



# VHM Update - BUY

April 5, 2023

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## Company Update

Recommendation

**BUY**

HSX: VHM

Property

Target price (VND) **70,431**

Market price (VND) **51,000**

Expected share price return 38.1%

Expected dividend yield 0.0%

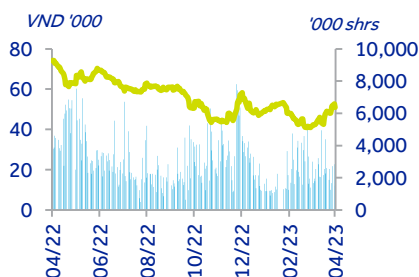
Expected total return **38.1%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	7.5	24.5	4.1	-31.2
Relative	0.0	19.2	0.7	-3.2

Source: Bloomberg

## Price-Volume



## Ownership

Vingroup JSC 69.3%

Government of Singapore (GIC) 5.2%

## Stock Statistics 4-Apr-23

Bloomberg code **VHM VN**

52-week range (VND) 39,400 - 77,500

Shares O/S (m) 4,354

Mkt cap (VND bn) 224,685

Mkt cap (USD m) 9,504

Est. Foreign room left (%) 25.8

Est. free float (%) 23.7

3m avg daily vol (shrs) 2,347,123

VND/USD 23,640

Index: VNIndex / HNX 1079.64/212.94

## VINHOMES JSC (VHM VN)

**Adjust target price down by 23% to VND70,431 but reiterate our Buy rating as market price dropped 18% since our last update report and VHM maintained good financial health and expanded its land bank despite unfavourable market**

**A decline in 2022 was mainly due to lower bulk sales**

VHM's 2022 result with net revenue of VND62,393bn (-27% YoY) and PAT of VND29,162bn (-25% YoY) was equivalent to 89% and 99% of our forecast. The underperformance in the top line was mainly due to a difference in accounting method to record bulks sales transactions (i.e. we forecast some bulk sales transactions as land sales and they were recorded in revenue and COGS rather than as stake sales and recorded in financial income), but there was no difference in the bottom line. If incorporating bulk sales and BCCs, adjusted revenue will be VND81.4trn (-14% YoY). The YoY decline in 2022 was mainly due to lower bulk sales and higher effective tax rate (24.5% vs 19.2%)

**Sales performance was positive in 2022 but may adjust in 2023 due to unfavourable market**

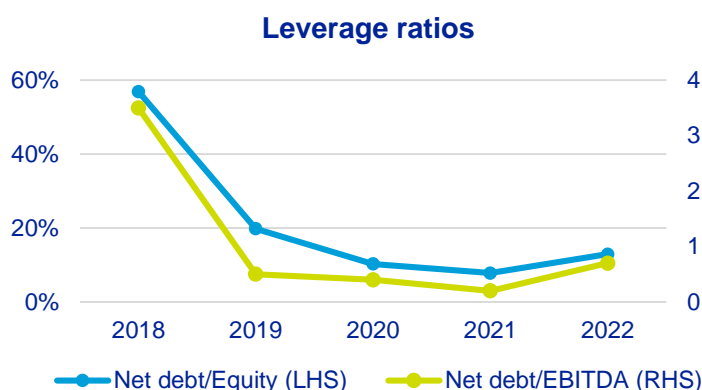
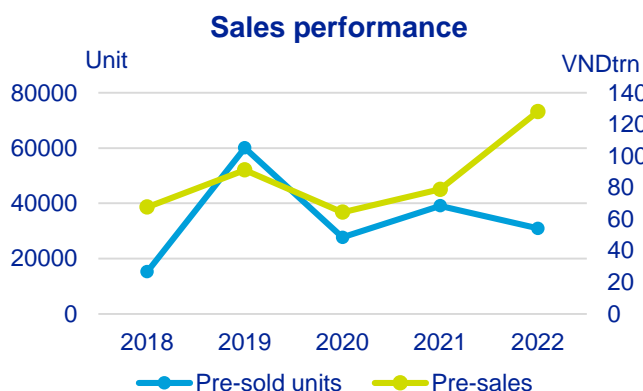
Sales performance in 2022 recorded impressive result. Although sales volume declined by 21% YoY, to 30,900 units, contracted value jumped by 63% YoY, to VND128.2trn mainly thanks to more low-rise units sold, especially at Vinhomes Ocean Park 2 with pre-sales of c.VND88trn and Vinhomes Ocean Park 3 with c.VND20.5trn. Bulk sales accounted for 68% of total pre-sold units and 37% of total pre-sales. Unbilled bookings at YE22 was VND107.6trn (+105% YoY).

High interest rate and conservative market sentiment may lead to delays in projects launch and affect retail sales. On the other hand, VHM's projects still attract sub-developers and the company may continue to record decent bulk sales transactions in 2023. We forecast 2023 pre-sales at c.VND72,000bn (-44% YoY) given our conservative perspective.

**Maintain good financial status**

At YE22, VHM had total debts balance of VND36.2trn, of which bank loans accounted for 49% and domestic bonds for 27%. Around 48% of total debts had fixed interest rate and there was no foreign currency denominated debt. Leverage ratios increased with Net debt/Equity of 12.9% and Net debt/EBITDA of 0.5x at YE22 compared with 7.8% and 0.2x at YE21. However, these ratios were below the industry average of 37.5% and 4.9x, respectively. Thus, we think financial health is not a concern in 2023.

	2019	2020	2021	2022	2023E
Net Sales (VNDbn)	51,627	71,547	84,986	62,393	87,994
Growth	33.5%	38.6%	18.8%	-26.6%	41.0%
EBITDA (VNDbn)	23,570	21,604	43,490	26,837	39,485
Growth	199.2%	-8.3%	101.3%	-38.3%	47.1%
PATMI (VNDbn)	21,746	27,351	38,825	28,831	30,760
Growth	52.2%	25.8%	41.9%	-25.7%	6.7%
EPS (bonus-adjusted, VND)	5,002	6,396	9,015	6,621	7,064
Growth	44.4%	27.9%	40.9%	-26.6%	6.7%
ROE	43.8%	38.6%	36.9%	21.4%	19.2%
ROIC	13.7%	13.5%	17.7%	9.5%	7.6%
Net debt/EBITDA (times)	0.5	0.4	0.2	0.5	0.9
EV/EBITDA (times)	10.2	11.2	5.5	9.0	6.1
PER (times)	10.2	8.0	5.7	7.7	7.2
PBR (times)	3.0	2.0	1.8	1.5	1.3
DPS (VND)	0	1,500	2,000	-	-
Dividend yield	0.0%	2.9%	3.9%	0.0%	0.0%



Source: VHM, ACBS.

### Social housing projects

Regarding Happy Home – VHM's social housing projects, the company will launch a total of 3,500 units in Thanh Hoa (c.3,100 high-rise units) and Quang Tri (c.100 low-rise units) in 2022-2023. The company expects to launch a 26ha project in Trang Cat Ward, Hai An Dt., Hai Phong in 2H23 with c.5,000 high-rise units (27 buildings). VHM already received 1/500 master plan approval for this project. Moreover, in November, 2022, the company acquired 100% Cam Ranh Salt JSC with a total cost of VND3,470bn to develop a project which includes a social housing component.

According to the Law on Housing, social houses will be exempt from land use fees and has a cap on PBT margin of 10%. The company is expected to benefit from a supporting package of VND120trn for both developers and homebuyers of social and worker housing projects with an interest rate of 1.5-2% lower than average mid and long-term interest rates of four commercial state banks (BIDV, Agribank, Vietinbank and Vietcombank).

### 2023 forecast

We forecast 2023 revenue at nearly VND88trn (+41% YoY) and PAT at over VND31trn (+7% YoY) given delivery of around 70% of VND107.6trn unbilled bookings at YE22 mainly from The Empire, The Crown, Ocean Park, Smart City and Grand Park, etc. We assume most bulk sales transactions recorded in sales of revenue and COGS rather than in financial income. Tax rate was expected to be maintain at 24.5%, the same as 2022.

### Valuation and recommendation

The real estate market is currently affected by government's inspection of land bidding, violation cases of corporate bonds issuance, high interest rate and tight credit for both developers and home-buyers. These factors led to a delay in project launches and deliveries, obstructed land bank expansion, and slow retail sales.

However, the government provided support to recover one of the most important sectors in the economy by decreasing deposit rates, approving supporting package of VND120trn for social and working housing projects, proposing an amendment of Circular No.16 regarding sales and repurchase of corporate bonds by credit institution and issuing Decree 10/2023/ND-CP which amends some articles in decrees that guide the implementation of the Land Law such as issuing land use right certificates for landed properties in non-residential projects, accelerating land use fee calculation time and land allocation time. Thus, we expect the market to be less constraint in the coming quarters and developers will have more confidence in launching their projects.

We think Vinhomes will stand firm during this challenging period and its long-term outlook remains positive given its 178mn sqm of land bank, strong financial health (net debt/Equity ratio decreased from 66.5% to 12.9% in 2016-2022 period), proven capital raising capability and leading position (market share of 26% in condominium

segment and 33% in landed properties segment in 2016-2022). Using the NAV method, we reiterate our Buy rating with a target price of VND70,431/share, down by 23% compared to our update report in 8/2022 given higher discount rate, lower pre-sales forecast and delays in project launches. Current market price is attractive with 2023 P/E of 7.2x and 1.3x, relatively low for a market leader.

### Risks

- The control of bank credit in the real estate sector and tighter regulations of corporate bonds issuance limits the ability to raise capital of businesses and homebuyers.
- High interest rates affect absorption rates of projects and developers' profit.
- Business results fluctuate strongly with bulk sales transactions.
- Long process of project approval and land clearance.

### Appendix 1: Expected new projects in 2023

Project name	Vinhomes Co Loa	Vinhomes Vu Yen	Vinhomes Golden Avenue
Location	Dong Anh, Hanoi	Thuy Nguyen, Hai Phong	Mong Cai, Quang Ninh
Total area (ha)	385	865	116
NSA (sqm)	1,399,000	2,589,000	486,000
Key components	Apartments, villas, shop-houses, schools, hospitals, mall, 90ha exhibition complex	Villas, townhouses, hotel, resort, schools, shopping Malls, amusement Park, 160ha golf course	Villas, mall, hospital, townhouses, schools

Source: VHM.

<b>VHM FINANCIALS MODEL</b>	<b>Market price (VND):</b>	<b>51,000</b>	<b>Target (VND):</b>	<b>70,431</b>	<b>Mkt cap (VNDbn):</b>	<b>224,685</b>
<b>(VNDbn except where stated)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	
<b>Total Net Sales</b>	<b>51,627</b>	<b>71,547</b>	<b>84,986</b>	<b>62,393</b>	<b>87,994</b>	
<i>Sales growth</i>	<i>33.5%</i>	<i>38.6%</i>	<i>18.8%</i>	<i>-26.6%</i>	<i>41.0%</i>	
CoGS ex-dep'n	23,819	45,069	35,438	30,480	41,350	
<b>Gross profit</b>	<b>27,456</b>	<b>25,936</b>	<b>48,460</b>	<b>30,696</b>	<b>45,184</b>	
<i>Gross margin</i>	<i>53.2%</i>	<i>36.3%</i>	<i>57.0%</i>	<i>49.2%</i>	<i>51.3%</i>	
SG&A	4,237	4,874	6,058	5,076	7,158	
<i>SG&amp;A as % of sales</i>	<i>8.2%</i>	<i>6.8%</i>	<i>7.1%</i>	<i>8.1%</i>	<i>8.1%</i>	
<b>EBITDA</b>	<b>23,570</b>	<b>21,604</b>	<b>43,490</b>	<b>26,837</b>	<b>39,485</b>	
<i>EBITDA margin</i>	<i>45.7%</i>	<i>30.2%</i>	<i>51.2%</i>	<i>43.0%</i>	<i>44.9%</i>	
Depreciation	352	542	1,088	1,217	1,460	
<b>Operating profit</b>	<b>23,219</b>	<b>21,062</b>	<b>42,402</b>	<b>25,621</b>	<b>38,025</b>	
<i>Operating profit margin</i>	<i>45.0%</i>	<i>29.4%</i>	<i>49.9%</i>	<i>41.1%</i>	<i>43.2%</i>	
Profit/loss from associates and JVs	0	19	54	56	56	
Financial income (excl. saving interest)	6,667	17,814	6,518	13,870	3,070	
Financial expenses (excl. interest expense)	171	1,018	438	2,319	2,319	
Net interest expense	1	571	871	-745	-1,726	
Other profit	30	-789	518	670	670	
Tax	5,427	8,310	9,234	9,481	10,115	
<i>Effective tax rate (%)</i>	<i>18.2%</i>	<i>22.8%</i>	<i>19.2%</i>	<i>24.5%</i>	<i>24.5%</i>	
<b>PAT</b>	<b>24,318</b>	<b>28,207</b>	<b>38,948</b>	<b>29,162</b>	<b>31,113</b>	
Minority interest	2,572	855	124	331	353	
<b>PATMI</b>	<b>21,746</b>	<b>27,351</b>	<b>38,825</b>	<b>28,831</b>	<b>30,760</b>	
<i>Net profit margin (%)</i>	<i>42.1%</i>	<i>38.2%</i>	<i>45.7%</i>	<i>46.2%</i>	<i>35.0%</i>	
Cash earnings	22,098	27,893	39,912	30,047	32,220	
Number of shares (m)	3,290	3,290	4,354	4,354	4,354	
<b>EPS (VND)</b>	<b>6,502</b>	<b>8,315</b>	<b>9,015</b>	<b>6,621</b>	<b>7,064</b>	
Bonus factor (x)	0.8	0.8	1.0	1.0	1.0	
<b>Adjusted EPS (VND)</b>	<b>5,002</b>	<b>6,396</b>	<b>9,015</b>	<b>6,621</b>	<b>7,064</b>	
<i>EPS growth (%)</i>	<i>44.4%</i>	<i>27.9%</i>	<i>40.9%</i>	<i>-26.6%</i>	<i>6.7%</i>	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022	2023E
Increase in working capital	-39,375	-19,182	5,991	-3,040	23,830
Capex	3,641	3,069	17,851	18,251	8,187
Other cash flow items	-34,024	-39,377	-18,513	-14,232	-16,372
<b>Free cash flow</b>	<b>23,808</b>	<b>4,629</b>	<b>-2,442</b>	<b>604</b>	<b>-16,170</b>
Share issues (m)	-5,550	-786	6,515	0	0
Dividends paid	3,687	218	5,199	9,384	0
Increase in net debt	-14,571	-3,625	1,126	8,779	16,170
<b>Net debt, end of year</b>	<b>12,812</b>	<b>9,188</b>	<b>10,314</b>	<b>19,093</b>	<b>35,263</b>
<b>Shareholders' equity</b>	<b>64,715</b>	<b>89,130</b>	<b>131,407</b>	<b>148,522</b>	<b>179,282</b>
BVPS (VND)	17,053	26,053	28,647	33,349	40,179
Net debt / equity (%)	19.8%	10.3%	7.8%	12.9%	19.7%
Net debt / EBITDA (x)	0.5	0.4	0.2	0.7	0.9
<b>Total assets</b>	<b>197,241</b>	<b>215,326</b>	<b>230,516</b>	<b>361,813</b>	<b>408,743</b>

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022	2023E
ROE	43.8%	38.6%	36.9%	21.4%	19.2%
ROA	14.3%	13.7%	17.8%	9.9%	8.1%
ROIC	13.7%	13.5%	17.7%	9.5%	7.6%
WACC	14.4%	15.7%	16.1%	14.6%	13.4%
EVA	-0.6%	-2.3%	1.6%	-5.1%	-5.8%
PER (x)	10.2	8.0	5.7	7.7	7.2
EV/EBITDA (x)	10.2	11.2	5.5	9.0	6.1
EV/FCF (x)	10.1	52.1	-98.7	399.0	-14.9
PBR (x)	3.0	2.0	1.8	1.5	1.3
PSR (x)	4.3	3.1	2.6	3.6	2.5
EV/sales (x)	4.7	3.4	2.8	3.9	2.7
Dividend yield	0.0%	2.9%	3.9%	0.0%	0.0%

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**BUY:** where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

**HOLD:** where we believe it will be -15% to 15%.

**SELL:** where we believe it will be lower than -15%.

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