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Targeting further M&A transactions in H2 2023

Volume growth to be weak in the short term, but long-term growth outlook intact. We lower our 2023 volume growth forecasts for BWE and TDM to 5% and 8%, respectively, following weaker-than-expected Q1 2023 results and the recent cut in our 2023F GDP growth forecast from 6.5% to 6.0%. Nevertheless, we maintain our optimistic long-term outlook. Binh Duong authorities have set a GRDP target of ~10% p.a. in 2021-2030, an industrial park master plan and key infrastructure projects such as Ring Road No. 3. We forecast BWE's volume growth to recover to 15%/18% in 2024/2025 — equivalent to the pre-COVID level. We are also confident in projecting TDM's volume growth at 15%/18% in 2024/2025 vs its pre-COVID level of 20%-30%.

BWE finished the first step in acquiring DNP Long An Water. In March 2023, BWE acquired a 25.4% stake (8.8 million shares) in DNP Long An Water. BWE spent VND136bn on DNP Long An Water, implying an acquired P/E of 18x that management believes is justified given this company's high growth potential. In addition, BWE secured the right to hold up to 15.8 million shares (~50% stake — VND277bn) with the seller, DNP Water JSC. DNP Long An Water possesses the Nhi Thanh water processing plant (capacity of 60,000 cbm/day) and has secured land bank to double its capacity to 120,000 cbm/day (~15% of BWE's capacity). If BWE acquires a controlling stake in DNP Long An Water, this would represent upside to our valuation, revenue and NPAT forecasts.

BWE and TDM maintain their strategies to acquire more water companies. We forecast BWE's return on investments in other water companies to improve from 5% in 2023 to 14% by 2030. Over the past five years, BWE and TDM have spent ~VND1,000bn and VND1,300bn on M&As, respectively. BWE and TDM's strategies in companies that they have minority stakes include: 1) working with existing management to reduce water loss ratios by applying new technology (GLS Water Distribution & System Optimization, consumption area classification software) and spending capex on upgrading water pipelines/water meters; 2) training staff to identify water leakage from underground water pipelines; 3) persuading provincial authorities to increase water tariffs; and 4) increasing their stakes further if there are opportunities to do so. For companies in which BWE and TDM have controlling stakes such as Gia Tan Water JSC (GIWACO), potential Long Thanh highway project and DNP Long An in the future, BWE and TDM have aggressively doubled their capacity. BWE and TDM use equity and low-cost debt (~7%) to finance these M&As. In addition, BWE and TDM are expanding their management teams to actively supervise the strategies and day-to-day operations of the acquired companies. We believe these are strong strategies for the acquired companies possessing 50 years of investment license of water business.

We raise our target price for BWE by 7% to VND54,100/share and upgrade our rating from OUTPERFORM to BUY. Our higher target price is due to the incorporation of BWE's ~25% stakes in Long An Water Supply Sewerage JSC (UPCoM: LAW) and Quang Binh Water Supply JSC (UPCoM: NQB) as well as the positive impact of rolling our target price horizon to mid-2024, which outweigh the 4% cut to our aggregate 2023-2027F earnings forecast.

We raise our target price for TDM by 6% to VND47,100/share and maintain our BUY rating. Our higher target price is due to our unchanged 2023-2027F aggregate NPAT from water generation as well as the positive impact of rolling our target price horizon to mid-2024.

Figure 1: Water companies – Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share price, VND ps	Target price, VND ps	Target price, updated	Upside %	Div yield %	12M TSR %
BWE	BUY	369	19%	50%	112	0.1	44,800	54,100	5/8/2023	20.8%	0.0%	20.8%
TDM	BUY	166	0%	50%	71	0.2	38,950	47,100	5/8/2023	20.9%	3.3%	24.3%

Source: Vietcap, BWE, TDM

Industry Update

Q1 2023 results pose risks to Binh Duong Province's 2023 GRDP target

Provincial leaders set aggressive 2023 targets for GRDP to increase 8.5%-8.7% YoY and the Index of Industrial Production (IIP) to rise 8.9% YoY. Core tasks in 2023 include progressing with a modern provincial road transport infrastructure network and facilitating interregional connections. The focus is on the Ring Road No. 3 project, the HCMC – Thu Dau Mot - Chon Thanh – Binh Phuoc Expressway, the Bau Bang – Cai Mep (Vung Tau) railway and the Song Than Intersection. An all-time high amount of high public investment in 2023 will accelerate key infrastructure projects. According to the provincial People's Committee's statement on February 7, Binh Duong Province has been assigned to disburse nearly VND21.8tn (USD909mn) of public investment capital in 2023. In addition, total investment (State, non-State and FDI) is targeted to reach VND157tn (USD6.6bn) — 30% of Binh Duong Province's GRDP.

Weak Q1 2023 results pose risks to Binh Duong's GRDP target. However, Binh Duong still ranked third in terms of localities with the highest export value in Q1 2023. The GRDP growth of Binh Duong Province was 1.2% YoY in Q1 2023 vs 5.3% YoY in Q1 2022. Specifically, the industrial-construction sector decreased 0.9% YoY, while the agricultural and services sectors increased 1.8% YoY and 5.6% YoY, respectively. In addition, export values decreased 19% YoY to USD7.3bn due to declines in major export products such as wood products (-41.5% YoY), machinery & equipment (-7.4% YoY) and apparel (-17.4% YoY). In terms of public investment, total disbursement was VND924bn (4.2% of Binh Duong's total budget) as of March 28, 2023.

Binh Duong is preparing the master plan for 2021-2030. In this master plan, Binh Duong targets GRDP growth of ~10% p.a. in 2021-2030. Provincial leaders aim to develop Binh Duong into a municipal city with central business areas in the southern part of the province and industrial hubs in the northern part of the province. Binh Duong aims to reallocate 30%-40% of manufacturers currently located in the south to industrial parks/industrial clusters in the northern region of the province (i.e., Bau Bang District). In terms of industrial development, the province plans to develop 10,000 ha of industrial area (vs currently 12,000 ha) for industrial-urban-service areas surrounding Ring Road No. 3 and highways in southeastern Vietnam. Historically, Binh Duong Province has a track record of meeting GRDP guidance (except during COVID).

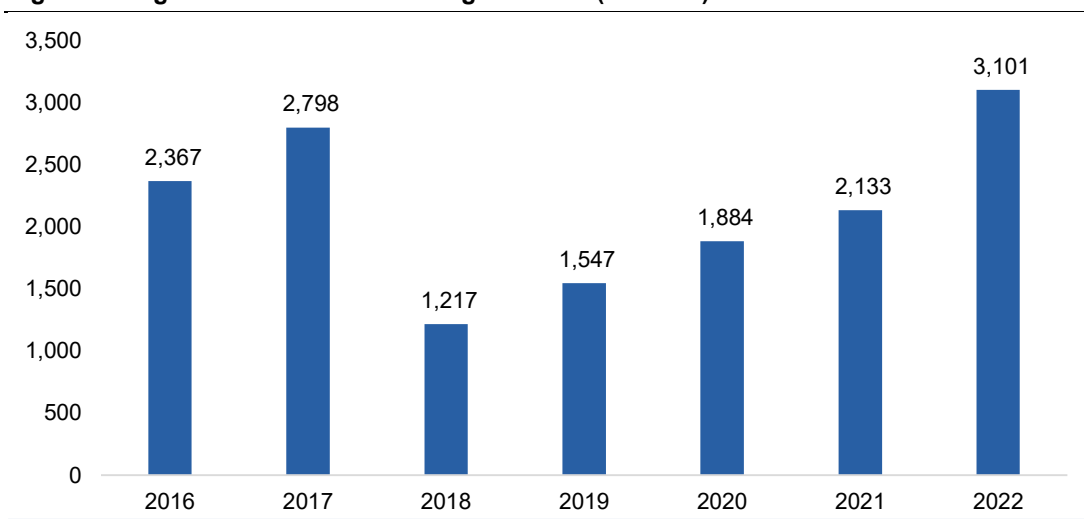
Binh Duong expects to beat its 2023 FDI target. Binh Duong is among Vietnam's top five provinces for attracting new FDI registrations over the past five years. In addition, accumulated FDI for the province over the past thirty years is nearly USD40bn, ranking second in Vietnam (just behind HCMC).

Binh Duong ranked second among provinces in FDI attraction nationwide with 2022 FDI inflows of USD3.1bn (+48.8% YoY) thanks to large-scale investment projects of LEGO (total capital of USD1.3bn) and Pandora Group (capital expenditure of USD100mn). In Q1 2023, registered FDI was USD723mn, achieving 40% of the annual target of USD1.8bn. Therefore, the provincial authorities expect to beat this target in 2023.

Over the long term, we expect Binh Duong's industrial water demand will improve due to the rapid expansion of industrial production as new industrial parks come into operation in 2022-2025F, including the Vietnam Singapore Industrial Park (VSIP) III (1,000 ha) in Tan Uyen District and Cay Truong Industrial Park (1,000 ha) in Bau Bang District.

We expect population growth and migration will increase Binh Duong's residential water demand, particularly in HCMC's suburbs like Di An Ward. In June 2022, the National Congress issued an investment approval for the 76-km Ring Road No. 3 project (total investment of VND75tn) that will connect HCMC with Dong Nai, Long An and Binh Duong provinces. Binh Duong's responsibility for this project includes 26 km with total capex of VND19tn. Binh Duong Province targets to commence construction by June 2023 so the project can enter operation in 2025-2026.

Figure 2: Registered FDI in Binh Duong Province (USD mn)



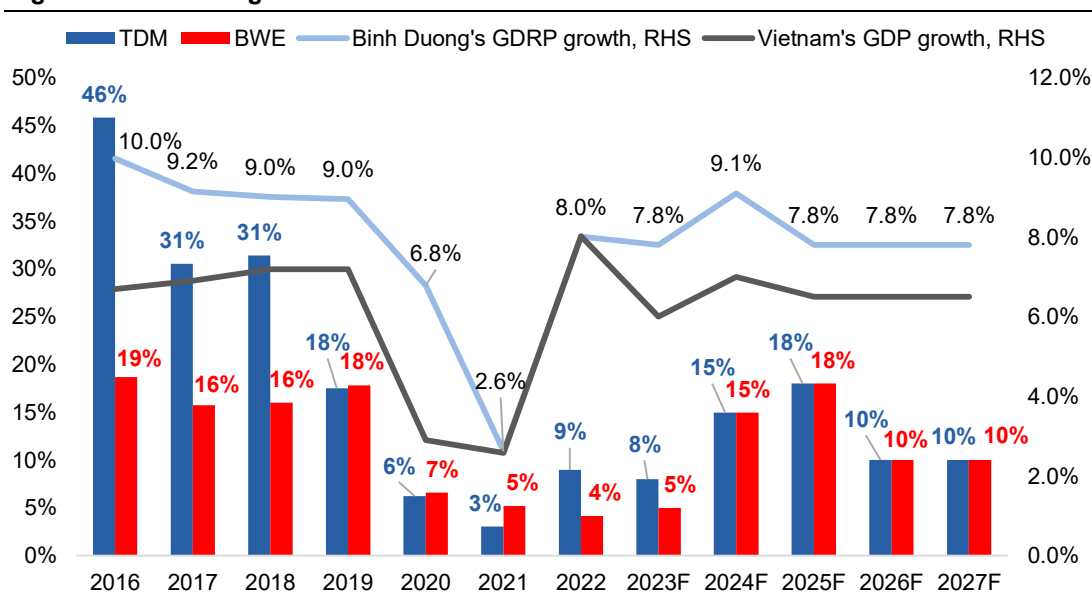
Source: Ministry of Planning and Investment (MoPI), Vietcap

Binh Duong Province's water demand outlook

We lower our projected 2023/2024 volume growth for BWE from 7%/18% YoY to 5%/15% YoY following Q1 2023 volume growth of 3% YoY and the recent cut in our 2023F GDP growth forecast from 6.5% to 6.0%. Our 2023 volume growth assumption is driven by strong residential water volume growth of 7% YoY and limited industrial water volume growth of 3% YoY. As such, we lower our aggregate 2023-2027 volume forecast by 2%. We believe 2025 volume growth will recover to 18% (the pre-COVID level).

For TDM, we lower our projected 2023 volume growth from 13% YoY to 8% YoY following our downward revision for our forecast of Binh Duong Province's volume. TDM's Q1 2023 water sales volume declined 4% YoY to 14.6 million cbm. We attribute the low Q1 2023 volume to TDM changing the record date of its water meters from the 25th to 20th of each month. TDM's management believes this change will not impact full-year volume as it will finalize numbers with clients on December 31st. However, we raise our aggregate 2023-2027 volume forecast by 0.5% as we believe TDM's volume growth will recover strongly to 15%/18% in 2024/2025 vs its pre-COVID level of 20%-30%.

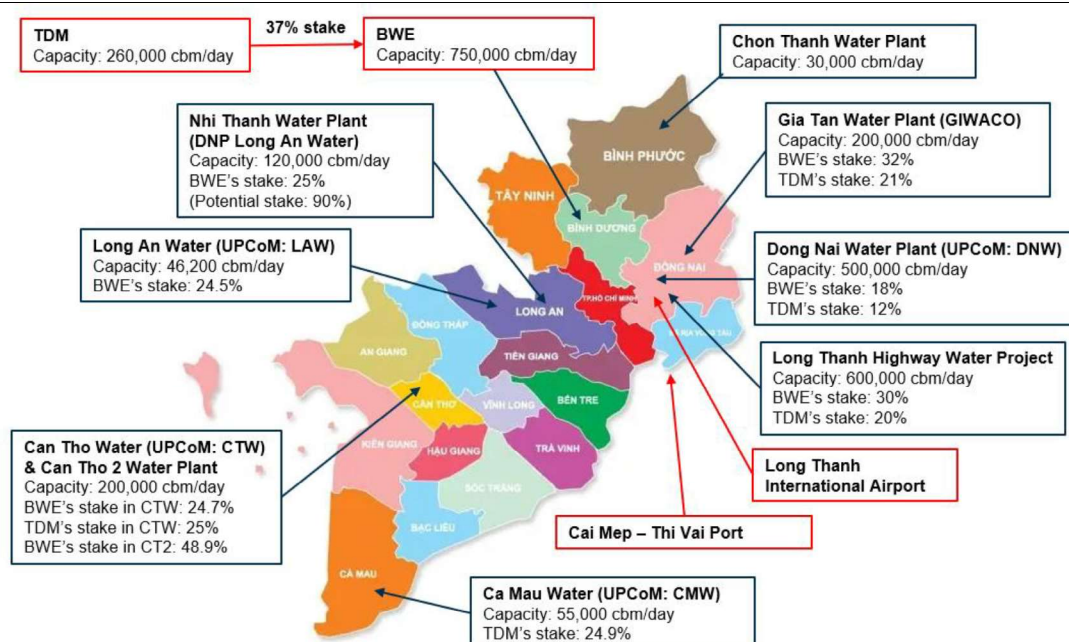
Figure 3: Binh Duong's water demand vs GRDP



Source: BWE, TDM, Binh Duong provincial authorities, Vietcap

BWE & TDM are aggressively acquiring stakes in other water companies

Figure 4: Locations of BWE & TDM's projects and acquired water companies

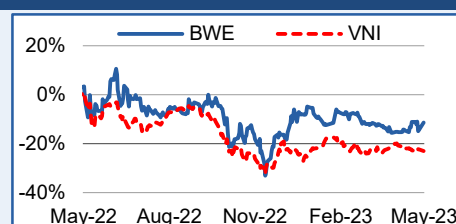


Source: BWE, TDM, Vietcap. Note: BWE has a ~25% stake in Quang Binh Water (UPCoM: NQB), which is not illustrated on the map.

BIWASE (BWE) [BUY +20.8%]

Update Report

Industry:	Utilities		2022	2023F	2024F	2025F
Report Date:	May 8, 2023					
Current Price:	VND44,800	Rev YoY	11.7%	-0.1%	16.5%	16.4%
Target Price:	VND54,100	EPS YoY	-2.1%	2.3%	48.0%	44.7%
Last Target Price:	VND50,700	Core EPS YoY ⁽¹⁾	13.5%	-4.7%	48.0%	44.7%
Upside to TP:	+20.8%	NPAT (VND bn)	743	760	1,124	1,627
Dividend Yield:	0.0%	EV/EBITDA	8.3x	7.5x	5.5x	3.9x
TSR:	+20.8%	P/E	14.0x	13.7x	9.3x	6.4x
		DPS (VND)	1,300	0	1,400	1,500



Market Cap:	USD369mn		BWE	Peers ⁽²⁾	VNI
Foreign Room:	USD112mn	P/E (ttm)	12.2x	15.0x	14.1x
ADTV30D:	USD0.1mn	P/B (curr)	2.0x	1.1x	1.6x
State Ownership:	19%	Net D/E	78.5%	57.3%	N/A
Outstanding Shares:	193 mn	ROE	16.6%	7.2%	13.1%
Fully Diluted Shares:	193 mn	ROA	7.1%	3.1%	2.1%
PEG 3-Year	0.5				

Company Overview

BWE is the second largest water distribution company in Vietnam and had a capacity of 750,000 cbm per day as of 2022. BWE offers a full environmental value chain from water generation and distribution (80% of gross profit) to wastewater treatment. BWE is also active in waste treatment, funeral services and rooftop solar.

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Aiming to consolidate DNP Long An Water

- We raise our target price for BWE by 7% to VND54,100/share following the incorporation of BWE's ~25% stakes in Long An Water Supply Sewerage JSC (UPCoM: LAW) and Quang Binh Water Supply JSC (UPCoM: NQB) as well as the positive impact of rolling our target price horizon to mid-2024, which outweigh the 4% cut to our aggregate 2023-2027F earnings forecast. We upgrade our rating from OUTPERFORM to BUY.
- We reduce our 2023-2027F NPAT forecast due to our lower-than-expected Q1 2023 water volume assumption, a higher-than-expected risk of an economic slowdown, a one-year delay for a 10% YoY increase in the residential waste treatment tariff, and higher projected interest expenses.
- We forecast 2023F reported NPAT growth of 2.3% YoY due to (1) 3% YoY NPAT growth from the water segment and (2) lower forex losses YoY.
- BWE's valuation looks attractive at a 2023F P/E of 13.7x and implied PEG of 0.5 based on a projected 2022-2025F EPS CAGR of 30%.
- Upside catalyst:** Successful M&A with Long An water companies.
- Downside risk:** Lower-than-expected water sales volume if there is a disappointing amount of manufacturing activity.

We expect 2023F sales volume to rise 5% YoY. We lower our projected 2023 volume growth for BWE from 7% YoY to 5% YoY. In our view, industrial water demand will weaken in H1 2023 but recover in H2 2023. There will also be new demand from clients in the Minh Hung Industrial Park.

BWE finished the first step in acquiring DNP Long An Water JSC. In March 2023, BWE acquired a 25.4% stake (8.8 million shares) in DNP Long An Water. BWE spent VND136bn on this investment, implying an acquired P/E of 18x that management believes is justified given this company's huge growth potential. In addition, BWE secured the right to hold up to 15.8 million shares (~50% stake — VND277bn) with the seller, DNP Water JSC. DNP Long An Water possesses the Nhi Thanh water processing plant (capacity of 60,000 cbm/day) and has secured land bank to double its capacity to 120,000 cbm/day — equivalent to ~15% of BWE's capacity. According to BWE, DNP Long An Water has a ~50%-60% market share, huge growth potential from doubling its capacity in the near term, strong efficiency with a loss ratio of only 1.5%, and potential to raise selling prices. On February 8, BWE announced a BOD resolution to acquire a 20%-100% stake in DNP Long An Water. If BWE acquires a controlling stake in DNP Long An Water, this would represent upside to our valuation as well as our revenue and NPAT forecasts. In Q1 2023, BWE made a deposit of VND349bn (USD14.8mn) to prepare for making future payments and transferring the ownership of water companies.

Q1 2023 Recap: High interest expenses weigh on earnings

Figure 5: BWE's Q1 2023 results

VND bn (unless stated)	Q1 2022	Q1 2023	YoY Growth	% of Vietcap's Old 2023F	Explanation: (1) YoY Growth (2) % of old forecast
Water sales volume (million cbm)	42.0	43.3	3.1%	22.3%	(2) Weaker-than-expected water sales volume due to Binh Duong Province's weak 1.2% YoY GRDP growth in Q1 2023.
Revenue	733	681	-7.2%	18.6%	(1) Declining revenue from the waste treatment and wastewater treatment segments outweighed resilient revenue from the water segment.
Water supply	498	520	4.4%	22.5%	(1) Driven by water sales volume rising 3% YoY. (2) Weaker-than-expected water sales volume.
Waste treatment	93	69	-26.1%	9.6%	(1 & 2) VND84bn of revenue from the waste treatment segment was not recorded in Q1 2023 results due to incomplete paperwork.
Wastewater treatment	65	23	-64.3%	14.2%	(1) Declined from a high base in Q1 2022 that included invoices from 2021.
Trading and others	78	69	-11.2%	14.8%	
COGS	-386	-348	-9.7%	16.1%	
Gross profit	348	333	-4.3%	22.2%	
Water supply	285	306	7.2%	26.3%	
Waste treatment	20	10	-47.9%	6.4%	
Wastewater treatment	22	4	-82.6%	9.4%	
Trading and others	20	12	-39.4%	9.5%	
SG&A expenses	-102	-126	24.1%	24.3%	(1) BWE expanded its management team to supervise the companies it acquired.
Operating profit	246	206	-16.2%	21.1%	
Financial income	14	46	223.1%	25.8%	(1 & 2) Due to the higher interest rate environment and dividend income from new associates.
Financial expenses	-39	-73	89.3%	31.6%	
In which: Interest expenses	-38	-73	94.8%	33.2%	(1 & 2) Due to the higher interest rate environment and higher debt balance. In Q1 2023, interest rates for short-term debt ranged from 5.5%-9.6% — much higher than 3.5%-7.5% in Q1 2022. The debt balance at end-Q1 2023 increased 14% vs end of Q1 2022. Furthermore, BWE has new long-term debt of VND593bn (USD25mn) — 23% of total long-term debt — from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) at an interest rate of 6.9%.
Share profit from associates	-21	-21	-0.6%	-109.4%	
Other income/loss	1	0	N.M.	0.0%	
Profit before tax	202	159	-21.6%	16.8%	
NPAT before MI	177	141	-20.3%	16.4%	
Reported NPAT-MI	176	141	-20.1%	16.5%	(1 & 2) Interest expenses surged 95% YoY, outweighing financial income increasing 3x YoY and late revenue recognition for the waste segment.
Core NPAT *	176	141	-20.2%	16.5%	
Water supply	160	134	-16.5%	21.2%	
Waste treatment	3	2	-37.6%	2.0%	
Wastewater treatment	15	1	-94.5%	4.0%	
Trading & others	-1	5	N.M.	4.0%	

Source: BWE, Vietcap. (*) Excluding provision/reversal provision expenses for financial investments and unrealized forex loss.

2023 Outlook: High interest expenses to dampen earnings growth

Figure 6: BWE's 2023 outlook

VND bn (unless stated)	2022	New 2023F	YoY Growth	2023F New vs Old	Explanation: (1) YoY Growth (2) New vs Old forecast
Water sales volume (million cbm)	181	190	5.0%	-1.9%	(1) Driven by 7% YoY residential water volume growth and 3% YoY industrial water volume growth. In our view, industrial water demand will weaken in H1 2023 but recover in H2 2023. There will also be new demand from clients in the Minh Hung Industrial Park. (2) We lower our volume assumption following both weaker-than-expected Q1 2023 volume and Binh Duong's GRDP.
Revenue	3,484	3,482	-0.1%	-4.7%	(1) Higher revenue from the water segment to offset lower revenue from remaining segments.
Water supply	2,160	2,262	4.7%	-1.9%	(2) Due to our lower water sales volume assumption.
Waste treatment	707	680	-3.9%	-5.3%	(2) Due to delay of the 10% residential waste tariff increase from 2023 to 2024.
Wastewater treatment	151	73	-51.7%	-55.3%	(2) Following Q1 2023 results.
Trading and others	467	467	0.0%	0.0%	
COGS	-2,063	-2,010	-2.6%	-6.8%	
Gross profit	1,421	1,472	3.6%	-1.6%	
Water supply	1,136	1,196	5.3%	2.9%	(2) Lower cash cost assumption to outweigh volume assumption.
Waste treatment	113	127	12.3%	-21.7%	
Wastewater treatment	39	18	-53.3%	-55.3%	
Trading and others	133	131	-2.1%	0.0%	
SG&A expenses	-502	-533	6.1%	2.6%	
Operating profit	919	939	2.2%	-3.9%	
Financial income	104	152	45.5%	-15.1%	(2) Following Q1 2023 results.
Financial expenses	-226	-270	19.8%	16.8%	(2) Following Q1 2023 results.
In which: Interest expenses	-170	-270	58.6%	22.5%	(2) Following Q1 2023 results.
Share profit from associates	18	19	4.7%	0.9%	
Other income/loss	23	0	-100.0%	-100.0%	
Profit before tax	838	839	0.1%	-11.0%	
Reported NPAT-MI	743	760	2.3%	-10.8%	(1) We forecast no FX loss in 2023 vs a VND56bn loss in 2022. (2) Due to lower revenue from the water segment (driven by a lower water sales volume assumption), lower revenue from the waste treatment segment (driven by the delay of the residential waste tariff increase), lower financial income and higher financial expense projections.
Core NPAT *	797	760	-4.7%	-10.8%	
Water supply	582	597	2.6%	-5.2%	
Waste treatment	13	53	303.4%	-38.4%	
Wastewater treatment	19	9	-51.7%	-56.1%	
Trading & others	184	101	-44.9%	-12.8%	

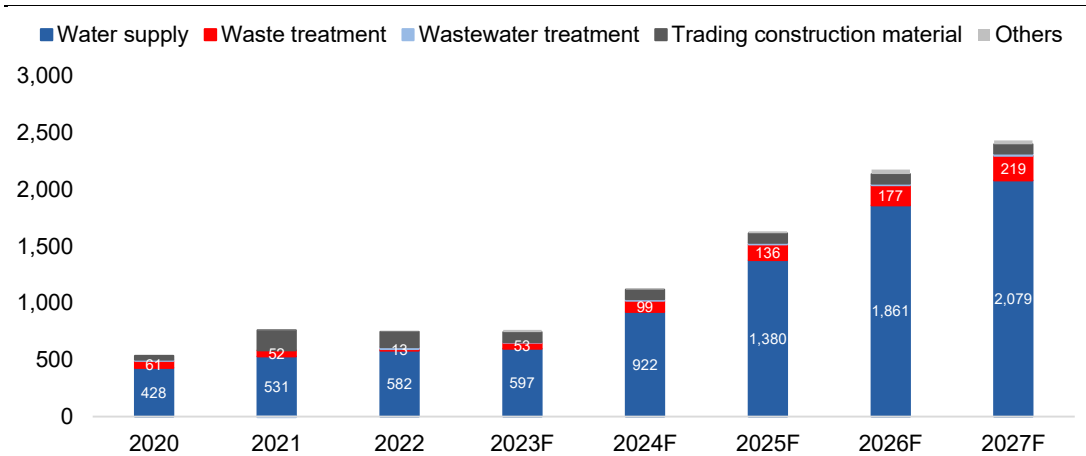
Source: BWE, Vietcap. (*) Excluding provision/reversal provision expenses for financial investments and unrealized forex loss.

Long-term outlook across segments

We reduce our aggregate 2023-2027F earnings forecast by 4% as we lower our water sales volume assumptions.

We forecast an NPAT CAGR of ~30% in 2022-2025F, which is mainly due to (1) robust water volume growth of 5%-18% p.a., (2) a 3% p.a. water tariff increase starting in 2024F, (3) electricity cost savings thanks to new rooftop solar capacity at water plants (BWE installed 4.6 MWp in 2021 and targets to have 35 MWp by 2025) and (4) 5 MW and 10 MW of thermal power capacity installed in the waste treatment segment in 2022 and 2023, respectively, that will also help to lower electricity costs. We have incorporated depreciation/interest expenses and capex for this new power capacity. The electricity cost savings from this power capacity is larger than associated costs, which partly helps to contribute additional earnings. In addition, we expect the tariff for residential waste to increase 10% in 2024 as there is higher demand from this segment.

Figure 7: NPAT breakdown by segment (VND bn)



Source: BWE, Vietcap

Valuation

We continue to value BWE's core business using a discounted cash flow (DCF) valuation model as we believe it fully captures the intrinsic value of the business and is the most accurate method to assess the stable cash flow of utilities companies. We also incorporate BWE's water operations in Can Tho and Dong Nai Province, including its ownership interests in Can Tho water companies (valued using the P/B method), GIWACO (valued by the DCF method), and Dong Nai Water JSC (UPCoM: DNW — valued by the DCF method).

We keep a 10% valuation discount for policy risk, which is a typical risk in heavily regulated industries. This discount is less than the 15% discount rate we apply to power stocks. Compared to electricity rates — which are mostly established by Government bodies & ministries and are sensitive to national economic growth — water tariffs in Vietnam are more subject to policy and systemic risks because they are primarily set by provincial authorities. In the past, water rates in a number of Vietnamese cities and provinces have remained unchanged or have slightly increased. Nevertheless, power plants occasionally undergo a review regarding power purchase agreements, which lowers the cost of electricity.

We raise our target price for BWE by 7% to VND54,100/share following the incorporation of a BWE's stake in Long An Water Supply Sewerage JSC (UPCoM: LAW) and Quang Binh Water Supply JSC (UPCoM: NQB) as well as the positive impact of rolling our target price horizon to mid-2024, which outweigh a 4% downward revision to our aggregate 2023-2027F earnings forecast.

In March 2023, BWE finished acquiring 24.5% and 25% stakes in Long An Water Supply Sewerage JSC (UPCoM: LAW) and Quang Binh Water Supply JSC (UPCoM: NQB), respectively. BWE spent VND60bn on LAW and VND58bn on NQB. We value these two new associates at 2x book value.

Figure 8: BWE's DCF valuation

Method	Fair value	Weight	Target price (VND/share)
DCF of BWE's core business	50,365	100%	50,365
18% stake in Dong Nai Water (DNW)			3,578
32% stake in Gia Tan Water (GIWACO)			1,789
25-49% stake in Can Tho water companies			3,144
~25% stake in Long An Water (LAW)			620
~25% stake in Quang Binh Water (NQB)			598
Fair value			60,095
Discount (%)			10.0%
Target price			54,100
Upside %			20.8%
Dividend yield %			0.0%
TSR %			20.8%
2023 P/E at TP (x)			16.5x

Source: Vietcap

Figure 9: DCF valuation

Cost of Capital	Previous	Revised	FCFF (Five Years)	VND bn
Beta	1.0	1.0	PV of Free Cash Flows	5,372
Market Risk Premium %	8.0%	8.0%	PV of Terminal Val (1% g)	6,882
Risk-free Rate %	6.0%	6.0%	PV of FCF and TV	12,254
Cost of Equity %	14.0%	14.0%	+ Cash & ST investments	1,202
Cost of Debt %	7.5%	7.5%	- Debt	3,696
Debt %	49.1%	49.1%	- Minority Interest	44
Equity %	50.9%	50.9%	Equity Value	9,716
Corporate Tax Rate %	10.2%	10.2%	Shares (million)	193
WACC %	10.4%	10.4%	Value per share, VND	50,365

Source: Vietcap

We note the corporate tax rate is 10%, which is lower than the statutory rate. In accordance with Circular 78/2014/TT-BTC of the Ministry of Finance (dated June 18, 2014), BWE's business segment is classified as a special business segment that is eligible for a favorable tax rate. As a result, BWE will have a tax rate of 10% for its current business model.

Figure 10: Cash flow projections

VND bn	2023F	2024F	2025F	2026F	2027F
EBIT & Dividend	985	1,346	1,820	2,334	2,559
less: tax	-76	-117	-173	-234	-262
add: depreciation	542	562	589	252	274
less: net capex	-365	-400	-400	-400	-1,225
(increase)/decrease in NWC	51	-174	-179	-105	-341
Free Cash Flow	1,137	1,217	1,657	1,848	1,005
Present Value of FCF	1,082	1,049	1,293	1,305	643
Cumulative PV of FCF	1,082	2,131	3,423	4,729	5,372

Source: Vietcap

Figure 11: BWE's capex guidance for 2021-2023

Projects	Investment capital (VND bn)
Expanding water supply capacity	900
Expanding distribution system for Nam Tan Uyen and Uyen Hung plants	132
Expanding distribution system for Tan Hiep plants	275
Total	1,307

Source: BWE, Vietcap

Valuation of Can Tho water companies

BWE spent ~VND303bn to acquire two Can Tho water companies (CTW & CT2). Their implied 2021 P/E is 15x and implied 2021 P/B is 1.3x, which we believe are fair given their dominant positions and potential growth outlooks. We value these investments at 2x book value (given their profitability and growth outlooks), implying a value contribution to BWE of VND607bn and VND3,144/share, respectively.

Figure 12: Value contribution of Can Tho water companies to BWE

Item	
BWE's investment at 2x book value (VND bn)	607
BWE's shares (million shares)	193
Value per share (VND)	3,144

Source: BWE, Vietcap

Dong Nai Water valuation

Figure 13: DNW's valuation

Item	VND bn
Equity value	3,900
BWE's stake (%)	18%
Value of BWE's stake	690
BWE's shares (million shares)	193
Value per share (VND)	3,578

Source: DNW, BWE, Vietcap

Figure 14: DNW's DCF valuation

Cost of Capital	Current	FCFF (Five Years)	VND bn
Beta	1.0	PV of Free Cash Flows	2,123
Market Risk Premium %	8.0%	PV of Terminal Val (1% g)	2,425
Risk-free Rate %	6.0%	PV of FCF and TV	4,548
Cost of Equity %	14.0%	+ Cash & ST investments	506
Cost of Debt %	7.5%	- Debt	-1,037
Debt %	52.6%	- Minority Interest	-117
Equity %	47.4%	Equity Value	3,900
Corporate Tax Rate %	6.0%		
WACC %	10.3%		

Source: DNW, Vietcap

Figure 15: DNW's cash flow projections

(VND bn)	2023F	2024F	2025F	2026F	2027F
EBIT	325	354	386	420	457
less: tax	-20	-22	-24	-26	-28
add: depreciation	321	321	321	321	321
less: net capex	-144	-144	-144	-144	-144
(increase) / decrease in NWC	2	2	2	2	2
Free Cash Flow	485	512	542	574	609
Present Value of FCF	461	441	423	406	391
Cumulative PV of FCF	461	903	1,326	1,732	2,123

Source: Vietcap