

Vincom Retail (VRE)

Strong rebounds after COVID-19

June 13, 2023

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2023F NPAT is VND4,472 billion (+61% YoY)

Vincom Retail's (VRE) 2023 revenue and NPAT are estimated at VND10,027 billion (+36% YoY) and VND4,472 billion (+61% YoY) respectively. We believe that VRE will record strong growth in 2023 results thanks to (1) a strong increase in occupancy rate and in rents for shopping mall floor area after the COVID pandemic and (2) the sales of two shophouse projects in Quang Tri and Dien Bien in 2023.

COGS and SG&A are optimized

SG&A costs in 2023 should be minimized thanks to (1) reducing the provision for bad debts after COVID (which has been provisioned in 2021 and 2022) and (2) policies to optimize labor costs. In addition, VRE has also installed rooftop solar power systems at 50 shopping malls and will install the system in eight other malls in 2023, helping to reduce electricity consumption costs by 2% and COGS.

VRE plans to expand rental floor area by 800,000 m² in the future

VRE plans to expand floor area for rent by 800,000 m² in the medium and long term with an estimated investment capital of VND12,300 billion, but the delay in implementation is also a risk to be assessed.

BUY recommendation with the target price VND38,200/share

We recommend BUY for VRE stocks with the target price VND38,200/share, equal to an upside of 42% compared to the closing price on June 12, 2023.

Buy maintain

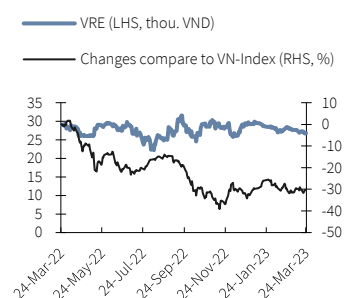
Target price	VND38,200
Upside	42%
Current price (Jun 12, 2023)	VND26,900
Consensus target price	VND36,625
Market cap (VNDtn/USDmn)	60.9/2.6

Trading data	
Free float	40%
3M avg trading value (VNDbn/USDmn)	85.4/3.6
Foreign ownership	33.88%
Major shareholder	SADO Trading (40.5%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-5%	-7%	-4%	-8%
Relative	-10%	-15%	-11%	1%

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net sales (VNDbn)	5,891	7,361	10,027	8,801
Operating profit (VNDbn)	1,658	3,453	5,545	5,221
NPAT of the parent (VNDbn)	1,315	2,777	4,472	4,227
EPS (VND)	564	1,192	1,920	1,815
EPS growth (%)	-45%	111%	61%	-5%
P/E (x)	53.3	22.1	14.2	15.0
P/B (x)	2.3	1.8	1.7	1.5
ROE (%)	4%	9%	13%	11%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

Business performance updates

Table 1. #KBChart&TableTitle

(VNDbn)	1Q2022	1Q2023	+/-%YoY	4Q2022	1Q2023	+/-%QoQ	KBSV's notes
Revenue	1,369	1,943	42%	2,084	1,943	-7%	
Floor area for lease	1,246	1,913	54%	1,906	1,913	0%	Revenue increased 54% YoY thanks to (1) the low base of 1Q22 when VRE disbursed a support package of VND464 billion to customers; (2) the launch of three shopping malls from 2Q22; and (3) rebounding rental prices after COVID. Real estate transfer revenue dropped sharply because in 1Q23, VRE only recorded the handover of a shophouse at Thai Hoa project, Nghe An.
Real estate	84	3	-97%	152	3	-98%	
Cost of goods sold	758	755	0%	1,032	755	-27%	
Net rental income	857	1,478	72%	1,297	1,478	14%	
Net rental margin	69%	77%	8%	68%	77%	9%	Net profit margin for space leasing has been improved thanks to the optimization of shopping mall operating costs (such as energy costs thanks to the installation of a rooftop solar power system), which helps to save 2% of electricity costs.
Gross profit	611	1,188	94%	1,052	1,188	13%	
Gross profit margin	45%	61%	16%	50%	61%	11%	
Financial income	103	224	118%	201	224	11%	
Financial expenses	90	100	12%	92	100	9%	
Interest expenses	90	100	12%	92	100	9%	
Profit from joint venture	0	0		0	0		
SG&A costs	142	108	-24%	167	108	-35%	VRE actively optimized human resources and reduced bad debt provision, which helps SG&A reduce 24% YoY and 35% QoQ
SG&A margin	10%	6%	-4%	8%	6%	-2%	
Operating profit	482	1,204	150%	994	1,204	21%	
Other (net) incomes	18	45	144%	28	45	57%	
Profit before taxes	501	1,249	149%	1,022	1,249	22%	
Taxes	124	259	83%	267	259	-3%	
Profit after taxes	378	1,024	171%	791	1,024	29%	

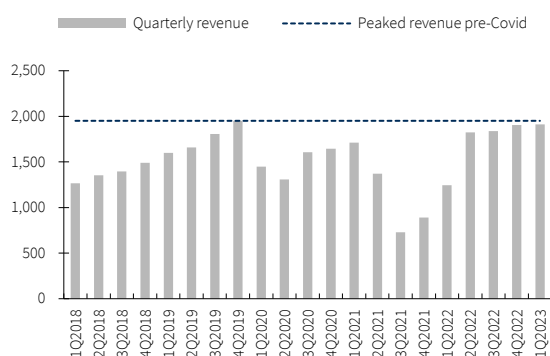
Source: Vincom Retail, KB Securities Vietnam

Investment catalysts

The rental activities recovered strongly

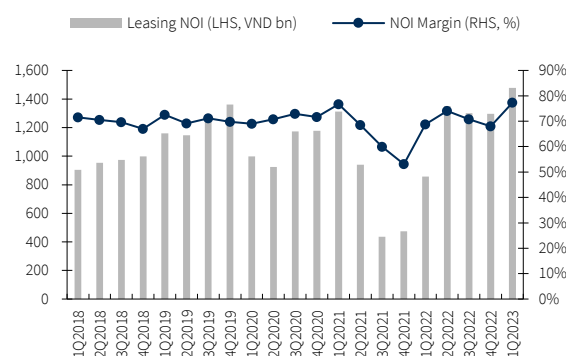
In 1Q23, revenue from leasing real estate properties gained 54% YoY thanks to (1) improved occupancy rates at VCC, VMM and VCP (Table 2); and (2) an increase in the estimated rental price at (up 10% YoY). In 2023, two projects VMM Grand Park and VCP Ha Giang should contribute to the total revenue when they are launched in 4Q23 with occupancy rates around 90 – 95%. We estimate the revenue from rental properties in 2023 at VND7,672 billion (+13% YoY), assuming a corporate occupancy rate of 88%.

Fig 1. VRE – Revenue from shop premises leasing (VNDbn)



Source: Vincom Retail, KB Securities Vietnam

Fig 2. VRE – NOI margin of shop premises leasing (%)



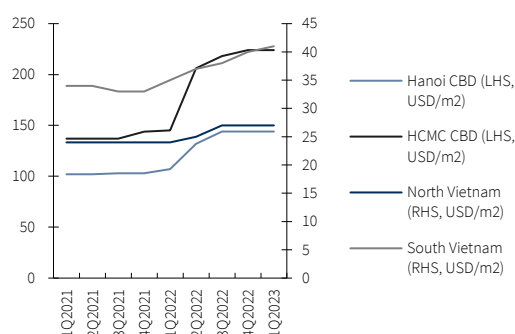
Source: Vincom Retail, KB Securities Vietnam

Table 2. VRE – Occupancy rates at shopping malls

	2018	2019	2020	2021	2022	1Q2023	+/-% YTD	2023F
VCC	91.7%	91.3%	93.1%	93.7%	93.7%	95.3%	1.6%	
VMM	90.6%	91.7%	86.0%	85.3%	87.5%	89.5%	2.0%	
VCP	89.8%	88.7%	80.2%	79.0%	78.9%	81.1%	2.2%	
VC+	78.5%	84.9%	73.8%	74.2%	73.5%	73.2%	-0.3%	
VRE	89.8%	89.7%	83.7%	83.0%	83.6%	85.5%	1.9%	88.0%

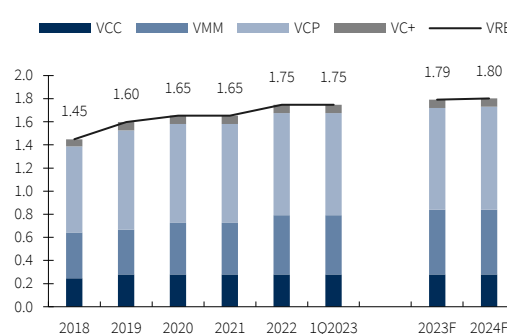
Source: Vincom Retail, KB Securities Vietnam

Fig 3. VRE – Estimate rents of shop premises at ground floor



Source: Vincom Retail, KB Securities Vietnam

Fig 4. VRE – Gross floor area of shopping malls (million m²)

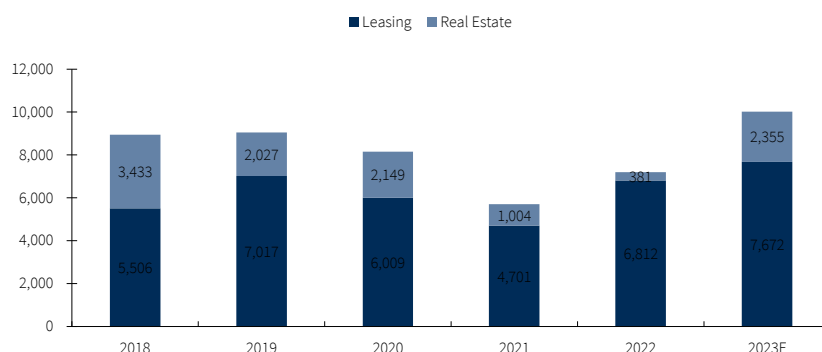


Source: Vincom Retail, KB Securities Vietnam

VRE recorded real estate transfer revenue in 2Q23

444 shophouses from two projects in Quang Tri and Dien Bien are expected to be handed over in 2023 with an estimated total revenue of VND2,355 billion, adding 25% to VRE's total revenue this year. The remaining 112 shophouses should be handed over in 2024, bringing in VND594 billion in revenue for VRE next year.

Fig 5. VRE – 2018A–2023F revenue from business segments

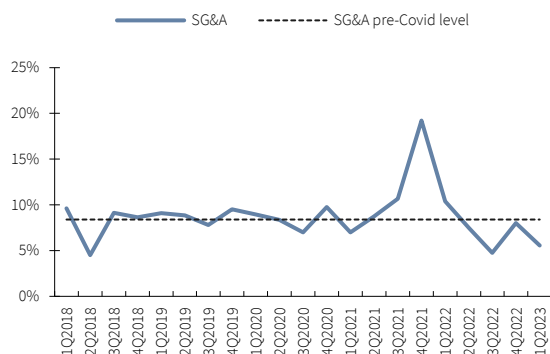


Source: Vincom Retail, KB Securities Vietnam

The demand for shop premises in key areas rose after COVID pandemic, which helps to optimize SG&A via (1) lower brokerage costs and (2) lower provision for receivables

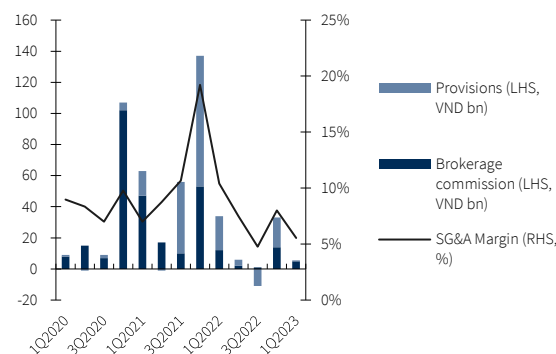
We forecast VRE's SG&A to grow by 9% in 2023 due to the recognition of selling expenses related to real estate transfer. However, we also see a positive point in VRE's cost control of the rental real estate segment thanks to (1) the policy of optimizing human resources and energy costs in shopping centers and (2) lower provision for COVID-related bad debts (strong provisioning from 3Q21 to 1Q22 with a total value of VND152 billion, accumulated VND192 billion).

Fig 6. VRE – SG&A margin (%)



Source: Vincom Retail, KB Securities Vietnam

Fig 7. VRE – SG&A margin & provision for brokerage receivables (% , VNDbn)



Source: Vincom Retail, KB Securities Vietnam

Forecast & valuation

Table 3. VRE – 2023–2024F business results

(VNDbn)	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Revenue	7,361	10,027	36%	8,801	-12%	In the base case, we expect VRE's 2023 sales to gain 36% thanks to (1) the rebound in the demand for shop premises at shopping malls with a 7–8% YoY increase in rents and (2) VRE's revenue from real estate projects during the year.
Premises for lease	6,182	7,672	13%	8,207	7%	We expect the occupancy rate to reach 88% in 2023 and 2024 amid economic downturns before returning to pre-COVID levels of 90% from 2025.
Real estate properties	381	2,355	518%	594	-75%	In 2Q23, VRE will hand over 444 shophouses in two projects in Quang Tri and Dien Bien, which may bring in VND2,355 billion in revenue.
Cost of goods sold	3,545	4,246	20%	3,580	-16%	
Net rental income	4,804	5,553	16%	5,818	5%	We expect net profit from premises leasing to increase 16% YoY in 2023 thanks to a sharp increase in rental prices after the COVID period, while operating costs will be optimized.
Net rental margin	71%	72%	+1%	71%	-1%	
Gross profit	3,817	5,781	51%	5,221	-10%	
Gross profit margin	52%	58%	+6%	59	+1%	
Financial income	539	672	25%	814	21%	VRE has no plan to pay dividends in the context of difficult capital markets, so we believe that short-term investments will be increased in the future to help the company increase financial revenue from holding deposits to maturity with interest rate of 9%/year.
Financial expenses	359	306	-15%	224	-27%	
Interest expenses	359	306	-15%	224	-27%	Interest expenses come from corporate bond loans with a principal value of VND3,050 billion, estimated interest rates range from 10–11.25%/year, maturing in 2023 and 2025. We see no risk in VRE bond interest payment.
Profit/ from joint ventures	0	0		0		
SG&A costs	543	602	11%	528	-12%	We expect SG&A expenses to increase slightly by 11% in 2023 due to the recognition of selling expenses at transferred real estate projects before decreasing by 12% in 2024, based on (1) cutting provisions bad debts during the COVID period (provisioned in 2021 and 2022) and (2) optimized human resource policies.
SG&A margin	7.4%	6.0%	-1.4%	5.0%	-0.5%	
Operating profit	3,453	5,545	61%	5,283	-5%	
Other net income	72	45	-38%	0	-100%	
Profit before taxes	3,524	5,590	59%	5,182	-5%	
Tax expenses	747	1,118	50%	1,057	-5%	
Profit after taxes	2,777	4,472	61%	4,227	-5%	

Source: Vincom Retail, KB Securities Vietnam

**Valuation: BUY recommendation
with the target price of
VND38,200/share**

We applied SOTP to VRE and determine the fair value of the stock at VND38,200, equivalent to an upside of 42% compared to the closing price on June 12, 2023.

As there is no official information about new shopping mall projects, we discount part of the value of these projects and will re-evaluate when more information is available.

Table 4. VRE – Final valuation

	Method	NAV (VNDbn)
Real estate for lease	Cap Rate	79,723
VCC	7.0%	29,251
VMM	8.0%	21,552
VCP	9.5%	18,178
VC+	11.0%	493
Other projects	10.0%	10,249
Real estate for sale	P/E	5,308
Cash		7,295
Debts		3,196
EV		89,130
Number of outstanding shares (million)		2,329
Stock price (VND)		38,200

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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