

Vietnam
Overweight

Highlighted companies

Khang Dien House Trading and Investment JSC

ADD, TP VND36,700, VND29,300 close

KDH is an iconic brand name for landed property in HCMC, with a sizeable 499 ha land bank in HCMC (as of 2017). We expect the newly-acquired 482ha land plot to be a big catalyst for KDH's earnings growth in the coming years. The stock is trading at a 20.2% discount to our end-2Q18 RNAV estimate.

Nam Long Investment Corporation

ADD, TP VND35,500, VND30,450 close

NLG is a leading mid-range residential developer with well-structured, quality products supported by Japanese partners. Its long-held biggest land site is now re-opened for township development, and we expect it could generate VND1.5tr in FY19-24F net profit. The stock is now trading at a 22.8% discount to our RNAV estimate.

Summary valuation metrics

P/E (x)	Dec-18F	Dec-19F	Dec-20F
Khang Dien House Trading and Investment JSC	14.16	13.76	11.72
Nam Long Investment Corporation	10.68	9.00	6.20
P/BV (x)	Dec-18F	Dec-19F	Dec-20F
Khang Dien House Trading and Investment JSC	1.65	1.53	1.40
Nam Long Investment Corporation	1.49	1.31	1.10
Dividend Yield	Dec-18F	Dec-19F	Dec-20F
Khang Dien House Trading and Investment JSC	1.71%	1.71%	1.71%
Nam Long Investment Corporation	1.48%	1.64%	1.64%

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Property Devt & Invt

Catch the tail-end of the upcycle

- The World Bank expects Vietnam's middle-class population to grow by 8.7% p.a. in 2018-20F, driving huge demand for mid-range and affordable condos, in our view.
- Mass metro rail network and upgraded road system in Ho Chi Minh City and Hanoi will make new suburban areas more attractive for future residential development.
- We believe the supply is now better aligned with real housing demand compared to the last five years, which bodes well for future market liquidity, in our view.
- Our sector top picks are NLG and KDH as they focus on the mid-range condo segment and have land reserves to support multi-year development pipelines.
- We initiate coverage on the sector with an Overweight rating, along with Add ratings on KDH (TP: VND36,700) and NLG (TP: VND35,500).

Enormous housing demand in Vietnam's biggest cities

We estimate that Vietnam's two major cities, Ho Chi Minh City (HCMC) and Hanoi, need 110,000 new housing units every year in 2018-22F to support the influx of rural migration, as the country rapidly urbanises. Population demographic and social changes, including household fragmentation and a falling age dependency ratio, are further reinforcing property market demand. Meanwhile, Vietnam's robust medium-term economic outlook and rising income per capita are attracting first-time homebuyers who view property as an asset class that provides future capital gains, while offering protection against inflation.

Sustained surge in transportation infrastructure investment

Vietnam's expenditure on infrastructure development from 2010-16 was among the highest in Southeast Asia, with an average annual investment rate of 5.7% of GDP, according to the Asian Development Bank (ADB). Key infrastructure projects such as the metro rail network or the upgrading of highway/ring road systems are expected to create inter-province linkages and cause key urban areas to spread out. We believe this would spur housing development in suburban areas, where land prices are lower and therefore more conducive to affordable and mid-range housing development.

Mortgage rates, property prices unlikely to hurt short-term demand

According to CBRE, prices of mid-range condos in Vietnam rose by c.11% p.a. in 2015-1H18, driven by an increase in land prices and construction costs. As at end-1H18, Vietnam mortgage rates were 11-12% (+100bp yoy), and are likely to reach 13% in 2019F, in our view; we expect policy rates to rise in a bid to contain inflation and support the currency. We believe the rise in income per worker, estimated by the World Bank at 13.2% p.a. on average in 2018-20F, would help to maintain the mortgage carrying cost-to-income ratio at a manageable 45-50%. A sustained rise in interest rates, however, would pose downside risk to medium-term housing demand, in our view.

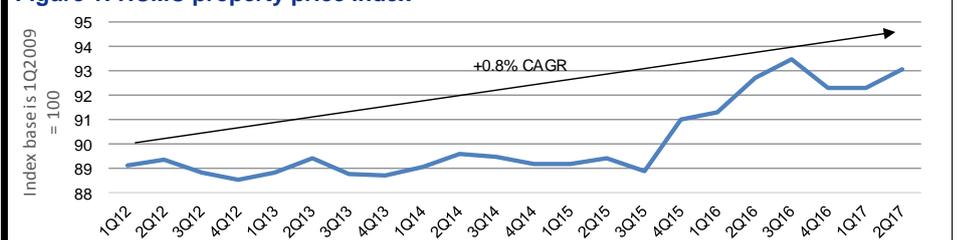
Initiate on sector with an Overweight rating over a 12-month horizon

We expect continued high transaction volume and strong absorption rate for apartment presales, especially for the mid-range and low-end condominium segments that see demand from actual owner-occupiers. Our Overweight rating on Vietnam's residential property sector is based on the strong potential earnings growth for mid-range developers, backed by sustainable local housing demand. We believe mortgage rate increases would only have negative impact on the sector in 2020F onwards.

Initiate coverage on KDH and NLG with Add

We initiate coverage on KDH and NLG with Add ratings for their focus on mid-range housing, strong brand recall and sound execution track record. Both companies recently announced new mid-range condo developments and residential community developments in suburban/satellite areas, news that we think has been drowned out by the overall bearish market sentiment. Hence, we anticipate a re-rating in their P/BV in the medium term. The key risk to our positive call is a mortgage rate increase beyond the level that potential buyers can afford, spurred by a steeper interest rate hike trajectory than our expectation.

Figure 1: HCMC property price index



SOURCES: VND RESEARCH, SAVILLS

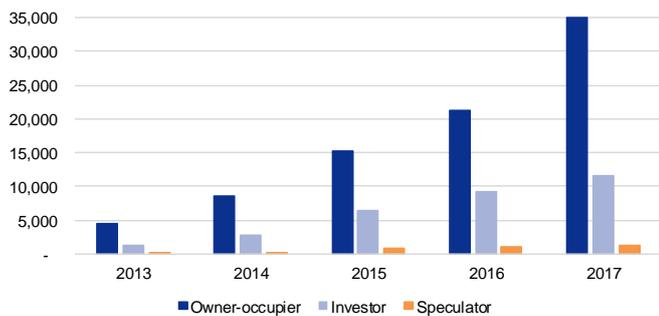
Long-term structural trends to drive continued housing demand

We believe residential real estate market demand in Vietnam will still be abundant in 2018-20F, driven by deep, structural factors such as socio-demographic changes and income growth. However, near-term transaction volumes may be negatively affected by rising interest rates and property prices, in our view.

Cultural norms propel dreams of home ownership

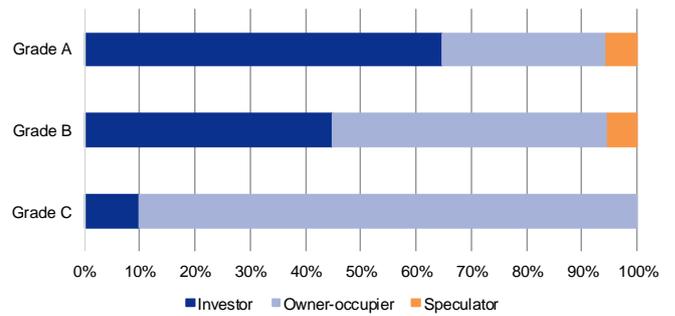
As is the case in several East Asian cultures, in Vietnam, home ownership is a key yardstick by which a person’s social status is measured. While traditional values eschew borrowing to fund house purchases, the increasingly ambitious, individualistic youth are far more open to borrowing from a bank or friends and family to buy their first homes. The enduring preference for owning rather than renting a home, combined with a growing propensity to borrow, is driving explosive demand for affordable to mid-range housing.

Figure 2: Owner-occupiers dominate condo sales volume (units)



SOURCES: Savills

Figure 3: Aggregate condominium purchases by product class and purpose (2013-17)



SOURCES: Savills

Rising access to cheap credit and buoyant property prices have made housing an asset class

High rental yields and a sustained increase in property prices have made Vietnamese property an attractive asset class in recent years, particularly in the high-end segment. According to CBRE, the rental yield for high-end apartments peaked in 2016, remained flat in 2017 at 5-6% and is expected to decline in 2018F because of the increase in home prices and ample supply. There is intensifying competition for apartment rentals, given that 60-70% of the total stock of high-end units is now on the rental market versus 40% in 2016 and just 20% in 2015. However, some projects at key locations, with outstanding designs and flexible payment settlement policies, continue to enjoy high demand. For many Vietnamese, a second home is a lasting store of value as it protects against inflation (2017: 3.5%), while generating meaningful rental yields, even at current levels.

Population demographic trends support housing demand

Vietnam is in the midst of optimal population age demographics

With around 50% of the total population below 35 years of age and 70% of the total population of working age (source: World Bank), Vietnam is currently experiencing optimal population age demographics. The World Bank expects Vietnam’s favourable population age demographics to be sustained until 2030F due to a continued fall in age dependency ratio (the ratio of dependents per eligible worker, with dependents being defined as those aged 0-14 years and those aged 65 years and above). Currently, around 50% of the total population is aged below 35 years and 70% of the total population is of working age. The falling age dependency ratio is driving strong demand for housing, in our view. One of the most popular online property websites (Batdongsan.com.vn) shows that over 60% of online searches for accommodation (of which 80% are for home purchases) are carried out by individuals between 20 and 49 years of age. People in this age bracket are more likely to be mid-career employees with rising incomes, recently married with young children and with a desire to move out of multi-generation family homes.

Figure 4: Period of optimal population age demographics, by Asia-Pacific country (1960-2050)

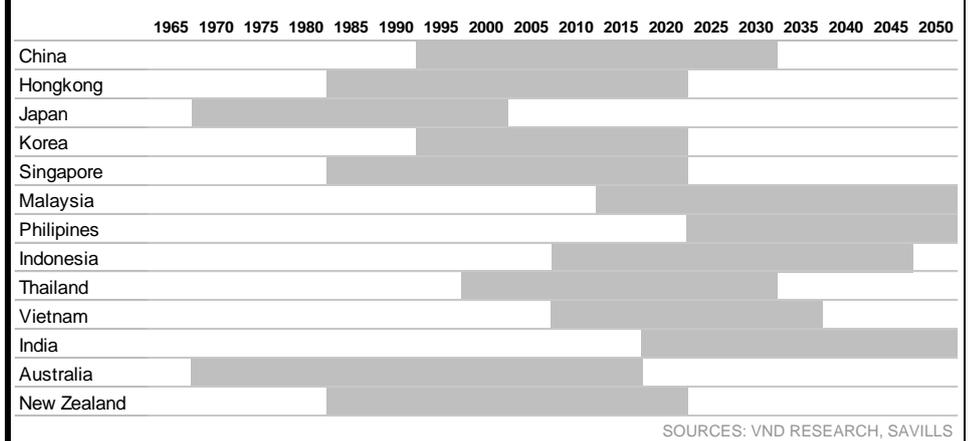
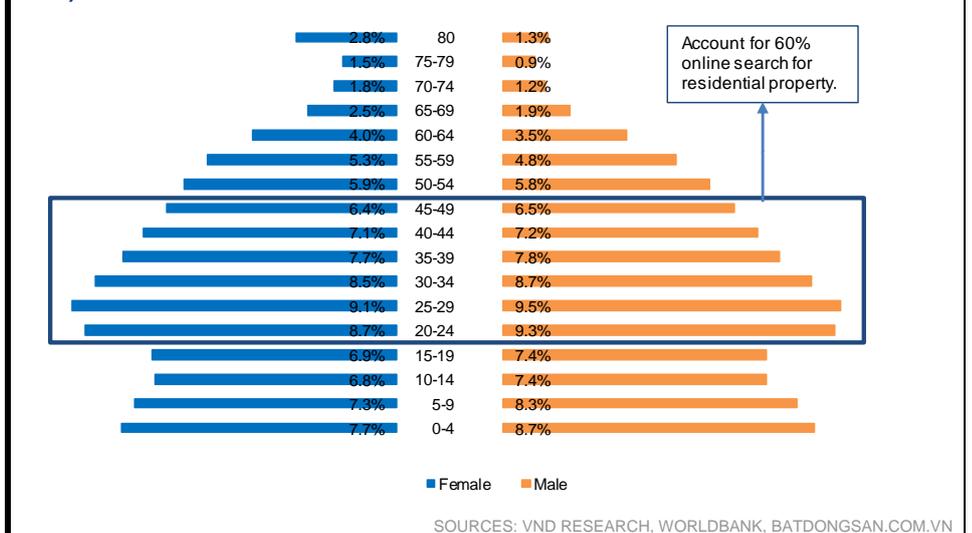


Figure 5: Vietnam’s young population is spurring demand for home ownership (as at 2017)

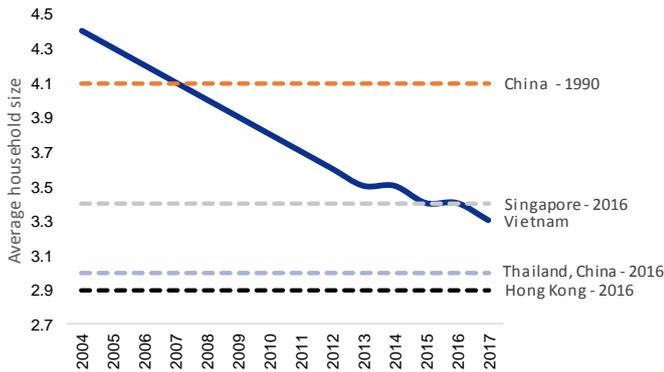


Households are shrinking in size

Vietnamese culture is heavily influenced by Confucian values that place great emphasis on “filial piety”, which means that young people are expected to take care of their parents as the latter age. This has traditionally fostered a

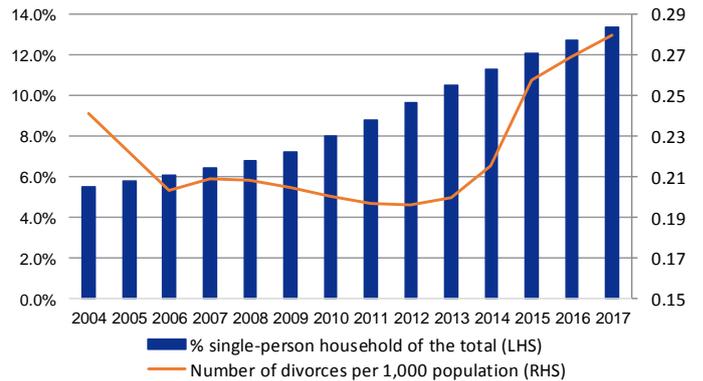
preference for multi-generation family homes that typically house three successive generations under the same roof. However, rising Western cultural influence is catalysing an increasing preference among young couples to move out of their parents' homes. The proportion of multi-generation families (nuclear families) have decreased from 88% of total households in 2004, to 75% of total households in 2017, according to Euromonitor data. Single-person households are also becoming more common in Vietnam as young people delay marriage and pursue independent lifestyles. Rising divorce rates are also spurring single-person household formation. All in all, the number of single-person households in Vietnam is growing by 10.5% per year (Figure 7) with most of this single-person household formation taking place in major cities like HCMC and Hanoi.

Figure 6: Average household size by country



SOURCES: VND RESEARCH, EUROMONITOR

Figure 7: Single-person households as a % of total households (+10.5% CAGR) and divorce rate in Vietnam

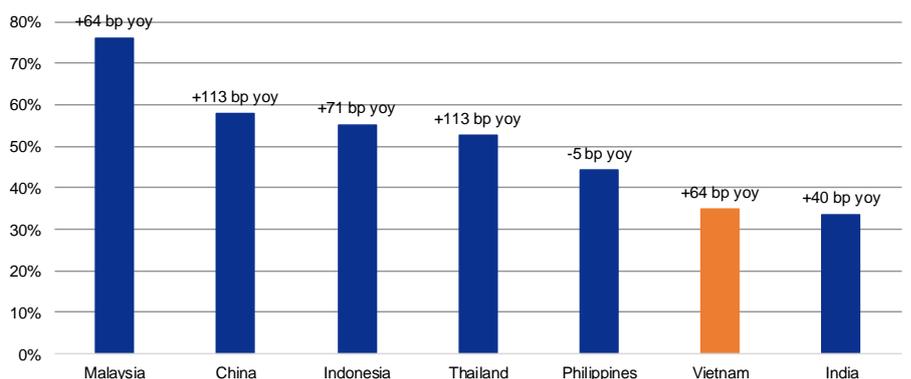


SOURCES: VND RESEARCH, EUROMONITOR, General Statistic Office

Rapid urbanisation to continue

We think Vietnam currently resembles China, Thailand and Malaysia twenty years ago, with its low urbanisation ratio (percentage of the total population living in urban areas) of 34.2% in 2016 but rapid urban population CAGR of 3.5% in 2000-16, one of the highest growth rates in the region. The rise in Vietnam's urban population is largely being driven by rural-to-urban migration, with more than one million people moving to the cities each year from rural areas (since 2000).

Figure 8: Urbanisation ratio in 2016 (% of national population)



SOURCES: World Bank

According to the World Bank, Vietnam's urbanisation rate is expected to reach 50% of the total population by 2050F, based on the following considerations:

- **Continuous economic growth and industrialisation:** Strong manufacturing and service job creation in the main urban areas is attracting rural migrants. The trend of rural-to-urban migration is on the rise and widespread throughout the country due to the search for employment, education and family reunification. According to the 2016 population census, the total internal migrant population was estimated at 13m people (13.6% of the population), up from just 6.5m people (about 7.6% of the population) in 2009. Rural-to-urban labour migration is

concentrated in big cities and the neighbouring provinces. At end-2016, migrants accounted for 31% of the population of HCMC and up to 50% of the population of Dong Nai and Binh Duong, which are fast-emerging manufacturing hubs. Meanwhile in Hanoi, migrants accounted for 10% of the population, while in Da Nang, they comprised about 6.4% in 2016. We believe this migration creates huge demand for low-end accommodation.

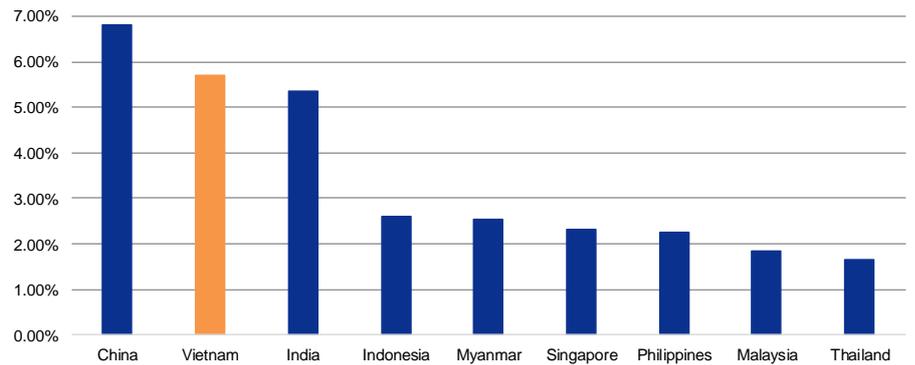
- **The creation of major urban agglomeration:** In the latest master development plan for Ho Chi Minh City, with detailed proposals to 2030F and general guidelines thereafter to 2050F, the HCMC region now encompasses over 30,404km, comprising the city itself and the seven provinces of Binh Duong, Binh Phuoc, Tay Ninh, Long An, Dong Nai, Tien Giang, Ba Ria-Vung Tau. The area's population is now more than 18.7m, and is expected to rise to 24m-25m by 2030F, of which the urban population would comprise 18m-19m, equivalent to a local urbanisation rate of 70-75%. The government expects the capital city of Hanoi to form the hub of a cluster of satellite urban centres, including five metropolitan areas. The central urban area will be expanded from the inner city to the West and the South. It will also be expanded to the North towards Me Linh and Dong Anh, and to the East to Gia Lam and Long Bien. With this expansion, the population in the central urban area of Hanoi is forecast by World Bank to reach 3.7m by 2020F. Meanwhile, the five satellite urban centres of Hoa Lac, Son Tay, Xuan Mai, Phu Xuyen and Soc Son are also expected to see strong population growth. The combined population in these five satellite towns is expected to reach 0.7m by 2020F. With the expansion of the cities, we believe there is likely to be substantial infrastructure investment in the outlying areas, together with more people and businesses moving to these areas. In sum, these developments will create greater demand for housing, in our view.

Given the strong rural-to-urban migration and master development plans for Hanoi, Ho Chi Minh City (HCMC) and their outlying areas, we expect real estate development to broaden out of the central business district (CBD) areas which have, thus far, been the focus. We believe this outward expansion of development activities have enhanced resilience of the real estate market in key urban areas like HCMC, preventing overheating due to insufficient supply. HCMC's real estate market has also seen a marked improvement in product diversity, with a greater range of products aimed at different customer segments. New supply in the CBD of HCMC is primarily concentrated in the high-end condominium segment, while the suburban and satellite areas are seeing more supply of landed properties and low-cost apartments, owing to the availability of lower cost land in these areas.

Infrastructure development is a key stimulant of property demand

Infrastructure spending has contributed significantly to the strength of the real estate industry in recent years. Vietnam's average infrastructure spending in 2010-16 was estimated by Asian Development Bank at 5.7% of GDP, the highest ratio in Southeast Asia.

Figure 9: Average infrastructure expenditure as % of GDP (2010-16) – Vietnam is among Asia's biggest infrastructure spenders

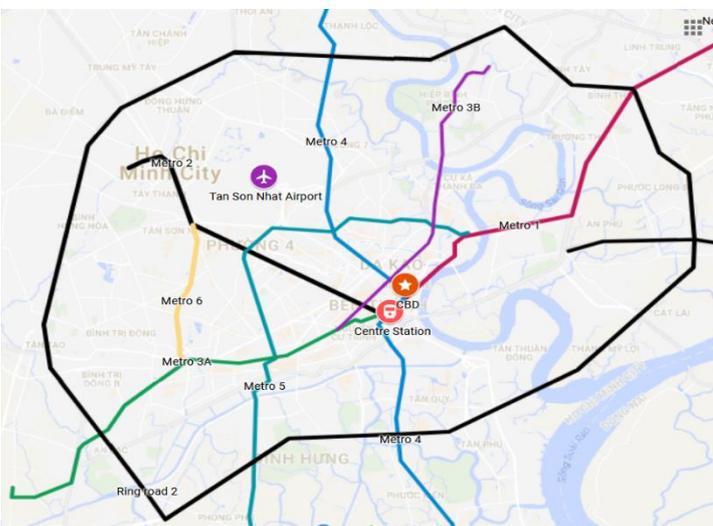


SOURCES: ASIAN DEVELOPMENT BANK, VND RESEARCH

Vietnam’s urban infrastructure pipeline remains robust with several new projects and upgrades planned over 2018-30F, including the following:

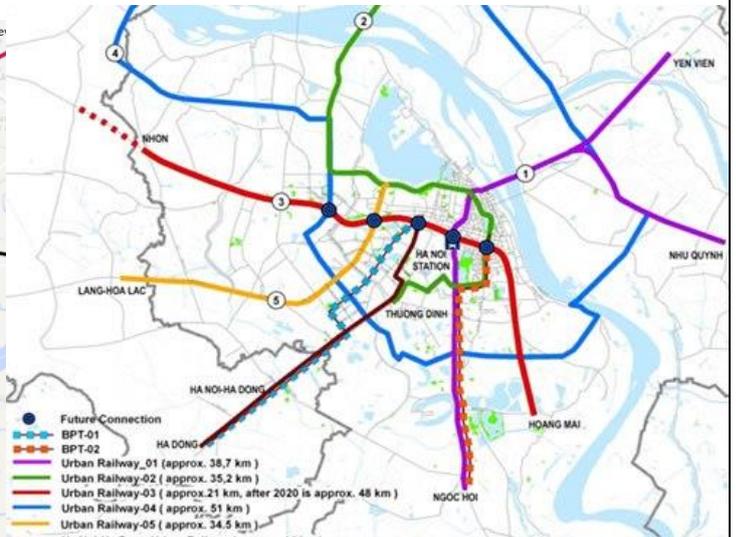
Metro rail network in HCMC and Hanoi: We believe this will be positive for Vietnam’s real estate market as creating new commuting routes will expand the urban area and create new mixed-use development opportunities in areas near the lines by triggering a shift from private vehicles to public transportation, thereby creating large retail catchment areas. Condominium prices in close proximity to these infrastructure projects have been rising faster than the rest of the market in the past few years, while properties with convenient access to metro stations are trading at a premium.

Figure 10: HCM metro railway and surrounding ring road system (2025F), according to Ministry of Transportation (MOT)



SOURCES: VND RESEARCH, GOOGLE MAPS

Figure 11: Hanoi metro railway system (2030F), according to MOT



SOURCES: HTTP://WWW.BAOXAYDUNG.COM.VN

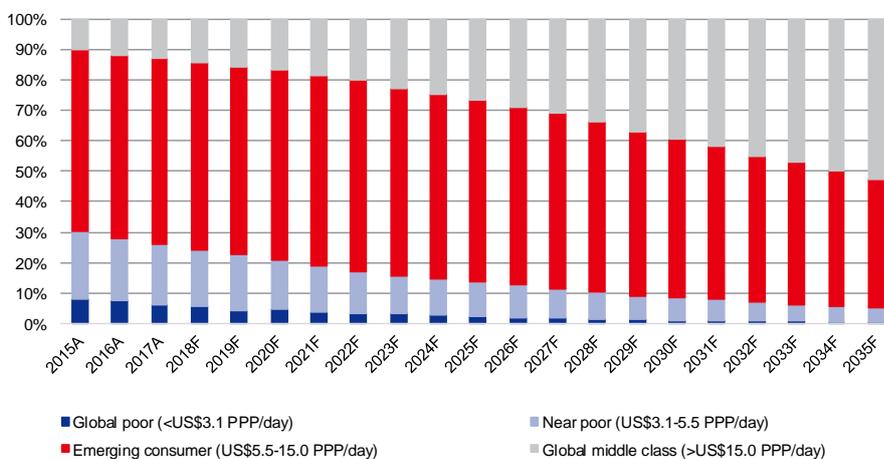
Regional expressways, radial highways and ring roads: The government is upgrading and developing the regional transport systems through the completion of the radial highway network and various belt roads, including Ho Chi Minh-Trung Luong-Can Tho; Ho Chi Minh City - Long Thanh - Dau Giay- Ben Luc - Long Thanh; North - South West Highway (Ho Chi Minh Road, Phase 3), and Binh Phuoc - Tay Ninh - Long An - Tien Giang - Dong Thap. In the period from now until 2030F, the new routes will include Bien Hoa-Vung Tau Expressway; Ho Chi Minh Thu Dau Mot - Chon Thanh (Binh Phuoc) Expressway, and Ho Chi Minh City - Moc Bai highway (Tay Ninh). The recent buoyant launches of land lot properties in the suburban areas of Dong Nai and Long An can be attributed to these upgrades and development plans that promise to improve connectivity to Ho Chi Minh City.

Positive medium-term economic outlook to support sentiment and income, buoying home purchases

Vietnam's economic performance has been resilient of late, reflecting robust export-oriented manufacturing output, strong domestic demand and a gradual rebound in the agriculture sector; GDP grew by 6.8% in 2017, the fastest expansion in the past 10 years. According to the World Bank, the transformation of the Vietnamese economy over the last 25 years has been "remarkable, with economic and political reforms translating into higher incomes". Vietnam's middle class (defined as those earning more than US\$15/person/day adjusted for Purchasing Power Parity, PPP, translating into income/household/year of US\$21,900 at PPP) is growing rapidly with the proportion increasing from just 7.7% of the total population in 2010 to 13.3% of the total population in 2016. Most of that increase occurred between 2014 and 2016, when 3m people joined the ranks of the middle class. This rising affluence is key to overall consumption growth as the top-earning 40% of Vietnamese households accounted for 55% of total national income in 2016.

Vietnam's GDP expansion is expected by the World Bank to be sustained at 6.0% over the medium term, with some upside potential in the short run, if the global economy remains healthy. While inflation is projected to remain moderate, thanks to a benign global price environment, strong wage growth may ultimately lift core inflation. According to a World Bank forecast, by 2020F, Vietnam will have 18.5m people classified as middle income by global standards, comprising 18.7% of the total population. Furthermore, several sizeable clusters of this middle class will crop up along the country. As a result, we expect Ho Chi Minh City and Hanoi to account for only about one-third of this middle class by 2020F, down from around one-half currently.

Figure 12: By 2035F, more than half of Vietnam would be categorised as middle class by global standards, according to the World Bank



SOURCES: WORLD BANK

The World Bank also forecasts that Vietnam's per capita income will rise from about US\$2,300 in 2017 to US\$3,400 (at market exchange rates) in 2020F, if GDP growth rate is maintained above 6% p.a.

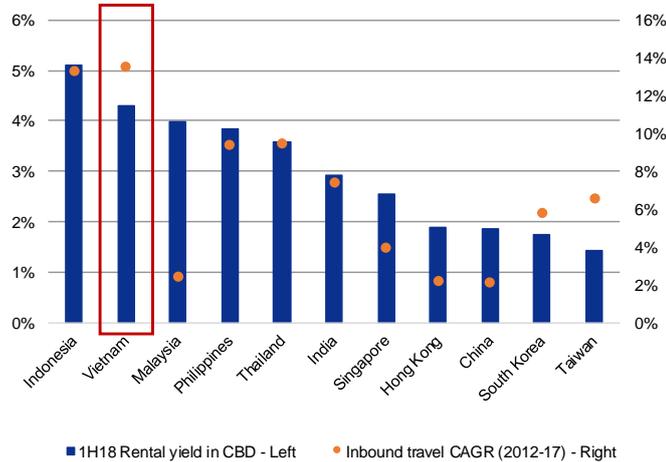
Apart from the increase in the middle-income population, the population of ultra-high net worth individuals (UHNWIs, the number of individuals with US\$30m or more in net assets excluding personal assets and property such as a primary residence, collectibles and consumer durables) is forecast to rise by 170% to 540 over the next decade, the highest rate of growth in the world according to the Knight Frank Wealth Report 2016.

More foreigners buying and renting property

As at end-2016, there were a total of 82,585 foreigners working in Vietnam and many of them chose to make Vietnam their permanent residence due to the good quality of life the country offers to expatriates. Vietnam ranked 11th on the list of the most liveable places in the world (source: www.internations.org). This trend, together with the relaxing of restrictions that allow foreigners to own, lease

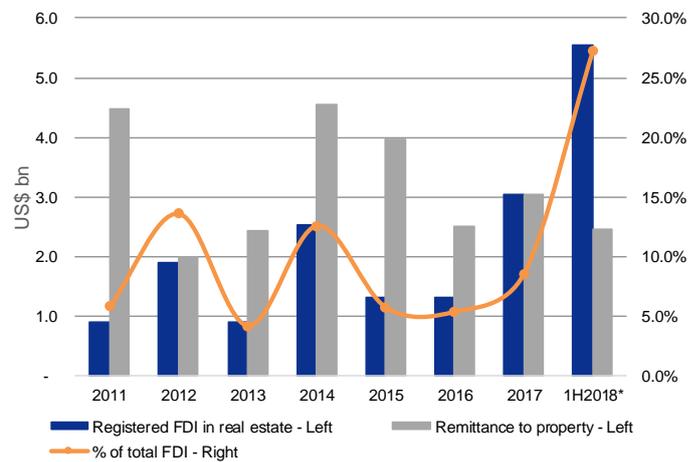
and transfer real estate (as per the new Housing Law enacted in 2015) have led to a surge in foreign interest in Vietnamese property. Most foreign homebuyers/lessees are from China, South Korea, Hong Kong and Singapore and they are often searching for properties in the high-end/luxury segment that cater to their need for modern accommodation with recreational facilities and shopping venues. In addition, housing prices in Vietnam are still quite low compared to those of other Asian countries, while rental yields are attractive at 4-5% in the high-end segment. Prices in Ho Chi Minh City's CBD now stand at US\$3,000-6,000 per sq m, half the price of similarly located properties in Bangkok and only one-tenth of the price in Hong Kong. In the first four months of 2018, around 2,000 units were transacted by foreign homebuyers/lessees, equivalent to the total volume in 2017 (source: www.batdongsan.com.vn). We see that administrative procedures that prevent or discourage foreigners from owning a home in Vietnam and restrictions on repatriation of capital still pose impediments to foreign homebuyers. However, the general trend in the direction of loosening foreign ownership regulations would boost demand from overseas homebuyers/lessees, in our view.

Figure 13: Vietnam is an attractive rental market in a regional context



SOURCES: EUROMONITOR, NUMBEO, VND RESEARCH

Figure 14: FDI and personal remittance flows into the Vietnam property market



(* Total remittance is currently unavailable and the figure is for HCMC only)

SOURCES: IMF, MINISTRY OF PLANNING AND INVESTMENT

Against this backdrop, foreign property developers from countries such as Singapore, South Korea, Hong Kong and Japan have entered the Vietnamese market. According to the Ministry of Planning and Investment, Foreign Direct Investment (FDI) registration in the real estate market reached US\$3.0bn in 2017, more than double the US\$1.2bn in 2016. This was the third-highest level among all sectors in terms of total FDI registration in 2017, after the manufacturing sector's US\$15.8bn and the power sector's US\$8.3bn. Registered FDI in the real estate sector continues to rise. In fact, registered FDI in this sector for 1H18 was already twice the level in 2017 (Figure 14). These foreign developers are not only participating in the high-end condo, vacation/commercial property segments like in previous years, they are also keen on the mid-range condo segment, with the aim of riding on current demand trends. They bring a wealth of experience and high standards, in our view, to the areas of development and management and are speeding up the development of Vietnam's real estate market.

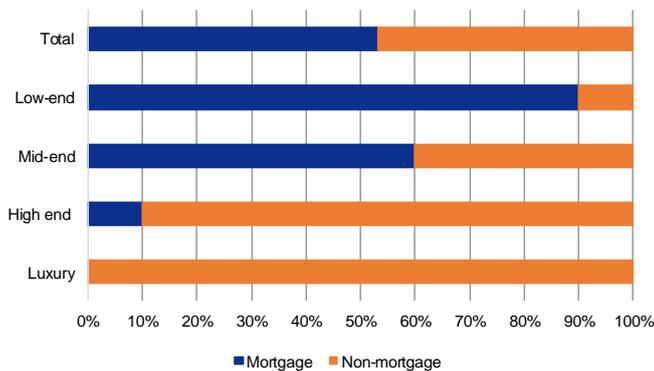
Transaction volumes could decline in the medium term due to rising mortgage rates and sales prices

Tighter credit flow to real estate development

In 2017, nearly 40% of real estate construction cost was funded directly by bank loans or housing mortgages. This meant that demand in the property market depended significantly on the health of the overall banking system and interest rate cycle. Hence, since the market crisis in 2010-13, government officials have

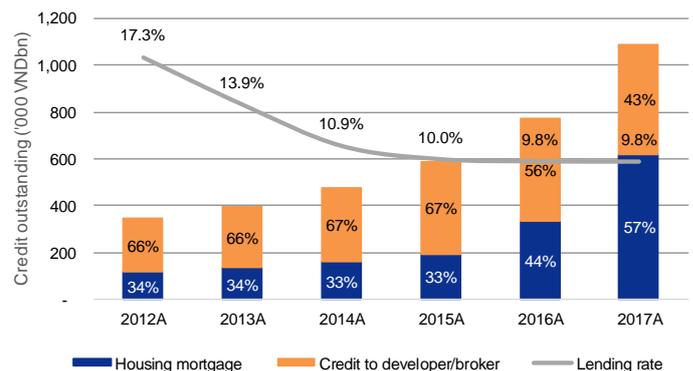
focused their attention on this sector in an attempt to control bad debt. The government has developed regulations to manage property bubbles, including Circular 19/2017/TT-NHNN (Cir. 19) that stipulates the limit for banks to use short-term funds for long- and medium-term lending is to be reduced from 50% in 2017, to 45% in 2018F, and to 40% in 2019F. In addition, Basel II implementation, expected to be completed in 2020F, is pushing banks to commit to a Capital Adequacy Ratio (CAR) floor of 8%. To do this, banks have two options: 1) increase the numerator of the ratio by raising their capital position; 2) reduce the denominator of the ratio by reducing the property collateral to counter the heavier risk weighting for loans to developers (Basel II requires banks to use a 200-250% risk weighting for property developer loan asset value in their CAR calculations, which is an increase from 100-150% under Basel I). From our perspective, not all of the Vietnamese banks have enough credibility to raise their capital position and it is much easier and more effective to reduce lending to real estate instead. Total outstanding credit to real estate developers at the end of 2017 amounted to 7.2% of the total system-wide loan book, a decrease of 110bp from the 2016 level (source: State Bank of Vietnam, SBV). We believe some banks will proactively clean up their portfolio ahead of the Basel II deadline. In our view, the combined effect of Basel II and Cir. 19, is to prompt lenders to maintain or reduce their exposure to the property market by adopting more stringent credit underwriting criteria or raising loan rates to real estate developers.

Figure 15: Mortgage penetration in the condominium segment (as at 2017)



SOURCES: VND RESEARCH, CBRE

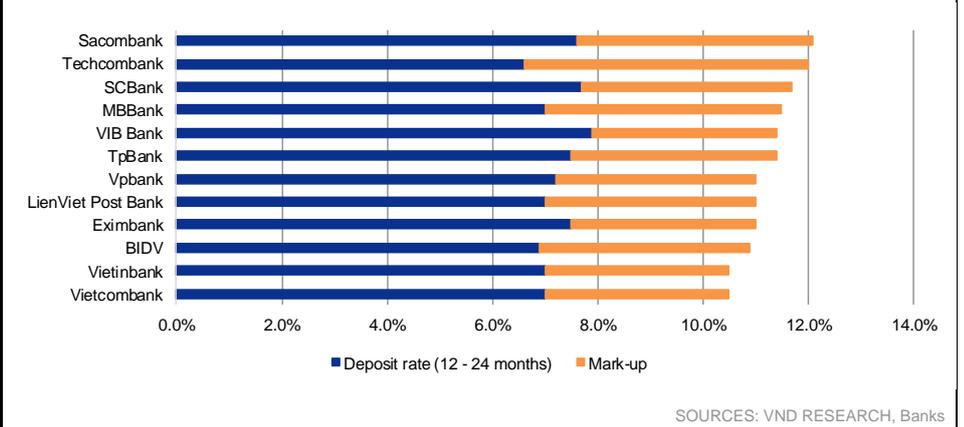
Figure 16: Credit allocation to the property sector



SOURCES: VND RESEARCH, SBV, EUNROMONITOR

The low interest rate environment, sparked by loose monetary policy and accommodated by benign inflation, has tripled housing mortgages since 2015. By 2017, Vietnam banks' housing mortgages had surpassed lending to developers. As loans to individuals help to diversify default risk and offer higher asset yields compared to loans to developers, there is now a sector-wide re-orientation by banks away from lending to corporates and towards lending to homebuyers. We also note that most of the mortgages are being classified as consumer credit and not subject to the high risk weightings applied to loans to developers under Basel II. This classification of mortgages under consumer credit complies with Cir. 19 due to the long duration of the mortgages (10-20 years). In fact, to raise more long-term funds, we think banks are likely to encourage long-term savings from retail depositors by raising deposit rates for tenors of six months or more. We believe this, together with a rise in policy rates to control accelerating inflation, may lead to an increase in mortgage rates, which are usually priced at a 350-450bp mark-up on the long-term deposit rate.

Figure 17: Mortgage rate structure of major Vietnamese banks in Jul 2018

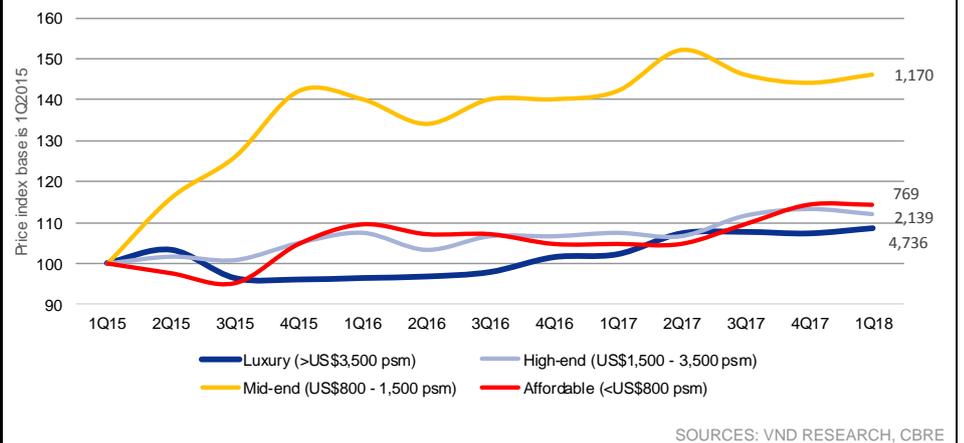


However, barring a sharp rise in policy rates – which we consider unlikely – we expect only a marginal housing mortgage rate increase of 100bp p.a. in 2018F onwards, which should not dramatically dent the appetite for mortgages.

Income growth should cushion the impact of a moderate rise in mortgage rates, thereby helping to sustain housing demand

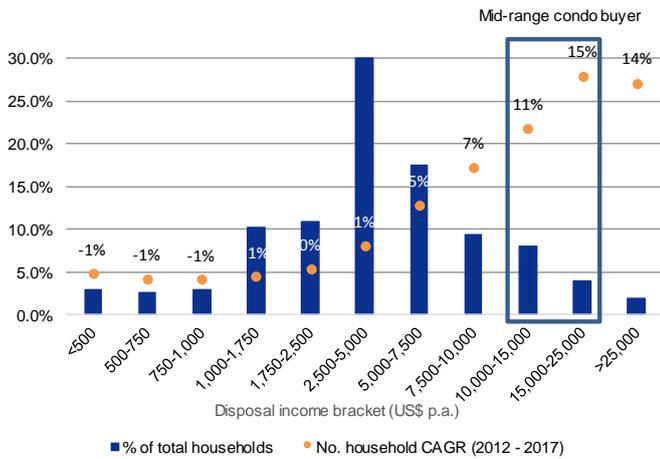
Given their modest purchasing power, homebuyers in the mid- to low-end segments tend to be more sensitive to a surge in housing prices compared to wealthier homebuyers. The average price across all categories of residential properties has increased over the last three years, with the mid-range condo segment seeing the fastest price appreciation at 11% CAGR in 2015-17, from US\$801 per sq m to US\$1,170 per sq m. The price appreciation in the last three years was partly a function of rising land prices, as well as construction costs (construction steel price rose by 18% in FY17, and +6% in 5M18), but the steep rise in mid-range condo prices was also driven by a migration of mid-range developers to more premium mid-range projects.

Figure 18: Mid-range condo price increase outpaced other segments in HCMC (US\$ per sq m)



Despite the rise in real estate prices in recent years, mortgage carrying costs have remained affordable due to the low interest rate environment. At the current mortgage rate of 11-12%, we estimate mortgage carrying cost amounts to around 55% of average household income, which is high but regarded as manageable by homebuyers. We believe that if mortgage rates were to touch 14%, with household incomes and property prices remaining at current levels, the mortgage carrying cost would start to have a material impact on homebuyers' purchase decisions. We view this as a medium- to long-term risk as we do not foresee a dramatic rise in interest rates in the near term, and also because property price growth has started to moderate in 2015-17. Even if mortgage rates rise by 100-200bp within the next 12 months, we believe this would be offset by a 4-5% increase in average disposable household income over the same period (in line with the 4.4% increase seen in 2017). Meanwhile, mid-range property prices are unlikely to rise by more than 5% over the same period, according to our projections.

Figure 19: Breakdown of households by disposable income bracket – Rapid growth in proportion of potential mid-range condo buyers



SOURCES: VND RESEARCH, EUROMONITOR, GENERAL STATISTICS OFFICE OF VIETNAM (GSO), BOSTON CONSULTING GROUP (BCG)

Figure 20: Monthly mortgage payment-to-income ratio sensitive to increase in mortgage rates and property prices.

US\$	Year 1	Year 2	Year 3	Assumption
Monthly salary (x2 persons)	1,520	1,596	1,676	We assume 5% annual growth in household disposal income
Annual household income	18,240	19,152	20,110	
Average selling price* (US\$ psm)	1,200	1,260	1,323	Mid-range condo may see a price increase of 5% p.a.
Unit size (sqm)	70	70	70	
Total value (US\$/unit)	84,000	88,200	92,610	
House value to income	4.61	4.61	4.61	
Loan to value	70%	70%	70%	
Loan term (months)	180	180	180	
Mortgage rate	12%	13%	14%	
Monthly payment	706	781	863	
Payment to income	46%	49%	52%	

(*) 2Q18 average price for mid-range condo in HCMC (CBRE)

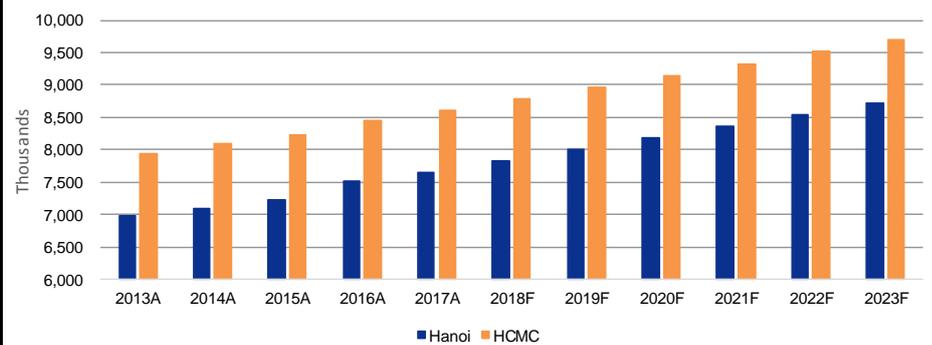
SOURCES: VND RESEARCH, CBRE

Real estate market outlook for 2018F: we see pockets of strength even as the overall market cools

Unmet demand for lower- and mid-range condominiums

Based on increasing job migration to urban areas and organic population growth, we estimate HCMC and Hanoi would witness the formation of nearly 110,000 new households every year for the next five years, assuming a constant urban household size of 3.2 people and stable population growth of 2.0-2.2% p.a. for both cities. We expect most of these households to seek affordable or lower mid-range apartments with units typically priced under VND2bn (~US\$87,000).

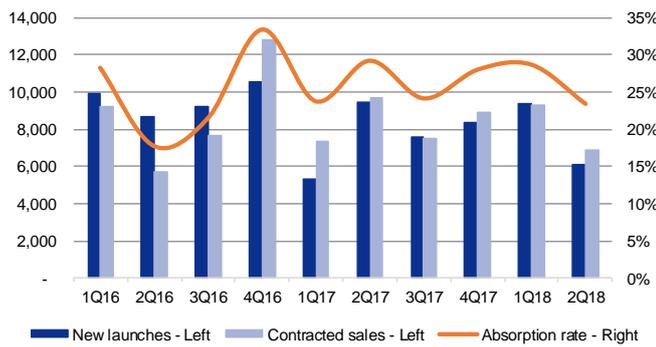
Figure 21: Population size in HCMC and Hanoi, based on our estimates



SOURCES: VND RESEARCH, GSO, UNITED NATIONS

Based on the project pipelines of major developers, we expect to see 90,000-100,000 condo units launched in 2018-20F, of which 60%-70% comprise mid-range condos. However, we expect to see a divergence within the mid-range segment, with many upper mid-range apartments coming onstream (US\$1,500-2,000 per sq m) with the supply of lower mid-range properties remaining subdued. The shortage of lower mid-range condos should provide a buffer for developers operating in this tier of the mid-range condo market against possible ripple effects from a wider downturn in the property market, in our view.

Figure 22: HCMC condo market performance (units)



SOURCES: CBRE

Figure 23: Hanoi condo market performance (units)



SOURCES: CBRE

Abundant supply of high-end condominiums in HCMC

We believe demand in this segment would still be driven by positive FDI flow and international inbound travel over the next five years. However, the near-term performance of this segment could be negatively by the current oversupply of high-end and luxury condos, in our view. We estimate there could be 1,200 new units of supply added from completed projects this year, amounting to 25% of the current available capacity in HCMC (Savills, 2Q18). Oversupply pressure was evident in 1H18, manifesting in a 400bp fall yoy in the occupancy rate for serviced apartments. We think this visible headwind would dampen service apartment profitability and could lead to buyers avoiding the high-end condo segment this year, and possibly next year. Meanwhile, we believe Hanoi's serviced apartment market would maintain close to full occupancy and high rental rates due to a supply deficit caused by a low volume of high-end apartment completion in 2018-20F (Savills).

Landed property market is intact

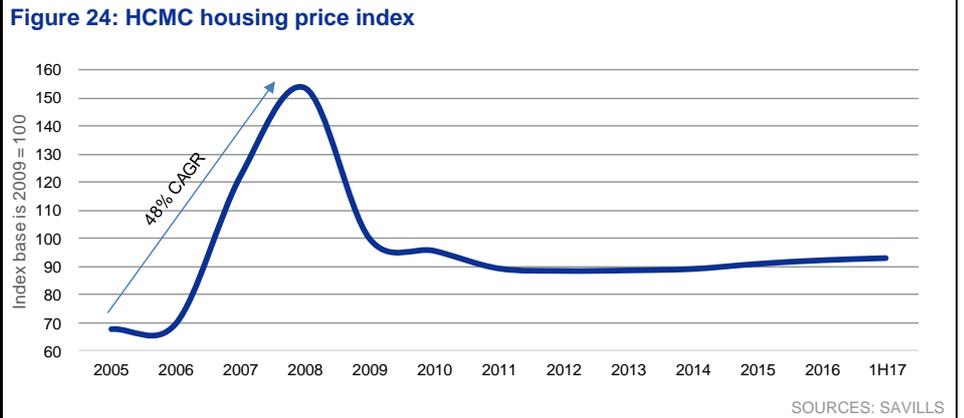
For the last decade, landed property has been a profitable asset class in Vietnam due to a few factors, including the traditional preference for landed property ownership, surge in land prices and the market demand for well-connected or soon-to-be well connected suburban areas. In HCMC, new supplies are usually located around 10 km away from the CBD (mostly in Districts 2 and 9) due to the current scarcity of inner city land bank. The landed property segment still shows strong demand, with 80% absorption rate (in 1H18 (Savills)). This is not only because of cheaper suburban land cost translating into more affordable house prices, or acceptable commute times to the CBD (<45 minutes), but also the attraction of living in a community with a wide range of amenities and a relaxing ambience. Along these lines, some developers have been successfully marketing the green residential community concept, targeting buyers who want a more peaceful atmosphere away from the crowded city centre. Given the projected annual new supply of 10,000 units over 2018-20F (Savills), we are bullish on landed property sales in FY18-20F with 60-70% absorption per year in Hanoi and HCMC.

No clear evidence to suggest Vietnam is in a housing bubble

Compared to the last housing sector peak in 2008 and the subsequent downturn, there is now a wider range of demand drivers and more product variety in Vietnam's property market. At the high-end, there are the property speculators and investors. They have recently taken a backseat as supply in this segment has skyrocketed. The buying tide has now moved to mid-range homebuyers searching for their first home. With the decrease in overall housing prices in 2014 that made mid-range housing more affordable, coupled with relatively-low mortgage rates, this segment attracted hoards of buyers, mostly owner-occupiers. Unlike the dramatic price increases in the high-end segment before the 2008 bubble, price increases in this real estate upcycle have been quite moderate.

The 11% CAGR in mid-range housing prices and 2-4% CAGR for other segments (2015-1H18) are more moderate compared to the 48% price CAGR across all property segments leading up to the 2008 bubble (Figure 25).

Therefore, we believe that the current housing market is less likely to collapse in the near term. We understand that increasing mortgage rates may put a drag on market momentum but do not expect a housing market crash anytime soon.



Real estate stocks in Vietnam have re-rated sharply in recent years due to improving profitability

We saw sector-wide re-rating start in early 2017, evidenced by the sharp expansion in property stocks' P/BV multiples. The re-rating was not only due to the IPOs of iconic high-end developers, like Novaland Group (NVL VN, Not Rated) in 2016 and Vinhomes (VHM VN, Not Rated) in 2018, but also because of secular improvement in the fundamentals of listed mid-market developers, as reflected in the improving average return on equity (ROE) across the sector. The real estate market recovery since 2015 has prompted a revaluation of developers' asset values as future earnings become more visible to investors. VHM and NVL are expensive relative to their local peers due to their highly valuable, prime land banks and their ability to effectively execute multiple developments, in our view. These developers' projects usually have rich margins and high plot ratios, which drive higher returns on capital than their peers. On the other hand, Nam Long Group (NLG VN, Add, TP: VND35,500), Khang Dien Housing (KDH VN, Add, TP: VND36,700), and Phat Dat Real (PDR VN, Not Rated) focus on lower-range developments in non-CBD areas with thinner margins. They are also less efficient in monetising their land banks, in our view. However, we think the scarcity of CBD land bank, combined with a supply overhang in the high-end segment, create headwinds for high-end developers. We believe this may refocus investor attention going forward, on mass market developers like KDH and NLG that have sizeable, ready-to-use land banks.

Figure 25: Vietnamese real estate companies' P/BV re-rated significantly, starting in 2017 (as at 13 Aug 2018)

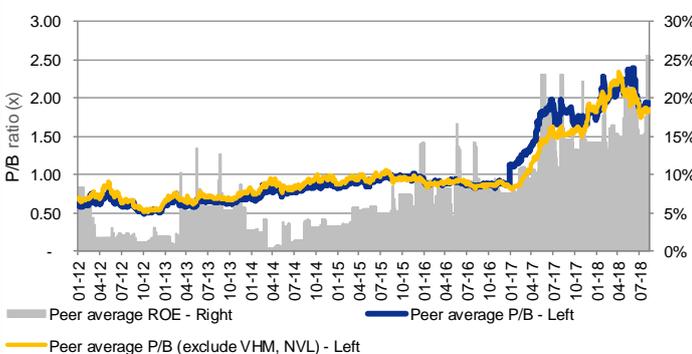


Figure 26: Premium P/BV valuations justified by higher ROEs (as at 13 Aug 2018)

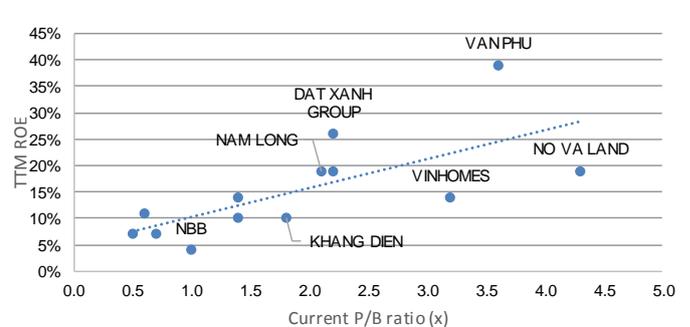


Figure 27: Peer comparison

Company Name	Ticker	Share price (VND)	TP (VND)	Recom.	Land bank (ha)	Market Cap (US\$m)	P/E (x)			P/B (x)			ROE (%)			Dividend yield (%)		Net gearing (%)
							TTM	2018F	2019F	1H18	2018F	2019F	TTM	2018F	2019F	2018F	2019F	
Vinhomes	VHM VN	109,900	NR	NR	16,110	12,804	46.8	16.3	11.4	3.2	N/A	N/A	N/A	58.1	47.1	0.9	1.3	136.0
No Va Land	NVL VN	64,900	NR	NR	623	2,561	25.8	21.5	20.2	4.3	3.1	N/A	18.7	18.5	14.9	N/A	N/A	81.4
Khang Dien	KDH VN	29,300	37,000	ADD	499	494	18.9	14.6	13.8	1.8	1.7	1.5	10.0	11.5	11.5	1.7	1.7	-15.1
Dat Xanh Group	DXG VN	27,900	NR	NR	702	415	9.5	8.4	7.1	2.2	2.0	1.6	26.2	23.8	29.8	1.6	N/A	13.2
Phat Dat	PDR VN	26,000	NR	NR	216	301	12.6	N/A	N/A	2.2	N/A	N/A	19.4	N/A	N/A	N/A	N/A	-3.4
Van Phu	VPI VN	41,650	NR	NR	237	290	9.6	N/A	N/A	3.6	N/A	N/A	38.8	N/A	N/A	N/A	N/A	13.0
Nam Long	NLG VN	30,450	35,500	ADD	400	278	10.4	10.7	9.0	2.1	1.5	1.3	19.1	5.6	10.8	1.5	1.6	-33.0
Dev Inve Group	DIG VN	16,900	NR	NR	3,158	186	14.6	N/A	N/A	1.4	N/A	N/A	9.6	N/A	N/A	N/A	N/A	52.4
Sai Gon	SCR VN	9,320	NR	NR	158	128	6.8	N/A	N/A	0.7	N/A	N/A	7.2	N/A	N/A	N/A	N/A	47.6
LDG Investment	LDG VN	14,250	NR	NR	N/A	117	14.7	N/A	N/A	1.3	N/A	N/A	14.0	N/A	N/A	N/A	N/A	0.6
QCGL	QCG VN	8,450	NR	NR	N/A	101	11.2	N/A	N/A	0.6	N/A	N/A	11.0	N/A	N/A	N/A	N/A	9.0
NBB	NBB VN	19,300	NR	NR	N/A	82	27.3	N/A	N/A	1.0	N/A	N/A	4.1	N/A	N/A	N/A	N/A	26.3
Thu Duc Housing	TDH VN	11,350	NR	NR	N/A	40	7.0	N/A	N/A	0.5	N/A	N/A	7.0	N/A	N/A	N/A	N/A	26.7
Simple average							16.6	14.3	12.3	1.9	2.1	1.5	15.4	23.5	22.8	1.4	1.5	27.3
Simple average (excluding VHM)							14.0	13.8	12.5	1.8	2.1	1.5	15.4	14.8	16.8	1.6	1.7	18.2
Median							12.6	14.6	11.4	1.8	1.8	1.5	12.5	18.5	14.9	1.5	1.6	13.2

Note: all prices are based on the closing prices on 22 Aug 2018. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

SOURCES: VND RESEARCH, BLOOMBERG, COMPANY REPORTS

Our top picks are KDH and NLG due to their strong alignment with current market trends

The mid-range and affordable condo segments tend to have more stable demand because of the expansion of the middle-income population and affordable prices of homes in these segments. In 2018F, we believe that mid- and low-end condominium sales will continue to lead market transaction volumes in both HCMC and Hanoi, although buyers may be gradually negatively affected by mortgage rate increases. Based on our simulation, homebuyers would still be able to afford their monthly loan payments if the mortgage rate is below 14%. Based on our assumption that interest rates will not rise sharply, our sector top picks are KDH and NLG.

Khang Dien House Trading and Investment (KDH) owns 500ha land bank in the inner city area of HCMC following its recent merger with Binh Chanh Construction & Investment (BCI, Unlisted). We believe this land bank will secure KDH's project development pipeline for the next 5-10 years. Its strategy to develop mid-range condos and gated townhouse communities makes for a diversified range of products and lowers market risk. We believe KDH's high quality housing developments have helped it to establish its brand name among prospective buyers, driving strong sales absorption. Its negative net gearing (-33% at end-2Q18) also sharpens its competitive edge, in our view, in an environment where credit to developers is getting tighter.

KDH is now trading at a 20.2% discount to our end-2Q18 RNAV-based target price of VND36,700. We view the potential commencement of development on newly-acquired land area from BCI as a potential re-rating catalyst. Since we do not have much information about the development plan for its newly-acquired land bank from BCI, we apply a market price with an assumed simple development plan comprising two-storey houses over a time frame of 2-3 years to derive the fair value of the land bank. We expect management to launch projects on the newly-acquired land parcels from BCI soon. We will review our earnings projections when more detailed information becomes available.

Nam Long Investment JSC (NLG): The company has a long track record in the mid-range and affordable residential developments, mostly in HCMC. We believe its products (both condo and landed property) are well-adapted to meet the needs of lower- and middle-income homebuyers who wish to own their very first home with a full range of amenities at a reasonable price (US\$1,000-1,300 per sq m for condo units in 2017). NLG also has around 400ha of clean land bank outside the CBD, acquired at low cost to augment its development pipeline

over the next five years. In Jul 2018, NLG announced that it had finalised new business cooperation contracts with two Japanese partners for the 355ha township development named Water Point. The contract is expected to immediately generate revaluation profits paid to NLG from the 50% project ownership transferred to these partners. We also like NLG's negative gearing position (-33% at end-2Q18), as it would lessen the impact of any government restrictions on banks' lending to property developers, in our view. The company is now effectively funding its projects through customer advance payments and capital market issuances (new share issuance and convertible bonds).

NLG is now trading at a 14.2% discount to our end-2017 RNAV-based target price of VND35,500. We view its upcoming new launches such as Novia, Akari, Water Point and the next phase of Mizuki Park this year as potential re-rating catalysts, which we believe has not been fully priced in by the market due to the recent weakness in market sentiment. We forecast these projects to generate total net profit of VND4.5tr over the next five years (FY18-22F), equivalent to 8.87x FY17 net profit.

SWOT analysis

Figure 27: SWOT analysis for Vietnam residential property sector

Strengths:

- Cheap property price and low mortgage cost support housing affordability
- Affordability improving with new developments in suburban areas
- Current economic backdrop suggests steady increase in home buyer incomes
- Government infrastructure spending is stimulating the property market

Weaknesses:

- Weak legal system to prevent potential LUR conflicts and to protect property owners
- Limited ownership for foreign homebuyers
- Non-transparent and complicated land acquisition practices create potential legal risks for land owners

Opportunities:

- Sustainable demand for mid-range condo from the raising middle income population and rapid urbanization
- Surging housing demand from foreigners driven by rising FDI and tourism flows
- Repurposing and rezoning of land in HCMC and Hanoi offer more potential land bank in non-CBD areas

Threats:

- Steep rise in mortgage rate could impact transaction volumes
- Huge expected supply by VHM (non-rated) could depress market prices for affordable and mid-range condos
- More foreign developers are entering the market with superior development quality and premium product branding and may shift from high-end to mid-range condo segment

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sector risks

Rising mortgage rate

Given the buyers' increasing reliance on mortgages to purchase homes, a sharp rise in mortgage rates would have negative impact on lower middle-income buyers who have been driving affordable and mid-range condo demand in 2015-17. We do not expect Vietnam mortgage rates to increase by more than 100bp over the next 12 months but if they do, our sector investment thesis and company earnings estimates would be at risk.

Oversupply risk due to major high-end developers pivoting to mid-range segment

Large developers like VHM and NVL that were previously focused on the premium and high-end property segments, are moving down market due to oversupply in the high-end segment. VHM has already announced its plans to launch the first Vincy project in District 9 (HCMC), with an estimated 40,000 condo units aimed at lower middle-income buyers.

Vietnam

ADD (previously NOT RATED)

Consensus ratings*: Buy 1 Hold 2 Sell 0

Current price:	VND29,300
Target price:	VND36,700
Previous target:	
Up/downside:	25.33%
CGS-CIMB / Consensus:	-6.9%
Reuters:	KDH.HM
Bloomberg:	KDH.VN
Market cap:	US\$488.2m
	VND11,363,487m
Average daily turnover:	US\$0.16m
	VND3,777m
Current shares o/s:	336.08m
Free float:	55.0%

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3	-13.5	18.6
Relative (%)	-8.2	-13.1	-10.4

Major shareholders	% held
Tien Loc Investment Limited	11.7
Gam Ma Investment Company	9.6
A Au Investment Trading Company	8.6

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Khang Dien House Trading and Investment JSC

Development of BCI's land bank is a game-changer

- KDH has the third-largest land bank of 499ha in Ho Chi Minh City (HCMC) among its listed local residential peers.
- Commencement of development on BCI's residential land bank should significantly boost KDH's earnings in the medium-term, in our view.
- Its low financial leverage bolsters KDH's position in the event of a credit squeeze.
- Increasing competition among mid-range developers and a possible rise in mortgage rates could hurt KDH's sales volumes and prices of future projects.
- We initiate coverage on KDH with an Add and RNAV-based TP of VND36,700.

Huge land bank downtown in Vietnam's biggest metropolis

After acquiring Binh Chanh Investment JSC (BCI) in Feb 2018 (by issuing 51.8m shares in a share swap for a 42.7% stake in BCI at a ratio of 1.4:1.0), KDH's land bank expanded from 16.5ha in Eastern HCMC to 499ha, mostly in the Western part of HCMC. This ensures over ten years of project development, in our view. KDH now has the third-largest land bank in HCMC (499ha) among the listed residential developers.

Acquisition of residual stake in BCI to speed up land compensation

We believe KDH would be able to complete the compensation process for the remaining 482ha land bank before 2020F as planned (compensation completed for 70% of BCI's land bank to date). We expect topline growth and gross margin expansion to drive robust net profit growth post 2020F, as BCI's residential land bank cost less than VND1m per sq m vs. market price of VND28m-39m per sq m (as at 2Q18). Even assuming development of simplistic low-rise projects on this land, we estimate it could generate VND14.8tr in cumulative net profit over FY20-23F, equivalent to 18.5x FY18F net profit.

Proven track record, net cash position

Based on the projects announced, we project revenue CAGR of 14.7% and net profit CAGR of 24.6% over FY17-20F (unbooked presales of VND2,962bn in FY18F, based on our estimates). Given its track record, we think KDH would be able to fund its construction costs largely via presales advance payments, reducing its reliance on bank loans. We believe its net cash position makes the company less prone to potential market downturns.

Well-positioned to capture real end-user demand

Riding on its reputation for developing well-regarded landed properties, KDH's recent pivot to mid-range condos has diversified its product range, while enabling it to tap into the condo segment, which is the optimal solution to housing the large population in Vietnam's megacities, in our view. We believe its core landed property products still enjoy high demand due to inadequate market supply and consumer preference for landed properties.

Risk of competition in mid-range segment & higher mortgage rates

The mid-range property segment's higher gross margins (compared to the affordable housing segment) and more sustainable demand (than in the high-end segment) have attracted many strong players to this segment. For example, Vinhomes (VHM VN, Not Rated) plans to launch 40,000 condo units in FY19-21F. Another risk for KDH would be a possible 100-200bp rise in mortgage rates in 2019F, which may deter mid-range homebuyers, posing downside risk to transaction volumes.

Initiate coverage with Add; potential upside of 25.3%

We initiate coverage on KDH with an Add rating and a TP of VND36,700. Our Add rating is underpinned by: 1) its sizeable 499ha land bank in HCMC, the third-largest among listed residential developers, 2) improved prospects for monetisation of BCI's land bank in 2020F onwards, 3) net cash position (VND935bn at end-FY17) helps make it less prone to market downturn and 4) impressive net profit CAGR of 24.6% over FY17-20F in our view.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues (VNDb)	3,932	3,055	3,212	4,029	4,612
Operating EBITDA (VNDb)	689	792	840	1,046	1,206
Net Profit (VNDb)	371.9	501.4	802.5	825.6	969.5
Core EPS (VND)	1,589	1,997	1,793	2,129	2,500
Core EPS Growth	42.8%	25.7%	(10.2%)	18.7%	17.4%
FD Core P/E (x)	16.31	16.65	15.25	13.76	11.72
DPS (VND)	700.0	1,000.0	500.0	500.0	500.0
Dividend Yield	2.39%	3.41%	1.71%	1.71%	1.71%
EV/EBITDA (x)	12.50	9.34	12.00	9.23	7.67
P/FCFE (x)	29.7	30.1	185.4	75.0	86.0
Net Gearing	19.0%	(15.1%)	(18.8%)	(23.2%)	(26.2%)
P/BV (x)	1.97	1.89	1.65	1.53	1.40
ROE	11.0%	11.5%	11.5%	11.5%	12.4%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			1.07	1.01	

SOURCES: VND RESEARCH, COMPANY REPORTS

Development of BCI's land bank is a game-changer

Well-positioned to reap the benefits of Vietnam's rising wealth and growing middle class

A developer with a solid brand name and focus on owner-occupiers➤

Since it was established 15 years ago, KDH has become an iconic brand name in the landed property space. It launched 1,100 units of villas and townhouses located on the Eastern side of HCMC (District 9, a rapidly developing residential property hotspot) over the last three years. While some of its local competitors had to exit the market because of the real estate sector downturn in 2011-13, KDH continued to develop projects during this period and subsequently, resulting in revenue and net profit expanding by CAGR of 70% and 38%, respectively, in FY12-17. Given its reputation as a high-quality developer of affordable townhouses, KDH's recent diversification to mid-range condos (with the Sapphira and Hermosa projects this year) is a positive move, in our view. The company decided to develop condos on 2ha of land in District 9 and Binh Chanh District as the sites are too small and commercially unfeasible for townhouses. All in, we are positive on management's strategy of focusing on the mid-range segment, as demand in this segment is coming from owner-occupiers (unlike property investors in the high-end segment), which we believe makes it less prone to property cycles. Gross margins in the mid-range segment (25-30% in 2017) are far more attractive than in the affordable end of the market (15-20%). We understand that homebuyers perceive KDH's condo products as beautiful, conveniently-located, high-quality developments with competitive prices of VND23m-27m per sq m. Its 2017 condo project, Jamila, sold out at the launch, indicating strong market interest in KDH's offerings. At the same time, its core landed property products continue to enjoy high demand due to inadequate market supply. Vietnamese consumers have a clear preference for landed properties (land lot, terraced houses, commercial townhouses, and villas) as long-term investments, which has been ingrained over generations.

Land bank in the centre of HCMC acquired at low land cost represents ten years of potential development

Among a rare breed of developers with sizeable land bank in downtown HCMC➤

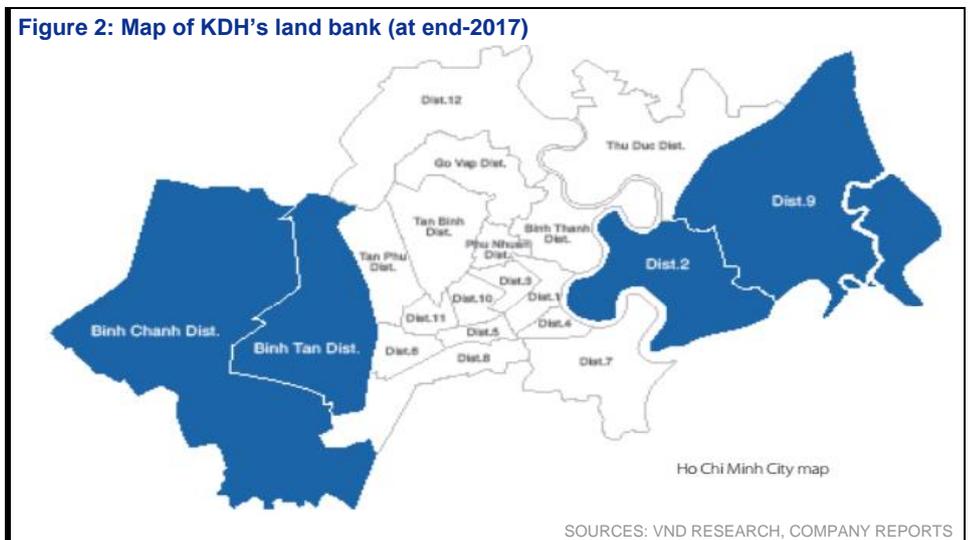
Given the steady rise in land prices in most of the major cities in Vietnam due to infrastructure development (metro lines, highway upgrades), rising population density and aggressive land acquisition by selected developers, most developers have moved to surrounding urban areas like Long An, Dong Nai and Binh Duong. KDH's strategy was to expand its limited land bank in Eastern HCMC (District 2, District 9) in early 2018 through M&A deals. KDH owned 57.3% of its subsidiary Binh Chanh Investment (BCI) as at Dec 2015. It acquired the remaining 42.7% stake through a share swap (1.4 KDH shares for 1 BCI share) in Feb 2018 in order to gain access to 482ha land area in a strategic location in the Western part of HCMC (Binh Chanh and Binh Tan districts).

Figure 1: KDH's project pipeline for 2018-23F

Project	Location	Description	Land site (ha)	Legal status	GDV (VNDbn)	Development timeframe (from launch to delivery)					
						2018F	2019F	2020F	2021F	2022F	2023F-30F
Saphira	Phu Huu Ward, District 9	1,570 condo units	2.7	Compensated 100%	1,800						
Hermosa	Binh Chanh District	1,500 condo units	1.8	Compensated 100%	2,054						
Kim Phat	Phu Huu Ward, District 9	146 gardened townhouses	3.6	Compensated 100%	402						
Thanh Phuc	Phu Huu Ward, District 9	150 gardened townhouses	4.5	Compensated 100%	412						
Binh Trung	Binh Trung Dong Ward, District 2	159 gardened townhouses	5.7	Compensated 100%	622						
Corona	Binh Chanh Dist	Gardened townhouses	17.5	Compensated 70%	1,033						
Phong Phu 2	Phong Phu Ward, Binh Chanh Dist	Residential Complex	132.9	Compensated 70%	3,364						
Tan Tao Townhouse	Tan Tao A Ward, Binh Tan Dist	Residential Complex	330.1	Compensated 70%	7,708						

SOURCES: VND RESEARCH, COMPANY REPORTS

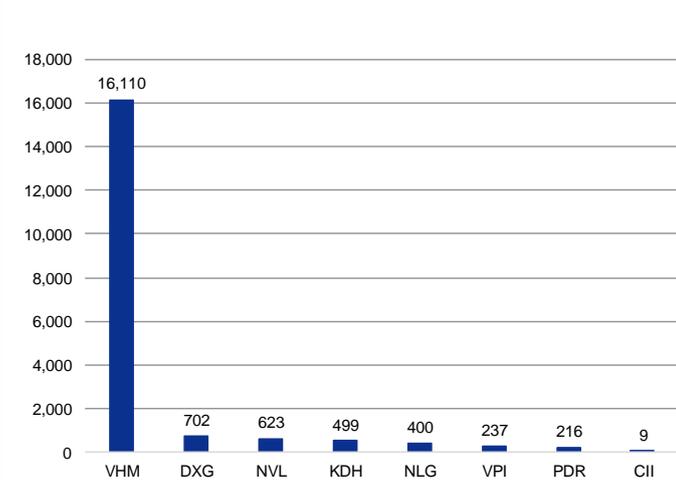
Figure 2: Map of KDH's land bank (at end-2017)



SOURCES: VND RESEARCH, COMPANY REPORTS

KDH is now the fourth-largest listed residential real estate developer nationwide in terms of land bank with 499ha, after Vinhomes JSC (VHM VN, Not Rated) with 16,110ha, Dat Xanh Group (DXG VN, Not Rated) with 702ha and NOVA Land Investment Group Corporation (NVL VN, Not Rated) with 623ha. It is also the third-largest, in terms of land bank in HCMC with 499ha, after VHM with 4,000ha, and NVL with 623ha.

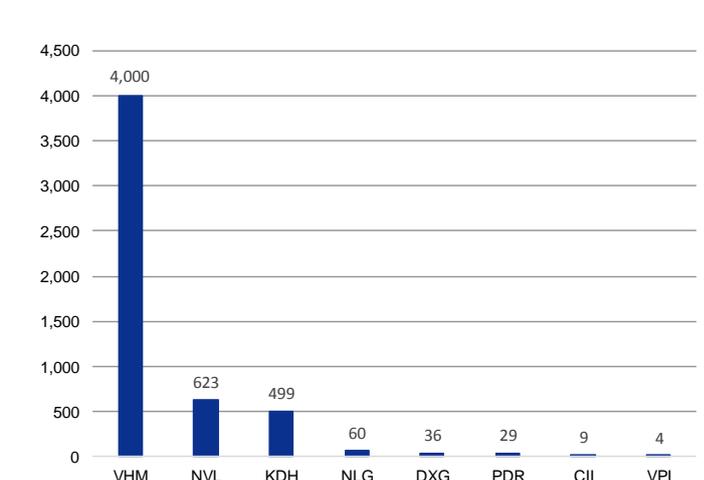
Figure 3: National landbank (ha) by company (at end-2017)



Note: Vinhomes JSC (VHM), Dat Xanh Group (DXG), NOVA Land Investment Group Corp (NVL), Nam Long Investment Corp (NLG), Van Phu Investment JSC (VPI), Phat Dat Real Estate Development Corp (PDR), Ho Chi Minh Infrastructure Investment JSC (CII)

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 4: Ho Chi Minh landbank (ha) by company (at end-2017)



Note: Vinhomes JSC (VHM), Dat Xanh Group (DXG), NOVA Land Investment Group Corp (NVL), Nam Long Investment Corp (NLG), Van Phu Investment JSC (VPI), Phat Dat Real Estate Development Corp (PDR), Ho Chi Minh Infrastructure Investment JSC (CII)

SOURCES: VND RESEARCH, COMPANY REPORTS

Development of BCI land bank to spur KDH's earnings growth



We are positive on management's decision to expand the company's land bank through the acquisition of BCI. Thanks to this transaction, KDH currently owns significant land bank in HCMC that it purchased at a very reasonable average price of VND660,000 per sq m, largely due to the fact that the land was acquired by BCI several years ago, when prices in the Western parts of HCMC were still low. KDH's land cost compares favourably to the current market price range of VND28m-39m per sq m. For the Water Point project, Nam Long Group (NLG VN, Add, TP: VND35,500) co-operated with another party and recognised significant financial gains from the revaluation of land bank when transferred to third party. Hence, we believe that should KDH's huge land bank be developed in conjunction with partners and partially transferred to other parties, the company would recognise sizeable one-off financial gains from land revaluation owing to the extremely low land cost. However, the inventory of land booked on the balance sheet is equivalent to only 70% of 482ha because the rest has yet to be compensated for. Management is rushing to complete the compensation process for the remaining BCI land bank in 2019-20F. Given that the compensation process has gone on for seven years (2001-17), we believe KDH would successfully complete the process soon because it wields more power with full ownership of BCI. Management has not provided any detailed plans for this new land bank. However, we expect it to quickly launch at least part of a project in 2019F to ride on the ongoing Vietnam real estate up cycle, which could mature within the next two years, in our view.

Assuming a simple development plan comprising double-storey houses, we expect this land bank to rake in VND14.8tr cumulative net profit over FY20-23F, equivalent to 18.5x FY18F net profit. Thanks to low land compensation cost several years ago, we project KDH's gross margin to increase to 40-45% in FY20-23F vs. 34-35% in FY17-18F.

Figure 5: Artist's impression of Tan Tao Townhouse, the biggest project in KDH's pipeline



SOURCES: VND RESEARCH, COMPANY REPORTS

Outlook

Huge project pipeline to drive bottomline growth➤

FY18F outlook

KDH stated that it targets FY18F revenue of VND3,500bn (+14.6% yoy) and net profit of VND800bn (+59.6% yoy) on the back of the handover of 440 condo units from the Jamila project and 92 remaining units of landed houses from the Venica, Lucasta, Merita, Rosita and Melosa projects, as well as the remaining BCI land lot project in Phong Phu 4. It also expects to register a one-off financial gain of VND136bn from the sale of a 50% stake in another subsidiary that owns 4.8ha land and the sale of a 14% stake in supermarket chain, Big C An Lac (Unlisted).

We believe the strong earnings growth in FY18F would also be supported by gross margin expansion resulting from the transfer of land from BCI at a very low compensation cost. Given the anticipated improvement in gross margin and non-recurring income, we forecast FY18F net profit of VND802.5bn (+60.2% yoy, more than 100% of the company's net profit target) and revenue of VND3,212bn (+6.9% yoy, 93.3% of KDH's target). However, we forecast that FY18F EPS may fall by 10.2% yoy due to dilution from new share issuance (share swap used to purchase the remaining stake in BCI in Feb 2018).

Figure 6: Delivery schedule for ongoing projects in FY18F, based on our estimates

Project Name	Location	Description	GDV (VNDbn)	Unbooked sales (VNDbn)	Delivery schedule
Venica	Phu Huu, Dist 9	12 villas	380	365	2018F
Lucasta	Phu Huu, Dist 9	9 villas	900	323	2018F
Merita	Phu Huu, Dist 9	14 townhouses	410	68	2018F
Rosita	Phu Huu, Dist 9	51 townhouses	340	322	2018F
Melosa	Phu Huu, Dist 9	6 townhouses, villas	1,300	111	2018F
Jamila	Phu Huu, Dist 9	867 condo units	1,250	1,596	2018F-19F
Land lot in Phong Phu 4 Residential Project	Phong Phu, Binh Chanh Dist	400 land lots	530	900	2018F

SOURCES: VND RESEARCH, COMPANY REPORTS

KDH's new launches in FY18F include high-rise apartment Sapphira (Phase 1) in District 9 and Hermosa (Phase 1) in Binh Chanh District, all targeting middle-income buyers in HCMC. We estimate these projects will collectively add 3,070 condo units to market supply in 2018-19F, with a combined contract value of VND4,752bn over 2020-21F. In early-Aug 2018, the first 500 units of Sapphira were launched, generating unbooked sales of VND780bn with an absorption rate of 95%, thanks to its attractive design and affordable prices.

Figure 7: Snapshot of Sapphira project (as at Aug 2018)

Project Description

Land area (ha)	2.7
GFA (sqm)	184,680
Total sales value (VNDbn)	2,443
Total unbooked sales value (VNDbn)	780
Units	1,570
Development/Construction timeline	2018F-19F



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 8: Snapshot of Hermosa project (as at Aug 2018)

Project Description

Land area (ha)	1.8
GFA (sqm)	171,000
Total sales value (VNDbn)	2,309
Total unbooked sales value (VNDbn)	0
Units	1,500
Development/Construction timeline	2018F-19F



SOURCES: VND RESEARCH, COMPANY REPORTS

FY19F outlook

Apart from the launching of the second phase for its high-rise condos, the company aims to focus on landed properties in 2019F. We expect the company to launch the Kim Phat, Thanh Phuc, and Binh Trung landed projects in District 9 and deliver 455 townhouses, equivalent to revenue of VND2,197bn in FY19F based on our estimates. We believe these handovers, together with the handover of the rest of the Jamila project and some land lots in Phong Phu 4 Residential project, An Duong Vuong project, will comprise the majority of 2019F revenues.

Figure 9: Delivery schedule of KDH's ongoing projects in FY19F, based on our estimates

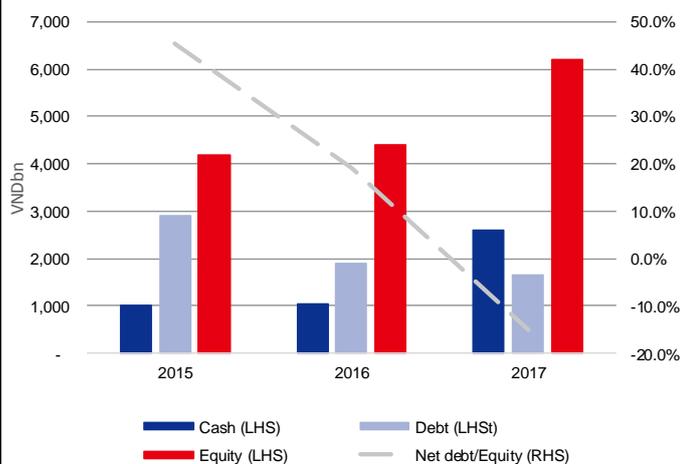
Project name	Location	Description	GDV (VNDbn)	FY19F revenue (VND bn)	Delivery Schedule
Kim Phat	Phu Huu, Dist 9	146 townhouses	402	613	2019F
Thanh Phuc	Phu Huu, Dist 9	150 townhouses	412	630	2019F
Binh Trung	Binh Trung, Dist 2	159 townhouses	622	954	2019F
Jamila	Phu Huu, Dist 9	427 condo units	1,250	805	2019F
Land lot in An Duong Vuong Project and Phong Phu 4 Project	Binh Tan Dist, Binh Chanh Dist	300 land lots	420	720	2019F

SOURCES: VND RESEARCH, COMPANY REPORTS

Healthy financial position➤

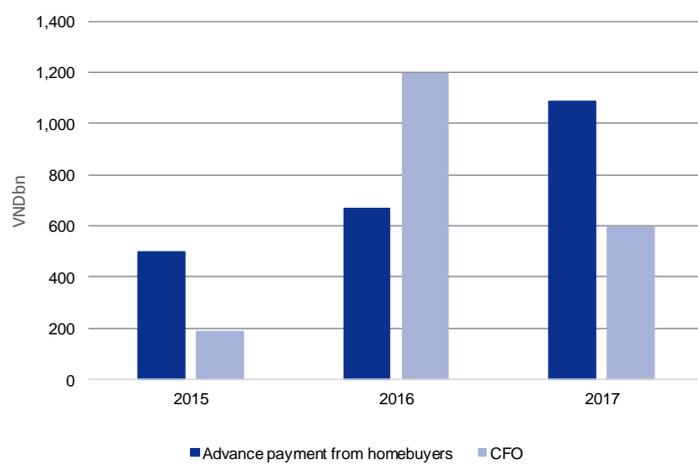
The company's balance sheet is healthy, with net debt-to-equity ratio of -15.1% in FY17. Its debt reduced from VND2,918bn at end-FY15 to VND1,658bn at end-FY17. Of all the local listed property developers, only KDH and NLG are in net cash positions. At the end of 1Q18, KDH and NLG had net debt-to-equity ratio of -4% and -37%, respectively, while the industry average was around 40% (based on our estimates).

Figure 10: KDH's leverage



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 11: KDH's advance payments from homebuyers and cash flow from operations (CFO)



SOURCES: VND RESEARCH, COMPANY REPORTS

We observe that YTD, some banks have tightened their loan disbursements to real estate developers by imposing stricter loan conditions or higher interest rates vs. 2017. Hence, we think KDH's healthy financial position not only sharpens its competitive edge in the eyes of homebuyers, but also lowers project execution risk from any property market downturn, in our view. We believe KDH's brand name is so well-recognised that it could finance project development cost purely via advance payments from home buyers and internal cash, reducing its reliance on bank borrowings. The share dilution from continuous equity capital-raising exercises in the last three years is more than compensated by earnings growth, in our view; nonetheless, we believe FY18F EPS is likely to decline for the first time in several years due to the new share issuance.

We project that KDH's ROE will be stable at 11.5% in FY18-19F.

Risks

Fierce competition between mid-range players ➤

As we discussed earlier, the mid-range real estate segment is seeing strong demand from real end-users (unlike in the high-end segment), is less prone to a potential downturn, in our view, and, yet, offers more compelling margins than at the affordable end of the market.

Hence, competition is increasing in this area with a growing focus by some well-known names like DXG with 10,706 units of condos to be supplied in 2018-19F, Hung Thinh Corporation with 12,185 condo units in 2018-19F, and Housing Development and Trading Corporation with 13,144 condo units in 2019-25F. It is worth noting that leading developer Vinhomes has also re-oriented its focus towards this segment, with 40,000 condos to be launched at end-2018F. A total of 129,000 condo units from 97 projects will be introduced to the market until 2020F. According to a Savills' estimate, this will increase competition and could put downward pressure on prices.

A possible rise in mortgage rates ➤

Last but not least, we do not foresee a significant rise in mortgage rates within this or next year since banks are competing with each other to grow their retail credit business. Nonetheless, we think a 1-2% pts increase is likely due to an imminent rise in the policy interest rate. As the majority of mid-range homebuyers have to depend on mortgages as a significant source of capital, we think an increase in the mortgage rate may have a slightly negative effect on the market absorption rate.

Hence, we believe that only projects with strong brand names, good connectivity to the city centre, customised design and supporting amenities, affordable prices

and favourable payment terms will be able to withstand competitive pressure and a potential rise in mortgage rates.

Figure 12: 2018-20F project pipeline by company, based on respective management guidance

Company	Bloomberg Ticker	Project Names	Location	Total Units	Launch Date	Delivery Start	Delivery End
Vinhomes JSC	VHM VN	VinCity New Sai Gon - Apartment	Nguyen Xien Str, Dist 9	40,000	2018F	2020F	2021F
NOVA Land Investment Group Corporation	NVL VN	Victoria Viliage	Thanh My Loi, Dist 2	1,000	2018F	2019F	2020F
Dat Xanh Real Estate Services and Construction	DXG VN	The Palm City	Phuoc Long A, Dist 9	258	2019F	2019F	2020F
		Zen Riverside	Hiep Binh Phuoc, Thu Duc Dist	656	2019F	2019F	2020F
		Lux Riverview	Tran Xuan Soan, Dist 7	765	2018F	2019F	2020F
		Gem Riverside	Song Hanh Highway, District 2	3,175	2018F	2019F	2020F
		Opal Tower (INNN)	Pham Van Dong Str, Thu Duc Dist	309	2019F	2019F	2020F
		Opal Sky view	Pham Van Dong Str Thu Duc Dist	189	2018F	2019F	2020F
		Luxstar	Huynh Tan Phat, dist 7	554	2018F	2019F	2020F
		Opal City	Phuoc Long B, Dist 9	2,200	2019F	2019F	2020F
		Opal Premium	Thu Duc Dist	2,600	2019F	2019F	2020F
Khang Dien House Trading and Investment JSC	KDH VN	Hermosa	Binh Chanh Dist	1,500	2018F	2019F	2020F
		Sapphira	Phu Huu, Dist 9	1,600	2018F	2019F	2020F
Hung Thinh Corporation		Q7 Saigon Riverside Complex	Dao Tri St, Dist 7	4,100	2018F	2019F	2020F
		Monlight Plaza	Nguyen Luong Bang Str, Dist 7	1,008	2018F	2019F	2020F
		Florita Garden	Luy Ban Bich Str, Dist 7	1,850	2018F	2019F	2020F
		9X CIAO	Dong Tang Long Str, Dist 9	3,027	2018F	2019F	2020F
		Sao Mai SunRiver	Nguyen Thi Thap Str, Dist 7	500	2018F	2019F	2020F
		Hoa Lam	Ten Lua Str, Binh Tan Dist	1,500	2018F	2019F	2020F
		La Cosmo	Hoang Van Thu St, Dist 4	500	2018F	2019F	2020F
Him Lam Corporation		Him Lam Phu An	Ha Noi Highway, Dist 9	1,092	2019F	2020F	2021F
		Him Lam Cho Lon	Hau Giang Str, Dist 6	1,408	2019F	2020F	2021F
		Him Lam Riverside	Tran Xuan Soan, Dist 7	315	2019F	2020F	2021F
Housing Development and Trading Corporation		Raeman City	Luong Dinh Cua, Dist 2	13,144	2019F	2021F	2025F
Nam Long Investment	NLG VN	Akari	Vo Van Kiet St, Dist 6	4,660	2018F	2020F	2021F

SOURCES: VND RESEARCH, COMPANY REPORTS

SWOT analysis

We believe KDH's main strength is its iconic brand name in the residential real estate market with 15 years of market experience, particularly in the landed properties segment. The fact that KDH now has the third largest landbank in HCMC among all developers is another significant strength, in our view. However, we believe the possible rise in Vietnam mortgage rates in FY19F is a threat to KDH's future sales absorption.

Figure 13: SWOT analysis for KDH

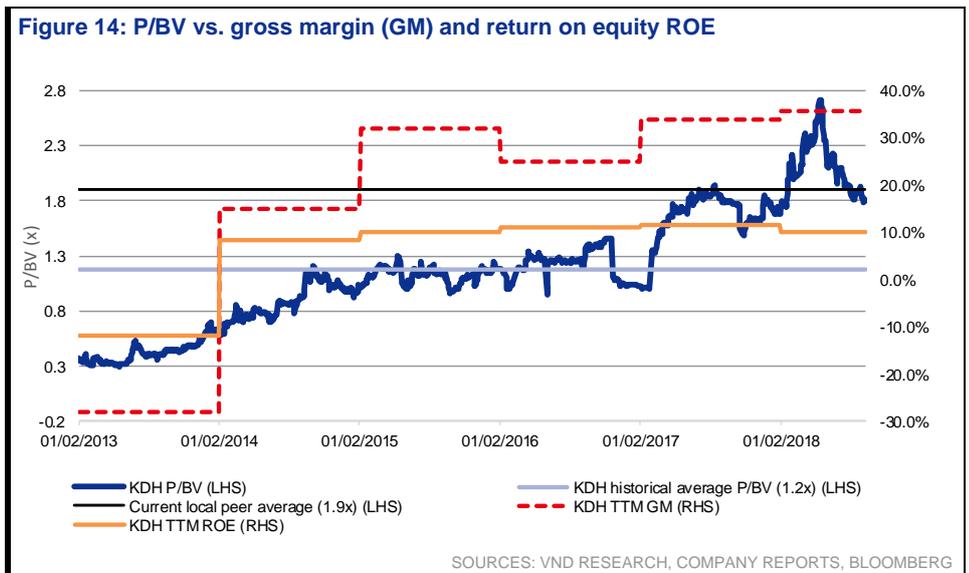
<p>Strengths:</p> <ul style="list-style-type: none"> 15 years of project execution track record Low net gearing bolsters KDH's position in a credit squeeze Huge land bank in inner HCMC 	<p>Opportunities:</p> <ul style="list-style-type: none"> Sustained demand for mid-range housing Huge unmet demand for landed property Heavy urban infrastructure spending makes suburban areas viable for project development
<p>Weaknesses:</p> <ul style="list-style-type: none"> Outsourced sales force Limited experience in high rise development to support shift into mid-range condo segment 	<p>Threats:</p> <ul style="list-style-type: none"> Increasing competition from mid-range players Possible rise in Vietnam mortgage rate More foreign developers are entering the market with superior development quality and premium product branding and may shift from high-end to mid-range condo segment

SOURCES: VND RESEARCH

Valuation and recommendation

Initiate with Add rating; potential 25.3% upside to share price

We initiate coverage on KDH with an Add rating and target price of VND36,700 (upside 25.3% from the current share price), based on our end-2Q18 RNAV estimate. Since we do not have much information about the development plan for its newly-acquired land bank from BCI, we assume a simple development plan comprising two-storey houses to be built over 2-3 years to derive a fair value estimate for the land bank. We will review our earnings projections when more detailed information is available.



The stock is currently trading at 1.64x FY18F P/BV, which is 36.6% higher than KDH's historical 5-year average P/BV of 1.2x. However, we believe the expansion in the P/BV multiple has been driven by a combination of an improvement in profitability and, more recently, due to the acquisition of the remaining stake in BCI. KDH's share price has corrected sharply from its all-time high in Apr 2018 but this was driven by the overall deterioration in market sentiment, in our view.

Given KDH's recent acquisition of another 47% stake in BCI, we believe that the land compensation process for BCI's vast land bank will be accelerated, thereby improving prospects of monetising this land bank. Furthermore, we believe that, owing to the extremely low historical cost of BCI's land bank, projects developed on this land will improve KDH's blended margins over time and, hence, we believe a sustained premium to historical average P/BV is well justified; this is based on our estimation that projects developed on BCI's land bank could realise gross margins of 40-45%, far higher than the 28-35% gross margins generated by current projects. As shown in Figure 13, KDH's P/BV multiple historically moved in tandem with gross margin and return on equity (ROE). Hence, we believe that further P/BV multiple expansion is likely to materialise once the market fully recognises KDH's prospects for future improvement in profitability.

Overall, we believe there is no need to apply a discount to RNAV when deriving our target price to reflect project execution risk or the risk of projects not being fully sold. Firstly, there is high demand for KDH's core landed property products due to inadequate market supply and preference for landed properties in Vietnam. Secondly, its condo projects are in prime locations, have customised design, low density (1,500 units/project) and favourable mortgage rates thanks to the company's cooperation with large state-owned enterprise SOE banks, e.g. Vietcombank (VCB VN, Add, TP: VND79,500) which offers better rates than the market.

Nonetheless, our target price of VND36,700 is 6.9% below that of Bloomberg consensus as we apply conservative selling prices in our DCF models for the

projects slated for launch in 2020F onwards to reflect the downside risk of deterioration in property market conditions.

Figure 15: RNAV (end-2Q18) and target price (based on our estimates)

Product	Commercial Name	Project Name	BV as at 2Q18 (VND bn)	Premium (VND bn)	Fair value (VND bn)	Method	Note
Condo	Sapphira	Sapphira Phu Huu	204	178	382	DCF	We assume average selling price of VND25m per sq m for a Net sellable area (NSA) 103,800 to be sold within 2018-19F and be delivered within 2020F-21F
	Hermosa	Hermosa Binh Chanh	218	233	451	DCF	We assume average selling price of VND24m per sq m for a NSA 102,900 to be sold within 2018-19F and be delivered within 2020F-21F
Land-attached houses		Kim Phat	226	68	294	DCF	We assume average selling price of VND42m per sq m for a NSA 14,600 to be sold and delivered within 2019F
		Thanh Phuc	228	77	305	DCF	We assume average selling price of VND42m per sq m for a NSA 15,000 to be sold and delivered within 2019F
		Binh Trung	290	115	404	DCF	We assume average selling price of VND60m per sq m for a NSA 15,900 to be sold and delivered within 2019F
Land lot		Tan Tao Townhouse	1,603	2,421	4,024	DCF	As management has not revealed the development plan for these land lots, we assume a simplistic development plan to value this asset as shown in the Figure 16 below.
		Phong Phu 2	462	2,698	3,159	DCF	
		Corona	440	265	705	DCF	
Others		Venica	248	116	365	MV	As at 2Q18
		Lucasta	200	123	323	MV	As at 2Q18
		Rosita Garden	211	111	322	MV	As at 2Q18
		Melosa Garden	80	31	111	MV	As at 2Q18
		Mega Village	23	10	32	MV	As at 2Q18
		Merita	45	23	68	MV	As at 2Q18
		Remains	641	-	641	BV	As at 2Q18
		Total Project	5,119	6,470	11,588		
Add:							
		Cash and cash equivalent	1,432		1,432		
		Short-term investments	0		0		
		Short-term account receiv	1,876		1,876		
		Other short-term assets	36		36		
		Long-term assets	745		745		
Less:							
		Net debt (exclude CB)	1,154		1,154		
		Other liabilities			276		
		Minority interest	16		16		
		RNAV	7,761	6,470	14,231		
		Shares outstanding	387,832,317		387,832,317		
		RNAV (VND/share)			36,694		
		Target price (VND/share)			36,700	Rounding up	

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 16: Tan Tao Townhouse and Phong Phu land lot valuation (as at 2Q18), based on our estimates

	Tan Tao Townhouse	Phong Phu 2
Land lot area (sqm)	3,300,000	1,329,200
Compensation ratio	70%	70%
Compensated land area (sqm)	2,310,000	930,440
Assumed development plan	Two-storey houses	Two-storey houses
Plot Ratio (%)	30%	30%
Net sellable area (sqm)	693,000	279,132
Development timeline	3 years	2 years
Selling price (VNDm/sqm)	29	40
Total estimated sales (VNDbn)	20,097	11,165
Average construction cost (VNDm/sqm)	8.9	8.7
Total estimated construction cost (VNDbn)	8,418.3	3,404.7
Total estimated SG&A Expense (VNDbn)	512.5	281.9
Total estimated Profit for developers (VNDbn)	4,100.3	2,255.4
Total estimated tax (VNDbn)	2,314.2	1,518.1
Total estimated land value (VNDbn)	5,156.3	3,816.9
Required rate of return	13.6%	13.6%
Fair value of land bank(VNDbn)	4,024.4	3,159.5

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 17: Peer comparison

Company Name	Ticker	Recom.	Share price (VND)	TP (VND)	Land bank (ha)	Market Cap (US\$m)	P/E (x)			P/B (x)			ROE (%)		Dividend yield (%)		Net gearing (%)	
							TTM	2018F	2019F	1H18	2018F	2019F	TTM	2018F	2019F	2018F		2019F
Vinhomes	VHM VN	NR	109,900	NR	16,110	12,804	46.8	16.3	11.4	3.2	N/A	N/A	N/A	58.1	47.1	0.9	1.3	136.0
No Va Land	NVL VN	NR	64,900	NR	623	2,561	25.8	21.5	20.2	4.3	3.1	N/A	18.7	18.5	14.9	N/A	N/A	81.4
Dat Xanh Group	DXG VN	NR	27,900	NR	702	415	9.5	8.4	7.1	2.2	2.0	1.6	26.2	23.8	29.8	1.6	N/A	13.2
Phat Dat	PDR VN	NR	26,000	NR	216	301	12.6	N/A	N/A	2.2	N/A	N/A	19.4	N/A	N/A	N/A	N/A	-3.4
Van Phu	VPI VN	NR	41,650	NR	237	290	9.6	N/A	N/A	3.6	N/A	N/A	38.8	N/A	N/A	N/A	N/A	13.0
Nam Long	NLG VN	ADD	30,450	35,500	400	278	10.4	10.7	9.0	2.1	1.5	1.3	19.1	5.6	10.8	1.5	1.6	-33.0
Dev Inve Group	DIG VN	NR	16,900	NR	3,158	186	14.6	N/A	N/A	1.4	N/A	N/A	9.6	N/A	N/A	N/A	N/A	52.4
Sai Gon	SCR VN	NR	9,320	NR	158	128	6.8	N/A	N/A	0.7	N/A	N/A	7.2	N/A	N/A	N/A	N/A	47.6
LDG Investment	LDG VN	NR	14,250	NR	N/A	117	14.7	N/A	N/A	1.3	N/A	N/A	14.0	N/A	N/A	N/A	N/A	0.6
QCGL	QCG VN	NR	8,450	NR	N/A	101	11.2	N/A	N/A	0.6	N/A	N/A	11.0	N/A	N/A	N/A	N/A	9.0
NBB	NBB VN	NR	19,300	NR	N/A	82	27.3	N/A	N/A	1.0	N/A	N/A	4.1	N/A	N/A	N/A	N/A	26.3
Thu Duc Housing	TDH VN	NR	11,350	NR	N/A	40	7.0	N/A	N/A	0.5	N/A	N/A	7.0	N/A	N/A	N/A	N/A	26.7
Simple average							16.6	14.2	11.9	1.9	2.2	1.5	15.9	26.5	25.7	1.4	1.5	27.3
Median							12.6	14.6	11.4	1.8	1.8	1.5	12.5	18.5	14.9	1.5	1.6	13.2

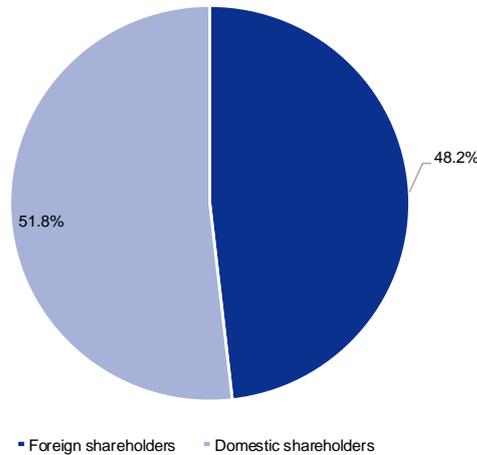
Khang Dien KDH VN ADD 29,300 36,700 499 494 18.9 14.6 13.8 1.8 1.7 1.5 10.0 11.5 11.5 1.7 1.7 -15.1

Note: all prices are based on the closing prices on 22 Aug 2018. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

SOURCES: VND RESEARCH, BLOOMBERG, COMPANY REPORT

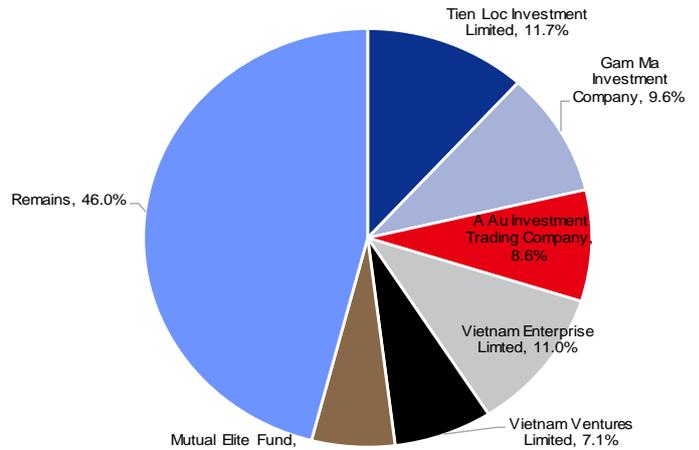
Appendix

Figure 18: KDH's shareholders structure as at end-FY17



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 19: Major shareholders as at end-FY17



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 20: KDH's subsidiaries (as at end-1H18)

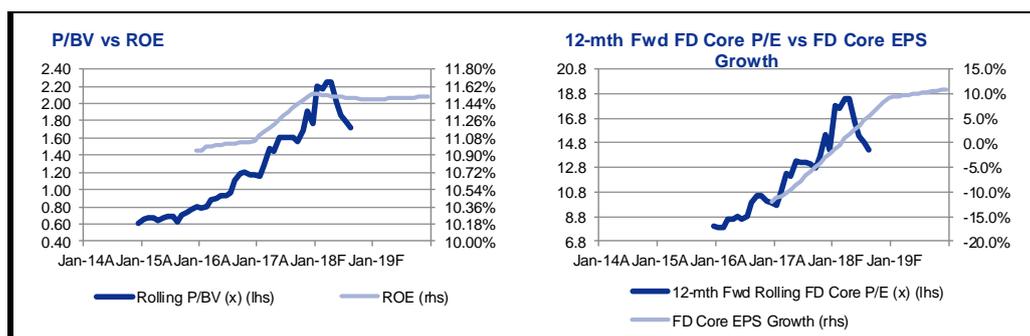
Name of KDH's subsidiaries	Ownership
Thanh Phuc Investment Limited Co.	99.9%
Tri Minh Real Estate Trading and Investment JSC	99.9%
Gia Phuoc Real Estate Trading and Investment Limited Co.	99.0%
Sai Gon Mua Xuan Real Estate Trading Limited Co.	99.8%
International Consultancy Limited Co.	99.0%
Long Phuoc Dien Housing Development and Infrastructure Construction Limited Co.	98.0%
Hao Khang One member Limited Co.	99.8%
Saphira Real Estate Trading Limited Co.	100.0%
Lien Minh Real Estate Trading and Investment Limited Co.	98.7%
Song Lap Real Estate Trading and Investment Limited Co.	99.7%
Tri Viet Real Estate Trading and Investment Limited Co.	99.9%
Mega Urban Limited Co.	99.9%
Vila JSC Co.	99.0%
Nha Thap Muoi Real Estate Trading and Investment Limited Co.	99.8%
Viet Phu Huu Limited Co.	99.0%
Khong Gian Xanh Real Estate Trading and Investment Limited Co.	99.8%
Binh Trung Real Estate Trading and Investment Limited Co.	99.8%
Nha Khang Phuc Real Estate Trading and Investment One member Limited Co.	100.0%
BCI JSC Co.	98.7%
BCCI Investment and Development Limited Co.	100.0%
Minh Phat Real Estate Investment Limited Co.	51.0%
Kim Phat Trading and Investment Limited Co.	99.9%
Nam Phu Real Estate Development Limited Co.	51.0%

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 21: Key management profiles (as at end-1H18)

Name	Position	Background
Ms. Mai Tran Thanh Trang	Chairwoman	Ms Mai has a background in law and started her career as a legal consultant in Nguyen Thi Chinh Law Office in 2001. She joined Khang Dien in 2005 and has established a transparent legal framework.
Mr. Ly Dien Son	Vice Chairman	In the role of Chairman of BOD cum General Director, Mr. Son has directly managed and operated the company since its establishment. Over the past 16 years, he has led the company to become one of the leading real estate developers in HCMC.
Ms. Nguyen Thi Cam Van	Member of BOD	Ms. Van brings more than 30 years experience working for the Ho Chi Minh City Department of Natural Resources and Environment.
Ms. Nguyen Thi Dieu Phuong	Member of BOD	With many years of experience in financial institutions, Ms. Phuong was invited to join Khang Dien as a Member of the BOD in October 2009. She has been instrumental to the company's development, advising functional departments and devising financial strategies appropriate for the market and for each stage in Khang Dien's corporate development.
Mr. Le Hoang Son	Member of BOD	Mr. Son has more than 10 years' experience working for the Project Legal Department. He has made key contributions to the completion of the company's project legal framework.
Ms. Ngo Thi Mai Chi	General Director	Ms. Chi has more than 15 years of experience in Financial - Accounting and has been at Khang Dien for 10 years. Ms. Chi is directly responsible for finance management, strategic investment plans and the management of the Sales & Marketing department.
Mr. Le Hoang Son	Vice General Director	Mr. Son has more than 10 years' experience working for the Project Legal Department. He has made key contribution to the completion of the company's project legal framework.
Mr. Truong Minh Duy	Vice General Director	Mr. Duy has over 23 years of working experience in the field of project management. Prior to joining Khang Dien, Mr. Duy held senior positions at real estate investment businesses. He is involved in the construction management of projects.

SOURCES: VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	3,932	3,055	3,212	4,029	4,612
Gross Profit	980	1,036	1,105	1,390	1,607
Operating EBITDA	689	792	840	1,046	1,206
Depreciation And Amortisation	0	0	0	0	0
Operating EBIT	689	792	840	1,046	1,206
Financial Income/(Expense)	(94)	(53)	23	(20)	1
Pretax Income/(Loss) from Assoc.	11	8	9	10	10
Non-Operating Income/(Expense)	(23)	(19)	136	0	0
Profit Before Tax (pre-EI)	583	728	1,007	1,036	1,217
Exceptional Items					
Pre-tax Profit	583	728	1,007	1,036	1,217
Taxation	(177)	(170)	(201)	(207)	(243)
Exceptional Income - post-tax					
Profit After Tax	406	558	806	829	973
Minority Interests	(34)	(57)	(3)	(3)	(4)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	372	501	802	826	970
Recurring Net Profit	372	501	695	826	970
Fully Diluted Recurring Net Profit	372	501	695	826	970

Cash Flow

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	689	792	840	1,046	1,206
Cash Flow from Inv. & Assoc.					
Change In Working Capital	899	204	(484)	(234)	(310)
Straight Line Adjustment					
(Incr)/Decr in Total Provisions	10	7	7	8	8
Other Non-Cash (Income)/Expense	67	(29)	(31)	(33)	(34)
Other Operating Cashflow	(277)	(211)	151	65	(21)
Net Interest (Paid)/Received	(94)	(53)	23	(20)	1
Tax Paid	(92)	(113)	(201)	(207)	(243)
Cashflow From Operations	1,201	597	305	625	606
Capex	(4)	(61)	(2)	(2)	(2)
Disposals Of FAs/subsidiaries	0	2	326		
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	88	(23)			
Cash Flow From Investing	84	(82)	324	(2)	(2)
Debt Raised/(repaid)	(1,081)	(237)	(572)	(472)	(472)
Proceeds From Issue Of Shares	1	1,488			
Shares Repurchased					
Dividends Paid	(126)	(234)	(194)	(194)	(194)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(1,206)	1,017	(766)	(666)	(666)

SOURCES: VND, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	1,060	2,590	2,455	2,412	2,351
Properties Under Development					
Total Debtors	1,016	784	894	928	963
Inventories	4,618	4,858	5,504	6,373	6,525
Total Other Current Assets	548	877	999	1,250	1,297
Total Current Assets	7,242	9,109	9,852	10,963	11,135
Fixed Assets	27	30	26	26	26
Total Investments	82	5	6	6	7
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	587	570	619	668	722
Total Non-current Assets	696	606	651	701	755
Short-term Debt	194	184	624	624	152
Current Portion of Long-Term Debt					
Total Creditors	80	54	55	57	57
Other Current Liabilities	1,002	1,577	1,971	2,888	2,812
Total Current Liabilities	1,276	1,815	2,650	3,568	3,021
Total Long-term Debt	1,700	1,471	530	58	58
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	567	237	406	567	650
Total Non-current Liabilities	2,267	1,708	936	625	708
Total Provisions	0	0	0	0	0
Total Liabilities	3,543	3,524	3,586	4,193	3,729
Shareholders' Equity	3,473	5,214	6,898	7,446	8,135
Minority Interests	921	977	20	23	27
Total Equity	4,394	6,191	6,917	7,469	8,162

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	274%	(22%)	5%	25%	14%
Operating EBITDA Growth	246%	15%	6%	25%	15%
Operating EBITDA Margin	17.5%	25.9%	26.1%	26.0%	26.1%
Net Cash Per Share (VND)	(3,565)	2,781	3,353	4,462	5,520
BVPS (VND)	14,842	15,518	17,787	19,201	20,978
Gross Interest Cover	6.23	6.34	8.48	15.32	30.91
Effective Tax Rate	30.4%	23.3%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	33.9%	46.7%	24.2%	23.5%	20.0%
Accounts Receivables Days	40.30	66.81	47.83	41.40	37.63
Inventory Days	649.9	856.5	897.8	821.6	785.3
Accounts Payables Days	7.99	12.13	9.44	7.72	6.91
ROIC (%)	10.4%	13.9%	15.3%	17.4%	19.1%
ROCE (%)	10.5%	12.2%	13.8%	13.5%	15.1%
Return On Average Assets	6.07%	6.92%	7.75%	7.66%	8.26%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Unbooked Presales (m) (VND)	N/A	1,596.0	2,962.0	4,752.0	2,595.0
Unbooked Presales (area: m sm)	N/A	62,573.0	123,178.5	204,747.0	112,857.0
Unbooked Presales (units)	N/A	867.0	1,819.0	3,070.0	1,678.0
Unsold attrib. landbank (area: m sm)	N/A	N/A	N/A	N/A	N/A
Gross Margins (%)	24.9%	33.9%	34.4%	34.5%	34.8%
Contracted Sales ASP (per Sm) (VND)	N/A	N/A	N/A	N/A	N/A
Residential EBIT Margin (%)	17.5%	25.9%	26.1%	26.0%	26.1%
Investment rev / total rev (%)	2.8%	8.6%	9.3%	7.6%	7.0%
Residential rev / total rev (%)	97.2%	91.4%	90.7%	92.4%	93.0%
Inv. properties rental margin (%)	50.0%	50.4%	50.4%	50.4%	50.4%
SG&A / Sales Ratio (%)	7.4%	8.0%	8.3%	8.5%	8.7%

SOURCES: VND, COMPANY REPORTS

Vietnam

ADD (previously NOT RATED)

Consensus ratings*: Buy 8 Hold 1 Sell 0

Current price:	VND30,450
Target price:	VND35,500
Previous target:	VND33,200
Up/downside:	16.6%
CGS-CIMB / Consensus:	-6.9%
Reuters:	NLG.HM
Bloomberg:	NLG VN
Market cap:	US\$274.6m
	VND6,391,332m
Average daily turnover:	US\$0.54m
	VND12,483m
Current shares o/s:	209.9m
Free float:	46.3%

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1	4.2	26.3
Relative (%)	-6.2	4.6	-2.7

Major shareholders	% held
Nguyễn Xuân Quang	15.3
PYN Elite Fund	6.8
Nguyễn Thị Bích Ngọc	5.60

Analyst(s)



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Nam Long Investment Corporation

Nation's leading lower mid-range housing developer

- NLG has deep exposure to the mid-range and affordable condo segments, which have sustainable demand, in our view.
- We think its low gearing and good track record in raising equity and selling bonds, insulate it significantly from the tightening credit flow to the property sector.
- It reactivated its biggest land site project in Long An in Jul 2018 with a VND10.5tr presales plan for 3,035 units of landed property (533,000 sq m NFA).
- Its current unbilled revenue stands at VND4tr, translating into VND723bn in cumulative net profits over 2018-19F.
- Initiate on NLG with a TP of VND35,500 (10% discount to our end-2017 RNAV est).

New projects to tap continued strength in mid-range condo demand

NLG recently announced two new launches in 2H18F for its Flora brand, Akari and Novia, which are priced affordably at VND25m per sq m. Together with the next phase of Mizuki, the company's total future high-rise presales value amounts to VND18tr over 2018-22F. We believe high-rise presales will see strong take-up in 2018-19F, building on the robust presales momentum from 1H18 where Flora presales achieved 80% take-up.

Breaking the land bank iceberg

The cheap 335ha land site NLG acquired in Long An 10 years ago is now ready for its first launch in 1Q19F. Greater transport connectivity between HCMC and its outlying areas vs. 10 years ago has boosted residential property value and the potential of the Water Point project. We believe total estimated gross development value (GDV) from Phase 1 of the project may reach VND10.5tr, translating to VND1.3tr net profit over a 5-year development timeframe.

Continued gains from project transfers

NLG announced its plan to transfer 50% of its stake in Akari (8.8ha) and part of Water Point (165ha) to Japanese partners. NLG has been seeking capital and project execution expertise from partners for mid- and large-size projects since 2015. We expect NLG may record VND752bn in pretax profit just from project stake transfers in 2018-2019F.

Strong delivery pipeline to drive 20% net profit CAGR in FY17-19F

Assuming NLG completes delivery of Fuji, Kikyo and part of Mizuki in FY18F, we believe it will see a 20% increase in delivery value and 21% increase in delivery volume. We forecast core revenue to only rise 7% in FY18F, as Mizuki revenue cannot be consolidated going forward since 50% of its stake was sold to other partners in 2017. We expect FY18F net profit to rise 14% yoy due to more aggressive delivery and booking-of-transfer profit from Akari and Water Point. Overall, there will be a divergence between revenue and earnings growth in the next five years, in our view, due to de-consolidation effects from prior and upcoming project stake transfers.

Initiate coverage with Add, TP of VND35,500

We compute the company's RNAV to reflect full added-value from its existing and key future projects with high visibility, including Mizuki, Akari and Water Point. The stock is trading at a 23% discount to our RNAV estimate after retreating from its all-time high price largely due to a sharp market correction, and offers a good entry point for a medium-term investment horizon, in our view. Potential re-rating catalysts are new project announcements and the development of the second phase of Water Point.

Risks to our call

More than 70% of NLG's customers finance their home purchases through mortgages with a loan-to-value (LTV) ratio of 50-70%. If mortgage rates trend up beyond 14% next year, we believe it will likely dent NLG's presales volume for new launches.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues (VNDb)	2,534	3,161	3,019	2,382	2,715
Operating EBITDA (VNDb)	493.6	894.9	772.5	429.8	581.6
Net Profit (VNDb)	332	512	584	737	1,069
Core EPS (VND)	1,917	817	1,001	2,363	4,909
Core EPS Growth	56%	(57%)	22%	136%	108%
FD Core P/E (x)	15.89	37.27	30.43	12.89	6.20
DPS (VND)	682.0	496.8	452.0	500.0	500.0
Dividend Yield	2.24%	1.63%	1.48%	1.64%	1.64%
EV/EBITDA (x)	11.52	4.45	3.54	7.60	1.89
P/FCFE (x)	24.09	4.58	3.16	63.86	2.52
Net Gearing	(7.3%)	(44.0%)	(60.8%)	(54.2%)	(77.1%)
P/BV (x)	2.13	2.00	1.49	1.31	1.10
ROE	14.1%	5.5%	5.6%	10.8%	19.2%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.85	0.98	0.70

SOURCES: VND RESEARCH, COMPANY REPORTS

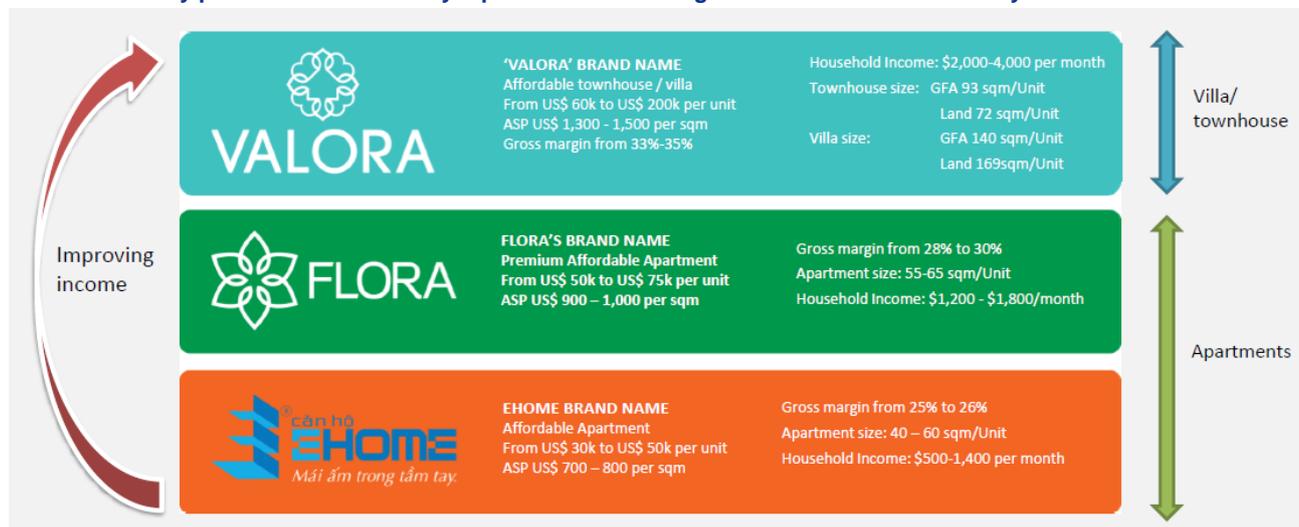
Vietnam's leading lower mid-range housing developer

Operating highlights

Clear customer segmentation and diversified offering

Honored as the best property developer in 2016 by Viet Nam Property Awards, NLG remains one of the best lower mid-range residential developers in HCMC, in our view. The company classifies its products into three main categories, each tailored to fit a different buyer segment. However, for each category, NLG's products are usually delivered at lower prices than competitors as the company focuses on attracting first-time homebuyers. By replicating the standardized format for every product class across projects with just a few modifications, NLG claims to be able to slash 25% off its development timeline for every product segment.

Figure 1: Market-ready product formats to fully tap into the entire range of middle-income homebuyers



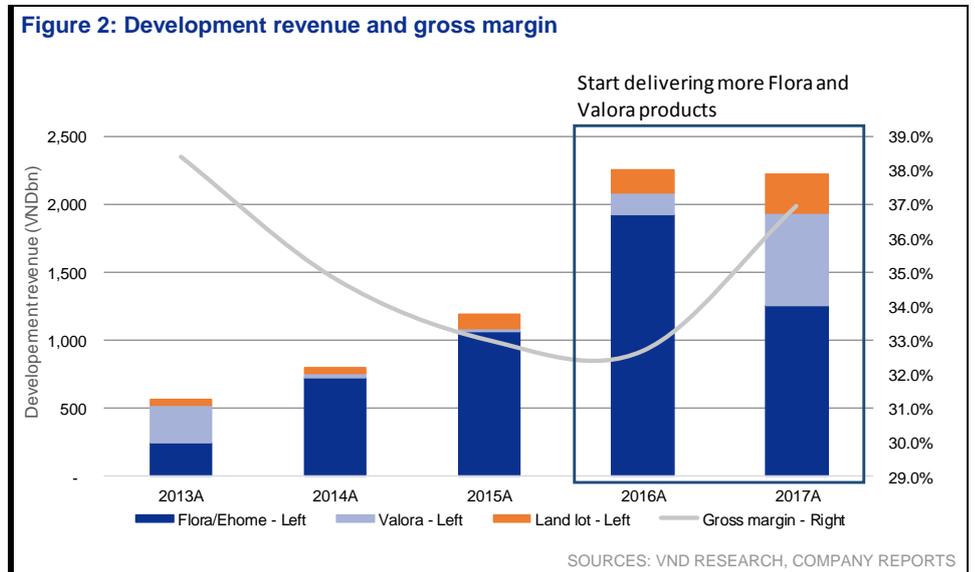
SOURCES: COMPANY REPORTS

Condo project deliveries were the main contributor to its revenue and net profit over the past three years. In fact, its Flora and Ehome condos are well matched with the majority of housing demand in HCMC, in our view, with their reasonable price levels below US\$1,000 per sq m. For the next five years, we expect Flora and Valora will be in high demand, benefiting NLG given their healthy profit margins. Ehome, however, is designed for low-income buyers who are highly dependent on state-subsidised mortgage rates of 4-5%. Supply of these mortgages has never been enough to meet the real demand. The government launched a VND30tr credit subsidy programme with a lending rate of 5% in 2013, which was fully utilised by 2016. Since then, the state has not offered another similar subsidised mortgage package. Although policymakers encourage more developers to offer social (low-range) housing, we believe there could still be very limited new supply in the future due to the lower profitability, and obstacles faced by buyers in obtaining cheap mortgages in the absence of government subsidies.

Partnerships have been key to its product optimisation and improving profitability

Japanese property companies Hankyu Realty (Unlisted) and Nishi-Nippon Railroad (9031 JP, Not Rated) were the key strategic partners of NLG from an early stage and played an important role in developing its Flora housing concept. 500 Flora units were launched in late-2015 and were completely sold out in 2016. Following this success, similar but larger-sized projects named Fuji, Kikyo and Mizuki residences were launched in 2016-17, with each project containing a mix of the three different formats. These projects averaged 80% take-up in their first three months of the launch and confirmed the strong demand for mid-range

housing products, even in non-CBD locations. The partnerships also changed NLG's product concept by simplifying interiors and reducing room size to create a cosier living space, effectively decreasing the total unit price. Compared to the Ehome format, Flora and Valora have been a wild success in terms of presales and helped NLG to transition its brand image from that of a low-standard affordable housing developer to a "value" developer that offers Japanese quality at affordable prices. These new formats are also more profitable (gross margins of 28-35%) than the Ehome series (gross margin of 25-26%), thereby lifting NLG's blended margins, over time.



Land bank supports a solid project development pipeline

Water Point project wakes up from a long hibernation

In 2010-17, total registered FDI in Long An increased by a CAGR of 15% while industrial output value saw 42% CAGR in the area (source: General Statistics Office of Vietnam, GSO). The province is the gateway connecting HCMC with the provinces to its west and is emerging as a satellite industrial hub to HCMC. The housing and land lot price in this area surged 30-50% from 2015 levels since the announcement of some key infrastructure projects, such as Ben Luc-Long Thanh highway and Ring Road 4 connecting the area to the new international airport and the industrial zones in the north and east of HCMC. Water Point is directly connected to these new highways and offers competitive selling prices due to its low land acquisition costs as the land was acquired a decade ago. Compared to eastern projects with a similar format such as Swanbay City, the project is 20-30% lower in selling price despite having the same travel time to the CBD and equivalent amenities. The project will open for presales in early 2019F after the basic project infrastructure developments are completed this year.

Figure 3: Phase 1 presales plan as at Jul 2018

Product	Unit size (sqm)	Volume (units)	Unit price (VNDbn)
Townhouse	90 - 100	1,218	1.3 - 1.9
Semi-detached villa	150	882	2.4 - 2.9
Detached villa	225	609	3.2 - 3.9
Big villa	450	326	3.9 - 4.9
Total		3,035	

Total GDV (VNDbn)	10,505
Plot ratio	32%
Time line	2019 - 2023F
Land clearance	98%

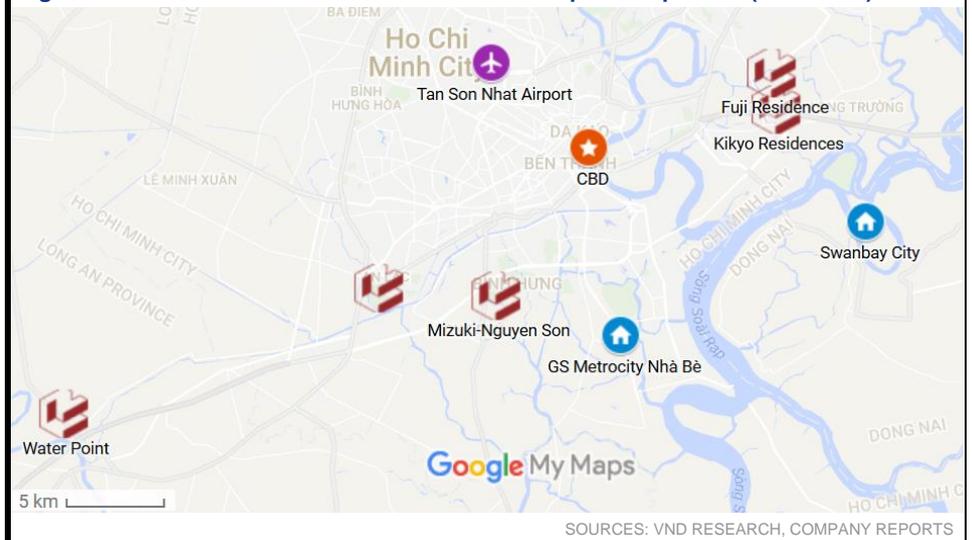
SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 4: Water Point Township preliminary layout (as at Jul 2018)



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 5: Location of Water Point vs. other township developments (as at 2017)

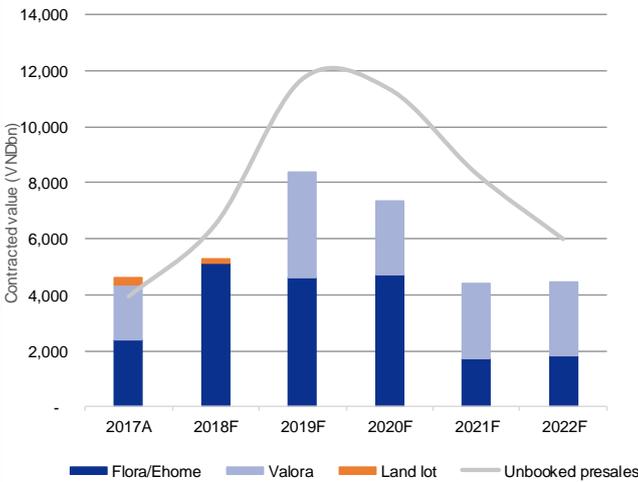


SOURCES: VND RESEARCH, COMPANY REPORTS

Huge project pipeline for the long run➤

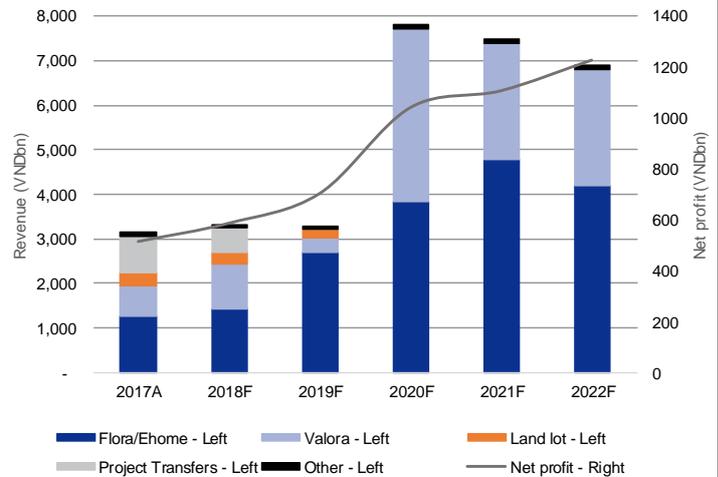
Following the debuts of new apartment projects, the announcement of the first phase of Water Point revealed a potentially huge VND10.5tr contract value and VND1.5tr PAT in 2019-2024F, based on our projections. We applaud management’s decision to move all the project’s high-rise products to the second phase when the condo presales will be supported by the visible infrastructure and amenities completed in Phase 1 and given that the demand for condos in the area is unlikely to be as strong as the demand for landed properties. This should enable it to secure solid absorption for the condo project, in our view. Overall, we estimate VND33.8tr in total unbooked but locked-in contract value and future presales (including VND4.0tr unbooked revenue as at end-FY17) and potential net profit of VND5.2tr comprising its current and new projects in the pipeline such as Mizuki, Akari, and Water Point (Phase 1 only), all of which should be booked as revenue between 2018F and 2024F, in our estimation.

Figure 6: Presales by segment (based on our estimates)



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 7: Handover value (including non-consolidated projects) and net profit (before bonus and welfare payment) (based on our estimates)



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 8: Project development pipeline (based on management guidance)

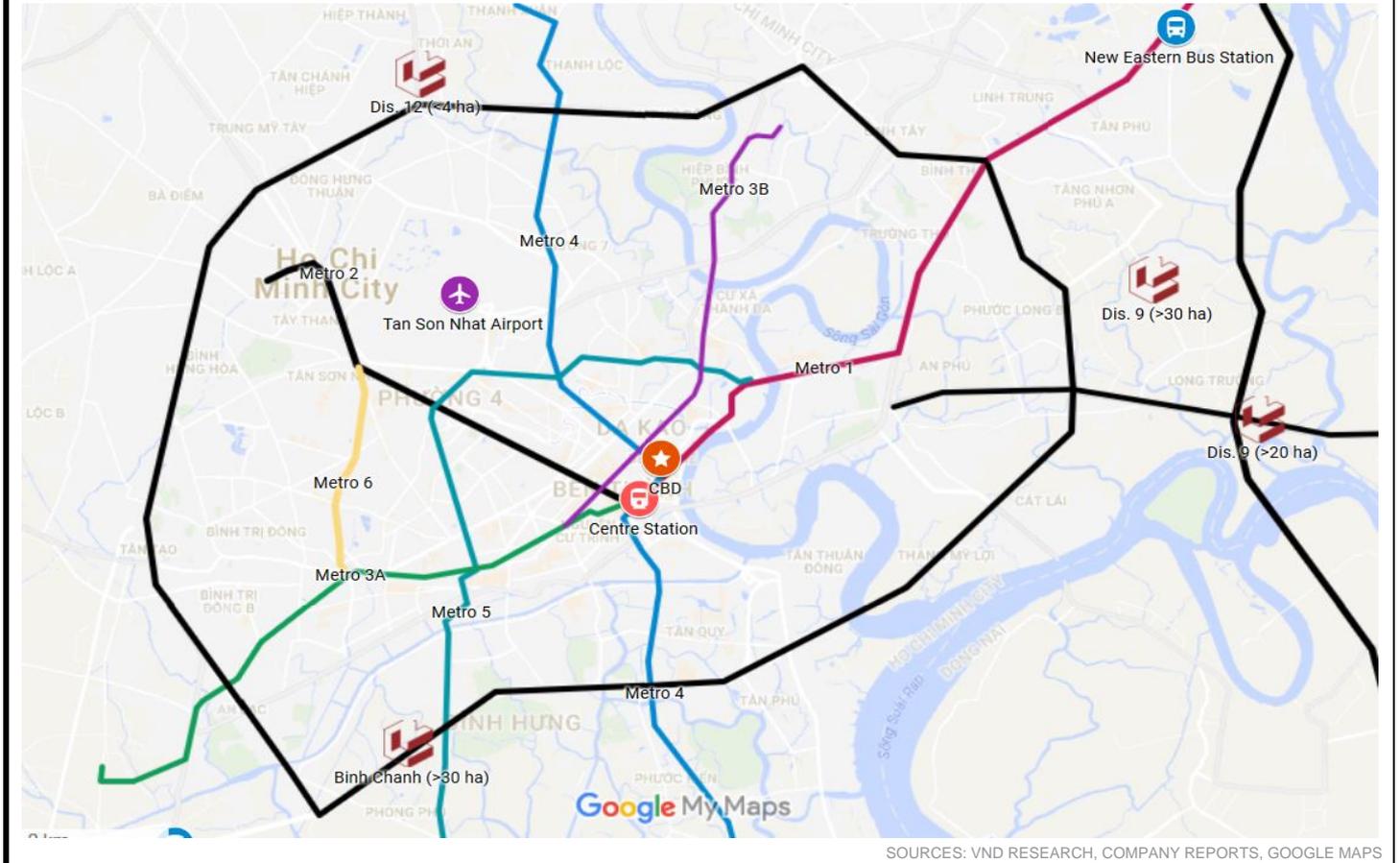
Project	Location	Product	Ownership	Land size (ha)	GFA (sqm)	GDV (US\$m)	Development timeframe (from launch to delivery)								
							2016A	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Fuji	Dis. 9, HCMC	Valora Flora	50%	5.6	70,060	73									
Kikyo	Dis. 9, HCMC	Valora Flora Ehomes	50%	17.8	34,820	50									
Dalia	Can Tho	Land lot	75%	15.4	77,834	N/A									
Mizuki	Binh Chanh, HCMC	Valora Flora	50%	26.4	446,927	451									
Nguyen Son	Binh Chanh, HCMC	Ehomes Villa island	87%	11.0	108,881	40									
Akari	Binh Tan, HCMC	Flora	50%	8.8	397,345	436									
Novia	Thu Duc, HCMC	Flora	100%	1.1	57,012	40									
Waterpoint	Long An	Land lot			N/A										
		Townhouse	50%	165.0	116,928	580									
		Villa			416,025										
Nam long 2	Can Tho	Condo Land lot	100%	190.0	N/A	N/A									

SOURCES: VND RESEARCH, COMPANY REPORTS

Focused on cheap land bank accumulation

NLG's biggest land parcel is in Long An (355ha) which the company acquired in 2005 but the lack of capital and unsupportive market sentiment at that time delayed the land's development until early this year. In HCMC and Can Tho, most of its land bank has been under development for potential presales over the next 2-3 years. NLG's new land bank acquisition plan was announced in its 2018 AGM which indicates ~84ha of new land acquisitions in HCMC. These new land sites will also be out of the CBD. NLG intends to keep land acquisition costs relatively low to allow it to maintain reasonable selling prices, given that this is the key to its strategy and target customer segment. Compared to last year, land prices in Districts 2, 9 and Binh Chanh surged 40-60% due to heavy investments in transportation infrastructure connecting these areas to the CBD, particularly Metro Line 1 which is slated to be commissioned in 2020F.

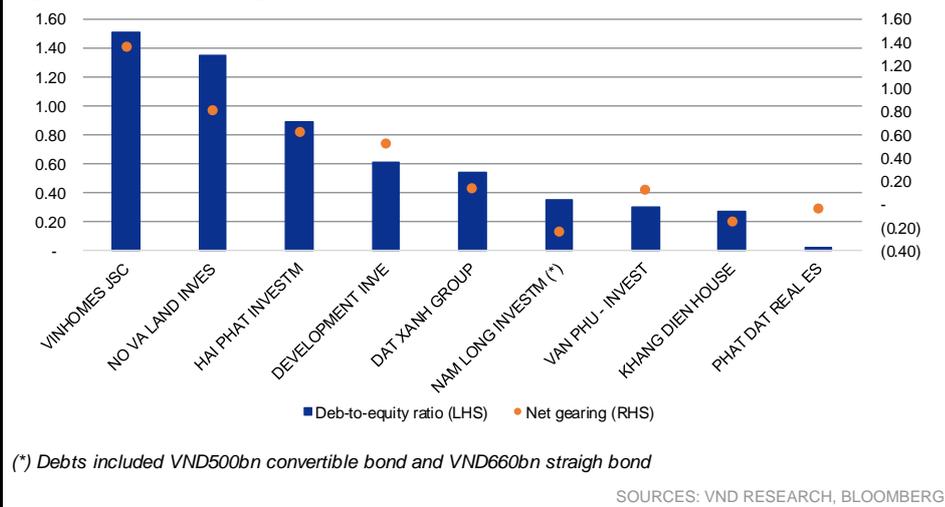
Figure 9: New land bank near the city's key transportation projects (as at Jul 2018)



Debt-free balance sheet facilitated by healthy alternative capital sources

We believe NLG's net cash position buffers it against a reduction in credit flow into real estate development which we expect will continue to play out over the next five years. NLG itself has gained a good reputation from past developments to effectively collect an average 50% of contracted sales upfront to cover most of the construction cost while the land acquisition and foundation works costs (~30% of total cost) are usually the only upfront outlay required. The new VND500bn convertible bond issued in 2016 and VND566bn rights issuance in 2018 underscore NLG's credibility, in our view, and the ensuing proceeds will be primarily used for land bank expansion. NLG has completed the bulk of its land clearance for three sizeable projects it launched this year, while future construction works will be adequately funded by its Japanese partners and buyer advances. We believe future capital requirements may only be for land replenishment. The company also successfully issued a VND660bn straight bond at a rate of 6.5% p.a. and plans to offer another 40m shares through public auction at a minimum price of VND26,500/share in 4Q18F. In Jul 2018, NLG announced its plan to use the cash proceeds (at least VND1.7tr) to support its new land acquisitions (over 2018-20F). However, we believe it is possible that this new public share issuance and convertible bonds could dilute our projected EPS by 23% for FY19F and onwards. Even though the prospect of EPS dilution could weigh on the stock price when the share issuance is announced, we believe that the company will disclose its intended use of proceeds to expand its land bank and this will compensate.

Figure 10: 2Q18 leverage of NLG and local peers



2018F outlook

We expect NLG's contracted sales to see 12% growth in value and 16% growth in volume in FY18F, fuelled by the launch of two projects (Novia and Akari) and from continued sales of existing projects (Dalia, Mizuki, and Nguyen Son):

- Akari (Hoang Nam):** NLG has a business cooperation contract (BCC) with two Japanese partners – Nishi-Nippon Railroad and Hankyu Realty. According to this contract, NLG agreed to sell 50% of its holdings in the Hoang Nam project (8.8 ha), subsequently renamed “Akari City”. This project is scheduled to deliver 4,617 Flora standard condo units in the next 4-5 years, with a total estimated GDV of VND8.6tr (~US\$80,800/unit). We expect that 1,000 units (22% of total project volume) will be presold this year in 3Q-4QFY18F.
- Novia (Areco):** The company plans to initiate another condo project on a 1.1ha land site in Thu Duc District, Northeast of HCMC’s CBD. This project will comprise 518 Flora condo units, presales for which are slated for 2HFY18, with expected contract value of VND970bn. We consider this small in terms of volume, given the current market absorption rate. The capital requirement is limited to only VND810bn, so the project will be solely deployed by NLG (as opposed to executed via a BCC with Japanese partners). Land clearance for this project has been completed and the foundation is being completed prior its launch.

Figure 11: Akari City (397,345 sq m GFA, 4,617 Flora condo units)



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 12: Novia (57,012 sq m GFA, 518 Flora condo units) – foundation is under construction before its launch in 3Q18F

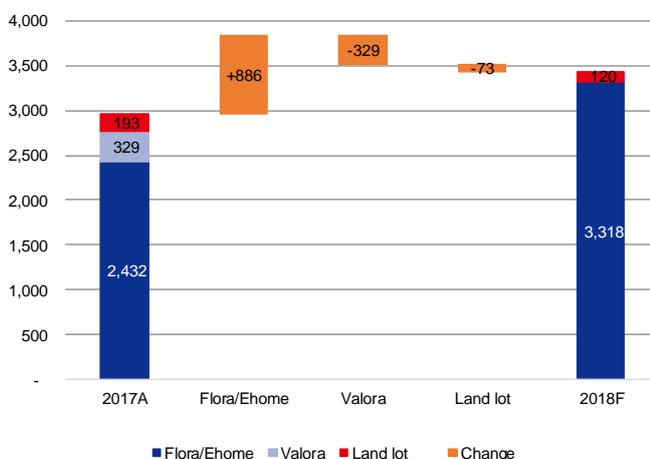


SOURCES: VND RESEARCH, COMPANY REPORTS

- NLG sold out Phase 1 of Mizuki Flora, including Parks 1 and 2 in FY17, and 1,013 units of Parks 3, 4, and 5 in 1H18. Given the strong sales absorption of Phase 1 (>80%) in it’s the first six months of sales, we expect the robust momentum to sustain for the rest of this year. We expect NLG to complete the presales of the remaining 120 land lots of

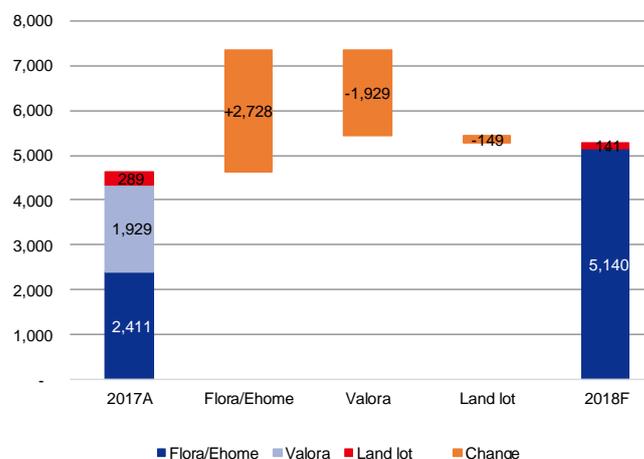
Dalia this year, while Nguyen Son Homes could launch another 800 condo units into the market in 3Q18.

Figure 13: NLG's presales volume (units) (based on our estimates)



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 14: NLG's presales value (VND bn) (based on our estimates)



SOURCES: VND RESEARCH, COMPANY REPORTS

Anticipate more non-recurring income in FY18F

Following the sale of its stake in Akari, we think NLG may form a BCC with Nishi-Nippon Railroad and TBS Group (Unlisted) to develop a full amenity township in Water Point (on 165ha of the 355ha site). These two transfers are likely to follow the same pattern as the stake transfer of Mizuki in 2017, and NLG would only be allowed to record 50% of the total amount of land revaluation gain, as NLG typically retains ownership of half the land under the new BCC entities. However, we expect NLG's partners to make payments for then Water Point stake in two equal instalments in 2018F and 2019F, unlike the Akari stake that would be fully paid for this year. Based on transfer prices publicly announced by management, we estimate NLG to receive VND474bn pretax profit in FY18F from both BCC projects, and VND278bn in FY19F for the remaining stake transfer of Water Point. We expect the unearned revaluation gain to be booked in subsequent years, according to the project's delivery schedule.

Figure 15: Stakes of 50% in Akari and Water Point are to be transferred from NLG to its partners under BCC terms

VNDbn	Mizuki	Akari	Water Point
Size (sq m)	260,000	88,000	1,650,000
Transfer revenue	838	550	1,000
Pretax profit	454	196	556
Gross margin	54%	36%	56%
Selling price (VND m per sq m)	7.8	14.7	1.2
Land cost (VND m per sq m)	3.0	8.0	0.5
Unearned income*	342	196	-
Post-transfer accounting treatment	Non-consolidated	Non-consolidated	Consolidated

(* This is a part of the revaluation gain over 50% land ownership still held by NLG.

SOURCES: VND RESEARCH, COMPANY REPORTS

Expect robust FY18F net profit growth

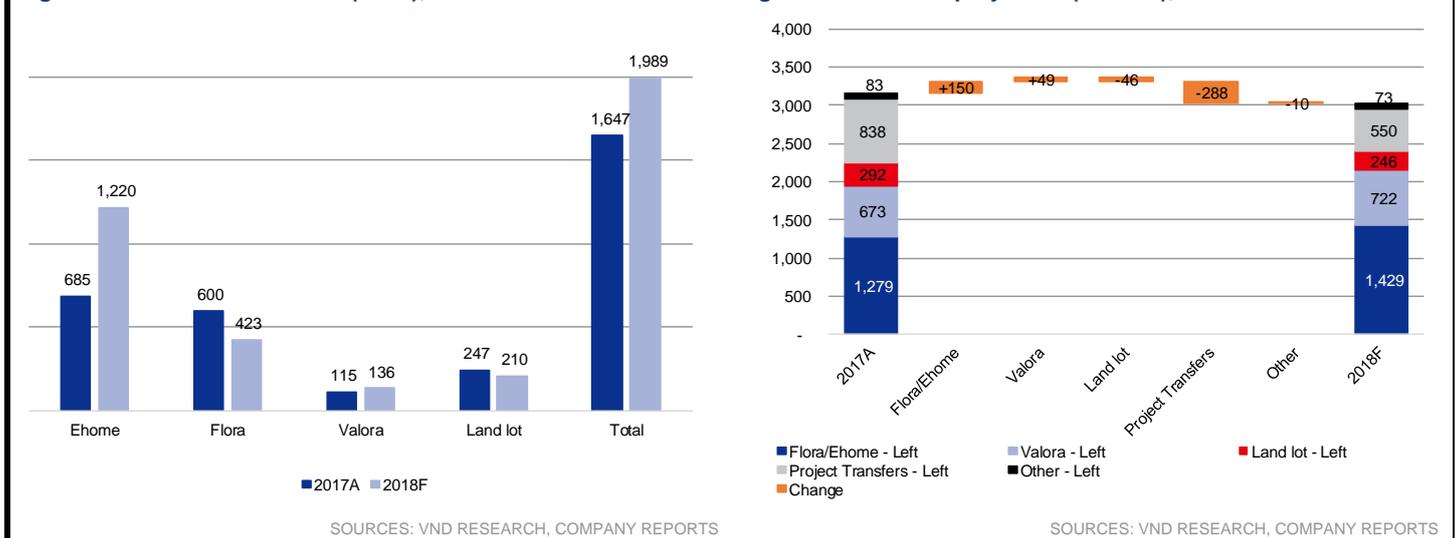
In FY18F, we expect NLG to complete the delivery of Fuji and Kikyō, as well as the partial handover of Mizuki Valora villas. We expect to see 20% growth in NLG's delivery value to VND2,695bn, mostly due to the higher contribution from the Valora townhouse project. However, we estimate FY18F reported development revenue will only be around VND2,397bn (+6% yoy) due to deconsolidation of the Mizuki project. Based on our projections, NLG's FY18F gross margin could fall 280bp, attributable to the lower margin of the Akari stake transfer. We forecast FY18F net profit of VND584bn (+14% yoy), 64% of which comprising non-recurring income. Our earnings forecasts for FY18-20F are lower than Bloomberg consensus estimates, likely due to our net profit adjustments to fully factor in the post-tax bonus and welfare expenses

(historically, 4-5% of the net profit). However, our target price is only 6.9% below that of consensus.

We also note that profit from the aforementioned project stake transfers will be excluded from our recurring net profit estimates for 2018-2020F. The stake transfer profits show 2018-20F CAGR of -22%, based on our projections. Excluding this, we expect to see 70% CAGR in core net profit due to the strong delivery during this period. Hence, we only expect 20% CAGR in reported net profit (including stake transfer profits) over 2018-20F.

Figure 16: Handover schedule (units), based on our estimates

Figure 17: Revenue projection (VND bn), based on our estimates



SWOT analysis

Figure 18: SWOT analysis for NLG

Strengths:

- Cheap land bank in non-CBD and surrounding areas
- Well modified products with compact design to maintain affordable selling price
- Strong management team with joint member from foreign strategic partners (Keppel Land, Mekong Capital)

Opportunities:

- Strong and sustainable demand for lower mid-range and affordable housing in HCMC.
- Negative gearing position offers plenty of room for debt funding
- Abundance of cash allow to acquire more land bank

Weaknesses:

- NLG will share 50% of future profit from most of its major projects with partners to pay-off their support in capital and project execution.

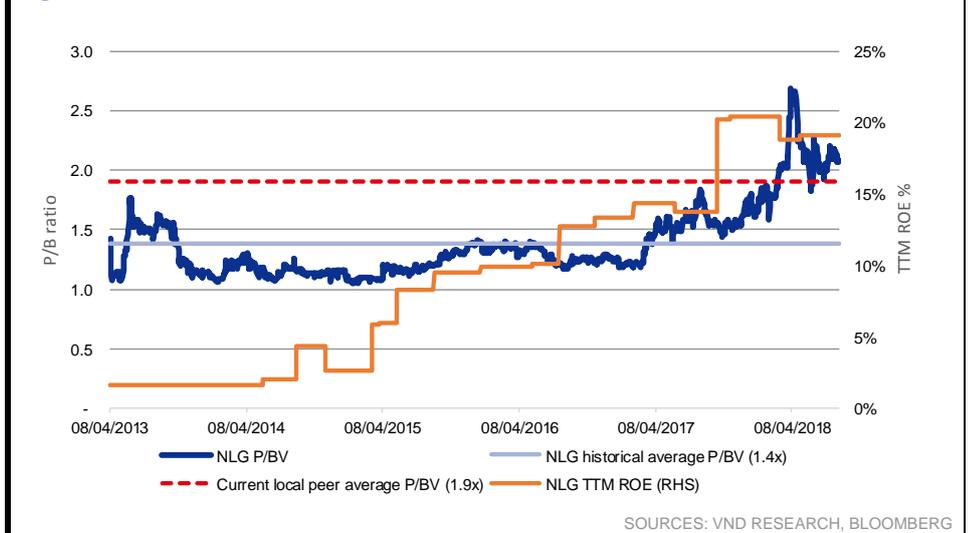
Threats:

- Majority of buyer portfolio is exposed to the risk of increase in mortgage rate
- Higher range developers may join the mid-range and affordable condo segment with massive project volume

SOURCES: VND RESEARCH

Valuation and recommendation

NLG's current FY2018F P/BV ratio of 2.1x is around 50% above its historical 5-year average of 1.4x. Multiple expansion since Jan 2017 has driven the stock's P/BV to surpass its local peer average of 1.9x, thanks to market recognition of the improvements in NLG's land bank monetisation and product quality through its cooperation with Japanese partners. The improvement in its fundamentals are reflected in the marked improvement in its return on equity (ROE) over Jan 2017-July 2018, which at 19.1% now is above its peer average of 15.1%. Nonetheless, we apply a 10% discount to our end-2017 RNAV estimate to reflect downside risks (discussed below) to our base case assumption of 100% presales take-up in our contracted volume forecasts. Our 10% RNAV discount corresponds to roughly a 20%-pt cut in our base case take-up rate assumptions.

Figure 19: P/BV vs. ROE


We estimate RNAV per share of VND35,500 for NLG, indicating potential 16.6% upside that leads to our Add recommendation. Its recently-announced sizeable new projects like Water Point and Akari underscore NLG's strong fundamentals, supported by solid demand for lower mid-range housing. In the long run, we anticipate that Phase 2 of Water Point (190ha) and the new projects to be deployed on the newly-acquired land bank in HCMC (84ha) would further expand NLG's RNAV but we have not factored these into our valuation yet due to the lack of earnings visibility. Following the correction in NLG's share price from its all-time high in Jul 2018 due to negative market sentiment, we think the current share price offers a reasonable entry point for medium-term investors to ride the tail of the ongoing property up cycle.

Figure 20: RNAV and target price

Project Name	BV as at 31 Dec 2017 (VNDbn)	Premium (VNDbn)	Fair value (VNDbn)	Method	Note
Water Point	1,481	2,563	4,044	Market value	A 50% stake of the 165 ha will be transferred to its partners (Nishi-Nippon Railroad, & TSB Group) based on the price of VND1.2m psm announced by the management and update market value for the remaining area at the same price.
Fuji	271	65	335	DCF	
Nguyen Son & Mizuki	186	1,240	1,426	DCF	
Novia	173	120	293	DCF	
Kikyo	672	281	953	DCF	
Dalia	88	140	228	DCF	
Akari (Hoang Nam)	708	814	1,523	DCF	A 50% stake of the 8.8ha will be transferred to the other partner, based on the announced price of VND14.7m psm
Other	305		305	Book value	
Total inventory	3,884	5,224	9,108		
Add:					
Cash and cash equivalent	2,082	1,226	3,308		Including the cash receipt from the 5:1 rights issue in Apr 2018
Short-term investments	61		61		
Short-term receivables	579		579		
Other short-term assets	173		173		
Long-term assets	1,127		1,127		
Less:					
Net debt (exclude CB)	916	189	1,105		Excludes the convertible bonds issued in 2016 from the debt outstanding but includes VND660bn straight bond issued in 2Q18
Other liabilities	3,267		3,267		
Minority interest	803		803		
RNAV			9,181		
Shares outstandings (m)	157	76	233		Includes the number of shares from the 5:1 rights issue, FY18 ESOP, 100:11.25 bonus share.
Discount to RNAV				10%	
Target price (VND/share)			35,500		

The potential 40m share issuance is not factored in our valuation due to uncertainty with the average matched price and unknown cash proceeds from the public offering.

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 21: Peer comparison

Company Name	Ticker	Recom.	Share price (VND)	TP (VND)	Land bank (ha)	Market Cap (US\$m)	P/E (x)			P/B (x)			ROE (%)		Dividend yield (%)		Net gearing (%)	
							TTM	2018F	2019F	1H18	2018F	2019F	TTM	2018F	2019F	2018F		2019F
Vinhomes	VHM VN	NR	109,900	NR	16,110	12,804	46.8	16.3	11.4	3.2	N/A	N/A	N/A	58.1	47.1	0.9	1.3	136.0
No Va Land	NVL VN	NR	64,900	NR	623	2,561	25.8	21.5	20.2	4.3	3.1	N/A	18.7	18.5	14.9	N/A	N/A	81.4
Khang Dien	KDH VN	ADD	29,300	37,000	499	494	18.9	14.6	13.8	1.8	1.7	1.5	10.0	11.5	11.5	1.7	1.7	-15.1
Dat Xanh Group	DXG VN	NR	27,900	NR	702	415	9.5	8.4	7.1	2.2	2.0	1.6	26.2	23.8	29.8	1.6	N/A	13.2
Phat Dat	PDR VN	NR	26,000	NR	216	301	12.6	N/A	N/A	2.2	N/A	N/A	19.4	N/A	N/A	N/A	N/A	-3.4
Van Phu	VPI VN	NR	41,650	NR	237	290	9.6	N/A	N/A	3.6	N/A	N/A	38.8	N/A	N/A	N/A	N/A	13.0
Dev Inve Group	DIG VN	NR	16,900	NR	3,158	186	14.6	N/A	N/A	1.4	N/A	N/A	9.6	N/A	N/A	N/A	N/A	52.4
Sai Gon	SCR VN	NR	9,320	NR	158	128	6.8	N/A	N/A	0.7	N/A	N/A	7.2	N/A	N/A	N/A	N/A	47.6
LDG Investment	LDG VN	NR	14,250	NR	N/A	117	14.7	N/A	N/A	1.3	N/A	N/A	14.0	N/A	N/A	N/A	N/A	0.6
QCGL	QCG VN	NR	8,450	NR	N/A	101	11.2	N/A	N/A	0.6	N/A	N/A	11.0	N/A	N/A	N/A	N/A	9.0
NBB	NBB VN	NR	19,300	NR	N/A	82	27.3	N/A	N/A	1.0	N/A	N/A	4.1	N/A	N/A	N/A	N/A	26.3
Thu Duc Housing	TDH VN	NR	11,350	NR	N/A	40	7.0	N/A	N/A	0.5	N/A	N/A	7.0	N/A	N/A	N/A	N/A	26.7
Simple average							17.1	15.2	13.1	1.9	2.3	1.6	15.1	28.0	25.8	1.4	1.5	32.3
Median							13.6	15.4	12.6	1.6	2.0	1.6	11.0	21.1	22.4	1.6	1.5	19.8

Nam Long NLG VN ADD 30,450 35,500 400 278 10.4 10.7 9.0 2.1 1.5 1.3 19.1 5.6 10.8 1.5 1.6 -33.0
 Note: All prices are based on the closing prices on 22 Aug 2018. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates

SOURCES: VND RESEARCH, BLOOMBERG, COMPANY REPORT

Risks

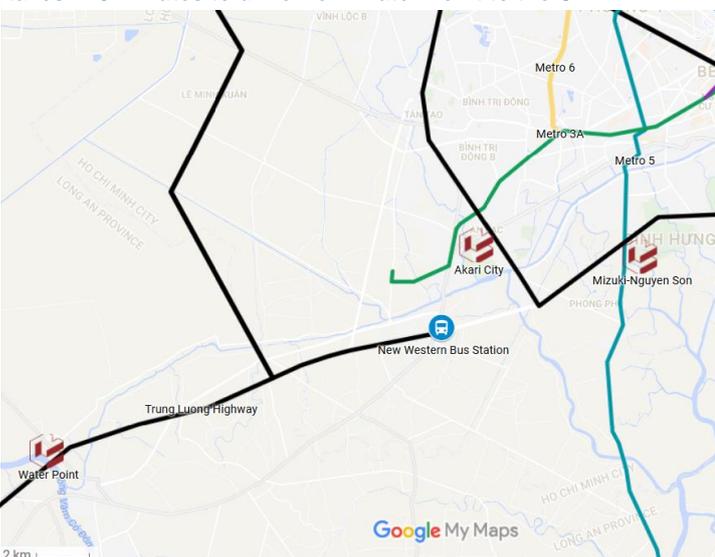
A steep rise in interest rates

Tighter-than-expected monetary policy could have a negative impact on middle- and low-income homebuyers in Vietnam who are sensitive to mortgage rate fluctuations, especially middle-income buyers who use a high level of leverage for their home purchases. At the moment, the 50% mortgage-to-income ratio in Vietnam is substantially higher than the 40% level seen in other ASEAN countries (HSBC). If Vietnam’s mortgage rate rises to 14%, we expect a tangible softening of demand for property.

Dilution risk

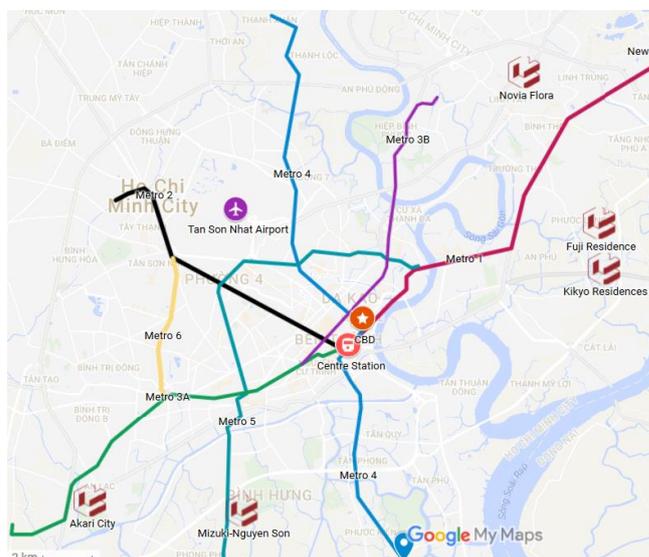
We expect EPS dilution from upcoming share issuances. The company plans to offer 40m new shares through a public auction (19% of our estimated outstanding share assumption for TP), of which foreign buyer participation would be capped at 5m shares. We have not factored this into our valuation as the auction process makes it difficult to estimate the total cash proceeds from this share issuance.

Figure 22: Map of Water Point, Akari and Mizuki-Nguyen Son – It takes ~45 minutes to drive from Water Point to the CBD



SOURCES: VND RESEARCH, GOOGLE MAPS

Figure 23: NLG’s projects are well connected to the CBD

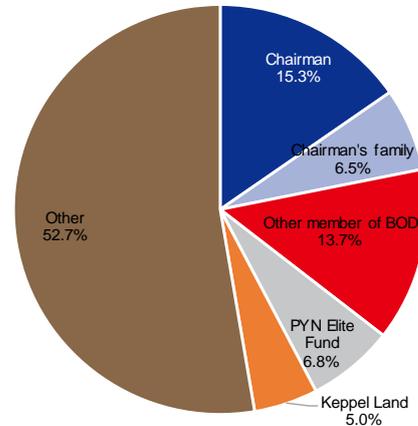


SOURCES: VND RESEARCH, GOOGLE MAPS

Appendices

Major shareholders

Figure 24: Shareholder structure as at the end of 2Q18



Note: Hankyu Realty and Nishi Nippon Railroad are not have stakes in the company but do have stakes in particular BCC projects

SOURCES: VND RESEARCH, COMPANY REPORTS

Management team

Figure 25: Management Team Profiles (as at Feb 2018)

Member	Position	Status	Profile
Nguyen Xuan Quang	Chairman		Over 30 years of experience in architecture design, construction and real estate development.
Tran Thanh Phong	Vice Chairman		Over 25 years of experience in construction and real estate development.
Lai Voon Hon	Member of BOD	Independent	Over 25 years of experience in architecture design Chairman cum CEO of Ireka Development Sdn Bhd.
Linson Lim Soon Kooi	Member of BOD		Over 30 years of experience in construction and real estate development. President of Keppel Land Ltd.
Cao Tan Thach	Member of BOD		Construction engineer of UC Irvine University, California, USA and working experiences in Linscott Company, Law & Greespan Engineers, USA. He is now a member of ASCE, USA.
Bui Duc Khang	Member of BOD		Over 30 years of experience in construction and real estate development.
Trinh Van Tuan	Member of BOD		Over 20 years of experience in banking sector. Chairman of OCB bank.
Chad Ryan Ovel	Member of BOD	Independent	Over 20 years of experience in business administration, investment and Finance President of Mekong Capital.
Ziang Tony Ngo	Member of BOD	Independent	MBA in Harvard and Standford, over 15 years of experience in Finance sector (USA).
Ngian Siew Siong	Member of BOD	Independent	Over 30 years of experience in real estate development Advisor to CEO of Mah Sing Group Former CEO of Sunway City Bhd & advisor to Chairman of Pavilion Group.

SOURCES: VND RESEARCH, COMPANY REPORTS

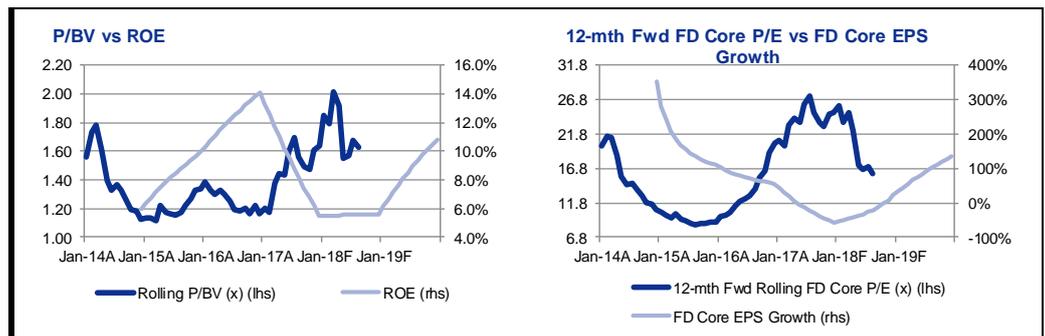
Corporate Structure

Figure 26: Corporate structure (as at 1H18)

Function	Company name	Holdings	Project	Product/Purpose	
Housing development	Nam Long VCD JSC	100.0%	Waterpoint	Land lot, Villa, Flora	
	Nguyen Son Real Estates JSC	87.3%	Nguyen Son	Ehomes, Villa	
	Nam Long – Hong Phat JSC	75.0%	Dalia	Land lot	
	Nam Phan Investment JSC	100.0%	Ehomes Phú Hữu	Ehome	
	NLG – NNR – HR Fuji Co., Ltd	50.0%	Fuji	Valora, Flora	
	Nam Long Apartment Development JSC	97.1%	Ehome 1,2,3,4,& 5	Ehome	
	Nguyen Phuc Real Estates Investment & Trading Co., Ltd	50.0%	Flora Sakura	Flora	
	NN Kikyo Valora Co., Ltd	50.0%	Kikyo	Valora	
	Thao Nguyen Real Estates Investment & Trading Co., Ltd.	50.0%	Green Hill	Flora	
	NNH Kikyo Flora Co., Ltd	50.0%	Kikyo	Flora	
	NNH Mizuki Jsc	50.0%	Mizuki	Valora, Flora	
	Construction & Service	Nam Khang Construction Investment & Development One Member Co., Ltd	100.0%		
		Nam Long Real Estates Transaction Floor Co., Ltd	100.0%		
Nam Long Services JSC		100.0%			
Nam Vien Design Consultant & Construction JSC		100.0%			
Okamura Tokyo Ltd.		30.6%			
Office development & Commerce	Nam Long Property Management & Development One Member Co., Ltd	100.0%			

SOURCES: VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	2,534	3,161	3,019	2,382	2,715
Gross Profit	837	1,309	1,168	842	1,032
Operating EBITDA	494	895	772	430	582
Depreciation And Amortisation	(14)	(14)	(15)	(16)	(16)
Operating EBIT	480	881	757	414	565
Financial Income/(Expense)	(3)	65	326	437	159
Pretax Income/(Loss) from Assoc.	1	(3)	10	120	1,148
Non-Operating Income/(Expense)	7	6	0	0	0
Profit Before Tax (pre-EI)	484	950	1,094	971	1,873
Exceptional Items					
Pre-tax Profit	484	950	1,094	971	1,873
Taxation	(97)	(194)	(219)	(194)	(375)
Exceptional Income - post-tax					
Profit After Tax	388	756	875	777	1,498
Minority Interests	(42)	(221)	(248)	1	(384)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(13)	(23)	(43)	(41)	(45)
Net Profit	332	512	584	737	1,069
Recurring Net Profit	332	149	205	515	1,069
Fully Diluted Recurring Net Profit	332	149	205	515	1,069

Cash Flow

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	493.6	894.9	772.5	429.8	581.6
Cash Flow from Invst. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	(608.6)	1,680.8	852.0	(779.5)	1,181.1
Straight Line Adjustment	0.0	0.0	0.0	0.0	0.0
(Incr)/Decr in Total Provisions	15.2	12.3	15.5	15.9	16.4
Other Non-Cash (Income)/Expense	(43.7)	(92.1)	(395.4)	(627.0)	(1,376.9)
Other Operating Cashflow	(16.3)	31.2	559.1	791.9	1,316.0
Net Interest (Paid)/Received	(20.6)	(27.8)	(58.9)	(69.6)	(69.6)
Tax Paid	(80.8)	(238.3)	(218.7)	(194.3)	(374.5)
Cashflow From Operations	(261.2)	2,261.0	1,526.1	(432.8)	1,274.0
Capex	0.0	0.0	0.0	0.0	0.0
Disposals Of FAs/subsidiaries	35.6	0.5	0.0	0.0	0.0
Disposals of Investment Properties	211.6	22.4	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	(246.4)	(750.8)	(550.0)	0.0	(0.0)
Other Investing Cashflow	(46.2)	(58.6)	391.2	622.6	1,385.7
Cash Flow From Investing	(45.5)	(786.5)	(158.8)	622.6	1,385.7
Debt Raised/(repaid)	525.6	(259.1)	605.1	(86.0)	(33.5)
Proceeds From Issue Of Shares	386.0	58.0	544.5	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(96.6)	(122.9)	(71.1)	(108.9)	(108.9)
Preferred Dividends					
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Financing	815.0	(324.0)	1,078.5	(194.9)	(142.3)

SOURCES: VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	932	2,082	4,528	4,523	7,040
Properties Under Development	3,686	3,873	5,288	5,862	5,633
Total Debtors	1,095	579	568	503	536
Inventories	13	11	6	7	8
Total Other Current Assets	103	234	292	285	285
Total Current Assets	5,828	6,779	10,683	11,179	13,501
Fixed Assets	42	44	39	34	29
Total Investments	70	788	1,333	1,329	1,324
Intangible Assets	27	22	20	18	16
Total Other Non-Current Assets	242	274	664	648	845
Total Non-current Assets	381	1,127	2,056	2,028	2,214
Short-term Debt	354	216	216	180	197
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	199	291	292	243	265
Other Current Liabilities	1,626	2,553	5,062	4,846	6,167
Total Current Liabilities	2,179	3,061	5,569	5,268	6,629
Total Long-term Debt	350	229	834	784	734
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	533	894	608	577	417
Total Non-current Liabilities	882	1,123	1,442	1,361	1,150
Total Provisions	0	0	0	0	0
Total Liabilities	3,062	4,183	7,011	6,629	7,779
Shareholders' Equity	2,484	2,920	4,449	5,077	6,051
Minority Interests	664	803	1,272	1,493	1,878
Total Equity	3,147	3,723	5,722	6,571	7,929

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	101%	25%	(4%)	(21%)	14%
Operating EBITDA Growth	211%	81%	(14%)	(44%)	35%
Operating EBITDA Margin	19.5%	28.3%	25.6%	18.0%	21.4%
Net Cash Per Share (VND)	1,315	8,528	15,973	16,345	28,059
BVPS (VND)	14,311	15,208	20,431	23,315	27,787
Gross Interest Cover	23.35	31.67	12.85	5.95	8.12
Effective Tax Rate	20.0%	20.4%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	29.1%	13.8%	12.2%	14.8%	10.2%
Accounts Receivables Days	116.4	96.6	69.3	82.1	70.0
Inventory Days	1.35	2.32	1.72	1.61	1.63
Accounts Payables Days	42.89	48.36	57.47	63.35	55.29
ROIC (%)	14.6%	20.8%	27.6%	21.7%	19.9%
ROCE (%)	14.6%	24.3%	20.9%	12.9%	9.7%
Return On Average Assets	6.71%	9.65%	5.53%	2.97%	9.17%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Unbooked Presales (m) (VND)	1,509,425.1	3,952,504.1	6,537,293.0	11,720,335.7	11,355,408.6
Unbooked Presales (area: m sm)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (units)	1,457.0	2,629.0	4,078.0	5,338.8	5,677.8
Unsold attrib. landbank (area: m sm)	N/A	N/A	N/A	N/A	N/A
Gross Margins (%)	33.0%	42.0%	39.2%	35.9%	38.7%
Contracted Sales ASP (per Sm) (VND)	N/A	N/A	N/A	N/A	N/A
Residential EBIT Margin (%)	18.9%	18.5%	22.7%	17.4%	20.8%
Investment rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Residential rev / total rev (%)	100.0%	70.9%	79.4%	96.6%	96.7%
Inv. properties rental margin (%)	N/A	N/A	N/A	N/A	N/A
SG&A / Sales Ratio (%)	5.0%	5.0%	5.0%	5.0%	5.0%

SOURCES: VND RESEARCH, COMPANY REPORTS

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