

NO VA LAND INVESTMENT GROUP CORPORATION (NVL)

Current Price VND70,000 **Target Price** VND69,500 **Dividend Yield** NA% **Recommendation** Hold **Sector** Real estate sector

Outlook – Short term



Outlook – Long term



Valuation

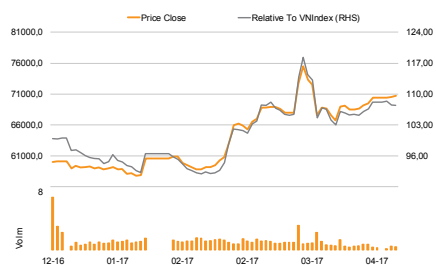


17 April 2017

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Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	75,500
52w low (VND)	57,800
Average daily turnover (3m)	1,616,058
Market cap (VND) billion	41,256
Outstanding shares (m)	581
Free float (%)	33
Beta	NA

Ownership

Major shareholders	% ownership
CTCP Novagroup	25.7%
Bui Thanh Nhon	21.4%
CTCP Diamond Properties	13.7%
Bui Cao Nhat Quan	5.3%

Source: VNDIRECT

Novaland Group (NVL) is a leading real estate developer in the mid to high-end segment in HCMC. Beside positive business results in 2017-2018, the stock price is expected on the role of large-cap stock and high probability to be added to VN30 basket. NVL share price went up 39% since the first listing date. However, share price remains reasonable thanks to contribution to RNAV of new projects. We hence recommend HOLD for NVL with fair value price of VND69,500/share.

Leading in the mid to high-end segment in HCMC. Since its inception, NVL has sold more than 13,000 apartments/office-tels, accounting for 24% market share for the period 2012-2016 and is carrying out over 40 projects with more than 27,000 units under construction.

Anticipated positive business results during 2017-2018. We expect the company's sales to be significantly positive in 2017-2018 due to recognized revenue and profit from contracted sales. We estimate a revenue of VND17,359bn and VND24,144bn in 2017 and 2018, respectively. For 2017, EAT attributed to parent shareholders is estimated at VND3,128bn (+87.9% yoy) and diluted EPS comes at VND4,746/share. As for 2018, EAT attributed to parent shareholders is expected at VND4,169bn (+33.3% yoy), translating into EPS of VND6,325/share.

Challenging long-term growth. It is harsher to maintain growth for revenue and profit in the future as the company's market share is large while the absorption rate is likely to decline.

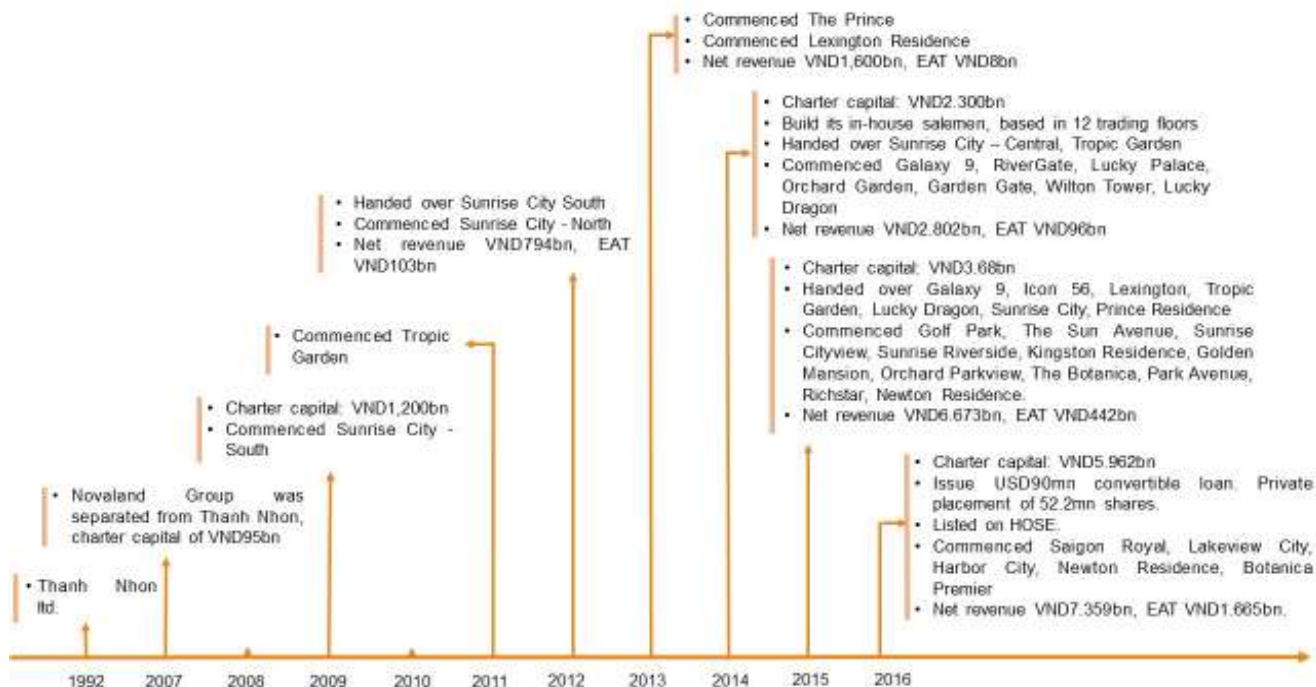
Investment view. For NVL shares, besides the positive earnings forecast for 2017-2018, share price is expected to run up on the role of large-cap stock and high probability to be added to VN30 basket. Upside for the stock will arise as NVL reveals info of their new projects. We recommend HOLD for NVL with a fair price of VND69,500/share.

Investment risks. Competition in mid-to-high-end apartment segment will be intensive in 2017-2018. The company exposes to market cycle which inherently leads by interest rate. Additionally, NVL has dilution risk from the conversion of convertible preferred shares and convertible debt into ordinary shares (nearly 70mn new shares in total). In the next AGM, the company is submitting a plan to issue large amount of convertible debts as well as new shares.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Revenue (bn)	6,673	7,359	17,359	24,144
Revenue growth	138%	10%	136%	39%
Gross margin	20%	22%	32%	28%
Operating EBITDA (bn)	830	1,002	4,726	5,891
Net profit (bn)	424	1,665	3,128	4,169
Net profit growth	352%	293%	88%	33%
EPS	1,150	2,793	4,746	6,325
BVPS	13,891	15,244	19,007	24,832
ROAE	11%	23%	29%	29%

INTRODUCTION

Company history



Source: NVL



In 1992, Thanh Nhon Ltd. was established and operated in the veterinary and aquatic medicine business. Besides, Thanh Nhon gained some expertise in executing villas for rent in District 2, HCMC.

In 2007, Noaland Group was separated from Thanh Nhon with initial chartered capital of VND95.3bn, operating solely in real estate. For the next 10 years, Noaland Group has been raising their capital from current shareholders and issuing additional shares. Remarkably, as of end-2016, Noaland Group became a public company and listed in Ho Chi Minh Stock Exchange (HOSE) under the ticker NVL, its chartered capital was VND5,962bn.

Ownership structure

Condensed shareholder structure. Currently, Chairman Bui Thanh Nhon and related parties own 65.36% outstanding shares and dominate the operation of the company. The recent participation of newly shareholders is expected to improve transparency as well as corporate governance.

In 2015, Noaland Group issued 17.83mn convertible preferred shares¹ to Dragon Capital (Wareham Group Limited, Amersham Industries Limited), EVN Finance, Hawke Investment Pte Ltd and VinaWealth Fund Management JSC at the price of VND60,000/share.

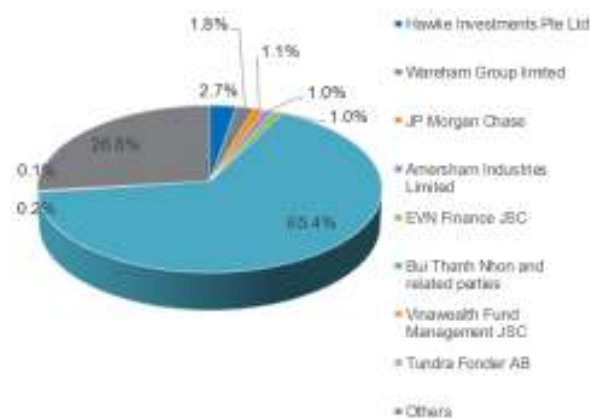
¹ The issuance had proceeds of over VND1,000bn, each preferred share is potentially converted into 3 ordinary shares at any time upon request of the owner or automatically converted after expiry incentives (3 years, expires in 2018). If the company has profit and the AGM approved to pay dividend, the preferred share owners will be paid a dividend of VND3,000/share in the first two years and VND9,000/share in third year (if the company does initially issue ordinary shares to the public).

According to our information, 3 out of 5 investors have done the right to convert their shares.

Private placement and conversion of preferred shares

	Pre-Private placement		Post-Private placement	
	No. of shares (mn)	%	No. of shares (mn)	%
Convertible preferred shares	17.8	3.4%	6.8	1.1%
Wareham Group limited	3.6	0.7%	-	0.0%
Hawke Investments Pte Ltd	5.4	1.0%	-	0.0%
Amersham Industries Limited	2.0	0.4%	-	0.0%
EVN Finance JSC	5.7	1.1%	5.7	1.0%
Vinawealth Fund Management JSC	1.1	0.2%	1.1	0.2%
New shares issued	-	0.0%	52.2	8.8%
Converted preferred shares	-	0.0%	33.0	5.5%
Wareham Group limited	-	0.0%	10.8	1.8%
Hawke Investments Pte Ltd	-	0.0%	16.2	2.7%
Amersham Industries Limited	-	0.0%	6.0	1.0%

Current shareholders' structure



Source: VNDIRECT

Source: VNDIRECT

Board of Director and Board of Management

Board of Directors and Board of Management of NVL are experienced and have a significant commitment to the company. They are well responsible for the development of land bank, capital raising, design – construction and sales. Since the last issuance as of end of 2016, there has been no alteration within the BoD.

BoD, BoM and BoS of Novaland Group

Members - Position	Qualification	Experience
Board of Director		
Bui Thanh Nhon - Chairman	Bachelor of Agriculture	Founder, chairman of BoD since inception
Bui Cao Nhat Quan - Vice chairman	Bachelor of Business Administration	10 years of experience in senior management at Nova Group
Phan Thanh Huy - Member	Doctor of Business Administration	15 years of experience in the finance and real estate sector, held many senior management positions in large organisations and
Cong Huyen Ton Nu My Lien - Member	MBA, ACCA	Many years of experience in the field of auditing and financial consultation in multinational corporations such as KPMG Vietnam
Hoang Thu Chau - Member	Bachelor of Economics	10 years of management experience at Novaland Group
Board of Management		
Phan Thanh Huy - CEO	Doctor of Business Administration	15 years of experience in the finance and real estate sector, held many senior management positions in large organisations and
Bui Cao Nhat Quan - Deputy General Manager	Bachelor of Business Administration	10 years of experience in senior management at Nova Group
Vo Thi Thu Van - Deputy General Manager	Master Degree	8 years of CFO experience
Bui Xuan Huy - Deputy General Manager	Construction Engineer	15 years of experience in the field of construction and project management
Le Hong Phuc - Deputy General Manager	MBA	20 years of experience in the field of human resource management at multi-national organizations, corporations
Eric, Chan Hong Wai - Deputy General Manager	Bachelor of Accounting and Finance, ACCA	15 years of experience in the field of auditing and fundraising
Hoang Thu Chau - Deputy General Manager	Bachelor of Economics	10 years of management experience at Novaland Group
Lucas, Marc Livingstone - Director of Quality Management	Environment & Construction Engineer	13 years of experience in the field of design, construction management and construction quality assurance
Park Woung - Director of Design	Architecture	20 years of experience in the field of Design, Design Management, of which over 9 years of working experience in Viet Nam
Board of Supervisor		
Nguyen Thi Minh Thanh	Bachelor of Economics	10 years of experience in auditing and internal affair management
Nguyen Vu Duy	Bachelor of Economics	8 years of experience in the field of auditing and internal affair management at multi-national organizations and corporations
Nguyen Anh Thi	Master degree - Lawyer	10 years of experience at law firms

Source: VNDIRECT

BUSINESS ACTIVITIES

Strengths are the high execution and sales ability

Scaling up via M&As. Despite the nascence of a new-comer with a mere 10 years of operation, Novaland has become as a big player in the M&A space in Vietnam. The M&A strategy helped Novaland to acquire large landbanks in prime locations across HCMC. Most of the acquired landbanks are of medium scale, with space to build 500-2,000 units.

Detail of M&As (net consideration)²

Net cash outflow on acquisition	2015	2016	Related projects
Group of Attland, Ha An, Me Linh	1,599		Saigon Me Linh Tower
Attland	505		
Ha An	851		
Me Linh	243		
Vung Tau Youth	29		
Tan Phu Seafood	330		
Nova Rivergate and Thanh nien JSC		910	RiverGate
Phu Viet Tin		970	The Tresor
Group of Tuong Minh and Phuong Dong		320	Wilton Tower
Nova Princess Residence		353	The Prince Residence
The 21st Century International Development JSC	1,341	3,579	LakeView, Water Bay
Nha Rong Investment and Trade JSC		861	Saigon Royal
Mega Housing & Mega Tie		16	
Vuong Cung Real estate Investment Co.		20	
Total	3,298	7,029	

Source: VNDIRECT

Competitive advantage of Novaland compared to other brand names in the segment.

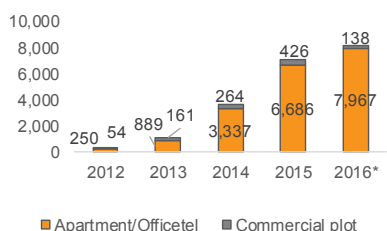
- Prime location
- Successful track record (quality and after-sale services of handed-over projects)
- Flexible payment schedule

Source: VNDIRECT

In 2015 and 2016, NVL acquired 14 companies with total cash outflow of more than VND10,000bn, of which, the most prominent one was the acquisition of The 21st Century International Development Co., Ltd with an amount of VND4,920 bn. This is the owner of two major projects, namely Lakeview City and Water Bay. The Lakeview City is expected to contribute significantly to revenue in 2017 and 2018. Meanwhile, the Water Bay will start to contribute to revenue from 2019.

Leading in the mid to high-end segment in HCMC. Since its inception, NVL has sold 13,000 apartments/office-tels, of which more than 6,100 are handed-over. According to Savills Vietnam, NVL’s total sale volume accounted for 21% of market share in the period of 2012-2016.

Sale performance 2012-2016



Source: VNDIRECT, *: included 588 units from projects developed under Novaland Group brand

NVL’s types of products

Product types	First launch	Descriptions
Apartment	2009	50-140m2, permanent ownership
Officetel	2009	25-37m2, unidentified time of ownership
Commercial plot	2013	20-95m2, 50-year ownership
Terraced house/Townhouse	2016	180-360m2, permanent ownership

Source: VNDIRECT

Successful in-house salesforce model. Currently, NVL is running 10 trading floors in HCMC with over 600 salesmen. NVL’s salesmen have exclusive mandate to sell NVL’s projects, they also have authority to sell other projects which are developed under Novaland brand name.

² NVL fully divested Saigon Melinh Tower project (No.2 Ngo Duc Ke Street, District 1, HCMC) by the end of 2016.

Undiversified product portfolio and exposure to market cycle

Undiversified product portfolio. Since its inception, NVL developed solely apartment for sale while was lacking buy-to-let and vacation properties.

Exposure to the market cycle. Unfavorable macroeconomic fluctuations can affect the rise or fall of the real estate market.

Opportunity from new market orientation

Growth potential in landed properties (terraced houses, commercial townhouse, villas). According to Savills, the current supply of these types of products does not meet the demand and the absorption rate (30-40%) is always higher than that of apartments (20%). Thus, we appreciate company's penetration into these segments.

In addition, the tourism/vacation property market is also the future orientation of NVL.

Interest rates still support the market. We believe that although interest rates tend to surge, they are still within the tolerance of real estate developers and buyers. As a result, the amount of market transactions will remain at the high level. And with favorable interest rates, the real estate cycle will last longer.

Risks

Intensifying competition in the mid to high-end apartment market. According Savills, the primary supply of apartments in HCMC in 2017 and 2018 is remaining high (the average supply per year is equivalent to 2016, ~60,000 units). Meanwhile, we suppose the absorption rate is decreasing because the market has consumed a large number of products during the last four years. This leads to a prediction that the prices of mid-high-end apartments are likely to increase at slower pace going forward.

Scarcer available landbanks in HCMC's CBD causes high and increasing land cost. This will affect the possibility of successful M&As and profit margin of projects in the central business districts.

Mid to high-end segment is highly sensitive to change in interest rate. For details:

- Increasing interest rates may affect the cost of capital at projects' level. NVL's project construction period usually lasts 3 years and is financed 40-50% by bank loan. According to our calculations, with every 1% increase in interest rate, the gross profit margin of the project reduced by 0.7-1.1% (assuming unchanged sales progress).
- With an average selling price (ASP) of VND2.3-3.3bn/unit, we believe that a 2-3% change in interest rates will substantially exert huge impact on customers' decisions (buy or not, assuming that dual-income family has income of USD10,800 year - twofold GDP/capita in HCMC, according to HCMC's statistics office).

Low return on investment in properties. About 15-20% of NVL's clients are investors, and the same percentage is for speculators. As discussed above, we expect a hike in completed mid-to-high-end units over 2017-2018, which is likely to reduce rental yield on mid-to-high-end apartments. According to our survey, the spread between rental income of apartments (5-7%/year) and saving interest rate (6.5-

7.5%/year) is widening for the past 2 quarters. Low return on investment can slow down the sales.

2016 – LOW ORGANIC GROWTH

Business results during 2014-2016

	2014	2015	2016
Net revenue	2,801,811	6,673,435	7,359,180
Gross margin	475,371	1,339,863	1,583,080
Gross profit margin	17.0%	20.1%	21.5%
SG&A	(231,500)	(598,777)	(807,086)
Financial income	60,441	344,536	2,523,043
Financial expenses	(188,275)	(440,475)	(1,115,230)
In which: Interest expense	(134,769)	(351,425)	(863,073)
EBT	130,309	608,113	2,189,704
EAT	93,696	415,423	1,665,078
EPS	656	1,374	2,793
ROE	2.8%	7.3%	16.6%
ROA	0.6%	1.7%	4.6%

Revenue came from Lexington Residence, Sunrise City – North, Tropic Garden, Prince Residence, Galaxy 9, Icon 56, Lucky Dragon.

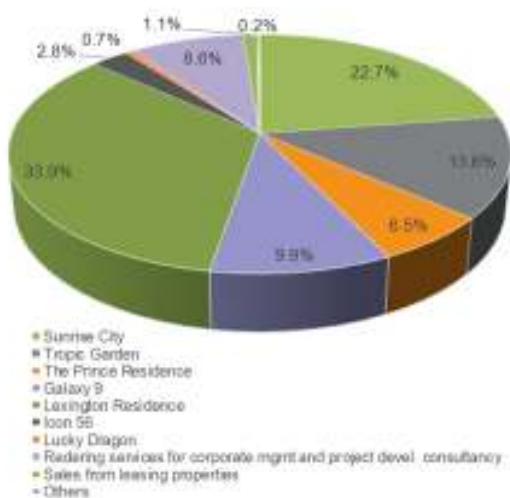
Financial income came from revaluation of investment in The 21st Century International Development, Nha Rong Investment and Trade JSC, Mega Housing JSC.

Financial expense increases due to change in interest expense.

Source: VNDIRECT

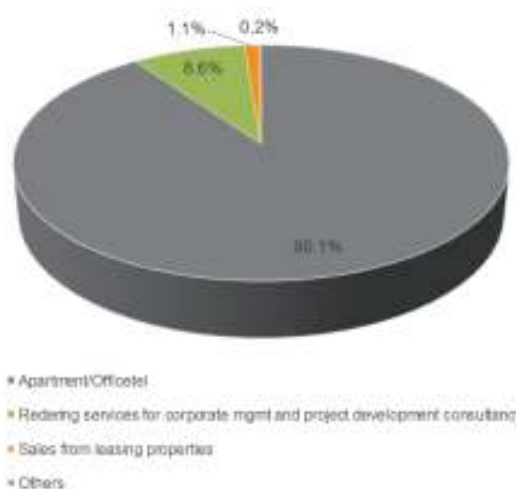
Accumulated net revenue reached its record high since inception with VND7,359bn (+10.3% yoy), 9.3% higher than company’s 2016 target. Of which, revenue from sale of real estate accounted for 90.1% thanks to booking of handed-over projects such as Lexington Residence and Sunrise City-North.

FY2016 revenue breakdown by projects



Source: VNDIRECT

FY2016 revenue breakdown by product types



Source: VNDIRECT

By division, gross profit from sale of real estate arrived at VND1,535bn (+6.7% yoy), other activities contributed negligible amount to total gross profit. Gross margin of real estate segment in 2016 (23.1%) slightly decreased compared to that of 2015 (23.9%) as revenue from Sunrise City-North which had low profit margin, accounted for a large proportion (33.9%). Generally, the gross profit margin of the company was 21.5%.

Administration expense surged to VND642bn (+78.3% yoy) as the company allocated goodwill from raising its stake in subsidiaries to acquire landbanks.

Gain on investment revaluation made up financial income. NVL recorded VND2,526bn in financial income (+654% yoy), thanks to the revaluation profit (VND1,597bn) including The 21st Century International Development JSC, Nha Rong Investment and Trade

JSC, Mega Housing JSC. However, the profit from this revaluation profit will be recognized in COGS when the LakeView and Saigon Royal projects are handed over to customers from next year. In addition, the company recorded financial gain of VND457bn, comprising the fully divestment in Saigon MeLinh Tower project.

Financial expenses soared. In 2016, interest expenses increased sharply to VND863bn (+145.6 yoy) due to a significantly surge in interest-bearing loans (+68.9% yoy).

Without financial income, EAT is low. Eventually, EAT for parent shareholders was VND1,665bn (+300.8% yoy). Weighted basic EPS of the year came at VND3,396/share. But we restate a pre-tax gain on investment revaluation of VND1,597bn from The 21st Century International Development JSC, Nha Rong and Mega Housing.

Revenue breakdown forecast

	2016A	2017F	2018F
Sale of real estate	6,631	16,538	23,223
Sunrise City	1,670	268	-
Tropic Garden	1,002	175	-
The Prince Residence	475	30	-
Galaxy 9	730	209	-
Lexington Residence	2,496	138	-
Icon 56	209	131	-
Lucky Dragon	49	-	20
The Botanica	-	-	259
Garden Gate	-	1,167	-
Lucky Palace	-	992	59
Orchard Garden	-	1,141	74
LakeView City	-	668	1,695
Golf Park	-	5,580	47
Golden Mansion	-	217	1,519
Rivergate	-	184	1,389
Kingston Residence	-	913	961
The Tresor	-	512	563
The Sun Avenue	-	2,010	1,354
The Botanica Premier	-	-	2,256
Wilton Tower	-	-	532
Orchard Parkview	-	-	989
Sunrise Cityview	-	-	2,197
Sunrise Riverside	-	-	4,224
Harbor City	-	-	4,130
Khác	-	2,202	954
Redering services for corporate mgmt and project development consultancy	634	713	798
Sales from leasing properties	82	91	102
Others	12	18	21
TOTAL REVENUE	7,359	17,359	24,144

Source: VNDIRECT

2017 - 2018 RAPID GROWTH ANTICIPATED

In our forecast, NVL will maintain its growth in revenue and profit for the next 2 years thanks to:

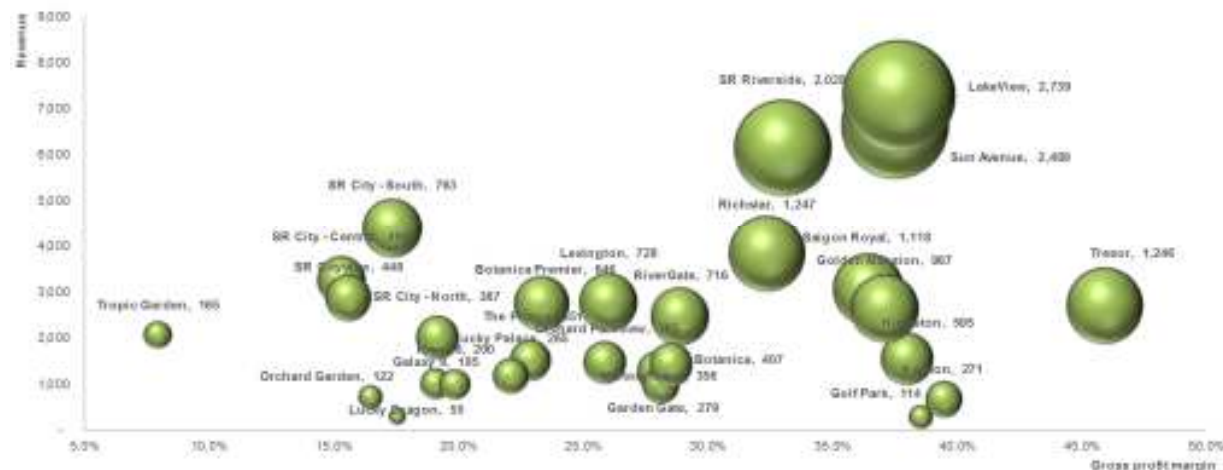
- Internal factors: (1) In 2016, NVL enjoy strong sale momentum as various highly liquid projects in prime location were launched in favorable market condition. This resulted in huge sale volume of over 8,000 units and contracted sales of VND20,000bn. For 2017, we estimate a strong and achievable pre-sales volume of over 7,000 units and contracted value of around VND24,000bn (2) large number of units from large-scale consecutive projects, (3) NVL has promptly diversified its residential product portfolio by adding low-rise properties (villas, townhouses in LakeView City and Harbor City Project) which have higher ASP and profit margins.
- Objective factors: real estate developers including NVL, and buyers are still enjoying favorable interest rate.

NVL will hand over LakeView City, The Tresor, The Botanica, Orchard Garden, Lucky Palace, River Gate, Garden Gate in 2017 and The Sun Avenue, The Tresor, The Botanica Premier, Sunrise Cityview, Sunrise Riverside, Orchard Parkview, Newton Residence in 2018. We forecast net revenue of VND17.359bn (+135.9% yoy) and VND24.144bn (+39.1% yoy) in 2017 and 2018, respectively.

GPM to improve remarkably. In our forecast, GPM (gross profit margin) will increase sharply to 32.3% in 2017 and 28.4% in 2018 from 21.5% in 2016 thanks to large difference between projects and between products. For detail:

- The later projects tend to have better GPM. The very first projects such as Sunrise City and Tropic Garden had low GPM due to high land cost and timing of open-for-sale were in the downturn of the market (2009-2013), hence, it took longer time to complete sales while average selling price remained low. In contrast, later launched projects (after 2013) had higher GPM thanks to a significant decrease in land cost and construction cost, plus increasing selling price in the midst of warming-up market.
- Villa and townhouse projects enjoy GPM of 40-45%, higher than apartment for sale (16-40%), and office-tel with low gross profit margin (10.5%).

Revenue, Gross profit, GPM by projects



Source: VNDIRECT

For 2017, we estimate net financial cost of VND433bn, compared to VND1.408bn gain in 2016, mainly due to the increase of interest expenses while we yet include financial income from investment revaluation.

We pencil EAT of VND3.300bn in 2017 (+98.9% yoy), of which VND 3.128bn is attributed to parent shareholders (+87.9% yoy), generating a diluted EPS of VND4,746/share. At trading price of VND70,400/share, the stock has forward P/E of 14.8x and P/B of 3.7x.

For 2018, we forecast net revenue of VND24.144bn (+39.1% yoy) and EAT of VND4.294bn (+49.2% yoy), of which EAT attributed to parent shareholders is VND4.169bn (+33.3% yoy), translating into EPS of VND6,325/share.

LONG-TERM PROSPECT

NVL has large number of consecutive projects. Currently, the Group is carrying out over 40 projects with 27,000 units. These projects ensure NVL’s long-term business plan.

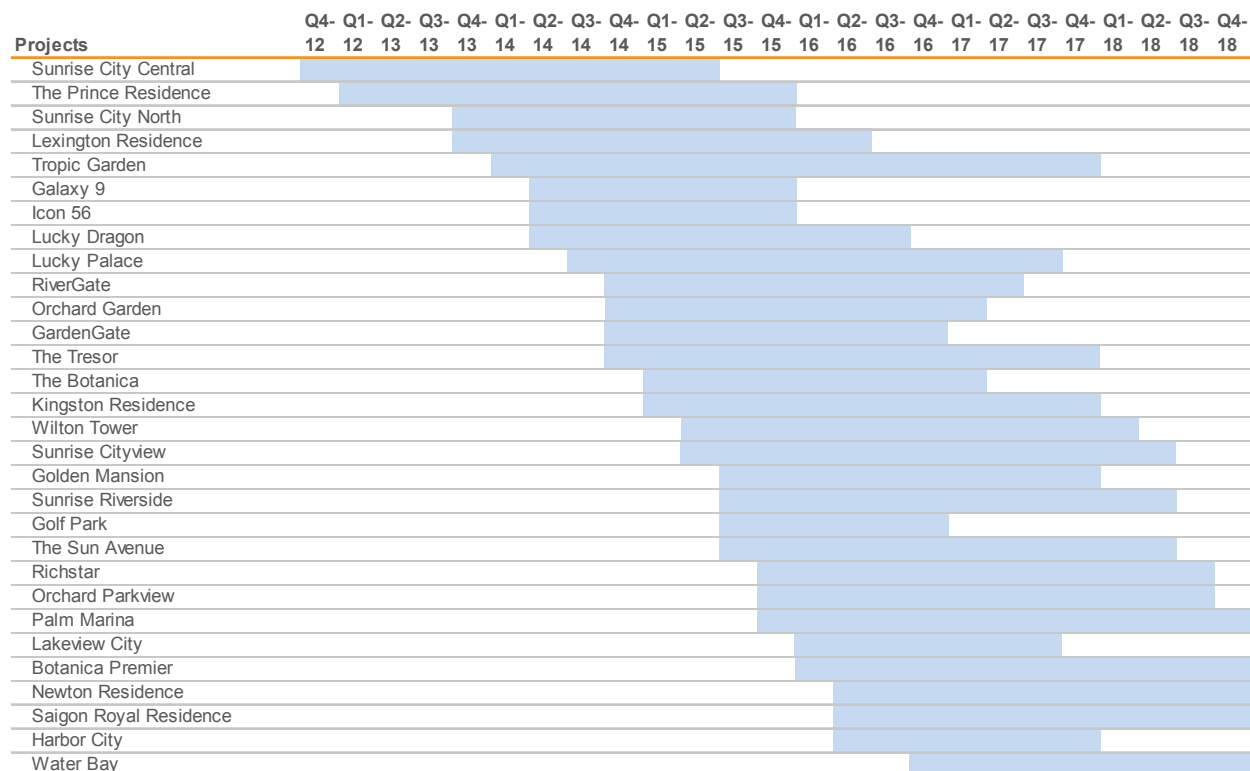
In addition, NVL targets large-scale landed-properties projects. Lakeview and Harbor city are the first low-rise projects that Novaland performs in its business strategy. This strategy will be applied over the next five years to avoid the anticipated competitive pressures in the mid-to-high-end segment and simultaneously, to improve its profit margin.

Gross floor area of on-going and upcoming projects

Areas	Gross floor area - GFA (m2)
Central	1,527,643
East	4,177,494
West	1,737,631
South	2,256,954
Outside HCMC	58,490
Total	9,758,212

Source: VNDIRECT

Development process (groundbreaking ceremony to start-to-deliver time)



Source: VNDIRECT

FINANCIAL ANALYSIS

Assets surge rapidly over the past 3 years

Boosted by M&As, the company's total assets have grown at considerable pace of 42.7% per annum since the end of 2012. As of 31 Dec 2016, total assets stood at VND36.527bn, (+37.5% yoy). Inventories and A/Rs accounted for 43.2% and 28.9% of total assets, respectively. By division, most short-term lending and other receivables are intended to boost M&As to acquire landbanks.

High financial leverage but the capital structure has improved

High leverage ratio. Developing many projects at the same time requires huge upfront capital. As a result, interest bearing debt to equity ratio increased sharply to 3.5x as of end-2011. In recent years, this index was improved thanks to new shares issued and strong pre-sales. However, the interest-bearing debt to equity ratio of 134.4% is still high compared to other companies within sector.

In 2017 and 2018, we suppose NVL's interest-bearing debts will not have much change due to consecutive projects. Currently, NVL has plan to issue corporate bond of VND 2,275bn. The company is in progress to finalize the issuance; hence we temporarily didn't consider the issuance in our model. Without big change in bearing debts, we expect a decline in the bearing debts to equity ratio, at 97% in 2017 and 75.8% in 2018, respectively.

Company	Total bearing debt/Equity
HDO	153,1%
PDR	134,9%
NVL	134,4%
NBB	91,6%
VIC	88,7%
ITC	55,2%
KDH	55,0%
QCG	51,3%
SCR	39,2%
TDH	32,3%
NLG	22,3%
DXG	19,3%
HQC	18,2%

Source: VNDIRECT

INVESTMENT VIEW

Key assumptions in valuation model

- Gross floor area and the number of apartments/land lots are information published by NVL. Selling price is collected by ourselves from NVL's salesmen or comparable selling price in the same area.
- The average cost of construction is about VND6bn/sqm, amended for each project.
- The NPV is calculated after deducting the corporate income tax of 20%.
- Owner's equity accounts for 15-20% of the total investment of the project. Bank loans for the project account for 30-40% of total investment with average interest rates around 10%/year. The rest will be financed by scheduled pre-sale proceeds.
- The discount rate of 11.6% is applied to calculate the NPV of the projects. This discount rate is calculated based on 14% required return on equity and 9.6% in required return on debt.
- All convertible loans, convertible preferred shares are assumed to be converted into ordinary shares to calculate the number of shares.

Source: VNDIRECT

Valuation summary

Projects	Revised value	Owners hip	Value attributed to		Valuation method
			NVL		
Sunrise City	644,769	69.9%	896,098		DCF
Tropic Garden	163,666	100.0%	163,666		DCF
Lexington Residence	472,546	99.9%	472,073		DCF
The Prince	267,837	99.8%	267,328		DCF
Galaxy 9	163,841	100.0%	163,808		DCF
Icon 56	143,934	100.0%	143,934		DCF
RiverGate	1,014,059	99.7%	1,011,017		DCF
Saigon Royal	667,551	100.0%	667,284		DCF
The Tresor	849,835	99.9%	848,900		DCF
The Sun Avenue	1,577,288	99.9%	1,575,710		DCF
Lucky Dragon	31,558	100.0%	31,558		DCF
Golf Park	94,738	69.9%	66,222		DCF
Wilton Tower	228,345	99.9%	228,094		DCF
Lucky Palace	180,137	100.0%	180,137		DCF
Sunrise Cityview	(22,895)	99.9%	(22,872)		DCF
Sunrise Riverside	1,160,993	99.9%	1,159,832		DCF
Garden Gate	158,075	94.0%	148,622		DCF
Kingston	417,610	99.9%	417,192		DCF
Orchard Garden	77,645	100.0%	77,645		DCF
Orchard Parkview	219,648	74.0%	162,539		DCF
Newton	172,553	99.9%	172,381		DCF
The Botanica	274,564	100.0%	274,564		DCF
The Botanica Premier	534,526	99.9%	533,992		DCF
Richstar	710,901	100.0%	710,830		DCF
Lakeview city	2,523,637	99.9%	2,520,104		DCF
Golden Mansion	598,460	74.0%	442,741		DCF
Harbor City	1,795,500	27.9%	501,124		Savills
Water Bay	3,512,300	99.0%	3,475,772		Savills
Palm Marina	1,143,000	77.4%	884,911		Savills
Serai Nova Phu Sa	110,300	100.0%	110,300		Savills
Project A	306,000	99.9%	305,694		Savills
Project B	450,000	99.9%	449,550		Savills
Project C	8,550,000	99.9%	8,541,450		Savills
Project D	360,000	99.9%	359,640		Savills
Project E	819,000	99.9%	818,181		Savills
Project F	1,706,000	99.9%	1,704,294		Savills
Project G	423,000	99.9%	422,577		Savills
Project H	3,680,000	99.9%	3,676,320		Savills
Project I	6,356,300	99.9%	6,349,944		Savills
Project J	2,221,093	99.9%	2,218,872		Savills
Project K	1,646,883	99.9%	1,645,236		Market comparable valuation
Project L	729,000	99.9%	728,271		Savills
Project M	810,583	99.9%	809,773		Market comparable valuation
Project N	490,811	99.9%	490,320		Market comparable valuation
Project O	237,024	99.9%	236,787		Market comparable valuation
Project P	522,168	99.9%	521,646		Market comparable valuation
Project Q	236,561	99.9%	236,324		Market comparable valuation
Project R	170,834	99.9%	170,663		Market comparable valuation
Projects' value	49,602,175		47,971,045		
Equity converted from loans			2,050,500		USD60mn convertible loan for Credit Suisse AG and USD30mn convertible loan for GW Supernova Pte.Ltd
Net debt			539,641		Net debt, excluding debts in project level
Other liabilities			3,705,442		Other liabilities in corporate level
RNAV (VND billion)			45,776,462		
Fully diluted no. of shares			659,042,113		
Current no. of shares			589,369,234		
New shares from converted loans			49,182,879		33.459.554 shares and 15.723.325 shares converted for Credit Suisse and GW Supernova Pte. Ltd, respectively.
New shares from convertible preferred shares			20,490,000		
RNAV/share			69,459		

Source: VNDIRECT

No dividend payment history. The company's representatives reveal that the dividend payment for 2016 is maximum of 5%/par which translate into 0.7% dividend yield, not compelling at all. With 30%/par cash dividend to preferred shareholders and assuming 5%/par cash dividend to common shareholders, the total dividend payment for 2016 is of VND320bn.

Action. For NVL shares, besides thriving 2017-2018 earnings forecast, NVL share price is expected to run up on the role of a large-cap stock and high probability to be added to VN30 basket. NVL went up 39% since the first listing date. However, share price remain reasonable thanks to contribution to RNAV of 7 projects (K, M, N, O, P, Q, R). We hence recommend HOLD for NVL with fair value price of VND 69,500/share. Upside for the stock will arise as NVL reveals info of their new projects.

Risks and restrictions

The mid and high-end apartment market will be fragmented when developers rush to launch new projects, causing intensifying competitive in 2017. According to Savills Vietnam, there is supply of 60,000 newly launched apartments from 1Q2017 to 2018. Thus, supply will remain as high as 2015 and 2016. The market is absorbing large supply, so the absorption rate has relatively decreased in the next 2 years.

According to the Vietnam Housing Law 2014, since June 2016, apartments have been banned on the use for non-residential purposes.

The office-tel demand has risen sharply since the Housing Law officially banned on the use of apartments for non-residential purposes. However, up to now, there has been no official regulation on the time of ownership of office-tel, thus dampening demand for this type of product. Additionally, the recent appearance of co-working spaces has also put some pressure on the office-tel market.

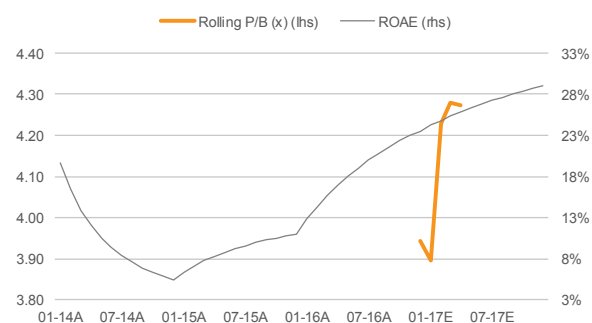
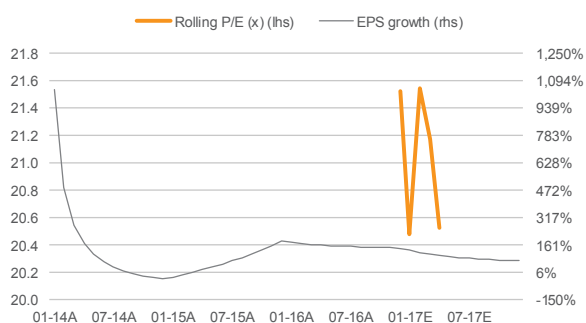
Interest rate risk. Real estate investment businesses are highly sensitive to change in interest rates, especially in the mid-to-high-end segment. Circular 06/2016/TT-NHNN is expected to gradually restrict credit to real estate investors. Therefore, NVL may be subject to increase in bank-credit interest rates in the coming years.

Dilution risk. According to outstanding balance of convertible loan as of 31 Dec 2016, NVL might issue a maximum of 49.1mn common shares in 2017 for loan swap. In addition, there is potential of 20.5mn common shares converted from 6.83mn convertible preferred shares (at any time upon request of the owner or automatically converted after expiry incentive). As probability of conversion is high, we already put it into valuation model.

In the next AGM, BoD will submit a plan to issue 23 new million preferred shares at price not lower than VND 50,000/share, VND 2,275 billion convertible bonds, 29.8 million ESOP shares. Along with high capital need, we suppose the company will have another issuance of shares and bonds, resulting in further dilution risk.

Concern that foreign shareholders will sell. Almost foreign shareholders have insignificant percentage of ownership, thus, they may not have strategic commitment to NVL, so they can sell large amounts of shares in the future.

Valuation



Income statements

(VNDbn)	12-16A	12-17E	12-18E
Revenue	7,359	17,359	24,144
Cost of sales	(5,776)	(11,745)	(17,279)
Gen & admin expenses	(642)	(694)	(705)
Selling expenses	(165)	(208)	(290)
Operating profit	776	4,712	5,870
Operating EBITDA	1,002	4,726	5,891
Depreciation and amortisation	(226)	(14)	(21)
Operating EBIT	776	4,712	5,870
Interest income	2,523	573	485
Financial expense	(1,115)	(1,160)	(988)
Net other income	5	0	0
Income from associates & JVs	0	0	0
Pre-tax profit	2,190	4,125	5,367
Taxation	(530)	(825)	(1,073)
Minority interests	6	(172)	(125)
Net profit	1,665	3,128	4,169
Adj. net profit to ordinary	1,665	3,128	4,169
Ordinary dividends	(55)	(319)	(330)
Retained earnings	1,610	2,809	3,839

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	3,337	5,927	6,657
Short term investments	965	965	965
Accounts receivables	10,548	10,186	10,919
Inventories	15,790	19,641	23,102
Other current assets	562	1,279	1,729
Total current assets	31,201	37,998	43,372
Fixed assets	434	202	190
Total investments	375	588	838
Other long-term assets	4,518	2,413	2,438
Total assets	36,527	41,201	46,838
Short-term debt	5,596	5,471	5,504
Accounts payable	1,506	1,686	1,804
Other current liabilities	7,910	6,897	7,301
Total current liabilities	15,011	14,055	14,609
Total long-term debt	7,907	7,731	7,778
Other liabilities	3,561	5,808	6,929
Shareholders' equity	9,088	12,526	16,365
Minority interests	958	1,081	1,156
Total liabilities & equity	36,527	41,201	46,838

Cash flow statement

	12-16A	12-17E	12-18E
Cash flow from operating activities	205	6,510	4,286
Net profit before tax	2,190	4,125	5,367
Adjustment for:			
Depreciation & Amortization	226	14	21
Provisions	(41)	(39)	(47)
Unrealised fx (gains)/losses	35	-	-
Profits from investing activities	(2,228)	8	(1)
Interest expense	910	14	14
Operating profit before changes in WC	1,091	4,122	5,354
Changes in working capital	(887)	2,388	(1,068)
Net cash flow from investing activities	(6,604)	(3,250)	(3,256)
Purchases of fixed assets	(215)	(38)	(7)
Proceeds from disposal of fixed assets	16	1	1
Other investment	(6,404)	(3,213)	(3,250)
Net cash flow from financing activities	5,876	(669)	(300)
Proceeds from issuance of shares.	3,985	-	-
Net borrowings	3,085	(301)	80
Dividends paid	(55)	(319)	(330)
Net cash flow	(523)	2,590	730
Cash and equivalents at beg of year	3,860	3,337	5,927
Cash and cash equivalents at end of year	3,337	5,927	6,657

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	23%	18%	17%
Asset turnover	0	0	1
ROAA	5%	8%	9%
Avg assets/avg equity	4	4	3
ROAE	23%	29%	29%
Efficiency			
Days account receivable	525	214	165
Days inventory	1,001	610	488
Days creditor	95	52	38
Fixed asset turnover	9	55	123
ROIC	7%	12%	14%
Liquidity			
Current ratio	2	3	3
Quick ratio	1	1	1
Cash ratio	0	0	1
Cash cycle	1,430	772	615
Growth rate (yoy)			
Revenue growth	10%	136%	39%
Operating profit growth	5%	507%	25%
Net profit growth	293%	88%	33%
EPS growth	143%	70%	33%
Share value			
EPS (VND)	2,793	4,746	6,325
BVPS (VND)	15,244	19,007	24,832
DPS (VND)	92	483	500

Source: VNDIRECT

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