

## FECON (FCN VN EQUITY): COMPANY VISIT TAKEAWAYS

### Cheap play on infrastructure & Renewable Energy in Vietnam

#### Not rated

Current price: VND 14,050

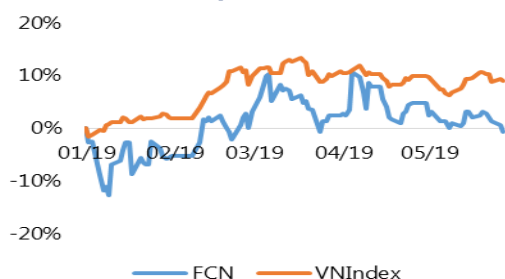
**Target price: N/A**
**Upside: N/A**

**We visited FCN in Hanoi on 19 July.** Management revealed strong preliminary 2Q19 PAT and discussed their operational strategies. FCN has added VND 1.7 tn to its backlog YTD. Also, it has expanded its business into renewable energy with its first solar project, Vinh Hao 6 (in which FCN owns a 40% stake), which has installed capacity of 50 MWp.

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52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
<b>11,905-21,800</b>	<b>USD 73mn</b>	<b>7.1%</b>	<b>33.8%</b>	<b>23.4%</b>	<b>USD 200K</b>

#### Price performance



#### Key takeaways

- Strong 2Q19 PAT growth of 176% YoY.
- Expanding its order backlog by VND 1,700 bn YTD.
- Investing in solar power amid Vietnam's shortage of electricity.

#### Business Risks

- Construction sector is economically cyclical.
- Receivables risk is typical in infrastructure development.
- Solar power could be constrained by weak transmission grid system.

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**Company profile:** FCN is a leader in foundation engineering and underground construction in Vietnam. It has a solid track record in infrastructure and industrial projects including the HCMC and HN metro lines, Long Son Refinery, Nghi Son Thermal Power, and Hoa Phat's production plants. FCN has expanded its operations into renewable energy to add value to its traditional businesses. Civil engineering contractor Raito Kogyo (1926 JP, Not Rated) of Japan owns a 19.3% stake.

**Strong 2H19 preliminary results.** 2Q19 PAT reached VND 121 bn (+176.2% YoY) bringing 1H19 PAT to VND 150 bn (+124% YoY), equivalent to 42% of the annual PAT guidance. The improvement in 2Q19 PAT was driven by: 1) +27.2% YoY 2Q19 revenue growth; 2) a one-off VND 90 bn profit from selling stakes in subsidiaries Vinh Hao 6 (VND 40bn) and FCU (VND 50bn).

**Expanding backlog and strategic direction.** FCN has added VND 1.7 tn in contract value YTD on the top of the VND 800 bn backlog. In the long term, FCN plans to upgrade from being a subcontractor specifically for underground work to become a main EPC (engineering, procurement, and construction) contractor, which should typically allow for higher contract values and stronger growth.

**Entering renewable energy.** FCN currently hold a 40% stake in a 50 MWp solar power project, Vinh Hao 6, which benefits from favorable pricing of 9.36 UScent/kWh (launched before June 30 2019). FCN plans to invest in five other renewable energy projects (including solar and wind power) with the aim of holding 30%-50% stakes and with the construction to be handled by FCN.

**Valuations.** FCN trades at 5.5x TTM PER and offers a 7.1% cash dividend yield. ROE of 16.6% is underpinned by 8.7% net margin and 35% net debt/equity.

Key metrics	2018A	2019 Guidance	YoY Growth (%)
Revenue (VND bn)	2,846	4,200	47.6
PBT (VND bn)	306	445	45.4
PATMI (VND bn)	246	338	37.4
GPM (%)	15.0		
Net Debt/Equity (%)	35%		
ROAE (%)	16.6%		
ROAA (%)	5.8%		
EPS (VND/share)	1,904		
EPS growth (%)*	-18%		
PE (x)	5.7		
PB (x)	0.7		

\*Note: PATMI growth in 2018 was +48% YoY.

The decline in EPS was due to a rights issue.

Source: Bloomberg, company data

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<b>BUY</b>	Above 10%
<b>HOLD</b>	Between -10% to +10%
<b>SELL</b>	Below -10%

**BUY:** We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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