

Industry : Real Estate | REAL ESTATE RESEARCH

Recommendation

BUY

Long Hau Corporation (HoSE: LHG)

Appealing Valuation

Current price	31,500	Report writing date	27/06/2022	Shareholder structure	
Previous target price	55,700	Outstanding shares	50,012,010	Tan Thuan Technology Development One Member Co., Ltd (IPC)	48.7%
New target price	54,800	Market Capitalization (billion VND)	1,575	Tran Anh Vien	4.5%
Dividend yield	6.0%	Average liquidity of 12 months	577,859	Others	46.8%
Upside	74.0%	Foreign ownership	15.23%		

Industry Analyst:

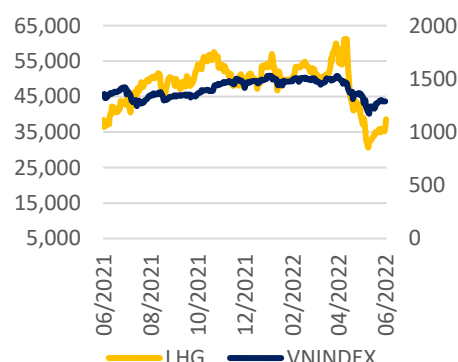
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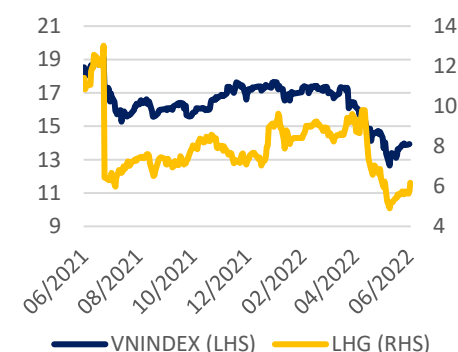
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Recommended price: N#A NVND
Stop loss price: N#A VND

Stocks and VN-Index price comparison table



P/E and VN-Index comparison table



Valuation

We recommend **BUY LHG** shares with the target price of **54,800 VND/share**, upside +74.0% compared to 26/06/2022 price using Revalued Net Asset Value (RNAV) method and discounting 10% to the enterprise's value due to uncertain factors on contingent liability for Tan Thuan Technology Development One Member Co., Ltd (IPC).

Business Performance Forecast

BSC forecasts LHG's revenue and NPAT in 2022 to achieve 843 billion VND (+8% YoY) and 357 billion VND (+21% YoY), respectively; EPS fw= 6,569 VND/share and P/E fw= 4.8x, P/B fw= 0.9x based on expectations that:

- (1) Leased land area in 2022 reached 11.5 hectares (equivalent to 2021) offset by high rental price of 210 USD/m2/lease term (+5% YoY)
- (2) Leased factory land based on demand (?) (BTS) at (LH3) and (LH2) reached 6,850 m2 (2020-2021 N/A) with rental price of 240 USD/m2/lease term.

Investment Thesis

- **Appealing valuation as the business's growth prospects remains positive due to** (1) high rental price, (2) clear land bank expansion and project implementation plan, (3) new factory land ready for sale is relatively stable to maintain stable cash flow annually.
- **Healthy financial status** due to absence of net debt and annual dividend.

Risk

- High contingent liability to IPC.
- Slower than expected speed of leasing and project implementation.

Business Updates

- **2021 Business Performance:** revenue reached 782 billion VND (+21% YoY) and NPAT reached 295 billion VND (+49% YoY). Even though business activities were severely affected in the later half of 2021 due to COVID-19, growth remained positive due to (1) leasing ~11.5 hectares in the first half of 2021, (2) gross margin reached 52.7% (compared to 45.6% of the same period last year) due to high rental prices.
- **Q1/2021 Business Performance:** revenue reached 114 billion VND (+4% YoY) and NPAT reached 49 billion VND due to (1) stable rental prices, (2) reduced cost of SG&A, (3) financial revenue from bank deposits.

	2020	2021	2022F	Peers
PE (x)	8.8	5.8	4.8	14.3
PB (x)	1.23	1.08	0.93	2.51
P/S (%)	2.4	2.0	1.9	3.62
ROE (%)	15.5%	20.1%	21.0%	21%
ROA (%)	7.6%	10.4%	11.7%	5.5%

	2019	2020	2021	2022F
Net revenue	599	644	782	843
Gross profit	213	293	412	443
NPAT	143	199	295	356
EPS	2,484	3,570	5,429	6,569
EPS growth	-29%	44%	52%	21%

Business Performance Updates on 2021 and Q1/2022

Business Performance 2021: Revenue and NPAT remained stable at 782 billion VND (+21% YoY) and 295 billion VND (+49% YoY) respectively. Growth rate in 2021 was heavily impacted by the epidemic when no additional records on leased industrial land were made in Q3 – Q4/2021. In 2021, industrial land leasing revenue reached 545 billion VND (+26% YoY) equivalent to ~11.5 hectares at Long Hau 3 Industrial Park (including 10.8 hectares leased to LOGOS Vietnam Co., Ltd in Q2/2021). Gross margin from the industrial sector increased from 46.4% in 2020 to 55.5% in 2021 owing to the average rental price of 200 USD/m2/rental period (+18% YoY) according to our estimates.

Business Performance Q1/2021: Revenue and NPAT reached 114 billion VND (+4% YoY) and 49 billion VND (+49% YoY), respectively, due to (1) high rental price helping industrial sector's gross margin reach 60.5%, (2) SG&A costs effectively reduced, and (3) financial revenue being 3.3x higher than the same period last year thanks to excess deposits at the end of 2021 double that of the previous year.

Factory land, office, and residential (annual collection) revenue and revenues from additional services (annual collection) remains relatively stable, reaching a growth of 11% YoY (for 2021 and Q1/2021) but lower than our expectations as the main customer group for factory land sector are SME businesses – which are easily affected by the epidemic. Meanwhile, Building-On-Demand Factory sector (annual collection) has not been able to deploy in the two years of 2020-2021.

LHG is an industrial park developer with healthy financial base with a debt-to-equity ratio of only 13% compared to 40% of other companies in the same industry, negative net debt and deposit revenue interest double that of loan interest.

(Billion VND)	2020	2021	%YoY	1Q2021	1Q2022	%YoY
Net revenue	644	782	21.5%	110	114	3.7%
- Industrial	433	545	26.0%	53	51	-3.9%
- Factory, office, residential	121	131	9.1%	32	28	-11.7%
- Others (services)	90	105	16.3%	25	35	40.6%
Gross margin	293	412	40.3%	57	60	5.1%
%GPM	46%	53%		52%	53%	
Selling expenses	(11)	(10)	-4.2%	(1)	(1)	-36.5%
General & administration expenses	(65)	(49)	-24.4%	(13)	(11)	-19.4%
%SG&A/Revenue	-12%	-8%		-13%	-10%	
EBIT	218	352	61.9%	43	49	14.1%
Financial revenue	34	33	-3.2%	4	13	231.2%
Financial cost	(16)	(16)	3.9%	(4)	4	-187.6%
Net profit before tax	246	375	52.4%	46	60	31.2%
NPAT	199	295	48.5%	33	49	49.0%
%GPM	46%	53%		52%	53%	
%NPM	31%	38%		30%	43%	

Outlook for 2022-2025

At the 2022 annual meeting for shareholders, LHG passed the 5-year corporate strategic project for the period of 2021 – 2025 as follows:

According to our assessments, high compensation cost, hindered land acquisition for project implementation, in addition to rental rate of 2020 – 2021 being heavily affected by external factors have impacted the above prudent plan of LHG's Management Board.

	2021KH	2022KH	2023KH	2024KH	2025KH
Total revenue	923	781	900	1,295	1,482
Profit before tax	252	194	214	221	238
NPAT	161	111	123	130	141
Dividend rate	19%	17%	19%	19%	21%

Source: Long Hau Corporation

Investment thesis

1. Occupancy rate of Long Hau 3 Industrial Park will become more stable when the epidemic is controlled and quantity of new factory land for lease ready for LHG's growth.

Currently, LHG is implementing leasing operation for Long Hau 3 Industrial Park – Stage 1 (124 hectares) with the remaining ~61 hectares commercial area possessing great potential from geographical location and favorable transportation system (20km away from Ho Chi Minh City's center, 3km away from Sai Gon – Hiep Uoc port and Sai Gon Central Container Port). Rental price in 2021, according to the management board, is more than 200 USD/m²/rental period. Aside from industrial land leasing segment, factory leasing also brings a steady annual cash flow into LHG. The enterprise is pushing factory building segment, combining with high-rise factory products and developing more logistic warehouses for leasing models. Long An province is aiming towards the goal of developing into a logistic hub catering to the development needs of Ho Chi Minh City.

Projects in progress

Project	Location	Size	Remaining NSA	E-commerce	Status
Long Hau Industrial Park - Stage 1	Long An	124 ha	61	1,577	Area leased to Long An People's Committee in 6 period reached 103.3 ha , finished clearance of 112.3 ha
Long Hau Industrial Park 3 - Extended	Long An	90 ha	62	2,591	Expected to have a policy in 3Q2022, operating in 2024
An Dinh Industrial Park	Vinh Long	200 ha	149	2,414	Expected to have a policy in 3Q2022, operating in 2024
Ready-built factory LH3 (Stage 1)	Long An	10,000 m ²	-	-	Commencing in Q3/2022 operating near the end of 2022
Da Nang High-Tech Park factory – J4 (Stage 1 extended)	Da Nang	15,066 m ²	-	-	Expected operation in 4Q2022
Da Nang High-Tech Park factory – J4 (Stage 2)	Da Nang	85,733 m ²	-	-	Expected operation in 4Q2022
Resettlement residential area LH3	Long An	19 ha	-	-	Expected deployment from 2023
LH Residential – resettlement area extended	Long An	10 ha	-	-	Expected deployment from 2024

Source: Long Hau Corporation

The long-term growth potential is guaranteed by projects Long Hau Industrial Park 3 – Stage 2 (90 ha) and An Dinh Industrial Park (200 ha). Both industrial parks are expected to generate land leasing revenue starting from 2024. Thanks to the favorable location for connection, near container ports and connecting Ho Chi Minh City to Western provinces, we expect rental prices at Long Hau Industrial Park 3 – Stage 1 and An Dinh Industrial Park to be 240 USD/m²/rental term (CAGR 2021-2024 ~6%) and 107 USD/m²/rental term (CAGR 2021-2024 ~8%) respectively in 2024. Total industrial park area leased at LH1 Industrial Park, LH2 Industrial Park, and LH3 Industrial Park by the end of 2021 is 206 ha, while the remaining commercial area up to 273 ha will still ensure stable profits for LHG in the future.

Ready-built factory products ready for business in 2022

Product	Location	Lot	Operating area (m ²)	Rental price	Time for handover
Ready-built factory (RBF)	LH3 Industrial Park – Stage 1	3A-23, 24, 25, 26 (4 lots)	Factory: 2752 m ²	\$5.70/m ² /year	T12/2022
			Office: 412.8 m ²	\$1/m ² /month	
	LH1 Industrial Park (lot B)	B2-2a	Factory: 986 m ²	\$5.90/m ² /year	Ready for lease
		B2-3b	Office: 340 m ²	\$1/m ² /month	
		B2-3b	Factory: 1792	\$5.90/m ² /year	
Built-to-suit factory (B TS)	LH3 Industrial Park – Stage 1	3A-19, 20, 21, 22 (4 lots)	D1	Factory: 1344 m ²	Ready for lease
			Office: 384 m ²	\$5.90/m ² /year	
			Office: 384 m ²	\$1/m ² /month	
	LH2	Q-7	D4	Factory: 1332 m ²	June/2022
			Office: 384 m ²	\$1/m ² /month	
High-rise factory (HRF)	Floor 2-5	Building 1	4,250 m ²	\$240/m ² /term	Ready for deployment
		Building 2	2,600 m ²	\$240/m ² /term	
		Building 3	578 m ²	\$5.30 m ² /year	
		Building 4	921 m ²	\$5.90/m ² /year	
	Lot J4 – High-tech park LH-DN	J4-03	924 m ²	\$5.90/m ² /year	Ready for lease
		J4-04	634 m ²	\$5.90/m ² /year	
High-tech ready-built factory (RBF)	Lot J4 – High-tech park LH-DN	J4-03	3,226 m ²	\$3.90/m ² /year	4Q2022
		J4-04	6,048 m ²	\$3.90/m ² /year	

Source: Long Hau Corporation

Factory, residential, and office will bring stable cash flow in the long-term. After 2 years of investment implementation, a series of LHG's ready-built factories are ready for lease in 2022. Specifically, according to ground offer documents the enterprise published in Q2/2022, build-to-suit factory area is ready for launch, rental price for these factories are currently at a high price and collected once (240 USD/m²/rental term). According to our estimates, the factory segment grew strongly in this year thanks to BTS, reaching 178.6 billion VND (+36% YoY) and bringing stable a cash flow of 130 billion VND in the following years.

Appealing valuation for a business with healthy financial status and positive growth prospects

We acknowledge that the recent market correction has negatively affected the market's general mentality, opening up appealing investment opportunities into a business with high growth prospects and good financial health. LHG's money balance and bank deposits at the end of Q1/2021 reached 1,134 billion VND (accounting for 39% total assets), industrial parks' inventory and clearance expenditure at 923 billion VND (accounting for 32% total assets), factories ready for lease accounting for 15.6% of total assets. LHG is currently trading at a PE trailing= 6.5x, P/B trailing= 1.2x ad PE fw= 5.4x, P/B fw=1.0x, which is extremely appealing compared to others within the industry with industry's PE = 14.3x, industry P/B = 2.5x.

Risk

High contingent liability for IPC will affect the shareholder's interest and cash flow to invest

With obligation to refund cost of resettlement for Long Hau 1 Industrial Park project in 2008, LHG received a document requesting to refund expenditures made by IPC to develop the resettlement project at a cost of 58 billion VND, and LHG has paid completely in 2007. In 2018, the enterprise continues to advance an additional 65 billion to fulfill the obligation for reimburse the mentioned resettlement cost. **However, IPC's temporary cost of resettlement amounts to 328 billion VND and required the refund of the remaining ~206 billion VND (equivalent to 70% of 2021's NPAT).** At the end of 2020, LHG's Management Board convened an Extraordinary General Meeting (EGM) to consult shareholder opinions to pay the rest but was vetoed. We realize the risk posed by compensations owing to IPC will have great effects on cash flow to implement future projects.

Business Result Forecast 2022

Unit: Billion VND	2018A	2019A	2020A	2021	2022F	2023F
Revenue	430	599	644	782	843	937
% YoY	-12%	39%	7%	21%	8%	11%
COGS	(186)	(385)	(350)	(370)	(399)	(441)
Gross profit	244	213	293	412	443	495
Sales cost	(14)	(10)	(11)	(10)	(13)	(14)
SG&A expenses	(57)	(58)	(65)	(49)	(60)	(68)
EBIT	173	145	218	352	370	413
Financial revenue	38	29	34	33	83	57
Financial cost	(5)	(5)	(16)	(16)	(14)	(12)
Profit/loss from affiliates	6	8	9	4	4	4
Profit before tax	215	179	246	375	446	465
CIT	(39)	(37)	(48)	(80)	(89)	(93)
NPAT	176	143	199	295	357	372
Minority interest	0	0	0	0	-	-
NPAT of parent company	176	143	199	295	357	372
% YoY	6%	-19%	39%	49%	21%	4%
EPS (dong)	3,519	2,484	3,570	5,429	6,569	6,843
Gross profit margin	57%	36%	46%	53%	53%	53%
Net profit margin	41%	24%	31%	38%	42%	40%
ROE	15%	12%	15%	20%	21%	19%

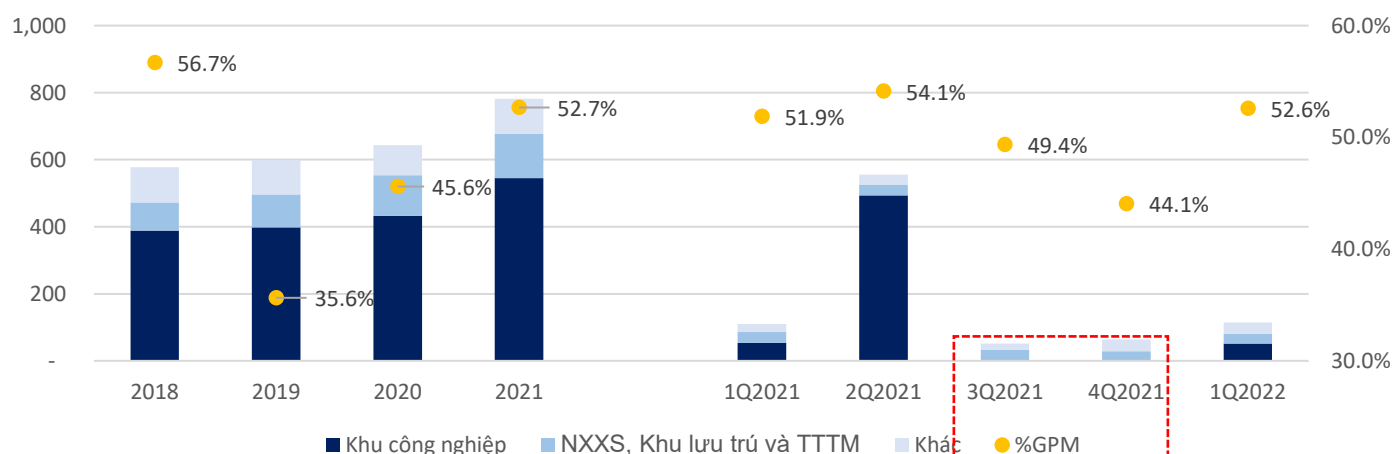
Source: Long Hau Corporation, BSC Research

BSC forecasts LHG's revenue and NPAT in 2022 to reach 843 billion VND (+8% YoY) and 357 billion VND (+21% YoY) respectively, EPS fw= 6,569 VND/share and P/E fw= 5.9x, P/B fw= 1.14x with the assumption:

- (1) Area of land for lease in 2022 reach 11.5 ha (equivalent to 2021) offset by high rental price of 210 USD/m²/rental term (+5% YoY). We note that the above assumption is relatively cautious because in 2H2021 LHG has not recorded the lease of more industrial land due to social distancing restrictions in southern provinces/cities.
- (2) Built-to-serve factory land area at LH3 and LH2 reach 6,850 m² (2020-2021 N/A) with rental price of 240 USD/m²/rental term.

Financial revenue 1.5 times that of the same period last year, reaching 83 billion VND thanks to high deposit balance.

Revenue fluctuations of LHG's business segment in the period of 2018-2021



Source: Long Hau Corporation, BSC Research

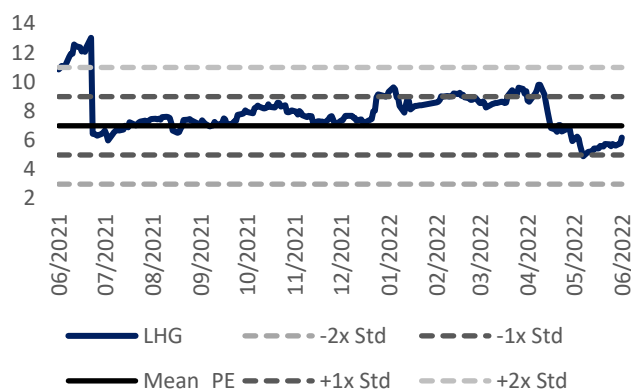
Valuation

Thanks to a healthy financial base, attractive dividend yield (= 6%), clear development plan, and positive outlook, we recommend **BUY** for **LHG** shares with a target 2022 price of 54,800 VND/share, upside 74% compared to the closing price on 27/06/2022 based on Revalued Net Asset Value (RNAV) method and Discounted Cash Flow (DCF). We note (1) a **10% discount on total value** due to uncertain factors about compensation to IPC affecting project implementation progress, (2) Reassessment of potential costs.

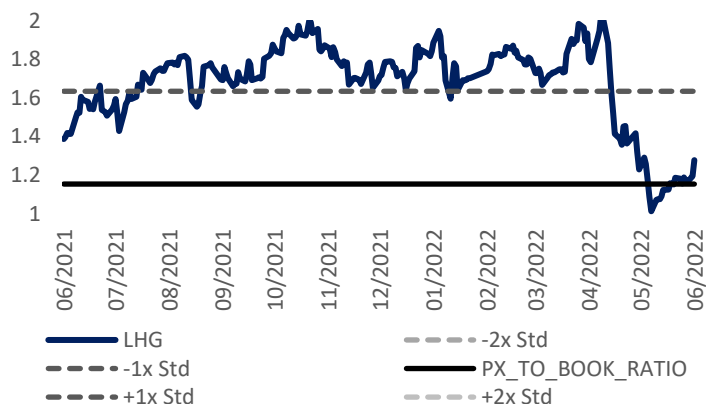
Valuation		
Billion VND	Method	Value
Industrial Park		2,659
Long Hau Industrial Park – Stage 1	RNAV	1,018
Long Hau 3 Industrial Park - Extended	RNAV	685
An Dinh Industrial Park	RNAV	255
Ready-built factory	DCF	701
Discount on price	10%	(266)
Total revaluation value		2,393
(+) Cash + Short-term investment		763
(-) Debt & Potential Cost		(415)
Total enterprise value		2,741
Number of shares (million)		50.0
Current price		31,500
Target price		54,800
Potential for price increase		74.0%
Dividend yield		6.0%
WACC		12%

Source: BSC Research

PE LHG



P/B LHG



Source: Bloomberg

Appendix

IS (billion VND)	2019	2020	2021	2022F	2023F
Revenue	599	644	782	843	937
COGS	(385)	(350)	(370)	(399)	(441)
Gross profit	213	293	412	443	495
Sales cost	(10)	(11)	(10)	(13)	(14)
SG&A expenses	(58)	(65)	(49)	(60)	(68)
Profit/loss of operation	1,053	1,070	1,211	1,316	1,460
Financial revenue	29	34	33	83	57
Financial loss	(0)	(0)	(1)	-	-
Interest expenses	(5)	(16)	(16)	(14)	(12)
Profit from affiliates	8	9	4	4	4
Other profit/loss	3	1	2	2	2
Profit before tax	179	246	375	446	465
Corporate income tax	(37)	(48)	(80)	(89)	(93)
NPAT	143	199	295	357	372
Minority interest	0	0	0	-	-
NPATMI	143	199	295	357	372
EBITDA	1,091	1,120	1,263	1,381	1,526
EPS	2,484	3,570	5,429	6,569	6,843

CF (billion VND)	2019	2020	2021	2022F	2023F
(Loss)/EBIT	179	246	375	446	465
Depreciation and amortization	38	51	52	66	66
Change in working capital	(140)	(5)	123	(258)	(746)
Other adjustments	(62)	(71)	(79)	(45)	(46)
CF from operating activities	15	221	471	209	(262)
Cash for purchase of fixed assets	(154)	(60)	(10)	(217)	(21)
Other investments	(22)	(57)	(511)	42	42
CF from investing activities	(175)	(117)	(521)	(176)	21
Dividend payment	(80)	(95)	(95)	95	95
Cash from net borrowing	40	100	(23)	(22)	18
Other receipts	-	-	-	-	0
CF from financing activities	(40)	5	(118)	73	113
Beginning of year CF	352	151	261	92	198
CF in the year	(200)	109	(168)	107	(127)
End of year CF	151	261	92	198	71

BS (billion VND)	2019	2020	2021	2022F	2023F
Short-term assets	1,397	1,716	2,014	2,014	2,346
Cash and cash equivalents	151	261	92	198	71
Short-term investments	335	433	986	564	212
Short-term receivables	341	314	303	300	334
Inventory	562	700	627	944	1,723
Other short-term assets	7	9	7	7	7
Long-term assets	838	884	832	1,039	1,049
Tangible assets	57	75	70	60	50
Long-term unfinished assets	93	41	39	39	39
Long-term investment	451	509	466	683	704
Other long-term assets	237	258	257	257	257
Total assets	2,235	2,600	2,846	3,053	3,396
Total short-term debt	591	753	818	860	932
Liabilities	61	73	42	56	56
Short-term loans	21	43	46	50	55
Other short-term debts	508	638	729	754	821
Total long-term debts	453	563	565	497	520
Long-term loans	88	167	140	92	102
Long-term unrealized revenue	1	2	2	2	2
Other long-term loans	364	394	423	403	416
Total debt	1,044	1,316	1,383	1,357	1,452
Capital contribution	500	500	500	500	500
Equity surplus	72	72	72	72	72
Undistributed profit	521	614	793	1,027	1,274
Other equity	97	97	99	97	97
Minority shareholders	1	1	1	1	1

Ratio (%)	2019	2020	2021	2022F	2023F
Solvency					
Current ratio	2.4	2.3	2.5	2.3	2.5
Quick ratio	1.4	1.3	1.7	1.2	0.7
Capital structure					
Debt/Total asset	5%	8%	7%	5%	5%
Debt/Total equity	9%	16%	13%	8%	8%
Operational capacity					
Days sales of inventory	532	729	619	863	1,425
Days sales outstanding	208	178	142	130	130
Days payable outstanding	94	162	113	137	125
CCC	645	746	647	855	1,429
Profit margin					
Gross profit	36%	46%	53%	53%	53%
Net profit	24%	31%	38%	42%	40%
ROE	12%	15.5%	20.1%	21.0%	19.1%
ROA	6%	7.6%	10.4%	11.7%	10.9%
Valuation					
PE	12.7	8.8	5.8	4.8	4.6
PB	1.32	1.23	1.08	0.93	0.81
Growth					
Net revenue growth	39%	7%	21%	8%	11%

Total equity		1,191	1,284	1,465	1,696	1,944
Total capital		2,235	2,600	2,848	3,053	3,396
Outstanding	shares	50	50	50	50	50
(million)						

EBIT growth	-16%	50%	62%	5%	12%
EBT growth	-19%	39%	49%	21%	4%
EPS growth	-29%	44%	52%	21%	4%

Source: BSC Research

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