24	Dec-25	Dec-26	Key Ratios	Dec-23	Dec-24	Dec-25	Dec-26
Cash and equivalents	2,670	3,212	5,123	6,069	Revenue growth	50.3%	-15.6%	6.0%	19.7%
Short term investments	1,488	1,552	1,520	1,536	Operating EBITDA growth	63.9%	50.2%	-12.8%	72.6%
Accounts receivable	2,483	2,618	2,761	2,911	Operating profit growth	181.6%	167.4%	84.4%	187.2%
Inventories	6,888	7,633	7,212	7,244	Pretax profit growth	-34.4%	165.8%	-20.3%	96.7%
Total current assets	18,681	19,714	20,987	21,905	Net profit growth	-36.4%	145.5%	-22.9%	125.8%
Net PPE	3,693	4,389	5,204	6,160	EPS growth	-40.9%	134.4%	-21.1%	131.4%
Construction in progress	6,652	7,069	6,861	6,965	Gross margin	9.3%	19.9%	16.2%	24.2%
Property investment	240	271	305	342	EBITDA margin	14.5%	24.8%	20.7%	27.7%
Others long term asset	312	203	183	183	Net profit margin	3.9%	11.2%	8.2%	15.4%
Investment in JVs and associat	940	940	940	940	ROAE	6.9%	15.4%	10.9%	23.5%
Accounts receivables	6	6	5	5	ROAA	1.6%	3.8%	2.8%	5.9%
Total non-current assets	12,013	12,887	13,507	14,603	ROIC	2.3%	5.3%	3.9%	8.2%
Total assets	30,694	32,600	34,493	36,508	Asset turnover	0.4	0.3	0.3	0.4
Short-term debt	6,136	6,136	6,493	6,870	Dividend payout ratio	0.0%	0.0%	0.0%	0.0%
Accounts payable	3,956	4,887	5,263	5,738	Total debt to equity	108%	99%	106%	109%
Other current liabilities	2,090	2,018	2,054	2,039	Net debt to equity	82%	71%	62%	59%
Total current liabilities	14,422	15,505	16,766	17,456	Net debt to assets	27.5%	25.0%	20.6%	19.7%
Total long-term debt	4,962	5,210	5,731	6,376	Interest coverage ratio (x)	1.4	3.4	2.7	4.6
Other liabilities	1,069	481	498	489	Days account receivable	71.3	89.2	88.7	78.1
Total non-current liabilities	6,031	5,691	6,229	6,865	Days inventory	218.2	324.6	276.4	256.3
Total liabilities	20,453	21,196	22,995	24,321	Days creditor	70.9	104.8	113.3	99.4
Share capital	5,345	4,859	4,859	4,859	Current ratio	1.3	1.3	1.3	1.3
Additional paid-in capital	16	16	16	16	Quick ratio	0.8	0.8	0.8	0.8
Treasury shares	-	-	75	105	Cash ratio	0.3	0.3	0.3	0.4
Retained earnings reserve	1,583	3,263	3,347	4,028					
Other reserves	309	263	263	263	Valuations				
Shareholders' equity	7,252	8,402	8,560	9,271	EPS	961	2,359	1,909	4,310
Minority interest	2,989	3,002	2,938	2,916	BVPS	13,569	17,292	17,618	19,081
Total equity	10,241	11,404	11,498	12,187	P/E	18.7	7.6	9.4	4.2
Total liabilities & equity	30,694	32,600	34,493	36,508	P/B	1.3	1.0	1.0	0.9

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ADD	The stock can generate a profitability of 15% or more
HOLD	The stock can generate a profitability of between -15% and 15%
REDUCE	The stock can generate a loss of 15% or more

Sector rating

POSITIVE	Industry stocks have Add recommendations on a weighted market capitalization basis
NEUTRAL	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

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