

Vietnam: Property
1 April 2020
Yuanta VN Property Universe

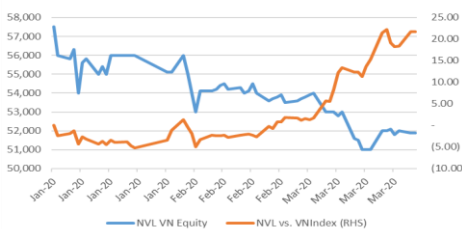
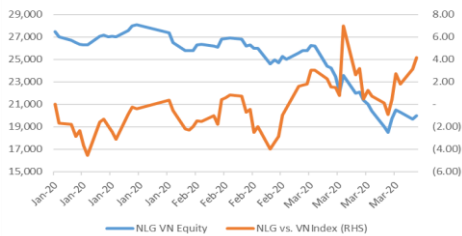
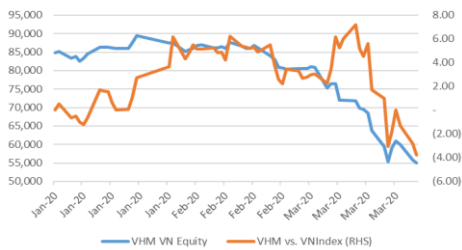
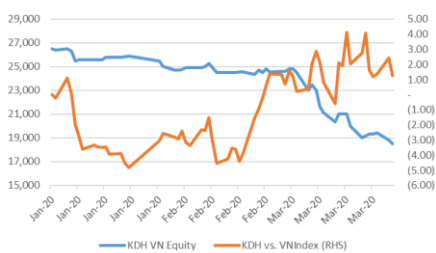
Stock code	Rating	Current price (VND)	Target price (VND)	12-m TSR
NLG VN	BUY	20,800	36,400	77%
KDH VN	BUY	18,400	31,081	72%
VHM VN	BUY	54,800	94,862	75%
NVL VN	HOLD	51,800	65,073	26%

What's new?

- ▶ Newly launched units increased 3.5% in HCMC in 1Q20. Absorption rates reached 50–80%, depending on the project.
- ▶ Some investors are trying to sell at a 5–10% discount to their 2019 cost base.
- ▶ All real estate segments have been affected by the economic shock.
- ▶ We do not expect a market recovery until late 3Q20 at the very earliest.

Our view

- ▶ Selling price momentum has been interrupted.
- ▶ Transactions will decrease sharply in 2Q20 despite reduced asking prices in the secondary market.
- ▶ Launch date of pipeline projects might remain delayed given the slackening in demand.
- ▶ Real estate developers must bear financial expenses without cash inflow from homebuyers.
- ▶ Focus on quality: KDH and VHM are our top picks.

Share price performance relative to VNI

Caution is called for, but not panic

1Q20 update: Newly launched units increased (slightly) by 3.5% YoY in HCMC. According to the Vietnam Real Estate Association, newly launched units in HCMC reached 4,664 units in 1Q20. This is just one third of units launched in 4Q19.

Absorption rates reached 50–80%, depending on the project. According our observations and discussions with industry contacts, projects launched before March by major developers and with clear administrative approval achieved 70–80% absorption rates, whereas other projects sold just c.50% of total launched units. The coronavirus has since left the primary market in an idle condition.

Some homebuyers in 2019 are trying to sell below cost. Based on our monitoring of social networks and trading websites, speculators are asking for prices that are lower than their original cost base from last year.

According to our observation, asking prices for secondary market sales have fallen by 5–10% across all housing segments.

Our view: The rapid price momentum of recent years has clearly been interrupted. Homebuyer psychology appears to have reversed, with speculators trying to sell at a loss while prospective buyers feel no compulsion to rush. As such, we strongly believe that transaction volumes in both the primary and secondary markets will plummet in 2Q20 and we see limited likelihood for a turnaround until late 3Q20 at the very earliest.

Pipeline projects are still likely to be delayed, although the cause of the delays is shifting from administrative hold-ups to slack demand. The additional financial pressures on developers should be partly mitigated by government efforts to ease the administrative restrictions and more generally to support affected industries, but a recovery is not likely to become evident until 4Q20, in our view.

Focus on quality. This supports our strategy call to focus on balance sheet strength. Our top picks in the property sector are [KDH](#) and [VHM](#).

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Brief 1Q20 HCMC residential market update

New units launched slightly increased in HCMC in 1Q20 (+3.5% YoY). According to the Vietnam Real Estate Association (VNREA), new units launched in HCMC reached 4,664 homes, increasing 3.5% YoY but only a third of newly launched units in 4Q19.

Absorption rate reached 50–80%, depending on the projects. According to our observations, projects that were launched before March 2020 by major developers with clear administrative approval status posted around 70–80% absorption rates. By contrast, other projects sold just c.50% of total launched units. As for March, we believe coronavirus has made the primary market become temporarily idle.

Some homebuyers are willing to take losses in the secondary market, especially at projects launched at high prices in 2019. According to our monitoring of social network forums and trading websites, some homebuyers (i.e., investors and speculators) are now trying to sell homes purchased last year for lower prices than their original cost base. The implied pain of such transactions suggests substantially reduced animal spirits even after the outbreak period has passed, and credit availability to such investors is also likely to dry up in the immediate future. Thus, the mix of potential buyers may shift in favor of prospective home residents and away from financial investors in the medium term (i.e., even after coronavirus has passed). The silver lining: this should lead to a more balanced market than we have seen in the past few years.

All real estate segments have been affected by the economic shock. According to our observations, some investors are asking for prices in the secondary market that represent 5–10% discounts to their 2019 cost base. Data on actual transactions is opaque, but we believe that prospective buyers are in no rush given 1) the obvious trend in pricing, 2) curtailed ability to obtain financing, and 3) concerns about personal financial security and health that likely trump the desire to own a home, at least in the short term.

A broad range of industries, including tourism, retail, real estate, logistics, manufacturers, and others, have been impacted by the preventative measures against the virus. One individual's spending is another person's income, so demand has been halted as people focus on basic necessities and health. Consequently, business revenues have dropped (if not evaporated). Landlords have reduced or exempted rental charges but many tenants have cancelled their leasing contracts anyway. Erstwhile property market bulls are now trying to sell off last year's purchases at reduced prices. Overall, this suggests investment demand will not recover in the medium term.

The government has announced mitigating policies that should support the real estate industry. The Prime Minister has required the relevant authorities to reduce the administrative restrictions in place since last year and also ordered the banking system to support companies that are directly affected by the coronavirus. The Ho Chi Minh Real Estate Association (HOREA) and Vietnam Real Estate Association (VNREA) have also requested that the authorities provide support for real estate developers. . We expect detailed guidelines to be issued by the relevant authorities soon.

Homebuyers are selling off at reduced prices.

According to our observation, all housing segments have been selling at 5-10% discount.

The government issues new policies to support real estate companies...

...but developers have been waiting for details guides to be issued by the relevant authorities.

We expect disbursement of public investment capital to have an offsetting effect on the economic shock.

Speeding up the disbursement of public investment capital to offset GDP growth with much-needed infrastructure. Public infrastructure projects, many of which are long-delayed, have been restarted by order of the PM. These include the HCMC Metro Line 1, a long-delayed project that is now officially set to begin operating by the end of 2021. Additionally, land clearance is under way to be completed for Metro Line 2, and infrastructure projects in the Thu Thiem New Urban Area of District 2 and other key areas have been approved for resumption. This is positive from the Keynesian perspective, but for Vietnam the infrastructure rollout is very much needed. In particular, urban transport infrastructure should provide positive support for urbanization and more widespread residential home ownership (and thus, for property developers).

Our view: Overall, property price momentum has been interrupted by the coronavirus pandemic. Homebuyer psychology has been negatively affected with speculators trying to flip homes at a 5–10% discount to their cost base from 2019, while first-time homebuyers feel no compulsion to rush. Data transparency is always a problem, but we strongly believe that trading volumes in both the primary and secondary market (where opacity of volumes and pricing is unfortunately a defining characteristic) are extremely likely to have plummeted and are not likely to recover until late 3Q20 at the earliest.

Support from the government should be an offsetting factor. However, the launch of pipeline projects might continue to be delayed (with the cause of the delay shifting from administrative restriction to slack demand). Consequently, real estate developers must bear their financial expenses without cash inflows from homebuyers in the near term.

Top picks: KDH and VHM. The above conditions support our overall strategy call to focus on quality management, balance sheet strength, and cash flow across all sectors (and to forget about chasing short-term earnings momentum). In the property sector, we would add well-positioned landbank to the list of defensive characteristics. This is because developers with ample landbank in attractive locations have greater financial flexibility and should also outperform operationally during the eventual recovery (possibly in 4Q20, and very likely in 2021).

As such, our top picks are KDH (BUY) and VHM (BUY).

Listed Developer Scuttlebutt

An Gia Group (AGG VN – Not Rated) launched the West Gate Park project (3.1 ha in Binh Chanh District) on March 5, 2020. Although West Gate Park is quite distant from the downtown area at around 18km, the average selling price per square meter ranges from VND32.5mn to VND34.5mn, higher than AGG's initial ASP of VND30mn (these ASPs exclude VAT). AGG's ASP is surprisingly high relative to other projects that are closer to the city center. For example, the ASP of NLG's Akari City, which is 12.8km from the city center, is around VND33mn. In addition, the ASP of KDH's Lovera Vista, which is 14.8km from the city center, is around VND31.5mn. If West Gate Park units are actively transacted in the secondary market at similar prices, it could establish a new ASP standard for the west area of HCMC. However, this appears unlikely to happen in the near term given the dismal macro outlook.

Investors are willing to take a small loss when selling their condos at the three VHM mega projects. Based on our observations of social networking forums, speculative buyers last year are asking for selling prices that are lower than their cost base, resulting in the willingness to take a small loss of around VND30–50mn per unit. However, panic is not in evidence, as some homebuyers are trying to sell their condos at above–cost prices that include transaction fees, which results in a higher asking price by around VND50–150mn per unit. In our view, even the latter group are not likely to profit from flipping if they used leverage. The short payment schedule (i.e., homebuyers have to pay up to 85% of the sale and purchase agreement (SPA) 15 days after it is signed) would have resulted in interest expenses that their asking prices (if met by buyers) may not quite offset.

Dat Xanh Group (DXG VN – Not rated) is under pressure from its debt. DXG's debt/equity was 0.48x and its net debt to equity was 0.39x at the end of FY19). These are not particularly high leverage ratios on the surface, but other receivables and inventories accounted for 80% of total assets, while the firm's two major projects (i.e., Gem Riverside in HCMC District 2 and Long Thanh) have seen limited progress to date.

Of the two, we believe that Gem Riverside (which has been stalled by the administrative delays affecting most developers in HCMC since 2018) offers a higher probability of going forward rapidly, given government policy to lift the administrative restrictions as well as the attractiveness of the project's location. By contrast, the Long Thanh project's success will likely depend on progress of the planned new international airport there, which will take a longer –term eventuality. More specifically, the Long Thanh project was funded by a VND2.5 trillion bond issuance (equivalent to 80% of the land value of Long Thanh project). These bonds were issued at an 11.5% annualized interest rate, but starting from February the rate is adjusted on a quarterly basis to VP Bank's (VPB – [BUY](#)) 12–month VND savings deposit for individuals (paid in arrears) plus 4.15ppt. This is equivalent to 11.55% per annum now.

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