

Sector: Real estate (Latest report: [Link](#))

Recommendation

BUY

Nam Long Joint Stock Company (HSX: NLG)

Sales hit a new record

Current price:	42,800	Date:	16/08/2022	Cơ cấu cổ đông	
Previous target price:	54,000	Outstanding Shares (Million)	382.9	Nguyen Xuan Quang	11.1%
New target price:	53,500	Market Cap (Billion VND)	16,543	IBEWORTH PTE LTD	8.2%
Dividend yield:	0%	Average liquidity of 10 sessions	1,891,270	Thai Binh Investment JSC	5.0 %
Upside:	25%	% Foreign float	35.6%	Nguyen Thi Bich Ngoc	3.6%

Industry analyst:

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Technical Analyst:

Target price: N/A VND
Stop-loss price: N/A VND

Price comparison between NLG and VN-Index



Valuation

Compared to the "Hold" recommendation in the Q1/2022 strategic report, Nam Long's stock price has had a sharp downward adjustment due to the general influence of the stock market and the real estate industry. Therefore, recording the discount rate strongly depreciated from historical RNAV levels.

We recommend to BUY NLG but adjust our target price down to 53,500 VND/share (+25% from the closing price on August 26, 2022) based on changing several assumptions. Including RNAV method based on assumptions (1) Adjustment of project WACC = 12%, (2) Apply 10% discount to industry and market risk, and (3) Increase selling price by one project number (Izumi City, Akari City).

Forecasting business performances

- BSC forecasts that NLG's 2022 revenue and profit will reach 7,374 billion VND (+41.7% YoY) and the parent company's profit after tax will reach 1,220 billion VND (+14% YoY). EPS FW 2022 = 3,185 VND. PE FW 2022 = 14.3 times, PB FW 2022 = 1.6 times.

Investment Thesis

- Total opening and selling value in the period 2022-2023 are the highest compared to mid-cap real estate businesses.
- Owning a large land bank (681 ha) with a high number of projects available for sale (7 projects) ensures profit growth in the period of 2023-2025.

Risks

- The plan to open and sell projects has been delayed due to legal issues and the Covid-19.
- General real estate industry risks (interest rates, industry cycle).

Business Update

- Revenue increased sharply by 187% over the same period. However, profit declined as no other profit was recognized from revaluation of assets. The parent company's revenue and profit after tax reached 1,828 billion VND (+187% YoY) and 111 billion VND (-73% YoY).
- Total pre-sales in the first half of 2022 exceeded 42% of the realized value in 2021, reaching VND 8,410 billion. Accumulated to June 31, 2022, NLG recorded total new sales of 8,410 billion VND (+87% compared to the same period in 2021), with about 1,538 products being sold in 5 projects.

	2020	2021	2022F	VN-Index		2019	2020	2021	2022F
PE (x)	14.8	15.4	14.3	13.3	Revenue	2,546	2,217	5,206	7,374
PB (x)	2.2	1.9	1.6	2.1	Gross profit	1,066	671	1,778	3,108
PS (x)	3.0	4.4	5.5	13.3	Profit after tax	960	835	1,071	1,220

ROE (%)	14.9%	12.0%	12.0%	13%	EPS	3,697	2,927	2,796	3,185
ROA (%)	6.1%	4.5%	4.4%	2%	EPS Growth	16%	-21%	-4%	14%

BUSINESS UPDATE REPORT

NLG's profit dropping point will focus on Q3 and Q4/2022 thanks to (1) Time of project handover, and (2) Other profit from selling shares of Paragon Dai Phuoc project.

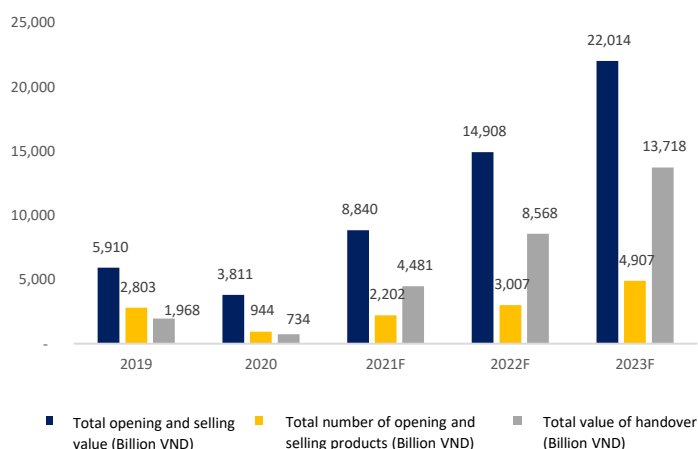
Revenue increased sharply by 187% over the same period. However, profit declined as no other profit was recognized from revaluation of assets. Revenue and profit after tax of the parent company reached 1,828 billion VND (+187% YoY) and 111 billion VND (-73% YoY). Accordingly, NLG completed 25% of the revenue plan and 9.2% of the profit after tax plan of the parent company's shareholders. In the second half of 2022, NLG is expected to continue handing over Valora Southgate, Akari City and Mizuki Park projects.

	6T2022	6T2021	% YoY	Ghi chú
Revenue	1,828	637	187%	-
Revenue from selling land, apartments, townhouses, and villas	1,689	69	2347%	Real estate revenue mainly comes from the handover of Valora Southgate project (60%) and Flora Akari project (38%) and other projects (2%).
Construction segment	117	40	190%	
Service Provider	23	447	-95%	
Revenue from project transfer	-	80	-100%	- Selling expenses increased sharply during the period mainly due to the promotion of sales in 1H2022.
Gross profit	811	156	419%	
<u>Gross profit margin</u>	<u>44%</u>	<u>25%</u>		
Selling and administrative expenses	502	257	95%	
<u>SG&A/Net Revenue</u>	<u>27%</u>	<u>40%</u>		- Compared to the same period in 2021, NLG did not record any other profit from revaluation of assets. However, the management also shared that in the second half of 2022, NLG is expected to book another profit thanks to the transfer of 50% of Paragon Dai Phuoc project (~350 billion VND in profit) to strategic partner Nishi Nippon Railroad.
EBIT	310	-101	-407%	
Financial revenue	50	17	195%	
Financial expenses	81	17	383%	
Profit/Loss from affiliates	3	95	-97%	
Other profits	5	428	-99%	
Profit before tax	286	396	-28%	
Corporate income tax	61	11		
Profit after tax	225	414	-46%	
Minority shareholder benefits	114	2		
Profit after tax of parent company	111	412	-73%	
Basic EPS (VND)	291	1,077		
Gross profit margin	44%	25%		

Scale of new sales in the first half of 2022 and is expected to rank first in the group of medium-cap real estate enterprises.

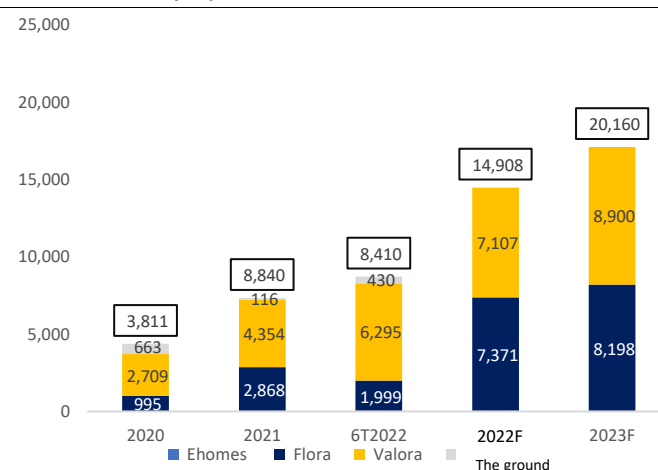
The total value of pre-sales in the second half of 2022 exceeded 42% of the realized value in 2021, reaching **8,410 billion VND**. Accumulated to June 31, 2022, NLG recorded total new sales of 8,410 billion VND (+87% compared to the same period in 2021), with about 1,538 products being sold in 5 projects including (1) Izumi City, (2) Mizuki Park, (3) Akari City, (4) Southgate, and (5) Can Tho. **BSC considers NLG to be the few real estate companies with a large number of ready-to-sell projects compared to listed real estate companies with small and medium capitalization.** In which, the absorption rate is quite high at 70-80% or more, this will help ensure the profit growth of NLG in the period of 2023-2025.

NLG's profit drop point will start in 2023



Source: NLG, BSC Research

The total value and number of products opened for sale in 6M2022 is nearly equivalent to the total new sales in 2021.



Source: NLG, BSC Research

The effect has gradually come from the construction of shifting orientation to satellite urban areas. In the period 2018-2020, BSC finds that NLG is one of the few businesses that focus on increasing the land bank to 681ha. **Accordingly, NLG is a mid-cap real estate enterprise that owns the most ready-to-implement projects with 5 projects (386.8ha)** expected to open for sale in 2022 including (1) Mizuki Park, (2) Akari City, (3) SouthGate – Phase 1, (4) Can Tho 43ha, (5) Izumi City, **and 2 projects (with a scale of 66ha)** that will be open for sale in 2023 including (6) Paragon Dai Phuoc and (7) Paragon Hai Phong. Except for two projects Mizuki Park and Akari City, the remaining projects are concentrated in the low-rise segment (land plots, townhouses, and villas) located in satellite towns around Ho Chi Minh. This is consistent with the current trend of promoting connection infrastructure between neighboring provinces with Ho Chi Minh City.

BSC estimates that the implementation of a series of projects with a scale of over 40 hectares (in the period of 2021-2025) compared to the previous scale of only 6-10 hectares (The period of 2016-2020) will help the scale in revenue and NLG's profit will have a significant change. In addition, the Valora product line will be the main line of development in the next few years due to the specificity of the project location.

BSC forecasts that NLG's new sales growth in 2023 will continue to reach a new record, reaching 22,014 billion VND mainly from the launch of the above 5 projects in 2022 and two new projects, Paragon Dai Phuoc and Paragon Hai Phong.

Increasing leverage with a healthy financial background is a great advantage in the context of tighter capital. We highly appreciate NLG's push to increase leverage in the period 2020-2021, NLG's net debt/equity (D/E) ratio in the above period will reach about 40-44% (lower) compared to the industry average of 78.5% compared to 17% in 2021, helped NLG increase the above-mentioned land bank. Although, NLG's ROE has recorded a decline in the period of 2020-2021, but we believe that this indicator will improve strongly, and the results will come in the period of 2023-2025.

NLG is one of the few businesses that can continue to raise capital from the bond channel. In the first half of 2022, NLG has successfully mobilized a bond package worth 1,000 billion VND with IFC with a fixed interest rate of 9.35% for 7 years to develop phase 2 of the Waterpoint project (Long An).

Profit forecast in 2022.

Profits in 2021 mainly come from (1) Waterpoint project – Phase1, Mizuki Park, Akari City and (2) Transfer of 50% of Pargon Dai Phuoc project. BSC forecasts that NLG's 2022 revenue and profit are estimated at 7,374 billion VND (+41.7% YoY), and 1,220 billion VND (+14% YoY) in net profit of the parent company, respectively. EPS FW 2022 = VND 3,185. PE FW 2022 = 14.3 times, PB FW 2022 = 1.6 times.

Unit: Billion VND	2017A	2018A	2019E	2020E	2021F	2022F
Revenue	3,165	3,480	2,549	2,260	5,206	7,374
% YoY	0%	10%	-27%	-11%	130%	42%
COGS	1,866	1,976	1,480	1,546	3,427	4,266
Gross profit	1,295	1,503	1,066	671	1,778	3,108
Selling expense	219	252	119	68	416	627
Selling and administrative expenses	195	239	306	367	581	610
EBIT	881.3	1,013	642	236	781	1,871
Financial revenue	94.8	129.0	96.7	726.7	444.9	491.8
Financial expenses	29.3	37.0	21.1	102.5	112.4	185.5
Profit/Loss from affiliates	(3)	14	126	142	91	-
Profit before tax	950	1,128	1,226	1,015	1,640	2,178
Corporate income tax	194	241	219	165	162	348
Profit after tax	756	887	1,007	850	1,478	1,829
Minority shareholder interests	221	124	47	15	407	610
Profit after tax of parent company	535	763	961	835	1,071	1,220
% YoY	55%	43%	26%	-13%	28%	14%
Basic EPS (VND)	3,403	3,193	3,699	2,927	2,796	3,185
Gross profit margin	41%	43%	42%	30%	34%	42%
Net profit margin	17%	22%	38%	37%	21%	17%
ROE	19%	17%	19%	15%	12%	12%

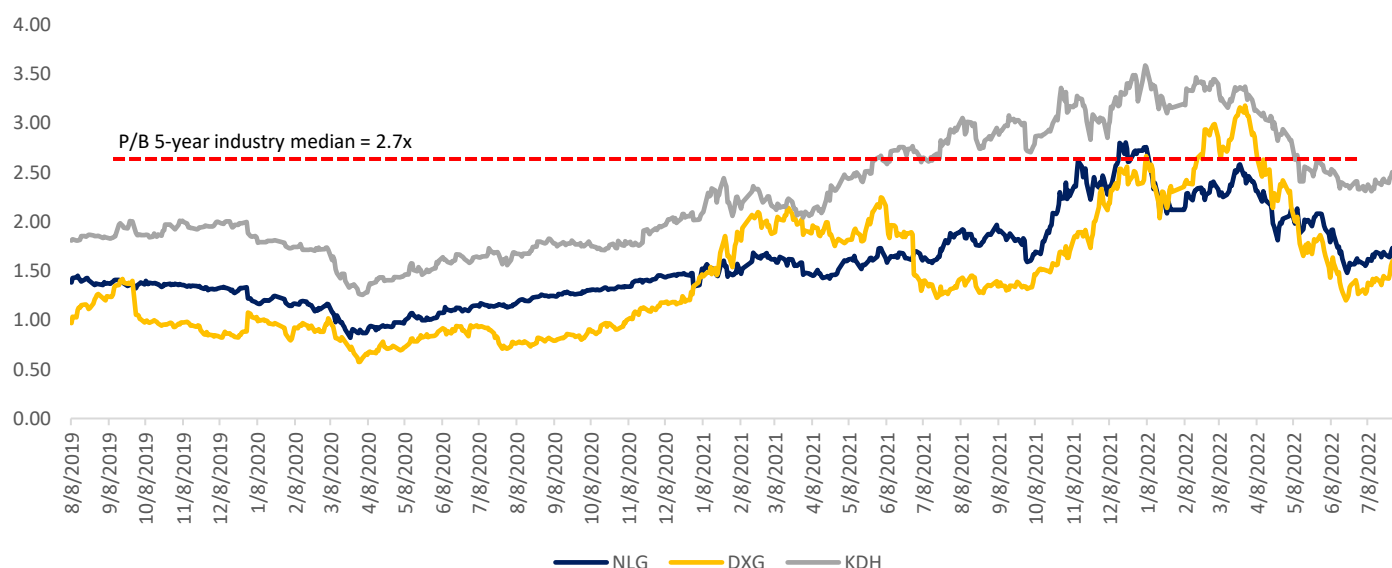
VALUATION

Compared to the "Hold" recommendation in the Q2/2022 strategic report with an adjusted target price of VND 54,000/share, Nam Long's stock price has had a sharp decrease due to the general influence of the stock market, securities and real estate industry, which recorded a strong discount compared to the historical RNAV level.

We recommend BUY NLG stock. However, adjusted target price of 53,500 VND/share (+25% compared to the closing price on August 16, 2022) based on changing some assumptions including RNAV method based on assumptions. (1) Adjustment of the project WACC = 12%, (2) Apply a 10% discount rate for general industry and market risks, and (3) Increase the selling price of some projects (Izumi City, Akari City).

Valuation				
Billion VND	Method	Total value of NAV	Ownership rate	>NLG
The projects				25,789
Paragon Dai Phuoc	DCF	2,659	100%	2,659
Paragon Hai Phong	DCF	1,512	50%	756
Mizuki Park	DCF	4,138	50%	2,069
Waterpoint GĐ 1	DCF	3,994	65%	2,596
Waterpoint Phase 2	DCF	4,360	100%	4,360
Akari City	DCF	6,679	50%	3,339
Can Tho	DCF	3,079	100%	3,079
Izumi City	DCF	9,347	70%	6,543
Other projects	BV	388	100%	388
(+) Cash		3,939		3,939
(-) Debt		4,441		4,441
Total value of NAV				22,759
Discount rate				22,759
Number of outstanding shares				382,940,013
Fair value				53,500
Stock price 16/08/2022				42,800
Upside				25%

NLG's P/B FW is below the 5-year industry median and comparable to the 5-year NLG average.

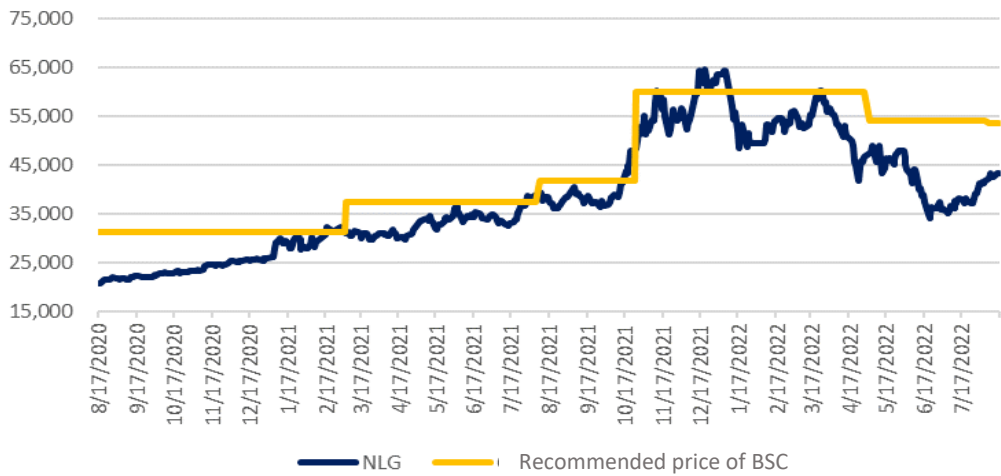




Source: Bloomberg

STOCK PRICE VOLATILITY COMPARE TO RECOMMENDATION

STOCK PRICE VOLATILITY COMPARE TO BSC RECOMMENDATION



Sources: Bloomberg, BSC research

APPENDIX

Income Statement (Billion VND)	2019	2020	2021F	2022F
Net revenue	2,546	2,217	5,206	7,374
COGS	1,480	1,546	3,427	4,266
Gross profit	1,066	671	1,778	3,108
Selling expenses	(119)	(68)	(416)	(627)
G&A expenses	(306)	(367)	(581)	(610)
Operating income	642	236	781	1,871
Financial income	120	727	445	492
Financial expenses	(44)	(103)	(112)	(186)
Interest expenses	(40)	(53)	(102)	(186)
Gain/loss from affiliates	126	142	91	-
Other gain/loss	383	13	435	-
Profit before tax	1,226	1,015	1,640	2,178
Corporate income tax payment	(219)	(165)	(162)	(348)
Profit after tax	1,007	850	1,478	1,829
Minority interest	47	15	407	610
Profit after tax - Minority interest	960	835	1,071	1,220
EBITDA	657	259	811	1,887
EPS	3,697	2,927	2,796	3,185

Balance Sheet (Billion VND)	2019	2020	2021F	2022F
Cash & cash equivalent	1,894	1,073	3,112	5,830
Short term investment	46	744	744	744
Account receivables	1,500	2,228	2,019	3,008
Inventory	4,205	6,069	15,490	15,490
Other current assets	109	164	252	295
Total current assets	7,782	9,570	21,616	25,367
Tangible assets	71	77	78	88
Depreciation	16	23	30	16
Long term incomplete assets	287	38	20	20
Long term investment	191	260	359	359
Other non-current assets	288	333	762	1,080
Total non-current assets	3,006	4,073	2,101	2,429
Total Assets	10,788	13,643	23,717	27,796
Account payables	-	-	-	-
Short-term debt	63	932	1,293	2,116
Other short-term debt	2,661	3,117	4,384	5,457
Current liabilities	2,899	4,439	6,262	7,734
Long-term debt	806	1,525	2,315	3,702
Other long-term debt	883	958	1,544	1,544
Non-current liabilities	1,689	2,483	3,860	5,247
Total Liabilities	4,588	6,922	10,122	12,981
Paid-in capital	2,597	2,853	3,829	3,829
Capital surplus	989	989	2,643	2,643
Retained earnings	1,839	2,132	2,444	3,662
Other equity	(370)	(370)	13	15
Minority interest	1,145	1,117	4,666	4,666
Shareholder's equity	5,054	5,603	8,929	10,149
Total equity	9,574	10,904	13,643	23,717
Number of shares outstanding (million)	260	285	383	383

Cash Flow statement (Billion VND)	2019	2020	2021F	2022F
Profit after tax	960	835	1,071	1,220
Depreciation	16	23	30	16
Change in NWC	(175)	(1,919)	(7,681)	(700)
Other adjustments	(252)	(49)	6,597	-
CF from operating activities	547	(1,111)	87	536
Fixed assets investment	(302)	(44)	(19)	(26)
Other investment	(231)	(959)	18	-
CF from investing activities	(631)	(1,043)	(790)	(26)
Dividend paid	(244)	(257)	(339)	-
Cash from net borrowing	(138)	1,589	444	2,210
Other revenue	276	(21)	2,637	-
CF from financing activities	(106)	1,311	2,742	2,210
Beginning cash balance	2,084	1,900	1,073	3,111
Cash in year	(190)	(842)	2,038	2,719
Ending cash balance	1,900	1,073	3,111	5,830

Ratios (%)	2019	2020	2021F	2022F
Liquidity ratios				
Current ratio	0.4	0.4	0.3	0.4
Quick ratio	2.6	2.2	3.5	3.3
Solvency ratios				
Debt/ Total assets	8%	18%	15%	21%
Debt/ Equity	17%	44%	40%	57%
Efficiency ratios				
Days of inventories	242	311	149	124
Days of receivables	932	1224	1148	1325
Days of payables	34	33	15	32
CCC	1141	1502	1282	1418
Profitability ratios				
Gross profit margin	41.9%	30.3%	34.2%	42.1%
Profit after tax	37.7%	36.9%	20.6%	16.5%
ROE	19.0%	14.9%	12.0%	12.0%
ROA	8.8%	6.1%	4.5%	4.4%
Valuation				
PE	11.7	14.8	15.4	14.3
PB	2.2	2.2	1.9	1.6
Growth				
Net revenue growth	-26.8%	-12.9%	134.8%	41.7%
EBIT growth	-36.7%	-63.2%	230.7%	139.5%
PBT growth	8.7%	-17.2%	61.6%	32.8%
EPS growth	15.9%	-20.9%	-4.5%	13.9%

Source: BSC Research.

Disclosure

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