

## Vinhomes (VHM VN)

### Boosted by block sales strategy

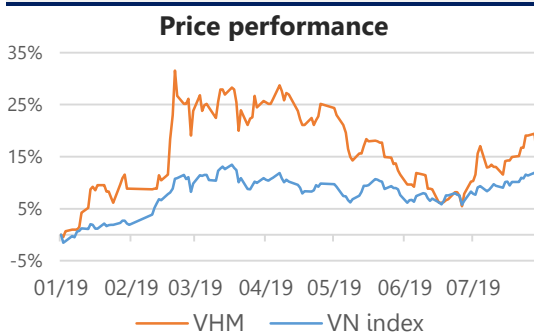
#### BUY

Current price: VND 84,000

**Target price: 94,860 VND**
**Upside: 12.9%**

**VHM reported strong 1H19 preliminary revenue of VND26.8 tn, +72.4% YoY**, fulfilled 43.9% of our annual forecast. Gross margin improved and reached 40% in 1H19. In addition, block sales strategy for 3 mega projects yields good performance results. We believe that these factors confirm our assumptions on [July 4 update](#), as follows: 1) Cash flows from the three mega projects have occurred quicker. 2) Higher gross margin assumption and average price estimate applied for 3 mega projects. Therefore, we maintained our BUY rating on VHM.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	3month ADT
<b>VND 60,00-96,700</b>	<b>USD 12,075mn</b>	<b>1.22%</b>	<b>33.87%</b>	<b>30.34%</b>	<b>USD 3.17mn</b>



#### Key takeaways

- Completed of the bulk sales strategy in 2Q2019
- Gross margin reached 40% in 1H19 (+11.7pts YoY).
- Increasing its effective interest in some projects.

#### Risks to our view

- Property market liquidity is tightening due to cyclical/regulatory factors.
- The timing of legal approvals for some projects is not assured.
- Increased controls over real estate might impact sentiment on the sector.

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**Company profile:** Vinhomes is Vietnam's premier residential property developer. As a 72%-owned subsidiary of Vingroup (VIC VN, Not rated), VHM is able to harness the Vingroup ecosystem in building communities that offer a complete living environment, including educational, medical, and retail facilities provided by other group members. This model is a structural advantage that is unique among Vietnamese real estate developers.

Key metrics	1H18	1H19	YoY%
<b>Revenue (VND bn)</b>	<b>15,527</b>	<b>26,770</b>	<b>+69%</b>
Sales of inventory	14,795	24,963	+147%
Other revenue	732	1806	+147%
% Gross margin	28%	40%	+12bps
Profit sharing from BBC project	5,775	2,710	-53%
Other finance incor	1,576	2,608	+66%
Operating profit	9,903	13,353	+35%
Profit before tax	9,974	13,416	+37%
<b>Profit after tax</b>	<b>8,157</b>	<b>11,143</b>	<b>+22%</b>
PATMI	8,039	9,783	22%

Source: VHM, Yuanta Research,

**VHM announced that they have successfully completed the bulk sales strategy in 2Q19.** The company has deposit agreements signed for 4 blocks of Vinhomes Smart City (Hanoi), and 10 blocks of Vinhomes Grand Park (HCMC) on the top of purchase agreements of 100% low-rise units of Vinhomes Ocean Park.

**2Q19 revenue increased by 309% YoY to VND 20.9 tn**, of which VND 15.2 tn revenue is mainly attributable to c.1,700 low-rise units (73.9%) of Vinhomes Ocean Park. The remainders mainly include Green Bay and Metropolis revenue. 1H2019 preliminary revenue of VND26.8 tn (+72.4% YoY) is equivalent to 43.9% of our FY2019 forecast.

**Gross margin expanded by 11.7 percentage points to 40% in 1H19 (from 28% in 1H18).** The significant increase in gross margin is mainly driven by high margin bulk sales of Vinhomes Ocean Park.

**1H19 financial income reduced by 38% YoY to VND5.3 tn** in which profit sharing from BCC projects declined by 53% YoY to VND2.7 tn due to the number of handed over units (e.g., Vinhomes The Harmony, Vinhomes Star City and Vinhomes Skylake) is lower than previous period.

**Increasing its effective interest in some projects.** As Vingroup has transferred 456ha Vinhomes Dream City Hung Yen (formerly Vincity Dream City) so VHM's current effective interest is 100%. The company also plans to increase its effective interest in Vinhomes Grand Park (expected interest of 90%) and Vinhomes Marina (expected interest of 100%) in 3Q19.

INCOME STATEMENT (VND'bn)	2018A	2019E	2020E
<b>Net sales</b>	<b>38,664</b>	<b>60,870</b>	<b>81,253</b>
Cost of sales	(28,603)	(35,459)	(43,265)
<b>Gross Profit</b>	<b>10,061</b>	<b>25,412</b>	<b>37,988</b>
Selling expenses	(1,381)	(2,440)	(3,582)
General and admin expenses	(1,063)	(2,049)	(3,008)
<b>Operating profit/(loss)</b>	<b>7,617</b>	<b>20,923</b>	<b>31,397</b>
Financial income	14,565	6,140	2,483
Financial expenses	(2,457)	(3,459)	(3,830)
Gain/(loss) from joint ventures	0	-	-
Net other income/(expenses)	(7)	359	479
<b>Profit/(loss) before tax</b>	<b>19,719</b>	<b>23,963</b>	<b>30,529</b>
Income tax expenses	(4,942)	(4,793)	(6,106)
<b>Net profit/(loss) after tax</b>	<b>14,776</b>	<b>19,170</b>	<b>24,423</b>
Minority interests	520	819	1,094
<b>Attributable to parent company</b>	<b>14,256</b>	<b>18,351</b>	<b>23,330</b>
EPS basis reported, VND	4,551	5,479	6,965
EPS fully diluted, VND	4,551	5,479	6,965

FINANCIAL RATIO	2018A	2019E	2020E
<b>Growth (%)</b>			
Revenue, growth	153%	57%	33%
Operating Income, growth	143%	175%	50%
PBT, growth	835%	22%	27%
EPS, growth			
Total Assets, growth	133%	39%	24%
Equity, growth	376%	33%	33%

Profitability (%)			
Gross Profit Margin	26%	42%	47%
Operating Profit Margin	20%	34%	39%
Net Margin	10%	38%	31%
ROE	31%	30%	29%
ROA	12%	12%	12%

Efficiency			
Receivable Turnover	1.14	1.20	1.34
Inventory Turnover	1.06	0.83	0.76
Payable Turnover	1.66	1.58	1.38

Liquidity			
Current ratio	2.13	2.13	2.13
Quick Ratio	1.27	1.26	1.11

Financial Structure (%)			
Debt/Equity	0.66	0.75	0.69
Total liabilities/Total Assets	0.60	0.61	0.59

Source: VHM, Yuanta Vietnam

BALANCE SHEET (VND'bn)	2018A	2019E	2020E
<b>Total assets</b>	<b>119,689</b>	<b>165,781</b>	<b>205,591</b>
<b>Current Assets</b>	<b>91,203</b>	<b>120,392</b>	<b>136,926</b>
Cash & cash equivalents	3,515	2,253	(2,269)
ST Investment	1,009	1,060	1,113
Accounts receivable	43,356	57,883	63,829
Inventories	36,858	49,022	65,199
Other current assets	6,463	10,175	9,055
<b>Long-term Assets</b>	<b>28,486</b>	<b>45,388</b>	<b>68,665</b>
Net fixed assets	128	119	110
LT Investment	478	574	689
LT incomplete assets	18,363	31,217	49,947
LT assets other	9,517	13,478	17,919
<b>Total Resources</b>	<b>119,689</b>	<b>165,781</b>	<b>205,591</b>
<b>Total Liabilities</b>	<b>71,544</b>	<b>101,815</b>	<b>120,552</b>
Accounts payable	2,504	3,104	3,788
ST debts	6,403	6,403	6,595
Other ST liabilities	33,965	47,137	53,949
Long term debt	25,506	41,628	51,984
Other LT debt	3,166	3,542	4,236
<b>Shareholder's equity</b>	<b>48,145</b>	<b>63,966</b>	<b>85,040</b>
Paid in capital	33,495	33,495	33,495
Share premium	295	295	295
Retained earnings	7,627	22,629	42,609
Other equity	6,728	7,547	8,641

CASH FLOW (VND'bn)	2018A	2019E	2020E
<b>Begin cash of the year</b>	<b>1,562</b>	<b>3,515</b>	<b>2,253</b>
Net profit before tax	<b>19,719</b>	<b>23,963</b>	<b>30,529</b>
Adjustments	(11,864)	3,594	3,952
Change in Working Capital	(9,318)	(25,006)	(23,543)
<b>Cash from Operations</b>	<b>(1,463)</b>	<b>2,551</b>	<b>10,939</b>
Capital Expenditures	34,435	(3,587)	(3,761)
Investments	(52,277)	(13,000)	(18,898)
<b>Cash from investments</b>	<b>(17,842)</b>	<b>(16,587)</b>	<b>(22,659)</b>
Divident Paid	(945)	(3,350)	(3,350)
Proceeds from issue of shares	12,241	-	-
Proceeds from borrowings	100,191	16,123	10,548
Repayments of borrowing	(90,228)	-	-
<b>Cash from financing</b>	<b>21,259</b>	<b>12,773</b>	<b>7,198</b>
<b>Net change in Cash</b>	<b>1,954</b>	<b>(1,263)</b>	<b>(4,522)</b>
<b>Ending cash balance</b>	<b>3,515</b>	<b>2,253</b>	<b>(2,269)</b>

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