



NAM LONG INVESTMENT CORPORATION (NLG: HSX)



Prudent and firm strategy

FULL REPORT
27/05/2019

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

INVESTMENT HIGHLIGHT

Nam Long Group is the leading company in mid-high end housing development with reasonable prices

Nam Long Group (NLG) has remained its leading position in mid-high end housing development with reasonable prices. The main product lines are Ehome, Valora and Flora. In addition, NLG also cooperated with business partners with strong financial potential from Japan to develop large urban areas (UA.)

Healthy financial condition with debt/equity ratio reaching 0.19.

The company benefits from healthy financial status with low debt ratio thanks to approaching investment capital from foreign investors.

Total area of projects under construction is 400ha.

In the next period, NLG determines to become the largest UA developer with by cooperating with famous Japanese partners to develop its projects, including Mizuki Park UA, Akari City UA, and Waterpoint UA. These are all large projects, which are expected to have a positive contribution to Nam Long profit.

Continue to accumulate 200ha landbank in Type 2 urban area.

In 2018-2019, Nam Long has accumulated more landbanks with the total area of 236.5ha in Dong Nai and Hai Phong provinces. These are all potential landbanks in the future.

BUY recommendation for NLG shares

Based on NLG's valuation result and business outlook in the upcoming period, KBSV recommend to BUY NLG shares at the target price of VND36,500 per share, 18% higher than the closing price on May 27, 2019.

Risks do exist.

NLG may have to face some featured risks of a real estate company, risks from interest rate fluctuation and cyclical movements of Vietnam real estate market.

BUY

Target price	36,500VND
Up/Down	18%
Current price (27/05/2019)	30,850VND
Target price	36,500VND
Market cap	7,377.3 bn VND (317.9 mn USD)

Exchange rates on 27/05/2019: 1USD= 23,455ND

Forecast revenue and valuation

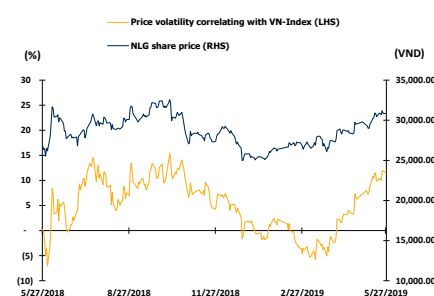
	2016A	2017A	2018A	2019F
Revenue (VND Bil)	2,533.80	3,161.31	3,479.61	3408.6
Growth rate (%)	101.3%	24.8%	10.1%	-2%
Gross profit (VND bn)	822.88	1,294.94	1,503.46	1389
Growth rate (%)	32.48	40.96	43.21	40%
Net profit (VND Bil)	387.57	756.16	887.19	1322.3
Growth rate (%)	85.8%	95.1%	17.3%	19%
EPS(VND)	2,373.00	3,314.00	3,521.00	3866.6
EPS growth	67.4%	39.7%	6.2%	10%

Trading data

Outstanding share volume	239,136,918 cp
3-month average trading volume	685,767
% foreign ownership	49%

% price change

(%)	1M	3M	6M	12M
NLG	6%	7%	-4%	-7%
VN-INDEX	0%	2%	6%	-13%



Source: Fiinpro, KBSV

NAM LONG INVESTMENT CORP

OVERVIEW

1. HISTORY OF DEVELOPMENT

Table 1: NLG’s history of development

1992	<ul style="list-style-type: none"> Nam Long Co., Ltd was established with the charter captital of VND 700 million
1996-2005	<ul style="list-style-type: none"> Officially changed to Nam Long Investment JSC.
2008	<ul style="list-style-type: none"> Cooperated with 2 strategic shareholders: Nam Viet JSC (100% owned by Goldman Sachs) and ASPL FUnd (Malaysia)
2010	<ul style="list-style-type: none"> Cooperated with Vietnam Azela Fund (VAF) - Mekong Capital Increased charter capital to VND 482.6bn
2013	<ul style="list-style-type: none"> Officially listed on HSX with ticker NLG
2014	<ul style="list-style-type: none"> Cooperated with new foreign shareholders: IFC, Briger Capital (US),...
2015	<ul style="list-style-type: none"> Keppel Land became strategic shareholder Hankyu Realty Co. Ltd & Nishi Nippon Railroad Co.Ltd (Japan) became partners to develop FLORA projects
2016	<ul style="list-style-type: none"> Issuing VND 500 billion of convertible bonds to Keppel Land Cooperated with Hankyu Realty and Nishi Nippon Railroad to develop Fuji Residence and Kykio Residence
2017	<ul style="list-style-type: none"> Cooperated with Hankyu Realty and Nishi Nippon Railroad to develop Mizuki Park project
2018	<ul style="list-style-type: none"> Cooperated with Hankyu Realty and Nishi Nippon Railroad to develop Akari City project Cooperated with Nishi Nippon Railroad, TBS group và Tan Hiep Ltd to develop Waterpoint project Phase 1

Source: NLG

2. BUSINESS AND OWNERSHIP STRUCTURE

By March 31, 2019, Nam Long Long Investment Corp owned 16 direct subsidiaries, 02 indirect subsidiaries, 02 affiliated companies and 01 joint venture (Table 2).

NLG’s current charter capital is VND2,391 billion, in which internal shareholders hold 36.4%, domestic privates 18.7%, domestic organizations 6.3%, foreign privates 0.1%, and foreign 38.5%. Large shareholders include: Mr Nguyen Xuan Quang – Chairman of BOM, holding 13.4%; Ibeworth Pte. Ltd hold 10%; and PYN Fund Elite hold 5.9%. (Figure 3).

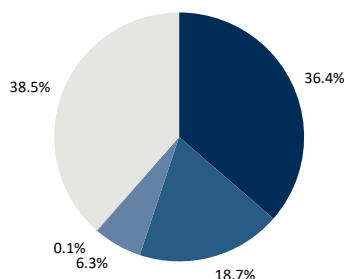
Table 2: Business structure

	Company	Business activity	Ownership rate(%)		
Commercial Real Estate	Nam Long PMD Ltd	Construction and (Real Estate-RE)	100		
	Nam Long - Hong Phat JSC	Construction and RE	99.98		
	Nam Long ADC JSC	Construction and RE	97.14		
	Nguyen Phuc Real Estate Investment & Trading Ltd	RE	50		
Housing Development	Thao Nguyen Real Estate Investment & Trading Ltd	RE	50		
	NLG - NNR - HR - Fuji Ltd	Construction and RE	50		
	NNH Kikyo Flora Ltd	RE	50		
	NNH Kikyo Valora Ltd	RE	50		
	Thien Viet Lam Investment JSC	RE	99		
	NNR Mizuki JSC	RE	50	Joint Venture	
	Southgate JSC	RE	50		
	Construction and Service	Anabuki NL Housing Service Viet Nam Ltd	RE	30.59	Affiliates
		Nam Long Real Estate Transaction Floor Ltd	RE Exchange	100	
		Nam Khang JSC	Construction and RE	100	
Nam Vien JSC		RE service	81.25		
Nam Khang Construction Materials Trading		Construction Materials	100		
Nam Long Service Ltd		Services and Construction	100		
Nguyen Son Real Estate JSC		RE	87.33		
Landbank Development	Nam Long VCD JSC	Construction and RE	100		
	Nam Phan Invsrment JSC	Construction and RE	100		
	Paragon Dai Phuoc Ltd	RE	100		

Source: NLG, KBSV

Figure 3: Shareholder structure

Internal shareholder, Domestic Individuals, Domestic Organisations, Foreign Individuals, Foreign Organisations



Source: NLG

Figure 4: Revenue structure

Real estate sales, Real estate transfer, Services, Real estate lease, Construction



Inside: 2017
Outside: 2018

Source: NLG, KBSV

3. BUSINESS AREA & POSITION ON THE MARKET

NLG is one of the leading developers of UA construction

Nam Long is one of the most experienced developers on the real estate market in Vietnam, with 27 years of foundation and development and three main product lines: EHome/ EHomeS, Flora, and Valora. The market of NLG focuses in some cities like HCMC, Long An, Can Tho, Dong Nai, Binh Duong and Hai Phong. Nam Long has invested and developed many large UAs in Vietnam such as Nam Long Tan Thuan Dong (28ha), Nam Long Phuoc Long B (34ha), Fuji Residence (5.6ha), and Kikyo Residence (17.8ha)... in addition to some UAs under construction like Waterpoint (355ha), and Mizuki Park (37ha),... With the success of four consecutive projects whose cooperation with Japanese partners, Hankyu Hanshin and Nishi Nippon Railroad (Nishitetsu), Nam Long left a good impression with a variety of products that meet the market demand such as Ehome departments with reasonable prices, Flora and Valora villas. In 2018, Nam Long has offered 3,272 products for sale on the market,

accounting for over 15% market share of mid-end and low-end departments in HCMC, and always keeps its market position in this segment. Additionally, Nam Long has current advantages of a large clean landbank with an area of over 650ha, which is suitable to the company's development strategies.

4. OWNERSHIP STRUCTURE

The earnings from selling foundation soil, shophouses, villas and apartments were the largest contribution to NLG total revenue, accounting for 71% and 69% in the total revenue of 2017 and 2018. In these two years, Nam Long recorded an additional revenue from real estate transference at 27% and 23% in Nam Long revenue structure (Figure 4).

BUSINESS ACTIVITIES

Nam Long has focused on three main business fields which are housing investment and development, UA co-investment and development, and commercial real estate exploitation.

1. HOUSING DEVELOPMENT

In this segment, NLG invests and sells low-end real estate projects with three main product lines:

- Ehome/EhomeS apartments with the prices ranging from VND600 million to VND1 billion
- Flora apartments with the prices from VND1 billion to VND3 billion
- Valora villas' prices ranging from VND3 billion to VND8 billion.

Nam Long focuses on developing three main product lines: EHome/EHomes, Flora, and Valora

Nam Long affirms its solid position in the low-end segment with EHome and EHomeS products.

Ehome is the first low-end product that was launched by Nam Long in 2007. This product is aimed at customers with average income, while most of its apartments' prices are under VND1 billion. In addition to Nam Long's typical Ehome projects such as Ehome 3, 4, 5 completed and handed over to customers, Nam Long has developed an additional product line, EhomeS (Social Housing) – Social houses for customers with low income. Both Phu Huu Project started from last 2016, and EhomeS Nam Saigon started in early 2018 recorded positive sale result as all of apartments were sold out.

Flora projects marked the shift of Nam Long to mid-end segment.

Flora is a mid-end product which was officially released in 2014 with the Flora Anh Dao Project. Flora quickly became a key product line when Nam Long cooperated with two strategic partners from Japan. Flora Fuji and Kikyo Flora projects were developed and handed over in 2018.

Mid and low-end apartment segments are the two main product types in NLG.

Ehome and Flora apartment types are always determined to be the main products of Nam Long, and account for a large proportion in product structure. Positive results from Nam Long projects have proved NLG's good determination when focusing on low and mid-end segments. These segments are lacking supply sources as the number of products offered for sales declined despite high absorption rate.

Valora projects introduced to customer from 2016 all saw positive

Valora products are shophouses and villas located in an isolated area with full facilities introduced by Nam Long in 2016. The construction density of Valora

selling results

Residential areas has been very low, such as 16% in Valora Fuji, Valora Kikyo 16.6%, Valora Camellia Garden 30%; and Valora Island 28%. Camellia Garden, Valora Fuji, and Valora Kikyo projects have been developed and achieved good selling results as all of the villas and shophouses were sold out. Nam Long successfully handed over all of its apartments to customers in 2018. Valora Island Project developed by NLG is included in Mizuki Park UA with 44 villas sold out, handed over to customers. The revenue from 15 of which has been recorded in 2018. The remaining 29 villas are expected to be recorded into 2019 revenue.

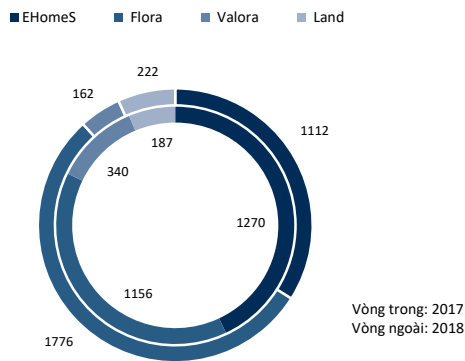
The shift to mid-end segment and shophouses – villas helps Nam Long to improve its GPM

The development of the two product types Flora and Valora in addition to Ehomes helps NLG increase the gross profit margin (GPM) because of the three product lines, Ehome’s GPM is 15-20%, while Flora’s is 20-25%, and Valora’s GPM is the highest with over 30%.

Fruitful cooperation with foreign investors and right determination of product segment bring Nam Long many impressive results.

Promising sales of Nam Long projects have shown the company’s right determination to focus on mid and low-end products in suburban districts and surrounding provinces of HCMC, which meet the demand from citizens. Furthermore, Nam Long also shows a good ability to develop projects and hand over in accordance to the deadline. The cooperation with foreign partners helps Nam Long advance its brand name as the company can ensure each project has reasonable prices, sufficient facilities, green space and competitive payment methods.

Figure 5: Product structure in 2017 and 2018



Source: NLG

Figure 7: Fuji Flora Project



Source: NLG

Figure 6: Ehome Project



Source: NLG

Figure 8: Kikyo Valora Project



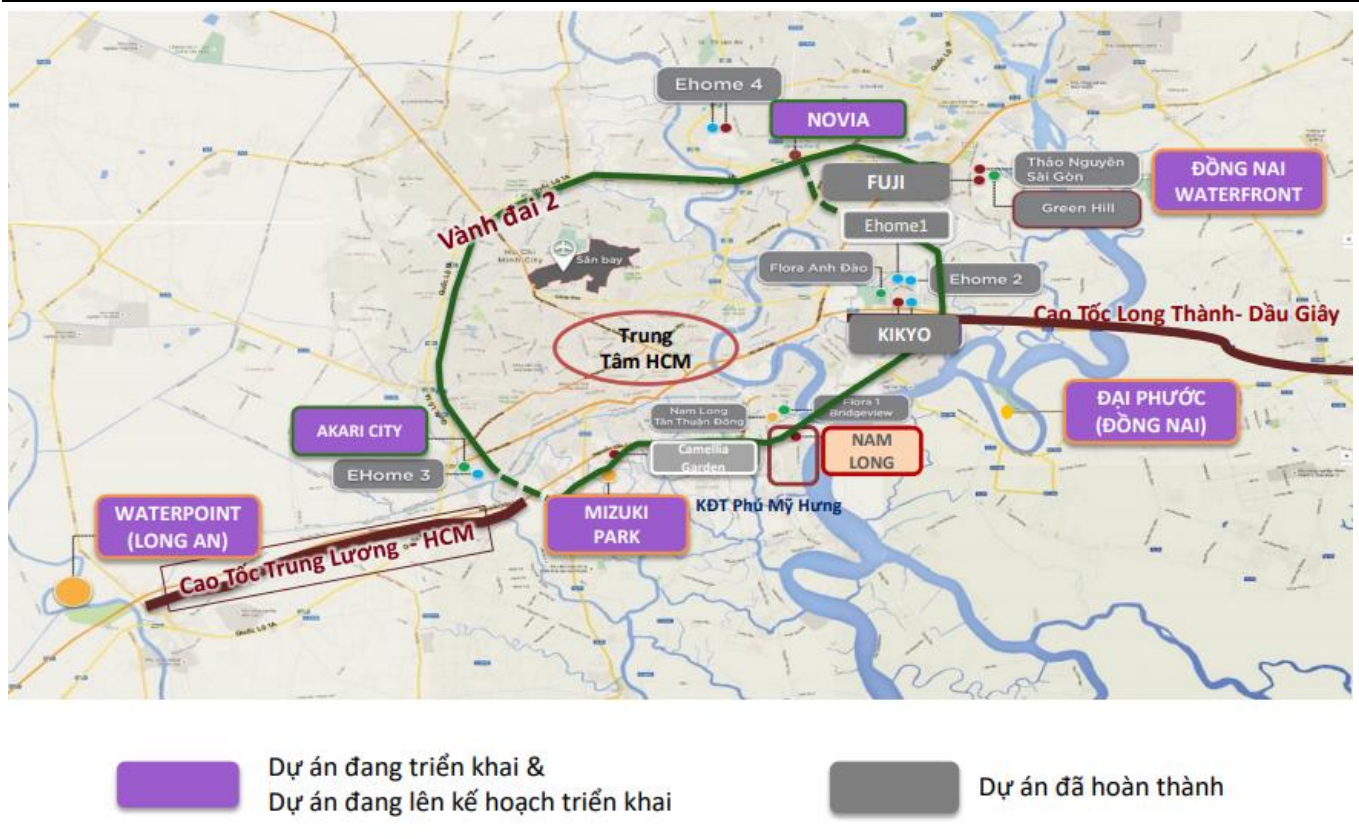
Source: NLG

Table 9: Some finished residential projects

Project	Location	Area	Ownership	Product	Quantity	% delivery	Delivery time
Camellia Garden	Binh Chanh TP HCM	5.9ha	60%	Valora	102	100%	2017
				Valora	84	100%	
Fuji Residence	District 9, TP HCM	5.6ha	50%	Flora	789	100%	2016-2018
				Valora	84	100%	
Kikyo Residence	District 9, TP HCM	17.8ha	100%	(EHomeS Phu Huu)	1240	100%	2017-2018
			50%	Flora	234	100%	
			50%	Valora	110	100%	
EHomeS Nam Sai Gon Valora Island (Mizuki Park)	Binh Chanh TP HCM	11ha	100%	EHome	1678	Delivering	2018-2019
				Valora	44		
Flora Novia	Thu Duc TP HCM	1.1ha	100%	Flora	518		2019

Source: NLG

Figure 10: Projects located in HCMC



Source: NLG

2. CO-INVESTMENT

The project development process helps shorten the time to record profit by transferring of projects to joint ventures

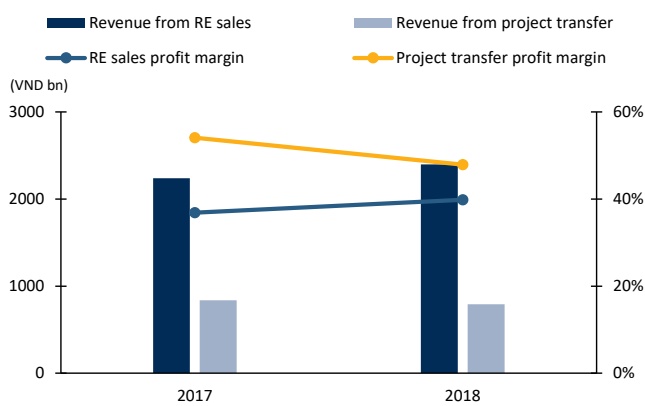
In addition to the development of traditional house, Nam Long also joins co-investment with domestic and international partners through land project transference. While other developers usually need from three to five years to develop land projects from the very first stage in order to record revenue and profit from the project, Nam Long recorded revenue and profit right after successfully transferring projects to its partners.

In 2017, Nam Long recorded VND838 billion (accounting for 27% total revenue) from the transference of a 26ha land project to Mizuki – a joint venture between Nam Long (holding 50% shares) and two Japanese strategic partners, Hankyu and Nishi Nippon Railroad (holding 50% shares) to co-develop Mizuki Park Project.

In July 2018, NLG signed a transference contract to transfer the Waterpoint Project Stage 1 with an area of 165 ha in Ben Luc, Long An Province to Southgate JSC – a joint venture between Nam Long (50% shares) and Hankyu Hanshin and Nishitesu (35% shares), TBS Group (10% shares), and Tan Hiep Investment Co., Ltd. (5%). Nam Long recorded a revenue of VND792 billion from project transference, equal to 23% total revenue (Figure 4).

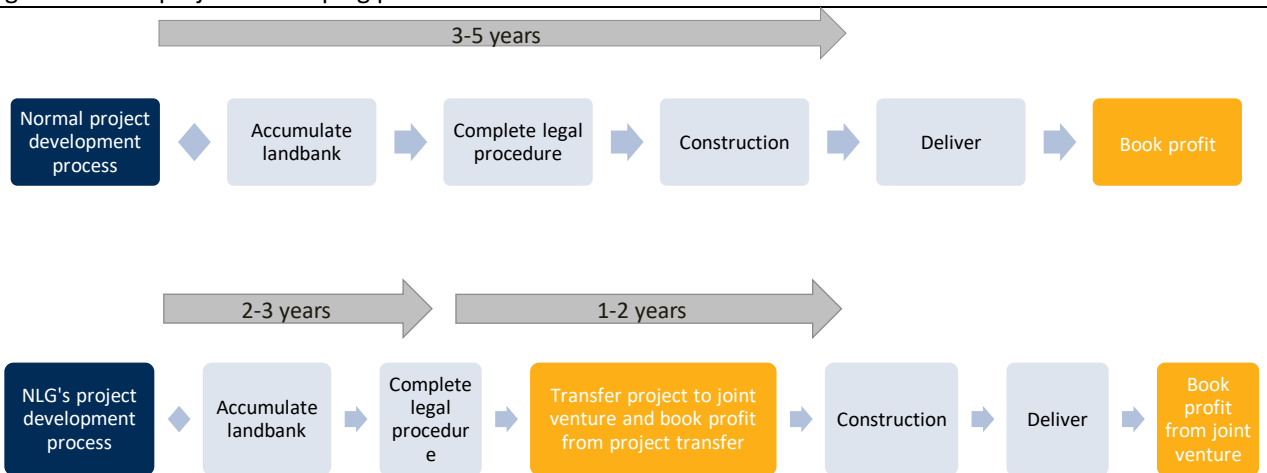
GPM of the project transference reached 54% in 2017 and 48% in 2018 (Figure 11).

Figure 11: Revenue and PM of Housing development and Project transference



Source: NLG, KBSV

Figure 12: NLG project developing process



Source: KBSV

Commercial real estate exploitation will be promoted to become Nam Long's core business.

NLG has positive business operations as revenue and profit have grown steadily in recent years thanks to an increase in the number of apartments sold.

Business performance in the 1Q/2019 showed that revenue dropped sharply over the same period but net income skyrocketed thanks to the purchase of Viet Thien Lam.

3. COMMERCIAL REAL ESTATE EXPLOITATION

NLG has currently owned a landbank with an area of 65ha to develop commercial real estate segment in large Uas such as Mizuki, Akari and Waterpoint. This landbank will be divided into three main segments: (1) Landbank used for schools (kindergarten, primary, secondary and university); (2) Landbank for medical facilities (3) Landbank for retail and shopping malls. With the cooperation of Anabuki Housing Service, commercial real estate will be exploited and developed from 2019 to become Nam Long's core business, accounting for 30% of NLG's total revenue within the next 10 years. According to our assessment, if Nam Long can make good use of this large landbank to provide commercial real estate for lease in urban areas, this activity will not only bring stable revenue and profit but also create a real estate ecosystem that adds value to Nam Long's projects.

BUSINESS PERFORMANCE & FINANCIAL STATUS

The number of apartments sold in 2018 reached 3,272 units, increasing 11% yoy, CAGR in 2014-2018 reached 21.15% (Figure 13).

Revenue has continuously increased in recent years with CAGR growth from net revenue reaching 41.5% in 2014 - 2018. Revenue in 2018 was VND3,480 billion, gaining 10.1% yoy (Figure 14). In which, earnings from Valora products had the largest contribution to the total revenue with up to 23%, which mainly came from Valora Fuji, Valora Kikyo and Valora Island projects. The two main product lines, Ehome and Flora kept a proportion of 35% in total revenue, lower than the increase of 40% in 2017, coming from the key projects such as EhomeS Sai Gon South, Flora Kikyo, and Flora Fuji. The revenue from foundation soil sale gained 29% yoy to VND360 billion, while the earnings from the transference of shares in Waterpoint Long An hit VND 791.5 billion, accounting for 22.3% total revenue (Figure 15). Nam Long has just recorded revenue and profit from selling 130ha of land, the amount gained from the rest 35ha land will be recorded in 2019.

NPAT of parent company shareholders in 2018 reached VND 763.5 billion, increasing 42.7% against 2017. NPAT achieved a CAGR of 68.1% in 2014-2018.

According to the updated business performance in the 1Q/2019, revenue reached VND332.3 billion, -38.4% YoY, completing 9.5% of the year's plan. The reason for the surge in revenue was because Novia, Waterpoint, Paragon, Dai Phuoc projects are under progress, while old projects (Valora Island and Kikyo Flora) have been handed over in 4Q/2018. Revenue mainly came from the sales of E-Home S Nguyen Son and Kikyo Flora apartments, which was valued at VND191 billion (67% total revenue), and revenue from the sale of villas with VND84 billion, accounting for 10%. Accordingly, profit margin in the 1Q/2019 was 28.8%, plunging compared to the same period, because high-rise apartments have lower profit margins than low-rise apartments.

Although revenue plummeted, NPAT in 1Q was VND145.2 billion, up by 358% yoy, fulfilling 15% of the year's NPAT target, thanks to the profit from the

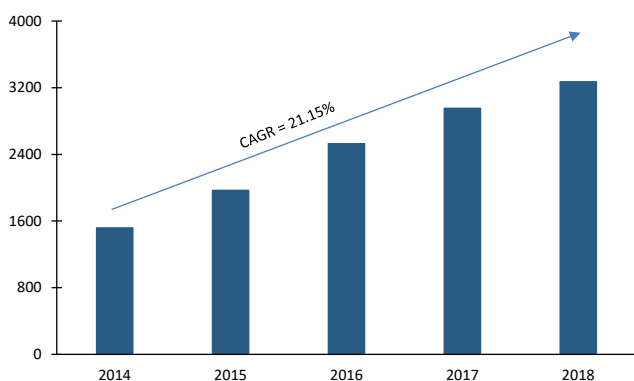
purchase of Viet Thien Lam company, which owned Dai Phuoc Paragon Villas project of over 45ha area in Dong Nai. NLG has recorded the in profit from buying Thien Viet Lam into other income items with a value of VND 137 billion.

GPM surged in the last two years thanks to the transference of real estate projects with high profit margin

GPM in 2018 was 43.2%, slightly increased 41% in 2017, and soared compared to previous years thank to the transference of Waterpoint Long An project with high GPM (Figure 16). This project had low cost of land as the land had been accumulated before, leading to GPM of this transference to reach 48%, which also helped GPM of NLG reach a high level.

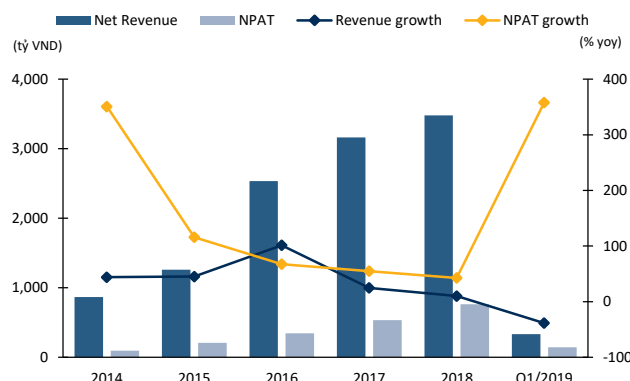
The SG&A/revenue ratio has tended to decrease in recent years, despite still being high compared to the industry average, due to financial support for tenants and large welfare packages for employees. In addition to the downward trend of SG&A/revenue ratio in the last three years, the improved EBIT margin showed the ability to better control NLG's SG&A.

Figure 13: The number of apartments sold in 2013-2018



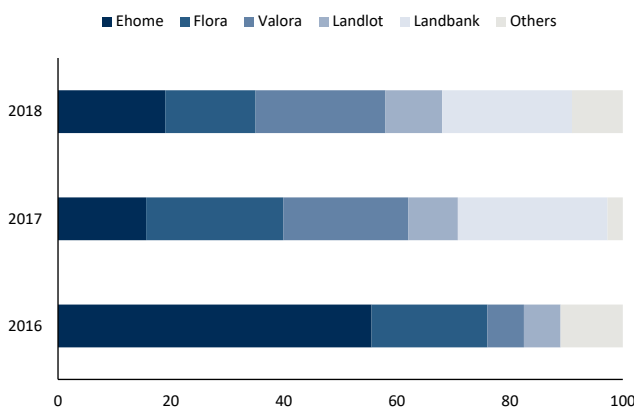
Source: NLG, KBSV

Figure 14: Revenue and NPAT in 2014-2019



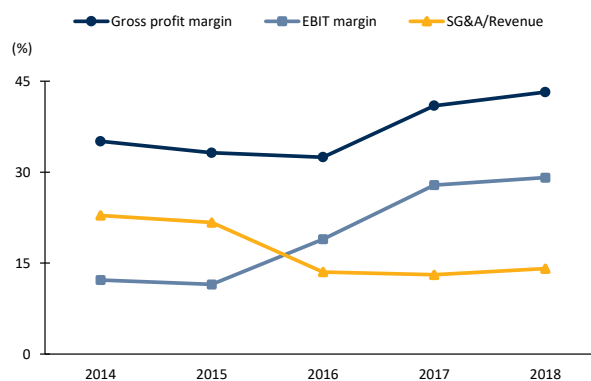
Source: NLG, KBSV

Figure 15: Revenue by product lines



Source: NLG

Figure 16: GPM, EBIT margin and SG&A/revenue



Source: NLG, KBSV

The proportion of inventories decreased while cash and cash equivalents increased in 2017 and 2018.

Total assets grew positively (CAGR=25%) from 2014, in sync with the recovery of the real estate market, in which items change over the years (Figure 17). Inventories' proportion in total assets tended to decline, while the proportion of cash increased in 2017 and 2018. By the end of 2018, NLG had VND 2,048.2 billion of cash and cash equivalents, accounting for 21.7% total assets. This is also the highest level among real estate companies. By the end of 1Q/2019,

cash and cash equivalents shed 23.6%, while inventories climbed 50%, mainly concentrated in the Paragon Dai Phuoc Project bought by the company in the 1Q (Figure 18). According to our assessment, this can be considered a large advantage of NLG, while the real estate sector may meet more difficulties in 2019.

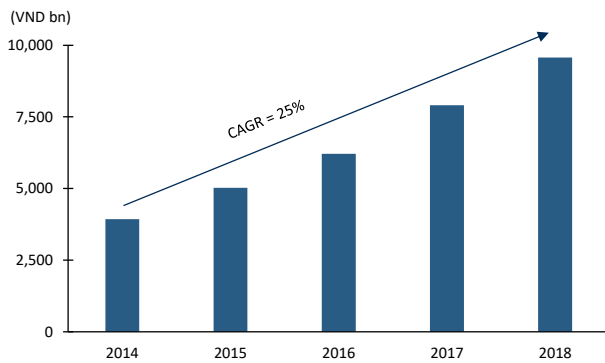
Loan ratio was very low as the cooperation with Japanese partner helped to decrease the demand for loans.

ROE was low compare to the sector average.

By the end of 2018, short-term and long-term loans of NLG was valued at VND1,007.4 billion, debt/equity ratio of the company was 0.19x. The loan proportion of NLG is currently low, so the company does not face the pressure of interest rates.

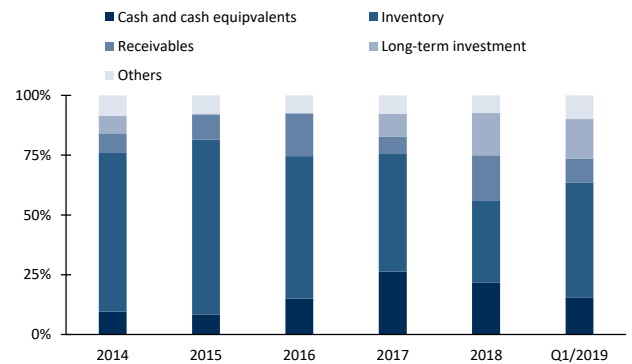
ROE 2018 of NLG reached 16.95%, higher than that in previous years, but still low compared to other companies in real-estate sector because NLG kept a low leverage ratio (Figure 19).

Figure 17: Total assets in 2014-2018



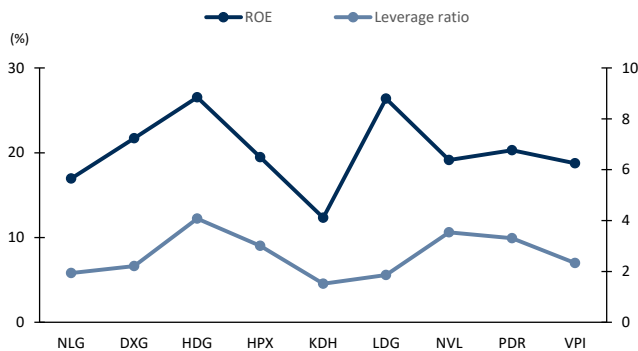
Source: NLG, KBSV

Figure 18: Asset structure in 2014-2018



Source: NLG, KBSV

Figure 19: ROE and leverage ratio of the company



Source: Fiinpro, KBSV

INVESTMENT HIGHLIGHT

NLG has a right determination that suits the customers’ demand.

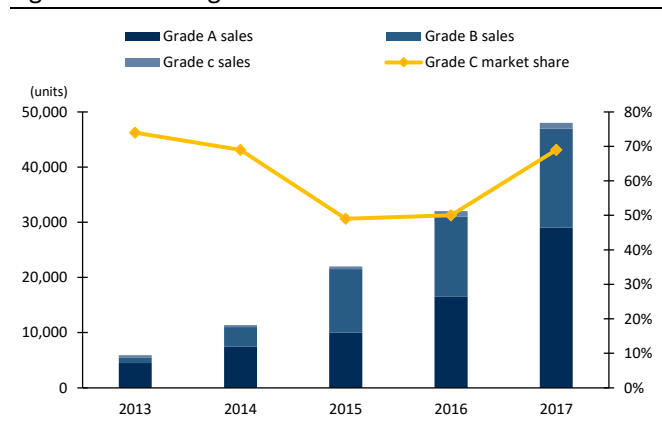
NLG determines to focus on big urban area development at the low-end and mid-end segments. According to a report by Savills, these are leading segments on the market, with over 90% buyers have demand for residential housing, and highest liquidity (Figure 20). However, according to the statistics by HoREA, in HCMC, the supply of these segments was insufficient as in 2018, the proportion of low-end apartments was only 24.7% of the overall supply of real estate products, which was a low level. We assessed that NLG had a big opportunity when it has a right determination for products, which also suits the customers’ demand. In addition, NLG projects attract customers as they are located in areas where the population density is reasonable, and the infrastructure is being finished and provides relevant benefits.

Large landbank combined with good ability to attract capital thanks to the cooperation with Japanese partners instead of depending on loan capitals.

Real estate market in 2019 is likely to meet obstacles as the credit flow into real estate sector is tightened when the SBV has just released the draft of the Circular providing regulations on limits, and safe ratios in banking operations, foreign bank branch to replace the Circular No.36. Accordingly, the maximum proportion of short-term capital used for loans in mid-term and long-term decreased from the current level of 40% to 30%. In that case, NLG will have a strong advantage of business thanks to the cooperation with Japanese partners to co-invest and develop projects. Therefore, NLG needs to have a strong ability to attract capital from business partners to develop UA projects with a variety of products, prestigious brand, and competitive and payment methods to ensure high product consumption (Figure 21).

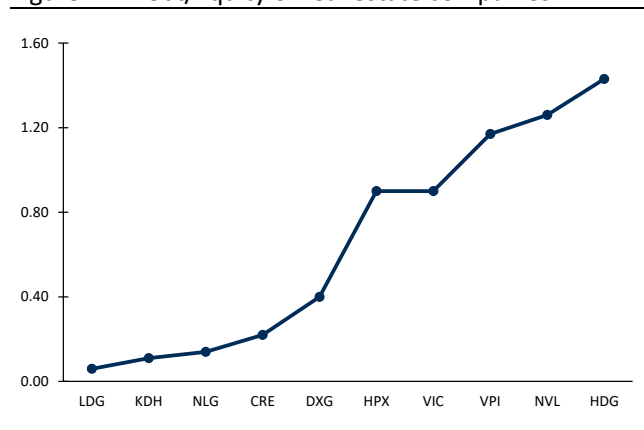
Unlike other real estate companies with negative cash flow, triggered by land bank development leading to the increase in loans, free cash flow of NLG has seen positive changes since 2014 because (1) A large landbank has been increased up to 800ha, enough to develop in the next years. (2) Co-investment with Japanese partners instead of depending on bank loan capital.

Figure 20: Housing demand in HCMC



Source: Savills

Figure 21: Debt/Equity of real estate companies



Source: Fiinpro, KBSV

Nam Long has expanded the landbank in Dong Nai for the development in the mid and long term when real estate sector is expected to have a potential growth in the next few years.

In 2018 and early 2019, Nam Long has expanded its landbank when owning two UAs in Dong Nai (1) Paragon Dai Phuoc in Nhon Trach District bought from DIC (2) Dong Nai Waterfront Project (170ha) in Long Hung Ward, Bien Hoa Province by buying 70% shares of Dong Nai Waterfront City Co., Ltd. from Keppel Land (Figure 22). The project was given the Decision of land allocation, paid land use fees, and was approved 1/500 planning and got the red book for more than 170 hectares (out of 192ha).

Figure 22: Waterfront Project



Source: NLG

The prices of real estate in Dong Nai are quite low as the infrastructure has not been developed. However Dong Nai has a favorable location as it is located in the key economic region of South East of Vietnam with a high potential in infrastructure development and industrial clusters with many projects being accelerated like Long Thanh airport, Ring Road 3 connecting District 9 and Nhon Trach, Cat Lai Bridge connecting Nhon Trach and Dong Nai. Therefore, the real estate market in Dong Nai shows a lot of potentials for development in the coming time with a large housing demand. Thus, this area is quite suitable for NLG's medium and long-term development strategy. In the short term, these two projects may not affect Nam Long's business results, but in the long term, it is still necessary to pay attention to these two projects due to (1) The scale of the project is very large, so Nam Long needs to balance a large amount of capital to finance the project (2) The cyclical nature of the real estate market, especially in the provinces, may affect the progress of sales of the project.

In addition, Nam Long plans to expand its market share in the North by buying a 21.5ha project in Thuy Nguyen and Hai Phong from VSIP, but the two sides are still in the negotiation process.

NLG short-term projects

Mizuki Park Project (Figure 23) brought a significant amount to Nam Long's revenue in 2019-2020.

Mizuki Park is a large-scale UA project located in Binh Chanh District, HCMC. The project has been offered for sale successfully in the Phase 1 at the end of 2017 and beginning of 2018, with 1365/3972 Flora apartments and 33/33 Valora shophouses have been deposited. The price of Flora apartments is VND23-29 million/m², the prices of shophouses, and villas fluctuate around VND80 to VND100 million/m². Phase 1 is expected to be handed over to customers in 2019. Nam Long plans to offer Phase 2 for sale in 3Q and 4Q/2019. However, we believe that with the objective obstacles regarding construction permit procedures for new blocks in the Phase 2 and Phase 3, this presales plan may be delayed.

Figure 23: Mizuki Park Project progress (April 2019)



Source: NLG

The Akari Project (Figure 25) will be opened for sale again in 2019, but the legal issues of the project still need more tracking

In 2018, the company planned to start to sell Akari City project, but due to problems about planning changes, the presales plan has been delayed, and the projects is expected to be sold in June 2019. Instead, Nam Long has offered a tightening payment progress for its customers. In particular, each payment period is three months apart; and until the date of receiving the apartment, customers just have to pay 50% the value of the apartment (Table 24). In addition, the project has 5,000m² of land of the Phase 3 that needs to be converted from agricultural land to residential land. NLG said it would focus on developing the Phase 1 and Phase 2 of the project first, and would complete legal procedures to change land use purpose. However, with current difficulties of the real estate market in HCMC related to the investment approval policies and the way of land use fee calculation, we believe that this issue of Nam Long will not be solved in the short term.

Nam Long signed a cooperation contract with Anabuki Housing Service to provide real estate

In addition to the two strategic partners in real estate project development, in 2017, NLG has signed a cooperation contract with another strategic partner, which is Anabuki Housing Service – one of the prestigious real estate

management services according to Japanese standards for NLG’s projects, thereby creating a competitive advantage against projects in the same segment.

management companies in Japan. Accordingly, Anabuki Housing Service, Nam Long and Okamura will contribute capital and run Anabuki NL Housing Service to provide packaged real estate services in line with Japanese standards for residential areas and commercial real estate projects. Anabuki was chosen to manage some of Nam Long’s projects such as Capital Tower office, Kykio Residence, Akari City, Mizuki Park and Waterpoint. The cooperation with Anabuki Housing Service has partly completed the real estate closed value chain model of Nam Long from the original stage to the final stage of a project.

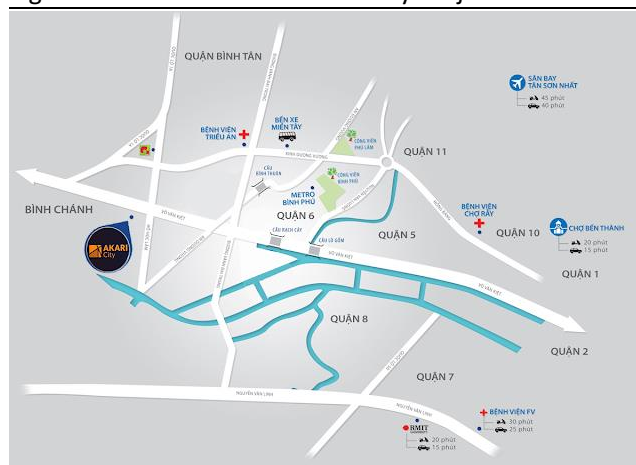
At the same time, it is expected to bring added value to Nam Long's projects as in Vietnam, the management of mid and low-end apartments still has many worrisome issues.

Table 24: Payment progress of Akari Project

Payment progress	Timeline	Payment
1st payment	Signing deposit contract	VND 50m
2nd payment	Next 15 days	10% apartment value
3rd payment	Signing buying contract	5% apartment value
4th payment	During 9 months	5% apartment value
5th payment	During 12 months	5% apartment value
6th payment	During 15 months	5% apartment value
7th payment	During 18 months	5% apartment value
8th payment	During 21 months	5% apartment value
9th payment	Handing over	45% apartment value
Final payment	Receiving pink certificate	5% apartment value

Source: NLG

Figure 25: The location of Akari City Project



Source: NLG

Waterpoint project (Figure 26) is Nam Long's largest project until now. After many years, the Waterpoint project was started with the cooperation of Japanese and domestic partners. The project benefited from the completing infrastructure in Long An

Nam Long is completing legal procedures and has a license to build infrastructure and complete leveling 165ha of land. Nam Long is also constructing a series of show houses with internal facilities to ensure the plan to open for sale in 2019. Waterpoint Urban Area Project accounts for a large proportion of NLG's inventories (more than 19%). This project has not been resident for many years, and is waiting for strategic partners. With the cooperation of the two Japanese partners and two domestic partners, we expect the progress of the project to be improved and bring significant revenue and profit to NLG when land prices in Long An are increasing due to the convenient location and infrastructure being finished. There is no detailed information about products that Nam Long will deploy at Waterpoint Urban Area, however, according to our assessment, in the first, Nam Long may prioritize the promotion of low-rise products and plots of land that can be quickly opened for sale in late June or early July 2019, and record revenue in 2019 and 2020. We think that in the context of clean land is increasingly scarce, the center of supply of shophouses and villas development will expand to suburban areas of Ho Chi Minh City and Dong Nai, Long An provinces. The supply constraints led to the high consumption rate of shophouses and villas, reaching about 91.1% in 2018 according to CBRE data.

Therefore, NLG's low-rise and foundation land products can attract customers' attention.

Figure 26: Waterpoint Project



Source: NLG

Table 27: NLG UA projects

Project	Location	Area	Ownership	Product	Quantity	Handover time
Mizuki Park	Binh Chanh TP HCM	26ha	50%	Valora	69	2018-2019
				Flora	3972	Phase 1: 2019
Akari City	Binh Tan TP HCM	8.8	50%	Flora	5221	2020-2021
Waterpoint P1	Long An	165ha	50%	Urban Area	3000	2019-2022
Waterfront	Dong Nai	170ha	70%	Urban Area	7000	Land clearance completed
Paragon Dai Phuoc	Dong Nai	45ha	100%	Valora	600	Land clearance in progress

Source: NLG

RISKS

Risks of a typical real estate company, especially large inventory volume.

NLG's orientation is to focus on developing large-scale urban projects, so NLG may face risks when delaying to offer products for sales or slow sale progress, leading to a large number of inventories.

Risks involved in the cycle of real estate sector.

Revenue of NLG depends on commercial real estate and house trading, so it has characteristics of cyclical real estate market.

Risks from competitors of the same sector.

NLG's real estate products are mainly in the low-end segment which is also aimed at by many other businesses, so the company faces fierce competition from other investors in the same sector.

Legal risks: There have been existing many unsolved legal issues.

NLG's business operations mainly focuses in HCMC and surrounding provinces like Long An, and Can Tho. Recently, real estate market in HCMC is facing difficulties mainly related to the conversion of land use purpose, prolonged administrative procedures, non-transparent calculation of land use fees. In particular, many projects are under legal review, making businesses unable to implement the project.

VALUATION & RECOMMENDATION

NLG determines to become the leading UA developer in Vietnam

Business plan in 2019-2021

KBSV forecasts that NLG's revenue in 2019 will reach VND 3,408.6 billion, down 2% yoy and NPAT of parent company will hit VND 866.1 billion, up 13.4% yoy.

1. BUSINESS PLAN

In 2019, NLG set a target of VND 3,485 billion in revenue (up 0.15% yoy), and VND 956 billion in net profit (up 25.3% yoy). In 2019, NLG promoted the implementation of more than 400ha of available landbank in Akari, Mizuki (Nguyen Son), Waterpoint UAs, and expanded the market to the Northern region (Hai Phong and Hanoi,...) and Southern key economic region (Dong Nai and Long An) with over 200ha of available landbank.

In addition, with over 65ha of commercial - service land in existing projects, in 2019, NLG will begin to invest, operate and exploit this land bank. According to the long-term plan, NLG will boost its commercial real estate segment to become one of NLG's main businesses.

In the period of 2019-2021, Nam Long will continue to focus on affordable housing segment, aiming to develop nearly 26,000 products and hand over over 16,000 Ehome, Flora and Valora products in the UAs.

2. FORECAST BUSINESS PERFORMANCE IN 2019-2020

❖ Revenue of NLG in 2019 will come from:

- Revenue from the sale of real estate products will reach VND1,873.2 billion, declining 22% yoy. These projects are:

- + EhomeS Sai Gon South: revenue from 840 apartments will hit VND578 billion.

- + Flora Novia: revenue from total 548 apartments will reach VND810.7 billion.

- + Valora Island: revenue from 29 remaining apartments will be VND 215.6 billion.

- + Valora Nguyen Son: hand over 56 shophouses and record a revenue of VND269 billion.

- Revenue from project transference will hit VND629 billion, decreasing 20.5% yoy

- Revenue from providing services and construction will be VND 713 billion, increasing 167% yoy.

- Revenue from commercial real estate hits VND 193 billion.

- In addition to projects directly developed by NLG, the company also had co-operated projects with Japanese partners such as Mizuki and Southgate. The part of over VND4,297 billion of revenue from these projects in 2019 will not be merged into the Financial statement of NLG. Instead the company would record VND 388 billion of NPAT gained from projects into interests (loss) from affiliates and joint ventures.

➤ As a result, GPM will went down to 40% from 43% in 2018.

Table 28: Forecast revenue – profit in 2019

(VND bn)	2018	2019F	% change
Net revenue from selling and providing services	3,479.6	3,408.2	-2%
Real estate investment	2,399.2	1,873.2	-22%
EHomeS Nam Sai Gon		578.1	
Flora Novia		810.7	
Valora Island		268.8	
Valora Nguyen Son		215.6	
Project transfer	791.5	629.0	
Services and Construction	267.3	713.0	
Commercial real estate	21.6	193.0	
Cost of goods sold	1,976.1	2,019.1	2%
Real estate investment	1,443.8	1,425.1	-1%
EHomeS Nam Sai Gon		479.3	
Flora Novia		632.7	
Valora Island		162.1	
Valora Nguyen Son		151.0	
Project transfer	412.1	320.9	
Services and Construction	107.7	182.1	
Commercial real estate	12.5	91.0	
Gross profit	1,503.5	1,389.1	-8%
Financial income	129	83.2	-35%
Interest expense	36.4	41.4	14%
Profit (loss) from joint ventures	14	388.3	2677%
SG&A	490	505.8	3%
Net profit	1,128	1,322.3	17%
Net profit after tax	887	1,057.8	19%
Net profit after tax of the parent company	763.5	924.7	21%
EPS (VND)	3,521	3,866.6	10%

Source: KBSV

3. VALUATION METHODS AND RECOMMENDATION

RNAV method

In order to calculate the reasonable value of NLG shares, we use RNAV model and P/E comparison method with other companies in the same sector. With the characteristics of a real estate company, the value of NLG mainly depends on the value of the land bank and projects in the futures, so KBSV believes that the RNAV method is suitable to assess the asset quality of NLG. In addition, we use P/E comparison method to have a precise look of market. In our opinion, the reasonable ratio of the two methods is RNAV: P/E = 80:20.

P/E method

We have re-evaluated projects that have enough information and can be implemented in the next period. For projects that do not yet have sufficient information on development plans or have not yet conducted construction, we re-evaluate the project based on land value. For projects without development plans, we keep the book value of the project (Table 30).

Accordingly, the fair value of NLG shares by this method is VND35,800/share.

We calculate the current P/E of Real Estate industry at 10.2x. As a result, the reasonable price for NLG shares by this method is VND 39,400/share.

Recommendation

NLG is currently the leading enterprise in investment and development of large-scale urban area projects with affordable products in HCMC, Dong Nai and Long An. With a healthy financial status thanks to good exploitation of foreign investment and a large land bank, NLG has a great competitive advantage compared to other businesses. Based on valuation results and business prospects in the coming time, KBSV recommend to **BUY** NLG shares with a target price of VND36,500/share, 18% higher than the closing price on May 27, 2019.

Table 29: Valuation

Method	Estimate price	Weight	Target price
P/E	39,400	20%	7,880
RNAV	35,800	80%	28,640
Target price (VND)			36,500

Source: KBSV

Table 30: Mô hình định giá RNAV

Project	Valuation method	Owership rate	RNAV(VND bn)
Real estate investment			7,810
- EhomeS Nam Sai Gon	DCF	100%	37
- Valora Island	DCF	100%	37
- Valora Nguyen Son	DCF	100%	84
- Mizuki Park	DCF	50%	1,853
- Flora Novia	DCF	100%	242
- Akari City	DCF	50%	618
- Waterpoint P1	DCF	50%	1,187
- Waterpoint P2	Tham chiếu	100%	1,425
- Paragon Dai Phuoc	Book Value	100%	1,610
- Other projects	Book Value	100%	717
+ Cash and cash equivalents			1592
-Debt			829.5
RNAV			8572.0
Share price (VND)			35,800

Source: KBSV

APPENDIX

Financial statement

Income Statement					Balance Sheet				
(VND billion)	2016	2017	2018	Q1/2019	(VND billion)	2016	2017	2018	Q1/2019
Net sales	2,533.80	3,161.31	3,479.61	332.28	CURRENT ASSETS	5,828.22	6,778.56	7,320.03	7,730.80
Cost of sales	-1,710.92	-1,866.37	-1,976.15	-236.66	Cash and cash equivalents	931.56	2,082.08	2,084.18	1,592.23
Gross Profit	822.88	1,294.94	1,503.46	95.61	Short-term investments	38.87	60.50	16.18	81.30
Financial income	25.69	94.75	129.05	15.69	Accounts receivable	1,094.93	578.56	1,832.51	1,035.02
Financial expenses	-28.61	-29.34	-37.01	-14.38	Inventories	3,698.43	3,884.01	3,261.23	4,893.47
of which: interest expenses	-20.55	-27.83	-36.41	-13.95	LONG-TERM ASSETS	380.59	1,127.39	2,254.36	2,491.68
Gain/(loss) from joint ventures (from 2015)	0.60	-2.87	13.98	8.43	Long-term trade receivables	124.87	76.49	199.05	382.66
Selling expenses	-188.62	-218.51	-251.78	-21.80	Fixed assets	55.17	56.46	52.49	58.94
General and admin expenses	-154.39	-195.17	-238.80	-65.37	Investment properties	39.34	32.84	37.68	62.08
Operating profit/(loss)	477.55	943.81	1,118.89	18.19	Long-term incomplete assets	0.00	0.00	10.19	2.65
Other incomes	11.01	9.75	18.88	137.70	Long-term investments	30.52	755.47	1,684.42	1,690.85
Other expenses	-4.22	-3.32	-9.76	-0.61	TOTAL ASSETS	6,208.81	7,905.95	9,574.40	10,222.48
Net other income/(expenses)	6.79	6.44	9.11	137.09	LIABILITIES	3,061.54	4,183.20	4,289.90	4,454.38
Income from investments in other entities	0.00	0.00	0.00	0.00	Current liabilities	2,179.39	3,060.69	2,693.61	2,787.66
Net accounting profit/(loss) before tax	484.34	950.24	1,128.00	155.29	Trade accounts payable	199.48	291.48	269.92	226.88
Corporate income tax expenses	-96.77	-194.08	-240.81	-4.16	Advances from customers	651.55	1,249.94	1,080.29	1,038.06
Net profit/(loss) after tax	387.57	756.16	887.19	151.13	Short-term unrealized revenue	0.00	0.00	0.00	0.00
Minority interests	42.35	221.15	123.72	5.88	Short-term borrowings	353.65	215.97	201.42	190.30
Attributable to parent company	345.22	535.02	763.47	145.24	Long-term liabilities	882.14	1,122.51	1,596.29	1,666.72
					Long-term trade payables	0.00	0.00	0.00	0.00
					Long-term advances from custo	0.00	0.00	0.00	0.00
					Unrealized revenue	0.00	324.01	718.15	714.35
					Long-term borrowings	349.61	228.55	805.98	639.22
					OWNER'S EQUITY	3,147.27	3,722.75	5,284.50	5,768.10
					Paid-in capital	1,421.15	1,572.26	2,391.37	2,391.37
					Share premium	492.16	492.05	988.51	988.51
					Undistributed earnings	578.40	863.75	1,293.71	1,439.72
					Minority interests	663.51	802.63	684.19	1,022.22
Operating statistics & Ratios					Key ratios				
	2016	2017	2018	2018		2016	2017	2018	2018
Gross profit margin	17.34%	18.96%	32.48%	40.96%	Multiple				
EBITDA margin	17.61%	8.83%	19.48%	28.31%	P/E	13.02	9.34	9.77	7.53
EBIT margin	13.81%	7.15%	18.94%	27.88%	P/E diluted	11.63	8.34	9.01	7.31
Pre-tax profit margin	12.65%	7.53%	19.12%	30.06%	P/B	1.69	1.59	1.54	1.49
Operating profit margin	12.47%	7.32%	18.85%	29.85%	P/S	1.66	1.47	2.03	2.11
Net profit margin	10.62%	6.37%	15.30%	23.92%	P/Tangible Book	1.34	1.25	1.34	1.23
					P/Cash Flow	-16.08	2.05	7.13	-33.13
					EV/EBITDA	8.05	3.36	5.84	7.66
					EV/EBIT	8.28	3.41	5.91	7.77
					Operating performance				
					ROE%	0.12	0.16	0.17	0.17
					ROA%	0.06	0.08	0.09	0.09
					ROIC%	0.12	0.21	0.16	0.32
					Financial structure				
					Cash Ratio	0.43	0.68	0.77	0.57
					Quick Ratio	0.93	0.87	1.45	1.02
					Current Ratio	2.67	2.21	2.72	2.77
					LT Debt/Equity	0.11	0.06	0.15	0.11
					LT Debt/Total Assets	0.06	0.03	0.08	0.06
					Debt/Equity	0.22	0.12	0.19	0.14
					Debt/Total Assets	0.11	0.06	0.11	0.08
					ST Liabilities/Equity	0.69	0.82	0.51	0.48
					ST Liabilities/Total Assets	0.35	0.39	0.28	0.27
					Total Liabilities/Equity	0.97	1.12	0.81	0.77
					Total Liabilities/Total Assets	0.49	0.53	0.45	0.44
					Activity ratios				
					Account Receivable Turnover	10.07	11.14	14.03	11.81
					Inventory Turnover	0.46	0.49	0.55	0.52
					Account Payable Turnover	8.60	7.60	7.04	8.97

Source: Fiiipro

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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KB SECURITIES VIETNAM (KBSV)

Head Office:

Floor G, 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

Floor 1, VP Tower, 5 Dien Bien Phu Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 3776 5929 - Fax: (+84) 24 3822 3131

Saigon Branch

Floor 1, Saigon Trade Center, 37 Ton Duc Thang Street, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

Ho Chi Minh Branch

Floor 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

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 - Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 - Ext: 2276

Hotmail: ccc@kbsec.com.vn

Website: www.kbsec.com.vn