

Sector : Real estate
April, 14th, 2014

COMPANY VISIT NOTE REPORT

Vingroup Joint Stock Company (VIC)



RECOMMENDATION

Investment view	Hold
Expected price	73,000
Current price	68.500
Prospect in 6 month	Sideway
Prospect in 12 month	Sideway

TRADING INFORMATION

Outstanding shares(million shares)	894.2
Market Cap (billion)	61,255.47
Total book value (billion)	17,759
Foreign ownership (%)	21.4%
EPS (VND)	7,869
Current price (VND/share)	68.500
Average trading volume in 10 days (share)	700.483
Lowest price 52 wks (VND)	61,000
Highest price 52wks (VND)	79,500
+/- 7 days	-11.04%
+/- 1 month	-9.87%

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THE BIGGEST LISTED REAL ESTATE GROUP IN VIETNAM

- ❖ **Business performance:** In 2013, although the real estate market showed no sign of prosperity, VIC's net revenue and profit after tax excluding the benefit of minority shareholders surged by 132.5%, (reached VND 18,378 billion) and 331.46% (reached VND6,780 billion), respectively. VIC is the real estate company having the highest revenues and highest profit after tax listed on Vietnam stock market.
- ❖ **Profitability:** VIC's net profit margin, ROE and ROA increased from 19.88%; 18.42% and 3.44% in 2012 to 36.89%, 54.17% and 10.30%, respectively. Because its net revenue and finance revenue rose while its finance cost margin and business management cost margin reduced sharply.
- ❖ **Real Estates:** VIC focuses on developing luxury real estate segment. At the end of 2013, VIC owned 23 real estate projects with total land bank of 10.03 million m² under Vincom brand. Its consumption rate and occupancy rate of commercial centers are high (Table 1&2). Its revenue from transferring real estates in 2013 accounted for 79.75%, reached VND 14,658 billion, increased by 174.80% compared to 2012. Its revenue from leasing investment real estates gained VND 1,799 billion, up 46.73% over 2012. In 2014, we expect that its revenues will be high due to its recognition and opening sales of new apartments in Vinhomes Royal City, Times City and Vinhome Riversides.
- ❖ **Services of hotel tourism and amusement:** under Vinpearl brand, its 15 projects and luxury resorts with land bank of 60.71 million m² made VND 1,600 billion, up 35.71% over 2012 and contributed 8.70% to its revenues. In 2014, these services are expected to continue to provide a stable revenues and high growth thanks to the advantage of its brand and the recovery of the economy led to the recovery of the resort real estate segment. In October, 2014, Vinpearl Phu Quoc is planned to be completed and put into operation by VIC.
- ❖ In 2014, **VIC established VinE-com, expanding to E-commerce.** The total initial investment capital amounted to VND 1,050 billion, of which there is approximately 70% of its equity. VinE-com is oriented to become VIC's key business segment and the largest E-commerce brand in Vietnam in the next 5 years. In 2014, the group intends to develop Vinmall and Vindeal brand which not only sell its products and services but also sell its partners'. However, VinE-com may not contribute much profit to Vingroup in 2014.
- ❖ **Debt and equity:** Its equity reached VND 14,472 billion, the highest among real estate companies listed in Vietnam. In 2013, the company converted successfully USD 2,000,000 of international convertible bonds into 696,664 stocks. VIC also successfully raised

FINANCIAL INFORMATION

	2011	2012	2013
Net revenue (Bil.VND)	2,314	7,908	18,378
% y-o-y	-40.26%	241.79%	132.50%
Total assets (Bil.VND)	35,513	55,825	75,773
Equity (Bil.VND)	6,501	10,557	14,472
Profit after tax (Bil.VND)	821	1,571	6,78
% y-o-y	-64.40%	91.32%	331.46%
EPS (VND/share)			7,299
Gross profit margin	43.54%	48.23%	38.26%
ROS	35.50%	19.88%	36.89%
ROE	12.31%	18.42%	54.17%
ROA	2.66%	3.44%	10.30%

USD150 million of international syndicated loan; VND 4,300 billion of domestic long-term corporate bonds and USD200 million of international bonds. In addition, the company also has large amounts appropriated funds, worth VND 29,772 billion (accounted for 52.09% of its total liabilities).

- ❖ **Investment view:** VIC is the leading corporation in the business of real estates and hospitality services, travel and amusement. VIC owns large land bank and many luxury projects in the golden land, which have the high rate of consumption of real estates for sale and high occupancy rate in the commercial centers. We recommend holding VIC at the expected price of VND 73,000.

We use P/E method to evaluate the stock price of VIC:

We select real estate company in Asian Pacific emerging market which have revenues from VND 14,000 billion to VND 22,00 billion to determine the price of VIC because VIC is a leading real estate company in term of revenue, net income, and profitability in Vietnam. The P/E is 10 (the current P/E of VN-index is 14.41 times and current P/E of the real estate company listed on the Vietnam stock market is 38.95 times).

Diluted EPS is VND 7,299.

Reasonable price of VIC is VND 73,000.

FINANCIAL ANALYSIS

- ❖ **VIC's equity was large and increased rapidly:** its equity increased by 37.09% to VND 14,472 billion, the highest among real estate companies listed on Vietnam stock market. Its equity rose primarily due to the contributions from the retained earnings (VND 7,728 billion) and the contribution from owners (up 32.71%).
- ❖ **Large appropriated funds:** accounted for 52.09% of total liability, so VIC saved much interest expense.
- ❖ **Liquidity ratios increased:** its quick ratio and current ratio rose from 0.43 and 1.12 times in 2012 to 0.78 and 1.49 times in 2013, respectively because short-term assets, especially short-term deposits surged (by 4.73 times).
- ❖ **Net profit margin** increased from 19.88% times to 36.89% times in 2013 because it's finance revenue rose rapidly while its cost of selling margin, finance cost margin and business management cost margin reduced from 15.71%; 2.59% and 12.41% to 10.58%; 2.45% and 7.87%, respectively.

Update on key projects:

Table 1: Real estate for sales update

Projects	VIC's benefit ratio	Number of apartments	Revenues		Progress (update on Feb, 28 th , 2014)
			Total contract value (mil USD)	Unrecognized in 2013 (mil USD)	
Vincom Mega Mall Royal City	98,36%	4,518	539	361	<ul style="list-style-type: none"> ➤ Out of 4,518 units launched, 2,363 were sold (of which, 1,619 units were handed over) and 1,328 units were leased under long-term operating lease contract. The rate of units sold and leased was 82%. ➤ Residential block R1, R2, R3, R7, R8 and R9 were completed and handed over to the Property Manager. ➤ Apartment in residential block R4, R5 were ready to be handed over to customers. ➤ Block R6 is being completed and the shopping area put into use.
Vincom Mega Mall Times City	88,47%	4,254	399	78	<ul style="list-style-type: none"> ➤ Phase 1: out of 4,254 units launched, 3,160 were sold, of which, 2,624 units were handed over to their customers. Its total selling rate was 74%. ➤ The first sales campaign was launched on March, 17th, 2014, selling remaining units in Phase 1. Within only 3 days, over 130 buyers have placed deposits to secure new units. ➤ Construction at residential blocks from T1 to T7 and T18, T10 were completed and handed over to their customers. ➤ Infrastructure: Road No.1; 2; 4; 5; 7 were completed. ➤ Landscape of Lot 6; 7 and 8 were completed.
Vinhomes Riversides			772	434	
Total			1,710	671	

Talbel 2: investment real estate update

projects	Ownership rate	GFA breakdown (m ²)	Occupancy rate
Vincom Mega Mall Royal City	99,16%	Retail and amusment park: 229.604 m ² Parking: 208.209 m ²	95%
Vincom Mega Mall Time City	88,47%	Retail and amusment park: 222.471 m ² Parking: 348.410 m ²	92%
Vincom Center Long Bien	99,16%	Retail and parking: 44.458 m ²	87%
VIncom Center Dong Khoi	99,16%	Apartment 16.463 m ² Retail: 15.386 m ² Parking: 32.214 m ²	90%
Vincom Center Ba Trieu-tower A&B	99,16%	Retail: 27.103 m ² Parking: 7.089 m ²	99%
Vincom Center Ba Trieu-tower C	99,16%	Apartment: 29.646 m ² Retail: 15.386 m ² Parking: 7.253 m ²	96%

Table 3: Ongoing projects

Projects	Description	GFA breakdown	Estimated investment capital (VND mil)	Progress	Expected completion
Vinpearl Phu Quoc	Hotel, golf course, villas, entertainment, etc	597,446 m ²	17,000		Phase 1: Oct, 2014
Vincom Center Ha Long	Mixed-use site, a total land area of 1.6ha, 5 storey-mall with 1 basement	43,589 m ²	1,072		Oct, 2014
56 Nguyen Chi Thanh	Mixed-use residential, retail, office and school	226,382 m ² (49% residential)	3,000	Start: Q1, 2014	Q1, 2017
Project Thomas	Mixed-use project in Binh Thanh district, Ho Chi Minh city	355,000 m ²		Expected start Q3, 2014	Q3, 2019
Vincom Hai Phong	High-end retail, office residential and parking complex	144,730 m ² (56% residential)		Expected start Q2, 2014	Q1, 2015
Vincom Village 2	Mixed-use project adjacent to Vinhomes Riverside in Long Bien, Hanoi	596,523 m ² (79% residential)		Expected start Q1, 2014	Q4, 2016
Vinpear Quy Nhon	Ecotourism park resort: cable, hotels, villas, parks, golf courses, amusement parks, water parks and areas dedicated to country music, and spa systems, restaurants, etc	300 ha	3,400	Sept, 2013	Phase 1 (resort, hotel, amusement, cable) November, 2015

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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