



KDH Update - BUY

June 6, 2023



Ms. Truc Pham

(+84 28) 7300 7000 - Ext: 1043

trucptt@acbs.com.vn

Company Update

Recommendation

BUY

HOSE: KDH

Property

Current price (VND) 29,850

Target price (VND) 34,467

Expected share price return 15.5%

Expected dividend yield 0.0%

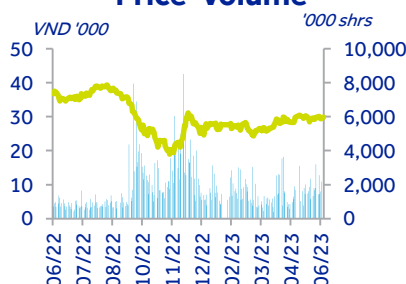
Expected total return 15.5%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	12.6	-1.2	22.6	-19.5
Relative	3.1	-5.4	17.1	-5.6

Source: Bloomberg

Price-Volume



Ownership

Tien Loc	10.98%
Dragon Capital and affiliates	10.87%
Gamma	8.75%
A Au	8.51%

Stock Statistics

5-Jun-23

Bloomberg code KDH VN

52-week range (VND) 18,050 - 39,650

Shares O/S (m) 717

Mkt cap (VND bn) 21,397

Mkt cap (USD m) 904

Foreign room left (%) 12.9

Est. free float (%) 86.1

3m avg daily vol (shrs) 1,485,813

VND/USD 23,670

Index: VNIndex / HNX 1097.82/226.56

KHANG DIEN HOUSE TRADING AND INVESTMENT JSC (KDH VN)

KDH remains a strong developer in the mid to high-end residential real estate segment with active management team, clear legal status, good product design and on-time delivery. We reiterate our Buy rating with a target price of VND34,467/share with expected market recovery from 2H23

A mixed 1Q23 result

Khang Dien posted a mixed 1Q23 result with a three-time YoY increase in net revenue to VND425bn but a 33% YoY decrease in PAT, to VND201bn. The increase in the top line was mainly thanks to delivery of around 20 units at Classia project while the decline in the bottom line was mainly due to over VND300bn of surplus from revaluation of the acquisition Doan Nguyen Ltd. which owns 6.1ha Emeria project in Thu Duc City which includes 616 apartments and 67 villas. Given challenging real estate market, the company sold around 45 units at the Classia project in 4M23, leading to an accumulated absorption rate of ~85%.

Partner with Keppel to develop 2 projects in Thu Duc City

Near the end of May, 2023, Singapore-based Keppel Group and Keppel Vietnam Fund (KVF) announced a cooperation agreement with KDH in two adjacent residential projects with a total value of VND3,180 bn. In which, Keppel owns 49% and KDH owns 51%. They plan to jointly develop more than 200 townhouses/villas and more than 600 apartments at two projects, including Emeria (6.1 ha) and Clarita (5.8 ha) both located in Binh Trung Dong ward, Thu Duc City. Keppel estimated the total development cost of these projects (including land costs) at around VND10,200 bn. Both projects obtained master planning and land use right certificates.

We think foreign capital flowing to the real estate market during difficult time is normal and predictable given positive outlook of the sector in the long-term. KDH usually completes a project before launching, so it needs capital at this stage to speed up the construction progress. Besides, the company need to record financial income from selling stakes in projects in order to fulfill its 2023 profit target as profit from delivery remaining villas at the Classia project is not enough.

	2019	2020	2021	2022	2023E
Net Sales (VNDbn)	2,813	4,532	3,738	2,912	1,606
Growth (%)	-3.5%	61.1%	-17.5%	-22.1%	-44.8%
EBITDA (VNDbn)	1,232	1,558	1,418	810	531
Growth (%)	24.5%	26.4%	-9.0%	-42.9%	-34.4%
PATMI (VNDbn)	915	1,153	1,202	1,103	1,108
Growth (%)	13.3%	26.0%	4.3%	-8.3%	0.5%
EPS (bonus-adjusted, VND)	1,623	1,666	1,257	1,541	1,456
Growth (%)	32.2%	2.7%	-24.6%	22.6%	-5.5%
ROE (%)	12.6%	14.6%	13.1%	9.8%	8.7%
ROIC (%)	7.6%	8.3%	8.5%	6.0%	5.0%
Net debt/EBITDA (x)	-0.3	0.0	0.8	4.9	4.5
EV/EBITDA (x)	17.0	13.7	15.9	31.3	44.8
PER (x)	18.4	17.9	23.7	19.4	20.5
PBR (x)	2.1	2.1	1.9	1.9	1.7
DPS (VND)	500	-	-	-	-
Dividend yield (%)	1.7%	0.0%	0.0%	0.0%	0.0%

Higher debt ratio

In 1Q23, total debt balance slightly decreased by over VND300bn, to nearly VND6,500bn. Of which, loans from OCB were nearly VND3,300bn, loans from Vietinbank were nearly VND2,100bn and corporate bonds were VND1,100bn. The bonds are unsecured with interest rate of 12%/year and will mature in 2025. Net Debt/Equity ratio increased from 33.7% to 42.4%, the highest level since 2016. However, we think it will gradually decrease when KDH finalize its deal with Keppel and launch new projects, i.e. Privia (1.8ha with 1,043 apartments) and Clarita (5.8ha with 159 villas) in 2H23.

Project progress

Given unfavorable real estate market in 1H23 due to lack of capital and high interest rate, we think new projects launches will slow down and assume launch of Privia and Clarita projects in 2023, Emeria and Solina (11A) in 2024 and Phong Phu 2 in 2025.

	Location	Total area (ha)	Total units	ACBS assumptions
Tan Tao urban area	Binh Tan	330.0	n/a	Completed land clearance of 80%.
Solina (11A)	Binh Chanh	16.4	n/a	Completed legal document. Expected launch in 2024.
Phong Phu 2	Binh Chanh	132.9	n/a	Completed legal document. Expected launch in 2025.
Emeria	Thu Duc City	6.0	616 apartments and 67 villas	Transfer 49% to Keppel. Expected launch in 2024.
Privia	Binh Tan	1.8	1,043 apartments	Expected launch in 2H23.
Clarita	Thu Duc City	5.8	159 villas	Transfer 49% to Keppel. Expected launch in 2H23.
Classia	Thu Duc City	4.3	176 villas	Launched in 3Q2022. Sold 85% till the end of 4/2023.
Le Minh Xuan expansion IP	Binh Chanh	109.9	n/a	Build infrastructure in 2023. Expected to lease from 2024. Receive leasing request from logistics and light industries.

Source: ACBS summary

2023 Forecast

We forecast net revenue of VND1,606bn (-45% YoY) and a flat PAT of VND1,078bn based on the assumption of delivering the remaining 75 units at the Classia project and transferring 49% stake in two projects Clarita and Emeria to Keppel. We forecast 2023 sales value to grow by 63% YoY, to VND3,800bn from remaining units at the Classia and two new projects Privia and Clarita.

Valuations and recommendations

The real estate market is currently affected by violation cases of corporate bonds payment and issuance and high interest rate which led to a delay in project launches and deliveries, obstructed land bank expansion, and slow sales volume.

However, in 2Q23, the government provided support to recover one of the most important sectors in the economy by decreasing deposit rates, approving supporting package of VND120trn for social and working housing projects, proposing an amendment of Circular No.16 regarding sales and repurchase of corporate bonds by credit institution and issuing Decree 10/2023/ND-CP which amends some articles in decrees that guide the implementation of the Land Law such as issuing land use right certificates for landed properties in non-residential projects, accelerating land use fee calculation time and land allocation time. Thus, we expect the market to be less constraint in the coming quarters and developers will have more confidence in launching their projects.

We think KDH will stand firm during this challenging period and its long-term outlook remains positive given scarce supply of townhouses/villas in HCMC, clear legal status of projects, good design and on-time delivery. In the long term, the company is

expected to benefit from the development of the Thu Duc City and the limited supply of industrial land in HCMC. Using the RNAV method, we repeat our Buy recommendation with a target price of VND34,467/share with an expectation of market recovery from 2H23.

Risk

- Rising interest rates affect company profits and absorption rates of projects.
- The process of compensation and site clearance for the remaining 20% of the largest project, Tan Tao Residential Area, may take longer than expected.
- Project approval process may take longer than expected.

KDH FINANCIALS MODEL	Market price (VND):	29,850	Target (VND):	34,467	Mkt cap (VNDbn):	21,397
(VNDbn except where stated)	2019	2020	2021	2022	2023E	
Net Sales	2,813	4,532	3,738	2,912	1,606	
<i>Sales growth</i>	<i>-3.5%</i>	<i>61.1%</i>	<i>-17.5%</i>	<i>-22.1%</i>	<i>-44.8%</i>	
CoGS ex-dep'n	1,304	2,558	1,934	1,707	1,136	
<i>Gross margin</i>	<i>53.3%</i>	<i>43.3%</i>	<i>48.0%</i>	<i>50.1%</i>	<i>45.9%</i>	
SG&A	278	416	387	394	218	
<i>SG&A as % of sales</i>	<i>9.9%</i>	<i>9.2%</i>	<i>10.3%</i>	<i>13.5%</i>	<i>13.5%</i>	
EBITDA	1,232	1,558	1,418	810	531	
<i>EBITDA margin</i>	<i>43.8%</i>	<i>34.4%</i>	<i>37.9%</i>	<i>27.8%</i>	<i>33.1%</i>	
Depreciation	9	11	10	(255)	11	
Operating profit	1,223	1,547	1,407	1,065	520	
<i>Operating profit margin</i>	<i>43.5%</i>	<i>34.1%</i>	<i>37.6%</i>	<i>36.6%</i>	<i>32.4%</i>	
Profit/loss from associates and JVs	0	0	0	0	0	
Financial income (excl. saving interest)	3	-	-	1	-	
Financial expenses (excl. interest expense)	40	85	57	82	77	
Net interest expense	-37	-35	-5	-7	-7	
<i>as % of avg, net debt</i>	<i>-7.5%</i>	<i>n/a</i>	<i>6.2%</i>	<i>1.2%</i>	<i>1.7%</i>	
Other profit/loss	-33	-39	185	419	954	
<i>Tax</i>	<i>273</i>	<i>304</i>	<i>335</i>	<i>328</i>	<i>327</i>	
<i>Effective tax rate (%)</i>	<i>22.9%</i>	<i>20.8%</i>	<i>21.8%</i>	<i>23.3%</i>	<i>23.3%</i>	
Minority interest	2	2	2	(21)	(21)	
PATMI	915	1,153	1,202	1,103	1,098	
<i>Net profit margin (%)</i>	<i>32.6%</i>	<i>25.5%</i>	<i>32.2%</i>	<i>37.2%</i>	<i>67.1%</i>	
Cash earnings	926	1,165	1,215	827	810	
Number of shares (m)	544	559	643	717	717	
EPS (VND)	2,062	2,016	1,383	1,541	1,456	
Bonus factor (x)	0.8	0.8	0.9	1.0	1.0	
Adjusted EPS (VND)	1,623	1,666	1,257	1,541	1,456	
<i>EPS growth (%)</i>	<i>32.2%</i>	<i>2.7%</i>	<i>-24.6%</i>	<i>22.6%</i>	<i>-5.5%</i>	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022	2023E
Increase in working capital	1,186	825	3,054	4,854	-545
Capex	235	48	57	61	49
Other cash flow items	162	-149	-151	1,000	0
Free cash flow	-333	143	-2,047	-3,088	1,579
Share issues (m)	97	-314	939	231	0
Dividends paid	207	262	0	0	0
Increase in net debt	443	433	1,108	2,858	-1,579
Net debt, end of year	-424	9	1,118	3,975	2,396
Shareholders' equity	7,664	8,158	10,221	11,795	12,893
Minority interest	39	31	36	237	284
BVPS (VND)	14,006	14,544	15,842	16,123	17,589
<i>Net debt / equity (%)</i>	<i>-5.5%</i>	<i>0.1%</i>	<i>10.9%</i>	<i>33.7%</i>	<i>18.6%</i>
<i>Net debt / EBITDA (x)</i>	<i>-0.3</i>	<i>0.0</i>	<i>0.8</i>	<i>4.9</i>	<i>4.5</i>
Total assets	13,237	13,934	14,373	21,539	21,038

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022	2023E
<i>ROE</i>	<i>12.6%</i>	<i>14.6%</i>	<i>13.1%</i>	<i>9.8%</i>	<i>8.7%</i>
<i>ROA</i>	<i>7.8%</i>	<i>8.5%</i>	<i>8.5%</i>	<i>6.0%</i>	<i>5.1%</i>
<i>ROIC</i>	<i>7.6%</i>	<i>8.3%</i>	<i>8.5%</i>	<i>6.0%</i>	<i>5.0%</i>
<i>WACC</i>	<i>14.2%</i>	<i>13.1%</i>	<i>12.3%</i>	<i>9.7%</i>	<i>9.8%</i>
<i>EVA</i>	<i>-6.7%</i>	<i>-4.8%</i>	<i>-3.8%</i>	<i>-3.7%</i>	<i>-4.7%</i>
<i>PER (x)</i>	<i>18.4</i>	<i>17.9</i>	<i>23.7</i>	<i>19.4</i>	<i>20.5</i>
<i>EV/EBITDA (x)</i>	<i>17.0</i>	<i>13.7</i>	<i>15.9</i>	<i>31.3</i>	<i>44.8</i>
<i>EV/FCF (x)</i>	<i>-63.0</i>	<i>149.8</i>	<i>-11.0</i>	<i>-8.2</i>	<i>15.1</i>
<i>PBR (x)</i>	<i>2.1</i>	<i>2.1</i>	<i>1.9</i>	<i>1.9</i>	<i>1.7</i>
<i>PSR (x)</i>	<i>7.6</i>	<i>4.7</i>	<i>5.7</i>	<i>7.3</i>	<i>13.3</i>
<i>EV/sales (x)</i>	<i>7.5</i>	<i>4.7</i>	<i>6.0</i>	<i>8.7</i>	<i>14.8</i>
<i>Dividend yield</i>	<i>1.7%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

CONTACTS

Ho Chi Minh City Head Office

117 Nguyen Dinh Chieu, Dist. 3, Ho Chi Minh City
Tel: (+84 28) 7300 7000
Fax: (+84 28) 7300 3751

Hanoi Office

10 Phan Chu Trinh, Hoan Kiem Dist., Ha Noi
Tel: (+84 4) 3942 9395
Fax: (+84 4) 3942 9407

RESEARCH DEPARTMENT

Manager – Properties

Truc Pham

(+84 28) 7300 7000 (x1043)
trucptt@acbs.com.vn

Manager – Financials

Hung Cao

(+84 28) 7300 7000 (x1049)
hungcv@acbs.com.vn

Associate – Macro

Hoa Nguyen

(+84 28) 7300 7000 (x1050)
hoant@acbs.com.vn

Associate – Oil & Gas

Hung Phan

(+84 28) 7300 7000 (x1044)
hungpv@acbs.com.vn

Associate – Consumer-related, Technology

Chi Luong

(+84 28) 7300 7000 (x1042)
chiltk@acbs.com.vn

Associate – Consumer-related, Technology

Trung Tran

(+84 28) 7300 7000 (x1045)
trungtn@acbs.com.vn

Associate – Energy

Toan Pham

(+84 28) 7300 7000 (x1051)
toanpd@acbs.com.vn

Associate – Industrials

Huy Huynh

(+84 28) 7300 7000 (x1048)
huyha@acbs.com.vn

Associate – Derivatives, Macro

Minh Trinh Viet

(+84 28) 7300 7000 (x1046)
minhtvh@acbs.com.vn

Associate – Technical

Phuoc Luong

(+84 28) 7300 7000 (x1047)
phuocld@acbs.com.vn

Analyst – Technical

Huu Vo

(+84 28) 7300 7000 (x1052)
huvvp@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director

Huong Chu

(+84 28) 7300 7000 (x1083)
huongctk@acbs.com.vn

Customer Support

Institutional Client

Thanh Le

(+84 28) 7300 7000 (x1089)
thanhln@acbs.com.vn

Trader

Huynh Nguyen

(+84 28) 7300 7000 (x1088)
huynhntn@acbs.com.vn

Trader

Thao Nguyen

(+84 28) 7300 7000 (x1087)
thaont@acbs.com.vn

Trader

Dung Ly

(+84 28) 7300 7000 (x1084)
dungln.hso@acbs.com.vn

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%.

Analyst Certification(s)

We, the author(s) of this report, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures

ACBS and/or an affiliate thereof (hereby collectively called ACBS) did or may seek to do business with companies covered in this report as its routine business. ACBS's proprietary trading accounts may have a position in such companies' securities. As a result, the investor should be aware that ACBS may have a conflict of interest from time to time.

ACBS produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Disclaimer

This report is provided for information purposes only. ACBS makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this report. ACBS will not treat unauthorized recipients of this report as its clients. Prices shown (if any) are indicative and ACBS is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. **Without limiting any of the foregoing and to the extent permitted by law, in no event shall ACBS, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this report or its contents.** Other than disclosures relating to ACBS, the information contained in this report has been obtained from sources that ACBS believes to be reliable, but ACBS does not represent or warrant that it is accurate or complete. The views in this report are subject to change, and ACBS has no obligation to update its opinions or the information in this report.

Some parts of this report reflect the assumptions, views and analytical methods of the analysts who prepared them, and ACBS is not responsible for any error of their works and assumptions. ACBS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report.

The analyst recommendations in this report reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of ACBS. This report does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the investors who receive it. The securities discussed herein may not be suitable for all investors. ACBS recommends that investors independently evaluate each issuer, securities or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This report may not be distributed to the public media or used by the public media without prior written consent of ACBS. Otherwise it will be considered as illegal. The breacher shall compensate fully to ACBS any loss or damage which arises from such breach (if any).

In the event that the distribution and/or receipt of this report is prohibited by the investor's jurisdiction, the investor shall dismiss this report immediately otherwise it will be at his/her own risks.

ACBS does not provide tax advice and nothing contained herein should be construed to be tax advice. Accordingly, the investors should seek advice based on their particular circumstances from an independent tax advisor. This report may contain links to third-party websites. ACBS is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by ACBS. Access to any third-party website is at the investor's own risks, and the investor should always review the terms and privacy policies at third-party websites before submitting any personal information to them. ACBS is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

© Copyright ACBS (2023). All rights reserved. No part of this report may be reproduced in any manner without the prior written permission of ACBS.