Yuanta Research

Sector Report

Vietnam: Residential Real Estate | **14 April 2020**

Our recommendations

- **KDH (BUY)** Financial strength and HCMC landbank are attractive.
- **VHM (BUY)**: Focusing on mid-end housing and accelerating capital returns.
- **NLG (BUY)**: The outlook is driven by transport infrastructure.
- **NVL (HOLD-Outperform):** Southern real estate market proxy.

What's new?

- All real estate segments have been impacted by COVID-19.
- Some speculators are trying to sell at a 5-10% loss from last year, but buyers are not in a rush.
- Medium term outlook remains positive given supportive policy, especially infrastructure policy.
- Longer term outlook is still bullish given the demographic outlook.

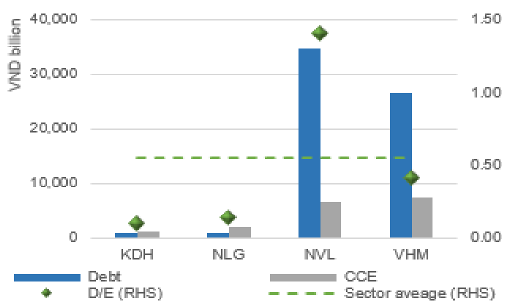
Our view

- The real estate market is a proxy on national prosperity.
- Cyclical factors are significantly impacting the current real estate market.
- But huge demand and rising wealth support a positive longer-term outlook.
- The property market has a solid foundation for a cyclical reset. If you can find a good property deal, it's never a bad time to invest.

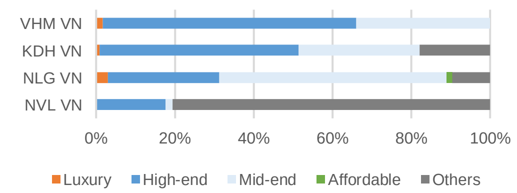
Yuanta Vietnam Property Universe

Stock code	Price (VND k)	Target (VND K)	Rating	%ge up /downside	Fwd Div Yield
VHM VN	67.3	94.9	BUY	41%	1.5%
KDH VN	20.2	31.1	BUY	54%	2.5%
NLG VN	21.4	36.4	BUY	70%	2.3%
NVL VN	52.0	65.1	Hold-OP	25%	0.0%
ROE	**2017A**	**2018A**	**2019A**	**2020E**	**Avg**
VHM VN	15%	31%	34%	29%	27%
KDH VN	8%	12%	12%	11%	11%
NLG VN	20%	17%	15%	10%	16%
NVL VN	13%	16%	14%	12%	14%

FY19 Debt to equity



Landbank structure



Sources: Company data, Yuanta Vietnam.

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RESIDENTIAL REAL ESTATE

The big picture remains attractive

All real estate segments have been affected by the economic shock, in our opinion. Based on our observations of the market, 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.

But the longer-term outlook remains highly attractive. Vietnam's demographics dividend (including urbanization and the rising middle class) still has two decades to run, and we think that the demand for housing will remain resilient long after the current crisis is in the history books.

The rollout of public infrastructure projects, spurred on by the government's efforts to counteract the economic impact of COVID-19, should also support the real estate market in the medium term. Rolling out transportation infrastructure should increase the liveability of suburban areas, where housing affordability is more realistic for Vietnamese residential buyers.

Positive legislative trends have increased the protection of homebuyers' rights (including the rights of foreign buyers). This should also continue to support demand in the years ahead.

These conditions support our 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 land banks to the list of defensive characteristics. This is because developers with ample land banks 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 VHM (BUY) and KDH (BUY). We reiterate HOLD-Outperform on NVL, we also have a BUY call on NLG

IMPACT OF CORONAVIRUS

All real estate segments have been affected by the economic shock. Based on 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 pandemic. 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 canceled 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 issues new policies to support real estate companies…

The government has announced mitigating policies that should support the real estate industry. The prime minister (PM) has required 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 from the relevant authorities soon.

…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 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 underway 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 homeownership (and this is good too for property developers).

Our view: Overall, property price momentum has been interrupted by the 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 unlikely 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 restrictions 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 land banks to the list of defensive characteristics. This is because developers with ample land banks 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).

- KDH (BUY): Slow and steady wins the race.
- VHM(BUY): Focusing on mid-end housing and accelerating capital returns.
- NLG (BUY) The outlook is driven by transport infrastructure.
- NVL(Hold-outperform): Southern real estate market proxy.

Brief overview of HCMC and Hanoi property market in 1Q20

New units launched slightly increased in HCMC in 1Q20 (+3.5% YoY). The Vietnam Real Estate Association (VNREA) reports that new units launched in HCMC reached 4,664 homes, up 3.5% YoY but that was only 1/3 of newly launched units in 4Q19.

Absorption rate reached 50-80%, depending on the projects. Based on 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 Covid-19 has made the primary market become temporarily idle.

Homebuyers are selling off at reduced prices.

Some homebuyers are willing to take losses in the secondary market, especially at projects launched at high prices in 2019. Our monitoring of social network forums and trading websites shows that 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.

Listed Developer Chatter

An Gia Group (AGG VN – Not Rated) launched the West Gate Park project (3.1ha 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 (ASP) per square meter ranges from VND32.5mn (US$1,377) 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.

Our observations note that all housing segments have been selling at 5-10% discounts.

Investors are willing to take a small loss when selling their condos at the three VHM megaprojects. Based on our observations of social networking forums, speculative buyers last year are asking for selling prices that are lower than their cost bases, resulting in 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 be 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 FY2019). 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 VND2.5tn 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.

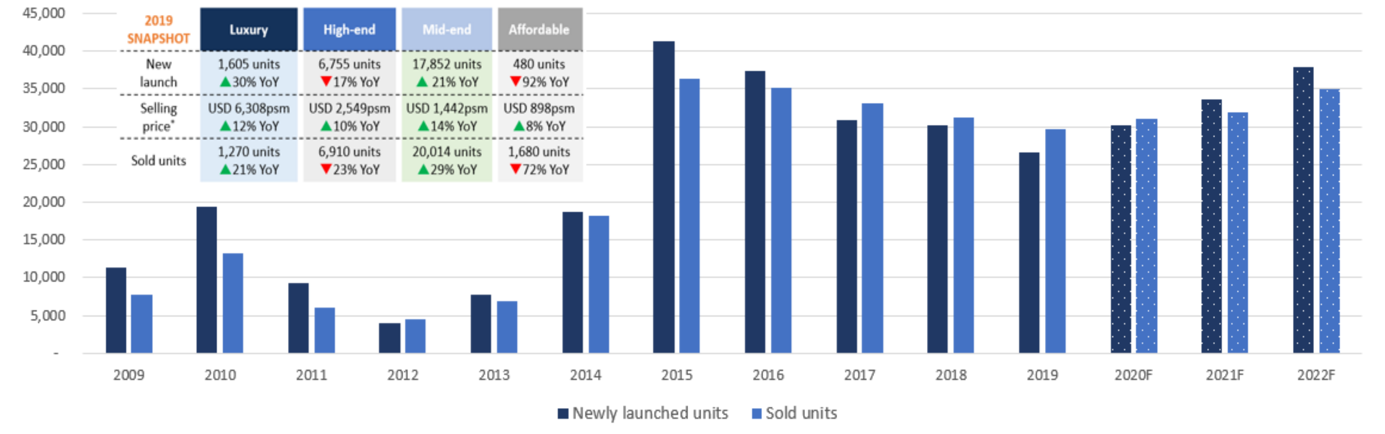
FY19 REAL ESTATE MARKET UPDATE

FY19 HCMC condo market

Slow licensing process for new and amendment projects leads to new supply reduction.

According to CBRE, newly launched units reached 26,692 units, a decrease of 12% YoY. There were many reasons for the reduction in new supply. However, the main issue was the slow licensing process for new and amended projects. Total units sold reached 29,874 units, a decrease of 5% YoY. On the other hand, prices rose across the market.

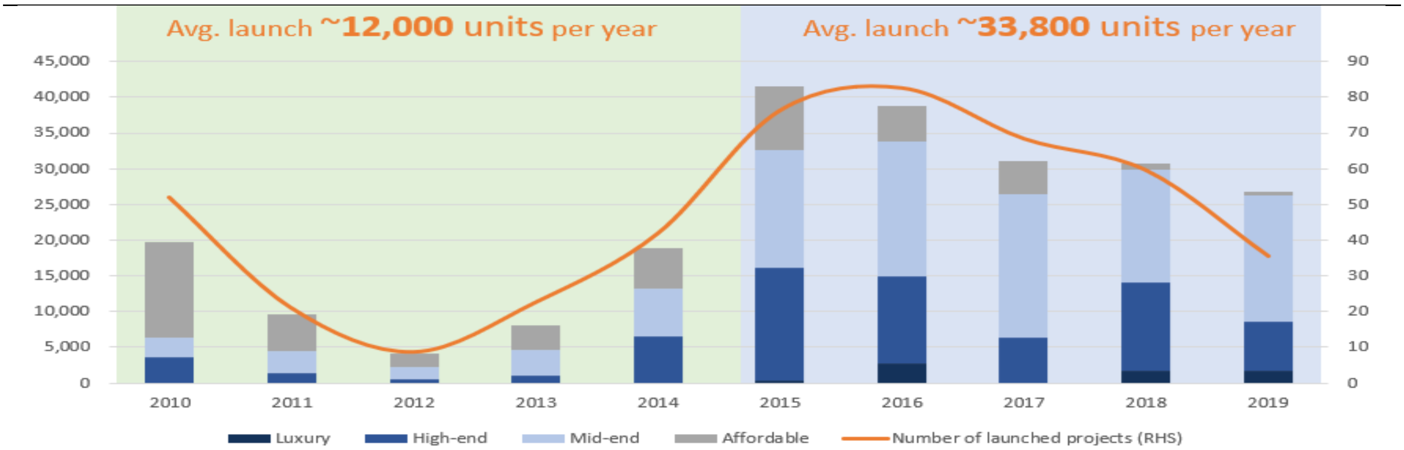
Fig 1: HCMC Units launched and sold



Source: CBRE, Yuanta Vietnam

Segment breakdown: HCMC. The mid-end segment accounted for the highest proportion of new units launched in 2019, at 67%. The mid-end segment has thus maintained its dominance in terms of units for the past three years. In our view, this represents improved market balance compared to 2015-2016, when the high-end segment was larger. In 2019, the high-end segment represented 25% of new units launched, followed by luxury at 6%. By contrast, the affordable segment accounted for only 2% of new supply in 2019, and there was no new supply in the last three quarters.

Fig 2: HCMC Condominium Market: New units launched by segment



Source: CBRE, Yuanta Vietnam

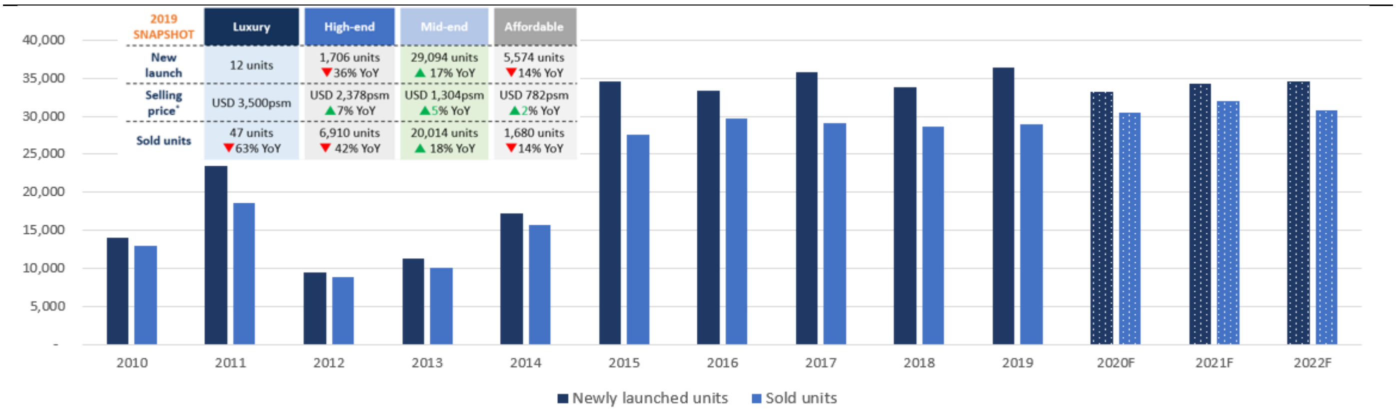
The number of new projects in HCMC has trended down since 2016. This is largely because land management has become a crucial focus of the unprecedented anticorruption national campaign and resulting administrative hurdles that have stymied the launch of new projects. That said, the average number of launched units annually in 2015-2019 was 33,800, 2.8x higher than that of 2010-2014. In 2019, 36 new projects were launched, a decrease of 40% YoY. Despite this, newly launched units only decreased 12% YoY. This is primarily due to the 10,000 units at Vinhomes Grand Park which were launched in 3Q19 with a high take-up rate of 99%.

FY19 Hanoi condo market

Both newly launched units and total sold units still maintain increasing momentum

In contrast with the HCMC market, both newly launched units and total sold units in Hanoi maintained growth momentum in 2019. Newly launched units reached 36,356, an increase of 7% YoY. Total sold units reached 29,020, an increase of 1% YoY. The primary market selling price also slightly increased across the market. The average selling price of housing at VHM's urban megaprojects was higher than that of other projects in nearby areas, which may be attributable to their capability to provide other nonresidential living facilities (e.g., retail, medical, and academic infrastructure) as well as high quality site master plans. However, the average selling price of other projects in the same areas (e.g., Gia Lam, Long Bien, Ha Dong) was reset at a higher level.

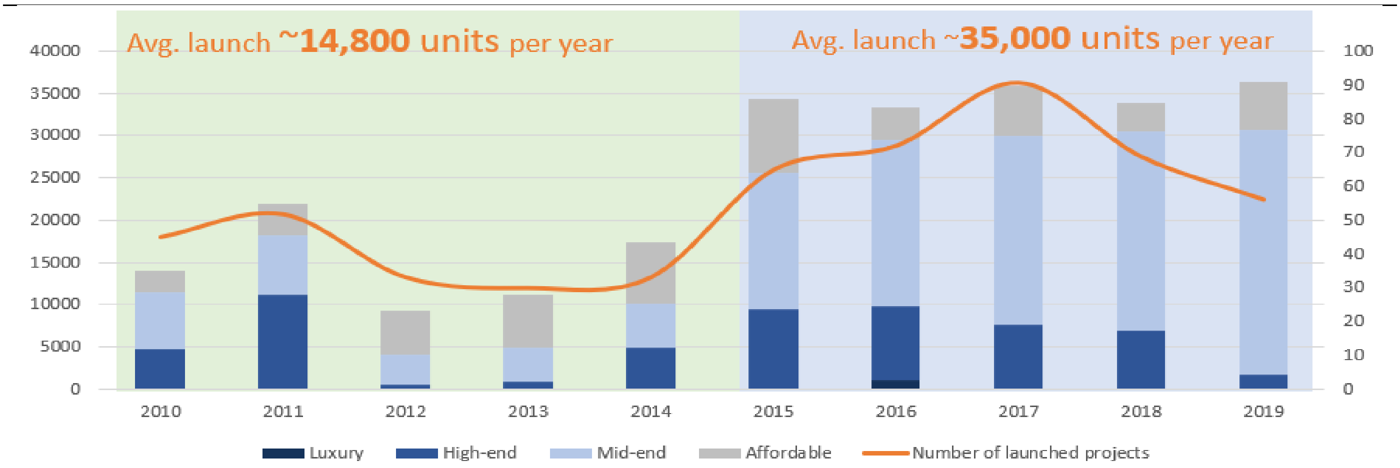
Fig 3: Hanoi: Units launched and sold



Source: CBRE, Yuanta Vietnam

Segment breakdown: Hanoi. The mid-end segment, which has been continuously expanding since 2014, accounted for 80% of total new units launched in 2019. Vinhomes' two mega projects in Hanoi are the key drivers of mid-end housing (and the overall market) in Hanoi. New units at Vinhomes Smart City, Vinhomes Ocean Park, and Park City accounted for 50% of total newly launched units in 2019, and we expect them to continue to dominate the market.

Fig 4: Hanoi Condominium Market: New units launched by segment



Source: CBRE, Yuanta Vietnam

Changes in public administration will lead to two opposing market scenarios.

CBRE: Administrative hurdles are the key driver in the medium term. CBRE believes that the administrative issues will be the most important driver of Vietnam real estate market in 2020 and subsequent years. This implies two opposing scenarios.

The first scenario is based on the assumption that the administrative issues are resolved positively and in a manner that development can proceed, in which case supply would sharply increase. The resulting abundance of supply should lead to decreased pricing power for developers and also decreased liquidity on the secondary market. It would also mean a high potential for increased housing inventories.

The second scenario is based on the assumption that the administrative issues are not resolved or result in further negative effects on developers' ability to implement projects. In this case, newly launched units and projects would dwindle, and homebuyers would thus be left with fewer choices. Consequently, developers' pricing power would remain high, and the secondary market would also become more active. As such, housing inventories would be gradually absorbed. Active homebuyers could still find investment opportunities in suburban and provincial areas, especially those adjacent to infrastructure projects.

Overall, CBRE expects that the majority of administrative obstacles will be resolved after 2020, when supply should again increase.

Our view:

In HCMC, we believe that the administrative impediments on project development will persist through at least 3Q20 and thus, we expect overall supply to decrease in 2020. High-end and luxury housing are likely to account for the largest proportion of supply in HCMC, and suburban and provincial projects will remain a key alternative for developers. Land lots may overheat in areas that are adjacent to infrastructure projects.

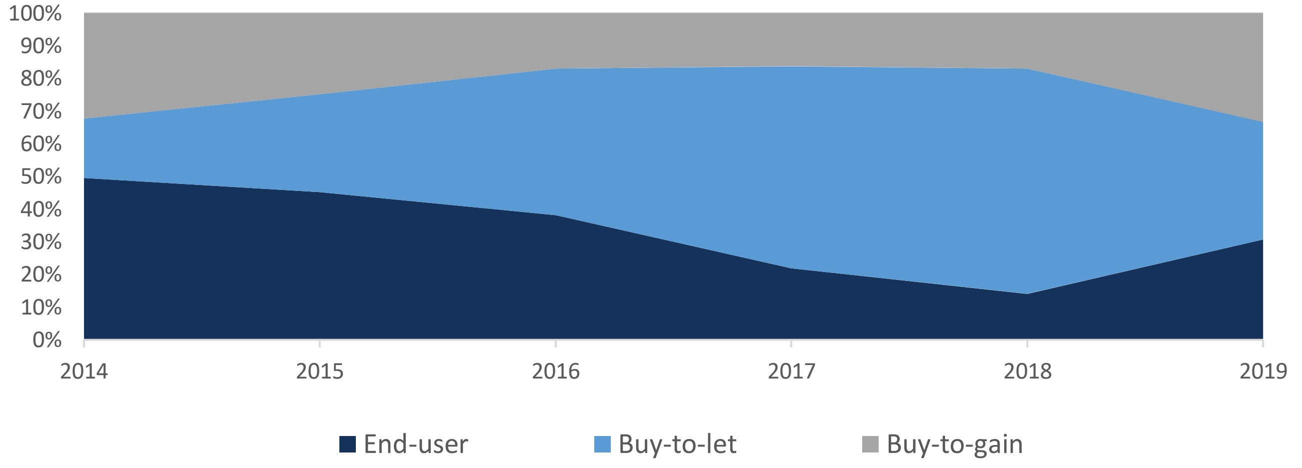
Selling price and liquidity of the market will be slightly decreased across market segments, in our view.

In Hanoi, by contrast, we expect ample new supply, with mid-end housing (largely at the mega projects) to dominate newly launched units.

In the overall market, we expect the selling price will slightly decrease in both the primary and secondary markets but that it will be more volatile in the secondary market as emotions drive homebuyers (i.e., investors and speculators) to take action in times of real estate market and overall economic uncertainty. However, we expect greater liquidity in the secondary market, partly due to the shortage of supply in the primary market. These expectations are based on the three key reasons presented below.

1) Rental yields are decreasing. Based on our discussions with real estate agents and investors, finding tenants appears to be difficult (this was true even before the outbreak) and landlords must make concessions to land tenants. According to CBRE, the proportion of HCMC homebuyers whose main purpose was for rental income decreased in 2019, whereas the proportions of buyers whose primary purpose was residing in the property and those who intended to profit from selling the property without leasing it out both increased. We believe cash from townhouse and land lot segments has flowed into the condominium segment since 1Q18 when these markets weren't attractive as it used to be, even homebuyers had to cut losses in some markets such as Phu Quoc, Van Don, Bac Van Phong, that's why the proportions of buy-to-gain increased.

Fig 5: HCMC: Buyer breakdown by purpose



Note: The analysis above is based on CBRE Vietnam's residential closed deals (it's mostly condos).
Source: CBRE, Yuanta Vietnam

The gap between market prices and the affordable prices for homebuyers who have real demand (first home buyers)

2) Capital gain potential fails does not attract homebuyers anymore. Housing prices have risen sharply over the past two years, but rental rates have not kept up. This illustrates the gap between realized market prices and affordability for first home residential buyers. Based on our discussions with agents and other industry players, in two recent years, selling condos in Hanoi isn't as easy as it used to be either. Therefore, we believe that the real estate market will correct before entering the next growth stage.

Homeowners with investment/speculation purposes have wanted to sell their homes at this time.

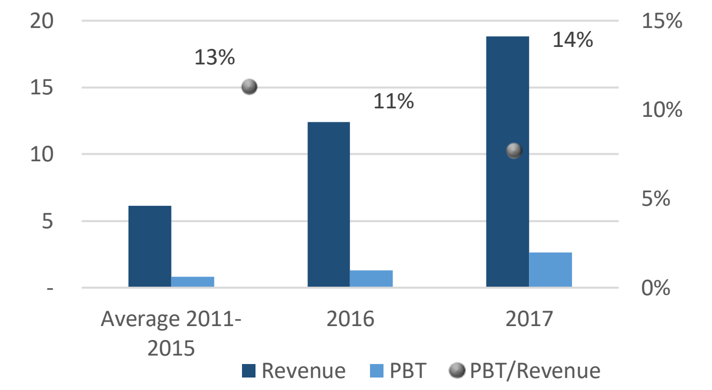
3) Secondary supply is likely to increase due to the end of the concessionary interest rates period. Homebuyers who financed their purchases with bank loans during the 2016-2018 peak of the real estate cycle are now incurring interest rates of above 10.5% per annum as teaser rate periods expire. This period is normally two years in duration, during which the interest rate is typically around 8.5% per annum. This could explain the apparent willingness of many investors/speculators to sell their homes at reduced rates vs last year.

Owner-occupier demand remains healthy and this informs our generally positive investment view on the property developer stocks in the long-term, in our view.

Despite these three negative factors, we remain generally positive on the property developer stocks in the long term. Owner-occupier demand has remained healthy and we believe turnover will pick up following the COVID-19 period. By contrast, we believe that investors and speculators have become less active than in recent years given the increasingly tight commercial bank credit (a function of prudential regulation and loan quotas, and likely tighter risk management driven by the coronavirus) and the resulting impact on borrowing costs.

However, the emerging Vietnamese middle class is largely focused on affordable and mid-end housing, which is not the target of the SBV's credit tightening policies. In our view, this is positive for the sustainability of the market.

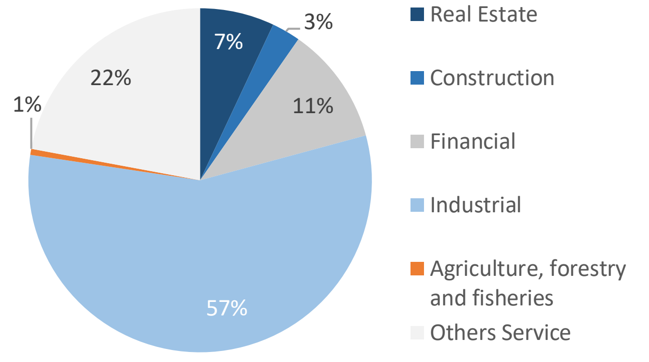
Fig 6: PBT of all real estate enterprises operating in Vietnam (USD bn)



Note: 2017 is the most recent data from MPI.

Source: MPI, Yuanta Vietnam

Fig 7: Real estate firms accounted for 7% of total Vietnam corporate PBT in 2017



Note: 2017 is the most recent data from MPI.

Source: MPI, Yuanta Vietnam

Total revenues of all real estate companies accounted for 8.5% of Vietnam's GDP in FY17

According to the Ministry of Planning and Investment (MPI), some 13,044 enterprises operate in the real estate industry, including 3,135 firms in Hanoi (24% of total firms registered there) and 6,563 companies in HCMC (c.50% of registered firms). For the industry, MPI figures in indicating that revenue in 2017 (the most recently available aggregate data) reached USD18.8 bn (+52% YoY), accounting for 8.5% Vietnam GDP and PBT reached USD2.6 bn (+101% YoY), accounting for 7% of the total pre-tax profit of all Vietnam corporations that year. Fig 8 below shows four major real estate product lines.

Fig 8: Major real estate product lines

<table>
<tr><th colspan="3">Types</th><th>Status</th><th>Key developers</th></tr>
<tr><td colspan="3">Townhouse-Villas-Land Lot</td><td>The preferred segment of all Vietnamese. However, only the rich afford to buy because of the high price per unit, especially in Hanoi and HCMC. Suppliers include institutional developers, but also individual developers who buy large land plots which they slice up and then resell. From our observation, land lots in Hanoi and HCMC increased 2-3x in 2016-2018 but were flat in 2019.</td><td>VHM, KDH, NLG, NVL, Him Lam, Phu My Hung, Dai Quang Minh</td></tr>
<tr><td colspan="3">Office</td><td>Abundant new supply has curbed the rental growth rate, especially for the Grade A segment. Landlords face stiff competition from upcoming projects and tenants are actively seeking new office spaces. However, demand currently remains positive and rents continue to move upward in all segments. In addition, the flexible workspace penetration rate has risen rapidly, driven mainly by tech.</td><td>Bitexco, REE, Keppel</td></tr>
<tr><td colspan="3">Retail space</td><td>Modern retail is spreading across Vietnam; however, leasable area is concentrated in HCMC and Hanoi. Supply in non-CBD districts drives the market. Rental growth has been accelerating and prime rents ranked 3rd in the region last year.</td><td>VRE, AEON, Lotte mart, Big C, Sense City</td></tr>
<tr><td rowspan="5">Condos</td><td>Segments</td><td>ASP* (USD/sqm)</td><td>Outlook</td><td></td></tr>
<tr><td>Luxury</td><td>>4,000</td><td rowspan="2">Attracting investors and speculators in terms of demand, and most developers provide supply. Price expectations may have been overdone, so we would expect these segments to be most significantly impacted by if the market slows down sustainably (i.e., beyond 2Q-3Q20).</td><td rowspan="2">VHM, NVL, Capital land, MIK</td></tr>
<tr><td>High-end</td><td>2,000-4,000</td></tr>
<tr><td>Mid-end</td><td>1,000-2,000</td><td rowspan="2">Backup by huge demand from residential buyers. As such, these segments are likely to be less volatile during the market slowdown.</td><td rowspan="2">NLG, SCR, NBB, Le Thanh</td></tr>
<tr><td>Affordable</td><td>1,000<</td></tr>
</table>

Source: JLL, CBRE, Savills, Yuanta Vietnam

Domestic developers still dominate the market due to land acquisition or ownership characteristics, in our view.

Despite the arrival of major international real estate companies in Vietnam such as Keppel Land, CapitaLand, and Ciputra, domestic companies still dominate the market in term of project development. We think this is largely due to land acquisition and ownership characteristics.

Domestic property brokerage companies dominate the market but domestic consulting, management services, and leasing companies do not.

Generally, Vietnam's condos market is quite fragmented because a great deal of local knowledge is necessary and the market has only recently begun to grow. Thus, the condo development industry is highly fragmented. However, high-end and luxury segments are more concentrated in a group of major developers such as Vinhomes (VHM), Novaland (NVL), Tan Hoang Minh or foreign-invested companies such as Keppel Land and Phu My Hung. We see two main reasons for this: 1) profit margin for these two segments is more attractive than the other segments, and 2) their market is concentrated in Hanoi and HCMC, where only the major developers have the financial and operational capacity to develop projects. Property brokerage is also dominated by domestic companies; Cen Land and Dat Xanh Group (DXG) are the two biggest agencies. However, foreign companies such as CBRE, Savills, and JLL dominate property consulting, management services, and leasing.

Fig 9: Top 30 residential real estate companies

Source: Based on company awards (e.g., top 10 biggest or most prestigious property developers), Yuanta Vietnam

Fig 10: Residential market share across all segments (2016-2019)

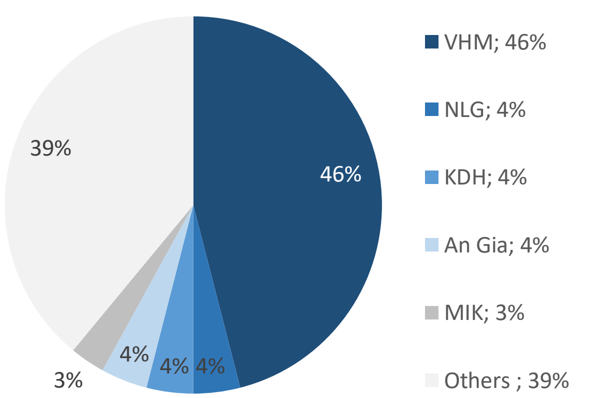
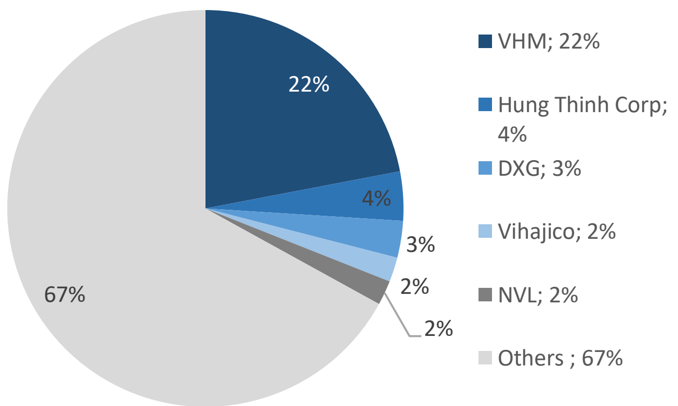


Fig 11: Residential market share for high-end and luxury segments only (2016-2019)



Note: (1) Based on accumulated sold units across all segments in Vietnam's residential market from 2016 to 2019, only includes retail sales. Source: CBRE report dated Dec 31, 2019, Yuanta Vietnam

Fig 12: HNX-INDEX is dominated by financials sector

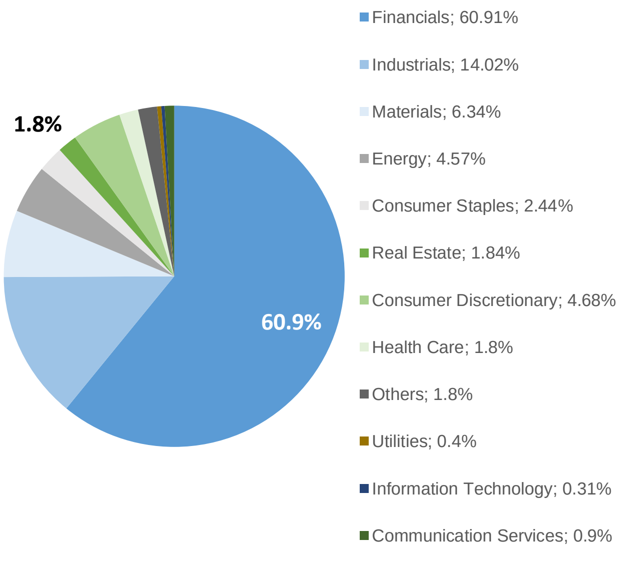
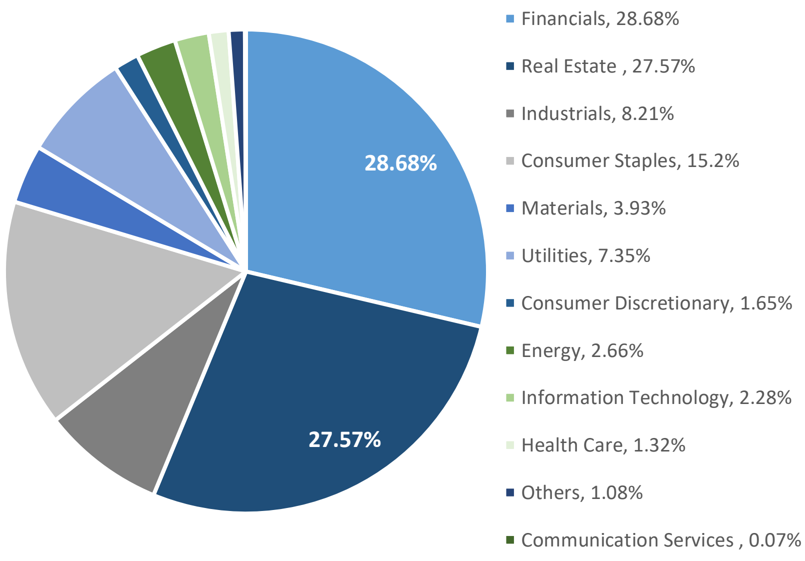


Fig 13: VN-INDEX is dominated by financials and real estate sector

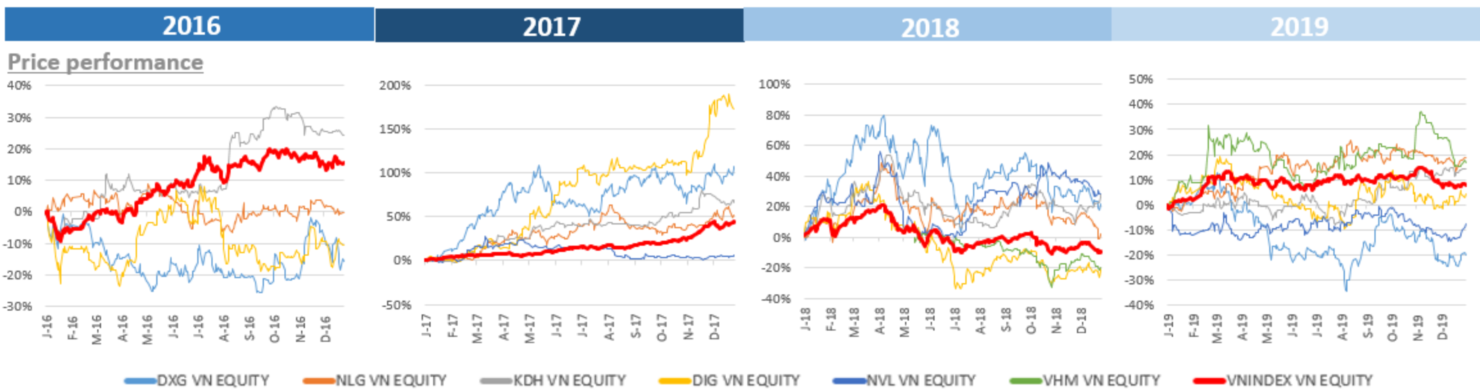


Source: Bloomberg as of 13/04/2019 (VHINDEX market cap, USD4.5bn; VN INDEX market cap, USD114bn), Yuanta Vietnam

the property sector is among the largest stock market components in Vietnam (along with financials), with listed real estate developers accounting for 26.6% of total market capitalization. The main sector bellwethers VIC, VHM, VRE, and NVL account for 90% of the property sector's total market cap on a combined basis, according to Bloomberg. Given their size, the number of real estate enterprises accounts for just 8.4% of the total number of listed companies on Vietnam's stock exchanges.

Fig 14: Real estate stock prices are driven by earnings growth

	2015A	2016A	2017A	2018A	2019A
VN-index performance	**6%**	**15.75%**	**46.46%**	**-10.37%**	**7.76%**
High performance of RE stock	242%	78%	337%	156%	196%
Average performance of RE stock	**7%**	**0.70%**	**64.10%**	**-2.17%**	**12.84%**
Low performance of RE stock	-53%	-54%	-71%	-67%	-60%
No. RE stock	34	34	38	45	46
No. RE stock outperform VN-index	13	10	16	21	20
% of RE stock outperform	38%	29%	42%	47%	43%



Source: Bloomberg, Yuanta Vietnam

Historically, Vietnamese stock investors typically focused on growth and tended to believe that a company's most recent results represented sustainable future earnings…

Before 2018, Vietnamese stock investors were typically attracted to growth and tended to believe that a company's most recent results were a sign of sustainable future results. For example, FY16 earnings growth of 64% YoY created extremely bullish expectations among investors for FY17. As a result, most real estate stocks the sector outperformed the VNIndex in 2017.

… but sustainable fundamentals have received greater attention since 2018.

However, earnings growth has been less of a share price driver for real estate stocks since 2018. Concerns surrounding the anti-corruption campaign and its impact on real estate developers, as well as other top-down worries, have substantially dented animal spirits for the sector since 2018. Consequently, real estate stocks posted rather poor performance in 2018, despite FY18 revenues and net income reaching high growth of 52% and 153%, respectively.

Therefore, we appreciate developers such as KDH, DIG, VHM, HDG given they could maintain their earning momentum, have healthy balance sheet and well location of landbank

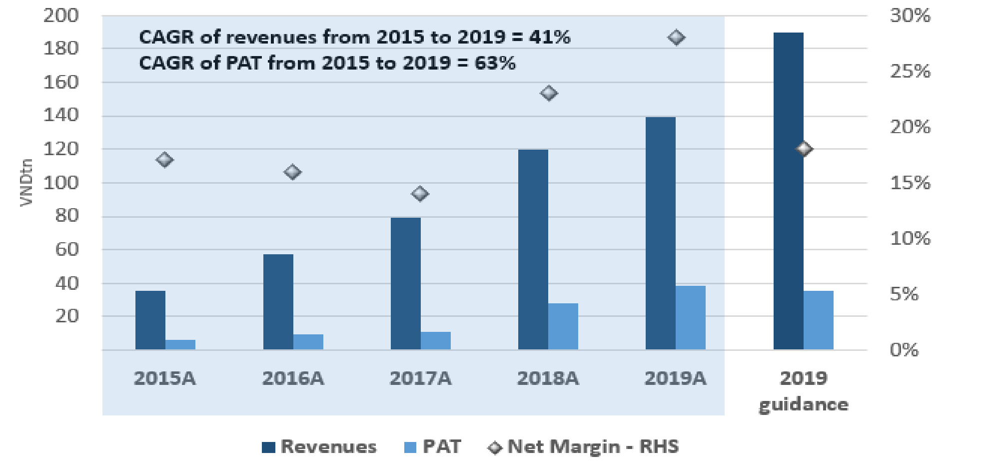
Therefore, we appreciate developers (e.g., KDH, DIG, VHM, HDG) that posted high ratios of short-term advances from customers to revenues at the end of 2019. This reflects the ability to maintain earnings momentum, at least in 2020.

As a strategy call on the overall market, we prefer companies with solid financial structure, strong brands, and a domestic focus. Companies with these resilient attributes (including some developers) should weather the current harsh period and emerge with even stronger positions due to the market exit of weaker players.

For property developers, another attractive feature is substantial landbank in attractive locations, which also supports our suggested top picks: KBH and VHM. In addition, we believe that the ability to acquire land bank is a key competitive advantage, and VHM clearly leads the pack by a wide margin in this area.

2019 results of listed residential real estate companies

Fig 15: Operating results of the listed residential real estate sector (VND billion)



Note: Company data of 52 listed residential real estate developers (excluding VIC and VRE).

Source: Company data, Yuanta Vietnam

The earnings of residential developers reached a high growth rate but concerns about profit quality/growth persist.

Although in 2019, the 52 listed residential real estate developers only achieved 73% of their initial revenue guidance. However, total profit after tax exceeded 11% of guidance. Therefore, net margin was more than 10ppt above guidance. Overall, the compound 2015-19 annual growth rate of real estate results (i.e., revenues and PAT) was the highest among all listed sectors. However, concerns about profit quality/growth persist.

Figure 16 and 17 illustrate that the earnings from non-core business (e.g., financial and other income) contributed substantially to PBT in the past two years, but this is

Most of financial incomes were from Business and Investment Co-operation Contracts with third parties for development purpose.

not a completely accurate picture for the overall industry. This is because VHM's financial profit accounted for 74% and 91% of the total financial profit of the 52 listed residential real estate developers in 2018 and 2019, respectively. However, most of its financial income was from business and investment cooperation contracts with Vingroup (VIC, Not rated) and/or other parties for development purposes, so we consider this to be part of its core business operations.

Fig 16: Earnings from non-core business seem to highly contribute to profit before tax...

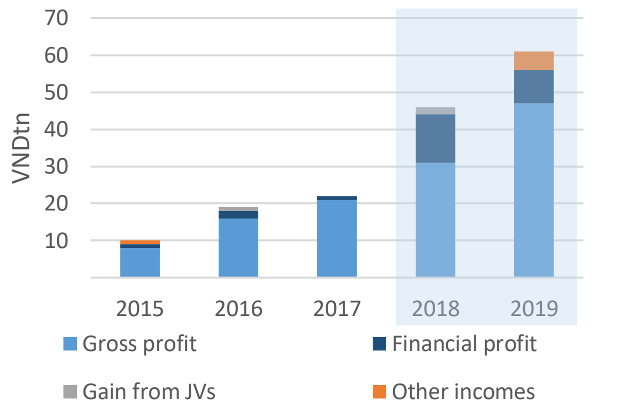
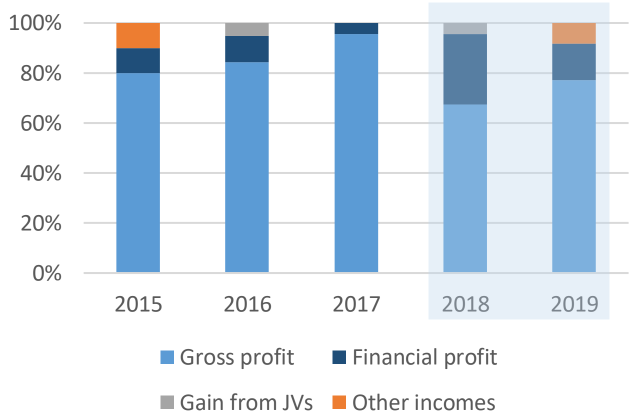


Fig 17: ... but it's not completely accurate.



Note: Company data of 52 listed residential real estate developers.
Source: Company data, Yuanta Vietnam

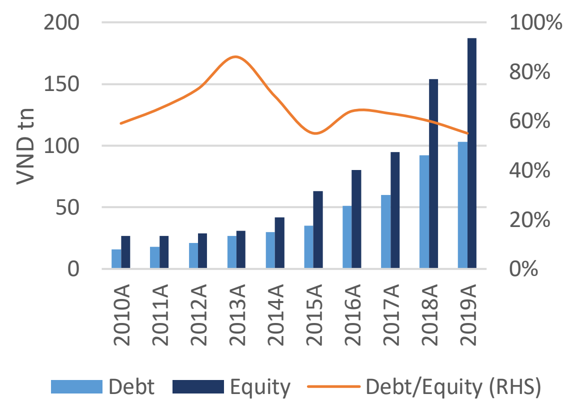
Despite this, some developers applied window dressing in accounting.

Despite this, in 2019, NVL, NLG, and NBB posted large amounts of other income from gains on bargain purchases (i.e., the excess of the company's share of the fair value of identifiable net assets over the cost of investment in subsidiaries). In our view, these earnings are simply the results of actions taken to improve the appearance of their financial statements. The reasons could be due to management incentives to garnish earnings for shareholders or to impress a prospective lender.

Separately, VHM's bulk sales strategy has generated concerns on the Street about VHM's financial status, with questions raised about why the company is selling its buildable land – a scarce resource – to third party developers. However, in our view, huge financial resources are necessary for developing VHM's mega projects in order to create a quality living environment (e.g., landscape, security systems, and utility facilities) to attract residents. This is key for the success of a new mega city located in a suburban district. The land sales thus allow VHM to share development risk with other developers, accelerate capital returns, and enhance real value for its site. We believe this to be an appropriate strategy, and we think the Street concerns are overdone.

Debt finance depends on business operations

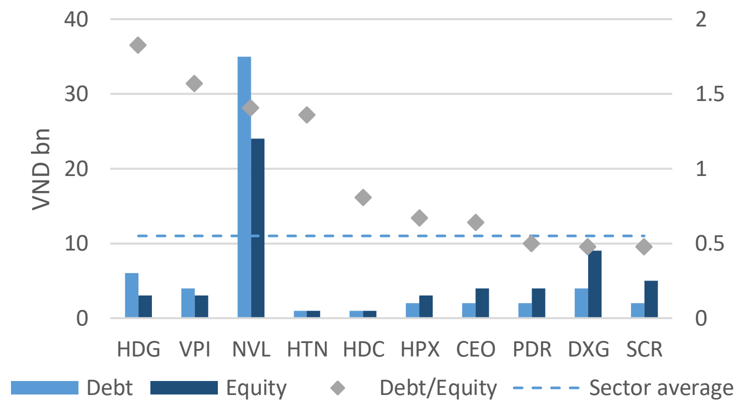
Fig 18: Debt / Equity, 2010-2019



Note: Debt = Short-term loans + Long-term loans + Convertible bonds.

Source: Company data, Yuanta Vietnam

Fig 19: Top 10 developers by debt leverage



Note: Debt = Short-term loans + Long-term loans + Convertible bonds

Source: Company data, Yuanta Vietnam

In our view, a high debt/equity ratio is less risky than it may appear at first glance if the firm's soft launches of pipeline projects are successful.

Real estate is a capital-intensive industry. If project absorption rates are high, developers should utilize relatively high debt leverage to achieve high project ROI. We believe that the success of a project's soft launch is key to assessing the financial strength of the relevant developer. In our view, a high debt/equity ratio is less risky than it may appear at first glance if the firm's soft launches of pipeline projects are (or will be) successful because of the relatively high likelihood that a customer who provides a c.5% (for example) prepayment as the first tranche of the soft launch and another 25% at hard launch (i.e., when the building's foundation is complete) will eventually pay the remaining contracted amount of their purchases. Also, under Vietnam GAAP, revenue recognition only occurs at project completion (95% when the house is delivered and 5% when the Pink Book is handed over). Therefore, using high debt leverage during construction is less risky than one might believe at first glance - but only if the project's soft launch is successful and it doesn't get bogged down in administrative delays. A successful soft launch is a function of 1) the market cycle, 2) the specifics of the individual project and developer's brand, and 3) management's promotional strategy (e.g., testing the waters and manipulating market perception via media leaks and agent channel whisper numbers on project size, available units, and per-square meter pricing). In effect, the latter skill is something of an art form, in our view, and all of the developers are keen practitioners. The success of Vinhomes Grand Park project is a typical example.

However, using a high debt ratio can be risky during the rebalancing phase.

Our view is that a high debt ratio is appropriate during the recovery phase of the real estate cycle (when demand is strong and soft launches tend to succeed), but it can be risky during the rebalancing phase. In our opinion, the market is in the rebalancing phase in 2018-20E, which raises concerns about interest rate risk and transaction volumes. The current outbreak has merely accelerated this process, in our view.

Of course, we may be wrong in terms of our view on the cycle. It is certainly possible that the underlying market has not yet peaked, and it could remain buoyant going forward once the virus period has passed. If so, high debt leverage would allow for sufficient resources for a firm to implement projects on schedule. It could also create a solid foundation for targeted presale activities, which might drive more rapid revenue and profit growth in the coming years than we currently expect.

A high level of advances from customers compared with revenues indicates a positive outlook.

Fig 20: Short-term advances from customers are a substantial funding source for property developers.

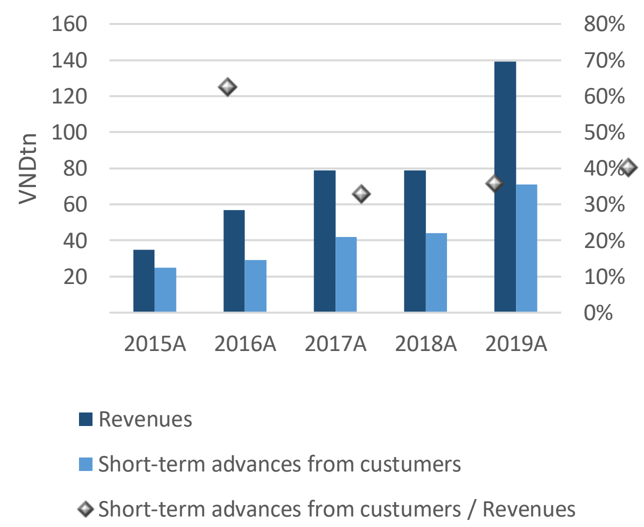
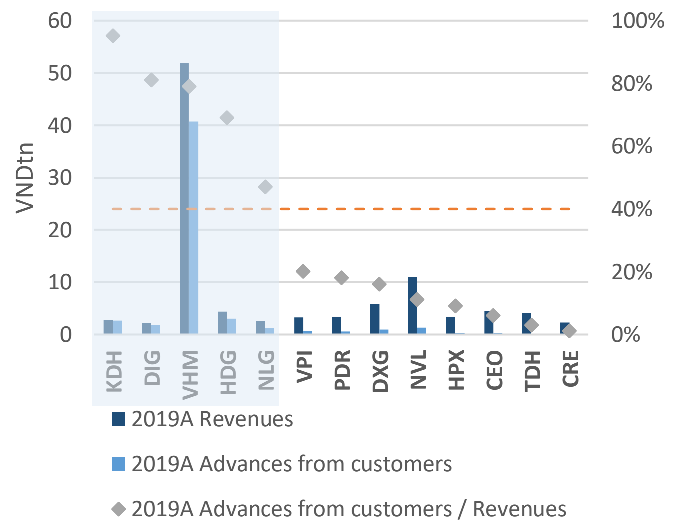


Fig 21: KDH, DIG, VHM, and NLG should easily maintain their earnings in 2020.



Note: Company data of 52 listed residential real estate developers.
Source: Company data, Yuanta Vietnam

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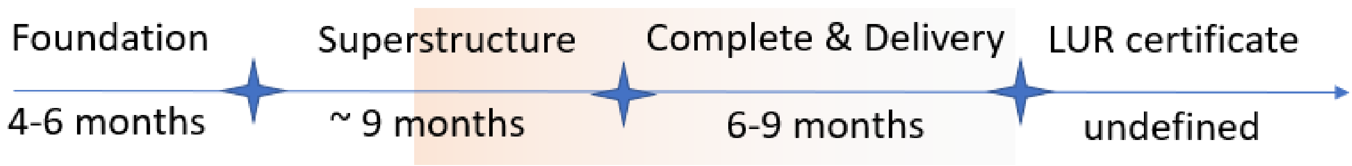
Fig 22: Payment schedule options and project timelines

Payment schedules	Standard	Accelerated – Higher upfront payments with discount		
		Option 2	Option 3	Option 4
Foundation	Up to 30%	45-55%	50-90%	>90%
Superstructure	Up to 70%	Up to 70%	-	-
Delivery	Up to 95%			
Land use rights certificate	100%			
Discount		3-4%	5-7%	8-12%



Note: Construction time of project includes 2 basements + 2 commercial floors + 28 residential floors.
Source: Yuanta Vietnam

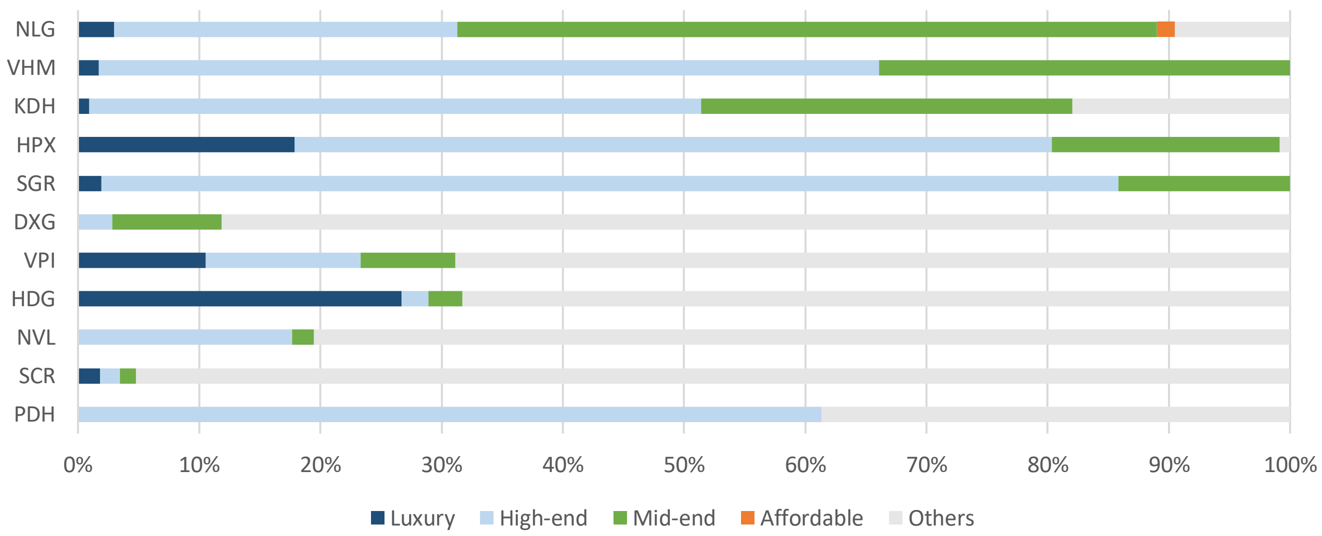
Based on payment schedules and construction time, we believe that a high level of advances from customers compared with revenues indicates high potential that developers have sufficient room to deliver under-construction housing to reach flat or even positive revenue growth in the next 12 months. Furthermore, developers with a low level of advances from customers compared with revenues could reach positive revenue growth anyway if revenues from non-core businesses or from project transfers and bulk sales make up for the deficiency.

FY20 revenues might flat and we guess developers' management will set a part of units to be delivered in 2020 for 2021 due to impacts of coronavirus pandemic.

The ratio of average short-term advances from customers to revenues at the end of 2019 was 51% for the sector. Therefore, we believe that FY20 revenues might be flat, and we guess that developers will delay some proportion of unit deliveries from 2020 to 2021 due to the impact of the pandemic. Additionally, if the number of projects launched in 2020 and subsequently continues to decrease, the growth momentum of real estate developers will decline or even negative growth in upcoming years. We doubt this will occur, however, given that the economic impact of the coronavirus is likely to hasten the lifting of the administrative roadblocks as a means of boosting overall GDP.

Attractive landbank boosts developers' strength

Fig 23: Landbank breakdown for the developers, by segment



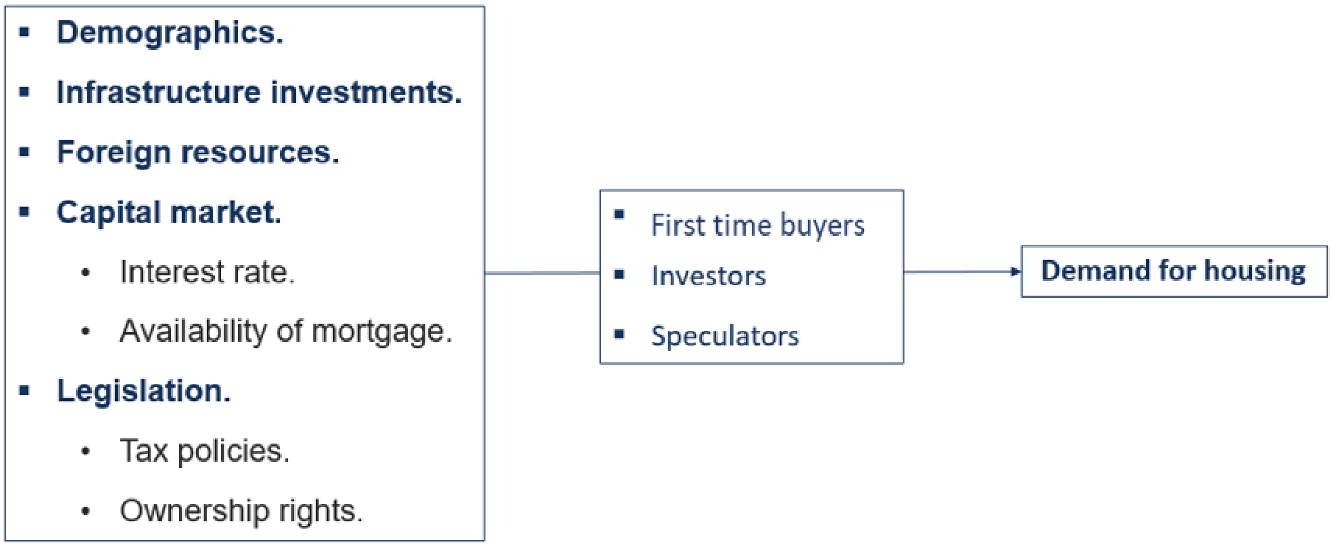
Notes: CBRE classifications: Luxury: over USD4,000 per sqm; High-end: USD2,00-4,000 per sqm; Mid-end: USD1,000-USD2,000 per sqm, Affordable: under USD1,000 per sqm, among these classifications, "Others" category refers to hospitality land, commercial land, industrial land, and unidentified land.

Source: Company data as of 3Q19, Yuanta Vietnam.

We prefer developers that focus on mid-end and affordable housing in the residential space or that own industrial land.

Most developers have broadened their range beyond core residential development projects to encompass commercial, hospitality, and industrial property. This diversification beyond residential real estate allows for increased recurring income and the business diversification also helps with risk management. However, high-end and luxury segment projects dominate the residential pipelines of many developers. In our view, a focus on high-end and luxury property is risky given the external market factors that drive speculators/investors rather than real demand that drives the bulk of Vietnamese residential buyers. We, therefore, prefer developers that focus on mid-end and affordable housing in the residential space or those that own industrial land. This informs our relatively bullish operational outlook on VHM and KDH.

Fig 24: Key factors affect demand for housing.



Source: Yuanta Vietnam

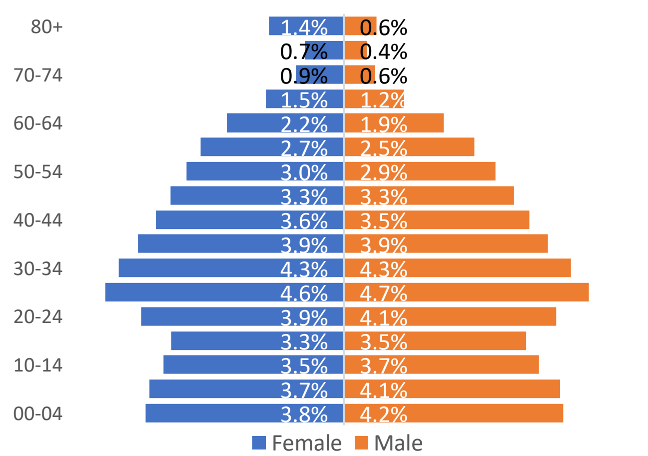
Vietnam's demographic dividend

A relatively low (albeit rising) dependency ratio amidst increased urbanization and rising middle-class wealth bode well for economic growth and the property market in particular

Vietnam's current population is over 96 million, the 15th largest in the world according to the World Bank. Vietnam has a relatively young population with a median age of 30.9 years, and around 70% of the population falls within the working-age bracket. Vietnam's demographic dividend has been paying out since roughly 2010 and this is set to persist for another two decades.

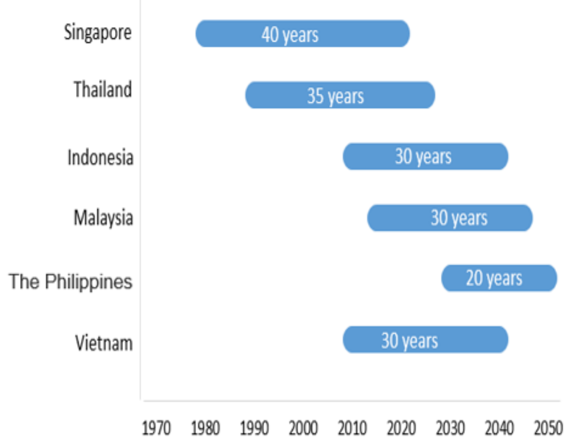
During this period, a relatively low (albeit rising) dependency ratio amidst increased urbanization and rising middle-class wealth bode well for economic growth and the property market in particular. Not only are incomes on the rise, but the demographic pyramid's shape suggests that public social expenditures (i.e., elderly health care services and pensions) should be relatively low for another 20 years. The government can thus make use of available resources to foster job creation and to improve the national infrastructure during this period.

Fig 25: Vietnam Population Pyramid in 2018



Source: World Bank, Yuanta Vietnam

Fig 26: Demographic dividend periods for ASEAN countries

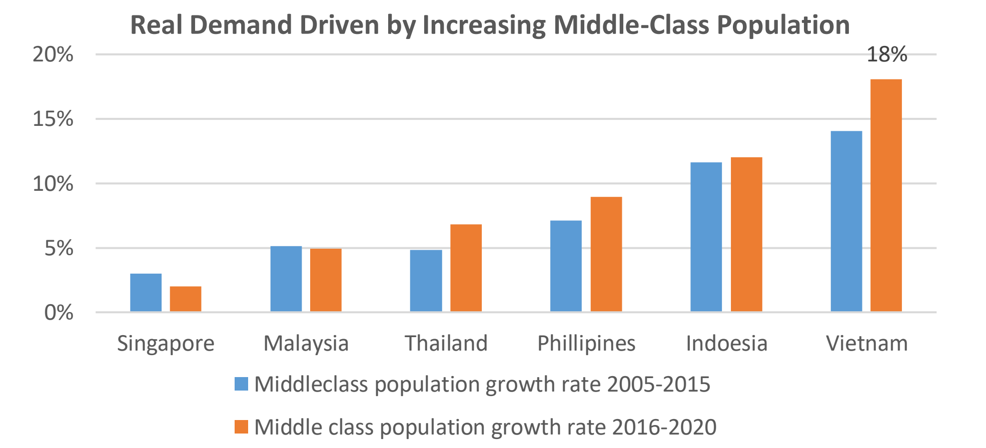


Source: United Nations, Yuanta Vietnam

Vietnam's GDP growth rate has exceeded regional peers' GDP growth rates since 2017. This is partially due to demographics, although we wouldn't want to overplay this as a driver (i.e., key GDP growth drivers such as export manufacturing output are only indirectly linked to the nation's demographics). Nevertheless, GDP per capita has nearly doubled since 2010. The unemployment rate has also decreased significantly from 4.29% in 2010 to 2.21% in 2018. This large percentage of working-age adults are rapidly driving the growth of the middle class (c.18% per annum vs 1% overall population growth). These trends should continue to support the mid-end and affordable segments of the housing market going forward, in our view.

The growth of middle-class should continue to support the mid-end and affordable segments of the housing market going forward

Fig 27: Middle-class growth rates: Vietnam compared with ASEAN-5



Source: Brookings Institute, Yuanta Vietnam

Based on World Bank estimates, Vietnam's middle class accounts for 13% of the population but is growing by 18% YoY, equivalent to 1.5 million Vietnamese joining the middle class each year. Thus, the middle class should account for 26% of the population by 2026.

Fig 28: GDP growth

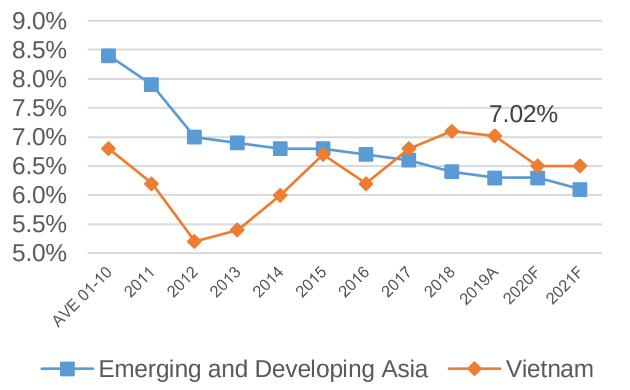
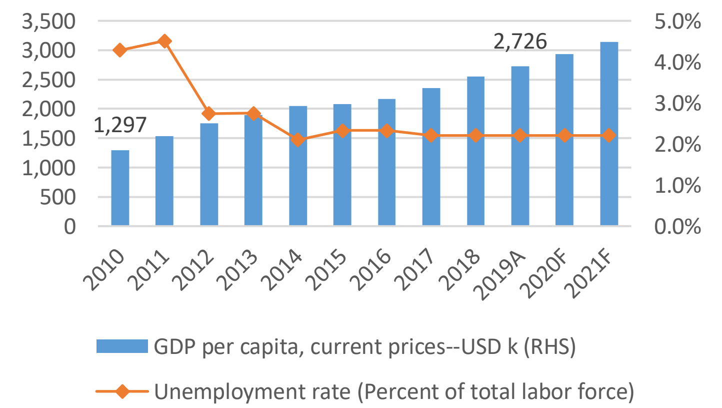


Fig 29: Improving income and employment



Note: the figures for the year 2020 and 2021 were forecasted before the coronavirus pandemic.

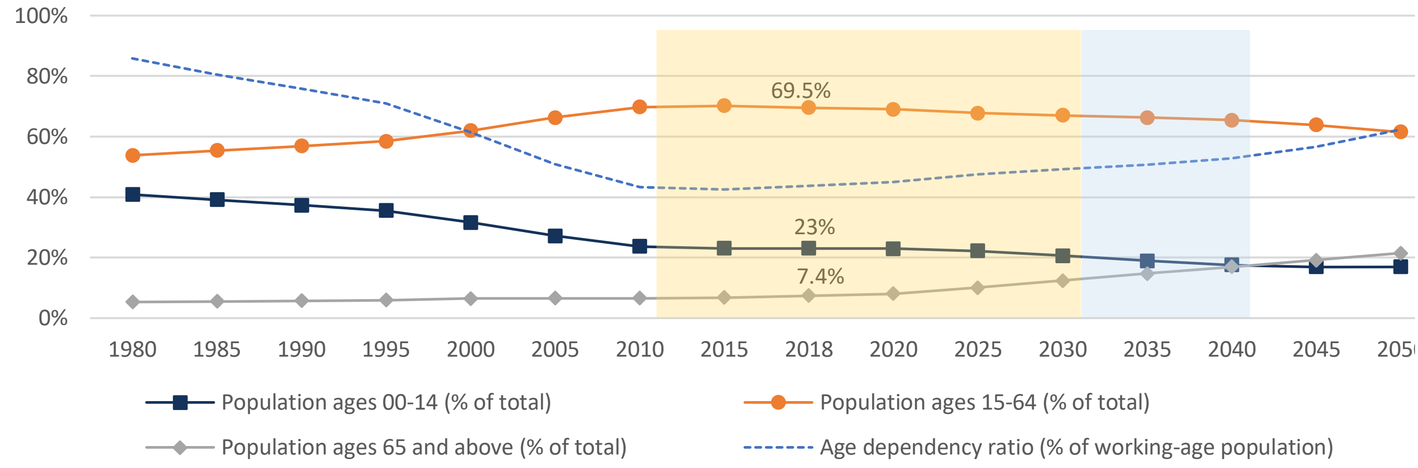
Source: IMF, Yuanta Vietnam

However, the demographic story is not ideal. The rather pear-shaped demographic pyramid exhibited in Figure 30 points toward a rapidly aging population in the 2030s-40s. Vietnam society overall has less time to grow its wealth than many advanced economies had, and the risk is that the country grows old before it grows rich. In this sense, comparisons with China in 1995 are appropriate—the demographic dividend should not be thought of as a permanent feature of

The risk is that that the country grows old before it grows rich…

Vietnam's development. However, concerns of an aging society are still many years away, especially in relation to housing demand.

Fig 30: Age structure of Vietnam population, history and projection



■+■ demographic dividend period original; ■ demographic dividend period may be narrowed due to rapid population aging.

Source: IMF, World Bank, Yuanta Vietnam

… several government policies are being implemented to tackle this problem.

Additionally, several government policies are being implemented to tackle this problem. (1) The National Assembly passed an amendment to the labor law that increases the legal retirement age. Specifically, the ordinary retirement age of employees is now 60 years for male workers and 55 years for female workers. These ages will increase by three months for men and four months for women every year after 2020, with the process set to end in 2028. (2) Vietnam's efforts to promote access to primary education and to ensure its quality has paid off. For example, Vietnam ranked 8th out of 72 participating countries in the 2015 OECD Programme for International Student Assessment (PISA)—which tests high school students in math, science, and other disciplines. (3) Trade and investment liberalization should foster higher-productivity occupations, thus moving the national industrial and service base higher up the value chain.

Fig 31: HCMC population density map

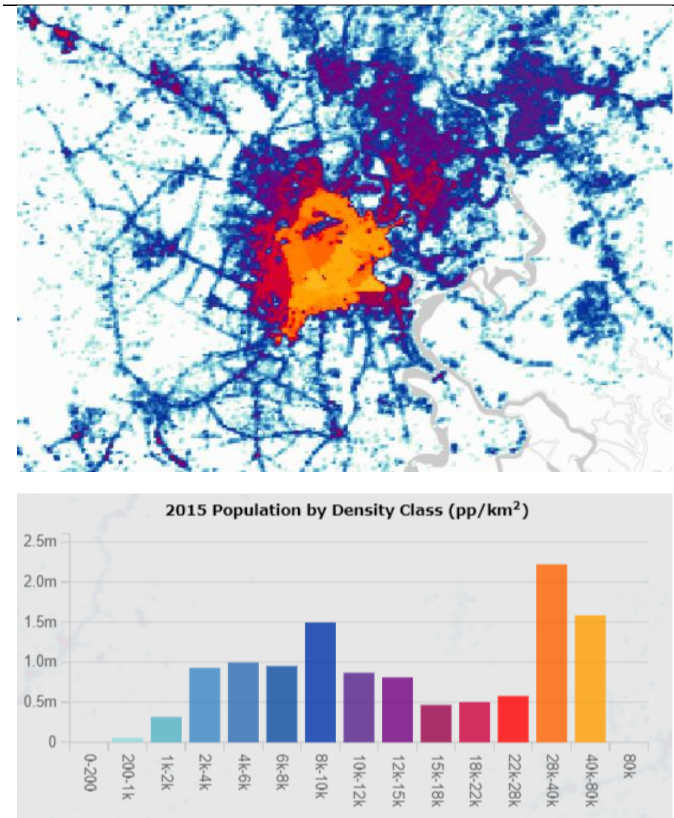
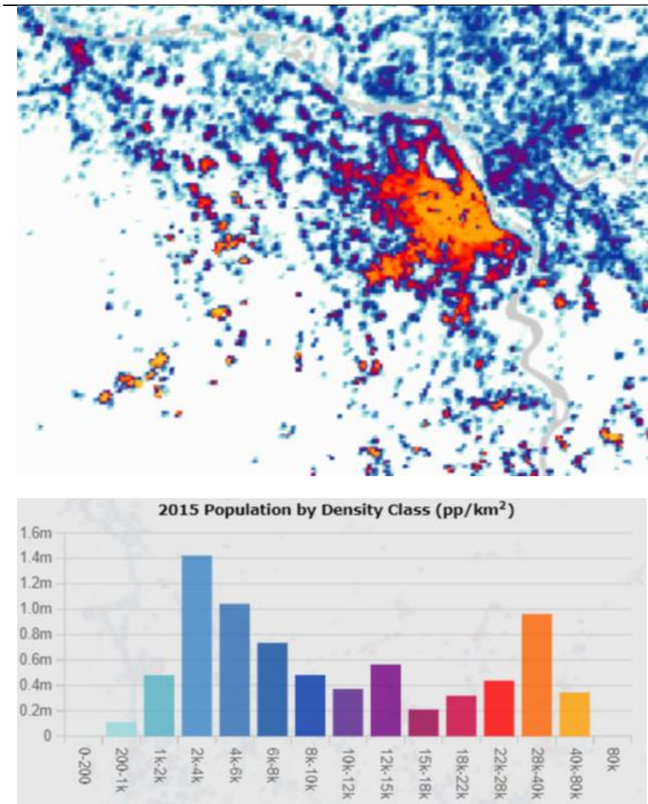


Fig 32: Hanoi population density map



Source: Luminocity, Yuanta Research.

Rapid urbanization over the past decade has resulted in transport infrastructure bottlenecks. National Assembly statistics indicate that the density of land used for transportation in Hanoi and HCMC is currently 9% of developed urban land area, which is well below the government target of 20-26%.

Fig 33: Traffic jam in HCMC

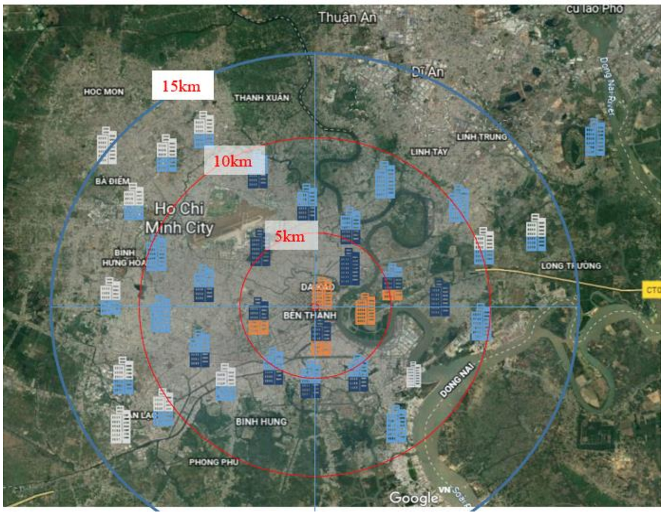
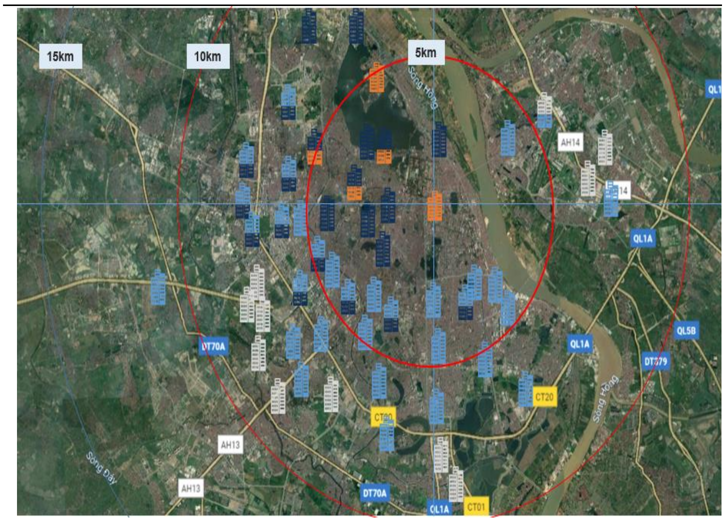
Source: M.Q

Fig 34: Traffic jam in Hanoi

Source: VTV

Development of transport infrastructure strengthens the willingness of homebuyers to invest in outlying areas where prices are more affordable.

Vietnam's urban transportation underdevelopment is also reflected in long daily commutes. On average, commuting within a 10km radius of HCMC business center takes 40 minutes, equivalent to a 20km transit from Bangkok's CBD. Clearly, additional transport infrastructure is required to reduce the duration of urban commutes and to strengthen the willingness of homebuyers to invest in outlying areas where prices are more affordable.

Fig 35: Allocation of apartment projects in HCMC by segment	Fig 36: Allocation of apartment projects in Hanoi by segment
	

●Luxury ●High-end ●Mid-end ●Affordable

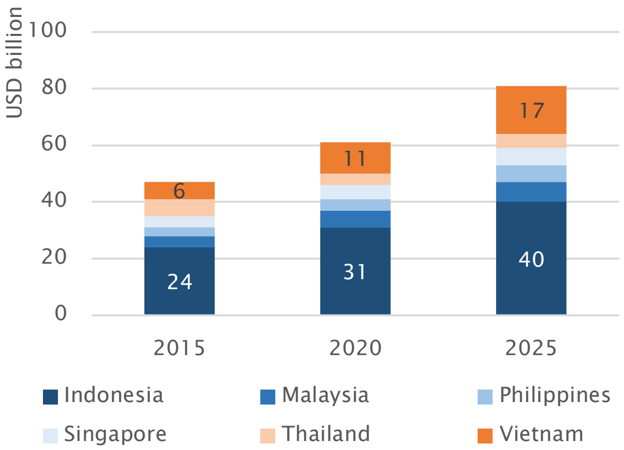
Source: Yuanta Vietnam

Our general preference is for developers with landbank in the eastern areas of HCMC and the western areas of Hanoi.

Landbank within 10 km of central urban areas is extremely scarce and projects in these areas tend to be in the high-end and luxury segments. Projects that are located 10-15 km from the HCMC and Hanoi CBDs and that are close to major boulevards or future transport infrastructure are more likely to focus on the mid-end segment. Interestingly, no listed companies of which we are aware focus primarily on affordable housing. This could be taken as a warning signal for the real estate market's sustainability. Housing prices have tended to increase more rapidly than household income, but the enormous demand for affordable housing from the burgeoning middle class is generally not being met by the major developers.

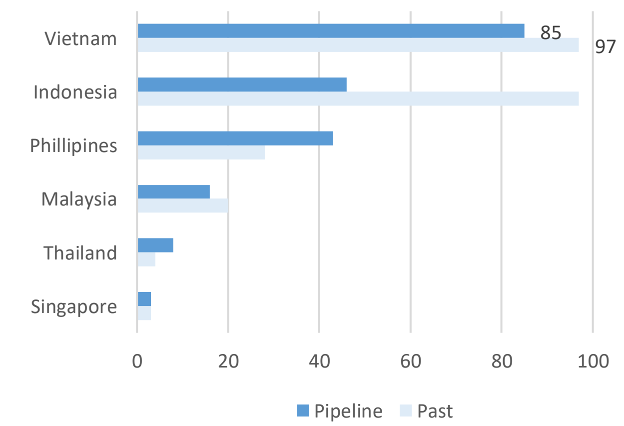
Each real estate project can attract homebuyers in its own unique way, but our general preference is for developers with landbank in the eastern areas of HCMC and the western areas of Hanoi. These areas have been prioritized for transportation network investment, which is crucial given that a reasonable commute is an extremely important factor for homebuyers. Developers thus should benefit from projects that are located near future transportation infrastructure.

Fig 37: ASEAN-6 spending on transport infrastructure (road, rail, sea, and air)



Source: Oxford Economics, Yuanta Vietnam

Fig 38: ASEAN-6 Road and bridge projects by country (number of projects)



Source: World Bank, Yuanta Vietnam

The traffic is in the overloaded condition…

Vietnam's seemingly endless wishlist for infrastructure comprises 85 key transport projects in the pipeline. Currently, just 20 percent of the country's national roads are paved, and a recently approved plan to build a 1,372km north-south highway by 2030 is estimated to cost $14bn. The rising population in major cities in recent years has strained and exceeded the capacity of existing connectivity networks and utilities.

… but Vietnam's spending on transport infrastructure is the second-highest of the ASEAN-6 countries

According to Oxford Economics, the average growth rate of Vietnam's infrastructure spending from 2012-2016 was 12% and the country's absolute spending should continue to increase in the coming years. Vietnam's spending on transport infrastructure is the second-highest of the ASEAN-6 countries. Oxford Economics projects this to reach US$11 billion in 2020 and US$17 billion in 2025. Although the state's budget bottlenecks and administrative constraints have delayed implementation, we believe the government is stepping up the process as a means of boosting GDP in the current slowdown. To be very clear, these infrastructure projects will certainly help boost GDP in the short run, but they are absolutely vital to the nation's longer term prosperity. Thus, the longer-term trend is positive in our opinion. In addition, the government is hastening plans to attract more private investment for infrastructure, which is reasonable given that the state can only meet a third of its infrastructure costs currently.

Given the less-than-ideal traffic conditions in urban Vietnam (to put it in an undeservedly optimistic light), we expect the HCMC and Hanoi metro lines to alter commuters' use of personal vehicles, which should both ease traffic congestion (or at least slow its rate of increase) and reduce travel times for residents of suburban housing. This should support housing demand in eastern HCMC and western Hanoi, where the population density is still relatively low today.

Fig 39: HCMC metro line 1 is under construction again and the government expects to launch it in 2021

Source: M.N

Fig 40: Hanoi metro line 1 is nearing completion

Source: M.N

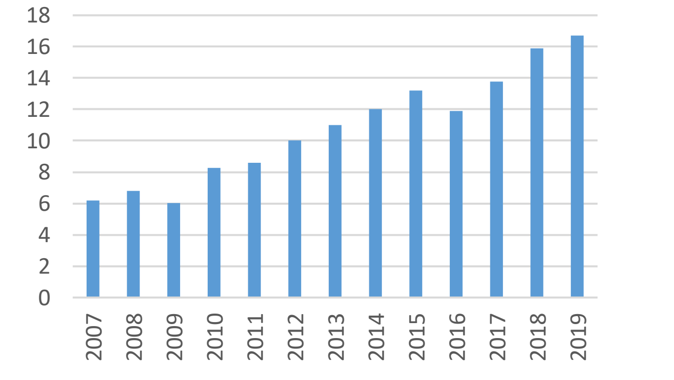
Foreign capital is another driver of the domestic real estate market

Overall, FDI and foreign remittances are two important drivers of domestic real estate market.

Foreign direct investment (FDI) is a source of stable foreign currency and capital for economic development. We also see it as an indirect driver of the real estate market. We thus believe that the property sector is a solid albeit largely indirect play on FDI-led economic growth. FDI has increased from c. USD12 bn in 2016 to c. USD38 bn in 2019, with the latter figure accounting for 15% of Vietnam's 2019 GDP. FDI inflows into the real estate sector accounted for 10.2% of total FDI in 2019, and the sector has consistently ranked second in recent years.

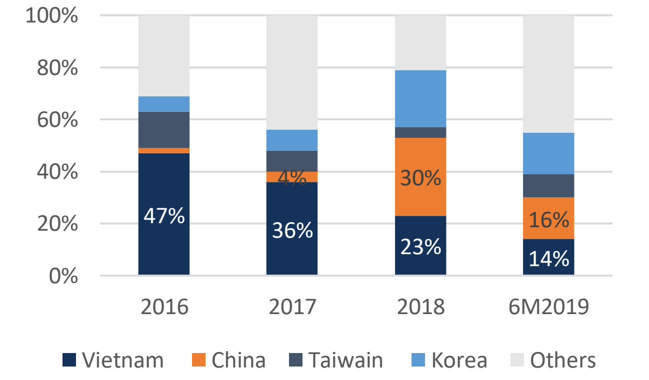
In addition, according to the SBV, over 21% of the USD16.7bn in total foreign remittances in 2019 flowed into real estate. Overall, FDI and foreign remittances are two important drivers of the domestic real estate market.

Fig 41: Foreign remittances to Vietnam (bn USD)



Source: World Bank, Yuanta Vietnam

Fig 42: Homebuyer profile in high-end and luxury segment by nationality



Note: This is based on the number of transactions through CBRE's trading floor. Source: CBRE, Yuanta Vietnam.

High-end and luxury housing are two attractiveness segments for foreign capital.

Vietnam's positive macro story and cheap funding in overseas capital markets have combined to lure foreign investors, resulting in considerable excitement in high-end and luxury housing in Vietnam. Our sense is that Chinese investors have been particularly attracted by HCMC, which they view as "Vietnam's Shanghai" (with Thu Thiem in District 2 perceived to be "HCMC's Pudong"). The perceived cheapness of the market relative to the Tier 1 Chinese cities as well as Hong Kong is perhaps another driver of such investment demand.

Foreign workers also contribute to a part of high-end and luxury housing demand.

As for foreign purchases for residential purposes, the evidence is mixed. As of 2018, over 82,500 foreigners were registered as working in Vietnam. We believe that they are an important source of market demand (i.e., possibly for residential purchases but more likely as lessees), and the number of foreign workers is only likely to increase in the coming years in our view. However, according to HSBC's "Expat Explorer" report, only around 26% of foreign expatriates in Vietnam own real estate here, substantially less than the global average of 36%.

Capital markets

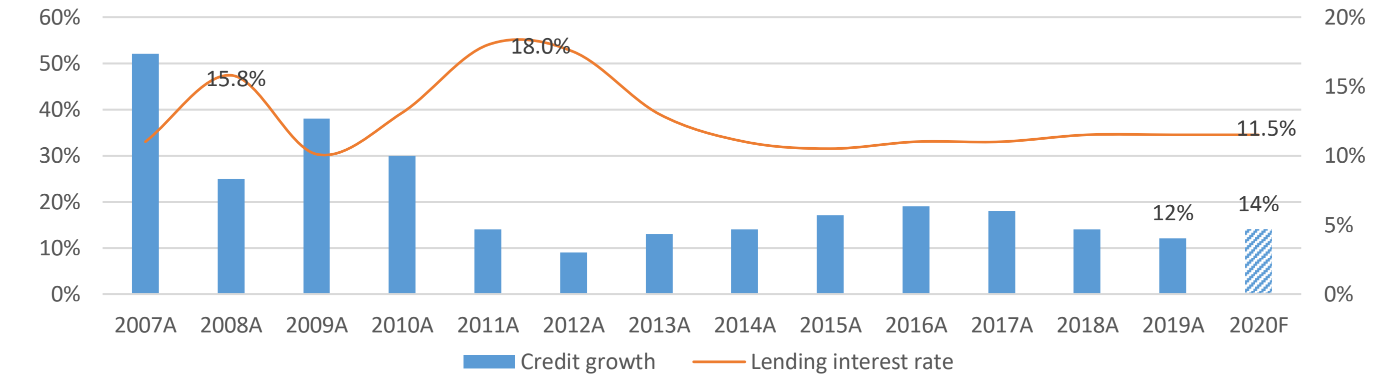
Cash savings and family support play a critical role in residential home purchasing in Vietnam.

Cash savings and family support play a critical role in residential home purchasing in Vietnam, but debt financing is becoming increasingly common. Homebuyers can take loans from credit institutions, with commercial banks providing the bulk of such credit. The People's Credit Fund makes only a modest contribution to total credit (i.e., 1.0-1.5% of total outstanding loans of commercial banks). Thus, mortgages are a major source of funding for property purchases.

But borrowing from commercial banks has been becoming an important funding source when buying housing.

As a result, prudential policies from the State Bank of Vietnam (SBV) have had a direct impact on the real estate market. Since mid-2013, the SBV (and the authorities generally) have focused on the stability of the financial system. This has been reflected in the real estate market recovery since then.

Fig 43: Credit growth slowing and funding costs increasing



Source: SBV, Yuanta Vietnam

SBV has acted to control financial flows into the property market through prudential measures on commercial banks.

Since 2014, The State Bank of Vietnam (SBV) has also acted to control financial flows into the property market through prudential measures on commercial banks. Additionally, in 2016, circular 41/2016/TT-NHNN was issued to require commercial banks to increase their regulatory capital. At the end of 2019, only 18 of the 39 commercial banks had applied Basel II standards. Coupled with this stricter prudential regime on capital, circular 41/2016/TT-NHNN applies increased risk weightings on property loans and also caps the use of short-term funding for long-term loans. Although the SBV has ordered banks to practice forbearance on borrowers due to the coronavirus, we believe the regulators will revert to a greater level of prudence once the period of its economic impact has passed.

Table 1: Prudential tightening measures timeline by the SBV

		2017	2018	2019	2020(*)	2021(*)	2022(*)	2022(*) onward
Cap on short-term funding for long-term loans		50%	45%	40%	40%	37%	30%	34%
Risk weightings for individuals borrow to buy house	total principal debt over VND 4 billion	50%	50%	50%	120%	150%	150%	150%
	total principal debt from VND 1.5 - 4 billion				100%	100%	100%	100%
	total principal debt under VND 1.5 billion and be used for buying social housing.				50%	50%	50%	50%
All commercial banks must meet Basel II standards by 2020								

(*) Circular 22/2019/TT-NHNN replace circular number 36/2014/TT-NHNN. **It applies only to banks that have not yet been implemented Circular 41/2016/TT-NHNN.**

Source: Circular number 36/2014/TT-NHNN, 06/2016/TT-NHNN, 19/2017/TT-NHNN, 22/2019/TT-NHNN, Yuanta Vietnam.

The regulations include punitive risk weightings for loans to developers and for mortgages of VND4 billion (USD172K) or higher, which have been raised to 120% in 2020 and 150% in 2021 and onwards. By contrast, the risk weighting for VND1.5-4.0 billion mortgages is 100% and mortgages of less than VND1.5bn remain at 50%. In other words, the SBV appears to be steering the banks to fund mortgage borrowers in the segments that are the focus of real residential demand, rather than the higher-end segments that are dominated by speculators.

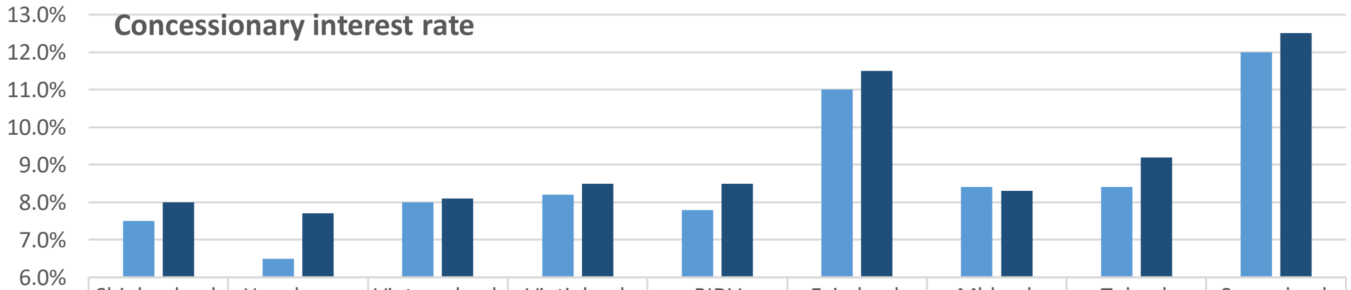
Online surveys indicate that just 65% of homebuyers have mortgages.

We think that 80% of first-time buyers have mortgages, whereas speculators have reduced leverage since roughly 2018.

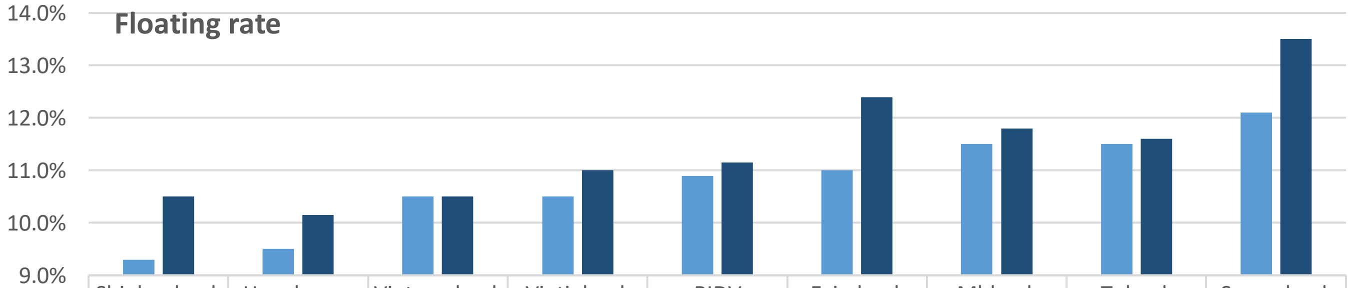
This is critical given that the result of online surveys indicate that around 65% of homebuyers use mortgages. We believe this ratio is higher in reality for first-time homebuyers (perhaps 80%). However, our discussions with industry players indicate that speculators have reduced their use of leverage since early 2018.

Generally, we believe the goal of these prudential regulations is to ensure the stability of the banking system rather than to tighten lending standards. For example, the required loan-to-value of 70-80% and the paperwork required to prove the ability to repay haven't been changed much. However, home mortgage interest rates seem to have been affected, likely due to the higher risk weightings.

Fig 44: Home mortgage interest rates among sample banks



	Shinhanbank	Hongleong	Vietcombank	Vietinbank	BIDV	Eximbank	Mbbank	Tpbank	Sacombank
2018	7.5%	6.5%	8.0%	8.2%	7.8%	11.0%	8.4%	8.4%	12.0%
2019	8.0%	7.7%	8.1%	8.5%	8.5%	11.5%	8.3%	9.2%	12.5%



	Shinhanbank	Hongleong	Vietcombank	Vietinbank	BIDV	Eximbank	Mbbank	Tpbank	Sacombank
2018	9.3%	9.5%	10.5%	10.5%	10.9%	11.0%	11.5%	11.5%	12.1%
2019	10.5%	10.2%	10.5%	11.0%	11.2%	12.4%	11.8%	11.6%	13.5%

Figures in August 2018 and December 2019

Source: Yuanta Vietnam

We tend to view this positively given that it should reduce the impact of credit-fuelled speculation, improve banking system stability, and increase the economy's resistance against financial shocks.

The quality of income for paying debt should determine the breakpoint of this cycle, which is highly affected by economic shocks.

We believe that a portion of speculators and investors have proactively decreased their debt leverage since last year, but some remain highly leveraged now. Additionally, most first-time homebuyers in recent years have yet to pay off their mortgages. Therefore, debt servicing capability, which is highly affected by economic shocks (e.g., the current coronavirus epidemic and global recession), could determine the breakpoint of this cycle.

Legislation

Land is self-evidently a valuable national resource and important capital good, so the laws and legal documentation related to real estate have been revised many times over the years to foster the market economy while pursuing the goal of economic stability. Overall, the authorities have worked efficiently in our view. Below are some notable historical milestones:

- The first Land Law, enacted in 1987, stipulated that the Vietnamese people hold all land ownership rights and the State is the administrator. However, individual persons and corporate entities are entitled to purchase and own land-use rights.
- The Land Law of 2003 allowed overseas Vietnamese to buy houses.
- Resolution No.19/2008/QH12 in 2008 opened the residential housing market to certain foreigners by way of a five-year pilot program.
- The Land Law of 2013 allowed for a broader range of foreigners to buy houses. However, foreign homebuyer's rights were not clearly defined until 2014.

Because all land belongs to the Vietnamese people by law, homebuyers granted Pink Book certifications for residential property are entitled to own assets on the land and hold land use rights for purposes including residence, selling, leasing, and mortgaging.

The current system does not fully protect homebuyers. Thus, a property developer's reputation is always a top priority for homebuyers in Vietnam.

The Housing Law and other related laws have together regulated the pre-sale housing market since 2010. However, the system is not without pitfalls. For example, some developers have exploited the law to mobilize funding from homebuyers prior to the completion of investment procedures, some have exceeded the mandatory cap on funding, and others have gone so far as to sell the same apartment to two or more homebuyers.

Our view is that the current system does not fully protect homebuyers, and we think this opinion is broadly shared by the public. Thus, a property developer's reputation is always a top priority for homebuyers in Vietnam.

Early iterations of the housing law lacked clarity on foreign property ownership rights. As a result, only 126 foreign individuals and companies had purchased residential apartments as of June 2013. However, the 2014 revisions paved the way for the more expansive foreign ownership rights that exist today. Foreigners are not restricted to any specific category of property, and they only need a valid entry visa to buy one (or more) apartment(s).

Foreigners and overseas Vietnamese are still restricted in terms of their investment rights in comparison to domestic individuals and households…

However, foreigners and overseas Vietnamese are still restricted in terms of their investment rights in comparison to domestic individuals and households. For example, foreign individuals can only obtain a maximum 50-year lease on a property. Additionally, foreigners are limited in their property ownership concentration as follows: (1) a maximum of 30% of total units within one condominium complex can be sold to foreigners; (2) foreign owners are capped at 10% of total separate landed houses within one residential compound; and 3) foreigners can own a maximum of 250 houses within any single administrative unit (equivalent to a ward). Table 21 below shows acquisition forms are allowed by law for each type of land users.

Table 2: Popular land acquisition forms by major user category

Popular land acquisition forms	Key land users in residential real estate market.		
	Domestic individuals, household (*)	Overseas Vietnamese individuals (*)	Foreign individuals (*)
Received LUR from an exchange of agricultural LUR	✓		
Purchase LUR	✓	✓ (1) (2)	✓ (1)
Received LUR as gift	✓	✓	✓
Inherited LUR	✓	✓	✓
Allocated LUR from the State	✓	✓	

(1) Housing development projects.

(2) Industrial zones, industrial clusters, export processing zones, high-tech zones, and economic zones.

(*) Freehold housing tenure for Vietnamese and Maximum 50 years for foreign individuals.

Source: Housing Law 2014, Circular 19/2016/TT-BXD, Yuanta Vietnam.

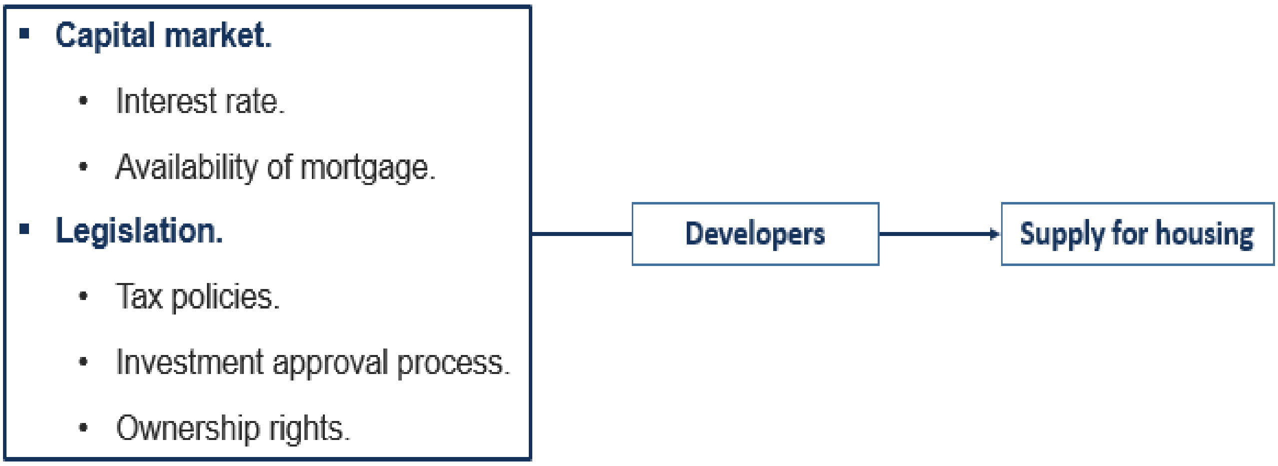
…however, the current legal framework is well positioned to promote both domestic and foreign demand for housing.

We believe the major fees involved in buying an apartment is quite attractive for foreign and domestic homebuyers, including speculators. Specifically, homeowners in Vietnam do not have to pay any significant annual property taxes. This could lead to unintended consequences, such as increase wealth disparity and exacerbated increases in property prices. But overall, we believe that the current legal framework is well positioned to promote both domestic and foreign demand for housing.

Fig 45: Major fees involved in buying an apartment apply for both foreign and domestic homebuyers

Source: Yuanta Vietnam

Fig 46: Key factors affect demand for housing.



Source: Yuanta Vietnam

Administrative hurdles and financing issues aside, Vietnamese developers face few constraints from the physical construction process, in our view. The various stages of the residential construction process are easily handled by internal capabilities and domestic subcontractors. In addition, the domestic supply of basic materials (e.g., steel, bricks, sand, cement, and other materials) is sufficient to meet the demand for residential construction, in our view. Therefore, developers are not particularly limited in terms of their ability to provide various products such as townhouses, villas, apartments, officetel and condotel units, industrial property, or hospitality facilities.

Thus, in our view, there are two main factors that constrain the supply of new housing: financing and the legal process.

Financing constraints

The SBV implements policies to require commercial banks to manage the concentration risk of real estate exposure

Despite the liberalization of the debt and equity capital markets, Vietnamese enterprises remain heavily dependent on bank loans. Private credit to GDP reached 135% at the end of 2018, with commercial banks accounting for the bulk. Property development is capital intensive and prone to bubbles in most markets, and Vietnam is certainly not an exception. Thus, the SBV has implemented policies to require commercial banks to manage the concentration risk of real estate exposure, which should ideally nudge them to prioritize capital allocation for economically productive investments.

To this end, the SBV has applied prudential measures to increase the regulatory capital requirements of direct developer loans as well as large mortgages (i.e., lending for high-end and luxury property investments).

According to the SBV's HCMC office, direct real estate development loans account for 11-12% of total outstanding loans, while outstanding mortgages account for another 7.8%-8.0% of total loans in HCMC. Yuanta Vietnam bank analyst Tanh Tran estimates that real estate loans account for about 16% of total outstanding loans in the entire Vietnam banking system, based on Fiinpro data for 2019.

Although the SBV is in the process of implementing the Basel 2 standards, which are largely related to solvency capital, the central bank has also applied liquidity constraints. Thus, commercial banks must increase their long-term funding to offset medium- and long-term loans. This proposal could further constrain bank financing for property market participants.

Table 3: Recent prudential tightening measures by the SBV

	2014-16	2017	2018	2019	2020	2021	2022	2022 onwards
Cap on short-term funding for long-term loans	60%	50%	45%	40%	40%	37%	30%	34%
Risk weightings for real estate loans	150%	150%	150%	150%	200%	200%	200%	200%
All commercial banks must meet Basel II standards by 2020								

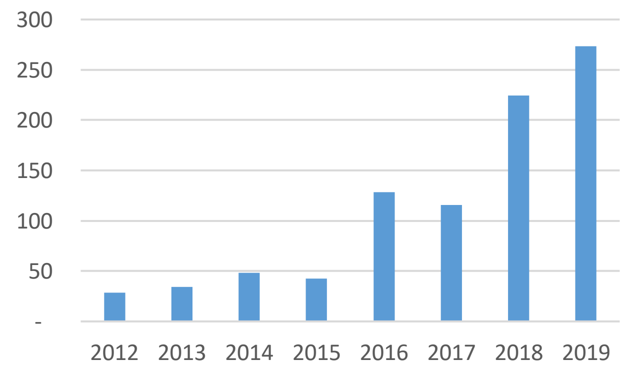
Source: Circular number 36/2014/TT-NHNN, 06/2016/TT-NHNN, 19/2017/TT-NHNN, Yuanta Vietnam.

Issuing equity is also an option for financing among developers, but Vietnam's relatively shallow and volatile domestic stock markets limit the utility of this source of funding. For this reason, property developers must seek alternative ways to raise capital, and bond issuance – both domestically and offshore – has become more common in recent years.

Based on our take on the market and discussions with the central bank, the increased prudential controls are set to continue going forward. Risk weights for loans to developers have been raised to uneconomic levels of 200% this year onwards.

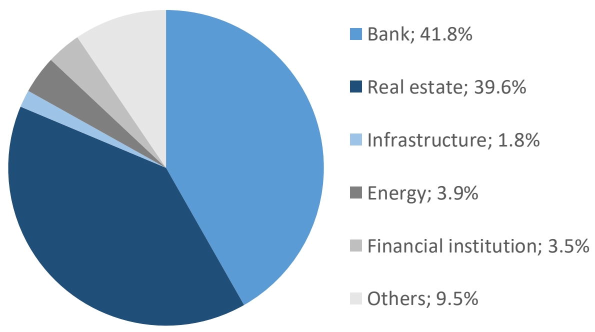
Consequently, HCMC's credit growth was 13.5% YoY in 2019 while credit growth of the real estate industry was only 8.8% YoY, so this regulatory tightening has clearly forced real estate companies to tap bond and equity markets. Property firms accounted for 39.6% of total corporate bond issuance in 2019, second only to commercial banks.

Fig 47: Corporate bond issuance (VND tn)



Source: HNX, Yuanta Vietnam

Fig 48: Property developers increasingly tap the bond market instead of banks



Source: Vietnam Bond Market Association, Yuanta Vietnam

Transparency and standardized information are barriers for the development of Vietnam's bond market.

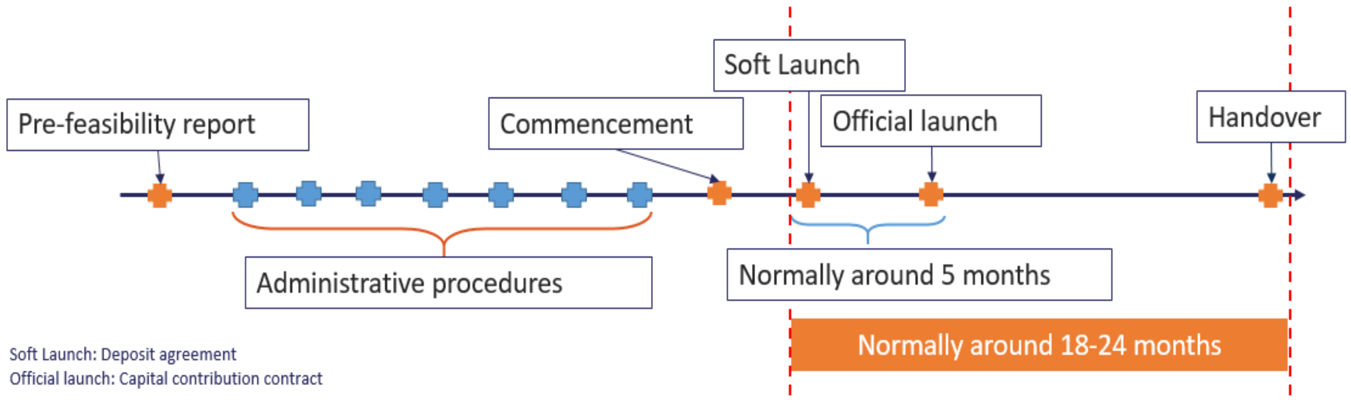
Foreign bond issuance requires companies to improve their transparency and to standardize information. Hence, a few developers have obtained international agency credit ratings in pursuance of offshore debt funding. The pool of capital overseas is obviously much larger than that of the domestic bond market, but borrowing offshore creates the risk of an asset-liability FX mismatch given the VND-denominated revenues of domestic developers.

Domestic issuance is easier to achieve from a corporate disclosure perspective, but the market appetite for developer debt is not particularly strong. As a result, the number of businesses issuing bonds has been limited and the total bond debt raised remains relatively small. Despite growing, Vietnam's total domestic bond market (i.e., not just bonds issued by property developers) accounted for just 9% of GDP as of 2018 and increasing to 11% of GDP as of 2019.

Individuals have begun to offer alternative sources of debt capital finance, but they are much smaller than institutions.

In addition, the major holders of corporate bonds are institutions such as commercial banks, insurance companies, securities companies, and investment funds. Domestic individuals have begun to offer alternative sources of debt capital finance, but in aggregate this funding source is of course much smaller than institutions are.

Fig 49: Project timeline

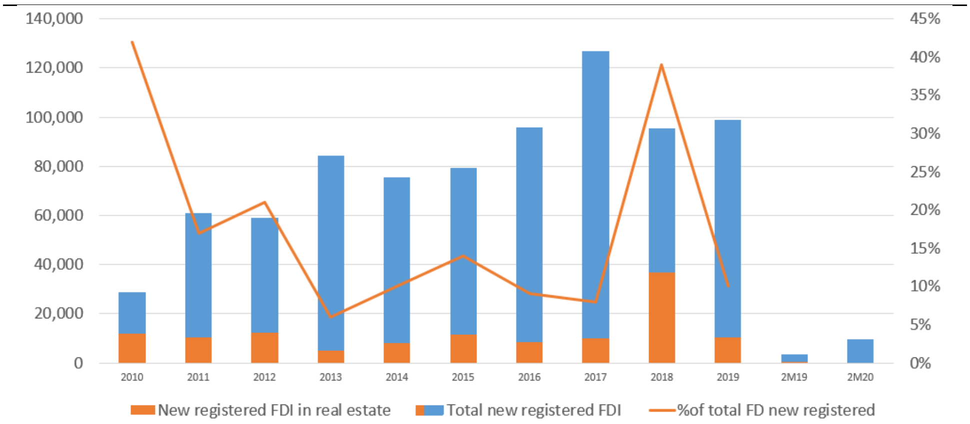


Note: Project includes 02 basements + 02 commercial floors + 28 residential floors
Pre-construction administrative procedures can prolonged for over 2 years.
Source: Yuanta Vietnam

Soft launch booking rates are a critical indicator for developer stockholders of a project's funding status.

Homebuyers are also a crucial source of financing. Vietnam law allows developers to mobilize up to 30% of SPA value from homebuyers after completion of a building's foundation. They can mobilize up to 70% of SPA before the home is handed over and a maximum of 95% prior to handing over the Pink Book. Therefore, soft launch booking rates are a critical indicator of a project's funding status.

Fig 50: Newly registered foreign direct investment (USD million)



Source: FIA, Yuanta Vietnam

The latest data from the Foreign Investment Agency shows that new registered FDI in Vietnam in the first two months of 2020 reached USD 9.4bn (+190% YoY), of which the real estate sector accounted for only USD45mn (-82% YoY). We believe this to be a temporary decrease related to the global crisis. We expect Vietnam to retain its attractiveness for FDI as it rides out the coronavirus crisis relatively smoothly, as landowners become more willing to sell, and as administrative issues regarding property development are resolved. Thus, we expect FDI inflows to recover relatively quickly.

The government needs more support for FDI disbursement, which could help to stabilize real estate market.

Also, newly registered FDI in the real estate industry was USD10.3bn in 2019, of which USD3.1bn was for the development of 25.5K condos while average sold condos in the recent five years were 33.1K units, according to NVL. The government likely recognizes the need to support FDI disbursement, which could help to stabilize the real estate market.

FDI developers might compete with domestic developers in certain cases …

We see FDI inflows as a double-sided coin for domestic developers. After all, foreign developers compete for market share with domestic players. But they also can provide a source of capital that does not necessarily cannibalize the domestic product through various methods such as the establishment of joint ventures with local players. Additionally, foreign developers take advantage of domestic players' superior land bank access by outright purchases of buildable land from local firms that in practice can more easily obtain land clearance and other approvals. Such cooperation can build a domestic developer's brand value given that foreign partners offer deep experience in project management, urban planning, and apartment design. They also provide more secure financial resources, thus reducing operational risks for domestic partners.

…but the risk of competition is outweighed by the positives that result from strengthened product quality and financing, in our view.

However, in the coming time, developers have weak cash positions, might face with risk of foreign takeover.

Regional FDI developers such as Capital Land, Keppel Land, Alpha King, Gamuda, and Ciputra offer strong financial resources and international construction quality standards for Vietnam's high-end and luxury housing segments. They might compete with domestic developers in certain cases, but we think that the risk of competition is outweighed by the positives that result from strengthened product quality and financing. Also, developers with weak cash positions could face the risk/opportunity of takeover by foreign players if their business plans, which have been affected by the economic shock, fail to recover.

Legislation

Development law in Vietnam is complex, to say the least. Vertically integrated developers that engage in land development, project development, and construction are governed by 12 laws and a multiplicity of decrees and circulars, including more than 20,000 standards, regulations, and technical norms. In addition, information opacity has resulted in an uneven playing ground among developers (and other businesses) here.

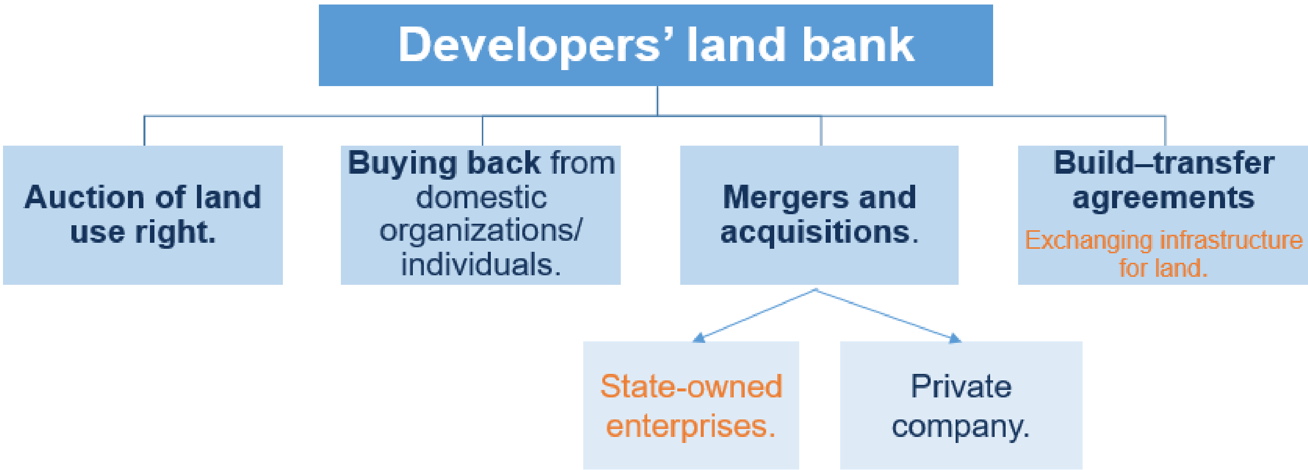
Administration is one of the biggest obstacles in the development of real estate market.

Project implementation costs increased by complicated administrative procedures. As illustrated in Figure 49, completing administrative procedures for development projects can require 2-4 years alone, meaning that overall project completion requires 3-6 years. Major bottlenecks include the following:

Land clearance process is not clearly guided by the law: Site clearance is often prolonged by determining compensation levels, which are not always driven by the market mechanism. This causes conflicts of interest between landowners and developers. Consequently, compensation and clearance procedures can sometimes take more than 10 years.

Effects of the anticorruption campaign. Exposing corruption related to land management has been an important focus of the country's unprecedented anticorruption campaign since 2016. Land-related corruption investigations have reduced officials' willingness to sign off on new projects, instead adopting a "wait and see" attitude. Consequently, widespread delays in licensing for property development projects have been prevalent, reducing product supply, causing property prices to surge, and resulting in declining fiscal revenues from land fees. By contrast, projects that do NOT involve land bank sourced from state-owned enterprises and BOT agreements appear to obtain licenses more easily.

Fig 51: Sources of landbank



Source: Yuanta Vietnam

However, we have observed signs of gradual easing of the licensing procedure holdups since early 2019, with most projects in suburban areas and non-CBD districts in Ho Chi Minh City being allowed to proceed. In the CBD, a few projects that have not been investigated or that were already under construction have now been granted permits to restart construction.

Despite these initial positive signs, CBRE reports that units launched in HCMC decreased 46% YoY in 1H19. By contrast, units launched in Hanoi increased by 35% YoY, with Vinhomes' two mega projects (i.e., Vinhomes Smart City and Vinhomes Ocean Park) accounting for 63% of Hanoi's supply (by units) in 1H19.

HoREA indicates that the decrease in supply may have affected the HCMC government's finances. The municipal government reported VND 22.6 trillion in 2018 revenue from land in 2018, a decline of 17% YoY, which accounted for 9.3% of total budget revenue that year of which LUR fees decrease VND4.0 trillion. In the first five months of 2019, revenues from LUR fees decreased by c. 60% YoY. Consequently, LUR fees in 1H19 failed to reach 50% of the city's annual budget.

Vietnam's anticorruption campaign may continue in the coming years, but we believe the government is seeking to avoid negative effects on social and economic conditions. In other words, the Vietnamese authorities are likely to continue investing the sector, but they will also endeavor to alleviate any excessive impact on the property market.

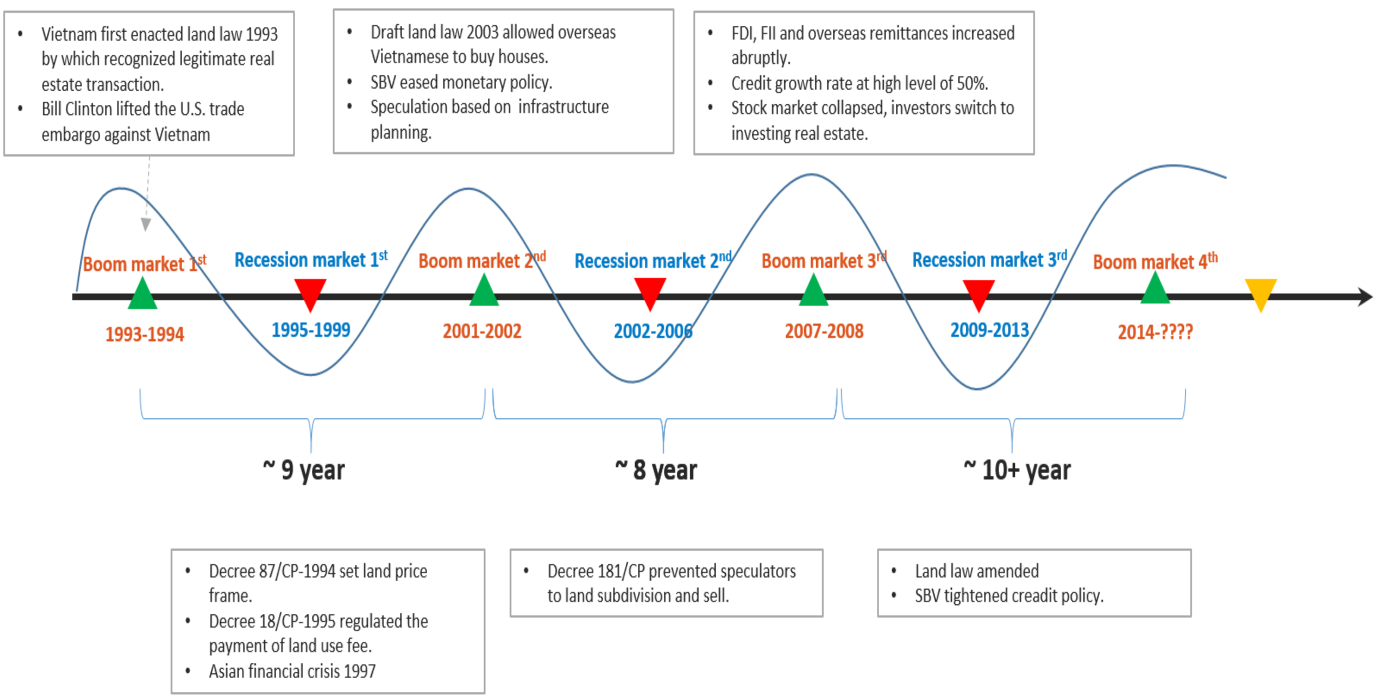
Difficulties in obtaining investment licenses (i.e., approval of 1/500 plans, construction permits, and LUR certifications) due to complicated and overlapping regulations. For example, determining the LUR fee is typically also a very prolonged process. According to Circular 87 & 88/2016/TT-TTLT-BTC-BTNMT, project land-use fees should be determined by the Department of Finance and the Department of Natural Resources and the Environment. However, in practical terms, no synchronous coordination has been established between these agencies. If the DOF or Appraisal Board disagrees with the valuation method or market value of project land, developers must start the process over again. In addition, developers can not apply for construction licenses without first obtaining LUR certifications. This makes it difficult for developers to calculate investment costs and estimate project implementation schedules.

Appendix I: Overview of the Property Market

Market Overview

Vietnam's real estate market has been liberalized along with economic reforms toward a market-based, open economy starting with the Đổi Mới economic reforms of the late 1980s. The market has passed through two cycles since the government first enacted a land law in 1993. Although it has always been tightly regulated, the market still follows the laws of supply and demand. The current cycle is the longest one yet.

Fig 52: Previous Vietnam real estate market cycles have lasted for about 10 years



Source: Yuanta Vietnam

Driven by a credit boom/bust, real estate pricing and transactions in the two cities declined sharply starting in 2008. The HCMC real estate market was much more affected than the HN market, and the market continued to decline until 2013. Conversely, in Hanoi, chatter regarding developing a new administrative center in Ba Vi district created a fever for real estate there, which spread to Hanoi's western districts. However, that excitement burned out after the authorities officially denied these rumors.

The market reached its nadir in 2011 after the decade-long credit binge, but the market remained in the doldrums. Developers had trouble selling product despite reducing selling prices for the next two years.

At the end of 2013, the real estate market began to recover after the SBV launched demand stimulus packages and interest rates decreased from c.18% to c.13%. The macro situation also stabilized. Real estate developers became less willing to offer promotional pricing, but new supply and unit sales increased significantly from 2013 to 2015. Since 2018, the growth has largely flattened in term of unit sales but pricing continued to increase. The key reasons are as follows: 1) Brokers have created virtual land fevers due to lack of transparency in land planning. 2) Credit growth has been high. 3) Some officials have abused their positions to take profit from planning information or sell state-owned property at low prices. Consequently, since 2016, exposing corruption related to land management has become an important focus of the country's unprecedented anti-corruption campaign, as well as administrative measures of the government that have made launching new projects highly difficult for developers.

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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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