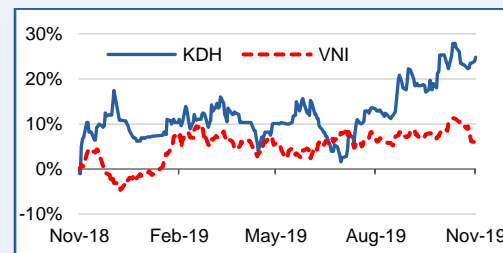




# Khang Dien House (KDH) [BUY +23.1%]

## Update Report

Industry	Real Estate		2018A	2019F	2020F	2021F
<b>Report Date</b>	<b>November 29, 2019</b>	Rev y/y	-4.5%	-3.8%	13.9%	85.5%
Current Price	VND26,400	EPS y/y	17.4%	12.8%	38.2%	29.4%
Current Target Price	VND32,000	NPAT-MI y/y	60.9%	17.4%	39.0%	29.4%
Last Target Price	VND29,500	GPM	42.5%	55.2%	62.8%	47.7%
Upside to TP	+21.2%	NPM	27.7%	33.8%	41.2%	28.8%
Dividend Yield	1.9%	P/B	2.1x	1.9x	1.6x	1.4x
TSR	+23.1%	P/E	17.9x	15.9x	11.5x	8.9x



Market Cap	USD624.9mn		KDH	Peers	VNI
Foreign Room	USD29.6mn	P/E (ttm)	16.1x	12.2x	15.9x
ADTV30D	USD412,200	P/B (curr)	2.0x	1.5x	2.3x
State Ownership	0.0%	Net D/E	-4.0%	21.4%	NA
Outstanding Shares	544.4 mn	ROE	13.5%	20.1%	14.7%
Fully Diluted O/S	544.4 mn	ROA	8.8%	5.9%	2.5%
3-yr PEG	0.6				

### Company Overview

KDH is a well-known landed property (townhouses and villas) developer in HCMC. Since 2017, the company has expanded into mid-range condo developments. Currently, KDH owns a residential land bank of ~500 ha located in District 9, District 2, Binh Chanh District and Binh Tan District of HCMC.

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## Solid growth in earnings and backlog

- We reiterate our BUY rating for KDH and keep our 2019-2021F earnings and presales forecasts broadly unchanged. We increase our target price by 8% to VND32,000/share due to a roll-over of our valuation and an upward revision on the assumed selling prices at Corona City. The share price has rallied by around 20% over the last four months.
- We maintain our forecast of 28% NPAT-MI CAGR over 2018-2021F, mainly supported by handovers of Verosa Park, Lovera Vista and Safira with positive construction progress; their respective pre-sold rates as of end-November reached ~65%, 100% and 100% of launched units.
- We continue to project total pre-sales value to reach an average of VND4tn (USD172mn) p.a. in 2019-2020F vs 2018's low base of VND2tn (USD87mn), which is reinforced by the expected solid take-up rates for the next launches of Verosa Park and Lovera Vista.
- Upside catalyst: the Le Minh Xuan industrial zone expansion project (110 ha in Binh Chanh District), which is not yet included into our earnings projection given the limited details regarding its development plan.
- Downside risk to our positive view: longer-than-expected launches of large-scale projects such as the Tan Tao project (330 ha in Binh Tan District).

**Sales launches of Verosa Park and Lovera Vista reaffirm KDH's proven track record.** Despite a shortage of new projects (mainly due to slow-moving legal procedures despite demand remaining solid across the HCMC residential market), KDH has launched two new projects in H2 2019, as guided by management early this year. In regard to Verosa Park (total of 300 low-rise units; District 9; our assumed ASP of ~USD540,000/unit) that obtained a selling permit in September 2019, KDH pre-sold ~65% of 150 launched units as of end-November 2019 based on our observation. Meanwhile, the company also has pre-sold 550 units of Lovera Vista (total of 1,300 high-rise units; Binh Chanh District; our assumed ASP of ~USD82,000/unit) since its first launch in mid-October 2019. These performances are in line with our expectation; hence, we maintain our forecasts for KDH's total pre-sales value to reach VND4.4tn (USD190mn) in 2019F and VND3.6tn (USD154mn) in 2020F vs 2018's low base of VND2tn (USD87mn). We also restate our expectation that strong sales progress for upcoming sales launches will be propelled by KDH's market position, strong brand equity and experience.

**Construction progress is on-track, deriving a solid earnings forecast for the medium term.** Safira (total of 1,600 high-rise units; District 9; 100% pre-sold) and the above-mentioned expectations for the Lovera Vista and Verosa Park launches have positive construction status (details in Figure 3) and are also the main drivers for our forecast of 28% in NPAT-MI CAGR over 2018-2021F. Specifically, we estimate Verosa Park will account for ~80% of KDH's NPAT-MI forecast of VND949bn in 2019F (USD41mn, +17% vs 2018) and VND1.3tn in 2020F (USD57mn, +39% vs 2019F).

## 9M 2019 recap: Higher deliveries with margin expansion boost earnings

Figure 1: 9M 2019 results

VND bn	9M 2018	9M 2019	% YoY Growth	2019F Old	9M as % of 2019F	VCSC comments
<b>Net revenue</b>	<b>1,337</b>	<b>1,861</b>	<b>39%</b>	<b>2,806</b>	<b>66%</b>	We attribute 9M 2019 revenue contribution to handovers at the Jamila project (100% pre-sold; 870 condo units that started to be delivered in Q4 2018), a partial recognition of pre-sold units at Verosa Park (total of 300 low-rise units; District 9, HCMC) and non-core land plot transfers.
Gross profit	563	916	63%	1,549	59%	
SG&A expenses	(170)	(205)	21%	(221)	93%	
<b>EBIT</b>	<b>393</b>	<b>711</b>	<b>81%</b>	<b>1,327</b>	<b>54%</b>	The discrepancy between revenue growth (+39% YoY) and EBIT growth (+81% YoY) was mostly due to higher margin.
Financial income	212	35	-84%	51	68%	We note that 9M 2018 was a high base as June 2018 recorded VND110bn (USD5mn) of after-tax gains from KDH divesting from its associates (Espace Big C An Lac and EB New City). 9M 2019 interest income was down 42%, mainly due to a YoY lower cash deposit balance.
Financial expense	(61)	(42)	-32%	(99)	42%	
PBT	537	667	24%	1,255	53%	
<b>NPAT-MI</b>	<b>404</b>	<b>510</b>	<b>26%</b>	<b>941</b>	<b>54%</b>	Overall results were broadly in line with our expectation.
<b>Gross margin</b>	<b>42.1%</b>	<b>49.2%</b>		<b>55.2%</b>		Gross margin expanded YoY, mostly thanks to higher-margin deliveries during 9M 2019, including Verosa Park and non-core land plot transfers, per our view.
SG&A as % of revenue	12.7%	11.0%		7.9%		
EBIT margin	29.4%	38.2%		47.3%		
<b>NPAT-MI margin</b>	<b>30.2%</b>	<b>27.4%</b>		<b>33.5%</b>		

Source: Company's Q3 2019 financial statements, VCSC

## 2019-2020 outlook: Verosa Park handovers to fill up earnings for the coming quarters

Figure 2: 2019-2020 forecast

VND bn	2018A	2019F Revised	2019F vs Old Forecast	% YoY Growth	2020F	% YoY Growth	VCSC assumptions/ forecasts
<b>Net revenue</b>	<b>2,917</b>	<b>2,806</b>	<b>0%</b>	<b>-4%</b>	<b>3,197</b>	<b>14%</b>	We continue to expect the handovers of Verosa Park will contribute largely to our Q4 2019F and 2020F revenue forecasts.
Gross profit	1,239	1,549	0%	25%	2,007	30%	
SG&A expenses	(257)	(221)	0%	-14%	(232)	5%	
<b>EBIT</b>	<b>982</b>	<b>1,327</b>	<b>0%</b>	<b>35%</b>	<b>1,774</b>	<b>34%</b>	
Financial income	200	51	0%	-74%	55	6%	2018 was a high base, as mentioned in Figure 1.
Financial expense	(89)	(77)	-22%	-13%	(71)	-8%	We revise our 2019F forecast in accordance with 9M 2019 results.
Other income (expense)	(17)	(37)	47%	110%	0	NM	We revise our 2019F forecast in accordance with 9M 2019 results.
PBT	1,076	1,265	1%	18%	1,758	39%	
<b>NPAT-MI</b>	<b>808</b>	<b>949</b>	<b>1%</b>	<b>17%</b>	<b>1,318</b>	<b>39%</b>	
<b>Gross margin</b>	<b>42.5%</b>	<b>55.2%</b>			<b>62.8%</b>		Higher vs 2018, mainly due to Verosa Park carrying high margin.
SG&A as % of revenue	8.8%	7.9%			7.3%		
EBIT margin	33.7%	47.3%			55.5%		
<b>NPAT-MI margin</b>	<b>27.7%</b>	<b>33.8%</b>			<b>41.2%</b>		

Source: Company's financial statements, VCSC forecast

**Figure 3: KDH's key projects under construction**

	July 2019	November 2019
<b>Verosa Park</b> - District 9, HCMC - 300 low-rise units - Sales launch: Q3 2019 - Delivery*: 2019-2020	  	
<b>Lovera Vista</b> - Binh Chanh District, HCMC - 1,300 condo units - Sales launch: Q4 2019 - Delivery*: 2021	  	
<b>Safira</b> - District 9, HCMC - 1,600 condo units - Sales launch: Q4 2018 - Delivery*: 2020-2021	  	

Source: VCSC. Note: (\*) VCSC projection

**Figure 4: Locations of KDH's projects**



Source: VCSC compilation. Note: (\*) Le Minh Xuan industrial park (expansion phase – 110ha)

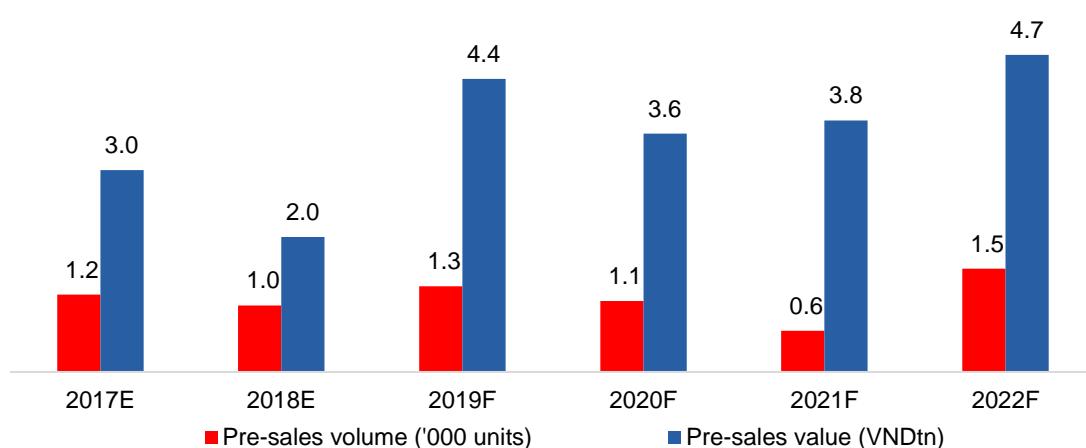


**Figure 5: Construction and handover pipeline of KDH's major residential projects**

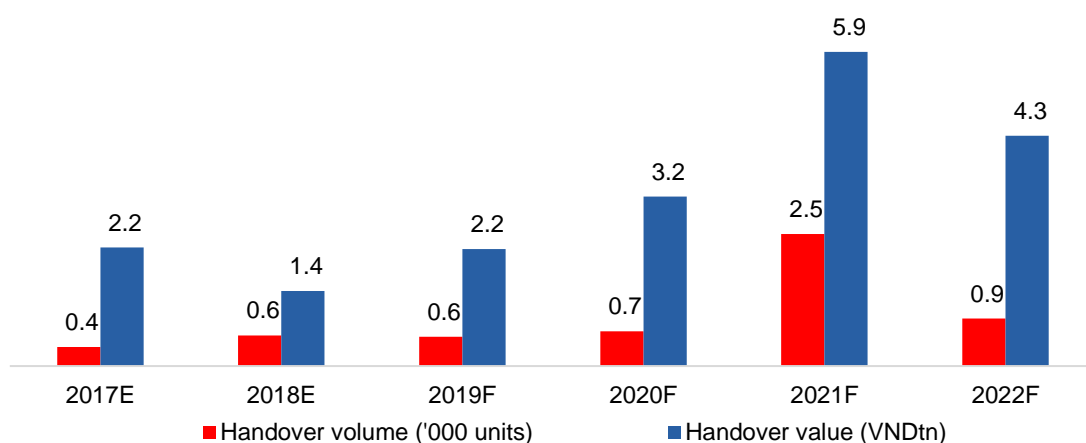
Project	Launch time	Units	Sales rate	Site area (ha)	2017	2018	2019	2020	2021	2022	2023	2024
The Venica	Q1 2016	40	100%	3.1								
Lucasta	Q4 2015	140	100%	8.2								
Merita	Q1 2017	130	100%	3.1								
Jamila	Q2 2017	870	100%	1.7								
Rosita	Q3 2017	120	100%	3.1								
Safira	Q4 2018	1,600	100%	2.7								
Lovera Vista	Q4 2019	1,300	42%*	1.8								
Verosa Park	Q3 2019	300	32%*	8.1								
Clarita	2021**			5.8								
Armena	2022**			4.3								
Corona City	2021**			16.4								
Tan Tao	2021**			329.0								
Phong Phu 2	2022**			132.9								

Source: KDH, VCSC

Note: (\*) % pre-sales of total units. If based on the number of launched units, the current take-up rates would be 100% at Lovera Vista (550 units launched sales since mid-October 2019) and ~65% at Verosa Park (150 units launched sales since end-September 2019) based on our observation. (\*\*) VCSC assumptions; the Phong Phu 2 and Tan Tao projects are expected to continue beyond 2024.

**Figure 6: KDH's residential pre-sales**


Source: VCSC estimates and forecasts

**Figure 7: KDH's residential handovers**


Source: VCSC estimates and forecasts

## Valuation

We continue to value KDH by using the RNAV valuation method (details in Figure 8).

- We mainly use the DCF approach of discounting estimated FCF to the end of 2019 to value KDH's portfolio of residential real estate projects with a total of ~500 ha of land bank under construction and development.
- Other assets, including the Le Minh Xuan industrial zone expansion project (110 ha in Binh Chanh District), are currently reflected at book value in our valuation due to the limited details regarding development plans.

As a result, we derive a one-year target price for KDH at **VND32,000/share** based on our RNAV valuation. This target price is 8% higher than our previous target price of VND29,500/share due to (1) a roll-over of our valuation and (2) a 30% upward revision on our assumed selling prices at Corona City (16.4 ha, Binh Chanh District, HCMC).

**Figure 8: Valuation summary**

Project name	Valuation approach	Effective ownership	Effective NPV (VND bn)
Safira	DCF	100%	356
Lovera Vista	DCF	100%	788
Verosa Park	DCF	100%	2,114
Clarita	DCF	100%	1,131
Armena	DCF	100%	776
Corona City	DCF	100%	1,179
Tan Tao	DCF	100%	6,247
Phong Phu 2	DCF	100%	1,820
Others	BV	100%	2,033
<b>Total project NPV</b>			<b>16,445</b>
(+) Cash and cash equivalents			1,947
(-) Total debt			958
<b>Net Asset Value (NAV)</b>			<b>17,434</b>
Outstanding shares (million)			544
<b>NAV per share (VND/share)</b>			<b>32,000</b>
2019F P/B at target price			2.3x
2020F P/B at target price			2.0x
2019F P/E at target price			19.2x
2020F P/E at target price			13.9x
Current price (VND/share)			26,400
<b>Upside</b>			<b>+21.2%</b>

Source: VCSC

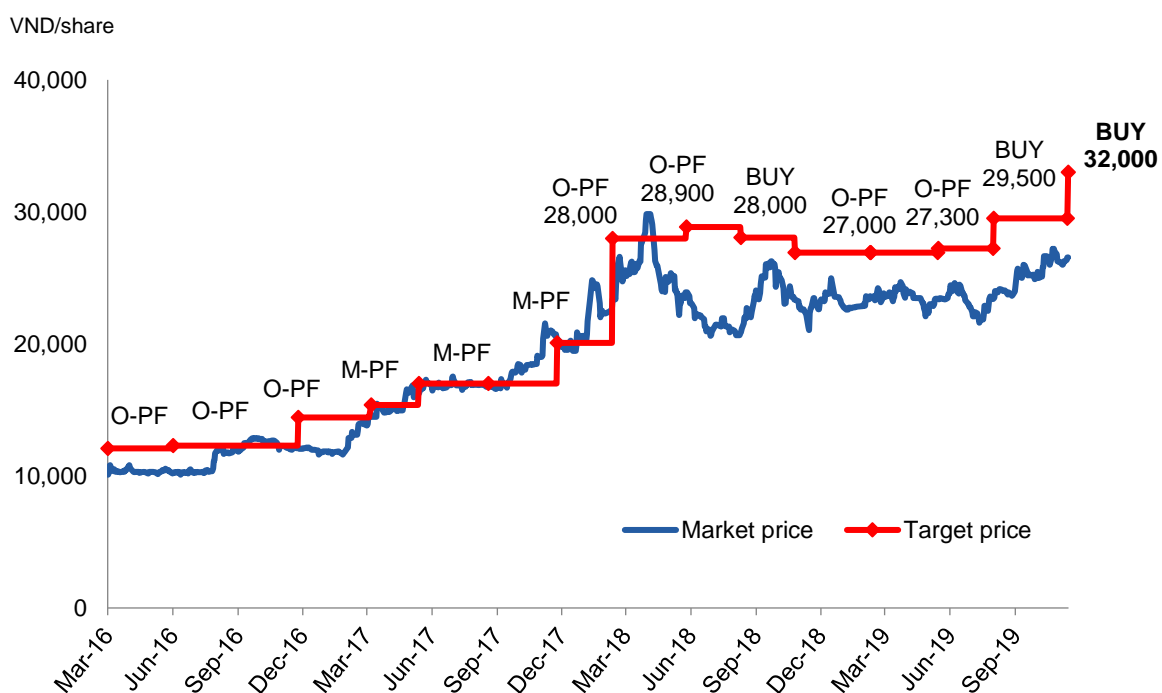
**Figure 9: VCSC assumptions for WACC**

Cost of Capital	Previous	Revised
Beta	1.0	1.0
Market Risk Premium %	8.4%	8.7%
Risk Free Rate %	4.8%	4.5%
Cost of Equity %	13.2%	13.2%
Cost of Debt %	11.0%	11.0%
Corporate Tax Rate %	20.0%	20.0%
Debt-to-capital ratio %	50.0%	50.0%
<b>WACC %</b>	<b>11.0%</b>	<b>11.0%</b>

Source: VCSC

## Recommendation history

**Figure 10: Historical VCSC target price vs share price**



Source: Bloomberg, VCSC. Note: Historical target prices adjusted for changes in shares outstanding.

## Financial Statements

P&L (VND bn)	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>2,917</b>	<b>2,806</b>	<b>3,197</b>	<b>5,929</b>
COGS	-1,677	-1,257	-1,190	-3,100
<b>Gross Profit</b>	<b>1,239</b>	<b>1,549</b>	<b>2,007</b>	<b>2,828</b>
Sales & Marketing exp	-100	-56	-59	-316
General & Admin exp	-157	-165	-173	-182
<b>Operating Profit</b>	<b>982</b>	<b>1,327</b>	<b>1,774</b>	<b>2,331</b>
Financial income	200	51	55	43
Financial expenses	-89	-77	-71	-98
- o/w interest expense	-32	-39	-54	-50
Associates	4	0	0	0
Net other income/(loss)	-21	-37	0	0
<b>Profit before Tax</b>	<b>1,076</b>	<b>1,265</b>	<b>1,758</b>	<b>2,275</b>
Income Tax	-266	-316	-439	-569
<b>NPAT before MI</b>	<b>810</b>	<b>949</b>	<b>1,318</b>	<b>1,707</b>
Minority Interest	-2	0	0	0
<b>NPAT less MI, reported</b>	<b>808</b>	<b>949</b>	<b>1,318</b>	<b>1,707</b>
<b>NPAT less MI, adjusted</b>	<b>808</b>	<b>949</b>	<b>1,318</b>	<b>1,707</b>

EBITDA	990	1,341	1,809	2,388
EPS reported, VND	1,476	1,665	2,301	2,978
EPS adjusted, VND	1,476	1,665	2,301	2,978
EPS fully diluted, VND	1,476	1,665	2,301	2,978
DPS, VND	500	500	500	500
DPS/EPS (%)	34%	30%	22%	17%

RATIOS	2018A	2019F	2020F	2021F
<b>Growth</b>				
Revenue growth	-4.5%	-3.8%	13.9%	85.5%
Op profit (EBIT) growth	23.9%	35.2%	33.7%	31.4%
PBT growth	47.5%	17.6%	39.0%	29.4%
EPS growth, adjusted	17.4%	12.8%	38.2%	29.4%

<b>Profitability</b>				
Gross Profit Margin	42.5%	55.2%	62.8%	47.7%
Op Profit, (EBIT) Margin	33.7%	47.3%	55.5%	39.3%
EBITDA Margin	33.9%	47.8%	56.6%	40.3%
NPAT-MI Margin, adj,	27.7%	33.8%	41.2%	28.8%
ROE	13.4%	13.0%	16.0%	18.0%
ROA	8.1%	8.7%	10.6%	12.5%

<b>Efficiency</b>				
Days Inventory On Hand	1,161	1,813	2,377	957
Days Accts, Receivable	207	242	232	185
Days Accts, Payable	37	64	46	31
Cash Conversion Days	1,332	1,991	2,563	1,111

<b>Liquidity</b>				
Current Ratio x	3.4	3.6	3.3	4.0
Quick Ratio x	1.4	1.3	0.9	1.7
Cash Ratio x	0.7	0.6	0.3	0.3
Debt / Assets	9.5%	8.2%	6.2%	4.8%
Debt / Capital	23.4%	17.6%	15.2%	12.2%
Net Debt / Equity	-12.6%	-12.8%	-2.7%	-3.5%
Interest Coverage x	11.1	17.2	25.0	23.7

Source: Company's financial statements, VCSC forecasts

B/S (VND bn)	2018A	2019F	2020F	2021F
Cash & equivalents	1,836	1,947	1,066	1,028
ST investment	0	0	0	0
Accounts receivables	1,760	1,960	2,102	3,898
Inventories	5,817	6,665	8,839	7,423
Other current assets	157	151	172	318
<b>Total Current assets</b>	<b>9,570</b>	<b>10,723</b>	<b>12,178</b>	<b>12,667</b>
Fix assets, gross	531	727	951	1,188
- Depreciation	-30	-43	-78	-135
Fix assets, net	500	684	873	1,053
LT investment	14	14	14	14
LT assets other	143	253	253	253
<b>Total LT assets</b>	<b>658</b>	<b>951</b>	<b>1,140</b>	<b>1,320</b>
<b>Total Assets</b>	<b>10,228</b>	<b>11,673</b>	<b>13,318</b>	<b>13,987</b>

Accounts payable	284	155	147	382
Short-term debt	632	250	250	250
Other ST liabilities	1,859	2,609	3,346	2,507
Total current liabilities	2,775	3,014	3,743	3,139
Long term debt	337	708	578	417
Other LT liabilities	217	217	217	217
<b>Total Liabilities</b>	<b>3,328</b>	<b>3,939</b>	<b>4,538</b>	<b>3,773</b>

Preferred Equity	0	0	0	0
Paid in capital	4,140	5,444	5,444	5,444
Share premium	1,724	1,755	1,755	1,755
Retained earnings	907	406	1,452	2,887
Other equity	93	93	93	93
Minority interest	35	35	35	35
<b>Total equity</b>	<b>6,899</b>	<b>7,734</b>	<b>8,780</b>	<b>10,215</b>
<b>Liabilities &amp; equity</b>	<b>10,228</b>	<b>11,673</b>	<b>13,318</b>	<b>13,987</b>

Y/E shares out, mn	538	544	544	544
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CASH FLOW (VND bn)	2018A	2019F	2020F	2021F
<b>Beginning Cash Balance</b>	<b>2,592</b>	<b>1,836</b>	<b>1,947</b>	<b>1,066</b>
Net Income	808	949	1,318	1,707
Dep, & amortization	8	13	34	57
Chge in Working Cap	-663	-60	-1,581	-1,175
Other adjustments	-872	-470	-28	44
<b>Cash from Operations</b>	<b>-719</b>	<b>432</b>	<b>-256</b>	<b>633</b>
Capital Expenditures, net	-161	-196	-224	-237
Investments, net	681	0	0	0
<b>Cash from Investments</b>	<b>519</b>	<b>-196</b>	<b>-224</b>	<b>-237</b>
Dividends Paid	-194	-207	-272	-272
Δ in Share Capital	102	93	0	0
Δ in ST debt	445	-382	0	0
Δ in LT debt	-1,135	371	-129	-162
Other financing C/F	225	0	0	0
<b>Cash from Financing</b>	<b>-556</b>	<b>-124</b>	<b>-402</b>	<b>-434</b>
<b>Net Change in Cash</b>	<b>-756</b>	<b>111</b>	<b>-881</b>	<b>-38</b>
<b>Ending Cash Balance</b>	<b>1,836</b>	<b>1,947</b>	<b>1,066</b>	<b>1,028</b>



## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as  $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$ , and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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