

# Vinhomes (VHM)

On track to achieve full-year target

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## VHM upheld its leading position in the residential real estate market

Vinhomes (VHM) continued to uphold its leading position in the residential real estate segment targeting the mid- to high-end market throughout the 2016-3Q22 period. It owns 27% residential market share in Vietnam, leaving the follower 4% behind. VHM's large landbank covers an area of up to 168 million m<sup>2</sup>, helping to maintain earnings growth and market share in the years to come.

## VHM continued its sale at Vinhomes Ocean Park 2 – The Empire and launched Vinhomes Ocean Park 3 – The Crown

Between July and September, VHM sold 15,600 units (+164% YoY) with contracted sales of VND17.7 trillion (+33% YoY), including retail sales of low-rise products at The Empire and bulk sales of high-rise ones at The Empire and The Crown. On October 10, VHM introduced the first 1,000 units at The Crown to the market and recorded 800 deposits just after three days.

## The Empire is under construction as planned and may be handed over within 2022

Construction of The Empire is still on schedule, and about 45% out of 12,600 units should be handed over this year. We estimate NPAT of the parent company in 2022F and 2023F to be VND30,144 billion (-22% YoY) and VND32,835 billion (+9%YoY), respectively.

## We recommend BUY for VHM with a target price of VND82,800/share

Based on valuation results and business outlook, we reiterate our BUY recommendation for VHM stocks with a target price of VND82,800/share, 56% higher than the closing price on November 29, 2022.

**Buy** maintain

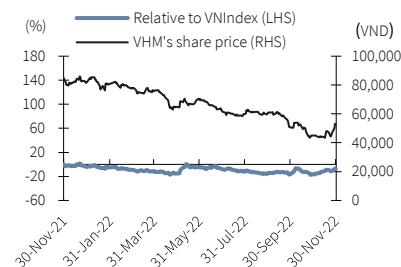
<b>Target price</b>	<b>VND82,800</b>
Upside/Downside	56%
Current price (Nov 29, 2022)	VND53,100
Consensus target price	VND82,600
Market cap (VNDtn/USDbn)	230.8/9.3

<b>Trading data</b>	
Free float	23.7%
3M avg trading value (VNDbn/USDmn)	147.1/6.0
Foreign ownership	26.6%
Major shareholder	Vingroup (VIC) (66.66%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	18	-11	-25	-37
<b>Relative</b>	16	7	-5	-8

### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	71,547	84,986	82,077	110,233
Operating income (VNDbn)	37,306	47,665	38,702	42,264
NPAT of the parent company (VNDbn)	27,351	38,825	30,144	32,835
EPS (VND)	8,166	8,916	6,923	7,541
EPS growth (%)	26	9	-22	9
P/E (x)	8.36	7.66	7.67	7.04
P/B (x)	2.67	2.38	1.37	1.12
ROE (%)	36	35	18	16
Dividend yield (%)	7	1	6	



Source: Bloomberg, KB Securities Vietnam

## Business performance

### 3Q22 NPAT expanded by 30%YoY on the delivery of The Empire and bulk sale transactions at The Empire and The Crown

VHM disclosed 3Q22 results with net revenue of VND17.8 trillion (-14%YoY), with inventory property sales touching VND14.3 trillion (-17%YoY). It primarily came from the handover of low-rise products at The Empire, which brought in VND13.2 trillion.

NPAT of the parent company increased substantially to VND14.5 trillion (+30% YoY) thanks to: (1) handing over The Empire and (2) VND8.9 trillion from bulk sales transactions of high-rise products at The Empire and The Crown recognized as financial income.

After the first nine months of the year, NPAT of the parent company was VND19.7 trillion (-27%YoY), delivering 64% of our 2022F earnings.

Gross profit in the third quarter of 2022 reached VND9.3 trillion, down 32%YoY. Gross profit margin went down to 52% (vs. 66% over the same period a year earlier), of which gross profit margin of inventory property sales narrowed from 77% in 3Q21 to 59% in 3Q22.

By the end of September 2022, VHM's net debt hit VND40,154 billion (+26% QoQ and +102% YoY) while cash and cash equivalents were VND14,743 (-51% QoQ and +206% YoY), given the accelerated construction and investment projects.

Table 1. VHM – 3Q22 results

(VND bn)	3Q2022	3Q2021	% YoY	9M2022	9M2021	% YoY
Net revenue	17,805	20,679	-14%	31,199	61,681	-49%
- Inventory property sales	14,344	17,340	-17%	22,463	52,663	-57%
Gross profit	9,296	13,648	-32%	15,182	34,309	-56%
Financial income	10,922	1,393	684%	15,658	4,252	268%
Financial expense	862	512	68%	2,040	1,651	24%
Selling expense	743	276	169%	1,420	1,287	10%
G&A expense	546	384	42%	2,056	1,304	58%
Net operating income	18,070	13,891	30%	25,349	34,373	-26%
Profit before tax	18,949	13,812	37%	26,194	34,342	-24%
NPAT of the parent company	14,494	11,167	30%	19,700	27,084	-27%

Source: Vinhomes, KB Securities Vietnam

### 3Q22 sales performed well thanks to The Empire and the launch of The Crown

3Q22 sales performed well with 15,600 products sold (+164% YoY), equivalent to a total contract value of VND17.7 trillion (+33% YoY), including retail sales of low-rise products at The Empire and bulk sales transactions of high-rise ones at The Empire and The Crown with contracted sales of VND11 trillion.

Between January and September, VHM sold 32,900 units (+52% YoY) with a total contract value of VND110.2 trillion (+169% YoY), fulfilling 92% of the company's full-year target and 94% of our projection. Unbilled bookings by the end of 3Q22 grew impressively to VND124.7 trillion (+162% YoY).

On October 10, VHM introduced the first 1,000 units at The Crown to the market and recorded 800 deposits just after three days. The initial selling price is about USD2,200/m<sup>2</sup> of site area. Entering the fourth quarter, VHM may open for sale Golden Avenue in Quang Ninh province, spanning 116 ha. However, we will include this project in VHM valuation later until further detailed information.

**Contracted sales for 2022 are estimated at VND128.5 trillion (+63% YoY)**

Given positive sales at The Empire and the launch of The Crown in 4Q22, we raise our 2022F contracted sales for VHM to VND128.5 trillion (+63% YoY), up 9% against the previous projection and 7% higher than VHM's 2022F target set at the start of the year (Figure 2). For 2023, the figure should be VND98.6 billion, down 23% YoY due to concerns over the adverse impacts of credit control over the property market as well as shrinking demand arising from possible interest rate hikes.

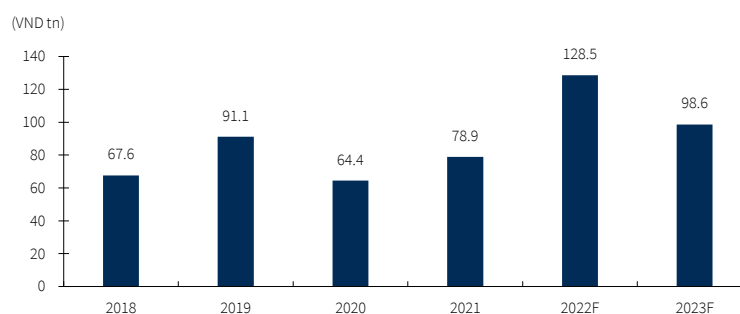
**VHM believes it will fulfill its 2022F plan**

VHM successfully launched The Empire Phase 1 (460 ha) in Hung Yen with 5,300 low-rise apartments in 2Q22 and achieved an absorption rate of 93% by the end of 3Q22. Thanks to the construction acceleration, VHM could deliver 1,300 low-rise apartments to customers as planned, largely at the Cha La subdivision. The company aims to hand over 45% of the total 12,600 low-rise units in 2022.

**VMI JSC launched its first product Fantasy Home**

In the third quarter, VMI Real Estate Investment and Management Joint Stock Company (VMI JSC) was established with a charter capital of VND18,000 billion, in which Mr. Pham Nhat Vuong owns a 90% stake and Vinhomes and Ms. Pham Thu Huong own the other 5%. VMI launched its super product Fantasy Home targeting individual investors who desire to invest in Vinhomes low-rise products. Accordingly, the first products VMI JSC will invest in are apartments at The Crown, then divide the value of the properties into 50 parts, enabling its customers to invest in each of these parts through a business cooperation contract. Customers then will be authorized for asset rights and enjoy profits from the asset rights equivalent to their investment ratios.

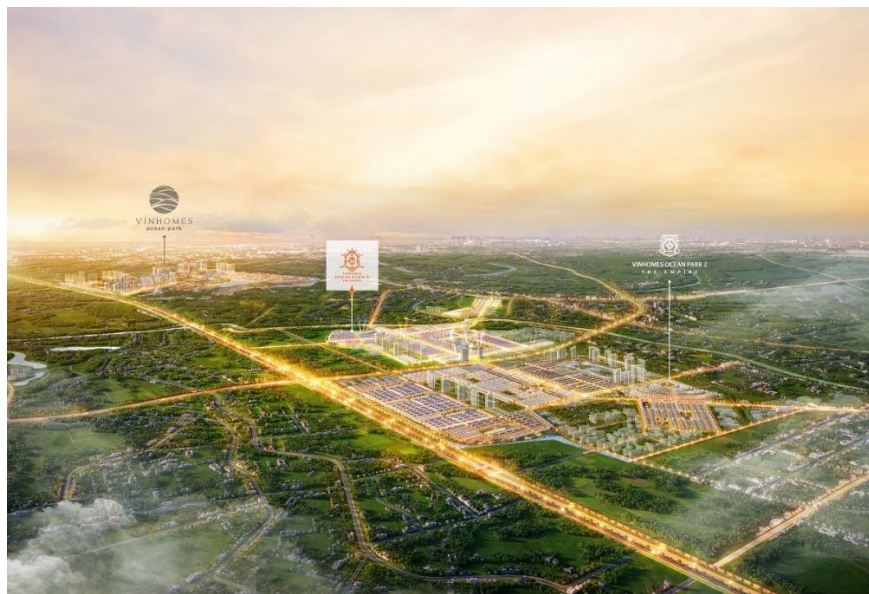
**Fig 2. VHM – Contracted sales (VNDtn)**



Source: KB Securities Vietnam

Vinhomes Ocean Park 3 – The Crown covers an area of 294 ha, located in Van Giang, Hung Yen.

### Img 3. VHM – Vinhomes Ocean Park



Source: Vinhomes

## Forecast & Valuation

### 2022F business results

We estimate VHM's 2022F revenue to reach VND82,077 billion (-3% YoY), mainly from Ocean Park, Smart City, Grand Park, and The Empire. Gross profit should be VND29,291 billion (-47% YoY), and gross profit margin is 36%.

Financial income is expected at VND16,942 billion (+112% YoY), with the contribution of bulk sales transactions at Grand Park, The Empire, and The Crown.

NPAT of the parent company is VND30,144 billion (-22% YoY).

### 2023F business results

We estimate VHM's 2023F revenue to be VND110,233 billion (+34% YoY). Gross profit should hit VND49,277 billion (+13% YoY), and gross profit margin is 45%.

NPAT of the parent company is VND32,835 billion (+9% YoY).

**Table 4. VHM – 2022–23F business results**

(VND bn)	2021A	2022F	+/-% YoY	2023F	+/-% YoY
Net revenue	84,986	82,077	-3%	110,233	34%
- Inventory property sales	67,309	71,718	7%	98,916	38%
Gross profit	54,772	29,291	-47%	49,277	68%
Financial income	7,995	16,942	112%	3,456	-80%
Profit before tax	48,183	38,609	-20%	42,113	9%
NPAT of the parent company	38,825	30,144	-22%	32,835	9%

Source: Vinhomes, KB Securities Vietnam

\*Our 2023F revenue for VHM is based on the assumption that the company will recognize bulk sales transactions as net revenue. Financial income comes from the business cooperation contracts (BCC) only.

### We recommend BUY for VHM stocks with a target price of VND82,800/share

We are upbeat about VHM's medium and long-term growth as: (1) VHM upheld its leading position with a large landbank of up to 168 million m<sup>2</sup> of site area and (2) Growth momentum comes from the previous projects and those about to be launched, namely The Crown, Wonder Park, and Co Loa, most of which are low-rise products with strong potential for upside.

Based on RNAV (revalued net asset value) valuation method, we maintain our BUY recommendation for VHM stocks with a new target price of 82,800/share, 56% higher than the closing price on November 29, 2022. We lower our target price compared to the previous report due to: (1) Changes in cash and cash equivalents and net debt by the end of 3Q22; (2) adjustments in sales progression and launching time of projects; and (3) discount rate rising in line with the uptrend of interest rates.

Table 5. VHM – DCF valuation

	Valuation method	Value
Real estate development	DCF	343,056,318
Leasing	DCF	8,373,550
Industrial parks	DCF	24,288,164
		<b>385,718,032</b>
+ Cash		14,743,348
- Net debt		40,152,428
<b>RNAV</b>		<b>360,308,952</b>
Outstanding shares		4,354,367,488
<b>Share price (VND)</b>		<b>82,800</b>

Source: KB Securities Vietnam

## VHM – 2020A–2023F financials

Income Statement					Balance Sheet				
(VND billion)	2020A	2021A	2022F	2023F	(VND billion)	2020A	2021A	2022F	2023F
<b>Net sales</b>	71,547	84,986	82,077	110,233	<b>TOTAL ASSETS</b>	215,326	230,516	308,132	348,081
Cost of sales	-45,611	-36,526	-52,786	-60,955	<b>CURRENT ASSETS</b>	102,312	94,437	117,101	153,499
<b>Gross Profit</b>	25,936	48,460	29,291	49,277	Cash and cash equivalents	13,714	4,626	11,581	8,204
Financial income	20,245	7,995	16,942	3,456	Short-term investments	2,054	4,979	4,979	4,979
Financial expenses	-4,019	-2,786	-2,921	-3,921	Accounts receivable	34,592	37,750	31,708	46,458
of which: interest expenses	-3,002	-2,348	-2,550	-3,328	Inventories	42,984	28,579	50,329	75,354
Gain/(loss) from joint ventures (from 2015)	19	54	0	0	<b>LONG-TERM ASSETS</b>	113,014	136,079	191,031	194,582
Selling expenses	-2,681	-2,289	-2,061	-3,026	Long-term trade receivables	11,084	14,955	12,809	17,202
General and admin expenses	-2,193	-3,769	-2,550	-3,523	Fixed assets	5,907	7,498	8,476	10,831
<b>Operating profit/(loss)</b>	37,306	47,665	38,702	42,264	Long-term incomplete assets	32,361	45,033	45,033	45,033
Other incomes	221	617	0	0	Long-term investments	9,756	10,940	10,940	10,940
Other expenses	-1,010	-99	0	0	Goodwill	0	0	0	0
Net other income/(expenses)	-789	518	-93	-151	<b>LIABILITIES</b>	4,704	6,922	9,114	11,936
Income from investments in other entities	0	0	0	0	<b>Current liabilities</b>	103,385	75,401	125,037	123,722
<b>Net accounting profit/(loss) before tax</b>	36,517	48,183	38,609	42,113	Trade accounts payable	11,401	12,507	11,387	14,165
Corporate income tax expenses	-8,310	-9,234	-7,915	-8,827	Advances from customers	26,969	8,865	44,805	35,837
<b>Net profit/(loss) after tax</b>	28,207	38,948	30,694	33,285	Short-term borrowings	10,988	251	16,415	22,487
Minority interests	855	124	550	450	Long-term liabilities	22,811	23,708	14,799	18,777
<b>Attributable to parent company</b>	27,351	38,825	30,144	32,835	Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	3,326	1,251	37	59
					Long-term borrowings	13,958	19,668	14,774	18,740
					<b>OWNER'S EQUITY</b>	6,200	10,594	14,039	15,315
<b>Margin ratio</b>					Paid-in capital	33,495	43,544	43,544	43,544
					Share premium	295	1,260	1,260	1,260
Gross profit margin	53.2%	36.3%	57.0%	35.7%	Undistributed earnings	56,259	79,413	116,250	153,087
EBITDA margin	45.7%	30.2%	51.2%	31.6%	Other funds	0	0	0	0
EBIT margin	45.0%	29.4%	49.9%	30.1%	Minority interests	0	0	0	0
Pre-tax profit margin	57.6%	51.0%	56.7%	47.0%					
Operating profit margin	57.6%	52.1%	56.1%	47.2%					
Net profit margin	47.1%	39.4%	45.8%	37.4%					
<b>Cash Flow Statement</b>					<b>Key ratios</b>				
(VND billion)	2020A	2021A	2022F	2023F		2020A	2021A	2022F	2023F
Net profit/(loss) before tax	36,517	48,183	38,609	42,113	<b>Multiple</b>				
Depreciation and amortisation	542	1,088	1,237	1,476	P/E	8.4	7.7	7.7	7.0
Profit/loss from investing activities	-20,213	-7,761	-3,881	-12,106	P/E diluted	8.4	7.7	0.0	0.0
Interest expense	3,002	2,348	-2,550	-3,328	P/B	2.7	2.4	1.4	1.1
<b>Operating profit/(loss) before changes in Working Capital</b>	20,787	44,371	33,193	28,115	P/S	3.2	3.5	2.8	2.1
(Increase)/decrease in receivables	5,598	-7,504	3,193	-3,543	P/Tangible Book	2.6	2.3	1.4	1.1
(Increase)/decrease in inventories	13,824	15,114	-21,750	-25,025	P/Cash Flow	9.2	17.4	58.1	-35.1
Increase/(decrease) in payables	-7,057	-21,599	-1,120	2,778	EV/EBITDA	11.1	7.2	10.0	6.2
(Increase)/decrease in prepaid expenses	411	797	930	3,239	EV/EBIT	11.4	7.4	10.5	6.4
<b>Net cash inflows/(outflows) from operating activities</b>	24,882	17,074	3,981	-6,591	<b>Operating performance</b>				
Purchases of fixed assets and other long term assets	-3,500	-17,898	-2,462	-3,307	ROE	35.56	35.21	18.24	16.19
Proceeds from disposal of fixed assets	430	46	0	0	ROA	22.45	31.76	14.59	20.97
Loans granted, purchases of debt instruments	-4,826	-16,805	0	0	ROIC	13.26	17.42	9.96	9.56
Collection of loans, proceeds from sales of debts instruments	16,411	12,838	0	0	<b>Financial structure</b>				
Investments in other entities	-53,488	-11,582	0	0	Cash Ratio	0.1	0.1	0.1	0.0
Proceeds from divestment in other entities	21,317	7,582	0	0	Quick Ratio	0.5	0.6	0.2	0.2
Dividends and interest received	1,235	3,823	0	0	Current Ratio	1.0	1.3	0.9	1.2
<b>Net cash inflows/(outflows) from investing activities</b>	-22,420	-21,996	-2,462	-3,307	LT Debt/Equity	0.2	0.2	0.1	0.1
Proceeds from issue of shares	62	6,515	0	0	LT Debt/Total Assets	0.1	0.1	0.0	0.1
Payments for share returns and repurchases	-848	0	0	0	Debt/Equity	1.2	0.6	0.1	0.1
Proceeds from borrowings	19,663	13,820	0	0	Debt/Total Assets	0.5	0.3	0.1	0.1
Repayment of borrowings	-20,740	-19,301	11,270	10,038	ST Liabilities/Equity	1.2	0.6	0.7	0.6
Finance lease principal payments	0	0	0	0	ST Liabilities/Total Assets	0.5	0.3	0.4	0.4
Dividends paid	-218	-5,199	-871	0	Total Liabilities/Equity	1.4	0.8	0.8	0.7
Interests, dividends, profits received	0	0	0	0	Total Liabilities/Total Assets	0.6	0.4	0.5	0.4
<b>Net cash inflows/(outflows) from financing activities</b>	-2,081	-4,165	10,400	10,038	<b>Activity ratios</b>				
Net increase in cash and cash equivalents	381	-9,088	11,918	140	Account Receivable Turnover	7.3	6.6	6.0	8.0
Cash and cash equivalents at the beginning of period	13,332	13,714	4,626	11,581	Inventory Turnover	0.9	1.0	1.3	1.0
Cash and cash equivalents at the end of period	13,714	4,626	16,544	11,720	Account Payable Turnover	5.2	3.1	4.4	4.8

Source: Vinhomes, 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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