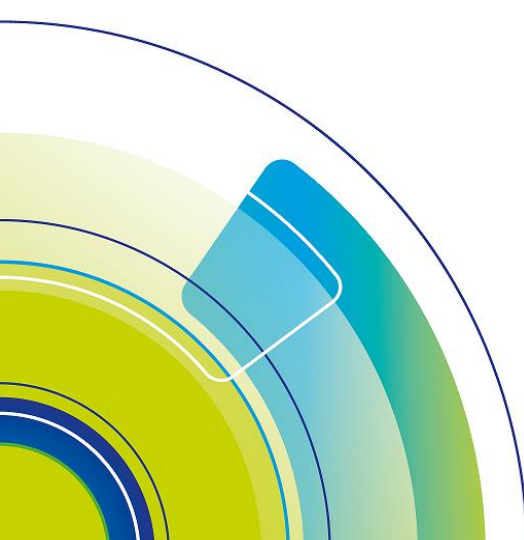




NVL Update - HOLD

Friday, August 26, 2022



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Company Update

Recommendation

HOLD

HOSE: NVL

Property

Current price (VND) **83,600**

Target price (VND) **90,403**

Expected share price return 8.1%

Expected dividend yield 0.0%

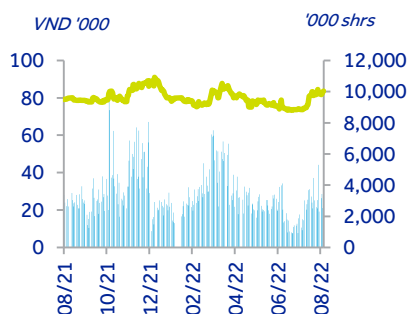
Expected total return **8.1%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-9.0	13.4	6.0	3.8
Relative	4.3	4.9	3.6	3.9

Source: Bloomberg

Price-Volume



Ownership

Novagroup JSC	32.21%
Diamond Properties JSC	10.43%
Bui Thanh Nhon	8.71%

Stock Statistics 25-Aug-22

Bloomberg code **NVL VN**

52-week range (VND) 72,000 – 91,000

Shares O/S (m) 1,950

Mkt cap (VND bn) 161,446

Mkt cap (USD m) 6,853

Foreign room left (%) 43.2

Est. free float (%) 34.7

3m avg daily vol (shrs) 2,510,073

VND/USD 23,560

Index: VNIndex / HNX 1286.68/299.65

NO VA LAND INVESTMENT JSC (NVL VN)

Despite 1H2022 results which were affected by the COVID and tighter access to credit for the property sector, NVL is the second largest listed property developer with an expected land bank of nearly 10,600ha, strong fund raising track record and well positioned to benefit from the high demand of second/leisure homes from the rising middle class in Vietnam. Reiterate our Hold rating with a higher target price of VND90,403/share given the addition of Marina City, Aqua Marina and Binh Chau Onsen projects.

Novaland posted mixed 2Q2022 result with net revenue of VND2,658 bn (+5% YoY) and PAT of VND772 bn (-41% YoY). Despite a higher gross margin (42% vs 34% thanks to higher proportion of low-rise units delivered compared with high-rise units) and nearly VND800 bn of financial profit from transferring 49.7% of Nova SQN Investment JSC, PAT still declined due to VND1,670 bn of revaluation surplus recorded in 2Q2021.

For 1H2022, NVL recorded net revenue of VND4,614 bn (-35% YoY) and PAT of VND1,818 bn (-10% YoY), completing 13% and 28% of targets, respectively. Given rising COVID cases and some banks' reach credit limit, projects delivery was lower than 1H2021 (600 units vs 941 units) mainly at Novaworld Phan Thiet, NovaWorld Ho Tram, Aqua City and NovaHills Mui Ne.

	2Q2021	2Q2022	YoY	1H2021	1H2022	YoY
Net revenue	2,544	2,658	5%	7,050	4,614	-35%
Gross profit	858	1,128	31%	2,575	1,847	39%
Financial income	1,334	1,651	24%	1,906	2,532	-25%
Financial expense	1,829	1,152	-37%	2,283	2,063	11%
PAT	1,313	772	-41%	2,014	1,818	-10%

Source: NVL's 2Q2022 unaudited FS.

The overall Vietnamese hospitality real estate segment showed signs of recovery in 1H2022, except for condotel products, which NVL currently does not develop. According to DKRA, there were 2,776 villas (+45% YoY), 5,145 townhouses/shophouses (+230% YoY) and 1,591 condotels (-30% YoY) launched in 1H2022 with absorption rates of 75% (+40 pts YoY), 75% (+2 pts YoY) and 59% (+12 pts YoY), respectively.

	2019	2020	2021	2022E	2023E
Net Sales (VNDbn)	10,931	5,026	14,903	20,089	34,482
Growth (%)	-28.5%	-54.0%	196.5%	34.8%	71.6%
EBITDA (VNDbn)	-1,091	1,115	2,251	2,277	4,779
Growth (%)	-124.2%	-202.2%	101.9%	1.2%	109.9%
PATMI (VNDbn)	3,431	3,919	3,225	5,153	7,211
Growth (%)	6.4%	14.2%	-17.7%	59.8%	39.9%
EPS (bonus-adjusted, VND)	2,167	2,420	1,819	2,525	3,450
Growth (%)	4.2%	11.7%	-24.8%	38.8%	38.6%
ROE (%)	16.2%	16.2%	11.3%	14.8%	18.1%
ROIC (%)	5.1%	3.5%	1.9%	2.5%	3.4%
Net debt/EBITDA (x)	-25.4	32.8	18.9	22.6	12.4
EV/EBITDA (x)	-196.1	191.8	95.0	93.9	44.8
PER (x)	23.4	20.8	46.0	31.5	22.6
PBR (x)	3.6	3.2	4.6	4.1	3.6
DPS (VND)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Along with the recovery of the hospitality segment, in 1H2022, NVL sold over 3,500 units (-20% YoY) with a total value of nearly USD2.4 bn (+23% YoY), of which 78% from hospitality projects and 22% from residential projects. Unbilled revenue at the end of 2Q2022 was USD9.9bn (+62% YoY). In 2Q2022, NVL launched two new projects Aqua Marina in Dong Nai and Binh Chau Onsen in Ba Ria – Vung Tau with impressive absorption rates of 90% and 85%, respectively. (Please see Appendix 1 for details.)

In 3Q2022, NVL plans to launch Marina City project in Mui Ne, Phan Thiet with a total area of 682ha, over 11,000 units, 80ha marina, etc. This project is 10 minutes away from Phan Thiet airport which is expected to complete construction in the next year. In 4Q2022, NVL expects to launch 2 more projects in HCMC (Grand Sentosa and another big project).

We think the government will grant more credit for the real estate sector in 4Q2022 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 10,600 ha (+96% YoY), its net debt balance increased from VND42.4 trn to VND50.9 trn and Net debt/Equity ratio from 103.1% to 114.4% in 1H2022. NVL successfully issued USD250mn convertible bonds in 2Q2022 with conversion price of VND93,960/share.

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. We maintain our 2022 forecast with net revenue of VND20trn (+35% YoY) and PAT of VND5.5trn (+59% YoY).

Using the NAV method, **we reiterate our Hold rating for Novaland with a higher target price of VND90,403/share**, 9% higher than the previous target price given the addition of the Marina City, Aqua Marina and Binh Chau Onsen projects. Besides, we note high leverage ratios and dilution risk from USD300mn of convertible bonds issued last year and USD250mn of convertible bonds issued this year.

Figure 1: Main projects update

Project	NSA (sqm)	Total units	Launch rate	Take-up rate	Construction permit	(Expected) delivery
Aqua City	493,681	2,113	74%	92%	Done	4Q2020
Aqua Riverside City	340,533	1,849	83%	96%	Done	4Q2021
Aqua Waterfront City	383,776	2,701	74%	99%	Done	2022
Aqua Phoenix	1,338,646	7,463	59%	93%	1Q2023	2023-2024
Aqua Marina	142,532	763	100%	90%	Done	2023
NovaWorld Phan Thiet	3,286,255	18,700	53%	76%	Done	1Q2021
NovaWorld Ho Tram – Tropicana	389,934	1,943	100%	71%	Done	2Q2021
NovaWorld Ho Tram – Wonderland	36,839	271	100%	67%	Done	3Q2022
NovaWorld Ho Tram – Habana Island	89,268	394	50%	83%	3Q2022	4Q2023
NovaWorld Ho Tram – Happy Beach	48,830	332	100%	84%	Partially	2Q2023
NovaWorld Ho Tram - Morito	34,813	227	66%	69%	Done	2Q2023
Binh Chau Onsen	1,105,720	2,218	23%	85%	4Q2022	1Q2024

Source: NVL.

Figure 2: Projects delivered in 2Q2022



Source: NVL.

NVL FINANCIALS MODEL	Price (VND):	83,600	Target (VND):	90,403	Mkt cap (VND bn):	161,446
(VND bn except where stated)	2019	2020	2021	2022E	2023E	
Total Net Sales	10,931	5,026	14,903	20,089	34,482	
<i>Sales growth</i>	<i>-28.5%</i>	<i>-54.0%</i>	<i>196.5%</i>	<i>34.8%</i>	<i>71.6%</i>	
CoGS ex-dep'n	10,530	2,457	10,035	14,284	23,648	
Gross profit	3,152	1,833	6,136	7,453	12,977	
<i>Gross margin</i>	<i>28.8%</i>	<i>36.5%</i>	<i>41.2%</i>	<i>37.1%</i>	<i>37.6%</i>	
SG&A	1,492	1,454	2,617	3,527	6,055	
<i>SG&A as % of sales</i>	<i>13.7%</i>	<i>28.9%</i>	<i>17.6%</i>	<i>17.6%</i>	<i>17.6%</i>	
EBITDA	-1,091	1,115	2,251	2,277	4,779	
<i>EBITDA margin</i>	<i>-10.0%</i>	<i>22.2%</i>	<i>15.1%</i>	<i>11.3%</i>	<i>13.9%</i>	
Depreciation	-2,750	736	-1,268	-1,648	-2,143	
Operating profit	1,660	379	3,519	3,926	6,922	
<i>Operating profit margin</i>	<i>15.2%</i>	<i>7.5%</i>	<i>23.6%</i>	<i>19.5%</i>	<i>20.1%</i>	
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>	<i>10.4%</i>	<i>10.3%</i>	<i>9.8%</i>	<i>10.1%</i>	<i>9.7%</i>	
Other profit	3,680	-400	1,775	1,228	1,256	
Tax	885	743	1,631	1,746	2,443	
<i>Effective tax rate</i>	<i>20.7%</i>	<i>16.0%</i>	<i>32.1%</i>	<i>24.0%</i>	<i>24.0%</i>	
PAT	3,387	3,907	3,455	5,521	7,725	
Minority interest	-44	-13	230	368	514	
NPATMI	3,431	3,919	3,225	5,153	7,211	
<i>Net profit margin</i>	<i>31.0%</i>	<i>77.7%</i>	<i>23.2%</i>	<i>27.5%</i>	<i>22.4%</i>	
Cash earnings	637	4,643	2,187	3,873	5,582	
Number of shares (m)	970	986	1,930	1,950	1,950	
EPS (VND)	3,579	4,021	1,819	2,652	3,698	
Bonus factor (x)	0.6	0.6	1.0	1.0	1.0	
Adjusted EPS (VND)	2,195	2,466	1,819	2,652	3,698	
Adjusted diluted EPS (VND)	2,167	2,420	1,819	2,525	3,450	
<i>EPS growth</i>	<i>4.2%</i>	<i>11.7%</i>	<i>-24.8%</i>	<i>38.8%</i>	<i>38.6%</i>	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	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	-9,243	-7,567
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	9,050	7,567
Net debt, end of year	27,658	36,621	42,432	51,482	59,049
Shareholders' equity	24,461	31,932	41,173	46,520	53,730
Minority	2,183	6,048	6,138	6,935	8,010
BVPS (VND)	22,978	26,244	18,149	20,302	23,449
<i>Net debt / equity (%)</i>	<i>113.1%</i>	<i>114.7%</i>	<i>103.1%</i>	<i>110.7%</i>	<i>109.9%</i>
<i>Net debt / EBITDA (x)</i>	<i>-25.4</i>	<i>32.8</i>	<i>18.9</i>	<i>22.6</i>	<i>12.4</i>
Total assets	89,979	144,536	201,834	216,597	231,889

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022E	2023E
<i>ROE</i>	<i>16.2%</i>	<i>16.2%</i>	<i>11.3%</i>	<i>14.8%</i>	<i>18.1%</i>
<i>ROA</i>	<i>4.2%</i>	<i>3.3%</i>	<i>2.0%</i>	<i>2.6%</i>	<i>3.4%</i>
<i>ROIC</i>	<i>5.1%</i>	<i>3.5%</i>	<i>1.9%</i>	<i>2.5%</i>	<i>3.4%</i>
<i>EVA</i>	<i>-2.6%</i>	<i>-4.4%</i>	<i>-6.0%</i>	<i>-5.5%</i>	<i>-4.7%</i>
<i>PER (x)</i>	<i>23.4</i>	<i>20.8</i>	<i>46.0</i>	<i>31.5</i>	<i>22.6</i>
<i>EV/EBITDA (x)</i>	<i>-196.1</i>	<i>191.8</i>	<i>95.0</i>	<i>93.9</i>	<i>44.8</i>
<i>EV/FCF (x)</i>	<i>-17.3</i>	<i>-22.3</i>	<i>-21.0</i>	<i>-23.1</i>	<i>-28.3</i>
<i>PBR (x)</i>	<i>3.6</i>	<i>3.2</i>	<i>4.6</i>	<i>4.1</i>	<i>3.6</i>
<i>PSR (x)</i>	<i>14.9</i>	<i>32.4</i>	<i>10.9</i>	<i>8.1</i>	<i>4.7</i>
<i>EV/sales (x)</i>	<i>19.6</i>	<i>42.6</i>	<i>14.4</i>	<i>10.6</i>	<i>6.2</i>
<i>Dividend yield</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

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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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