

**Real Estate Industry**

Company visit note

March, 2017

# Investment and Trading Of Real Estate JSC

Ticker: ITC

Reuters: ITC.HM

Bloomberg: ITC VN

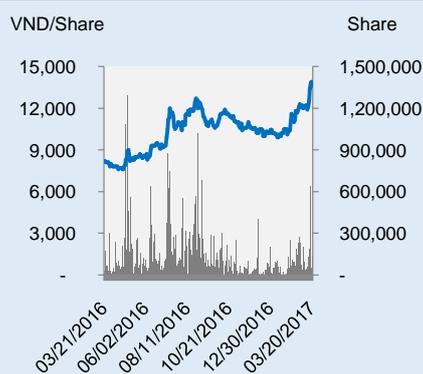
## High profit due to good project sales is expected for 2017

Recommendation	<b>OUPERFORM</b>
Target price (VND)	<b>N/a</b>
Market price (20/3/2017)	13,600
Expected profit	<b>N/a</b>

### SHARES INFORMATION

Trading exchange	HSX
52-week price range	7,600-13,900
Market cap	934 Bil VND
Outstanding shares	68,646,328
10-day average volume	157,737
% foreign owned	9.03%
Foreign room	49%
Dividend per share	N/a
Dividend yield	N/a
Beta	0.5

### PRICE MOVEMENTS



	YTD	1M	3M	6M
ITC	30.1%	16.2%	36.0%	26.5%
Vn-Index	6.4%	-0.2%	6.0%	5.6%

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### I. Update on trading progress – project execution

**Terra Royal project (ITC Plaza – Ly Chinh Thang):** is the key project of ITC in 2017, located at the corner of Nam Ky Khoi Nghia and Ly Chinh Thang, District 3, with total investment of around VND2,000 – 2,200 billion. This 77,000 m2 ground floor project has started basement construction to be offered for sales since June 2017.

- Apartment: 360 units, with 58 – 70m2 area for most apartments, except for some penthouses with large area above 100 m2. Selling price is VND70 million/m2 (VAT), much higher than management's expectation at early phase of project execution (around USD2,500 – 3,000/m2) but nearly equal to the secondary price of neighboring project called The Prince Residence of Novaland (Phu Nhuan). However, thanks to moderate apartment supply and small area of 58 – 70m2 for most apartments, this project is expected to have good sales in 2017.
- Serviced apartments: 366 units. The company is finding/ negotiating with partner specializing in serviced apartment exploitation for stable cash flows after project's completion in 2019.
- Office, commercial floor: has total floor area of around 18,000m2 with no specific exploitation plan.

At current construction progress, this project can be delivered for revenue contribution since Q2/2019. Apartment revenue is estimated at VND1,260 - 1,360 billion, bringing significant improvement in its operating results in 2019.

**Long Thoi residential project in Nha Be:** has 44.5 ha for building townhouses and villas (about 700 plots of townhouse) and 6.5 ha for high rise construction. This project has been offered for sales since early 2016 with better-than-expected sales volume thanks to high investors' activity in Nha Be real estate market. Up to now, the company has sold 700/700 plots of townhouse and about 50% of villa plots. The remained villa plots will likely be sold out in 2017. Selling price has been raised by 2 times with average price of VND8 – 9.5 million/m2 (excluded VAT). The company has no plan for executing the high rise area in 2017. In terms of revenue recognition, low rise areas can generate about VND1,100 – 1,200 billion of revenue for ITC. In Q4/2016, the company delivered a part of low rise area to record VND163 billion of revenue and VND36 billion of gross profit, equivalent to 22% gross profit margin. The remained area will be recorded in 2017 and 2018 with improvement in profit margin to averagely 26%. Accordingly, Long Thoi project will be its profit provider in 2017 and 2018.

## II. Highlights in 2017

### **Consumption of Terra Royal project will decide ITC's long-term prospect.**

Customers can submit deposits before this project is officially offered for sales in June/2017. As revealed, customers have good response to this first high-end project. However, the company has not shared the specific number of registered apartments. In our opinion, although this project has relatively high selling price by m<sup>2</sup>, it also has certain advantages such as (1) small apartment area (2) located in city's center, which is currently under limitation on apartment project development (3) moderate apartment supply, etc. Therefore, this project will likely have no difficulty in sales. In terms of capital demand, the company has planned for huge disbursement in 2017 for (1) rough construction of Terra Royal project (2) infrastructure and facilities for Long Thoi project. As estimated, the required investment of VND600 – 700 billion for these 2 projects in 2017 will be offset by expected proceeds of VND700 – 800 billion from Long Thoi project. Therefore, ITC will have no demand for more investment loan in 2017.

**2017's profit growth still depends on recognition of Long Thoi Residential project.** As per sales progress of Long Thoi project, most of this project's revenue and profit can be recorded in 2017 when the apartments sold in 2016 will be available for delivery in 2017 and settled in 12 monthly installments. However, apart from Long Thoi project, ITC has no other project for significant profit recognition in 2018. Therefore, the company is considering a recognition method to prevent sudden fluctuation in operating results. As estimated, in the case ITC records half of its remained revenue from Long Thoi, its 2017 net profit is estimated at **VND110 billion**, equivalent to EPS of VND1,587/share. This is such a good profit for ITC since 2011, showing that the company has overcome its difficult time.

### **Recommendation:**

We highly appreciate ITC's achievements in 2016 including consumption of Long Thoi project and decisiveness in executing Terra Royal project with many difficulties in land clearance and compensation. Good sales of Long Thoi project can bring cash flows for executing Terra Royal project and relieving ITC's financial pressure from bank loans. About operating results, we think ITC's profit will have positive changes since 2017 to reach high level in 2019 upon Terra Royal's delivery. Assuming that ITC records half of its remained revenue from Long Thoi, its 2017 net profit is estimated at VND110 billion, equivalent to EPS of VND1,587/share. Accordingly, ITC share is currently trading at PE and P/B ratio of 8.8x and 0.58x, respectively, quite attractive for mid-term investment.

**FINANCIAL RATIOS**

<b>Profit and loss statement</b>				
<b>Unit (VND billion)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Revenues	218	454	213	279
Cost of goods sold	(430)	(413)	(170)	(224)
Gross profit	(211)	41	43	55
Financial income	2	7	1	1
Financial expenses	(37)	(23)	(12)	(5)
Net income	(297)	7	7	26

<b>Balance sheet</b>				
<b>Unit (VND billion)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Cash and cash equivalents	3	9	9	51
Accounts receivable – short-term	62	37	67	116
Inventories	1,670	1,599	1,615	2,625
Tangible fixed assets	19	19	17	15
Long-term investments	276	273	273	268
<b>Total assets</b>	<b>2,317</b>	<b>2,165</b>	<b>2,309</b>	<b>3,340</b>
Short-term loans	667	465	496	971
Long-term debt	171	213	319	849
Owners' equity	1,473	1,480	1,494	1,520
<b>Total resources</b>	<b>2,317</b>	<b>2,165</b>	<b>2,309</b>	<b>3,340</b>

<b>Financial ratios</b>				
<b>Items</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Growth</b>				
Revenue growth (%)	55.9%	107.9%	-53.1%	30.9%
Net profit growth (%)	-	-	-1.6%	259.8%
<b>Yield</b>				
Gross profit margin (%)	-96.9%	9.0%	20.0%	19.6%
Net profit margin (%)	-	1.6%	3.4%	9.2%
ROA (%)	-	0.3%	0.3%	0.9%
ROE (%)	-	0.5%	0.5%	1.7%
<b>Capital structure</b>				
Total liabilities to total asset (%)	36%	31%	35%	54%
Total liabilities to owners' equity (%)	57%	46%	55%	120%
<b>Per shares</b>				
EPS (VND/share)	-	105	104	373
Book value (VND/share)	21,319	21,424	21,624	22,006

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