

INVESTMENT HIGHLIGHT

VRE is a retail real estate company with a leading “all in one” model in Vietnam and a nationwide business system

Vincom Retail is the biggest real estate developer in Vietnam. VRE has been expanding its business scale very fast to have a comprehensive view over the booming retail market. By the end of 2018, VRE had 66 shopping malls in all over 38 cities and provinces, with a retail gross floor area (GFA) reaching 1.5 million m², which had a customer arrival up to 160 million. VRE plans to open 20-30 shopping malls each year, which will add 200,000 – 300,000 m² annually to the GFA.

The domestic retail real estate market is very potential

Stable macro economy, young population, increasing middle class, high urbanization speed and increasing spending are positive factors for the retail real estate sector in Vietnam.

VRE benefits from the ecosystem of the parent company Vingroup

VRE benefits from a large landbank of the parent group Vingroup, and many shopping malls in Vinhomes urban areas or complexes in Hanoi and HCMC. In addition, Vincom Retail benefits from Adayroi online retail platform and VinID frequent customer system with more than 6.5 million members.

Risks are still existing

Increasing competition due to the emergence of competitors and the expansion of existing competitors, especially multinational retail groups.

The expansion of VRE in provinces/cities level 2, 3 is prone to some obstacles which are involved in economic cycle risks and slowly changed consumption habits. However, VRE always make a comprehensive assessment about consumption habits before expansion, and flexibly uses different models to suit consumption habits in each local area.

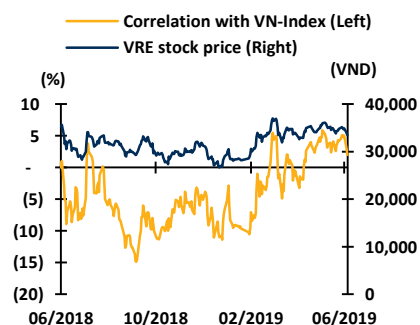
BUY

Target price	43,005 VND
Up/down	+28.3%
Current price (19/06/2019)	33,500 VND
Target price	43,005 VND
Market cap	78,015 Bil VND (3.35 Bil USD)
Exchange rate on 19/06/2019: 1USD = 23,311 VND	

Forecast business performance				
FY-End	2016A	2017A	2018A	2019F
Net revenue (Bil VND)	6,386	5,518	9,124	9,580
Net revenue growth rate (%)	7.2%	-13.6%	65.3%	5.0%
Gross profit (Bil VND)	2,642	2,801	3,641	4,752
GPM (%)	41.4%	50.8%	39.9%	50.0%
Net profit (Bil VND)	2,440	2,028	2,413	2,898
Net profit growth rate (%)	123.8%	-16.9%	19.0%	20.0%
EPS (VND)	1,700	920	1,228	1,244
EPS growth	159.5%	-45.9%	33.5%	15.1%
P/E (x)	30	32	33	25

Trading data	
Number of outstanding shares	2,328,818,410
Average trading volume (3M)	1,280,852
% foreign ownership	31%

% price change				
(%)	1M	3M	6M	12M
VRE	10.1%	17.6%	13.5%	5.3%
VNINDEX	10.3%	2.5%	8.8%	7.6%

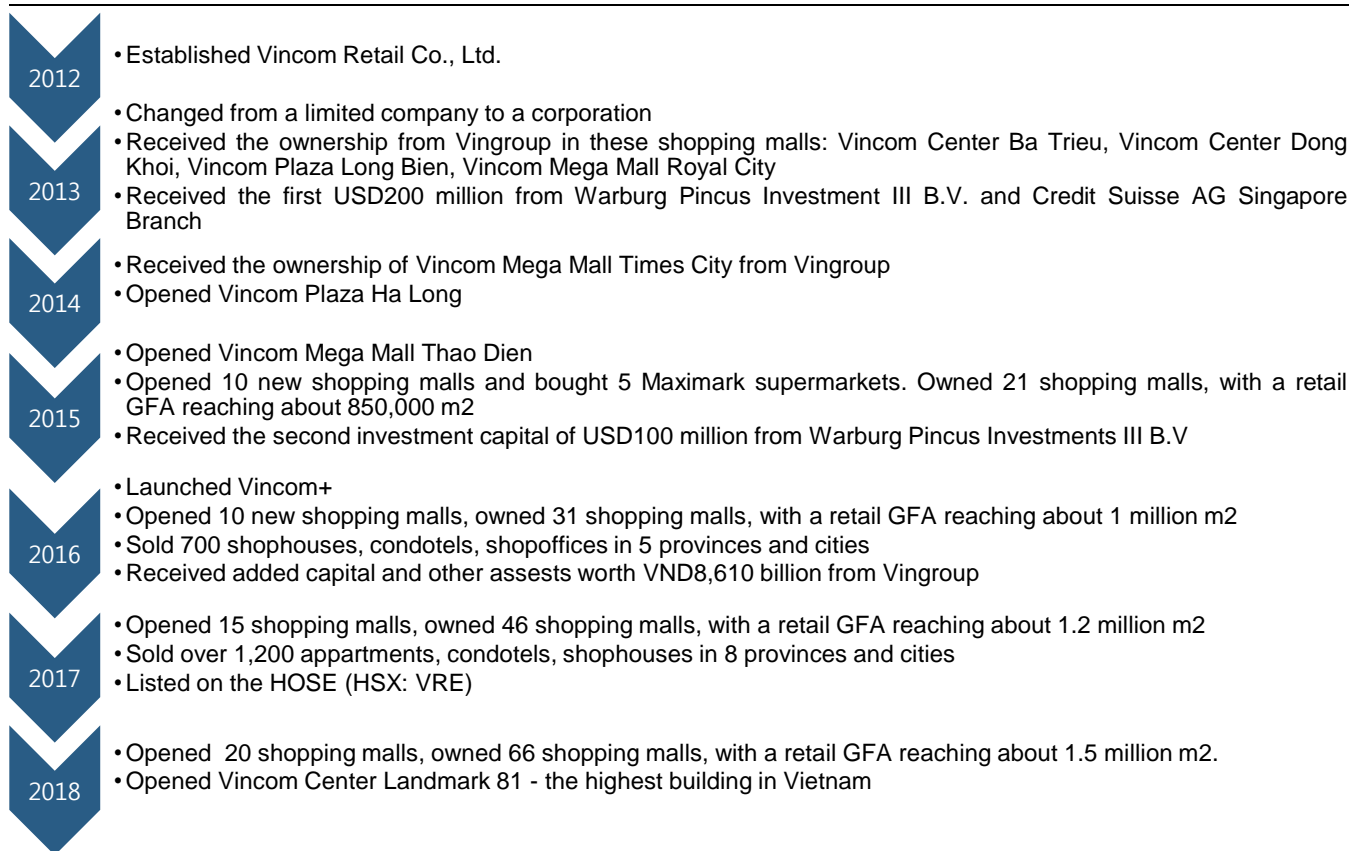


Source: FiiPro

I. OVERVIEW

HISTORY OF DEVELOPMENT

Figure 1: The history of development of Vincom Retail



Source: VRE

Vincom Retail is the biggest real estate developer in Vietnam

Earnings from leasing of investment properties had the highest proportion in the total revenue

BUSINESS SCOPE AND MARKET POSITION

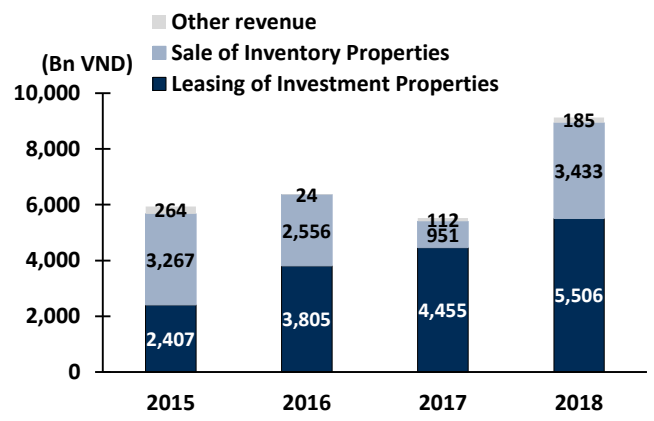
Vincom Retail (HSX: VRE) is a brand that operates in retail market of Vingroup (HSX: VIC). VRE mainly operates in providing retail shopping malls for lease and accompanied services, and invests and develops real estate forms.

By the end of December 31, 2018, VRE had 66 shopping malls operating in 38 cities and provinces all over the country, with a retail GFA reaching about 1.5 million m². These malls had a customer visit of 160 million to go shopping and experience services, gaining 45 million customer arrivals against 2017. Vincom Retail has 4 main product lines which are Vincom Center, Vincom Mega Mall, Vincom Plaza, and Vincom+.

REVENUE STRUCTURE

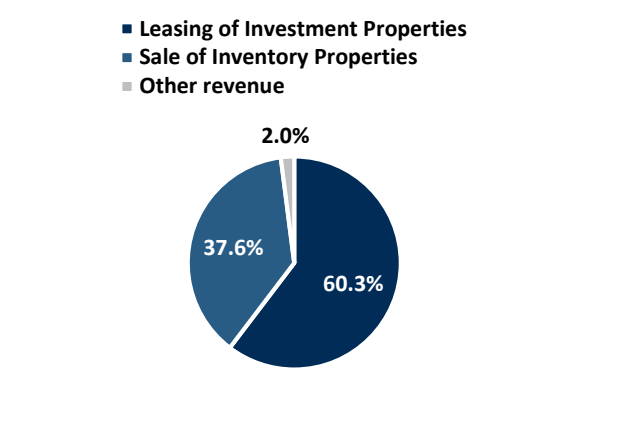
The main source of VRE revenue comes from the leasing of investment properties and rendering related services, with a weight of over 60% total revenue in 2018. The revenue from sale of inventory properties accounted for 38% total revenue in 2018. In 2018, the sale from real estate selling took a high proportion thanks to the hand-over of the two high-rise projects which were the condotels in Da Nang and Bac Ninh. Other revenues (from the operation and management of some offices surrounding Vincom shopping malls and some other real estate projects) took a small component, just more than 1% total revenue (Figure 3).

Figure 2: Revenue over the years



Source: VRE

Figure 3: 2018 revenue structure



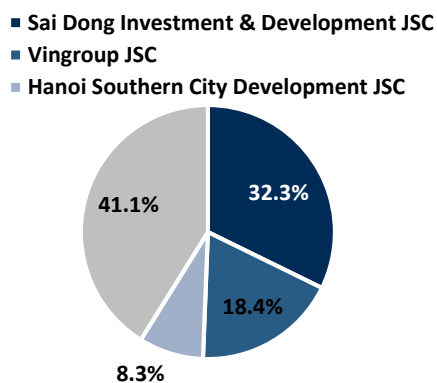
Source: VRE

BUSINESS AND OWNERSHIP STRUCTURE

By December 31, 2018, Vincom Retail had 3 subsidiaries (Figure 5).

VRE currently has a charter capital of VND19,010 billion. VRE has a big shareholder Saidong Urban Development & Investment J, owned by Vingroup (32.3%); Vingroup, directly owns VRE (18.4%), and Hanoi Southern City Development Joint Stock Company owns (8.3%). VRE also attracted some foreign funds such as WP Investments III B.V (4.89%), Credit Suisse AG (1.63%) (Figure 4).

Figure 4: Ownership structure



Source: VRE

Figure 5: List of subsidiaries

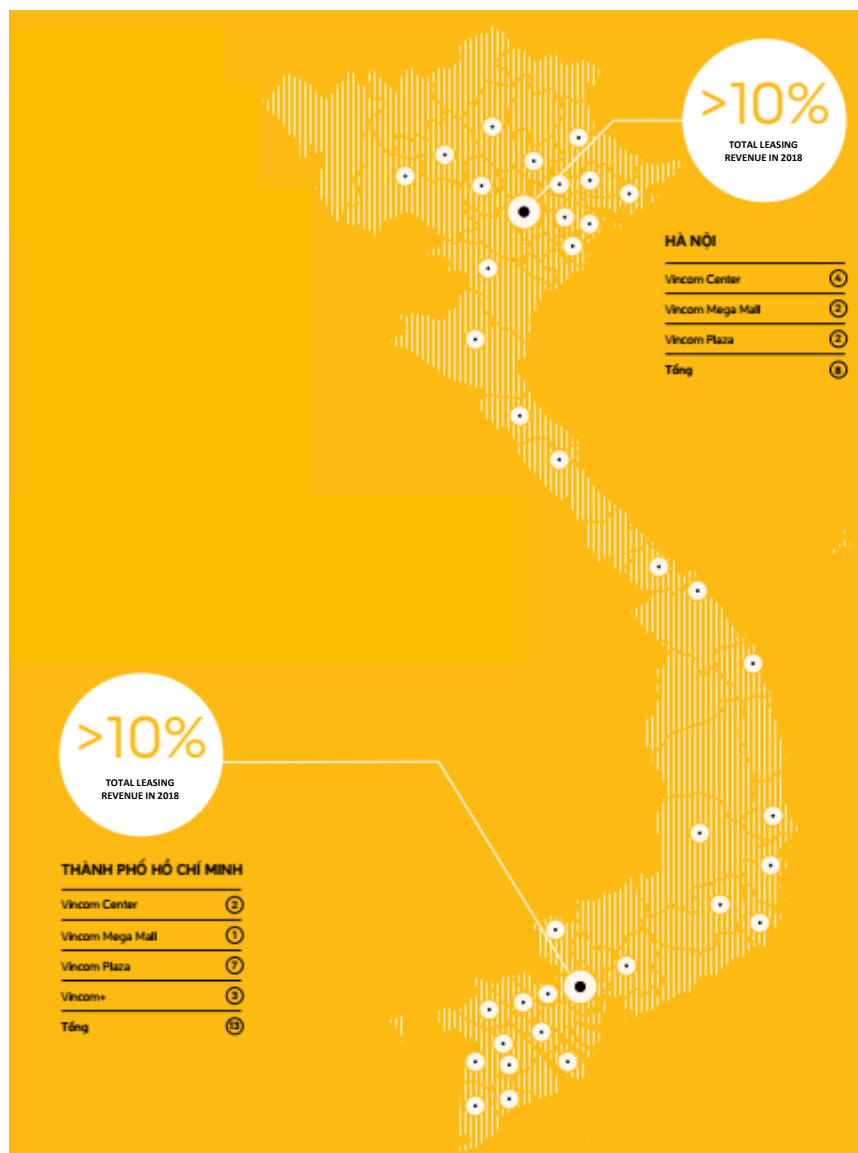
Subsidiaries	Ownership (%)
Vincom Retail Northern Vietnam Co., Ltd	100
Vincom Retail Southern Vietnam Co., Ltd	100
Suoi Hoa Urban Development and Investment JSC.	97.27

Source: VRE

II. BUSINESS OPERATION

With the strategy to expand the system to the whole country, in 2018 VRE expanded its business system to 14 provinces more than in 2017, which raised the total number of provinces and cities included in VRE system to 38. In particular, VRE business operation mainly concentrated in Hanoi and HCMC (with 10% of total revenue in 2018 for each city) with typical models such as Vincom Center, and Vincom Megamall (accounting for 45% GFA of the whole system)

Figure 6: VRE business network in 2018



Source: VRE

VRE is a leading company in shopping mall development, ownership and management in terms of scale and growth rate in Vietnam

1. Leasing of real estate properties

In 2018, VRE opened 20 new shopping malls, of which there are 2 Vincom Center malls, 15 Vincom Plaza and 3 Vincom+ malls – a record high number of shopping malls opened in one year. In particular, in July 2018, Vincom Center Landmark 81 was officially launched at Landmark 81 – the highest building in Vietnam with (Figure 9). In addition, 15 shopping malls were opened in 2017 and came into operation in 2018, raising the revenue from leasing investment properties and rendering related services to VND 1,462 billion in Q4.2018 (+19% QoQ) and VND5,506 billion in the whole year of 2018 (+24% YoY).

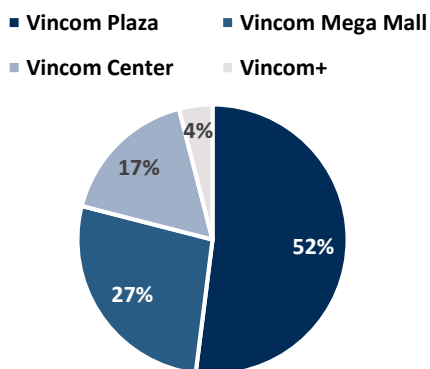
In 66 shopping malls, there are 13 shopping malls in HCMC and 8 shopping malls in Hanoi. The overall occupancy rate in 2018 rose to 89.9% compared to 87.6% in 2017 thanks to the restructuring of tenants and many shopping malls have entered a stable period of operation. The detailed model of leasing shopping malls of VRE on December 31, 2018 was demonstrated as follows:

Figure 7: Shopping mall leasing model on December 31, 2018

Brand	Vincom Center	Vincom Mega Mall	Vincom Plaza	Vincom+
No.of malls	6	3	45	12
Retail GFA, m2/TTM	40,000-60,000	60,000-150,000+	10,000-40,000	3,000-5,000
Total GFA,m2	246,003	395,148	744,593	62,553
Occupancy	94.50%	88.60%	91.50%	75.90%
Location	High-density locations in key citites of Hanoi and HCMC, CBD	Integrated, mixed use developed in key citites of HCMC and Hanoi	High-density non CBD locations & in other provinces	Medium density non-CBD locations & in other provinces
Positioning	Above average and luxury	All	Average	Average and below
Competitor	Lotte Department, Takashimaya, Parkson	Aeon, SC Vivo, Crescent	Sense City, Lotte mart	BigC, Co-opmart

Source: VRE, KBSV

Figure 8: Retail GFA by mall type FY2018



Source: VRE

Figure 9: Vincom Center at Landmark 81 – the highest building in Vietnam



Source: Internet

Anchor tenants help to improve the average rental price

VRE records revenue from leasing by each leasing agreement. The prices of retail shopping malls of VRE have two types: (1) Fixed rental price and (2) the share of sales revenue of tenants. For non-anchor tenants, the term of a leasing agreement usually lasts for 3 years, rental prices may be adjusted annually or after 3 years. For anchor tenants, a leasing agreement is often signed under the form of sharing the revenue from sales achieved by tenants with a term of 5-10 years, depending on the scale of the agreement. The second type of agreement has improved the average rental prices of shopping malls, particularly in Vincom Dong Khoi and Vincom Ba Trieu. After anchor tenants came up, the average rental price has climbed 10-15%.

Large shopping malls in the center area have expensive rental prices and nearly reach the maximum occupancy rate

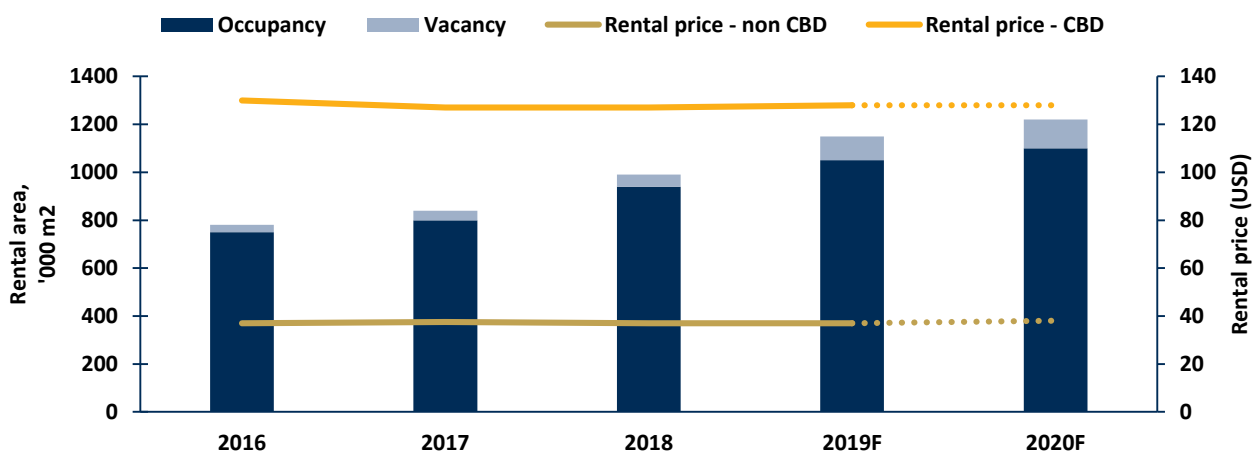
According to the report by Jones Lang LaSalle (JLL), in Q1/2018, the rental prices of a ground floor at Saigon Center in Takashimaya were USD147 /m²/month, including service prices, excluding VAT. Diamond Plaza is located on a golden land area in HCMC, and has the highest rental price at USD125 /m²/month, including all charges except for VAT. According to the statistics of JLL, by the end of March 2018, the total supply on the retail market recorded 960,000 m² area of shopping malls, nearly 40,000 m² area of Bazaar. Shopping malls located on the golden land of HCMC all have occupancy rates over 90%.

Among shopping malls surrounding center area, Vincom Center Landmark 81 has advantages of scale and brand name, which brings high rental prices

According to CBRE Vietnam, in 2019, the average rental price of the ground floor and first floor of stores with an area from 80 - 250 m² in the central area is kept at 128.6 USD/m²/month, the vacancy rate is about 3%. Non-central area's rental prices decreased by 3% compared to the previous year, to USD36/m²/month. Thus, the central rental prices are 3.6 times higher than those in the sub-center area.

Thanks to the advantages of scale and brand, average rental price for the first and second floors of Vincom Center Landmark 81 (leasing area is 34,688 m²) is USD60/m²/month, the highest in comparison with the prices in shopping malls at the sub-center area. Stalls at these shopping malls are still getting more crowded as vacancy rates are decreasing. The occupancy rate until the end of Q1/2019 was recorded at about 90%, a majority of the remaining area was not sold to serve anchor tenants.

Figure 10: Retail rental prices in HCMC

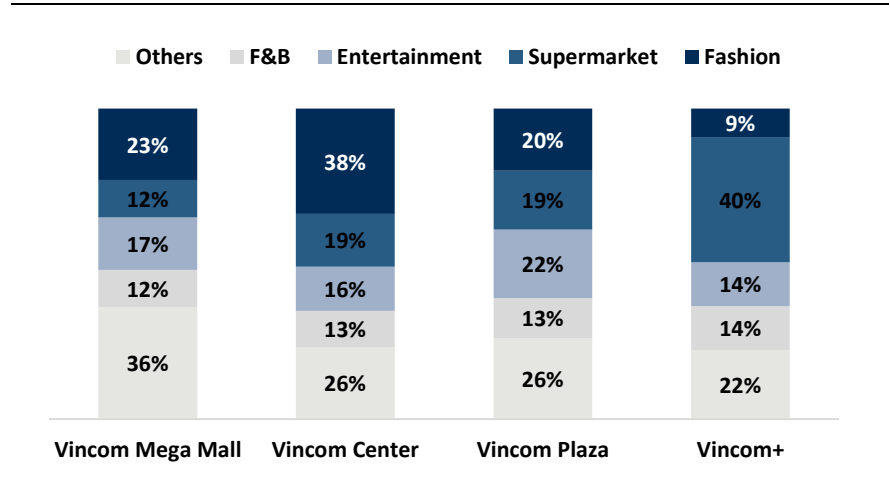


Source: CBRE, Q4.2018

Fashion is the business type that accounts for the highest proportion at shopping malls

The main types of business of tenants in VRE's shopping malls include fashion, supermarket, F&B and entertainment. In particular, fashion accounted for the highest proportion at 22.5% with the presence of famous fashion brands such as Zara, H&M, and Mango. Next is the supermarket with 20.5%, mainly VinMart and VinPro marts. Normally, companies that belong to Vingroup account for about 30% of the leased area in new shopping malls.

Figure 11: Tenant Mix by NLA as at December 2018



Source: VRE

Revenue from the sales of inventory properties supports investment capital for shopping malls

2. Sales of inventory properties

Since 2015, in addition to leasing properties at shopping malls, VRE has also developed shophouse, office tower, apartment and condotel, which brings cash flow in the short term. In 2018, VRE handed over two major projects, Vinpearl Condotel Riverfront Da Nang and Suoi Hoa (Bac Ninh). Revenue sources in 2019 came mainly from shophouses in Dong Thap, Vinh Long, Hoa Binh, Ca Mau and Mong Cai. The sales of inventory properties in these real estate projects will be recorded as revenue when completed and handed over to buyers. According to VRE, from 2019, the main revenue will come from shophouses, these projects are able to recover capital quickly, shorten the project cash flow and increase source of money for VRE. The company also sets a target that 20-25% of revenue will come from shophouse projects each year.

III. BUSINESS PERFORMANCE & FINANCIAL STATUS

Impressive revenue growth over the years

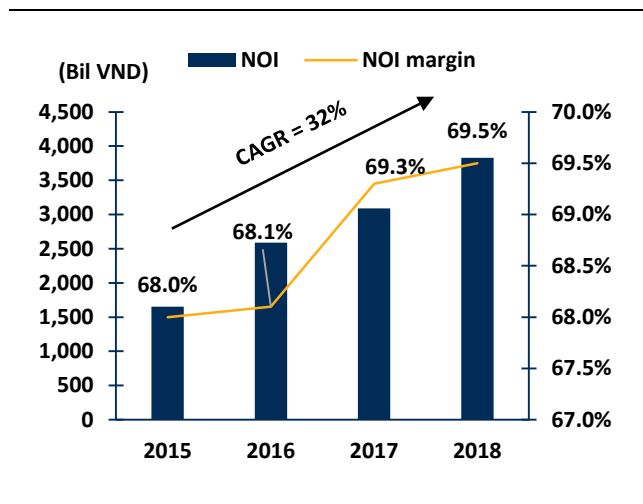
Amid the thriving Vietnam's retail market and the increasing demand for modern shopping, Vincom Retail has achieved impressive business results in recent years thanks to the expansion of Vincom shopping malls. The average revenue growth of VRE in 2016-2018 was about 20%, especially at 64% in 2018.

VRE started to promote new shopping malls from 2015, from 6 shopping malls in 2014 to 21 shopping malls. In 2016, VRE opened 10 new shopping malls, which increased the total number of shopping malls to 31, and the total GFA rose 10.2% to over 1 million m². By 2017, VRE opened 15 new shopping malls, rental revenue increased by 17% YoY but total revenue decreased due to a fall in the revenue from sale of inventory properties. In 2017, revenue came from handing over shophouse, while 2016 revenue mainly came from handing over apartments at Vinhomes Nguyen Chi Thanh.

Revenue in 2018 surged, especially in leasing of real estate properties with a record high number of newly opened shopping malls

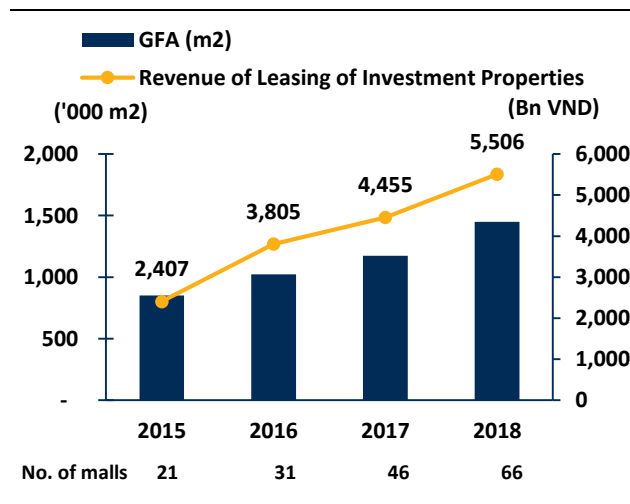
In 2018, VRE's business results increased sharply to VND 9,124 billion in total net revenue, up 64% compared to 2017 and exceeding the annual plan by 113%. In which, revenue from leasing of investment properties accounted for 60.8% of total revenue, reached VND 5,506 billion, up 24% compared to 2017. In 2018, VRE launched 20 more shopping malls, reaching a record number of newly opened shopping malls in a year. These malls can be found in 38 cities and provinces all over the country with a GFA reaching about 1.5 million m², which helped VRE maintain the position of the largest retail real estate developer in Vietnam.

Figure 12: NOI and NOI margin of leasing revenue over the years



Source: VRE

Figure 13: Leasing revenue and GFA over the years



Source: VRE

Revenue from the sale of inventory properties change over the years

Revenue and GPM of the sale of inventory properties change over the years. In 2015, revenue from this segment accounted for 55% total revenue, equivalent to VND3,267 billion. This revenue mainly came from the leasing of offices in Nguyen Chi Thanh Vincom Center and shophouses in Vincom Hai Phong. In 2016, revenue from the sale of inventory properties added 40% to the total revenue (-22% YoY). In 2017, revenue from this segment significantly fell to VND951 billion (-63% YoY) as there is no large project recorded.

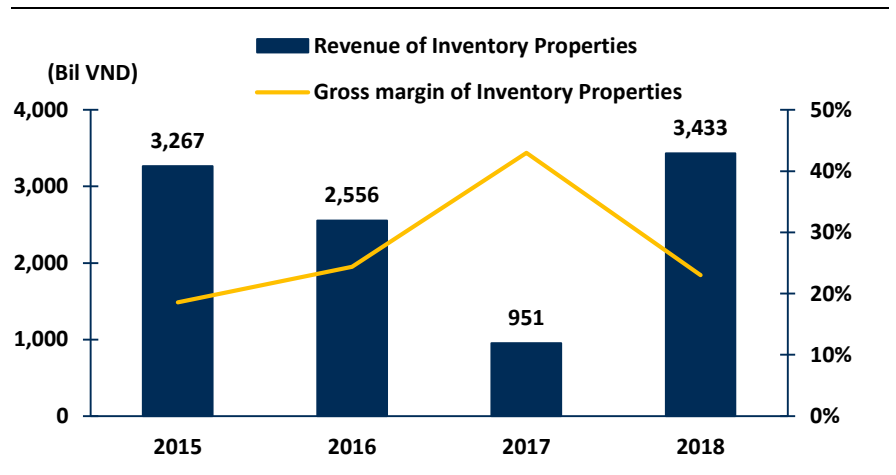
Revenue from the sale of inventory properties in 2018 3.6 times higher than that in 2017

Revenue from the sale of inventory properties reached VND 1,400 billion in the Q4.2018, 5.5 times higher than that in the same period of 2017, and reached VND3,433 billion in the whole year of 2018, 3.6 times higher than that in 2017, and accounted for 38% total revenue in 2018. This revenue mainly comes from handing over condotel apartments in Danang Vinpearl Condotel Riverfront project, apartments at Suoi Hoa project, Bac Ninh and some shop-house projects in Vinh Long and Long An.

GPM was over 30% over the years

GPM of VRE was over 30% over the years. VRE has hit a GPM of 40.23% in 2018. In particular, profit margins of investment property leasing and inventory property sale hit 52.3% and 23.5% respectively. In 2017, revenue from the sale of investment properties was mainly contributed by the sale of shophouses in Royal City, Times City with high GPM, leading to higher gross profit in 2017 compared to previous years. In 2018, GPM of this segment stayed flat at 23%.

Figure 14: Revenue from sale of Inventory Properties and GPM over the years



Source: VRE

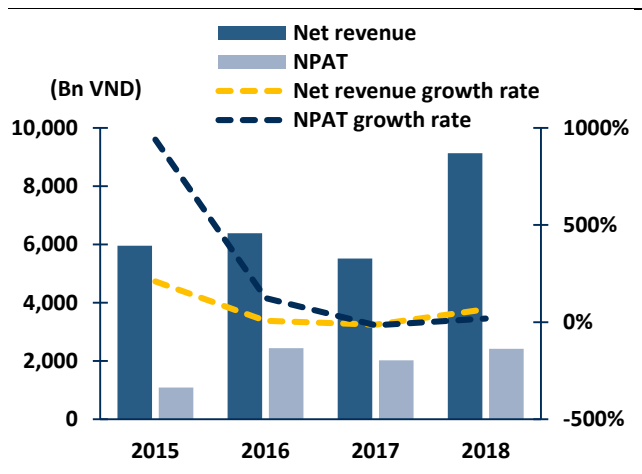
SG&A/revenue ratio stayed flat around 10%

SG&A/revenue was 9% on average over the years. In 2018, SG&A took a component of 8.3% in total revenue structure, lower than 10.3% in 2017.

NPAT of VRE achieved a growth of nearly 20% in 2018

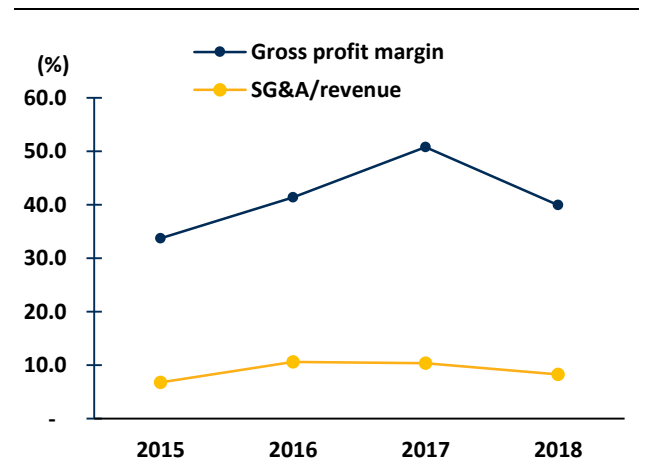
Like revenue, NPAT of VRE also changed over the years, and reached its peak of 209% growth in 2015. NPAT in 2018 was VND2,414.8 billion, gaining 19% over 2017, competing 97% of the year's plan.

Figure 15: Revenue and NPAT in 2015 - 2018



Source: VRE

Figure 16: GPM and SG&A/revenue ratio in 2015 - 2018



Source: VRE

Figure 17: Business results in 2018

	2018 revenue (VND Bil.)	YoY growth	Revenue structure 2018	2018 GPM	2017 GPM
Leasing of investment properties	5,506	24%	61%	52%	53%
Sale of inventory properties	3,433	261%	38%	23%	43%
Other services	185	1%	1%	-40%	43%
Net revenue	9,124	64%	100%	40%	51%

Source: VRE

ROA and ROE were improved over the years

ROA and ROE were improved over the years, especially in 2016, when net profit margin was the highest as ever as the sale of inventory properties brought a high profit source (Figure 19).

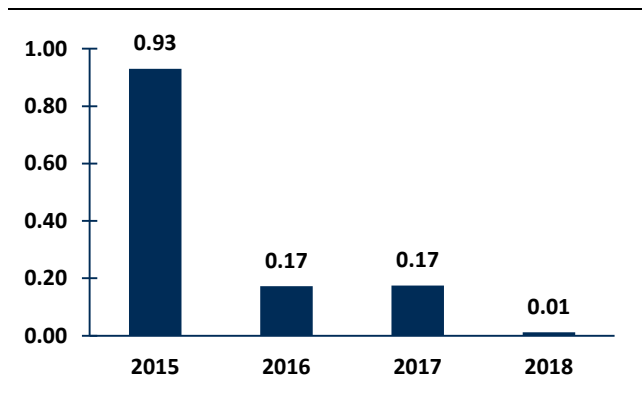
Asset structure

A retail real estate company like VRE will have a high proportion of investment properties. Specifically, in 2018, net value of investment properties accounted for 68% of total assets of VRE, including assets owned and leased by shopping malls. The proportion of cash and cash equivalents gradually increased to 6% in 2018 from 1% in 2015 (Figure 20).

Capital structure

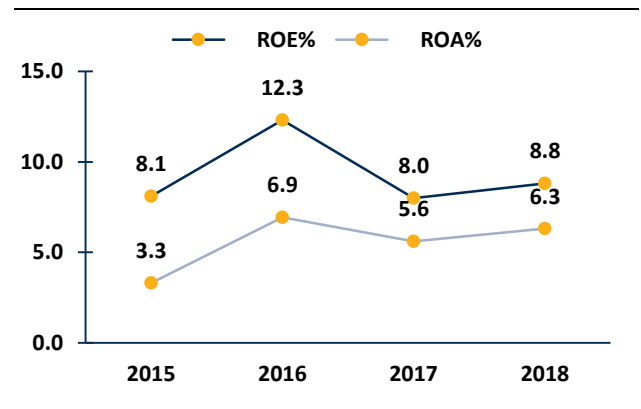
In the capital structure in 2018, VRE had 61% share capital, more than 39% in 2015; loans accounted for 7%, unearned revenue was 2% of total capital. Net debt of the company was insignificant, which also means that VRE absolutely can pay their loans in the future. Leverage ratio considerably fell from 0.93 in 2015 to 0.01 in 2018 (Figure 18).

Figure 18: Net debt/Equity



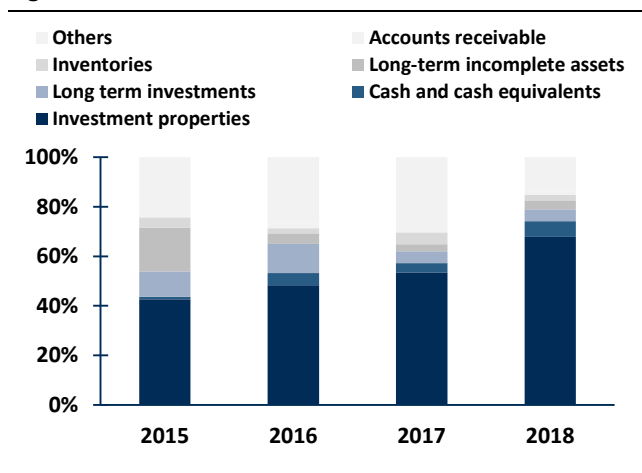
Source: VRE

Figure 19: Return performance



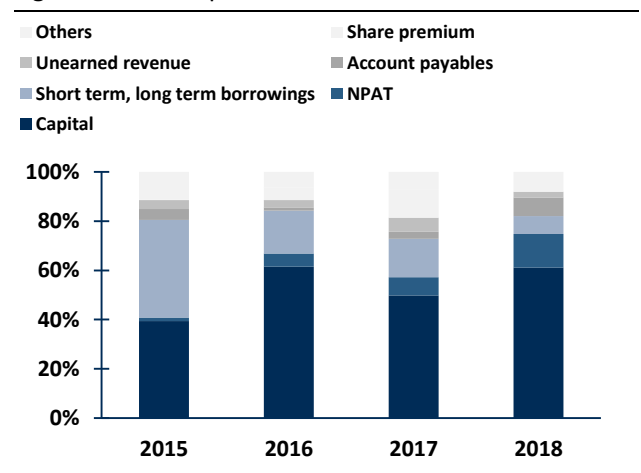
Source: VRE

Figure 20: VRE asset structure



Source: VRE

Figure 21: VRE capital structure



Source: VRE

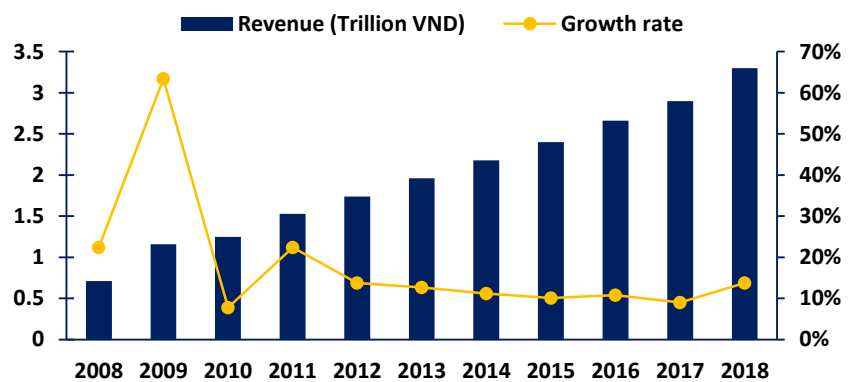
III. INVESTMENT HIGHLIGHTS

The macroeconomic factors, population structure, people's income create a premise for retail activities to continue to thrive in Vietnam.

According to the Global Retail Development Index from US consulting firm AT Kearney, Vietnam ranks 14th out of 30 countries with growth prospects of the most attractive retail industry in the world. With positive factors such as a young population, an increase in the middle class and a boom in retail spending, there is a lot of growth potential in the domestic retail real estate sector. According to data from GSO, retail sales in 2018 reached about VND 3.3 million (equivalent to USD 142 billion), an increase of 12.4% compared to 2017 (Figure 22).

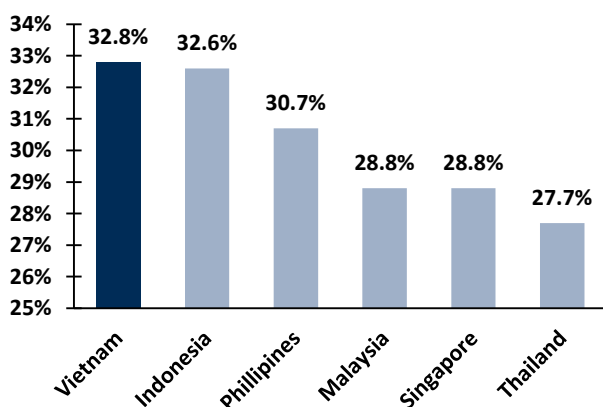
According to a study by Euromonitor, Vietnam is in the “golden population” era, with of 25-44 aged people accounting for 32.8% of total population, higher than other countries in the region such as Malaysia, Indonesia, Thailand, Singapore, and the Philippines (Figure 23). In addition, the CAGR of retail sales in 2017-2021E of Vietnam is also estimated at 10.9%, higher than the above 5 countries (Figure 24). Above macro factors are strong supportive driver for the retail industry to maintain growth.

Figure 22: Revenue and growth rate of retail industry in Vietnam



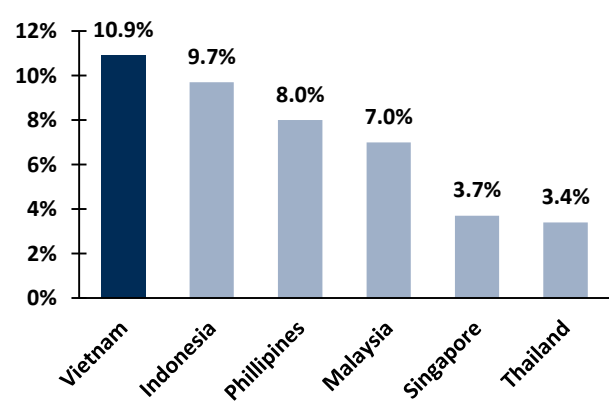
Source: GSO

Figure 23: % of population aged 25-44 in total population (2017)



Source: JLL Research, EIU, Euromonitor

Figure 24: CAGR of Retail 2017 - 2021E



Source: JLL Research, EIU, Euromonitor

VRE benefits from the parent company Vingroup's ecosystem

Compared to other competitors, VRE benefits from the comprehensive ecosystem of Vingroup's parent company. First, the support from Vingroup about the right to access to 176 million m² of land locating large projects. This land area is right in the center of Hanoi and Ho Chi Minh City. In addition, with strong financial potential, Vingroup has a background to continue to increase landbank in the central areas.

In addition, Vingroup has a very strong advantage in retail premises and management experience gained from operating Vincom shopping malls, Vinmart, VinPro, and Vinmart+ convenient stores. The ecosystem of Vingroup ranges in many fields from resort real estate, retail, education, healthcare, food, vehicles, smartphones, which brings Vingroup a potential and large customer base. Most of shopping malls of VRE are located in ideal areas associated with Vinhomes where a large number of high-incomed residents live. In these shopping malls, customers can experience all of the convenient services in addition to shopping, entertainment, healthcare, spa, etc. which is oriented towards "1 destination, all demands". Besides, combined with the online platform – Adayroi and frequent customer system VinID, VRE has gained many advantages. Adayroi provides retailers and domestic manufacturers a chance to expand their market, and a healthy environment to develop effectively, stimulate the development of e-commerce and retail sector in Vietnam. Frequent customer management system VinID also accumulates points for customers who buy and use services at Vingroup companies. As of the end of Q1/2019, VinID system has about 6.5 million members.

Figure 25: Vingroup ecosystem

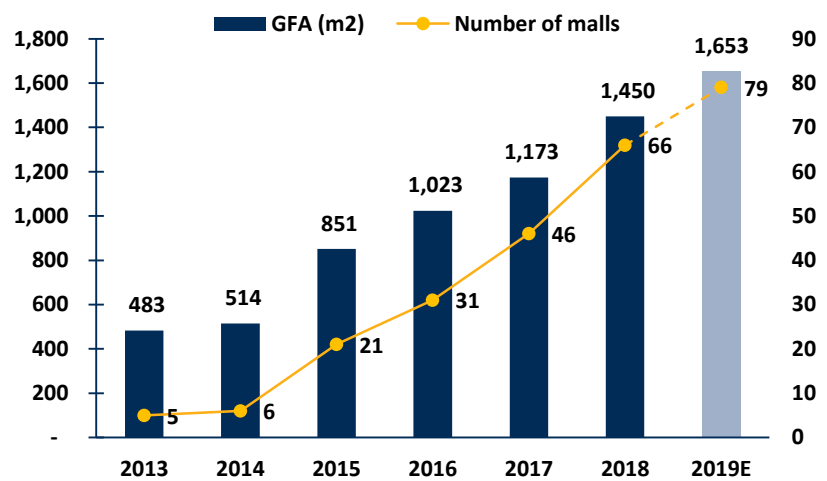


Source: Vingroup, March 31, 2019

VRE actively expanded the leasing area

With the development strategy at the top prime locations and the center of the highly populated areas, Vincom Shopping Center projects always ensure a large number of customers with shopping and entertainment needs to use services every day, opening up attractive investment opportunities for tenants and partners. VRE plans to open 20-30 shopping centers each year, expects to cover more than 50 provinces, and increases the GFA to 250,000-300,000 m² per year. In 2019-2020, VRE plans to launch 40 shopping malls, raising GFA to 2.1 million m² (+59% compared to 2018). In 2020-2021, VRE focused on bringing Vincom Megamall shopping malls in Vinhomes projects into operation, creating new highlights for Hanoi and Ho Chi Minh City. VRE found that the average occupancy rate still has the potential to grow as the Vincom Plaza system is expected to operate at an occupancy rate of 90-95% when entering a stable operation phase.

Figure 26: Shopping mall system of Vincom Retail



Source: VRE, KBSV

Make use of e-commerce advantages

According to Chris Dobson, Vice President of Retail Design Institute, customer experience is extremely important to the retail industry in the future. In the world, online/e-commerce retailers also tend to open more physical stores like EverLane, KeepLand, Habitat; even Amazon is also deploying Amazon 4-Star Store model. This helps customers not only choose to buy products online via apps on mobile devices but also can directly experience the product.

In Vincom Center and Megamall, VRE has attracted many top brands in the world such as H&M, Zara, Old Navy, Massimo Dutti, Pull&Bear, Stradivarius, etc. In addition, Forever21, and Uniqlo are in negotiation process with VRE about a leasing contract. Therefore, VRE witnessed the surge in customer flow when Zara and H&M were opened in Vincom Dong Khoi. Additionally, many foreign brands became VRE's "flagship stores" such as Armani Exchange or Adidas, which diversifies the experience of customers.

IV. INVESTMENT RISKS

Influence from the business cycle

S&P international credit rating agency forecast that the growth of big economies will slow down as the global economy inched up 3.6% in 2019. Many countries have tightened their monetary policies, the US-China trade war showed no signs to cool down and large economies face political challenges. Experts said that uncertainty stemming from policy changes in major economies also adversely affects financial markets and economic activities worldwide, causing stock markets to plunge. However, this will not be a major concern for businesses because the central banks of countries tend to adopt loosening monetary policies, signaling a better outlook for the world economy.

Increasing competition due to the participation of foreign retailers

The retail market in Vietnam continued to witness the expansion of existing retailers and the increasing participation of many foreign foreigner retailers. The emergence of some new competitors such as Lotte Mart, Aeon, Takashimaya, and Big C have increased the competition on the market. Lotte Mart Vietnam is a company that has 100% capital owned by Korea. It owns 13 active shopping malls, and plans to open 50 new supermarkets by 2020 in Vietnam. Aeon has 4 shopping malls, and expects to open the 5th one in Hanoi in 2019 and the 6th in Hai Phong in 2020. Big C, after bought by Central Group, has also been upgraded and improved in terms of service quality. In this way, VRE should have suitable policies to attract customers such as choosing suitable products and customer segments, applying discounts, which will increase the expenses of the company.

The expansion of VRE in cities and provinces level 2 may come across many difficulties due to the business cycle and not-so-updated consumption habits

Fast expansion of network and market share, and the management of a series of shopping malls in cities and provinces level 2 may come across many difficulties. To maintain the effectiveness of a nationwide business network is not a small challenge to VRE as the economic cycle in Vietnam hides potential risks and the consumption habits of consumers have not kept up with the change. Therefore, the plan to expand the market in the near future may lead to a not very successful result as in the first years of operation. However, VRE always analyze and assess consumers' habits very carefully before expanding its system. Furthermore, different models are used flexibly to suit customer habits in different local areas.

Risks from the relevant side

As analyzed above, VIC has a big influence on the development of VRE. At the moment, Vingroup is one of the largest private business groups in Vietnam, with a market capitalization of VND383 trillion (data on June 18, 2019). VIC has a various ecosystem which needs an enormous resource to develop in many areas such as Vinhomes, Vinfast, VinMec, Vinschool, etc. Therefore, risks to VIC are also the risks that VRE may have to cope with.

V. VALUATION

1. Forecast business performance

VRE expects to open 13 new shopping malls in 2019, raising the total number of shopping malls to 79

VRE expects to have 13 shopping malls opened in 2019, reaching a total of 79 shopping malls located all over 42 out of 63 provinces and cities; put into operation Landmark 81 Skyview Observatory, the highest building in Vietnam in the 2Q of 2019; raise the total GFA to 1.6 million m2. Compared to previous years, the plan for opening new shopping malls in 2019 is quite modest because there is only a small number of shopping malls handed over in 2019, and more shopping malls will be handed over in 2020. Therefore, the company plans to open as many as 25 - 30 new shopping malls in 2020.

2019 is a prerequisite year for Vincom Mega Mall projects in Vinhome urban areas

2019 is also a prerequisite year for Vincom Mega Mall highlight projects with the scale of 60,000 - 100,000 m2 in Vinhome urban areas to be launched in the period 2020-2021. The shopping mall model combined with the commercial shophouse model in these new urban areas will create a convenient shopping service complex to serve the residents of each project, bringing a new experience of shopping space, culture and entertainment.

VRE is reviewing the Vincom+ model to upgrade some Vincom+ marts to Vincom Plazas

Vincom Retail is reviewing the Vincom+ model (some Vincom+ will be upgraded to Vincom Plaza in the future), therefore, the number of newly opened shopping malls may be reduced compared to the previously announced plan. However, the total GFA of the retail system until 2021 will likely complete the plan thanks to the increase in the area of shopping malls.

The leasing of investment properties saw a stable growth. The revenue from the sale of inventory properties mainly comes from the sale of shophouses

In 2019, revenue from leasing of investment properties is forecast to keep increasing with a two-digit growth, while the revenue from sale of inventory properties may cope with a decrease as there is no high-rise product handed over in 2018. The revenue from the sale of inventory properties in 2019 is expected to come from 550 shophouses nationwide such as some projects in Ca Mau, Uong Bi, Mong Cai, Cam Pha and Cao Lanh and the rest of Bac Ninh Vinhomes and Danang Condotel projects. We estimate the total revenue in 2019 will increase slightly by VND 9,580 billion (+5% YoY). Nevertheless, thanks to the easing of investment properties – the segment that has higher GPM than of sale of inventory properties, and maintains a stable growth, we estimate that NPAT will gain 20% to VND2,898 billion.

Figure 27: Forecast business performances

Bn VND	2015A	2016A	2017A	2018A	2019F
Net revenue	5,958	6,386	5,518	9,124	9,580
Cost of goods sold	3,951	3,743	2,717	5,483	4,828
Gross profit	2,007	2,642	2,801	3,641	4,752
Selling expenses	176	349	256	409	449
General & Admin expenses	227	327	314	342	385
NPAT	1,090	2,440	2,028	2,413	2,898
Attributable to Parent company	1,090	2,437	2,027	2,404	2,887

Source: VRE, KBSV

2. Valuation

We provide a valuation for VRE based on discount cash flow (DCF) for each business segment and P/E, P/B, EV/EBITDA.

2.1 Leasing of inventory properties:

Revenue from leasing investment properties is estimated based on the total GFA of additional shopping malls. The valuation model is projected for 50 years, assuming a 4% growth in revenue after 2022 and after 2026 VRE will not invest in opening new shopping malls. We estimate rental income and cash flow as follows:

Figure 28: Valuation results based on DCF

	2019E	2020E	2021E	2022E
New Malls opening	13	29	16	14
Vincom Center	1	0	1	0
Vincom Mega Mall	0	3	3	1
Vincom Plaza	9	16	6	9
Vincom+	3	10	6	4
Total number of malls	79	108	124	138
Vincom Center	7	7	8	8
Vincom Mega Mall	3	6	9	10
Vincom Plaza	54	70	76	85
Vincom+	15	25	31	35
GFA (m2)	1,653,854	2,365,874	2,932,578	3,234,064
NLA (m2)	1,179,846	1,670,691	2,047,137	2,260,152
Occupancy	89%	90%	90%	90%
Leasing revenue (Bn VND)	7,123	8,861	11,457	12,923
EBIT	3,836	4,703	6,034	6,604
NOPAT	3,069	3,762	4,827	5,283
FCFF	(7,368)	(8,773)	(2,765)	3,754
WACC	13%	13%	13%	13%
Discount factor	1.00	0.88	0.78	0.69
PV of cashflows (Bn VND)	(7,368)	(7,764)	(2,165)	2,601
PV of leasing revenue	97,058			

Source: KBSV estimates

2.2 Sale of inventory properties:

We assume that the cash flow of the sale of inventory properties mainly comes from the sale of shophouses.

Figure 29: Valuation of sale of inventory properties based on DCF method

	2019E	2020E	2021E	2022E
Condomtel Da Nang	85			
Vinhomes Bac Ninh	255			
Shophouses	2,160	1,772	2,291	2,585
Total revenue	2,500	1,772	2,291	2,585
EBIT	927	262	98	147
NOPAT	742	209	78	118
WACC	13%	13%	13%	13%
Discount factor	1.00	0.88	0.78	0.69
PV of inventory properties	2,660			

Source: KBSV estimates

Figure 30: Overall valuation based on DCF:

Total PV (Bn VND)	99,718
Net debt (Bn VND)	791
Minority Interest (Bn VND)	42
Shares outstanding (Million shares)	2,329
Price per share (000 VND)	42.480

Source: KBSV estimates

Regional retail real estate companies are trading at an average P/E ratio of 29.2x, P/B at 2.9x and EV/EBITDA at 20x (Figure 31). According AT Kearney's "Global Retail Development Index 2017", Vietnam's retail market is in a period of strong growth and gradually becomes mature. The two markets close to Vietnam, Thailand and the Philippines have maintained P/E ratios between 25-30x, P/B 3.0-3.5x, EV/EBITDA 17-20x in the last 5 years. To reflect the current value of Vincom Retail, we use P/E 25x, P/B 3.0x and EV/EBITDA 17x.

Figure 31: Valuation of some competitors in the region

Company	Country	Capitalization (USD Mil.)	P/E 2017	P/E 2018	P/B 2017	P/B 2018	EV/EBITDA 2017	EV/EBITDA 2018
SM Prime Holdings	Philippines	19,739	59	24	3.4	2.1	29.7	17.8
Central Pattana	Thailand	10,154	39.2	34.3	4.2	3.7	24.9	22.2
Mean		14,946.5	49.1	29.2	3.8	2.9	27.3	20.0

Source: Bloomberg, KBSV

Overall valuation

VRE is the largest retail real estate developer in Vietnam with the leading market share. The company is supported by Vingroup parent company, active management team and low debt ratio. Using the combination of DCF, P/E, P/B and EV/EBITDA, we value VRE at **VND43,005** per share at the end of 2019 and recommend to **BUY** VRE shares with an expected profitability of 28.3% compared to the price on June 19, 2019.

Figure 32: Overall valuation

Valuation method	Price per share (VND)	Weight	Price target (VND)
P/E	34,829	25%	8,707
P/B	51,314	35%	17,960
EV/EBITDA	38,119	15%	5,718
DCF	42,480	25%	10,620
Target price			43,005

Source: KBSV

APPENDIX

Income Statement				
(Billion VND)	2016	2017	2018	Q1/2019
Net sales	6,385.89	5,518.24	9,123.95	2,284.07
Cost of sales	-3,743.48	-2,717.09	-5,482.65	-1,312.02
Gross Profit	2,642.41	2,801.15	3,641.30	972.05
Financial income	1,244.12	586.89	519.22	79.57
Financial expenses	-1,261.48	-1,165.56	-417.40	-72.71
of which: interest expenses	-1,252.38	-531.69	-375.27	-72.47
Gain/(loss) from joint ventures (from 2015)	783.71	539.87	0.00	0.00
Selling expenses	-349.18	-256.18	-408.67	-92.26
General and admin expenses	-327.31	-313.54	-342.11	-115.69
Operating profit/(loss)	2,732.26	2,192.64	2,992.33	770.95
Other incomes	47.32	33.74	78.05	9.30
Other expenses	-191.62	-57.63	-17.60	-2.41
Net other income/(expenses)	-144.31	-23.89	60.45	6.89
Income from investments in other entities	0.00	0.00	0.00	0.00
Net accounting profit/(loss) before tax	2,587.96	2,168.75	3,052.79	777.84
Corporate income tax expenses	-148.31	-141.08	-639.56	-166.66
Net profit/(loss) after tax	2,439.65	2,027.68	2,413.23	611.18
Minority interests	3.09	0.23	8.84	-0.92
Attributable to parent company	2,436.56	2,027.45	2,404.39	612.10

Operating ratios				
	2016	2017	2018	Q1/2019
Gross profit margin	41.38%	50.76%	39.91%	39.23%
EBITDA margin	42.32%	57.40%	44.36%	43.81%
EBIT margin	30.79%	40.44%	31.68%	30.97%
Pre-tax profit margin	40.53%	39.30%	33.46%	32.19%
Operating profit margin	42.79%	39.73%	32.80%	31.52%
Net profit margin	38.20%	36.74%	26.45%	25.57%

Cash Flow				
Indirect - Billion VND	2016	2017	2018	Q1/2019
Net profit/(loss) before tax	2,587.96	2,168.75	3,052.79	777.84
Depreciation and amortisation	736.86	936.05	1,157.00	350.53
Profit/loss from investing activities	-2,028.98	-494.40	-517.86	-79.56
Interest expense	1,252.38	531.69	375.27	72.47
Operating profit/(loss) before changes in Working Capital	2,587.54	3,195.41	4,069.77	1,122.90
(Increase)/decrease in receivables	620.41	-80.30	257.41	86.13
(Increase)/decrease in inventories	1,361.97	-1,030.01	1,087.89	82.56
Increase/(decrease) in payables	-1,892.29	1,676.29	-1,039.27	-58.05
(Increase)/decrease in prepaid expenses	-1,040.74	-234.56	-12.28	24.23
Net cash inflows/(outflows) from operating activities	-483.93	2,799.41	3,573.73	916.25
Purchases of fixed assets and other long term assets	-1,458.76	-7,223.88	-2,577.93	-2,254.79
Proceeds from disposal of fixed assets	2.07	9.93	585.48	0.00
Loans granted, purchases of debt instruments	0.00	-1,890.18	-685.95	0.00
Collection of loans, proceeds from sales of debts instruments	159.00	1,574.69	2,659.27	0.00
Investments in other entities	-680.35	-4.21	-2.00	0.00
Proceeds from divestment in other entities	3,858.19	3,588.37	136.69	0.00
Dividends and interest received	682.91	1,856.02	520.57	19.76
Net cash inflows/(outflows) from investing activities	2,563.05	-2,089.26	636.12	-2,235.03
Proceeds from issue of shares	5,133.05	0.00	0.00	0.00
Payments for share returns and repurchases	0.00	-0.25	0.00	0.00
Proceeds from borrowings	213.17	2,987.60	0.00	0.00
Repayment of borrowings	-5,320.33	-2,712.19	-3,200.00	0.00
Finance lease principal payments	0.00	0.00	0.00	0.00
Dividends paid	-803.70	-1,261.55	0.00	0.00
Interests, dividends, profits received	0.00	0.00	0.00	0.00
Net cash inflows/(outflows) from financing activities	-777.81	-986.40	-3,200.00	0.00
Net increase in cash and cash equivalents	1,301.31	-276.24	1,009.85	-1,318.77
Cash and cash equivalents at the beginning o period	396.46	1,697.77	1,421.53	2,431.38
Cash and cash equivalents at the end of period	1,697.77	1,421.53	2,431.38	1,112.61

Balance Sheet				
(Billion VND)	2016	2017	2018	Q1/2019
CURRENT ASSETS	7,386.78	13,356.54	7,122.64	5,716.03
Cash and cash equivalents	1,697.77	1,421.53	2,431.38	1,112.61
Short-term investments	0.00	60.18	701.42	701.42
Accounts receivable	3,339.98	4,052.50	1,047.92	1,049.46
Inventories	682.80	1,816.70	901.52	819.53
LONG-TERM ASSETS	26,912.37	24,776.70	31,561.04	32,905.28
Long-term trade receivables	2,621.21	7.59	10.11	6.19
Fixed assets	399.24	170.58	307.84	299.94
Investment properties	16,578.70	20,401.21	26,429.42	26,521.20
Long-term incomplete assets	1,469.55	1,080.11	1,343.48	1,625.22
TOTAL ASSETS	34,299.15	38,133.24	38,683.68	38,621.31
LIABILITIES	9,615.76	12,039.18	10,174.40	9,509.04
Current liabilities	2,732.79	8,138.19	6,259.85	5,611.68
Trade accounts payable	453.46	1,065.33	3,423.55	2,784.57
Advances from customers	1,001.73	2,182.54	887.93	979.21
Short-term unrealized revenue	36.73	31.23	102.06	117.14
Short-term borrowings	6.47	2,815.69	18.08	18.08
Long-term liabilities	6,882.98	3,901.00	3,914.56	3,897.36
Long-term trade payables	0.00	0.00	0.00	0.00
Long-term advances from customers	0.00	0.00	0.00	0.00
Unrealized revenue	92.19	56.37	215.36	190.26
Long-term borrowings	5,954.35	3,158.12	2,762.38	2,763.45
OWNER'S EQUITY	24,683.39	26,094.05	28,509.28	29,112.27
Paid-in capital	21,091.72	19,010.79	23,288.18	23,288.18
Share premium	1,788.49	4,324.38	46.98	46.98
Undistributed earnings	1,831.05	2,786.54	5,190.93	5,794.84
Minority interests	30.54	30.77	41.61	40.68

Main indicators				
	2016	2017	2018	Q1/2019
Valuations				
P/E	29.43	31.88	32.93	31.97
P/E diluted	29.43	31.88	32.93	31.97
P/B	2.91	2.48	2.78	2.72
P/S	11.23	11.71	8.68	8.15
P/Tangible Book	2.91	2.48	2.78	2.72
P/Cash Flow	-148.19	23.09	22.16	18.13
EV/EBITDA	28.11	21.84	19.65	19.00
EV/EBIT	38.65	31.01	27.51	26.88
Management Efficiency				
ROE%	12.32	7.99	8.81	8.79
ROA%	6.94	5.60	6.26	6.62
ROIC%	6.42	6.96	9.24	-19.45
Financial structure				
Cash Ratio	0.62	0.17	0.39	0.20
Quick Ratio	1.84	0.67	0.56	0.87
Current Ratio	2.70	1.64	1.14	1.02
LT Debt/Equity	0.24	0.12	0.10	0.09
LT Debt/Total Assets	0.17	0.08	0.07	0.07
Debt/Equity	0.24	0.23	0.10	0.10
Debt/Total Assets	0.17	0.16	0.07	0.07
ST Liabilities/Equity	0.11	0.31	0.22	0.19
ST Liabilities/Total Assets	0.08	0.21	0.16	0.15
Total Liabilities/Equity	0.39	0.46	0.36	0.33
Total Liabilities/Total Assets	0.28	0.32	0.26	0.25
Operating ratios				
Account Receivable Turnover	8.90	7.90	18.02	21.60
Inventory Turnover	3.46	2.15	3.99	4.34
Account Payable Turnover	3.65	3.58	2.44	2.69

Source: VRE, KBSV

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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