

1 Aug 2022

Novaland JSC (NVL)

2Q22 Briefing: Earnings quality is questionable

2Q22 Briefing

- On Aug 1, Novaland released its 2Q22 business results, featuring mixed performance. Here are some key figures covered

Lack of non-core gains dragged the 2Q22 NPATMI

- Novaland recorded its 2Q22 flattish 4.5% yoy growth of topline (VND2,658.2bn) driven by a VND2.2bn handover value of low-rise houses in Aqua City, NovaWorld Ho Tram, NovaWorld Phan Thiet, NovaHill Mui Ne, Soho Residence and Victoria Village.
- Blended gross margin slid to 42.4%, +5.6%p qoq, +8.7%p yoy, equivalent to VND1,127.7bn. Despite SGA to sales climbing to 21.7%, 3%p yoy, operating profit was brisk with a VND550.8bn, +256% qoq, +43.8% yoy
- Financial income surged by 23% yoy to VND1,650.9tn, offset by a thinner financial expense of VND1,152.4bn, -37% yoy. While seeking the constituents of financial income/expense, we note NVL's USD debt exposure resulted in an exchange loss of VND300bn vs VND31bn in 2Q21.
- However, NPATMI plunged sharply by 44% yoy to VND749bn, due to the absence of one-off other income of VND1,691.5bn recorded in 2Q21. The company claimed on a bargain purchase following the acquisition of a 700-ha land bank in Mui Ne, Binh Thuan Province (close to NovaWorld Phan Thiet) via a group of companies — Nova Final Solution JSC, Dang Khanh Real Estate and Dau Tu Tong Hop Mui Ne JSC in 2Q21.
- In 1H22 NVL enjoyed a positive cash flow from operation of VND3.382bn, significantly higher than VND391.3bn in 1H21.
- As of end-2Q22, the net debt/equity rose to 1.14x vs 1.03x as of end-4Q21.
- Total loans and bonds climbed to VND68.5tn as of end-2Q22, 13% YTD.
- Thanks to a goodwill income of VND1,269.7bn from acquiring 72.6% stake in Da Lat Valey JSC in 1Q22 other income, 1H22 NPATMI was flattish at VND1,828bn (-1.5% yoy), despite a drop of -34.5% yoy revenue (VND4,614.6bn), fulfilling 12.8%/27.7% of their guidance.

	2017A	2018A	2019A	2020A	2021A
Sales (VND bn)	11,632	15,290	10,931	5,026	14,903
chg. (% YoY)	58.1	31.4	(28.5)	(54.0)	196.5
Operating profit (VND bn)	2,322	4,006	1,660	379	3,519
Net profit (VND bn)	2,033	3,239	3,431	3,919	3,225
EPS (VND)	3,210	3,546	3,579	4,021	1,819
chg. (% YoY)	(5.5)	10.5	0.9	12.3	(54.8)
EBITDA (VND bn)	2,807	4,503	-1,091	1,115	2,251
PE (x)	25.3	22.5	21.9	19.5	45.5
EV/EBITDA (x)	21.3	19.0	-92.0	99.4	83.1
PB (x)	3.8	3.7	3.2	2.8	4.1
ROE (%)	17.5	19.5	15.5	13.9	8.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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

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12M rating **Non-rated**

12M TP **N.A**

Up/Downside **N.A**

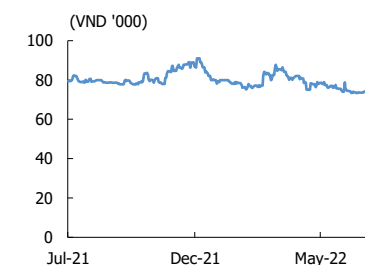
Stock Data

VNIndex (29 Jul, pt)	1,206
Stock price (29 Jul, VND)	74,500
Market cap (USD mn)	6,204
Shares outstanding (mn)	1,950
52-Week high/low (VND)	91,000/73,400
6M avg. daily turnover (USD mn)	11.03
Free float / Foreign ownership (%)	34.7/5.8
Major shareholders (%)	
NovaGroup	32.17
Chairman and related	14.16
Diamond Properties JSC	10.52

Performance

	1M	6M	12M
Absolute (%)	(0.8)	(7.0)	(6.4)
Relative to VNIndex (%p)	(0.2)	9.6	(1.2)

Stock price trend



Source: Bloomberg

Nhan Lai

Nhan.lai@kisvn.vn

The valuation looks expensive; investors seem bullish

- NVL is trading at 38x TTM PE, and 4.1x PB, significantly higher than the 1-year median PE of 35.5x but slightly lower than PB of 4.5x.
- While we are still upbeat about the unrivaled monetization of NVL's blockbuster land bank in satellite cities, we could not be relieved of its relentlessly rising net debt. Furthermore, the credit unavailability allocated to developers and homebuyers not only hinders the homebuyers' purchase decisions but also jeopardise NVL's fund demand to pay due debts. Given those pros and cons, we recommend a conservative approach toward NVL.

Table 1. 2Q22 earnings

(VND bn, %, %p)

	2Q20	3Q21	4Q21	1Q22	2Q22	QoQ	YoY	Consensus
Sales	2,543.7	3,261.9	4,590.6	1,956.4	2,658.2	35.9	4.5	N.A
Gross profit	858.2	1,501.4	2,057.9	719.6	1,127.7	56.7	31.4	N.A
Gross margin	33.7	46.0	44.8	36.8	42.4	5.6	8.7	N.A
OP	383.0	648.5	1,126.9	154.7	550.8	256.0	43.8	N.A
OP margin	15.1	19.9	24.5	7.9	20.7	162.0	37.1	N.A
EBT	1,496.6	895.5	1,440.3	1,351.4	1,289.5	(4.6)	(13.8)	N.A
NPATMI	1,320.5	555.6	817.2	1,079.0	740.0	(31.4)	(44.0)	N.A

Source: Company data, KIS

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Prepared by: Nhan Lai

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