

## FIRST REAL JSC (FIR) – NON-RATED NOTE

|                                  |                            |                               |                            |                              |
|----------------------------------|----------------------------|-------------------------------|----------------------------|------------------------------|
| <b>Market Price</b><br>VND35,500 | <b>Target Price</b><br>N/A | <b>Dividend Yield</b><br>0.0% | <b>Rating</b><br>NOT RATED | <b>Sector</b><br>REAL ESTATE |
|----------------------------------|----------------------------|-------------------------------|----------------------------|------------------------------|

### Outlook – Short term



### Outlook – Long term



### Valuation



22 November 2018

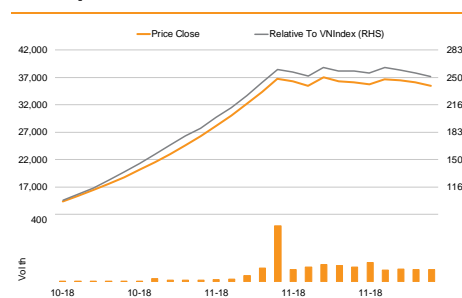
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### Key changes in the report

➤ 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 30<sup>th</sup> 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            |
| <b>First Real Jsc</b> | <b>FIR VN</b> | <b>VN</b> | <b>35,800</b>     | <b>20.5</b>        | <b>5.9</b> | <b>5.9</b> | <b>4.7</b> | <b>2.1</b> | <b>N/A</b> | <b>N/A</b> | <b>34.5</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b>         | <b>N/A</b> | <b>8.8</b>      |
| 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

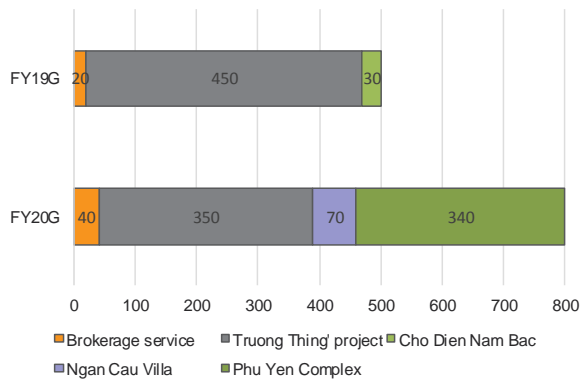
Figure 2: FY2018 financial review

| 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

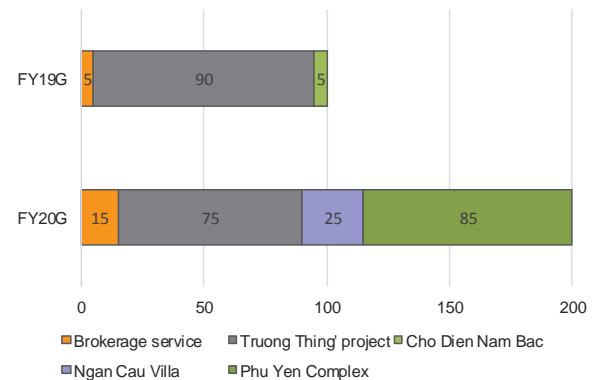
**APPENDIX**

**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  |
|------------------|------------|----------------------|----------------|--------------------------|-----------------------------|-----------------------------|---|
| Truong 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)      |
| <b>Operating profit</b>              | <b>19.8</b> | <b>37.1</b> |
| Operating EBITDA                     | 19.3        | 35.1        |
| <b>Depreciation and amortisation</b> | <b>0.4</b>  | <b>2.0</b>  |
| <b>Operating EBIT</b>                | <b>19.8</b> | <b>37.1</b> |
| 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         |
| <b>Pre-tax profit</b>                | <b>19.7</b> | <b>98.1</b> |
| Tax expense                          | (3.9)       | (19.7)      |
| Minority interest                    | 0.0         | 0.0         |
| <b>Net profit</b>                    | <b>15.8</b> | <b>78.4</b> |
| Adj. net profit to ordinary          | 15.8        | 78.4        |
| Ordinary dividends                   |             |             |
| <b>Retained earnings</b>             | <b>15.8</b> | <b>78.4</b> |

#### 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          |
| <b>Total current assets</b>           | <b>213</b> | <b>481</b> |
| Fixed assets                          | 31         | 39         |
| Total investments                     | 1          | 11         |
| Other long-term assets                | 0          | 0          |
| <b>Total assets</b>                   | <b>246</b> | <b>531</b> |
| Short-term debt                       | 1          | 31         |
| Accounts payable                      | 11         | 27         |
| Other current liabilities             | 84         | 244        |
| <b>Total current liabilities</b>      | <b>95</b>  | <b>302</b> |
| Total long-term debt                  | 2          | 1          |
| Other liabilities                     | 0          | 0          |
| Share capital                         | 130        | 130        |
| Retained earnings reserve             | 18         | 96         |
| <b>Shareholders' equity</b>           | <b>148</b> | <b>226</b> |
| Minority interest                     | 1          | 1          |
| <b>Total liabilities &amp; equity</b> | <b>246</b> | <b>531</b> |

#### Cash flow statement

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

#### Key ratios

|                          | 09-17A | 09-18A |
|--------------------------|--------|--------|
| <b>Dupont</b>            |        |        |
| Net profit margin        | 26.0%  | 46.7%  |
| Asset turnover           |        | 0.43   |
| ROAA                     |        | 20.2%  |
| Avg assets/avg equity    |        | 2.08   |
| ROAE                     |        | 41.9%  |
| <b>Efficiency</b>        |        |        |
| 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%  |
| <b>Liquidity</b>         |        |        |
| Current ratio            | 2.24   | 1.59   |
| Quick ratio              | 2.24   | 1.54   |
| Cash ratio               | 0.65   | 0.04   |
| Cash cycle               | (2)    | 192    |
| <b>Growth rate (yoy)</b> |        |        |
| Revenue growth           |        | 176.3% |
| Operating profit growth  |        | 87.5%  |
| Net profit growth        |        | 396.4% |
| EPS growth               |        | 396.4% |
| <b>Share value</b>       |        |        |
| Basic EPS (VND)          | 122    | 603    |
| BVPS (VND)               | 1,137  | 1,740  |

Source: VNDIRECT

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