

Property Development

Neutral (Maintain)

2H20F trends: Headwinds have not subsided

Steady 3Q20F earnings growth expected amid dim market

We envisage another gloomy quarter in 3Q20F as some social distancing requirements to curb the second wave of COVID-19 could blow sales events. Buying sentiment are also worsening amid concerns on economic settings. Accommodative measures including enormous discounts and eased payment terms are the keys to spur the demand. Despite a sluggish 3Q20F industry conditions, sector's bottom line in 3Q20F could see steady yoy growth leading by VHM, KDH thanks to the delivery schedule is more skewed in favour of 2H20F.

Company	Rating	TP (VND)
VHM	BUY	93,500
KDH	BUY	28,200
NLG	BUY	29,200
DXG	BUY	12,800

1. Condo: A challenging first half

Both the major condo markets in Vietnam were severely stricken in 2Q20.

HCMC: Record low supply, sales slump

The lockdown lasting just 22 days in 2Q20 put a pressure on developers. Only 1,644 in 2Q20, -60% yoy, the lowest quarter supply, were added to the market, raising total new launch in 1H20 to 5,250 units, -39% yoy. Market sentiment were cautious. 2Q20 fell 65% yoy, just to over 1,581 units, adding total transaction in 1H20 to 5,338 units, -49% yoy. Pandemic effects made sales difficult in 1H but average primary prices remained stable qoq and moved up 4.5-6.6% yoy. We expect HCMC's 2H20F transaction volume to recover with launches of La Partenza, Celesta Rise, Mizuki, Vinhomes Grand Park projects.

Hanoi: Remaining tight

Not immune to the hit from lockdown requirement, Hanoi market performance were modest in 2Q20 with new supply and sold units dried by 39% yoy to 5,569 units and -26% yoy to 5,089 units respectively. In line with Hanoi urban expansion, supply is shifting from urban area to rural districts (accounted 27-30% in 2Q20 vs 10% in 2Q16)

2. Landed property: Performance rehabilitation

Limited new launches alongside increasingly cautious buyers saw primary supply at its lowest for five years. First half supply of villa/townhouse/land lot in HCMC were minimum while shophouse supply was buoyant thanks to hundreds of units in Vinhomes Grand Park. However, we expect positive quarters ahead since landed property is traditionally preferred as a long-term investment compared to stock markets or bank yield.

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3. Mortgage rate ease to trigger sale growth

2Q20 the average adjustable mortgage rate from local banks stayed flat at 11.4% vs last quarter. However, mortgage rates witnessed just a minor drop of 20-40 bp in Jul and early August since local banks try to leverage the credit growth in mortgage when loan demand in other sectors is sluggish. We expect this low level could maintain until next year as an amendment is recently passed to reschedule the timeline to 12 months of meeting the ratio of short-term funds used for medium-and long-term loans from 40% to 37%. This mortgage rates could bolster condo transactions, in our view.

4. Developers facing difficulties amid tight funding

1H20 witnessed a boom in developer corporate bond issuance just as the banks were tightening their credit allocation to property developers. According to data from Fiinpro JSC, property corporate bonds issued in 1H20 totalled VND45.6tn, a jump of 292% yoy, accounting for 29.1% of the total bond issuance in 1H20. We think developers will face challenges in raising funds in 2H20F as the Decree 81 will impose stricter regulations in bond private placement. They are following: 1) expected outstanding balance is not higher than 5 times of issuer's shareholder equity 2) interval between two different issuances is at least 6 months 3) issuance must be completed in 3 months. We could see a ramp up in bond issuance in 3Q20F before cooling down in 4Q20F when the decree becomes valid.

5. 1H20 earnings lackluster despite lucrative financial gains

The 1H20 business performance of real estate seems consistent with the gloomy property market settings. The listed developers recorded 1H20 revenue decrease of 21.7% yoy and NPATMI slump of 12.7% yoy, completing 27.5% and 27.7% their guidance respectively. The big attributor to the lower decrease in NPATMI was financial gains increase of 76% yoy, including NVL (1,061% yoy), NBB (1,620% yoy), AGG (446% yoy), VHM (80% yoy). Net debt at end-1H20 of listed players also skyrocketed by 53% yoy namely VHM (153% yoy), NVL (57.9% yoy), DXG (107% yoy). As most of delivery schedule is more skewed in favour of 4Q20F, we expect the second half could see exciting revenue and NPATMI yoy growth driven by the handover of thousand units of condo.

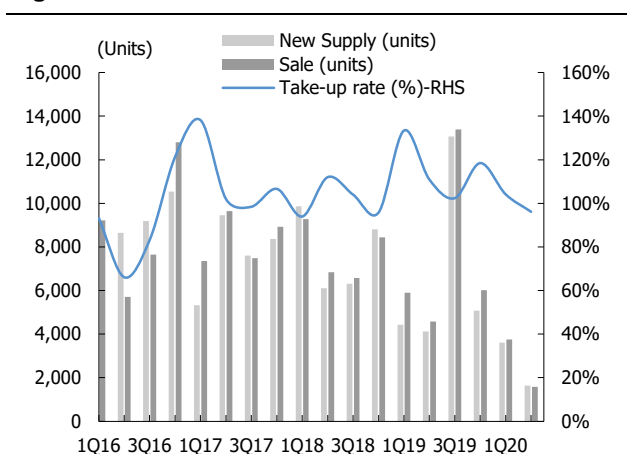
6. Maintain Neutral on tepid 2H20 outlook

We maintain our Neutral rating on Vietnam's residential property sector due to a lack of significant improvement in the regulatory approval process, which might continue to bottleneck the market's new supply over the next 5 months. Furthermore, the slower economic growth could threaten the homebuyers' affordability.

Our top picks are KDH and NLG, in view of their positive presales in FY19-20 which help generate stellar earnings growth in FY20-21F and their strong cash balance to tap the market opportunities. We also like DXG thanks to better market sentiment given the upcoming launch of Long Duc township (land lots) and VHM thanks to their unrivalled FY20F earning growth.

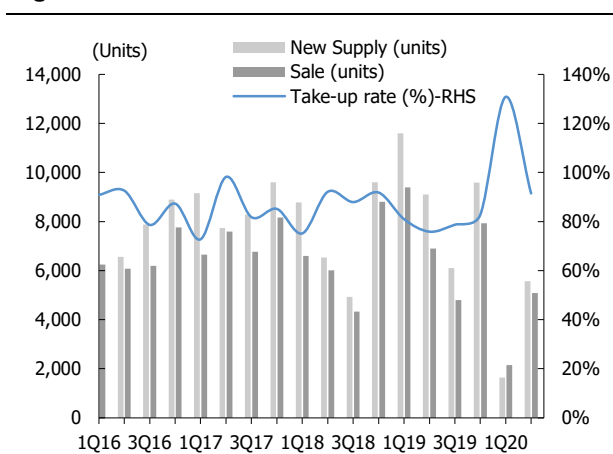
Improvement in the project approval process and better-than-expected macro outlook are the key upside risk to our call.

Figure 1. 2Q20 HCMC condo transaction



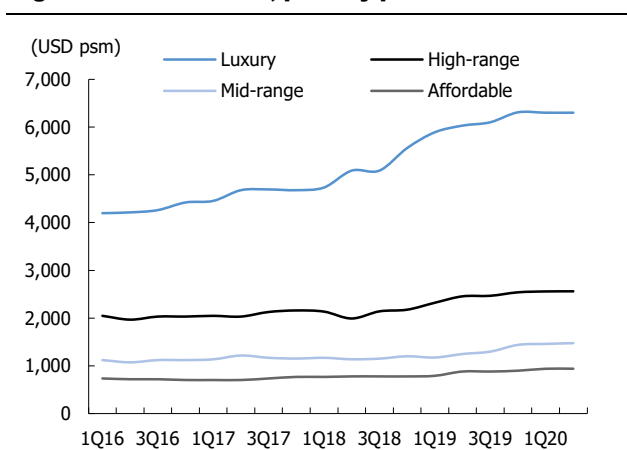
Source: CBRE, KIS

Figure 2. 2Q20 Hanoi condo transaction



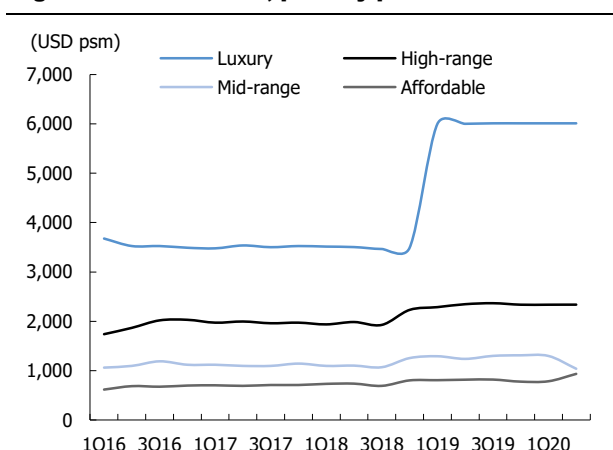
Source: CBRE, KIS

Figure 3. HCMC condo, primary price



Source: CBRE, KIS

Figure 4. Hanoi condo, primary price



Source: CBRE, KIS

Table 1. 1H20 business performance

(VND bn)

Ticker	Market cap	1H20 % yoy			% FY20F Company guidance		1H20 Net debt % yoy
		Revenue	Financial income	NPATMI	% Revenue	% PAT	
VHM	261,845	(14.4)	80.5	7.6	23.6	34.2	153.4
NVL	61,413	(79.3)	1061.4	50.4	11.2	33.2	57.9
KDH	12,616	18.9	(51.1)	89.9	42.5	37.1	(37.2)
PDR	9,960	(40.0)	(61.1)	15.6	31.2	23.3	65.3
VPI	6,560	16.3	140.7	3.6	27.4	8.0	(10.5)
NLG	6,612	(29.6)	8.9	(32.7)	43.3	21.7	(116.7)
HPX	6,118	(45.3)	28.2	(34.6)	31.8	14.7	(100.0)
DXG	4,782	(53.9)	(83.9)	(187.7)	22.0	(47.2)	107.6
DIG	3,849	30.2	(31.8)	38.4	36.0	10.8	211.4
SJS	2,415	(55.5)	(26.9)	40.8	8.1	18.2	1.2
AGG	2,128	(67.6)	446.3	195.9	2.5	46.2	155.2
SCR	2,044	(44.6)	(9.2)	(46.9)	11.3	74.7	(100.0)
QCG	1,637	79.3	107.7	(28.0)	114.2	32.9	(15.0)
LDG	1,475	29.5	(100.0)	(98.8)	21.5	0.4	33.6
NBB	1,740	240.6	1620.3	(56.3)	13.4	30.8	135.4
Sector average		(21.7)	75.6	(12.7)	27.5	27.7	53.4

Table 2. Coverage valuation

Recommendation & TP			Earnings & Valuation										
Company				Sales	OP	NP	EPS	BPS	PE	PB	ROE	EV/EBITDA	DY
				(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(x)	(x)	(%)	(x)	(%)
Vinhomes (VHM)	Recommendation	BUY	2017A	15,297	3,128	1,410	5,639	27,617	14.1	2.9	31.0	10	0.0
	Target Price (VND)	93,500	2018A	38,664	7,617	14,284	4,567	12,907	17.4	6.2	57.0	36	0.0
	Price (18 Aug, VND)	79,600	2019A	51,627	23,219	21,747	6,493	16,748	12.3	4.8	43.8	12	1.4
	Market cap (VND bn)	261,845	2020F	91,787	31,621	28,895	8,627	26,031	9.2	3.1	40.3	9	1.3
			2021F	75,138	33,290	32,724	9,770	33,756	8.1	2.4	32.7	9	1.3
Khang Dien (KDH)	Recommendation	BUY	2017A	3,055	792	502	1,179	10,930	20.8	2.2	13.1	2.2	11.6
	TP (VND)	28,200	2018A	2,917	982	808	1,592	12,753	15.4	1.9	11.8	1.9	13.4
	Price (18 Aug, VND)	24,550	2019A	2,813	1,223	915	1,691	14,006	14.5	1.8	10.5	1.8	12.6
	Market cap (VND bn)	12,616	2020F	3,602	1,506	1,104	2,067	15,204	11.9	1.6	8.2	1.6	14.2
			2021F	4,519	1,732	1,344	2,551	17,015	9.6	1.4	6.6	1.4	15.8
Nam Long (NLG)	Recommendation	BUY	2017A	3,161	881	535	2,696	13,114	9.8	1.9	14.7	4.1	0.0
	TP (VND)	29,200	2018A	3,480	1,013	763	3,280	14,071	8.0	1.9	19.8	4.0	0.0
	Price (18 Aug, VND)	26,400	2019A	2,546	626	960	3,709	17,831	7.1	1.5	20.3	8.0	0.0
	Market cap (VND bn)	6,612	2020F	1,533	287	801	3,084	19,464	8.6	1.4	19.9	16.8	2.3
			2021F	1,585	269	951	3,664	22,536	7.2	1.2	14.7	12.7	2.3
Dat Xanh (DXG)	Recommendation	BUY	2017A	2,879	1,186	728	2,127	19,397	4.3	3.2	0.5	20.6	0.0
	TP (VND)	12,800	2018A	4,645	1,835	1,178	3,427	14,282	2.7	2.7	0.6	26.7	0.0
	Price (18 Aug, VND)	9,200	2019A	5,814	2,099	1,217	2,645	13,439	3.5	4.2	0.7	20.3	0.0
	Market cap (VND bn)	4,782	2020F	5,920	2,420	834	1,603	15,241	5.7	4.3	0.6	11.2	0.0
			2021F	10,186	4,663	2,950	5,672	20,893	1.6	2.4	0.4	31.4	0.0

Source: Respective company data, KIS

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