December 05th, 2022

Shinhan Securities



Binh Duong Water Environment JSC

[Vietnam / Utilities]

Bloomberg Code (BWE VN) | Reuters Code (BWE.HM)

BUY

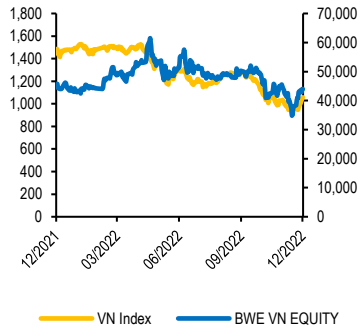
Update Report

Target price (12 months)	**52,600 VND**
Current price (02/12/22)	43,500 VND
Upside/downside (%)	20.9%

VNINDEX	1,058
HNXINDEX	11.1
Market Cap (bn VND)	8,479
Outstanding shares (mn)	193
Free-Floating (mn)	7
52-Wk High/Low (VND)	3.7
90-day avg. trading volume (mn)	62,000/32,400
90-day avg. turnover (bn VND)	0.22
Foreign ownership (%)	9

Major shareholders (%)	TDM	37.42
	BCM	19.44

Performance	3M	6M	12M
Absolute (%)	-12.3	6.3	8.3
Relative to VN-Index (%)	-7.4	22.0	15.1



Source: Bloomberg

The surge of waterflow

Maintain BUY rating and target price at VND 52,600

Binh Duong Water - Environment JSC (HoSE: BWE) is the industry leader in the water supply sector on the stock exchange with sustainable growth potential and strong financial health. Based on FCFF and PE methods, we update BWE's target price at VND52,600 based on our expectation that the revenue and net profit of BWE will continue to grow solidly because of (1) The effective business model, complete value chain; (2) Potential expansion strategy; (3) Aggressive in M&A activities.

Update business results in 9M2022 and prospects

In 9M2022, BWE recorded revenue of VND 2,440 billion (+16% YoY) and NPAT of VND 575 billion (+14% YoY). Which, the tap water segment continued to contribute the largest part of the revenue with 66%, followed by trash treatment (18%) and wastewater treatment (5%). Indeed, the revenue from the tap water segment grew by 11% while the trash-treatment and wastewater-treatment segments saw significant growth with 43% and 170%, respectively. In 2023, BWE targets to reach VND 4,000 billion in revenue (+5% YoY) and VND 760 billion in net profit.

Tap water segment: volume of tap water increased slightly by 6% YoY to 145 million m3, and the non-revenue water rate remained at 5%. According to information from BWE in an investor meeting, BWE set a target for Q4 water output at 46 million m3 with the main drive coming from Di An, Binh Duong, and VNU-HCM areas. In 2023, BWE will have another engine from the demand at the new Eastern bus station. In addition, BWE is negotiating with the Long Khanh Water Supply JSC to switch to surface water instead of groundwater.

- **Regarding the Long Thanh water project** with an initial investment of more than 300 million USD, BWE will complete the application to receive the investment license as soon as possible.
- **For Gia Tan Water Supply JSC** (GIWACO), GIWACO has doubled the factory capacity from 20,000 m3 to 40,000 m3/24h. In 2025, the capacity of GIWACP will reach 50,000 m3/24h. Meanwhile, BWE's Chairman Nguyen Van Thien said that the volume of GIWACP can increase by 50-100% next year when the company starts supplying water to the Cam My area of Dong Nai province.

Trash treatment segment: In 9M2022, trash treatment output increased by 11% YoY, and the revenue jumped by 43% YoY. In 2023, BoD BWE said that the unit price of this segment can be adjusted by the People's Committee of Binh Duong province.

In M&A activities, after CTW and CT2, BWE acquired the water plant in Minh Hung Industrial Park from Binh Phuoc Water JSC. At present, water demand in this area is estimated at 5,000 m3/day.

Risks: (1) Water consumption lower than expected; (2) Exchange rate risk.

Year to Dec.	2020	2021	2022F	2023F	2024F
Revenue (bn VND)	**3,025**	**3,119**	**3,514**	**3,837**	**4,231**
OP (bn VND)	591	884	888	914	1,033
NP (bn VND)	**535**	**755**	**774**	**792**	**882**
EPS (VND)	2,748	3,254	4,012	4,106	4,572
BPS (VND)	14,928	14,707	19,798	19,741	19,741
OPM	20%	28%	25%	24%	24%
NPM	18%	24%	22%	21%	21%
ROE	**29%**	**39%**	**40%**	**41%**	**46%**
PER (x)	11.7	14.8	10.7	10.5	9.4
PBR (x)	1.7	1.8	2.2	2.2	2.2
EV/EBITDA (x)	5.2	6.0	10.1	9.4	7.9

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

We use P/E and Discounted Cash Flow (DCF) valuation methods to value BWE with 50%-50% weighted. We maintain our BUY recommendation with a target price of 52,600 VND equivalent to a return of 20.9%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**9.10**
Risk-free rate (%)	5.00
Equity risk premium (%)	7.80
Beta	0.65
Debt cost (%)	8.00
The cost of equity(%)	10.07
Debt-to-equity ratio	0.47
Total debt (VND billion)	3,931

Source: Company data, Shinhan Securities Vietnam

FCF valuation					
Unit: billion VND	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Net profit	774	792	882	950	1,059
Plus: After-tax interest expense	147	164	180	195	214
Plus: Depreciation & Amortization	503	517	534	549	566
Minus: Change in working capital	81	-65	-79	-127	-96
Minus: CapEx	174	231	219	225	233
Free Cash Flow (FCF)	1,169	1,307	1,456	1,596	1,702
Discount rate	0.92	0.84	0.77	0.71	0.65
PV of FCF	1,075	1,098	1,121	1,133	1,106
Growth rate	0				
Present value of long-term value	7,900				
Enterprise value	13,433				
Debt	3,931				
Cash and cash equivalents	192.0				
Number of shares outstanding (billion)	0.19				
Target price (VND)	**51,021**				

Source: Company data, Shinhan Securities Vietnam

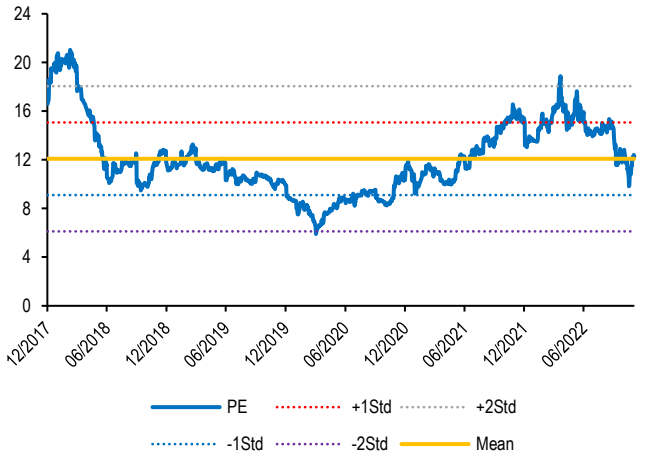
Based on the P/E method, we collect data from businesses in the water industry and the environment in Asia. The average P/E of companies in the water and environment sectors in the statistics (excluding BWE) is 13.18x. Combining BWE's EPS forward forecast at VND4,106 we expect a 12-month price target of BWE at VND54,200.

Peer valuation

Tickers	PB	Mkt Cap (USD mil)	EPS Growth (%)	ROA (%)	ROE (%)
300692 CH Equity	13.13	412.36	0.59	3.98	10.74
600168 CH Equity	16.45	624.92	55.56	1.47	5.14
EASTW TB Equity	11.55	261.24	39.13	3.85	8.16
TTW TB Equity	11.6	987.76	5.41	14.12	21.97
BWE VN Equity	12.04	333.59	18.41	8.88	16.71
Mean	13.18				
EPS forward	4,106				
Target price (VND)	**54,200**				

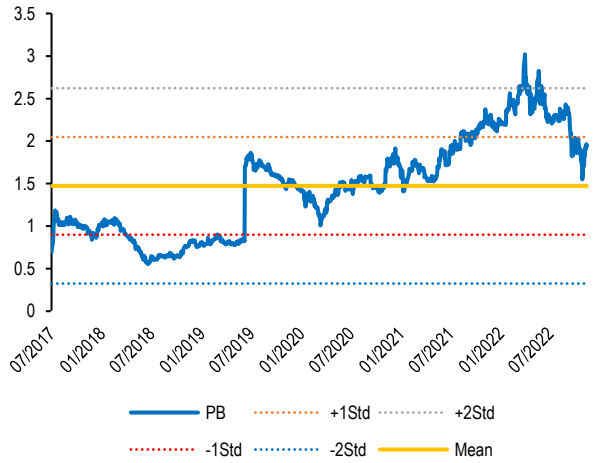
Source: Company data, Shinhan Securities Vietnam

PER of BWE 2019-2022 (x)



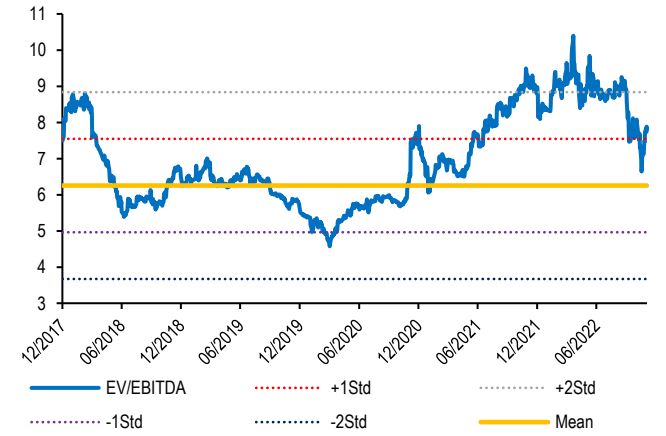
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of BWE



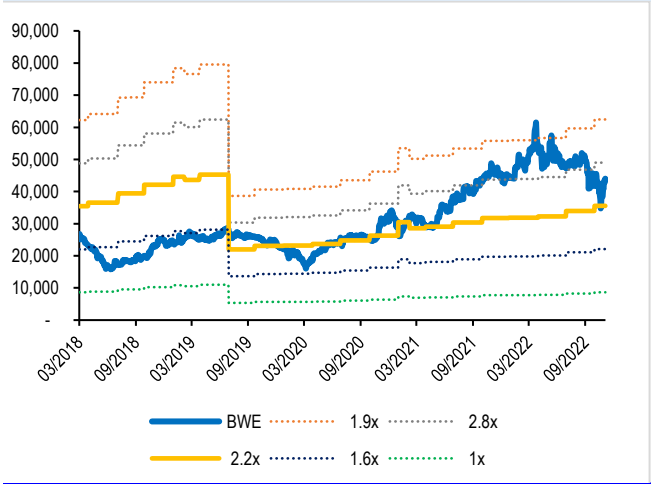
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of BWE 2019-2022 (x)



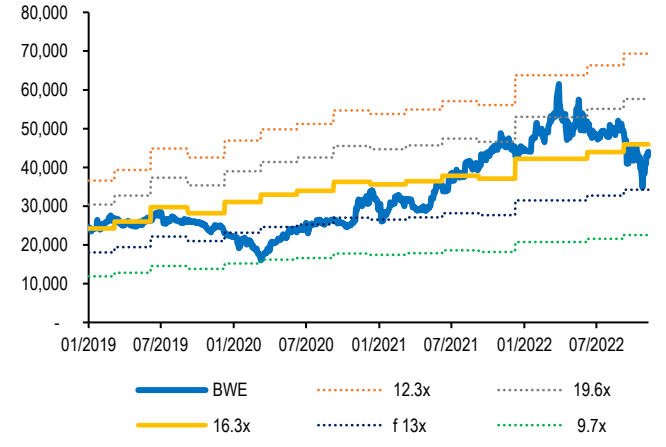
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of BWE



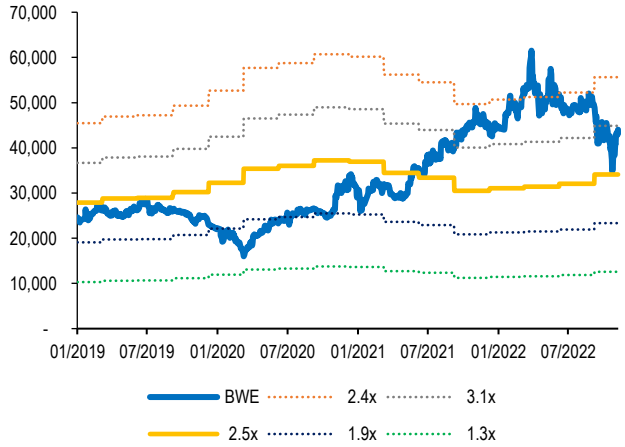
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of BWE



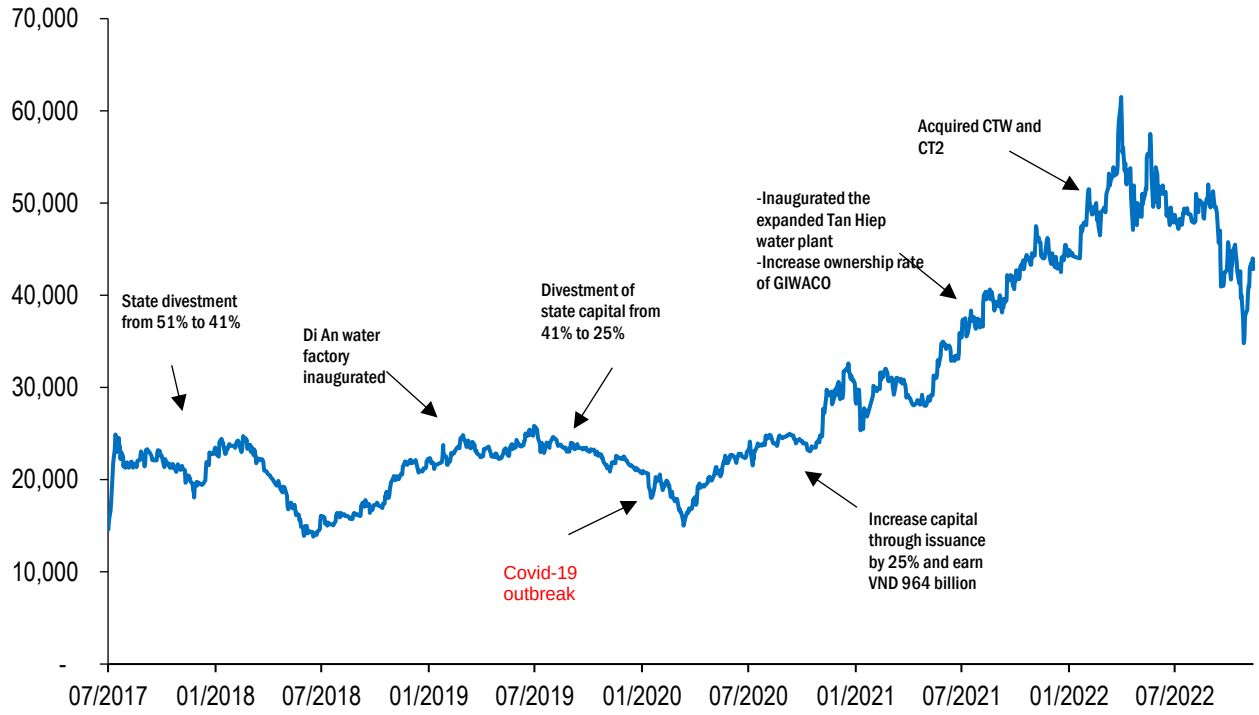
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PS band chart of BWE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Sự kiện quan trọng của BWE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Total assets	**8,246**	**9,074**	**9,242**	**9,666**	**9,824**
Current assets	2,459	2,719	3,118	4,008	4,892
Cash & equivalents	728	476	1,115	1,860	2,606
Short-term financial asset	337	600	457	537	635
Accounts receivable	691	911	773	767	762
Inventories	622	698	773	844	889
Non-current assets	5,787	6,355	6,124	5,658	4,932
Net fixed assets	2,596	3,147	2,818	2,531	2,217
Investment assets	720	981	1,243	1,262	1,252
Other long-term assets	2,471	2,227	2,063	1,865	1,463
Total liabilities	**4,836**	**5,149**	**5,317**	**5,741**	**5,899**
Current liabilities	1,988	2,008	1,959	2,128	2,047
Accounts payable	708	798	807	882	805
Short-term borrowings	1,281	1,210	1,152	1,246	1,242
Others	484	600	596	652	551
Non-current liabilities	2,849	3,141	3,358	3,613	3,852
Long-term borrowings	2,220	2,371	2,371	2,662	2,883
Other financial liabilities	629	770	987	951	969
Total shareholders' equity	**3,409**	**3,925**	**4,350**	**4,872**	**5,465**
Capital stock	1,875	1,929	1,929	1,929	1,929
Capital surplus	589	621	621	621	621
Other capital	537	722	625	625	625
Retained earnings	374	606	1,128	1,650	2,243
Non-controlling interest equity	34	47	47	47	47
*Total debt	3,501	3,581	3,523	3,908	4,125
*Net debt (cash)	2,436	2,505	1,951	1,511	884

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Revenue	**3,025**	**3,119**	**3,514**	**3,837**	**4,231**
Growth (%)	*18.8*	*3.1*	*12.7*	*9.2*	*10.3*
COGS	(1,789)	(1,804)	(1,986)	(2,225)	(2,454)
Gross profit	**1,236**	**1,315**	**1,528**	**1,612**	**1,777**
GPM (%)	*40.9*	*42.2*	*43.5*	*42.0*	*42.0*
SG&A	(489)	(470)	(563)	(614)	(677)
Operating profit	**747**	**845**	**965**	**998**	**1,100**
Growth (%)	*0.1*	*0.5*	*0.0*	*0.0*	*0.1*
OPM (%)	*24.7*	*27.1*	*27.5*	*26.0*	*26.0*
Non-operating profit	(168)	11	(77)	(84)	(67)
Financial income	42	110	79	93	105
Financial expense	(215)	(79)	(156)	(177)	(172)
In which: interest expenses	(156)	(155)	(167)	(186)	(204)
Net other non-operating profit	5	(20)	0	0	0
Pre-tax profit	**579**	**856**	**888**	**914**	**1,033**
Income tax	(61)	(109)	(106)	(108)	(120)
Net profit	**518**	**747**	**782**	**806**	**913**
Growth (%)	*12.4*	*41.1*	*2.5*	*2.3*	*11.4*
NPM (%)	*17.1*	*23.9*	*22.3*	*21.0*	*21.6*
Controlling interest	518	747	782	806	913
Non-controlling interest	0	0	0	0	0
EBIT	**752**	**1,019**	**1,047**	**1,086**	**1,206**
Growth (%)	*9.9*	*35.5*	*2.7*	*3.7*	*11.0*
EBIT Margin (%)	*24.9*	*32.7*	*29.8*	*28.3*	*28.5*
EBITDA	**1,218**	**1,503**	**1,567**	**1,633**	**1,791**
Growth (%)	*16.2*	*23.6*	*3.2*	*3.4*	*8.5*
EBITDA margin (%)	*40.3*	*48.2*	*44.6*	*42.6*	*42.3*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Cash flow from operations	**1,150**	**892**	**963**	**1,044**	**1,081**
Net profit	535	755	774	792	882
D&A expense	463	483	503	517	534
(Gain) from investing activities	(59)	(92)	(395)	(200)	(256)
Change in working capital	(133)	(11)	81	(65)	(79)
Others	344	(243)	-	-	-
Cash flow from investments	**(1,888)**	**(1,081)**	**(14)**	**(414)**	**(263)**
Change in fixed assets	(1,732)	(770)	222	(31)	37
Change in investment assets	(87)	(263)	(119)	(99)	(88)
Others	(69)	(48)	(117)	(284)	(212)
Cash flow from financing	**1,391**	**(63)**	**(310)**	**115**	**(72)**
Change in equity	-	-	-	-	-
Net borrowing	1,391	(63)	(58)	385	217
Dividends	-	-	(252)	(270)	(289)
Change in total cash	**653**	**(252)**	**639**	**745**	**746**
Beginning cash	75	728	476	1,115	1,860
Change in FX rates	-	-	-	-	-
Ending cash	728	476	1,115	1,860	2,606

Source: Company data, Shinhan Securities Vietnam

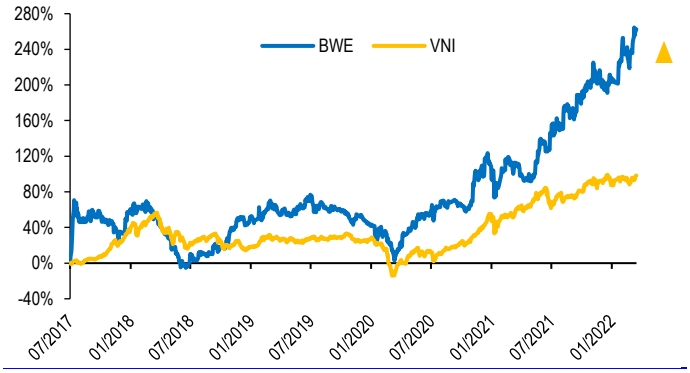
Key ratios

Year to Dec.	2020	2021	2022F	2023F	2024F
EPS (VND)	2,748	3,254	4,012	4,106	4,572
BPS (VND)	18,000	20,104	22,307	25,013	28,087
PER (x)	12.3	13.2	10.1	9.9	8.7
PBR (x)	2.1	2.1	2.1	2.1	2.1
EV/EBITDA (x)	8.9	7.2	6.9	6.6	6.0
Dividend payout ratio (%)	12.0	12.0	13.0	14.0	15.0
Dividend yield (%)	7.9	4.7	3.8	3.0	3.3
Profitability	40.3	48.2	44.0	41.9	41.5
EBITDA margin (%)	40.3	48.2	44.6	42.6	42.3
OPM (%)	24.7	27.1	27.5	26.0	26.0
NPM (%)	17.1	23.9	22.3	21.0	21.6
ROA (%)	6.3	8.2	9.4	8.8	9.1
ROE (%)	15.2	19.0	19.92	20.5	23.3
Stability					
Debt to equity ratio (%)	102.7	91.2	89.8	99.6	105.1
Net debt ratio (%)	200.0	166.7	124.5	92.5	49.4
Cash ratio (%)	22.0	20.9	29.6	41.8	54.9
Interest coverage ratio (x)	4.8	6.6	6.3	5.8	5.9
Activity (%)					
Working capital turnover (times)	15.0	14.8	17.2	17.4	17.5
Inventory turnover (days)	3.2	2.7	2.7	2.8	2.8
Receivable turnover (days)	4.0	3.9	4.2	5.0	5.5

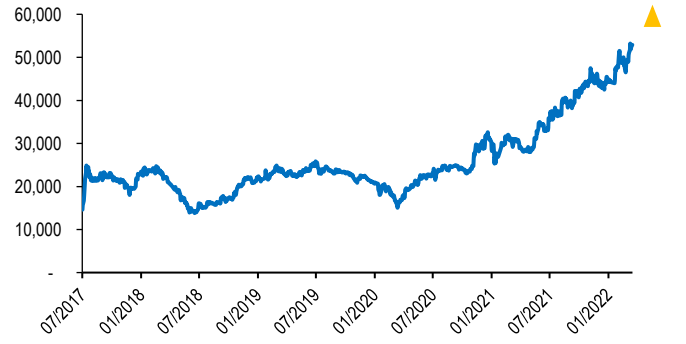
Source: Company data, Shinhan Securities Vietnam

Binh Duong Water Environment JSC (BWE VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
17/06/2022 (Initiation)	MUA	63,200	26.0	44.9/14.7
02/12/2022 (Updated report)	MUA	52,600	11.6	35.9/13.4

Note: Calculation of target price gap based on past 12 months

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Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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