

VINCOM RETAIL JSC (VRE) – NON-RATED NOTE

Market Price VND30,400	Target Price N/A	Dividend Yield 0.0%	Rating NOT RATED	Sector REAL ESTATE
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Outlook – Short term



Outlook – Long term



Valuation



16 November 2018

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Key changes in the report

➤ N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	49,795
52w low (VND)	28,163
3m Avg daily volume (shares)	1.8m
3m Avg daily value (US\$m)	2.9
Market cap (US\$m)	3,076
Outstanding shares (m)	2,302
Free float (%)	36.6
TTM P/E (x)	31.3
Current P/B (x)	2.7

Ownership

Saidong Urban Dev. JSC	32.3%
Vingroup JSC	18.4%
Hanoi South City Dev. JSC	8.3%
Others	41.0%

Source: VNDIRECT

VRE's 9M18 net profit was comprised mostly of leasing revenue from new malls which opened in the last 12 months. Management expects total VRE leasing GFA to reach 2.1m sq m by 2020, up by 52% from current levels.

During 3Q18, VRE opened nine new shopping malls, expanding its leasing capacity to 1.37m sq m GFA (+19.8% yoy) across a total of 60 shopping malls. 70% of this capacity growth was contributed by 11 new Vincom Plazas (+30% yoy in Plaza GFA). Over 9M18, VRE launched 14 malls. It aims to open six more in 4Q18. By end-FY18, the company expects to have 66 malls with total GFA of 1.40m sq m (+22% yoy).

9M18 average occupancy rate increased 130bp yoy despite the opening of 11 Vincom Plazas since the beginning of this year. This increase in the average occupancy rate is due to the surge in occupancy rates across the other mall formats (Figure 2). The Vincom Plaza mall format's occupancy rate fell by 370 bp yoy to 87.4% by end-3Q18 due to the massive increase in supply. Management sees room to improve blended occupancy rates further as they expect 90-95% occupancy for a mature Vincom Plaza.

9M18 revenue surged 52.2% yoy driven by the opening of 19 shopping malls in the last 12 months and the sale of more shop-houses upon completion of the Vinpearl Riverfront project in Da Nang. However, higher revenue contribution of property sales in the period cut blended gross margin (GM) by 870 bp yoy as property sales had a lower average GM (23.7% for 9M18) than retail leasing (50.1% for 9M18) and also as property GM contracted yoy due to the product mix.

9M18 net profit ticked up 15.3% yoy, fulfilling 68.6% of VRE's full-year target. At end-9M18, management reported a property presales backlog of VND2.3tr (2.4x FY17 property revenue) and expects to book around VND1tr of this amount upon delivery of high-rise units in Bac Ninh and Da Nang in 4Q18F. The remaining presales backlog will be booked in FY19. With a solid property delivery pipeline and improving leasing occupancy rates, management believes VRE is on track to meet its full-year net profit target of VND2.5tr (+23.3% yoy).

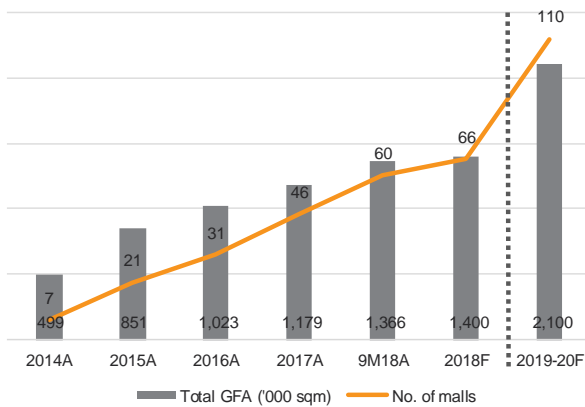
Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	1,927	5,958	6,386	5,518
Revenue growth	226.3%	209.1%	7.2%	(13.6%)
Gross margin	63.6%	33.7%	41.4%	50.8%
EBITDA margin	103.4%	48.5%	71.7%	65.9%
Net profit (bn)	105	1,090	2,443	2,028
Net profit growth	(64.1%)	940.4%	124.1%	(17.0%)
Recurring profit growth	187.3%	52.6%	22.6%	13.5%
Basic EPS	71	680	1,131	826
Adjusted EPS	71	680	1,131	826
BVPS	8,122	8,531	9,542	11,192
ROAE	1.0%	8.1%	12.4%	8.0%

Source: VNDIRECT

Aggressive leasing area expansion planned

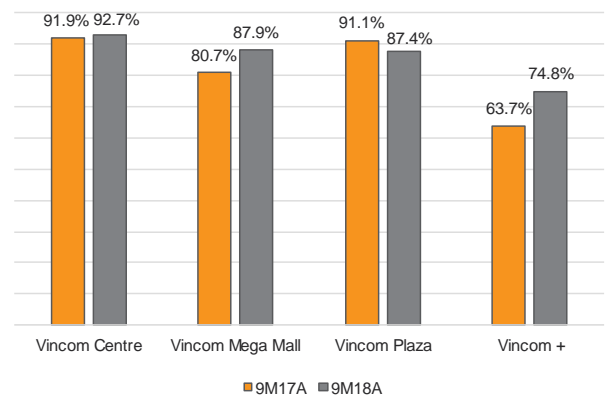
VRE is looking to launch over 44 malls in 2019-20F, increasing its GFA to 2.1m sq m (+54% versus at end of 9M18). The format mix will remain similar as at end of 3Q18 with 52% of GFA contributed by the Vincom Plaza format. The expansion of GFA may continue to weigh on occupancy rates in the initial period but might help VRE increase its occupied retail floor area and spur leasing revenue growth in 2019 and beyond, according to management.

Figure 1: VRE's retail leasing capacity



Source: Company reports

Figure 2: Occupancy by Vincom retail mall format



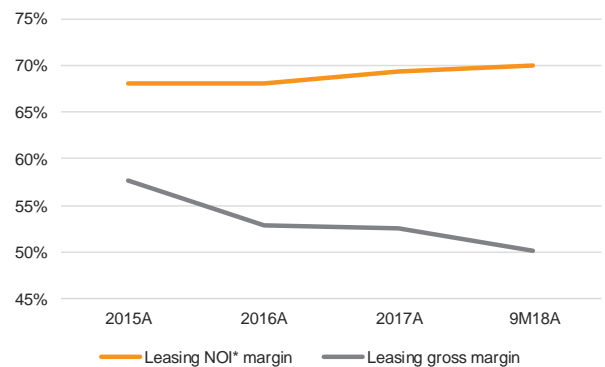
Source: Company reports

Figure 3: VRE's 9M18 financial results

VNDbn	9M18	9M17	Change	9M18 vs FY18G
Revenue	6,083	3,995	52.3%	76.0%
Leasing revenue	4,044	3,232	25.1%	
Property sales	1,992	689	189.1%	
Other	47	74	-36.5%	
Gross margin	41.2%	49.9%	-8.7 % pt	
Leasing revenue	50.1%	50.5%	-0.3 % pt	
Property sales	23.7%	46.2%	-22.5 % pt	
Other	17.0%	60.8%	-43.8 % pt	
Leasing NOI	2,821	2,237	26.1%	
Leasing NOI %	70.0%	69.2%	0.8 % pt	
Net profit	1,716	1,488	15.3%	68.6%

Source: Company reports

Figure 4: VRE's leasing margin

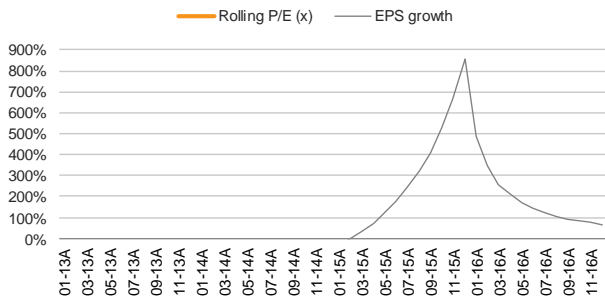


(*) Net operating income (NOI) does not take into account depreciation and non-operating overheads.

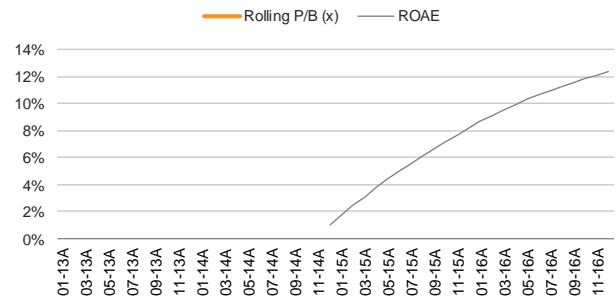
Source: Company reports

Valuation

P/E (x) vs EPS growth



P/B (x) vs ROE



Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	5,958	6,386	5,518
Cost of sales	(3,951)	(3,743)	(2,717)
Gen & admin expenses	(227)	(327)	(314)
Selling expenses	(176)	(349)	(256)
Operating profit	1,604	1,966	2,231
Operating EBITDA	1,920	2,703	3,167
Depreciation and amortisation	(316)	(737)	(936)
Operating EBIT	1,604	1,966	2,231
Interest income	740	1,244	587
Financial expense	(1,273)	(1,261)	(1,166)
Net other income	31	(144)	(24)
Income from associates & JVs	225	784	540
Pre-tax profit	1,327	2,588	2,169
Tax expense	(237)	(148)	(141)
Minority interest	0	3	0
Net profit	1,090	2,443	2,028
Adj. net profit to ordinary	1,090	2,443	2,028
Ordinary dividends			
Retained earnings	1,090	2,443	2,028

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	396	1,698	1,422
Short term investments	0	0	60
Accounts receivables	1,938	3,340	4,053
Inventories	1,483	683	1,817
Other current assets	1,864	1,666	6,006
Total current assets	5,682	7,387	13,357
Fixed assets	6,410	1,869	1,251
Total investments	3,654	4,029	1,830
Other long-term assets	20,215	21,015	21,696
Total assets	35,961	34,299	38,133
Short-term debt	327	6	2,816
Accounts payable	1,596	453	1,065
Other current liabilities	4,344	2,273	4,257
Total current liabilities	6,267	2,733	8,138
Total long-term debt	13,913	5,954	3,158
Other liabilities	897	929	743
Share capital	14,172	21,092	19,011
Retained earnings reserve	512	1,831	2,787
Shareholders' equity	14,811	24,653	26,063
Minority interest	73	31	31
Total liabilities & equity	35,961	34,299	38,133

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	1,327	2,588	2,169
Depreciation & amortisation	316	737	936
Tax paid	(191)	(314)	(253)
Other adjustments	(1,046)	(2,544)	(383)
Change in working capital	(1,993)	(951)	331
Cash flow from operations	(1,588)	(484)	2,799
Capex	(2,946)	(1,459)	(7,224)
Proceeds from assets sales	25	2	10
Others	(1,307)	4,020	5,125
Other non-current assets changes			
Cash flow from investing activities	(4,228)	2,563	(2,089)
New share issuance	2,153	5,133	0
Shares buyback	0	0	(0)
Net borrowings	3,527	(5,107)	275
Other financing cash flow	(0)	0	(0)
Dividends paid	(547)	(804)	(1,262)
Cash flow from financing activities	5,132	(778)	(986)
Cash and equivalents at beginning of period	1,079	396	1,698
Total cash generated	(683)	1,301	(276)
Cash and equivalents at the end of period	396	1,698	1,422

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	18.3%	38.3%	36.7%
Asset turnover	0.18	0.18	0.15
ROAA	3.3%	7.0%	5.6%
Avg assets/avg equity	2.47	1.78	1.43
ROAE	8.1%	12.4%	8.0%
Efficiency			
Days account receivable	37.1	47.5	37.6
Days inventory	137	67	244
Days creditor	147	44	143
Fixed asset turnover	1.18	1.54	3.54
ROIC	3.7%	8.0%	6.3%
Liquidity			
Current ratio	0.91	2.70	1.64
Quick ratio	0.67	2.45	1.42
Cash ratio	0.06	0.62	0.18
Cash cycle	27	70	138
Growth rate (yoy)			
Revenue growth	209.1%	7.2%	(13.6%)
Operating profit growth	52.6%	22.6%	13.5%
Net profit growth	940.4%	124.1%	(17.0%)
EPS growth	854.5%	66.4%	(27.0%)
Share value			
Basic EPS (VND)	680	1,131	826
BVPS (VND)	8,531	9,542	11,192

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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RECOMMENDATION FRAMEWORK

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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