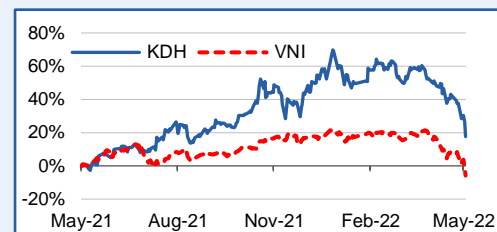




# Khang Dien House (KDH) [BUY +39.9%]

## Update Report

Industry	Real Estate		2021A	2022F	2023F	2024F
Report Date	May 16, 2022	Rev y/y	-17.5%	-30.8%	39.9%	30.1%
Current Price	VND39,300	EPS y/y	3.0%	12.5%	16.1%	22.7%
Target Price	VND55,000	NPAT-MI y/y	4.3%	16.7%	16.9%	22.7%
Last Target Price	VND57,600	GPM	48.0%	64.5%	66.1%	63.9%
Upside to TP	+39.9%	NPM	32.2%	54.3%	45.4%	42.8%
Dividend Yield	0.0%	P/B	2.5x	2.2x	1.9x	1.7x
TSR	+39.9%	P/E	21.9x	19.5x	16.8x	13.7x



Market Cap	USD1.1bn		KDH	Peers	VNI
Foreign Room	USD189.1mn	P/E (ttm)	21.0x	23.1x	12.8x
ADTV30D	USD2.5mn	P/B (curr)	2.4x	3.3x	2.0x
State Ownership	0.0%	Net D/E	28.7%	30.6%	N/A
Outstanding Shares	642.9 mn	ROE	13.8%	13.9%	15.8%
Fully Diluted O/S	652.5 mn	ROA	8.4%	4.1%	2.6%

### 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 projects with total land area of ~600 ha located in Thu Duc City, Binh Chanh District and Binh Tan District of HCMC.

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## Solid outlook for new project launches in 2022

- We upgrade our rating for KDH to BUY from MARKET PERFORM despite trimming our target price by 5% to VND55,000/share as the company's share price has corrected 26% over the last three months.
- Our lower target price is mainly due to (1) rescheduling our expected sales at Clarita to start in 2023 vs previously 2022, (2) factoring in 9.6 million ESOP shares at an issue price of VND24,000/share, and (3) a higher net debt balance as of end-Q1 2022, which are partly offset by (4) the positive impact of rolling over our target price horizon to mid-2023.
- We forecast 2022F NPAT-MI of VND1.4tn (USD61mn; +17% YoY), which is mainly driven by the Classia project that will launch sales in H2 2022. The 9% downward revision to our 2022F NPAT-MI forecast is mainly due to delaying our sales recognition projection at Clarita, which is partly offset by a higher contribution from Classia and a Q1 2022 non-cash gain of VND308bn (USD13.4mn) from the land plot consolidation.
- We continue to expect strong presales in 2022-2023F vs a low base in 2020-2021 as we expect the company will accelerate sales/launches of new projects starting in H2 2022. We forecast 2022-2023F aggregate residential presales of VND9.4tn (USD409mn) to be mainly driven by new projects Classia, Clarita and The Privia (previously known as Binh Tan).
- We view KDH as attractive with a 2022/2023F P/E of 19.5x/16.8x and 2022/2023F P/B of 2.2x/1.9x (based on our forecasts) and our 17% 2021-2023F NPAT-MI CAGR forecast.
- Upside catalyst: Higher-than-expected selling prices at newly launched projects.
- Downside risk: Slower-than-expected launches for large-scale projects like Tan Tao.

**A proven developer with well-positioned products in HCMC that can benefit from solid housing demand.** We maintain our view that housing products from experienced developers with strong brand equity — such as KDH with its dominance in the HCMC landed housing segment — will continue attract interest from homebuyers.

**We expect new project launches to drive strong growth in 2022-2023F.** As of end-Q1 2022, KDH completed sales of 100% units at Verosa Park and 88% at Lovera Vista. For 2022, the company targets to (1) complete construction and start sales at Classia (expected in Q3 2022), (2) start presales at The Privia (expected in Q4 2022), and (3) start construction at Clarita. We continue to expect strong presales in 2022-2023F vs a low base in 2020-2021. We forecast Classia (total project includes ~180 low-rise units in Thu Duc City, HCMC; started construction at end-September 2021 — over 50% of construction has been completed), The Privia (~1,100 condos in Binh Tan District, HCMC) and Clarita (~160 low-rise units in Thu Duc City, HCMC) will contribute ~90% of our 2022-2023F aggregate residential presales forecast. The low-rise projects — Classia and Clarita — account for ~70% of our 2022-2023F aggregate NPAT-MI forecast.

## Q1 2022 Recap: Strong earnings thanks to land plot consolidation

Figure 1: Q1 2022 results

VND bn	Q1 2021	Q1 2022	% YoY Growth	2022F Old	Q1 2022 as % of 2022F Old	VCSC comments for Q1 2022 results
<b>Net revenue</b>	<b>836</b>	<b>143</b>	<b>-83%</b>	<b>3,663</b>	<b>4%</b>	Net revenue declined 83% YoY in Q1 2022 as the company (1) completed handovers for most presold units as of end-2021 and (2) plans to start sales/presales at the Classia and The Privia projects in H2 2022 — in line with our expectation.
Gross profit	358	77	-78%	2,370	3%	
SG&A expenses	-71	-72	1%	-330	22%	
<b>EBIT</b>	<b>287</b>	<b>5</b>	<b>-98%</b>	<b>2,041</b>	<b>0%</b>	
Financial income	5	2	-52%	10	25%	
Financial expense	-17	-3	-82%	-121	2%	Total debt surged 74% YTD in Q1 2022 to VND4.4tn (USD193mn) and increased by 38% to VND2.6tn (USD111mn) at end-2021 vs VND1.8tn (USD80mn) at end-2020; however, new debt was mainly funded for developing projects, thus interest expense was mostly capitalized.
Other income (expense)	-7	305	N.M.	0	N.M.	Q1 2022 recorded a VND308bn (USD13.4mn) non-cash gain from the land plot consolidation. In late 2021, the company announced a plan to acquire a 60% stake in Doan Nguyen House Business & Investment Ltd, which owns a 6-ha residential land plot in Binh Trung Dong – Cat Lai Ward, Thu Duc City, HCMC. We did not factor this consolidation gain into our previous forecast.
PBT	268	310	15%	1,929	16%	
<b>NPAT-MI</b>	<b>205</b>	<b>299</b>	<b>46%</b>	<b>1,541</b>	<b>19%</b>	NPAT-MI surged 46% YoY in Q1 2022 mainly thanks to a VND308bn (USD13.4mn) non-cash gain from the land plot consolidation.
<b>Gross margin</b>	<b>42.8%</b>	<b>54.2%</b>		<b>64.7%</b>		
SG&A as % of revenue	8.5%	50.6%		9.0%		
EBIT margin	34.3%	3.6%		55.7%		
<b>NPAT-MI margin</b>	<b>24.5%</b>	<b>209.8%</b>		<b>42.1%</b>		

Source: Company's Q1 2022 financial statements, VCSC forecast

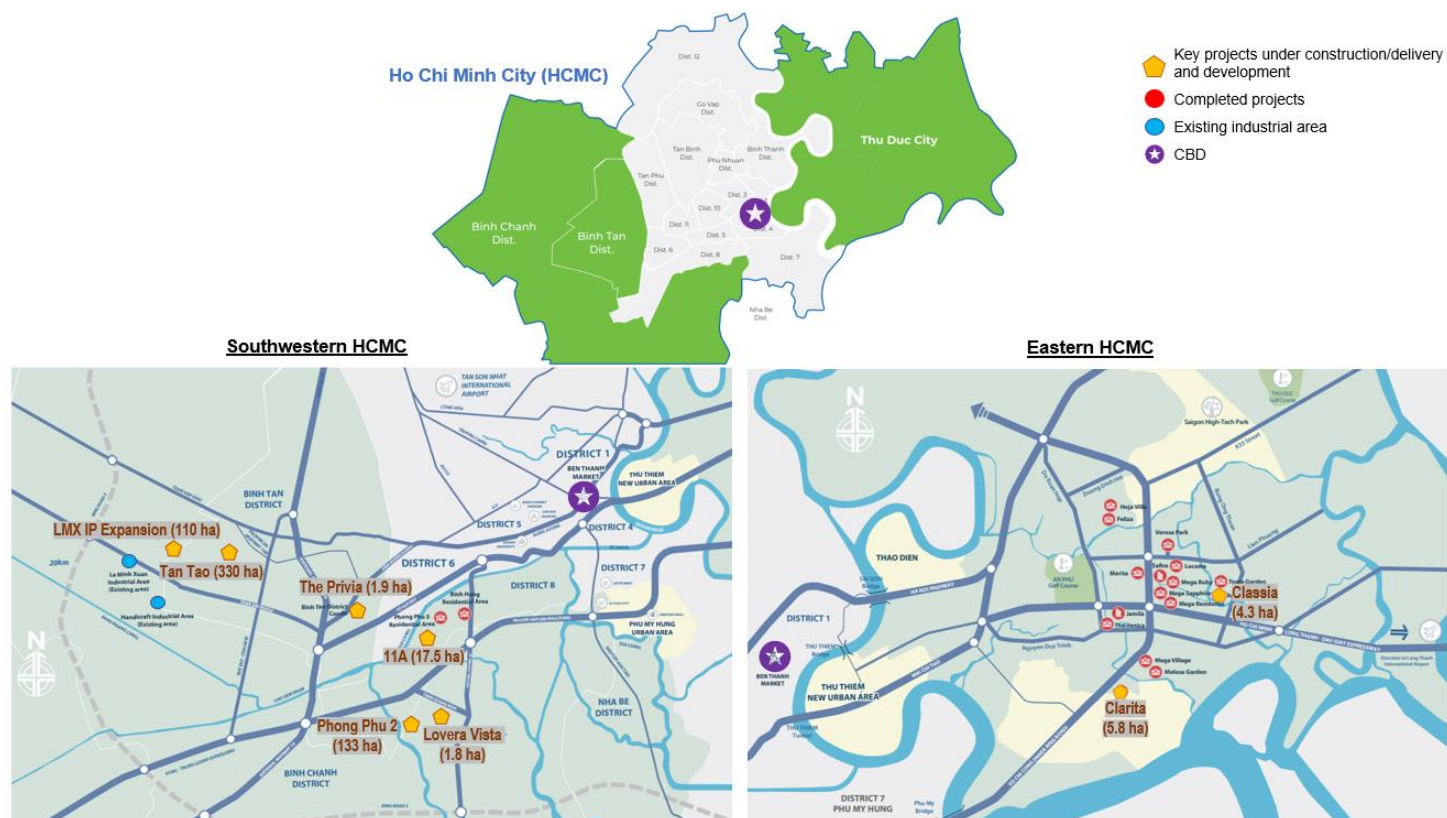
## 2022 Outlook: New low-rise projects with high margins to drive earnings growth

Figure 2: 2022 forecast

VND bn	2021A	2022F Old	2022F Revised	2022F Revised vs Old	2022F Revised vs 2021	VCSC assumptions/forecasts for 2022F
<b>Net revenue</b>	<b>3,738</b>	<b>3,663</b>	<b>2,586</b>	<b>-29%</b>	<b>-31%</b>	<p>We expect the Classia project to drive our 2022F forecast. We revise down our forecast due to rescheduling our sales recognition projection at Clarita to start in 2023 vs previously 2022, which is partly offset by a higher contribution from Classia vs our previous projection.</p> <p>The 2022F revenue forecast will decline YoY as the company completed handovers for most presold units as of end-2021. We note 2021 was primarily driven by deliveries of <b>(1)</b> 234 units at Safira (total project includes ~1,600 high-rise units — 100% sold and delivered), <b>(2)</b> 31 units at Verosa Park (total project includes ~300 low-rise units — 100% sold and delivered), and <b>(3)</b> 1,147 units at Lovera Vista (total project includes ~1,300 high-rise mid-end units — 88% sold and delivered as of end-Q1 2022).</p>
Gross profit	1,794	2,370	1,669	-30%	-7%	
SG&A expenses	-387	-330	-233	-29%	-40%	
<b>EBIT</b>	<b>1,407</b>	<b>2,041</b>	<b>1,436</b>	<b>-30%</b>	<b>2%</b>	
Financial income	21	10	10	0%	-52%	
Financial expense	-73	-121	-89	-27%	22%	We continue to assume new debt to be funded mainly for developing projects, thus most interest expenses will be capitalized.
Other income (expense)	185	0	400	N.M.	117%	We revise up forecast in accordance with Q1 2022 results, including a VND308bn (USD13.4mn) gain from the land plot consolidation. We also note Q4 2021 recorded a VND199bn (USD8.6mn) non-cash gain from consolidating a land plot.
PBT	1,540	1,929	1,757	-9%	14%	
<b>NPAT-MI</b>	<b>1,202</b>	<b>1,541</b>	<b>1,403</b>	<b>-9%</b>	<b>17%</b>	Our 9% downward revision to our 2022F NPAT-MI forecast is mainly due to delaying our sales recognition projection at Clarita, which is partly offset by a higher contribution from Classia and a Q1 2022 gain from the land plot consolidation.
<b>Gross margin</b>	<b>48.0%</b>	<b>64.7%</b>	<b>64.5%</b>			
SG&A as % of revenue	10.3%	9.0%	9.0%			
EBIT margin	37.6%	55.7%	55.5%			
<b>NPAT-MI margin</b>	<b>32.2%</b>	<b>42.1%</b>	<b>54.3%</b>			

Source: Company's financial statements, VCSC forecast

Figure 3: KDH's key projects located in eastern and southwestern HCMC



Source: KDH, VCSC compilation

Figure 4: Forecast for construction and handover pipeline of major residential projects

Project	Launch	Units	Sales rate**	Site area (ha)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
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	88%	1.8											
Verosa Park	Q3 2019	300	100%	8.1											
Classia	2022*	180		4.3											
The Privia	2022*	1,100		1.9											
Clarita	2023*	160		5.8											
11A	2024*			16.4											
Tan Tao	2024*			329.0											
Phong Phu 2	2024*			132.9											
Nguyen Thu	NA			NA											
Doan Nguyen (KDH owns 60%)	NA			6.0											

Source: VCSC projection. Note: (\*) VCSC assumptions; 11A, Phong Phu 2 and Tan Tao projects are expected to continue beyond 2027; (\*\*) as of end-Q1 2022.

**Figure 5: KDH's projects to launch sales in 2022**

**CLASSIA (4.3 ha)**

- Phu Huu Ward, Thu Duc City, HCMC. Located next to KDH's developed projects.
- Total of ~180 low-rise units.
- Sales launch in 2022 and delivery in 2022-2023, per our forecast.



**The Privia (1.9 ha)**

(previously known as the Binh Tan project)

- Binh Tan District, HCMC. Adjacent to Districts 6 & 8, which are crowded areas.
- Estimated total of ~1,100 high-rise units.
- Sales launch in 2022 and delivery in 2024-2025, per our forecast.



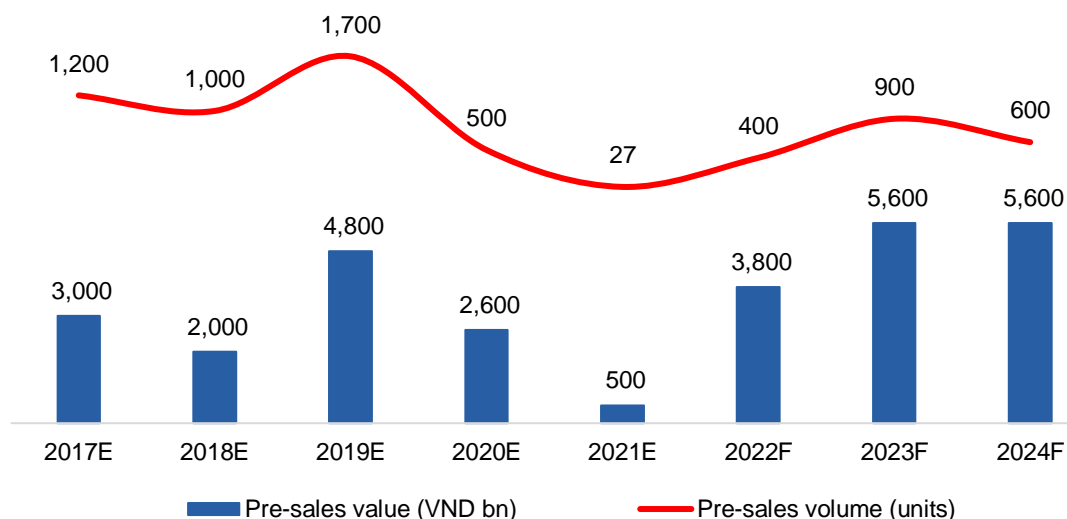
**CLARITA (5.8 ha)**

- Binh Trung Dong Ward, Thu Duc City, HCMC
- Estimated total of ~160 low-rise units
- Sales launch in 2023 and delivery in 2023-2025, per our forecast



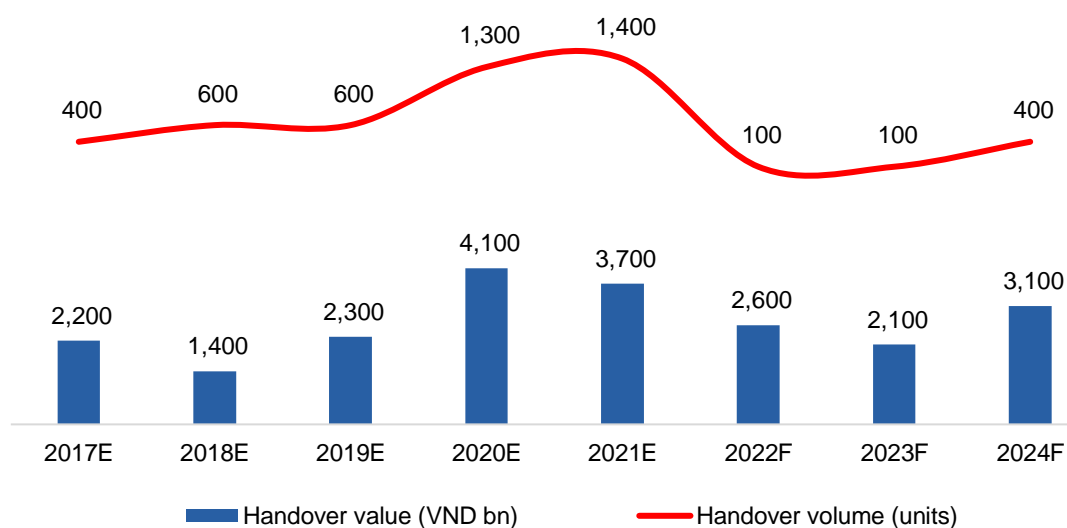
Source: VCSC compilation

**Figure 6: KDH's residential presales**



Source: VCSC estimates and forecasts. Note: Excluding Le Minh Xuan Industrial Park expansion project.

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



Source: VCSC estimates and forecasts. Note: Excluding Le Minh Xuan Industrial Park expansion project.

## 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 mid-2022 to value KDH's portfolio of projects that are under construction and development. We continue to use a P/B valuation approach with a targeted P/B of 2.0x for the valuation of other undisclosed projects and two newly-consolidated projects (Nguyen Thu and Doan Nguyen).

We derive our one-year target price for KDH at **VND55,000/share**. This target price is 5% lower than our previous price of VND57,600/share, which is mainly due to **(1)** rescheduling our expected sales at Clarita to start in 2023 vs previously 2022 (per management's recent guidance), **(2)** factoring in 9.6 million ESOP shares (1.5% of the current share count; expected to be issued in 2022) at an issue price of VND24,000/share (approved at April 2022 AGM), and **(3)** a higher net debt balance as of end-Q1 2022, which are partly offset by **(4)** the positive impact of rolling over our target price horizon to mid-2023.

**Figure 8: Valuation summary**

Project name	Valuation approach	Effective ownership	Effective NPV (VND bn)
Classia	DCF	100%	1,713
Clarita	DCF	100%	2,183
11A Residence	DCF	100%	2,322
The Privia	DCF	100%	1,721
Tan Tao	DCF	100%	15,122
Phong Phu 2	DCF	100%	5,933
Le Minh Xuan IZ expansion	DCF	100%	2,212
Others (incl. Nguyen Thu, Doan Nguyen)	P/B	100%	7,578
<b>Total project NPV</b>			<b>38,784</b>
(+) Cash and cash equivalents *			1,472
(-) Total debt			4,434
<b>Net Asset Value (NAV)</b>			<b>35,822</b>
Outstanding shares (million) *			653
<b>NAV per share (VND/share)</b>			<b>55,000</b>
2022F P/B at target price			3.0x
2022F P/E at target price			27.3x
2023F P/B at target price			2.7x
2023F P/E at target price			23.5x
Current price (VND/share)			39,300
Upside			+39.9%

Source: VCSC. Note: (\*) Including 9.6 million ESOP shares at an issue price of VND24,000/share expected to be issued in 2022.

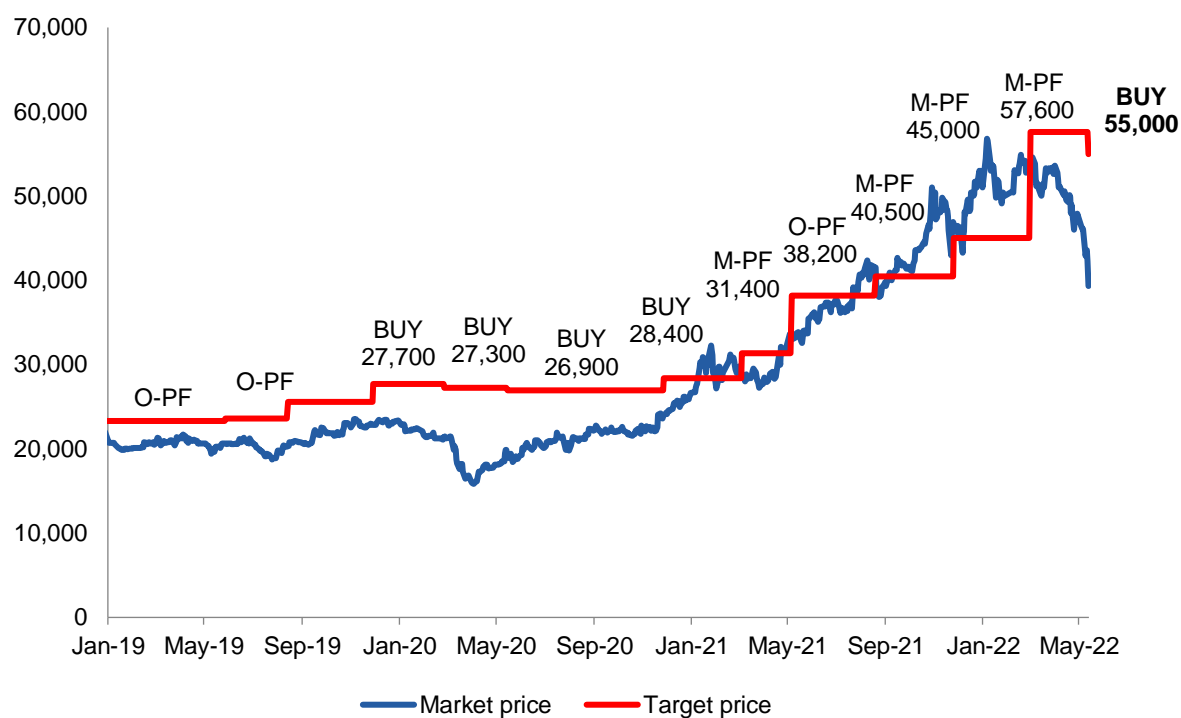
**Figure 9: VCSC assumptions for WACC**

Cost of Capital	Previous	Revised
Beta	1.0	1.0
Market Risk Premium %	7.0%	7.0%
Risk Free Rate %	5.5%	5.5%
Cost of Equity %	12.5%	12.5%
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>10.7%</b>	<b>10.7%</b>

Source: VCSC

## Recommendation History

Figure 10: Historical VCSC target price vs share price (VND/share)



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

## Financial Statements

P&L (VND bn)	2021A	2022F	2023F	2024F
<b>Revenue</b>	<b>3,738</b>	<b>2,586</b>	<b>3,618</b>	<b>4,707</b>
COGS	-1,945	-917	-1,227	-1,697
<b>Gross Profit</b>	<b>1,794</b>	<b>1,669</b>	<b>2,390</b>	<b>3,010</b>
Sales & Marketing exp	-213	-54	-48	-140
General & Admin exp	-174	-179	-184	-190
<b>Operating Profit</b>	<b>1,407</b>	<b>1,436</b>	<b>2,158</b>	<b>2,680</b>
Financial income	21	10	8	9
Financial expenses	-73	-89	-111	-167
- o/w interest expense	-16	-24	-32	-49
Associates	0	0	0	0
Net other income/(loss)	185	400	0	0
<b>Profit before Tax</b>	<b>1,540</b>	<b>1,757</b>	<b>2,054</b>	<b>2,522</b>
Income Tax	-335	-351	-411	-504
<b>NPAT before MI</b>	<b>1,205</b>	<b>1,406</b>	<b>1,644</b>	<b>2,017</b>
Minority Interest	-2	-2	-3	-3
<b>NPAT less MI, reported</b>	<b>1,202</b>	<b>1,403</b>	<b>1,641</b>	<b>2,014</b>
<b>NPAT less MI, adjusted</b>	<b>1,202</b>	<b>1,403</b>	<b>1,641</b>	<b>2,014</b>

EBITDA	1,418	1,445	2,176	2,707
EPS reported, VND	1,791	2,015	2,338	2,870
EPS adjusted, VND	1,791	2,015	2,338	2,870
EPS fully diluted, VND	1,791	2,015	2,338	2,870
DPS, VND	0	0	0	0
DPS/EPS (%)	0%	0%	0%	0%

RATIOS	2021A	2022F	2023F	2024F
<b>Growth</b>				
Revenue growth	-17.5%	-30.8%	39.9%	30.1%
Op profit (EBIT) growth	-9.1%	2.0%	50.3%	24.2%
PBT growth	5.6%	14.1%	16.9%	22.7%
EPS growth, adjusted	3.0%	12.5%	16.1%	22.7%

<b>Profitability</b>				
Gross Profit Margin	48.0%	64.5%	66.1%	63.9%
Op Profit, (EBIT) Margin	37.6%	55.5%	59.7%	56.9%
EBITDA Margin	37.9%	55.9%	60.2%	57.5%
NPAT-MI Margin, adj,	32.2%	54.3%	45.4%	42.8%
ROE	13.1%	12.8%	13.0%	13.9%
ROA	8.5%	8.8%	8.6%	9.0%

<b>Efficiency</b>				
Days Inventory On Hand	1,414	4,137	4,271	3,700
Days Accts, Receivable	378	471	246	219
Days Accts, Payable	37	53	39	39
Cash Conversion Days	1,755	4,554	4,478	3,881

<b>Liquidity</b>				
Current Ratio x	6.0	9.5	5.9	4.2
Quick Ratio x	2.5	2.1	1.1	0.8
Cash Ratio x	0.6	0.6	0.4	0.2
Debt / Assets	17.8%	23.5%	18.6%	14.6%
Debt / Capital	39.7%	63.9%	58.5%	54.6%
Net Debt / Equity	10.9%	24.5%	18.1%	14.3%
Interest Coverage x	88.3	59.4	67.7	55.1

Source: Company's financial statements, VCSC forecasts

B/S (VND bn)	2021A	2022F	2023F	2024F
Cash & equivalents	1,365	1,114	1,259	1,266
ST investment	69	0	0	0
Accounts receivables	4,206	2,462	2,415	3,241
Inventories	7,733	13,059	15,670	18,737
Other current assets	48	63	62	83
<b>Total Current assets</b>	<b>13,421</b>	<b>16,698</b>	<b>19,406</b>	<b>23,327</b>
Fix assets, gross	910	988	1,078	1,172
- Depreciation	-61	-71	-89	-116
Fix assets, net	849	917	990	1,057
LT investment	14	14	14	14
LT assets other	88	88	88	88
<b>Total LT assets</b>	<b>952</b>	<b>1,020</b>	<b>1,092</b>	<b>1,159</b>
<b>Total Assets</b>	<b>14,373</b>	<b>17,718</b>	<b>20,498</b>	<b>24,486</b>

Accounts payable	155	113	151	209
Short-term debt	815	855	898	943
Other ST liabilities	1,285	798	2,249	4,414
Total current liabilities	2,254	1,766	3,298	5,566
Long term debt	1,738	3,315	2,920	2,623
Other LT liabilities	160	160	160	160
<b>Total Liabilities</b>	<b>4,151</b>	<b>5,241</b>	<b>6,378</b>	<b>8,349</b>

Preferred Equity	0	0	0	0
Paid in capital	6,429	6,525	6,525	6,525
Share premium	1,177	1,312	1,312	1,312
Retained earnings	2,342	3,745	5,386	7,400
Other equity	237	237	237	237
Minority interest	36	657	660	664
<b>Total equity</b>	<b>10,221</b>	<b>12,477</b>	<b>14,120</b>	<b>16,138</b>
<b>Liabilities &amp; equity</b>	<b>14,373</b>	<b>17,718</b>	<b>20,498</b>	<b>24,486</b>

Y/E shares out, mn	643	653	653	653
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CASH FLOW (VND bn)	2021A	2022F	2023F	2024F
<b>Beginning Cash Balance</b>	<b>1,836</b>	<b>1,365</b>	<b>1,114</b>	<b>1,259</b>
Net Income	1,202	1,403	1,641	2,014
Dep, & amortization	11	10	18	27
Chge in Working Cap	-3,151	-2,508	-967	-1,787
Other adjustments	-72	-1,000	-106	96
<b>Cash from Operations</b>	<b>-2,010</b>	<b>-2,095</b>	<b>586</b>	<b>350</b>

Capital Expenditures, net	-58	-78	-90	-94
Investments, net	-49	69	0	0
<b>Cash from Investments</b>	<b>-106</b>	<b>-8</b>	<b>-90</b>	<b>-94</b>

Dividends Paid	0	0	0	0
Δ in Share Capital	126	230	0	0
Δ in ST debt	28	41	43	45
Δ in LT debt	680	1,577	-396	-297
Other financing C/F	813	2	3	3
<b>Cash from Financing</b>	<b>1,646</b>	<b>1,851</b>	<b>-350</b>	<b>-249</b>

<b>Net Change in Cash</b>	<b>-470</b>	<b>-252</b>	<b>145</b>	<b>7</b>
<b>Ending Cash Balance</b>	<b>1,365</b>	<b>1,114</b>	<b>1,259</b>	<b>1,266</b>

## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + 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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