Sector note
24 Apr 2020

INDUSTRIAL PROPERTIES

Strong recovery post pandemic

- We believe Vietnam's industrial properties (IPs) demand will surge post-pandemic, further driven by Covid-19 outbreak and the EVFTA.
- We see the rising of Ba Ria - Vung Tau, Bac Giang, Hai Duong as the new industrial hot spots.
- Among IP stocks, we prefer SZC, KBC, VGC, PHR and BCM.

COVID-19 outbreak is accelerating the manufacturing relocation away from China to other countries

The subdued U.S.-China trade war since 2H19 seems to lessen the foreign direct investment (FDI) inflow to Vietnam and slow the trend of moving factories out of China. But the COVID-19 outbreak in early 2020 has hit the world economy, disrupting the global supply chains and prompting manufacturers to re-boot their facility migration. We believe Vietnam is poised to become a potential alternative manufacturing hub thanks to its proximity to China and large low-cost labour force.

EVFTA is another key factor to boost industrial land demand

On 12 Feb, the European Parliament ratified the EU-Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA), raising the FTAs in force as at Mar 2020 to 12. Most of the export taxes on Vietnamese goods to the EU will be fully eliminated after the EVFTA comes into effect.

We see the rising of Ba Ria - Vung Tau, Bac Giang, Hai Duong as the new industrial hot spots

In the South, Ba Ria - Vung Tau is emerging as an industrial hot spot since the completion of the expressway system to connect Cai Mep deep-water seaport with HCMC, Dong Nai and Binh Duong. In the North, the newly-opened highway Bac Giang - Lang Son reduces one hour of travel time from Hanoi to Lang Son border area and helps upgrade the IPs in Hai Duong, Bac Giang.

Time to reload the listed IP stocks after the pandemic

We are generally positive on IP sector given the surge in industrial land demand. However, we believe each company has its own unique combination of challenges and opportunities. We prefer IP operators with the following characteristics: 1) owning large land bank at prime locations; and 2) having a strong portfolio of tenants. Among that, we prefer SZC, KBC, PHR, VGC and BCM.

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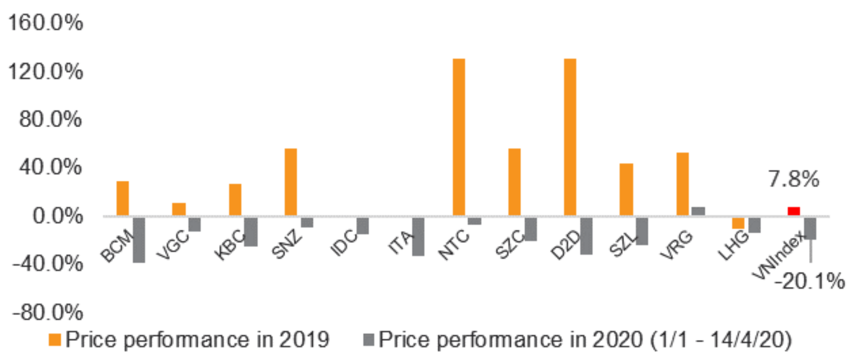
Figure 1: IP operators' stocks experienced sharp price drop YTD



Sources: VND Research, COMPANY REPORTS

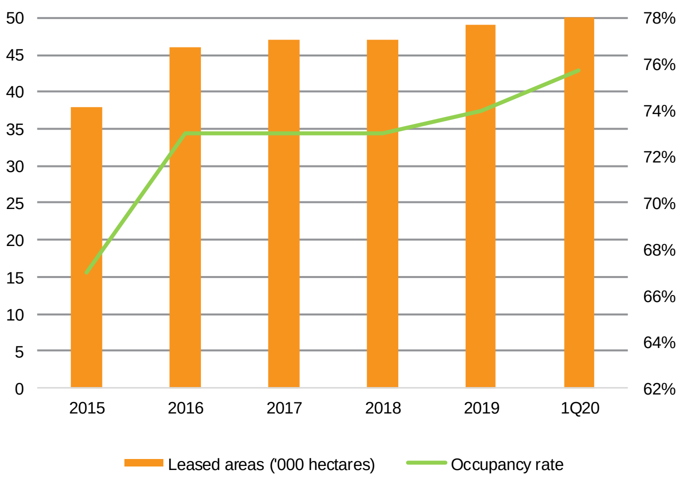
Lease price grew at a slower rate amid cooling U.S.-China trade disputes since 2H19

According to the Ministry of Planning and Investment (MPI), Vietnam's total industrial area reached 65,900ha in FY19, an increase of 1,900ha from end-FY18. Of the total 330 IPs, 258 were in operation, from 250 at end-18. The average nationwide occupancy rate widened to 74.3% as at end-FY19, a 1.3% pt increase from end-FY18.

However, we observe that the FDI inflow started decelerating in 2H19 as the trade war was brewing since the U.S signed a partial trade agreement with China. Accordingly, IP land leasing price in the South grew modestly at 1.8%-5.1% in 2H19, well below the range of 8.0%-21.4% seen in 1H19.

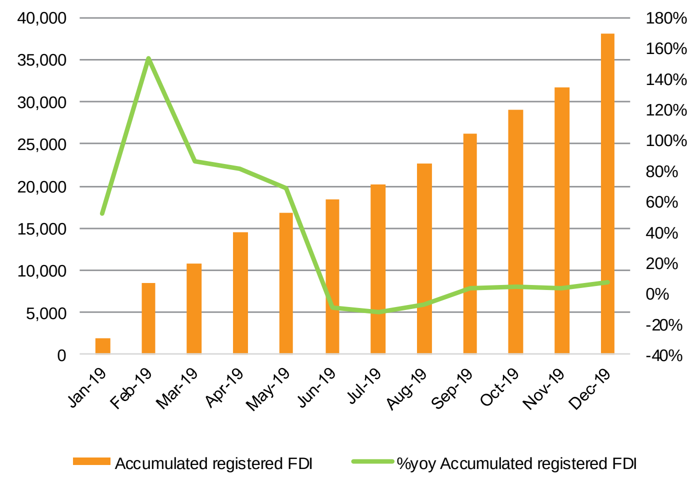
In Northern provinces, the IP land leasing price in Bac Ninh province had a similar move, growing just 5.3% between 1Q19 and 3Q19 after the 20.3% jump in the 3Q18-1Q19 period. Other areas such as Hanoi, Hai Phong city and Hai Duong province had more stable land leasing price growth.

Figure 2: IP leased area and occupancy ratio in 2015-1Q20 (%)



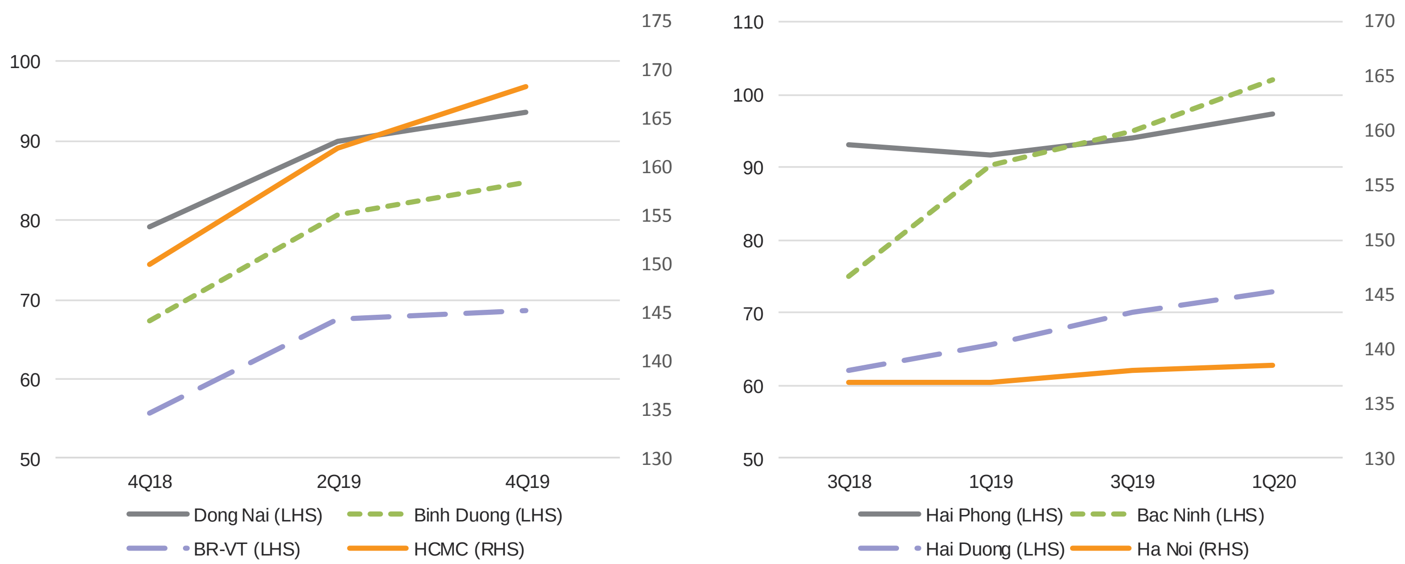
Source: VND Research, MPI

Figure 3: FDI inflow (US$m) decelerated since Jun 2019



Source: VND Research, FIINPRO

Figure 4: Leasing price of countrywide industrial parks grew at slower rate since mid-2019 (Unit: USD/m²/lease term)



Source: VND Research, Jones Lang Lasalle (JLL)

Source: VND Research, JLL

COVID-19 outbreak is accelerating the manufacturing relocation away from China

The outbreak casted shadow over global economic outlook and weighed on multi-national manufacturers' 2020F earnings. Apple has announced a downward adjustment of the 1Q20F target revenue to US$63bn from US$84bn, or 25% below the Jan 2020 figure due to China's factory shutdown. However, several producers were well-positioned to combat with the outbreak as their factories are located outside of China, ie: Samsung's production as most of its facilities in Vietnam were running at full capacity.

That has given a new impetus to resume the effort of reducing the reliance on factories in China. Vietnam will be one of the beneficiaries among ASEAN. Google and Microsoft are moving some of their production lines from China to Vietnam and Thailand. Google, as Nikkei reports, is expected to start selling its smartphones partially produced in Vietnam, the Pixel4A and Pixel5 in 2H20F, respectively. Google will also start selling its Nest Mini smart speakers made in Thailand with a local partner later this year. Microsoft is expected to start manufacturing in Vietnam some models of its popular Surface desktop and laptops in 2Q20F.

Figure 5: List of companies moving, or planning to move from China to Vietnam in Jul 2019 amid growing U.S.-China trade tension

Company name	Nationality	Status at Jul 2019	Location	Sector
Hanwha	Korea	Moved	Ha Noi	Airplane parts
Yokowo	Japan	Moved	Ha Nam	Motor vehicle parts
Huafu	China	Moved	Long an	Textile
Goertek	China	Moving	Bac Ninh	Headphone and phone parts
TCL	China	Moving	Binh Duong	Electronics - TV
Foxconn	Taiwan	Considering	Bac Giang Quang Ninh	Electronics - TV
Lenovo	China	Considering	Bac Ninh	Electronics - Computer
Nintendo	Japan	Considering		Electronics - Gaming accessories
Sharp	Japan	Considering	Binh Duong	Electronics - Camera
Kyocera	Japan	Considering	Hai Phong	Electronics - Printer, photocopy
Asics	Japan	Considering		Shoes production

Sources: VND Research, JLL

Vietnam, with low operating costs and tax incentives, remains a hot spot for factory migration from China. Compared to neighbouring countries like the Philippines, Indonesia, Malaysia, Thailand and Myanmar, in terms of industrial attraction, Vietnam is still a hot destination for corporate migration given its low level of land price, worker's wage, energy price and ready-built factories and warehouses (RBF & WH) cost.

Beside the low operating costs, Vietnam cut its Corporate Income Tax (CIT) to a 20% flat rate in 2016, from 22% previously, for all domestic and foreign companies. Companies in industrial zones also enjoy many incentives, such as tax exemption/reduction and visa exemption. Common tax incentives for companies in IPs include tax exemption for two to four years, tax reduction for three to 15 years and import duty exemption.

Figure 6: Comparative matrix in operating cost and Corporate Income Tax

	Operating cost				
	Land price average	Worker 's wage	Electricity price for business	Industrial warehouse/factory cost	Corporate income tax
	USD/m2/lease term	USD/month	USD/kWh	USD/m2	%
Philippines	121.5	220	0.11	na	30
Indonesia	238.0	296	0.07	504	25
Vietnam	103.5	227	0.08	352	20
Malaysia	224.5	413	0.10	533	24
Thailand	182.5	413	0.12	na	20
Myanmar	80.0	162	0.11	na	25

Sources: VND Research, SAVILLS, JLL, Mifer Myanmar

EVFTA to drive demand of industrial land going forward

A total of 12 FTAs were in force as at Mar 2020. On 12 Feb, the European Parliament ratified the EVFTA and the EVIPA. The two pacts are expected to boost bilateral trade and investment in the next decade and pave the way for Vietnam to further integrate into the global value chain.

Vietnam has been increasingly taking advantage of FTAs in the last few years. According to Ministry of Industry and Trade data, the export value subject to FTA tariff incentives in 2018 reached US$46.2bn, or 39% of total export value earned from the markets which signed FTAs with Vietnam. For comparison, Vietnam has the highest rate of incentive utilisation from India market thanks to AIFTA, at 72%, followed by Chile and South Korea with 67% and 35%, respectively.

Figure 7: Tax rate of goods in GSP and EVFTA (%)

HS code	Goods	EU-VIE Imports (EURmn)	EVFTA tariffs	GSP (%, 2016)
85	Electrical machinery and equipment	12742.72	0	0.1
84	Machinery	3995.15	0	0.0
64	Footwear	3709.8	0	8.9
62	Apparel and clothing (not knitted or crocheted)	2082.28	0	9.0
09	Coffee, tea, mate and spices	1483.42	0	0.1
94	Furniture	1023.89	0	0.0
61	Apparel and clothing (not knitted or crocheted)	916.75	0	9.4
42	Leather bags	770.14	0	1.5
08	Edible fruit and nút	693.5	0	0.2
03	Fish	659.87	0	6.0
39	Plastic and articles thereof	545.37	0	1.6

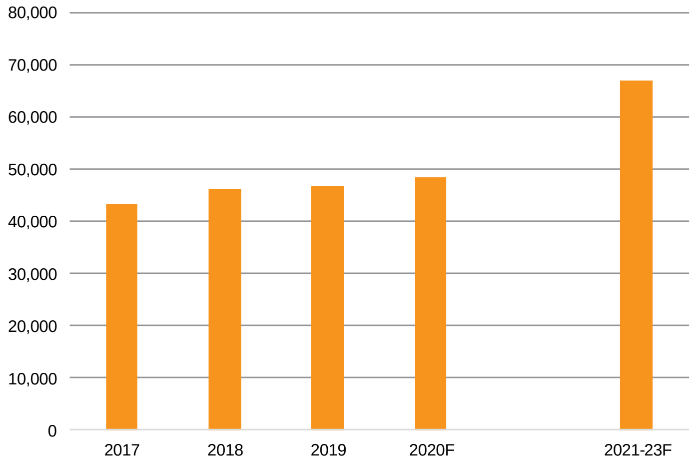
Sources: VND Research, Eurostat, WTO

Most of the export taxes on Vietnamese goods to the EU will be fully eliminated after the EVFTA comes into effect, while others will gradually be reduced in maximum of seven years. This is the highest level of commitment that Vietnam has achieved under the FTAs signed so far. Currently, just over 42% of Vietnam's exports to the EU enjoy the 0% tax rate under the Universal Preferential Tariff (GSP). The National Center for Socio-Economic Information and Forecast (NCIF) estimated EVFTA could help Vietnam's GDP increase 4.3% by 2030F. Vietnam's exports to the EU by 2030F are expected to jump 44.4%. The EVFTA will encourage manufacturing companies to set up shop in Vietnam, in our view.

We believe that companies with large land bank will seize the demand of factory relocation trend

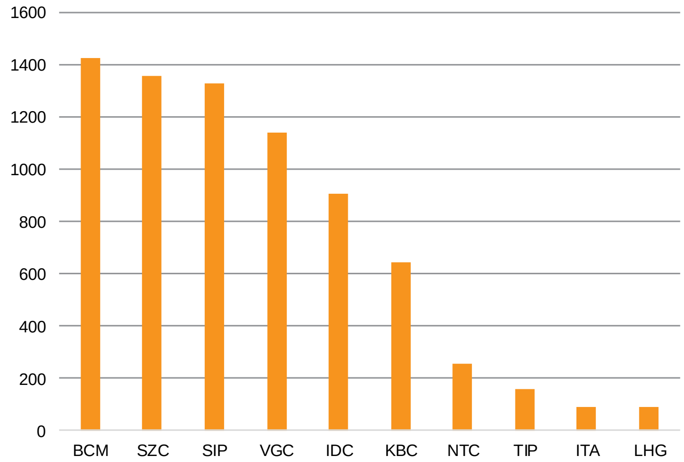
According to JLL, the leasable land bank in existing IPs is expected to be launched in 2Q20F and 3Q20F. About 1,890ha, or 4% of 2019 total supply, in new/expanded IPs are expected to be launched in 2020F in Southern provinces, mostly in Binh Duong which is running out of supply. The land bank in the 2020-21F period will still face supply shortage, thus companies with large available land bank will gain opportunity amid the next factory relocation wave.

Figure 8: IP land bank will still face supply shortage in 2020-21F



Source: VND Research, MPI, JLL

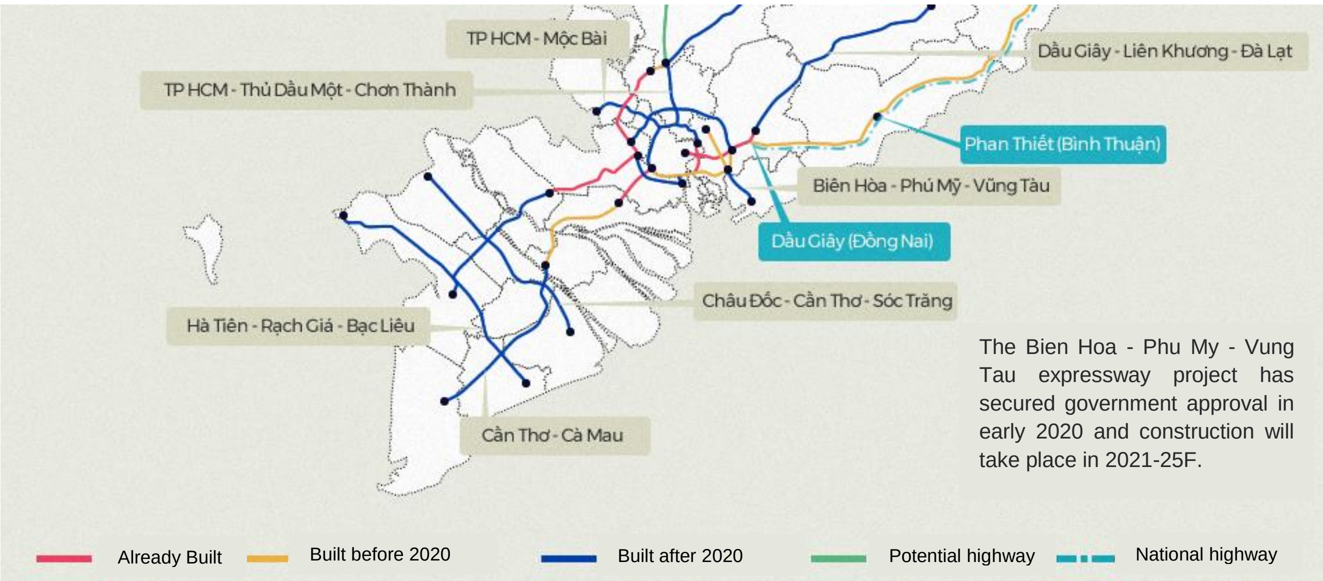
Figure 9: BCM is the largest listed IP operators in terms of land bank (Unit: ha)



Source: VND Research, COMPANY REPORTS

We see the rising of Ba Ria - Vung Tau, Bac Giang, Hai Duong as the new industrial hot spots

Figure 10: In the South, Ba Ria - Vung Tau is emerging as an industrial hot spot since the completion of the expressway system to connect Cai Mep deep-water seaport with HCMC, Dong Nai and Binh Duong



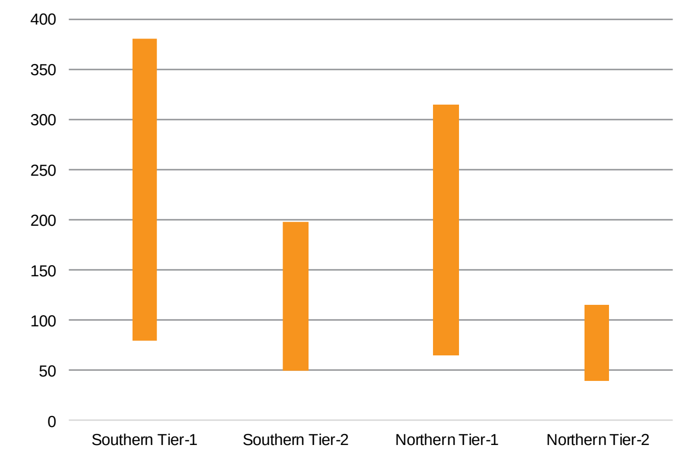
Source: VND Research, VNExpress

Figure 11: In the North, we observe the rise of IPs in Hai Duong, Bac Giang as the new highway Bac Giang - Son was opened in Jan; reducing one hour of travel time from Hanoi to Lang Son border area

Source: VND Research, VNExpress

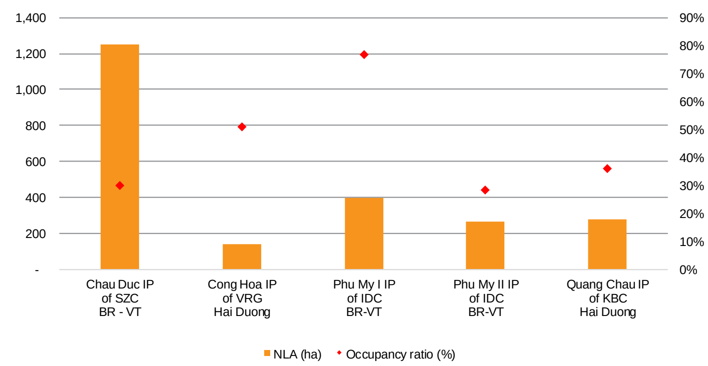
We see the gap of leasing price between Tier 1 (Ho Chi Minh City, Binh Duong, Dong Nai, Long An in the South and Hanoi, Hung Yen, Bac Ninh, Hai Phong in the North) and Tier 2 (Tay Ninh, Ba Ria – Vung Tau in the South and Quang Ninh, Vinh Phuc, Bac Giang, Thai Binh, Ha Nam in the North) provinces is narrowing down. Tier 2 provinces are attracting more new tenants thanks to favourable leasing prices and newly developed road system to link them with other manufacturing hubs.

Figure 12: The range of leasing price in Tier 1 and Tier 2 provinces (Unit: USD/m^2/lease term)



Source: VND Research, CBRE research

Figure 13: Some noticeable IPs in Tier-2 provinces



Source: VND Research, COMPANY REPORTS

Time to reload the listed IP stocks after the pandemic

We are generally positive on IP sector given the surge in industrial land demand. However, we believe each company has its own unique combination of challenges and opportunities. We prefer IP operators with the following characteristics: 1) owning large land bank at prime locations; and 2) having strong portfolios of tenants. We prefer SZC, KBC, PHR, VGC and BCM.

Figure 14: Our IP operators top pick

IP Operator	Typical projects	Location	Land bank (Ha)	Occupancy ratio	Leasing price	Catalysts
SZC	Chau Duc IP	Ba Ria - Vung Tau	1251	31.5%	57.0	**- Large land bank to seize the demand from investors:** SZC owns a large area of ready-for-rent in the South - Chau Duc Industrial Park has a total area of 1,215 hectares of commercial land, nearly 900 hectares of rentable area and only 30% of occupancy ratio. **- Good location with potential infrastructure:** Chau Duc IP is at Ba Ria - Vung Tau, which has a potential infrastructure thanks to The Bien Hoa-Phu My-Vung Tau expressway project, Long Thanh airport and Cai Mep - Thi Vai deepwater seaport. **- Low land leasing price:** Chau Duc IP currenly has a lower price than others IPs at Dong Nai or Binh Duong; we believe SZC can increase their leasing price to earn a stronger growth in revenue in the next coming years, when the demand of land leasing accelerates. **- Getting major benefit from FTAs, especially EVFTA in the coming years**
KBC	Quang Chau IP	Bac Giang	276	78.0%	75.3	**- Benefit from post-pandemic factory relocation trend by high-tech companies:** KBC can benefit from post-pandemic factory relocation trend by high-tech companies in Northern areas which have good list of tenants who are large technology companies such as Foxconn and LG Electronics. Quang Chau IP are located in the high-tech zone near Samsung Bac Ninh **- Large land bank to seize the demand from investors:** KBC has the second largest IP land bank among listed companies in Northern Vietnam. By the end of 2019, KBC still has about 540 hectares IP lands to lease in IPs. These land bank will help KBC absorb the next wave of factory relocation. **- Residential project is ready for delivery:** the residential segment is expected to contribute to KBC's revenue growth in the period of 2020-22 after legal issues at Trang Due residential project are resolved in 4Q19.
	Tan Phu Trung IP	HCMC	314	45.0%	97.0	
PHR	Tan Binh IP	Binh Duong	353	83.0%	84.7	**- Huge revenue from transfering raw land to other IP operators:** PHR will transfer 691ha raw land to VSIP to develop VSIP3 IP; 346ha for NTC to build NTU3 IP. These transfer revenue will be recognized in 2020F after solving the legal issues. **- Large future land bank:** PHR plans to shift its business operations from rubber production to IP development through transforming rubber land bank into IP land, specifically converting 4,000ha of rubber land in Binh Duong into industrial park land until 2025F. The company will continue to expand Tan Binh IP with an expanded area of more than 1,056ha. **- Getting major benefit from FTAs, especially EVFTA in the coming years**: PHR has a large number of tenants in the wood industry in Tan Lap IP and large rubber forest to supply rubber wood, which can help PHR attract investors in wood industry.
VGC	Yen Phong IP	Bac Ninh	483	60.0%	102.0	**- Large land bank to seize the demand from investors:** VGC has the largest land bank among listed companies in the North with 10 IPs with total land bank available of over 1,100 ha. **- Good location at the provinces with good infrastructure:** Some IPs with good location in high-tech zone and good infrastructure connected to airports and seaports will contribute to VGC's revenue growth in the coming years such as Dong Mai IP in Quang Ninh and Yen Phong IP in Bac Ninh. The IPs owned by VGC are located in high-tech zones like Samsung Bac Ninh and Vinfast Hai Phong.
	Dong Mai IP	Quang Ninh	112	10.0%	55.0	
BCM	Bau Bang IP	Binh Duong	1251	39.0%	66.0	**- Biggest IP operator in the South, mainly in Binh Duong province:** BCM owns 7 industrial parks with total area of up to 4,000 ha concentrated in the Binh Duong province. BCM's total IP land area is over 10,000 hectares, accounting for 10% of the total national IP land. **- Join venture to provide a good revenue:** BCM also owns 49% in a joint venture with Sembcorp to develop VSIP IPs with a total of 9 projects in Vietnam with total land bank of more than 8,600 ha, which can bring annual revenue from VND600bn to VND900bn to BCM.
	Cay Truong IP	Binh Duong	490	na	na	

Leasing price unit: USD/m2/Lease term

Source: VND Research

Figure 15: IPs companies peer comparison

Company Name	Ticker	Price (local curr)	Market Cap (US$ m)	3-year EPS CAGR %	P/E TTM	P/B Current	ROE (%) 2019	Dividend yield (%) TTM	Net gearing (%) 2019
Investment & Industrial Deve	BCM VN	24,000	24,840	NA	11.7	2.0	NA	2.9	123.1
Viglacera Corp Jsc	VGC VN	16,650	7,465	-6.3	11.5	1.2	10.3	6.1	-9.0
Kinh Bac City Development Sh	KBC VN	12,100	5,684	18.6	6.2	0.6	10.0	8.4	12.2
Sonadezi Corp	SNZ VN	17,600	6,626	NA	16.2	1.5	9.0	4.8	12.3
Saigon Vrg Investment Corp	SIP VN	74,600	5,151	NA	29.1	4.5	NA	1.3	-250.5
Idico Corp Jsc	IDC VN	16,700	5,010	NA	14.5	1.5	10.0	6.3	18.1
Tan Tao Investment Industry	ITA VN	2,200	2,064	309.1	21.1	0.2	0.9	NA	3.3
Nam Tan Uyen Jsc	NTC VN	161,900	2,590	68.7	11.0	4.5	40.4	9.4	-218.9
Sonadezi Chau Duc Shareholdi	SZC VN	15,500	1,550	43.2	13.6	1.3	9.7	4.9	46.2
Industrial Urban Devel Jsc 2	D2D VN	55,400	1,181	117.0	3.5	NA	52.2	4.2	-146.0
Vietnam Average					**13.8**	**1.9**	**17.8**	**5.4**	**-40.9**
Vietnam Median					**12.7**	**1.5**	**10.0**	**4.9**	**7.8**
Wha Corp Pcl	WHA TB	2.66	28,669	3.7	12.0	1.3	11.4	3.0	109.7
Amata Corp Public Co Ltd	AMATA TB	13.00	10,002	20.5	8.0	1.0	12.9	3.5	65.7
Frasers Property Thailand Pc	FPT TB	11.10	16,142	69.9	15.5	0.8	5.3	4.0	163.3
Rojana Indus Park Pub Co Ltd	ROJNA TB	4.04	5,884	163.6	4.5	0.6	14.0	9.6	115.7
Thailand Average					**10.0**	**0.9**	**10.9**	**5.0**	**113.6**
Bumi Serpong Damai Pt	BSDE IJ	795	23,015	72.8	5.4	0.5	10.1	NA	9.5
Ciputra Development Tbk Pt	CTRA IJ	590	16,471	5.8	9.5	0.7	7.8	1.9	27.8
Lippo Karawaci Tbk Pt	LPKR IJ	142	15,143	13.3	NA	0.3	-6.0	NA	39.7
Indonesia Average					**7.4**	**0.5**	**3.9**	**1.9**	**25.7**
Uem Sunrise Bhd	UEMS MK	0.41	9,972	39.9	8.3	0.3	3.1	NA	32.7
Malaysia Average					**8.3**	**0.3**	**3.1**	**NA**	**32.7**

All prices are based on the closing prices on 17 Apr 2020. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

Source: VND Research, Bloomberg

DISCLAIMER

RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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