IDC Initiation - BUY

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Company Coverage

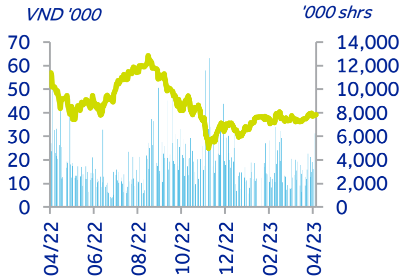
Recommendation	**BUY**
	HNX: IDC
	Industrial Property
Current price (VND)	**39,100**
Target price (VND)	**47,044**
Expected share price return	20.3%
Expected dividend yield	10.2%
Expected total return	**30.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	30.6	3.3	12.9	-27.1
Relative	24.1	1.6	11.3	-0.5

Source: Bloomberg

Price-Volume



Ownership

SSG	22.5%
Bach Viet Manufacturing and Trading Ltd.	11.9%

Stock Statistics

Stock Statistics	**11-Apr-23**
Bloomberg code	**IDC VN**
52-week range (VND)	23,600 - 68,100
Shares O/S (m)	330
Mkt cap (VND bn)	13,002
Mkt cap (USD m)	550
Foreign room left (%)	3.8
Est. free float (%)	63.2
3m avg daily vol (shrs)	3,165,546
VND/USD	23,630
Index: VNIndex / HNX	1069.46/212.59

IDICO CORPORATION - JSC (IDC VN)

We issue a BUY rating with a target price of VND47,044/share for an industrial park developer with distinct power distribution income, healthy balance sheet and high cash dividend.

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 in the north and south regions, 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 company 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 gross margin of ~50%.

In 2018-2022, net revenue had a humble CAGR of 9% given 60-70% of total revenue in 2018-2021 came from stable power and BOT business lines. However, NPATMI had an impressive CAGR of 39% mainly thanks to a high gross margin of 41% 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.

For 2023, business result may go sideways with estimated net revenue of nearly VND8,200bn (+9% YoY) and PBT of VND2,677bn (+2% YoY) given no expected unearned revenue realized when changing booking method from annually to one-off. Using NAV method, we derive a target price of VND47,044/share and give a BUY rating for this stock given positive long-term outlook of the industrial property segment, solid income from power and BOT business line, strong financial status and high cash dividend of 40% which is expected to last till 2026. Major concerns for IDC include a slowdown in registered FDI and slow legal procedure of new projects and clearance process.

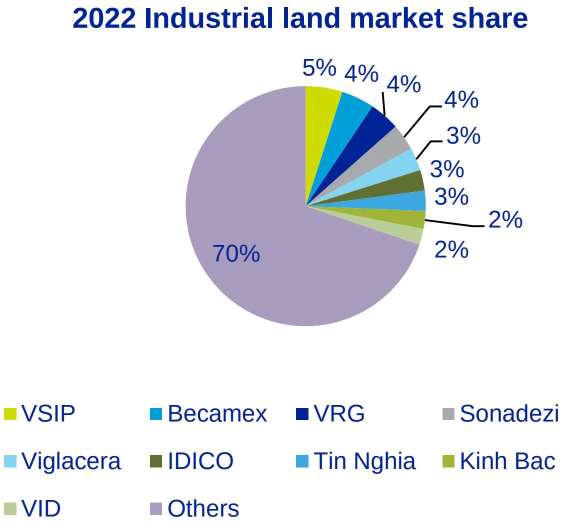
	2019	2020	2021	2022	2023E
Net Sales (VNDbn)	4,929	5,356	4,301	7,486	8,172
Growth (%)	*-3.7%*	*8.7%*	*-19.7%*	*74.0%*	*9.2%*
EBITDA (VNDbn)	1,059	1,770	794	3,641	3,828
Growth (%)	*-0.4%*	*67.1%*	*-55.1%*	*358.3%*	*5.1%*
Net income (VNDbn)	345	874	454	1,768	1,784
Growth (%)	*-1.2%*	*153.4%*	*-48.0%*	*289.1%*	*0.9%*
EPS (bonus-adjusted, VND)	1,045	2,630	1,356	5,605	5,357
Growth (%)	*-1.2%*	*151.8%*	*-48.4%*	*313.2%*	*-4.4%*
ROE (%)	10.0%	22.9%	11.2%	40.0%	34.8%
ROIC (%)	2.9%	6.6%	3.3%	11.0%	10.5%
Net debt/EBITDA (x)	0.7	0.6	1.1	0.4	0.5
EV/EBITDA (x)	13.4	8.0	17.9	3.9	3.7
PER (x)	37.4	14.9	28.8	7.0	7.3
PBR (x)	3.4	2.8	3.0	2.6	2.4
DPS (VND)	800	3,000	2,000	4,000	4,000
Dividend yield (%)	2.0%	7.7%	5.1%	10.2%	10.2%

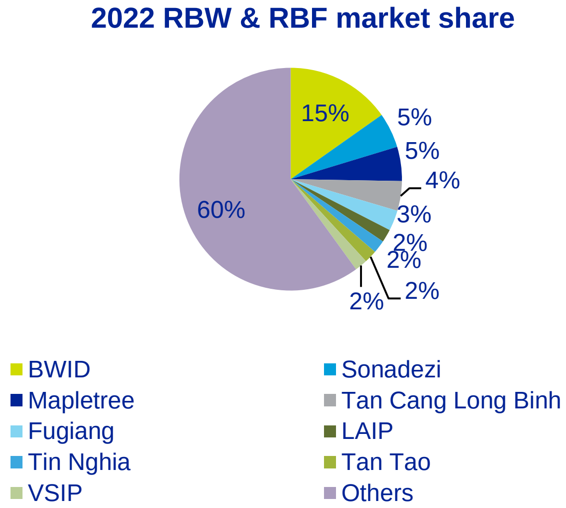
Industrial property segment overview

According to the Ministry of Planning and Investment (MPI), Vietnam had 410 IPs at YE22, of which, nearly 300 IPs are operating with a stable average occupancy rate of 71.1% (+10 ppts YoY) and over 100 IPs are in clearance or infrastructure development stage. 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 is a joint-venture between Vietnam (led by BCM) and Singapore (led by SembCorp (Ticker: U96).

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.





Source: ACBS summary, Savills

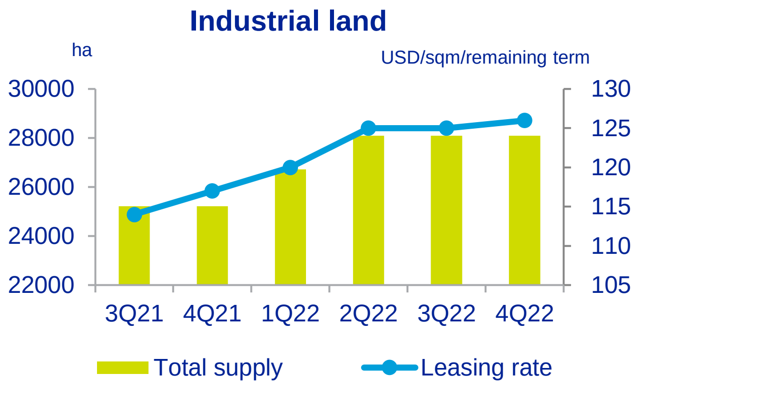
Vietnam has four key economic zones including northern, central, southern and the Mekong delta; of which, the northern and the southern regions are the two biggest.

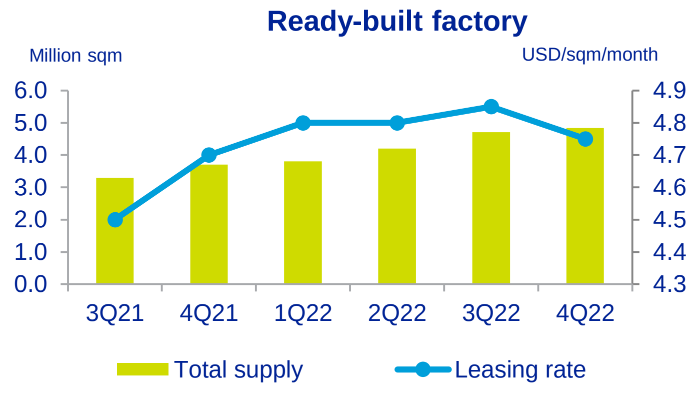
The Southern Key Economic Zone (SKEZ): leading zone, traditional industries

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.

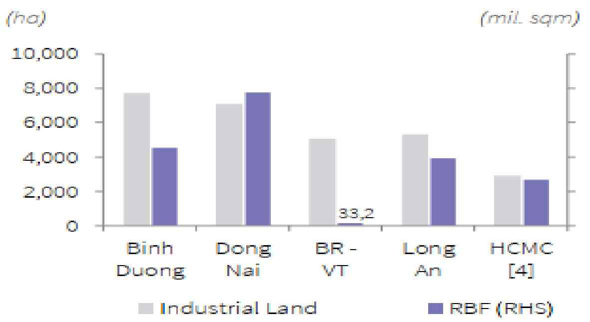
The SKEZ has 127 established IPs with a total land area of nearly 51,000ha accounting for nearly 40% of national market share. Dong Nai province has the highest number of IPs (32) in Vietnam while Binh Duong has the highest industrial land area of nearly 12,700ha, accounting for nearly 10% of market 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.

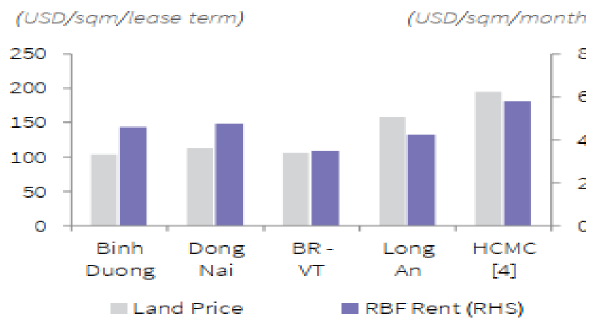
Regarding the RBF market, the zone has 4.8mn sqm of NLA (+30.8% YoY) with an average leasing rate of USD4.75/sqm/month (+0.3% YoY and -1.3% QoQ). Average occupancy rate was recorded at 83.6% (-2.4 ppts YoY). The growth in leasing rate of industrial area and RBF slowed down in 2022 given new supply and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





Source: JLL

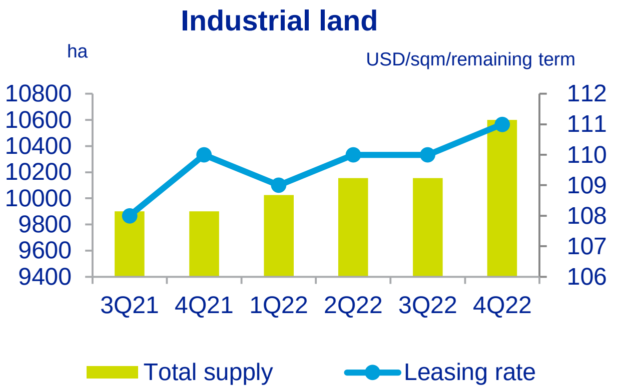


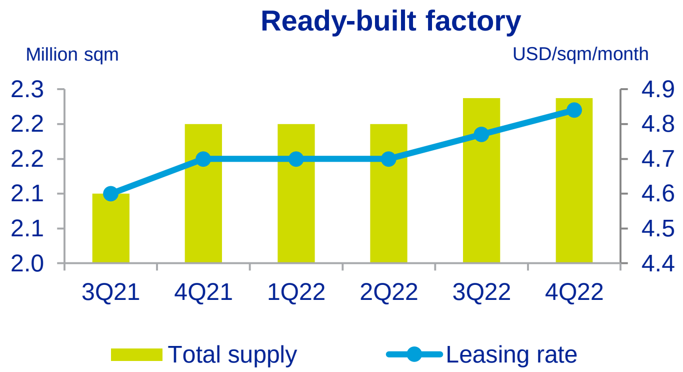


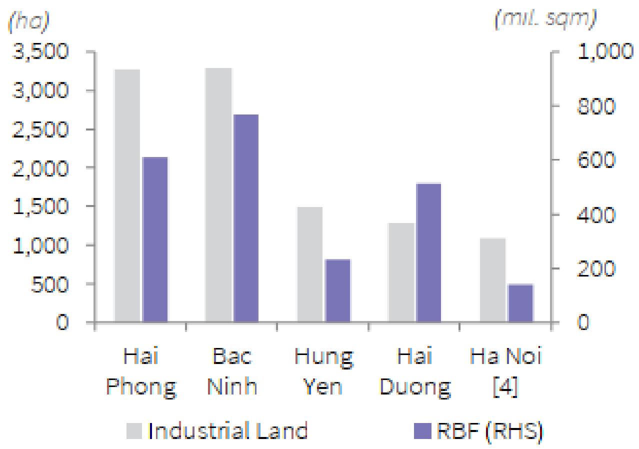
The Northern Key Economic Zone (NKEZ): second-biggest, new industries

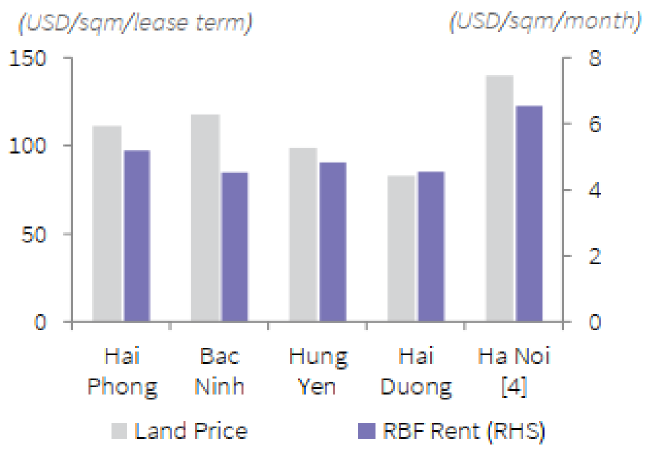
The NKEZ comprises of seven cities/provinces including Hanoi, Hai Phong, Bac Ninh, Hai Duong, Hung Yen, Vinh Phuc, and Quang Ninh. It is the second biggest zone in Vietnam and accounted for 5% of the total area and 18% of the total population. The NKEZ has 86 established IPs containing a total land area 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.









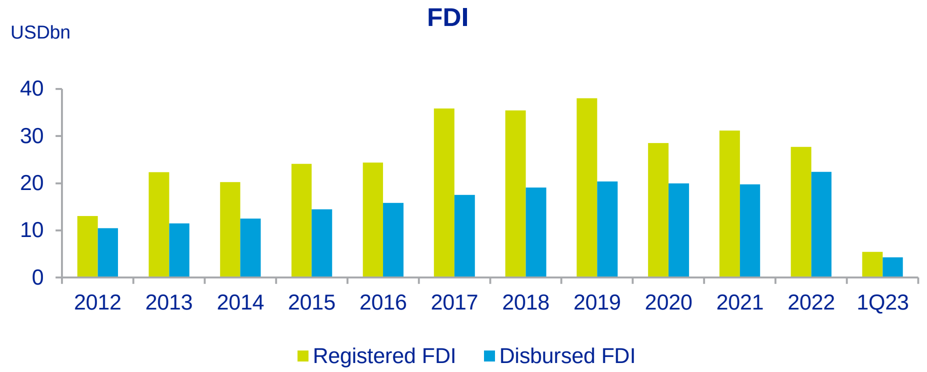
Source: JLL

FDI – a key growth driver

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.

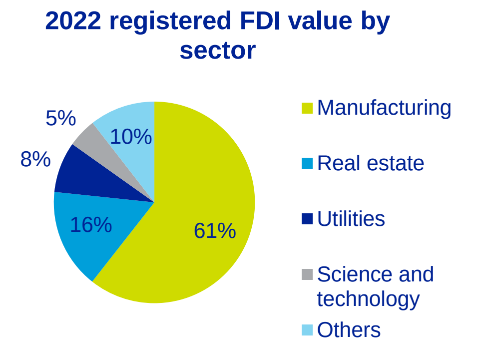
Given COVID outbreak and the slowdown of global economy, 2022 registered FDI dropped by 11% YoY, to USD27.7bn. In contrast, disbursed FDI increased steadily at a 2012-2022 CAGR of 7.9%, to USD22.4bn (+14% YoY) in 2022.

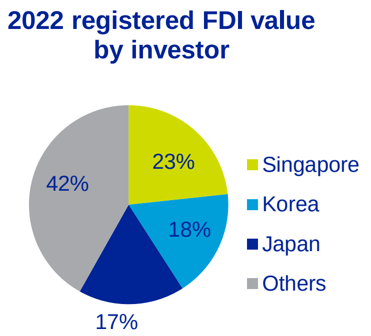
In 1Q23, registered FDI decreased significantly to USD5.45bn (-39% YoY) mainly due to USD1.3bn LEGO project registered in 1Q22. Disbursed FDI was stable at USD4.3bn (-2.2% YoY) which was acceptable in the midst of global slowdown.

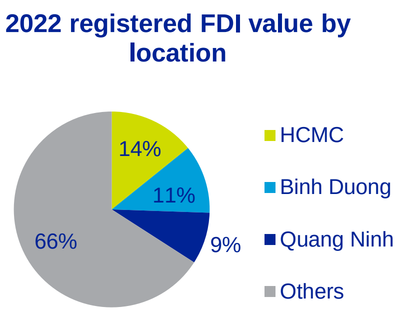


Source: Foreign Investment Agency, MPI.

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.







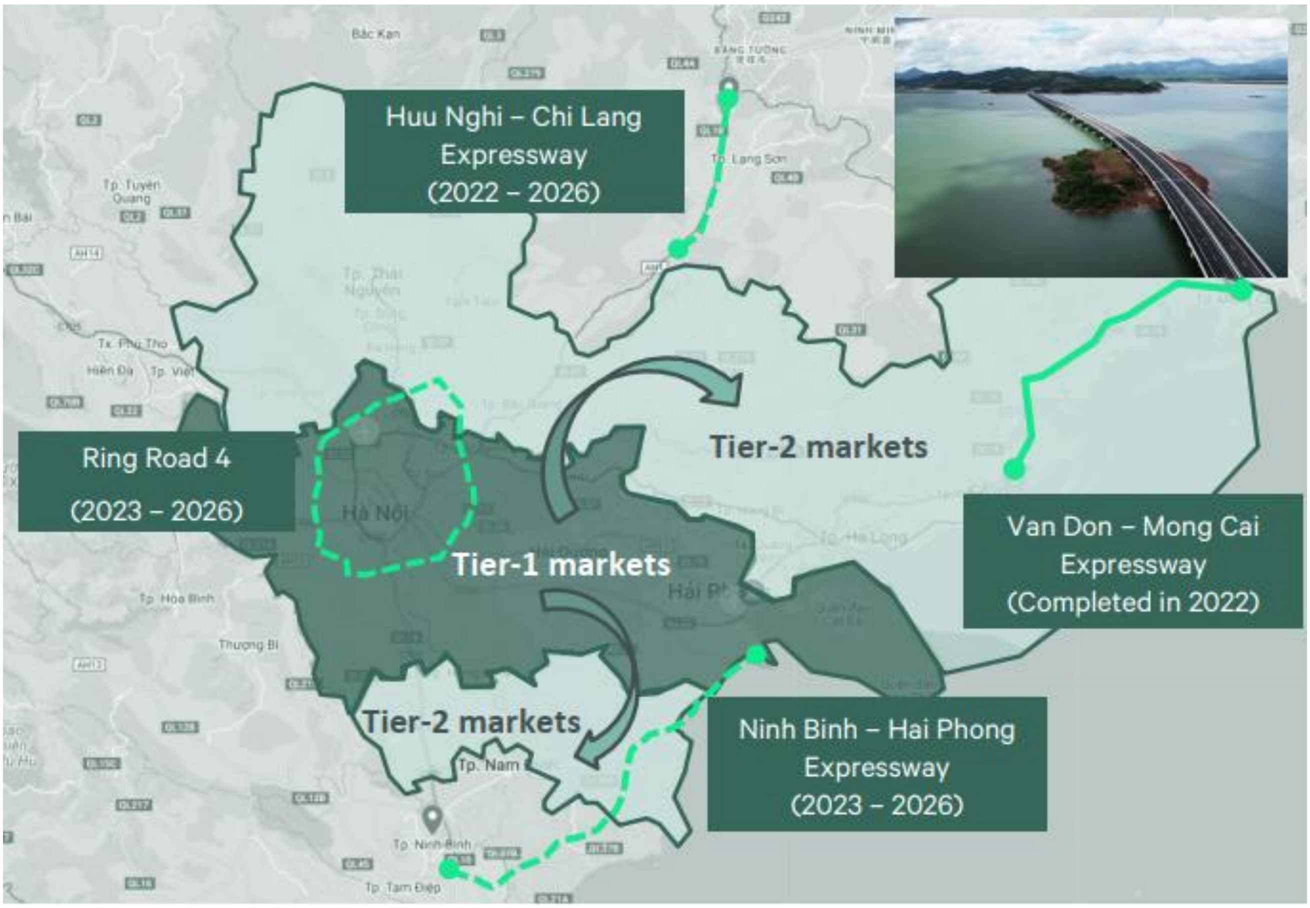
Source: Foreign Investment Agency, MPI.

Outlook

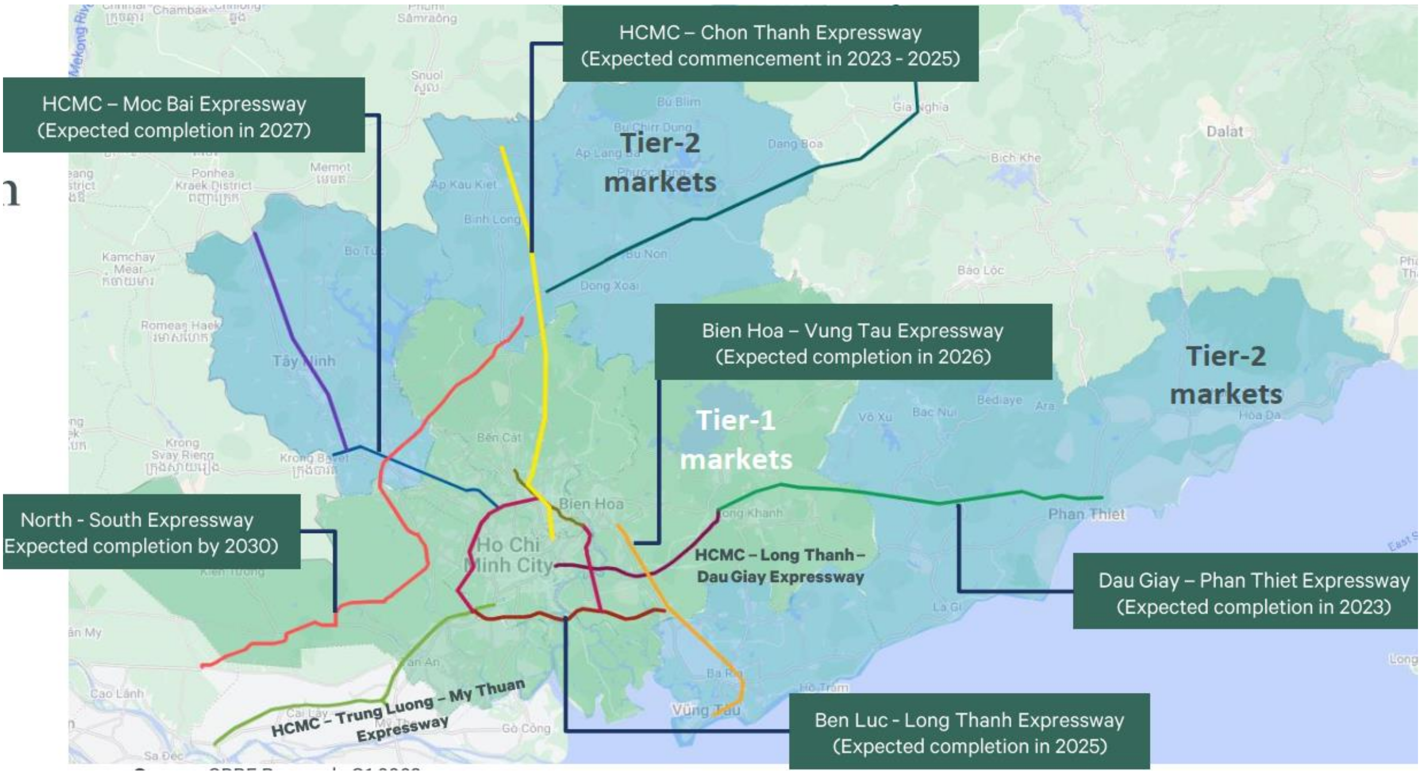
We have a positive outlook for this segment given many opportunities: China+1 trend, China-Taiwan tension, relatively stable macroeconomic growth, large and affordable work force, competitive leasing rates, growth of the middle class, infrastructure development and FTAs. On the other hand, a slowdown in global demand, global minimum tax, manufacturing wage growth, land clearance and insufficient infrastructure may pose challenges to the market's development. 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



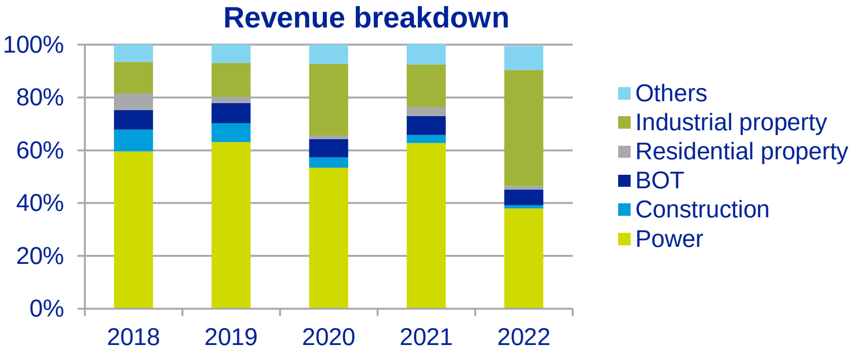
Source: CBRE.
Note: Tier-1 market includes HCMC, Binh Duong, Dong Nai, Long An. Tier-2 market includes Ba Ria-Vung Tau, Binh Phuoc, Tay Ninh

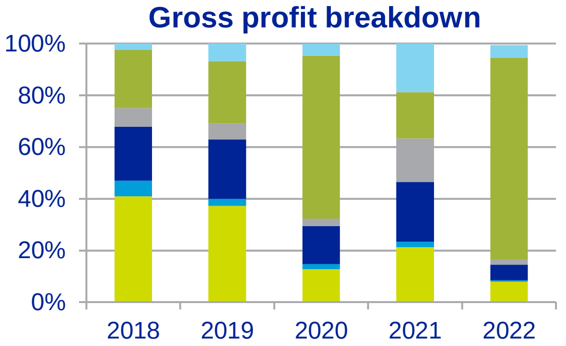
Company overview

Originated as a state-owned company with a focus on industrial property business

IDC was established in 2000 as a state-owned company under the MoC. The company went IPO in 2017 with a charter capital of VND3,000bn. In 2020, the MoC successfully sold the entire 108mn shares or 36% of state's capital at IDC with an average bidding price of VND26,936/share. In 2022, the company paid 2021 stock dividend of 10% and increased its charter capital to VND3,300bn. Currently, IDICO was ranked #4 in terms of market cap in the industrial property segment with four main business lines: industrial property, residential property, power and services.

Before 2022, power was the biggest revenue contributor which usually accounted for over 50% of IDC's total revenue and over 10% of gross profit while industrial property was the second biggest business line which usually contributed over 10% of total revenue and over 18% of gross profit. In 2022, industrial property became the biggest business line with 44% of revenue share and 78% of gross profit share as the company gradually changed its IP leasing revenue booking method from annually to one-off from 2020.





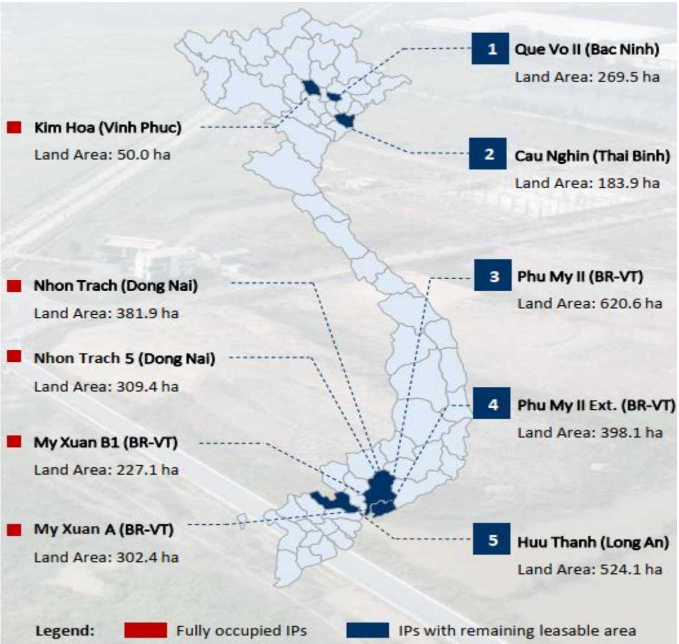
Source: IDC, ACBS.

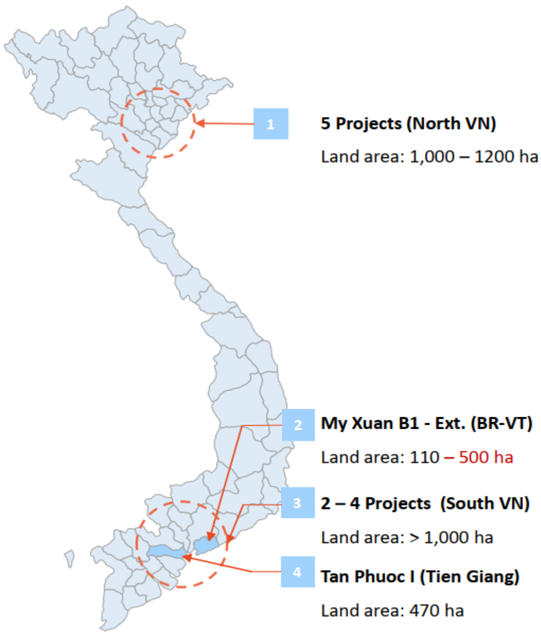
Industrial property: long-term key growth driver

IDICO currently has 10 operating IPs with 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 as shown in Figure 1 and Table 1 below. These IPs have attracted more than 280 tenants with a total registered investment capital of over USD8bn. Some notable international tenants are Honda, Posco and Heineken.

Despite a slowdown in global demand and recession, the long-term outlook for the industrial property segment is still positive given Vietnam's strategic location, China+1 trend, China-Taiwan tension, limited supply of industrial land especially in the southern region, sizable and relatively affordable labor force, competitive land and warehouse leasing rates, etc. Thus, IDC continues to expand its land bank with around 10 planned IP projects with a total land area of over 2,600ha, including 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 over 1,000ha, My Xuan B1 expansion of 110-500ha in Ba Ria – Vung Tau and Tan Phuoc 1 in Tien Giang (470ha).

Figure 1: Operating IPs and planned IPs





Source: IDC.

Table 1: Summary of operating IPs

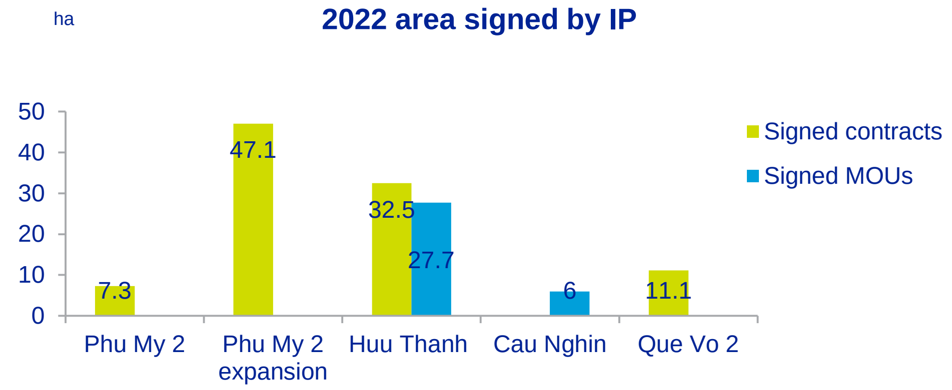
Project	Location	Stake	Total investment (VNDbn)	Total area (ha)	NLA (ha)	Occupancy rate YE22	Leasing rate (USD/sqm)	Note
Fully occupied IPs			**1,925**	**1,271**	**949**	**100%**	**n/a**	
Kim Hoa	Vinh Phuc	100%	252	50	46	100%	n/a	Honda is the only tenant
My Xuan B1	Ba Ria-Vung Tau	51%	544	227	160	100%	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 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**	**46%**	**123**	
Cau Nghin	Thai Binh	100%	1,160	184	103	8.3%	>65	Expected to be benefit from the China+1 trend
Huu Thanh	Long An	100%	6,922	524	395	15.6%	>140	Key tenants: Kizuna, Nature Foods
Phu My 2	Ba Ria-Vung Tau	100%	1,900	621	443	73.2%	>125	Key tenants: POSCO, Linde, Behn Meyer
Phu My 2 expansion	Ba Ria-Vung Tau	100%	1,880	398	273	56.8%	>125	
Que Vo 2	Bac Ninh	51%	1,500	270	177	51.3%	>115	Near factories of Samsung and Foxconn. Key tenants: Amtek, Lixco

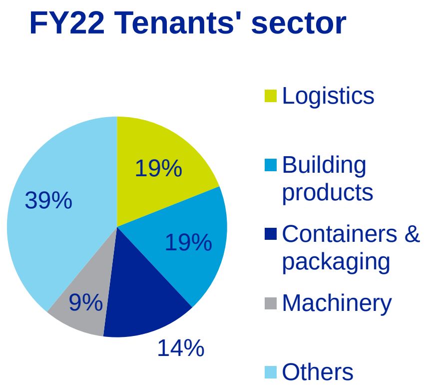
Source: IDC, ACBS,

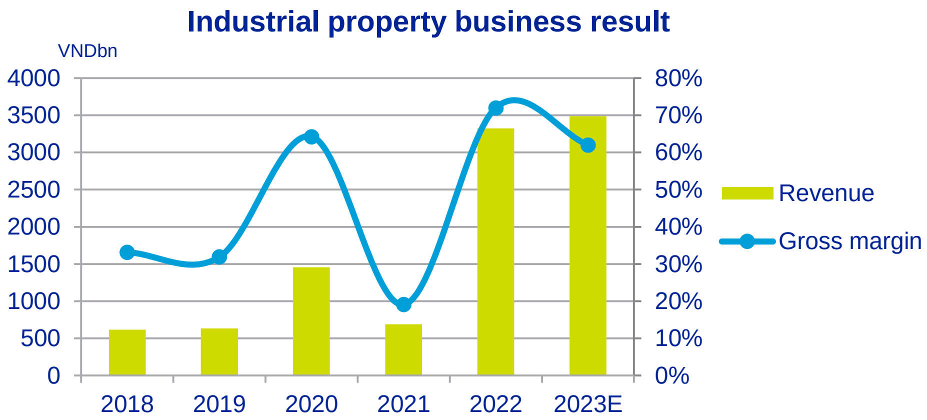
IDC will gradually change its IP leasing revenue booking method from annually to one-off, thus the unearned revenue of VND4.6trn at YE22 will be gradually recorded in 2023-2026 with expected gross profit of ~VND2.3trn. This change will make IDC's business result to be more volatile in tandem with FDI flow in the future.

The company leased 131.8ha in 2022 (+29% YoY), of which Huu Thanh IP is a star with 60.2ha, followed by Phu My 2 expansion with 47.1ha. Most FY22 clients came from logistics, building products, containers and packaging sectors. In 2022, industrial property revenue increased by 6 times YoY, to over VND4,200bn for 91.5ha, of which Huu Thanh IP had 32ha recorded at USD130/sqm/remaining leasing term. Gross margin was at a high level of 70% (+51 ppts YoY) thanks to the recognition of nearly VND1,500bn from unearned revenue of Nhon Trach 5 IP when changing booking method from annually to one-off and 7-13% YoY increases in average leasing rates at Phu My 2, Phu My 2 expansion and Huu Thanh IPs.

For 2023, we forecast area signed at nearly 93ha (-30% YoY) to reflect declines in registered FDI to USD27.7bn (-11% YoY) in 2022 and to USD5.45bn (-39% YoY) in 1Q23 given a slowdown in global demand and economic difficulties. If these headwinds prolong, investment flow to Vietnam will be more affected as investors may prefer to wait and reserve cash for defense rather than expanding/relocating their factories. Industrial property revenue was estimated at nearly VND3,500bn (+5% YoY) given around 118ha delivered (+29% YoY) but no recognition of unearned revenue from changing booking method from annually to one-off.







Source: IDC, ACBS.

Huu Thanh IP is a key growth driver of the industrial property segment

Huu Thanh IP is located in Duc Hoa, Long An with a total area of 524ha, accounting for 5% of the province market share. It is located 40km to HCMC, 57km to Cat Lai port, 51km to Long An port and 16km to HCMC-Long Thanh Expressway. Long An province is a gateway connecting HCMC to the Mekong Delta, home of the largest agricultural and fishery region in Vietnam, thus IPs in this province attracts many SMEs in the FMCG and logistics sectors. The IP has a total investment of VND6.9trn, an expected revenue of VND12,500bn and a gross margin of ~50%.

Phu My 2 and Phu My 2 expansion IPs have one of the best locations in the Southern Key Economic Zone

IDICO has 4 IPs in Ba Ria – Vung Tau with a total area of 1,548ha, accounting for 18% of the province market share. Of which, My Xuan B1 and My Xuan A IPs are fully occupied and Phu My 2 and Phu My 2 expansion IPs are available for lease with a total remaining NLA of 237ha at YE22. These two IPs are located 67km to HCMC, 53km to Cat Lai port and 40km to Long Thanh international airport. Especially, they are besides Cai Mep – Thi Vai port which was ranked 11th among the 370 most efficient container terminals/port clusters globally by World Bank and S&P Global Market Intelligence in 2021 and 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 Phu My 2 and Phu My 2 expansion IPs. These IPs are expected to have very high gross margins of around 70-80% given its low clearance cost which was spent 16 years ago.

Cau Nghin IP is expected to benefit from China+1 trend

Cau Nghin IP is located on the National Road No.10 which connects Hanoi with northern provinces such as Hai Phong and Hai Duong, 107km to Hanoi, 55km to Dinh Vu port and 30km to Hanoi-Hai Phong Expressway. Thus, it is expected to benefit from the China+1 trend. Around 105ha out of 184ha has not been cleared and was approved to change from land for cultivating rice to industrial land in 7/2022. Gross margin was forecast to be low as the leasing rate is currently only over USD65/sqm/remaining leasing term, much lower than other IP of IDC.

Que Vo 2 IP is suitable for supporting industries

Que Vo 2 IP is in Bac Ninh province, near factories of Samsung and Foxconn and suitable for supporting industries. Over 100ha out of 270ha 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 is expected not to be very 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.

Tan Phuoc 1 IP can benefit from limited supply of industrial land in Tien Giang

Tan Phuoc 1 IP is in Tien Giang, a province in the Mekong Delta - home of the largest agricultural and fishery region in Vietnam and near Trung Luong My Thuan Expressway. IDC can benefit from limited supply of industrial land in Tien Giang as this province has only 4 established IPs with a total land area of over 1,100ha, of which 2 IPs are fully occupied. IDC is holding 65% of Tan Phuoc 1 IP. The proposal for this project was submitted to the Prime Minister in 1/2023 and is expected to be approved in this year. Around 170ha out of 470ha of this IP has not been cleared and is agriculture land for short growing season.

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. In Nhon Trach 1 IP, IDC received construction permit approval for an initial development of 1.4ha/5.2ha in GFA for RBF. In Huu Thanh IP, the company started the development of 9.3ha with GFA of 5.7ha for both RBF and RBW.

Project	Total area (ha)	Timeline
Huu Thanh	30	From 2023
Nhon Trach 1	20	From 2023
Phu My 2 expansion	10	n/a
Phu My 2	10	n/a
Que Vo	20	n/a
Cau Nghin	20	n/a

Source: IDC.

Residential property is expected to benefit from supporting policies for social and worker housing projects

IDICO has 13 residential property projects with a total land area of nearly 105ha in Dong Nai, Long An, Ba Ria – Vung Tau, Can Tho and Ha Nam as shown in Table 2. Six social and worker housing projects with a total land area of over 83ha are expected to benefit from a support package of VND120trn for developers and homebuyers at social and worker housing projects with interest rates 1.5-2% lower than those of mid- and long-term loans of 4 state-owned commercial banks (BIDV, Vietcombank, Vietinbank, Agribank), according to Resolution No.33/NQ-CP issued 11/3/2023.

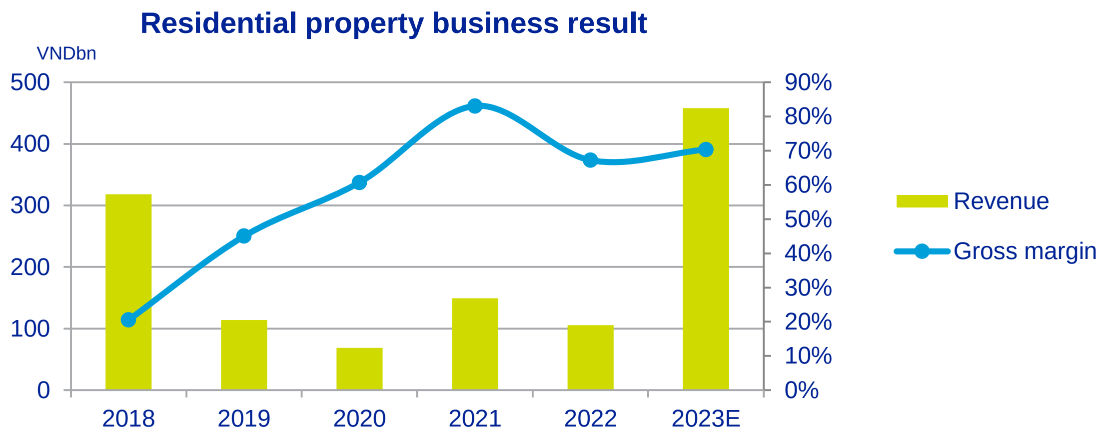
In 2023, IDC is expected to record a transfer of 2.1ha of commercial and service land at residential area in Ward 6, Tan An, Long An to AEON with expected revenue of USD15mn. Thus, revenue from residential property was estimated to increase by 4 times YoY to VND458bn in 2023.

Table 2: Summary of residential property projects

Project	Location	Stake	Est. total investment (VNDbn)	Accumulated investment (VNDbn)	Total area (ha)	Remaining area	Progress
Social and worker housing projects							
Worker housing at Nhon Trach IP (1)	Dong Nai	100%	820	360	10.0	Total GFA=177,088 sqm. 17 blocks	Adjusting 1/500 plan to increase from 9 floors to 25 floors. Develop from 2028
Worker housing at Nhon Trach IP (2)	Dong Nai	100%	1,138	10	10.0	34,775 sqm of NSA, of which 6,434 sqm for townhouses and 28,341 sqm for condominium	Land lots was received. Develop from 2026.
Residential and worker housing at Huu Thanh IP	Long An	100%	1,729	638	47.1	40.4ha has been cleared, 2.2ha to be cleared and 4.5ha not required to be cleared	Had Land transfer decision for the 1st phase of 33.4ha. Develop from 2025.
Relocation area at Nhon Trach 1 and Hiep Phuoc condominium	Dong Nai	100%	191	25	4.9	NSA = 2.9ha	Doing legal paper
Worker housing at My Xuan B1 IP	Ba Ria – Vung Tau	51%	270	25	3.4	n/a	n/a
Vinh Cuu social housing project	Dong Nai	100%	n/a	n/a	7.9	n/a	n/a
Other residential projects							
Condominiums on National Road No.1K Hoa An	Dong Nai	67%	216	187	7.0	Remaining NSA = 2.3ha	In clearance process. Develop from 2028.
Central residential area expansion	Long An	51%	423	418	3.1	2.9ha for commercial and services, education, medical	Transfer 2.1ha to Aeon
An Hoa	Dong Nai	100%	272	198	3.9	Lot A for villas of 2,507 sqm and Lot G for condo of 5,913sqm	Adjusting 1/500 Planning. Develop in 2025.
IDICO-INCO 10 headquarter	Can Tho	98%	76	3	0.5	n/a	n/a
Condotel Thuy Duong	Ba Ria – Vung Tau	51%	n/a	n/a	0.7	n/a	n/a

Conac Plaza	Ba Ria – Vung Tau	51%	n/a	n/a	0.8	GFA = 78,884 sqm. 31 blocks and 543 units	n/a
Bac Chau Giang	Ha Nam	51%	672	257	5.7	n/a	n/a

Source: IDC, ACBS.



Source: IDC, ACBS.

Power: growth in line with the industrial property sector

IDICO currently has 2 hydro power plants with a total capacity of 114MW with details shown in Table 3 below. The La Nina period is forecasted to end soon and replaced by El Nino in 2023-2024 period, according to ENSO; thus we expect lower rainfall than average in 2023-2024 and output and profit growth of these 2 hydro power plants will be affected in this period.

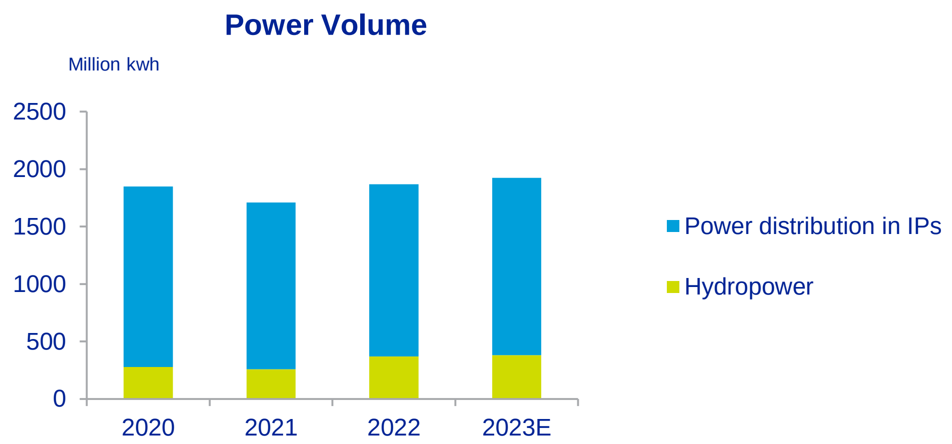
Table 3: Summary of hydropower projects

Project	Location	Stake	Total investment (VNDbn)	Capacity (MW)	Average volume (mn kwh)	Average revenue (VNDbn)	Year start construction	Year start operating	Note
Dak Mi 3	Quang Nam	100%	1,626	63	200	180	2013	2017	operate from 20/10/2022 after maintenance
Shrok Phu Mieng	Binh Phuoc	51%	1,048	51	270	293	2003	2006	

Source: IDC, ACBS.

IDC expects to exploit 1,000ha of water surface at its 2 hydro power plants to generate ~1,000MW of solar power and invest in 120MW of solar rooftop which is in the trial phase. It launched the first solar rooftop project of 1.1MWp in Nhon Trach, Dong Nai and expects to complete in 4/2023. IDC plans to develop a total of over 20-30 MW in this year.

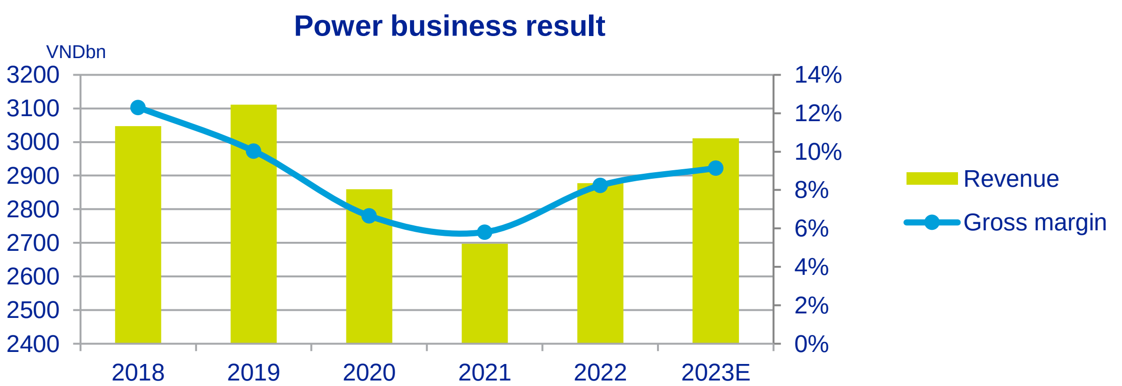
In terms of power distribution, IDC currently has 100km of power distribution lines, 2 110/22kV power substations Tuy Ha (229MVA) and Nhon Trach 5 (189 MVA) with a total capacity of 418 MVA and average revenue of around VND2.5trn. IDICO may be one of the only two listed companies in the Southern Key Economic Zone, besides Saigon VRG (UpCOM: SIP), to have licenses issued by the Ministry of Industry and Trade to build 110kV substations to distribute power directly to tenants in IPs. This is a key competitive advantage of IDC as these licenses are scarcely issued to companies outside of EVN and margin of direct distribution is higher than that of other industrial property developers which wholesale from EVN and resell to tenants.



Source: IDC, ACBS.

The company is constructing a 110/22kV power substation at Huu Thanh IP with a total capacity of 189 MW, total investment capital of VND284bn, expected average volume of 680-760mn kwh and annual revenue of VND1.4-1.5trn. Phase 1 of 63 MVA is expected to start distributing power from 12/2023.

We expect power revenue will increase by 5% YoY in 2023, to ~VND3trn given assumption of an 8% increase in electricity price and a 3% YoY increase in power volume as more tenants are added to IPs and Dak Mi 3 plant operated again from 20/10/2022.



Source: IDC, ACBS.

BOT: stable income source

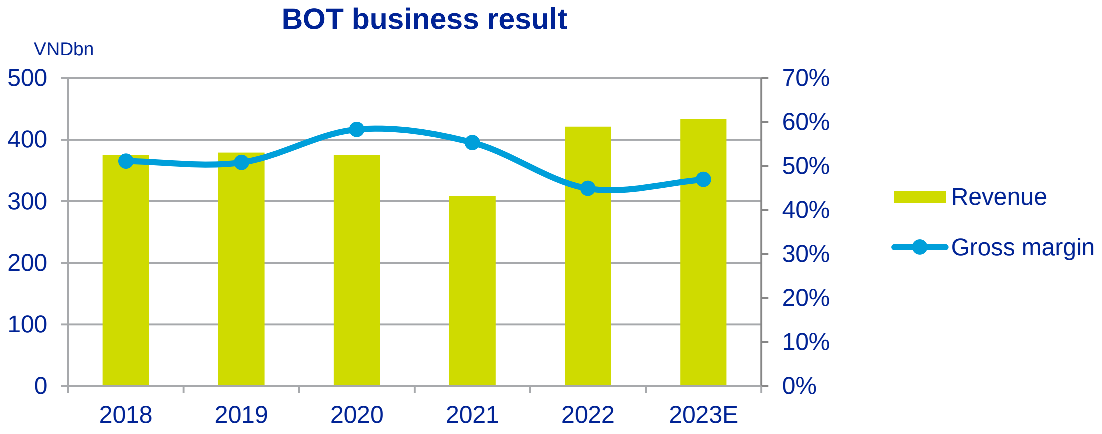
The company currently has 2 BOT projects: National Road 1A An Suong – An Lac in HCMC and National Road No.51 expansion in Dong Nai and Ba Ria – Vung Tau with details shown in Table 4. National Road 1A An Suong – An Lac project generates stable revenue of VND300-400bn/year and gross margin of around 50%. National Road No.51 expansion project which stopped collecting toll fees from 13/1/2023 recorded a loss of VND124bn in 2022 compared with a loss of VND72bn in 2021.

Table 4: Summary of BOT projects

Project	Location	Stake	Total investment (VNDbn)	Length (km)	Year start construction	Collection timeline	Note
National Road 1A An Suong – An Lac	HCMC	57.5%	832	14	2001	2005-2033	
National Road No.51 expansion	Dong Nai, Ba Ria – Vung Tau	49.0%	3,700	72.7	2009	2012-2023	Stop collecting toll fees from 13/1/2023

Source: IDC, ACBS.

Given assumption of no change in toll price and a 3% YoY growth in PCU, we expect BOT revenue to grow by 3% YoY, to VND434bn with a stable gross margin of 47%.



Source: IDC, ACBS.

A big jump in 2022 and a probable sideway in 2023

In 2018-2022, net revenue had a humble CAGR of 9% given 60-70% of total revenue in 2018-2021 came from stable power and BOT business lines. In 2022, net revenue increased by 74% YoY to VND8,242bn mainly thanks to a five times YoY increase in industrial property, to VND3,322bn given 91.5ha delivered at Huu Thanh, Phu My 2 and Phu My 2 expansion IPs as well as recognition of ~VND1,500bn from unearned revenue of Nhon Trach 5 IP when changing booking method from annually to one-off.

NPATMI, on the other hand, had an impressive 2018-2022 CAGR of 39% mainly thanks to a high gross margin of 41% in 2022 (resulted from a higher revenue contribution from the industrial property business line) compared with 17-28% in 2018-2021.

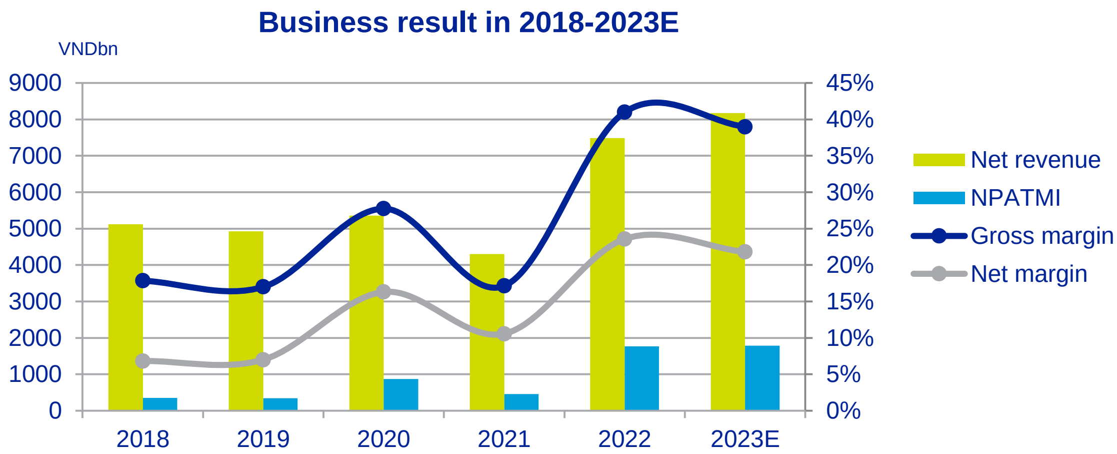
For 2023, business result may go sideways with estimated net revenue of nearly VND8,200bn (+9% YoY) and PBT of nearly VND2,700bn (+2% YoY) given the following assumptions:

(1) Around 118ha of industrial land delivered (+29% YoY) and no recognition of unearned revenue from changing booking method from annually to one-off,

(2) Transfer of 2.1ha of commercial and service land at residential area in Ward 6, Tan An, Long An to AEON with expected revenue of USD15mn,

(3) An 8% increase in electricity price but a 3% YoY increase in power volume as more tenants are added to IPs and Dak Mi 3 plant operated again from 20/10/2022,

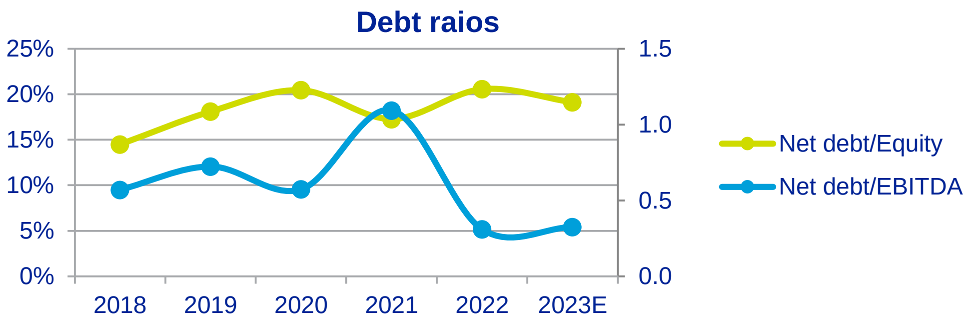
(4) no change in BOT toll price and 3% YoY growth in PCU,
(5) SG&A expenses to revenue ratio is stable at 4.5%,
(6) Net interest expense increases by 21% YoY, to VND69bn,
(7) CIT rate was estimated at 22.5%.



Source: IDC, ACBS.

Healthy financial status

IDICO maintained good financial health during 2018-2022 with net debt/Equity ratios in the range of 15-20% and Net debt/EBITDA ratios below 1x (except for 2021). At YE22, the company had a debt balance of nearly VND3,500bn, all in VND and have collaterals. Long-term debts accounted for 78% of total debts, of which VND400bn was corporate bonds due in 2025 with fixed interest rate of 8%/year and the remainder was bank loans with floating interest rates. Given cash and cash equivalent balance of VND2,130bn which was 2.8 times higher than short-term debts balance, we think that IDC will have no difficulties in fulfilling its financial obligation in this year.



Source: IDC, ACBS.

Relative analysis

Relatively compared to other industrial property developers, IDC had low current ratio and quick ratio, average gross margin, average debt ratios, highest ROE, low P/E and high P/B.

Table 5: Listed industrial property stocks

Ticker	Company name	Mkt cap (VNDbn)	Current ratio	Quick ratio	2022 gross margin	2022 Net debt/ Equity	2022 Net debt/ EBITDA	ROE (%)	P/E (x)	P/B (x)
BCM	Becamex IDC	82,697	1.5	0.2	42.4	80.1	8.8	10.2	58.9	4.9
KBC	Kinh Bac	20,035	2.6	0.7	10.4	19.7	4.4	10.1	13.1	1.2
VGC	Viglacera	16,365	1.0	0.5	29.0	16.2	0.3	23.5	9.4	2.0
IDC	**IDICO**	**13,101**	**1.8**	**1.2**	**43.4**	**20.6**	**0.3**	**50.1**	**7.7**	**2.6**
ITA	Tan tao	3,960	3.6	0.1	15.0	0.1	0.0	(2.6)	N/A	0.4
SZC	Sonadezi Chau Duc	3,350	1.1	0.2	44.0	151.8	3.3	13.1	19.1	2.2
NTC	Nam Tan Uyen	2,695	3.7	3.5	36.1	(147.4)	(5.0)	38.1	10.5	3.8
TIP	Tin Nghia IP	1,300	14.9	2.6	70.6	(13.1)	(2.2)	8.8	7.2	0.8
LHG	Long Hau	1,200	2.4	1.3	55.8	(70.5)	(4.3)	13.6	5.9	0.8
SZL	Sonadezi Long Thanh	951	2.9	2.1	40.8	(15.4)	(0.6)	13.4	12.0	1.6
MH3	Minh Hung 3	876	11.7	11.4	32.7	(217.6)	(13.5)	20.5	9.0	1.7
IDV	VInh Phuc	847	2.5	2.2	67.9	(32.9)	(2.6)	18.7	7.3	1.3
D2D	Industrial urban dev. 2	813	6.5	3.7	43.9	(29.5)	(9.8)	1.6	47.4	0.8
VRG	VN Rubber Industrial	546	10.3	8.3	49.6	(62.6)	(19.2)	1.2	11.1	2.0
Average		**9,456**	**4.7**	**2.7**	**41.5**	**(21.5)**	**(3.7)**	**15.7**	**16.8**	**1.9**

Source: Bloomberg, 12/4/2023.

Valuation and Recommendation

We use the discounted cash flow method for projects that are being developed, book value for projects that have not completed their legal documents, have not finish land clearance or are not in development plan and market value for listed stocks. Details of valuation are summarized in Table.

Using NAV method, we derive a target price of VND47,044/share at YE23 and give a BUY rating for this stock given positive long-term outlook of the industrial property segment, solid income source from power and BOT segments, strong financial status and high cash dividend of 40% which is expected to last till 2026. Major concerns for IDC include a slowdown in registered FDI and slow legal procedure of new projects and clearance process.

Table 6: Valuation

	Stake	Valuation (VNDbn)	Note
Industrial property projects			
Phu My 2	100%	2,594	DCF
Phu Ny 2 expansion	100%	4,206	DCF
Cau Nghin	100%	1,974	DCF
Huu Thanh	100%	3,707	DCF
Nhon Trach 1	100%	950	DCF
Que Vo 2	51%	635	DCF
Residential property projects			
Residential and worker housing at Huu Thanh IP	100%	350	Book value
Others	100%	158	Book value
Hydropower projects			
Dak Mi 3	100%	1,529	DCF
Shrok Phu Mieng	51%	561	DCF
BOT projects			
An Suong – An Lac	58%	1,077	DCF
Investment in associates and JVs			
Bien Hoa Vung Tau Expressway development JSC	49%	151	BV
IDICO Machine installation Investment Construction JSC	20%	26	BV
Investment in other companies			
Long Son oil & gas industrial investment development JSC (Ticker: PXL)		35	Market share price = VND5,000 Number of shares = 7.1mn
Cuong Thuan IDICO (Ticker: CTI)		9	Market share price = VND12,000 Number of shares = 770,000
Others		83	
Total assets		**18,045**	
Net debt		1,338	
Minority interest		1,182	
NAV		15,525	
Number of shares (million)		330	
NAV per share (VND)		**47,044**	

IDC FINANCIALS MODEL	Price (VND): 39,100	Target (VND): 47,044		Mkt cap (VND bn): 13,002	
(VND bn except where stated)	**2019**	**2020**	**2021**	**2022**	**2023E**
Total Net Sales	**4,929**	**5,356**	**4,301**	**7,486**	**8,172**
Sales growth	*-3.7%*	*8.7%*	*-19.7%*	*74.0%*	*9.2%*
CoGS ex-dep'n	3,670	3,360	3,175	3,387	3,856
Gross profit	**838**	**1,486**	**737**	**3,060**	**3,173**
Gross margin	*17.0%*	*27.7%*	*17.1%*	*40.9%*	*38.8%*
SG&A	279	250	260	334	364
SG&A as % of sales	*5.7%*	*4.7%*	*6.1%*	*4.5%*	*4.5%*
EBITDA	**1,059**	**1,770**	**794**	**3,641**	**3,828**
EBITDA margin	*21.5%*	*33.0%*	*18.5%*	*48.6%*	*46.8%*
Depreciation	420	510	389	1038	1142
Operating profit	**639**	**1,260**	**406**	**2,603**	**2,685**
Operating profit margin	*13.0%*	*23.5%*	*9.4%*	*34.8%*	*32.9%*
Profit/loss from associates and JVs	80	24	(71)	(123)	(123)
Financial income (excl. saving interest)	3	21	499	22	4
Financial expenses (excl. interest expense)	4	-2	121	7	1
Net interest expense	76	103	67	57	69
as % of avg, net debt	*11.1%*	*11.6%*	*7.1%*	*5.1%*	*4.4%*
Other profit	13	54	40	57	57
Tax	97	234	178	563	603
Effective tax rate	*17.0%*	*19.0%*	*23.6%*	*21.5%*	*22.5%*
PAT	**477**	**999**	**578**	**2,055**	**2,074**
Minority interest	132	125	124	287	290
NPATMI	**345**	**874**	**454**	**1,768**	**1,784**
Net profit margin	*7.0%*	*16.3%*	*10.6%*	*23.6%*	*21.8%*
Cash earnings	765	1383	843	2806	2926
Number of shares (m)	300	300	300	330	330
EPS (VND)	**1,149**	**2,893**	**1,492**	**5,605**	**5,357**
Bonus factor (x)	0.9	0.9	0.9	1.0	1.0
Adjusted EPS (VND)	**1,045**	**2,630**	**1,356**	**5,605**	**5,357**
EPS growth	*-1.2%*	*151.8%*	*-48.4%*	*313.2%*	*-4.4%*

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022	2023E
Increase in working capital	197	-134	85	89	152
Capex	814	955	862	1,059	1,059
Other cash flow items	398	-606	973	-1,142	-874
Free cash flow	**153**	**-43**	**869**	**516**	**841**
Share issues (m)	0	0	0	0	0
Dividends paid	313	204	724	986	1,320
Increase in net debt	160	247	-145	470	479
Net debt, end of year	**766**	**1,014**	**869**	**1,338**	**1,817**
Shareholders' equity	**4,233**	**4,958**	**5,028**	**6,128**	**6,592**
BVPS (VND)	11,500	13,927	12,999	14,988	16,123
Net debt / equity (%)	*18.1%*	*20.4%*	*17.3%*	*21.8%*	*27.6%*
Net debt / EBITDA (x)	*0.7*	*0.6*	*1.1*	*0.4*	*0.5*
Total assets	**14,316**	**14,529**	**16,076**	**17,013**	**17,957**

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022	2023E
ROE	*10.0%*	*22.9%*	*11.2%*	*40.0%*	*34.8%*
ROA	*2.4%*	*6.1%*	*3.0%*	*10.7%*	*10.2%*
ROIC	*2.9%*	*6.6%*	*3.3%*	*11.0%*	*10.5%*
WACC	*15.0%*	*15.0%*	*12.8%*	*12.2%*	*11.7%*
EVA	*-12.1%*	*-8.4%*	*-9.5%*	*-1.3%*	*-1.2%*
PER (x)	*37.4*	*14.9*	*28.8*	*7.0*	*7.3*
EV/EBITDA (x)	*13.4*	*8.0*	*17.9*	*3.9*	*3.7*
EV/FCF (x)	*93.2*	*-328.5*	*16.4*	*27.6*	*16.9*
PBR (x)	*3.4*	*2.8*	*3.0*	*2.6*	*2.4*
PSR (x)	*2.6*	*2.4*	*3.0*	*1.7*	*1.6*
EV/sales (x)	*2.9*	*2.7*	*3.3*	*1.9*	*1.7*
Dividend yield	*2.0%*	*7.7%*	*5.1%*	*10.2%*	*10.2%*

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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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