



SIP Update - BUY

Wednesday, May 31, 2023



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Company Update

Recommendation

BUY

Upcom: SIP

Industrial Property

Current price (VND) **102,000**

Target price (VND) **115,546**

Expected share price return 13.4%

Expected dividend yield 3.4%

Expected total return **16.8%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	61.8	19.5	25.0	-3.1
Relative	54.3	16.9	19.8	11.8

Source: Bloomberg

Price-Volume



Ownership

An Loc Urban Development & Investment JSC	19.5%
Mr. Tran Manh Hung (Chairman)	10.3%
Nam Tan Uyen IP JSC	8.9%
Mr. Lu Thanh Nha (CEO)	7.5%

Stock Statistics

29-May-23

Bloomberg code

SIP VN

52-week range (VND) 51,700 - 143,500

Shares O/S (m) 91

Mkt cap (VND bn) 9,999

Mkt cap (USD m) 423

Foreign room left (%) 48.3

Est. free float (%) 58.1

3m avg daily vol (shrs) 123,914

VND/USD 23,650

Index: VNIIndex / HNX 1077.08/220.84

SAIGON VRG INVESTMENT CORPORATION (SIP VN)

Reiterate our Buy rating with a target price of VND115,546 given well-located industrial parks, stable power and water distribution segment and healthy financial status despite weaker demand and global economic headwinds.

2Q23 result may go sideways

SIP posted 2022 net revenue of over VND6,000bn (+8% YoY) and PAT of VND977bn (+17% YoY), equivalent to 93% and 97% of our forecast, respectively. The slight underperformance was mainly due to a delay in industrial land area delivered at Phuoc Dong industrial park (IP) and lower warehouse/factory area leased at Dong Nam, Phuoc Dong and Le Minh Xuan 3 IPs than our projection.

In 1Q23, SIP recorded net revenue of nearly VND1,400bn (-6% YoY) and PAT of VND166bn (-28% YoY) given a slowdown in register FDI to Vietnam (2022: USD27.7bn, -11% YoY) and 5M23: USD10.9bn, -7% YoY) driven by global economic headwinds and weaker demand.

Tentative 2Q23 result may go sideways with net revenue of ~VND1,500bn (-7% YoY) and PAT of ~VND266bn (-1% YoY), according to the management in the recent AGM.

Healthy financial status

During the last five years, SIP maintained a very low debt balance and did not use long-term debts in 2019-2020. As of 31/3/2023, SIP had a debt balance of over VND1,000bn, mainly in short-term, and a cash & cash equivalent balance of over VND3,700bn, equivalent to nearly 1/5th of total assets, which is for clearance cost at Phuoc Dong IP – Phase 3 project. Net cash/Equity ratio was 70.5% as of 31/3/2023. In the AGM, the company increased 2022 cash dividend to VND4,500/share, stock dividend to 45% and stock bonus to 55%.

Stop lending to An Loc company at the end of 2Q23

SIP reduced its ownership in The He Moi company from 99% to 18% recently and profit will be realized in 2Q23. As of 26/4/2023, a loan balance to The He Moi company reduced to zero and loans to An Loc company reduced to VND273bn. At the end of 2Q23, loans to An Loc company reduced to zero, according to the company management.

	2019	2020	2021	2022	2023E
Net Sales (VNDbn)	4,340	5,083	5,578	6,035	6,391
Growth (%)	34.0%	17.1%	9.7%	8.2%	5.9%
EBITDA (VNDbn)	606	936	955	1,119	1,170
Growth (%)	67.5%	54.3%	2.1%	17.1%	4.6%
Net income (VNDbn)	595	1,026	835	977	1,105
Growth (%)	172.2%	72.4%	-18.6%	17.0%	13.1%
EPS (bonus-adjusted, VND)	6,516	11,232	8,992	10,530	12,156
Growth (%)	236.3%	72.4%	-19.9%	17.1%	15.4%
ROE (%)	36.5%	43.9%	27.5%	28.1%	27.6%
ROIC (%)	3.1%	4.2%	3.6%	4.0%	4.1%
Net debt/EBITDA (x)	-7.4	-4.1	-4.2	-3.1	-2.7
EV/EBITDA (x)	10.8	7.0	6.9	5.9	5.6
PER (x)	15.6	9.1	11.3	9.7	8.4
PBR (x)	3.7	2.9	2.9	2.5	2.1
DPS (VND)	1,900	2,000	2,800	4,500	1,000
Dividend yield (%)	1.9%	2.0%	2.7%	4.4%	1.0%

Projects update

SIP mainly leases RBW and RBF at IPs that have more favourable locations, i.e. Dong Nam, Le Minh Xuan 3 and Loc An – Binh Son at higher leasing rate and leases industrial land at less favourable location, i.e. Phuoc Dong IP. We think this is a good strategy given limited industrial land in HCMC and potential Long Thanh international airport in Dong Nai which is expected to be completed Phase 1 in 2026 and high demand of large and/or high-quality warehouses to adapt to the rapid growth of retail, e-commerce and exports in big cities.

Table: Occupancy rates of SIP's projects

Project name	Location	Total area (ha)	Occupancy rate at YE22
Phuoc Dong IP (Phase 1 and 2)	Tay Ninh	2,190	54%
Dong Nam IP	HCMC	287	88%
Le Minh Xuan 3 IP	HCMC	220	30%
Loc An Binh Son IP	Dong Nai	497	n/a
RBW and RBF at Phuoc Dong IP	Tay Ninh	3.2	34%
RBW and RBF at Dong Nam IP	HCMC	4.0	70%
RBW and RBF at Le Minh Xuan 3 IP	HCMC	4.7	94%

Source: ACBS summary

In 2022, SIP did not meet its leasing target due to COVID, weaker demand and global economic headwinds. The company leased only 20ha of industrial land and 7,200sqm of warehouses at Phuoc Dong IP, 6,000sqm of warehouses at Dong Nam IP and 7,720sqm of warehouses at Le Minh Xuan 3 IP.

Le Minh Xuan 3 IP has two zones and the company leases Zone B at a solid occupancy rate and SIP has just received Zone A and will lease this zone in the near future. This IP has around 10ha of rice cultivation land area has not been cleared and the company is doing legal paper to transfer this area into industrial land area.

Leasing activities in Loc An Binh Son IP is kept at insignificant level as the company is waiting for the completion of Long Thanh international airport – Phase 1 which is located very close to this IP.

Regarding residential projects, SIP currently develops only Phuoc Dong residential area. By the end of 2022, 148/222 of built townhouses have been sold and 109 homebuyers have been granted land use right and attached property certificates. In 2023, SIP plans to build 482 townhouses in phase 2 and 20 kiosks next to a gas station, complete 12 villas, research and design a 9-storey building on DT 782 street, build a service area of 20-25 townhouses at the beginning of DT 782 gate, and deliver 51 land use right and attached property certificates to homebuyers.

Besides, the government has begun to remove obstacles in the approval process for the residential area near Dong Nam IP.

Pham Van Hai IP

On 5/4/2023, the government approved to add Pham Van Hai IP (which includes Phase 1 of 379ha and Phase 2 of 289ha) to the industrial land planning in HCMC. This project is in the preliminary stage of legal process and SIP may bid this project if it is efficient and profitable.

Shift listing from UpCOM to HOSE

SIP submitted the document for shift listing from UpCOM to HOSE in September, 2022 and the State Securities Commission of Vietnam required the company to

update the document. SIP will submit updated document in the beginning of June, 2023 and the approval is expected to take place in the near future depending on this government agency.

Plan for 2023

In 2023, SIP plans to lease 23ha of industrial land, of which 20ha at Phuoc Dong IP and 3ha at Dong Nam IP and 33,240 sqm of ready-built warehouses/factories (RBW & RBF), of which 12,000 sqm at Dong Nam IP, 3,040sqm at Le Minh Xuan 3 IP and 18,200sqm at Phuoc Dong IP. These warehouses/factories are nearly completed and will be ready for lease in 2023. Regarding new fire protection and prevention regulations which pose challenges for industrial property developers to deliver warehouses/factories will be reviewed by the government to reduce difficulties for developers. We think this challenge is not significant as SIP has nearly completed its construction of warehouses/factories.

2023 Forecast

For 2023, we forecast total revenue at VND6,391bn (+6% YoY) and PAT at VND1,105bn (+13% YoY), equivalent to 120% and 150% of targets, respectively. Our projected outperformance compared to the company's targets is bolstered by their recent results which have outperformed business plans by 16-366% of its revenue/profit targets over the last four years. Using the NAV method, we derive a target price of VND115,546/share at YE23 and give a BUY rating given positive long-term outlook of the industrial property segment, strong financial status, solid income source from electricity and water distribution, good management team and stable cash dividend. Our main concerns for this stock are low liquidity (which is one reason to move the listing to the HOSE) and cross-ownership among SIP and member companies of Vietnam Rubber Group.

SIP FINANCIALS MODEL	Price (VND):	101,900	Target (VND):	115,546	Mkt cap (VND bn):	9,999
(VND bn except where stated)	2019	2020	2021	2022	2023E	
Total Net Sales	4,340	5,083	5,578	6,035	6,391	
<i>Sales growth</i>	34.0%	17.1%	9.7%	8.2%	5.9%	
CoGS ex-dep'n	3639	4175	4607	4893	5194	
Gross profit	606	689	773	901	944	
<i>Gross margin</i>	14.0%	13.6%	13.9%	14.9%	14.8%	
SG&A	104	28	99	107	113	
<i>SG&A as % of sales</i>	2.4%	0.5%	1.8%	1.8%	1.8%	
EBITDA	606	936	955	1,119	1,170	
<i>EBITDA margin</i>	14.0%	18.4%	17.1%	18.5%	18.3%	
Depreciation	95	218	197	241	253	
Operating profit	511	718	758	878	918	
<i>Operating profit margin</i>	11.8%	14.1%	13.6%	14.6%	14.4%	
Profit/loss from associates and JVs	9	56	84	84	87	
Financial income (excl. saving interest)	14	129	78	65	91	
Financial expenses (excl. interest expense)	4	-15	8	3	5	
Net interest expense	-282	-499	-277	-299	-381	
<i>as % of avg, net debt</i>	7.2%	12.0%	7.1%	8.0%	11.3%	
Other profit	6	9	6	6	6	
Tax	164	252	202	236	257	
<i>Effective tax rate</i>	20.2%	18.4%	18.2%	18.9%	18.5%	
PAT	645	1,118	909	1,010	1,133	
Minority interest	51	92	73	33	28	
NPATMI	595	1,026	835	977	1,105	
<i>Net profit margin</i>	13.7%	20.2%	15.0%	16.2%	17.3%	
Cash earnings	690	1,244	1,033	1,218	1,358	
Number of shares (m)	69,048,195	79,405,357	92,904,146	90,904,146	90,904,146	
EPS (VND)	8,617	12,917	8,992	10,530	12,156	
Bonus factor (x)	0.8	0.9	1.0	1.0	1.0	
Adjusted EPS (VND)	6,516	11,232	8,992	10,530	12,156	
<i>EPS growth</i>	236.3%	72.4%	-19.9%	17.1%	15.4%	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022	2023E
Increase in working capital	-1,041	4,612	853	-32	460
Capex	1,048	2,241	756	1,063	800
Other cash flow items	467	5,091	971	-229	
Free cash flow	1,150	-517	394	-42	97
Share issues (m)	1	84	15	-210	0
Dividends paid	91	219	258	201	409
Increase in net debt	-1,060	652	-152	453	312
Net debt, end of year	-4,476	-3,824	-3,976	-3,523	-3,211
Shareholders' equity	1,897	2,778	3,298	3,661	4,357
BVPS (VND)	27,479	34,984	35,498	40,271	47,928
Net debt / equity (%)	-235.9%	-137.7%	-120.6%	-96.2%	-73.7%
Net debt / EBITDA (x)	-7.4	-4.1	-4.2	-3.1	-2.7
Total assets	13,466	16,700	17,817	19,003	20,011

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022	2023E
ROE	36.5%	43.9%	27.5%	28.1%	27.6%
ROA	4.9%	6.8%	4.8%	5.3%	5.7%
ROIC	3.1%	4.2%	3.6%	4.0%	4.1%
EVA	15.0%	16.3%	16.3%	16.3%	16.3%
PER (x)	-11.9%	-12.1%	-12.7%	-12.3%	-12.2%
EV/EBITDA (x)	15.6	9.1	11.3	9.7	8.4
EV/FCF (x)	10.8	7.0	6.9	5.9	5.6
PBR (x)	5.7	-12.7	16.6	-155.1	67.4
PSR (x)	3.7	2.9	2.9	2.5	2.1
EV/sales (x)	2.1	1.8	1.7	1.5	1.4
Dividend yield	1.5	1.3	1.2	1.1	1.0

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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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