

29 Oct 2020

## Vinhomes JSC (VHM)

### A good quarter but more to come

- Headlines 3Q20 NPATMI slightly increase 10.8% to VND6tn, backed by impressive retail handover revenue
- 9M20 earnings grew stably 8.7% yoy to come in at 56.7% our full year estimates
- Maintain BUY with unchanged TP of VND93,500

#### Facts: Resilient 9M20 earnings

Vinhomes reported an exciting 3Q20 revenue growth of 142.8% yoy to VND26.5tn mainly driven by the property revenue growth of 154.8% yoy to VND25.5tn, equivalent to 10,800 units handed in 3Q20. The blend gross margin slumped to 34.4% in 3Q20, -27.6% pts yoy due to a combination of 1) the lower-margin condo units (around 35-40%) in three mega projects accounted 90% total handover in 3Q20 when the higher-margin (around 50%-65%) bulk sales revenue majored in 3Q19 2) the VND6.8tn sales of office part in Vincom Metropolis tower at a 30% gross margin. Hence, 3Q20 NPATMI growth was slower at 10.8% yoy to VND6tn.

The landscape went to the same in 9M20 results where total revenue growth was remarkable at 31.2% yoy to VND49.4tn, but the NPATMI growth was moderate at 8.7% yoy to VND16.4tn. Handover revenue growth of 33.8% yoy to VND46.8tn was the key driver to total revenue growth in 9M20 and the blended gross margin contraction of 8.6% pts yoy in 9M20 was blamed for the slower NPATMI growth.

#### Pros & cons: Bulk sales lead 4Q20F growth

We believe bulk sale transactions valued at VND28tn at Sep FY20 could be the key driver in 4Q20 revenue. We estimate 4Q20F revenue could reach VND42tn driven bulk sale transaction, retail delivery of 11,000 units in three mega projects We maintain VHM's FY20F revenue at VND91.8tn, and PATMI at VND28.9tn. However, the Wonder Park low-rise units could not be launched in late 4Q20F, per management which is expected to add about VND6.4-7tn presales. We expect FY20 retail presales reach VND39tn, -24% yoy back by the next launches of three mega projects.

#### Action: Cheap valuation despite solid growth

We retain our BUY rating at unchanged TP of VND93,500. 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. We think VHM's valuation is undemanding given by its FY20F topping earning growth.

12M rating **BUY**

12M TP **93,500**

Up/Downside **+24%** (includes 1.3% dividend)

#### Stock data

VNIndex (29 Oct, pt)	919
Stock price (29 Oct, VND)	76,200
Market cap (USD mn)	10,813
Shares outstanding (mn)	3,290
52-Week high/low (VND)	99,500/54,800
6M avg. daily turnover (USD mn)	7.18
Free float / Foreign ownership (%)	23.4/22.
Major shareholders (%)	
Vingroup	<b>70.9</b>
VIKING ASIA HOLDINGS PTE	5.65
Norges Bank	0.79

#### Valuation

	2019A	2020F	2021F
PE (x)	11.7	8.8	7.8
PB (x)	4.5	2.9	2.3
ROE (%)	43.8	40.3	32.7
DY (%)	1.4	1.3	1.3
EV/EBITDA (x)	11.8	8.5	8.5
EPS (VND)	6,493	8,627	9,770
BPS (VND)	16,748	26,031	33,756

#### Performance

	1M	6M	12M
Absolute (%)	1.2	19.8	(13.0)
Relative to VNIndex (%p)	(0.6)	(1.0)	(7.1)

#### Stock price



Source: Bloomberg

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**Table 1. 3Q20 earnings**

(VND bn, %, %p)

	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	Consensus
Sales	10,906	13,985	6,519	16,377	26,483	61.7	142.8	N.A
Gross profit	6,766	10,115	2,949	6,455	9,115	140.2	133.7	N.A
Gross margin	62.0	72.3	45.2	39.4	34.4	(5.0)	(27.6)	N.A
OP	6,121	7,893	2,171	5,613	7,538	34.3	23.2	N.A
OP margin	56.1	56.4	33.3	34.3	28.5	(5.8)	(27.6)	N.A
EBT	7,626	8,733	10,124	5,030	7,502	49.1	(1.6)	N.A
NP	5,470	6,424	6,844	3,758	6,058	61.2	10.8	N.A

Source: Company data, KIS

**Table 2. Earnings and outlook**

(VND bn, %, % p)

	2019				2020			2019	2020F	3Q20		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q			QoQ	YoY	Consensus (BB)
<b>Net sales</b>	5,853	20,883	10,906	13,985	6,519	16,377	26,483	51,627	91,787	61.7	142.8	N.A
Property sales	4,837	20,128	9,992	13,205	5,717	15,608	25,458	48,162	87,518	63.1	154.8	
Real estate management	308	397	357	421	366	438	319	1,483	2,215	(27.1)	(10.6)	
Leasing	299	275	380	160	278	216	293	1,114	1,143	35.8	(22.8)	
Others	408	84	177	199	158	116	412	869	912	256.3	132.5	
<b>Gross profit</b>	1,330	9,246	6,766	10,115	2,949	6,455	9,115	27,456	39,440	140.2	133.7	N.A
Gross margin	22.7	44.3	62.0	72.3	45.2	39.4	34.4	53.2	43.0	(5.0)	(27.6)	
SG&A	427	944	645	2,222	778	842	1,577	4,237	7,819	87.3	144.4	
<b>Operating profit</b>	903	8,303	6,121	7,893	2,171	5,613	7,538	23,219	31,621	34.3	23.2	
Financial income	2,940	2,378	2,340	1,386	8,591	1,007	1,119	9,044	11,678	11.1	(52.2)	
Financial expense	507	659	787	595	634	701	1,204	2,549	2,877	71.8	53.0	
Net other income	23	7	(48)	48	(44)	-888	49	30	0	0.0	0.0	
EBT	3,358	10,029	7,626	8,733	10,124	5,030	7,502	29,746	40,411	49.1	(1.6)	
Net profit	2,687	8,519	6,142	6,971	7,645	3,801	6,146	24,319	32,329	61.7	0.1	
<b>NP of controlling interest</b>	2,540	7,313	5,470	6,424	6,844	3,758	6,058	21,747	28,895	61.2	10.8	N.A
EBITDA	890	8,323	6,159	8,199	2,256	5,723	7,648	23,570	31,920	33.6	24.2	
EBITDA margin	15.2	39.9	56.5	58.6	34.6	34.9	28.9	45.7	34.8	(6.1)	(27.6)	
OP margin	15.4	39.8	56.1	56.4	33.3	34.3	28.5	45.0	34.5	(5.8)	(27.6)	

Source: Company data, KIS

**Table 3. Fair value calculation**

(VND bn, mn shares, VND)

Inventory and Investment	Fair value	Method
Residential property	320,650	DCF
Office lease	24,093	DCF
Other	353	BV
<b>Total property value</b>	<b>345,095</b>	
<b>Add:</b>		
Cash and cash equivalent	12,076	BV
Other assets	33,173	BV
<b>Less:</b>		
Net debt (exclude CB)	20,124	BV
Other liabilities	47,498	BV
Minority interest	9,416	
<b>Discounted RNAV</b>	<b>313,306</b>	
Shares outstanding	3,350	
<b>Target price</b>	<b>93,500</b>	
Market price		
Upside	17.7%	

Source: Company data, KIS

## ■ Company overview

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The company 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.

**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
<b>Total assets</b>	<b>51,304</b>	<b>119,689</b>	<b>197,241</b>	<b>248,948</b>	<b>348,432</b>
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 & bonds	8,700	6,403	18,162	10,416	10,416
LT debt & financial liabilities	6,628	25,506	8,343	31,492	41,492
<b>Total liabilities</b>	<b>41,180</b>	<b>71,544</b>	<b>132,526</b>	<b>149,703</b>	<b>221,881</b>
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

**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
<b>Increase in cash</b>	<b>(1,241)</b>	<b>1,954</b>	<b>9,817</b>	<b>26,041</b>	<b>(4,415)</b>

**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	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

**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	12.2	8.8	7.8
PB	2.9	6.2	4.7	2.9	2.3
EV/EBITDA	10.4	35.7	12.2	8.5	8.5

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