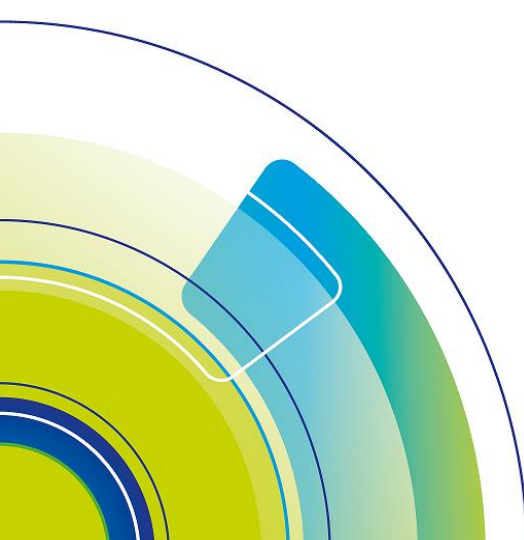




# NLG Update - BUY

**Tuesday, October 29, 2019**

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## Ms. Truc Pham

(+84 28) 3823 4159 - Ext: 303

[trucptt@acbs.com.vn](mailto:trucptt@acbs.com.vn)

## Company Update

### Recommendation

**BUY**
**HOSE: NLG**
**Property**
**Current price (VND)** 28,750

**Target price (VND)** 34,996

**Expected share price return** 22.5%

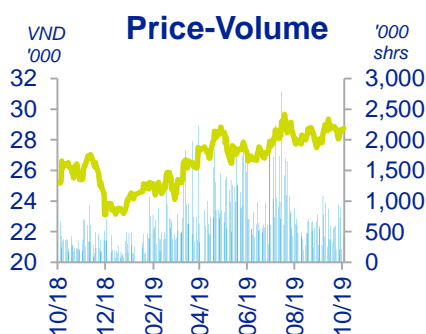
**Expected dividend yield** 1.7%

**Expected total return** 24.2%

### Stock performance (%)

	YTD	1M	3M	12M
Absolute	21.2	2.9	4.2	11.0
Relative	7.5	3.0	3.3	-1.6

Source: Bloomberg



### Ownership

Nguyen Xuan Quang (Chairman) and related parties	21.2%
Ibworth Pte Ltd	10.0%
Tran Thanh Phong (Vice Chairman)	4.6%

### Stock Statistics 28-Oct-19

Bloomberg code	NLG VN
52-week range (VND)	22,452 - 29,936
Shares O/S (m)	250
Mkt cap (VND bn)	7,141
Mkt cap (USD m)	307
Foreign room left (%)	0.0
Est. free float (%)	62.0
3m avg daily vol (shrs)	751,193
VND/USD	23,265
Index: VNIndex / HNX	999.23/105.20

## NAM LONG INVESTMENT CORPORATION (NLG VN)

### Roll forward target price to 2020 and reiterate our BUY recommendation

Nam Long recorded an unpleasant 3Q2019 result with net revenue of nearly VND390bn (-71% YoY) and NPATMI of VND146bn (-65% YoY) due to fewer units delivered and lack of revenue from project transfers. The bottom line dropped at a lower rate than the top line mainly thanks to a higher gross margin (61.5% vs 48.0%), driven by higher proportion of low-rise units delivered which usually had higher margin than high-rise units'.

For 9M2019, net revenue was cut by a half, to over VND1,300bn and NPATMI dropped by 35% YoY, to over VND400bn, equivalent to only 38% and 43% of targets, respectively. However, we think the last quarter will pull up the business result for the whole year thanks to deliveries of Nguyen Son, Mizuki and Flora Novia projects as well as income from transferring 50% of Akari City and 35ha in the SouthGate project to strategic partners. We forecast that NLG will sell ~3,900 units (+48% YoY) from Nguyen Son, Mizuki, SouthGate and Akari City projects and deliver ~3,300 units (+53% YoY) in 2019.

As of 09/30/2019, NLG had net cash of VND645bn, translating to a healthy net cash/equity ratio of 11.2%. Short-term prepayment from customers was at VND1,165bn, slightly up by 8% compared to that at the beginning of the year.

For 2020, we forecast a 35% YoY decrease in revenue, to VND2,412bn but an 18% YoY increase in NPATMI, to VND1,085bn as revenues from Mizuki and SouthGate projects will not be recorded but their profits will be realized in financial income as profit shared from business cooperation. Estimated PBT of VND380bn from transferring Paragon Dai Phuoc will be added in 2020.

Overall, Nam Long is a popular residential developer with strong brand name, long-term support from strategic partners and low debt burden. We also appreciate the expansion plan to Dong Nai and Hai Phong provinces given infrastructure development and high demand of qualified low-rise products. We reiterate our **BUY** recommendation for this stock and roll forward target price to nearly VND35,000/share, using the NAV method. The stock is currently trading at a forward 2020 P/E of 7.1x and P/B of 1.0x, compared with market-cap-weighted peer average of 13.0x and 1.8x, respectively.

	2016	2017	2018	2019E	2020E
Net Sales (VNDbn)	2,534	3,161	3,480	3,718	2,412
Growth	101.3%	24.8%	10.1%	6.9%	-35.1%
EBITDA (VNDbn)	494	892	1,040	745	605
Growth	210.6%	80.5%	16.6%	-28.4%	-18.8%
NPATMI (VNDbn)	345	535	763	916	1,085
Growth	67.4%	55.0%	42.7%	19.9%	18.4%
EPS (bonus-adjusted, VND)	1,712	2,754	3,617	3,479	4,027
Growth	56.3%	60.8%	31.3%	-3.8%	15.7%
ROE	12.4%	15.6%	17.0%	16.1%	16.5%
ROIC	6.2%	7.3%	8.1%	8.6%	9.4%
Net debt/EBITDA (x)	-0.5	-1.9	-1.1	-0.7	-0.8
EV/EBITDA (x)	12.0	6.7	5.7	8.0	9.8
PER (x)	16.8	10.4	7.9	8.3	7.1
PBR (x)	1.3	1.2	1.3	1.2	1.0
DPS (VND)	752	250	311	500	501
Dividend Yield	2.6%	0.9%	1.1%	1.7%	1.7%

<b>NLG FINANCIALS MODEL</b>	<b>Price (VND):</b>	<b>28,750</b>	<b>Target (VND):</b>	<b>34,996</b>	<b>Mkt cap (VND bn):</b>	<b>7,141</b>
<b>(VND bn except where stated)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
<b>Total Net Sales</b>	<b>1,259</b>	<b>2,534</b>	<b>3,161</b>	<b>3,480</b>	<b>3,718</b>	<b>2,412</b>
Of which: Property sales	1,228	2,480	2,240	2,399	2,106	266
Services	14	34	64	257	386	424
Office leasing	25	20	15	22	22	22
Project transferring and others	-	-	842	802	1,205	1,700
<i>Sales growth</i>	<i>45.2%</i>	<i>101.3%</i>	<i>24.8%</i>	<i>10.1%</i>	<i>6.9%</i>	<i>-35.1%</i>
CoGS ex-dep'n	826	1,697	1,853	1,963	2,407	1,481
Gross profit	418	823	1,295	1,503	1,297	916
<i>Gross margin</i>	<i>33.2%</i>	<i>32.5%</i>	<i>41.0%</i>	<i>43.2%</i>	<i>34.9%</i>	<i>38.0%</i>
SG&A	273	343	414	491	580	340
<i>SG&amp;A as % of sales</i>	<i>21.7%</i>	<i>13.5%</i>	<i>13.1%</i>	<i>14.1%</i>	<i>15.6%</i>	<i>14.1%</i>
<b>EBITDA</b>	<b>159</b>	<b>494</b>	<b>892</b>	<b>1,040</b>	<b>745</b>	<b>605</b>
<i>EBITDA margin</i>	<i>12.6%</i>	<i>19.5%</i>	<i>28.2%</i>	<i>29.9%</i>	<i>20.0%</i>	<i>25.1%</i>
Depreciation	14	14	14	13	14	15
<b>Operating profit</b>	<b>145</b>	<b>480</b>	<b>878</b>	<b>1,027</b>	<b>731</b>	<b>590</b>
<i>Operating profit margin</i>	<i>11.5%</i>	<i>19.0%</i>	<i>27.8%</i>	<i>29.5%</i>	<i>19.7%</i>	<i>24.5%</i>
Financial income (excl. saving interest)	11	7	46	27	300	688
Financial expenses (excl. interest expense)	6	8	2	1	1	1
Net interest expense	5	2	-21	-66	-39	-13
Capitalized interest expense	57	68	74	55	60	79
<i>as % of avg. net debt</i>	<i>29.0%</i>	<i>-201.3%</i>	<i>-5.5%</i>	<i>0.7%</i>	<i>-2.6%</i>	<i>-13.4%</i>
Profit/loss from associates and JVs	0	1	(3)	14	14	14
Other profit	131	7	6	9	138	139
Tax	67	97	194	241	241	286
<i>Effective tax rate</i>	<i>24.4%</i>	<i>20.0%</i>	<i>20.4%</i>	<i>21.3%</i>	<i>20.0%</i>	<i>20.0%</i>
Minority interest	2	42	221	124	50	59
<b>NPATMI</b>	<b>206</b>	<b>345</b>	<b>535</b>	<b>763</b>	<b>916</b>	<b>1,085</b>
<i>Net profit margin</i>	<i>16.4%</i>	<i>13.6%</i>	<i>16.9%</i>	<i>21.9%</i>	<i>24.6%</i>	<i>45.0%</i>
Cash earnings	221	359	549	777	930	1,099
Number of shares (m)	142	142	157	239	250	250
<b>EPS (VND)</b>	<b>1,454</b>	<b>2,273</b>	<b>3,324</b>	<b>3,617</b>	<b>3,479</b>	<b>4,027</b>
Bonus factor (x)	0.8	0.8	0.8	1.0	1.0	1.0
<b>Adjusted EPS (VND)</b>	<b>1,095</b>	<b>1,712</b>	<b>2,754</b>	<b>3,617</b>	<b>3,479</b>	<b>4,027</b>
<i>EPS growth</i>	<i>68.6%</i>	<i>56.3%</i>	<i>60.8%</i>	<i>31.3%</i>	<i>-3.8%</i>	<i>15.7%</i>

KEY CASHFLOW AND BS ITEMS	2015	2016	2017	2018	2019E	2020E
Increase in working capital	678	655	-1,350	984	181	230
Capex	2	44	6	15	15	15
Other cash flow items	356	515	-436	-810	-1,193	-767
<b>Free cash flow</b>	<b>-103</b>	<b>175</b>	<b>1,456</b>	<b>-1,032</b>	<b>-459</b>	<b>88</b>
Share issues (m)	196	386	98	633	0	1
Dividends paid	61	97	123	207	120	125
Increase in net debt	-31	-465	-1,431	605	579	38
<b>Net debt, end of year</b>	<b>198</b>	<b>-267</b>	<b>-1,698</b>	<b>-1,093</b>	<b>-514</b>	<b>-476</b>
<b>Shareholders' equity</b>	<b>2,426</b>	<b>3,147</b>	<b>3,723</b>	<b>5,285</b>	<b>6,081</b>	<b>7,040</b>
BVPS (VND)	17,140	22,146	23,678	22,098	24,275	28,104
<i>Net debt / equity</i>	<i>8.1%</i>	<i>-8.5%</i>	<i>-45.6%</i>	<i>-20.7%</i>	<i>-8.5%</i>	<i>-6.8%</i>
<i>Net debt / EBITDA (x)</i>	<i>1.2</i>	<i>-0.5</i>	<i>-1.9</i>	<i>-1.1</i>	<i>-0.7</i>	<i>-0.8</i>
<b>Total assets</b>	<b>5,022</b>	<b>6,209</b>	<b>7,906</b>	<b>9,574</b>	<b>10,950</b>	<b>11,946</b>

KEY RETURN AND VALUATION RATIOS	2015	2016	2017	2018	2019E	2020E
<i>ROE</i>	<i>9.5%</i>	<i>12.4%</i>	<i>15.6%</i>	<i>17.0%</i>	<i>16.1%</i>	<i>16.5%</i>
<i>ROA</i>	<i>4.6%</i>	<i>6.1%</i>	<i>7.6%</i>	<i>8.7%</i>	<i>8.9%</i>	<i>9.5%</i>
<i>ROIC</i>	<i>4.7%</i>	<i>6.2%</i>	<i>7.3%</i>	<i>8.1%</i>	<i>8.6%</i>	<i>9.4%</i>
<i>WACC</i>	<i>15.6%</i>	<i>15.0%</i>	<i>15.0%</i>	<i>15.0%</i>	<i>10.9%</i>	<i>10.9%</i>
<i>EVA</i>	<i>-10.9%</i>	<i>-8.8%</i>	<i>-7.7%</i>	<i>-6.9%</i>	<i>-2.2%</i>	<i>-1.5%</i>
<i>PER (x)</i>	<i>26.2</i>	<i>16.8</i>	<i>10.4</i>	<i>7.9</i>	<i>8.3</i>	<i>7.1</i>
<i>EV/EBITDA (x)</i>	<i>37.3</i>	<i>12.0</i>	<i>6.7</i>	<i>5.7</i>	<i>8.0</i>	<i>9.8</i>
<i>EV/FCF (x)</i>	<i>-57.5</i>	<i>33.9</i>	<i>4.1</i>	<i>-5.8</i>	<i>-12.9</i>	<i>67.7</i>
<i>PBR (x)</i>	<i>1.7</i>	<i>1.3</i>	<i>1.2</i>	<i>1.3</i>	<i>1.2</i>	<i>1.0</i>
<i>PSR (x)</i>	<i>5.2</i>	<i>2.6</i>	<i>2.1</i>	<i>1.9</i>	<i>1.8</i>	<i>2.7</i>
<i>EV/sales (x)</i>	<i>4.7</i>	<i>2.3</i>	<i>1.9</i>	<i>1.7</i>	<i>1.6</i>	<i>2.5</i>
<i>Dividend yield</i>	<i>1.7%</i>	<i>2.6%</i>	<i>0.9%</i>	<i>1.1%</i>	<i>1.7%</i>	<i>1.7%</i>

## CONTACTS

### Ho Chi Minh City Head Office

41, Mac Dinh Chi, Dist. 1, Ho Chi Minh City  
Tel: (+84 28) 3823 4159  
Fax: (+84 28) 3823 5060

### Hanoi Office

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

## RESEARCH DEPARTMENT

### Associate Director

#### Gigi Nguyen Binh

(+84 28) 3823 4159 (x250)  
[giaonbt@acbs.com.vn](mailto:giaonbt@acbs.com.vn)

#### Associate – Consumer-related, Technology Chi Luong

(+84 28) 3823 4159 (x327)  
[chiltk@acbs.com.vn](mailto:chiltk@acbs.com.vn)

#### Associate – Consumer-related, Media Trung Tran

(+84 28) 3823 4159 (x351)  
[trungtn@acbs.com.vn](mailto:trungtn@acbs.com.vn)

#### Analyst – Derivatives Minh Trinh

(+84 28) 3823 4159 (x352)  
[minh.tvh@acbs.com.vn](mailto:minh.tvh@acbs.com.vn)

#### Associate – Financials Yen Tran

(+84 28) 3823 4159 (x326)  
[yentran@acbs.com.vn](mailto:yentran@acbs.com.vn)

#### Associate – Oil & Gas Hung Phan

(+84 28) 3823 4159 (x354)  
[hungpv@acbs.com.vn](mailto:hungpv@acbs.com.vn)

#### Analyst – Technical Phuoc Luong

(+84 28) 3823 4159 (x250)  
[phuocld@acbs.com.vn](mailto:phuocld@acbs.com.vn)

#### Associate – Property Truc Pham

(+84 28) 3823 4159 (x303)  
[trucptt@acbs.com.vn](mailto:trucptt@acbs.com.vn)

#### Analyst – Industrials An Phuc Tran

(+84 28) 3823 4159 (x325)  
[phuctta@acbs.com.vn](mailto:phuctta@acbs.com.vn)

## INSTITUTIONAL CLIENT DIVISION

### Director - Head of Institutional Client Tyler Cheung

(+84 28) 54 043 070  
[tyler@acbs.com.vn](mailto:tyler@acbs.com.vn)

### Director - Head of Institutional Client Patrick Mitchell

(+84 28) 54 046 632  
[patrick@acbs.com.vn](mailto:patrick@acbs.com.vn)

#### Corporate Sales Institutional Client Nhu Le Mai

(+84 28) 3823 3667 (x307)  
[nhultm@acbs.com.vn](mailto:nhultm@acbs.com.vn)

#### Client Support Institutional Client Thanh Le

(+84 28) 3823 4798  
[thanhln@acbs.com.vn](mailto:thanhln@acbs.com.vn)

#### Customer Support Ngoc Tuyen Nguyen

(+84 28) 3823 4955  
[tuyennn@acbs.com.vn](mailto:tuyennn@acbs.com.vn)

#### Trading Manager Huong Chu

(+84 28) 5404 6630  
[huonggtk@acbs.com.vn](mailto:huonggtk@acbs.com.vn)

#### Trader Nhan Nguyen

(+84 28) 3823 4159 (x311)  
[Nhanntt.sgn@acbs.com.vn](mailto:Nhanntt.sgn@acbs.com.vn)

#### Trader Thanh Tran

(+84 28) 5404 6626  
[thanhtt@acbs.com.vn](mailto:thanhtt@acbs.com.vn)

#### Trader Dung Ly

(+84 28) 5404 6427  
[dungln.hso@acbs.com.vn](mailto:dungln.hso@acbs.com.vn)

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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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