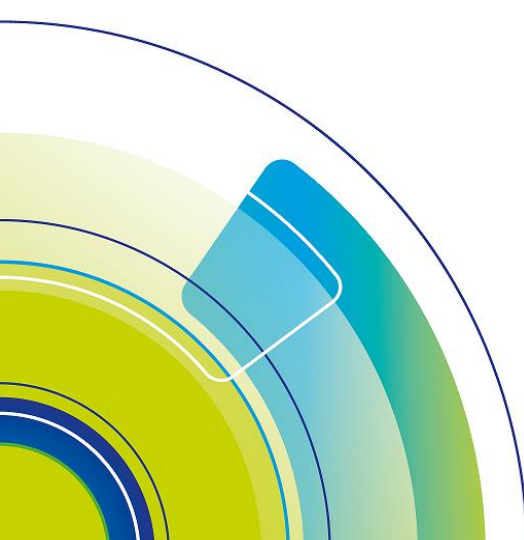




# NLG Update - HOLD

Friday, February 24, 2023

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## Company Update

Recommendation

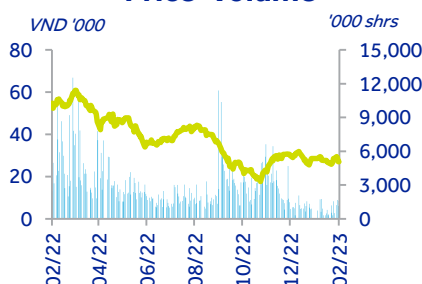
**HOLD**
**HOSE: NLG**
**Property**
**Current price (VND)**
**27,000**
**Target price (VND)**
**30,000**
**Expected share price return**
**11.1%**
**Expected dividend yield**
**3.7%**
**Expected total return**
**14.8%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-12.9	-5.4	23.1	-49.6
Relative	-17.7	-0.6	11.3	-20.4

Source: Bloomberg

## Price-Volume



## Ownership

Mr. Nguyen Xuan Quang (Chairman)	12.1%
Ibworth Pte Ltd	8.2%
DC and related parties	8.1%

## Stock Statistics

**23-Feb-23**

<b>Bloomberg code</b>	<b>NLG VN</b>
52-week range (VND)	16,450 – 61,400
Shares O/S (m)	384
Mkt cap (VND bn)	10,370
Mkt cap (USD m)	432
Foreign room left (%)	3.9
Est. free float (%)	57.8
3m avg daily vol (shrs)	1,682,720
VND/USD	23,990
Index: VNIIndex / HNX	1053.66/209.31

## NAM LONG INVESTMENT CORPORATION (NLG VN)

We give a **HOLD** rating for NLG with a target price of VND30k at YE23 given challenging residential property market despite the company's healthy financial position, support from strategic partners and affordable projects.

### Unpleasant 2022 business results

Nam Long recorded net revenue of over VND1,600bn (-63% YoY) and PATMI of nearly VND437bn (+21% YoY) in 4Q22. The decline in the top line was mainly due to lower units delivered of 476 units (-76% YoY) at Southgate, Mizuki, Akari and Novia projects, although the company speeded up delivery at Mizuki – CC3 zone in 4Q22 instead of 1Q23. The increase in the bottom line was mainly thanks to lower minority interest. At the end of this quarter, the company transferred 25% stake in Paragon Dai Phuoc project to Thai Binh Investment JSC (21.6%) and Tan Hiep Investment Ltd. Co. (3.4%), recording a financial gain of VND244bn.

For the whole year 2022, NLG posted unaudited net revenue of VND4,339bn (-17% YoY) and NPATMI of VND556bn (-48% YoY), far below its targets mainly due to: (1) delay in delivery of Can Tho project driven by prolonged legal procedure, (2) delay in transferring 25% stake in Paragon Dai Phuoc to Nishi Nippon Railroad, (3) an increase in the SG&A expenses/revenue ratio by 7.5 ppts to 26.6% and (4) a higher effective tax rate (19.1% vs 9.9%). It delivered nearly 1,300 units in 2022 (-45% YoY), mainly at Southgate (728 units) and Akari (334 units).

Project	4Q22 Units delivered	2022 Units delivered
Mizuki Park	146	146
Akari City	90	334
Southgate	234	728
Novia	6	81
<b>Total</b>	<b>476</b>	<b>1,289</b>

Source: NLG. Note: Mizuki project was recorded in profit from JV

### Sales performance was humble in 4Q22

Sales performance in 4Q22 was humble as the Akari and Southgate projects recorded only 64 units sold with a total value of VND230bn, a decrease of 84% YoY in volume and 76% YoY in value. This came as a result of delay in project launches and weak

	2019	2020	2021	2022U	2023E
Net Sales (VNDbn)	2,546	2,217	5,206	4,339	3,059
Growth	-26.8%	-12.9%	134.8%	-16.6%	-29.5%
EBITDA (VNDbn)	789	401	895	890	983
Growth	-24.2%	-49.2%	123.3%	-0.6%	10.5%
NPATMI (VNDbn)	961	835	1,071	556	683
Growth	25.8%	-13.1%	28.3%	-48.1%	22.7%
EPS (bonus-adjusted, VND)	3,146	2,778	3,099	1,368	1,662
Growth	17.4%	-11.7%	11.5%	-55.9%	21.5%
ROE	18.0%	11.5%	12.0%	6.1%	14.9%
ROIC	9.0%	6.8%	6.0%	2.2%	2.6%
Net debt/EBITDA (x)	-1.4	3.4	-0.3	0.5	0.4
EV/EBITDA (x)	13.7	26.9	12.0	12.1	11.0
PER (x)	8.6	9.7	8.7	19.7	16.2
PBR (x)	1.3	1.3	1.2	1.2	1.1
DPS (VND)	957	1,000	1,500	1,000	1,000
Dividend Yield	3.5%	3.7%	5.6%	3.7%	3.7%

demand in the midst of high interest rate and negative market sentiment. However, for the whole year of 2022, sales performance witnessed positive growth of 17% YoY in volume, to over 2,000 units, and 68% YoY growth in value, to over VND10trn, thanks to favorable market in 1H22. Thus, advance from customers grew by 33% YoY, to nearly VND3,300bn in 2022.

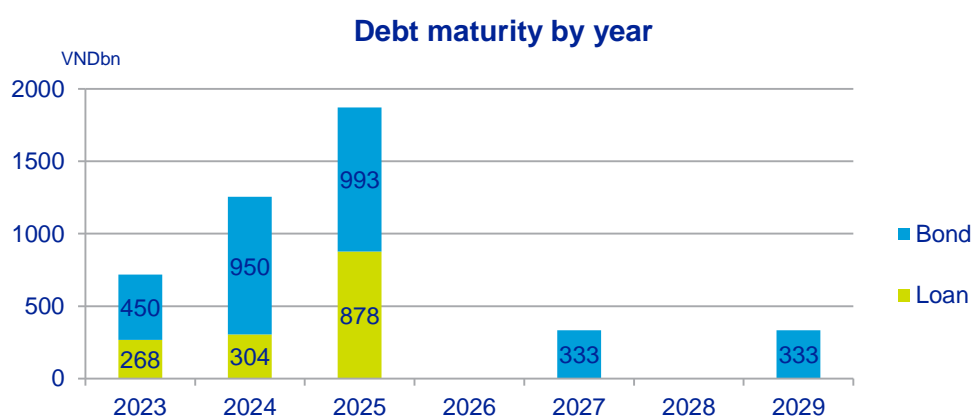
Project	4Q22 sold units	4Q22 Sales value (VNDbn)	2022 sold units	2022 Sales value (VNDbn)
Izumi City	-	-	271	1,929
Mizuki Park	-	-	390	2,813
Akari City	41	150	908	3,009
Southgate	23	80	456	2,285
Can Tho	-	-	27	116
<b>Total</b>	<b>64</b>	<b>230</b>	<b>2,052</b>	<b>10,152</b>

Source: NLG.

### Still in a good financial position

Although NLG turned from a net cash position of VND247bn at YE21 to a net debt position of VND419bn at YE22, it was still in a good financial position compared with peers. Its Net debt/Equity ratio and Net debt/EBITDA ratios at YE22 were 3.1% and 0.5x, much lower than industry median of 37.5% and 4.9x, respectively.

At YE22, NLG had a total debt balance of nearly VND5,200bn (+44% YoY), of which corporate bonds were the biggest component with 58% share, followed by bank loans with 34%. Debts with floating interest rates as percentage of total debts declined from 60% at the end of 3Q22 to 49% at YE22. Given nearly VND4,800bn of cash and cash equivalent and VND718bn of debts due in 2023, we think NLG may have no difficulties in meeting its financial obligation in 2023.



Source: NLG.

### Update on new projects

NLG obtained land allocation decision for Can Tho project in Feb, 2023, which the company planned to launch low-end condo product – Ehome in the middle of this year. On the other hand, Izumi and Paragon Dai Phuoc projects continued to wait for their revised master plans.

**Table: Project summary**

No.	Project	Location	Stake	Land area (ha)	GDV (VNDbn)	Product	Total units	Progress
1	Flora Novia	Thu Duc City	100%	1.1	842	Flora	581	Sold out. Delivered 81 units in 2022.
						Valora	187	Phase 1: Sold and delivered all 1,400 Flora units.
2	Mizuki Park	Binh Chanh Dt., HCMC	50%	26.2	14,421	Flora	4,040	Phase 2: In 2021, launched 5 blocks MP6,7,8,9,10, sold nearly 800 Flora units and delivered from 4Q22.
	EhomeS Nguyen Son		87%	11.2	1,583	EhomeS	1,678	In 2022, launched 3 block Paranoma và 39 Valora, sold 390 units with a total value of VND2,813bn.
	Valora Island					Valora	100	n/a
3	Akari City	Binh Tan Dt., HCMC	50%	8.8	14,501	Flora	5,228	Phase 1: sold and delivered over 1,800 units at 6 block AK1-6.
						Valora	2,174	Phase 2: In 2022 sold 908 units with a total value of VND3,009bn.
					17,236	Flora	4,302	Accumulatively sold ~78% and delivered ~58%.
4	Southgate (Waterpoint Phase 1)	Long An	65%	165.0		Ehome	1,357	n/a
					1,579			In 2021 launched 2 Blocks of 384 units, sold 338 units. In 2022 launched 1 block 193 units and delivered 330 units sold in 2021.
5	Waterpoint Phase 2	Long An	100%	190.0	n/a	Khu đô thị	n/a	n/a
6	Can Tho 43	Can Tho	100%	43.0	4,401	Valora	923	Received land allocation decision in Feb 2023. In 2022 sold 27 units with a total value of VND116bn.
						EhomeS	1,425	n/a
7	Paragon Dai Phuoc	Dong Nai	50%	45.0	12,223	Valora	677	Pending revised master plan. In 4Q22, transferred 25% stake and recorded financial income of VND244bn.
8	Izumi City	Dong Nai	65%	170.0	36,684	Valora	2,940	Pending revised master plan. In 2022, sold 271 units with a total value of VND1,929bn.
						Flora	3,215	n/a
9	VSIP Hai Phong	Hai Phong	50%	21.0	10,137	Valora	739	n/a
						Ehome	2,159	n/a

*Source: ACBS summary.*
**2023 Forecast**

Due to project licensing issue and weak demand caused by high interest rate and negative market sentiment, we forecast 2023 sales value to drop by 35% YoY to around VND6,600bn mainly from Mizuki, Southgate, Akari, Izumi and Can Tho projects. 2023 net revenue is expected to decline to c.VND3,000bn (~30% YoY), mainly from delivery at the Southgate project because the Mizuki project is recorded in 'Profit from JVs' account instead of consolidating in revenue. NPATMI, on the other hand, is expected to increase by 23% YoY, to VND683bn, mainly thanks to higher profit from JVs (VND358bn vs VND25bn) and the transfer of 25% of Paragon Dai Phuoc. Without this share transfer, NPATMI may grow by 3% YoY, to VND570bn.

**2023 valuation and recommendation**

NLG is expected to stay strong during this challenging period given its healthy financial status, support from strategic partners and affordable projects which attract real demand. However, the residential property market faces many challenges such as high interest rate and project licensing issue, which may affect NLG's sales performance in this year. We give a HOLD rating for this stock with a target price of VND30k/share at YE23, much lower than previous target price given a higher discount rate, delay in project launches, lower expected absorption rates and a higher SG&A expense to revenue ratio. Our main concerns for this stock include prolonged legal procedures of new projects and control of SG&A expenses (i.e. NLG's SG&A expenses to revenue ratio in 2022 was 26.6%, much higher than the industry median of 12.1%).

NLG FINANCIALS MODEL	Price (VND):	27,000	Target (VND):	30,000	Mkt cap (VND bn):	10,370
(VND bn except where stated)		2019	2020	2021	2022U	2023E
<b>Total Net Sales</b>		<b>2,546</b>	<b>2,217</b>	<b>5,206</b>	<b>4,339</b>	<b>3,059</b>
<i>Sales growth</i>		-26.8%	-12.9%	134.8%	-16.6%	-29.5%
CoGS ex-dep'n		1,459	1,523	3,404	2,319	1,620
Gross profit		1,066	671	1,778	1,984	1,400
<i>Gross margin</i>		41.9%	30.3%	34.2%	45.7%	45.8%
SG&A		425	434	997	1,155	814
<i>SG&amp;A as % of sales</i>		16.7%	19.6%	19.2%	26.6%	26.6%
<b>EBITDA</b>		<b>789</b>	<b>401</b>	<b>895</b>	<b>890</b>	<b>983</b>
<i>EBITDA margin</i>		31.0%	18.1%	17.2%	20.5%	32.1%
Depreciation		21	23	23	36	39
<b>Operating profit</b>		<b>768</b>	<b>378</b>	<b>872</b>	<b>854</b>	<b>944</b>
<i>Operating profit margin</i>		30.2%	17.0%	16.8%	19.7%	30.9%
Financial income (excl. saving interest)		29	669	401	245	193
Financial expenses (excl. interest expense)		1	49	10	51	51
Net interest expense		-48	-4	58	7	34
Profit/loss from associates and JVs		126	142	91	25	358
Other profit		383	13	435	29	-
Tax		219	165	162	204	210
<i>Effective tax rate</i>		17.9%	16.2%	9.9%	19.1%	20.0%
Minority interest		47	15	407	309	159
<b>NPATMI</b>		<b>961</b>	<b>835</b>	<b>1,071</b>	<b>556</b>	<b>683</b>
<i>Net profit margin</i>		37.7%	37.7%	20.6%	12.8%	22.3%
Cash earnings		981	858	1,094	592	722
Number of shares (m)		240	275	383	384	384
<b>EPS (VND)</b>		<b>3,819</b>	<b>3,078</b>	<b>3,099</b>	<b>1,368</b>	<b>1,662</b>
Bonus factor (x)		0.8	0.9	1.0	1.0	1.0
<b>Adjusted EPS (VND)</b>		<b>3,146</b>	<b>2,778</b>	<b>3,099</b>	<b>1,368</b>	<b>1,662</b>
<i>EPS growth</i>		17.4%	-11.7%	11.5%	-55.9%	21.5%

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022U	2023E
Increase in working capital	284	1,904	7,609	-1,048	600
Capex	67	44	44	112	112
Other cash flow items	-1,273	-1,105	8,405	-2,054	436
<b>Free cash flow</b>	<b>-643</b>	<b>-2,195</b>	<b>1,846</b>	<b>-526</b>	<b>445</b>
Share issues (m)	891	6	6	187	0
Dividends paid	244	257	257	327	384
Increase in net debt	-5	2,446	-1,596	666	-61
<b>Net debt, end of year</b>	<b>-1,098</b>	<b>1,348</b>	<b>-247</b>	<b>419</b>	<b>357</b>
<b>Shareholders' equity</b>	<b>6,200</b>	<b>6,720</b>	<b>13,528</b>	<b>13,315</b>	<b>13,614</b>
BVPS (VND)	21,048	20,354	23,318	23,407	23,931
Net debt / equity	-17.7%	20.1%	-1.8%	3.1%	2.6%
Net debt / EBITDA (x)	-1.4	3.4	-0.3	0.5	0.4
<b>Total assets</b>	<b>10,904</b>	<b>13,643</b>	<b>23,618</b>	<b>27,088</b>	<b>27,326</b>

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022U	2023E
ROE	18.0%	11.5%	12.0%	6.1%	14.9%
ROA	9.4%	6.8%	5.7%	2.2%	2.5%
ROIC	9.0%	6.8%	6.0%	2.2%	2.6%
WACC	17.0%	15.3%	17.0%	16.7%	16.8%
EVA	-8.0%	-8.5%	-11.0%	-14.5%	-14.2%
PER (x)	8.6	9.7	8.7	19.7	16.2
EV/EBITDA (x)	13.7	26.9	12.0	12.1	11.0
EV/FCF (x)	-16.8	-4.9	5.8	-20.5	24.2
PBR (x)	1.3	1.3	1.2	1.2	1.1
PSR (x)	4.1	4.7	2.0	2.4	3.4
EV/sales (x)	4.2	4.9	2.1	2.5	3.5
Dividend yield	3.5%	3.7%	5.6%	3.7%	3.7%



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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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