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3Q sales show signs of slowing down

In 3Q22, Nam Long Investment (NLG) sold 450 apartments with a contract value of VND1,512 billion, of which VND860 billion is from Akari City and VND652 billion from Southgate project. The value is much lower than the plan of VND3,700 billion set by the company.

Accumulated 9M22 sales reached VND9,922 billion, up 95% YoY thanks to the sale of Mizuki Park, Akari City, Izumi City, Southgate and Can Tho projects.

NLG should focus on the presale of existing projects

For 4Q, NLG expects to start presale for existing projects like Mizuki Park, Akari City and Southgate. The launch of Izumi City, Can Tho and Paragon Dai Phuoc projects should be pushed back to 2023. We reduce the estimated total sales by 22% compared to the previous report to VND11,915 billion (+75% YoY), based on the presale plan.

KBSV lowers NLG's 2022F and 2023F NPAT

We lower our forecast for NLG's NPAT in 2022 and 2023 to VND569 billion (-47% YoY) and VND864 billion (+52% YoY) respectively due to lower-than-expected 9M22 business results and concerns about the difficulties of the real estate market.

BUY recommendation with a target price of VND39,300/share

Considering NLG's business outlook and valuation results, we recommend BUY for NLG stocks with a target price of VND39,300/share, 47% higher than the closing price on November 28, 2022.

Buy maintain

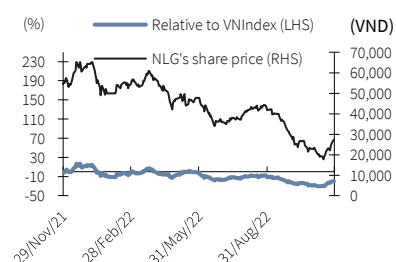
Target price	VND39,300
Upside/Downside	47%
Current price (Nov 28, 2022)	VND26,750
Consensus target price	VND51,200
Market cap (VNDbn/USDmn)	10.5/0.4

Trading data	
Free float	60.6%
3M avg trading value	83.6/3.5
Foreign ownership	6.5%
Major shareholder	Mr Nguyen Xuan Quang (11.83%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	19	-38	-43	-51
Relative	21	-17	-21	-19

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 (%)	13	11	12	13
Dividend yield (%)	2	1	1	



3Q22 update performance

Business results in the third quarter of 2022 increased sharply compared to the low base of the same period

3Q net revenue was VND882 billion (+208% YoY), the majority of which came from sales of real estate properties (VND826 billion, up sharply from VND3 billion in 2021). During the quarter, NLG handed over 55 Flora apartments at Akari City project, 39 Valora apartments at Southgate project and 252 Ehome Southgate apartments with recorded revenue of VND191 billion, VND364 billion, and VND263 billion respectively.

Accordingly, selling expenses also surged to VND107 billion, 10 times higher than the same period in 2021. G&A expenses rose 25%YoY to VND160 billion. The sharp increase in expenses affects the net profit of the business.

NPAT of the parent company reached VND8 billion (-97% YoY), plunging from the same period last year as NLG recorded VND362 billion in 3Q21 profit after the consolidated asset revaluation of Southgate JSC.

9M revenue hit VND2,710 billion (+244% YoY) and NPAT of the parent company reached VND119 billion (-83% YoY). The results fulfill 38% and 10% of the company's full year targets, and achieve 46% and 10% of our forecast, respectively.

Table 1. NLG – 3Q22 business performance

(VNDbn)	3Q22	3Q21	% change	9M22	9M21	% change
Net sales	882	151	484%	2,710	787	244%
– Sales of land, apartments, townhouses, villas	826	3	27433%	2,545	72	3435%
Akari City	191			759		
Valora Southgate	364			1,389		
– Construction	12			24	272	-91%
– Inventory property sales	0	22	-100%		102	-100%
– Other	43	125	-66%	141	341	-59%
Gross profit	358	76	369%	1,170	233	402%
Financial income	29	372	-92%	79	388	-80%
Financial expenses	48	19	158%	129	61	111%
Associates		2	-100%	3	95	-97%
Selling expense	107	9	1102%	325	36	803%
G&A expenses	160	128	25%	444	358	24%
NPAT	72	293	-75%	353	261	35%
Other profit	7	1	500%	13	429	-97%
PAT	79	294	-73%	365	690	-47%
PBT	51	295	-83%	276	709	-61%
NPAT of the parent company	8	297	-97%	119	709	-83%

Source: Nam Long Investment, KB Securities Vietnam

Sales activity in showed signs of slowing down in 3Q

In 3Q22, Nam Long Investment (NLG) sold 450 apartments with a contract value of VND1,512 billion, of which VND860 billion is from Akari City and VND652 billion from Southgate project. The value is much lower than the plan of VND3,700 billion set by the company.

Accumulated 9M22 sales reached VND9,922 billion, up 95% YoY thanks to the sale of Izumi Park (VND2,813 billion), Akari City (VND 2,859 billion), Izumi City (VND1,929 billion), Southgate (VND2,205 billion), and Can Tho (VND116 billion). 9M results reached 66% of the estimate in our previous report and 42% of the NLG's 2022E business guidance (Table 2).

NLG changed the sale progress of some projects in 2H22

We maintain our cautious view as we are concerned that the difficulties of the real estate market related to credit control into real estate, legal issues and rising interest rates will continue to significantly affect real estate businesses in 4Q22 and 2023. We would pay special attention to the people's ability to access home loans and the uptrend of interest rates which may affect the demand to buy houses and the absorption rate of NLG's real estate products in the coming time.

As a result, we believe that NLG would continue to launch products at the existing projects, Mizuki Park, Akari City and Southgate. Meanwhile, the next sale at Izumi City and Can Tho projects and the plan to launch Paragon Dai Phuoc project in 4Q22 will be delayed to 2023.

We reduce the estimated total sales by 22% compared to the previous report to VND11,915 billion (+75% YoY), based on the presale plan. Our estimated sales value is equal to 51% of the business plan due to (1) the changes in the sale progress at two projects Izumi City and Can Tho and (2) the delay in the launch of Hai Phong and Paragon Dai Phuoc projects, which should be presold this year as mentioned our previous report.

VND350 billion from the divestment of Paragon project should be recorded in 4Q22

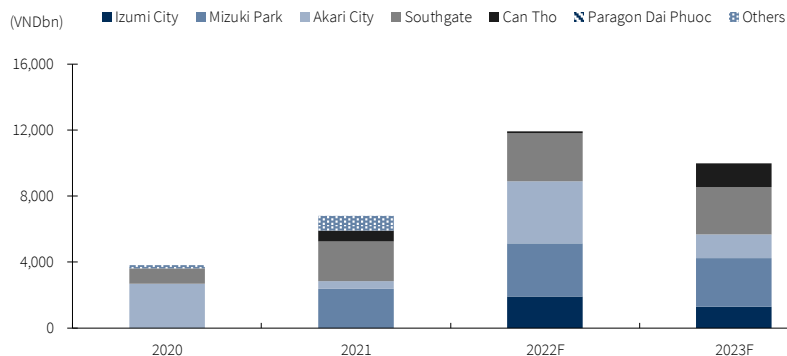
Due to the inspection on real estate in Dong Nai, the recognition of VND350 billion in profit from divestment of Paragon project continued to be delayed. NLG expects to complete the procedures for transferring shares of Paragon project and record this one-time income in 4Q this year.

Table 2. NLG – 9M22 sales at projects

	6M22		3Q22		9M22	
	Units	Value (VNDbn)	Units	Value (VNDbn)	Units	Value (VNDbn)
Izumi City	271	1,929			271	1,929
Mizuki Park	390	2,813			390	2,813
Akari City	605	1,999	262	860	867	2,859
Southgate	245	1,553	188	652	433	2,205
Can Tho	27	116			27	116
Total	1,538	8,410	450	1,512	1,988	9,922

Source: Nam Long Investment, KB Securities Vietnam

Fig 3. NLG – 2021–2023F sales (VNDbn)



Source: Nam Long Investment, KB Securities Vietnam

Fig 4. NLG – Mizuki Park

The project has an area of 26 ha, located in Binh Chanh, Ho Chi Minh City. It offers more than 4,000 products.

- Phase 1: Handed over 1,400 Flora MP 1–5 apartments.
- Phase 2:
 - Launched MP 6, 7, 8 in April 2021, topped out in August 2022. It should be completed and delivered in 1Q23.
 - Launched MP 9, 10 in 4Q21.
 - Launched Mizuki Panorama in April 2022. As of April 20, 2022, NLG sold 235/416 units. It is expected that in 2H22, about 186 units will be opened for sale.



Source: Nam Long Investment, KB Securities Vietnam

Fig 5. NLG – Waterpoint

The project has an area of 165ha, located in Ben Luc, Long An

- Phase 1: Launched Rivera 1 and The Aqua low-rise subdivisions from the fourth quarter of 2019 (handovered)
- Phase 2:
 - Launched Rivera 2, Aquaria 2 and Ehome Southgate
 - In August 2022, Ehome Southgate will be opened for sale (phase 2), and 100% of apartments were sold out in the first sale.



Source: Nam Long Investment, KB Securities Vietnam

Fig 6. NLG – Akari City

The project has an area of 8.5ha, located in Binh Tan, Ho Chi Minh City

- Phase 1: Sold out and handed over 1,800 products
- Phase 2: Launched block AK 7,8 on March 19, 2022 with an absorption rate of more than 70%.

By the end of September 2022, NLG sold 950/1690 units

The average price of phase 2 is about VND48 million/m²



Source: Nam Long Investment, KB Securities Vietnam

Fig 7. NLG – Izumi City

The project has an area of 170ha, located in Dong Nai

- Launched in 4Q21 with 270 products booked
- By the end of 2Q22, NLG sold 275 units
- The next sale should be in 2023



Source: Nam Long Investment, KB Securities Vietnam

2022–2023 forecast performance

2022

We lowered our forecast for NLG's 2022 and 2023F results due to lower-than-expected 9M22 performance and concerns over the industry difficulties.

- NLG's estimated revenue in 2022 is VND3,997 billion (-23% YoY), of which the sales of real estate properties should be VND3,665 billion (-18% YoY), coming from the delivery of the Akari City and Southgate (recently consolidated) with revenue of VND1,340 billion and VND2,324 billion respectively.
- Gross profit is estimated at VND1,817 billion (+2% YoY). GPM is 45%, improved from 34% in 2021 thanks to the handover of low-rise/villa products at Southgate project with high profit margin.
- Profit from financial activities should be VND350 billion, which mainly comes from divestment at Paragon Dai Phuoc project.
- NPAT attributable to the parent shareholder is expected to be VND569 billion (-47% YoY).

2023

- NLG's 202E revenue is VND3,450 billion (-14% YoY), of which Southgate and Can Tho projects should bring VND3,155 billion (+23% YoY)
- Profit from joint ventures and associates is forecast at VND361 billion, mainly coming from the handover of Mizuki Park project.
- Gross profit may reach VND1,858 billion (+39% YoY). Accordingly, GPM would be 54% thanks to good profit margin of low-rise products.
- NPAT of the parent company is estimated at VND864 billion (+52% YoY).

Table 8. NLG – 2022–2023F revenue from real estate projects (VNDbn)

Projects	2022	2023
Akari	1,340	-
Southgate	2,324	1,729
Can Tho 43ha	-	1,426
Izumi City	-	-
Mizuki Park	-	721
Others	200	-
Total	3,665	3,876

Source: KB Securities Vietnam estimates

Table 9. NLG – 2022–2023F business results

(VNDbn)	2022	+/-% YoY	2023	+/-% YoY
Net revenue	3,997	-23%	3,450	-14%
- Inventory property sales	3,665	-18%	3,155	-14%
- Real estate services	120	-57%	103	-14%
- Construction	200	-39%	172	-14%
Gross profit	1,817	2%	1,858	2%
Financial income	468	5%	103	-78%
Associates	-	-	361	-
NPAT	1,071	-35%	1,359	27%
NPAT of the parent company	569	-47%	864	52%

Source: KB Securities Vietnam estimates

Valuation

BUY recommendation with a target price of VND39,300/share, 47% higher than the closing price on November 28, 2022

Using the RNAV valuation method (Table 10), we set a target price for a NLG share at VND39,300, 47% higher than the closing price on November 28, 2022. The change in target price compared to the previous report is mainly due to (1) the change in cash and loan balance at the end of 3Q22, (2) adjustment of sales progress of ongoing projects, and (3) higher discount rate in line with interest rate increases.

Although NLG's business results in the first nine months of 2022 are significantly lower than expected, we still maintain a positive assessment of NLG stocks in the medium and long term. The company will be less affected by the difficulties of the real estate market than other developers thanks to its solid foundation and safe financial structure (3Q22 debt to assets ratio is 0.18x; sufficient cash and cash equivalents (VND3,902 billion, accounting for 15% of total assets), and good ability to implement projects. Positive sales results help NLG get cash flow to finance ongoing projects, boosting the growth of the business in the coming years.

NLG stocks witnessed a significant correction of 35% in the past two months. Based on the business outlook and valuation results, we recommend BUY for NLG stocks with a target price of VND39,300/share, 47% higher than the closing price on November 28, 2022.

Table 10. NLG – Valuation

Projects	Valuation method	Value
Waterpoint 1	DCF	2,222,301
Waterpoint 2	DCF	2,449,905
Mizuki	DCF	2,421,744
Akari City	DCF	1,704,061
Nam Long Dai Phuoc	DCF	1,140,510
Waterfront	DCF	3,150,547
Nam Long Hai Phong	DCF	793,602
Nam Long Can Tho	DCF	1,882,687
		15,765,358
+ Cash		3,902,425
- Net debt		4,595,520
RNAV		15,072,263
Outstanding shares		382,940,313
Target price (VND)		39,300

Source: KB Securities Vietnam

NLG – 2020A-2023F financials

Income Statement					Balance Sheet				
(VND billion)	2020	2021	2022F	2023F	(VND billion)	2020	2021	2022F	2023F
Net sales	2,217	5,206	3,997	3,450	CURRENT ASSETS	9,570	21,784	23,334	24,387
Cost of sales	-1,546	-3,427	-2,180	-1,592	Cash and cash equivalents	1,073	3,112	3,014	2,465
Gross Profit	671	1,778	1,817	1,858	Short-term investments	35	744	744	744
Financial income	727	445	468	103	Accounts receivable	2,228	1,934	2,229	2,855
Financial expenses	-103	-12	-205	-239	Inventories	6,069	15,490	16,792	17,713
of which: interest expenses	-53	-102	-187	-199	LONG-TERM ASSETS	4,073	1,833	2,142	2,286
Gain/(loss) from joint ventures (from 2015)	142	91	0	0	Long-term trade receivables	102	82	200	232
Selling expenses	-68	-416	-480	-345	Fixed assets	77	78	91	144
General and admin expenses	-367	-581	-529	-379	Investment properties	260	359	267	274
Operating profit/(loss)	1,002	1,205	1,071	998	Long-term incomplete assets	38	20	20	20
Other incomes	30	441	0	0	Long-term investments	3,262	873	873	873
Other expenses	-18	-6	0	0	TOTAL ASSETS	13,643	23,618	25,476	26,673
Net other income/(expenses)	13	435	0	0	LIABILITIES	6,922	10,090	11,038	11,951
Income from investments in other entities	0	0	0	361	Current liabilities	4,439	6,318	7,155	7,303
Net accounting profit/(loss) before tax	1,015	1,640	1,071	1,359	Trade accounts payable	390	585	436	249
Corporate income tax expenses	-165	-162	-162	-222	Advances from customers	2,098	2,463	3,197	3,036
Net profit/(loss) after tax	850	1,478	889	1,137	Short-term unrealized revenue	7	7	0	0
Minority interests	15	407	320	273	Short-term borrowings	932	1,293	1,399	1,380
Attributable to parent company	835	1,071	569	864	Long-term liabilities	2,483	3,772	3,882	3,892
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	757	285	285	285
					Long-term borrowings	1,525	2,315	2,678	2,587
					OWNER'S EQUITY	6,720	10,594	14,039	15,315
					Paid-in capital	2,853	3,829	3,829	3,829
					Share premium	989	2,643	2,643	2,643
					Undistributed earnings	2,132	2,444	3,013	3,877
					Minority interests	0	0	0	0
Margin ratio	2020	2021	2022F	2023F	Key ratios	2020	2021	2022F	2023F
Gross profit margin	41.9%	30.3%	34.2%	45.5%	Multiple				
EBITDA margin	26.0%	11.7%	15.6%	20.6%	P/E	17.0	17.6	18.0	11.9
EBIT margin	25.2%	10.7%	15.0%	20.2%	P/E diluted	15.8	16.6	0.0	0.0
Pre-tax profit margin	48.2%	45.8%	31.5%	26.8%	P/B	2.4	2.0	0.7	0.7
Operating profit margin	33.1%	45.2%	23.2%	26.8%	P/S	6.1	3.5	85.4	99.0
Net profit margin	39.6%	38.4%	28.4%	22.2%	P/Tangible Book	2.0	1.3	0.7	0.7
					P/Cash Flow	-12.1	14.0	-211	-27.7
					EV/EBITDA	57.3	22.9	18.6	5.7
					EV/EBIT	62.8	23.8	20.0	5.8
					Operating performance				
					ROE	12.92	10.58	6.20	7.34
					ROA	2.77	5.90	4.54	6.02
					ROIC	6.80	5.75	3.49	4.26
					Financial structure				
					Cash Ratio	0.2	0.5	0.4	0.3
					Quick Ratio	0.7	0.8	0.6	0.5
					Current Ratio	2.2	3.5	3.3	3.3
					LT Debt/Equity	0.2	0.2	0.2	0.2
					LT Debt/Total Assets	0.1	0.1	0.1	0.1
					Debt/Equity	0.7	0.5	0.1	0.1
					Debt/Total Assets	0.3	0.3	0.1	0.1
					ST Liabilities/Equity	0.7	0.5	0.5	0.5
					ST Liabilities/Total Assets	0.3	0.3	0.3	0.3
					Total Liabilities/Equity	1.0	0.8	0.8	0.7
					Total Liabilities/Total Assets	0.5	0.4	0.4	0.4
					Activity ratios				
					Account Receivable Turnover	4.2	7.8	5.8	6.2
					Inventory Turnover	0.3	0.3	0.1	0.1
					Account Payable Turnover	5.5	7.0	4.3	4.6

Source: Nam Long Investment, KB Securities Vietnam

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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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