

17 Feb 2021

Nam Long Investment Corporation (NLG)

Stay tuned for a bounce-back

Booming presales growth in FY21F-22F expected

The FY20F contract sales was VND3.8tn, lower than our VND5.4tn forecast due to the COVID-19 outbreak which deterred the sales events of Mizuki phase 2 condo project. We expect the sales to boom in 2H21F to VND13.5tn thanks to better containment of COVID-19 in the 1H21F and the launch of six projects in the Long An, Dong Nai, Can Tho, Hai Phong, HCMC. The initial launch of 447 villas/townhouses in Waterfront project in Dong Nai could help NLG ride on the buoyant housing market nearby Thu Duc City.

Positioned for stellar FY21F-22F earnings growth

In FY21F, we estimate 87.3% yoy growth to VND4.1tn in total revenue and a 50.5% yoy growth to VND1.2tn in NPATMI thanks to a delivery of total 1,700 units of Akira condo in HCMC and Waterpoint –Southgate townhouses in Long An. We also forecast a VND400bn goodwill income could be recorded in FY21F thanks to a 30% stake acquisition to 65% in Waterfront project. We reflect a VND310bn financial income from a 100% stake transfer in Dai Phuoc project.

In FY22F, we consolidate the revenue of 447 units of Waterfront project in total revenue, that partially helps the topline grow to VND8.5tn, +104.9% yoy. The net profit could come to VND2.1tn, 69.9% yoy thanks to the delivery of thousands of villas/townhouses in Waterpoint-Southgate, Waterfront, Can Tho, Hai Phong launched in FY21F, in our view. Our estimated FY21F-22F EPS are 19.5-82.5% higher than the consensus as we consolidate Waterfront project and believe in execution of those projects.

Maintain BUY at a higher RNAV-based TP of VND38,800

We increase our RNAV-based target price to VND38,800 thanks to 1) rising GDV of those projects backed by increasing average selling prices of 25-30% 2) deteriorating COE to 10% from 13% due to the lower risk free rate. Key risks in our models are the complexity of COVID-19 outbreak that hurting the sale events of NLG's projects; slowdown of economy recovery.

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	3,480	1,013	763	3,280	21.7	1,026	9.9	5.4	2.3	20.3	1.4
2019A	2,546	626	960	3,709	13.1	642	8.8	10.5	1.8	19.9	1.5
2020F	2,217	237	835	3,066	(17.3)	260	10.6	31.1	1.7	15.7	1.5
2021F	4,153	565	1,258	4,409	43.8	603	7.4	15.8	1.7	20.0	1.5
2022F	8,507	2,566	2,137	7,492	69.9	2,605	4.3	3.2	1.3	26.9	1.5

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

12M rating **BUY (Maintain)**

12M TP **38,800** from 30,900

Up/Downside **+20.9%** (incl 1.5% cash dividend)

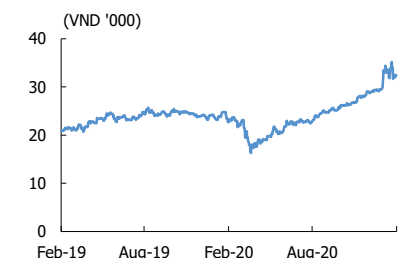
Stock Data

VNIndex (08 Feb, pt)	1,112
Stock price (08 Feb, VND)	32,500
Market cap (USD mn)	389
Shares outstanding (mn)	275
52-Week high/low (VND)	35,200/16,297
6M avg. daily turnover (USD mn)	1.44
Free float / Foreign ownership (%)	57.6/48.2
Major shareholders (%)	
Ibworth Pte. Ltd.	9.9
PYN Elite Fund	7.4
Nam Khang Construction	7.9

Performance

	1M	6M	12M
Absolute (%)	9.2	42.9	42.9
Relative to VNIndex (%p)	9.9	7.2	20.9

Stock price trend

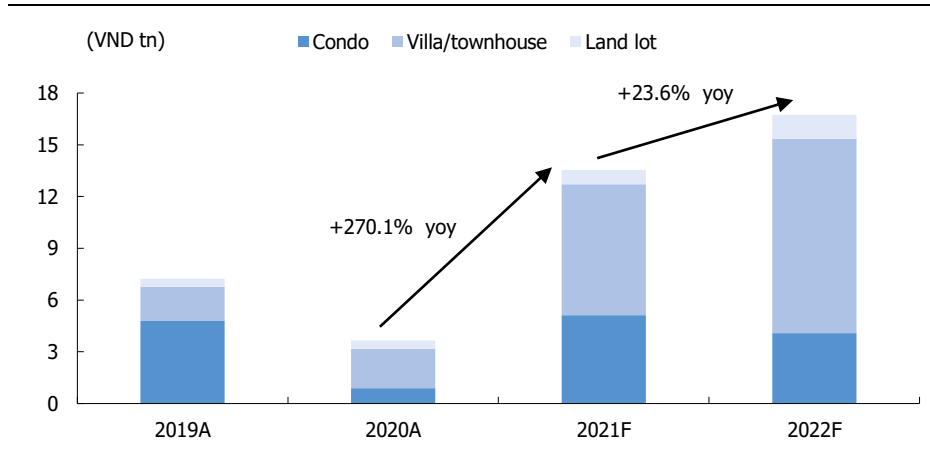


Source: Bloomberg

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Figure 1. Forecasted presale volumes by products



Source: KIS

Table 1. Project development pipeline

Project	Location	Product	NLG Ownership	Land site (ha)	GFA (sq m)	GDV (VND bn)	Execution timeframe*				
							2019	2020	2021	2022	2023 onward
Mizuki (phase 2)	Binh Chanh, HCMC	Valora Flora	50%	N/A	N/A	5,498					
Akari	Binh Tan, HCMC	Flora Land lot	50%	8.8	397,345 146,700	11,726					
Waterpoint	Ben Luc, Long An	Townhouse Villa Phase 2	50%	165.0	115,608 269,325 N/A	11,755					
Nam Long 2	Can Tho	Land lot	100%	43.0	446,927	1,528					
Hai Phong	Thuy Nguyen, Hai Phong	Ehomes Valora	100%	22.0	177,800 106,416	5,153					
Waterfront	Long Hung, Dong Nai	Township	65%	170.0	1,317,470	27,912					

(*) Each project execution timeframe (from first launch to completion) is in grey highlight. Otherwise, no detailed project timeframe has been announced by the company. Source: KIS

In the 1H21F, NLG aims to launch the sale event for 600 units of Mizuki condo project which has been booked in 2H20 and could open the subsequent 759 booking slots for Southgate project, in our view. We estimate around VND4.2tn GDV for two projects.

In the 2H21F, NLG is going to do the soft launches of four projects including Akari condo project phase 2, Can Tho townhouse project, Waterfront townhouse project and Hai Phong project (total of 850 villas/townhouses and 2,100 condos on a 21ha site), which is one of the residential sections in Viet-Sing Industry Park (VSIP) Hai Phong. For Akari project, we expect the company maintain the average selling price (ASP) the same as the 1st phase as VND28-30m per sqm for 1,500 units booked in presales value. For Can Tho townhouse project, we expect the selling price to be VND15-25m psm for land and VND10m psm for condo. Around of 411 units of townhouses and land lots of Can Tho project are forecasted to be booked in the 2H21F presales, in our view. For Hai Phong project, we speculate an ASP at VND25m per sqm for land and VND15m per sqm for condo. For Waterfront townhouse project, we think the company could launch the 447 units of townhouses/villas as the management

plan since the housing market in Dong Nai nearby Thu Duc City has been buoyant lately.

Hence, we expect NLG to book VND13.5tr GDV in FY21-22F, with villas and townhouses to be delivered in FY21-22F, while the condo section could be launched in FY22F and booked in FY23F.

Table 2. Forecast revision

(VND bn, %, % p)

	New		Old		Change		Note
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	
Presale value	13,543	16,742	10,854	9,177	24.8	82.4	We factor in the faster presale value in Southgate townhouse in FY20F
Handover value	3,587	7,148	4,344	7,579	(17.4)	(5.7)	
Net sales	4,153	8,507	4,073	4,883	2.0	74.2	
<i>Property delivery</i>	2,374	6,688	2,610	3,411	(9.0)	96.1	We consolidate the revenue from Waterfront project from FY21F onwards
<i>Project transfer</i>	125	0	125	0	0.0		
<i>Other</i>	1,654	1,819	1,338	1,472	23.6	23.6	
Gross profit	1,176	3,387	1,187	1,607	(0.9)	110.7	
<i>Gross margin</i>	28.3	39.8	0.3	0.3	(0.8)	6.9	
SG&A expenses	612	821	501	521	22.1	57.7	
Operating profit	565	2,566	686	1,087	(17.7)	136.1	
Profit/loss in JV/associates	236	618	239	848	(1.4)	(27.1)	The net profit of Waterfront project is not recorded in JV associate from FY21F
Financial income	848	8	559	78	51.8	(90.4)	We record a goodwill income from Waterfront to VND400bn and a VND310bn financial income from stake transfer Dai Phuoc project in FY21F.
Financial expense	60	60	29	103	108.0	(42.3)	We increase interest expense due to higher demand for long-term loan in FY21F-22F
Net other income	13	0	0	0			
Net profit	1,258	2,137	1,112	1,483	13.1	44.1	

Source: KIS

Some of our key assumptions for FY21F-22F include: 1) the company could record a VND400bn goodwill income from a 35% stake acquisition in Waterfront project in 1Q21F; 2) a VND310bn financial income from 100% divestment in Dai Phuoc project; 3) Waterfront revenue is consolidated in NLG's financial statements from 2021F onwards.

Overall, in FY21F, we estimate an 87.3% yoy growth to VN4.1 in total revenue and a 50.5% yoy growth to VND1.2tn in NPATMI thanks to a delivery of total 1,700 units in Akira condo project and Waterpoint –Southgate townhouse project.

In FY22F, we consolidate the revenue of 447 units of Waterfront project in total revenue, that apart helps the topline grow to VND8.5tn, +104.9% yoy. The net profit is estimated to come to VND2.1tn, 69.9% yoy thanks to the delivery of thousands of villas/townhouses in Waterpoint-Southgate, Waterfront, Can Tho, Hai Phong launched in FY21F, in our view.

We estimate the company to reduce the short-term loan to VND150bn as of end-FY21F thank to advance payment from the homebuyers. Due to the long-term loan demand, we forecast the same dividend payment policy next year.

Table 3. Fair value calculation

(VND bn, %)

Project Name	NAV	Method	Discount to NAV	Note
Southgate-Waterpoint	2,345	DCF	30%	
Mizuki Park	1,077	DCF	30%	
Akari	2,615	DCF	30%	
Hai Phong	373	DCF	30%	
Can Tho	271	DCF	30%	
Dai Phuoc	2,050	BV		
Waterfront	3,362	DCF	30%	NAV of Waterfront is increased in our estimate due to 1) NLG's more ownership from 35% to 65% 2) the increasing in our average selling price from VND15mn to VND25mn psm
Other	48	BV	-	
Total inventory	12,142			
Add				
Cash and cash equivalent	1,096			
Short-term investments	46			
Short-term A/R	878			
Other short-term assets	404			
Long-term assets	1,112			
Less				
Net debt (exclude CB)	2,456			
Other liabilities	1,070			
Minority interest	1,145			
RNAV	11,007			
Shares outstanding	283,596,291			
Target price (VND/share)	38,800			

Source: KIS

In our Waterfront model, we increase the average selling price from VND15m to VND25m psm thanks to rising demand in Dong Nai housing market and leverage the ownership ratio of NLG to 65%. The GDV of Waterfront project is adjusted upward to VND3.3tn. The most key change in our model is the COE which has been reduced to 10.7% from 12.7% driven the lower risk free rate. We use 10-year government bond yield of 3% instead of 5% in our model.

We maintain our discount of 30% to NAV of each project as we concern on the execution risk and presales estimates which are vulnerable to COVID-19 outbreak. Our TP for NLG is now at VND38,800bn, bringing a 20.9% upside.

Table 4. Cost of equity and WACC revision

(x, %)

	New	Old	Note
Cost of equity			
Beta	0.7	0.7	
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	10.7	12.7	
WACC			
Cost of debt	11.0	13	
Target debt to capital	30	30	
Tax rate	20	20	
WACC	10.1	12.1	

Balance sheet

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Current assets	7,321	7,923	9,300	11,136	13,699
Cash & cash equivalents	2,084	1,901	1,096	52	1,163
Accounts & other receivables	1,833	1,548	1,968	2,059	2,878
Inventory	1	0	0	0	0
Non-current assets	1,762	2,052	3,518	2,304	2,275
Fixed assets	40	58	58	51	44
Investment assets	1,722	1,994	3,460	2,253	2,230
Others	492	929	642	803	738
Total assets	9,576	10,904	13,460	14,244	16,711
Advances from customers	1,322	2,068	1,970	1,392	1,773
Unearned revenue	7	7	7	7	7
Trade payables	175	333	641	1,103	1,165
Others	1,779	1,427	1,665	2,359	2,450
ST debt & due bonds	201	63	932	150	258
LT debt & bonds	806	806	1,525	1,125	625
Total liabilities	4,290	4,704	6,740	6,136	6,279
Controlling interest	4,139	5,083	5,580	6,588	8,165
Capital stock	2,597	2,853	2,853	2,853	2,853
Capital surplus	989	989	864	864	864
Other reserves	(740)	(598)	(270)	(751)	(1,118)
Retained earnings	1,294	1,839	2,133	3,622	5,566
Minority interest	1,145	1,117	1,141	1,520	2,268
Shareholders' equity	5,285	6,200	6,720	8,108	10,432

Income statement

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Sales	3,480	2,546	2,217	4,153	8,507
COGS	1,963	1,480	1,523	2,938	5,081
Gross profit	1,517	1,066	694	1,215	3,426
SG&A expenses	491	425	434	612	821
Operating profit	1,013	626	237	565	2,566
Financial income	97	727	848	8	93
Interest income	129	120	727	848	8
Financial expenses	21	103	60	60	60
Interest expenses	20	103	60	60	60
Other non-operating profit	9	398	13	13	0
Gains (Losses) in associates, subsidiaries and JV	14	126	142	236	618
Earnings before tax	1,128	1,226	1,015	1,601	3,131
Income taxes	241	219	165	320	614
Net profit	887	1,007	851	1,281	2,517
Net profit of controlling interest	763	960	835	1,258	2,137
EBITDA	1,026	642	260	603	2,605

Cash flow

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
C/F from operations	991	325	(1,066)	(2,507)	991
Net profit	763	960	835	1,258	2,137
Dep'n & Amort'n	13	16	23	39	39
Net incr. in W/C	384	(54)	(1,791)	(2,293)	(854)
C/F from investing	(1,830)	(377)	(1,016)	2,914	658
Capex	(15)	(64)	0	0	0
Incr. in investment	(97)	11	683	1,730	658
C/F from financing	840	(131)	1,278	(1,449)	(535)
Incr. in equity	447	276	(21)	(124)	0
Incr. in debt	600	(138)	1,561	(1,182)	(392)
Dividends	(207)	(244)	(262)	(143)	(143)
C/F from others	0	0	0	0	0
Increase in cash	2	(183)	(804)	(1,042)	1,115

Key financial data

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Per-share data (VND, adj.)					
EPS	3,280	3,709	3,066	4,409	7,492
BPS	17,831	19,464	19,641	24,425	31,240
DPS	452	500	549	500	500
Growth (%)					
Sales growth	10.1	(26.8)	(12.9)	87.3	104.9
OP growth	14.9	(38.2)	(62.2)	138.4	354.3
NP growth	42.7	25.8	(13.0)	50.5	69.9
EPS growth	21.7	13.1	(17.3)	43.8	69.9
EBITDA growth	14.7	(37.5)	(59.5)	132.4	331.7
Profitability (%)					
OP margin	29.1	24.6	10.7	13.6	30.2
NP margin	25.5	39.5	38.4	30.8	29.6
EBITDA margin	29.5	25.2	11.7	14.5	30.6
ROA	9.3	9.2	2.9	4.7	16.5
ROE	20.3	19.9	15.7	20.0	26.9
Dividend yield	1.4	1.5	1.5	1.5	1.5
Dividend payout ratio	13.8	13.5	17.9	11.3	6.7
Stability					
Net debt (VND bn)	(1,077)	(1,031)	1,361	1,224	(279)
Net debt/equity (%)	(20)	(17)	20	15	(3)
Valuation (x)					
PE	9.9	8.8	10.6	7.4	4.3
PB	2.3	1.8	1.7	1.7	1.3
EV/EBITDA	5.4	10.5	31.1	15.8	3.2

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