

STOCK PITCH REPORT

Buy

October 25, 2021

Target price VND264,000

Upside (%)	54.6
Current price (Oct 25, 2021)	170,800
Market cap (VNDbn)	4,099

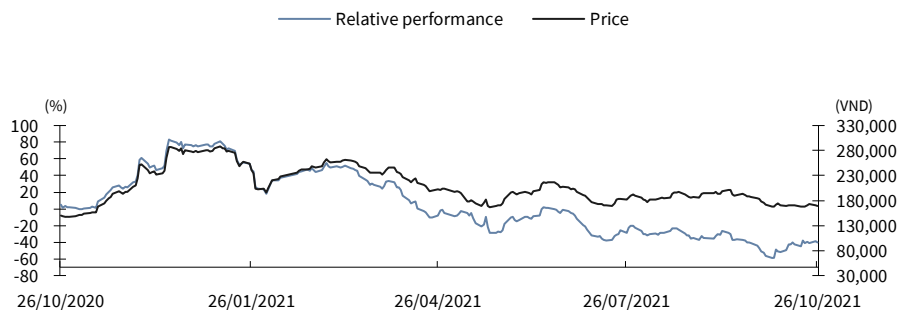
Trading data

Free float (%)	33.4
3M avg trading value (VNDbn)	14.5/0.62
Foreign ownership (%)	1.01
Major shareholder	Phuoc Hoa Rubber (32.85%)

Forecast earnings & valuation

FY-end	2019	2020	2021F	2022F
Net sales (VNDbn)	193,939	263,563	238,581	1,732,661
Net sales growth (%)	-63.57%	35.90%	-9.48%	626.24%
Gross profit (VNDbn)	137,267	174,708	155,077	902,117
Gross profit margin (%)	70.78%	66.29%	65.00%	52.07%
Net profit (VNDbn)	236,508	290,945	249,954	836,360
Net profit growth (%)	-49.65%	23.02%	-14.09%	234.61%
EPS (VND)	14,782	12,123	10,415	34,848
EPS growth (%)	-49.65%	-17.99%	-14.09%	234.61%
P/E (x)	11.6	14.1	16.4	4.9

Fig 1. Share price performance



Source: Bloomberg, KB Securities Vietnam

Nam Tan Uyen JSC (NTC)

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INVESTMENT VIEWPOINT

We recommend BUY for NTC stocks with a target price of VND264,000/share after considering the promising Nam Tan Uyen Industrial Park expansion phase 2 project and healthy financial status of the company.

INVESTMENT CATALYSTS

NTC-3 Industrial Park should be approved and operated from 2022. We believe NTC's 2022 performance would be good thanks to profit from land leasing. We assume that NTC will lease 70 ha for the rental price of USD92/m², equivalent to the average rent in Binh Duong.

The industrial park segment is the driver for profit growth in the long term. We expect this segment of NTC would be positive in the long term thanks to (1) Vietnam's ability to attract FDI despite the COVID-19 impacts and (2) positive outlook for industrial zones in Binh Duong.

Expected dividend yield is at an attractive level – healthy financial structure. NTC has a healthy financial structure with a large amount of cash – deposits and regular dividend payments. With the recognition of high profits in the coming years, KBSV expects NTC to pay dividends at the ratio of 8.7-10% with the current price.

The rubber group divested capital. Vietnam Rubber Group (GVR)'s divestment plan at NTC will have a positive impact on NTC's share price.

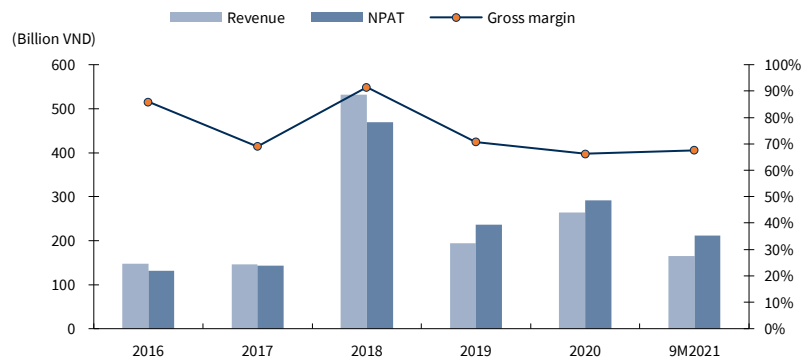
RISKS

The risk of Coronavirus resurgence affects the rental progress of industrial park projects. There are also legal risks related to the land lease approval progress of the NTC-3 project.

BUSINESS PERFORMANCE

In 3Q21, NTC recorded VND49 billion in NPAT (-50.4% YoY) on revenue of VND37 billion (-63.5% YoY). Subdued performance was attributable to (1) exhaustion of industrial land for lease, (2) the pandemic impacts on NTC’s ability to find new customers to lease service and warehouse land, and (3) the absence of extra profit from land leasing as in 3Q20. 9M21 NPAT and revenue reached VND165 billion and VND212 billion, down 15.4% YoY and 11.3% YoY respectively.

Fig 2. NTC – Business performance in 2016–1Q21



Source: Nam Tan Uyen JSC

Fig 3. NTC – Industrial park landbank

Projects	Legible area	Occupancy	average rental price of industrial park land	average rental price of service land
NTC-1	241.0	95.6%	47.5	96.6
NTC-2	223.5	96.7%	47.9	81.7
NTC-3	259.4	0%	n/a	n/a

Source: Nam Tan Uyen JSC

INVESTMENT CATALYSTS

NTC operates in the field of industrial park infrastructure, factory and office leasing, and services in industrial parks such as garbage collection and wastewater treatment.

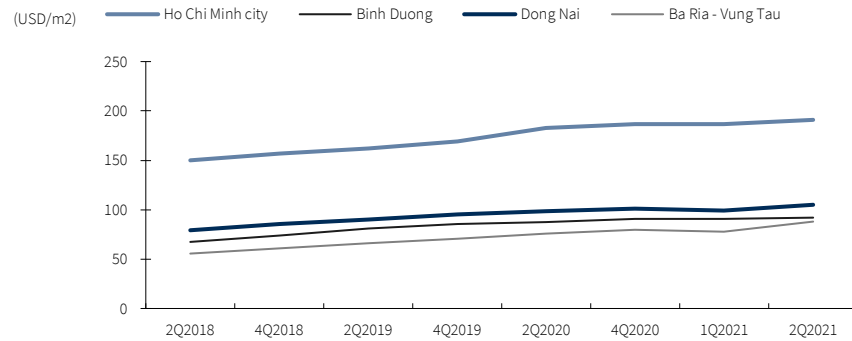
1. Potential growth of industrial park in the long term

The growth driver for NTC in the long term is to focus on developing industrial parks in Binh Duong. We expect NTC's industrial park segment to continue to be positive based on the following factors:

— **Vietnam is a bright spot of FDI attraction.** Despite the pandemic, FDI flows into Vietnam still grew strongly, reflected in the growth of newly registered capital (20.6% YoY) in 9M21. Big advantages of Vietnam market are (1) lower labor costs compared with other Southeast Asian countries, (2) favorable geographical location, (3) preferential policies via FTAs, and (4) the relocation of production bases from China to Vietnam under the impact of Sino-US trade war. According to a statistical survey by JESTRO at the end of 2020, Vietnam is the second choice after Thailand for manufacturing enterprises when they want to move production bases from China.

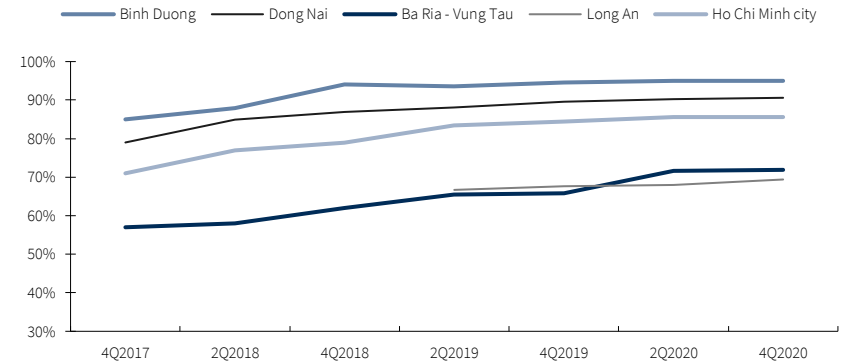
— **Binh Duong Industrial Park has a bright prospect:** NTC's industrial parks are all located in Binh Duong province. This is a province with a favorable location which is adjacent to the economic center of Ho Chi Minh City and Tan Son Nhat International Airport and Cat Lai Port. In addition, Binh Duong owns a network of large manufacturers and suppliers with available labor. Therefore, it is one of the five provinces attracting the highest registered FDI inflows in the 2016–2020 period. In particular, in the first nine months of 2021, the newly registered FDI of Binh Duong still reached USD492 million, up 2% YoY despite the social distancing protocols, ranked third after Long An and Can Tho in the Southern region. Besides, the demand increased faster than the supply, causing the land rent to rise steadily over the years, averaging more than USD90/m². KBSV expects land rents to continue to increase by 3–5% in the coming years.

Fig 4. Southern industrial park – Land rents in 2018–2021 (USDm²)



Source: JLL

Fig 5. Southern industrial park – Occupancy rates in 2017–2020 (%)



Source: JLL

2. NTC-3 is expected to be approved and operated from 2022

– **Nam Tan Nguyen expansion phase 2 (NTC-3) is waiting for approval for land lease.** NTC is in the process of completing procedures to put Nam Tan Uyen Industrial Park expansion phase 2 into operation. This is an industrial park project covering a total area of 345.86 ha with an estimated investment capital of 812 billion. In 2020, NTC has paid VND156 billion for compensation and resettlement assistance and paid VND704 billion to undermine the damage caused by early liquidation of PHR's rubber plantations. NTC submitted the application for land lease and is waiting for approval from the competent authorities of Binh Duong province.

– **NTC-3 will be the main driver of NTC's long-term growth.** KBSV expects that after coming into operation, NTC will quickly raise the occupancy rate at NTC-3 industrial park, based on (1) bright prospects of Binh Duong Industrial Park, (2) the advantage of location of NTC-3, and (3) experience in operating industrial parks of NTC. Besides, with the change of accounting policy (from recognizing annual revenue to recognizing one-time revenue), KBSV expects NTC to record an extra profit compared to the previous period after NTC-3 comes into operation.

3. NTC has an attractive dividend payout ratio and healthy financial status

- **NTC should pay dividends at high ratio in the period of 2022–2025.** NTC has paid regular cash dividends thanks to its large cash holdings from industrial land leasing and a fine financial foundation. With the expectation that the NTC-3 industrial park project will be approved for land lease and put into operation, KBSV expects NTC will continue to pay high dividends in the coming years with a dividend yield of about 8.7– 10% compared to the stock price on October 22, 2021.
- **NTC has a healthy financial structure.** NTC owns a large amount of cash with the ratio of cash to short-term financial investment/short-term assets reaching 94.6%, receivables are at a low level of VND72 billion, equivalent to 6% of current assets. In 9M21, NTC paid VND407 billion in short-term loans, thereby reducing the debt to total capital ratio from 13% to 5%.

4. GVR has a disbursement plan

- **GVR plans to divest from NTC.** Up to now, GVR holds 20.4% shares of NTC and at the 2021 annual general meeting, GVR announced that it would divest from NTC. GVR's divestment is an opportunity to revalue and increase NTC's share price to a fair price.

RISKS

- **Legal risk:** According to the 2021E guidance, the NTC-3 project will be approved in 2021 and NTC will lease 90 ha in 2021. However, the scandal related to Binh Duong province leaders likely delayed the approval of land lease for the NTC-3 project, thereby directly affecting the business plan and profit recognition in 2021-2022.
- **Risk of disease.** As of October 25, 2021, Binh Duong was the province with the second highest number of new Covid cases and total infections in the country, after Ho Chi Minh City. Although the impacts on NTC are not too strong as businesses had already paid the rent once when signing the contract, but the source of new customers was negatively affected during the period, which hit hard on NTC's profit growth. Given the number of new cases decreasing rapidly after peaking in September 2021 and the vaccination rate being accelerated, KBSV believes that the impacts of the pandemic will fade away in the medium term.

VALUATION

2021-2022 FORECAST

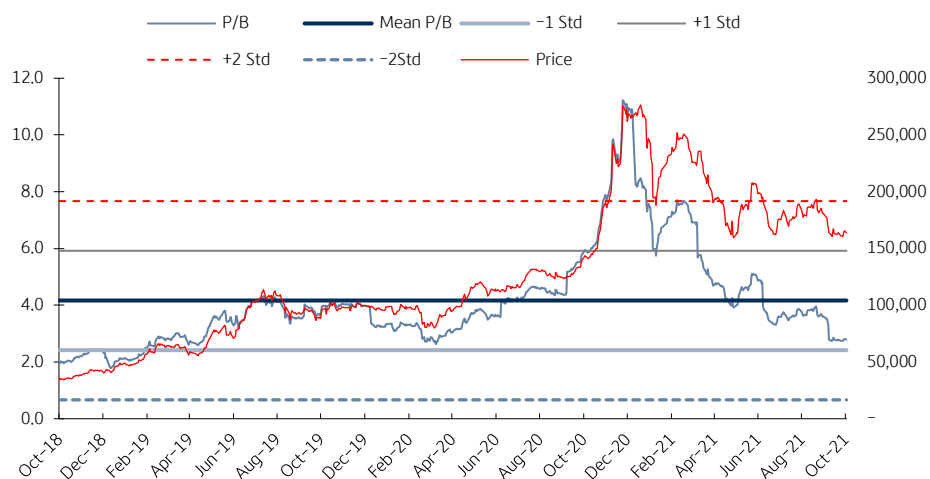
KSBV expects NTC's 2021E NPAT to reach VND250 billion (down 14.9% YoY) on revenue of VND239 billion (down 9.5% YoY). Lower forecasts were because NTC has run out of industrial land for lease, and the occupancy rates also decreased due to the impact of the pandemic.

With the expectation that NTC can get approval to lease land in NTC-3 industrial park and lease 70 ha in 2022 (vs 90 ha as planned for 2021), we forecast 2022 NPAT would reach VND836 billion (up 234.6% YoY) on revenue of VND1,733 billion (up 626.2% YoY) thanks to the recognition of one-time revenue from leasing activities.

VALUATION

After assessing the business outlook and possible risks and using DCF and the P/B forward with the ratio of 50:50, we recommend BUY for NTC stocks, the target price is VND264,000/share, upside 54.6% compared to the price on October 25, 2021. NTC stock is currently trading at a 2022F P/B of 3.2x, with good potential from the NTC-3 project in the long term, we expect a reasonable P/B for NTC at the end of 2022 to reach 4.2x, equivalent to the average P/B forward of NTC in the past three years.

Fig 6. NTC – P/B forward in 2017–2021 (x)



Source: KB Securities Vietnam

Fig 8. NTC – DCF valuation

Assumption	Value
Cost of Equity	8.6%
Risk free rate	2.9%
Market risk premium	8.2%
Beta	0.70
Perpetual growth rate	1%
Forecast period	6 years

Source: KB Securities Vietnam

Fig 7. NTC – 2021F–2022F performance

	2019	2020	2021F	2022F
Revenue	194	264	239	1,733
COGS	57	89	84	831
Gross profit	137	175	155	902
Selling expense	3	4	3	17
Administration expense	48	36	32	69
Financial expense	0	0	2	2
PBT	273	345	297	993
NPAT	237	291	250	836

Source: KB Securities Vietnam

Fig 9. NTC – Combination of two valuation methods

Valuation methods	Estimated price	Weight	Weighted price
FCF	286,900	50%	143,500
P/B	240,900	50%	120,500
Target price			264,000

Source: KB Securities Vietnam

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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

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