

Industry: Real estate of / industrial park RETAIL RESEARCH

Recommendations **NEUTRAL**

Long Hau Joint Stock Company - (HSX: LHG)

New Project - New Opportunity

Current price:	49,200	Date of writing the report:	22/7/2021	SHAREHOLDER STRUCTURE	
Previous Target price before	-	Outstanding Shares (million)	50	IPC	48.7%
New target price:	55,700	Market Cap (billion)	2,460	Vo Tan Thinh	20%
Dividend yield	3.9%	Avg. liquidity 6M:	373.420	Different	31.1%
Upside	13.2%	%Foreign ownership	5.54%		

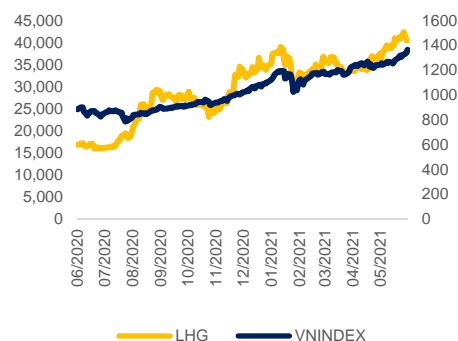
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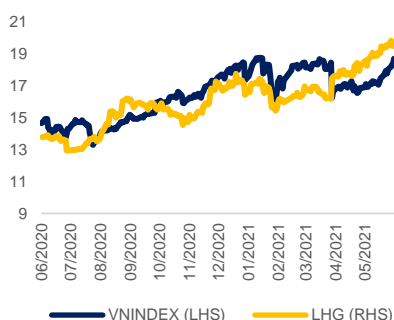
Technical analyst:

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Target price: 58,340 VND
Cut loss price: 39,870 VND

Comparison table of LHG and VN-Index prices



P/E and VN index comparison table



VALUATION PERSPECTIVE

We recommend **LHG** stock at **VND 55,700/SHARE** upside 13.2% compared to the price on July 2, 2021 with the RNAV method with a WACC capital usage cost of 12% for Project Long Hau 3.

BUSINESS RESULTS FORECAST

Net revenue and NPAT 2021 reached VND831 billion (+29% YoY) and VND282 billion (+42% YoY, respectively), completing 93% and 176% of plan in 2021, respectively. EPS fw = VND5,076 and P/E fw=9.7 - 5-year higher than LHG's 5-year avg. P/E at 5.7 and P/B fw = 1.8.

INVESTMENT THESIS

- **Industrial park - the main business segment with many potentials (1) 2021-2023:** Long Hau Industrial Park 3 stage 1 (124ha) ensures a cagr profit growth rate of 26%; **(2) 2024- 2030:** Long Hau 3 Industrial Park expansion (90ha) and An Dinh Industrial Park (200 ha).
- Stable revenue from rental of existing factory and long-term potential from rental of factory area of 29ha in Da Nang High-tech Zone.

RISK

- Covid-19 epidemic affects the plan for land transfer of industrial zones for lease and the schedule of revenue recognition.
- Fulfilling the obligation to pay compensation costs of 280 houses at Long Hau Residential and resettlement project for Tan Thuan Co., Ltd.

BUSINESS UPDATES

- **Prudent business plan for 2021:** The company placed plan of revenue and NPAT of VND923 billion (+37% YoY) and VND160 billion (-20% YoY) on the complex fluctuations of the epidemic.

	2021	2022	Peer	VN Index		2020	2021F	2022F	2023F
PE (x)	9.7	8.1	22.5	16.9	Net revenue	644	831	995	1,048
PB (x)	1.8	1.6	1.4	2.2	Gross profit	294	424	524	563
PS (x)	3.0	2.5	3.6	1.7	Profit after tax	198	282	336	369
ROE (%)	20%	22%	5%	12.9%	EPS	3,582	5,076	6,048	6,642
ROA (%)	10%	10%	3%	2.2%	EPS growth	39.0%	42.0%	19.0%	10.0%

BUSINESS OVERVIEW

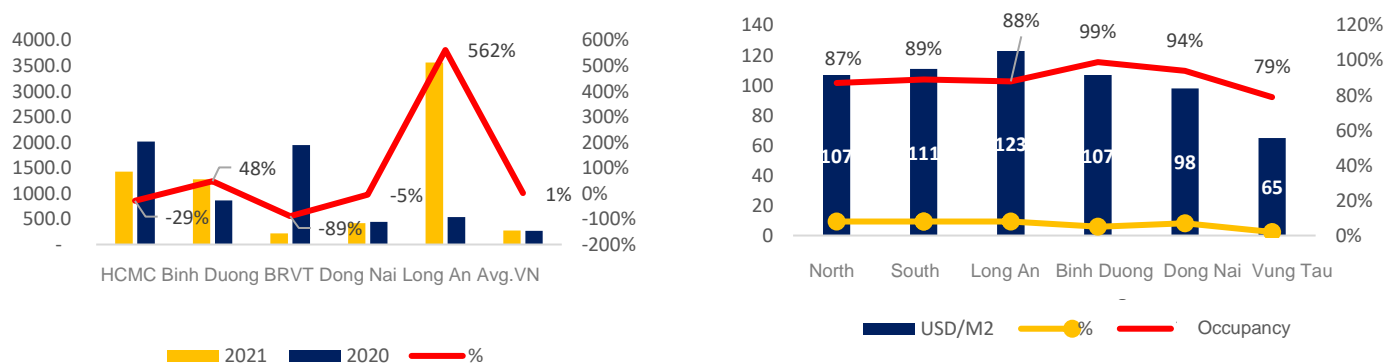
Expansion of new land fund to ensure CAGR profit growth of 26% in the period of 2021-2023 thanks to the operation of Long Hau Industrial Park 3 stage 1 (124ha) from 2020

Potential of Long Hau 3 Industrial Park (1) Located in the strategic industrial park planning area of Long An province – a hot spot for the development of the southern industrial park thanks to

- (1.1) Owning a prime location: the main connection of the Southeast, Southwest, and Ho Chi Minh City, with a convenient transport infrastructure system connected to Long An International Port, a series of provincial highways: National Highway 50, National Highway 1, ... help optimize the transportation costs of the business.
- (1.2) Emerging destination of FDI investment in the southern region - Attracting enterprises in the fields of textiles, thick leather, food industry, mechanics, ... thanks to the effective trade agreements, local FDI incentive policies.
- (1.3) Rental prices increased sharply due to the high demand with low capital prices will support the improvement of profit margins. BSC forecasts that the average rental price of Long Hau 3 Industrial Park will reach 180 USD/m² (+13% YoY). Gross profit margin of rental segment is expected to increase from 50% to 53%.

In 1H/2021, the total newly registered FDI in Long An topped the country (+5.6 times YoY), mainly from Long An I and II LNG Power Project Pte.Ltd by VinaCapital GS Energy with a capital of more than 3.1 billion USD

Average regional rental price and occupancy rate 2020

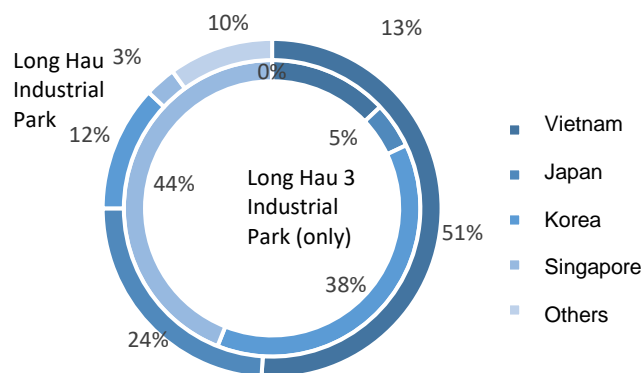


Source: MPI, Savills, Ipin Vietnam

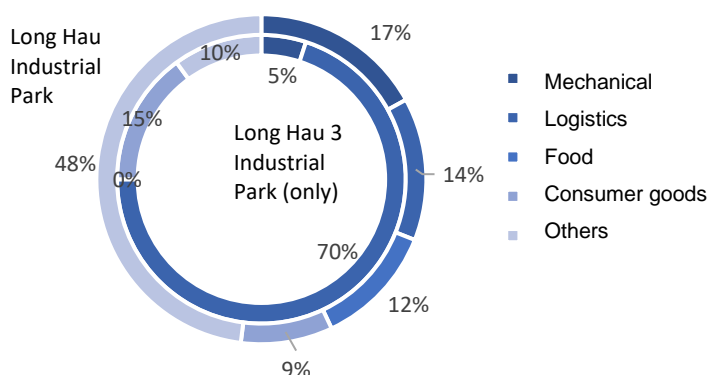
(2) The occupancy rate of industrial zones in the region is high in the context of new supply shortages. The total commercial area currently reaches 88%, corresponding to the remaining ready rental area/ available area in the area is [307ha/2,650ha](#). In the period 2020 - 2021, the total lease area is only estimated at 8% YoY (according to MOC). BSC consider that with a scale of up to 120ha, LH3 Industrial Park (low occupancy rate of 21%) will benefit and become destination to attract investment inflows from FDI as well as domestic thanks to these advantages.

(3) Expand the variety of rental product portfolios, creating a long-term and stable revenue source. LHG is promoting the segment of building factories for rent, combined with high-rise factory products and developing more models of logistics warehouses for lease. Long An province is aiming to develop a logistic hub to serve the development needs of Ho Chi Minh City. BSC assessed that this is also the main customer file of Long Hau 3 industrial park in recent years with the area for lease for logistics enterprises and industrial parks accounting for 70% of the exploited rental area, from Singapore enterprises.

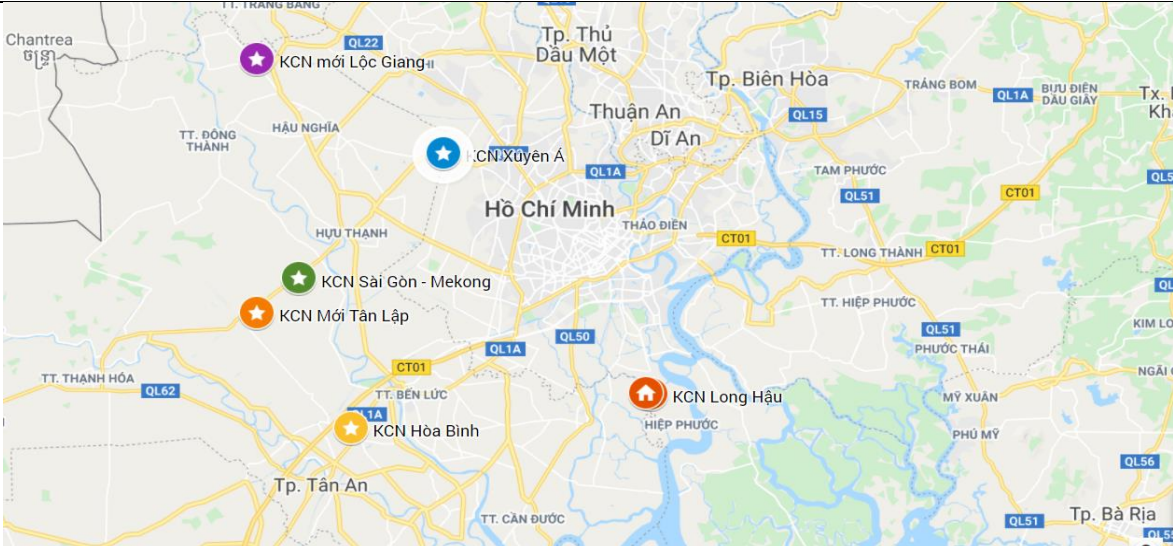
Structure of enterprises by country



Structure of enterprises by industry



Source: LHG

	Existing INDUSTRIAL PARK		Expanded Industrial Park			Newly approved industrial park		
	Long Hau 3	Long An Industrial Park Avg.	Expanded Peace	Long Hau 3 expanded	Xuyen A	Tan Tap	Saigon - Mekong	Loc Giang
Area (ha)	124	246	49	90	177	654	200	466
Location								
Occupancy rate	21%	89%	Expected to be operated after 2-5 years					
Industrial park rental price (USD/M2)	160	123						
Factory rental price (USD/M2)	4-5	4.5	The Government approves the planning and in the clearance phase and compensation.					
Time remaining	2066	2059						

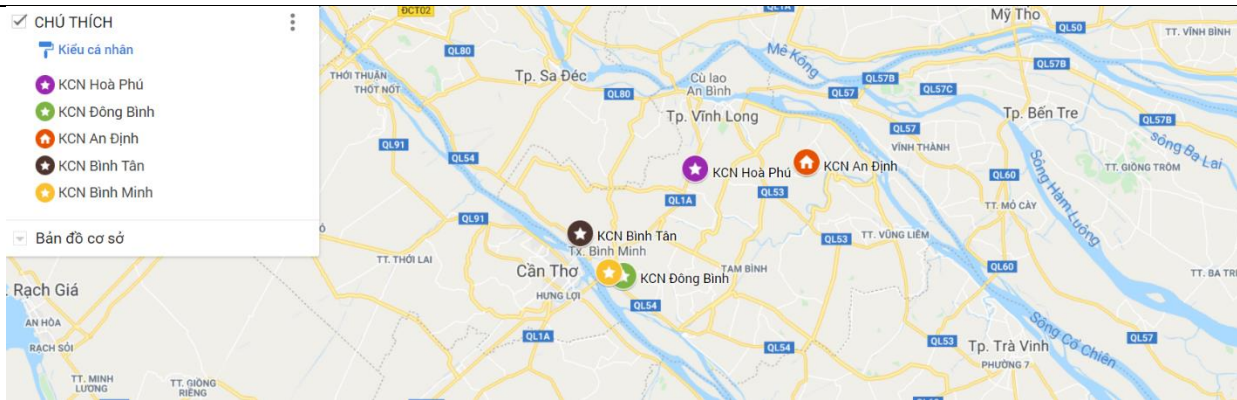
[Map Link](#)

Source: BSC Research

Long Hau 3 Industrial Park expanded (90ha) and An Dinh Industrial Park (200 ha), ensuring long-term profit growth for LHG after 2023.

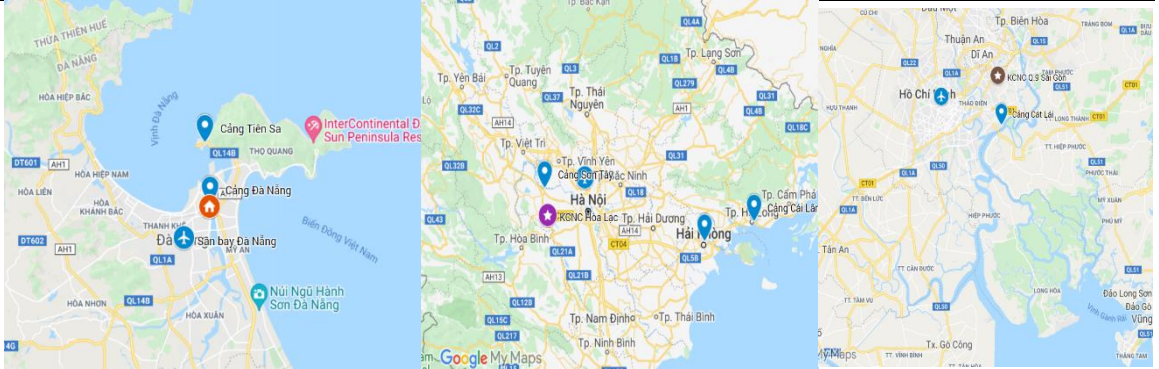
Long Hau 3 Industrial Park expanded (90ha) with a 60ha lease area – expected to start operation in 2024, inheriting the advantages of existing industrial parks. We expect the estimated price to increase by 10% compared to Long Hau 3 Industrial Park at the same time in 2024, and $g = 5\%$ / year in the long term, to partially offset the estimated increase in compensation costs / total charges (+102% compared to Project Long Hau 3 GD1)

An Dinh Industrial Park with an area of 200ha, owns the advantage of **(1) under the management of Vinh Long province** is the 6th most competitive province in the country with many policies to encourage investment and infrastructure upgrades, ... **(2) The convenient industrial park location** connects to highways, 56km from the international airport and has a dense river system that allows ships with a tonnage of 3-5 thousand tons to circulate, convenient for the movement and circulation of goods. **(3) Occupancy rates of existing industrial parks are high** (over 50%). Therefore, we expect that with a rental price of 115 USD/m² in 2026, An Dinh Industrial Park will contribute an average profit of more than VND200 billion to LHG in the period of 2026 - 2033.

Industrial Zone	Binh Industrial Park	Minh Park	Hoa Phu Industrial Park	An Dinh Industrial Park	Dongping Industrial Park	Binh Industrial Park	Tan
Area	134.82		250.97	200	350	400	
That's the fill rate.	72%		Stage 1: 121.59 ha, occupancy rate 97% Stage 2: 129.38 ha, occupancy rate 53%	Expected to be put into operation after 2024			
Location							
Average rental price	USD 80 - 90/m ² /39 years	- N/A		N/A	N/A	N/A	
Factory rental price	USD 2.2 - 2.3 /m ² /month.	N/A		N/A	N/A	N/A	
Legal	Completed legal procedures and transferred part of the project	Completed legal procedures and transferred part of the project	Completed legal procedures and transferred part of the project	Planning 1/2000 – LHG participated in bidding according to the customers of Vinh Long People's Committee	1/2000	It has not been cleared, it is still agricultural land.	

Stable revenue flow from existing factory leasing and long-term potential from the 29ha factory leasing project in Da Nang High-tech Zone.

- **The existing factory area** (before 2021) of LHG is about 12.2 hectares with a occupancy rate of ~100% which is expected to bring average revenue over the lifecycle of the project reaching VND 171 billion.
- **Growth potential from the new project** for factory leasing in **Da Nang High-tech Zone** with a total area of 29.6ha. According to the plan, LHG will hand over 2.5ha of High-tech Zone Factory In Da Nang (J4 stage 1 expansion and J4 stage 2) and 1ha service warehouse in the period of 2021-2022. We expect this complex to contribute an average revenue (Project lifecycle) of VND63 billion. In the long term, with the potential of Project with a 100% occupancy rate for a total area of 2.9ha, we estimate that the project can contribute more than VND250 billion in revenue per year to Long Hau.

	Da Nang Kcnc	Hoa Lac Industrial Park	Saigon Industrial Park
Area (ha)	29.6	391	913
Occupancy rate	5%	N/a	N/a
Location			
Rental price (USD/M2)	3.9 - 4.9	No factory products yet	5.5
Leased area	500 m ² or more	No factory products yet	1,000 m ² -60,000m ²
Geology	Hard geology suitable for the construction of inexpensive infrastructure against subsidence	Weak Load Strength, Medium	Weak Load Strength, Medium
Tax incentives	Exemption for the first 4 years and 50% reduction in the next 9 years	Exemption for the first 4 years and 50% reduction in the next 9 years	Exemption for the first 4 years and 50% reduction in the next 9 years
Minimum regional salary (VND/ Person) in 2020	3,920,000	4,420,000	4,420,000

[Map Link](#)

Source: BSC Research

Project	Area (ha)	Time (Expected) exploitation	Remaining business area (ha)**	2021-2023	2024	2025	2026	After 2027
Industrial Park Leasing Segment – Recorded 1-time revenue								
Long Hau 3 Industrial Park	124.0	2019	63					
Long Hau 3 Industrial Park expanded	90	2024*	60					
An Dinh Industrial Park	200.0	2026*	147					
Factory leasing segment – Record revenue by period								
The current ready-built factory.	12.2	Before 2021	11.6					
CNC DN+J4 ready-built factory and service warehouse	3.5	2021*	3.2					
Long Hau 3 Industrial Park Factory	10	2021	9.0					

*: Based on our assumptions about exploitation time.

**: As of the end of 2020

UPDATE BUSINESS RESULTS Q2/2021

Billion dong	Q2/2021	Q2/2020	% YoY	1H/2021	1H/2020	% YoY	Observe
Net revenue	556	181	207%	666	387	72%	Net revenue and NPAT 1H/2021 reached VND666 billion (+72%YoY) and VND251 billion (+126%YoY) reaching 157% plan in Q2, net revenue and NPAT Q2 reached VND556 billion (+207%YoY) and VND218 billion (+354% YoY) respectively from a 10.8ha lease contract with LOGOS VIETNAM with a value of ~ VND 440 billion – equivalent estimated lease of US\$176 (+23.9% YTD).
Gross profit	301	70	330%	358	164	118%	
Gross profit margin	54%	39%		54%	42%		
Selling expenses	-8	-4	100%	-9	-8	13%	
SG&A costs	-26	-15	73%	-39	-30	30%	Gross profit margin recorded an increase of 12ppt compared to the same period in 2020, due to an increase in the rental price of industrial parks by 40%YoY. Although, the demand for new FDI inflows into Long An - excluding Long An I and II LNG Power project, FDI 1H/2021 decreased by ~20% YoY, due to the lack of supply, rental prices remained high compared to 2020.
SG&A / Net revenue	6%	10%		7%	10%		
EBIT	267	51	424%	310	126	146%	
Finance revenue	7	9	-22%	11	13	-15%	
Financial costs	-4	-4	0%	-8	-7	14%	SG&A/Revenue decreased from 10% to 7% mainly due to reduced selling expenses/revenue due to the epidemic.
LNTT	271	56	384%	315	132	139%	
NPAT	218	48	354%	251	111	126%	
NPAT Border	39%	27%		38%	29%		

RISK

1. **The complicated development could disrupt LHG's sales plan as well as the progress of LHG's revenue recognition in 2021.** We note that the epidemic may affect the progress of sales and push back the handover of land for lease in Q3 2021 in the context of the complex epidemic in the South.
2. **Fulfilling payment obligations for Tan Thuan Co., Ltd.** LHG is obliged to refund the cost of relocation arrangements for 280 houses in The Residential – Resettlement Project in Long Hau commune, Can Giuoc district, Long An province. In the period of 2017 - 2018, the company has advanced VND123 billion to IPC (VND 58 billion in 2007 and VND65 billion in 2018). However, the IPC temporarily calculated the cost of resettlement up to VND328 billion in 2020. Therefore, after agreeing with IPC, LHG will have to pay an amount of up to VND 206 billion and sharply reduce LHG's after-tax profit. To reflect these risks, we have adjusted the ~206 billion VND reduction to the net current value in the valuation for LHG.

2021 OUTLOOK

Unit: Billion dong	2019	2020	2021E	2022F	2023F
Turnover	599	675	831	995	1,048
Revenue land lease has developed infrastructure	397	465	608	724	725
%YoY	2%	17%	31%	19%	0%
Revenue for office leasing, workshops, and accommodations	99	121	133	181	233
%YoY	18%	22%	10%	36%	29%
Different	102	90	90	90	90
COGS	385	350	407	471	485
Gross profit	214	294	424	524	563
Selling expenses	10	11	11	13	13
SG&A expenses	58	65	83	109	115
EBIT	146	218	330	402	435
Financial revenue	29	34	40	43	48
Financial expenses	5	16	19	26	23
EBT	179	246	352	420	461
Tax	37	48	70	84	92
Profit after tax	143	199	282	336	369
Basic EPS (copper)	2,574	3,582	5,076	6,048	6,642
Gross revenue margin	36%	46%	51%	53%	54%
Net revenue margin	24%	31%	34%	34%	35%
ROE	12%	15%	20%	22%	22%

Source: BSC Research

BSC forecasts net revenue and NPAT 2021 to reach VND831 billion (+29% YoY) and VND282 billion (+42% YoY, respectively), completing 93% and 176% of customers in 2021, respectively. EPS fw = VND 5,076 and P/E fw=9.7 - 5-year higher than LHG's 5-year average P/E at 5.7, P/B fw =1.8 based on the following assumptions:

- The rental area is at 14.4 ha (+11%YoY) - the rental area of Q2/2021 reaches 10.8ha, due to the adjustment of the impact of the epidemic, which expected to reach the end of Q3/2021.
- Industrial Park rental price reached 180 USD /m²/cycle (+13%YoY), profit margin increased from 46% to 51% thanks to adjustment based on the positive price growth prospects of enterprises due to lack of supply and current rental prices ranging from 176-200 USD/ m² /cycle.

VALUATION

Project	Area (ha)	Time (Expected) exploitation	Business area remaining 2020 (ha)	2021-2023	2024	2025	2026	After 2027
Industrial Park Leasing Segment – Recorded 1-time revenue								
Long Hau 3 Industrial Park	124.0	2019	63					
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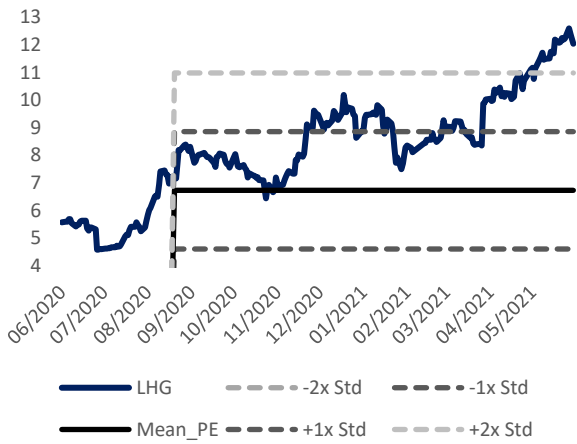
*Based on our assumptions about exploitation time.

We recommend **NEUTRAL for LHG** stock at **VND 55,700/SHARE**, upside 13.2% compared to the price on July 2,2021 with the RNAV method with a WACC of 12% for Project Long Hau 3.

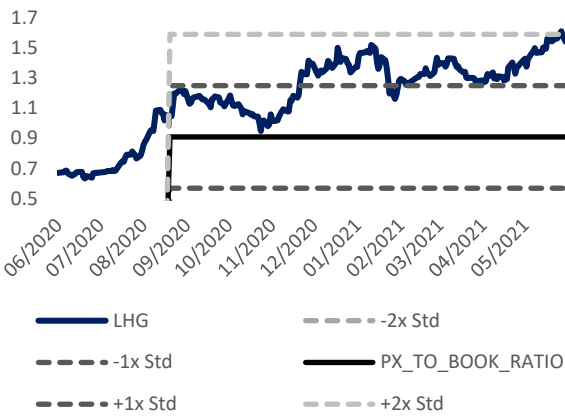
Billion dong	NAV value	WACC	Total NAV value
Industrial Park + Long Hau Factory 3 - stage 1	Cash flow discount	12%	1,604
Long Hau 3 Industrial Park expanded	Cash flow discount	12%	218
An Dinh Industrial Park	Cash flow discount	12%	474
Ready-built factory complex (before 2021)	Cash flow discount	12%	507
CNC DN+J4 Ready-built factory complex and service warehouse	Cash flow discount	12%	110
Net present value			2,913
(+) Cash			396
(-) Debt			- 322
IPC liabilities			- 206
Total NAV value			2,781
Number of shares outstanding			50,012,010
Reasonable value for 2022			55,700
Share price			49,200
Upside			13.2%

Source: BSC Research

STOCK PE



STOCK PB



IS (VND billion)	2020	2021F	2022F	2023F	CF (VND billion)	2020	2021F	2022F	2023F
Net revenue	644	831	995	1,048	(Loss)/NPAT	199	282	336	369
COGS	350	407	471	485	Depreciation	51	55	59	64
Gross profit	294	424	524	563	Change in NWC	(65)	(118)	(114)	(15)
Selling expenses	11	11	13	13	Other adjustments	(31)	(2)	(2)	(1)
G&A	65	83	109	115	CF from operating activities	221	217	279	417
Operating income	218	330	402	435	Fixed assets investment	(60)	(76)	(100)	(105)
Financial income	34	40	43	48	Other investment	(44)	-	-	-
Financial expenses	16	19	26	23	CF from investing activities	(104)	(76)	(100)	(105)
Profit before tax	246	352	420	461	Dividend paid	(95)	(135)	(161)	(177)
Corporate tax payment	48	70	84	92	Cash from net borrowing	126	22	90	(36)
Profit after tax	198	282	336	369	Other gain/loss	(95)	(135)	(161)	(177)
Minority interest	-	-	-	-	CF from financing activities	(64)	(248)	(232)	(390)
NPATMI	198	282	336	369	Beginning cash balance	151	260	288	396
EBITDA	250	337	395	433	Cash in year	109	28	108	99
EPS	3,582	5,076	6,048	6,642	Ending cash balance	260	288	396	495
BS (VND billion)	2020	2021F	2022F	2023F	Ratios (%)	2020	2021F	2022F	2023F
Cash & cash equivalent	261	288	396	495	Liquidity ratios				
Short term investment	433	433	433	433	Current ratio	2.3	2.5	2.3	2.3
Account receivables	314	303	521	548	Quick ratio	1.9	2.1	1.8	1.8
Inventory	700	794	919	946					
Other current assets	8	10	12	13	Solvency ratios				
Total current assets	1,716	1,828	2,281	2,435	Debt/ Total assets	24.0%	22.8%	28.4%	26.7%
Tangible assets	75	84	93	107	Debt/ Equity	48.7%	44.4%	59.3%	53.9%
Depreciation	51	55	59	64					
Long term incomplete assets	41	30	57	86	Efficiency ratios				
Long term investment	509	532	536	534	Days of inventories	608	712	712	712
Other non-current assets	254	254	254	254	Days of receivables	183	133	191	191
Total non-current assets	930	955	999	1,045	Days of payables	281	218	266	266
Total Assets	2,646	2,783	3,280	3,480	CCC	510	627	637	637
Account payables	531	496	725	764					
Short-term debt	43	37	31	30	Profitability ratios				
Other short-term debt	179	207	241	278	Gross profit margin	46%	51%	53%	54%
Current liabilities	753	740	997	1,072	PBT margin	31%	34%	34%	35%
Long-term debt	167	195	291	256	ROE	15%	20%	22%	22%
Non-current liabilities	563	591	687	652	ROA	8%	10%	10%	11%
Total Liabilities	1,316	1,331	1,684	1,724					
Paid-in capital	500	500	500	500	Valuation				
Capital surplus	72	72	72	72	PE	13.7	9.7	8.1	7.4
Retained earnings	614	733	874	1,029	PB	1.9	1.8	1.6	1.4
Other equity	97	97	97	97					
Minority interest	1	1	1	1	Growth				
Shareholder's equity	1,284	1,403	1,544	1,699	Net revenue growth	8%	29%	20%	5%
Total Resources	2,600	2,734	3,228	3,423	EBIT growth	49%	51%	22%	8%

TECHNICAL ANALYSIS

Target price 58,340

Stop-loss price 39,870

Technical highlights:

- Current trend: Increase.
- MACD indicator: the MACD line is above the signal line.
- RSI: In the overbought zone.
- MA Line: EMA12 above EMA26.

Comment: LHG has been in a long-term bullish state for more than a year now and is now gradually coming to the end of the trend. Stock liquidity in recent weeks is trending upwards, indicating that traders are still quite interested in LHG for the time being. Meanwhile, the technical indicators of the stock are still in positive condition. If you look at the Fibonacci analysis, LHG will likely have a few more weeks of price increases to complete its upward trend.

Recommendation: Investors can buy LHG and should consider taking a profit in the medium term in the 58-58.5, cut loss if the support 40 is penetrated.



Source: BSC, TA iTrade

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