

Housing property

Actions speak out loud

Earnings extraordinarily descended in 4Q22

The 4th quarter is normally peak season but 4Q22 recorded some anomalies: Based on our estimate, 4Q22 aggregated NPAT of 27 listed housing developers declined by 44% yoy and 40.5% qoq and the loss event transmitted across the universe. The full-year performance was dragged down with a NPAT growth of -28.1% yoy. Numerous companies fell shy of NPAT guidance at 35-70%. Weak presales dynamics in 2020-21 dragged by outbreak was exacerbated further in 2022 due to mortgage loan crunch and that dip the revenue down. Furthermore, most of the companies could not squeeze the SGA expense enough in correspondent with the lower revenue, hence, NPAT growth was hit harder.

Balance sheet grew scary in the short-term

As of end-2022, the loan balance went up by 18.7% YTD, prompting the total debt to VND157.6tn, +14.2% YTD, higher than the whole economic credit growth in 2022. Regarding the due debt payment as of end-4Q22, the listed developers must pay around VND34.6tn, -10.3% qoq, but 122.7% YTD. In terms of inventory including construction in progress, there's around VND369.9bn inventory as of end-4Q22, +26.9% yoy. The yoy change diverged across the board, given VHM's a 74.7% yoy to VND127.9tn and NVL's a 22.7% yoy to VND135tn while some companies stayed largely unchanged.

The 1Q23F gift is tiny but blissful

Since 1Q23F is the off-peak season of soft launches, we do not think the market could welcome multiple marketing campaigns or sales events held by developers. About the bond payment, more and more bondholders announce their inability to pay the due principal/interest in Jan. We believe the number could widen in the next couple of months. In light of 1Q23F business result expectation given the mostly lowest performance quarter throughout the year, we still anticipate some companies could record bullish yoy growth. Furthermore, the newly-amended Decree 65 on corporate bond issuance could signal a glimpse of relief thanks to loosening clauses on repayment and professional individual buyers.

Neutral on 2023F outlook; soft landing is expected

We maintain our Neutral rating on Vietnam's residential sector due to the inherent roots of bottlenecks have yet been addressed thoroughly. Despite some headwinds blowing fiercely, many developers with their flexible strategy in sales combined with concrete balance sheet could weather the storm smoothly. Names are VHM, NLG, and KDH and we are reviewing their earnings prospects to factor in the true economic climate and the possible procrastination of project launch.

Neutral (Maintain)

Company	Rating	TP (VND)
Vinhomes	BUY	93,615
Khang Dien	BUY	37,500
Nam Long	BUY	45,300

Research Dept

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**4Q22 earnings growth
retreated steeply amid
descending revenue
growth pace.**

The loss transmitted through the sector in 4Q22

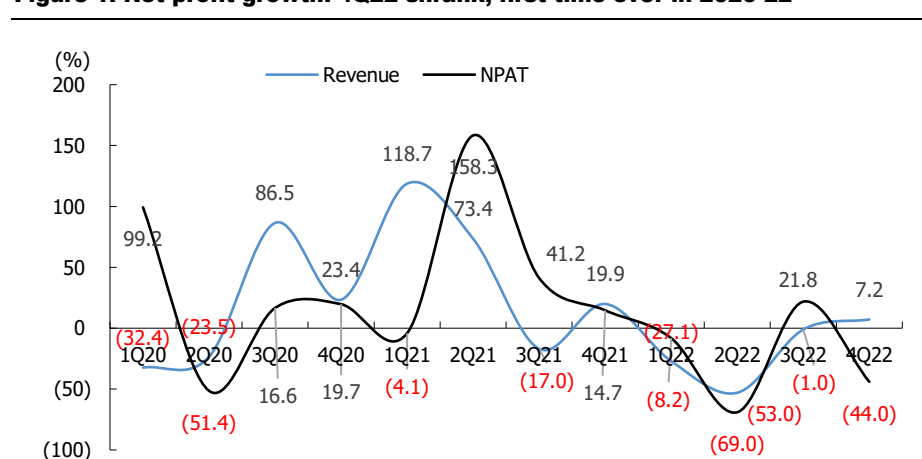
This quarterly earnings report on housing property is intended to track the earnings growth trend of listed Vietnamese residential developers. Normally, the last quarter is the peak season when the developers skew in favor to book the booming revenue growth. Based on our collection, 4Q22 aggregate revenue momentum of 27 listed companies on three bourses was more than halved at +7.2% yoy and +60% qoq. Last two years, the listed developers witnessed 18.8.0% yoy/46.4% qoq and +23.4% yoy/2.4% qoq in 4Q22/4Q21. In contrast, NPAT pulled back steeply with -44.0% yoy/-40.5% qoq in 4Q22 vs 14.7% yoy/29.3% qoq in 4Q21 and 19.7% yoy/59.2% qoq.

Table 1. 27-company aggregated earnings: 4Q22 contracted (VNDbn, %)

	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Revenue	47,034.8	20,851.5	20,421.9	31,505.1	50,406.8	60.0	7.2
OP	17,381.0	4,942.0	4,888.0	10,570.2	15,702.0	48.5	(9.7)
NPAT	18,337.7	7,852.6	4,313.3	17,267.1	10,265.4	(40.5)	(44.0)

Source: Fiinpro, KIS

Figure 1. Net profit growth: 4Q22 shrank, first time ever in 2020-22



Source: Fiinpro

**The sector diverged with
some small players
recording PBT losses in
4Q22**

**The season 4Q22 led full-
year topline and bottom-
line to be both sluggish**

**The tepid contract sales in
2020-22 were attributed to
the lackluster 2022
revenue growth**

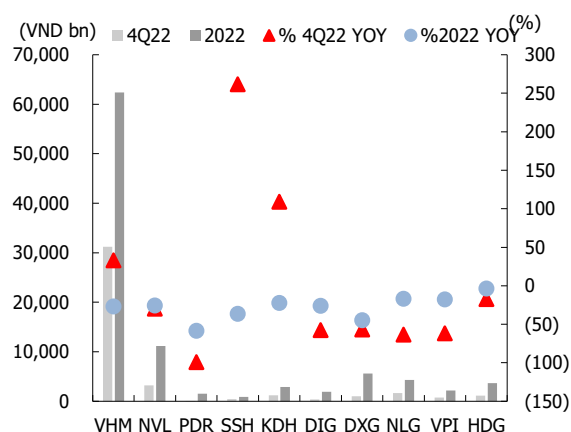
In terms of the constituent, VHM led the sway with revenue/NPAT shares standing at 61.9%/87.2%. VHM's revenue/NPAT growth made up sector aggregate growth of 20.6% yoy/-22.1% yoy in 4Q22. Excluding VHM, we saw the revenue drop across the whole sector and PBT loss transmitted to some profound names including DXG, PDR, AGG, NRC, QCG.

Since the full-year performance hinges on the fourth quarter, it's obvious for the 2022 revenue results to be stagnant, sitting at -22.5% yoy vs +27.7% in 2021 and +11.6% yoy in 2020. The top ten largest companies posted red growth of -3.6-58.4% yoy and missed the revenue guidance. The bottom line throttled further with -28.1% yoy in 2022 vs 36.9% yoy in 2021 and 4.8% yoy in 2020.

Delving into revenue growth in 4Q22 and 2022, we attribute this to the weak presales dynamics in 2020-23 dragged by the COVID-19 and mortgage loan crunch. Usually, the 2022 property revenue will stem from presales won in 2020-21 and some part of presale in 2023. The weight could diverge albeit to a different extent, depending on the type of residential property (high-rise apartments, low-rise landed houses, land lots). The outbreak impeded the

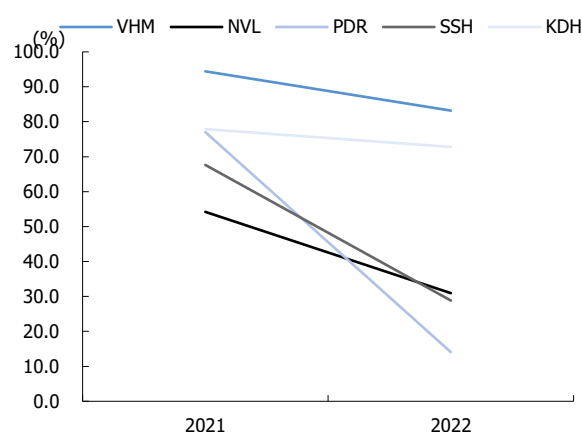
gallery visits and soft launches in 2020-21 while the credit crunch tightens the homebuyers' access in 2022. We guess most of the company suffered contract sales to be diminishing including KDH, NLG, VHM, DXG.

Figure 2. Revenue: The 10 largest saw revenue slump in 2022



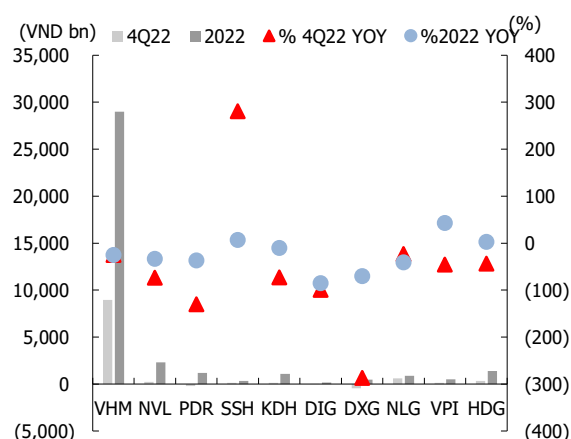
Source: Company data, Fiinpro

Figure 3. Revenue completion: No company beat revenue guidance



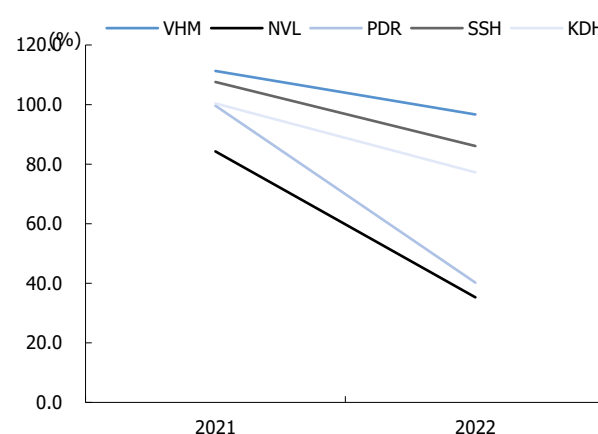
Source: Company data, Fiinpro

Figure 4. Net profit: VHM dipped down the aggregated sector earnings growth further



Source: Company data, Fiinpro

Figure 5. Net profit completion: except VHM, no company fulfilled



Source: Company data, Fiinpro

Financial income growth offset the SGA/sales hike

Not only revenue plunged, but also the gross margin (GM) slumped across the universe including (VHM, NVL, SSH) in 2022. We believe the various COGS of each project is the biggest influence but dominance of thinner-margin high-rise property handover could also swing the GM. VHM is a typical illustration since their bulk sale revenue is derived mainly from high-rise units in 2022. In contrast, the aggregated financial income grew strongly to VND28,145bn, +59.5% yoy in 2022 thanks to 1) VHM's ballooning income from bulk sale project transfer (VND17,147bn, +114.5% yoy) 2) the NVL's robust growth of an income of business cooperation contract (BCC) (total VND5,012bn, 37.5% yoy) and 3) PDR's divestment income of VND1,248.5bn, 187.9x yoy by transferring 26% stake in KL JSC to Gemini JSC. However, most of the companies could not squeeze the SGA expense enough in correspondent with the lower revenue, hence SGA/sales still inched up by an average of 1.3-13.7% p yoy.

Table 2. 2022 snapshot: Financial income growth was a savor (VNDbn, %)

	2022	2021	2020	%2022 yoy	%2021 yoy	%2020 yoy
Revenue	116,954.6	150,869.4	118,176.8	(22.5)	27.7	11.6
Gross profit	52,009.1	76,329.5	38,987.9	(31.9)	95.8	(14.5)
OP	36,732.8	59,412.3	26,672.5	(38.2)	122.7	(21.4)
Financial income	28,145.0	17,646.8	34,939.9	59.5	(49.5)	118.2
Other income	2,642.9	3,694.3	(687.5)	(28.5)	(637.3)	(115.8)
NPAT	39,318.1	54,678.5	39,915.7	-28.1	37.0	4.8

Source: Fiiipro

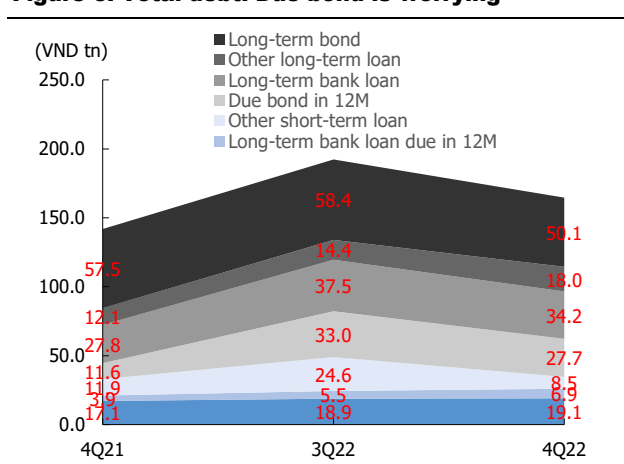
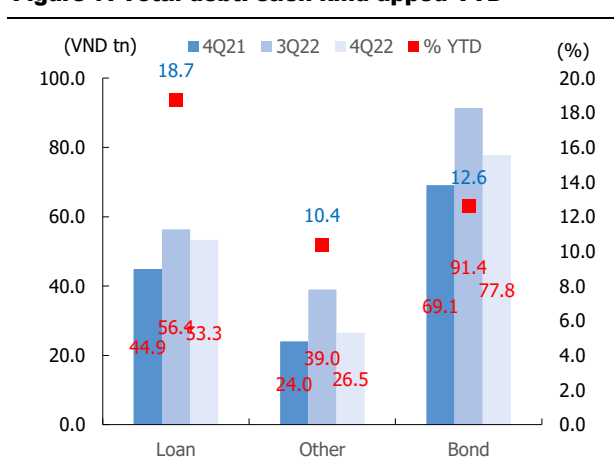
Table 3. 2022 snapshot: GM contraction weighed the earnings (VNDbn, %, %p)

	Gross profit	% yoy gross profit	GM	GM yoy	SGA/sales	SGA/sales yoy
VHM	30,267.1	(37.5)	48.5	(8.5)	(8.3)	1.2
NVL	4,347.9	(29.1)	39.0	(2.1)	(22.4)	4.8
PDR	1,276.4	(53.8)	84.8	8.5	(20.3)	13.7
SSH	250.8	(51.5)	29.0	(9.2)	(26.6)	10.9
KDH	1,383.0	(22.9)	47.5	(0.5)	(11.1)	0.8
DIG	637.6	(24.1)	33.4	0.7	(14.4)	0.7
DXG	2,944.7	(47.4)	52.8	(2.7)	(38.3)	9.7
NLG	1,984.0	11.6	45.7	11.6	(26.6)	7.5
VPI	1,035.9	61.4	48.1	23.5	(16.3)	5.3

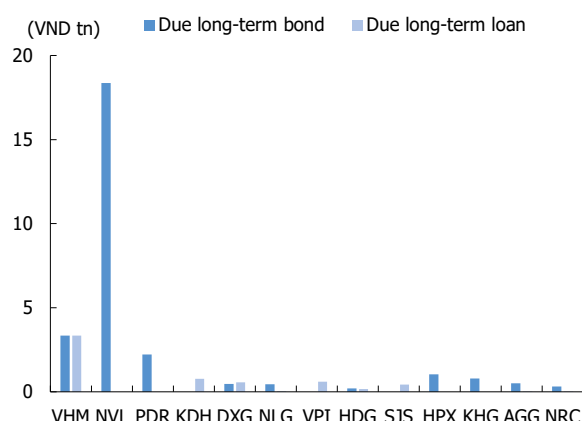
Source: Fiiipro

The balance sheet grew worrisome

We take a further examination on the gearing by dividing total debt into the bank loan, corporate bond, and other (lenders could be contractors, BOD's relatives...). Three types of debt saw positive YTD growth of which the loan balance surged by 18.7% YTD, prompting the total debt to VND157.6tn, + 14.2% YTD, higher than the whole economic credit growth in 2022. Regarding the due debt payment in 2023F as of end-4Q22, the listed developers must pay around VND34.6tn, -10.3% qoq, but 122.7% YTD. Of which, around VND27.7tn (139.1% YTD, -16.1% qoq), corporate bond must be paid in 2023. The pressure drag on NVL with VND18.3tn bond and PDR with a VND2,214bn bond as of end-4Q22.

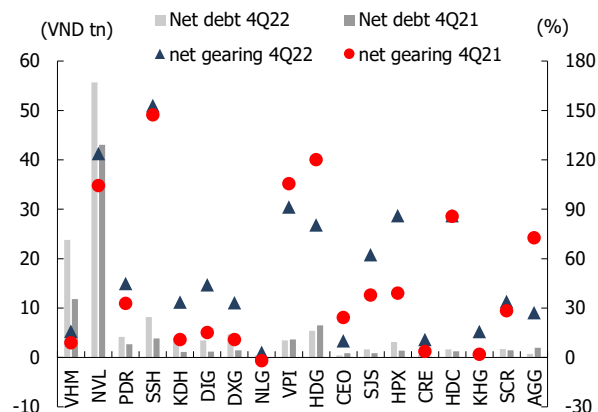
Figure 6. Total debt: Due bond is worrying**Figure 7. Total debt: each kind upped YTD**

Source: Company data, Fiinpro

Figure 8. Due debt: Eyes on NVL's due bond

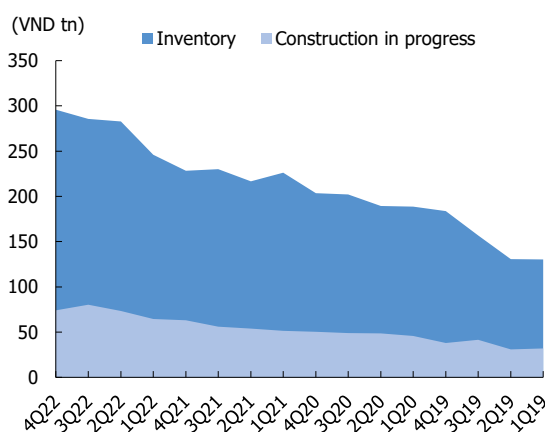
Source: Company data, Fiinpro

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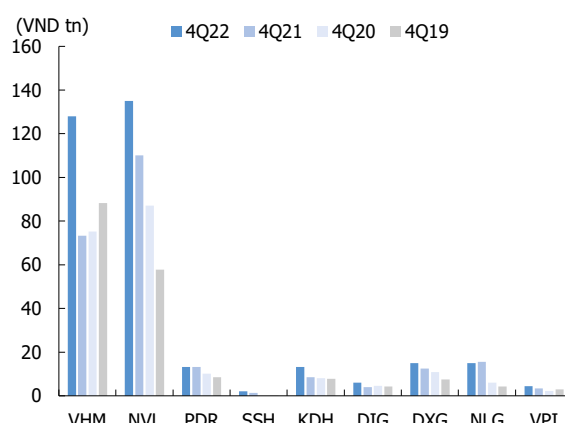
Figure 9. Net debt: gearing is ramping up

Source: Company data, Fiinpro

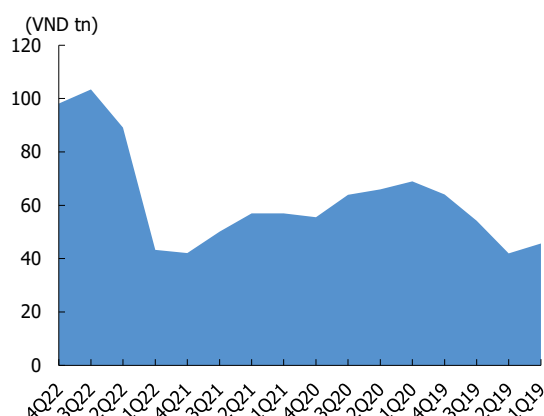
In terms of inventory including construction in progress, there's around VND369.9bn inventory as of end-4Q22, +26.9% yoy. The yoy change diverged across the board, given VHM's a 74.7% yoy to VND127.9tn and NVL's a 22.7% yoy to VND135tn while some companies stayed largely unchanged. Since most developers stockpiled the inventory for up to 2-3 years on the account of prolonged license process, it could be hard to judge inventory growth as the con points. The underlying reasons could be varied from different circumstances. Together with rising inventory balance, the advance payment also climbed by 133.3% yoy to VND98.1tn as of end-4Q22. This was thankful to VHM's splendidly growth of 7x yoy to VND62.3tn, backed by the bulksale transactions and launches of Crown/Empire townhouse projects. The advance payment surge could facilitate the booking revenue in the next quarters and support the working capital amid the real estate loan crunch and corporate bond crisis.

Figure 10. Inventory: Stockpile moved up strongly

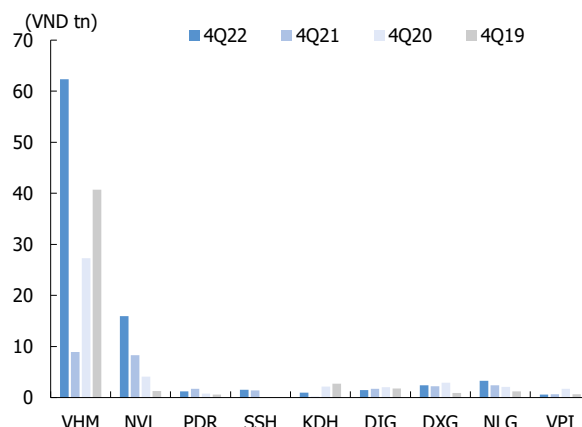
Source: Company data, Fiinpro

Figure 11. Inventory: the expansion of VHM and NVL

Source: Company data, Fiinpro

Figure 12. Advance payment: Tracking well with inventory growth

Source: Company data, Fiinpro

Figure 13. Advance payment: VHM and NVL reaped the highest growth

Source: Company data, Fiinpro

What is looking for in 1Q23F?

Since 1Q23F is the off-peak season of soft launches, we do not think the market could welcome multiple marketing campaigns or sales events. The mortgage loan crunch as well as the expensive mortgage rates could also cast a shadow on the homebuyers' affordability. We believe most of the developers must spend more time and support to design an accommodative subsidy package or seek for banks who could offer the most competitive lending parcel to buttress the homebuyer's eligibility.

About the bond payment, about ten bondholders announce their inability to pay the due principal/interest in Jan. We believe the number could widen in the next couple of months. According to VBMA (Vietnam Bond Market Association), around VND10.6tn could be due in 1Q23F, of which Hung Thinh Land must pay VND1,000bn, Sovico Group (VND4,000bn) and Minh Tan Development (VND4,050bn).

In light of 1Q23F business result expectation given the mostly lowest performance quarter throughout the year, we still anticipate some of the companies could record bullish yoy growth including NLG, DXG. Their pipeline of delivering the Opal Skyline and some landed properties could bolster the revenue growth in 1Q23F. In contrast, VHM could maintain the steady yoy earnings growth thanks to its solid bulksale backlog.

Furthermore, the newly-amended Decree 65 on corporate bond issuance could signal a glimpse of relief for those bondholders thanks to loosening clauses on repayment and professional individual buyers. But the inherent roots of bottlenecks lie in the subscribers' confidence and trust. Those have been broken by the notorious Van Thinh Phat investigation.

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- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

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