

VAN PHU INVEST JSC (VPI) – ANALYST MEETING NOTE

Market Price VND42,500	Target Price N/A	Dividend Yield 2.6%	Rating N/A	Sector PROPERTY
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Outlook – Short term



Outlook – Long term



Valuation



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We attended the analyst meeting of Van Phu Investment JSC (VPI), an experienced Northern build-and-transfer infrastructure & property developer with a sizeable land bank of 237.2 ha mostly located in Ha Noi. Aggressive 2018 targets and ambitious guidance for a 24% FY19-21 earnings CAGR make this stock worth watching but question marks hang over land use rights and cash flow management.

Stellar FY2017 performance after two very lean years.

FY17 revenue and net profit arrived at VND 875bn (+13.4% yoy) and VND422bn (22x vs. FY16), respectively. This impressive earnings growth was mainly driven by the sale of V5+V6 Van Phu project, including 148 low rise houses and 46 shophouses this year and a low base-effect in 2016 due to half of their sales being generated from the delivery of a public university campus project for which the company was compensated only in land (no profits). VPI purchased the land used for the projects delivered in 2017 at a low cost a few years ago, which helped secure a FY17 GPM of 52.2%, more than 2x the peer average of 25.2%.

Aggressive yet feasible 2018 targets.

Management is targeting VND2,006bn (+129.3% yoy) in revenue and VND600bn (+42.2% yoy) in net profit in FY18, mainly streaming from two projects: 1) handover of 166 low-rise houses from An Hung complex which is expected to generate VND1,400bn in revenue and VND436bn in profit; 2) handover of 26 low-rise houses from Terra – Hao Nam complex which would contribute VND400bn in revenue and VND150bn in profit. The remaining income will come from deliveries of the Thao Dien condominium project worth VND190bn, which will contribute around VND20bn in bottom line (Figure 3).

In our view, VPI will likely achieve its 2018 targets as both projects are located in high potential areas of Hanoi. VPI's selling price is also relatively competitive at about 6-7% lower than that of neighboring projects, according to our market research and this should boost sales absorption.

Plan from 2019 onwards looks very ambitious given land bank status and cash flow management.

Management is aiming for a 24% CAGR in earnings over the period FY19-21, based on a huge project pipeline (Figure 4 and 5). However, we doubt the feasibility of this guidance as land use rights for some projects are yet to be secured. Lack of information about total construction and development costs also detract from visibility on future cash flows.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	42,700
52w low (VND)	34,151
3m Avg daily volume (shares)	227,872
3m Avg daily value (VNDmn)	8,776
Market cap (VNDbn)	6,800
Outstanding shares (m)	16.6
Free float (%)	45.0
TTM P/E	10.4x
Current P/B	3.7x

Ownership

Chairman To Nhu Toan	25.0%
To Nhu Thang	7.1%
THG Holdings Investment JSC	23.4%
Others	44.5%

Source: VNDIRECT

Financial summary (VND)

	12-15A	12-16A	12-17A
Net revenue (bn)	223	772	875
Revenue growth		245.7%	13.4%
Gross margin	9.2%	12.9%	52.2%
EBITDA margin	2.2%	6.0%	62.5%
Net profit (bn)	(4)	18	422
Net profit growth			2257.3%
Recurring profit growth			2257.3%
Basic EPS	(134)	682	4,091
Adjusted EPS	(134)	682	4,091
BVPS	12,592	12,945	11,526
ROAE		5.3%	38.6%

Source: VNDIRECT

VPI has secured land use rights for only 2% of its total land bank area which includes 234 ha in CBD and surrounding areas of Ha Noi and 3.2 ha in Ho Chi Minh. Land use rights for the balance land bank will be granted progressively against completion of Build-Transfer (BT) projects in the pipeline. VPI's strategy to expand its land bank is to implement BT infrastructure and public construction projects for the government in exchange for land in a sort of "barter-trade" similar to the model being followed by CII. For example: a BT project on upgrading and expanding a part of Road 70 linking Van Dien-Ha Dong will be launched in 2020-2021 with VPI being compensated with a 156 ha land parcel in Huu Hoa New Urban project in Ha Noi.

The company did not provide any visibility on future cash flows or address the need to raise capital in 2019-2020. After raising capital of VND975bn via a rights issue to existing shareholders in 2017, VPI management claims that the company does not need to raise more capital and plans to use advances from customers to support its capital needs for the upcoming pipeline of BT and property projects. However, with a condensed pipeline to support an ambitious 24% FY19-21 earnings CAGR, we have concerns around future cash flow management.

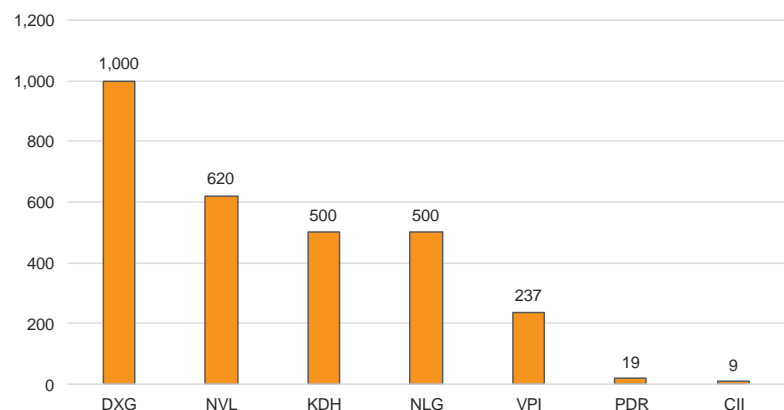
Figure 1: Peer comparison

Company	Country	Market Cap (US\$m)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)
NVL	Vietnam	2,753	22.3%	8.5%	4.7%	18.7%	1.4	28.9	4.8
KDH	Vietnam	680	34.7%	23.1%	5.7%	11.5%	0.3	22.3	2.6
DXG	Vietnam	531	37.3%	2.6%	9.3%	20.9%	0.5	16.0	3.2
PDR	Vietnam	423	22.0%	18.6%	3.1%	10.7%	0.0	22.7	3.4
CII	Vietnam	356	80.6%	83.1%	9.8%	35.9%	1.2	5.4	1.6
NLG	Vietnam	340	55.0%	48.8%	7.6%	18.8%	0.2	13.4	2.4
FLC	Vietnam	184	-54.2%	-67.5%	2.3%	5.6%	0.5	8.9	0.5
VPI	Vietnam	300	2257.3%	530.9%	13.1%	38.6%	0.4	10.4	3.7
Peer Average			28.2%	16.7%	6.1%	17.4%	0.6	16.8	2.6
Peer Median			34.7%	18.6%	5.7%	18.7%	0.5	16.0	2.6

All the prices were based on the closing as of April 12, 2018

Source: VNDIRECT, Stoxplus

Figure 2: Land bank comparison by major developer (ha)



Source: VNDIRECT, Companies

Figure 3: 2018 project pipeline of VPI

Project	Location	Description	Est. sale volume in 2018	Est. FY18 revenue (VNDbn)	Est. FY18 PBT (VNDbn)
An Hung complex	Ha Dong Dist., HN	Total GFA (m2): 288,250. 1,486 units of high-end apartments and low-rise houses.	166 low-rise houses	1,400	436
Terra- Hao Nam complex	Dong Ha Dist., HN	Total GFA (m2): 27,852. 97 units of apartments & low-rise houses.	26 low-rises houses	400	150

Source: VNDIRECT, VPI

Figure 4: Project pipeline of VPI for 2019 and beyond to be developed

Project	Location	Description	GFA (sqm)	Timeline
Grandeur Palace Giang Vo Residential Complex	138 Giang Vo, Ba Dinh Dist., HN	32 mansions and 22 floor- apartment	47,770	2019-2020
Grandeur Palace My Dinh	Pham Hung, Cau Giay Dist., HN	970 units of 45 floor buildings	213,825	2019-2020
BT Ha Dong	Ha Dong, Hoai Duc., HN	a BT construction project of traffic roads linking urban areas and residential areas in Ha Dong	6.2 km	2019
West Lake Service Apartment Project	West Lake Dist., HN	200 units of high-end apartments.	32,056	2019
Duong Noi Residential Project	Ha Dong Dist., HN	128 commercial shophouses	39,431	2019-2020
Kien Hung Urban Area	Ha Dong Dist., HN	387 villa, adjacent houses	213,825	2019-2020
Phu Lam Residential Project	Ha Dong Dist., HN	567 low-rise houses and one 21 floor apartment	255,728	2019-2020
Bac Lam Urban Area	Ha Dong Dist., HN	2,482 units of condominium	483,946	2019-2020
Ha Cau Housing	Ha Dong Dist., HN	882 units of 4-40 floor apartment	133,356	2019-2020
BT70	Ha Dong, Thanh Tri., HN	a BT project on upgrading and expanding a part of road 70 linking Van Dien- Ha Dong	15 km	2020-2021
Huu Hoa Residential Project	Ha Dong, Thanh Tri., HN	15- floor apartment	1,560,000	2020-2021
Dinh Tien Hoang project	Binh Thanh Dist., HCM	473 units of 20 floor apartments	84,325	2019-2020

Source: VNDIRECT, VPI

Figure 5: Project pipeline of VPI for 2019 and beyond to be transferred to another parties

Projects	Location	Land area (sqm)	VPI's ownership (%)
Complex building 234 Ly Tu Trong	Dist. 1, HCMC	642	19.0%
132 Dao Duy Tu	Dist 10, HCMC	10,618	19.0%
582 Kinh Duong Vuong	Binh Tan Dist., HCMC	11,463	19.0%
12 Ky Dong	Dist 3., HCMC	940	19.0%
42 Truong Dinh	Dist. 3, HCMC	807	19.0%
Kien Hung High-rise Residential Area Project	Ha Dong Dist, Ha Noi	9,986	50.0%

Source: VNDIRECT, VPI

Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	223	772	875
Cost of sales	(203)	(672)	(419)
Gen & admin expenses	(11)	(32)	(53)
Selling expenses	(3)	(2)	0
Operating profit	7	66	404
Operating EBITDA	6	63	402
Depreciation and amortisation	1	2	2
Operating EBIT	7	66	404
Interest income	3	2	76
Financial expense	(9)	(19)	(27)
Net other income	(3)	(4)	50
Income from associates & JVs	0	(16)	20
Pre-tax profit	(3)	29	523
Taxation	(1)	(7)	(104)
Minority interests	0	(4)	3
Net profit	(4)	18	422
Adj. net profit to ordinary	(4)	18	422
Ordinary dividends			
Retained earnings	(4)	18	422

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	19	106	326
Short term investments	0	0	22
Accounts receivables	375	1,003	1,052
Inventories	1,136	1,146	1,139
Other current assets	91	64	48
Total current assets	1,620	2,319	2,587
Fixed assets	6	13	9
Total investments	357	206	505
Other long-term assets	127	156	637
Total assets	2,110	2,694	3,737
Short-term debt	234	548	334
Accounts payable	74	232	132
Other current liabilities	930	1,103	914
Total current liabilities	1,238	1,883	1,380
Total long-term debt	172	59	279
Other liabilities	357	388	41
Share capital	262	262	1,600
Retained earnings reserve	45	54	221
Shareholders' equity	330	339	1,844
Minority interests	14	24	193
Total liabilities & equity	2,110	2,694	3,737

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	(3)	29	523
Depreciation & amortisation	1	2	2
Tax paid	(6)	(2)	(73)
Other adjustments	(79)	80	(699)
Change in working capital	(467)	(340)	(167)
Cash flow from operations	(555)	(230)	(414)
Capex	(4)	(8)	(23)
Proceeds from assets sales	1	1	1
Others	3	2	4
Other non-current assets changes	361	122	(137)
Cash flow from investing activities	359	117	(155)
New share issuance	0	0	976
Shares buyback	0	0	0
Net borrowings	174	201	57
Other financing cash flow			
Dividends paid	0	0	(244)
Cash flow from financing activities	174	201	788
Cash and equivalents at beginning of period	40	19	106
Total cash generated	(21)	87	219
Cash and equivalents at the end of period	19	106	326

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin		2.3%	48.2%
Asset turnover		0.32	0.27
ROAA		0.7%	13.1%
Avg assets/avg equity		7.17	2.95
ROAE		5.3%	38.6%
Efficiency			
Days account receivable	127	423	334
Days inventory	2,044	624	993
Days creditor	133	126	115
Fixed asset turnover		82	80
ROIC	-0.5%	1.8%	15.9%
Liquidity			
Current ratio	1.31	1.23	1.87
Quick ratio	0.39	0.62	1.05
Cash ratio	0.02	0.06	0.25
Cash cycle	2,039	921	1,212
Growth rate (yoy)			
Revenue growth		245.7%	13.4%
Operating profit growth		866.8%	514.2%
Net profit growth			2257.3%
EPS growth			
Share value			
Basic EPS (VND)	(134)	682	4,091
BVPS (VND)	12,592	12,945	11,526

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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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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