

Sector note



PROPERTY DEVELOPMENT & INVESTMENT: A HARSH WINTER IS COMING

- A meaningful decline of 40% qoq in 3Q22 presales volume saw in both HCMC and Hanoi on tighter funding regulations for residential property.
- We are not optimistic about the recovery of residential property in near-term as developer insolvency still pose the biggest risk to the sector outlook.
- We believe investors should focus on quality names with healthy financial structure and strong cash flow from previous presales like NLG.

A sharp decline in property presales in both HCMC and Hanoi since 3Q22

Presales have experienced a downturn since 3Q22 as condo sales volume sharply fell by 40% qoq/+128% yoy in both HCMC and Hanoi, according to CBRE. Together, landed hospitality presales volume nearly squeezed with 70.4% qoq/+85% yoy. We saw primary prices of ready-built landed property to decrease by 10-15% qoq on subdued housing demand in 3Q22 while condo inched up slight 1-3% qoq on average.

Multi headwinds weigh on residential property outlook

Headwinds include: (1) developers have limited refinance opportunity as tighter regulations on corporate bond issuance and credit exposure to property; (2) rising mortgage rates and to drag the housing demand and (3) a drop in new supply as the project approval process likely be delayed on waiting the amend Law of land. We estimate about VND46,145bn corporate bonds of property developers will mature in 1H23F and another VND64,185bn in 2H23F, which be a stress-test for developers' repayment capability.

If entering a “deep-freeze”, this cycle is likely different

We see listed property developers' financial health, currently in a better shape than period the last downcycle 2011-13, thus, we expect less damage and shorter time to ride out from this downcycle. We expect primary condo prices to decrease 5-10% yoy on average and condo sales volume down c.20% yoy in FY23F (vs. a 20-30% fall in primary prices and a 50% dwindle in condo sales volume in the 2012-13 period). We expect the on-schedule Land law 2023 affected since 2H24F to tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover since 2024-25F.

Our top pick: NLG

We believe investors should focus on quality names that possess following traits: 1) huge land bank, which is already completed legal procedures as well as infrastructure to be launched in 2023F, 2) high exposure to the mid-range and affordable condo segments as these segments are driven by real end-user demand and 3) sustainable earnings growth and scalable business models with a healthy financial position (low leverage, strong liquidity) to counter the risk of tightening credit for the real estate market as discussed above. We believe NLG is on this list as they meet above key criteria.

Analyst(s):



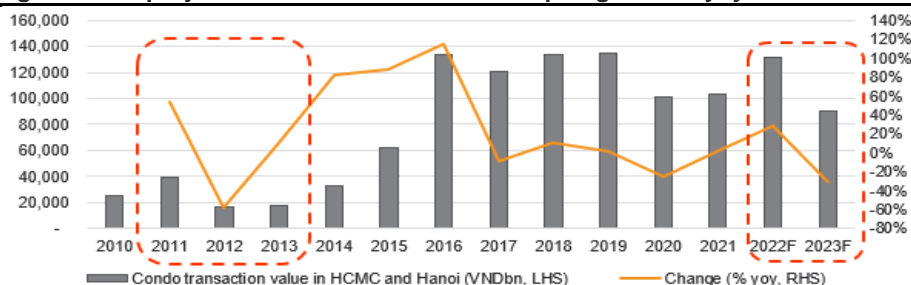
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Figure 1: We project condo transaction value to plunge c.30% yoy in 2023F



Sources: VNDIRECT RESEARCH's estimate

Multi headwinds weigh on sector outlook

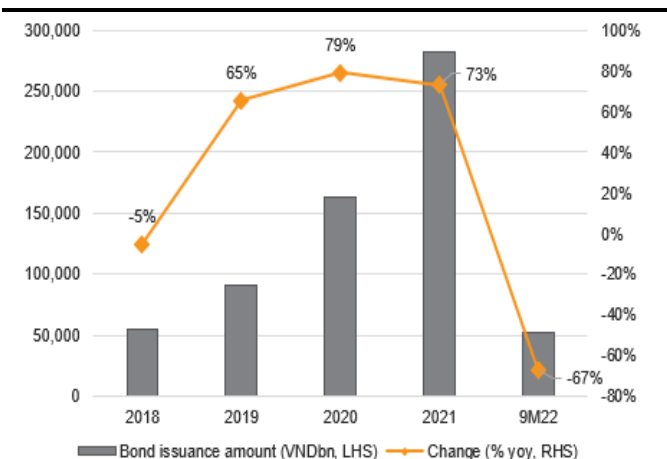
Tighter financial condition lead to short-term liquidity under stress

During 2020-21 market witnessed a boom in corporate bonds (CBs) issuance from property developers as commercial banks gradually reduced their lending exposure towards real estate in order to comply with the tightening ratio of short-term funding used for medium and long-term loans. By end-3Q22, outstanding CB value of property developers was about c.VND507tr, accounting for c.34% share of Vietnam CBs balance and c.6% of GDP.

Since mid-22, in order to mitigate any further risks and enhance the market transparency, the Ministry of Finance has reviewed the legal framework with stricter requirements for issuers, especially in private placement. According to our market research, the total value of CBs issuance dropped 43.5% yoy to VND248,603bn while buyback value was c.VND142,200bn in 9M22. Property CBs experienced a sharp drop of 67.0% yoy in 9M22. Since Sep-22, some property tycoons were arrested due to CB issuance fraud that raised concerns among retail investors about CB quality and issuers' payment capability.

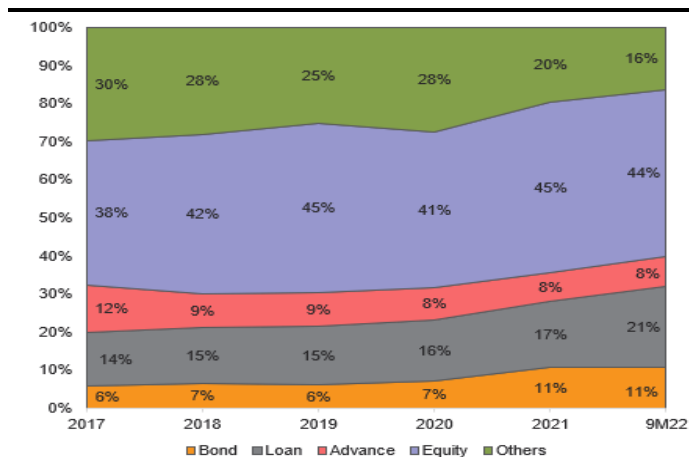
Currently, bank loan and bond issuance are crucial source of funding for Vietnam property developers. Meanwhile, a meaningful decline of 40% qoq in 3Q22 presales volume saw in both HCMC and Hanoi markets. Amid tightening bank loans, halting bond market and subdued presales, many developers thus find themselves cut off from sources of funds.

Figure 2: CBs issuance of developers plunged 67% yoy in 9M22



Sources: VNDIRECT RESEARCH

Figure 3: Developers' primary sources of funding

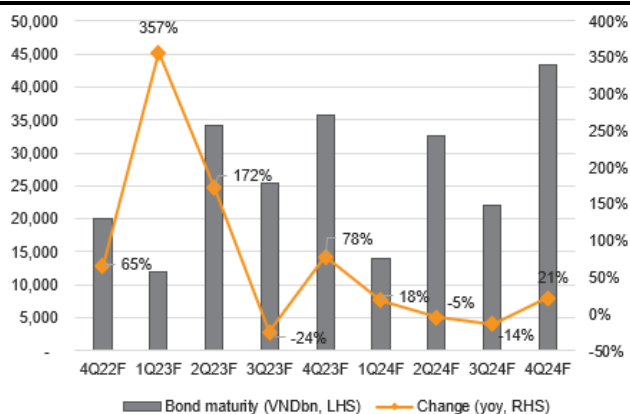


Sources: VNDIRECT RESEARCH (based on financial statements of top 20 listed property developers in term of market cap)

Additionally, about VND20,000bn of CB value will mature in 4Q22F, additional VND107,299bn (+55.7% yoy)/VND112,061bn (+4.4% yoy) to come in FY23-24F, respectively. All of these put the short-term liquidity of property developers under stress-test.

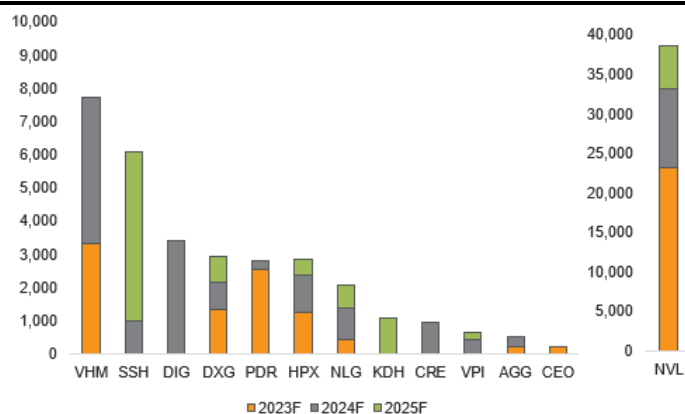
Per our estimate, about c.VND26,500bn CBs issued by NVL and VHM, accounting for 25% of total market amount due will mature in FY23F.

Figure 4: Developers are under growing bond maturity pressure into FY23-24F (Unit: VNDbn)



Sources: VNDIRECT RESEARCH

Figure 5: Bond maturity value of some listed developers during FY23-25F (Unit: VNDbn)



Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Rising mortgage rates and to drag the housing demand

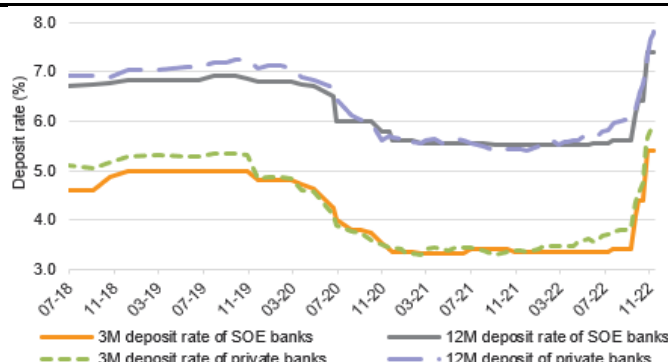
As of early-Dec 2022, the average mortgage rate of state-owned banks and private banks rose sharply 190 basis points (bps) ytd to 11.1% and 250bps ytd to 12.0%, respectively, following rising deposit rates. We expect deposit rates to increase further 50bps in 2023F which might bring the mortgage rates of private bank could climb to 12.5-13%/year into 2023F.

Figure 6: Mortgage rates heat up following rising deposit rates



Sources: VNDIRECT RESEARCH, DOMESTIC BANKS

Figure 7: Deposit interest rate rose sharply in 3Q22 (%)



Sources: VNDIRECT RESEARCH, DOMESTIC BANKS

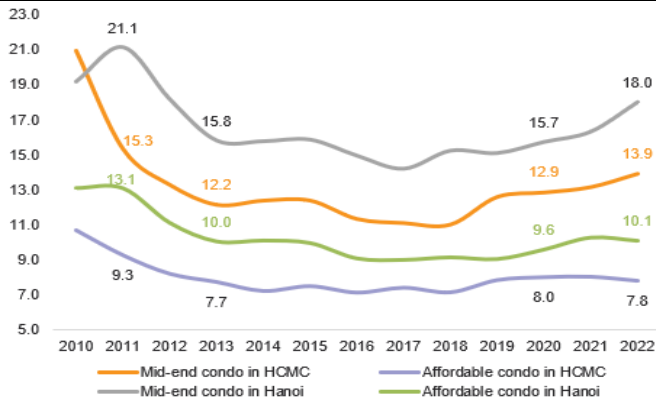
We see an increasing mortgage unaffordability given prices hike and rapidly rising mortgage rates in 2022-23F. Even those who earn twice the average annual income of US\$5,500-7,500 in Hanoi and HCMC, we think homebuyers could struggle to afford a mid-end condo (<US\$2,000 psm) in HCMC and Hanoi with the estimated payment-to-income ratio in 2022 reaching at the 80-100% level. Moreover, it could be worse-than-expected in 2023F when millions of clients who face higher payments as loans reset.

Figure 8: Our several assumptions on payment-to-income

	HCMC			Hanoi		
	2020	2021	2022	2020	2021	2022
Average annual income (US\$)	6,999	7,118	7,403	5,200	5,288	5,500
Selling price (US\$ psm)	1,500	1,562	1,718	1,362	1,437	1,648
Mid-end condo value (US\$)	90,000	93,720	103,080	81,720	86,220	98,900
Average price-to-income ratio	12.9	13.2	13.9	15.7	16.3	18.0
Mortgage rate	9.5%	9.6%	12.2%	9.5%	9.6%	12.2%
Monthly payment (US\$)	761	798	1,034	691	734	992
Payment to income (x2 person)	65%	67%	84%	80%	83%	108%

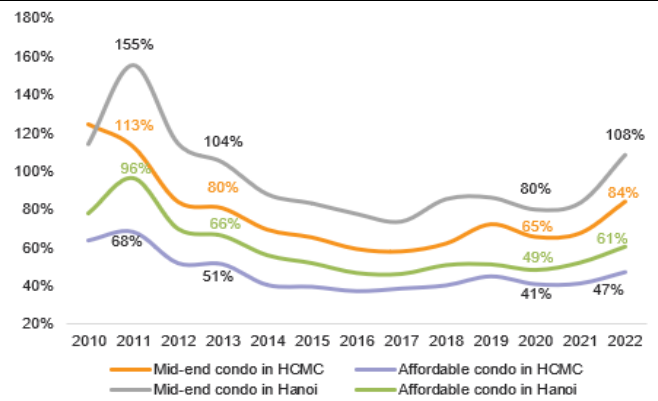
Sources: VNDIRECT RESEARCH, CBRE, GSO

Figure 9: 2022 average price-to-income ratio for mid-end condo in HCMC and Hanoi was reaching near the 2011-13 level



Source: VNDIRECT RESEARCH

Figure 10: Increase further mortgage unaffordability with the 2022 estimated payment-to-income ratio of 80-100% level

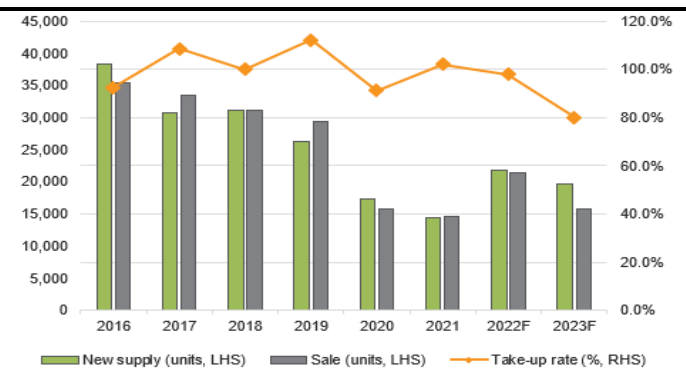


Source: VNDIRECT RESEARCH

A drop in new supply as the project approval process likely be delayed on waiting the amend Law of land

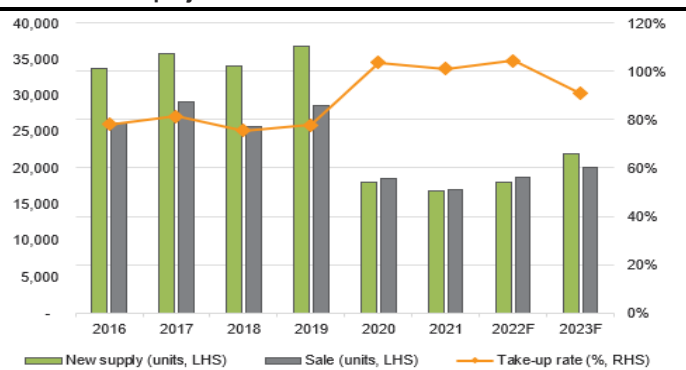
According to several developers' new launch plan, we see the sector's new launches could be backloaded in 2023F on waiting the amend Law of land and weaker homebuyer sentiment from limited credit room, cost inflation and interest rate hikes. We expect the 2023F HCMC new condo supply still dim with 19,000-20,000 units (-c.10% yoy) and c.15,000 sales volume units (-c.20% yoy). While new ready-built housing supply likely still sluggish in both HCMC and Hanoi, at 1,000-2,000 launches units in 2023F.

Figure 11: Lackluster the HCMC condo sales volume in 2023F



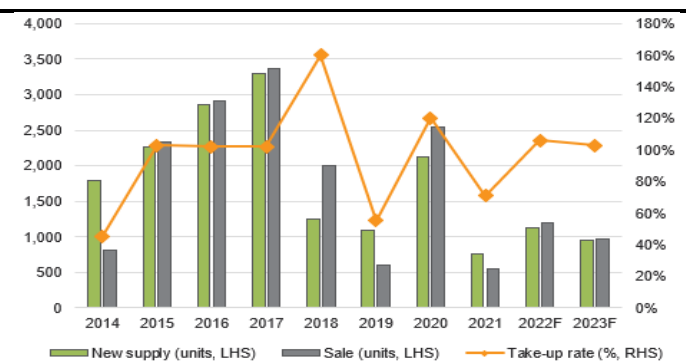
Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

Figure 12: Hanoi new condo supply likely stable in 2023F thanks to VHM's two new projects



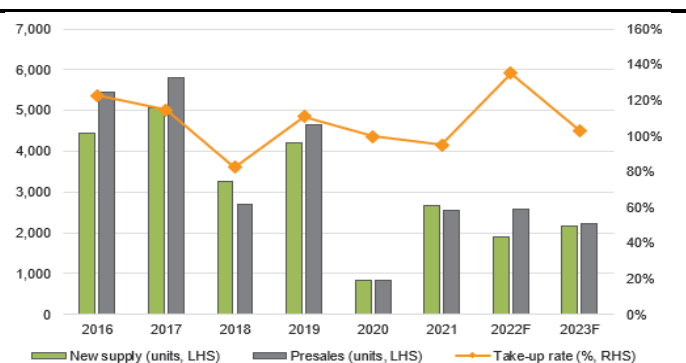
Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

Figure 13: New ready-built house supply in HCMC will drop in 2023F



Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

Figure 14: New ready-built house supply in Hanoi dim in 2023F



Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

If entering a “deep-freeze”, this cycle is likely different

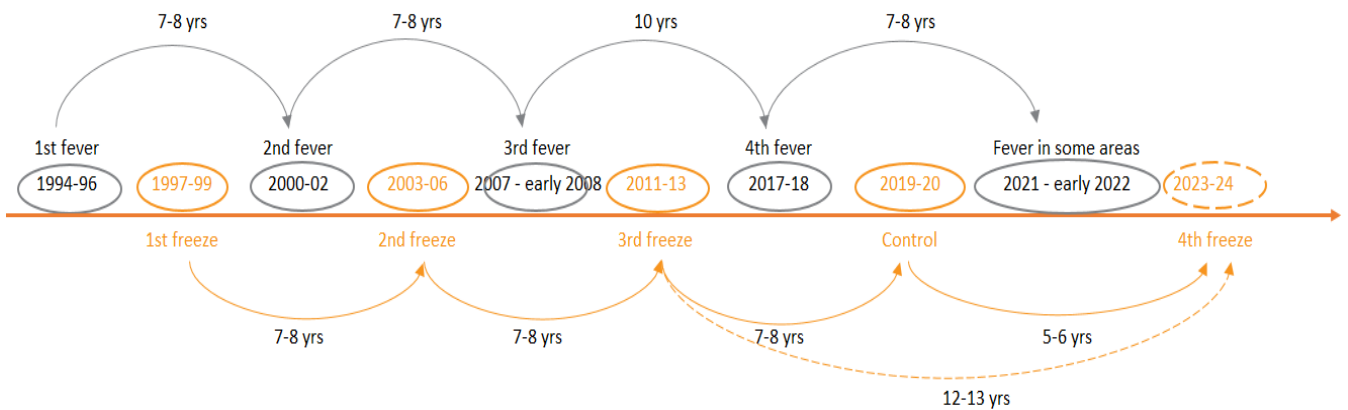
We analysis the background of current situation with the last downcycle of Vietnam property market during 2011-13 in order to have the answers for questions: (1) Will property market freeze? and (2) How long will it take to drive out of this downturn?

Figure 15: Comparison the background of current versus the sector downcycle during 2011-13

	2011 – 2013 period	Current
Origination	<ul style="list-style-type: none"> - Loose monetary policy during the 2008-09 global financial crisis; - Land fever in 2007 – early 2008; - New condo supply soared 163% yoy to 21,000 units in 2009. The market suffered supply and demand mismatch with large condo not meeting real end-user demand. 	<ul style="list-style-type: none"> - Loose monetary policy during COVID-19 pandemic, unprecedented affordable mortgage interest rates; - Credit growth slowdown of 14% in 2022; - Land fever lasted since 2017-18. Land prices kept soaring in some area following infrastructure development planning in 2021 and early 2022. - The market suffered limited supply, mismatch of supply and demand with mid-end condo shrinking of only c.2% portion in HCMC and Hanoi new supply as of end-3Q22.
Macro headwinds	<ul style="list-style-type: none"> - Monetary policy was reverted - Mortgage rate climbed up to 21-25%; - Tighter financial condition for real estate companies. 	<ul style="list-style-type: none"> - Monetary policy was reverted - Rapidly rising mortgage rate; - Squeeze developers’ three funding sources (equity, bond issuance and bank loan).

Sources: VNDIRECT RESEARCH

Figure 16: All signs point to the making of the next down cycle in domestic property market



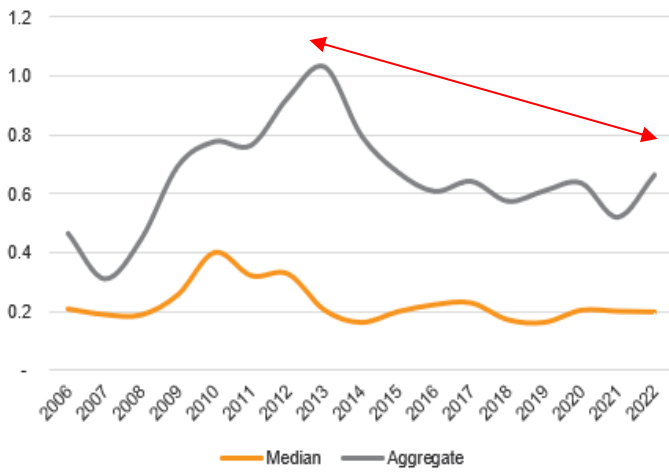
Sources: VNDIRECT RESEARCH

However, we see listed property developers’ financial health, currently in a better shape than period 2011-13

Our estimates are based on financial statements of 210 property developers (including 118 listed and 92 unlisted companies). We note that the number of listed property developers during 2011-13 is less than that of 2022.

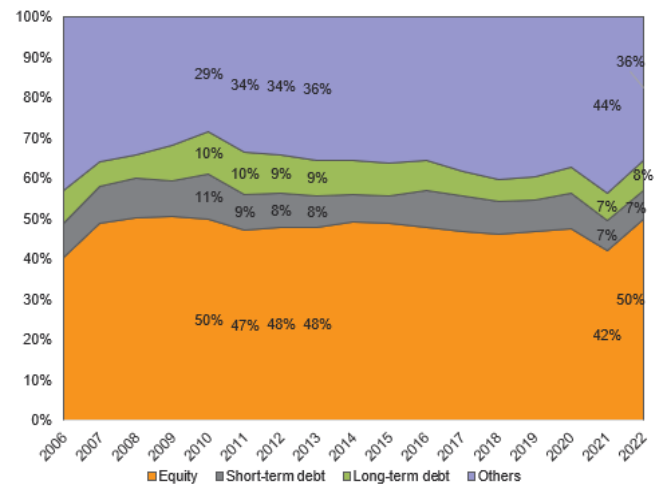
We observed that current listed developers have better financial health with lower leverage and healthier quick ratio than that of 2021-13. Current interest coverage ratio fell sharply to the bottom 2011-13 period which indicates the possibility of default risks is as high as 2011. Though inventory is rising but lower inventory/total assets ratio suggests lower pressure for releasing inventory than the period 2011-13. Thus, it might take shorter time to ride out of the downcycle than the past.

Figure 17: Current Debt/equity ratio is significantly lower than that of 2011-13



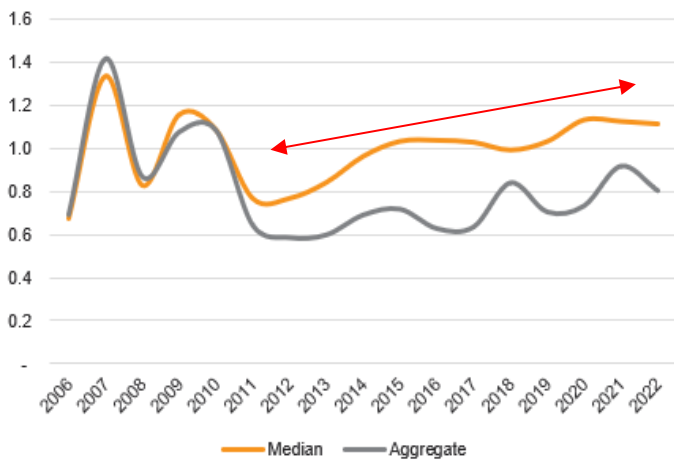
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 18: ...as developers now are able to raise fund by equity market and presales



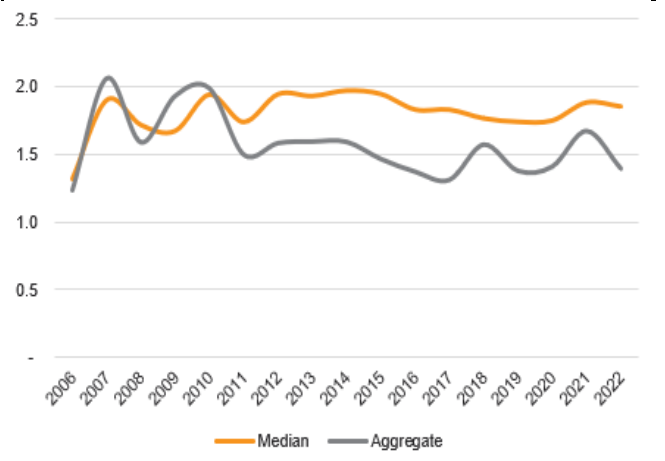
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 19: FY22 quick ratio is healthier than that of FY11-13



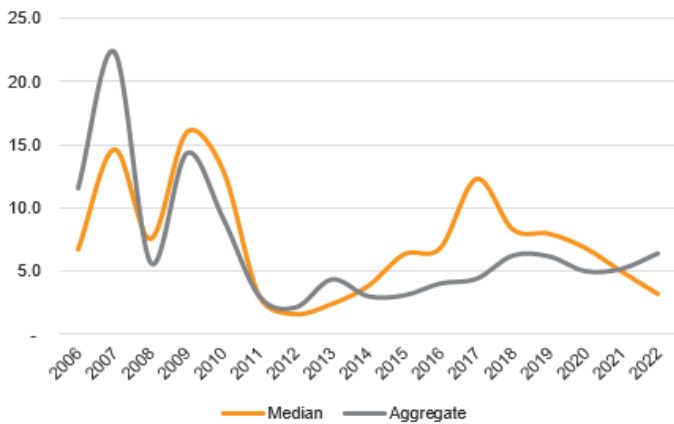
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 20: While current ratio has stayed flat on rising inventory



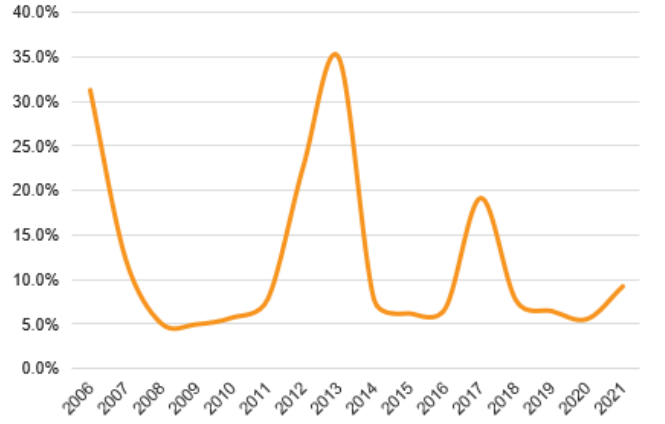
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 21: Current interest coverage ratio fell sharply to the bottom 2011-13 period which indicates the possibility of default risks is as high as 2011



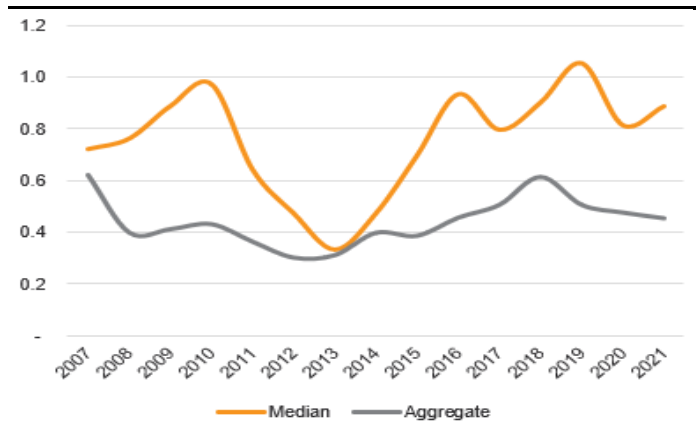
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 22: Cost of debt is heating up but still much lower than the 2011-13 level



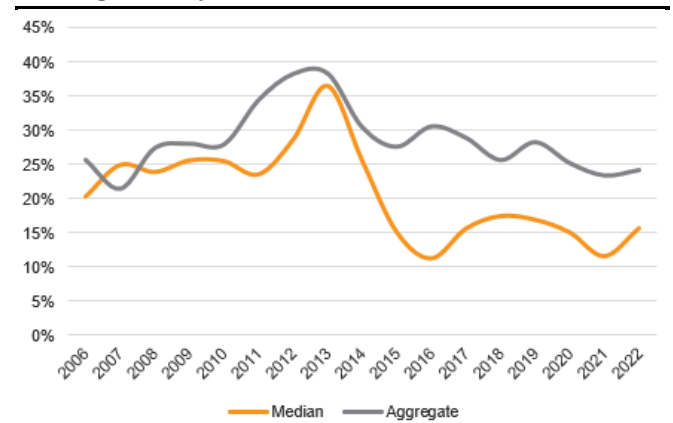
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 23: Inventory turnover has sharply decreased since 2018-19 on legal bottleneck, COVID-19 and weak housing sentiment



Sources: VNDIRECT RESEARCH, FIINPRO

Figure 24: However, current inventory/total assets ratio is much lower than the 2011-13 level, suggesting lower pressure for releasing inventory



Sources: VNDIRECT RESEARCH, FIINPRO

Figure 25: We expect less damage and shorter time to ride out of this downcycle

	2011 – 2013 period	Current (potential negative impact)
Negative impact		
Inventory	- Inventory turnover sharply fell to the 0.3-0.4x level in 2011-13 (from 1x seen in 2010) - Condo sales volume plunged by c.50% yoy in 2012.	- Inventory turnover tends to decrease but remains high compared to the 2011-13 level thanks to flexible sales policy.
Bad debts	- Property bad debt ratio was 7.05% in 2013 (from 5.39% in 2012).	
Default risks	- c.10% of property and construction companies went bankrupt or dissolved in 2012-13.	
Government solutions	- Release more fiscal support packages such as a stimulus credit package of VND30,000bn in early 2013. - Lower interest rates - Issue The Land law 2013 to tackle bottleneck: condo subdivision, loosen housing laws for foreigner.	- We expect the on-schedule Land law 2023 affected in 2H24F to tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover since 2024-25.
Results	- Primary housing prices fell up to 20-30%, especially for speculative properties; - New supply was gradually on balance with 50% of mid-end segment (vs. the level of 25% in 2011).	

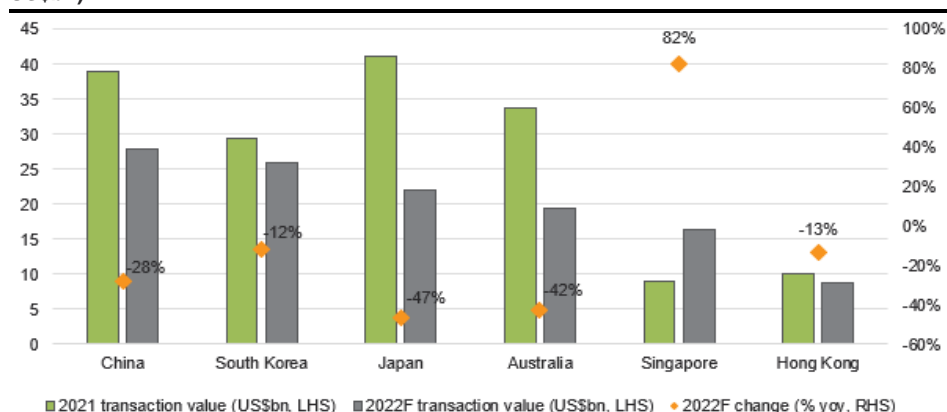
Sources: VNDIRECT RESEARCH

Case study: more support measures for the property market have been taken to avoid financial systemic risks

A downturn in global property market in 2022

According to Knight Frank, the global home prices across 56 countries worldwide rose by c.10% in 2021, the fastest increase since 2004, mostly boosted by unprecedented affordable mortgage interest rates. However, a series of headwinds emerges in 2022 such as soaring inflation, interest rates hike and Russia-Ukraine war, put global real estate markets slumping. Housing prices in several frothy market that saw the big gains in last two years are facing double-digit declines.

Figure 26: Asia Pacific transaction volume is likely to pull back roughly in 2022F (Unit: US\$bn)



Sources: JLL, VNDIRECT RESEARCH

Indeed, China's property debt crisis has rippled fears through Asia's property market. Many private Chinese developers are facing a combination of developer default waves and homebuyers' boycotting mortgage payments for unbuilt homes. The liquidity crisis was triggered by the "Three Red Lines" policy (see details in Appendix) issued in Aug 2020 to deleverage real estate industry. Refinancing difficulties, a strict lockdown and sharp fall in presales put property developers' cash flow drying up, caused the default waves such as Evergrande, Shimaoyang, Fantasia hay Kaisa, etc since 2021.

Aggressive policies to save the property sector in China

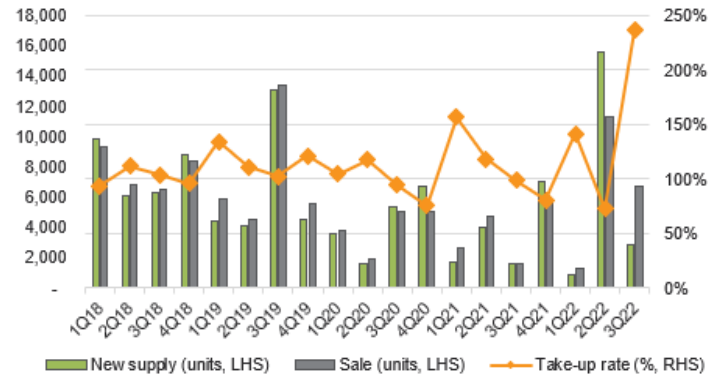
The People's Bank of China (PBOC) and China Banking and Insurance Regulatory Commission (CBIRC) announced 16 measures in mid-Nov, which aim to ease developers' liquidity pressure by 1) supporting their refinancing, 2) allowing them to delay debts repayment, 3) encouraging financial institutions (mainly banks) to lend more to developers. These policies, if implemented, should be able to ease developers' liquidity pressure markedly in near term especially allowing developers to extend their short terms debts.

HCMC residential property market 2023F outlook

3Q22 HCMC MARKET RECAP

Sales volume declined qoq on subdued new supply

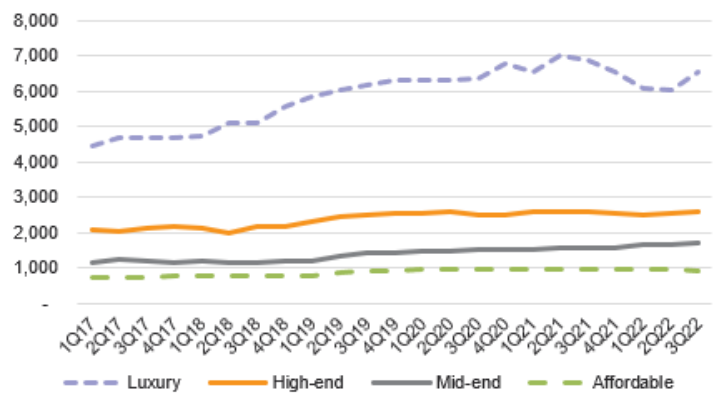
According to CBRE, 3Q22 HCMC condo sales volume declined by 40% qoq to 6,726 units on a subdued new supply of 82% qoq (2,850 units). 3Q22 take-up rate reached at 225%, supported by VHM's c.4,000 unsold units in 1H22. High-end segment continued to contribute the most at 86% of 3Q22 sales volume.



Sources: CBRE, VNDIRECT RESEARCH

More promotion discounts on condo primary prices (Unit: US\$ psm)

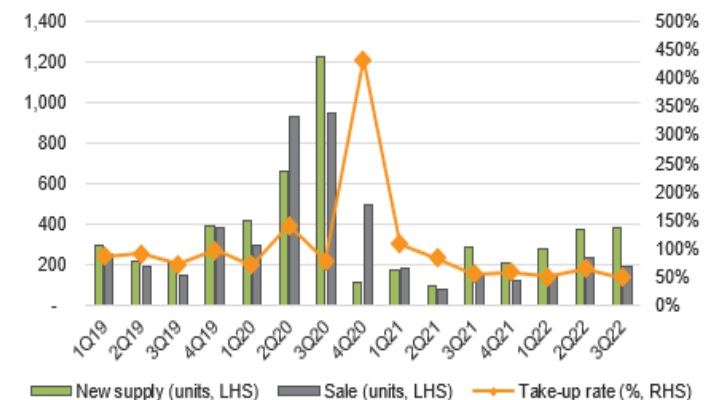
Although HCMC condo primary prices kept rising 3.7% qoq on average, we saw more promotion discounts on prices for non-bank loan homebuyers to stimulate demand amid rising mortgage rate and limited credit room. We noticed some developers likely adopted a 20-30% discount on prices for 95% cash payment homebuyers.



Sources: CBRE, VNDIRECT RESEARCH

Take-up rate for landed property hit a 7-year low on qoq basis

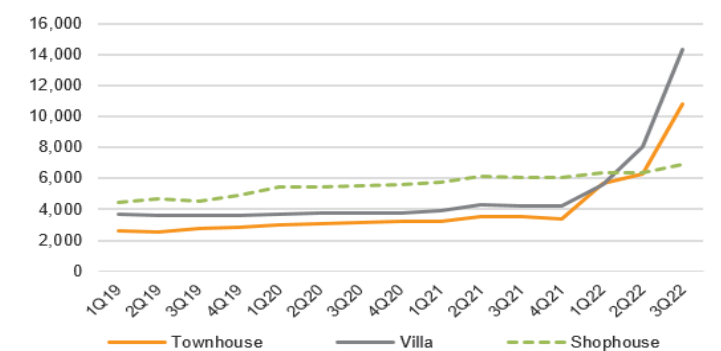
3Q22 new supply for landed property stayed flat at 386 units on qoq basis but sales volume dropped 20.4% qoq to 189 units in HCMC. Take-up rate reached only 49%, a 7-year low on subdued housing demand.



Sources: CBRE, JLL, SAVILLS, VNDIRECT RESEARCH

Primary prices of landed property kept rising trigger by branded units (Unit: US\$ psm)

As at end-3Q22, primary prices of landed property sharply rose by 70-80% qoq trigger by branded residence projects. We believe primary prices of landed property could be quickly backed the 7,000-8,000 US\$ psm level in 2023-24F as investors have been more cautious on "golden location" after arrest waves relating large real estate developers.

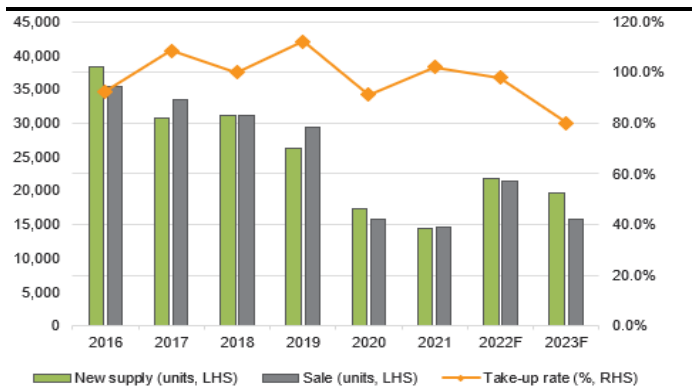


Sources: CBRE, JLL, VNDIRECT RESEARCH

Condo market: lacklustre in condo sales, fall in primary price

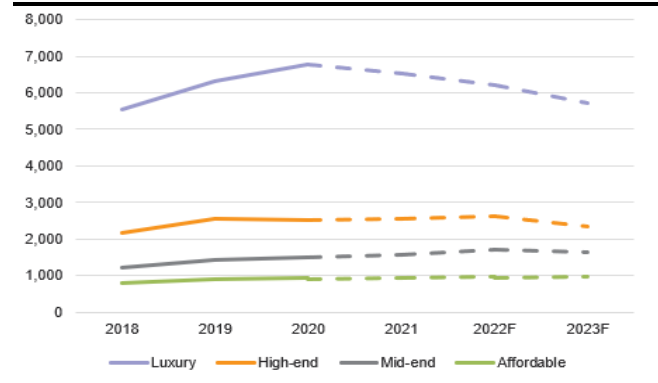
We expect the 2023F HCMC new condo supply still dim with 19,000-20,000 units (-c.10% yoy) and c.15,000 sales volume units (-c.20% yoy). Take-up rate could keep falling to the 80% level (-c.10% pts yoy) due to homebuyer sentiment remaining sluggish in 2023F, in our view. We forecast condo primary price to decrease by 5-10% yoy across the board. We believe developers should continue to offer some promotion discounts on primary price to stimulate demand amid rising mortgage rate and limited credit room.

Figure 27: Lacklustre the HCMC condo sales volume in 2023F



Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Figure 28: We expect condo primary price to fall by 5-10% yoy across the board (Unit: US\$ psm)



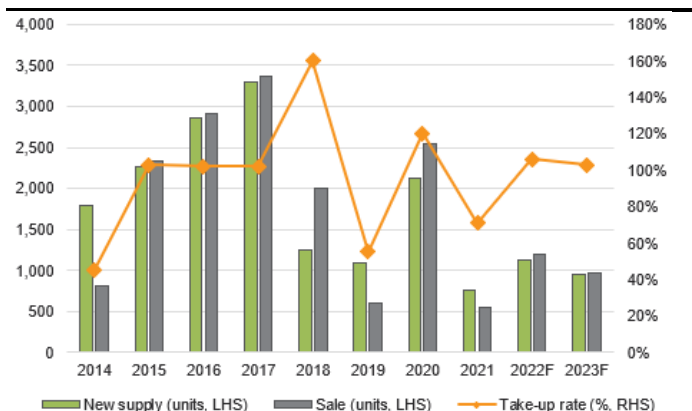
Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Ready-built housing market: modest sales volume, a drop of land prices in speculative areas

HCMC new ready-built housing supply is likely to keep shrinking in 2023F given limited land bank and slow regulatory approval. The new supply is mostly from suburbs HCMC such as Thu Duc City, Dist. 12, Binh Chanh. We expect lower primary pricing level given investors to be more cautious on “golden location” after arrest waves relating large real estate developers.

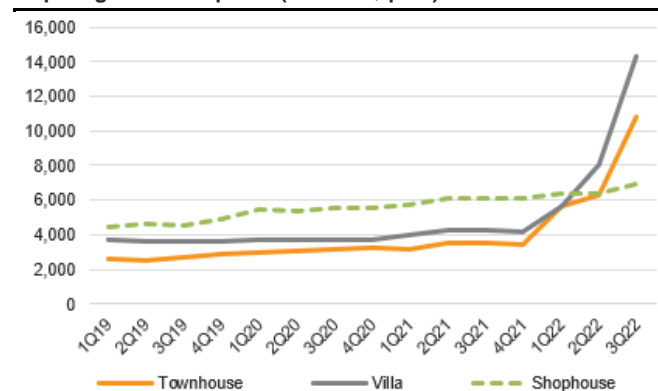
We do not expect a fall in secondary land price at projects with transparency legal document, real-end users demand, as buyers in these projects are less sensitive to high inflation and mortgage rate. We saw several high-end low-rise projects in 9M22 still achieved high take-up rate such as The Classia, as buyers in this segment have high purchasing power and use property as inflation hedge. However, we expect land secondary prices to fall in several hot areas such as Cu Chi, Hoc Mon and Binh Chanh, trigger by the stricter supervision on credit into hoarding properties and increasing further mortgage unaffordability.

Figure 29: Modest new ready-built housing supply in HCMC in 2023F



Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Figure 30: We expect lower primary pricing level in 2023F to acquire good take-up rate (Unit: US\$ psm)

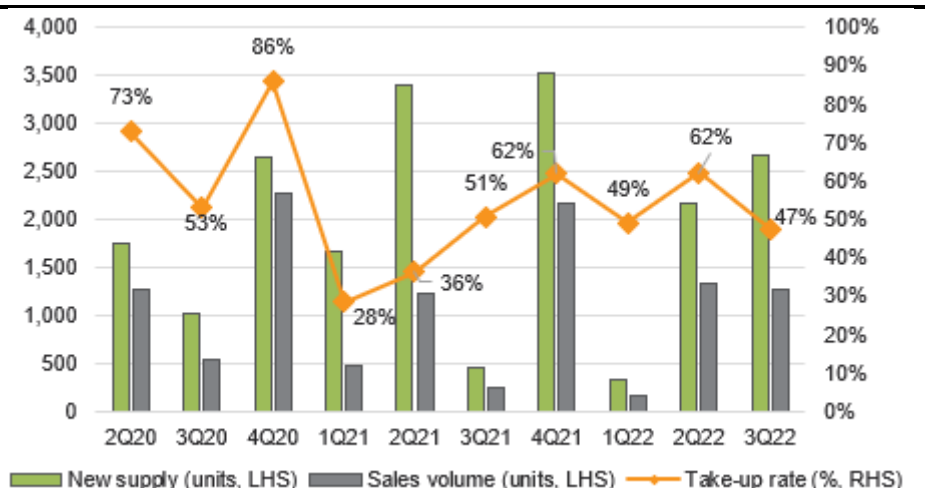


Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

HCMC's neighbouring provinces ready-built housing market are fading on violations of authorities relating real estate market in 2023F

We saw developers kept speeding up sales activities in HCMC's neighbouring provinces in 3Q22, with new supply up 23.0% qoq to 2,656 units. However, 3Q22 take-up rate sharply fell by 14.5% pts qoq to 47%, given violations of authorities relating real estate market in these areas, leading a 5.8% qoq decrease in sales volume, according to DKRA and CBRE. We believe property market in HCMC's neighbouring provinces to be still dull in 2023F due to homebuyer sentiment sluggish in these areas hindering the housing purchasing decisions.

Figure 31: HCMC's neighbouring provinces are likely fading in 2023F due to homebuyer sentiment sluggish



Source: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Some upcoming residential projects in the South in 2023F

We see most of 2023F new launches have high exposure to real end-user demand, developed by listed companies who have healthy financial cash flow and good reputation. We believe NLG and KDH are still favourable amid the mid-end segment, however, take-up rate could slower than the 2021-22 period on rising mortgage rate and limited credit room.

Figure 32: Some residential projects in the South are expected to be launched in 2023F

Project name	Developer	Location	Type of products	Land size (ha)	Expected launch
Vinhomes Grand Park - Next phase	VHM	Thu Duc City	High-rise, low-rise	272	2023
Izumi City - Next phase	NLG	Dong Nai	High-rise, low-rise	170	2023
Akari City - Next phase	NLG	Binh Tan	High-rise	8.5	2023
Mizuki City - Next phase	NLG	Binh Chanh	High-rise	26	2023
Clarita	KDH	Thu Duc City	Low-rise	5.7	2023
Privia	KDH	Binh Tan	High-rise	1.8	2023
The Signal	AGG	District 7	High-rise	N/A	2023
Gem Riverside	DXG	Thu Duc City	High-rise	6.7	2023

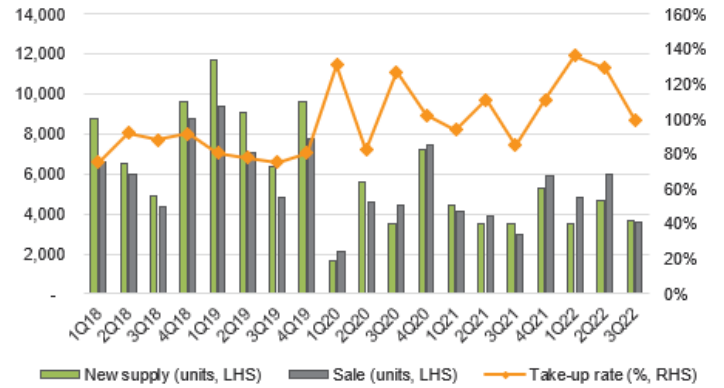
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Hanoi residential property market 2023F outlook

3Q22 HANOI MARKET RECAP

Lacklustre in condo transaction

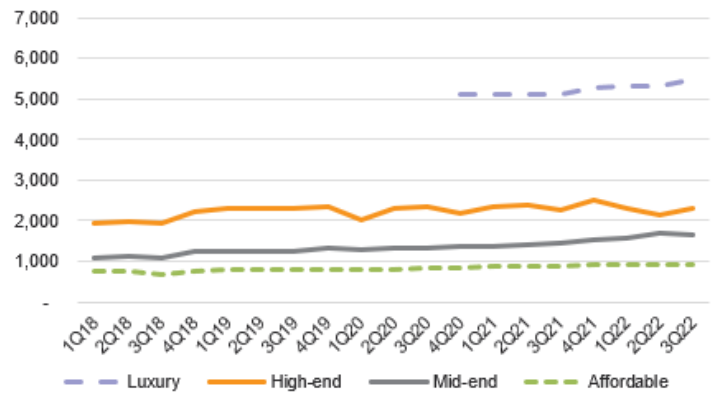
The 3Q22 Hanoi condo market plunged in both new launches (-22% qoq to 3,640 units) and sales volume (-39% qoq to 3,624 units). High-end and mid-end segments contributed 65%/34% of total sales volume, respectively. 3Q22 take-up rate declined by 23% pts qoq to 99%.



Sources: CBRE, VNDIRECT RESEARCH

Average condo primary price cooled down (Unit: US\$ psm)

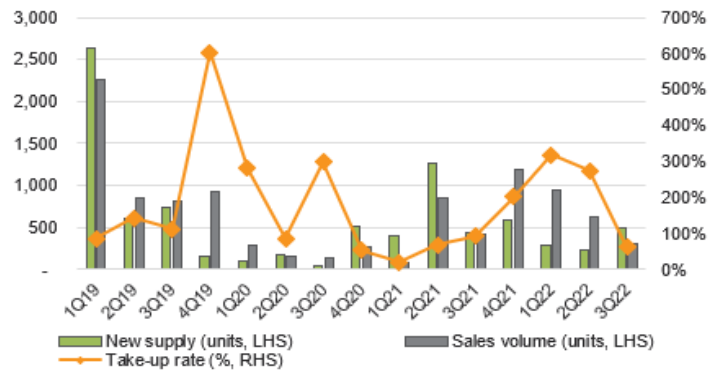
Condo primary prices in mid-end segment fell for the first time in 3 years (-3% qoq) after a surge of 12.3% ytd in 1H22. While the others inched up 1-2% qoq in 3Q22. The Hanoi condo primary price slightly rose 1.3% qoq on average to US\$1,896 psm in 3Q22.



Sources: CBRE, VNDIRECT RESEARCH

A sharp drop in sales volume of landed property

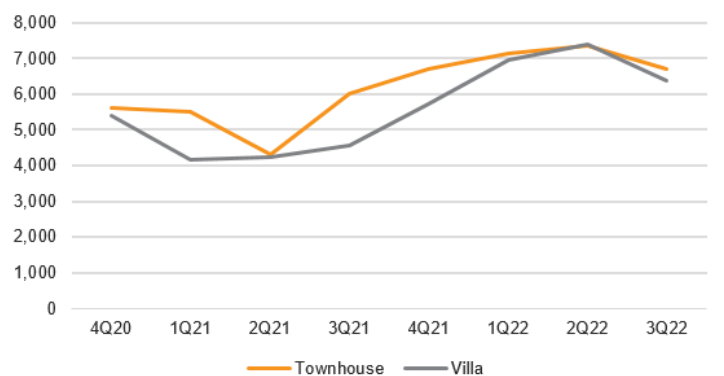
3Q22 new supply for landed property rose 115% qoq to 489 units but sales volume significantly dropped 52% qoq to 299 units in Hanoi. Take-up rate reached at 61% (vs. ~300% in 1H22) on subdued housing demand.



Sources: CBRE, JLL, VNDIRECT RESEARCH

Primary prices of landed property slew down (US\$ psm)

We saw primary prices of landed properties decreased by 10-15% qoq in both townhouse and villas in 3Q22, after a significant surge of 10%/30% ytd in 1H22, respectively.

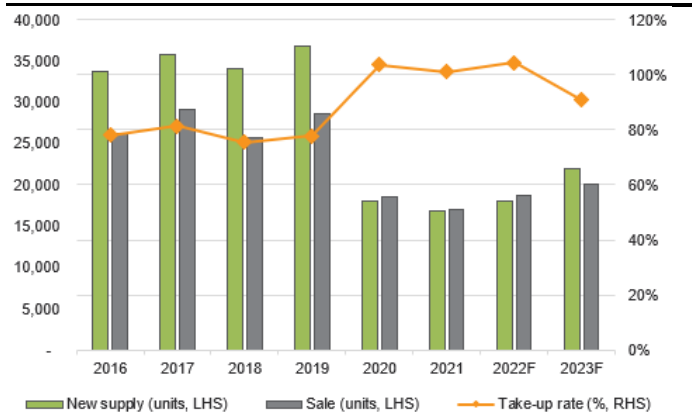


Sources: CBRE, JLL, VNDIRECT RESEARCH

Condo market: stable new supply from Vinhomes

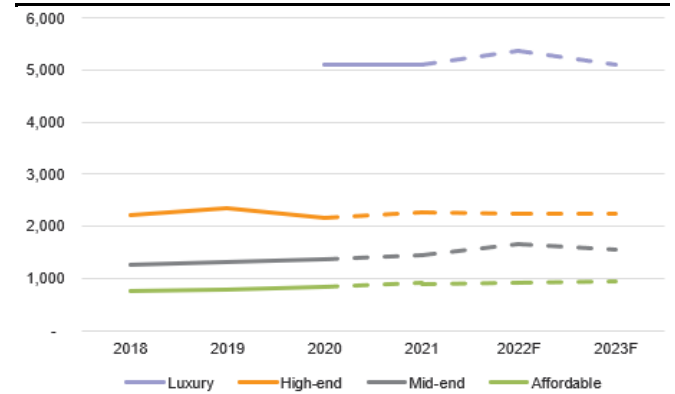
We see a stable new condo supply boosted by VHM's two new project launches in Hanoi in 2023F (c.20,000-22,000 units). We expect take-up rate to achieve c.90% (-13.5% pts yoy) on weak housing demand sentiment, equivalent to 18,000-20,000 sold units in 2023F. We forecast condo primary price to slightly decrease 3-5% yoy, and expect to see more promotion activities for non-bank loan homebuyers to stimulate demand amid rising mortgage rate and limited credit room.

Figure 33: We expect a stable new condo supply in 2023F thanks to VHM's two new projects



Sources: VNDIRECT RESEARCH, CBRE

Figure 34: We expect Hanoi condo primary prices to enjoy slight decrease 3%-5% yoy on average in 2023F (US\$ psm)

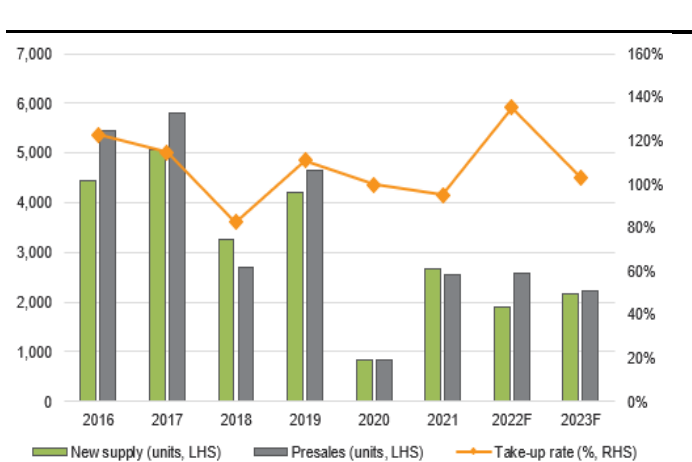


Sources: VNDIRECT RESEARCH, CBRE

Ready-built housing market: new supply still dims

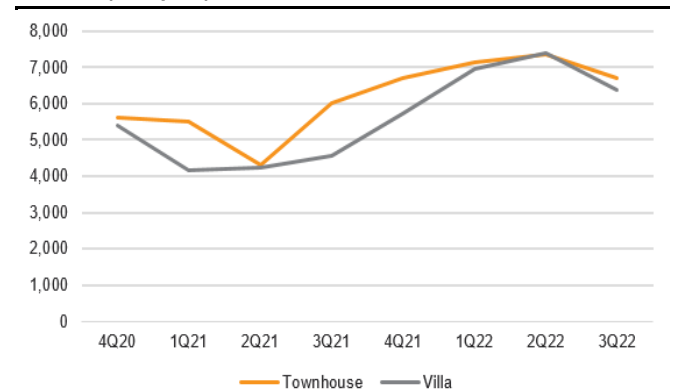
We see the new supply of landed property market will continue depend on launches of townships in 2023F. New supply is likely to stay flat at 2,000-2,200 units in 2023F dominated mostly by new mega townships such as Vinhomes Wonder Park, Vinhomes Co Loa and launches of next phases from townships such as Hinode Royal Park, An Lac Green. We believe that noticeable developers' new project launches could still achieve good take-up rate in 2023F boosted by buyers who purchase ahead of the interest rate hikes and use property as inflation hedge.

Figure 35: Lacklustre new landed supply in Hanoi



Sources: VNDIRECT RESEARCH, CBRE

Figure 36: We expect a softer land secondary price momentum in 2023F (US\$ psm)

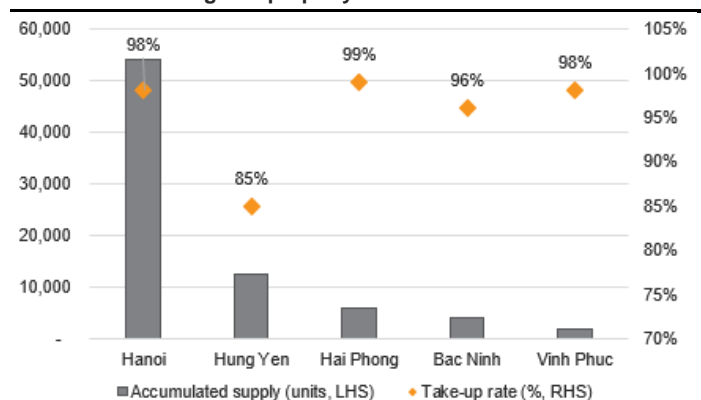


Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

We see Hung Yen will take spotlight in Hanoi's neighbouring provinces ready-built housing market

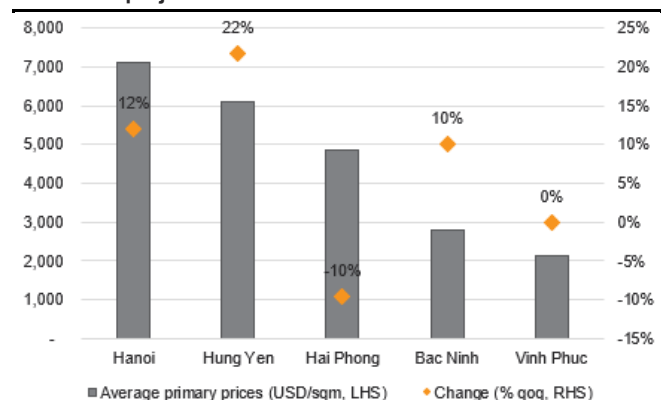
We see Hung Yen are in the spotlight thanks to Vinhomes Ocean Park 2 & 3 launches in 9M22. We believe average primary prices for landed property in Hung Yen to keep increasing higher than that of Hanoi in 2023F, boosted by its acceleration in infrastructure development and high-quality projects from Vinhomes. Besides, we see high housing demand for experts, engineers in Hung Yen in the next 2-3 years following new industrial parks launches such as Pho Noi A IP, Thang Long II IP, Yen My II IP, etc.

Figure 37: Abundant new supply from Vinhomes to add more excitement for Hung Yen property market in 1H22



Sources: VNDIRECT RESEARCH, JLL, CBRE

Figure 38: Landed prices increased sharply in Hung Yen on Vinhomes' project launches in 1H22



Sources: VNDIRECT RESEARCH, JLL, CBRE

Some noticeable upcoming residential projects in the North in 2023F

We project VHM to dominate the Northern Vietnam real estate market in 2023F with two new township project launches in Hanoi. We see some noticeable project launches with infrastructure development (such as Ring Road 3 and the upcoming next phase of Ring Road 2.5 in Hoang Mai district) could benefit namely The Manor Central Park and Louis City Hoang Mai, etc.

Figure 39: Some noticeable residential projects in the North are expected to be launched in 2023F

Project name	Developer	Location	Type of products	Land size (ha)	Expected launch
Vinhomes The Crown	VHM	Hung Yen	High-rise, low-rise	294	2022-23
Vinhomes Co Loa	VHM	Dong Anh, Hanoi	Low-rise	385	2023
Vinhomes Wonder Park	VHM	Dan Phuong, Hanoi	High-rise, low-rise	133	2023
Central Residence	Gamuda	Hoang Mai	High-rise	6	2023
Eco Smart City	Thien Huong	Long Bien, Hanoi	High-rise	1.3	2023
The Manor Central Park	Bitexco	Hoang Mai	Low-rise	89	2023

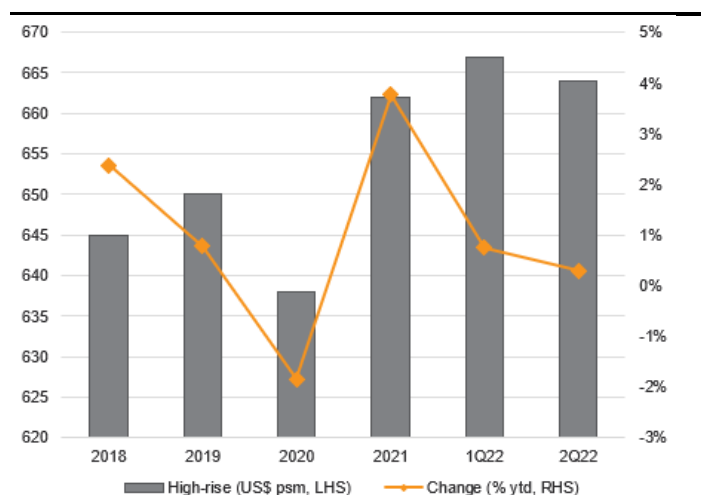
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

FY22-23F outlook of listed property developers

Building material prices downturn is positive

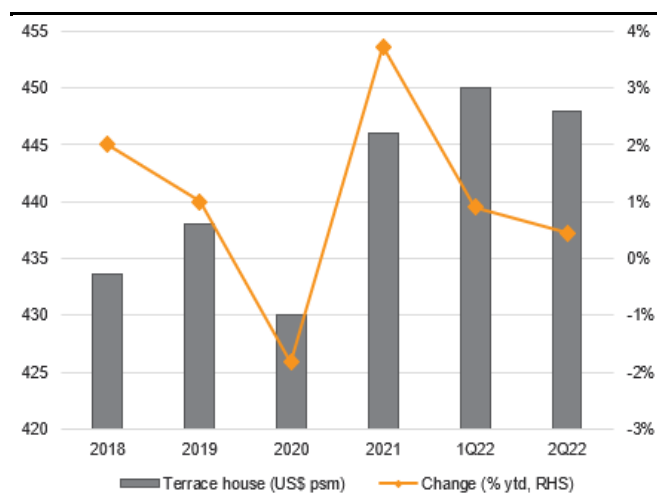
We see building material prices has been slow down since 2Q22. Specially, after peaking in April, domestic steel price has decreased by 14.1% from the peak and is 0.1% lower than its level at the beginning of 2022. We expect the selling price of construction steel will gradually decrease in 2023F which could reduce pressure on gross margin for construction contractors and property developers, thereby speeding up the progress of public investment projects as well as property developers to tame home prices, in our view.

Figure 40: Construction cost for the HCMC average standard apartment...



Sources: VNDIRECT RESEARCH, ARCADIS

Figure 41: ...and terrace house has slight decreased since 2Q22



Sources: VNDIRECT RESEARCH, ARCADIS

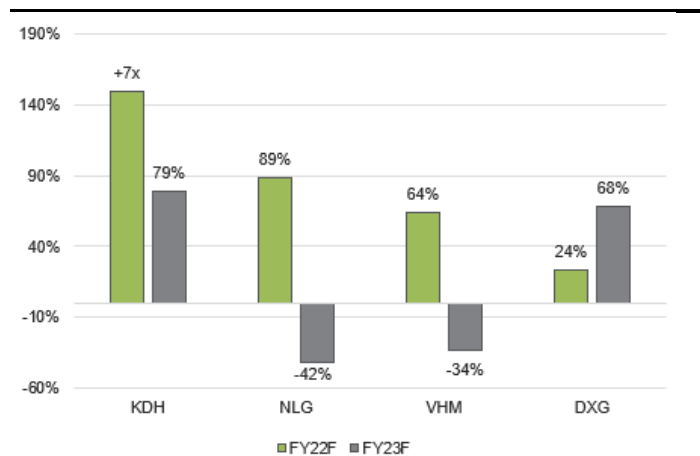
FY22-23 outlook of listed property developers

Figure 42: Mid and large caps' earnings growth improved while small cap underperformed in 3Q22

	3Q22 revenue (VNDbn)	3Q21 revenue (VNDbn)	Change (%) yoy	9M22 revenue (VNDbn)	9M21 revenue (VNDbn)	Change (%) yoy	3Q22 net profit (VNDbn)	3Q21 net profit (VNDbn)	Change (%) yoy	9M22 net profit (VNDbn)	9M21 net profit (VNDbn)	Change (%) yoy
VHM	17,805	20,679	-14%	31,199	61,681	-49%	14,494	11,167	30%	19,700	27,084	-27%
NVL	3,279	3,262	1%	7,894	10,312	-23%	197	556	-65%	2,025	2,413	-16%
AGG	2,194	84	2505%	5,466	687	695%	42	9	357%	163	205	-20%
DXG	1,255	1,303	-4%	4,597	7,819	-41%	153	52	195%	556	882	-37%
NLG	882	151	484%	2,710	787	244%	8	297	-97%	119	709	-83%
KDH	803	1,199	-33%	1,678	3,148	-47%	352	317	11%	983	788	25%
DIG	424	539	-21%	1,518	1,655	-8%	-1	43	-102%	142	138	3%
HDC	344	281	22%	1,124	920	22%	72	68	6%	248	210	18%
CCL	133	182	-27%	336	733	-54%	20	7	170%	46	56	-17%
NBB	121	6	2065%	290	558	-48%	0	173	-100%	2	335	-99%
NTL	115	157	-27%	323	317	2%	13	74	-82%	105	139	-24%
SCR	78	375	-79%	574	1,574	-64%	21	8	177%	141	184	-23%
PDR	11	1,268	-99%	1,490	2,391	-38%	718	608	18%	1,412	1,111	27%
CEO	334	124	170%	1,052	406	159%	28	-34	N/A	90	-129	N/A
CRE	755	843	-10%	3,316	4,526	-27%	28	79	-65%	253	329	-23%

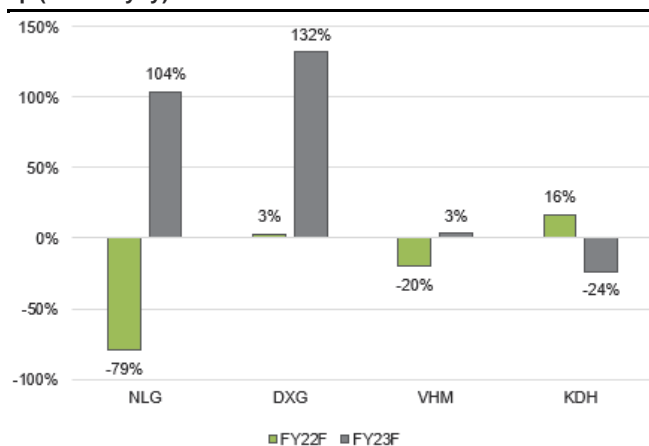
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 43: We forecast FY23F presales dwindle on subdued housing demand in FY23F (Unit: % yoy)



Sources: VNDIRECT RESEARCH

Figure 44: FY23F earnings of top four listed property companies under our coverage to bounce back on previous presales back up (Unit: % yoy)



Sources: VNDIRECT RESEARCH

Figure 45: FY22-24F earnings forecasts of stocks under coverage

	NLG			VHM			KDH			DXG		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	3,983	2,816	8,261	49,948	83,124	93,066	2,968	2,942	4,133	7,935	14,460	14,225
% growth	-23.5%	-29.3%	193.4%	-41.2%	66.4%	12.0%	-20.6%	-0.8%	40.5%	-21.4%	82.2%	-1.6%
Gross margin (%)	41.0%	39.5%	35.9%	55.0%	51.3%	55.7%	65.8%	60.8%	50.2%	52.9%	50.5%	68.5%
EBITDA margin (%)	18.0%	30.7%	20.2%	52.9%	47.4%	52.0%	61.8%	46.9%	37.1%	36.8%	34.0%	52.1%
Net profit (VNDbn)	228	465	633	31,066	32,087	38,394	1,399	1,070	1,192	1,191	2,762	4,431
% growth	-78.7%	103.9%	36.1%	-20.0%	3.3%	19.7%	16.4%	-23.6%	11.5%	3.1%	132.0%	60.4%
Presales value (VNDbn)	11,196	6,516	8,990	129,687	85,877	92,613	3,070	5,484	6,356	7,315	12,316	17,562
% growth	89.0%	-41.8%	38.0%	64.4%	-33.8%	7.8%	677.1%	78.7%	15.9%	23.5%	68.4%	42.6%
EPS (VND/share)	566	1,154	1,570	7,135	7,369	8,817	2,188	1,658	1,679	1,992	4,621	7,412
BVPS (VND/share)	22,413	22,101	22,194	35,881	43,250	52,067	18,030	17,830	19,509	16,281	20,902	28,314
Net cash/share (VND/share)	2,590	4,319	1,411	-859	-1,066	2,289	-5,885	-6,686	-10,249	2,590	4,319	1,411
D/E	0.4	0.3	0.4	0.2	0.2	0.2	0.6	0.5	0.7	0.3	0.3	0.2
Dividend yield (%)	4.0%	4.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROAE (%)	2.6%	5.5%	7.5%	22.1%	18.6%	18.5%	17.3%	13.2%	14.7%	12.9%	24.9%	30.1%
ROAA (%)	0.9%	1.7%	2.1%	10.5%	8.1%	8.3%	9.8%	8.3%	8.4%	4.0%	8.2%	11.5%

Source: VNDIRECT RESEARCH

Vinhomes (VHM: HOSE)

VHM posted 3Q22 results with net revenue reaching VND17.8tr (-13.9% yoy) while net profit growing 29.8% yoy to VND14.5tr. The buoyant net profit growth were primarily driven by the recognition of bulk sales transactions in financial income of c.VND8.9tr in addition to the ongoing handovers of retail units at Ocean Park, Grand Park, Smart City and The Empire. Thereby, VHM recorded 9M22 NP decline of 27.3% yoy that looked much better than the sharp contraction of 68.3% yoy in 1H22 NP

VHM's 4Q22 presales will be supported by launch of Vinhomes Ocean Park 3 – The Crown and Vinhomes Golden Avenue in Quang Ninh targeted to launch in November. Accumulated, we expect FY22F presales to reach VND129.7tr of value (+64.4% yoy). For presale activities in FY23F, we believe that presales value will decrease by 33.8% yoy, respectively, due to weaker demand for property investment in the context of interest rates continuing to rise.

We expect VHM's FY23F revenue to reach VND83,124bn (+66.4% yoy from low-base in FY22F) with a major distribution from The Empire and The Crown.

However, with a large value of bulk sales in FY22 recorded in financial revenue, FY23F net profit only increased by 3.3% yoy to VND32,087bn.

Nam Long (NLG: HOSE)

NLG reported 3Q22 revenue up by 484% yoy to VND882bn, thanks to handovers at Flora Akari and Valora Southgate. However, 3Q22 net profit sharply dropped by 97% yoy to only VND8bn due to lack of one-off gains

We expect NLG to launch 35 low-rise units in Southgate project, valued at c.VND700bn in 4Q22. Accumulated, we estimate FY22F presales surge by 78.9% yoy to VND10,601bn. For FY23F, we forecast FY23F presales to plunge 41.8% yoy to VND6,516bn due to subdued housing demand.

We forecast NLG to report FY23F revenue down 29.3% yoy to VND2,816bn, still mostly from Valora Southgate and Can Tho 43ha projects. However, we estimate FY23F net profit to surge by 104% yoy to VND465bn on BCC project handovers namely Mizuki and FY22F low base, a six-year low.

Khang Dien (KDH: HOSE)

KDH posted 3Q22 revenue down by 33% yoy to VND803bn, thanks to handovers at Classia project. 3Q22 gross profit margin impressively expanded by 23.7% pts yoy thanks to high-margin low-rise project handovers. As a result, 3Q22 net profit rose by 11% yoy to VND352bn

We forecast KDH's 4Q22 presales to VND700-800bn from Classia project (vs. VND100-150bn in 4Q21 due to lack of new project launches). Accumulated, FY22F presales soar 676% yoy to VND2,804bn on FY21 low base. FY23F presales rise 78.7% yoy to VND5,484bn on two new project launches namely Clarita and Privia. We believe KDH could maintain positive take-up on transparency legal document, high quality product, high exposure to end users, as buyers in these projects are less sensitive to high inflation and mortgage rate.

We estimate KDH's FY23F revenue to decrease slightly 0.8% yoy to VND2,942bn, mostly from Classia and Clarita projects. FY23F gross margin will still be high at 60.8% (-5.0% pts yoy) on low-rise handovers. However, we forecast FY23F net profit to decline by 23.6% yoy to VND1,070bn due to lack of one-off gains.

Dat Xanh Group (DXG: HOSE)

DXG's 3Q22 revenue slightly decreased by 4% yoy to VND1,255bn due to a drop of 35% yoy in property handover revenue. However, 3Q22 financial income sharply surge 349% yoy to VND211bn thanks to divestment activities. As a result, 2Q22 net profit rose 195% yoy to only VND153bn.

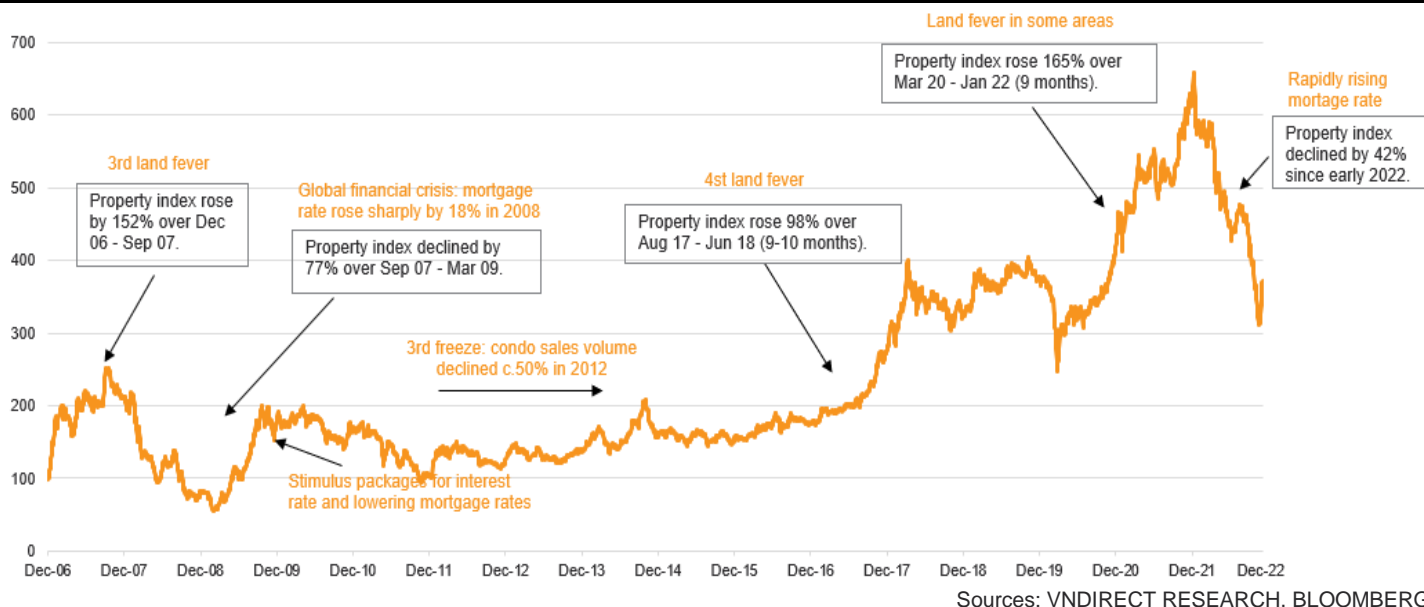
We estimate DXG's FY23F revenue to bounce back +82.2% yoy thanks to the last phase of Gem Sky Word and Opal Skyline handovers. FY23F gross profit margin will stay at high level of 50.5% (-2.4% pts yoy). Following that, we forecast FY23F net profit surge by 132% yoy to VND2,762bn on FY22F low base.

Stock pick: NLG

Have property stock's been priced in?


Property sector index recovered 18.9% from the lowest level on mid-Nov 2022 and currently trading at 1.9x current P/B, which is a 32% discount to its 3-year average of 2.7x. While the stock is trading at cheap valuations, we believe the stock's re-rating would depend on the recovery in Vietnam's property sentiment which is unlikely before FY24F. The downturn in housing market likely keeps worse in 1H23F, until inflation is under control and interest rates revert back to more sustainable norms, allowing market pricing to reset, in our view.

Figure 46: Property sector index declined by 42% since early 2022



Stock pick: NLG

Figure 47: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	 NLG	36,500	ADD	<p>NLG stock price has dropped more than 70% ytd, following the market correction. Currently, NLG is traded at 0.8x FY23F P/B, a lowest-ever. We believe this valuation is attractive for a property developer with healthy financial structure and strong cash flow from previous presales like NLG.</p> <p>(1) NLG has a sizeable land bank of 681ha as of 3Q22 with a diversified portfolio of projects to mitigate risks, and high exposure to the mid-range and affordable condo segments as these segments are driven by real end-user demand.</p> <p>(2) We do not see any challenges in NLG's liquidity, with a low net debt/equity ratio of only 5% (vs. its peer average of 40-45%), and a high proportion of cash and cash equivalents of VND4,179bn, accounting for 16.4% of its total assets as of end-3Q22.</p> <p>(3) We forecast a 43.5% of revenue compounded annual growth rate (CAGR) and 136.9% of net profit CAGR in FY22-24F, mostly driven by strong property handovers from previous presales back up.</p>
2	VHM	82,000	ADD	<p>VHM is a leading property developer with a total land bank of about 16,800ha by the end of 2021; in which, 90% of its total land bank had not been deployed yet, showing the huge potential of the VHM in the future.</p> <p>In the context of tightening bank loans into property sector and stricter supervision in corporate bond issuance, we still believe that liquidity is not a concern for VHM. Its cash and cash equivalents increased by three times from Dec 2021, showing that the cash flow is supported by projects launched for sale in the recent period. VHM continues to focus on borrowing in VND (accounting for 100% of total debt) and maintains low leverage with a net debt/equity ratio of 17.3% as at Sep 2023 to minimize potential risks.</p>

3	KDH	34,800	HOLD	<p>We like KDH for its scale, financial capacity, huge land bank in HCMC's sought-after locations (c.600ha for residential and 110ha for industrial park as of end-3Q23) as well as legally transparent. These factors position KDH well to capture demand those use property as inflation hedge, in our view.</p> <p>We project KDH's presales value to strongly bounce back, with a 677% yoy/79% yoy surge in FY22-23F on three new residential project launches in HCMC, namely Classia (4.3ha), Privia (1.8ha) and Clarita (5.7ha).</p>
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4	DXG	22,000	ADD	<p>We have a positive view on DXG long term by:</p> <p>(1) leading position nationwide in brokerage market with 33% market share (DXS) in FY21. DXG has quickly gained market share by boosting investment in technology platforms that increase transaction speed 10 times. Gem Sky World, Opal Skyline... are projects that achieve good trading results through this platform.</p> <p>(2) potential land bank in HCMC, especially DXH Riverside (launch in 1H23), which will contribute VND9,155bn in FY24-26F EBT, we expect the absorption rate to be high at launching time thanks to high demand for inner-city project in HCMC. Contributing to DXG's main revenue growth in 2023 comes from projects such as Gem Skyline với Opal Skyline....</p>
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Source: VNDIRECT RESEARCH

Figure 48: Peer comparisons

Company	Ticker	Price		Target price	Recom.	Mkt cap	P/E (x)			P/B (x)			3-year EPS		ROE (%)	Net D/E as of 3Q22 (%)
		LC\$	LC\$				US\$m	TTM	FY22F	FY23F	Current	FY22F	FY23F	CAGR (%)		
Residential/hospitality developers																
Vinhomes	VHM VN	58,300	82,000	ADD	10,577	8.1	8.2	7.9	1.9	1.6	1.3	(0.4)	22.1	18.6	7.8	
Novaland	NVL VN	22,150	NR	NR	1,800	15.1	18.6	20.4	1.2	1.0	0.9	11.2	5.6	4.9	103.1	
Phat Dat	PDR VN	16,650	NR	NR	466	5.1	3.5	2.2	1.3	1.0	0.7	38.7	28.3	30.7	35.7	
Khang Dien	KDH VN	31,100	34,800	HOLD	929	17.4	14.2	18.8	2.0	1.7	1.7	(6.9)	17.3	13.2	10.9	
Nam Long	NLG VN	29,900	36,500	ADD	478	29.4	52.8	25.9	1.3	1.3	1.4	(16.1)	2.6	5.5	-1.8	
Dat Xanh	DXG VN	15,100	22,000	ADD	384	10.9	7.6	3.3	1.0	0.9	0.7	53.1	12.9	24.9	10.9	
Development Investment Construction	DIG VN	21,910	NR	NR	490	11.5	N/A	N/A	1.6	N/A	N/A	N/A	15.9	N/A	15.2	
An Gia	AGG VN	34,850	NR	NR	162	10.2	N/A	N/A	1.6	N/A	N/A	N/A	N/A	N/A	92.4	
<i>Average</i>						14.8	19.8	13.1	1.8	1.3	2.5	11.6	15.1	16.3	39.0	
<i>Median</i>						11.5	14.2	13.3	1.6	1.2	1.3	6.6	15.9	15.9	15.2	
Brokerage																
Dat Xanh Services	DXS VN	7,900	NR	NR	149	9.2	8.3	5.8	0.6	N/A	N/A	N/A	7.1	9.4	-8.5	
Century Land	CRE VN	12,450	NR	NR	241	10.6	11.8	16.6	1.2	1.0	0.9	0.0	6.1	5.7	3.8	
Khai Hoan Land	KHG VN	5,510	NR	NR	103	3.9	N/A	N/A	0.5	N/A	N/A	N/A	N/A	N/A	2.0	
Danh Khoi	NRC VN	6,100	NR	NR	24	N/A	N/A	N/A	0.4	N/A	N/A	N/A	N/A	N/A	41.1	
<i>Average</i>						7.9	10.0	11.2	0.7	1.0	0.9	0.0	6.6	7.6	9.6	
<i>Median</i>						9.2	10.0	11.2	0.5	1.0	0.9	0.0	6.6	7.6	2.9	

Note: all prices are based on the closing prices on Dec 05 2022. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

Sources: VNDIRECT RESEARCH, BLOOMBERG

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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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