

KHANG DIEN HOUSE TRADING & INVESTMENT JSC (KDH) – VISIT NOTE

Market Price VND31,400	Target Price N/A	Dividend Yield N/A	Rating NOT RATED	Sector REAL ESTATE
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Outlook – Short term



Outlook – Long term



Valuation



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KDH has a convincing development pipeline of traditional products in the East of HCMC while its long-term prospects are underpinned by its massive land bank in the West of HCMC. Earnings will ramp up this year based on strong pre-sales realized last year, especially in the condominium segment which saw a total absorption rate of around 89%; non condo absorption rates were also robust at 76%.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	34,950
52w low (VND)	16,603
3m Avg daily volume (shares)	391,333
3m Avg daily value (VNDmn)	11,656
Market cap (VNDbn)	10,651
Outstanding shares (m)	339
Free float (%)	20.0
TTM P/E	17.6
Current P/B	2.0

Ownership

Tien Loc Investment Ltd.	13.5%
Gam Ma Investment Ltd.	11.0%
A Au Commercial Investment Ltd.	10.0%
Others	65.5%

Source: VNDIRECT

Amazing absorption of Jamila sales proves strong demand for medium range condos. According to most real estate consultants, the medium and affordable apartment segment is expected to take center stage this year in terms of volume. KDH's Jamila project, with a selling price of round US\$1,100/sqm, is suitable for medium-income and young buyers. The 95% sales absorption of Jamila in FY17 could be seen as a positive signal for the upcoming condo project (Sapphire) which will see 1,300 units launched into the market this year; we see a lot of similarities between the two projects.

The merger with BCI has laid a solid foundation to secure long-term growth. KDH holds a total of around 50ha itself concentrated in District No.9. Most of this will be used for developing are landed properties that already feature in KDH's development pipeline through to 2020. The company is looking to diversify its footprint and move into the western part of HCMC where the land cost is still reasonable and there is plenty of undeveloped land bank. BCI owns nearly 500ha of land bank in Binh Chanh and Tan Phu District but is constrained in its development ability and brand image. The merger will augment BCI's land bank with KDH's strong execution and product capabilities, thereby raising returns on capital of the combined entity. To do this, KDH will take full control in BCI which will allow it to reconfigure the product and lift project presale prices versus the initial BCI plan.

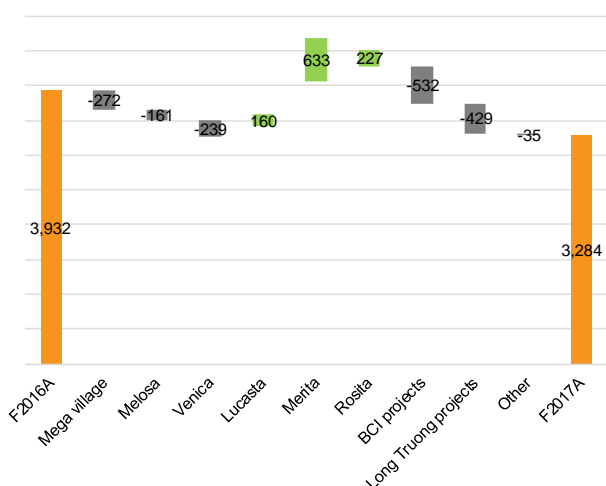
2018 presale plan looks solid. KDH will launch 13,000 condo units (Sapphire) and 455 town houses and villas in 2018. It also expects to sell out 154 units from its last year's stock. The upcoming condo project may have a slightly slower absorption rate compared to Jamila when launched in 3Q/2018 due to its larger size relative to Jamila. Other town houses and villas projects such as Binh Trung, Phu Huu town house, and Kim Phat will be launched this year. KDH has not yet announced its FY18 presale targets for 2018 but expects to report VND3,500bn revenue (+6%) and VND800bn EAT (+58%) thanks to the delivers of the Merita, Venica, Feliza, and Rosita landed property projects this year.

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	621	1,050	3,932	3,284
Revenue growth	452.1%	69.1%	274.5%	(16.5%)
Gross margin	14.6%	32.2%	24.9%	32.4%
EBITDA margin	23.0%	32.0%	15.3%	23.7%
Net profit (bn)	102	260	372	507
Net profit growth		155.0%	42.8%	36.4%
Recurring profit growth		155.0%	42.8%	36.4%
Basic EPS	1,277	1,571	1,589	1,779
Adjusted EPS	1,277	1,571	1,589	1,779
BVPS	15,369	13,949	14,858	15,531
ROAE	8.3%	10.9%	11.0%	11.7%

Source: VNDIRECT

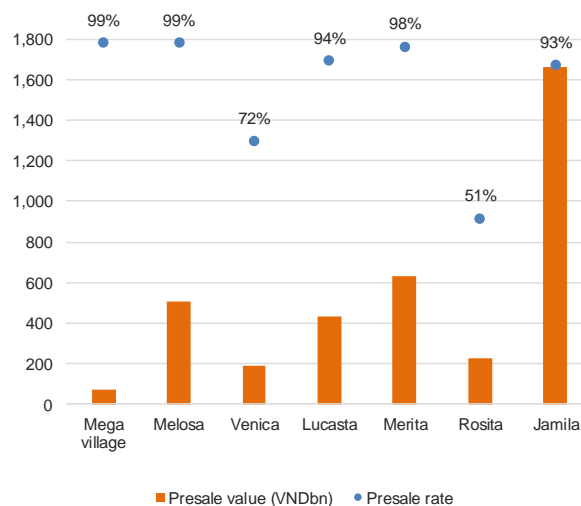
2017 preliminary earnings growth was stellar. Revenue come from the deliveries of Melosa, Lucasta, and Venica and would have grown 35% in FY17 if it were not for the transfer of the Truong Long and BCCI projects to other developers in FY16 which created a high-base effect; these projects were transferred at cost and so did not have a similar distorting impact on earnings. Despite this, FY17 gross profit only rose by around 10% due to the more expensive land cost for Merita and Melosa bookings. KDH also saw its financial income surge by VND58bn thanks to cash proceeds from the recent right issue and 20% subsidiary divestment in 2Q 2017. Overall, KDH reported a bottom line growth of 36% backed by higher delivery value, higher interest income and a proportionately lower rise in sales expenses, relative to revenue.

Figure 1: FY2017 Revenue recognition breakdown (VNDbn)



Source: VNDIRECT, KDH

Figure 2: FY2017 Presale performance

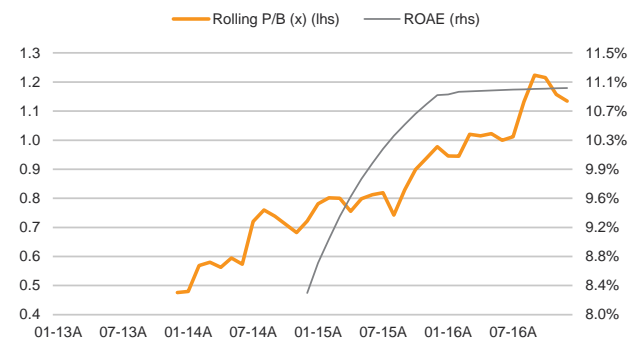
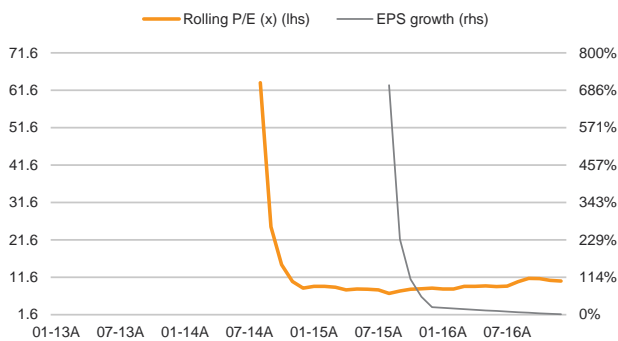


Source: VNDIRECT, KDH

BCI's major projects are still uncertain. Tan Tao project (335 ha) has completed more than 50% its land resettlement while Corona (17 ha) is still waiting for supporting infrastructure development to create connectivity with the inner districts. KDH expects to launch Corona whenever the connecting road is ready but the timing for Tan Tao is still unclear and highly dependent on the land compensation process. The land cost of the project was not provided but could be estimated at VND2trl based on the book value reported by BCI and the progress so far on the project development. Given its massive land size, Tan Tao residential compound will comprise medium range condominiums and landed properties (terraced houses & villas) integrated into a self-sufficient community with a complete range of supporting amenities.

The merger between KDH and BCI is nearly complete. KDH and BCI shareholders have already reached agreement to swap all outstanding shares at BCI (37mn shares equivalent to 42.7% stake; KDH already owns the remaining 57.3% of BCI) into KDH shares in the ratio of 1.4 KDH shares per BCI share. All BCI shares will be delisted on the 23rd of Feb 2018 to execute the swap. The resulting expansion in outstanding shares will open up additional foreign room in KDH and could be a positive share price catalyst as KDH usually has little or no available foreign room.

Valuation



Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	1,050	3,932	3,284
Cost of sales	(712)	(2,952)	(2,220)
Gen & admin expenses	(76)	(118)	(121)
Selling expenses	(62)	(173)	(119)
Operating profit	199	689	824
Operating EBITDA	202	699	831
Depreciation and amortisation	(3)	(10)	(8)
Operating EBIT	199	689	824
Interest income	79	17	74
Financial expense	(59)	(111)	(123)
Net other income	90	(23)	(16)
Income from associates & JVs	15	11	8
Pre-tax profit	324	583	766
Taxation	(49)	(177)	(202)
Minority interests	(15)	(34)	(57)
Net profit	260	372	507
Adj. net profit to ordinary	260	372	507
Ordinary dividends			
Retained earnings	260	372	507

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	983	1,059	2,591
Short term investments	44	1	0
Accounts receivables	654	1,485	1,664
Inventories	5,865	4,618	4,621
Other current assets	90	78	31
Total current assets	7,636	7,241	8,908
Fixed assets	472	300	342
Total investments	227	209	98
Other long-term assets	208	187	249
Total assets	8,542	7,937	9,597
Short-term debt	219	194	186
Accounts payable	49	80	50
Other current liabilities	756	998	1,460
Total current liabilities	1,024	1,272	1,696
Total long-term debt	2,699	1,700	1,471
Other liabilities	633	567	234
Share capital	1,800	2,340	3,360
Retained earnings reserve	269	469	703
Shareholders' equity	3,264	3,477	5,218
Minority interests	921	921	978
Total liabilities & equity	8,542	7,937	9,597

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pre-tax profit	324	583	766
Depreciation & amortisation	3	10	8
Tax paid	(35)	(92)	(124)
Other adjustments	(205)	(202)	(118)
Change in working capital	97	899	(236)
Cash flow from operations	185	1,197	295
Capex	(8)	(4)	(6)
Proceeds from assets sales	3	0	76
Others	0	44	85
Other non-current assets changes	(1,989)	47	64
Cash flow from investing activities	(1,994)	86	219
New share issuance	1,606	1	1,488
Shares buyback	0	0	0
Net borrowings	852	(1,081)	(236)
Other financing cash flow	0	0	0
Dividends paid	(101)	(126)	(234)
Cash flow from financing activities	2,357	(1,207)	1,017
Cash and equivalents at beginning of period	435	983	1,059
Total cash generated	548	77	1,532
Cash and equivalents at the end of period	983	1,059	2,591

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	24.8%	9.5%	15.4%
Asset turnover	0.18	0.48	0.37
ROAA	4.5%	4.5%	5.8%
Avg assets/avg equity	2.45	2.44	2.02
ROAE	10.9%	11.0%	11.7%
Efficiency			
Days account receivable	48.9	67.5	54.2
Days inventory	3,006	573	760
Days creditor	25.1	9.9	8.2
Fixed asset turnover	4.4	10.2	10.2
ROIC	3.7%	5.9%	6.5%
Liquidity			
Current ratio	7.46	5.69	5.25
Quick ratio	1.73	2.06	2.53
Cash ratio	1.00	0.83	1.53
Cash cycle	3,029	630	806
Growth rate (yoy)			
Revenue growth	69.1%	274.5%	(16.5%)
Operating profit growth	614.0%	245.7%	19.5%
Net profit growth	155.0%	42.8%	36.4%
EPS growth	23.1%	1.1%	12.0%
Share value			
Basic EPS (VND)	1,571	1,589	1,779
BVPS (VND)	13,949	14,858	15,531

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

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:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- 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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