Initiation of Coverage

Vietnam: Property 25 September 2023

VRE VN

BUY

TP upside +43%

Close 25 September 2023

Price	VND 26,600
12M Target	VND 38,000

Investment thesis

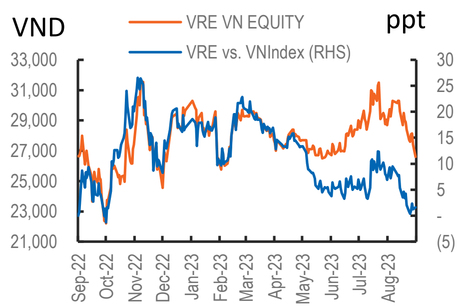
- **Robust business model** with unrivaled scale and a superior management team.
- **Unparalleled competitive advantages** (1) a prime mall portfolio (2) numerous pipeline projects.
- **Strong leasing revenue momentum** to be driven by 1) the top-down growth of retail spending power in Vietnam and 2) multi-year expansion of VRE's gross floor area.

Our view

- **VRE is a multi-year growth story.** We forecast PAT to grow by +11.7% CAGR in 2022-2030.
- **Our bullish thesis** is based on VRE's exceptional execution capabilities and competitive advantages in Vietnam's growing retail market.
- **M&A does not drive our investment view** but could also be an upside share price catalyst.
- **We initiate with BUY.** Our target price of VND 38k implies +43% 12-month TSR.

Company profile: VRE is Vietnam's leading retail property developer & operator, with 83 shopping malls totalling c. 1.75mn sqm of GFA across 44 cities and provinces. As a majority-owned subsidiary of Vingroup (VIC VN, Not Rated), VRE is able to harness the group's ecosystem to expand its commercial real estate business. Similar to Vinhomes' (VHM VN, BUY) structural position in residential property, this model is unique among VRE's retail property competitors.

Share price performance relative to VN



Market cap	USD 2,676 mn
6M avg. daily turnover	USD 4 mn
Outstanding shares	2.3 bn
Free float	15 %
FINI ownership	24 %
Major shareholders	77 %
FOL Room	25 %
2Q23 Net cash	VND 5.5tn
2023F P/B (x) - VAS	1.72x
2023F P/B (x) - IRFS	0.82x

Financial outlook (VND bn)

Year to Dec	2022A	2023F	2042F
Sales	7,361	10,246	9,626
Op. profit	3,273	5,333	4,996
PATMI	2,776	4,231	4,211
EPS (VND)	1,222	1,817	1,808
EPS chg (%)	111%	49%	0%
P/B (X)	1.86	1.72	1.54
ROE (%)	8.7%	12.2%	11.0%
Div. yield (%)	0.0%	0.0%	0.0%

Sources: VRE, Bloomberg, Yuanta Vietnam

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Vincom Retail (VRE VN)

The King's Daughter is a Princess

A proxy on the multiyear expansion of Vietnam's commercial property market. VRE has emerged as the nation's leading retail property developer with an unrivaled position. Its scale far surpasses its closest rival, with 5.5 times more malls and 2.4 times larger gross floor area than the second-ranked players.

VRE's occupancy rate is steadily approaching pre-pandemic levels. 1H23 PAT was both a record high and equal to 90% of full-year 2019 profits. We forecast PAT to soar by +52% YoY growth in 2023 and to increase by 11.7% CAGR in 2022-2030.

Unparalleled competitive advantages to fuel multi-year growth. A portfolio of high-value malls in prime locations gives VRE substantial bargaining power in leasing negotiations. Its robust tenant mix, enhanced operational efficiency, and modernized mall design concepts demonstrate the company's strong execution capabilities in the ever-evolving consumer market. Access to VIC's (Not Rated) vast land bank should further ensure its expansion over the next decade, especially in Tier 2 and suburban locations where competition is less intense.

Yuanta vs consensus: Recognizing the synergy between Vingroup's long-term strategy in the property sector and VRE's business model enables us to discern a well-defined growth path for VRE, which we believe is the pivotal factor contributing to its upside potential. Additionally, our detailed valuation approach should reinforce investor confidence in VRE's outlook and (in our view) highlight that the downside risk from current valuations is minimal.

We initiate on VRE with BUY. Our sum-of-parts (SOTP) valuation method establishes a 12-month target price of VND 38,000 per share, implying +43% upside. Additionally, VRE is currently trading at 0.82x our estimate of its mark-to-market book value, which serves to highlight that the stock is undervalued.

Will she be a Princess Bride? M&A does not inform our investment thesis. However, we must acknowledge that the potential for an acquisition – and chatter thereof – could be an additional upside catalyst for the stock.

Investment Thesis

- **Capturing the expansion of the retail market.** VRE has rapidly grown since 2014, following a USD 200mn investment from Warburg Pincus, making it the country's largest retail property developer.
- **Substantial growth ahead.** VRE exhibits exceptional execution capabilities and possesses unparalleled competitive advantages poised to drive its growth in the next decade. Our positive view is supported by several points, including:
  1. VRE's leasing services operations are approaching pre-pandemic levels.
  2. The company's portfolio of high-value malls creates significant bargaining power when negotiating with tenants.
  3. VRE is a 'must-have' partner for retailers thanks to (1) its ability to build a strong tenant mix; (2) its consistent innovation to enhance mall operational efficiency; and (3) dynamic design concepts for new malls to stay at the forefront of the ever-changing consumer market.
  4. The company can access Vingroup's (VIC VN, Not Rated) land bank, which we believe will play a pivotal role in its market share expansion over the next decade.
  5. VRE continues to execute projects focused on the sale of shophouses in economically promising provincial markets.
- **Top-down conditions are highly attractive**
  1. Vietnam is poised to be one of the fastest-growing economies in Southeast Asia in the years ahead.
  2. VRE has a plenty of room to expand revenues from rental rates and NLA given (1) the rapid growth of the middle class in the next decade, and (2) the rise of small-city and suburban consumers. VRE is very well positioned to dominate the second-tier cities and suburban areas, in our view.
- **A promising earnings outlook**
  1. We expect a strong rebound in 2023 earnings, with PATMI growth of 52% YoY in 2023E and11.7% CAGR in 2022-2030E.
  2. VRE's financial strength should enable it to expand rapidly to capture the attractive retail property market opportunities over the coming years.

Valuation: BUY recommendation with 12-month target price for VRE at VND 38,000 per share, implying a 43% upside.

Risks To Our View: Valuation risk + Transactions with related parties + Operational risks.

Yuanta vs Consensus: Our 2023-2025 earnings forecasts and target price for VRE are not substantially different from those of our competitors. However, we believe that our thesis is unique in its emphasis on several points:

(1) VRE's structural position puts it in an optimal position to leverage the consumer market trends of the next decade -- especially the rise of Tier 2 city and suburban consumers. VRE's initial success in these market segments represents an early mover advantage over later entrants, who we think will struggle to tap the same markets.

(2) In valuing the core leasing business, we have adopted a 10-year DCF using WACC (of 11.9%) with simple cap rates applied for the terminal value. This both requires us to understand the next decade's projected cashflows and reduces the sensitivity of the valuation to the cap rate assumption that is inherent in simply using a cap rate on next year's earnings (which is what we think most of our competitors are doing).

(3) Our attempt to mark VRE's book value from the current cost-based approach (under VAS) to a market-based valuation (as per IFRS) highlights that the stock appears to be undervalued. In the (frankly, unlikely) event that IFRS accounting is really adopted for Vietnam large caps in 2025 as per current plans, the accounting-based mark-up of its assets would make this point more clearly. See pages 19-20 for details on how we estimate the company's market-based book value.

(4) In addition, we think our valuation approach is more robust than those of our esteemed competitors on the Street. For example, we have modelled out the shophouse development business to evaluate this segment on an NAV basis, rather than simply applying an arbitrary PE multiple as a shortcut approach used by many sell-side analysts.

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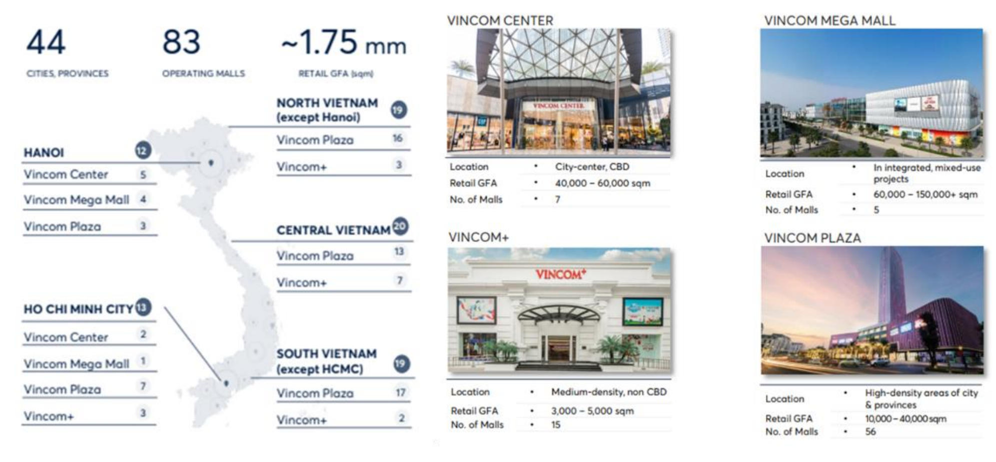
Capturing the expansion of the retail market

VRE has rapidly grown since 2014 to become the country's largest retail property developer. The company currently owns a large shopping mall network with 83 operating shopping malls, equivalent to total retail GFA of 1.75 mn sqm in 44 out of Vietnam's 63 provinces / cities.

Fig 1: VRE's shopping mall portfolio meets the demand of all consumer classes



Source: Company data, Yuanta Vietnam

Leasing revenue has posted strong momentum on the back of rapid expansion of consumer market. Prior to the pandemic, leasing revenue posted a remarkable 29% Compound Annual Growth Rate (CAGR) in 2014-2019.

Fig 2: Gross Floor area (million sqm)

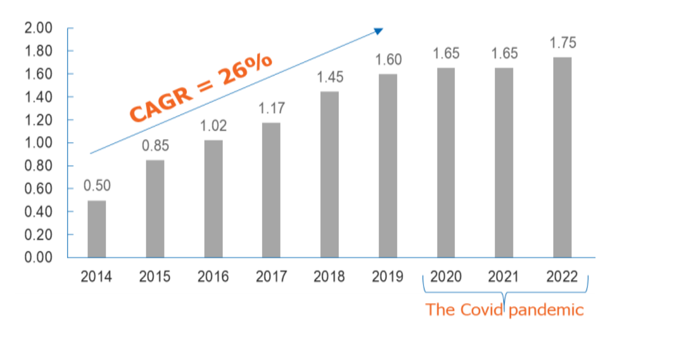
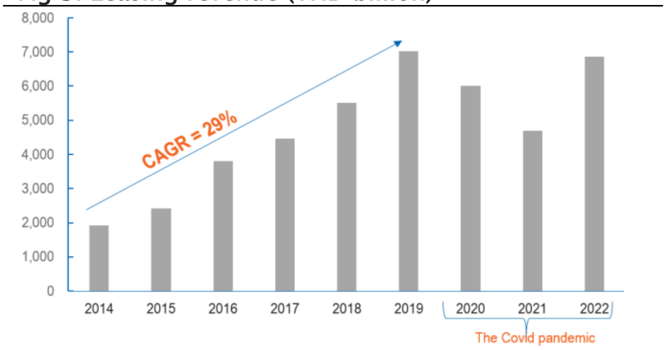


Fig 3: Leasing revenue (VND billion)



Source: Company data, Yuanta Vietnam

VRE has established dominance in the retail market, underpinned by its impressive scale and market presence. The number of VRE's mall surpasses its closest competitor (Lotte Mart, Unlisted) by 5.5-fold and its gross floor area (GFA) outpaces that of the second-largest player (Aeon Mall, Unlisted) by 2.4 times.

Fig 4: VRE's malls vs its peers

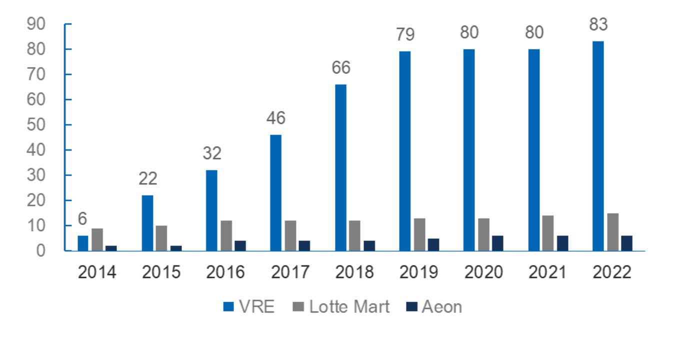


Fig 5: VRE's GFA vs its peers

Source: Company data, Yuanta Vietnam

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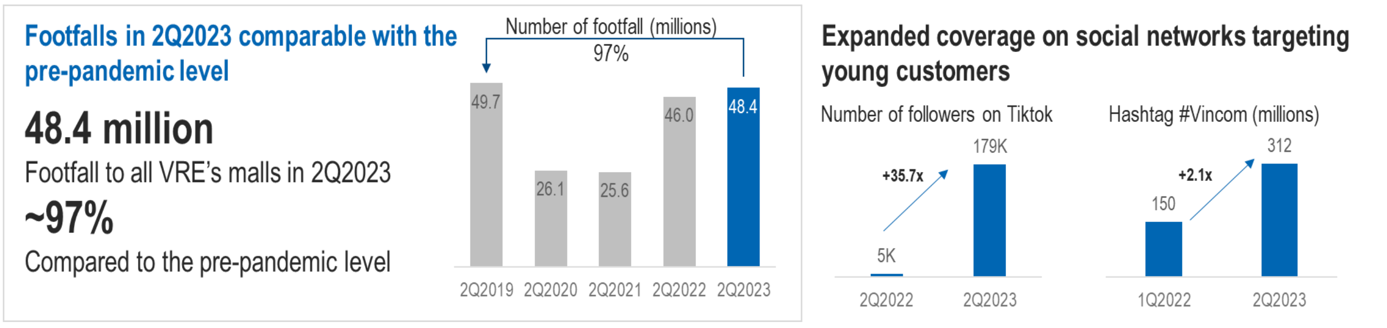
Substantial Growth Ahead

We believe that VRE exhibits exceptional execution capabilities and unparalleled competitive advantages that should drive strong growth over the next decade. These advantages encompass five key elements:

1. VRE's leasing services are approaching pre-pandemic levels;
2. The company has built up a portfolio of high-value malls;
3. VRE is a 'must-have' partner for all retailers;
4. It is able to access a substantial potential land bank through its parent company, VIC; and
5. VRE continues to execute projects focused on shophouses in economically promising areas.

First, VRE's leasing services are approaching pre-pandemic levels. The consumer retail business exhibits numerous signs of recovery, such as foot traffic to all of VRE's malls in 2Q23 reaching 48.4 million, equivalent to 97% of 2Q19 (i.e., the pre-pandemic norm). Additionally, VRE is attracting solid social network interest, an indication of young customer preferences. At the end of 2Q23, total occupancy rate reached 85.5% (+3ppt YoY,+0.1ppt QoQ). Therefore, we expect VRE's total occupancy rates to return to pre-COVID levels (i.e., 90% in 2019), which should drive its leasing services revenues to return to normalized, pre-pandemic levels by 2024.

Fig 6: Customers are returning to in-store shopping.

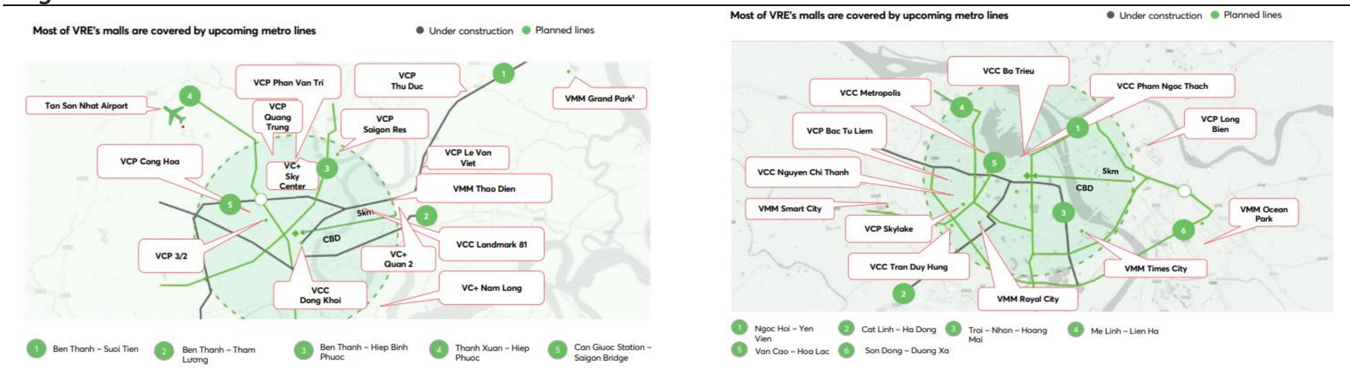


Source: CBRE, Company data, Yuanta Vietnam

VRE's prime-location malls create significant bargaining power when negotiating with tenants.

Second, the mall portfolio is an advantage: Location, location, location! VRE's malls are strategically positioned in the commercial centres of its numerous cities and provinces. This advantageous positioning ensures substantial foot flow to its properties.

Fig 7: Infrastructure Push Unlocks Growth Potential in both HCMC and Hanoi



Source: Company data, Yuanta Vietnam

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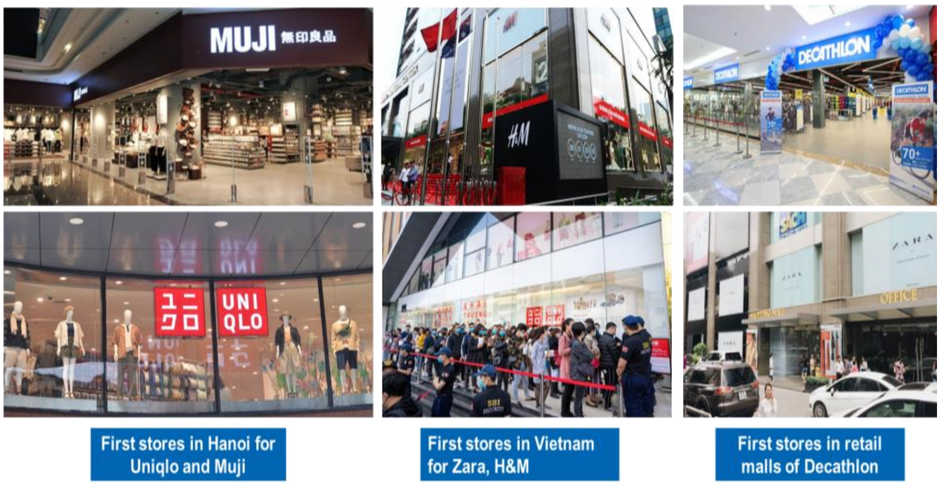
VRE presents a compelling opportunity for retailers seeking to capitalize on the sustained and robust demand in Vietnam.

The strategic choice of locations across the country underscores the company's understanding of consumer patterns and the ability to tap into all segments.

Additionally, VRE presents a compelling opportunity for retailers seeking to capitalize on the sustained and robust consumer demand in Vietnam. This is because it offers a network of malls across the country to accompany brands as they expand from the major urban centres into emerging cities and provinces.

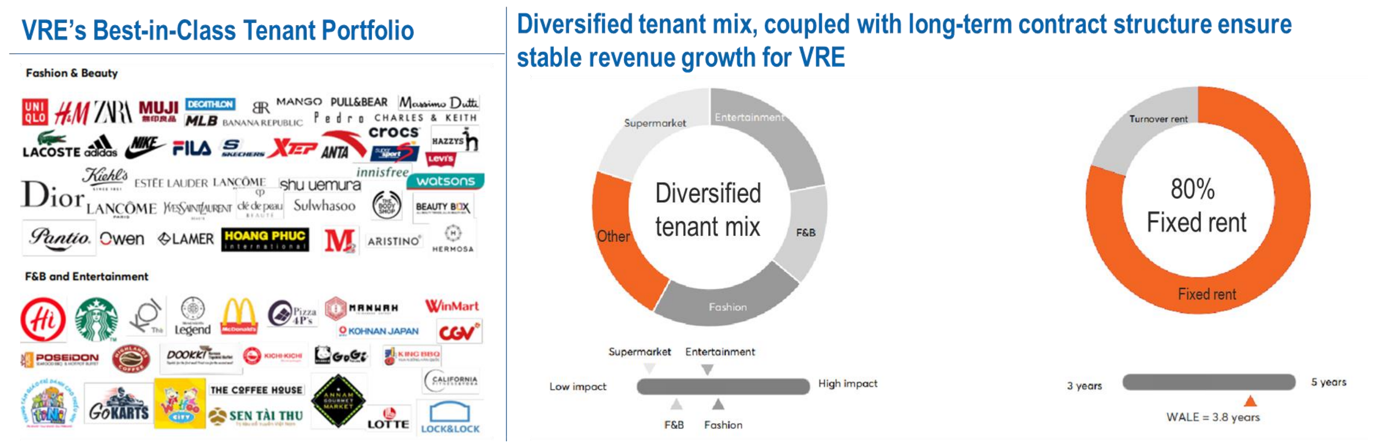
Fig 8: VRE is a preferred choice for international retail chains



Source: Company data, Yuanta Vietnam

Third, VRE has become a "must-have" partner for retail chains due to its ability to build a strong tenant mix. The company creates vibrant neighbourhood hubs to draw consumers in and to cater to a diverse range of customer preferences. This strategic approach not only drives increased foot traffic but also fosters invaluable cross-promotional opportunities, benefiting both tenants and customers.

Fig 9: A strong tenant mix continues to expand



Source: CBRE, Company data, Yuanta Vietnam

Additionally, a diversified tenant mix from different categories helps VRE to weather periods of tightened spending by limiting its dependence on the categories that are most impacted by cyclical economic weakness. Its revenue structure is mostly based on fixed leases, which further limits the impact of short-term consumption fluctuations.

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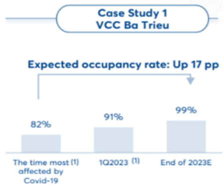
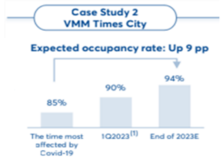
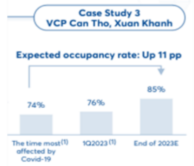
Moreover, VRE's reputable and financially stable tenants contribute to a consistent rental income stream, reduce the risk of vacancies, and improve the overall performance of its investments in shopping malls.

VRE possesses a strong management team with rich experience…

Innovation is essential to maintain and improve the operating efficiency of shopping malls. VRE possesses a strong management team with rich experience in commercial retail in Vietnam. The company consistently employs innovative strategies for its success, as illustrated in the figure below

Fig 10: Innovative strategies

<table>
<tr><th>Theme</th><th>Target Positioning</th><th>Expected Efficiency</th></tr>
<tr><td>Upgrading positioning with new brands introduced to Vietnam for the first time</td><td>• High-end shopping center with a large service radius in 5 inner districts of Hanoi.
• Affluent customers with high spending, especially young people and young families with the habit of updating trends from the region and the world.</td><td>
</td></tr>
<tr><td>Capture the latest trends in consumption retail</td><td>• The mall meets the shopping - entertainment - dining needs of all family, young people, and office customers using daily spending.</td><td>
</td></tr>
<tr><td>Accompany brands to expand in emerging cities and provinces</td><td>• The shopping center meets the shopping - entertainment - dining needs of all family, young people, and office customers using daily spending.</td><td>
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</table>

Source: Company data, Yuanta Vietnam

…adept at navigating the dynamic landscape of the commercial retail market.

Additionally, VRE changes the design concept for new malls to stay at the forefront of the dynamic consumer market. Examples include the Vincom Mega Mall Grand Park (e.g., bringing natural elements into the shopping mall to create a "healing" and "comforting" space) and Vincom Mega Mall -- The Empire (e.g., symphony-of-light concept with state-of-the-art facilities).

The goal of this strategy is to offer consumers immersive, interactive experiences that transcend traditional shopping. This experiential retail strategy is designed to boost foot traffic and enhance customer loyalty, which we believe is especially effective in areas where entertainment and social activities are limited. Moreover, VRE's strategy is to cater to the diverse shopping, dining, and entertainment needs of all customer segments.

Energy efficiency boosts gross profit margin and reduces the company's carbon footprint.

Besides, VRE deploys new technologies to maintain leadership in operational efficiency such as (1) smart customer experiences (e.g., the app integrates the Digital Map and Smart Parking feature), (2) leaner and more efficient operation and management through digitization, and (3) saving energy costs and helping to reduce CO_2 emissions.

Specifically on point 3 above, VRE has installed solar power at 50 shopping malls, with another 8 shopping malls expected to install solar energy in 2023. VRE estimates its solar energy push resulted in the reduction of 17K tons of CO_2 emissions in 2018-2022. Additionally, replacing sensor lights also contributes to the reduction of operation cost and improvement of gross profit margin.

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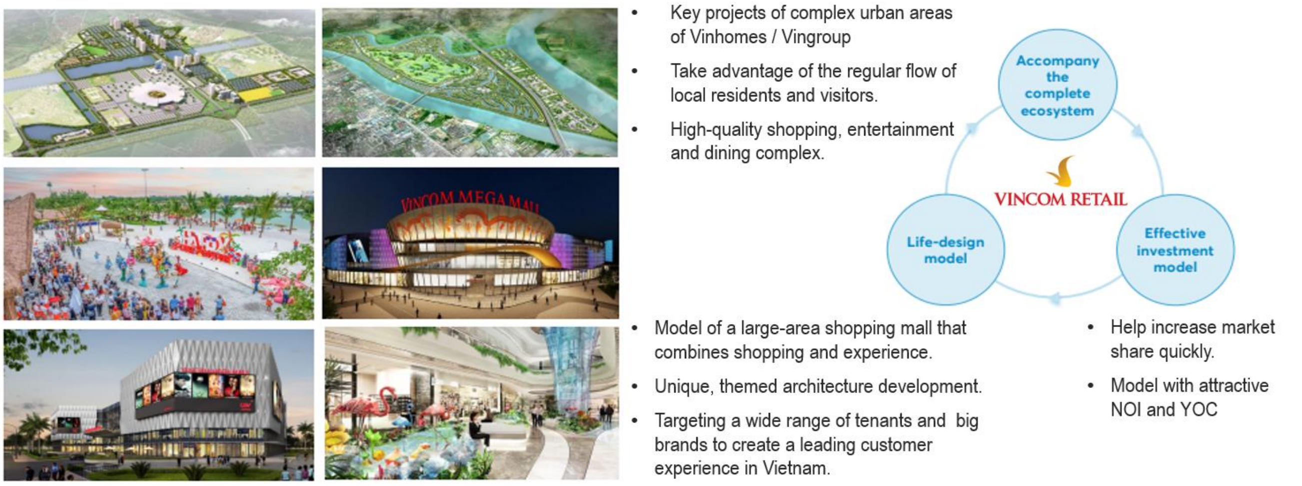
Overall, innovation and efficiency are crucial elements for a retail property developer, and VRE has excelled in both areas, in our view.

Fourth, access to substantial potential land bank through its parent, VIC. VRE accompanies Vinhomes/Vingroup's mega projects in residential real estate by developing Vincom Mega Mall-format facilities to leverage residents at these mega projects, which are designed for population capacity of c. 200,000 people.

Fig 11: Leveraging off the mega project developments of Vinhomes – Vietnam's biggest real estate developer



Source: Company data, Yuanta Vietnam

VND12.3tn (USD 512mn) capex for new 800K sqm shopping mall GFA.

Vinhomes has 11 mega projects in its pipeline. We believe this is a major reason for VRE's planned capex of VND 12.3trillion for new opening 800K sqm retail GFA.

Fifth, VRE continues to implement projects to sell shophouses in economically promising yet underpenetrated areas. VRE has started to deliver units at two shophouse projects in 2Q23: 1) Vincom Shophouse Quang Tri, with 515 units and total unbilled bookings of VND 2,377bn as of end-2022; and 2) Vincom Shophouse Dien Bien, with 41 units and unbilled bookings of VND 273billion at end-2022.

Fig 12: Shophouse development

Vincom Shophouses Quang Tri

Location	Strategic location of Dong Ha city on the golden traffic axis leading to the Lao Bao border gate - the beginning of the East-West Economic Corridor between Vietnam, Thailand, Laos, and Myanmar
Project Area[1]	53,000 sqm
No. of Shophouses	515 units
Unbilled booking as of Dec 31, 2022 (VND Bn)	2,377

Vincom Shophouses Dien Bien Phu

Location	Excellent position near to May 7th square - the "heart" of Dien Bien Phu's busiest downtown district
Project Area	7,600 sqm
No. of Shophouses	41 units
Unbilled booking as of Dec 31, 2022 (VND Bn)	273

Source: Company data, Yuanta Vietnam

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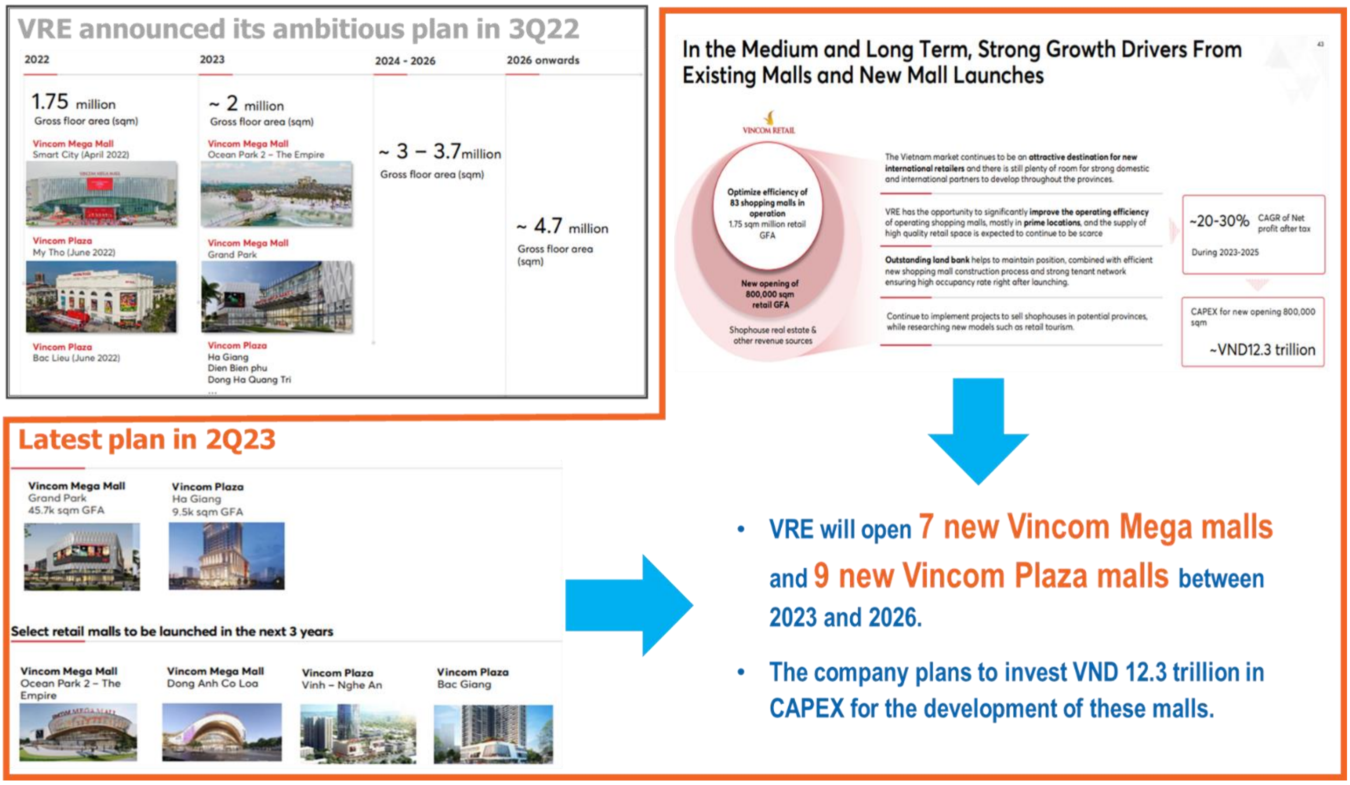
Tier 2 cities represent a sizeable market for the small-scale development of shophouses, accompanied by a Vincom Plaza, in our view.

VRE does not disclose information related to landbank for new shophouse projects. However, we believe that VRE will focus on second-tier cities and underpenetrated locations for shophouse projects because the conditions (e.g., population size and household income) in such areas are suitable for small-scale (e.g., under 10-hectare) projects.

Meanwhile, we think that mid- and large-scale projects will continue to take priority for Vinhomes (VHM, BUY) to develop mixed-use integrated residential projects.

We believe that the demand for shophouses in second-tier cities remains high. Vietnam's urbanization rate, which currently stands at 41%, is still below regional and global averages (i.e., 56%), indicating significant growth potential. Therefore, we think that ample room exists in provincial cities for small-scale shophouse projects that are accompanied by Vincom Plaza malls.

Fig 13: Total GFA: Unveiling the Growth Trends



Source: Company data, Yuanta Vietnam

VRE's plan announced in 3Q22 outlines their ambition to expand the company's gross floor area (GFA) by 1.25-1.95 million square meters, thereby increasing total GFA from 1.75 million square meters to 3.0-3.7 million square meters by 2026.

However, in May 2023, VRE unveiled a detailed plan indicating that approximately 0.8 million square meters of GFA would be developed over the next three years, with a capital expenditure (CAPEX) budget of VND 12.3 trillion.

This adjustment to the company's plans suggests that VRE is aligning its strategy with current market conditions, meaning that the initial target of 3.0-3.7 million sqm in GFA should be seen as a longer-term objective. Based on our assumption that VRE will primarily focus on Vincom Mega Mall and Vincom Plaza formats in the coming decade, we estimate the potential opening of around 40 new Vincom Plaza malls -- implying the development of at least 30 new shophouse projects.

In a conservative scenario, we estimated that the shophouse development business could yield revenue of c. VND 11tn.

For shophouse projects accompanying Vincom Plaza malls may face lingering risks associated with local retail markets. As a precautionary measure, VRE could consider initially developing shophouse subdivisions and selling units at prices that factor in the added value from the area's yet-to-be-constructed mall, before proceeding with mall construction when market conditions improve.

In a conservative scenario, we estimate that the shophouse development business should yield revenue of c. VND 11 trillion from 30 projects during the next 10 years.

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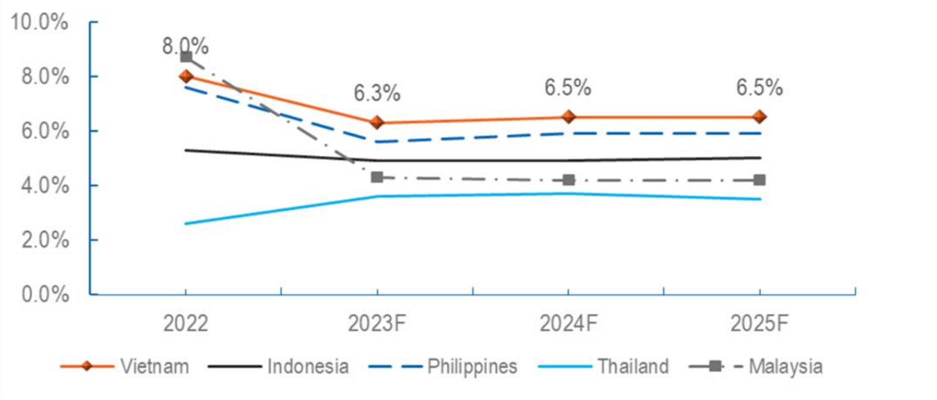
Vietnam: An attractive growth market for retail development

Vietnam: Southeast Asia's next Tiger Economy

Vietnam is a Tiger in the Making. As per McKinsey, since opening its market in 1986, Vietnam has had the fastest-growing economy among its Southeast Asian peers, including Indonesia, Malaysia, the Philippines, and Thailand. The country ranks as No. 18 among the 71 developing economies in terms of per-capita GDP growth over the past 50 years.

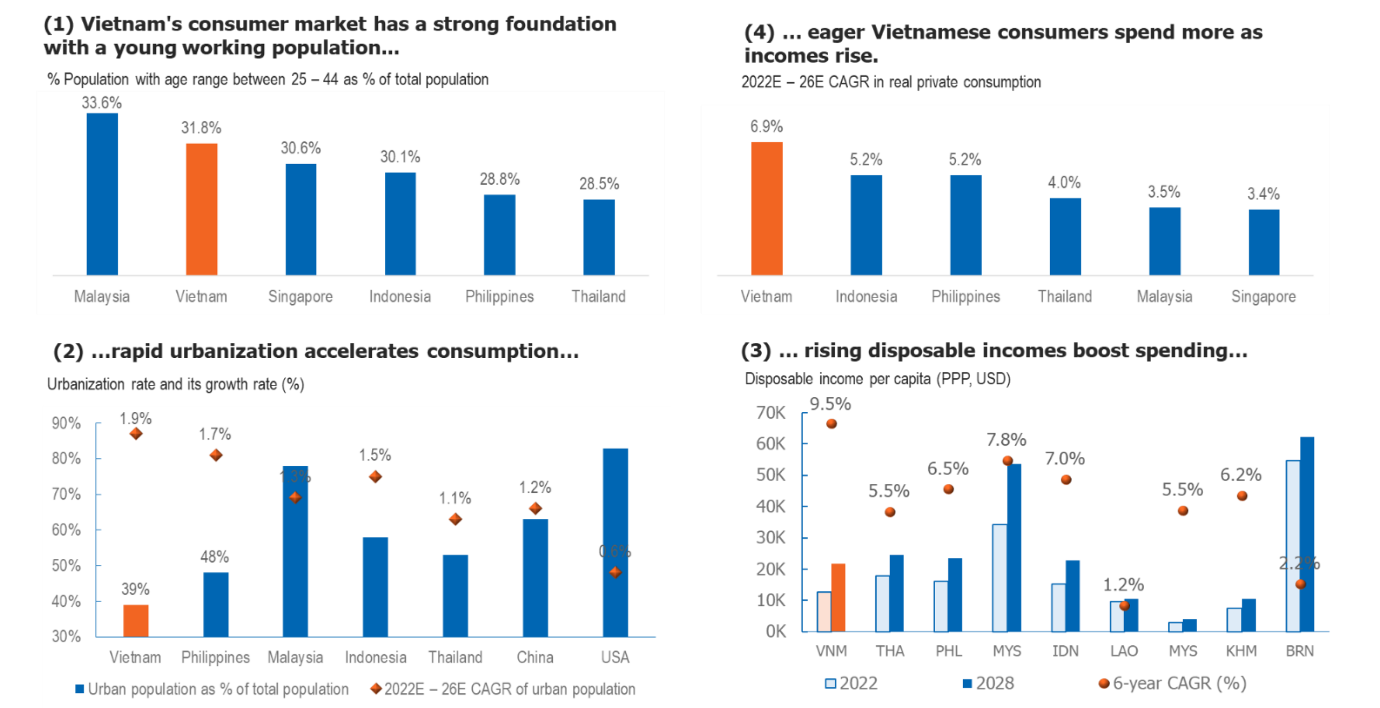
Fig 14: Vietnam continues to be a fastest-growing economy in Southest Asia.



Source: Company data, Yuanta Vietnam

Vietnam, along with its consumer market, remains an alluring destination. In the short term, leveraging its existing fiscal capacity to adopt a more supportive fiscal policy, while prioritizing enhanced implementation of the capital budget, could effectively mitigate potential downturns in growth and provide a foundation for medium-term expansion. As a result, the World Bank believe that Vietnam will sustain a growth rate of 6.5% of GDP over the upcoming two years.

Fig 15: Vietnam is an attractive growth market



Source: Fitch, IHS Markit, Statista, Yuanta Vietnam

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Asia is the world's consumption growth engine: miss Asia and you could miss half the global picture, a USD 10tn consumption growth opportunity over the next decade, according to recent McKinsey Global Institute.

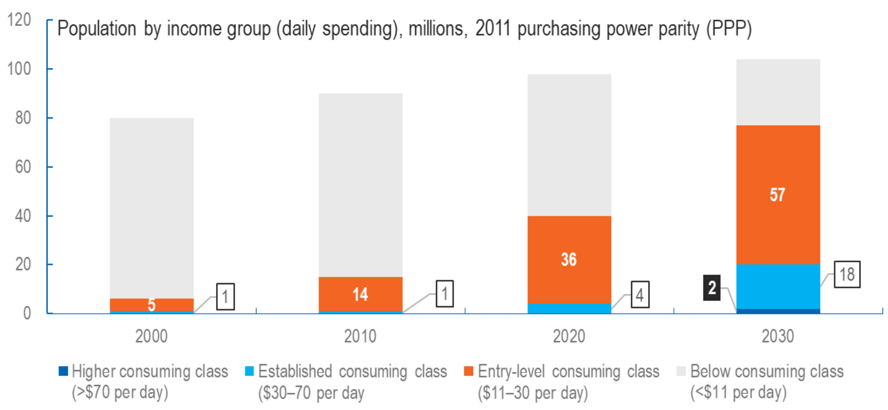
Powered by urbanization and growth of the middle class, continued foreign direct investment in the dynamic manufacturing sector, and rising productivity from an increasingly skilled workforce, Vietnam has been a consistent outperformer in Asia.

Vietnam is well positioned to be a significant driver of the next chapter of Asia's consumption story. In which, two major trends significantly drive Vietnam consumer market as well as VRE's shareholder returns.

Vietnam could add 36 million people to the consuming class in the next decade.

The first major trend supporting the long-term growth of the consumer market: Rapid growth of middle-class in the next decade. According to McKinsey, Vietnam is poised to welcome approximately 36 million people into the consuming class in the next decade. This growth in consumption power is not only driven by those entering the consuming class for the first time but also by a substantial increase in the consuming class's presence within the income pyramid.

Fig 16: Rapid growth of the middle class in the next decade



Source: McKinsey, Yuanta Vietnam

VRE has a plenty of room to grow in term of both NLA and rental rates.

Domestic and international brands are eagerly looking to tap into this growth, and we see considerable potential for retailers to explore and expand in this market in the years ahead. VRE is strategically well-positioned to capitalize on the rising consumer demand by benefiting from (1) increased rental rates, and (2) the development of modern malls to increase its total net leasing area.

Fig 17: VRE can capitalize on the growth of consumer market.

Source:CBRE, Company data, Yuanta Vietnam

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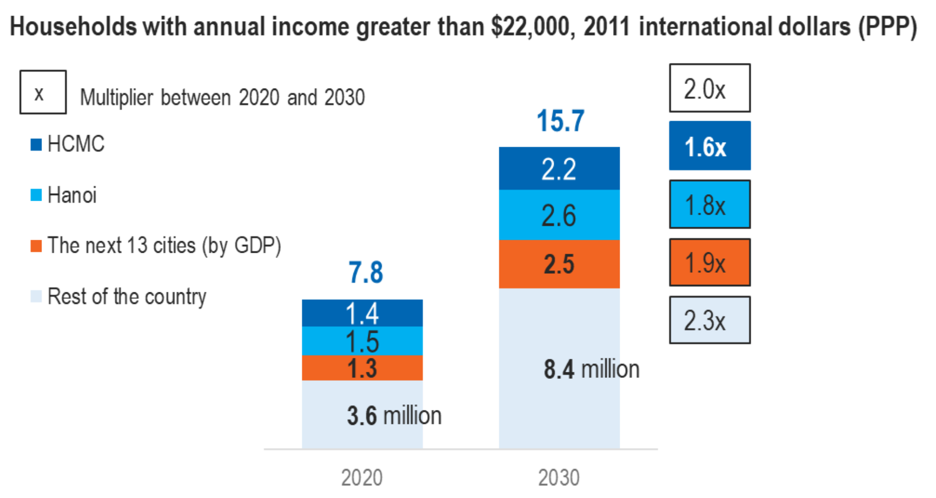
The rise of small-city and suburban / exurban consumers. McKinsey notes the existence of a decade-long shift in the distribution of consumer power, which has traditionally been concentrated in the primary economic centers: Hanoi and HCMC. In recent years, other cities have emerged as economic forces in their own right.

As such, Hanoi and HCMC represented 37% of households earning over USD 22,000 (in 2011 PPP terms) annually in 2020, a figure that is likely to decrease to 31% by 2030 (see Fig. 16). McKinsey expects the growth of middle-class households in smaller cities and rural regions (8% CAGR out to 2030) to outpace that of Hanoi and HCMC (5% CAGR in the same period).

Fig 18: Widening out the consuming class over the next decade.



Note: The next 13 cities are Hai Phong, Can Tho, Bien Hoa, Da Nang, Hue, Vung Tau, Nha Trang, Buon Ma Thuot, Vinh, Qui Nhon, Ha Long, Rach Gia, and Long Xuyen.
Source: McKinsey, Yuanta Vietnam

As discussed, VRE's fellow Vingroup subsidiary Vinhomes (VHM VN, BUY) is strategically focusing on the development of mega residential integrated projects. These projects are primarily situated in suburban areas, including ventures such as Vinhomes Grand Park, Smart City, Ocean Park, and upcoming projects such as Vinhomes Hoc Mon, Cu Chi, Tay Tang Long, and Long Beach Can Gio. Additionally, HVM is expanding in second-tier cities, with ongoing projects such as Vinhomes Ocean Park 2, Ocean Park 3, and Golden Avenue, Ha Tinh, and upcoming ventures such as Vinhomes Lang Van in Da Nang, Vu Yen in Hai Phong, and Green Ha Long in Quang Ninh province.

VHM's mega integrated residential projects in second-tier and suburban cities create a powerful moat, granting exclusive entry rights to VRE…

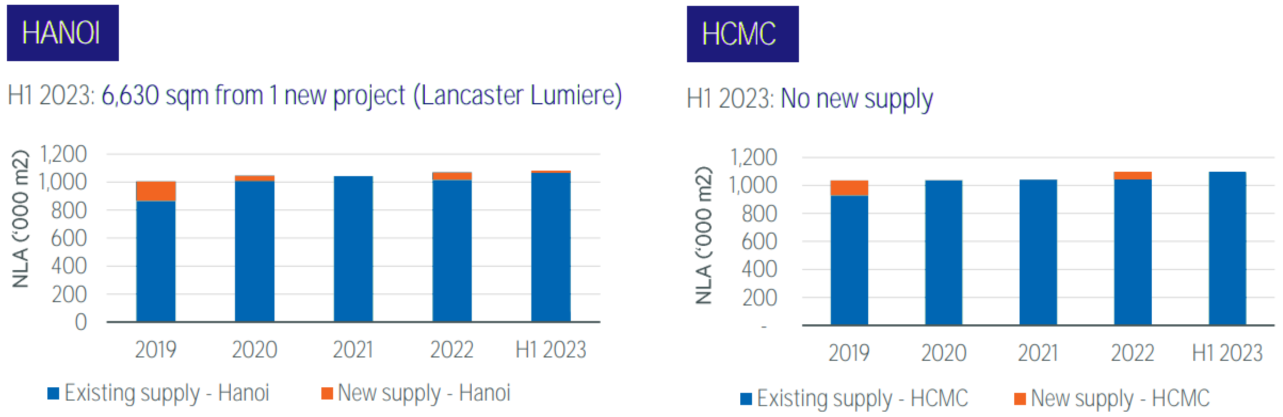
These mega developments primarily attract mid and high-income buyers with significant spending power. This provides VRE's adjacent malls with a naturally established customer base, which should support foot traffic while mitigating operational risks.

… and early success in these markets should help to lock out later entrants.

A wide business moat. We believe that a strong player that can effectively attract customers in Tier 2 and suburban markets, where competition is less intense, should have a first-mover advantage over subsequent entrants into the same geographic markets. Aligning with this belief, VRE is strategically deploying Vincom Mega Mall and Vincom Plaza formats in suburban and second-tier cities to rapidly establish a strong presence before its competitors enter these markets.

Moreover, the high demand / limited supply of quality retail space in major urban centers such as Hanoi and HCMC is also an competitive advantage for the leading incumbent players, including VRE.

Fig 19: Limited near-term new GFA in HCMC and Hanoi



Source: Company data, Yuanta Vietnam

Limited new supply helps sustain occupancy in Hanoi and HCMC.

VRE can leverage its operational experience and strong brand reputation to attract premium tenants to its existing high-performing malls in prime locations. By focusing on renovations and tenant mix optimization, VRE has proven its ability to reinforce market dominance as consumer spending power grows across Hanoi and HCMC. Thus, we believe VRE will maintain solid performance and sustain growth in these core markets, as well as in peripheral geographic areas.

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A Promising Earnings Outlook

VRE exhibits a promising earnings outlook, underpinned by three key factors:

- **Market Recovery**: The consumer market has shown numerous signs of recovery in the wake of the pandemic. At the end of 2Q23, total occupancy rate reached 85.5%(+3ppt YoY,+0.1ppt QoQ). We expect VRE's occupancy rates to return to pre-COVID levels of 2019 (i.e., 90%), starting in 2024. This expectation is hardly a stretch given that VRE's 2Q23 occupancy rate had already reached 85.5% (+3ppt YoY).

Fig 20: Occupancy rates were impacted by the pandemic

Mall types	2018	2019	2020				2021				2022				2023	
			1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Vincom Center	91.7%	91.3%	92.1%	92.5%	92.9%	94.0%	95.0%	94.8%	94.0%	93.7%	93.0%	93.0%	93.4%	95.2%	95.3%	95.3%
Vincom Mega Mall	88.5%	91.7%	87.6%	87.2%	86.0%	87.1%	87.3%	86.8%	87.1%	85.3%	86.3%	86.3%	88.4%	88.6%	89.5%	90.3%
Vincom Plaza	88.3%	88.7%	82.2%	82.5%	81.2%	79.5%	80.4%	80.3%	79.5%	79.0%	78.5%	77.8%	79.5%	79.9%	81.1%	88.8%
Vincom +	78.5%	84.9%	76.5%	76.0%	74.6%	74.8%	74.4%	74.6%	74.8%	74.2%	73.5%	73.1%	72.4%	74.9%	73.2%	74.0%
Total	88.4%	89.8%	84.9%	85.0%	84.0%	83.7%	84.4%	84.1%	83.7%	82.9%	82.7%	82.5%	84.0%	84.6%	85.4%	85.5%

Source: Company data, Yuanta Vietnam

- **Increased Rental Rates:** Our assumptions for increased rental rates going forward are supported by (1) Vietnam's vast retail market, which offers significant room for growth and expansion; and (2) the limited supply of premium retail space, especially in the major cities (e.g., Hanoi and HCMC). We expect VRE's average rental rate to increase 6.5% annually over the next ten years.
- **Expanding business footprint**: VRE's unparalleled competitive advantages support our expectation for it to expand its operations in suburban areas and second-tier cities where competition is less fierce than in the major urban zones. Furthermore, revenue streams from shophouse development should augment the company's long-term earnings potential.

We believe we have been conservative in our GFA growth assumptions, and the actual results may very well exceed our projections over the long term, depending on market conditions.

Fig 21: Our projections for VRE's GFA growth in 2023-2026E

2023-2026 projection

4 new VMM + 7 new VCP

Code	No. of malls	2019A <=	2020	2021	2022	2023	2024	2025	2026	2027	2028
VCC	Vincom Center	7									
VMM	Vincom Mega Mall	4	1		1		1	1	2	1	
VCP	Vincom Plaza	54			2	1	1	4	1	2	
VC+	Vincom +	15									
	Total	80	1		3	1	2	5	3	3	
	Accumulated	80	81	81	84	85	87	92	95	98	98

YSVN's projection: Adding 264K sqm of GFA

VRE's target: Adding 800K sqm of GFA in 2023-2026.

Code	GFA (m2)	2019A <=	2020	2021	2022	2023	2024	2025	2026	2027	2028
VCC	Vincom Center										
	Accumulated	298,876	298,876	298,876	298,876	298,876	298,876	298,876	298,876	298,876	298,876
VMM	Vincom Mega Mall		56,000		68,000		45,700	45,700	91,400	45,700	
	Accumulated	440,847	496,847	496,847	564,847	564,847	610,547	656,247	747,647	793,347	793,347
VCP	Vincom Plaza				25,000	9,500	9,500	50,000	12,500	25,000	
	Accumulated	830,360	830,360	830,360	855,360	864,860	874,360	924,360	936,860	961,860	961,860
VC+	Vincom +										
	Accumulated	72,379	72,379	72,379	72,379	72,379	72,379	72,379	72,379	72,379	72,379
	Total		56,000		93,000	9,500	55,200	95,700	103,900	70,700	
	Accumulated	1,642,462	1,698,462	1,698,462	1,791,462	1,800,962	1,856,162	1,951,862	2,055,762	2,126,462	2,126,462

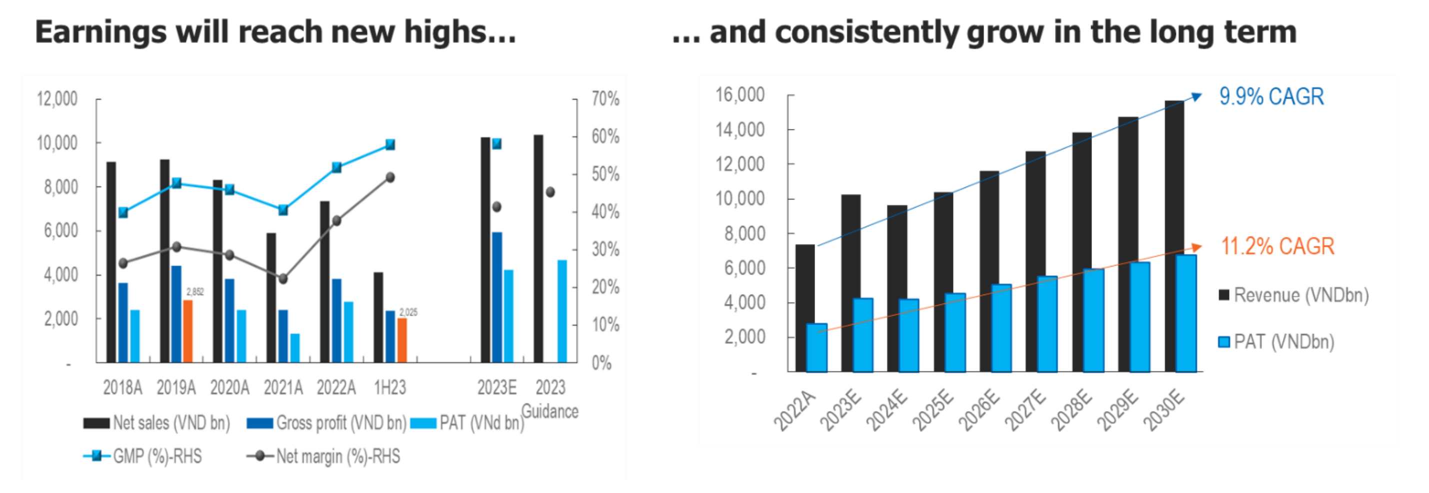
YSVN's projection: Adding 335K sqm of GFA

Source: Company data, Yuanta Vietnam

1H23 PAT was VND 2,024bn, equaling to 90% of full-year 2022 profits. We expect VRE's 2023 profits after tax to reach 4.2 billion VND, +52% YoY. The significant increase in net income is attributed to (1) the effective operations resulting in a 8-percentage-point increase in net margin compared to 2022 and (3) the delivery of two shopping house projects with total revenue of VND 1.8tn, accounting for 18% of total revenue.

Overall, we forecast VRE's earnings to experience a robust recovery in 2023 and we anticipate a resumption of gradual business expansion in the coming years.

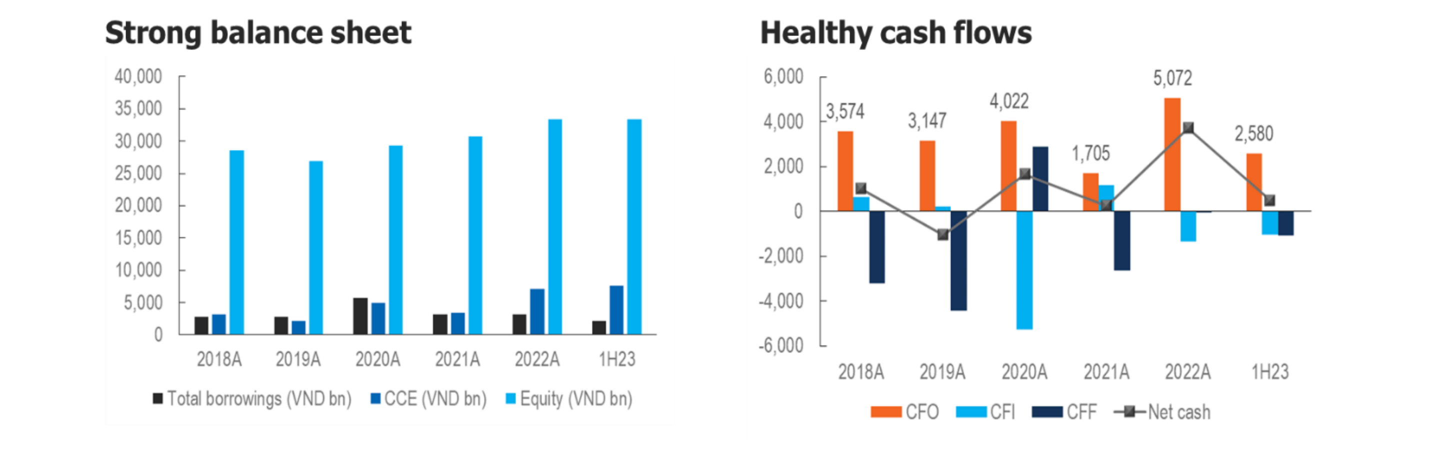
Fig 22: A promising earnings outlook



Note: Revenue and profit projections only include two shopping house projects (i.e., Quang Tri and Dien Bien Phu);
Source: Company data, Yuanta Vietnam

VRE's financial strengths enable rapid expansion when market conditions are favourable – and provide a margin of safety during economic downcycled. Thanks to its exceptional recent operating performance and the inherent characteristics of its business model, VRE maintains a robust financial position with minimal debt and strongly positive cashflow from operations.

Fig 23: VRE has a strong financial outlook



Note: CCE: Cash and cash equivalents;
Source: Company data, Yuanta Vietnam

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Valuation

We've conducted a sum-of-the-parts (SOTP) valuation comprising VRE's (1) leasing services and (2) property sales. This exercise generates a 12-month target price of VND 38,000 per share. This target price represents a 43% increase from the closing price on 25 September 2023. **Our initial recommendation for VRE is BUY**.

Valuing the leasing business. We adopt a discounted free cash flow to the firm (FCFF) approach for 2023-2033 to estimate a fair value for the leasing business.

Our assumption is conservative so it is high possible that VRE's valuation could surpass our target price.

We believe that our cash flow model is conservative in that we factor in only (1) the 1.75 million sqm of VRE's existing mall GFA, and (2) 325,500 square meters for new malls. This is far lower than VRE's ambitious plans for growth, with c.800,000 sqm of new GFA development slated for 2023-2025.

Looking further ahead, VRE's long-term vision is to double its current GFA, reaching an impressive 3.7 million sqm by 2026 with potential expansion to 4.7 million sqm thereafter. Given our cautious assumptions relative to VRE's ambitions, it is highly possible that VRE's GFA could surpass our assumption, suggesting upside risk to our valuation for the leasing business.

In addition, we determine the terminal value by applying capitalization rates for each mall based on its format. Specifically, our cap rate assumptions are 6.9% for Vincom Center, 7.1% for Vincom Mega Mall, 7.6% for Vicom Plaza and 9.1% for Vincom + .We believe this approach should mitigate the risks of depending on a single cap rate to evaluate a complex business.

The result is a fair value estimate for the core leasing business of VND79 trillion, representing 91% of our total NAV for the company. Again, this is based on GFA expansion assumptions that are far lower than the company's disclosed plans to add 800K sqm in 2023-2026.

Adopting VRE's aggressive GFA expansion, the stock's fair value would be VND 43,500 per share, implying 64% upside from the current share price.

Sensitivities: Applying VRE's aggressive GFA expansion plans to our model, the valuation estimate for the leasing business rises to VND 98,810 tn (USD 4.1bn). On that basis, the stock's fair value would be VND 43,500 per share, implying +64% upside from the current share price.

Valuing the property sales business. We have modelled out the company's shophouse sales separately from the leasing operations. We assume that VRE will launch / complete 30 new shophouse projects over the next decade. To be conservative, we estimate that each of these projects comprises 60 units, and we subsequently discount the cashflows from sales at these projects using a WACC of 11.9%.

These assumptions generate a fair value of VND1.9 trillion or slightly more than 2% of our NAV for the entire company. As illustrated in the table below, the company's net cash position represents the remaining 6% of our NAV. The very clear implication: understanding the core leasing business is the critical point for investors.

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Fig 24:Valuation summary

Code	Shopping Mall	Approach	Effective ownership (%)	Effective NAV (VND bn)	Propotion of NAV (%)
VCC	Vincom Center	DCF + Cap rate	100%	22,375	26%
VMM	Vincom Mega	DCF + Cap rate	100%	26,614	31%
VCP	Vincom Plaza	DCF + Cap rate	100%	28,459	33%
VC+	Vincom +	DCF + Cap rate	100%	1,557	2%
	LEASING SERVICES		100%	**79,005**	
	PROPERTY SALES		100%	**1,926**	2%
	Cash and cash equivalent			7,615	
	Total borrowings			-2,154	
	NAV (VND billion)			**86,392**	
	Number of share (billion share)			2.27	
	Target Price (VND/Share)			**38,000**	

Source: Company data, Yuanta Vietnam

Market valuation is cheap. VRE has declined by -5.3% YTD in 2023, underperforming the broader VNIndex by 15.8ppt. As such, the stock is trading at a P/B ratio of 1.71x, which is well below its historical mean of 2.24x.

At the current stock valuation, we believe that VRE presents investors with limited downside risk and extremely attractive upside potential - especially over the long haul. VRE's exceptional execution capabilities, unmatched market position, and solid financial strength make it a highly attractive investment, in our view.

Fig 25: Historical P/B

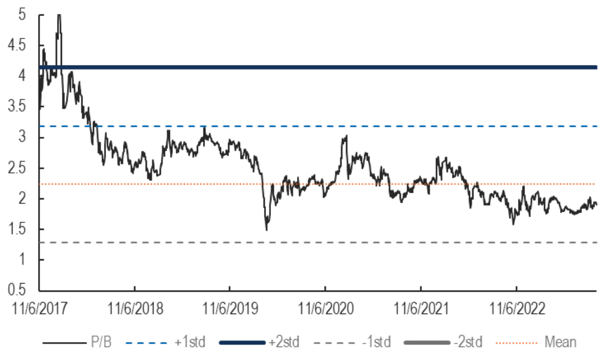

Fig 26: Historical P/E

Source: Company data, Yuanta Vietnam

The derating of VRE's P/B ratio (which fell from 4.0x at its 2017 IPO to 1.71x now) suggests that the IPO pricing had discounted too much optimism regarding the performance of the overall retail property market and the company itself over the subsequent five-year period.

This was clearly a disappointment for the (at the time, overly excited) institutional investors who participated in the IPO, and we suspect that the "fingers burned" syndrome may mean that VRE is no longer on the burner for many such investors. If so, this is a pity, as we believe that VRE's future share price performance will more accurately reflect its operations going forward.

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Fig 27: Relative valuation, Price-to-fair-book value

VND billion	2017	2018	2019	2020E	2021E	2022E	1H23	2023-2025E	Onwards
Investment Properties (VAS)	20,401	26,429	28,064	27,732	26,269	26,514	25,836		
Investment Properties (IFRS)	41,508	50,605	56,144	**59,944**	**59,944**	**64,444**	**64,444**		
Differential (IFRS - VAS)	21,106	24,175	28,080	32,212	33,675	37,929	38,607		
Adding new IP				+1 new VMM		+1 new VMM +2 new VCP		**+1 VMN Grand Park nearing completion +6 new VMM +9 new VCP**	
GFA (million sqm)	1.17	1.45	1.64	1.70	1.70	1.79	1.80	**2.60**	**4.70**
Book value (VAS)	26,063	28,468	26,920	29,301	30,616	33,392	35,419		
Book value (IFRS)	**47,170**	**52,643**	**55,000**	**61,513**	**64,291**	**71,322**	**74,027**		
BVPS (VAS) -- VND	16,017	14,535	11,574	12,895	13,473	14,695	15,587		
BVPS (IFRS) -- VND	**28,988**	**26,879**	**23,647**	**27,071**	**28,293**	**31,387**	**32,578**		
P/B x (VAS)	1.66	1.83	2.30	2.06	1.97	1.81	1.71		
P/B x (IFRS)	**0.92**	**0.99**	**1.12**	**0.98**	**0.94**	**0.85**	**0.82**		
Current price (VND/share)	26,600								

Source: Company data, Yuanta Vietnam

A stab at estimating the market value of assets supports the view that the stock is undervalued... VRE provided a fair value for the investment property (IP) as of the end of 2019. This was prepared in accordance with IFRS standards and audited by KPMG, which evaluated the valuation methodologies and reviewed the IP-related information.

This disclosure of the fair value of investment property at end-2019 allows us to generate an updated fair value estimation for VRE's commercial property holdings. Our method here is simple: We apply the same fair value as disclosed in 2019 to the new malls completed in 2020-2022.

This exercise generates a market-based book value estimate of VND 74 trillion for the company or VND 32,600 per share. This is 23% higher than the current price, supporting our view that the stock is undervalued.

In addition, this market-based book value estimate is -14% *lower* than our NAV-based target price for VRE. Of course, the market-based book value estimate is just a static reflection of the company's assets as of today: the differential between our estimated MTM valuation and our target price is attributable to the pipeline malls that are incorporated into our valuation model.

... and so does the IFRS-based PE multiple. VRE continuously undertakes investments for maintenance and innovation in its shopping malls. VRE is required by the Vietnam Accounting Standards (VAS) to account for non-cash depreciation costs related to its investment properties, whereas no such obligation is present under International Financial Reporting Standards (IFRS).

Therefore, we believe utilizing the P/E forward ratio under IFRS provides a more accurate representation of VRE's relative valuation, especially when comparing it to the PE multiples of regional / global players. Using our explicit 2024E forecasts, which are based on VAS earnings, VRE is trading on 14.4x PE. But this figure is substantially lower under IFRS, at just 10.8x PE, as illustrated in the table below.

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Fig 28: Relative valuation, Price-to-earnings-per-share (under IFRS)

	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Net sales (VND bn)	9,124	9,259	8,329	5,891	7,361	10,246	9,626	10,382
PAT	2,413	2,852	2,382	1,315	2,777	4,231	4,211	4,522
NPAT-MI (VAS)	**2,404**	**2,851**	**2,382**	**1,315**	**2,776**	**4,231**	**4,211**	**4,522**
Mall depreciation	1,042	1,331	1,359	1,368	1,345	1,352	1,362	1,439
NPAT-MI (IFRS)	**3,446**	**4,182**	**3,741**	**2,683**	**4,121**	**5,583**	**5,573**	**5,961**
Growth (% YoY)		*21%*	*-11%*	*-28%*	*54%*	*35.5%*	*-0.2%*	*7.0%*
Number of share (mn)	2,272	2,272	2,272	2,272	2,272	2,272	2,272	2,272
EPS (VAS)	1,058	1,255	1,048	578	1,222	1,862	1,853	1,990
EPS (IFRS)	1,517	1,841	1,646	1,181	1,814	2,457	2,453	2,623
P/E fwd (VAS)						14.3	14.4	13.4
P/E fwd (IFRS)						**10.8**	**10.8**	**10.1**

Note: The projection only includes earnings from leasing services and two existing shophouse projects.
Source: Company data, Yuanta Vietnam

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Risks to our view

1. **Valuation model risk.** Our estimated Net Asset Value (NAV) is highly sensitive to four key assumptions:

   a) **Rental rate growth**: We anticipate a 6.5% annual increase in rental rates over the next ten years.

   b) **Occupancy rate**: We assume that VRE can maintain a high total occupancy rate of approximately 90%.

   c) **Capitalization rate**: Although we make efforts to reduce our reliance on cap rates, the terminal value of each mall type contributes to approximately 60% of the total mall value in our model.

   d) **Pursuing expansion goals (i.e., 4.7mn sqm of GFA)**: We recognize that challenges might exist for acquiring landbank for shophouse and Vincom Plaza developments in second-tier cities and provinces.

2. **Transactions with related parties** could be a concern. Vingroup affiliates (e.g., Vinfast and Vinpearl) have relied on stronger Group members (e.g., VRE and VHM) for financial support as well as certain operational aspects of their businesses.

   This could potentially present a risk for VRE's shareholders**.** VRE could also be negatively impacted in terms of reputation by related party matters such as litigation, regulation, and overall negative news-flow.

3. **Operational risks.** The commercial property market and consumer market are now recovering to pre-pandemic levels, in our view. However, market conditions do not always pan out exactly as expected: unexpected macroeconomic events, economic growth, personal wealth and income expansion, and public investment in traffic infrastructure are all uncertain.

   Furthermore, we believe that e-commerce is not yet a significant threat to brick-and-mortar shopping malls in Vietnam, primarily because of limited alternatives for entertainment and social activities.

   Our view is that Vietnamese people prefer platforms that offer comprehensive shopping, dining, and entertainment experiences. VRE has embarked on a transformation journey, turning its shopping centers into vibrant social and entertainment hubs. Furthermore, VRE is actively preparing for the future of online-to-offline retail by engaging with digital businesses and partnering with tenants' e-commerce platforms.

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INCOME STATEMENT (VND'bn)	2022A	2023E	2024E	2025E
Net sales	**7,361**	**10,246**	**9,626**	**10,382**
Cost of sales	(3,545)	(4,293)	(4,048)	(4,364)
Gross Profit	**3,817**	**5,953**	**5,579**	**6,018**
Selling expenses	(172)	(239)	(225)	(243)
General and admin expenses	(371)	(380)	(357)	(386)
Operating profit/(loss)	**3,273**	**5,333**	**4,996**	**5,390**
Financial income	539	539	539	539
Financial expenses	(359)	(636)	(333)	(333)
Gain/(loss) from joint ventures	-			
Net other income/(expenses)	72	53	62	58
Profit/(loss) before tax	**3,524**	**5,289**	**5,264**	**5,653**
Income tax expenses	(747)	(1,058)	(1,053)	(1,131)
Net profit/(loss) after tax	**2,777**	**4,231**	**4,211**	**4,522**
Minority interests	(1)	(1)	(1)	(1)
Attributable to parent company	**2,776**	**4,231**	**4,211**	**4,522**
EPS bacis reported, VND	1,222	1,817	1,808	1,942
EPS fully dilited, VND	1,222	1,817	1,808	1,942
		11.7%	6.8%	

FINANCIAL RATIO	2022A	2023E	2024E	2025E
Growth (%)				
Revenue, growth	25%	39%	-6%	8%
Operating Income, growth	86%	63%	-6%	8%
PBT, growth	108%	50%	0%	7%
EPS, growth	111%	49%	0%	7%
Total Assets, growth	13%	9%	8%	8%
Equity, growth	9%	8%	12%	11%
Profitability (%)				
Gross Profit Margin	52%	58%	58%	58%
Operating Profit Margin	44%	52%	52%	52%
Net Margin	38%	41%	44%	44%
ROE	9%	12%	11%	11%
ROA	7%	9%	9%	9%
ROIC	9%	12%	12%	12%
Efficiency (x)				
Receivable Turnover	5.09x	6.60x	5.83x	6.19x
Inventory Turnover	4.03x	3.05x	2.55x	2.70x
Payable Turnover	2.58x	1.60x	1.32x	1.74x
Liquidity (x)				
Current ratio	1.81x	1.70x	2.53x	3.40x
Quick Ratio	1.46x	1.24x	2.07x	2.90x
Financial Structure (x)				
Total liabilities/Equity	0.28x	0.30x	0.24x	0.21x
Total liabilities/Total Assets	0.22x	0.23x	0.20x	0.17x
Debt/Equity	0.10x	0.09x	0.08x	0.07x

BALANCE SHEET (VND'bn)	2022A	2023E	2024E	2025E
Total assets	**42,701**	**46,750**	**50,260**	**54,504**
Current Assets	**10,535**	**12,517**	**16,556**	**21,089**
Cash & cash equivalents	7,020	7,312	11,804	16,100
ST Investment	97	144	121	132
Accounts receivable	1,404	1,701	1,604	1,729
Inventories	1,178	1,640	1,541	1,662
Other current assets	835	1,720	1,487	1,466
Long-term Assets	**32,166**	**34,232**	**33,704**	**33,415**
Long-term trade receivables	8	9	8	9
Net fixed assets	418	400	382	365
LT - IP&IPUC	27,214	28,037	27,646	27,055
LT assets other	4,526	5,788	5,668	5,986
Total Resources	**42,701**	**46,750**	**50,260**	**54,504**
Total Liabilities	**9,277**	**10,703**	**9,879**	**9,484**
Advances from customers	1,215	1,422	747	278
Accounts payable	725	2,021	1,927	2,066
ST debts	1,065	1,044	1,023	1,003
Other ST liabilities	2,814	2,870	2,842	2,856
Long term debt	2,121	2,079	2,037	1,997
Other LT debt	1,338	1,267	1,302	1,285
Shareholder's equity	**33,424**	**36,048**	**40,381**	**45,020**
Paid in capital	23,288	23,288	23,288	23,288
Share premium	47	47	47	47
Retained earnings	12,065	14,687	19,019	23,657
Other equity	(2,007)	(2,007)	(2,007)	(2,007)
Minority interest	32	33	34	36

CASH FLOW (VND'bn)	2022A	2023E	2024E	2025E
Begin cash of the year	**3,297**	**7,020**	**7,312**	**11,804**
Net profit before tax	3,524	5,289	5,264	5,653
Adjustments	1,291	(208)	(198)	(190)
Change in Working Capital	256	(2,171)	(1,046)	(826)
Cash from Operations	**5,072**	**2,909**	**4,020**	**4,637**
Capital Expenditures	(2,538)	18	18	17
Investments	0	(869)	414	579
Change in other	1,210	(1,703)	101	(876)
Cash from investments	**(1,328)**	**(2,554)**	**533**	**(280)**
Dividend Paid	0	-	-	-
Proceeds from issue of shares	0	-	-	-
Net change in debt	0	(64)	(62)	(61)
Change in other	(21)	1	1	1
Cash from financing	**(21)**	**(63)**	**(61)**	**(60)**
Effect of FX differences	0	1	2	3
Net change in Cash	**3,723**	**293**	**4,491**	**4,297**
Ending cash balance	**7,020**	**7,312**	**11,804**	**16,100**

Note: IP&IPUC: Investment Properties and Investment Properties Under Construction
Source: VRE, Yuanta Vietnam

Appendix A: Important Disclosures

Analyst Certification
Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Ratings Definitions
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.
HOLD-Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
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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