February 16th, 2023

Shinhan Securities



Binh Duong Water Environment JSC

[Vietnam / Utilities]

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

HOLD

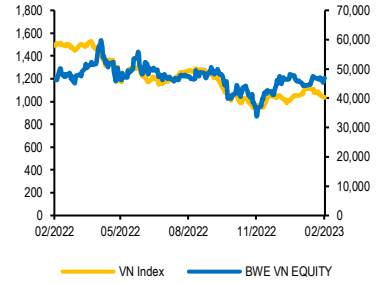
Update Report

Target price (12 months)	**51,200 VND**
Current price (15/02/22)	46,600 VND
Upside/downside (%)	10%

VNINDEX	1,039
HNXINDEX	9.6
Market Cap (bn VND)	9,038
Outstanding shares (mn)	193
Free-Floating (mn)	7
52-Wk High/Low (VND)	62,000/32,400
90-day avg. trading volume (mn)	0.12
90-day avg. turnover (bn VND)	5
Foreign ownership (%)	17.9

Major shareholders (%)	TDM	37.42
	BCM	19.44

Performance	3M	6M	12M
Absolute (%)	34.6	-4.0	-2.2
Relative to VN-Index (%)	20.6	14.4	28.2



Source: Bloomberg

Ambitious M&A strategy

Update recommendation HOLD, target price at VND 51,200

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 VND 51,200 based on our expectation that the revenue of BWE will continue to grow solidly because of (1) The effective business model, complete value chain; (2) Aggressive M&A activities. Specially, BWE announced the resolution of the Board of Directors to list of target 5 companies with ownership rates from 50% to 100%.

Update business results in 2022

In 2022, Binh Duong Water-Environment JSC recorded revenue of VND 3,484 billion (+12% YoY) and VND 746 billion (-1% YoY) in NPAT. The tap water segment continued to contribute the largest proportion of NPAT with 78%, and water output increased sharply by 11% YoY which was the main driving force for BWE's revenue growth. The wastewater treatment segment recorded the most impressive revenue growth with 196% YoY. Besides, the loss of the exchange rate and no revert of provisions caused financial expenses to jump sharply by 186% YoY to VND 225 billion, leading to a flat NPAT of BWE in 2022.

Outlook for 2023

We expect the revenue and NPAT in 2023 to reach VND 3,607 billion (+4% YoY) and VND 759 billion (+2% YoY), respectively. The main growth driver still comes from the tap water segment with output expected to maintain a growth rate of 7% YoY. This growth rate was forecasted based on the risk of lower water consumption than expected when the world economy faces many difficulties for manufacturing companies. In addition, we assume a flat selling price compared to 2022 in the financial model based on BWE's updated water range for 2023.

Regarding the M&A activities, in 2022, BWE successfully bought a 48.86% stake in Can Tho 2 Water Supply JSC and a 23.64% stake in Can Tho Water Supply and Sewerage JSC. On February 10, BWE announced the resolution of the Board of Directors to list of target 5 companies with ownership rates from 50% to 100%. Companies on the BWE list include:

(1) DNP Long An Water Infrastructure Investment JSC; (2) Chau Thanh Urban Construction JSC; (3) Can Giuoc Urban Construction JSC; (4) Bang Tam Water and Environment JSC; (5) DNP Quang Binh Water Infrastructure Investment JSC.

We have not yet factored the above information into our financial model because we need more specific figures on M&A activities in the near future. Based on our research, if BWE successfully acquires a group of water plants in Long An, the total output of BWE can increase by about 3.5 million m3.

Risks: (1) Water consumption lower than expected; (2) Exchange rate risk (3) Diversification risks in M&A.

Year to Dec.	2020	2021	2022	2023F	2024F
Revenue (bn VND)	**3,025**	**3,119**	**3,484**	**3,607**	**3,863**
OP (bn VND)	591	884	815	827	867
NP (bn VND)	**535**	**755**	**746**	**759**	**765**
EPS (VND)	2,748	3,254	3,195	3,935	3,963
BPS (VND)	14,928	14,707	19,797	22,980	22,913
OPM	20%	28%	23%	23%	22%
NPM	18%	24%	21%	21%	20%
ROE	**16%**	**19%**	**16%**	**17%**	**17%**
PER (x)	11.7	14.8	14.6	11.8	11.7
PBR (x)	1.7	1.8	2.3	2.0	2.0
EV/EBITDA (x)	5.2	6.0	12.9	11.8	10.4

Source: Company data, Shinhan Securities Vietnam

Open account

[Analyst]

Nhut Nguyen

(84-28) 6299-7751

nhut.nq@shinhan.com

Shinhan Securities

Shinhan Securities Vietnam Co., Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Analysts employed by Shinhan Securities Vietnam Co., Ltd. , or a non-US affiliate thereof, are not registered/qualified as research analysts with FINRA, may not be associated persons of the member and may not be subject to FINRA restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. For analyst certification and important disclosures, refer to the Compliance & Disclosure Notice at the end of this report.

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 51,200 VND equivalent to a return of 10%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**10.0**
Risk-free rate (%)	5.0
Equity risk premium (%)	7.8
Beta	0.80
Debt cost (%)	8.00
The cost of equity(%)	11.2
Debt-to-equity ratio	0.4
Total debt (VND billion)	4,017

Source: Company data, Shinhan Securities Vietnam

FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	759	765	812	872	859
Plus: After-tax interest expense	151	151	151	151	151
Plus: Depreciation & Amortization	504	519	535	550	567
Minus: Change in working capital	37	-236	92	64	-8
Minus: CapEx	263	215	220	227	235
Free Cash Flow (FCF)	1,113	1,456	1,186	1,282	1,350
Discount rate	0.91	0.83	0.75	0.68	0.62
PV of FCF	1,013	1,204	892	877	840
Growth rate	0%				
Present value of long-term value	8,439				
Enterprise value	13,264				
Debt	4,017				
Cash and cash equivalents	275				
Number of shares outstanding (billion)	0.19				
Target price (VND)	**49,358**				

Source: Company data, Shinhan Securities Vietnam

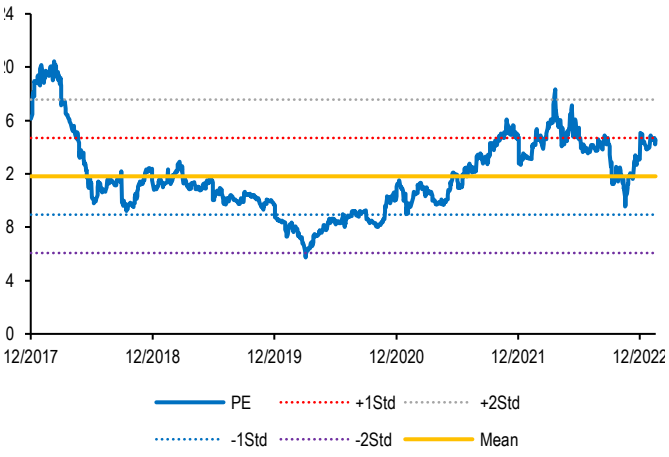
Based on the P/E method, we collect data from businesses in the water industry and the environment in Asia. The average P/E of companies in the water and environment sectors in the statistics (excluding BWE) is 13.44. Combining BWE's EPS forward forecast at VND 3,935 we expect a 12-month price target of BWE at VND 52,900.

Peer valuation

Tickers	PE	Mkt Cap (USD mil)	EPS Growth (%)	ROA (%)	ROE (%)
300692 CH Equity	13.76	452.54	0.59	3.98	10.74
600168 CH Equity	16.32	649.52	55.56	1.47	5.14
EASTW TB Equity	11.13	262.93	39.13	3.4	7.27
TTW TB Equity	12.53	1113.8	5.41	14.12	21.97
BWE VN Equity	14.39	376.08	-1.81	7.79	14.73
Mean	13.44				
EPS forward (VND)	3,935				
Target price (VND)	**52,886**				

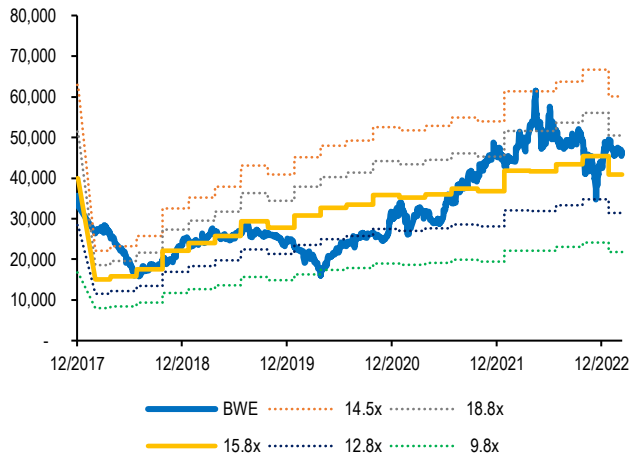
Source: Company data, Shinhan Securities Vietnam

PER of BWE



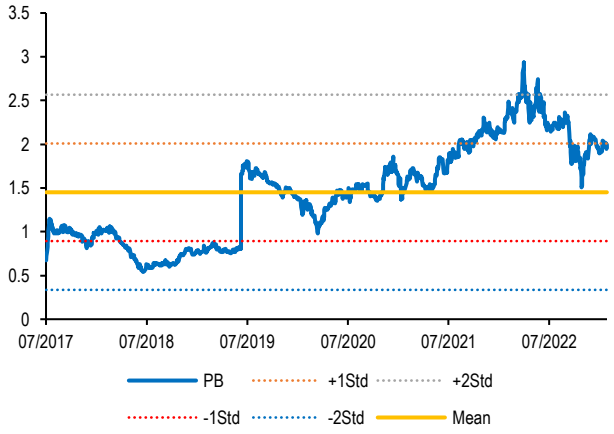
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of BWE



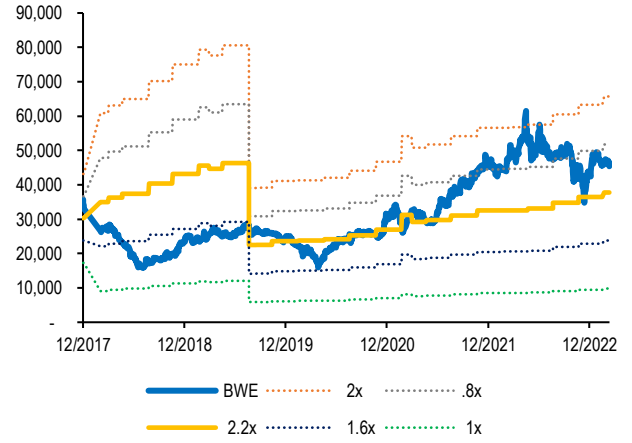
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of BWE 2019-2022 (x)



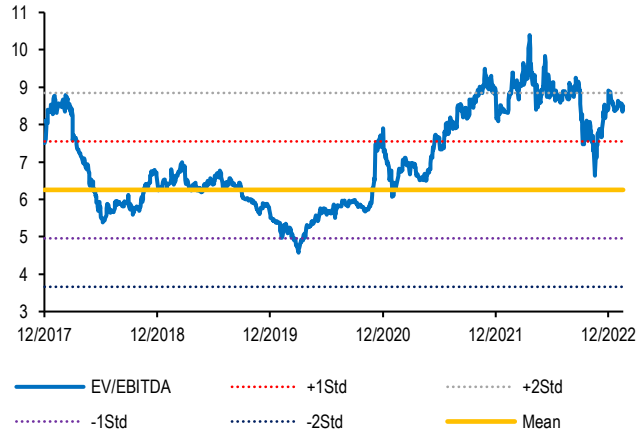
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of BWE



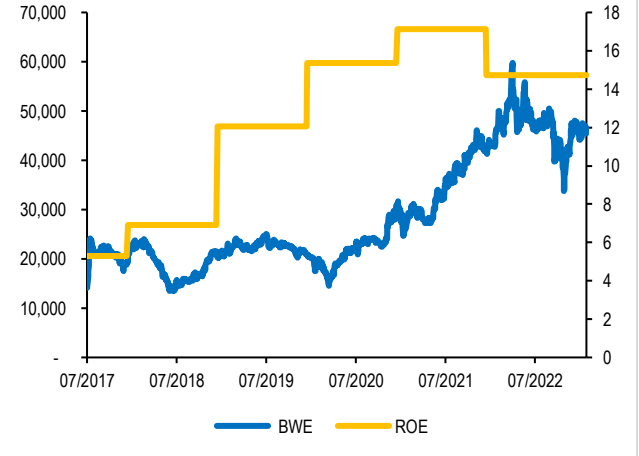
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of BWE



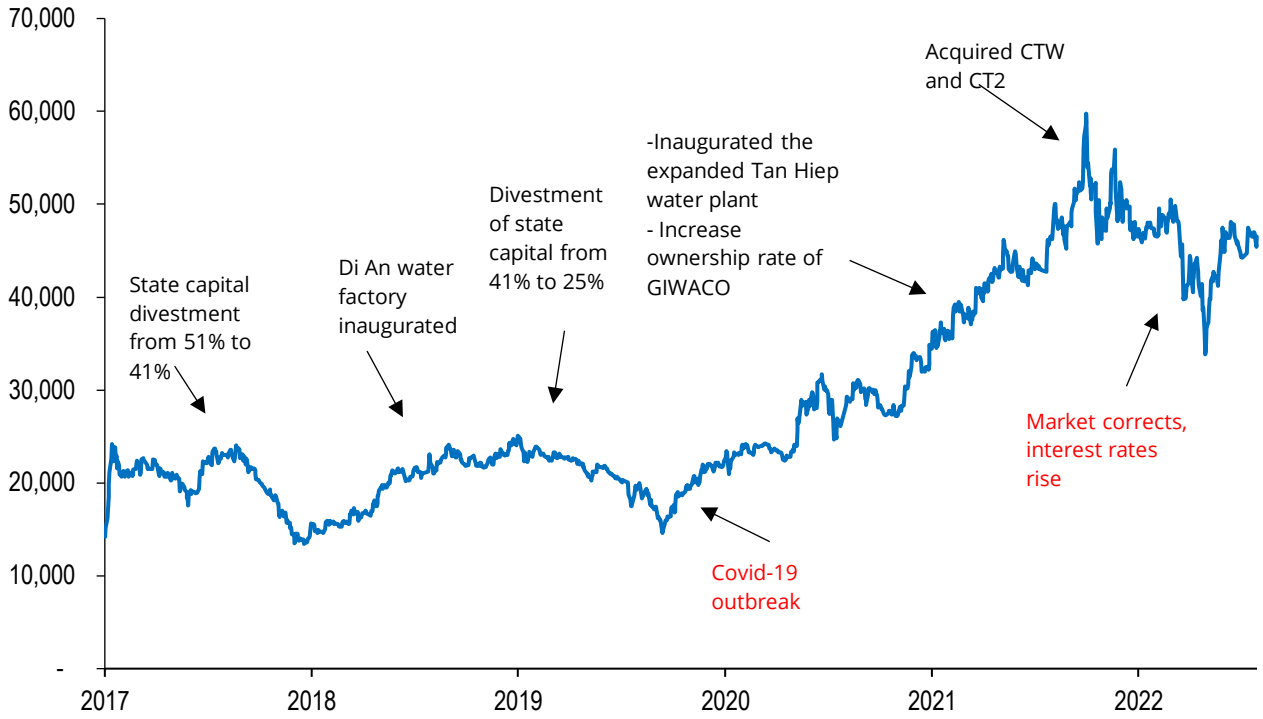
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of NT2 and ROE



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	2022	2023F	2024F
Total assets	**8,246**	**9,074**	**9,987**	**9,032**	**9,715**
Current assets	2,459	2,719	2,786	3,520	4,577
Cash & equivalents	728	476	275	1,408	2,316
Short-term financial asset	337	600	872	666	808
Accounts receivable	691	911	912	708	701
Inventories	622	698	714	739	753
Non-current assets	5,787	6,355	7,201	5,511	5,138
Net fixed assets	2,679	3,253	3,617	3,389	3,085
Investment assets	720	981	1,447	1,262	1,252
Other long-term assets	2,388	2,121	2,138	860	801
Total liabilities	**4,836**	**5,149**	**5,449**	**5,734**	**6,240**
Current liabilities	1,988	2,008	1,989	2,121	2,388
Accounts payable	707	798	663	642	844
Short-term borrowings	1,281	1,210	1,326	1,479	1,544
Others	483	600	479	452	640
Non-current liabilities	2,849	3,141	3,460	3,613	3,852
Long-term borrowings	2,220	2,371	2,692	2,684	2,566
Other financial liabilities	629	770	769	929	1,286
Total shareholders' equity	**3,409**	**3,925**	**4,538**	**4,538**	**4,538**
Capital stock	1,875	1,929	1,929	1,929	1,929
Capital surplus	589	621	621	621	621
Other capital	912	1,328	1,943	1,943	1,943
Retained earnings	374	606	957	1,445	1,920
Non-controlling interest equity	34	47	44	44	44
*Total debt	3,501	3,581	4,018	4,163	4,110
*Net debt (cash)	2,436	2,505	2,871	2,090	987

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**3,025**	**3,119**	**3,484**	**3,607**	**3,863**
Growth (%)	*18.8*	*3.1*	*11.7*	*3.5*	*7.1*
COGS	(1,789)	(1,804)	(2,063)	(2,092)	(2,240)
Gross profit	**1,236**	**1,315**	**1,421**	**1,515**	**1,622**
GPM (%)	*40.9*	*42.2*	*40.8*	*42.0*	*42.0*
SG&A	(489)	(470)	(502)	(583)	(648)
Operating profit	**747**	**845**	**919**	**932**	**974**
Growth (%)	*0.1*	*0.5*	*(0.1)*	*0.0*	*0.0*
OPM (%)	*24.7*	*27.1*	*26.4*	*25.8*	*25.2*
Non-operating profit	(167)	11	(99)	(103)	(121)
Financial income	42	110	104	104	104
Financial expense	(215)	(79)	(226)	(226)	(226)
In which: interest expenses	(156)	(155)	(170)	(170)	(170)
Net other non-operating profit	5	(20)	23	18	0
Pre-tax profit	**596**	**864**	**838**	**855**	**874**
Income tax	(61)	(109)	(92)	(96)	(110)
Net profit	**535**	**755**	**746**	**759**	**765**
Growth (%)	*12.4*	*41.0*	*(1.2)*	*1.7*	*0.7*
NPM (%)	*17.7*	*24.2*	*21.4*	*21.0*	*19.8*
Controlling interest	535	749	743	759	765
Non-controlling interest	0	7	4	0	0
EBIT	**752**	**1,018**	**1,008**	**1,026**	**1,045**
Growth (%)	*9.9*	*35.5*	*(1.0)*	*1.7*	*1.9*
EBIT Margin (%)	*24.8*	*32.7*	*28.9*	*28.4*	*27.1*
EBITDA	**1,215**	**1,501**	**1,485**	**1,529**	**1,564**
Growth (%)	*16.3*	*23.5*	*(1.0)*	*2.9*	*2.3*
EBITDA margin (%)	*40.2*	*48.1*	*42.6*	*42.4*	*40.5*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**1,150**	**892**	**1,352**	**1,163**	**1,432**
Net profit	535	755	746	759	765
D&A expense	464	482	477	504	519
(Gain) from investing activities	(59)	(92)	(120)	(62)	(88)
Change in working capital	(135)	(8)	(2)	(37)	236
Others	344	(245)	252	-	-
Cash flow from investments	**(1,888)**	**(1,081)**	**(1,699)**	**94**	**(181)**
Change in fixed assets	(846)	(1,033)	(842)	(201)	(127)
Change in investment assets	-	-	-	391	(132)
Others	(1,042)	(47)	(857)	(95)	77
Cash flow from financing	**1,391**	**(63)**	**146**	**(125)**	**(342)**
Change in equity	-	-	-	-	-
Net borrowing	1,391	(63)	383	145	(53)
Dividends	-	-	(236)	(271)	(289)
Change in total cash	**653**	**(252)**	**(201)**	**1,133**	**908**
Beginning cash	75	728	476	275	1,408
Change in FX rates	-	-	-	-	-
Ending cash	728	476	275	1,408	2,316

Source: Company data, Shinhan Securities Vietnam

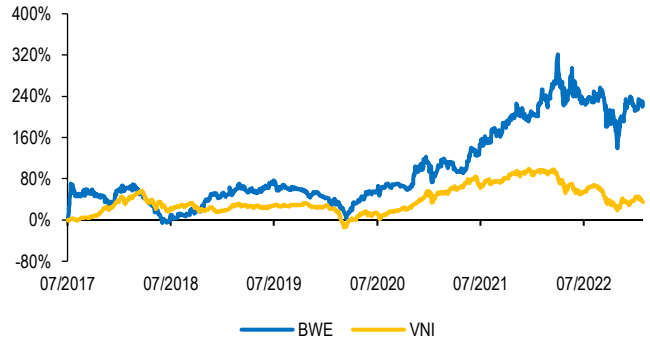
Key ratios

Year to Dec.	2020	2021	2022F	2023F	2024F
EPS (VND)	2,748	3,254	3,195	3,935	3,963
BPS (VND)	18,004	20,104	23,293	25,318	27,781
PER (x)	11.7	14.8	14.6	11.8	11.7
PBR (x)	1.7	1.8	2.3	2.0	2.0
EV/EBITDA (x)	5.2	6.0	12.9	11.8	10.4
Dividend payout ratio (%)	25.0	20.0	33.6	35.6	36.0
Dividend yield (%)	8.1	4.8	3.0	3.0	3.0
Profitability					
EBITDA margin (%)	40.2	48.1	42.6	42.4	40.5
OPM (%)	24.7	27.1	26.4	25.8	25.2
NPM (%)	17.7	24.2	21.4	21.0	19.8
ROA (%)	6.5	8.3	7.5	8.4	7.9
ROE (%)	15.7	19.2	16.45	16.7	16.8
Stability					
Debt to equity ratio (%)	102.7	91.2	88.5	91.7	90.6
Net debt ratio (%)	200.4	166.9	193.3	136.7	63.1
Cash ratio (%)	53.6	53.6	57.7	97.8	130.8
Interest coverage ratio (x)	4.8	6.6	5.9	6.0	6.1
Activity (%)					
Working capital turnover (times)	15.1	14.8	18.3	19.3	19.6
Inventory turnover (days)	3.2	2.7	2.9	2.9	3.0
Receivable turnover (days)	4.0	3.9	3.8	4.5	5.5

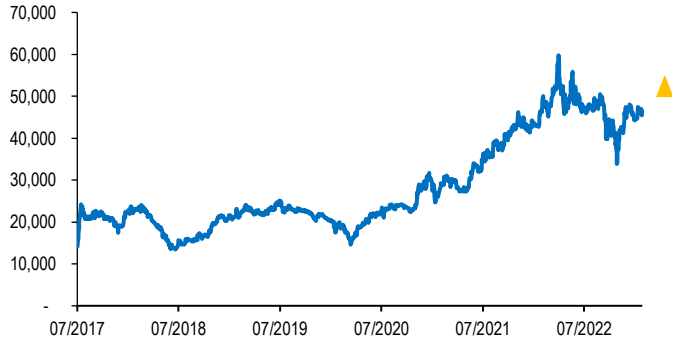
Source: Company data, Shinhan Securities Vietnam

Binh Duong Water Environment JSC (BWE VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) Max/Min
17/06/2022 (Initiation)	BUY	63,200	31.7	5.4/49.4
05/12/2022 (Updated report)	BUY	52,600	22.0	-13.6/48.2
16/02/2023 (Updated report)	HOLD	51,200	8.1	-16.7/34.0

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

Shinhan Securities Vietnam

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

Compliance & Disclosure Notice

Analyst Certification

- The following analysts hereby certify that their views about the companies and securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Nhut Nguyen

Important Disclosures & Disclaimers

- As of the date of publication, Shinhan Securities Vietnam Co., Ltd. does not beneficially own 1% or more of any class of common equity securities of the following companies mentioned in this report: BWE VN
- Shinhan Securities Vietnam Co., Ltd. or one of its affiliates, and/or their respective officers, directors, or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities of the companies mentioned in this report.
- As of the date of publication, research analysts responsible for this report and members of their households do not have any financial interest in the debt or equity securities of the companies mentioned in this report.
- Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of Shinhan Securities Vietnam Co., Ltd. including profits derived from investment banking. The analysts responsible for this report may also receive compensation based upon, among other factors, the overall profitability of sales and trading businesses relating to the class of securities or financial instruments for which such analysts are responsible.
- All opinions and estimates regarding the companies and their securities are accurate representations of the research analysts' judgments and may differ from actual results.
- This report is intended to provide information to assist investment decisions only, and should not be used or construed as an offer or a solicitation of an offer to buy or sell any securities. The information herein has been obtained from sources deemed reliable, but such information has not been independently verified and no guarantee, representation, or warranty, expressed or implied, is made as to its accuracy, completeness, or correctness. Shinhan Securities Vietnam Co., Ltd. makes the best effort but does not guarantee the accuracy, completeness, or correctness of information and opinions translated into English from original Vietnamese language materials. Shinhan Securities Vietnam Co., Ltd. accepts no liability whatsoever for any direct, indirect, and/or consequential loss arising from any use of this material or its contents. Stock selection and final investment decisions should be made at the investor's own and sole discretion.
- This report is distributed to our customers only, and any unauthorized use, duplication, or redistribution of this report is strictly prohibited.
- Investing in any Vietnamese securities or related financial instruments discussed in this research report may present certain risks. The securities of Vietnamese issuers may not be registered with, or be subject to the regulations of, the US Securities and Exchange Commission. Information on Vietnamese securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the US. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in currencies other than the Vietnamese won is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Distribution

- United States: This report is distributed in the US by Shinhan Investment America, Inc., a member of FINRA/SIPC, and is only intended for major US institutional investors as defined in Rule 15a-6(a)(2) of the US Securities Exchange Act of 1934. All US persons that receive this document by their acceptance thereof represent and warrant that they are major US institutional investors and have not received this report under any express or implied understanding that they will direct commission income to Shinhan Securities Vietnam Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any US recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Shinhan Investment America, Inc., which accepts responsibility for the contents of this report in the US. The securities described herein may not have been registered under the US Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the US or to US persons unless they have been registered or are in compliance with an exemption from registration requirements.
- All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Shinhan Securities Vietnam Co., Ltd. or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Shinhan Securities Vietnam Co., Ltd. and its affiliates to any registration or licensing requirement within such jurisdiction.



Shinhan Investment Network

SEOUL

Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

NEW YORK

Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

Hong Kong

Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

Indonesia

PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599

Shanghai

Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

Ho Chi Minh

Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai Street,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

Ha Noi

Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District, Hanoi, Vietnam.
Tel : (84-8) 6299-8000