VINCOM RETAIL JSC (VRE) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND27,400	VND38,800	0%	ADD	REAL ESTATE

9 September 2022

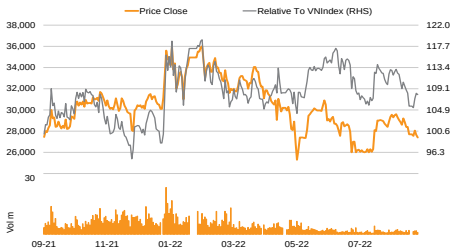
Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add:11 Hold:2 Reduce:0
Target price / Consensus: 5.6%

Key changes in the report

- Increase TP by 2.8%

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	36,000
52w low (VND)	25,300
3m Avg daily value (VNDmn)	44,938
Market cap (VND bn)	62,830
Free float (%)	26
TTM P/E (x)	47.4
Current P/B (x)	2.08

Ownership

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

Source: VNDIRECT RESEARCH

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All signs point to better quarters ahead

- VRE's 2Q22 revenue and net profit rose 23% yoy/99% yoy to VND1,850bn/VND773bn, in line with our forecast.
- New shophouse projects in Quang Tri and Dien Bien with pre-sales value of about VND3,200bn will boost sale of inventory properties in FY23-25F.
- Reiterate ADD rating with higher DCF-based TP of VND38,800.

2Q22 results: Leasing revenue rebounded strongly

VRE's 2Q22 revenue increased 22.5% yoy driven by 33% yoy growth of leasing revenue as the company has reduced significantly the support package. Property revenue decreased 92% yoy as only two shophouses were handed over. Gross margin widened 15.7% pts yoy to 57.4%. 2Q22 net financial income was VND16bn (vs. a net financial loss of VND32bn in 2Q21) as bond balance has was gradually lowered from c.VND5,500bn at end-FY21 to c.VND3,000bn at end-2Q22. As the results, 2Q22 net profit arrived at VND773bn (+99.2% yoy), taking 1H22 earnings to VND1,150bn (-1.5% yoy), inline at 44.7% of our full-year forecast.

Mobility and services recovery to boost leasing revenue in 2H22 – 2023F

Based on VRE's figure, footfall to VRE's malls recovered from 8.5m – 9.3m visitors in 1Q22 to 10.9m – 12.7m in 2Q22, equivalent to 80% of pre-pandemic levels. Retail mobility from Google data also showed a same trend, as Vietnam retail mobility is 6% higher than pre-Covid level in Aug 22. As such, we expect VRE to offer minimal additional tenant support packages since 2H22F to make leasing revenue to increase 63.2% yoy/39.7% yoy in FY22/23F to VND7,671bn/VND10,717bn, per our estimation.

Strong shophouses pre-sales to lift the property segment since 2023F

With the recovery of tourism and service activities, VRE reported 218 shophouses have been booked in 2Q22 with a presales value of about VND1,200bn. In 2H22F, VRE is expected to record bookings of 500 shophouses with a total presales value of about VND3,200bn which will secure for the property revenue growth over FY23-25F. Therefore, we increase revenue from property delivery in 2023F by 35.1% vs previous forecast to the robust presales.

Reiterate ADD rating with higher DCF-based TP of VND38,800

We increase our target price of VRE by 2.8% to VND38,800 on the back of increasing our forecast for FY22/23F net profit by 4.6%/3.2% vs previous forecast. Our DCF valuation is based on assumption of WACC: 11.7% and a risk-free rate of 3%. Re-rating catalysts are 1) faster-than-expected mall openings, 2) faster-than-expected recovery in retail, leading to a strong growth in leasing business. Downside risks: 1) slower-than-expected mall openings, 2) lower-than-expected occupancy ratio and rental rate and 3) growing market competitors such as Aeon, Central Retail's malls.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	8,329	5,891	8,614	11,963
Revenue growth	(10.0%)	(29.3%)	46.2%	38.9%
Gross margin	45.9%	40.6%	48.0%	53.8%
EBITDA margin	58.6%	61.2%	65.2%	67.3%
Net profit (bn)	2,382	1,314	2,689	4,363
Net profit growth	(16.4%)	(44.8%)	104.6%	62.3%
Recurring profit growth				
Basic EPS	1,048	578	1,183	1,920
Adjusted EPS	1,048	578	1,183	1,920
BVPS	12,582	13,147	14,314	15,688
ROAE	8.5%	4.4%	8.4%	12.5%

Source: VNDIRECT RESEARCH

ALL SIGNS POINT TO BETTER QUARTERS AHEAD

Reiterate ADD rating with higher DCF-based target price of VND38,800

With footfall recovery of shopping malls, we expect VRE's FY22/23F NP likely to surge 105%/62% yoy, respectively. We believe VRE is worth for long-term investment due to:

- Vincom Retail JSC (VRE), Vietnam's largest retail property developer with 1.75m sqm gross floor area at end-2Q22, will enjoy a strong growth with the country's surge in modern retail and people's income in the long-term.
- With the recovery of retail consumption and Vietnam's rapid vaccination rate, Covid-19 becomes a common disease to fully reopen the economy. Thereby giving VRE more growth in revenue and net profit potential with increasing in GFA and rental price.

We increase our target price of VRE by 2.8% to VND38,800 on the back of increasing our forecast for FY22/23F net profit by 4.6%/3.2% vs previous forecast. Our DCF valuation is based on assumption of WACC: 11.7% and a risk-free rate of 3%.

Figure 1: Discounted Cash Flow (DCF Valuation)

DCF Method	Amount	Unit
PV of Free Cash Flows	34,969	VNDbn
PV of Terminal Value (4.0% growth)	52,960	VNDbn
Enterprise value	87,929	VNDbn
Cash and cash equivalents	3,488	VNDbn
Total debts	(3,158)	VNDbn
Equity Value	88,259	VNDbn
Number of shares	2,272	million
Price per share	38,800	VND/share

Source: VNDIRECT Research

Figure 2: 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, 2) lower-than-expected occupancy ratio as low footfall due to impact of high inflation and lower-than-expected rental rate and 3) growing market competitor such as Aeon, Central Retail's malls.

Upside catalysts: 1) faster-than-expected mall openings, 2) faster-than-expected recovery in retail, leading to a strong growth in leasing business.

Figure 3: Peer comparison

Company	Ticker	Recomm.	Price	Target price	Mkt cap	P/E (x)		3-year EPS	P/B (x)		ROA (%)		ROE (%)	
			LC$	LC$	US$m	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
SM Prime Holdings Inc	SMPH EQUITY	na	37.4	na	18,952	34.3	25.7	-4.4	2.95	2.70	4.6	5.5	9.1	10.4
Central Pattana PCL	CPN TB	na	69.0	na	8,437	32.4	26.4	-13.1	3.70	3.38	3.6	4.2	12.3	13.6
Pakuwon Jati Tbk PT	PWON IJ	na	560.0	na	1,857	14.7	12.7	-3.4	1.31	1.20	5.3	5.2	9.2	9.6
Average						27.1	21.6	-7.0	2.66	2.43	4.5	5.0	10.2	11.2
Vincom Retail JSC	**VRE VN**	**ADD**	**27,400**	**38,800**	**2,644**	**23.2**	**14.3**	**-19.8**	**1.91**	**1.75**	**6.20**	**9.00**	**8.40**	**12.50**

Data as of 08 Sep 2022

Source: VND RESEARCH, Bloomberg

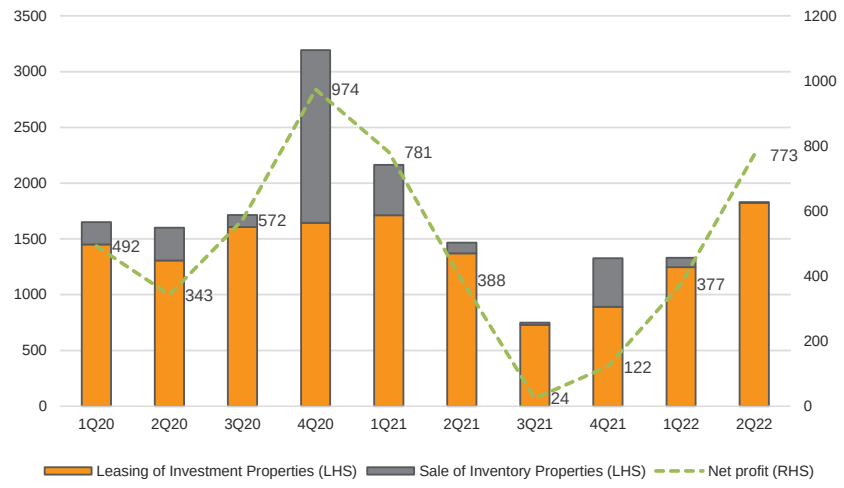
2Q22 results: Leasing revenue rebounded strongly

Figure 4: 2Q22 and 1H22 results comparison

(VNDbn)	1Q22	qoq % (2Q22 vs 1Q22)	2Q21	2Q22	yoy %	6M21	6M22	yoy %	VND's forecast	%vs VND's forecast	Comments
Revenue	**1,369**	**35.1%**	**1,510**	**1,850**	**22.5%**	**3,737**	**3,219**	**-13.9%**	**8,614**	**37.4%**	In-line with our expectation, as leasing revenue will be stronger in 2H22 when Vietnam retail mobility back to normal and sale of inventory properties usually be booked in the 4th quarter, with we are projected around VND753bn of revenue in 2022F.
Leasing of Investment Properties	1246	46.2%	1370	1822	33.0%	3,082	3069	-0.4%	7,671	40.0%	
Sale of Inventory Properties	84	-90.5%	96	8	-91.7%	548	93	-83.0%	753	12.4%	
COGS	758	4.0%	881	788	-10.6%	1,939	1,546	-20.3%	4,475	34.5%	
Gross profit	611	73.6%	629	1,061	68.7%	1,798	1,672	-7.0%	4,139	40.4%	
Gross margin	*44.6%*	*12.7% pts*	*41.7%*	*57.4%*	*15.7% pts*	*48.1%*	*51.9%*	*3.8% pts*	*48.0%*	*3.9% pts*	
Leasing of Investment Properties	*46.0%*	*12.0% pts*	*44.0%*	*58.0%*	*14.0% pts*	*52.3%*	*53.0%*	*0.7% pts*	*51.9%*	*1.1% pts*	
Sale of Inventory Properties	*38.0%*	*21.0% pts*	*63.0%*	*59.0%*	*-4.0% pts*	*45.0%*	*39.7%*	*-5.3% pts*	*45.0%*	*-5.3% pts*	
Net financial expense / income	13	23.1%	(32)	16	-150.0%	(85)	29	-134.1%	(106)	-27.3%	Under our expectation as VRE reduces the value of bonds since 2021 with a value of about VND5500bn to about VND3000bn in 2Q22
Selling expenses	55	-38.2%	52	34	-34.6%	144	88	-38.9%	387	22.7%	
G&A expenses	88	19.3%	80	105	31.3%	145	192	32.4%	444	43.2%	
SG&A expenses	143	-2.8%	132	139	5.3%	289	280	-3.1%	831	33.7%	In-line with our expectation when SG&A expense will increase more strongly in 2H22 along with the recovery of VRE's business segments
Operating profit	482	94.8%	465	939	101.9%	1,425	1,421	-0.3%	3,308	43.0%	In-line with our expectation
Pre-tax profit	501	91.4%	483	959	98.6%	1,463	1,460	-0.2%	3,230	45.2%	
Net profit	**377**	**105.0%**	**388**	**773**	**99.2%**	**1,168**	**1,150**	**-1.5%**	**2,571**	**44.7%**	In-line with our expectation

Source: VNDIRECT Research, Company reports

Figure 5: Quarterly revenue and net profit by business from 2020 – 2Q22 (Unit: VNDbn)



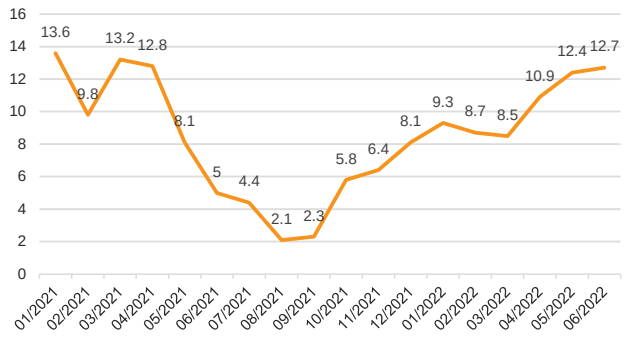
Source: VNDIRECT Research, Company reports

2H22F – FY23F Outlook: Leasing activities back to growth trajectory

Mobility and services recovery to boost leasing revenue

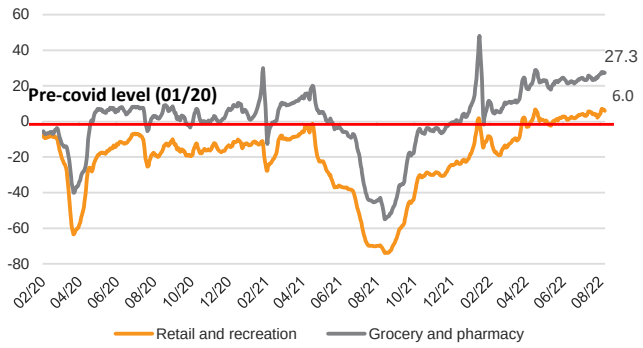
Based on VRE's figure, footfall to VRE's malls recovered from 8.5m – 9.3m visitors in 1Q22 to 10.9m – 12.7m in 2Q22, equivalent to 80% of pre-pandemic levels. Retail mobility from Google data also showed a same trend, as Vietnam retail mobility is higher 6% vs pre-Covid level in Aug 22. As such, we expect VRE to offer minimal additional tenant support packages in 2H22, and return to increasing their rents price, averaging around 4% yoy/9% yoy in 2022F-23F, per our estimates.

Figure 6: Monthly average footfall at Vincom malls (Unit: million visitors)



Source: VNDIRECT Research, Company reports

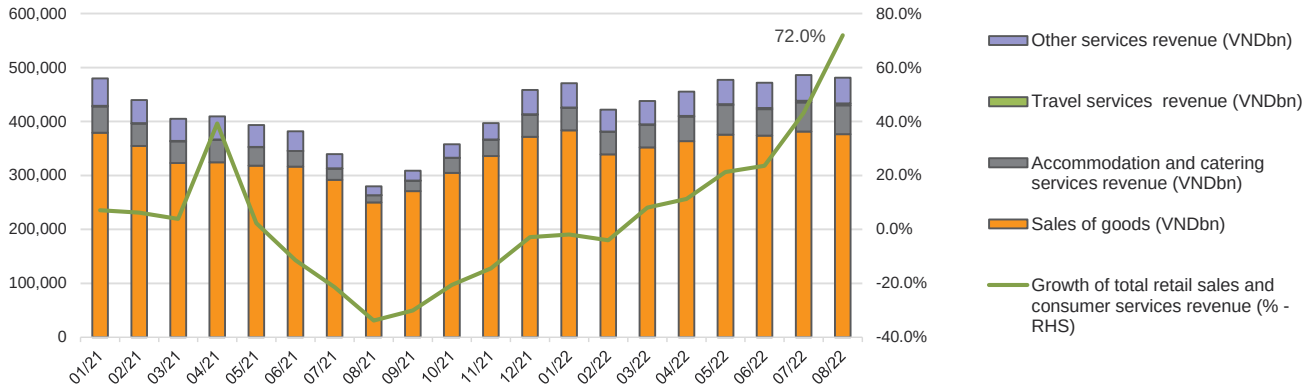
Figure 7: Mobility of people to retail and recreation has back to pre-Covid-19 level (Jan 2020) based on Google mobility data (Unit: %)



Source: VNDIRECT Research, Google

According to General Statistics Office (GSO), total retail sales of goods and consumer services revenue in Aug 22 climbed to VND481,224bn, up 72% yoy and stay flat when compared to Jul 22 figure. For 8M22, total retail sales of goods and consumer services revenue rose 21.4% yoy, the highest annual growth rate in the past 7 years, where the growth rate of accommodation and catering services revenue/travel services revenue in 8M22 reached 50.3% yoy/226.6% yoy to confirm the strong recovery of the footfall to malls.

Figure 8: Total retail sales and consumer services revenue from 2021 – Aug 2022



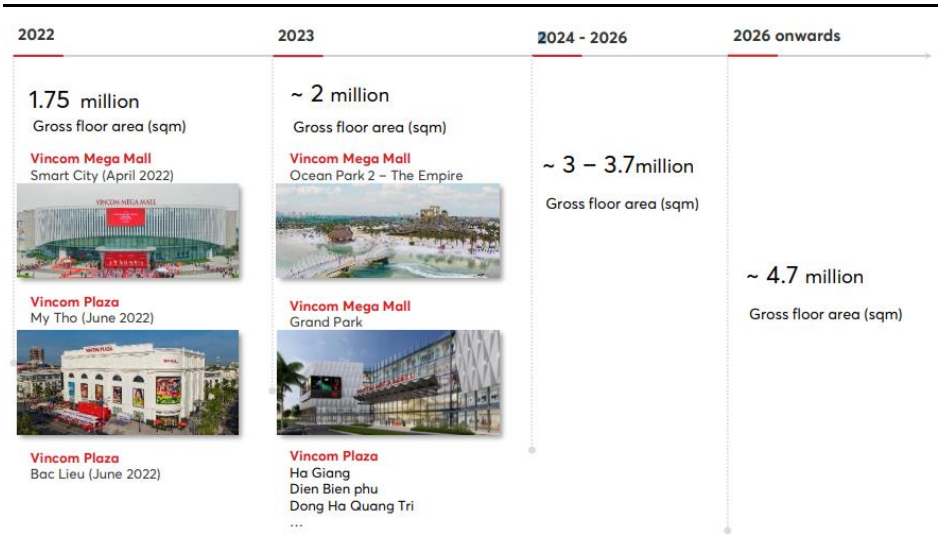
Source: VNDIRECT Research

VRE target to expand gross floor area 14.2% by 2023

In 2023, VRE plans to expand their gross floor area to more than 2m sqm (vs ~1.75m sqm in 2022F) when Vincom Megamall Ocean Park 2 – The Empire (Hung Yen) and Vincom Mega Mall Grand Park (District 9 - Ho Chi Minh city) are put into operation. New malls will be announced by VRE in the coming period, following development pipelines of Vinhomes urban areas.

Thus, we projected VRE's leasing revenue to increase 63.2% yoy/39.7% yoy in FY22/23F to VND7,671bn/VND10,717bn.

Figure 9: VRE's expansion plan in next period



Source: VNDIRECT Research, Company reports

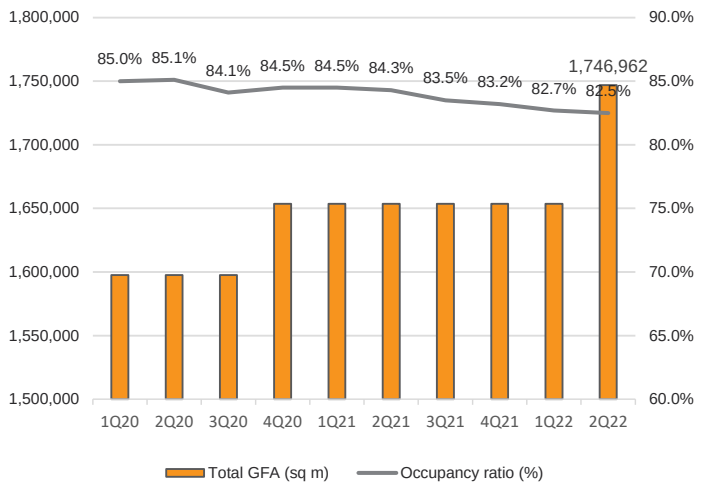
Occupancy rates improve thanks to the expansion of both international and local tenants

In 2Q22, Vincom Retail opened 3 shopping centers, namely Vinhomes Smart City and Vincom Plaza My Tho and Bac Lieu, with occupancy rates at 98% respectively. Some prominent brands are present at Vinhomes Smart City such as Fila, Adidas, Innisfree, Levi's, Kubo, Sen Tai Thu, The Body Shop, McDonals's and 3 supermarkets, namely Winmart, Annam Goumet Market, and Kohnan Japan. Thus, we expect the average occupancy ratio of VRE to increase to more than 85% in 2H22/23F, compared to around 83% in 1H22.

Figure 10: New brands come to Vietnam during 2022-2023

Source: VNDIRECT Research, Company reports

Figure 11: VRE's occupancy ratio and total GFA from 2020 – 2Q22



Source: VNDIRECT Research, Google

Strong shophouses pre-sales to lift the property segment since 2023F

With the recovery of tourism and service activities, VRE reported 218 shophouses have been booked in 2Q22 with a presales value of about VND1,200bn. In 2H22F, VRE is expected to record bookings of 500 shophouses with a total presales value of about VND3,200bn which will secure for the property revenue growth over FY23-25F. Therefore, we increase revenue from property delivery in FY23F by 35.1% vs previous forecast to the robust presales.

Figure 12: Vincom Mega Mall in Vinhomes Ocean Park 2 – The Empire (Hung Yen)

Source: VNDIRECT Research, Company reports

Figure 13: Vincom Mega Mall Grand Park (HCMC)

Source: VNDIRECT Research, Google

We fine-tuned our FY22-23F earnings forecasts

We increased FY23F revenue by 2.3% vs previous forecast following an increase in FY23F sale of inventory properties revenue by 35.1% as VRE record a large number of pre-sales of shophouse with the value of about VND3,200bn from FY23-25F.

In addition, we changed the net financial expenses of VND106bn/VND28.3bn in FY22/23F to a net financial income of VND17bn/VND21bn as VRE reduces their value of bonds since 2021 with a value of about VND5,500bn to about VND3,000bn in 2Q22.

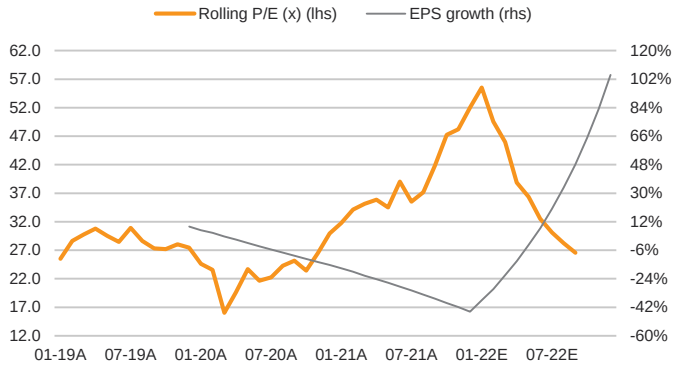
As a result, we increased FY22/23F net profit by 4.6%/3.2% vs previous report.

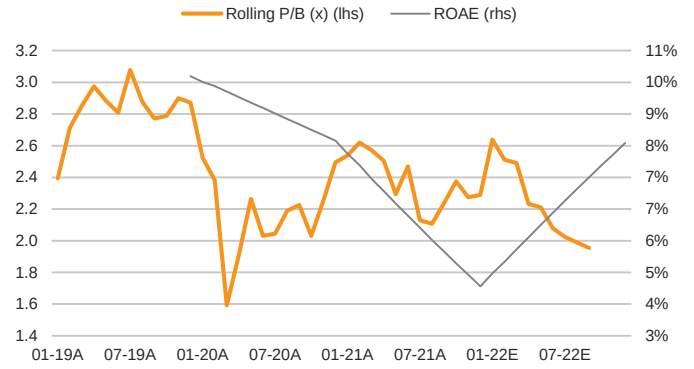
Figure 14: FY22-23F earnings revision (Unit: VNDbn)

		Old		New		%chg vs old forecast		
	2021A	2022F	2023F	2022F	2023F	2022F	2023F	2024F
Net sales	**5,891**	**8,614**	**11,699**	**8,614**	**11,963**	**0.0%**	**2.3%**	**14,647**
Leasing of Investment Properties	4,701	7,671	10,717	7,671	10,717	0.0%	0.0%	13,209
Sale of Inventory Properties	1,004	753	753	753	1,017	0.0%	35.1%	1,170
COGS	(3,499)	(4,475)	(5,373)	(4,475)	(5,532)	0.0%	3.0%	(6,578)
Gross Profit	2,392	4,139	6,326	4,139	6,431	0.0%	1.7%	8,069
GM	40.6%	48.0%	54.1%	48.0%	53.8%	0.0%	-0.3%	55.1%
Leasing of Investment Properties	62.8%	51.9%	58.2%	51.9%	58.2%	0.0% pts	0.0% pts	59.5%
Sale of Inventory Properties	103.0%	45.0%	40.0%	45.0%	40.0%	0.0% pts	0.0% pts	40.0%
Net financial expenses	(99.3)	(106.4)	(28.3)	43.4	36.3	-140.8%	-228.3%	26.3
Selling expenses	(202)	(387)	(473)	(387)	(473)	0.0%	0.0%	(569)
General and admin expenses	(433)	(444)	(550)	(444)	(550)	0.0%	0.0%	(656)
SG&A expenses	(635)	(831)	(1,023)	(831)	(1,023)	0.0%	0.0%	(1,225)
S/R	3.43%	4.49%	4.04%	4.49%	3.95%	0.0% pts	-0.1% pts	3.88%
G&A/R	7.35%	5.15%	4.70%	5.15%	4.60%	0.0% pts	-0.1% pts	4.48%
SG&A/R	10.78%	9.64%	8.74%	9.64%	8.55%	0.0% pts	-0.2% pts	8.36%
Operating profit/(loss)	1,757	3,308	5,303	3,308	5,408	0.0%	2.0%	6,844
Net other income/(expenses)	34.4	28.4	38.6	28.4	39.5	0.0%	2.3%	48.4
Profit before tax	1,692	3,230	5,313	3,380	5,484	4.6%	3.2%	6,919
Tax rate	22%	20%	20%	20%	20%	0.0%	0.0%	20%
Net profit	**1,315**	**2,571**	**4,229**	**2,690**	**4,364**	**4.6%**	**3.2%**	**5,506**
%yoy				*104.6%*	*62.2%*			*30.5%*

Source: VNDIRECT Research

Valuation





Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	5,891	8,614	11,963
Cost of sales	(3,499)	(4,475)	(5,532)
Gen & admin expenses	(433)	(444)	(550)
Selling expenses	(202)	(387)	(473)
Operating profit	**1,757**	**3,308**	**5,408**
Operating EBITDA	3,185	5,284	7,656
Depreciation and amortisation	**(1,428)**	**(1,976)**	**(2,248)**
Operating EBIT	**1,757**	**3,308**	**5,408**
Interest income	387	301	359
Financial expense	(486)	(258)	(323)
Net other income	34	28	39
Income from associates & JVs	0	0	0
Pre-tax profit	**1,692**	**3,379**	**5,483**
Tax expense	(377)	(689)	(1,119)
Minority interest	(1)	(1)	(1)
Net profit	**1,314**	**2,689**	**4,363**
Adj. net profit to ordinary	1,314	2,689	4,363
Ordinary dividends	0	0	(1,164)
Retained earnings	**1,314**	**2,689**	**3,199**

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	3,297	4,394	4,527
Short term investments	190	83	115
Accounts receivables	1,488	474	646
Inventories	583	366	494
Other current assets	2,338	1,292	1,794
Total current assets	**7,896**	**6,609**	**7,576**
Fixed assets	1,694	1,167	1,623
Total investments	7	663	922
Other long-term assets	28,278	33,480	36,581
Total assets	**37,875**	**41,919**	**46,702**
Short-term debt	20	59	59
Accounts payable	526	734	907
Other current liabilities	2,344	3,093	3,964
Total current liabilities	**2,890**	**3,886**	**4,930**
Total long-term debt	3,138	3,429	3,675
Other liabilities	1,195	1,235	1,527
Share capital	23,288	23,288	23,288
Retained earnings reserve	9,289	12,004	15,236
Shareholders' equity	**30,617**	**33,334**	**36,534**
Minority interest	35	35	36
Total liabilities & equity	**37,875**	**41,919**	**46,702**

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	**1,692**	**3,379**	**5,483**
Depreciation & amortisation	1,482	1,980	2,255
Tax paid			
Other adjustments	1,854	(3,965)	(1,521)
Change in working capital	**(3,344)**	**3,148**	**252**
Cash flow from operations	**1,684**	**4,542**	**6,469**
Capex	(1,567)	(4,391)	(4,889)
Proceeds from assets sales	915	15	17
Others	0	(547)	(287)
Other non-current assets changes	1,814	932	(585)
Cash flow from investing activities	**1,162**	**(3,991)**	**(5,744)**
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(2,600)	506	280
Other financing cash flow	0	40	292
Dividends paid	0	0	(1,164)
Cash flow from financing activities	**(2,600)**	**546**	**(592)**
Cash and equivalents at beginning of period	3,051	3,297	4,394
Total cash generated	**246**	**1,097**	**133**
Cash and equivalents at the end of period	3,297	4,394	4,527

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	22.3%	31.2%	36.5%
Asset turnover	0.15	0.22	0.27
ROAA	3.4%	6.7%	9.8%
Avg assets/avg equity	1.30	1.25	1.27
ROAE	4.4%	8.4%	12.5%
Efficiency			
Days account receivable	80.7	16.7	16.8
Days inventory	60.8	29.9	32.6
Days creditor	54.9	59.9	59.8
Fixed asset turnover	3.80	6.02	8.58
ROIC	3.9%	7.3%	10.8%
Liquidity			
Current ratio	2.7	1.7	1.5
Quick ratio	2.5	1.6	1.4
Cash ratio	1.2	1.2	0.9
Cash cycle	86.6	(13.3)	(10.4)
Growth rate (yoy)			
Revenue growth	(29.3%)	46.2%	38.9%
Operating profit growth	(43.2%)	88.3%	63.5%
Net profit growth	(44.8%)	104.6%	62.3%
EPS growth	(44.8%)	104.6%	62.3%

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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