

FIRST REAL JSC (FIR) – NON-RATED NOTE

Market Price VND35,500	Target Price N/A	Dividend Yield 0.0%	Rating NOT RATED	Sector REAL ESTATE
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Outlook – Short term



Outlook – Long term



Valuation



22 November 2018

Tho Dien Hong

tho.dienhong@vndirect.com.vn

Key changes in the report

➤ N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	37,000
52w low (VND)	14,400
3m Avg daily volume (shares)	65,945
3m Avg daily value (VNDmn)	2,241
Market cap (US\$m)	20.2
Outstanding shares (m)	13.0
Free float (%)	100.0
TTM P/E (x)	5.9
Current P/B (x)	2.1

Ownership

Nguyen Hao Hiep - Chairman	36.1%
Nguyen Anh Tuan	6.0%
Nguyen The Trung	3.4%
Others	54.5%

Source: VNDIRECT

Stellar sales performance from both the brokerage service and land lot trading drove a fourfold increase in net profit in FY17. The company is looking to raise capital to support its ambitious target of 60.1% CAGR in net profit for FY2019-20F.

Recognised as a successful start-up in real estate brokerage.

Established in 2014, FIR focuses on providing brokerage services to real estate developers in Da Nang and Quang Nam. This segment generated VND48bn in revenue and VND25bn in net profit with 916 landed units sold in FY18 (ended 30th Sep 18). The company was able to earn a 10-12% commission on brokered transaction value in FY18 as most of the products are land lots with lower unit value compared to 5-7% commissions on high-rise or villa product sales.

Management is gravitating towards land lot trading. Since 2017, the management has shifted the main business from brokerage to secondary investments in land lots under which the firm assumes inventory risk in exchange for higher profit contribution per transaction. Land lot distribution carries lower gross margin but higher profits in absolute terms. In FY18, this activity generated VND53bn net profit which is 67.9% of the total number.

Robust land lot distribution pipeline in FY2019-20F. FIR plans to distribute land lots at six projects with total expected sales of VND1.3tr in the next two fiscal years. In FY19-20F, Truong Thinh and Hoang Tien will probably be its biggest land lot suppliers in terms of contract value and volume (Figure 5). The management believes it will achieve full absorption within a 2-year sale period as well as a 23% net margin from its pipeline projects in FY19-20F.

Brokerage contribution will be weak in FY19-20F. The management foresees that the lack of new project launches and a focus on re-selling of land lots in inventory (the new strategic focus area) will constrain its brokerage revenue in the period with expected profit of only VND20bn from two projects in FY19-20F.

Financial summary (VND)	09-17A	09-18A
Net revenue (bn)	61	168
Revenue growth		176.3%
Gross margin	41.4%	53.4%
EBITDA margin	31.9%	57.9%
Net profit (bn)	16	78
Net profit growth		396.4%
Recurring profit growth		82.4%
Basic EPS	122	603
Adjusted EPS	122	603
BVPS	1,137	1,740
ROAE		41.9%

Source: VNDIRECT

Strong growth in new land lot developments near Da Nang but these are, as yet, untested markets

Since 2017, Da Nang has caught the attention of investors as a new playground for property development across all asset types. According to the Vietnam Real Estate Broker Association (VRA), as of 2017, the Da Nang land lot average price has increased nearly sevenfold from 2012 and 25% above 2016 levels. The price surge was explained by the increased tourism flows into Da Nang which boosted the area's economy and generated housing demand. Over 9M18, LUR approvals for new projects was tightened more than ever, leading to few project launches since the beginning of the year and spurring a further surge in prices. According to VRA's 2Q18 update, land lot prices surged ~30% since the end of 2017 due to high demand and limited transaction volume. This likely suggests a high degree of land lot arbitrage amongst the buyers given supply shortage conditions. Land lot development is the least regulated but is the most liquid of real estate assets versus high-rise apartments or landed property.

The study also points out that developers are heading to other areas near Da Nang such as Quang Nam, Quang Binh, and Phu Yen as it is easier to launch projects there. For example, Dien Ban-Quang Nam is like a land bridge connecting the heritage tourist town (Hoi An) to the urban hub of Central Vietnam. These locations have not yet seen much residential development, but also lack reliable market data to gauge real local housing demand. Without this real demand, the markets could be comprised mostly of land lot speculators. Nonetheless, most of FIR's key land investments are located in these areas (Figure 5) and highlight the risks associated with its land lot inventory. The assets would become illiquid at the tail-end of the speculation cycle when demand weakens.

Doubling of paid-in capital to replenish land inventory

The company is looking to issue 17m primary common shares at a price of VND10,000 each. According to a BoD resolution, 13m shares will be offered to existing shareholders as a rights issue and only 4m will be offered to the public at the same price. The expected receipts of VND170bn will be used to settle remaining dues to Truong Thinh related to the purchase of 52,067 sq m of land lots in Quang Binh. The signed Quang Binh contract includes two sub-projects which have prime locations in Dong Hoi city, the economic hub of Quang Binh. One of these, My Canh, is located on Bao Ninh Island, which is currently the city's tourism hot spot. From our observations, the market value for the land lot here is currently VND12/sq m which is 48.1% above FIR's contracted acquisition cost. The company expects a net margin of 16-21% on this project, equivalent to VND165bn in cumulative net profit over FY19-20F.

Valuation

With its thick pipeline for land lot distribution, FIR looks promising. Management guides for fully-diluted EPS growth of 17.6% and 100.0% in FY19F and FY20F, respectively, even after accounting for the upcoming 17m common shares to be issued to both existing shareholders and the public. Based on earnings guidance, the forward FY19F PE is only 4.7x, far below local peers even though the company is trading at a premium to peers based on current P/B. However, the company's high exposure to land lots in untested markets creates risks around achievement of guidance, particularly if the property cycle turns.

Figure 1: Broker peer comparison

Company Name	Ticker	Country	Share price (LCC)	Market Cap (US\$m)	P/E (x)			P/B (x)			ROE (%)			Dividend yield (%)		Net gearing (%)
					TTM	2018F	2019F	3Q18	2018F	2019F	TTM	2018F	2019F	2018F	2019F	
Dat Xanh Group	DXG VN	VN	25,500.0	390.9	8.4	7.8	7.1	2.0	1.8	1.8	25.9	18.7	18.7	1.9	1.9	13.2
Century Land Jsc	CRE VN	VN	41,700.0	90.9	3.5	6.5	4.8	1.9	N/A	N/A	55.2	30.5	24.7	N/A	N/A	6.7
Drh Holdings	DRH VN	VN	12,350.0	32.8	18.3	N/A	N/A	1.0	N/A	N/A	5.7	N/A	N/A	N/A	N/A	16.1
Danang Housing	NDN VN	VN	11,800.0	22.8	3.7	N/A	N/A	0.9	N/A	N/A	20.6	N/A	N/A	N/A	N/A	(60.9)
Netland Real Est	NRC VN	VN	40,700.0	21.7	7.3	7.0	N/A	3.2	N/A	N/A	27.7	29.2	N/A	N/A	N/A	(3.2)
Greenland Hold-A	600606 CH	CH	6.5	3.5	7.1	7.1	5.8	1.3	1.1	1.1	18.6	16.2	16.2	4.9	4.9	220.4
E-House China En	2048 HK	CH	13.2	0.9	N/A	12.8	9.5	N/A	3.4	3.4	40.7	29.5	29.5	2.3	2.3	(62.9)
Shenzhen World-A	002285 CH	CH	5.4	0.5	12.9	9.7	7.7	2.1	1.8	1.8	17.1	18.8	18.8	3.1	3.1	0.2
Guanghui Logi-A	600603 CH	CH	36,200.0	0.3	12.2	N/A	N/A	1.0	N/A	N/A	7.8	N/A	N/A	N/A	N/A	(1.2)
Colour Life Serv	1778 HK	CH	4.1	0.2	9.9	9.1	7.4	1.7	1.6	1.6	18.4	19.5	19.5	4.4	4.4	25.9
First Real Jsc	FIR VN	VN	35,800	20.5	5.9	5.9	4.7	2.1	N/A	N/A	34.5	N/A	N/A	N/A	N/A	8.8
Local peer average					8.2	7.1	6.0	1.8	1.8	1.8	27.0	26.1	21.7	1.9	1.9	-5.6
Simple average					9.3	8.6	7.1	1.7	1.9	1.9	23.8	23.2	21.2	3.3	3.3	15.4
Median					8.4	7.8	7.2	1.7	1.8	1.8	19.6	19.5	19.1	3.1	3.1	3.4

Note: all prices are based on the closing prices on 19 Nov 2018. All estimates are based on Bloomberg consensus estimate or company guidance

Source: Bloomberg, VNDIRECT

Stellar FY18 performance

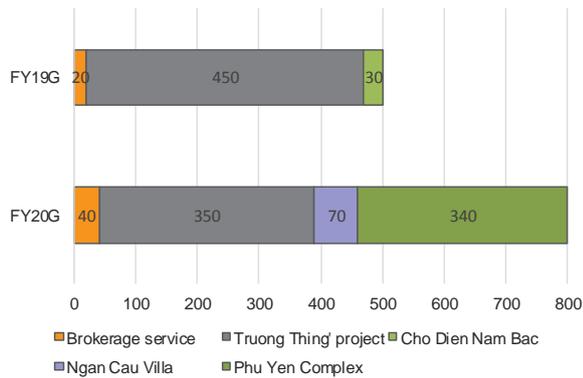
Figure 2: FY2018 financial review

VNDbn	FY2018	FY2017	Change	Note
Net revenue	168	61	176.3%	
Brokerage	48	8	485.5%	Due to successful sales with 768 units sold mostly at Kim Long City and River View in FY18 compared with 169 units sold in FY17.
Secondary investment	120	53	128.2%	Increased sales volume with 138 units mostly from Project Sentosa Villa-Binh Thuan and An Phu Quy-Quang Nam.
Gross profit	90	25	255.9%	
Gross margin	53.4%	41.4%	11.9% pts	Heavier contribution from brokerage service which generates higher gross margin than land lot investment.
G&A expenses	(31)	(3)	857.2%	Increased due to more sales activities in land lot investment.
Selling expenses	(21)	(2)	899.1%	Increased due to more sales activities in land lot investment.
Net other income	62	-		Penalty paid by developer for violating contract for land lot investment.
Pre-tax profit	98	20	398.0%	
Profit after tax	78	16	397.8%	
Net profit	78	16	396.4%	

Source: VNDIRECT, FIR

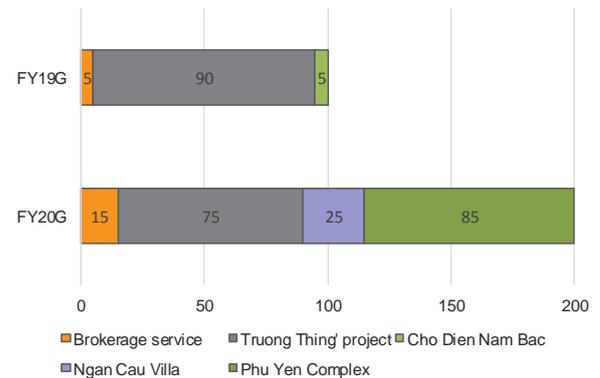
APPENDIX

Figure 3: Sales revenue contribution (VNDbn)



Source: FIR

Figure 4: Net profit contribution (VNDbn)



Source: FIR

Figure 5: Key land lot acquisitions in the pipeline

Project	Location	Acquired area (sq m)	Acquired units	Acquisition cost (VNDbn)	Expected sale value (VNDbn)	Expected net profit (VNDbn)	Status as at 30 Sep 2018
Trung Thinh	Quang Binh	52,067	261	330	800	165	Infrastructure has been fully completed and LUR was transferred to FIR.
Hoang Tien	Quang Nam	53,547	173	222	N/A	N/A	FIR advanced 51% of the total contract value while developer is waiting for LUR approval.
Ngan Cau Villa	Quang Nam	N/A	N/A	N/A	70	25	Pending for LUR.
Phu Yen township	Phu Yen	5,754	N/A	48	340	85	Pending for LUR.
Cho Dien Nam Bac	Quang Binh	N/A	346	60	N/A	N/A	FIR advanced 38% of the total contract value while developer completed 80% of project infrastructure.
Viem Trung	Quang Nam	17,737	180	35	N/A	N/A	Land clearance is in progress to prepare for the launch expected in 2019.

Source: FIR, VNDirect

Income statement

(VNDbn)	09-17A	09-18A
Net revenue	60.8	167.9
Cost of sales	(35.6)	(78.3)
Gen & admin expenses	(3.3)	(31.3)
Selling expenses	(2.1)	(21.2)
Operating profit	19.8	37.1
Operating EBITDA	19.3	35.1
Depreciation and amortisation	0.4	2.0
Operating EBIT	19.8	37.1
Interest income	0.0	0.0
Financial expense	(0.1)	(1.1)
Net other income	0.0	62.0
Income from associates & JVs	0.0	0.0
Pre-tax profit	19.7	98.1
Tax expense	(3.9)	(19.7)
Minority interest	0.0	0.0
Net profit	15.8	78.4
Adj. net profit to ordinary	15.8	78.4
Ordinary dividends		
Retained earnings	15.8	78.4

Balance sheet

(VNDbn)	09-17A	09-18A
Cash and equivalents	62	12
Short term investments	0	0
Accounts receivables	151	451
Inventories	0	14
Other current assets	1	4
Total current assets	213	481
Fixed assets	31	39
Total investments	1	11
Other long-term assets	0	0
Total assets	246	531
Short-term debt	1	31
Accounts payable	11	27
Other current liabilities	84	244
Total current liabilities	95	302
Total long-term debt	2	1
Other liabilities	0	0
Share capital	130	130
Retained earnings reserve	18	96
Shareholders' equity	148	226
Minority interest	1	1
Total liabilities & equity	246	531

Cash flow statement

(VNDbn)	09-17A	09-18A
Pretax profit	20	98
Depreciation & amortisation	0	2
Tax paid	0	(5)
Other adjustments	(0)	(25)
Change in working capital	(40)	(145)
Cash flow from operations	(20)	(75)
Capex	(30)	(7)
Proceeds from assets sales	0	2
Others	0	0
Other non-current assets changes		
Cash flow from investing activities	(30)	(5)
New share issuance	110	0
Shares buyback		
Net borrowings	1	29
Other financing cash flow		
Dividends paid		
Cash flow from financing activities	111	29
Cash and equivalents at beginning of period	0	62
Total cash generated	62	(50)
Cash and equivalents at the end of period	62	12

Key ratios

	09-17A	09-18A
Dupont		
Net profit margin	26.0%	46.7%
Asset turnover		0.43
ROAA		20.2%
Avg assets/avg equity		2.08
ROAE		41.9%
Efficiency		
Days account receivable	107	256
Days inventory	0.0	64.1
Days creditor	109	128
Fixed asset turnover		4.79
ROIC	10.5%	30.3%
Liquidity		
Current ratio	2.24	1.59
Quick ratio	2.24	1.54
Cash ratio	0.65	0.04
Cash cycle	(2)	192
Growth rate (yoy)		
Revenue growth		176.3%
Operating profit growth		87.5%
Net profit growth		396.4%
EPS growth		396.4%
Share value		
Basic EPS (VND)	122	603
BVPS (VND)	1,137	1,740

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- 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.

Country Ratings

Definition:

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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.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Tho Dien Hong – Analyst

Email: tho.dienhong@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>