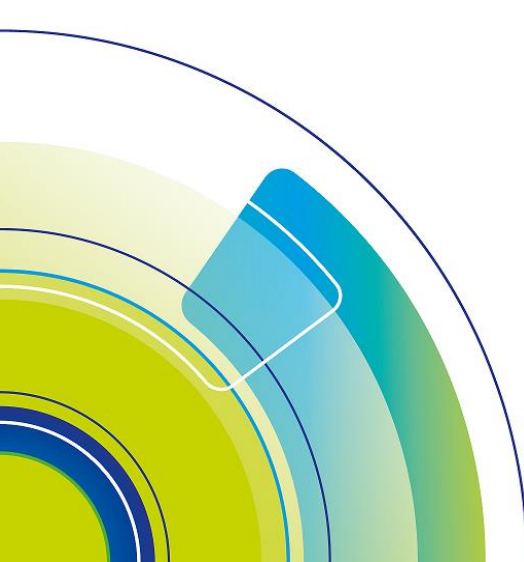




VRE Update - BUY

June 20, 2023



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Company Update

Recommendation

BUY

HSX: VRE

Property

Target price (VND) **33,054**

Market price (VND) **26,550**

Expected share price return 24.5%

Expected dividend yield 0.0%

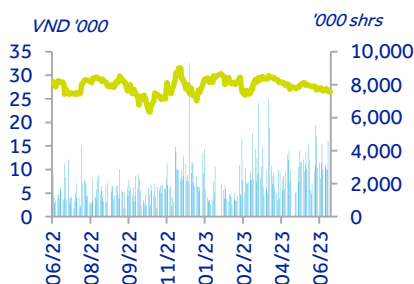
Expected total return **24.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	1.5	-5.2	-10.0	-9.5
Relative	-9.0	-9.1	-16.3	-1.9

Source: Bloomberg

Price-Volume



Ownership

Vingroup JSC 60.3%

Stock Statistics 19-Jun-23

Bloomberg code **VRE VN**

52-week range (VND) 21,400 - 31,650

Shares O/S (m) 2,272

Mkt cap (VND bn) 60,671

Mkt cap (USD m) 2,560

Est. Foreign room left (%) 16.4

Est. free float (%) 26.4

3m avg daily vol (shrs) 2,882,826

VND/USD 23,700

Index: VNIndex / HNX 1105.43/227.34

VINCOM RETAIL JSC (VRE VN)

Reiterate our Buy rating with a target price of VND33k given solid performance of property leasing and a jump in property sales.

VRE posted a positive 1Q23 result with net revenue of VND1,943bn (+42% YoY) and PAT of over VND1,000bn (+171% YoY), equivalent to 19% and 22% of its targets mainly thanks to strong growth of leasing activities which was driven by no tenant support disbursed in 1Q23 vs VND464bn in 1Q22 and 3 new malls opened since 2Q22, namely VMM Smart City, VCP My Tho and VCP Bac Lieu with additional retail GFA of ~93,000sqm. Gross margin jumped from 44.6% to 61.2% thanks to outperformance of the leasing segment with leasing NOI of VND1,478bn (+62% YoY), average occupancy rate of 85.4% (+2.7 bps YoY), a 7-10% increase in rental rates vs 2019 and cost optimization solutions such as auto parking and solar power installed for 50/83 operating malls till the end 1Q23.

On the other hand, property sales declined significantly by 97% YoY, to VND3bn because VRE delivered only 1 shophouse at Thai Hoa project compared with 20 units in 1Q22. VRE is expected to start delivering Dien Bien Phu and Dong Ha Quang Tri projects from the end of Jun which will push property sales to bounce back in 2H23.

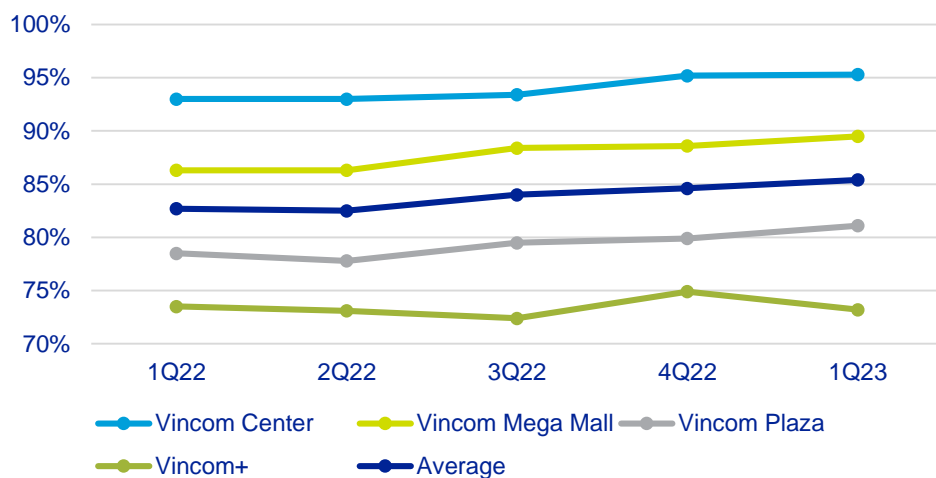
As VRE focuses on optimizing operation of current 83 malls rather than expansion its coverage in 2023, it revised number of new malls opened from 6 to 2, i.e. VMM Grand Park with GFA of 45,700sqm in Oct and VCP Ha Giang with GFA of 9,500sqm in Dec. Thus, we revise estimated revenue down by 9% to VND10,215bn (+39% YoY). Conversely, VRE's deposits for developing projects to Vingroup (HSX: VIC) and related parties increased by over 30% to over VND5,800bn in 1Q23 (equivalent to ~13% of total assets) which doubled YoY financial income to VND224bn. Thus, we adjust 2023 PAT up by 2% to VND3,877bn (+40% YoY).

Given healthy financial position (net cash/equity of 12.2%), active management team and leading market share, VRE is expected to continue to benefit from rising middle class, new urban areas and continuous expansion of international brands in Vietnam. Combining EV/EBITDA, P/B and DCF methods, we suggest a target price of VND33,054 at YE2023, slightly higher than our previous target price.

VRE's risks include: (1) opening of new malls depends largely on progress of Vingroup's projects while the residential market is facing many challenges such as high interest rate, slow legal process and corporate bonds issue though these challenges show signs of decrease, (2) inflation and interest rate concerns may affect shoppers' consumption of non-essential goods and (3) rapid growth of e-commerce.

	2019	2020	2021	2022	2023E
Net Sales (VNDbn)	9,259	8,329	5,891	7,361	10,215
Growth	1.5%	-10.0%	-29.3%	25.0%	38.8%
EBITDA (VNDbn)	5,030	4,575	3,250	4,725	5,935
Growth	24.3%	-9.0%	-29.0%	45.4%	25.6%
PAT (VNDbn)	2,853	2,382	1,315	2,777	3,877
Growth	18.2%	-16.5%	-44.8%	111.2%	39.6%
EPS (bonus-adjusted, VND)	1,227	1,048	578	1,222	1,706
Growth	0.6%	-14.6%	-44.8%	111.2%	39.6%
ROE	10.3%	8.5%	4.4%	8.7%	11.0%
ROIC	10.3%	8.5%	4.5%	8.6%	11.9%
Net debt/EBITDA (times)	0.1	0.2	-0.1	-0.8	-1.5
EV/EBITDA (times)	11.2	12.3	17.3	11.9	9.5
PER (times)	21.2	25.3	45.9	21.7	15.6
PBR (times)	2.2	2.1	2.0	1.8	1.6
DPS (VND)	1,050	0	0	0	0
Dividend yield	4.0%	0.0%	0.0%	0.0%	0.0%

Appendix 1: Average occupancy rate



Source: ACBS summary

VRE FINANCIALS MODEL	Price (VND):	26,550	Target (VND):	33,054	Mkt cap (VND bn):	60,671
(VND bn except where stated)	2019	2020	2021	2022	2023E	
Total Net Sales	9,259	8,329	5,891	7,361	10,215	
Of which: Property leasing	7,017	6,008	4,701	6,865	7,939	
Property sales	2,027	2,149	1,004	381	2,160	
Others	215	172	186	116	116	
<i>Sales growth</i>	<i>1.5%</i>	<i>-10.0%</i>	<i>-29.3%</i>	<i>25.0%</i>	<i>38.8%</i>	
CoGS ex-dep'n	3,408	3,025	2,007	2,093	3,382	
Gross profit	4,404	3,821	2,392	3,817	5,289	
<i>Gross margin</i>	<i>47.6%</i>	<i>45.9%</i>	<i>40.6%</i>	<i>51.8%</i>	<i>51.8%</i>	
SG&A	821	729	635	543	899	
<i>SG&A as % of sales</i>	<i>8.9%</i>	<i>8.7%</i>	<i>10.8%</i>	<i>7.4%</i>	<i>8.8%</i>	
EBITDA	5,030	4,575	3,250	4,725	5,935	
<i>EBITDA margin</i>	<i>54.3%</i>	<i>54.9%</i>	<i>55.2%</i>	<i>64.2%</i>	<i>58.1%</i>	
Depreciation	1,447	1,483	1,492	1,452	1,545	
Operating profit	3,583	3,093	1,757	3,273	4,390	
<i>Operating profit margin</i>	<i>38.7%</i>	<i>37.1%</i>	<i>29.8%</i>	<i>44.5%</i>	<i>43.0%</i>	
Financial income (excl. saving and lending interest)	0	-	-	-	-	
Financial expenses (excl. interest expense)	6	24	41	38	38	
<i>Net interest expenses as % of avg. net debt</i>	<i>n/a</i>	<i>24.1%</i>	<i>n/a</i>	<i>10.2%</i>	<i>7.9%</i>	
Other profit	30	91	34	72	72	
Tax	724	610	377	747	1,043	
<i>Effective tax rate</i>	<i>20.2%</i>	<i>20.4%</i>	<i>22.3%</i>	<i>21.2%</i>	<i>21.2%</i>	
Minority interest	0	0	1	1	0	
NPATMI	2,851	2,382	1,315	2,776	3,877	
<i>Net profit margin</i>	<i>30.8%</i>	<i>28.6%</i>	<i>22.3%</i>	<i>37.7%</i>	<i>37.9%</i>	
Cash earnings	4,299	3,864	2,807	4,228	5,422	
Number of shares (m)	2,272	2,272	2,272	2,272	2,272	
EPS (VND)	1,227	1,048	578	1,222	1,706	
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0	
Adjusted EPS (VND)	1,227	1,048	578	1,222	1,706	
<i>EPS growth</i>	<i>0.6%</i>	<i>-14.6%</i>	<i>-44.8%</i>	<i>111.2%</i>	<i>39.6%</i>	

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022	2023E
Increase in working capital	1,242	1,499	752	-1,372	-2,192
Capex	1,896	4,377	652	2,164	2,910
Other cash flow items	2,284	1,838	-292	164	0
Free cash flow	3,445	-173	1,111	3,601	4,703
Share issues	-1,954	0	0	0	0
Dividends paid	2,451	0	0	0	0
Increase in net debt	960	173	-1,111	-3,601	-4,703
Net debt, end of year	608	781	-330	-3,930	-8,634
Shareholders' equity	26,954	29,336	30,651	33,425	37,301
BVPS (VND)	11,847	12,895	13,473	14,695	16,396
<i>Net debt / equity</i>	<i>2.3%</i>	<i>2.7%</i>	<i>-1.1%</i>	<i>-11.8%</i>	<i>-23.1%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.1</i>	<i>0.2</i>	<i>-0.1</i>	<i>-0.8</i>	<i>-1.5</i>
Total assets	35,839	39,816	37,873	42,701	58,398

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022	2023E
<i>ROE</i>	<i>10.3%</i>	<i>8.5%</i>	<i>4.4%</i>	<i>8.7%</i>	<i>11.0%</i>
<i>ROA</i>	<i>7.7%</i>	<i>6.3%</i>	<i>3.4%</i>	<i>6.9%</i>	<i>7.7%</i>
<i>ROIC</i>	<i>10.3%</i>	<i>8.5%</i>	<i>4.5%</i>	<i>8.6%</i>	<i>11.9%</i>
<i>WACC</i>	<i>15.3%</i>	<i>14.8%</i>	<i>16.0%</i>	<i>16.0%</i>	<i>16.0%</i>
<i>EVA</i>	<i>-5.1%</i>	<i>-6.2%</i>	<i>-11.5%</i>	<i>-7.4%</i>	<i>-4.1%</i>
<i>PER (x)</i>	<i>21.2</i>	<i>25.3</i>	<i>45.9</i>	<i>21.7</i>	<i>15.6</i>
<i>EV/EBITDA (x)</i>	<i>11.2</i>	<i>12.3</i>	<i>17.3</i>	<i>11.9</i>	<i>9.5</i>
<i>EV/FCF (x)</i>	<i>16.3</i>	<i>-324.5</i>	<i>50.5</i>	<i>15.6</i>	<i>11.9</i>
<i>PBR (x)</i>	<i>2.2</i>	<i>2.1</i>	<i>2.0</i>	<i>1.8</i>	<i>1.6</i>
<i>PSR (x)</i>	<i>6.5</i>	<i>7.2</i>	<i>10.2</i>	<i>8.2</i>	<i>5.9</i>
<i>EV/sales (x)</i>	<i>6.1</i>	<i>6.7</i>	<i>9.5</i>	<i>7.6</i>	<i>5.5</i>
<i>Dividend yield</i>	<i>4.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

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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.

NEUTRAL: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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