

Sector Note

Construction - Materials

Accelerating construction of Long Thanh Int'l Airport

- There are some signals that 5.10 package – the largest package (worth VND35,233bn) at Long Thanh International Airport (LTIA) will find its contractor in Aug 2023, setting a premise for the project to accelerate the construction progress.
- We believe that construction and stone companies will benefit the most in this theme.

It's time to accelerate the construction of LTIA

After many cancellations & extensions of bid invitations, the largest infrastructure construction contract in Vietnam – 5.10 – construction and equipment installation for passenger terminal building at LTIA finally re-opened the bid for the second time on Jun 12, 2023. According to the key investor - ACV, there are 3 consortiums of contractors participating in the bidding (vs. only one consortium in the first bid invitation). As those consortiums of contractors are foreigners with rich experiences and strong capability of executing construction projects, this important project is expected find its quality contractor and then start to kick off in Aug 2023, setting a premise to accelerate the construction progress.

LTIA will be a growth engine for construction and construction stone companies in 2023-26

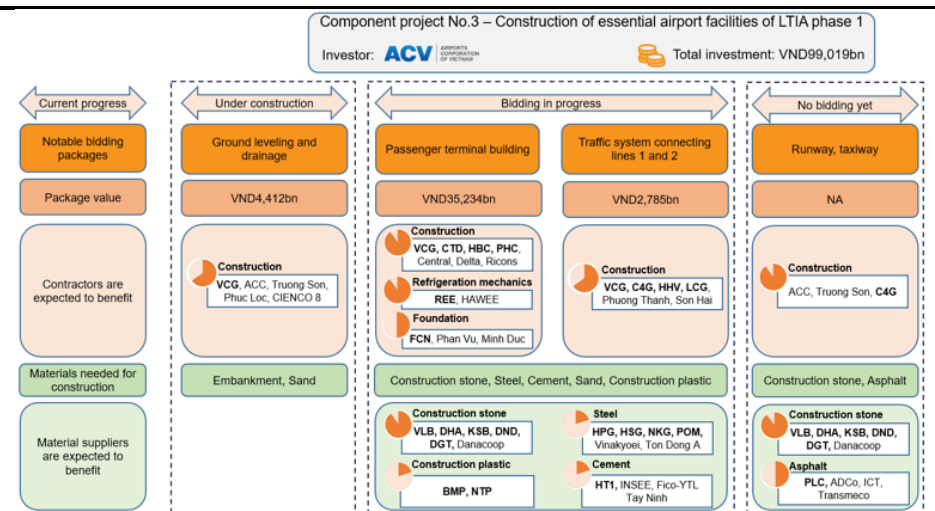
With a large bidding package size as LTIA, any construction companies which participate in this project will be able to “leap and bounce” in the next few years. Furthermore, management of construction companies also share that investors' initial capital for contractors in airport projects is usually 30-50% of the package value, higher than road projects (10-20%), thus supporting cash flow for contractors. For materials sector, we believe construction stone will take advantage from this project when the demand to mobilize is 18m m3, equivalent to 56% of the annual licensed mining capacity of Dong Nai province.

We believe VCG, C4G and VLB will be the most beneficiaries in this theme

Investment risk including:

- Construction sector: (1) package 5.10 continued to be canceled if bidders did not meet the requirements; and (2) rising material prices affect the gross margin of construction companies.
- Materials sector: rising input material prices and environmental resource tax affect the net margin of construction companies.

Figure 1: Companies are expected to benefit from component project no.3 (LTIA phase 1)



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Notes: ● highly benefit ● least benefit

Source: VNDIRECTS RESEARCH

Accelerating construction of Long Thanh Int'l Airport

Information of Long Thanh International Airport (LTIA) project

On November 11, 2020, the Prime Minister signed a decision to approve the investment plan for LTIA Phase 1 with a total investment cost of VND109,112bn (USD4.7bn). The LITA Phase 1 project includes four component projects: (1) State management facilities (customs/border security police and local police offices), (2) air traffic management facilities (air traffic control tower), (3) essential airport facilities (passenger terminal, runway, apron, first cargo terminal, connecting road infrastructure, parking lots ...) and (4) other aviation facilities (second cargo terminal, logistics facilities, air catering ...)

Figure 2: Investors and total investment of LTIA phase 1

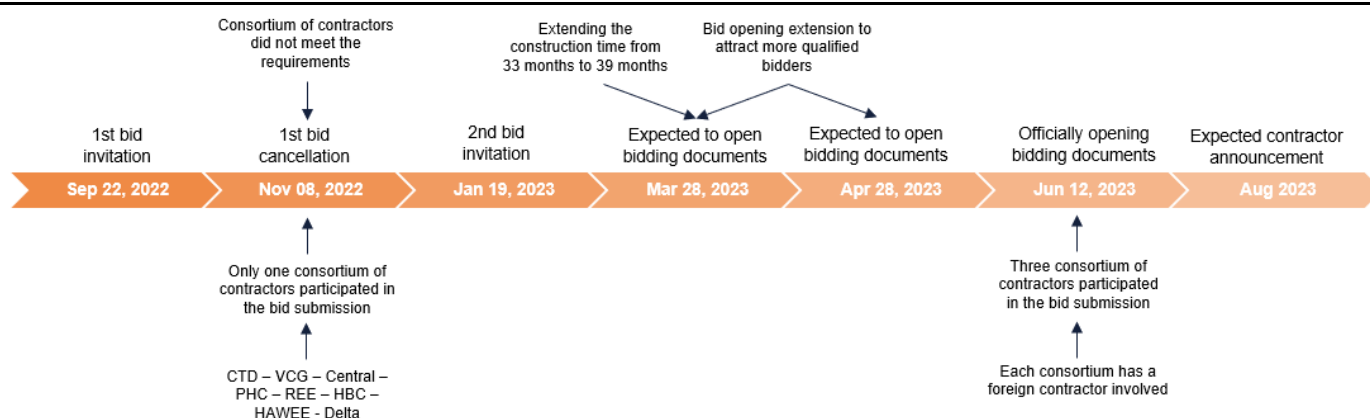
	Component project no.1	Component project no.2	Component project no.3	Component project no.4	Total
Investors	Government authorities and/or PPP investors if Government authorities cannot arrange capital	Vietnam Air Traffic Management Corporation (VATM)	Airports Corporation Of VietNam (ACV)	Ministry of Transport will oversee the bidding process for the component project no.4	
Total investment (VND bn)	293	3.435	99.019	6.364	109.112
Total investment (USD m) at VND/USD exchange rate of 23,390	13	147	4.233	272	4.665

Source: DECISION NO.1777/QD-TTG

Passenger terminal package is expected to start construction in Aug 2023

After many cancellations & extensions of bid invitations, the largest infrastructure construction contract in Vietnam – 5.10 – construction and equipment installation for passenger terminal building at LTIA finally re-opened the bid for the second time on Jun 12, 2023. According to the key investor - ACV, there are 3 consortiums of contractors participating in the bidding (vs. only one consortium in the first bid invitation). As those consortiums of contractors are foreigners with rich experiences and strong capability of executing construction projects, this important project is expected find its quality contractor and then start to kick off in Aug 2023, setting a premise to accelerate the construction progress.

Figure 3: Contractor selection progress in package 5.10 of component project no.3 (LTIA phase 1)



Source: VNDIRECT RESEARCH, ACV

Progress of remaining items (as of the end of May 2023)

- Land clearance: only 6/1,810 ha (equivalent to 0.33%) have not been handed over to implement LTIA phase 1.
- Construction: completed the items of demining and constructing the foundation of the passenger terminal; more than 75m m3 of embankment have been excavated (completed 66%)

Figure 4: Notable bidding packages have been implemented at component project no.3 (LTIA phase 1)

Package	Time of winning the bid	Package value (VND bn)	Winning bidder	Construction items
2.4	Apr-21	24	VCG - ACC	Construction of boundary wall works within 1,810 ha
1.3	Apr-21	141	Truong Son	Demining
4.1	Jun-21	577	Japan Airport Consultants INC - ADP Ingesnierie - Nippon Koei - Construction Consultancy One Member Limited Liability Company – Transport Engineering Design Inc	Consulting and formulating Feasibility Study Report
7.1	Jun-21	34	CPG consultants (Singapore) - CPG Vietnam Co., Ltd - PMI Consulting Services JSC	Consulting, surveying, making feasibility study reports for auxiliary works
3.4	Feb-22	4,412	VCG - ACC - CIENCON8 - Phuc Loc - Truong Son	Leveling and drainage, surveying, designing construction drawings
3.5	Feb-22	24	Sub - Institute of Transport Science and Technology - Transport Engineering Design Joint Stock Incorporated South	Construction supervision consultant for leveling and drainage works
5.6	Mar-22	471	Hanoi Construction Corporation - VIMECO - Mechanical and Industrial Construction JSC - VCG - Thien An - FCN	Construction of the foundation for the passenger terminal project
5.13	Mar-23	118	PVI - BMI - PTI - PJICO - BVH	Insurance for construction of passenger terminal building

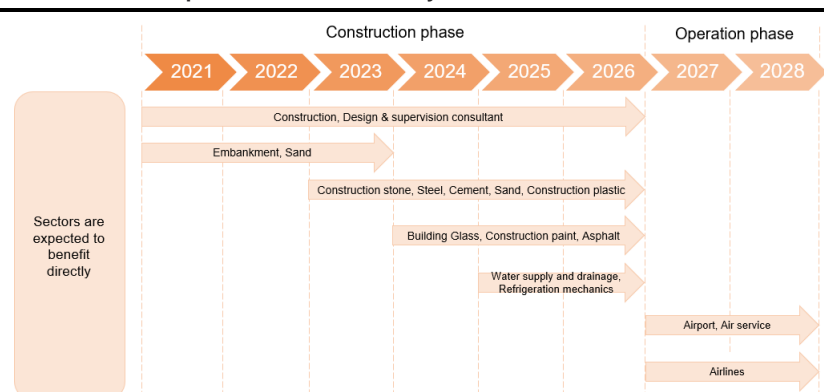
Source: VNDIRECT RESEARCH, ACV

LTIA will be a growth engine for construction and construction stone companies in 2023-26

In the component project no.3 of LTIA phase 1, there are 4 notable bidding packages, including: (1) 3.4 package – ground leveling and drainage; (2) 5.10 package - passenger terminal building; (3) 6.12 package – traffic system connecting lines 1 & 2 and (4) runway, taxiway. The remaining bidding packages have smaller scale, including supervision consultancy, technical design consultancy, diaphragm wall construction, construction insurance...

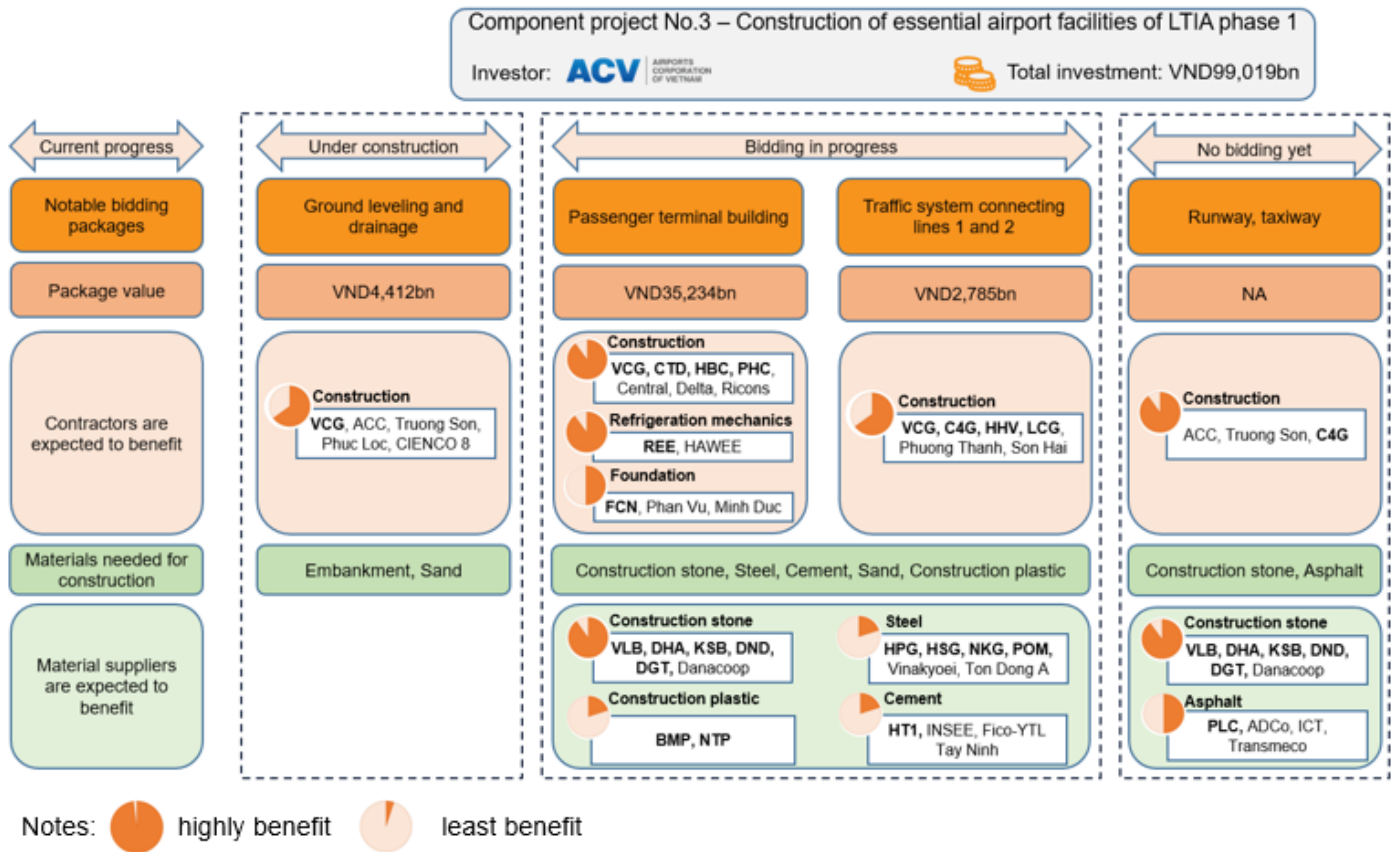
The largest bidding package - 5.10 will also help other bidding packages to be deployed soon in the coming months. ACV expects it to be completed in 2026 (vs. the initial target of 2025). We believe that the LTIA project will be a growth engine for construction and construction materials enterprises in 2023-26. After finishing, airport, air services and airlines companies will also benefit from the project.

Figure 5: Sectors are expected to benefit directly from LTIA



Source: VNDIRECT RESEARCH

Figure 6: Companies are expected to benefit from component project no.3 (LTIA phase 1)



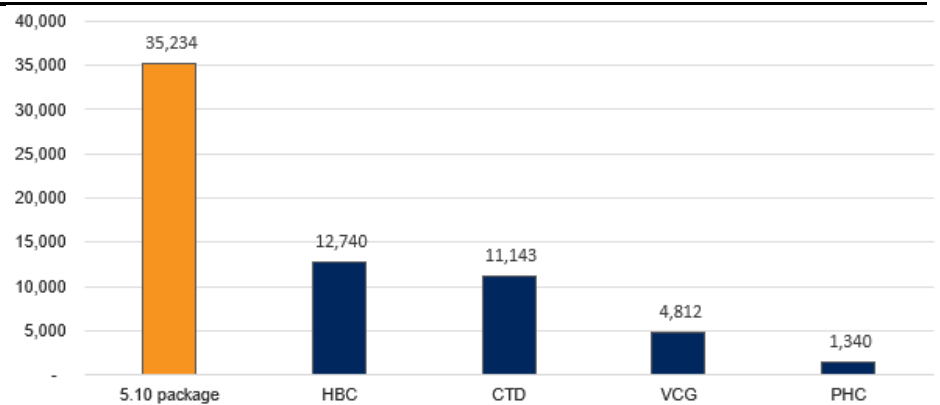
Source: VNDIRECT RESEARCH

We believe that listed construction companies that did not win bids in the first bid invitation of package 5.10 (including **HBC, CTD, VCG, and PHC**) will continue to participate in the second bid invitation.

Participating in the construction of package 5.10 will give the above companies opportunity to breakthrough in business results in FY23-26 thanks to the superb value of the package compared to each companies' revenue.

We believe that **C4G** will also have opportunities to participate in LTIA's bid for construction of runways and taxiways. The company has lots of experience in many similar bidding items such as Tan Son Nhat airport, Cam Ranh airport, Phu Quoc airport....

Figure 7: The value of the package 5.10 compared to the average revenue of the construction segment of listed companies in FY21-22 (VND bn)

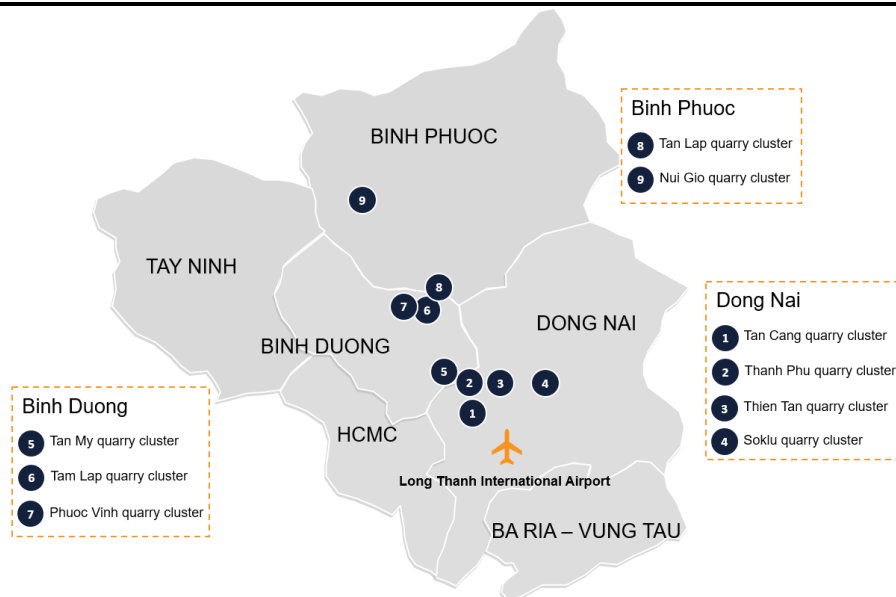


Source: VNDIRECT RESEARCH, COMPANY REPORTS, ACV

Due to the industry characteristics, transportation costs often account for a large proportion of construction stone costs. Depending on the distance and type of transportation, the price of stone delivered to a work site may be double the gate price at the mine. Thus, quarries located near construction sites (transport infrastructure, industrial parks and residential property) or near rivers (suitable for water transport with lower cost than road transport) will be prioritised.

We believe that **Tan Cang** quarry cluster will be the main source of construction stone for the LTIA project thanks to its location closest to the construction site and high-quality stone.

Figure 8: Location of notable construction stone quarries and LTIA



Source: VNDIRECT RESEARCH

Many listed companies own mines in Tan Cang quarry cluster. Notably, **Bien Hoa Building Materials Production and Construction JSC (Upcom, VLB)** owns Tan Cang 1 mine with the largest licensed exploitation capacity of 1,500,000 m³/year, long exploitation period and remaining reserve is 25.7m m³ at the end of 2022.

According to the Ministry of Transport, construction stone demand of LTIA phase 1 is 18m m³, equivalent to 56% of the annual licensed mining capacity of Dong Nai province. Thus, we believe that the LTIA project will be a growth engine for construction stone companies in the coming time.

Figure 9: Quarries of listed construction stone companies

Company	Quarry	District	Province	Licensed mining capacity (m ³ /year)	Exploitation period
KSB	Tan My	Bac Tan Uyen	Binh Duong	1.500.000	Aug-2029
	Phuoc Vinh	Phu Giao	Binh Duong	1.200.000	Jan-2023
	Thien Tan 7	Vinh Cuu	Dong Nai	280.000	Jan-2035
MDG	Tan My	Bac Tan Uyen	Binh Duong	1.000.000	Dec-2025
	Thanh Phu 2	Vinh Cuu	Dong Nai	818.000	Sep-2026
DHA	Tan Cang 3	Bien Hoa	Dong Nai	490.000	Mar-2037
	Nui Gio	Hon Quan	Binh Phuoc	300.000	Aug-2038
NNC	Mui Tau	Tan Lap	Binh Phuoc	1.000.000	Jan-2042
	Thanh Phu 1	Vinh Cuu	Dong Nai	1.800.000	Jul-2042
VLB	Thien Tan 2	Vinh Cuu	Dong Nai	1.500.000	Jun-2038
	Soklu 2	Thong Nhat	Dong Nai	400.000	Jan-2026
	Soklu 5	Thong Nhat	Dong Nai	500.000	Jun-2025
DND	Tan Cang 1	Bien Hoa	Dong Nai	1.500.000	Jan-2039
	Tang Cang 5	Bien Hoa	Dong Nai	1.000.000	Jan-2023
	Thien Tan 5	Vinh Cuu	Dong Nai	354.000	Jan-2026
CTI	Xuan Hoa	Xuan Loc	Dong Nai	750.000	Jan-2030
	Thien Tan 10	Bien Hoa	Dong Nai	2.000.000	Dec-2033
TCD	Nui Dai	Tri Ton	An Giang	1.000.000	Dec-2024
BMJ	An Binh	Phu Giao	Binh Duong	800.000	Jun-2035
DGT	Tan Cang 4	Bien Hoa	Dong Nai	400.000	Jan-2031
CI5	Soklu 6	Thong Nhat	Dong Nai	397.000	Apr-2026

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Investment ideas

We believe VCG, C4G and VLB will benefit the most in this theme.

Figure 10: Peer comparison

Company	Ticker	Price	Market cap	P/E (x)		3-year EPS		P/B (x)		EV/EBITDA (x)		ROE (%)	
		LC\$	US\$ m	TTM	FY23F	CAGR (%)	TTM	FY23F	TTM	FY23F	TTM	FY23F	
Steel													
Hoa Phat Group JSC	HPG VN	24,500	6,059.1	214.5	14.5	48.1	1.5	1.3	14.6	9.1	0.7	10.3	
Hoa Sen Group	HSG VN	17,100	435.0	na	na	177.0	1.0	0.9	8.1	9.7	(9.7)	(0.7)	
Nam Kim Steel JSC	NKG VN	17,700	198.2	na	16.6	na	0.9	0.8	18.1	9.1	(11.8)	5.4	
Cement													
Vicem Ha Tien Cement JSC	HT1 VN	16,250	263.7	42.1	20.9	(25.6)	1.2	1.2	8.5	7.5	2.9	9.8	
Bim Son Cement JSC	BCC VN	14,400	75.5	na	na	(8.0)	0.8	na	7.7	na	(2.2)	na	
But Son Cement JSC	BTS VN	6,700	35.2	39.0	na	56.5	0.6	na	7.2	na	1.5	na	
VICEM Hoang Mai Cement JSC	HOM VN	5,800	17.8	23.0	na	269.7	0.4	na	6.6	na	2.2	na	
VVMI La Hien Cement JSC	CLH VN	27,500	14.0	5.8	na	13.8	1.5	na	1.9	na	26.6	na	
Construction stone													
Binh Duong Minerals & Construction JSC	KSB VN	29,250	94.9	21.0	na	(17.1)	1.1	na	11.1	na	5.3	na	
Bien Hoa Building Materials JSC	VLB VN	36,200	71.9	na	na	na	3.2	na	5.8	na	(3.9)	na	
Hoa An JSC	DHA VN	41,800	26.2	12.8	na	(1.4)	1.5	na	4.2	na	11.1	na	
Infrastructure construction													
Vietnam Construction and Import-Export JSC	VCG VN	21,300	484.2	26.4	na	56.9	1.7	na	28.7	na	(1.2)	na	
CIENCO4 Group JSC	C4G VN	14,000	200.7	17.7	16.6	20.5	1.3	1.2	18.6	na	8.1	7.3	
Deo Ca Traffic Infrastructure Investment JSC	HHV VN	15,000	210.1	16.6	na	(9.2)	0.7	na	21.0	na	3.9	na	
Lizen JSC	LCG VN	13,900	112.1	17.8	na	3.5	1.0	na	20.5	na	(0.5)	na	
Civil construction													
Coteccons Construction JSC	CTD VN	67,600	214.0	367.5	24.8	(52.8)	0.6	na	na	12.4	(0.5)	2.5	
Hoa Binh Construction Group JSC	HBC VN	9,140	106.6	na	na	(56.9)	1.2	na	na	na	(54.2)	na	
FECON Corp	FCN VN	16,450	110.2	65.4	31.2	(47.7)	1.0	1.0	17.9	na	(2.4)	3.5	
Phuc Hung Holdings Construction JSC	PHC VN	7,620	16.4	24.3	na	101.3	0.6	na	21.9	na	2.0	na	
Asphalt													
Petrolimex Petrochemical JSC	PLC VN	38,900	133.7	28.7	16.3	0.2	2.5	3.0	10.0	na	8.5	17.1	

Source: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 22 JUNE 2023

Investment risk including:

- Construction sector: (1) package 5.10 continued to be canceled if bidders did not meet the requirements; and (2) rising material prices affect the gross margin of construction companies.
- Materials sector: rising input material prices and environmental resource tax affect the net margin of construction companies.

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Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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