

# Vinhomes (VHM)

## Accelerating the delivery of three mega projects

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### Vinhomes is the leading real estate company in Vietnam

Vinhomes successfully maintains its leading position in residential real estate market with a large land bank of 153 million m<sup>2</sup>. In addition, a portfolio of 22 projects, especially three mega urban projects in Hanoi, Ho Chi Minh City and key cities would help the company ensure profit growth and maintain market share in the coming years. Vinhomes' real estate projects have a great competitive advantage thanks to Vingroup ecosystem.

### The growth force comes from the three mega projects

Growth drivers come from the three mega projects with impressive sales results and implementation progress. We estimate the company would launch 41,800 products in 2020E, of which 40,700 units come from the three ongoing mega projects. The total value of new contracts signed during the year from three major projects and the Symphony project is estimated at VND83 trillion.

### Vinhomes would focus on delivering units in the three mega projects

The number of apartments handed over and recorded to the total revenue in 2020 reached 38,709 units, beating the year plan by 28%, of which 35,200 units came from three mega projects.

### Recommendation: BUY – Target price: VND111,000 per share

Based on business prospects and valuation, we maintained our BUY recommendation for VHM shares at a target price of VND111,000 per share, 45% higher than the closing price on June 11, 2020.

## Buy maintain

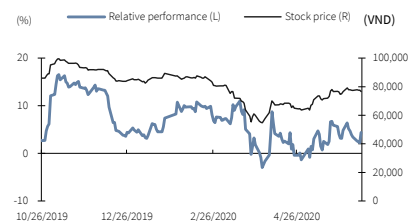
<b>Target price</b>	<b>VND111,000</b>
Upside/downside (%)	45%
Current price (Nov 22, 2019)	76,500
Consensus target price (VND)	101,800
Mkt capitalization (VNDbn)	260.2/11.3

<b>Trading data</b>	
Free float (%)	29.1%
Avg trading value (3M)	121.9/5.2
Foreign available (%)	13.8
Major shareholder	Vingroup (72.31%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	22	-2	-17	-1
<b>Relative</b>	14	-2	-12	-11

### Forecast earnings & valuation

Fiscal year-end	2017A	2018A	2019F	2020F
Net return (VNDbn)	15,297	38,664	51,626	82,284
Earnings/loss (VNDbn)	2,352	19,725	29,715	37,557
Parent shareholder profit (VNDbn)	1,409	14,284	21,747	26,199
EPS (VND)	1,879	4,503	6,502	7,822
EPS growth (%)	-14.5	139.6	44.4	20.3
P/E (x)	11.2	18.6	12.2	9.7
P/B (x)	2.3	6.1	4.7	3.1
ROE (%)	14.3	49.0	38.5	30.9
Dividend yield (%)	na	1.3	na	na



Source: Bloomberg, KB Securities Vietnam

## 1Q20 performance

**The sales of inventory properties were up 18.2% YoY**

1Q20 sales hit VND6.5 trillion, up 11.4% YoY, of which revenue from inventory sales was VND5.7 trillion, up 18.2% YoY. 1Q revenue mainly came from the delivery of apartments in three mega main projects: *Marina*, *Smart City* and *Ocean Park* with recorded revenue of VND2.5 trillion, VND1.7 trillion and VND1.4 trillion respectively.

**Rising gross profit because projects delivered in 1Q20 have higher gross profit margin than their counterparts in 1Q19**

Gross profit reached VND2.9 trillion, up 121.9% YoY, and gross profit margin hit 45.2%, up sharply from 22.7% YoY. This increase is attributable to higher gross margin of projects delivered in 1Q20 compared to projects in 1Q19 (for example Landmark 81 project with high construction costs).

**The spike in revenue from financial activities was thanks to the bulksale of *Vinhomes Grand Park***

Revenue from financial activities reached VND8.6 trillion, up 192.2% YoY, of which VND7.5 trillion was recorded from selling 80% of VHM stake in its subsidiary which was developing the second phase of Grand Park to two Japanese partners Mitsubishi Corporation and Normura Real Estate. In 4Q19, Vinhomes sold 80% stake of the second phase of the project with 21 apartment buildings, or 17,000 units with a total transaction value of VND11 trillion.

In the first quarter of 2020, the number of sold units and units with non-refundable deposits reached 4,862, down 11% YoY with a total contract value of VND6.4 trillion. This included a VND3.3 trillion bulksale transaction with a Japanese partner for five apartment buildings (or 3,600 units) in the Smart City project. The total value of signed contracts and unrecognized revenue was VND79.6 trillion, up 7% YoY.

**Table 1. Vinhomes – Business performance**

(VND bn)	1Q2019	1Q2020	+/-%
Net revenue	5,853	6,519	11%
Gross profit	1,329	2,949	122%
Financial income	2,940	8,591	192%
Financial expense	507	634	25%
Selling expense	233	245	5%
General Administration expense	194	533	175%
Operating profit	3,335	10,128	204%
Net accounting profit before tax	3,358	10,124	201%
Net profit after tax	2,687	7,645	185%
Net profit after tax of parent firm	2,540	6,844	169%
EPS (VND)	147	801	445%

Source: Vinhomes, KB Securities Vietnam

## Investment recommendations

### **Vinhomes announced confident 2020E guidance**

Previously, Vinhomes estimated 2020E earnings at VND28 trillion, up 15.7% YoY on revenue of VND88.9 trillion, up 36.6% YoY. However, the company set a confident business guidance including a 27% YoY in earnings to VND31 trillion on revenue of VND97 trillion, up 88% YoY. Optimistic targets are based on the faster-than-expected construction progress of major projects and strong bulksale results. Vinhomes estimated 26,600 units in three mega projects and 3,700 units in other projects to be delivered in 2020E, but the actual figures may be higher. The company also scaled the total value of new contracts for 2020 to down to VND82.3 trillion.

### **Vinhomes Dan Phuong should be launched in 2020E**

In the second half of 2020, Vinhomes plans to launch 1,100 low-rise products in the Wonder Park project in Dan Phuong, Hanoi. The project covers a land area of 133 hectares and total construction floor area of 976 thousand m<sup>2</sup>, with products including high-rise apartments, villas and townhouses. It is expected that the first low-rise products will be delivered in 2021.

### **Vinhomes still leads the real estate market with a large landbank. The company expects to launch more projects in 2021**

Vinhomes owns the largest landbank among real estate developers in Vietnam with 153 million m<sup>2</sup> of residential gross floor area, mainly concentrated in two big cities, Hanoi and Ho Chi Minh City. In addition to eight projects that have been implemented and launched, Vinhomes' portfolio of projects to be deployed includes 14 projects with a gross floor area of 138 million m<sup>2</sup>. In 2021, Vinhomes expects to expedite six new presold projects (GFA of 11 million m<sup>2</sup>), including the *Dream City* in Hung Yen and the *Galaxy* in Hanoi.

### **Vinhomes will diversify its business segments to create a stable cash flow and cushion the business operations against the volatility of residential real estate market**

Vinhomes will expand its business scope to develop office real estate and industrial parks. The company plans to develop industrial parks in big cities with good infrastructure such as Hai Phong, Quang Ninh and Hai Duong, which is quite potential given favorable macro factors and FDI inflows into Vietnam. Vinhomes' industrial park landbank has a total area of 29 million m<sup>2</sup>, of which 22 million m<sup>2</sup> are for sale and 7 million m<sup>2</sup> are for lease. In addition, the company will also develop office properties in Vinhomes' urban areas when the growth potential of the industry is very large. The list of rental office projects that Vinhomes is operating or researching and developing until 2035 has a total area of 5.2 million m<sup>2</sup>.

### **Vinhomes launched Vinhomes Online**

Vinhomes officially launched the Vinhomes Online, an e-commerce real estate trading platform on April 9, 2020, which would be deployed in the North first. In Ho Chi Minh City, VHM still uses agent sales channel. Vinhomes Online helps to connect customers directly with investors, thereby reducing brokerage fees by 2-2.5%. This is also an effective sales platform during the complicated COVID-19 months, especially in April 2020.

## 2020E performance

We changed our forecasts:

The total number of presold apartments 2020 may only reach 41,800 instead of 46,300 previously announced as Vinhomes delayed the launching of *Dream City* and *Galaxy* projects.

The total value of new contracts signed in 20220 is estimated at VND83,156 billion, down 10% YoY, mainly coming from three mega projects and *Vinhomes Symphony*.

The number of apartments delivered and recognized revenue should be 38,709 units, 28% higher than the original plan, of which 35,200 units are from three major projects and 3,509 units from other projects.

Therefore:

We adjust the 2020E revenue of VHM to VND82,284 billion (+59% YoY).

Projected gross profit margin is 48%, down from 55% in 2019 since the company started to record revenue from presold mega projects.

Earnings should be VND29,670 billion (+22% YoY).

Our forecast for 2020 revenue and profit after tax is 12% and 10% lower than the company's full-year respective targets.

**Table 2. Vinhomes – Presale and delivery plans**

	Ocean Park	Smart City	Grand Park	Symphony	Wonder Park	Galaxy	Dream City
Total units	~ 47,300	~47,000	~45,500		~1,500	~7,000	~5,100
Area	420ha	281ha	272ha	4.3ha	133ha	11ha	458ha
Location	Gia Lam, Ha Noi	Nam Tu Liem, Ha Noi	D9, TP HCM	Long Bien, Ha Noi	Dan Phuong, Ha Noi	Nguyen Trai, Ha Noi	Hung Yen
<b>Launch (units)</b>							
2018	10,250	3,967					
2019	20,000	18,500	28,600	1,500			
2020E	9,900	14,000	16,800		1,100		
2021E	7,200	10,500	0		400	2,000	800
2022E	47,350					2,500	800
<b>Deliver (units)</b>							
2018							
2019	~6,500	~10,800					
2020E	0	0	0				
2021E	0	0	0	1,500	500		600
2022E	0	0	0		600	2,000	700

Source: Vinhomes, KB Securities Vietnam estimates

Table 3. Vinhomes – The number of apartments and sales from the three mega projects

	Vinhomes Ocean Park	Vinhomes Smart City	Vinhomes Grand Park	Total
<b>Number of units sold</b>				
2018	8,600	2,647		11,247
2019	15,100	19,453	28,200	62,753
Q1/2020	300	4,100	100	
Cumulative	23,700	22,100	28,200	74,000
Bulksale (estimate)	11,500	10,500	18,800	40,800
<b>Revenue (VND tn)</b>				
Revenue	103	90.3	70.6	264
2019A	25.2	10.7		35.9
2020F	20.7	24.5	24.3	69.5

Source: Vinhomes, KB Securities Vietnam estimates

## Recommendation

### Three mega projects are the main growth force

We believe VHM's 2020 outlook is quite positive as (1) Vinhomes maintains its leading position with a landbank of 153 million m<sup>2</sup>, and 3 million m<sup>2</sup> under research process; (2) the growth drivers come from three major projects with positive sales results and building progress faster than expected.

Using RNAV valuation method, we maintain our BUY recommendation for VHM shares with a new target price of VND111,000 per share, 45% higher than the closing price on June 11, 2020. It should be noted that we have not included VHM's industrial park leasing activities, we will update our valuation when there is enough information about this field.

Table 4. Vinhomes – Updated 2020 forecast

(VND bn)	Last	Current	+/-%
Revenue	67,268	82,284	22%
Gross profit	31,377	39,786	27%
NPAT	25,328	29,670	17%
Target price (VND)	110,400	111,000	1%

Source: KB Securities Vietnam

Table 4. Vinhomes – Financials and forecasts

Income Statement					Balance Sheet				
(VND billion)	2016	2017	2018	2019	(VND billion)	2016	2017	2018	2019
Net sales	11,217	15,297	38,664	51,627	CURRENT ASSETS	16,492	44,421	91,203	139,555
Cost of sales	-6,764	-10,131	-28,603	-24,171	Cash and cash equivalents	2,802	1,562	3,515	13,332
Gross Profit	4,454	5,167	10,061	27,456	Short-term investments	0	0	1,009	361
Financial income	822	964	14,565	9,046	Accounts receivable	4,616	24,775	43,356	47,468
Financial expenses	-947	-1,652	-2,457	-2,549	Inventories	8,475	17,006	36,858	60,297
of which: interest expenses	-385	-902	-2,383	-2,378	LONG-TERM ASSETS	21,029	6,883	28,486	57,686
Gain/(loss) from joint ventures (from 2015)	505	-88	0	0	Long-term trade receivables	100	88	214	8,115
Selling expenses	-1,298	-1,586	-1,381	-2,081	Fixed assets	3,643	1,356	128	690
General and admin expenses	-884	-453	-1,063	-2,156	Investment properties	0	0	0	0
Operating profit/(loss)	2,652	2,352	19,725	29,715	Long-term incomplete assets	4,454	2,462	18,363	28,213
Other incomes	182	92	101	186	Long-term investments	10,542	1,755	478	773
Other expenses	-38	-335	-108	-156	TOTAL ASSETS	37,521	51,304	119,689	197,241
Net other income/(expenses)	143	-243	-7	30	LIABILITIES	27,972	41,180	71,544	132,526
Income from investments in other entities	0	0	0	0	Current liabilities	26,828	34,223	42,872	121,557
Net accounting profit/(loss) before tax	2,795	2,109	19,719	29,746	Trade accounts payable	1,666	925	2,504	6,078
Corporate income tax expenses	-588	-543	-4,942	-5,427	Advances from customers	10,663	16,846	14,207	40,246
Net profit/(loss) after tax	2,207	1,565	14,776	24,319	Short-term unrealized revenue	#REF!	#REF!	#REF!	#REF!
Minority interests	559	156	492	2,572	Short-term borrowings	9,157	8,700	6,403	18,162
Attributable to parent company	1,649	1,410	14,284	21,747	Long-term liabilities	1,143	6,957	28,672	10,969
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	1,102	268	1,718	1,535
					Long-term borrowings	0	6,628	25,506	8,343
					OWNER'S EQUITY	9,549	10,124	48,145	64,715
					Paid-in capital	2,000	2,000	33,495	33,495
					Share premium	0	0	295	295
					Undistributed earnings	2,971	5,003	7,627	26,040
					Minority interests	7,347	3,220	4,912	8,619
Margin ratio	2016	2017	2018	2018					
Gross profit margin	39.7%	33.8%	26.0%	53.2%					
EBITDA margin	23.4%	23.1%	20.4%	45.7%					
EBIT margin	20.3%	20.5%	19.7%	45.0%					
Pre-tax profit margin	24.9%	13.8%	51.0%	57.6%					
Operating profit margin	23.6%	15.4%	51.0%	57.6%					
Net profit margin	19.7%	10.2%	38.2%	47.1%					
Cash Flow Statement	2016	2017	2018	2019	Key ratios	2016	2017	2018	2019
(VND billion)	2016	2017	2018	2019	Multiple				
Net profit/(loss) before tax	2,795	2,109	19,719	29,746	P/E	9.6	11.2	18.6	12.2
Depreciation and amortisation	355	410	262	352	P/E diluted	9.6	11.2	18.6	12.2
Profit/loss from investing activities	-747	177	-14,478	-9,116	P/B	7.2	2.3	6.1	4.7
Interest expense	385	902	2,383	2,378	P/S	1.4	1.0	6.9	5.1
Operating profit/(loss) before changes in Working Capital	2,809	3,892	7,855	23,162	P/Tangible Book	1.7	1.6	5.5	4.1
(Increase)/decrease in receivables	1,639	-2,626	5,330	-3,033	P/Cash Flow	3.3	5.7	-181.1	5.1
(Increase)/decrease in inventories	956	250	11,297	-7,355	EV/EBITDA	8.4	8.4	37.2	11.8
Increase/(decrease) in payables	-273	3,409	-20,385	51,451	EV/EBIT	9.8	9.5	38.5	12.0
(Increase)/decrease in prepaid expenses	95	-697	428	-2,885	Operating performance				
Net cash inflows/(outflows) from operating activities	4,741	2,796	-1,463	51,928	ROE	0.20	0.10	0.50	0.40
Purchases of fixed assets and other long term assets	-2,222	-2,405	-751	-3,847	ROA	0.10	-	0.20	0.10
Proceeds from disposal of fixed assets	75	34	1,619	206	ROIC	0.10	0.10	0.10	0.30
Loans granted, purchases of debt instruments	-489	-10,670	-13,940	-14,077	Financial structure				
Collection of loans, proceeds from sales of debts instruments	2,605	4,692	19,995	30,762	Cash Ratio	0.1	0.1	0.1	0.1
Investments in other entities	-15,924	-3,469	-52,277	-61,165	Quick Ratio	0.3	0.8	1.1	0.5
Proceeds from divestment in other entities	5,637	2,028	26,398	19,569	Current Ratio	0.6	1.3	2.1	1.2
Dividends and interest received	197	331	1,114	1,232	LT Debt/Equity	0.0	0.7	0.5	0.1
Net cash inflows/(outflows) from investing activities	-10,121	-9,459	-17,842	-27,320	LT Debt/Total Assets	0.0	0.1	0.2	0.0
Proceeds from issue of shares	3,393	28	12,241	0	Debt/Equity	1.0	1.5	0.7	0.4
Payments for share returns and repurchases	0	0	0	-5,550	Debt/Total Assets	0.2	0.3	0.3	0.1
Proceeds from borrowings	11,161	31,232	100,191	6,847	ST Liabilities/Equity	2.8	3.4	0.9	1.9
Repayment of borrowings	-6,590	-25,838	-90,228	-12,402	ST Liabilities/Total Assets	0.7	0.7	0.4	0.6
Finance lease principal payments	0	0	0	0	Total Liabilities/Equity	2.9	4.1	1.5	2.1
Dividends paid	-340	0	-945	-3,687	Total Liabilities/Total Assets	0.8	0.8	0.6	0.7
Interests, dividends, profits received	0	0	0	0	Activity ratios				
Net cash inflows/(outflows) from financing activities	7,625	5,422	21,259	-14,792	Account Receivable Turnover	41.3	2.5	4.1	6.5
Net increase in cash and cash equivalents	2,246	-1,241	1,954	9,817	Inventory Turnover	0.9	0.8	1.1	0.5
Cash and cash equivalents at the beginning of period	557	2,802	1,562	3,515	Account Payable Turnover	5.4	7.8	16.7	5.6
Cash and cash equivalents at the end of period	2,802	1,562	3,515	13,332					

Source: Vinhomes, KB Securities Vietnam

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## Investment ratings & definitions

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### 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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