NAM LONG INVESTMENT CORPORATION

Market Price	Target Price	Dividend Yield	Rating	Sector
VND26,750	VND31,850	1.9%	ADD	REAL ESTATE

Outlook – Short term
Negative Neutral Positive

Outlook – Long term
Negative Neutral Positive

Valuation
Negative Neutral Positive

31 October 2017
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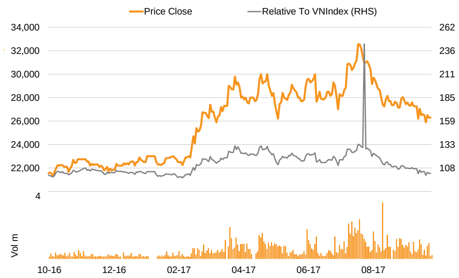
Key changes in the report

- Revised sale volume and contracted sales
- Revised forecasts for 2017 and 2018
- Updated land acquisition plan



Source: VNDIRECT

Key statistics

52w high (VND)	32,600
52w low (VND)	19,400
3m Avg daily volume (shares)	984,671
3m Avg daily value (mn)	28,234
Market cap (VND bn)	4,292
Outstanding shares (m)	157
Free float (%)	36

We maintain a positive view on NLG as a solid pipeline of projects ensures future growth. We reiterate our ADD recommendation with an RNAV of VND 31,850/share, as sale progress and cash collection are in line with our forecasts. The valuation does not include some potential projects (1ha Areco, 43ha in Can Tho city, 33ha in eastern HCMC, Water Point). These potential projects provide upside to our valuation.

- For 2017, we pencil in 38.6% YoY growth in revenue and 58.2% YoY growth in NPATMI, mainly driven by sale of land.
- Hoang Nam project should be revalued in 2018. In our base case scenario, the project will add around VND 500bn to revenue and VND 150bn to the bottom line.
- NLG revealed its plans to acquire two land parcels of around 33ha, located in the east of HCMC; the subsequent development and sale of these parcels providers further uncaptured upside.

Low recorded 3Q 2017 revenue given a paucity of new projects launched since the middle of last year. In 3Q 2017, revenue came in at VND375 bn (-37.9% YoY). For the first 3 quarters, revenue amounted to VND 1,637bn (-2.1% YoY).

GPM surged on better product mix and sales of land. For the period 9M2017, gross margin increased to 46% from 28% seen in the same period last year. This GPM was exceptionally high thanks to sales of land in 2Q2017 and higher contribution of revenue from townhouses and villas which are higher-margin products.

9M YTD earnings almost fulfilled the 2017 target. 9M NPAT fulfilled 80% of the 2017 target, touching VND464.7 bn (+164.7% YoY). Of this, NPATMI reached VND 351.9bn (+116.5% YoY). We expect an improvement in 4Q 2017 business results compared with 3Q 2017 as many products will be handed over in the quarter.

Ownership

Founders	36.8%
Tan Hiep Investment Ltd. Co.	9.3%
PYN Elite Fund	6.8%
GOLDMAN SACHS	6.1%
Keppel Land	5.0%
Others	36.0%

Source: VNDIRECT

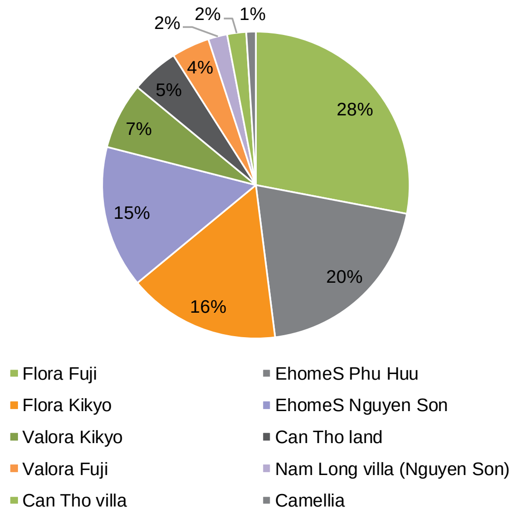
Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Net revenue (bn)	1,259	2,534	3,512	4,444
Revenue growth	45.2%	101.3%	38.6%	26.5%
Gross margin	33.2%	32.5%	37.7%	31.8%
EBITDA margin	22.2%	18.8%	26.7%	20.8%
Net profit (bn)	206	345	545	570
Net profit growth	115.6%	67.3%	58.2%	4.5%
Recurring profit growth	101.0%	63.2%	(13.3%)	46.1%
Basic EPS	1,455	2,425	3,468	3,623
Adjusted EPS	1,362	2,265	3,225	3,369
BVPS	15,667	17,477	19,728	22,851
ROAE	9.9%	14.7%	19.5%	17.0%

Source: NLG, VNDIRECT

SG&A/revenue ratio declined from 13.8% to 12.6% for 2 reasons: (i) a large portion of revenue in 9M 2017 came from selling land rather than products and (ii) landed properties have lower marketing expenses than regular apartments and accounted for a larger share of sales in this period than last year.

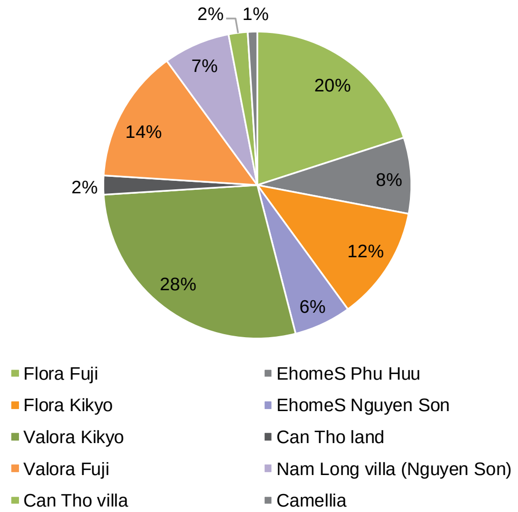
For the first 9M2017, NLG sold 1,481 units (+15% YoY) with contracted sales of VND 2,729bn (+115% YoY) mainly from Flora Fuji, EhomeS Phu Huu, Flora Kikyo and EhomeS Nguyen Son. The company has completed the sale of Fuji Residence and Kikyo Residence.

Sale volume breakdown 9M 2017(%)



Source: NLG

Contracted sales breakdown 9M 2017 (%)



Source: NLG

Pace of sale has stepped up since 3Q 2017. Standalone 3Q 2017 saw 648 units sold (+159% YoY) with contracted sales of VND 886bn (+378% YoY). We expect NLG will sell an additional 909 units (+% YoY) in 4Q 2017 with a total value of VND 1,225bn (+% YoY).

Nguyen Son – the largest expected contributor to both top and bottom line for the next 3 years. The project is divided into 3 sub-projects. Of these, Mizuki Park is being co-developed with 2 Japanese partners, while Nam Long Island (Nam Long villa) and Ehome projects are being self-developed by the company.

- **EhomeS Nguyen Son – Eligibility criteria for social housing has dragged on sale progress**. Despite huge demand, sales are much lower than expected due to the eligibility criteria set by the Government.
- **Mizuki Park is well-received by the market.** Selling price for Flora products will be VND 25-27mn/m2 (20% higher than that of the previous Flora products in Fuji Residence or Kikyo Residence).

To be eligible for social housing, buyers must:

Have not owned a house

Have permanent residence registration or at least 1 year of temporary residence for and participation in social insurance

Must be classified as a low income person (exempted from personal income tax expense).

Source: VNDIRECT

Nguyen Son's sale progress

Nguyen Son's sub-projects	Ownership (%)	No. of units	Open for sale 2017	Progress
Nam Long villa	100%	44	44	Sold out
EhomeS Nguyen Son	100%	1,726	700	228 units sold
Mizuki Park	50%			
Flora		4,676	576	Open for sale in Nov 2017
Valora		137	-	Open for sale in early 2018
Townhouse		33	33	Sold out

Source: NLG, VNDIRECT

Annual target is within reach. For 2017, we estimate revenue of VND 3,512bn (+38.6% YoY) and NPAT of VND 765bn (+97.7%

YoY). NPATMI should come in at VND 545bn (+58.2% YoY), which is 8.3% higher than the company's NPATMI target. Our forecasted 2017 BVPS works out to VND 19,728/share which implies that at the current price, the stock is trading at a 1Y forward P/B of 1.35x which represents only a small discount to the average P/B of 1.5x for listed real estate developers in Vietnam. Our forecasts are based on the following assumptions:

- 2,390 units (-5.5% YoY) handed over from both apartment projects and low-rise projects, including Ehome 3, EhomeS Phu Huu, Fuji Residence, Kikyo Residence, Dalia Garden.
- No more one-off revenue recorded in 4Q 2017 as the remaining half of the revenue from sale of 26ha within Nguyen Son will be gradually recognized from 2018 onwards. Besides, NLG will record VND 60bn of sales from the Greenhill project in 4Q 2017.
- We estimate gross profit of VND 1.325bn (+61% YoY), implying gross margin of 37.7%, higher than 32.5% realized last year. Excluding sales of 26ha within Nguyen Son, gross margin should stay stable at 32.9%.
- We estimate SG&A expenses of VND 428bn (+24.8% YoY) given higher marketing expenses. However, the SG&A expense-to-sales ratio is expected to decline from 13.5% to 12.2%.

Hoang Nam project will be revalued in 2018. We understand that NLG will follow the same process as they did on the 26ha in Nguyen Son project, including revaluation and sale of land to the JV company which is 50% owned by NLG. Our base case assumptions indicate that the project will bring in about VND 500bn to revenue and VND 150bn to bottom line.

Prospective land bank acquisition could be a catalyst in 2018. NLG revealed plans to acquire two land parcels with total area of 33ha, located in the east of HCMC. In order to complete the acquisition, NLG is seeking shareholders' approval to issue 31.4mn shares to existing shareholders in a 5:1 ratio between 4Q 2017 and 1Q 2018.

Land bank in the pipeline

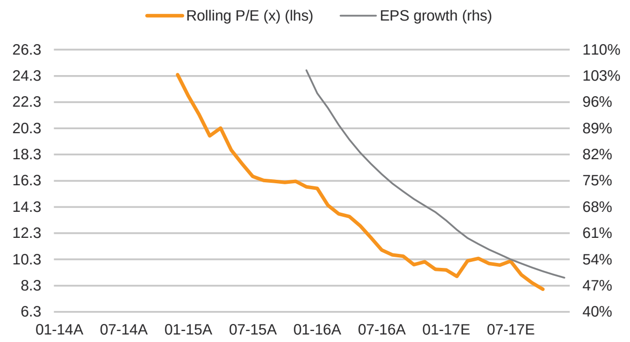
Land bank	Location	Progress
1ha (Areco project)	Thu Duc Dist., HCMC	Completed the acquisition, to start construction in early 2018
30ha	Thu Duc Dist./Dist. 9, HCMC	To be acquired and executed in 2018
3ha	Thu Duc Dist./Dist. 9, HCMC	To be acquired and executed in 2018

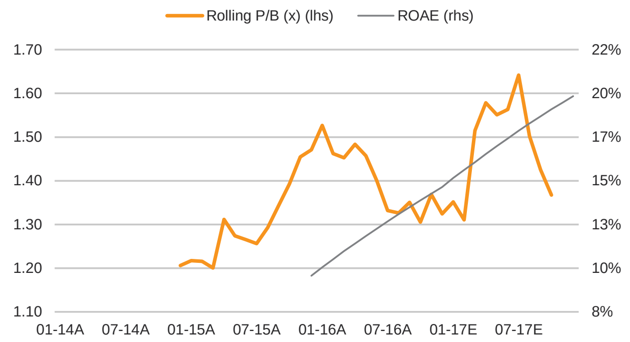
Source: NLG, VNDIRECT

2018 earnings will grow even with conservative assumptions for Hoang Nam. We estimate contracted volume for 2018 of around 2,963 units (-25% YoY) with value of VND 5,132bn. We forecast revenue for the year of VND 4,444bn (+26.5% YoY) and NPATMI at VND 570bn (+4.5% YoY), translating into an EPS of VND 3,369/share. Although NLG shared its intention to sell land plots in the Water Point project (20-30ha), starting from 3Q 2018, we currently have not included any sales from Water Point in our model.

IFRS compliance in preparation for planned overseas listing. Management has revealed plans to list the company's shares on the Singapore stock exchange. Accordingly, the company will concurrently prepare 2 financial statements in compliance with IFRS and VAS, starting from 2018. Under IFRS the inventory will be marked-to-market value and therefore we expect investors will have a valuable reference point to gauge the fair value of the company.

Valuation





Income statements

(VNDbn)	12-16A	12-17E	12-18E
Net revenue	2,534	3,512	4,444
Cost of sales	(1,711)	(2,187)	(3,030)
Gen & admin expenses	(154)	(180)	(184)
Selling expenses	(189)	(248)	(373)
Operating profit	**480**	**897**	**858**
Operating EBITDA	494	903	864
Depreciation and amortisation	**(14)**	**(6)**	**(7)**
Operating EBIT	**480**	**897**	**858**
Interest income	26	83	96
Financial expense	(29)	(24)	(18)
Net other income	7	0	0
Income from associates & JVs	0	0	0
Pre-tax profit	**484**	**956**	**935**
Taxation	(97)	(191)	(171)
Minority interests	(42)	(220)	(195)
Net profit	**345**	**545**	**570**
Adj. net profit to ordinary	345	545	570
Ordinary dividends	(97)	(78)	(79)
Retained earnings	**248**	**467**	**491**

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	932	701	654
Short term investments	39	0	0
Accounts receivables	1,220	1,543	1,725
Inventories	3,698	3,845	3,948
Other current assets	64	88	109
Total current assets	**5,953**	**6,177**	**6,436**
Fixed assets	55	67	71
Total investments	31	615	965
Other long-term assets	170	31	51
Total assets	**6,209**	**6,889**	**7,523**
Short-term debt	354	292	222
Accounts payable	199	66	108
Other current liabilities	1,626	1,755	1,905
Total current liabilities	**2,179**	**2,113**	**2,234**
Total long-term debt	813	671	510
Other liabilities	69	120	107
Share capital	1,421	1,572	1,572
Retained earnings reserve	578	1,045	1,536
Shareholders' equity	**2,484**	**3,102**	**3,593**
Minority interests	664	883	1,078
Total liabilities & equity	**6,209**	**6,889**	**7,523**

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Cash flow from operating activities	**(261)**	**579**	**600**
Net profit before tax	484	956	935
Adjustment for:	-	-	-
Depreciation & Amortization	14	6	7
Provisions	1	2	2
Profits from investing activities	(44)	(11)	(20)
Interest expense	21	24	18
Operating profit before changes in WC	476	977	942
Changes in working capital	(738)	(398)	(341)
Net cash flow from investing activities	**(45)**	**(529)**	**(337)**
Purchases of fixed assets	(8)	(9)	(7)
Proceeds from disposal of fixed assets	36	1	1
Other investments	(73)	(521)	(331)
Net cash flow from financing activities	**815**	**(281)**	**(309)**
Proceeds from issuance of shares.	345	-	-
Proceeds from convertible bonds	41	-	-
Net borrowings	526	(203)	(231)
Dividend paid	(97)	(78)	(79)
Net cash flow	**508**	**(231)**	**(46)**
Cash and equivalents at beg of year	**423**	**932**	**701**
Cash and cash equivalents at end of year	**932**	**701**	**654**

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	13.6%	15.5%	12.8%
Asset turnover	0.45	0.54	0.62
ROAA	6.1%	8.3%	7.9%
Avg assets/avg equity	2.39	2.34	2.15
ROAE	14.7%	19.5%	17.0%
Efficiency			
Days account receivable	176	160	142
Days inventory	791	642	476
Days creditor	42.7	11.1	13.0
Fixed asset turnover	48.0	57.6	64.5
ROIC	8.0%	11.0%	10.5%
Liquidity			
Current ratio	2.73	2.92	2.88
Quick ratio	1.03	1.10	1.11
Cash ratio	0.45	0.33	0.29
Cash cycle	925	791	604
Growth rate (yoy)			
Revenue growth	101.3%	38.6%	26.5%
Operating profit growth	231.7%	87.0%	(4.4%)
Net profit growth	67.3%	58.2%	4.5%
EPS growth	66.6%	43.0%	4.5%
Share value			
Basic EPS (VND)	2,425	3,468	3,623
BVPS (VND)	17,477	19,728	22,851

Source: VNDIRECT

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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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