



Company Report: Sonadezi Chau Duc (SZC VN)

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Land price forth pressures on cost of clearance

Rating:

Neutral

Maintained

6-18m TP:

VND41,300

Share price:

VND53,000

Investment thesis

- Average selling industrial land price in BR-VT continue to increase 20% YoY to \$78- \$90/sqm. And we expect land price will increase 5%/year on average. Current absorption rate is 48.4%, saleable area is about 530 ha.
- In Q2 2022, SZC's revenue was VND 262 billion (+17% y-o-y) while gross profit was VND 92.3 billion (-38% y-o-y). NPAT was VND 61 billion (-44% y-o-y)
- BOT 768 will open in Q3 2022 after switching to ETC is approved.

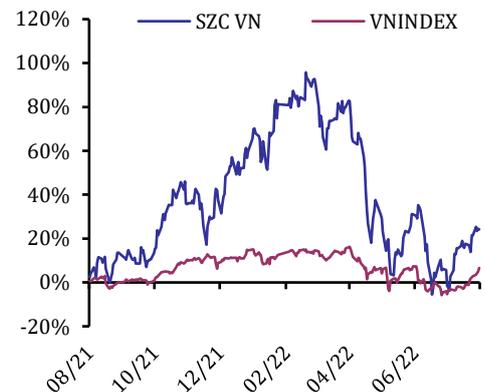
Risk

- SZC carries VND 1,725 billion of long-term debt and VND 480 billion of short-term debt, payable of VND 270 billion, which mostly use for land clearance and construction.

Recommendation:

We value SZC stock using RNAV method at **41,300 VND/share**. We recommend **Neutral** for SZC stock.

Stock performance



Change in Share Price	1 M	3 M	1 Y
Abs. %	13.2%	-11.6%	29.8%
Rel. % to VNI index	12.8%	0.4%	22.4%
Avg. share price (VND)	48,724	49,123	58,572

Source: Bloomberg, Guotai Junan Vietnam

Year End	Revenue	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
12/31	(VND Bil)	(VND Bil)	(VND)	(Δ%)	(x)	(VND)	(x)	(VND)	(%)	(%)
2017A	220	73	657	65%	#N/A N/A	11,182	#N/A N/A	500	76%	6
2018A	290	97	779	19%	#N/A N/A	11,564	#N/A N/A	800	103%	7
2019A	329	134	1,164	49%	13.2	11,959	1.5	1,000	86%	10
2020A	433	186	1,681	44%	17.2	12,642	2.5	1,000	59%	14
2021A	713	324	2,874	71%	22.6	14,656	4.6	1,000	35%	21

Shares in issue (m)	100.0	Major shareholder	Sonadezi Long Thanh	10.08%
Market cap. (VNĐ m)	5,290.000	Free float (%)		89.2
3 month average vol. ('000)	732.435	FY21 Net gearing (%)		149
52 Weeks high/low (VNĐ)	84,900 / 39,500			

Source : the Company, Guotai Junan Vietnam.

In Q2 2022, SZC's revenue was VND 262 billion (+17% y-o-y) while gross profit was VND 92.3 billion (-38% y-o-y). NPAT was VND 61 billion (-44% y-o-y). Gross profit margin reduces from 66.5% last year to 35%, due to high clearance cost and upward adjustment in total project investment. Revenue from D2D accounts for 45% of land sale this quarter but the price is only \$50/sqm.

From March 2022, the BR-VT's authority suspend land clearance plan to adjust the land price frame. Land price will adjust upward from 5%-50%, depend on kind of land and location. In the last 2 years, housing and land price have raised dramatically across the nation, which lead to high compensation cost for SZC. We detected this phenomenal in the last report, and we expect the land clearance cost will increase from VND 150,000 to VND 1 million per sqm for the remaining non – clearance area of 300 ha.

Average selling industrial land price in BR-VT continue to increase 20% YoY to \$78- \$90/sqm. And we expect land price will increase 5%/year on average. Current absorption rate is 48.4%, saleable area is about 530 ha.

We expect SZC will sell about 50 ha of industrial land for 2022.

BOT 768 will open in Q3 2022 after switching to ETC is approved.

Huu Phuoc residence project



Huu Phuoc residence phase 1	
Location	Chau Duc, BR-VT
Total Area	40,5 ha
Product	164 shophouse, 500 land lots, 1,200 apartments
Phase 1 area	25.2 ha
Expected delivery	2023
Price	VND 30 million for shophouse; VND 8 million for land lot.

In May 2022, SZC signed contract to cooperate with D2D and managements. House and land of Huu Phuoc residence will sell to these. We are skeptical about that action since there is large gap between the primary market price and secondary market price (VND 30 million/sqm vs VND 40 million/sqm for shophouse product).

Phase 1 are under construction phase and expect to deliver in Q4 2022. We expect second phase will be launched next year. Total investment is adjusted upward by the management to VND 8,116.9 billion. Total revenue of project would be about VND 14,469 billion NPAT is VND 4,628 billion, IRR is 19%.

Risk of debt burden

SZC carries VND 1,725 billion of long-term debt and VND 480 billion of short-term debt, payable of VND 270 billion, which mostly use for land clearance and construction. Slowdown in sale will lead to the risk for negative cashflow since current liquid money is only about VND 300 billion.

Recommendation

We forecast that SZC would sell about 80-100 ha each year, at the price of \$80/sqm/cycle and assume that price would increase 5% each year, even though the presale would slow next quarter. The location of SZC IPs is attractive in long term. Infrastructure cost is about average of VND 1,000,000 per sqm. The gross profit margin will fade over time due to higher cost of clearance recently. We think that SZC: 1/absorption rate is being positive; 2/ saleable area ready for rent is large; 3/ Logistic is improving and container throughput in Cai Mep Port is growing fast. We value SZC stock using RNAV method at **41,300 VND/share**. We recommend **Neutral** for SZC stock.

FINANCIAL STATEMENT AND RATIO

Income Statement					
Year end Dec (VND bil)	2019A	2020A	2021A	Q1 2022A	Q2 2022A
Revenue	329	433	713	277	263
yoy(%)	13.5%	31.4%	64.7%	N/A	N/A
Cost of services	(152)	(199)	(262)	(175)	(170)
Gross profit	177	234	451	102	92
yoy(%)	25.4%	31.7%	93.0%	N/A	N/A
SGA expenses	(38)	(34)	(65)	(8)	(12)
Other (losses) / gains, net	0	7	5	0	0
Financial income	27	22	13	1	4
Finance costs	(10)	(8)	(7)	(2)	(10)
Share of profits of associates and JCEs	0	0	0	0	0
Profit before income tax	156	220	397	93	75
yoy(%)	38.86%	40.60%	80.46%	N/A	N/A
Income tax expense	(22)	(34)	(73)	(18)	(14)
Profit after tax	134	186	324	75	61
yoy(%)	37.8%	38.7%	74.0%	N/A	N/A
Minority interest	0	0	0	0	0
Net profit	134	186	324	75	61
yoy(%)	37.8%	38.7%	74.0%	N/A	N/A
EPS(VND)	1,341	1,860	3,236	753	612
yoy(%)	37.8%	38.7%	74.0%	N/A	N/A

Cash Flow Statement					
Year end Dec (VND bil)	2019A	2020A	2021A	Q1 2022A	Q2 2022A
Profit before income tax	156	220	397	93	75
Adjustments change in WC	94	133	226	0	0
Cash from operations	321	258	81	206	136
Capital expenditure	(468)	(1477)	(1099)	(163)	(116)
Cash from investing	(474)	(1416)	(1068)	(150)	(102)
Common stock (purchase) or sale	0	0	0	0	0
Other	(42)	602	474	(150)	115
Cash from financing	(42)	602	474	(150)	115
Cash & cash equivalents at 1st January	236	292	89	199	105
Net change in cash	56	(203)	110	(94)	149
Cash & cash equivalents at 31st December	292	89	199	105	254

Source: the Company, Guotai Junan (Vietnam).

Balance Sheet					
Year end Dec (VND bil)	2019A	2020A	2021A	Q1 2022A	Q2 2022A
Current assets	560	237	352	250	370
Cash & equivalents	292	89	199	105	254
Short term investment	120	80	60	50	40
Receivable	144	46	52	51	32
Inventory	1	3	7	7	6
Non-current assets	2,530	4,181	5,264	5,405	5,554
Property plant & equipment	315	308	307	306	306
Intangible assets	0	0	0	0	0
Work in progress	2,106	3,768	4,856	4,999	5,147
Prepayment and other receivables	14	9	7	7	8
Investment in an associated co.	-	53	53	53	53
Other investment	50	53	53	53	53
Total assets	3,090	4,418	5,616	5,656	5,924
Current liabilities	446	1,043	1,259	1,128	1,319
Account payable	219	558	488	438	381
Short-term borrowing	111	187	386	269	480
Non-current liabilities	1,448	2,110	2,892	3,116	3,132
Long-term borrowings	854	1,468	1,813	1,812	1,725
Total liabilities	1,894	3,154	4,151	4,243	4,451
Minority interest	-	-	-	-	-
Share capital	1,000	1,000	1,000	1,000	1,000
Other reserves and retained earnings	196	264	466	412	473
Total equity	1,196	1,264	1,466	1,412	1,473
yoy (%)	3.4%	5.7%	15.9%	N/A	N/A

Financial Ratio					
	2019A	2020A	2021A	Q1 2022A	Q2 2022A
Gross margin (%)	54	54	63	37	35
Operating margin (%)	47	51	56	34	28
Net margin (%)	40.7	43.0	45.4	27.2	23.3
ROA (%)	4.3	4.2	5.8	1.3	1.0
ROE (%)	11.2	14.7	22.1	5.3	4.2
Net gearing ratio (%)	80.7	130.9	150.1	147.3	149.7
Current ratio(x)	1.3	0.2	0.3	0.2	0.3

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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Company Report