

STOCK PITCH REPORT

Buy

September 22, 2021

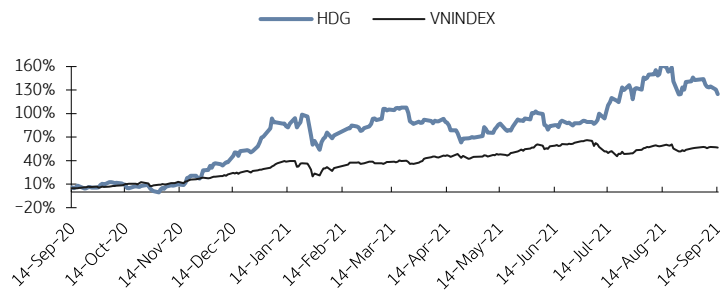
Target price	VND70,600
Upside/Downside (%)	34%
Current price (Sep 13, 2021)	52,800
Market cap (VNDbn)	7,945

Trading data	
Free float (%)	58.3%
3M avg trading value (VNDbn)	121.4
Foreign ownership (%)	10.64%

Forecast earnings & valuation

FY-end	2019	2020	2021F	2022F
Net revenue (VNDbn)	4,343	4,999	4,599	6,001
Profit/Loss (VNDbn)	1,397	1,545	1,469	1,917
Profit attributable to parent company (VNDbn)	932	979	1,046	1,358
EPS (VND)	7,677	6,213	6,778	8,803
EPS growth (%)	17	-19	9	30
P/E (x)	7.24	8.95	7.79	6.00
P/B (x)	2.73	2.84	1.86	1.62
ROE (%)	31	27	28	32
Dividend yield (%)	2	1		

Fig 1. HDG – Share price performance



Source: Bloomberg, KB Securities Vietnam

Ha Do Group (HDG)

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INVESTMENT VIEWPOINT

We recommend BUYING Ha Do Group (HDG) shares with a target price of VND70,600/share thanks to the potential from the ongoing real estate projects and great contribution of three power plants to HDG’s revenue and profit after coming into operation in 3Q21.

INVESTMENT CATALYSTS

Business outlook becomes more positive thanks to great profit potential of ongoing projects. Charm Villas project has a good absorption rate with 164 semi-detached villas sold in the first two launches at an average price of VND70 million/m², much higher than the initial expected price of VND40 million/m². In addition, two projects that are about to be launched in Ho Chi Minh City, Minh Long and Green Lane, will ensure HDG’s results in the years to come.

Investment promotion and energy development play an important role in stabilizing cash flow as well as contributing to sustainable growth of revenue and profit for HDG in the long term. The operation of Song Tranh 4, Dak Mi 2 hydropower plants and 7A wind power plant in September will be a big driver to raise HDG’s profit in 2021.

2022 business performance may see strong growth thanks to handing over Charm Villas project and most of the power plants operating at full capacity. For 2022, we estimate HDG’s post-tax earnings at VND1,592 billion (+30% YoY) and revenue at VND6,001 billion (+31% YoY).

RISKS

High financial leverage ratio which can put HDG at risk of repaying due loans, affecting HDG’s financial health

Many risks in project approval and implemetation in Ho Chi Minh City

Hydrological conditions unfavorable for hydroelectric power plants and the dependence of electricity prices on the policy of Vietnam Electricity (EVN)

BUSINESS PERFORMANCE

HDG faced many difficulties, causing profits to decline in 2Q21

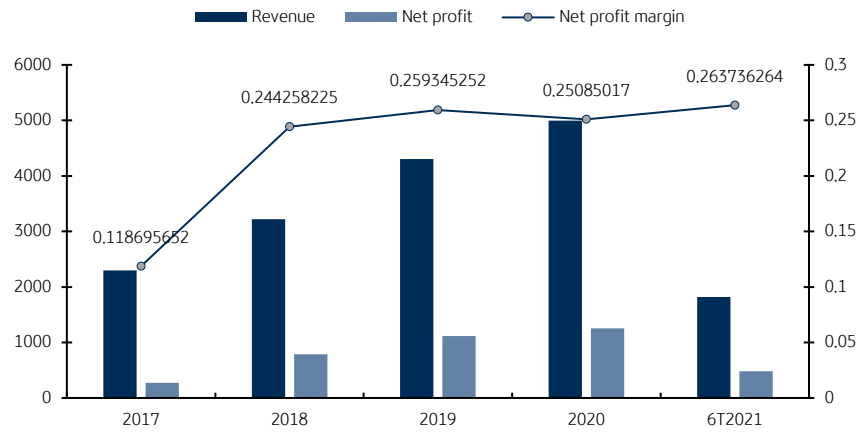
In 2Q21, HDG posted post-tax earnings of the parent company at VND33 billion (-93% YoY) on revenue of VND478 billion (-75% YoY). Business results are less positive than it was a year ago because in 2020, the delivery of a large number of apartments from Hado Centrosa project enormously contributed to HDG's revenue.

Accordingly, HDG's 6M21 profit after tax (PAT) was VND481 billion (-38% YoY) on revenue of VND1,821 billion (-39% YoY), completing 37% and 38% of the whole year's plan for profit and revenue respectively.

HDG focuses on three main business sectors: real estate (including real estate transfer and hospitality service), energy and construction, of which real estate transfer is the core business. HDG divested from the construction sector to focus more on expanding the energy sector which is considered to have great potential.

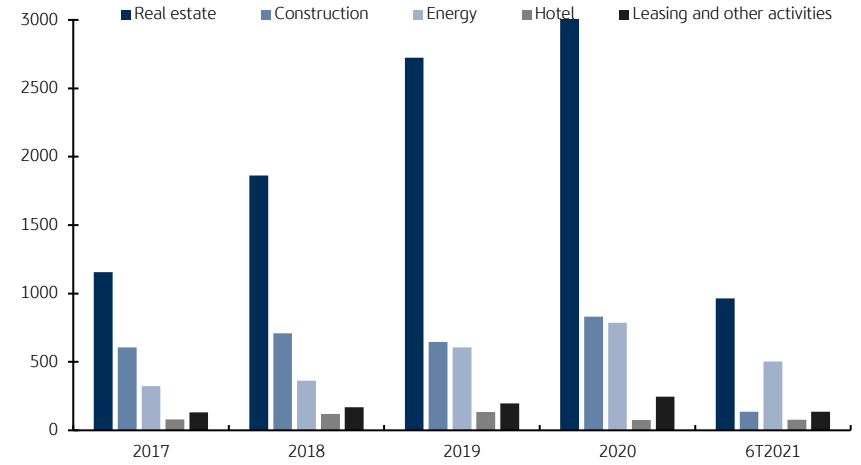
Revenue from real estate transfer still constitutes the largest proportion in HDG's revenue structure, followed by energy and other business activities. Specifically, in 1H21, revenue from real estate and energy sector made up 53% and 27% of total revenue. The contribution of energy sector to total revenue in 6M21 increased significantly (1.7 times) compared to 2020.

Fig 2. HDG - Business results (VNDbn)



Source: KB Securities Vietnam

Fig 3. HDG - Revenue structure (VNDbn)



Source: KB Securities Vietnam

INVESTMENT CATALYSTS

1. Real estate business prospect is positive thanks to high profit potential from projects about to be opened for sale

Real estate investment is the core business of HDG. Although the company currently has an intention of boosting energy sector in the future, real estate sector will still be the No.1 priority to ensure revenue and profit in the next few years.

- **HDG is a prestigious investor with a clean landbank.** HDG's projects all recorded positive sales results as properties were all sold out within one year after opening for sale. Construction execution and apartment handover to customers closely followed the plan, which helped HDG gain a reputation. The company plans to build apartments, offices for lease, villas/townhouses, hotels (Table 4) on 122 ha of clean landbank mainly located in Hanoi and Ho Chi Minh City. HDG is currently evaluating a number of investment projects and looking for more M&A projects with an expected investment of VND1,000-1,500 billion to expand its landbank in major cities.

- **Ongoing projects all have high profit potential, ensuring the profit and revenue of the business in the coming years.** In the period of 2021-2023, HDG will focus on promising projects with great upside potential namely Charm Villas, Green Lane and Minh Long. We believe that two projects about to be opened for sale in Ho Chi Minh City will achieve high occupancy rates because of the scarce landbank in the inner city. Specifically:

a) Charm Villas project: This is HDG's key project in 2021 with great sales results (Figure 5). HDG has finished the infrastructure of the project and is completing the rough construction to be able to hand over to customers in 3Q21. In the first two launches, HDG sold 164/174 semi-detached villas with an average price of VND70 million/m², much higher than the initial estimate of VND40 million/m², which brought in VND1,300 billion. Although social distancing adversely affected the construction progress and sales of the project, we believe that HDG will still realize its target because the fourth quarter is usually the peak season of the real estate market. 100 semi-detached villas with rough construction completed at the end of July 2021 should be delivered as soon as the lockdown is lifted. In 4Q, HDG is going to finish the rough construction of the remaining units sold and will continue to open for sale the rest 221 properties of the project. We estimate that HDG's earnings from Charm Villas project will be VND2,040 billion on revenue of VND4,100 billion in 2021-2022.

- b) Green Lane project: The project is in the South of Ho Chi Minh City with three apartment buildings of 1,231 apartments. The whole project is clean landbank and in the process of completing the planning adjustment. The project should start construction in early 2022 and is expected to be opened for sale in 4Q22 and bring HDG VND650 billion in profit before tax (PBT) on revenue of VND2,625 billion.
- c) Minh Long Project: The project is in Thu Duc District, Ho Chi Minh City with three apartment buildings and 80 semi-detached villas. The project currently has an adjusted planning map (1:2000 scale), it is expected that 1:500 planning map will be approved in 2Q22 to be opened for sale in 3Q22. The project should bring in PBT of VND725 billion on revenue of VND2,776 billion for HDG.

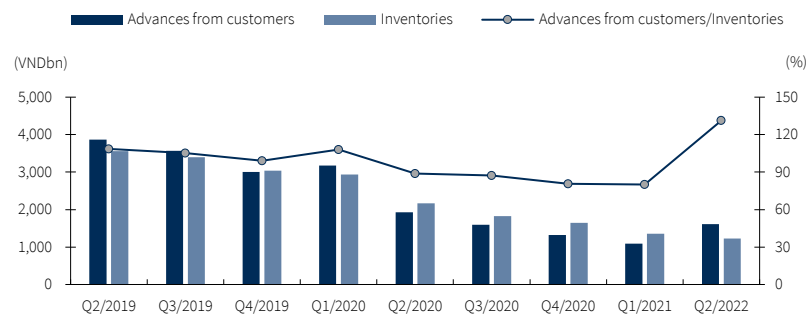
Table 4. HDG – Landbank

Project	Location	Area (ha)	Product	Note
Charm Villas	Hoai Duc, Hanoi	30	528 semi-attached villas	231/528 units sold, starting delivery from March 2021
Green Lane	District No.8, HCMC	2.3	3 apartment buildings with 1,231 apartments	Launched from 2Q22
Minh Long	Thu Duc, HCMC	2.7	3 apartment buildings with 80 semi-detached houses	Clean landbank, launched from 4Q21
Noongtha	Vientiane, Laos	74.5	241 semi-detached houses and 586 villas	Infrastructure phase 1 completed
Dich Vong Complex	Cau Giay, Hanoi	1	2 47-floor apartment buildings and offices	Expected to start construction in 1Q23
CC3	Cau Giay, Hanoi	0.5	1 21-floor apartment building and offices	Clean landbank, expected to start construction in 4Q21
62 Phan Dinh Giot	Thanh Xuan, Hanoi	2.2	Apartment buildings and offices	Expected to start construction in 3Q22
30 Ta Quang Buu	Hai Ba Trung, Hanoi	1	Offices for lease	Expected to start construction by the end of 2022
Bao Dai	Nha Trang	9	35 villas and 108 5* hotel rooms	Expected to start construction in 4Q21

Source: KB Securities Vietnam

The percentage of deposit from customers remains high, reflecting the good absorption of the projects. By the end of 2Q21, HDG has a prepayment of VND1,608 billion, most of which came from the Charm Villas project.

Fig 5. HDG – Deposit/Inventories ratio (%)



Source: KB Securities Vietnam

Table 6. HDG – Sales and revenue of projects, 2021–2023

	Charm Villas	Green Lane	Minh Long	Total
Units sold				
2021F	376			376
2022F		739	592	1,331
2023F		492	408	900
Units delivered				
2021F	113			113
2022F	225			225
2023F	38	615	448	1,101
Revenue (VNDbn)				
2021F	1,260			1,260
2022F	2,520			2,520
2023F	420	1,313	1,470	3,203

Source: KB Securities Vietnam

2. Investment promotion and energy sector development play a pivotal role in long-term financial position of HDG

Table 7.

Factories	Type	Capacity (MW)	Total investment cost (VNDbn)	Investment (VNDbn/MW)	Launch	Ownership
Za Hung		30	503	16.77	2009	52%
Nậm Pông		30	796	26.53	2013	52%
Nhạn Hạc	Hydroelectric	59	1289	21.85	3Q18	52%
Sông Tranh 4		48	1485	30.94	Sep 2021	63%
Dak Mi 2		147	3837	26.10	Sep 2021	98%
Hồng Phong 4.1		48	943	19.65	Jun 2019	83%
SP-Infra 1	Solar power	50	822	16.44	Sep 2020	100%
7A	Wind power	50	1875	37.50	Sep 2021	100%

Source: KB Securities Vietnam

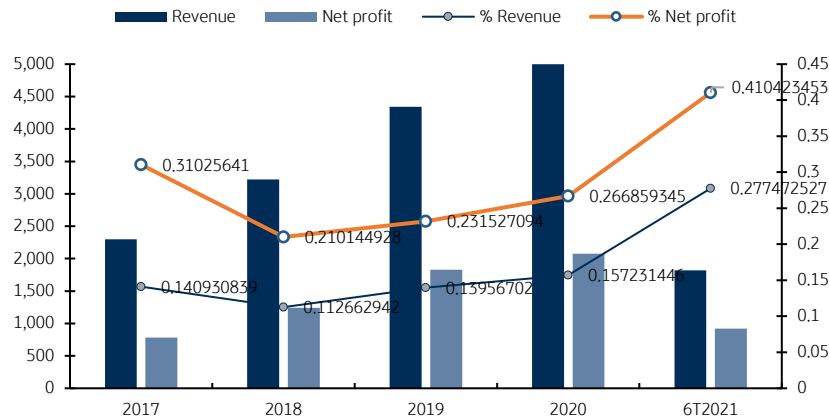
HDG has focused on promoting the energy sector when continuously investing in developing and operating power plants in the field of renewables (including hydroelectricity, solar power and wind power) known as one of the important national goals for the power industry in general, and economic development and production stabilization alone.

– **Initially, HDG only owned and ran two small capacity hydroelectric plants of 30 MW, namely Za Hung (2009) and Nam Pong (2013).** Up to present, HDG has continuously invested in the energy sector with an investment portfolio consisting of five hydroelectric power plants, two solar power plants and one wind power plant with a total capacity of 462 MW. Revenue from the energy sector accounted for 11–15% of the total revenue of the company, however, it contributed up to 20–30% to the gross profit, especially in 1H21, gross profit and revenue of the energy segment accounted for 51% and 27%, reflecting the right shift in the company's development strategy (Table 8).

- In September 2021, Song Tranh 4, Dak Mi 2 hydroelectric power plants and 7A wind power plants will officially come into commercial operation. Specifically:

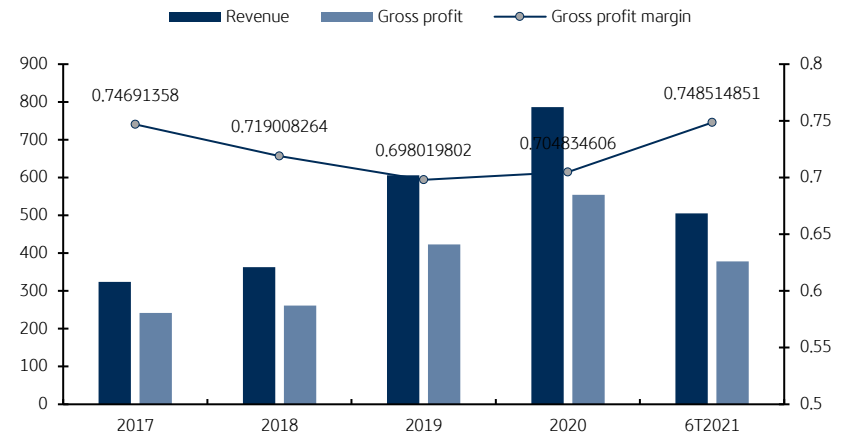
- a) 7A wind power project: On September 1, 2021, three wind turbines of 7A wind power plant were put into operation with a total capacity of 12.6 MW. 7A wind power plant is one of the first three among 106 wind power plants that were registered for commercial operation before October 31, 2021, which helped the plant to enjoy the incentive FITs for onshore wind power at 8.5 cents/kWh. HDG is urgently accelerating the completion of the remaining turbines for operation before September 30.
- b) Dak Mi 2 Hydropower project: Two rotors of Unit 1 and 2 were installed, parts of Unit 3's rotor have been assembled for installation. The plant will store water from September 10 and come into commercial operation before October.
- c) Song Tranh 4 Hydropower project: Unit 1 of the project with a capacity of 24 MW was put into commercial operation on September 4, 2021. Necessary procedures for Unit 2 have been prepared so that it can be operational in September. Putting three power plants Song Tranh 4, Dak Mi 2 and 7A into operation in September will help raise HDG's production as well as revenue. We forecast the company's full-year electricity output in 2021 at 805 million kWh, which may bring in gross profit of VND616 billion on revenue of VND1105 billion.

Fig 8. HDG – Gross profit and revenue of energy sector (VNDbn, %)



Source: KB Securities Vietnam

Fig 9. HDG – Gross profit and revenue of power sector (VNDbn, %)



Source: KB Securities Vietnam

RISKS

- **High financial leverage ratio.** This is one of HDG's major risks when it maintains a high financial leverage ratio to expand its business in the energy sector. HDG's net debt/equity ratio as of 2Q21 was 1.53x, considerably higher than that of its peers in the real estate sector. This may put HDG at risks of repaying due loans if real estate projects do not realize the expected sales results, leading to a shortage of cash flow and affecting HDG's financial health.
- **Risks related to project approval.** Although the legal review process has made progress, it still takes a long time together with many potential risks to complete the legal process and implement projects in Ho Chi Minh City. The delay in the implementation of projects will negatively affect the cash flow of HDG.
- **Risks related to unfavorable weather and hydrological conditions in each region every year.** Besides, the electricity prices depend on the policy through the electricity purchase orders of EVN.

VALUATION

FORECAST FOR 2021 and 2022 BUSINESS RESULTS

We forecast HDG's PAT at VND1,225 billion (-2% YoY) on revenue of VND4,599 billion (-8% YoY), of which VND2,943 billion (-4%YoY) is from real estate sector, mostly thanks to delivering the rest of two projects Centrosa and Charm Villas, and VND1,105 billion (+40% YoY) is from energy sector. Gross profit should be VND2,077 billion, accordingly helping gross profit margin to reach 45%. Our forecast for 2021 revenue and profit is 5% and 2% lower than those of the business plan respectively.

For 2022, PAT should be VND1,592 billion (+30% YoY) on revenue of VND6,001 billion (+31% YoY), of which VND3,441 billion (+17% YoY) is from real estate sector, mostly thanks to delivering the rest of Charm Villas project, and VND1,875 billion (+70% YoY) is from energy sector. Gross profit is expected at VND2,523 billion, which helps gross profit margin to reach 42%.

VALUATION

Based on the valuation results of the sum-of-the-parts (SOTP) method and business outlook of the two main sectors, we recommend BUYING HDG shares with a target price of VND70,600 per share, 34% higher than the closing price on September 13, 2021. However, please note that the progress of projects in Ho Chi Minh City should still be closely watched since even though the legal document review process in Ho Chi Minh City has made progress, it still takes a long time.

Table 10. HDG – Valuation

Project	Method of valuation	Valuation
Centrosa	DCF	48,086
Charm Villas	DCF	1,592,353
Green Lane	DCF	431,239
Ha Do Minh Long	DCF	361,302
Noongtha	DCF	182,171
Dich Vong Complex	DCF	335,853
CC3	DCF	103,271
62 Phan Dinh Giot	DCF	357,914
Bao Dai	DCF	76,488
Others	DCF	72,183
Energy	FCFF	13,511,108
		17,071,970
+ Cash		410,352
- Net debt		6,588,264
RNAV		10,894,038
Outstanding shares		154,286,919
Share price (VND)		70,600

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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