

10 Apr 2020

Khang Dien House Trading and Investment JSC (KDH)

1Q20 preview: Stellar performance

Likely promising 1Q20F results

Based on the phone call to KDH's IR on April 06, we estimate a VND150bn net profit (+46.8% yoy) and a VND459bn net revenue (-45.5% yoy) in 1Q20F. Only a few units from the Verosa landed-property project is handed over to buyers in 1Q20F versus a huge handover of condos from Jamila projects in 1Q19. Thanks to delivery from higher-margin Verosa project, gross margin could expand by 30.6% pts yoy to 62% in 1Q20F, boosting the net profit growth remarkably.

Stronger promotion packages to support presale in 2H20F

KDH could post weak presales value in 1Q20 to VND515bn, -15% yoy (39 units sold of Verosa project and 60 units of Lovera Vista project). Due to social distancing amid COVID-19 outbreak which traffic for show flats or on-site visits should decline further in 2Q20F, presale value in those projects could moderate in 2Q20F before bouncing back in 2H20F. We attribute the strong promotion campaign namely interest subsidy, payment discount to help KDH cushion COVID-19 damage. No new project is launched in 2020F, per management.

Double digit net profit growth in 2020F

We expect KDH could deliver a 24.3% yoy revenue growth to VND3,498bn and a 16.6% yoy net profit growth to VND1,067bn in 2020F. Speeding up the handover of Safira project up to 77% total project units is the key driver revenue growth in 2020F. We also markup financial expenses by 231% yoy to reflect the higher promotion packages.

Reiterate BUY with TP of VND25,000

We reiterate BUY rating as presales of Lovera Vista and Verosa projects could be on track in FY20-21F. Our RNAV-based target price remains at VND25,000. Our mid- to long-term investment thesis depends on whether KDH can successfully unlock its mega-sized projects in FY21-22F. Key downside risks to our call is prolonged COVID-19 to 3Q20 that could dampen our presale outlook.

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	3,055	792	502	1,179	10.4	799	17.0	10.7	1.8	11.6	5.0
2018A	2,917	982	808	1,592	35.0	990	12.6	9.4	1.6	13.4	2.5
2019A	2,813	1,223	915	1,691	6.2	1,232	11.8	8.5	1.4	12.6	2.5
2020F	3,498	1,438	1,067	1,998	18.2	1,460	10.0	6.8	1.3	13.7	2.5
2021F	4,519	1,468	1,181	2,242	12.2	1,490	8.9	5.2	1.2	14.1	2.5

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

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12M rating **BUY (Maintain)**

12M TP **25,000**

Up/Downside **+28.1%** (incl 2.5% cash dividend)

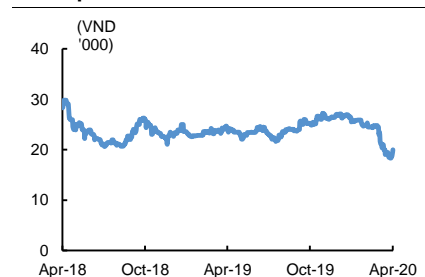
Stock Data

VNIndex (10 Apr, pt)	758
Stock price (10 Apr, VND)	19,900
Market cap (USD mn)	462
Shares outstanding (mn)	544
52-Week high/low (VND)	27,200/18,300
6M avg. daily turnover (USD mn)	0.32
Free float / Foreign ownership (%)	74.5/44.1
Major shareholders (%)	
Vietnam Enterprise Investments	16.2
VinaCapital Vietnam Opportunity	13.3

Performance

	1M	6M	12M
Absolute (%)	(15.3)	(21.0)	(16.0)
Relative to VNIndex (%p)	(6.0)	1.6	5.2

Stock price trend



Source: Bloomberg

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Gross margin expansion from sale of cheaply-acquired land propels promising 1Q20F results

We forecast that project Verosa could be likely the sole topline driver with about 39 units of villa/townhouse in this quarter, making KDH 's property revenue of VNDbn459. Revenue could be contracted by 45.5% yoy due to fewer property handovers, compared to 1Q19 revenue of VND842bn which was propelled by robust handover of 420 units of Jamila condo project.

As 1Q20F could see delivery from higher-margin villas/townhouse, gross margin advance 30.6% pts yoy to 62% driven by a supply scarcity in landed property market during 2019 coupled with the low historical cost of the land sold. Consequently, KDH could generate VND150bn in 1Q20F net profit (+46.8% yoy)

Table 1. Earnings trend and outlook

(VND bn, VND, %, %p)

	2019				2020F	2019	2020F	1Q20F		
	1Q	2Q	3Q	4Q	1QF			QoQ	YoY	Consensus (BB)
Net sales	842	408	611	952	459	2,813	3,498	(51.8)	(45.5)	
Property sales	825	391	577	922	429	2,714	3,379	(53.5)	(48.0)	
Others	17	17	35	31	30	100	119	(1.7)	75.4	
Gross profit	264	238	418	581	285	1,500	1,778	(51.1)	7.9	
Gross margin	31%	58%	68%	61%	62%	53%	51%	0.6	30.6	
SG&A	-93	-70	-45	-69	-88	-278	-339	27.7	(5.7)	
Operating profit	170	167	336	549	197	1,223	1,438	(64.2)	15.4	
Financial income	9	12	14	7	6	41	41	(11.9)	(30.9)	
Financial expense	-18	-15	-8	-1	(14)	(42)	(138)	1,686	(23.1)	
Net other income	-13	-12	-7	0		(33)	(5)			
EBT	147	153	334	555	189	1,190	1,336	(66.0)	28.0	
Net profit	102	113	296	405	151	917	1,069	(62.8)	47.3	
NP of controlling interest	102	113	296	404	150	915	1,067	(62.9)	46.8	
EBITDA	170	169	249	644	187	1,232	1,460	(71.0)	10.0	
EBITDA margin	20%	41%	41%	68%	41%	44%	42%	(26.9)	20.5	
OP margin	20%	41%	55%	58%	43%	43%	41%	(14.9)	22.6	

Source: Company data, Otherwise, KIS

We expect stronger presales in 2H20F

KDH is estimated to sell 39 units sold of Verosa project and 60 units of Lovera Vista project in 1Q20F, bringing total presale value to VND515bn, -15% yoy. We believe the COVID-19 transmission fear is the major attribution to slowdown in marketing activities, soft-launch meetings, which in turn hit the transaction volume.

Vietnamese government announced a social distancing campaign in Mar 31 to limit the public movement over 1-15 April 2020 with the hope of mitigating spread of COVID-19. We think the buying sentiment would be more dampened in 2Q20 given 1) slowing economic growth, and 2) traffic for show flats or on-site visits decreases as sales galleries will be closed and ongoing project's construction work will be stopped. However, we believe that KDH will likely explore unconventional marketing method, i.e. virtual sales gallery and Internet marketing to boost new sales. While progressive billing progress might be impacted by the social distancing period, the negative earnings effect should be minimal to KDH given 1) the period is not long and contractors could catch up on work progress later, in our view 2) KDH is about to accommodate the buyers'

affordability including payment deferrals, payment discount, interest subsidy, decoration gift which help reduce the total payment per unit by 8-10% 3) total units per KDH's ongoing project is quite limited comparing with huge other developer' township project/

Consequently, we project transaction volume in Verosa and Lovera Vista projects would bounce back in 2H20. We expect KDH to book VND1,240bn for the two projects in 2H20F, bringing FY20F presales to VND1,958tn (+73.4% yoy), with 450 condos and 109 houses to be sold.

Table 2. Key development pipeline

Project	Location	Product type	Owner	Landsite (ha)	Est. GFA ('000 sqm)	Est. GDV (VNDbn)	Execution timeframe*						
							2018	2019	2020	2021	2022	2023	2024 onward
Jamila	D.9, HCMC	Condo	100%	1.7	96	1,733							
Safira	D.9, HCMC	Condo	100%	2.7	130	3,023							
Venita Park	D.9, HCMC	Townhouse	100%	8.1	60	2,905							
Lovera Vista	Binh Chanh, HCMC	Condo	100%	1.8	171	3,026							
Clarita	D.2, HCMC	Townhouse	100%	5.7	52	1,902							
Corona	Binh Chanh, HCMC	Township	100%	17.5	265	6,025							
Green Village	Binh Chanh, HCMC	Township	100%	132.9	695	19,892							
Tan Tao	Binh Chanh, HCMC	Township	100%	330.0	3,852	122,425							
Amena	D.9, HCMC	N/A	100%	4.3	N/A	N/A							
Le Minh Xuan	Binh Chanh, HCMC	Industry park	100%	109.9	N/A	N/A							

(*) Each project execution timeframe (from first launch to delivery completion) is in grey highlight. Otherwise, no detail project timeframe has been announced by the company.
Source: Company data, Otherwise, Korea Investment & Securities

2020-2021F Earnings forecast

We produce our forecasts for FY20-21F net profit as below:

FY20F:

- We expect more handover of about VN2,357bn of revenue from Safira condo project, equivalent to 77% total units thanks to quickening construction progress in FY19 and lower handover volume for Verosa project to VND1,021bn due to lengthened payment period in FY20.
- We forecast more financial expenses by 231.5% yoy to VND138bn in FY2020 to reflect extensive promotion campaign.
- Overall, we expect FY20 revenue increase by 24.3% yoy to VND3,498bn and net profit go up by 16.6% yoy to VND1,067bn on the back of higher delivery of Safira.

FY21F:

- Our 29.2% inward forecast to FY21F revenue is reflected the combination of more Lovera Vista delivery FY21-22F and the remaining handover volume for Verosa being rescheduled to FY20-21F due to its lengthened payment period.
- We adjust back to normal financial expenses in FY21F as no more extensive promotion packages.
- Lower-margin condo delivery could outweigh the revenue rise mostly from Lovera Vista, bringing a 10.7% increase in FY21F net profit.

Reiterate BUY rating

We reiterate our BUY recommendation with RNAV-based target price of VND25,000. Note that the cash flow changes in delivery schedules of Safira and Lovera Vista is offset with Verosa project. Furthermore, they are making only a minor impact on our valuation for KDH due to the small NAV contribution from the ongoing projects. Meanwhile, for mega-size projects like Tan Tao township and Green Village (70% and 40% to NPV, respectively), we made deep discounts on RNAV in view of the project's long-term pipeline, due to uncertainties relating to development master plans, selling prices, or even market conditions.

KDH market price has been plunged by -26.6% YTD, providing undemanding valuation. We believe the current price could flip when KDH releases its 1Q20F positive results in the fourth week of April, together with a VND500bn share-buy-back plan announced on 26 Mar. We still like KDH given its strong brand name in property market, healthy balance sheet and current potential upside of 28.1% for short-term investment. We believe the strong promotion packages offered to homebuyers' of Venita Park and Lovera Vista projects will partially remove the shadow over KDH which has emerged due to the slower demand for real estate.

Table 3. Equity valuation

(VNDbn)

Project Name	Fair value*	Method	Discount to NPV	Note
Tan Tao	7,320	DCF	70%	Pending compensation
Safira	1,814	DCF	5%	Ready to deliver in 2H20F
Corona	807	DCF	60%	Pending compensation
Green Village	1,832	DCF	60%	Pending legal process
Clarita	536	DCF	40%	Pending legal process, LUR has been acquired
Verosa Park	1,100	DCF	5%	Ready to deliver in 2020-21F
Lovera Vista	717	DCF	5%	Launched in 4Q19
Amena	423	BV		Pending legal process
Le Minh Xuan IP	544	BV		Pending compensation
Other	596	BV		
Total inventory	-			
Add:				
Cash and cash equivalent	1,207			
Other assets	1,653			
Less:	-			
Net debt (exclude CB)	782			
Other liabilities	4,174			
RNAV	13,593			
Shares outstanding	544,429,109			
Target price (VND/share)	25,000			

(*) Fair value as at Dec 19

Source: Company data, Otherwise, KIS

■ Company overview

Khang Dien House Trading and Investment JSC (KDH) is among iconic brand names in the residential real estate market with 15 years of market experience. KDH's land bank amounted to 499ha HCMC as end-FY19, mostly in the Western part of HCMC. This ensures over ten years of project development, in our view. KDH now has the third-largest land bank in HCMC (499ha) among the listed residential developers.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	9,110	9,570	12,327	11,993	13,268
Cash & cash equivalents	2,592	1,836	1,207	1,170	3,058
Accounts & other receivables	1,548	1,760	3,778	3,440	3,042
Inventory	4,858	5,817	7,037	7,063	6,832
Non-current assets	446	520	791	838	890
Fixed assets	342	500	677	734	797
Investment assets	104	19	114	104	93
Others	160	138	119	117	118
Total assets	9,717	10,228	13,237	12,948	14,276
Advances from customers	1,087	1,367	2,773	2,278	2,460
Unearned revenue	3	2	0	0	0
Trade payables	54	284	696	912	1,383
Others	723	707	1,322	1,348	1,403
ST debt & due bonds	186	632	377	385	168
LT debt & bonds	1,471	337	405	60	0
Total liabilities	3,526	3,328	5,573	4,982	5,414
Controlling interest	5,214	6,864	7,625	7,924	8,819
Capital stock	3,360	4,140	5,444	5,506	5,568
Capital surplus	1,087	1,724	720	757	794
Other reserves	68	93	134	(366)	(366)
Retained earnings	698	907	1,327	2,027	2,823
Minority interest	977	35	39	41	43
Shareholders' equity	6,191	6,899	7,664	7,966	8,863

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	597	(719)	(161)	1,004	2,383
Net profit	502	808	915	1,067	1,181
Dep'n & Amort'n	7	8	9	22	22
Net incr. in W/C	204	(1,236)	(907)	45	1,321
C/F from investing	(82)	519	(201)	(24)	(38)
Capex	(61)	(161)	(235)	(68)	(75)
Incr. in investment	(23)	680	34	44	36
C/F from financing	1,017	(556)	(296)	(1,016)	(459)
Incr. in equity	1,488	101	97	(404)	97
Incr. in debt	(237)	(689)	(186)	(338)	(277)
Dividends	(234)	(194)	(207)	(275)	(278)
C/F from others	0	0	0	0	0
Increase in cash	1,532	(756)	(661)	(37)	1,886

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	3,055	2,917	2,813	3,498	4,519
Operating profit	792	982	1,223	1,438	1,468
Financial income	72	200	41	41	36
Interest income	43	63	38	41	36
Financial expenses	(125)	(89)	(42)	(138)	(20)
Interest expenses	(10)	(32)	(2)	0	(0)
Other non-operating profit	11	116	(33)	(5)	(5)
Gains (Losses) in associates, subsidiaries and JV	8	4	0	0	0
Earnings before tax	729	1,075	1,190	1,336	1,479
Income taxes	(170)	(266)	(273)	(267)	(296)
Net profit	559	810	917	1,069	1,183
Net profit of controlling interest	502	808	915	1,067	1,181
EBITDA	799	990	1,232	1,460	1,490

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	1,179	1,592	1,691	1,998	2,242
BPS	10,930	12,753	14,006	15,134	16,646
DPS	1,000	500	500	500	500
Growth (%)					
Sales growth	(22.3)	(4.5)	(3.5)	24.3	29.2
OP growth	15.0	23.9	24.5	17.6	2.1
NP growth	37.9	44.9	13.3	16.6	10.7
EPS growth	10.4	35.0	6.2	18.2	12.2
EBITDA growth	14.3	23.8	24.5	18.5	2.1
Profitability (%)					
OP margin	25.9	33.7	43.5	41.1	32.5
NP margin	18.3	27.8	32.6	30.6	26.2
EBITDA margin	26.2	33.9	43.8	41.7	33.0
ROA	7.3	8.4	7.8	8.9	8.6
ROE	11.6	13.4	12.6	13.7	14.1
Dividend yield	5.0	2.5	2.5	2.5	2.5
Dividend payout ratio	66.9	25.6	22.6	25.8	23.6
Stability					
Net debt (VND bn)	(934)	(867)	(425)	(725)	(2,890)
Net debt/equity (%)	(15)	(13)	(6)	(9)	(33)
Valuation (x)					
PE	17.0	12.6	11.8	10.0	8.9
PB	1.8	1.6	1.4	1.3	1.2
EV/EBITDA	10.7	9.4	8.5	6.8	5.2

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