



VRE Update - HOLD

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Company Update

Recommendation

HOLD

HSX: VRE

Property

Target price (VND) 34,052

Market price (VND) 31,750

Expected share price return 7.3%

Expected dividend yield 0.0%

Expected total return 7.3%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	5.5	-3.0	6.0	-7.6
Relative	8.4	-1.3	7.7	-31.5

Source: Bloomberg

Price-Volume



Ownership as of Dec 12, 2021

Vingroup JSC 60.13%

Stock Statistics

15-Mar-22

Bloomberg code VRE VN

52-week range (VND) 25,100 - 37,000

Shares O/S (m) 2,272

Mkt cap (VND bn) 72,146

Mkt cap (USD m) 3,133

Est. Foreign room left (%) 19.1

Est. free float (%) 28.3

3m avg daily vol (shrs) 8,133,441

VND/USD 23,030

Index: VNIndex / HNX 1452.74/443.52

VINCOM RETAIL JSC (VRE VN)

Adjust 2022 target price to VND34,052 given the planned support package and delay in new mall openings. Change rating from Buy to Hold as the stock price has increased.

2021 Business result

In 2021, VRE recorded total revenue of VND5,891bn (-29% YoY) and PAT of VND1,315bn (-45% YoY), lower than our expectation because:

1. Support package given to tenants who were heavily impacted by COVID-19 was higher than expected. Without this package, VRE's revenue would have reached VND8trn.
2. Part of VMM Smart City was not opened in 4Q2021 as VRE's previous plan.
3. Property sales were lower than expected.

Leasing revenue dropped by 22% YoY, to VND4,701bn mainly due to support package of VND2,115bn compared with VND865bn in 2020. Leasing NOI followed the same trend with a 26% YoY decrease to VND3,161bn. As some small tenants left due to financial difficulties, the average occupancy rate in 2021 dropped by 1.4 ppts, to 84%, of which Vincom Plaza saw the highest decrease of 2.7 ppts, to 80% among four retail formats while Vincom Center saw an improvement of 2.0 ppts, to 94% thanks to upgrading tenant mix at VCC Dong Khoi, VCC Lieu Giai and VCC Pham Ngoc Thach. Tenants with strong balance sheet still expanded such as the opening of Muji in Vincom Metropolis and Decathlon in VMM Thao Dien (Please see Appendix 1 for details).

Property sales also declined by 53% YoY, to over VND1,000bn given 235 units were delivered compared with 346 units in 2020.

The 2021 results were heavily impacted by the 3Q2021 results, but the 4Q2021 saw strong recovery. 4Q2021 revenue and profit increased by 74% and 402% QoQ respectively thanks to Government's efforts to reopen the economy and increase in shophouses delivery. All 80 malls have returned to normal operation except for tenants at malls located in high infection risk areas. Footfall to Vincom malls in December 2021 reached 8.1 million visitors, 4 times the level in August 2021.

	2018	2019	2020	2021U	2022E
Net Sales (VNDbn)	9,124	9,259	8,329	5,891	7,496
Growth	65.3%	1.5%	-10.0%	-29.3%	27.2%
EBITDA (VNDbn)	4,048	5,030	4,575	3,239	4,410
Growth	9.2%	24.3%	-9.0%	-29.2%	36.2%
PAT (VNDbn)	2,413	2,853	2,382	1,315	2,320
Growth	19.0%	18.2%	-16.5%	-44.8%	76.4%
EPS (bonus-adjusted, VND)	1,219	1,227	1,048	578	1,021
Growth	25.9%	0.6%	-14.6%	-44.8%	76.5%
ROE	8.8%	10.3%	8.5%	4.4%	7.3%
ROIC	7.8%	10.3%	8.5%	4.5%	7.1%
Net debt/EBITDA (times)	-0.1	0.1	0.2	-0.1	0.2
EV/EBITDA (times)	17.7	14.3	15.7	22.2	16.3
PER (times)	30.0	25.3	30.3	54.9	31.1
PBR (times)	2.5	2.7	2.5	2.4	2.2
DPS (VND)	0	1,050	0	0	0
Dividend yield	0.0%	3.3%	0.0%	0.0%	0.0%

	3Q2021	4Q2021	QoQ	2020	2021	YoY
Leasing revenue	728	891	+22%	6,008	4,701	-22%
Property sales	20	436	+2,080%	2,149	1,004	-53%
Other revenue	39	41	+5%	172	186	+9%
Total revenue	797	1,367	+74%	8,329	5,891	-29%
PAT	24	122	+402%	2,382	1,315	-45%

Source: VRE's 3Q2021 and 4Q2021 FS.

2022 Forecast

We remain optimistic about the future prospects of VRE and believe the following factors will help the company bounce back in 2022:

1. Prolonged widespread lockdowns are unlikely in the future due to high vaccination rates and a change in the government's approach from "defeating COVID" to "safely co-existing with COVID"
2. Government support package of VND350trn will help the economy recover and grow faster. Vietnam's economy remains resilient despite COVID-19 with growth expected to be the highest in the region.
3. The retail market will recover more clearly from 2Q2022 onwards according to CBRE. Rent and occupancy rates in both Hanoi and HCMC will remain stable and rise slightly in the 2022-2024 periods.
4. International brands remain committed to Vietnam.

Vincom Retail is ready for recovery in 2022 and targets full recovery to 2020 levels. It planned to open 3 new malls (VMM Smart City, VCP My Tho and VCP Bac Lieu) in 2Q2022 with a total retail GFA of ~95,000sqm, bringing the total number of operating malls to 83 and total retail GFA to ~1.75mn sqm at YE2022.

Taking into account the planned 2022 support package of VND800-900bn and the delay in the opening of VMM Smart City from 4Q2021 to 2Q2022 and VMM Grand Park from 2022 to 2023, we adjust leasing revenue down by 10%, to VND6,541bn. We also adjust estimated property sales down by 39%, to VND750bn as the company will decrease its shophouse development activity to focus on mall development. Thus, estimated 2022 total revenue and PAT were adjusted down by 15% and 16%, to VND7,496bn (+27% YoY) and VND2,320bn (+77% YoY), respectively.

Valuation

Overall, we believe VRE will strongly recover in 2022 given its internal strength (i.e. dominant market share, healthy financial status and support from the Vingroup ecosystem) and external growth drivers (e.g. recovering local retail market, continuous expansion of international brands in Vietnam and rising vaccination rate). Given the adjustment in 2022 forecast, we suggest 2022 target price of VND34,052, down slightly by ~7% compared to our previous target price, using the combination of DCF, EV/EBITDA and P/B comparison methods. We change our rating from Buy to Hold as stock price has increased since our last update report in 11/2021.

Appendix 1: Occupancy rate

	2020	2021	YoY (ppts)
Vincom Center (VCC)	92%	94%	+2.0
Vincom Mega Mall (VMM)	87%	87%	-0.5
Vincom Plaza (VCP)	82%	80%	-2.7
Vincom+ (VC+)	76%	74%	-1.9
Total	85%	84%	-1.4

Source: VRE

VRE FINANCIALS MODEL	Price (VND):	31,750	Target (VND):	34,052	Mkt cap (VND bn):	72,146
(VND bn except where stated)	2018	2019	2020	2021U	2022E	
Total Net Sales	9,124	9,259	8,329	5,891	7,496	
Of which: Property leasing with related services	5,506	7,017	6,008	4,701	6,541	
Property sales	3,433	2,027	2,149	1,004	750	
Others	185	215	172	186	205	
<i>Sales growth</i>	65.3%	1.5%	-10.0%	-29.3%	27.2%	
CoGS ex-dep'n	4,326	3,408	3,025	2,017	2,400	
Gross profit	3,641	4,404	3,821	2,392	3,543	
<i>Gross margin</i>	39.9%	47.6%	45.9%	40.6%	47.3%	
SG&A	751	821	729	635	686	
<i>SG&A as % of sales</i>	8.2%	8.9%	8.7%	10.8%	9.2%	
EBITDA	4,048	5,030	4,575	3,239	4,410	
<i>EBITDA margin</i>	44.4%	54.3%	54.9%	55.0%	58.8%	
Depreciation	1,157	1,447	1,483	1,482	1,553	
Operating profit	2,891	3,583	3,093	1,757	2,857	
<i>Operating profit margin</i>	31.7%	38.7%	37.1%	29.8%	38.1%	
Financial income (excl. saving and lending interest)	-1	0	-	-	-	
Financial expenses (excl. interest expense)	47	6	24	44	44	
<i>as % of avg, net debt</i>	-7.2%	24.6%	24.1%	24.6%	-15.1%	
Other profit	60	30	91	34	34	
Tax	640	724	610	377	580	
<i>Effective tax rate</i>	21.0%	20.2%	20.4%	22.3%	20.0%	
Minority interest	9	0	0	1	0	
NPATMI	2,404	2,851	2,382	1,315	2,320	
<i>Net profit margin</i>	26.4%	30.8%	28.6%	22.3%	30.9%	
Cash earnings	3,561	4,299	3,864	2,796	3,872	
Number of shares (m)	2,329	2,272	2,272	2,272	2,272	
EPS (VND)	1,219	1,227	1,048	578	1,021	
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0	
Adjusted EPS (VND)	1,219	1,227	1,048	578	1,021	
<i>EPS growth</i>	25.9%	0.6%	-14.6%	-44.8%	76.5%	

KEY CASHFLOW AND BS ITEMS	2018	2019	2020	2021U	2022E
Increase in working capital	-4,839	1,242	1,499	752	3,250
Capex	1,992	1,896	4,377	652	1,966
Other cash flow items	-1,564	2,284	1,838	-281	0
Free cash flow	4,844	3,445	-173	1,111	-1,344
Share issues	0	-1,954	0	0	0
Dividends paid	0	2,451	0	0	0
Increase in net debt	-4,844	960	173	-1,111	1,344
Net debt, end of year	-352	608	781	-330	1,014
Shareholders' equity	28,509	26,954	29,336	30,651	32,970
BVPS (VND)	12,224	11,847	12,895	13,473	14,492
Net debt / equity	-1.2%	2.3%	2.7%	-1.1%	3.1%
Net debt / EBITDA (x)	-0.1	0.1	0.2	-0.1	0.2
Total assets	38,684	35,839	39,816	37,873	42,968

KEY RETURN AND VALUATION RATIOS	2018	2019	2020	2021U	2022E
ROE	8.8%	10.3%	8.5%	4.4%	7.3%
ROA	6.3%	7.7%	6.3%	3.4%	5.7%
ROIC	7.8%	10.3%	8.5%	4.5%	7.1%
WACC	15.0%	12.1%	11.8%	12.5%	12.1%
EVA	-7.2%	-1.8%	-3.3%	-7.9%	-5.0%
PER (x)	30.0	25.3	30.3	54.9	31.1
EV/EBITDA (x)	17.7	14.3	15.7	22.2	16.3
EV/FCF (x)	14.8	20.8	-415.2	64.7	-53.4
PBR (x)	2.5	2.7	2.5	2.4	2.2
PSR (x)	7.9	7.8	8.7	12.2	9.6
EV/sales (x)	7.9	7.8	8.6	12.2	9.6
Dividend yield	0.0%	3.3%	0.0%	0.0%	0.0%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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