

NAM LONG GROUP (NLG – HSX)

Busy Q4

(VND bn)	3Q-FY19	2Q-FY19	+/- qoq	3Q-FY18	+/- yoy
Net revenue	389	603	-35%	1,330	-71%
PAT	146	121	22%	420	-65%
EBIT	177	171	3%	560	-68%
EBIT margin	45.4%	28.4%	+1,700bps	42.1%	+300bps

Source: NLG, RongViet Securities

9M 2019: Low deliveries and major profit from re-valuation of the Waterfront project

Revenue and NPAT-MI in 9M 2019 were VND 1,325 billion (USD 57.3 mn, -52% YoY) and VND 412 billion (USD 17.8 mn, -35% YoY), respectively. Results were not high, only fulfilling 42% of the 2019's profit target due to low project deliveries, mostly driven by the hand-over of the remaining of projects like Ehome Nguyen Son and Mizuki Valora.

4Q 2019: Busy on deliveries

Nam Long will be busy in Q4, with the hand-over of the first batch in Mizuki Park Flora and Novia Flora projects. We estimate that these deliveries will contribute VND 420 billion (USD 18.2 mn) in net profit due to NLG's ownership of a 50% stake in the Mizuki Park project. In addition, the company will gain from the transfer of its 50% stakes of the Paragon City project to a strategic partner. It is estimated at nearly VND 100 billion (USD 4.3 mn) will be added to 4Q19 profits. Therefore, this should help the company partially offset the earnings shortage in 9M due to the delay in the implementation of the Waterpoint project. We estimate revenue and profit for the whole year at VND 2,633 billion (USD 114.0 mn, -26% YoY) and VND 953 billion (USD 41.3 mn, +25% YoY), fulfilling 99% of the profit guidance. Regarding launching plan in Q4, Akari City will add 300 units at a price 20% higher than the first phase.

Valuation and Recommendation:

Nam Long is one of the most active developers, with a series of projects. In the coming months, the company will complete deals to co-develop two residential projects in Dong Nai with strategic partners, namely Paragon Dai Phuoc and Waterfont.

RongViet Securities has a NLG share value of **VND 38,900, 40.6%** higher than the closing price on November 25, 2019. We recommend a **BUY** on the stock. The target price was revised up 18% from the 2019 Strategic Report published in January due to higher valuation of Akari City and Waterpoint thanks to higher selling price than our previous estimation. We also factor the BV of two newly acquired projects in Dong Nai into our valuation. PER and PBR forward 2020 are estimated at 6.4x and 1.2x, still attractive with large and favorable land bank like Nam Long.

BUY

CMP (VND)	27,650
Target Price (VND)	38,900

Cash dividend (VND)* -

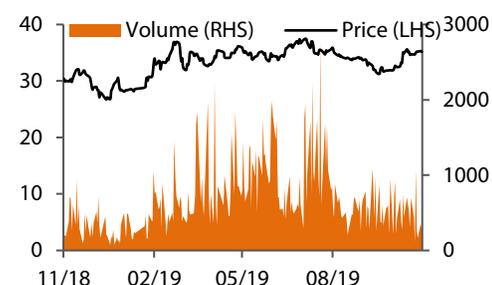
*Expected in the next 12 months

Stock Info

Sector	Real Estate
Market Cap (USD million)	302.9
Current Shares O/S (million)	259.7
Avg. Daily Volume (in 20 sessions)	544,803
Free float (%)	61.6
52 weeks High	37,500
52 weeks Low	26,711
Beta	1.6

	FY2018	Current
EPS	3,182	2,072
EPS Growth (%)	-6.5	-46.4%
P/E	7.8	13.6
P/B	1.1	1.3
EV/EBITDA	4.3	12.0
Cash dividend	197	292
ROE (%)	16.9	9.3

Price performance



Major Shareholders (%)

Mr. Nguyen Xuan Quang	12.9
Ibeworthy	9.6
Foreign ownership room (%)	0.0

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Exhibit 1: 3Q/2019 Results

(VND bn)	3Q-FY19	2Q-FY19	+/- (qoq) (%)	3Q-FY18	+/- (yoy) (%)
Net revenue	389	603	-35.4%	1,330	-70.7%
Gross profit	240	249	-3.9%	638	-62.4%
SG&A	(95)	(103)	-7.0%	(101)	-5.7%
Operating income	177	171	3.4%	560	-68.4%
EBITDA	183	175	4.4%	564	-67.5%
EBIT	177	171	3.4%	560	-68.4%
Financial expenses	(7)	(21)	-65.9%	(12)	-38.3%
- Interest Expenses	(7)	(21)	-68.3%	(10)	-31.2%
Dep. and amortization	6	4	46.1%	3	79.0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	178	172	3.4%	565	-68.5%
PAT	146	121	21.6%	420	-65.1%
(*) Adjusted PAT	0	0	0.0%	0	0.0%

Source: NLG, RongViet Securities

Exhibit 2: 3Q/2019 Performance Analysis

Particulars	3Q-FY19	2Q-FY19	+/- (qoq) (%)	3Q-FY18	+/- (yoy) (%)
Profitability Ratios (%)					
Gross Margin	61.5%	41.4%	2,020 bps	48.0%	1,360 bps
EBITDA Margin	47.0%	29.1%	1,790 bps	42.4%	460 bps
EBIT Margin	45.4%	28.4%	1,700 bps	42.1%	330 bps
Net Margin	37.6%	20.0%	1,760 bps	31.6%	600 bps
Adjusted Net Margin	0.0%	0.0%	0.0 bps	0.0%	0.0 bps
Turnover *(x)					
-Inventories	0.1	0.3	-0.2	0.0	0.0
-Receivables	0.6	1.8	-1.2	0.3	0.3
-Payables	2.4	4.0	-1.7	1.6	0.8
Leverage (%)					
Total Debt/ Equity	106.9%	112.8%	-580 bps	94.8%	1,220 bps

Source: NLG, (*) Annualized turnover

Exhibit 3: 4Q/2019 Performance Forecast

Particular (VND bn)	4Q-FY19	+/- qoq	+/- yoy
Net revenue	1,308	236%	61%
Gross profit	284	18%	-11%
EBIT	346	140%	147%
PAT	541	269%	330%

Source: NLG, RongViet Securities

Update:

Awaiting for unlocking the land bank. Among listed real estate companies, Nam Long is one of the most active developers. New launches coupled with a shortage of new supply in the overall residential market, and hence higher selling prices, will provide better returns for the company.

- **Akari City:** Four blocks (1,200 units) in phase 1 were officially launched in October 2019, with total absorption rate of nearly 100%. The ASP was VND 27 million/sqm. NLG is currently building foundations for the first six blocks. Phase 2, with two more blocks, will be exploited by early-2020. The bright spot is that the ASP for this phase will be at least 20% higher than phase 1's, reaching VND 32 million psm, bringing more than VND 200 billion (USD 8.7 mn) to total profit from our previous estimation.
- **Waterpoint:** The legal procedure was completed and the first batch of 450 units was completely sold out at an ASP of VND 23-25 million/sqm (not including VAT). Nam Long plans to launch nearly 300 units later this year for a total of 750 units sold in 2019.
- **Mizuki Park:** After succeeding in launching the first five blocks of the Mizuki Park project, we believe that the next phase will also see a good absorption rate. As planned, NLG will launch the next phase by mid-2020. The ASP in the 1st phase was around VND 28 million psm, and expected to increase by 15-20% in the next phase. In terms of construction progress, the project is in the final process to be delivered to customers by end-2019. A first batch of 1,000 units was delivered in the last quarter, and the remaining 400 units will be by 1Q 2020.

Land bank. Nam Long is continuously expanding into new provinces, including Dong Nai and Hai Phong. These provinces have a huge potential growth in the medium term due to the improvement of infrastructure conditions and are considered to be the gateway to the northern and southern economic regions.

Table 1: Land bank acquisition

Project	Nam Long Hai Phong	Paragon Dai Phuoc	Dong Nai Waterfront City
Location	Thuy Nguyen, Hai Phong provinces, located in favorable place thanks to the improvement of infrastructure conditions in Hai Phong province.	Nhon Trach, Dong Nai province. Currently, there are limited projects offering potential at this location. It is located in Dai Phuoc island, near from the center of HCM City.	Bien Hoa, Dong Nai province. The project will benefit from the development of Long Thanh international airport as well as auxiliary facilities in long-term.
Scale	21ha, with 850 low-rise units and 2,200 high-rise units.	45ha, comprising low-rise component.	170 ha, with 4,000 villas units and 3,000 high-rise units
Ownership	The project was acquired from VSIP, owns a 50% stake.	Currently 100%. NLG is in the process to sell a 50% stake in this project, which is expected to be completed by late-2019.	The project was acquired from Keppel Land, with the ownership of 70%. NLG is also negotiating with a foreign investor to sell a 35% stake in this project, which is expected to be completed by 2020.
Legal Status	Completed legal procedures.	Completed the land compensation and LUR and got 1/500-scale detail construction plans.	Completed the land compensation and LUR and got 1/500-scale detail construction plans.
Development progress	It is scheduled to be launched by late-2020.	It is scheduled to be launched from 2021 onwards.	It is scheduled to be launched from 2021 onwards.

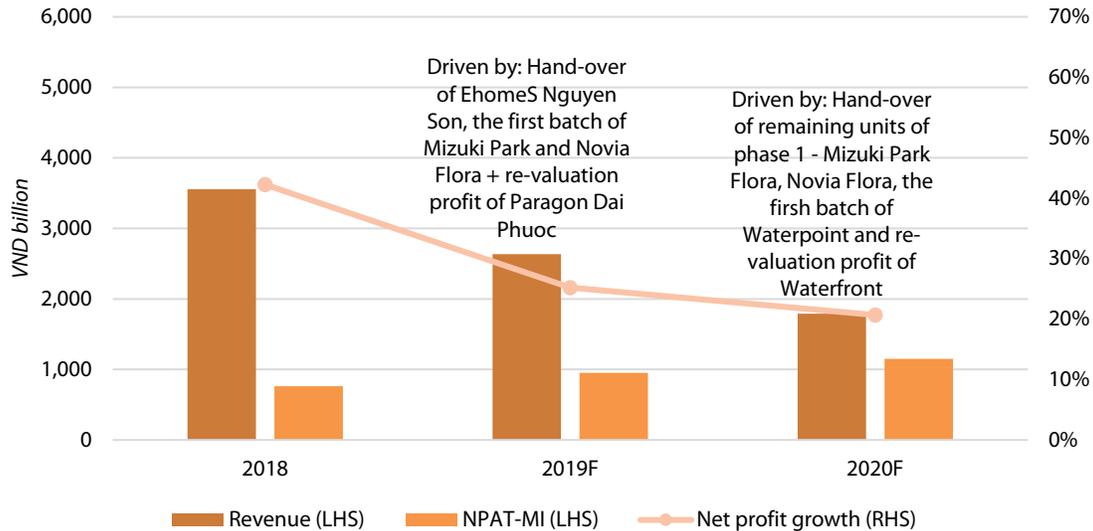
Source: NLG, Rong Viet Securities

Recent land bank acquired is quite large and mostly located in strategic areas of neighboring provinces of Hanoi and Ho Chi Minh City. Those are benefiting from the ongoing trend of people moving to suburbs. It is also a long-term vision that will guarantee the growth of Nam Long for the next five to ten years. As in previous projects, NLG will transfer its stakes in the Paragon Dai Phuoc and Dong Nai Waterfront City to strategic partners. These deals are expected to be completed by 2020. The company will also re-evaluate these projects, and record a gain from these activities.

Business results update

During the first nine months of 2019, Nam Long posted revenue and net profit of VND 1,325 billion (USD 57.3 mn, -52% YoY) and VND 412 billion (USD 17.8 mn, -35% YoY), respectively. Results were not high, only fulfilling 42% of the 2019's profit. Net profit was low due to the fact that it is not peak season yet in 2019 for the handing over of projects. The slow progress in launching the Waterpoint project has affected the 2019 profit plan, down by VND 200 billion (USD 8.7 mn). It is not such a big deal in case NLG cannot fulfill its 2019 profit target, as this portion of revenue will be transferred to 2020. Therefore, it does not greatly affect the company's valuation.

Figure 2: Business results forecast



Source: Rong Viet Securities

Nam Long indicated that it will manage to fulfill its profit target by: 1) Accelerating the deliveries of Mizuki Park Flora and Novia Flora in 2019 and 2) Completing the transferring stake in the Paragon Dai Phuoc project, bringing nearly VND 100 billion (USD 4.3 mn) as a result. Nam Long will be busy in Q4. Specifically, we estimate that these deliveries will contribute VND 420 billion (USD 18.1 mn) in net profit due to the fact that NLG only owns a 50% stake in the Mizuki Park project. Therefore, it will help the company partially offset the shortage due to the delay in the implementation of the Waterpoint project. In conclusion, for the whole year, we estimate revenue and profit to be VND 2,633 billion (USD 114.0 mn, 26% YoY) and VND 953 billion (USD 41.3 mn, +25% YoY), fulfilling 99% of the profit guidance.

Valuation:

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Table 2: Valuation Summary (billion VND)

Project	Method	NPV	% Stake	Effective NPV
Mizuki Park	DCF	4,310	50%	2,134
Akari City	DCF	3,220	50%	1,610
Novia Flora	DCF	140	100%	140
Waterpoint phase 1	DCF	3,675	50%	1,837
Waterpoint phase 2	MV	904	100%	904
Paragon Dai Phuoc	BV	1,228	100%	1,228
Waterfront City	BV	2,300	70%	1,610
Total				9,463
(+) Net cash				1,530
(+) Short-term investment				44
(-) Debts				(928)
Total net asset value				10,109
Total outstanding shares (million)				260
Target price per share (VND)				38,900

Source: Rong Viet Securities

VND billion

INCOME STATEMENT	2017A	2018A	2019F	2020F
Revenue	3,161	3,554	2,633	2,042
COGS	-1,866	-2,054	-1,765	-941
Gross profit	1,295	1,500	868	1,101
Selling expense	-219	-252	-111	-107
G&A expense	-195	-239	-111	-107
Financial income	95	129	113	121
Financial expense	-29	-37	-100	-100
Other income/loss	6	9	237	200
Gain/(loss) from JV	-3	14	401	309
PBT	950	1,125	1,296	1,418
Tax expense	-194	-240	-259	-284
Minority interests	221	124	83	0
PAT	535	761	953	1,134
EBIT	944	1,116	1,046	1,197

%

FINANCIAL RATIO	2017A	2018A	2019F	2020F
Growth (%)				
Revenue	24.8	12.4	-25.9	-22.5
Operating Income	94.9	17.9	-6.6	14.3
EBITDA	97.6	18.2	-6.2	14.4
PAT	38.0	42.2	25.3	19.0
Total Assets	27.3	21.1	9.8	22.3
Equity	18.3	41.9	-13.5	22.5
Profitability (%)				
Gross margin	41.0	42.2	33.0	53.9
EBITDA margin	30.3	31.8	40.0	59.0
EBIT margin	29.9	31.4	39.7	58.6
Net margin	16.9	21.4	36.2	55.6
ROA	6.8	7.9	9.1	8.8
ROE	12.8	12.3	13.1	14.0
Efficiency				
Receivable Turnover	5.5	1.9	1.9	1.2
Inventory Turnover	0.5	0.6	0.4	0.2
Payable Turnover	6.4	7.6	9.0	5.1
Liquidity				
Current	3.9	4.7	3.7	2.8
Finance Structure (%)				
Total Debt/Equity	11.9	19.1	51.8	72.0
Current Debt/Equity	5.8	3.8	51.1	71.5
Long-term Debt/Equity	6.1	15.3	0.7	0.6

VND billion

BALANCE SHEET	2017A	2018A	2019F	2020F
Cash and cash equivalents	2,082	2,084	3,695	5,938
Short-term investments	61	16	37	32
Accounts receivable	579	1,879	1,411	1,645
Inventories	3,884	3,211	4,010	4,117
Other current assets	173	126	109	94
Property, plant & equipment	56	52	76	65
Acquired intangible assets (inc. Goodwill)	0	0	2	2
Long-term investments	755	1,684	756	756
Other non-current assets	206	271	413	398
Total assets	7,906	9,572	10,509	13,413
Accounts payable	291	270	195	186
Advance from customers	1,250	1,080	2,333	4,112
Short-term borrowings	216	201	32	32
Long-term borrowings	229	806	792	792
Other non-current liabilities	471	0	348	314
Bonus and Welfare fund	29	44	29	29
Technology-science development fund	0	0	0	0
Total liabilities	4,183	4,290	5,259	6,995
Common stock and APIC	1,572	2,391	2,597	2,597
Treasury stock	-60	-86	-383	-383
Retained earnings	864	1,291	2,343	3,530
Inv. and Dev. Fund			0	0
Total equity	3,723	5,282	4,568	5,754
Minority Interest	803	684	682	664

VALUATION RATIO	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	3,403	3,182	3,671	4,975
P/E (x)	7.3	7.8	7.6	5.6
BV (dong)	23,678	22,088	20,244	24,722
P/B (x)	1.0	1.1	1.4	1.1
DPS (dong/cp)	249	197	292	-
Dividend yield (%)	1.0%	0.8%	1.0%	-

Target price (dong)			38,900
VALUATION HISTORY	Price	Recommendation	Period
21/06/2018	32,500	Buy	1-year
03/01/2019	32,700	Buy	Long term
22/11/2019	38,900	Buy	Long term

RESULT UPDATE

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RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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