

# Ha Do Group (HDG)

## Bright outlook thanks to Charm Villas project

Senior Analyst Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Analyst Tieu Phan Thanh Quang

quangtpt@kbsec.com.vn

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### 3Q results grew strongly, underpinned by power segment

Ha Do Group (HDG) recorded VND838 billion (+32%YoY) in 3Q22 revenue, of which the sales of real estate properties hit VND224 billion (down 41% YoY) after the handover of 15 Ha Do Charm villas. Electricity sales grew 175%YoY to VND537 billion since (1) hydroelectric plants operate efficiently thanks to favorable water conditions, and (2) there are three new plants contributing to the group revenue. NPAT of the parent company was VND251 billion (+10%YoY).

### HDG's power segment may slow down in 2023 because hydropower plants would no longer benefit from La Nina

We expect HDG's power output and revenue would reach 1,460 million kWh (+66% YoY) and VND2,010 billion (+58% YoY) this year thanks to the low comparative base of 2021 and favorable water conditions. Business performance of the power segment in 2023 may slow down as it will no longer benefit from low base level and La Nina. Power output and revenue in 2023 are expected to reach 1,296 million kWh (-11% YoY) and VND1,857 billion (-8% YoY) respectively.

### Hado Charm Villas project makes a major contribution to the real estate segment in 2022-2024

The Hado Charm Villas is the mainstay of the real estate segment from 2022 to 2024 as other projects in Ho Chi Minh City like Hago Greenlane and Hado Minh Long have not been implemented due to legal issues.

### BUY recommendation - Target price VND35,000/share

Based on the business outlook and valuation results, we recommend BUY for HDG stocks with a target price of VND35,000 apiece, equivalent to 40% upside compared to the closing price on November 14, 2022.

## Buy maintain

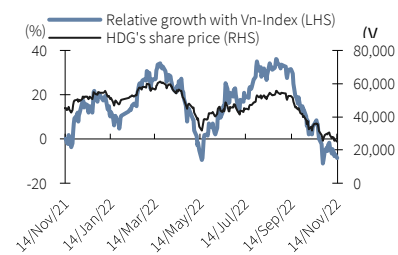
<b>Target price</b>	<b>VND35,000</b>
Upside	40%
Current price (Nov 14, 2022)	VND24,600
Consensus target price	VND65,600
Market cap (VNDbn/USDmn)	6.1/0.2

<b>Trading data</b>	
Free float	38.4%
3M avg trading value (VNDbn/USDmn)	82.2/3.4
Foreign ownership	33.1%
Major shareholder	Chairman Nguyen Trong Thong (32%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-29	-50	-21	-25
<b>Relative</b>	-18	-26	-1	-34

### Forecast earnings & valuation

FY-end	2020	2021	2022F	2023F
Net sales (VNDbn)	4,999	3,777	3,796	4,466
Earnings (VNDbn)	1,545	1,651	1,947	2,288
Profit attributable to the parent company (VNDbn)	979	1,097	1,300	1,499
EPS (VND)	6,215	5,470	5,316	6,128
EPS growth (%)	-19	-12	-3	15
P/E (x)	4.34	4.93	4.63	4.01
P/B (x)	1.38	1.22	1.01	0.86
ROE (%)	27	23	25	25
Dividend yield (%)	2	4	4	NA



Source: Bloomberg, KB Securities Vietnam

## 3Q22 business performance

### Net profit increased by 10% YoY

3Q net revenue reached VND838 billion (+32%YoY). To be more specific:

- The sales of real estate properties hit VND224 billion (down 41% YoY), mainly from the handover of 15 units in Ha Do Charm Villas.
- 3Q power output was 458 million KWh (+154% YoY). Accordingly, electricity sales grew strongly to VND537 billion (+175%YoY), which accounted for the largest proportion in revenue structure. Good performance was attributable to (1) hydroelectric plants' efficient operation thanks to favorable water conditions, and (2) the launch of three new plants. NPAT of the parent company was VND251 billion (+10%YoY).

### GPM continued to grow

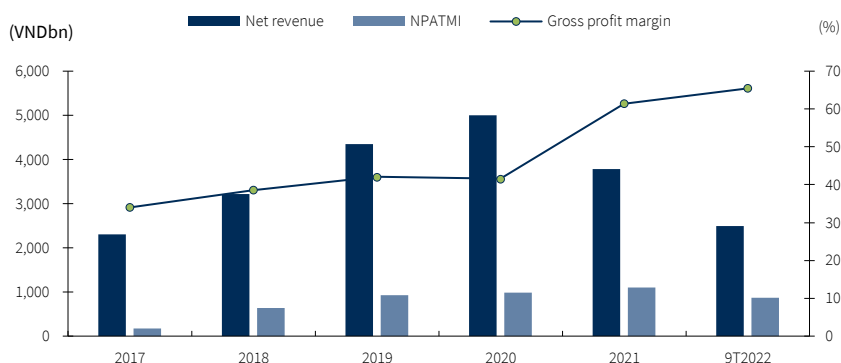
HDG's 9M revenue reached VND2,492 billion (+2%YoY) and the parent company's NPAT was VND873 billion (+53% YoY). 9M2022 profit margin continued to improve to 65% thanks to (1) the delivery of Charm Villas with high profit margin and (2) high selling price on the competitive generation market (CGM), reaching VND1,478/kWh (+42% YoY). HDG completed 67% and 77% of the whole year's revenue and NPAT targets after the first three quarters.

Table 1. HDG – Business performance

(VNDbn)	3Q2022	3Q2021	% change	9M2022	9M2021	% change
Net revenue	838	633	32%	2,492	2,454	2%
- Energy	537	195	175%	1,463	699	109%
- RE transfer	224	382	-41%	796	1,347	-41%
Gross profit	506	414	22%	1,631	1,335	22%
Financial income	43	9	381%	124	19	544%
Financial expenses	(131)	(86)	53%	(386)	(277)	39%
Selling expenses	(17)	(2)	829%	(19)	(95)	-79%
General and admin expenses	(43)	(37)	16%	-	(110)	-100%
Operating profit	358	298	20%	1,240	858	44%
Net other incomes	(1)	1	-385%	5	4	23%
Profit before tax	357	298	20%	1,245	862	44%
Net profit after tax	310	248	25%	1,040	729	43%
NPATMI	251	229	10%	873	570	53%

Source: Ha Do Group, KB Securities Vietnam

Fig 1. HDG – Performance in 2017–September 2022



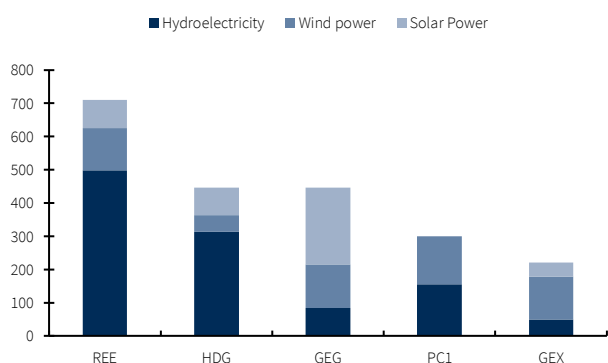
Source: Ha Do Group, KB Securities Vietnam

The power segment will be the growth driver in the medium and long term for HDG

HDG currently owns 462 MW of renewable energy, including 314MW of hydroelectricity, 50MW of wind power, and 98MWp of solar power (equivalent to about 82MW). The total capacity of HDG's electricity portfolio ranks second among the listed power producers.

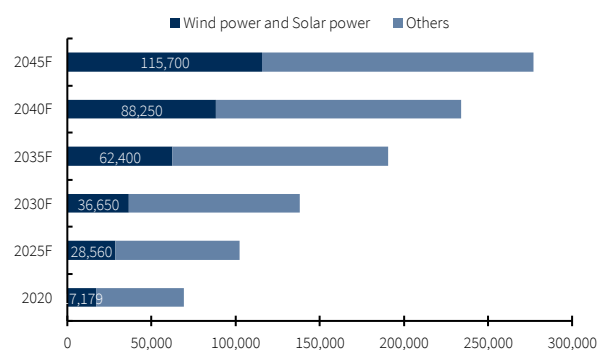
According to the new draft of Power Master Plan 8, the Government is strongly encouraging the development of renewable energy and plans to raise the proportion of power generated from renewable sources from 24.8% in 2020 to 41.8% by the end of 2045. This is in line with the development of the world's energy industry to adapt to climate change. Currently, Vietnam has great potential for wind and solar power development in provinces such as Binh Dinh and Ninh Thuan in both the medium and long term.

Fig 2. Vietnam – Power sources of listed power producers (MW)



Source: Ha Do Group, KB Securities Vietnam

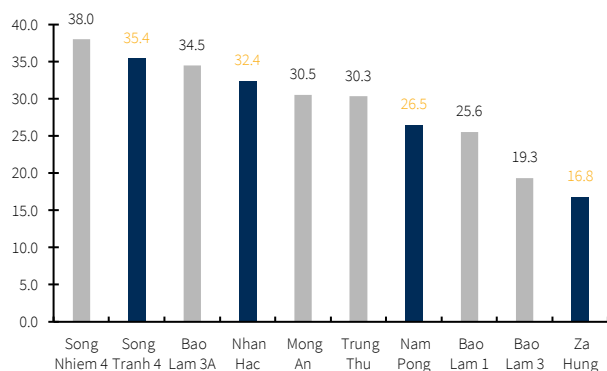
Fig 3. Vietnam – The structure of renewable energy according to the Power Master Plan 8 (MW)



Source: Ha Do Group, KB Securities Vietnam

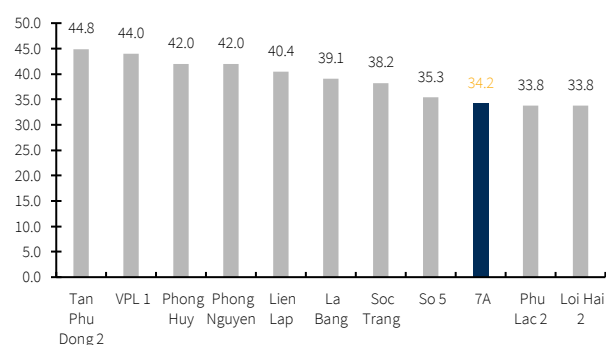
HDG plans to double the capacity of its power portfolio to 922 MW by the end of 2025. We are positive about this plan as investment costs in renewable energy are decreasing year by year in line with the the global trend of renewable energy development. Besides, the investment rate of hydropower and wind power – the focus of HDG's future investment in existing projects is equal to or lower than the industry average. With a lower investment rate, projects will be guaranteed an internal rate of return (IRR) above 10%, ensuring HDG's future projects' economic efficiency in the future as new renewable energy projects will need to be bid at a lower price than the previous FIT preferential tariff.

**Fig 4. Vietnam – Investment of some hydropower projects (VNDbn/MW)**



Source: Ha Do Group, KB Securities Vietnam

**Fig 5. Vietnam – Investment of some wind power projects (VNDbn/MW)**



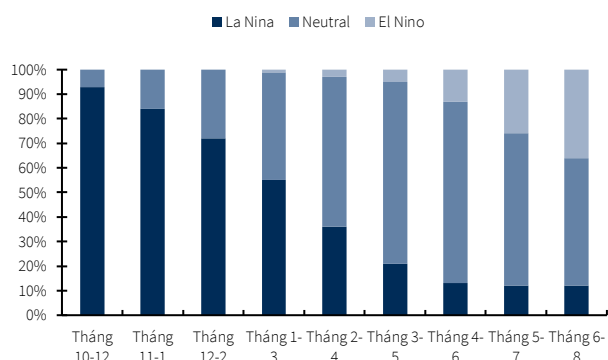
Source: Ha Do Group, KB Securities Vietnam

### Revenue from power segment should continue to grow well before decelerating in 2023

According to the forecast of the International Research Institute for Climate and Society (IRI), the probability of La Nina formation will continue to last until the end of 2022 and then gradually turn to a neutral state with a probability of about 61 % from February 2023. This shows that the operation of hydropower plants will continue to be positive as the water conditions are convenient for generating hydropower and water storing. However, the La Nina's end in early 2023 would affect the operation of hydro plants as the rainfall is no longer as abundant as in the period of 2021–2022.

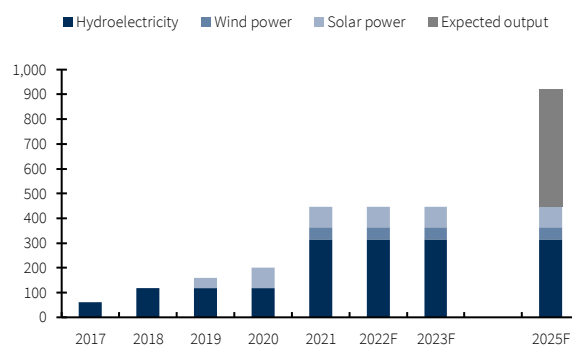
Regarding wind and solar power, we expect HDG's power plants to operate stably with high consumption in 2022 as the prices of wind and solar power are currently more competitive than that of thermal power in the context of high fuel prices. In addition, with the Government's drastic measures in developing renewable energy projects to achieve the goal of net zero emissions by 2050, we expect that the above factors will help HDG's renewable energy power plants to be mobilized with high capacity in the period of 2022–2023 when power shortage may occur in 2023.

Fig 6. Global – La Nina should end in January 2023



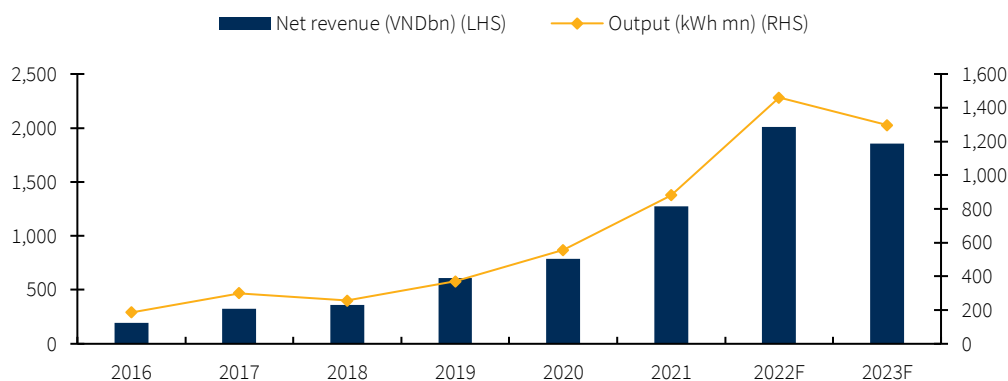
Source: Ha Do Group, KB Securities Vietnam

Fig 7. HDG – Power capacity (MW)



Source: Ha Do Group, KB Securities Vietnam

Fig 8. HDG – 2016A-2023F performance of power segment



Source: Ha Do Group, KB Securities Vietnam

**Charm Villas is a key project contributing to real estate business results**

The Charm Villas project has now completed the foundation construction and is focusing on finishing rough construction for all villas and shophouses. The project sold about 240 units in the first two sales. HDG should open the third phase of sale for the remaining 130 units in 2022, however, due to unfavorable developments in the real estate market, the plan may be delayed to the second quarter of 2023. The third phase should bring in VND1,500 billion. We will closely follow the third phase since the difficulties of the real estate market related to credit control and rising interest rates may affect the demand to buy house.

This is the main project contributing to the business results of the real estate segment in 2022-2024 when other projects have not been implemented. With the advantage of low-cost land bank and the recent price increase of Hoai Duc area, this project brings a large profit for HDG with 9M22 GPM reaching 70%. We estimate the total revenue of Ha Do Charm Villas project at VND5,400 billion, of which, by the end of September 2022, HDG recorded VND1,913 billion from the handover of 140 villas and shophouses.

Table 2. HDG – List of projects

Project	Location	Area (ha)	Product	Note
Charm Villas	Hoai Duc, Hanoi	30	528 semi-attached villas	398/528 units sold, starting delivery from March 2021
Green Lane	District No.8, HCMC	2.3	3 apartment buildings with 1,231 apartments	Launched from 2023
Minh Long	Thu Duc, HCMC	2.7	3 apartment buildings with 80 semi-detached houses	Clean landbank, launched from 2023
Noongtha	Vientiane, Laos	74.5	241 semi-detached houses and 586 villas	Infrastructure phase 1 completed
Dich Vong Complex	Cau Giay, Hanoi	1	2 47-floor apartment buildings and offices	Expected to start construction in 2024
CC3	Cau Giay, Hanoi	0.5	1 21-floor apartment building and offices	Clean landbank, expected to start construction in 2024
62 Phan Dinh Giot	Thanh Xuan, Hanoi	2.2	Apartment buildings and offices	Expected to start construction in 2025
30 Ta Quang Buu	Hai Ba Trung, Hanoi	1	Offices for lease	Expected to start construction by the end of 2025
Bao Dai	Nha Trang	9	35 villas and 108 5* hotel rooms	Expected to start construction in 2025

Source: Ha Do Group, KB Securities Vietnam

## Forecast

### 2022F performance

- HDG's estimated revenue in 2022 is VND3,796 billion (+1% YoY). Of that, (1) the sales of real estate properties should be VND1,350 billion (-32% YoY), achieved thanks to the handover of Hado Charm Villas project, and (2) revenue from electricity business may hit VND2,011 billion (+58%YoY).
- Gross profit is expected to be VND2,630 billion (+13% YoY), and GPM would rise from 61% in 2021 to 69% thanks to the handover of high-margin Charm Villas.
- NPAT of the parent company is projected at VND1,300 billion (+19% YoY).

### 2023F performance

- GDG's 2023F revenue is VND4,466 billion (+18% YoY). (1) the sales of real estate properties are expected to reach VND1,890 billion (+40% YoY) thanks to accelerating the handover of Hado Charm Villas project, and (2) revenue from electricity trading reached VND1,857 billion (-8%YoY) as hydro plants no longer benefit from La Nina
- Gross profit should be VND3,015 billion (+15% YoY), and GPM goes down 1% YoY to 68%
- NPAT of the parent company should hit VND1,499 billion (+15% YoY).

Table 3. 2022-2023F performance

(VNDbn)	2021	2022F	% change	2023F	% change
Net revenue	3,777	3,796	1%	4,466	18%
- RE transfer	1,975	1,350	-32%	1,890	40%
- Energy	1,276	2,011	58%	1,857	-8%
Gross profit	2,320	2,630	13%	3,015	15%
Financial income	80	152	91%	136	-10%
Financial expenses	-408	-498	22%	-505	2%
Profit before tax	1,643	1,954	19%	2,285	17%
NPATMI	1,097	1,300	19%	1,499	15%

Source: Ha Do Group, KB Securities Vietnam

## Valuation

Using SOTP, we set a target price of VND35,000/HDG share

Using SOTP partial pricing method, we set a target price of VND35,000/share, equivalent to 40% upside compared to the closing price on November 14, 2022. We do not include the HDG renewable energy projects expected to be put into operation in the coming period due to the lack of information on the new tariff and its impacts on the project implementation schedule.

We believe in HDG's positive outlook because:

- HDG owns 462 MW of renewable energy, including 314MW of hydroelectricity, 50MW of wind power and 98MWp of solar power (equivalent to about 82MW). The total capacity of HDG's electricity portfolio ranks second among listed power producers.
- The third sale phase of Charm Villas project in 2023 should ensure profit growth for HDG in 2022-2023.

BUY recommendation for HDG stocks with a target price of VND35,000/share

Based on the business outlook and valuation results, we recommend BUY for HDG stocks with a target price of VND35,000/share, 40% higher than the closing price on November 14, 2022. However, we still pay attention to closely monitor the progress of the Charm Villas project launch and sale and the implementation progress of other projects in Ho Chi Minh City since the process of completing legal procedures often takes a long time.

Table 4. HDG – Valuation

Project	Method	Value (VND mn)
Real estate	RNAV	5,344,000
Energy	DCF	11,027,823
		16,371,822
+ Cash		185,397
- Net debts		6,594,975
<b>RNAV</b>		<b>9,962,244</b>
Outstanding shares		244,612,898
<b>Share price (VND)</b>		<b>40,700</b>

Source: KB Securities Vietnam





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

**Research Division**  
research@kbsec.com.vn

## Equity

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

## Macro/Strategy

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

## Banks, Insurance & Securities

**Nguyen Anh Tung – Senior Analyst**  
tungna@kbsec.com.vn

## Macroeconomics & Banks

**Le Hanh Quyen – Analyst**  
quyenlh@kbsec.com.vn

**Nguyen Duc Huy – Analyst**  
huynd1@kbsec.com.vn

## Strategy, Chemicals

**Thai Huu Cong – Analyst**  
congth@kbsec.com.vn

## Real Estate, Construction & Materials

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

## Strategy, Fishery & Textiles

**Tran Thi Phuong Anh – Analyst**  
anhhttp@kbsec.com.vn

**Nguyen Dinh Thuan – Analyst**  
thuannd@kbsec.com.vn

## Oil & Gas, Utilities

**Tieu Phan Thanh Quang – Analyst**  
quangtpt@kbsec.com.vn

## Industrial Real Estate, Logistics

**Nguyen Thi Ngoc Anh – Analyst**  
anhntn@kbsec.com.vn

## Support team

**Nguyen Cam Tho – Assistant**  
thonc@kbsec.com.vn

## Retails & Consumers

**Pham Phuong Linh – Analyst**  
linhpp@kbsec.com.vn

**Nguyen Thi Huong – Assistant**  
huongnt3@kbsec.com.vn

## KB SECURITIES VIETNAM (KBSV)

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### 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](mailto:ccc@kbsec.com.vn)  
Website: [www.kbsec.com.vn](http://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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