

NOVALAND INVESTMENT GROUP (NVL VN): AGM Takeaways

Moving into the hospitality segment

Not rated

Current price (05-02-19): VND 58,500

Target price: N/A

Upside: N/A

We attended NVL's AGM on April 26. Management acknowledged the negative impact on its business of its ongoing legal issues. However, NVL highlighted its strategy of expanding into hospitality development projects as a means of offsetting the negative effects. We don't cover NVL but as a general statement we are cautious on the property sector as a whole, and this includes the hospitality segment.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
VND 49,300-74,700	USD 2,346 mn	0.0%	31.7%	32.2%	USD 646 K



Key Takeaways

- Expanding business development into hospitality.
- Legal problems at projects acquired from SOEs continue to impact investment efficiency.
- FY2019E targets: 17.7% sales growth and 0.7% PAT growth.

Risks

- High ownership concentration.
- Property market liquidity is under pressure due to cyclical factors.
- Legal risk: steady increases in real estate controls might continue to impact operations.

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Company profile: Real estate developer NVL is primarily focused on mid-end and luxury residential lines. NVL has broadened its range beyond the core apartment development projects to include commercial property and hospitality-related projects, with the goal of building stable long-term income streams. NVL's landbank is currently 2,750 ha (i.e., 675 ha of residential land and 2,025 ha of hospitality-zoned land).

NVL's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
Total revenue	15,290	18,000	17.7%
Profit before tax	4,675	4,750	1.6%
Profit after tax	3,276	3,300	0.7%
ROA	5%		
ROE	16%		
EPS growth	37%		
P/E	17x		
P/B	2.7x		

Source: NVL, Yuanta Research

Expanding into hospitality projects to ensuring stable cash flows. Management discussed the progress of the company's hospitality projects in Binh Thuan and Can Tho, which were launched starting in June 2018. NVL says that these projects will compensate for the lack of cash flows and profit from its core business, which has been beset by ongoing delays related to legal issues at several residential projects in HCMC.

Legal problem related to land acquired from SOEs continue to drag on NVL's efficiency. Since the authorities strengthened legal controls over real estate developers, several of NVL's residential projects have been delayed (e.g., project launch date, hand-over date, and issuance date of land use rights certification). NVL acknowledged that this has delayed the timing of revenue recognition and also impacted NVL's brand name.

FY2019E targets: 17.7% sales growth and 0.7% PAT growth. Novaland expects to complete the handover phase at 12 projects in HCMC (i.e., projects in Districts 2, 4, and 9, and Tan Phu, Phu Nhuan, Tan Binh, and Nha Be). However, HCMC People's Committee has suspended development at three of these projects (i.e., Newton Residence, Golden Mansion, and Orchard Parkview). According to NVL's legal director, the procedural delay at these three projects is related to the process of land use fee determination, and NVL is attempting to resolve the legal issues to ensure that sales and purchase agreements with end-clients are undertaken on schedule.

Our view: We don't cover NVL and have no investment view on the stock. However, we are cautious on the property sector as a whole. NVL's specific business strategy of extending into hospitality appears rational and could be supportive of its operations in the long term. In addition to building recurring income from hospitality services, NVL could also benefit from increased valuations of real estate projects after it has successfully built a resort-level service brand. The authorities have not issued official announcements regarding legal problems related to projects acquired from SOEs. However, this would appear to be a critical risk factor for NVL's operations. The company's target for high sales growth but low PAT growth in 2019 could be a reflection of this risk, as interest expenses and SG&A costs may be rise as a result.

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

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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HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative 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 reduce their position.

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