

NAM LONG INVESTMENT CORPORATION (NLG VN)

AGM takeaways: Staying-power boosted by new projects

Buy

Current price (04-24-19): VND 29,750

Target price: VND 32,000

Upside: 7.6%

We attended NLG's AGM on April 20. The company has been strengthening their staying-power by acquiring large projects, building recurring income streams, and implementing projects on schedule. NLG's 458% YoY increase in 1Q19 PATMI (20% of our full-year forecast) highlight this management strategy and strengthen our conviction in our BUY rating on NLG, which we expect to remain [resilient through the property downcycle](#).

52-week Price Range (VND)	Market Capitalization	FY19A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
VND 24,300-36,500	USD 296 mn	3.4%	0.0%	60.8%	USD 646 K



Key Takeaways

- Acquiring 3 large projects to ensure business sustainability and growth strategy.
- Exploiting new business areas to create recurring income.
- 1Q19 PATMI increased 458% YoY.

Risks

- Liquidity risk: Market liquidity has declined sharply due to cyclical factors.
- Legal risk: steady increases in real estate controls might impact sentiment, if not actual operations.

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Company profile: NLG is a real estate developer that is primarily focused on the affordable and mid-end product lines. Its main markets are Ho Chi Minh City and neighboring provinces such as Long An and Can Tho. The firm has also been expanding its operating areas (e.g., Dong Nai and Hai Phong). NLG's landbank is currently 650ha.

NLG's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
Total revenue	3,480	3,485	0.15%
Sales of apartments, town house and villas	2,399	1,949	-19%
Transfer of projects	792	629	-21%
Rendering of services	257	713	177%
Rental income from investment properties	22	193	777%
Construction services	10		
Profit after tax	887	1,002	13%
ROA	9%		
ROE	17%		
EPS growth	12%		
P/E	8.5		
P/B	1.3		

Acquiring 3 large projects to ensure business sustainability and growth. NLG has entered into three contracts to acquire new land sites in Dong Nai (NL Dai Phuoc - 45ha; Waterfront - 170ha) and Hai Phong (NL Hai Phong - 21ha). Total area of these projects is 236ha, equivalent to 50% of the landbank that NLG developed over the past 15 years.

Expanding business scope to create recurring revenues. NLG plans to develop educational facilities, hospitals, and shopping centers using 65ha of landbank. This should increase the attractiveness of its residential projects and also create recurring income. NLG expects these new businesses to account for 30% of total revenues over the next decade, vs less than 1% now.

New launches are on schedule. NLG plans to launch Waterpoint Phase 1 and Akari City in 2Q19 and Mizuki Park in 3Q19. This is persistent with the schedule it set in 2018.

Dividend plan. NLG guides for a payout ratio of 25% for 2019 (i.e., c. VND 1,000/share) vs approximately 167% in 2018.

458% YoY increase in 1Q19 PATMI was mainly from the revaluation of its subsidiary Viet Thien Lam, which owns the 45-hectare Paragon Dai Phuoc Project in Nhon Trach, Dong Nai province. This revaluation gain was recognized in "other income".

Our view: We believe that the acquisition of three new projects is a reasonable long-term strategy because these projects are located in fast-growing cities (i.e., Dong Nai and Hai Phong). If the government invests more in transport infrastructure near these projects, the market's liquidity at these projects will improve. In addition, NLG is building recurring income streams, which should help to minimize the impact of market cyclicality. We remain cautious on the property sector as a whole. But NLG's management is executing well to create a solid foundation for the long term, in our view, and we reiterate our BUY recommendation.

Source: NLG, Yuanta Research

New projects, new expectations

We believe that the success of the two large projects in Dong Nai depends on the development of eastern HCMC and the cities of Bien Hoa and Vung Tau. The location of these projects is not far from HCMC center at c.15-20 km, but transit connections are incomplete. The authorities have reportedly taken steps toward construction of a bridge at Cat Lai connecting HCMC District 2 with Nhon Trach in Dong Nai province, which would improve the prospects for the Nam Long Dai Phuoc project if it is implemented. However, the timing for this bridge's construction is unclear.

In 2018-2019, NLG expanded its business through the acquisition of three large projects. However, we haven't changed our RNAV for NLG because (1) we believe that three new projects will be unavailable for presale in 2019 and (2) current market liquidity conditions are tight. That means the cash flow from these projects is uncertain and we also need more time to confirm our new expectations.

“Other income” to boost 2019 earnings growth

NLG guides for a 13% YoY increase in 2019 PAT to VND 115bn. However, the “other income” line saw a gain of VND 137bn in 1Q19 due to the revaluation of its investment in subsidiary Viet Thien Lam. NLG guides for revenue from sales of apartments, town houses, and villas to decrease 19% YoY in 2019 because the handover dates of most projects in the pipeline do not fall in 2019. By contrast, EhomeS-NSG, Valora Island, and Valora-NS have almost completed construction and are in the handover period for homebuyers. But we believe that the fulfillment of NLG's revenue target will mostly depend on the handover date for the Novia project.

Figure 1: 1Q19 results

VND Bn	Q1/2018	Q1/2019	%YoY Growth	Yuanta comments
Revenue	529,235	332,276	-37%	In 1Q19, deliveries of EhomeS-NSG and Valora Island were the top revenue contributors.
Gross profit	180,956	95,613	-47%	
<i>Gross margin</i>	34%	29%	-16%	The decline is due to low (c. 25-26%) gross margin of EhomeS.
SG&A	-105,222	-87,161		
<i>as % of revenue</i>	20%	26%	32%	Preparing for presales of Waterpoint Phase 1 and Akari City in 2Q19 and Mizuki Park in 3Q19.
EBIT	75,733	8,451	-89%	
Gain/(loss) from joint ventures	692	8,431	1118%	The large increase was mainly from NLG's share of post-acquisition profit in NNH Mizuki JSC (VND 7,956 mn).
Financial income	18,292	15,688	-14%	
Financial expense	-3,912	-14,377	267%	NLG restructured its debt in 2018, so long-term loans increased 2.7x YoY as at 1Q19.
<i>as % of revenue</i>	1%	4%	485%	
Other income	1,854	137,702	7327%	Large increase was mainly from the revaluation of investment in subsidiary Viet Thien Lam, which owns landbank of 45ha in Dong Nai.
Other expenses	-46	-608		
PBT	92,603	155,288	68%	
PAT	62,852	151,126	140%	
PATMI	31,715	145,241	458%	1Q19 PATMI was 20% of our full-year estimate.

Source: Company data, Yuanta Vietnam.

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Ratings	Expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

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