

Vinhomes (VHM)

Leading real estate developer in Vietnam

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VHM is a leading properties developer with large landbank

Vinhomes (VHM), a subsidiary of Vingroup (VIC), is a leading medium and high-end real estate developer with a market share of 22% in Vietnam. The company currently owns 16,500ha landbank in all over the country, and focused in big cities like Hanoi, Hai Phong, Quang Ninh, and Ho Chi Minh City.

Three mega projects would be the main growth force in 2019–2020E

VHM launched Vinhomes Ocean Park and Vinhomes Smart City in 2018 and Vinhomes Grand Park in July 2019. The three mega projects have increasing absorption rates, which helps to ensure revenue and profit for VHM in the future.

VHM restructured its product lines

In 2019, VHM announced to restructure its product lines with two brands Vinhomes and Happy Town. Vinhomes brand includes the product lines Vinhomes Sapphire (mid-end), Vinhomes Ruby (high-end) and Vinhomes Diamond (luxury). This provides diverse choices to meet the needs of many customers, and is suitable for large projects with large area and unique landscape.

BUY recommendation

Based on VHM business results and valuation, we recommend to BUY VHM shares with a target price of VND110,400 per share, 18% higher than the closing price on November 22, 2019.

Risks

VHM may face some main risks from (1) cyclical nature of the real estate market, and (2) legal issues.

Buy initial

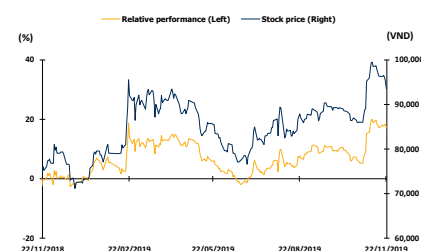
Target price	110,400VND
Total return	18%
Current price (Nov 22, 2019)	93,500
Consensus target price	110,400VND
Mkt capitalization (VNDbn)	313,179

Trading data	
Free float (%)	3,349,513,918
Avg trading value (3M)	809,956
Foreign available (%)	15.09%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	9%	6%	9%	23%
Relative	-1%	-2%	-1%	6%

Forecast earnings & valuation

Fiscal year-end	2017A	2018A	2019F	2020F
Revenue (VNDbn)	30,448	38,664	58,910	76,017
Growth rate (%)	171%	27%	52%	29%
Gross profit (VNDbn)		10,061	26,208	35,022
Gross profit margin (%)		34%	44%	46%
Net profit (VNDbn)	6,817	14,776	21,105	27,299
Growth rate (%)	209%	117%	43%	29.4%
EPS (VND)	2,349	4,503	6,091	7,879
EPS growth (%)	-15%	92%	35%	29.4%



Source: FiiPro, KB Securities Vietnam

Overview

1. Establishment & development

Table 1. Vinhomes – Development history

2002	• Vincom JSC was found and renamed Vingroup JSC - the parent company of Vinhomes
2008	• BIDV-PP Urban JSC 0- the predecessor of Vinhomes was found with a charter capital of VND300 billion
2009	• Renamed as South Hanoi Urban Development JSC
2010	• Charter capital increased to VND2,000 bn
2011	• Listed on UPCOM with ticker NHN • Construction of Vinhomes Times City mixed-use urban complex in Ha Noi
2013	• Vinhomes Royal City was put into operation
2014	• The 183.5 hectare Vinhomes Riverside luxury urban area in Hanoi was put into operation
2015	• Vinhomes Times City was put into operation
2016	• Vinhomes Central Park in HCMC was opened
2017	• Vinhomes Golden River - the most luxurious urban complex in D1, HCMC was opened
2018	• Renamed as Vinhomes JSC, increased charter capital to VND28,365 bn, listed on HSX with ticker VHM • Launched 2 mega-projects Vinhomes Ocean Park và Vinhomes Smart City. • The Landmark 81 of the Vinhomes Central Park project - the tallest building in Vietnam commenced its operation
2019	• Restructured product branding into: Vinhomes và Happy Town • Launched the third mega project Vinhomes Grand Park in HCMC

Source: Vinhomes

2. Business & ownership structure

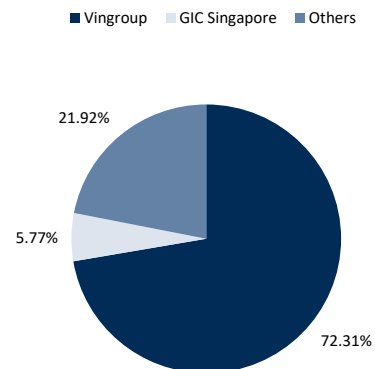
As of September 30, 2019, Vinhomes owned 17 subsidiaries (Table 2), and a charter capital of VND33,495 billion, of which Vingroup (VIC) held 72.31%, Singapore Government Investment Fund held 5.77% and the rest shareholders held 21.92% (Table 3).

Table 2. Vinhomes – List of subsidiaries

Subsidiary names	Ownership
Gia Lam Urban Development and Investment LLC	83.95%
Ecology Development and Investment JSC	98.76%
Vietnam Investment and Consulting Investment JSC	68.64%
Can Gio Tourist City Corporation	98.56%
Tay Tang Long Real Estate Company LLC	90.00%
Berjaya Vietnam International University Township	88.17%
Royal City Real Estate Development and Investment JSC	57.85%
Lang Van Development and Investment JSC	95.82%
Metropolis Hanoi LLC	100.00%
Berjaya Vietnam Financial Center LLC	60.78%
Thai Son Investment and Construction JSC	90.06%
Millennium Trading Investment and Development LLC	100.00%
GS Cu Chi Development JSC	99.89%
Phu Gia Property Trading LLC	96.79%
An Thinh Trading and Commercial Development JSC	85.00%
Green City Development JSC	90.00%
Delta JDC	99.34%

Source: Vinhomes

Fig 3. Vinhomes – Ownership structure



Source: KB Securities Vietnam

3. Business scope & position on the market

Vinhomes specializes in investment, development and trading of residential, office and related properties. Its parent company, Vingroup (VIC) currently holds a 72.31% stake.

VHM is the leader in terms of housing properties investment & development

CBRE data said that VHM accounted for 22% of the market share of sold apartments in Hanoi and Ho Chi Minh City in 2016–9M2019 (Figure 4). Of this, Vinhomes accounts for 40% of the high-end segment's market share, outstripping the second ranked business with a market share of 6% (Figure 5).

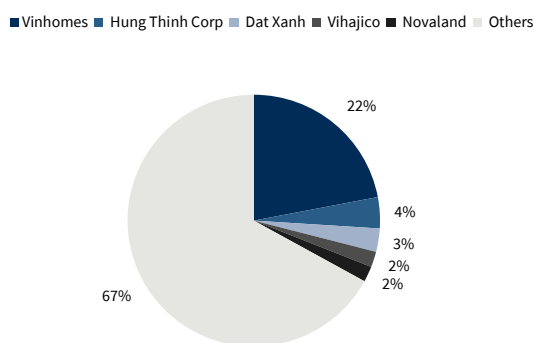
VHM owns the largest landbank among Vietnamese developers

Vinhomes is currently the largest land bank owner in Vietnam with a total area of up to 16,500ha, equivalent to 89 million m² of building floor (including 10 million m² under construction and 155 million m² to be deployed) (Figure 6). Vinhomes' projects are spread across the country and are located in prime locations with synchronous infrastructure in major cities such as Hanoi, Hai Phong, Quang Ninh, and Ho Chi Minh City.

4. Revenue structure

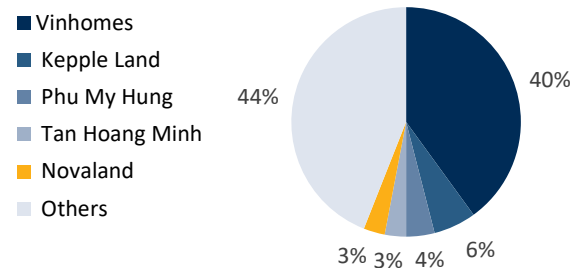
Sales from inventory properties accounted for 93% of VHM revenue structure in 2018 and 9M2019. Other business activities such as real estate management services, leasing and providing general contractor services are complementary products and have small proportions in total revenue (Figure 7).

Fig 4. Vietnam – Housing market share



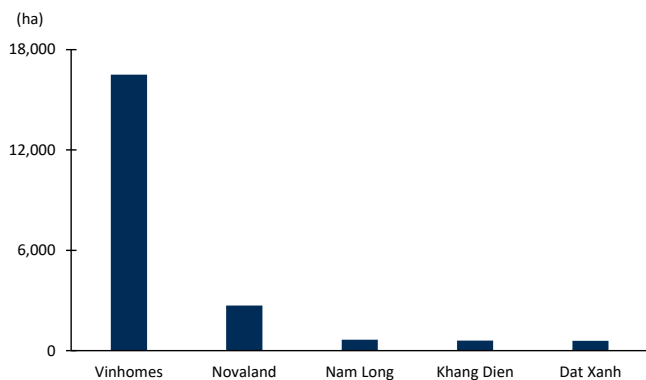
Source: CBRE

Fig 5. Vietnam – Housing market share of mid-end segment



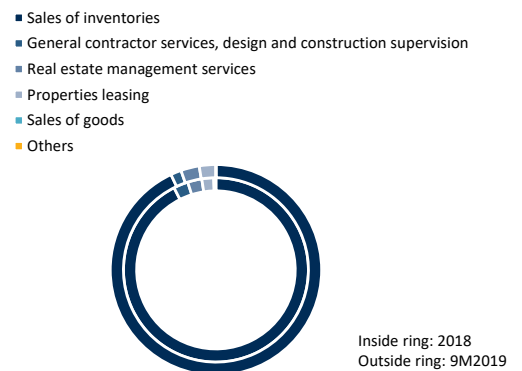
Source: CBRE

Fig 6. Vietnam – Landbank of some real estate companies



Source: CBRE

Fig 7. Vinhomes – Revenue structure



Source: CBRE

Business operations

Vinhomes are focusing on three main areas, namely inventory properties development & sales, properties leasing & management.

In 2019, Vinhomes restructured its product lines to serve diverse customer needs

1. The sales of inventory properties

In March 2019, VHM converted VinCity projects into Vinhomes branded urban areas, and at the same time announced the re-planning of its product lines into two brand lines including Vinhomes and Happy Town (Table 8).

❖ The Vinhomes brand is a medium and high-end real estate brand, including three product lines:

Vinhomes Sapphire: A line of mid-end apartments for customers with average income and young customers. Vincity branded products will be converted to Vinhomes Sapphire.

Vinhomes Ruby: Is a more advanced product line for high-income customers. Some projects in the Vinhomes Ruby segment such as Vinhomes Times City – Park Hill, Vinhomes Royal City, Vinhomes Skylake, Vinhomes Greenbay, Vinhomes Westpoint, and Vinhomes Gardenia. Vinhome Central Park is also equivalent to Vinhomes Ruby.

Vinhomes Diamond: Is the most luxury apartment line among VHM projects. Diamond products would be launched for the first time in 4Q.2019 in the Vinhomes Smart City project.

Each product line will have its own exclusive design, interior and service standards. VHM would develop all three product lines Vinhomes Sapphire, Vinhomes Ruby and Vinhomes Diamond in major cities to diversify choices for customers. In smaller urban areas, VHM would rely on the location and size of the project and the corresponding criteria to introduce one of the three product lines tailored to the needs of customers.

❖ Happy Town brand is a real estate brand for low-income people, which helps to solve the problem of social housing for workers in industrial zones.

Table 8. Vinhomes – Product lines

	Happy Town	Vinhomes Sapphire	Vinhomes Ruby	Vinhomes Diamond
Segment	Reasonable	Mid-end	High-end	Luxury
Targeted customer	Staff in industrial parks, people with low income	Mid-income, young customers	High-income	High-income
Prices (USD/m2)	Lower than \$1000	\$1200-1600	\$1600-2100	Over \$2100

Source: CBRE, KB Securities Vietnam

The year 2018 marked a strong growth in VHM business activities with the sale of two mega projects

❖ The sales of inventory properties in 2018 and 9M2019:

Although the real estate market faced many legal difficulties causing projects to be delayed in 2018, Vinhomes still achieved impressive business results with six projects successfully introduced to the market. Of this, four high-end were launched for sale were Vinhomes West Point – Hanoi, Vinhomes Star City – Thanh Hoa, Vinhomes New Center – Ha Tinh and Vinhomes Marina – Hai Phong. All projects recorded positive sales with the ratio of pre-sold and unsecured deposit over 80% of units launched for sale. In addition, Vinhomes also opened for sale two Vinhomes mega urban projects – Vinhomes Ocean Park and Vinhomes Smart City (formerly known as VinCity Ocean Park and Vincity Sportia) in Hanoi. These are the first two mega urban projects introduced to the market by Vinhomes in the 4Q.2018. Within two months from the launching date, the ratio of pre-sale and secured booking contracts reached 82% of the first phase of the sold units in two projects equivalent to 11,247 units (9,641 apartments and 1,606 villas & townhouses).

In 2018, Vinhomes completed and started to deliver in a series of key projects such as Vinhomes Metropolis, Vinhomes Central Park, Vinhomes Greenbay, Vinhomes Imperia, Vinhomes The Harmony (Table 9).

Vinhomes continued to focus on developing mega urban projects and promoting bulksale to secondary investors

In 2019, Vinhomes will continue to deliver and record revenue from the above projects with the products sold mainly focusing on the Vinhomes Ruby product line. In addition, Vinhomes continued to focus on developing three mega urban projects. The company sold products to strategic investors in retail and bulksale channels. The bulksale of projects to other project developers reduced pressure on retail sales, and helped the company to collect cash flow earlier to expedite projects and shorten the time to record revenue and profit. Currently, Vinhomes is still under negotiation with its partners to continue bulksale of these projects.

In the first nine months of 2019, Vinhomes sold 46,000 units of apartments, townhouses, and villas (up 1,384% yoy) with a total contract value of VND66,552 billion, mostly coming from three major projects Vinhomes Ocean Park, Vinhomes Smart City and Vinhomes Grand Park.

VHM three mega urban projects

Vinhomes Ocean Park: Vinhomes signed bulksale contracts for 100% low-rise apartments, of which 1,700 units recorded VND15.2 trillion in 2Q.2019, and the remaining 700 units recorded revenue in 3Q.2019. For the high-rise part, Vinhomes sold six apartment buildings via bulksale contracts and recorded all revenue in 3Q.2019. In addition, Vinhomes retail or secured booking contracts or to sell 11,000 units.

Vinhomes Smart City: In 2Q2019, Vinhomes signed secured booking contracts for four apartment buildings including 2,700 apartments, which recorded revenue in the 3Q2019. By the end of 3Q2019, Vinhomes signed a bulksale secured booking contract to sell a land plot equivalent to five apartment buildings, which would record revenue in 4Q2019. The company also signed presale and secured booking contracts for 4,700 units. Thus, by the end of September 2019, Vinhomes signed contacts to sell 10,900 apartments or 76% of the sold units.

Grand Park: Vinhomes started the Grand Park project in June 2019 after a long wait. The company also raised its ownership in the project to 90% through the acquisition of shares in Green City JSC worth VND18 trillion. After only two weeks of presale, Vinhomes sold all of 10,007 apartments to individual customers for VND18.6 trillion and sell 10 apartment buildings via bulk sale contracts, equivalent to 6,900 units. In the 3Q.2019, Vinhomes maintained the sales speed when it signed bulk sale contracts with foreign partners to sell 21 apartment buildings and expected this transaction to be completed in 4Q.2019.

4Q.2019E guidance

In 4Q. 2019, Vinhomes plans to launch 4,000 Sapphire and Ruby apartments at the Vinhomes Ocean Park project, 5,000 Diamond luxury units at the Vinhomes Smart City and 600 townhouses at the Vinhomes Grand Park project.

Besides, Vinhomes would launch Vinhomes Symphony (Sai Dong, Hanoi) in late November and low-rise apartments at Vinhomes Wonder Park project (Dan Phuong, Hanoi) in December.

Table 9. Vinhomes – Completed & ongoing projects

Project	Location	Product	Area (ha)	Time of delivery	Sold unit rate (by the end of 2018)	Delivered unit rate (by the end of 2018)	Price average (VND million/m ²)	Delivered units in 1H2019 (unit)	Delivered units in 2H2019E (unit)
Completed projects									
Vinhomes Central Park	TP HCM	Apartment Villa	41.6				40	236	30
Vinhomes The Harmony	Hanoi	1,404 villas	97.5	4Q.2017	96%	85%	40	90	50
Vinhomes Golden River	HCM	2,741 apartments	15.8	4Q.2017	97%	94%	60	100	10
		63 villas		4Q.2017	87%	40%	150		
Vinhomes Metropolis	Hanoi	1,595 apartments and shophouses	3.5	4Q.2018	99%	6%	70	167	10
Vinhomes Greenbay	Hanoi	2,844 apartments	26.6	4Q.2018	100%	0%	40	1760	0
		391 villas		4Q.2017	96%	60			
Vinhomes Skylake	Hanoi	1,900 villas	2.3	2Q.2019	100%	0%	40	858	1042
Vinhomes Imperia	Hai Phong	1,529 villas	78.5	4Q.2017	90%	56%	20	55	250
Ongoing projects									
Vinhomes Star City	Thanh Hoa	1,600 villas	147.5	4Q.2018			18.6	318	340
Vinhomes Marina	Hai Phong	1,153 villas	49.2	4Q.2018	88%	0%	18	0	300
Vinhomes New Center	Ha Tinh	900 apartments	1.95	2Q.2018			17.4		
Vinhomes Westpoint	Hanoi	1,400 apartments	2.39	2Q.2018			50		

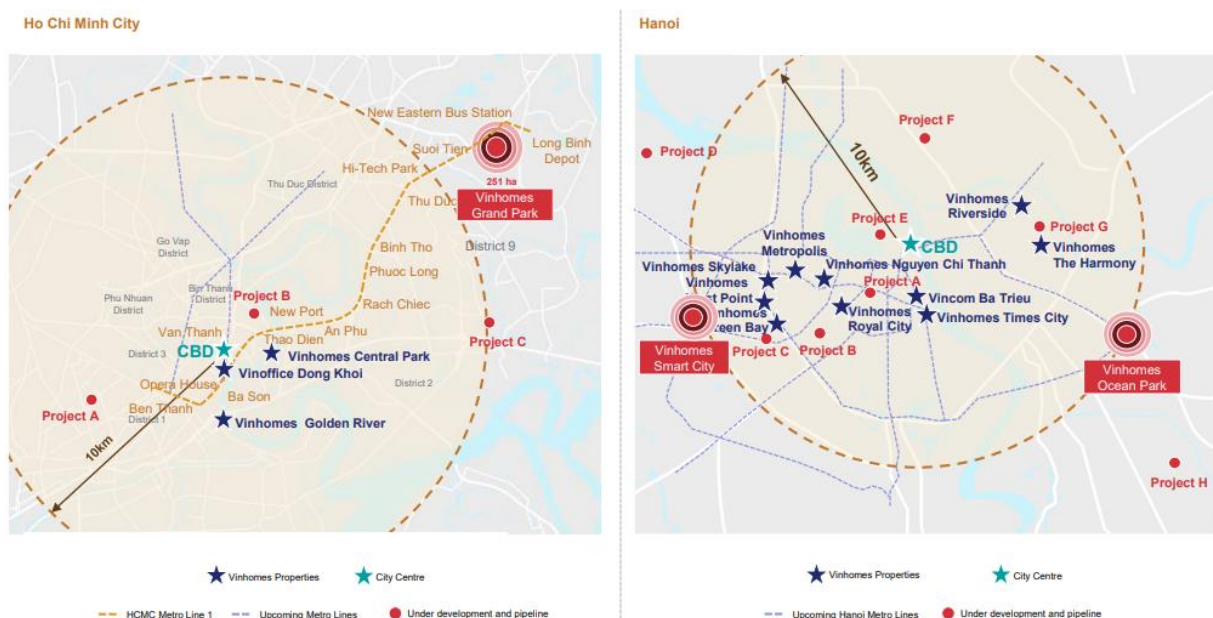
Source: Vinhomes, KB Securities Services

Table 10. Vinhomes – Mega urban projects

	Vinhomes Ocean Park	Vinhomes Smart City	Vinhomes Grandpark
Location	Trau Quy, Gia Lam, Hanoi	Nam Tu Liem, Hanoi	D9, HCMC
Land area	420ha	281ha	272ha
Development period	2018-2022	2018-2022	2019-2022
No of apartments	44,000 apartments/66 towers	45,000 apartments/58 towers	43,500 apartments/71 towers
No of low-rise villas	2,400	100	1,600
% construction completion	26%	19%	32%
Date launched	October 2018	December 2018	July 2019
- Apartment	October 2018		
- Villa			
% of towers sold & launched (retail)	53%	19%	24%
% of towers sold (wholesale)	10%	16%	44%
% of towers to be launched	37%	66%	32%
Take-up rate	80%	76%	100%
% pre- sold (villa)	100%	90%	n/a

Source: Vinhomes, KB Securities Services (as of September 30, 2019)

Fig 11. Vinhomes – Location of VHM projects



Source: Vingroup

Leasing inventories and offices brings stable incomes for Vinhomes

2. Leasing real estate properties

In addition to its core business of development and sale of inventory properties, Vinhomes also manages real estate leasing under the Vinhomes Serviced Residences brand and leases luxury offices under the VinOffice brand name.

❖ Vinhomes Serviced Residences

Vinhomes Serviced Residences are apartments and villas in Vinhomes' projects. Customers who rent these apartments are provided with standard services as well as enjoy full utilities and landscapes during the rental term.

❖ VinOffice

VinOffice is an office product for lease located in or adjacent to Vinhomes projects, concentrated in the city central areas.

Currently, Vinhomes Serviced Residences and VinOffice are present in two major cities, Hanoi (Vinhomes Times City & Park Hill, Royal City and Metropolis) and Ho Chi Minh City (Vinhomes Central Park, Golden River, and Vinhomes Dong Khoi). Office leasing activities bring a stable source of periodic income, and helps to diversify income sources for Vinhomes. However, revenue from this segment was only a small proportion in total revenue with a mere gross profit margin of 28%.

Gross profit margin saw small declines due to low-profit margin projects

3. The management of real estate properties

Vinhomes provides a common standard set of management services in all urban areas such as 24/7 customer service center, reception services, security, urban cleaning, engineering, and greenery care to ensure the maintenance of quality standards in the urban areas. Currently, the company operates 19 urban areas including 47,600 apartments and villas under the Vinhomes brand name.

Real estate management activities started contributing to Vinhomes' revenue from 2018 with the proportion of only 2.5%. This boosts the image of Vinhomes brand name, and is a unique feature and would help to raise the company added value. From the last quarter of 2019, the company would expand the field of serviced apartments under Vinhomes Serviced Residences brand and office leasing in Vinhomes urban complexes and the Vinhomes mega urban projects. These are two segments that bring stable cash flow and add value to Vinhomes products.

Business performance & financial status

In 2018, Vinhomes successfully sold 15,167 apartments, villas and townhouses (+44% YoY) for VND67.6 trillion (+3.7% YoY).

Impressive performance thanks to the deliveries of many key projects

Revenue has been up in recent years with earnings CAGR from 2015 to 2018 reaching 98.8%. 2018 revenue hit VND38,664 billion, up 27% YoY ¹ (Figure 12). This growth was attributable to the deliveries of 10,980 apartments, villas, and townhouses (+11% YoY), especially units in some key projects Vinhomes Metropolis, Vinhomes Central Park, Vinhomes Greenbay and Golden River. Earnings of parent company shareholders achieved a CAGR of 161% in 2015–2018. It reached VND14,285 billion in 2018, up 80% YoY (Figure 12). In addition to VHM projects, business cooperation contracts (BCC) with Vingroup like Vinhomes The Harmony, Vinhomes Dragon Bay, Vinhomes Star City and Vinhomes Imperia were also recognized as financial income from financial activities, adhering to Vietnamese Accounting Standards (Table 14).

Gross profit margin decreased slightly due to the deliveries of low profit margin projects

Gross profit margin in 2018 fell 77% YoY to 26% as gross profit margin of the sale of inventory properties retreated from 33.4% in 2017 to 26.6% in 2018. Specifically, in 2018, Vinhomes handed over projects with low profit margins such as the Vinhomes Thang Long (a project that sells finished products, not developed from scratch) and the Landmark 81 project (high construction costs because it is the highest building in Vietnam, so Vinhomes sacrificed its earnings to create a highlight for the project). If excluding the two projects, VHM total gross profit margin (including BCC) would be 34% in 2018.

Decreasing SG&A ratio proved the efficiency of company restructure

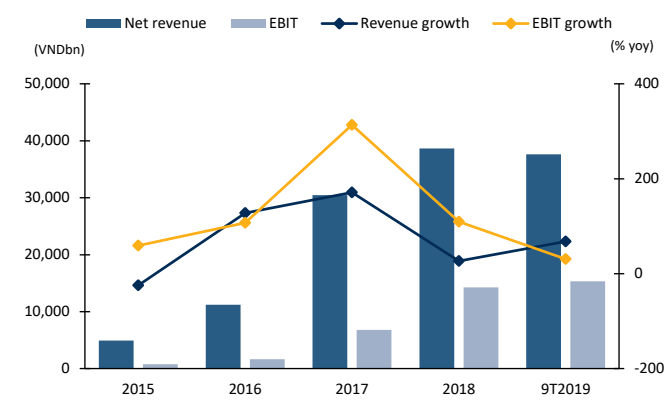
SG&A ratio has been on a downward trend in recent years to around 5–6% in 2018 and 9M2019, helping to improve EBIT margin. Selling expenses decreased as after the merger of Vinhomes Real Estate Management and Trading JSC, Vinhomes does not have to pay the sales management consulting fees and the Vinhomes branding cost from 2018 (Figure 13).

9M2019 earnings beat full-year target thanks to strong sales from bulk sale activities at Vinhomes Ocean Park and Vinhomes Smart City

9M2019 net revenue reached VND37,642 billion, up 68% YoY and earnings of parent company's shareholders was VND15,323 billion, up 31% YoY. The profit margin was high at 46.1% (up 1,508bps YoY) thanks to the bulk sale of Vinhomes Ocean Park and Vinhomes Smart City with high profit margin. Revenue from the sale of inventory properties was VND34,957 billion, up 72% yoy, accounting for 93% of total revenue. This source of revenue came from Vinhomes Green Bay, Vinhomes Golden River, Vinhomes Central Park and the bulk sale of Vinhomes Ocean Park and Vinhomes Smart City. Business cooperation projects with Vingroup including Project Vinhomes Skylake, Vinhomes Star City (Thanh Hoa), Vinhomes Imperia (Hai Phong) and Vinhomes The Harmony added VND4,347 billion to Vinhomes' revenue from financial activities.

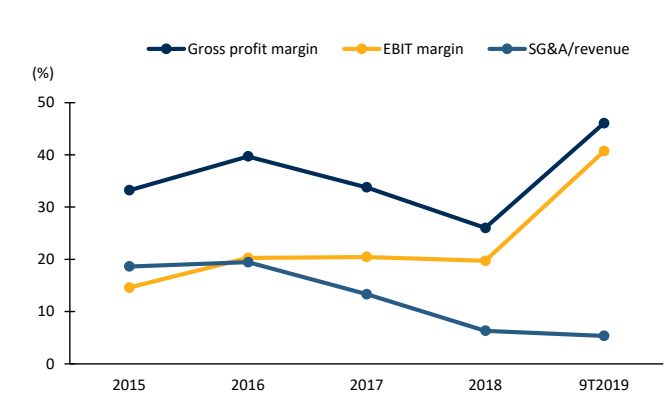
¹ With the assumption that Vinhomes has completed the restructuring from the beginning of 2017

Fig 12. Vinhomes – Earnings & revenue



Source: Vinhomes, KB Securities Vietnam

Fig 13. Vinhomes – SG&A/revenue



Source: Vinhomes, KB Securities Vietnam

Table 14. Vinhomes – Revenue from project in 2018–9M2019

	2018	9T2019
Sales from VHM projects	Vinhomes Greenbay: VND8,900 billion Vinhomes Metropolis: VND8,500 billion Vinhomes Central Park: VND7,700 billion Vinhomes Golden River: VND7,000 billion	Vinhomes Greenbay: VND4,400 billion Vinhomes Smart City : VND2,600 billion Vinhomes Ocean Park: VND21,800 billion Vinhomes Golden River: VND2,300 billion
Sales from BCCs	Vinhomes Golden River: VND14,200 billion Vinhomes The Harmony: VND12,800 billion Vinhomes Imperia: VND7,500 billion	Vinhomes Skylake: VND7,200 billion Vinhomes Star City: VND2,800 billion Vinhomes The Harmony: VND1,900 billion

Source: Vinhomes

Vinhomes total assets surge every year

Total assets have grown strongly over the years with a CAGR of 68% in 2015–2018. As of September 30, 2019, VHM total assets reached VND161,661 billion, up 35% from the beginning of the year, of which receivables, inventories and under-construction properties were largest items, accounting for 26%, 31% and 17% of total assets respectively:

- ❖ Short-term receivables were VND42,174 billion, mainly from deposits for co-development of real estate projects.
- ❖ Short-term inventories were worth VND49,772 billion, including land use fees, land clearance costs, construction and development costs for Vinhomes Ocean Park, Vinhomes Smart City, Vinhomes West Point, Vinhomes Green Bay, Vinhomes New Center Ha Tinh, Vinhomes Golden River and Vinhomes Central Park.
- ❖ Costs of ongoing projects were VND26,832 billion, of which the majority is construction cost at Can Gio Tourist City.

Debt to equity of Vinhomes was at the industry average

As of September 30, 2019, the total debts of Vinhomes were VND29,425 billion, of which VND15,078 billion came from bond issuance. Mobilized funds were spent on developing projects and financing new real estate projects. VHM debt to equity ratio was 0.46 times, which was equal to the industry average.

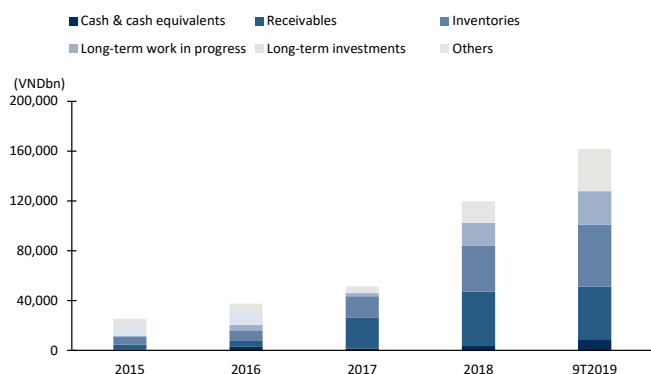
Large advances from customers showed promising sales results

ROE was improved in 2018

Advances from customers accounted for 30% in 9M2019 total payables, which partly reflected positive sales results at Vinhomes' projects and will be recorded in revenue when Vinhomes delivers products to customers (Figure 16).

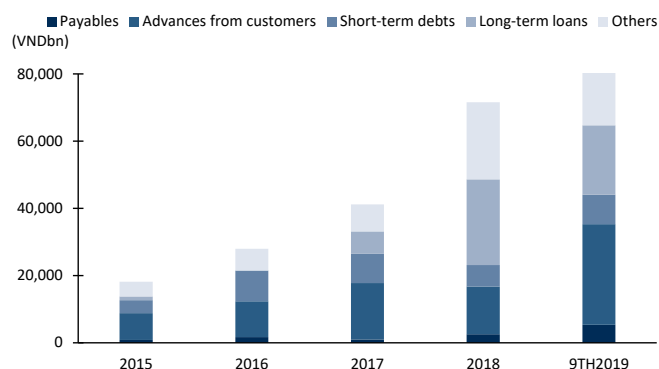
2018 ROE peaked at 49% on improved total asset turnover & NPM (Table 17).

Fig 15. Vinhomes – Asset structure



Source: Vinhomes, KB Securities Vietnam

Fig 16. Vinhomes – Payable structure



Source: Vinhomes, KB Securities Vietnam

Fig 17. Vinhomes – ROE

	2015	2016	2017	2018
ROE	16.24%	19.77%	14.33%	49.03%
Net profit margin	16%	15%	9%	37%
Leverage	2.55	3.77	4.52	2.93
Asset turnover	0.03	0.36	0.34	0.45

Source: Vinhomes, KB Securities Vietnam

Investment viewpoint

Large and favorably located landbank is a major advantage

Vinhomes owns a total landbank of 16,500ha, much larger than the company with the second largest landbank. Half of the company gross floor area is focused in Hanoi and Ho Chi Minh City, where infrastructure is being developed (Metro network, highspeed railways and ring roads). As a result, VHM projects located near metro lines and overhead rail will attract more customers and may have higher prices in the future. The company would accumulate more landbank in strategic locations of Ho Chi Minh City, Hanoi and major cities and provinces with reasonable land costs and transparent legal status and procedures. VHM currently has 3 million m² potential land plot that can be added to the company's land bank. Thus, the total land bank that the company owns can be up to 168 millionm², much larger than the second ranked company.

Abundant landbank for project deployment, thereby ensuring profit and revenue growth

Over the next 10–15 years, Vinhomes plans to deploy about 20 new projects in Hanoi, Ho Chi Minh City, key tourist cities and areas with potential growth such as Hai Phong, Quang Ninh, and Thanh Hoa (Table 18). This would help the company maintain market share and ensure revenue and profit growth.

Table 18. Vinhomes – Projects to be deployed in the near future

Project	Location	Benefit -cost ratio	Area (ha)
Vinhomes Melodia	Hanoi	100%	2.4
Vinhomes Galaxy	Hanoi	95%	11
Vinhomes Sai Dong	Hanoi	100%	4.4
Vinhomes Gallery	Hanoi	83%	6.8
Vinhomes Me Tri	Hanoi	83%	74
Vinhomes Co Loa	Hanoi	83%	317.3
Vinhomes Landmark Service Apartment	HCM	100%	0.6
Vinhomes Ky Hoa	HCM	68%	6.6
Leman Golf Course	HCM	100%	200
Vinhomes Long Beach Can Gio	HCM	99%	2865.6
Vinhomes Hoc Mon	HCM	99%	200
Vinhomes Lang Van	Da Nang	96%	1044.7
Vinhomes Green Ha Long	Ha Long	100%	8046.6
Vinhomes Ha Tinh	Ha Tinh	100%	164
Vinhomes Vu Yen	Hai Phong	100%	864.9
Mega projects (formerly known as Vincy)			
Vinhomes Đan Phuong	Hanoi	100%	126
Vinhomes Cu Chi	HCM	98%	923.9
Vinhomes Tay Thang Long	HCM	90%	129.3
Vinhome Dream City	Hung Yen	100%	405

Source: Vinhomes

The three mega projects would contribute large earnings and revenue to VHM

Vinhomes is focusing on the three megacity projects that will offer many different product lines. In particular, the Vinhomes Sapphire product line has been developed to meet the increasing housing demand of the middle class in Vietnam. The three projects have low building density combined with many green trees and large lakes (24.5ha), saltwater lakes (Vinhomes Ocean Park), large parks, Japanese gardens (Vinhomes Smart City), light grand park (Vinhomes Grand Park) and a full ecosystem of Vingroup. Up to now, all projects have positive sales results with stable absorption rates (Ocean Park project 80%, Smart City 76%, and Grand Park 100% – sold 17,000 apartments within two weeks after launch).

Vinhomes Grand Park project was launched when the real estate market was lack of supplies due to protracted legal review process, especially in Ho Chi Minh City. Data from JLL found the number of apartments sold in Ho Chi Minh City reached 17,248 in 3Q2019, of which units sold in Vinhomes Grand Park project alone accounted for more than 60% (about 10,000 units from the Rainbow segment). These figures show that Vinhomes gained a huge advantage when the three major projects were launched by providing a large number of apartments to the market, especially the HCMC market.

Business performance in 2019 and 2020 should grow compared to previous years thanks to the recognition of revenue from the three mega projects including sales from bulk sale activities to domestic and foreign real estate developers. According to the management's guidance, VHM expects to deliver five bulksale buildings of Vinhomes Smart City. We estimated the total contract value at VND3,400 billion. In addition, 21 buildings at the Vinhomes Grand Park that have been signed deposit contracts may be booked in this quarter, contributing VND11,000 billion to VHM's revenue. Thus, in 2019, we estimate that wholesale revenue from three mega projects at VND42 trillion.

The company would record resale revenue from 2020. We estimate that revenue from presold units will add VND 25.2 trillion, or 40% to total sales of the three mega projects in 2020 (Table 19).

Table 19. Vinhomes – The three mega projects

(mn VND)	Project's revenue	2019 revenue	2020 revenue	After 2020 revenue
Vinhomes Ocean Park	103,012	25,163	12,599	65,250
Vinhomes Smart City	90,304	6,024	16,744	67,536
Vinhomes Grandpark	70,585	11,000	31,339	28,246
Total	263,901	42,187	60,683	161,031

Source: KB Securities estimates

Vinhomes benefits from Vingroup's large ecosystem

Vinhomes is currently a subsidiary majoring in housing and office rental development of Vingroup, the largest private company in Vietnam. Vingroup has built an ecosystem of trade & services, including: high-end real estate brand Vinhomes; Vincom shopping mall system with 70 shopping centers in 39 provinces and cities; retail system with 120 VinMart stores, 2,287 VinMart+ convenience stores, 242 Vinpro electronics stores and Adayroi e-commerce site; hotel chain, international standardized 5-star resort Vinpearl with 16,700 hotel rooms; 7 Vinmec international general hospitals with 1,650 hospital beds; VinSchool school system with 26 campuses; and VinEco hi-tech clean vegetable farm system.

The value of VHM residential and office real estate projects continuously increase over time and have a great competitive advantage thanks to Vingroup diverse ecosystem. VHM ensure the progress, construction and infrastructure quality for all projects which have full facilities right in the project campus such as marts, schools, hospitals, shopping centers, and convenience stores (especially in the two projects Vinhomes Central Park and Vinhomes Time City) (Figure 20). Besides, in parallel with high-end projects, Vinhomes has developed the mid-end segment, targeting the needs of owner-occupied housing, so all projects record high absorption rates.

Vinhomes is the leading real estate brand in Vietnam

Vinhomes continues to strengthen its number one market position, maintains its reputation for quality and progress, which meets the housing ownership needs and improves the quality of life in Vietnam.

Fig 20. Vinhomes – Facilities in VHM urban areas

Presales	Shopping malls and offices for lease	Medical	Education	Entertainment - Resort
6 Vinmart+ stores	Vincom Mega Mall Times City	Vinmec Times City	5 Vinschool kindergartens	Vinpearl Land - Aquarium park Vinpearl Aquarium Times City
1 Vinmart store	Văn phòng cho thuê Times City		Vinschool inter-level schools	
7 Vinmart+ stores	TTM Vincom Central Park	Vinmec Central Park	Vinschool inter-level schools	Vinpearl Hotel Landmark 81 - 5 star hotel with 223 rooms
1 Vinmart store	Landmark 81 Commercial Space			

Source: Vingroup

The number of apartments was rounded to thousand digit

Risks

Risk of the cyclical nature of real estate markets

VHM's revenue and profit depend on commercial and residential properties trading, which is inevitably affected by cyclical developments of the real estate market, especially during a market downturn.

Risk of legal issues

The real estate market in Ho Chi Minh City is facing difficulties mainly related to the change of land use purposes, prolonged administrative procedures, unclear land use fees, and complicated land legal review. These protracted issues could hurt the company's future project development progress, especially when the HCMC market is still the company's targeted market.

Valuation & Recommendation

1. 2019 & 2020E business performance

KBSV forecast VHM's earnings would reach VND20,402 billion up 43% YoY) on revenue of VND58,910 billion (up 52% YoY) in 2019E

The sales of inventory properties should be VND54,754 billion, up 53% YoY, mainly from the presales of Vinhomes Central Park, Vinhomes Golden River, Vinhomes Metropolis, Vinhomes Greenbay and bulk sales of Vinhomes Ocean Park and Vinhomes Smart City.

Earnings distributed from investment and business cooperation contracts (BCC) with Vingroup at Vinhomes The Harmony, Vinhomes Imperia, Vinhomes Dragon Bay, Vinhomes Skylake and Vinhomes Star City projects is expected to hit VND9,081 billion, down 37.6% YoY. This amount would be recognized as financial income.

Accordingly, gross profit margin in 2019 may reach 44.5%, increasing 1,846bps vs 2018.

KBSV project VHM's 2020E earnings at VND26,390 billion (up 29.4% YoY) on revenue of VND76,017 billion (up 29% YoY)

The sales of inventory properties should reach VND71,058 billion, up 30% YoY, mainly coming from three Vinhomes mega projects.

Earnings distributed from investment and BCCs with Vingroup at Vinhomes Wonder Park, Vinhomes Marina and Vinhomes Star City projects are expected to be VND10,789 billion, up 19% YoY, which would be recognized as financial income.

Earnings of the parent company may reach VND26,390 billion, up 29.4% YoY. Accordingly, gross profit margin in 2020 will reach 46%, an increase of 150bps compared to 2019.

Table 21. Vinhomes – Forecast performance

(VNDbn)	2018	2019F	2020F
Net revenue from sales and services	38,664	58,910	76,017
Sales of inventories	35,769	54,754	71,058
services, design and	986	1,231	1,358
services	961	1,508	1,762
Properties leasing	816	1,254	1,627
Sales of goods	8	6	8
Others	124	157	204
Cost of goods sold	28,603	32,702	40,995
Sales of inventories	26,243	30,036	37,923
services, design and	751	756	812
services	955	1,194	1,357
Properties leasing	572	641	809
Sales of goods	13	7	9
Others	69	68	86
Gross profit	10,061	26,208	35,022
Revenue from financial activities	14,565	9,081	10,789
Financial costs	2,457	4,520	5,875
COGS & SG&A	2,444	3,724	4,805
Net profit	19,719	27,160	30,217
NPAT	14,776	21,105	27,299
Parent's NPAT	14,284	20,402	26,390
EPS (VND)	4,500	6,090	7,870
EPS growth	92%	35%	29%

Source: KB Securities Vietnam estimates

2. Valuation methodology & recommendation

To determine the fair value of VHM shares, we use the RNAV (net asset value model) and the P/E valuation model to compare VHM with other peers on the market. As a real estate business, the value of Vinhomes depends a lot on the value of the landbank and future projects, so KBSV believe that the RNAV method is suitable to evaluate the quality of VHM assets.

We have re-evaluated projects with sufficient information and can be implemented in the coming time. For projects that do not have enough information on their development or construction plans, we review the project based on land value. For projects that have no development plan, we keep the book value of the project.

Accordingly, the fair value of Vinhomes shares according to this method is VND110,400 apiece.

Vinhomes is the leading real estate developer in Vietnam with large land banks in special locations in major cities across the country. In addition, Vinhomes has built a prestigious real estate brand with the ability to develop properties quickly and efficiently and competitive advantages from the parent corporation Vingroup. Based on VHM business results and valuation, we recommend to BUY VHM shares at a target price of VND110,400 per share, 18% higher than the closing price on November 22, 2019.

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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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