

VINCOM RETAIL JSC (VRE) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND28,100	VND37,800	0.00%	ADD	REAL ESTATE

25 May 2022

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

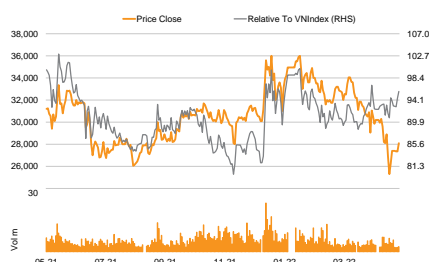
Consensus*: Add:11 Hold:2 Reduce:0

Target price / Consensus: 2.8%

Key changes in the report

➤ N/a

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	36,000
52w low (VND)	25,300
3m Avg daily value (VNDmn)	142,492
Market cap (VND bn)	62,148
Free float (%)	26
TTM P/E (x)	48.6
Current P/B (x)	2.14

Ownership

SADO Trading Commercial JSC	40.5%
Vingroup JSC	18.3%
Others	41.2%

Source: VND RESEARCH

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The crowds are returning

- VRE's 1Q22 revenue and net profit fell 39% yoy/52% yoy to VND1,369bn/VND377bn, in line with our forecast.
- We expect a strong recovery in a couple of next quarters to bring VRE's earnings to surge 95.5%/64.6% yoy over FY22F/23F, respectively.
- Reiterate ADD rating with DCF-based TP of VND37,800.

1Q22 results: Still on track, in our view

1Q22 revenue fell 38.5% yoy but increased 0.2% qoq as: (1) revenue from malls leasing decreased 27.2% yoy but soared 40% qoq as VRE delivered support packages of VND464bn for tenants compared to VND766bn in 4Q21 and minimal support package in 1Q21 as Vietnam continued to enjoy resumed economic activities on the back of a zero Covid environment at that time; and (2) revenue from property delivery dropped 81.4% yoy, 80.7% qoq as VRE only handed over 20 units (vs. 111 units in 1Q21 and 104 units in 4Q21). Thus, 1Q22 net profit was VND377bn, down 51.7% yoy but up exponentially +2.1x qoq, in line with our forecast as we expect no supporting packages in 2H22.

The crowds are returning in great numbers to the shopping malls

In 1Q22, shopping malls were hit hard by the outbreak during late Feb - Mar but the average footfall at VRE's malls significantly increased 30% qoq, equivalent to 60% of pre-pandemic levels. We observed that the crowds are returning in late Mar, bringing the average footfall at VRE's malls in Apr to recover and approach pre-pandemic levels. We expect VRE's average footfall will strongly bounce back during the peak summer season in 2Q22 while VRE will likely terminate the support packages. Besides, we expect the average occupancy rate to inch up 2.9 % pts to 85.5% and rental rates to increase 4% yoy in FY22F.

Earnings growth driven by increasing traffic and mall expansion

In Apr 22, VRE launched VMM Smart City as the new generation "Life-Design mall" with gross floor area (GFA) of 68,000 sqm, equal to 4.1% of Mar 22 GFA. We expect VRE's total GFA can increase 2.0x times to around 3.3m-3.7mm GFA by 2026F. For FY22/23F, we expect VRE's top-line will considerably increase 46.2%/35.8% yoy to VND8,614bn/VND11,699bn, on the back of strong growth of 63.2%/39.7% yoy in leasing business. As a result, we expect FY22/23F bottom line of VRE will significantly increase 95.5%/64.6% yoy to VND2,569bn/VND4,228bn.

Reiterate ADD rating with DCF-based TP of VND37,800

We reiterate ADD rating with DCF-based TP of VND37,800 (WACC: 11.7%, risk-free rate: 3%). Re-rating catalysts are 1) faster-than-expected mall openings or recovery in retail, leading to a strong growth in leasing business or lower than expected supporting package and 2) a transfer of VRE's mall with a premium value. Downside risks: 1) slower-than-expected mall openings and 2) lower-than-expected occupancy ratio and rental rate.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	8,329	5,891	8,614	11,699
Revenue growth	(10.0%)	(29.3%)	46.2%	35.8%
Gross margin	45.9%	40.6%	48.0%	54.1%
EBITDA margin	58.6%	61.2%	64.7%	67.9%
Net profit (bn)	2,382	1,314	2,569	4,229
Net profit growth	(16.4%)	(44.8%)	95.5%	64.6%
Recurring profit growth				
Basic EPS	1,048	578	1,131	1,861
Adjusted EPS	1,048	578	1,131	1,861
BVPS	12,582	13,147	14,263	15,579
ROAE	8.5%	4.4%	8.0%	12.2%

Source: VND RESEARCH

THE CROWDS ARE RETURNING

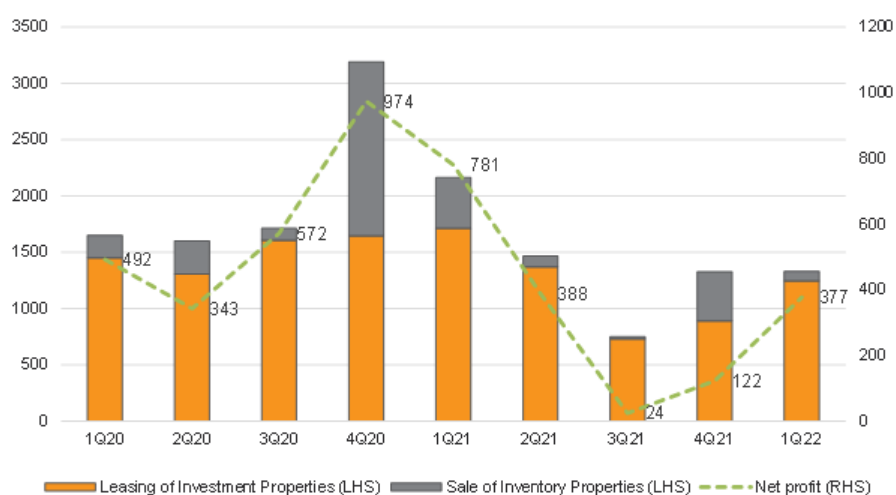
1Q22 results: Still on track, in our view

Figure 1: 1Q22 results comparison

(VNDbn)	1Q22	1Q21	%yoy	4Q21	%qoq	VNDS forecast	%vs VNDS forecast	Comments
Revenue	1,369	2,226	-38.5%	1,367	0.1%	8,614	15.9%	
Leasing of Investment Properties	1,246	1,712	-27.2%	891	39.9%	7,671	16.2%	Support package amounted to VND464bn, compared to VND766bn in 4Q21 and minimal support package in 1Q21.
Sale of Inventory Properties	84	452	-81.4%	436	-80.7%	753	11.2%	20 units were handed over in 1Q2022 compared to 104 units in 4Q2021 and 111 units in 1Q21.
COGS	758	1,058	-28.4%	903	-16.1%	4,475	16.9%	
Gross profit	611	1,168	-47.7%	464	31.7%	4,139	14.8%	
Gross margin	44.6%	52.5%	-7.8 % pts	33.9%	10.7 % pts	48.0%	4.5 % pts	Gross margin increased 10.7 % pts vs 4Q21 as a result of a lower tenant support package
Leasing of Investment Properties	46.0%	59.0%	-13.0 % pts	27.0%	19.0 % pts	51.9%	7.1 % pts	
Sale of Inventory Properties	38.0%	41.0%	-3.0 % pts	58.0%	-20.0 % pts	45.0%	-4.0 % pts	
Financial (expense)/income	13	(52)	-125.0%	(4)	-425.0%	(106)	-12.2%	VRE has reduced "bond interest expense" from VND142bn in 1Q21 to VND80bn in 1Q22.
Selling expense	(55)	(92)	-40.2%	(80)	-31.3%	(387)	14.2%	
G&A expense	(88)	(64)	37.5%	(182)	-51.6%	(444)	19.8%	
SG&A expenses	(143)	(156)	-8.3%	(262)	-45.4%	(831)	17.2%	
Operating income	(482)	(960)	-49.8%	(198)	143.4%	(831)	58.0%	
Other income	18	20	-10.0%	(17)	-205.9%	28	63.4%	
Pre-tax profit	501	980	-48.9%	181	176.8%	3,230	15.5%	
Net profit	377	781	-51.7%	122	209.0%	2,571	14.7%	Inline with our forecast, as we projected VRE will release support packages for tenants in 1H22 and no supporting packages in 2H22.

Source: VNDIRECT Research, Company reports

Figure 2: Quarterly revenue and net profit by business (Unit: VNDbn)

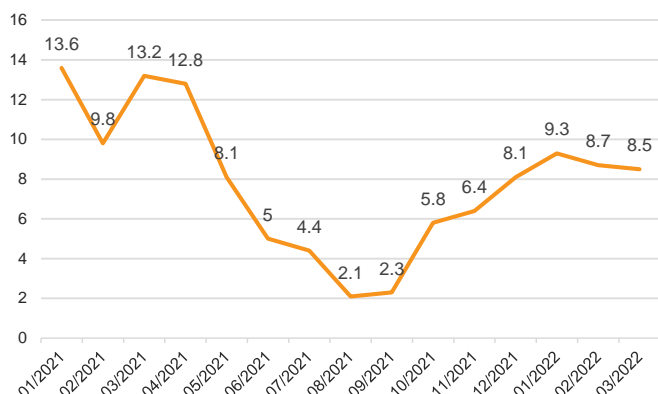


Source: VNDIRECT Research, Company reports

The crowds are returning in great numbers to the shopping malls

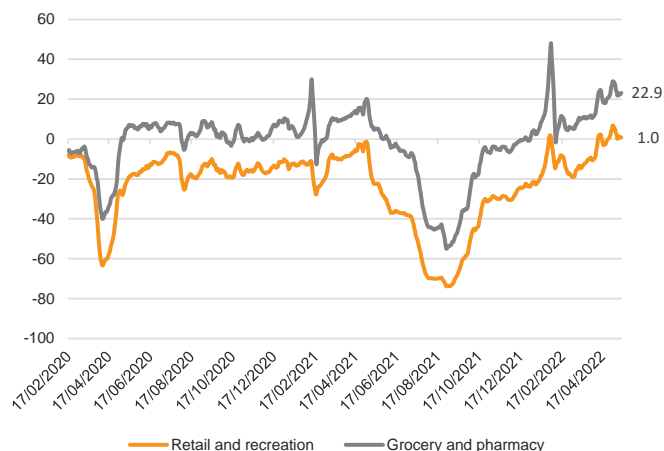
In 1Q22, shopping malls were hit hard by the outbreak during late Feb Mar but the average footfall at VRE's malls significantly increased 30% qoq, equivalent to 60% of pre-pandemic levels. We observed that the crowds are returning in late Mar, bringing the average footfall at VRE's malls in Apr to recover and approach pre-pandemic levels. We expect VRE's average footfall will strongly bounce back during the peak summer season in 2Q22 while VRE will likely terminate the support packages. Besides, we expect the average occupancy rate to inch up 2.9 % pts to 85.5% and rental rates to increase 4% yoy in FY22F.

Figure 3: Monthly average footfall at Vincom malls (Unit: million visitors)



Source: VNDIRECT Research, Company reports

Figure 4: Mobility of people to retail and recreation has back to pre-Covid-19 level (Jan 2020) based on Google mobility data (Unit: %)



Source: VNDIRECT Research, Google

In late Apr, the Vincom Mega Mall Smart City with 68,000 sqm GFA opened as the first new generation "Life-Design mall". This Next Generation of shopping mall is elaborated with impressive features including:

- Impressive exterior with Smart Lighting technology, unique moving ceiling with light effects
- Tech-enabled rainbow waterfall 14m high with 360 degree design and the water dyed with multicolor light effects
- Indoor river and busy riverside commercial district

The new mega mall located in Nam Tu Liem, Ha Noi with popular tenants including the world's leading brands FILA, Adidas, Converse, Winmart, ... will increase the total leasable area of VRE to 1.72m sqm GFA. This Mega Mall had an occupancy ratio at 88% at launch and 98% if including committed tenants who have made deposit. The next generation malls boast a modern architectural design and bring many utilities with numerous experiential offerings to customers. The new generation VMM model can potentially reinvent the entire shopping and entertainment experience. This will attract greater footfall, better serve customers, and help expand VRE's market share, revenue and profit in the years to come. In addition, the company also plans to enter retail tourism which presents an opportunity with an enormous experience.

Figure 5: Indoor river and busy riverside commercial district of VMM Smart City



Source: VNDIRECT Research, Company reports

Figure 6: Unique moving ceiling with light effects of VMM Smart City



Source: VNDIRECT Research, Company reports

Expected total gross floor area (GFA) to increase 2.0x times by 2026F

The opening of VMM Smart City marks the return to expansion pace in VRE's gross floor area with the focus on building new mega malls at the center of Vinhomes's mega projects. Accordingly, upcoming Vincom megamall projects will include Vincom Megamall Grand Park which is expected to commence operations in 2023F and Vincom Megamall project in Vinhomes Ocean Park 2 - The Empire (construction starts in 2Q22).

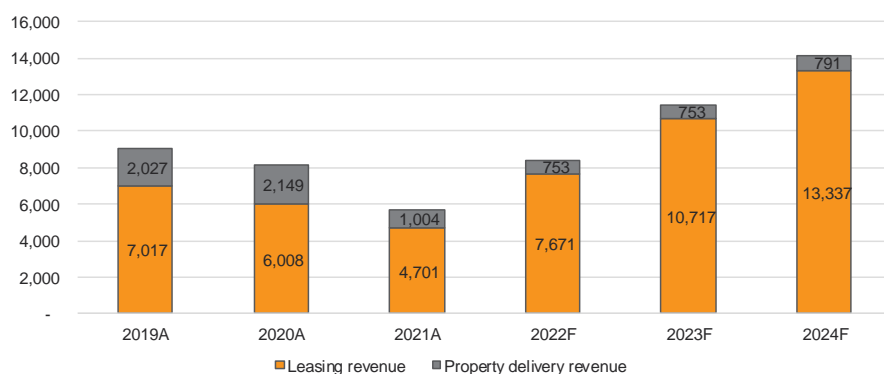
Figure 7: Royal Wave Park, the world's leading man-made salt lake with artificial waves, was officially opened on 30 Apr 22 at Vinhomes Ocean Park 2 - The Empire, marking the kick-off milestone of the project.



Source: VNDIRECT Research, Company reports

With the strategy of building new Megamall malls, VRE stated they will expand about 1.4-2m m2 of GFA in the period of 2022-26F to attain a total GFA of 3.3 - 3.7m2 in 2026F (about x2.0 times from End FY21). We are projecting VRE's total GFA to around 3.3m-3.7m GFA by 2026F, quite similar to VRE's new expansion plan.

Figure 8: Our projection for VRE revenue in FY22-24F (Unit: VNDbn)



Source: VNDIRECT Research, Google

Reiterate ADD rating with DCF-based target price of VND37,800

We reiterate ADD rating with DCF-based target price of VND37,800. Our DCF valuation is based on assumption of WACC: 11.7% and a risk-free rate of 3%.

Figure 9: Discounted Cash Flow (DCF Valuation)

DCF Method	Amount	Unit
PV of Free Cash Flows	32,678	VNDbn
PV of Terminal Value (4.0% growth)	52,918	VNDbn
Enterprise value	85,596	VNDbn
Cash and cash equivalents	3,488	VNDbn
Total debts	(3,158)	VNDbn
Equity Value	85,925	VNDbn
Number of shares	2,272	million
Price per share	37,800	VND/share

Source: VNDIRECT Research

Figure 10: Assumptions

Cost of Capital	
Beta	1.00
Market Risk Premium	10.1%
Cost of Equity	13.1%
Cost of Debt	5.0%
WACC	11.7%

Source: VNDIRECT Research

Downside risks: 1) slower-than-expected mall openings and 2) lower-than-expected occupancy ratio and rental rate.

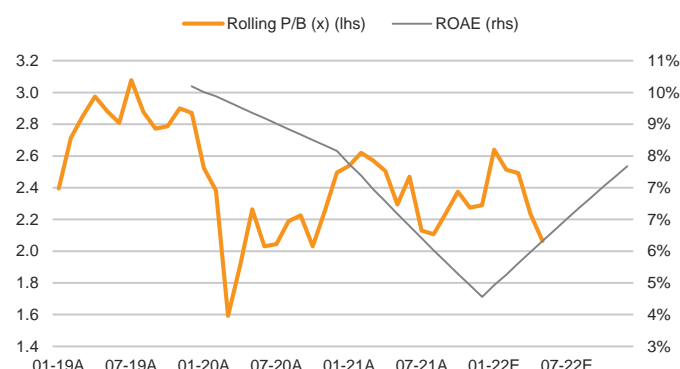
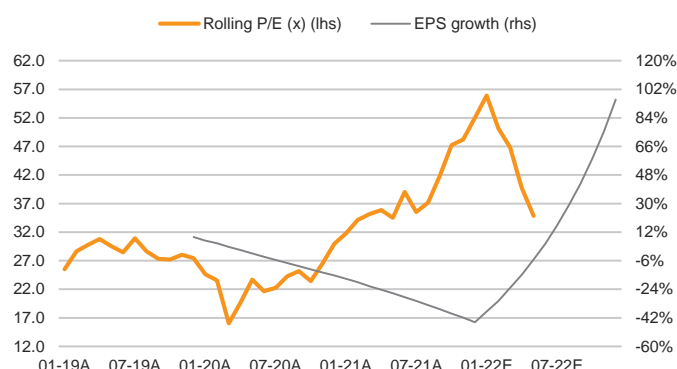
Re-rating catalysts: 1) faster-than-expected mall openings, 2) faster-than-expected recovery in retail, leading to a strong growth in leasing business and 3) a transfer of VRE's mall with a premium value.

Figure 11: Peer comparison

Company	Ticker	Recomm.	Target price		Mkt cap	P/E (x)		3-year EPS	P/B (x)		ROA (%)		ROE (%)	
			Price	price		FY22F	FY23F		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
			LC\$	LC\$	US\$m			CAGR (%)						
SM Prime Holdings Inc	SMPH	na	37.7	na	20,809	35.4	26.5	-4.4	3.05	2.81	4.1	5.3	9.0	10.9
Central Pattana PCL	CPN TB	na	62.0	na	8,126	31.7	25.4	-13.1	3.37	3.09	3.5	4.1	11.5	12.9
Pakuwon Jati Tbk PT	PWON IJ	na	560.0	na	1,857	14.1	12.8	-3.4	1.38	1.27	5.7	5.3	9.2	9.9
Average						27.1	21.6	-7.0	2.60	2.39	4.4	4.9	9.9	11.2
Vincom Retail JSC	VRE VN	ADD	28,100	37,800	2,753	24.8	15.5	-19.8	1.97	1.80	6.20	9.00	8.00	12.20

Data as of 24 May 2022

Source: VND RESEARCH, Bloomberg

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	5,891	8,614	11,699
Cost of sales	(3,499)	(4,475)	(5,373)
Gen & admin expenses	(433)	(444)	(550)
Selling expenses	(202)	(387)	(473)
Operating profit	1,757	3,308	5,303
Operating EBITDA	3,185	5,284	7,551
Depreciation and amortisation	(1,428)	(1,976)	(2,248)
Operating EBIT	1,757	3,308	5,303
Interest income	387	258	351
Financial expense	(486)	(365)	(379)
Net other income	34	28	39
Income from associates & JVs	0	0	0
Pre-tax profit	1,692	3,229	5,314
Tax expense	(377)	(659)	(1,084)
Minority interest	(1)	(1)	(1)
Net profit	1,314	2,569	4,229
Adj. net profit to ordinary	1,314	2,569	4,229
Ordinary dividends	0	0	(1,164)
Retained earnings	1,314	2,569	3,065

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	3,297	7,531	6,879
Short term investments	190	83	112
Accounts receivables	1,488	474	633
Inventories	583	366	366
Other current assets	2,338	1,292	1,755
Total current assets	7,896	9,746	9,745
Fixed assets	1,694	1,167	1,589
Total investments	7	663	902
Other long-term assets	28,278	33,711	36,790
Total assets	37,875	45,287	49,026
Short-term debt	20	59	59
Accounts payable	526	734	881
Other current liabilities	2,344	5,526	6,406
Total current liabilities	2,890	6,319	7,346
Total long-term debt	3,138	4,483	3,881
Other liabilities	1,195	1,235	1,483
Share capital	23,288	23,288	23,288
Retained earnings reserve	9,289	11,883	14,979
Shareholders' equity	30,617	33,215	36,280
Minority interest	35	35	36
Total liabilities & equity	37,875	45,287	49,026

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	1,692	3,229	5,314
Depreciation & amortisation	1,482	1,980	2,255
Tax paid			
Other adjustments	1,854	(3,255)	2,049
Change in working capital	(3,344)	5,581	415
Cash flow from operations	1,684	7,535	10,033
Capex	(1,567)	(4,622)	(4,898)
Proceeds from assets sales	915	15	17
Others	0	(547)	(264)
Other non-current assets changes	1,814	889	(527)
Cash flow from investing activities	1,162	(4,265)	(5,672)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(2,600)	951	(571)
Other financing cash flow	0	40	248
Dividends paid	0	0	(1,164)
Cash flow from financing activities	(2,600)	991	(1,487)
Cash and equivalents at beginning of period	3,051	3,297	7,531
Total cash generated	246	4,261	2,874
Cash and equivalents at the end of period	3,297	7,558	10,405

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	22.3%	29.8%	36.1%
Asset turnover	0.15	0.21	0.25
ROAA	3.4%	6.2%	9.0%
Avg assets/avg equity	1.30	1.30	1.36
ROAE	4.4%	8.0%	12.2%
Efficiency			
Days account receivable	80.7	16.7	16.8
Days inventory	60.8	29.9	24.9
Days creditor	54.9	59.9	59.8
Fixed asset turnover	3.80	6.02	8.49
ROIC	3.9%	6.8%	10.5%
Liquidity			
Current ratio	2.7	1.5	1.3
Quick ratio	2.5	1.5	1.3
Cash ratio	1.2	1.2	1.0
Cash cycle	86.6	(13.3)	(18.1)
Growth rate (yoy)			
Revenue growth	(29.3%)	46.2%	35.8%
Operating profit growth	(43.2%)	88.3%	60.3%
Net profit growth	(44.8%)	95.5%	64.6%
EPS growth	(44.8%)	95.5%	64.6%

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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