

Nam Long Group (NLG)

Maintain positive results in 2Q2022

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Senior Analyst Pham Hoang Bao Nga
ngaphb@kbsec.com.vn

NLG recorded positive results in the second quarter of 2022

In the first half of 2022, Nam Long Group (NLG) posted revenue of VND8,410 billion (+87% YoY). It was primarily thanks to high absorption rates of 70% at Mizuki Park, Akari City, Izumi City, Southgate, and Nam Long Can Tho. Notably, the company sold out all products at the two projects Izumi City and Nam Long Can Tho.

NLG expects to achieve impressive results in 2H2022

Entering 2H2022, NLG would continue promoting sales at Mizuki, Akari City (phase 2), Southgate, Nam Long Can Tho, and Izumi City and expects to achieve VND11,530 billion in sales revenue. Furthermore, the enterprise plans to launch the Paragon Dai Phuoc project with more than 200 products available for sale with an estimated contract value of over VND4,300 billion.

Business results should maintain growth momentum in the coming years

Business results should maintain growth momentum in the years to come. In 2022, NLG may record an additional VND350 billion in earnings from transferring a 50% stake at Paragon Dai Phuoc One Member LLC to its strategic Japanese investor NNR. We estimate NLG's NPAT and revenue in 2022 at VND1,247 billion (+16% YoY) and VND5,893 billion (+13% YoY), respectively. For 2023, those figures should be VND1,552 billion (+24% YoY) and VND6,461 billion (+10% YoY).

We recommend BUY for NLG stocks with a target price of VND61,500

Based on the business outlook and valuation results, we recommend BUY for NLG stocks with a target price of VND61,500/share, 42% higher than the closing price on August 15, 2022.

Buy maintain

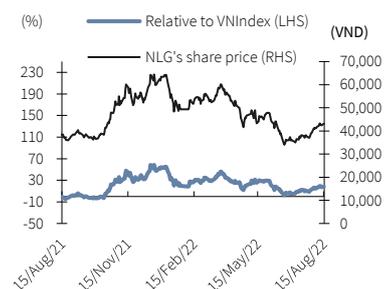
Target price	VND61,500
Upside/Downside	42%
Current price (Aug 15, 2022)	VND43,200
Consensus target price	VND56,800
Market cap (VNDbn/USDmn)	16.5/0.7

Trading data	
Free float	54.6%
3M avg trading value	84.9/3.7
Foreign ownership	9.2%
Major shareholder	Nguyen Xuan Quang (11.87%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	14	-2	-18	12
Relative	6	-11	-3	-30

Forecast earnings & valuation

Fy-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	2,217	5,206	5,893	6,461
Earnings/Loss (VNDbn)	1,002	1,205	2,213	2,050
NPAT of parent company (VNDbn)	835	1,071	1,247	1,552
EPS (VND)	2,780	2,686	3,256	4,053
EPS growth (%)	-21	-3	21	24
P/E (x)	16.98	17.57	14.76	11.86
P/B (x)	2.40	2.02	1.21	1.11
ROE (%)	15	11	12	13
Dividend yield (%)	2	1	1	



Source: Bloomberg, KB Securities Vietnam

Business performance

Business results in the second quarter of 2022 grew strongly from the 2Q21 low

Net revenue reached VND1,241 billion (+208% YoY) in the second quarter of 2022, most of which came from the handover of 90 Flora apartments at Akari City (VND320 billion) and 139 Valora apartments at Southgate (VND774 billion). Gross profit margin hit 45%, up 16ppts YoY thanks to sales of low-rise apartments at the Southgate project with high profit margin. NPAT of the parent company was VND111 billion (+136% YoY). Thus, over the first six months, NLG recorded NPAT of the parent company at VND111 billion (-73% YoY) on net revenue of VND1,828 billion (+187% YoY), delivering 9% and 26% of the 2022F targets for earnings and revenue, respectively.

Table 1. NLG – 2Q21-2Q22 business results

(VND bn)	2Q2022	2Q2021	%YoY
Net sales	1,241	401	209%
- Sales of land, apartments, townhouses, villas	1,145	24	1137%
Akari City	320		
Valora Southgate	744		
- Construction	6	161	-96%
- Inventory property sales	84	59	42%
- Other	6	157	-96%
Gross profit	561	116	384%
Financial income	26	9	189%
Financial expenses	42	21	100%
Associates	3	63	-95%
Selling expense	158	16	888%
G&A expenses	150	103	46%
NPAT	240	47	
Other profit	2	1	300%
PAT	242	48	404%
PBT	192	48	300%
NPAT of the parent company	111	47	136%

Source: Nam Long Group, KB Securities Vietnam

Sales revenue continued to record positive results in the second quarter of 2022

After recording sales of VND5,895 billion (nearly equaling 2021's) in the first four months, NLG continued to post encouraging results with revenue of VND2,515 billion in May and June. In the first six months of the year, sales revenue reached VND8,410 billion (+87% YoY), with the main contributions from Mizuki Park (VND2,813 billion), Akari City (VND1,999 billion), Izumi City (VND1,929 billion), Southgate (VND1,553 billion) and Nam Long Can Tho (VND116 billion). All these projects were opened for sale in the second quarter and recorded high absorption rates of 70%. Notably, NLG sold out all products at the two projects Izumi City and Nam Long Can Tho. 6M22 sales revenue reached 56% of our projection and 35% of NLG's business plan.

NLG expects to achieve impressive results in 2H2022

Entering 2H2022, NLG plans to reopen for sale 3,100 apartments at the above five projects with a total contract value of VND11,530 billion. Also, the company would launch more than 200 products at Paragon Dai Phuoc with an estimated contract value of over VND4,300 billion.

However, we take a cautious stance on the outlook of the real estate sector, considering the tight control over real estate credit and legal problems. We keep our forecast for sales revenue unchanged from the previous anticipation at VND15,089 billion (+71%YoY), 38% lower than NLG's target plan since we do not cover Nam Long Hai Phong and Paragon Dai Phuoc in the valuation.

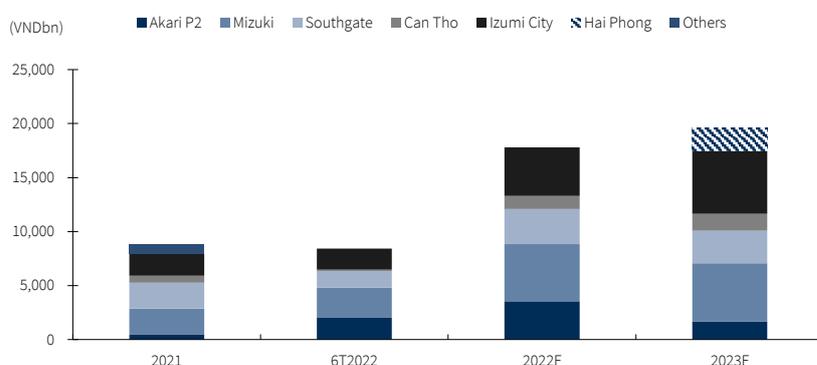
NLG may record more than VND350 billion in profit from divestment in 2H2022

Due to the inspection of real estate activities in Dong Nai, NLG could not record VND350 billion in profit after divesting from Paragon Dai Phuoc One Member LLC in 1H2022. However, as shared by the management, the company may recognize this amount after completing all necessary legal procedures.

NLG successfully mobilized capital in the context of the Government's strict supervision of bond issuance

In April 2022, NLG successfully issued VND1,000 billion worth of bonds (it was VND500 billion for the first tranche) to International Finance Corporation (IFC). Those bonds have a term of 7 years with a fixed rate of 9.35%/year, secured by NLG shares at Nam Long VCD JSC and NNH Mizuki JSC. The proceeds are to finance the Waterpoint project in Phase 2.

Fig 2. NLG – Sales revenue (VNDbn)



Source: Nam Long Group, KB Securities Vietnam

Img 3. NLG – Mizuki Park

The project covers an area of 26 ha in Binh Chanh District, Ho Chi Minh City with more than 4,000 products.

- Phase 1: NLG handed over 1,400 Flora MP 1-5 apartments
- Phase 2:
 - NLG opened for sale MP 6, 7, 8 in April 2021 and MP 9, 10 in 4Q2021.
 - NLG opened for sale Mizuki Panorama in April 2022. As of April 20, 2022, NLG had sold 235/416 units.
 - NLG plans to open for sale another 186 products in the second half of 2022.



Source: Nam Long Group, KB Securities Vietnam

Img 4. NLG – Waterpoint

The project covers an area of 165 ha in Ben Luc, Long An.

- Phase 1: NLG opened for sale low-rise products at Rivera 1 and The Aqua in 4Q2019 (handover completed).
- Phase 2:
 - NLG opened for sale Rivera 2, Aquaria 2 and Ehome Southgate.
 - NLG plans to launch 383 products at Ehome Southgate and apartments at Grand Villa.



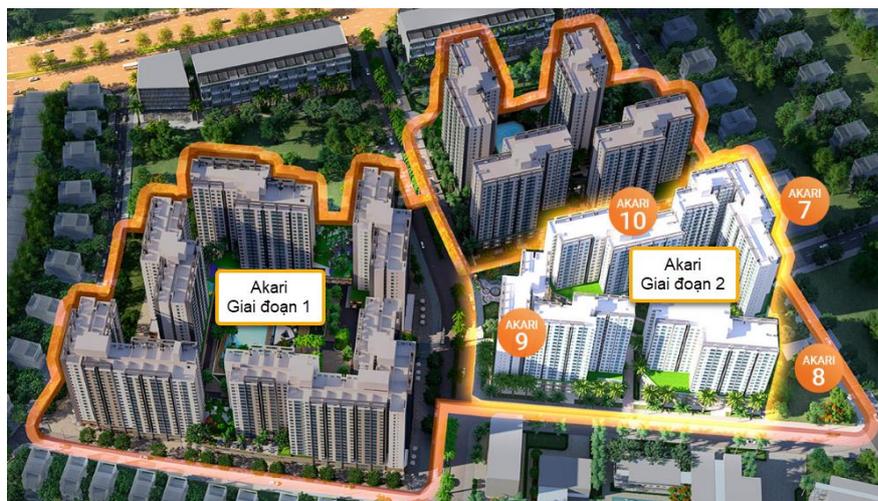
Source: Nam Long Group, KB Securities Vietnam

Img 5. NLG – Akari City

The project covers an area of 8.5 ha in Binh Tan District, Ho Chi Minh City.

- Phase 1: NLG sold out and handed over 1,800 products.
- Phase 2: NLG opened for sale block AK 7.8 on March 19, 2022 with an absorption rate of more than 70%.

The average selling price in phase 2 is about VND48 million/m².



Source: Nam Long Group, KB Securities Vietnam

Img 6. NLG – Imuzi City

The project covers an area of 170 ha in Dong Nai.

- NLG first introduced the project in 4Q2021 with nearly 300 products booked.
- By the end of 2Q2022, NLG had sold about 275 products.
- NLG plans to open for sale 514 products in 2H2022.



Source: Nam Long Group, KB Securities Vietnam

Forecast

2022F business results

We keep our estimates unchanged for 2022F business results as follows:

- Revenue may reach VND5,893 billion (+13% YoY). The gains primarily come from inventory property sales at VND5,189 billion (+16% YoY), thanks to the handover of Akari City (VND1,360 billion) and Southgate (VND2,771 billion) projects.
- Gross profit is VND2,558 billion (+44% YoY). The gross profit margin is 43% vs. 34% in 2021, thanks to the handover of low-rise apartments/villas at the Southgate and Can Tho projects with high profit margins.
- Financial income should be from VND350 billion in profit after divesting from Paragon Dai Phuoc.
- NPAT of the parent company should be VND1,247 billion (+19% YoY).

2023F business results

Our forecast for NLG's business results in 2023 is as follows:

- Revenue may reach VND6,461 billion (+10% YoY). The gains primarily come from inventory property sales at VND5,674 billion (+9% YoY) thanks to the handover of Izumi City, Southgate, and Nam Long Can Tho projects.
- Profit from joint ventures and associates should be VND577 billion from delivering the Mizuki project.
- Gross profit is VND3,076 billion (+20% YoY). The gross profit margin is 48%, thanks to the high profit margin of low-rise products.
- NPAT of the parent company should be VND1,552 billion (+24% YoY).

Table 7. NLG – Target price according to DCF method

Project	2022F	2023F
Akari	1,360	-
Southgate	2,771	2,507
Nam Long Can Tho 43ha	1,058	1,547
Izumi City	-	1,620
Total	5,189	5,674

Source: KB Securities Vietnam

Table 8. NLG – Target price according to DCF method

(VND bn)	2022F	+/-% YoY	2023F	+/-% YoY
Net revenue	5,893	13%	6,461	10%
- Inventory property sales	5,189	16%	5,674	9%
- Real estate services	317	13%	348	10%
- Construction	369	13%	405	10%
Gross profit	2,558	44%	3,076	20%
Financial income	468	5%	194	-59%
Associates	-	-	577	-
NPAT	2,213	35%	2,627	19%
NPAT of the parent company	1,247	16%	1,552	24%

Source: KB Securities Vietnam

Valuation

We recommend BUY for NLG stocks with a target price of VND61,500/share

Based on the RNAV (Revalued Net Asset Value) valuation method (Table 6) and business outlook, we recommend BUY for NLG stocks with a target price of VND61,500/share, 45% higher than the closing price on August 15, 2022. The change in the target price compared to the previous projection is mainly due to changes in cash flow and net debt at the end of 2Q2022.

We are upbeat about NLG's prospects given the high absorption rates of opened-for-sale projects. Positive sales results help improve the company's cash flow to finance ongoing projects, ensuring growth in the coming years. We also expect the profit margin of projects to improve further thanks to selling price rallies amid limited supply and stable demand.

Table 9. NLG – Target price according to DCF method

Project	Valuation method	Value
Waterpoint 1	DCF	4,569,795
Waterpoint 2	DCF	3,183,597
Mizuki	DCF	2,514,368
Akari City	DCF	2,508,407
Nam Long Dai Phuoc	DCF	3,049,532
Waterfront	DCF	4,193,149
Nam Long Hai Phong	DCF	1,466,107
Nam Long Can Tho	DCF	2,617,931
Other projects	Book value	196,000
		24,298,885
+ Cash		3,715,458
- Net debt		4,440,994
RNAV		23,573,349
Outstanding shares		382,940,313
Target price (VND)		61,500

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information Technology
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Real Estate, Construction & Materials
ngaphb@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Retails & Consumers
dunglnt@kbsec.com.vn

Tieu Phan Thanh Quang
Analyst – Oil & Gas, Utilities
quangtpt@kbsec.com.vn

Nguyen Duc Huy
Analyst – Banks, Insurance & Securities
huynd1@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy, Chemicals
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy, Fishery & Textiles
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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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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