# Industry Snapshot – Industrial Property

## Thursday, March 30, 2023

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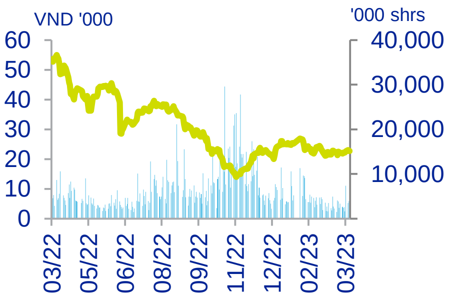
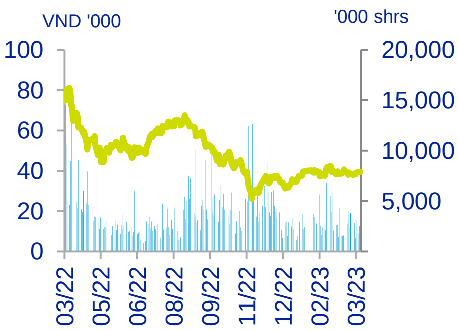
## Industry snapshot

**IP stocks vs VNIndex**

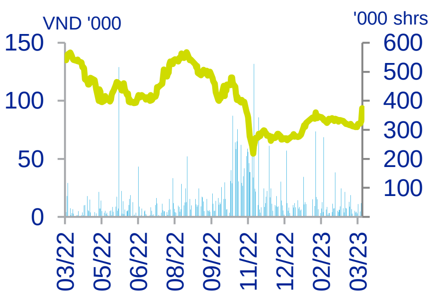

**KBC**




**IDC**




**SIP**




## Vietnam Industrial Property Industry

**Market overview**: The number of established industrial parks have mushroomed by nearly 7 times in the last 22 years from 61 in 2000 to 410 in 2022. At YE22, Vietnam had nearly 300 IPs operating with a stable average occupancy rate of 71.1% (+10 ppts YoY). Cumulatively, these IPs have attracted around 11,000 FDI projects with a total registered capital of approximately USD250bn and nearly 11,000 DDI projects with a total registered capital of nearly VND3,000trn.

During 2022, land leasing rates continued to be in an upward trend albeit at a slower pace given a decrease in registered FDI and a slowdown in global demand, as investors prefer to reserve cash for defense and delay their expansion/relocation plans. The northern market recorded an average land leasing rate of USD111/sqm/remaining leasing term (+0.9% YoY and +0.9% QoQ) while the south recorded USD126/sqm/remaining leasing term (+8.2% YoY and +0.9% QoQ). Occupancy rate was stable at 79.1% (-0.9 ppts YoY and -1.2 ppts QoQ) in the north and 85.6% (-4.4 ppts YoY and +0.4 ppts QoQ) in the south.

The same trend was seen in the ready-built factory market with an average leasing rate of USD4.84/sqm/month (+3% YoY and +1.5% QoQ) in the north and USD4.75/sqm/month (+0.3% YoY and -1.3% QoQ) in the south.

**Opportunities & Threats**: There are numerous growth drivers: China+1 trend, China-Taiwan tension, relatively stable macroeconomic growth, large and affordable work force, competitive leasing rates, infrastructure development and FTAs. On the other hand, a slowdown in global demand, global minimum tax, manufacturing wage growth, land clearance and insufficient infrastructure may pose challenges to the market's development.

**Outlook:** We have a positive long-term outlook for this sector given many opportunities mentioned above. Due to limited land area but stable demand from foreign companies, leasing rates are expected to continue to grow at a slower pace and occupancy rate may stabilize. For longer term, new supply locations will be moved further away from traditional areas as they offer more affordable leasing rates and have more large-scale areas available. There will be increasing demand for green and smart IPs, multi-floor industrial facilities in crowded locations and hybrid facilities that can convert between warehouse and factory to tailor to tenants' demand.

| Ticker | Market Cap (VNDbn) | 2023 P/E | 2023 P/B | Estimated 2023 Revenue | Estimated 2023 NPATMI |
|---|---|---|---|---|---|
| KBC | 17,420 | 12.4 | 1.0 | 5,575 | 1,401 |
| IDC | 13,000 | 5.6 | 2.1 | 8,674 | 2,337 |
| SIP | 6,720 | 7.2 | 1.7 | 6,515 | 1,073 |

## Overview

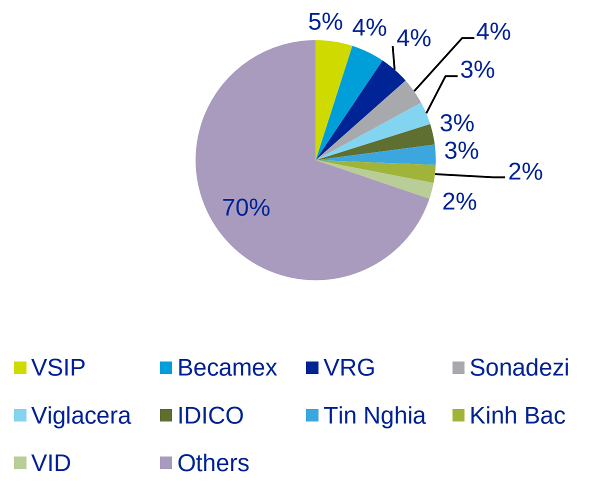
### Development of economic zones in Vietnam

The first IP in Vietnam was Bien Hoa 1 established in Dong Nai province in 1963, covering a total area of 376ha. Since then, the number of established IPs have mushroomed by nearly 7 times in the last 22 years from 61 in 2000 to 410 in 2022, according to the Ministry of Planning and Investment (MPI). Of which, nearly 300 IPs are operating with a stable average occupancy rate of 71.1% (+10 ppts YoY). Cumulatively, these IPs have attracted around 11,000 FDI projects with a total registered capital of approximately USD250bn and nearly 11,000 DDI projects with a total registered capital of nearly VND3,000trn.

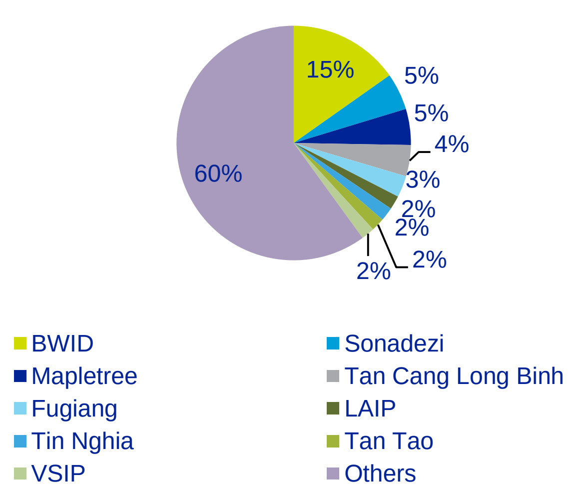
The industrial property market is quite fragmented with VSIP as the market leader capturing 4.9% market share in industrial land area supply , followed by Becamex IDC (HSX: BCM) with 4.5%, according to ACBS' summary. VSIP was established in 1996 with a charter capital of VND946bn on the basis of cooperation between two governments including Singapore led by SembCorp (Ticker: U96) owing 51% stake and Vietnam led by Becamex IDC owning 49%. VSIP currently has 8 IPs covering a total area of over 6,300ha and cumulatively attracting ~880 tenants from 30 countries with a total registered capital of USD15bn. Last year, it started to develop a new IP in Binh Duong – VSIP 3 – covering a total area of 1,000ha, which attracted the biggest FDI project in 2022 – LEGO with a registered capital of USD1.3bn.

On the other hand, the ready-built warehouse (RBW) and ready-built factory (RBF) market has an outstanding market leader – BWID with over 1.5mn sqm of NLA, equivalent to 15.2% market share which was three times higher than the second largest company - Sonadezi. BWID is a joint venture between Becamex IDC (30%) and Warburg Pincus, a global private equity firm. Currently, it has 37 projects in 28 locations throughout Vietnam.

**2022 Industrial land market share**




**2022 RBW & RBF market share**




*Source: ACBS summary, Savills*

## Regional key economic zones

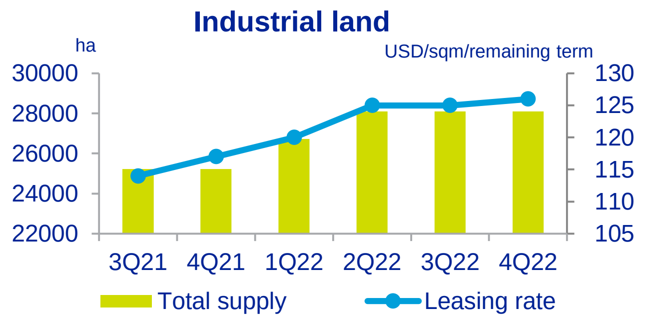
Vietnam has four key economic zones including northern, central, southern and the Mekong delta; of which, the northern and the southern regions are the two biggest.

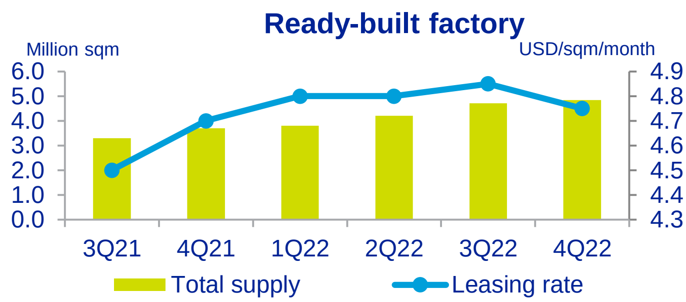
### The Southern Key Economic Zone (SKEZ): leading zone, traditional industries

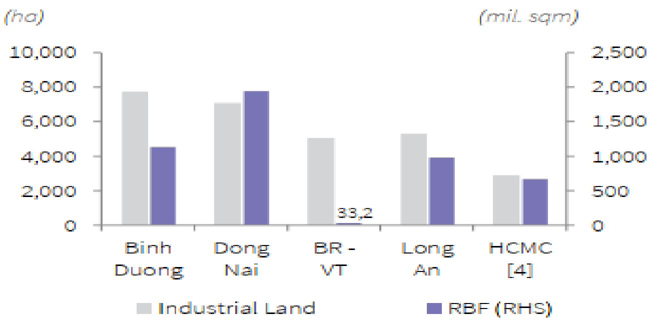
The SKEZ comprises of eight cities/provinces: HCMC, Binh Duong, Dong Nai, Ba Ria – Vung Tau, Long An, Tien Giang, Binh Phuoc and Tay Ninh; of which HCMC is the biggest city of Vietnam. The zone has the biggest port – Cat Lai and the biggest international airport – Tan Son Nhat. Accounting for 9% of the total area and 22% of the total population, this is the leading industrial development zone of the whole country which has been home for traditional industries such as plastics, apparel and textile which are the backbone of Vietnam's export. This is in contrast to the north, which is attracting new FDI and new industries.

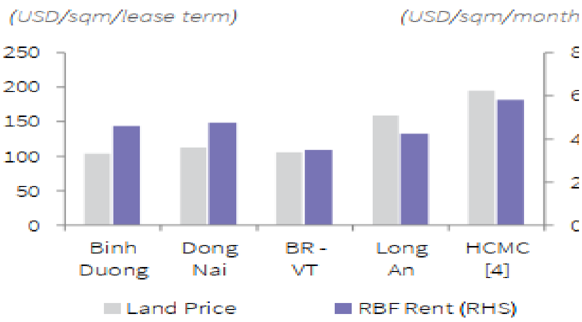
The SKEZ has 127 established IPs with a total land area of nearly 51,000ha accounting for nearly 40% of national market share. Dong Nai province has the highest number of IPs (32) in Vietnam while Binh Duong has the highest industrial land area of nearly 12,700ha, accounting for nearly 10% of market share. HCMC has the highest land leasing rate of USD180-300/sqm/remaining leasing term, much higher than the regional average rate of USD126/sqm/remaining leasing term (+8.2% YoY and +0.9% QoQ). Average occupancy rate in the SKEZ was 85.6% (-4.4 ppts YoY and +0.4 ppts QoQ). During 2022, the zone welcomed three new IPs, i.e. VSIP 3 in Binh Duong and Viet Phat and Nam Thuan in Long An.

Regarding the RBF market, the zone has 4.8mn sqm of NLA (+30.8% YoY) with an average leasing rate of USD4.75/sqm/month (+0.3% YoY and -1.3% QoQ). Average occupancy rate was recorded at 83.6% (-2.4 ppts YoY). The growth in leasing rate of industrial area and RBF slowed down in 2022 given new supply and the global economic downturn which led developers to stabilize asking rents to attract tenants.



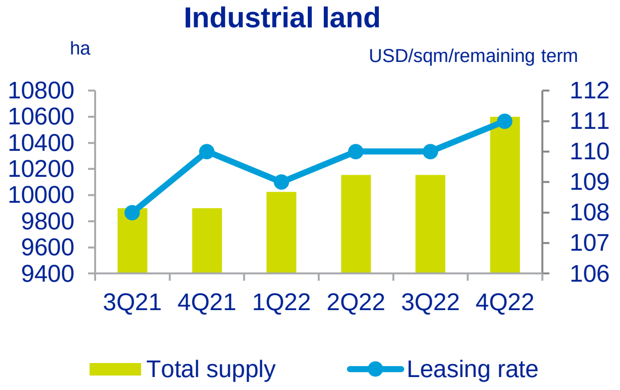



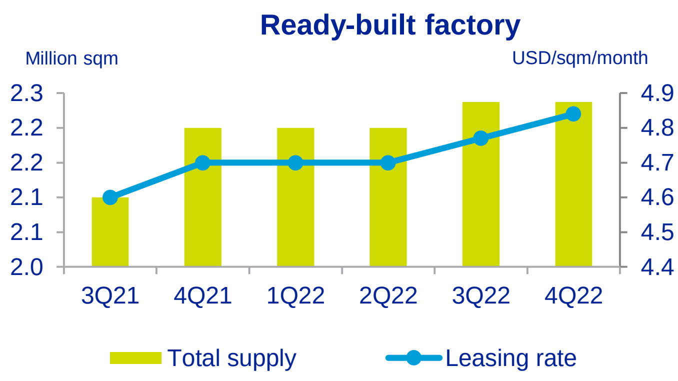

*Source: JLL*

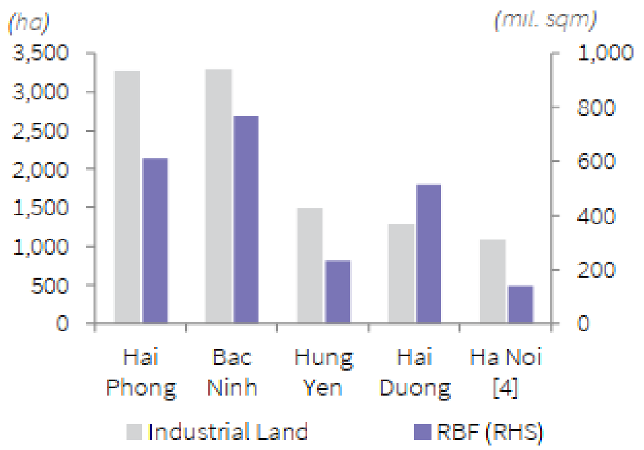
**The Northern Key Economic Zone (NKEZ): second-biggest, new industries**

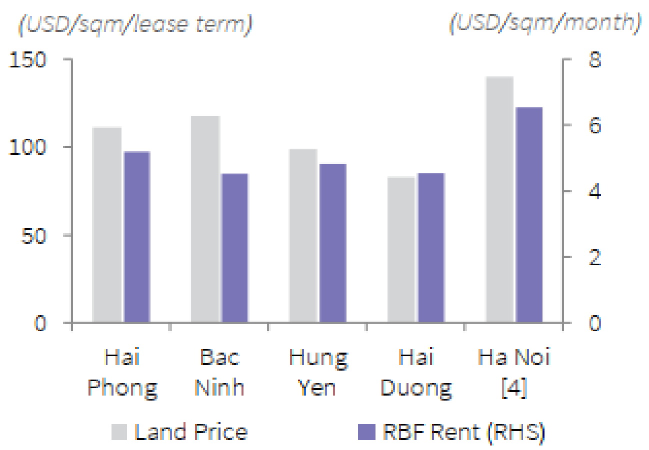
The NKEZ comprises of seven cities/provinces including Hanoi, Hai Phong, Bac Ninh, Hai Duong, Hung Yen, Vinh Phuc, and Quang Ninh. It is the second biggest zone in Vietnam and accounted for 5% of the total area and 18% of the total population. The NKEZ has 86 established IPs containing a total land area of nearly 26,600ha. Bac Ninh and Hai Phong are leading suppliers in the northern market given significant advantages such as accessibility to major labour market, improved infrastructure and better support from the government. The NKEZ has attracted many well-known electronic manufacturing companies such as Samsung, LG and Foxconn which gradually foster wave of immigration of satellite companies and supply chains. Average occupancy rate slightly decreased to 79.1% (-0.9 ppts YoY and -1.2 ppts QoQ) at YE22 while average land leasing rate grew at a slower pace to USD111/sqm/remaining leasing term (+0.9% YoY and +0.9% QoQ), according to JLL.

Regarding the RBF market, total supply reached 2.2mn sqm of NLA (+1.7% YoY) with an average leasing rate of USD4.84/sqm/month (+3% YoY and +1.5% QoQ). Bac Ninh and Hai Phong still accounted for the largest proportion of total supply with projects from big developers such as BWID and KTG.




*Source: JLL*

## Why key tenants like Samsung, LG and Foxconn prefer the NKEZ rather than the SKEZ?

The NKEZ received a wave of investment from global electronics enterprises long ago such as Panasonic (1971), LG Display (1995), Canon (2001), Foxconn (2007), Samsung (2008), Fuji Xerox (2013) and more recently corporations like Goertek and Jinko Solar. These "Queen Bees" have fostered wave of supporting industries relocation. Typically, by 2022, the total number of Vietnamese tier 1 and tier 2 suppliers for Samsung's is 250, of which tier 1 enterprises are 52 compared with only 4 in 2014, according to Cushman & Wakefield.

We think the following conditions can partly explain why these "Queen Bees" prefer the NKEZ than the SKEZ:

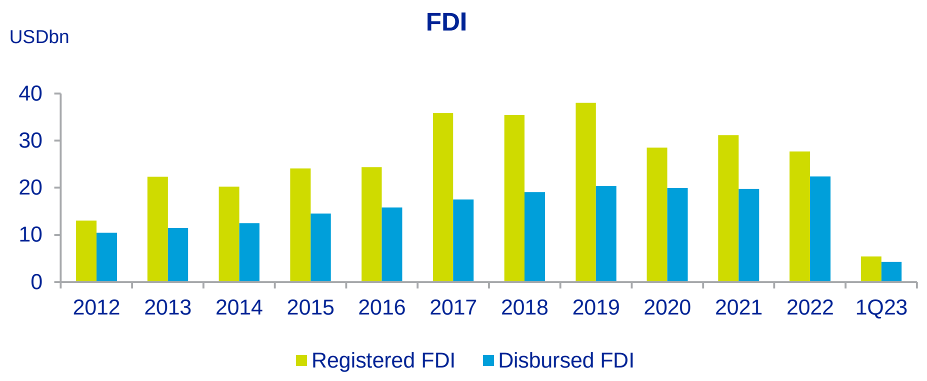
1. **Location**: The NKEZ has better location than the SKEZ which is next to China - the largest manufacturing and demand in the world and closer to Korea and Japan, which are two of the biggest foreign investors. The NKEZ is next to the southern of China which includes Shanghai, Hong Kong, Shenzhen, Fujian and Guangdong where headquarters of giant manufacturing, biochemistry, commerce and electronic technology corporations are located which accounted for over 30% of China's GDP. In addition, the NKEZ is also nearer to Taiwan which contributes 63% of the global supply of semiconductor materials and produces 73% of high-end semiconductor chips in the world.
2. **Road transport capacity**: The NKEZ is planned to have more expressways than the SKEZ by 2030 (14 expressways totaling c.2,300km vs 7 expressways totaling c.1,500km). Currently, the NKEZ has 13 expressways with a total length of 898km; of which, Van Don - Mong Cai Expressway (80km) connects to 3 border gates and 3 international airports. In particular, the North owns a road and a railroad connecting directly to Shenzhen which is known as China's Silicon Valley. The total volume of goods transported via roads in the north was double in the south. On the other hand, the SKEZ has competitive advantage in sea transportation.
3. **Air transportation**: The Northern region has 7 airports, including Noi Bai, Van Don, Cat Bi, Tho Xuan, Vinh, Dien Bien and Dong Hoi. In which, Noi Bai international airport has a specialized cargo terminal with a capacity of 403,000 tons of goods per year, according to the Ministry of Transport. It has 66 air cargos operating, which is an impressive number compared to Singapore with 99 air cargos operating at Changi Airport. In 2021, the volume of air freight through Noi Bai international airport was 0.7 million tons, more than 3 times higher than 0.2 million tons compared to Tan Son Nhat international airport. Because of product characteristics, corporations producing technological products/equipment often choose to transport by land or by air instead of by sea.
4. **Clearance process** in the NKEZ is considered to be relatively less difficult than that in the SKEZ given that farmers are more cooperative and easier to become workers. Agriculture land in the north is also more centralized than in the south.
5. **Lower land leasing rate.** Leasing rate in the NKEZ was USD111/sqm/remaining leasing term compared with USD126/sqm/remaining leasing term in the SKEZ at YE22.
6. **Population density** in the NKEZ was much higher than in the SKEZ (1,119 people/km$^2$ vs 713 people/km$^2$).

## FDI - a key growth driver

Since the introduction of 'Doi moi', or economic liberalization, in 1986, Vietnam has chosen to internationalize its economy. According to the MPI, IPs and economic zones accounted for 35-40% of total annual registered FDI or 70-80% of registered FDI to the manufacturing sector. Thus, FDI is the key growth driver for the industrial property segment.

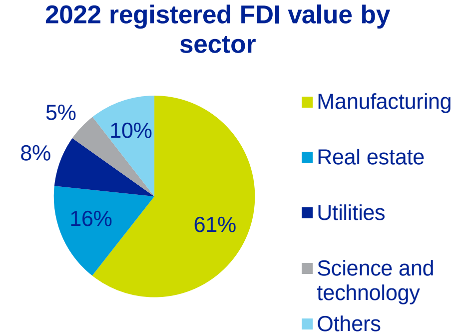
Registered FDI in Vietnam hit an all-time record of over USD71.7bn in 2008 following the joining of the WTO in 2007, then subsequently dropping in the next four years due to the global recession and reached USD27.7bn in 2022. Given COVID outbreak and the slowdown of global economy, 2022 registered FDI dropped by 11% YoY. In contrast to the fluctuation in registered FDI, disbursed FDI increased steadily at a 2012-2022 CAGR of 7.9%, to USD22.4bn (+14% YoY) in 2022.

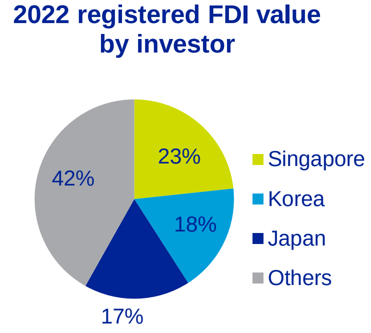
In 1Q23, registered FDI decreased significantly to USD5.45bn (-39% YoY) mainly due to USD1.3bn LEGO project registered in 1Q22. Disbursed FDI was stable at USD4.3bn (-2.2% YoY) which was acceptable in the midst of global slowdown.

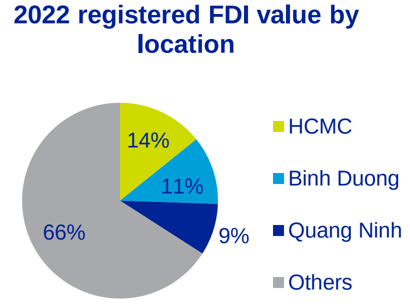



*Source: Foreign Investment Agency, MPI.*

Manufacturing and processing was the #1 sector which attracted over USD16.8bn, equivalent to nearly 61% of total registered FDI. Real estate was the second attractive sector which accounted for over 16% of total registered FDI. Singapore was the #1 investor with USD6.5bn, accounting for over 23% of total registered FDI, followed by Korea and Japan. HCMC was the #1 location with USD3.9bn, accounting for over 14% of total registered FDI, followed by Binh Duong and Quang Ninh.




*Source: Foreign Investment Agency, MPI.*

**Table: Top FDI projects in 2022**

| No. | Project | Nationality | Industry | (Additional) investment (USDmn) | IP | Province |
|---|---|---|---|---|---|---|
| 1 | LEGO | Denmark | Rubber & plastic products | 1,300 | VSIP 3 | Binh Duong |
| 2 | Samsung Electro-Mechanics VN | Korea | Computer, electronic and optical products | 920 | Yen Binh | Thai Nguyen |
| 3 | Trina Solar | Singapore | Chemical products | 275 | Yen Binh | Thai Nguyen |
| 4 | Goertek Vina | China | Computer, electronic and optical products | 260 | WHA IZ 1 | Nghe An |
| 5 | GE Vietnam | Korea | n/a | 217 | n/a | Bac Ninh |
| 6 | Libra International Investment Pte | Singapore | Textiles | 210 | Thanh Thanh Cong | Tay Ninh |
| 7 | JNTC | Korea | Computer, electronic and optical products | 163 | Thuy Van | Phu Tho |
| 8 | Coca Cola Vietnam | US/Singapore | Beverages | 136 | Phu An Thanh | Long An |
| 9 | Autel Robotics | Korea | Machinery & equipment | 90 | VSIP Hai Phong | Hai Phong |
| 10 | Viet Y Steel | Japan | Metals | 80 | Nam Cau Kien | Hai Phong |

*Source: ACBS summary*

# Opportunities

## China+1 trend

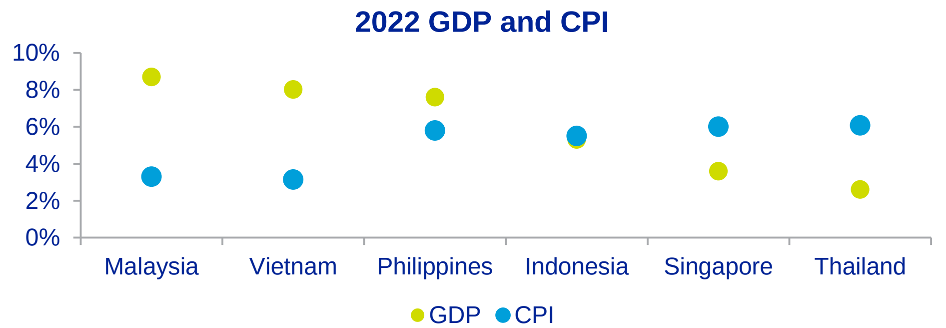
Despite a slowdown in global demand and economy, we think the China+1 trend may not revert in the next few years and international companies will continue to diversify their factories to reduce the risk of supply chain disruption which happened during COVID.

## China – Taiwan tension

China-Taiwan tension encourages a relocation of many Taiwanese manufacturers to Vietnam given its strategic location, relatively stable macro economy compared to regional peers and foreign relation policy of independence, self-reliance and integration. In 1Q23, Taiwan was ranked #3 in registered FDI to Vietnam with over USD477mn, impressively up by 47.5% YoY and accounting for 8.8% of total FDI.

## Relatively stable macro economy

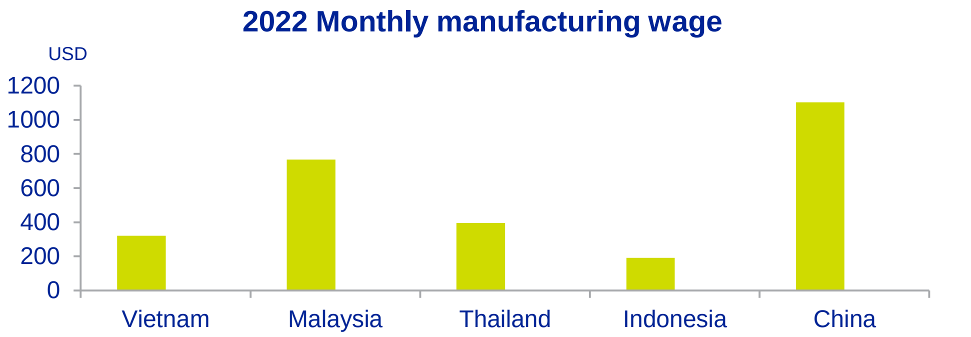
Relatively compared to regional peers, Vietnam has high GDP growth and a low inflation rate which create a solid foundation for attracting foreign investors to Vietnam. Despite impacts from the global economic turbulence, these numbers are expected to remain under control in 2023.




*Source: ACBS summary*

## Sizable and relatively affordable labour force

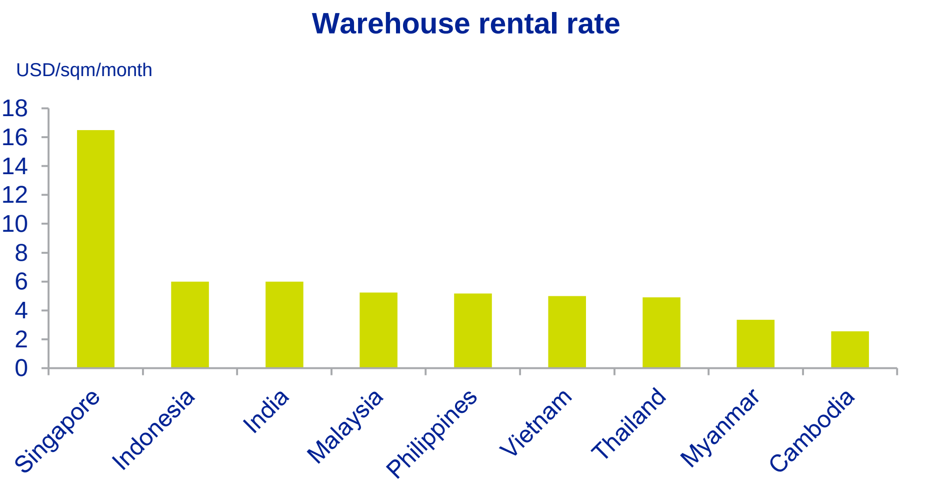
Labour is the largest component that usually accounted for c.50% of total operating costs in most Southeast Asia countries. Vietnam's working population was over 55mn people, ranked #2 in the Southeast Asia after Indonesia, according to World Bank. Monthly manufacturing wage in Vietnam was estimated at around USD320 in 2022, equivalent to less than 1/3rd of China's and 1/2nd of Malaysia's.




*Source: Trading Economics*

## Competitive rental rate

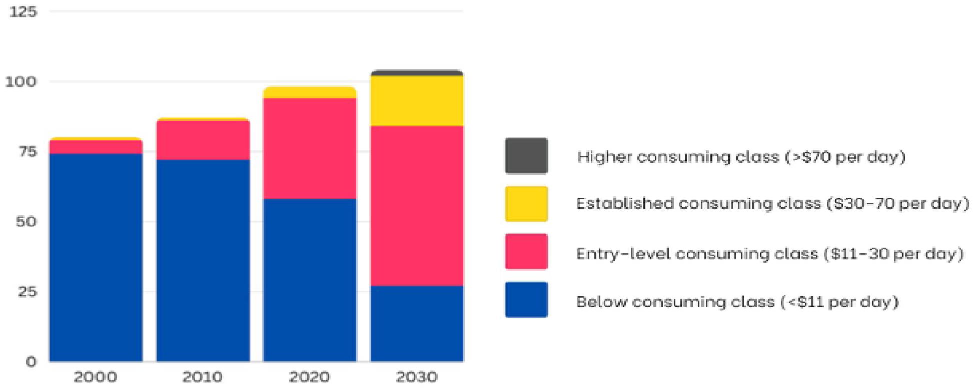
Leasing cost is the second largest component of total operating costs in most Southeast Asia countries. Singapore had the highest warehouse leasing cost in the region with the average rate of USD16.5/sqm/month. Vietnam offered similar warehouse rental rates with Malaysia, Thailand and Philippines at around USD5/sqm/month, lower than India and Indonesia (USD6/sqm/month) but higher than Myanmar (USD3.4/sqm/month) and Cambodia (USD2.5/sqm/month).




*Source: TMX.*

## The rapid growth of the middle class

The rapid growth of the middle class, leading to rising e-commerce consumption and more trade with China, is also a driver attracting foreign investors to Vietnam. The country has the 7th fastest growing middle class in the world with estimated additional 36 million people in the middle class by 2030. In 2000, less than 10% of the population spent more than USD11 per day whereas this number reached 40% in 2020 and is expected to reach 75% by 2030.



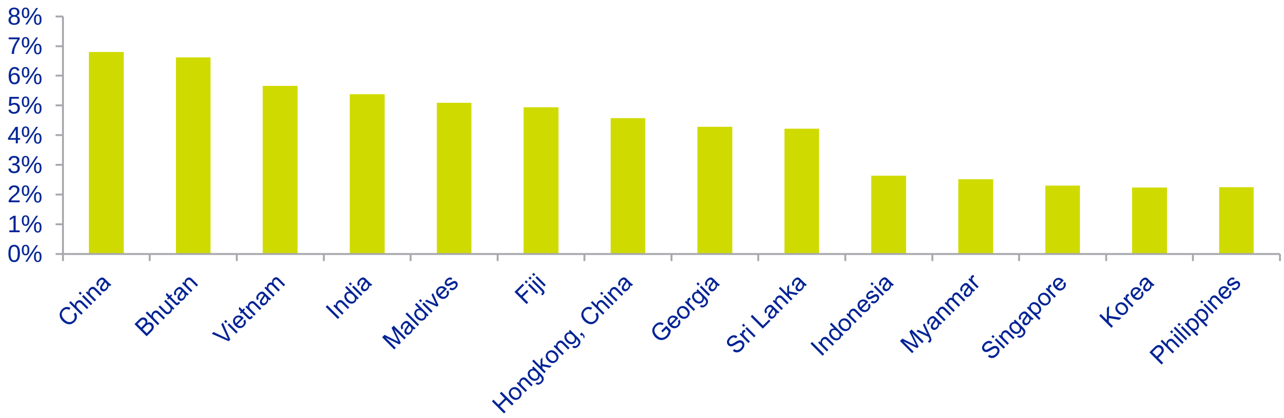

Vietnamese market segmentation by expenses (million people)

*Source: Source of Asia.*

## High infrastructure investment as a percentage of GDP

Logistics cost is another component of operating costs; thus Vietnam has made significant efforts to improve its infrastructure to attract more investors to the country. According to ADB, Vietnam has spent one of the highest amount on infrastructure as a percentage of GDP in Asia (5.7%).

**Budget + PPI Infrastructure Investment Rate, various years (% of GDP)**




*Source: ADB.*

From the beginning of 2023, the government started to construct many infrastructure projects, of which the commencement of 12 subprojects of North-South Expressway with a total length of 729km was a hit. Other key infrastructure projects are summarized in the table below.

| Project | Location | Est. total investment (VNDbn) | (Expected) start | (Expected) completion |
|---|---|---|---|---|
| Long Thanh international airport (Phase 1) | Dong Nai | 109,112 | 2021 | 2026 |
| Terminal 3 of Tan Son Nhat international airport | HCMC | 10,990 | 2022 | 2024 |
| Phan Thiet airport | Phan Thiet | 11,700 | 2021 | 2023 |
| Ring Road No.2 (4 incomplete parts) | HCMC | 23,856 | n/a | n/a |
| Ring Road No.3 (3 incomplete parts) | HCMC | 60,024 | n/a | n/a |
| Ring Road No.1 (Hoang Cau – Voi Phuc) | Hanoi | 7,779 | 2021 | n/a |
| Metro line No. 1 | HCMC | 43,600 | 2012 | 2023 |
| Metro line No.2 | HCMC | 48,000 | 2025 | n/a |
| Metro line No.5 | Hanoi | 65,400 | 2025 | n/a |
| Huu Nghi – Chi Lang Expressway | Lang Son | 10,600 | 2023 | 2026 |
| Ninh Binh – Hai Phong Expressway | Ninh Binh and Hai Phong | 8,400 | 2023 | 2026 |
| Van Don – Mong Cai Expressway | Quang Ninh | 13,000 | 2019 | 2022 |
| HCMC - Moc Bai Expressway | HCMC and Tay Ninh | 15,900 | n/a | n/a |
| Chon Thanh – Gia Nghia Expressway | Binh Phuoc and Dak Nong | 29,000 | 2023 | 2025 |
| My Thuan - Can Tho Expressway | Vinh Long and Dong Thap | 4,826 | 2021 | 2023 |
| Ben Luc - Long Thanh Expressway | HCMC, Long An and Dong Nai | 31,320 | 2014 | 2023 |
| Bien Hoa - Vung Tau Expressway | Dong Nai and Ba Ria – Vung Tau | 18,805 | 2023 | 2026 |
| 12 sub-projects of North-South Expressway | 12 provinces and cities | 88,200 | 2023 | 2025 |

*Source: ACBS summary.*

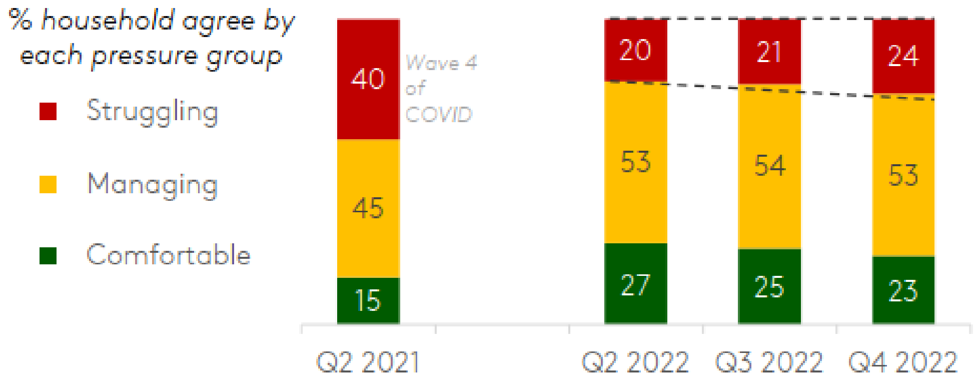
### Free Trade Agreements (FTAs)

Vietnam's activeness in signing bilateral trade agreements in recent years will boost Vietnam's exports as well as attract more foreign investment to the industrial property market. Up to now, Vietnam has 15 signed FTAs and 2 under-negotiation FTAs (Vietnam – EFTA and Vietnam – Israel) covering 52 countries. Of note, in the ASEAN, only Vietnam and Singapore signed the CPTPP and FTAs with EU.

## Threats

### A slowdown of global demand

Despite the GDP growth of over 8% in 2022, consumers' optimism plummeted by the last quarter of the year following the lay-off wave in many industries driven by weakening global demand for exports. Worries about household income and job security are on the rise, while concerns about food safety are approaching pre-COVID level, according to Kantar. Households may cut back on consumption of non-essential goods and manufacturers prefer to reserve cash for safety and conservatively delay their expansion/relocation plans to reduce risks.




*Source: Kantar*

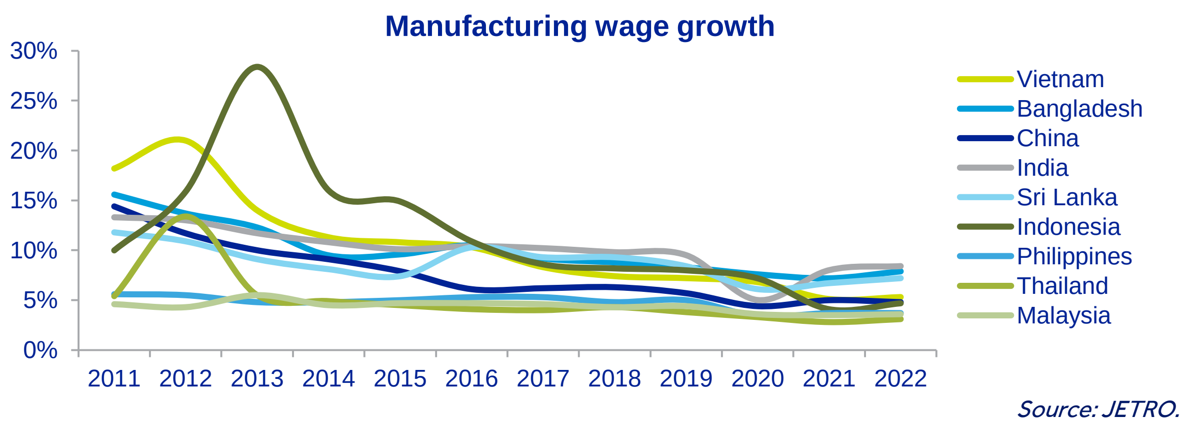
## Global minimum tax

The global minimum tax is a tax initiated by the Organization for Economic Cooperation and Development (OECD) and is now agreed upon by more than 140 countries. With this tax, large corporations and companies with revenue of over EUR750 million must pay a tax rate of 15%, regardless of their countries.

On 15/12/2022, the European Union (EU) officially approved the plan to apply a minimum tax rate of 15% from 2024. At the end of 2022, the Korean National Assembly also passed the global minimum tax legislation applied from 2024. The Japanese government also announced the Draft Tax Reform, moving towards the adoption of this tax from 2024. These two countries have one of the highest FDI in Vietnam. Therefore, the official application of the global minimum tax policy will have direct impact on many FDI enterprises operating in Vietnam and attractiveness of the foreign investment environment.

## Manufacturing wage growth

In most Southeast Asian cities, wages are still the largest component making up close to 50% of overall business costs in manufacturing. Thus, rising labour cost is the top concern of foreign investors. Vietnam's manufacturing wage growth peaked in 2012 (+21% YoY) and gradually decreased to 5.3% YoY in 2022, which was higher than the median in Asia, according to a survey of JETRO.



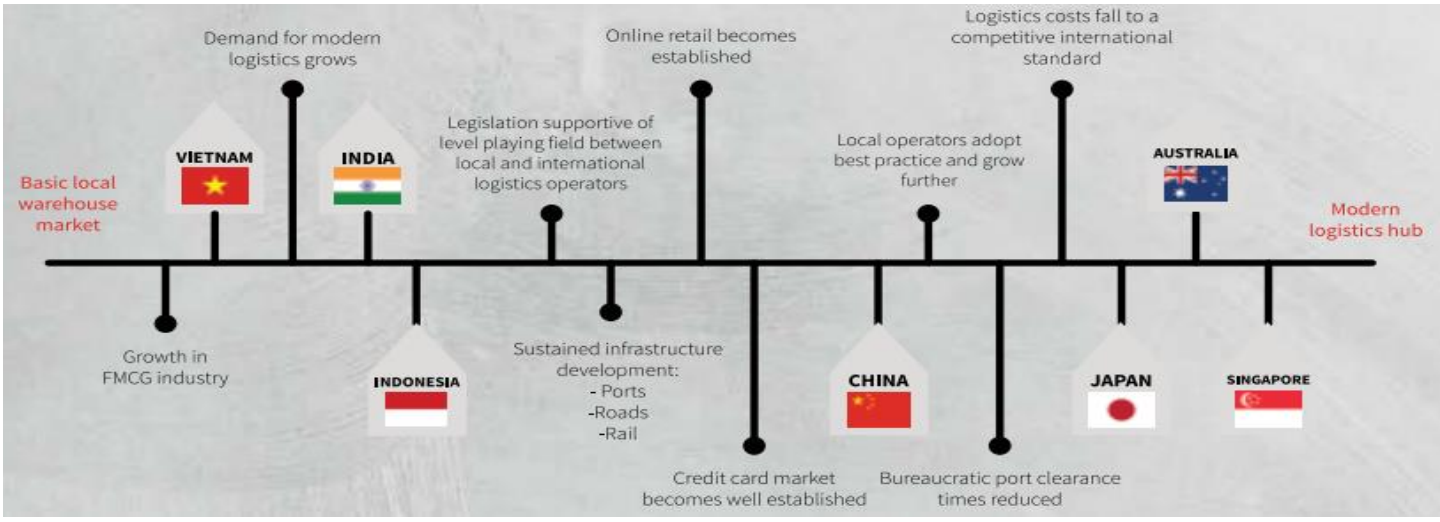

*Source: JETRO.*

### Land clearance

Due to speculation activities and rapid urbanization, clearing costs increased dramatically for IP developers, especially in the residential areas, which affected their margins. The proposal of bidding industrial land is another key growth driver of clearance cost if approved by the government.

### Insufficient supporting infrastructure

Delays in approval process and construction due to state budget constraint, limited success in Public Private Partnership (PPP) and high land compensation cost leads to traffic congestion and increase traveling/shipping time. Compared to peers, Vietnam's logistics market is still in its infancy stage featured by low-specification premises as shown in the figure below.



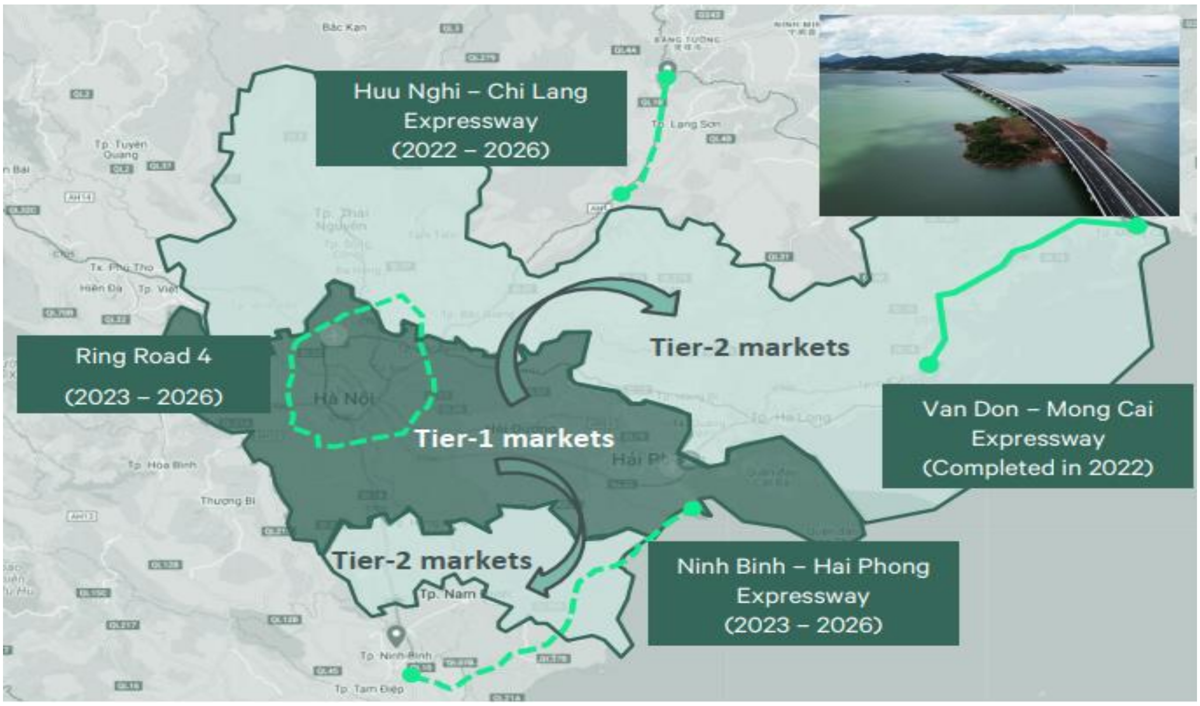

*Source: JLL.*

## Outlook

We have a positive outlook for this segment given many opportunities mentioned above. The north is considered as an expanded manufacturing base from China while the south as a rising international logistics hub.

We expect more new supply of industrial land in the north than in the south, especially in Bac Ninh and Hai Phong thanks to presence of big electronic firms such as Samsung, LG and their supply chain. Due to limited industrial land area and stable demand from foreign companies, leasing rate are expected to continue to grow, but at a slower pace in the south, given more supply from Tier-2 markets (i.e. Ba Ria – Vung Tau, Tay Ninh, Binh Phuoc and Binh Thuan in the south and Quang Ninh, Bac Giang, Vinh Phuc, Ha Nam, Thai Binh, and Nam Dinh in the north) with more affordable leasing rates and lower occupancy rate. Multinational corporations prefer eco & smart IPs using renewable energy and offering more efficient logistics and better water & waste treatment systems, etc.

New RBF projects will focus on hybrid facilities that can convert between warehouse and factory to tailor to tenants' demand. Multi-floor industrial facilities will become more common in land-constrained cities. RBF asking rent may slightly increase or stabilize as new supply will be pumped into the market.




*Source: CBRE.*
*Note: Tier-1 market includes Hanoi, Bac Ninh, Hai Phong, Hai Duong and Hung Yen. Tier-2 market includes Quang Ninh, Bac Giang, Vinh Phuc, Ha Nam, Thai Binh and Nam Dinh.*


*Source: CBRE.*
*Note: Tier-1 market includes HCMC, Binh Duong, Dong Nai, Long An. Tier-2 market includes Ba Ria-Vung Tau, Binh Phuoc, Tay Ninh*

## Relative analysis

Most IP developers had high profitability ratios with IDICO (HSX: IDC) had the highest ROE mainly thanks to realization of unearned revenue when changing booking method from annually to one-off. Nam Tan Uyen (UpCOM: NTC) had the highest gross margin while Tan Tao (HSX: ITA) was the only one that incurred loss in 2022. Most IP developer had high current ratios, except for Viglacera (HSX: VGC) with the ratio below 1x. Most IP developers had healthy financial status and maintained high net cash balance for many years, except for Becamex (HSX: BCM) and Sonadezi Chau Duc (HSX: SZC) with high leverage ratios. Most companies paid cash dividend, except for Kinh Bac (HSX: KBC) and Tan Tao (HSX: ITA). BCM is the biggest developers and had extremely high P/E and P/B ratios.

| Ticker | Company name | Market Cap (VND trn) | 2022 ROE (%) | 2022 Gross margin (%) | Current ratio | Net debt/ Equity (%) | Net debt/ EBITDA | Dividend Yield (%) | Trailing P/E | Trailing P/B |
|---|---|---|---|---|---|---|---|---|---|---|
| BCM | Becamex | 83.73 | 9.90 | 42.44 | 1.49 | 80.62 | 8.71 | 0.87 | 61.95 | 4.97 |
| KBC | Kinh Bac | 17.42 | 10.37 | 10.37 | 2.62 | 19.67 | 4.36 | n/a | 7.96 | 1.08 |
| VGC | Viglacera | 14.37 | 23.49 | 29.04 | 0.97 | 16.17 | 0.30 | 7.80 | 8.31 | 1.89 |
| IDC | IDICO | 13.00 | 50.08 | 43.44 | 1.77 | 20.56 | 0.31 | 6.46 | 5.77 | 2.44 |
| SIP | Saigon VRG | 7.62 | 31.41 | 14.93 | 4.84 | (96.24) | (3.41) | 2.39 | 7.96 | 2.35 |
| ITA | Tan Tao | 3.63 | (1.64) | 43.97 | 3.35 | 0.13 | 0.02 | n/a | n/a | 0.34 |
| SZC | Sonadezi Chau Duc | 2.87 | 13.06 | 36.05 | 1.13 | 151.84 | 3.26 | 3.48 | 16.41 | 1.87 |
| NTC | Nam Tan Uyen | 2.67 | 38.08 | 70.56 | 3.70 | (147.43) | (5.00) | 6.28 | 10.43 | 3.74 |
| TIP | Tin Nghia | 1.11 | 8.76 | 55.78 | 14.89 | (13.08) | (2.17) | 4.71 | 6.13 | 0.68 |
| LHG | Long Hau | 1.09 | 13.60 | 40.78 | 2.38 | (70.48) | (4.32) | 8.72 | 5.35 | 0.71 |
| SZL | Sonadezi Long Thanh | 0.91 | 13.38 | 32.73 | 2.92 | (15.40) | (0.62) | 10.00 | 11.45 | 1.53 |
| IDV | Vinh Phuc Infra. Dev. | 0.84 | 18.72 | 67.86 | 2.52 | (32.95) | (2.63) | 1.50 | 7.25 | 1.26 |
| MH3 | Binh Long Rubber | 0.83 | 20.55 | 43.94 | 11.70 | (217.57) | (13.51) | 5.78 | 8.50 | 1.60 |
| D2D | Industrial urban dev. | 0.70 | 1.63 | 28.68 | 6.49 | (29.53) | (9.77) | 15.12 | 40.77 | 0.70 |
| **Average** | | **10.77** | **17.96** | **40.04** | **4.34** | **(23.83)** | **(1.75)** | **6.09** | **15.25** | **1.80** |

*Source: Bloomberg.*

## Key stocks

### Kinh Bac City Development Holding Corporation JSC (HSX: KBC)

With 7 established IPs covering a total area nearly of 2,400ha, Kinh Bac accounted for 1.9% of national market share. Compared to peers, KBC has a strong capability in attracting well-known electronic manufacturers such as LG and Foxconn.

Kinh Bac's 2022 net revenue dropped by 77% YoY, to VND957bn, far below its target due to:

(1) a delay in delivering 107ha with a total contracted value of VND3,540bn at Quang Chau industrial park (IP) (77ha) and Nam Son Hap Linh IP (30ha) to 2023 as tenants were not granted investment licenses in 2022,

(2) no bulk sales transaction recorded at Trang Cat urban area and

(3) sales return of VND447bn for 2.2ha at Trang Due urban area from a sub-developer given a delay in approval of Hai Phong province's general planning.

In 2022, KBC delivered over 19ha of industrial land (-83% YoY), including over 17ha at Tan Phu Trung IP and nearly 2ha at Quang Chau IP. We estimated that the average leasing rate at Tan Phu Trung IP increased by 6.5% YoY, to c.USD144/sqm/remaining leasing term, in 2022 while that at Quang Chau IP jumped by 24% YoY, to c.USD134/sqm/remaining leasing term.

On the other hand, 2022 PAT doubled YoY, to nearly VND1,600bn, thanks to nearly VND2,200bn from revaluation of Saigon Danang Investment JSC when KBC increased its ownership in this company from 19.5% to 48%.

In 2023, KBC will have a total of VND2,900bn of corporate bonds matured, of which VND400bn are due in February and VND2,500bn in June. Given cash and cash equivalent balance of nearly VND2,300bn at YE22 and around VND3,000bn expected in 1H23 from 2022 contracted value of VND3,540bn and a newly signed contract of USD90mn with Goertek for 62.7ha in Nam Son Hap Linh IP, we think that KBC can fulfil its debt obligations in June.

**2023 Outlook and valuation**

We forecast a big jump in 2023 revenue to VND5,575bn (+482% YoY) thanks to delivery of 146ha at Quang Chau, Nam Son Hap Linh and Tan Phu Trung IPs and a social housing project at Nenh town, Bac Giang province compared with only 19ha delivered in 2022. Quang Chau IP will be the key project in 2023 with expected industrial land delivered of over 77ha and estimated revenue of VND2,460bn. Given pending Hai Phong province's general planning and delay in infrastructure acceptance procedure in Bac Ninh, we expect that contributions of Trang Due, Trang Cat and Phuc Ninh urban areas will be insignificant in 2023. PAT, however, was forecast to slightly decrease to VND1,445bn (-9% YoY) given no unusual profit expected while 2022 recorded nearly VND2,200bn of revaluation surplus. Using NAV method, we suggest a target price of VND27,310 at YE23. Major concerns for KBC include a slowdown in registered FDI, slow legal procedure of new projects and clearance process.

## IDICO Corporation – JSC (HNX: IDC)

Originated as a state-own company under the Ministry of Construction (MoC), IDICO became the #4 industrial property developer in terms of market-cap with 10 operating industrial parks (IPs) covering a total land area of 3,267ha, accounting for 2.6% of national market share. Five IPs are fully occupied and five are available for lease with remaining NLA of over 751ha at YE22.

Besides two hydropower plants Dak Mi 3 and Shrok Phu Mieng with a total capacity of 114MW, IDC currently has 100km of power distribution lines, two 110/22kV power substations Tuy Ha and Nhon Trach 5 with a total capacity of 418 MVA which generate average revenue of around VND2.5trn. IDICO may be one of the only two listed companies in the south, besides Saigon VRG (UpCOM: SIP), to have licenses issued by the Ministry of Commerce and Trade to build 110kV substations to distribute power directly to tenants which can yield a higher margin than that of other industrial property developers which are intermediary companies between EVN and tenants.

Moreover, IDC has a stable income source from BOT An Suong – An Lac project which generates revenue of VND300-400bn/year with a gross margin of ~50%.

In 2018-2022, net revenue had a humble CAGR of 11% given 60-70% of total revenue in 2018-2021 came from stable power and BOT business lines. However, NPATMI had an impressive CAGR of 47% mainly thanks to a high gross margin of 43% in 2022 (resulted from a higher contribution from the industrial property segment given more industrial land area delivered and recognition of unearned revenue when changing booking method from annually to one-off) compared with 17-28% in 2018-2021.

**2023 Outlook and valuation**

Overall, IDC has solid income from power and BOT business line, strong financial status and high cash dividend of 40% which is expected to last till 2026. For 2023, business result may go sideways with estimated net revenue of nearly VND8,700bn (+5% YoY) and NPATMI of over VND2,600bn (+11% YoY) given no expected unearned revenue when changing booking method from annually to one-off. Using NAV method, we derive a target price of VND47,644/share at YE23. Major concerns for IDC include a slowdown in registered FDI and slow legal procedure of new projects and clearance process.

## Saigon VRG Investment Corporation (Upcom: SIP)

SIP is one of the biggest IP developers in the SKEZ with a total industrial area of nearly 3,200ha, accounting for 2.5% national market share. The company currently has four IPs and four adjacent urban areas which are well located in HCMC, Dong Nai and Tay Ninh provinces. SIP's unique advantage from other developers is it can distribute electricity and water directly to its tenants, which accounted for ~80% of total revenue over the past four years. Thus, along with annual booking of land leasing income rather than one-off booking, SIP has a more stable business and is less affected by fluctuations in investment inflow to IPs compared to other developers. The company is preparing to shift from the UpCOM to the HOSE this year.

In 2017-2022, despite the COVID-19 pandemic, SIP recorded an impressive CAGR of 19% in net revenue, to VND6,034bn, and 41% in NPATMI, to VND920n in 2022. This stellar performance was mainly thanks to high demand of industrial land, increasing tenants' consumption of water and electricity and a 5 times increase in interest income mainly generated from a high cash balance.

During the last five years, SIP maintained a very low debt balance and did not use long-term debts in 2019, 2020 and 2022. As of 31/12/2022, SIP had short-term debt balance of nearly VND700bn and a cash & cash equivalent balance of over VND4,200bn, equivalent to over 1/5$^{th}$ of total assets, which is being maintained for upcoming investments in additional IP projects. The Net debt/Equity ratio was -96.3% and Net debt/EBITDA was -3.2x. The company maintained cash dividend payment of VND1,800-2,800/share in the past five years.

**2023 Outlook and valuation**

Overall, SIP has a strong financial status, solid income source from electricity and water distribution, good management team and stable cash dividend. For 2023, we forecast total revenue of over VND6,500bn (+8% YoY) and PAT at over VND1,100bn (+10% YoY). Using the NAV method, we derive a target price of VND132,647/share at YE23. Our main concerns for this stock are low liquidity (which is one of reasons to move the listing to the HOSE) and cross-ownership among SIP and member companies of Vietnam Rubber Group.

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**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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