Vinhomes (VHM VN)

Undisputed champion, but fully valued

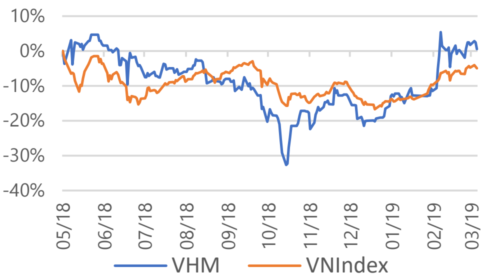
HOLD

Current price: VND 92,200
Target price: 91,300 VND
Differential: -1.0%

Our view: Caution on the current valuation. We believe that VHM's undeniable scale advantages will allow it to maintain sector leadership for many years to come. However, we have a cautious cyclical view on property developers, and uncertainties regarding the timing of project approvals are further reasons for pause. The stock's 25% rise YTD has helped VinGroup tickers lead the overall index higher, but we would not chase it at current valuations. We initiate coverage with a **HOLD** rating and target price of **VND 91,300.**

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
VND 61,800-96,700	**USD 13,307mn**	**0.0%**	**33.68%**	**30.34%**	**USD 2.4 mn**

Price performance



Investment thesis

- Competitive advantages of scale that dwarfs the competition.
- Solid branding strategy & operating model.
- But the valuation is not cheap, and it's too late to chase, in our view.

Risks to our view

- Some major projects are still in the process of obtaining legal approvals
- Funding risk is a consideration given the short tenor of VHM's debt.
- Upside risk from market flows given VHM's 9.4% VNIndex weighting.

Tam Nguyen
Property Analyst
+84 28 3622 6868 (ext: 3874)
tam.nguyen@yuanta.com.vn

Company profile: VHM is Vietnam's predominant property developer and offers two major residential lines: 1) Vinhomes (high-end housing) and 2) VinCity (mid-end & affordable). Although we are positive on the company's long-term fundamentals, property market cyclicality and VHM's YTD stock performance suggests a measure of caution here.

Key metrics	2017A	2018P	2019E
Revenue growth (%)	36%	154%	7%
NPAT growth (%)	-29%	842%	7%
GPM (%)	34%	25%	45%
Debt/Equity (x)	1.51	0.66	0.77
ROA (x)	3%	13%	11%
ROE (x)	15%	30%	25%
EPS (VND/share)	2,349	4,551	4,530
PER (x)	N/A	16.2	20.8
NAV growth (%)	6%	375%	30%
PB (x)	NMF	5.12	5.04
Dividend yield (%)	N/A	0.0%	0.0%

Source: VHM, Yuanta Research,

Dominating the property market. VHM's land bank is 22x larger than that of its nearest competitor. This scale alone should enable it to dominate the Vietnamese property industry for many years. We also believe that VHM's segmented branding strategy is sound, especially given our view that real residential demand should support the mid-end and affordable segments. This is despite expected weakness in high-end and luxury homes, which are typically favored by speculators/investors.

Valuation fully reflects the positives. The stock's 25% YTD rally has priced in the positives, in our view. Our RNAV-derived target price implies -1% downside with no expected dividend support. The stock's 9.4% VNIndex weighting could leave some investors facing benchmark risk, but we would not chase VHM here.

Yuanta vs consensus. Our 2019E net income forecast is 9% lower than the consensus mean, possibly due to a lower assumption for unit deliveries. We also assume that some projects in the pipeline will take longer to execute than VHM has guided for, which may be why our RNAV-based fair value is 4% below the Street.

Risks to our view. Approvals for several of VHM's projects have yet to be issued, and uncertainties regarding licensing standards and land use rights fees are concerns. On the positive side, VHM is a leader in tapping the domestic debt capital markets and funding risk is less of a concern. Also, VHM's large index weighting could result in continued stock price strength on inflows from benchmarked funds.

We consider ourselves to be optimists on VHM's long-term fundamental outlook.

Our View – Cautious optimism at current valuations. Despite a more tempered view on VHM than that of the Street, we still consider ourselves to be optimists on the long-term fundamental outlook for the company, for four key reasons.

1) VHM's undeniable scale advantages and execution capabilities make it the clear heavyweight champion of Vietnamese property sector stocks – a position that we believe it will maintain for many years to come.
2) Branding position and strategy is solid. We believe that the entire market cycle is shifting, with demand to be led by real residential purchasers rather than speculators. Although VHM is not a pure play on this theme, its Vincity projects should benefit meaningfully from this cyclical turn.
3) The firm's dominance also gives it advantages in terms of debt funding.
4) VHM also benefits from the terms of its land bank acquisitions, in our view.

Overall, the longer-term outlook is positive.

However, we do not suggest that investors chase the stock now.

However, the share price has rallied 25% YTD and 48% from its 4Q18 trough. In our view, the current valuation fully reflects the positives of the fundamental story at this point in the cycle. We do not suggest that investors chase the stock now.

We therefore initiate coverage on VHM with a Hold recommendation. Our RNAV-derived target price implies -1% downside from the current share price, with no expected dividend to provide support. Given the YTD rise in the heavyweight Vingroup shares and expected capital raising by the parent company later this year, we suggest that investors await a better entry opportunity. For those seeking property market exposure, our top sector pick is Nam Long (NLG VN, rating: Buy, Target price: VND32,000, 12-month TSR: 18%).

The consensus appears to be more optimistic than we are on unit handovers and project execution time.

Our below-consensus earnings and valuation for VHM reflect this relatively cautious outlook on the industry at this point in the cycle. Our 2019E net income estimate is 9.2% lower than the consensus mean, which may be due to relatively cautious unit handover assumptions. We have also assumed that some projects in the pipeline will take longer to execute than VHM currently plans. Again, this may be why our RNAV valuation for VHM (i.e., VND 91,300/share) is 3.5% lower than the consensus mean target price, according to Bloomberg.

Table 1: Yuanta vs consensus.

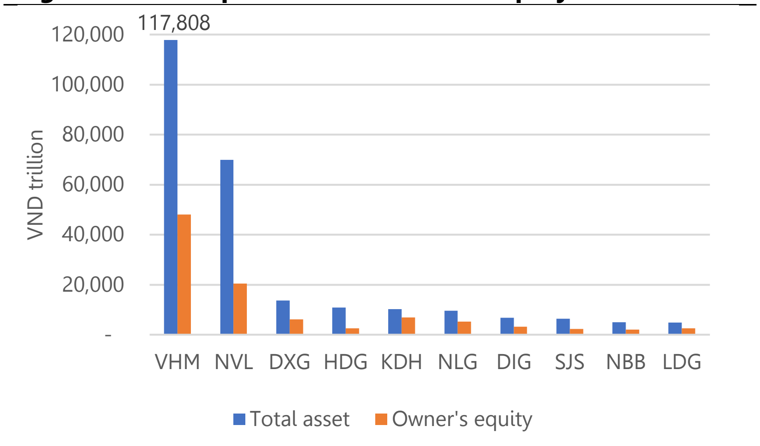
Net income (VND bn)	**2019E**
Consensus mean	17,326
Yuanta forecast	**15,729**
%ge difference	*-9.2%*
Consensus high	19,875
Consensus low	15,927
Target price (VND)	
Mean	94,600
Yuanta	**91,300**
%ge difference	*-3.5%*
High	105,000
Low	86,000

Source: Bloomberg, Yuanta Vietnam

FOUR SUSTAINABLE COMPETITIVE ADVANTAGES

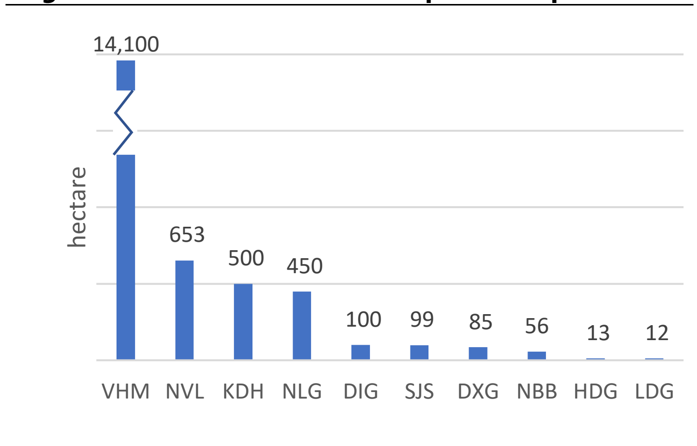
Advantage 1): Dominant scale dwarfs all competitors

Figure 1: Developers' total assets and equity



Source: Company data, Yuanta Research

Figure 2: VHM's Land bank compare with peers

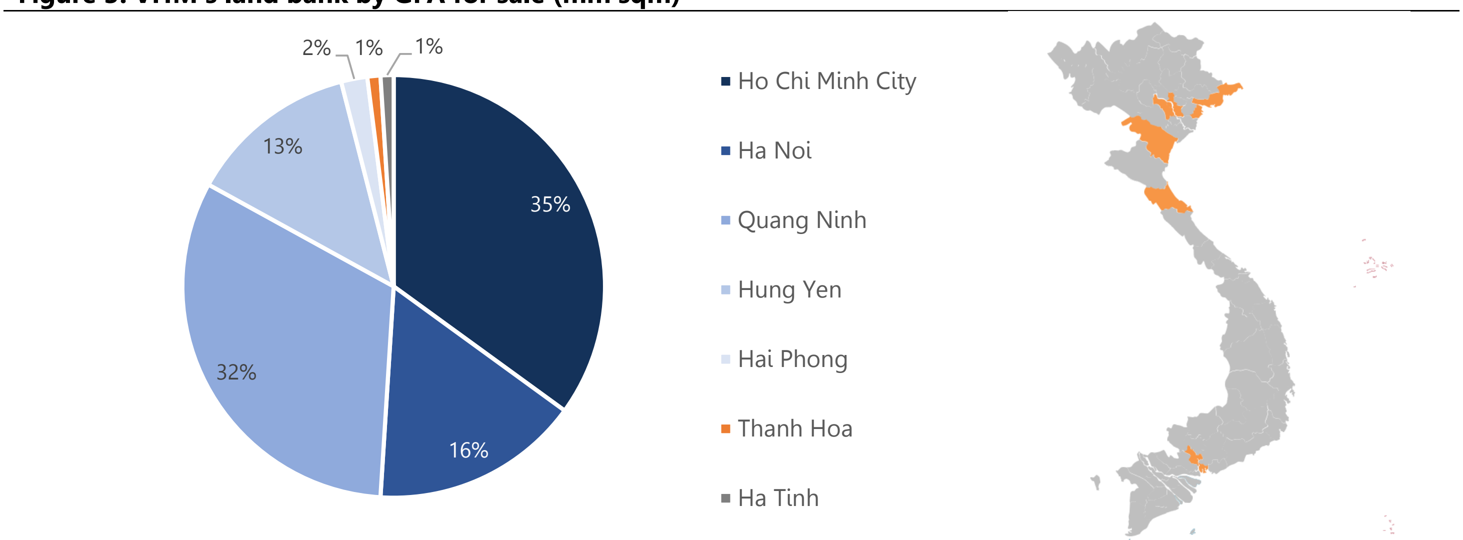


Source: Company data, Yuanta Research

The company's sheer scale is an extremely solid foundation for its long-term development, in our view. VHM is the largest property developer in Vietnam by total assets, equity capital, and land bank. Total assets are 1.7x larger than its next largest competitor, Novaland (NVL, Not Rated), while its shareholders' equity is 2.4x larger than NVL's.

Of the company's current 26 projects, VHM says it has completed ownership transfer of several projects and is in the process of obtaining more transfers from other Vin Group entities. As a result, VHM boasts a land bank of 14,500ha, which is more than 22x the land bank of it's the nearest contender. VHM's land bank is not just impressive for its massive scale, but also its location in economically attractive areas.

Figure 3: VHM's land bank by GFA for sale (mm sqm)



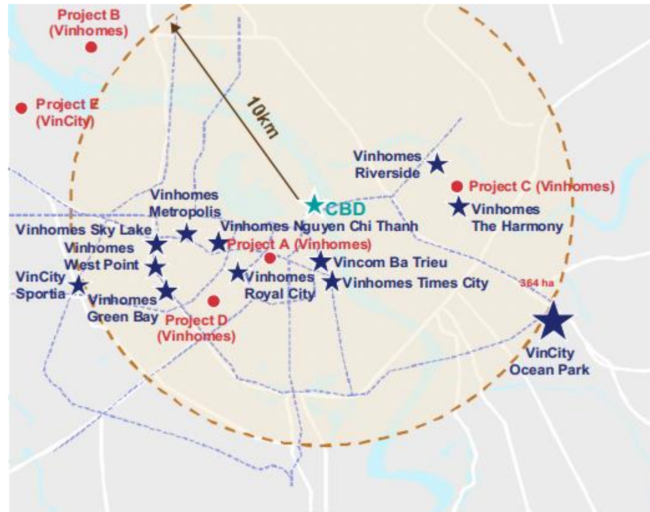
Source: VHM, Yuanta Research

This land bank is distributed throughout the country, but 51% of residential GFA is located in the key cities of HCMC and Hanoi. Even in areas such as Thanh Hoa, Hai Phong, and Ha Tinh provinces, VHM's land bank is also attractively positioned in city centers where we expect real demand to be strong.

Figure 4: HCMC project map

Source: VHM, Yuanta Research

Figure 5: Hanoi project map



Source: VHM, Yuanta Research

The majority of VHM's projects in HCMC and Hanoi are located in central areas, and these projects have enjoyed high booking rates. Projects that are located outside central areas are located near belt roads and (future) metro lines.

Infrastructure investments increase Vincity projects' attractiveness to home buyers.

Despite uncertainties regarding timing of transport projects (e.g., the HCMC metro line), Vietnam is making headway on developing public transport infrastructure. Investment in infrastructure has averaged 5.7% of GDP in recent years.

However, much remains to be done – currently some 85 key transport projects are in the pipeline. Budget bottlenecks and legal constraints are likely to delay implementation, but the longer-term trend is clear. Given the high prices for city center residential property, real residential demand from Vietnam's emerging middle class is likely to center on satellite city property development projects.

Figure 6: Infrastructure Spending and GDP Growth

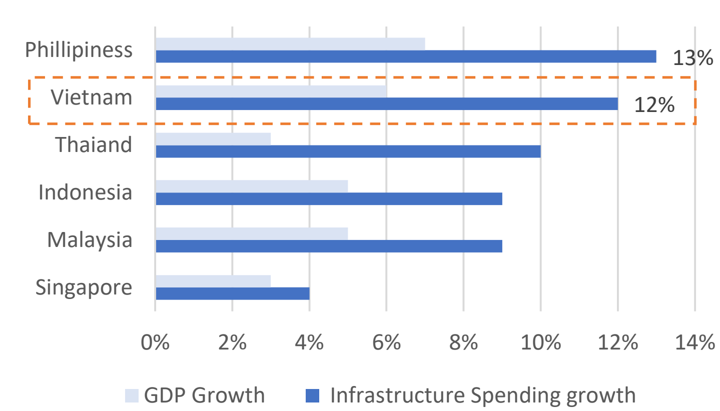
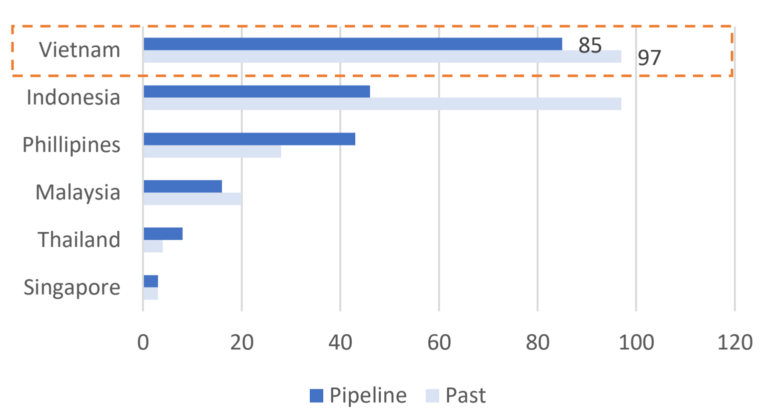


Figure 7: Road and Bridge projects by country

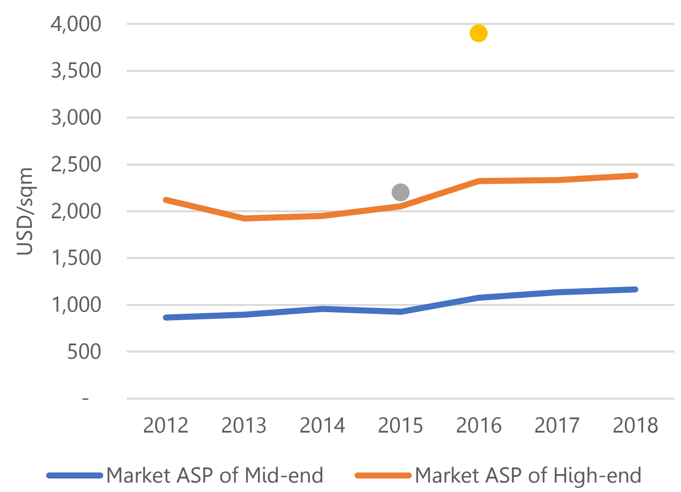


Source: Oxford Economics, World Bank, BMI Research, Yuanta Vietnam

Advantage 2): VHM's brand gives it pricing power

We believe that VHM's market dominance is also reflected in its premium brand value. Based on our analysis, the selling price of VHM homes is typically higher than that of other developers in the same areas.

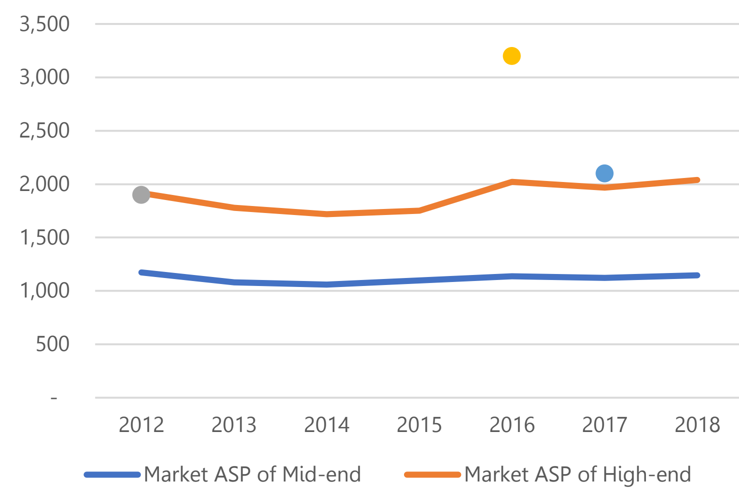
Figure 8: Vinhomes brand's premium in HCMC



ASP of Vinhomes Central Park, ASP of Vinhomes Golden River

Source: VHM, Yuanta Vietnam

Figure 9: Vinhomes brand's premium in Hanoi



ASP of VH Royal City, ASP of VH Metropolis, ASP of VH Skylake

Source: VHM, Yuanta Vietnam

Vingroup membership has its benefits, especially when building wholly-new communities that require not only housing, but also retail, medical, and educational services.

The brand value is boosted by relationships with other Vingroup entities. For example, the relatively large average land area of each VHM project necessitates the creation of a mini-urban area to support the new community. VHM is able to provide living facilities from reputable brands within the Vingroup (e.g., Vinschool, Vinmec, Vinmart, and Vincom Retail). It also offers surrounding green spaces to increase the appeal to prospective residential buyers.

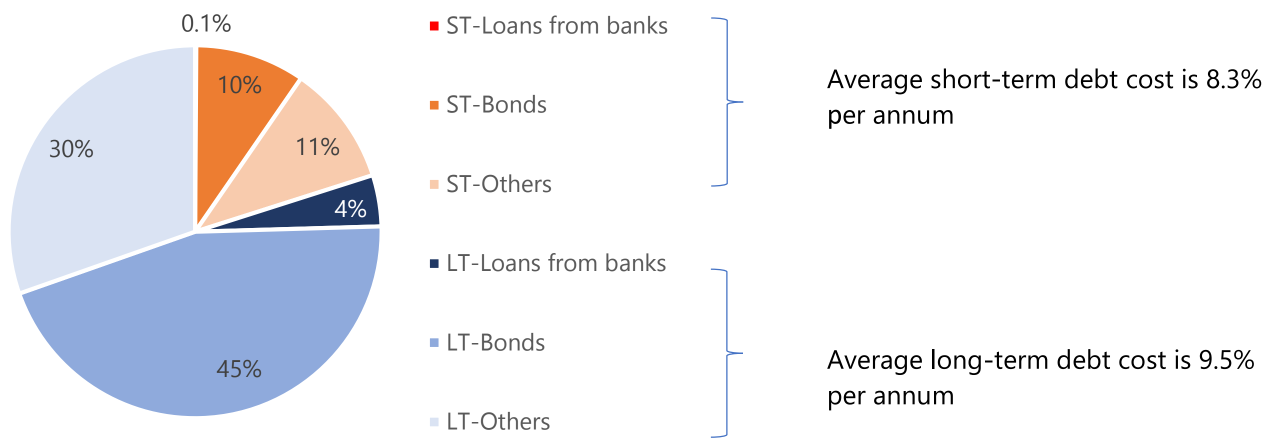
Replicating this product development strategy would seem to be difficult (if not impossible) for VHM's main competitors. Again, this reflects the sales power and added value of the Vinhomes and Vincity brands.

Advantage 3): Relative funding flexibility

Tightening bank funding is an issue for all property developers. VHM's bank borrowing is tiny, but the impact on its suppliers and end-buyers could be an issue.

Bank loans only account for c.4% of VHM's debt, so the direct impact of the SBV's prudential measures to limit banks' real estate exposure is likely to be limited. VHM's main source of debt capital is bond issuance, which makes up 55% of total debt, and loans from related parties (i.e., Group companies), which account for 41% of total debt.

Figure 10: VHM's Debt structure in 2018



Source: VHM, Yuanta Vietnam

Related party-sourced loans carry an average fixed interest rate of 8% per annum, but VHM is still subject to some interest rate risk given that bond rates are based on prevailing market rates. Bond rates are calculated as a 3.25% to 3.30% spread over the average of 12months VND savings deposit rate for individuals (interest paid-in-arrears) at state owned banks VCB (Not rated), CTG (Not rated), BID (BID VN, recommendation: BUY, 12-month TSR: 10%, covered by Tanh Tran), and Agribank (unlisted).

Advantage 4): Land bank is acquired at reasonable cost

Figure 11: VHM's end-to-end value chain proposition

Land Acquisition	Land Clearance	Pre-sales	Construction and Quality Control	Affer-sales
▪ Mergers and acquisitions. ▪ Build–transfer agreements (e.g., exchanging infrastructure for land). ▪ Projects transferred from Vingroup and other subsidiaries.	▪ Assists Vietnamese state agencies in identifying land rights holders and facilitating resettlement on the government's behalf.	▪ Marketing & building effective distribution channels.	▪ Ability to control costs, ensure quality, and hit deadlines ensures efficient delivery of superior quality properties.	▪ Comprehensive range of after-sales services to ensure buyers' needs are met.

Source: VHM, Yuanta Vietnam

A key advantage of VHM over the competition is its superior execution in land acquisition and land clearance.

VHM's end-to-end participation in the value chain increases its ability to control project costs. The company's performance in land acquisition and clearance has historically exceed that of its competitors. We think that a key difference between VHM and its peers is the corporate board of directors' thorough and wide-ranging understanding of local conditions and investment procedures.

As discussed below, VHM's land bank come mostly from 1) mergers and acquisitions, 2) project transfers from Vingroup; and 3) build–transfer agreements such as the exchange of infrastructure for land.

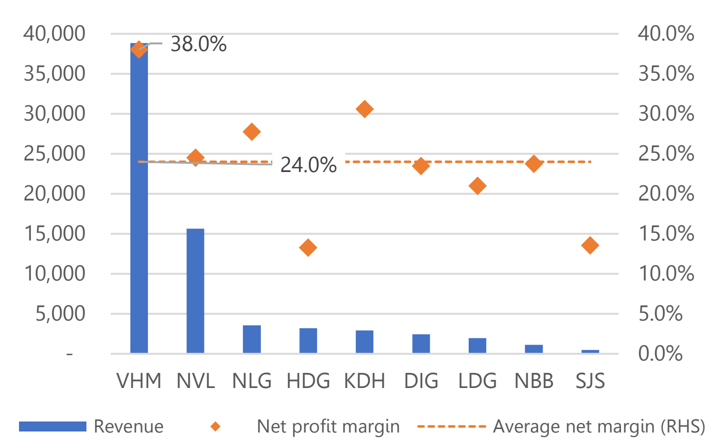
M&A. VHM has demonstrated an admirable degree of opportunism in purchasing well-positioned projects from original developers at below realizable market price. The reasons for this include the original developer's encountering financing difficulties, its inability to solve legal problems and carry out land clearance, or even simply its lack of sufficient execution capabilities to handle a large project. In our view, VHM suffers from none of these problems, and therefore is likely to continue to benefit opportunistically from other developers' woes.

Transfers from Vingroup. This occurs when the parent transfers low-basis land bank that it acquired years before. According to our understanding, Vingroup has been transferring land bank to Vinhomes at a reasonable price since the 1Q18 restructuring.

Build–transfer agreement. In this situation, VHM is typically designated by a government agency to implement a project via a build–transfer agreement in which VHM exchanges infrastructure for land. Again, this underlines VHM's deep understanding of local procedures and processes, as well as its strong financial capacity. In addition, VHM engages the same skill set to proactively propose government investment in infrastructure projects near VHM's projects.

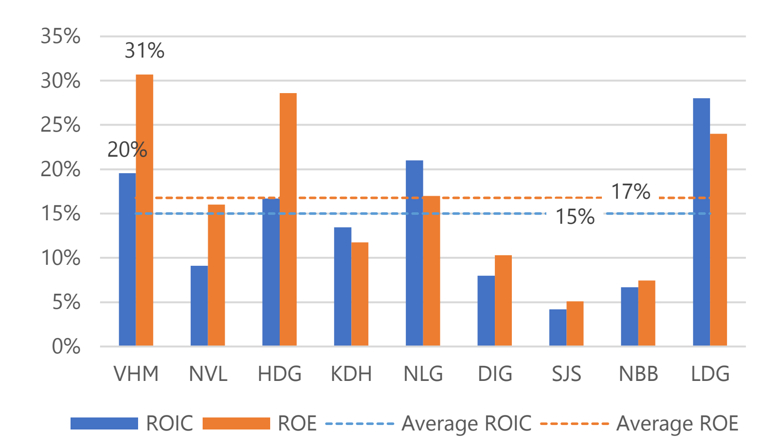
In addition, VHM has deep experience in land clearance, which a key factor behind its higher execution efficiency (in both costs and time) vs its competitors.

Figure 12: Revenue and net profit margin vs peers (2018)



Source: Company data, Yuanta Vietnam

Figure 13: ROIC and ROE comparison with peers (2018)



Source: Company data, Yuanta Vietnam

VHM's ability to leverage its key competitive advantages has generated positive results.

The 2018 merger of Vincom Construction into Vinhomes resulted in a sixfold (555%) YoY increase in other revenues. Gross margin from general construction contractor services and design consultancy construction supervision reached 17.4%. Revenue from inventory property sales mostly came from handover of units at Vinhomes Metropolis (34% gross margin), Golden River (33% GM), Central Park (41% GM), Vinhomes Green Bay (37% GM), and Vinhomes Park Hill Times City (37% GM).

However, Vinhomes posted a lower consolidated gross margin (25%) than the above project GMs would imply due to gross losses from Lankmark 81. We are not certain of why this occurred. The company blamed it on larger than normal construction expenses due to the height of the buildings. But on the face of it, this rationale for the losses at Landmark 81 might appear somewhat less than satisfactory. It is also possible that VHM tolerated the losses for other reasons.

The Group structure and inter-relationships complicate an attempt to analyze the company's many projects. Vinhomes The Harmony (37% GM), Vinhomes Imperia (33% GM), Dragon Bay (62% GM), Golden River (33% GM), and Star City (65% GM) are held by VIC or other Vingroup subsidiaries. VHM has the exclusive right to develop and market these projects in return for 99% of PBT, with each project's owner to receive 1% of PBT.

Additionally, the merger with Vinhomes Property Management resulted in significantly lower selling costs (i.e., consultant fees for apartments handed over and Vinhomes brand name royalty fees). As a result, selling expenses to revenue decreased from 10,37% in 2017 to 3,34% in 2018.

As a combined result, VHM's net profit margin reached 38% in 2018, much higher than the peer average of 24%. In terms of investment and capital efficiency, VHM's has demonstrated outstanding performance and we expect this to persist. We expect VHM to post high ROIC (c. 20%) and high ROE (c. 31%), which demonstrates its ability to leverage its key competitive advantages to generate positive results. These competitive advantages are thereby made more sustainable.

REVENUES TO BE DRIVEN BY VINCITY

Table 2: Vinhomes plans to launch 12 projects in 2019

No	Project's Name	Type of develop	Location	Owner rate	Total area ('000 m^2)	Est. NSA ('000 m2)
1	Vinhomes Landmark Serviced Apartment -(Project A)	Apartments	HCMC	100,00%	6	48
2	Vinhomes Kỳ Hòa (Project C)	Apartments	HCMC	67,50%	66	129
3	VinCity New Sài Gòn- Grand Park (Project B)	Apartments	HCMC	42,00%	2,511	2,592
		Villas				745
4	Vinhomes Sài Đồng (Project C)	Apartments	Hanoi	100,00%	44	129
5	Vinhomes Lotus (Project D)	Apartments	Hanoi	100,00%	40	285
6	Vinhomes Gallery (Project A)	Apartments	Hanoi	83,30%	68	408
	Vinhomes Mê Linh (Project B)	Apartments	Hanoi	92,37%	348	309
7	Vinhomes Mễ Trì (Project E)	Apartments	Hanoi	83,32%	740	417
		Villas	Hanoi			350
8	VinCity Gia Lâm (Ocean Park)*	Apartments	Hanoi	83,95%	4	2,726
		Villas	Hanoi			948
9	VinCity Park (Sportia)*	Apartments	Hanoi	81,30%	2,598	2,698
		Villas	Hanoi			42
10	VinCity Đan Phượng	Apartments	Hanoi	100,00%	1,260	891
		Villas	Hanoi			219
11	Vinhomes Cầu Rào (Marina)*	Apartments	Haiphong	100,00%	498	192
		Villas				396
12	Vinhomes Vũ Yên	Villas	Haiphong	100,00%	8,649	1,297

Note: A portion of the project was launched in Q4/2018.

Source: VHM, Yuanta Vietnam

We expect VHM's overall revenue to be driven by Vincity for the next several years. Total net sales area of VHM's 12 projects is 14.9 million sqm, of which Vincity accounts for 73% (10.8 mn sqm). Several Vincity projects that were soft-launched in 2018 have reportedly generated strong interest from residential homebuyers.

Figure 14: VHM's product lines

VinCity	Vinhomes	
Mid-end (1)	High-end (1)	Luxury (1)

VinCity — Mid-end (1)

- **Target** singles, graduates, and young families seeking small units.
- **No. of properties:** 8 (2); **GFA**: c. 28mm sqm(3)
- **Location**: **over 10km from CBD**
- **Average selling price** (4)**:** USD900-1,300
- **Type:** Apartment + Villa/shophouse/townhouse

Vinhomes — High-end (1) / **Luxury** (1)

- **Target** middle-income families seeking a premium offering.
- **No. of properties:** 29 (2); **GFA**: c. 68mm sqm(3)
- **Location**: **under 10km from CBD**
- **Average selling price**(4)**:** USD1,600-4,000
- **Type:** Apartment + Villa/shophouse/townhouse

Notes:
(1) As classified by CBRE (Luxury: over USD3,500 per sqm; High-end: USD1,500-3500 per sqm; Mid-end: USD800-USD1,500 per sqm).
(2) Including all completed, under construction, and pipeline properties.
(3) Includes residential GFA only.
(4) Represents apartment price only.
Source: VHM, Yuanta Vietnam

VHM's business strategy for the Vincity brand is to target singles and young families seeking relatively small units. We see this as eminently rational because the low mid-range segment is backed up by very strong real demand. However, in addition to selling prices, the location of Vincity projects is another factor to be considered. Project locations are far from urban CBDs, and occupiers must consider their daily commutes as part of their decision making process.

Figure 15: Vincity: Location, location, location

Notes: Vincity Grand Park (left panel) is c.20km from HCMC's CBD and the completion timing for the metro line (red line) is uncertain. Vincity Sportia (middle panel) is located c.5km from the new Hanoi CBD; and Vincity Ocean Park (right panel) is c.15 km from the Hanoi CBD.
Source: Yuanta Vietnam

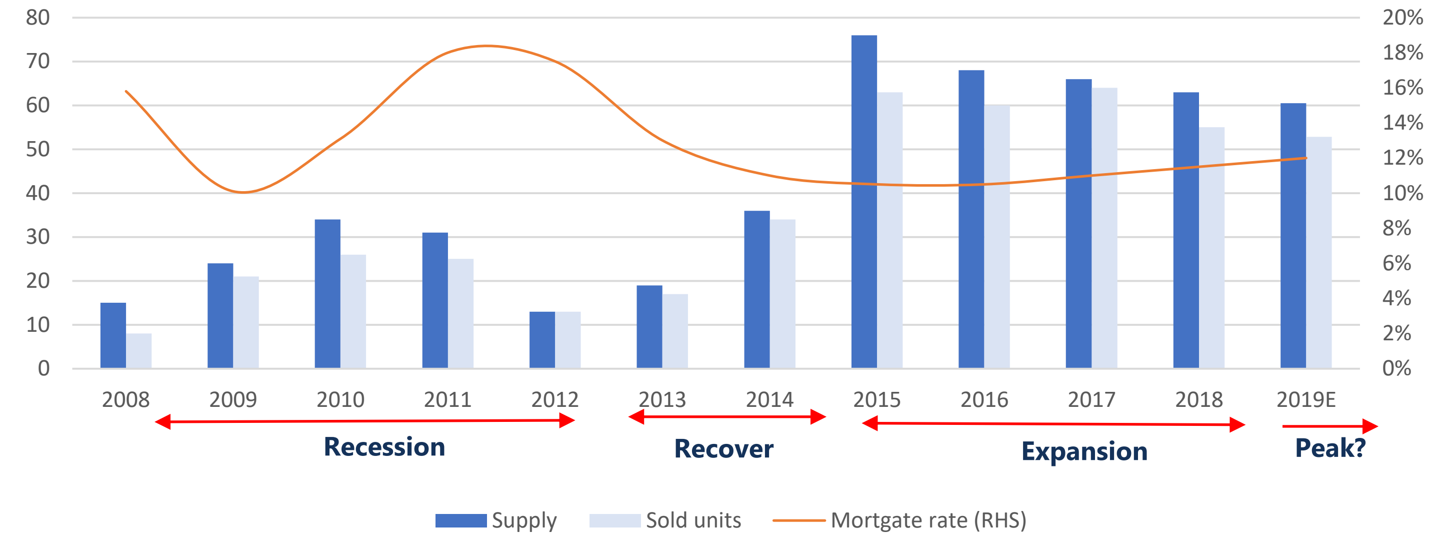
The completion/resumption of transportation projects and expansion of economic areas are likely to be key catalysts for Vincity projects' selling prices and absorption rates.

We think that upgrading/building the road network, public transport system (both metro and bus), and development of economically active areas (e.g., industrial parks, commercial zones, and financial centers) around Vincity projects will be essential for VHM to support absorption rates in the remaining phases of these projects. Therefore, the completion/resumption of transportation projects and expansion of economic areas are likely to be key catalysts for Vincity projects' selling prices and absorption rates.

We are now in the midst of a cyclical re-set …

The overall real estate market tends to lag credit policies and stimulus packages by roughly two years. This is approximately the amount of time needed for developers to execute the process of land acquisition, land clearance, and project launch. As illustrated in Figure 16, following the market recession of 2009-2012, the authorities' moved to create conditions for the real estate market to develop. As a result, the overall absorption rate started to increase in 2013, continued this trend for the next several years, and then finally peaked in 2017 at c.97%. However, the absorption rate fell by 10ppt YoY to reach 87% in 2018, bolstering our view that we are now in the midst of a cyclical re-set.

Figure 16: Hanoi and HCMC condominium supply and units sold ('000 units)



Source: SBV,CBRE data for 2008 to 2018, Yuanta estimate for 2019E

... Therefore, the market seeks a more balanced supply-demand structure. This is essential for long-term market sustainability, in our view.

Therefore, we believe that Vietnam's real estate market has peaked and is transitioning to a new cycle. We expect the next few years (including 2019) to be a challenging time as the market seeks a more balanced supply-demand dynamic across the range of product segments. A brief discussion of how the market cycle has played out over the few years may be helpful to explain how we got here.

The real estate market bottomed in 2011-12, then began to recover from 2013. This recovery picked up steam in 2015-2017, and in our view overheated, at least in the high end and luxury segments, in 2017-2018. The result is a glut of high-end and luxury homes, suggesting the need for both a period of inventory absorption and a shift in supply toward affordable and mid-end units.

VHM's high-end and luxury projects in HCMC and Hanoi are likely to experience a reduction in the pace of sales compared with 2017-2018.

We believe that this rebalancing is essential for long-term market sustainability and therefore should be viewed as a positive development for Vietnam. But it also results in concern that, going forward, VHM's high-end and luxury projects in HCMC and Hanoi are likely to experience a reduction in the pace of sales compared with 2017-2018.

VALUATION

Our fair value estimate is VND91,300.

Our RNAV valuation derives a target price for VHM at VND 91,300/share, which is -1% lower than the closing price on March 20, 2019. Given our house recommendation scale (+/- 10% for Buy/Sell, with everything in between a Hold), our initial recommendation on VHM is **HOLD**. Market dynamics may create a better entry opportunity later this year.

Investors could get a better entry opportunity if VHM sells down along with Group tickers to substantially below fair value.

Our house view is that the overall market may experience selling pressure after VIC's capital raising, at which point Group stocks may lose some of their support, leading to a correction in the VNIndex. Gauging the timing is difficult, but investors could get a better entry opportunity if VHM sells down along with Group tickers to substantially below fair value. If it happens, this might cause us to reconsider our recommendation, potentially driving an upgrade.

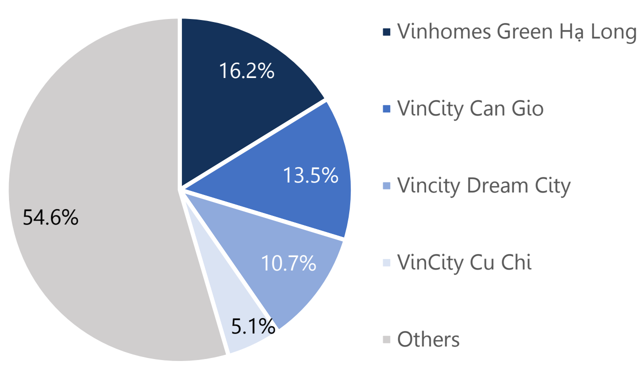
Table 3: Valuation summary

Data in million VND, otherwise noted	**RNAV with effective ownership**
Vincity Sportia	28,754,679
Vincity Ocean Park	43,988,541
VinCity Đan Phượng	6,416,486
Vincity Grand Park	12,156,148
VinCity Tây Tăng Long	4,054,695
VinCity Cu Chi	16,686,686
Vincity Dream City	34,943,372
VinCity Can Gio	44,094,263
Vinhomes Green Hạ Long	58,470,578
Other residential projects	78,125,509
Total development NPV	**327,595,288**
(+) Cash and cash equivalent + Short-term investments	4,515,977
(+) Tangible fixed assets	398,391
(+) Investment property	5,094,210
(-) Total debt	31,908,635
Net asset value	**305,695,231**
Number of shares (million)	3,350
Target price (VND/share)	**91,300**

Source: Yuanta Vietnam

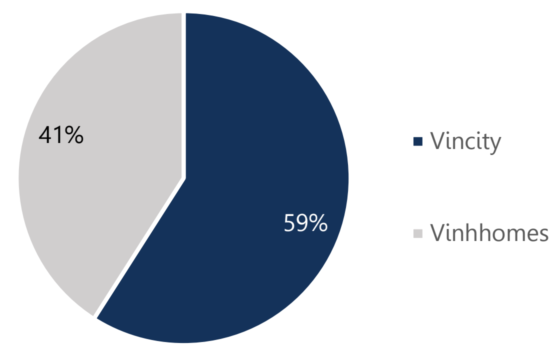
In the process of calculating an RNAV estimate for VHM, we have included more cautious assumptions than management on the pace of project launches, sales, and final delivery of housing units. We assume that at least some project launches will be delayed. We also expect the selling process to take longer and unit handovers to occur later than management assumes.

Figure 17: Development NPV breakdown by project



Source: Yuanta Vietnam

Figure 18: Development NPV breakdown by product line

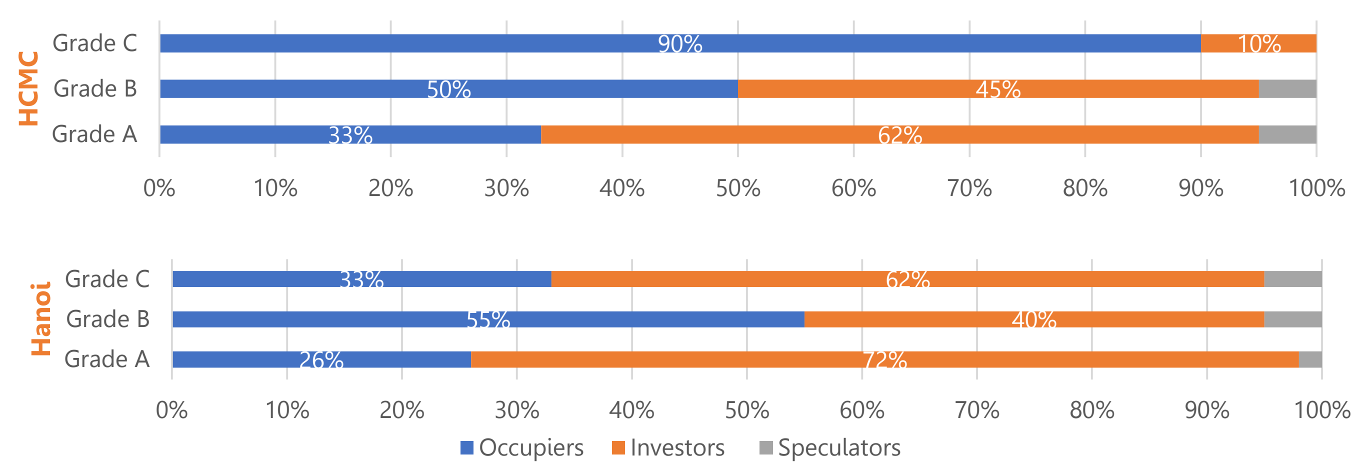


Source: Yuanta Vietnam

Some major projects are still in the process of obtaining legal approvals, so any changes to the execution timing for these projects would affect our valuation.

As illustrated in Figure 17, just four projects – Vinhomes Green Ha Long, Vinhomes Can Gio, Vincity Dream City, and Vincity Cu Chi – account for 45.4% of our total NPV estimate for the firm. However, these projects are still in the process of obtaining legal approvals on issues such as land use rights, LUR fees, and construction permits. Obviously, any changes to the launch/completion dates (either earlier or later than our assumptions) for these projects would affect our valuation.

Figure 19: Profile of home buyers



Average selling price (USD/sqm) of Grade B is in the mid-end segment.
Source: Savills, Yuanta Vietnam

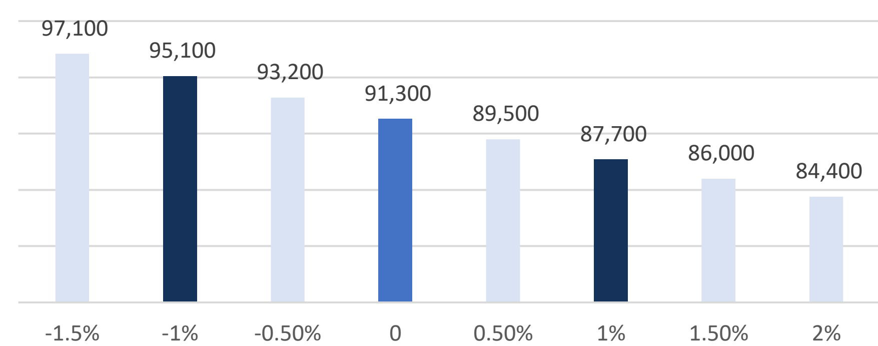
Investors/speculators dominate Vincity sales…

According to Savills, investors and speculators account for 45-50% of total home buyers in the mid-end ("Grade B" in the above chart) segment. However, in our opinion, this may be an underestimation of speculator activity in this segment. At the peak of the real estate market in the eastern sections of HCMC in 2017-2018, demand exceeded supply and homebuyers' search for available properties became frantic, largely under the expectation of further price increases – the very definition of speculation. We believe that Vincity Grand Park's high booking rate prior to its official launch can be explained by these conditions. Based on our observation, many individual investors/speculators booked three to five condominiums there.

...Thus, if the overall real estate market cools down by more than we assume, the absorption rate of Vincity projects might decrease significantly.

Thus, the pace of sales of Vincity products are likely to depend not just on increased per-capita GDP and the consequent real demand for residential use, but also interest rates, buyer debt sustainability, and forward price expectations of speculators. We see this as a potential downside risk of the company's strong brand: it is attractive for speculators too. Thus, if the overall real estate market turns down more than we anticipate, the absorption rate of Vincity projects might decrease more significantly than the average decline in absorption throughout the overall mid-end and affordable residential property market.

Figure 20: Sensitivity analysis of WACC change (base case: 12.4%)



Note: Do not adjust the effect of raising interest rates on sales.

Source: Yuanta Vietnam

VHM's intrinsic value per share should range between VND 87,700-95,100, depending on the WACC assumption.

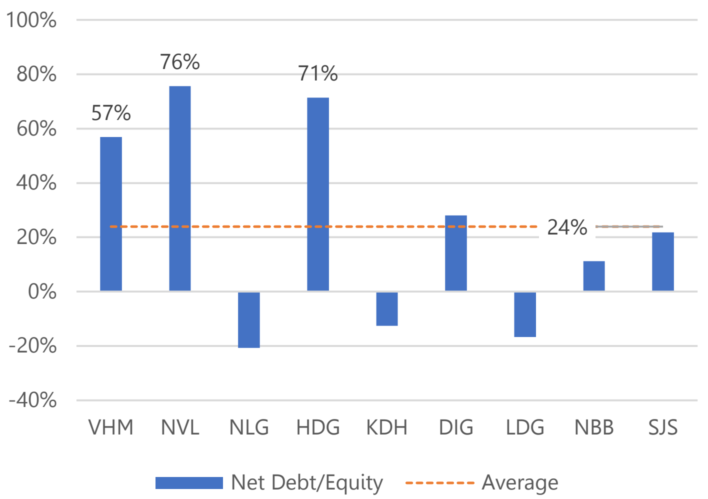
Figure 19 illustrates the sensitivities of our target price for VHM to higher and lower WACC assumptions. Assuming constant leverage, a 0.5% decrease (or increase) in our base case WACC assumption of 12.4% moves the fair value estimate up (or down) by approximately 2%. Based on a WACC range of -1% to +1% above our base case assumption, VHM's intrinsic value per share should range between VND 87,700-95,100.

We present this WACC assumption sensitivity analysis because we believe that investors value simplicity. Our valuation model for VHM includes a total of 28 spreadsheets modelling the NPV of the company's various projects, so attempting to test the sensitivities of cash flow-related assumptions (including ASPs, timing of project launches, and timing of final unit deliveries) is too daunting a task to undertake here. However, Yuanta clients who wish to do so are welcome to request a copy of our model.

RISKS TO OUR CALL

- **Financial risks:**

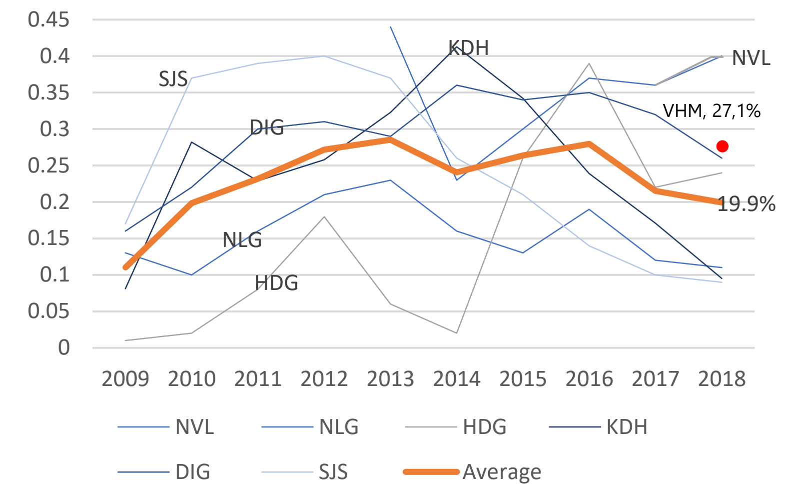
Figure 21: Net debt*/ Equity



Note: Net debt = Shot term borrowings + Long term borrowings - (Cash & Cash Equivalent + Short-term Investment).

Source: Company data, Yuanta Vietnam

Figure 22: Trend of debt*/ total assets



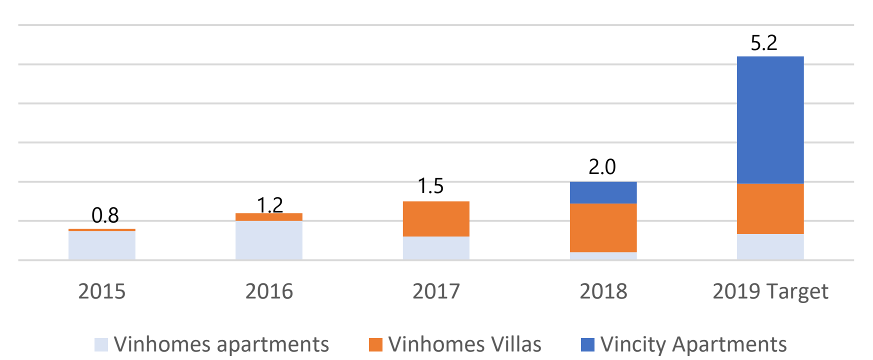
Note: Debt = Shot-term borrowings + Long term borrowings

Source: Company data, Yuanta Vietnam

If we are right in our view on the cycle, VHM's relatively high debt leverage may be ill-timed…

Comparing VHM with other developers is tricky due to its massive size: in short, it has no "peers" that can reasonably described as comparable. Although its balance sheet leverage was the third highest of the major developers (Figure 21), this should be considered against the background of its superior ability to obtain funding via intra-Group lending and bond issuance. That said, our opinion is that the maintenance of a high debt ratio would be more suitable during the recovery phase of the real estate cycle than in the current rebalancing phase. Again, the risk is that profitability would be impacted if interest rates rise sharply and/or if transaction volumes fail to live up to expectations.

Figure 23: Targeted Pre-Sale NSA (mm sqm)



Source: Company data, Yuanta Vietnam

… but if we are wrong on our cyclical view on the real estate market, carrying a high debt ratio would allow VHM to deploy projects rapidly amidst resurgent property demand.

By contrast, maybe we are wrong in our view on the cycle. It is certainly possible that the underlying market has not peaked, but rather will continue to rise. If so, VHM's high debt leverage would allow for sufficient resources to deploy projects on schedule. This would also create a solid foundation for targeted pre-sale activities, which might drive more rapid growth of revenue and profit in the coming years than we currently expect.

- **Legal risks – Limited, but not immune**

We believe it prudent to conservatively assume that the duration of project execution will be longer than VHM expects.

We don't consider legal issues to be a threat to VHM's business model, but potential delays could impact the company's RNAV. Our concern here is driven by an ongoing government re-examination of the investment licensing process in the overall industry, including land use rights and building permits. Our understanding is that the authorities have also increased licensing standards. The exact impact of the regulatory scrutiny is not transparent (and we believe the process will differ for each project and each developer) so it is difficult to have conviction on the impact of this process. We thus believe it prudent to conservatively assume that the duration of project execution will be longer than VHM expects.

Change in construction permits and calculation method for LUR fees would also impact cash flow assumptions.

We believe that VIC-related companies are better navigators of this process than other developer – bar none – but this ability does not guarantee entirely smooth sailing. Several major projects in VHM's pipeline are still in the process of obtaining approvals, resulting in several concerns. For example, changing construction permits (e.g., site coverage, plot ratio, floor area ratio, and/or building height) might lead to changes in the estimated value of the respective projects. Also, changes to the calculation method for LUR fees would also impact cash flow assumptions.

- **Liquidity risks – not so much a micro concern for VHM, but it is a macro risk**

At this point in the real estate market cycle, transaction volumes are already slowing (this started in 2018). SBV prudential policies have tempered banks' willingness to lend to property-related borrowers. This is obvious in the case of direct loans to developers, where risk weightings have been raised to 200%. But, as noted above, VHM is not directly dependent on bank loans for funding. However, its developer partners and suppliers are more likely to obtain bank financing, as do many of its end customers (i.e., mortgage borrowers). Obviously, any further prudential measures by the SBV to support banks' balance sheets or to cool the property market (or both) would affect overall real estate market liquidity.

INCOME STATEMENT (VND'bn)	2017A	2018P	2019E
Net sales	**15,297**	**38,806**	**41,343**
Cost of sales	(10,131)	(29,080)	(22,548)
Gross Profit	**5,167**	**9,726**	**18,794**
Selling expenses	(1,586)	(1,297)	(1,381)
General and admin expenses	(453)	(1,029)	(1,160)
Operating profit/(loss)	**3,128**	**7,400**	**16,254**
Financial income	964	14,680	6,181
Financial expenses	(1,652)	(2,485)	(3,049)
Gain/(loss) from joint ventures	(88)	0	-
Net other income/(expenses)	(243)	13	244
Profit/(loss) before tax	**2,109**	**19,609**	**19,630**
Income tax expenses	(543)	(4,855)	(3,926)
Net profit/(loss) after tax	**1,565**	**14,754**	**15,704**
Minority interests	156	520	554
Attributable to parent company	**1,410**	**14,234**	**15,149**
EPS bacis reported, VND	2,349	4,551	4,523
EPS fully diluted, VND	2,349	4,551	4,523

FINANCIAL RATIO	2017A	2018P	2019E
Growth (%)			
Revenue, growth	36%	154%	7%
Operating Income, growth	38%	137%	120%
PBT, growth	-25%	830%	0%
EPS, growth			
Total Assets, growth	37%	130%	25%
Equity, growth	6%	375%	29%
Profitability (%)			
Gross Profit Margin	34%	25%	45%
Operating Profit Margin	20%	19%	39%
Net Margin	20%	10%	38%
ROE	15%	31%	25%
ROA	3%	13%	11%
Efficiency			
Receivable Turnover	1.04	1.17	1.00
Inventory Turnover	0.80	1.32	0.71
Payable Turnover	0.67	1.72	1.36
Liquidity			
Current ratio	1.30	1.96	2.19
Quick Ratio	0.80	1.30	1.30
Financial Structure (%)			
Debt/Equity	1.51	0.66	0.77
Total liabilities/Total Assets	0.80	0.59	0.58

Source: VHM, Yuanta Vietnam

BALANCE SHEET (VND'bn)	2017A	2018P	2019E
Total assets	**51,304**	**117,808**	**147,282**
Current Assets	**44,421**	**80,466**	**88,631**
Cash & cash equivalents	1,562	3,516	3,310
ST Investment	-	1,009	1,060
Accounts receivable	24,775	41,761	40,679
Inventories	17,006	27,090	36,030
Other current assets	1,078	7,090	7,553
Long-term Assets	**6,883**	**37,342**	**58,650**
Net fixed assets	1,356	398	382
LT Investment	1,755	478	574
LT incomplete assets	2,462	22,685	40,833
LT assets other	1,310	13,780	16,861
Total Resources	**51,304**	**117,808**	**147,282**
Total Liabilities	**41,180**	**69,689**	**85,134**
Accounts payable	925	2,149	1,666
ST debts	8,700	6,403	6,403
Other ST liabilities	24,598	32,506	32,330
Long term debt	6,628	25,506	41,332
Other LT debt	329	3,126	3,402
Shareholder's equity	**10,124**	**48,119**	**62,148**
Paid in capital	2,000	33,495	33,495
Share premium	-	285	285
Retained earnings	5,003	7,556	21,031
Other equity	3,120	6,782	7,337

CASH FLOW (VND'bn)	2017A	2018P	2019E
Begin cash of the year	**2,802**	**1,562**	**3,516**
Net profit before tax	**2,109**	**19,609**	**19,630**
Adjustments	1,783	(229)	3,228
Change in Working Capital	(1,096)	(28,611)	(16,897)
Cash from Operations	**2,796**	**(9,232)**	**5,961**
Capital Expenditures	(5,990)	34,262	(2,024)
Investments	(3,469)	(50,328)	(18,294)
Cash from investments	**(9,459)**	**(16,066)**	**(20,318)**
Divident Paid	-	(945)	(1,675)
Proceeds from issue of shares	28	12,241	-
Proceeds from borrowings	31,232	74,816	15,826
Repayments of borrowing	**(25,838)**	**(58,862)**	**-**
Cash from financing	**5,422**	**27,250**	**14,151**
Net change in Cash	**(1,241)**	**1,952**	**(206)**
Ending cash balance	**1,562**	**3,513**	**3,310**

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Ratings	Expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.
HOLD-Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.
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YUANTA SECURITIES NETWORK

YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA
Head of Research
Tel: +84 28 3622 6868 (ext. 3815)
matthew.smith@yuanta.com.vn

Tanh Tran
Senior Analyst (Banks)
Tel: +84 28 3622 6868 (ext.3874)
tanh.tran@yuanta.com.vn

Quang Vo
Analyst (Consumer)
Tel: +84 28 3622 6868 (ext. 3872)
quang.vo@yuanta.com.vn

Tam Nguyen
Analyst (Property)
Tel: +84 28 3622 6868 (ext.3874)
tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen
Head of Institutional sales
Tel: +84 28 3622 6868 (ext.3808)
Huy.nguyen@yuanta.com.vn

Duyen Nguyen
Sales Trader
Tel: +84 28 3622 6868 (ext.3890)
Duyen.nguyen@yuanta.com.vn