

22 Apr 2023

Hoang Quan Service (HQC)

AGM Briefing: The giant rides on the tailwind

AGM Briefing:

- On April 22, we attended HQC's 2023 AGM, and the presentation covered how the conglomerate achieves its dream

A sand castle is built on an aggressive and wild dream

- When the government and provincial agencies are working their best to launch at least 1,000,000 units of affordable housing segment to the market in 2023F-30F, HQC is reaping the most yield since its already set a firm footprint.
- Building the hope on the simulative packages from the banks, licensing agencies, the company aims a VND140bn net profit of controlling interest, +6.4x yoy driven by a VND1,700bn revenue, 5.2x yoy.
- Per management, 2023F revenue is largely benefiting from its self-developed projects (Tra Vinh townhouse project, VND400bn revenue; Tan Huong project, VND200bn revenue) and its business cooperation contraction (BCC) projects (Binh Minh project, VND200bn revenue; Nam Phan Thiet townhouse project, VND100bn revenue; Golden City project, VND550bn revenue) and Ham Kiem industrial zone with VND100bn
- Most of the social housing project enjoys the immaterial gross margin of 10-15% as required by the legal paper.
- Notably, HQC several times proposes the revenue of thousand billion and net profit of hundred billion but fails as well. For example, HQC only fulfilled 31/11% of their revenue/net profit guidance at VND333.2/18.8bn.
- No dividend is paid in 2023F

12M rating **NON-RATED**

12M TP

Up/Downside

Stock Data

VNIndex (22 Apr, pt)	1,043
Stock price (22 Apr, VND)	4,240
Market cap (USD mn)	86
Shares outstanding (mn)	477
52-Week high/low (VND)	6,210/1,610
6M avg. daily turnover (USD mn)	1.36
Free float / Foreign ownership (%)	84.1/5
Major shareholders (%)	
Chairman	12.09
Ibeworthy Pte. Ltd.	8.19
Thai Binh Investment JSC	5.9

Performance

	1M	6M	12M
Absolute (%)	21.5	66.3	(14.5)
Relative to VNIndex (%p)	21.2	59.8	8.6

Stock price trend



Source: Bloomberg

	2018A	2019A	2020A	2021A	2022A
Sales (VND bn)	468	656	538	279	276
chg. (% YoY)	27.5	40.1	(18.0)	(48.2)	(1.1)
Operating profit (VND bn)	36.0	119.0	53.0	26.0	19.0
Net profit (VND bn)	43.0	42.0	10.0	4.0	19.0
EPS (VND)	89.0	86.0	20.0	9.0	39.0
chg. (% YoY)	(37.8)	(3.4)	(76.7)	(55.0)	333.3
EBITDA (VND bn)	39.0	122.0	56.0	27.0	20.0
PE (x)	47.6	48.7	210.6	486.3	107.4
EV/EBITDA (x)	59.9	19.0	41.4	74.9	101.9
PB (x)	0.5	0.5	0.5	0.5	0.5
ROE (%)	1.0	1.0	0.2	0.1	0.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

Diluted risk is material

- Even the market price is trading below the par value and its book value per share of VND9,147 as of end-2022, HQC still suggest a VND1,000bn right issuance to existing shareholders in 2023F. The total share increase is around 100,000,000, 20.2% of its current outstanding shares.
- The receipt aims to fund a VND600bn stake offering and a VND600bn M&A transaction to buy 3.35ha land bank.

Counter party risk is remarkable

- The company multiply exercised the related-party transaction. As of end-2022, around VND2,100bn amount balance in term of receivable, payables were recorded as related-party transaction, occupying 30% of its total asset.
- What is lucrative to us about HQC is its concrete background in social housing development segment which is a strong focus of government and province lately. We believe the a VND120tn interest subsidy package offered by big 4 commercial banks and accommodative regulatory policies given by Ministry of Construction could fasten HQC's pipeline and then shore up its revenue target completion.
- However, the valuation is not convincing if considering the risks arising from related-party transactions.

	Name	Owner	Location	Province	Segment	Investment (VND bn)	Land area (ha)	Unit	Note
1	Golden Grand	HQC is developer	Thanh My Loi, Thu Duc City	HCMC	Affordable condo	158.4	0.4991	99	- Under completion period
2	Binh Trung Dong	HQC is developer	Binh Trung Dong, Thu Duc City	HCMC	Affordable condo	348.0	0.4300	260	- Finish
3	Tan Huong	HQC is developer	Tan Thanh, Chau Thanh District	Tien Giang	Affordable condo	1,226.0	6.0049	3,057	- Deliver in 2023-24
4	Tra Vinh Townhouse	HQC is developer	Ward 4, Tra Vinh City	Tra Vinh	Affordable semi-detached houses	975.0	17.6908	1,251	- 3rd phase:519 units could deliver in 3Q23F
5	Mui Ne resort	HQC is developer	Ham Tien ward, Phan Thiet city	Binh Thuan	Hospitality	9,831.0	198.0000		- Under land clearance
1	Phu Quy	HQC signs BCC	Truong Thanh Ward, Cai Rang District	Can Tho	Affordable semi-detached houses	821.3	10.7000	628	-Constructing 129/628 units
2	Phuc Loc	HQC signs BCC	Truong Thanh Ward, Cai Rang District	Can Tho	Affordable semi-detached houses	481.9	7.0000	525	- Delivering 317 units, and constructing 119
3	Agora Zone	HQC signs BCC	Truong Thanh Ward, Cai Rang District	Can Tho	Affordable semi-detached houses	100.3	0.6680	58	- Delivering 14 units, and constructing 44
4	Binh Minh	HQC signs BCC	My Hoa Commune, Binh Minh District	Vinh Long	Affordable semi-detached houses, condo	408.8	29.9400	227	- Delivering in 2023-24
5	Paradise	HQC signs BCC	My Hoa Commune, Binh Minh District		Hospitality	92.5	10.5000	40	Not yet launched
6	Golden Queen	HQC signs BCC	Phu My Commune	Ba Ria Vung Tau	Affordable semi-detached houses	415.0	4.5000		Finish
7	Nam Phan Thiet townhouse	HQC signs BCC	Ham Thuan Nam District	Binh Thuan	Complex	905.0	13.5000	955 townhouses, 261 condo units, 325 kios	Deliver 450 units
8	Golden City	HQC signs BCC	Tay Ninh City	Tay Ninh	Affordable condo	2,063.0	3.3540	1506	Deliver in 1Q24
9	Long Hoa Tradition wet market		Hoa Thanh commune	Tay Ninh	Kios	242.4	2.1000	1244	Deliver half and constructing half
9	Phuc Long	HQC signs BCC	My Hoa Commune, Binh Minh District	Vinh Long	Affordable semi-detached houses, condo	622.7	3.9144	1275	Construction
10	Hoa Phu	HQC signs BCC	Hoa Loc Commune, Long Ho Dist	Vinh Long	Affordable condo	249.1	0.140179.9	236	Construction
11	Binh Minh (traditional wet market)	HQC signs BCC	My Hoa Commune, Binh Minh District	Vinh Long	Kios	49.327	0.11336	260	Finish

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