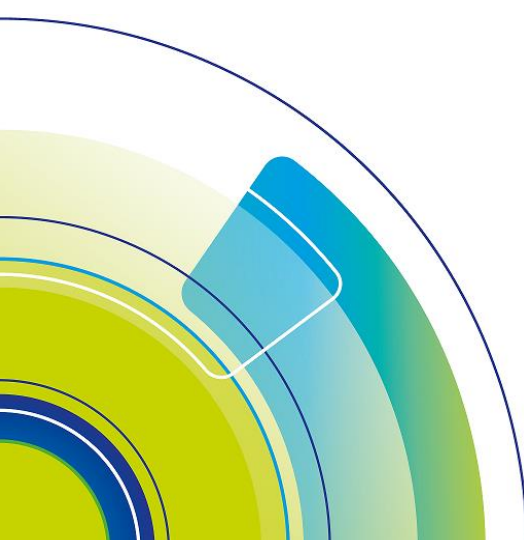




NVL Update - HOLD

Tuesday, May 31, 2022



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Company Update

Recommendation

HOLD

HOSE: NVL

Property

Current price (VND)

78,700

Target price (VND)

83,058

Expected share price return

5.5%

Expected dividend yield

0.0%

Expected total return

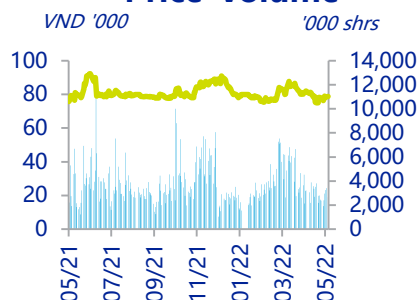
5.5%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-13.5	-3.6	2.8	2.5
Relative	-0.1	1.4	16.9	2.7

Source: Bloomberg

Price-Volume



Ownership

Novagroup JSC	32.17%
Diamond Properties JSC	10.42%
Bui Thanh Nhon	8.69%

Stock Statistics

30-May-22

Bloomberg code

NVL VN

52-week range (VND)

72,500 - 94,351

Shares O/S (m)

1,950

Mkt cap (VND bn)

153,448

Mkt cap (USD m)

6,577

Foreign room left (%)

42.7

Est. free float (%)

34.7

3m avg daily vol (shrs)

4,055,592

VND/USD

23,330

Index: VNIndex / HNX

1293.92/312.77

NO VA LAND INVESTMENT JSC (NVL VN)

We adjust our whole year 2022 forecast to reflect subdued 1Q2022 results amid market challenges and COVID-19 related delays. Reiterate our Hold rating with target price of 83,058

Novaland posted mixed 1Q2022 results with net revenue of nearly VND2trn (-57% YoY) and PAT of over VND1trn (+49% YoY), equivalent to 5% and 16% of its targets. The underperforming top line was due to rising COVID cases which delayed project deliveries (269 units in 1Q2022 vs 709 units in 1Q2021) at Novaworld Phan Thiet, NovaHills Mui Ne, NovaWorld Ho Tram, Soho Residence, Victoria Village and Aqua City. The growth in the bottom line was mainly thanks to revaluation surplus of VND1.3trn from acquiring Da Lat Valley Real Estate Ltd. Co. which owns 92ha Aqua Waterfront City project in Dong Nai.

	1Q2021	1Q2022	YoY
Net revenue	4,507	1,956	-57%
Gross profit	1,717	720	-58%
Financial income	572	881	54%
Financial expense	454	911	101%
SG&A expenses	458	565	23%
PAT	701	1,046	49%

Source: NVL's 1Q2022 FS.

The overall Vietnamese hospitality real estate segment showed signs of recovery in 1Q2022, except for condotel products, which NVL currently does not develop. According to DKRA, there were 1,020 villas (+4% YoY), 2,768 townhouses/shophouses (+1147% n/n) and 613 condotels (-18% n/n) launched in 1Q2022 with absorption rates of 57% (+31 ppts YoY), 87% (+13 ppts YoY) and 32% (-30 ppts YoY), respectively. The government's decision to open for international tourism from 15/3/2022 was a key growth driver for this segment.

NVL's sales performance in 1Q2022 was satisfactory with 1,732 units sold (-5% YoY) and sales value of VND28trn or USD1.2bn (+63% YoY), of which hospitality real estate accounted for 55% and 42%, respectively. Unbilled bookings at the end of 1Q2022 was USD8.8bn (+66% YoY). In 3Q2022, Novaland will launch new phase Long Island of NovaWorld Ho Tram with an area of 30ha and 500 units and Grand Sentosa with an area of 10,800 sqm in 3Q2022.

	2019	2020	2021E	2022E	2023E
Net Sales (VNDbn)	10,931	5,026	14,903	20,064	34,462
Growth (%)	-28.5%	-54.0%	196.5%	34.6%	71.8%
EBITDA (VNDbn)	-1,091	1,115	2,251	2,245	4,737
Growth (%)	-124.2%	-202.2%	101.9%	-0.3%	111.0%
PATMI (VNDbn)	3,431	3,919	3,225	5,131	7,180
Growth (%)	6.4%	14.2%	-17.7%	59.1%	40.0%
EPS (bonus-adjusted, VND)	2,167	2,420	1,819	2,551	3,535
Growth (%)	4.2%	11.7%	-24.8%	40.2%	38.6%
ROE (%)	16.2%	16.2%	11.3%	14.7%	18.0%
ROIC (%)	5.1%	3.5%	1.9%	2.5%	3.3%
Net debt/EBITDA (x)	-25.4	32.8	18.9	22.9	12.5
EV/EBITDA (x)	-187.5	183.5	90.9	91.1	43.2
PER (x)	22.0	19.6	43.3	29.8	21.4
PBR (x)	3.4	3.0	4.3	3.9	3.4
DPS (VND)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

However, tightening credit to the real estate sector for both developers and homebuyers from April and the HCMC branch of the State Bank of Vietnam's request credit restrictions for high-end and hospitality real estate in April affected sales performance as well as projects launches and deliveries in the short-term which we think it may last till August.

In the long-term, we think the government will grant more credit for this sector to support economic growth and NVL will continue to benefit from the high demand of second/leisure homes from the rising middle class in Vietnam and more government spending on infrastructure projects nearby NVL's projects such as Dau Giay – Phan Thiet Expressway, Bien Hoa – Vung Tau Expressway, Long Thanh and Phan Thiet airports, etc.

As the company actively expands its land bank under research and development to nearly 10,600ha (+96% YoY), its net debt balance increased from VND42.4trn to VND51.1trn and Net debt/Equity ratio from 103.1% to 117.7% in 1Q2022. Given upcoming issuance of USD250mn convertible bonds and more units launched in 2H2022, we forecast the leverage ratio will be 110.8% at YE2022.

Given 1Q2022 result and challenges in the real estate sector, we adjust 2022 net revenue down by 35%, to VND20trn (+35% YoY) given 36% decrease in number of units delivered, to over 2,000 units mainly at Novaworld Phan Thiet, NovaWorld Ho Tram, and Aqua City. However, we adjust PAT up by 10%, to nearly VND5.5trn (+59% YoY) to reflect revaluation surplus of VND1.3trn recorded in 1Q2022.

Overall, NVL is the second-biggest listed property developer with an expected land bank of 10,600ha, a professional sales force, and proven fundraising capability. It is expected to benefit from the high demand of second/leisure homes from the rising middle class in Vietnam and more government spending on infrastructure projects. Using the NAV method, **we reiterate our Hold rating for Novaland with a target price of VND83,058/share**, 13% lower than the previous target price in 12/2021 given challenges in the real estate sector in the short-term which affect sales performance and delay projects launches and deliveries. We also note high leverage ratios and dilution risk from USD300mn of convertible bonds issued last year and USD250mn of convertible bonds to be issued later this year.

Figure 1: Main projects update

Project	NSA (sqm)	Total units	Launch rate	Take-up rate	Construction permit	(Expected) delivery
Aqua City	493,097	2,116	74%	92%	Done	4Q2020
Aqua Riverside City	360,584	1,867	82%	94%	Done	4Q2021
Aqua Waterfront City	383,776	2,701	70%	96%	Done	2022
Aqua Phoenix	1,350,140	7,456	56%	91%	3Q2022	2023-2024
NovaWorld Phan Thiet	3,286,355	18,700	45%	76%	Done	2Q2021
NovaWorld Ho Tram – Tropicana	389,934	1,919	91%	71%	Done	2Q2021
NovaWorld Ho Tram – Wonderland	36,839	271	100%	67%	Done	3Q2022
NovaWorld Ho Tram – Habana Island	89,268	394	37%	81%	3Q2022	4Q2023
NovaWorld Ho Tram – Happy Beach	48,830	332	100%	79%	Partially	2Q2022
NovaWorld Ho Tram - Morito	34,813	227	57%	68%	Done	2Q2022

Source: NVL.

Figure 2: Projects delivered in 1Q2022



Source: NVL.

NVL FINANCIALS MODEL	Price (VND):	78,700	Target (VND):	83,058	Mkt cap (VND bn):	153,448
(VND bn except where stated)	2019	2020	2021E	2022E	2023E	
Total Net Sales	10,931	5,026	14,903	20,064	34,462	
Of which: Property	10,036	3,499	13,446	18,198	32,065	
Services	687	1,254	1,363	1,772	2,304	
Others	208	274	93	93	93	
<i>Sales growth</i>	-28.5%	-54.0%	196.5%	34.6%	71.8%	
CoGS ex-dep'n	10,530	2,457	10,035	14,296	23,675	
Gross profit	3,152	1,833	6,136	7,416	12,931	
<i>Gross margin</i>	28.8%	36.5%	41.2%	37.0%	37.5%	
SG&A	1,492	1,454	2,617	3,523	6,051	
<i>SG&A as % of sales</i>	13.7%	28.9%	17.6%	17.6%	17.6%	
EBITDA	-1,091	1,115	2,251	2,245	4,737	
<i>EBITDA margin</i>	-10.0%	22.2%	15.1%	11.2%	13.7%	
Depreciation	-2,750	736	-1,268	-1,648	-2,143	
Operating profit	1,660	379	3,519	3,893	6,880	
<i>Operating profit margin</i>	15.2%	7.5%	23.6%	19.4%	20.0%	
Profit/loss from associates and JVs	-10	-3	0	0	0	
Financial income (excl. saving interest)	715	5,859	2,837	4,114	4,494	
Financial expenses (excl. interest expense)	939	971	3,338	2,331	2,746	
Net interest expense	834	215	-294	-331	-242	
<i>as % of avg, net debt</i>	10.4%	10.3%	9.8%	10.1%	9.7%	
Other profit	3,680	-400	1,775	1,228	1,256	
Tax	885	743	1,631	1,738	2,432	
<i>Effective tax rate</i>	20.7%	16.0%	32.1%	24.0%	24.0%	
PAT	3,387	3,907	3,455	5,497	7,693	
Minority interest	-44	-13	230	366	512	
NPATMI	3,431	3,919	3,225	5,131	7,180	
<i>Net profit margin</i>	31.0%	77.7%	23.2%	27.4%	22.3%	
Cash earnings	637	4,643	2,187	3,848	5,550	
Number of shares (m)	970	986	1,930	1,950	1,950	
EPS (VND)	3,579	4,021	1,819	2,640	3,683	
Bonus factor (x)	0.6	0.6	1.0	1.0	1.0	
Adjusted EPS (VND)	2,195	2,466	1,819	2,640	3,683	
Adjusted diluted EPS (VND)	2,167	2,420	1,819	2,551	3,535	
<i>EPS growth</i>	4.2%	11.7%	-24.8%	40.2%	38.6%	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021E	2022E	2023E
Increase in working capital	31,567	31,045	22,660	28,424	27,376
Capex	372	172	894	391	391
Other cash flow items	18,944	16,993	11,161	15,699	14,618
Free cash flow	-12,359	-9,580	-10,206	-9,267	-7,599
Share issues (m)	206	667	4,395	193	0
Dividends paid	20	50	0	0	0
Increase in net debt	12,172	8,963	5,812	9,074	7,599
Net debt, end of year	27,658	36,621	42,432	51,506	59,106
Shareholders' equity	24,461	31,932	41,173	46,497	53,677
Minority	2,183	6,048	6,138	6,932	8,002
BVPS (VND)	22,978	26,244	18,149	20,292	23,426
Net debt / equity (%)	113.1%	114.7%	103.1%	110.8%	110.1%
Net debt / EBITDA (x)	-25.4	32.8	18.9	22.9	12.5
Total assets	89,979	144,536	201,834	216,597	231,889

KEY RETURN AND VALUATION RATIOS	2019	2020	2021E	2022E	2023E
ROE	16.2%	16.2%	11.3%	14.7%	18.0%
ROA	4.2%	3.3%	2.0%	2.6%	3.4%
ROIC	5.1%	3.5%	1.9%	2.5%	3.3%
EVA	7.7%	7.9%	7.8%	8.0%	8.1%
PER (x)	-2.6%	-4.4%	-6.0%	-5.5%	-4.7%
EV/EBITDA (x)	22.0	19.6	43.3	29.8	21.4
EV/FCF (x)	-187.5	183.5	90.9	91.1	43.2
PBR (x)	-16.6	-21.4	-20.0	-22.1	-26.9
PSR (x)	3.4	3.0	4.3	3.9	3.4
EV/sales (x)	14.0	30.5	10.3	7.6	4.5
Dividend yield	18.7	40.7	13.7	10.2	5.9

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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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