

IDICO Corporation (IDC)

Huge land bank serves as a competitive edge

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1Q23 business results dropped sharply YoY

In 1Q23, IDICO Corporation (IDC) obtained net revenue of VND1,147 billion (-31% YoY), of which industrial park (IP) land sales contributed VND207 billion, down 73% against the high base of 1Q22 driven by one-off IP land sales recognition at Phu My 2 and Phu My 2 expansion. 1Q23 revenue primarily came from the allocation of unearned revenue for previously handed over contracts. The energy segment contributed VND642 billion (-4% YoY) to overall revenue. NPAT of the parent company went down to VND148 billion (-42% YoY).

NPAT should achieve VND1,890 billion (+7% YoY) for 2023

Our forecasts for IDC's 2023F business results are as follows (1) IP land sales is 90 ha (-32% YoY) due to slowing FDI inflows, equivalent to VND3,200 billion (-4% YoY) in revenue, mainly from contracts signed in 2022; (2) energy revenue is VND3,017 billion (+5% YoY); and (3) residential real estate should generate VND440 billion (+412% YoY) thanks to the transfer of a residential project to Aeon. NPAT of the parent company is estimated at VND1,890 billion (+7% YoY).

Investment catalysts

We remain positive about IDC's growth outlook thanks to (1) its large leasable IP land with the remaining leasable area of 751 ha with good price appreciation potential, (2) attractive dividend yield, and (3) stable cash flow from energy and BOT segments.

We recommend BUY for IDC with a target price of VND48,200/share

Based on the business outlook and valuation results, we recommend BUY for IDC with a target price of VND48,200/share, equivalent to a total return of 19% versus the closing price on June 22, 2023.

Buy maintain

Target price VND48,200

Upside/Downside	19% (plus dividend yield)
Current price (Jun 22, 2023)	VND43,800
Consensus target price	VND45,300
Market cap (VNDbn/USDmn)	14.4/0.6

Trading data

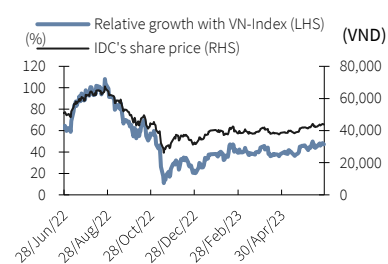
Free float	63.2%
3M avg trading value (VNDbn/USDmn)	112.8/4.8
Foreign ownership	3.8%
Major shareholder	SSG Group (22.5%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	5	12	22	32
Relative	-1	4	13	0

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	4,301	7,485	7,887	8,398
Operating income (VNDbn)	717	2,561	2,587	2,791
NPAT of parent company (VNDbn)	454	1,768	1,890	2,038
EPS (VND)	1,498	5,305	5,728	6,174
EPS growth (%)	-48	254	8	8
P/E (x)	29.43	8.31	7.66	7.11
P/B (x)	3.39	2.94	3.42	3.53
ROE (%)	11	40	34	37
Dividend yield (%)	7%	9%	9%	9%



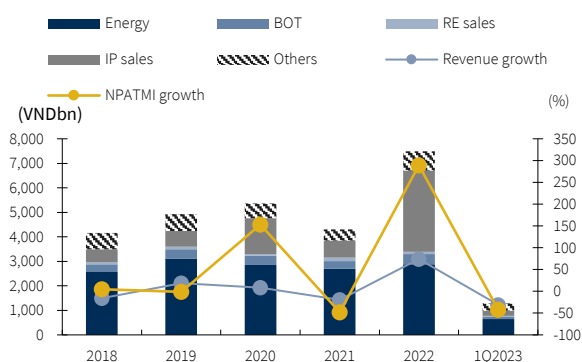
Business performance

Fig 1. IDC – 1Q22–1Q23 business results

(VNDbn)	1Q22	1Q23	%YoY	Notes
Net revenue	1,673	1,147	-31%	Completed 14% of 2023 guided revenue objective
<i>IP sales</i>	769	207	-73%	IP land sales revenue reached VND207 billion in 1Q23, down 73% YoY due to the high base level in 1Q22 thanks to high one-off IP land sales recognition for Phu My 2 and Phu My2I expansion. IP sales revenue primarily came from the allocation of unearned revenue for previously handed over contracts as new leases are not yet eligible for one-off revenue recognition.
<i>Energy segment</i>	668	642	-4%	
<i>BOT</i>	101	105	4%	
<i>Others</i>	135	193	42%	
Gross profit	416	304	-27%	
<i>Gross profit margin</i>	25%	26%	+1 pp	
<i>IP sales</i>	38%	59%	+21 pp	Gross profit margin of 59% was due to low value of previously handed over contracts
<i>Energy segment</i>	6%	12%	+6pp	Gross profit margin reached 12%, up 6 percentage points YoY due to the higher revenue contribution from hydropower plants with a higher gross profit margin than electricity trading at IPs.
<i>BOT</i>	49%	47%	-2 pp	
Financial income	72	27	-63%	Financial income decreased by 63%YoY since IDC recorded VND51 billion in revenue from securities trading in 1Q22
Financial expense	88	54	-39%	Financial expenses plunged 54%YoY thanks to no incurred costs from securities trading
SG&A	54	67	24%	
% SG&A/revenue	3%	6%	+3 pp	
Operating income	345	209	-39%	
Other	11	5	-57%	
Profit before tax	356	214	-40%	Completed 8% of 2023 guided PBT objective
NPAT	284	175	-38%	
NPAT of parent company	255	148	-42%	

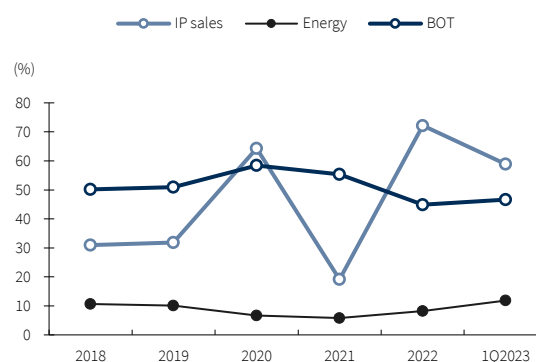
Source: IDICO Corporation, KB Securities Vietnam

Fig 2. IDC – 2018–1Q23 business results



Source: IDICO Corporation, KB Securities Vietnam

Fig 3. IDC – Gross profit margin by segment (%)



Source: IDICO Corporation, KB Securities Vietnam

Large and cheap land bank can ensure IDC's mid-term growth

In 2022, IDC leased out 131.8ha of industrial land (+29%YoY), primarily from Huu Thanh and Phu My 2 with 60.2 ha and 47.1 ha occupied, respectively. By end-2022, IDC's remaining leasable area was 751 ha (54% of total leasable area) at Cau Nghin, Huu Thanh, Phu My 2, Phu My 2 expansion, and Que Vo 2. Therefore, IDC has an edge over its competitive counterparts thanks to its huge land bank. We highly value IDC's IP land bank in terms of occupancy rate as well as price appreciation potential due to (1) IPs have been cleared and compensated for, readily available for lease, especially in the context of a tight industrial land supply due to lengthy legal procedures and bottlenecks in land clearance and (2) industrial zones located in the South, namely Phu My 2, Phu My 2 expansion, and Huu Thanh, inherit inter-regional connection infrastructure that was heavily invested in Ba Ria – Vung Tau and Long An.

2023 guided plan

At the 2023 AGM, guided plans are as follows:

- IDC would pay a 9% cash dividend (equivalent to VND4,000/share) and maintain a 30–40% cash or stock dividend in the coming years.
- IP sales in 2023 should reach 127.9 ha, a slight decrease of 3% compared to 2022.

Fig 4. IDC – Industrial zone projects

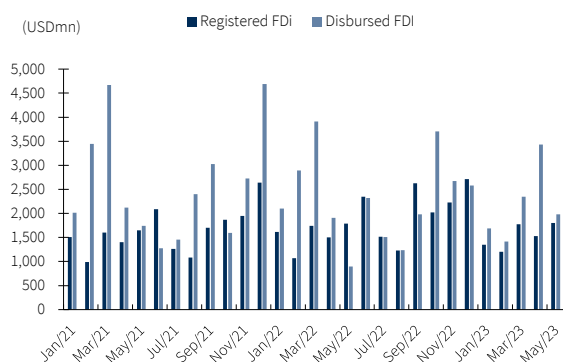
IPs	Location	IDC's ownership	Total site area (ha)	Leasable area (ha)	Remaining leasable area (ha)	Occupancy rate	Rental price (USD/m ² /term)	Status
Fully-occupied projects			1,270.8	948.9				
Kim Hoa	Vinh Phuc	100%	50.0	45.9		100%		
My Xuan B1	Ba Ria- Vung Tau	51%	227.1	160.4		100%		
My Xuan A	Ba Ria- Vung Tau	100%	302.4	229.3		100%		
Nhon Trach I	Dong Nai	100%	381.9	284.1		100%		
Nhon Trach V	Dong Nai	100%	309.4	229.2		100%		
Ongoing projects			1,996.2	1,392.1	751.5			
Cau Nghin								Approved to convert agricultural land into industrial land, with 80 ha cleared and compensated for
Huu Thanh	Thai Binh	100%	183.9	102.8	94.3	8.3%	65	Cleared 97% of the area
Phu My 2	Long An	100%	524.1	395.4	334.0	15.5%	140	
Phu My 2 expansion	Ba Ria- Vung Tau	100%	620.6	443.3	118.8	73.2%	125	Cleared and leveled 90% of the area
Que Vo 2	Ba Ria- Vung Tau	100%	398.1	273.2	118.0	56.8%	125	
Tan Phuoc	Bac Ninh	51%	269.5	177.4	86.4	51.3%	115	
	Tien Giang	65%	470.0	329	0.0	0.0%		Investment approval expected in 2H23

Source: IDICO Corporation, KB Securities Vietnam

IDC's IP sales should reach 90 ha (-32% YoY) for 2023

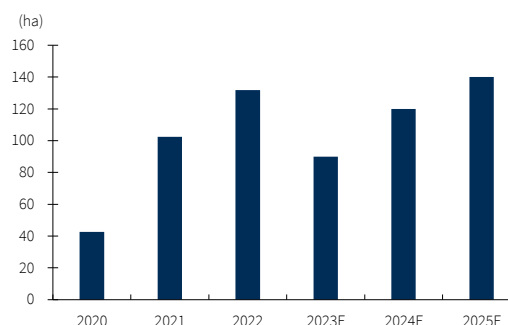
During January–May, the total newly registered FDI, adjusted and contributed FDI to buy stakes neared USD10.9 billion (-7.3% YoY). We believe FDI inflows into Vietnam were affected by (1) growing recession fears can make foreign investors more cautious in investment and production expansion plans and (2) adopting a global minimum tax of 15% from 2024 can undermine Vietnam's preferential policies to attract FDI. Therefore, for 2023, we estimate IDC's IP sales to reach 90 ha (-32% YoY).

Fig 5. Vietnam – Foreign direct investment (USDmn)



Source: Ministry of Planning & Investment

Fig 6. IDC – IP sales (ha)



Source: IDICO Corporation, KB Securities Vietnam

IDC has been aggressively expanding its land bank to ensure long-term growth

Regarding the expansion plan, in the northern region, besides two projects in Bac Ninh and Thai Binh, IDC will seek land banks in other provinces such as Hai Phong, Hung Yen, Ha Nam, Ninh Binh with an estimated size of 1,000–1,200 ha. In the southern region, IDC expects an additional 1,000–1,500 ha of leasable area. IDC is waiting for an investment approval for the Tan Phuoc IP (470 ha) in Tien Giang province in the second half of 2023. We expect this project to bring sales contracts to IDC and contribute to overall revenue from 2025.

BOT segment brings ~VND300–420 billion in annual revenue for IDC

IDC operates two BOT projects:

- National Highway 1A BOT project, An Suong – An Lac (HCMC)
- National Highway 51 BOT project – Expansion project (Dong Nai, Ba Ria – Vung Tau)

National Highway 51 BOT project – Expansion project stopped toll collection from January 13, 2023. In 2022, IDC lost VND124 billion at the associated company Bien Hoa – Vung Tau Expressway Investment and Development JSC (BVEC). KBSV estimates that toll collection will bring in stable revenue of about VND300–420 billion annually for IDC, equivalent to a gross profit margin of 45–55%.

We expect the energy segment to generate more than VND3,000 billion (+5% YoY) in revenue

IDC is running two hydropower plants, Dak Mi 3 (63 MW) and Srok Phu Mieng (51 MW). In 2022, hydropower plants provided 369 million kWh (+43%YoY) thanks to favorable hydrological conditions, and Dak Mi 3 hydropower plant resumed operation in October after suspension due to power outages caused by flooding.

Power transmission and distribution in Nhon Trach 1.5 and Huu Thanh IP brings a stable annual income of about VND2,500–2,700 billion for IDC. Power distribution throughout 2022 reached 1,499 million kWh (+3.2% YoY), generating more than VND2,500 billion in revenue.

KBSV estimates IDC's hydropower output at 380 million kWh for 2023F, a slight increase of 3% YoY due to unfavorable weather conditions, contributing nearly VND400 billion to overall revenue. Meanwhile, electricity trading is expected to contribute about VND2,623 billion to total revenue in 2023.

Fig 7. IDC – Hydropower projects

Hydropower plants	Location	Capacity	Total investment (VNDbn)	Construction	Commercial operation	IDC's ownership	Median output	Median revenue
Srok Phu Mieng	Binh Phuoc	51MW	1,048	2003	2006	51%	228 million kWh	VND230 bn
Dak Mi 3	Quang Nam	63MW	1,626	2013	2017	100%	212 million kWh	VND180 bn

Source: IDICO Corporation, KB Securities Vietnam

Fig 8. IDC – Residential projects

Projects	Location	Developers	IDC's ownership	Total site area (m ²)	Scale	Status
Completed projects						
Tan Phu IDICO apartment	HCMC	IDC	100%	11,980	3 blocks with 741 apartments	Delivered
Ward 6 Tan An	Long An	LAI	51%	30,500		
334 Social housing (Conac Tower)	Ba Ria-Vung Tau	ICN	51%	409	24 apartments	Delivered
Ongoing projects						
Central residential expansion area – Commercial land	Long An Dong Nai	LAI	51%	30,500	28,786 m ² of commercial and service and public land	Transferred 2.1ha to Aeon
Nhon Trach worker housing 1	Dong Nai	IDICO – URBIZ	100%	100,284	Completed 11 blocks, currently investing 17 blocks to sell the rest	Amending development plan to 25 floors from 9 floors
Nhon Trach worker housing 2	Long An	IDICO – URBIZ	100%	100,000	6,434 m ² , 74 townhouses	Received land handover
Huu Thanh worker housing	Dong Nai	LAI	100%	470,939	28,341 m ² , 12 blocks with 1,888 apartments	Received land handover phase 1 of 334,456m ²
Nhon Trach residential area 1 and Hiep Phuoc residential area	Dong Nai	UIC	100%	48,676	Cleared and compensated 403,905 m ² 21,851 m ² hasn't been cleared	Received land handover phase 1 of 334,456m ²
An Hoa housing	Dong Nai	IDICO – URBIZ	100%	38,883	Total residential area: 39,179m ²	Working on legal procedures
Hoa An national highway 1K residential area	Ba Ria-Vung Tau	UIC	66.93%	70,350	Completed nearly 50 low-rise apartments	Amending development plan
Hotel-condotel complex Thuy Duong	Ba Ria-Vung Tau	ICN	51%	7,077	Remaining construction land: Lot A villa 2,507 m ² and Lot G residential area 5,913 m ²	Amending development plan
CONAC Plaza	Ba Ria-Vung Tau	ICN	51%	8,137	276 low-rise apartments, four 5-floor blocks with 252 apartments, three 12-floor blocks	Completed two 5-floor blocks and 253 low-rise apartments
Bac Chau Giang residential area	Ha Nam	ICN	51%	56,527	Completed two 5-floor blocks and 253 low-rise apartments	Remaining business land: 22,965 m ² , including 5 blocks and 23 low-rise apartments

Source: IDICO Corporation, KB Securities Vietnam

*Note: Subsidiaries IDC include

- IDICO – LINCO: IDICO Long An Investment Construction (UPCOM: LAI)
- IDICO – CONAC: IDICO Investment Construction Oil and Natural Gas (UPCOM: ICN)
- IDICO – UDICO: IDICO Urban & House Development (HSX: UIC)
- IDICO – URBIZ: IDICO Industrial Park and Urban Development

Forecast & Valuation

Fig 9. IDC – 2022A–2023F business results

(VNDbn)	2022A	2023F	%YoY	Notes
Net revenue	7,485	7,887	5%	
IP sales	3,322	3,200	-4%	KBSV expects IDC's one-off IP land sales at 105 ha, coming from Huu Thanh, Phu My 2, and Phu My 2 expansion, most of which are contracts signed in 2022. In 2023, IDC does not record unearned revenue from fully occupied IPs due to ineligibility.
Energy segment	2,878	3,017	5%	Power output is forecast to increase by 3%YoY.
BOT	421	429	2%	Revenue comes from the An Suong – An Lac BOT project.
Others	86	440	412%	Revenue comes from the transfer of 2.2ha of commercial and service land at residential area in Ward 6, Tan An, Long An to Aeon.
Gross profit	3,060	3,075	0%	
Gross profit margin	41%	39%	-2 pp	
Financial income	144	152	5%	
Financial expenses	-186	-224	21%	
SG&A	334	415	24%	
% SG&A/revenue	4%	5%	+1 pp	
Operating income	2,561	2,587	1%	
Profit before tax (PBT)	2,618	2,645	1%	
NPAT	2,055	2,114	3%	
NPAT of parent company	1,768	1,890	7%	

Source: IDICO Corporation, KB Securities Vietnam

We recommend BUY for IDC with a target price of VND48,200/share

By using sum-of-the-parts (SOTP) approach, we value IDC at VND48,200 per share, 19% higher (plus dividend yield) than the closing price on June 22, 2023.

- IP segment: Considering the remaining leasable area, we value IDC's IP segment using the revalued net asset value (RNAV) method. We apply a 10% discount on the estimated value, given potential risks arising from slower-than-expected development progress and IP land sales.
- Residential segment: We value IDC's residential projects using the RNAV method. We only include projects with detailed implementation plans in our valuation and forecasts.
- Energy segment: We use the P/E comparable method for the hydropower and electricity trading sub-segments, with respective target P/E ratios of 8x and 10x.
- BOT segment: We use the discounted cash flow (DCF) method for the National Highway 1A BOT project.

We are upbeat about IDC thanks to (1) large IP land bank and years of experience in IP investment and development. We expect ongoing IP projects such as Huu Thanh, Phu My 2 and Phu My 2 expansion in key industrial provinces to be fully occupied in the coming years with great price appreciation potential, helping to improve margins, (2) attractive dividend yield, and (3) stable cash flow from energy and BOT segments. Based on business outlook and valuation results, we recommend BUY for IDC.

Fig 10. IDC – Valuation result

	Valuation method	Target	Value (VNDbn)	IDC's ownership	Attributed value to IDC (VNDbn)
IP segment		10% discount	18,245		14,207
Cau Nghin	DCF		1,235	100%	1,235
Huu Thanh	DCF		6,774	100%	6,774
Phu My 2	DCF		3,003	100%	3,003
Phu My 2 expansion	DCF		938	100%	938
Que Vo 2	DCF		1,831	51%	934
Tan Phuoc	DCF		4,464	65%	2,902
Residential segment	DCF		2,465	67–100%	2,465
Energy segment	P/E	8–10x	1,033	51–100%	1,023
BOT	DCF		952	58%	552
Equity value					18,247
+ Cash & cash equivalents					1,350
– Net debts					3,690
NAV					15,907
Outstanding shares					330,000,000
Share price (VND)					48,200
Upside (vs. closing price on June 22, 2023)					10%
Dividend yield					9%
Total shareholder return					19%

Source: KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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