

17 Feb 2021

Khang Dien House Trading and Investment JSC (KDH)

Good year, good growth

Reinforcing BUY with an upgraded TP of VND37,500

Our RNAV-based TP is 30.6% higher than BB consensus to VND37,500/share despite our lower exceeding FY21F-22F EPS forecasts by consensus of 2.1-4.8%. We increase KDH's RNAV with the higher GDV of two upcoming landed projects Armena and Clarita and the contribution of Le Minh Xuan IP. We also reduced our COE and WACC due to the lower risk free rate of 10-year government bond.

Higher selling price for Armena and Clarita projects

We revise up the selling price of land and villa/townhouse for its Armena and Clarita development by 25-30% to VND100-120m psm, in line with the offering price of Verosa project in FY19-20. This raises our FY21F-23F gross development value of two projects to VND7tn. We believe KDH could overcome the headwinds from COVID impacts that impeding the sales events thanks to the buoyant landed property market driven by the scarcity and homebuyers' traditional preference.

Unlocking the iceberg Le Minh Xuan IP in FY21F-22F

Not to be left behind the race of opening IP, KDH targets to launch the Le Minh Xuan expansion IP late this year. We think this timeline is feasible since KDH could not wait more after such several years of delaying. To be conservative, we estimate KDH could lease the first of 3ha in FY22F and enjoy the 40-50% yoy growth in FY23F-25F. Despite the modest revenue contribution of IP segment to total revenue in FY22F, we are positive to the increasing cash stream to KDH.

The massive of cheap money re- rate KDH's COE and TP....

We reduce KDH's COE from 13.5% to 11.5% to reflect the deep down of Vietnam 10-year government yield. Hence, the WACC rate applied in our DCF models is also dropping from 12.5% to 10.7%. In the era of cheap money, we think stock could be among the most beneficiary assets.

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)	(%)	(%)
2018A	2,917	982	808	1,514	36.3	990	21.1	16.4	2.6	13.4	1.6
2019F	2,813	1,223	915	1,613	6.5	1,232	19.8	14.4	2.4	12.6	1.6
2020F	4,532	1,547	1,152	2,041	26.5	1,558	15.6	11.6	2.2	14.6	1.6
2021F	4,538	1,784	1,374	2,441	19.6	1,803	13.1	9.9	2.0	16.0	1.6
2022F	4,806	2,130	1,684	2,951	20.9	2,149	10.8	7.6	1.8	17.3	1.6

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

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12M rating **BUY (Maintain)**

12M TP **37,500** from 27,000

Up/Downside **+19% (incl 1.5% cash dividend)**

Stock Data

VNIndex (08 Feb, pt)	1,112
Stock price (08 Feb, VND)	31,900
Market cap (USD mn)	794
Shares outstanding (mn)	559
52-Week high/low (VND)	35,500/17,074
6M avg. daily turnover (USD mn)	1.43
Free float / Foreign ownership (%)	82.2/37.7
Major shareholders (%)	
Vina Capital	19.0
Dragon	21.2
Tien Loc Investment Limited	11.4

Performance

	1M	6M	12M
Absolute (%)	11.4	43.9	41.8
Relative to VNIndex (%p)	12.1	8.1	19.8

Stock price trend



Source: Bloomberg

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...but KDH is worthy

We believe KDH could ride on another exciting year in FY21F with a 19.2% yoy net profit growth on the back of starting delivery of condo Lovera Vista project and the remainder of Safira condo project. The FY22F net profit could grow by 22.6% yoy thanks to the major contribution of Clarita and Armena townhouse project revenue.

Table 1. Key development pipeline

Project	Location	Product type	KDH Ownership	Land site (ha)	Est. GFA ('000 sq m)	Est. GDV (VND bn)	Execution timeframe*						
							2018	2019	2020	2021	2022	2023	2024 onward
Safira	D.9, HCMC	Condo	100%	2.7	135	3,299							
Verosa Park	D.9, HCMC	Townhouse	100%	8.1	60	3,479							
Lovera Vista	Binh Chanh, HCMC	Condo	100%	1.8	171	2,830							
Armena	D.9, HCMC	Townhouse	100%	4.3	58	2,552							
Clarita	D.2, HCMC	Townhouse	100%	5.7	77	3,001							
Corona	Binh Chanh, HCMC	Township	100%	17.5	265	3,247							
Green Village	Binh Chanh, HCMC	Township	100%	132.9	695	20,766							
Tan Tao	Binh Chanh, HCMC	Township	100%	330.0	3,852	132,976							
Le Minh Xuan	Binh Chanh, HCMC	Industry park	100%	109.9	1,099	1,953							

(*) 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.

By end-FY20, KDH has mostly completed the presales of its Lovera Vista project with buyers of about 1,300 units having signed selling contracts or non-refundable deposit agreements. We expect Lovera Vista is the key contributor to FY21F total revenue thanks to a 1,200 units handed in 2H21F.

KDH plans to launch for presale 180 townhouses in Armena project and 159 townhouses in Clarita project. We expect the project's ASP to vary within the range of VND100bn-120bn per unit, close to the average price for landed property Verosa in District 9, HCMC. We believe these project might enjoy a 60% take-up rate to lock in VND2.6tr of FY21F presales. HCMC landed market witnessed a 15-30% yoy rise in selling prices in FY20 due to the booming of supply after a long period of scarcity. As the construction of the two townhouse projects will be completed late end-FY21F, we estimate that 52% of KDH's FY21F presales volume will be booked within this year.

Table 2. Le Minh Xuan IP contributes increasing revenue in FY22F-29F

	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F
Land sales area (ha)	3	4	10	10	10	10	11	12
Revenue (VND bn)	70	95	250	265	275	289	331	379
PBT (VND bn)	22	29	77	89	87	82	106	139
FCFF (VND bn)	-8	77	75	213	124	-50	257	291

After of several years of compensation, KDH is going to monetize the Le Minh Xuan IP in late 2021F, one of the biggest assets acquired from Binh Chanh company. We highly regard the earlier monetization to capture the growing demand for industrial property in HCMC which has witnessed the lack of empty land for development. Le Minh Xuan IP expansion with 109 ha could generate around 78ha net leasable area for 7-8 years. To stay prudent, we expect KDH could book for at least 3-4ha in FY22F-23F and around 10 ha in FY24F-29F. Though the revenue contribution from Le Minh Xuan IP is quite immaterial to

KDH's total revenue in FY22F-23F, we expect Le Minh Xuan could generate an additional cash flow streams.

Table 3. Snapshot of performance forecast in FY21F-22F

(VND bn, %)

	FY20	FY21F	FY22F	Note
Net sales	4,512	4,538	4,806	
Property delivery	4,475	4,469	4,658	FY21F revenue is contributed by over 1,200 units of condo in Lovera Vista and 60 units of landed villa/townhouses in Venita, Armena, Clarita projects FY22F sales will have the presence of over 120 units of Verosa, Armena, Clarita projects and the remainders of Lovera Vista project
Le Minh Xuan IP Services	-	25	95	We expect around of 3ha
COGS	2,568	2,294	2,237	
Gross profit	1,964	2,243	2,569	FY21F: Rises due to delivery of Lovera condos and the first contribution of Armena and Clarita FY22F gets total delivery of Clarita and Armena landed projects
Gross margin	43.5	49.7	54.5	Blended FY21F-22F gross margins are raised due increasing contribution from higher-margin landed property at project Clarita and Armena
SG&A expenses	416	459	439	Increase selling expense due to higher-than-expected commission rate for landed properties
Operating profit	1,547	1,784	2,130	
Financial income	35	63	110	
Financial expense	85	86	89	Maintain the discount program to stimulate the demand for landed property
Net other income	(40)	(42)	(44)	
EBT	1,459	1,719	2,107	
EAT	1,155	1,376	1,686	
Net profit	1,153	1,374	1,684	We expect KDH could maintain double digit growth in FY21F-22F

Some of our key assumptions for FY21F-22F include: 1) KDH could deliver 1,200 units in Lovera Vista condo project and the remainders in Safira condo project in FY21F, 2) two new townhouse projects Armena, Clarita will launch in 2H21F with around 144 units booked for presales and 75 units recorded in FY21F revenue and 3) promotion program continues supporting presales in FY21F-22F. Overall, in FY21F, we estimate a 1% yoy growth to VND4.5tn in total revenue and a 19.2% yoy growth to VND1,374bn in net profit. In FY22F, the revenue and net profit are forecasted to be VND4.8tn and VND1,684bn, equivalent to 5.9% yoy and 22.6% yoy, in our view. We keep the debt to equity ratio in FY21F-22F at 20.3-17.9%. Due to the long-term loan demand, we forecast the unchanged dividend payment policy. Our FY21-22F EPS are VND2,441-2,954, equivalent to 19.6-20.9% yoy and higher than consensus by 2.1-4.8%.

Table 3. Cost of equity and WACC revision

(x, %)

	New	Old	Note
Cost of equity			
Beta	0.77	0.77	
Risk free rate	3	5	We factor in the deeply low 10-year Vietnam government bond yield in next upcoming years driven by era of cheap money.
Equity risk premium	11	11	
Cost of equity	11.5	13.5	
WACC			
Cost of debt	11.0	13	
Target debt to capital	30	30	
Tax rate	20	20	
WACC	10.7	12.5	

We reduce the cost of equity (COE) from 13.5% to 11.5% to reflect the lower risk free rate. Hence, the WACC applied in our DCF models is also diminishing to 10.7%.

Furthermore, we change our valuation method for the Le Minh Xuan project to DCF in lieu of book value as management has announced the detailed development plan. However, we discount 30% to NAV of Le Minh Xuan IP as we still concern on the process of opening commercial flights to Vietnam which deters the business sites to industrial parks.

We maintain our discount to RNAV to take into consideration presale risk of the COVID-19 impact and longer-than-expected bottlenecks in regulatory policy. Our TP is increasing to VND37,500/share, implying a 19% total return.

Table 4. Equity valuation

(VND bn)

Project Name	Fair value*	Method	Discount to NPV	Note
Tan Tao	8,069	DCF	80%	Pending compensation
Safira	1,217	DCF		The majority of delivery has been recorded in FY20.
Corona	982	DCF	60%	Pending compensation
Green Village	2,203	DCF	60%	Pending legal process
Clarita	777	DCF	20%	Ready to launch in FY21F
Verosa Park	1,578	DCF		The majority of delivery has been recorded in FY19-20.
Lovera Vista	1,179	DCF		Ready to deliver in 2H21F
Amena	1,215	DCF	20%	Ready to launch in FY21F
Le Minh Xuan IP	907	DCF	30%	Ready to launch in FY21F-22F
Other	1,591	BV		
Total inventory	15,689			
Add:				
Cash and cash equivalent	1,835			
Other assets	2,817			
Less:	0			
Net debt	1,876			
Other liabilities	1,561			
RNAV	20,933			
Shares outstanding	558,806,579			
Target price (VND/share)	37,500			

Note: (*) Fair value as at Dec 2020

Source: Company data, KIS

■ Company overview

Khang Dien House Trading and Investment JSC (KDH) is its iconic brand name 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.	2018A	2019A	2020F	2021F	2022F
Current assets	9,570	12,327	12,976	12,393	14,834
Cash & cash equivalents	1,836	1,207	1,836	1,926	3,766
Accounts & other receivables	1,760	3,778	3,483	3,231	2,195
Inventory	5,817	7,037	7,338	6,900	8,521
Non-current assets	520	791	817	873	936
Fixed assets	500	677	742	805	875
Investment assets	19	114	75	68	62
Others	138	119	94	87	93
Total assets	10,228	13,237	13,887	13,353	15,862
Advances from customers	1,367	2,773	2,122	636	1,885
Unearned revenue	2	0	0	0	0
Trade payables	284	696	243	217	212
Others	707	1,322	1,866	1,519	1,518
ST debt & due bonds	632	377	442	450	458
LT debt & bonds	337	405	1,058	1,403	1,404
Total liabilities	3,328	5,573	5,731	4,225	5,478
Controlling interest	6,864	7,625	8,127	9,095	10,351
Capital stock	4,140	5,444	5,787	5,831	5,831
Capital surplus	1,724	720	744	781	781
Other reserves	93	134	(240)	(321)	(321)
Retained earnings	907	1,327	1,836	2,804	4,060
Minority interest	35	39	31	32	34
Shareholders' equity	6,899	7,664	8,158	9,128	10,385

Cash flow

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
C/F from operations	(719)	(161)	167	383	2,096
Net profit	808	915	1,152	1,374	1,684
Dep'n & Amort'n	8	9	11	19	19
Net incr. in W/C	(1,236)	(907)	(898)	(833)	637
C/F from investing	519	(201)	(1)	(33)	27
Capex	(161)	(235)	(51)	(75)	(83)
Incr. in investment	680	34	50	43	110
C/F from financing	(556)	(296)	486	(259)	(282)
Incr. in equity	101	97	(314)	24	0
Incr. in debt	(689)	(186)	1,063	8	9
Dividends	(194)	(207)	(262)	(292)	(292)
C/F from others	0	0	0	0	0
Increase in cash	(756)	(661)	651	91	1,841

Income statement

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Sales	2,917	2,813	4,532	4,538	4,806
COGS	1,677	1,313	2,568	2,294	2,237
Gross profit	1,239	1,500	1,964	2,243	2,569
SG&A expenses	250	268	406	440	420
Operating profit	982	1,223	1,547	1,784	2,130
Financial income	200	41	35	63	110
Interest income	63	38	35	63	110
Financial expenses	89	42	85	86	89
Interest expenses	32	2	0	0	0
Other non-operating profit	116	(33)	(40)	(42)	(44)
Gains (Losses) in associates, subsidiaries and JV	4	0	0	0	0
Earnings before tax	1,075	1,190	1,458	1,719	2,107
Income taxes	266	273	304	344	421
Net profit	810	917	1,154	1,376	1,686
Net profit of controlling interest	808	915	1,152	1,374	1,684
EBITDA	990	1,232	1,558	1,803	2,149

Key financial data

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Per-share data (VND, adj.)					
EPS	1,514	1,613	2,041	2,441	2,951
BPS	12,161	13,362	14,544	16,047	18,007
DPS	500	500	500	500	500
Growth (%)					
Sales growth	(4.5)	(3.5)	61.1	0.1	5.9
OP growth	23.9	24.5	26.5	15.3	19.4
NP growth	44.9	13.3	25.9	19.2	22.6
EPS growth	36.3	6.5	26.5	19.6	20.9
EBITDA growth	23.8	24.5	26.5	15.7	19.2
Profitability (%)					
OP margin	33.7	43.5	34.1	39.3	44.3
NP margin	27.8	32.6	25.5	30.3	35.1
EBITDA margin	33.9	43.8	34.4	39.7	44.7
ROA	8.4	7.8	8.9	10.3	11.4
ROE	13.4	12.6	14.6	16.0	17.3
Dividend yield	1.6	1.6	1.6	1.6	1.6
Dividend payout ratio	25.6	22.6	25.1	21.2	17.3
Stability					
Net debt (VND bn)	(867)	(425)	9	(73)	(1,904)
Net debt/equity (%)	(13)	(6)	0	(1)	(18)
Valuation (x)					
PE	21.1	19.8	15.6	13.1	10.8
PB	2.6	2.4	2.2	2.0	1.8
EV/EBITDA	16.4	14.4	11.6	9.9	7.6

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