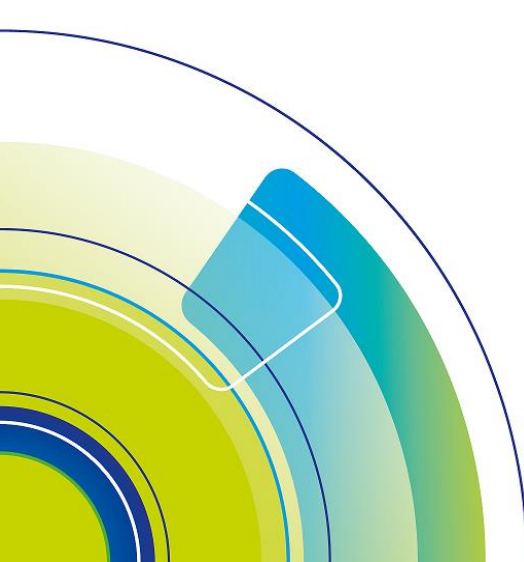




# **SIP Update - BUY**

**Tuesday, December 5, 2023**



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## Company Update

Recommendation

**BUY**

HSX: SIP

Property

Current price (VND) **59,600**

Target price (VND) **77,926**

Expected share price return 30.7%

Expected dividend yield 1.7%

Expected total return **32.4%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	80.9	14.3	-12.0	67.7
Relative	67.9	8.0	-2.4	59.4

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

4-Dec-23

Bloomberg code **SIP VN**

52-week range (VND) 29,750 - 71,900

Shares O/S (m) 182

Mkt cap (VND bn) 10,836

Mkt cap (USD m) 444

Foreign room left (%) 48.7

Est. free float (%) 58.1

3m avg daily vol (shrs) 113,177

VND/USD 24,405

Index: VNIndex / HNX 1120.49/231.31

## SAIGON VRG INVESTMENT CORPORATION (SIP VN)

**Flat 9M2023 results with revenue in line with our forecast while profit below expectation. Adjust 2023 NPAT down by 16% and reiterate our Buy rating with 2024 target price of VND77,926 (+31% upside).**

### 9M2023 business results went sideways

SIP recorded a flat 9M2023 result with net revenue of nearly VND4.8trn (+3.6% YoY) and NPAT of VND663bn (-5.2% YoY), equivalent to 75% and 59% of our forecast. The slight increase in the top line was mainly thanks to a 4.6% YoY growth in revenue of power and water supply. The slight decline in the bottom line was mainly due to:

- (1) A 30 bps YoY decrease in gross margin from 13.7% to 13.4% which was primarily driven by a lower gross margin of land leasing in industrial parks (IPs) (57.5% vs 71.0%) when the company adjusted the total investment of Loc An Binh Son IP.
- (2) Higher financial expenses (VND71bn vs VND21bn) due to higher interest expenses from higher debt balance and higher provision for investments in Casumina (HSX: CSM) and Vietnam Rubber Group (HSX: GVR).

### Net cash/Equity of 60.7%, still in the Top 3 highest in the industry

In 9M2023, SIP's total debts increased by nearly VND600bn, to nearly VND1.3trn while cash & cash equivalent dropped by nearly VND600bn, to over VND3.6trn, equivalent to 18% of total assets. Net cash/Equity ratio declined from 96.2% to 60.7% during this period but still much higher than the industry median of 12%.

### Stop lending to An Loc company and start lending to VCBS

During 2Q2023, SIP's VND1.8trn loan to its biggest shareholder - An Loc Urban Development & Investment JSC - reduced to zero. In 3Q2023, to utilize free cash, the company lent over VND700bn to Vietcombank Securities (VCBS) with an interest rate of 6-7.3%/year and no collateral. Thus, deposit and lending interest income decreased by 17.6% YoY, to VND187bn in 9M2023. On the other hand, Vietinbank Securities (HSX: CTS) plans to borrow maximum of VND2trn from SIP.

### Forecast and valuation

We keep our estimated 2023 revenue virtually unchanged at VND6.4trn (+5.5% YoY) but revise estimated 2023 PAT down by 16% to VND948bn (-6.1% YoY) given lower gross margin of the IP segment and higher financial expenses than expected. For 2024, we project revenue at nearly VND6.9trn (+8.1% YoY) and PAT at VND951bn (+0.3% YoY) given more tenants operating at Phuoc Dong IP, more rooftop solar panels installed but lower financial income and higher financial expenses. Using the NAV method, we derive a target price of VND77,926/share at YE2024 and reiterate our BUY rating. Our main concern for this stock is low liquidity although it shifted from UpCOM to HOSE.

	2020	2021	2022	2023E	2024E
Net Sales (VNDbn)	5,083	5,578	6,035	6,368	6,886
Growth (%)	17.1%	9.7%	8.2%	5.5%	8.1%
EBITDA (VNDbn)	936	955	1,119	1,166	1,265
Growth (%)	54.3%	2.1%	17.1%	4.2%	8.6%
NPATMI (VNDbn)	1,026	835	977	886	889
Growth (%)	72.4%	-18.6%	17.0%	-9.3%	0.3%
EPS (bonus-adjusted, VND)	5,261	4,294	4,930	4,440	4,455
Growth (%)	84.6%	-18.4%	14.8%	-9.9%	0.3%
ROE (%)	51.7%	31.5%	31.4%	25.2%	21.7%
ROIC (%)	4.2%	3.6%	4.0%	3.7%	3.5%
Net debt/EBITDA (x)	-4.1	-4.2	-3.1	-1.9	-0.8
EV/EBITDA (x)	9.1	8.9	7.6	7.3	6.7
PER (x)	11.3	13.9	12.1	13.4	13.4
PBR (x)	2.0	1.9	1.7	2.9	2.4
DPS (VND)	2,000	2,800	4,500	1,000	1,000
Dividend yield (%)	3.4%	4.7%	7.6%	1.7%	1.7%

**IP segment: lower gross margin than expected**

SIP has 4 IPs in the south of Vietnam with estimated remaining NLA of around 1,058 ha at the end of 3Q2023 (-3ha from YE2022). Accumulatively, these IPs have attracted USD8bn of FDI from over 200 tenants since the year of establishment. The company mainly leased Ready-built-warehouses (RBW) and Ready-built-factories (RBF) at more favourable locations (i.e. Dong Nam and Le Minh Xuan 3 IPs in HCMC and Loc An – Binh Son IP located next to Long Thanh international airport) and leased industrial land at less favourable location, i.e. Phuoc Dong IP in Tay Ninh.

The company set a target to lease 23ha in 2023, of which 20ha at Phuoc Dong IP and 3ha at Dong Nam IP. In 9M2023, newly leased area was only 3ha at Phuoc Dong IP for tenants manufacturing goods and metal products, completing 13% of this target. Given the registered FDI in Tay Ninh province in 11M2023 was stable at USD590mn (-2.9% YoY), this result is quite humble.

In 9M2023, SIP recorded land leasing revenue of VND270bn (+16.3% YoY) thanks to the annual booking method and an estimated 10% YoY growth of average leasing rate. As the company adjusted total investment of Loc An Binh Son IP, gross margin of the IP segment declined by 13.5 pp YoY, to 57.5% which was lower than our expectation.

We keep our 2023 IP revenue virtually unchanged at VND381bn (+11.9% YoY) but adjust gross margin down by 8.4 pp to 57.4%. For 2024, we expect revenue to grow by 9.9% YoY, to VND419bn and gross margin improved to 58%.

**Table: SIP's industrial property projects**

Project name	Location	SIP's stake	Total investment (VNDbn)	Total area (ha)	Total NLA (ha)	Remaining NLA at 3Q23 (ha)	Occupancy rate at 3Q23	Average leasing rate (USD/sqm/remaining term)
<b>IPs</b>			<b>11,918</b>	<b>3,205</b>	<b>2,450</b>	<b>1,058</b>		
Phuoc Dong IP	Tay Ninh	100%	5,906	2,189	1,728	797	53.9%	85
Dong Nam IP	HCMC	100%	1,963	287	207	25	88.0%	260
Le Minh Xuan 3 IP	HCMC	100%	2,065	231	155	105	32.0%	310
Loc An Binh Son IP	Dong Nai	69%	1,984	498	361	131	63.6%	230
<b>Ready-built factory (RBF) &amp; ready-built warehouse (RBW)</b>					<b>11.9</b>	<b>3.6</b>		
RBW and RBF at Phuoc Dong IP	Tay Ninh	100%	n/a	n/a	3.2	2.1	34.1%	4-5
RBW and RBF at Dong Nam IP	HCMC	100%	n/a	n/a	4.0	1.2	69.9%	4-5
RBW and RBF at Le Minh Xuan 3 IP	HCMC	100%	n/a	n/a	4.8	0.3	93.6%	4-5

Source: SIP, ACBS

**Power and water supply segment was in line with our forecast**

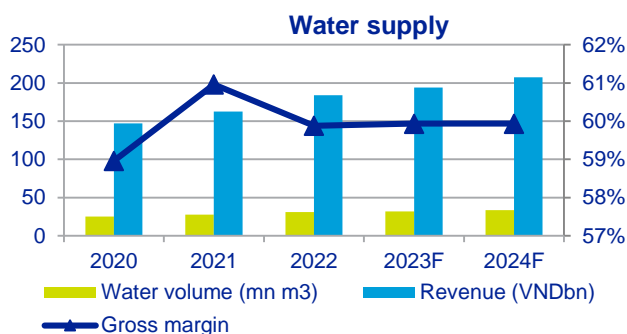
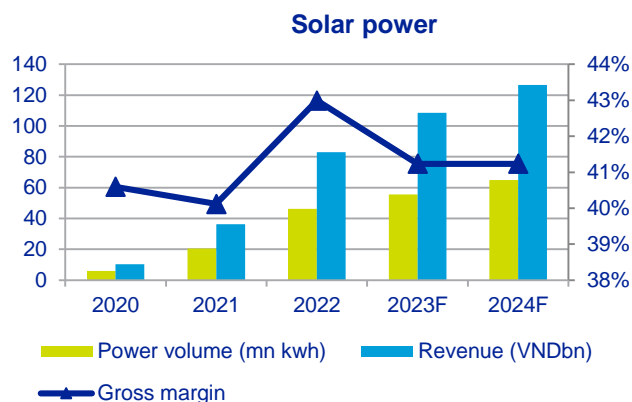
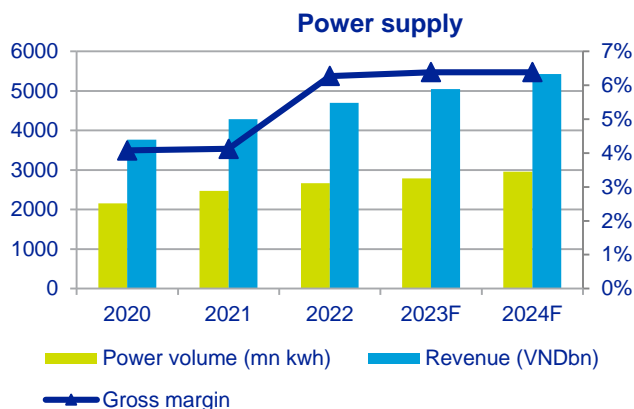
In 9M2023, revenue of power and water supply reached nearly VND4trn (+4.6% YoY) thanks to more tenants operating at Phuoc Dong IP and an increase in volume of solar power. The 9M2023 result was in line with our forecast, thus we keep our estimated 2023 revenue at VND5.3trn (+7.2% YoY).

For 2024, we expect revenue of power and water supply at nearly VND5.7trn (+7.8% YoY) and gross margin at 9.1% with the following assumptions:

- Power distribution revenue is estimated at nearly VND5.4trn (+7.6% YoY) thanks to 6% YoY growth in volume and 1.5% YoY growth in average selling price. Gross margin was flat at 6.4%.
- Revenue of rooftop solar power is estimated at VND127bn (+16.7% YoY) thanks to 16.7% YoY growth in volume and a flat average selling price. Gross margin was maintained at above 40%. Currently, SIP operates total solar power capacity of

45 MWp and we assume capacity will increase by 8 MWp per year with an estimated investment cost of VND12bn/MWp.

- Water supply revenue is projected at over VND200bn (+7.1% YoY) thanks to a 6% growth in volume and an 1% growth in average selling price. Gross margin may go sideways at around 60%.



Source: IDC, ACBS

### Other short-term receivables doubled to VND3.2trn in 9M2023

Other short-term receivables doubled to VND3.2trn in 9M2023 as SIP increased advance payment and deposits as well as contributed VND800bn to the BCC with The He Moi to develop ready-built factories, roof-top solar power, logistics, etc. SIP owns 69.7% of this BCC and The He Moi owns 30.3%.

Previously, SIP was The He Moi's parent company with an ownership of 99.9%. In 9M2023, SIP divested 81% of The He Moi with the value of nearly VND500bn and profit of over VND80bn and reduced its ownership to 18.9%.

### Forecast and valuation

We keep our estimated 2023 revenue virtually unchanged at VND6.4trn (+5.5% YoY) but revise estimated 2023 PAT down by 16% to VND948bn (-6.1% YoY). For 2024, we project revenue at nearly VND6.9trn (+8.1% YoY) and PAT at VND951bn (+0.3% YoY) given more tenants operating at Phuoc Dong IP, more rooftop solar panels installed but lower financial income and higher financial expenses.

Using the NAV method, we derive a target price of VND77,926/share at YE2024 and reiterate our BUY rating given positive long-term outlook of the industrial property segment, strong financial status, solid income source from power and water supply and stable cash dividend. Our main concern for this stock is low liquidity although it shifted from UpCOM to HOSE.

<b>SIP FINANCIALS MODEL</b>	<b>Price (VND):</b>	<b>59,600</b>	<b>Target (VND):</b>	<b>77,926</b>	<b>Mkt cap (VND bn):</b>	<b>10,836</b>
(VND bn except where stated)	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	
<b>Total Net Sales</b>	<b>5,083</b>	<b>5,578</b>	<b>6,035</b>	<b>6,368</b>	<b>6,886</b>	
<i>Sales growth</i>	<i>17.1%</i>	<i>9.7%</i>	<i>8.2%</i>	<i>5.5%</i>	<i>8.1%</i>	
CoGS ex-dep'n	4175	4607	4893	5176	5588	
<b>Gross profit</b>	<b>689</b>	<b>773</b>	<b>901</b>	<b>939</b>	<b>1,033</b>	
<i>Gross margin</i>	<i>13.6%</i>	<i>13.9%</i>	<i>14.9%</i>	<i>14.7%</i>	<i>15.0%</i>	
SG&A	28	99	107	113	122	
<i>SG&amp;A as % of sales</i>	<i>0.5%</i>	<i>1.8%</i>	<i>1.8%</i>	<i>1.8%</i>	<i>1.8%</i>	
<b>EBITDA</b>	<b>936</b>	<b>955</b>	<b>1,119</b>	<b>1,166</b>	<b>1,265</b>	
<i>EBITDA margin</i>	<i>18.4%</i>	<i>17.1%</i>	<i>18.5%</i>	<i>18.3%</i>	<i>18.4%</i>	
Depreciation	218	197	241	253	265	
<b>Operating profit</b>	<b>718</b>	<b>758</b>	<b>878</b>	<b>913</b>	<b>1,000</b>	
<i>Operating profit margin</i>	<i>14.1%</i>	<i>13.6%</i>	<i>14.6%</i>	<i>14.3%</i>	<i>14.5%</i>	
Profit/loss from associates and JVs	56	84	84	87	89	
Financial income (excl. saving interest)	129	78	65	126	69	
Financial expenses (excl. interest expense)	-15	8	3	5	5	
Net interest expense	-499	-277	-299	-181	-153	
<i>as % of avg, net debt</i>	<i>12.0%</i>	<i>7.1%</i>	<i>8.0%</i>	<i>6.3%</i>	<i>9.4%</i>	
Other profit	9	6	6	6	6	
Tax	252	202	236	273	274	
<i>Effective tax rate</i>	<i>18.4%</i>	<i>18.2%</i>	<i>18.9%</i>	<i>22.3%</i>	<i>22.3%</i>	
<b>PAT</b>	<b>1,118</b>	<b>909</b>	<b>1,010</b>	<b>948</b>	<b>951</b>	
Minority interest	92	73	33	62	62	
<b>NPATMI</b>	<b>1,026</b>	<b>835</b>	<b>977</b>	<b>886</b>	<b>889</b>	
<i>Net profit margin</i>	<i>20.2%</i>	<i>15.0%</i>	<i>16.2%</i>	<i>13.9%</i>	<i>12.9%</i>	
Cash earnings	1,244	1,033	1,218	1,139	1,154	
Number of shares (m)	79	93	91	182	182	
<b>EPS (VND)</b>	<b>11,798</b>	<b>8,374</b>	<b>9,613</b>	<b>4,440</b>	<b>4,455</b>	
Share split factor (x)	0.4	0.5	0.5	1.0	1.0	
<b>Adjusted EPS (VND)</b>	<b>5,261</b>	<b>4,294</b>	<b>4,930</b>	<b>4,440</b>	<b>4,455</b>	
<i>EPS growth</i>	<i>84.6%</i>	<i>-18.4%</i>	<i>14.8%</i>	<i>-9.9%</i>	<i>0.3%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022	2023E	2024E
Increase in working capital	4,612	853	-32	526	1,161
Capex	2,241	756	1,063	1,060	1,053
Other cash flow items	5,091	971	-229	-500	-
<b>Free cash flow</b>	<b>-517</b>	<b>394</b>	<b>-42</b>	<b>-947</b>	<b>-1,060</b>
Share issues (m)	84	15	-210	0	0
Dividends paid	219	258	201	318	182
Increase in net debt	652	-152	453	1,265	1,241
<b>Net debt, end of year</b>	<b>-3,824</b>	<b>-3,976</b>	<b>-3,523</b>	<b>-2,258</b>	<b>-1,017</b>
<b>Shareholders' equity</b>	<b>2,778</b>	<b>3,298</b>	<b>3,661</b>	<b>4,229</b>	<b>4,936</b>
BVPS (VND)	29,269	32,046	35,695	20,750	24,404
Net debt / equity (%)	-137.7%	-120.6%	-96.2%	-53.4%	-20.6%
Net debt / EBITDA (x)	-4.1	-4.2	-3.1	-1.9	-0.8
<b>Total assets</b>	<b>16,700</b>	<b>17,817</b>	<b>19,003</b>	<b>20,836</b>	<b>22,784</b>

KEY RETURN AND VALUATION RATIOS	2020	2021	2022	2023E	2024E
ROE	51.7%	31.5%	31.4%	25.2%	21.7%
ROA	6.8%	4.8%	5.3%	4.4%	4.1%
ROIC	4.2%	3.6%	4.0%	3.7%	3.5%
WACC	15.9%	15.9%	15.9%	15.9%	15.9%
EVA	-11.8%	-12.4%	-11.9%	-12.2%	-12.4%
PER (x)	11.3	13.9	12.1	13.4	13.4
EV/EBITDA (x)	9.1	8.9	7.6	7.3	6.7
EV/FCF (x)	-16.4	21.5	-200.8	-9.0	-8.0
PBR (x)	2.0	1.9	1.7	2.9	2.4
PSR (x)	2.1	1.9	1.8	1.7	1.6
EV/sales (x)	1.7	1.5	1.4	1.3	1.2
Dividend yield	3.4%	4.7%	7.6%	1.7%	1.7%

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### Our Recommendation System

**BUY:** Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

**OUTPERFORM:** Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

**NEUTRAL:** Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

**UNDERPERFORM:** Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

**SELL:** Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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