

DAT XANH GROUP (DXG: HSX)



Investment – Construction – Services

FULL REPORT
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Close-loop business model creates competitive advantage and strong fundamental of the company.

Strong brokerage platform supports investment activities and secures healthy cash flow in DXG.

Available land capacity ensures the development of DXG in the next five years.

Good product orientation gains DXG many opportunities.

Profit from LDG projects can help DXG to achieve substantial revenue.

Risks are inherent.

HIGHLIGHTS OF INVESTMENT

DXG closed-loop business model supports business activities in operating flexibly and cooperating with each other. The company orientation focuses on project development, which will increase DXG business scale and profit.

With a nationwide brokerage network supported by numerous contribution channels, brokerage activities have brought DXG healthy cash flow, and secured the sales progress of DXG projects.

DXG have currently owned more than 1000ha of land capacity which mainly concentrated in HCM City. This is considered a great competitive advantage of DXG. Current available land capacity can secure the development of DXG projects and revenue in the next five years.

According to the medium-term plan, DXG will focus on developing mid-high end condo projects to ensure the product continuity. These are all high-demand products with high liquidity and demand for living because of (1) Large working aged population, increasing urbanization speed, and uptrend of the middle class in society (2) Condo supply constraints in HCM City (3) Gradually improved product quality.

In addition, DXG has owned 43.38% of LDG. LDG has owned 1000ha of land including Phu Quoc Grandworld project with impressive scale up to 85ha.

Investment risks

DXG may have to face some risks like many other real estate businesses, and risks from periodic moves of Vietnam land market.

Buy

Target price	33,660VND
Upside/Downside	35%
Current price (09/11/2018)	25,000VND
Target price	33,660VND
Market cap	8745.53 bn VND (375.28 mn USD)
Exchange rate on November 09, 2018: 1USD= 23,304 VND	

Forecasted revenue and valuation

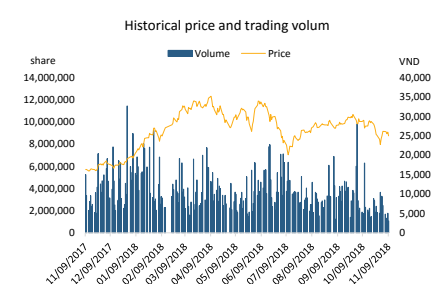
	2017A	2018F	2019F
Revenue (VND bn)	2879.2	4238	4642
Growth rate (%)	15%	47%	10%
Gross profit (tỷ VND)	1729.8	2202	2212
Gross profit margin (%)	60.1%	52%	48%
Net profit (VND bn)	1085.4	1228	1235.2
Growth rate (%)	172%	13%	1%
EPS(VND thousand)	2478	2808.3	2824.7
EPS	-4%	13%	1%

Trading data

Outstanding stock volume	349,821,356
Average trading volume in 10 sessions	2,139,347
% Foreign ownership	47.24%

% change

(%)	1M	3M	6M	12M
DXG	-13.3%	-8%	-17.8%	53%
VN-INDEX	-8%	-5%	-13%	6%



Source: Fiiipro, KBSV

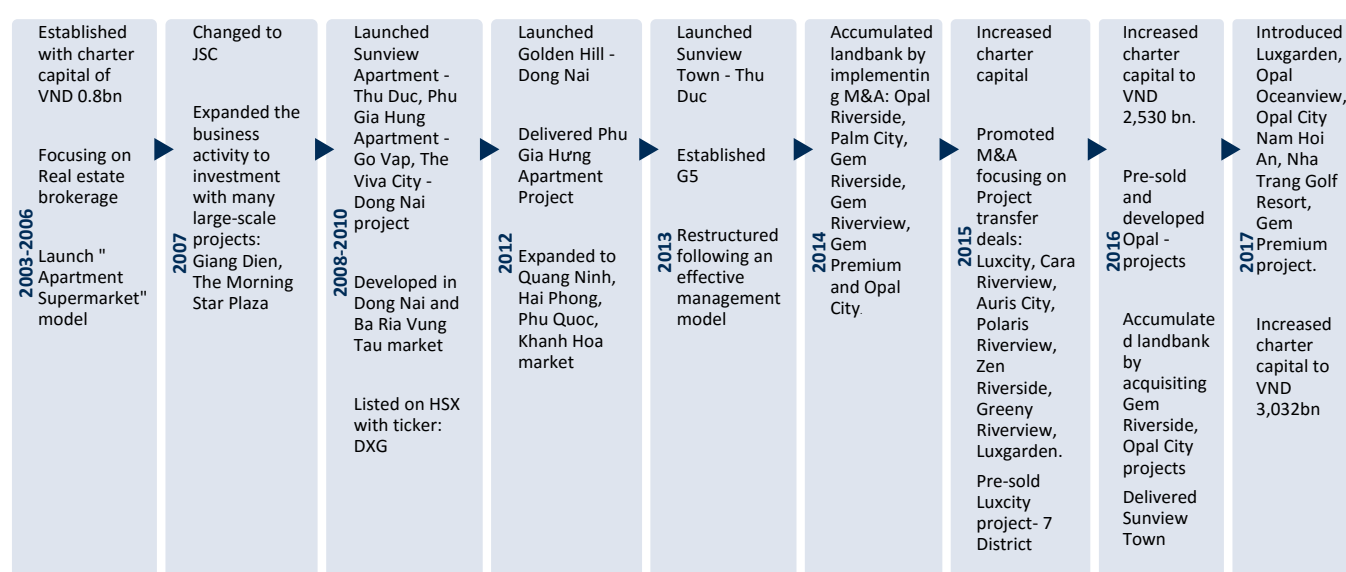
DAT XANH GROUP

OVERVIEW

COMPANY HISTORY

DXG has been established and developed based on closed-loop value chain “Investment – Construction – Services”, which creates competitive advantage and firm fundamentals. At the early stage, DXG specialized in real estate, but since 2007, the company has expanded its operation scope to develop projects with many large scale ones. DXG market concentrated in big cities such as Hanoi, Hai Phong, HCM City, Da Nang, Binh Duong, Dong Nai.

Table 1: DXG history of development



Source: DXG

BUSINESS AND OWNERSHIP STRUCTURE

By the end of September 30, 2018, Dat Xanh Group has 12 direct subsidiaries (Table 2) and 13 indirect ones (Table 3). To restructure real estate services, the company did transfer all of the shares in its subsidiaries to Dat Xanh Real Estate Service Corporation including Dat Xanh Mien Trung, Dat Xanh Mien Bac, Dat Xanh Mien Nam, Dat Xanh Dong Nam Bo and Dat Xanh Tay Nam Bo Real Estate Service and Construction Corporation.

DXG also has 2 affiliates which are LDG and Phu Lac – Phu Quoc Tourism Real Estate Limited Company with voting results of 43.38% and 29.5%.

Shareholder structure in DXG are getting more concentrated. At the moment, Foreign Investor Room is only 1.76%.

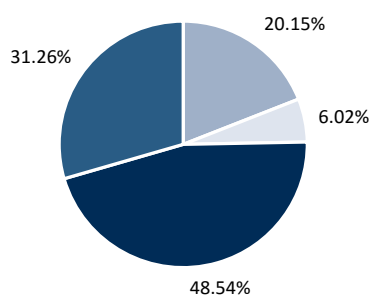
Table 2: Direct subsidiaries

Direct subsidiaries	Ownership rate (%)
Dat Xanh Hoi An Ltd	100
Saigon Riverside Investment Ltd	75
Thang Long Investment Petrol JSC	99.9
Nha Trang Investment Petrol JSC	90.83
Ha Thuan Hung Ltd	99.89
Dat Vien Dong Investment JSC	99.99
Saigon Riverview JSC	99.9
Xuan Dinh Ltd	99.9
Vicco Sai Gon JSC	99.99
Agricultural Print JSC	99.98
Dat Xanh Service JSC	99.89
FBV Construction JSC	89.26

Source: DXG

Figure 4: Ownership structure

- Domestic large shareholder
- Foreign large shareholder
- Other domestic shareholder
- Other foreign shareholder



Source: DXG

Table 3: Indirect subsidiaries

Indirect Subsidiaries	Ownership rate (%)
Dat Xanh Mien Trung JSC	55
Dat Xanh Mien Bac Real estate and Services JSC	51
Dat Xanh Mien Nam Real estate and Services JSC	51
Dat Xanh Dong Nam Bo Real estate and Services JSC	51
Dat Xanh Tay Nam Bo Real estate and Services JSC	51
Viethomes Real estate JSC	51
Vinahomes Real estate and Services JSC	51
Dat Xanh Nha Trang JSC	51
Dat Xanh Nghe An JSC	51
Dat Xanh Bac Mien Trung JSC	51
Dat Xanh Da Nang JSC	51
Dat Xanh Nam Mien Trung JSC	51
Smart City Ltd	100

Source: DXG

Table 5: Major shareholders

Shareholder	%
Mr. Luong Tri Thin	9.27%
NAV Investment JSC	5.65%
Amersham Industries Limited	4.84%
Grinling International Limited	3.81%
KIM Vietnam Growth Equity Fund	3.77%
BBC Investment JSC	3.64%
Vietnam Enterprise Investments Limited	3%
Norges Bank	2.95%

Source: DXG

Business model with efficient closed-loop value chain

Real estate investment and trading is considered the strategic key field in the near future

Productive real estate services directly help to stimulate

BUSINESS MODEL

DXG business operation focuses on 3 main fields: (1) Real estate investment and trading (2) Real estate services (3) Construction. DXG closed-loop business model creates flexibility in business activities as 3 business fields can support each other (Figure 6). Until now, real estate services has been the biggest contributor in DXG revenue. However, the remaining potential growth of this field is not much, DXG plans to stimulate investing in the next 5 years.

❖ Real estate investment and trading

This is considered the strategic key business field of DXG and supposed to be the main source of revenue and profit of the Corporation in the next 5 years. The corporation products are mainly concentrated on the mid-end segment which has the highest demand in the market. Project development activities continuously create service products for other business activities, and help DXG to expand its business scale. DXG business strategy is to stimulate to accumulate land via M&A activities, in addition, DXG focuses on increasingly large projects to save costs, which optimizes prices and enhances investment efficiency of the Corporation.

Real estate services

Real estate services in DXG includes: Real estate brokerage and consultancy, real estate management and apartments for rent, co-investment activities

investment, create more added value and competitive advantage for DXG.

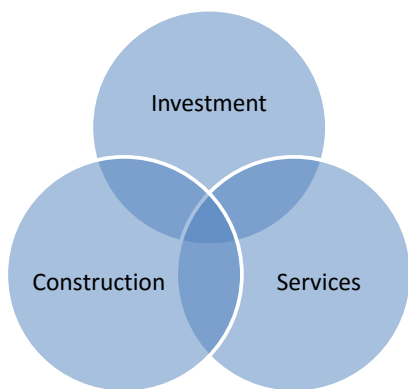
Construction activities support project investment and development

implementation (Secondary sales). DXG has built a firm business system with various and widespread distribution channels. This is an important part in the value chain and a key fundamental of competitive advantage in DXG. Real estate products trading and distribution also strongly support project development and ensure selling volume for DXG project development.

Construction

Although this is not the key business field in DXG, but indispensable to project development activities of the company. Construction field is operated in a subsidiary – FBV Construction Corporation (formerly known as DXG Department of Construction). These activities help to ensure the building speed and quality of projects which are fully or partly invested by DXG.

Figure 6: DXG business model



Source: KBSV

Table 7: DXG business performance in 2017

Sales	22108 products
Net Revenue	VND2,879bn
Net Profit after Tax	VND 751bn
Total Assets	VND 10,264bn
Owner's equity	VND 4,654bn
Market capital	VND 6,528bn
Number of employee	2,829 employees
Landbank increase	500 ha

Source: DXG

DXG is the top company in real estate brokerage area with the largest domestic market share.

DXG has gradually become a reliable project development corporation with many big projects and large land area.

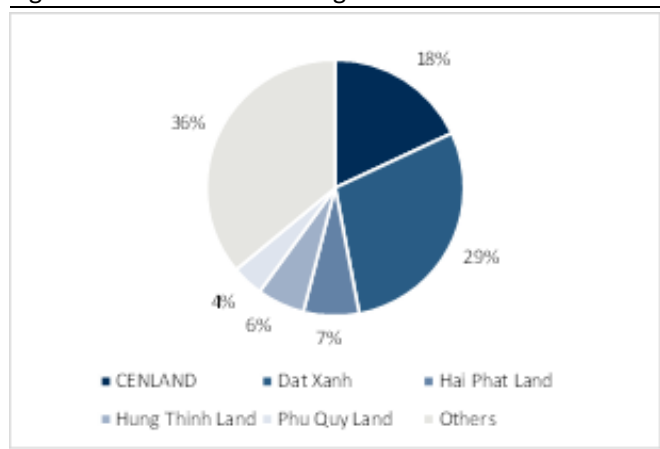
BUSINESS POSITION

With a various wide network of distribution and large customer database, DXG ranks among the top real estate distributors in the whole country which has brokerage market share of 29% (Figure 8). In 2017, there were 22,108 successful transactions, strongly increasing by 84% compared to that in 2016. In particular, there were over 5,000 products directly invested by Dat Xanh, more than 5,800 secondary products and 11,000 brokerage products (Figure 9). At present, the corporation has 18 transaction offices in Northern area, 23 in Southern area and 7 in Middle area with 200 cooperated transaction offices, 2000 brokers and 8000 collaborators. Thanks to the huge distribution channel and sales staff, DXG always ensures quick product consumption and meets the customer demand.

Since 2007, DXG has transferred from a real estate broker to a project investing and developing company. DXG has become a reliable land project developer with many large projects in Southern area. The company has currently owned 50ha of land with 12,000 land products valued VND20,000 bn. Project development operation helps DXG to have a positive profit growth in the future. With the available large area of land bought at low price some years ago, DXG are stimulating project development to make full use of this land resource. This helps to optimize the efficiency of DXG business operation,

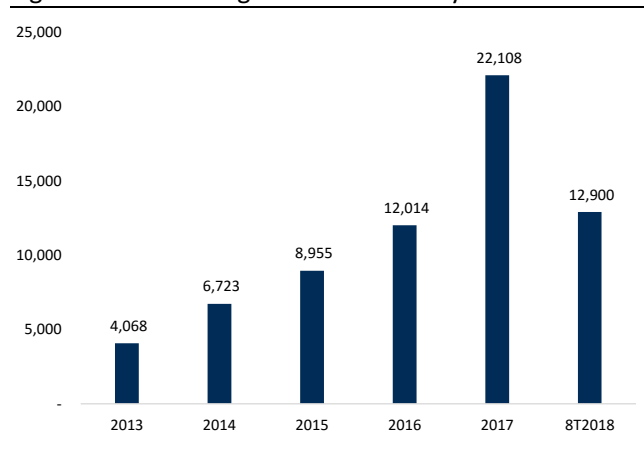
and gains profit for the corporation.

Figure 8: Real estate brokerage market share in 2017



Source: DXG

Figure 9: DXG trading volume over the years



Source: DXG

Real estate investment is a key field which can promote DXG business scale and ranking.

Strategic investment in LDG may gain DXG significant profit.

DXG strategy is to stimulate M&A and accumulate larger land area.

BUSINESS OPERATION

1. REAL ESTATE INVESTMENT AND TRADING

In recent years, project development field has taken a large portion in revenue structure of DXG, reaching 38.3% and 42.1% in 2017 and the first 9 months of 2018. Gross profit margin was 40% in 2017 and 38% in the first 9 months of 2018. Although gross profit margin of this field is less than that of real estate brokerage, but project development activities contributes to the enhancement of DXG revenue scale and ranking. By the end of 2017, DXG investment portfolio had up to 44 land projects with area of 2000m2 and 10 million m2 of construction land, of which there were 10 projects in building progress.

Starting with small projects with 1ha land area, from 2011 to 2017, DXG began to develop large projects with 1-5ha of land. According to the plan of the BOM, in the next period, DXG are going to approach projects with area of more than 5ha as this can reduce project development time and expenses for DXG.

The most noticeable long-term financial investment is the investment of 43.38% of Long Dien Group (LDG). LDG owns a 1000ha area of land. Owning shares of LDG helps to restructure and boost efficiency of LDG, and brings profits to DXG. In 2018, LDG planned to implement 4 projects which are Intela High, Saigon Intela, West Intela and Marina, Intela High was handed over first. Additionally, LDG has planned to transfer the ownership of Grandworld Phu Quoc at more than VND 1,180 bn. In the 9 months of 2018, LDG total net revenue was VND605 bn, surging by 39% YoY; net interest was VND278 bn, up by 49%. According to the plan of the year, LDG gained 23% of projected revenue and 50% of net profit.

❖ Condominium projects

DXG strategy is to focus on expand the area of land resource in the city centre, while DXG projects have currently concentrated in Eastern and Southern area of HCM City. Since 2014, DXG has stimulated M&A trading project to accumulate more land for project development. In 2017, DXG had 3 successful

M&A trading projects including transferring ownership of two land areas of 25,000m² and 67,000m² in Hiep Binh Chanh, Thu Duc; and merging of Sai Dong – Hanoi Real estate company, which contributed 500,000m² of construction land. In 2018, DXG bought Opal Boulevard with an area of 1.7ha in Binh Duong and Sunview Sky with 1.5ha area in Thu Duc via its subsidiary – Ha Thuan Hung Company Limited.

DXG has a considerable competitive advantage of large land area in HCMC.

We have seen that the landbank in HCM City, especially in the central area, has become more scarce with high costs. In addition, approval procedures for investment projects are increasingly tightened, the completion of those procedures is more expensive and time-taking. This causes the supply constraint in the market despite of increasing in demand of housing. According to the data by HOREA in the first nine months of 2018, the number of land projects decreased by 11.1% yoy; the number of houses sold in the market dropped by 39.2%yoy; the number of high-end apartments had the smallest decrease of 9.6% yoy; mid-end apartment number was down by 37,5%yoy; affordable apartments plunged by 68%yoy. There is an imbalance of condo products as the proportion of affordable apartment – the type of codo with highest living demand is very low - only 19,3%, while the high-end condo is oversupplied.

Thus, with a large area of land achieved many years ago and the right decision to focus on mid-lend and affordable apartments (sold at VND 20-40 million/m²), DXG has a better competitive advantage compared to other peers in the same sector.

Projects in Eastern area will benefit from a better urban infrastructure

The Eastern area is the centre of the golden triangle HCMC – Dong Nai – Ba Ria Vung Tau and is the transport junction between HCMC and Southeast provinces (Figure 10). Urban transport infrastructure has been being completed in this area in parallel with some key transportation projects such as: expansion project in Hanoi highway, Vo Van Kiet, Pham Van Dong boulevards, HCMC - Long Thanh - Dau Giay highway, Metro No.1,... Thus, DXG projects in Eastern area (Gem Riverside, Gem Riverview, Gem Premium, Opal Riverside, Opal Garden, Opal Riverview,...) will benefit from a better urban infrastructure. We believe that the Eastern area of HCMC, especially Thu Thiem District, 9 District, Thu Duc District will likely thrive in the upcoming period, which may create added value for DXG projects in this area.

Despite an infrastructure overload in the Southern area of HCMC, some DXG projects still record positive selling results.

Most of DXG projects in Southern area are focused in 7 District (Lux Garden, Lux Riverview, Lux City, Lux Star...) (Figure 11). This area advantages are from completed services and infrastructure, but these projects have ground to an standstill recently after a fast long-term development, leading to the infrastructure overload. However, Lux Garden and Lux City still had positive selling results as all of the apartment products were sold and handed over to the customers. As far as we are concerned, DXG projects in the future in Southern area may have to face infrastructure overload issues, so the selling progress should be carefully noted for more exact assessment of the project efficiency.

Gem Riverside is the largest main project of DXG.

In 2018, the company has implemented many important projects including Gem Riverside, which is a main project of the company with a land area of

7ha, 12 blocks and 3,175 products. DXG has successfully sold 8 Blocks/12 Blocks, the remaining 4 Blocks would be offered for sale within this year. This project will probably contribute a large profit for DXG in 2020-2021 period.

❖ Tourist resort projects:

In 2017, Opal SkyView marked the shift of DXG from real estate investment to resort development.

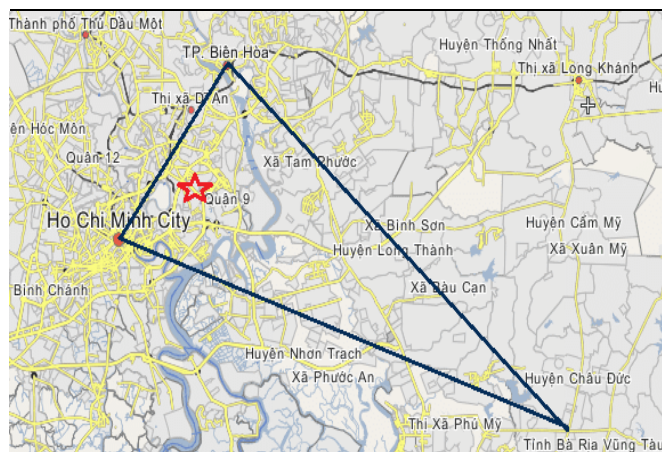
In addition to the condominium projects, DXG has invested in Tourist resort projects construction in Nha Trang, Ha Long, Quang Nam, Phu Quoc. These are famous tourism cities, so the potential growth of resort projects is significant. There are 3 projects directly invested by DXG and 01 invested by affiliated company. In 2017, DXG bought 99.9% shares of Nha Trang Petroleum Company, which is the owner of Nha Trang Golf Resort project with an area of 17ha. This is a new business field to DXG and needs to be closely followed for more precise assessment of this new real estate field efficiency.

❖ Urban area projects

The development of Dong Nai real estate market would bring many opportunities DXG.

Via its subsidiaries and affiliates, DXG has expanded and developed Urban area projects in surrounding provinces, especially Dong Nai – the centre of the Southern area. Dong Nai has received a considerable amount of investment in infrastructure from the Government with a series of key transportation projects which are being implemented such as HCMC– Long Thanh – Dau Giay road, Long Thanh airport project. We noted that HCMC available land area has become smaller, which opens the opportunity for real estate in surrounding area. In these nearby provinces, foundation soil products are suitable to the market demand and have high liquidity. The Prime Minister has approved the construction planning adjustment in HCMC by 2030 - 2050, Dong Nai real estate market is also included in this planning zone, which has a large room for development in the near future and gains DXG many opportunities.

Figure 10: The location of DXG projects in Eastern HCMC



Source: KBSV

Figure 11 : The location of DXG projects in Southern HCMC



Source: DXG

REAL ESTATE SERVICE

❖ Real estate brokerage

DXG distribution system includes 3 main channels (Figure 12):

- (1) DXG exchange channel: includes 5 real estate exchanges under DXG

DXG has built a strong business system with various distribution channels spreading all over the country.

(2) Subsidiaries and affiliates: operate brokerage and co-investment with 5 DXS including Dat Xanh Mien Bac, Dat Xanh Mien Trung, Dat Xanh Mien Nam, Dat Xanh Dong Nam Bo and Dat Xanh Tay Nam Bo. These subsidiaries directly own 50 exchanges. The restructuring of real estate services via developing real estate projects in DXS helps to synchronize trading and marketing strategies and ensure the effectiveness of real estate services.

Furthermore, in the Northern region, DXMB has cooperated with other 4 brokerage companies to form G5. The establishment of G5 enhances competitive advantage and expands real estate market for DXMB. However in recent years, G5 has lost its leading position in real estate brokerage area in the Northern region.

(3) Affiliated exchanges, collaborators, central exchanges: the company has owned more than 200 affiliated exchanges and 8000 collaborators to provide corporation products all over the country.

In 2019, DXG expects to offer more online exchange channels in the market.

❖ Secondary investment activities

Secondary investment gains higher revenue than brokerage, but brings greater risks for DXG

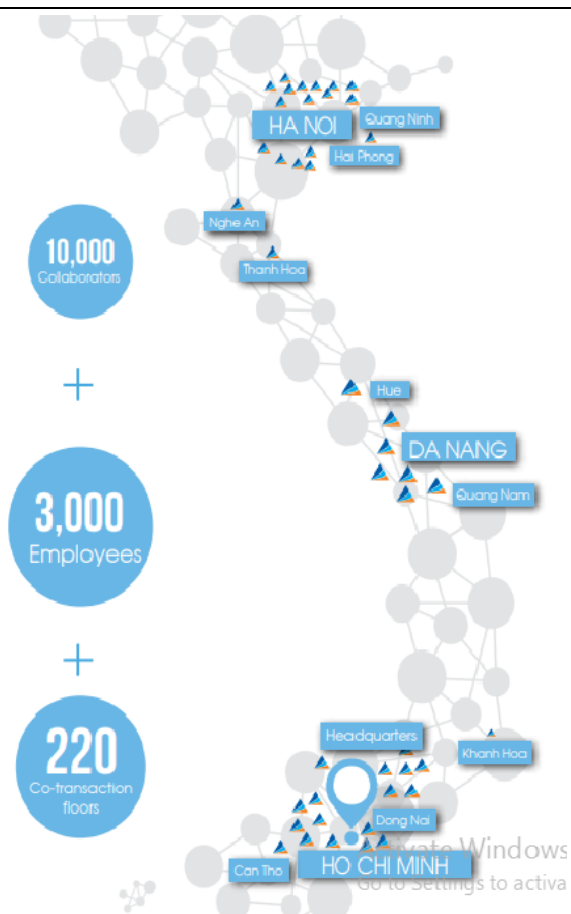
Although secondary investment is different from brokerage, the financial data of secondary investment is still included in the real estate brokerage segment in the financial report. For secondary investment, the company buys a part of the project and sells the product to buyers at a higher price. The difference between the actual selling price and the wholesale price will be the revenue of DXG. This activity gains higher revenue than brokerage activities, but brings greater risks for DXG. The company must spend a larger amount of capital in co-investment, a longer payback period and a sales progress will directly affect DXG's revenue. However, we noted that this risk has been under good control thanks to DXG firm brokerage background.

By the end of 2017, DXG secondary investment portfolio included 32 projects. In particular, most of apartment projects concentrated in HCMC and Hanoi; while foundation soil projects focused in Da Nang, Khanh Hoa and Dong Nai.

Real estate services bring a stable cash flow for DXG, which is a good base for real estate investment field.

➤ Real estate services bring the highest gross profit of 81% and 69% in 2017 and the first 9 months of 2018. In 2017, DXG brokerage market share of 29%, which is the highest level in the whole country. The proportion of real estate brokerage accounts for 56% of DXG revenue.

Figure 12: DXG distribution channels



Source: DXG

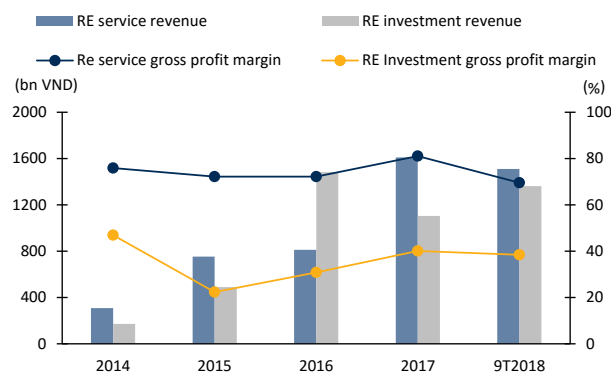
Construction is not a significant supportive factor of DXG, but it helps the company take the initiative in project implementation, management and operation.

Table 13: Brokerage and secondary investment

Business activities	Brokerage	Secondary investment
Definition	Get brokerage fees for sales	Buy the whole project or part of project and retailing at a higher price
Profit	Brokerage fee is around 3-5% for traditional brokerage and 10% for conditional brokerage	Difference between wholesale price and retail price (usually 15-17%)
Risk	Loss the deposit if sale result can not meet the commitment in the conditional brokerage	Increase inventory

Source: DXG

Figure 14: Real estate services and investment revenue

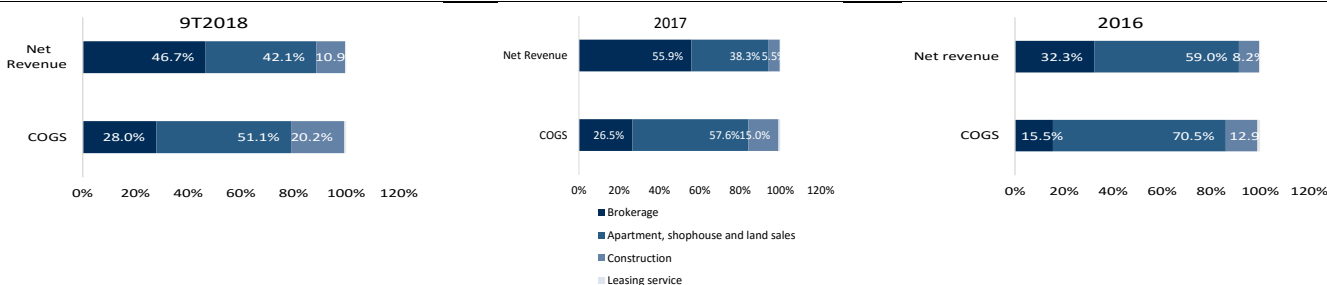


Source: DXG, KBSV

CONSTRUCTION

Construction activities only took a small proportion in DXG revenue in 2016, 2017 and 9M2018. In 2017, DXG signed a construction contract valued VND5,000 bn with FBV, which stated that FBV would provide services to implement some of DXG projects, ranging from design, building to management and operation. Additionally, FBV can monitor or cooperate with contractors of other DXG projects to control construction progress and quality of the project. In 2017, construction activities were ineffective as cost of goods was higher than revenue. In 2018, business performance of this field was improved despite insignificant changes, gross profit margin was 6%. Although this field cannot gain a big revenue for DXG, it helps the company to take the initiative in project implementation, management and operation, which creates competitive advantage and partly assign a brand name to DXG.

Figure 15: Revenue and profit structure in 2016-2018



Source: DXG, KBSV Research

Revenue growth in 2017 came to a standstill after a surging period.

NPAT 2017 still had a strong growth thanks to real estate services with high profit margin.

Business performance in the first 9 months of 2018 showed positive growth in all of DXG business fields.

Gross profit margin will decrease compared to that in 2017, which is in accordance with DXG development determination as there is a slowdown in real estate services.

The rate of return showed a high level of correlation among 3 indices.

BUSINESS PERFORMANCE

The number of apartments sold in 2018 was 22,108 units, sharply increasing by 84%, CAGR in 2014-2017 reached 48.7%.

2017 revenue was VND2879 bn, up by 14.7% compared to that in 2016, in which real estate brokerage soared by 200% yoy to VND1609.9 bn. Stable revenue in recent years with CAGR growth of net revenue in 2014 - 2017 was 78.5%, mainly supported by real estate investment and brokerage. In 2014 – 2016, there was a surge in revenue thanks to 2 handed over projects - Sunview Town (1,603 apartments) and Gold Hill (1,264 apartments). However, the revenue of transferring ownership of land in 2017 plummeted by 25.5% since there was only one successful project Opal Riverside (626 apartments), which made net revenue of the whole year just increase by 14.87% yoy.

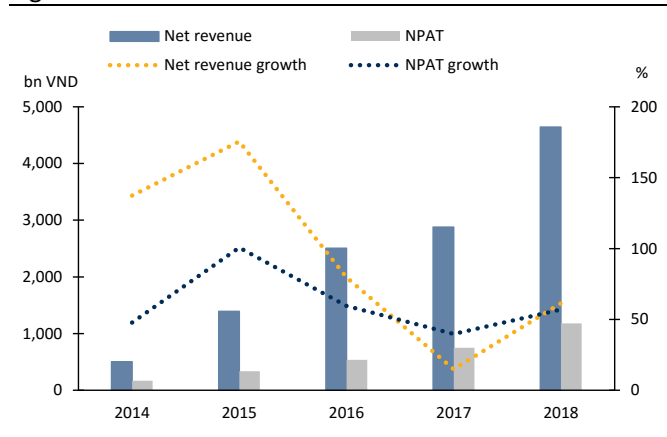
NPAT in 2017 was VND1085 bn, climbing by 63.4% compared to that in 2016. CARG of NPAT was 72.1% in 2014 - 2017. Gross revenue margin was 60%, doubled the average level of the sector. In 2017, although revenue rose by only 14.7%, NPAT still saw an increase of 63.4% thanks to the healthy growth of real estate brokerage with profit margin much higher than real estate transferring (Figure 17).

In the first 9 months of 2018, revenue and NPAT grew at a high level of 93.1% and 52.5% compared to that in the same period thanks to real estate services (up by 116%), while brokerage field was expected to reach positive growth (58%).

In 2018, we believe that the company will focus on real estate investment, so the portion of landing services will decrease compared to that in 2017, and there will be a slowdown in real estate brokerage. Gross profit margin in 2018 is likely to lower than that in 2017 as gross profit margin of services is less than that of real estate investment.

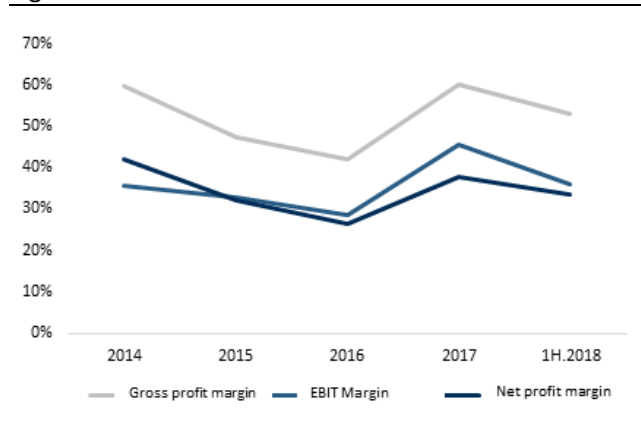
The level of correlation among gross profit, trading profit and net profit margin is relatively high (Figure 16), which shows good selling expense and business management when the company expands its business scope quite quickly.

Figure 16: Revenue – Profit 2014-2017



Source: DXG, KBSV

Figure 17: Rate of return of DXG



FINACIAL ANALYSIS

Receivable and inventory amount accounts for a large portion.

CAGR has strongly increased since 2014 (CAGR 68.1%) when the landing market also recovered. Receivable and inventory amount accounts for a large portion (66.6%). Receivable amount before 2016 mainly concentrated on brokerage (secondary investment) from developers (Figure 18).

The total volume of receivables and inventory is correspondent to the payables.

In 2017, the volume of inventory surged (almost tripled yoy) as the corporation started to boost landing investment with a series of new projects which are supposed to bring a large profit for DXG in 2018 – 2021. The correlative increase between inventory and liabilities and a slight increase in owner’s equity indicates that real estate projects invested by DXG are mainly financed from long-term loans through bond issuance and payables (Figure 19).

High ROE compared to the whole sector.

2017 ROE of DXG was 18.3%, decreasing since the last year but still ranking top in real estate sector due to the contribution from brokerage activities with high profit margin (Figure 20).

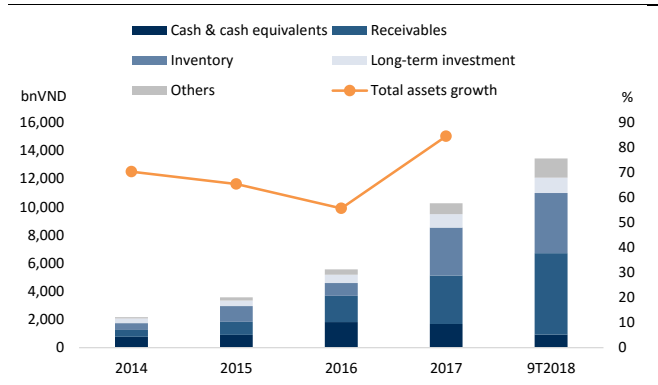
Safe leverage ratio

Leverage ratio of DXG climbed by 58% by the end of the third quarter of 2018, but still stayed at a safe level and under the average level of the sector. DXG has to face less risks than other peers of the same sector thanks to the stable cash flow from brokerage.

ROE is directly affected by leverage ratio and capital quality.

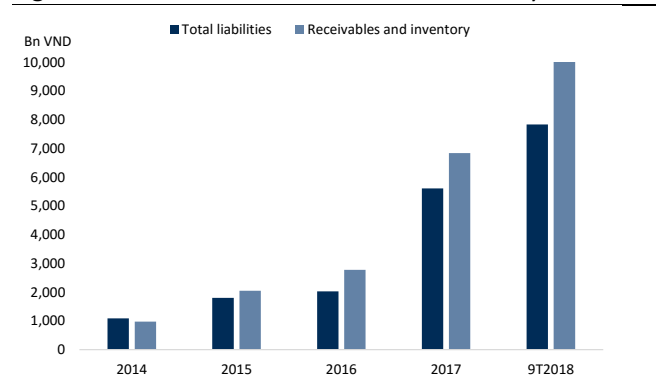
ROE is expected to be improved over the years as real estate operation has started to record high revenue since 2018, which supports the turnover of total assets. In addition, the good usage of leverage thanks to safe capital structure from previous years.

Figure 18: Asset structure



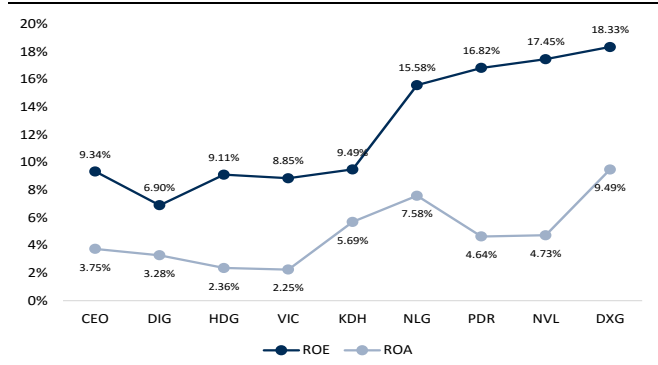
Source: DXG, KBSV

Figure 19: Liabilities, receivables and inventory



Source: DXG, KBSV

Figure 20: ROE and ROA of real estate corporations



Source: DXG, KBSV

Risks related to inventory and loans, are common in real estate companies.

Risks involved in cyclical moves in the real estate market

Risks of competitiveness among corporations in the same sector.

Legal risks: There are still many legal issues to be dealt.

RISKS

DXG determination is to focus on developing large projects, so DXG may have to face risks if slow selling progress leads to large inventory. In addition, risks involved in paying large loans used to finance these projects are inherent.

DXG revenue depends on commercial real estate and housing business activities, thus the company is probably affected by risks from the cyclical moves in the real estate market.

Landing products of DXG are mainly mid-end apartments; this is the sector which is also targeted by other corporations, so DXG tends to cope with risks of competitiveness.

The State has not yet approved the investment policy for businesses that have received land use rights including residential land, agricultural land, non-agricultural land, specialized land for real estate projects. This is a great obstacle to the project implementation in businesses. In addition, the clearance of difficulties and the way of calculating land use is not clear, making the transfer of real estate projects difficult. In addition, there are still many obstacles in land clearing, and land use fee calculation method is unclear, which makes the transferring of land become more difficult. Real estate businesses also have to face tightening credit for real estate and prolonged completion of administrative procedures.

VALUATION & RECOMMENDATION

1. BUSINESS PLAN

In 2018, DXG set a target of distributing over 28,000 products via system, in which 12,000 products were directly invested, 8,800 secondary invested products and 7,400 brokerage products. In terms of revenue, DXG expected to gain over VND5,000 bn of revenue (increasing by 74% YoY) and VND1,068 bn of NPAT (up by 43% YoY), and expanded the landing area 2,000ha. In 2019, DXG will implement IPO for real estate services, implement 1 – 2 more M&A landing deals with good location and legal documents, boost investment – trading of shop house; offer products in some key projects such as Opal Boularward; Sunview Garden; Lux Riverview; Lux Star.... Additionally, in 2019, DXG will issue VND 1,400 bn bonds of 5-year term with interest rate less than 7%/year.

2. 2018 – 2019 FORECAST BUSINESS PERFORMANCE

KBSV expect 2018 revenue of DXG to be VND4238 bn, increasing by 47% yoy and NPAT is VND1228 bn, up by 13% yoy.

- ❖ DXG revenue in 2018 comes from:
 - Revenue from real estate services including brokerage and secondary investment stayed positive at 10% yoy and reached VND1770 bn.
 - Revenue from real estate investment and trading was VND2067 bn, rising by 87% yoy thanks to these projects:
 - + Luxofficetel with 96 officetel apartments sold, and contributed VND144 bn to the company revenue in 2Q 2018.
 - + 50% of apartments in Opal Riverside were sold in 2015 and the remaining 50% were sold in 2017, gaining a revenue of VND 400 bn in 2018.
 - + All apartments of Lux Garden were sold, gaining VND1049 bn.
 - + A part of Opal Garden: all apartments were sold and prepared to be handed over in November 2018, gaining VND 474 bn in 2018.
 - Revenue from construction was VND 400 bn, increasing by 153% yoy.
 - Revenue from financial activities in affiliated companies mainly comes from LDG, reached VND 250 bn, up by 278% yoy.
 - Selling and management cost rose to VND767.4 bn, up by 41% yoy.
 - Interest expense climbed to VND50 bn, increasing by 146%.
- As a result, the gross revenue margin decreased from 60.1% to 52% in 2017.

KBSV forecasts 2019 revenue of DXG to reach 4642 (up 10% yoy), and EAT is VND1,235.2 billion (up by 1% yoy).

- ❖ Revenue of DXG comes from:
 - Revenue from real estate services including brokerage and secondary investment increased by 5% yoy to VND 1,858.4 bn.
 - Revenue from real estate investment and trading increased by 15% yoy to VND 2,375 bn thanks to these projects:
 - + A part of Opal Garden: all apartments were sold and prepared to be handed over in November 2018, gaining VND 474 bn in 2019.
 - + Lux Star: gained VND1218 bn.
 - + A part of Lux Riverview: VND683 bn of revenue.
 - Revenue from construction was VND387.6 bn, increasing by 2% yoy
 - Revenue from financial activities in affiliated companies mainly comes from LDG, reached VND 372 bn, up by 49% yoy.
 - Selling and management cost rose to VND 840.5 bn, up by 10% yoy.
 - Interest expense rose from VND150 bn to VND 200 bn, equal to 33%yoy.
- Thus, gross profit margin declined from 52% to 48% in 2018.

Table 21: Forecast revenue – profit in 2018-2019

2018 - 2019 Revenue Forecast			
(bn VND)	2017	2018F	2019F
Net revenue	2,879.2	4,238	4,642
Real estate Services	1,609.9	1,771	1,858
Real estate investment	1,104.9	2,067	2,375
Lux Officetel		144	
Opal Riverside		400	
Lux Garden		1,049	
Opal Garden		474	474
Lux Star			1,218
Lux Riverview			683
Construction		400	408
COGS	1,149.4	2,036	2,041
Real estate Services	304.9	335	372
Real estate investment	661.6	1,321	1,670
Lux Officetel		103	
Opal Riverside		285	
Lux Garden		600	
Opal Garden		333	333
Lux Star			900
Lux Riverview			437
Construction		380	-
Gross profit	1,729.8	2,202	2,600
Financial income	66.1	250	372
Interest expense	60.9	150	200
SG&A	543.0	767.4	0.0
Net profit	1317.7	1535	2772.1
Net profit after tax	1085.4	1228	2217.6
NPAT for parent company	750.2	982.4	1774.1
EPS	2478	2808.3	5071.5

Source: KBSV

3. VALUATION METHODS AND RECOMMENDATION

To evaluate the share price of DXG, we used RNAV and compared P/E of DXG with other peers in the same sector. As a typical real estate company, the value of DXG mainly depends on the value of its land bank and future projects. Therefore, KBSV supposes RNAV method is suitable to evaluate asset quality of DXG. In addition, we use P/E comparison to have a more precise look of the market. We believe that the accuracy ratio of the 2 methods RNAV:P/E is 70:30.

RNAV

We re-assessed projects with full information which can be started in the upcoming period. For projects have uncompleted information about future development plan, and have not been implemented, we re-assessed the company based on the value of its land bank (Table 22). The discount rate we used is R_E share expense of 13.3%. As a result, the reasonable price of DXG share is 33,600VND/share.

P/E

According to our calculation, the current average P/E of Real Estate industry is at 12.03x. Consequently, the reasonable price for DXG shares calculated by this method is VND33,800/share (Table 23).

Recommendation

DXG is the leading company in real estate brokerage and becoming a prestigious project development enterprise with many large-scale projects in HCMC. With a good financial situation thanks to stable revenue source gained from effective brokerage activities, wide land bank, DXG has a great competitive advantage compared to other businesses. Based on the valuation and business outlook of DXG in the next period, KBSV recommends to BUY DXG stock with the target price calculated by these methods of VND 33,660/share, 35% more than the closing price on November 09, 2018.

Table 22: Valuation

Method	Price	Weight	Estimated price
P/E	33,800	0	10,140
RNAV	33,600	70%	23,520
Target price (VND)			33,660

Source: KBSV

Table 23: RNAV method

Project	Valuation method	Ownership rate	RNAV(bn VND)
Real estate investment			6458.4
- Opal Garden	DCF	100%	390
- Gem Riverside	DCF	100%	2756.2
- Lux Garden	DCF	100%	194
- Lux Riverview	DCF	100%	427
- Lux Star	DCF	100%	183
-Opal Riverside	DCF	100%	26
- Opal Skyview	Book Value	100%	94.2
- Gem Premium	DCF	75%	1055
- Opal City	DCF	100%	1017
- Palm City	DCF	100%	316
Real estate service	DCF	51%	0.0
+ Cash and cash equivalent			925
+Investment in affiliated companies			1087
-Debt			2814.6
-Minority interest			1094
RNAV			4561.8
Share price (VND)			33,600

Source: KBSV

Table 24: P/E method

	Mã	P/E pha loãng	Vốn điều lệ (VND)	Tỷ lệ	P/E theo tỉ trọng
Nam Long Investment Corporation	NLG	6.49	2,115,765,630,000	11.7%	0.76
Ha Do Group JSC	HDG	7.69	949,520,360,000	5.3%	0.40
Phat Dat Real Estate Development Corporation	PDR	12.75	2,663,890,070,000	14.7%	1.88
Sacomreal	SCR	6.63	3,170,337,940,000	17.5%	1.16
Development Investment Construction JSC	DIG	21.68	2,524,847,830,000	14.0%	3.03
LDG Investment JSC	LDG	7.93	1,906,144,540,000	10.5%	0.84
Song Da Urban & Industrial Zone Investment & Development JSC	SJS	11.12	1,148,555,400,000	6.4%	0.71
Hai Phat Investment JSC	HPX	12.64	1,500,000,000,000	8.3%	1.05
Century Land JSC	CRE	4.21	500,000,000,000	2.8%	0.12
Van Phu - Invest Investment JSC	VPI	23.62	1,600,000,000,000	8.9%	2.09
P/E Trung bình					12.03

Source: KBSV

APPENDIX

Financial Information

Income Statement					Balance Sheet				
(VND billion)	2015	2016	2017	9T2018	(VND billion)	2015	2016	2017	9T2018
Net sales	1,394.50	2,506.52	2,879.24	3,236.63	CURRENT ASSETS	2,986.76	4,627.03	8,840.19	11,359.31
Cost of sales	-735.26	-1,454.88	-1,149.44	-1,641.13	Cash and cash equivalents	909.52	1,818.22	1,687.44	925.25
Gross Profit	659.24	1,051.64	1,729.80	1,595.50	Short-term investments	0.00	0.00	226.02	241.87
Financial income	36.84	104.66	66.07	179.39	Accounts receivable	925.13	1,865.02	3,440.57	5,789.50
Financial expenses	-8.49	-32.70	-62.66	-127.79	Inventories	1,122.03	915.50	3,400.58	4,274.04
of which: interest expenses	-4.91	-31.96	-60.95	-110.14	LONG-TERM ASSETS	586.59	935.76	1,424.22	2,078.15
Gain/(loss) from joint ventures (from 2015)	66.59	72.04	128.01	125.53	Long-term trade receivables	1.01	2.74	3.26	162.54
Selling expenses	-144.35	-235.75	-294.97	-303.38	Fixed assets	21.04	38.86	63.94	72.76
General and admin expenses	-125.10	-172.80	-249.56	-232.01	Investment properties	22.56	37.84	28.65	39.71
Operating profit/(loss)	484.73	787.09	1,317.70	1,237.23	Long-term incomplete assets	31.89	151.85	90.23	466.95
Other incomes	65.59	45.46	29.23	16.69	Long-term investments	392.68	580.05	962.08	1,087.61
Other expenses	-9.94	-11.31	-11.61	-7.73	TOTAL ASSETS	3,573.35	5,562.79	10,264.40	13,437.46
Net other income/(expenses)	55.66	34.15	17.62	8.97	LIABILITIES	1,801.99	2,025.44	5,610.56	7,834.79
Income from investments in other entities	0.00	0.00	0.00	0.00	Current liabilities	1,516.71	1,527.60	3,726.61	5,613.67
Net accounting profit/(loss) before tax	540.39	821.24	1,335.32	1,246.20	Trade accounts payable	134.35	160.83	315.69	460.49
Corporate income tax expenses	-94.77	-156.81	-249.90	-232.76	Advances from customers	831.55	435.78	1,396.38	912.73
Net profit/(loss) after tax	445.62	664.42	1,085.42	1,019.44	Short-term unrealized revenue	2.10	5.20	12.10	15.79
Minority interests	108.99	127.22	334.53	269.26	Short-term borrowings	156.03	189.93	658.18	605.57
Attributable to parent company	336.63	537.20	750.89	750.18	Long-term liabilities	285.27	497.83	1,883.95	2,221.12
					Long-term trade payables	0.00	0.00	0.00	0.00
					Long-term advances from customers	0.00	0.00	0.00	0.00
					Unrealized revenue	2.38	1.65	1.61	0.00
					Long-term borrowings	282.59	494.14	1,871.22	2,209.42
					OWNER'S EQUITY	1,771.36	3,537.36	4,653.85	5,602.66
					Paid-in capital	1,172.64	2,530.49	3,031.93	3,425.71
					Share premium	10.87	10.87	10.87	10.87
					Undistributed earnings	382.01	676.75	745.72	1,039.51
					Minority interests	187.54	292.68	840.31	1,094.05
Operating statistics & Ratios					Key ratios				
	2015	2016	2017	2018		2015	2016	2017	2018
Gross profit margin	17.34%	10.10%	47.27%	41.96%	Multiple				
EBITDA margin	17.61%	6.48%	28.21%	25.98%	P/E	6.63	8.78	7.45	5.32
EBIT margin	13.81%	6.34%	27.95%	25.66%	P/E diluted	6.24	8.43	7.23	5.32
Pre-tax profit margin	12.65%	5.10%	38.75%	32.76%	P/B	1.33	1.40	1.42	1.25
Operating profit margin	12.47%	4.70%	34.76%	31.40%	P/S	1.51	1.81	1.88	1.35
Net profit margin	10.62%	4.14%	31.96%	26.51%	P/Tangible Book	1.19	1.29	1.17	1.01
					P/Cash Flow	18.72	-9.69	-5.15	-6.73
					EV/EBITDA	4.14	5.21	5.22	4.29
					EV/EBIT	4.18	5.28	5.28	4.35
					Operating performance				
					ROE%	0.24	0.20	0.18	0.22
					ROA%	0.12	0.12	0.09	0.10
					ROIC%	0.18	0.15	0.17	0.20
					Financial structure				
					Cash Ratio	0.60	1.19	0.45	0.29
					Quick Ratio	1.21	2.41	1.38	1.38
					Current Ratio	1.97	3.03	2.37	2.31
					LT Debt/Equity	0.16	0.14	0.40	0.39
					LT Debt/Total Assets	0.08	0.09	0.18	0.17
					Debt/Equity	0.25	0.19	0.54	0.46
					Debt/Total Assets	0.12	0.12	0.25	0.21
					ST Liabilities/Equity	0.86	0.43	0.80	0.83
					ST Liabilities/Total Assets	0.42	0.27	0.36	0.37
					Total Liabilities/Equity	1.02	0.57	1.21	1.21
					Total Liabilities/Total Assets	0.50	0.36	0.55	0.55
					Activity ratios				
					Account Receivable Turnover	8.93	8.80	5.07	4.66
					Inventory Turnover	0.91	1.43	0.53	0.51
					Account Payable Turnover	7.77	9.86	4.82	4.53

Source: Fiiipro, KBSV

Investment portfolio recommendations**Buy:** +15% or more**Take profit:** between +15% and -15%**Sell:** -15% or less**DISCLAIMER**

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