

Industry : Real Estate (Recent report: [Link](#))

Recommendations

BUY

Khang Dien House Trading and Investment JSC (HSX: KDH) New project implementation ensures growth potential.

Current price:	37,600	Date of writing of the report:	29/08/2022	Shareholder structure	
Previous target price:	-	Outstanding Shares (Million)	708.8	VIETNAM VENTURES LIM	5.1%
New target price:	48,200	Capitalization (billion dong)	24,285	VIETFUND MANAGEMENT	3.5%
Dividend yield:	0%	Average liquidity of 6 months:	540	VEIL HOLDINGS LTD	3.0%
Upside	28%	Foreign ownership	31.9%	VENNER GROUP LTD	2.2%

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Recommended price:
Cut-loss price:

Valuation

- We maintain our **BUY** recommendation for KDH and raise our target price to VND48,200 based on RNAV method (+28% compared to the price on Aug 29, 2022) due to (1) Update of project portfolio, (2) Adjustment of project selling price assumption for potential land funds in Binh Tan, Phong Phu 2 and (3) WACC discount rate adjustment = 12% for projects due to increased interest rate and increased cost of capital

Forecasting business results

- BSC estimates that in 2022, KDH's revenue and profit after tax to reach VND 2,369 billion (-36.8% YoY) and VND 1,469 billion (+19.0% YoY) respectively. EPS FW 2022= VND 2,171, PE FW 2022 = 17.3 times, P/B FWD 2022 = 2.1 times. The main source of income comes from (1) Profit from cheap purchase of Doan Nguyen project, (2) Handing over The Classia project in Q3-Q4/2022.

Investment perspective

- Owning a large-scale land bank (680 hectares) in the inner-city waiting to be "unlocked".
- Deploying the project of Le Minh Xuan Industrial Park at the end of 2023.

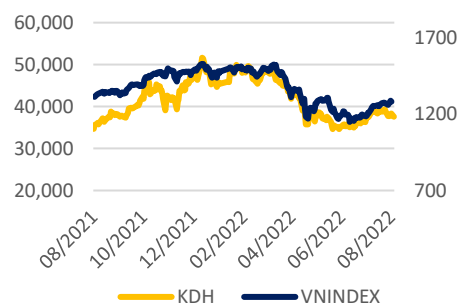
Risk

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

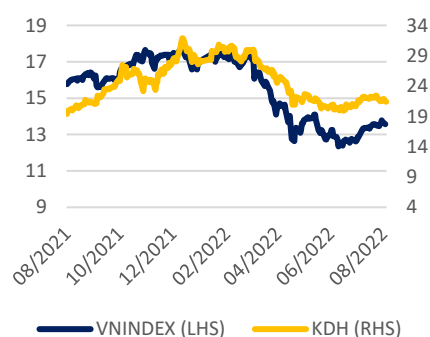
Business Update

- Profit from the re-evaluation of Doan Nguyen project after merging Phuoc Nguyen company and handing over a part of The Classia project to support the growth of business results in 6M/2022.** KDH's 6M/2022 revenue and profit after tax reached VND 142.7 billion (-83% YoY) and VND 299.5 billion (+26% YoY) respectively.
- New sales in the period of 2022-2023 will be guaranteed on by new projects.** BSC estimates that the total pre-sales value of KDH in 2022 and 2023 is estimated at about VND 4,935 billion and VND 8,809 billion (+64% YoY) respectively.

CP and VN-Index price comparison table



P/E and VN index comparison table

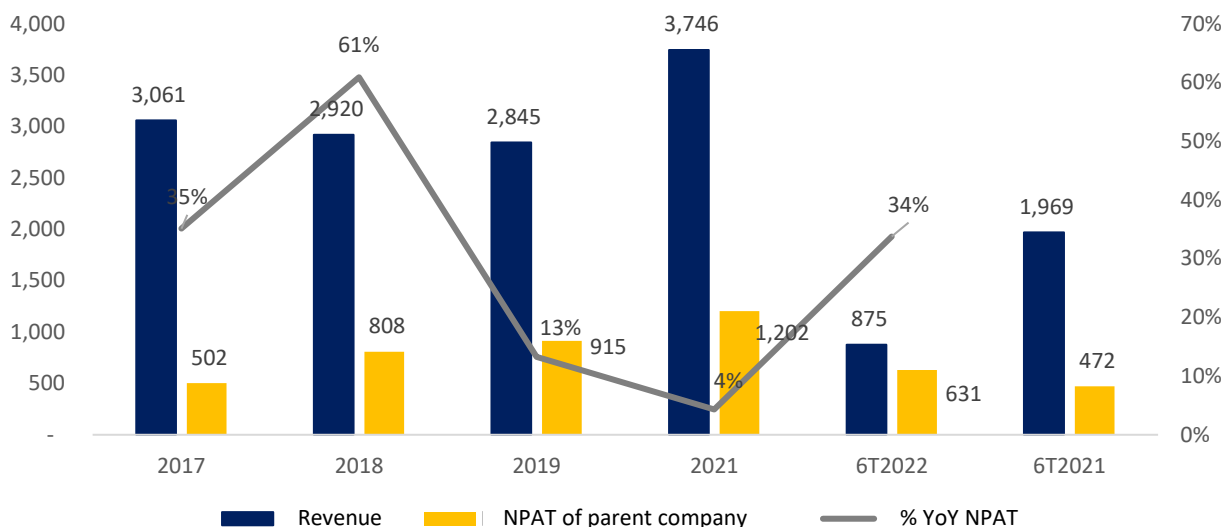


	2021	2022F	2023F	VN-Index		2020	2021	2022	2023
PE (x)	20.1	17.3	12.9	13.6	Net Revenue	4,617	3,746	2,369	4,966
PB (x)	2.4	2.1	1.8	2.1	Gross profit	1,964	1,792	1,631	2,915
PS (x)	6.5	10.2	4.9	1.8	Profit after tax	1,153	1,202	1,469	1,966
ROE (%)	11.8%	12.6%	14.4%	15.5%	EPS	1,893	1,777	2,171	2,905
ROA (%)	8.4%	8.5%	9.4%	2.5%	EPS growth	19%	-6%	22%	34%
					Net debt/ Equity	23%	25%	41%	42%

BUSINESS UPDATE REPORT

Profit from the re-evaluation of Doan Nguyen project after merging Phuoc Nguyen company and handing over a part of The Classia project to support the growth of business results in 6M/2022. KDH's 6M/2022 revenue and profit after tax reached VND 142.7 billion (-83% YoY) and VND 299.5 billion (+26% YoY) respectively on by the profit from cheap transaction of Doan Nguyen project after the contract and handed over about 40 Classia villas in Q2/2022. Doan Nguyen project has a total scale of 6.1 hectares, in District 2, Thu Duc city with a total scale of about 67 villas/townhouses and 616 apartments. The project has obtained the LURC and approved the project investment. Moreover, KDH is completing legal procedures and planning to start the project in Q4/2022.

Accordingly, 6M/2022 business results completed 22% and 45% of the 2022 revenue and profit plan, respectively, the profit drop point will be concentrated in Q4/2022.



Source: KDH, BSC Research

	6M2021	6M2022	% YoY	Remark
Revenue	1,969	875	-56%	- Revenue from real estate transfer decreased by 56% over the same period mainly due to the difference in handover products (villas in 6M2022) compared to apartment products in 6M2021.
Real property transfer	1,936	847	-56%	
Service provided	30	26	-12%	
Operating leases	1	1	-38%	
Gross profit	830	575	-31%	- Accordingly, profit margin also improved to 66% over the same period.
<u>Gross profit margin</u>	<u>42%</u>	<u>66%</u>		
Selling and administrative expenses	178	129	-28%	
<u>SG&A/DTT</u>	<u>9%</u>	<u>15%</u>		- Other profits recorded at VND 294 billion in 6M/2022 mainly came from re-evaluating Doan Nguyen project after merging Phuoc Nguyen company.
EBIT	652	446	-32%	
Financial revenue	11	8	-29%	
Financial expenses	40	3	-92%	
Other Profit/Loss	(17)	294		
Profit before tax	606	745	23%	
Profit tax	135	120		
Profit after tax	472	625	33%	
Minority interest	-	(6)		
Profit after tax of parent company	472	631	34%	
Basic EPS (VND)	767	1,026		
Gross profit margin	42%	66%		
Net profit margin	24%	72%		

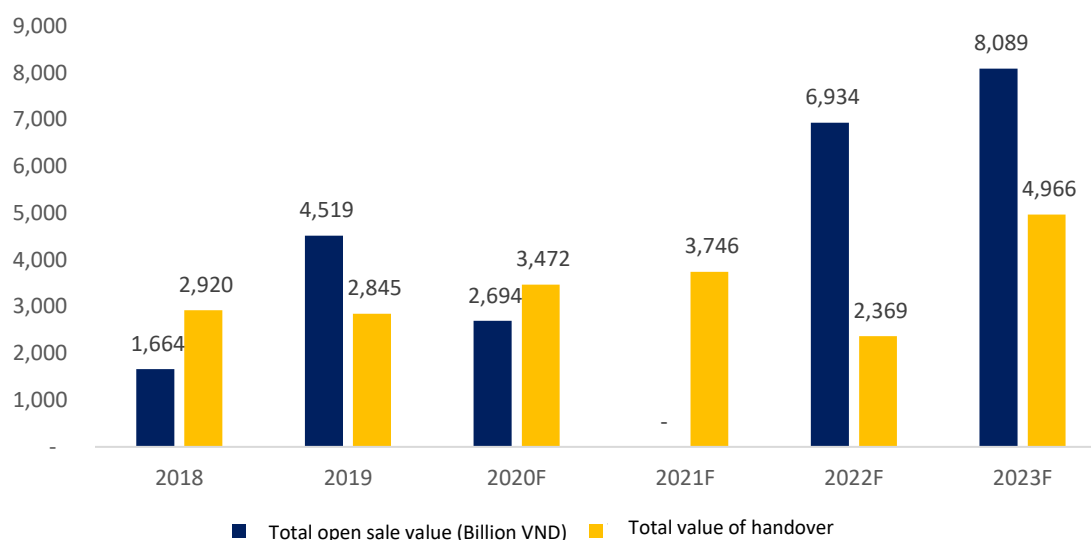
Source: KDH, BSC Research

KDH sets a business plan for 2022, recording a growth up 17% compared to the same period in the parent company's NPAT. The General Meeting of Shareholders approved the 2022 plan with revenue and profit after tax estimated at VND 4,000 billion (+7% YoY) and VND 1,400 billion (+17% YoY), respectively. The main source of profit is the main contribution from the handover of a part of The Classia project from Q2/2022 and the profit from the re-evaluation of the Doan Nguyen project after the consolidation. Therefore, we believe that the ability to complete the business plan is feasible.

Opening sales in the period 2022-2024 will be guaranteed on by new projects. Specifically, in 2022, BSC estimates that the total pre-sales value of KDH will reach about VND 4,935 billion, mainly contributed by the Classia project and the Binh Tan apartment project (An Duong Vuong).

In the year 2022-2023, KDH will continue to open for sale the next phases of three projects including (1) Clarita (Binh Trung), (2) The Privia Binh Tan project, (3) Doan Nguyen project and (4) Nguyen Thu project. The total opening value of KDH in 2023 is estimated at about VND 8,809 billion (+64% YoY).

BSC believes that the driving force behind KDH's profit growth in the next 1-2 years is (1) The selling price of the project is expected to be high in the context that the land bank has a good cost value after moving to Thu Duc city and (2) Brand, reputation, and good sales speed in recent years.



Source: BSC Research

KDH added new projects to the list of land funds, as well as accelerated the implementation progress of key projects. As mentioned in the previous report of BSC, in addition to land funds in District 2 (Clarita and Classia), Binh Tan apartment project, KDH has added two more projects including Nguyen Thu project (2.5 ha) and Doan Nguyen project (6.1 ha). These are projects that are likely to be deployed soon and realize profits in the period of 2023-2024. This helps ensure a positive profit growth prospect for the period 2023-2024 in the context that KDH is promoting investment in large-scale projects.

Start to step up unlocking the urban land fund with a scale of more than 100 ha. Compared to the previous period, KDH mainly focused on villa/townhouse and apartment projects with scale <10ha. Strengths come from guaranteed legal factors, reputable brands, and good cost prices. Those are also the main factors driving profit growth in the past period.

However, in the context of the current scarcity of land in the inner-city area and the profit scale starting to gradually increase which puts pressure on profit growth, KDH is promoting the implementation of large-scale projects such as Phong Phu 2 (132 ha), Tan Tao A (330 ha) and Le Minh Xuan Industrial Park (110 ha). These are the land funds that KDH has been compensating for in the past few years, so the cost is relatively good. This is also the general trend of the current real estate industry. Therefore, in the coming period, KDH will increase the leverage ratio to speed up the implementation of the above projects.

KDH has also proven its legal strength through (1) sales only start after obtaining a construction permit and completing the foundation in accordance with the regulations of the management agency, (2) Project implementation time is relatively fast (average about 1 year for townhouse/villa projects and 2 years for apartment projects).

- Binh Chanh (Phong Phu 2 – Le Minh Xuan Industrial Park with a scale of 109ha). Similar to Tan Tao urban area project, KDH is also in the process of clearing and compensation.
- BSC realizes that KDH is trying to speed up compensation through the increase of (1) advance for project compensation from VND 1,068 billion in 2020 to nearly VND 1,500 billion in 1Q2022. In addition, KDH's leadership is looking for partners to jointly develop the project to speed up the implementation. These are land funds that have been deployed by KDH for a long time with relatively good cost. We assume that land prices in the Southwest continue to increase rapidly thanks to (1) the traffic axis connecting the Western provinces has been speeded up and (2) land fund has shifted to suburban areas due to scarcity of inner city land fund.

KDH is a few businesses that currently own a large-scale land bank in the inner city waiting to be "opened".

Update table of project progress and sale plan

Project progress				
Project	Acreage (ha)	Product	Investment (billion VND)	Progress
Classia	4.3	180 houses adjacent to the garden	1,023	There is a license for infrastructure construction, expected to be opened for sale and handed over in 2022. There is a certificate of land use right and approval of investment policy.
Khang Dien Binh Tan	1.8	1043 apartments	1,808	Completing legal procedures to open and open sold in 2H2022.
Clarita (Binh Trung)	5.8	159 villas/townhouses	1,442	There is a decision on land allocation and project investment approval. Completing legal procedures to start construction in 2022.
Residential Area 11A-GD1	13	427 townhouses	2,662	There is a decision on land allocation phase 1 and approval of investment policy.
Nguyen Thu	2.5	102 villas/townhouses	557	Carrying out legal procedures for construction. Already have LURC. Completing legal documents for construction in 2022.
Doan Nguyen	6.1	67 villas/townhouses and 616 apartments	2,193	Already have LURC and project investment agreement. Completing legal documents for construction in Q4/2022.

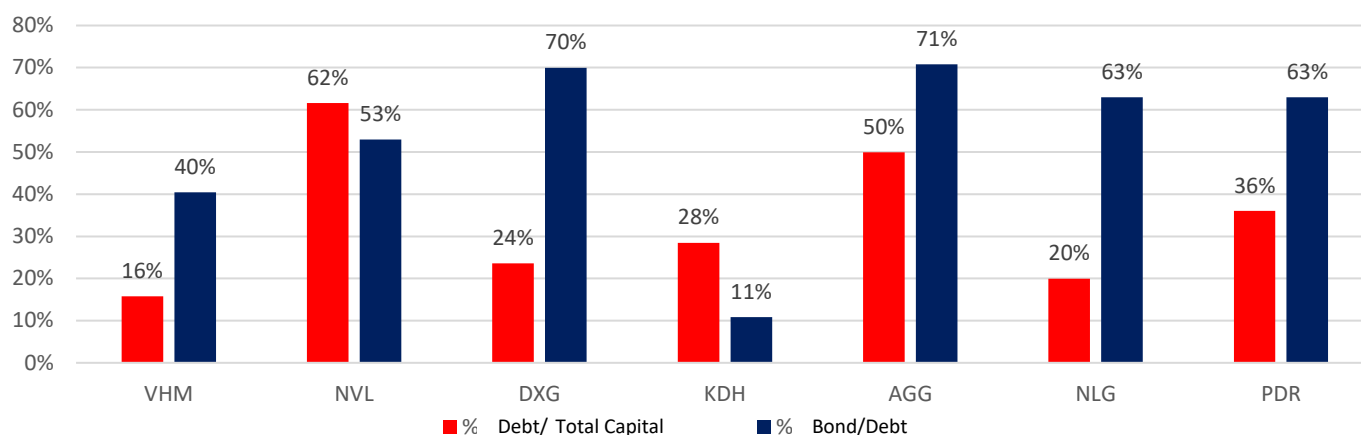
Source: KDH

Promote the use of leverage to deploy key projects, thereby boosting the scale of revenue and profit.

According to our observations, KDH's capital structure is relatively safe for real estate businesses when the Debt/Total Assets ratio is at 28% with bonds account for only 11% of debt (482 billion VND – equivalent to 41% cash & cash equivalents as of Q1/2022). Cash flow from upcoming projects such as Classia and The Privia in the second half of the year has a clear legal foundation and proven implementation capacity. Therefore, BSC believes that the pressure on cash flow to pay bond principal and interest will be low.

The Board of Directors of KDH has approved the issuance of VND 800 billion of separate bonds with a term of 3 years and the interest rate is fixed at 12%. The main purpose of raising capital is to raise capital for the subsidiary. Specifically, KDH increased the capital of Binh Trung Real Estate Investment and Trading Company to VND 1,660 billion. Clarita is the company that owns the projects expected to be implemented in 2023.

CAPITAL STRUCTURE



Source: BSC Research

Clear mobilizing capital through debt, most of them have fixed assets and clear capital use purposes

Borrow	2020	2021	1Q2022	First principal repayment date	Last principal repayment date	Purpose	Interest rate	Collateral
OCB	859	1,585	2,935	-	28/9/2026	Capital contribution investment	12%	Land use rights Thu Duc
	-	-	1,160	-	28/9/2026	Capital contribution investment	12%	Land use rights Thu Duc
	-	-	216	25/3/2026	25/3/2029	Project funding	11%	Residential Area 11A
	-	1,000	1,000	25/7/2022	6/4/2025	Capital contribution investment	11%	Residential Area 11A
	-	350	350	9/6/2022	9/3/2025	Project funding	11%	Le Minh Xuan Industrial Zone
	-	235	209	25/4/2022	25/6/2023	Project funding	11%	Le Minh Xuan Industrial Zone
	650	-	-	-	25/6/2023	Project funding	12%	Le Minh Xuan Industrial Zone
VietinBank	128	-	-	-	14/12/2022	Project funding	12%	Verosa
	81	-	-	-	10/3/2023	Project funding	12%	Verosa
	3,356	485	959	23/12/2022	23/12/2024	Project funding	10%	Land use rights Thu Duc
	2,828	277	447	26/6/2023	26/3/2025	Project funding	10%	Land use rights Thu Duc
Tổng	527	208	152	26/6/2023	12/8/2022	Project funding	10%	Land use rights Thu Duc
	4,215	2,070	3,894					
Bonds	2020	2021	1Q2022	First principal payment date	Date of maturity	Purpose	Interest rate	Method
Long-term	283	182	182	-	26/06/2022	Working capital	12%	Unsecured loans
Short-term	124	300	300	-	14/06/2025	Working capital	12%	Unsecured loans
Total	407	482	482					

Source: KDH, BSC Research

Profit growth of business results in the period of 2022-2023 is guaranteed

BSC estimates that in 2022, KDH's revenue and profit after tax are estimated at VND 2,369 billion (-36.8% YoY) and VND 1,469 billion (+19.0% YoY) respectively. EPS FW 2021 = 2,285 VND. PE FW 2022 = 17.3 times, P/B FWD 2022 = 2.1 times. The main source of income comes from (1) Profit from cheap purchase of Doan Nguyen project, (2) Handover of The Classia project in Q3-Q4/2022.

BSC estimates that in 2023, KDH's revenue and profit after tax are estimated at VND 4,966 billion (+109.6% YoY) and VND 1,966 billion (+34% YoY) respectively. EPS FW 2021 = VND 3,058. PE FW 2023 = 12.9 times, PB FW 2023 = 1.8 times. The main source of revenue comes from the handover of a part of The Privia project and the handover of Clarita project – phase 1.

Unit: Billion VND	2019E	2020	2021	2022F	2023F
Net Revenue	2,845	4,617	3,746	2,369	4,966
% YoY	-3.5%	61.1%	-17.5%	-36.8%	109.6%
Gross profit	1,500	1,964	1,792	1,631	2,915
% YoY	21.1%	30.9%	-8.7%	-9.0%	78.7%
Gross profit margin	53.3%	43.3%	48.0%	69.0%	58.8%
Selling expenses	115.4	247.0	201.1	201.4	198.6
Enterprise Cost Management	162.3	169.4	182.9	213.2	223.5
% SG&A/Rev	9.8%	9.0%	10.3%	17.5%	8.5%
Financial revenue	41.5	35.0	20.0	30.2	26.5
Financial expenses	41.6	84.7	72.4	96.0	61.4
Profit before tax	1,190	1,458	1,540	1,837	2,458
Corporate Income Tax	295	338	251	367	492
Profit after tax	915	1,153	1,202	1,469	1,966
%	11%	23%	6%	19%	34%
EPS	1,681	1,992	1,870	2,285	3,058
Net profit margin	32.2%	25.0%	32.1%	62.0%	39.6%
ROE	12.0%	14.2%	11.8%	12.6%	14.4%

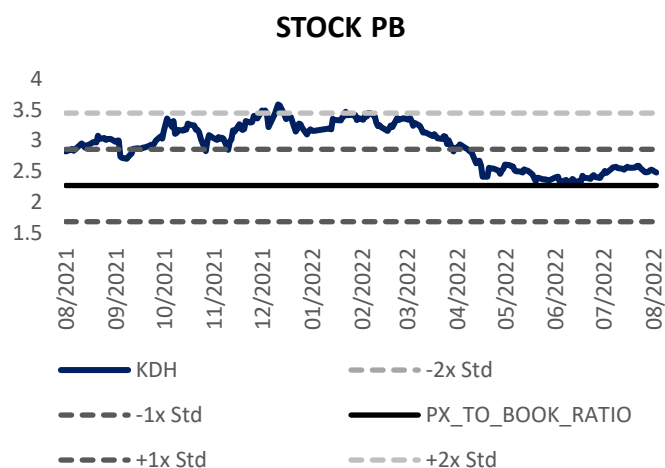
Source: BSC Research

VALUATION

We maintain our **BUY** recommendation on KDH and set a target price of VND 48,200 based on RNAV method (+28% compared to the price on August 29, 2022) due to (1) Updating the project portfolio, (2) Raising the selling price assumption for potential land funds in Binh Tan, Phong Phu 2 and (3) Adjusting to raise the discount rate WACC = 12% for projects due to increased interest rates and increased capital costs.

VALUATION

Billion VND	Method	Total value of NAV	Ownership rate	>KDH
The projects				
Classia	Cash flow discount	2,663	100%	2,663
Clarita	Cash flow discount	2,531	100%	2,531
The Privia Binh Tan	Cash flow discount	2,475	100%	2,475
Doan Nguyen House Project	Book Value	3,185	100%	3,185
Phong Phu residential area 2	Compare	8,374	100%	8,374
Tan Tao urban area	Compare	15,015	100%	15,015
Residential Area 11A	Compare	3,608	100%	3,608
Le Minh Xuan Industrial Zone	Compare	2,198	100%	2,198
Others	Book Value	348	100%	388
Net Present Value				40,437
(+) Cash		1,255		1,255
(-) Debt		5,761		5,761
Total value of NAV				35,931
Risk discount rate				34,135
Number of shares outstanding				708,829,995
Fair Value				48,200
Stock price 8/29/2022				37,600
Upside				28%
WACC 11%				



APPENDIX

Business performances (Bil VND)	2020	2021	2022F	2023F
Net Revenue	4,532	3,738	2,364	4,955
Cost of goods sold	2,568	1,945	733	2,040
Gross profit	1,964	1,792	1,631	2,915
Selling expenses	(247)	(201)	(201)	(199)
Enterprise Cost Management	(169)	(183)	(213)	(223)
Operating profit/loss	1,547	1,408	1,217	2,493
Financial revenue	35	20	30	26
Financial expenses	(85)	(72)	(96)	(61)
Interest expenses	-	(15)	(35)	(41)
Profit from joint ventures/associations	-	-	-	-
Other profit/loss	(39)	184	305	-
Profit before tax	1,458	1,540	1,837	2,458
Corporate income tax	(304)	(335)	(367)	(492)
Profit after tax	1,154	1,204	1,469	1,966
Non-controlling interests	2	2	-	-
Profit after tax - Noncontrolling interests	1,153	1,202	1,469	1,966
EBITDA	1,558	1,419	1,234	2,493
EPS	1,893	1,777	2,171	2,905

Balance Sheet (bil VND)	2019	2020	2021F	2022F
Cash and cash equivalents	1,836	1,365	1,186	101
Short term investment	-	69	69	69
Short-term receivables	3,529	4,182	3,895	8,163
Inventory	7,338	7,748	11,148	11,648
Other current assets	319	35	22	46
Short-term assets	13,022	13,399	16,320	20,028
Tangible assets	47	40	53	53
Depreciation	11	10	18	-
Long-term unfinished assets	695	751	751	751
Long-term investment	60	58	58	58
Other long-term assets	17	9	6	12
Long-term assets	913	949	959	966
Total assets	13,934	14,349	17,279	20,993
Liabilities must pay	242	155	155	155
Short-term loans	787	648	800	518
Other short-term debt	3,179	1,261	475	1,323
Total current liabilities	4,208	2,064	1,430	1,995
Long-term loans	1,058	1,905	4,000	5,182
Other long-term debt	510	159	159	159
Total Long-term Debt	1,568	2,064	4,159	5,341
Total liabilities	5,776	4,128	5,589	7,336
Capital	5,787	6,429	6,429	6,429
Surplus equity	744	1,177	1,177	1,177
Undistributed profits	1,836	2,342	3,771	5,690
Other equity	-	-	-	-
The contents of a presentation	31	35	35	35
Total Equity	13,934	14,349	17,279	20,993
Total capital	23,489	25,669	29,528	29,528
Number of shares outstanding	579	643	643	643

Cash Flow (Bil VND)	2019	2020	2021F	2022F
(Loss) / PAT	1,153	1,202	1,469	1,966
Depreciation and amortization	11	10	18	-
Change in working capital	(919)	(3,127)	(3,883)	(3,951)
Other adjustments	84	-	-	-
Net cash flow from operating activities	163	(2,015)	(2,395)	(1,985)
Cash for purchase of fixed assets	(48)	(49)	(31)	-
Other adjustments	60	20	-	-
Net cash flow from investment activities	12	(99)	(31)	-
Dividend payment	-	-	-	-
Cash from net borrowing	1,063	707	2,247	900
Other revenue	(576)	936	-	-
Net cash flow from financing activities	486	1,644	2,247	900
Beginning of year cash flow	1,175	1,836	1,366	1,186
Cash flow in the year	661	(470)	(180)	(1,085)
Ending of year cash flow	1,836	1,366	1,186	101

Ratio (%)	2019	2020	2021F	2022F
Solvency				
Short-term payment ratio	3.1	6.5	11.4	10.0
Quick payout ratio	1.4	2.7	3.6	4.2
Capital structure				
Debt/total assets ratio	13%	18%	28%	27%
Debt/Equity Ratio	23%	25%	41%	42%
Operational capacity				
Number of days in stock	1021	1415	4706	2040
Number of days receivable	294	376	624	444
Number of days to pay	22	21	14	22
CCC	1294	1770	5316	2461
Profit rate				
Gross profit	43.3%	48.0%	69.0%	58.8%
Profit after tax	25.0%	32.1%	62.0%	39.6%
ROE	14.2%	11.8%	12.6%	14.4%
ROA	8.3%	8.4%	8.5%	9.4%
Valuation				
PE	18.9	20.1	17.3	12.9
PB	2.7	2.4	2.1	1.8
Growth				
Net revenue growth	61.1%	-17.5%	-36.8%	109.6%
EBIT Growth	26.5%	-9.0%	-13.6%	104.9%
Pre-tax profit growth	22.6%	5.6%	19.3%	33.8%
EPS growth	26.0%	4.3%	22.2%	33.8%

Source: BSC Research.

Disclosure

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