

## VINGROUP JSC (VIC) – PRE-INITIATION

<b>Market Price</b> VND77,300	<b>Target Price</b> NA	<b>Dividend Yield</b> 0.0%	<b>Rating</b> NON-RATED	<b>Sector</b> CONGLOMERATE
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### Outlook – Short term



### Outlook – Long term



### Valuation



31 December, 2017

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We recently interacted with VIC's management team and are positive about VIC's prospects based on the following attributes of the company: (1) the ability to secure the most desirable sites to develop, 2) a proven execution track record, (3) a sizeable land bank throughout the country, (4) an internally synergistic business portfolio that is well-aligned with Vietnam's growth story and (5) a unique ability to raise capital both domestically as well as internationally. We put VIC on our watch list.

**VIC has a huge land bank across the key urban and tourism centers of Vietnam.** VIC's land bank exceeded 9,100 ha as of the end of Q3 2017, which is enough to support a 10-year development pipeline. This land bank is larger than that of any other listed residential, retail and hospitality developer in Vietnam. Financial strength and good execution ability have given VIC significant leverage in dealing with local governments and zoning authorities, thereby allowing it gain preferential access to land in pre-eminent locations.

**Access to capital:** Vingroup has a proven ability to raise large sums of capital from international capital markets, while its competitors must rely on debt primarily from local banks. This enables VIC to outpace competitors in new project development and land acquisition.

**A synergistic business portfolio with market dominance in each segment:** We view VIC as a real estate business with a core competence in acquiring and developing land. VRE, the newly-listed retail leasing subsidiary, as well as Vinpearl, the hospitality business, both leverage VIC's core land acquisition and development competencies. VIC's healthcare (Vinmec), education (Vinschool) and retail (VinCommerce) businesses draw upon its residential real estate platform by tapping into residential catchment areas and also helping to enhance the real estate product offering through the creation of self-sustaining community ecosystems.

**We expect broad-based growth across the core business portfolio.** We applaud management's decision to pivot their real estate development strategy to focus on the mid-end segment. This segment should see strong growth in revenue and profit for the next 3 years. Meanwhile, VinCommerce, the retail arm, is expected to realize triple-digit growth in revenue until it reaches break-even at subsidiary level over the next 2 years.

**Automobile market entry is visionary, but execution could be challenging.** Vietnam is among the bottom 50 countries, globally, in terms of car ownership rate. This implies enormous room for development. However, from 2018 onwards tariffs on automobiles imported from ASEAN member countries will be reduced to 0%. As the result, we believe that Vingroup will face fierce competition from seasoned foreign competitors.

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND/share)	78,000
52w low (VND/share)	40,000
3m Avg daily volume (shares)	2,721,794
3m Avg daily value (VNDmn)	140,359
Market cap (VNDbn)	203,389
Outstanding shares (mn)	2,637
Free float (%)	31.3
P/E TTM	89.4
P/B	4.1

### Ownership

Vietnam Investment Development Group	33.37%
Pham Nhat Vuong	27.45%
Pham Thu Huong	4.73%
Others	34.45%

Source: VNDIRECT

Financial summary	2014A	2015A	2016A	2017E
Net revenue (VND trillion)	27.7	34.0	57.6	88.8
Revenue growth	50.9%	22.8%	69.2%	54.2%
Gross margin	37.7%	34.4%	30.3%	33.3%
EBITDA margin	15.4%	7.7%	8.4%	9.8%
Net profit (VND trillion)	3.2	1.2	2.4	4.1
Net profit growth	-53.4%	-62.8%	105.7%	70.7%
Basic EPS (VND/share)	2,172	630	917	1,557
BVPS (VND/share)	18,758	20,118	17,161	18,296
ROAE	18.1%	5.4%	9.7%	14.6%

Source: VIC, VNDIRECT

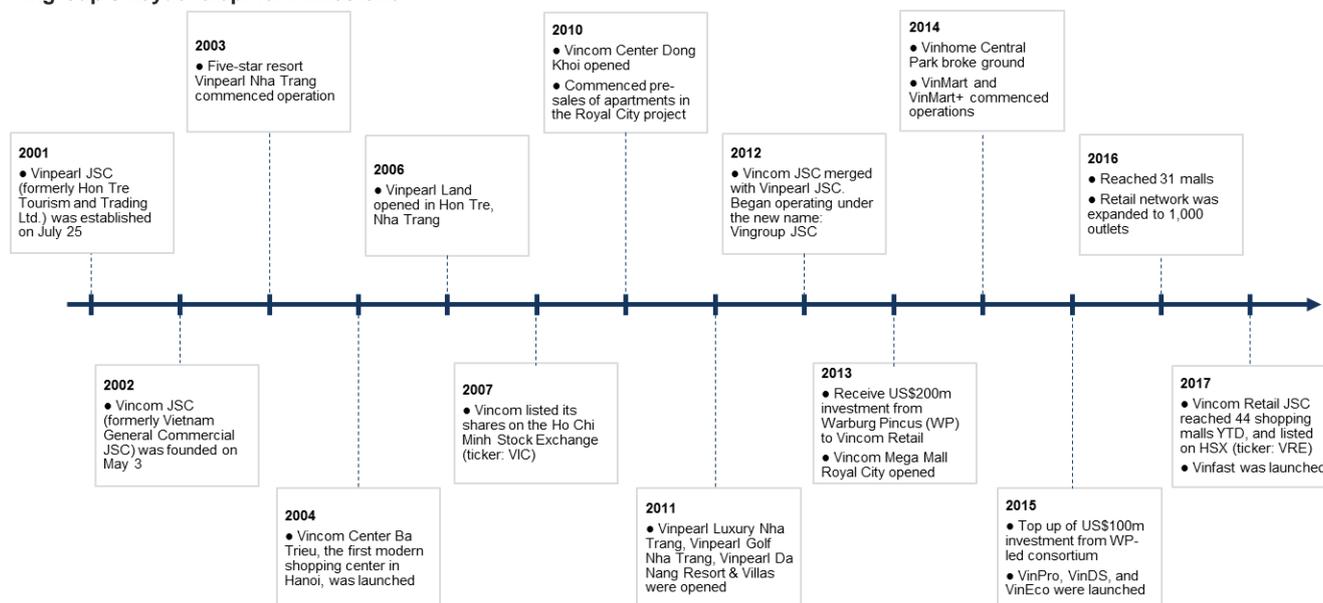
## COMPANY BACKGROUND

### History



Vingroup JSC was founded by a group of successful Vietnamese in the early 2000s when it made its first investment in Vietnam in Hanoi with the launch of Vincom Center Ba Trieu, Vietnam's first modern retail mall, and in Nha Trang with Vinpearl Nha Trang, the first 5-star hotel managed by local operator. Vingroup initially focused on developing hospitality, commercial and residential properties under its Vinpearl and Vincom brands. As of 30 September 2017, Vingroup JSC had 7 business segments, which include property sales, retail leasing, hospitality and entertainment, consumer retail, social infrastructure services (healthcare, education, agriculture) and industrial production. The corporate divisions of Vingroup JSC provide support, supervision, and operational advice to its 7 business units. They also play a leading role in assessing, monitoring, and making decisions regarding the group and its business units.

#### Vingroup's key development milestone



Source: VNDIRECT

### Management and Shareholders

The Board of Directors and Board of Management of VIC are experienced and have a long tenure with the company. 5 out of 9 BOD members have been with the company for at least 10 years. Three newly inducted members include Mr. Nguyen Viet Quang (from 04/2017), Mr. Gagnon (Managing Director of Warburg Pincus Asia, from 2013) and Mr. Townsend (formerly Managing Director of CBRE Vietnam, from 2013).

**BOD, BOM and BOS of Vingroup JSC (as at 30/09/2017)**

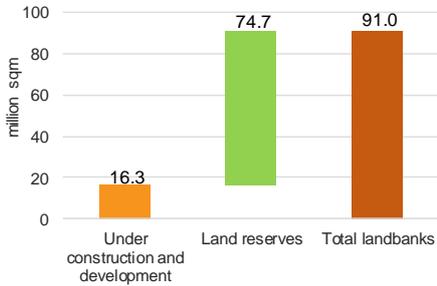
Members	Position	Qualification	Experience
<b>Board of Director</b>			
Pham Nhat Vuong	Chairman	Studied in Moscow Geological Prospecting Institute	Founder and Chairman of VinGroup; the first billionaire with the highest net worth in Vietnam from 2013 - 2017
Pham Thuy Hang	Vice Chairwoman	B.A. degree, Hanoi University	Elected Vice Chairwoman in 2010
Pham Thu Huong	Vice Chairwoman	B.S., National University of Kiev	Elected to the Board in 2011
Le Khac Hiep	Vice Chairman (Independent BM)	B.S., National University of Kharkiv	Head of Prudential Real Estate's Vietnam Representatives Office (1994 – 2004), Chairman of the group (2006 – 2011)
Nguyen Dieu Linh	Vice Chairwoman & Authorized Spokesperson	B.A., Hanoi University and University of Social Sciences & Humanities	Deputy CEO of the Group from 2005 to 2016
Nguyen Viet Quang	Vice Chairman	Master of Laws; B.B.A., National Economics University	CEO of Hanoi Southern City Development JSC (from 2010), Chairman of Vinmec JSC
Joseph Ramond Gagnon	BM	B.S., Wake Forest University	Managing Director at Warburg Pincus Asia, Director of Business Development at GE Capital, Tokyo (2003 – 2005)
Marc Villiers Townsend	Independent BM	B.S., University of Exeter	Managing Director at CB Richard Ellis Vietnam (2013 – 2017)
Ling Chung Yee Roy	Independent BM	CFA charter holder; Global EMBA, INSEAD	Managing Director of RL Capital Management Pte. Ltd., Served as Senior Investment Banker at JPMorgan, Lehman Brothers, Goldman Sachs and Salomon Smith Barney
<b>Board of Management</b>			
Duong Thi Mai Hoa	CEO	ACCA; MBA, Brussels University	General Director of Corporate Banking Division, Maritime Bank; General Director of Vietnam International Bank (VIB), CFO of Oracle Vietnam, Head of Financial Planning at VMEP
Mai Huong Noi	Deputy CEO	B.S., National Economics University	CEO of the Group (2006 – 2012), Deputy Director of the Customer Service Division at Hanoi Post Office (2004 – 2006)
Pham Van Khuong	Deputy CEO	B.S., Hanoi Architecture University	General Director of the Construction & Water Resources Technology Company (1996- 2003)
Nguyen Thi Diu	Deputy CEO	MBA, University of Hawaii	Director of Investment Banking Division at UBS Vietnam (2013 – 2014), Chairwoman & CEO of AFH Finance and Investment Consultancy JSC, Chief Representative and Head of Investment Banking at JPMorgan Vietnam (1996-2008)
Duong Thi Hoan	Deputy CEO	MBA, Hanoi University and Benedictine University of Illinois	General Director of Hung Viet Company (2005 – 2007); Head of VinGroup Communication Division (2007 – 2016)
Nguyen Thi Thu Huyen	Chief Accountant	ACCA; B.A., Hanoi University	CFO of Haviet Investment JSC (2005 – 2008)
<b>Board of Supervisor</b>			
Nguyen The Anh	Head	Master's, National University of Vietnam	Deputy Head of Corporate Office of Vietcombank (2005 – 2007)
Dinh Ngoc Lan	Member	B.S., Vietnam University of Commerce	Regional Office Deputy Head of Business Auditing, State Audit Office of Vietnam (2007 – 2008)
Do Thi Hong Van	Independent Member	ACCA, Licensed Auditor by VACPA	Chief Accountant at Nghe An Sugar Pte. Ltd.
Nguyen Thi Van Trinh	Independent Member	B.S., Vietnam University of Foreign Trade	Managing Director of Commerce and Financial Investment at Asia Star Trading and Investment Pte. Ltd.

Source: Company's financial statements & annual report, VNDIRECT

**BUSINESS ANALYSIS**

**VIC's key strengths include its massive land bank, diversified product mix and its proven ability to raise funds.**

VIC's land bank as of 30 Sep 2017



Source: VIC

**VIC has a huge land bank across key urban and tourism centers of Vietnam** covering more than 9,100 ha as of the end of Q3 2017 and present in 29 cities and provinces. This is larger than any other listed real estate developer in Vietnam and among the largest in the non-listed universe when you exclude industrial park developers. Financial strength and good execution ability have given VIC significant leverage in dealing with local governments and zoning authorities, thereby allowing it gain preferential access to land. The company's current land bank is large enough to support a 10-year development pipeline, according to management.

**Diversified product portfolio with mixed-use developments with a range of amenities.** VIC primarily develops mixed-use complexes, comprising of apartments/villas for sale, commercial centers, as well as entertainment, leisure and buy-to-let properties (office-tel, shop-office). Mixed-use developments differentiate Vingroup from other local competitors by defining Vingroup as a community creator rather than just a home-builder. Vingroup has been creating self-sustaining communities by adding healthcare facilities (Vinmec brand), K-12 education (Vinschool brand), thereby creating a complete ecosystem, that is hard for other developers to replicate. This diversified portfolio also helps make the company more resilient to property down-cycles.

**Proven fund raising track record.** Vingroup has a proven ability to raise large sums of mezzanine and debt funding from international capital markets, while its competitors primarily rely on loans from local banks. VIC is the first Vietnamese company to have issued convertible bonds to overseas investors (\$100mn in 2009, \$300mn in 2012). In 2013 and 2015, the company raised \$300mn from Warburg Pincus LLC and Credit Suisse through selling a 20% stake in Vincom Retail. VIC also issued the first benchmark international bond in 2013, and is a repeat borrower in the international syndicated loan market.

**Business portfolio is internally synergistic.** We can consider VIC's real estate segment as its backbone, while other segments are satellites that both leverage the residential catchment areas to build a customer base and also help enhance the company's real-estate offerings and increase pricing power and sales absorption rates.

**Vingroup's ecosystem of offerings**

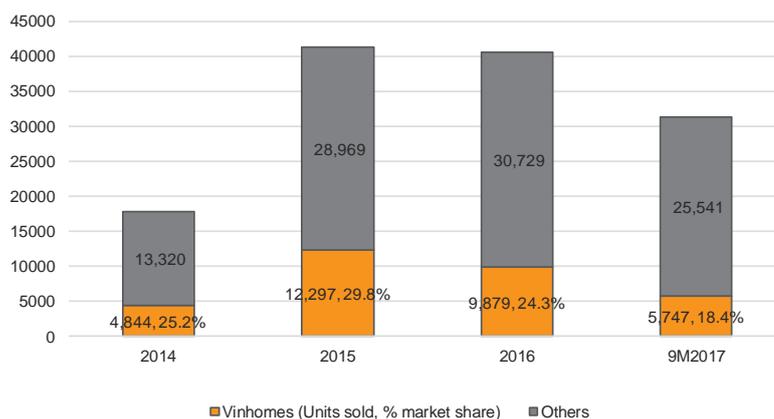


Source: VIC

**Vinhomes is Vietnam's leading high-end residential brand**

**VIC is the largest residential developer in Vietnam.** In 2016, VIC sold 15,000 apartments and villas, capturing over 20% of the market in Ho Chi Minh City and Hanoi in terms of transaction volumes (according to the company and CBRE statistics). The company is currently developing 30 residential projects in various cities and provinces nationwide.

**Vinhomes market share in mid-high end segment**



Source: VIC, CBRE

**Vinhomes Central Park Apartment**



Source: Unicons

**Vinhomes Central Park Villa**



Source: www.vinhomeshcm.vn

**Vinhomes Imperia**



Source: Internet

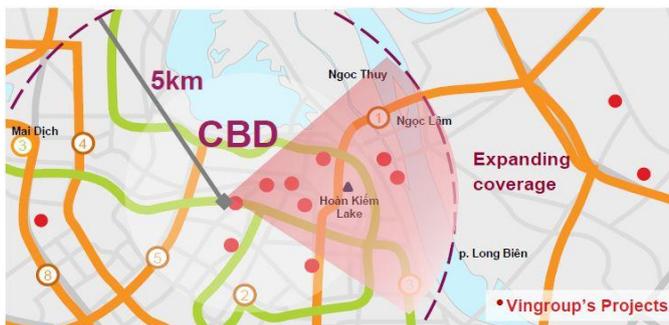
**Vinhomes Golden River**



Source: www.vinhomesgoldenriverapartment.co

**Vinhomes is an iconic brand name in the high-end segment.** Through its Vinhomes project, VIC offers various types of products, consisting of apartments, villas, shop-houses, shop-offices, office-tel. Vinhomes chooses to develop projects at prime locations, priced between \$2,000-3,000/sqm for apartments and \$2,000-7,500/sqm GFA for villas. The quality level of these developments is slightly below those found in luxury developments by major foreign developers such as Keppel or Capita Land, but the locations are typically better, given VIC's superior ability to secure premium sites. Vinhomes typically comes with a comprehensive range of supporting facilities and amenities including shopping malls, schools and hospitals, which even foreign-developed condominium projects lack.

**Hanoi development projects**



Source: VIC

**HCMC development projects**



Source: VIC

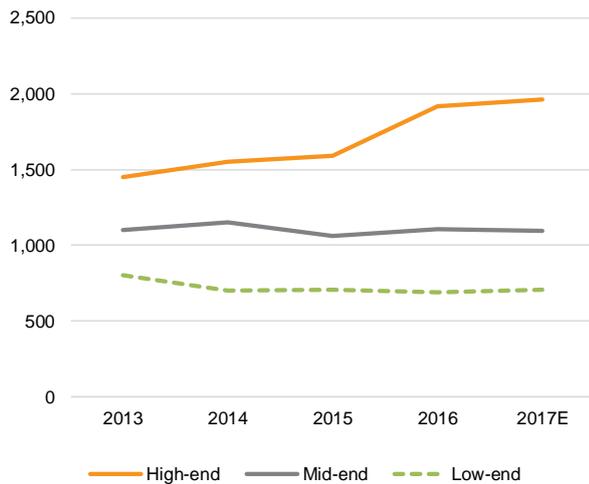
**VIC's new VinCity brand will help it enter the mid-end segment of the property market to create sustainable growth**

Developers are focusing on the mid-end segment for the following reasons:

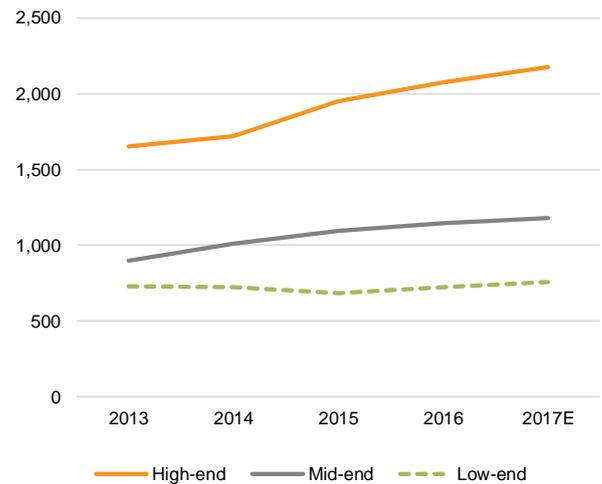
- **The high-end segment is oversupplied**
- **There is a strong demand for mid-end products.** Approximately 58,000 and 42,000 couples that get married in HCMC and Hanoi every year, respectively. In Vietnam, buyers have been able to increasingly purchase apartments due to financial aid received from family, relatives, and friends, in cases when they are not able to afford it on their own.
- **Land supply is another key obstacle to affordable housing production.** There is roughly 11,500 hectares of urban land required for housing every year. The formal supply is failing to keep pace with demand, which is forcing prices to increase and reducing affordability. Infrastructure developments, including metro lines, urban upgrading, and redevelopment has resulted in increasing land prices in almost all of the major cities, hence constraining access to land for commercial production of affordable housing. Additionally, developers are aggressively acquiring a land bank for future development, which has also supported the increase of land prices.
- **Companies operating in the mid end segment have much more favorable margins.** Usually, developers enjoy a net margin of 25-30% for mid-end apartment projects, and 12-18% for affordable apartment projects. Meanwhile, the net margin for social apartment projects is capped at 10%.

Following Vinhomes' success, VIC's recent pivot to make its residential products more affordable is well aligned with property market trends. Targeting a wider range of customers, VIC has chosen to expand its product offering to increase its focus on the mid-end segment. VIC is positioning VinCity at a lower price point and shrinking unit sizes to address affordability in order to target mass demand from the unmarried population, recent college graduates and young families in big cities. VinCity's price range puts it within mid-end of the residential property market, according to CBRE's classification.

Apartment's average selling price by segment, Hanoi



Apartment's average selling price by segment, HCMC



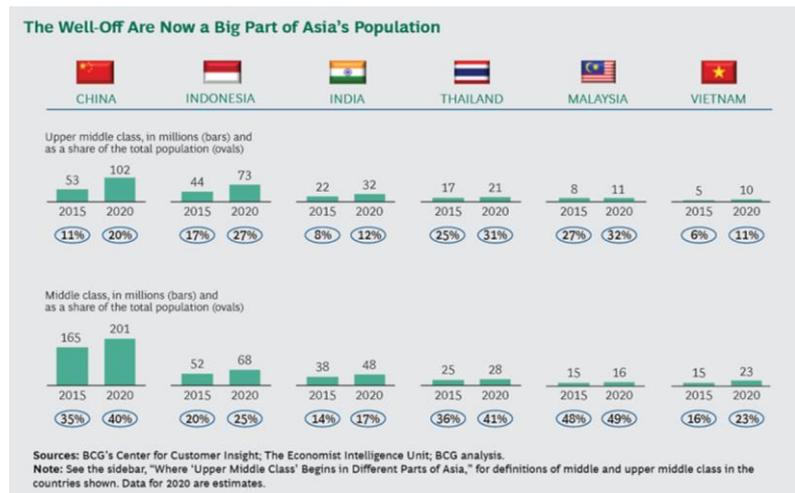
Source: CBRE

Source: CBRE

We like Vincity's positioning based on the following factors:

- **Land supply is a key obstacle to affordable and social housing creation.** Formal supply of urban land is failing to keep pace with demand, which is forcing up prices and reducing affordability. Infrastructure developments, including metro lines, urban upgrading, and redevelopment has changed the face of Vietnam's major cities, however it has also resulted in scarcity of land bank and higher land prices across cities, hence reducing access to land for commercial production of affordable and social housing.
- **An explosion in the country's middle class is expected in the next 3 years.** According to Euromonitor and Boston Consulting Group, in 2016 Vietnam had a 20 million-strong middle class as of 2015, equivalent to under 20% of the population, still relatively low by regional standards. Over the next 3 years, the number is forecasted to grow to 33 million (34% of projected population), threefold the number in 2012.

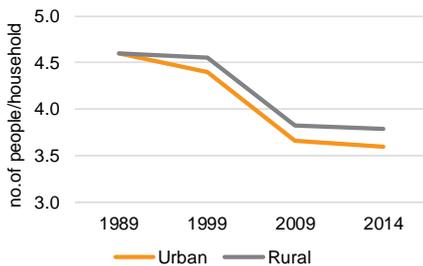
**Middle class and upper middle class as share of the population**



Source: Boston Consulting Group

- **Vietnam is rapidly urbanizing.** The country's urban population has grown at a CAGR of 3.5 percent per annum since 2000, one of the highest growth rates in the region. Currently, one third of the total population lives in urban areas. Over the next 3 years, around 3 more million Vietnamese will move into urban areas, according to the World Bank.
- **Households are getting smaller.** We see a growing desire among young people to move out of their parents' homes in major cities, leading to a fragmentation of multi-generation households and a steady decline in the average size of urban households. There will be a sustained demand for affordable apartments over the next decade due to these preferences, and also considering that 40% of Vietnam's population is between 20-40 years old and would like to buy their own homes.

**Average household sizes 1989-2014**



Source: Savills Vietnam

To capitalize on this, VIC has secured land outside the 10-km radius of Hanoi and Ho Chi Minh City, and at prime locations in other large cities outside of Hanoi and HCMC, where land costs are still favorable. Over 2017-2018, 3 VinCity projects will be launched in Hanoi, HCMC, Thanh Hoa or Ha Tinh with a total GFA of around 1 million sqm, at around roughly 10,000 units in our estimation. It does concern us that the project sites are quite far from the CBD, and the company has to factor this distance into its selling price. However, one mitigating factor is that these projects include several ancillary facilities which will help create self-sustaining residential areas with sufficient amenities, thereby reducing the need for residents to travel to the CBD. Also, the lower price points should tap into a larger demand base, potentially making VinCity a larger revenue opportunity than VinHomes.

**Vincom Retail: The Giant in the Retail Leasing Segment**

Vincom Center, Dong Khoi street, HCMC



Source: www.dothi.net

Vincom Megamall Thao Dien, District 2, HCMC



Source: VNDIRECT

Vincom Plaza, Rach Gia city, Kien Giang Province

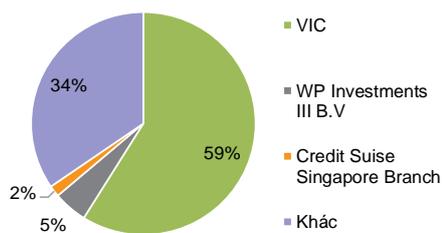


Source: www.infomoney.vn

**Vietnam’s retail market is in the early stages of development, which leaves plenty of headroom for growth.** Organized modern grocery retailing in Vietnam has a penetration of only 4.9% (according to Euromonitor), quite low by regional standards. The increasing consumer preferences for convenience and choice in the shopping experience should continue to drive organized retail market growth for several years to come.

**Vincom Retail dominates the still nascent but fast-growing retail leasing market in Vietnam.** Vincom Retail JSC (VRE), established in April 2012 as a subsidiary of VIC, has quickly become a leader in retail leasing. The company focuses on developing retail leasing products as part of Vingroup’s mixed-use project development business as well as stand-alone retail projects in various cities and provinces nationwide. So far, Vincom Retail has a total portfolio of 44 malls in operation covering 23 provinces and cities across Vietnam, under the following four retail formats, each is designed to a different consumer segments: Vincom Center, Vincom Mega Mall, Vincom Plaza and Vincom+. While Vincom Center and Vincom Mega Mall are larger formats that targets middle and upper middle income people as well as designed to be destinations for all families in Hanoi and HCMC, Vincom Plaza and Vincom+ are smaller formats mainly found in provincial and less-CBD areas and aim to become the destination for local communities. As of November 2017, VRE has the largest retail portfolio in Vietnam with 1.2 million sqm of retail GFA, which is equivalent to 60% of retail mall GFA in Ho Chi Minh City and Hanoi system-wide GFA.

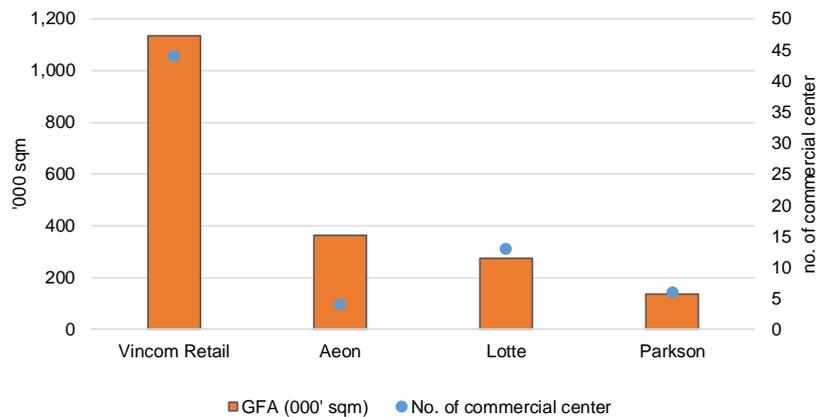
VRE's shareholder structure



Source: VRE, VIC

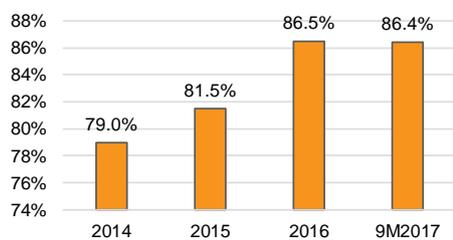
As VRE has recently launched smaller scale retail formats (Vincom Plaza and Vincom+) to help it expand into regional markets, the number of outlets should grow accelerate significantly in the future. VRE is developing a further 69 pipeline projects across 29 provinces and cities with a total GFA of 1.3mn sqm. Besides, there are 86 projects which are currently under feasibility studies.

Top Four Retail Leasing Developers in Vietnam



Source: Vincom Retail, Colliers International

VRE's occupancy rate (%)



Source: VIC, VRE

**Solid improvement in occupancy rates partially thanks to captive intra-group client base and solid anchor clients.** The company saw a sustained rise in blended occupancy rates across its properties despite the rapid ramp-up in GFA. Occupancy grew from 79% in 2014 to 86% as of end September 2017. One of the reasons for the high occupancy rate is that 35-40% of total GFA is leased to intra-group tenants (VinMart, VinPro), and third-party anchor tenants including Elite Fitness, Zara, H&M, and CGV cinemas.

**A hybrid business model generates synergies.** Sales from residential products have been a key contributor to VRE's profit since 2015. VRE develops residential products like shop-houses/apartments/offices which are a part of its commercial real estate projects. This could bring more value in terms of (1) additional revenue and profit from sales of high-margin products, (2) a captive audience and assured traffic to its retail properties and (3) additional cash flow to finance its commercial center projects.

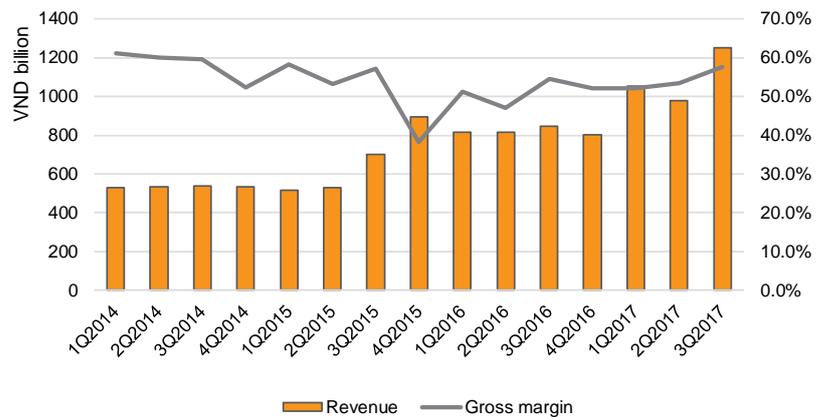
VRE's mall concepts

Mall concepts	Location	Leasable area (sqm/store)	No. of malls	Total GFA (sqm)	Rental price (USD/sqm/month)
Vincom Center	CBD of Hanoi and HCMC	40,000 - 60,000	4	165,876	40 - 45
Vincom Mega mall	Located within mixed-use projects in Hanoi and HCMC	60,000 - 150,000	3	395,148	18 - 20
Vincom Plaza	Suburban areas outside Hanoi, HCMC, CBD of lower-tier cities	10,000 - 40,000	29	553,303	18 - 20
Vincom+	Suburban areas outside Hanoi, HCMC, CBD of lower-tier cities	~5,000	8	46,149	8 - 10

Source: Company, VNDIRECT

**Stabilizing profitability despite rapid expansion.** Plans to accelerate Vincom+ mini-mall openings creates the risk of further margin pressure for this small-scale mall concept as it is hard to find anchor tenants, especially in lower tier cities. However, given that this format has the lowest construction costs among all the retail formats, Vincom+ has the highest profitability amongst VIC's 4 malls concepts in terms of yield. The company also expects the improvement in profitability of the existing malls to partially offset low margins of upcoming malls as existing properties approach maturity.

Historical revenue and GPM of retail leasing segment



Source: VIC, VNDIRECT

**VRE's recent listing was well-received by the market.** In October 2017, the initial equity offering of Vincom Retail was conducted at a total value of about \$713 million, making it the largest equity offering in Vietnam. All the shares were listed on HOSE on November the 6th, 2017 and since then, the share price has increased by approximately 13%. Vingroup still maintains its majority ownership stake, currently estimated at 58.9%.

**Vinpearl resorts and VinpearlLand entertainment: Riding the boom in domestic and international tourist arrivals.**

Leading hospitality operator with over 5,700 keys managed

16 Vinpearl 5-star & 5-star-plus resorts and hotels at the best beaches and metropolitan cities in Vietnam

3 international-standard golf courses

3 large-scale outdoor amusement parks and Safari in Vinpearl developments

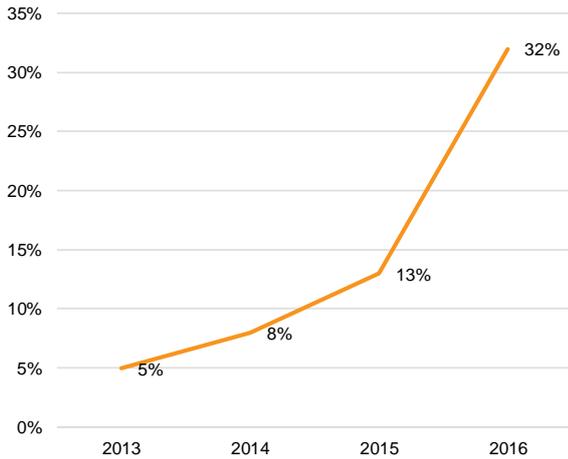
**Tourism is one of the most promising industries in Vietnam.** 2016 was a successful year for Vietnam's tourism industry. For the first time, the country welcomed more than 10 million international tourist arrivals (according to Vietnam National Administration of Tourism), increasing by 26% compared to 2015. Domestic arrivals reached 62 million and industry-wide revenues are estimated at VND460 trillion (~\$20.4 billion). By 2020, it is expected that the country will have more than 20 million international arrivals and 82 million domestic tourist arrivals per year, and that tourism will become one of the key economic sectors, contributing to over 10% of GDP, driven by:

- **Increasing incomes and declining travel costs are boosting local leisure travel demand.** Increasing income per capita and the fast growing middle-income class are boosting demand for leisure activities and vacations. The entry of major low-cost carriers like Vietjet (and Air Asia in the future) has lowered travel costs and time, fueling a boom in domestic air travel.
- **Easing of visa requirements** and the increasing trend within Asia to engage in more leisurely pursuits and venture overseas for holidays. Surveys show that consumers in fast-growing countries such as China (a big source country for foreign tourist arrivals) are increasingly spending money on experiences rather than physical products and assets.

**Vinpearl is the leading player in the hospitality market with a wide-ranging product portfolio.** VIC is the only player in the hospitality market that provides a complete product portfolio meeting the needs of all customer segments. The Company has a strong presence in all key tourism hubs of Vietnam including Ha Long, Hoi An, Da Nang, Phu Quoc, Nha Trang and also other large cities and provinces such as Can Tho, Nghe An, Ha Tinh. Through the

company's Vinpearl brand name, VIC operates a chain of premium hospitality products with 16 resorts, hotels and villas, 4 theme parks and 3 golf courses. The resorts and theme parks are owned and operated by VIC. The villas, on the other hand, are sold to investors with VIC continuing to operate and service the properties; the profit is shared between investors and the company in which Vingroup pays a guaranteed return of 8-10% p.a. to investors, and earn from servicing the villas.

2013 – 2017E Vinpearl Market Share in Vietnam's Hospitality Industry



Source: VIC

VIC's Hospitality Projects



Source: VIC

Moreover, Vinpearl has a holistic coverage of customer segments, ranging from family destinations, exclusive getaways, or savvy travelers, with products ranging from premium resorts and villas to city hotels and condotels, being offered at a wider range of price points allowing it to tap into a larger and more diverse customer base. In contrast, its international and local competitors only offer a standalone hotel product, and mostly focus on rising middle-income class in Vietnam.

**Long-term potential from replicating the unique model of Vinpearl Nha Trang to other tourism hubs within Vietnam.** The advantage of Vinpearl lies in its eco-system of premium hospitality products and the complete supporting infrastructure which is difficult for other local and international hospitality players to replicate. With the success of this model, Vinpearl Nha Trang was able to capture a dominant market share of over 51.8% in 2016, according to vietnamtourism.gov.vn website and company estimates (based on supply of room nights). Phu Quoc is the second hub that the company is developing using the Nha Trang model with a complex of villas, resorts, Vinpearl Safari and other entertainment facilities. The group is planning to replicate this model to its other key hubs across the country. If Vingroup successfully implements this strategy, this will give it a significant edge over its competitors.

The Nha Trang Vinpearl Ecosystem of Hospitality Products



Source: VIC

VIC has also expanded its hospitality portfolio to offer accommodation services to a wide spectrum of customers. This includes focusing on business travelers and young couples that prefer staying at convenient locations, often in the center of large cities. The first city hotel has just been launched in Can Tho in December 2016, the second independent municipal city (beside HCM city) in the Mekong Delta. VIC plans to open over 10 projects in 2018, focusing on spreading the city hotel format to newer destinations. Besides, VIC also schedule to launch the condotel format with 3 projects in Nha Trang and Da Nang.

**VinCommerce: Nation-wide retail network address a diverse range of consumer segments and product categories**

Four key store formats of VinCommerce



VinMart



VinMart+



VinPro



VinDS

Source: VNDIRECT

VinCommerce's retail network consists of 843 VinMart+ convenience stores, 61 VinMart supermarkets, 32 VinPro electronic stores, and 39 VinDS stores that sell furniture and fashion products, covering 29 of the 63 cities and provinces. In 2015, VIC introduced Adayroi.com, a comprehensive B2C online platform supported by inter-city & last-mile delivery with 28 distribution hubs nationwide.

**Strong growth potential in organized retail market thanks to the promising economic environment and favorable demographics.**

- Vietnam's stable GDP growth rate of over 6.5%, rising disposable incomes, and increasing living standards are all fueling growth in retail sales of consumer goods. Retail sales of consumer goods grew at 10.6% over 10M2017 compared with 9.6% in the same period last year.
- Modern grocery retail in Vietnam is still in the early stage of adoption (4.9% of total retail value in 2016). However, thanks to changing consumer preferences towards convenience, wider choice of goods and better food safety, this channel is expected to achieve high growth in both the number of outlets and total value of sales. Euromonitor projects CAGR of 13.5% and 9.4% over the period 2017 – 2021 in number of outlets and total sales value, respectively.

**Intense competition among local and international players is prompting a land grab.** In 2016, a number of international retail players, both offline and online, like AEON Group, Central Group, and Alibaba Group Holding Ltd. strengthened their presences in Vietnam market via either M&A transactions or direct investments. In June 2017, 7-eleven, the worldwide brand of convenience stores, opened its first store in Ho Chi Minh City and highlighted that 711 wanted to have around 100 stores in Vietnam by 2020.

Both international and local players plan to implement aggressive store opening plans to gain market share, in recognition of the ample opportunities present in Vietnam's growing retail market:

- AEON Group aims to increase the number of its grocery stores in Vietnam to 500 and its Ministop convenience stores to 800 (its joint outlet with Japan's Sojitz Corporation) by 2025.
- Saigon Co.op introduced Co.op Smile in 2016 as the company's new model of modern grocery stores, and it expects to open around 20-30 new stores per annum.
- VinCommerce has focused on increasing the efficiency of its retail network and plans to continue expanding its network, targeting a total of 5,000 VinMart and VinMart+ stores by 2021.

**In Vietnam, e-commerce has become more and more mainstream, providing a new channel for brick-and-mortar retail stores to reach their consumers**

On November 11<sup>th</sup> (Single's Day), many e-commerce sites, including Tiki, Lazada, and Adayroi introduced big discount programs to attract consumers.



- According to Vietnam's GSO, 52.7% of the total population had access to the internet as of January 2017. This number is lower than that of regional peers like Malaysia (71.1%), Thailand (67.4%), and Philippines (58.3%), indicating that there is plenty of room for growth, especially in online shopping.
- Vietnam's e-commerce market value was around \$1.8 billion in 2016 and is expected to continue growing strongly in the coming years. This creates a new channel for brick-and-mortar retail stores in Vietnam to supply their products to consumers.
- It is not only pure online retailers like Tiki, Lazada, and Zalora that are operating in Vietnam's ecommerce market. Local traditional retailers like Mobile World and VinCommerce also have their online platforms. It could be argued that these "hybrid" players have an advantage over pure online retailers

as they can use their brick-and-mortar stores for online order fulfillment and last-mile delivery support and also the fact that their brick-and-mortar presence helps them win the trust and loyalty of customers.

**Vincommerce has one of the fastest growing supermarket chains and the largest convenience store system in Vietnam**

The company's strategy from inception was to capture as much consumer retail space as needed so that VinMart and VinMart+ could become well-known brands among consumers.

Although VIC entered the competitive consumer retail industry later than other competitors, the company has strived to become a sizable player in the industry. Within only about over 2 years of operations, VinMart is now the second largest supermarket and VinMart+ is now the largest convenience store chain (in terms of number of stores) in Vietnam. Per format, VinMart is of the larger size, mostly located inside Vincom shopping malls and ranging from 1,000 – over 3,000 sqm, providing a good destination for families outing and routine shopping. In addition, VinMart+ mini-marts and CVSs locate in residential areas as well as street front and target convenient shopping for families.

**VIC's restructuring in 2017 has allowed VinCommerce to improve the efficiency of its stores and to create a more solid foundation for future expansion.** In 2017, VinCommerce focused on standardization of store displays and SKUs and addition of convenience services, instead of new store openings. After almost all store formats have gained awareness among consumers, VinCommerce is now starting to study its customers, their preferred products, and their shopping behaviors so that the company can gain more from each of its customers, especially recurring ones. Two major initiatives the management is currently working on include

- Reducing operating expenses (from 25% of sales in 2017E to 20% in 2019E) by shrinking warehouse, storage, and transportation costs, minimizing waste and spoilage through active supplier management and better maintenance of storage facilities as well as improving staff quality and efficiency.
- Improving front and back margin from a total of 10% currently to 16.7% by 2019 to be in line with the prevailing average levels in Philippines and Malaysia.

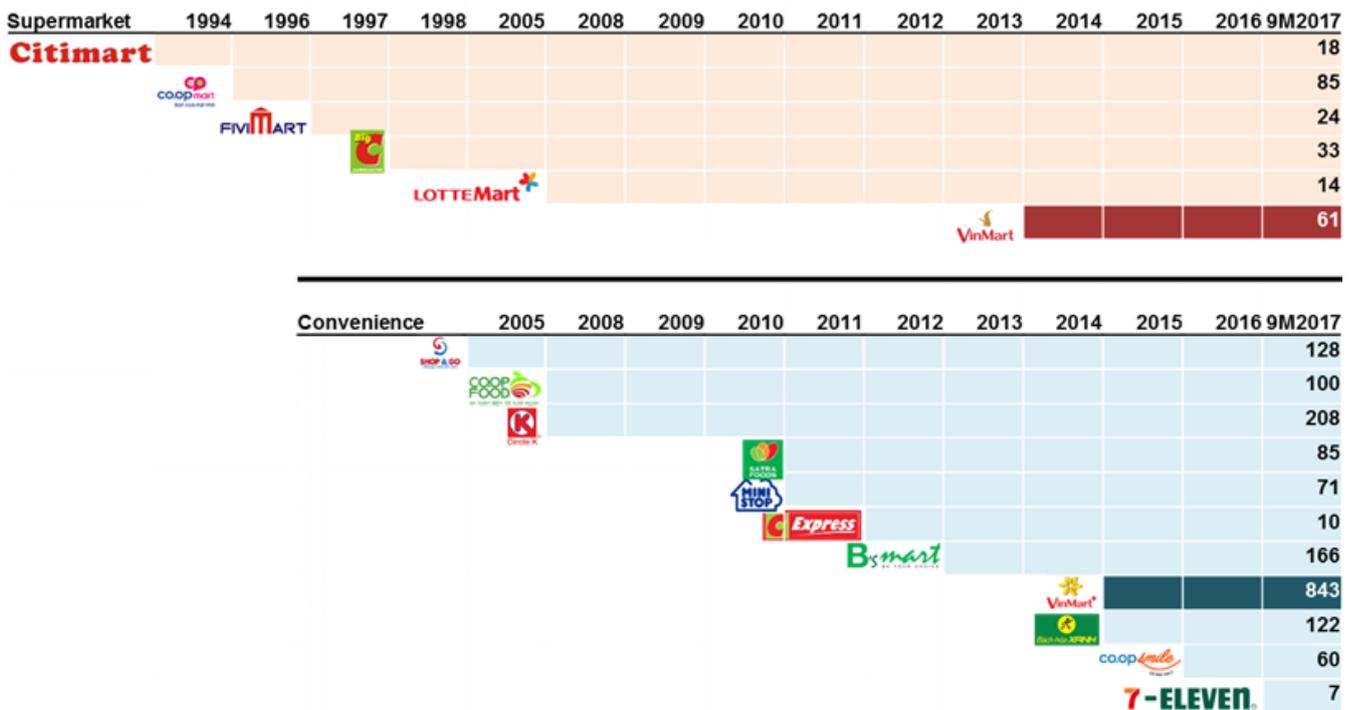
**Expected opening plan each year by store type:**

- 50 new VinMart
- 1,000 new VinMart+
- 15 – 20 new VinPro

For its medium-term prospects, VinCommerce will put more effort into strengthening and expanding its VinMart and VinMart+ network while maintaining the current operation of VinPro and it will also restructure VinDS. The Company aims to have around 5,000 VinMart and VinMart+ stores nationwide by 2021, and will focus on increasing its coverage in smaller provinces.

However, continued footprint expansion means that breakeven at a subsidiary level is still several years away. The aggressive store-opening plan will surely boost revenue but, at the same time, erode the company's bottom line with significantly high depreciation expenses. Because of this, VinCommerce is not likely to be profitable until 2020, at the earliest.

Launch year and number of supermarkets and convenience stores in Vietnam at 30/09/2017



Source: VNDIRECT

**VinEco – added value from upstream vertical integration**

VinEco applies VietGAP standard farms to produce fresh vegetables and fruits which addresses the growing concerns over food safety in Vietnam through the creation of a traceable food chain. Currently, VinEco's products are sold exclusively through Vingroup's grocery store business (i.e. VinMart & VinMart+).

**VinID Card – a leading customer loyalty program that further differentiates VinCommerce from traditional grocery retailers**

VinID reward card allows VinCommerce to be different from its competitors. Because the group's businesses cover many areas including residential property, hospitality, education, medical, to consumer retail, the VinID card provides users access to an entire integrated ecosystem. Currently, VinID is the largest customer loyalty program in Vietnam with 3.1 million members. The larger the ecosystem, the more value that VinID card creates for its members:

- VIC sets special priorities and benefits for cardholders;
- A rebate system is consistently applied across Vingroup's various products and services. Points can be redeemed anywhere.

**VIC's forays into social infrastructure development address some of the most basic and pressing needs of the population.**

**Vinschool and Vinmec – helping to create complete communities**

Vinmec (healthcare brand launched in 2012) and Vinschool (education brand launched in 2013) are tailored to complement Vingroup's existing ecosystem residential and commercial real estate businesses. Vinmec is a collection of 6 full-serviced general hospitals with about 500 beds in operation while Vinschool is currently the largest private education system in Vietnam with international standardized curriculum, enrolls over 19,000 K-12 students. Both Vinmec and Vinschool are strategically located within Vingroup's residential township developments (e.g. Vinhomes Central Park, HCMC). Considering the underdeveloped nature of social infrastructure in Vietnam, Vinmec and Vinschool serve as an attraction for potential home buyers thanks to the added convenience, which is particularly useful considering the growing traffic congestion in urban areas. In September 2016, Vingroup announced the change of Vinmec and Vinschool to a non-profit model, under which they will reinvest 100% of profits generated back into system development and funding for scientific research. We believe the strategy has created a self-sustaining ecosystem and will benefit Vingroup in the long run even if it does not contribute meaningfully to the bottom line.

**Automobiles – a high growth area, but execution will be challenging**

Vingroup has expanded to the automobile production segment with detailed plans and financing arrangements currently in progress. The company held a ground-breaking ceremony in September 2017 for the first phase of the 335 ha automobile manufacturing complex in Dinh Vu, Hai Phong. The company plans to debut e-scooters by September 2018 and automobiles by September 2019. Vingroup has stated its intention to become a top automobile manufacturer in Southeast Asia, manufacturing around 500,000 units per year by 2025.

**Rich potential from domestic market.** According to the Industrial Planning & Strategy Institute, Vietnam is among the top 3 fastest growing automobile markets in Southeast Asia (the other two are Philippines and Indonesia). The total number of motor vehicles per 1,000 people in Vietnam in 2016 was only around 50, much lower than that in Thailand (250) and Malaysia (400). Moreover, Vietnam is among the 50 countries with the lowest motor vehicle ownership rate. According to BMI forecasts, the total auto sales by units will grow at 22.2% CAGR during 2017-2021, while domestic production will only grow by 11.0%.

**Lowering of import tariffs under AFTA for autos and auto-parts might change the competitive landscape in the auto sector**

Competition from domestic competitors remains low as the majority lack the financial capability to enter the segment. The "Big Four" foreign carmakers (Toyota, Kia, Mazda, and Ford) account for more than 50% of total new auto sales in Vietnam. Current car prices in Vietnam are around 80% higher than regional peers such as Indonesia, Philippines, and Thailand. However, there are two new developments that may alter the competitive landscape. Firstly, tariffs on imported auto parts are expected to be reduced in the future -- potentially to 0% from 2018 onwards -- provided that a minimum production volume and other criteria including ASEAN localization requirements are met (per newly signed Decree 125/2017/ND-CP) from which Vingroup and other local manufacturers will benefit directly. On the other hand, tariffs on fully-built auto imports from ASEAN

countries are also expected to be eliminated in the future as part of Vietnam commitment to ASEAN Trade in Goods Agreement, which will leave the door open to foreign competitors. As a result, 100% imported automobiles from neighbouring countries such as Thailand – which has a highly developed automotive manufacturing industry – are expected to flood the market. The final outcome of these newly developments remains unclear. We believe that Vinfast is a visionary but a risky bet.

## BUSINESS RESULTS

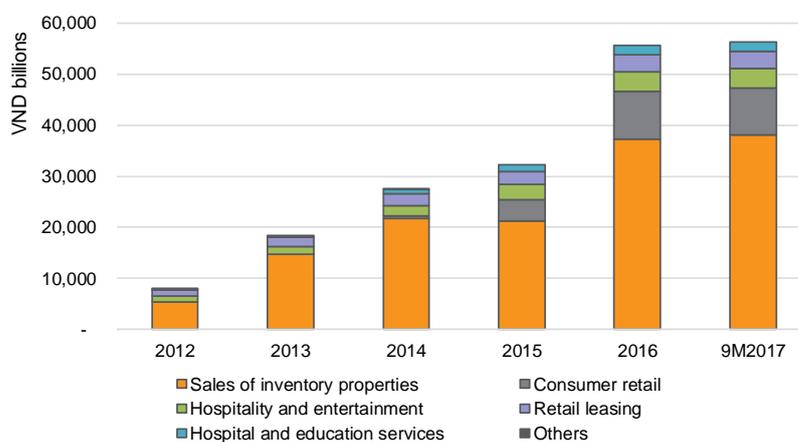
### Historical Performance

#### 2012-2016 Real Estate Segment led growth

Over the past 5 years, sales from real estate products (apartment, villa, shop-houses) accounted for nearly 70% of total group revenue.

- Vinhomes Central Park, the first residential project in HCMC drove revenue in 2016-2017. 2016 revenue was mostly driven by the handover at Central Park (24% of total net revenue) and Park Hill (17% of total revenue).
- The hospitality segment was merged with the group from 2012 and has contributed around 5.8% to 9.8% to the total group revenue each year.
- Over 2014-2016, the consumer retail segment of Vingroup achieved an outstanding revenue growth rate as a result of extensive store expansion (from around 24 stores in 2014 to 1,000 stores at the end of 2016). The group's total sales skyrocketed from VND421 billion in 2014 to VND9,248 billion in 2016.

Revenue contribution by business segment 2012-9M2017

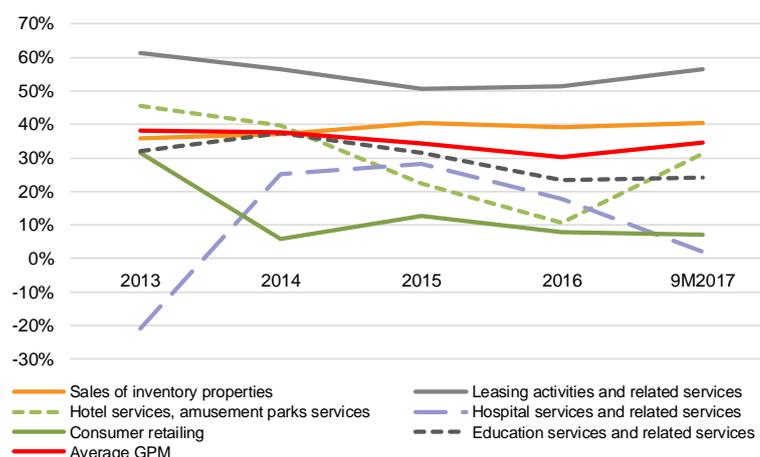


Source: VIC

Note: revenue from selling beach villas is included under sales of inventory properties.

**Diversified portfolio of businesses with varying profitability profiles but blended margins are stable.** Since each segment has different profit margins, the gross and net margins of Vingroup have varied from year to year as the revenue mix has been in constant flux. However, we can see that the average gross margin (GPM) of Vingroup has been stable as older business segments (for-sale and rental properties) improved their profitability and offset some decreases in the gross margin of other segments such as consumer retail.

### Stable average gross margin



Source: VIC, VNDIRECT

Note: Consumer retail COGS includes depreciation expense for stores.

2016 revenue from selling beach villas is included under sales of inventory properties.

Margin of hospitality and entertainment services declined in FY16 due to 7-month closure of Nha Trang Resort and pre-opening costs incurred for 3 new hotels.

### 9M 2017 Review

For the first nine months of 2017, VIC's revenue reached VND57,165 billion (+65% YoY), fulfilling 72% of its full year target. Meanwhile, NPAT touched VND2,764 billion, down 10.7% YoY as in 9M2016 the company recorded one-off gains of VND2,220 billion mostly from the disposal of the Star City project. Despite the fall in NPAT due to timing of property sales deliveries, NPATMI rose 23% YoY to VND2,108 billion. For the full year 2017, we expected NPAT and NPATMI to be around VND 4,500 billion, and VND 4,200 billion, respectively.

**The strong earnings were mainly driven by apartment and villa handovers.** For 9M 2017, revenue from the sale of inventory properties amounted to VND38,072 billion (+94.8% YoY), accounting for 66.6% of total revenue. The company's gross margin improved slightly thanks to higher contribution from high margin projects such as Vinhomes Central Park, Gardenia villa, and Vinpearl Phu Quoc.

**Improvement in leasing activities.** Higher occupancy rates coupled with the new operation of 13 shopping malls in the first 9M resulted in growth of 35% YoY in revenue (VND3,346 billion), and a higher gross margin (56.4%), compared with 51% in 9M2016.

**Hospitality and Vincommerce businesses are still in expansion mode, weighing on profits.** For the first 9M of 2017, the total revenue of the hospitality segment reached VND4,226 billion (+19.4% YoY), while the gross profit also increased by 36.1%. However, the segment incurred a loss of VND1,062 billion in profit before tax due to its rapid expansion and given that new resorts need time to ramp up their occupancy rates. Meanwhile, revenues of Vincommerce segment reached VND9,150 billion (+35% YoY) and this segment generated a gross profit of VND649.5 billion, translating to a gross margin of 7.1%. This was lower than 2016 because of continuous store openings which requires huge upfront expenses in logistics and warehousing. Although the segment still incurred a loss due to front-end-loading of huge fixed costs associated with new store openings, its PBT margin improved from -37.4% in 2015 to -33.6% in 9M2017. This improvement was the result of several recently opened stores reaching steady-state and breakeven, and also from the closure of unprofitable stores.

### Earnings expected to surge in 2017, largely driven by real estate deliveries

We estimate FY2017 net sales of VND88,830 billion (+54.2% YoY) and NPAT of VND4,439 billion (+26.3% YoY), of which VND4,130 billion (+70.7% YoY) is attributed to shareholders, based on the following assumptions:

- In 4Q2017, VIC will recognize revenue of VND24,764 billion (+34.1% YoY) from many major projects including Gardenia, Vinhomes Central Park, The Harmony, Times City - Park Hills, Vinhomes Imperia, Green Bay, and beach villa projects (Vinpearl Phu Quoc, Da Nang 2, and Bai Dai). For the full year, the revenue from for-sale real estate is estimated to reach VND62,836 billion (+68.5% YoY).
- We expect that leasing revenue will grow by 24.9% YoY to touch VND4,150 billion as more shopping malls came into operation this year. The effective occupied net leasing area, (equal to occupied NLA multiplied by operating months) is expected to touch 7.8 million sqm this year (+10% YoY). The the average GPM for the full year is expected at around 56.6%, higher than the 51.3% level seen last year, thanks to improving occupancy rates and price appreciation.
- We estimate that retail revenue (VinCommerce) can reach VND13,850 billion (+49% YoY) due to increased demand during the holiday season at the end of the year. The GPM will decrease to around 7.2% from 7.9% last year as we see continual expansion of new stores. Specifically, VIC planned to open around 260 new stores in 2017, most of which would be VinMart+. This would bring the total number of stores to 1,047 at the end of this year.
- The hospitality segment is expected to contribute VND5,300 billion (+24% YoY) to total revenue thanks to the increase in occupancy rate of current properties and the launching of a number of villas and resorts in Ha Tinh, Hoi An, Vinh, Phu Quoc and Nha Trang. We estimate that a total of 793.3 thousand room-nights will be sold and room revenue will contribute 40% to total revenue of the segment, followed by 27% from F&B services, 22% from Amusement Park and 11% from spa and other services.

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#### 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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