



VRE Update - BUY

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Company Update

Recommendation

BUY
HSX: VRE
Property
Target price (VND) **32,817**
Market price (VND) **26,300**
Expected share price return 24.8%

Expected dividend yield 3.0%

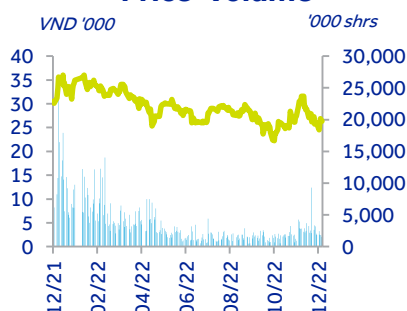
Expected total return **27.8%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-12.6	-13.1	-2.6	-13.3
Relative	19.1	-11.1	7.4	17.8

Source: Bloomberg

Price-Volume



Ownership

Vingroup JSC 60.3%

Stock Statistics 30-Dec-22

Bloomberg code **VRE VN**

52-week range (VND) 21,400 - 37,000

Shares O/S (m) 2,272

Mkt cap (VND bn) 59,762

Mkt cap (USD m) 2,518

Est. Foreign room left (%) 17.4

Est. free float (%) 26.4

3m avg daily vol (shrs) 2,051,335

VND/USD 23,730

Index: VNIndex / HNX 1007.09/205.31

VINCOM RETAIL JSC (VRE VN)

Roll forward target price to VND32,817 at YE2023 and reiterate our Buy rating with the expectation of no COVID-related supporting package, 6 new malls and a jump in property sales in 2023.

Positive 3Q2022 and 9M2022 results

VRE's positive 3Q2022 result was in line with our forecast with net revenue of over VND2,000bn (+155% YoY) and PAT of VND794bn, up by 33 times YoY. 9M2022 result was also satisfying with net revenue of VND5,224bn (+16% YoY) and PAT of VND1,944bn (+63% YoY), completing 65% and 81% of its targets mainly thanks to strong growth of leasing activities.

Unit: VND bn	3Q2021	3Q2022	YoY	9M2021	9M2022	YoY
Leasing revenue	728	1,837	152.3%	3,810	4,906	28.8%
Property sales	20	136	567.7%	568	229	-59.7%
Other revenue	39	32	-17.9%	146	89	-38.6%
Total revenue	787	2,005	154.7%	4,524	5,224	15.5%
Gross profit	130	1,039	697.1%	1,928	2,711	40.6%
PAT	24	794	3,155.9%	1,193	1,944	63.0%

Source: VRE's 3Q2022 FS.

Growth from leasing activities mainly came from lower supporting package, three new malls opened in 2Q2022 and an increase in rental rate

Leasing revenue in 9M2022 reached VND4,906bn (+29% YoY), accounting for 94% of total revenue. Gross margin of this segment increased by 7.4 ppts YoY to 53.6%. Growth mainly came from:

- (1) lower support package for tenants affected by COVID (464bn in 9M2022 vs VND1,349bn in 9M2021),
- (2) the openings of 3 new malls in 2Q2022, namely VMM Smart City, VCP My Tho and VCP Bac Lieu with a total GFA of ~93,000 m², and
- (3) an increase in rental rate of 7-10% on average for all mall types in 3Q2022 vs 3Q2019.

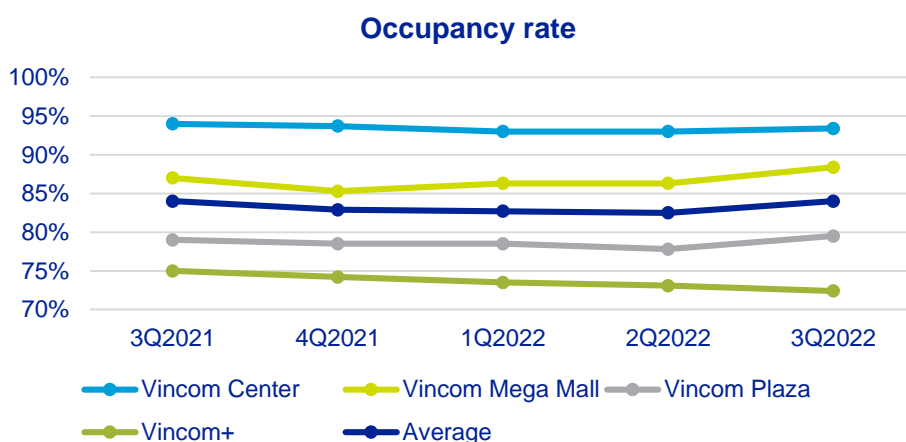
	2019	2020	2021	2022E	2023E
Net Sales (VNDbn)	9,259	8,329	5,891	7,473	11,198
Growth	1.5%	-10.0%	-29.3%	26.8%	49.9%
EBITDA (VNDbn)	5,030	4,575	3,250	4,581	6,363
Growth	24.3%	-9.0%	-29.0%	41.0%	38.9%
PAT (VNDbn)	2,853	2,382	1,315	2,449	3,796
Growth	18.2%	-16.5%	-44.8%	86.2%	55.0%
EPS (bonus-adjusted, VND)	1,227	1,048	578	1,078	1,670
Growth	0.6%	-14.6%	-44.8%	86.3%	55.0%
ROE	10.3%	8.5%	4.4%	7.7%	11.1%
ROIC	10.3%	8.5%	4.5%	7.8%	11.3%
Net debt/EBITDA (times)	0.1	0.2	-0.1	-0.3	-0.2
EV/EBITDA (times)	11.7	12.8	18.1	12.8	9.2
PER (times)	21.0	25.1	45.5	24.4	15.7
PBR (times)	2.2	2.0	1.9	1.8	1.7
DPS (VND)	1,050	0	0	0	800
Dividend yield	4.0%	0.0%	0.0%	0.0%	3.0%

Footfall recovered but still below pre-COVID levels

Footfall in 9M2022 recovered by 41% YoY to ~80% of pre-COVID levels. Footfall in Hanoi and HCMC malls in 3Q2022 reached 85-90% of 3Q2019 levels while footfall in other provinces reached ~70-75%.

Average occupancy rate was flat compared to the same period last year and slightly increased compared to the previous quarter

At the end of 3Q2022, VRE is operating 83 shopping malls with a total retail GFA of approximately 1.75 mn sqm (+6% YoY) with an average occupancy rate of 84% (+0.3 pts YoY and +1.5 pts QoQ) mainly thanks to the increase in occupancy rate of Vincom Mega Mall to 88.4% (+1.3 pts YoY and 2.1 pts QoQ).



Source: VRE.

Property sales declined mainly due to lower number of units delivered

Property sales in 9M2022 was recorded at VND229bn (-60% YoY), accounting for 4% of total revenue. The decline was due to lower number of units delivered compared to the same period last year (24 units vs 131 units) despite the transfer of one project Song Cong Thai Nguyen in 3Q2022. Gross margin of this segment decreased by 19.9 pts YoY to 25.5% due to low gross margin of Song Cong Thai Nguyen project.

Pre-sales and backlog of shophouses increased, largely boosting outlook for increased revenue recognition of inventory properties in 2023

VRE sold ~500 shophouses with a total value of ~VND2,700bn in 9M2022, of which Dong Ha Quang Tri project recorded ~450 units sold with a total value of ~VND2,500bn. Unbilled bookings by the end of 3Q2022 were VND 2,900bn.

Healthy financial status

VRE was in a healthy financial status with a net cash balance of VND1,050bn and net cash/equity ratio of 3.2% at the end of 3Q2022 compared with VND330bn and 1.1% at YE2021. The company had a total debt of nearly VND3,200bn, of which 94% was corporate bonds with floating interest rates and collaterals as land use rights and assets attached to the lands of malls. Over VND1,000bn of corporate bonds will be due in 4/2023 and the remainder in 8/2025. We think VRE's exposure to interest rate and foreign exchange risks is not significant given no debt in USD and net cash balance is estimated to sustain till YE2023.

Positive 2023 outlook

We forecast 2023 revenue at over VND11,000bn (+50% YoY) and PAT at nearly VND3,800bn (+55% YoY) thanks to the following assumptions:

- No COVID-related supporting package incurred in 2023.
- Expected openings of 6 new malls, including VMM Grand Park (GFA of 45,700 m² in July 2023), VMM The Empire (GFA 65,700 m² in December 2023), VCP Ha Giang, VCP Bac Giang, VCP Dien Bien Phu and VCP Dong Ha Quang Tri, which will increase total retail GFA to more than 1.9 mn sqm by the end of 2023.
- 3 malls opened in 2Q2022 will operate in full-year of 2023.
- Average occupancy rate is expected to be around 85%.
- Delivery and recognition of revenue from selling inventory properties mainly at Dong Ha Quang Tri project.

Valuation

Combining EV/EBITDA, P/B and DCF methods, we suggest a target price of VND32,817/share at YE2023, 11% lower than the 2022 valuation mainly due to a higher discount rate and lower new retail GFA opened in 2024-2026 period. We give a Buy rating for this stock with an expectation that the company will continue to benefit from the rising middle class, developing of new urban areas and continuous expansion of international brands in Vietnam.

Risks

- The opening of new malls depends largely on progress of Vinhomes' projects while the residential market is facing many challenges such as high interest rate, corporate bonds issue and limited credit room.
- Inflation and interest rate concerns may affect shoppers' consumption of non-essential goods

VRE FINANCIALS MODEL	Price (VND):	26,300	Target (VND):	32,817	Mkt cap (VND bn):	59,762
(VND bn except where stated)	2019	2020	2021	2022E	2023E	
Total Net Sales	9,259	8,329	5,891	7,473	11,198	
<i>Sales growth</i>	<i>1.5%</i>	<i>-10.0%</i>	<i>-29.3%</i>	<i>26.8%</i>	<i>49.9%</i>	
CoGS ex-dep'n	3,408	3,025	2,007	2,207	3,810	
Gross profit	4,404	3,821	2,392	3,711	5,705	
<i>Gross margin</i>	<i>47.6%</i>	<i>45.9%</i>	<i>40.6%</i>	<i>49.7%</i>	<i>50.9%</i>	
SG&A	821	729	635	684	1,025	
<i>SG&A as % of sales</i>	<i>8.9%</i>	<i>8.7%</i>	<i>10.8%</i>	<i>9.2%</i>	<i>9.2%</i>	
EBITDA	5,030	4,575	3,250	4,581	6,363	
<i>EBITDA margin</i>	<i>54.3%</i>	<i>54.9%</i>	<i>55.2%</i>	<i>61.3%</i>	<i>56.8%</i>	
Depreciation	1,447	1,483	1,492	1,555	1,683	
Operating profit	3,583	3,093	1,757	3,027	4,680	
<i>Operating profit margin</i>	<i>38.7%</i>	<i>37.1%</i>	<i>29.8%</i>	<i>40.5%</i>	<i>41.8%</i>	
Financial income (excl. saving and lending interest)	0	-	-	-	-	
Financial expenses (excl. interest expense)	6	24	41	41	41	
<i>Net interest expenses as % of avg. net debt</i>	<i>n/a</i>	<i>24.1%</i>	<i>n/a</i>	<i>5.6%</i>	<i>6.7%</i>	
Other profit	30	91	34	34	34	
Tax	724	610	377	612	949	
<i>Effective tax rate</i>	<i>20.2%</i>	<i>20.4%</i>	<i>22.3%</i>	<i>20.0%</i>	<i>20.0%</i>	
Minority interest	0	0	1	0	0	
NPATMI	2,851	2,382	1,315	2,449	3,796	
<i>Net profit margin</i>	<i>30.8%</i>	<i>28.6%</i>	<i>22.3%</i>	<i>32.8%</i>	<i>33.9%</i>	
Cash earnings	4,299	3,864	2,807	4,003	5,479	
Number of shares (m)	2,272	2,272	2,272	2,272	2,272	
EPS (VND)	1,227	1,048	578	1,078	1,670	
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0	
Adjusted EPS (VND)	1,227	1,048	578	1,078	1,670	
<i>EPS growth</i>	<i>0.6%</i>	<i>-14.6%</i>	<i>-44.8%</i>	<i>86.3%</i>	<i>55.0%</i>	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022E	2023E
Increase in working capital	1,242	1,499	752	1,258	293
Capex	1,896	4,377	652	1,925	3,533
Other cash flow items	2,284	1,838	-292	0	0
Free cash flow	3,445	-173	1,111	820	1,653
Share issues	-1,954	0	0	0	0
Dividends paid	2,451	0	0	0	1,818
Increase in net debt	960	173	-1,111	-820	165
Net debt, end of year	608	781	-330	-1,150	-984
Shareholders' equity	26,954	29,336	30,651	33,100	35,077
BVPS (VND)	11,847	12,895	13,473	14,548	15,416
<i>Net debt / equity</i>	<i>2.3%</i>	<i>2.7%</i>	<i>-1.1%</i>	<i>-3.5%</i>	<i>-2.8%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.1</i>	<i>0.2</i>	<i>-0.1</i>	<i>-0.3</i>	<i>-0.2</i>
Total assets	35,839	39,816	37,873	45,261	52,392

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022E	2023E
<i>ROE</i>	<i>10.3%</i>	<i>8.5%</i>	<i>4.4%</i>	<i>7.7%</i>	<i>11.1%</i>
<i>ROA</i>	<i>7.7%</i>	<i>6.3%</i>	<i>3.4%</i>	<i>5.9%</i>	<i>7.8%</i>
<i>ROIC</i>	<i>10.3%</i>	<i>8.5%</i>	<i>4.5%</i>	<i>7.8%</i>	<i>11.3%</i>
<i>WACC</i>	<i>15.7%</i>	<i>15.1%</i>	<i>16.4%</i>	<i>16.4%</i>	<i>16.4%</i>
<i>EVA</i>	<i>-5.4%</i>	<i>-6.6%</i>	<i>-11.9%</i>	<i>-8.7%</i>	<i>-5.1%</i>
<i>PER (x)</i>	<i>21.0</i>	<i>25.1</i>	<i>45.5</i>	<i>24.4</i>	<i>15.7</i>
<i>EV/EBITDA (x)</i>	<i>11.7</i>	<i>12.8</i>	<i>18.1</i>	<i>12.8</i>	<i>9.2</i>
<i>EV/FCF (x)</i>	<i>17.0</i>	<i>-339.4</i>	<i>52.9</i>	<i>71.6</i>	<i>35.5</i>
<i>PBR (x)</i>	<i>2.2</i>	<i>2.0</i>	<i>1.9</i>	<i>1.8</i>	<i>1.7</i>
<i>PSR (x)</i>	<i>6.5</i>	<i>7.2</i>	<i>10.1</i>	<i>8.0</i>	<i>5.3</i>
<i>EV/sales (x)</i>	<i>6.3</i>	<i>7.0</i>	<i>10.0</i>	<i>7.9</i>	<i>5.2</i>
<i>Dividend yield</i>	<i>4.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>3.0%</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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