

KHANG DIEN HOUSE TRADING & INVESTMENT JSC (KDH) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND37,300	VND45,500	1.34%	Add	PROPERTY

22 June 2021

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

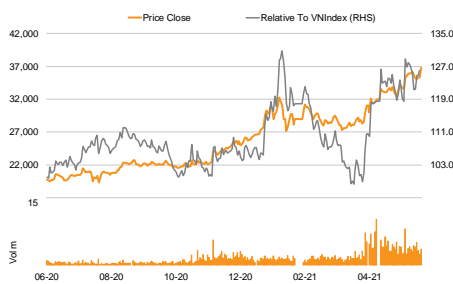
Consensus*: Add:10 Hold:3 Reduce:0

Target price / Consensus: 11.9%

Key changes in the report

➤ N/A

Price performance



Key statistics

52w high (VND)	37,350
52w low (VND)	19,381
3m Avg daily value (VNDmn)	109,277
Market cap (VND bn)	22,959
Free float (%)	35
TTM P/E (x)	17.4
Current P/B (x)	2.47

Ownership

Tien Loc Investment Limited	11.3%
Gam Ma Investment Company	9.2%
A Au Investment Trading Company	8.3%
Others	71.3%

Source: VND RESEARCH

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Re-rating on solid new supply

- KDH's 1Q21 net profit grew 32.8% year-on-year (yoy) to VND205bn, in line at 16.3% of our full-year estimate.
- We expect FY21-22F presales to bounce back with three new launches namely Clarita (5.7ha), Armena (4.3ha) and an apartment project (1.8ha).
- Upgrade from Hold to Add with higher revalued net asset value (RNAV)-based target price (TP) of VND45,500.

Positive earnings growth on track in 1Q21

KDH's 1Q21 revenue increased 19.3% yoy to VND836bn, mainly from the delivery of Safira (219 units of condo) and Verosa Park (16 units of villa). The decline in commission fee and marketing fee lowered the SG&A expenses ratio by 5.4% pts yoy to 8.5%. Consequently, net profit grew 32.8% yoy to VND205bn in 1Q21, fulfilling 16.3% of our full-year estimate.

Presales bounce back in FY21-22F

KDH plans to launch three new projects in FY21-22F, namely Clarita (5.7ha), Armena (4.3ha) in Thu Duc City and an apartment project (1.8ha) in Binh Tan District, which has a potential GDV of VND12,342bn, based on our estimate. We believe these projects could take advantages of residential prices hike in Thu Duc City and achieve high take-up rate thanks to their sought-after location as well as the shrinkage on new supply in HCMC.

We maintain KDH's positive earnings prospects in FY21F

We maintain our forecast for FY21F KDH's net profit of VND1,261bn (+9.4% yoy), 5.1% higher than KDH's guidance, mostly driven by Lovera Vista, Safira and Verosa Park. As of 17 May 21, the very first Lovera Vista condo units have been handed over on schedule, which bolsters FY21F net profit growth at 9.4% yoy as Lovera Vista likely contributes c.60% (VND2,838bn) of FY21F revenue, according to our projection.

Upgrade from Hold to Add with a higher TP of VND45,500

We revise our TP for KDH up to VND45,500 from VND31,900 as we 1) update our discounted cash flow (DCF)-based valuation for 158 An Duong Vuong project (1.8ha) to factor in its release in FY21F, 2) remove the discount RNAV of Clarita and Armena as the projects are likely launched in FY21F and 3) reduce the discount RNAV of Tan Tao project (329ha) from 75% to 40% given its on-track legal procedure. We upgrade ratings for KDH from Hold to Add. Upside risk in the long term depends on whether KDH can clear legal hurdles to start its Tan Tao project. Downside risks are 1) delays in obtaining permits for new launches and 2) continuous upward trend in construction material prices.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	2,813	4,532	4,644	5,136
Revenue growth	(3.5%)	61.1%	2.5%	10.6%
Gross margin	53.3%	43.3%	44.7%	64.4%
EBITDA margin	42.0%	31.9%	34.4%	52.5%
Net profit (bn)	915	1,153	1,261	2,115
Net profit growth	13.3%	26.0%	9.4%	67.8%
Recurring profit growth	24.6%	40.0%	42.1%	71.3%
Basic EPS	2,211	2,117	2,178	3,334
Adjusted EPS	2,071	2,002	1,996	3,118
BVPS	18,417	14,928	15,905	17,136
ROAE	12.6%	14.6%	14.5%	21.1%

Source: VND RESEARCH

RE-RATING ON SOLID NEW SUPPLY

Upgrade Add with a higher target price of VND45,500/share

We like KDH for its scale, financial capacity, huge ready-to-use land bank amid the shrinkage on new supply in HCMC as well as legally transparency. These factors position KDH well to capture real demand for residential property and stable earnings prospects, in our view. Considering the potential upside of 22.3%, we upgrade our ratings from Hold to Add. Upside risks in the short term could come from higher-than-expected average selling price for Armena, Clarita and 158 An Duong Vuong projects; our mid- to long-term investment thesis is dependent on whether KDH can clear legal hurdles to start its Tan Tao project.

To fairly compensate for risks on project execution and presales performance, we applied discounts on each project NPV instead of a common discount directly on full-RNAV due to lack of discount-to-RNAV ratio track record. Different discount levels would be applied to each project, depending on the execution period, land acquisition, and market absorption, resulting in the aggregate RNAV discount of 25%. We raise our TP for KDH up to VND45,500 (from VND31,900) as:

- 1) We update our DCF-based valuation for 158 An Duong Vuong project (1.8ha). The management plans to begin construction this project in 2021F and open for sale in 2022F;
- 2) We remove the discount RNAV of Clarita and Armena in Thu Duc City as the projects are likely launched in FY21F;
- 3) We reduce the discount RNAV of Tan Tao project (329ha) from 75% to 40% given its on-track legal procedure. According to the management, as at end-Apr 2021, this project received investment approval, master plan of 1:500 scale, decision on land acquisition and completed c.60% of the process of compensation and site clearance. We believe this project is on track for a FY23F release.

Downside risks are 1) delays in obtaining permits for new launches and 2) continuous upward trend in construction material prices.

Figure 1: Equity valuation (VND bn)

Project Name	Fair value	Method	Note
Tan Tao	12,048	DCF	Remove the discount RNAV of Tan Tao project (329ha) from 75% to 40% given its on-track legal procedure.
Corona	1,588	DCF	
Green Village	3,599	DCF	
Clarita	1,734	DCF	Remove the discount RNAV as the project is approved and commenced from FY21F.
Venita Park	555	DCF	
Lovera Vista	2,161	DCF	Remove the discount RNAV as the project is approved and commenced from FY21F.
Amena	1,739	DCF	
Le Minh Xuan IP	2,722	DCF	
158 An Duong Vuong	1,769	DCF	Update DCF based valuation (from BV previously). KDH plans to begin construction this project in 2021F and open for sale in 2022F.
Other	722	BV	
Total inventory	25,914		
Add:			
Cash and cash equivalent	1,379		
Other assets	4,065		
Less:			
Net debt (exclude CB)	2,216		
Other liabilities	2,971		
Minority interest	31		
RNAV	28,861		
Shares outstanding (m)	635		
Target price (VND/share)	45,500		

SOURCES: VND RESEARCH, COMPANY REPORT

Figure 2: Peer comparison

Company Name	Ticker	Share price		Market Cap (US\$m)	3-year Fwd EPS CAGR (%)	P/E (x)		P/B (x)		ROE (%)		Dividend yield (%)		Net D/E (%)
		(local cur)	TP (local cur)			2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	
Vinhomes	VHM VN	111,500	134,300	15,935	44.7	12.8	7.5	3.1	2.2	28.2	34.3	-	-	27.8
Novaland	NVL VN	113,500	74,100	7,237	51.4	27.4	16.7	3.7	3.1	14.7	20.1	-	-	114.7
Nam Long	NLG VN	39,400	46,700	488	22.6	9.8	8.2	1.6	1.4	19.1	19.3	3.8	3.2	36.6
Dat Xanh	DXG VN	24,400	NR	549	N/A	9.5	8.6	1.7	1.4	19.1	18.2	N/A	N/A	43.6
Local peer average					39.6	14.9	10.3	2.5	2.0	20.3	23.0	1.4	1.4	55.7
Local peer median					44.7	11.3	8.4	2.4	1.8	19.1	19.7	-	-	40.1
Khang Dien	KDH VN	37,300	45,500	996	23.6	18.7	12.0	2.3	2.2	14.5	21.1	1.4	1.4	22.6

Note: all prices are based on the closing prices on Jun 22 2021. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

SOURCES: VNDIRECT RESEARCH, COMPANY REPORT

1Q21 business results: Start FY21F positively

Figure 3: Results comparison

VNDbn	1Q21	1Q20	YoY%	vs FY21F	Comments
Revenue	836	701	19.3%	18.0%	
Property sales	827	688	20.1%		Thanks to the delivery of Safira (219 units of condo) and Verosa Park (16 units of villa).
Others	10	13	-23.9%		
Gross profit	358	335	6.9%		
GPM	42.8%	47.8%	-5% pts		Due to higher contribution of low-margin Safira condo properties.
Selling expense	(20)	(49)	-58.6%		Thanks to the decline in commission fee and marketing fee.
G&A expense	(51)	(48)	5.3%		
Operating profit	275	216	27.6%		
Financial income	5	5	8.1%		
Financial expense	(17)	(27)	-36.6%		
Net other income	(7)	(11)	-36.0%		
Pre-tax profit	268	205	31.0%		
Net profit	205	154	32.8%	16.3%	In line with our expectation.

SOURCES: VND RESEARCH, COMPANY REPORT

FY21-22F outlook: Presales bounce back

Presales bounce back with three new projects launch in FY21-FY22F

In 1Q21, KDH's presales only reached VND207bn in value (-83.9% yoy), in our estimate, as new projects will be launched in 2H21F. KDH plans to launch three new projects in FY21-FY22F namely Clarita in Thu Duc City (5.7ha), Armena in Thu Duc City (4.3ha) and an apartment project (1.8ha) in Binh Tan District, which has a potential GDV of VND12,342bn (based on our estimate).

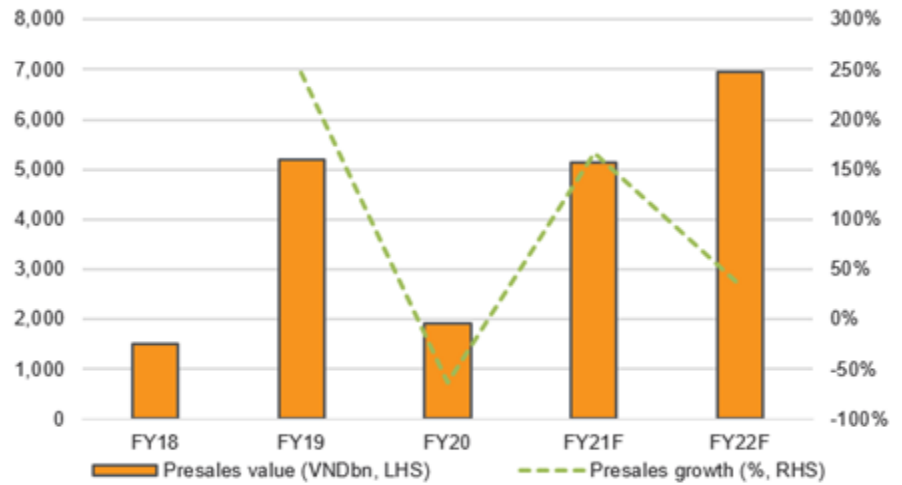
Figure 4: Key development pipeline

Project	Location	Product type	KDH Ownership	Land site (ha)	Est. GDV (VNDbn)	Execution timeframe*						
						2018A	2019A	2020A	2021F	2022F	2023F	2024F onward
Tan Tao	Binh Chanh, HCMC	Township	100%	330.0	79,393							
Green Village	Binh Chanh, HCMC	Township	100%	132.9	20,777							
Corona	Binh Chanh, HCMC	Township	100%	17.5	9,376							
Le Minh Xuan	Binh Chanh, HCMC	Industry park	100%	109.9	6,081							
158 An Duong Vuong	Binh Tan, HCMC	Condo	100%	1.8	5,012							
Clarita	Thu Duc City	Townhouse	100%	5.7	3,701							
Amena	Thu Duc City	Townhouse	100%	4.3	3,629							
Safira	Thu Duc City	Condo	100%	2.7	3,404							
Lovera Vista	Binh Chanh, HCMC	Condo	100%	1.8	3,156							
Verosa	Thu Duc City	Townhouse	100%	8.1	2,836							

(* Each project execution timeframe (from first launch to delivery completion) is in grey highlight. Otherwise, no detail project timeframe has been announced by the company

SOURCES: VND RESEARCH, COMPANY REPORT

Figure 5: We expect FY21F presales value to bounce back by 168% yoy and achieve 35% yoy growth in FY22F



SOURCES: VNDIRECT RESEARCH, COMPANY REPORT

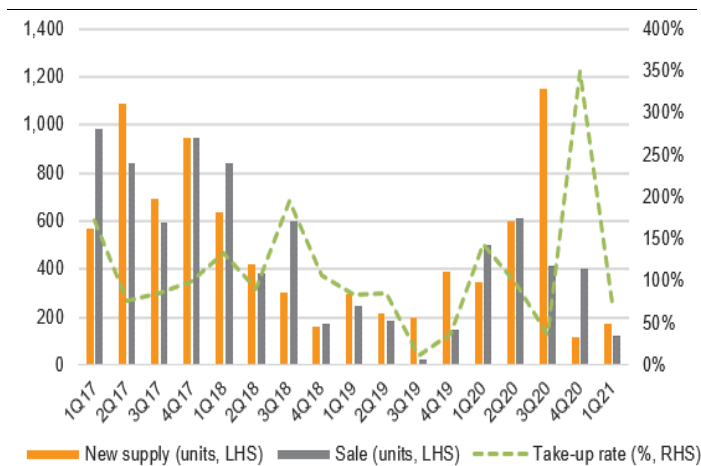
We believe these projects could take advantages of residential prices hike in Thu Duc City and achieve high take-up rate thanks to their sought-after location as well as the shrinkage on new supply in HCMC.

Lacklustre HCMC housing market opens opportunities for KDH with ready-to-use projects in FY21-FY22F

According to CBRE, the 1Q21 HCMC new supply of ready-built houses fell 51.0% yoy to only 170 units, mostly from Thu Duc City; this dragged down sales by 75.2% yoy in 1Q21. Likewise ready-built market, the 1Q21 HCMC new condo supply plunged 52.9% yoy to 1,709 units; leading to a drop of 30.9% yoy in sales volume (about 2,624 units). We observe that there was no new affordable housing project launched within recent five quarters. Mid-end segment accounted for 40.7% of total new supply, followed by luxury with 39.1% and high-end with 20.2%. Take-up rate surged to 153.5% in 1Q21 (+77.0% pts qoq), indicating that housing demand still remains high. The East of HCMC continued to dominate the market, accounting for 47% of new supply, followed by the South with 36%, yet there is no new launch in the central due to lack of land bank and licensing issues.

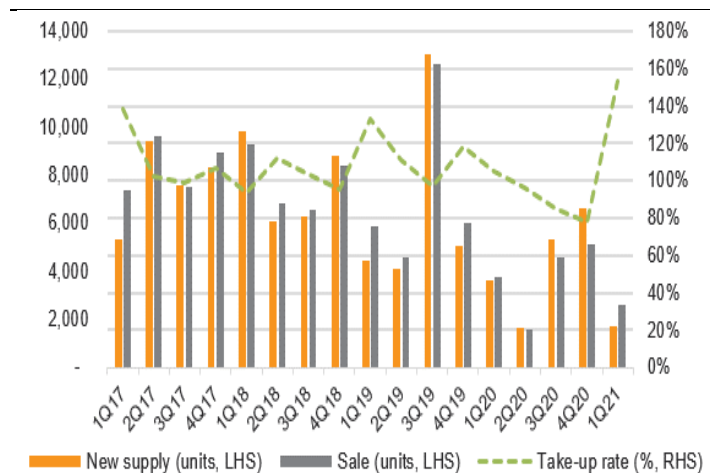
In our view, we believe this creates opportunities for KDH with its ready-to-use projects in FY21-FY22F to achieve high take-up rate and enjoy prices hike.

Figure 6: Ready-built houses dry up in HCMC in 1Q21



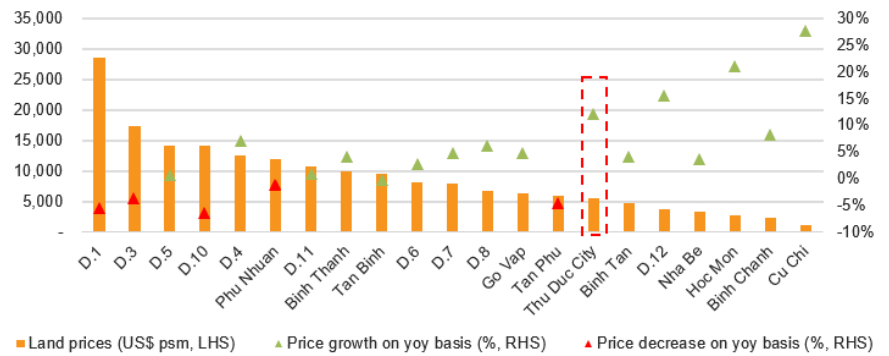
SOURCES: VNDIRECT RESEARCH, CBRE

Figure 7: Lacklustre HCMC condo property market with low sales volume of condo



SOURCES: VNDIRECT RESEARCH, CBRE

Figure 8: The rise in land prices of Thu Duc City in 4M21 likely to support KDH's presales growth

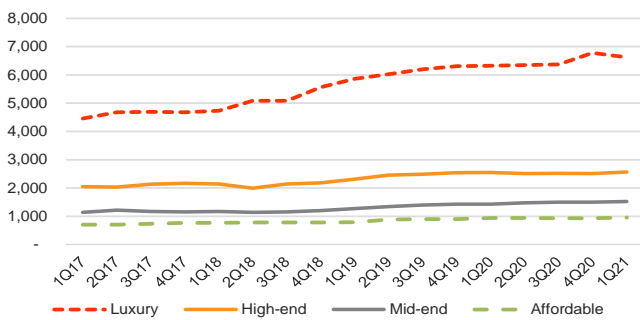


SOURCES: VNDIRECT RESEARCH, COMPANY REPORT

Mid-end segment (average selling price of below US\$2,000 psm) cemented its appeal when selling prices increased the most in both primary and secondary market in 4M21

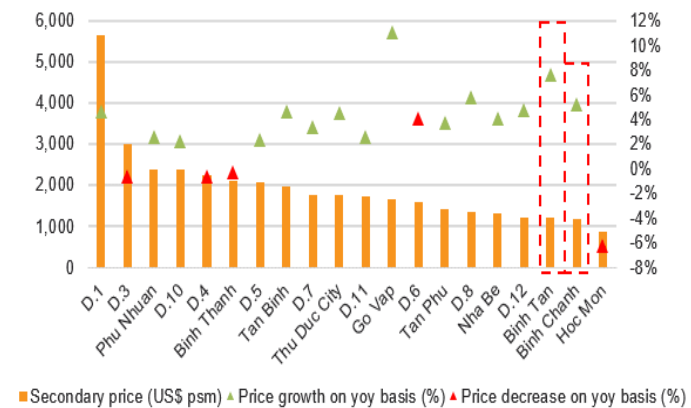
In 4M21, HCMC condo primary price increased on yoy basis in all segments, up by 0.6-6.4% yoy, of which mid-end segment increased the most at 6.4% yoy, given its high demand and limited supply. Likewise primary market, 4M21 witnessed secondary prices hikes in areas offered below US\$2,000 psm such as Go Vap (+11.1% yoy), Binh Tan (+7.6% yoy), Binh Chanh (+5.2% yoy), according to our market research. Housing prices in these areas rose rapidly on process planning for urbanizing Hoc Mon, Binh Chanh, Nha Be, Cu Chi and Can Gio into urban districts, in tandem with the proposal on establishment of Northwest City comprising Cu Chi and Hoc Mon.

Figure 9: Condo primary prices in mid-end segment recorded increase the most at 6.4% yoy in 1Q21



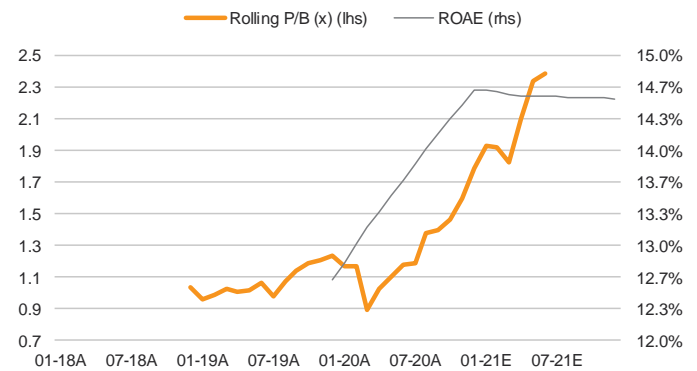
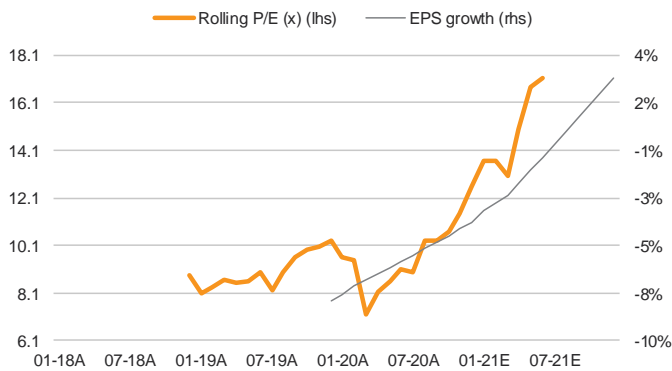
SOURCES: VNDIRECT RESEARCH, CBRE

Figure 10: KDH's condo projects located at HCMC's emerging areas with impressive growth in 4M21 (Binh Tan and Binh Chanh)



SOURCES: VNDIRECT RESEARCH

Valuation



Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	4,532	4,644	5,136
Cost of sales	(2,568)	(2,570)	(1,829)
Gen & admin expenses	(169)	(226)	(241)
Selling expenses	(247)	(156)	(313)
Operating profit	1,547	1,692	2,754
Operating EBITDA	1,536	1,673	2,734
Depreciation and amortisation	11	19	19
Operating EBIT	1,547	1,692	2,754
Interest income	35	44	97
Financial expense	(85)	(116)	(160)
Net other income	(39)	(42)	(44)
Income from associates & JVs	0	0	0
Pre-tax profit	1,458	1,578	2,647
Tax expense	(304)	(316)	(529)
Minority interest	(2)	(2)	(2)
Net profit	1,153	1,261	2,115
Adj. net profit to ordinary	1,153	1,261	2,115
Ordinary dividends	(289)	(317)	(341)
Retained earnings	863	943	1,775

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	1,836	1,711	2,698
Short term investments	0	0	0
Accounts receivables	3,529	3,993	4,243
Inventories	7,338	7,638	9,638
Other current assets	319	335	352
Total current assets	13,022	13,677	16,931
Fixed assets	742	805	875
Total investments	14	14	14
Other long-term assets	157	148	150
Total assets	13,934	14,645	17,970
Short-term debt	787	708	637
Accounts payable	242	242	172
Other current liabilities	3,179	2,588	4,425
Total current liabilities	4,208	3,539	5,234
Total long-term debt	1,058	1,358	1,308
Other liabilities	510	512	520
Share capital	5,787	6,345	6,811
Retained earnings reserve	1,836	2,354	3,558
Shareholders' equity	8,127	9,204	10,874
Minority interest	31	32	34
Total liabilities & equity	13,934	14,645	17,970

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	1,458	1,578	2,647
Depreciation & amortisation	11	19	19
Tax paid	(97)	(120)	(529)
Other adjustments	(152)	(107)	(203)
Change in working capital	(1,058)	(1,367)	(501)
Cash flow from operations	163	3	1,433
Capex	(48)	(75)	(83)
Proceeds from assets sales	0	0	0
Others	60	44	97
Other non-current assets changes			
Cash flow from investing activities	12	(31)	14
New share issuance	105	0	0
Shares buyback	(419)	0	0
Net borrowings	2,020	221	0
Other financing cash flow	(957)	0	(121)
Dividends paid	(262)	(317)	(341)
Cash flow from financing activities	486	(96)	(461)
Cash and equivalents at beginning of period	1,175	1,836	1,711
Total cash generated	661	(124)	986
Cash and equivalents at the end of period	1,836	1,711	2,697

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	25.4%	27.1%	41.2%
Asset turnover	0.33	0.32	0.31
ROAA	8.5%	8.8%	13.0%
Avg assets/avg equity	1.72	1.65	1.62
ROAE	14.6%	14.5%	21.1%
Efficiency			
Days account receivable	50.7	50.6	50.6
Days inventory	1,045.7	1,084.9	1,923.1
Days creditor	34.5	34.4	34.4
Fixed asset turnover	6.39	6.00	6.12
ROIC	11.5%	11.2%	16.5%
Liquidity			
Current ratio	3.1	3.9	3.2
Quick ratio	1.4	1.7	1.4
Cash ratio	0.4	0.5	0.5
Cash cycle	1,061.9	1,101.1	1,939.3
Growth rate (yoy)			
Revenue growth	61.1%	2.5%	10.6%
Operating profit growth	26.5%	9.4%	62.7%
Net profit growth	26.0%	9.4%	67.8%
EPS growth	(4.2%)	2.9%	53.0%

Source: VND RESEARCH

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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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