

9 Mar 2021

# Vinhomes JSC (VHM)

## Rosy earnings growth outlook unchanged

### Bulk sales help avoid the storm

The bulk sale contributed VND23.4tn, 36.4% of contracted sales and VND17.3bn, 46.5% of profit before tax in FY20, in our view. We believe bulk sale strategy is still a leading key in FY21F-22F contract value with around VND24-27tn thanks to contribution of three current mega projects and upcoming ones.

### Solid presales in key projects in FY21F-22F expected

The management is going to get licenses to launch three new mega townhouse projects in late 2H21F including Dream City (total 460ha, Hung Yen province), Coloa (385ha, Dong Anh Dist, Hanoi), Wonder Park (133ha, Dan Phuong Dist, Hanoi). We expect the emergence of three townhouse projects could bring around VND14.5-16tn retail presale value in FY21F and VND20-25tn in FY22F.

In the hope that COVID-19 could be well-contained from 1H21F, we forecast the total presales value to boom to VND70-73tn in FY21F and VND83-85tn of which bulk sales is VND24-27tn p.a.

### Property sustains earnings growth for FY21F-22F

In FY21F, we estimate a 21.7% yoy revenue growth to VND86.2tn and 17.5% yoy net profit growth to VND32.7tn driven by a delivery of total 14,000 remainders of Grand Park, Smart City and Ocean Park. We also project a VND6tn financial income arising from FY20 bulk sales in Grand Park and Ocean Park projects.

In FY22F, we attribute the FY22F revenue of VND81.1tn, -5.9% and net profit growth of VND36.8tn, 12.5% yoy to the contribution of three new mega projects. Total handover value estimate in FY22F is VND75.2tn.

### Industrial parks shine in FY22F-25F

VHM plans to launch another first industrial park out of three parks late this year and expect to record the first revenue from FY22F onward. Despite the immaterial contribution to total revenue in FY22F at 5-10%, per the management, we expect VHM's ecosystems is benefiting from the rising FDI relocation Northern key economic zones.

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE E/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(%)	(%)
2018A	38,664	7,617	14,284	4,567	(19.0)	7,879	21.2	42.7	7.5	57.0
2019A	51,627	23,219	21,747	6,493	42.2	23,570	14.9	14.7	5.8	43.8
2020A	70,890	20,709	27,839	8,311	28.0	21,292	11.6	16.0	3.8	39.1
2021F	86,239	36,620	32,701	9,763	17.5	37,584	9.9	8.7	2.8	31.6
2022F	81,122	43,707	36,793	10,984	12.5	44,722	8.8	6.0	2.2	26.7

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

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12M rating **BUY (Maintain)**

12M TP **121,700** from 93,500

Up/Downside **+26.2%** (incl 1.0% cash dividend)

### Stock Data

VNIndex (08 Mar, pt)	1,168
Stock price (08 Mar, VND)	97,200
Market cap (USD mn)	13,875
Shares outstanding (mn)	3,290
52-Week high/low (VND)	105,800/54,800
6M avg. daily turnover (USD mn)	9.91
Free float / Foreign ownership (%)	23.4/22.4
Major shareholders (%)	
Vingroup	70.9
VIKING ASIA HOLDINGS PTE	5.65
Norges Bank	0.79

### Performance

	1M	6M	12M
Absolute (%)	2.6	23.8	20.1
Relative to VNIndex (%p)	(5.3)	(8.6)	(13.4)

### Stock price trend



Source: Bloomberg

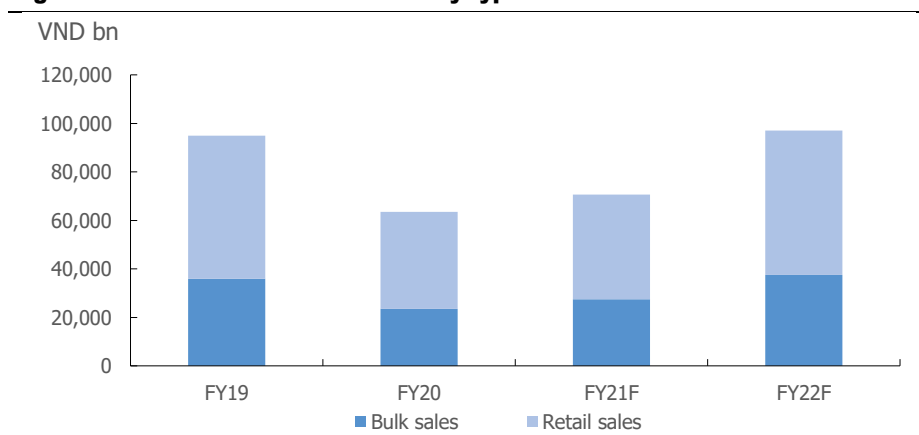
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### Maintain BUY at a higher RNAV-based TP of VND121,700

We increase our RNAV-based target price to VND121,700 thanks to faster sales growth in Grand Park and Ocean Park projects. Industrial park segment is evaluated in timeframe of 10 years at the lease rate of USD90-95 per sq m p.a. We discount about 50% NAV of IP segment to reflect the execution risk and presales risk. However, we also reduce our discount rates applied to Can Gio and Green Ha Long projects from 85-75% to 80-70% as we have more information on the licensing process. Those two projects contribute 30-35% of total our NAV. Key risks in our models are the complexity of COVID-19 outbreak that hurts the sale events.

**Figure 1. Forecasted contract value by type in FY21F-22F**



Source: KIS

As they were not immune to the COVID-19 outbreak which dented the sales events of three mega township projects, the FY20 contract sale was VND64.4NDtn, -33% yoy, fulfilling 95% /69% our guidance/company's estimate respectively.

**Table 1. Pipeline development of VHM's projects in FY21F-22F**

Year	Project name	Location	Land size Product (ha)	NSA ('000 sqm)	Units*	Est. GDV* (VNDbn)	Project status
2021F	Vinhomes Wonder Park	Dan Phuong, Hanoi	133 Apartment, villa, townhouses	2,900	17,933	177,100	Launching in 3Q21F
	Vinhomes Dream City (Ocean Park 2)	Van Giang, Hung Yen	460 Apartment, villa, townhouses	7,080	100,847	162,888	The Prime Minister has just approved the investment plan of the project, first launching in 4Q21F
	Vinhomes Co Loa	Dong Anh, Hanoi	385 Villa/Townhouse	2,660	8,867	48,944	Launching in 4Q21F
2022F	Vinhomes Long Beach	Can Gio, HCMC	2,870	29,675	75,455	1,283,685	

Source: KIS

The management is going to get licenses to launch three new mega townhouse projects in 2H21F including Dream City (total 460ha, Hung Yen province), Coloa (385ha, Dong Anh Dist, Hanoi), Wonder Park (133ha, Dan Phuong Dist, Hanoi). We expect Vietnam housing market to recover in late FY21F driven by following supports: 1) affordable mortgage rates propel purchase 2) the rebound of macro indicators boosts the homebuyers' confidence and 3) baby steps by government

to unlock the current licensing bottlenecks. Hence, we forecast VHM's contract sales could bounce to VND72tn, +11.2% yoy in FY21F and VND97tn in FY22F of which bulk sale remains a key driver. Bulk sale could maintain the same level to VND23.5tn in FY21F and to VND27.5bn, +16.7% yoy in our view. In FY21F, we estimate three existing mega projects and the newcomers contribute around VND16.5tn/VND7tn in FY21F and VND15.5tn/VND11tn in FY22F.

**Table 2. Snapshot of industrial park business forecast**

VND bn

	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
Land sales area (ha)	5	10	15	20	30	40	50	60	70	80
Revenue	105	214	337	476	743	1,041	1,353	1,706	2,069	2,436
PBT	26	54	75	122	190	256	353	508	529	681
FCFF	-27	174	-92	388	157	225	1,066	654	46	1,910

Sources: KIS

VHM steps into the industrial parks late in FY21F to ride on the wave of investors expanding or shifting operations to Vietnam. We assume two industrial parks located in Hai Phong including the 200ha Nam Trang Cat IP and the 319ha Thu Nguyen IP could get license to launch in late FY21F-22F thanks to the government's open policies. Based on among the most buoyant economic zones with strategic geographic position, we believe Vinhomes could benefit from the increasing demand for industrial properties. We forecast a 10-80ha presales area could deliver in FY22F-31F, helping generating a sustained cash flow to VHM.

**Table 3. Snapshot of VHM's business performance in FY21F-22F** (% , VND bn)

	FY20	FY21F	FY22F Note
Presale	64,400	70,700	97,000
Revenue	70,890	86,239	81,122
Property development	66,698	81,451	75,191
Real estate management	1,404	1,718	1,955
Leasing	1,258	1,463	1,869
Others	1,530	1,606	1,687
Industrial park			419
Gross profit	25,787	42,795	50,575
Gross margin	36.4	49.6	62.3
SG&A	5,078	6,174	6,868
Financial income	20,718	8,981	5,944
Interest income	2,496	2,821	2,746
Project transfer (bulk sale)	17,244	6,160	2,100
BCC profit sharings	978	0	1,098
Financial expense	3,702	3,036	2,815
Earnings before tax	37,037	42,565	46,836
Earnings after tax	28,757	34,052	37,469
Net profit	27,829	32,701	36,803

Source: KIS

Some of our key assumptions for FY21F-22F include: 1) the company could record a VND6tn financial income from two bulk sale transactions in Grand Park and Ocean Park projects inked in FY20, 2) a 64% total bulk sale presales could translate to revenue in FY21F and 3) gross margin climbs to 49.6% in FY21F

and 62.3% in FY22F thanks to major contribution of higher-margin landed property revenue in FY21F-22F (60-62%)

Overall, in FY21F, we estimate an 21.7% yoy growth to VN86.2tn in total revenue and a 17.5% yoy growth to VND32.7tn in NPATMI partly thanks to a delivery of total 14,000 units of which 2,700 townhouse units in three mega projects.

We record the presales of three new launched projects of FY21F as total FY22F revenue, that apart helps the topline mount to VND81.1tn, -5.9% yoy in FY22F. Despite moderate total revenue growth, the FY22F net profit is estimated to come to VND36.8tn, +12.5% yoy thanks to the delivery of thousands of villas/townhouses in Dream City, Wonder Park, Can Gio projects launched in FY21F-22F, in our view.

We expect the company to borrow VND8tn per year to finance the capex demand of VND17-18tn in FY21-22F. Due to the long-term loan demand, we forecast the same dividend payment policy of VND1,000/share.

**Table 4. Fair value calculation**

(VND bn, mn shares, VND)

Inventory and Investment	Fair value	Method
Residential property	312,796	DCF
Office lease	45,326	DCF
Industrial park	8,492	DCF
Other	353	Book value
<b>Total property value</b>	<b>366,967</b>	
<b>Add:</b>		
Cash and cash equivalent	12,479	
Other assets	105,190	
<b>Less:</b>		
Net debt (exclude CB)	20,124	
Other liabilities	47,498	
Minority interest	9,416	
<b>Discounted RNAV</b>	<b>407,598</b>	
Shares outstanding	3,350	
<b>Target price</b>	<b>121,700</b>	

Source: KIS

In our models of Can Gio and Green City projects, we reduce the discounts to NAV of those projects from 85-75% to 80-70% as VHM get the licenses to launch from the government. We believe the execution risk could be deteriorating. Hence, the fair value of residential property is estimated to VND312.7tn of which fair values of two giant projects are total VND100tn.

We also calculate the fair value of industrial property segment by discounting the FCFFs in FY22F-29F at a 12% WACC. We apply our discount of 50% to NAV of each industrial park project as we concern on the execution risk and presales estimates which are vulnerable to COVID-19 outbreak.

Our TP for VHM is revised upward to VND121,700, bringing a 26.2% upside for 1-year horizon.

**Balance sheet**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021F	2022F
Current assets	91,203	139,555	102,010	182,590	326,405
Cash & cash equivalents	3,515	13,332	12,479	52,032	109,001
Accounts & other receivables	43,356	47,468	34,024	39,134	52,835
Inventory	36,743	60,297	43,227	75,138	137,419
Non-current assets	24,771	36,237	56,248	67,476	97,813
Fixed assets	100	625	6,075	5,700	5,306
Investment assets	24,670	35,612	50,173	61,776	92,508
Others	3,716	21,449	56,680	66,134	62,992
Total assets	119,689	197,241	214,937	316,201	487,210
Advances from customers	14,207	40,246	27,310	69,296	203,778
Unearned revenue	0	0	0	0	0
Trade payables	2,504	6,078	10,860	10,460	7,355
Others	22,924	59,697	62,126	67,147	72,671
ST debt & due bonds	6,403	18,162	10,998	9,814	12,245
LT debt & bonds	25,506	8,343	13,958	39,094	36,663
Total liabilities	71,544	132,526	125,252	195,812	332,712
Controlling interest	43,231	56,096	86,148	115,500	148,943
Capital stock	33,495	33,495	33,495	33,495	33,495
Capital surplus	295	295	295	295	295
Other reserves	1,814	(3,734)	(4,151)	(4,151)	(4,151)
Retained earnings	7,627	26,040	56,509	85,861	119,304
Minority interest	4,912	8,619	3,538	4,889	5,555
Shareholders' equity	48,143	64,715	89,685	120,388	154,497

**Income statement**

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Sales	38,664	51,627	70,890	86,239	81,122
COGS	28,603	24,171	45,104	43,444	30,547
Gross profit	10,061	27,456	25,787	42,795	50,575
SG&A expenses	2,444	4,237	5,078	6,174	6,868
Operating profit	7,617	23,219	20,709	36,620	43,707
Financial income	9,046	20,718	8,981	5,944	3,844
Interest income	1,544	2,379	2,496	8,981	5,944
Financial expenses	2,549	3,702	3,036	2,815	1,863
Interest expenses	2,378	2,984	3,036	2,815	1,863
Other non-operating profit	(7)	30	(678)	0	(10)
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	19,719	29,746	37,047	42,565	46,826
Income taxes	4,942	5,427	8,280	8,513	9,367
Net profit	14,776	24,319	28,767	34,052	37,459
Net profit of controlling interest	14,284	21,747	27,839	32,701	36,793
EBITDA	7,879	23,570	21,292	37,584	44,722

**Cash flow**

(VND bn)

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
C/F from operations	(1,463)	51,928	22,273	21,674	85,613
Net profit	14,284	21,747	27,839	32,701	36,793
Dep'n & Amort'n	262	352	583	963	1,015
Net incr. in W/C	(3,331)	38,178	10,910	(4,389)	53,029
C/F from investing	(17,842)	(27,320)	(21,171)	(2,724)	(25,295)
Capex	0	0	0	0	0
Incr. in investment	(17,842)	(27,320)	(21,171)	(2,724)	(25,295)
C/F from financing	21,259	(14,792)	(1,955)	20,603	(3,350)
Incr. in equity	12,241	(5,550)	(821)	0	0
Incr. in debt	9,963	(5,555)	(976)	23,953	(0)
Dividends	(945)	(3,687)	(158)	(3,350)	(3,350)
C/F from others	0	0	0	0	0
Increase in cash	1,954	9,817	(853)	39,553	56,968

**Key financial data**

FY-ending Dec.	2018A	2019A	2020F	2021F	2022F
Per-share data (VND, adj.)					
EPS	4,567	6,493	8,311	9,763	10,984
BPS	12,907	16,748	25,719	34,482	44,467
DPS	0	1,101	47	1,000	1,000
Growth (%)					
Sales growth	152.8	33.5	37.3	21.7	(5.9)
OP growth	143.5	204.8	(10.8)	76.8	19.4
NP growth	913.3	52.2	28.0	17.5	12.5
EPS growth	(19.0)	42.2	28.0	17.5	12.5
EBITDA growth	122.7	199.2	(9.7)	76.5	19.0
Profitability (%)					
OP margin	19.7	45.0	29.2	42.5	53.9
NP margin	38.2	47.1	40.6	39.5	46.2
EBITDA margin	20.4	45.7	30.0	43.6	55.1
ROA	6.0	12.1	7.4	11.0	8.7
ROE	57.0	43.8	39.1	32.4	27.8
Dividend yield		1.1	0.0	1.0	1.0
Dividend payout ratio	0.0	17.0	0.6	10.2	9.1
Stability					
Net debt (VND bn)	28,393	13,173	12,477	(3,124)	(60,092)
Net debt/equity (%)	59.0	20.4	13.9	(2.6)	(38.9)
Valuation (x)					
PE	21.2	14.9	11.6	9.9	8.8
PB	7.5	5.8	3.8	2.8	2.2
EV/EBITDA	42.7	14.7	16.0	8.7	6.0

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