

VINCOM RETAIL JSC (VRE) – NON-RATED NOTE

Natalie Nguyen – minh.nguyennhu@vndirect.com.vn

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Key statistics

Current price (VND)	35,350
52w range (VND)	26,700 - 40,080
Average daily turnover (3m)	VND4.6m
EPS (VND)	1,228
Market cap (VNDbn)	84,070
Outstanding shares (m)	2,329
Free float (%)	45

Ownership

Saidong Urban Dev. JSC	32.3%
Vingroup JSC	18.4%
Hanoi South City Dev LLC	8.3%
Others	41.0%

Source: VNDIRECT

Gear up for the retail boom

VRE solidified its position as the leading retail real estate developer in Vietnam with 66 shopping malls across 38/63 provinces as of end 1Q19. Comparing to 1Q18, total gross floor area (GFA) has expanded by 23.4% yoy, built on 45 Vincom Plazas (accounting for 52% of total GFA), 3 Mega Malls (27%), 6 Vincom Centers (17%) and 12 Vincom+ (4%).

VRE scheduled 13 mall openings in 2019. Three new shopping malls will be opened in 2Q19 and other 10 malls will be launched in 2H19, adding a further ~153,000 sqm to its total leasing capacity. In April, 2 malls were opened in Hanoi, including Vincom Plaza Skylake and Vincom Center Tran Duy Hung. The malls are located in prime, high-density locations and already secured over 90% occupancy rate. VRE will speed up in 2020 to reach its target of launching 40 malls and bringing total GFA to around 2m sqm during the period FY2019-20F.

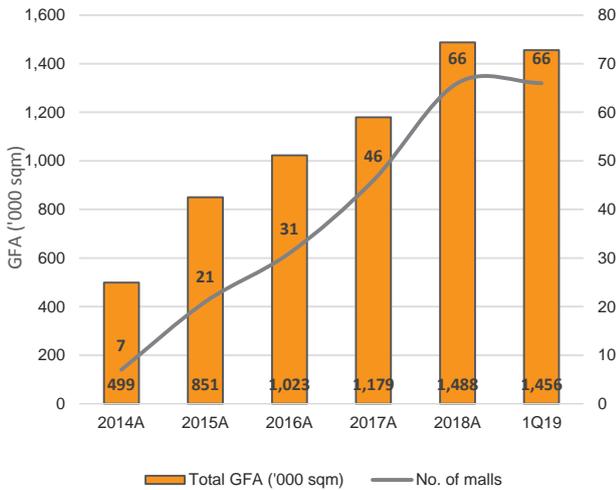
Vincom+ model adopts new design. Vincom+ is the latest mall format of VRE, which is located in non-CBD areas to target mass population consumers. VRE is now reviewing the design of Vincom+ from one-floor, no basement to one basement and one leasing floor. The new design will offer more leasing options to tenants and will allow for smooth upgrade in the future to higher-class Vincom Plaza without disrupting the existing businesses inside the Vincom+ malls. The mall upgrade would accommodate the rising demand of higher-quality modern shopping in 2nd tier cities and provinces.

Leverage from Vingroup's (VIC VN) ecosystem. For the period FY2020-21F, VRE would continue to set up 3 Vincom Mega Malls inside Vinhomes' (VHM VN) mega projects (Vinhomes Ocean Park, Vinhomes Smart City, Vinhomes Grand Park), adding 160,000-200,000 sqm of GFA. Locating in prime locations within large complexes with immediate catchments from surrounding apartment buildings, villas as well as possible links to other related facilities such as Vinpearl Land and VinUni, these malls will serve as one of key highlights of each project, offering new experience of modern and traditional shopping spaces along with cultural and entertainment areas.

Attract popular brands and chain tenants. Side by side with the expansion of VRE, several existing chain tenants have also expanded its footprint namely CGV, H&M and TiniWorld. While considering new tenants, VRE also favours large-scale and expanding retail chains. VRE has recently welcomed high potential brands such as OVS, HLA and The Body Shop.

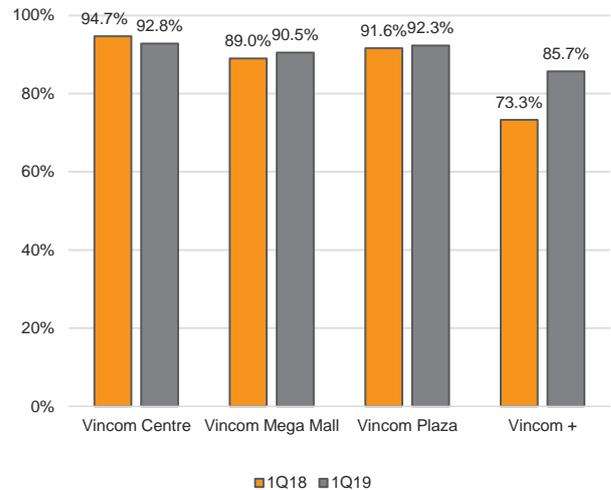
Average occupancy rate improved by 1.6% pts yoy in 1Q19 thanks to the continuous upgrade in the tenant mix of existing shopping malls. Specifically, the occupancy rate of Vincom Plaza (accounting for 52% of total GFA) and Vincom Mega Mall (making up 27% total GFA) surged to 92.3% (+0.7% pts) and 90.5% (+1.5% pts) in 1Q19, respectively. Together with ramped up marketing activities, VRE has boosted average footfall (+36% yoy) and drove up average rental rates of Vincom Plaza and Vincom Mega Mall by 9.9% yoy and 10.5% yoy, correspondingly.

Figure 1: VRE bolstered its leasing capacity at FY14-18 CAGR of 31%



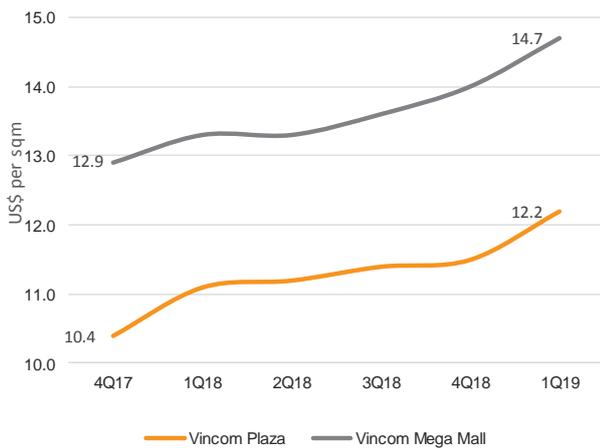
Source: VNDIRECT, VRE

Figure 2: VRE witnessed improvement in average occupancy rate across most shopping mall formats



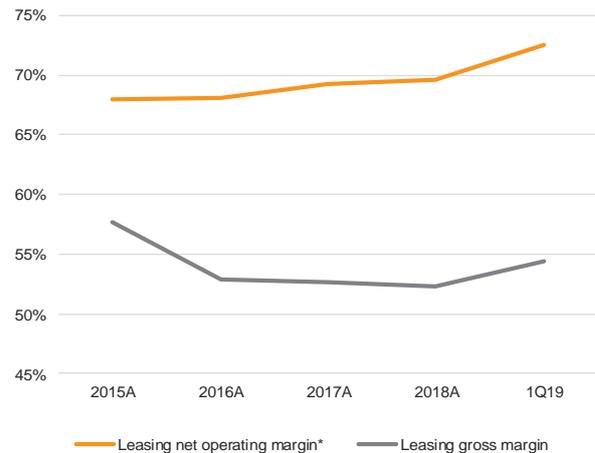
Source: VNDIRECT, VRE

Figure 3: Average leasing rate from two main mall formats continued to surge



Source: VNDIRECT, VRE

Figure 4: Leasing activities enhanced efficiency throughout the years



* Net operating income (NOI) is calculated based on management report by taking the sum of gross rental income and other property-related income less any property-related operating expenses including period land lease costs but excluding holding company expense allocations.

Source: VNDIRECT, VRE

1Q19 business results recap

Total revenue increased significantly by 41.2% yoy. Leasing revenue rose 26.4% yoy in 1Q19, supported by the full operation of 20 malls opened in 2018. Leasing gross margin (GM), as a result, saw improvement from 53.5% in 1Q18 to 54.4% in 1Q19. Property sales revenue increased by 79.4% yoy to VND601bn due to delivery of low-rise in Vincom Shophouse Ca Mau project and remaining units in two high-rise projects in Da Nang and Bac Ninh. As high-rise projects carried lower margin than shophouses, GM of property sales declined from 34.9% to 23.3% yoy. VRE expects GM would recover to normal levels of around 35% in subsequent quarters when high-rise projects are completed and other shophouses projects are delivered.

VRE is on track to meet FY19 target. In 1Q, the company recorded VND1,599bn in leasing revenue (fulfilling 22.3% of FY19 target) and booked VND601bn in properties sales (equivalent to ~27.3% of FY19 total property presales backlog). Net profit inched up 13.1% yoy, forming 22.7% of VRE's annual target. On the back of improving leasing activities and sound property delivery pipeline, VRE could reach its full-year bottom-line target of VND2,700bn (+11.9% yoy).

Figure 5: VRE's 1Q19 financial results

VNDbn	1Q18	1Q19	Change	vs. FY19 guidance
Revenue	1,618	2,284	41.2%	24.0%
<i>Leasing</i>	1,266	1,599	26.3%	
<i>Inventory properties sales</i>	335	601	79.4%	
<i>Other</i>	17	84	394.1%	
Gross margin	49.5%	42.6%	-6.9% pts	
<i>Leasing</i>	53.5%	54.4%	+0.9% pts	
<i>Inventory properties sales</i>	34.9%	23.3%	-11.6% pts	
Leasing NOI	905	1,159	28.1%	
<i>Leasing NOI %</i>	71.5%	72.5%	+1.0% pts	
Net profit	541	612	13.1%	22.7%

Source: VNDIRECT, VRE

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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 – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Natalie Nguyen – Analyst

Email: minh.nguyennhu@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>