

HA DO GROUP JSC (HDG)

Current Price VND23,600	Target Price VND32,600	Dividend Yield 6.00%	Recommendation N/A(*)	Sector Financials
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Short-term Prospect



Long-term Prospect



Evaluation



11 October 2016

Thuan Ngo Kien

thuan.ngokien@vndirect.com.vn

Price Movement



Source: VNDIRECT

Key statistics

52-week High (VND)	31,500
52-week Low (VND)	23,000
Avg. Daily Vol. (3mths)	12,980
Market Cap (VNDbn)	1,747
Outs. shares (mn)	76.39
Free float (%)	25
Beta	0.17

Ownership

Internal Shareholders	65%
Foreign Shareholders	20%
Ministry of Defense	10%

Source: VNDIRECT

2016 is an important year for HDG when the company started Ha Do Centrosa project. If successful, this project would bring the strong growth for HDG in 2017-2021 period. However, the process was relatively cautious; therefore HDG might not make use of the best recovery wave in real estate market recently or might even face more market exposure.

Developing the golden land Z756 - Centrosa Garden – is a turning point for HDG in 2016. With good location, modern design, and reasonable pricing in the central area, Centrosa is expected to be the highlight and build new image to HDG. The project size is forecast to generate VND10tr recorded for the period 2016-2021.

Hydropower and Construction segment have been put into steady operation and will bring stable cash flow to Ha Do. Hydropower is expected to stably contribute over VND220bn each year to HDG's revenue. Benefiting from good relations with the Ministry of Defense, construction segment will also add revenue of VND700bn per year; and it is also a very efficient segment as HDG is always ranked among the top companies with the highest gross margin.

Boosting real estate development also goes along with the increase in the cost of the project process. In 2016, HDG needs to raise large amount of capital to pay for land worth VND1.856tr and human resources for Centrosa. Therefore, interest expense, administrative and selling expense will also rise and reduce HDG's 2016 profit.

(*) We value HDG at VND32,600/share, +35% compared to the current stock price, and this target price is suitable for long-term BUY strategy. However, in the short term, we do not see any strong catalyst to improve stock valuation; therefore, further observation is recommended for short-term investors.

Interest rate risk could have a big impact on HDG's business results on the upcoming years. With the prospect not to raise more capital, HDG would have high outstanding loan balance. As a consequence, if interest rate is volatile, HDG's profit will be affected. Therefore, further observation is recommended for short-term investors.

Financial summary (VND)	12-14A	12-15A	12-16E	12-17E
Revenue (bn)	1,554	1,480	1,861	2,230
Revenue growth	57.2%	(4.8%)	25.8%	19.8%
Gross margin	16.3%	15.5%	18.6%	19.7%
Operating EBITDA (bn)	211	186	293	376
Net profit (bn)	148	123	131	196
Net profit growth	20.8%	(16.7%)	5.9%	49.9%
EPS	2,454	1,849	1,958	2,936
BVPS	16,136	19,101	14,982	16,812
ROAE	16.5%	10.5%	11.2%	17.9%

Source: VNDIRECT

COMPANY PROFILE

Ha Do JSC was formerly a construction company which was established in 1990 and belonged to Ministry of National Defense. In 2004, the company conducted equitization.

HDG’s core products include villas, terrace houses, luxury apartments in urban areas in Hanoi and Ho Chi Minh City, offices for rent, hotel, civil and traffic project construction.

The Group’s leaders are all military officers so its management model emphasizes discipline and prudence in processing projects. However, excessive caution means the Group might miss golden opportunities to grow.

Also, as most of the management board members are elderly who have reached retirement age, the transition phase could possibly create major changes.

The implementation of much larger projects than those that HDG had done in the past requires advancing its capability of capital mobilization, cash flow management and progress boosting.

BUSINESS ACTIVITIES

HDG’s traditional business lines are Construction and Real Estate which contribute 90% to its revenue and profit each. Since 2005, HDG started to invest in hydropower and this investment has accounted for more than 15% of its total assets. Hydropower segment will begin to contribute to HDG’s revenue from 2016 with the proportion of 10% and is estimated to grow to 15% in 2019.

The Group currently owns 67ha of land with 11 on-going and to-be-implemented projects. These projects are located in ideal areas of Hanoi and Ho Chi Minh City, and about 50% of the land bank is originally from Ministry of Defense.

Development Plan in the 2016-2020 Period: Ha Do Group Targets Its Average Profit Growth of 10% p.a.

In 2019, over 70% of HDG’s revenue is expected to come from Real Estate. With investment strategy for projects and business models producing safe and stable cash flows in the long run, HDG will continue to increase investment proportion of Hydropower and Real Estate.

Real Estate:

- Boosting the development of key projects including Centrosa Garden, Dich Vong Urban Area, and Bao Dai Nha Trang project.

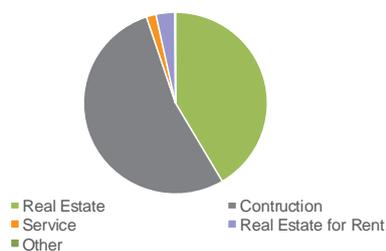
Construction:

- Setting growth target for receiving construction bidding of 10 – 20% p.a.

Hydropower:

- Increasing investment in hydropower and raising current capacity of 64MW (250mn KWh per year) to 200MW in 2020. Total electricity output for 5 years is forecast to reach 1,428mn KWh.

Revenue Structure



Source: VNDIRECT

Real Estate

Finished Project

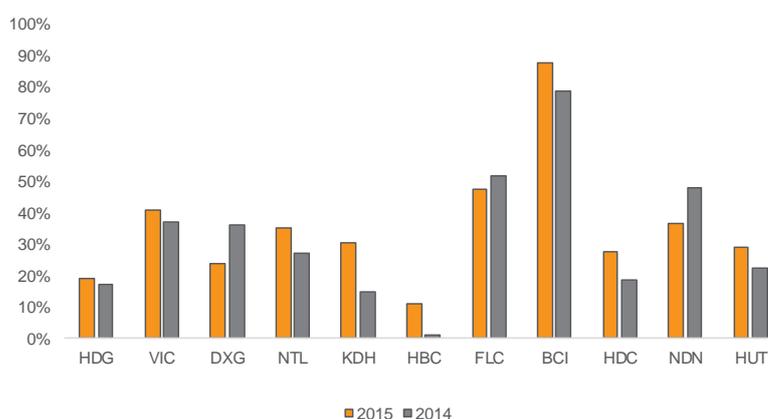
Finished Project	Size (hecta)	Address	Total investment(Bn)	Finish	GFA (m2)	Sale price	Unit(VND)	Note
Hado Garden Villas	0.7	District 10, HCM		2010		15-30	Bn/Villa	Selling
Ha Do Nguyen Van Cong Apartment	0.9	Go Vap District, HCM	500	2014	46,000	13-15	Mn/m2 gross floor	Sold out
Townhouse Z751B	0.3	Go Vap District, HCM		2008				Sold out
183 Hoang Van Thai Apartment	2.1	Thanh Xuan District, HN		2011		30-35	Mn/m2 gross floor	Sold out
Hoang Sam Apartment	0.6	Cau Giay District, HN		2009		35-40	Mn/m2 gross floor	Sold out
Z751 Apartment	0.4	Go Vap District, HCM		2009		23-27	Mn/m2 gross floor	Sold out
Dich Vong new urban								
Hado Park View Apartment- N10	0.5	Cau Giay District, HN		2015	42,388	26-40	Mn/m2 gross floor	Sold out
The villas and townhouses		Cau Giay District, HN		2010				
Housing N04B2		Cau Giay District, HN		2009				
Ha Do Villas	3.8	District 2, HCM		2015				

Source: VNDIRECT

HDG has successfully built many apartment and terrace house projects in Hanoi and Ho Chi Minh City, but these are still small-size ones. However, HDG’s products and construction quality of these projects since 2008 has gained customers’ trust. Also, buyers were also handed certificate of land use right and certificate of ownership shortly after 1 year of completion which proves HDG’s reputation for its project implementation. Yet, these projects are small ones with only 1 or 2 apartment blocks.

HDG’s projects have lower gross profit margin than other’s in the 2014 – 2015 period. Specifically, HDG’s gross profit margin is about 20%, lower than other firms’ such as VIC, FLC, NDN or even NTL who shares the same business segment. The main reason comes from the investment whole package including designing, constructing and selling, which consequently leads to higher and inefficient costs.

Gross Profit Margin - Real Estate



Source: VNDIRECT

The lack of determination during implementing projects in golden areas has made HDG miss the opportunity to take use of the recovery in real estate market in the past 2 years. With the advantage of owning land bank in prime locations, HDG appears to be slower compared to other real estate enterprises in catching the recovery wave in real estate market. Specifically, HDG owed the land for the Centrosa project for a long time, and it should have carried out the project before Ba Son - Golden River project of Vingroup. However, hesitation and lack of determination led to the lateness in implementing the project till this year. Also, with excessive caution in

investing, HDG's project implementation could not be as fast as other competitors' such as VIC or FLC.

Deployment Project

Deployment Project	Size (hecta)	Address	Total investment(Bn)	Finish	GFA (m2)	Sale price	Unit(VND)	Note
Centrosa Garden - Z756	6.9	District 2, HCM	5,000					
Townhouse				2016	10,566	120-170	Mn/m2 land	Sold out
Apartment				2019	323,470	36-45	Mn/m2 gross floor	Prepare to sell
An Khanh - An Thuong new urban	30.0	Hoai Duc District, HN	9,664					
Townhouse				2016	6,864	20-25	Mn/m2 land	Sold 60%
Ha Do Thoi An housing	5.7	District 12, HCM						
Apartment			300	2017	10,792	12.5	Mn/m2 gross floor	Sold 70 apartment
Dich Vong new urban								
Hado Parkside CC1 Apartment	0.5	Cau Giay District, HN	181	2017	42,388	30-32	Mn/m2 gross floor	Selling

Source: VNDIRECT

Real Estate Investments

Real Estate Investments	Size (hecta)	Address	Total investment(Bn)	Finish	GFA (m2)	Sale price	Unit	Note
Ha Do South Building	0.1	Tan Binh District, HCM		2012	17,000	13-15	\$/ m2 gross floor	Full
Bảo Đại - Nha Trang project	8.9	Tran Phu, Nha Trang	554	2017				
Hotel					180	2-5	Mn Vnd/room/day	
Villas					36			For sale
IBIS Hotel		Tan Binh District, HCM	567	2016	310	2-4	Mn Vnd/room/day	

Source: VNDIRECT

Changes in project implementation process are expected to improve HDG's competitiveness and market adaptability. Instead of self-designing their own real estate projects, HDG has changed their view and hired reputable design firms such as Architype - Centrosa Garden, Accor – IBIS hotel, and Lila - Bao Dai hotel. As a result, all of HDG's new projects this year are having a new modern look and more suitable to the market. Besides, HDG is willing to hire expert constructors in order to speed up constructing progress.

Undeveloped Land Bank

Undeveloped land fund	Size (hecta)	Address	Total investment(Bn)	GFA (m2)
Noong Tha new urban	74.5	Vientiane, Laos	4000	
Ha Do Thoi An housing	5.7	District 12, HCM		
Townhouse				15,128
Villas				5,620
An Khanh - An Thuong new urban	30.0	Hoai Duc District, HN	9664	
Apartment				56,316
Villas				60,936
Dich Vong new urban		Cau Giay District, HN		
Hà Đô Complex				9,865
CC2 và CC3 Apartment				

Source: VNDIRECT

With large land bank locating in prime areas in the two biggest cities, HDG's properties will have growth room enough for long-term development up to 5-10 years. In particular, large land in Dich Vong Urban Area, An Khanh or Thoi An area is yet to be implemented. Therefore, after Centrosa project, HDG still have much remaining land bank to develop in the long run.

Real estate investment is expected to provide steady cash flow for HDG. The office and hotel projects which are in operation will generate stable revenues of over VND150bn per year. As an example, South Building, one of HDG's office buildings, is fully filled in the recent years.

HA DO CENTROSA

In the previous years, Ha Do only developed small apartment buildings with single block. However, the complex Z765 – Ha Do Centrosa Garden started in 2016 will mark a major turning point for HDG in the upcoming years.

With a prime location, good transport infrastructure, low construction density and sufficient nearby utilities, Centrosa is attracting tremendous interests from many buyers in Ho Chi Minh City. The project locates on 3/2 street, District 10 at the convergence point of many arterial roads in the urban area of Saigon. Therefore, the demand for education, health, entertainment and shopping of buyers could be satisfied easily. Average construction density of 40% which is quite low creates an airy space for the complex.



Source: Ha Do Group

Project's Progress

Legal Progress

HDG has completed the legal procedures to obtain investing and building license. HDG expects to fulfill the land payment in October so it can start its sales. Currently, buyers are deposited in the form of capital contribution contracts.

Constructing and Selling Progress

The project includes terrace houses, apartments and associated services such as primary and secondary schools.

Townhouse	Number	Unit
Total area	10,566	m2
Number of floors	4-5	Floor
The floor area ratio	3	Times
Construction area	7,978	m2
Total floor area	34,343	m2
Number of apartment	115	Apartment
Sale price	120-170	Mn/m2

Source: VNDIRECT

High building mixed	Number	Unit
Total area	33,701	m2
Building density	50% for retail podium, 30% for retail store	
The floor area ratio	10	
Construction area	17,323	m2
Total floor area	323,470	m2
Total of apartment	2,187	Apartment
Average price	40	Mn Vnd/m2

Source: VNDIRECT

The low-rises' infrastructure were completed and are expected to be handed over in Dec 2016. Besides, the high-rise part was almost finished the foundations.

HDG announced that their entire terrace houses were sold out in the first-week sale. At the price of VND120-170mn/m2, HDG estimates to achieve revenue of VND1.26tr from terrace houses and 50% of this amount will be recorded this year. The other half will be booked for 2017.

The apartments will be built partly due to the shortage of capital. In 2016, HDG only constructs two blocks namely Orchid 1 and Orchid 2. We expect HDG can sell out these blocks thanks to its ideal location, and start the construction for 6 remaining blocks next year (4 in 2Q2017 and 2 in late 2017). The project will be delivered from late 2018 to 2020.

DICH VONG NEW URBAN AREA PROJECT

Location: Dich Vong - Cau Giay – Hanoi.

Size: 22.5ha

Dich Vong New Urban Area

Major Categories	
N04B2 Apartment	Done in 2009.
Hado Park View Apartment	.265 m2 delivered in quarter IV/ 2014
CC1 Apartment	2206m2, 17 floors with 135 apartments.
CC3 home services	4.506 m2, currently leased as a tennis, is expected to make condominiums.
Mixed buildings	HDG owns 100% to 9.865 m2.
Villa, townhouse:	HDG owns 50% to 6.784 m2, was handed over to customers in 2010.

Source: VNDIRECT

Dich Vong New Urban Area has a complete infrastructure and nice location near Dich Vong Park. Currently, HDG has successfully constructed three apartment blocks (from 2009 to 2015) in this area; and it also has three more land lots for projects namely CC1, CC3 and Dich Vong Complex for the following years.

CC1 Apartment Building Project

Total investment: VND181bn.

Size: 70-90 m2 for each unit.

Construction density: 40%.

Average selling price: VND32mn/m2.

Legal progress: HDG is in the process of seeking approval to change construction license.

Constructing and selling progress: HDG is completing the project's foundation. Currently, the company has received deposits of all apartments in the form of capital contribution contract and expects to handover these units in 2017- 2018.



Source: Ha Do Group

Ha Do Complex project

Size: 9,865 m2.

HDG has bought the whole project and plans to execute it in 4Q2016. Previously, HDG only owned 50% of Ha Do Complex, and the other half belonged to Tu Liem Urban Development JSC (NTL VN).

OTHER REAL ESTATE PROJECTS

An Khanh – An Thuong New Urban project

Size: 30ha

Main products: apartments – 56,316 m2, villas – 60,936 m2, terrace houses – 6,864 m2.

Constructing and selling progress: The infrastructure of low-rises has been completed. HDG has sold 60% of the low-rises and there are only 49 units left. Besides, the project is now restarted with the high-rises.

NongTha project

Size: 74.5ha

Total investment: VND4trl.

Main products: apartments, villas and terrace houses.

Unit size: 91.6 – 1,180 m².

Currently, HDG has completed most of the infrastructure and resold 4ha of land to Vietnam Laos Bank in 2015 with a total value of US\$8mn. For the rest of the project, HDG are negotiating with Laos government in changing policy which permit foreign investors to build and sell commercial houses instead of 50-year renting.

Housing project in District 12

Size: 5.7ha.

Total investment: VND300bn.

Main products: 124 terrace houses – 15,128 m², villas – 5,620 m², apartments – 3,773 m².

Constructing and selling progress: The terrace houses were built, of which 70 units were sold, while the rest of 54 units will be sold at the price VND12.5-13mn/m². HDG does not have further plan for the remaining land.

Su Van Hanh Villas project

Size: 7,174 m².

Products: 19 detached, duplexes, and adjacent villas.

Unit size: 290-365 m².

Price: VND14.5-30bn/unit.

HDG has changed these villas' status from for leasing to for sales.

IBIS Hong Ha Hotel

Size: 3,496 m².

Total investment: VND567bn.

Products: 310 rooms (16m² each) và 26 apartments (34-80m² each) for rent.

Average rental price: US\$100/room.

Progress: Hotel will be opened in Oct 2016.

Bao Dai – Nha Trang Hotel

Size: 8.92ha

Total investment: VND554bn.

Products: 5-star hotel (180 rooms) and 41 villas for rent and sales.

This project is on the progress of completion and is expected to open in Oct 2016.

Progress Handover of Ongoing Projects

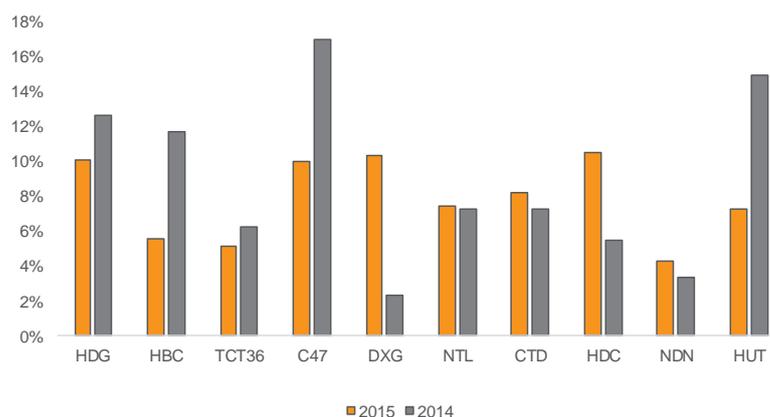
Centrosa Garden - Z756	2016	2017	2018	2019	2020
Townhouse					
Orchid 1 & 2 Apartment					
Mixed 4 Apartment					
Mixed 2 Apartment					
An Khanh - An Thuong new urban					
Townhouse					
Ha Do Thoi An housing					
Apartment					
Dich Vong new urban					
Hado Parkside CC1 Apartment					
Bao Dai - Nha Trang project					
Hotel					
Villas					
IBIS Hotel					

Source: VNDIRECT

CONSTRUCTION SEGMENT

Over the past 4 years, on average, construction segment has contributed VND700bn in revenue (accounting for over 50% of total revenue) and VND40bn in profit to HDG annually. Specifically, FY2015, construction segment had generated revenue of over VND795bn and EAT of VND41bn to the whole group.

Gross Profit Margin - Construction



Source: VNDIRECT

Thanks to revenues mainly generated from projects of the Ministry of Defense and government agents, HDG’s revenues and profits have always remained steady. In particular, recent projects include Convention Centre of Tra Vinh Province, Bac Giang Province Assembly Hall, and Muong Tip road construction projects from Mark L8 to L10.

Furthermore, HDG has relatively higher gross profit margin compared to its peers in the real estate development industry thanks to the construction of State agents’ administrative buildings and provincial roads projects.

HYDROPOWER SEGMENT

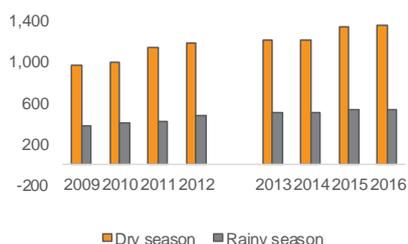
HDG has recently raised its ownership from 39% to 51.5% in Za Hung JSC - owner of Za Hung, Nam Pong and Nhan Hac Hydropower Plants - this year, thereby making Za Hung JSC one of its subsidiaries. Hence, HDG’s 2016 consolidated financial statements will begin to record additional revenue from hydropower segment.

Hydropower Projects

Projects	Address	Capacity MW	Finish	Total investment(bn)	Operation	Capacity	Output million KWH / year
Za Hung Hydropower	Quang Nam	30	2009	600	2009	100%	122.7
Nam Pong Hydropower	Nghe An	30	2013	740	2014	60%	123.3
Nhan Hac Hydropower	Nghe An	60	Q3/2018	1,700	2018	0%	220

Source: VNDIRECT

Average Electricity Price at On-Peak and Off-Peak Hour (VND)



Source: VNDIRECT, EVN

Stable cash flows will ensure HDG’s long-term sustainability.

With Za Hung and Nam Pong Hydropower Plants having been in operation, HDG will realize annual revenue of over VND220bn from this segment. Additionally, when Nhan Hac Hydropower project comes into operation in 2019, the corporation’s revenue will rise by at least VND400bn/year.

In certain areas where rainy season lasts longer than 5 months, HDG will benefit from the electricity charges calculation method set by Electricity of Vietnam Group (EVN).

According to EVN’s calculation, price list with avoidable costs will be applied to HDG’s two 30-MW hydropower stations. Accordingly, electricity prices will be calculated for 4 months of rainy season and 8 months of dry season, noted that electricity charges in dry season is always higher than that in rainy season. Thus, HDG’s hydropower plants will benefit when electricity charges are calculated.

In addition, La Nina will have positive effects on the operation of hydropower stations.

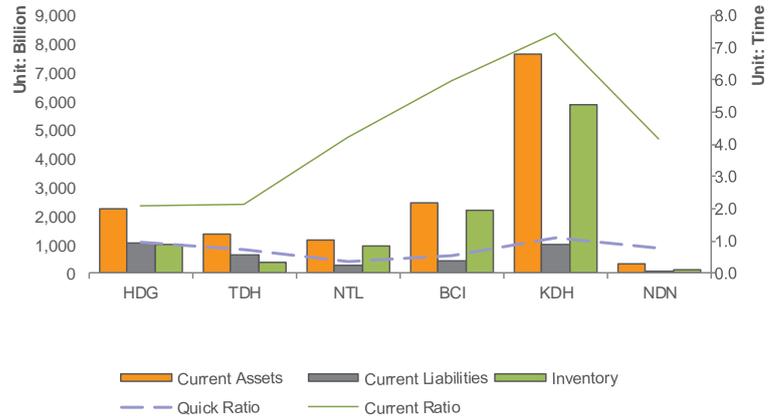
Particularly, thanks to the high annual rainfall and large reservoirs, HDG’s hydroelectric plants will be able to achieve high capacity, especially Nam Pong Unit, which currently operates at 60% of its capacity. Hence, we assume that Nam Pong Hydropower Plant will likely reach 80% of the capacity this year.

FINANCIAL ANALYSIS

ROE is equal to the industry’s average: FY2015, HDG’s ROE reached 13%, which was the average among the majority of listed real estate companies, such as NTL and Khang Dien House Trading and Investment JSC (KDH VN).

Sharp increase in insolvency risk: Debt-to-equity ratio has been maintained at a moderate level of 60% over the past few years. FY2015, current ratio and quick ratio remained safe above 2x. However, since borrowing increased significantly in 2Q2016, the corporation’s total loans and financial liabilities have soared to over VND2.5trl. Consequently, HDG’s current ratio has dropped to only 0.91x.

Quick and Current Ratio in 2015

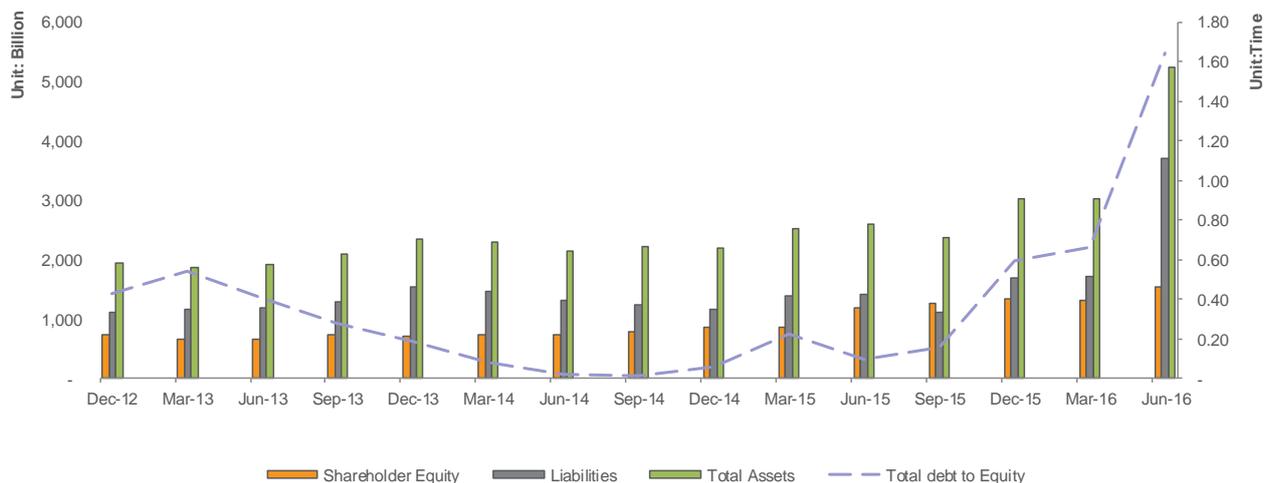


Source: VNDIRECT

The spike in loans within 2016 came from the consolidation of Za Hung JSC and the capital mobilization for developing Centrosa Garden Project. A typical feature of hydroelectric power industry is that borrowing usually makes up 70% of the company's total capital. Accordingly, the surge in 2016 borrowing was mainly due to the subsidiary Za Hung JSC being consolidated in Q2.

In addition, HDG had also issued VND600bn worth of bonds in 2Q2016 in order to pay land-use expenses for constructing Centrosa Garden Project. Interest expenses incurred from such borrowing will be capitalized within 2016 and accumulated in HDG's Construction-in-progress account.

Total Debt:



Source: VNDIRECT

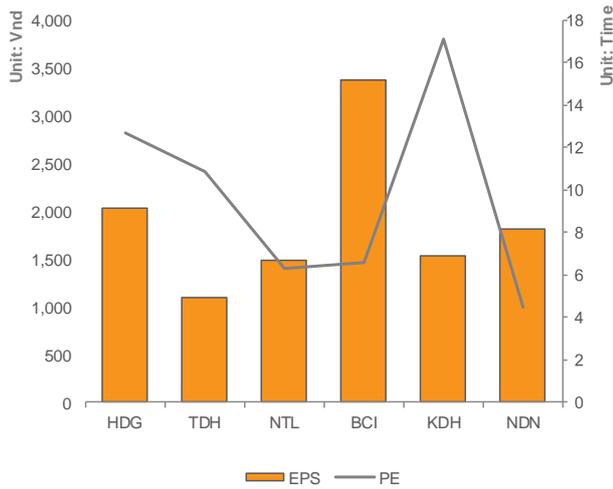
Debts will continue to rise strongly in the next 5 years. With the plan to undertake several real estate and hydropower station construction projects in the following 5 years, HDG has not had any intention regarding capital increase. Instead, the corporation uses financial leverage via bond issuance and bank loans. Therefore, it is likely that debts will grow dramatically in the future.

EPS in recent years has still been slightly higher compared to that of some peers within the industry. Thanks to HDG recording the remaining parts of projects completed since 2014, namely

Parkview Apartment Project in Dich Vong urban area, and the stability in construction segment, HDG’s 2015 EPS still remained stable at VND1,849/share.

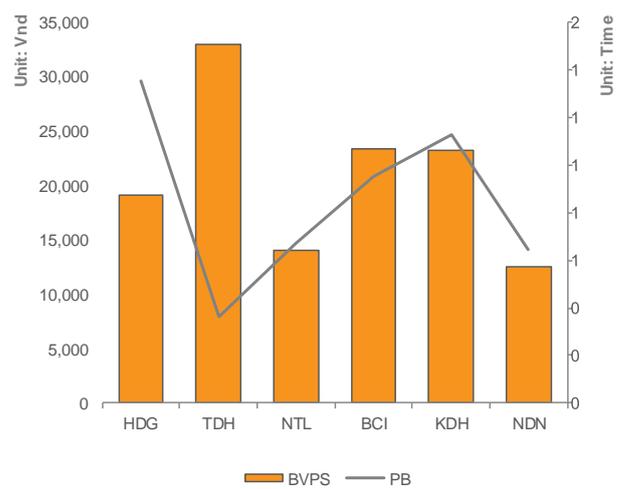
Dividends will be paid steadily in the next 5 years. The corporation plans to pay 2015 cash dividend of VND500/share and 2015 stock dividend at the ratio of 10:1

2015 EPS



Source: VNDIRECT

2015 BVPS



Source: VNDIRECT

OPERATING OUTCOMES:

For the accumulated 6m2016, HDG’s revenue grew robustly, whereas its EAT declined due to the following reasons:

In 1H2016, HDG posted 52% hike in revenue compared to that in 1H2015. Such growth occurred as a result of consolidating its subsidiary Za Hung JSC, and thereby additional revenue from hydropower segment was recorded.

1H2016 interest expenses hit VND51.5bn (25 times higher compared to that of 1H2015) accordingly. As mentioned above, such expenses rose drastically due to the VND600bn bond issuance and more interest expenses being realized from the consolidated subsidiary - Za Hung JSC.

Selling and admin expenses soared sharply by 16% YoY. Selling expenses grew strongest, as HDG promoted sales of terrace houses in Centrosa Garden Project. At the same time, management costs for hydropower stations being consolidated had also contributed to the surge in total admin expenses for 1H2016.

We forecast that the major growth driver will come from real estate, along with the stability in both construction and hydropower segments within the period 2016-2020. Specifically, real estate segment will make up more than 70% of total revenue during this period owing to Centrosa Garden Project’s large contribution, when the terrace houses are recorded for 2016 and 2017; and the apartment project is recognized from the end of 2018 to 2021. Moreover, hydropower segment will further escalate from

2019 when Nhan Hac Hydropower Plant starts its operation. Additionally, real estate investments such as rental offices and hotels will also generate steady cash flows for HDG in the coming years.

In 2H2016, HDG's revenue from real estate segment will increase significantly. After the mobilization via bond issuance to pay for the land usage and terrace houses handover in Centrosa Garden in November, HDG will record an additional VND700bn in revenue in the last 02 months of 2016. Therefore, the company's expected 2016 revenue will improve drastically to reach VND1.867trl, of which VND950bn, VND710bn, and VND224b will be generated from real estate, construction, and hydropower, respectively.

Although the revenue posts a strong growth, selling expenses and project implementation expenses also increase significantly. Thus, HDG's 2016 EAT only reaches an average growth. In addition, since 2016 is an important year for Centrosa Garden project, more selling and marketing expenses will be spent to enhance HDG's brand name. Therefore, EAT will be affected and EPS' growth rate will be only adequate.

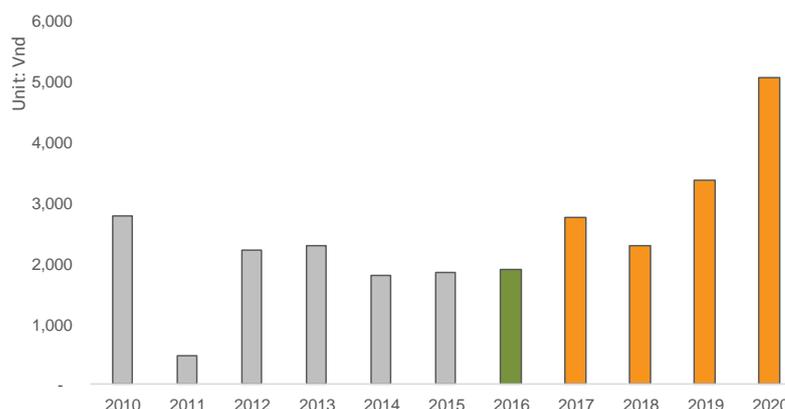
Forecast Revenue from 2016 to 2020 (VNDbn)

Projects	2016	2017	2018	2019	2020
Ha Do Center Complex Project - 756 Saigon	630	630	505	1,683	2,405
An Khanh - An Thuong new urban project (Dragon city)	69	69			
Ha Do housing projects Thoi An District 12, HCMC	15	22	22		
Dich Vong new urban		269	90		
Ibis Hotel 2 Hong Ha project	12	117	117	117	117
Ha Do Villas project in District 2, HCMC	99				
Su Van Hanh - Ha Do Garden Villas project	40	80	100		
Bao Dai - Nha Trang Project	8	49	61	61	61
Real estate for rent	41	41	41	41	41
Service charges of real estate projects	13	19	23	33	53
Build	710	710	710	710	710
Hydroelectric	224	224	224	271	413
Total Revenue	1,861	2,230	1,893	2,917	3,800

Source: VNDIRECT

Two hydropower plants of HDG's affiliate Za Hung are relatively new, so they have long depreciation periods. Thus, 2016 depreciation costs surge by 4.6 times compared to 2015's. When Nhan Hac hydropower plant goes into operation in 2019, HDG's depreciation costs will continue to rise sharply.

EPS from 2010 to 2020



Source: VNDIRECT

EPS will slightly increase in 2016 but will surge further in 2019.

In particular, expenses escalate compared to 2015's as HDG invests heavily in the key projects. Thus, 2016 EPS will only increase by 6% YoY. However, apartment and hydropower plant projects will be handed over and go into operation in 2019, so EPS will improve significantly.

VALUATION

Due to the fact that in real estate industry, value is not fully reflected in the financial statement, we choose "The total value of each project" method to calculate the company's current value.

In case of the real estate projects, we use the "Residual" method to evaluate each project's value. Some key assumptions include:

- Cash inflow is calculated according to the customers' depositing progress
- Cash outflow is calculated based on the return on investment of each project's investment category.
- WACC is at 15%

In case of the hydropower projects, we use "Net present value" (NPV) method to calculate the projects' current value. Some key assumptions include:

- Equipment replacement cycle: every 15 years.
- Rainy season: 4 months
- Dry season: 8 months
- Average electricity price during rainy season: VND537/kWh
- Average electricity price during dry season: VND1,355/kWh
- Forest environmental fee: VND20/kWh

Valuation Based on Projects

Projects	Billion
Ha Do Center Complex Project - 756 Saigon	2,850
Ibis Hotel 2 Hong Ha project	156
Bao Dai - Nha Trang Project	82
Real estate for rent	211
Build	537
Hydroelectric	1,028
Other	389
Enterprise value	5,253
Current debt	2,592
Minority interest	573
Cash	390
Owner's equity	2,478
Owner's equity/ share (VND / share)	32,631

Source: VNDIRECT

RISK

In real estate market, oversupply and high competition, especially in the mid-end and high-end segments, pose as the biggest risks. Currently, Ho Chi Minh City and Hanoi face a significant oversupply of housing, which is forecast to rise drastically in 2017. Meanwhile, real estate investment corporations will increasingly focus on building the brand names and creating strong signatures for each project,

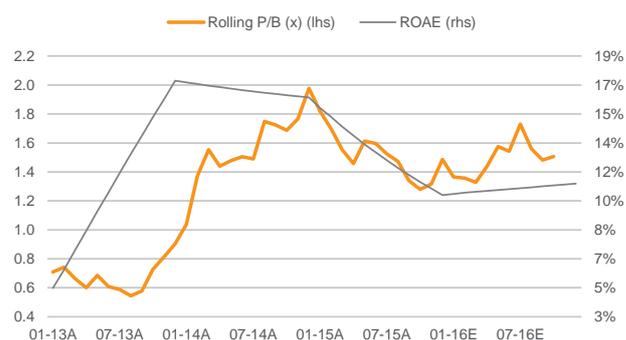
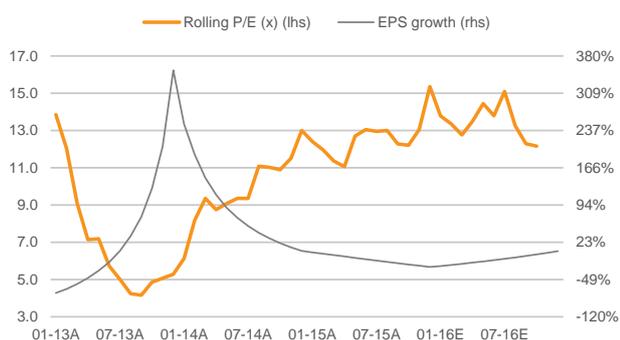
including ideal location, appealing design, and many modern facilities, to enhance the attractiveness and stimulate the demand.

Interest rate risk will increase as HDG's capital mostly comes from loans. Currently, the risk is low with the low interest rates. However, in the next 2-3 years, when the interest rates surge again, interest expenses will negatively impact HDG's profits. In particular, if the interest rates increase by 1%, HDG will have to pay an additional VND25bn in interest expenses.

The ability to increase hydropower plants' capacity is difficult. Hydropower plants can affect the ecosystem tremendously, especially in Vietnam – an agricultural country. In the recent years, it is getting harder to get permission to build hydropower plants, so the plan of increasing the capacity to 200MW by 2020 is difficult to achieve. Therefore, it is highly possible that HDG will have to invest more heavily in M&A to reach the year target.

Condensed shareholder structure may lead to the company's dependence on major shareholders. Minor shareholders' opinions hardly affect the company's decisions when their votes accounts for only 5%. Besides, the major shareholders are not willing to increase the capital. Meanwhile, low liquidity is also a noticeable risk for transactions.

Valuation



Income statements

(VNDbn)	12-15A	12-16E	12-17E
Revenue	1,480	1,861	2,230
Cost of sales	(1,250)	(1,514)	(1,790)
Gen & admin expenses	(2)	(4)	(4)
Selling expenses	(71)	(130)	(140)
Operating profit	157	213	296
Operating EBITDA	186	293	376
Depreciation and amortisation	(29)	(80)	(80)
Operating EBIT	157	213	296
Interest income	10	61	62
Financial expense	(13)	(97)	(97)
Net other income	3	0	0
Income from associates & JVs	28	18	21
Pre-tax profit	185	194	282
Taxation	(46)	(49)	(72)
Minority interests	(16)	(14)	(14)
Net profit	123	131	196
Adj. net profit to ordinary	123	131	196
Ordinary dividends			
Retained earnings	123	131	196

Cash flow statement

(VNDbn)	12-15A	12-16E	12-17E
Pretax profit	185	194	282
Depreciation & amortisation	29	80	80
Other non cash gains/(losses)			
Other non operating gains/(losses)	(21)		
Tax paid	(79)		
Other operating cash flow	(4)		
Change in working capital	(452)	(554)	(61)
Cash flow from operations	(342)	(280)	301
Capex	(124)		(351)
Proceeds from assets sales	0		
Others	(61)		
Other non-current assets changes	0		
Cash flow from investing activities	(185)	0	(351)
New share issuance	135		
Shares buyback	(0)		
Net borrowings	1,104	602	
Other financing cash flow	(355)		
Dividends paid	(14)		
Cash flow from financing activities	871	602	0
Cash and equivalents at beginning of period	348	695	1,032
Total cash generated	344	322	(50)
Cash and equivalents at the end of period	692	1,017	983

Balance sheets

(VNDbn)	12-15A	12-16E	12-17E
Cash and equivalents	695	1,032	987
Short term investments	61	94	113
Accounts receivables	462	581	696
Inventories	985	1,239	1,484
Other current assets	37	106	35
Total current assets	2,240	3,052	3,316
Fixed assets	284	1,603	1,557
Total investments	203	256	306
Other long-term assets	328	408	498
Total assets	3,055	5,319	5,676
Short-term debt	126	1,172	1,172
Accounts payable	293	358	428
Other current liabilities	646	613	771
Total current liabilities	1,066	2,142	2,372
Total long-term debt	675	1,575	1,575
Other liabilities	7	7	9
Shareholders' equity	1,307	1,035	1,161
Minority interests	0	560	560
Total liabilities & equity	3,055	5,319	5,676

Key ratios

	12-15A	12-16E	12-17E
Dupont			
Net profit margin	8.3%	7.0%	8.8%
Asset turnover	1	0	0
ROAA	4.6%	3.1%	3.6%
Avg assets/avg equity	2	4	5
ROAE	10.5%	11.2%	17.9%
Efficiency			
Days account receivable	79	114	114
Days inventory	288	299	303
Days creditor	86	86	87
Fixed asset turnover	6	2	1
ROIC	5.9%	3.0%	4.4%
Liquidity			
Current ratio	2	1	1
Quick ratio	1	1	1
Cash ratio	1	1	0
Cash cycle	281	327	329
Growth rate (yoy)			
Revenue growth	(4.8%)	25.8%	19.8%
Operating profit growth	(12.3%)	35.6%	39.0%
Net profit growth	(16.7%)	5.9%	49.9%
EPS growth	(24.7%)	5.9%	49.9%
Share value			
EPS (VND)	1,849	1,958	2,936
BVPS (VND)	19,101	14,982	16,812
DPS (VND)	0	0	0

Source: VNDIRECT

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Phuong Nguyen Mai, CFA – Research Director

Email: phuong.nguyenmai@vndirect.com.vn

Thuan Ngo Kien – Analyst

Email: thuan.ngokien@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>