

# Vinhomes JSC (VHM VN)

# Deeply undervalued industry leader - BUY

# Ample cashflow, sturdy balance sheet, robust profit

Lowering our TP to VND63,500 from VND100,000 to reflect challenges in the struggling real estate sector but maintain BUY on VHM as it's deeply undervalued. VHM is trading at 6.3x FY24E P/E and 1.0x P/B - its cheapest valuations since listing in FY18. This can be attributed to weak sentiment towards developers driven by liquidity constraints across various funding channels. In our view, its 25% discount vs RNAV underestimates the value of VHM, Vietnam's leading property developer, considering its robust profitability, rock-solid balance sheet, and operating cash flow strength. Transferring coverage to Loi Nguyen.

# Accelerated deliveries boost 1H23 earnings

1H23 net sales and NPAT-MI rose 364% YoY and 314% YoY, respectively, driven by the recognition of bulk sales in 1Q23 and the scheduled handing over of 5,400 low-rise units at Ocean Park 2 in 2Q23. Contracted sales surged 56% QoQ to VND24.9t in 2Q23 despite headwinds in the property market, but fell 67% YoY due to the high base in 2Q22.

# Steady landbank growth offers promising future

VHM's >16,500 ha of land in reserve is already by far the largest among developers and it's growing due to VHM's impressive execution capabilities for large-scale projects and its robust capital base, which strengthens its position in the bidding process. In 1H23, VHM said it obtained approval for 4 projects totalling more than 1,822ha in Long An, Hai Phong, Khanh Hoa and Hanoi. VHM is actively building up its land reserve before new laws regulating land acquisitions and tenders take effect (expected in Jul'24).

# Ocean Park underpins FY23-24E earnings growth

Our forecast FY23 total underlying property sales revenue (including bulk sales and BCC) of VND104.2t (+28% YoY) and FY23E net profit of VND30.1t (+4% YoY) mainly come from deliveries at Ocean Park 2 & 3. We conservatively forecast FY24 earnings to rise 12% YoY due to accelerated handovers in FY23 and a project launch in 2H24E. As a result, we derive an NAV-based TP of VND63,500.

FYE Dec (VND b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	84,986	62,393	104,218	116,973	137,834
EBITDA	44,008	27,507	43,018	47,792	51,200
Core net profit	38,827	28,774	30,087	33,770	39,255
Core EPS (VND)	8,917	6,608	6,910	7,755	9,015
Core EPS growth (%)	7.3	(25.9)	4.6	12.2	16.2
Net DPS (VND)	1,194	2,155	18	44	44
Core P/E (x)	9.2	7.3	6.9	6.1	5.3
P/BV (x)	2.9	1.4	1.2	1.0	0.8
Net dividend yield (%)	1.5	4.5	0.0	0.1	0.1
ROAE (%)	36.8	21.3	18.8	17.6	17.2
ROAA (%)	17.4	9.7	7.8	7.7	8.1
EV/EBITDA (x)	8.5	8.4	5.8	4.9	2.9
Net gearing (%) (incl perps)	7.8	12.9	21.2	11.5	net cash
Consensus net profit	-	-	31,106	35,286	39,699
MIBG vs. Consensus (%)	-	-	(3.3)	(4.3)	(1.1)

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# **BUY**

 Share Price
 VND 47,550

 12m Price Target
 VND 63,500 (+34%)

 Previous Price Target
 VND 100,000

### **Company Description**

Vinhomes, a subsidiary of Vingroup, is Vietnam's largest listed residential and commercial property developer

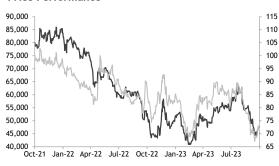
### Statistics

52w high/low (VND)	63,000/40,900
3m avg turnover (USDm)	11.8
Free float (%)	25.0
Issued shares (m)	4,354
Market capitalisation	VND207.1T
	USD8.5B

### Major shareholders:

Vingroup JSC	66.7%
Republic Singapore	5.0%
Viking ASIA HOLDINGS PTE	4.6%

### Price Performance



—Vinhomes JSC - (LHS, VND) — Vinhomes JSC / Vietnam Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(11)	(14)	(9)
Relative to index (%)	(4)	(14)	(19)

Source: FactSet

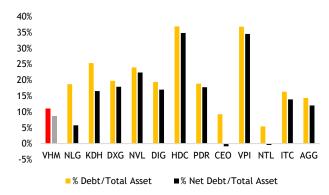


### Maybank Securities

# **Value Proposition**

- The largest Vietnamese developer with substantial land bank approximately 20x the size of the second biggest player.
- It initially targeted only the high-end and luxury segment but
   VHM now also offers more affordable properties which address a larger market.
- A credible developer well known for its excellent project execution and service delivery.
- Profit recognition to continue to be strong when its mega projects are scheduled to deliver in large quantity.

# Large-scale projects but low debt levels

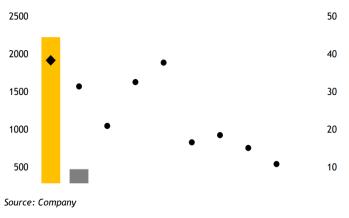


### Source: Fiinpro, Maybank IBG Research

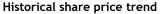
# **Financial Metrics**

- VHM's net margin is the highest in the sector and its scale is much larger than peers.
- Presales, which could be tracked using increases in customer advances on the liabilities side of the balance sheet, can indicate turning points in the industry cycle.
- Net debt/equity is only c.20% as of 2Q23 compared to 60% for peers on average, and could decline further towards end FY23 when VHM pares down its debt as scheduled.

# Superior revenue and net margin vs peers



# **Price Drivers**





Source: Company, Maybank IBG Research

- 1. Legal bottleneck in real estate sector as well as stricter bank loans to the sector.
- 2. Panic caused by Covid-19 pandemic.
- 3. Overheating real estate sector and stock market.
- 4. Liquidity crunch across the sector.
- 5. Legal hold ups and easing liquidity pressure thanks to the government's industry wide support measures.

# **Swing Factors**

# Upside

- Acquire competitors that lack economies of scale, further increasing its market share.
- High earnings visibility for the near term, thanks to presales from previous years, could lead to stronger thanexpected re-rating momentum.
- Ability to make opportunistic divestments or partnering with foreign developers at the project-level can at times result in significant capital gains.

# Downside

- Some major projects are still in the process of obtaining legal approvals and may face delays, although the risk is minimal as VHM has enough land bank to sustain growth.
- Long gestation periods for projects could result in uncertainties in future presale.

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Risk Rating & Score <sup>1</sup>	NA
Score Momentum <sup>2</sup>	NA
Last Updated	13 <sup>th</sup> October 2023
Controversy Score <sup>3</sup>	NA

# **Business Model & Industry Issues**

- VHM develops different types of properties mainly in greenfield and some brownfield areas upon receiving the required licences from both the local government and Ministry of Construction. If the project is close to reserve areas or involves large-scale reclamation (e.g. Long Beach Can Gio phase 1 & 2), then VHM has to obtain further approvals from the Ministry of Natural Resources and Environment.
- As the leading developer in Vietnam, VHM has shown commitment to adhere to the environment and social guidelines for property development while enforcing integrity and professionalism as its core corporate culture.
- VHM has set a high standard in occupational safety and workers' welfare for the property development industry in Vietnam.

# Material E issues

- VHM has adopted several measures to minimize significant losses and promote energy conservation. These initiatives encompass the replacement of fluorescent and compact lamps with LED lights, the incorporation of Low-E glass to optimize natural light and visibility in new projects, and the utilization of advanced construction technologies for monitoring electrical equipment during operation.
- VHM is actively conserving water by reusing it for landscaping and internal road cleaning in their urban areas. For instance, in the VHM Thang Long project, they reused approximately 1,027 cubic meters of water, equivalent to 17.35% of the 2022 water supply. In Vinhomes Ocean Park, around 21,384 cubic meters of water were repurposed for irrigation.

# Material S issues

- The company has embraced gender diversification as part of its corporate culture since day 1. It has more female Clevel employees than any other Vietnamese companies. The female-to-male ratio however is still at 35%-65% as it remains a male-dominant industry in Vietnam
- VHM has been actively engaged in numerous social and charitable endeavours, including a substantial contribution of VND 725 billion towards the prevention of the Covid-19 pandemic in 2022. Additionally, they have made donations towards the renovation of deteriorated houses in Thai Nguyen province, among other initiatives.
- In terms of gender equality, VHM maintains a workforce where 30.4% of all employees are female. Within the organization's leadership, female representation stands at 33.3% in the Board of Directors (BOD) and 24% at the management level.

# Key G metrics and issues

- The Board of Directors of the company is comprised of 8 individuals who exhibit extensive experience and strong qualifications, demonstrating a profound comprehension of VHM's operations. The management's historical performance has proven to be pragmatic, consistently delivering the annual targeted profits.
- BOD structure is in line with the international corporate governance standards of the OECD. Its structure is balanced and diversified in terms of experience, age, gender and nationality. VHM's board has 3 independent board members.
- The supervisory board is an independent body from the BOD and the management. The GMS elects the supervisory board to act on behalf of the GMS in overseeing the validity and legality of the company's activities and financial reports. The supervisory board reports directly to the GMS. The supervisory board has three members and serves for a five-year term. The current term is 2018 2023.
- The compensation for board members is subject to regular reporting and approval by the company's shareholders.
- Transactions involving related parties, which have a value equal to or exceeding 35% of the company's total assets, necessitate approval from the General Shareholders' Meeting. Meanwhile, transactions falling within the range of equal to or greater than 5% but less than 35% of the company's total assets must receive approval from the BoD.
- VHM and its subsidiaries are permitted to extend loans to related parties, provided that the cumulative outstanding balance of all such loans remains below 5% of the company's total assets

1Risk Rating & Score - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. 2Score Momentum - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. 3Controversy Score - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).





	Quantitative Parameters (Score: 35)						
	Particulars	Unit	2021	2022	NVL VN		
	Scope 1 GHG emissions	m tCO2e	73.6	52.1	N/A		
	Scope 2 GHG emissions	m tCO2e	142.6	181.2	N/A		
	Total	m tCO2e	216.2	233.3	N/A		
	Scope 3 GHG emissions	m tCO2e	N/A	N/A	N/A		
	Total	m tCO2e	N/A	N/A	N/A		
Е	GHG intensity (Scope 1 and 2)	tCO2e/t	N/A	N/A	N/A		
_	Scope 1 emission intensity	tCO2e/MWh	N/A	N/A	N/A		
	Green material used in construction	%	N/A	N/A	7%		
	Water recycled	'000 m3	N/A	28.3	0%		
	Hazardous waste 3R rate	%	N/A	N/A	0%		
	% of recycled material used	%	N/A	N/A	0%		
	% of debt from green instruments	%	N/A	N/A	0%		
	% of women in workforce	%	25.0%	30.4%	39%		
S	% of women in management roles	%	50.0%	50.0%	33%		
	Total employee training attendance	Attendances	N/A	N/A	14,448		
	Board salary as % of reported net profit	%	2.00%	2.00%	0.1%		
G	Independent director tenure <10 years	%	0.15%	0.15%	50%		
9	Women directors on board % 0% 0% 0% 33%	%	33.0%	33.0%	33%		
	Distribution to shareholders	%	33.0%	33.0%	100%		

### Qualitative Parameters (Score: 50)

a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?

Although there is no standalone ESG Committee yet, ESG awareness of VHM management is improving. More and more ESG disclosures are being integrated into the annual report.

b) Is the senior management salary linked to fulfilling ESG targets?

No

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

No

d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

No

e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

The company is using more environment friendly materials, and focusing on providing more green space in its developments.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes

Target (Score: 0)		
Particulars	Target	Achieved
Using green materials in construction	100%	N/A
Net-zero carbon emissions by 2050	Net 0	N/A
Impact		
NA		
Overall Score: 30		
As per our ESG matrix, Vinhomes JSC (VHM VN) has an overall score of 30		

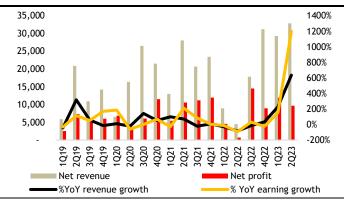
ESG score	Weights	Scores	Final Score
Quantitative	50%	35	18
Qualitative	25%	50	13
Target	25%	-	-
Total			30

As per our ESG assessment, VHM already has good and established ESG practices. The company is developing medium/long-term targets but needs to make significantly more effort to track and improve its quantitative "E" metrics. VHM's overall ESG score is 30, which makes its ESG rating slightly below average in our view, mainly as its awareness of ESG is still nascent (average ESG rating = 50).

# Maybank Securities

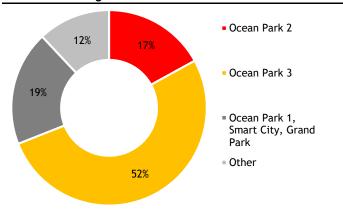
# 1. Focus charts

Fig 1: Accelerated deliveries at Ocean Park 2 & 3 support earnings growth in 1H23



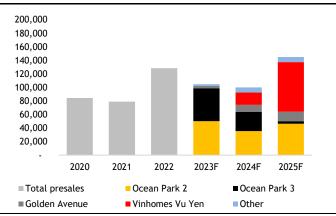
Source: VHM

Fig 3: Large VND89.1t of revenue not booked yet, securing FY23-24E earnings and cash flow



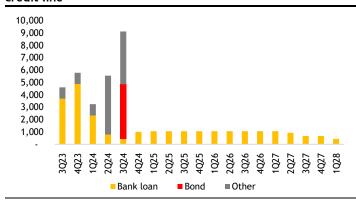
Source: Maybank IBG Research

Fig 5: Total presales in FY23E-24E down 18% YoY and 4.5% YoY, respectively, but set to rebound 44.9% YoY in FY25E



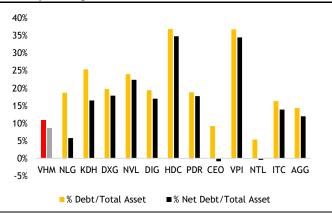
Source: Maybank IBG Research

Fig 2: 40% of total debt to mature within 12 months, but cushioned by large backlog, bulk-sales strategy and USD800m credit line



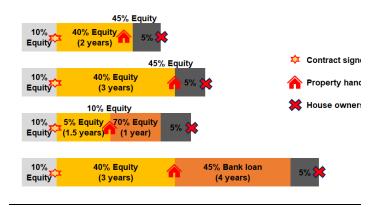
Source: VHM, Maybank IBG Research

Fig 4: Net debt/total asset ratio of 8.6%, lower than the industry average of 15.4%



Source: Fiinpro, Maybank IBG Research

Fig 6: Adopting a 'stimulative' payment policy for buyers may affect short-term profitability while ensuring a higher absorption rate and maintaining healthy cash flow



Source: VHM, Maybank IBG Research



# 2. Forecast

Management said it will launch the Golden Avenue residential project in Quang Ninh province in 4Q23. We believe the size of the first launch and the take-up rate will be low due to weak demand in the property sector. We forecast VHM's total FY23 presales to decline by 18% YoY to VN104.5t and fall by 4.5% YoY to VND99.9t in FY24E despite the bulk sale of high rises at Ocean Park 2 & 3. We note that our pre-sales forecasts do not include social housing projects due to the limited impact and information available.

For FY23, we forecast total underlying property sales revenue (including bulk sales and BCC) of VND104.2t (+28% YoY) and FY23 net profit of VND30.1t (+4% YoY), mainly coming from the deliveries at Ocean Park 2 & 3. For FY24, we forecast net profit up 12% YoY to VND33.7t thanks to handover of the remaining units at Ocean Park 2 & 3.

Fig 7: Our key financial forecasts

	FY23 guidance	% YoY	FY23E	% YoY	FY24E	% YoY
Total sales (VNDb)	100,000	23%	104,218	28%	116,973	12%
Gross profit (VNDb)			55,694		61,336	10%
% GP margin			53%		52%	
EBIT (VNDb)			42,539		47,090	11%
% EBIT margin			41%		40%	
Net interest expense (VNDb)			(1,757)		(1,930)	10%
Other inc/loss (VNDb)			(98)		54	-155%
NPAT (VNDb)			30,234	4%	33,894	12%
% NP margin			29%		29%	
NPAT-MI (VNDb)	30,000	4%	30,087	4%	33,770	12%
EPS (VND)			6,907	4%	7,678	11%

Source: Maybank IBG Research



Fig 8: VHM's projects



Source: Maybank IBG Research



# 3. Valuation

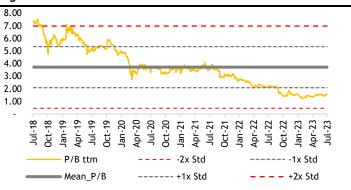
BUY with lower TP of VND63,000. VHM is trading at 1.0x FY24E P/B - its cheapest valuation since listing. We conservatively value VHM by applying an 'uncertainty discount' of 70% for the pipeline of projects that we have identified. We believe its current valuation represents a good entry point for long-term investors. At our target price, VHM would be trading at 1.33x FY24E P/B, well below its 5-year mean of 3.7x and versus an average of 1.6x for peers.

Fig 9: Valuation

(VNDb)	Method	Value
Under development projects	RNAV	197,259
Identified pipeline projects	RNAV	99,289
Other assets	Book value	50,683
Total asset value		347,231
(+) Cash and Short-term investments		14,639
(-) Debt		(52,608)
Uncertainty Discount @10%		(34,723)
Net asset value		274,539
Number of outstanding shares (mn)		4,354.4
Target Price		63,000

Source: Maybank IBG Research

Fig 10: VHM's P/B



Source: Bloomberg, Maybank IBG Research



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	9.0	9.6	6.9	6.1	5.3
Core P/E (x)	9.2	7.3	6.9	6.1	5.3
P/BV (x)	2.9	1.4	1.2	1.0	0.8
P/NTA (x)	47.6	22.4	21.1	20.1	18.9
Net dividend yield (%)	1.5	4.5	0.0	0.1	0.1
FCF yield (%)	nm	6.1	nm	15.2	41.4
EV/EBITDA (x)	8.5	8.4	5.8	4.9	2.9
EV/EBIT (x)	8.7	8.8	5.9	5.0	2.9
BALANCE SHEET (VND b)					
Cash & Short Term Investments	9,605.2	17,113.5	14,697.4	18,807.1	87,619.7
Accounts receivable	37,750.1	96,208.7	97,767.8	108,944.1	90,069.4
Inventory	28,578.8	64,362.4	97,378.6	108,082.1	68,428.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	7,497.8	9,339.8	9,804.5	10,326.1	10,940.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	147,084.5	174,788.2	188,591.6	224,572.3	235,993.8
Total assets	230,516.5	361,812.6	408,239.8	470,731.6	493,052.1
ST interest bearing debt	250.8	15,330.1	15,030.6	11,582.2	13,876.7
Accounts payable	12,506.6	15,031.4	16,554.4	21,616.4	13,685.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	19,668.0	20,876.3	37,543.8	31,530.9	9,917.8
Other liabilities	66,684.0	162,053.0	160,831.0	193,828.0	204,012.0
Total Liabilities	99,109.1	213,290.8	229,959.7	258,557.2	241,492.1
Shareholders Equity	124,741.5	145,213.3	174,824.1	208,593.8	247,848.5
Minority Interest	6,665.9	3,308.6	3,456.0	3,580.7	3,711.5
Total shareholder equity	131,407.4	148,521.8	178,280.1	212,174.4	251,560.0
Total liabilities and equity	230,516.5	361,812.6	408,239.8	470,731.6	493,052.1
CASH FLOW (VND b)	40, 405, 4	20 504 2	27 702 0	42.247.0	40 224 0
Pretax profit	48,185.6	38,586.3	37,792.8	42,367.9	49,231.9
Depreciation & amortisation	1,087.7	1,216.5	577.5	648.1	763.7
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(13,192.9)	9,598.0	(24,474.4)	14,332.0	59,569.8
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	17,076.1	30,947.1	(9,254.3)	33,381.5	86,730.2
Capex	(17,897.8)	(18,299.1)	(1,000.0)	(2,000.0)	(1,000.0)
Free cash flow	(821.6)	12,648.1	(10,254.3)	31,381.5	85,730.2
Dividends paid	(5,198.7)	(9,383.7)	(76.8)	(192.0)	(192.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(5,481.4)	11,400.1	16,368.0	(9,461.4)	(19,318.5)
Other invest/financing cash flow	2,416.5	(8,529.8)	(8,453.1)	(17,618.4)	2,592.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(9,085.3)	6,134.6	(2,416.2)	4,109.7	68,812.7



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	19.9	(26.6)	67.0	12.2	17.8
EBITDA growth	106.7	(37.5)	56.4	11.1	7.1
EBIT growth	107.3	(38.7)	61.4	11.1	7.0
Pretax growth	30.1	(19.9)	(2.1)	12.1	16.2
Reported net profit growth	39.5	(25.9)	4.6	12.2	16.2
Core net profit growth	39.5	(25.9)	4.6	12.2	16.2
Profitability ratios (%)					
EBITDA margin	51.8	44.1	41.3	40.9	37.1
EBIT margin	50.5	42.1	40.7	40.3	36.6
Pretax profit margin	56.7	61.8	36.3	36.2	35.7
Payout ratio	13.4	32.6	0.3	0.6	0.5
DuPont analysis					
Net profit margin (%)	45.7	46.1	28.9	28.9	28.5
Revenue/Assets (x)	0.4	0.2	0.3	0.2	0.3
Assets/Equity (x)	1.8	2.5	2.3	2.3	2.0
ROAE (%)	36.8	21.3	18.8	17.6	17.2
ROAA (%)	17.4	9.7	7.8	7.7	8.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	1.7	1.8	1.8	2.0
Net gearing (%) (incl perps)	7.8	12.9	21.2	11.5	net cash
Net gearing (%) (excl. perps)	7.8	12.9	21.2	11.5	net cash
Net interest cover (x)	na	na	9.1	9.9	41.9
Debt/EBITDA (x)	0.5	1.3	1.2	0.9	0.5
Capex/revenue (%)	21.1	29.3	1.0	1.7	0.7
Net debt/ (net cash)	10,313.6	19,092.9	37,877.0	24,306.0	(63,825.1)

Source: Company; Maybank IBG Research



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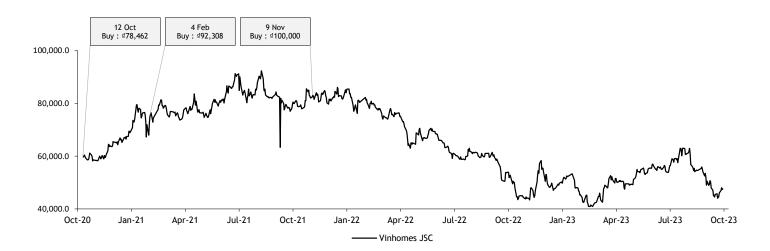
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