

Residential real estate

Challenges ahead

Big advantages from the ‘golden population structure’

The residential real estate sector in Vietnam has benefited from strong economic growth, and a golden population structure (95 million people, young working aged population – 58% of total population, rapid urbanization, and the expansion of middle class with income growth. The demand for residential housing still remains high, reflected by a stable absorption rate.

The real estate industry may face many challenges in 2020

In 2019, the real estate market was volatile in terms of prices, supplies, and absorption rates of each segment given limited credit flows and prolonged legal review procedures. We maintain our Neutral recommendation for the real estate industry in 2020 considering tightening capital flows into the real estate market and remaining unsolved legal issues. However, investment opportunities may still remain in companies which have launching projects to record revenue and safe financial structure in 2020.

BUY recommendation for Vinhomes (VHM)

Recommended tickers: We recommend to buy VHM shares at the target price of VND 110,400 per share because (1) VHM is the Vietnam's leading residential properties developer; (2) VHM owns a large landbank of up to 165 million m², much larger than the second ranked company; (3) VHM has three mega urban projects and some projects that are ready for pre-sale, which ensures earnings and revenue growth for the company in 2020–2021

Other stock recommendation: NLG (BUY, Target price: 36,500VND/share)

February 27, 2020

Neutral

 Maintain

Recommendations

VHM	Buy
Current price	VND86,200VND
Target price	VND110,400
NLG	Buy
Current price	VND26,800VND
Target price	VND36,500

Contents

I. Executive Summary	3
1. Hanoi market	3
2. Ho Chi Minh market	6
3. Suburban market	8
II. Real estate market outlook	10
1. Population	10
2. Incomes & habit changes	11
3. Infrastructure developments	12
III. Market drivers	14
1. Capital inflows	14
2. Changes of land prices	16
3. Legal issues	17
4. KBSV assessment	18
IV. Listed companies	19
1. Landbank & market share	19
2. Financial health	20
V. Companies	23
Vinhomes (VHM, BUY)	24
Nam Long (NLG, BUY)	27

Executive Summary

Hanoi real estate market recovered from a subdued period from 2011–2014

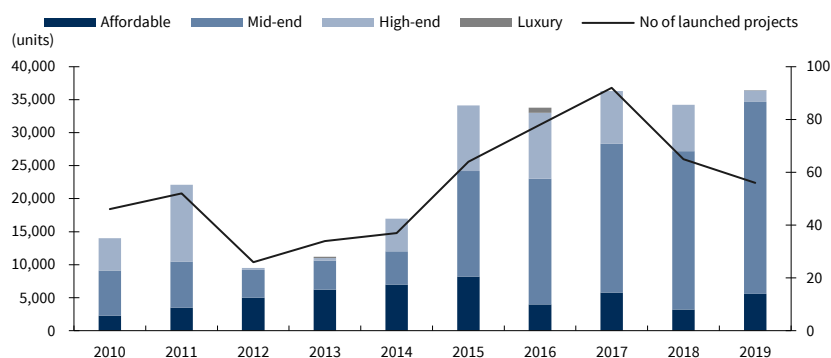
Hanoi Western region dominated the market with mid-end and affordable segments

Hanoi market

The real estate market in Hanoi has bounced back since 2015 when the number of pre-sold units of apartments doubled the figure in 2014. One of the factors affecting the market demand was the support package worth VND30,000 billion to help low-income people to buy houses. In 2015–2019, the market witnessed a record high number of pre-sold units (35,000 units), especially units for mid-end segment – 14,800 units, twice as high as the number in 2010–2014 (Figure 1).

Hanoi Western region dominated other regions in terms of pre-sold and sold unit numbers given large capital investment in infrastructure and investors' rightful orientation when focusing on mid-end and affordable apartments, meeting the owner-occupied housing demand. Apartment prices in the Western region in 2019 surged to USD1,600–1,700 per meter, up 15% vs 2015.

Fig 1. Hanoi – Apartment supplies in 2010 – 2019



Source: CBRE, KB Securities Vietnam

*Classification:

Luxury: Primary average price above USD4,000/m²

High-end: Primary average price from USD2,000 to USD4,000/m²

Mid-end: Primary average price from USD1,000–USD2,000/m²

Affordable: Primary average price under USD1,000/m²

The apartment market was expanded to suburban areas

In the past two years, the apartment market has been increasingly expanded to suburban areas including Dong Anh, Gia Lam and Long Bien. The above areas also recorded a relatively high price increase, namely, the price of apartments in Long Bien in 2019 reached USD1,810/m² (up 70% vs 2015), and USD1,500/m² in Gia Lam.

The market was still active with 36,356 newly launched apartments

In 2019, the market recorded 36,356 newly launched units (up 7% YoY), of which mid-end and affordable units accounted for 95% of total, and one luxury project with 47 apartments was launched for the first time after two years.

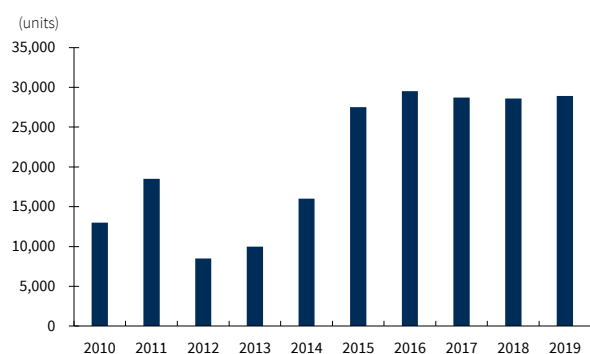
Apartment supply source mainly came from large-scale urban projects

Apartment supply source mainly came from large-scale projects such as Vinhomes Ocean Park, Vinhomes Smart City, and Park City (VIDC – a member of Perdana Park City Group from Kuala Lumpur). 29,020 units were sold in 2019 (up 1% YoY) (Figure 2). The projects focused on the mid-end segment, aiming at customers with owner-occupied housing demand, so they achieve high absorption rates (Figure 3).

Selling prices inched up against 2018

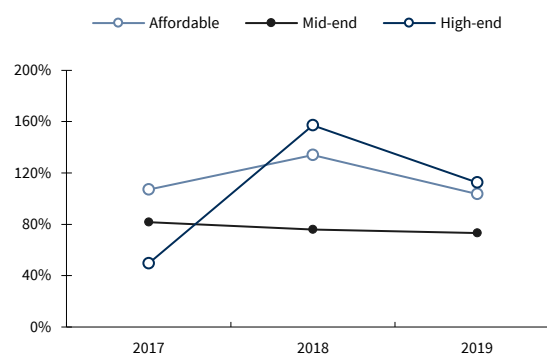
Selling prices increased slightly compared to 2018 thanks to the stable supply. The high-end segment recorded the highest increase of 7% YoY, while the mid-end and affordable segment increased by 5% YoY and 2% YoY respectively.

Fig 2. Hanoi – Sold units



Source: CBRE, KB Securities Vietnam

Fig 3. Hanoi – Absorption rates by segments



Source: CBRE, KB Securities Vietnam

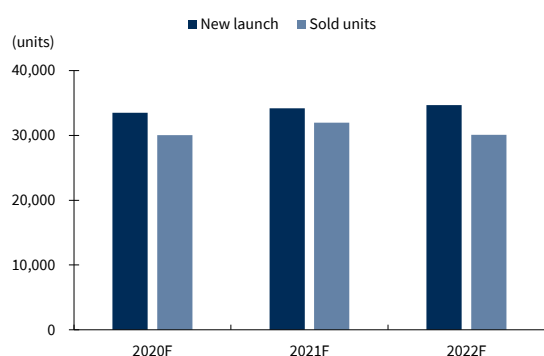
Note: Absorption rate = Sold units/New pre-sold units in the year

The expansion trend towards suburban areas will continue

The apartment market in Hanoi is forecasted to move to a stable development stage after a period of strong growth. Given decreasing land availability in the urban area, developers are expanding the project to surrounding areas. The supply of apartments for sale in Hanoi market in 2020 and 2021 is expected to cover 33,000 units, mainly from large-scale urban areas. The mid-end segment should continue to lead the market with roughly 80–85% of total supply. The number of sold units is expected to be around 30,000, mainly bought by customers for owner-occupied housing (Figure 4).

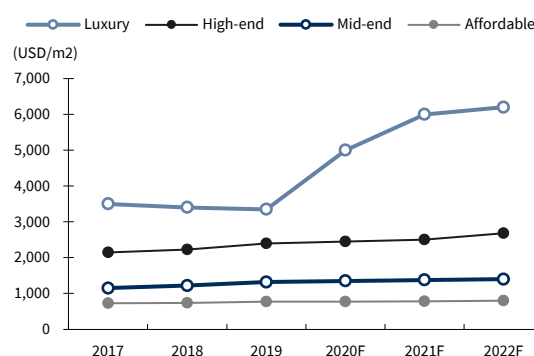
Thanks to stable high supply sources, the prices of mid-end and affordable segments should only gain slightly by 1–2%, and the high-end segment prices should increase 4%. However, as the luxury segment recorded no project launched in the last three years, the prices may surge to USD4,500/m² (Figure 5).

Fig 4. Hanoi – Forecast apartment supplies and sold units



Source: CBRE, KB Securities Vietnam

Fig 5. Hanoi – Preliminary apartment prices in 2017-2022F



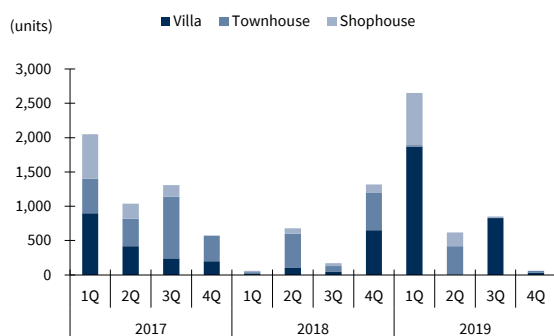
Source: CBRE, KB Securities Vietnam

The cash flows ran into townhouses and villas in Hanoi

Hanoi market saw 4,199 new villas and townhouses (up 82% YoY) in 2019, of which 3,853 units were sold (up 47% YoY) (Figure 6). Positive sales and high stable absorption rates over the quarters (between 85% and 90%) showed the market’s welcome with these product lines. The supply is mainly from the Western region and new launches in Hoai Duc, Ha Dong and Dan Phuong districts.

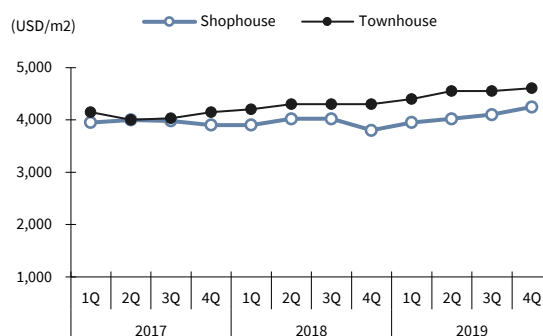
With the supply of apartments increasingly scarce, along with rising prices, people tend to invest in apartments located far from the center with equivalent prices for the purpose of taking advantages of infrastructure improvements, and road expansion plans connecting suburban main roads with the city center. Secondary prices of villas and townhouses in 2019 recorded increases of 11.3% YoY and 7.2% YoY (Figure 7).

Fig 6. Hanoi – Townhouses and villas supplies



Source: CBRE, KB Securities Vietnam

Fig 7. Hanoi – townhouse prices



Source: CBRE, KB Securities Vietnam

The market bounced back sharply in 2015

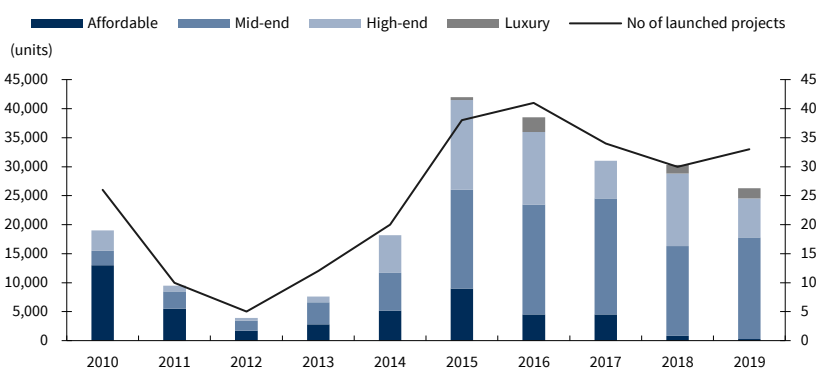
The supply of apartments did not increase, but the absorption rate was healthy

Ho Chi Minh market

After the subdued period of 2011–2013, the real estate market in Ho Chi Minh City started to recover and entered a growing cycle again from early 2014. In 2015, the market bounced back strongly vs 2014 in terms of all market segments. The total supply of apartments reached a record large number of 42,000 units (up 132% YoY), the total number of pre-sold projects reached 38, doubling the figure recorded in the same period (Figure 8).

In the following years, the apartment market shifted from strong growth to sustainable growth as the mid-end segment accounted for an increasing proportion in the total number of launched units. However, the market is increasingly short of affordable projects, as the profits they bring to investors are quite low. Gross profit margin of affordable projects was around 8–12%, while the margin of high-end projects ranged from 30–40%. In 2018, the market showed signs of slowing down when both the supply of apartments and the number of projects did not increase, but the absorption rate remained high. The number of sold units was higher than the number of pre-sold units as the market had time to absorb inventory properties from previous years. Thanks to the infrastructure improvement with key projects such as Metro Line No. 1, Ho Chi Minh City–Long Thanh–Dau Giay Expressway and the approval of Long Thanh international airport, the Eastern area became focal point of the market.

Fig 8. HCM – Apartment supplies in 2007–2019



Source: CBRE

Ho Chi Minh market saw losses in both projects and pre-sold units

Ho Chi Minh City market in 2019 continues to be quiet due to project licensing delay. The supply was 26,700 units (-13% YoY), of which 10,000 apartments were from Vinhomes Grand Park project. More than 90% of offered products in all segments were sold. Due to the supply shortage, the market gradually absorbed inventory properties from previous years. The total number of units sold in the year was larger than the supply, reaching 29,874 units (down 5% YoY) (Figure 9).

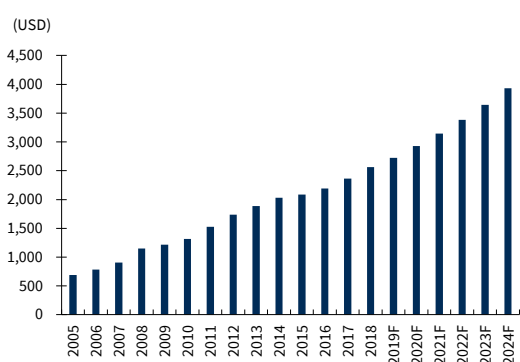
The market was lack of affordable units

The supply-demand imbalance still exists given the lack of affordable apartments, with only one new project for the whole of 2019, accounting for 2% of total supply. The mid-end segment accounted for 67% of total supply due to large-scale projects in the East and the South of the city.

Prices of all segments posted gains thanks to supply constraints

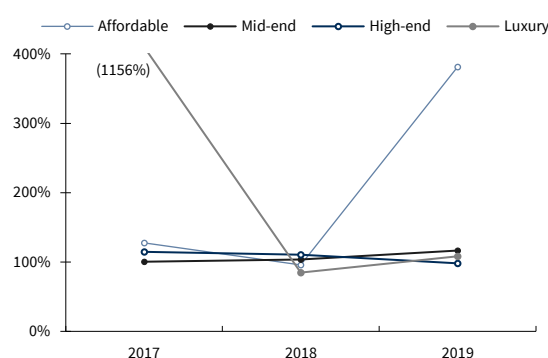
Due to the scarcity of apartments, all projects posted gains in prices and the remaining products in the projects that were launched for sale. 2019 average selling price of all segments reached USD1,902/m², up 10% YoY (Figure 9). In particular, the luxury segment peaked at USD6,200/m², up 11% YoY.

Fig 9. HCM – Sold units



Source: CBRE, KB Securities Vietnam

Fig 10. HCM – Absorption rates by sectors

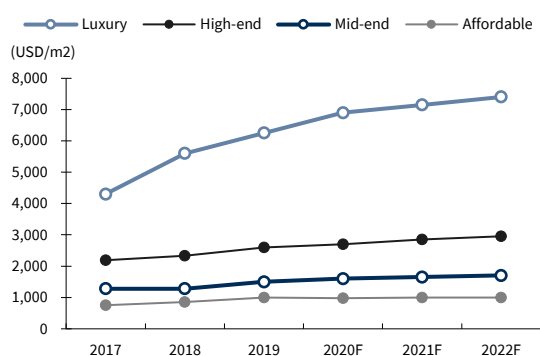


Source: CBRE, KB Securities Vietnam

High-end unit prices should surge while mid-end and affordable units may just slightly gain by 1-3% in 2020E

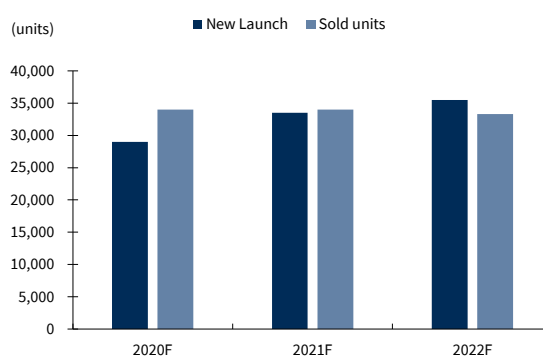
2020E total supply should reach 30,000 units, mainly focused on mid-end and affordable segments with good liquidity (Figure 12). The prices of affordable apartments are expected to post modest rises by 1-3% thanks to large supplies (Figure 11), while the prices of high-end units would jump 5-7% due to the lack of central landbank.

Fig 11. HCM – Apartment prices in 2015-2020F



Source: CBRE, KB Securities Vietnam

Fig 12. HCM – Forecast apartment supplies and sold units

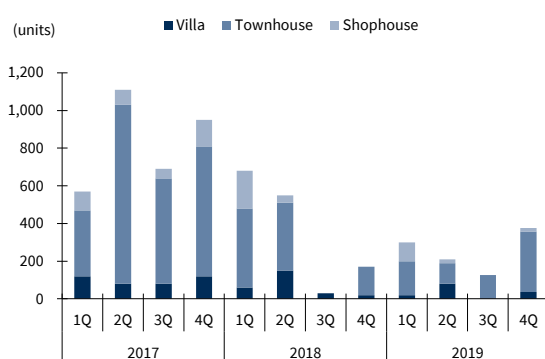


Source: CBRE, KB Securities Vietnam

The prices of shophouses and villas in Ho Chi Minh City soared due to supply shortage

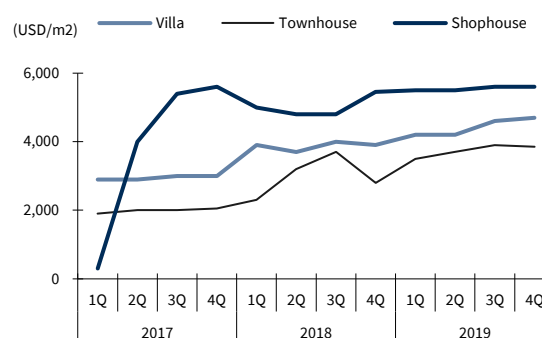
Ho Chi Minh real estate market has faced the lack of shophouses and villas since 3Q2018 (Figure 13). Although the supply was expected to increase from large projects of both domestic and foreign investors, unsolved legal issues caused projects to delay their launching. There were 1,014 villas and shophouses opened for sale in 2019, down 28.9% YoY, hitting the six-year lows. The shortage of supply caused the number of primary transactions to decrease and the prices of villas and townhouses increased 20% YoY (Figure 14).

Fig 13. HCM – The supply of townhouses and villas



Source: CBRE, KB Securities Vietnam

Fig 14. HCM – Prices of townhouses and villas



Source: CBRE, KB Securities Vietnam

Potential suburban real estate

Suburban market

Many key Northern provinces like Quang Ninh, Hai Phong, Bac Ninh, and Hung Yen have made full use of their unique strengths and became the investment attraction with the leading real estate supply in the region. Quang Ninh and Hai Phong real estate markets benefit from important projects such as Hanoi – Hai Phong – Ha Long Expressway, Ha Long – Van Don Expressway, Van Don International Airport, and Cat Bi Airport, which attracted many big investors. Meanwhile, residential projects in Bac Ninh, Hai Phong, and Hung Yen have been thriving thanks to the development of industrial zones, attracting a large amount of labor, hence increasing demand for housing (Figure 15).

In the South, Ho Chi Minh City started planning the expanded urban, building satellite urban areas, connecting four developed provinces Dong Nai, Long An, Binh Duong and Ba Ria-Vung Tau. These are also four big housing providers for the Southern market in 2019 (Figure 16).

Strong improvements in infrastructure are the main growth force for suburban properties

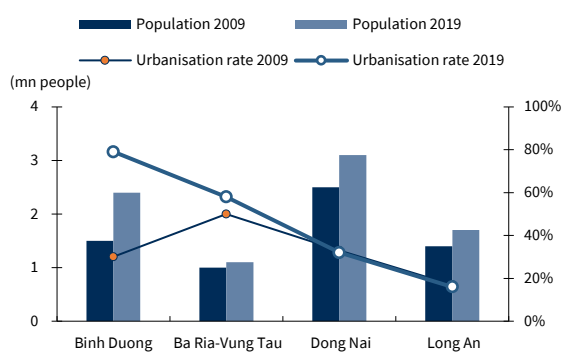
The Long Thanh international airport and other inter-regional infrastructure projects are the main drivers for real estate development in Dong Nai province (Figure 17). Meanwhile, Long An is an emerging industrial city located next to two industrial capitals, Dong Nai and Binh Duong, which created a high demand for housing.

Table 15. Suburban provinces – Real estate projects

Developer	Project	Location	Area	Notes
Nam Long	Waterpoint	Ben Luc, Long An	355ha	Officially launched in October 2019 with the absorption rate of 100%. The average price was 1,000USD/spm
	Dong Nai Waterfront City	Bien Hoa, Dong Nai	192ha	Acquired in 2019
	VSIP Hai Phong	Thuy Nguyen, Hai Phong	21ha	Nam Long's first project in the North
Dat Xanh	New landbank	Long Thanh, Dong Nai	92ha	Acquired in 2019, near Long Thanh Airport
	Yen Thanh	Uong Bi, Quang Ninh	27ha	Under-development
Novaland	NovaWorld Ho Tram	Ba Ria - Vung Tau	100ha	Hospitality project
	Novaworld Phan Thiet	Phan Thiet, Binh Thuan	1,000ha	Hospitality project
	Aqua City	Bien Hoa, Dong Nai	1,800ha	
Vinhomes	Landbank	Quang Ninh, Hung Yen, Hai Phong		> 45% Vinhomes's Landbank (GFA)

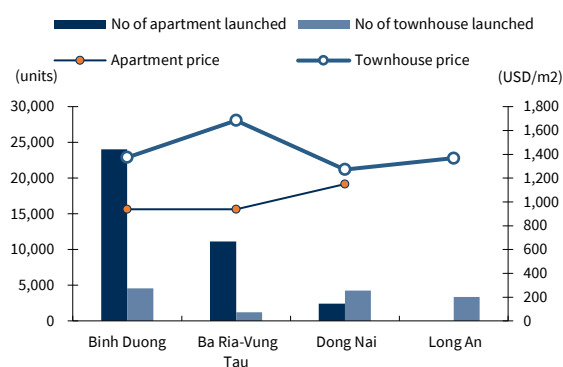
Source: KB Securities Vietnam

Fig 16. Suburban provinces – Population size



Source: KB Securities Vietnam

Fig 17. Suburban provinces – Supplies and prices in 1H2019



Source: KB Securities Vietnam

Real estate market outlook

Rapid population growth rate led to increasing demand for housing

Population

Vietnam's population has grown rapidly with an average rate of 1 million people per year. As of April 2019, Vietnam had more than 96 million people, and was the third most populous country in Southeast Asia and the 15th in the world (Figure 18). At that time, Hanoi had 8.05 million people and HCMC had 8.99 million people, accounting for 17.7% of the country's population. These are also the two cities with the highest population growth rate in Vietnam.

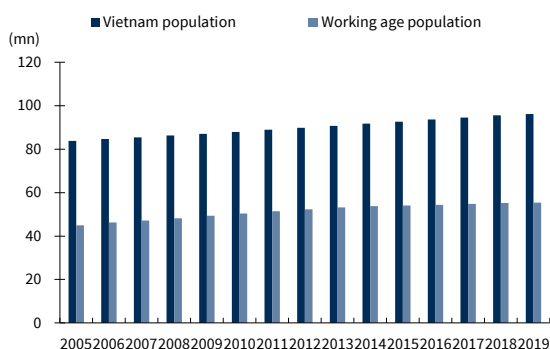
Urbanization is the strongest growth driver for the real estate market

Vietnam's 2019 urbanization rate was quite low at 38%, but it is forecast to grow further and reach 41% by 2025. Rapid urbanization is also translated into higher urban population growth. The proportion of urban residents as of November 2019 was 37% (Figure 19). Vietnam's urban population rate is lower than other regional peers, but has higher urban population growth rate (Figure 20). With the current growth rate, it is expected that by 2025, about 45-50% of Vietnam population will live in urban areas (Figure 21). This leads to the restructuring of the labor force, when people move from rural to urban areas to work, creating a great demand for the real estate market.

Big advantages from “golden population structure”

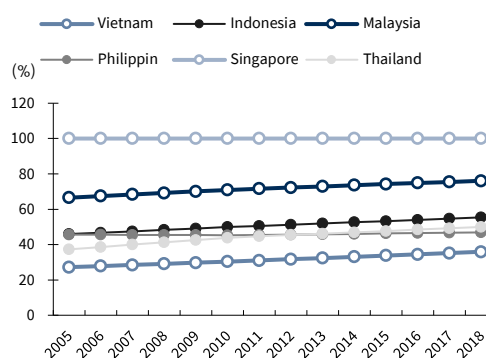
The General Statistics Office of Vietnam (GSO) showed that Vietnam was experiencing the period of “golden population structure”, which included high proportion of working age population. This favorable structure is expected to maintain until 2044, which also helps to boost the consumption of real estate properties.

Fig 18. Vietnam – Population and working age population



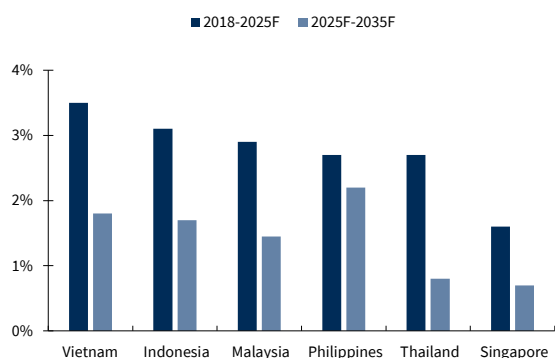
Source: Worldbank

Fig 19. Vietnam – Urban population rate



Source: Worldbank

Fig 20. Southeast Asian countries – Urban population (CAGR)



Source: Worldbank

The surge in Vietnamese middle class also helps to boost the real estate market

Incomes and habit changes

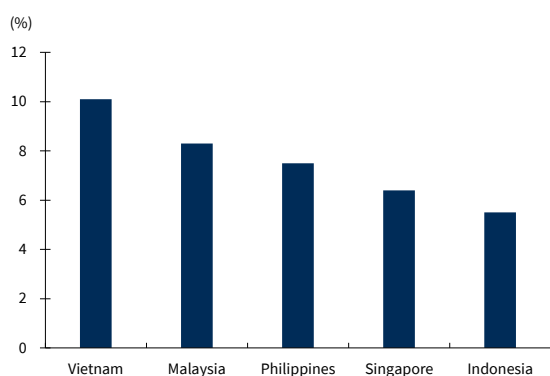
Sustainable GDP growth raised GDP per capita and the middle class in 2016–2021. World Bank data said that there were 1.5 million Vietnamese people joining the global middle class every year since 2014, which should reach 44 million by 2020 and 95 million people by 2030 (Figure 21). Among Southeast Asian countries, Vietnam is the country with the highest middle-class growth rate at 10.1%.

Smaller household size expands the housing demand

Data from the GSO revealed household size tended to narrow to an average of 3.5 people per household in 2019, and 3.3 people per household in the urban areas. The proportion of single-person households was small but has increased sharply in recent years (from 7.2% in 2009 to 10.9% in 2019). Lifestyle changes, especially among the young generation, reduce the size of the household and increase the number of single-person households. This also forms new small families, instead of multi-generation families (Figure 22).

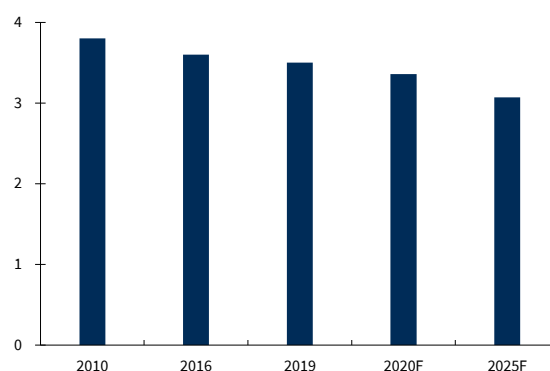
The rapid growth of middle class and lifestyle changes would further benefit real estate market via increasing housing demand and purchasing power, together with higher affordability for real estate properties.

Fig 21. SEA countries – 2016–2021F middle class (CAGR)



Source: General Statistics Office

Fig 22. Vietnam – Household size



Source: General Statistics Office, KB Securities Vietnam

Public disbursement is the highlight for 2020E real estate growth

Infrastructure developments

We believe that the officially effective Law on Public Investment would partly solve the remaining tough issues in the disbursement of public investment. Two major projects including the North – South highspeed railway and Long Thanh international airport, totaling VND200,000 billion, should strongly boost the growth of real estate market (Figure 23).

The real estate market near Long Thanh airport project are busy with news related to the project's deployment progress

Long Thanh international airport project:

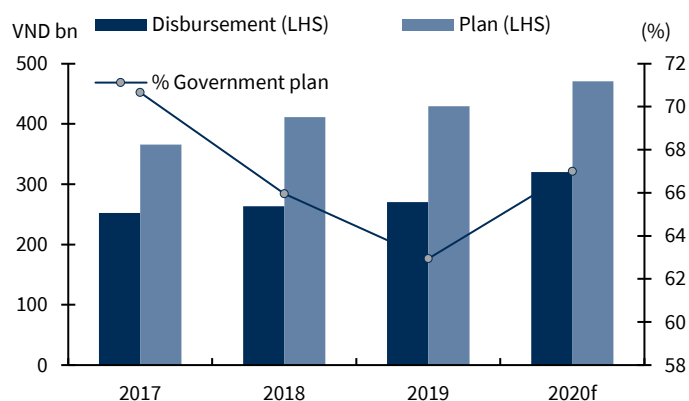
Long Thanh airport and the transportation system connecting the airport with the Southern region should promote real estate development not only in Dong Nai but also in other provinces thanks to convenient transportation (Figure 24).

Properties prices in Long Thanh area recent years have gained quickly with an annual average rise of 15–20%, the main product is landed property. Main beneficiaries with large landbank near the airport are Dat Xanh Group (DXG), Nam Long Group (NLG), Development Investment Construction (DIG), and Novaland (NVL) (Table 25).

Big chance, big risk

Real estate projects tend to go ahead of infrastructure projects. Although Long Thanh airport is a big booster to the real estate market, the current progress of the project is not yet feasible. Therefore, we need to observe the next steps in the airport construction process for more accurate valuation of the growth potential of related real estate businesses.

Fig 23. Vietnam – Public disbursement



Source: KB Securities Vietnam

Fig 24. Long Thanh Airport – Connecting transportation system



Source: KB Securities Vietnam

Table 25. Long Thanh Airport – Surrounding real estate projects

Company	Project	Area	Distance from Long Thanh Airport
DXG	Gem Skyworld	92ha	Long Thanh, Dong Nai
Novaland	Aqua City	305ha	Bien Hoa, Dong Nai 15km from Long Thanh Airport
Nam Long	Waterfront City	170ha	Bien Hoa, Dong Nai 15km from Long Thanh Airport
	Nam Long Dai Phuoc	45ha	Nhon Trach, Dong Nai <20km from Long Thanh Airport
DIG	Hiep Phuoc urban area	21ha	Nhon Trach, Dong Nai <10km from Long Thanh Airport
	Long Tan	331ha	Nhon Trach, Dong Nai <10km from Long Thanh Airport
	Dai Phuoc	464ha	Nhon Trach, Dong Nai <20km from Long Thanh Airport

Source: Company statements, KB Securities Vietnam

Market drivers

Credit ratio for real estate companies and loans is tightened

Capital inflows

The State Bank of Vietnam has just issued the Circular 22 which would continue to tighten real estate loans when gradually reducing the maximum rate of short-term capital used for medium and long-term loans. Specifically, the rate would be 40% from January 1, 2020 to September 30, 2020, 37% from October 1, 2020 to September 30, 2021, 34% from October 1, 2021 to September 30, 2022, and down to 30% by October 1, 2022. In addition, the State Bank also expects to raise the risk weight of real estate loans from 150% to 200%.

Limited credit may affect companies that heavily depend on bank loans

8M2019 credit for the whole industry grew by 6% and credit for real estate companies increase 15% vs late 2018. Real estate credit growth surged as it included outstanding loans for real estate businesses and consumer credit. However, real estate loans increased slowly by 6%, accounting for about 32% of total outstanding credit of the sector. The data also showed changes in credit structure when the proportion of real estate loans decreased while the proportion of loans to buy properties increased (Table 26). This may affect some real estate developers that depend on bank credit.

On the house buyer's side, loans with total value under VND4 billion still apply the risk weight of 100%. Therefore, the tightened credit policy only helps to control large loans, mainly used to invest in high-end segment and does not affect the residential demand for mid-end and affordable segments.

In our opinion, the tightened credit policies do not have a strong impact on the whole real estate industry, but still bring certain difficulties to developers due to the increase in lending interest rates and limited capital sources. However, the adjustment of the risk weight is necessary and helps to limit speculation, minimize risks for loans and real estate "bubbles".

In order to reduce dependence on bank loans, developers have to look for new sources of capital to diversify capital structure such as bond issuance or cooperation with foreign partners.

Table 26. Vietnam – Credit for real estate industry

	Total Credit	RE Credit	Credit for RE investment	Consumer credit for RE needs	% RE credit	Credit growth (ytd)	RE Credit growth (ytd)
9M2019	7,889	1,511	454	1,057	19%	6%	16%
8M2019	7,820	1,493	488	1,005	19%	5%	15%
June 28, 2019	7,742	1,393	474	920	18%	4%	7%
2018	7,417	1,303	462	841	18%		

Source: State Bank, KB Securities Vietnam

Bond issuance value of 84 real estate companies accounted for 34% of the whole market

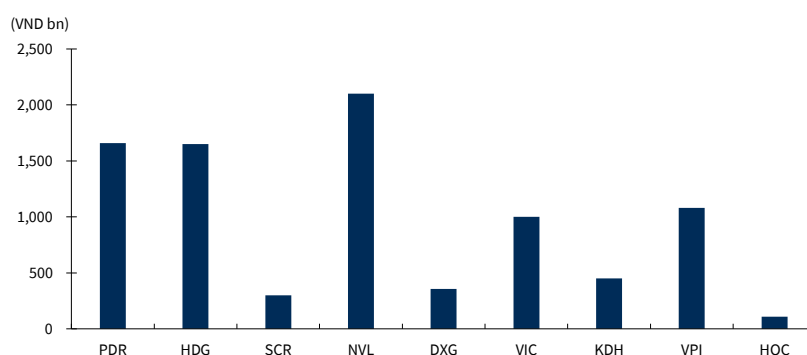
Bond issuance

In 2019, 84 real estate enterprises issued bonds with a total value of VND82,277 billion, up 335% YoY, accounting for 34% of the total issuance value of the market. Of this, 35 listed real estate companies issued VND 26,174 billion in bonds.

The average bond yield of all real estate bonds is 10%, and the popular lending rate range is 9–11%. Real estate bond yields are high compared to other industries due to the characteristic high risk and high capital demand. Phat Dat Real Estate Development (PDR) bonds issued on April 8, 2019 offered the highest coupon at 14.45%. Other real estate companies such as Van Phu – Invest Investment (VPI), Ha Do Group (HDG), Khang Dien House Trading & Investment (KDH), Saigon Thuong Tin Real Estate JSC (SCR) also offer corporate bonds with high annual coupons at 12%.

Fig 27. Vietnam – Bond issuance value of real estate companies

NVL is the business with the largest total issuance amount (VND2,100 billion), followed by PDR (VND1,659 billion) and HDG (VND1,650 billion)



Source: KB Securities Vietnam

FDI inflows to real estate market via contributed capital to buy shares witnessed an impressive surge

Foreign direct investment (FDI)

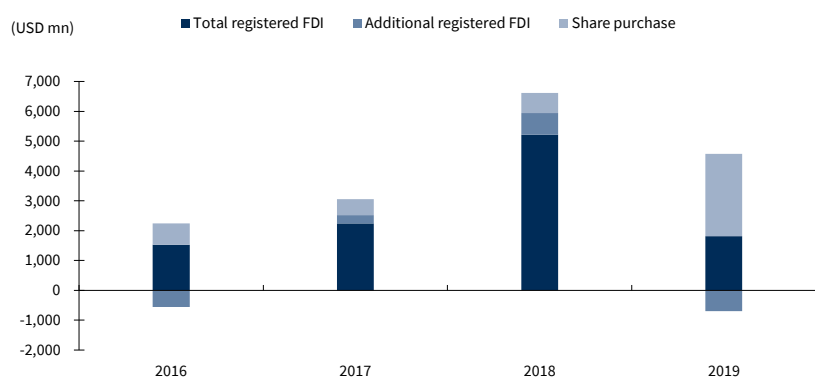
The total newly registered and added capital, and shares purchased by foreign investors in the real estate sector reached USD3.9 billion, down 41% YoY. Registered FDI capital through capital contribution and share purchase has changed significantly since August 2019, and hit VND2.8 billion by the end of the year, four times higher than the same period and accounting for 72% of the total FDI. Meanwhile, newly registered FDI was USD 1.8 billion, down 65% YoY and the hitting three-year lows (Figure 28). This decrease was attributable to the 2018 Smart City project valued at USD4.1 billion in Dong Anh, Hanoi, which was invested by Sumitomo Corporation from Japan. If excluding this project, newly registered capital was up 50% vs 2018.

There are changes in the form of foreign investment

The data showed a big change in the form of investment by foreign investors. They started to share the role in the direction of business development or directly develop projects rather than just operating or contributing capital to the project. There are two main reasons for this change: (1) tightening capital flows into real estate urges domestic investors to proactively approach foreign capital to reduce their dependence on bank loans; and (2) foreign investors can quickly access to clean landbank to implement projects, especially when there are still many problems related to legislation and administrative procedures.

Some cooperation deals between domestic and foreign investors include NLG with two Japanese partners, Nishitetsu and Hankyu Hanshin; and Thu Duc with Daewon, TTC Land and Lotte E&C from Korea.

Fig 28. Vietnam – FDI into real estate sector



Source: Ministry of Planning & Investment

2020E capital inflows to real estate companies would become more diversified

2020E capital flows into the market would be diversified, but it will be more difficult for real estate companies to access capital because (1) banks' lower loans for real estate businesses; and (2) more subdued bond market vs 2019 after the State Bank warned about the large bond investment balance in the construction and real estate sectors of major commercial banks. Real estate high bond coupons have many potential risks related to the ability to repay bond principal and interests. In addition, the Ministry of Finance completed a draft of the amended Decree No. 163/2018/ND-CP in early 2020 to submit to the Government to manage and supervise the bond market. The new draft has major changes in bond issuance conditions to protect investors and limit risks from abusing capital mobilization through this channel.

Higher land price framework affects housing prices

Changes of land prices

The Government officially raised the standard land prices by 20% for 2020–2024E vs 2015–2019 period. These prices are used as a basis for the People's Committees of the provinces and centrally-run cities to adjust local land prices. This would affect financial obligations of businesses when land use fees, compensation prices, and land clearance fees increase. Accordingly, real estate are also higher, hence higher prices of real estate properties.

Legal issues involved in land project review have remained unsolved

Legal issues

In the past two years, the supplies of projects and the housing products in HCMC market posted sharp declines due to the prolonged administrative procedures (project review, inspection, examination and approval). Common problems are related to (1) the approval of the 1/500 plan for the project despite the investment permission; (2) procedures for land replotting, acquisition and readjustments for projects of residential and agricultural land, and roads under the State's management; and (3) the procedures for calculating land use fees for the project. These issues started from late 2017, somewhat affected the market in 2018 and increasingly affected more and more businesses in 2019.

The number of licensed projects was sharply down

According to statistics of the HCM City Real Estate Association, the number of licensed developers and investment projects in 2018 decreased compared to 2017. In the first nine months of 2019, the whole city recorded only one project approved for investment and no developer was licensed to develop any housing projects (Table 29).

Many real estate businesses meet difficulties due to disrupted project deployment and sales

Policy-related issues such as project legislation and land price increases in provinces can have a great impact on developers and raise real estate prices, thereby limiting the access of the consumers to real estate products. Real estate businesses may miss business opportunities or face other risks like investment cost increase, capital backlog, inventory increase, loss of liquidity, lack of operating cash flow, thereby affecting business performance and financial health of the companies.

2020E real estate market may still grow flat vs 2019

2020E real estate market may still grow flat and mainly depend on large-scale projects. The real estate market often has a time lag between the date of legal procedures completion and the date of project launch (about 9–12 months). Therefore, in the most positive case, when the projects are legally dismantled, they can be launched for sale no sooner than the end of 2020. Many projects may be delayed from their official launching date to 2021.

Difficulties make opportunities

However, legal difficulties also create opportunities for developers who already have clean landbank and good legal status. Developers that offered projects for sale amid supply constraints may attract more customers and get high absorption rates, especially projects of reasonable segment, fully equipped, transport-convenient and connected with the central area.

Table 29. Ho Chi Minh – Project numbers

The total supply of the whole market reached 19,662 units, of which the Vinhomes Grand Park project had more than 10,000 units. If excluding this project from the list of projects launched for sale in the first nine months of 2019 (as it had been offered for pre-sale two years ago), the total number would plummet 66% YoY to only 9,655 units.

	2017	2018	9T2019	9T2018	+/-%
Investment policy approval	3	8	1	6	-83%
Project investor approval	44	19	0		
Project investment approval	83	59	12	43	-72%
Construction licensing approval	69	53	24	39	-38%
Eligible to raise capital	92	77	32	77	-58%
Total units	42,991	28,316	19,662	28,315	-31%

Source: HoREA, KB Securities Vietnam

Difficulties and challenges created clear gaps among real estate businesses. 2020 continues to be a challenging year for real estate businesses

KBSV assessment

Vietnam real estate market continues to benefit from a stable macro economy and demographic factors, but since the end of 2018, the market has shown signs of slowing down due to legal problems and tightening credit inflows. These are all necessary solutions to cool down the real estate market after a period of booming growth, and help to limit speculation. However, these factors brought difficulties and challenges in 2019 and may continue to affect the business operations of real estate businesses in 2020E.

We maintain a Neutral view on the real estate market outlook in 2019.

Listed companies

Vinhomes is the largest landbank owner in Vietnam

Landbank

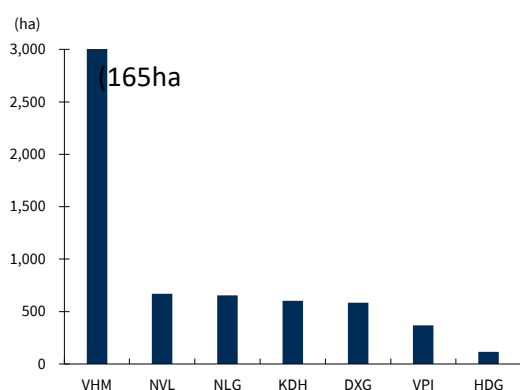
Vinhomes (VHM) currently owns the largest landbank in Vietnam with a total area of 16,500 hectares, 20 times more than the second ranked company. It is followed by Novaland (NVL) with 670 hectares, Nam Long Group (NLG) with 650 hectares, Khang Dien House (KDH) with 600 hectares, and Dat Xanh Group (DXG) with 580 hectares (Figure 30).

Large landbank ensures a real estate's potential growth

Landbank reflects a real estate business's growth potential in the medium and long term. Companies with large clean landbank and good legal status would have a big competitive advantage when developing projects. Recently, real estate businesses have accumulated land in suburban provinces with developing infrastructure. Specifically, VHM currently owns land bank in Quang Ninh, Thanh Hoa & Hai Phong; NLG develops projects in Dong Nai & Long An; DXG accelerates the acquisition of land in Long Thanh (Dong Nai) & Binh Duong; while VPI has just bought a 200 hectare in Hue.

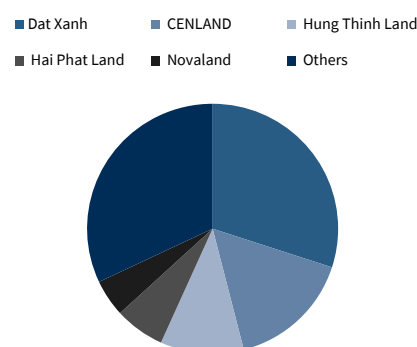
However, we appreciate companies that own large land banks and have no legal troubles, especially those in Hanoi and HCM such as VHM & KDH.

Fig 30. Vietnam – Landbank of some listed companies



Source: KB Securities Vietnam

Fig 31. Vietnam – Brokerage market shares in 2018



Source: KB Securities Vietnam

Dat Xanh Group & CENLAND are the two leading businesses in terms of real estate brokerage services (nearly 50% market share of the whole industry)

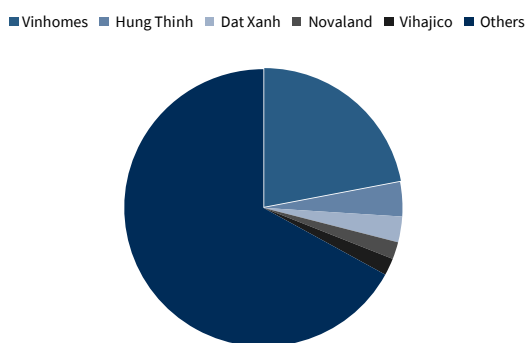
Market share

Dat Xanh Group (DXG) and CENLAND (CRE) are the two leading businesses in terms of real estate brokerage services. In 2018, DXG offered more than 28,000 products to the market, equivalent to 30% of the total transactions of the market. Meanwhile, CRE provided 14,530 products, accounting for about 16% market share. The following companies were Hung Thinh Land with 11% market share and Hai Phat Land with 6.5% market share (Figure 31).

Vinhomes ranked the first in terms of apartment market share in Vietnam

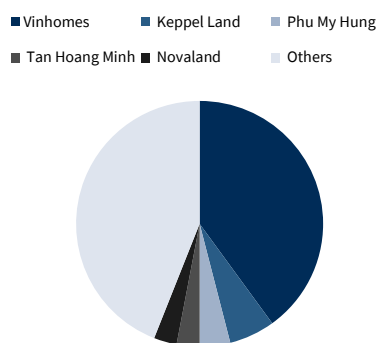
According to CBRE data, Vinhomes accounted for 22% of the market share of sold apartments in Hanoi and Ho Chi Minh City from 2016 to September 2019, while the following businesses only held less than 5% of the market share (Figure 32). In the high-end segment alone, Vinhomes accounted for 40% of the market share, outpacing the second ranked Keppel Land (6% of market share) (Figure 33).

Fig 32. Vietnam – Residential real estate market share in 2016 – September 2019



Source: CBRE

Fig 33. Vietnam – Residential real estate market share in 2016 – September 2019 (High-end segment)



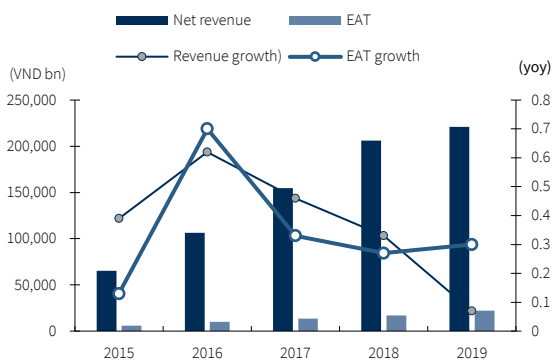
Source: CBRE

Profit growth in 2019 decreased significantly compared to 2018

Financial health

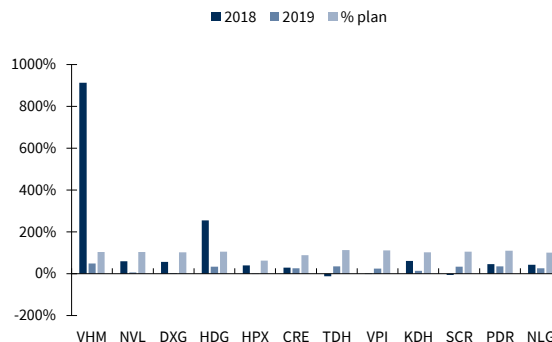
Listed companies (excluding VHM whose revenue was merged with VIC's) posted VND 22,317 billion in total earnings (up 30% YoY) on revenue of VND220,775 billion (up 7% YoY). However, if excluding VIC, the total earnings of the whole industry would grow by a mere of 11%, much lower than the 47% growth recorded in 2018. Business results of Some leading firms showed that although most firms maintained relatively good profit growth, this growth was significantly lower than in 2018 (Figure 33).

Fig 34. Vietnam – Real estate business performance



Source: KB Securities Vietnam

Fig 35. Vietnam – Real estate business earnings growth



Source: KB Securities Vietnam

Total inventories of listed real estate businesses surged 38% YoY

By the end of 2019, the total inventory of listed real estate businesses was valued at VND223,474 billion, up 38% YoY (Figure 36). Of this, there are 24 enterprises with inventory value larger than VND 1,000 billion. VIC and NVL had the largest inventories, accounted for 63% of the industry's total inventory value. Other companies with large inventories were PDR (VND 7,397 billion), KDH (VND7,022 billion), DXG (VND6,791 billion) and NLG (VND4,205 billion) (Figure 36).

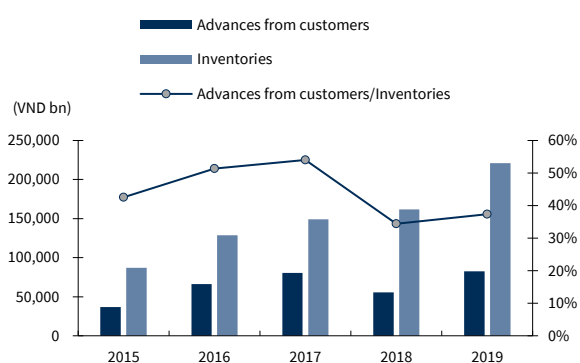
The inventory value includes construction and development costs of ongoing projects. Legal difficulties can cause projects to be delayed in construction and launching, thus affecting the cash flow of the businesses and creating pressure on businesses that depend on loans. Some businesses have high proportion of pre-sales/inventories like VHM and HDG showed good sales progress, which can ensure earnings and revenue (Figure 37).

The average debt/equity ratio of real estate businesses is 0.55 times

Real estate investment and trading require a large amount of capital, so businesses need to use leverage to launch project. The average debt/equity ratio of real estate businesses is 0.55x.

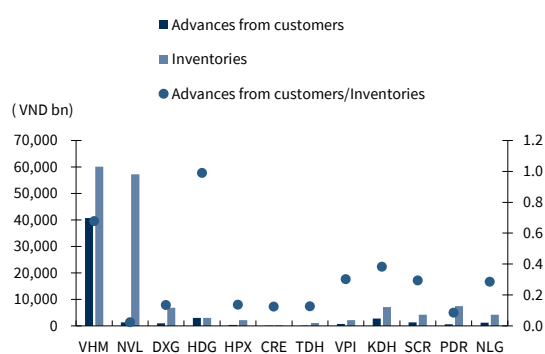
By the end of 2019, HDG had the highest debt/equity ratio of 1.8 times, followed by VPI (1.6 times) and NVL (1.4 times). Despite high debt ratio, HDG had a stable number of prepaid buyers, while VPI and NVL had a high proportion of inventories/total assets, and lower buyers paying deposits so they faced pressure of debts and interest payment. Some companies with safe financial structures (high cash and low debt ratio) were KDH, VHM & NLG (Figure 39).

Fig 36. Vietnam – Real estate repaid buyers & inventories



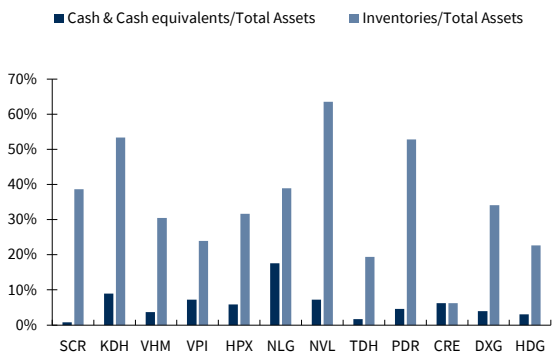
Source: KB Securities Vietnam

Fig 37. Vietnam – Businesses’ repaid buyers & inventories



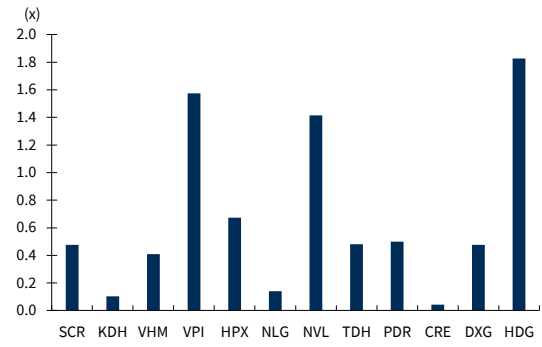
Source: KB Securities Vietnam

Fig 38. Vietnam – Cash/inventories ratio



Source: KB Securities Vietnam

Fig 39. Vietnam – Debts/Owner equity



Source: KB Securities Vietnam



Companies

Vinhomes
Nam Long

Vinhomes (VHM)

2020E outlook: Accelerating bulksales of three mega projects

February 2, 2020

Property Analyst Pham Hoang Bao Nga
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BUY recommendation with a target price of VND110,400 per share

Investment highlights: (1) Large landbank; (2) potential ongoing project portfolio; and (3) advantages from Vingroup ecosystem

2020E outlook: Positive sales volume in three major projects and upcoming projects

Based on VHM business results and valuation, we maintain our BUY recommend for VHM shares with a target price of VND110,400 per share, 18% higher than the closing price on February 11, 2020.

Investment highlights: (1) VHM landbank is the largest among real estate developers with nearly 16,500ha, mainly concentrated in two big cities, Hanoi and Ho Chi Minh City; (2) Portfolio includes 20 projects, especially three large urban projects in Hanoi, Ho Chi Minh City and major cities, which will help VHM ensure profit growth and maintain market share in the coming years. As of December 31, 2019, the total value of signed contracts with unrecorded revenue reached VND 91.4 trillion, up 31% YoY; & (3) VHM real estate projects have a great competitive advantage thanks diversified product and service ecosystem of Vingroup.

In 2020E, the company plans to open 46,300 units for sale, equivalent to transaction value of VND125-130 trillion. Of this, 40,700 units come from three ongoing major projects, 26,600 units from the mega projects, and 3,700 units from other projects that are expected to be delivered soon. In addition, Vinhomes plans to launch three major projects: Vinhomes Dream City, Vinhomes Wonder Park and Vinhomes Galaxy.

BUY maintain

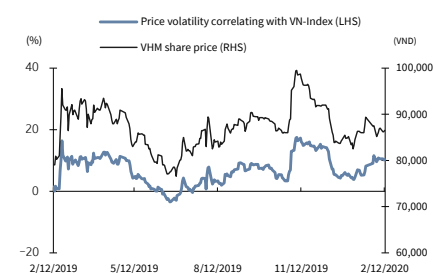
Target price	VND110,400
Total return	27.6%
Current price	86,500
Consensus target price	110,400 VND
Mkt capitalization (VNDbn)	284,543 VNDbn

Trading data	
Free float (%)	3,349,513,918
Avg trading value (3M)	1,297,023
Foreign available (%)	15.02

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2	-12	3	9
Relative	-3	-8	-4	-1

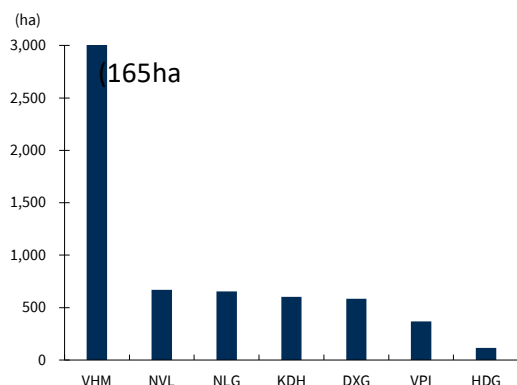
Forecast earnings & valuation

Fiscal year-end	2018A	2019A	2020F	2021F
Revenue (VNDbn)	38,664	51,826	67,268	84,136
EBT	27%	34%	29%	25%
NP attributable to parent	10,061	27,360	31,377	39,786
EPS (VND)	26%	53%	47%	47%
EPS growth (%)	14,909	20,719	24,519	29,112
P/E (x)	92%	39%	18%	19%
EV/EBITDA (x)	4,451	6,186	7,320	8,691
P/B (x)	-34%	39%	18%	19%
ROE (%)	19x	14x	12x	10x
Div yield (%)				



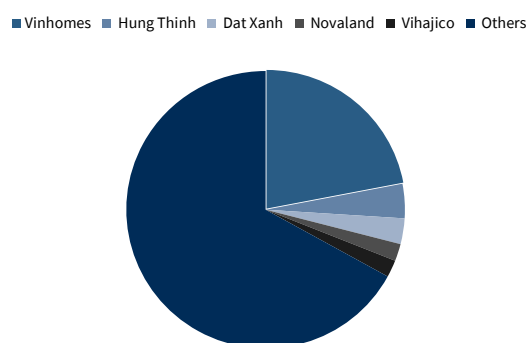
Source: Finpro, KB Securities Vietnam

Fig 1. Vinhomes – Landbank area



Source: KB Securities Vietnam

Fig 2. Vinhomes – Market share in 2016–2019



Source: CBRE

Table 3. Vinhomes – Revenue from three mega projects

	Vinhomes Ocean Park	Vinhomes Smart City	Vinhomes Grand Park	Total
Sold units				
2018	8,600	2,647		11,247
2019	14,800	15,353	28,100	58,253
Accumulated	23,400	18,000	28,100	69,500
Bulksale	10,500	12,000	18,100	40,600
Revenue (VND trillion)				
Estimated revenue	103	90.3	70.6	264
2019A	25.2	10.7		35.9
2020F	15.4	17.2	27.8	60.4
2021F	18.9	17.7	16.9	53.5

Source: Vinhomes, KB Securities Vietnam

Table 4. Vinhomes – Ongoing projects

	Ocean Park	Smart City	Grand Park	Symphony	Dream City	Wonder Park	Galaxy
Total number	~46,400 units	~45,000 units	~45,000 units		~5100 units	~1,500 units	~7,000 units
Area	420ha	281ha	272ha	4.3ha	458ha	133ha	11ha
Location	Gia Lâm, Hà Nội	Nam Từ Liêm, Hà Nội	Quận 9, TP HCM	Long Biên, Hà Nội	Hưng Yên	Đan Phượng, Hà Nội	Nguyễn Trãi, Hà Nội
Presold (units)							
2018	10,250	3,967					
2019	20,000	18,500	28,600	1,500			
2020E	9,900	14,000	16,800		800	1,100	2,000
2021E	5,300	8,900	0		800	400	2,500
2022E					800		2,500
Delivered (units)							
2018							
2019	~6,500	~10,800					
2020E	8,000	8,100	10,500				
2021E	10,000	10,000	11,500	1,500	600	500	
2022E	11,000	11,000	11,000		700	600	2,000

Source: Vinhomes, KB Securities Vietnam

February 12, 2020

Property Analyst Pham Hoang Bao Nga
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BUY recommendation with target price of VND36,500 per share

Investment highlights: (1) Right product segment orientation; (2) good financial health; and (3) large landbank

2020E outlook: Improved sales in Akari City and Waterpoint projects

Based on NLG's performance and valuation, we recommend to BUY NLG shares with a target price of VND36,500 VND per share, 18% higher than the closing price on February 11, 2020.

Investment highlights: (1) The right product segment orientation when focusing on mid-end and affordable apartments, and townhouses/villas. These are all products that have been highly welcomed by the market and maintained a good growth in selling prices; (2) Healthy financial structure with low debt ratio thanks to good access of foreign investment capital; (3) Successfully launched two projects, Waterpoint and Akari City, with the selling prices higher than the company's estimates in 2018, thereby bringing in higher profits; & (4) New potential landbank with the total area of 236.5ha Dong Nai and Hai Phong provinces.

NLG aims to become one of the few large-scale urban developers in Vietnam via cooperation with reputable Japanese partners. In 2020E, the ongoing urban projects Akari City and Waterpoint, along with the expected projects of VSIP Hai Phong, Waterfront City and Paragon Dai Phuoc are expected to contribute significantly to the company's earnings.

BUY maintain

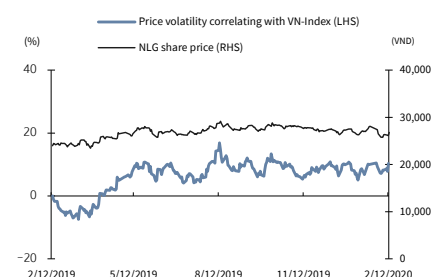
Target price	VND36,500
Total return	36%
Current price	26,800 VND
Consensus target price	36,500 VND
Mkt capitalization (VNDbn)	6,538 VNDbn

Trading data	
Free float (%)	250,488,124
Avg trading value (3M)	371,183
Foreign available (%)	49%

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

Forecast earnings & valuation

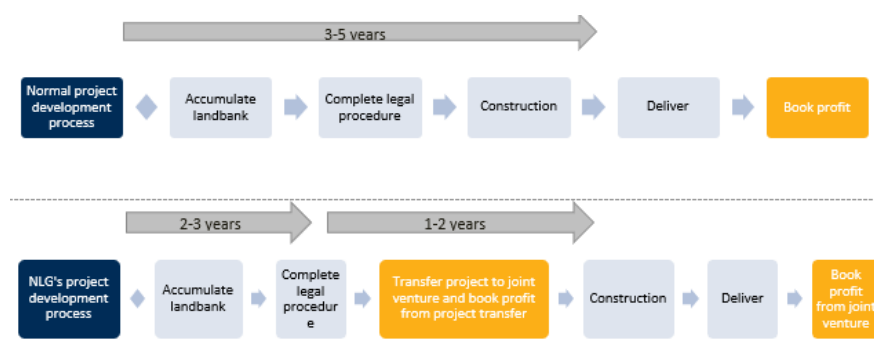
Fiscal year-end	2018A	2019A	2020F	2021F
Revenue (VNDbn)	3,480	2,546	2,848	3,132
EBT	10%	-27%	12%	10%
NP attributable to parent	1,503	1,066	1,195	1,350
EPS (VND)	43%	42%	42%	43%
EPS growth (%)	593	965	1,152	1,302
P/E (x)	141%	63%	17%	15%
EV/EBITDA (x)	2,480	3,717	4,358	5,012
P/B (x)	59%	50%	17%	15%
ROE (%)	2018A	2019A	2020F	2021F
Div yield (%)	3,480	2,546	2,848	3,132



Source: Fiiopro, KB Securities Vietnam

Fig 1. Nam Long Group – Project development procedures

Besides traditional housing development, Nam Long also cooperates with domestic and foreign partners through project transference. Unlike other developers, which usually take three to five years to develop projects and record revenue, Nam Long records revenue and profit right after transferring projects to partners.



Source: KB Securities Vietnam

Table 2. Nam Long Group – Project portfolio

Project	Location	Area	Ownership	Product	No. of units	Estimated prices (USD/m ²)	Started from	Delivered from
Flora Novia	Quận Thủ Đức TP HCM	1.1ha	100%	Flora	518	1,100-1200	2018	2019
Mizuki Park	Quận Bình Chánh TP HCM	26ha	50%	Valora Flora	69 3972	1600 1200	2017	2019
Akari City	Quận Bình Tân TP HCM	9ha	50%	Flora	5221	1400	2019	2020
Waterpoint P1	Long An	165ha	50%	Urban area	3000	1000	2019	2020
Waterpoint P2	Long An	190ha	50%	Urban area	13,000		2022	
Waterfront	Đồng Nai	170ha	70%	Urban area	7000		2022	
Paragon Đại Phước	Đồng Nai	45ha	100%	Valora	600		2021	
VSIP Hải Phòng	Hải Phòng	21ha	100%	Valora	2900		2021	

Source: Nam Long Group, 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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