

IDICO Corporation (IDC)

Expect big changes from business restructuring

September 20, 2022

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

IDC would focus on the core business of industrial zone investment and development

IDICO Corporation (IDC) restructured its operations to focus on four main business lines, which are industrial investment and development, energy, residential and commercial real estate, and industrial park services. Of that, industrial park investment and development is the core business, the three other lines are assigned to subsidiaries and the non-related business segments would be divested.

IDC is the leading industrial park developer that owns a large land bank for lease

IDC is a pioneer investor and has long experience in the field of industrial park investment and development. IDC's project portfolio includes ten projects with a total leasing area of 2,341ha, the remaining rental area of IDC is 754.8ha. IDC's industrial land bank should expand 2,000-2,500ha in both the North and the South.

Huu Thanh, Phu My II and Phu My II expansion industrial park should ensure medium-term growth

Huu Thanh, Phu My II and Phu My II expansion projects are expected to ensure growth for IDC in the medium term thanks to good rental capacity and high rents. It is estimated that they could add VND18,500 billion to total revenue.

Business results continue to grow well

2022F & 2023F NPAT are VND2,201 billion (+384% YoY) and VND2,364 billion (+7% YoY) & revenue are VND7,980 billion (+86%YoY) and VND8,400 billion (+5%YoY), respectively.

BUY recommendation – Target price VND77,400/share

After observing the business outlook and valuation results, we recommend BUY for IDC stocks with a target price of VND77,400 apiece, 36% higher than the closing price on September 7, 2022.

Buy initiation

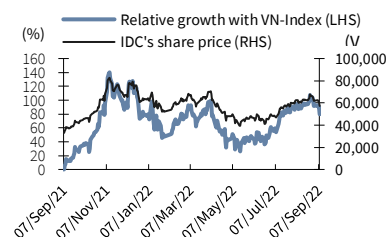
Target price	VND77,400
Upside (%)	36%
Current price (Sep 7, 2022)	VND57,100
Consensus target price	VND82,000
Market cap (VNDbn/USDmn)	18.9/0.8

Trading data	
Free float (%)	64.9%
3M avg trading value (VNDbn/USDmn)	155.8/6.7
Foreign ownership (%)	4.7%
Major shareholder	SSG Group (22.5%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-8	29	-14	72
Relative	-7	34	3	29

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	5,356	4,301	7,980	8,400
Earnings/loss (VNDbn)	1,179	717	2,926	3,116
Profit attributable to parent (VNDbn)	873	454	2,201	2,364
EPS (VND)	2,900	1,498	7,337	7,881
EPS growth (%)	170	-48	390	7
P/E (x)	22.31	43.18	7.78	7.25
P/B (x)	4.65	4.98	4.24	3.25
ROE (%)	19	9	40	35
Dividend yield (%)	0	5%	4%	4%



Overview

IDC, formerly known as Vietnam Urban Development and Investment Corporation, was established in 2000 as a state-owned enterprise under the Ministry of Construction (MoC). Operating in the field of investment and development of industrial parks, hydropower, traffic, urban housing and construction.

After more than 20 years of establishment and development, IDC transformed its operating model to a joint stock company in 2018 and accelerated the process of restructuring and streamlining the business model by divesting non-real estate fields to focus on industrial park, energy, residential and commercial real estate, and industrial park services (Figure 1).

Fig 1. IDC – Business structure



Source: IDICO Corp

IDC accelerated the restructuring process to focus on four main business areas to fully develop its strength in industrial park operations

The MoC start divesting IDC in 2018

From March 1, 2018, IDC officially became a JSC with a charter capital of VND3,000 billion after the MoC reduced its ownership from 100% to 36%. Seagull Shipping (SSG) and Bitexco became strategic investors holding 45%.

The MoC fully divested its stake in IDC in 2020

At the end of November 2020, the MoC sold all remaining 108 million IDC shares to nine investors, including an organization and eight individuals who won the auction. Covestcons, a wholly-owned subsidiary of Coteccons (CTD) won the auction to buy 22.4 million IDC shares and became a major shareholder with a stake of 8.13%. However, this company also quickly reduced its ownership in IDC to 1.85 million shares (0.62% capital) after only two months.

Strategic shareholder Bitexco completed divestment in June 2021

According to the equitization plan, the strategic investors SSG and Bitexco will be restricted from transferring shares for ten years from March 1, 2018. However, shareholders agreed to abolish the transfer restriction. In June 2021, Bitexco sold all 67.5 million IDC shares or 22.5% of charter capital.

Ownership structure changed as of the end of 2Q22

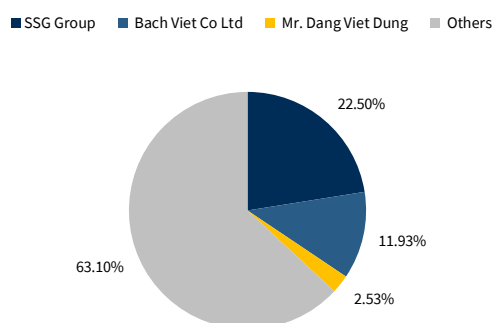
By the end of 2Q22, SSG and related parties of Mr Dang Chinh Trung held 36.9% of ID shares (Figure 2).

SSG holds 22.5%

The parties related to CEO Dang Chinh Trung:

- Bach Viet Trading and Production Company Limited (Mr. Dang Chinh Trung is a member of the Board of Directors) holds 11.93%
- Mr. Dang Viet Dung (son of Mr. Dang Chinh Trung) holds 2.53%

Fig 2. IDC – Shareholder structure as of 2Q22 (%)



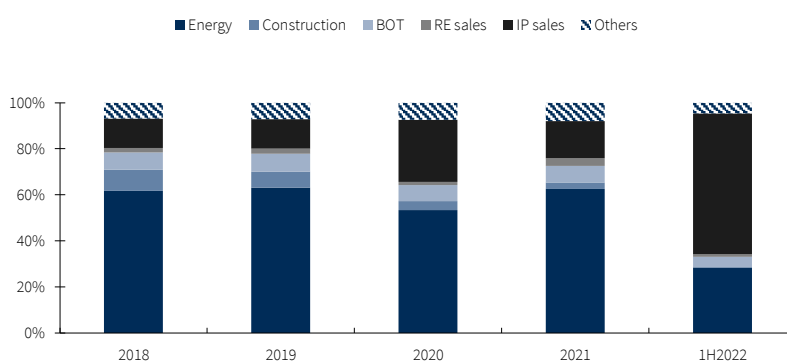
Source: IDICO Corp

Revenue structure changed from 2020 as IDC changed the accounting method for leased industrial parks

Power trading is the largest contributor to the revenue structure in the period 2018–2021.

The industrial park segment was only a modest proportion of 12% in the revenue structure of 2018–2019. However, this proportion increased significantly when IDC changed its accounting method from allocating revenue according to the actual lease period to recognizing one-time revenue. After that, industrial park land leasing accounted for 27% of IDC’s total revenue in 2020 thanks to retrospectively recording rental revenue of My Xuan A Industrial Park and contributed 61% in 6M22 revenue thanks to one-time revenue recognition from Nhon Trach Industrial Park 5 (Figure 3).

Fig 3. IDC – Revenue structure as of 2Q22 (%)



Source: IDICO Corp, KB Securities Vietnam

Business operations

1. Industrial real estate & industrial park services – Large land bank and great potential for lease

IDC owns 754.8ha of industrial land available for lease

IDC is one of the pioneer and experienced investors in the field of investment and development of industrial parks in Vietnam. IDC's project portfolio includes 10 projects with a total leasable area of 2,341ha, of which five projects covering 948.9ha have been fully occupied. The remaining leasable area of IDC is 754.8ha (54% of the commercial land area) which belongs to Cau Nghin, Huu Thanh, Phu My II, Phu My II expansion and Que Vo 2 industrial parks (Table 1).

IDC's industrial parks all have convenient locations

IDC's industrial parks have relatively convenient locations in key economic provinces such as Bac Ninh, Vinh Phuc, Thai Binh, Long An, Dong Nai, and Ba Ria – Vung Tau, which have attracted more than 250 domestic & international investment projects. Some typical customers in IDC's industrial parks are HONDA (Kim Hoa Industrial Park), Heineken, Lock & Lock (My Xuan A Industrial Park), and Hyosung (Nhon Trach Industrial Park 5). Currently, Huu Thanh Industrial Park in Long An has the highest rent at USD135/m²/lease cycle, while Thai Binh Cau Ngan Industrial Park has the lowest rental price of USD60/m²/lease cycle.

IDC's subsidiaries have experience in infrastructure construction and services, which becomes an advantage of the parent IDC

IDC's industrial parks has a complete technical infrastructure system, electricity supply, water supply, drainage and wastewater treatment services to meet the demand of lessees. IDC has a strong advantage of infrastructure construction and services. In Nhon Trach I and V industrial parks, power is supplied from substations managed and operated by IDICO – UDICO (UIC) and water supply from Tuy Ha underground water plant of IDICO-URBIZ.

Table 1. IDC – Industrial park projects

Project	Location	IDC's ownership	Total site area (ha)	Total leasable area (ha)	Remaining leasable area (ha)	Occupancy rate	Rental price (USD/m ² /term)	Land clearance
Fully – occupied projects			1,270.8	948.9				
Kim Hoa	Vinh Phuc	100%	50.0	45.9		100%		
My Xuan B1	BR – VT	51%	227.1	160.4		100%		
My Xuan A	BR – VT	100%	302.4	229.3		100%		
Nhon Trach I	Dong Nai	100%	381.9	284.1		100%		
Nhon Trach V	Dong Nai	100%	309.4	229.2		100%		
Ongoing projects			1,996.2	1,392.1	754.8			
Cau Nghin	Thai Binh	100%	183.9	102.8	100.3	2.4%	60	43%
Huu Thanh	Long An	100%	524.1	395.4	315.4	20.2%	135	96%
Phu My II	BR – VT	100%	620.6	443.3	118.7	73.2%	125	100%
Phu My II MR	BR – VT	100%	398.1	273.2	128.2	53.1%	125	100%
Que Vo II	Bac Ninh	51%	269.5	177.4	92.2	48.0%	115	63%

Source: IDICO Corp, KB Securities Vietnam

2. Residential and commercial real estate – Accelerated implementation of projects to complete the industrial real estate ecosystem

IDC's portfolio of undergoing residential real estate includes 11 projects with a total land area of up to 112ha

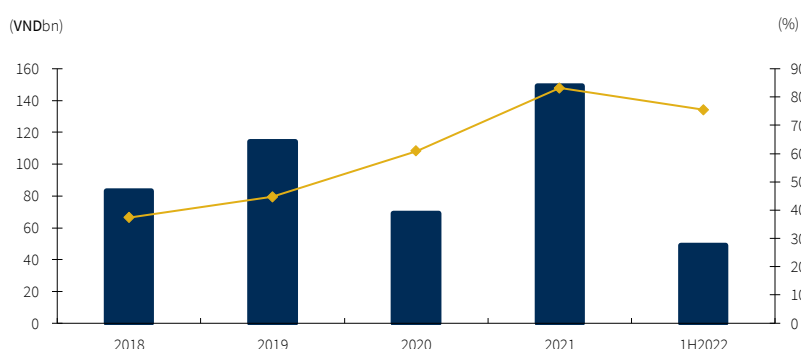
IDC has implemented and completed a number of housing projects in the Southern region such as IDICO Tan Phu (HCMC), Hoa An high-rise apartment building (Bien Hoa), KDC project in the center of Ward 6 Tan An (Long An), and Social housing area 334 (Ba Ria – Vung Tau). The projects IDC has implemented are mainly land plots and apartments in the mid-end and affordable segments.

IDC's portfolio of projects to deploy includes 11 projects with a gross floor area of 112ha, of which 52ha have been exploited (Table 2). IDC's projects are in Ho Chi Minh City and neighboring provinces such as Dong Nai, Long An and Ba Ria – Vung Tau, where many industrial parks are located. Some residential real estate projects of IDC are expected to be built close to existing industrial zones such as Nhon Trach and Huu Thanh to meet the increasing housing demand of workers and experts, thereby increasing the attractiveness of industrial parks.

Real estate business makes a relatively small contribution to the revenue structure (only about 1-3%), the largest proportion comes from retail products from implemented projects.

Real estate business has a high gross profit margin (GPM) thanks to low-cost land bank accumulated in the past and advantages and experience in the construction field.

Fig 4. IDC – Revenue & GPM of housing real estate (VNDbn, %)



Source: IDICO Corp

Fig 5. IDC – Residential area of Huu Thanh Industrial Park



Source: IDICO Corp

Fig 6. IDC – Residential area of Nhon Trach Industrial Park (Phase 1)



Source: IDICO Corp

Table 2. IDC – Housing projects

Projects	Location	Developers	IDC's ownership	Total area (m ²)	Products	Status
Completed projects						
Tan Phu IDICO apartment	HCMC	IDC	100%	11,980	3 buildings with 741 apartments	Completed
Ward 6 Tan An	Long An	LAI	51%	30,500		
334 Social housing (Conac Tower)	BR-VT	ICN	51%	409	24 apartments	Completed
Ongoing projects						
Central residential expansion area – Commercial land	Long An	LAI	51%	30,500	28,786 sqm commercial land GFA: 177,088 sqm	Adjusting 1/500 planning
Nhon Trach worker housing 1	Dong Nai	IDICO – URBIZ	100%	100,284	Completed 11 blocks, currently investing in remaining 17 blocks	Adjusting planning from 9 floors to 25 floors
Nhon Trach worker housing 2	Dong Nai	IDICO – URBIZ	100%	100,000	28,341 sqm with 12 buildings ~ 1,888 apartment 6,434 sqm with 74 townhouses	Land received Received land
Huu thanh worker housing	Long An	LAI	100%	470,939	Land clearance of 403,905 sqm Land that need to be cleared of 21,851 sqm	allocation decision for Phase 1: 334,456 sqm
Hiep Phuoc residential area	Dong Nai	UIC	100%	48,676	Total residential area of 39,179sqm	Working on Legal procedures
An Hoa	Dong Nai	IDICO – URBIZ	100%	38,883	Completed 50 townhouses Remaining area: Lot A ~ 2,507 sqm for villas and lot G ~ 5,913 sqm for apartments	Adjusting planning
Hoa An	Dong Nai	UIC	66.93%	70,350	276 townhouses and 4 5–floor buildings with 252 apartments + 3 12–floor buildings Completed 2 5–floor buildings and 253 townhouses	Working on land clearance
Thuy Duong condotel	BR – VT	ICN	51%	7,077	Remaining area ~ 22,965 sqm ~ 5 buildings and 23 townhouses	Legal procedures will start in 3Q22
Conac Plaza	BR – VT	ICN	51%	8,137	Total GFA of 78,884 sqm, 31 floors with 543 apartments	Market researching
Bac Chau Giang	Ha Nam	ICN	51%	56,527		Constructing infrastructure

Source: IDICO Cop

*Note: IDC's subsidiaries:

- IDICO – LINCO: IDICO Long An Investment Construction (UPCOM: LAI)
- IDICO – CONAC: IDICO Investment Construction Oil and Natural Gas (UPCOM: ICN)
- IDICO – UDICO: IDICO Urban & House Development (HSX: UIC)
- IDICO – URBIZ: IDICO Urban And Industrial Zone Development

3. Energy – Renewable energy development & power transmission boost

IDC is operating two hydroelectric plants Srok Phu Mieng and Dak Mi 3 with a total capacity of 114MW

IDC is the investor and operator of two hydropower projects:

- Srok Phu Mieng hydropower project has a capacity of 51MW and started to generate commercial electricity in 2006 with an average annual output of about 228 million kWh, bringing in VND195 billion in revenue (depending on weather conditions). The project is invested by Srok Phu Mieng IDICO Hydropower JSC (IDC holds 51% of charter capital).
- The Dak Mi 3 hydropower project in Quang Nam has a capacity of 63 MW and start power generation from 2017. The project’s annual output is 212 million kWh, which should earn VND180 billion in revenue. The project is invested by IDC.

Previously, IDC invested in two hydropower projects Dak Mi 4AB and Dak Mi 4C in Quang Nam with the capacity of 190MW and 18MW. These two hydropower plants generate 750 million kWh and 57 million kWh annually. However, in June 2021, IDC sold all 26 million shares in Dak Mi Hydropower JSC – the investor of two hydropower projects Dak Mi 4AB and Dak Mi 4C to Bitexco (Table 3).

Power supply brings in a large source of annual revenue

IDC also distributes electricity to customers in industrial zones implemented by its subsidiary UIC. The company currently owns 110/22 kV substations and 22 kV power grids with a total capacity of 418 MW to transmit electricity to tenants in Nhon Trach 1 and Nhon Trach 5 industrial park. The capacity is expected to increase by 607 MW in the future. UIC’s annual revenue from electricity supply is VND2,500–2,700 billion.

IDC is expected to deploy a rooftop solar power project

To make full use of the power grid in industrial parks, the company will cooperate with tenants to invest in rooftop solar power systems and sell directly to tenants for preferential price. The excess electricity will be transmitted to the 22 kV grid managed by the company.

The infrastructure installation and electricity distribution help to complete IDC’s industrial park service ecosystem

We believe that power transmission and distribution is an auxiliary activity for industrial park leasing, which helps to improve the value of the industrial park service ecosystem and create an advantage for IDC in attracting more tenants.

Table 3. IDC – Hydropower plants

Hydropower projects	Location	Capacity	Total investment (VNDbn)	Construction		IDC’s ownership
				year	Operating year	
Srok Phu Mieng	Binh Phuoc	51mW	1,048	2003	2006	51%
Dak Mi 3	Quang Nam	63mW	1,626	2013	2017	100%
Dak Mi 4A,B	Quang Nam	190mW	4,547	2007	2012	0%
Dak Mi 4C	Quang Nam	18mW	419	2008	2012	0%

Source: IDICO Corp, KB Securities Vietnam

Table 4. IDC – Revenue structure of the energy segment (%)

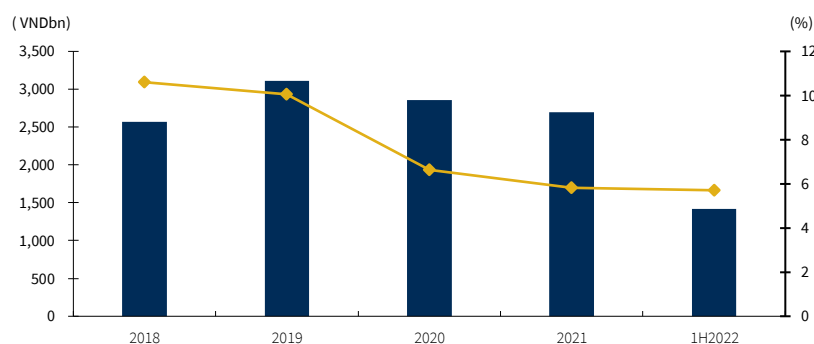
	2019	2020	2021	1H22
Revenue of Srok Phu Mieng hydropower plant (VND bn)	230	170	228	95
– Gross profit margin	60%	48%	59%	56%
Revenue from energy trading of UIC (VND bn)	2,699	2,584	2,449	1334
– Gross profit margin	3.0%	3.2%	2.9%	2.6%

Source: IDICO Corp, KB Securities Vietnam

Power trading makes the largest contribution to IDC's revenue structure.

This segment has a low GPM and tends to decrease in recent years due to (1) larger share of electricity sales with low GPM (about 2.6–3.2%) and (2) the company's divestment in other hydropower plants with high GPM

Fig 7. IDC – Revenue & GPM (VNDbn, %)



Source: IDICO Corp, KB Securities Vietnam

4. Other business activities

IDC has a stable cash flow from BOT projects

BOT operation: IDC currently operates two BOT projects:

- National Highway 1A BOT, section An Suong – An Lac (HCMC)
 - National Highway 51 BOT – Expansion project (Dong Nai, Ba Ria – Vung Tau)
- BOT operation is currently not IDC's focus as its possibility for future expansion is small. However, it brings stable annual revenue for IDC.

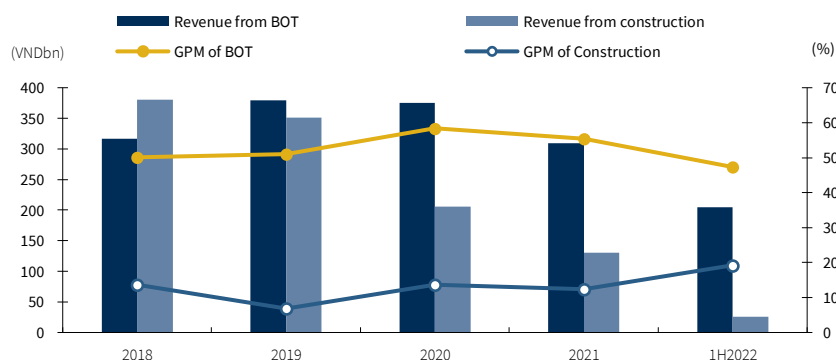
IDC has long experience in construction with 25 completed projects

Construction: IDC has long-term experience in the field of construction of civil, industrial, traffic, irrigation, hydropower, and electricity-water infrastructure. IDC's member companies have built many high-valued projects as construction contractors, EPC general contractors, and general contractors.

BOT operation added VND3–400 billion to IDC's annual revenue.

Revenue from construction tended to decrease in recent years because this is no longer the main business of IDC.

Fig 8. IDC – Revenue & profit from BOT operation & construction (VNDbn)



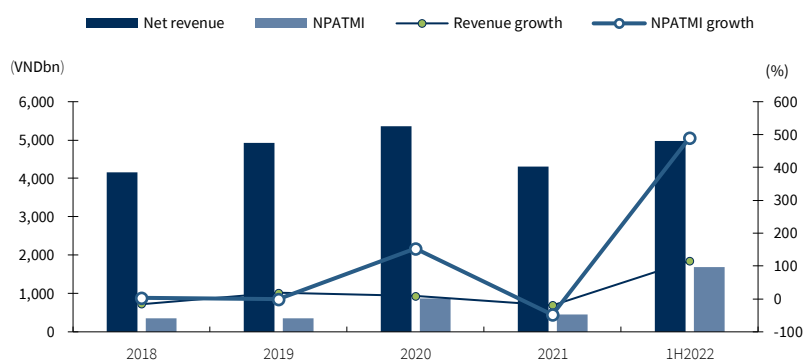
Source: IDICO Corp, KB Securities Vietnam

Business performance

IDC's revenue remains relatively stable in the period 2018-2021.

Revenue in 2020 grew by 9% YoY to VND5,356 billion thanks to retrospectively recording rental revenue of My Xuan A Industrial Park. (2020 revenue before the retrospective application was VND4,542 billion).

Fig 9. IDC – Revenue & profit in 2018-1H22 (VNDbn)



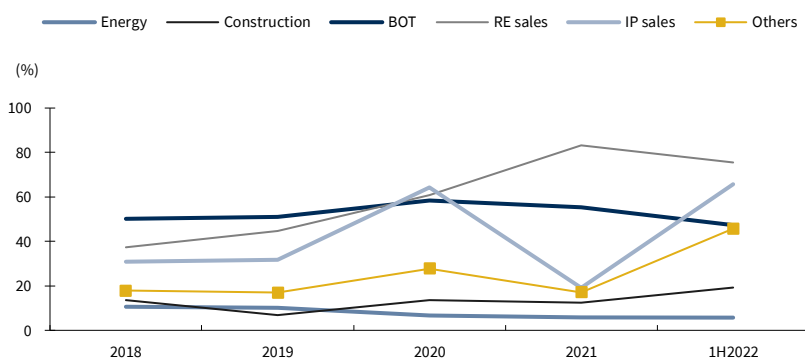
Source: IDICO Corp, KB Securities Vietnam

Power trading is the segment with the lowest GPM and the only business line with lower GPM compared to 2018.

Industrial land leasing has a high GPM and higher contribution ratio in recent years, leading to an increase in GPM.

6M22 GPM reached 66%, much higher than the industry average thanks to the low cost of compensation and infrastructure completion in industrial parks as they were built many years ago.

Fig 20. IDC – GPM in 2018-1H22 (%)



Source: IDICO Corp, KB Securities Vietnam

Table 5. IDC – 6M22 business performance

	1H21	1H22	+/-% YoY	Comments
Net revenue	2,309	4,981	46%	Mainly thanks to IP sales Completed 62.4% of 2022's plan
- IP sales	360	3,060	750%	Mainly from land lease in Huu Thanh, Phu My II and Phu My II expansion In 2Q2022, IDC recorded VND1,450 bn from land lease in Nhon Trach 5 IP due to a change in revenue recognition method
- Energy	1,411	1,419	1%	
- Construction	77	26	-66%	
- BOT	193	205	6%	
- RE sales	84	49	-42%	
COGS	-1,943	-2,704	39%	
Gross profit	366	2,277	522%	
GPM	16%	46%		Due to high proportion of IP sales with a high gross profit margin of 66%
- IP sales	43%	66%		Thanks to low cost of compensation and infrastructure construction that had been done many years ago
- Energy	3%	6%		
- Construction	8%	19%		
- BOT	54%	47%		
- RE sales	36%	76%		
Financial income	297	119	-60%	
Financial expenses	-88	-117	34%	
In which: Interest expenses	-88	-72	-18%	
Gain/(loss) from joint ventures (from 2015)	3	14	378%	
Selling expenses	-39	-34	-14%	
General and admin expenses	-92	-93	1%	
Operating profit/(loss)	447	2,167	384%	
Net other income	-4	21	-675%	
Profit before tax	444	2,187	393%	Completed 79.1% of 2022's plan
Income tax expenses	-101	-436	332%	
NPAT	343	1,751	411%	
Minority interests	58	69	20%	
NPAT-MI	285	1,682	490%	

Source: IDICO Corp, KB Securities Vietnam

Financial status

Construction in progress accounts for the largest proportion in IDC's asset structure

By the end of 2Q22, unfinished long-term assets were VND5,305 billion, up VND698 billion QoQ and accounted for the largest proportion (32%) of IDC's total assets. This item is the cost of construction in progress at IDC projects, mostly industrial parks such as (Huu Thanh, Phu My 2, Phu My 2 MR, Que Vo 2, and Cau Nghin) and some residential projects.

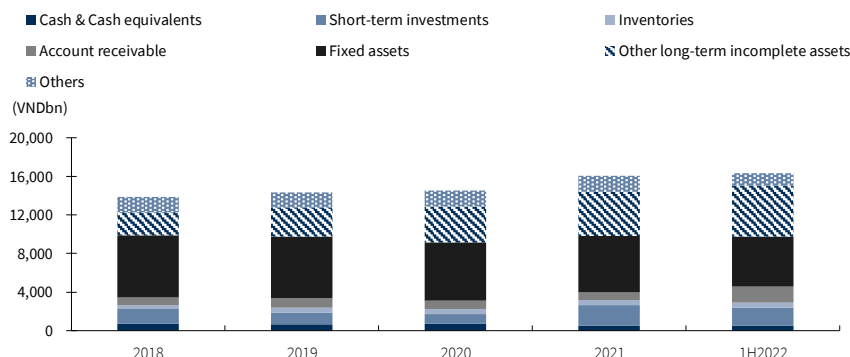
Fixed assets at by the end of 2Q22 reached VND5,191 billion, accounting for 32% of total assets. This includes (1) tangible fixed assets of VND3,577 billion (22% of total assets, reflecting the value of IDC's investments in BOT projects and two hydropower plants) and (2) intangible fixed assets of VND1,614 billion (10% of total assets, representing the value of land use rights in industrial parks, corporate offices, and hydroelectric power plants of IDC).

Loans to assets ratio maintained at a safe level

2Q22 loans were valued at VND 3,343 billion, down VND189 billion YTD. Debt structure changed when the proportion of long-term debt rose from 59% at the beginning of the year to 85%. The loans to assets ratio is 0.2x, which is at the average level compared to other companies in the same industry.

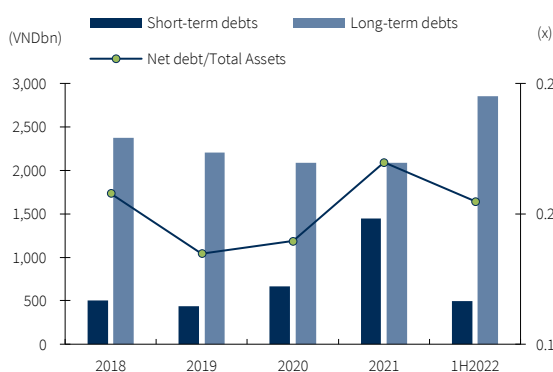
Total assets in the period 2018-2021 have a CAGR of 5%

Fig 31. IDC – Assets structure in 2018-2022



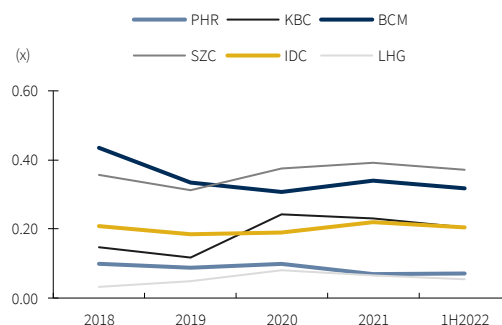
Source: IDICO Corp, KB Securities Vietnam

Fig 12. IDC – Loans & loans to assets ratio (VNDbn, %)



Source: IDICO Corp, KB Securities Vietnam

Fig 13. Same-industry peers – Loans to assets ratio (%)



Source: IDICO Corp, KB Securities Vietnam

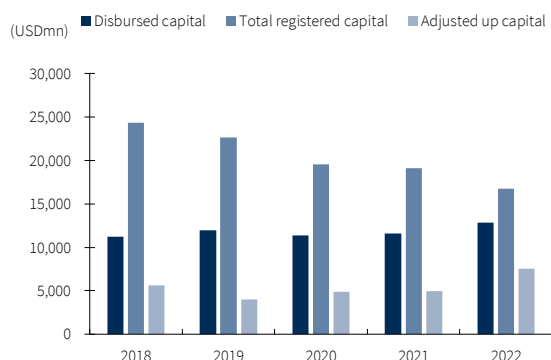
Investment catalysts

The demand for land lease is still high

We believe that the demand for land lease is still high thanks to (1) signed free trade agreements (FTAs), (2) Vietnam's lower labor costs and land rents compared to the region, which makes Vietnam a potential destination for companies moving out of China, (3) promoted public investment with many key infrastructure projects to help increase connectivity between regions, and (4) the Government's efforts in policy reform, which would shorten legal procedures for industrial park projects.

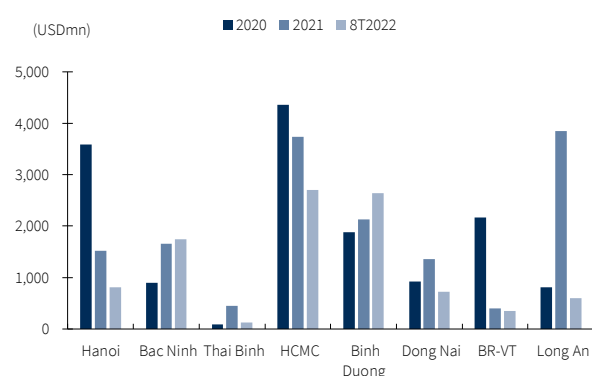
In the first eight months of 2022, additionally registered FDI capital reached USD16.8 billion, down 12%YoY. However, the additionally registered capital continued to grow strongly to USD7.5 billion (+50%YoY) and realized capital reached USD12.8 billion (+11%YoY) – five-year highs. (Figure 14).

Fig 14. Vietnam – 8M22 FDI (USDmn)



Source: Fiinpro, KB Securities Vietnam

Fig 15. Vietnam – Registered FDI (USDmn)



Source: Wichart, KB Securities Vietnam

Large and cheap land bank ensures medium and long-term growth

IDC currently owns 754.8ha leasable land bank, which is large compared to other businesses in the same industry. We appreciate IDC's industrial parks, especially ones located in the South like Phu My, Phu My Expansion and Huu Thanh, in terms of rental capacity and potential for price increase as they have the advantages of inter-regional connection infrastructure in Ba Ria – Vung Tau and Long An. In the first seven months of 2022, IDC leased 91.4ha of industrial land (57.1% of the full year plan), including 50ha from Huu Thanh Industrial Park.

In addition, IDC has completed compensation for large industrial parks such as Huu Thanh and Phu My from previous years, so the current compensation costs are low. Low cost helps IDC maintain a high GPM and improve profit margin in the coming years when rental prices increase.

Huu Thanh Industrial Park is the growth driver for IDC in the short and medium term

Huu Thanh Industrial Park is located in Huu Thanh Commune, Duc Hoa District, Long An Province. It is 40km from Ho Chi Minh City (HCMC), 16km from HCM-Trung Luong highway, 35km from Tan Son Nhat international airport and 52km from Cat Lai port. The project has a total area of 524ha with the remaining leasable area of about 315ha. At the end of 2Q22, IDC has cleared 96% of the project's area and is in the process of completing the infrastructure. In 1H22, IDC signed two contracts to lease 50ha of land in Huu Thanh Industrial Park. The rent at Huu Thanh Industrial Park is USD135/m²/lease cycle (+8%YoY). We think this is a positive result and Huu Thanh Industrial Park has a great potential in the future, based on (1) less industrial land bank in HCMC and (2) high rents thanks to its ideal location and convenient infrastructure connecting to HCMC (Figure 18). We believe the rental price in Huu Thanh Industrial Park will increase by about 5%/year in the coming years, bringing VND10,630 billion in revenue.

IDC is licensed to distribute electricity in Huu Thanh Industrial Park

IDC has been approved to invest in a 110/22 kV substation and a 22 kV power grid with a capacity of 189 mW to distribute electricity to tenants in Huu Thanh Industrial Park. The company expects revenue from electricity distribution in Huu Thanh Industrial Park will contribute VND1,400 billion from 2025.

Fig 16. IDC – Huu Thanh–Long An industrial park



Source: IDICO Corp

Fig 17. IDC – Huu Thanh–Long An industrial park



Source: IDICO Corp

Phu My II and Phu My II Expansion industrial parks will quickly reach the maximum occupancy rate

The Phu My II and Phu My II Expansion industrial parks are located in Phu My town, Ba Ria – Vung Tau. The province has a strategic location in the Southern key economic region, 85km far from HCM and is currently focusing its resources on developing industry, infrastructure and seaports. We believe that IDC's industrial parks in Ba Ria – Vung Tau will be fully occupied quickly, based on:

Traffic infrastructure in Ba Ria – Vung Tau is being heavily invested

(1) IDC's industrial parks benefit from the heavily invested transport infrastructure in Ba Ria – Vung Tau. To be more specific, the Bien Hoa – Vung Tau Expressway (phase 1) is 53.7 km long and has four to six lanes and a total investment of VND17.8 trillion. The section made in Ba Ria – Vung Tau province passing through Phu My town is 15.5 km long. This expressway helps IDC's industrial parks to connect directly with Cai Mep – Thi Vai port clusters, Long Thanh airport and the Southern key economic region and reduces the load on National Highway 51. The two projects were converted to public investment form instead of PPP to start earlier and be basically completed by 2025.

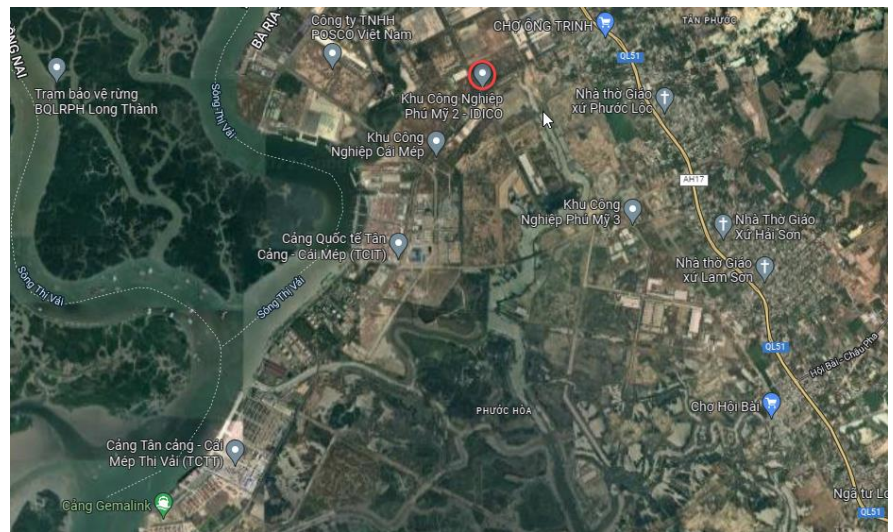
They have the advantage of being located near Cai Mep – the fastest growing port area in Vietnam

(2) The two industrial parks have a convenient location near Cai Mep Port, Phu My Port, SP – SPA International Port, and SITV Port. Cai Mep – Thi Vai is currently the fastest growing port area in Vietnam. Cai Mep deep seaport's CPPI (container port performance index) ranked 11th out of 370 ports globally, according to S&P Global Market Intelligence. In addition, the infrastructure of HCMC ports does not meet the increased export demand, goods will tend to flow to Ba Ria – Vung Tau. According to the plan, Cai Mep port cluster will be a center for transshipment of export goods to the US and Europe. Lower cost & more efficiency help Phu My Industrial Park become a more attractive choice to investors.

The Phu My II and Phu My II Expansion industrial parks have 246.9ha of land for lease. By the end of 2021, IDC has cleared 100% of the projects' area and has completed the basic infrastructure. The rents in Phu My II Industrial Park in 2022 recorded a good increase compared to 2021, reaching USD125 USD/m²/lease cycle (+14%YoY). We think that the rental price in Phu My II Industrial Park will increase by 5–8%/year in the coming years, accordingly, the estimated revenue of Phu My II and Phu My II Industrial Park expansion will reach VND7,525 billion.

Phu My II industrial park is 4km from Tan Cang – Cai Mep International Port, 4km from Phu My Port, 5km from SP – SPA International Port, and 2km from National Highway 51

Fig 18. IDC – Phu My II industrial park location



Source: Google Map

Fig 19. IDC – Phu My II industrial park



Source: IDICO Corp

Fig 21. IDC – Phu My II expansion industrial park



Source: IDICO Corp

Fig 20. IDC – Phu My II industrial park



Source: IDICO Corp

Fig 22. IDC – Phu My II expansion industrial park



Source: IDICO Corp

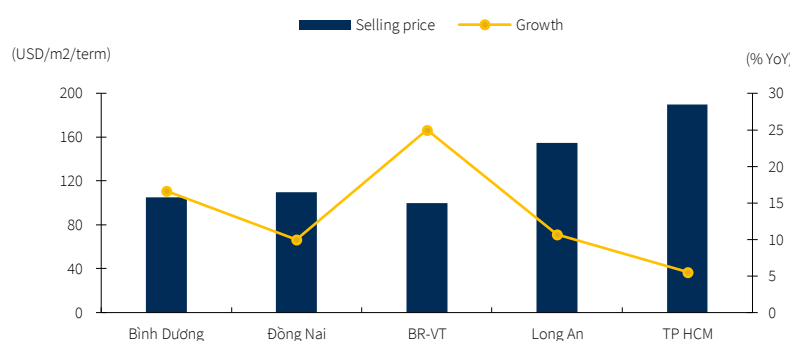
Fig 23. IDC – Industrial parks’ location



Source: KB Securities Vietnam

Fig 24. Vietnam – 2022 land rents in the Southern region

Land rents in Ba Ria – Vung Tau have the highest growth rate compared to other provinces and cities in the Southern region



Source: IDICO Corp, KB Securities Vietnam

IDC expects to expand its land bank

Besides attracting investment to industrial parks, IDC continues to accumulate and expand its land bank. In the Northern region, besides the two projects in Bac Ninh and Thai Binh, IDC will search for new land bank in other provinces and cities such as Hai Phong, Hung Yen, Ha Nam, and Ninh Binh with an estimated area of 1,000 – 1,200ha. In the Southern region, IDC is expected to own an additional 1,000–1,500ha, of which 470ha of Tan Phuoc Industrial Park in Tien Giang province is waiting for an approval, which should be got in 4Q22.

IDC divested non-core businesses to focus on industrial park development

At the annual general meeting 2021, shareholders passed the restructuring plan focusing on four main business lines, which are industrial investment and development, energy, residential and commercial real estate, and industrial park services. Accordingly, IDC will focus on the core business of investment and development of industrial zones, assign other lines to subsidiaries, and divest other fields. In 2021, IDC divested all 30% of capital in Phu My Super White Float Glass Co., Ltd. to Viglacera Corporation and 26% of capital in Dak Mi Hydropower JSC to Bitexco. IDC is expected to continue to sell four subsidiaries

(Table 6) to focus on main business activities and balance capital. The restructuring helps IDC focus strengths on industrial park development instead of allocating resources to some inefficient business activities such as construction and building materials. We expect that the restructuring and the change in accounting method for industrial land lease from annual to one-time allocation will benefit the growth potential of the company.

Table 6. IDC – Divestment plan

	Main business	IDC's ownership
IDICO Machinery Erection Construction Investment JSC	Construction	20.1%
Dong Thuan Investment JSC	Construction, BOT	4.6%
Industrial University of Vinh	Education	7.2%
Vietnam Urban Investment Construction JSC	Construction	8.2%

Source: IDICO Corp

Risks

Industrial park investors are currently facing difficulties related to the legal completion and site clearance process

Regarding the project's legal status: Although the Decree No. 35/2022/ND-CP helps to removing some limitations and inadequacies in the regulations on the establishment of industrial parks, there are difficulties and obstacles in the process of completing the legal application for investment policy, which slows down the progress of the industrial park project. This is the biggest risk affecting businesses in the field of industrial park investment & development.

Regarding site clearance: The site clearance process is the most difficult stage for industrial park developers. The increase in land prices for the period 2020–2024 and changes in policy make (1) the cost of land clearance compensation increase, hence higher cost & lower profit margin. (2) The incompatibility of compensation prices prolongs the time for compensation and site clearance, affecting cash flow and business results of enterprises.

Weather and water conditions affect the operation of hydroelectric plants

In 2020, Dak Mi 3 hydropower plant had to temporarily stop generating electricity due to heavy effects of floods. As a result, unpredictable weather may affect the operation of IDC's hydropower plants.

Forecast & valuation

2022F business performance

We estimate NPAT & revenue of the parent company in 2022 at VND2,201 billion (+384%) and VND7,980 billion (+86%YoY) respectively, based on the following assumptions:

- The area for industrial park land reaches 140ha (88% of the enterprise's plan) from the Huu Thanh expansion, Phu My II and Phu My II industrial parks. The rental price of land is USD135/m²/lease cycle in Huu Thanh Industrial Park and USD125/m²/lease cycle in two Phu My II industrial parks. Accordingly, the revenue from leasing industrial parks should be VND4,204 billion (+690%).
- Revenue from energy segment is VND2,970 billion (+10%YoY).

2023F business performance

2023F NPAT & revenue of the parent company are at VND2,364 billion (+7%) and VND8,400 billion (+5%YoY), based on the following assumptions:

- The area for industrial park land reaches 159ha from the Cau Nghin expansion, Huu Thanh, Phu My II and Phu My II industrial parks. The average land rent of Cau Nghin Industrial Park is USD62/m²/lease cycle, and Huu Thanh Industrial Park has the land rent of USD142/m²/lease cycle, two Phu My II industrial parks are USD131/m²/lease cycle. As a result, the revenue from industrial park lease is VND4,541 billion (+8%).
- The revenue from energy business should be VND2,970 billion (+2%YoY).

Table 7. IDC – 2021A–2023F business results

(VNDbn)	2021	2022F	+/-%YoY	2023F	+/-%YoY
Net revenue	4,301	7,980	86%	8,400	5%
- IP sales	690	4,204	509%	4,541	8%
- Energy	2,698	2,970	10%	3,030	2%
- Others	931	805	-13%	830	3%
Gross profit	737	3,496	374%	3,809	9%
Financial income	605	166	-73%	141	-15%
Financial expenses	-294	-303	3%	-377	24%
Profit before tax	756	2,943	289%	3,157	7%
NPAT-MI	454	2,201	385%	2,364	7%

Source: IDICO Corp, KB Securities Vietnam

BUY recommendation for IDC stock with a target price of VND 77,400/share

Using SOTP, we set IDC's target price of VND77,400/share, equivalent to an upside of 36% compared to the closing price on September 7, 2022.

- Industrial real estate: We use RNAV method to re-evaluate IDC's industrial park projects, based on the remaining leased area. In view of being cautious of the risks of development progress and industrial park lease, we discount 10% of the estimated value. Thus, the estimated value for IDC in the industrial park segment is VND23,367 billion, accounting for 82% of the equity value.
- Residential real estate: We use RNAV to re-evaluate IDC's residential projects. Our pricing model only includes projects that already have clear information about their implementation plan.

- Energy: We use the P/E valuation method to estimate fair value with a target P/E for the hydro and power business segments of 11.5x and 10x.
- BOT segment: We use DCF method for two BOT projects National Highway 1A and National Highway 51.

We give a positive rating to IDC stock thanks to its large industrial land bank and experience in industrial park investment and development. We expect that existing industrial parks like Huu Thanh, Phu My II and Phu My II expansion with favorable locations will quickly be fully occupied in the coming years for good rent increases. The corporate restructuring to focus resources on the main business is expected to bring profit growth for IDC. We recommend BUY for IDC stocks, based on the business outlook and valuation results.

Table 8. IDC – Valuation results

(VNDbn)	Valuation method	P/E target	Value	IDC's ownership	Attributed value to IDC
Industrial parks (IPs)		Discount 10%	29,892		23,367
Cau Nghin	DCF		1,759	100%	1,759
Huu Thanh	DCF		11,975	100%	11,975
Phu My II	DCF		2,985	100%	2,985
Phu My II MR	DCF		3,567	100%	3,567
Que Vo II	DCF		4,048	51%	2,064
Southern IPs	DCF		5,559	51%	3,613
Residential projects	DCF		3,175	67–100%	3,081
Energy	P/E	10–11.5x		51–100%	1,353
BOT	DCF		982	58%	570
Equity value					28,371
+ Cash and cash equivalents					511
Net debt					3,343
NAV					25,539
Outstanding shares (share)					330,000,000
Share price (VND)					77,400

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)

Head Office:

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

Hanoi Branch:

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

Ho Chi Minh Branch:

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

Saigon Branch:

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

CONTACT INFORMATION

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

Investment ratings & definitions

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.