

IDC – Analyst Tour 2022 note

Idico (HNX: IDC) was ranked #3 in terms of market-cap in the industrial property segment after Becamex (HSX: BCM) and Kinh Bac (HSX: KBC) with four business lines: industrial property, power, residential property, and industrial park related services. The company set CAGR targets of 22.9% for revenue and 20.9% for PBT in 2022-2026 with main contribution from industrial property and power segments. In addition, IDC aims to reach ROE of 40% and EPS of VND14,100 in 2026F and average dividend payment of 40% in 2022-2026. According to the management, IDC has completed ~60% of PBT target of VND2,800bn in 1H2022. Of note, 2Q2022 result included the final settlement recorded for Nhon Trach 5 Industrial park (IP). Accordingly, IDC recognized all unrealized unearned revenue of Nhon Trach 5 IP as revenue by increasing the opening balance of retained earnings, similar to the recognition of My Xuan A IP in 2021.

INDUSTRIAL PROPERTY: IDC currently has 5 fully-occupied IPs and 5 ongoing IPs with a total industrial land area of 3,267ha, of which NLA available for lease as of 6/2022 was 755ha as shown in the table below. These IPs have been attracted over 250 projects with a total investment capital of over USD8bn. IDC leased over 90ha in 1H2022, completing 56% of its leasing target, of which Huu Thanh IP accounted for 73.4 ha, mainly from 2 logistics tenants.

IDC is expanding its land bank (i.e. 5 projects in the north with a total area of 1,000-1,200ha; 2-4 projects in the south with a total area of 1,000ha and My Xuan A expansion of 110-500ha in Ba Ria – Vung Tau), of which around 1,400ha is expected to be approved in 2023-2024. Of note, Tan Phuoc 1 IP in Tien Giang has been approved by 12/2021 with a total area of 470ha and charter capital of VND900bn which IDC accounted for 65%. Around 170ha of this IP has not been cleared and is agriculture land for short growing season, thus the clearance cost and process may not be challenging.

IDC will gradually change its IP leasing revenue booking method from annually to one-off, thus the unearned revenue of VND5.9trn will be gradually recorded in 2021-2026 with expected gross profit of nearly ~VND3trn. All ongoing IPs are expected to bring VND30trn of total revenues with an average gross margin of 60%, of which the remaining revenue has not been leased as of 6/2022 of VND21.2trn is expected to be realized in 2022-2026.

Project	Location	Stake	Total investment (VNDbn)	Total area (ha)	NLA (ha)	Occupancy rate	Leasing rate (USD/sqm/remaining lease term)	Note
Fully occupied IPs			1,925	1,271	949	100%	n/a	
Kim Hoa	Vinh Phuc	100%	252	50	46	100%	n/a	Honda is the only tenant
My Xuan B1	Ba Ria-Vung Tau	51%	544	227	160	100%	n/a	n/a
My Xuan A	Ba Ria-Vung Tau	100%	342	302	229	100%	n/a	Heineken leases 43ha with a total investment capital of over USD308mn
Nhon Trach 1	Dong Nai	100%	458	382	284	100%	n/a	The first IP that IDC developed.
Nhon Trach 5	Dong Nai	100%	329	309	229	100%	n/a	Hyosung is a key tenant with a total investment capital of over USD2bn
Ongoing IPs			13,740	1,996	1,392			
Cau Nghin	Thai Binh	100%	1,160	184	103	2.4%	From 60	Expected to be benefit from the China+1 trend
Huu Thanh	Long An	100%	7,300	524	395	20.2%	From 135	Key tenants: Kizuna, Nature Foods
Phu My 2	Ba Ria-Vung Tau	100%	1,900	621	443	73.2%	From 125	Key tenants: POSCO, Linde, Behn Meyer
Phu My 2 expansion	Ba Ria-Vung Tau	100%	1,880	398	273	53.1%	From 125	

Que Vo 2	Bac Ninh	51%	1,500	270	177	48.0%	From 115	Located near factories of Samsung, Canon, Foxconn, Amkor and suitable for supporting industries. Key tenants: Amtek, Lixco
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Source: IDC, ACBS.

Huu Thanh IP is the key growth driver of the industrial property segment. It is located in Duc Hoa, Long An and has a total area of 524ha and a total investment of VND7.3trn. This IP has an expected revenue of VND12,544bn and gross margin of ~50%. It is expected to attract SMEs in the FMCG and logistics sectors given its location 40km to HCMC and 16km to HCMC-Long Thanh Expressway. Besides, Long An province is a gateway connecting HCMC with the Mekong Delta, home of the largest agriculture and fishery production region in Vietnam.

Phu My 2 and Phu My 2 expansion IPs have one of the best locations in the Southern Key Economic Zone of Vietnam given its location besides Cai Mep – Thi Vai port, one of the best 50 effective ports in the world ranked by World Bank and HIS Markit, which can accept up to 200,000 DWT ships. Thus, these two IPs are suitable for heavy manufacturing tenants which require large-scale land lots and have high need of export to the US and EU. Korean steel manufacturer POSCO leases 142ha and Hoa Phat (HSX: HPG) leases 42ha to produce containers and electrical refrigerators, etc. at these IPs. They are expected to generate VND7,254bn of revenue with very high gross margin of 81% given its low clearance cost which was spent 15 years ago.

Cau Nghin IP is located on the National Road No.10 which connects Hanoi with northern provinces such as Hai Phong and Hai Duong, 55km to Dinh Vu port and 30km to Hanoi-Hai Phong Expressway. This IP is expected to benefit from the China+1 trend. Around 26ha has signed MOUs and 15.5ha available for lease. Around 105ha has not been cleared and is waiting for the Prime Minister's approval to change this area from land for cultivating rice to industrial land. This IP has expected revenue of over VND1.4trn with a gross margin of 33% which is quite low compared to other IPs as the leasing rate in this province is not very high compared to other provinces'.

Que Vo 2 IP is located near factories of Samsung, Canon, Foxconn, Amkor and suitable for supporting industries. Over 100ha has not been cleared and is waiting for the Prime Minister's approval to change this area from land for cultivating rice to industrial land. Like Cau Nghin IP, the clearance process may not difficult given IDC's high cash balance and citizens living in this area are willing to sell their land lots and become workers in factories of Samsung, Canon, Foxconn, etc. rather than being farmers. This IP has expected revenue of nearly VND2.5trn with a gross margin of 69%.

RESIDENTIAL PROPERTY: Idico is developing 112ha of residential area in HCMC and surrounding provinces, i.e. Long An, Dong Nai and Ba Ria – Vung Tau. The company completed 8 projects with a total area of 52ha and is developing 11 projects with a total area of 96.5ha as shown in the table below.

Project	Location	Stake	Main developer	Total area (ha)	Expected completion	Remaining area	Progress
TT residential area expansion	Long An	51%	IDICO-LINCO	3.1	2023	2.9ha for commercial and services, education, medical	Adjusting 1/500 Planning
Worker housing at Nhon Trach IP (1)	Dong Nai	100%	IDICO-URBIZ	10.0	2026	Total GFA = 177,088 sqm. 17 blocks to be developed	Adjusting 1/500 plan to increase from 9 floors to 25 floors
Worker housing at IP (2)	Dong Nai	100%	IDICO-URBIZ	10.0	2028	34,775 sqm of NSA, of which 6,434 sqm for townhouses and	Land lots was received

						28,341 sqm for condominium	
Residential and worker housing at Huu Thanh IP	Long An	100%	IDICO-LINCO	47.1	2025	40.4ha has been cleared, 2.2ha to be cleared and 4.5ha not required to be cleared	Had Land transfer decision for the first phase of 33.4ha
Relocation area at Nhon Trach IP and Hiep Phuoc condominium	Dong Nai	100%	IDICO-UDICO	4.9	2025	NSA = 2.9ha	Doing legal paper
An Hoa	Dong Nai	100%	IDICO-URBIZ	3.9	2025	Lot A for villas of 2,507 sqm and Lot G for condo of 5,913sqm have not been developed	Adjusting 1/500 Planning
Condominiums on National Road No.1K Hoa An	Dong Nai	66.93%	IDICO-UDICO	7.0	2028	Remaining NSA = 2.3ha	Clear and invest the remaining area
Condotel Thuy Duong	Ba Ria – Vung Tau	51%	IDICO-CONAC	0.7	n/a	n/a	Will do legal paper from 3Q2022
Conac Plaza	Ba Ria – Vung Tau	51%	IDICO-CONAC	0.8	n/a	GFA = 78,884 sqm. 31 blocks and 543 units	Testing the market
Bac Chau Giang	Ha Nam	51%	IDICO-CONAC	5.7	n/a	n/a	Completing infrastructure
Worker housing at My Xuan B1 IP	Ba Ria – Vung Tau	51%	IDICO-CONAC	3.4	n/a	n/a	Prepare to invest

Source: IDC.

POWER: Idico currently has 2 hydro power plants with a total capacity of 114MW, including:

- Dak Mi 3 which IDC owns 100% has a capacity of 63 MW, average volume of 212mn kwh and average annual revenue of VND180bn.
- Shrok Phu Mieng which IDC owns 51% and REE owns 34,3% with a capacity of 51MW, average volume of 228mn kwh and average annual revenue of VND195bn.

IDC expects to acquire more hydro power plants with a total capacity of 300-400 MW, exploit its 1,000ha of water surface at its 2 hydro power plants to generate ~1,000MW of solar power and invest in 150MW of solar rooftop to generate over VND330bn of revenue and over VND290bn of EBITDA before 2025.

In terms of power distribution, IDC currently has 100km of power distribution lines, 2 transformer stations Tuy Ha and Nhon Trach 5 with a total capacity of 418 MW and revenue of VND2.7-2.8trn. Idico is one of the only two companies in the Southern Economic Zone, besides Saigon VRG (UpCOM: SIP), to have licenses to distribute power directly to customers which is one of the key competitive advantage of IDC as this license is scarcely issued by the Ministry of Industry and Trade. The company has just received the license to distribute power directly to clients in Huu Thanh IP with a total capacity of 189 MW, expected average volume of 680-760mn kwh and revenue of VND1.4-1.5trn.

IP RELATED SERVICES: To attract more potential tenants to its IPs and provide better supporting services for current tenants, IDC develop ready-built factories and warehouses (RBW/RBF) for lease, build water and waste treatment facilities, supply water and invest in BOT transportation projects.

IDC will develop over 110ha of RBW/RBF in 6 IPs with expected leasing rate of USD4.5-5/sqm/month as shown in the table below.

Project	Total area (ha)	Timeline
Huu Thanh	30	2022-2025
Nhon Trach 1	20	2022-2025
Phu My 2 expansion	10	1Q2024-2026
Phu My 2	10	3Q2023-2025
Que Vo	20	2023-2026
Cau Nghin	20	2023-2026

Source:: IDC.

The company operates 2 BOT projects: BOT National Road 1A An Suong – An Lac in HCMC and BOT National Road No.51 which generate stable income of VND309-380bn in the last three years.

Comment: Overall, we think IDC is a very competitive player in the industrial property and power distribution segments given its well-located IPs, low clearance cost for IPs and distinct license to distribute power directly to clients. We appreciate IDC's strategic plan to focus on the industrial property segment given its positive outlook thanks to Vietnam's high working aged population, China+1 trend, stable political environment, etc. The increasing demand to use power from tenants is a key growth driver for the power sector as more and more international corporations choose Vietnam as a potential destination for their factory expansion and relocation. We will soon release out initiation report for this company after it announcement of the second quarter result.

Some pictures of key tenants at IDC's IPs:

Heineken leases 43ha at My Xuan A IP to produce beer.



Hoa Phat (HSX: HPG) leases 42ha at Phu My 2 IP to produce containers, refrigerators, etc.



Hyosung leases part of Phu My 2 IP to produce chemicals.



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