

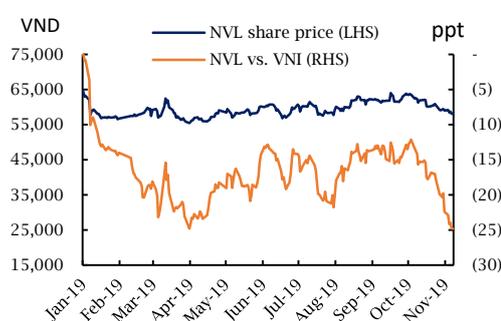
**Vietnam: Property**
**08 November 2019**
**NVL VN**
**HOLD-Outperform**
**Upside +12%**
**Close 07 Nov 2019**
**Price VND 58,100**
**12M Target VND 65,000**
**Investment thesis**

- ▶ Sizeable landbank in prime locations in Ho Chi Minh City.
- ▶ Legal complications are a critical investment risk.
- ▶ But strong sales performance of newly launched projects YTD in 2019 should underpin revenue visibility over the next three years.

**Our view**

- ▶ Large-scale prime area landbank and solid product execution should enable NVL to retain its predominant position in the HCMC property market going forward.
- ▶ Legal issues have blocked development progress in HCMC, and this may persist going forward.

**Company profile:** NVL is a major real estate developer with a core residential business in Ho Chi Minh City. NVL has recently expanded into the satellite urban areas of HCMC and residential projects & integrated resorts in areas further from HCMC as it copes with legal delays in new launches at several HCMC housing projects.

**Share price performance relative to VN**


<b>Market cap</b>	<b>USD 2,346 mn</b>
<b>6M avg. daily turnover</b>	<b>USD 1.24 mn</b>
<b>Outstanding shares</b>	<b>930 mn</b>
<b>Free float</b>	<b>30%</b>
<b>FINI ownership</b>	<b>7.4%</b>
<b>Major shareholders</b>	<b>72%</b>
<b>Net debt / equity</b>	<b>0.96x</b>
<b>2019E P/B (x)</b>	<b>2.4x</b>
<b>FOL Room</b>	<b>31.2%</b>

**Financial outlook (VND bn)**

Year to Dec	2018A	2019E	2020E	2021E
Sales	15,635	15,871	20,031	23,275
Op. profit	3,990	274	274	274
Net profit*	2,436	2,228	2,757	2,939
EPS (VND)	3,443	2,641	3,268	3,484
EPS chg (%)	10%	-23%	24%	7%
P/E (X)	7.52	7.52	7.52	7.52
ROE (%)	16%	10%	11%	11%
Div. yield (%)	0.85%	NA	NA	NA

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

Sources: NVL, Bloomberg, Yuanta Vietnam

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**Bloomberg code: YUTA**

## Novaland (NVL VN)

### Southern real estate market proxy

**Sizeable landbank in prime locations.** NVL's total landbank is second largest among listed Vietnam developers and includes 1) 672 ha of residential land in HCMC, of which c. 90% is in eastern HCMC which is the focus of infrastructure investment; 2) 219 ha of suburban landbank adjacent to HCMC; and 3) 2,762 ha of hospitality-zoned land in non-HCMC areas that are attractive for tourism development.

**Legal issues are the key headwind...** Legal issues related to HCMC property development have been a drag on the overall sector and NVL in particular given its HCMC-centric business. We see this as the main reason for the stock's underperformance (-25ppt YTD vs the VNI). Unfortunately, we have no visibility on the context or timing of a potential solution to these issues, so shareholders may have to tolerate relatively high volatility.

**... but strong YTD sales performance underpins revenue visibility over the next three years.** Homebuyers are broadly aware of the legal issues but appear to retain trust in the company. The proof is in the sales performance pudding: NVL sold 4,676 units in 9M19 (+872% YoY) and booked VND28.9 trillion (US\$1.2 bn) in sales. Thus, unbilled contractual value has increased 53% YTD to reach VND57 trillion (USD 2.5 bn) at the end of 3Q19.

**Yuanta vs consensus.** Our valuation is 1.1% higher than the Street, which may be due our relatively positive view on ASPs as reflected in our model.

**We initiate coverage on NVL with a HOLD-Outperform rating** and RNAV-derived target price of VND 65,000/share. The legal headwinds may require investors in NVL to tolerate a certain level of medium-term volatility, but such risk tolerance may lead to higher returns in the longer term.

### ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

Yuanta does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

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## Investment View: NVL

We see NVL as a proxy on the HCMC property market and we believe that the bulk of the company's value is focused here. This status is both positive and negative for NVL as an investment prospect, for reasons that should be fairly intuitive.

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**Fundamentally, we are positive on the property market in Ho Chi Minh City...**

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**The positive** aspects of NVL's HCMC property proxy status are related to the city's (and the country's) positive macroeconomic conditions, a soaring middle class and increasingly urbanized society overall, and strong property demand from both residential buyers and investors. In our view, these general conditions should persist for at least the next decade.

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**...but legal issues related to land procurement here are a key risk.**

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**The negative.** However, NVL's clear recent underperformance vs the VNI (and especially vs. VHM, the industry leader) illustrates the legal issues that have stalled various HCMC property development projects amid the ongoing anticorruption drive. A discussion of these risks is required for investors to understand the investment opportunity.

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**The authorities will undertake measures to alleviate any unwanted impact on the property market.**

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This has been a headwind for NVL in particular, which is perhaps not surprising given the HCMC-centricity of its landbank value. Despite this, we believe that the authorities will undertake measures to alleviate any negative ancillary impact on the property market. We do not have visibility on the context or timing of a potential solution to these issues.

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**We like NVL's management both in terms of product execution and public outreach amid the substantial recent negative news flow.**

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**The fundamental outlook looks solid in the medium term.** NVL's management has handled the legal situation well from both an operational and public relations perspective. Amidst the protracted halt of construction/delivery at several projects in HCMC, NVL has expanded its business to encompass satellite urban area projects and residential projects and integrated resorts in coastal resort areas such as Novaworld Phan Thiet and Novahills Mui Ne. These projects are not embroiled in the land procurement investigations, so they should allow NVL to generate cash flow while working through the legal issues.

We have also been positive impressed by the company's PR outreach. NVL has been on the front foot with homebuyers in reacting to newsflow and providing relevant information to financial investors. We view this market engagement amidst negative newsflow (as opposed to radio silence) as a sign of management acumen, and it should also be beneficial for maintaining the company's brand image among homebuyers.

Additionally, NVL and the Ho Chi Minh Real Estate Real Estate Association (Horea) are proactively addressing the issues by providing state agencies with relevant information to resolve the problems. This has resulted in positive signals: for example, in April 2019, HCMC Party Secretary Nguyen Thien Nhan required the relevant state agencies to create favorable conditions for real estate developers so that they can contribute to the development of the city.

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**We like NVL's management both in terms of product execution and public outreach amid the substantial recent negative news flow.**

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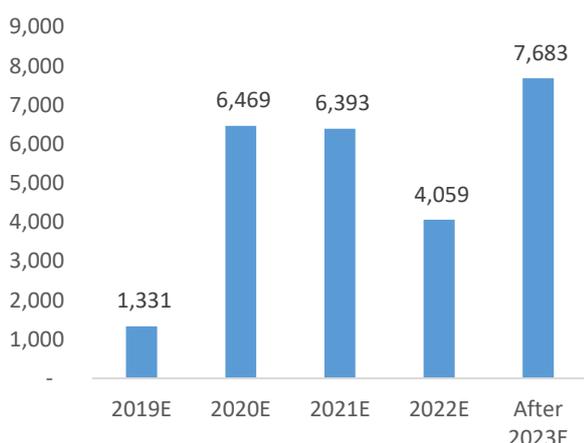
**Strong presales YTD point to 1) a resilient brand among homebuyers and 2) revenue transparency over the next three years.** The public is very much aware of NVL's legal issues, but homebuyers appear to retain trust in the company. This is perhaps in part due to the quality of its delivered product, but we believe that its PR outreach amid the negative newsflow has also helped to support buyer confidence. In any case, the proof is in the sales performance pudding: NVL sold 4,676 units in 9M19 (+872% YoY) and booked VND28.9 trillion (US\$1.2 bn) in sales. Thus, unbilled contractual value increased from VND bn at Dec 31, 2018 to VND57,014 bn at Sep 30, 2019. This should support revenues for the next three years, in our view.

**Debt leverage is high and likely to remain so, but we think it is sustainable given NVL's operational cash flow outlook.**

**Debt leverage is relatively high.** NVL's debt/equity ratio is 1.17x, twice that of the sector average. The company's debt maturity schedule also raises concerns given the project delays in HCMC. We believe that the company must ensure the progress of soft-launches and hard-launches of new projects to support homebuyer payments and thus cash flow from customer advances. NVL must also maintain a certain number of newly launched projects for the same reason, in our view.

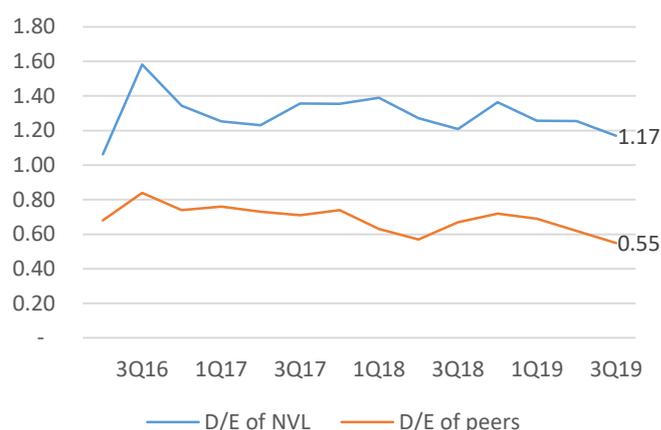
We are confident in management's strategy of growing its ex-HCMC hospitality property business to support cash flow, and we also believe that demand for new projects in HCMC is likely to remain very strong in the years ahead. In other words, the key risk of NVL's relatively high leverage lies in the timing of future cash flows from project launches/deliveries, in our view.

**Fig 1: Debt Maturity Schedule (VND bn)**



Source: Company data at June 30th 2019, Yuanta Vietnam

**Fig 2: Debt / Equity**



Note: Debt= Short-term borrowings + Long-term borrowings  
Source: Vietnam listed company data, Yuanta Vietnam

**We initiate coverage on NVL with a HOLD-Outperform rating** and RNAV-derived target price of VND 65,000/share. We believe the company's product pipeline should remain underpinned by strong demand for prime-area property in Ho Chi Minh City. The strong sales performance in 2019, which has occurred despite substantial negative newsflow, underpins our view that the home-buying public retains confidence in NVL's ability to deliver a quality product, and it should also support revenues over the next three years.

**Technical factors related to ESOPs and the CB conversion price could cap the share price upside in the short term.**

NVL's relatively high balance sheet leverage could be a concern for some, but we think the debt load should be manageable. Also, the stock may face technical pressure at around the CB conversion price of VND 60,000. ESOP payouts in 4Q19 will be largely restricted for 12 months, but the unrestricted shares represent about two days of trading liquidity, which is not a core concern but which could present a buying opportunity.

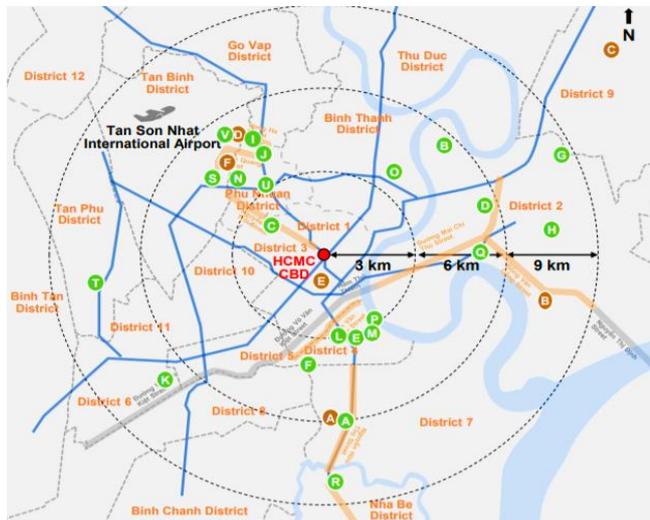
**But ultimately, the legal issues in HCMC are the most critical risk for NVL, in our opinion.**

However, we are not overly concerned about debt sustainability or technical trading factors as risks. Given the short-term unpredictability of key legal issues, the stock may experience a greater level of volatility in the medium term than some of its peers. However, we retain a positive view on the Vietnam property market (and especially that of HCMC) and we think the company will successfully navigate through the legal issues.

We do not expect a substantial rerating pending a resolution to these issues, but at the same time we think the downside should be limited from here. We see 12% upside to our target price of VND 65,000, which is based on what we believe to be a conservative fair value estimate. Thus, our recommendation on the stock is HOLD-Outperform.

## Sizeable landbank in prime location

Fig 3: NVL's Ho Chi Minh City residential portfolio is located in prime areas...



● Completed projects; ● Under development;  
Source: Company data, Yuanta Vietnam

Fig 4: ...that should benefit from infrastructure development projects in the years ahead.



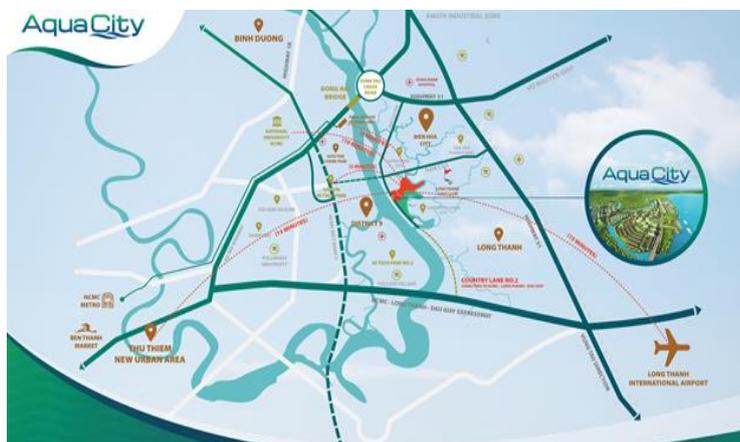
— MRT; — Major roads  
Source: Company data, Yuanta Vietnam

### Most of the value of NVL's landbank is in prime areas of Ho Chi Minh City.

NVL boasts the second largest landbank among listed developers in Vietnam, trailing only behind sector bellwether Vinhomes (VHM - BUY). NVL's total current land area of 3,653 ha includes 1) 672 ha of residential land in HCMC, of which c. 90% is located in the city's eastern areas where infrastructure investment has mainly been focused; 2) 219 ha of satellite urban land adjacent to HCMC; and 3) 2,762ha of hospitality-zoned land with considerable tourism potential. Additionally, management states that it is examining another 1,241ha of landbank for potential acquisition, largely in HCMC satellite urban and hospitality areas.

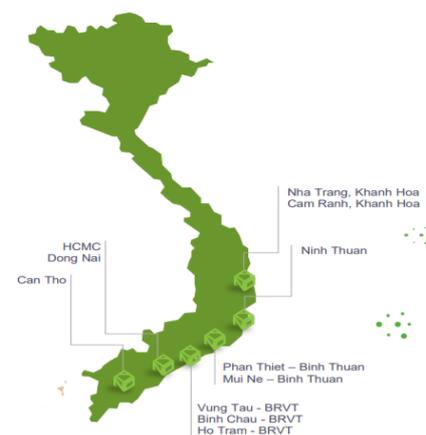
The scarcity of landbank in HCMC has resulted in high barriers to entry for city developers. NVL boasts the largest landbank of any developer in HCMC. Thus, it should remain a dominant player in the city's property development market for the foreseeable future, in our opinion.

Fig 5: Building bridges: Demand for NVL's Aqua City project should be boosted by construction of the Dong Nai 2 Bridge and Huong Lo 2 road to the future Long Thanh Int'l Airport.



Source: Company data, Yuanta Vietnam

Fig 6: Fun in the sun: NVL's hospitality-zoned lands are located in tourism-friendly areas such as Vung Tau, Mui Ne, and Nha Trang.



Source: Company data, Yuanta Vietnam

Aqua City is a project in a satellite urban area that is adjacent to HCMC (see Fig 5). Demand for housing here will be strongly promoted by the construction of the Dong Nai 2 Bridge (which is still in the planning stages) and Huong Lo 2 Road (which will connect with the future Long Thanh International Airport and is in the progress of land clearance and compensation), in our view. Additionally, all of NVL's hospitality projects are located in cities and areas with high potential for tourism industry development, such as Nha Trang, Phan Thiet-Binh Thuan, Ba Ria-Vung Tau, and Can Tho (see Fig 6).

## Legal complications

Covering property development stocks requires a discussion of the substantial legal issues that confront the sector. NVL is not the only developer to have experienced problems, but its exposure may be relatively high vs. peers due to its very sizeable prime area landbank in Ho Chi Minh City, which has been the locus of the legal problems.

Countering corruption related to land management has been a critical policy focus. We strongly believe that Vietnam's anticorruption campaign should have a broadly positive influence on the country's macro development in the long term. Improved transparency of government procurement/divestment is unquestionably a positive for national development, in our opinion.

However, the campaign may also create negative short term effects for specific real estate developers (and, in the short term, for housing supply in HCMC). Investors can clearly visualize the problem by observing the negative impact on NVL's share price in 2018 in term of volatility.

Operationally, the project suspensions have resulted in delays to cash flows and project value realization, as well as higher debt costs than would otherwise have been the case and, in our view, considerable opportunity cost. The issues have also raised concerns about the potential damage to NVL's brand image among homebuyers, although the strong YTD sales should alleviate such concerns.

The legal issues are highly complex given the nature of the legal and administrative systems, and we would not add any value by speculating as to how or when it will all come to a close. However, we can say with some confidence that we don't believe a quick solution is a likely outcome.

**Background.** We believe that the company's business operation was affected in early 2018 because NVL did not launch any new projects in 1H18. The company announced plans to launch three new projects (i.e., Project J – Grand Manhattan; Project F – The Palace; and Project P – Water Bay) in August 2018. However, it only managed a soft launch of one of these announced projects (i.e., Project J) in 4Q18.

In October 2018, HCMC Vice Chairman Tran Vinh Tuyen required the relevant officials to review all projects subject to the State Audit Office of Vietnam's (SAV) inspection. In December 2018, the city authorities suspended conversion of the land use purpose and also homebuyer transaction rights (e.g., buying/selling or for use as collateral) at seven Novaland projects (i.e., Garden Gate, Newton Residence, Orchard Garden, Orchard Park View, Golden Mansion, Kingston Residence, and The Prince Residence).

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**Legal issues in HCMC: The elephant in the room for property developers here.**

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**Ultimately, the anticorruption drive is good for Vietnam.**

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**But the timing and context of resolving the issues are key risks for developers, including NVL.**

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**In short, the headlines have not been ideal since 2018.**

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**This is a key reason for NVL's share price underperformance, in our view.**

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However, on January 8, 2019, the HCMC Department of Natural Resources and the Environment concluded that there was no legal framework to suspend the transaction right of homebuyers at these seven projects. The Chairman of the HCMC People's Committee said that state agencies would coordinate with the company to solve the problem, adding that the rights of home buyers would be guaranteed.

**NVL has actively worked to manage the message, to its credit.**

Crucially, Novaland has also stated its commitment to the rights of its homebuyers. This consistent stance reflects laudable management acumen in what is undeniably a difficult and sensitive situation for the company, as we believe this reassurance is key for successfully maintaining the trust and confidence of homebuyers in NVL.

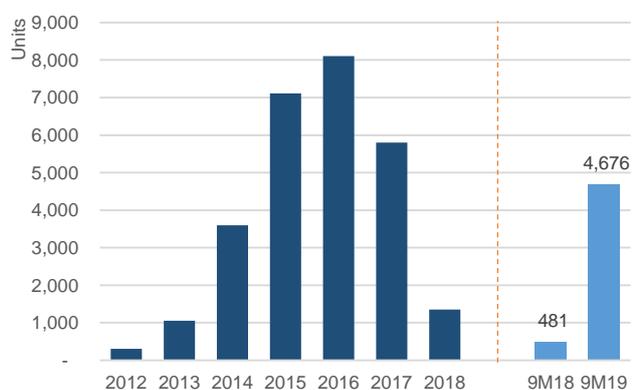
We are impressed by the company's openness and speed of response to related negative news flow—a feature that is not shared by all companies in Vietnam (or elsewhere, for that matter).

For example, [Bloomberg](#) (October 3, 2019) reported that sales agents at Novaland–Madison, an NVL–linked project, had informed buyers that a *force majeure* event had occurred related to a criminal case against an unlisted construction company. NVL responded to this news with an explanation to investors of their role in the project. The company explained that it was a fee–paid consultant for development and sales services at the project, that it had already received said fees, and therefore that it had no further economic exposure to the project discussed by Bloomberg. This may not placate all investors—the company's name is attached to the project regardless of its economic exposure—but it is a laudable example of the company's active efforts to manage the message. We think this is positive.

**Strong sales of new projects soft-launched in 2019 reflect buyer confidence, in our view.**

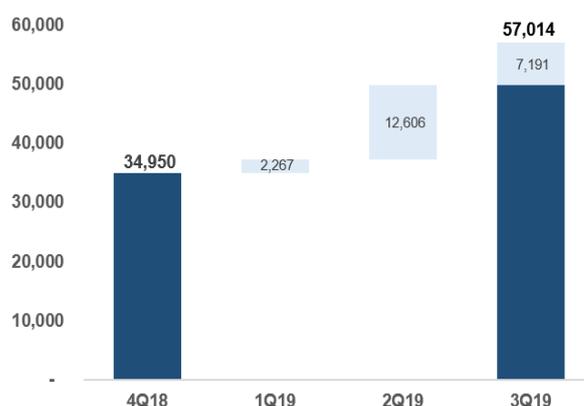
In our view, the company is navigating well in considerably stormy seas—an apt metaphor given that the anticorruption environment in HCMC is not directly within company's control or that of the overall real estate industry. This is also another reason for NVL's timely implementation of the soft launches of two hospitality projects (i.e., Novahill Mui Ne Resort and Villas and Novabeach Cam Ranh Resort & Villas) in 4Q18. Crucially, its approach appears to be effective at retaining trust in the company's brand, as presales of new projects soft–launched in 2019 have been very strong, with 4,676 units delivered (almost 9x the units sold in 9M18).

**Fig 7: Sales performance YTD has recovered, illustrating confidence among homebuyers**



Including projects under BCCs  
Source: Company data, Yuanta Vietnam

**Fig 8: Unbilled contract sales (VND bn) should support revenues in the next three years**



Including projects under BCCs  
Source: Company info as of June 30, 2019, Yuanta Vietnam

## Solid sales of new projects in 2019 should underpin revenues over the next two years

**Unit sales grew by 872% to 4,676 homes, which in our view demonstrates the strength and resilience of NVL's brand.**

The strong sales performance of newly launched projects in 2019 should underpin revenue visibility over the next two years, in our view, despite the difficulties discussed above. Specifically, NVL sold 4,676 units in 9M19, an increase of 872% YoY. Broken down by product lines, NVL sold 1,453 residential units in central HCMC, accounting for c. 31% of total units sold, and 2,700 hospitality units in other provinces (Integrated Resort & Residence), accounting for 58% of total units sold. The remaining 11% of unit sales comprised 523 units in satellite urban areas.

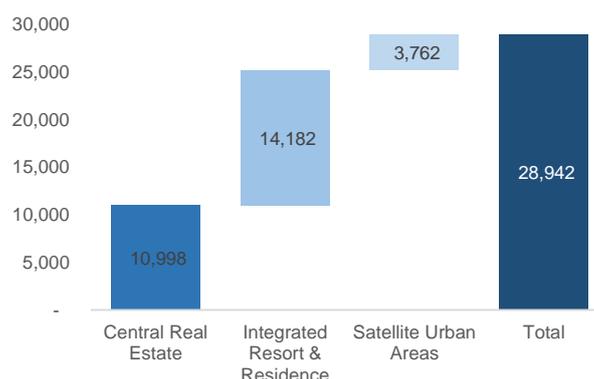
**Fig 9: 9M19 Sales performance (Units)**



Including projects under BCCs

Source: Company data, Yuanta Vietnam

**Fig 10: 9M19 Presales values (VND bn)**



Including projects under BCCs

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

By value, presales reached VND 28,942 bn in 9M19, which we believe was a substantial improvement over 9M18. Thus, unbilled contractual value increased by 53% in the first nine months of 2019, from VND 37,217 bn at December 31, 2018 to VND 57,014 bn (USD 2.4 bn) at September 30, 2019 (see Fig 8). The YTD sales success quantifiably confirms the positive qualitative signals that have emerged this year, which include the soft launches of Palm Marina B, Project F (The Palace), Aqua City, and NVL's integrated resort and residence projects.

The c.VND57 trillion in unbilled contractual value includes contracts from bookings, presales, and sales and purchase agreements (SPAs). Relevant transactions include The Grand Manhattan, Lakeview City, Victoria Village, Golf Park, Aqua City, NovaHills Mui Ne, NovaBeach Cam Ranh, Palm Marina B, NovaWorld Phan Thiet, and NovaWorld Ho Tram. Details related to each project's legal status are not publicly available, but the contract value of bookings should be added to unbilled contractual value. Of course, that VND57 trillion is not locked in: the timing of revenue recognition is unclear due to construction delays, and clients might cancel bookings if the project launches are delayed substantially.

## Pipeline update

**New projects in District 2 should be launched in 2020, and we expect strong demand.**

According to NVL's management, Project P (WaterBay) and Project H (SaiGon Board Way) should be launched in 2020. We believe that these two new projects, which are located in District 2, are likely to achieve high absorption rates at launch due to their prime locations. Furthermore, as discussed previously, if any of NVL's other residential projects in HCMC are able to complete the legal procedures and officially

launch, we would expect solid homebuyer interest—again, due to the projects’ prime locations. However, we have to acknowledge the risks inherent in assuming completion of the legal procedures (i.e., the timing and context of any such resolution are both outside the company’s ability to control and our ability to forecast).

**Table 1: Construction and delivery pipeline of NVL’s projects**

No	Project		Before	2019	2020	2021	After
1	The Sun Avenue	District 9, HCMC	1Q15*				
2	Sunrise Riverside	Nha Be	3Q15*				
3	Botaniaca Premier	Tan Binh, HCMC	1Q16*				
4	Sunrise Cityview	District 7, HCMC	2Q15*				
5	Golf Park Residence	District 9, HCMC	3Q15*				
6	The Bontanica	Tan Binh District, HCMC	1Q15*				
7	Saigon Royal	District 4, HCMC	2Q16*				
8	Newton Residence	Phu Nhuan District, HCMC	1Q16*				
9	Rich Star	Tan Phu, HCMC	4Q15*				
10	Orchard Parkview	Phu Nhuan District, HCMC	3Q15*				
11	Victoria Village	District 2, HCMC	2Q17**				
12	Aqua City	Bien Hoa – Dong Nai		1Q19**			
13	Novahills Mui Ne Resort & Villas	Mui Ne, Binh Thuan	4Q18**				
14	Novabeach Cam Ranh Resort & Villas	Cam Ranh – Khanh Hoa	4Q18**				
15	Novaworld Phan Thiết	Phan Thiet		1H19**			
16	Novaworld Hồ Tràm	Ba Ria – Vung Tau		1H19**			
17	Project J (The Grand Manhattan)	District 1, HCMC	4Q18**	1H19*			
19	Project R (Palm Marina B)	District 9, HCMC		1H19**	2020*		
20	Project H (SaiGon BoardWay)	District 2, HCMC			2020**		
21	Project F (The Palace)	District 2, HCMC		1H19**	2020*		
22	Project T	District 9, HCMC			2020**		
24	Project P (Water Bay)	District 2, HCMC			2020**		
25	Victoria Park	Tan Phu, HCMC		1H19**	2020*		
26	Ngân Hiệp 1&2	Ba Ria-Vung Tau		4Q19**			

Note: \* Official launch date; \*\* Soft launch date;

Source: Company data

**Fig 11: Projects update**



**Aqua City:** New real estate center introduced, model units are expected to be opened for visitors by 12/2019 and infrastructure and green space is under construction.

**NovaBeach Cam Ranh:** Model house completed and open for visitors since 09/2019.

**NovaWorld Phan Thiet:** Model house is under construction and expected to open for visitors in 01/2020.

**NovaWorld Ho Tram:** Model house is under construction and expected to open for visitors in 1H20.

**The Palace Residence:** investment license to be granted in 1H20.

Source: Company data, Domestic Media, Yuanta Vietnam

## Valuation

Our RNAV valuation derives a target price for NVL of VND 65,000/share, which is +12% higher than the closing price on Nov 7, 2019. Our valuation model is exhibited in Table 2, below.

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**We believe that our fair value assumptions are reasonably conservative.**

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In establishing fair value, we have applied a discount rate of 14.5% based a risk free rate of 6.8% (12-m time state-bank deposit rate) and market risk premium of 7%. Bloomberg reports a six-month equity Beta of 0.8. However, we aren't fully convinced that the assumption of stock market efficiency inherent in the CAPM model is appropriate. Therefore, we arbitrarily apply a higher Beta of 1.1x to reflect the risks.

We believe that the resulting 14.5% discount rate is appropriate, but we acknowledge that others may disagree. Thus, we provide fair value sensitivities to a range of discount rates in Fig 12. As illustrated in that chart, the valuation is not incredibly sensitive to the discount rate. Individual project cash flow projections (a function of sales, ASP, and timing) are the critical determinants of NVL's fair value, in our view. Yuanta clients are welcome to request our model for further details.

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**We also assume full dilution for the convertible bond and the 18.6 million ESOP shares to be issued in 4Q19.**

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In addition, we have assumed full dilution for the convertible bond and ESOPs in our valuation. We have factored in full CB conversion at the current conversion price (which was revised down in October) of VND 60,000. This results in 94m additional shares (+10.1% from the current number of shares outstanding) and VND5.6 trillion in NAV (+9% from the NAV if the CB is not converted). We factor in the 18.6 million ESOP shares to be issued in 4Q19, of which 17.8 million shares will be restricted for a year and 0.8 million shares will be unrestricted. The ESOP issue price is VND10,000 and net tangible assets increase by VND186 bn as a result of the issuance.

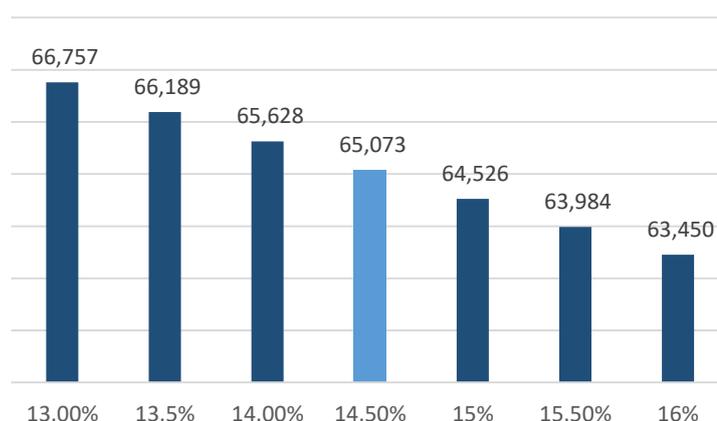
The net result of CB conversion and the ESOPs is not material from a fundamental valuation perspective. From a technical perspective, the 0.8 million unrestricted ESOP shares should not be a significant overhang given the stock's reasonably large trading liquidity. However, the reduced CB conversion price could be read by investors as another hurdle for share price appreciation, in our view.

**Table 2: Valuation summary**

Project	Valuation approach	Added value (VND mn)	Ownership rate	Effective added value (VND mn)
Aqua City	DCF	967,513	99.99%*	967,416
Novahills Mui Ne Resort & Villas	DCF	258,438	99.98%	258,385
Novabeach Cam Ranh Resort & Villas	DCF	509,989	97.97%	499,621
Novaworld Phan Thiết Phase 1	DCF	2,203,993	99.99%*	2,203,773
Novaworld Hồ Tràm	DCF	1,788,625	99.99%*	1,788,446
Project P (Water Bay)	DCF	2,414,829	98.96%	2,389,827
Project R (Palm Marina B)	DCF	5,532,223	99.72%	5,516,857
Project S (Harbor City)	DCF	2,561,760	83.45%	2,137,823
Project Q (Palm Marina A)	DCF	275,248	99.9%*	274,973
Victoria Village	DCF	1,022,477	99.90%	1,021,455
Project J (The Grand Manhattan)	DCF	2,424,416	99.67%	2,416,351
Project K	DCF	1,572,758	99.98%	1,572,433
Project C	DCF	10,595,723	99.99%*	10,594,664
Project F (The Palace)	DCF	2,372,546	100.00%	2,372,528
Project H (SaiGon BoardWay)	DCF	630,244	98.86%	623,061
Project D	DCF	611,738	99.99%*	605,621
Project I	DCF	8,139,083	99.90%	8,130,944
Project T	DCF	1,932,294	99.99%*	1,912,972
Project X	DCF	598,630	99.9%*	592,644
Project Y	DCF	251,453	100.00%	248,938
Project V	DCF	2,465,199	99.99%*	2,440,547
Others projects				448,853
<b>Total NPV</b>				<b>49,018,131</b>
Net tangible assets (Sep 30,19)				13,662,713
CB conversion (Sep 30,19)				5,561,530
<b>Net asset value</b>				<b>68,242,374</b>
Fully diluted shares (mn shares)				1,049
<b>Target price (VND)</b>				<b>65,000</b>
Upside				<b>12%</b>
Current price (Nov 7,2019)				58,100

Note: \* targeted ownership.  
Source: Yuanta Vietnam

**Fig 12: Fair value sensitivities to discount rate (base case: 14.5%)**



Source: Yuanta Vietnam

## Risks to our view

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**Legal procedures represent the key headwind both to operations and to share price performance, in our view.**

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1) **Delays to legal procedure for projects in HCMC.** The duration of the various legal issues—and the eventual outcome, including any intermediary measures that NVL may need to take—are unclear.

Some projects in Novaland's pipeline remain stuck in the land clearance and compensation stage and we can only speculate on how long this might persist. This is because the process is complex and requires coordination between developers, relevant state agencies, and landlords. Resolving the issues could be a prolonged process.

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**This is a tough situation for the industry, and it may be prolonged...**

---

The legal and administrative procedures have been prolonged for numerous reasons. Our concern is that the problem may be exacerbated by administrative inertia due to the ongoing anticorruption campaign. To put it in the context of sell-side equity analysis, sometimes not making a stock call is less risky than making a call that is unpopular. It is possible that a similar antagonism for decisiveness may permeate the halls of officialdom in the current environment. If so, projects in the pipeline are highly likely to be further delayed as a result.

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**...but the resulting supply constraint has not dampened demand for NVL's property...**

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The good news: demand for HCMC property remains extremely strong. The lack of supply ensures that both sales and pricing of projects that can be completed is very strong, and likely to remain so going forward, in our view.

Given the high visibility of this issue, we think that it is reasonable to be concerned about the negative effect on NVL's brand among homebuyers. But, as discussed previously, the strong recovery in sales of newly launched projects in 2019 have at least partially allayed such concerns for us. However, the stock's image among equity investors is perhaps more difficult to gauge. Admittedly, the recently tepid share price trend has failed to match the recovery in project sales in the first nine months of 2019.

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**... and our sense is that management has handled the PR and IR situation quite well.**

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To management's credit, NVL has been open and effective in its communications with the Street despite these difficulties. Applying this approach persistently will be critical for a recovery of investor sentiment, in our view.

2) **Debt leverage is relatively high.** NVL's debt/equity ratio is 1.17x, twice that of the sector average. The company's debt maturity schedule also raises concerns given the project delays. To support cash flow from customer advances, we believe that the company must ensure the progress of its soft-launched and hard-launched projects so that homebuyer payments are received on schedule. NVL must also maintain a certain number of newly launched projects for the same reason, in our opinion.

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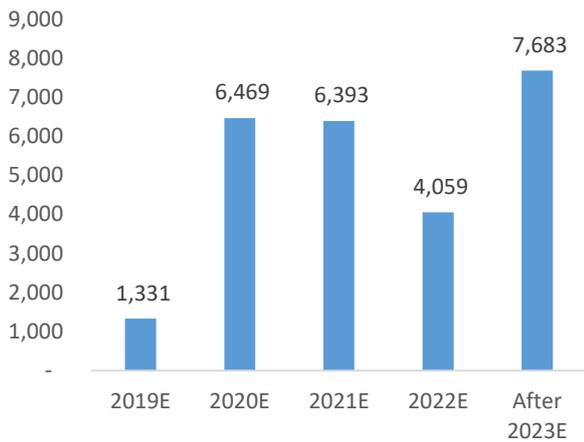
**Debt leverage is relatively high and will probably remain at elevated levels for the next several years.**

---

We do not expect the company to reduce leverage in 2020–22E. Average debt maturity during the next three years is VND 5,640bn, which is clearly a large number and is likely to require NVL to raise new debt funding to offset repayments.

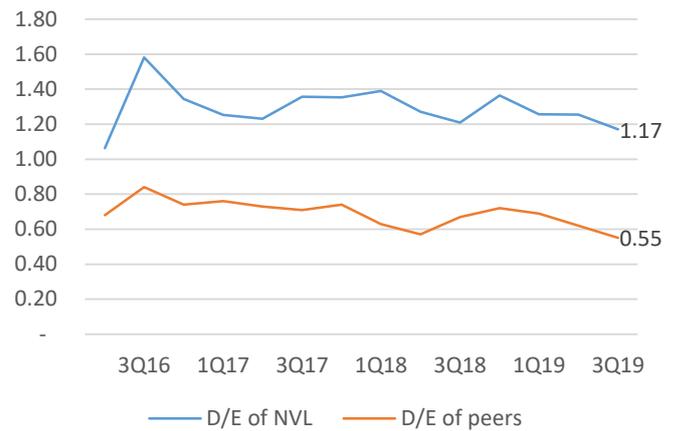
Additionally, 97.5% of NVL's debt comprises floating rate obligations. Interest expenses accounted for c.10% of revenue in the last three years, but a sharp increase in interest rates in VND and/or USD debt markets would create additional cash flow pressure.

**Fig 13: Debt Maturity Schedule (VND bn)**



Source: Company data at June 30th 2019, Yuanta Vietnam

**Fig 14: Debt / Equity**



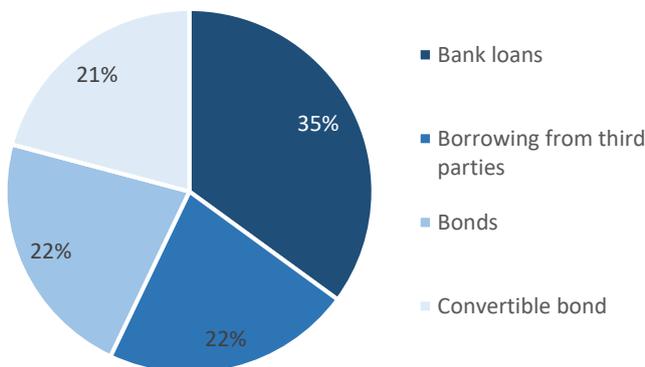
Note: Debt= Short-term borrowings + Long-term borrowings  
Source: Company data, Yuanta Vietnam

Interestingly, NVL is one of the few Vietnamese real estate developers (and, indeed, one of the few nonfinancial firms) with the ability to access diversified debt capital markets (both domestic and international).

However, the company has incurred expenses related to this borrowing. (1) Debt funding from overseas sources requires NVL to incur related hedging expenses that reached 1.3% of total revenues in FY18. (2) Bond issuance costs accounted for 0.4% of total revenues in 2018. (3) Borrowing costs related to bank loans accounted for 1.3% of total revenues in FY18.

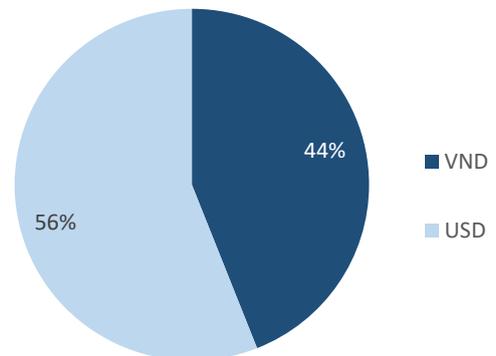
The company's convertible bond accounted for 21% of total debt as at Sep 30, 2019. This is equivalent to c. 93 million shares, which poses c. 10% dilution risk to shareholders today if bondholders choose to convert (note: the conversion price was reduced from the original VND 74,750 down to VND 60,000 in October 2019).

**Fig 15: Type of debt**



Source: Company info as of June 30, 2019, Yuanta Vietnam

**Fig 16: Debt breakdown by currency**



Source: Company info as of June 30, 2019, Yuanta Vietnam

**3) Property market conditions could deteriorate.** NVL is a property developer so would obviously be exposed to a downturn in the property market driven by a reversal of currently positive underlying macroeconomic drivers, by government and/or central bank policy, or by external risks (e.g., the trade war, international capital flows and liquidity, and/or global geopolitics).

**4) Convertible bond could be another headwind for the share price.** As discussed in the valuation section above, NVL's VND5.6 trillion convertible bond could be another short-term share price hurdle. NVL issued the USD-denominated bond at a 5.5% yield in April 2018 with a share conversion feature at a price of VND 74,750.

However, the conversion price was revised down to VND 60,000 in October 2019. The conversion price is adjustable based on business events resulting in a change in the underlying value and/or a decrease in NVL's share price. It cannot be reduced to below 75% of the initial conversion price, or VND56,062 per share—that is the floor. Expectations of full CB conversion and immediate divestment as soon as the stock hits VND 60,000 are highly unrealistic, in our view. However, the conversion price could present a short term top for the share price anyway, as not all investors share (or care about) our opinion on the matter.

As noted, full conversion would result in additional 10.1% shares and add 9% to the company's NAV, so the net result almost immaterial from a fundamental valuation perspective in terms of dilution. Indeed, the implied reduction in debt should bring down the theoretical cost of equity, leading to a higher NAV—if we accept the assumption of market efficiency. But realistically, we don't. Thus, the CB conversion price could be another hurdle for the shares.

**5) ESOP issuance in 4Q19.** In the short term, this does not appear to be a major risk for the share price but it is worthy of note. NVL plans to issue 18.6 million ESOP shares in 4Q19, equivalent to 2% of total outstanding shares. The issue price is VND10,000, and 17.8 million shares will be restricted for a year while 0.8 million shares will be unrestricted. The 0.8 million in unrestricted shares are worth roughly US\$2 million, which is equivalent to less than two days' trading. Thus, we don't see the ESOP as a significant downside risk in the short term, and if the shares decline sharply on issuance day, we would be tactical buyers.

**6) Model risk related to target ownership of projects.** Our model assumes that NVL will increase their ownership of its various projects to 99.9%. This is similar to past historical examples such as Projects K, P, and R. However, this is not a certainty. Novaland has not yet consolidated some projects, including Projects Q, D, V, T, X and Novaworld Phan Thiet. It is also in the process of raising its ownership in other projects, such as Projects C and I.

INCOME STATEMENT (VND'bn)	2018A	2019E	2020E	2021E
<b>Net sales</b>	<b>15,635</b>	<b>15,871</b>	<b>20,031</b>	<b>23,275</b>
Cost of sales	(10,132)	(10,749)	(13,319)	(15,795)
<b>Gross Profit</b>	<b>5,158</b>	<b>5,122</b>	<b>6,712</b>	<b>7,480</b>
Selling expenses	(424)	(390)	(541)	(691)
General and admin expenses	(744)	(755)	(1,048)	(1,279)
<b>Operating profit/(loss)</b>	<b>3,990</b>	<b>3,977</b>	<b>5,123</b>	<b>5,510</b>
Financial income	1,297	1,297	1,346	1,400
Financial expenses	(1,930)	(2,126)	(2,471)	(2,642)
Gain/(loss) from joint ventures	1,322	-	-	-
Net other income/(expenses)	(3)	(3)	(4)	(5)
<b>Profit/(loss) before tax</b>	<b>4,675</b>	<b>3,145</b>	<b>3,993</b>	<b>4,263</b>
Income tax expenses	(1,408)	(629)	(878)	(938)
<b>Net profit/(loss) after tax</b>	<b>3,267</b>	<b>2,516</b>	<b>3,115</b>	<b>3,326</b>
Minority interests	40	41	51	60
<b>Attributable to parent company</b>	<b>3,227</b>	<b>2,475</b>	<b>3,063</b>	<b>3,266</b>
EPS basis reported, VND	3,443	2,641	3,268	3,484

FINANCIAL RATIO	2018A	2019E	2020E	2021E
<b>Growth (%)</b>				
Revenue, growth	33%	2%	26%	16%
Operating Income, growth	72%	0%	29%	8%
PBT, growth	81%	-33%	27%	7%
EPS, growth	10%	-23%	24%	7%
Total Assets, growth	41%	15%	13%	10%
Equity, growth	24%	21%	13%	7%

<b>Profitability (%)</b>				
Gross Profit Margin	33%	32%	34%	32%
Operating Profit Margin	26%	25%	26%	24%
Net Margin	21%	16%	16%	14%
ROE	16%	10%	11%	11%
ROA	5%	3%	3%	3%

<b>Efficiency</b>				
Receivable Turnover	2.87	3.12	3.51	3.68
Inventory Turnover	0.34	0.30	0.31	0.30
Payable Turnover	0.93	0.97	1.00	0.98

<b>Liquidity</b>				
Current ratio	1.82	2.01	1.99	1.93
Quick Ratio	0.64	0.68	0.57	0.41

<b>Financial Structure (%)</b>				
Debt/Equity	1.36	1.29	1.25	1.16
Total liabilities/Total Assets	0.71	0.69	0.69	0.69

Source: Company data, Yuata Vietnam

BALANCE SHEET (VND'bn)	2018A	2019E	2020E	2021E
<b>Total assets</b>	<b>69,912</b>	<b>80,694</b>	<b>91,010</b>	<b>99,847</b>
<b>Current Assets</b>	<b>50,861</b>	<b>59,726</b>	<b>66,500</b>	<b>71,819</b>
Cash & cash equivalents	12,327	13,762	12,409	7,601
ST Investment	96	100	106	111
Accounts receivable	4,665	5,511	5,907	6,757
Inventories	32,826	39,391	47,270	56,723
Other current assets	947	961	809	626
<b>Long-term Assets</b>	<b>19,051</b>	<b>20,968</b>	<b>24,511</b>	<b>28,028</b>
Net fixed assets	787	1,236	1,082	943
LT Investment	7,556	7,558	7,560	7,562
LT incomplete assets	430	731	1,170	1,521
LT assets other	10,278	11,442	14,698	18,002
<b>Total Resources</b>	<b>69,912</b>	<b>80,694</b>	<b>91,010</b>	<b>98,512</b>
<b>Total Liabilities</b>	<b>49,452</b>	<b>55,914</b>	<b>63,116</b>	<b>68,627</b>
Accounts payable	2,523	2,677	3,316	3,933
ST debts	11,645	11,645	11,995	12,355
Other ST liabilities	13,801	15,396	18,189	20,881
Long term debt	16,263	20,349	22,999	23,893
Other LT debt	5,220	5,847	6,617	7,565

<b>Shareholder's equity</b>	<b>20,460</b>	<b>24,780</b>	<b>27,894</b>	<b>29,885</b>
Paid in capital	9,373	9,373	9,373	9,373
Share premium	3,997	3,997	3,997	3,997
Retained earnings	6,108	9,051	12,115	15,381
Other equity	983	2,359	2,410	1,134

CASH FLOW (VND'bn)	2018A	2019E	2020E	2021E
<b>Begin cash of the year</b>	<b>6,650</b>	<b>12,327</b>	<b>13,762</b>	<b>12,409</b>
Net profit before tax	<b>4,675</b>	<b>3,145</b>	<b>3,993</b>	<b>4,263</b>
Adjustments	-	1,405	1,887	2,026
Change in Working Capital	(3,738)	(7,878)	(7,440)	(9,739)
<b>Cash from Operations</b>	<b>937</b>	<b>(3,328)</b>	<b>(1,561)</b>	<b>(3,450)</b>
Capital Expenditures	2,072	516	(2,347)	(2,253)
Investments	9,232	(307)	(446)	(359)
<b>Cash from investments</b>	<b>11,304</b>	<b>209</b>	<b>(2,792)</b>	<b>(2,612)</b>
Divident Paid	(13)	469	-	-
Proceeds from issue of shares	3,644	-	-	-
Proceeds from borrowings	22,161	4,086	2,999	1,254
Repayments of borrowing	<b>(14,780)</b>	-	-	-
<b>Cash from financing</b>	<b>11,013</b>	<b>4,555</b>	<b>2,999</b>	<b>1,254</b>
<b>Net change in Cash</b>	<b>23,255</b>	<b>1,435</b>	<b>(1,354)</b>	<b>(4,807)</b>
<b>Ending cash balance</b>	<b>29,905</b>	<b>13,762</b>	<b>12,409</b>	<b>7,601</b>

# Appendix A: Important Disclosures

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