



Company Report: Vinhomes Jsc (VHM VN)

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Property market is tightening

Rating:

Neutral

Maintained

6-18m TP:

VND81,800

Share price:

VND60,000

Investment thesis

- Vinhomes has largest land bank in Vietnam, which are in strategic locations. Vinhomes is the highest trusted housing brand and has widest profit margin among other developers. Strong financial condition with strong brand name allows VHM to raise capital in both Vietnam and overseas.
- In Q2 2022, VHM's revenue was 4.5 trillion VND (-84% y-o-y) while gross profit was 1.39 trillion VND (-90% y-o-y). NPAT was 622 billion VND (-94% y-o-y).
- Vinhomes Ocean Park 2, Co Loa and Wonder Park will be the next project to be launched later this year.

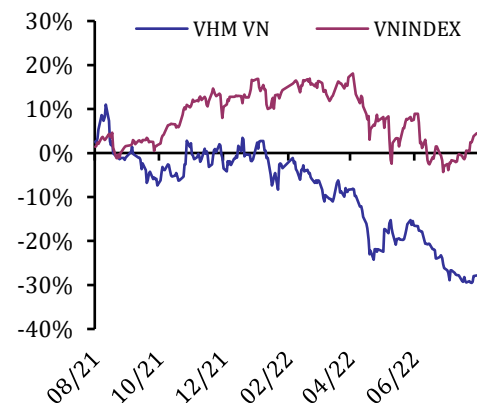
Risk

- Cyclicality and credit tightening are burden on growth.
- High housing price will be the most significant risk when tightening cycle start.

Recommendation:

Using the RNAV method, we value VHM at **81,800 VND/share** and we recommend **Neutral** recommendation for VHM stock.

Stock performance



Change in Share Price	1 M	3 M	1 Y
Abs. %	-7.4%	-9.5%	-30.3%
Rel. % to VNI index	-7.8%	2.5%	-37.6%
Avg. share price (VND)	59,690	64,555	75,970

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	15,297	1565	2,130	15.6%	16.6	34,521	3.4	4500	211%	13.9
2018A	38,664	14776	1,729	-18.8%	21.6	12,889	7.14	1,000	58%	29.7
2019A	51,627	24,319	6,611	282.4%	4.2	16,599	4.8	0	0%	33.6
2020A	71,547	28,207	8,315	25.8%	8.5	25,719	3.8	0	0%	30.7
2021A	84,986	38,825	9,015	8.4%	9.1	28,647	2.9	2,000	2.4%	36.9

Shares in issue (m)	4,354.3	Major shareholder	Vingroup	66.66%
Market cap. (VNĐ m)	261,262,000	Free float (%)		25.0
3 month average vol. ('000)	3,157.41	FY21 Net gearing (%)		60
52 Weeks high/low (VNĐ)	93.769 / 58,300			

Source : the Company, Guotai Junan Vietnam.

In Q2 2022, VHM's revenue was 4.5 trillion VND (-84% y-o-y) while gross profit was 1.39 trillion VND (-90% y-o-y). NPAT was 622 billion VND (-94% y-o-y). In Q2 2022, VHM delivered 730 units mostly from 3 mega projects. Total converted revenue and NPAT (including BCC projects) reached 2.2 trillion VND and 500 billion VND (-95% YoY). Due to most of the current developing projects are almost delivered while new projects are under development, that would cause the delivered unit to sink dramatically, but revenue reduction is just accounting number.

Table-1: VHM sale update

	Q2 2022	Q2 2021	Q2 2022 vs Q2 2021
Presale (unit)	7,900	14,200	-44%
Presale (value) (tril VND)	76	21.7	250%
Unbilled booking (tril VND)	129.3	49.4	162%
Revenue from property sale (tril VND)	2.2	25.5	-91%

Source: the Company, Guotai Junan (Vietnam)

Q2/2022 presale has sink compared to previous year Q2/2021, reduced -44% Y-o-Y. However, the unbilled booking increased due to strong sale in 2nd quarters (+127%). Most of the presale come from new project launched, Vinhomes Ocean Park 2 – the Empire. VHM successfully sold out the units, bringing VND 40 trillion of customer prepayment in Q2. This will support the performance of revenue and profit of 2h 2022 when deliver.

Launched units and sold units in Hanoi market were in the first half moderated compared to last year figure (+32% YoY and +54% YoY).

In HCMC, there are about 15,528 units were launched in Q2, up +170% YoY. Sold unit was only 11,259 units, +140% YoY.

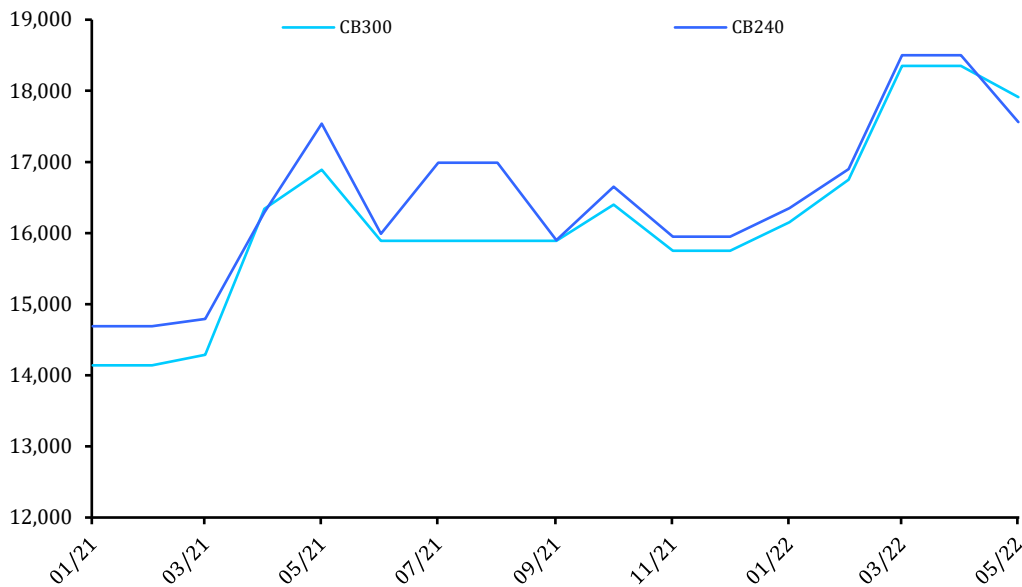
Table-2: VHM 's project update

	Vinhomes Ocean Park 2, the Empire	Vinhomes Wonder Park	Vinhomes Co Loa
Location	Van Giang, Hung Yen	Dan Phuong, Hanoi	Dong Anh, Hanoi
Area	294 ha	133 ha	385 ha
Total NSA	2,123,000	364,000	1,724,000
Utilities	Villas / Townhouses / Shophouses / Apartments / Shopping Malls / Schools / Hospitals • 18.1 ha Royal Wave Park • The world's largest Wave Pool complex (5.4 ha) • Laguna Salt lake (9.3 ha) – largest in Asia • 1 ha sandy park • Kingdom Avenue – small "Champs Elysees" in "Ocean District"	Apartments / Villas / Townhouses / Schools / Shopping Malls / Eco-parks / Swimming Complex • 16 ha grand Ecological park • Vietnam's largest Swimming Pool complex (both indoor and outdoor)	Apartments / Villas / Shophouses / Schools / Shopping Malls / Exhibition Complex • 90 ha National Exhibition Center
Timeline	2022-2024	2022-2025	2022-2025
Products	5,300	2,350 + 2 high rise building	N/A
High rise (estimated)			
Low rise (estimated)	5,300	2,350	

Source: the Company, Guotai Junan (Vietnam)

Construction cost. Steel price and other construction materials such as concrete, stone, sand etc. have increased significantly since early 2021. In Q2, steel price reduced significantly due to low demand. This would be good sign for VHM's projects margin.

Chart-1: Steel price



Source: Guotai Junan (Vietnam)

Healthy balance sheet

Long term and short-term borrowing are very low (10% of total asset) compared to other developers, and strong brand lead to strong presale which improve VHM financial condition. VND 40 trillion of customer prepayment from Vinhomes Ocean Park 2 contribute to the healthy balance sheet, which buffer the cash flow in the money tightened environment.

Headwind ahead

As we gave warning before, the property market is facing strong headwind as the monetary tightening start to take place. Poor bond issuing result in the first half (-12% YoY, but more focus in few large corp) impact strongly on the cashflow of developer, which in turn threaten on the completion of projects and banking non-performing loan. As we see that most of financial injection for a particular housing project (developer and buyer) is from the bank (bank loan and mortgage) and bond (which is also mostly financed from the bank), account for 20% of total country credit, and under condition of high housing price, which lead to the risk of selling pressure when interest payment start to eat into the buyer or investor's income. Poor sentiment from the investor which will lead to low demand for housing and again pressure on developer's financial condition. SBV also stated recently about restricted capital into property market, and banking system is already reach to the credit room limit, which they will not prefer to get into long term housing loan. Higher interest will also impact on speculators, which they cannot sell their house when no new money come in. And we see the pressure from inflation, FED policy and exchange rate on interest rate, which would give high probability of lending rate increase in 2nd half and 2023.

Recommendation

Due to the very risky condition of the property market and tightening cycle started, with very high housing price and poor financial condition of developers, we see strong headwind for the industry ahead. We remain cautious for the sector.

We remain the value of VHM at **81,800 VND/share** using RNAV method. We recommend **Neutral** for VHM stock.

FINANCIAL STATEMENT AND RATIO

Income Statement					
Year end Dec (VND bil)	2017A	2018A	2019A	2020A	2021A
Revenue	15,297	38,664	51,627	71,547	85,094
yoy(%)	36.4%	152.8%	33.5%	38.6%	N/A
Cost of services	(10131)	(28603)	(24171)	(45611)	(36686)
Gross profit	5,167	10,061	27,456	25,936	48,408
yoy(%)	16.0%	94.7%	172.9%	-5.5%	N/A
SGA expenses	(2038)	(2444)	(4237)	(4874)	(5543)
Other (losses) / gains, net	(243)	(7)	30	(789)	305
Financial income	964	14565	9046	20245	7984
Finance costs	(1652)	(2457)	(2549)	(4019)	(2738)
Share of profits of associates and JCEs	(88)	0	0	19	53
Profit before income tax	2109	19719	29746	36517	48469
yoy(%)	-24.55%	835.08%	50.85%	22.76%	N/A
Income tax expense	(543)	(4942)	(5427)	(8310)	(9237)
Profit after tax	1565	14776	24319	28207	39231
yoy(%)	-29.1%	843.9%	64.6%	16.0%	
Minority interest	156	492	2572	855	215
Net profit	1410	14284	21747	27351	39017
yoy(%)	-14.5%	913.3%	52.2%	25.8%	42.7%
EPS(VND)	7,048	4,265	6,493	8,166	8,960
yoy(%)	-14.5%	-39.5%	52.2%	25.8%	9.7%

Cash Flow Statement					
Year end Dec (VND bil)	2017A	2018A	2019A	2020A	2021A
Profit before income tax	2109	19719	29746	36517	48469
Adjustments change in WC	(1096)	(9318)	28767	4095	(33186)
Cash from operations	2796	(1463)	51928	24882	13278
Capital expenditure	(2405)	(751)	(3847)	(3500)	(15399)
Cash from investing	(9459)	(17842)	(27320)	(22420)	(18463)
Common stock (purchase) or sale	28	12241	0	62	6515
Other	5394	9018	(14792)	(2143)	(10220)
Cash from financing	5422	21259	(14792)	(2081)	(3705)
Cash & cash equivalents at 1st January	2802	1562	3515	13332	13714
Net change in cash	(1241)	1954	9817	381	(8890)
Cash & cash equivalents at 31st December	1562	3515	13332	13714	4824

Source: the Company, Guotai Junan (Vietnam).

Balance Sheet					
Year end Dec (VND bil)	2017A	2018A	2019A	2020A	2021A
Current assets	44,421	91,203	139,555	102,312	91,217
Cash & equivalents	1,562	3,515	13,332	13,714	4,824
Short term investment	-	1,009	361	2,054	4,781
Receivable	24,775	43,356	47,468	34,592	37,929
Inventory	17,006	36,858	60,297	42,984	28,543
Non-current assets	6,883	28,486	57,686	113,014	139,201
Property plant & equipment	1,297	100	625	5,683	6,706
Intangible assets	59	28	66	223	750
Work in progress	2,462	18,363	28,213	32,361	44,697
Prepayment and other receivables	1,059	3,474	13,268	45,206	49,169
Investment in an associated co.	59	478	773	9,756	10,952
Other investment	1,696	379	559	3,969	7,264
Total assets	51,304	119,689	197,241	215,326	230,418
Current liabilities	34,223	42,872	121,557	103,385	75,082
Account payable	16,846	14,207	40,246	26,969	8,916
Short-term borrowing	8,700	6,403	18,162	10,998	251
Non-current liabilities	6,957	28,672	10,969	22,811	23,637
Long-term borrowings	6,628	25,506	8,343	13,958	19,668
Total liabilities	41,180	71,544	132,526	126,196	98,719
Minority interest	3,220	4,912	8,619	3,429	3,316
Share capital	2,000	33,495	33,495	33,495	43,544
Other reserves and retained earnings	4,904	9,738	22,601	52,205	84,839
Total equity	10,124	48,145	64,715	89,130	131,699
yoy (%)	6.0%	375.6%	34.4%	37.7%	47.8%

Financial Ratio					
	2017A	2018A	2019A	2020A	2021A
Gross margin (%)	34	26	53	36	57
Operating margin (%)	14	51	58	51	57
Net margin (%)	9.2	36.9	42.1	38.2	45.9
ROA (%)	2.7	11.9	11.0	12.7	N/A
ROE (%)	15.5	30.7	37.6	31.6	N/A
Net gearing ratio (%)	151.4	66.3	41.0	28.0	15.1
Current ratio(x)	1.3	2.1	1.1	1.0	1.2

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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