

**Transport and Industry Development Investment JSC (TCD HOSE)**

**Recommendation: BUY**

KEY INDICATORS	
Current Price (VND)	17,000.0
Target Price (VND)	26,200.0
Upside Potential (%)	54.1
YTD Return (%)	(4.0)
1-Year Return (%)	N/A
Outperform/(Underperform) (%)	N/A
Market Cap (VND billion)	585.4
Outstanding Shares (million)	34.4
Dividend Yield (%)	-
P/E Trailing (x)	10.4
P/B (x)	1.4
P/E VN-Index (x)	20.5

Source: TCD, KBSV

**COMPANY OVERVIEW**

Transport and Industry Development Investment JSC (TCD) was initially founded as state enterprise under management of Ministry of Transport and Post then switched to joint stock company with 100% private capital in 2015. Prior to privatization, the company was facing financial and operational challenges, main business segments were almost non-profitable given the company’s rich experience in construction and infrastructure in Southern provinces. The main source of revenue came from financial incomes only.

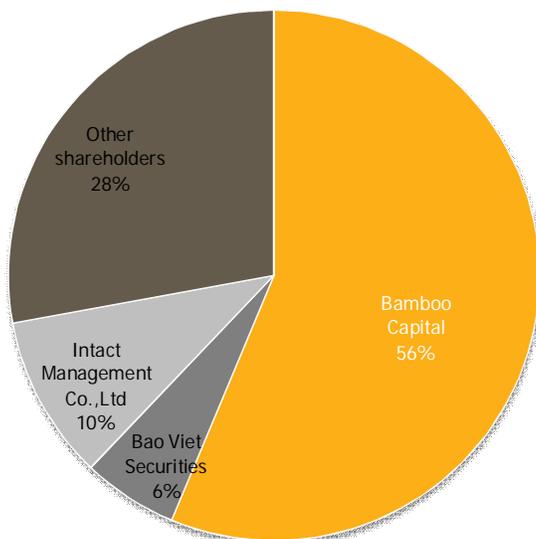
After the takeover of 53.6% from BCG, Tracodi’s business has been restructured in to four main areas: (1) Construction & Infrastructure, (2) Quarrying, (3) Trading of manufactured and agricultural products with more than 15 years of experience and (4) General labor export. The financial indicators of the following years have reflected the efforts and effectiveness of the new management board, in which revenue more than doubled in 2015 and then increased over four folds in 2016, leading to significant growth for net profit, respectively. In May 2017, TCD officially listed on Ho Chi Minh City Stock Exchange.

Over 27 of establishment and development, Tracodi has overcome disadvantage of poor management thanks to the takeover of BCG. With experience in operation and finance management, BCG has helped TCD to grow and now Tracodi aims to be become one of the industry leaders in Vietnam in terms of scale and efficiency in areas including: Infrastructure and residential construction; Trading of manufactured and agricultural products; Industry leader in global renewable energy EPC.

**OWNERSHIP STRUCTURE**

Tracodi was formerly a 100% state-owned company. After the privatization. Since April 2015, BCG has become the largest shareholder of TCD by acquiring 53.6% of share. As of the end of Jan 2017, Intact Management Co., Ltd holds 10% of stock, being the second largest shareholder, and Bao Viet Securities holds 6%, being the third largest institutional shareholder of BCG. The remaining shares are held by other individual shareholders.

**Ownership Structure**



Source: TCD

## MANAGEMENT TEAM

Management team with extensive expertise and well-built experience in finance is the most advantage of TCD. Each of Board members has substantial experience in different backgrounds, which brings precious value to each area TCD has participated in.

### **Chairman - Nguyen Ho Nam**

As the chairman of BOD of Tracodi, Nam's principles of value creation and entrepreneurial management suffuse all of Tracodi' activities. Nam has been actively involved in Tracodi' major acquisitions, growth strategies and value realizations. Nam is also the chairman of Bamboo Capital JSC, a public listed company in Ho Chi Minh stock exchange.

Before establishing Bamboo Capital in 2011, Nam was the founder and chairman of Sacombank Securities, one of the fastest growth brokerage securities firm in Vietnam. In addition, Nam was the Deputy General Director of Sacombank, where he was responsible for credit evaluation. Prior to that, he worked at Unilever Australia where he specialized in corporate finance. His previous experience also includes head of accounting and finance at Unilever Vietnam.

Nam is an expert on investments, mergers and acquisitions, corporate restructuring, and privatisations. He has strong connections with business and banking community in Vietnam. He also maintains strong relationship with provincial and central government.

Nam received his Economics B.A. in Vietnam and Master's degree in Finance&Banking from Monash University, Australia.

### **Board member cum CEO - Nguyen Thanh Hung**

Hung has an extensive career with more than 9 years of experience in Financial Services in Vietnam, along with expertise in negotiations, M&A, and divestitures. Hung is one of the BCG founders, also is BCG Deputy General Director being responsible for investments in Infrastructures. In this role, his responsibilities include being the CEO of Tracodi JSC, the investment, development and management arm of BCG infrastructure portfolio overseeing BOT 830, Long An social housing and a road construction project in Long An.

Hung has strong expertise in M&A and project management. Under his leadership in recent years, Tracodi has expanded its portfolio and platform in each of the three business segments infrastructure construction, trading and stone exploitation and has continued to grow the company's reputation as a leader in the infrastructure construction industry.

Prior to BCG, Hung was the CEO of Sacombank Securities, where he was responsible for overall operations, strategy and investments of the Company. Prior to that, he was head of distribution of Saigon Portel company, one of the leading company in the field. Hung received his B.A from the Social Science and Humanities University of Ho Chi Minh City and B.A in Corporate Finance from University of Economics, Ho Chi Minh City.

### **Board member cum Deputy General Director - Le Thi Mai Loan**

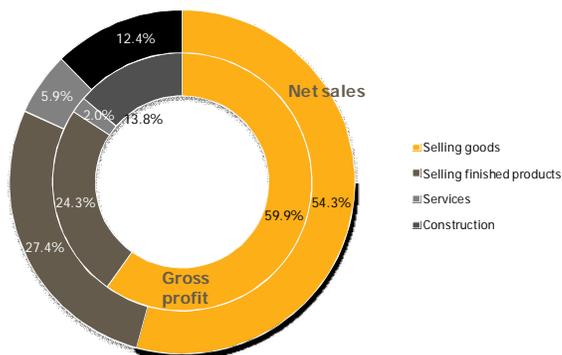
Loan concurrently serves as Deputy General Director of Tracodi JSC and Central Office JSC. Loan is responsible for Tracodi' efforts in the trading and funding activities which is core activities lead to the success of Tracodi's turn around strategy in 2016 and early 2017. Loan connected financial institutions, mobilized additional working capital funding for Tracodi and expanded the trading activities of Tracodi, led to the strong growth in revenue of trading business segment. Loan is also responsible for day to day operations of Tracodi.

Loan currently serves on the board of VinaCafe Fertilizer company, and on the supervisory board of BCG. As the Treasurer of BCG, Loan focuses on optimizing funding structure for Group operations, maintains relationships with local and international financial institutions. Prior to BCG, Loan was the Vice Director, Head of Treasury of Sacombank Securities, where she was responsible for funding and capital structure of the Company.

Loan received her B.A. in Economy from the University of Economics, HCMC and IEMBA from PGSM University, France.

Sales and gross profit structure (2017)

FINANCIAL PERFORMANCE YEAR 2017

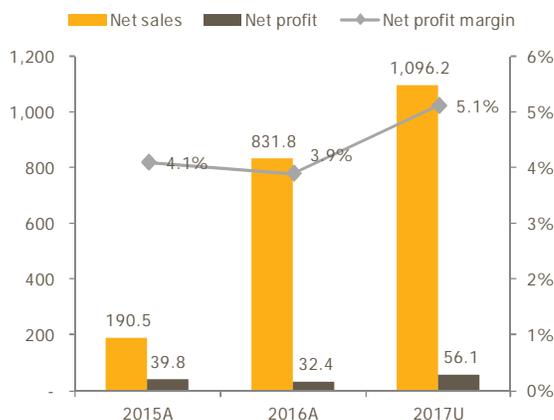


Source: TCD, KBSV

Performance

In 2017, Revenue and net profit reached VND 1,096bil (+31.8% yoy) and VND 75.1bil (+25% yoy), respectively. Gross profit stood at VND 174.7bil (+15.6% yoy) despite of a decrease in GPM to 15.8% from 18% in 2016. Financial income increased sharply 60.3% and reached VND 158.2bil thanks to the profitable investment in stocks and bonds in Q2.2017 and Q4.2017 bringing net profit of VND 71.4bil and VND 78.3 bil, respectively. Below are subsidiaries and affiliates of TCD as of the end of 2017:

Sales and Profits performance (2015-2017) (VND bil)



Source: TCD, KBSV

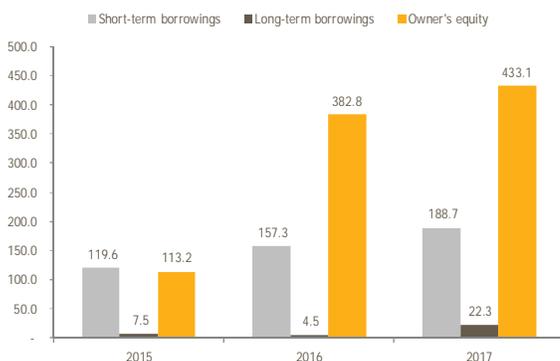
Company name	Contributed capital (VND million)	Ownership
ANTRACO	9,726	51%
Tracodi Labour	7,000	70%
Tracodi services	203,000	29%
Vinataxi	34,256	30%
Tracodi invest	8,800	44%
Vinacafe Fertilizer	2,651	25%

Leverage and Debt Structure

At the end of 2017, the total borrowings of the company was VND 161bil, in which short-term debts reached VND 157.2bil and accounted for over 97% of the total in order to support high level of production activities within subsidiaries and associates. Accordingly, TCD's debt to total assets ratio was 14% and the ratio of debt on equity was 37.4%. This could be considered as an advantage of TCD as low debt ratio means there is more room for company to expand the scale of production with less difficulty in raising additional capital.

Debts and Equity (2015-2017) (VND bln)

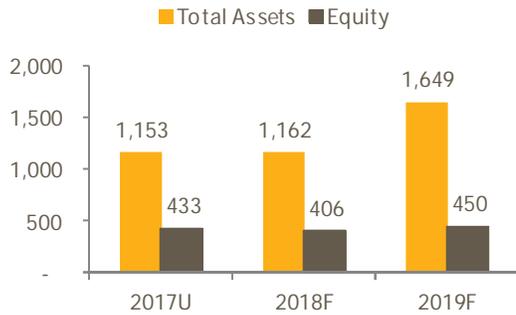
BUSINESS DEVELOPMENT PROSPECTS OF TCD



Source: TCD, KBSV

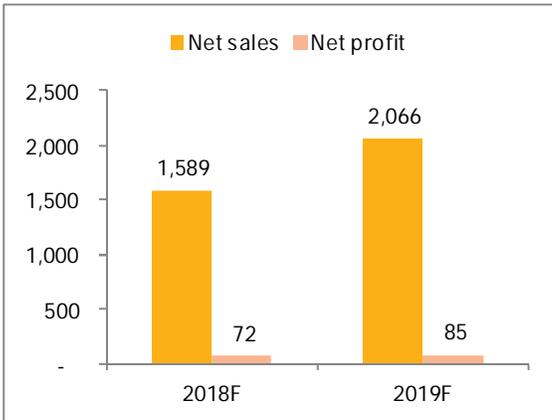
In recent years, TCD has increased the value of its M&A deals by investing in companies have good growth potential, and operating in sectors that in line with the development orientation of the company. Along with the consulting from its major owner, BCG, who has analyzed, evaluated the operation of the acquired business's development potential to provide suitable restructuring solutions and cooperated with their subsidiaries and associates during the transforming period, TCD has grown from a non-profit company to a multi-industry enterprise having a remarkable sales growth rate with only 2 years and was listed on HOSE in May 2017.

## Assets and Equity 2017-2019 (VND bln)



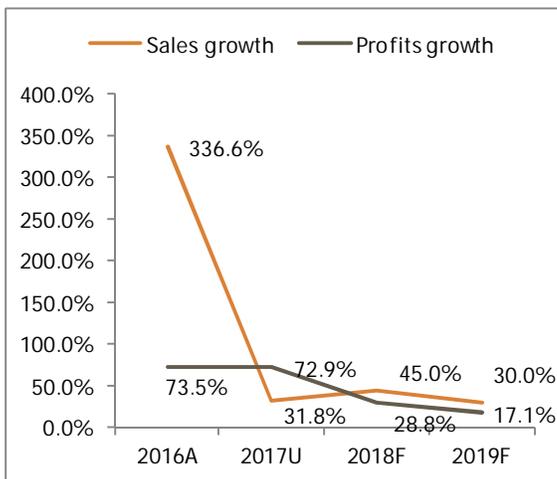
Source: TCD and KBSV forecasted

## Sales and Profits outlook 2018-2019 (VND bln)



Source: KBSV forecasted

## Sales and Profits growth 2018-2019



Source: KBSV forecasted

## Outlook 2018 - 2019

In 2018-2019, Tracodi is expected to witness strong sales growth, which is mainly contributed by construction revenue of real estate projects and infrastructure projects. TCD is forecasted to generate VND 1,589bil of revenue (+45% YoY) and VND 72bil of net profit (+28% YoY) in 2018.

In 2018, TCD will benefit from BCG's construction projects in the role of general contractor. BCG expects to start the construction of a five stars resort in Hoi An, Quang Nam province and will be the main contractor for the development of a commercial center, hotels and villas complex at Da Nang city center. The complex will be a land mark building at the downtown core of Da Nang city, looking over Han river. In late Q3/2018, TCD will start the construction of two towers residential complex in District 2, HCM City. Tracodi will also be the main contractor for 2,500 units social housing in Long An province and a 8-9 km road.

In 2019, revenue from Construction and Infrastructure is believed to remain the largest among four main areas. As BCG, its major shareholder, is the developer of various renewable energy projects with total electricity generation capacity of 390MW, TCD will also perform the civil works for the construction of solar farms. In addition, TCD also focuses on building Tracodi Power team, a subsidiary focuses on providing EPC services for C&I roof top solar at industrial zones and airports. This new business segment is expected to bring a strong cashflow for TCD in 2018 and 2019.

TCD expects to keep a stable growth in quarrying activities and expanding the business through M&A of other mineral deposits in the region in the near future. TCD will as well boost labour export business to over 500 workforce to Japanese market. TCD expect to establish a subsidiary specializing in this area in 2018-2019.

Below are projects to be implemented in 2018-2019 that TCD will take part in as general contractor:

### INFRASTRUCTURE PROJECTS

Project name	Location	Scale	Schedule
Road construction (BT)	Long An Province	9km	2018
Interstates 830 & 824 (BOT)	Long An Province	24 km	2017-2018
Social Houses	Long An Province	2,500 apartments	2018-2019

### REAL ESTATE PROJECTS

Project name	Location	Land area	Schedule
Hoi An 5 stars resort	Quang Nam Province	11ha	2018-2019
Bamboo Prince Court Tower	District 1, HCM City	2,382 m2	2018-2019
District 2 Residential complex	District 2, HCM City	8,984	2018-2019
Da Nang City Center landmark building	Da Nang	1.1ha	2018-2020

## 1Y stock performance



## ► VALUATION AND RECOMMENDATION

### Valuation

We used the valuation method comparable price to earning (P/E) to evaluate the value of TCD share. Based on the forecasting earning 2018 of TCD and its potential growth and peer companies, also current equity market condition, we apply P/E 12.5 times, discounted 39% market P/E, for valuation the TCD stock.

Due to lack of information, we did not evaluate the real estate projects of TCD's subsidiaries nor bring the total value of property projects into the process of valuation of TCD's shares. The achieved result showed that the fair value of TCD stock is **VND 26,200/share**, 54% higher than the current market price.

### Recommendation

We recommend to BUY shares of TCD for medium term and long term invested target due to the following reasons:

- TCD's shares are evaluated according to the valuation method PE with the fair value is VND26,200/share, the potential growth comparing to the current market price is 54.1%.
- TCD stocks are being traded at prices lower than their actual value with P/B ratio is 1.35x and P/E forward 2018F is 6.5x, lower than the current P/E of market at 20.5x.
- TCD and its subsidiaries own a large amount of valuable property, minerals and renewable energy - the foundation created enormous growth potential in the future.
- Since 2015, the results of production and business activities of TCD have improved year over year
- The business performance in the last years still positively, and estimated average growth rate of the period 2018-2019 is 59.6% per annum in term the bottom line.

FINANCIAL SUMMARY	2014A	2015A	2016A	2017U	2018F	2019F
Net sales (VND billion)	76.9	190.5	831.8	1,096.2	1,589.5	2,066.3
Sales growth rate (%)	N/A	147.7	336.6	31.8	45.0	30.0
Net profit (VND billion)	(1.2)	18.7	32.4	56.1	72.2	84.6
Net profit growth rate (%)	N/A	(1,649.9)	73.5	72.9	28.8	17.1
Net profit margin (%)	(1.6)	9.8	3.9	5.1	4.5	4.1
Owner's equity (VND billion)	77.9	113.2	382.8	433.1	406.4	450.5
Total assets (VND billion)	153.1	239.8	2,449.3	1,152.6	1,895.8	2,399.5
ROE (%)	(1.5)	16.5	8.5	13.0	17.8	18.8
ROA (%)	(0.8)	7.8	1.3	4.9	3.8	3.5
EPS (VND)	(153.8)	2,383.1	998.9	1,629.1	2,098.0	2,456.6
BVPS (VND)	9,920.8	14,416.4	11,784.2	12,578.1	11,801.2	13,081.6
Cash Dividend (VND)	-	-	-	-	-	-
P/E (x)	-	8.1	17.0	10.4	8.1	6.9
P/B (x)	-	1.3	1.4	1.4	1.4	1.3

Source: TCD, KBSV forecasted

**RATING**

BUY - Expected return for 1-year is 15% or greater

HOLD - Expected return for 1-year is between -15% and 15%

SELL - Expected return for 1-year is below or equal to -15%

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