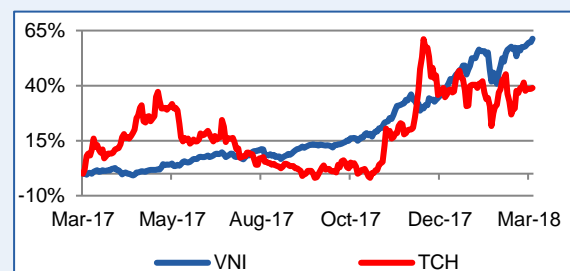


Report Date:	Apr. 05, 2018		<u>2015</u>	<u>2016</u>	<u>2017E</u>
Industry	Distributor/real estate	Rev Growth	0.7%	24.8%	25.6%
Current Price:	21,750	EPS Growth	-69.7%	28.6%	-18.7%
Dividend Yield:	N/A	GPM	20.6%	27.4%	27.0%
		NPM	13.9%	34.9%	23.1%
		EV/EBITDA	11.5	25.6	N/A
		P/E	N/A	12.0x	19.0x

Notes: TCH's fiscal year starts from April



			<u>TCH</u>	<u>Peers</u>	<u>VNI</u>
Market Cap:	\$337mn	P/E (ttm)	16.2x	15.8x	21.5x
Foreign Room:	\$151mn	P/B (curr)	1.7x	2.2x	3.3x
ADTV30D:	\$1.5mn	Net D/E	-0.1x	1.2x	N/A
State Ownership:	0%	ROE	10.7%	9.3%	15.1%
Outstanding Shares:	363 mn	ROA	10.3%	4.0%	2.3%

Company Overview

TCH was listed on the Ho Chi Minh Stock Exchange in September 2016. The company is based in Hai Phong and is involved in heavy truck distribution for the domestic market as well as real estate with a focus on Hai Phong city.

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Real estate segment to be new growth engine

We recently had a meeting with the company's management and following are key takeaways:

TCH is a leading US truck distributor in the domestic market. According to the company, its current market share in the US truck sub-segment is about 80%. Truck distribution is currently TCH's key business line, accounting for about 90% of total revenue and about 70%-80% of gross profit. The company's improving results in recent years have also come from this segment. But as its market share has already reached 80%, further room for boosting sales is limited and we expect TCH's truck segment to stall from 2018 onward.

Truck business continued to drive results in FY2017. TCH estimates its FY2017 result at VND1.8tn in revenue (USD79mn, +25.6% YoY) and VND415bn in NPAT (USD18mn, -17% YoY). The higher revenue was driven by 41.5% growth in the number of trucks sold. NPAT was lower than the previous year since TCH no longer had a one-off negative goodwill of VND167bn (USD7.3mn). If this non-recurring income was excluded, TCH's NPAT in FY2017 would have grown 24.6% YoY. EPS for FY 2017 was VND1,143/share (-18.7% YoY).

Revenue and profit contribution will shift toward real estate from 2018. The company is eyeing the Hai Phong real estate market going forward and has accumulated land bank via BT projects. With the first project planned to be introduced in FY2018, we expect real estate to replace the truck business and become TCH's new growth engine from this year onward.

Breakthrough in performance expected in FY2018 from real estate. The company shared that revenue from this segment in FY2018 would come from sales of Hoang Huy Riverside and transfers of other reciprocal land lots. Management expects a breakthrough in performance with NPAT for FY2018 of VND600bn (USD26mn, +44.6% YoY), which equates to an EPS of VND1,652 (+44.6% YoY). Further details regarding revenue shall be available at the AGM next June.

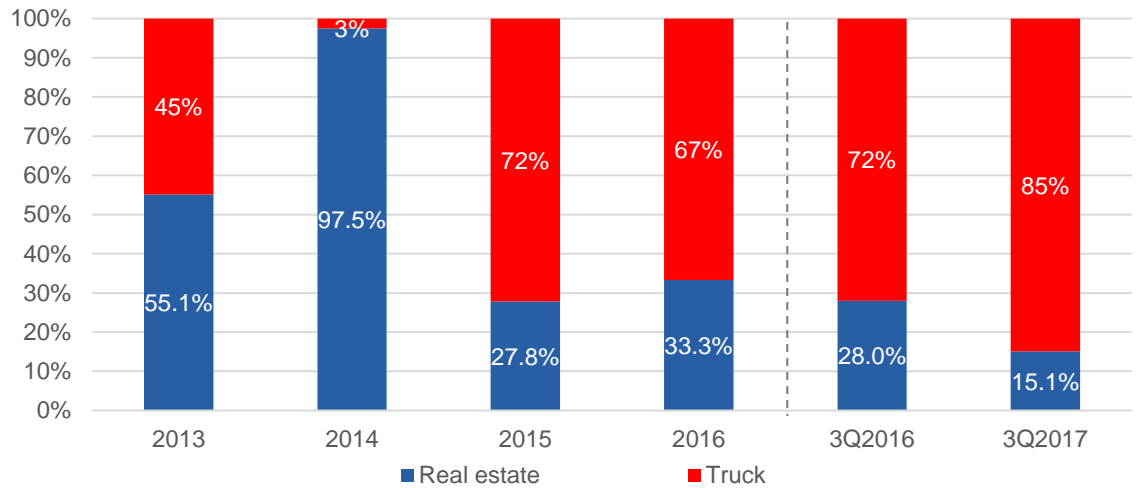
Valuation has yet to reflect potential growth in coming years. With FY2017 EPS at VND1,143, TCH is trading at a P/E of 19.0x, much higher than its peers at 15.8x. However, an increase of 43% in EPS for FY2018 would push its P/E to 13.3x, relatively lower than the industry average of 15.8x.

Business overview

TCH operates in two key segments: (1) Trucks and (2) Real estate. With regards to the first segment, TCH's revenue comes from sales of heavy-duty trucks imported from the US, spare parts for those trucks and related vehicle services. The company currently dominates the US truck sub-segment with about 80% of market share.

As for real estate, TCH's revenue in recent years has come from its Golden Land phase 1, a mid-range apartment building project in Thanh Xuan District, Hanoi. It consists of three 25 to 27-storey buildings with over 700 apartments ranging from 90 to 145 m2. Nearly 90% of the project was sold, bringing TCH a revenue of over VND1.0tn (USD44 mn) over the last four years. Following this, the company is eyeing Hai Phong's real estate market and will launch Golden Land phase 2 starting from 2018.

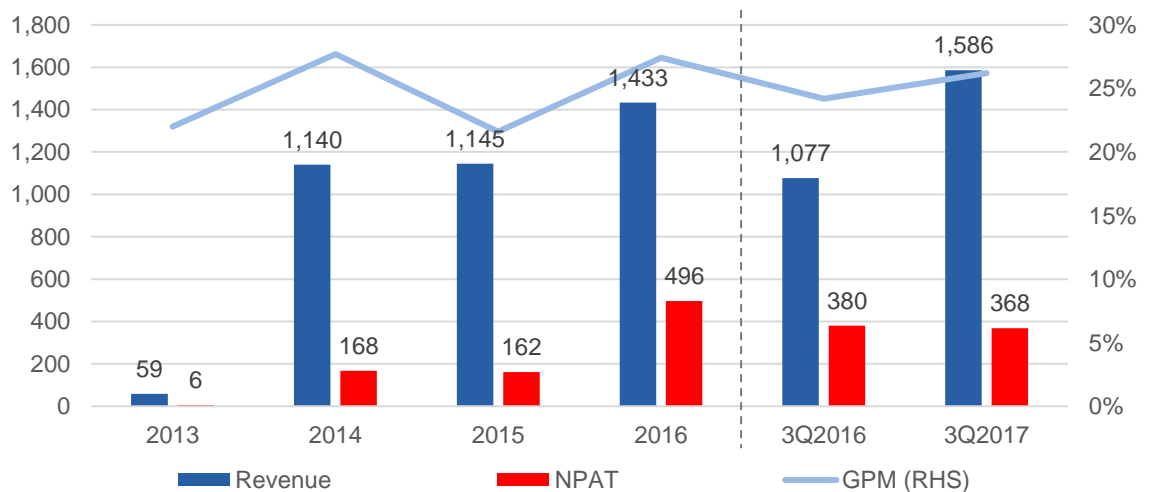
Figure 1: TCH gross profit by segment



Source: TCH, VCSC

In 2014, TCH witnessed an impressive jump in business results from the tens of billions of VND to the thousands of billions of VND range as it recorded revenue from the Golden Land project. Real estate accounted for 97.5% of total gross profit. Without any projects lined up after Golden Land, contribution from the real estate segment gradually wore thin in the following years. On the other hand, with an exclusive contract with Navistar signed in 2015, truck sales started to soar and the segment has become TCH's key business pillar ever since, currently accounting for about 70%-80% of the company's total gross profit.

Figure 2: TCH performance from 2013-9M 2017



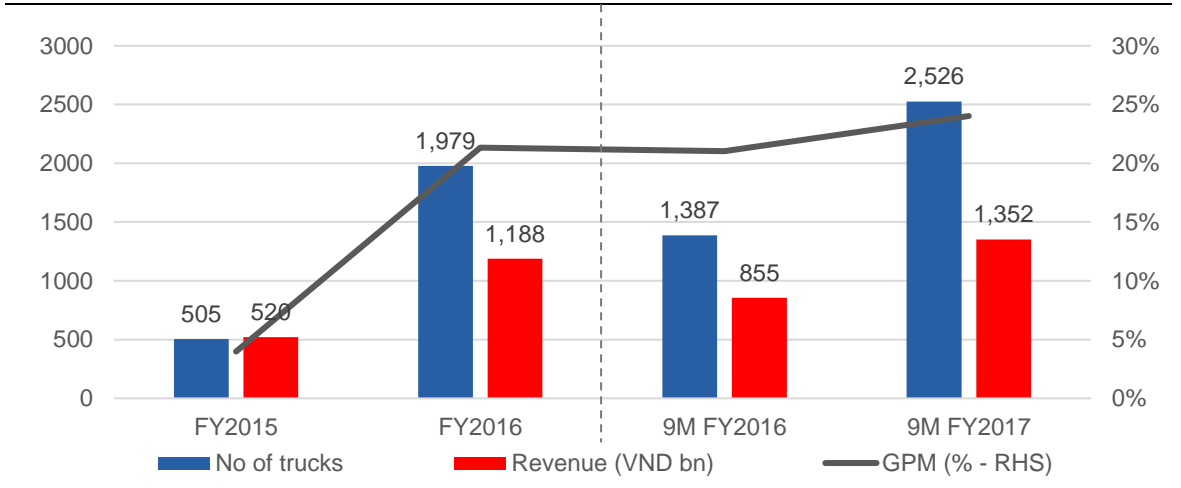
Source: TCH, VCSC

Key segments and prospects

Trucks

TCH distributes second-hand trucks from the US and currently has 30 sales agencies across the country. It has been the exclusive distributor of Navistar’s flagship vehicle International in Vietnam since 2015 and is currently the largest player in the US heavy-duty truck sub-segment. According to the company, it accounts for 80% sales of US trucks in the domestic market. The product has been well received in Vietnam as evidenced by impressive sales growth of TCH in the last two years. The number of trucks distributed in FY2016 rose by nearly four times YoY and by over 82% YoY in 9M 2017. Compared to other new trucks from South Korea, Japan or even China, old US trucks possess the following advantages: (1) Competitive price, about 30% lower than other, new trucks, (2) Fuel savings of up to 20% and (3) Comprehensive waste gas treatment.

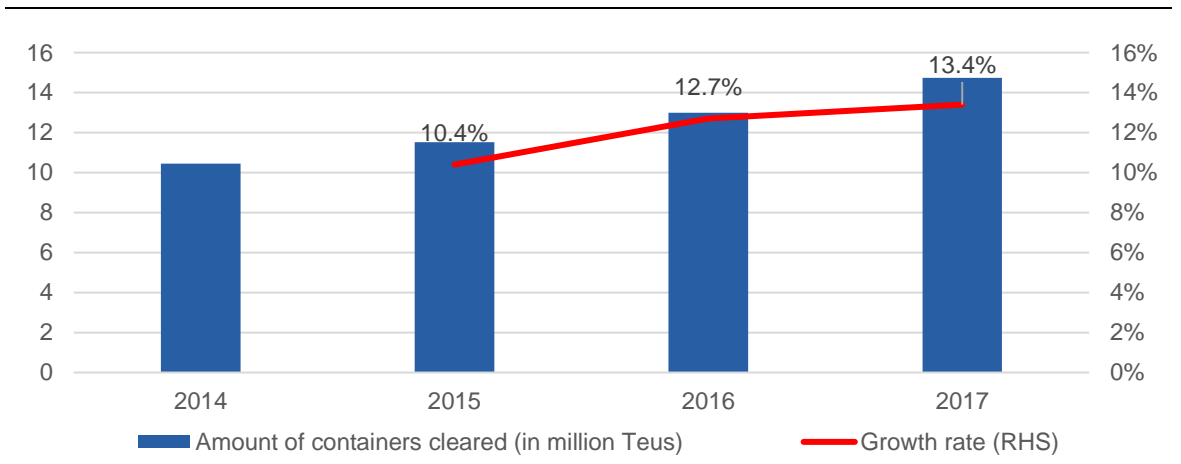
Figure 3: Number of trucks imported and revenue



Source: TCH, VCSC

In terms of future prospects, the growth of containers clearing customs remained stable at double digits over the last three years and is projected to grow at 8%/year from 2018 until 2020, according to Vietnam Maritime Administration, ensuring stable demand for trucks. For TCH in particular, impressive growth in FY2016 and FY2017 was achieved against quite a low base and will not repeat itself. Rather, truck sales are more likely to stall from 2018 onward.

Figure 4: Containers clearing customs (in mn TEUs) and growth rate



Source: Vietnam Maritime Administration, VCSC

Real estate – Strong potential in Hai Phong market

TCH's target market is Hai Phong, the third-largest city in Vietnam following Hanoi and HCMC. The city is always among top 10 contributors to Vietnam's GDP and is an international logistics hub in the northern part of the country. Its GDP growth rate in 2017 reached 14%, the highest nationwide, outpacing Hanoi's 7.3% and HCMC's 8%.

Table 3: TCH's BT projects

Project	Total investment	Timeline (planned)	Status	Total area of reciprocal land
Reconstruction of U1, U2, U3 condos Le Loi	VND110bn (USD4.9mn)	2017-2018	BT contract signed. Construction phase 1 (50% of the project) completed in Dec 2017	29,750 m ²
Reconstruction of HH3, HH4 condos in Dong Quoc Binh Ward	VND1.67tn (USD73.5mn)	2018-2019	BT contract signed	980,000 m ²

Source: TCH, VCSC

Over 2015-2017, Hai Phong witnessed intense investment in infrastructure and business projects, paving the way for a booming real estate market in coming years. To grasp this opportunity, TCH decided to join the market from 2018 onward. Land bank is being acquired via BT projects as Hai Phong has an intensive plan to replace 178 dilapidated condos before 2022 under the BT scheme. Currently, TCH has signed two BT contracts in exchange for eight land lots in Hai Phong, two of which will be developed into residential projects starting from 2018. The rest will either be transferred or reserved for the company's future projects. Details of TCH's real estate plan are the following.

Table 4: TCH's real estate projects

Project	Location	Product types	Total investment	Status	Selling price (est.)	GPM
Hoang Huy Riverside	Hai Phong	325 units of low rise housing	USD47mn	Construction planned in May 2018	VND30 mn/m ²	60%
2A So Dau	Hai Phong	Low rise housing	N/A	N/A	N/A	N/A
Golden Land	Hanoi	Apartment	USD28mn	Construction started in Dec 2017	VND30 mn/m ²	35%

Source: TCH, VCSC

Both of TCH's projects in Hai Phong are located in the new administration center of the city and quite close to Vinhomes Imperia. Of the two, Hoang Huy Riverside will be TCH's focus this year. Construction will start in May while sales can be launched in June. We estimate revenue from this project to be over VND1tn (USD44mn), which can be recorded starting from the end of FY2018.

Apart from Hai Phong, TCH also started construction of Golden Land phase 2 in Hanoi at the end of last year. The project is a mixed multifunctional building with offices, shopping areas, cultural amenities and 170 apartments. Construction could take from 1.5 to two years and revenue is likely to be booked in FY2019. TCH has yet to launch sales for this project.

Outlook

For FY2017, we expect TCH to complete its business target and reach VND1.8tn in revenue (USD79mn, +25.6% YoY) and VND415bn in NPAT (USD18mn, -17% YoY). Revenue growth is driven by higher sales of trucks in FY2017. The company estimates the total number of trucks sold in 2017 at 2,800 units (+41.5% YoY), translating into VND1.65tn in revenue (USD72mn, +32.7% YoY). NPAT was lower than 2016 since TCH no longer had the one-off negative goodwill of VND167bn (USD7.3mn) following its acquisition of 10 mn HHS shares in 2016. If such non-recurring

income is excluded, TCH's NPAT in FY2017 would have recorded a growth rate of 24.6% YoY. Basic EPS for FY2017 is estimated at VND1,143/share (-18.7% YoY).

TCH's business performance should see significant improvement from FY2018 onward and shift more toward the real estate segment. As mentioned earlier, growth in the truck segment will stall from 2018. On a conservative note, we give this segment a negative growth rate of 20% since sales of US trucks may be past their peak, meaning about VND1.3tn (USD57mn) in revenue.

As for real estate, the growth engine would be Hoang Huy Riverside and the transfer of other reciprocal land lots. TCH shared that it is already in talks with potential buyers and expects to complete at least one of the deals in 2018. The NPAT target for FY2018 could be over VND600bn (USD26mn, +44.6% YoY), which equates to an EPS of VND1,652 (+44.6% YoY). Further details regarding revenue from the real estate segment will be available at the AGM next June.

Table 5: Estimated FY2017 results

	FY 2017	% YoY
Total revenue	VND1.8tn	+25.6%
Trucks	VND1.65tn	+32.7%
Real estate	VND150mn	-16.2%
NPAT for parent company	VND415bn	-17%
EPS	VND1,143	-18.7%

Source: TCH

Valuation

Comparison with peers

	Market cap (USD mn)	NPM	Rev growth (% YoY)	TTM EPS growth (% YoY)	Net D/E (%)	ROE (%)	P/E TTM	P/B (current)
Trucks								
TMT	16.0	0.4	-7.1	-81.4	281.5	2.3	41.2	0.9
HTL	15.5	3.2	-33.8	-51.6	-4.1	6.9	13.8	1.6
HHS	34.6	2.0	33.1	-10.9	209.6	22.1	9.3	2.0
Median	16.0	2.0	-7.1	-51.6	209.6	6.9	13.8	1.6
Real estate								
HUT	113.4	14.0	-21.8	-36.1	147.0	10.8	7.5	0.8
HDG	178.3	8.7	14.1	-16.2	54.3	16.0	20.5	3.1
PDR	395.4	20.5	-11.4	81.4	-3.4	10.7	21.3	3.2
DXG	504.4	25.5	14.9	1.8	13.2	20.9	15.2	3.0
KDH	661.8	16.4	-22.3	27.3	-15.1	11.5	21.8	2.5
HDC	34.2	19.6	-14.4	36.9	59.4	11.9	9.5	1.1
Median	286.8	18.0	-12.9	14.5	33.8	11.7	17.9	2.8
AVG for two groups	151.4	10.0	-10.0	-18.5	121.7	9.3	15.8	2.2
TCH *	337.1	34.9	25.6	-17.7	-12.8	11.2	19.0	1.8

Source: Bloomberg, VCSC

*TCH's revenue growth, TTM EPS growth and P/E TTM are calculated using FY2017 estimated numbers.

Among listed truck distributors, TCH has been the most effective with growing business results. With FY2017 EPS at VND1,143, TCH is trading at a P/E of 19.0x, much higher than the peer median of 15.8x. However, an increase of 43% in EPS for FY2018 would lower its P/E to 13.3x.

Regarding risks, given that a breakthrough in FY2018 business results would come from the transfer of large real estate projects, any delay or unwanted change in this plan would hurt the company's projections and stock price. In addition, any changes in policy, such as to import taxes, regulation on waste gas standards or changes in required documentation for import customs clearance, could affect sales and slow or even disrupt truck supply for TCH.

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