

CENTURY LAND JSC (CENLAND) – PRE-LISTING NOTE

OTC Price	Target Price	Dividend Yield	Rating	Sector
VND50,000	N/A	N/A	N/A	REAL ESTATE

Outlook – Short term



Outlook – Long term



Valuation



24 April 2018

Listing information

Expected date of listing	End of May
OTC price (VND/share)	50,000
Outstanding shares	50mn
Total Assets (VNDbn) (*)	1,054
Total Equity (VNDbn) (*)	559

(*) Data as of Dec 31, 2017 and does not reflect the capital raising in early 2018.

Key statistics

Market cap @OTC price (VNDbn)	2,500
EPS (VND) 2018	6,400
ROE	55.2%
P/E 2018 (**)	7.8x
P/B (**)	2.0x

(**) Based on OTC price and 2018 plan, calculated based on new shares o/s and expected BVPS after raising capital.

Ownership

CENGROUP	51%
Dragon Capital	13%
Vina Capital	12%
Others	24%

Source: VNDIRECT

CENLAND, a leading property broker in the North of Vietnam, is going to list 50mn shares on the HOSE by May-end and is looking to raise VND1,500bn to support its migration from conventional brokerage into secondary investments. We believe that their strong brokerage track record will allow them to continue to ride the buoyant property market.

A leading RE broker in the North. with 11,555 units sold in 2017, +21% yoy, CENLAND was the second player nationwide with 18% market share (after DXG with market share of 29%), but with a top position in the North with 42% market share thanks in part to its relationships with key Vietnamese developers such as KDH, Sovico, Trung Thuy Group and TMS Group.

A stellar 2015-2017 EAT CAGR of 80% driven by the surging property market and its growing focus on higher commission brokerage models. FY2017 audited results were impressive with VND1,115bn in revenue (+84.4% yoy) and VND246bn in net profit (+81.8% yoy), resulting in 2015-2017 CAGR of over 80% in both sales and earnings. CENLAND is expanding into secondary investments which is more profitable than traditional brokerage. Revenue from this brokerage model increased by 11.3 times in 2017, and contributed a sizeable 18% of total sales.

2018 targets look solid, yet achievable. CENLAND has set a revenue target at VND1,676bn (+50.3% yoy) and EAT target of VND320bn (+30.0% yoy) on the back of a 34.1% growth in volume (15,500 units). We believe CENLAND's might exceed its sales target since the new contracts signed so far in 2018 already amount to a revenue pipeline of VND2,093bn for 2018-2019.

Strong push into secondary investments could however stretch the balance sheet. Unlike in conventional brokerage, the secondary investment model requires the broker to take inventory of the units and then re-sell them. The inventory risk inherent in this model does not concern us given the buoyant property market but this will require significant working capital funding. The current cash conversion cycle of 60 days is likely to lengthen as the contribution of secondary investments rises in the total revenue mix.

OTC valuation looks cheap relative to peer DXG. CENLAND's current share price in the OTC market corresponds to a forward P/E of 7.8x and a P/B of 2.0x. This seems cheap in comparison with close peer DXG which is trading at a forward P/E of 9.7x (based on 2018 EPS guidance) and 2.7x P/B. Given CENLAND's strong growth profile, second position in the nationwide brokerage market and its state-of-the art online property trading platform, we believe that CENLAND's valuation could surge, post listing.

Gross margin volatility, related party dealings and potential dilution from capital raises are the key risks for this stock.

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	171	468	605	1,115
Revenue growth		173.3%	29.4%	84.4%
Gross margin	41.8%	38.1%	45.5%	39.9%
EBITDA margin	28.4%	18.2%	29.3%	28.7%
Net profit (bn)	42	65	135	246
Net profit growth		53.8%	108.2%	81.8%
Recurring profit growth		53.8%	108.2%	81.8%
Basic EPS	32,546	47,956	8,015	11,970
Adjusted EPS	32,546	47,956	6,870	11,970
BVPS	24,902	12,845	19,688	22,376
ROAE		52.2%	49.3%	55.2%

Source: VNDIRECT

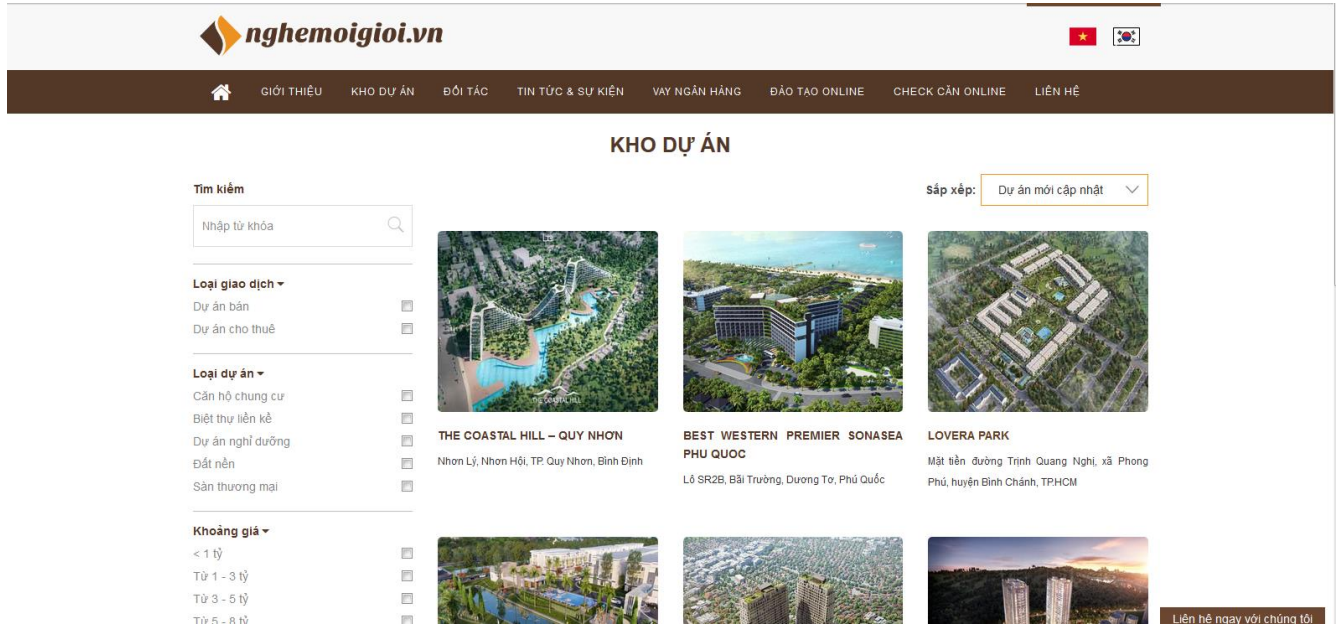
(*) data if fully diluted, not include private placement in 2018. EPS calculation is adjusted for bonus share in 2017

A leading property broker with an innovative bent.

CENTURY LAND JSC (CENLAND) has a nationwide market share of 17.9% in property brokerage, second only to Dat Xanh Group (DXG).

The company has been operating for 16 years and provides property brokerage services through its national network of over 200 physical trading floors. It was the first major broker to launch an online property trading platform and this platform ngheoigoi.vn even allows for online payments to facilitate direct secondary property transactions. CENLAND earns brokerage commissions on all transactions that are conducted through this platform.

Figure 1: CENLAND's online trading platform – ngheoigoi.vn

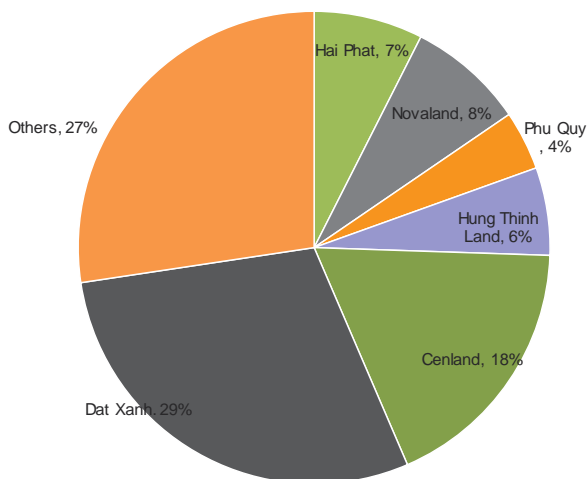


Source: VNDIRECT

CENLAND garnered a 18% nationwide market share in 2017 based on 11,550 units sold in the year, second only to DXG which held 29% of the market. CENLAND's brokerage volume surged by 21% versus 2016.

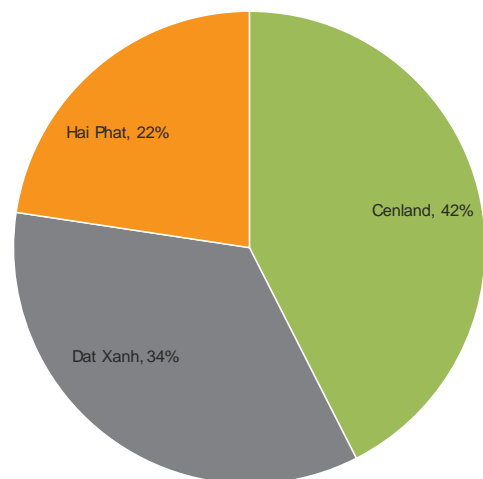
The leading property broker in the North. In the Northern market, CENLAND was the top broker in 2017 with a market share of 42%, followed by Dat Xanh (34%) and Hai Phat (22%).

Figure 2: Nationwide market share in Real Estate Brokerage in 2017 (based on volume of transactions)



Source: VNDIRECT Research

Figure 3: Northern market share in Real Estate Brokerage in 2017 (based on volume of transactions)



Source: VNDIRECT

Expansion into secondary investments to boost commissions and margins but will come with cash flow and balance sheet risks.

(i) Gross distribution: The broker does not commit any sales volume to the developer and hence does not take any risk.

(ii) Guaranteed distribution: The broker commits a minimum sales volume to the developer. The brokers will have to buy the unsold amount.

(iii) Secondary investment: The broker buys the entire inventory upfront from the developer and then re-sells the units to end-buyers.

Figure 4: Distribution methods

	2016	2017	+/- YoY	Plan 2018	+/- YoY
Gross distribution					
Units	7,402	8,620	16.5%	10,000	16.0%
Revenue (VNDbn)	468	615	31.4%		
% in total Revenue	77.3%	55.1%			
Guaranteed distribution					
Units	1,915	2,057	7.4%	3,500	70.2%
Revenue (VNDbn)	121	300	148.0%		
% in total Revenue	20.0%	26.9%			
Secondary investment					
Units	259	878	239.7%	2,000	127.7%
Revenue (VNDbn)	16	201	1129.0%		
% in total Revenue	2.7%	18.0%			
Total					
Units	9,576	11,555	20.7%	15,500	34.1%
Revenue (VNDbn)	605	1,115	84.4%	1,676	50.3%

Source: CENLAND

Given that it carries the highest commission rate of 8%-12% versus other property brokerage models (commission rate of 3%-7%) increased its contribution to total revenues from just 2.7% in 2016 to a substantial 18.0% in 2017, on the back of 239.7% volume growth. However, this brokerage model comes with significant inventory risk and also requires substantial upfront investment in working capital to buy the units from the developer before re-selling them to buyers. Another drawback of this model is that the total brokerage commission is not received upfront unlike with conventional brokerage models such as gross distribution and guaranteed distribution under which 100% commission is paid to the broker when the first payment is made for the property purchase.

Blended commission rates should rise as the gross distribution brokerage model becomes less important in the total revenue mix.

The Gross distribution model which generates the lowest commission rates (3-4%) is still a key contributor to revenues but saw its revenue contribution fall from 77.3% to 55.1% from 2016 to 2017.

The guaranteed distribution with a middling commission rate of 5-7% saw its revenue contribution increase in 2017, thanks to a 148.0% surge in revenue.

CENLAND's margins still lag that of the market leader, DXG.

CENLAND realized a gross margin of 39.9% in 2017 versus 80.5% realized by DXG on its brokerage business. This difference might be explained by DXG's higher bargaining power due to its greater scale and also due to the fact that it relies more on high-margin secondary investments rather than low-margin conventional brokerage models which still contribute the majority of CENLAND's revenues.

However, CENLAND has 700 in-house brokers compared with 2,000 in-house brokers of DXG and, thus, has a lower ration of selling expenses to revenue ratio (2.7% compared with 10.2% of DXG) which partially compensates for its lower gross margins relative to DXG.

We believe that the CENLAND's higher broker productivity is partially a function of its online trading platform which allows for direct transactions between buyers and sellers as well as the fact that it has a lower revenue contribution from secondary investments which typically require more salesforce intensity and higher incentives to mitigate the broker's inventory risk and working capital funding.

However, CENLAND's gross margins are clearly volatile and we do not yet have a clear understanding of what drove the sharp gross margin expansion in 2016. This reversed in 2017 even as industry leader DXG saw its gross margins expand in the same year. The reasons for this are unclear.

Figure 5: Comparison of brokerage margins of DXG and CENLAND

Key items	2016		2017	
	DXG	CENLAND	DXG	CENLAND
Brokerage revenue (VNDbn)	812	605	1,616	1,115
Brokerage gross margin	72.3%	45.5%	80.7%	39.9%

Source: DXG, CENLAND

Successful in raising VND625bn in early 2018, but CENLAND still needs more money to realize its ambitious medium-term growth plans.

CENLAND recently raised VND625bn of which VND50bn came from 5mn ESOP share sales, VND50bn came from 5mn shares offered to existing shareholders, and VND525bn came from a private placement (15mn shares – 30% of new chartered capital) to Dragon Capital (6.5mn), VinaCapital (6.0mn) and other investors (2.5mn). CENLAND plans to use the new cash to finance secondary investments (over 10 projects) worth VND603bn, and the remaining VND20bn will be used for capex and general working capital needs. While the capital raise is significant, it is not enough to fund medium-term growth plans.

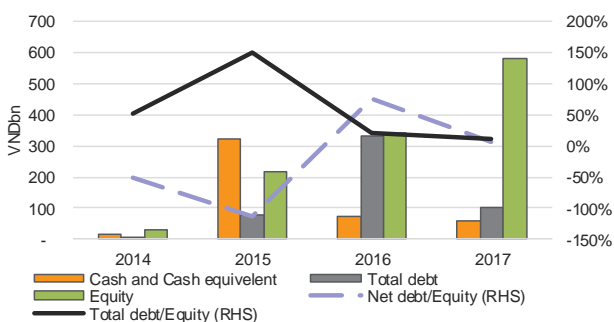
Ability to capitalize on major projects in the pipeline hinges critically on capital raise. CENLAND management hinted at major secondary investment brokerage projects in the pipeline (details were not disclosed) and it will need additional cash of VND1,500bn which is expected to be raised through a mix of bond (VND500bn) and share (VND1,000bn) issuances. These major projects are important for CENLAND to fulfill targeted its 2019 targets of VND2,200bn in revenue and VND430bn in EAT, translating to 31.3% revenue growth and 34.3% earnings growth (compared with 2018 guidance).

Healthy balance sheet with low leverage and improving operating efficiency.

CENLAND's current leverage is low with a debt-to-asset ratio of 3.7% and net debt/equity ratio of just 6.7%. This create more room for CENLAND to issue bonds to support its continued foray into secondary investments. With VND500bn in long term bond issuances planned in 2Q2018, CENLAND's total debt to equity ratio may reach surge to 48.6% (compared with 10.6% at the end of 2017), while its interest coverage ratio (x) may decline from 87.0x to 6.4x. Beside bonds, CENLAND plans to raise VND1,000bn through share issuances (private placement and issuances to existing shareholders) and this provides some comfort around the risk of rising future leverage.

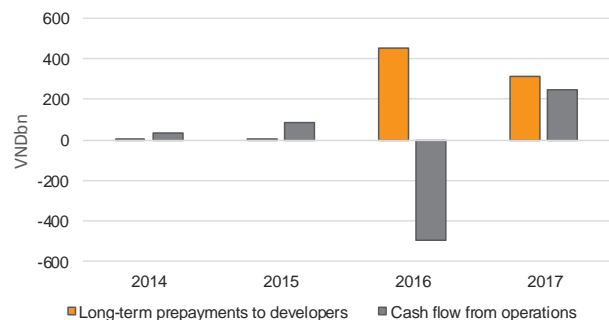
In the past, CENLAND saw its short term debt spike to over VND330bn to finance a surge in working capital due to secondary investment activity (upfront cash to buy the projects) which resulted in negative operating cash flow in 2016 worth VND497bn. However, operating cash flow quickly recovered in 2017 (VND247bn) and helped pay down this short term debt.

Figure 6: CENLAND's debt/equity ratios



Source: VNDIRECT

Figure 7: CENLAND's prepayments to developer and CFO

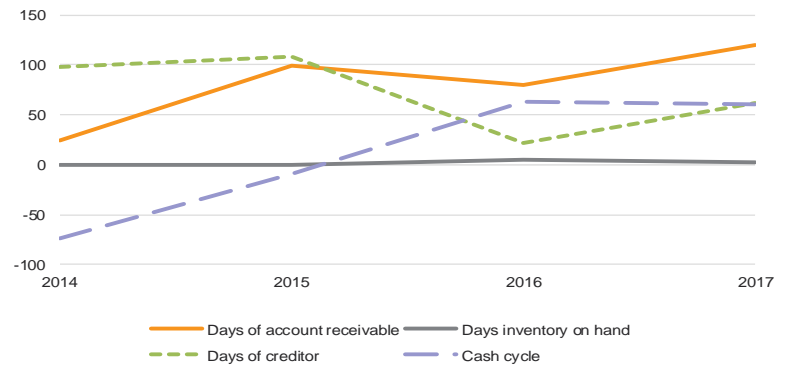


Source: VNDIRECT

Operating efficiency has improved slightly as the cash conversion cycle in 2017 was 3 days shorter than in 2016 due to both rising days payable which offset rising accounts receivable days. However, this current cash cycle of 60

days may lengthen significantly as CENLAND pushes more aggressively into secondary investments

Figure 8: CENLAND's cash cycle



Source: CENLAND

Related party transactions should be noted.

CEN INVEST (a subsidiary of CEN Group), which contributes 24.7% revenue of CENLAND as a customer, will continue to be a major partner in the future. Besides, CENLAND's 2017 year-end balance sheet showed VND220bn in deposits paid to CEN INVEST for secondary investment; this deposit accounted for 70% of the total long-term receivables balance at the end of 2017. With another VND165bn worth of cash advances to CENLAND's management and staff, total related party balances contributed about 36.5% of total assets at the end of 2017.

Financial summary

Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	468	605	1,115
Cost of sales	(289)	(330)	(671)
Gen & admin expenses	(93)	(86)	(94)
Selling expenses		(16)	(31)
Operating profit	86	173	320
Operating EBITDA	86	173	320
Depreciation and amortisation			
Operating EBIT	86	173	320
Interest income	0	1	0
Financial expense	(0)	(9)	(4)
Net other income	(1)	4	(1)
Income from associates & JVs			
Pre-tax profit	85	168	316
Taxation	(20)	(33)	(63)
Minority interests			(7)
Net profit	65	135	246
Adj. net profit to ordinary	65	135	246
Ordinary dividends	0	0	(101)
Retained earnings	65	135	146

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	324	74	61
Short term investments			
Accounts receivables	138	168	649
Inventories		5	4
Other current assets	5	9	1
Total current assets	461	256	715
Fixed assets	5	9	18
Total investments	0	0	0
Other long-term assets	22	660	321
Total assets	488	926	1,054
Short-term debt	76	330	100
Accounts payable	86	19	114
Other current liabilities	108	236	260
Total current liabilities	271	585	474
Total long-term debt	1		
Other liabilities			2
Share capital	130	130	250
Retained earnings reserve	87	190	297
Shareholders' equity	217	333	559
Minority interests		8	19
Total liabilities & equity	488	926	1,054

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	85	168	316
Depreciation & amortisation		(1)	(3)
Tax paid		(18)	(56)
Other adjustments	(9)	(674)	89
Change in working capital	8	28	(99)
Cash flow from operations	84	(497)	247
Capex	0	(5)	(12)
Proceeds from assets sales	26		0
Others	0	0	7
Other non-current assets changes			
Cash flow from investing activities	26	(5)	(5)
New share issuance	120		81
Shares buyback			
Net borrowings	77	252	(235)
Other financing cash flow			
Dividends paid			(101)
Cash flow from financing activities	197	252	(255)
Cash and equivalents at beginning of period	17	324	74
Total cash generated	307	(250)	(12)
Cash and equivalents at the end of period	324	74	62

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	13.9%	22.4%	22.1%
Asset turnover	1.58	0.86	1.13
ROAA	22.0%	19.2%	24.9%
Avg assets/avg equity	2.37	2.57	2.22
ROAE	52.2%	49.3%	55.2%
Efficiency			
Days account receivable	100	80	120
Days inventory	0.00	5.20	2.19
Days creditor	109	22	62
Fixed asset turnover	93.8	84.0	81.3
ROIC	22.1%	20.2%	36.3%
Liquidity			
Current ratio	1.71	0.44	1.51
Quick ratio	1.71	0.43	1.50
Cash ratio	1.20	0.13	0.13
Cash cycle	(9.2)	63.5	60.6
Growth rate (yoy)			
Revenue growth	173.3%	29.4%	84.4%
Operating profit growth	75.6%	102.4%	84.9%
Net profit growth	53.8%	108.2%	81.8%
EPS growth	47.3%	(83.3%)	49.3%
Share value			
Basic EPS (VND)	47,956	8,015	11,970
BVPS (VND)	12,845	19,688	22,376

Source: VNDIRECT

(*) CENLAND increased its chartered capital in late 2015 from VND10bn to VND130bn through a private placement.

In 2017, it offered bonus share to shareholders with ratio 30% and issued 8.1mn shares through a private placement or rights issue (not disclosed)

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Definition:

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- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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