

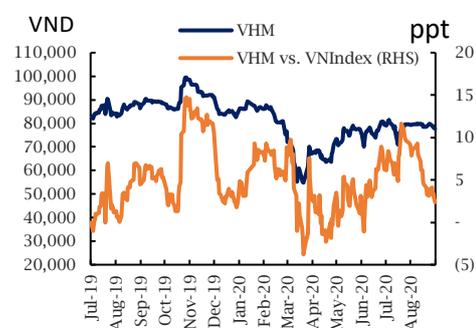
Vietnam: Property
14 September 2020
VHM VN
BUY
TP upside +22%
Close 11 Sep 2020
Price VND 77,700
12M Target VND 94,860
What's new?

- ▶ **Project construction is ahead of schedule**, which has helped to offset the negative impact of COVID-19.
- ▶ **Unit presales and handover at the three mega projects are also on track.** VHM delivered 7,600 units in 2Q20
- ▶ **The increased pace of urban transport infrastructure construction is positive** for urban periphery property demand.

Our view

- ▶ **VHM is cashing in on its undeniably superior landbank** through block sales and property transfers to third party developers.
- ▶ **The three mega-projects should continue to provide a substantial boost to cashflows** over the next several years.
- ▶ **Top pick in the property space.** As Vietnam's leading property developer, the stock is a proxy on rising national wealth in the decades ahead.

Company profile: VHM is Vietnam's premier residential property developer, with a total landbank that is 20x larger than that of its closest competitor. As a majority-owned subsidiary of Vingroup (VIC VN, Not rated), VHM is able to harness the group ecosystem in building communities that offer a complete living environment, including educational, medical, and retail facilities. This model is a structural advantage that is unique among Vietnamese property

Share price performance relative to VN


Market cap	USD 11.0 bn
6M avg. daily turnover	USD 6.1 mn
Outstanding shares	3,290.00 mn
Free float	23.20%
FINI ownership	20.35%
Major shareholders	76.80%
2Q20 D/E (x)	0.69x
2Q20 P/B (x)	3.81x
FOL Room	26.49%

Financial outlook (VND bn)

Year to Dec	2019A	2020F	2021F
Sales	51,627	81,253	105,394
Op. profit	23,219	31,397	41,142
Net profit*	21,747	20,376	27,323
EPS (VND)	6,493	6,083	8,157
EPS chg (%)	43%	-6%	34%
P/E (X)	4.64	2.94	2.32
ROE (%)	38%	24%	25%
Div. yield (%)	2.00%	0.00%	0.00%

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

Sources: VHM, Bloomberg, Yuanta Vietnam

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Bloomberg code: YUTA
Vinhomes (VHM VN)
Standing firm amid coronavirus pandemic

Project completion is ahead of schedule, offsetting the negative impact of COVID-19. Unit handover and presales are also on track (i.e., c.7,600 units delivered in 2Q20) with the 3 mega projects accounting for c.80% of the total.

VHM has shifted into mid-end housing, a segment that is backed up by real demand from Vietnam's expanding middle class. VHM is also taking advantage of its undeniably superior landbank by its strategy of block sales and selling buildable urban land – a very scarce resource – to third party developers. This allows VHM to accelerate capital returns and to benefit from the high-end/luxury segments without incurring undue development risks of its own.

1H20 business result update: Revenue from property sales was VND34.1 tn (-1% YoY) and VHM's profit after tax & minority interest was VND10.6 tn (+8% YoY). In 1H20, the company achieved 45% of its full-year target for contract value and 57% of its unit sales target for 2020. Unbilled bookings bounced back to VND 93 trillion in 2Q20, providing visibility on future earnings strength.

An eventful future pipeline (new launches, presales, and deliveries). In 3Q20, soft launch events were held for three subdivisions of Vinhomes Grand Park in HCMC's District 9 (i.e., the Manhattan, the Origami, and the Masteries). Also, VHM plans to launch sales of low-rise units at Vinhomes Wonder Park in Hanoi in 4Q20. VHM expects to deliver 21,000 units in 2H20, largely from the three mega projects (Ocean Park and Smart City in Hanoi, and Grand Park in HCMC). Moving into 2021E, VHM plans to launch two new mega projects: Long Beach Can Gio (2,870ha in HCMC) and Green Ha Long (7,000ha in Quang Ninh).

VHM is our top pick in the property sector and ranks among our four top picks among all Vietnam stocks. As the most profitable component of Vingroup (VIC, Not rated), the country's largest private-sector conglomerate, we view VHM as an excellent proxy on rising demand for urban housing from an increasingly wealthy society in the decades ahead.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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VHM: Standing firm amid the pandemic

1H20 business result update: Revenue from property sales was VND34.1 tn (US\$1.5 billion), down -1% YoY. VHM's profit after tax & minority interest in 1H20 reached VND10.6 tn (US\$457 million), an increase of +8% YoY.

Standing firm amid the coronavirus pandemic. VHM's implementation capabilities continue to shine amid the difficult operating environment, with the construction of its multiple projects largely ahead of schedule. This has helped to offset the impact of COVID-19 on the company's business performance. VHM posted relatively strong 2Q20 results despite the three-week mandatory lockdown in April. Additionally, VHM has also maintained its pace of unit handover, and presales are on track to achieve its targets.

For example, the company delivered c.7,600 units in 2Q20, with the three mega projects accounting for c.80% of total deliveries. As a result, 1H20 presales reached 45% of the company's full-year 2020 target in terms of contracted value and 57% in terms of units sold. Additionally, unbilled bookings as of 30 June 2020 bounced back to VND 93 trillion (US\$4.0 billion), which provides investors with very clear visibility on future earnings strength.

Fig 1: Overview of Launched Projects



Note: (1) Numbers are rounded to the nearest '000 (2) FX: 23.250 (3) Numbers are rounded to the nearest '00 and subject to design change in bulk sales transactions. (4) Others include Vinhomes Central Park, Vinhomes Metropolis, Vinhomes Green Bay, Vinhomes West Point, Vinhomes Golden River, Vinhomes New Center Ha Tinh, Vinhomes Symphony, Vinhomes Thang Long, Vinhomes Marina, Vinhomes Imperia Hai Phong, Vinhomes Star City Thanh Hoa, Vinhomes The Harmony, Vinhomes Dragon Bay, Vinhomes Sky Lake.

Source: Company data, Yuanta Vietnam

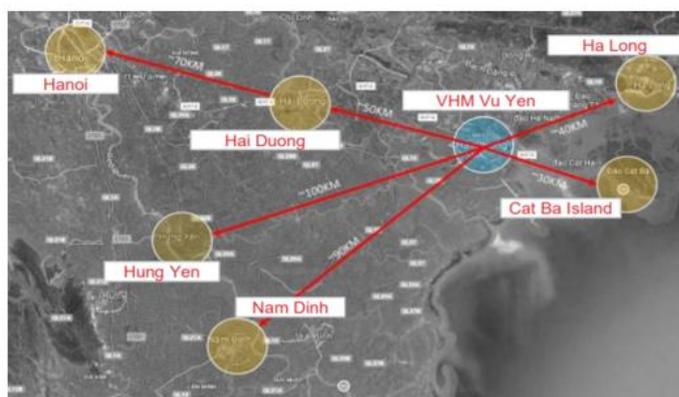
An eventful 2H20 (new launches, presales, and deliveries). In 3Q20, soft launch events were held for three Vinhomes Grand Park subdivisions (i.e., the Manhattan, the Origami, the Masteries). Additionally, Vinhomes Wonder Park (located in Hanoi) is scheduled to launch in 4Q (low-rise units). Moving into 2021E, VHM has prepared to launch four projects, two mega projects (i.e., Vinhomes Dream City - Ocean Park 2 (460ha) and Vinhomes Vu Yen -- Hai Phong (873ha)) and two mega mega projects (i.e., Vinhomes

Long Beach Can Gio (2,870ha in HCMC) and Vinhomes Green Ha Long (7,000ha in Quang Ninh)).

Fig 2: New Project Launches in 2021



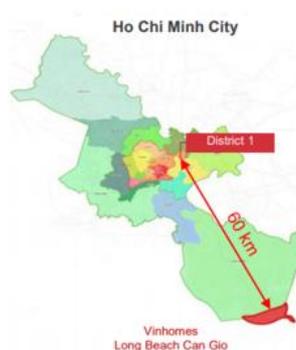
Vinhomes Dream City is conveniently located next to Vinhomes Ocean Park and will create a lively suburban community served by a complete ecosystem of life-essential products and services



Vinhomes Vu Yen (Hai Phong), surrounded by three large rivers, the integrated resort-style development will include hotels, golf courses, eco-parks with high-end residential villas and townhouses – a model for ecological urban living



Vinhomes Green Ha Long strategically located to benefit from infrastructure development and economic expansion driven by industrial production and tourism development



Vinhomes Long Beach Can Gio located in the only coastal district of Ho Chi Minh City, situated neatly in the southern special economic zone of the country. It will be a "3 in 1" destination of "classy living, working, and leisure tourism"

Source: Company data, Yuanta Vietnam

We expect bulk sales to sustain strong momentum given the large number of projects that are in various stages of discussion and negotiation.

In terms of retail sales, we have observed a large and increasing number of real estate sales agents selling Vinhomes products. This expanding property broker coverage has resulted in high take-up rates in a short time after projects are launched. For example, 550 Vinhomes Grand Park Manhattan villas and shophouses were launched in June 2020 and were almost sold out entirely by early July. Furthermore, VHVM's online platform is proving to be an excellent supplementary sales channel, with transparent pricing and a centralized inventory management system for the direct sales force.

We anticipate that more than 21,000 units will be delivered in 2H2020, mainly from three mega projects (i.e., Vinhomes Ocean Park and Vinhomes Smart City in Hanoi, and Vinhomes Grand Park in Ho Chi Minh City).

Risks to our view

1) **2021 earnings comparison will be difficult** given the high base effect of strong earnings in 2020. This is a function of accounting recognition rather than a fundamental factor, as property developer stock valuations are based on NAV and not P/E multiples, but domestic investors tend to focus on current-year earnings.

This could be a negative headwind for the share price performance in 2021, although a resurgence of foreign flows into Vietnam would likely more than offset this issue.

- 2) **Upside risk from 3Q20 earnings.** We believe that VHM will likely post strong results in 3Q20, possibly higher than our current expectations and those of the Street. As discussed in item 1 above, quarterly earnings are not really a fundamental driver for property developers, but earnings surprise could nevertheless attract domestic investors. As such, the shares could outperform our expectations heading into the end of 2020.
- 3) **Risks of the two new mega projects.** VHM has already allocated large amounts of capital to the two new mega mega projects (i.e., Long Beach Can Gio (2,870ha in HCMC) and Green Ha Long (7,000ha in Quang Ninh)). We believe that Long Beach Can Gio may incur much higher costs than VHM's other projects due to the required engineering improvements due to the soft ground. Separately, the size of the Green Ha Long project is quite large and possibly greater than what Quang Ninh's population can support. On the other hand, the former risk can be mitigated by unit pricing, while the latter may be overcome by urban vacation homebuyers and foreigners.

INCOME STATEMENT (VND'bn)	2019A	2020E	2021E
Net sales	51,627	81,253	105,394
Cost of sales	(24,171)	(43,265)	(54,849)
Gross Profit	27,456	37,988	50,546
Selling expenses	(2,081)	(3,582)	(5,111)
General and admin expenses	(2,156)	(3,008)	(4,293)
Operating profit/(loss)	23,219	31,397	41,142
Financial income	9,046	2,483	2,998
Financial expenses	(2,549)	(3,233)	(3,553)
Gain/(loss) from joint ventures	-	-	-
Net other income/(expenses)	30	479	622
Profit/(loss) before tax	29,746	31,126	41,209
Income tax expenses	(5,427)	(6,225)	(8,242)
Net profit/(loss) after tax	24,319	24,901	32,967
Minority interests	2,572	4,047	5,250
Attributable to parent company	21,747	20,853	27,717
EPS basis reported, VND	6,493	6,226	8,275
EPS fully diluted, VND	6,493	6,226	8,275

FINANCIAL RATIO	2019A	2020E	2021E
Growth (%)			
Revenue, growth	34%	57%	30%
Operating Income, growth	205%	35%	31%
PBT, growth	51%	5%	32%
EPS, growth	43%	-4%	33%
Total Assets, growth	65%	11%	23%
Equity, growth	34%	35%	34%

Profitability (%)	2019A	2020E	2021E
Gross Profit Margin	53%	47%	48%
Operating Profit Margin	45%	39%	39%
Net Margin	38%	47%	31%
ROE	38%	28%	28%
ROA	12%	11%	12%

Efficiency	2019A	2020E	2021E
Receivable Turnover	1.14	2.15	3.45
Inventory Turnover	0.50	0.62	0.59
Payable Turnover	0.77	1.07	1.40

Liquidity	2019A	2020E	2021E
Current ratio	1.15	1.20	1.30
Quick Ratio	0.65	0.49	0.44

Financial Structure (%)	2019A	2020E	2021E
Debt/Equity	0.41	0.43	0.40
Total liabilities/Total Assets	0.67	0.60	0.57

Source: Company data, Yuanta Vietnam

BALANCE SHEET (VND'bn)	2019A	2020E	2021E
Total assets	197,241	219,270	269,206
Current Assets	139,555	135,190	161,149
Cash & cash equivalents	13,332	17,500	13,149
ST Investment	361	379	398
Accounts receivable	47,468	28,062	33,113
Inventories	60,297	80,195	106,659
Other current assets	18,097	9,055	7,830
Long-term Assets	57,686	84,080	108,057
Net fixed assets	690	1,114	1,001
LT Investment	773	689	827
LT incomplete assets	28,213	56,425	73,353
LT assets other	28,010	25,852	32,877
Total Resources	197,241	219,270	269,206
Total Liabilities	132,526	131,820	152,138
Accounts payable	6,078	3,788	4,802
ST debts	18,162	18,707	19,268
Other ST liabilities	97,316	89,755	100,245
Long term debt	8,343	18,975	27,105
Other LT debt	2,626	595	718

Shareholder's equity	2019A	2020E	2021E
Paid in capital	33,495	33,495	33,495
Share premium	295	295	295
Retained earnings	26,040	44,727	69,095
Other equity	4,885	8,933	14,183

CASH FLOW (VND'bn)	2019A	2020E	2021E
Begin cash of the year	3,515	13,332	17,500
Net profit before tax	29,746	31,126	41,209
Adjustments	(6,584)	3,245	3,651
Change in Working Capital	23,162	(12,339)	(32,476)
Cash from Operations	51,928	22,032	12,384
Capital Expenditures	(3,641)	2,454	(4,992)
Investments	(23,473)	(28,146)	(17,084)
Cash from investments	(27,114)	(25,692)	(22,077)
Divident Paid	(3,687)	(3,350)	(3,350)
Proceeds from issue of shares	-	-	-
Proceeds from borrowings	6,847	11,177	8,692
Repayments of borrowing	(12,402)	-	-
Others	-5,550	-	-
Cash from financing	(14,792)	7,827	5,342
Net change in Cash	10,023	4,167	(4,351)
Ending cash balance	13,538	17,500	13,149

Appendix A: Important Disclosures

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BUY: We have a positive 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 add to their position.

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