

Vietnam: Property
25 October 2019
NLG VN
Upgrade to BUY
TP upside +27%
Close 24 Oct 2019

Price	VND 28,500
12M Target	VND 36,200
Previous Target	VND 29,623
Change	+22%

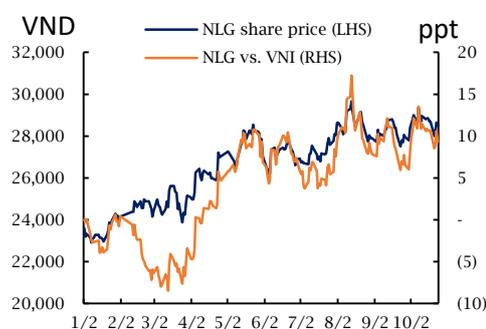
What's new?

- ▶ We upgrade to BUY from the previous HOLD–Outperform and increase our target price by 22%.
- ▶ Waterpoint is going swimmingly so far.
- ▶ Strong ASPs and new launches in 4Q19 at Araki City and Mizuki Park.
- ▶ Profit recognition from Mizuki Flora starts in 4Q19.

Our view

- ▶ We are positive on the Mizuki and Akari projects, which focus on real demand.
- ▶ Confidence is high in NLG's execution capabilities on these large projects, but supportive public infrastructure (e.g., transport) is also key.
- ▶ Our understanding is that the current FOL premium is c.7%, which is reasonable given the fundamental positives.

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 Dong Nai. The firm has also been expanding its operating areas (e.g., Hai Phong). NLG's landbank is currently 650ha.

Share price performance relative to VN


Market cap	USD 302 mn
6M avg. daily turnover	USD 1.3 mn
Outstanding shares	260 mn
Free float	61%
FINI ownership	49%
Major shareholders	72%
Net cash	USD 26 mn
2019E P/B (x)	1.3
FOL Room	0%

Financial outlook (VND bn)

Year to Dec	2018A	2019E	2020E
Sales	3,480	2,946	2,293
Op. profit	1,013	475	274
Net profit*	887	597	1,032
EPS (VND)	3,521	2,823	2,363
EPS chg (%)	18%	-30%	54%
P/E (X)	8.18	11.61	7.52
ROE (%)	17%	13%	17%
Div. yield (%)	1.22%	1.80%	1.80%

*Net profit attributable to shareholders (PATMI minus employee welfare contribution).

Sources: NLG, Bloomberg, Yuanta Vietnam

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NAM LONG INVSTMNT CO (NLG VN)
Fourth quarter sprint is under way

Soft launch of Waterpoint project occurred on July 20, when homebuyers could book villas, semidetached units, and townhouses in the Rivera 1 and Aquaria subdivisions. Our discussions with sales agents indicate that NLG has received over 1,700 bookings (including garden houses and villas) in early October. The projected selling price is around VND16mn per sqm (excluding construction value).

Part 2 of Araki City's Phase 1 is ready to go and we expect around 608 units (i.e., Blocks AK 3 and 4) to be launched in 4Q19. Based on our discussions with agents, we think that many homebuyers have been waiting for these launches. Sales agent chatter indicates that the projected selling price per sqm of these two blocks will be c. VND31mn (excluding VAT). Additionally, we expect that the income from transferring 50% of Akari City to a Japanese investor will be recognized in 4Q19.

Profit recognition from Mizuki Park: NLG states that c.640 units of two blocks (i.e., MP 1 and 2) will be delivered in 4Q19, slightly later than NLG's original 3Q19 delivery target. Around 920 units of three blocks (i.e., MP 3,4, and 5) should be delivered in 1Q20. Additionally, we expect other blocks to be launched in 4Q19, with a projected selling price per sqm of around VND32mn (excluding VAT).

Yuanta vs consensus. Our 2021E net income forecast of 1,458 bn is 11% below the Street. This is probably because we conservatively exclude revenues and profits from the Hai Phong, Paragon, and Waterfront projects due to lack of visibility.

We upgrade our rating to BUY and increase our target price by 22%. Our target price of VND 36.2K represents a 10% discount to our new RNAV–based fair value, which incorporates three major changes. 1) We apply a DCF methodology to Water Point Phase 1 vs our previous application of the land's standalone market price. 2) We raise our ASPs at Akari City (+19%) and Mizuki Park (+22%) after discussions with agents. 3) We include Paragon Dai Phuoc project in our valuation and assume ASPs of 30% higher than NLG's land cost for this project.

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Water Point project is going swimmingly so far

Fig 1: 07 Subdivisions of Water Point project



Source: Company info, Yuanta Vietnam

Fig 2: Water point Phase 1 map



Bright blue area: phase 1 area
Source: Company info, Yuanta Vietnam

NLG held a kick-off event for Phase 1 of the Water Point project (which comprises 4 subdivisions Rivera 1, Rivera 2, Aquaria, and Central Park) on July 09, 2019. After 12 days, homebuyers could book garden houses, semi-detached villas, and standard villas. According to our discussions with sales agents, we estimate that NLG has received over 1,700 bookings (including garden houses and the two types of villa) as of early October. They also set aside 30% of units for purchase by foreigners. Sales agents indicate that this is the first time that NLG has received such strong interest from foreigners (largely Korean, Japanese, and Chinese nationals).

Fig 3: Projected timeline

Timeline	Events
20/07/2019	Booking
Oct-19	Product introduction event
15/11/2019	Sign SPA
15/09/2020	Homebuyer pays up to 50% unit price
3Q20	Hand over to homebuyer

Source: Company info, Yuanta Vietnam

Fig 4: Phase 1 products

Types	Construction	Floor area (sqm)	Price/unit (VNDbn)	Land VNDmn/sqm
Green House	1ground floor + 1floor	104	over 2.3	16.3
Shop house	1ground floor + 1entresol + 1 floor	174-202	3.7-4.1	18.0
Semi-detached villa	1ground floor + 1floor	153	over 3.6	15.8
Standard Villa	1ground floor + 1floor	185	over 5.1	16.1

Source: Company info, Yuanta Vietnam

Table 5: Water Point's progress



The pictures were taken in Sep and Oct 2019.
Source: Sales agents' social network pages, Yuanta Vietnam

In our view, NLG's strategy for Water Point project is reasonable given that Phase 1 includes all of the project's planned low-rise units (c. 3,000 units), which will be allocated over 2-5 tranches based on customer demand. We expect Phase 1 will be completed in 2023. This allows NLG to attract homebuyers who prefer to purchase land lots and land use rights (rather than apartments). Admittedly, we think the key driver of buyer interest are speculative/investment purposes, but we also think the products are attractive to residential buyers. In any case, success in the early rounds should support Water Point's internal facilities and thus ensure that buyer interest remains strong during the subsequent apartment launches.

If NLG launches this phase at the whisper number of VND16mn per sqm (excluding construction value), this would indicate a major success for NLG for several reasons. 1) This selling price would be 30-35% higher than our comparables-based estimate, and 2) it would be 11.4 times higher than the average value applied to the project's total land area (which obviously includes residential land, but also lower-value agricultural land, transportation land, and other types of non-residential land) as implied by the price of NLG's 50% sale of the project to a group of investors including Hanshin Properties, Nishi Nippon Railroad, and domestic investors.

Vietnam developers wisely act as market makers to propel selling prices and draw homebuyers. For example, a common method of managing price expectations among buyers is to price an initial tranche and then price the subsequent tranche at 5-10% higher; another frequent phenomenon is for sharp price increases of land lots that are adjacent to developers' projects. This process has been made easier now that supply is scarce due to the ongoing legal issues.

Despite these generally price-supportive market idiosyncrasies, we see some risks related to Water Point. 1) The area's population density (in Long An province) is lower than that of other areas of HCMC. Also, 2) Nearby social infrastructure (e.g., education and health facilities) remains uncompleted. Finally, 3) Becamex IDC and Vietnam Singapore Industrial Park plan (through their JV) to allocate 3,045ha to an industrial-service-urban complex in the same area. This could present competition for Water Point in terms of buyer interest.

Akari City and Mizuki Park are on the way

Fig 6: Akari City project



Source: Sales agent info as of Sep 20, 2019, Yuanta Vietnam

Fig 7: Mizuki Park project



Source: Sales agent info as of July 12, 2019, Yuanta Vietnam

2nd step of Araki City project's Phase 1: The soft-launch of Akari City's first phase was held on Jun 26, 2019. Around 1,254 units at 4 blocks (i.e., Blocks AK 1, 2, 5, and 6) had been booked with homebuyers signing deposit contracts by September. The foundation is under construction now, and the company expects initial handovers to ramp up starting in 3Q20. From our observations, the take-up rate is currently over 95% and selling price per sqm is around VND28mn (excluding VAT). This is 19% higher than our previous estimate (i.e., VND23.5mn), and we shift to the higher number in our valuation model.

We expect around 608 units of Akari City's remaining blocks (i.e., Blocks AK 3 and 4) to be launched in 4Q19. Based on our discussions with agents, we believe that many homebuyers (i.e., potential residents, but also investors/speculators) have been waiting for the subsequent launches of Akari City's Phase 1. The sales agent chatter mill suggests that the projected selling price per sqm of these two subsequent blocks should be around VND31mn (excluding VAT).

In addition, we expect NLG to finalize its transfer of half of the Akari City project to a group of investors who include Hankyu Hanshin Properties and Nishi Nippon Railroad. Thus, we forecast VND647mn of revenues related to this deal to be booked in 4Q19.

Mizuki Park: Profit recognition is flowing: NLG states that c.640 units at two blocks (i.e., MP 1 and 2) will be handed over in 4Q19. This is slightly behind NLG's original estimated transfer schedule of 3Q19. Around 920 units at three blocks (i.e., MP 3, 4, and 5) should be handed over in 1Q20. We expect further blocks to be launched in 4Q19.

Based on our discussions with sales agents, the projected selling price per sqm of the MP 1 and 2 blocks should be around VND32mn (excluding VAT), which is c.22% higher than our previous estimate (i.e., VND26.3mn). As the increased ASP assumption for Akari City described above, we have entered the higher number for Mizuki's ASP into our valuation model.

Update on other key projects

Fig 8: Key projects



Ownership rate: 100%

Location: Nhon Trach District, Dong Nai province.

Types of development: Low-rise (Valora).

Total area: 45ha.

Status: The company completed land acquisition and 100% compensation.

Our comments: Although it is located within 15km of HCMC center, transit connections are incomplete. The key infrastructure project is the planned bridge at Cat Lai that will connect HCMC District 2 with Nhon Trach in Dong Nai province. However, the bridge construction's schedule is unclear and will require cooperation between the HCMC municipal government and that of Dong Nai province.



Ownership rate: N/A

Location: Bien Hoa District, Dong Nai province.

Types of development: Township.

Total area: 170ha.

Status: Compensation c.90%, 1/500 planning approved.

Our comments: The completion of compensation and legal procedures is uncertain. Additionally, key infrastructure projects should improve prospects for the Waterfront, but these are still on paper only.



Ownership rate: NA

Location: Thuy Nguyen District, Hai Phong province.

Types of development: Township.

Total area: 21ha.

Status: NA.

Our comments: Given the lack of available information on the project, we assume that it will not be launched for at least a year. Having said that, the project's attractiveness should be driven by Hai Phong's economic development, industrialization, and urbanization. This is because the project's distance to the Hai Phong CBD is relatively far (10km or 20–30 minutes by motorbike) and the local population density is not particularly high.

Source: Company info, Yuanta Vietnam

Source: Company info, Yuanta Vietnam

Valuation

We revise up our fair value estimate for NLG from VND29,623 per share to VND36,200 per share, increasing 22% after changing some of the assumptions in our valuation model. These changes are as follows.

1. **We are now applying a DCF method for Phase 1 of the Water Point project** given that the project development plan (e.g., project planning map, sales plan, and projected selling price) has been clarified.
2. **We increase our average price estimate** for Akari City from the previous VND23.5mn per sqm to VND28mn per sqm. We do the same for Mizuki Park, where our average price increases from VND26.3mn to VND32mn. We believe that NLG will succeed in later launches of these projects, for two key reasons. 1) Although Vinhomes Grand Park (VGP) is located over 22km from the CBD, VHM has achieved over VND33 mn per sqm in its VGP sales, thus driving mid-end housing prices overall. 2) The market remains in supply shortage, and our sense is that this has only increased the appetites of investors/speculators to pour money into new projects.
3. **We include the Paragon Dai Phuoc project into our valuation model with publication of this report.** We had not included this project previously because NLG only acquired it in 1Q19. We assume that the project will sell for 30% higher than NLG's land costs, which is consistent with average selling price growth in Dong Nai province.

Table 9: Valuation summary

No	Project	Valuation approach	Ownership rate	Value added
1	Soughgate – Waterpoint	DCF	50%	1,044,517
2	Waterpoint phase 2	MV	100%	1,220,144
3	Mizuki Flora	DCF	50%	1,408,520
4	Mizuki Valora	DCF	50%	140,365
5	Akari City	DCF	50%	1,138,423
6	Novia	DCF	100%	137,484
7	Nguyen Son	DCF	87%	220,168
8	Paragon Dai Phuoc	MV	100%	483,154
Total Value added				5,792,775
(+ Net tangible asset and Others				4,662,833
NET ASSET VALUE				10,455,609
Discount to NAV				10%
Current outstanding shares				260
TARGET PRICE				36,200
Current price (24/10/2019)				28,500
Upside				27%

Source: Company data as of Sep 30, 2019, Yuanta Vietnam

Despite these assumption changes, we prefer to remain conservative in setting our target price for NLG. Thus, we have also applied a 10% discount to RNAV in setting our target price based on two factors: 1) sales risk at Water Point, and 2) acquisition risk at the two new projects (i.e., Waterfront and Nam Long Hai Phong). For example, if acquisition costs are partially or wholly funded by loans, the company must incur fixed and certain interest expenses, whereas project launches are subject to uncertainties such as market factors and prolonged legal procedures.

INCOME STATEMENT (VND'bn)				BALANCE SHEET (VND'bn)			
	2018A	2019E*	2020E*		2018A	2019E*	2020E*
Net sales	3,480	2,946	2,293	Total assets	9,564	11,260	12,172
Cost of sales	(1,976)	(2,077)	(1,712)	Current Assets	7,320	9,267	10,210
Gross Profit	1,503	870	581	Cash & cash equivalents	2,084	5,238	6,569
Selling expenses	(252)	(213)	(166)	ST Investment	16	17	18
General and admin expenses	(239)	(182)	(141)	Accounts receivable	1,833	1,246	1,329
Operating profit/(loss)	1,013	475	274	Inventories	3,261	2,605	2,169
Financial income	129	316	403	Other current assets	126	161	126
Financial expenses	(37)	(87)	(116)	Long-term Assets	2,244	1,993	1,962
Gain/(loss) from joint ventures	14	231	959	Net fixed assets	52	65	69
Net other income/(expenses)	9	3	2	LT Investment	1,684	1,671	1,671
Profit/(loss) before tax	1,128	937	1,521	LT assets other	507	257	222
Income tax expenses	(241)	(187)	(304)				
Net profit/(loss) after tax	887	750	1,217	Total Resources	9,574	11,073	11,681
Minority interests	(124)	(87)	(70)	Total Liabilities	4,290	5,240	4,462
Attributable to parent company	763	663	1,146	Accounts payable	270	339	275
				ST debts	201	314	430
EPS basis reported, VND	3,521	2,480	3,829	Other ST liabilities	2,222	2,701	1,933
EPS fully diluted, VND	3,521	2,480	3,829	Long term debt	806	817	1,102
				Other LT debt	790	1,069	722
				Shareholder's equity	5,285	5,832	7,219
				Paid in capital	2,391	2,674	2,994
				Share premium	989	743	743
				Retained earnings	1,294	1,718	2,714
				Other equity	(73)	(73)	(73)
				Minority interest	684	771	841
				CASH FLOW (VND'bn)	2018A	2019E*	2020E*
				Begin cash of the year	2,082	2,084	5,238
				Net profit before tax	1,128	937	1,521
				Adjustments	(95)	53	121
				Change in Working Capital	(42)	1,672	(555)
				Cash from Operations	991	2,663	1,087
				Capital Expenditures	(1,874)	451	(325)
				Investments	44	12	(1)
				Cash from investments	(1,830)	464	(326)
				Dividend Paid	(207)	(134)	(150)
				Proceeds from issue of shares	540	37	320
				Proceeds from borrowings	507	124	400
				Cash from financing	840	27	570
				Net change in Cash	2	3,154	1,331
				Ending cash balance	2,084	4,091	2,852

FINANCIAL RATIO			
	2018A	2019E*	2020E*
Growth (%)			
Revenue, growth	10%	-15%	-22%
Operating Income, growth	15%	-53%	-42%
PBT, growth	19%	-17%	62%
EPS, growth	18%	-30%	54%
Total Assets, growth	21%	18%	8%
Equity, growth	42%	10%	24%
Profitability (%)			
Gross Profit Margin	43%	30%	25%
Operating Profit Margin	29%	16%	12%
Net Margin	24%	25%	25%
ROE	17%	13%	17%
ROA	9%	7%	10%
Efficiency (x)			
Receivable Turnover	2.89	1.91	1.78
Inventory Turnover	0.55	0.71	0.72
Payable Turnover	1.37	1.46	1.47
Liquidity (x)			
Current ratio	2.72	2.76	3.87
Quick Ratio	1.51	1.99	3.05
Financial Structure (x)			
Total liabilities/Equity	0.19	0.90	0.62
Total liabilities/Total Assets	0.45	0.47	0.37

Source: NLG, Yuanta Research. *Note: We assume that Mizuki Park, Akari City, South Gate (Waterpoint) are not consolidated.

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