

Vietnam: Property
29 July 2020
KDH VN
BUY
TP upside +31%
Close 28 July 2020

Price	VND 23,700
12M Target	VND 31,100
Previous Target	VND 31,100
Change	0%

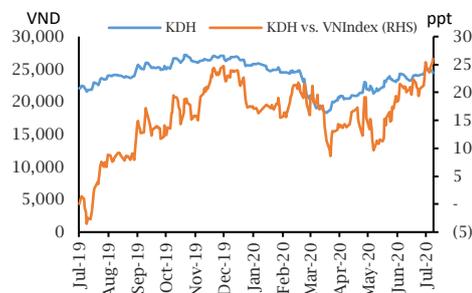
What's new?

- ▶ Homebuyers still appear to be willing to pay a brand premium for KDH's houses.
- ▶ KDH maintains stable business operations despite the various negative headwinds for the property sector.
- ▶ The company is well positioned for future income streams.
- ▶ KDH will be added to the VN30 Index starting August 3.

Our view

- ▶ KDH's superior brand is a key attraction for homebuyers and investors alike.
- ▶ KDH has undertaken a prudent business strategy that allows them to control and manage their projects on schedule.
- ▶ Based on KDH business operation and market conditions, we expect KDH's earnings to continue growing in the coming years.

Company profile: KDH is a HCMC-focused developer with major projects in Districts 2 & 9 as well as Binh Tan and Binh Chanh Districts. The company owns c. 450ha landbank, which is a key competitive advantage. Although historically focused on townhouses and villas, KDH has launched three apartment projects (e.g., the Jamila, Safira, and Lovera Vista) since 2018.

Share price performance relative to VN


Market cap	USD 560.00 mn
6M avg. daily turnover	USD 0.49 mn
Outstanding shares	524.58 mn
Free float	56.18%
FINI ownership	44.02%
Major shareholders	43.99%
1Q20 Net cash	USD 26.79mn
1Q20 P/B (x)	1.71x
FOL Room	4.98%

Financial outlook (VND bn)

Year to Dec	2019A	2020F	2020 Guidance
Sales	2,813	3,837	3,500
Op. profit	1,223	1,389	
Net profit*	868	1,004	988
EPS (VND)	1,596	1,676	
EPS chg (%)	-14%	5%	
P/E (X)	1.78	1.79	
ROE (%)	13%	14%	
Div. yield (%)	2.00%	2.00%	

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

Sources: KDH, Bloomberg, Yuanta Vietnam

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KHANG DIEN HOUSE (KDH VN)

Multiple positive catalysts

Homebuyers are willing to pay a premium for KDH's houses due to its prestigious brand name. The company only sells to homebuyers when the project's full legal procedures has been completed, which usually allows for rapid pink book transfer to buyers once the project is completed. Additionally, anecdotal evidence indicates that homebuyers typically appreciate the quality of KDH units, which is not always true of all developers.

Stable business operations despite the property sector's various headwinds. KDH's current projects remain on schedule and units have been delivered on time as committed to homebuyers. Earlybird buyers at the Verosa Park project in 3Q19 have received their units, and KDH has been delivering units at the SaFira project since early July. Additionally, the take-up rate of both projects is solid.

2020 results outlook. On this basis, KDH guides for 2020E revenue at VND3.5tn (+23% YoY) and net income at VND1.1tn (+20% YoY). We forecast slightly higher (+8.5%) revenue of VND3.8tn but only higher (+1.5%) earnings (VND1.1tn), which is likely due to differences in assumptions for operating expenses.

Well positioned for future income growth. KDH plans to launch the next tranches of Lovera Vista this year, with unit delivery to homebuyers to begin in 2Q21. The company also plans to launch two lowrise projects in 2H20: 1) Clarita, a 5.7-hectare, 160-unit project in District 2, and 2) Armena, a 4.3-hectare, 180-unit project in District 9.

Our view: Most developers rely on funding from homebuyers before completing the required administrative procedures, resulting in buyer headaches when administrative frictions delay the issuance of pink books. Thus, a property developer's reputation is crucial. We believe that KDH has this reputational advantage, and its substantial landbank in prime locations is a solid foundation for KDH's operations in the years to come.

KDH also maintains a strong balance sheet, which is another key attraction, especially given the current macro uncertainties. Given that KDH's projects under development are on schedule, we make no changes to our valuation. Our per-share fair value estimate for KDH is VND31,100, offering 33% expected 12-month total shareholder return. **We thus maintain our BUY recommendation.**

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Poised for earnings growth.

Maintaining stable business operations despite the various headwinds confronting the property sector. KDH currently focuses on developing three projects: SaFira (1,593 high-rise units), Verosa Park (293 low-rise units), and Lovera Vista (1,310 high-rise units). The first two projects have entered the handover stage, with earlybird buyers who bought in 3Q19 at Verosa Park receiving their units. KDH has also been delivering units at SaFira since early July, and the project has received substantial positive feedback from homebuyers related to interior design and construction quality. In addition, Lovera Vista remains on schedule for handover in 1Q21. As such, KDH's 2020 earnings should be mainly contributed by Verosa Park and SaFira.

The takeup rate of these projects has been positive. KDH has sold 150 units of Verosa Park in 2H19, we estimate c.60 units were additionally sold in 1H20. As such, KDH guides for revenue of VND3,500bn (+23% YoY) and net income of VND1,100bn (+20% YoY).

Fig 1: Update: Projects under construction

Project	Status	Total units	Units sold in 2019	Sold in 1H20
SaFira		1,593	1,593	
Verosa Park		293	150	63
Lovera Vista		1,310	801	509

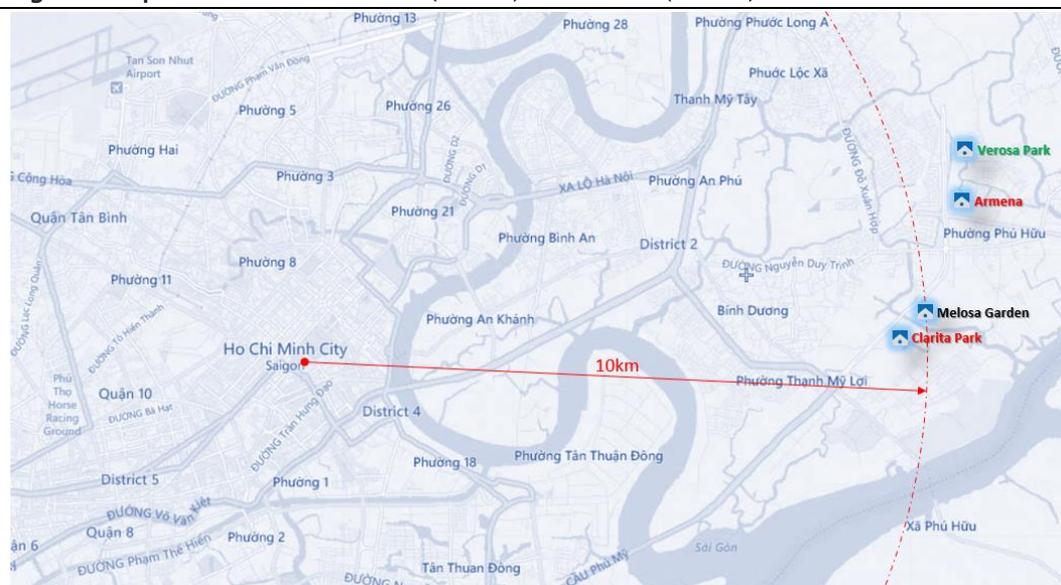
Source: Company data, Yuanta Vietnam

Well positioned for future income flows. We believe that KDH has been cautious in launching new units due to uncertainties related to the coronavirus. Therefore, in 1H20, the company only officially launched one tranche of Lovera Vista. This tranche was launched in

June and comprises 200 three-bedroom units and 100 one- or two-bedroom units. Our discussions with sales agents indicate that all units of Lovera Vista were sold out by July. KDH has guaranteed construction to progress and delivery of units to buyers starting in 2Q21.

The company also plans to launch two lowrise projects in 2H20: 1) Clarita, a 5.7-hectare, 160-unit project in District 2, and 2) Armenia, a 4.3-hectare, 180-unit project in District 9.

Fig 2: KDH plans to launch Armenia (Dist. 9) and Clarita (Dist. 2)



Source: Yuanta Vietnam

The pricing outlook for HCMC property remains very strong despite COVID-19, which we attribute primarily to the persistently limited supply of new units. ASPs per sqm at Verosa Park were roughly VND110mn (US\$ 4,731) excluding VAT and construction value but including promotion programs. The recent launch of the Manhattan, a low-rise subsidiary of Vinhomes Grand Park, has ASP per sqm of roughly VND120mn (US\$ 5,161) excluding VAT and construction value. As such, we believe that KDH’s planned projects in District 2 and 9 might be set at an equal or higher average selling price (ASP) as that of Verosa Park.

These selling prices look very strong given that nearby projects were sold at ASPs of roughly VND60mn. For example, Melosa Garden (another KDH project that was completed in 2015) is currently sold at c.VND62mn per sqm in the secondary market, which is 44% lower than Verosa Park’s ASP. As a result, we have observed chatter among netizens that the asking prices for the new projects are too high.

However, KDH and VHM have attracted a significant number of homebuyers, for example, the take-up rate of Verosa Park is now c.80%. Our view is that the developers have fostered a sense of scarcity among homebuyers, as “sold out” is a familiar phrase in the media after the launch of each tranche. This helps to bolster ASPs, in our view.

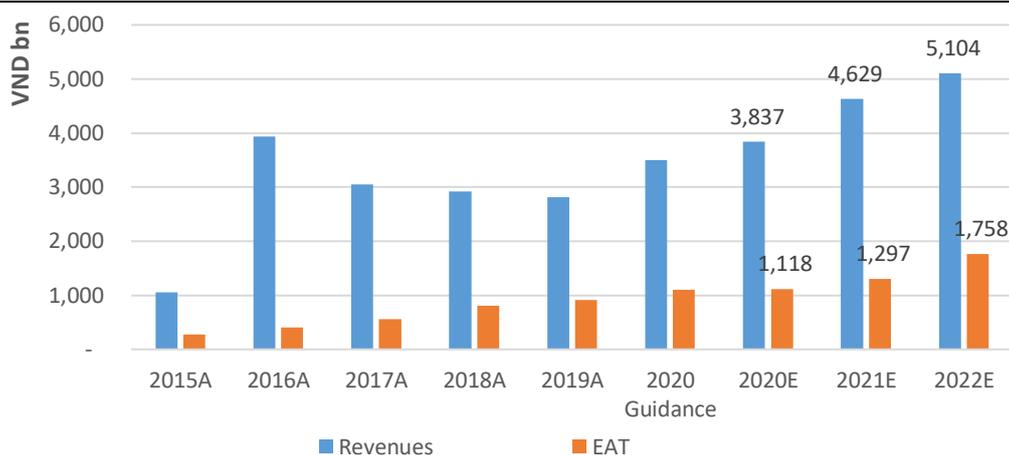
In our opinion, the leading real estate developers’ attempts to raise the benchmark price level in HCMC have not been entirely successful (yet). This view is supported by the selling prices of their projects being higher than those of properties in the surrounding areas.

We believe that developers have added certain future attractions to the selling price such as transport infrastructure that has yet to be delivered, as well as continued economic growth momentum and concomitant increase in household wealth. If these factors do not work as expected, it may be difficult for developers to maintain high ASPs in subsequent launches. We highly doubt that they would reduce sticker prices in subsequent tranches, but takeup rates could decrease and thus delay full market absorption.

However, we have the same point of view as real estate developers that Vietnam’s economy is likely to maintain growth momentum in the years ahead. For KDH, we estimate 15.3% revenue CAGR and 25.5% PATMI CAGR in 2020–2022E.

ASPs are not likely to be reduced, but takeup rates could decrease and thus delay market absorption.

Fig 3: KDH earnings projection



Source: Company data, Yuanta Vietnam

Our projections are based on the assumption that KDH will complete all administrative procedures of two projects (i.e., the 11A Residence and Le Minh Xuan industrial park) to allow for launches in 2021. These is a high-confidence assumption given KDH's strong track record, and the two projects should also strongly support KDH's earnings streams going forward.

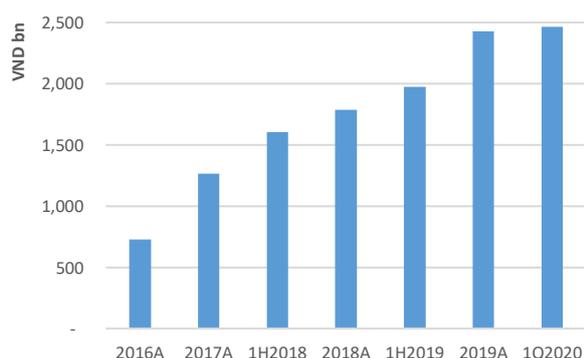
Fig 4: Project launches underlie our earnings forecasts for KDH

Project's Name	Location	Total area (hectares)	Before	2019	2020	2021	2022	After
Jamila	Dist 9	1.7	2Q17					
SaFira	Dist 2	2.7	4Q18	2Q19				
Lovera Vista	Binh Chanh Dist	1.8		3Q19	2020			
Verosa Park	Dist 9	8.1		3Q19	2020			
Clarita	Dist 2	5.7			2H20			
Armen	Dist 9	4.4			2H20			
Le Minh Xuan IP (expansion phase)	Binh Chanh Dist	109.9				2021		
11A Residence	Binh Chanh Dist	17.5				2021		
Tan Tao residential area	Binh Tan Dist	330.0						
Phong Phu 2	Binh Chanh Dist	132.9						

Source: Company data, Yuanta Vietnam

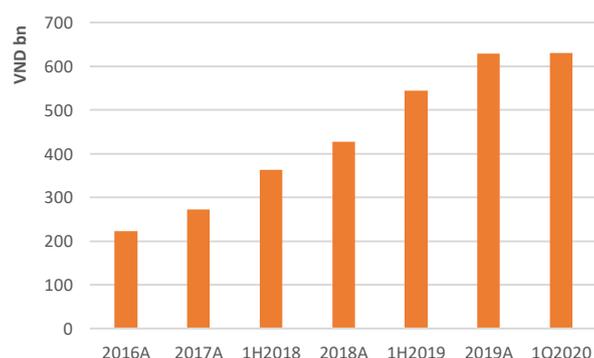
The book values of the Tan Tao and LMX projects indicate no development in these projects during 1Q20. However, comparing the 1Q20 values with those of 2017 (when KDH consolidated BCI) indicates that KDH has completed a large amount of work (e.g., land clearance, land compensation, and legal procedures). We thus believe that these projects will be launched in 2021 or 2022 at the latest. In addition, the An Duong Vuong project buyer is preparing to launch this project (based on our observations) so KDH might complete the transfer procedures and book the related earnings in 4Q20 or 1Q21, in our opinion.

Fig 5: Book value of Tan Tao project



Source: Company data, Yuanta Vietnam

Fig 6: Book value of LMX IP (expansion phase) project



Valuation

We maintain our target price of VND 31,100/share given that KDH's business operation is still on track. We would like to highlight some key assumptions and key risks to our view, which might change the result of the valuation model, as follows.

1. Our assumption about selling price, total area, and development plan

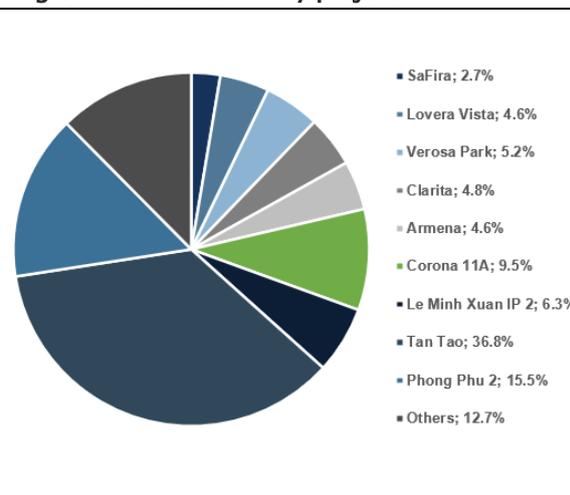
- As noted previously, we have applied KDH's official ASPs for Lovera Vista and Verosa Park in our model. We believe that this price will become a new benchmark for the market, and we thus assume premium ASPs for Clarita, Corona, and Armenia.
- We model in the compensation ratio of Phong Phu 2 at c.54% of the total area. Additionally, because the company has not revealed its development plan for these projects, we assume that KDH will sell land lots to other developers. Thus, we mark to market c.72ha as farm/plantation land.
- In modeling the Tan Tao project, we base our NAV for the project by estimating a mark-to-market of the 165ha of compensated land area prior to the BCI deal's completion in FY18. We believe that the value of compensation since the merger (i.e., compensation for the additional 76ha of landbank) has been reported on KDH's balance sheet, so we make no MTM adjustments to the latter.

Fig 7: Valuation summary

No	Project	Ownership rate	Valuation approach	PV(Unlevered CF)	Effective PV(Unlevered)
1	SaFira	99.9%	DCF	427	427
2	Lovera Vista	100.0%	DCF	722	722
3	Verosa Park	100.0%	DCF	803	803
4	Clarita	99.8%	DCF	754	752
5	Armenia	99.8%	DCF	714	713
6	Corona 11A	100.0%	DCF	1,474	1,474
7	Le Minh Xuan IP 2	100.0%	DCF	978	978
8	Tan Tao	100.0%	MV	5,719	5,719
9	Phong Phu 2	100.0%	MV	2,404	2,404
10	Others				1,980
Total project NPV					15,545
Cash and cash equivalent *					1,580
Total borrowing					955
NAV					16,170
Number of shares					0.52
Fair Value					31,100

Source: Company data, Yuanta Vietnam

Fig 8: NPV breakdown by project



2. Risks to our view:

- Market conditions do not always pan out as expected (e.g., economic growth, personal wealth and income expansion, and public investment in traffic infrastructure). If not, developers may have to launch more promotion programs such as discount vouchers and gifts. Consequently, selling costs could increase and market absorption could be delayed.
- As always, the administrative process of project development, such as the land clearance compensation process and other legal approvals, could take longer than we expect.
- Tan Tao is a major swing factor for our valuation. Crucially, Tan Tao accounts for 36.8% of our estimated total effective NAV for KDH. Thus, our RNAV estimate is highly sensitive to the timing of cash flows from this project, which we assume will begin in 2022E. If the company manages to speed up implementation (e.g., compensation and investment licenses), then our estimate of its intrinsic value will increase. In addition, if KDH is able to begin to develop Tan Tao in 2022E, our valuation for that project (currently VND 2.9 trillion based on the modified mark-to-market methodology described above) would increase to VND 4.6 trillion due to the shift to our typical DCF approach. As such, our target price for KDH would rise from VND31,100 per share to VND34,400 per share, a difference of 10%.

INCOME STATEMENT (VND'bn)	2019A	2020E	2021E	2022E
Net sales	2,813	3,837	4,629	5,104
Cost of sales	(1,313)	(2,090)	(2,515)	(2,392)
Gross Profit	1,500	1,747	2,114	2,712
Selling expenses	(115)	(144)	(181)	(195)
General and admin expenses	(162)	(214)	(263)	(288)
Operating profit/(loss)	1,223	1,389	1,670	2,229
Financial income	41	121	81	101
Financial expenses	(42)	(91)	(97)	(111)
Gain/(loss) from joint ventures	-	-	-	-
Net other income/(expenses)	(33)	(21)	(33)	(21)
Profit/(loss) before tax	1,189	1,398	1,621	2,198
Income tax expenses	(273)	(280)	(324)	(440)
Net profit/(loss) after tax	916	1,118	1,297	1,758
Minority interests	2	2	3	4
Attributable to parent company	914	1,116	1,294	1,754
EPS basis reported, VND	1,690	1,863	1,964	2,419
EPS fully diluted, VND	1,690	1,863	1,964	2,419

FINANCIAL RATIO	2019A	2020E	2021E	2022E
Growth (%)				
Revenue, growth	-4%	36%	21%	10%
Operating Income, growth	25%	14%	20%	33%
PBT, growth	11%	18%	16%	36%
EPS, growth	-16%	10%	5%	23%
Total Assets, growth	29%	2%	11%	8%
Equity, growth	11%	10%	10%	13%
Profitability (%)				
Gross Profit Margin	53%	46%	46%	53%
Operating Profit Margin	43%	36%	36%	44%
Net Margin	33%	29%	28%	34%
ROE	13%	14%	15%	18%
ROA	8%	8%	9%	11%
ROIC	15%	17%	18%	21%
Efficiency (x)				
Receivable Turnover	1.02x	1.10x	1.12x	1.12x
Inventory Turnover	0.20x	0.31x	0.43x	0.48x
Payable Turnover	0.51x	0.62x	0.72x	0.67x
Liquidity (x)				
Current ratio	2.70x	2.92x	2.94x	3.30x
Quick Ratio	1.09x	1.36x	1.78x	2.15x
Financial Structure (x)				
Total liabilities/Equity	0.73x	0.61x	0.61x	0.54x
Total liabilities/Total Assets	0.42x	0.38x	0.38x	0.35x
Debt/Equity	0.10x	0.09x	0.09x	0.10x

BALANCE SHEET (VND'bn)	2019A	2020E	2021E	2022E
Total assets	13,237	13,517	14,949	16,130
Current Assets	12,327	12,539	13,784	14,860
Cash & cash equivalents	1,175	2,637	3,282	5,518
ST Investment	32	16	24	20
Accounts receivable	3,778	3,215	5,030	4,124
Inventories	7,037	6,460	5,145	4,839
Other current assets	305	211	303	359
Long-term Assets	910	978	1,165	1,270
Long-term trade receivables	96	148	176	188
Net fixed assets	48	48	47	44
LT Investment	14	15	16	17
LT assets other	752	767	926	1,021
Total Resources	13,236	13,516	14,948	16,129
Total Liabilities	5,573	5,121	5,689	5,622
Advances from customers	2,773	2,777	2,780	2,783
Accounts payable	696	536	867	704
ST debts	377	377	377	377
Other ST liabilities	726	609	668	639
Long term debt	405	415	495	664
Other LT debt	596	407	502	455
Shareholder's equity	7,663	8,395	9,259	10,507
Paid in capital	5,444	5,988	6,587	7,246
Share premium	720	720	720	720
Retained earnings	1,327	1,512	1,774	2,359
Other equity	134	134	134	134
Minority interest	39	41	44	48
CASH FLOW (VND'bn)	2019A	2020E	2021E	2022E
Begin cash of the year	1,836	1,175	2,637	3,282
Net profit before tax	1,190	1,398	1,621	2,198
Adjustments	(33)	91	97	111
Change in Working Capital	(1,321)	590	(620)	416
Cash from Operations	(164)	2,079	1,098	2,725
Capital Expenditures	(235)	-	1	3
Investments	0	15	(9)	3
Change in other	34	(256)	(92)	(154)
Cash from investments	(201)	(241)	(100)	(148)
Dividend Paid	(207)	(272)	(300)	(330)
Proceeds from issue of shares	97	0	0	0
Net change in debt	(186)	10	80	169
Change in other	0	(114)	(133)	(180)
Cash from financing	(296)	(376)	(353)	(341)
Effect of FX differences	0	0	0	0
Net change in Cash	(661)	1,462	645	2,236
Ending cash balance	1,175	2,637	3,282	5,518

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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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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