

NOVALAND GROUP JSC (NVL)

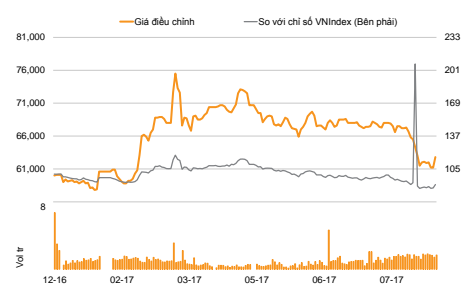
Current Price VND61,100	Target Price VND66,500	Dividend Yield NA%	Recommendation Hold	Sector Real estate
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Outlook – Short term**Outlook – Long term****Valuation**

28 August 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)	2,641,746
Market cap (VND) billion	38,989
Outstanding shares (m)	622
Free float (%)	34

Ownership

Major shareholders	% ownership
CTCP Novagroup	24.03%
Bui Thanh Nhon	23.14%
CTCP Diamond Properties	12.84%

Source: NVL

We reiterate HOLD recommendation with target price of VND 66,500/share after adjusting for dilution and valuation at Victoria Village, Water Bay and Harbor city. We notice downside risk for the stock price triggering by equity dilution as the company need to raise capital to finance its load of projects.

Low deliveries dragged down 1H business result. In 1H2017, NVL handed over 925 units (-58% yoy) and posted net revenue of VND 3,333bn (-32.9% yoy) and NPAT of VND 841bn (-45.3% yoy). This result completed only 19% and 26.8% of the company's revenue and NPAT target, respectively.

Pre-sale volume still on track. In 1H2017, NVL sold 4,500 units (+29% yoy), including 407 units from phase 1 of Victoria Village project which was launched in 1Q2017. Contracted value reached VND 16,700bn (+68.7% yoy) thanks to high-value products from low-rise projects.

Along with upcoming launch of Water Bay project, we anticipate over 7,000 units sold for the whole year (-13.6% yoy) with contracted value of VND 24,000bn (+11.1% yoy).

Bookings come mostly in second half. For 2017, we assume NVL will hand over 2,500 units from 16 projects, resulting in revenue of VND 16,282bn (+121.3% yoy) and NPATMI of VND 3,047bn (+83% yoy). EPS is of VND 4,959/share. At current trading price of VND 61,100/share, the stock has forward P/E of 12.3x and P/B of 3.3x.

New launches will secure pre-sales although delays cause a bit concern. In 1Q2017, NVL opened for sale Victoria Village in District 2 (1,200 units). NVL also expects to launch Water Bay (4,200 units) in 4Q2017.

For 2018, we forecast net revenue of VND 23,642bn (+45.2% yoy) and NPAT of VND 3,950bn (+24.9% yoy), of which NPATMI is VND 3,825bn (+25.5% yoy), giving us EPS of VND 5,441/share.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Net revenue (bn)	6,673	7,359	16,282	23,642
Revenue growth	138.2%	10.3%	121.3%	45.2%
Gross margin	20.1%	21.5%	31.0%	28.0%
EBITDA margin	15.9%	44.6%	27.5%	22.1%
Net profit (bn)	424	1,665	3,047	3,825
Net profit growth	352.0%	293.1%	83.0%	25.5%
Recurring profit growth				
Basic EPS	1,150	2,793	4,959	5,441
Adjusted EPS	1,150	2,793	4,959	5,441
BVPS	13,891	15,244	18,579	23,285
ROAE	10.9%	23.4%	28.0%	26.3%

Source: VNDIRECT

RECENT UPDATES

Mar 2017, NVL completed its increase of ownership at Phu Dinh Port JSC from 34.34% to 83.45%. The subsidiary has chartered capital of VND 1,000bn and is the developer of Harbor City project.

Apr 2017, NVL received the transfer of VND 1,939bn, equivalent to 99.99% of charter capital at Gia Duc real estate ltd. Co.

May 2017, Board of Directors (BoD) approved the issuance plan of corporate bond with a maximum total value of VND 2,000bn.

June 2017, NVL implemented the private placement to convert loan at Credit Suisse AG Bank, Singapore Branch. Accordingly, 33.5 million shares were issued at price of VND 40,867/share.

Jul 2017, NVL was added to VN30 basket which is valid from 24 Jul 2017 to 19 Jan 2018.

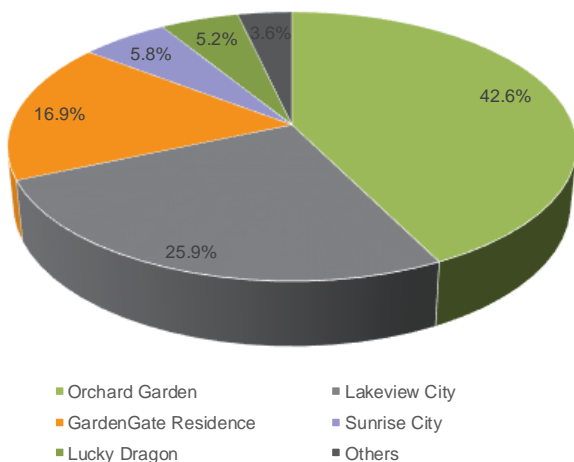
Aug 2017, BoD approved the transfer of 49.99 million ordinary shares, representing 99.98% ownership of NVL at Nova Galaxy Real Estate JSC.

Aug 2017, BoD approved the plan of getting a bank loan from Credit Suisse AG, Singapore Branch and other lenders pursuant to USD 100 million credit agreement.

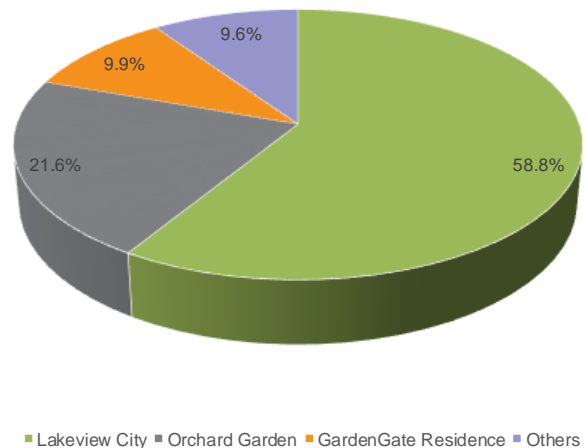
1H2017 – LOW DELIVERIES DRAGGED DOWN 1H BUSINESS RESULT

In 1H2017, NVL delivered 925 units (-58% yoy). Deliveries came mainly from Orchard Garden, Lakeview City, Garden Gate Residence. Consequently, for the first 6 months NVL posted net revenue of VND 3,333bn (-32.9% yoy) and NPAT of VND 841bn (-45.3% yoy). This result completed only 19% and 26.8% of the company’s revenue and NPAT target, respectively.

Delivery breakdown by projects for 1H2017



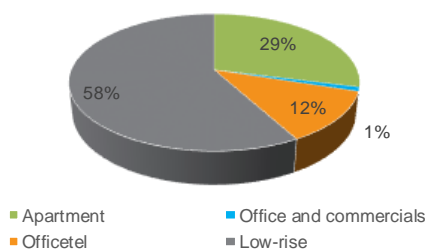
Sales of real estate breakdown by projects for 1H2017



Source: NVL

Source: NVL

GPM improved remarkably. Under the decline in revenue, gross profit shrunk 30.1% yoy to VND810bn although gross profit margin (GPM) of real estate segment in 1H2017 (28%) improved in comparison to that of 1H2016 (25.8%). This GPM came from higher contribution of low-rise products (Lakeview City) which have higher GPM.

Sales of real estate breakdown by type of products for 1H2017


Source: NVL

Revenue breakdown forecast

	2016A	2017F	2018F
Sale of real estate	6,631	15,359	22,606
Sunrise City	1,670	-	-
Tropic Garden	1,002	268	-
The Prince Residence	475	175	-
Galaxy 9	730	30	-
Lexington Residence	2,496	209	-
Icon 56	209	138	-
Lucky Dragon	49	131	20
The Botanica	-	1,167	259
Garden Gate	-	992	-
Lucky Palace	-	1,141	59
Orchard Garden	-	668	74
LakeView City	-	5,580	1,695
Golf Park	-	217	47
Golden Mansion	-	184	1,519
Rivergate	-	913	1,389
Kingston Residence	-	512	961
The Tresor	-	2,010	472
The Sun Avenue	-	-	1,354
The Botanica Premier	-	-	2,256
Wilton Tower	-	-	532
Orchard Parkview	-	-	989
Sunrise Cityview	-	-	2,273
Sunrise Riverside	-	-	3,647
Harbor City	-	-	4,130
Others	-	1,023	929
Redering services for corp mgmt and project devel. consultancy	634	784	878
Leasing properties	82	115	129
Others	12	24	29
TOTAL REVENUE	7,359	16,282	23,642

Source: VNDIRECT

Lower gain on revaluation and higher interest expenses made a dent in net financial income. Net financial income declined to VND 679bn (-37.6% yoy). For details:

- Financial income arrived at VND 1,219bn, mainly from the revaluation of investments in Phu Dinh Port JSC (VND 347bn) and Sai Gon Golf JSC (VND 627bn). Respectively, these are developers of Harbor City and Palm Marina projects.
- Financial expenses upped to VND 540bn (+56% yoy) due largely to increase in interest expense following the higher interest bearing debt.

Pre-sale volume still on track. In 1H2017, NVL sold 4,500 units (+29% yoy), including 407 units from phase 1 of Victoria Village project which was launched in 1Q2017. Contracted value reached VND 16,700bn¹ (+68.7% yoy) thanks to high-value products from low-rise projects (Lakeview City, Victoria Village, etc.).

2017 – BOOKINGS COME MAINLY IN SECOND HALF

Along with upcoming launch of Water Bay project, we currently project over 7,000 units sold for the whole year (-13.6% yoy) with contracted value of VND 24,000bn (+11.1% yoy).

We assume 2,500 deliverables from 16 projects this year, resulting in revenue and gross profit of VND 16,282bn (+121.3% yoy) and VND 5,044bn (+218.7% yoy), respectively. In our forecast, gross profit margin will increase sharply to 31% in 2017 from 21.5% in 2016 thanks to higher contribution of low-rise products.

We revise SG&A expenses upwards to VND 1,249bn (+54.7% yoy) due to higher allocation of goodwill from new business combinations. However, the company is benefiting from economy of scale with high revenue growth. Thus, the SG&A expense to revenue ratio decreased to 7.2% from that of 11% last year.

For 2017, we estimate net financial income of VND 381bn (-72.9% yoy), due mainly to lower financial gain from revaluation of investments and higher interest expense.

Assuming deferred income tax of VND 200bn recorded in Profit/loss statement for the whole year, NPAT eventually arrives at VND 3,163bn (+90.6% yoy), of which VND 3,047bn is attributed to parent shareholders (+83% yoy), generating an EPS of VND 4,959/share. At current trading price of VND 61,100/share, the stock has forward P/E of 12.3x and P/B of 3.3x.

For 2018, we forecast net revenue of VND 23,642bn (+45.2% yoy) and NPAT of VND 3,950bn (+24.9% yoy), of which NPATMI is VND 3,825bn (+25.5% yoy), generating EPS of VND 5,441/share.

New launches will secure pre-sales although delays cause a bit concern. In 1Q2017, NVL opened for sale Victoria Village in District 2 (1,200 units). NVL also expects to launch Water Bay (4,200 units) in 4Q2017.

Further delay in share issuance and capital raising plan. In Aug 2017, BoD sought for shareholders' written opinions and got approval for change of method of issuance for convertible preference shares, convertible bonds and ESOP. Accordingly, most of issuance were delayed until 2H2017.

¹ The value includes contracted sale from Sunrise Bay (low-rise project) which NVL currently owns 19%.

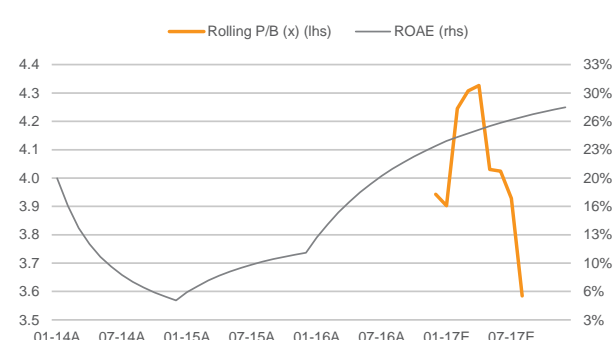
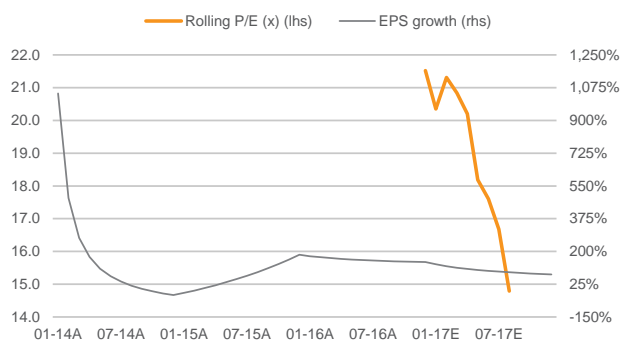
Share issuance and capital raising plan

Share issuance plan	No. of shares	Note	Timing
Stock dividend paid to preferred shareholders	20.5 million shares		Not scheduled
Convertible preference shares	Maximum 23 million shares	Each preferred share will be automatically converted into common shares after expiry incentives (3 years). Conversion price to be determined by the BOD at the minimum VND 50,000/ordinary share.	2H2017
ESOP shares	Maximum 29.81 million shares	Issuance price not lower than VND 10,000/share.	4Q2017 - 1Q2018
Bonus shares	Maximum 216.3 million shares	1,000 existing shares to receive 367 new shares.	4Q2017
Convertible bonds		USD 100million. Conversion price to be determined by the BOD at the minimum VND 50,000/ordinary share.	2H2017

Source: NVL

Investment view. We suppose no upside for the stock this year. We recommend HOLD with target price of VND 66,500/share after adjusting for dilution and valuation at Victoria Village, Water Bay and Harbor city. We notice downside risk for the stock price triggering by equity dilution from (i) conversion of convertible preferred shares (15.7 million shares) (ii) share issuance and capital raising mentioned above, especially for the need to raise capital to finance its load of projects.

Valuation



Income statements

(VNDbn)	12-16A	12-17E	12-18E
Revenue	7,359	16,282	23,642
Cost of sales	(5,776)	(11,238)	(17,033)
Gen & admin expenses	(642)	(809)	(820)
Selling expenses	(165)	(413)	(599)
Operating Profit	776	3,823	5,190
Operating EBITDA	1,002	4,116	5,489
Depreciation and amortisation	(226)	(293)	(299)
Operating EBITDA	776	3,823	5,190
Interest income	2,523	1,703	798
Financial expense	(1,115)	(1,322)	(1,050)
Net other income	5	0	0
Income from associates & JVs	0	0	0
Pre-tax profit	2,190	4,204	4,938
Taxation	(530)	(1,041)	(988)
Minority interests	6	(116)	(125)
Net profit	1,665	3,047	3,825
Adj. net profit to ordinary	1,665	3,047	3,825
Ordinary dividends	(55)	(319)	(341)
Retained earnings	1,610	2,728	3,484

Cash flow statement

	12-16A	12-17E	12-18E
Cash flow from operating activities	205	7,327	5,067
Net profit before tax	2,190	4,204	4,938
Adjustment for:			
Depreciation & Amortization	226	293	299
Provisions	(41)	(30)	(35)
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	4,488	5,215
Changes in working capital	(887)	2,838	(149)
Net cash flow from investing activities	(6,604)	(8,598)	(6,006)
Purchases of fixed assets	(215)	(1,599)	(7)
Proceeds from disposal of fixed assets	16	1	1
Other investment	(6,404)	(7,000)	(6,000)
Net cash flow from financing activities	5,876	254	50
Proceeds from issuance of shares.	3,985	-	-
Net borrowings	3,085	573	391
Dividends paid	(55)	(319)	(341)
Net cash flow	(523)	(1,018)	(890)
Cash and equivalents at beg of year	3,860	3,337	2,319
Cash and cash equivalents at end of year	3,337	2,319	1,430

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	3,337	2,319	1,430
Short term investments	965	965	965
Accounts receivables	10,548	8,572	9,331
Inventories	15,790	16,258	18,383
Other current assets	562	1,239	1,679
Total current assets	31,201	29,353	31,788
Fixed assets	434	1,484	1,193
Total investments	375	5,375	8,375
Other long-term assets	4,518	2,442	2,467
Total assets	36,527	38,654	43,822
Short-term debt	5,596	5,833	5,995
Accounts payable	1,506	1,686	1,804
Other current liabilities	7,910	3,309	3,542
Total current liabilities	15,011	10,828	11,341
Total long-term debt	7,907	8,243	8,472
Other liabilities	3,561	5,879	6,541
Shareholders' equity	9,088	12,680	16,368
Minority interests	958	1,024	1,099
Total liabilities & equity	36,527	38,654	43,822

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	22.6%	18.7%	16.2%
Asset turnover	0.23	0.43	0.57
ROAA	5.3%	8.1%	9.3%
Avg assets/avg equity	4.44	3.45	2.84
ROAE	23.4%	28.0%	26.3%
Efficiency			
Days account receivable	525	192	144
Days inventory	1,001	528	394
Days creditor	95.4	54.8	38.7
Fixed asset turnover	9.3	17	17.7
ROIC	7.1%	11.0%	12.0%
Liquidity			
Current ratio	2.08	2.71	2.8
Quick ratio	1.03	1.21	1.18
Cash ratio	0.29	0.3	0.21
Cash cycle	1,430	665	499
Growth rate (yoy)			
Revenue growth	10.3%	121.3%	45.2%
Operating profit growth	4.7%	392.6%	35.8%
Net profit growth	293.1%	83.0%	25.5%
EPS growth	142.9%	77.5%	9.7%
Share value			
EPS (VND)	2,793	4,959	5,441
BVPS (VND)	15,244	18,579	23,285
DPS (VND)	92	467	485

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