

Sector Note



Residential property

Waiting for more aggressive policies

- A meaningful decline of 80% yoy/63% yoy in 4Q22 presales volume was seen in HCMC and Hanoi on tighter funding regulations for residential property.
- A few developers have failed in the first stress-test on obligatory payment.

Weak 4Q22 sales volume was expected amid subdued housing demand

Dragged by negative sentiments of the property market, 4Q22 new condo supply significantly fell by 81% yoy/38% yoy, leading a sharp fall in sales volume of 80% yoy/63% yoy in both HCMC and Hanoi, respectively, according to CBRE. We saw condo primary prices in both HCMC and Hanoi to cool down by 1-3% qoq, except for mid-end segment (+2-5% qoq) in 4Q22. While 4Q22 secondary prices for landed property stayed flat in HCMC but down 8% qoq in Hanoi.

There have been positive moves, but more is needed...

After the national virtual meeting on 17 Feb hosted by The Prime Minister, the government released a draft Resolution to resolve property market risk by 1) allowing developers with liquidity issues to delay debts repayment, 2) encouraging financial institutions to lend more to quality developers, lower interest rate to support property market. Besides, the regulators have released the latest draft to Decree 65 allowing developers to reschedule their bond repayments and relax in issuing conditions. These policies, if implemented, should be able to ease developers' liquidity pressure markedly in near term.

Default risk is high. A few developers have failed in the first stress-test

By mid-Feb, 54 corporate bond issuers have announced for late interest payment which raised concerns over liquidity. We estimate about VND23,000bn c-bonds value of these issuers will mature within 2023 (~90% are property developers). Besides, we observe that the current ratio and interest coverage ratio of current listed developers fell sharply to the bottom 2011-13 period which indicates the possibility of default risks is as high as 2011.

Regulators making efforts to rebalance supply and demand

The current market has 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-4Q22. We see the regulators making efforts to rebalance supply and demand, besides the stimulus credit package for social housing, the Government have committed to build more than at least 1 million social-housing units and homes for workers by 2030 to meet the demand for middle and low-income households. We believe social housing segment could be on recovery driven by flourish supply and Government's support. We see some developers have announced to step into social housing projects such as Vinhomes plans to develop 500,000 social housing units in the next five years, Him Lam, Hung Thinh, etc.

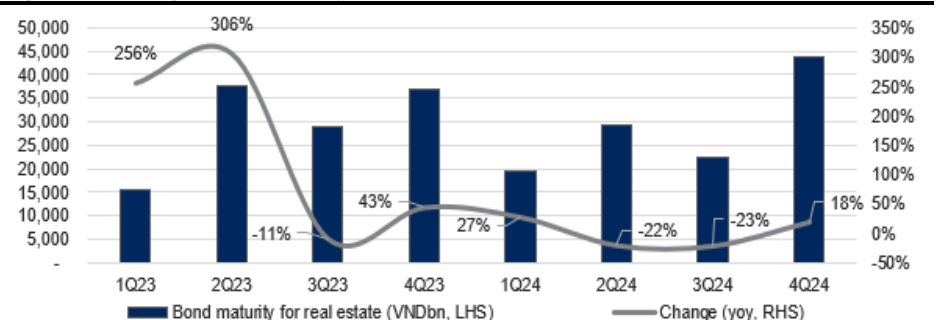
Analyst(s):



Tu Nguyen
tu.nguyencam2@vndirect.com.vn

Toan Chu
toan.chuduc@vndirect.com.vn

Figure 1: Rising bond maturity pressure in the next 3-6 months (Unit: VNDbn)

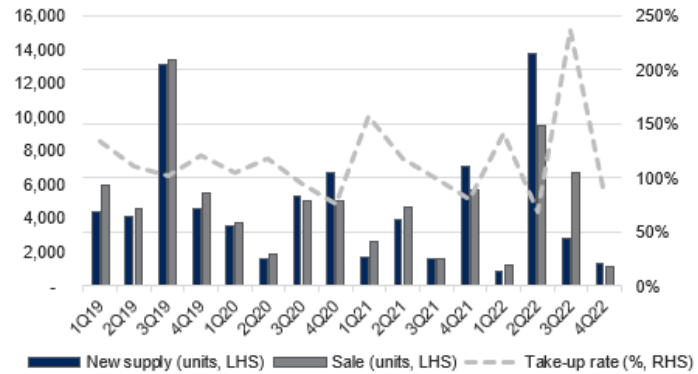


Sources: VNDIRECT RESEARCH's estimate

4Q22 HCMC AND HANOI RESIDENTIAL PROPERTY MARKET RECAP

HCMC condo sales volume to fall 84% qoq and 80% yoy in 4Q22

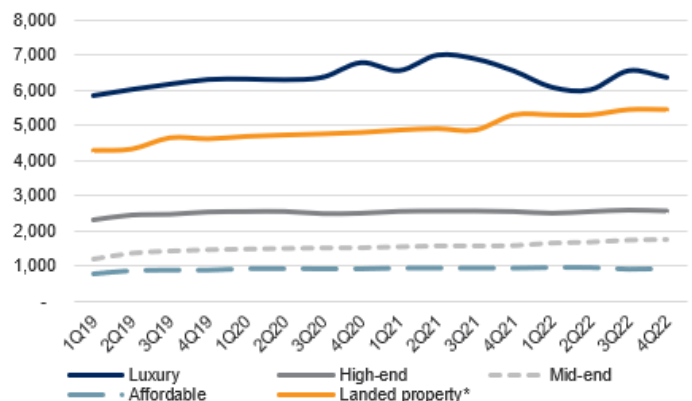
According to CBRE, 4Q22 HCMC condo sales volume declined by 84% qoq/80% yoy to c.1,100 units on a subdued new supply of 54% qoq/81% yoy (c.1,300 units). 4Q22 take-up rate reached at 85% (+4% pts yoy).



Sources: CBRE, VNDIRECT RESEARCH

HCMC condo primary prices for luxury and high-end segment to cool down in 4Q22 (Unit: US\$ psm)

HCMC average condo primary prices stayed flat (+0.7% qoq) in 4Q22. The high-end and luxury segment decreased by 1-3% qoq while the others inched up 1-2% qoq. Accumulated, mid-end segment recorded the strongest increase of 11% yoy in 2022 amid limited new supply and high demand. Secondary prices for landed property kept staying flat on qoq in 4Q22.

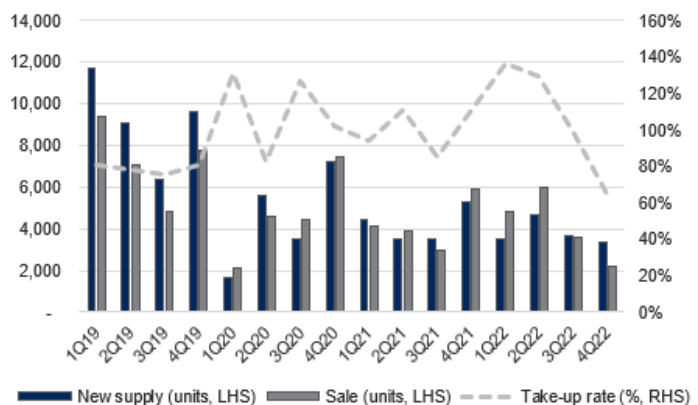


*Secondary prices

Sources: CBRE, VNDIRECT RESEARCH

Hanoi condo take-up rate hit a 7-year low in 4Q22

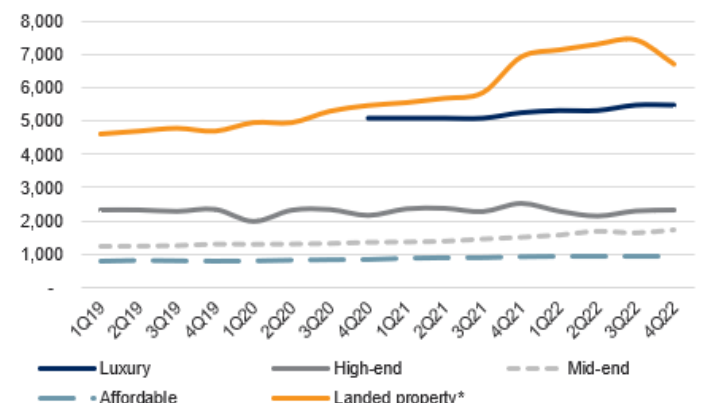
The 4Q22 Hanoi condo market plunged in both new launches (-9% qoq/-38% yoy to c.3,300 units) and sales volume (-40% qoq/-63% yoy to c.2,200 units). 4Q22 take-up rate recorded only 65% (-34% pts qoq), a 7-year low.



Sources: CBRE, JLL, SAVILLS, VNDIRECT RESEARCH

Housing prices in Hanoi to cool down across the board while mid-end segment kept doing well in 4Q22 (Unit: US\$ psm)

4Q22 Hanoi condo primary prices stayed flat on qoq across the segment, except for mid-end segment (+5-6% qoq/+15% yoy). While the secondary prices for both landed property and condo decreased by 8% qoq/3% qoq, respectively.



*Secondary prices

Sources: CBRE, JLL, VNDIRECT RESEARCH

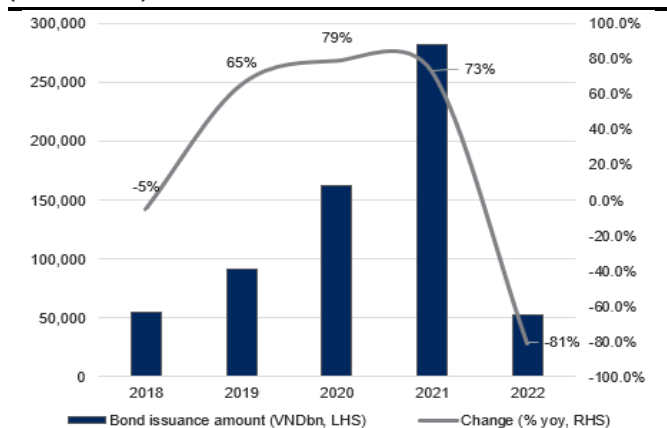
Waiting for more aggressive policies

More developers could face liquidity risks in the next 3-6 months on another peak season for bonds maturity...

Since early 2023, we observe there has been an increasing trend of unofficial defaults or liquidity problems among developers due to a combination of refinancing difficulties and sharp fall in presales. Based on our estimates, about VND37,643bn (+306.4% yoy) corporate bonds of property developers will mature in 2Q23F and another VND65,905bn (+13.3% yoy) in 2H23F.

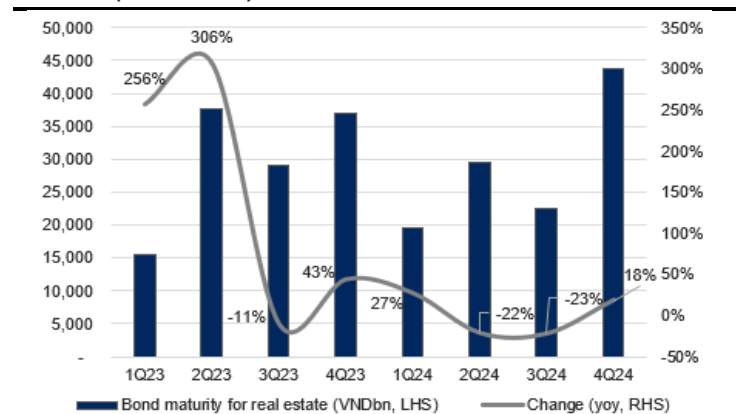
By mid-Feb, 54 corporate bond issuers have announced for late interest payment which raised concerns over liquidity. We estimate about VND23,000bn c-bonds value of these issuers will mature within 2023 (~90% are property developers). Besides, we observe that the current ratio and interest coverage ratio of current listed developers fell sharply to the bottom 2011-13 period which indicates the possibility of default risks is as high as 2011 (*Figure 9, 10, 11*).

Figure 2: CBs issuance of developers plunged 81% yoy in 2022 (Unit: VNDbn)



Sources: VNDIRECT RESEARCH

Figure 3: Developers are under growing bond maturity pressure into FY23-24F (Unit: VNDbn)



Sources: VNDIRECT RESEARCH, COMPANY REPORTS

...suggest more aggressive policies to ease developers' liquidity pressure

After the national virtual meeting on 17 Feb hosted by The Prime Minister, the government released a draft Resolution to resolve property market risk by 1) allowing developers with liquidity issues to delay debts repayment, 2) encouraging financial institutions to lend more to quality developers, lower interest rate to support property market, 3) propose to spend a credit package of VND110,000bn for social housing and worker housing (similar to that of VND30,000bn issued over 2013-16). Besides, the regulators have released the latest draft to Decree 65 allowing developers to reschedule their bond repayments and relax in issuing conditions. These policies, if implemented, should be able to ease developers' liquidity pressure markedly in near term.

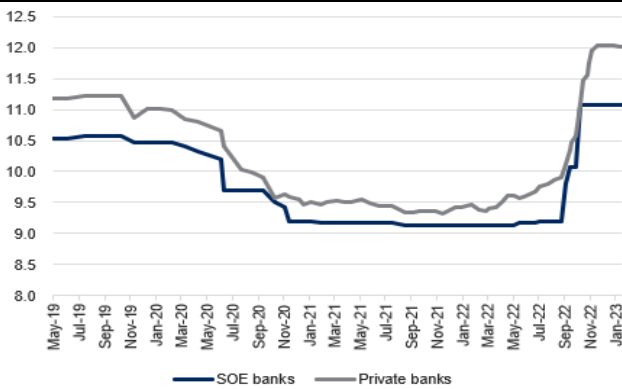
Besides to help resolve developers' liquidity problems in the near future, in order to reverse the current weak market sentiment of property markets, we think that it's essential to restore homebuyers' confidence.

Ask banks should take social responsibility to ensure the delivery of projects, which are currently under construction. We see some developers facing construction delay due to liquidity issues, which could lead homebuyers refusing to pay mortgage payment and hurt the market sentiment more, in our view.

Lower mortgage rate: Agribank announced to lower mortgage rate for homebuyers facing liquidity issues. After this announcement, we expect to see most of commercial banks to lower their mortgage rate for homebuyers in near future.

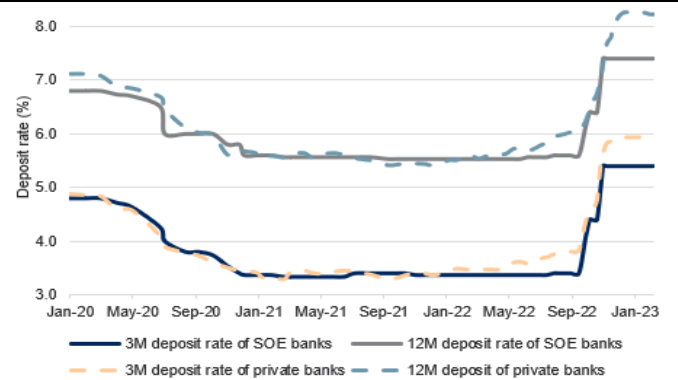
Besides, the uptrend of interest rates will approach the pivot point following the deposit rate to cool down since 2Q23F, basing on the following arguments: (1) FED's policy rates will peak out in 2Q23F, which will ease the pressure on Vietnam's exchange rate and interest rates, (2) SBV will be more proactive in supporting market liquidity through open market channel or buying foreign exchange reserves, (3) weak lending demand due to economic slowdown and murky residential property market.

Figure 4: The average mortgage rate of state-owned banks and private banks in 2M23 stayed flat at 11-12%, respectively (Unit: %)



Sources: VNDIRECT RESEARCH, DOMESTIC BANKS

Figure 5: The deposit interest rates stayed flat in Jan 2023 (Unit: %)

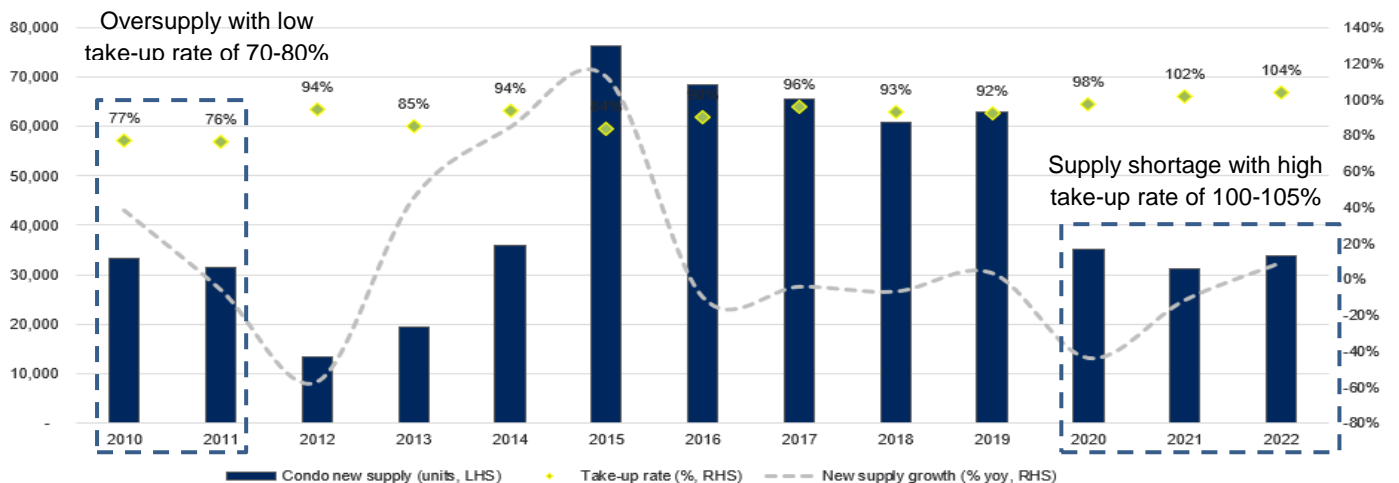


Sources: VNDIRECT RESEARCH, DOMESTIC BANKS

Tackle the bottlenecks in the approval of new residential projects could mark a turning point for the property sector

We believe it might take shorter time to ride out of this downcycle. We observe HCMC and Hanoi new condo supply has been shortage since 2020, with a high take-up rate, pointing housing demand is still high, in our view. Thus, we believe that the on-schedule Land law 2023 affected in 2H24F should mark a turning point for the property sector as they tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover gradually in 2024-25.

Figure 6: HCMC and Hanoi new condo supply shortage since 2020, with a high take-up rate of 100-105%, pointing housing demand still high



Sources: VNDIRECT RESEARCH, CBRE, SAVILLS, JLL

Regulators making efforts to rebalance supply and demand, which we think benefits developers with high exposure to affordable segment

The current market has 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-4Q22. We see the regulators making efforts to rebalance supply and demand, besides the stimulus credit package for social housing, the Government have committed to build more than at least 1 million social-housing units and homes for workers by 2030 to meet the demand for middle and low-income households. We believe social housing segment could be on recovery driven by flourish supply and Government's support. We see some developers have announced to step into social housing projects such as Vinhomes plans to develop 500,000 social housing units in the next five years, Him Lam, Hung Thinh, etc. According to Decree No.100/2015/ND-CP relating to development and management of social houses, the profit of social house project not exceeding 10% of total investment cost, we think that these developers do social housing projects to ensure developers' daily operations rather than earning profits.

Property developers' financial health is weakening but still in a better shape than period the last downcycle 2011-13

FY22 results reflect difficulties in the market

Figure 7: Increasing headwinds cast shadow on listed property companies' 4Q22 performance

	4Q22 revenue (VNDbn)	4Q21 revenue (VNDbn)	Change (%) yoy	FY22 revenue (VNDbn)	FY21 revenue (VNDbn)	Change (%) yoy	4Q22 net profit (VNDbn)	4Q21 net profit (VNDbn)	Change (%) yoy	FY22 net profit (VNDbn)	FY21 net profit (VNDbn)	Change (%) yoy
VHM	31,193	23,305	34%	62,392	84,986	-27%	8,928	11,740	-24%	28,628	38,825	-26%
NVL	3,241	4,591	-29.4%	11,135	14,903	-25%	239	812	-71%	2,264	3,225	-30%
NLG	1,629	4,418	-63%	4,339	5,206	-17%	437	361	21%	556	1,071	-48%
CEO	1,497	495	202%	2,549	902	183%	188	222	-15%	278	93	199%
KDH	1,234	590	109%	2,912	3,738	-22%	119	414	-71%	1,102	1,202	-8%
DXG	984	2,264	-57%	5,581	10,089	-45%	-408	275	N/A	149	1,157	-87%
VPI	760	1,982	-62%	2,155	2,611	-17%	134	250	-46%	491	348	41%
SSH	486	125	290%	865	1,353	-36%	102	30	240%	320	298	7%
DIG	391	914	-57%	1,909	2,569	-26%	4	818	-100%	146	986	-85%
HPX	327	389	-16%	1,635	1,417	15%	18	138	-87%	140	250	-44%
SCR	319	109	193%	893	1,683	-47%	-91	3	N/A	50	187	-73%
IJC	214	262	-18%	1,969	2,602	-24%	33	67	-50%	516	621	-17%
HDC	174	437	-60%	1,298	1,352	-4%	172	99	73%	420	309	36%
PDR	15	1,229	-99%	1,505	3,620	-58%	-267	754	N/A	1,146	1,865	-39%
CRE	175	1,089	-84%	3,491	5,598	-38%	-57	129	N/A	196	458	-57%

Sources: VNDIRECT RESEARCH, COMPANY REPORTS

- VHM's 4Q22 revenue rose 33.8% yoy to VND31,193bn thanks to accelerating the delivery of 3,500 low-rise units at Vinhomes The Empire. However, 4Q22 net profit decreased by 24.0% yoy to VND8,928bn on the lower bulk-sales contribution. Accumulated, FY22 revenue/net profit fell 26.6% yoy/26.3% yoy to VND62,392bn/28,628bn.
- NVL's 4Q22 revenue/net profit fell 29.4% yoy/70.7% to VND3,241bn/VND239bn due to lack of property handovers and lower contribution of one-off gains. Accumulated, FY22 revenue/net profit declined by 25.3% yoy/29.8% yoy to VND11,135bn/VND2,264bn.
- DXG's 4Q22 revenue fell 56.5% yoy to VND984bn due to lack of property handovers and sluggish brokerage revenue following headwinds on property sector. As a result, DXG recorded a 4Q22 net loss of VND408bn on high cost pressure. Accumulated, FY22

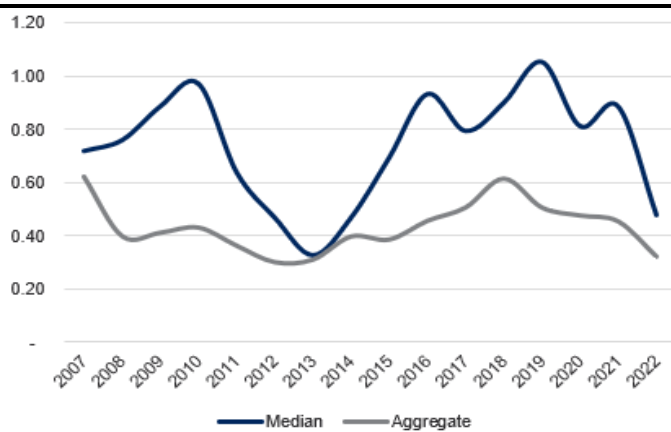
revenue/NP decreased by 44.7% yoy/87.1% yoy to VND5,581bn/VND149bn.

- NLG reported 4Q22 revenue down by 63.1% yoy to VND1,629bn, mostly from Flora Akari (90 units valued at VND261bn) and Southgate (234 units valued at VND1,219bn). However, 4Q22 net profit rose 21.1% yoy to VND437bn thanks to a one-off income of VND386bn from 25% divestment of Paragon Dai Phuoc. Accumulated, FY22 revenue/NP decreased by 16.7% yoy/48.1% yoy to VND4,339bn/VND556bn.
- KDH posted 4Q22 revenue soaring of 109.2% yoy to VND1,234bn, with gross margin squeezing by 58.0% pts yoy to 24.2% due to low-margin project handover (KDH does not disclose the detailed projects). As a result, 4Q22 NP declined by 71.3% yoy to VND119bn. Accumulated, FY22 revenue/NP decreased by 22.1% yoy/8.3% yoy to VND2,912bn/VND1,102bn.

We see listed property developers' financial health, currently in a better shape than period the last downcycle 2011-13

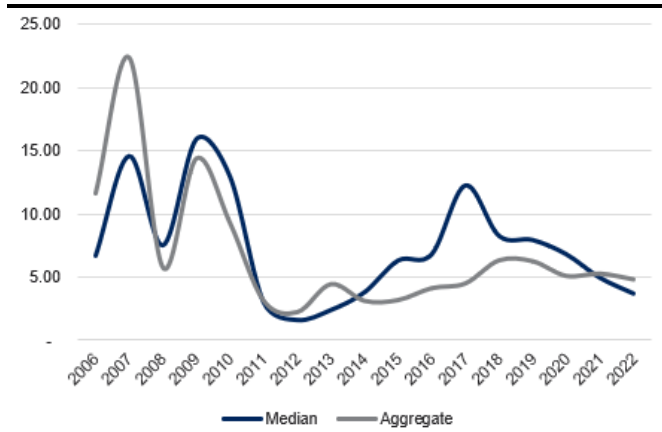
Our estimates are based on financial statements of 210 property developers (including 118 listed and 92 unlisted companies). We note that the number of listed property developers during 2011-13 is less than that of 2022.

Figure 8: Inventory turnover has sharply decreased in FY22 on subdued presales since FY20



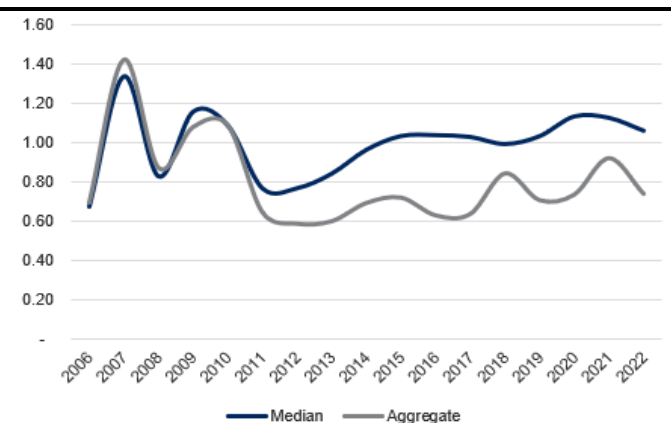
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 9: Current interest coverage ratio fell sharply to the bottom 2011-13 period



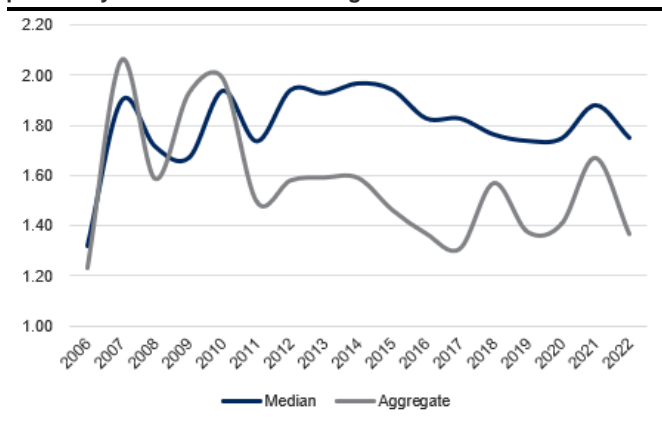
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 10: Both FY22 quick ratio...



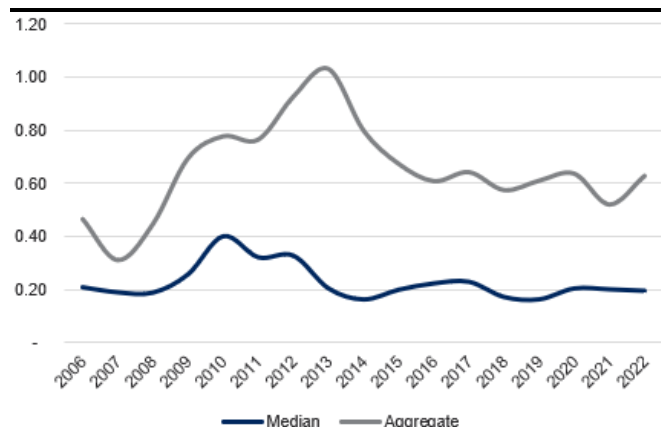
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 11: ... and current ratio fell, which indicates the possibility of default risks is as high as 2011



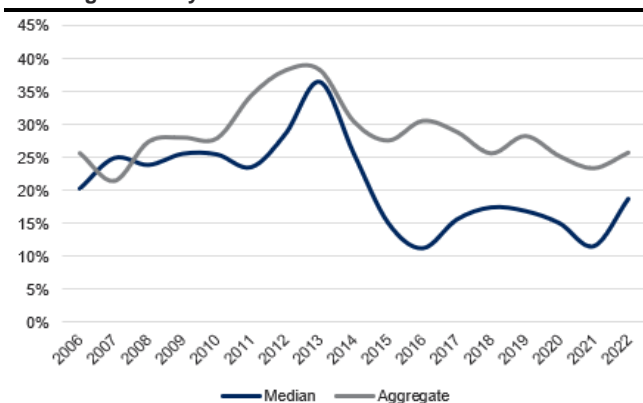
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 12: However, current Debt/equity ratio is much healthier than that of 2011-13...



Sources: VNDIRECT RESEARCH, FIINPRO

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



Sources: VNDIRECT RESEARCH, FIINPRO

Figure 14: Liquidity strength of listed developers on each criteria as of end-4Q22

		Total liabilities/Total assets			Cash and cash equivalents/Short-term debt		Inventory/Total assets	
		Net debt/Equity	Interest coverage	Quick ratio				
1	VIC	76%	101%	2.1	55%	0.6	17%	
2	VHM	59%	14%	18.4	71%	0.6	18%	
3	NVL	83%	124%	5.9	34%	0.9	52%	
4	DXG	54%	33%	2.5	45%	1.1	46%	
5	PDR	59%	45%	4.0	10%	0.6	53%	
6	NLG	51%	3%	8.2	209%	1.0	55%	
7	KDH	45%	34%	N/A	268%	2.4	58%	
8	SSH	72%	153%	1.6	24%	1.0	10%	
9	HDG	56%	81%	4.2	36%	0.8	9%	
10	DIG	47%	44%	1.8	24%	1.3	40%	
11	TCH	20%	-59%	10.4	628%	3.8	22%	
12	TID	72%	80%	3.3	47%	0.7	2%	
13	KSF	46%	-3%	16.8	15%	2.8	2%	
14	AGG	75%	27%	2.4	77%	0.8	34%	
15	VPI	66%	91%	4.5	63%	1.2	33%	
16	HPX	61%	86%	1.7	12%	0.7	39%	
17	SCR	48%	34%	1.3	11%	1.0	29%	
18	QCG	56%	8%	1.8	71%	0.1	72%	
19	THD	28%	13%	5.5	9%	1.1	1%	
20	HTN	84%	159%	1.6	3%	0.9	18%	
21	CEO	47%	10%	4.9	55%	0.9	21%	
22	HQC	40%	0%	2.6	249%	1.1	8%	
23	KHG	27%	16%	5.6	19%	0.9	7%	
24	CRE	27%	11%	2.7	19%	3.0	6%	
25	VCR	74%	117%	N/A	17%	0.3	1%	
26	SJS	62%	58%	N/A	6%	0.1	55%	
27	IJC	41%	20%	10.1	37%	0.4	55%	
28	NBB	71%	170%	1.2	1%	0.8	21%	
29	IDJ	60%	-1%	11.5	540%	0.5	41%	
30	HDC	58%	86%	7.6	2%	0.7	25%	
31	TIG	43%	-11%	5.8	No short-term debt	0.8	11%	
32	KOS	53%	84%	1.3	6%	0.8	47%	
33	ITC	47%	23%	4.1	33%	0.4	39%	
34	DRH	58%	33%	1.2	23%	0.6	28%	
35	LSG	55%	96%	1.0	3%	1.4	47%	
36	API	61%	44%	3.5	12%	0.8	43%	
37	SID	6%	-16%	N/A	No short-term debt	21.0	0%	
38	NRC	43%	43%	1.4	0%	0.7	0%	

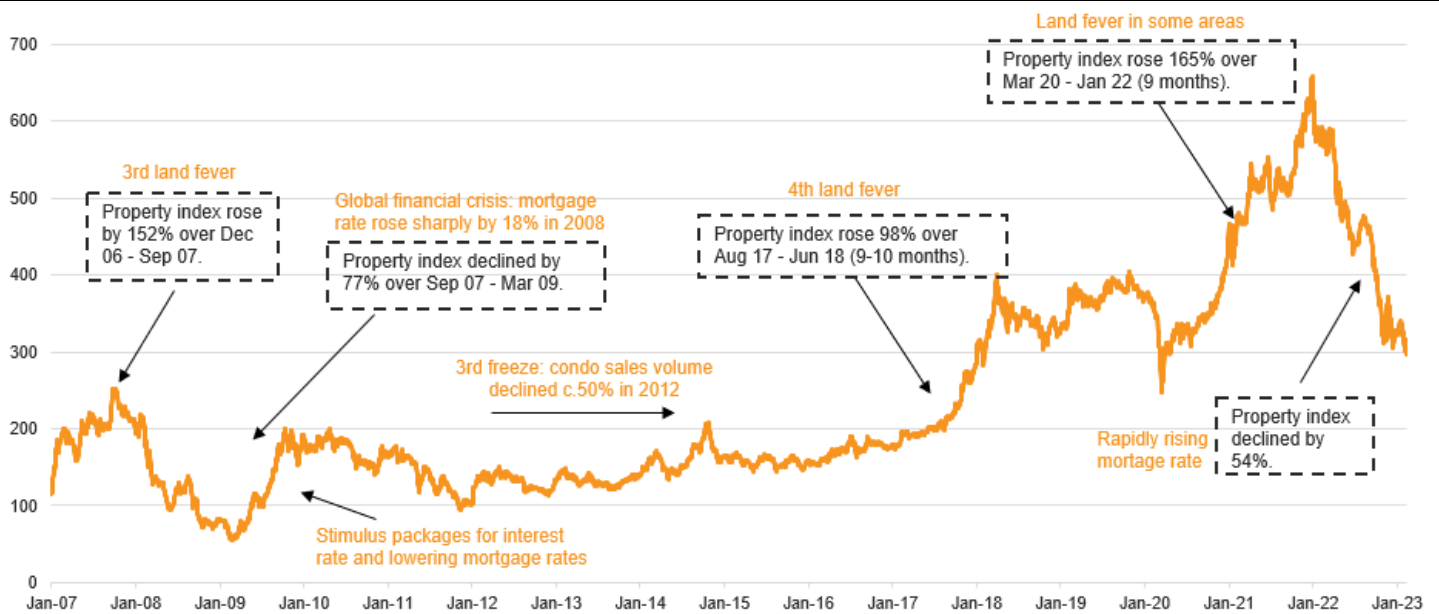
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Recommendation

Admittedly, Vietnam property valuations currently look quite cheap, trading at only 1.5x current P/B, a 44% discount to its 3-year average of 2.7x. However, we think that property share prices could potentially be under more pressure in the next 3-6 months on another peak season for bonds maturity. Despite the regulators rushing to resolve the property market risk recently, this will depend on the timing of the implementation of these policies. Besides, if implemented, we think these policies benefit large and quality developers more, the small developers with weaker credit ratings look unlikely to get refinancing in the near future, in our view. While the recovery in property sales is unlikely before end-FY23F amid weak housing sentiment, high mortgage rate and sluggish new supply as the project approval process likely be delayed on waiting the amend Law of land, in our view.

Key de-rating catalysts: 1) More developers turning to default; 2) Weaker-than-expected property market, in terms of prices and volume.

Figure 15: Property sector index declined by 54% since early 2022



Sources: VNDIRECT RESEARCH, BLOOMBERG

Figure 16: Peer comparisons

Company	Ticker	Price		Recom.	Mkt cap	P/E (x)			P/B (x)			3-year EPS		ROE (%)		Net D/E as of 4Q22 (%)
		LC\$	LC\$			US\$m	TTM	FY23F	FY24F	Current	FY23F	FY24F	CAGR (%)	FY23F	FY24F	
Vinhomes	VHM VN	41,000	82,000	ADD	7,505	6.2	5.7	5.6	1.2	1.1	0.9	(0.4)	22.1	18.6	14.4	
Novaland	NVL VN	11,400	NR	NR	935	9.8	9.6	10.5	0.6	0.3	0.6	N/A	5.6	4.9	123.9	
Phat Dat	PDR VN	10,550	NR	NR	298	6.1	2.2	1.4	0.9	0.6	0.4	38.7	28.3	30.7	45.0	
Khang Dien	KDH VN	26,000	30,000	HOLD	783	18.0	21.8	16.4	1.6	1.5	1.4	7.1	10.7	14.2	33.7	
Nam Long	NLG VN	26,050	36,700	ADD	421	20.4	25.9	13.9	1.1	1.1	1.0	62.6	4.5	7.9	3.1	
Dat Xanh	DXG VN	10,350	13,100	HOLD	265	40.6	9.0	3.8	0.7	0.7	0.6	176.6	7.5	15.9	33.3	
Van Phu Invest	VPI VN	51,100	NR	NR	520	24.6	33.5	N/A	3.6	N/A	N/A	N/A	N/A	N/A	91.5	
CEO	CEO VN	20,800	NR	NR	225	19.2	N/A	N/A	N/A	N/A	8.9	1.6	N/A	N/A	10.1	
Development Investment Construction	DIG VN	21,910	NR	NR	354	55.2	18.1	15.2	1.1	N/A	N/A	N/A	5.9	6.6	44.2	
An Gia	AGG VN	29,300	NR	NR	154	N/A	N/A	N/A	1.6	N/A	N/A	N/A	N/A	N/A	27.3	
<i>Average</i>						25.5	16.0	10.3	1.3	0.9	2.0	48.8	11.3	13.2	42.8	
<i>Median</i>						19.8	18.1	12.2	1.1	0.9	0.9	38.7	6.7	11.1	33.7	
Brokerage																
Dat Xanh Services	DXS VN	6,910	NR	NR	132	9.8	8.1	5.3	0.5	0.5	0.5	0.3	6.2	8.9	20.0	
Century Land	CRE VN	6,630	NR	NR	129	10.7	9.3	6.4	0.6	0.5	0.5	30.2	5.7	7.9	11.0	
Khai Hoan Land	KHG VN	5,070	NR	NR	96	5.0	N/A	N/A	0.4	N/A	N/A	N/A	N/A	N/A	15.7	
Danh Khoi	NRC VN	4,000	NR	NR	16	N/A	N/A	N/A	0.3	N/A	N/A	N/A	N/A	N/A	42.6	
<i>Average</i>						8.5	8.7	5.8	0.5	0.5	0.5	15.3	6.0	8.4	22.3	
<i>Median</i>						9.8	8.7	5.8	0.5	0.5	0.5	15.3	6.0	8.4	17.8	

Note: all prices are based on the closing prices on Feb 24 2023. 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.

Hien Tran Khanh – Head of Research

Email: hien.trankhanh@vndirect.com.vn

Tu Nguyen – Analyst

tu.nguyencam2@vndirect.com.vn

Toan Chu – Manager

toan.chuduc@vndirect.com.vn

VNDIRECT Securities Corporation

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

Tel: +84 2439724568

Email: research@vndirect.com.vn

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