

28 Apr 2020

Nam Long Investment Corporation (NLG)

Robust outlook despite lukewarm 2020F

- 1Q20 net profit plunged by -24% YoY due to the absence of other income of VND137bn recorded in 1Q19
- One-off financial gain of VND453bn leads FY20F net profit
- FY21F net profit could see a 18.6% YoY driven by the presale boom in FY19

Mixed 1Q20 results with tepid earnings but resilient revenue

We observed that project management service and project delivery revenue of 150 units of Novia Flora project were likely topline drivers, making NLG's net revenue of VND416bn (+25.5% YoY). 1Q20 core gross margin expanded 9 % pts YoY with higher contribution from high-margin Flora condo vs. Ehomes condo in 1Q19. However, net profit slid by -24% YoY to VND110bn, due to the absence of a one-off other income recorded in 1Q19.

One-off financial gain could be the main driver for 2020F

We conservatively estimate around 63% of total presale units of Southgate project as end-19 could hand in 4Q20F to reflect the buyer's slower income growth damaged by COVID-19. However, FY20F net profit may touch VND801bn (-16.5% YoY) on the back of: 1) an extraordinary income of VND453bn from Waterfront and Dai Phuoc projects 2) an income of VND143bn from Mizuki Park and Southgate projects. Core 20F net profit slides -33% YoY

Rosier 2021F outlook thanks to presale boom in FY19

As a result of COVID-19 damage, NLG will not launch for sale until 2H20F. New presales in 2H20F will come mainly from the on-going projects including Southgate, Akari and Mizuki Phase 2. Planned presales in FY20F should reach VND5tn, -36% YoY including the BCC project, in our view. However, the 2021F net profit could see a 18.6% YoY driven by the presale boom in FY19.

Reiterate BUY with TP of VND29,200

We retain our Add rating with a TP of VND29,200 based on 30-50% discount to mega project's RNAV. Presales at Waterpoint is now critical for the share price performance because of their significant RNAV contributions to our valuation. Risks to our call: 1) a prolonged COVID-19 that curbing buyer purchasing power for its mid-range condos 2) regulatory changes causing more project delays.

12M rating **BUY**

12M TP **29,200**

Up/Downside **+39.8%** (incl 4.7% cash dividend)

Stock data

VNIndex (28 Apr, pt)	767
Stock price (28 Apr, VND)	21,600
Market cap (USD mn)	230
Shares outstanding (mn)	250
52-Week high/low (VND)	29,151/18,500
6M avg. daily turnover (USD mn)	0.58
Free float / Foreign ownership (%)	62.2/47.4
Major shareholders (%)	
Chairman	13.4
Ibworth Pte.Ltd	9.9

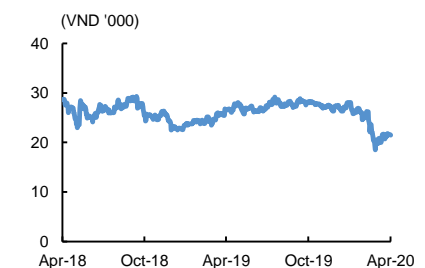
Valuation

	2019A	2020F	2021F
PE (x)	5.8	7.0	5.9
PB (x)	1.2	1.1	1.0
ROE (%)	19.9	14.7	15.2
DY (%)	2.3	4.7	4.7
EV/EBITDA (x)	8.7	17.3	18.7
EPS (VND)	3,709	3,084	3,657
BPS (VND)	19,462	22,536	25,570

Performance

	1M	6M	12M
Absolute (%)	5.7	(23.7)	(19.3)
Relative to VNIndex (%p)	(5.3)	(1.7)	0.5

Stock price



Source: Bloomberg

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1Q20 Result highlights

NLG released its prelim 1Q20 results on April 21. 1Q20 revenue grew 25.5% YoY to VND416bn, thanks to a 480% YoY jump in property management service. Notably, NLG recorded a total handover value of VND144bn, -50% YoY due to its Novia project upon completion of the development of 150 Flora condo unit's vs a huge handover of Ehomes condo in 1Q19.

Gross margin expansion of 9% pt YoY in 1Q20 is likely due to a combination of 1) delivery of higher-margin of Flora condo in Novia project 2) the more contribution of high-margin project management segment.

Despite a stellar growth of 1Q20 revenue, 1Q20 net profit plunged by -24% YoY to VND110bn due to the lack of a VND137bn one-off gain from Dai Phuoc project which was acquired in 1Q19 at a purchase price lower than book value.

Table 1. 1Q20 earnings

(VND bn, %, %p)

	1Q19	2Q19	3Q19	4Q19	1Q20P	QoQ	YoY	Consensus
Sales	332	603	389	1,221	416	(66)	25	N/A
Gross profit	96	249	240	482	157	(67)	64	N/A
Gross margin	29	41	62	39	38	(2)	9	N/A
OP	8	147	137	342	81	(76)	861	N/A
OP margin	3	24	35	28	20	(8)	17	N/A
EBT	155	172	172	721	140	(81)	(10)	N/A
NP	145	121	146	548	110	(80)	(24)	N/A

Source: Company data, Otherwise, KIS

One-off financial gains could drive the bottom-line growth in FY20F

Based on 2020 annual general meeting on 25 April, the board management targets to reach VND1,520bn revenue and VND820bn net profit driven by the 1) delivery of 442 landed-property units of Southgate project and of 379 Flora condo units of Mizuki project in business cooperation contracts (BCC) 2) a VND453bn one-off transfer gains of Waterfront and Dai Phuoc projects.

We believe the firm footprint and well-recognized product name should help NLG to weather the whirling storm in which homebuyers' income growth are dragged by COVID-19 transmission. However, to be more conservative, we assume lower landed-properties units (-11.5%) up to 391 units of Southgate projects should deliver in 4Q20F since this kind of residential segment is more vulnerable to economic downturn. We anticipate the stake transfers on both Waterfront and Dai Phuoc projects are completed in 4Q20F. Overall, we forecast a net revenue of VND1,533bn and net profit of VND801bn, - 16.5% YoY. Core net profit should decrease by -33% YoY.

Table 2. Earnings and outlook

(VNDbn, %, % p)

	2019				2020	2019	2020F	1Q20		
	1Q	2Q	3Q	4Q	1Q			QoQ	YoY	Consensus (BB)
Net sales	332	603	389	1,221	416	2,546	1,533	(66)	25	N.A
Property sales	286	437	194	1049	144	1965	219	(86)	(50)	
Project management	31	172	131	60	178	132	265	198	480	
Project transfer	8	0	11	(11)	36	0	271	(420)	368	
Others	8	2	315	124	59	449	779	(53)	621	
Gross profit	96	249	240	482	157	1,066	520	(67)	64	N.A
Gross margin	29	41	62	39	38	42	34	(2)	9	
SG&A	87	103	103	140	76	425	234	(46)	(13)	
Operating profit	8	147	137	342	81	642	286	(76)	861	
Associate's income	8	5	-2	114	15	126	149	(86)	83	
Financial income	16	41	42	22	37	97	538	68	135	
Financial expense	14	21	7	2	3	21	18	105	(78)	
Net other income	137	1	1	244	10	383	0	(96)	(93)	
EBT	155	172	172	721	140	1,226	956	(81)	(10)	
Net profit	151	133	163	560	117	0	803	(79)	(23)	
NP of controlling interest	145	121	146	548	110	960	801	(80)	(24.0)	N.A
EBITDA	14	149	150	344	86	642	321	(75)	536	
EBITDA margin	4	25	39	28	21	25	21	(7)	17	
OP margin	3	24	35	28	20	25	19	(8)	17	

Source: Company data, Otherwise, KIS

Robust growth in FY21F backed by stellar presales

We think the sluggish earnings growth in FY20F is temporary and the company could regain the positive outlook from FY21F onwards back by presale boom of 200% YoY in FY19. We estimate a handover value of VND5,613bn including BCC in 2020F could boost the FY20F net profit growth of 18.6% YoY to VND950bn. The starting handover of Akari Flora condo project in FY21F could contribute 26.8% to total handover value. The estimated FY21F net profit growth is also factored in the slower handover value growth of Southgate project in FY21F due to tepid economic growth, in our view. We assumed a 30% decrease handover value in Southgate project vs board management in FY21F.

Valuation

Our TP of VND29,200 is based on 30-50% discount to each mega project's RNAV. For mega-size projects like Waterpoint township and Hai Phong (50% 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. In our view, Hai Phong project contains higher execution and presale risks as it is the company's first project in Vietnam's northern region, far away from its traditional markets.

Table 3. Fair value calculation

(VND bn, %)

Project Name	NAV	Method	Discount to NPV
Southgate-Waterpoint	2,237	DCF	50%
Mizuki Park	928	DCF	30%
Akari	1,758	DCF	30%
Nguyen Son	254	DCF	-
Hai Phong	247	DCF	50%
Can Tho	47	DCF	50%
Dai Phuoc	1,702	BV	
Novia	122	DCF	
Kikyo	114	DCF	
Other	567	BV	-
Total inventory	7,976		
Add			
Cash and cash equivalent	1,901		
Short-term investments	67		
Short-term A/R	457		
Other short-term assets	106		
Long-term assets	427		
Less			
Net debt (exclude CB)	870		
Other liabilities	1,394		
Minority interest	1,145		
RNAV	7,525		
Shares outstanding	257,992,611		
Discount to RNAV			
Target price (VND/share)	29,200		

Note: Separate NP excluding dividend
Source: Company data, KIS

■ Company overview

Nam Long Investment Corporation (NLG) owns a large land bank reserve in the East and the South-West of HCMC, and neighboring cities such as Long An, Can Tho, Dong Nai. The company implements development strategy with three product types, including Ehome, Flora, Valora.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	6,779	7,321	7,923	8,316	10,238
Cash & cash equivalents	2,082	2,084	1,901	1,490	2,792
Accounts & other receivables	579	1,833	1,548	1,017	1,029
Inventory	11	1	0	0	0
Non-current assets	832	1,762	2,052	2,170	2,268
Fixed assets	44	40	58	52	46
Investment assets	788	1,722	1,994	2,118	2,222
Others	296	492	929	911	1,266
Total assets	7,906	9,576	10,904	11,396	13,772
Advances from customers	1,080	1,322	1,246	3,034	3,619
Unearned revenue	0	7	7	7	7
Trade payables	270	175	120	125	333
Others	2,388	1,779	2,462	382	1,279
ST debt & bonds	216	201	63	43	45
LT debt & financial liabilities	229	806	806	806	626
Total liabilities	4,183	4,290	4,704	4,397	5,909
Controlling interest	3,039	4,139	5,053	5,853	6,717
Capital stock	2,391	2,597	2,597	2,597	2,597
Capital surplus	989	989	1,120	1,120	1,120
Other reserves	(1,635)	(1,285)	(1,170)	(1,234)	(1,644)
Retained earnings	1,294	1,839	2,505	3,369	4,643
Minority interest	684	1,145	1,147	1,147	1,147
Shareholders' equity	3,723	5,285	6,200	7,000	7,863

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	3,161	3,480	2,546	1,533	1,565
Operating profit	881	1,013	626	286	263
Financial income	129	97	538	61	180
Interest income	95	129	120	538	61
Financial expenses	37	21	18	18	18
Interest expenses	36	20	18	18	18
Other non-operating profit	6	9	398	0	0
Gains (Losses) in associates, subsidiaries and JV	(3)	14	126	149	825
Earnings before tax	950	1,128	1,226	956	1,131
Income taxes	194	241	219	153	181
Net profit	756	887	1,007	803	950
Net profit of controlling interest	535	763	960	801	950
EBITDA	895	1,026	642	321	299

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,261	991	325	(957)	756
Net profit	535	763	960	801	1,026
Dep'n & Amort'n	14	13	16	35	36
Net incr. in W/C	1,681	384	(54)	(1,076)	711
C/F from investing	(786)	(1,830)	(377)	565	850
Capex	(6)	(15)	(64)	0	0
Incr. in investment	(53)	(97)	11	709	975
C/F from financing	(324)	840	(131)	(18)	(308)
Incr. in equity	58	447	276	132	0
Incr. in debt	(259)	600	(138)	(20)	(178)
Dividends	(123)	(207)	(244)	(130)	(130)
C/F from others	0	0	0	0	0

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	2,696	3,280	3,709	3,084	3,657
BPS	14,071	17,831	19,462	22,536	25,570
DPS	497	452	500	500	500
Growth (%)					
Sales growth	25%	10%	-27%	-40%	2%
OP growth	84%	15%	-38%	-54%	-8%
NP growth	55%	43%	26%	-17%	19%
EPS growth	48%	22%	13%	-17%	19%
EBITDA growth	81%	15%	-37%	-50%	-7%
Profitability (%)					
OP margin	27.9	29.1	24.6	18.7	16.8
NP margin	23.9	25.5	39.5	52.4	60.7
EBITDA margin	28.3	29.5	25.2	21.0	19.1
ROA	10.0	9.3	9.3	3.7	8.0
ROE	19.8	20.3	19.9	14.7	15.2
Dividend yield	2.3	2.1	2.3	4.7	4.7
Dividend payout ratio	18.4	13.8	13.5	16.2	13.7
Stability					
Net debt (VND bn)	(1,638)	(1,077)	(1,025)	288	(1,116)
Net debt/equity (%)	(44)	(20)	(17)	4	(14)
Valuation (x)					
PE	8.0	6.5	5.8	7.0	5.9
PB	1.5	1.5	1.2	1.1	1.0
EV/EBITDA	3.8	5.0	8.7	17.3	18.7

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