

HADO GROUP (HDG)

AGM Note

Industry: Real Estate & Power

Report Date: April 25, 2022

Current Price: VND60,600

Target Price ⁽¹⁾: VND80,000

Upside to TP: 32.0%

Dividend yield: +1.7%

TSR 33.7%

Rating ⁽¹⁾: OUTPERFORM

Market Cap: USD629mn

Foreign Room: USD112.5mn

ADTV30D: USD2.7mn

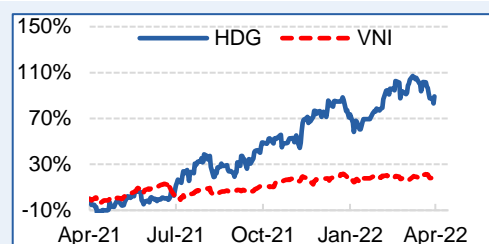
State Ownership: 0%

Outstanding Shares: 203 mn

Fully Diluted Shares: 203 mn

	2021	2022F	2023F	2024F
Rev Y/Y	-23.2%	8.9%	33.7%	103.2%
Basic EPS Y/Y	4.5%	24.7%	26.2%	55.6%
Diluted EPS Y/Y	11.3%	29.3%	28.4%	55.6%
NPAT-MI (VND bn)	1,090	1,408	1,809	2,815
EV/EBITDA	8.2x	6.1x	4.8x	3.6x
P/B	2.7x	2.2x	1.7x	1.3x
Diluted P/E	11.6x	9.0x	7.0x	4.5x

	HDG	Peers	VNI
P/E (ttm)	11.6x	19.2x	15.6x
P/B (LQ)	2.7x	2.5x	N/A
Net D/E	134.7%	21%	N/A
ROE	29.6%	15.1%	15.7%
ROA	6.8%	8.0%	2.6%



Company Overview

Founded in 1990 as a construction company under the Ministry of Defense, HDG is now a reputable real estate developer in Hanoi and HCMC and a sizable investor in Vietnam's renewable energy space with 314 MW of hydropower, 82 MW of solar power and 50 MW of wind power capacity as of end-2021.

⁽¹⁾ Last updated on March 2, 2022

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Heading for strong growth period

- We attended HDG's AGM on April 23. Management addressed investor concerns regarding the handing over of the Charm Villas project and provided an explanation for its 2023-2025 business plan that targets 22%-27% growth p.a.
- HDG issued 2022 revenue guidance for VND3.7tn (nearly flat YoY) and NPAT before MI of VND1.3tn (flat YoY). The NPAT guidance accounts for 87% of our 2022 forecast. We see the potential for a slight downside risk to our 2022 NPAT after MI forecast (VND1.4tn; +29% YoY) due to lower-than-expected earnings from the real estate segment, which outweighs upside risk for the energy segment due to solid volume and strong competitive generation market prices potentially benefiting HDG's hydropower portfolio.
- HDG announced preliminary Q1 2022 NPAT before MI of VND210bn, completing 14% of our 2022 forecast as the revenue contribution from the real estate segment remained low during the quarter. Nevertheless, we expect earnings to accelerate moving forward.
- The AGM approved a cash dividend of VND1,000/share for 2021. In addition, the remaining 20% stock dividend will be paid this year.
- HDG proposed a 25% dividend for 2022. The company targets a VND500 cash dividend and 20% stock dividend as it desires to reserve cash for new projects. We currently forecast DPS of VND1,000 for 2022
- HDG is aggressively expanding its land bank and power portfolio. The company will raise equity when needed by conducting IPOs for its Hado Real Estate and Hado Energy subsidiaries.
- HDG is confident that its giant 300-MW An Phong wind power project will be included in Vietnam's Power Development Plan (PDP) VIII.

Strong profit growth guidance. HDG released a five-year business plan that guides for NPAT growth of 22%-27% p.a. in 2023-2025. This target is based on HDG's current land bank, eight existing power projects and four new wind power projects. The company targets to develop at least five real estate and energy projects in 2022, which should ensure earnings growth in future years.

The company's NPAT before MI guidance is ~20%-30% lower than our forecasts for 2024 and 2025. We attribute this divergence to HDG's more conservative selling price assumptions and/or some revenue recognition spreading into 2026 from future real estate projects. In 2017-2021, HDG beat its guidance by 6%-40%.

Figure 1: HDG's five-year guidance

Year	2021A	2022	2023	2024	2025
HDG's NPAT before MI guidance (VND bn)	1,344	1,344	1,713	2,092	2,552
Growth %		0%	27%	22%	22%
VCSC's NPAT before MI forecast (VND bn)	1,344	1,543	1,929	3,038	3,255
HDG's guidance vs VCSC's forecast		87%	89%	69%	78%

Source: HDG, VCSC

HDG will announce its land bank acquisition when its successful. The company will M&A with a real estate company that has a clean land bank or participate in an auction to acquire land bank. HDG is studying new projects in Hanoi (Thanh Oai District), HCMC (Binh Chanh District) and Phuoc My 2 (Ninh Thuan Province). These projects could help to quadruple HDG's land bank to 450 ha over the next five years. Previously, HDG shared that it is in negotiation to finish the acquisition of a 125-ha land bank in western Hanoi in at a preliminary cost of ~VND1tn and expected minimum net margin of 18%-20%.

HDG has submitted a proposal to establish the Hado Real Estate subsidiary and has the desire to conduct an IPO over the long term. HDG will hold at least 90% stake in this subsidiary. The remaining 10% stake will belong to HDG's chairman and some BOD members. This subsidiary will inherit all of HDG's real estate assets. According to management, the reason for establishing this subsidiary is to restructure HDG into a holding company and enhance its capital management capability as well as to increase the specializations, professionalism and profitability of HDG's subsidiaries.

Phase 3 of Charm Villas is ready to launch sales. HDG explained that it finished paying land-use rights fees for this project and that Charm Villas has met four conditions to recognize revenue in 2022 and 2023. The company is conducting additional research about the market prices of nearby projects to ensure the best price for Phase 3. HDG has sold 240 units in Phases 1 & 2 and targets to sell 130 units in Phase 3.

HDG is waiting for the approval of Power Development Plan VIII to proceed with the plan of doubling its power capacity. After PDP VIII is approved, HDG expects to develop two wind power projects — Phuoc Huu (50 MW) and Ea H'leo (20 MW). The company is waiting for an auction mechanism (which will be used to choose an investor based on the lowest offer price). HDG expects a new price for wind power of 7.5 US cents — 12% lower than the previous tariff of 8.5 US cents and higher than our assumption of 7.0 US cents. Furthermore, the company has a targeted IRR of ~12% for the new project. Capex spending for the energy segment is set at VND1tn. HDG is also confident that its giant 300-MW An Phong wind power project will be included in PDP VIII.

Power portfolio delivered strong results in Q1 2022 and has a bright outlook as northern Vietnam faces an electricity shortage. HDG's power volume was 290 million kWh in Q1 2022, surpassing its target for the quarter by 20%. The new Dak Mi 2 hydropower plant's monthly volume surpassed HDG's target by 20%-50%. Additionally, wind and solar power does not face any curtailment risk due to the electricity shortage in northern Vietnam. HDG's chairman is confident that the hydropower plants has payback period of 10 years out of their 50-year lifecycle, while its wind/solar plant has payback period of seven to eight years out of its 20-30-year lifecycle.



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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%
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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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