

Property Development

Brace for a bass note in 2020

Slow down to move on

The re-emergence of COVID-19 in Da Nang city has pushed back hopes of a strong second half recovery. However, we do not believe that Vietnam's residential market will see a sharp crash in FY20-21F as the typical indicators of a bubble market are currently not prominent. We expect governmental actions like infrastructure spending, regulatory amendments plus softer mortgage rates could bolster volume in FY21F.

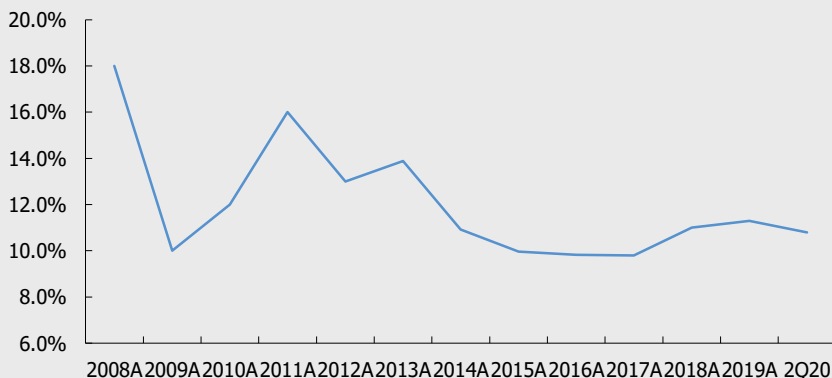
A temporary pause in the sonata

This outbreak is likely to influence sentiment and potentially see buyers shy away from viewings until the situation is under control. The diminishing rental yield may deter the buy-to-let demand. Travel curtailment also means that foreign purchases will slow down in the short-term, thus possibly affecting luxury segment. Primary sales could decrease by 20-30% in FY20 while the secondary market will also be slower. Pricing could likely take a slight 2-3% increase. However, the enormous promotion program coupled with favourable mortgage rates stimulus the transaction.

A silver lining from governmental relief actions

The surge in transportation infrastructure investment in FY20-21F to some key projects could alleviate the pressure on slower income growth outlook and create inter-province linkages for housing development in suburban areas in the medium term. Meanwhile, we expect some amendments in Real Estate Law could remove the regulatory roadblocks in FY21F which help relax the new supply. Some stimulus packages to affordable houses expected in 4Q20F could comprehensively nurture the homebuyers' affordability.

Accommodative mortgage rate in FY20F help nurture transaction volume



Source: KIS

Neutral (Maintain)

Company	Rating	TP (VND)
Vinhomes	BUY	93,500
Khang Dien	BUY	26,850
Nam Long	BUY	29,200
Dat Xanh	BUY	12,800

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What is the report about?

- COVID-19 curbs demand and off-plan sales
- Resilient take-up rates in FY20F and expected improvements in licensing process in FY21F
- Reasons for Neutral

I. Coverage projection and valuation

Table 1. Valuation of four companies

Recommendation & TP			Earnings & Valuation										
Company				Sales (VND bn)	OP (VND bn)	NP (VND bn)	EPS (VND)	BPS (VND)	PE (x)	PB (x)	ROE (%)	EV/EBITDA (x)	DY (%)
Vinhomes (VHM)	Recommendation	BUY	2017A	15,297	3,128	1,410	5,639	27,617	14.1	2.9	31.0	10	0.0
	TP (VND)	93,500	2018A	38,664	7,617	14,284	4,567	12,907	17.4	6.2	57.0	36	0.0
	Price (3 Sep, VND)	79,600	2019A	51,627	23,219	21,747	6,493	16,748	12.3	4.8	43.8	12	1.4
	Mkt 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	20.7	2.2	12	13	4
	TP (VND)	26,850	2018A	2,917	982	808	1,592	12,753	15.3	1.9	13	12	2.1
	Price (3 Sep, VND)	24,350	2019A	2,813	1,223	915	1,691	14,006	14.4	1.7	13	10	2.1
	Mkt cap. (VND bn)	14,425	2020F	3,602	1,506	1,104	2,067	15,204	11.8	1.6	14	8	2.1
			2021F	4,519	1,732	1,344	2,551	17,015	9.5	1.4	16	7	2.1
Nam Long (NLG)	Recommendation	BUY	2017A	3,161	881	535	2,696	13,114	10.2	2.0	14.7	4.3	0.0
	TP (VND)	29,200	2018A	3,480	1,013	763	3,280	14,071	8.4	2.0	19.8	4.2	1.7
	Price (3 Sep, VND)	27,450	2019A	2,546	626	960	3,709	17,831	7.4	1.5	20.3	8.4	1.7
	Mkt cap. (VND bn)	6,875	2020F	1,533	287	801	3,084	19,464	8.9	1.4	19.9	17.7	1.7
			2021F	1,585	269	951	3,664	22,536	7.5	1.2	14.7	13.6	1.7
Dat Xanh (DXG)	Recommendation	BUY	2017A	2,879	1,186	728	2,127	19,397	4.8	0.5	10.9	3.6	2.9
	TP (VND)	10,150	2018A	4,645	1,835	1,178	3,427	14,282	3.0	0.7	8.0	4.3	0.0
	Price (3 Sep, VND)	12,800	2019A	5,814	2,099	1217	2,645	13,439	3.8	0.8	6.1	3.4	0.0
	Mkt cap. (VND bn)	5,270	2020F	5,920	2,420	834	1,603	15,241	6.3	0.7	6.6	3.1	0.0
			2021F	10,186	4,663	2,950	5,672	20,893	1.8	0.5	7.8	2.8	0.0

Source: Respective company data, KIS

Table 2. Valuation of domestic and overseas development property

(USD mn, x, %)

Company Name	Market Cap	P/E			P/B			EV/EBITDA			Dividend yield			Net D/E
		TTM	2020F	2021F	TTM	2020F	2021F	TTM	2020F	2021F	2018	2019	2020F	
Vinhomes	11,227	11.8	9.2	8.1	3.8	3.1	2.4	13.0	9.0	9.0	1.3	1.1	1.3	19.8
Local peer average		12.9	10.9	9.0	1.6	1.5	2.5	27.2	12.7	10.3	0.5	0.5	5.3	31.4
Local peer median		13.7	10.4	8.5	1.5	1.5	1.9	9.8	13.1	11.4	0.0	0.0	0.0	15.1
Regional peer average		39.3	14.4	10.8	0.8	0.7	0.7	16.1	17.3	14.3	0.1	0.0	0.0	50.5
Regional peer median		10.2	9.8	9.0	0.6	0.6	0.6	12.2	12.8	11.4	0.0	0.0	0.0	45.1
Vietnam														
Novaland	2,631	15.9	16.6	17.3	2.7	2.4	2.4	82.3	21.8	15.8	0.0	0.0	0.0	113.1
Khang Dien	587	12.5	11.8	9.5	1.8	1.6	1.5	8.0	8.4	9.1	2.1	2.1	21.0	-5.5
Dat Xanh	218	14.8	6.3	1.8	0.8	0.7	0.5	7.1	3.1	2.8	0.0	0.0	0.0	35.8
Nam Long	297	8.3	8.9	7.5	1.3	1.4	1.2	11.5	17.7	13.6	0.0	0.0	0.0	-17.7
China & Hongkong														
China Vanke-A	46,472	8.1	7.3	6.0	1.7	1.4	1.2	5.2	6.2	5.4	0.0	0.0	0.0	45.1
Sun Hung Kai	37,109	7.2	8.7	8.3	0.5	0.5	0.5	9.0	7.2	6.3	0.0	0.0	0.1	12.5
China Overseas Land	30,039	5.2	5.4	4.7	0.7	0.7	0.6	6.6	5.2	4.6	0.0	0.0	0.1	32.8
China Resources Land	33,307	8.2	9.8	8.6	1.2	1.3	1.2	6.1	7.7	6.9	0.0	0.0	0.0	30.9
China Evergrande	27,873	21.5	9.9	8.6	1.5	1.3	1.2	14.1	11.1	8.6	0.1	0.1	0.0	181.0
Country Garden	27,380	4.8	4.9	4.0	1.2	1.1	0.9	4.6	4.6	4.0	0.1	0.1	0.1	52.0
CK Asset Holdings	19,705	7.3	9.3	7.6	0.4	0.4	0.4	6.9	9.3	6.3	0.0	0.1	0.0	7.6
Henderson Land	18,365	11.5	10.0	9.4	0.5	0.4	0.4	19.4	9.7	8.9	0.1	0.1	0.1	25.0
Hang Lung Properties	12,100	788.0	22.4	20.6	0.7	0.7	0.7	14.2	23.2	21.7	0.0	0.0	0.0	18.1
KWG Group	5,888	5.5	6.4	5.1	1.0	1.0	0.9	8.3	13.8	11.3	0.0	0.1	0.1	95.0
Greentown China	3,411	17.8	8.1	7.9	0.7	0.8	0.7	9.8	9.0	8.6	0.0	0.0	0.0	68.7
Indonesia														
Pakuwon Jati	1,311	10.5	8.4	7.1	1.4	1.2	1.0	8.6	6.8	6.0	0.0	0.0	0.0	2.7
Bumi Serpong Damai	1,068	23.2	7.4	6.6	0.5	0.5	0.4	11.6	8.3	7.8	0.0	0.0	0.0	9.5
Ciputra Development	911	12.9	13.2	12.6	0.9	0.9	0.8	8.3	11.5	11.5	0.0	0.0	0.0	27.8
Summarecon Agung	615	24.2	16.9	13.8	1.3	1.2	1.1	12.2	8.5	7.9	0.0	0.0	0.0	77.3
Malaysia														
KLCCP Stapled	3,426	33.6	19.9	18.8	1.1	1.2	1.2	24.3	17.5	16.9	0.0	0.0	0.0	9.6
SP Setia	776	25.4	20.1	8.6	0.3	0.3	0.3	34.1	26.9	23.5	0.1	0.0	0.0	62.3
Sime Darby Property	1,055	25.4	24.2	13.8	0.5	0.4	0.4	57.3	19.7	19.3	0.0	0.0	0.0	27.8
UOA Development	802	8.5	9.7	16.6	0.6	0.6	0.6	6.2	5.1	5.7	0.1	0.1	0.1	-16.8
UEM Sunrise Bhd	426	46.3	26.4	19.0	0.3	0.3	0.3	21.4	32.0	25.5	0.0	0.0	0.0	30.4
Eco World	290	6.5	7.6	9.4	0.3	0.3	0.3	20.8	27.9	22.9	0.0	0.0	0.0	70.1
Mah Sing Group	444	24.3	26.9	16.6	0.4	0.5	0.5	5.5	12.8	11.4	0.1	0.0	0.0	-10.3
Singapore														
CapitaLand	10,374	10.2	19.9	11.4	0.6	0.6	0.6	18.9	17.7	15.1	0.0	0.0	0.0	62.9
Keppel Corp	5,309	39.0	33.1	18.0	0.7	0.6	0.6	29.3	21.8	16.3	0.0	0.0	0.0	58.2
City Developments	4,069	43.1	56.1	19.2	0.6	0.6	0.5	24.2	17.3	16.4	0.0	0.0	0.0	29.5
UOL Group	2,548	8.1	8.0	8.5	0.5	0.4	0.3	24.2	29.1	22.9	0.1	0.1	0.1	85.9
Thailand														
Land And Houses	2,813	9.8	14.0	11.3	1.8	1.7	1.6	16.8	26.2	20.6	0.1	0.1	0.1	85.1
Pruksa Holding	801	6.2	7.3	7.1	0.6	0.6	0.6	9.0	11.0	10.8	0.1	0.1	0.1	67.0
Supalai	1,047	8.4	7.8	6.5	1.0	0.9	0.8	10.2	9.0	7.2	0.1	0.1	0.1	32.7
Quality Houses	763	10.0	11.3	9.5	0.9	0.9	0.9	27.3	46.8	39.4	0.1	0.1	0.1	68.4
Singha Estate	310	24.2	NA	NA	0.6	0.6	0.6	20.0	48.5	23.1	0.0	0.0	0.0	76.5
Sansiri	336	5.0	10.4	11.2	0.3	0.3	0.3	25.2	43.4	35.9	0.2	0.1	0.1	188.7
LPN Development	226	6.4	9.5	8.5	0.6	0.6	0.6	10.4	14.8	14.8	0.1	0.1	0.3	54.3

Note: Sep 7 close

Source: Bloomberg, KIS

II. Uncertainty to influence homebuyers' sentiment

1. A wait-and-see attitude pervade buyer sentiment

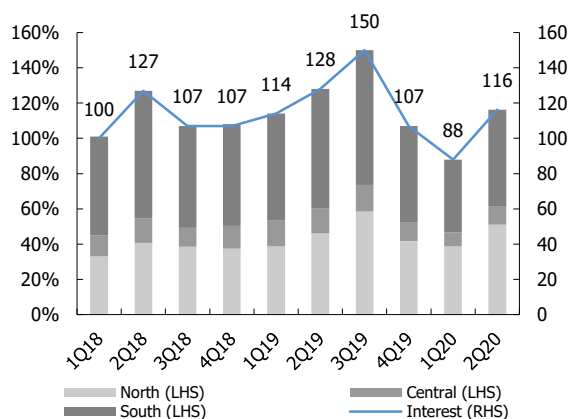
Buyer sentiment is sensitive to COVID-19 news

Liquidity sharply subdued

Residential markets are largely driven by local market dynamics. There is no quantifying evidence of to what extent pandemic weights on property demand. However, based on recent disclosure from batdongsan.com.vn website, it was reported that a 7% mom decrease in Jul interest index (gauging the interest of users in the search of house rent, or purchase) when the second COVID-19 wave has been emerged from Jul 25. Demand slowly started to rebound in 2Q20 (32% qoq) after the bottom in 1Q20 as the fears about the outbreak began to recede and quarantine restriction were eased.

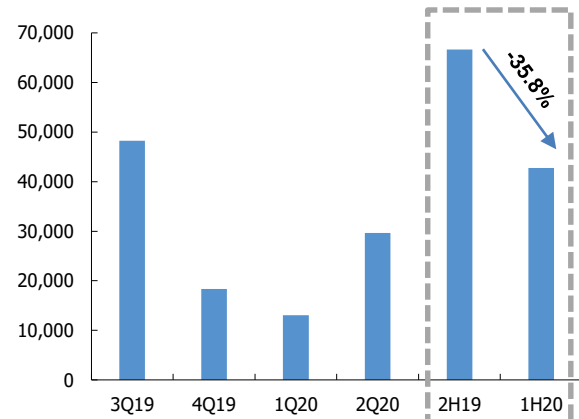
Total nationwide transaction volume in 1H20 fell by 35.8% vs the 2H19 according to quarterly figures publicized by Ministry of Construction. This situation is along with prospective buyers taking a wait-and-see attitude given COVID-19 led to a decline in transaction volumes.

Figure 1. Pandemic curbs demand



Source: batdongsan.com.vn, KIS

Figure 2. Transaction volume (units) shrinks



Source: MOC, KIS

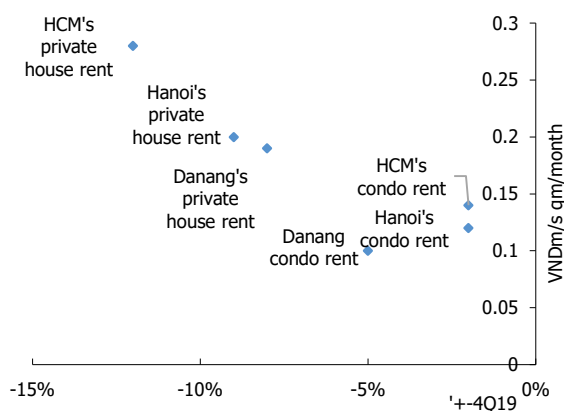
We believe unfavourable economic setting that imposing salary reduction, labour layoff in some specific sectors have put a burden on homebuyers' sentiment. They increase retrenchment or delay the home purchase plan and play waiting and seeing game in the hunt for a bargain deal in the secondary market.

2. Dim rental yield cast a shadow on buy-to-let investors

Luxury rents are holding up for now as demand dwindles

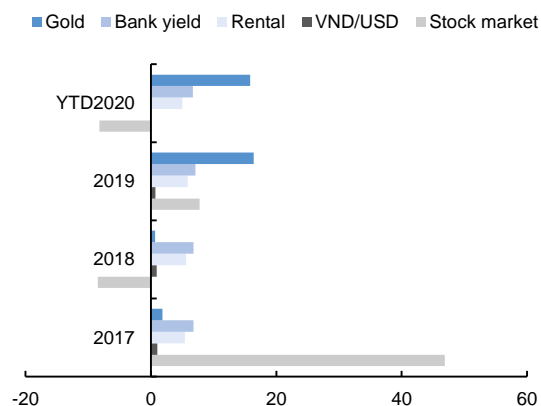
2Q20 witnessed second straight quarters of rent reductions of which condo were -1.6% and -1.2% in HCMC and in Hanoi, private residential properties accounted around -8-13% qoq rent drop in HCMC and -8-12% qoq in Hanoi. The slower demand for rent puts the landlords under the heavy pressures to lease their units at a heavy discount. Rental yields in FY20F could be compressed to around 4.7-5.3%, -100-150 pts reduction vs in 2019, in our view. Some investors looking for capital gains in secondary market have suffered a diminishing returns or locked capital due to illiquidity.

Figure 3. Rents plummet across the board in 2Q20



Source: batdongsan.com.vn, KIS

Figure 4. Rental yield (%) is dim among other vehicles



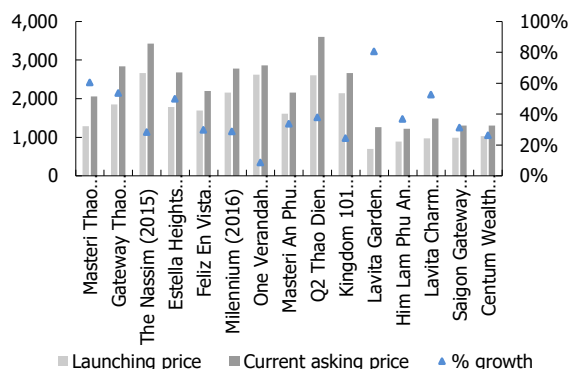
Source: CBRE, KIS

While foreign buyers have been important drivers of demand this time, especially in the high-end condo segment, an absence of an easing of travel restrictions and border controls have created more uncertainties for the leasing market in the short to medium term. Travel curtailment whether mandatory or voluntary also means that foreign purchases will slow down, thus possibly affecting sales volume in the luxury segments.

3. Secondary market hibernate

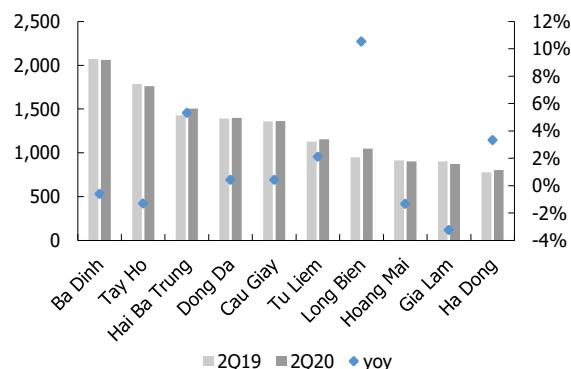
There are no figures of units transacted in secondary market. However, the slump in total 1H20 transaction volume announced by MOC implies the sluggish secondary market conditions where the volume is muted. Prices also stay flat or drop in some less competitive projects. We think prospective investors are likely to demand lower entry prices on purchases and taking longer to make a decision to compensate for the heightened risks. Vendors with holding power are likely to remain firm clinging onto the temporary nature of the outbreak. We expect low transaction volume in FY20F or until more certainty about the epidemic being contained emerges.

Figure 5. Secondary price (US\$/sq m) growth stays muted



Source: CBRE, KIS

Figure 6.and drops in some less strategic location



Source: CBRE, KIS

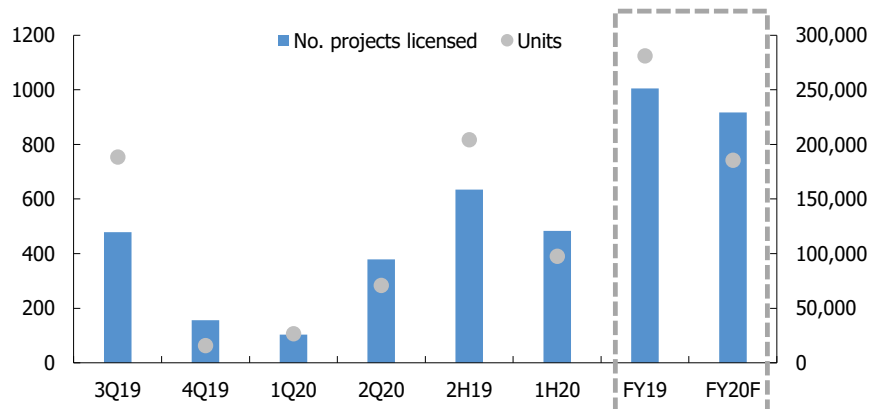
III. Supply double attacked

1. Licensing process stuck

No improvement in licensing bottlenecks in FY20F

We estimate the number of licensing projects approved by provincial Construction department could moderate by 10-15% in FY2020F due to a combination of 1) Vietnam is conducting its periodical verification of land use nationwide in 2020F, which may absorb a substantial human force in licensing –related departments to complete the task 2) safe measures to prevent COVID-19 transmission also limited the working schedule in FY20F 3) the conflicts in licensing regulations have not effectively resolved before 2021F, in our view. Based on quarterly publication on the website of Construction Department, we estimate 483 projects with total 97,717 housing units were licensed in 1H20, -23.8% and -52.2% vs 2H19 respectively. However, we expect when normalization of life comes in 4Q20F, the licensing activities could resume in 4Q20F. We forecast a FY20F housing units nationwide licensed could slide by 25-35% yoy, implying a new launch constraint in the next two years if no further relief action is introducing.

Figure 7. Number of licensed projects and supply could plunge in FY20F



Source: MOC, Korea Investment & Securities

2. COVID-19 outbreak blow new launch

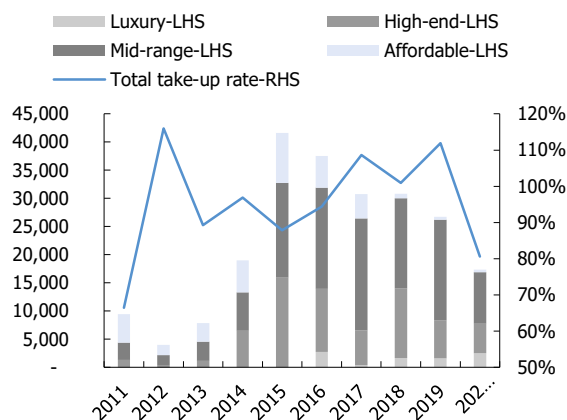
Sales events delay to 4Q20F

We may witness a recovery in launch in 4Q20F as developers will be under pressure to ramp up sales. However, the accelerated launches in 4Q20F, could not make up for the shortage in 1Q20 and 3Q20F due to limitations of movement amid COVID-19 outbreak which traffic for show flats, on-site visits, sales event should decline in 3Q20F.

HCMC new supply in FY20F is double attacked

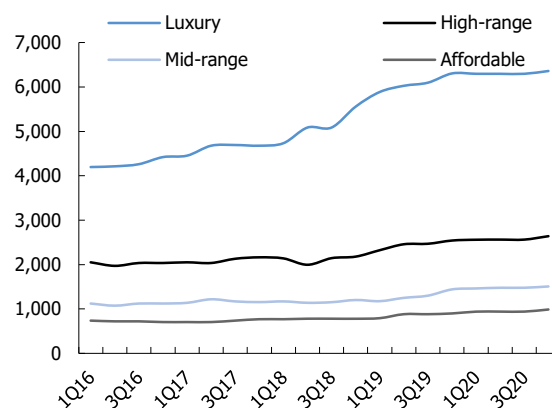
Ho Chi Minh City condo market is double attacked by the regulatory roadblocks and Covid outbreak. We expect total FY20F new launch in HCMC could ease to 16,000-18,000 units, -30.2-23.1 % yoy. Some of the incoming new projects are: i) Saigon Sport City (over 4,000 units) in District 2; ii) Vinhomes Grand Park with over 10,000 in District 9; iii) Riviera project (1,000 units left) in District 7; and iv) La Patenza with 1,000 units. These projects are awaiting approval from the HCMC Construction Department to mobilize funds in 2H20F.

Figure 8. Pandemic intensifies the limitation of HCMC new supply (units) in FY20F



Source: CBRE, KIS

Figure 9. Primary price (US\$/sq m) growth slightly up

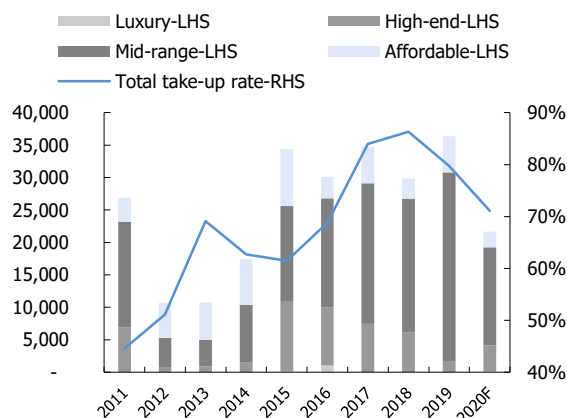


Source: CBRE, KIS

Hanoi brakes in FY20F

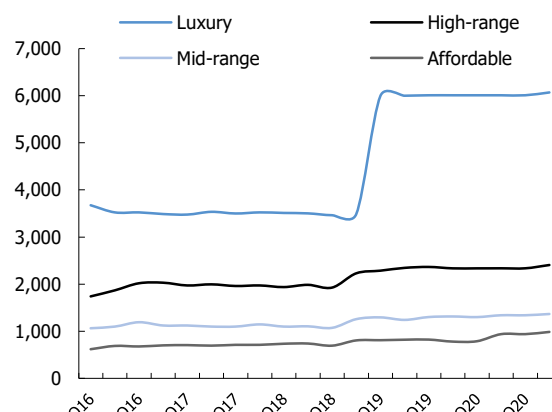
In tandem with HCMC, Hanoi could see a remarkable slowdown in new launch since 2019 was all time record high. Developers in Hanoi push the full-year launches to come to 4Q20F with some well-known brand name projects: Vinhomes Ocean, Vinhomes Smart, Vinhomes Dan Phuong, The Terra-An Hung, Le Grand Jardin. With four months left to prepare for the launch, some of projects could delay to next year including a massive US\$1bn project in Dong Anh District with the participation of foreign players including Capital Land and BRG Sumitomo JV; it is slated to offer tens of thousands of condo units and landed property for sale in 2021F-25F.

Figure 10. Hanoi new supply (units) in FY20F plunges



Source: CBRE, KIS

Figure 11. Primary price (US\$/sq m) growth stays flat



Source: CBRE, KIS

IV. Resilient take-up rate amid huge assistances

1. Price decline driven by enormous incentives

Price slump by 2-5% spurs transaction

To combat with the fear of slower demand from homebuyers, developers could be under pressure to keep average quoted selling price flat or slightly up 2-3% vs the most recent launches. Furthermore, developers also attach enormous incentives not mention to payment discount, eased payment terms, interest subsidiary, gifts. We estimate around a 2-5% ASP decrease due to these aforementioned incentives. Thanks to exciting promotion packages, the take-up rate in our witnessed launch portfolio is optimistic at 60-70%.

Table 3. Primary selling price looks attractive after promotion packages

	Before COVID	After COVID
Gross value of condo unit (VND bn)	A	A
Upfront equity contribution	30%	10%
Gift	2%A	3%A
Interest subsidy	4.3%A	7.7%A
Net value condo (VND bn)	94.7%A	89.3%A

Source: Korea Investment & Securities

2. Mortgage rate eases to trigger sales growth

The lower mortgage condition and participation in secondary market helps bolster transactions

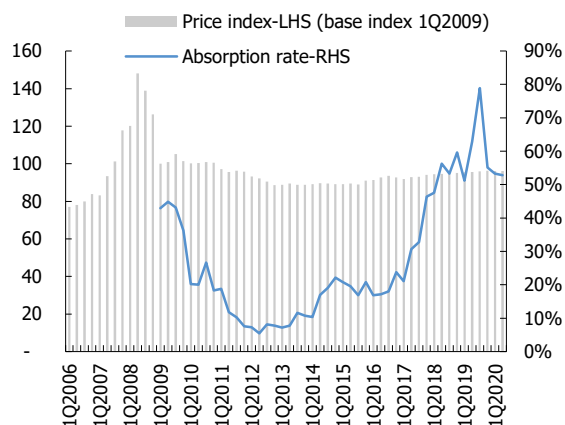
We tracked mortgage rates of several popular banks and witnessed a drop of 20-40 bp in the first-year payment in Jul and early August. We attribute to the fact that local banks rush to leverage the credit growth in mortgage when loan demand in other sectors is sluggish. We expect this low level could maintain until next year as Circular 08/NHNN reschedules the timeline to 12 months of meeting the ratio of short-term funds used for medium-and long-term loans from 40% to 37%. Not only easing the mortgage rate, banks also lower the upfront equity contribution from 30% to 10-25%. The secondary market is fueled by bank participation. These relief actions could bolster condo transactions, in our view.

V. Slow down to move on

1. No signals of “crash”

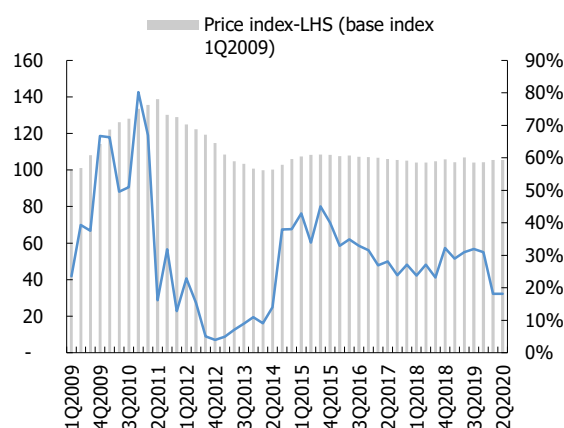
HCM residential property prices inched up around 9-14% CAGR in 2Q16-2Q20 depending on segment and still 20-25% below the bubble peak levels seen in 2Q08. This is because of the change in market product mix wherein affordable and mid-range properties took the lead in transaction volume comprising 60-66% of all transactions per year in the period 2015-2020. We deem this average increase per annum is slightly reasonable when considering the equivalent tick up in materials, labour, land cost prices. Overall, we do not believe that the market has overheated and prices remain at levels that are affordable for real homebuyers. This explains the rise in presale take-up rates in both cities in 2020 compared to the last pre-bubble period when take-up rates weakened.

Figure 12. HCMC price index below the peak in 2Q08



Source: Savills, KIS

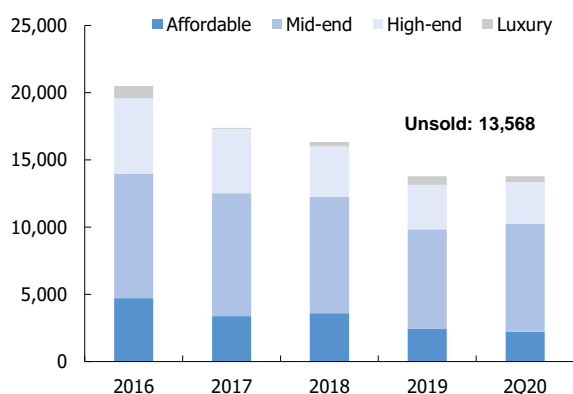
Figure 13. Hanoi price level is still within acceptable



Source: CBRE, KIS

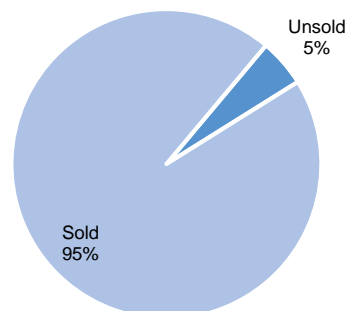
A clear indicator before the last housing bubble burst in Vietnam (2008-09) or the US market (2007-09) was the rapid build-up of a huge amount of high-priced property. The recent increase in current outstanding stock is from the suspended projects or located far from the CBD with limited transportation links or poor amenities. Also, the apartments sold to speculators contributed only 5% of total successful condo transactions in 2013-20 (Savills). Given these conditions, we are not concerned about a material softening in future property prices due either to unsold inventory or speculators who might bail out of the market and dump their assets at fire-sale prices.

Figure 14. Inventory (units) flatten due the dim 1H20 but not as high as in 2016



Source: Savills, KIS

Figure 15. Unsold units is minimal



Source: CBRE, KIS

Table 4. No signs of bubble

Real estate bubble indicators	HCMC	Hanoi
Pre-bursting of bubble signals		
Housing prices skyrocket and breach home buyer affordability	x	x
Real estate inventory increases	x	✓
Mortgage rate increases	x	x
High level of real estate speculation	x	x
Bursting bubble signals		
Property prices start decreasing sharply	x	x
Market turns illiquid with immediate fall in transaction volume	x	x
Mortgage loans are too expensive and discourages leveraged home purchases ; mortgage default risk appears	x	x
Speculators bail out of the market and dump their inventory at a deeply discounted price	x	x

Source: CBRE, Korea Investment & Securities

From the above, we do not believe that Vietnam's residential property market, especially HCMC, will see a sharp downturn in 2020F as the typical indicators of a bubble market, such as a dramatic increase in property prices or a large amount of asset dumping by speculators, are currently not "flashing red".

2. Regulatory amendment improve licensing process in FY21F

On Jun 19, the National Assembly passed through the revision of Construction Law and Investment Law which both are deemed to pave the way for improvement in licensing projects. Some issues addressed in both revisions include investor/developer definition, the process of appointing developer when getting land transfer without bidding. We are highly positive with the signals but remain cautious as Real Estate Law, the most vital jurisdiction over the licensing process has yet not been revised compatibly with two mentioned above. We think the regulator could not base on these revisions to solve out the issues in licensing process and waiting for the Real Estate Law to be revised in next 12 months. Keeping that conservatives in mind, we could not expect a significant improvement in licensing process within next 6 months.

3. Affordable segment boosted by governmental subsidy

Aims to supply the increasing shortage in affordable segment which witness a 0% yoy in FY19 new supply, the authority is seeking a loan subsidy of VND60tn to low-income homebuyers, doubling to a VND30tn subsidy in 2014-2016. There could be a great deal of changes related to procedures, participation of banks, developer, authority until the final decision is issued in early 4Q20F. However, we view this loan subsidy positive as it supports the property market sustainably grow.

V. A challenging year for developers

1. FY20F profit divergent

FY20F PAT growth is skewed in favour of top three developers

Per managements of our 38 property development companies, they target a FY20F revenue growth of 37.9% yoy and a lower profit after tax growth of 13% yoy. These are set conservatively compared to a 64% CAGR profit after tax in FY17-19. 24 companies guide a 26% yoy FY20F profit after tax growth and 14 developers incur a 68.3% PAT decrease. The profit after tax growth is more skewed in favour of top three biggest developers: their total net profit accounts 85% and grows 24.9% yoy in FY202F.

Among the top three biggest players, only profit after tax of VHM and KDH are driven by the property handover from the booming presales in FY17-19 while NVL is back by one-off financial from stake transfers in Phu Dinh Harbour Cit project and Phong Dien JSC.

The picture is dimmer as 14 companies have worse profit after tax than FY19 and the 21 companies among the 24 ones having positive growth almost are nearly doing the same vs last year.

	Market cap (VND bn)	FY20F revenue guidance (VND bn)	FY20F Revenue yoy (%)	Revenue CAGR in FY17-19 (%)	FY20F PAT guidance (VND bn)	FY20F PAT yoy (%)	PAT CAGR in FY17-19 (%)
VHM	258,227	97,000	88	53	31,000	27	267
NVL	61,939	14,877	36	(50)	3,650	8	(32)
KDH	13,607	3,500	24	(76)	1,100	20	(25)
DXG	5,017	4,900	(16)	(23)	1,534	(19)	(5)
PDR	10,478	3,789	11	(24)	1,200	37	20
VPI	6,560	2,002	(35)	32	302	(41)	676
NLG	6,892	1,520	(40)	(67)	822	(18)	(13)
DIG	3,972	2,500	18	(39)	520	40	89
SCR	2,125	2,056	100	(56)	96	(65)	(48)
LDG	1,523	2,133	172	(47)	601	0	21
QCG	1,761	900	5	(82)	80	37	(56)
NBB	1,768	3,200	868	167	330	(5)	159
TDH	912	2,736	(30)	24	314	76	(45)
FIR	630	350	24	867	100	12	1,076
HPX	6,095	2,000	(42)	(37)	400	(12)	(12)
NRC	417	900	69	7,364	200	121	1,493
AGG	2,295	2,400	524	(79)	410	23	(801)
ASM	1,579	14,700	3	237	870	6	58
CCL	359	950	80	149	52	23	208
CIG	60	60	2,217	(98)	5	3,891	(97)
CLG	25	155	0	(92)	2	(101)	(599)
DRH	413	275	(25)	15	60	10	(74)
DTA	75	46	(13)	(24)	1	(77)	967
FDC	460	276	(38)	(50)	35	(47)	(194)
FLC	2,130	12,500	(21)	(14)	(1,957)	(381)	(77)
HAR	364	90	(45)	(32)	10	44	(87)
HDC	1,173	1,030	25	(43)	200	37	(18)
HTN	666	4,175	13	29	286	53	23
LEC	407	388	(20)	141	2	16,479	(100)
NTL	991	900	8	(36)	320	37	4
NVT	430	187	(33)	(51)	1	(98)	16
PTL	781	121	177	(84)	16	7,255	1,211

SGR	1,098	0	(100)	(96)	146	63	(89)
SJS	2,568	1,080	55	(55)	118	10	(80)
TDC	877	1,314	(16)	(64)	128	(17)	(60)
TEG	153	511	224	(61)	64	1,105	(94)
TIX	900	0	(100)	(74)	0	(100)	(57)
VPH	426	260	60	(87)	78	159	(88)
Average			38	37		13	48

2. and.... presales sluggish

FY20F could be challenging after the most prosperous period FY18-19 fueled by high record presales value. Housing sales activity came to a standstill during outbreak as residents self-isolated to protect themselves, and showrooms and sales offices were shut. Most of companies completed 30-35% their target full-year presales value in 1H20. We expect developers would ramp up to launch the projects in 4Q20F to catch the sales targets.

3. 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 VND45.6tr, 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 both public issuance and private place could be under strict supervision following the Security Law and Decree 81. Despite the much stringent regulations on bond issuance, we think these could leverage the safety and health of real estate debt market as bondholders have more public information. The top tier issuers could not be materially affected by the new regulations as they are financially well-positioned.

	Before	After
Decree 81	Not regulated	Expected outstanding balance is not higher than 5 times of issuer's shareholder equity
	Not regulated	Interval between two different issuances is at least 6 months
	Not regulated	Each issuance must be completed in 3 months
	Before	After
Security Law No.54/2010/QH14	Charter capital must be from VND10bn	Charter capital must be from VND30bn
	Not regulated	Must be consulted by a broker house
	Not regulated	Issuers must be rated if any regulated
	Not regulated	Receipts must be blocked
	Not regulated	Must be listed later

V. Conclusion: Caution likely to prevail amid uncertainty

The COVID-19 pandemic has amplified the existing headwinds and this situation is likely to persist at the top of many buyers' minds in the near term. The effects of the outbreak will inevitably vary from each segment of the market where segment for local end-user demand could be least affected. Though obtaining resilient take-up rate at 60-80% for sales event still possible, the award is relatively selective and often going to specific projects with clear

licensing profile and accommodative sales supports.

We maintain the sector rating Neutral to reflect 1) the risk of the outbreak re-emerging and may become a permanent feature 2) US-China cold war play out could hinder the worldwide economic recovery pace 3) possibly weak income growth due to the inefficient stimulus fiscal policy. Although there is an air of great uncertainty, it is not all gloom. The major drivers underpinning the property's performance remain firmly in place and reinforce the positive long-term prospects: 1) governmental subsidy package value of VND90tn on low cost housing market is expected to launch in 4Q20F 2) improvements in licensing process thanks to amendments of Land Law in 2Q21F 3) the soft mortgage rates alleviate pressures on homebuyer's subdued income 4) the rising infrastructure spending to some key projects have linked the inter-province.

Therefore, we expect sustained high absorption rates for projects in 2020F, mostly in the mid-end condominium segment. Hence, we prefer listed developers that have sizable projects that have already obtained the regulatory permits and are scheduled for launch in 2020F.

Stock picks – we are still laud VHM's flexible strategic to combine retail and bulk sale, placing it on top pick.

We like developers that meet the following key criteria:

- 1) About to launch projects which already have construction licenses or LUR certificates, or have a high likelihood of securing them in FY20-21F;
- 2) With material exposure to mid-range and affordable condos as these segments are driven by real end-user demand;
- 3) Buffered by a healthy financial position (low leverage, strong liquidity) to counter the risk of tight credit flow to the real estate market

Based on the above criteria, Vinhomes (VHM, BUY, TP: VND93,500) is our top pick

Top picks

Vinhomes (VHM)

Vinhomes (VHM)

BUY (Maintain), TP VND93,500 (Maintain)

Stock price (8 Sep, VND)	78,900
Market cap (USD mn)	11,198
Shares outstanding (mn)	3,290
52W High/Low (VND)	99,500/54,800
6M avg. daily turnover (USD mn)	5.94
Free float (%)	23.4
Foreign ownership (%)	20.5
Major shareholders (%)	
Vingroup	69.6
Viking Asia Holdings	5.63

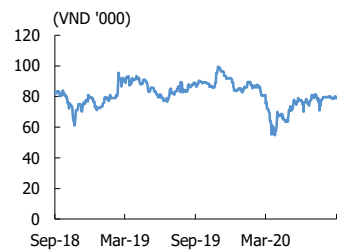
Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	15,297	3,128	1,410	5,639	-14.5	3,539	14.1	10.4	2.9	31.0	0.0
2018A	38,664	7,617	14,284	4,567	-19.0	7,879	17.4	35.8	6.2	57.0	0.0
2019F	51,627	23,219	21,747	6,493	42.2	23,570	12.3	12.2	4.8	43.8	1.4
2020F	91,787	31,621	28,895	8,627	32.9	31,920	9.2	8.8	3.1	40.3	1.3
2021F	75,138	33,290	32,724	9,770	13.3	33,593	8.1	8.8	2.4	32.7	1.3

Resilience amid COVID-19 uncertainty

Performance

	1M	6M	12M
Absolute (%)	(0.9)	(2.5)	(11.1)
Relative to VNI (%)	(6.4)	(2.9)	(3.8)

Stock price trend



Sustained net profit growth in FY20-21F: Its flexible sales strategy in combining retail and bulk sales seems to help the firm withstand market headwinds, maintaining constant pre-sale activities and earnings growth. To factor in the impact of COVID-19 that may delay the VHM's delivery schedule dragged by the homebuyers' inability to pay timely, we project 94% of total retail delivery (~31,000 units) could hand over in FY20F. We believe total three bulk sale transaction valued at VND18.5tn could be ready to record in FY20 revenue. We forecast VHM's FY20F revenue could jump 77.8% yoy to VND91.8tn, and FY20F PATMI could grow 32.9% yoy to VND28.9tn backed by

Cheap valuation despite solid growth: We retain our BUY rating but raise a RNAV-based TP to VND93,500 to reflect the faster cash receipt from three bulk sale transactions. VHM is trading at forward FY20F PE 9.2x which is significant unreasonable to its average PE in FY18-19 at 15x-18x

Company overview

Vinhomes JSC (VHM) is operating a close real estate development model from project development, general plan, design, site clearance, construction, sale, handover and post-sale management and maintenance. According to CBRE, VHM owns 22% residential market share in Vietnam, leaving the follower with 4% behind. In addition to on-going real estate projects, VHM also develops and trades office projects for lease, VHM's office projects are located next to Vinhomes projects and works as a component of complex projects developed by VHM. As a subsidiary of Vingroup, VHM has favourable conditions to invest and develop real estate projects, enjoys a close relationship with its parent company's partners and takes advantages of Vingroup ecosystem.

Nhan Lai

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Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	44,421	91,203	139,555	183,977	254,496
Cash & cash equivalents	1,562	3,515	13,332	39,374	34,959
Accounts & other receivables	24,775	43,356	47,468	57,138	63,992
Inventory	16,891	36,743	60,297	68,418	130,121
Non-current assets	5,677	24,771	36,237	44,169	76,222
Fixed assets	1,297	100	625	587	548
Investment assets	4,380	24,670	35,612	43,582	75,674
Others	1,206	3,716	21,449	20,801	17,714
Total assets	51,304	119,689	197,241	248,948	348,432
Advances from customers	16,846	14,207	40,246	29,330	89,767
Unearned revenue	17	0	0	0	0
Trade payables	925	2,504	6,078	13,164	8,739
Others	8,065	22,924	59,697	65,301	71,466
ST debt & due bonds	8,700	6,403	18,162	10,416	10,416
LT debt & bonds	6,628	25,506	8,343	31,492	41,492
Total liabilities	41,180	71,544	132,526	149,703	221,881
Controlling interest	6,904	43,231	56,096	87,192	113,066
Capital stock	2,000	33,495	33,495	33,495	33,495
Capital surplus	0	295	295	295	295
Other reserves	(99)	1,814	(3,734)	1,816	1,816
Retained earnings	5,003	7,627	26,040	51,585	77,460
Minority interest	3,220	4,912	8,619	12,053	13,485
Shareholders' equity	10,124	48,143	64,715	99,245	126,551

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	15,297	38,664	51,627	91,787	75,138
COGS	10,131	28,603	24,171	52,347	34,753
Gross profit	5,167	10,061	27,456	39,440	40,385
SG&A expenses	2,038	2,444	4,237	7,819	7,095
Operating profit	3,128	7,617	23,219	31,621	33,290
Financial income	14,565	9,046	11,678	6,121	3,720
Interest income	964	1,544	2,379	2,496	6,121
Financial expenses	2,457	2,549	2,877	1,078	3,798
Interest expenses	2,383	2,378	2,877	1,078	3,798
Other non-operating profit	(243)	(7)	30	(10)	(10)
Gains (Losses) in associates, subsidiaries and JV	(88)	0	0	0	0
Earnings before tax	2,109	19,719	29,746	40,411	41,823
Income taxes	543	4,942	5,427	8,082	7,667
Net profit	1,565	14,776	24,319	32,329	34,156
Net profit of controlling interest	1,410	14,284	21,747	28,895	32,724
EBITDA	3,539	7,879	23,570	31,920	33,593

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,796	(1,463)	51,928	4,897	15,074
Net profit	1,410	14,284	21,747	28,895	32,724
Dep'n & Amort'n	410	262	352	299	303
Net incr. in W/C	337	(3,331)	38,178	(16,055)	(9,774)
C/F from investing	(9,459)	(17,842)	(27,320)	9,091	(26,139)
Capex	0	0	0	0	0
Incr. in investment	(9,459)	(17,842)	(27,320)	9,091	(26,139)
C/F from financing	5,422	21,259	(14,792)	12,054	6,650
Incr. in equity	28	12,241	(5,550)	0	0
Incr. in debt	5,394	9,963	(5,555)	15,403	10,000
Dividends	0	(945)	(3,687)	(3,350)	(3,350)
C/F from others	0	0	0	0	0
Increase in cash	(1,241)	1,954	9,817	26,041	(4,415)

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	5,639	4,567	6,493	8,627	9,770
BPS	27,617	12,907	16,748	26,031	33,756
DPS	0	0	1,101	1,000	1,000
Growth (%)					
Sales growth	36.4	152.8	33.5	77.8	(18.1)
OP growth	37.7	143.5	204.8	36.2	5.3
NP growth	(14.5)	913.3	52.2	32.9	13.3
EPS growth	(14.5)	(19.0)	42.2	32.9	13.3
EBITDA growth	34.7	122.7	199.2	35.4	5.2
Profitability (%)					
OP margin	20.5	19.7	45.0	34.5	44.3
NP margin	10.2	38.2	47.1	35.2	45.5
EBITDA margin	23.1	20.4	45.7	34.8	44.7
ROA	4.8	6.0	12.1	11.3	9.1
ROE	31.0	57.0	43.8	40.3	32.7
Dividend yield			1.4	1.3	1.3
Dividend payout ratio	0.0	0.0	17.0	11.6	10.2
Stability					
Net debt (VND bn)	13,765.7	28,393.3	13,173.1	2,534.9	16,949.4
Net debt/equity (%)	136.0	59.0	20.4	2.6	13.4
Valuation (x)					
PE	14.1	17.4	12.3	9.2	8.1
PB	2.9	6.2	4.8	3.1	2.4
EV/EBITDA	10.4	35.8	12.2	8.8	8.8

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- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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