

From The Ground Up: DKRA

Property firm expects strong mid-end & affordable segments

Event: We attended an analyst briefing with property firm DKRA in Ho Chi Minh City on January 9. The firm presented their views on the property market trends in 2018 and outlined their expectations for 2019.

In this inaugural edition of *From The Ground Up*, we present a brief summary what was new and/or interesting from the briefing. The meeting takeaways in this and subsequent notes in this “company visit” format are based on the viewpoint of the firm that we visited, which at times may differ from our own opinions. We include our own opinions only in the final paragraph.



Their View

- **Challenges** for the development of the market include legal issues and the ability to obtain land bank.
- **Opportunities** for developers will be greater in the mid-price and affordable segments in 2019.
- **Supply** of land lots and affordable apartments is likely to decline YoY in 2019 despite high demand for both.

Our View

- **We agree that the affordable and mid-end segments will remain strong.** These segments are led by real demand.
- **High end demand will be weaker** than the lower-tier segments.
- **These trends should persist** for at least the next several years.

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Company profile: DKRA is a major property brokerage based in southern Vietnam. The firm also offers services including research, project development consulting, real estate valuation, and sales services.

Supply (units)	2017	2018	Growth (yoy)
Land lots	7,181	3,736	-48%
Townhouses	2,496	1,173	-60%
Apartments	41,388	38,107	-8%
Luxury	416	1,828	297%
High-end	8,843	13,525	53%
Mid-end	16,358	16,069	-2%
Affordable	15,726	6,658	-58%

Source: DKRA

Land and townhouse market in 2018

- DKRA reports that both supply and demand decreased in 2018.
- Secondary transactions significantly decreased at the end of 2018.
- Selling price increased by 10-15% compared to 2017.
- This price increase occurred primarily during 1H18, with limited change in 2H18.

Apartment market in 2018

- Both supply and demand declined, but a mismatch emerged.
- Supply was skewed to the mid-tier and high-end segments. See the left-hand margin table titled (“Supply in 2018”) for a full breakdown.
- The luxury segment supply reached 1,828 units in 2018, up 397% YoY.

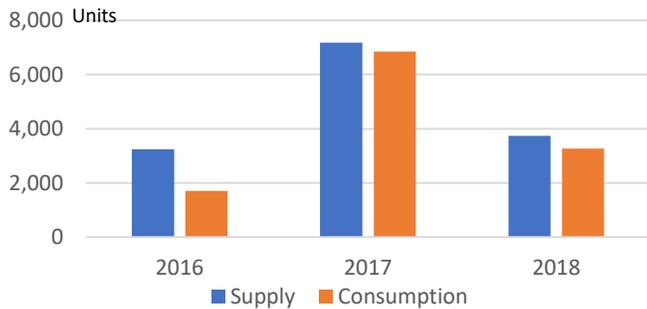
Outlook for 2019

- Land lots continues to be the first choice of homebuyers (involve homebuyers with real demand and speculator).
- Supply of land lots and apartments will decrease slightly compared to 2018.
- Market scarcity of apartments, especially in the affordable segment, is likely to be a feature.

Our view: The market has established a new price level. Supply is adjusting and transaction volumes are reacting in line with that adjustment. Overall, we think that this process should result in improved market sustainability going forward. We agree with DKRA’s opinion that the affordable and mid-end segments are likely to continue to exhibit the highest demand. We expect this trend to persist for the next several years at least.

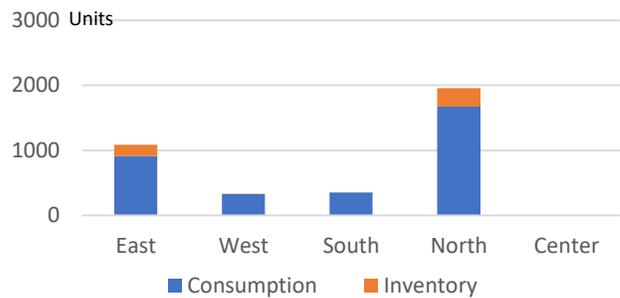
LAND MARKET

Figure 1: Launched supply and purchases, Land lots



Source: DKRA

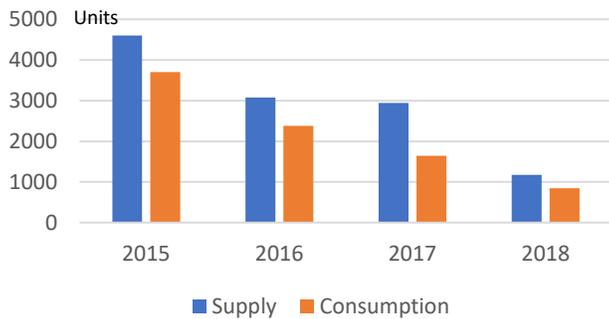
Figure 2: Purchased and unsold inventory by area



Source: DKRA

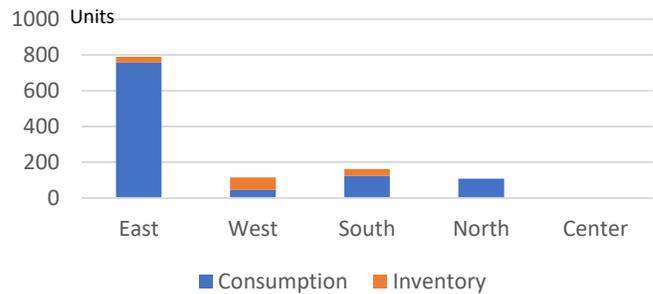
TOWNHOUSE MARKET

Figure 3: Launched supply and purchases, townhouse



Source: DKRA

Figure 4: Purchased and unsold inventory by area

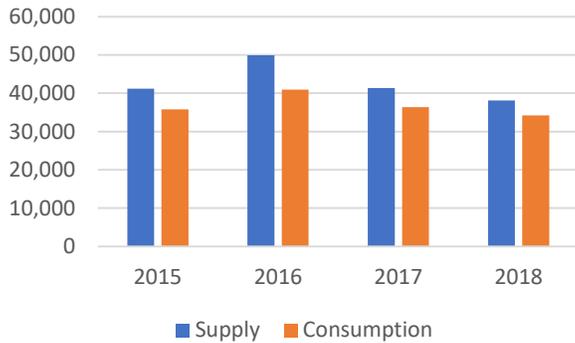


Source: DKRA

- According to DKRA’s observation, secondary transactions significantly decreased at the end of 2018.
- Majority of HCMC’s infrastructure investment capital is focused on the Eastern area in the 2010-2020 period. Projects such as Mai Chi Tho Avenue, Thu Thiem Tunnel, Cat Lai Bridge, Long Thanh Highway, and Hanoi Highway have changed the face of this area and made it an attractive destination for domestic and foreign investors. Therefore, the townhouse’s consumption in the eastern region is the highest (see Figure 4).
- Based on infrastructure investment plans in the northern area of HCMC and the fact that homebuyers’ investment capital in this area is not as high as elsewhere, speculators appear to have bought the most land lots in the northern area, according to DKRA.
- The land bank in Ho Chi Minh City is becoming scarce. Therefore, DKRA forecasts HCMC supply to decrease in the coming years.

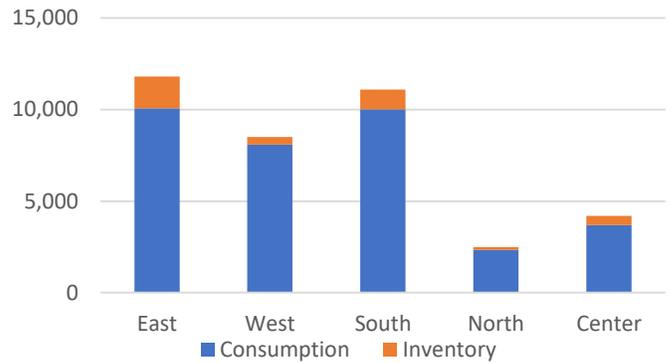
APARTMENT MARKET

Figure 5: Launched supply and purchases, Apartment



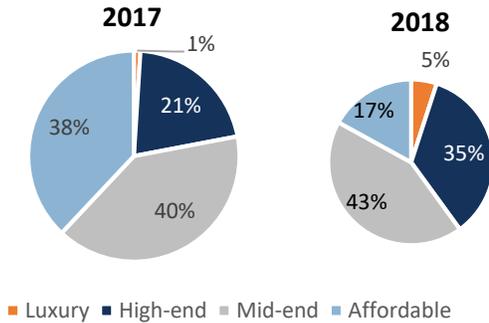
Source: DKRA

Figure 6: Purchased and unsold inventory by area



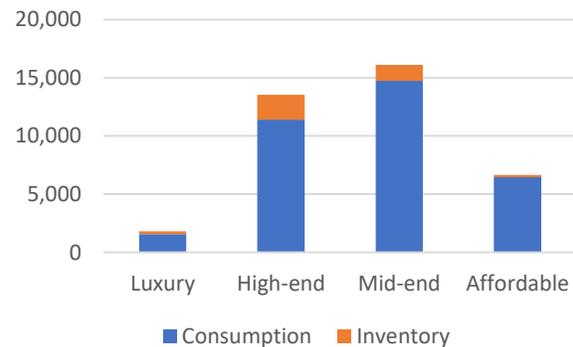
Source: DKRA

Figure 7: Launched supply breakdown (units)



Source: DKRA

Figure 8: Purchased and unsold inventory by segments



Source: DKRA

- DKRA notes that the purchase rates of the mid-end and affordable segment accounted for 62% of total unit purchases in the apartment market.
- Apartment purchases decreased in 2018 largely due to reduced supply rather than demand, because units purchased vs supply increased from 87.8% in 2017 to 89.7% in 2018.

Our view: At Yuanta, we expect the decrease in secondary market land transactions to impact primary market liquidity in the future. We agree that the quiet real estate market in 2018 was mainly due to limited supply, which we see as having been constrained by increased regulatory controls over the industry. The market property suitable if proportion of affordable segment is the highest and then mid-end, high-end, luxury segments. The current supply proportion is not sustainable given its excessive focus on high-end and luxury, so the market is in the process of adjusting toward the mid-end and affordable segments, which is backed up by real demand.

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Ratings	Total expected return within the next 12 months
BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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