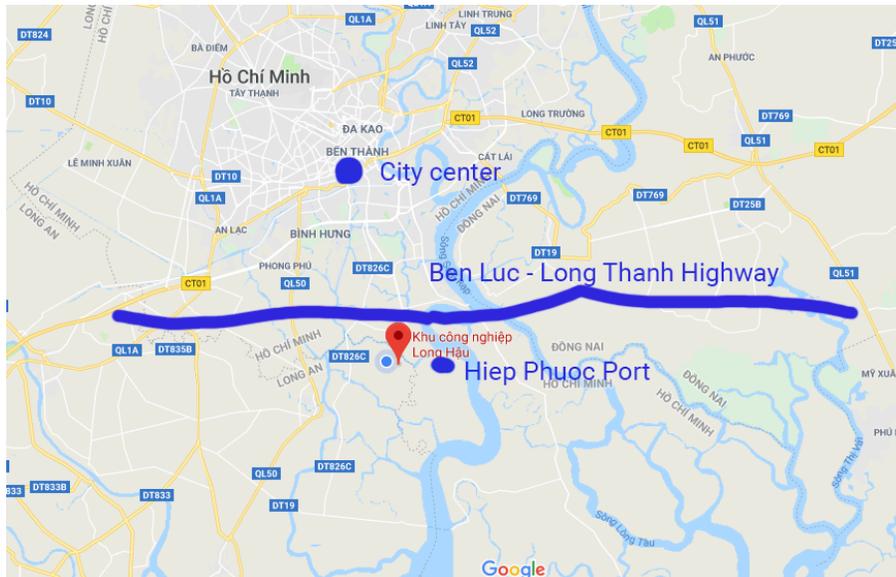


LONG HAU INDUSTRIAL PARK (HSX: LHG) – 16th Oct 2018

LHG – LONG HAU INDUSTRIAL PARK – **WATCH**

We visited LHG to have an update on their 2019 plan. LONG HAU INDUSTRIAL PARK is located at the south of Ho Chi Minh City, about 40 minutes from the city centre. The location is quite convenient as it's not too far from HCM, only three kilometres to Hiep Phuoc Port and a few kilometres to Ben Luc – Long Thanh Highway which is being built at the moment (targeted completion 2020). We happened to witness a long highway span being connected to the highway.



Long Hau Industrial Park location



Ben Luc – Long Thanh highway is being constructed at the moment.

First impression:

- The Industrial Park (IP) looks well-managed. I would say it's one of the best-looking IP that I have visited.
 - Key selling point of LHG: they provide all services and solve all problems:
 - o They will help investors to apply for investment license. This includes advising on tax procedures, providing legal consultants, managing customs issues.
 - o They also help their clients to recruit workers (to minimise the conflict between factories in term of recruiting workers). It's quite troublesome for the factories to recruit workers as once the IP gets bigger, the local supply of workers becomes insufficient. The new factories have to hire workers from other (or nearby) provinces or pay higher salaries to attract workers from other factories.
 - o They also have a dormitory for workers.
 - o In 2019, LHG will have a small subsidiary to provide some essential services for the clients: daily meal of workers, shuffle bus and so on.
 - o LHG has a RM/sales team with Japanese, Koreans and Americans to support and maintain relationships with clients from those countries.
- ⇒ With the above reasons, LHG is able to sell its land at \$110-\$130/m², \$10-\$15/m² higher than its neighbour (Hiep Phuoc Industrial Park).



Long Hau applied Virtual Reality to showcase its IP on their website. I like the way they market their products using new technology. You could have a look around the IP here:

<https://www.longhau.com.vn/>

Outlook for 2019:

- The Long Hau 3 project is a big project **covering 900ha**. Phase 1, with 90ha, will be open for sale in 2019. However, clearing the land is the problem, some households are still living there. It will take time for negotiation.
- However, they can clear about 70% of the land and sell about 20ha in 2019, in which 10ha is already booked. I think the 2019 target is easy to reach but the ability to clear the land to boost the net leasable area in 2019 is difficult.
- The company confirmed that the ability to sell is not their problem. The problem is clearing the land (which recently become a bit sensitive). However, the legal issues are all clear and by law, enforcement measures could be used.
- Revenue for 2019: My estimation (abit conservative) is about VND600bn to VND620bn
 - o VND550bn from selling 20ha.
 - o About VND50bn from factory rentals.
 - o About VND20bn from services.
 - o Gross margin will be lower than the previous year due to higher land acquisition cost. I think it will be about 40%-45%
 - o My estimation for 2019 EBIT will be about VND270bn (EPS VND4,300/share).

Conclusion:

- The outlook for the next few years depends on their ability to clear the land. The faster the land clearing process, the better their eventual revenue. However, LHG confesses they will miss the “wave” if they cannot clear the land in 2019.
- Good company. I have positive feelings about Long Hau managers. I think they manage the IP well and really know how to run this business.
- I would recommend a **BUY at VND20,000 – VND21,000** (10% discount to book value) to avoid risk. Given the current market fluctuation, I think it’s possible to have this price in 2018. **ADD INTO YOUR WATCHLIST**
 - Dividend yield is 7.3%/year (based on 6-month average price around VND20,600).



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